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

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NEW FORMS OF INDUSTRIAL CO-OPERATION AND INVESTMENT POLICIES IN REGIONAL ARRANGEMENTS*

Paper prepared by the

Regional and Country Studies Branch

Studies and Research Division

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Abbreviations

ACP	African, Caribbean and Pacific
AIC	ASEAN Industrial Complementation
AIJV	ASEAN Industrial Joint Venture
AME	Andean Multinational Enterprise
ANCOM	Andean Common Market
BRITE	Basic Research on Industrial Technologies in Europe
CABEI	Central American Bank for Economic Integration
CACM	Central American Common Market
CAF	Andean Development Corporation
CARICOM	Caribbean Common Market
CARIFTA	Caribbean Free Trade Area
CDB	Caribbean Development Bank
COPAC	Common Patent Appeal Court
CPC	Community Patent Convention
ECCA	East Caribbean Currency Authority
ECCM	Eastern Caribbean Common Market
ECSC	European Coal and Steel Community
ECTMO	European Community Trade Mark Office
EEC	European Economic Community
EEIG	European Economic Interest Grouping
EIB	European Investment Bank
EPO	European Patent Office
ESPRIT	European Strategic Programme for Research on Information Technology
GATT	General Agreement on Tariffs and Trade
ICC	International Chamber of Commerce
IDB	InterAmerican Development Bank
IRP	Industrial Rationalisation Programme
LAFTA	Latin American Free Trade Area
LAIA	Latin American Integration Association
LMA	Latin American Multinational Enterprises
OECD	Organisation for Economic Co-operation and Development
OECS	Organisation of East Caribbean States
PADT	Andean Programme of Technological Development
PTA	Preferential Tariff Agreement
RACE	Research on Advanced Communication Technologies in Europe
SADCC	Southern Africa Development Co-ordination Conference
SAIT	Andean System of Technological Information
SELA	Latin American Economic System
SIDP	Sectoral Industrial Development Programme
TNC	Transnational Corporations
WIPO	World Intellectual Property Organisation

Preface

This brief study paper, "New Forms of Industrial Co-operation and Investment Policies in Regional Arrangements" (UC/RAS/86/308), has been prepared in response to a request made on 7 November 1986 by the Chairman of the ASEAN Committee on Industry, Minerals and Energy (COIME) by staff of the Regional and Country Studies Branch together with Peter O'Brien as consultant. The analyses of the Latin American and the EEC experiences are based on papers prepared, under UNIDO consultancy, by Eugenio Lahera, Santiago, Chile, and Hans-Eckart Scharrer and Henry Krägenau, Hamburg, Federal Republic of Germany, respectively.

The study paper was originally submitted to the COIME Interim Technical Secretariat in March 1987.

1. Purpose of study

1987 marks at least two notable anniversaries relating to regional co-operation. It is 20 years since the Bangkok Declaration establishing ASEAN and 30 years since the signing of the Treaty of Rome and thereby the formal establishment of the EEC. It is, furthermore, close to two decades after the Treaty of Cartagena setting up the Andean Pact. The time spans are indicative - though there are some examples of fairly short-lived regional arrangements, the usual pattern is for the organizations to continue. But part of the price for continuity of regional groupings seems to be frequent debate, and on several occasions and in more than one continent open dispute, about ways of improving their performance. Sometimes, as at last year's ASEAN Economic Ministers' meeting in Manila, the value of the organization as a whole is explicitly mentioned but this tends to be more a means of urging members to greater effort than seriously suggesting dissolution. In the EEC, discussions on mechanisms, lack of speed in achieving goals, and inadequate attention to "new" areas (especially technological development) have been complicated by three enlargements of membership thereby doubling the original six. In Latin America dissatisfaction with progress led to the replacement in 1980 of LAFTA (after a 20 year life) by LAIA and contributed to the 1986 bilateral arrangement between Argentina and Brazil (with Uruguay also signing a protocol). In Africa too there has been a constant search for appropriate mechanisms towards improving integration with the current emphasis on fairly informal "coordination" through the nine members of SADCC and more subject specialisation with the 15 member PTA in east and southern Africa (which is also considering eventual harmonisation of investment legislation and policies).

This report (prepared in early 1987) offers an assessment of some key issues in the area of industrial co-operation within regional arrangements, focussing particularly but not entirely on the experiences of EEC and Latin American countries and seeking to examine their relevance to the ASEAN situation. Comparative analysis has the advantage that it can widen the range of possibilities which ASEAN may consider as well as bring into sharper relief the problems and potential associated with particular schemes. The analysis can be misleading if it fails to place various experiences in their proper contexts and thereby generate unwarranted optimism or pessimism regarding their adaptation to the ASEAN circumstances. Bearing this in mind the document is organised as follows. Chapter 2 sets out, in brief terms, the salient features of the political and economic environments in which Latin American, European and African countries have experimented with diverse forms of co-operation and contrasts them with ASEAN conditions. These observations permit more realistic yardsticks to be set pertaining to ASEAN performance, a point which, in the view of this report, is pertinent to an appreciation of further steps ASEAN might consider taking to promote industrial co-operation. The chapter goes on, in the same vein of establishing a context for assessing performance and possibilities, to sketch ways in which certain international arrangements to which some ASEAN countries belong may limit options for extending industrial co-operation. Similar remarks are then made in relation to the pressures imposed on ASEAN decision making by external groups, either via the official Dialogue system or through other channels.

Chapter 3 concentrates on the key dimensions of industrial co-operation in regional arrangements, with most of the material drawn from Latin America and EEC but occasional references also to African experience. The chapter is divided into the following sections: investment policies (including industrial property); industrial sub-sector planning; promotion of intra-regional industrial projects; instruments for technological development in industry; the use of government procurement on a regional basis; and regional arrangements for industrial financing. Chapter 4 then draws on the preceding material to make suggestions for extending industrial co-operation in ASEAN.

2. Environments for regional co-operation

The various regional groupings have started out from distinct situations and evolved in circumstances which differ quite considerably from one to the other. Morever, the objectives of the groupings have not been by any means the same. For these reasons it is necessary to clarify, albeit in summary form, just what some of those conditions have been. The first part of this chapter focuses on approaches within the groups themselves; in the second section some of the pressures exerted by external groups and which influence regional decision making are examined.

2.1. Main features of regional groupings

2.1.1. The role of economic objectives

Latin American co-operation schemes, whether focussed on trade liberalisation (such as LAFTA and LAIA) or more explicitly oriented towards broad policy harmonisation (such as the Andean Pact or the Central American Common Market), have mostly taken economic considerations as their goals and their means. In the EEC also an increasing stress on economic issues has been laid, though political objectives were a basic impetus at its inception.

Following the stress on regional security in its early stages, ASEAN has now reached a point at which serious efforts to strengthen the economic bonds among members should be made. It will be difficult to do that while maintaining the "lowest common denominator" approach to economic policy in the group. In other words, an endeavour to intensify co-operation will bring real differences of economic interest to the fore. But there are two advantages to the intensification: first, some key differences, e.g. regarding moves towards a Common Market, are already public knowledge so frank discussion of them is unlikely to provoke a backlash jeopardising co-operation; second, successful resolution of key questions could yield large benefits. ASEAN is, in short, located at a point where the scope for introducing new measures that do not involve some losses for some members (at least for a time) is highly circumscribed. The challenge is to find a package of initiatives which offers something of interest for all members, i.e. distributes gains and losses in a manner acceptable to all.

A second dimension of economics needs to be kept firmly in mind, however. ASEAN's relations with third countries differ notably from those maintained by other regional groupings. Succinctly, the contrast is as follows. For the EEC the concern initially was to go towards trade liberalisation within the group at a time when international markets were just beginning to open following the severe restrictions of the first decade after World War II. As time has passed the importance of intra-group transactions, reinforced by enlargements of membership, has remained central and it is only in the present decade that attention has been paid to creating large scale, community wide programmes which would permit EEC as an entity to compete in international markets. "Self-centered" would, in this sense, be an appropriate description of EEC perspectives. The per capita income levels of the member countries, the absolute size of the market, the advanced stage of industrialisation exising prior to establishment of the community, and the favourable economic relations existing with former colonial dependencies undoubtedly contributed substantially to this optic. It is no accident that

as the relative importance of these conditions has weakened, the EEC is searching for means of making its involvement in other industrial markets, including ASEAN, more intense.

In Latin America the inward-looking character of regional arrangements has also been pronounced, though there for different reasons and with different results. Trade schemes (in effect LAFTA and LAIA) have sought to provide tariff preferences to promote regional intra-trade on the grounds that there was insufficient specialisation in the region. Yet it was only with the formation of the Andean Pact at the end of the 1960s that a full-blooded attempt was made to establish an entity where economic objectives were firmly set towards production and investment rather than trade. The original five member countries were medium-size, middle to upper income (though with substantial differences among them) in terms of the continent as a whole and their concern was to create a framework in which local economic agents could strengthen their industrial and technological grip. From this perspective creation of the Pact took place in an atmosphere of uneasy relations, and not infrequently explicit conflict, with outside entities which wanted to preserve easy access to the markets of the countries. Many of the obstacles to the Andean integration process stem from the efforts of external agents to ensure that integration was not accomplished. Whereas for the EEC the moves towards a full Common Market continue, for Latin America the experience has been essentially of failed attempts, whether at the modest level of trade liberalisation within the region or the much more ambitious level of trying to build sub-regional production blocks. Despite the unequivocal concentration on economic objectives, the twin forces of the preoccupation of countries to build their own industries along with the determination of external entities to keep open markets for themselves have acted to thwart co-operation/ integration schemes.

In ASEAN the whole perspective on dealings with third countries, and thus on the weight given to economic objectives of an intra-group character, has been different. The countries of the region have been relatively export-oriented as compared to those of other developing country regional accords (if less export directed than the northeastern Asian neighbors), have experienced relatively fast rates of economic growth (such that, on a per capita basis, they are now classified by the World Bank as "middle income countries"), have received relatively less significant quantities of foreign aid, and have tended to seek greater participation in the international economy via acting in subcontracting arrangements, substantial investment accords and so on. Put briefly and bluntly, while ASEAN has seen economic prosperity as a key component in maintenance of geopolitical stability, the evidence suggests that member countries have viewed that prosperity as stemming fundamentally from an intensification of links with markets of OECD countries rather than from the vehicle of deeper and wider intra-regional arrangements. ASEAN has therefore never been in the position where it could be "self-centered" in the way that has so long characterised the EEC, has never sought to build a locally oriented and integrated production/investment structure as was the declared (but never realised) aim of the Andean Pact, and never relied on foreign aid in the form that has been pivotal (albeit unsuccessfully) to industrialisation in most of the Sub-Saharan African economies. ASEAN members instead have relied much more on external markets with intra-group economic objectives playing a secondary role. Since by any reasonable measures of economic performance the member countries have done quite well (above all if compared to those in other developing country regional accords), care must be taken in proposing measures to buttress

intra-group industrial activities. To argue that such steps will perforce improve economic performance of members may not be easy to sustain (though of course it could be the case) but other larger term advantages, especially the reinforcement of local entrepreneurial capabilities, may well be more important. The assessment of intra-regional economic performance must therefore keep this context in mind.

2.1.2. The legal and institutional basis

While some legal and institutional arrangements underlie almost any attempt at co-operation, there are major differences among regional groupings both in the formal extent of these arrangements and in the degree to which they are in fact implemented. In the final analysis the key question is whether members are ready to surrender part of their policy making authority to supranational bodies. No member of a regional grouping has shown itself eager to do that. It may be fairly simple, and even politically advantageous, to promote coordination and co-operation since these are activities that preserve decision making firmly within the prerogative of each nation State. But integration schemes take things much further, involving the creation of institutions which specifically promote certain group-wide policies (such as the Junta of the Cartagena Agreement), Ministerial Councils which decide what will be done (a crucial matter here being whether or not decisions depend on some kind of majority of whether single countries can exercise a veto), and Courts of Justice (the key instance being the European Court of Justice) which have the power to resolve disputes and thereby create what is in effect a body of Community law.

In Latin America and the EEC the approach has been to draft and sign substantial legal treaties as a starting point for joint action. These documents are of course not sufficient on their own to cover anywhere near the full range of issues involved in an integration process: in the 30 years of the EEC's operation, for example, it has been found that the Treaty of Rome (despite its length and complexity) did not touch on several matters subsequently found to be important. Treaties as such rarely govern policy - but they do embody goals and to a considerable extent can shape the directions of change.

ASEAN does not have any cornerstone of this kind from which to function or against which to measure its progress. The organisation has not set itself the task (at least not in a formal or legally binding sense) of achieving a specified type of integration by a fixed date. With regard to industry COIME has the major responsibility and, via various regional associations, links to the private sector. This approach has the virtues of ensuring considerable dialogue as well as flexibility but suffers from the disadvantage of not committing member countries to the attainment of defined objectives according to a defined calendar. Consequently whatever is done relies heavily on co-operation and bears the mark of separate, unintegrated decisions. The framework is one of creating some room for manoeuvre e.g. in relation to joint ventures where mostly private sector firms of the region can obtain certain concessions compared to outside firms. This has the major plus that private entities are left to their own initiative to cooperate in the region but it does not give any direction or end point to this co-operation. As compared with EEC, the framework is therefore too loose. While in Europe too, considerable initiative in most cases rests with the private sector the long term push is unmistakedly towards the shifting of more and more authorities and responsibilities into the hands of community institutions and away from

national bodies. The process has been grudging, difficult, conflictive and is as yet unfinished - but the goal remains that set in the Treaty of Rome.

2.1.3. Concepts of industrial co-operation

An evaluation of what ASEAN and other regional groups have assayed (and/or achieved) with industrial co-operation requires a brief look at the thinking behind the co-operation; in this, chronology helps. Although the European Coal and Steel Community (ECSC) was founded in 1951 as a sectoral initiative to rebuild a key industry within a multi-country frame of reference, the crucial conceptual (and also practical) advances came with formation of the EEC in 1957. Its central concern in the first place was the establishment of a Customs Union i.e. the removal of barriers to cross-border trade within the community and the setting of a common external tariff to govern transactions with third countries. The accent was thus firmly placed on trade as an engine of growth - though the two changes of tariffs mentioned led to trade diversion (i.e. a shift to higher cost suppliers) as well as trade creation. The strong presumption was that the latter would dominate. Production within the region, and in particular beneficial specialisation of output (above all, intra-industry specialisation), would be stimulated by trade measures. The first decade or so of the Community's operation coincided with, and contributed to, a period of enormous expansion in international trade and international production and the emphasis on trade liberalisation accompanied by the dismantling of limitations on foreign investment in the expectation that quantity and quality of production would follow seemed to be perfectly justified. Subsequently the EEC has maintained this course in respect of industry; the extremely rapid move to full internationization of capital markets in the present decade is the latest major development in this direction, allowing industrial financing to be derived from multinational sources with great agility.

Behind the opening up of trade, therefore, lay the EEC belief that private corporations would make maximum use of opportunities. The concept remains at the heart of EEC activity but this does not mean that government involvement in industrial affairs has been negligible. On the contrary, government financial transfers to industry, in declining branches as well as in some new ones, have been substantial and growing in most member countries. Furthermore, explicit co-operation between many governments and large numbers of private firms has been the salient feature of recent programmes to stimulate technological innovation in new areas e.g. informatics. The EEC believes, it seems, that having established a free trade zone in a high income market, the strength of production in new high technology areas does nevertheless depend on some explicit government involvement. It is no longer so evident that production will follow on trade measures.

The Andean Pact adopted a more or less diametrically opposed way of encouraging industrial co-operation. Since its purpose was to promote domestic capital in the industrial arena, since foreign firms had a heavy presence in that area, and since, finally, the industrial level of the countries at the time the Pact was established was much below that of OECD member States, the governments resolved to try and promote investment and production first with trade being a somewhat secondary and accompanying measure. It is for this reason that the region focused heavily on harmonisation of foreign investment legislation along with associated industrial property regulations. The aim was to insure a progressive "indigenisation" of industrial ownership throughout the region and thereby

expand locally controlled production. Trade would follow and would, first and foremost, be trade between entities owned by capital from Andean Pact countries themselves. The concept , developed in conditions that contrasted drastically with those pertaining in Western Europe, thus saw the production/trade relationship from quite the opposite angle to that envisaged by the European Community.

The Pact has never been able to carry through its objectives due, among other things, to severe external pressures which have on occasion reinforced centrifugal tendencies within the group itself. The objectives have therefore remained more as an example of what might be conceived rather than as a full-blown working scheme. Public investment in industry also played a quite different role in the Andean context to that of the EEC. Whereas in the latter State firms have always been important, the highly advanced nature of private enterprise has meant that there was no necessity to rely on state investment in order to drive major industries. For the Andean countries this was not at all the case and consequently the involvement of private sector firms was, from the inception, secondary. By the same token, although the restrictive nature was more important than the harmonisation, as noted regarding harmonisation of foreign investment laws, it was thought that domestic capital would be able to handle many industrial branches in which foreign capital was actually or potentially appreciable. The overall picture is therefore as follows: on the EEC side, trade policy harmonisation at the level of zero barriers to intra-group trade was the key, accompanied by progressive liberalisation of laws relating to investment, domestic or foreign. A synergy of national and foreign capital was expected to obtain and within the national structure public sector capital would mostly play a subsidiary role. For the Andean Pact, things started from the assessment that domestic investment for industry required mobilization, that the public sector would have to play a major role therein, that foreign capital and its influence would have to be held in check, and trade liberalisation should come only as part of the growth of locally controlled production. This meant, among other things, that the private sector local interests would not be an instrumental force.

ASEAN has in no sense developed a fully fledged concept of industrial co-operation. As compared with the EEC it has made small steps in the direction of trade liberalisation but without the same size of regional market or level of industrial expertise which the EEC enjoyed. As compared with the Andean Pact, it has not set itself goals regarding industrial investment and as compared with both groups it has not clearly established a common market objective. ASEAN industrial co-operation shares with the EEC a belief in the value of private sector initiatives from local enterprises and has, through in particular the AIJV scheme, sought to ecourage them to operate on a partial or full ASEAN basis. However, there is still no commitment to full development either of a regional industrial market or of intense intra-regional industrial investment in which both public and private sector would participate. Foreign capital is reasonably free to conduct operations within the region (there are, of course, not insignificant variations among members in foreign investment legislation), and ASEAN, like the EEC, does not on the whole feel threatened by external industrial investors.

Consistently enough, then, ASEAN does not have in conceptual, legal or institutional terms any clear cut avenue for developing industry within the region. It is this which surely helps to account for the ad hoc nature of many actions and the fairly limited range they have so far covered. Indeed,

in a sense there is a contradiction between the reliance placed on local private sector initiatives and the absence of an overall framework and time schedule within which such firms can plan. Though it may be argued that larger corporations (often foreign controlled) could be in a better position to take advantage of a detailed framework, it is nevertheless important that ASEAN give more weight to a long-term industrial future of the region. This, in turn, will surely compel an assessment of ASEAN's position vis-à-vis trends in the international system. It is clear from the comments on EEC and the Andean Pact that both of these groupings had a fairly well-defined view of how their economies related to the international system and thus of what was required to either maximize benefits from that system or alter relationships to it. ASEAN is faced with the need to define its view in order to clarify what kinds of industrial co-operation schemes it can develop.

2.1.4. The importance of industry in regional co-operation

Explicitly or implicitly, the guiding concern in co-operation and integration arrangements has been the promotion of the industrial sector. For the EEC this was never explicitly stated, and it is true that meanwhile an unsustainably high proportion of the aggregate Community budget goes towards financing agricultural production and storage. Nevertheless the motor of intra-group expansion has undoubtedly been industrial specialisation; the reason why explicit statements were not made is simply that the whole concept of the Community, as described in the preceding subsection, has been devoted to establishing the conditions for the industrial expansion to take place. In Latin America the statements have been explicit, whether reference is made to the pure trading arrangements (LAFTA and LAIA) or to subregional common markets such as CARICOM and the Andean Pact. More recently, the bilateral accord between Argentina and Brazil has also concentrated for the most part on industry (the exception here being the buildup of food security stocks) and in particular hopes to use capital goods production as a means of extending co-operation. For African countries, too, the regional arrangements have aimed at encouraging industrial transformation, though given the circumstances of these countries this has often been with initial concern for infrastructure support to industry.

ASEAN is no different in this regard. The arrangements it has reached, as borne out by the institutional linkages as well as the particular transactions it has encouraged, have been heavily oriented towards industrial co-operation. This is both an advantage and a disadvantage in the current context. It is an advantage in the sense that there is no need to convince interested parties to pay more attention to industry since that is already being done. But it is a disadvantage in that, after two decades of operation where the industrial sector was treated as the most relevant for co-operation purposes, the frustrations at the apparently limited progress seem to be significant. To the extent that new impetus can be given to industrial measures, co-operation as a whole will be stimulated.

2.1.5. The treatment of less advanced areas within regional arrangements

If there is one dimension in which all other regional groupings, whether European, Latin American or African, have in practice concurred, it is in the special consideration given to regions and/or countries which were felt to be in a weaker position in relation to the group transactions. In Latin America there have, in most cases, been special provisions for poorer countries which

were felt not to be in a position to take full advantage of liberalising measures and which could, on the contrary, suffer from them. In the trade context this special treatment is evidenced in slower schedules for tariff reductions and in some cases the reservation of trade shares for them. On the investment side, the Andean Pact deliberately allocated a couple of key regional industries to industrially less developed countries as an attempt to push them forward very rapidly. In Africa the concern too has been with weaker countries and once again special tariff treatment has been part of the recipe for avoiding the exacerbation of gaps among member States. Within the EEC there have been basically two types of actions. Where countries have felt that they would be disadvantaged by adhering to exactly the same scope and timetable of measures as agreed on by the EEC as a whole, then certain adjustments to the common pattern have been permitted. But there has also been a concern with the spread of industrial inequalities across regions within the Community. Here the approach has been to employ a Regional Development Fund and to make extensive use of the EIB to promote investment in those regions.

ASEAN practice seems to be quite different. There has been apparently no explicit provision for disadvantaged countries or regions and indeed the readiness to permit industrial agreements whose scope is less than that of ASEAN as a whole seems to be an implicit recognition that some countries may prefer to steer away from direct commitments in certain industrial fields. Yet the differences in extent of industrialisation among member countries do in fact influence quite importantly the way in which industrial co-operation is tackled. There is no doubt that Indonesia, accounting for more than one half of the regions's population and with long-term market prospects of great interest to the other members, is striving to strengthen its industrial sector from a starting point which is relatively recent. Not surprisingly, the largest member thus feels reluctant to enter in the near future into arrangements which could make it a large scale buyer from its partners before it was in a position to sell to them. This situation is certainly one for which no direct parallel can be found in the experience of other regional groupings. The normal state of affairs has been that large (if not the largest) countries have been also those which were well-placed to take advantage of group co-operation and that safeguard measures have been required for smaller member States. ASEAN has the opposite problem. Although it has not been directly tackled as yet, it goes to the core of ways in which industrial co-operation can be expanded.

2.1.6. External relations

A simple way to look at the external links of regional groupings is in terms of the attention they pay to reactions and attitudes in the rest of the world. Crudely speaking, the EEC has been able to develop its policies more or less ignoring reactions elsewhere. It is true that some years ago the U.S. was very critical (mainly with respect to agricultural policy) and that developing countries have complained about the distribution of benefits from the successive Lomé Conventions. But the Community has been able to disregard these criticisms and has not made much modification of its policies. In Latin America there have been two kinds of situations. First, the trade liberalisation arrangements which, for the most part, have not brought much response from outside the region (indeed, affiliates of TNCs in the area have on occasion benefitted from these arrangements). Second, the Andean Pact where the foreign pressures were, for the most part, against the policies set forth although foreign firms were able to make use of those policies to

strengthen their own positions. For the African countries, the crucial role of foreign aid in industrialisation has been a decisive factor shaping their external relations. In a word, they have not been able to afford situations of discord with donors.

So the three circumstances have been those of ignoring external responses, a situation of disagreement and abrasiveness, and a framework of maintaining harmonious relations. ASEAN has deliberatley sought to expand links with the rest of the world as part of the emphasis noted earlier on a full participation in international trade and payments. This approach is formalised in the dialogue system, through which , at government and private sector levels, ASEAN groups meet regularly with representatives of the three prominent OECD partners, i.e. Japan, U.S. and EEC. These dialogues seem to be confined, however, to OECD countries; there is, for example, no similar framework for discussion with other Asian countries, e.g. the Republic of Korea. The purpose from the ASEAN side has so far been to seek reciprocal arrangements of a trade and investment character which would strengthen ASEAN participation in OECD markets. To some extent this is needed to compensate for preferential schemes which other developing countries enjoy, e.g. the ACP States in relation to the EEC, but it is also an effort to demonstrate commitment to the liberal trading system which the OECD encourages. The time may now have arrived for ASEAN to seek much more concrete responses from these partners. Certainly more options are required in relation to OECD protectionism; the availability of industrial finance for joint ventures involving ASEAN and foreign participants has so far been limited and needs considerable encouragement; and foreign direct investment, particularly from the EEC, has been weak during the present decade and also needs new approaches. The dialogue system is undoubtedly helpful in providing information on opinions and possibilities but, as with some other aspects of ASEAN policies, it seems much too loose on its own. What the organization needs now are explicit agreements with external groups so as to expand industrial co-operation outside of the region itself.

2.2. International obligations and regional arrangements

There are three areas where international treaties and /or generally accepted norms impinge on the freedom of regional groupings to come to arrangements of an intra-group character. These areas are international trade (through the GATT accords), industrial property (through the Paris Convention), and investment regulations (through the mixture of norms propounded by the OECD along with the ICC prodecures for resolution of disputes). Despite the usual quota of disagreements which are a normal part of the bargaining process, these international conditions have of course presented no problem for the EEC since it is a primary formulator of them. Indeed, so powerful is the grouping that the GATT arrangements were led to making a specific exception to the non-discrimination principle so as to permit the establishment of customs unions. For the Andean Pact, however, the situation has been much more complicated since there has been tremendous pressure regarding both industrial property and investment regulations. In both areas the member States of the Cartagena agreement were seen as violating international norms and pressured to alter their decisions.

Thus far, ASEAN has been in a relatively straightforward position regarding these conditions. With the desire of member countries to participate to the full in international trade there have been few

difficulties on that front. Investment legislation has likewise not been a serious problem even though it is now a topic of considerable debate, particularly with Japan and the EEC. However, the reasons for that debate seem to be much more linked to the general international environment seeking ever greater liberalisation of conditions rather than to specific objections against ASEAN countries. Given that the organization in any case does not have a common policy on this subject, comments from outside must necessarily be directed towards individual member States. The industrial property matter is a more touchy one due to the alleged presence of fairly large-scale counterfeiting in East Asia as a whole. Yet the criticisms against ASEAN countries in this regard seem to be partly misplaced. Available evidence suggests that other Asian economies are a more important source of counterfeiting , that OECD firms object because the counterfeit items are apparently entering into export trade on a growing scale, and because the present period is one of intense technological development in which innovative companies are bound to feel especially sensitive to any instances where their investments in creating fresh processes and products can be undercut. In any event, it is probable that industrial espionage among OECD countries is a more serious threat to retaining a monopoly over innovation than is counterfeiting in the Asia region.

3. Industrial co-operation and investment policies in regional arrangements

This chapter attempts to summarize the main areas in which regional groupings other than ASEAN have sought to extend industrial co-operation. By far the bulk of the material refers to EEC and Latin America, but some references are made to experience in Africa.

3.1. Investment policies

3.1.1. EEC policies related to foreign investment

In the EEC, regulation of foreign direct investment falls within the competence of the member countries. As far as EEC residents (including corporations) are concerned, the national authorities are, however, restricted in exercising that competence by Treaty of Rome Articles 52 (right of establishment), 7 (non-discrimination), and 67 (free capital movements) in connection with the first and second capital directives. In practice, restrictions to foreign direct investment have been progressively dismantled almost Community-wide, not only vis-à-vis EEC residents but also vis-à-vis investors from third countries. Where direct investment still requires permission - such as in Denmark, France (non-EEC investors only), Greece, Ireland, Portugal, and Spain - this is generally granted freely.

Among the more recent legal developments, three may be specifically mentioned:

- In France, the threshold below which foreign investment from non-EEC countries is exempt from prior authorisation has been raised from F 5 million to F 10 million in 1985.

- In Spain, since June 1985 all foreign investments irrespective of the size of companies or the ratio of foreign participation need only to be declared to the authorities for verification and can be taken as approved in the absence of response within 30 days (with the exception of foreign investment in certain "strategic" sectors).

- In Greece, in a major shift of policy, investment by EEC residents was greatly liberalized by Presidential Decree in early 1986.

It is difficult to assess the role of political co-operation in this process. It would appear, though, to have been rather limited. The measures taken are part of a general trend of capital liberalisation observed in Europe since the early 1980s. That trend was supported, first, by the scrapping of the 50-year old system of exchange control in the United Kingdom, a move whose success gave rise to a general reassessment of the utility of the traditional interventionist approach to capital flows. Secondly, liberalisation of foreign direct investment happened to be in line with the increasing preoccupation of European policy-makers with the supply side of their economies. And thirdly, it coincides with the national interest of all European economies in the transfer of know-how and technology from abroad and in the creation of new employment opportunities.

Looking at the legal developments gives only part of the picture, however. Behind the veil of foreign investment laws, administrative practice

vis-à-vis foreign investors shows considerable variance over time and space. A few examples may suffice.

In France policy-makers, regardless of their political colour, have always given priority to creating a strong national industrial base - the definition of "national champions", the support of industrial concentration and the nationalisation of major enterprises were all considered means to that end. The official criteria - the better industrial solution (quality of product, etc.), the better social solution (job guarantees) and the better financial solution (the least state subsidies) - which in theory apply to domestic and foreign investors alike - repeatedly had to yield in favour of a "French connection." At the same time French officials have always voiced their preference for "European" over non-European (in the past US but increasingly today Japan) mergers and acquisitions. In fact, however, the authorities have always been pragmatic when it came to deciding on potential foreign partners for major French enterprises, and the choice was more often based on the expected return to the French economy in terms of access to technological know-how and/or to new markets than on purely "political" considerations. Thus, under President Giscard d'Estaing, Honeywell-Bull, a U.S. subsidiary, was authorized to take control of CII, the ailing French computer manufacturer. At year-end 1986, the state-owned Compagnie Générale d'Electricité CGE (stake: 55.6 per cent) joined forces with the U.S. manufacturer ITT (37 per cent) to establish, with minority participations of Société Générale de Belgique and Crédit Lyonnais, the new telecommunications giant ALCATEL N.V., the second largest telecommunications group in the world. Attempts to sell minority stakes to Federal Republic of Germany (Nixdorf, Bosch) and Spanish (Telefónica) manufacturers failed: ALCATEL is basically a French-U.S. joint venture. There can be no doubt that the envisaged privatisation of 65 state-owned banks and industrial enterprises (expected value: F 200 billion) will again be used by the French authorities to win powerful partners from abroad. In general, they will only be allowed, however, to acquire participations of up to 20 per cent; 80 per cent will be reserved for resident investors (for the acquisition of subsidiaries this threshold does not apply).

The Federal Republic of Germany in principle favours a non-interventionist approach to foreign investment. Yet, there have been instances where the authorities played an active role in cross-border mergers and acquisitions. For instance, when in early 1975, after the sale of a 14 per cent stake in Daimler-Benz AG to Kuwait, the sale of a further stake of 39 per cent from private hands to Iran became a real possibility, the Federal Republic of Germany Government "encouraged" the (private) Deutsche Bank to acquire the participation instead, in order to prevent a foreign domination of this prestigious German enterprise (on the other hand, the Government made no attempt at stopping Iran from acquiring a 25.02 per cent participation in Deutsche Babcock and Wilcox, and 25 per cent stakes each in Fried. Krupp Hüttenwerke AG and Fried. Krupp GmbH). In early 1983, when the state-owned French electronic group Thomson-Brandt, after having taken control of a number of smaller German makers of electronic equipment, wished to acquire Grundig, the renowned (but ailing) German manufacturer, the Government, led by the fear of plant closures and a dominant position of the French firm on the German market, made it clear that it was not prepared to grant the exemption required under the German cartel law; instead Grundig was taken over by Philips, the private Dutch company. Finally, the Federal Republic of Germany Government is presently putting considerable pressure on France to sell to Siemens a 20 per cent stake in Compagnie Générale de Constructions Téléphonique (CGCT), the

state-owned telecommunications group to be privatized in Spring 1987. It appears that German policy-makers have linked the issue with German consent to the ECU 800 million RACE program, a five-year R & D-program in the field of telecommunication proposed by the EEC Commission. Behind the issue is the German firm's interest in gaining access to the highly-protected French telecommunications market (the Dutch Government is no less active in favour of APT, a Dutch-U.S. joint venture of Philips and AT+T based in the Netherlands).

Spain appears to have taken a conscious decision to overcome the large technological gap separating Spanish from foreign technology by having recourse to foreign firms. To quote from a report by the Economist Intelligence Unit (EIU):

> "Foreign firms dominate sectors such as automobiles, electronics, data processing, telecommunications and chemicals. Multinationals are used as a deliberate tool of industrial policy and as such can be expected to strengthen their presence ... One major result of the 'buying in' of technology is that the Iberian states will be much less concerned to protect a national technology industry like France and could thus pose a challenge to many of the other member states via the American and Japanese multinationals they succeed in attracting.
>
> Direct foreign investment in Iberia steadily increased during the run up to EC membership, with Japanese companies very much on the fore. Over the past year or so, Nissan, Suzuki and Fujitsu have joined company with General Motors, AT+T, Daimler-Benz, Bosch, Siemens, Höchst, Rank Xerox and Barclays Bank in the list of companies making new investments in Spain and Portugal. The integration of multinational business into the national economic tissue has become a hallmark of Spanish industrial policy. This mutually beneficial relationship has if anything being reinforced under the mild form of socialism practiced by the González administration, which has cast its national goals in terms of increasing European and world competitivity."

The European Community as such does not give fiscal incentives of any kind. Fiscal incentives are, however, given by member countries for various purposes and in different forms. They are not coordinated, either by the EEC Commission or through inter-governmental co-operation. Member countries have rather always defended their national competence in this field. This uncoordinated approach need not necessarily be considered negative from a Community point of view: competition between different national approaches to taxation may in the long term serve the Community better in stimulating and attracing investment and employment than a harmonised approach.

Financial incentives to enterprises are offered both by the Community and by member countries. On the Community level investment loans are given on normal market terms by

- the European Investment Bank
- the European Economic Community (the New Community Instrument)
- The European Coal and Steel Community
- the European Atomic Energy Community.

Since there is no element of subsidy involved, loans are not considered as financial investment incentives. It must be admitted, though, that the access to funds offered at the terms and conditions the Community itself

enjoys on international financial markets may in fact provide an incentive to investment.

3.1.2. Foreign investment policies in Latin American regional groupings

(i) The Andean Group

Competent national agencies. These are responsible for authorization, registering and monitoring direct foreign investment and approving contracts on transfer of technology and on patents, as well as for signing and monitoring agreements on the conversion of foreign enterprises as provided in the Common Regime for Foreign Capital and Technology.

One important point which has not been settled in the Andean Group is whether policies of foreign investment should be administered by one single agency - which would thus have a multidimensional approach - or by many different agencies. Both alternatives have problems; the first one because it would require a high degree of specialization and should be very powerful in order to be efficient. The second one, on the other hand, could reduce the policy of foreign investment to a discrete series of bureaucratic registrations and make the achievement of more general goals impossible.

Authorization of foreign investment. There are no criteria for restricting the flow of direct foreign investment other than those established by Decision 24 itself and its related provisions and amendments. The general atmosphere is one of openness to foreign capital and there is clearly a willingness to be flexible or, in some cases, to refrain from applying the rules set forth in the Common Régime.

The member countries have not established a clear set of priorities for authorizing foreign investment. The social and economic impact of a project or of a foreign enterprise is used as a point of reference or for purposes of information, but not as a standard for rejecting direct foreign investment. In this regard, there are no specific standards for restricting the setting up of foreign enterprises whose international operations show deficits.

Most of the member countries have exempted enterprises engaged in the exploitation of basic commodities, insurance, banking, financing, transport, tourism and mass communications media from the scope of the Common Régime. The exceptions allowed for the article YY of Decision 24 have been made the general rule. In practice, the Régime is mainly and almost only applied to the manufacturing industry.

There is no discrimination as regards incentives to investment according to the source of the capital concerned. In all member countries foreign investors receive the same treatment as nationals and, when it comes to taxation and/or exchange arrangements, differences are not taken into account. National agencies have not followed common criteria for the authorization of reinvestments by foreign enterprises.

There is no uniform standard with respect to the application of agreements providing for the conversion of foreign enterprises; in practice, the mechanism is hardly ever used. This was considered a fundamental rule of Decision 24 but different developments - not only opposition from the TNCs - have made it almost completely obsolete for net investment.

Registration of direct foreign investment. There are no major differences among member countries as regards the criteria they apply for registration of direct foreign investment. All the countries allow the registration of capital investments in foreign or national currency, capitalization of loans, valuation of tangible goods, reinvestments and capitalization of resources in general. Except in one country the competent national agencies have issued explicit regulations concerning procedures for registration of direct foreign investment. These list in detail the documentation which is required for this purpose. In general terms, all the procedures are very similar.

TNCs' operations and the national economy. The member countries have not regularly applied restrictions on the granting of medium- and long-term internal credit to foreign enterprises, and there is a tendency to eliminate the restrictions established in the Common Régime on this subject. On the other hand, all countries have specific criteria and mechanisms for regulating the arrangement by foreign corporations of external loans from financing agencies or parent companies and/or subsidiaries. However, the compliance with these regulations has not been evaluated.

Although, historically, transfers of profits of foreign corporations have not reached the ceiling of 20 per cent above the amount of investment registered with the competent national agencies, there is a general tendency among the member countries to leave the regulation of this aspect up to national legislation.

The member countries have not been fully enforcing the criteria established with regard to authorization and monitoring of the right to re-export capital.

There are no specific agreements with foreign enterprises in connexion with the purposes, objectives or programmes of global and/or sectoral policies, although some member countries have legal mechanisms for implementing such policies. There are no common mechanisms for regulating new types of contracts with foreign enterprises ("turn-key" contracts, for example). Some member countries have signed documents which violate the provisions of the Common Régime with respect to the application of criteria of extraterritoriality in the settlement of possible conflicts or disputes with foreign corporations.

There are no specific criteria for monitoring the majority participation of national investors in national or mixed enterprises and ensuring that this participation is reflected in the management of production, administration, marketing and finances of these firms.

Changes in Decision 24 made by the Commission of the Cartagena Agreement. From its inception Decision 24 has undergone several changes as a result of decisions taken by the Commission of the Cartagena Agreement. The most significant changes were made in 1976, as the five other signatories tried to prevent Chile from withdrawing from the Andean Group. By Decision 97, the Government of Chile was authorized to sell stock in State enterprises belonging to CORFO to foreign investors. The most important modifications were made by means of Decisions 103, 109 and 110, as follows:

- Creation of special categories of capital: subregional capital is to be considered as national capital when certain specific requirements

are met, and neutral capital, in the case of international public financing agencies or governmental agencies concerned with co-operation for economic development. This category of capital is not to be taken into account in determining the nature of the firm.

- Conversion agreements: the date on which the conversion of foreign firms was to begin was postponed from 30 June 1971 to 1 January 1974. Authorization was also given for the incorporation of new direct foreign investment to national or mixed enterprises provided the enterprise remained at least a mixed one.

- Remittance of profits: the ceiling for transfer was raised from 14 per cent to 20 per cent of registered direct foreign investment. Undistributed gains may be invested as direct foreign investment.

- Reinvestment of capital: the rate of reinvestment permitted was increased from 5 per cent to 7 per cent.

- Access to domestic credit: foreign enterprises were allowed access to long- and medium-term credit on the local financial market. The provision concerning the regulation of short-term credit by each country was eliminated.

The Board of the Cartagena Agreement has not proposed any amendments to Decision 24. In 1983 the Commission, for its part, approved a plan for the reorientation of the Andean integration process, in which eight areas were selected for priority action with a sectoral strategy being formulated for each area. Several of these have to do with direct foreign investment and the transfer of technology, but Decision 24 is not mentioned nor is its current sphere of application affected, even indirectly. In the strategy for the area of financing, investment and payments, it is proposed that efforts should be made to attract external investment "within the framework of Andean legislation" and on terms that are suited to the needs and development priorities of the member countries.

As regards the strategy on science and technology, two policies are included which are relevant to the case of direct foreign investment. On the one hand, reference is made to the need to exercise a joint bargaining capacity and, to this end, to develop evaluation and selection methodologies, including "new techniques for the analysis of technology contracts". On the other hand, reference is made to the need to update regulations regarding patent rights currently in force in the subregion.

Changes in Decision 24 adapted unilaterally by the countries. There are significant differences in the way member countries of the Andean Group conceive and apply Decision 24. Several of these differences actually entailed ad hoc amendments to Decision 24.

Conversion agreements are being applied less and less and some countries have stopped signing them and enforcing them. The countries have been more and more willing to accept the idea - even though it is contrary to Decision 24 - that these contracts are to be applied solely to those firms which wish to benefit from the expanded Andean market.

As regards national jurisdiction over disputes relating to direct foreign investment, two countries have signed agreements with OPIC which, in practice, go beyond this principle established in Article 51 of Decision 24.

The ceilings on the remittance of profits established by Article 37 have been overlooked in several countries, either as a general rule or in specific cases.

The principle of not authorizing direct foreign investment in activities for which the demand is already sufficiently covered (Article 3) has not been generally applied.

As regards the existence of sectors to which the access of direct foreign investment is restricted (Articles 40-44), there have been significant exceptions.

The least controversial areas are the registration of direct foreign investment and transfer of technology, although there are significant differences in the way the relevant rules are applied from one country to another.

Technology. Decision 24 stipulates that all contracts on the importation of technology and on patents and brands - whether or not they involve payment -must be examined and submitted to the competent national authority for approval. This agency is responsible for evaluating the real contribution of the imported technology by estimating its potential profitability and the price of goods which incorporate it or establishing some other specific quantification of the impact of the imported technology.

Decision 84 adds some criteria for evaluating applications for the importation of technology, including the following:

- its impact on local technological development;
- its impact on employment;
- its contribution to national or subregional development plan;
- its impact on the balance of payments and on the generation of income;
- its impact on the environment.

Under Decision 24, clauses providing the following information must be included:

- identification of modalities of transfer of technology;
- contractual value of each element involved;
- determination of the period during which the contact shall be in force.

In addition the authorization of certain types of clauses is forbidden, including those which would entail an obligation to purchase capital goods, intermediate products, raw materials or other technologies from a given source; those which would reserve for sellers the right to fix prices; those which would restrict the volume or structure of production; those which would prohibit the use of competing technologies; those which would establish an option to buy - total or partial - in favour of the supplier or the technology, which would require the buyer of technology to transfer to the suplier any inventions or improvements resulting from the use of such technology; those which would make it obligatory to pay royalties for unused patents; and those which would prohibit or limit the export of products made with the technology concerned, except in exceptional cases, excluding those falling within the sphere of subregional trade or the export of similar products to third countries.

A transfer of technology may not be considered a capital contribution and, in an intra-firm transaction, it does not give rise to a right to receive royalties or tax deductions.

Decision 24 provides that contracts for the licensing of brands may not include any restrictive clauses which would, for example, prohibit or limit the export or sale in certain countries of products made with the brand name; require the use of raw materials, intermediate goods and equipment supplied by the owner of the brand or its affiliates; fix sale or resale prices; require the payment of royalties for unused brands, or require the use, on a permanent basis, of personnel supplied by or designated by the owner of the brand.

Registration of technology contracts. Not all contracts on the importation of technology are registered. In several countries, public sector contracts are either not registered or only partially registered, despite the large number involved. The acquisition of technology incorporated into capital goods is not systematically registered, evaluated or controlled in any country of the Andean Group. This type of transfer of technology undoubtedly accounts for the bulk of payments for technology made by these countries.

In general, it may be said that clauses which are expressly prohibited by Decision 24 have been eliminated from contracts, although there are some exceptions. As regards intra-firm payments, there are no uniform criteria in the subregion for establishing the existence of a dependency relationship between a parent company and a subsidiary. The criteria used generally refer to the holding by the parent company of stock in the subsidiary, and this varies from country to country.

There are very few cases in which technology contracts have been rejected. Several countries provide for a domestic recourse vis-à-vis the authority which is responsible for registering contracts.

Evaluation of contracts and technology. Countries which do register contracts systematically tend to focus their attention on formal aspects, while they only consider the actual purpose of the contract in vague general terms. Up to now, the emphasis of policies on technology has been more quantitative than qualitative in all the countries which do apply registration. Contracts are normally analysed in terms of their cost in foreign exchange, while their actual technological content, in connexion with which Decisions 24 and 84 establish clear and explicit evaluation guidelines, is not analysed in detail, often because the necessary technical means are not available.

Payment for technology. The modalities and magnitudes of payments made abroad for technology contracts vary considerably from country to country. The practice of basing payments on a percentage of net sales, accounts for more than half of all cases in one country and almost two-thirds in another; in a third, it only represents 12 per cent. A second option is that of paying a fixed amount; this has been adopted to varying degrees in the different countries and accounts for one-third of all cases in one country, 19 per cent in other and only 4 per cent in a third. This range may be explained by the different degrees to which the process is centralized in the various countries.

Intra-firm payments for technology imports were not interrupted with Decision 24, although they are prohibited - the publications of the United States Department of Commerce attest to this. Payments are usually low. One

country does not allow such payments and another tends to follow the same approach. There are no subregional criteria concerning the range of payments allowed in connexion with the various economic sectors. In the case of one country, for example, it amounts to between 2 per cent and 3 per cent for the engineering and metal products sector and 2 per cent for the pharmaceutical sector, whereas payments usually are not authorized for the food sector. In some cases, larger payments are authorized as a means of promoting exports. There is no technological justification for this criterion.

Monitoring. There is no evidence of regular and systematic monitoring, in any of the countries, of the performance of obligations. This is particularly true in the case of the actual transfer of the technology concerned. This does not mean that some countries do not closely follow the development of a given number of contracts each year, as in Colombia, for example. In general, no fines have been imposed for non-compliance with contracts.

Extensions of contracts show a certain tendency to reduce their duration, although there are a large number of long-term contracts.

None of the Andean Group countries has conducted long-term evaluations of the effectiveness of the Andean régime for the transfer of technology.

(ii) Caricom

The Common Market Annex of the Treaty of Chaguaramas includes an article calling for a regional policy on foreign investment . According to this article member States "recognize the need for continuing inflows of extra-regional capital and the urgent necessity to promote development in the less developed countries" and declare that they "shall keep under review the question of ownership and control of their resources with a view to increasing the extent of national participation in their economies and working toward the adoption as far as possible of common policy on foreign investment".

A Draft Agreement on foreign investment and the development of technology - inspired by Decision 24 of the Andean Group - was proposed for adoption at the Special Heads of Governments Conference held in St. Lucia in July 1974, but it was not accepted.

(iii) CACM

The 1960 Treaty does not contain any reference to the treatment of foreign firms within the CACM. In 1976 a High Level Committee submitted to the different Governments of the area a draft document which included specific regulations on foreign investment. However, this new treaty has not been approved up till now.

3.1.3. ASEAN policies

Comparison with the experiences of the EEC and the various subregional groupings in Latin America is fairly straightforward. Both of the other regions have sought various types of harmonization, the former through liberalisation measures and the latter via various attempts to obtain preferential arrangements in favor of regional investors. In practice what has happened is that in both continents countries have maintained separate approaches to investment; while in EEC, nevertheless, the trend is towards

putting foreign and domestic investors on an equal basis in front of the law, in Latin America the preference for domestic investors by and large remains.

ASEAN member states are in a similar situation to those of Latin America. The problem in both areas is the same, i.e. to encourage more and more local participation in the industrial sector and the fear is always that TNC investment will overwhelm local producers. Latin America and ASEAN share another characteristic viz that both of them wish to encourage joint ventures with extra-regional participation. Certainly there are plenty of examples of this in the EEC as well, and to some extent for the same reason, i.e. access to foreign technology including organizational know-how; but in the developing country context these ventures also provide inputs of foreign exchange which are generally of lesser relevance in the European framework. The difference between ASEAN and some of the main Latin American experiences comes, as noted earlier in the report, with regard to harmonisation. Even though the Latin American efforts have been limited, there nevertheless has been an attempt to create similar approaches within subregions. In ASEAN this is absolutely not the case and probably cannot be so given the great divergence of circumstances between e.g. Singapore and Indonesia. Yet there is not even a clear agreement on sectors where investment policy could be coordinated, and authorization procedures also differ substantially.[1/]

3.2. Industrial property

3.2.1. EEC

The necessity to deal with industrial property rights became apparent from the very establishment of the EEC. The competence of the member countries to regulate their industrial property rights according to their own priorities and preferences was in principle in conflict with the idea of a unified Community market. In the course of time important initiatives were taken for the major property rights i.e. patents and trade marks.

(i) Patent rights

As early as 1962, a draft agreement on a Community patent was finished. Soon thereafter, however, work under the agreement was discontinued for political reasons (participation of the United Kingdom). When work was resumed in the 1970s, the international Patent Co-operation Treaty (PCT) had been signed and was about to enter into force.

As a result of the analytic work undertaken in the EEC and the EFTA the need for two conventions became apparent, the first of which was to establish a central system for the granting of European patents and was to be open for all European countries whereas the second should deal with certain effects of the European patent within the Community. The conventions were

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1/ See also Peter O'Brien and Herman Muegge, "Problems and Prospects for Intra-ASEAN Investment", article in ASEAN Economic Bulletin, ISEAS, Singapore, November 1987 on basis of note prepared for the Colloquium on ASEAN Economic Co-operation: The Tasks Ahead, organized by the Institute of Southeast Asian Studies, Singapore, 27-28 February 1987.

1. The European Patent Convention (EPC) of December 15, 1975, on the basis of which the European Patent Office (EPO) in Munich was established and which entered into force in 1977;

2. The Community Patent Convention (CPC) on the exercise of patent rights within the EEC which was signed in 1975 but has not yet been ratified by all EEC countries.

According to the OPC the European patent shall be condensed into a single Community patent of a supra-national nature, comparable to a larger national patent. Nomination of an EEC country is considered as the nomination of all EEC countries. Up to now the Community Patent Convention of 1975 has not entered into force because two of the then 9 EEC countries, viz. Denmark and Ireland, have not ratified the Convention. The idea, put forward by the EEC Commission, of setting the Convention into force at least in those member countries which had ratified the agreement, has not turned out to be feasible. According to the view of the President of the EPO, Mr. Braendli, in spite of all efforts the entering into force of the Convention must be judged "with a big question mark".

On the other hand, the granting of a patent through the EPO has become a major element of the protection of industrial property rights in Europe. Since June 1, 1978 one single application entitles the applicant to obtain a patent, according to his choice, in any of the 13 countries who are members of the agreement (Austria, Belgium, France, Federal Republic of Germany, Greece, Italy, Liechtenstein, Luxemburg, The Netherlands, Spain, Sweden, Switzerland and the United Kingdom).

The advantage of this patent system is that with only one single application, submitted in one of the three official languages (English, French and German), a patent based on previous investigation (rather than mere registration) will be granted which in all the Convention member countries named by the applicant is fully equivalent to a national patent. The EPO with its headquarters in Munich and two other offices in The Hague and Berlin has not rendered the national patent offices superfluous. Rather, they and the EPO have different roles to fulfil: the European Patent procedure being relatively expensive - DM 7,000 to 8,000 for a patent - it is generally chosen when in several countries protection is being sought. Regionally more limited protection, say for one or two countries, can be obtained more economically through the national authorities.

As already mentioned, applicants for a European patent are free to make their choice as to which countries should be covered. The average number of states for which protection is sought is now 6.5; this means that the 40,000 annual applications submitted by 13,000 applicants are equivalent to 260,000 national applications. In view of the growing need for research the EPO is increasingly co-operating with the American and the Japanese Patent Offices.

The USA has the largest share in total applications at the EPO (28 per cent), followed by the Federal Republic of Germany (21 per cent), Japan (16 per cent), France (8 per cent), the United Kingdom (7 per cent). More than half of the applications are submitted by medium-sized enterprises (less than 500 employees). In about 70 per cent of the applications the patent is granted. The EPO is able to fully cover its costs by the fees.

An important issue still to be settled is the uniform interpretation and application of the patent norms. As far as the granting of the patent and possible objections are concerned, they are taken care of by the Boards of Appeal of EPO. Pleas of violation and nullity are, however, dealt with by the national courts of the contracting countries. In order to safeguard the unity of the European patent law a European Patent Court is called for. The - not yet ratified - EPC took care of that by establishing a Common Patent Appeal Court (COPAC). The President of EPO has suggested that in case of a failure of the Community Patent Convention the idea of an EPO-COPAC should be further discussed.

(ii) Community trade marks

Following protracted preparatory work - a draft convention on a European trade mark was finished as early as 1964 - major progress with regard to the creation of a Community system of trade marks has been made only since the early 1980s.

Adoption of Community trade mark valid throughout the EEC should not only aid the producers of branded articles but would also help to overcome the fragmentation of the Common Market in as much as trade marks are used to impede or inhibit market access by competitors. The owners of national trade marks have long been able to have their national brand protected abroad. According to the Paris Convention of 1883 a trade mark can be protected through registration with the World Intellectual Property Organization (WIPO). The scope of this registration and the protection offered are however dependant upon the respective trade mark laws of the countries that are members to the Convention. Wide differences in legal provisions have caused major disputes among companies, sometimes leading to lengthy court cases.

Under the envisaged Community trade mark an applicant would be registering with but one trade mark office and in one single procedure acquire a trade mark which offers a uniform protection and is valid throughout the Community.

For the establishment of the Community trade mark two synchronized steps have been proposed by the EEC Commission:

- The Community trade mark would be established through an EEC Regulation directly applicable in the member countries.

- The harmonization of national trade mark legislation shall be accomplished by an EEC Directive. Harmonization should be confined to such national regulations as have the greatest impact on the free trade of goods and services in the Community.

The initial Draft Regulation of 1980 was amended in 1984 to take account of various objections raised. In particular, in view of the multitude of existing trade marks - about 450,000 in the Federal Republic of Germany, 400,000 in France - a precedent of the Community trade mark over national trade marks, such as had been proposed by the EEC Commission, is unlikely to occur. Rather the Community trade mark is likely to be treated as equal with national rights.

The EEC Council (Internal Market) in its meeting of November 3, 1986, has scheduled to adopt both the Regulation and the Directive before the end of

1987 as part of the programme for the realization of the unified European market. A European Community Trade Mark Office (ECTMO) yet to be established will be responsible for the enforcement of the Regulation; in particular it will examine the applications for trade marks and perform all duties concerning the carrying of the trade mark register. Up to now, however, the EEC Commission has not yet been in a position to present a proposal on the domicile and official language of the ECTMO: with the exception of Denmark all member countries have applied to house the Office. The decision on the single offical language is likely to be taken dependent upon the country of domicile of the ECTMO. In spite of these difficulties the Council has voiced its expectation that the new set of regulations and the opening of the ECTMO will enter into force on January 1, 1990.

(iii) Protection against imitated goods from non-Community countries

In December 1986 the Council of Ministers adopted a Regulation aimed at improving the protection of the Community against the rising tide of imitated goods from third countries. Under this Regulation, owners of trade marks may apply to have imitated goods blocked by the customs authorities. If the application is admitted the goods may be confiscated, destroyed or used in such way as is without detrimental effect to the owner of the trade mark. Imitations by enterprises domiciled inside the Community are not covered by this Regulation, nor are violations of patent rights, designs or copyrights.

(iv) Other industrial property rights

Legal protection of new integrated circuits is in many cases less than clear. The level of ingenuity required for a patent may well be lacking. Protection of copyrights or designs is non-existent in various countries within and outside the Community. A Community Directive on the legal protection of original topographies for semi-conductors adopted by the EEC Council late in 1986 is designed to bring relief in these cases. Adoption of the Directive was the pre-condition for the continued protection of European semi-conductors in the United States under the Semi-conductor Chip Protection Act of November 8, 1984. Also, the Commission had argued that certain differences in the national systems of legal protection might produce detrimental effects on the functioning of the Common Market for semi-conductors.

The Directive provides a legal framework on who and what shall be protected, what exclusive rights the protected persons enjoy in order to authorize or prohibit certain acts and over what time protection is given (10 years). Everything else may still be regulated by national law. The Directive generally follows the US model.

3.2.2. Latin American experience

The perspective of Latin American countries towards industrial property has been shaped by their very different industrial conditions. Whereas for the EEC, as a major part of the world involved in invention and innovation, the protection of industrial property rights forms an important element of expansionary industrial strategy, for Latin America the problem has been that of making sure that industrial property registered in the region could be used to stimulate local production without hindrance, and of finding ways to encourage greater innovation by domestic groups. For this reason, the Latin American countries have been active in attempts to alter the Paris Convention in ways which would encourage patent utilization.

As with investment, ASEAN is in fact in a similar situation to Latin America even though member countries have not taken any clear stance on this issue. Two considerations are involved. First, the fact that foreign investors regularly emphasize the existence of industrial property legislation and administrative practice as a crucial stimulus for their investment in developing countries tends to push ASEAN members towards harmonizing their institutions and laws to those set by the international norms. Second, and going to some extent in the opposite direction, is the consideration that encouragement of domestic entrepreneurs may require greater flexibility than the international norms permit. This is a further area where ASEAN policy needs to decide which way things should go.

3.3. Planning for industrial branches

3.3.1. EEC

The European Community does not engage in sectoral planning, nor do - as a rule - its member countries. The only exceptions to this pattern are, to some extent, the coal and steel industries which are subject to the rules and regulations of the ECSC. The experience gained in these sectors is, however, not of much relevance to ASEAN: the Community's activities relate to adjustment measures for declining industries rather than to planning for growth. One - apparently trivial - lesson to be learned from European experience is that basic economic conditions can indeed change completely: when the ECSC Treaty was signed in Paris in 1951, major concern was with the allocation of financial and material resources in a situation of general scarcity, and the Treaty reflects that preoccupation. Any agreement or Treaty, therefore, should be made flexible enough to take account of unforeseen changes in underlying conditions.

3.3.2. Latin American experience

Industrial growth is confronted in Latin America by serious problems, both on the demand (size and structure of the markets) and on the supply side (availability of resources, technology and inputs). One way out of these problems which Latin American countries have taken is the integration of the indutrial productive sectors. The results have not been very successful so far.

(i) CACM

The aim of CACM in this regard was to promote investments in the "integration industries". Those designated as such needed the expanded Central American Market to reach economies of scale in order to operate under competitive conditions. These industries would benefit from the unrestricted opening of member country markets and from the protection against external competition provided by a common external tariff.

Only four "integration industries" have been selected: caustic soda and chlorinated insecticides in Nicaragua; vehicle tires and tubes in Guatemala; and flat and sheet glass in Honduras. The latter never materialized. In fact, the Integration Industries Régime lost its attraction when the General Treaty was approved in 1960, since the latter established the commitment to move on within a short period toward the full liberalization of trade and the adoption of a common external tariff.

(ii) LAFTA/LAIA

The Treaty of Montivideo included a provision for the coordination of national industrialization policies, although the main aim of LAFTA was to form a free trade zone. Complementation agreements were established by industrial sectors as specific programming instruments.

Most of these Complementation Agreements have been nothing else than inter-firm trade specialization by TNCs. Only one of them - No. 6, referring to the petrochemical sector, which was signed by Bolivia, Columbia, Chile and Peru in 1968 - was about net investments and it was intended to serve as a starting point for a Sectoral Industrial Program for the Andean Group.

The LAIA Treaty does not envisage any specific instrument for integration of the industrial sector. The Agreements of Partial Scope are very similar to the old Complementation Agreements and any initiative in the direction of industrial programming within LAIA have to be undertaken through this instrument.

(iii) CARIFTA/CARICOM

CARIFTA/CARICOM has provision for region-wide industrial programming through the selection and location of industries, but this has not yet been fully defined and application of it has been marginal.

Efforts to programme industrial production on a regional basis have been slow and disappointing. The only practical achievement to date has been the allocation by the Eastern Caribbean Common Market (ECCM) of thirty-one industries of which about seven have come on stream in the subregion; no other achievements were registered in the fields of joint promotion of industrial development. The feasibility study of a regional aluminium complex still awaits final decisions by the Governments concerned. At the wider CARICOM level a technical study outlining a framework for regional industrial programming in pursuit of the objectives of Article 46 of the Common Market Annex to the Treaty has only recently been completed. The policy guidelines which were used for the study are the satisfaction of basic needs, foreign exchange earnings or savings, use of regional raw materials, promotion of employment and strengthening of the domestic and export sectors of the regional ecomony.

Recently the CARICOM Council of Ministers has established a Regional Garment and Textile Advisory Committee of eleven persons drawn from the public and private sectors in the Region. The Committee will function as an advisory body to the Common Market Council. It is charged with examining the needs of the industry, in particular in the areas of protection, marketing and technical assistance and with making recommendations to the Common Market Council on what should be done to meet those needs.

(iv) Andean Group

The Andean Group established two main instruments in this regard: The Industrial Rationalization Program (IRP) focusing on existing industry and the Sectoral Industrial Development Programs (SIDP) for programming new investments.

Not a single IRP has been drawn up in the context of the Andean integration process, mainly because of the opposition of existing enterprises.

The SIDPs may be considered sectoral custom unions since they consolidate the expanded market for the products of the programmed sector by fixing the common external tariff for it and liberalizing reciprocal trade in the particular product concerned. They are a planned systematic method of allocating industries among member countries to avoid duplication of production and unnecessary competition. Only selected industries are to be included as programs, and each program will cover one industry, with products within the industry assigned to member countries. Programs are designed to provide favorable tariff preferences and temporary monopolies and semi-monopolies over the manufacture of the products.

It was hoped that through industrial planning the ANCOM members would develop new specialized industries and improve existing ones, thus reducing the need for imports and increasing the amount of exports and employment to the benefit of overall regional development.

The Board of the Agreement drew up eight proposals for SIDPs: in the petrochemical, metal working, automotive, iron and steel, electronics and telecommunications, chemicals, pharmaceuticals and fertilizer sectors. The country members considered feasible the first four. However, only the three first have been approved and the automotive has become obsolete as TNCs are going through an intense re-shaping of the industry on a regional and world basis.

The petrochemical and the metal working programs have experienced several technical and economic problems that have complicated their functioning to such an extent that changes in them are currently being negotiated. The first one has suffered from oil price fluctuations; the second one is the only one which has resulted in exchanges of certain relevance, especially from a qualitative point of view.

The participation of the private sector in the planning process of the metal working program was minimal. Indeed, some of the difficulties later encountered in finding domestic entrepreneurs willing to undertake feasibility studies and invest in the manufacture of products assigned under the program can be traced to the lack of involvement of the private sector in the evolution and implementation of the program. Ultimately it would fall to the technical experts of the Board to draft the outlines of what would become the metal working program.

Product assignation had several problems. On the one hand, high technology products were assigned to countries with the lowest technological capabilities in metal working, in order to give them a "big push". So Bolivia and Ecuador were forced to turn to TNCs not only for technology but as partners. On the other hand, an independent evaluation of the assignations rated quite badly those made to Bolivia and Ecuador, while only around half of the assignations made to Columbia, Chile and Peru were rated as positive.

Regarding the petrochemical agreement, TNCs' pressures exacerbated interstate conflicts by enhancing the nationalistic bargaining behavior of Andean negotiators eager to create national petrochemical industries based on domestic natural gas or petroleum resources. The result of this coincidence of interests and technology was a compromise in the nationality of industrial

planning efforts in the petrochemical sector. The creation of six wholly integrated petrochemical complexes built in production inefficiencies right from the outset.

The Andean countries have also designed other instruments for joint industrial development. They are the Intersectoral Industrial Development Programs and the Integral Development Projects, which have not resulted in tangible results yet. The Board of the Agreement put forward a proposal for organizing programs for the electronics and telecommunications, chemicals and pharmaceutical sectors, but they were not accepted by the countries.

3.4. Promotion of intra-regional enterprises and industrial projects

3.4.1. EEC

In the European Community, a major precondition for the success of any industrial project, whether undertaken individually or jointly with enterprises in other member countries, is generally satisfied (though not yet for public procurement): the commodities produced enjoy guaranteed free access to an internal market of 320 million consumers with an aggregate GDP of US $3,525 billion (1984). The gradual removal of remaining non-tariff barriers to trade is the subject of a joint initiative of member countries to complete the internal market by end-1992, as laid down in the new Article 8A of the EEC Treaty. According to that Article, "the internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this Treaty." Realisation of that objective will be based upon the action programme presented by the EEC Commission in its White Paper of June 15, 1985.

Other approaches to the promotion of intra-EEC industrial projects include in particular the provision of a legal framework for European joint ventures by industrial companies, and the Community, Eureka or bilateral financing of joint research and development activities (see next paragraph). Industrial co-operation across national frontiers, especially in the field of high technology, has assumed a variety of forms. In the early stages - example: Concorde - direct co-operation without a fixed institutional framework was the rule; development and production remained in the hands of the participating firms and were merely coordinated by committees set up for that purpose. In the course of time the need for an appropriate legal and institutional framework became increasingly apparent. A typical example for a solution within the framework of national law is, in the civil sector, the Airbus project: research and development, production and marketing are centrally coordinated or performed by Airbus Industries, GIE, a company under French law established in 1969. In a complementary agreement concluded between the German and French governments - England as the third major partner was not then involved - the obligations and commitments of both sides, especially with respect to the financing of the R & D activities, were laid down. This type of a cooperative arrangement took care of the need for a single decision-making centre. (It should be noted, though, that the Airbus while often being cited as an outstanding example of European industrial co-operation, is not without problems. Its success is not least due to the continuous contributions of the tax-payers who not only had to finance the costs of research and development but have now been moved into the uncomfortable position of having to support a whole industry.)

Notwithstanding this critical situation, the legal construction of this cooperative venture is of interest, since the Commission has copied the French concept of "groupement d'intérêt économique" for the purpose of the European Economic Interest Grouping (EEIG) which is going to enter into force effective July 1, 1989. The purpose of the EEIG is "to facilitate or develop the economic activities of it members and to improve or increase; its purpose is not to make profits for itself." (Article 3 EEIG) Based upon a contract between the participating parties, it is thus a vehicle to enable its members by the temporary pooling of certain resources to develop their own business. Since the purpose of the EEIG is to encourage interstate commercial activity, membership is only available to enterprises from at least two different member states. It is therefore a device for encouraging European joint ventures.

3.4.2. Latin American experience

(i) Andean Group

The countries' interest in encouraging the establishment of some type of mutinational enterprise can be traced back to August 1966 when Columbia, Chile, Venezuela, Ecuador and Peru signed the Declaration of Bogota. This document calls for the adoption of projects in which enterprises and capital of several Latin American countries can participate in order to facilitate the process of integration. Later, when the Cartagena Agreement was signed, it contained a provision to approve a uniform regime for multinational enterprises (Article 28); to recommend the establishment of multinational enterprises for the implementation, expansion or complementation of certain industries which are the subject areas of industrial programming (Article 38); and to establish multinational enterprises which facilitate the development of infrastructure projects in the fields of energy, transportation and communications (Article 86). The first rules of the Andean Group on this subject were contained in Decision 46. However, Decision 46 was unable to stimulate the creation of multinationals: it contained complex and time-consuming rules for the formation and operation of these firms and imposed restrictions on their areas of activity. So, Decision 169 was approved in an attempt to eliminate some rigidities of Decision 46; the firms are now called Andean Multinational Enterprises (AME).

The main characteristics of an AME are set forth in Articles 1 and 2 of Decision 169 and include the following:

(1) AMEs must receive contributions from national investors of two or more member countries and they must total more than 80 per cent of the capital of the enterprise.

(2) Contributions from foreign investors must be less than 20 per cent of the capital of the enterprise.

(3) When the enterprise is capitalized with contributions from only two member countries, the sum of the contributions from the investors of each member country may not be less than 15 per cent of the capital of the enterprise. If there are investors from more than two member countries, the contributions from at least two countries shall meet the above-mentioned requirements. In both cases, investors from the country where the principal place of business is located shall contribute 15 per cent or more of the capital of the enterprise.

(4) The principal place of business shall be located in one of the member countries.

(5) The majority of subregional capital shall be reflected in the technical, administrative, financial and commercial operation of the enterprise.

(6) AMEs located in Bolivia and Ecuador may consist of subregional capital contributions amounting to 60 per cent and foreign capital contributions amounting to 40 per cent for a period of ten years from the establishments of the enterprise, or 15 years from the time Decision 169 becomes effective.

All AMEs may enjoy the following benefits:

(1) The products of an AME shall receive the same tax treatment as an equivalent liberalization programme.

(2) The enterprise shall receive the same tax treatment as an equivalent national enterprise.

(3) The AME shall have access to domestic credit and the same financial treatment as a national enterprise.

(4) The enterprise shall not be required to obtain prior authorization from the appropriate national agency to invest or reinvest in the same country as the principal office. Also in such cases, the net profits of the AMEs shall be transferable in freely convertible currency.

(5) AMEs may establish branch offices inmember countries otherthan the one where the principal office is located.

(6) With the authorization of the appropriate national agency, the AME, or its branch, may participate in sectors reserved for national enterprises.

(7) The branches, with the authorization of the appropriate national agency, may transfer all net profits in freely convertible currency to the principal office.

(8) Foreign and subregional investors in an AME may transfer abroad, with the authorization of the appropriate national agency, all net profits in freely convertible currency.

(9) To avoid double taxation, shareholders of an AME will not be required to pay taxes on the profits received from the branch office which are redistributed to them as dividends by the main office, nor will investment companies which are shareholders in AMEs be required to pay taxes on the income they derive from the redistribution of the AMEs profits.

(10) Member countries shall treat subregional employees of an AME as national empoyees for purposes of the application of foreign labour quotas.

(11) Member countries shall facilitate the entry into their territories of promoters, investors, and executives of such enterprises.

(12) Member countries shall facilitate the contracting of technology, patents and trademarks within the region where the AMEs operate.

(ii) SELA

SELA is a programme of regional co-operation adopted in 1975 by most Latin American countries. The Panama Agreement for the constitution of SELA includes, as one of the objectives of the system, "to improve the allocation of human, natural,technical and financial resources of the region, through the formation and stimulation of Latin American Multinational Enterprises.....Such enterprises can be created with contributions of State, para-state, private or mixed capital, whose national character is to be granted by the Member States, and whose activities are to be subject to their jurisdiction and control". The mechanisms for the promotion of LMA are based on the SELA "Action Committees" created for a variety of sectors. From one of these Committees, in the field of fertilizers, emerged the first and so far the only LMA in 1979. The origin of MULTIFERT S.A. is the work of the "Action Committee" on fertilizers created by SELA with the purpose of exploring and promoting the creation of a commercialization mechanism jointly owned by the Latin American Countries to deal with the regional demand and supply of fertilizers and their raw materials, with the objectives of rationalizing the trade among the countries and carry out joint imports from third countries on the basis of an increased bargaining power. MULTIFERT was created by a treaty among the governments of Bolivia, Costa Rica, Cuba, Guatemala, Mexico, Nicaragua, Panama, Peru and Venezuela. Its headquarters are in Panama and the authorized capital amounts to US $3.75 million.

The basic rationale for the creation of MULTIFERT derived from the critical importance of the agricultural sector in the Latin American economies, and the need to improve its productivity through the increased use of fertilizers. In 1974, Latin American production represented only 46.9 per cent of total consumption. Such external dependence created balance of payments problems and serious vulnerability in a market characterized by strong price oscillations frequently caused by dumping practices on the part of the industrialized countries.

(iii) Latinequip

Latinequip is an incorporated company where shareholders are public sector financial institutions - the Bank of the Province of Buenos Aires, the Bank of the State of Sao Paulo and the Nacional Financiera of Mexico. Its aim is to provide assistance to the exporters of capital goods in the commercialization, financing and technology transfer operations as well as in the establishment of joint ventures. For services supplied to interested companies Latinequip charges a fee to be agreed upon in accordance with the specific characteristics of each operator.

Latin American exports of capital goods reached 2 per cent of the world total in 1982 while regional imports accounted for 7 per cent of the same total. Intra-regioal trade of capital goods, on the other hand, represented something less than 5 per cent of the total market during the same year. Capital goods exports represented 12.5 per cent, 14 per cent and 12.9 per cent

of the production of Argentine, Brazil and Mexico during 1982-1983. In the same year, 56 per cent of Argentine, 49 per cent of Brazilian and 8 per cent of Mexican exports of capital goods were shipped to other developing countries.

The services offered by Latinequip officially include the following:

(a) Periodical survey of regional export supply;

(b) Search and development of markets through a set of commercial offices and/or representatives;

(c) Survey of made to order capital goods' demand. This includes projects financed by multilateral credit institutions; development plans and investment programmes of large government enterprises;

(d) Constitution of consortia among suppliers;

(e) Aid to obtain financing at private and public levels;

(f) Transfer of technology and development of joint ventures;

(g) Negotiation with relevant authorites.

Latinequip entered its operative stage by the end of 1984 and since then only 10 operations for a total value of US $20 million have been fully concluded and signed. Its project portfolio contains almost 600 operations, of which only an undetermined proportion will be carried out.

One major weakness of Latinequip is that it does not operate with the "last fund" modality which is often required in order to develop a commercial operation. Potential buyer often do not know what they need and somebody has to fund preliminary studies even at the risk of losing the money if the deal is finally not closed. In order to be competitive with industrialized countries' traders this requisite must be met.

3.5. Industrial financing

3.5.1. EEC

Within the Community the main mechanism for financing is the European Investment Bank (EIB). This has some tendency towards favoring loans for small and medium-scale enterprises though the criteria it employs are strictly commercial.

3.5.2. Latin American experience

There are four multinational development banks. The InterAmerican Development Bank (IDB), the Central American Bank for Economic Integration (CABEI), the Andean Development Corporation (CAF) and the Caribbean Development Bank (CDB).

(i) CAF

The CAF has approved credit operations for US$572 million from 1971, when it initiated its activities, up to December 1985. It is by far the most

important channel for joint subregional investment and its authorized capital has been recently increased from US$400 to US$1,000 million. During 1983 the CAF approved credits for US$121 million corresponding to 20 operations. With regard to the project distribution by sectors, to industry corresponded something less than a third of the total. The rest of it went to energy (30 per cent), agriculture (16 per cent), transportation (14 per cent) and mining (10 per cent).

(ii) CABEI

The CABEI went into operation in 1961. The CABEI went through a liquidity crisis during the past years and also had political problems, as the country members would not agree on the person of the President of the Bank. In fact, at the end of the 1987-1987 period it was not possible to finance the meeting of the Board of Governors. In February of 1985 the Ordinary Assembly decided to create a Fund for the Economic and Development of Central America, with capital for US$250 million.

(iii) CDB

The CDB operations declined in 1985 back to the 1978 level and the total approved lending reached only US$41 millions, all of them to the public sector and 90 per cent for the development of infrastructure. The industrial sector got 18.5 per cent of that total. Additionally the CDB lent US$7.8 million for new projects in the less developed countries of Caricom.

(iv) IDB

In 1983 the IDB decided to create the Inter-American Investment Corporation, thus providing the region with a complementary mechanism to supply the necessary investment for the private sector's production activities.

Since 1969 the IDB has undertaken a variety of initiatives to implement such a mechanism. At its XXII Annual Meeting, held in 1981, the IDB Board of Governors considered Venezuela's proposal to establish a Multinational Trust Fund for equity ivestments, and the Board Committee was asked to study the plan and consult with member countries interested in the initiative.

Since then the Committee has met several times, because a large number of member countries demonstrated their willingness to participate in the initiative. The negotiations culminated in a meeting of interested parties held in Rome on November 3-4, 1983, during which the text of the Constitutive Agreement of the Inter-American Investment Corporation was signed. All IDB borrowing countries signed the document, as did the United States and Italy, among the Bank's developed member countries. The other member countries had until February 29, 1984, to sign the document if they wished to be included as founding members of the Corporation.

3.6. Technological co-operation

3.6.1. EEC

The member countries of the Community have given explicit attention to technological co-operation only in the last few years. While aggregate expenditure on R & D by member countries has been substantial, the lack of a

Community-wide approach has led to a chronic dispersion of outlays. The implications for actual innovations are not difficult to discover. For example, from 1975 to 1984 in the telecommunications field, the U.S. developed three electronic switching systems, Japan one and European countries six. For all of the European innovations to be profitable, those countries would have to obtain an enormous share of the world market. Since this is almost certainly unattainable, the implication is that investment funds could have been saved and greater competitiveness achieved had there been a coordinated approach to innovation in this field. Similarly, 1984 data show that the EEC spent ECU 53 billion on R & D whereas Japan spent ECU 34 billion; however, the allocation of the latter was almost certainly much more efficient due to the use of those funds within a single coherent innovation strategy.

In the past three years EEC has begun to launch joint programs aimed at a common approach to research and innovation. In 1984 the European Strategic Program for Research on Information Technology (ESPRIT) was approved and a budget was set at ECU 750 million over a five-year period. The money has in fact been fully spent in just half that time and the EEC must now find additional resources to carry through the research. In 1985 a scheme for Basic Research on Industrial Technologies in Europe (BRITE) was accepted with the aim of examining the use of new technologies in traditional industries. The budget was set at ECU 125 million and this research is ongoing. The third area in which the EEC has made a commitment is to a program on Research on Advanced Communication Technologies in Europe (RACE). This is potentially the most important program as its concern is with the realisation of a digital, broad band communications network for the relay of voice, pictures, data and texts on the same line. In October 1986, the Commission of the EEC proposed spending ECU 800 million in a first stage from 1987 to 1991. Decisions on this proposal are to be taken shortly. What is of major significance here is not only the critical nature of the technology itself, but also the fact that an integrated network would require the harmonisation on a continental basis of network planning and management. To accomplish that would mean the acceptance by participating countries of a supra-national regulating authority with power over existing national monopolies. The scientific attempts, therefore, cannot be separated from the extent to which member states are ready to forego degrees of national control.

These recent initiatives are at the level of research and do not tackle the question of innovation as such. In other words, it is still not clear to what extent companies from member states have access to the results. According to the existing time schedules, the real decisions on these matters are only likely to come up around the end of the decade. If this observation is seen in the overall time perspective of the EEC's life, then it is only as the Community enters its fourth decade that the crucial significance of technological research and innovation is being fully recognized at EEC level. As noted earlier in the report, this is undoubtedly connected with the major shift in the nature of international competition which has taken place over the past decade. Unlike Japan, and to a different degree U.S.A., the EEC does not yet possess an adequate organizational structure in which to make the maximun use of innovation resources and results. That task has to be taken up as one of great urgency; the reasons for its tardy beginning are to be found both in the unwillingness of member countries to work together in a key area of competition, as well as in the slowness with which the snift in the nature of international competition was perceived.

3.6.2. Latin American experience

The Cartagena Agreement covers technological policy for the subregion and provides for the establishment of the Andean System of Technological Information (SAIT) and the Andean Programmes of Technological Development (PADT). SAIT functions as a clearing house in the subregion for the exchange of technological information whereas PADT aims at promoting assimilation and development of technology relevant to or appropriate for the subregion.

PADT has since developed a few signigicant technological programmes for the subregion. First, the Andean Project for Technological Development in Copper Hydrometallurgy was approved. This was designed to step up the transfer and adaptation of technologies for copper extraction by acid solution and bybacterian-acid process, and recuperation through ion exchange and electrode position. The project was also involved in the training of qualified personnel a well as in adapting and integrating the advanced equipment and technology from the transnational corporations for regional application. The main beneficiaries of this project are the copper-producing members, Bolivia and Peru.

Secondly, the Andean Forest Project was set up with a view to conducting research and disseminating knowledge in regard to the timber and other forest resources in the subregion. Work on testing various forest species has been carried out and new technology for timber exploitation has been developed. Specifically the Andean Laboratory of Wood Engineering was founded in Lima and the Andean System of Classification of Structural Wood was developed.

Thirdly, the Andean Project of Food Technology was approved by Decision 126 of the Agreement. The project has five programmes designed to carry out research on the production, marketing and consumption of food in the subregion with a view to developing food of high nutritional value and low cost for groups such as children and pregnant women.

Finally, a programme for promoting social and economic development of the rural environment has been set by PADT. The programme is charged with the generation and transfer of technology related to the development of a sound rural environment.

Apart from activities within the two formal organizations, SAIT and PADT, regional technological co-operation as provided by the Cartagena Agreement also includes appropriate legislations for marketing technology, patent rights and the legal aspects of technology transfer from outside the subregion.

More recently the bilateral agreement between Argentina and Brazil has paid some attention to the technology question. First, the strong emphasis on capital goods, manifested in the creation of a customs union between the two countries in this sector, along with an investment fund to stimulate production in one or the other country in the event of major imbalances in bilateral trade, is itself tied up with technological advance since the capital goods area is one where innovation is currently rapid. Second, the agreement contains protocols for the promotion of biotechnology, co-operation in the aerospace industry with a view to developing joint export potential, and co-operation in energy development. Third, although agreement has not been reached as of now, the two countries have also been examining the

possibilities of joint work in such areas as chemicals, plastics petrochemicals and electronics. Consequently the technology orientation of this new initiative is quite marked and it seems probable that this component will become stronger as the implementation of the accord develops.

3.7. Government procurement policies

3.7.1. EEC

In many industrial branches, particularly those where heavy industry and large-scale projects are involved, the public sector tends to provide a major part of aggregate demand. Traditionally the Community countries have operated within highly compartmentalized markets in that public funds have been oriented preferentially towards industrial items and services produced within the home country. This has been seen as a means of encouraging local production and of avoiding large-scale outflows of foreign exchange. With the present strong tendency towards internationalisation of all aspects of markets, the EEC is now considering switching from the national procurement basis to a Community procurement basis. In other words Community suppliers would be able to compete on an equal basis with national suppliers for public procurement contracts offered by any one of the member countries. This shift is in line with one of the central items on the list for negotiation in the current Montevideo round of trade discussions under the aegis of GATT. Indeed, it is perhaps the principal point of disagreement between the draft proposed jointly by Brazil and India as representing a main strand of developing country thinking, as against the draft supported by OECD countries. The thrust of the latter is to create open markets for public procurement; it is no accident that opposition is headed by two of the developing countries which have gone furthest in terms of widening and deepening their industrial structures, and in which purchases with public funds regularly occur on a huge scale. The EEC aim, which is one part of the program launched in 1985 by the Council of Ministers to achieve a unified continental market by 1992, steers to some extent an intermediate line. It opens markets yet limits the opening to the common border as set by the customs union.

3.7.2. Latin American experience

It is scarcely surprising that Latin American countries have been concerned with the issue of public procurement since it is estimated that bout 40% of Latin American imports at the beginning of this decade were due to State purchases. Given the weight of public entities in the investments for infra-structure and heavy industry, and the strong bias towards using relatively advanced foreign suppliers to provide the relevant goods, the result is a heavy outflow of foreign exchange in a region where shortages are notorious. In effect, whatever governments may have wished to do with public investment funds, the fact is that they have not been used in a systematic way to promote domestic industrial expansion.

At various times and in diverse fora political support for the creation of some kind of preferences in favor of regional suppliers has been mooted. Indeed the subject has been on the agenda in LAIA discussions. As of now, however, no specific results are available. The issues under consideration in LAIA are as follows: incentives and preferences; information systems; organization of supply; financial conditions; and periodic evaluations of

supply possibilities. The scant progress in such a crucial area is perhaps an indicator of the difficulties that Latin American regional groupings have had faced with the double pressures of supporting national firms as against firms elsewhere in the region and of encouraging their firms in the face of international pressures to open their markets to fully competitive bidding. It is, nevertheless, an area where the establishment of common norms could be of considerable importance; bearing in mind the EEC aim of creating a Community procurement market, and assuming that this aim will be achieved despite strong opposition from U.S., it may be appropriate for Latin American countries to try and achieve the same type of arrangement.

3.8. Special support to industries and regions

3.8.1. EEC

The rapid growth of national subsidies has since long aroused the suspicion of the EEC Commission. Whereas the member countries of the Community are in principle free to grant whatever aids they deem necessary, they are subject to limitations whenever intra-EEC trade is affected by these measures. In fact, Article 92 of the Treaty of Rome declares incompatible with the common market "any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods ... in so far as it affects trade between Member states."

This definition excludes general measures that do not favour certain undertakings but affect all undertakings equally, such as global fiscal incentives, global stimulative measures within a policy of demand management or incentives to research and development. Moreover, Article 92.2 defines a set of automatic exemptions, viz. social aid granted to individual consumers, aids intended to remedy damage caused by natural calamities or other extraordinary events and - within limits - aids granted to certain regions suffering from the division of Germany. In addition, according to Article 92.2, the following aids only may be deemed compatible, upon decision of the EEC Commission, with the Common Market:

- Aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious unemployment;

- Aid to promote the execution of important projects of common European interest or to remedy a serious disturbance in the economy of a member state;

- Aid to facilitate the development of certain economic activities or of certain economic areas where they do not adversely affect trading conditions to an extent contrary to the common interest;

- Such other categories of aid as the Council, acting on a proposal from the Commission, may specify (used only once so far for aid to shipbuilding).

In order to be able to exercise its competence, the Commission must be informed of all plans to grant or alter the granting of aid in sufficient time to enable it to submit its comments. Member countries must not grant the aid without the Commission's consent (Article 93.3). In cases of doubt the

Commission opens a formal procedure under Article 93.2, in the course of which all parties concerned - including governments and competing enterprises of other member countries - may present their comments. If the Commissioner finds that any aid granted by a State or by means of State resources is not compatible with the Common Market or that such aid is applied in an improper manner, it shall decide that the State concerned shall abolish or modify such aid within a given period of time. Aids that are found to be unjustified and that have been paid out already, must be paid back. In cases of doubt, parties may refer to the European Court of Justice whose ruling is final.

State aid is defined rather widely under the EEC Treaty and encompasses not only direct transfers but also loans provided at subsidized rates by public banks, state guarantees, the covering of losses of state-owned enterprises and aid granted by regional and local authorities. In the past years the EEC Commission has increasingly reacted to the flood of national subsidies. The Commission, as matter of principle, rejects the granting of such aids as are given to support and maintain unprofitable enterprises or which would have the consequence of increasing productive capacity in crisis industries. It authorizes only such aids as are given within a programme of reducing over-capacity or which, without leading to an increase of capacity, serve to rationalize production or to diversify into new and profitable activities. Even these aids are authorized only if they are made degressive and their duration is limited. The Commission is open also to the support of research and development since it is of the opinion that with respect to new products not yet available at the market the danger of discrimination is limited.

In order to get more light into the national practices of subsidization the Commission in accordance with the Directive of June 25, 1980, on the transparancy of financial relations between member countries and public enterprises has requested the national governments to provide detailed information on the financial operations between the states and public enterprises in the following sectors: transport equipment, chemical fibres, textile machinery, shipbuilding, tobacco goods. Response to this request was delayed and in many cases insufficient. There can be no doubt, however, that the Commission, with the support of some members and - in case of need - the European Court of Justice will pursue that approach further. On 24 July 1985, the Commission adopted a second Directive which widens the scope of action to include public enterprises in the sectors of energy, water, postal services and telecommunicaitons, transport, and public financial institutions. These sectors had been exempted in the first Directive.

Also, in 1983 the Commission requested the member countries to submit an inventory of all aids granted to enterprises in the textile and clothing industry in the years 1980-1982. Again response by the member countries was lukewarm. Governments generally submitted only incomplete information, and this only after major delays. This again demonstrates the problems of a joint approach to financial incentives in a situation, where all member countries are facing serious macroeconomic and sectoral problems. If the Commission has nevertheless been at least partly successful, this was due to the unequivocal and binding rules of the EEC Treaty, the authority accorded to the Commission by the Treaty and the presence of the European Court of Justice which is respected by all member countries as a final authority. These can be no doubt that an approach based on inter-governmental co-operation would be bound to fail.

Table 1: Measures of the EEC Commission Pursuant to Article 93.2 of the EEC Treaty a/, 1981 - 1985 b/

	Number of aid projects submitted	Measures of the Commission				Projects submitted but later withdrawn by member countries
		No objection	Initiation of the procedure under Article 93.2a	Suspension of procedure under Article 93.2a/c/	Final decision under Article 93.2 a/	
1981	92	79	30	19	14	-
	(16)	(11)	(9)	(4)		
1982	200	104	86	30	13	-
	(81)	(25)	(56)	(13)	(-1)	
1983	174	101	55	18	21	9
	(4)	18)			(9)	
1984	162	201	58	34	21	6
	(10)	(66)	(1)			
1985	133	102	38	31	7	11
	(7)	(21)	(1)			

Source: Kommission des Europäisches Gemeinschaften, 15 Bericht über die Wettbewerbspolitik (1985), Brüssel 1986, par. 170.

a/ Article 8.3 of the Decision 2320/81/ECSC.
b/ Excluding aids to the agricultural and transport sectors.
c/ Usually cases where, in the course of the procedure, amendments were made to make the aid compatible with the Common Market.

3.8.2. Latin American experience

All integration schemes in Latin America grant special treatment to the relatively less developed countries. The rationale for this is the acknowledgement of the broad economic differences that exist among the different country members of each regional arrangement and the belief that integration should serve to reduce their disparities. If it there were no report prepared for less developed countries it is very probable they would not be able to offset the costs generated by trade diversion stemming from their participation in the integration process. On the other hand, external economics favor the more industrialized countries as the site for integration investment. In order to ensure the less developed countries' continued will to participate in the integration process they have to realize that the distribution of costs and benefits among the members of the integrations group corresponds to their expectations. It is not easy to formulate a precise definition of what constitutes a less developed country but the socioeconomic indicators most often used to compare development are the gross domestic product, the degree of industrialization, the degree of urbanization and life expectancy at birth.

The tools most frequently used by the integration schemes in Latin America to benefit the less developed countriess include the following:

(a) Trade instruments (lists of non-exclusive concessions, privileged access to the markets of the more developed countries, exclusive margins of preference, and temporary exemptions from the Common External Tariff);

(b) Industrial planning (integration industries, exclusive production rights in sectoral programs for industrial development, and industrial modernization and streamlining);

(c) Financial instruments (preferential allocation of resources through subregional and regional banks);

(d) Tax instruments (special tax incentives for industries that locate in less developed countries);

(e) Preferential treatment in the agricultural sector (assignment of investment priorities and margins of preference for less developed countries agricultural products); and

(f) Physical infrastructure and communications planning (measures to stimulate highway and telecommunications systems).

How these instruments are employed in each scheme is discussed in more detail below.

(i) CACM

In the CACM, the principle of balanced development has been affirmed in a series of declarations and resolutions by the integration organizations and in secondary instruments of the General Treaty of 1960, although it was not specifically mentioned in the basic agreement.

In September 1966 a Protocol to the Central American Agreement on Fiscal Incentives for Industrial Development was signed, known as the Protocol on Preferential Treatment for Honduras, which went into effect in March 1969 - three months before the unfortunate rupture in diplomatic relations between Honduras and El Salvador. This Protocol is the only instrument expressly written and ratified within the CACM to benefit a relatively less developed country.

In January 1971 Honduras withdrew from the Central American Free Trade Zone, reestablishing tariff barriers for its subregional trade and unilaterally modifying the Central American Agreement on Import Duties and some of its protocols. Honduras switched from its original multilateral commitment with the rest of the Common Market countries to bilateral trade agreements with the three countries with whom it maintained diplomatic relations during the 1970's and with El Salvador after 1981. Through these bilateral agreements, Honduras is receiving, at least in part, the preferential treatment sought when it was part of the Free Trade Zone.

The Central American Bank for Economic Integration, created to facilitate financing for projects emerging from the integration process, gave relative priority to projects located in Honduras, thus becoming the most successful of the above measures favoring less developed countries in the Central American Common Market.

To date efforts in the CACM to benefit the less developed countries have been rather limited, and the results have not been satisfactory, as SIECA has noted in its evaluation of the first decade of the integration process. According to SIECA, the Common Market "did not permit the principle of balanced development to be put fully into practice", which has contributed, among other things, to the current decline of the integration system.

(ii) LAIA

The specific mechanisms established by the Treaty of Montevideo of 1980 to benefit the less developed countries are the following:

(a) opening the markets of the medium and more developed countries to less developed countries products, preferably of an industrial nature;

(b) the negotiation of Special Cooperation Programs; and

(c) establishment of the Office for Economic Promotion within the Secretariat to encourage the full participation of the less developed countries.

Furthermore,the LAIA system provides for special treatment through the regional tariff preference and the automatic extension of the concessions granted in the trade agreements on specific topics.

With regard to measures designed to increase exports of goods from the less developed countries - point (a) - regional agreements were signed containing lists of products from the less developed countries whose entrance to the markets of the integration group would be facilitated in compliance with Article 18 of the Treaty of Montevideo of 1980. These agreements include 212 products from Bolivia, 154 from Ecuador, and 242 from Paraguay, 70 per cent of which may be generally considered traditional industrial products (foodstuffs, te tiles, leather and wood manufactures, ceramics, and vegetable oils). These lists will be progressively broadened according to procedures and at times to be determined by the member countries, and they are considered to be an improvement over the previous arrangements within LAFTA.

Special Cooperation Programs - point (b) - may include:

(a) marketing, pre-feasibility, and feasibility studies for new business ventures or the expansion of existing firms;

(b) the promotion of Latin American multinational enterprises for the production and marketing of products included in the market opening lists;

(c) co-operation in technology and management; and

(d) collaboration on projects of common interest in the areas of financing, technical assistance, the acquisition of machinery and equipment, and access to third country markets.

The Office for Economic Promotion in the General Secretariat of the Association - point (c) - was created with the primary goal of providing less developed countries with the necessary information and adequate technical

alternatives to take advantage of the opportunities offered by the market opening lists for expanding their productive activities. Similarly, it should be noted that an evaluation of the support system for the less developed countries and the adoption of measures for its more effective application are included as part of the specific functions of the Evaluation and Convergence Conference.

LAIA is still in the process of formalizing the special mechanisms in support of the less developed countries envisaged by the Treaty. In fact, in 1983 regional market opening agreements were signed and went into effect. In addition, two special co-operation programs for Bolivia were also ratified. Similarly, the Office for Economic Promotion now has a co-operation program for Bolivia, Ecuador, and Paraguay consisting of studies emphasizing the identification fo export, industrial complementation and financing projects.

(iii) CARICOM

The principle elements of this preferential treatment granted to less developed countries are the following:

(a) the less developed countries were granted greater flexibility in adopting the instruments for intraregional trade liberalization - that is, more time and fewer requirements toreduce their tariffs with respect to intraregional trade;

(b) the level of external protection applied by the relatively less developed coutries was taken into account in the formulation of the Common Externai Tariff of the Communityin o:der not to damage the economies of these countries when they joined the community;

(c) special regulations were adopted to protect certain industries in the less developed countries;

(d) it was stipulated that the exclusionary clause could not be applied to goods from the less developed countries (this clause permits the adoption of temporary restrictions on intraregional imports when a member country is experiencing balance of paymen.s difficulties);

(e) les.s developed countries were granted preferential funding from the Caribbean Development Bank; and

(f) similarly, they were given special consideration in CARICOM 's sectoral programs.

In addition to receiving the above preferential treatment, the less developed countries have their own institutions for mutual co-operation and coordination of their activities vis-à-vis the rest of the Community. The Organization of East Caribbean States (OECS), founded i .981, is the principal organ of the relatively less developed islands of the Caribbean Community and supersedes the West Indies Associated States (WIAS). The main areas of OEAS activity are:

(a) the promotion of economic integration through the East Caribbean Common Market, in which mechanisms for intraregional trade liberalization and the coordination of external tariffs have been developed;

(b) the issue of regional currency through the East Caribbean Currency Authority (ECCA), as well as the establishment of a regional central bank;

(c) the coordination of judicial institutions through the Supreme Court of the West Indies Associated States;

(d) the coordination of civil aviation through the Directorate of Civil Aviation;

(e) the establishment of joint embassies and trade offices; and

(f) co-operation in production and in the provision of joint services.

The less developed countries have certainly profited from their participation in CARICOM, especially in the areas of functional co-operation, such as health, education, nutrition, meteorology, technical and cultural training, etc. Similarly, these countries have received the benefits of co-operation from the coordination, both commercial and diplomatic, of the foreign affairs of the CARICOM nations. Moreover, the less developed countries benefit from the services of regional organizations for air and maritime transport and agricultural and industrial promotion, as well as the Caribbean Development Bank. It should be noted that during the 1970's, the less developed countries received six times more resources per capita from the Caribbean Development Bank than the more developed countries.

Furthermore, the subregional institutions created by the less developed countries have been somewhat successful. In addition to the joint services rendered by these institutions, the adoption of a subregional industrial program should be mentioned, in which 31 industries have been identified, 7 of which are now in operation.

(iv) Andean Group

The Cartagena Agreement stipulates the promotion of a balanced and harmonious development of its member countries. To achieve this goal the Agreement conceives a package of mechanisms designed to make possible the equitable distribution of integration's benefits in order to bring about a gradual reduction in the existing differences in development among its member countries. Thus, the Agreement contains a Special Regime for Bolivia and Ecuador to help these countries attain a faster rate of economic development.

The Special Regime provided for by the Andean countries includes the following:

(a) a set of trade regulations designed to establish temporary margins of preference favoring both countries, in order to stimulate trade with the rest of the Group;

(b) a set of preferential regulations in the industrial area, reserving to Bolivia and Ecuador the exclusive rights over goods not currently produced in other member countries, as well as more favorable treatment in the sectoral programs for industrial development and the industrial modernization and streamlining programs;

(c) a commitment to joint action in negotiations with the Andean Development Corporation and other national and international organizations regarding technical assistance and financing for projects in Bolivia and Ecuador; and

(d) The granting of concessions and the consideration of special circumstances in the harmonization of policies (such as the handling of foreign capital and regulations for multinational Andean enterprises), and other areas of the integration process.

The Special Regime for the Andean less developed countries has had very little effect and has not lived up to initial expectations. In the area of trade, the total abrogation of tariffs by Colombia, Peru, and Venezuela on a series of products of special interest to the less developed countries and the total exemption from duties for both countries with regard to all other tariffs - except for products included in the mechanisms for industrial planning - had a positive impact on both countries' exports to the Group; nevertheless, Ecuador benefitted substantially more. In fact, in 1982 Ecuador became one of the main exporters of traditional and non-traditional products to the subregion.

Industrial planning, which had held great promise as an equalizer of cost and benefit distribution, specifically for the less developed countries, had minimal effects in Ecuador and virtually none in Bolivia. A decade after the Cartagena Agreement went into effect, only two of the eleven projects assigned to Bolivia and six of the fifteen projects planned for Ecuador in the metalworking program were in operation.

With regard to special financial treatment, even though the Andean Development Corporation and the Andean Reserve Fund channeled their resources preferentially to assist those two countries, the results were barely significant, due to the limited capital resources of both institutions.

In order to facilitate the implementation of Bolivia's sectoral programs for industrial development, the Cartagena Agreement Commission approved a Special Assistance Program for Bolivia; this Program was to have been carried out through five major projects, but these have not yielded satisfactory results either.

The Commission in its document on a reorientation plan for the Andean integration process, points to the following as the principal causes for the limited application of the Special Regime:

(a) the inability of the productive structure of the five countries to assimilate the changes required by the integration process and put the principles of regional solidarity into practice;

(b) the fragmentary application of the mechanisms comprising the Special Regime and the delay in the application of the preferential measures;

(c) the failure of the other members of the Agreement to follow through on their commitments, which adversely affected the exclusivity of the concessions granted to Bolivia and Ecuador;

(d) the limited capacity to develop, start up, and administer projects in two countries;

(e) the economic and financial difficulties of the subregion, aggravated by the international crises; and

(f) the limited infrastructure and transport services within the subregion, especially in Bolivia.

After evaluating the results of the assistance program for Bolivia and Ecuador, the Cartagena Agreement Commission proposed a new system of subregional co-operation, based on the development of specific integration projects in both countries and aimed at increasing and diversifying exports to both the subregional and third country markets. At the same time special measures to aid Bolivia, as well as other steps to guarantee compliance with commitments made by the larger countries were taken.

4. Regional policy considerations in ASEAN

4.1. The perspective on industrialisation

The material described in Chapters 2 and 3 indicates that in all regional groupings the promotion of industry has been seen as the major force for transformation of the constituent economies. Furthermore, in their early stages these groups emphasized development of what were, for their time, advanced industries. In the EEC case that meant coal and steel and in the Latin American examples the promotion of capital goods, petrochemicals and other branches. Much less attention has been given to more traditional activities such as textiles and food processing (even though the former has received substantial support from national governments in the EEC). Now it is frequently argued, usually on the grounds of short-run cost efficiency, that developing countries would do better to specialize in production of these items since they are held to correspond more closely with available resources in those countries. It would seem, therefore, as if an underlying concern in regional arrangements has been to strive for industrial structures which diverge from those that might be obtained if international market considerations were strictly followed. In Latin America the theme seems to have been for the creation of industries making producer goods rather than consumer goods (admittedly, this aim has been more honored in the breach than in the observance).

The relevance of these observations to the ASEAN situation is clear enough. Member countries have, with limited exceptions, sought to develop industry in ways more closely matching trends in international markets. In so doing ASEAN experience has diverged sharply from Latin American, thereby avoiding many problems but also leaving open the question of the extent to which ASEAN countries, individually and collectively, see the need and desirability of building industrial systems where, for the systems as a whole, the local content of capital goods is relatively high. It may be cogently argued that this approach has been a sensible one during the expansionary phase of the international economy, and indeed that by so doing countries of the region minimized the costs imposed on them during the more recent phase of severe cutbacks to growth. The problem, however, is whether a similar perspective is appropriate to the current and likely future situation and whether community policies are an appropriate vehicle for carrying out whatever strategy is determined.

If ASEAN were to decide that specific investments should be made in industries where, as of now, member countries do not possess cost or other major advantages as production locations, then regional measures to carry out those investments would be required. To follow the Andean Pact example would imply the allocation of production in one or two locations only with concomitant removal of barriers to trade for those products within the regional group. To some extent this approach was used with the AIC scheme but did not seem to go very far. A revival of such a scheme, or a variant of it, would be tantamount to a decision in favor of a relatively strong planning and allocation system. Countries would have to be prepared to share the excess costs involved, to share the risks, to fully accept the allocation decisions made, and to keep together in the face of probable external pressures to alter the approach. To list these necessary conditions is to recognize that, for the most part, they fly in the face of the explicit and implicit premises which have guided ASEAN actions so far. While member countries have been ready to make investments not governed by short-run price and cost

considerations, they have done so on an individual country basis rather than a group one. At no time has any country indicated much willingness to accept decisions from any supra-national entity, and the prospect of significant conflict with external partners has never been relished.

What would be the situation if ASEAN decided against any strong production allocation mechanism within the region? This lower profile perspective, in keeping with ASEAN's behavior so far, would of course keep open several possibilities for industrial co-operation. The focus would be on exchanges of information, joint training schemes, to some extent joint investments where market conditions justified them, and on a harmonised position in international discussions relating to those industrial branches. Hence to an important degree, the goals set for industry and above all industrial structure are inevitably reflected in the mechanisms and methods of co-operation actually chosen. Up till now the ASEAN approach has been internally consistent in that it has sought to provide various frameworks in which local industrial groups, public and private, have been able to carry out their operations without any large-scale decisions, without the establishment of sizeable bureaucracies, and without much overt conflict with external groups having important interests in the region.

Consideration has, however, been given to the pursuance - during an intermediate period - of a subsectoral approach towards greater ASEAN economic and industrial co-operation. This approach implies that member countries would accord preferential trade treatment and investment incentives to a selected industrial subsector as a whole (and not only on individual product basis as presently under the PTA scheme or in the case of the AIJV projects). These subsectors could be such where there is relatively little or no production in the region as yet. Many subsectors under the group of engineering industries (capital goods) could be considered in this context. The subsectoral approach would have the advantage over the product approach practiced at present (under the PTA and AIJV schemes) in that it would not require case to case negotiations. In order for the subsectoral approach to be effective it would be necessary to have a concerted investment programme for the region which would support development of the subsector investment on a long-term equitable basis in the respective ASEAN countries. The importance, in particular in respect of producer goods subsectors such as that of capital goods, to produce at competitive costs would be borne in mind and the external tariffs should be (gradually) reduced to levels as low as possible.

It is not the purpose of this report to argue in favor of one or the other of these approaches since that is perhaps the most fundamental decision that member countries themselves must reach. However, the report can try to emphasize two things, viz. the prevailing circumstances in which a decision has to be reached, and the types of co-operation schemes which could be relevant under one or the other approach. On the first matter the main points are as follows. To begin with, countries that direct industrial production strongly towards exports are operating in an environment where protectionism in the main OECD markets is rife, where changes in technological processes are rapidly altering not only cost relationships as between different locations but also whole systems of manufacture, where demand conditions seem to be quite volatile and place a heavy premium on quality improvements, and where it is frequently found that several would-be exporters are engaged in fierce competition among themselves. These points, taken singly or together, do not of course amount to an argument against this type of production. What they do mean, nevertheless, is that very careful choices regarding processes, products

and markets have to be made otherwise investments will certainly make losses. To the extent that ASEAN followed such a route, there would seem to be a good prima facie case for establishing agile region-wide information, market analysis and project evaluation mechanisms. From the same perspective, it has occasionally been suggested that ASEAN countries were moving to a situation where they could "take over" some of the export branches where other Asian countries have performed so successfully over the last years. On this point considerable caution seems to be necessary. Where the industries in question are of the heavier type e.g. shipbuilding or iron and steel, international markets are now depressed, substantial and relatively unused production capacity is in place, and ASEAN countries do not have the industrial traditions which easily lend themselves to this type of production. Moreover, the strong state support given in Japan, the Republic of Korea and the Province of Taiwan, also do not fit too easily with the normal frames of industrial policy in ASEAN. In those instances where the argument of "taking over" refers to lighter kinds of industrial production, particularly consumer electronics, caution is again required since these fields are precisely the subject of extremely quick shifts in supply and demand conditions and thus where relatively inexperienced producers may have a tough time establishing themselves. The tentative conclusion is thus that member countries might do better, under the perspective mentioned earlier, to try and strengthen their position in those manufacturing activities where they have something distinctive to sell including agro-based and mineral based production and/or labour intensive activities such as fabrication of rattan goods, polishing of gems, some branches of ceramic work, high value textile materials and so on.[1/]

The risks of a radical shift of ASEAN perspectives in the direction of a "preferred industrial structure" approach are likewise substantial. Here the investments tend to be large, with long gestation periods, requiring significant inputs of skilled people, with technologies that are also shifting quite rapidly, and where the private sector, so important in the ASEAN context, would almost certainly require substantial public backing before engaging in such ventures. Unlike the first approach described above, the goods produced would have to be sold, in large measure, within ASEAN itself rather than on international markets; as hinted above, the pressures for intra-group market harmonisation would thus become much greater. Competition among firms of member countries would be limited via the decisions on promotion of particular industrial branch investments. The subsector approach indicated above might provide the needed impetus for a gradual development towards a "preferred industrial structure" with initial focus on production of producer goods such as machinery and other capital goods.

In summary then either perspective is by no means devoid of risks. Both of them require careful project choices and both can benefit from appreciable degrees of harmonisation in member country activities. Nevertheless the orientations are markedly different. One tries to shift the most important activities to third markets rather than the region itself, places emphasis on areas where private sector involvement is relatively intensive, and does not put a heavy burden to the formation of group level policies and institutions. The second perspective tends to do the opposite under each of these headings. It follows that the former method generally disguises conflicts, both within

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1/ In this connexion note may be taken of the very interesting on-going UNIDO assistance project, under COIME, entitled "Innovation of Handicraft Products through Appropriate Training and Technology" (DP/RAS/84/028).

the region and vis-à-vis third countries, while the latter definitely raises the prospect of disagreements both intra-group and with other parts of the world. It is for these reasons, and bearing in mind the observations made in Chapter 2; that the choice of approach is so important.

4.2. Aspects of policy harmonisation

4.2.1. Foreign investment

Up til now ASEAN members have steered away from any kinds of harmonisation of foreign investment legislation and institutions. Though there has been some competition among them to attract investment, in the judgment of this report this has not been a serious problem. There are now two broad options. The first would be to try and adopt national laws which contain several segments more or less identical to each other; this is certainly something which foreign investors would be happy to see. The most likely candidates for harmonisation would include rules governing foreign participation in industrial ventures within the region; conditions affecting financial flows, with particular attention to repatriation of profits and capital and access to domestic credit markets; the extent and speed of indigenisation of management control; regulations governing local content of production; and mechanisms for the settlement of disputes.

The second approach would be to seek a much more ambitious agreement whereby all member countries adopted legislation that was more or less the same and created some kind of regional institutions responsible for enforcing this legislation. No regional grouping has so far gone to this extent and it seems that ASEAN would have great difficulties in so doing, especially bearing in mind the differences between countries regarding the involvement of domestic and foreign capital in their industrial sectors. Moreover, the advantages of full-blown harmonisation would almost certainly accrue to foreign investors, both those present in the region as well as those still without activities there. Since ASEAN under no circumstances would be considering steps that might prejudice domestic investment (public or private) then such widespread changes would seem to be prejudicial.

Any reference to investment issues brings with it consideration of industrial property matters and technology transfer. In this area ASEAN has already taken some steps, particularly the creation of the subregional technology screening system (ASIT). On industrial property the member countries are in any case closely tied to the international norms and the only practical question appears to be whether some kind of ASEAN patent or trademark should be created. Once again this type of harmonisation would tend to favor external interests unless strong conditions were built in to support would-be local inventors.

4.2.2. Government procurement

There may well be a case for establishing ASEAN-wide procurement arrangements and thus expanding the market in certain key branches for firms established in the region. Thus far, schemes of the AIC and AIJV type have tended to offer trade preferences to the companies so formed but, as far as can be ascertained, the direct opening of intra-group markets has not yet been accomplished. As of now there appears to be a dearth of information on the extent and nature of public procurement policies, along with details on how contracts have actually been awarded. A first step would therefore be a careful examination of the legal, economic and technical aspects of public procurement in the region with a view to market expansion for ASEAN firms.

4.2.3. Technological promotion and development

There are various separate but interrelated issues under this heading. First, and on which ASEAN has already made headway in various branches, is the question of industrial research. Agreement by the group on subjects requiring examination, on the necessary funding, on the use of results, on the degree of collaboration with foreign researchers, and on the appropriate links between industrial firms throughout the region and the researchers is needed. To do this an assessment of the relative weights to be given to traditional and new industrial branches is unavoidable. Moreover, since there are divergences among the member countries regarding their current level of knowledge, schemes of this type will have to make allowance for genuine sharing of results. Second, the development of research findings towards the point of genuine industrial innovation cannot be treated lightly. Obviously ASEAN cannot afford situations in which research successfully carried out in the region fails to be utilized, or even worse, is utilized elsewhere. The best protection against that type of outcome is a clear understanding on which industrial groups are best placed to carry out pilot experiments and on the subsequent diffusion of results and possibilities among interested firms. Third, and this is particularly related to industrial property rules, some provisions for special protection of ASEAN researchers and innovators would probably be needed. Fourth, it has been repeatedly shown that a central component of successful industrialisation is the ability to understand, absorb and develop technologies obtained from abroad.[1/] In this sense ASEAN could benefit from a careful examination not only of the difficulties experienced by the Andean Pact countries in designing and carrying out a programme of disaggregation of technology packages, but also by careful study of practice elsewhere in Asia, particularly in Japan and the Republic of Korea.

4.2.4. Development of selected industrial branches

The agreement between Argentina and Brazil may provide some ideas for ASEAN to work on specific sectors of interest to it. In this regard the interesting provisions are those relating to the balancing of trade and the investment of substantial trade surpluses into a fund which would promote production in the deficit country. Since this is precisely the kind of problem which frequently blocks progess towards greater integration, ASEAN may wish to study the evolution of the Latin American arrangement quite closely and indeed to establish some formal channels of communication with the two countries concerned.

4.3. Arrangements with third countries

4.3.1. EEC

While the tenor of discussions between ASEAN and the EEC has tended to focus on ASEAN requests for market liberalisation and EEC requests for the same thing (via increased steps toward an ASEAN common market), perhaps the most specific measure which ASEAN could press for is greater involvement of EEC funds in

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1/ It should be noted that intra-ASEAN co-operation is taking place for the establishment of an ASEAN Technology Transfer Information System, on the basis of a network of information centres aimed principally at strengthening the service capacity in the selection and acquisition of the technology. UNDP/UNIDO assistance is provided in the establishment of a basic infrastructure for such an ASEAN system (DP/RAS/85/024).

joint ventures within the region. In this regard a particularly interesting possibility could be through the EIB where Article 18 of its constitution notes that it "may grant loans for investment projects to be carried out, in whole or part, outside the European territories of member states". This explicitly creates an opportunity for use of EEC funding in ASEAN projects and it has been proposed (by Singapore's ambassador to EEC)that a start be made with an ECU 10 million revolving risk fund for feasibility studies, equity participation in ASEAN-EEC joint ventures, and measures to allow the EIB to extend its financial expertise to support EEC investments in ASEAN.

4.3.2. Japan

Events within recent months have tended to emphasize Japan's interest in strengthening ties with ASEAN and have created some new initiatives in this regard, especially relating to technology transfer from Japan and investment in ASEAN. What is really required is for ASEAN countries to develop greater unity among themselves in discussion of these proposals and to take the initiative in suggesting to Japan ways in which that country can make a more effective contribution in the region.

4.3.3. Latin America

Though there have been certain channels of communication between Latin American regional groupings and ASEAN over the last few years - including an ASEAN-Andean Pact conference and study tour by ASEAN representatives to the Andean Pact countries in 1982[1/] - what is missing is a regular dialogue

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1/ Discussions have been held with representatives of the respective groupings regarding return visit by Andean Pact representatives to the ASEAN countries within the framework of ASEAN/Andean Pact consultations on regional industrial co-operation aiming at providing an opportunity for key officials and industry representatives concerned with regional industrial co-operation in the Andean Pact and in ASEAN to exchange experience and discuss in-depth various issues of mutual concern related to regional industrial co-operation. The fora for such consultations will be:

(a) a conference - the second ASEAN/Andean Pact Conference on Regional Industrial Co-operation - to be held at the ASEAN Secretariat in Jakarta; and

(b) workshops/seminars for the Andean Pact team in each of the six ASEAN countries.

It is expected that the project, constituting a follow up of the initial exchanges of views at the first ASEAN/Andean Pact Conference and study tour by an ASEAN team to the Andean Pact countries, will lead to a deeper understanding of the problems affecting regional industrial co-operation as met with in the other sub-region - ASEAN - where several different mechanisms for such co-operation have been developed. Above all, however, the focus to be given at the conference to selected specific aspects of industrial co-operation of particular interest to the two groupings will enable the respective delegations to strengthen their work towards most effective regional co-operation in the industrial field - to improve the present programmes of co-operation as well as to develop new forms of co-operation - against the background of a long-term perspective of the regions' industrial development.

system in the way that ASEAN has set up with OECD countries. Since the Latin American experience is one where important initiatives have been tried, this may be the time for ASEAN to approach that continent, particularly the larger countries, and try to set up the necessary means for exchanging experience and information on industrial developments.

4.4 Technical co-operation with UNIDO and other multinational agencies

In their efforts to solidify and strengthen the process of economic co-operation the ASEAN members have tried, even pioneered, various schemes and modalities. In this connexion, UNIDO and other agencies of the UN-system have in the past been called upon to provide technical advice and carry out investigations or assessments. One particularly important dimension is the catalytic function which technical co-operation projects may have in paving the way for investments or various kinds of inter-industry co-operation.

While reference has already been made above in this chapter to some on-going or potential technical co-operation activities, a few specific further areas where UNIDO assistance might be considered, are looked at in the following paragraphs.

4.4.1 Development of international comparable data on industry and industrial performance

The development of regional statistical capability would be of basic importance for any deepened industrial co-operation. The compilation of comparable data for ASEAN members can provide a valuable information base for use by analysts in both the public and the private sector. A standard and comparable body of industrial data covering such fields as manufactured value added, gross output, employment, wages and salaries and production indices - compiled in sufficient subsector detail - would permit effective monitoring of structural changes. The ultimate goal of such work should not be confined to only ASEAN countries but should extended to the group's major trading partners and/or competitors. Once a comparable set of industrial data is available, trade flows can also be integrated into the system. Using both sets of data, users could then carry out assessments of export-orientation and import penetration, measure trade intensity and derive other analytical indicators of direct interest to government officials as well as industrialists.

Difficulties encountered in the development of an internationally comparable set of industrial data persist at a time when the need for such information is greater than ever. The steadily expanding degree of industrial interdependence between countries is evidenced by the growth in international flows of manufactures, capital, technology and other vital inputs to industry. At the same time it is evident even small variations in an industry's competitiveness can result in significant shifts in its ability to compete in international markets. These circumstances place a high priority on a system of internationally comparable data which is compiled at the most detailed level possible and can be maintained (and updated) on a recurrent basis.

A project proposal to this end has been elaborated by the Industrial Statistics and Industrial Development Survey Section, Studies and Research Division, UNIDO. The major issues which arise in connection with such a project are three. They include (i) statistical

considerations; (ii) computer-related issues involving design, maintenance, data retrieval and updates; and (iii) the provision of indicators, measures and similar information to users in government and/or private industry.

In order to meet its own needs in the fields of international research and technical assistance, UNIDO began work to develop such a data base in the mid-1970s. The consequences of variations in national practices have been examined and elaborated in The UNIDO Data Base: Primary Sources and Data Base Design (UNIDO/IS.463). Simultaneously, the development and maintenance of an international data base requires a set of standardized methodologies to adjust national industrial statistics to common international standards. In conjunction with the creation of an internationally comparable data base for world industry, UNIDO was required to design and develop the necessary computer system for on-line storage along with the associated software for updating and data processing in an environment which could be used by economists, statisticians and others who were not computer specialists.

Ultimately, the applications for such a data base should extend beyond simple monitoring of structural changes and/or inter-country comparisons of industrial progress. For example, the results should provide reliable indicators of changes in competitive abilities of specific producers or industries. They should provide the basis for an examination of the consequences of structural change and should be adaptable to meet other needs - such as, an evaluation of the consequences of changes in external markets insofar as they have impact on the manufacturing sector of the subject countries.

In view of its 'user orientation', UNIDO has accumulated considerable experience in the use of such a computerized data base. For example, UNIDO has recently completed a field study of industrial data in Asian countries. That project, carried out jointly by UNIDO staff and the Institute for Developing Economies (Tokyo), focused on national collection practices and methods for development of interntaional comparability in the field of industrial statistics.

This experience indicates that statistical methodologies and data processing capabilities can also be utilized successfully to meet the needs of users concerned not only with national but also regional and international issues. In the first instance, careful monitoring of regional industrial performance provides a credible basis for the evaluation of industrial progress. Even more important, the availability of a data base designed to support regional and international studies would constitute a valuable source of information which can be expected to find increasing use as the extent of regional and international interdependence grows.

4.4.2. Industrial subsector analysis

In the context of a possible subsectoral approach towards expanded ASEAN industrial co-operation, there would be a need for the carrying out of basic assessments or analyses of the prospective developments in the selected subsectors. e.g. the capital goods sector. Such analyses might contain elements such as the following:

(i) International trends and policies pursued in the context of the international restructuring process. Driving forces and challenges in terms of

- the subsector's relative development in the context of total industry; evolution of linkages;
- international trade of the subsector's products;
- technology; changes in factors determining comparative advantages;
- finance;
- corporate strategies; national policies in industrialized countries.

(ii) Emerging strengths and weaknesses of the selected subsector in ASEAN:

- Investible resources
- Existing production facilities
- Technology, skills
- Subsector integration and linkages between small and large industries
- Market: domestic demand, export potentials
- Intermediate product supply
- Regional disparities.

(iii) Long-term perspective for the selected subsector in the ASEAN countries' industrial development.

Specifically concerning the capital goods sector, it may be stressed that the sector is not only important because of its role in the production as such, but equally and perhaps even more important as a catalyst for technical change. Its development is a key factor as means of increasing productivity in industry in general. The dynamic development of the capital goods sector, as a producer of machine tools is certainly of central importance to the ASEAN region, as is the strengthening of its engineering industry sector as a user of machine tools (in particular the branch of metal-working industry utilizing them as a basic means for the manufacturing of metal products). The development of production technology depends directly upon the development of advanced machine tools. The link between (conventional) machine tools, CNC machine tools and the development of production technology is vital. CAD/CAM systems and flexible manufacturing systems emerge as important elements which will have increasingly significant influence on the industrial development in ASEAN. To make possible the building up of a strong, dynamic capital goods sector in ASEAN special attention should be given to backward linkages and the need to create the necessary infrastructure in terms of raw materials and components support, design process inputs, development of technological and engineering skills and co-operation in research and development.

4.4.3. Network of industrial consultancy

Assistance may be provided in the establishing of a systematic exchange of opportunities for government contracts (under the PTA provision of intra-ASEAN preference in procurement by government entities) in the respective countries. In particular, co-operation in major consultancies might be of direct interest. It should be noted that UNIDO is providing assistance towards the establishing of an Asia-wide network for the development of industrial consultancy (DP/RAS/83/013).

4.4.4. Support of activities of the 'regional industry clubs' RICs

Partly as result of the requirements of the work on industrial co-operation within ASEAN, especially that of the Working Group on Industrial Co-operation (WGIC), the private sector in the ASEAN countries has, within the framework of the ASEAN-CCI, established a number of 'regional industry clubs' (RICs). The comprehensiveness of the RIC system is amply illustrated in the chart on following page. The ASEAN-CCI and its RICs are playing important roles in the programmes of ASEAN Industrial Complementation (AIC) and presently, in particular, the ASEAN Industrial Joint Ventures (AIJV).[1/]

In addition, many of the RICs have built up very significant programmes of 'technological co-operation' within their respective industries. Thus, the ASEAN Federation of Cement Manufacturers (AFCM) has organized several technical symposia on the energy-management-related themes; the ASEAN Federation of Electrical, Electronic and Allied Industries (AFEA) has initiated training programmes in computer technology (up-grading courses); and the Ceramics Industry Club of ASEAN (CICA) has also a number of training programmes in specific technical areas. Several of the RICs - including AFCM, CICA and the ASEAN Chemical Industries Club (ACIC) - have programmes of plant visits, during which selected specific technical issues are dealt with. Of particular importance is also the opportunities, at the plant visits or otherwise, for an active exchange of views of trends of technological advancement within the framework of the RIC work. The ASEAN Federation of Textile Manufacturers (AFTEX) has concentrated its co-operation efforts on fundamental training aspects in textile manufacturing techniques (including fibre testing, fabric testing, etc.). AFTEX is also giving attention to possibilities of division of work among its members and among concerned R and D institutes, with the Institute for Research and Development of Textile Industries in Bandung being recognized as having a co-ordinating role.[2/]

It may proposed that a UNIDO assistance programme be developed together with the 'regional industry clubs', RICs, in connexion with their industrial

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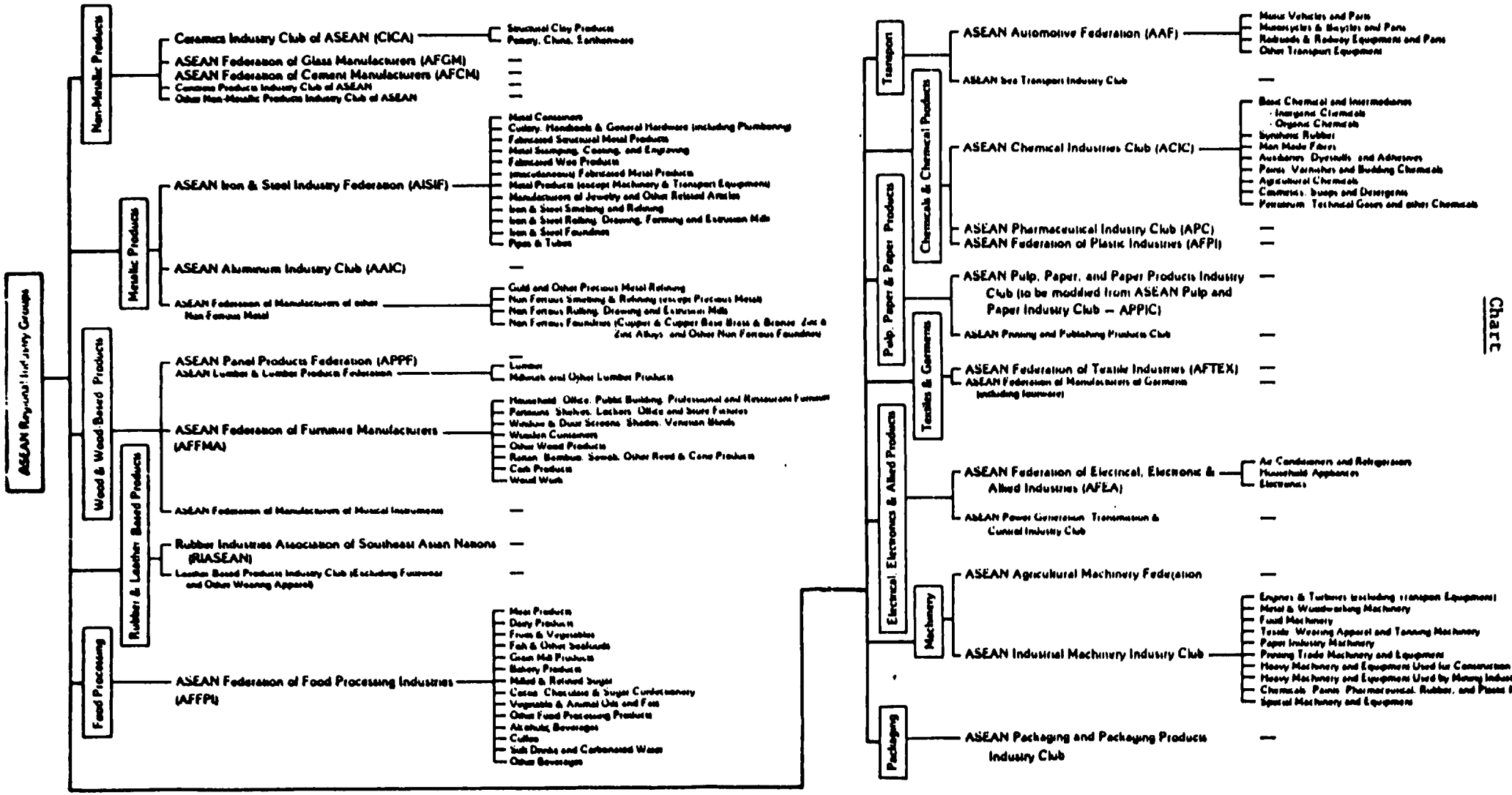
1/ Under an ongoing UNIDO technical co-operation project with COIME "Project identification for AIJVs" (DP/RAS/85/010) a large number of potential projects, most of them proposed by the "industry clubs" in the respective countries, have been identified for further promotional support measures, possibly pre-feasibility studies.

2/ Various proposals for co-operation within ASEAN in the textile field were put forward in the study "Scope and outline for ASEAN regional co-operation in the textiles and textile products industry" prepared by the Regional and Country Studies Branch in 1985 (UNIDO/IS/R.17).

ASEAN AGGRUPATION SYSTEM

(as adopted at 20th Meeting of ASEAN-CCI Council, August 4, 1983)



Chart

NOTE: Aggregation System envisages addition of 10 new Regional Industry Clubs, indicated in smaller type

and technological co-operation activities. The assistance would have the purpose of initiating new and/or supporting on-going programmes in the respective branches, concerning areas such as:

- introduction of new techniques, awareness of international trends and developments;[1/]

- training and up-grading in specific fields and with respect to new technologies, etc;

- co-operation and division of tasks in respect of R and D work in the member countries;

- plant visits and mutual exchanges of experiences;

- preparatory work for possible AIJVs sponsored by member enterprises.

Before an assistance project can be formulated in detail, further information will be required from interested RICs.It is proposed that a brief fact-finding and project formulation mission be carried out for this purpose. It would be expected that the assistance would take the form of short-term experts/technical specialists; training opportunities; research and testing equipment in connexion with ASEAN co-operation in R and D activities.

1/ One example in this context is the on-going UNIDO project with the ASEAN countries "Assistance in Introduction of Computer Managed Maintenance Systems to Metallurgical Industries" (DP/RAS/85/008).

Annex Table 1. Cumulative stock of foreign direct investment by major investing country in ASEAN (excluding Brunei), 1984
($ million)

Investor/ ASEAN	Indonesia	Malaysia	Philippines	Singapore	Thailand	ASEAN Total
Japan	7.3	0.8	0.7	1.4	0.5	10.7
US	4.4	1.2	1.2	2.2	1.0	9.9
UK	0.1	1.1	0.04	0.8	0.06	2.2
FRG	0.07	0.1	0.03	0.4	0.04	0.6

Source: Rolf J. Langhammer and Martin Gross, "EC Foreign Direct Investment in ASEAN and its Impact on Trade", Centre for European Policy Studies, working document No.8 (political), November 1986.

Annex Table 2. Sectoral distribution of Japanese, US and FRG foreign direct investment, 1983
(all sectors = 100 per cent)

Investing country	World	Total developing countries	ASEAN
Japan			
Mining	19.4	26.0	49.4
Manufacturing	31.9	37.1	39.6
1977-1983 annual average growth manufacturing FDI	18.7	15.9	20.6
US			
Mining	29.4	34.3	65.7
Manufactuirng	39.9	40.2	18.4
1976-1983 annual average growth manufacturing FDI	6.6	8.3	13.3
FRG			
Mining	4.8	7.5	n.a.
Manufactuirng	43.6	61.4	34.8
1976-1983 annual average growth manufacturing FDI	12.2	3.4	12.8

Source: Ulrich Hiemenz: "Multinational enterprise business behaviour and marketing strategies in ASEAN's 'other four', mimeo, September 1986.

Note: Figures are based on actual investments as reported by authorities in the investing countries the percentages thus may differ substantially from those derived by using approval or registeration data recorded in host country statistics.

Annex Table 3. Branch composition of stock of foreign direct investment in ASEAN manufacturing, 1984
(100 per cent)

Branch/Investing country	Japan a/	US	FRG
Manufacturing as percentage of total FDI	39.6	19.9	37.3
Food	3.2	D	n.a.
Chemical products	15.4	20.0	31.0
Metals and metal products	31.8	5.4	n.a.
Machinery except electrical	5.6	D	4.5
Electrical machinery	7.0	37.9	33.0
Transport equipment	7.2	D	1.0
Textiles and clothing	15.9	n.a.	2.0
Other manufacturing	14.0	D	n.a.

Source: National Statistics, claculations of UNIDO secretariate.

D indicates figure confidential.

Notes: a/ 1983 data.

Annex Table 4. Japanese foreign direct investment, globally and in ASEAN: Some features

Global stock (at 31 March 1986)	$ 84 billion
of which ASEAN	approx. $13 billion
Global number of investments (at 31 March 1986)	36, 927 cases
of which ASEAN	5,772 cases
Global new FDI 1985/86 (1 April to 31 March)	$12.2 billion
of which ASEAN	$0.9 billion
Manufacturing percentage of global stock	29.4
Manufacturing percentage of ASEAN stock	51.5

Source: Ministry of International Trade and Industry, Tokyo.

Note: Data are based on notifications by Japanese firms to Ministry of Finance of their intention to remit funds overseas for investment - any subsequent change of plan by firms is not accounted for in the data. Use of Japanese finance from a place outside Japan to an overseas investment destination is likewise not recorded.

Annex Table 5. Intra-ASEAN investment
($ million)

Recipient country	Investing country	Indonesia	Malaysia	Philippines	Singapore	Thailand	ASEAN
Indonesia[a/]		-	21.9	23.5	135.8	6.4	199.4
		-	(0.2)	(0.2)	(1.1)	(0.0)	(1.6)
Malaysia[b/]		0.8	-	0.1	653.5	5.8	660.2
		(0.0)	-	(0.0)	(27.0)	(2.0)	(27.2)
Philippines[c/]		0.3	5.0	-	13.2	0.6	19.0
		(0.0)	(0.1)	-	(0.3)	(0.0)	(0.4)
Singapore		n.a.	n.a.	n.a.	-	n.a.	n.a.
Thailand[d/]		2.2	15.9	0.06	71.4	89.5	

Source: Mingsarn Kaosa-Ard and Luechai Chulasai, "The Role of Private Enterprise in Intra-ASEAN Trade and Investment, A Regional Perspective", in The Role of Private Enterprise in Intra-ASEAN Trade and Investment, The Asian Foundation, Chiang Mai University, 1986.

Note: a/ June 1967-December 1983, Bank Indonesia.
b/ MIDA, paid-up capital as of December 1980.
c/ Board of Investment 1968-1983.
d/ Cumulative flow 1977-1983, Bank of Thailand.

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