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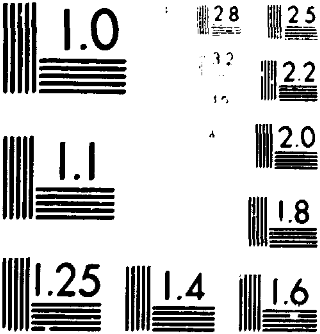
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org



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UNIDO/IS.346
6 October 1982

ENGLISH

UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

CO-OPERATION IN INDUSTRIAL FINANCING IN ASEAN*

Studies on regional co-operation in the field of industry

Prepared by

Supachai Panitchpakdi

UNIDO Consultant

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

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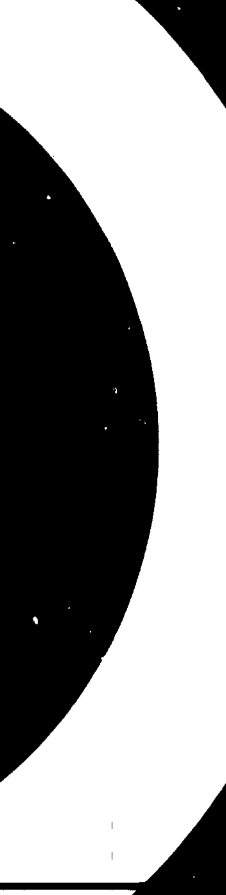

PREFACE

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 analsyis 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, preparaing 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 thre 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 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.

The present study concerning co-operation in industrial financing in ASEAN, has been prepared for UNIDO by Dr. Supachai Panichpakdi, Director, Office of the Governor, Bank of Thailand, Bangkok, Thailand.

Regional and Country Studies Branch
Division for Industrial Studies
UNIDO

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Chapter I

INDUSTRIALIZATION AND INDUSTRIAL FINANCE IN ASEAN

The process of industrialization in ASEAN and the demand for finance associated with it can be better understood when viewed in two levels. The first level concerns individual ASEAN countries' own effort to develop their industrial sector through fiscal and financial measures. The second level relates to ASEAN's concerted effort and co-operation in the field of industrial development. Before proceeding to discuss ASEAN industrial co-operation and its co-operation on industrial financing, it is instructive to dwell briefly on the individual countries' industrial objectives and their financial institutions that are involved in the industrialization process.

As is already widely known, and like most developing nations, ASEAN countries started off on the road of industrialization out of the need to diversify their production structure and prevent their overdependence on a few primary commoditiies. Although this urge is common, ASEAN countries embarked upon the industrialization process at different junctures, depending not only on the economic but also on the political factors. While the Philippines has the longest industrialization history in the region, Indonesia is a latecomer, starting their own process in earnest only in the late 1960. All ASEAN countries except for Singapore adopted the policy of import substitution during the initial stage and only turned to export-oriented industries at a later date.[1/] With the exception of Indonesia, ASEAN member countries have shown impressive industrial performance, averaging an annual growth rate of more than 10 per cent, surpassing the target of 8 per cent recommended by the UN for the Second Development Decade. Since 1973, developing countries' average industrial growth has been of the order of merely 6 per cent per annum.

Going by individual countries, Indonesia saw in industrial development the answer to the explosive population problem in overcrowded Java. However, Indonesia's development effort met with a number of obstacles in the form of chronic inflation, persistent government deficits, social

1/ John Wong, ASEAN Economies in Perspective, Macmillan Press Ltd., London 1980.

Table 1. Summary of salient characteristics of industrialization process in ASEAN countries

	Bottlenecks to industrialization	Future aims	ASEAN investment projects
Indonesia	Institutional, human resources	Non-tradtional activities as extractive industries, energy fuels, minerals and timber	Urea project (firm) Heavy duty rubber tyre
Malaysia	Social structure, rural backwardness	New Economic Policy bumiputras' participation in manufacturing sectors industrial restructuring	Urea project (firm) Metal working Machine tools
Philippines	Overreliance on imported input, resource constraint	Rationalization of protective structure, export-orientation	Pulp and paper (uncertain) Newsprint Electrolytic tin plating
Singapore	Small-size of domestic market	High-technology industrial export	Diesel engine project (withdrawn) Color TV picture tubes
Thailand	Unclear benefits	Re-orientation of industrialization	Soda ash project (committed) Potash Fisheries

and political up heavals, bureaucratic weaknesses, and lack of skilled labour.1/ Due to the constant inflow of foreign investment (the largest proportion of Japanese investment in ASEAN), international aid (particularly from the Intergovernmental Group on Indonesia), and the oil earnings, shortage of capital and foreign exchange does not really stand in the way for Indonesia's industrialization programme.

Financial resources for industrial projects appear to be adequately mobilized from within the country as Indonesia is well endowed with financial institutions which are involved in industrial finance, for example:

1. Bank Negara Indonesia, one of the five state commercial banks which dominate the domestic banking sector, is knwon to specialize in financing industrial undertakings.

2. Bank Pembangunan Indonesia (BAPINDO), the foremost state institution in the field of development finance, mainly extends medium- and long-term loans for new projects, particularly in the transportation and industrial sectors (paper, textiles, food, chemical, metal).

3. Bank Indonesia, the central bank, provides refinance facilities to state commercial banks and BAPINDO, ranging between 65 to 80 per cent of the loans extended at concessional interest rates by these banks.

4. The Credit Insurance Institution extends credit guarantee cover to banks for financing small and medium-sized industry.

In contrast to Indonesia, Malaysia does not suffer from population pressure and possesses adequate resources of entrepreneurial skills, reasonably efficient bureaucracy, and adequate infrastructural facilities. Like Indonesia, with probably a greater degree of urgency, Malaysia has to cope with a plural society steeped in racial and cultural divisiveness. The distribution of income by races is known to be extremely and conspicuously uneven. Owing to this deep-seated problem, Malaysia's central development strategy does not contain an all-out industrialization programme which the country can very well afford, but encompasses a two-

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1/ V. Kanapath, Development Strategies in ASEAN", UMBC Economic Review, Vol. XVI, No.2, 1980, pp. 1-19.

pronged approach of industrial growth and rural-based distributional objectives. The New Economic Policy (NEP), adopted at the dawn of the seventies, therefore aims to uplift the income of the bumiputras. A distinctive feature of Malaysia's industrialisation process lies in the restructuring of the production process rather than the promotion of growth. By 1990, the participation of bumiputras in the ownership and management of manufacturing and commercial operations in the country is targeted to account for 30 per cent. At present, it appears that this objective may not be met within the alloted time frame, partly due to the lack of efficiency of public and semi-public enterprises created for this purpose.

Financial services offered to the industrial sector in Malaysia are geared towards the assistance to the bumiputras and small-scale industries. The following financial institutions play major roles in administering and providing these services:

1. Bank Negara Malaysia, the Central Bank, applies the selective credit control measure to direct bank lending into industrial sector. As of August 1979, commercial banks are required to extend at least 17 per cent of their total loan outstanding to the bumiputra community and 20 per cent to small-scale enterprises. As of end 1979, 16 per cent of commercial banks' loans and advances went to the manufacturing sector.

2. The Credit Guarantee Corporation operates a scheme that provides guarantee cover for credit facilities made available by commercial banks to small-enterprises for financing their capital and operational requirements.

3. The Malaysian Industrial Development Finance (MIDF), the leading industrial finance institution, concentrates on promoting Malay participation in industrial activities.

4. The Industrial Development Bank of Malaysia, recently established in August 1979, mainly finances the expansion of productive capacity in capital-intensive and high technology industries, especially those which are export-oriented, and in priority projects requiring financing beyond 10 years.

The Philippines' industrial development process was initiated as early as in 1945. But the process ground to a halt due to the excessive dependence on imported input which is one of the glaring shortcoming of the import-substitution industrialization strategy adopted in the Philippines for two consecutive decades. Together with the lack of export products, this strategy has led to the recurrent foreign exchange crises. Total external debt outstanding, amounting to US $13.1 billion in 1980, is the second highest (after Indonesia) in the ASEAN region. After a period of slow growth in real export, with an annual average of 1.5 per cent between 1974-1978, the Philippines has over the past few years achieved significant growth averaging around 12 per cent per annum.

The degree of sophistication of the Philippines' financial system is higher than average.1/ But the system's elusive and experimental undertone has not made it as efficient as it should have been. Still the financial facilities available to the industrial sector are not insignificant. At the end of 1979, there were 38 private development banks which specialize in providing medium- and long-term loans for economic development purposes. Another important source of industrial finance is the Development Bank of the Philippines (DBP) which is wholly state-owned. At present, the lending operations of DBP are concentrated on small- and medium-sized pioneering industries in the rural areas.

In many ways Singapore's industrialization experiences are unique and must be put in a class of its own. To transform its role as an entrepot to that of an exporter of services and high-technology products, Singapore has made full use of foreign investment, rarely emulated by other economies. The conditions for its success in industrial development, able management, efficient bureaucracy, skilled human resources place Singapore more or less in a position alien to other ASEAN member countries. Whereas others are struggling to have appropriate technology transferred to them, Singapore has successfully shopped and negotiated for the kind of technology that gives it the best return. This is also

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1/ Supachai Panitchpakdi, "Investment and Finance in ASEAN: Problems and Relevant Issues", in Chia Siow Yue (ed.), ASEAN Economic Co-operation: Proceedings of the ASEAN Economic Unit Workshop, The Institute of Southeast Asian Studies, Singapore, 1980.

apparent in the area of financial services with which Singapore is well-endowed. With a large variety of financial institutions, industrial finance can easily be met by domestic resources, chanelled for example through one of the largest domestic banks as the Development Bank of Singapore. But this may not be that necessary as the flows of foreign investment into Singapore provide the economy with adequate financing for further industrialization.

Partly due to the country's relatively productive agricultural sector, industrialization in Thailand has been proceeding at a more leisurely pace than in other economies with greater population and land pressure. With manufactured products accounting for 19 per cent of gross domestic product in 1979, Thailand may be considered to be reasonably industrialized. However, the benefits of industrial development to the economy as a whole are as yet unsatisfactory as (1) the industrial sector can only absorb a meagre 7 per cent of the total employment, as of 1979, (2) industrial development is highly dependent on imported inputs, and (3) industrial growth has generated benefits only for the urban areas to the detriment of the backward rural areas. Out of the total value-added from the industrial sector, 80 per cent are from production located in the Central Region, particularly in the vicinity of the Bangkok Metropolitan Area.

Thailand's industrial sector therefore is in need of a restructuring programme. As in other ASEAN countries, export-oriented industries now claim top priority for their potential to earn foreign exchange, create employment, and provide opportunity for backward linkage effects. The dispersion of industrial activities into the rural areas which now count only 8 per cent of industrial production out of the total, will need large financial support from concessionary sources. The Bank of Thailand has been providing funds at subsidized rate for this purpose through the Industrial Finance Corporation of Thailand (IFCT). For small-scale industry finance can be tapped from the Small Industry Finance Office (SIFO) which is part of the Ministry of Industry. The growth of IFCT's lending has been somewhat hampered by the administrative rigiolity and the strictness of its legal framework. The SIFO, on the other hand, has all along been doomed to a passive role as it lacks its own sources of funds and has to depend on tiny annual buget allocation.

In general, industrial undertakings in Thailand are funded largely through self-finance, and partly through borrowings from commercial banks. On average, around 20 per cent of total term loans provided by commercial banks are extended to the manufacturing sector. As an institution that can draw long-term funds from the Bank of Thailand, World Bank, Asian Development Bank, Export-Import Bank of Japan etc., the IFCT is directly responsible for the allocation of medium- and long-term loans for industrial investment purposes. Although private-owned, the state has an indirect participation in the IFCT's shares through the state-run Krung Thai Bank.

The IFCT has recently started to play a role in participating in the financing of Thailand's large-scale projects which need co-financing from both public and private sectors. But the availability of domestic funds does not really measure up to the financial demand of these big projects more of which are included in the fifth national development plan (1982-1986). A US $140 million zinc refinery project for north western Thailand, delayed since 1972, may for example be financed by export credits from Belgium.[1/] A major expansion of Thai Oil Refinery Co.'s refining capacity and a project to extract potash are other two large projects for which finance has to be arranged overseas.

1/ E.S. Browning, "Big Thai Projects are Attracting Bankers", Asian Wall Street Journal, July 28, 1981.

Chapter II

ASEAN INDUSTRIAL CO-OPERATION

ASEAN's current industrial co-operation efforts can be classified into two channels, the public and the private. As with so many other ASEAN efforts, it was the public sector which gave the start signal with its own projects but apparently it was the private sector that made most of the running. The public sector adopted the ASEAN Industrial Project approach right from the beginning which was the Bali Summit Meeting in February 1976. The private sector, on the other hand, agreed on the Industrial Complementation Scheme or the Industry Club approach which takes into account the constraint of the limit size of each national market.

1. ASEAN Industrial Projects (AIPs)

The contrived birth of ASEAN Industrial Projects (AIPs) was the cause of the infantile sicknesses which was to plague most of these projects. The five AIPs which were originally proposed are:

Urea	Proposed by Indonesia
Urea	Proposed by Malaysia
Superphosphates	Proposed by Philippines
Diesel engines	Proposed by Singapore
Rock salt/soda ash	Proposed by Thailand

As is already known, the implementation of these AIPs has been beset with all sorts of problem. Only the two urea projects have actually got off to a start. The difficulties surrounding these projects may be traced back to the following factors:

1.1 The initial AIP package had to be put up in a hurry. To display the spirit of ASEAN unity, concrete agreements were needed at the 1976 Bali Summit. The five projects were therefore proposed by respective governments without any preceding feasibility study.[1/] Thailand, for

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1/ John Wong, "Regional Co-operation and Industrialization in ASEAN", in Economic Growth Department (Ed.), New Directions of Asia's Development Strategies, Institute of Developing Economies, Tokyo, 1980, pp. 142-155.

example, only completed the feasibility study for her project as late as July 1978. Many common problems associated with the establishing of new industries, such as the minimum plant size, optimal location, infrastructural facilities, management and supply of labour, marketing and pricing etc. were not paid adequate attention to.

1.2. The ASEAN leaderships rapidly agreed on the AIP package without paying due consideration to the effects of this "industrial mix" to the ASEAN economies as a whole. The controversy subsequently flared up in particular with regard to the diesel engine project proposed by Singapore. This project which aimed at producing diesel engines of more than 200 horsepower duplicates the ongoing national projects in other ASEAN countries such as Indonesia, Philippines and Thailand. Upon strong opposition from the first two countries which wanted to protect their own producers, the ASEAN Economic Ministers meeting of September 1977 decided to allow Singapore regionwide preferences for engines of 500 HP and above, and only selective entry for engines within the 200-500 HP range, while engines of less than 200 HP would not be granted special reduced tariff rates. This decision effectively renders the Singapore's diesel engine project feasible only for marine engines and larger power generators, but rules out agricultural engines, the most rewarding segment of the diesel engine market. Singapore therefore decided in October 1978 to implement the project as a national one, jointly with an American diesel engine firm. This dropping out of the Singapore's AIP signifies the inherent difficulty in pursuing the regional goal of economic integration which has to be balanced with the inevitable preservation of national interests.

1.3 The sluggish progress of ASEAN industrial co-operation as reflected through the AIPs of the Philippines and Thailand which have as yet to be started, is partly to be explained by the domestic constraints. Due to the hastiness with which these projects were put together, their suitability to domestic conditions was not sufficiently reckoned with. The Philippines was obliged to abandon its original proposal of a superphosphates project due to the project's infeasibility, explained by the need for the Philippines to import phosphate, the basic raw material, from the US. The Philippines then switched to the NP/NPK ammonium sulphate project, which in turn was proved not to be viable economically and had again to be dropped. The Philippines latest proposal is the integrated pulp and paper project which was approved as an AIP by the Ninth ASEAN Economic Ministers Meeting held in Singapore in April 1980.

Thailand's soda ash project was met with reservation from Thai economists from the beginning as it was found to be economically cheaper to import soda ash from outside the region.1/ In spite this objection, the project was maintained as Thailand's AIP. The Asian Development Bank (ADB) provided financial assistance for the feasibility study which was undertaken by a Canadian consultant firm. Together with the two urea projects, the soda ash project was accepted as an AIP at the seventh meeting o ASEAN Economic Ministers in December 1978. But the controversy surrounding the siting of the project escalated in 1980 when the Government decided on a location close to a future deep-sea port at Laem Chabang. At the peak of the controversy which involved political and environmentalist groups, the Government decided to defer the decision on the project location to some future date while waiting for the definite Eastern Seaboard Development Plan. In the meanwhile the Japanese Government had sent in a team of experts from the Japan International Co-operation Agency (JICA) to under take a loan evaluation study of the project which was completed in April 1981. By then the location controversy was resolved as an industrial zone in Rayong Province close to the present deep-sea port of Sattahip was selected for soda-ash project.2/ It took Thailand therefore more than 4 years to decide on the start of the project, and may take another 3 years for the project to be in operation.

1.4 The financial aspects of the AIPs, although there are some loose ends to be tied, do provide the least difficulties when compared with other factors discussed above. Basically it was agreed that the total investment costs should be financed by 30-40 per cent of equity capital participated by ASEAN member countries and 60-70 per cent of long-term

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1/ Narongchai Akrasanee, "Economic Co-operation with ASEAN: A proposal from the Economic Society of Thailand", Thai Economic Journal, Vol.II No.1, June 1978, pp.79-91.

2/ "The Dust Settles on Soda Ash", Thailand Business, July 1981, pp.18-28.

loans. Of the total equity 60 per cent will be held by the host country and the rest equally shared among other member countries. But since Singapore has withdrawn its AIP, it decided out of ASEAN spirit to at least take part in other AIPs, by holding only one per cent of the total shares.

Table 2. Terms of loans for three AIPs

	Indonesia	Malaysia	Thailand
Project	Urea	Urea	Soda ash
Site	Aceh, Sumatra	Bintulu, Sarawak	Rayong Province
Start of construction	March 1981		1982
Total investment	US $403 million	US $322.640 mill.	US $280.8 b/ mill.
i) OECF loan			
a) Amount	46.23 billion yen	US $158.094 mill.	
b) Rate of interest	2.5% p.a.	4% p.a.	
c) Loan period (grace period)	18 (7) years	20 (5) years	
d) Procurement formula	Generally united	Generally united	
ii) Ex-Im-Credit			
a) Amount	20.17 billion yen	US $67.754 mill.	
b) Rate of interest	7.5 - 7.7% p.a. a/	7.75% p.a	
c) Repayment period	10 years (after commissioning)	10 years (after commissioning)	
d) Procurement formula	Tied to Japan	Tied to Japan	

Note: a/ The higher interest rate is charged on an additional sum of 5 billion Yen.

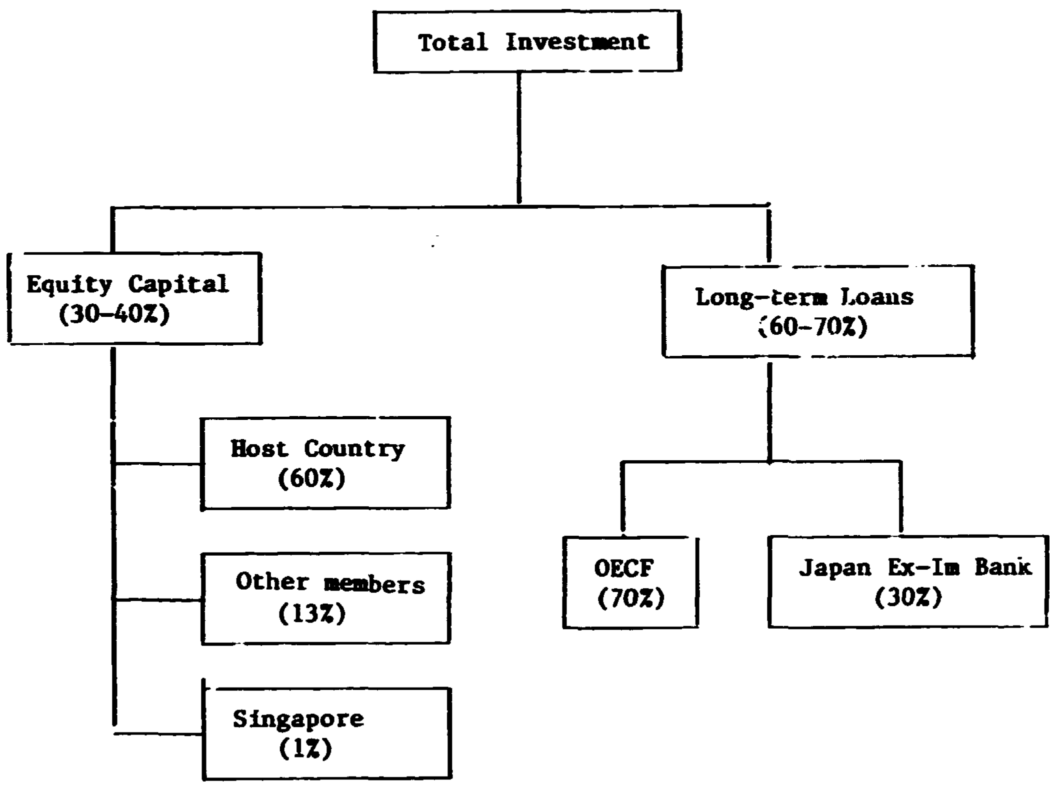
b/ This amount includes investment in the mining of rock salt and limestone quarrying which may not be included in the AIP.

OECF = Overseas Economic Co-operation Fund of Japan.

Although it can be observed from Table 2 that the financial requirements of the AIPs are adequately met by concessional long-term borrowings from Japan, some minor financing problems remain:

1. The slow implementation of AIPs results in the heavier financial burden of the projects. Indonesia's urea project was estimated to require investment costs of around US $296 million back in 1978. It now turns out

Chart of the present financing structure of an ASEAN Investment Project



that the total investment of this project amounts to at least US $100 million more than the original estimation. This escalation of financial burden may be the case for all AIPs and therefore necessitates a renegotiation with potential lenders. The Indonesians, for example, may be obliged to accept borrowing terms for the additional sum which are less concessional than those agreed for the original borrowing need.

2. Although the AIPs may fund their investment through similar sources, the terms available to different projects may not be the same. From Table 2, it appears that the Malaysian AIP is subjected to less attractive borrowing terms, e.g. higher interest rates and shorter loan and grace periods, compared with the Indonesian AIP. This differentiated treatment of AIPs by the creditors, if done intentionally or otherwise, will create divisiveness in ASEAN and may result in the delay in implementing the existing AIPs and in negotiating for more AIPs in the future. The Japanese have made known their principle that they will treat each of the AIPs on a case to case basis, taking into account the local economic conditions of the country.

3. The nature of AIPs' financing which is tied to certain conditions can be an impediment to the realization of the AIPs. At certain stage, it was reported that the Malaysians rejected borrowing from the Japanese sources due to their tied conditions. But since other sources were not easily accessible at comparable terms, the Malaysian AIP has to follow the Indonesia example.

4. The identity of the borrower may sometime be stipulated by the lender which does not coincide with the borrowing country's wish. The Japanese, for example, maintain the view that the loans should be borrowed by the government and then relent to the project company. This condition is put up to guarantee close and full support by the government for the AIP. The Indonesian Government borrowed the loans for their urea project and relent it to the project company while the Malaysian authorities found it administratively cumbersome. The Malaysian Government reasons that it borrows from external sources to relend to ultimate borrowers only when a lower rate of interest is to be charged on relending. In case of this AIP the same terms are to be charged on relending to the project company so there is no need for the Government to intervene.

Apart from the above-mentioned AIPs, discussions have been held to prepare for future AIPs of which a tentative list could be made up as follows:

Indonesia	:	Heavy duty rubber tyre
Malaysia	:	Metal working machine tools
Philippines	:	Electrolytic tin plating, newsprint
Singapore	:	Colour TV picture tubes
Thailand	:	Potash, fishery

These future AIPs are as yet only in an early negotiation period and may not see the light of day for at least two more years. The financial needs of each project may amount to around US $300 million. Based on the present condition, the project's equity capital will take up around US $90 million and the rest of US $210 million will be mobilized through long-term borrowing. Anticipating that five future AIPs may be selected, the total long-term financing needs may therefore amount to approximately US $1,050 million in the course of the next five years.

2. ASEAN Industrial Complementation (AICs) Scheme

While the public sector embarks upon the regional industrialization scheme through AIPs, the private sector sets up the ASEAN Industrial Complementation (AICs) scheme. The AICs is the brainchild of the ASEAN Chambers of Commerce and Industry (ASEAN-CCI) which was formed in 1972 to foster closer co-operation among the private sectors in ASEAN. Associated with the ASEAN-CCI is a number of ASEAN Industry Clubs belonging to sectors ranging from chemicals and electronics to food processing and furniture. These clubs are assigned the task of identifying products for industrial complementation scheme, and determining the volume of financing involved, input requirements, and acceptable degrees of trade preferences needed.

At the 11th Meeting of ASEAN Economic Ministers in Jakarta in May 1981, a first-round list of AICs projects which are all related to the automotive sector was approved, consisting of the following:

Indonesia	:	Diesel engines (80-135 HP) Motorcycle axles Wheel rims for motorcycle
Malaysia	:	Spokes and nipples Drive chains and timing chains Crown wheels and pinions Seat belts
Philippines	:	Body panels for passenger cars Transmissions Rear axles (for trucks with below 2 metric tons pay load)
Singapore	:	Universal joints Oil seals V-belts
Thailand	:	Body panels for commercial vehicles (one ton and above) Brake drums for trucks Heavy duty shock-absorbers

These AICs projects are entitled to all ASEAN trade preferences as agreed upon by the member countries. Countries that are not assigned to implement certain projects may not duplicate such an effort, except only when it can be proved that 75 per cent of those products are destined for markets outside of ASEAN. As for the financial arrangements for AICs projects, the details have still to be worked out. We shall return to elaborate possible financial sources for these projects in the next chapter.

Chapter III

SOURCES OF FINANCE

As already discussed in the first section, each ASEAN member country appears to be fairly occupied with its own industrial programme which may easily claim all domestic financial sources available for industry. The projects evolved in the context of ASEAN industrial co-operation which are put on top of this programme, may have to compete for the domestically available financial resources. Considering that the host country of an AIP normally accounts for 60 per cent of the equity capital which in turn amounts to 30-40 per cent of the total investment costs, the host country will have to seek finance for only around 20 per cent of the total investment costs. In view of the relative adequacy of domestic finance and the ability of ASEAN countries to resort to external borrowings, the equity part of the AIPs appears to be presenting much less problems than the long-term loan part.

The need for this long-term loan demand could be met by a limited number of sources since the conditions on these loans are stipulated to be concessional. For the existing batch of AIPs the Japanese sources of OECF and Export-Import Bank have proved to be adequate. It has been decided that for industrial co-operation in the future sources of finance will have to be diversified. Firstly, this diversification is necessary so that ASEAN countries will not have to be completely dependent on conditions offered by Japan. Secondly, access to various capital markets may have to be pried open to prevent the damaging consequences in case any market may be closed to outside borrowers like ASEAN. Thirdly, intra-ASEAN sources of fund should themselves be mobilized through the setting up of ASEAN-owned financial institutions.

Based more or less on these prospects, sources of finance for ASEAN's industrial corporation and other related financial arrangements may be classified as follows:

1. Assistance from other countries
    a) Japan
    b) European Economic Community
    c) USA
    d) Others

2. ASEAN financial institutions
   a) ASEAN Finance Corporation (AFC)
   b) ASEAN Export-Import Bank
   c) ASEAN Development Bank

3. Other financial arrangements
   a) ASEAN Bankers' Acceptance Market
   b) ASEAN Swap Arrangement
   c) ASEAN Clearing Arrangement

1. <u>Assistance from other countries</u>

Economically ASEAN views Japan as a major power in Asia, a source of development assistance, foreign investment and technology transfer. With the retreat of America from the region, Japan's political role in ASEAN has also increased. Through the Fukuda Doctrine, Japan pledged US $1 billion to help finance ASEAN regional industrial projects when their feasibility is confirmed. It appears that ASEAN has been more successful in eliciting Japanese financial assistance than in securing access to the Japanese market.

The Fukuda fund may be used up by the first batch of AIPs. In order to maintain a continuous flow of funds from Japan to finance ASEAN regional projects, a new Japanese merchant bank called "Japan Investment Company" (JIC) was established in 1980. The JIC is supposed to operate its financing of ASEAN projects through the newly set-up ASEAN-Japan Development Corporation (AJDC) of which it is a shareholder. JIC would solicit government and private financial resources in Japan and other international financial centres to participate in AJDC equity and lending activities. With the capitalization of 1 billion yen, the JIC counts among its shareholders about 150 Japanese corporations, securities companies, with Keizai Doyukai (Japan Committee for Economic Development), Keidan-ren and Japanese Chamber of Commerce and Industries serving as the main organizers and co-ordinators. The JIC will be relied on to mobilize long-term funds from the yen market by issuing capital notes to Japanese corporations, by borrowing from related Japanese government agencies, and by floating bonds in the Euro-dollar market.

In the final communiqué of the 1977 Kuala Lumpur Summit, the ASEAN heads of Government called on all developed countries to extend financial assistance on the most favourable terms and conditions to the AIPs. This was before Japan released its own communiqué offering the US $1,000 million assistance. In theory this is supposed to be sufficient to finance the projects. But it was thought likely that inflation could push the total cost of the projects to over US $1,200 million if they were delayed. Moreover ASEAN officials hold the view that the call for aid beyond that from Japan is necessary as a contingency measure.[1/]

Compared with other countries, ASEAN's negotiations for financial assistance have made the greatest advanced with the European Economic Community. The ASEAN-EEC financial co-operation can be discussed under the following issues:

i) ASEAN-EEC Development Fund
ii) EEC financing for AIPs
iii) Training facilities regarding access to capital markets.

i) ASEAN-EEC financial co-operation was initiated under the Agreement signed in Kuala Lumpur in March 1980. Within this framework the establishment of the ASEAN-EEC Development Fund (AEDF) was proposed, along with the request for the EEC's contribution of US $10 million for this fund. The main objective of this fund is to finance pre-investment feasibility studies of industrial projects to be undertaken by either the public or the private sector under the ASEAN framework. Although some of the industrial projects' feasibility study may be financed by the Asian Development Bank, it was felt that for the sake of continuity of ASEAN's industrial co-operation ASEAN should have at its disposal through AEDF a certain source of finance.

The EEC, however, indicated that the proposed scheme was not compatible with the EEC's financial and technical aid policy to non-associated developing countries. In view of the absence of EEC interest in AEDF, this proposal may have to be reviewed by ASEAN. Other means of financial

1/ See Anthony Rowley, "ASEAN takes the cue", Far Eastern Economic Review, 19 August 1977, pp.27-29.

co-operation may have to be sought should further negotitations along this line prove to be futile. For example, ASEAN could request an increase in its annual share in the EEC's Non-associated Developing Countries Aid Programme (NADC) to be specifically earmarked for regional industrial projects.

ii) ASEAN has requested the EEC for a sum of US $1 billion in the form of concessional credit to finance AIPs. It was proposed that the funds could be disbursed through the NADC programme or through other public development finacne institutions. The Community, however, made a counter-proposal that it would rather assist the AIPs through the Interact Group of public development finance institutions. This group, which is interested in financing development projects, could, through the encouragement of the appropriate EEC machineries, extend long-term loans at preferential rates and provide euqity participation in the initial stage of project implementation. At present, negotiations are being carried out with the Interact Group under the auspices of the ASEAN's Committee on Finance and Banking (COFAB). The issue that has to be resolved is the designation or establishment of a counterpart financial institution that can handle this type of financial arrangement. The role of the ASEAN Finance Corporation (AFC) may be fitted in with this requirement.

A few words about the Interact Group should be in order here. The Group is an informal association in which the European Public Development Finance Corporations come together to exchange information aimed at co-financing of specific projects. The Group consists of eight financial institutions in which two of them namely, European Investment Bank and Caisse Centrale de Cooperation Economique, are under their present rules not allowed to finance projects in ASEAN countries, Interact members finance productive projects in most sectors including agriculture and agro-industry. During the Bangkok meeting in September 1981 between COFAB and Interact and EC Commission, it was suggested that Interact could play a catalyst role in drawing together funds from its members namely the public development finance corporations as well as establish an EEC-ASEAN Joint Committee for Regional and Inter-Regional Investment Promotion to decide on ways and means to support ASEAN projects. The objectives of this Joint Committee are among others to assist ASEAN in selecting and formulating viable projects and to facilitate the use of community funds for regional integration and trade promotion.

In addition to the above arrangement, the EEC also indicated the possibility of financing ASEAN's private projects by credit line obtainable from private European banks through the EEC offices. The terms of lending are non-concessional but could be improved should the private projects obtain government backing through guarantee or direct participation.

iii) Apart from direct financial assistance, technical assistance in the forms of seminars and training courses is taken up in the programme of ASEAN-EEC economic co-operation. Practically for all ASEAN member countries the Eurodollar market has become a highly significant source of funds in supplementing the domestic ones. In the past, each individual member country, of course, went their own way in seeking access to various international capital markets. Through this technical assistance from the EEC, it is expected that the responsible ASEAN government officials may together learn to approach the international markets in a more systematic manner which could deliver better conditions. Moreover, by gaining more knowledge on the access to capital markets, ASEAN member countries may in the future arrange among themselves their entry into these markets in such a way that best conditions can be obtained. The first seminar on access to capital markets was held in October 1981.

ASEAN's dialogue with the US started shortly after the approach to the EEC. At first, it appeared that the US was willing to provide ASEAN with a credit line worth US $2 billion to be used for ASEAN industrial co-operation. But subsequently it turned out that the US was not very much interested in giving industrial development assistance to ASEAN. Therefore ASEAN's dialogue with the US has shifted to other topics such as co-operations in agricultural development science and technology, and energy. In order to continue the ASEAN-US dialogue, it was agreed to establish an Economic Co-ordination Committee, as a forum for discussing economic issues of mutual interest.

Financial assistance that ASEAN is likely to obtain in the future may come from other sources than the conventional ones. It is therefore of interest to follow the results of the dialogues between ASEAN and the following countries on the topic of economic co-operation:

i) Australia
ii) New Zealand
iii) Canada

i) Although Australia has not been very forthcoming in acceding to ASEAN's request to liberalize trade, in the area of investment promotion Australia had agreed to allocate a sum of A $4 million for ASEAN investment promotion programme for 3 years commencing July 1981.

ii) ASEAN's meetings with New Zealand mostly took up trade issues aimed at improving access to New Zealand market. The improvements up till now are not up to ASEAN's expectation. Progress is however made in projects such as livestock programmes, afforestation and end-use of timber which obtain assistance from New Zealand.

iii) ASEAN and Canada have signed an agreement in 1980 on industrial and technical co-operation, technological transfer and training. In article 6 of this agreement it is specified that "Canada undertakes to consider the provision of specific technical and financial support within its bilateral and multilateral development assistance progress for an agreed programme of regional projects among the member states of ASEAN". This agreement appears to provide a firmer basis than other dialogues in this category which may lead to a genuine realization of financial co-operation.

2. ASEAN financial institutions

The idea of an ASEAN financial institution like the ASEAN Finance Corporation (AFC) was first mooted at an ASEAN Banking Council (ABC) meeting in 1977. The original concept was to set up an ASEAN-owned financial institution that could provide financing facilities of ASEAN-based enterprises - mainly industrial ones based on the markets of the member states. The ABC had noted that existing financial institutions are largely oriented towards country-based enterprises as we have already elaborated in the first part of this report. These institutions generally are not in the position to provide the kind of financial support required by regional industrial ventures. The name of ASEAN Investment and Development Bank was thought of at the beginning which is certainly appropriate. This met with the objection that ASEAN central banks and monetary authorities might not kindly view the establishing of another "bank".

Basically, whatever it may be called, the AFC will be performing the role of an ASEAN investment bank. Foremost in its objective is the goal to serve as a catalyst for ASEAN industrial development by actively participating in or even initiating new industrial investment. Seed equity capital, for example, may be offered by the AFC to the ASEAN Industrial Complementation projects which may also make use of the AFC to underwrite their debt and equity issues. Apart from these basic functions the AFC would come in very useful in mobilizing funds from international sources outside of ASEAN through the means of syndicated loan or issuance of notes and bonds.

The AFC's initial paid-up capital of US $50 million is equally shared by the five members of the ABC, which are national banking associations Indonesian, Malaysian and Singaporean investors will invest in the AFC through holding companies, while Thai investor investors (numbering 26) will invest in the AFC directly. All the investments have been approved by the respective central banks in principle, where approval is required.

In setting up the AFC, ASEAN has effectively solved one basic problem that has been nagging the co-operative effort from the start, i.e., the lack of an ASEAN financial institution that can function as the counterpart of financial institutions from other areas. This problem has in the past made the disbursement of funds to ASEAN a rather cumbersome process since they cannot be channeled to any specific institution. For instance, when Japan donated a sum of money to finance ASEAN cultural activities, a committee had to be especially appointed to supervise over the so-called "ASEAN Cultural Fund". Through the AFC, ASEAN will now participate in the ASEAN-Japan Development Corporation (AJDC) by holding half of the equity, amounting to a sum of US $2.5 million. The AJDC aims to solicit and channel private and official financial resources from national and international sources to promote ASEAN regional projects and ASEAN-Japanese joint ventures. The AJDC started operations at the end of 1981.

The idea of setting up an ASEAN export-import bank was mooted around the year 1979 when the example of such a regional export-import bank was found in the BLADEX (Banco Latinoamericano de Exportaciones) established in Latin America in 1978. Although the institutional framework was brought to the fore at a much later date, the proposal to make available concessional export and import credits for intra-ASEAN trade was already made at the first COFAB (ASEAN Committee on Finance and Banking) meeting in May 1977. This proposal was included in the purchase finance support project which was used as a negotiating point in the process to determine the preferential trading arrangement. But when this arrangement got underway, not much attention was paid to the issue of concessional trade finance.

When the issue of concessional trade finance reemerged in 1979, the International Finance Corporation (IFC), an affiliate of the World Bank, was requested by COFAB to look into the feasibility of an ASEAN export-import bank. The outcome points to the lack of real need for such an institution in ASEAN at present. Unlike the Latin American case, it could not be proved in the ASEAN case that the growth of trade in non-traditional goods has been hampered by the shortage of medium- and long-term finance. In fact, ASEAN exporters are quite adequately provided with credits by their monetary authorities at concessional terms. Practically all ASEAN central banks supply exporters with easily accessible rediscount facility. Apart from this, facilities for export credit guarantee exist in all ASEAN member countries except for Thailand. All in all, the following salient conclusions can be drawn from the findings reported by the IFC mission.

i) Most commercial banks in the region find the rediscount facilities offered by the respective central banking authorities sufficient as a source of liquidity to finance trade. Shortage of short-term credit is therefore not an obstacle to export growth. Although demand for medium- and longer-term credits might be somewhat larger if they were available, there was no felt need by exporters.

ii) In discussion with central bank officers the IFC mission did not detect a sense of urgency to create a regional export credit institution that would require a major effort. There appeared to be various means to tap foreign sources of capital to prevent any drain on the international reserves.

Thus for the time being, an ASEAN export-import bank is not to see the light of day. In the meanwhile, another ASEAN finance scheme which seeks to set up the ASEAN Banker's Acceptance (ABA) market to finance intra-ASEAN import, has obtained the backing of the ASEAN monetary authorities. More about the ABA market will be said in the following paragraph.

Back in the beginning of the seventies, a United Nations Study Team recommended to the ASEAN advisory Committee (the forerunner of COFAB) to establish a sub-regional development bank, called ASEAN Development Corporation (ADC), for the purpose of trade co-operation and expansion, and economic integration. However, the UN Team viewed the establishment of the ADC as a gradual long-run process. To successfully set up ADC, a number of difficult conditions had to be fulfilled. The most important necessary conditions include a definite commitment of member governments to proceed with a systematic scheme for economic co-operation. Secondly, the ADC must be assured of adequate financial sources at its disposal. In view of these difficult conditions, it was decided at the first COFAB meeting in 1977 to shelf the project for the present. However, out of the ADC consideration, two proposals emerged with regard to ASEAN co-operation in the area of development finance:

i) Before moving over to a full-fledged development bank, it was suggested that the existing ASEAN Fund could first be activated to cover wider area of operation. The ASEAN Fund was created in December 1969 with the objective of financing joint projects approved by the foreign ministers of ASEAN. It is not a common pool of fund as such but consists of contributions by each member country which maintains the custody over its own contribution. Disbursements for a project are made directly from the national fund of the country in which the approved project is located. The ASEAN Fund has not really been used actively while there has been a reluctance to increase the size of the contribution. Up till now most of the projects financed by the ASEAN Fund have been relatively small-scale projects of a socio-cultural nature.

ii) In addition to the UN Study Team's recommendations, BANCOM Development Corporation, a private corporation based in the Philippines also prepared a proposal for the establishment of an ASEAN Regional Bank (ARB). This proposal was submitted to various ASEAN committees starting from 1971. The primary objectives of the ARB are to provide financial advisory services along with underwriting and private placement services for share issues of ASEAN-based investment projects. The ARB proposal, after various refinements carried out by the ASEAN Banking Council, has transformed into what was to become the ASEAN Finance Corporation.

3. Other financial arrangements

Besides the consideration of the feasibility of various ASEAN financial institutions, there are some other financial arrangements which have been deliberated and implemented within the ASEAN framework. Although these arrangements may not directly support ASEAN industrial co-operation programmes, they may, however, lead to certain improvement in the ASEAN financial system that ultimately should spill over to industrial finance. At any rate, the discussion of these financial arrangements here should indicate the level of sophistication and the prospective development of the ASEAN financial system that may have future bearing on industrial finance.

At the ASEAN Banking Council's meeting in Jakarta in January 1980, the idea of setting up the ASEAN Bankers Acceptance (ABA) market was hatched. The intention is to save on the cost of intra-ASEAN import financing which is normally done through the New York's Bankers Acceptance market. Commercial banks in ASEAN, if authorized to create ABA, may charge their customers lower discount rates should a secondary market for ABA be encouraged to develop. The ABC reasoned that for this secondary market to develop, assistance from the central banks and monetary authorities is needed in the following ways: (a) the ABA should be officially designated as an eligible reserve asset, so that banks may maintain them to increase the yield on their reserve asset, and (b) the central banks and monetary authorities should provide a rediscount facility for this paper at concessional rediscount rates.[1/] The ASEAN central banks and monetary authorities have already approved of the ABA scheme in principle. But they can agree to assist the scheme by providing only the last-resort liquidity to the market. They reasoned that the ABC should first come up with a definite and serious programme to develop the ABA secondary market of their own. As of now, the ABC is working on the proposal regarding the mechanism and structuring of the ABA secondary market. Since interest rates in the international money markets have remained high for a prolonged period, there appears to be less interest by the ABC to push the ABA scheme.

The ASEAN Swap Arrangement, a mechanism for short-run liquidity financing arranged by the central banks and monetary authorities to alleviate temporary balance of payments needs of member countries was established

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1/ See, "Acceptability of ASEAN Bankers Acceptance", in Supachai Panitchpakdi, Issues in Banking and Finance in Thailand 1975-1980, Bangkok, 1981.

in August 1977. The central bank of a member country with liquidity needs exchanges or swaps its local currency for US dollar provided by other member countries in accordance with an agreed procedure. The original amount of credit available under this facility was US $100 million. Each member central bank contributes US $20 million and is entitled to a maximum credit line of US $40 million for a period of 1,2 or 3 months renewable for another 3 months. At the initial stage, this facility was hardly utilized due to the low credit line available. However, in 1978 the total amount of credit available under this scheme was raised to US $200 million with each member central bank's contribution and maximum credit line being doubled correspondingly.

The term of this facility was intially set for one year subject to renewal on an annual basis. With the signing of the Second Supplementary Agreement in September 1979 the Swap Arrangement was extended for another 3 years. The Third Supplementary Agreement was concluded in February 1982, extending the facility in the last few years as it offered below-market rates under the worldwide cirucmstances of mounting liquidity pressure.

The proposal to organize an ASEAN Clearing Arrangement was first made in 1976. Since then the proposal has been subjected to a reconsideration and shelved a number of times. The major benefits of this scheme are thought to tie in the economy in the use of foreign exchange and the saving of conversion costs which may lead to intra-regional trade expansion. As is well-known, the Brandt Commission's report favourably views clearing arrangements as a means to promote trade. Likewise, various clearing arrangements have been adopted in Latin America, Africa and Asia. In the case of ASEAN, the central banks and monetary authorities are of the opinion that such an arrangement is as yet unnecessary for a number of reasons:

(i) Trade with non-ASEAN countries continued to account for the predominant trade share, i.e. about 85 per cent in 1979 compared with 86,5 per cent in 1976.

(ii) Commercial banking facilities in ASEAN member countries have undergone significant development in recent years. Unlike in Latin America and Africa, this network of financial institutions is able to adequately provide financial services to the international trade transactions.

(iii) Gains from the economy in the use of foreign exchange and saving in conversion cost cannot be easily quantified.

In view of these reasons, the contribution of an ASEAN Clearing Arrangement is unlikely to be very significant. On the contrary, the administrative burden and institutional changes that would be involved in setting up this Arrangement could be prohibitive. This Clearing Arrangement proposal is therefore frozen by the central banks and monetary authorities for the present.

Chapter IV

CONCLUSITON AND RECOMMENDATION

Although each ASEAN member country is reasonably well endowed with diverse financial institutions, rapid development gives rise to foriegn exchange requirements that cannot be fully met by these institutions. Besides each ASEAN country is heavily occupied with its own industrial programme which may easily claim all domestic financial sources available for industry. ASEAN industrial co-operation which aims at accelerating the countries industrialization, puts additional strain on the existing foreign exchange resources. For the first batch of AIPs, financial provisions have been adequately arranged and should not pose any immediate problems. Impediments to these projects appear to be related to non-financial factors such as lack of feasibility study, domestic bureaucratic failures, and inconsistency with other members' domestic programme. However, for the future ASEAN industrial co-operation programme, financial requirements and problems may accumalate. As a group ASEAN cannot solely rely on Japan as the only source of readily available AIPs financing. It must maintain a certain degree of independence and as a group muster its own co-operative effort to mobilize adequate financial resources for the AIPs.

As already dealt with in Chapter III, several ASEAN schemes have been proposed with the aim of deepening the ASEAN financial infrastructure. However, they are mostly far from being implemented. The few that have been in operation are rarely fully active. It is usually felt that each member's domestic financial system is already in the position to meet the present requirements. The tendency is to lean towards negotiations with countries or blocs of countries for financial assistance. While this may seem to be an easy solution to the financial problems, it should not be considered as a permanent solution, being only a modus vivendi.

As more durable solution should involve not only the purely financial factors but should start from the angle of the industrial development programme. It should also consist of the linking-up mechanism that could deal with funds channeled from outside of ASEAN.

To serve all ASEAN projects more than as a mere political gesture, the ASEAN Secretariat which in May 1981 has obtained new headquarters in

Jakarta, may be brought in to help put up an economically feasible package. Up till now the Secretariat has been rather inactive and more or less left out of most of ASEAN's crucial policy matters. The objective of ASEAN Secretariat as spelt out in the February 1976 agreement on the establishment of the Secretariat is to provide greater efficiency in the coOordination of ASEAN organs and for more effective implementation of ASEAN projects and activities. The sterility of the Secretariat is compensated by the domination of the national secretariats which take their orders from their national governments and the standing committee. This lop-sided administrative framework could not effectively produce a co-ordinated investment plans for ASEAN's public and private sectors. There has been a lack of a body - supposedly the ASEAN Secretariat - to co-ordinate the activities of the national secretariats. But even since the establishment of ASEAN Secretariat in 1976 this void has been left unfilled with detrimental effects to ASEAN investment co-operation. For the private sector, it is also desirable that the Secretariat caters to their needs made explicit through its industry clubs, chamber of commerce and other non-governmental bodies. Not until the ASEAN Secretariat is given the full role as befitting it, the impediments will not be removed from the path to more effective ASEAN industrial co-operation.

One of the present troubles of ASEAN's contemporary enthusiastic mood is to dissipate its energy in embarking upon various new schemes whithout putting its effort in the priority to make the existing ones work. The ASEAN Finance Corporation (AFC) has been described by the association's economic ministers as the most substantial and meaningful achievement of the ASEAN Banking Council to date. The fact that it has done almost nothing since it was set up in the middle of 1981 is a matter of concern, considering the high hope reserved by the banking sector forthis institution. It was originally intended that the AFC serve as the catalyst for ASEAN industrial development by promoting and participating in new projects that should benefit at least three members of the Association. But since existing projects are still rife with problems and lack of co-ordination persists, the AFC may take some time before it can launch itself into something more meaningful and practicable than past efforts. Since at present the scope for AFC is rather limited in this respect, it has been assigned another task of initiating the ASEAN Bankers Acceptance market through (a) investing in Bankers Acceptance issued by ASEAN banks and (b) seeking to set up a secondary market network that can support the ABA first-issue market. But the first ABA has yet to appear, probably due more to the lack of interest on the side of the ABC rather than the inadequate assistance provided by the central banks and monetary authorities. The ASEAN central banks have shown their willingness to lend the last-resort facility to the ABA market provided that the ABC set up a viable secondary market mechanism. The AFC should be given a leading role in this connection and even embark itself upon the scheme to test the market with the experimental issuance of some ABAs promoted by the AFC. At the same time AFC should start to explore the possibility, preferably with the co-operation of the ASEAN Secretariat, to implement the existing industrial projects and to lay down guidelines for the selection of feasible future projects.

It appears now that the ASEAN Industrial Complementation (AIC) projects, namely the automobile component parts, is running into various difficulties. Firstly, no definite project proponent could be found for Thailand's carburetor project and Malaysia's headlight project. Secondly, each member country has its own automotive projects that have proliferated the market behind walls of protection, making it rather difficult for the automotive complementation to be smoothly implemented. Although there was no movement to abandon the AIC projects - in fact ASEAN-CCI resolved to increase public acceptance of AIC through a publicity campaign to emphasise its benefits - ASEAN-CCI has started to set up another scheme called ASEAN Industrial Joint Ventures (AIJV). AIJV projects, in which at least two ASEAN countries must have equity participation, are to be accorded national status by the host country for the purpose of qualifying the projects for national treatment. These projects may then be able to avoid the problem AIC projects are facing, that of a lower status than the national ones. The scope of AIJV has been broadened to include joint efforts in trading, shipping, financing, banking and other service activities. However, the lack of ASEAN-CCI's capacity to put up a list of feasible AIJV projects and to acquire the sanction of member countries will not put the AIJV scheme in a better position than the AIC. What ASEAN now needs appears to be a central clearing house for all joint venture projects so that efforts may not duplicate in member countries and really necessary projects can be given priority. As ASEAN-CCI is not in the position to carry out this task, some _modus vivendi_ must be found otherwise ASEAN projects may scarcely get off the ground.

ASEAN-CCI has in 1981 proposed to set up another financial institution called "ASEAN Trading and Investment Corporation" (ATIC). The major objectives of this Corporation are to promote ASEAN joint venture projects, ASEAN exports, and to provide relevant market information to ASEAN investors and exporters. It is proposed that the equity share of each ASEAN country be offered to as many enterprises and individuals in industry, agriculture and trade. This is one of the very few features distinguishing ATIC from AFC, the other being the marketing activiites of ATIC. For most of the activiites such as project identification, pre-feasibility and feasibility studies, equity investment, and project financing and management, both financial insititution can hardly be differentiated. With the AFC still very much in the probing stage with little to do, it is probably unwise to start another financial institution with similar features. If marketing is to be the main emphasis of this institution, then it may be more efficient to employ different means such as (a) to keep alive and encourage the ABA scheme, (b) to set up more ASEAN officies like the one in Rotterdam, Holland to promote ASEAN export, and (c) to establish channels whereby information on production and marketing opportunities can be exchanged, especially for primary commodities.

ASEAN has been obtaining considerable financial assistance from Japan without really gaining access to the Japanese capital market. Official aid, although, given at concessional terms, is not alwasys free of burden on the part of the receivers. This aid generally comes with certain conditions that may put a constraint on the utilization of funds. Moreover, the chanelling of these funds through the bureaucratic maze may not be the most efficient means of recycling the surplus funds from the Japanese market. It is advisable that the private sector play greater role in this recycling process through the normal market mechanism. But although there are no real legal impediments to the issue of foreign securities on the Japanese capital market, the new issue market has been protected by a corset of extra-legal ministerial constraints. American Depository Receipts - representing Japanese issues traded in the United States - and European Depositories Receipts - representing Japanese issues traded in Europe and elsewhere - have been a common phenomenon. In contrast to this, the first Japanese Depository Receipt representing issues of an ASEAN company to be traded in the Japanese stock market, has yet to be floated. To lend the potential ASEAN corporate issues some support, guarantees may be sought from the AFC or the AJIDC. Such as access to advanced capital markets should be established in other countries besides Japan with the main objective for the ASEAN private sector to have a direct source of finance from outside the region.

It may still be worthwhile to reconsider one of ASEAN's existing financial arrangements: the ASEAN Fund. As already said earlier in the paper this Fund was intended since its inception in 1969 to finance joint projects which have been submitted to the ASEAN Standing Committee and approved by the foreign ministers of ASEAN. Except for the payments of salaries to ASEAN Secretariat, this ASEAN Cultural Fund was set up through the Japanese assistance to promote cultural co-operation programme. It seems somehow more fruitful if the ASEAN Fund could be reactivated at least to centralize the management of various funds to be allocated to promote ASEAN co-operation work. The Fund could be managed by the Secretariat to identify projects for regional co-operation and to assist the private sector's effort in field of industrial co-operation. An additional role of this Fund could be the management of funds, donations and contributions from extra-regional sources that have an official status and may not be apporpriate to be linked with the AFC. If this new role is to be realized then the management of this Fund must be streamlined to avoid the bureaucratic procedure of going through the National Secretariats to the Standing Committee and the foreign ministers. The Fund could be made into an arm of the ASEAN Secretariat to give the Fund an explicit status and the Secretariat more muscle.