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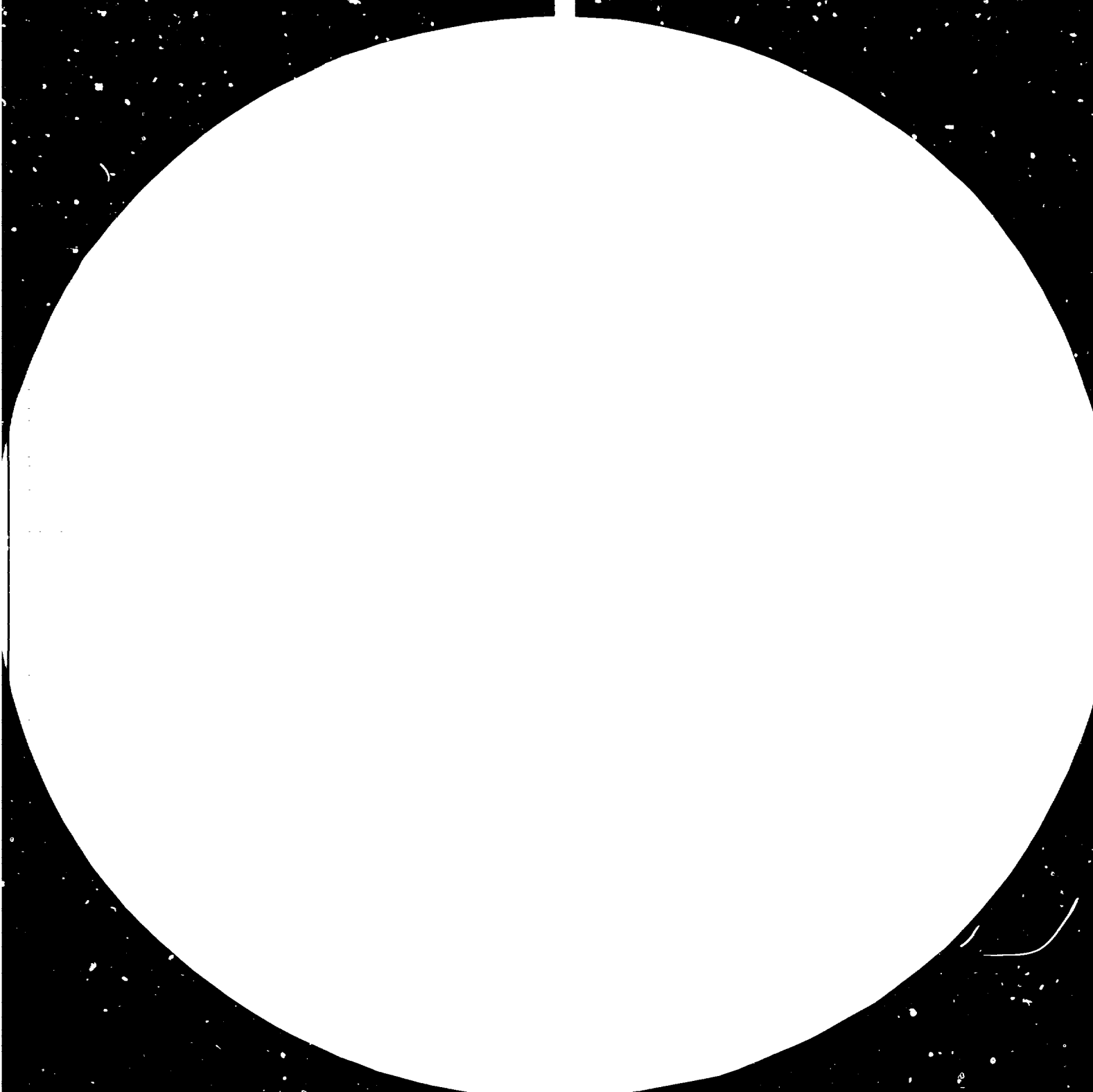
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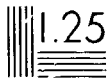
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ASEAN FINANCE CORPORATION: PROSPECTS AND CHALLENGE*

Studies on regional co-operation in the
field of industry

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in co-operation with
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P R E F A C E

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 the ASEAN Finance Corporation has been prepared for UNIDO by Professor J. Panglaykim, Jakarta. Dr. Panglaykim who is President of the P.T. Sejahtera Bank Umum, Jakarta, has played a major role in the evolution of ASEAN co-operation in the financial field, leading

to, inter alia, the establishment in June 1981 of the ASEAN Finance Corporation (AFC). He has been, since its inception in 1976, a member of the ASEAN Banking Council and is also a member of the Board of Directors of AFC and its Executive Committee. Dr. Panglaykim is also Economic Adviser to the Centre for Strategic and International Studies, Jakarta, and a frequent contributor to its publication, The Indonesian Quarterly, and other journals, such as Asian Survey, University of California, Berkely, Contemporary Southeast Asia, Singapore, and The Development Economies, Tokyo.

Regional and Country Studies Branch
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FOREWORD

Some flashback

Short of memory is one of the many human weaknesses. We often forget to register or to put down in writing an incident that took place a few years ago. We often confuse and forget facts in the process of development. There are facts which we purposely want to ignore because they are inopportune or which we regard as irrelevant or no longer of interest to us.

There are probably many of us who follow with interest the development of financial institutions in Indonesia but often feel they can no longer put it in its proper perspective when an idea came to mind. Bankers, journalists, and analysts have from year to year followed the development of national and regional financial institutions. This probably serves as a meaningful and useful reminder when we wish to refresh our mind about several facets which have become historical notes in the process of development but which may not perhaps be regarded if an idea that came to mind is not followed up and implemented, it will be regarded as having been entered in a 'book of forgotten things' where it sinks into oblivion.

J. Panglaykim

Chapter I

The making of the ASEAN Finance Corporation

(a) The birth of an idea

In August 1976, Perbanas sent a delegation to Singapore to attend a meeting, the first ASEAN Banking Conference, which had as purpose the formation of an ASEAN Banking Association. This delegation consisted, among others, of Sarono S.H. (Chairman of Perbanas), Mochtar Ryadi, Abdul Gani, Yusuf Wantah S.H., Nyoo Han Siang, Rasyim Wiraatmaja S.H. and Dr. J. Panglaykim. Present at this meeting were also the representatives of Banking Associations in Singapore, Malaysia, Thailand, and the Philippines. Indonesia was at that time represented by Perbanas, because the organizers were of the opinion that government banks and private banks were included in Perbanas. This meeting in Singapore of representatives of ASEAN banks agreed to establish a mechanism of co-operation to be called ASEAN Banking Council (ABC).

Before the Indonesian delegation left for Singapore, the purpose of its mission was already known to the local journalists. Hence, in the delegation were also included journalists from Sinar Harapan, Suara Karya, Antara, etc. Also, before the delegation's departure some other bankers including the writer and Nyoman Moena came up with a proposal provisionally entitled 'ASEAN Merchant Bank'. This idea of an ASEAN Merchant Bank should be seen as some form of cooperation which should, of necessity, be different from the already operating merchant banks. Opinions were voiced that an ideal ASEAN Merchant Bank should be one which was similar to that operated by the British when they first entered their era of industrialization. This institution was pioneered by businessmen and acted also as coordinator and generator of industries and business. The stress was on the pioneering spirit and behaviour.

This ASEAN Merchant Bank concept published in the Jakarta daily newspapers^{1/} had had various reactions that were both positive and negative. There were some quarters which were of the opinion that this would give more room for movement and be more advantageous to bankers and businessmen in

^{1/} Suara Karya, Antara Bulletin, Sinar Harapan, etc

Singapore. There were also those who believed that this would 'annoy' the monetary authorities. Was the number of financial institutions in Indonesia not limited to the nine already in existence? It would be well-nigh impossible that one more would be permitted to operate even though it was ASEAN in character. There was at that time probably the fear that this ASEAN Merchant Bank would be asked to operate or have its headquarters in Jakarta. The fear that this concept would displease the Government was adequately reflected in the utterances made by those who had not yet seen the meaning and scope of this idea. It appeared that the strongest negative voices came from those who thought that this was only a concept that would benefit places like Singapore. This kind of thinking, that was a legacy of the era of the 'Teluk Ayer Spirit', was still in the mind of those who apparently did not understand the real meaning of the concept of looking for a common mechanism of cooperation.

It was under these unfavourable circumstances that the Indonesian delegation went to Singapore for the meeting. In a closed forum the Indonesian delegation submitted its concept as a concrete basis for co-operation that could be thought about and studied in the years to come. This means that the Indonesian delegation had requested that the concept be included in the working programme of the ASEAN Banking Council. From the reaction at this meeting we could draw the conclusion that the majority of those present had agreed to it, although they were very cautious about it and took the attitude that it should be properly studied. This also means that formally the idea of an ASEAN Merchant Bank (which was afterwards called ASEAN Finance Corporation) was the first concept that was set off by the Indonesian delegation. Then the Philippine delegation in a later meeting took over this concept quite enthusiastically. We are convinced that this idea was already in the mind of the Philippine delegation but viewed from the factual point of view of the development of the ASEAN Banking Council it was the Indonesian delegation who first ignited this idea. This means that this concept was not only an individual one but apparently also one which had been developing for some time among the ASEAN bankers who were in search of an appropriate ASEAN financial institution.

(b) The establishment of a forum of cooperation between government banks and private banks

After the first meeting in Singapore when the ASEAN Banking Council was constituted, a meeting was held between Perbanas, and the Indonesian

government banks, because it was felt that a representative of the private banks alone at the ASEAN Banking Council forum was inadequate and did not reflect the national banking industry since it did not consist of both the private banks and government banks. At this meeting, sponsored by Perbanas and the President of Bank Bumi Daya, it was agreed to establish a forum of co-operation between the Indonesian private banks and government banks. It was furthermore agreed at this meeting that henceforth the Indonesian banking delegation was to be chaired by one of the president-directors of the government banks. In this forum, R.A.B. Massie S.H. from Bank Bumi Daya was elected as the first chairman, with Drs. Omar Abdalla as deputy, then of Bank Dagang Negara, Drs. Permadi (Bank Rakyat Indonesia), Dr. J. Panglaykim (P.T. Sejahtera Bank Umum), and Sri Budoyo (Bank Dagang Nasional Indonesia) as members of the delegation. Hence, there were three representatives from the government banks and two from Perbanas on the forum.

On looking back, this meeting between the two Indonesian banking sectors was the beginning of a meaningful concrete co-operation; prior to that there was hardly any mechanism for the meeting of minds, let alone co-operation. This should not only be seen from the business point of view, but also from the meeting among personalities who play decisive roles in the shaping up of co-operational environment. It could therefore be said that the first stone was laid resulting from a situation that has pushed us to unite in our endeavour to face the ASEAN forum. History was often made because circumstances at a certain time had pushed us to unite. If we observed this forum, it was different from the form of organization of banks in the other ASEAN countries where with the exception of Thailand, the banks, be they national private, foreign or government banks, were members of Bankers Associations having their own statutes, etc. In the Indonesian banking forum only national banks were admitted as members. The banking structure and organization, showed a different attitude in the admission of members, as a reflection of history, government policy, etc. This difference will be reflected in the establishment of ASEAN Finance Corporation.

(c) The ASEAN Banking Council (ABC)

The ASEAN Bankers Council was, as mentioned above, established in 1976 at a meeting in Singapore of delegates from the five ASEAN countries. The already existing Association of ASEAN Bankers now took the name of ASEAN Banking Council (ABC). Each ASEAN country is entitled to have a five-member delegation. This means that the ASEAN Banking Council consists of 25 members.

Based on rotation, a member of the delegation from a member-nation would be elected chairman of the ASEAN Banking Council for a period of two years. As chairman, he is entitled to appoint a secretary-general from his country. A member of the Singapore delegation was the first chairman, Dr. Tony Tan (now the Singapore Minister of Trade and Industry), followed by Sukum Navapan and Boonchu Rojanavatiien (former Deputy Prime Minister of Thailand and former President of the Bangkok Bank), Drs. Omar Abdalla (President of Bank Bumi Daya), and Tan Sri Kumarul Arifin (Chairman of Bank Bumiputra Berhad of Malaysia) who is the present chairman of ASEAN Banking Council.

The ASEAN Banking Council meets once in six months in one of the capital cities of ASEAN and every second year a conference is held.

The ASEAN Banking Council has three committees, i.e., Committee on Investment and Trade, Committee on Education, and Committee on Agriculture and Agri-Business. The Committee on Investment and Trade has a technical committee that is sub-divided into a Committee on ASEAN Bankers Acceptance and a Steering Committee as Appropriate Financial Institutions.

(d) The Steering Committee on Appropriate Financial Institutions

The Steering Committee on Appropriate Financial Institutions, consisting of five members from each ASEAN country, has been working continuously during the last three years on proposals for the establishment of ASEAN connected financial institutions.^{1/} Above all, the Committee prepared the proposal to establish the ASEAN Finance Corporation.

(e) The proposal for the establishment of the ASEAN Finance Corporation

A decision in principle to establish an ASEAN Finance Corporation having been made at the fifth ASEAN Bankers Council Meeting at Bali in February 1979, the proposal, prepared by the Steering Committee, for the establishment of the ASEAN Finance Corporation was endorsed at the ASEAN Banking Council's Seventh Meeting in Jakarta in January 1980. It was amended, as a result of intensive

^{1/} For example, at the second ASEAN Banking Conference held in Bangkok in January 1978 agreement, within the area of banking cooperation, had been reached, inter alia, on the desirability of the establishment of an ASEAN institution to:

- conduct investment feasibility studies of potential projects;
- be responsible for all financial aspects of ASEAN projects including provision of loans from outside the region and arrangements for joint ventures; and
- act as consultant on these projects.

consultations with the monetary authorities of the five countries at the subsequent Council meeting in January 1981. A summary of the amended proposal is as follows:

- (i) It was agreed that the initial paid-up capital would be Sing. \$100 million, divided equally among the five members to be offered to qualified ASEAN investors;
- (ii) The name of the institution would be ASEAN Finance Corporation with headquarters in Singapore. No branches in the ASEAN countries will be envisaged because business will be channelled through one of the ASEAN banks initiating eventual business;
- (iii) The capabilities to serve as a catalyst for ASEAN Economic Community development needs are as follows:
 - (a) Ability to serve as a catalyst for ASEAN Economic Community industrial development by participating actively in, and even initiating, new industrial investments;
 - (b) Ability to underwrite both debt and equity issues of ASEAN Economic Community-based industries;
 - (c) Ability to guarantee convertible or straight debenture bonds issues of ASEAN Economic Community-based enterprises;
 - (d) Ability to guarantee loans and credits extended to ASEAN Economic Community-based enterprises by off-shore, that is, beyond ASEAN, lenders in place of government guarantees;
 - (e) Ability to serve, in general, as an efficient conduit for capital, both equity and loans, from capital exporting countries and international financial institutions;
 - (f) Ability to introduce ASEAN investors to suitable industrial partners from industrialised countries and vice versa;
 - (g) Ability to assist actively in the organization and, if necessary, in helping set up competent management teams for the starting up of ASEAN Economic Community-based enterprises;
 - (h) Ability to serve as an instrument to fulfil the objectives of achieving broad public ownership of successful industries;
- (iv) It was accepted that the most suitable model of ASEAN Finance Corporation was to be a sort of an ASEAN owned and managed multipurpose financial institution;

- (v) The ASEAN Finance Corporation will be managed by a professional management team;
- (vi) The funding sources will, among others, be:
 - (a) its own capital, that is, an initial capital of Sing. \$100 million;
 - (b) bonds and other instruments floated by the ASEAN Finance Corporation, and
 - (c) borrowings;
- (vii) Investors in the ASEAN Finance Corporation, be they direct or through a holding company, should have the status of 'national companies' in the ASEAN countries where they are doing business;
- (viii) With regard to the institutions/holding companies representing the five ASEAN countries the following was agreed:
 - (a) Indonesian investors will invest in the ASEAN Finance Corporation via a holding company, 50 per cent of the shareholding being owned by the state banks and 50 per cent by the private banks;
 - (b) Malaysian investors will invest in the ASEAN Finance Corporation via a holding company;
 - (c) Singapore investors will invest via a holding company;
 - (d) The Philippines and Thailand will invest via a 'trust' arrangement.

Chapter II

The ASEAN Finance Corporation

The ASEAN Finance Corporation was incorporated in Singapore under No. 2227/81 on 19 May 1981 and duly registered by the Assistant Registrar of Companies. It was officially inaugurated on 19 June 1981.

(a) Shareholders, management, and headquarters

Each of the ASEAN countries subscribed to 20 million shares, amounting in total to S\$ 100 million, of which S\$ 23.5 million has been paid up. The remaining 75 per cent of the paid-up capital, will be fully paid up by 11 September 1981. Some 135 banks and financial institutions in the five countries constitute the bulk of the shareholders, either directly (in the case of Philippines and Thailand) or indirectly through holding corporations (PT Sarana Bersama Pembiayaan Indonesia, AFC Holdings (Malaysia) Sdn. Bhd. and Asfinco Singapore Limited).

The Board of Directors consists of four members from each member country, thus totalling 20 directors (see Appendix). The Board is chaired by Drs. Omar Abdalla. The full Board has appointed an Executive Committee consisting of five members and chaired by Tan Sri Kumarul Arifin. The other four members are David SyCip, Chua Kim Yeow, Chote Sophonpanich, and J. Panglaykim.

The daily operations will be in the hands of professional managers. The chief executive and other officers are still to be appointed.

The headquarters of the ASEAN Finance Corporation is in Singapore. It has taken up offices at the Bangkok Bank Building. The status of the ASEAN Finance Corporation will be more or less that of a 'merchant bank'. It has been given an ACU status and intends to apply for an off-shore bank licence.

(b) Initial organizational structure

As the ASEAN Finance Corporation develops its capability and gains more experience in tackling projects, etc., the present initial organizational set-up should be adjusted to the development. At the present state of development, its main tasks can be summarized as follows:

(i) Promotion of industrial development and identification of feasible ASEAN projects

The ASEAN Finance Corporation, as one of the ASEAN catalysts for industrial development, must develop capabilities for identification

and evaluation of desirable ASEAN projects. It is envisaged that the AFC will attract investment from industrialised countries with the AFC at the initial stage, providing the seed capital. If necessary, it should be able to assist in the initial set-up and provide management expertise.

(ii) Promotion of ASEAN inter-regional trade

As the ASEAN Finance Corporation gains experience in the various trade patterns of the member countries, it should be in a position to offer expertise assistance to those engaged in the ASEAN trade sector.

(iii) Financial co-operation among ASEAN countries

Co-operation among the ASEAN financial institutions and the banking community should be carefully planned as part of its endeavour to increase its financial capability in the region.

(iv) Tapping of financial resources

With the region's major banking institutions as shareholders, the ASEAN Finance Corporation will be in a position to get the best possible terms in attracting funds from non-ASEAN sources, be it through the regional development financial organizations like the Tokyo-based Japan-ASEAN Investment Co. (JAIC), Interact (EEC) or through set-ups with the American financial world. If necessary, the ASEAN Finance Corporation could provide guarantees and other types of assurance to ASEAN enterprises.

The ASEAN Finance Corporation will start very modestly in shaping up its organization. But the basic framework has to be set up and perhaps the skeleton organization may be as follows:

(i) Projects Department

Its main responsibility will be the identification and evaluation of projects as well as the preparation of the required loan and equity projections. Industrial specialists as well as the countries' expertise should be recruited to the department.

(ii) Economics Department

It is an important supporting department which will provide the other departments with data, market studies, etc. Here again the countries' expertise will be very vital.

(iii) Finance Department

Its responsibilities will include negotiations with financial bodies in the region on such matters as loan syndication, underwriting, money market operations, etc.

(iv) Administration Department

This department is seen as a back-up department with regard to personnel, administrative, and accounting matters.

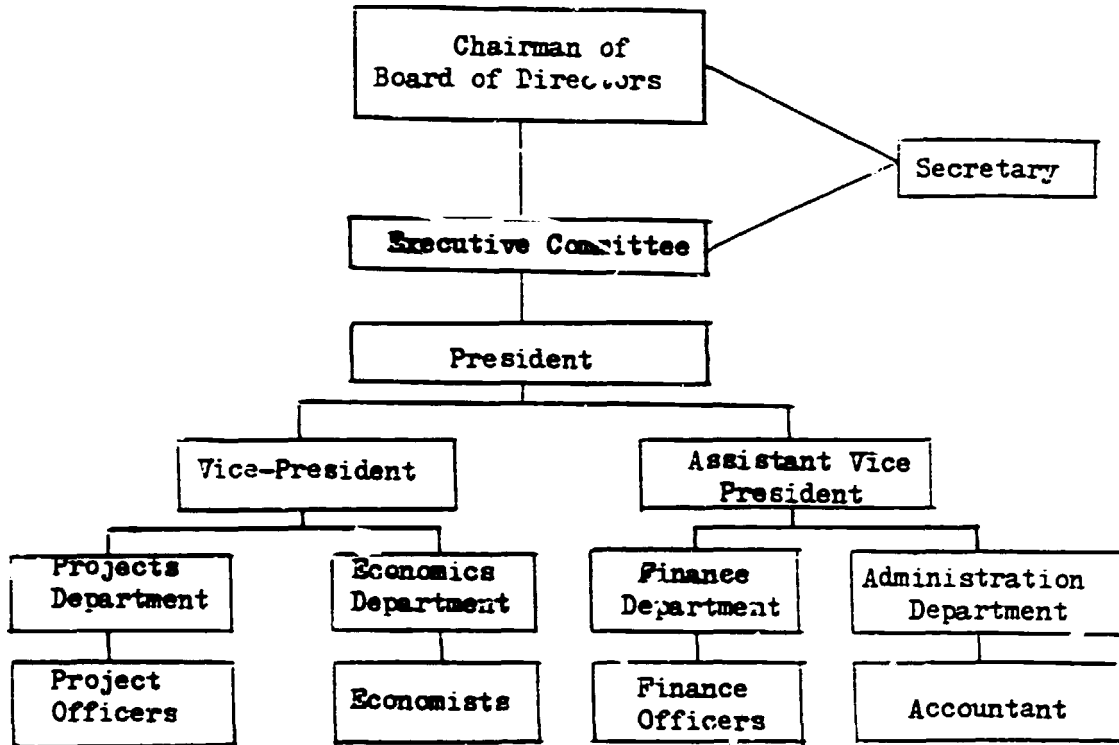
The present staffing projection is to have not more than 30 persons of whom 12 will be those in charge of the management of the AFC, specified as follows:

- 1 President. Mr. Lim Ho Hap of Singapore was recently appointed as President of AFC at the Board of Directors' meeting in Kuala Lumpur.
- 1 Vice-President.
- 2 Assistant Vice-President/Managers,
- 4 Project Officers,
- 2 Economists,
- 1 Finance Officer, and
- 1 Accountant.

The remaining personnel will be administrative officers, clerks, typists, etc.

The management of the ASPAN Finance Corporation will be in the hands of professionals recruited and confirmed in their jobs based on job qualification. Following the appointment of Mr. Lim Ho Hap, the search for the two deputies is in the final stages.

Proposed Organization Chart for AFC



Chapter VII

The AFC as an ASEAN vehicle for external industrial co-operation

The establishment of the ASEAN Finance Corporation has given the region a vehicle with which to promote closer co-operation, not only in the business, industrial, and banking sectors within ASEAN but also in those outside the region.

Let me now deal first with the interest that has developed outside the ASEAN region.

(a) AFC - Japan co-operation

When the Keizai Doyukai (Japan Committee for Economic Development) learned about the possible establishment of the ASEAN Finance Corporation, some of its leaders approached the AFC Steering Committee for a possible tie-up in a joint venture with a group of Japanese bankers who were planning to establish a Japan - ASEAN Investment Company. Under the chairmanship of Shichiro Murai, Chairman of the Japan Steering Committee and senior adviser of Sanwa Bank and other groups of bankers/businessmen, a discussion was held with the AFC Steering Committee regarding the establishment of an ASEAN - Japan Development Corporation. The initial capital was to be divided equally between the Japanese investment company and ASEAN Finance Corporation.

The scope of business envisaged would be mainly in:

- (i) investments,
- (ii) loans,
- (iii) guarantees,
- (iv) underwriting and intermediation of loans and investments, and
- (v) arranging feasibility studies for projects like development projects that will contribute to the utilization of ASEAN resources (among others ASEAN industrial complementation programme and co-operation between two or more ASEAN countries in the fields of production, marketing, and finance).

Meanwhile, the Japan - ASEAN Investment Co. (JAIC) has been established in Tokyo with a capital of 1,000 million Yen (approximately US \$10 million). It had about 10³ stockholders as at 9 July 1981, the day of inauguration of the company.

The AFC Executive Committee, as authorized by its Board of Directors, discussed the tie-up with the Japan - ASEAN Investment Co. (JAIC) at their meeting in July 1981. The Executive Committee was to consider the joint venture company proposed to be called the ASEAN - Japan Development Corporation which would have a paid-up capital of S\$ 100 million held equally by AFC and JAIC.

Prior to the meeting of the Executive Committee of the ASEAN Finance Corporation, the author was confident that the formation of the ASEAN - Japan Development Corporation would be recommended by the Committee to the full Board of the ASEAN Finance Corporation. Although there was an agreement among the members of the Steering Committee of the ASEAN Banking Council about the merits of having a new joint-body, the Executive Committee found after careful study that this ASEAN - Japan Development Corporation would, when formed, develop business activities that would not only duplicate those already developed by the ASEAN Finance Corporation but also be in direct competition with it, thus resulting in these two bodies having conflicting interests. The general consensus seemed to be that in channelling funds and extending cooperation to ASEAN projects it would not be necessary to have a new body. This can be done through an 'agreement of understanding and cooperation' between the ASEAN Finance Corporation and the Japan - ASEAN Investment Co. (JAIC). Thus, judging from the views expressed during the meeting of the Executive Committee of the AFC, a kind of agreement to form a committee type (or club type) of operation would be more likely than the formation of the ASEAN - Japan Development Corporation. It should not, however, be precluded that in the process of cooperation such a need would be felt and that at a later date such a joint-body would be formed.

The ASEAN Finance Corporation agreed, however, to establish a skeleton organization called the ASEAN - Japan Development Corporation (AJDC) with an authorized capital of S\$ 2 million and a paid-up capital of S\$ 200,000. This company was inaugurated on 16 November 1981.

The ASEAN supporters of a more substantive ASEAN - Japan Development Corporation have, for the sake of consensus, accepted the present ASEAN - Japan Development Corporation set-up in the hope that in the years to come the ASEAN Finance Corporation would reach a consensus that might make a better use of the AJDC. It is fully recognized that the Japanese side wanted to give more substance to the AJDC.

(b) AFC co-operation with other external parties

The pattern developed between ASEAN Finance Corporation and Japan - ASEAN Investment Co. (JAIC) will probably be used as a possible form of co-operation in discussions with other countries.

It is clear that the ASEAN Finance Corporation makes it possible for the ASEAN financial and business communities to face, as an ASEAN entity, any interest coming from other regions. It is a practical vehicle when ASEAN has to deal with other non-ASEAN groupings looking for possible joint operations. It is as yet confined to the financial/banking community from Japan and the United States of America,^{1/} but it is not precluded that other countries and regions like the Middle East and EEC will at a later date approach the ASEAN Finance Corporation for possible tie-ups similar to the pattern developed with the Japanese banking interests. With respect to EEC, regular meetings will be organized between the AFC and Interact.

^{1/} A financial conference organized by the ASEAN Bankers Council and the ASEAN - United States Business Council was held in Kuala Lumpur on 18-20 November 1981.

Chapter IV

The AFC as a vehicle for advancing industrial investment
among ASEAN countries

The role and the challenge of the ASEAN Finance Corporation in the years ahead will, among others, be to develop as an ASEAN vehicle in an effort to develop and advance industrial and other investment among the ASEAN countries. It will be the task of the management team of the ASEAN Finance Corporation to formulate a kind of five-year operational plan as well as to translate this plan into reality. In preparing this operational plan it may be of importance to look for projects which have a strategic impact on the increased business and investment co-operation among the ASEAN countries. The plan should aim at those projects which will have a multiplier impact on the development of this co-operation. The ASEAN Finance Corporation is a good example of a project that will generate other businesses and can be classified as having a multiplier impact. It will now be functioning as a useful and effective instrument in translating the operational plan that is to be formulated, into reality.

In order to be able to co-operate more meaningfully and continuously, business and industrial enterprises as well as financing institutions, in particular the ASEAN Finance Corporation, would be made aware of the usefulness of the linkage principle. If the ASEAN Finance Corporation has already established linkages in the ASEAN financial and banking sectors, with its wide-spread sphere of influence and contacts, the next scenario that we could envisage is the organization of the various linkages in the industrial and business sectors in another institution, called "General Trading and Industrial Enterprise". This concept of "General Trading and Industrial Enterprise" modelled after the traditional English trading houses and later perfected by the Japanese in the form of the "Sogo Shosha", has lately been given a great deal of attention by those developed and developing countries looking for an effective vehicle in their search for an enhancement of their bargaining position in the international world. At the national level, this concept could also be another vehicle in assisting the national economy in its search for an institution that will enable it to combine and mobilize the national comparative advantages. At the regional level, this concept could then be extended to developing, mobilizing, and combining the regional

comparative advantages. We think it appropriate that the ASEAN Finance Corporation's next scenario should be in conjunction with the ASEAN Chamber of Commerce and Industry's plans in this context. The ASEAN-CICI has recently proposed the establishment of an "ASEAN General Trading Corporation". The co-operation and co-ordination between the AFC and the proposed AGTC has, however, still to be worked out.

Such a general trading and industrial firm may be used as a 'search arm' of the ASEAN Finance Corporation in its search for investment opportunities and also as a mobilizer and promoter of ASEAN projects. The linkage between trade investment and industrial investments can then be established. If the ASEAN general trading and industrial firm could be established with the ASEAN Finance Corporation and other ASEAN industrial and business enterprises as shareholders, it would then be possible for the AFC to have branches throughout the ASEAN region. There may perhaps be fewer regulations for such an ASEAN general trading and industrial firm to operate in the region compared to the number of regulations that the banking and financial institutions will have to observe in order to be allowed to operate. This ASEAN general trading and industrial firm would then be able to handle the various products manufactured in the region and market them in assortments, regionally and internationally. A combined tie-up with the existing Socg Shosha in penetrating the international market would not be precluded.

With the help of the ASEAN Finance Corporation, this general trading and industrial firm may be able to acquire the required funds from the national, regional, and international capital and money markets. It is not improbable that the general trading and industrial firm may decide, for instance, to establish a majority interest in one of the many joint ventures in the manufacturing sector.

At present, there is a large number of joint ventures in the region where the majority interest is still in the hands of non-ASEAN enterprises. Negotiations may be held with the national governments as to whether or not the foreign (non-ASEAN) portion of the share capital can be sold to the ASEAN general trading and industrial firm or partly to the ASEAN Finance Corporation.

Chapter V

Identification of projects and availability of funds

There are a number of sources which may be used for the financing of pre-feasibility studies as part of the process of identification of projects.

UNIDO has already been engaged in a number of pre-feasibility studies and may be interested in pursuing also the existing ones, because these studies now only serves as a kind of 'archive' in the various departments. The ASEAN Finance Corporation staff might want closer access to these studies and perhaps some of these studies could be pursued further and referred to financial agencies for assessment as to whether or not they are productive and profitable to follow up with more detailed feasibility studies. Another possibility is to pursue these studies further by co-operating with other organizations like the IFC of the World Bank and regional merchant and development banks such as Asian Development Bank and PICA.

In particular, the joint holding between ASEAN Finance Corporation and Japan - ASEAN Investment Co. (JAIC) may be regarded as a possible source of finance and a possible implementator of the pre-feasibility studies. Among the shareholders, affiliates and associates there are a number of organizations to whom the job could be assigned.

The private sector itself is another source of possible identification of ASEAN projects. The ASEAN - CCI Regional Industry Clubs may already have made a number of investigations or studies with a view to identifying certain ASEAN private sector projects. The banks, shareholders of the ASEAN Finance Corporation, may be another important source for the identification of projects along with their spheres of influence in the various other economic and business sectors.

The question now arises as to whether it will be possible to attract the required funds for the large number of joint ventures in the region. Although, in this instance, one must take a selective attitude, we are rather optimistic that the required funds might be available from the ASEAN Finance Corporation which in the years to come will develop a regional and international credibility. We have based our 'optimism' on the following argument.

Many of the industrial countries' economies are going through a restructuring with (i) traditional industry, consisting of the basic industrial manufacturing industries such as steel, automobiles, machinery and textiles, being hard pressed; (ii) energy production, such as coal and natural gas, fast expanding; (iii) high technology industries likewise expanding; (iv) agro-based industries meeting with, in general, growing demands world-wide and (v) services, such as consulting and banking, growing.

In the case of the United States, the last sector, and in particular the international banking community, has been in search for feasible projects and has gone to the growth areas, among others, the ASEAN and other Asian countries. A similar situation is prevailing in the EEC countries. Their economies consist of sectors, some of which are stagnant and some growing. Japan's economy may also be seen in the light of having developed separate economies. The old traditional industries are facing the problems of restructuring. The Japanese economy is now focussing more and more on knowledge-intensive industries, and meanwhile the services sector, which includes its banking and financial institutions, is becoming very active in the international world.

There are indications that the banking and financial community in the industrial countries has made its presence felt in the growth region which includes ASEAN; certainly its presence is felt in centres like Hong Kong and Singapore. With Singapore developing into a centre, international banking and financial institutions will be represented there in one or other way, be it directly, indirectly or in the form of joint operations. This means that the ASEAN Finance Corporation in Singapore is in a strategic position to have the benefit of being where funds from all over the world are looking for profitable opportunities. This has made us rather optimistic that the problem may not be availability of funds. The crucial factor is the presence of projects that can be translated into becoming operational.

Chapter 7I

Lessons from the process of decision making in the
case of the AFC establishment

The ASEAN Finance Corporation may be seen as the first ASEAN-wide example of co-operation in a vital sector of the member nations' economies. It is true that, at the government level, there are two ASEAN Industrial Projects (AIPs) in the process of realization. But the AFC set-up is a form of co-operation with hundreds of banks in the ASEAN region, including private as well as government banks. The AFC, which may be seen as the first co-operative effort between the government sector and the private sector in the ASEAN region, has been established in a relatively short period of time from the first decision made at the ASEAN Banking Council's meeting in Bali in February 1979.

As it was noted earlier, the idea of looking for a vehicle that could convert ASEAN banking co-operation into an institution was in the minds of those delegates who regularly attended the various ASEAN Banking Council's meetings.

When the idea was formally accepted by the Council, it was a matter of making the idea concrete in the form of an operational plan. The process of preparing such a working paper was a relatively easier task than the exercise of having this paper accepted by those in charge at the government level of the monetary and banking sectors. The diverse historical background as well as the banking and monetary regulations, banking acts and level of development were seen at the beginning as possible obstacles.

Experience has taught us that once an idea is translated into an operational plan, the next important step to be taken is to make this operational plan acceptable to the authorities. In this respect it is of vital importance that the people in charge of convincing the authorities are those who have access to the authorities and are considered as credible. This appeared to be the case when the ASEAN Banking Council's operational plan was brought to the attention of the various Governors of the ASEAN Central Banks. Once the operational plan was accepted by one of the Governors (in this case it was the Governor of the Bank of Indonesia, Dr. Rachmat Saleh), the next step was to bring this plan to the meeting of the Governors of the ASEAN Central Banks. If the five heads of the ASEAN monetary and banking sectors agreed on this plan, then the road to the establishment of the ASEAN Finance Corporation was already half trodden.

The time was now opportune to persuade the banks in the ASEAN countries to participate in this joint ASEAN effort. It seems that the response was quite satisfactory, based on the list of participating bankers. Practically all banks in the ASEAN region (including a couple of foreign banks with national status) have participated in the ASEAN Finance Corporation.

The foreign banking community, with the exception of the Japanese group of bankers, was initially rather sceptical of the AFC plan, but their scepticism proved to be wrong. The ASEAN Finance Corporation can be considered as another proof of ASEAN determination to come up with an institution/vehicle that will bring about a closer economic co-operation, to pursue an idea towards an operational mechanism. The establishment of the ASEAN Finance Corporation shows that once the governments and private sectors in the ASEAN region have formulated a policy and agreed to implement that policy, it could bring about results, which at the beginning seemed a near impossible task. The leaders of the business, banking, and government sectors in the ASEAN region have already reached a stage of maturity and are increasingly attracted to ideas of co-operating more closely in order to make the ASEAN objectives as concrete as possible.

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