OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.

DISCLAIMER

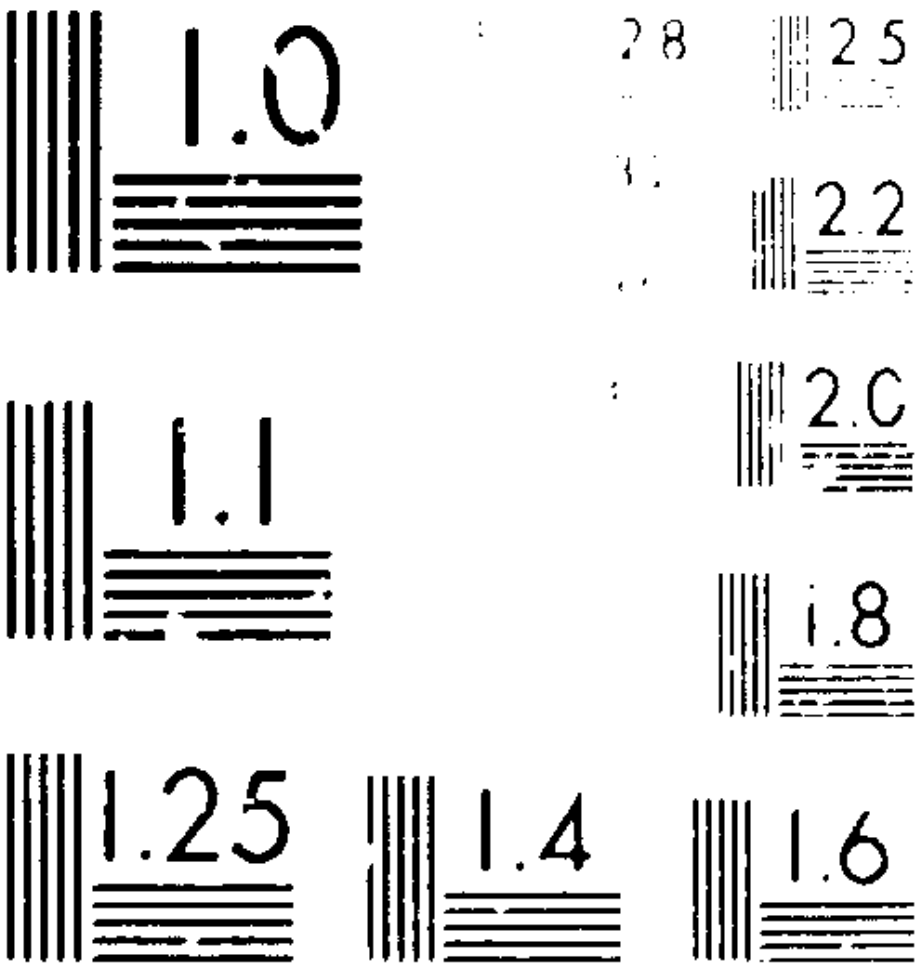
FAIR USE POLICY

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org


1.0
2.8
2.5
2.2
1.1
2.0
1.8
1.25
1.4
1.6

11110

Distr.
LIMITED

UNIDO/IS.282
25 January 1982

ENGLISH

UNITED NATIONS INDUSTRIAL
DEVELOPMENT ORGANIZATION

ASEAN INDUSTRIAL COMPLEMENTATION*

Studies on regional co-operation in the field of industry

Prepared by

Vicente T. Paterno

UNIDO Consultant

in co-operation with
Regional and Country Studies Branch
Division for Industrial Studies

*/ This document has been reproduced without formal editing.

The designations employed and the presentation of material do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country or its authorities, or concerning the delimitation of its frontiers.

The views expressed in this study are those of the consultant and do not necessarily reflect the views of the secretariat of UNIDO or of the Government of any of the countries mentioned in the study.

V.82-20998

TABLE OF CONTENTS

	PAGE
Preface	-v-
Introduction	-vii-
Chapter I. Industrial Complementation	1
A. Rationale for Industrial Complementation	1
B. The Need for Industrial Complementation in ASEAN	2
C. Avenues for Industrial Cooperation in ASEAN	8
1. ASEAN Industrial Projects (AIP)	10
2. ASEAN Industrial Complementation (AIC)	10
3. ASEAN Preferential Trading Arrangements (PTA)	11
Chapter II. The Mechanism for ASEAN Industrial Complementation	13
A. The Committees on Industry, Minerals and Energy (COIME), and on Trade and Tourism (COTT)	14
B. The ASEAN Economic Ministers	17
C. The Mechanism in the Private Sector	18
Chapter III. Lessons of Experience	25
A. Industrial Complementation Projects for New Products	26
B. ASEAN Industrial Complementation Proposals for Existing Products	33
C. Other BIC Activities in Support of Industrial Complementation	38
D. Comments from "Hindsight"	39
Chapter IV. The Potential for AIC Programmes	44
A. Complementation in the Automotive Industry	44
B. Complementation in the Electrical and Electronics Industry	50
C. Complementation in Light Machinery	52
D. Complementation in Steel & Other Metals	54
E. Complementation in the Pulp and Paper Industry	56
F. Complementation in Chemicals	59
G Complementation in Glass	61
H. Complementation in Rubber Products	63
I. Complementation in Food Processing	65
J. Complementation in the Textile Industry	67
Chapter V. Major Constraints to Increased ASEAN Industry Branch Level Co-operation	69
Chapter VI. General Outlook and Recommendations for Future Activities	75
A. Increasing Public Acceptance of AIC	77
B. Strengthening & Improving the Trading Aspects of AIC	79
C. Strengthening & Improving Quality of Project Studies	81
D. Suggested Parameters for Allocation of Projects Among Countries	83
E. Increasing the Coordination between National Industrial Development Plans and AIC	87

Annex		PAGE
A	Outline of Recommendation Re: ASEAN Industrial Complementation	90
B-1	Agreement on Preferential Trading Arrangements (PTA)	93
B-2	Basic Agreement on ASEAN Industrial Complementation	106
C	Developments in the ASEAN Automotive Federation (AAF)	113
D	Status of the Electrical, Electronics and Allied Industries	129
E	Developments in the Agriculture Machinery Sector	132
F	Developments in the Proposed Regional Complementation Projects in the Steel Sector	135
G	Developments in the Pulp and Paper Sector	138
H	Proposed Industrial Complementation Projects by the Chemicals Sector	140
I	Developments in the Glass Sector	143
J	Developments in the Rubber Products Sector	144
K	Developments in the Food Processing Sector	151
L	Status of the Textiles Sector	154

PREFACE

The Regional and Country Studies Branch of the Division for Industrial Studies, UNIDO, within its studies and research programme, is giving particular attention to the potential of co-operation between developing countries in the context of sub-regional schemes; emphasis being placed on the pursuance of the most effective modes of co-operation in the field of industry.

Thus, as part of the programme for 1981, a series of issue-oriented studies or analyses were carried out on various aspects of industrial co-operation within the regional co-operation schemes of ASEAN and the Andean Group. The main objective of the studies was to provide guidance for future regional and sub-regional co-operation in industry between developing countries through analysis of the ASEAN and Andean Group experience in the various forms of industrial co-operation which have been pursued.

The ASEAN studies aimed to bring out and analyse critical issues in the industrial co-operation; the various forms of co-operation employed; the methods and modalities used in identifying, preparing and analysing various factors at the branch or products level as well as at the project level. The studies were not intended to present a chronological expose of the industrial co-operation in the region, the past experience was looked at merely as reference in the analysis of the key issues involved, how further progress may be achieved and of the various measures which may be taken to that effect.

The specific areas in respect of which issue-oriented analytical studies concerning ASEAN have been carried out are:

(i) ASEAN industrial co-operation - a long-term perspective;

(ii) ASEAN industrial product or branch co-operation through industrial complementation programmes and technical co-operation arrangements;

(iii) regional industrial projects - the present large-scale ASEAN Industrial Projects (AIPs) as well as prospective ASEAN joint-venture projects sponsored by the private sector;

(iv) ASEAN co-operation in industrial financing and promotion.

The present study concerning ASEAN Industrial Complementation has been prepared for UNIDO by Mr. Vicente T. Paterno, Manila Mr. Paterno, former Minister of Industries of the Philippines, has been a leading figure in the evolution of the industrial co-operation programmes of ASEAN. He was the Chairman of the ASEAN Committee on Industry, Minerals and Energy (COIME) during its first few years, 1976-79.

Regional and Country Studies Branch
Division for Industrial Studies
UNIDO

INTRODUCTION

SCOPE, METHODOLOGY AND ACKNOWLEDGEMENTS

This paper examines the progress and the problems encountered in the Industrial Complementation Programme of ASEAN, the Association of Southeast Asian Nations. Analysis is made of the past and present activities of the Programme, from which suggestions are developed and put forward for guidance of future activities.

The tasks of identification of "packages" of industrial projects for complementation, and establishment of these projects are assigned by the ASEAN governments to the private sectors in the respective countries. The ASEAN Chamber of Commerce and Industry (ASEAN-CCI) is recognized as the spokesman and channel of communications with the governments for the private sector in ASEAN. The study has therefore covered, to a wider extent than may otherwise be expected, the activities of ASEAN-CCI and its constituent units in this field of regional economic cooperation.

Much of the research and interviews were carried out for this project by the research group of Leverage International (Consultants) Inc., a consulting firm in Metro Manila, Philippines, under guidance of the author. Their research covered available publications, the documents made available by the Interim Technical Secretariat of ASEAN's Committee on Industry, Minerals and Energy (COIME), the records of the Working Group on Industrial Complementation (WGIC) of ASEAN-CCI, and of certain (private) industry associations in the Philippines. Interviews were carried out by them with members from the Philippines of ASEAN-CCI's

Regional Industry Clubs. The research and interviews were made with the authorization of the Chairman of COIME and the head of WGIC. The author also interviewed members in the Philippines of the Regional Industry Clubs. He also interviewed the heads of six of the ten Regional Industry Clubs covered in this report, in the course of a week's travel to Jakarta, Kuala Lumpur and Bangkok.

Leverage also assisted in the compilation and analysis of gathered data, the preparation of the annexes and tables of this paper, and the administrative arrangements for the meetings and interviews in Manila and the other ASEAN capitals.

To help ensure that the recommendations put forward in the report are not unrealistic or intrinsically impracticable, the author briefed the Executive Council of WGIC at their meeting of 17 October 1981, and the 15th meeting of COIME on 19 October 1981, about the major recommendations of the report. Copy of the briefing outline is enclosed as Annex A.

I should like to acknowledge with great appreciation the cooperation and assistance extended to us in the preparation of this report by the Honorable Edgardo L. Tordesillas, Chairman of COIME; Mr. N. Sadasivan, Deputy Director General of Malaysian Industrial Development Authority; Atty. Ricardo P. Guevara, Chairman of WGIC, and WGIC's Executive Director Ms. Linda P. Esguerra; Mr. Ah-Ram Kotikula, Executive Director, Association of Thai Industries; Mr. Tan Keok Yin, Executive Director, and Ms. Kok Soo Mei, Assistant Director, of the Federation of Malaysian Manufacturers;

Drs. F. H. Eman, Chairman of the Industrial, Mining and Energy Compartment of the Indonesian Chamber of Commerce and Industry (KADIN), and the Executive Director of KADIN, Mr. Abdoel Hamid. I also wish to make special mention of the heads of the 10 Regional Industry Clubs and of their Philippine members who were generous of their time, and forthcoming with their answers to questions from the staff of Leverage and myself about Regional Industry Club activities and directions.

Vicente T. Paterno

CHAPTER I. INDUSTRIAL COMPLEMENTATION

A. Rationale for Industrial Complementation

One of the principal constraints to industrialization in many developing countries is the small size of their domestic market for a number of industrial products. The domestic demand is limited by the size of population, and more importantly, by limited purchasing power per capita.

Industrial plants require certain minimum volumes of production to be established at reasonable investment per unit of capacity and to be operated with economy and efficiency. As plant capacity is increased above this minimum economic level, investment per unit decreases. Further technical refinements may also become economic to incorporate into the plant, to lower overall cost of production and improve quality of the product.

A developing country whose industries are limited to serving the requirements of its domestic market will find that for a number of industrial products, the small domestic demand can not support economic-size production. A number of industries established to serve only domestic demand may not be on large enough scale to attain cost and/or quality levels competitive with the same industries in developed countries where the size of market enables much greater scale of production. This manufacturing disadvantage due to market size is compounded by the fact that design and engineering of the bulk of industrial equipment and industrial processes are carried out in the industrial countries for

the needs of industries in these countries, and may not fully meet developing country needs and resources. Thus, industries in the developing countries have to compete with the products from the industrial nations, using tools and equipment designed for the industrial nation's needs and resources, and which do not take full advantage of the developing country's resources, e.g. less expensive and more abundant labor, nor lessen the developing country's handicaps, e.g. smaller market demand.

One solution to the above problem is the evolution by and among developing nations of technology to design new products, modify processes and eventually design and manufacture equipment and plants more appropriate to their needs and resources. This is however a long-term effort; many problems have to be resolved before appropriate technology choices for a wide range of industries can become available to countries with varying market size and levels of industrial development.

One practical step is to expand the market for the developing country through organised industrial cooperation with other developing countries - industrial complementation.

B. The Need for Industrial Complementation in ASEAN

The limited purchasing power for industrial products in the ASEAN countries and even in the region as a whole is compared with some industrial nations in Table 1. This table shows that aggregate GDP of ASEAN's 257 million population in 1979 was about US$134.5 billion. This is less than the US$157 billion GDP of Netherlands'

14 million population in the same year and only 16% larger than Belgium's less than 10 million people. The comparison is made having in mind that these two countries are among the smaller member nations of the European Economic Community.

TABLE 1

Aggregate GDP of ASEAN Vs. Selected Developed Countries

	Population (In Millions)	Gross Product (GDP) (In Billion US$)	Per Capita GDP (In US Dollars)
ASEAN Countries:			
Indonesia	148.47	48.81	328.75
Malaysia	13.30	19.40	1,458.65
Philippines	46.58	29.93	642.55
Singapore	2.36	9.07	3,843.22
Thailand	46.14	27.29	591.46
TOTAL ASEAN	256.85	134.50	
Selected Developed Countries:			
Australia	14.42	125.82	8,725.38
Austria	7.51	73.55	9,793.61
Belgium	9.85	115.94	11,770.56
Finland	4.76	43.47	9,132.35
Netherlands	14.03	156.92	11,184.60

Most of the manufacturing industries in ASEAN were established for production of goods previously supplied from imports. The first manufacturing plants were established for consumption items such as clothing, footwear, and construction materials with wide demand, e.g. cement, lumber, roofing materials, water pipes. The scope of industrialization gradually widened to include other items such as packaging materials, glass, chemicals, steel products and others.

Continued reliance on the strategy of import-substitution pursued by most ASEAN member countries in the 1950's and 1960's will steadily narrow the scope for their possible further industrial development. The strategy had included tariff protection from imports. The raised import tariffs shielded the new industries from the practice of some foreign suppliers of lowering CIF prices of their products at the time these new industries were about to start operations. The import tariffs also enabled the new industries to sell their products at lower than the prices of similar imported items to which the consumer (and the channels of distribution) had been used. This was needed, for the consumer was willing to pay a premium for the familiar imported product over that of a similar new, untried, locally made item. In some cases, however, effective protection in the early stages of industrialization had been set so high that the resulting profitability of the protected industry attracted too many enterprises uneconomically fragmenting an already small market over several makes of the same product. In other cases, over-protection allowed establishment of commercially profitable, but uneconomic plants, which were of too small a scale to compete outside the protected domestic market with similar products from other countries. For while it was probably originally intended to lower tariff rates once the new industries progressed beyond the "infant industry" stage, it became difficult to do so in the situation as it developed. (See Table 2 for comparison of tariff rate averages in the member countries).

TABLE 2

Comparison of Weighted Tariff Rate Averages
for Manufacturers in the ASEAN Countries, by PSCC Grouping

Group (PSCC)	5	6	7	8
Indonesia	19.2	13.9	25.7	35.4
Malaysia	5.0	6.9	7.6	14.4
Philippines	20.3	28.1	22.8	28.3
Singapore	0.4	0.3	1.3	2.2
Thailand	19.3	20.1	32.5	30.3
Regional	10.8	11.0	28.4	14.2

Source: Philippine Tariff Commission, Tariff Profiles in ASEAN, Vol.1, Table 1-C, 1 January 1979 (Preliminary)

Note: PSCC Groups are described as:

5 - Chemicals and related products, n.e.s.

6 - Manufactured goods classified chiefly by materials

7 - Machinery and transport equipment

8 - Miscellaneous manufactured articles

A study published last year on ASEAN trade [1/] makes the following observations: "Industrialization (in the member countries) has generally progressed rapidly and a large part of the demand for the simpler types of consumer goods is presently met by domestic production rather than by imports. Total imports, however, have risen quickly, often at a faster pace than exports. One reason for this is that while imports of consumer-type products have grown slowly, those of capital and producer goods have risen very rapidly. Reflecting this pattern, almost all of the manufactured imports are currently of the latter type of products: machinery and transport

1/ Notes: pp. 15 and 17, "ASEAN Trade Development and Cooperation" by Prof. Seiji Naya, Director, Asian Studies, University of Hawaii (UNCTAD)(Project RAS/77/015/A/40, March 1980)

equipment (SITC 7), basic manufactures (SITC 6), and chemicals (SITC 5), while miscellaneous manufactures (SITC 8) account for only about 4% of total imports."

"Thus, ASEAN countries remain heavily dependent on imports from non-ASEAN sources for those products whose economies of scale tend to be large and important. The markets of the individual countries of ASEAN are too small to permit more efficient and competitive production in such industries. Therefore, further industrialization will require a larger market than that of individual countries; namely, the combined ASEAN or world markets."

A number of the intermediate products required as raw materials, supplies or components for the end products of ASEAN manufacturing industries continue to be imported because they are not economic to manufacture domestically for the national market. Some of these intermediate products could be economically manufactured for the regional market.

It should be noted, however, that even ASEAN industrial complementation would not enable complete industrial self-sufficiency for the region. As indicated in the comparison with some of the smaller industrial countries, even a perfect pooling of the region's individual country markets for all products would provide a combined market with regional GDP comparable only to that of an industrial country with population of 15 million or less. A great deal of room would still be left for imports into the region of a variety of products for which the regional market

is too small to support regional manufacture and/or which require technologies and other resources not economically available within the region.

All of the ASEAN member countries are now actively encouraging manufacturing for exports. The further processing of natural resources, traditionally exported hitherto as raw materials and the production of goods requiring a high proportion of labor inputs are the objects of the new export thrusts. The industrial nations are the target primary markets.

The success of efforts for manufactured exports coupled with the declining potential for import substitution have led some member countries to re-examine their policies of industrial protection, particularly with respect to appropriate levels of import tariffs on industrial goods. Some existing industrial plants have the potential to export their products, provided they improve consistency of product quality and effect reductions in costs of production. Moderated competition from imports can be an effective and useful instrument for increasing the competitiveness of some domestic industries with potential for exports.

The above developments are favorable for effective re[illegible] industrial complementation in the manufacture of certain p[illegible] from existing industrial plants. There is evident potential that these industries can serve the markets of other member countries, if granted preferential access thereto. This development could give an important impetus for self-generated upgrading of efficiency in manufacture of these products. Furthermore, an effective program

of industrial complementation, pooling individual domestic markets into a collective regional market for selected industrial products in an organized manner, could also provide the market base for new industrial projects which need the scale offered by a pooled regional market to be internationally competitive.

C. Avenues for Industrial Cooperation in ASEAN

Conceptually, the simplest way of bringing about industrial integration in ASEAN could have been the establishment of free trade for industrial products among the member countries, similar to that obtaining by agreement in the European Economic Community. Private enterprise would have been free to identify and pursue commercial opportunities for new industrial projects and enlarge existing industrial enterprises to serve the regional market. Private enterprise could then establish distribution, financing, transport, and co-production arrangements with one another; work out mergers, consolidations, joint ventures; and share technologies, markets and expertise within the framework of a common market, as if the entire region were one economic entity without economic borders between countries insofar as industrial products are concerned.

The consensus, however, among the ASEAN member countries has been that a free market for the regional aggrupation could not be established in the foreseeable future. There is some sentiment that it may be worthwhile officially to announce the achievement of an ASEAN free market as a long term goal, but as yet there is no consensus.

The difficulties encountered in achieving consensus for free trade among the member countries are understandable in the light of:

1. The great differences in size of population, from the 2.5 million of Singapore to the 150 million of Indonesia, and therefore of the market potentials in each country.

2. The wide variation in per capita incomes which at present correlate inversely with the size of population. i.e., the largest country, Indonesia, presently has the lowest per capita income while the smallest Singapore, has the highest per capita income.

3. The wide difference in levels of industrial development.

4. The large differences in the tariff structure and policies of protection to domestic industry.

It may be noted, that in the case of the European Economic Community, there were much smaller disparities among the member countries in respect of these four factors. The smaller countries, Belgium, Netherlands and Luxemburg, constitute an economic subgrouping antedating the Community. Unlike the economic isolation of the ASEAN member countries from one another during their colonial era, strong commercial relationships had been in existence for centuries among the large business entities of Europe.

It is expected that ASEAN's difficulties in the way of achieving a consensus for the adoption of a free trade area or perhaps

even a common market as a long-term goal for ASEAN will diminish as the differences set forth in factors (3) and (4) above become smaller over time.

In the meantime, the governments of the member countries, realizing the value of regional cooperation in industry have spelled out three main avenues for industrial cooperation, specified in corresponding inter-governmental agreements:

1. ASEAN Industrial Projects (AIP)

The member governments negotiate the allocation among the member countries of "large-scale industrial projects particularly to meet regional requirements of essential commodities". The projects are established as joint ventures whose partners are the governments of the member countries or their nominee entities. The products of AIP's are assured preferential access to the markets of the member countries.

2. ASEAN Industrial Complementation (AIC)

The programme is intended to be carried out mainly in the private sector. The products of the projects included in an AIC programme will enjoy "exclusivity privileges", qualify for preferential trading arrangements, and other special preferences which may be granted to the project by agreement among the governments concerned.

Proposals have also been advanced and are under inter-governmental consideration for accreditation and extension of certain privileges to "ASEAN Industrial Joint Ventures"

(ALJV). An ALJV would be defined as a company which is owned at least 51% by nationals of at least 2 ASEAN countries and accorded national treatment by the host country in which it operates. The products of an ALJV would be extended privileges similar to those accorded products under approved AIC packages.

3. ASEAN Preferential Trading Arrangements (PTA)

A framework agreement, signed in February 1977, provides for mutual and reciprocal trade preferences to be extended by and among the member countries for products as agreed in continuing negotiations. The trade preferences to be negotiated consist not only of reductions in tariffs, but also long-term quantity contracts, purchase finance support at preferential interest rates, preference in procurement by government entities, preferential liberalization of non-tariff measures, and other forms of assistance which may be agreed upon. The extent of trade preferences for products of AIP's and of projects under the AIC programme are negotiated for specific projects within the framework of the PTA agreement.

In lieu of the free market route adopted by EEC, ASEAN has elected to approach economic integration on an industry-by-industry/product-by-product basis. The governments took the initiative by negotiating and implementing ASEAN Industrial Projects, but have

declared their expectation and encouragement for the private sector to play the major role in regional industrial cooperation activities. The governments expect that industrial complementation projects will be negotiated among the private sector of the member countries and presented for authorization by the inter-governmental bodies of ASEAN.

Various types of complementation agreements may be envisaged, providing for differing manners of intercountry specialization. One type of complementation agreement might provide for establishment in each participating member country of an integrated industrial plant, which would cover all stages of a manufacturing process from raw materials to finished products. A portion of the resulting output of finished product would be then shipped to the other participating countries, so that each plant in the complementation scheme benefits from having been able to specialize in a product for the regional, rather than just one country's market. Another type of agreement could provide for horizontal specialization, by which participating countries could specialize in producing different components or materials/ingredients for the same product. These components and materials would then be shipped to the other countries where they would be used in the manufacture or assembly of similar end products. Other kinds of complementation agreements could provide for combinations of vertical and horizontal specialization. Examples of these will be seen in the proposals submitted by the ASEAN private sector as discussed in Annexes C to L.

CHAPTER II. THE MECHANISM OF ASEAN INDUSTRIAL COMPLEMENTATION

Although proposals for the adoption of guidelines on ASEAN Industrial Complementation had been advanced to the ASEAN governmental organizations as early as 1978 and tentative guidelines were authorized to be circulated by the Tenth ASEAN Economic Ministers Meeting in October 1980, the Basic Agreement on ASEAN Industrial Complementation was signed by the Foreign Ministers of the member countries only on 18 June, 1981. The Agreement comes into force 30 days after deposit of all instruments of ratification by the governments of the member countries. This is expected to occur before the end of this year.

The Agreement affirms that the private sector shall continue to be encouraged to play the major role in most of the economic activities, including industry and trade. The Agreement further notes that suggestions on industrial complementation have been advanced by the ASEAN Chambers of Commerce and Industry (ASEAN-CCI). The Agreement provides the guidelines and institutional framework within which the ASEAN Governmental machinery and the private sector through ASEAN-CCI may collaborate in pursuing industrial complementation.

The more important provisions of the Agreement are:

1. An AIC package must be participated in by at least four of the five member countries, unless otherwise approved by the ASEAN governmental organizations.

2. Identification of products for inclusion in an AIC package shall be done by ASEAN-CCI; approval of the package and associated trade preferences shall be undertaken by the ASEAN

governmental organization.

3. "Exclusivity privileges" shall be enjoyed by the products in an AIC package. Period of enjoyment of "exclusivity privileges" shall be two years for "existing products" and three years, extensible by another year, for "new products".

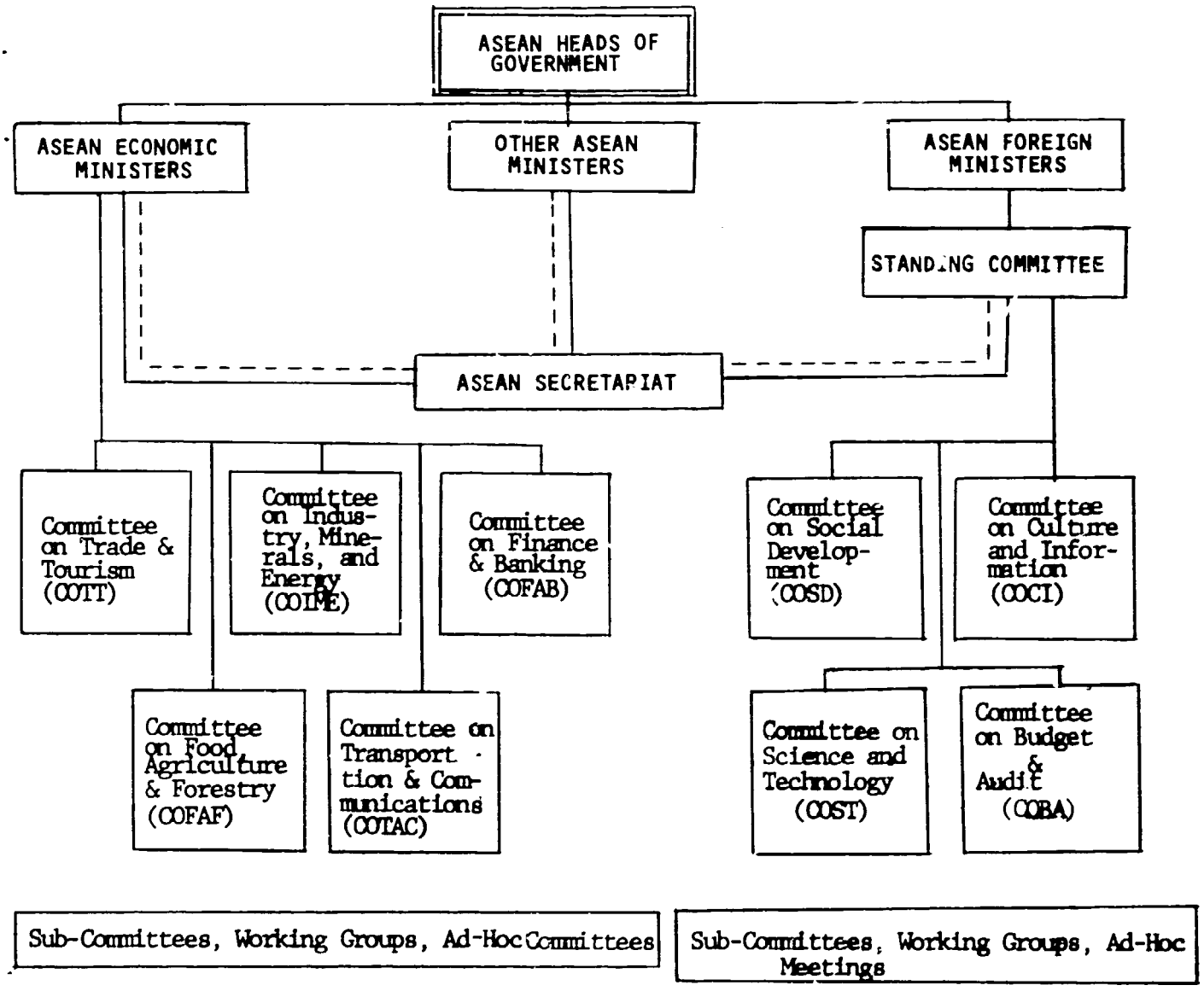
4. ASEAN Governmental approvals shall first be granted for allocation of products in the AIC package to participating countries; thereafter, trade preferences shall be negotiated within six months for "existing products", or one year for "new products". The AIC package, with any necessary modification, including arrangements for trade preferences, shall then be granted final approval by the ASEAN governmental organization.

A. The Committees on Industry, Minerals and Energy (COIME), and on Trade and Tourism (COTT)

Accreditation of the AIC package is performed by the Committee on Industry, Minerals and Energy (COIME), while evaluation of requested trade preferences for the products in the complementation package is undertaken within the Trade Preferences Negotiating Group of the Committee on Trade and Tourism (COTT). COIME and COTT are two of the five economic committees which carry out studies and submit recommendations within their respective jurisdictions for approval of the ASEAN Economic Ministers, the policy and decision making body on economic matters within ASEAN. The three other economic committees cover finance and banking; food, agriculture and forestry; and transportation and communications. The organizational structure of ASEAN is shown on Table 3.

TABLE 3

ORGANISATIONAL STRUCTURE OF ASEAN



COIME is the technical committee that handles all matters relating to regional economic cooperation in the fields of industry, minerals and energy. It has an Interim Technical Secretariat which handles preparations for the committee meetings which are held from time to time, carries out minor studies requested by the committee, receives proposals, prepares correspondence for the chairman, etc. The Interim Technical Secretariat is composed of one professional and a clerical assistant. The staff is augmented during committee meetings. Secretariat staffing and other expenses are borne by the government of the current chairman of the committee. COIME constitutes ad-hoc and expert groups as the need arises for special studies of various matters presented before it. The present chairman of COIME is the Deputy Minister of Industry of the Philippines. Heads of the country delegations attending meetings of COIME are typically senior officials of the Ministry of Industry. COIME has held 15 meetings to date, since its first formal meeting in early 1976, an average of 3 each year.

COTT is the technical committee entrusted with the task of promoting regional cooperation in trade, increasing trade among the member countries, and implementing the Agreement on Preferential Trade Arrangements. COTT has created its Trade Preferences Negotiating Group as the forum for negotiations on tariff and other trade preferences. COTT submits its recommendations on trade preferences for approval of the ASEAN Economic Ministers.

B. The ASEAN Economic Ministers

The ASEAN Economic Ministers meet from time to time to assess the directions, pace and results of regional economic cooperation activities, extra-regional as well as intra-regional. The venue of meetings rotates among the five member countries. Eleven meetings have been held since February 1976, the first (Summit) meeting of the Heads of Government of the member countries, an average of two meetings each year. Although ASEAN economic agreements such as those on AIC and Preferential Trade Arrangement are signed by the foreign ministers, they are in fact negotiated and their texts agreed upon in the Economic Ministers meetings. Delegates from the respective countries to the ASEAN Economic Ministers Meetings may include one or more ministers holding economic portfolio, such as Economic Planning, Trade, and Industry. Ministers of Agriculture, Natural Resources, Transport, Communications and Finance may attend occasionally, if topics of particular interest to the ministry of an individual country are a substantial part of the agenda of the ministerial meeting. Chairmanship of an ASEAN Economic Ministers Meeting is assigned to one of the participating economic ministers from the country hosting the meeting.

The texts of the Agreements on Preferential Trading Arrangements and on ASEAN Industrial Complementation are enclosed as Annexes B-1 and B-2, respectively.

The "ASEAN Industrial Joint Ventures" is also being proposed by ASEAN-CCI as another mechanism for regional industrial cooperation. The proposal for a "Basic Agreement on ASEAN Industrial Joint Ventures" has already been submitted by ASEAN-CCI and is now under initial consideration by COIME. The creation of an AIJV mechanism would provide a means for establishment of individual ventures for industrial complementation without the need of presenting them in a complementation package within the same industry. Eventually perhaps, COIME could consider the possibility of allowing private sector presentation of individual projects which COIME could then consider within a matrix of inter-branch complementation, instead of requiring these to be presented as packages of projects within the same industry branch.

C. The Mechanism in the Private Sector

The ASEAN private sector, which is relied upon to carry out the identification of AIC packages, has been formally organized since 1976, in the field of industry. Table 4 depicts the organization of the ASEAN Chambers of Commerce and Industry (ASEAN-CCI), and Table 5 depicts the interaction between the ASEAN-CCI member organizations and the ASEAN Governmental organization.

TABLE 4

The ASEAN-CCI Member Organizations

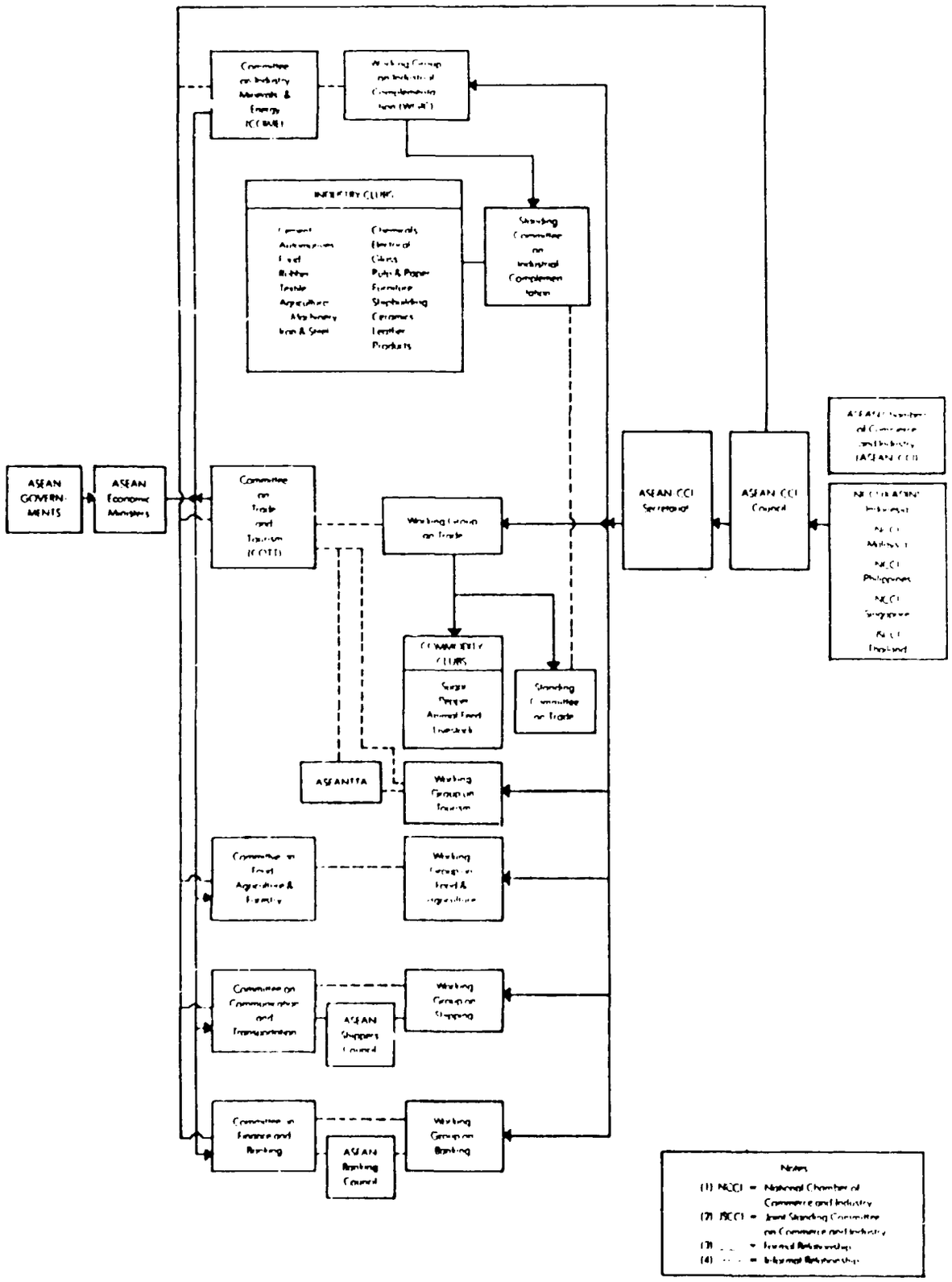
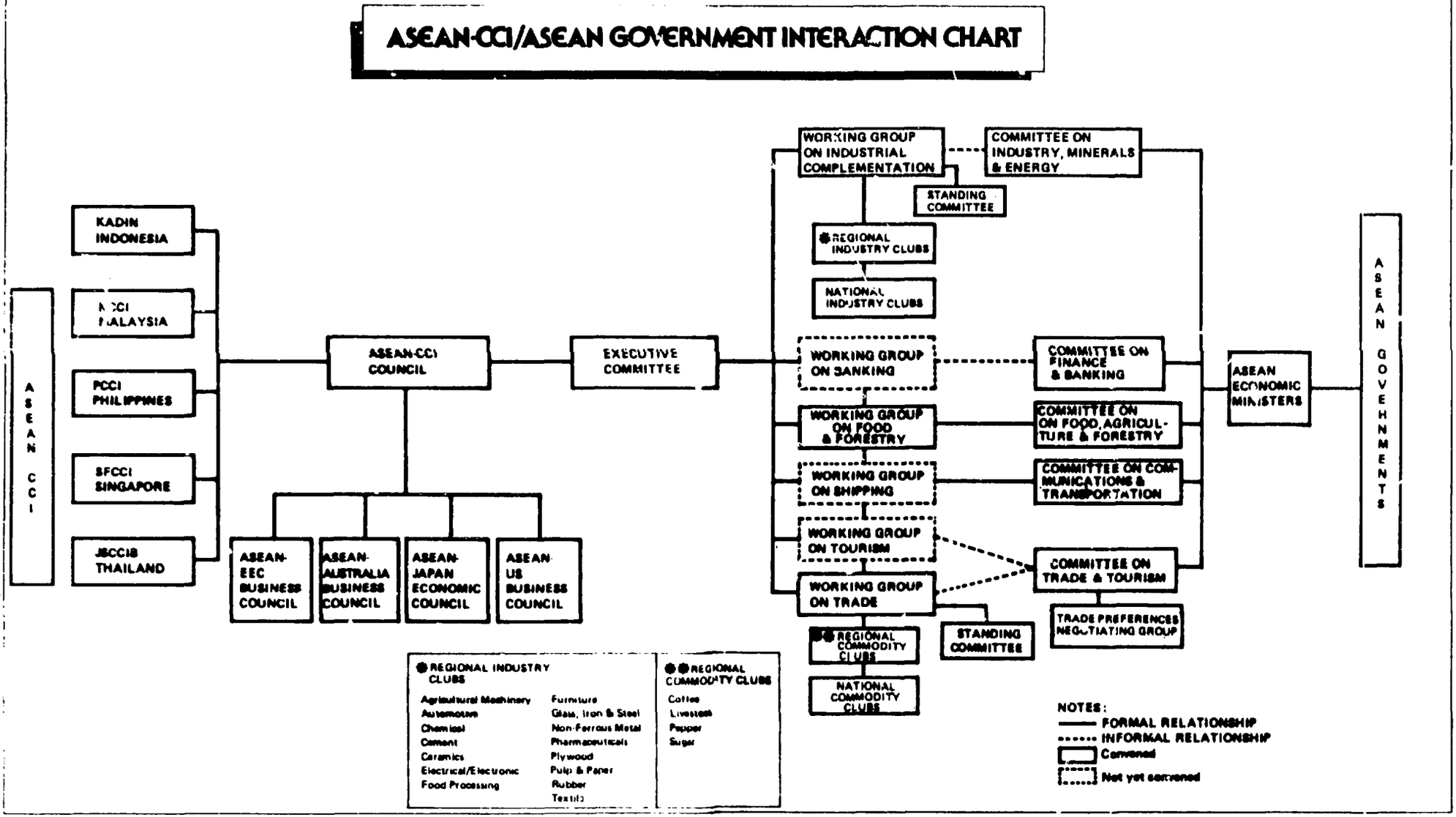


TABLE 5

ASEAN-CCI/ASEAN GOVERNMENT INTERACTION CHART



The ASEAN-CCI organization structure in respect of industry and of trade is the most elaborate and extensive among all the five economic sectors, as will be seen from Table 4. Each of the five ASEAN Governmental economic committees has a counterpart working group within ASEAN-CCI. In the field of trade, ASEAN-CCI has a Standing Committee on Trade, which has been organized as the private sector counterpart vehicle for dialogues between the private and government sectors in the areas of trade and ASEAN tourism.

In the field of industry, there is an ASEAN-CCI Standing Committee on Industrial Complementation, in addition to the Working Group on Industrial Complementation (WGIC) which coordinates the work of Regional Industry Clubs. The Regional Industry Club is the forum at which discussions are held and proposals debated on all matters relating to regional cooperation for the particular industry. Membership of the Regional Industry Clubs is made up of the corresponding industry associations in the member countries. Delegates to the meetings of a Regional Industry Club are nominated by the member associations in the respective countries. Some Regional Industry Clubs, such as the one for chemicals, have found it necessary to create several sub-groups within the Club, in order to focus discussions on specific branches of the industry, such as paints, sulfuric acid and sulfates; synthetic resins; soaps, detergents and vegetable oil chemicals; pesticides; fertilizers; pharmaceuticals; chlor-alkali, etc.

The proposals for industrial complementation emanate from the national industry associations and are submitted to the Regional Industry Club of which they are a member. If there is a consensus on the proposal, as it may have been amended after discussion within the Regional Industry Club, the proposal is forwarded to the Working Group on Industrial Complementation, for endorsement to the ASEAN-CCI Council or its Standing Committee. The Secretary General of ASEAN-CCI transmits the proposal to the Chairman of the ASEAN governmental committee concerned.

In practice, care is taken by the proponents and each level of the ASEAN-CCI to consult with interested or affected parties. In many cases, the national industry association will have prior consultations with the Ministries concerned, usually Industry and/or Trade, to ensure that the intended proposal would be in line with national policies, and to seek favorable indication that the proposal would in principle be supported if and when brought for consideration of COIME and/or COTT. Prior to formal submission of the proposal to the Regional Industry Club, informal consultations with the other national industry associations concerned are often held to anticipate any difficulties in obtaining consensus. These difficulties may be resolved through suitable amendments to the proposals prior to formal presentation, or through negotiations at the meeting of the Regional Industry Club. The Working Group on Industrial Complementation likewise makes efforts to identify any conflicts that may be raised in connection with the proposals of a Regional Industry Club vis-a-vis

other Regional Industry Clubs, and to evaluate the acceptability and practicability of a proposal to the general membership of ASEAN-CCI, and to the ASEAN governmental organizations.

The AIC proposal is transmitted by the Secretary General of ASEAN-CCI to the Chairman of COIME. An analysis of the proposal may be made by COIME's Interim Technical Secretariat, before transmitting copies of the proposal to the heads of country delegations to COIME. The proposal will then be discussed at the next meeting of COIME, which may approve it forthwith, or agree to create an ad-hoc group which will carry out a detailed analysis of the proposal, in consultation with the units of ASEAN-CCI, as necessary, or make recommendations for consideration of COIME at a subsequent meeting. If a favorable consensus is achieved in COIME on the proposal, it is then endorsed for approval in the next ASEAN Economic Ministers Meeting. During the ASEAN Economic Ministers Meeting, the approval will be sought by consensus on the allocation of the products in the AIC package to the respective member countries. The Committee on Trade and Tourism (COTT) will then be instructed to consider and recommend on the trade preferences requested for the products in the AIC package.

A more specific understanding of the process and the mechanism for evolving, evaluating and approving an AIC package may be gained by tracing in Annex C the path of the first AIC package of "existing products" and of the second AIC package of "new products" which are the only ones approved so far by the ASEAN Economic Ministers. Both packages are in the automotive industry branch.

"Existing product" and "new product" in an AIC package are defined in the Basic Agreement on Industrial Complementation. An "existing product" is one which "is already being manufactured in ASEAN at the time COIME considers that product for possible allocation" (among the member countries). "Any product not covered by the above-mentioned definition of existing product shall be deemed new".

One of the major incentives received by enterprises whose products are included in an approved AIC package is their enjoyment of a limited period of "exclusivity" which is defined in Article IV-4 of the Basic Agreement on Industrial Complementation. In brief, "exclusivity" is meant to assure these enterprises that new production will not be established (either by installing new facilities or expanding existing facilities) for the subject product in member countries other than the one to which the product has been allocated within two years in the case of "existing products", or 3-4 years after start-up of production of the product, in the case of "new products".

CHAPTER III. LESSONS OF EXPERIENCE

This chapter first reviews the activities of the Regional Industry Clubs towards initiating and developing concrete proposals for the consideration of the ASEAN governmental organizations. The review is followed by recommendations for improving the effectiveness of these activities towards regional industrial complementation in the future.

The pace and scope of cooperation activities vary among the different Regional Industry Clubs (RIC's). The degree of emphasis given to different areas of cooperation has also varied from one RIC to another. These areas are divided into three for convenience in discussion: industrial complementation projects; promotion of trade in industrial complementation products; and other (private sector) activities in support of industrial cooperation.

The activities of the following ten RIC's have been studied:

1. ASEAN Automotive Federation
2. ASEAN Agricultural Machinery Federation
3. ASEAN Federation of Electrical, Electronics and Allied Industries
4. ASEAN Iron & Steel Industry Federation
5. ASEAN Chemical Industries Club
6. ASEAN Federation of Food Processing Industries
7. Rubber Industries Association of Southeast Asian Nations
8. ASEAN Federation of Glass Manufacturers
9. ASEAN Pulp and Paper Industry Club
10. ASEAN Federation of Textile Industries

A. Industrial Complementation Projects for New Products

Every RIC has at some stage discussed at least one project to produce a new product for industrial complementation. Table 6 lists the various projects which have been identified and presented for discussion at the ten RIC's whose activities were reviewed for this report.

TABLE 6

Industrial Complementation Projects Considered by Regional Industry Clubs

Industry	AIC Project Considered	Status of Project
1. Automotive	First AIC package, (existing products) Second AIC package, (new products) (Total of 10 projects)	Approved by ASEAN Economic Ministers
2. Electrical/ Electronics	TV Picture Tubes, Black & White	Dropped in 1978 due to lack of consensus
	Transformers	Dropped in 1981
	Hermetic Compressors	Feasibility study discontinued, 1981
3. Agricultural Machinery	Mini Tractors	UNDP's Technical Assistance Requested by COIME for feasibility study
	Power Sprayers	Under consideration by RIC
	Power Transmissions	Under consideration by RIC
4. Chemicals	Acetylene black) Chlorinated Paraffin Wax) Titanium dioxide) High test sodium hypochlorite) Freon gas)	For discussions at next RIC meeting, December, 1981

5. Food Processing	Regional Grain Storage	Disapproved Dec. '80 by Committee on Food, Agriculture & Forestry
	Fish Cannery	Endorsed to Working Group on Food, Agri. & Forestry, Dec. '80
	Slaughter House and Cold Storage for Beef	Seeking Feasibility Study
	Dry Baker's yeast	To be proposed for PTA
6. Rubber Products	Heavy duty tyres	RIC concluded not viable
	Carbon Black	Under RIC consideration
	Tyre cord, nylon	Dropped by RIC, Nov. '78
	Chemicals for fabrication of rubber products	Under Study by RIC
	Synthetic rubber	Found not viable by RIC
7. Glass	Tinted sheet glass) Figured sheet glass) Safety glass)	Under discussion by RIC
8. Pulp and Paper	Security Paper Mill	UNDP Technical Assistance for feasibility study requested by COIME
9. Textiles	Mill spare parts and accessories	Study group to be convened to make pre-feasibility study
10. Iron & Steel	Magnesia clinker	UNDP's Technical Assistance requested by COIME for feasibility study
	Billet mill	Dropped by RIC, March '80
	Ferro Alloys	To be presented to RIC at next meeting
	Graphite Electrodes	Prefeasibility study to be prepared
	Basic Refractory	For discussions

Annex C presents a discussion of the activities of the ASEAN Automotive Federation which led to the formulation of two AIC proposals:

one for existing, and one for new projects. These AIC packages are the only ones which have to date received approval from the ASEAN Economic Ministers. An examination of these activities gives some idea of the great amount of time and effort devoted by the private sector towards identifying, validating and agreeing on an AIC package. The process within the RIC took three years, from December 1976 to November 1979. The ASEAN governmental organizations took 10 months to study and approve the proposals.

The information bases for identification by RIC's of possible AIC projects have been uneven in quality. While attempts have been made in all cases to quantify regional demand for the products of proposed projects, the quality and thoroughness of documentation of the market studies are uneven. In some cases, the data gathered on the market have been limited to historical demand for the product or to importation figures. In other cases, projections of future demand have been drawn up. Several RIC's such as the ones for chemicals, glass, pulp and paper, iron and steel, have been able to compile data from their member (national) associations on existing and planned production capacities in the member countries for certain products. However, elements of market studies such as pricing, channels of distribution, seasonality of demand, major import sources and other significant information necessary for an adequate assessment of the regional market to be served by possible AIC projects do not seem to be part of the documentation of any of the available market data.

In general, the information generated and compiled by the RIC's to validate proposals for AIC projects are insufficient for a

well-considered judgement on the viability of the AIC project proposal and its benefits to the region and the member countries. The available information would seem sufficient only to indicate the possibilities for specific AIC project proposals.

The inadequacy of information to support proposals for AIC projects may be traced to the following factors:

1. RIC's do not usually have full-time nor permanent secretariats which would design, send and follow-up replies to questionnaires; carry out market research to cross-check submitted information; conduct correspondence with equipment manufacturers or do library research to obtain data on plant investment requirements for economic-sized plants; compile and disseminate information to member associations and carry on continuing correspondence with them between meetings.

In the absence of a permanent full-time secretariat, much of the time at RIC meetings is taken up by exchanges of information, presentation of position papers, and discussions of matters which could be handled by a secretariat between meetings.

2. The funds available to RIC's from contributions of members and member associations do not allow the RIC's to employ technical services for the production of prefeasibility studies.

3. Individual companies could be reluctant to invest time of their technical staffs to develop project studies

because the information contained therein, when presented to the national association and the RIC, might be used by other companies without any benefits or compensation accruing to the company that prepared and presented the study.

4. There are no minimum requirements, specified by WGIC or by COIME, for the information to be contained in an AIC project proposal. It may be useful for such standards to be drawn up as a guide for preparation and submission of AIC project proposals.

Investigations leading to the making of an industrial investment by a commercial entity are generally carried out in four stages. The first stage is the identification of an investment (and profit) opportunity, arising from pinpointing of a market opportunity. The second stage is the collation and analysis of various items of information relating to market potential, estimates of prices and costs of production and distribution, estimates of plant investment, possible sources of materials and required technologies, all of which are used to develop a prima facie case for the advisability of making a prefeasibility study, which comprises the third stage. The fourth stage is a detailed feasibility study which may require significant expenditures and the employment of engineering and other consulting services. The final investment decision will hinge on the outcome of the feasibility study, particularly its conclusions on rate of return realizable on the investment.

The investment of funds for carrying out these investigations is essentially speculative, since there is no assurance that it will yield any returns. Established industrial companies make decisions to spend for such investigations from time to time, as part of their strategy for expansion and growth, drawing on appropriations from operating income or out of reserves for this purpose. The process is more complex when joint ventures are involved, for it is then necessary to agree on the contributions to the investigations from each of the parties and the participation of each party in the joint venture investment if and when it is materialized.

The member companies in the national industry associations and the RIC's who may be interested in pursuing a particular AIC project find themselves in the position of prospective participants in that AIC project. Although materialization of the project requires expenditures for the investigation of its viability, project uncertainty makes mustering of the funds difficult. The uncertainty of the project arises not only from the current lack of information on its viability as an investment, but also from the uncertainty of whether it will be approved by the ASEAN governmental organizations as an AIC project, the extent of the incentives which the project may receive thereby, and the identity of the company or companies which will actually be authorized by the governments to implement the project.

In the light of this situation, it is not surprising that the AIC project proposals which have been submitted by ASEAN-CCI to COIME, may at best be described as presenting a prima facie case for a possible AIC project, but not as a proposal for a project ready for establishment upon approval by the governments concerned.

It is recommended that ASEAN-CCI and the ASEAN governmental organizations give some thought to this matter, and determine what form of AIC proposals for new projects they may realistically expect to be presented and to materialize after completion of each stage of the approval process. In the present framework, COIME should probably not expect to receive AIC project proposals more advanced than the second stage of the project investigation process, i.e. a prima facie case for an AIC project. Private companies, who are accountable to their shareholders for wise expenditures of funds, are naturally reluctant to spend substantial sums of money for studies in connection with pursuing approval of a prospective AIC project in which they might be a principal or participant. However, for deciding on allocation to countries of AIC projects, COIME needs more information than a tabulation of the regional market potential for a possible AIC project. It would probably be advisable to specify the minimum information which COIME needs in order to make this decision. Specification of these minimum information requirements would provide necessary guidance on the contents of the study to be accomplished by

the membership of the RIC for presenting a project proposal.

It is also useful to realize that in the present context allocation by COIME of an AIC project (new product) to a particular country, and approval by COTT of the trade preferences to be received by the products of that project, only serve to define the bases on which pre-feasibility, and subsequently, detailed feasibility studies can be carried out. Time is consumed for the carrying out of these two-stage feasibility studies, the firming up of the investment decision, the organization of the project company (if a new one is to be formed to carry out the project), the finalization of project financing arrangements and the construction of project facilities. The time lag between approval of an AIC project for new products and its commercial operation could be several years, from a probable minimum of two years to five years or more.

B. ASEAN Industrial Complementation Proposals for Existing Products

Given the difficulties and the length of time it will take to investigate fully and to materialize AIC projects for new products, greater emphasis is appropriately given to the possibilities for putting together AIC packages for existing products. Although the industries established in the member countries are generally similar, enough differences may exist in size of population, resource endowments and levels of industrial development

to create opportunities for complementation of certain industrial products. Interviews with several members of national industry associations in the Philippines indicate that such opportunities do exist, but have not been given much attention by some of the national industry associations and RIC's.

Out of some 30 AIC proposals considered by nine RIC's, only four were for complementation of existing products. The exceptional RIC in this respect was the ASEAN Automotive Federation which presented, and received the ASEAN Economic Ministers approval for, one AIC package of existing products together with one AIC package of new products. It may be coincidental that the ASEAN Automotive Federation is the only RIC to have progressed this far in its AIC activities. But there are indications, as gathered from interviews with some of its members, that inclusion of existing products in its AIC discussions may have been an important factor in motivating its membership, thus sustaining the pace of deliberations.

Some RIC's have discussed industrial complementation through trade in existing industrial products. Among these are:

a. Rubber - reclaimed rubber
golf balls
rubber floor tiles
rubber cot sheets
canvas/sports shoes with rubber soles
bare latex extruded thread

b. Glass - tinted sheet glass
figured flat glass
safety glass (curved and flat)

c. Chemicals - ferro alloys

Other RIC's have agreed that development of regional trade in

industrial products would a priori require adoption of uniform standards among the member countries. For example, in electrical and electronics products, trade is held back by differences in voltage and cycles of electric current; in glass containers by use of US measurement systems in one country, British system in another, and metric system in the others; in iron and steel by non-universal usage of the metric system and use of different gauging and metal standards. In these RIC's, emphasis is being given to the study of regional standards for the products concerned, so that these may be considered for adoption by the respective governments.

Notwithstanding the standardization problems, a number of possibilities exist for putting together AIC packages in all the RIC's studied. Some of these possibilities will be discussed in a succeeding chapter.

At three separate meetings held in Manila with members of national industry associations that are active in RIC discussion, it was indicated that one of the difficulties in putting together AIC packages for complementation products is obtaining relevant information on the market in the prospective buyer member countries. Since the members of the national industry associations and participants in RIC meetings are manufacturers, they can not be expected to have much knowledge of the market for products which they do not themselves manufacture. Furthermore, the manufacturer's interest lies in exporting his products to the member countries, and not in importing products of other manufacturers from member countries.

In addition, many of the transnational companies represented in the national industry associations can not be expected to become enthusiastic or active supporters of programmes to provide trade preferences to products from other member countries at the expense of imports from the transnational company and its affiliates in countries outside of the region.

Due in part to the difficulties mentioned above, to date only one AIC package for existing products has been presented to and approved by COIME: that from the ASEAN Automotive Federation. It is worth noting that in the case of the ASEAN Automotive Federation, prospective buyers and sellers of the products were participating in the complementation discussions - the assemblers of vehicles and the manufacturers of automotive components. There was pressure being exerted by the governments' local content programs for the assemblers to source components from within the host country or the region. Some of the assemblers involved in the discussions also had affiliates in the other member countries which were manufacturers of automotive components. Hence, the climate in which the discussions were held encouraged accommodations and negotiations among the participants to agree on an AIC package for existing products.

Unlike in the case of the ASEAN Automotive Federation, there have been no AIC packages put forward by other RIC's to date for existing products. In some cases, as with the rubber products, the proponents of individual products have resorted to requesting for trade preferences outside of AIC. Recent decisions of the ASEAN

Economic Ministers make probable tariff preferences to be provided by COTT to average about 25% - i.e. import duties to be charged on the COTT-listed product from a member country will average 75% of the duty on imports from non-member countries. But this is much smaller than the incentives available from an AIC package.

There may be some lessons to be learned from the above experiences of the RIC's. Manufacturers from a member country, A, interested in participating in an AIC package for their industry might consider franchising a trading firm to be the sole exporter of their products included in an AIC package for a designated period equal to or exceeding the exclusivity period allotted to that package, and authorizing that trading firm to participate in the negotiations within the RIC on that package. The franchised trading firm would, in its own interest, assist the manufacturer to identify markets in the other member countries for those products, and at the same time assist the manufacturers in the other member countries (or their franchised trading firms) to identify markets in country A for the products in which they are interested. In this matter, trading expertise of the franchised trading firm would benefit the manufacturers in identifying market opportunities and carrying out buying and selling negotiations to materialize AIC packages for existing products.

Regional industrial complementation could also receive a boost from adoption of a policy by the governments of all member countries that local content programmes may be partially fulfilled

by components sourced from other ASEAN member countries. In most of the member countries, imports of completely assembled products (CBU's) are levied higher rates of import duty than the imports of the components (CKD), giving incentive to assembly industries. Some governments have inaugurated local content programmes on some of these products, extending lower rates of sales tax, and/or raising import duties on certain components, and/or mandating deletion of certain components from the CKD imports to increase the proportion of domestically manufactured components (local content) in the assembled product. Adoption of a policy in the relevant member-countries that components sourced from other member-countries will be credited towards their local content programmes would open up new industrial complementation possibilities for existing products, and at the same time help reduce the cost penalties often associated with local content programmes.

C. Other RIC Activities in Support of Industrial Complementation

Several RIC's have formed sub-committees, as mentioned earlier, so that discussions could focus on specific topics and sub-branches of the industry. The ASEAN Federation of Electrical and Electronics Industry has five subgroups: batteries, telecommunications equipment, lamps and fluorescent tubes and fittings, home appliances, cable and wires and switch gear. The ASEAN Chemical Industries Club has established nine subgroups: basic organic and inorganic chemicals; plastics and synthetic rubber; man-made fibres; auxiliaries, dyestuffs and adhesives; paints varnishes and inks; agricultural chemicals;

pharmaceuticals; soaps and detergents; and industrial gases. With respect to standardization of electrical and electronics products, committees have been formed to study possible adoption of regional standards on six items - wires and cables; circuit breakers, controls and distribution transformers; cooking and heating appliances; diesel engine electrical components; airconditioning components; kilowatt hour meters. The ASEAN Iron and Steel Industries Federation has decided to give priority to studies on common regional standards for five products - pipes and tubes, tinplate, wire rods, reinforcing steel bars, and galvanized iron sheets.

Other activities undertaken by various RIC's which would support industrial complementation are the following:

1. Studies and representations at fora on international trade negotiations for the pooling by member countries of unused export quotas in textiles.

2. Intra-ASEAN technical collaboration in design and manufacture of machinery and equipment for agriculture; joint procurement by manufacturers of components and materials required for manufacture of agricultural machinery, e.g. discs for plows and harrows, steel bearings.

3. Surveys of existing and planned manufacturing capacities for selected products.

D. Comments from "Hindsight"

It has been aptly said that hindsight is equipped with 20-20

vision, while foresight is afflicted with all sorts of seeing handicaps. The following are meant to underline certain perceived areas for possible improvement, and not as criticism of what has transpired.

An overview of the experience in ASEAN Industrial Complementation is appropriate in 1981, five years after the declaration by the ASEAN Economic Ministers in 1976 that the private sector would be relied upon to carry out the bulk of industrial complementation activities in the region.

1. Definition of AIC objectives - It may be necessary for the ASEAN Economic Ministers to rearticulate from time to time the specific objectives of ASEAN Industrial Complementation, so that the respective units of ASEAN-CCI and the ASEAN governmental organizations may not lose sight of these objectives.

Industrial complementation is understood to be a means for accelerating the development of industries in the member countries. By making the combined market of the region available for selected industrial products, new industrial capacity can be set up and/or existing production capacity can become comparable with that in developed countries. This focus of AIC on regional market pooling is not clearly stated in the Basic Agreement on Industrial Complementation, and so needs to be reiterated from time to time at high policy levels.

2. Equalization of emphasis on existing and new products - Most RIC's have focused their attention on the

study and discussion of new projects for industrial complementation. As has been pointed out, new projects will take years to materialize. Interest and the pace of activities in RIC's will tend to drag unless sustained by evidence of progress and achievement in industrial complementation. On the other hand, quicker progress and earlier achievement are possible with AIC packages of existing products, or products that can be manufactured with little modification of existing plant capacity.

3. Role of traders in industrial complementation - Successful conclusion of negotiations on AIC packages of existing products requires the willingness and capabilities of the parties to buy products from one another, as well as to sell products. Introduction into these negotiations of parties with the interest, capability and expertise to distribute products and to conclude buying and selling transactions may be necessary to successfully conclude these negotiations.

4. Clarification of guiding principles on market sharing and products allocation - Mutuality and equitable distribution of benefits from an AIC package among the member countries is necessary for regional economic cooperation to be perceived as serving the national interests. However, the basis and methodology of estimating the benefits and their realization by the participating member countries is unclear. The benefits derived by participating member countries results from the ability to sell the selected in-

dustrial products in the markets of other member countries to which the products are provided preferential access, especially during the period of exclusivity. It would seem logical and fair that the distribution of such benefits should be made in proportion to the volume of market made available by the participating member country to the others. It is unlikely that the allocation of products and projects among the member countries could be made for a specific AIC package in such manner as to result in distributing market benefits equally among the member countries. However, COIME could keep track of the disparities between benefits and contributions from one AIC package to the next and guide allocations so that in the long run, these disparities would be minimized, if not eliminated.

5. Institutionalized assistance for the gathering of market statistics, and technical information - One of the difficulties cited during interviews in the way of organizing information for AIC studies is the difference in statistical nomenclature observed by the member countries, particularly for import and export trade. Uniform use of the 7-digit CCCN nomenclature by all member countries would help greatly in compiling the regional market statistics for various products.

It is also evident that RIC's need to improve secretariat capability, and that one of the problems in this respect is the funding of secretariat expenses. The ASEAN governmental

organization might consider ways by which the RIC's and national industry associations could be assisted to assess and collect dues from their membership to fund their activities and provide a more adequate secretariat. The RIC's also need technical and information assistance from their governments, international agencies and bilateral donors to carry out studies on AIC projects.

6. RIC's need to be reminded of the advisability of developing AIC packages rather than individual complementation projects. It is much easier to develop a consensus and obtain governmental approval for a package of projects wherein the benefits to and contributions from participating countries can be assessed rather than for a single project where apparently the benefits accrue to only one country while the contributions are made by the others. In the alternative, sufficient projects in different branches of industry could be presented at one time so that COIME could examine an interbranch, in lieu of an intrabranch AIC package.

CHAPTER IV. THE POTENTIAL FOR AIC PROGRAMMES

This chapter will attempt to assess the economic potential for AIC programmes in eight industry sectors: automotive, engineering (including iron and steel), chemicals, food processing, rubber products, glass, pulp and paper and textiles. The data employed in the assessment are drawn mainly from the compilations of the Regional Industry Clubs, perspectives gained from discussions with members of the industries in the private sector, and personal experience over the last ten years as an official in the Philippine government participating in ASEAN meetings, particularly COIME and ASEAN Economic Ministers meetings from 1976 to mid 1979.

A. Complementation in the Automotive Industry

Among the eight industry branches reviewed, the greatest potential for AIC exists in the automotive industry. Except for Singapore, assembly of motorcycles, private passenger cars, light commercial vehicles and trucks is encouraged in the member countries by the substantial differentials in tariffs between imports of completely built up (CBU) vehicles and of components in knocked down (CKD) form. Thus a market exists for components manufactured in the region to be used in new vehicles assembly as well as for the replacement market.

The demand for vehicles in each country, and even in the entire region, however, is too small to support the integrated manufacture of vehicles on internationally competitive scale. The automotive

market in each country is further split up among different makes so that the resulting demand for most components is fragmented over several models. Because of a decline in sales in 1980 and 1981, reliable estimates of current demand in each country can not be presented. However, it is estimated that current annual sales of private passenger vehicles in the four member countries, Indonesia, Malaysia, Philippines and Thailand, would total about 150,000 units. Even if these sales could all be of one make, the region's aggregate demand would not support an integrated automobile industry competitive with those in the U.S., Japan and the larger European countries.

The automotive population in ASEAN is compared with that of other countries in Asia and Australia in Table 7. The population of private cars in ASEAN is a small fraction of Japan's and only one-third that of Australia. The Australian automotive industry was built up in the 1950's, and is reported to be a high production cost industry because of relatively small scale of production. On the other hand the aggregate population of private cars in ASEAN is reported to be double that of India, which has an integrated automotive industry producing private cars and trucks, and to be larger than that of the Republic of Korea which also has an integrated automotive industry.

TABLE 7

Population of Motor Vehicles (1978/79) in Selected Countries of Asia and Australia (in thousands)

	Private Cars	Trucks and Commercial Vehicles	Motorcycle
Indonesia	575	400	2,300
Malaysia	492	134	951
Philippines	479	366	228
Singapore	143	67	108
Thailand	227	94	121
Total ASEAN	1,916	1,061	3,708
Rep. of Korea	245	258	194
Australia	5,700	1,400	289
India	760	1,048	1,850
Japan	28,900	12,000	890

Source: Far Eastern Economic Review, Asia 1981 Yearbook

It is perhaps too ambitious to conceive of integrated manufacture of passenger cars for the region in the foreseeable future. Such a project would require limiting the choice of car owners in the region to only one make, and even then, the price at which such car would have to be sold would probably need to be substantially higher than imports from other countries. In addition, the present pace of technological development towards lighter vehicles, greater fuel efficiency, less pollutive engine exhausts, and enhanced passenger safety, require large R & D expenditures and promise rapid design changes which make contemplation of an ASEAN passenger car risky.

But there would seem to be significant scope for regionally organized manufacture, under a regional industrial complementation program, of a number of automotive components. These industries participating in the regional complementation programme would manufacture a wide range of OEM and replacement components for motorcycles,passenger cars, light commercial vehicles and trucks.

Manufacture of different automotive components could be a major factor in the industrial advancement of the member countries, providing the base volume warranting establishment of some of the industrial infrastructure which enables manufacture of other capital goods. The hundreds of automotive components which go into an automotive vehicle require a variety of industrial processes to manufacture or fabricate iron, steel, non-ferrous metals, plastics, rubber, glass and other materials into these components. The standards of precision needed in manufacturing these components to the tolerances required for interchangeability will foster the development of manufacturing techniques, training methods and quality control systems which enhance industrial capability to manufacture a number of other items. Some industrial countries, such as France in the 1950's, consciously adopted the automotive industry as a key sector to deepen and strengthen their industrial structure. The manufacture of selected automotive components by regional complementation could serve the same ends for the ASEAN countries. Processes such as forging, heat treatment, gear cutting, die-casting, mass-production iron founding, mass-production plating of metal, etc. will become feasible because of the production volume presented by manufacture of automotive

components.

From the standpoint of economic feasibility to manufacture (as influenced by production volume), automotive components may be classed into:

1. Those that may be economical to manufacture for the domestic market, both replacement and OEM. Within this class may be included exhaust tail-pipes and mufflers, radiators, seat frames and upholstery, safety glass for side windows and windscreens, wheel rims, oil filters, cartridges, rubber channel seals, wiring harnesses, etc.
2. Those which may be economical to manufacture for the regional market.
3. Those requiring larger production volumes than the regional market can support.

The components that could become the subject of regional complementation would be those in category 2. These components would include sub-assemblies such as gasoline engines, diesel engines, transmissions, drive axles, drive shaft, suspension components, and steering mechanisms. Components of sub-assemblies such as engine crankshafts, valves, pistons, bearings, transmission gears, gear forgings, could also be part of complementation programmes. The possibilities for export to the original maker,

or as replacement parts to other countries, should not be excluded.

Governments of the member countries should not expect that domestic manufacture of components will result in lower prices of OEM components compared with competing imports. When components are deleted from the assembly kit for a complete car, the auto maker assigns a "deletion allowance" to the deleted components. The "deletion allowance" is less than the price at which the auto maker purchases these components from the factory supplier. The differential is understood to be the cost for paperwork, handling, etc. for not being able to include the component as part of the assembly kit. Thus domestically manufactured automotive components will be higher priced for OEM use than the competing import, because the "deletion allowance" is less than the auto maker's actual purchase price of the OEM component, and because the smaller scale of production of the components in the developing country will usually entail a higher cost to manufacture. However, when the same component is imported as a replacement part, the import cost may rise to double the deletion allowance and the same price of the domestically manufactured component becomes more competitive in the replacement parts market.

The 10 products contained in the two AIC packages approved by the ASEAN Economic Ministers for the ASEAN Automotive Federation do not exhaust the possibilities for ASEAN Industrial Complementation in the region's automotive industry. Others will undoubtedly be nego-

tiat . as the ASEAN Automotive Federation and its technical committees continue their work, particularly as implementation of the two approved AIC packages demonstrate the economic feasibility of the projects within the packages.

The ASEAN Automotive Federation seems to have emphasized passenger cars in its activities to date of identifying products for complementation. Future investigations should give equal if not greater emphasis to identification of power train components useful in light commercial vehicles, buses and trucks. Unlike passenger cars, commercial vehicles allow greater leeway of choice in power train components to achieve proper configuration for specific uses. This will allow greater specialization among the countries, by, say, engine horsepower, transmission power ratios and rear axle duties. For example, the same 90 horsepower engine may be used in an off-the-road passenger vehicle, a small bus, or a light truck, with appropriate changes in the transmission box and the rear axle to which it is coupled. Annex C traces the developments in this sector.

B. Complementation in Electrical and Electronics industry

Similarly as in the automotive industry, there are a number of products and components in the electrical and electronics industries for which a regional market would allow manufacture on internationally competitive scale. Significant complementation potential for components may be found in consumer electronics products -

television, radio, radio-cassette players. Most of the countries have assembly plants for these products and their markets will continue increasing rapidly in the region as per capita incomes rise. Pursuance by member countries of local content programmes on these products could open markets for certain components, the manufacture of which could be internationally competitive, serving a regional market. Systematic investigation of those components for consumer electronics products which are manufactured for export for instance in the Republic of Korea and Hongkong may be helpful for identification of those parts, the manufacture of which are relatively labor intensive and may therefore be economically manufactured for the regional market. The plants for manufacturing such components are likely to require relatively small capital investment and high ratios of employment to capital invested. With the regional market providing base volume, there is potential for export of the same components outside the region.

Another sub-sector of high potential for complementation is in air-cooling, refrigeration and cold storage. The manufacture of refrigeration compressors in different sizes ranging from the hermetic compressor (and/or components thereof) for the household refrigerator to those used for air conditioning of commercial buildings, for ice plants and for cold storage warehouses, may be internationally competitive for the regional market. The high temperatures and

humidities prevailing in all member countries create a large continuing requirement for refrigeration equipment.

Other products with significant potential for complementation are electric motors, electrical fixtures for residential and commercial buildings, distribution transformers and switchgear. Complementation of the finished products is hampered by prevailing differences in characteristics of electric current (voltage and cycles) among the different countries. But there should be a number of areas for fruitful investigation on regional complementation with respect to components of these products.

The ASEAN Federation of Electrical, Electronic and Allied Industries (AFEA) has emphasized study of regional standardization in various products, and concentrated investigations of complementation possibilities on end products or sub-assemblies such as TV picture tubes, transformers and hermetic compressors. It is suggested that investigation of complementation possibilities in components, whether from existing or new plants may also be fertile ground for their investigations.

For more information on the future and the status of this sector, please refer to Annex D.

C. Complementation in Light Machinery

Small internal combustion engines up to say 30 h.p. may be projects for possible complementation. These would be useful

for agriculture, offshore fishing and small industries in rural areas, where electricity is not yet available. Complementation in small engines could be carried out by appropriate distribution of sizes and types of fuel (diesel and gasoline) among the countries. Manufacture of components could be done in conjunction with plants supplying automotive engine components, such as cylinder blocks, pistons and rings, crankshafts, valves, etc.

In general, it is to be noted that domestic manufacture of automotive components will establish facilities which could also be used to make components for light machinery and equipment. Air compressors manufacture, for example, would utilize the engine block founding, piston, crankshaft, valve and machining facilities used for manufacture of automotive engines. Speed reduction for power tillers and other agricultural equipment would essentially be comprised of gears and gear boxes similar to those making up automotive transmission.

It may thus be useful for participants in the automotive complementation programmes to keep in sight the opportunities for regional complementation in other products and components in the field of light machinery. This will enable them to make more judicious selections of processes and machinery with appropriate flexibility to make other products, while meeting the production speed and volume requirements of automotive components manufacture.

A more detailed discussion of its latest developments in this sector may be found in Annex E.

D. Complementation in Steel and Other Metals

Primary metal industries tend to be capital-intensive, resource-intensive undertakings. It may be worthwhile for the member countries to consider long-term arrangements for complementation in the primary metals which are being produced; or are about to be produced, in the different countries. This will help bring about fuller utilization within the region of the capital and energy resources employed for the primary production of these metals - steel, aluminum and copper.

Some of the countries have set for themselves the objective of attaining self-sufficiency in essential materials. However, discussions should be useful on how such objectives may be attained alternatively through regional (reciprocal) interdependence and more efficient regional production with resulting benefits for all concerned.

An illustration may be made on primary steel and aluminum, which require large amounts of capital investment and energy consumption. Indonesia and Malaysia both have substantial quantities of natural gas, some of which are intended for direct reduction of iron ore into sponge iron. This material could feed to electric furnaces which would continuous-cast blooms, slabs for rolling into plate and strips, and billets. These products would form the inputs into rolling mills for fabrication into different shapes and sizes, such as cold rolled sheets, tinplate, steel plate, reinfor-

cing rods, wire rods, structurals, and into other processes such as forging. The primary metal could be obtained from regional plants availing of natural gas for their energy resource, and under suitable long-term purchase contracts. The distribution of rolling mill capacities could be worked out as an industrial complementation package, making the regional market available as necessary to make each of the rolling mill projects internationally competitive.

Similar complementation arrangements on the secondary level (fabrication and rolling) should also be possible in respect of copper and aluminum. It would seem preferable to site primary production in the country or countries possessing greatest natural advantage, provide offtakes to the other countries on long-term purchase contracts, and work out complementation packages on the secondary projects level.

Tertiary industries, such as large diameter steel pipes, seamless tubes and the larger structural shapes, which cannot be economically established for individual country markets, may also be considered for AIC.

The ASEAN Iron and Steel Industry Federation (AISIF) has focused its attention on studies for establishment of standards for iron and steel products in the region, survey of plant capacities and investigations on possible complementation projects for supplies and secondary materials for the steel industry. These complementation

projects are magnesia clinker, ferro-silicon and graphite electrode. A regional billets plant was also proposed. The market base for these products is existing demand within the region. Annex F shows the latest developments in these proposed regional complementation projects.

One of the difficulties in working out complementation projects for both primary and secondary steel is the volatility of steel prices in the world market. These prices rise rapidly with world demand and sink in times of recession. However, the problem of pricing this kind of product has already been faced and resolved in the case of the urea-ammonia ASEAN Industrial Projects. This experience provides guidance in pricing formulas for intra-ASEAN longterm purchase contracts for primary steel, copper, tin and aluminum.

The South East Asia Iron and Steel Institute (SEAISI), with headquarters in Singapore, is a valuable source of information on the industry in Southeast Asia, in addition to the data compiled by AISIF about the industry in member countries.

E. Complementation in the Pulp and Paper Industry

Production of pulp in the region is much less than pulp usage. Pulp is being produced from bagasse, straw, bamboo and tropical forest wood residues. There is still considerable room for pulp production, and for integrated pulp and paper mills, especially for

kraft papers and newsprint.

A number of small paper mills are operating in the countries of the region using as raw materials imported virgin pulp, and recycled paper. These mills produce a wide variety of papers and paperboards.

The most promising projects for industrial complementation would seem to be the production of pulp, especially from coniferous wood, integrated newsprint and kraft paper mills. There may be potential also for specialty papers, which may not be economic to produce for individual country markets.

The ASEAN governmental organizations sponsored some years ago a study by UN's FAO on regional complementation in pulp and paper. The reports identified some possible projects, but the recommendations have not been fully acted upon as yet.

Integrated pulp and paper projects are characterized by high capital investments and large capacities, to be internationally competitive. It has been estimated, for example, that an internationally competitive kraft paper mill or newsprint mill should have a capacity of 400 tons per day or more, or an annual production in excess of 130,000 tons per annum. This compares with estimated country demands as compiled by the RIC in metric tons in 1979 as follows:

	Kraft, Linerboard, Corrugating Medium	Newsprint
Indonesia	102,000	70,000
Malaysia	108,000	70,000
Philippines	n.a.	n.a.
Singapore	69,000	49,000
Thailand	160,000	95,000

A portion of the country demands for kraft, linerboard, and corrugating medium is filled by existing mills. Demand filled by imports in 1979 was therefore not large enough in any country to warrant establishment of an integrated kraft mill solely for that market. However combined regional demand in 1979 could support two new kraft mills and two new newsprint mills, which would be at internationally competitive scale.

The ASEAN Pulp and Paper Industries Club has not given detailed consideration to these large projects, in the view that the large capital investments involved place them in the category of possible ASEAN Industrial Projects, and for consideration within the government sector. Furthermore, newspapers and periodicals are the principal consumers of newsprint, and the producer may not be fully free to raise prices as required by costs of production, in the face of probable resistance from the print media to any price increases.

The RIC is still in the process of defining the areas of activity which might be in the greatest common interest of its members. There is some consideration of cooperation towards reducing costs of supplies and materials, by pool purchasing. Production of security paper for the regional market has also been identified as a possible joint venture project.

It is believed that industrial complementation in existing products - particularly of specialty papers, certain fine grades of cultural paper, e.g. airmail stationery, heavy weight personal

stationery, coated papers, wrapping papers, etc. - may be promising. These grades could be identified by the RIC, and preferential trade arrangements formulated to stimulate trade in, and regional production of these items. The production of higher grades of paper at international quality standards for the regional market would also help upgrade the standards and techniques of the domestic industry.

It is suggested further that the governments contemplating substantial reductions on import tariffs on the more widely used varieties of paper consider possible schemes whereby tariffs on extra-regional imports be lowered gradually to target levels, say over a period of 5 to 7 years, while tariffs on intra-regional imports be reduced to the same target levels over a shorter period of time, say 2 to 3 years. In this manner, the paper producers of the member countries will get preference to supply markets of the other countries in the course of their import liberalization programmes. This programme could create salutary effects similar to that referred to in the preceding paragraph.

For the latest developments in this sector, please refer to Annex G.

F. Complementation in Chemicals

Similarly as steel and aluminum, many of the "building-block" chemical products tend to be resource-oriented, capital-intensive and require large market volumes for their manufacture to be inter-

nationally competitive. The petrochemical plastics, synthetic fibers, ammonia, methanol, synthetic rubber and other "primary" chemicals are probably ventures which belong more within the government sector, or require heavy financial participations from the governments of the member countries.

The chemical industry projects which have been considered for complementation by the ASEAN Chemical Industries Club have been mainly for "secondary" chemical products. Emphasis has been given to identifying products not yet produced in the region, but using material inputs already available - such as calcium carbide, chlorine gas (in excess from caustic soda production), urea, ammonia. It is suggested that investigations of possible industrial complementation also cover existing products and those which could be co-produced with present products on existing facilities. Many of the existing products are based however mainly on imported material inputs and domestic content does not reach the minimum levels specified in the PTA Agreement to be eligible for trade preferences.

It is suggested that complementation of chemical industries in the region could be greatly assisted by a statistical survey of chemical imports by the various member countries. The aggregation of these imports on a regional basis could then be studied to identify those products and their "building blocks" for which the regional demand presents a sufficient market for internationally competitive production.

Such a statistical survey is probably more easily done for chemicals, compared to other industrial products, because of the greater precision with which chemical products are described in import statistics. The requisite import statistics for each country may already be stored in the country's computer, or in an international agency such as UNCTAD. If so, retrieval, aggregation and listing of the computer stored data should not require too much effort and expense.

A discussion of some regional complementation projects which have been proposed by the ACIC may be found in Annex H.

G. Complementation in Glass

The ASEAN Federation of Glass Manufacturers draws membership from glass container and sheet glass makers of the region. Their activities so far have emphasized survey of glass making capacities, sizes of glass containers made, possibilities of standardization of glass containers, tariffs and import regulations of the member countries. The Federation sees some possibilities of complementation in existing products, or variations thereof, such as in tinted, figured and safety sheet glass.

Trade possibilities exist in glass containers, in such situations as the following:

1. For an internationally marketed product, already sold in other member countries, newly launched and requiring

initial stocks of glass containers. The initial stock may be supplied from other member countries until estimates for continuing sales volume are sufficiently firm to warrant scheduling the container into regular domestic production;

2. To supply increments of growth in glass container demand, when domestic capacity is already fully utilized, until new capacity has been placed into operation;

3. When domestic demand for a particular shape and size of container is so small as to make costs of mold and set-up disproportionately high relative to other production factors, and the same container is being manufactured in another member country.

A specific instance of a glass container in which a continuing trade was built up, from a situation as described in paragraphs 1 and 3 aboye, is the container for baby foods, a vacuum sealed glass jar. This product is now being supplied by a Malaysian company to a food products company in the Philippines, at a current volume of about US$300,000 annually. Imports of this glass jar now enjoy ASEAN tariff preference into the Philippines.

Freight is an important component of delivered cost of glass containers, because they are bulky and fragile This factor makes it difficult to envision regular trade of glass containers among the countries, except in the special situations cited above. Organized complementation in glass containers is thus difficult to achieve.

Closer study may be given to intra-ASEAN trade preferences in glass products particularly tariff preferences which will encourage the glass manufacturers to cooperate with one another as situations arise where such cooperation would be to their mutual benefit. Import tariffs vary among the countries, being nil in Singapore, 25% in Malaysia, 50% in Philippines, 60 to 65% in Thailand and 60 to 120% in Indonesia. The glass container manufacturers are aware of the competition to glass from other forms of packaging, and that cooperation among them is to their mutual interest. Their federation conducts technical seminars as an adjunct to periodic general meetings.

The consensus among members is that the Federation should remain active, in spite of the limited possibilities for industrial complementation. The regional association has kept the members better informed of one another's activities, stimulated exchanges of technology, made each one aware of the possibilities of trade cooperation, and stimulated thinking about the extension of trade preferences.

Annex I presents the latest developments in this sector.

H. Complementation in Rubber Products

The Rubber Industries Association of Southeast Asian Nations (RIASEAN) has examined complementation possibilities for 5 new plant projects. Only one, carbon black, continues to be pursued, for possible establishment in Indonesia. However, other complementation

projects in rubber products could arise as part of automotive complementation, e.g. bushings, windscreen rubber strip seals, engine mount pads, etc. It is therefore suggested that RIASEAN members keep in touch with developments in the automotive industry so that they may identify opportunities for new product complementation projects in rubber-based automotive components other than tires.

RIASEAN has identified several items from among existing rubber products which may form a complementation package. These products are reclaimed rubber, golf balls, rubber floor tiles, off the road tyres weighing over 230 kgs., rubber cot sheets, rubber canvas/sports shoes, and bare natural rubber latex thread. Regional trade volumes in these products are modest, but successful experience in them could stimulate the rubber products industry to search for other items for complementation and regional trade.

There seem to be other significant possibilities for complementation in the rubber products industry in ASEAN. Different sizes of transmission belts and conveyor belts, automotive components (as referred to previously), tyres of different sizes for trucks, buses (including steel radial tyres) and off-the-road vehicles, rubber boots, gloves, contraceptives are among the products that could be the subject of complementation among the member countries. Considering also the fact that most member countries grow and export natural rubber, these complementation projects could expand to cover markets outside the region as well.

For details on the latest developments in this sector, please refer to Annex J.

I. Complementation in Food Processing

The ASEAN Federation of Food Processing Industry (AFFPI) has been active in identifying and studying possible regional projects in food processing. Among these are regional grain storage terminal, beef slaughterhouses and cold storage, integrated beef canning, regional fish cannery, regional commodity exchange, dry baking yeast. AFFPI has also prepared lists of food products and materials for preferential trade arrangements, and studied non-tariff barriers to intra-ASEAN trade in food products.

There seem to be few viable prospects for industrial complementation in end-products of the food processing industry, but there is significant scope for increased trade through preferential trading arrangements in these end products. There is substantial scope as well for trade in fruits, certain vegetables, fish and meats which may form the raw materials inputs to the food processing industry. It is suggested that the food processing industry give attention to the differences among the member countries in harvest seasons for agricultural produce forming inputs to the industry. In the event of significant seasonal differences in availabilities (and prices) of specific materials, imports of these materials from the other countries during months of scarcity in the home country may significantly help stabilize the cost of materials inputs. These materials could be imported in their natural form, or as semi-processed products, such as in the form of fruit juices, fruit pulp, fruit in syrup, cooked vegetable, frozen meat, etc.

Food processing plants usefully absorb agricultural produce during the periods of their greatest surplus, i.e. at peak of harvest. By performing this function they help to prevent sharper peaks and valleys for the agricultural produce that they use. The food processing industry maintains storage and preservation facilities which enable them to buy agricultural produce and release it for consumption, incorporated into processed food end products, over a subsequent period.

Although AFFPI is accredited to the Working Group of ASEAN-CCI, many of its areas of interest are under the cognizance of the ASEAN (governmental) Committee on Food and Agriculture.

It may be useful for the Committee on Food and Agriculture to consider the food processing industry of the region as a mechanism to absorb larger than expected harvests of various agricultural produce. Purchases of such produce could be facilitated through reduction of trade barriers in these commodities. Where transport problems may impede facility of rapid movement of fresh produce, the food processing industries in the home country may be able to perform preservation or semi-processing operations which will enable the produce to be transported later in convenient form. Identification of opportunities for seasonal complementation in agricultural produce used by food processing industries may reveal projects of mutual interest, which would benefit farmers as well as the region's food processing industries and their customers.

Annex K shows the latest developments in this sector in the region.

J. Complementation in the Textile Industry

The spinning, weaving and knitting industries in Malaysia, Philippines, Thailand and Singapore are developed to the extent that they not only produce for the entire domestic demand, but are exporting fabrics, in the bolt or as garments. Indonesia is close to being self-sufficient in domestic textiles demand.

The ASEAN Federation of Textile Industries (AFTEX) has been so far identified only one possible project for industrial complementation: the manufacture of spare parts and accessories for textile mills. AFTEX has devoted greater attention to developing a common position among ASEAN textile exporters in the international negotiations on exports of textiles to the industrial countries, and to study possibilities for the ASEAN countries to share unutilized quotas for textile imports in different categories with one another.

There are significant intra-regional trade possibilities in textiles. One area is in the supply of fabrics for the manufacture of garments for exports. In view of short time lapse between receipt of order and stipulated date of shipment for garments, possible quality deficiencies in domestic production of some fabrics, and/or size of garments order requiring less yardage than a mill's desired production run, it may not be possible to purchase fabrics domestically to meet the requirements of garments export orders. In such instances, textile mills in the other member countries could be the source of

supply for the required fabrics. The Republic of Korea and Hong Kong are now principal sources of such fabrics. However, Thailand and to some extent Malaysia and Philippines are competitive exporters of certain fabrics, and mechanisms could be developed to encourage sourcing of fabric requirements for ASEAN garment exports from them.

Some of the member countries are actively considering reductions in import duties on yarn and fabrics in order to expose their textile industries to import competition and thus stimulate improvements in quality and productivity. Similarly, as recommended in the section on pulp and paper, import tariff reductions on yarn and fabric imports from member countries could be implemented on a shorter schedule than that for extra-regional imports to stimulate intra-regional trade in textiles.

The possibilities for AIC projects in textiles are perhaps the most limited among all the industry branches surveyed in this paper. However, the trade possibilities as pointed out are significant. It is hoped that the governments would perceive these possibilities and integrate mechanisms for stimulation of intra-ASEAN trade in textiles into their policies for import liberalization, development of textile exports and further strengthening of the domestic industry.

A summary presentation of the status of the textile sector is shown on Annex L.

CHAPTER V. MAJOR CONSTRAINTS TO INCREASED ASEAN INDUSTRY BRANCH LEVEL CO-OPERATION

In June, 1980, ASEAN-CCI constituted a Special Review Committee on ASEAN Development. This Committee submitted its first report in November 1980 and its second report on June 28, 1981 for the consideration of the Council of ASEAN-CCI. The final report of the Committee will be made after the ASEAN-CCI Council shall have decided on certain recommendations. In brief the recommendations are:

1. For the ASEAN governments to review progress of ASEAN in the economic fields, define targets and time frames for economic cooperation (e.g. free trade area by 1990), and consider entering into an economic treaty.

2. To improve working relationships between the ASEAN-CCI working groups and relevant national governmental organizations.

3. To make certain changes in the ASEAN-CCI organizational structure.

One of the inhibiting factors to increased ASEAN Industrial Complementation has been the lack of published official rules and procedures. The complaints of the private sector in this respect have been partly answered by the formalization in June, 1981 of the Basic Agreement on ASEAN Industrial Complementation. Prior to this, since 1978, the existing AIC guidelines were understood to be subject to modification, and the private sector felt unable to negotiate AIC packages in the absence of firm rules.

The recommendation for more consultations and dialogues between relevant government agencies and the national industry associations could increase efficiency and effectiveness of the private sector in the identification and negotiation of AIC packages and projects. These consultations could advantageously take place prior to the presentation of complementation proposals before the Regional Industry Clubs. The information gained during such consultations would enable the government representatives and the national industry associations to share perspectives on the proposal, and thus be better prepared to discuss and negotiate the proposal at their respective fora.

The apparent slowness of the pace at which AIC projects are being identified and considered is a major factor which lessens interest and enthusiasm for greater efforts towards AIC. The above-mentioned Special Review Committee of ASEAN-CCI recognizes that certain changes in the ASEAN-CCI "bureaucracy" may be required in order to shorten the period it now takes for proposals to be considered and endorsed to the ASEAN governmental organizations.

The process of identification of opportunities for, and formulation of, AIC proposals needs considerable improvement and strengthening. Reference has been made in other sections of this paper to the following problems:

1. Since there is no certainty that a project proposal will be awarded to the private entity that conducted the studies and

formulated the proposal, no private entity is willing to invest more than the minimum amount of technical mandays and effort required to develop a prima facie case for a project proposal.

2. The information presented by Regional Industry Clubs to the ASEAN governmental organizations to support proposals for AIC packages seem insufficient for a thorough consideration and evaluation of economic and other benefits to be derived by individual member countries and the region as a whole from establishment of the component projects. On the other hand, COIME has not clearly specified the information it would need for such determination.

3. In some industries, such as chemicals and metals, important opportunities for complementation would seem to exist, based on regional production of primary metals, and "building block" chemicals. These primary industries projects would require so much capital and natural resources that in the ASEAN context, they probably fall within the government sector, or require substantial capital participation from the governments. Establishment of these primary industries would give rise to substantial opportunities for AIC packages of projects utilizing the primary products as inputs into secondary industries such as rolling, metals fabrication, and a wide range of chemical products. But the private sector is not studying these areas because the projects for primary products, which would provide the basis for private sector projects, are seen to be in the domain of the government sector.

4. Some RIC's seem to have devoted little attention to identification and formulation of AIC packages on existing products. The studies and negotiations for new industrial projects take years to complete, while it should take only a few months to identify and negotiate AIC packages on existing products.

5. The participants at RIC discussions on AIC packages are manufacturers who can not be expected to have much interest themselves in the import of products from other countries except to the extent that these products should be inputs to their manufacturing operations. For example, textile manufacturers may be interested in encouraging imports of synthetic fibers from the other member countries, and paper makers in chemicals for paper making. Yet there seem to be few, if any, referrals of such opportunities from one RIC to another, as in the foregoing example from the textile and pulp and paper RIC's to the ASEAN Chemical Industries Club. It may be advisable to include a selected number of trading entities in the membership of national industry associations. The participation of these trading experts in RIC meetings could stimulate and facilitate consideration of opportunities for complementation in existing products.

6. The individual governments may not be taking opportunities for AIC in new projects sufficiently into account in their planning of industrial development. Continuing meetings of heads of investment boards, the first of which was held earlier this year will, it is hoped, provide the forum at which improved coordination of national industrial development plans with regional complementation

prospects can be effected. The investment boards are likely to possess considerable amounts of valuable information on national markets, investment requirements and manufacturing costs of specific projects, existing and contemplated. This information if made available for those preparing studies of AIC projects could effect considerable time and cost savings in conducting prefeasibility studies. It would also be helpful if the investment boards could make known to ASEAN-CCI those projects for which they may have disapproved applications on the basis that the national market was too small to enable economic production. These projects, non-viable for a domestic market, could well be internationally competitive serving a regional market.

7. The benefits of the AIC programme to each individaul country and to the region as a whole are not sufficiently appreciated by a wide range of the bureaucracy in the member governments, or even in the business communities. The concept and resulting benefits need to be more clearly articulated in a fashion understandable to non-manufacturers, non-accountants, non-economists. There is a tendency to view regional industrial complementation as a zero-sum exercise, rather than, as put by the Finance Minister of Malaysia some years ago, "as a golden handshake from which everyone involved reaps benefits." In this connection, it would be useful to disseminate clear examinations not only of the nature of the benefits to be derived, but also of the extent to which those benefits will be

enjoyed by each country. Such explanations are probably effectively made not only in the form of papers in academic journals, but also as articles in popular publications and as statements in speeches by government officials.

CHAPTER VI. GENERAL OUTLOOK AND RECOMMENDATIONS FOR FUTURE ACTIVITIES

At this writing (October 1981) and since mid-1981 the climate is more favorable for increased activity in ASEAN Industrial Complementation than it has been in the previous two to three years. Leaders in the governments of ASEAN countries have over the past year expressed the need to re-examine the framework, policies and machinery of ASEAN to quicken the pace of economic cooperation, and have recognized anew the important role of the private sector of ASEAN. On their part, the private sector is encouraged by the approval of the two automotive complementation packages, the signing of the Basic Agreement on Industrial Complementation in mid-year and the authorization for ASEAN-CCI representatives to attend meetings of the various committees of the ASEAN Economic Ministers.

It should be observed at this point, however, that there is still inadequate understanding of the concept and possible benefits of the ASEAN Industrial Complementation Programme, outside of a small segment of the bureaucracies, and a similarly small segment of the business community. Steps should be taken to increase popular awareness of the concept and possible benefits and thus to prepare for wider political acceptance of the AIC programme. Some recommendations toward this end are advanced below.

The opportunities for AIC in some industry branches have been discussed, both in existing products and for new projects. In

general these opportunities lie more in products forming industrial inputs, such as components, industrial materials, and capital goods, than in consumer goods, which are already relatively well developed in the individual countries.

The view was advanced in the early parts of this paper that the attainment of a free trade area in ASEAN may be considered a possible goal, but will not materialize in the near future. Limited free trade in some sectors may be possible in the medium term. Successful industrial complementation involving tariff preferences by reductions of 50% or more of prevailing rates could pave the way for a decision on limited free trade in those sectors where industrial complementation proves to be effective and generates perceived benefits.

The AIC Programme requires close consultation between government and privat sector. Possible synergisms between AIP's in the government sector and AIC in the private sector have already been referred to in the discussion of steel, chemicals and pulp industries. Since the governments retain approval authority over AIC packages, it is necessary for the interested entities to be kept informed of relevant policies so that the private sector discussions and negotiations may be conducted with full awareness of the policies within which the governmental policies will be made. Recommendations are made later for project allocation parameters. Other guiding policies will eventually need to be formulated and issued by the ASEAN governmental organizations to provide clearer frameworks and guidelines for the private sector in identifying, formulating and studying AIC projects.

These policies may not need to be as detailed as those of other regional groupings such as of the Andean Pact, which carries out regional industrial development planning. But they have to be explicit enough to provide more guidance than is contained in the Basic Agreement on AIC.

Towards the objective of accelerating ASEAN Industrial Complementation, recommendations are being made in five areas - generating public acceptance, developing the trading and distribution aspects, improving the quality of AIC proposals, greater coordination of national industrial plans and policies with AIC programme, and developing parameters to guide allocation of projects among countries.

A. Increasing Public Acceptance of AIC

It is recommended that ASEAN-CCI and the ASEAN Secretariat take steps for comprehensive discussion in academic circles in the member countries of the concept and benefits derivable from industrial complementation in selected industry branches, e.g. metals, chemicals and engineering. The notion is still widely held by many academics that the economies of the ASEAN member countries produce similar products and therefore there are no or few complementarities. This notion, as pointed out in several published papers, is not correct when broad products classifications are disaggregated, and when the industrial opportunities are examined more closely, particularly for those products requiring large scale production to be internationally competitive.

The acceptance by the academe of the opportunities and possible benefits from industrial complementation should be followed by publication of feature articles in business and popular periodicals to

explain them in everyday language to a wider segment of the society, particularly, but not restricted to, the business community.

The successful implementation of industrial complementation will inevitably create new competition for some industries and/or traders in the participating countries. The affected parties are likely at those times to take steps to block or impede the preferential imports of products from industrial complementation projects established in other countries. Sufficient awareness and public acceptance of the concept and benefits of industrial complementation will be necessary to prevent these blocking moves in future from becoming effective.

There is one other aspect of public acceptance of industrial complementation which seems to have received little specific attention so far. This aspect is the equitable sharing of the benefits of industrial complementaion. There are several advantages in establishing at an early stage the parameters on the sharing of these benefits among the member countries at an early stage. With established parameters it becomes easier to anticipate the allocation of projects among participating countries; this will provide greater assurance that expenditures for project investigation will be rewarded by award of the project to the country that made the investment on its study. Pre-established parameters also make clear the extent to which a participating country, making its market preferentially accessible to AIC projects in other countries, will benefit through establishment of its own AIC projects which are

reciprocally provided preferential access to the markets of other countries. The existence of such parameters will answer the questions that inevitably arise as to how fairly and equitably regional programs advance the self-interest of the participating countries. A statement is noted from a leader of one of the ASEAN countries in February, 1981 apropos of economic integration that "ASEAN countries have not really get down to short-term sacrificing for long term gains". Perhaps the problem is to demonstrate through concrete operating projects what the long term gains from economic integration could be, and to adopt measures which assure that any "short-term sacrificing" by the countries will be adequately compensated by long-term gains, equitably distributed.

B. Strengthening and improving the trading aspects of AIC

The Basic Agreement on AIC covers packages of existing products as well as of new products. The suggestion has been made in an earlier section to devote at least equal emphasis to AIC packages on existing products; considering that it takes several years to study, negotiate, organize and construct new projects. The increased production volume for the selected products, achieved through access to a regional market, could in many cases make possible significant reductions in manufacturing cost, benefiting the consumers in the participating countries and possibly even stimulating increased demand in the project's host country.

Participation of traders in the formulation and negotiations on AIC packages, particularly for existing products, is recommended. The interests of manufacturers who are presently the only participants in

RIC negotiations need to be supplemented by the interests of trading entities in order to implement the sale of products of the AIC projects. Manufacturers are interested to sell their products, but would not be interested in buying products from other manufacturers, unless these are inputs to their own manufacturing operations. Traders on the other hand are interested in materializing sale transactions, which require both a seller and buyer.

It is noted that the prefeasibility or "prima facie" studies presented to support AIC project proposals generally assume that the entire regional demand would be served by the AIC project. It is believed more realistic to premise market estimates on the basis that the entire demand of the project's host country would be served by the project, but that only half of the respective national demands may be expected to be served by the AIC project in the other countries.

In view of the importance of trading entities to commercial viability and materialization of AIC projects, there may be logic for project organizers to consider inclusion of relevant trading entities among the equity owners of AIC projects.

Consideration may be given by the ASEAN government organizations to accreditation of Regional Industry Clubs to COTT as well as to COIME, particularly for those industrial branches which have identified significant trade possibilities on existing products, given ASEAN tariff preferences. Such accreditation of RIC's to COTT could materially shorten the process of project proposal and evaluation, within ASEAN-CCI as well as within the ASEAN governmental organization.

C. Strengthening and improving quality of project studies

Repeated mention has been made in previous sections that the information and analysis supporting AIC proposals are considered inadequate to demonstrate the feasibility of the projects making up the proposal. Market, technical and economic studies presented at best demonstrate a "prima facie" case of the AIC proposal's viability.

A major reason for this inadequacy of supporting information is the unwillingness of the proposing private entity to invest the time and efforts of technical staff to make the necessary studies. Present procedures do not provide assurance to the proposing private entity that if the project is approved by the ASEAN governmental organization, that project will be allocated to the country of the proposing entity, nor that, if so allocated, the project will be awarded to the entity that developed and presented the proposal. In this situation, the private entity can not consider the expenditures made for careful studies of a possible AIC project to be a business investment. The tendency is thus to limit the expenditures for studies on AIC projects to the minimum, and to consider them as evidence of goodwill and cooperation with the movement for ASEAN economic cooperation, and, as one businessman put it, "as a civic contribution to ASEAN."

It is believed that substantial improvement in the quality of supporting project studies could be brought about with adoption of mechanisms and procedures which provide assurance that the private

entity that developed, and is formally recognized to have submitted, the proposal, would have the entitlement to pursue the project, if and when approved as an AIC project. Given this assurance, the proposing private entities would be more willing to make the expenditures for prefeasibility studies so that concrete project proposals are put forward and adequately evaluated. Detailed feasibility studies could then be made by the same entity upon approval of the project, and prior to its organization, financing and implementation.

Adoption of parameters which will guide the allocation of projects among countries participating in AIC packages would better enable the private sector to anticipate the decisions on such allocations. It is also suggested that the appropriate agencies of the national governments consider procedures for registration, in coordination and consultation with the national industry associations and with the COIME secretariat, of the private entity submitting AIC project proposals. COIME may also consider, with the establishment of these procedures, the setting of minimum standards for supporting studies which AIC project proposals must comply with to be accepted and evaluated by COIME. The setting of such standards would save COIME time in evaluating the proposals, which is now carried out by ad hoc experts' groups. These experts' groups may not be required if there is adequate information and analysis supporting the AIC proposals.

Governmental and private sector organizations will continue to require objective and expert technical assistance in the identification and study of opportunities for ASEAN Industrial Complementation. They

have in the past looked to the United Nations for such assistance. UNIDO has received requests for technical assistance to carry out prefeasibility on identified AIC opportunities. UNCTAD may also be a valuable, but now little-tapped source, of information on market opportunities, including statistical data on imports by the region of different products which may be the subject of AIC. Since UNCTAD maintains import and export data of most countries in computer storage, data for any product imported by the ASEAN countries individually or as a region are conveniently quickly and inexpensively retrieved, compiled, analyzed and printed out by computer. With the objective of enabling ASEAN-CCI and its member entities to become more familiar with the technical assistance possibilities available from UNIDO and UNCTAD, it is suggested that if possible, ASEAN-CCI be accredited and authorized by the ASEAN governmental organization to communicate directly with these two UN agencies, except on matters requiring grants or loans, which can be initiated and negotiated only by the governments or the authorized national or regional governmental organizations.

D. Suggested Parameters for Allocation of Projects Among Countries

One of the problems that must be faced in ASEAN economic cooperation, as probably in cooperation programmes of other regions, is how to achieve equity of distribution among the participating countries of the benefits resulting from cooperation. Unless satisfactorily resolved, the question can not but weaken the resolve and slow the progress of regional economic cooperation. The argument

that the economic forces unleashed by cooperation generate advancements for all the countries in the long-term may be accepted if borne out by a history of regional experience. However, none of the ASEAN countries except Thailand have been independent for more than 35 years, and are only newly developing economic and commercial relationships among them. In comparison the nations of Central and South America have been sovereign for over a century, and have therefore had much longer history of economic and commercial relationships with one another than the countries in ASEAN. Establishment of the European Economic Community was preceded by centuries of intra-European commerce, and by several years of successful governmentally organized economic cooperation as the European Coal and Steel Community. The countries of ASEAN do not have similarly long histories of economic sovereignty and experience of intra-ASEAN economic relationships to draw upon as a reservoir of experience for organized regional programmes of economic cooperation. Hence the suggestion to formulate the proposed parameters.

ASEAN Industrial Complementation is based on the participating countries sharing their markets for selected products with one another. This pooling provides the opportunity for establishment of industrial projects which are efficient and internationally competitive because of the scale of production. The contributions of a participating country to the AIC programme may be quantified as the sum of national demand for various products which are made accessible to AIC projects established in other countries through

special trade preferences extended to country realizes benefits through its establishment of AIC projects which reciprocally enjoy access to the markets of the other countries through similar special trade preferences.

It would seem equitable that the benefits, i.e. exported production volume from AIC projects, be distributed proportionately among the countries as their contributions, i.e. market made available by the countries to AIC projects. This is expressed quantitatively as follows:

$$\frac{PV(1)}{PV(1) + PV(2) + PV(3) + PV(4) + PV(5)} = \frac{MC(1)}{MC(1)+MC(2)+MC(3)+MC(4)+MC(5)}$$

In the above formula, PV(1) is the cumulation of that part of the production volumes of complementation projects established in country (1) marketable in other countries through AIP, AIC and AIJV special trading arrangements; and MC(1) is cumulative market volume in country (1) made accessible under similar arrangements to countries (2) to (5).

The foregoing could guide the allocation of projects among the member countries, not for each complementation package, but on the overall. Application of this parameter when reviewing the distribution of projects will seek to establish that over a period of time, the share of each country in the markets accessed by its industrial complementation projects will be proportional to the market volume it makes accessible to similar projects in the other countries. The existence of such

accepted parameter will also regulate the tendency for the industry associations in each country to be "grabby" about projects, to lay claim to as many projects as possible. By introducing effective limits over the long run on the project volumes that may be assigned to each courtry, adoption of this parameter will tend to make each country consider more closely which projects best fit in with its industrial structure, development plans and policies. This could induce the formulation and articulation in each country of its project priorities for regional complementation, and the relationship of regional complementation with national development plans, a very helpful development in setting directions and guidelines for the private sector.

The foregoing suggested parameter is not meant to be applied as a mathematical formula for calculating project-by-project allocation within a specific package. It would rather be applied from time to time to gauge the balance of project allocations resulting from decisions taken to date and guide the project allocations to be made in future. It is proposed that project-by-project allocation decisions observe the following criteria among others:

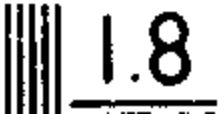
1. Distribution of "primary" production projects should be made according to efficiency and availability of major resource inputs such as minerals and energy. "Primary" projects would include mining, primary metals such as steel in billets, slabs and blooms, aluminium ingots, and copper blister and electrodes; ammonia; polymers


1.0


2.8
2.5
3.2
2.2


1.1


2.0


1.8

of ethylene, propylene and other primary hydrocarbons, and other chemicals derived from coal, air, water, natural gas, or naturally occurring materials.

2. Allocation of "secondary" and "tertiary" projects would be managed giving due consideration to market contribution and project efficiency, as principal factors.

It is emphasized that it would be unrealistic and impractical to require that exact balance be maintained at all times between each country's cumulative share of project production export volumes and the volume contributions it makes to the market pool for complementation projects. In order to keep track of the distribution of PV's and MC's, COIME and/or COTT might keep a journal into which they would post the PV and MC for and from every country arising with each allocated complementation project. The current "debit" and "credit" balances of the member countries would be consulted from time to time, to guide future decisions on allocations of projects to the respective countries.

E. Increasing the coordination between national industrial development plans and AIC.

Each of the member countries of ASEAN has an operating investment board. The functions exercised by the investment boards differ from one country to another, but all of them administer fiscal incentives for industrial projects considered to be of high economic priority, formulate lists of such priority projects, and regulate the entry of foreign investments. In performing these functions, the investment boards exercise a great influence on the shape of the structure of industry, and the directions of industrial development. The heads

of investment boards in ASEAN held their first meeting only in

ASEAN held their first meeting only in 1981.

It is suggested that the national investment boards take greater account of the possibilities for regional industrial complementation when evaluating project applications. Each investment board receives some applications for national projects, which, if established solely to serve the domestic market, would require a high tariff protection but which could be internationally competitive serving the regional demand. It is recommended that such projects be denied for establishment as a domestic project, and steered by the investment board towards regional complementation.

Another promising area for coordination between national industrial policies and the AIC programme, is opened up by the reported tendency in Indonesia, Philippines and Thailand to lower import tariffs for selected industrial products. Voluntary substantial intra-ASEAN tariff preferences could be extended to these products ahead of the reductions made in the external tariffs. To illustrate:

> Product A presently has an import tariff of 70% in country 3. The government intends to gradually reduce import tariff over 5 years to 30%, such that in year 2 the tariff will be 60%, in year 3 50%, in year 4 40% and in year 5 30%. If an intra-ASEAN tariff preference of 50% reduction in external import duties were to be extended in year 1, exports from other ASEAN countries would effectively enjoy an absolute preference over extra-regional sources of 35% in year 1, 30% in year 2,

25% in year 3, 20% in year 4 and stabilize at 15% from year 5 onwards.

ASEAN companies producing product A would thus be provided lead time to develop the market for their product in country 3, before tariff levels came down sufficiently for other countries to compete strongly with them for product A in country 3. The higher tariff preference in the earlier years provides the ASEAN exporters with greater margins to offset the high costs of initial market development in country 3.

Another area in which the governments of ASEAN countries could assist one another is in the exchange of technical information about various industrial projects. From time to time, each country commissions feasibility studies on certain projects, some of which turn out to be not feasible for establishment in the country. The technical data contained in these studies such as estimates of equipment cost, estimates of cost of imported materials and supplies, labor requirements in various steps of the production processes, materials required per unit of output, could be helpful to other countries in carrying out or evaluating project studies. Contribution of such information to a technical data bank from which the investment boards, the COIME secretariat and accredited organizations of ASEAN-CCI could retrieve useful information could be helpful to all the parties concerned.

ANNEX A

Outline of Recommendations Re ASEAN Industrial Complementation

1. Take measures to increase public acceptance of AIC

   a. Strengthen intellectual conviction about nature and benefits of AIC, among academe, business community and professional/intellectual groups, through discussions, seminars, and articles in academic, business and popular journals (ASEAN Secretariat and ASEAN-CCI)

   b. Formulate and adopt parameters regarding country allocation of projects, whether stand-alone or in complementation packages. Suggested parameter: production volume (benefits) distributed among countries on basis of market volume made available by trade preferences (contributions). (COIME)

   c. Generating public acceptance now will preempt blocking moves in future by parties who see adverse effect on their interests.

2. Strengthen trading aspects of AIC negotiations and project implementation in ASEAN-CCI.

   a. Some RIC's have not given enough attention to formulation of AIC packages for existing products. This avenue should be given equal emphasis as new projects (WGIC)

   b. Consider inviting selected traders as nominated by national industry associations, to participate in negotiations on AIC packages, informally and at RIC meetings particularly for existing-product AIC packages. Manufacturers tend to want only to sell, not to buy. Traders' commercial interest is to buy and sell. (WGIC)

   c. Market estimates for prefeasibility of AIC projects may consider up to 100% sales in host country, but probably not more than 50% of demand in member countries, unless AIC projects are in government sector and/or market assured by long-term contracts.

   d. Nature of consumers and optimum distribution channels should be considered in prefeasibility studies, and in designing shareholder composition.

3. Strengthen and improve quality of project studies.

   a. Private entities need assurance of first option on project if approved. Parameters on country allocations of projects in

AIC packages will assist this. In addition, national government procedures to register claim of individual entity to project (if eventually ASEAN-approved) may be appropriate. The assurance of "first option" will enable private entity to consider study expenditures as a business investment and not a "civic contribution to ASEAN". (COIME-Ministries of Industry)

b. Investment boards may steer to AIC some applications for national projects, which require high tariff protection producing for limited national market. (Investment Boards)

c. International agencies to assist with feasibility study information and technical assistance. (UN)

1) UNCTAD for individual country exports and imports from computer data bank.

2) UNIDO for technical aspects - process, capital investment estimates, manufacturing cost estimates, etc.

3) If possible, accredit ASEAN-CCI to maintain direct communication links to UNIDO and UNCTAD, except for matters requiring grants or loans, which must be coursed through governments.

4. Other recommendations:

a. Accredit some RIC's to COTT, particularly those with significant non-AIC trade possibilities through preferential tariffs. (ASEAN-CCI; COTT)

b. Increased consultation, and dialog between national industry associations and relevant government agencies in formulation of AIC proposals.

c. Incorporate AIC possibilities into national industry policies e.g. products for import liberalization would receive large tariffs preferences ahead of external tariff cuts.

5. Suggested project distribution parameters.

a. Distribution among countries of "primary" production projects to be made according to efficiency and availability of major resource inputs.

b. Allocation of "secondary" and "tertiary" projects to be managed giving due consideration to market contribution, and project efficiency.

c. If PV(1) is cumulative total of that part of production volume of complementation projects in country (1) marketable in others through AIP, AIC and AIJV special trading arrangements; and MC(1)

is market volume in country (1) made accessible under similar arrangements to countries (2) to (5), then:

$$\frac{PV(1)}{PV(1) + PV(2) + PV(3) + PV(4) + PV(5)} = \frac{MC(1)}{MC(1) + MC(2) + MC(3) + MC(4) + MC(5)}$$

The share of country (1) in markets accessed by its complementation projects should be proportional to the market volume it makes accessible to similar projects in the other countries.

d. It will be impractical to require mathematical balance at all times between each country's cumulative share of production volumes and market contribution. COIME and/or COTT would keep a "journal" of PV's and MC's for every country; current "debit" or "credit" balances would be consulted to guide future decisions on country allocations of projects.

ANNEX B-1

AGREEMENT ON PREFERENTIAL TRADING ARRANGEMENTS (PTA)

THE GOVERNMENTS OF THE REPUBLIC OF INDONESIA, MALAYSIA, THE REPUBLIC OF THE PHILIPPINES, THE REPUBLIC OF SINGAPORE AND THE KINGDOM OF THAILAND:

RECALLING the Declaration of ASEAN Concord signed in Bali, Indonesia on 24 February 1976, which provides that Member States shall take cooperative action in their national and regional development programmes, utilizing as far as possible the resources available in the ASEAN region to broaden the complementarity of their respective economies;

EMPHASIZING that preferential trading arrangements among ASEAN Member States will act as a stimulus to the strengthening of national and ASEAN economic resilience and the development of the national economies of the Member States by expanding investment and production opportunities, trade and foreign exchange earnings;

NOTING that the Internationa Community has fully recognized the importance of encouraging the establishment of preferences among developing countries at the intermational, regional and subregional levels, particularly through the resolution of the United Nations General Assembly establishing the International Development Strategy for the Second UN Development Decade and the Declaration on the Establishment of a New International Economic Order and the Programme of Action for the Establishment of a New International Economic Order; the Declaration on Trade Expansion, Economic Cooperation and Regional Integration Among Developing Countries adopted at UNCTAD II and Resolution 92 (IV) of UNCTAD IV; as well as of the General Agreement on Tariffs and Trade, particularly Part IV, and decisions made in pursuance thereof;

NOTING further that developed and developing countries have taken some decisions to promote preferential arrangements among developing countries as well as between developed and developing countries in terms favourable to the latter:

HAVE AGREED to establish ASEAN Preferential Trading Arrangements as stipulated by the following provisions: -

CHAPTER I
GENERAL PROVISIONS
ARTICLE I

1. The respective Governments of ASEAN Member States on whose behalf the present Agreement is accepted, hereinafter referred to as the "Contracting States", have agreed to extend trade preferences to each other in accordance with the provisions of this Agreement and the rules, regulations and decisions agreed within its framework.

2. The Contracting States agree to establish Preferential Trading Arrangements among them through the adoption of instruments, as may be appropriate, for ASEAN trade expansion.

3. Upon entry into force of this Agreement, concessions on products originating from all Contracting States agreed upon them through rounds of negotiations shall be implemented by them in accordance with the provisions of this Agreement and any other supplementary agreements and/or contracts which may be concluded within the context of the Preferential Trading Arrangements on the individual products or groups of products.

4. The Contracting States agree that the Preferential Trading Arrangements among them shall be implemented in the spirit of ASEAN cooperation and mutual benefits.

ARTICLE 2

Contracting States shall cooperate through mutual assistance in respect of basic commodities, particularly food and energy; provision of market support for the products of the ASEAN industrial projects; expansion of intra-ASEAN trade and increase in the utilization of raw materials available in the Contracting States.

CHAPTER II
INSTRUMENTS AND DEFINITION OF PREFERENTIAL TRADING ARRANGEMENTS
ARTICLE 3

The Contracting States agree to adopt the following instruments for Preferential Trading Arrangements; long-term quantity contracts; purchase finance support at preferential interest rates; preference in procurement by Government

entities; extension of tariff preferences; liberalisation of non-tariff measures on a preferential basis; and other measures.

ARTICLE 4

The Preferential Trading Arrangements shall be applied to Basic Commodities particularly rice and crude oil; products of the ASEAN industrial projects; products for the expansion of intra-ASEAN trade; and other products of interest to Contracting States.

ARTICLE 5

Long-Term Quantity Contracts shall apply to selected products subject to specific agreements negotiated among the Contracting States or their nominated agencies. Long term contracts shall be for a period of three years to five years depending on the products and quantities to be agreed upon subject to annual review where appropriate. However, this provision does not preclude contracts of less than three years as may be agreed upon by the Contracting States.

ARTICLE 6

Purchase finance support at preferential interest rates may be applied to either exports to or imports from Contracting States of selected products of ASEAN domestic origin to be covered by the Preferential Trading Arrangements.

ARTICLE 7

1. Pre-tender notices for international tenders in respect of procurement by Government entities should be sent to the Missions of the Contracting States in the relevant ASEAN capital.

2. Subject to such provisions as may be embodied in supplementary agreements on Government procurement and to the rules of origin to be subsequently decided, Contracting States shall accord each other a preferential margin of 2-1/2% which should not exceed US$40,000 worth of preferences per tender in respect of international tenders for Government procurement of goods and auxiliary services from untied loans submitted by ASEAN countries vis-a-vis non ASEAN countries.

3. The preferential margin should be applied on the basis of the lowest evaluated and acceptable tender.

ARTICLE 8

1. An effective ASEAN margin of tariff preference should be accorded on a product-by-product basis.

2. Where tariff preferences have been negotiated on multilateral or bilateral basis, the concessions so agreed sh should be extended to all Contracting States on an ASEAN most-favoured-nation basis, except where special treatment is accorded to products of ASEAN industrial projects.

3. In the negotiations on tariff preferences, considerations for balancing of preferences should take into account the possibility of using other instruments of preferential trading arrangements.

4. The effective ASEAN margin of tariff preferences to be accorded to the selected products should take into account existing levels of tariffs in the respective Contracting States.

ARTICLE 9

Without prejudice to the provisions in Articles 5,6, 7 and 8, the Contracting States may decide on other preferences as may be mutually agreed upon.

CHAPTER III
PREFERENTIAL TREATMENT OF THE PRODUCTS OF ASEAN INDUSTRIAL PROJECTS AND INDUSTRIAL COMPLEMENTATION SCHEMES

ARTICLE 10

1. Notwithstanding the provisions of Articles 5,6,7,8,9 and 15 of this Agreement, the Contracting States shall establish special preferential trading arrangements in respect of products of ASEAN industrial projects which shall be embodied in supplementary agreements. Such supplementary agreements shall include the provision that trade preferences shall be extended exclusively to the products of the ASEAN industrial projects within agreed time frames and subject to such other conditions as may be set forth in the supplementary agreements.

2. The products of the ASEAN Industrial Complementation Projects shall qualify for preferential trading arrangements, provided that these individual industrial complementation schemes or projects fall within the guidelines approved by competent Committees of ASEAN Economic Ministers and that the specific schemes or projects are approved by the Committee on Industry, Minerals and Energy.

CHAPTER IV
MAINTENANCE OF CONCESSIONS
ARTICLE 11

Contracting States shall not diminish or nullify any of the concessions as agreed upon through the application of any new change or measures restricting trade, except in cases provided for in this Agreement.

CHAPTER V
EMERGENCY MEASURES
ARTICLE 12

1. If, as a result of the implementation of this Agreement, imports of a particular product eligible for Preferential Trading Arrangements are increasing in such a manner as to cause or threaten to cause serious injury to sectors producing like or similar products in the importing Contracting States, the importing Contracting State may suspend provisionally and without discrimination, the preferences included in this Agreement.

2. Without prejudice to existing international obligations, a Contracting State, which finds it necessary to institute or intensify quantitative restrictions or other measures limiting imports with a view to forestalling the threat of or stopping a serious decline in its monetary reserves or limiting exports due to serious decline in supplies shall endeavour to do so in a manner which safeguards the value of the concessions agreed upon.

3. Where, however, emergency measures are taken in pursuance to this Article, immediate notice of such action must be given to the Committee referred to in Article 13 and such action may be the subject of consultation as provided for in Article 14.

CHAPTER VI
INSTITUTIONAL ARRANGEMENTS
ARTICLE 13

The ASEAN Committee on Trade and Tourism (hereinafter referred to as the THE COMMITTEE) is hereby directed and authorized to conduct trade negotiations within the framework of this Agreement and to review and supervise the implementation of the Agreement. In respect of all matters concerning the implementation of the Agreement, all decisions of the Committee shall be taken by consensus. The ASEAN Secretariat shall monitor the implementation of the Agreement pursuant to Article III.2.8 of the Agreement on the Establishment of the ASEAN Secretariat.

CHAPTER VII
CONSULTATIONS
ARTICLE 14

1. Each Contracting State shall accord adequate opportunity for consultations regarding such representations as may be made by another Contracting State/States with respect to any matter affecting the implementation of this Agreement. The Committee may, at the request of the Contracting State/States, consult with any other Contracting State/States in respect of any matter for which it has not been possible to find a satisfactory solution during previous consultations.

2. If any Contracting State should consider that any other Contracting State has not carried out its obligations under this Agreement so that it nullifies or impairs any benefit accruing to it, the affected Contracting State, with a view to the satisfactory adjustments of the matter, may make representations or proposals to the other Contracting State concerned which thus approached shall give due consideration to the proposals made to it.

3. If no satisfactory adjustment is affected between the Contracting States concerned within 60 days from the date on which such representation or request for consultation was made, the matter may be referred to the Committee who shall consult with the Contracting States concerned and arrive at a solution mutually acceptable to the States concerned. Where the circumstances are serious enough, a Contracting State may temporarily suspend the application of the concession to the Contracting State/States concerned until a mutually satisfactory solution is arrived at. A Contracting State suspending the concession shall give written notification to the other Contracting States within 30 days prior to such action.

CHAPTER VI
INSTITUTIONAL ARRANGEMENTS
ARTICLE 13

The ASEAN Committee on Trade and Tourism (hereinafter referred to as the THE COMMITTEE) is hereby directed and authorized to conduct trade negotiations within the framework of this Agreement and to review and supervise the implemenation of the Agreement. In respect of all matters concerning the implementation of the Agreement, all decisions of the Committee shall be taken by consensus. The ASEAN Secretariat shall monitor the implementation of the Agreement pursuant to Article III.2.8 of the Agreement on the Establishment of the ASEAN Secretariat.

CHAPTER VII
CONSULTATIONS
ARTICLE 14

1. Each Contracting State shall accord adequate opportunity for consultations regarding such representations as may be made by another Contracting State/States with respect to any matter affecting the implementation of this Agreement. The Committee may, at the request of the Contracting State/States, consult with any other Contracting State/States in respect of any matter for which it has not been possible to find a satisfactory solution during previous consultations.

2. If any Contracting State should consider that any other Contracting State has not carried out its obligations under this Agreement so that it nullifies or impairs any benefit accruing to it, the affected Contracting State, with a view to the satisfactory adjustments of the matter, may make representations or proposals to the other Contracting State concerned which thus approached shall give due consideration to the proposals made to it.

3. If no satisfactory adjustment is affected between the Contracting States concerned within 60 days from the date on which such representation or request for consultation was made, the matter may be referred to the Committee who shall consult with the Contracting States concerned and arrive at a solution mutually acceptable to the States concerned. Where the circumstances are serious enough, a Contracting State may temporarily suspend the application of the concession to the Contracting State/States concerned until a mutually satisfactory solution is arrived at. A Contracting State suspending the concession shall give written notification to the other Contracting States within 30 days prior to such action.

CHAPTER VIII
RULES OF ORIGIN
ARTICLE 15

Products mentioned in Article 4 of this Agreement shall be eligible for preferential treatment if they satisfy the Rules of Origin set out in Annex I which is an integral part of this Agreement.

CHAPTER IX
GENERAL EXCEPTIONS
ARTICLE 16

Nothing in this Agreement shall prevent any Contracting State, from taking action and adopting measures which it considers necessary for the protection of its national security, the protection of public morality, the protection of human, animal and plant life and health and the protection of articles of artistic, historic and archaeological value.

CHAPTER X
MISCELLANEOUS AND FINAL PROVISIONS
ARTICLE 17

1 This Agreement shall enter into force on the 30th day after the deposit of the Fifth Instrument of Ratification.

2. This Agreement may not be signed with reservation nor shall reservations be admitted at the time of ratification.

3 All Articles of this Agreement may be modified through amendments to this Agreement agreed upon by consensus. All amendments shall become effective upon acceptance by all Contracting States

4 This Agreement shall be deposited with the Secretary-General of the ASEAN Secretariat who shall promptly furnish a certified copy thereof to each Contracting State

5. Each Contracting State shall deposit its Instrument of Ratification with the Secretary-General of the ASEAN Secretariat who shall likewise promptly inform each Contracting State of such deposit.

IN WITNESS WHEREOF, the undersigned being duly authorized thereto by their respective Governments have signed this Agreement on ASEAN Preferential Trading Arrangements.

Done at Manila this twenty-fourth day of February 1977 in a single copy in the English Language.

For the Government of the Republic of Indonesia:	(Sgd.) ADAM MALIK Foreign Minister of Indonesia
For the Government of Malaysia :	(Sgd.) TENGKU AHMAD RITHAUDDEEN Foreign Minister of Malaysia
For the Government of the Republic of the Philippines:	(Sgd.) CARLOS P. ROMULO Secretary of Foreign Affairs
For the Government of the Republic of Singapore:	(Sgd.) S. RAJARATNAM Foreign Minister of Singapore
For the Government of the Kingdom of Thailand:	(Sgd.) UPADIT PACHARIYANGKUN Foreign Minister of Thailand

ANNEX I (to Agreement on PTA)

RULES OF ORIGIN FOR THE ASEAN PREFERENTIAL TRADING ARRANGEMENTS

For determining the origin of products eligible for preferential concessions under the Agreement on ASEAN Preferential Trading Arrangements, the following Rules shall be applied:

RULE 1. ORIGINATING PRODUCTS - Products covered by preferential trading arrangements within the framework of this Agreement, imported into the territory of a Contracting State from another Contracting State which are consigned directly within the meaning of Rule 5 hereof, shall be eligible for preferential concessions if they conform to the origin requirement under any one of the following conditions:

(a) Products wholly produced or obtained in the exporting Contracting State as defined in Rule 2; or

(b) Products not wholly produced or obtained in the exporting Contracting State, provided that the said products are eligible under Rule 3 or Rule 4.

RULE 2. WHOLLY PRODUCED OR OBTAINED - Within the meaning of Rule 1(a), the following shall be considered as wholly produced or obtained in the exporting Contracting State:

(a) mineral products extracted from its soil, its water or its seabeds;
(b) agricultural products harvested there;
(c) animals born and raised there;
(d) products obtained from animals referred to in paragraph (c) above;
(e) products obtained by hunting or fishing conducted there;
(f) products of sea fishing and other marine products taken from the sea by its vessels; 1/3/ *
(g) products processed and/or made on board its factory ships 2/3/ exclusively from products referred

---

* Refer to attached notes (see page 105)

to in paragraph (f) above;

(h) used articles collected here, fit only for the recovery of raw materials;

(i) waste and scrap resulting from manufacturing operations conducted there;

(j) goods produced there exclusively from the products referred to in paragraph (a) to (i) above.

RULE 3. NOT WHOLLY PRODUCED OR OBTAINED

(a) (i) Subject to sub-paragraph (ii) below, for the purpose of implementing the provisions of Rule 1(b) and subject to the provisions of Rule 4, products worked on and processed as a result of which the total value of the materials, parts or produce originating from non-ASEAN countries or of undetermined origin used does not exceed 50% of the FOB value of the products produced or obtained after the final process of manufacture is performed within the territory of the exporting Contracting State.

(ii) In respect of Indonesia, the percentage referred to in sub-paragraph (i) above is 40%. On certain categories of manufactured products to be agreed upon from time to time, the requirement of 50% of non-ASEAN content may apply.

(b) In respect of the ASEAN industrial projects, the percent criterion of Rule 3(a) may be waived.

(c) The value of the non-originating materials, parts or produce shall be:

(1) The CIF value at the time of importation of the products or importation can be proven; or

(2) The earliest ascertainable price paid for the products of undetermined origin in the territory of the Contracting State where the working or processing takes place.

RULE 4. CUMULATIVE RULE OF ORIGIN - Products which comply with origin requirements provided for in Rule 1 and which are used in a Contracting States as inputs for a finished product eligible for preferential treatment in another Contracting State/States shall be considered as a product

originating in the Contracting State where working or processing of the finished product has taken place provided that the aggregate ASEAN content of the final product is not less than 60%.

RULE 5. DIRECT CONSIGNMENT - The following shall be considered as directly consigned from the exporting Contracting State to the importing Contracting State:

(a) if the products are transported without passing through the territory of any other non-ASEAN country;

(b) the products whose transport involves transit through one or more intermediate non-ASEAN countries with or without transhipment or temporary storage in such countries, provided that:

(1) the transit entry is justified for geographical reason or by considerations related exclusively to transport requirements;

(2) the products have not entered into trade or consumption there; and

(3) the products have not undergone any operation there other than unloading and reloading or any operation required to keep them in good condition.

RULE 6. TREATMENT OF PACKING

(a) Where for purposes of assessing customs duties a Contracting State treats products separately from their packing, it may also, in respect of its imports consigned from another Contracting State, determine separately the origin of such packing.

(b) Where paragraph (a) above is not applied, packing shall be considered as forming a whole with the products and no part of any packing required for their transport or storage shall be considered as having been imported from outside the ASEAN region when determining the origin of the products as a whole.

RULE 7. CERTIFICATE OF ORIGIN - A claim that products shall be accepted as eligible for preferential concession shall be supported by a Certificate of Origin issued by a government authority designated by the exporting Contracting State and notified to the other Contracting States in accordance with the Certification Procedures to be developed and approved by the Committee on Trade and Tourism.

RULE 8. REVIEW - These rules may be reviewed as and when necessary upon request of a Contracting State and may be open to such modifications as may be agreed upon by the Ministers responsible for trade of the Contracting States.

NOTES:

1/ "vessels" - shall refer to fishing vessels engaged in commercial fishing, registered in a Contracting State and operated by a citizen or citizens or government of such Contracting State, or partnership, corporation or association, duly registered in such Contracting State, at least 60% of the equity of which is owned by a citizen or citizens of such Contracting State or 75% by citizens or governments of the Contracting States, provided that the conduct of fishing activities or operations in the territorial waters of any of the Contracting States, shall be subject to the provisions of the constitution and existing laws of the respective Contracting States.

2/ "factory ships" - shall refer to special types of vessels equipped with processing facilities and able to do processing operations offshore and in the high seas, registred in a Contracting State and operated by a citizen or citizens or government of such Contracting State, or partnership, corporation or association, duly registered in such Contracting State, at least 60% of the equity of citizens or governments of the Contracting States, or 75% by citizens or governments of the Contracting States, provided that the conduct of fishing activities or operations in the territorial waters of any of the Contracting States, shall be subject to the provisions of the constitution and existing laws of the respective Contracting States.

3/ In respect of vessels or factory ships operated by government agencies, the requirements of flying the flag of a Contracting State does not apply.

ANNEX B-2

BASIC AGREEMENT ON ASEAN INDUSTRIAL COMPLEMENTATION

THE GOVERNMENTS OF THE REPUBLIC OF INDONESIA, MALAYSIA, THE REPUBLIC OF THE PHILIPPINES, THE REPUBLIC OF SINGAPORE AND THE KINGDOM OF THAILAND:

MINDFUL of the Declaration of ASEAN Concord signed in Bali, Indonesia on 24 February 1976, which provides that Member States shall take cooperative action in their national and regional development programmes, utilizing as far as possible the resources available in the ASEAN region to broaden the complementarity of their respective economies;

REAFFIRMING their desire to collaborate for the acceleration of economic growth in the region, to promote the greater utilization of their agriculture and industries, the expansion of their trade and improvement of their economic infrastructure for the mutual benefit of their peoples;

CONVINCED that pursuing industrial complementation can greatly contribute to strengthening and broadening the base of the industrial sectors of their respective economies, promoting the greater utilization of their industries and expansion of their trade;

NOTING the suggestions of industrial complementation which have been advanced by the ASEAN-Chambers of Commerce and Industry (ASEAN-CCI), and the confidence demonstrated by the ASEAN-CCI in the viability of ASEAN industrial complementation;

AFFIRMING that in the economies of the ASEAN countries, the private sector shall continue to be encouraged to play the major role in most of the economic activities, including industry and trade;

DESIRING to provide the guidelines and institutional framework within which the ASEAN Governmental machinery and the private sector through the ASEAN-CCI may collaborate to identify opportunities, formulate programmes, design projects and agree on measures, for pursuing industrial complementation on the basis of mutual and equitable benefits for the member countries, and increased industrial production for the region as a whole;

DO HEREBY AGREE to pursue the ASEAN Industrial Complementation (AIC) as stipulated by the following provisions:

ARTICLE I
GENERAL PROVISIONS

1. ASEAN Industrial Complementation (AIC) packages shall consist of organized complementary trade exchanges of specified processed or manufactured products as agreed among the ASEAN member countries, guided by the principle of cooperation for mutual and equitable benefits.

2. An ASEAN Industrial Complementation (AIC) product shall be an industrial product manufactured or to be manufactured in an ASEAN member country and allocated to that particular country as its participation in the AIC package. The product thus produced shall be entitled to enjoy the privileges herein provided for products in an AIC package.

3. A participating country in an AIC package is an ASEAN country allocated a specific product or products in such an AIC package. There should be at least four participating ASEAN countries in an AIC package, unless otherwise recommended by COIME and approved by the AEM.

ARTICLE II
IDENTIFICATION OF PRODUCTS IN AN ASEAN INDUSTRIAL COMPLEMENTATION PACKAGE

Without prejudice to the right of identification by ASEAN Governments, the ASEAN-CCI shall identify products for inclusion in any AIC package.

ARTICLE III
QUALIFICATION FOR ACCREDITATION OF ASEAN INDUSTRIAL COMPLEMENTATION PRODUCT

1. An AIC product should be of internationally accepted quality, the price should be relatively competitive and there should be an assurance of continuity of supply.

2. Whenever feasible, the AIC products in a package must be equitably allocated to the participating countries.

ARTICLE IV
PRIVILEGES AND OBLIGATIONS UNDER THE ASEAN INDUSTRIAL COMPLEMENTATION PROGRAMME

1. An existing product in an AIC package shall, from the date of AEM final approval of such AIC package, enjoy exclusivity privileges for a period of two (2) years.

2. A product is deemed to be an Existing product in an AIC package if it is already being manufactured in ASEAN at the time COIME considers that product for possible allocation. Any product not covered by the above mentioned definition of Existing product shall be deemed New.

3. A New AIC product in an AIC package, shall enjoy exclusivity privileges for a period of three (3) years from the actual date of start-up or from the target date of start-up agreed at the time of AEM approval of such AIC package, which ever date comes first. In exceptional cases where a New AIC product in an AIC package requires a longer period of exclusivity, the AEM may consider extending the period of exclusivity by another one year.

4. Exclusivity shall mean:

i. For the country allocated a particular product, it would be entirely at its discretion as to how it would organize its production facilities to meet the ASEAN requirements for that product.

ii. For the other participating countries, such countries cannot set up new production facilities or expand existing ones to make the same product as that of the country for which such product was allocated unless 75% of its production is for export outside the ASEAN region.

iii. Notwithstanding paragraph 4 (ii) above, the other participating countries' firmly planned projects to produce Existing products in ASEAN and which products have been allocated to another country as part of the AIC package, shall be allowed to proceed. For this purpose a firmly planned project refers to that which has already obtained written government approval or has already opened letters of credit for the importation of machinery and equipment or has already commissioned the fabrication of such machinery and equipment.

iv. For purposes of paragraph 4 (ii), a production facility is deemed to have been set up when it is in commercial operation.

5. The products in an AIC package shall qualify for preferences, in accordance with the Agreement on ASEAN PTA.

6. During the period of exclusivity, special preferences outside the Agreement on ASEAN Preferential Trading Arrangements (PTA) can be granted such as mandatory sourcing and recognition of local content, applicable only to specific countries.

7. Privileges and obligations shall only apply to participating countries.

ARTICLE V
INSTITUTIONAL ARRANGEMENTS

1. COIME shall evaluate the proposals for AIC packages received from the ASEAN-CCI and from the Government of any member country in accordance with the provisions, objectives and spirit of this Agreement.

2. COIME shall recommend for the consideration of the AEM the allocation of products in the AIC package to participating countries.

3. After the AEM approval of the allocation of AIC products, the participating countries shall be given a maximum period of six (6) months in the case of Existing products or one (1) year in the case of New products, to negotiate preferences with the PTA scheme and for other special preferences.

4. During the stipulated negotiating period, the obligations under Article IV, paragraph 4 (ii) and (iii) shall apply to those participating countries with product allocation.

5. Upon successful completion of the negotiations mentioned in paragraph 3, COIME shall, within the stipulated negotiating period, recommend to the AEM final approval the AIC package with any necessary modification, including arrangements for trade preference.

ARTICLE VI
SUPERVISION AND REVIEW OF ASEAN INDUSTRIAL COMPLEMENTATION PACKAGE

COIME shall supervise the implementation of this Agreement and shall review the same from time to time. In respect of all matters concerning the implementation of this Agreement, all decisions of COIME shall be taken by concensus.

ARTICLE VII
MISCELLANEOUS AND FINAL PROVISIONS

1. This Agreement shall enter into force on the thirteenth day after the deposit of the fifth Instrument of Ratification.

2. This Agreement may not be signed with reservation nor shall reservation be admitted at the time of ratification.

3. All articles of this Agreement may be modified through amendments to this Agreement agreed upon by concensus. All amendments shall become effective upon acceptance by all Contracting States.

4. This Agreement shall be deposited with the Secretary-General of the ASEAN Secretariat who shall promptly furnish a certified copy thereof to each Contracting State.

5. Each Contracting State shall deposit its Instrument of Ratification with the Secretary-General of the ASEAN Secretariat who shall promptly inform each Contracting State of such deposit.

IN WITNESS WHEREOF, the undersigned being duly authorized thereto by their respective Governments have signed this Basic Agreement on ASEAN Industrial Complementation.

Done in _____ this _____ day of _____ in a single copy in the English language.

For the Government of the Republic of Indonesia

_____
Foreign Minister of the Republic of Indonesia

For the Government of the Malaysia

_____
Foreign Minister of Malaysia

For the Government of the Republic of the Philippines

_____
Foreign Minister of the Republic of the Philippines

For the Government of the Republic of Singapore

_____
Foreign Minister of the Republic of Singapore

For the Government of the Kingdom of Thailand

_____
Foreign Minister of the Kingdom of Thailand

ANNEX C

Developments in the ASEAN Automotive Federation (AAF)

The ASEAN Automotive Federation (AAF), the first regional industry club under the aegis of the ASEAN-CCI was established on June, 1976. The constituent members of AAF comprise the Automotive Associations of Clubs in the 5 ASEAN countries, namely: Federasi Otomotif (Indonesia); Automotive Federation of Malaysia (Malaysia); Philippine Automotive Federation (Philippines); Automotive Federation of Singapore (Singapore); and Thai Automotive Industry Club (Thailand).

AAF was formed with the following purposes:

a. To effect organized automotive business cooperation and coordination of efforts towards the promotion of regional cooperation and other objectives of the ASEAN-CCI;

b. To accelerate the growth and purposes of the automotive business in the region through joint approaches, endeavors, actions and to jointly seek other markets outside the region;

c. To foster closer relations and cooperation between and among the automotive communities in the member-countries;

d. To establish and maintain close relations and cooperation between regional and international organizations having similar aims and objectives;

e. To undertake or coordinate research and study for the identification of ooportunitites, products and/or projects that lend themselves to industrial cooperation and/or complemntation;

f. To develop and propose specific measures to the WGIC in order to facilitate and accelerate the implementation of projects for industrial complementation and intra-ASEAN trade and regional cooperation;

g. To serve as the recognized ASEAN-CCI body from the private sector and to initiate, implement and deal with the subjects of ASEAN Industrial cooperation, automotive complementation and intra-ASEAN trade;

h. To formulate recommendations on incentives, tariffs and other forms of promotional measures for identified projects and products under ASEAN Industrial Complementation, automotive complementation and intra-ASEAN trade;

i. To initiate and encourage studies for the harmonization of expansion plans of the industry; and

j. To affiliate itself ot the ASEAN Chamber of Commerce and Industry.

Organization

Activities of the AAF are governed by the AAF Council consisting of a Chairman, Vice-Chairman, an Executive Secretary and the 5 Council members respectively, each of the constituent members. The AAF Council meets at least once a year and the AAF Conference is held once in 2 years, for the review and approval of recommendations and/or activities of the Council.

The AAF Secretariat handles the day to day operations and activities of the AAF. Its specific functions include the following: 1) maintenance

of a central file of the records/documents of all conferences, council meetings and other committees of the AAF; 2) transmitting of the summary of the proceedings and resolutions adopted to all members; 3) establishment and maintenance of appropriate communications with ASEAN-CCI, Working Group on Industrial Complementation (WGIC), Working Group on Preferential Trading Arrangements (WGPTA), other government and private ASEAN bodies and non-ASEAN bodies as may be directed by the Council; and 4) implementing the decisions and resolutions of AAF Conference, Council and other AAF Committee Meetings.

A Technical Committee was created at the First AAF Council Meetings held in Manila in December, 1976 to study and recommend to the AAF Council packages of automotive components/parts/products for regional complementation. The Technical Committee identified products, parts and components in automobile manufacture (4-wheel motor vehicle unit) into 8 product groupings, namely: 1) Suspension system; 2) Steering system; 3) Power train system; 4) Electrical system; 5) Engine and parts; 6) Rubber, glass and miscellaneous parts; 7) Brake system and wheels; and 8) Body parts. A separate sub-committee on motorcycles was formed to cover 2 and 3 wheelers.

AAF Expert groups identify and study automotive products for possible industrial complementation and report these to the Technical Committee who, in turn makes the recommendation to the AAF Council.

ASEAN Automotive Complementation Schemes

The AAF is, by far, the most advanced of all RIC's in terms of initiating and developing regional industrial complementation schemes

in the automotive industry.

The Technical Committee undertook in 1978 a comprehensive survey of the automotive industry in ASEAN which provided a valuable base document for AAF's formulation of "Guidelines on ASEAN Automotive Complementation". A total of 121 automotive products, parts and components were originally identified for possible ASEAN regional industrial complementation and preferential trade arrangements. The Technical Committee reviewed these products and then narrowed the list for the first round of automotive components for possible ASEAN accredited complementation project to 32 products, namely:

I. Suspension System

1. Shock absorber complemented by models
2. Coil spring

II. Power Train

1. Transmission assembly complete
2. Driving axle including differential carrier assembly, complete
3. Propeller shaft including "U" joints
4. Constant velocity joints

III. Electrical System

1. Horns
2. Wiper motors
3. Starter motors
4. Alternators
5. Regulators
6. Gauges
7. Head light bulbs

IV. Engine and Parts

1. Engine assembly by make
2. Engine parts
   a. Oil screen
   b. Oil pressure gauges

c. Oil temperature gauge
d. Thermostat
e. Water temperature gauge
f. Timing chain cover
g. Cylinder block
h. Cylinder head
i. Crankshaft
j. Valves
k. Carburetor
l. Timing chain

V. Make System and Wheels

1. Make hoses, clutch hoses

VI. Body Parts (to be complemented by models)

1. Floor side panel assembly
2. Side structure
3. Roof panel
4. Frame side rail
5. Cross members

Of the 32 products, it was found out that there is:

1. No existing facility in all the 5 ASEAN countries for 3 components.
2. No existing facility in the 4 ASEAN countries for 7 components.
3. No existing facility in the 3 ASEAN countries for 6 components.
4. No existing facility in the 2 ASEAN countries for 7 components.

At the AAF Third Council Meeting held in Singapore on November 28-29, 1978, the initial package for regional complementation was agreed upon by AAF members. This package consists of the following:

Indonesisa - Deutz diesel engines (30 HP - 150 HP)

Malaysia - Spokes, nipples and drive chain for cars

Philippines - Body panels for Ford Cortina

Singapore - Universal joints

Thailand - Body panels for commercial vehicles of 1 ton and above

Carburetor and headlight projects were also agreed upon by the AAF.

The proposed initial package as well as the carburetor and headlight projects were approved at the WGIC Standing Committee Meeting held in February, 1979 in Jakarta for recommendation to COIME. The meeting also agreed to recommend to the ASEAN-CCI Council that AAF be designated as the duly authorized body to discuss with the Experts Group on the Automobile Industry appointed by COIME all technical details relating to automotive complementation projects as approved by ASEAN-CCI from time to time.

The Fourth AAF Council Meeting held in Jakarta in October, 1979 recommended that the headlight and carburetor projects which were originally proposed as regional projects and pending with COIME be established in Malaysia and Singapore respectively. These projects had been favorably endorsed by ASEAN-CCI to COIME in a letter of the ASEAN Secretary-General, Mr. Eduardo J. Rodriguez dated March 27, 1979 (but without any recommended location). It was also agreed upon at the Meeting that axles be recommended for regional complementation of parts manufacturing facilities among Indonesia, Malaysia, Philippines and Thailand and incorporating universal joints manufactured in Singapore.

At the Ninth COIME Meeting held in Manila on November, 1979, COIME indicated its willingness to approve in principle the package of auto-

motive component manufacturing as the first set of projects under AIC programme provided that additional information is collected and evaluated in order that COIME can assess the following:

a. The specific commitments required of each member country in respect of each of the products indicated;

b. The benefits and costs that would accrue to each member country in respect of each product, taking into account, among other things, the volume and value of each product to be sold to other ASEAN countries; and

c. Compliance with all relevant provisions of the Tentative Draft Guidelines on Industrial Complementation and any other relevant principles that may be applicable.

The Experts Group on Automobile Industry was required to provide sufficient information so that COIME could decide on the above including the possibility for member countries to make reciprocal and uniform commitments.

The specific proposals agreed to be the subject of further consideration by the Experts Group were the following, of which the first 5 had already been approved in principle by COIME:

a. Diesel engines of 80-135 HP (Indonesia)

b. Spokes, grease nipples and roller chains for motorcycles and timing chains for automotive (Malaysia)

c. Body panels for Ford Cortina (Philippines)

d. Universal joints for passenger cars and commercial vehicles (Singapore)

e. Body panels for commercial vehicles of 1 ton and over (Thailand)

f. Headlights

g. Carburetors

The COIME Meeting likewise agreed to refer to the Experts' Group the proposal on the establishment of a carburetor and headlight projects as additional projects for ASEAN Industrial Complementation Programme. Among other matters, the following had to be assessed: the size of the project, investments required and the comparative advantages of the various locations. The Experts' Group has been asked to examine any other projects submitted to COIME by the ASEAN-CCI.

The 1st and 2nd packages of automotive complementation projects were approved by the ASEAN Economic Ministers at the First Meeting of the ASEAN Economic Ministers on Industry in Bali on September 25-27, 1980.

First Package:

Indonesia	-	Diesel engines (80-135 HP)
Malaysia	-	Spokes, nipples and drive chains for motor-cycles and timing chains for motor vehicles
Philippines	-	Ford body panels for passenger cars
Singapore	-	Universal joints
Thailand	-	Body panels for motor vehicles of 1 ton and above

Second Package:

Indonesia	-	Steering systems
Malaysia	-	Headlights for motor vehicles
Philippines	-	Heavy duty rear axle for commercial vehicles

Singapore - Fuel injection pumps

Thailand - Carburetors

In order to facilitate implementation of the first package, the AAF agreed on the following in its meeting in Penang in October, 1980.

a. The companies involved in manufacturing should take the initiative to work for multi-lateral or bilateral complementation. AAF and respective Governments can provide the framework.

b. To adopt Malaysia's proposed format entitled "Requests for Concession under the ASEAN Automotive Complementation Program" and incorporating details as suggested by the Philippines. These formats are to be completed by the companies concerned and to be forwarded to their respective government bodies who will be participating in the Automotive Preferential Negotiating Group.

In order to facilitate implementation of the end package, the AAF agreed on the following:

a. In the case of headlights allocated for Malaysia, the projects would cover 4-wheelers. The Indonesian existing headlight project for 2-wheelers would be limited to a national project.

b. The allocated project for each country should be opened for ASEAN equity participation.

c. Recommendation would be made to COIME to remedy legislations to allow ASEAN nationals to invest in the allocated

projects.

d. Feasibility studies for the DANA rear axle projects would cover 2 aspects:

   i. The combined Malaysia, Philippines and Thailand market separated from Indonesia.

   ii. The combined Indonesian, Malaysian, Philippines and Thailand market as a whole.

Dana International was requested to complete the studies within 6 months.

At the Fourth ASEAN-CCI Meeting held in Jakarta on December, 1980, ASEAN approved the implementing guidelines formulated by the AAF for the second automotive complementation package. The Council also agreed to authorize the AAF to communicate and negotiate with the COIME and the Experts' Group on the Automotive Industry on all matters relating to regional economic cooperation on the automotive industry, on the understanding that the AAF would keep the WGIC Secretariat and the ASEAN-CCI Secretary-General fully informed of such proceedings and outcome.

Negotiations on COIME's request for trade preferences on products covered under the automotive complementation packages started at the Eighth Meeting of the Trade Preferences Negotiating Group (TPNG) of the Committee on Trade and Tourism (COTT) held in Singapore on January 12-13, 1981. The matrix of requests from ASEAN countries on the first package of existing AIC products is shown in the following listing.

Eighth Meeting of the Trade Preferences Negotiating Group
COTT, Singapore, January 12-13, 1981
Matrix of Requests from ASEAN Countries
On the First Package of Existing AIC Products

Requesting Country \ Requested from	MALAYSIA	PHILIPPINES	SINGAPORE	THAILAND
A. INDONESIA	a. CCCN 84.06.300 Diesel Engine (80-135 HP) = ER = 0%	a. CCCN E x 87.02 C-1 Diesel Engine CKD Parts = ER = 20%	a. CCCN Ex. 87.02 Diesel Engine (80-135 HPD = ER = 0% (Binding)	a. CCCN Ex 87.09 Motorcycle Axles (50% MOP)
	b. CCCN Ex. 87.12. 190 Motor Cycle Axles CKD Parts (50% MOP)	CCCN Ex 84.06 C-1 Diesel Engine REM (50% MOP)	b. CCCN Ex 87.09 Motorcycle Axles (Binding)	b. CCCN Ex 87.09 Wheel Rims for Motor cycle = ER = 60% (50% MOP)
		b. CCCN 87.09A Motor cycle axles ER = 30% CCCN Ex 87.12 Motor Cycle Axles REM = ER = 20% (50% MOP)	c. CCCN EX 87.09 Wheel Rims for Motorcycle = ER = 0% (Binding)	
		c. CCCN 87.09 A Wheel Rims for Motor Cycle ER = 30%		

Requesting Country / Requested from	MALAYSIA	PHILIPPINES	SINGAPORE	THAILAND
		CCCN Ex 87.12 Wheel Rims for Motorcycle REM - ER - 20% 50% MOP		
B. MALAYSIA	INDONESIA CCCN Ex 87.06.200 Crown wheels and pinions i) 0% import duy ii) Mandatory sourcing by axle producers iii) Local content treatment CCCN CX 87.06.200 i) Import duty be 0% ii) Mandatory sourcing for OEM iii) Local content treatment	PHILIPPINES CCCN EX 87.06A (OEM) Crown wheels and pinions i) 0% import duty ii) Mandatory sourcing of axle producers - iii) Local content treatment CCCN 87.02.A2 (OEM) CCCN 87.068 (REM) i) Import duty be 0% ii) Mandatory sourcing for OEM iii) Local content treatment	SINGAPORE	THAILAND CCCN EX 87.06 Crown wheels and pinions i) import duty be 0% ii) Mandatory sourcing by axle producers - iii) Local content treatment CCCN EX 87.068 Safety Seat Belt i) import duty be 0% ii) Mandatory sourcing for OEM - iii) Local content treatment

Requesting Country / Requested from	INDONESIA	MALAYSIA	PHILIPPINES	THAILAND
C. SINGAPORE	CCCN ex 87.08. 199 Universal joints ER 75% CCCN ex 84.85. 200 oil seals ER 5% CCCN ex 40.10. 200 - V-belts ER 5% a) 50% margin of tariff preference b) Local content accreditation c) Exchange of notes or non-tariff barriers	a) Same b) Same c) Same	a) Same b) Same c) Same	a) Same b) Same c) Same
D. PHILIPPINES	INDONESIA a. CCCN EX 87.02. 211 Body panels for passenger cars ER 100% (50% MOP, Local content accreditation)	MALAYSIA a. CCCN EX 87.02 Body panels for passenger cars ER - Nil (Meaningful tariff, Local content treatment	SINGAPORE a. CCCN EX 87.02 Body panels for passenger cars ER - Nil	THAILAND a. CCCN EX 87.02 Body panels for passenger cars ER - 80% 1. 50% MOP 2. Local content treatment

Requesting Country / Request from	INDONESIA	MALAYSIA	SINGAPORE	THAILAND
	b. CCCN EX 87.02.211 Transmission as part of CKD component for passenger car ER 100% (50% MOP, Local - content accreditation)	b. CCCN EX 87.02 treatment ER - Nil (same as above)	b. CCCN EX 87.02 Rear axle ER - Nil	b. CCCN EX 87.02 Transmission ER 80%; 40% (same as above)
	c. CCCN EX 87.02.522 Transmission as part of CKD component for commercial vehicles with pay load less than 2 tons: ER 0% (Local content accreditation)	c. CCCN EX 87.02 Axles for LCV and below (same as above)	c. CCCN EX 87.02 Transmission ER - Nil (to be notified)	c. CCCN EX 87.02 Rear axle for LCV and below ER-80%; 40% (same as above)
	d. CCCN EX 87.02.211 Rear axle as part of CKD component for passenger car			
	e. ER 100% (50% MOP,- Local content accreditation)			

Requesting Country	Requested from	INDONESIA	MALAYSIA	SINGAPORE	THAILAND
		f. CCCN EX 87.08. 522 Rear axle or part of CKD Component for commercial vehicle with pay load less than 2 tons ER 0%. (Local content accreditation)			
E. THAILAND		INDONESIA	MALAYSIA	PHILIPPINES	SINGAPORE
			a. EX 87.0500 Body panel for commercial vehicle of 1 ton and above ER 30% 1. zero duty 2. Local content treatment and 3. Mandatory sourcing	a. EX 87.02 A-1 Body panel for commercial vehicle of 1 ton and above ER 20% 1. 50% MOP 2. Local content treatment	a. CCCN 87.06 017 Heavy duty shock absorber ER - Nil (Binding)
			b. EX 87.06990 Brake drum for truck	b. EX 87.02 A-1 Brake drum for truck	b. CCCN 87.06018 Brake drum for truck

Requested from INDONESIA

Requesting Country

MALAYSIA	PHILIPPINES	SINGAPORE
ER - 25% (same as above)	ER -20% (same as above)	ER - Nil (Binding)
e. EX 87.06990 Heavy duty shock absorber	e. EX 87.02 A-1 Heavy duty shock absorber	
ER - 25% (same as above)	ER - 20% (same as above)	

ANNEX D

Status of the Electrical, Electronics and Allied Industries

The requirements of the fast developing ASEAN region should provide a strong impetus to the expansion of electrical and electronic industries in the region. The oil exploration and production activities, the development of mineral resources projects, extensive urban and rural development programs and the continuing build-up of industrial infrastructure projects would create an immense market potential for electrical and electronic goods, thereby boosting further development of the electrical, electronic and allied industries. The governments in the ASEAN region would always welcome and encourage the attempts of existing and new companies towards further integration of their operations i.e. by undertaking the production of more component parts as well as sub-component parts. The ability of the people in this region to meet the challenge of complex management and sophisticated production techniques involved in the industries has been established. The governments in the ASEAN region are also now giving increasing emphasis to the establishment of vocational schools, industrial training and other similar institutes in order to provide skills requirements of the industrial sector.

This sector lends itself very well to intra-ASEAN trading arrangements as may be gleaned from the numerous requests for preferential tariff arrangements.

In April 1978, the Philippines submitted a proposed list of 18 items for possible preferential tariff arrangement. This proposal was unanimously approved by the ASEAN FEDERATION OF ELECTRICAL, ELECTRONIC AND ALLIED INDUSTRIES (AFEA) in November 1978 and immediately forwarded to the WGIC. The same proposal was re-submitted to the WGIC on July 2, 1979 which agreed to submit the list to the WGT and the ASEAN-CCI Council by July 19, 1979. The Malaysian Electrical, Electronic and Allied Industries Group presented an objection to 4 items in the proposed list on December 1, 1979, namely: refrigeration (CKD), air-conditioner (CKD), transformer, and power cords. Thus, during the WGIC Seventh Plenary Meeting in Singapore on December 12-13, 1979, the WGIC agreed to recommend to the WGT the submission of only 14 of the items for consideration of COTT. The proposed margin of tariff preference was 10% of existing rate. The 14 items recommended were:

Refrigerator (spare parts)
Air-conditioner (spare parts)
Electric stove (CKD)
Electric stove (spare parts)
Gas stove (CKD)
Gas stove (spare parts)

Electric fan (CKD)
Electric fan (spare parts)
B & W (CRT)
Tuner
Cabinet (Radio, TV)
Cabinet (Stereo, Cassette)
Control/selector knob
Loud speaker

On December 14, 1979, the proposal was endorsed favorably by WGT and approved by the ASEAN-CCI on December 15, 1979. The official approval letter of ASEAN-CCI was forwarded to COTT on January 4, 1980 and taken up in the ASEAN-COTT session in Singapore on April 9-10, 1980. The proposal, however has not obtained official approval, to date, from the ASEAN Economic Ministers although the ASEAN government officials during the Sixth AFEA Council Meeting in Singapore on May 8, 1981, agreed in principle to a 10% tariff cut on the proposed 1 items requested by the Philippines.

Since June 1980, during its Fifth Council Meeting in Kuala Lumpur, AFEA had formed a special PTA committee to process proposals for PTA items. The first set of proposal it received was that of Singapore which included:

Electrical accumulators
Electrical wires, cables, enamelled wires
Air-handling units and air-conditioning equipment
Fluorescent ballast
Fluorescent lamp tubes

During the Eight WGIC Plenary Meeting held in Kuala Lumpur last January 19-20, 1980, the following other proposals for PTA were received from Thailand and Singapore:

Thailand:
- Telephone subset
- Electronic condensor
- Transformer
- Fuse switch
- Disconnect switch

Singapore:
- Electronic calculators
- Electronic clocks
- Electronic watches
- Telephone dialer
- Ballast for fluorescent lamps

Malaysia, however, objected to the inclusion of electrical accumulators, fluorescent tubes and ballast and enamelled wires under the preferential tariff arrangement. This objection was reported by the PTA Committee during the Sixth AFEA Council Meeting held in Singapore on May 8, 1981.

The above 14 items were nevertheless recommended by the WGIC to the 15th ASEAN-CCI Council Meeting held in Manila on June 29, 1981.

ANNEX E

Developments in the Agriculture Machinery Sector

The ASEAN import market for agricultural machinery has been valued at over US$130 million of which tractors account for roughly 70% of the market. Thailand, the Philippines and Indonesia are the largest markets for agricultural machinery.

The AAMAF has proposed the establishment of an ASEAN mini-tractor project in the range of 15-25 HP, that is low-cost and simple to operate, that has four wheels with a two-wheel drive and applicable for wet and dry land farming. The market for mini-tractor in ASEAN was estimated to be about 10,000 units a year. There are also very strong possibilities of exporting said product to other developing countries in Asia and Africa.

Other possibilities in the area of agricultural machinery pinpointed by the association members are an initial gear-box plant and subsequently a tractor engine plant and a plant for the manufacture of tractor components such as bearings and oil seals to complete the mini-tractor project. Whether the project should be an ASEAN joint venture project established in one ASEAN country or whether it should be implemented on a regional complementation basis should be the subject of more comprehensive studies.

As early as 1979, the members of the AAMAF had already reached a consensus to establish a mini-tractor project as well as to formally request UNIDO to undertake a pre-feasibility study on their proposed project.

In December, 1979, the ASEAN-WGIC and the ASEAN-CCI favorably endorsed AAMAF's proposal to request for UNIDO funding assistance for their pre-feasibility study. At the Tenth Meeting of the ASEAN Economic Ministers held in Bangkok in October, 1980, the COIME recommendations for the conduct of the pre-feasibility study with UNDP funding assistance under the UNDP Programme for ASEAN for 1982-1986 was approved. To facilitate formal UNDP approval of the request in January 1981, at the 13th COIME Meeting held in Kuala Lumpur, COIME approved the terms of reference for the project and requested the COIME Interim Technical Secretariat to finalize and submit the project comments as required by UNDP/UNIDO. Mr. Ceferino Follosco informed the 10th WGIC Plenary Meeting held in Manila in June, 1981 that UNDP/UNIDO may approve a $150,000 budget to fund the initial study which is expected to commence in 1982.

Other projects identified by the AAMAF for possible regional industrial complementation are: power sprayers and transmission for power tillers. Preliminary studies on both projects are being undertaken by the members of the association.

One of the bottlenecks in the implementation of the sector's proposed complementation projects is the inadeaquate resources of the AAMAF, particularly in carrying out detailed studies. As early as 1979, AAMAF members had approved the proposal to request the UN ESCAP Regional Network for Agricultural Machinery (RNAM) for market and production statistics in each of the ASEAN countries particularly for the following products: 4-wheel tractors, power tiller (single speed and multi speed), 4-wheel tractor attachments (e.g. plow, harrow, rotavator), engine (gasoline and diesel), rice mill, threshers, hand pumps and irrigation pumps.

In the area of trade, the AAMAF has proposed for an across the board tariff reduction by 50% ad valorem as well as preferences in procurement by government entities of the following agricultural machineries: 1) Tractor implements - a) Plows, b) Harrows and Rotary hoes, c) Cultivators, and d) Other agricultural/horticultural machinery for soil preparation or cultivation; 2) Pumps - a) Handpumps, b) Centrifugal pumps, c) Others; 3) Rice mill (rubber roll type); 4) Hand sprayers; 5) Agricultural hand tools (hoes); and 6) Dryers.

Table shows the latest available statistics or reports of agricultural machineries in the 4 ASEAN countries from which concessions are sought.

IMPORT OF AGRICULTURAL MACHINERIES

Commodity	Philippines Year	Philippines Amount (US$)	Indonesia Year	Indonesia Amount (US$)	Malaysia Year	Malaysia Amount (US$)	Thailand Year	Thailand Amount (US$)
Tractor Implements								
1. Plows	1979	396,130			1978	206,855	1980	149,658
2. Harrows & rotary hoes	1979	801,406			1978	484,922	1980	23,519
3. Cultivators							1980	4,727
4. Other agriculture horticultural machinery for soil preparation & cultivation	1979	1,135,600	1978	4,173,434	1978	836,703	1980	175,565

Pumps

1.	Handpumps	1977	801,881[a/]	1978	73,540[b/]			1977	4,700[c/]
2.	Centrifugal pumps								14,120,000[d/]
3.	Rubber Roll							1980	37,445
4.	Rice Mill			1978	2,601,260			1980	89,171
5.	Hand Sprayer								
6.	Hand Tools - Hoes								
7.	Dryer	1974	5,839,000[e/]	1974	8,705,000[e/]	1974	18,417,000[e/]	1974	17,471,000[e/]
			14,000[f/]				1,674,000[f/]		15,000[f/]

SOURCE: Ministry of Trade

a/ - in units, National Census & Statistics Office, Philippines

b/ - in units, World Trade Annual

c/ - in units, International Trade Statistics 1976, United National Information Center

d/ - in amount, ditto

e/ - Imports, in amount, World Trade Annual

f/ - Exports, in amount, World Trade Annual

In the long run, it is expected that the rate of farm mechanization in ASEAN countries, namely, Philippines, Indonesia, Malaysia, and Thailand will proceed at a continuous upward trend. Thus, there exists a sizeable and growing market in ASEAN for the above agricultural machineries, most of which are imported from non-ASEAN countries.

Among the ASEAN countries, there exists a viable manufacturing and fabricating industry for agricultural machineries. Intra-ASEAN trade could therefore help expand the production and manufacturing capabilities in the region. Trading among ASEAN countries could also lead to product improvements, design innovations, price stability, and improved worker productivity as their different products get exposed to each other's markets. Furthermore possibilities for complementation of parts/components/assemblies could be enhanced.

These products of the ASEAN region may also find a large market in other developing countries of Asia and the Pacific, Africa, and South America. This should be considered an important part of the sectors development program.

Developments in the Proposed Regional Complementation Projects in the Steel Sector

The following are the regional complementation projects proposed by the ASEAN Iron and Steel Industry Federation:

A. Magnesia Clinker

Magnesia clinker is the major raw material utilized in the manufacture of basic refractories for the steel and cement industries. In the production of steel, about 14 kilograms of basic refractories per ton of steel are generally consumed, of which about 9 kilograms are magnesia-based.

The current apparent steel consumption in the 5 ASEAN countries is estimated at about 8 million tons per annum. The Southeast Asia Iron and Steel Institute (SEAISI) had projected steel demand in the region to be about 11.3 million tons by 1985 and 23.1 million tons by the year 2000. Of this quantity, a total of about 8 million tons per year are planned and can be produced within the region by the electric steel making process where basic refractories would be used as furnace lining and patching material. Refractories are likewise extensively used in the production of cement.

The production of sea water magnesia requires a minimum economic scale of about 100,000 tons. No difficulties are foreseen in finding an export market (apart from ASEAN) inasmuch as the material faces a large world demand and limited supply. Investment cost for the project would be in the order of US$ 40 million (preliminary estimate).

As early as October, 1978, the possibilities for regional manufacture of basic refractories required for the development of the iron and steel industry of the ASEAN region had been raised. In March, 1979, the Thai delegation expressed interest in studying a sea water magnesia clinker plant as an ASEAN project. The project was subsequently endorsed by the ASEAN-CCI and the ASEAN Cement Manufacturing Federation.

At the Seventh AISIF Council Meeting in September, 1980, the Philippine delegation brought to the attention of the members that UNDP had agreed in principle to fund the feasibility study for the project. Thai delegation was requested to complete the necessary forms and to dispatch these to COIME.

The Tenth Meeting of the ASEAN Economic Ministers held in Bangkok in October, 1980 approved the COIME recommendation for the conduct of the pre-feasibility study as proposed by ASEAN-CCI on the ASEAN Magnesium Clinker Project for UNDP funding under the UNDP Programme for ASEAN for 1982-1986.

By January 1981, COIME at its 13th Meeting approved the terms of reference for the pre-feasibility study and requested the COIME Interim Technical Secretariat to finalize and submit the project as required by UNDP/UNIDO.

Mr. Ganok Bhongbhibhat of Thailand pointed out at the Eight AISIF Council Meeting in March, 1981, that there were some uncertainties as to whether the project should be handled by another industry club, the Ceramic Club of ASEAN since magnesia clinker is a raw material for basic refractories. After some discussions, the meeting agreed that AISIF should continue with the project. Thus, the Thai delegation was requested to inform the Thailand Ceramic Industry Group of AISIF's decision to go ahead with the project.

B. Graphite Electrode

The demand for graphite electrode in the ASEAN region has been projected by the AISIF to be as follows:

1982	9,700 tons	-	12,400 tons
1983	10,300 tons	-	13,200 tons
1984	11,000 tons	-	14,000 tons

AISIF based above projections on electrode consumption per ton of crude steel from 5.5 kgs. - 7.0 kgs.

Graphite electrode was identified for possible industrial complementation at the Seventh AISIF Council Meeting held in Singapore on September 5, 1980. At the subsequent meeting in March, 1981, AISIF members requested the Indonesia National Committee to conduct a pre-feasibility study for the possible establishment of a graphite electrode plant as an ASEAN project in view of the availability of raw materials and energy in Indonesia.

C. Ferrosilicon

Ferrosilicon is one of the tonnage ferroalloys vital to steel making. It is used as an alloying additive and a deoxidizer in the production of most grade of killed and semi-killed steel. The ferrosilicon market in ASEAN is estimated to be from 12,000 MT-15,000 MT annually. Total investment in the ferrosilicon plant in estimated at $40 million.

The proposal for the selection of ferrosilicon as a regional complementation project was first brought up in an AISIF meeting in 1979 by Maria Cristina Chemical Industries, Inc. (a Philippine chemical manufacturing corporation) which is the largest manufacturer of ferrosilicon in the ASEAN region. The project is currently awaiting approval by the ASEAN CCI prior to presentation to the ASEAN Committee on Industry, Minerals and Energy for final approval

D. Sponge Iron

Sponge iron (also known as direct reduced iron or DRI) is a solid, porous and metallized material product of a direct reduction process. It is one of the basic raw materials in the manufacture of steel. It is now being produced by Indonesia, among others for the export market. Thailand and Malaysia are considering to produce sponge iron in the future. In order to hasten complementation among ASEAN member countries for sponge iron, AISIF has sought for a 25% reduction in the present tariff rate in the Philippines and Thailand. At present there is no import tariff in Malaysia or Singapore and since the product is now manufactured in Indonesia, tariff in that country is not relevant. Present tariff rates are as follows:

	For DRI	For Scrap
Philippines	10%	10%
Thailand	5%	5%

A 25% tariff reduction would therefore give DRI a slight advantage in cost relative to its alternative material.

The request was approved by the ASEAN Economic Ministers' Meeting in Bangkok in October 1980.

ANNEX G

Developments in the Pulp and Paper Sector

So far, one product in this sector has been identified as having good potential to be launched in the region: security paper for legal tender currency, bank notes, certificates of indebtedness, stock certificates, internal revenue stamps and high-quality specialty paper for legal documents. The product likewise includes safety paper for bank checks, lottery tickets, postal money orders and other papers having some negotiable value.

An initial rough estimate of the total ASEAN market for security paper has been established by the members of the ASIAN PULP AND PAPER INDUSTRY CLUB as about 7,000 metric tons in reels per annum. At present, all supply of such paper are imported by the ASEAN member countries from outside the region as there is no local production of such product in the region.

It appears that there are available raw materials in the region for manufacture of this product. In the Philippines, there exists an unused capacity margin for the production of abaca pulp which offers a great potential as a high percentage component for security paper manufacture. Softwood pulps, bleached and unbleached, are also soon going to be produced in the region. Tropical hardwood pulps are at present being manufactured by existing mills in the region. Cotton linters and 100 per cent cotton textile wastes are also available in most of the ASEAN member countries. These available raw materials combined should be able to supply a good proportion of the raw material requirements for the production of security paper, thereby reducing raw material importation requirements.

It is thought that there could be the possibility for converting the capacities of some existing mills in the region to the production of security paper. Alternatively a joint venture with a first-class security paper manufacturing company from outside the region could enhance implementation of the project.

Paper making skills of high order exist in some of the ASEAN-member countries. This situation should therefore reduce training expenses.

Some interest has been manifested by the ASEAN private sector for this project. As early as July 1979, this project had been approved in principle at the ASEAN PULP AND PAPER INDUSTRY CLUB (APPIC) Board of Directors Meeting. It was decided during this meeting that UNIDO assistance would be solicited for funding the preparation of the proposed project's pre-feasibility study. In December 1979, the

Working Group on Industrial Complementation favorably endorsed APPIC's proposal to request for UNIDO funding assistance. By March 5, 1980, COIME received ASEAN CCI's proposal for COIME to request for UNIDO funding assistance for its proposed project's pre-feasibility study. On March 14, 1980, COIME submitted a formal request to UNIDO for funding the pre-feasibility study for the proposed security paper project.

During the Third ASEAN-UNDP Dialogue held in Bangkok last July 1980, Mr. Ricardo P. Gueverra, Chairman of the ASEAN-CCI WGIC, requested on behalf of COIME for UNDP assistance for the undertaking of the pre-feasibility study for the proposed security paper project. UNDP approved in principle the financing of said study under the UNDP Programme for ASEAN for 1982-1986. To facilitate formal UNDP approval of said request in January 1981, at the Thirteenth COIME Meeting held in Kuala Lumpur, COIME approved the terms of reference for the security paper mill project and requested the COIME Interim Technical Secretariat to finalize and submit the project proposal, complying with the requirements of UNDP/UNIDO.

As previously discussed, a bottleneck for the implementation of the project is the lack of detailed market information beyond the general ball part figure. There is therefore no firm basis for the detailed market aspects of the proposed project. Furthermore, there are no funds available from the region to finance the preparation of the pre-feasibility study for the proposed project.

ANNEX II

Proposed Industrial Complementation Projects by the Chemicals Sector

The following are some regional industrial complementation projects proposed by the ASEAN Chemical Industries Club (ACIC):

A. Acetylene Black

Total ASEAN requirement has been placed at about 3,800 tons/year, as follows:

Philippines and Indonesia	-	2,000 tons
Thailand	-	800
Singapore	-	700
Malaysia	-	300

Present existing capacity in the region is 500 tons/year from the Philippines.

Acetylene black was identified for possible industrial complementation as early as April 1978 during the ACIC Board of Directors Meeting. In November 1978, the ACIC Board of Directors agreed to endorse the proposed project for further consideration by WGIC. The project was presented to WGIC during its Tenth WGIC Plenary Meeting in Manila last June 1981.

This project has been proposed as a Philippine/Thai joint venture. The Philippines' existing 500 tons/year plant is envisioned to be expanded to 2,000 tons/year to serve the Philippine and Indonesian markets. A second 2,000 tons plant is envisioned to be constructed in Thailand to supply the markets of Thailand, Singapore and Malaysia.

Further detailed market studies and a good pre-feasibility study, however, have not been undertaken. Before this proposed project can take off, these studies would have to be undertaken. There is the question, however, of how these studies could be funded.

B. PVC Paste Resins

Estimated ASEAN market is as follows:

Thailand	-	2, 400 tons/year
Philippines	-	2, 400
Malaysia	-	600
Indonesia	-	1, 000
Singapore	-	720

Interest on this project was shown by the private sector as early as April 1978 during the ACIC Board of Directors Meeting. However, it has not been endorsed outside of the ACIC. The ACIC Board still has to decide on its economic viability, international acceptability and competitiveness. More studies will have to be conducted.

C. Melamine

The regional market has been estimated as follows:

Indonesia	-	6, 000 tons/year
Malaysia	-	1, 000
Philippines	-	3, 000
Thailand	-	2, 000
Singapore	-	1, 000

Estimated growth rate of ASEAN demand has been estimated at 8-10%.

Preliminary studies conducted by Indonesia showed that the smallest economic size plant is 30 tons/day or 10, 000 tons/year. The largest producer now is Kuwait. ASEAN proposed production does not appear to be competitive at the present time. However, the ACIC believes that preferential treatment may render the project viable.

Like the first 2 projects previously mentioned, this project was initially suggested for regional complementation during the ACIC Board of Directors Meeting in Jakarta last April 1978. Its economic viability, international acceptability and competitiveness, however, have not been established. More extensive studies have to be conducted.

D. VCM Terminal

Eight companies manufacture PVC resins in ASEAN and only one makes VCM needed to produce PVC resins. A working committee has been formed to study the construction of VCM terminal. Indonesia has proposed that the VCM terminal be located on Batam Island.

More extensive studies however, would be required to establish the viability of this project.

ANNEX I

Developments in the Glass Sector

3 products have been considered by the ASEAN Federation of Glass Manufacturers (AFGM) for possible regional complementation namely: Tinted sheet glass, figured glass and safety glass. These projects were identified by AFGM as early as June, 1976 (at AFGM's organizational meeting). However, no adequate information have been gathered by individual AFGM members on these products. This lack of industry/market information constitutes a major obstacle in pursuing these project.

AFGM is currently updating data concerning its members comprising of manufacturers of the 5 ASEAN nations of glass containers, tableware, flat glass, liquid glass, fibre glass and other glass products. The association is likewise presently collecting data on the sizes of available glass containers in the region which could serve as an input for a study on the possible standardization of the products.

ANNEX J

Developments in the Rubber Products Sector

Several industrial complementation proposals have been considered by the Rubber Industries Association of Southeast Asian Nations (RIASEAN) since its organization in 1977. Based on preliminary studies, some of these projects such as heavy duty tires and synthetic rubber have been found out to be presently not viable.

Another project, the nylon tire cord project was proposed in November, 1978. After an examination of the project, RIASEAN concluded that since nylon tire cord is a rather mature material, any investment in this project would in the long run result in the ASEAN tire industry being limited to an obsolete material, precluded from taking advantage of the world's ongoing technological fiber /fabric developments. This would result in negative export potentials for the industry. Thus, RIASEAN recommended that individual ASEAN governments should instead encourage the industry to opt for flexibility in the choice of a tire cord material so that new materials like polyester and aramids may be accommodated in local manufacture.

Other projects identified by this sector for possible regional implementation for which detailed studies have to be undertaken include: carbon black and rubber chemicals such as zinc oxide, accelerators, kaolin, anti-oxidants, sulphur and stearic acid.

In the area of trade, RIASEAN identified and recommended preferential tariffs arrangements for 7 rubber products, namely:

1. Reclaimed rubber
2. Golf balls
3. Rubber floor tiles
4. Off-the-road tires
5. Rubber cot sheets
6. Rubber canvas/sports shoes
7. Bare natural rubber latex extruded thread

1. Reclaimed Rubber

As early as November, 1978, RIASEAN members agreed to support Thailand's request for preferential tariff (to zero duty, if possible) for reclaimed rubber inasmuch as the product is an important low-cost raw material for rubber-based products which would in turn enhance opportunities for ASEAN rubber-based products to be competitive in the world market.

Thailand which is the only producer in the region of reclaimed rubber, has excess capacity to supply the reclaimed rubber requirements of the rubber manufacturing industries of ASEAN and other countries. (e. g. Hongkong, Australia and New Zealand). No statistics are available to indicate what the total rubber requirements are for the rubber manufacturing industry of the region, but it is believed to be substantial. With proper promotional efforts designed to acquaint domestic and regional rubber manufacturers with the many advantages of using reclaimed rubber in their product formulations, a substantial increase in reclaimed rubber consumption can be expected.

The present tariff rates for reclaimed rubber in ASEAN countries are as follows:

Indonesia	-	20% / 5%
Malaysia	-	25% / 5%
Philippines	-	30% / 7%
Singapore	-	Free

2. Golf Balls

RIASEAN particularly Malaysia has sought for tariff reduction (nil duty) for golf balls. Following are tariff rates on the product in ASEAN countries.

	Current Import Duty (Dozen)	Existing ASEAN PTA Margin (Dozen)
Indonesia	25, 000	200
Philippines	22, 000	300
Thailand	20, 000	200

Malaysian-made golf balls have 68% local content.

3. Rubber Floor Tiles

Malaysia has sought for a zero import duty on rubber floor tiles. Current import duty for the product in Indonesia, Thailand and Philippines is 50%. The request is supported by the following:

i. Malaysia has abundant supplies of rubber.

ii. Fillers used in the production of tiles are locally produced.

iii. Because of the above 2 factors, there is more than 85% local content in the product.

iv. Technically, the product is made to suit international standards.

v. The product is competitive against tiles made from other materials.

vi. The product does not come under any import or export control.

vii. The product is very suitable for use in large complexes like airports, railway stations, stadiums, public galleries, etc.

viii. The product has a long life span.

iv. It is cheap and easy to maintain.

x. The request has the full support of the Malaysian Rubber Products Manufacturers Association.

4. Off-the-road tires weighing more than 726 kg. each

Request has been made for tariff reduction to zero import duty or preferential tariff on Malaysian-made off-the-road tires weighing more than 726 kg. each. The current tariff rates for the product are:

	Current Import Duty	Existing ASEAN PTA Margin
Indonesia	340 rupiahs/kilo	10%
Philippines	30%	-
Thailand	15% or 3 Baht each	10%

The request is supported by the following:

i. The Malaysian-made off-the-road tires are made to suit international standards

ii. Malaysia manufactures the widest range and has the largest output of off-the-road tires in the ASEAN region.

iii. Its 3 ASEAN neighbors, Indonesia, Philippines and Thailand are importing substantial quantities of OTR tires from outside ASEAN source. Diverting some of these purchasers to an ASEAN (Malaysia) source would increase intra-ASEAN trade. Imports of OTR tires in 1976 are given below.

	Imports (US$'000)
Indonesia	3,619
Philippines	3,376
Thailand	1,735

iv. The request is supported by the Malaysian Rubber Products Manufacturers Association.

The Malaysian-made off-the-road tires have a local content of between 55%-60% and therefore complies with the rules of origin criteria.

5. Rubber Cot Sheets (Air filled type)

RIASEAN agreed to support a 50% Margin of preference on Malaysia's rubber cot sheet (air filled type).

The current tariff rates are as follows:

	Current Import Duty
Indonesia	50% ad valorem (+ 50% sales)
Philippines	50% ad valorem
Thailand	50% ad valorem (+ 16% standard profit tax)

Following are reasons to support the request for tarrif concession.

i. Malaysia is the only manufacturer of this item in the

region and has the ability to manufacture this high-technology product according to International Quality Standards.

ii. Substantial quantities of this item are imported from outside ASEAN sources and this request is made to achieve the objective of ASEAN PTA Scheme to increase intra-ASEAN trade.

iii. The product can be manufactured and supplied at competitive prices in Malaysia and can meet the requirements of the whole region regularly and promptly.

iv. This request for tariff concession is supported by the Malaysian Rubber Products Manufacturers' Association.

The product comprises about 100% of local content of raw material.

6. Rubber canvas (sports shoes)

RIASEAN has agreed to support a 40% margin of preference on rubber canvas/sports shoes. The current tariff rates are as follows:

	Current Import Duty
Philippines	100% (/ 10%)
Indonesia	70% (/ 10%)
Malaysia	40% per pair
Thailand	100% (/ 16% / 7%)
Singapore	Zero

7. Bare natural rubber latex extruded thread (round type)

RIASEAN has agreed to support a 50% margin of preference on bare natural rubber latex extruded thread. Current import duty are as follows:

	Current Import Duty
Indonesia	30%
Singapore	Zero
Thailand	50%
Philippines	30%

The following are the reasons to support request for tariff concession:

i. The Malaysian-made rubber threads are produced according to international standards.

ii. The 2 ASEAN neighbors, i.e. Indonesia and the Philippines are already importing substantial quantities of rubber threads from outside ASEAN source. Diverting some of these purchases to an ASEAN source (Malaysia) would not only increase intra-ASEAN trade but would also increase the re-exports of textile materials for end-users.

iii. The request for tariff reduction on Malaysian-made rubber thread is supported by the Malaysian Rubber Manufacturers' Association.

The Malaysian-made rubber thread have a local content between 85%-90% and therefore complies with the rules of origin criteria.

Above 7 proposals were turned down by the ASEAN COTT at its meeting in April, 1981. However, at the 10th WGIC Plenary Meeting held in June of the current year, RIASEAN decided to resubmit these products for COTT's reconsideration. Furthermore, RIASEAN decided to approach their respective governments for support in this effort.

RIASEAN was a bit concerned at the "drag-effect" of any delay on the part of the ASEAN governments in responding to recommendations on PTA items. Invitably, progress in RIASEAN's search for mutually acceptable PTA items in ASEAN would be retarded if previous proposals have not been accepted yet.

In a letter dated July 15, 1981, addressed to Mr. Lim Beng Huat (Chairman of RIASEAN). Mr. Ricardo P. Guevara (ASEAN WGIC Chairman) informed RIASEAN that the 7 items submitted for PTA may qualify as an ASEAN Industrial Complementation (AIC) Package under the recently approved Basic Agreement on ASEAN Industrial Complementation. Mr. Guevara suggested that RIASEAN get together as soon as possible to consider whether RIASEAN would like to propose the same items (or less) as an 10 package instead of a smaple-tariff concession request under PTA.

Detailed pre-feasibility studies on these products would still have to be undertaken by RIASEAN.

ANNEX K

Developments in the Food Processing Sector

There are 12 sectors in the ASEAN food processing industry identified by the ASEAN Federation of Food Processing Industries (AFFPI), from which specific opportunities for regional cooperation are being studied. These are livestock and poultry products; dairy products; fruits and vegetables; fish and other seafoods; cereals and rootcropts; bakery products; coffee, tea, cocoa and cocoa products; spices, seasonings, condiments, sauces and flavorings; beverages (alcoholic and non-alcoholic); and other food industries.

During the AFFPI's First Conference in April, 1978, the following were among the regional projects identified for possible regional complementation:

1. The establishment of a regional grain storage terminal.
2. The establishment of slaughterhouses and cold storage facilities on a joint venture basis.
3. The establishment of an integrated regional fish cannery project.
4. The manufacture of instant dry bakery yeast for the region.
5. The growing and processing of spices for the region.
6. The establishment of an integrated canned beef project on a joint venture scheme.

Regional Grain Storage Terminal

The ASEAN region, imports and produces a substantial bulk of grain every year. In 1976, the five ASEAN countries imported a total of 3.6 million tons of grain. The region's total imports of wheat alone were estimated to be over 2.3 million tons.

Under a regional scheme, the grain requirements of the ASEAN countries would be imported on a regional basis and delivered to one or more regional storage areas. The large aggregate ASEAN grain requirements would make it possible for importations to be shipped on, say, 100,000 ton vessels instead of 5,000 to 20,000 ton vessels as at present. From the regional station(s), the grain would be distributed to the silos of the different mills in the region.

In addition to possible substantial savings in freight and distribution costs, the scheme could also, among other things:

- Facilitate the negotiation of grain prices and credit terms through bulk purchases.
- Lead to improved quality of grain and reduced wastage by more efficient rodent and insect control and aeration.
- Result in more efficient stock level control and stabilization and ensure the maintenance of adequate buffer stocks.
- Allow more efficient marketing, transportation and distribution of surplus grain production of each of the ASEAN countries.

AFFPI has requested for funding from the ASEAN-Australian Development Assistance for the feasibility study for the project. It was estimated that the total costs of the study which would be financed by the Australian Government would be in the range of A$250,000 to A$350,000.

The project was submitted to the ASEAN WGIC at its Fifth Plenary Meeting in November 1978. In June 1979, the COIME endorsed the project to Mr. Salmon Padmanagara, Chairman of the ASEAN Committee on Food, Agriculture and Forestry (COFAF). The COFAF Sub Committee on Food handling during its meeting in December 1979 pointed out that there was a similar project of the committe but with a different perspective from that of the AFFPI. It was recommended that the project be submitted to the COFAF

Meeting in February 1980 to analyze the areas of differences and to react accordingly. In December 1980, the project was endorsed to the newly-organized Working Group on Food, Agriculture and Forestry (WGFAF) who are working within the sectors of the WGFAF. Finally, it was noted at the Ninth WGIC Plenary Meeting in December 1980 that the proposed study on the establishment of a regional grain storage terminal was shelved by the ASEAN Committee on Food, Agriculture and Forestry on the ground that it overlaps with existing projects.

Integrated Fish Cannery Project

At its Third AFFPI Council Meeting in November 1979, AFFPI decided to study the feasibility of establishing a proposed integrated fish canning project. The concept was to allow ASEAN fishing vessels to fish in regional waters and deliver their catch to various canneries which could be set up within the region to supply part of the regional market requirements. At the Fifth AFFPI Council Meeting in December, 1980, the project was endorsed to the Working Group on Food, Agriculture and Forestry (WGFAF) because it was within the sector of the WGFAF. This proposal is now awaiting further decision by the WGFAF.

Other Proposed AFFPI Projects

During its Third Council Meeting in November 1979, AFFPI agreed to study the feasibility of establishing slaughter houses, cold storage facilities and integrated beef operations on a joint venture basis.

Since Indonesia and Thailand have the largest cattle population in the region, it was also thought that the feasibility of establishing an integrated canned beef operations to supply part of the regional requirements should be considered.

Studies, however, still have to be prepared.

ANNEX L

Status of the Textiles Sector

Initial products considered for possible complementation by the ASEAN Federation of Textile Industries (AFTEX) at its Second Council Meeting held in Jakarta in February, 1980 included spare parts and accessories requirements of ASEAN textile industry. Indonesia was requested to establish and convene a Study Group to explore opportunities in producing said products.

In the area of trade, AFTEX proposed during the 10th WGIC Plenary Meeting in June, 1981 to seek preferential trade arrangements for the following products; natural and man-made fibres, yarns, grey and finished fabrics.

Some efforts have been exerted in collecting initial data from constituent member organizations. The publication of the first AFTEX directory which has been undertaken by Singapore will be completed within the current year. All Standing Committees of AFTEX have been required to compile their own required information which would then be sent to the AFTEX Secretariat for distribution to constituent members. However, there is still an urgent need for AFTEX to undertake a thorough assessment of the textile industry in order to pinpoint specific areas of opportunity for increased ASEAN cooperation in trade and industry.