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UNITED NATIONS INDUSTRIAL
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DEVELOPMENT OF EXPORT-ORIENTED INDUSTRIES
IN SELECTED SOUTH EAST ASIAN COUNTRIES,

REGIONAL .

VS/RAS/75/011 .

project findings and recommendations

Terminal report prepared by the United Nations Industrial Development Organization

Based on the work of Shin-ichiro Hirata, project manager

id.77-3894

Explanatory notes

References to dollars (\$) are to United States dollars, unless otherwise stated.

The following abbreviations are used in this report:

ASEAN	Association of South-East Asian Nations
ASEPHI	Association of Exporters' and Producers' Handicrafts Indonesia
CSMI	Commission on Small and Medium Industries (Philippines)
FIDA	Federal Industrial Development Authority (Malaysia)
MITI	Ministry of International Trade and Industry (Japan)
NAFED	National Agency for Export Development (Indonesia)
SBAC	Small Business Advisory Centres (Philippines)

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ABSTRACT

This is the terminal report by the Project Manager of the project "Development of Export-Oriented Industries in Selected South-East Asian Countries" (VS/RAS/75/011). The project was sponsored by the Government of Japan in answer to the need to foster the development of the industrial export potential in the South-East Asian subregion, in particular, through interregional co-operation.

The Government of Japan initiated discussions on the project with the Executive Director of the United Nations Industrial Development Organization (UNIDO) in July 1974. Following a preliminary exploratory mission by a UNIDO officer to the South-East Asian subregion and discussions with the Governments of potential participating countries, agreement was reached on a project plan to be carried out in two stages and work was started in late 1975. The project terminated officially at the end of June 1977.

The participating countries, namely Indonesia, Malaysia, the Philippines and Thailand, have in common that the economies of all of them are centred around the production of primary commodities and agriculture. In some of these countries industrialization has been undertaken without consideration of this basic characteristic of the economy, with the result that it has failed. On the other hand, industrialization has succeeded in the other participating countries where it has been supported by and well co-ordinated with the production of primary commodities and with the agricultural sector.

That industrialization without the back-up of and co-ordination with the production of primary commodities or with the agricultural sector will not be successful has become the common view of the Governments of all the participating countries.

It is difficult to increase the productivity of primary commodities and of agriculture rapidly. Hence, rural industrialization is the only way to achieve the development of national economies in the participating countries.

Activities that would promote the development of export-oriented industries through industrialization in rural areas, especially of small- and medium-scale industries, were strongly emphasized in the course of project implementation.

With regard to regional industrial co-operation in the Association of South-East Asian Nations (ASEAN) countries, it is anticipated that agreement will not be easily reached on the proposals for joint projects since the viewpoint of each participating country differs on the distribution of profits and the sharing of costs relating to a joint project.

In view of these difficulties and of the fact that all the countries have the same kind of industrial structure, it would be advisable to seek the opportunities and machinery to promote an exchange of opinion among them on items of common interest, commodity by commodity. This approach would seem to be a sound way of fostering regional co-operation. Such steady efforts should lead to more favourable economic and political conditions for much larger co-operative projects in the future.

With this in mind and as the most important activity of the project, round-table discussions have been undertaken on some selected sectors of industries with participants from all participating countries.

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INTRODUCTION

This is the terminal report by the Project Manager of the project "Development of Export-Oriented Industries in Selected South-East Asian Countries" (VS/RAS/75/011). The project was proposed to the Executive Director of the United Nations Industrial Development Organization (UNIDO) in July 1974 by the Government of Japan, which offered to sponsor it.

Background

The expansion of manufactured exports is one of the main targets of the United Nations Second Development Decade. The growth of export-oriented industries is fundamental to the economic policy of the countries of South-East Asia. The spectacular increase of manufactured exports attained in recent years by some of the countries in the South-East Asian and Pacific region has proved that substantial progress towards this end can be achieved if co-ordinated and concerted efforts are made in identifying possibilities and still untapped resources in this field. It is realized, however, that national industry usually needs outside assistance and stimulation to upgrade products to meet the requirements of world markets, to establish contacts and to reorient production at least in part towards external markets. This is particularly valid for medium-sized and smaller entrepreneurs who are more limited than large companies in this respect and have less contact with and information about foreign markets.

At the same time production in traditional sectors of industry and the use of indigenously available technology may be important assets and can play a substantial role in the expansion of manufactured exports if assistance is provided in upgrading such technology and in the adaptation of local products to export markets. In an effort to exploit such possibilities international industrial co-operation at the company level among developing countries and with developed countries might be an important tool for improving production conditions, productivity and competitiveness.

In pursuance of this objective UNIDO suggested the project with the participation of selected countries of South-East Asia. The project has a promotional character and has been carried out in co-operation with the Government of Japan, which has been a co-sponsor. It has been directed towards sectors including small and medium-scale industries with good prospects

because of their traditional endowments. The project goal was to expand and diversify manufactured exports particularly through the promotion of industrial co-operation as well as through a large variety of other flexible and tailored-to-needs measures.

Arrangements

Preliminary discussions were carried out with representatives of the Government of Japan for the formulation of a project that would, in particular, enhance international industrial co-operation in the South-East Asian subregion. An aide-mémoire was prepared setting out the concept and scope of the project.

The Government of Japan expressed its willingness to sponsor the project and to contribute, in the first instance, \$125,000 from the 1974/75 budget, provided a viable work plan could be formulated. Consequently, an exploratory mission of a UNIDO officer was arranged, as a pre-project activity financed from Voluntary Contribution funds of UNIDO, to formulate the work plan of the project in consultation with the respective government agencies of the recipient developing countries and of Japan, and to discuss different issues relevant to the organization of project activities.

After having visited the developing countries envisaged as participants in the project (Indonesia, Malaysia, the Philippines, Singapore and Thailand) and having discussed the project with the respective government authorities, the UNIDO officer carried out negotiations with the Ministry of International Trade and Industry (MITI) of the Government of Japan, in Tokyo on 20-21 November 1974. Subsequently, the project was planned to be implemented in two stages and a work plan was prepared in agreement with MITI for stage one. The Governments of Indonesia, Malaysia, the Philippines and Thailand endorsed the project and expressed their willingness to participate in it. The Project Manager was appointed and work started late in 1975.

In February 1976, the Government of Japan offered an additional \$150,000 to finance stage two of the project on the condition that a viable work plan would be formulated and agreed upon with MITI, permitting remittance of the contribution prior to 31 March 1976. The Executive Director of UNIDO accepted this generous contribution in February 1976. It was understood that the scope and objectives of stage two would be the same as those for stage one. Subsequently, in negotiations with MITI in Tokyo on 10-12 March 1976, a work plan was prepared and agreed upon for stage two. Originally, it had been envisaged

that stage two should immediately follow stage one. Accordingly, stage two was due to start in December 1976, and the project would have been terminated by December 1977. It was agreed, however, to make efforts to concentrate project operation as far as possible to increase the effectiveness and economics of its implementation. Consequently, it was decided that the two stages of the project would be amalgamated into one and that part of the funds for stage two would be used earlier than December 1976.

It was also agreed that a final time schedule, including details of country-wise field operations, would be formulated by the Project Manager not later than the end of April 1976. After having visited the countries participating in the project and having discussed the project implementation schedule with the respective government authorities, the Project Manager formulated the time schedule by which the project would terminate by June 1977.

Because of the geographical difficulty of operating among widely removed participating countries in the subregion, and differences in their traditional endowments and prevailing economic situations, it was not possible to distribute activities evenly among them. Thus, instead of having a formal review meeting on the project, a UNIDO officer, a MITI officer and the Project Manager visited participating countries in a round trip from 18 to 28 April 1977 and carried out discussions with counterpart organizations and other agencies concerned. At that time it was recognized that the project would terminate officially by the end of June 1977, but that some activities which had not yet started but which had already been committed, and follow-up activities which had been agreed upon, would be implemented even after the official termination of the project.

Objectives

Long-range objectives

The main objective of the project was to upgrade the level of technical standards of production and the quality of products in selected sectors of industry through a consolidated development programme which would result in the accelerated growth of exports to outside markets, including to countries of the area, and to the promotion of intraregional and interregional industrial co-operation.

Short-term objectives

The immediate objectives of the project were:

- (a) To strengthen the industrial infrastructure and institutions servicing manufacturing industry which would monitor progress towards higher technical standards and performance;
- (b) Through offering technical assistance and advising manufacturers on measures to upgrade products, to improve export prospects and market acceptance of various products of the selected industrial sectors;
- (c) To increase export competitiveness of selected products through improvements introduced in indigenous technology and the transplantation of up-to-date production capacity and techniques in medium and small-scale manufacturing units. It was also expected that company-level industrial co-operation and new export management techniques would increase productivity and operational efficiency and decrease unit costs;
- (d) Through the technical assistance made available within the framework of the project, to assist in restructuring production patterns of traditional branches of industries, adjusting them more nearly to the world market demand and requirements;
- (e) Through increased manufactured exports, to achieve a favourable balance of payments in the countries concerned and provide at least for partial financing of increased demand for imported technology and capital goods which would be required to achieve an accelerated growth of GDP and to speed up the industrialization process.

I. FINDINGS

Project activities

Based on the work plan, the project incorporated the following major activities:

- (a) Overall review of the prevailing situation of the industrialization of each participating country, including review and assessment of the medium and small-scale industries. The resulting programme was concentrated on areas with substantial export potential and the action required to exploit export possibilities and to eliminate existing shortcomings and bottle-necks;
- (b) Advisory services through international experts and consultants who provided assistance in product and production development and supported the national machinery set up for the promotion of medium and small-scale industries in areas pertaining to export development;
- (c) Organization of training facilities in export production through workshops and individual fellowships in foreign institutions;
- (d) Promotion of international industrial co-operation by:
 - (i) Establishing contacts between business and industrial communities within and outside the region;
 - (ii) Assisting in the acquisition of machinery and in the dissemination of information on possibilities for co-operation and subcontracting, access to know-how and expertise etc.;
 - (iii) Organizing study tours and round-table discussions with participants of selected industrial sectors.

The project was able to accomplish most of these activities in the participating countries.

The Project Manager made six tours of participating countries to organize individual activities. He visited Japan three times to explore possibilities for interregional co-operation and to accompany study tours.

More than 16 activities were planned: eight have been implemented and two are outstanding. Many follow-up activities are being planned within the framework of this project or parallel to it.

Status of industrialization in participating countries

All participating countries are producers mainly of primary commodities. Their economies depend basically on a few such commodities. More than two thirds of exports from this subregion consist of rubber, timber, tin, oil, rice, copra, palm oil and sugar.

Participating countries have expected the acceleration of their economic growth and have adopted a policy of import substitution as a strategy for industrialization. Such strategy has been evaluated as being to some extent successful; however, it has encountered many problems. The results of development have not been distributed equally among countries, and regional disparity in economic development has increased. In some countries import-substitute industries have been encouraged by a protectionist policy such as import duty barriers and import prohibition measures; such industries have become inefficient and uncompetitive in international markets. The result has not been an expansion of exports, but a negative balance of payments owing to the increase of capital goods and producers goods.

The Philippines is a typical example in which a policy of import substitution led to a standstill.

On the other hand, this approach to industrialization in Malaysia is being carried out with the support of strong exports of primary commodities which do not need to be protected by tariff barriers and foreign-exchange control. Thus the strategy has encouraged a lot of foreign investment and has contributed to the establishment of a number of manufacturing firms that are internationally competitive. Thailand has implemented industrialization step-by-step, starting with light industries backed up by a strong agricultural sector, and postponing the establishment of sophisticated heavy and chemical industries. These light industries have become competitive on international markets.

Hong Kong, the Republic of Korea, Singapore and Taiwan have succeeded in promoting exports through labour-intensive light industries, manufacturing and assembling electronic parts and electronic apparatuses. These countries never established highly technological and capital-intensive industries.

On the basis of such experiences, a general approach might be:

(a) To shorten gaps in income between urban and rural areas through the development of the agricultural sector and the promotion of the production of primary commodities, strengthening purchasing power in the rural areas and thus extending the domestic market for consumers goods as well as solving the socio-economic problems that have occurred in the process of industrialization;

(b) To transform consumers goods industries into export industries that would be internationally competitive through the improvement of productivity in accordance with the expansion of the market scale;

(c) In advancing to the stage of industrialization marked by the production of producers goods or capital goods, it is important to achieve economies of scale and to strengthen bargaining power through regional co-operation. Thus, it is important to obtain financial and technical assistance from advanced countries and to extend export markets through competition with the enterprises of the advanced countries.

With regard to (a), in addition, it is essential to promote rural industrialization, and for this purpose, it is important to transfer the technology, capital and managerial resources from urban areas to rural areas through the reallocation of industries in the country, and to utilize most beneficially the traditional technology that already exists in the rural areas. In extending industrialization to disadvantageously located areas, the Government will need to take strong measures to improve such traditional technology and to transform it into modern manufacturing technology. Emphasis should also be placed on the promotion of raw-material-based industries, agro-based industries or agro-related industries for which materials are locally available, since these industries will contribute directly to the increase of income in rural areas.

Indonesia

State of the economy and industrialization of Indonesia

The economy of Indonesia is distinctive in the variety and abundance of its natural resources and in the huge number and variety of its population inhabiting thousands of islands with different types of culture. Indonesia thus has the potential to develop all types of industries. At the same time it needs to make efforts to achieve multiple targets to satisfy various kinds of demand in the country. Industrialization is expected to make progress rapidly with the development of various kinds of parallel industries throughout the country.

The basis of the economy has traditionally been agriculture. It has been the past experience in this country that rapid industrialization failed because it had been promoted without being well co-ordinated with agriculture.

With the need to rehabilitate and reconstruct agriculture, which had been desolated in the 20 years following independence, Indonesia started in its first plan (1969-1973) to emphasize agriculture and industry supporting agricultural activities. The second plan (1974-1978) still emphasizes agriculture, and industry is especially directed towards the processing of raw materials into intermediate goods. Subsequently, the third plan (1979-1984) will emphasize agriculture, and industrial activities will consist in converting intermediate goods into finished goods. In the fourth five-year plan (1985-1989) stress will

be placed on the production of industrial machinery from light industry to heavy industry. Such long and step-by-step development plans represent the approach of Indonesia to industrialization, starting with balanced development between the agricultural and industrial sectors and leading to an emphasis on industry in both production and employment.

The basic objectives of the second plan are similar to those of the first plan. In view of the results attained under the first plan the following aims have been determined for the second plan:

- (a) To provide a sufficient supply of food and clothing, with improved quality and within reach of the public's purchasing power;
- (b) To supply housing facilities mainly for the people at large;
- (c) To provide more and better infrastructure;
- (d) To improve and distribute prosperity more equally;
- (e) To expand employment opportunities.

In addition to the above, the second plan conceives the role of the industrial sector as follows:

- (a) To expand employment opportunities;
- (b) To supply food, housing and clothing for the people at large;
- (c) To obtain foreign exchange from exports and save it through import substitution.

The plan has as a basic policy the equal distribution of prosperity, and establishes the following priorities:

- (a) First priority is placed on labour-intensive industries;
- (b) The second, on promote and strengthening small-scale industries;
- (c) The third, on the dispersion of business activity into rural areas and regions.

On the other hand, the second plan describes the role of exports as follows: economic development efforts always demand an ever-increasing budget, in the form of foreign exchange. For that reason the trade sector, as the main channel for foreign-exchange earnings, must be able to safeguard and increase export activities. Consequently, Indonesia has to maintain the growth in the export of traditional goods and also to seek possibilities to export new commodities. The core of export promotion is, however, still to maintain and develop the present essential export commodities. Besides that, it is of importance to engage in further processing of the present exported commodities, so that there is an increase in the value-added component and enlargement of employment. In the field of manufacturing, only labour-intensive commodities

are identified as new export commodities which should be developed: e.g., natural silk and its products, goods made of leather, household furniture, ready-made clothes and electronics parts and apparatus.

The share of manufactured goods in total exports from Indonesia is below 1%. In the context of the trade and industrial policy of the Government of Indonesia, the National Agency for Export Development (NAFED) in the Department of Trade is the only organization carrying out promotional activities to develop manufacturing exports, by acting as a catalyst or propelling force in the sensitive field of product development and product adaptation. There are many measures and institutions discouraging the development of manufactured exports, such as very high tariff barriers or other import prohibitions on completed goods which would damage the international competitiveness of otherwise exportable commodities, and high tariff rates for imported parts and accessories to be incorporated in products, as has been repeatedly pointed out by a number of international experts.

In addition, with regard to foreign investment policy, foreign investment which will contribute to export development is given the same priority as one which will contribute to import substitution; however, the priority is the same as for other factors, such as increasing employment opportunity. Therefore, most of the foreign joint ventures in manufacturing are in the manufacture of consumers goods or final products, and they have not yet contributed to an increase of exports from Indonesia. Moreover, such joint ventures are still protected by import restrictions on finished products as may be seen in the case of car-assembling industries which are enjoying complete protection through import prohibition; thus more than 15 companies are producing over 30 types of sedan car.

So far as trade and industrial policies are concerned, it is quite clear that emphasis has not yet been placed in Indonesia on the promotion of export-oriented industries. Therefore, by the time that the promotion of manufactured exports and the development of export-oriented industries play a central role within the framework of the overall development plan, the efforts by the Government in this field will remain secondary. From the basic principle of foreign assistance that it should be carried out in accordance with the development policy of the country, assistance for the promotion of exports would be limited to a very small part of the total assistance programme. In the UNDP country programme, this low priority may be unfavourable and, in fact, there have been few services in the field of manufacturing exports other than crafts production and the processing of raw materials.

The present project is not a country project but a subregional project; it is therefore not necessary to suspend or to undertake promotional activities for the development of export manufacturing since its priority in the overall development programme of the country is low, but the output of the project may well be allocated to the country in proportion to the extent of its needs among the participating countries.

A country that has as huge a population as Indonesia has difficulty in sustaining import levels to achieve rapid economic development only through its foreign-exchange earnings from the export of essential commodities, although it has plenty of resources. Therefore, foreign-exchange earnings from manufactured exports are essential. The consultant believes Indonesia would be able to establish internationally competitive export manufacturing centring around labour-intensive light industry by utilizing its abundant labour supply.

From these points of view the effort of NAFED to evaluate the export potential of existing industries in Indonesia, especially small and medium-scale industries as well as local industries, and to identify specific sectors through this evaluation and build them up preferentially as export-oriented industries, is not inconsistent with the overall development programme of Indonesia and may become a key to the future development of manufacturing for export. In addition, its effort in the promotion of industrial design is essential for developing manufactured exports and will contribute to upgrading the country's export pattern in the long term.

The following five activities were adopted as the country activities of the project for the reasons mentioned above.

Evaluation of export potential

To comply with one of the policy aims of the Indonesian Government, namely the development of non-traditional exports, NAFED found it necessary to conduct an export potential survey (company profiles). NAFED requested UNIDO to provide the technical assistance required to implement this micro-economic study. A UNIDO consultant was assigned for this purpose and he undertook a mission in two phases, from December 1976 to April 1977.

The short-term objectives of the survey consisted in establishing generally applicable criteria for the survey, completing all the required preparatory work, e.g. questionnaires, instructions, budgets, operational plans, interviewer training etc., and launching the survey in Djakarta and the provinces. The long-term objective was to obtain from the results information on the current state of industry in Indonesia and on the type and quality of products

available for export, and to pinpoint those companies and industrial sectors which with the help and assistance of NAFED could begin to export their products.

At the same time the survey set out to ascertain the scope and type of assistance which NAFED would be expected to supply.

The survey covered 17 provinces and Djakarta. An attempt was made to interview about 5,300 companies in the provinces and some 2,000 in Djakarta. These 7,300 companies represent an estimated 80% of the total number of industrial and agricultural produce-processers and some 12.5% of all handicraft workshops which together account for some 95% of total industrial output.

The survey began in Djakarta on 11 December and in the provinces interviews took place on a phased basis. Interviews started in Sumatra-Utara (Medan) in the last week of December 1976 and were being conducted in all provinces by 28 February in spite of the delay caused by unexpected heavy rainfall and the general election campaign.

Not all interviews had been completed up to the time of the report. Therefore, it is too early to evaluate the results.

After the completion of the survey, it would be essential to establish a company profile which would contain various information on all industrial and agricultural produce-processers which could exploit export possibilities and promote export production. For establishing such a company profile in Indonesia, it is suggested that follow-up consultancy be provided to advise NAFED in carrying out this task.

Industrial design development

Within the framework of the export development programme, the Government has been considering the establishment of an institute or agency which would be called a design centre.

In September 1976 a mission composed of four government officials from various departments (Inter-Departmental Design Study Team) and sponsored by the project was sent to Japan, the Philippines and Singapore to study the experience of design centres as well as industrial design promotional activities in these countries.

A UNIDO consultant financed by the project subsequently went to Djakarta in October 1976 to assist in evaluating their experiences with a view to the establishment of a design centre in Indonesia. After intensive meetings and working sessions, the consultant and the Inter-Departmental Design Study Team

came to the conclusion that a workshop on design policy should be held as soon as possible, mainly to deal with finalizing a design policy as well as to consider the establishment of a design council. The establishment of a design centre would come within the framework of this policy.

The purpose of the workshop would be to discuss a long-term design development programme in Indonesia and to determine the ways and means of implementing this programme, which would probably include the establishment of the design council. The workshop would also include a discussion on the establishment of the design centre.

Subsequently, the same consultant came to Djakarta in late February 1977 and stayed until early March to assist the Government in preparing for the workshop and in selecting the international experts who would be invited to participate.

The Government of Indonesia decided finally to hold the workshop at Djakarta, in the last week of July 1977. It was to be attended by 25 local participants and 4 international experts. The former were to be financed by NAFED and the latter by the project.

The foreign experts will consist of one from America, two from Asia and one from Europe. These experts have been selected by UNIDO in consideration of the recommendations made by the consultant in consultation with NAFED and the Project Manager.

Since the Project Manager was due to resign his post and leave his duty station, Djakarta, in late May, a new request was made for a consultant to assist the Government in preparation for the workshop and to consolidate its results in a final report indicating follow-up action. An appropriate consultant should be appointed for this post, possibly financed by this project. (See annex III, reference to progress reports of Carl Auböck on Inter-Departmental Team for Design in Indonesia.)

Strengthening handicraft exporters and producers' association

During Repilita II (the second five-year development programme), Indonesia is trying to make the transition towards a production pattern emphasizing a labour-intensive, balanced domestic growth and labour-intensive exports. Therefore, the products that are considered to have export potential and that could be marketed abroad must have a high labour and indigenous raw-material content.

Indonesia has abundant labour resources, natural resources and materials such as rattan, bamboo, black-wood, teak wood and so on, and it also has a long and original artistic tradition; therefore handicrafts are supposed to be one of the promising commodities with export potential. The Government of Indonesia has been giving the most emphasis to the development of exports in handicraft industries such as Batik cloth and rattan furniture, and in line with this governmental guidance exporters and producers of handicrafts in Indonesia established ASEPHI (Association of Exporters' and Producers' Handicrafts Indonesia) in January 1976. This Association, however, is still weak in its structure of organization and is not working at full capacity since it is still young. Accordingly, foreign assistance was needed in strengthening its organization and activities. For this purpose UNIDO provided ASEPHI with a consultant within the framework of the project. He visited Indonesia in the middle of January 1977 and made an extensive trip within the country, pointing out various findings. He made many recommendations to improve ASEPHI as well as to modernize the handicraft industry. (See annex III, reference to report of Kazuo Kimura on strengthening the Association of Exporters' and Producers' Handicrafts Indonesia.)

Coconut coir fibre-processing industry development

The coconut industry in Indonesia has the second largest scale next to the Philippines, with approximately 5.5 billion coconuts produced annually, and it contributes to improvement of food conditions in the country by supplying edible oil from copras. Huge amounts of remaining husks and shells after copras are taken from coconuts are now burned for disposal as waste or for fuel. These are being used in India, Malaysia, the Philippines, Sri Lanka, Thailand and so on. to produce coir fibre (from husk) and charcoal (from shell) since their production and commercialization are comparatively easy.

The establishment of the plant and its operation does not require a huge amount of capital. The plant may be located within the coconut-producing regions. Processing techniques are simple, but production control is needed to assure the quality of the products (especially in the case of charcoal). Besides, these industries (especially coir fibre) require intensive labour. It is ironical that the coir-fibre and charcoal businesses have not flourished in the country when Indonesia is in fact one of the major coconut-producing countries in the world. In view of the marketing aspects, the trend in their consumption is increasing, especially in advanced countries, though there is competition with synthetic products.

In view of the above, coconut by-products industries, especially the coir-fibre processing industry, are most promising with export potential, and this offers a good opportunity for the expansion of the country's coconut industry. Accordingly, the Government of Indonesia is now placing strong emphasis on the establishment and development of this industry. NAFED held a special workshop at Manado, the centre of the coconut-producing region, in June 1976 for the promotion of exports of coconut by-products. At this occasion, UNIDO sent one consultant as part of the project who gave a lecture on the development of the coconut coir-fibre processing industry. Following this workshop, the Government with UNIDO assistance sent a study mission to Japan and Sri Lanka to make a comparative study of the situation of coir-fibre production and markets. As a result of these activities the Government of Indonesia decided to start with the project for establishing a coconut coir-fibre processing industry in North Sulawesi, and NAFED carried out a feasibility survey in concurrence with the local Government. To review the result of this survey and to enable the authorities in charge to plan ahead for an appropriate establishment of the coconut coir-fibre processing industry, the Government of Indonesia has requested UNIDO for expert assistance in carrying out a pre-feasibility study on the above project.

Assistance to the leather goods industry

A consultant had been assigned for six months, until 12 September 1976, as expert on product adaptation/production engineer on leather goods (INS/74/030) to assist NAFED in offering technical advice to manufacturers of leather goods with export potential, in order to adapt their production methods to meet export market requirements. The consultant participated in in-plant visits to various enterprises to provide direct on-the-spot consulting services.

As a result of his visit, the need was indicated for the promotion of Indonesian exports of leather goods through participation in the International Leather Fair (Semaine du Cuir) to be held in Paris on 11-14 September 1976 with an Indonesian stand and a delegation representing several private enterprises and governmental bodies.

As the consultant's expertise was required, he joined the delegation to the fair and the study tour after the fair in Europe, with the aim of establishing wide contacts in the international market and developing the export-oriented leather goods industry. UNIDO agreed to finance this consultancy service from the project.

Malaysia

Situation of the economy and industrialization of Malaysia

Since independence of the Malaysian Peninsula, the economic development of Malaysia has been very satisfactory. The GDP of the country has grown by over 6% per annum in real terms. While population grew by over 30% in the 1960s, the size of the economy almost doubled, thus increasing per capita income by some 40% over the period. The manufacturing sector was the leading sector of the economy. While in the 1950s the manufacturing sector was largely geared to the processing of the country's principal export products of rubber and tin, in the 1960s it developed rapidly to encompass the production of an increasing range of manufactured goods which previously had been imported. In more recent years, the country has begun to take advantage of its enlarging domestic industrial base to export manufactured goods on a competitive basis. In addition, the agricultural sector, the other mainstay of the economy, has been strengthened through significant improvements in the productivity of the rubber industry as well as through the rapid diversification to palm-oil, greater utilization of the ample forest resources of the country and expansion of rice and livestock production.

Two important factors that have kept the economy in good health have been that the governmental policy of fostering import-substitution industries has stimulated the rapid growth of the manufacturing sector and that the favourable balance of payments has been maintained owing to the contribution of such major export primary commodities as natural rubber, tin and timber. Exports of the latter have enabled the Government to foster industrial growth without great concern for the need to conserve foreign currency and, at the same time, to maintain an open economy in the sense that high tariff protection measures and strict control of foreign exchange have not been adopted to promote manufacturing industries. As a result, the international competitiveness of newly established industries has not deteriorated.

The Malaysian economy has not been immune to problems, however. While the economy grew strongly, reflecting to a large extent economic activity in the 1960s, the participation of various groups of Malaysian society in the process was unequal because of the concentration of the modern economic sector in the

western part of the Malaysian Peninsula and in the principal towns of Sabah and Sarawak. Thus, the share of incomes generated by such activity was unequal.

Unemployment as a percentage of the labour force rose from 6% to 8% during the 1960s because of the growth in the number of the labour force. Unemployment thus became a serious problem, the intensity of which was especially marked among the young in urban areas, although it became as great a problem in the rural area.

Wide inequalities exist in the distribution of income in most societies. The problem in Malaysia is compounded by the fact that average incomes vary widely among the major social groups. In terms of per capita income, the Malaysians received one half that of the Chinese; the Indians received more than Malaysians but less than the Chinese.

Whatever the immediate causes, the racial riots of May 1969 owed their origin to inadequate efforts to redress socio-economic imbalances which have characterized Malaysian society for so long, as mentioned above. In the aftermath of the racial riots, the new economic plan (NEP), 1971/90, was enunciated. The NEP seeks to eradicate poverty among all Malaysians and to restructure Malaysian society so that the identification of race with economic function and geographical location is reduced and eventually eliminated, both objectives being realized through rapid expansion of the economy over time. Economic growth alone, however, will not be sufficient to bring about the desired amount of restructuring. In fact, it is likely to exacerbate present racial imbalances. Energetic and timely intervention by the Government is required.

Economic development in Malaysia has depended largely on the dynamic expansion of the private sector. Private enterprises have provided the major source of output, income and employment creation in the country. Private investment has had a positive impact on industrial development. The manufacturing sector, which has continued to be the dynamic element in the economy, grew by 10.9% per annum between 1970 and 1975 and although it accounted for only 14.4% of GDP, it contributed about 19.3% of the total expansion in output. The sector provided one out of every four new jobs created during the period. Its development was accompanied by the increased importance of exports as a source of growth and the decreasing contribution of import substitution in relative terms. The electronics, garment, textile and footwear industries provided the basis for the sharp increase by about two thirds of the employment created in the manufacturing sector during 1971-1975.

In the development of the private sector, the Government has made efforts to create a favourable investment climate and has also pursued an approach of minimum government intervention in and administrative control over the activities of the private sector. For instance, the Federal Industrial Development Authority (FIDA), which has the general aim of accelerating industrial development in the country, limits its control over private activities to checking and evaluating applications for pioneer status, to giving incentives, and mainly to developing an investment climate through such promotional activities as economic feasibility studies, industrial potential surveys, technical assistance to investors, distribution of brochures and publications and so on.

Thus, in the process of economic development in Malaysia:

- (a) The private sector has undertaken the development of manufacturing industries without direct assistance from the Government;
- (b) Manufactured exports have been built up to assume an important place in the economy;
- (c) The Government's efforts to promote manufactured exports through FIDA have been well organized and have been successful.

Accordingly, the need for the present project in Malaysia seemed to be relatively small compared with that in the other participating countries, possibly accounting for the fact that country activities in Malaysia could not be organized in spite of various efforts. In future another approach should be found in organizing this kind of project in such a country as Malaysia, which has achieved the basic development of its national economy, an approach such as organizing subregional co-operation. In fact, the participants from Malaysia in the round-table discussion were very active.

The only problem in the future may be that the basic framework of minimum government intervention in the activities of the private sector should be changed in order to restructure the society in accordance with the country's new economic plan (NEP). This would not, however, change the strong direction of the economy of Malaysia, i.e. the private sector would continue to take initiative in the development of the country's economy as well as of export-oriented manufacturing industries.

The Philippines

Situation of the economy and industrialization of the Philippines

The economy of the Philippines is fundamentally based on the rural areas as in other South-East Asian countries.

Import substitution seemed to be successful until the beginning of the 1970s. It afforded temporary economic relief and the country obtained its consumer and secondary goods. It failed finally to contribute to the country's development since the domestic market was too small as a result of the lack of purchasing power in rural areas, and ever-growing imports of producer goods absorbed all foreign earning.

Since the start of the 1970s, the Government of the Philippines has shifted its emphasis in policy from import-substitute to export-oriented industrialization and has given top priority to the current four-year development plan. However, some problems have arisen, that is, existing enterprises in the metropolitan Manila area which have been sustained by protective tariffs cannot achieve international competitiveness, and the economy is too large to be able to take off only by the development of export-oriented industries, unlike countries without an agricultural sector such as Singapore and Hong Kong. It has become evident that support for the development of small-scale entrepreneurs, especially in rural areas, would be necessary to promote overall economic growth.

Thus, the development of small and medium-scale industries has become a major element of the socio-economic programme of the Government as expressed in the four-year development plan. An action programme to promote the development of small and medium-scale industries was started in July 1974 and activities are carried out in the rural areas. The Department of Industry has assumed much of the responsibility for the development of small and medium-scale industries and is currently implementing specific programmes for them through the Commission on Small and Medium-Scale Industries, which was established in the Department of Industry and is now the counterpart agency for the present project in this country.

The two activities mentioned in the following sections were planned within the framework of this project in consultation with the counterpart agency.

Assistance in small and medium-scale manufacturing operations

In the Philippines new entrants into small and medium-scale industries, and established entrepreneurs seeking to modernize and expand, typically

encounter bottle-necks in their operations owing to technical problems in production, in financial management, in marketing or in a combination of these. Unlike large corporations, the managements of small and medium-scale industries generally do not have the level and range of technical skills necessary to diagnose and follow-up problems as they arise. Moreover, the time and resources necessary to seek out the right type of assistance are not available.

To meet this need, the Department of Industry has established 9 Small Business Advisory Centres (SBAC) in 9 regional centres. These are expected to expand to 12 to cover the 12 regions of the country.

While the Government has a programme of financing small and medium-scale industries in which both the Government and private financial institutions are participating, there is need to provide further technical assistance to ensure that such industries shall become a viable and stable sector of the economy. The SBACs have the function of providing such assistance. The job of the SBAC staffs consists in diagnosing problems, prescribing and providing solutions and sometimes assigning experts to assist client firms in resolving specialist problems.

Among the objectives of the SBAC is the development of the capabilities of small and medium-scale industries for export, whether direct or indirect. Together with export-marketing assistance, there is a need to develop the production capabilities of small and medium-scale industries for export. Their production methods and systems could be improved so that they could acquire a competitive position in the world market. As industrial extension services for small and medium-scale industries are quite recent in the Philippines, there are no established methods and techniques for such services, especially diagnostic and prescriptive models. Moreover, there is a lack of experienced industrial extension workers. There is need, therefore, to formulate methods and techniques of industrial extension in the context of the small and medium-scale industries sector and to train SBAC staff in such methods and techniques.

Within the framework of the project, the assistance of UNIDO was requested for securing a consultant who would advise and assist the SBAC of the Commission on Small and Medium Industries (CSMI) in planning and implementing technical assistance services to small and medium-scale industries, and thus transfer methodology and techniques of industrial diagnosis. The consultant has not

yet arrived in the Philippines owing to a delay in recruitment. However, he is expected to be recruited within a couple of months and to report to his post soon.

Study-tour team on rural small and medium-scale industries with export potential

At present, about 60% of industrial activity in the Philippines is accounted for by the metropolitan Manila area. There is a clear-out dichotomy between this area and the provinces in terms of industrial development. In fact, 50% of the provinces are below the average industrial level of the country.

There is need, therefore, to stimulate industrial activities in the rural areas as one of the strategies to solve many of the socio-economic problems of both Manila and the provinces, such as pollution, squatting, housing shortage, unemployment, over-migration etc.

One of the priorities of the Government of the Philippines, second only to food production, is the development of small- and medium-scale industries in rural areas.

Among the objectives of the GSMI programme top priority is given the development of the exports of manufactured goods. At present, however, most manufactured exports are supplied by Manila firms. The provinces are still exporters of traditional commodities and importers of manufactured goods vis-à-vis Manila and foreign markets.

One of the main reasons for this is the absence of basic small industries in the rural areas without which industrial development cannot progress appropriately. To attain export capability in rural areas there is need to install basic small industries in such areas; only around these basic small industries can side-line industries mainly for export be established. The strategy of installing the basic industries and side-line industries in the rural areas is difficult to conceptualize and more so to implement. It would be necessary to learn from others who have already done this with a considerable degree of success.

There are several models for rural development, including the model of market economies like Japan and the United States. Most developing countries play more or less subordinate and dependent roles in the international market economy, supplying the wealthier countries in the system with raw materials,

oil, cheap labour or additional markets. For them to follow the path of China would mean first breaking out of this global system and then taking their chance on a development effort using their own resources plus whatever aid could be obtained from countries with a different economic system. Recently, the Philippines established trade and full diplomatic relations with the People's Republic of China, opening new horizons to the Philippines. The model of China for rural development is one of the outstanding features of China from which the Philippines could learn. From this point of view, the Government of the Philippines expects to send a study-tour team to China to study its experience on the spot. This study tour will give the participants from both private and government sectors an opportunity to see possibilities for rural development which have not yet been envisaged. This experience would enable the private sector participants to formulate similar project ideas and the government sector participants similar programme ideas, in the context of the local rural situation.

The study-tour team is expected to visit some southern provinces of China and to study the development of the five basic rural small industries, namely, iron and steel, cement, chemical fertilizer, power and machinery manufacture as well as side-line industries mainly geared for export.

To realize this study tour, UNIDO has been requested to subsidize a travel fund for participants under the present project. This activity is, however, awaiting an answer from the Government of China.

Thailand

Economy and industrialization in Thailand

The basic feature of the current Thai economy is that the results of the economic development plan, which started in the early 1960s, have been used to strengthen the base of traditional agriculture which was centred around rice production before the Second World War.

Quite different from most other developing countries, which had unfortunate experiences in national prestige-oriented policy for heavy industrialization, the Government of Thailand has pursued a steady policy to carry out industrialization starting with the light industry sector while further strengthening the agricultural sector, which is the base of the country's economy. In consequence, Thailand has succeeded:

(a) In introducing such new agricultural export commodities as maize, tapioca etc., apart from rice;

(b) In inducing many foreign enterprises to invest in the light industry sector such as textiles with investment incentives such as favourable treatment for foreign investments granted by the Promotion of Investment Act, a trade and foreign-exchange system supported by healthy foreign-exchange reserves, the provision and improvement of infrastructure by the Government, and so on.

Thus, exceptionally high economic growth has resulted for the country, which does not have major revenue from exports like oil.

Although the overall growth rate has been satisfactory, the country has gradually had to face the problems of income disparities, population growth and unemployment, basic resource depletion and environmental deterioration, and, in addition, a recent economic recession and the slow economic recovery from it. These outstanding problems have led to a new development strategy and approach in the fourth plan formulation. These may be summarized mainly as immediate measures to accelerate economic recovery in the short term and basic efforts to correct imbalances existing in the economic and social structure in the long term.

In the context of the overall development strategy of the fourth plan, the Government has adopted the policy that it will encourage industrialization concurrently with agricultural development and give priority to basic industries, supporting industries and agro-based industries. To supplement the policies and targets relating to income distribution, it will also encourage the decentralization of industries from the Bangkok area to the outlying regions by accelerating the provision of various infrastructural facilities in those areas.

To realize the governmental policies mentioned above, the Government will:

(a) Invest jointly with private concerns in basic industries vital to economic development and the national economy;

(b) Encourage the establishment of agro-processing industries near the main sources of raw-material supplies which are located outside the Bangkok area;

(c) Give high priority to export-oriented industries;

(d) Encourage the development of small-scale industries which are important for generating employment.

On the basis of the policies of the Government, some activities were planned. Activity relating to the promotion of handicrafts in the country was initiated in consultation with the counterpart agency and successfully implemented.

Study tour for information on the export and promotion of handicrafts

In view of the abundance of labour resources, of raw material for producing handicraft products and of the need for foreign currency, the Government of Thailand has realized the importance of accelerating the exports of handicraft products. The project for the promotion of handicrafts for export has been approved and is envisaged in the third national economic development plan.

Its aims are:

- (a) To increase productivity and thus to increase the profits of existing handicraft producers;
- (b) To encourage handicraft production in rural areas with a view to reducing unemployment;
- (c) To give advice on the production requirements for exporting to local producers;
- (d) To popularize Thai handicrafts both in domestic and export markets;
- (e) To provide facilities to foreign customers for the purchase of Thai handicrafts of good quality;
- (f) To provide design assistance;
- (g) To organize training courses on handicraft design, production and marketing.

The Handicraft Promotion Division is responsible for the implementation of the project and has divided its functions into four sections, namely, administration, training, design development and promotion of handicraft products. Owing to limited working space, the Division could not fully render its services. The handicraft export showroom and information centre, which is a branch of the Handicraft Promotion Division, are to be set up in the new building in front of the Ministry of Industry which was completed in February 1977. It will not be the same kind of emporium as now exists in Bangkok under the control of the same Ministry, but it will be a showroom for displaying handicraft products of good design and quality and for disseminating advanced technology of production by displaying samples for export production to local producers so that they can improve their technology and diversify their products. It will also be the centre for providing information services and facilities on handicraft products and production in Thailand to foreign importers or customers, as well as on the market requirements for production and products. Thus, it should become a focal point for collecting, disseminating and exchanging all information on handicraft products and production in Thailand.

In view of the above plan, the Government of Thailand has requested UNIDO to finance a study-tour team under the project to visit Japan, the Philippines and the Republic of Korea, which are now more advanced in the promotion of handicraft production, in order to study such activities on the spot. UNIDO has agreed to finance this tour and two Thai government officials in the Handicraft Promotion Division visited the three countries in December 1976. The participants received much information about the organization and operation of such a centre, enabling them to set up a well-organized and operational centre.

Regional co-operation

Industrial co-operation in ASEAN countries

Recent changes in the international economic order have drastically altered the traditional structure of international relations. All developing countries have recognized that they should change their traditional methods of negotiation with the developed countries and that they must undertake joint action in order to strengthen their negotiating position vis-à-vis the developed countries.

Ten years have passed since the formation of ASEAN, which includes the four participating countries of this project and Singapore. The goal of the organization is to accelerate the economic growth, social progress and cultural development of this subregion through joint endeavours in the spirit of equality and partnership. This also calls for more effective collaboration in trade expansion efforts, improvement in transportation and communication facilities and collective action to enable more rapid development of the agricultural and industrial sectors.

On the basis of the recommendations of a United Nations study team on "Economic Co-operation in ASEAN", the ASEAN group has endorsed and is implementing several regional projects in the key sectors of agriculture, industry, trade, transportation and communications. Projects identified in the field of trade and industry include the selective trade liberalization schemes, industrial complementation schemes, trade statistics, training in export promotion and the ASEAN Product Display Centre. Agreement has been reached on convening an expert group to review the industrial co-operation programme, and in particular to examine the feasibility of establishing the following ASEAN industrial plants: urea projects in Indonesia and Malaysia, superphosphate production in the Philippines, diesel engines manufacture in Singapore,

and soda-ash production in Thailand. Other projects being considered include metal-working machine tools, fisheries, electronic components, electrolytic tin plating and heavy-duty rubber tyres. Agreement has also been reached for concerted action on basic commodities, particularly food and energy, with a view to according priority and trading preferences to member countries. Recently, a draft basic agreement has been reached for establishing trading preferences among the ASEAN countries.

With regard to industrial co-operation, many benefits in several areas are expected, such as:

- (a) Member countries will have the opportunity to increase the value added in their industrial products;
- (b) Member countries will benefit from the economies of scale made possible by a large regional market;
- (c) Benefits will be generated through the adaptation and transfer of technology;
- (d) Benefits will be gained through increased bargaining power with other countries in relation to supplies of goods from outside the region.

It is not quite certain, however, that there exists a well-defined understanding on the objectives of regional co-operation. There are various views and expectations for regional co-operation in industry reflecting differences in the evaluation of costs and benefits of such co-operation. Economic efficiency and the cost/profit ratio of a project would not be considered as criteria, since these benefits accrue only to more richly resource-endowed countries and technologically advanced countries. Important factors to be considered as criteria are, for instance, effects on developing countries. A country may prefer to increase employment or to advance development in rural areas at the price of other high economic costs such as those mentioned above. Hard sledding is anticipated in the course of negotiations to decide on the framework of such co-operation, on the ways of participation, shareholding, financing, distribution of profits in the future etc.

Three methods of regional co-operation in the field of manufacturing industries in ASEAN countries are often proposed by international organizations, for instance, the Economic and Social Commission for Asia and The Pacific (ESCAP). These are:

- (a) Selective trade liberalization (STL);
- (b) Complementary agreement (CA);
- (c) "Package deal" approach (PA).

On STL and PA, ASEAN countries have already reached basic agreement. However, there are problems in PA as mentioned above, and it is also a problem that there is no built-in mechanism that would assure the balance of imports and exports for each participating country. CA has been implemented in relation to cars for the ASEAN countries by General Motors and Ford since 1970, but it has been found difficult to implement technologically since participating countries have not yet agreed on how to allocate the benefits obtained from the international division of production and how to share the costs from tariff reduction.

Other regional co-operation

There are some other forms of regional co-operation among participating countries in this project, for instance, the Asian Pacific Coconut Community (APCC), the Asian Pepper Community, the Association of Natural Rubber-Producing Countries and the International Tin Council.

The major role of these organizations is to collect and exchange available information to strengthen their bargaining power vis-à-vis consumer countries. Their activities in this regard have been to some extent satisfactory, but they have not yet succeeded in establishing a joint regional project, although efforts have been made continuously.

Approach of the project for regional co-operation

Because of the difficulties discussed in previous paragraphs, it is anticipated that agreement will not be easily reached on the proposals for regional co-operation in industries since the view of each participating country differs on the distribution of profits and sharing of costs. The reason is that each country has a different view on the objectives of regional co-operation.

Because the participating countries have the same kind of industrial structure, it would be advisable to look into opportunities and machinery for the exchange of opinion on items of mutual interest, commodity by commodity. This approach is not ideal but it is a sure course for promoting regional co-operation. The pursuit of such steady efforts is expected to provide the countries participating in the project with favourable economic and political conditions to promote larger regional co-operative projects.

In this respect, it was decided to organize round-table discussions on some selected sectors of industry, such as leather, textiles and wood industries with the aim of improving the traditional technology of these industries. The first of such discussions was carried out on the leather industry.

Round-table discussion on industrializing and modernizing traditional technology in the leather industry

The round-table discussion took place from 5 to 8 April 1977 in Djakarta in the premises of NAFED. Senior government officials in charge of industrial and export development, particularly those involved in the development of the leather industry in the countries participating in the project, were invited to attend the discussion. In addition, industrialists engaged in the production of leather goods also attended the meeting.

The round-table discussion was intended to serve as an opportunity to exchange views and to investigate possibilities for further accelerated and export-oriented growth of the leather industry in the countries concerned. Prior to the meeting a consultant was assigned by UNIDO to undertake a mission to each country, the purpose of his visits being to review and assess the present stage and level of production in the respective industrial sector by visiting selected manufacturing facilities and collecting experience on the spot about the availability of infrastructure and technology as well as skills and training possibilities for the labour force.

The deliberations of the meeting centred around country papers presented by the representatives of Government and industry of the respective countries, and the report of the consultant on his findings and recommendations in respect of possible measures in the respective sector to improve production and management methods and to upgrade standards, quality and competitiveness of products, at the same time taking into account available technological skills and observing cultural traditions, e.g. in patterns, designs, taste etc. Strong emphasis was placed in the report and in subsequent discussions specifically on assisting small- and medium-scale manufacturers and on exploring measures to strengthen and improve their managerial skills and export capability.

Through an analysis of existing deficiencies, obstacles and bottle-necks in export development, the discussions were expected to result in the formulation of guidelines and practical measures, not only covering the strictly technological and production aspects, but also identifying problem areas in respect of governmental incentives, transfer and adaptation of technology, infrastructural facilities, organization of exports etc.

In addition, the meeting contributed to discovering opportunities and establishing contacts for promoting international co-operation on the company level and among federations of industrialists. The suggestions and recommendations of the

meeting have been consolidated by the consultant in a report, "Record of round-table discussion", which will be submitted to the Governments concerned and made available to participants in the discussion.

The consultant gave additional follow-up assistance at the company level in remodeling and improving the production system, especially in production flow and equipping for export production in the Phillipines. He also assisted the Government of Thailand in selecting the best approach to organizing the leather goods sector for export.

II. RECOMMENDATIONS

Indonesia

Although Indonesia has plentiful indigenous resources and large numbers of skillful labour the amount of manufactured exports is still less than 1% of total exports. In order to exploit this promising sector of the national economy, the following measures should be taken:

1. The Government of Indonesia, specifically the Department of Trade, Department of Industry, Department of Transportation and Department of Finance, should establish a consolidated policy for export development through well-co-ordinated efforts among government agencies and with the private sector.

2. The Department of Trade, specifically NAFED, should:

(a) Organize seminars and group-training courses for exporters and producers in export businesses including marketing, pricing, cost calculation, correspondence and documentation;

(b) Assist in promoting exports of products using indigenous and traditional technology as well as products using indigenous raw materials. Efforts to promote the export of leather products and other craft products, and the establishment of a coconut-coir fibre plant in North Sulawesi, are strongly advised;

(c) Encourage small- and medium-scale manufacturers to engage in production for export through disseminating foreign market information and guiding and advising the export business to a much greater extent;

(d) Establish design policy in co-operation with the Department of Industry and other government agencies.

3. The Department of Industry should:

(a) Urgently establish a master plan for the development of export-oriented industries in accordance with the overall economic development plan, and take the necessary measures to foster the same through financing, taxation, subsidizing and simplifying licensing procedures and so on;

(b) Abolish or soften import restrictions such as import prohibitions and high tariff barriers for industrial finished goods as well as for parts and accessories which result in weakening the international competitiveness of domestic products;

(c) Foster and assist in strengthening the organizing power and activities of individual manufacturers' associations as well as encourage new formations of them in case there is no association in specific sectors of products, in order to facilitate the exchange of information and technology;

(d) Establish industrial design policy in co-operation with the Department of Trade and other agencies;

(e) Encourage the leather and handicraft industries as among the most promising sectors with export potential, and take necessary measures for their development.

Malaysia

Although the development of export manufacturing seems to go relatively well in Malaysia compared with the other countries participating in the project, the following measures should still be taken:

(a) The Government of Malaysia, specifically the Ministry of Industry and Trade, should take necessary measures to foster manufacturing exports of small- and medium-scale industries. The establishment of a new unit in FIDA to promote export production in such industries is strongly recommended;

(b) FIDA should strengthen the capability of industrial extension services to small- and medium-scale industries, especially for production of exports;

(c) FIDA should take measures to promote production of exports using indigenous and traditional technology as well as indigenous raw materials. Efforts to promote raw material-based industries as well as the handicraft industry are strongly recommended.

The Philippines

Considering the importance of the co-ordination between the promotion of manufactured exports and the development of rural industrialization, the Government of the Philippines should:

(a) Establish a new consultative committee to co-ordinate the work done by the Department of Trade and the Department of Industry;

(b) Establish a new unit in the Commission on Small and Medium-Scale Industries to promote export manufacturing in rural areas in concurrence with the Department of Trade.

Thailand

1. In view of the importance of the decentralization of industries from the Bangkok metropolitan area to the provinces, the Government of Thailand should take the following measures:

(a) Give special privileges to investors in provincial areas and not grant privileges to industries in the Bangkok metropolitan area;

(b) Provide sufficient facilities for industrial development in provincial areas.

2. To develop export-oriented industries, the Government of Thailand should:

(a) Promote exports through greater efforts in marketing and through financial assistance;

(b) Revise import-substitution and export-promotion measures so that they may not hinder the process of industrialization in any way;

(c) Assist in promoting exports of products using indigenous and traditional technology and of those using indigenous raw materials. Efforts to promote agro-based industries and the handicraft industry are strongly recommended.

Regional co-operation

In view of the difficulty of reaching agreement for regional co-operation in the manufacturing sector, it is strongly advised that the participating countries should look for the opportunities and machinery to exchange opinions on items of common interest, commodity by commodity, to facilitate favourable economic and political conditions for promoting much larger regional co-operative projects. The experience and results that have been obtained in the round-table discussion on the leather industry should be followed up fully by the participating countries.

Annex I

PROJECT STAFF

International staff

- Carl Auböck, Industrial Design Consultant (October 1976; February-March 1977)
W.J. Dzieciolewski, Export Potential Evaluation Consultant (November-December 1976; February-April 1977)
Shin-ichiro Hirate, Project Manager (December 1975-June 1977)
Kazuo Kimura, Handicraft Organization Consultant (January 1977)
M. Maher Abou El-Khair, Leather Industry Expert (September 1976; February-May 1977)
M. Varnakulasingam, Coconut Industrial Economist (October-November 1976)
Atsushi Yokota, Coconut Coir Fibre Consultant (June 1976)

Counterpart staff

Indonesia

- Asjik Ali, co-director with Project Manager (Director, NAFED)
Brahmana, co-ordinator with Project Manager (Agricultural Products Centre, NAFED)
Januar Elnatan, counterpart staff for export potential; evaluation consultant (Secretariat, NAFED)
Rudy Lengkon, counterpart director for export potential; evaluation consultant (Executive Secretary, NAFED)
Pianto Paeran, counterpart staff for industrial design; consultant (Industrial Products Centre, NAFED)
Djoland Djohar Raya, counterpart staff for leather industry; expert
Susanto Slamet, counterpart staff for handicraft organization; consultant (Craft Centre, NAFED)
Soekirman, Chairman, NAFED (counterpart agency)
Atmono Suryo, ex-Chairman, NAFED (counterpart agency)
Suwarmilah, counterpart director for handicraft organization; consultant (Director, Craft Centre, NAFED)
Zainul Yasni, counterpart director for coconut coir fibre; consultant (Director, Agricultural Products Centre, NAFED)

Malaysia

- Iskandar Astar, co-director (Deputy Director, Industries Division, Ministry of Trade and Industry)
Ibrahim Faisal, assistant to co-director (Assistant Director, Industries Division, Ministry of Trade and Industry)

Ibrahim Halim, deputy co-director (Deputy Director, Industries Division, Ministry of Trade and Industry)

Tan Choon Heng, counterpart staff for leather industry; consultant (economist, FIDA)

Gek Sim Hong, counterpart director (Head, Planning and Research Unit, Federal Industrial Development Authority)

Cheah Tek Kuang, assistant to counterpart director (Planning and Research Unit, FIDA)

The Philippines

Lino Buenc, assistant to counterpart director for leather industry; consultant (Senior Analyst, Board of Investment)

Thelma Dua, assistant to co-director (CSMI)

Joseph M. Pernia, co-director (Executive Director, Commission on Small and Medium-Scale Industries, Department of Industry)

Hernando C. Santos, counterpart director for leather industry; consultant (Acting Manager, Small Business Advisory Center, CSMI)

Thailand

Prabhas Chakkaphak, counterpart director for leather and handicraft assistance (Director General, Department of Industrial Promotion, Ministry of Industry)

Samnao Chulkarat, deputy co-director (Deputy Director, Industrial Economics and Planning Division)

M.C. Piriadis Diskul, co-director (Director, Industrial Economics and Planning Division, Ministry of Industry)

Somsak Kuptakanchanakul, counterpart staff for leather consultant (Handicraft Promotion Division)

Manu Lopairote, assistant counterpart director for handicraft assistance (Chief, Planning Division, Department of Industrial Promotion)

Charmroon Malaigrong, co-ordinator with Project Manager (Chief, Engineering Section, Industrial Economics and Planning Division)

Pathom Nontavari, assistant co-director (senior staff, Industrial Economics and Planning Division)

Songkrom Thangasorn, acting co-director (Economist, Industrial Economics and Planning Division)

Orapin Werawut, co-ordinator with leather consultant (Planning Division, Department of Industrial Promotion)

Annex II

STUDY TOURS

Industrial design study tour, Indonesia

Participants

Rianto Paeran Team Leader	Project counterpart National Agency for Export Development Department of Trade
Sukarno Vice Team Leader	Head, Research and Development Centre Miscellaneous Industry Directorate General Department of Industry
Mohamad Mamun	Head, Foreign Affairs Division National Instrumentation Institute Institute of Science and Technology
Murjatin	Planner, Bureau of Business Development National Development Planning Agency

Purpose of the tour

To promote the development of industrial design for the growth of manufacturing exports from Indonesia through assisting in the formulation of industrial design policy.

Place of study

Singapore, Manila, Tokyo, Osaka and Nagoya

Date

9 September-26 September 1976

Comparative study team for coconut by-products
industries, Indonesia

Participants

Cyrus Siahaan	Chief of Miscellaneous Products Division Industrial Products Centre National Agency for Export Development Department of Trade
Ridwan	Executive Secretary, Copra Development Board Department of Trade

Mohammad Junus	Chief of Economic Directorate Central Sulawesi Province
Maurits Hendrik Tungka	Head of North Sulawesi Provincial Office Department of Industry
Willem Johannes Alexander Kaligis	Managing Director, P.T. Inditoo
Umar Husni	Managing Director N.V. Husni Brothers
Boharuddin Yusuf*	Senior Official Riau Province
Jasram Mantigi*	Managing Director C.V. Usaha
Kamil*	Deputy Secretary, Copra Development Board Department of Trade

*Official observer.

Purpose of the tour

To promote the development of export of coconut by-products from Indonesia and the expansion of the coconut industry in the country through establishing and developing coconut by-products industries.

Place of study

Sri Lanka and Japan

Date

24 October-7 November 1976

Study tour for handioraft export showroom, Information
Service Centre from Thailand

Participants

Somsak Kuptakanohanakul	Chief, Handioraft Promotion Division Department of Industrial Promotion Ministry of Industry
Surapol Chivastho	Deputy Chief Handioraft Promotion Division

Purpose of the tour

To promote the expansion and development of handioraft production with export potential through the establishment of a handioraft export showroom and information service centre.

Place of study

Japan, Philippines and the Republic of Korea.

Date

2 December-16 December 1976

Annex III

SUMMARIES OF TECHNICAL AND PROGRESS REPORTS

1. "Evaluation of export potential", technical report by W.J. Dzieciolewski.

This report sets out the work that was completed during phase one of the consultant's assignment in Indonesia, covering the six-week period from 21 November 1976 to 1 January 1977.

2. Progress report on the Inter-Department Team for Design in Indonesia, Carl Auböck, 12 October 1976.

This report reviews the consultant's mission to Indonesia to help the Inter-Departmental Team for Design in evaluating its experiences gleaned on a study tour to Japan, Manila and Singapore, and in drawing conclusions relevant to the establishment of a design centre in Indonesia.

3. Second progress report on the Inter-Departmental Team for Design in Indonesia, Carl Auböck, 24 March 1977.

This report covers the work of the consultant during a second mission undertaken to assist the Government in preparing for the coming Industrial Design Workshop.

4. Report on strengthening the Association of Exporters' and Producers' Handicrafts Indonesia (ASEPHI), Kazuo Kimura, March 1977.

This report describes the work done during the consultant's mission to Indonesia where he assisted ASEPHI in enlarging its activities and in strengthening its organizational structure.

5. Operational report on participation in the North Sulawesi, Export Development Week (Coconut Workshop), Shin-ichiro Hirata, 29 June 1976.

This report includes the observations of the consultant during a trip to Central Sulawesi and North Sulawesi on the way to attend the Coconut Workshop held in Manado, North Sulawesi, from 15-18 June 1976. A. Yokota, the coconut fibre-processing consultant, suggested the possibility of establishing a coconut-coir fibre plant in North Sulawesi.

6. Report on the development of coconut by-product industries in Indonesia, M. Varnakulasingam, 21 February 1977.

This report contain the observations of the expert during a study tour to Japan and Sri Lanka and his views regarding the establishment of coconut by-product industries in Indonesia.

7. Technical report on "Export promotion and development of leather goods industry in Indonesia", by M. Maher Abou El-Khair.

This report contains the consultant's observations on a mission accompanying the Indonesian delegation to the International Leather Fair in Paris and a subsequent study tour in Europe.

8. Technical reports on the "Round-table discussion on industrializing and modernizing traditional technology in the leather industry sector", on "Regional aspects of the leather goods for export industry" and on "The leather goods for export industry in Thailand", M. Maher Abou El-Khair, incorporated in "Development of export-oriented industries in selected South-East Asian countries" (VS/RAS/75/011), UNIDO/IOD. 121, 19 May 1977.

These reports cover three missions of the expert to assist Governments and small- and medium-scale manufacturers in improving the export capability of the leather goods sector.

Annex IV

WORKSHOPS AND CONFERENCES

Participants from the project

Shin-ichiro Hirata	Project Manager
Atsushi Yokota	Coconut coir fibre processing Consultant (ex-Managing Director, Cooc Industry Co. Malaysia)
Brahmana	Co-ordinator with Project Manager (Agricultural Product Centre, NAFED)

Date

15-18 June 1976

Round-table discussion on leather industry (at Djakarta)

Participants from the project

Shin-ichiro Hirata	Project Manager
M. Maher Abou El-Khair	Leather consultant
Djolang Raya	Counterpart staff (Craft Centre, NAFED)

Date

5-8 April 1977

Annex V

LIST OF DOCUMENTS BY SUBJECT

Evaluation of export potential (Indonesia)

Technical report by W.J. Dziecioielewski (UNIDO/IOD.92).

Industrial design development (Indonesia)

1. Report of the study tour of the Inter-Departmental Team on a Design Centre to Singapore, the Philippines and Japan, Rianto Paeran, 11 October 1976.
2. Report of the Study Tour on Industrial Design to Singapore, the Philippines and Japan, Mohamad Ma'mum, 12 October 1976.
3. Project proposals of the Design Countril and Design Centre in Indonesia, Rianto Paeran, 1 January 1977.
4. Progress report on work of the Indonesian Inter-Departmental Team following the study tour of South-East Asian design centres, Carl Auböck, 15 November 1976.
5. Second progress report on Inter-Departmental Team for Design in Indonesia, Carl Auböck, 24 March 1977.

Handicraft industry promotion (Indonesia)

Report on strengthening the Association of Exporters and Producers Handicrafts Indonesia (ASEPHI), Kazuo Kimura, March 1977.

Coconut by-products industries development (Indonesia)

1. Operational report on participation in North Sulawesi Export Development Week (Coconut Workshop), Shin-ichiro Hirata, 29 June 1976.
2. Report on coconut-coir fibre in Sri Lanka and Japan, 24 October-7 November 1976, Cyrus Siahaan, 23 November 1976.
3. Report on development of coconut by-product industries in Indonesia, M. Varnakulasingham, 21 February 1977.
4. Comments on "Report on development of coconut by-product industries in Indonesia, Shin-ichiro Hirata, 24 January 1977.
5. Report on reconnaissance survey of the coir-processing project, Brahmana, 25 February 1977.

Leather goods industry development (Indonesia, the Philippines and Thailand)

1. Terminal report on export promotion and development of leather goods industry in Indonesia, M. Maher Abou El-Khair (UNIDO/IOD.63).

2. Technical report on the development of leather goods industry for export in Thailand, M. Maher Abou El-Khair (incorporated in UNIDO/IOD.121).
3. Technical report on the development of leather goods industry for export in the Philippines, M. Maher Abou El-Khair.

Leather industry development (Indonesia, Malaysia, the Philippines and Thailand)

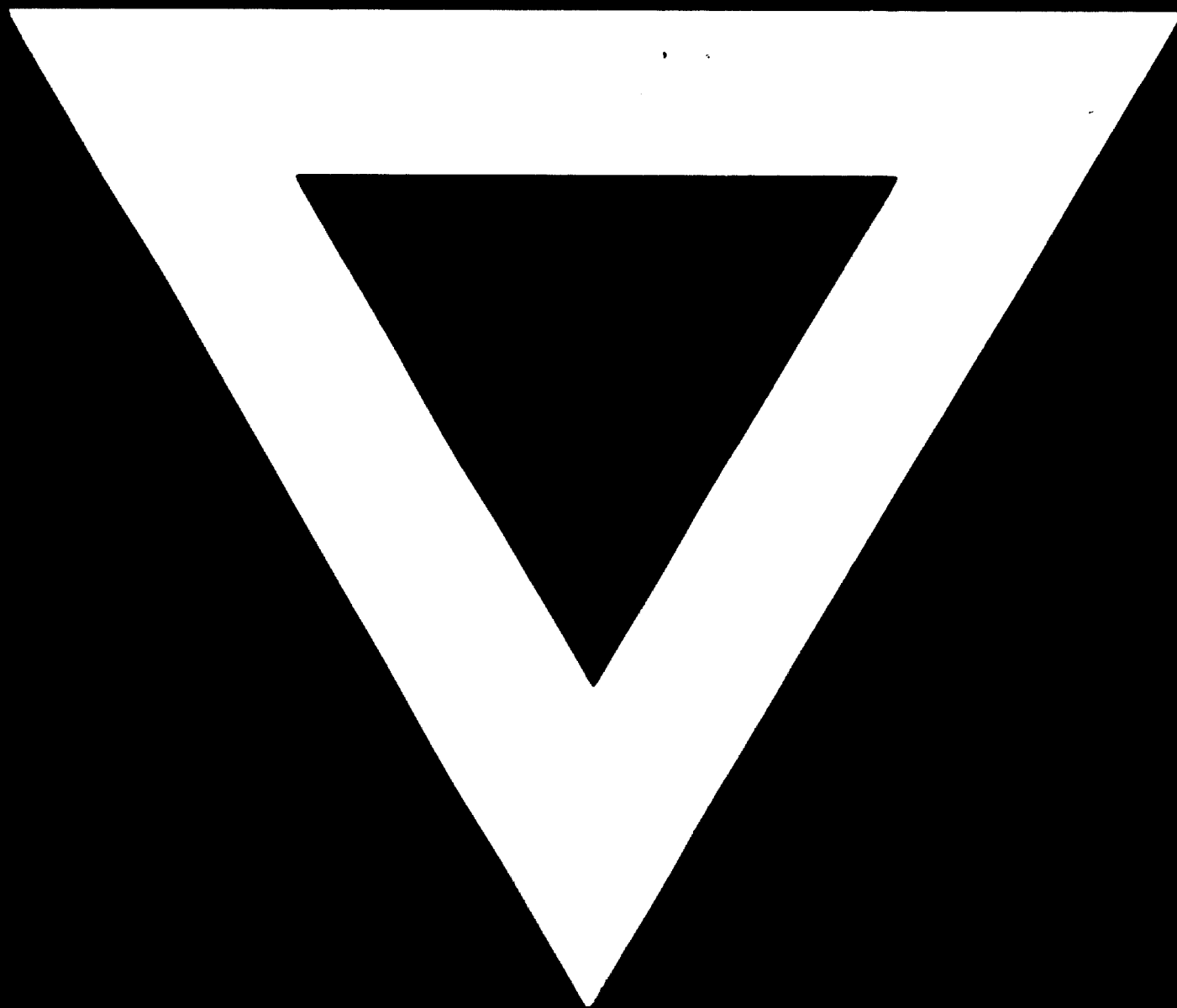
1. Regional aspects of leather goods industry for export, M. Maher Abou El-Khair (incorporated in UNIDO/IOD.121).
2. Leather and leather products in Indonesia; hopes, problems and promises, Pitoyo Soekarbowo, 5 April 1977.
3. The problems facing the export-oriented leather and leather goods industries of Indonesia, Ishak Noor, 5 April 1977.
4. Leather industry in Malaysia, Faisal Ibrahim, 5 April 1977.
5. Special case study, Ghazi Haji Razli, 5 April 1977.
6. Leather industry in Thailand, S. Sritangsirikul, 5 April 1977.
7. Basic problems of leather industry in Thailand, J. Sunantha, 5 April 1977.
8. Leather industry in the Philippines, H. Santos and L. Bueno, 5 April 1977.
9. Technical report on Round-Table Discussion on Industrialization and Modernizing Traditional Technology in the Leather Industry Sector, M. Maher Abou El-Khair (incorporated in UNIDO/IOD.121).

Handicraft export promotion (Thailand)

Report on study tour for handicraft export showroom information or promotion centre, K. Somsak and Surapol Chivasutho, February 1977.



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