ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

PROCEEDINGS OF THE REGIONAL SEMINAR ON INVESTMENT PROMOTION AND ENHANCEMENT OF THE ROLE OF THE PRIVATE SECTOR IN ASIA AND THE PACIFIC

UNITED NATIONS

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Part One

REPORT OF THE REGIONAL SEMINAR ON INVESTMENT PROMOTION AND ENHANCEMENT OF THE ROLE OF THE PRIVATE SECTOR IN ASIA AND THE PACIFIC

I. ORGANIZATION OF THE SEMINAR

The Regional Seminar on Investment Promotion and Enhancement of the Role of the Private Sector in Asia and the Pacific was held at Dhaka from 26 to 30 January 1993. The Seminar was organized by the Economic and Social Commission of Asia and the Pacific (ESCAP) in cooperation with the Government of the People's Republic of Bangladesh and the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), and funded by the Government of the Netherlands. The Seminar was inaugurated by the Honorable Prime Minister of Bangladesh, HE Begum Khaleda Zia.

The Regional Seminar was attended by thirty-two participants from Bangladesh, China, India, Indonesia, Malaysia, Nepal, Pakistan, Republic of Korea, Sri Lanka and Thailand. The representatives of the United Nations Development Programme (UNDP) and the United Nations Industrial Development Organization (UNIDO) also participated in the Seminar.

In his address of welcome, Dr. Mohammad Haroonur Rashid, Secretary, Planning Division, Ministry of Planning, Government of Bangladesh, extended a welcome from the organizing committee.

He observed that newly independent countries had adopted an import-substitution strategy of industrialization in the early stages of their development. There was a dearth of entrepreneurs in those countries and their exports comprised mainly primary agricultural commodities which faced a steady decline in global demand and a gradual deterioration in terms of trade. As a result, they lost interest in exports and developed an increasing dependence on import-substitution industries created behind high tariff walls and protected with the plea of "infant industry" nursing.

The East Asian and South-East Asian countries, particularly the newly industrializing economies (NIEs), also adopted import-substitution strategies initially and switched to export-oriented industries subsequently, because of the limitations of their domestic markets, ease of access to foreign markets and the comparative advantage they enjoyed. Besides, they acquired higher technologies in keeping with the changing global demand and taste. Gradually, they opted for intermediate goods, in lieu of import-substituting consumption goods, and later, attached greater importance to high technology and heavy industries.

The Secretary for Planning observed that those countries, along with the development of physical infrastructure, laid special emphasis on the development of human resources through higher investment in education, health and science and technology. The private sector, which mainly played an entrepreneurial role, joined hands with the Governments to restructure the industrial sector in keeping with the changing world. Governments assisted the private sector and created an enabling environment for industrial development. As a result, those countries achieved much higher growth rates than the South Asian countries.

Dr. Haroonur Rashid mentioned that the South Asian countries, including Bangladesh, remained underdeveloped because of their over-reliance on import substitution for an extended period of time, excessive government intervention in their economies, dearth of managerial skill, lack of initiative in the readjustment of the economic structure and neglect of the importance of human resources development. As a consequence, most of the South Asian countries currently had a very low per capita income and faced poverty, disease and illiteracy. The Secretary of Planning stated that various countries would meet in the Seminar, face-to-face, to address several interrelated issues: How some countries could accelerate their development process by ensuring the rightful contribution of their private sector and how some other countries of the region could take advantage of that opportunity.

On behalf of the FBCCI, its President, Mr. Mahbubur Rahman observed that the Seminar provided a forum for discussing investment promotion policies and strategies with a view to evolving measures to increase the flow of investment among the countries of the region. He hoped that the Seminar could lead to a common understanding for regional economic cooperation in investment promotion and for strengthening the private sector's role. Promotion of private enterprises had been constrained by the low level of domestic savings and the scarcity of foreign exchange. Export revenues depended on a few products, most of which were subject to both domestic supply shocks and fluctuations in international demand and prices.

He observed that one of the factors behind the status of Bangladesh as a least developed country had been past imperfections in policy formulation and implementation and the lack of an environment for attracting foreign investment. The present shift in policy was characterized by an emphasis on an outward-looking export-oriented industrialization strategy and an increasing reliance on private enterprises. Privatization, encouragement to foreign direct investment, easier import of industrial raw materials, fiscal and financial sector reforms have become the focus of current attention.

He promised the cooperation of FBCCI to the process of policy reforms so that all industrial enterprises could perform optimally and grow rapidly. He felt that the role of government intervention must be one of a facilitator and promoter, and welcomed its objective to change its role from a "regulatory" to a "promotional" one.

He called for understanding and cooperation of all sections of the society for the growth of a productive and disciplined labour force. Rapid industrialization would benefit all and increased foreign direct investment could constitute a critical component of that process.

He strongly felt that Bangladesh should exploit the emerging opportunities in intraregional trade expansion and investment complementarities. However, he urged that effective measures be taken in overcoming the factors which were responsible for the low level of Bangladesh's trade with countries in the Asian and Pacific region. Those factors included high import barriers, inadequate trade financing, complex distribution systems for export cargo, stringent import inspection and certification procedures, high protection, non-transparent restrictions such as administrative approvals and sanitary regulations, small margin of preference and exclusion of major trade items from tariff concessions.

Mr. Mahbubur Rahman called upon the investors from the developed countries of the region to note that Bangladesh was paying foremost national attention to private sector investment both local and foreign. Every possible facility and policy relaxation was being offered. A national ethic towards industrialization and export was emerging.

The Executive Secretary of ESCAP, in his speech as the guest of honour, expressed his deep sense of appreciation to the Honourable Prime Minister, Begum Khaleda Zia, in graciously consenting to inaugurate the Seminar.

He expressed his deep appreciation to the Government of Bangladesh for kindly agreeing to host the important event in Dhaka. He extended his special thanks to HE Mr. A.M. Zahiruddin Khan, Minister of Planning for the personal interest he had taken in the organization of the Seminar as well as the national seminar which had preceded it. He thanked the private sector representatives in Bangladesh, particularly the Federation of Bangladesh Chambers of Commerce and Industry, and the Government of the Netherlands for providing generous financial support for the Seminar.

He observed that strategies have been reoriented with the liberalization of trade regimes, exchange rate and interest reforms, financial sector restructuring and reforms, with an emphasis, being placed on export-orientation and human resources development. It was quite evident that as a result of those reforms and other flexible measures, the newly industrializing economies and the Association of South-East Asian Nations (ASEAN) have been more successful in accelerating the pace of industrial and technological development and in integrating economic activities at the regional and global levels.

He noted that the private sector had been called upon to assume increasing responsibilities. The Governments had supported and facilitated industrial development by creating an appropriate environment and providing critical services. Therefore, the shape, direction and degree of the economic and industrial development process during the 1990s and beyond, would largely be determined by the initiatives and strength of the private sector.

The Executive Secretary stressed that the policy reforms aimed at developing an efficient market economy, needed to be supplemented effectively by institutional reforms. In that regard, there was an urgent need to proceed swiftly. Foremost in that respect was the necessity to improve the administrative

skills of government employees along with expansion of opportunities to acquire technical skills for a large section of the population.

He observed that investment promotion and private sector development would also largely depend on the adequacy and efficiency of infrastructural facilities within the country. Those, along with the Government's commitment and stability in policy measures, would be necessary in winning the confidence of the private sector. Furthermore, the success of the new approach of balancing the respective roles of the public and private sector, would also depend on the evolution of a national consensus with the participation of all sections of the national society.

He drew the attention of the gathering to the fresh approach provided by members and associate members of ESCAP for dealing with related issues through the Seoul Plan of Action for Promoting Industrial Restructuring in Asia and the Pacific.

In his speech as the special guest, Mr. A.M. Zahiruddin Khan, Minister of Planning, Government of Bangladesh, observed that the past economic policies in South Asia had not achieved their growth and poverty alleviation objectives. The policy makers and economic thinkers in the subcontinent had already realized that the major reasons for sluggish economic growth in the region was the inward-looking economic approach and over-intervention and control as well as excessive protection of the domestic market.

The Minister of Planning attributed the phenomenal growth of the NIEs and Indonesia, Malaysia and Thailand to export-led growth policies, tapping considerably the higher purchasing power of the developed countries, taking advantage of the low cost of labour and other inputs. Trade had the potential of expanding at a faster rate than gross national product (GNP); and when it gained a certain momentum, it pulled up the GNP.

He observed that any viable and sustainable economic and industrial development required substantial savings and purchasing power of the majority of the people as their savings and purchasing power played a catalytic role in such a development process.

He felt that the growing interdependence among countries of the region had unfolded newer opportunities for technological and industrial advancement in the years ahead. The Government and private sector of those countries, in cooperation with the United Nations agencies and other international organizations would have to work hand in hand in promoting their trade and industrial investment, technological flow and overall industrial efficiency. In that context, the speedy and successful completion of the Uruguay Round of multilateral trade negotiations would have a salutary impact.

He referred to the ongoing efforts of the countries of the region to create a favourable climate for investment and industrial and technological cooperation. He emphasized that success in industrial development required policy stability, strong political commitment, and efficient mobilization and utilization of available human and other resources. Over-reliance on the public sector in the least developed countries was increasingly giving way to an enhanced role by the private sector in their development efforts. Although the process of restructuring was difficult and painful, it was a prerequisite for creating a stable basis for socio-economic development.

The Minister felt that Governments could only create a favourable environment for development. In the ultimate analysis it was the people through whose initiative and participation, economic development could take place. Government would have to move away from a regulatory role to that of supportive one in the economic sector.

The Minister referred to the National Seminar on "Private Sector Growth, Technology Choice and Industrial Development of Bangladesh", held from 23 to 25 January 1993 at Dhaka, and jointly organized by the Government of Bangladesh, ESCAP and the Bangladesh Chamber of Industry (BCI). The Seminar dealt with various issues and focused on those which required to be addressed in order to accelerate the industrial development process in Bangladesh.

He emphasized that, for any policy to succeed, it required the commitment of the planners, the bureaucrats, the entrepreneurs, the politicians and the parliamentarians alike. It was, therefore, important that not only private sector people and bureaucrats were exposured to the experiences of development by East and South-East Asian countries, but also politicians and parliamentarians. He said that it would be appreciated if ESCAP could organize something in that direction.

He observed that it was essential to recognize that regional cooperation was mutually beneficial. The benefit arose from the diversity of the region. Certain industrial activities that were not profitable in one part of the region might be appropriate for another because of the differences in comparative advantage based on factor endowments. If the productive factors were allowed to move more freely within the Asian and Pacific region, the resulting complementarities would benefit all countries.

The Honourable Prime Minister of the Government of Bangladesh, Begum Khaleda Zia, in her inaugural address as the chief guest noted that the Seminar was a timely step in the backdrop of the present socio-economic scenario. She termed industrialization as the key to prosperity and felt that rapid industrialization was possible if necessary priority was given to the private sector.

As Bangladesh was an agrarian country with a relatively large population and as agriculture could not provide employment to the growing population, rapid industrialization was the only solution. She referred to several reasons for Bangladesh's slow progress in industrialization, including neglect during colonial days and the wholesale nationalization policy, pursued after independence which created impediments to investment. In realization of the shortcomings of the past industrialization policies, a denationalization policy was adopted, ceilings on private investment were abolished, and local and foreign investment was encouraged. That had created a new dynamism was for the industrialization effort in Bangladesh.

She mentioned that the Government of Bangladesh had adopted measures to create a favourable investment climate and had undertaken a massive programme for structural adjustment in the industrial sector. In that regard, the National Industrial Council had been constituted to promote investment, the Board of Investment and the Bangladesh Export Processing Zone Authority had been placed under the Prime Minister's Office, "sick" industries had been identified and initiatives had been taken to rehabilitate them, the necessary infrastructure had been built to establish a free market economy, and a liberal industrial and investment policy which attached priority to the private sector with special concessions and facilities for foreign investors was in the process of implementation.

The Honourable Prime Minister observed that a good number of policies and programmes had recently been announced to accelerate investment in the private sector under which the interest rate had been reduced, and commercial banks had been instructed to open a new credit line of taka 2,000 million to lend out for a five-month period. Necessary amendments were being brought about in the Company Act and two more export processing zones would be established at Dhaka and Khulna. To ensure the rightful role of the private sector in national development, the establishment of a private sector commission was under the Government's active consideration.

The Prime Minister observed that the promotion of small and cottage industries was the main feature of Bangladesh's industrial policy, under which new entrepreneurs would have to be identified and provided with the necessary training and information. She urged the chamber bodies to take the necessary initiatives in that regard.

She felt that the success of industrialization, to a great extent, depended on appropriate technology with adequate attention to innovation and transfer of environmentally sound technology. Equal attention would have to be paid to the creation of employment opportunities for women who had played a central role in the remarkable success of Bangladesh's ready-made garment industries.

The Honourable Prime Minister termed the organization of the Regional Seminar a welcome step. She congratulated ESCAP and the Federation of Bangladesh Chambers of Commerce and Industries for organizing the Seminar. She expressed her confidence that the valuable exchange of views, ideas and

experiences through the Seminar would greatly inspire and enrich the entrepreneurs of Bangladesh. She termed rapid industrialization the panacea to eliminate poverty and called upon the entrepreneurs of Bangladesh to play a pioneering role in bringing about momentum in the country's industrialization process.

In his vote of thanks, the Acting Chief, Division of Industry, Human Settlements and Environment, ESCAP, expressed the gratitude of the organizers to the Honourable Prime Minister of Bangladesh for taking time out of her busy schedule to inaugurate the Regional Seminar. He observed that her eloquent address had set the tone for the deliberations of the Seminar.

He also expressed the gratitude of the organizers to His Excellency, the Minister of Planning who deserved special commendations for the keen interest he had taken in hosting the Seminar. The Seminar was particularly grateful to the Executive Secretary of ESCAP, for taking the trouble to visit Bangladesh for the second time in four days to attend the inauguration of the Seminar, and highly indebted to Dr. Mohammad Haroonur Rashid, Secretary, Planning Division, and to his dedicated colleagues in the Division and also in the Economic Relations Division, and also to Mr. Mahbubur Rahman, President, Federation of Bangladesh Chambers of Commerce and Industry for their very close cooperation with ESCAP in the organization of the Seminar. He thanked all the international resource persons, the distinguished guests and participants, and the members of the press and mass media for accepting the invitation to attend the inaugural session.

The Seminar elected Dr. Mohammad Haroonur Rashid (Bangladesh) as Chairperson, Dr. Lou Yunyi (China), Mr. Firdaus Abdullah (Indonesia) and Mr. Mahbubur Rahman (Bangladesh) as Vice-Chairpersons, and Mr. Phairot Sompouti (Thailand) as Rapporteur.

The Seminar was conducted in accordance with the agreed programme as annexed to this report.

II. OVERVIEW OF REGIONAL EXPERIENCES

The country reports from the ten participating countries of the Asian and Pacific region showed that they had unmistakably changed or maintained their approach to the role of the private sector in the promotion of investment, whether domestic or foreign. There were varying phases in the direction of the movement towards assigning a prominent role to the private sector, some were advancing slowly in a step-by-step fashion, others had adopted comprehensive and immediate policies and programmes. However, it was clear that the private sector was fast appearing at the forefront of the countries' development process.

For a long time, China did not permit a private sector. However, since the 1988 constitutional amendment, the private sector had been allowed and encouraged to play an appropriate role. In 1991 the sector employed 4 per cent of total employment, and generated 7.6 per cent of total taxation revenue. In Indonesia, investment in the private sector had expanded in both value and project costs. The countries in South Asia (represented by Bangladesh, India, Nepal, Pakistan), where the Government had been a major actor in the economy, were increasingly viewing the private sector as the leading agent for development. In the case of Indonesia, Republic of Korea, Malaysia, and Thailand, continuous and accelerated privatization were indications of a firm commitment to the role of the private sector in development.

Parallel to the recognition of the private sector's importance in the Asian and Pacific region had been a reaffirmation of those countries' intentions to pursue closer integration with other Asian economies. Invariably, the objective was to restructure industries so as to achieve a better balance between the countries' industrial structure and their comparative advantage. Nepal's new industrial policy strategy clearly stated that.

Country reports also showed that, with the change in policy towards the liberalization of foreign direct investment (FDI), the simplification of rules, and bureaucratic streamlining, there had been a significant increase in FDI, both in actual flows and in commitments. In Indonesia, with a change in orientation in its investment policy, 65 per cent of foreign investment approvals between the period 1967 and 1992 had

taken place in the last five years. In India, foreign investment approved in one year of policy change (August 1991 – July 1992) were more than 1.5 times the foreign investment approved during the previous decade. For the Republic of Korea, there was also an increase in FDI as the country shifted its policy from restriction of FDI (and a preference for technology licensing) to liberalization.

Many of the country reports dealt with their experience in institutional and infrastructural aspects of FDI. The former included the broad administrative machinery overseeing investments, the regulatory framework, and other associated instruments affecting investments. The latter included the recognition of and attention to the importance of physical infrastructure in facilitating FDI.

Despite the significant increases in FDI into Thailand, institutional reforms continued and included the transformation of its Board of Investment from a "regulator and controller" to a "promoter". With the establishment of regional and overseas offices, the Board of Investment in Thailand has also been given a new direction. Nepal has established a one-window system with close interdepartmental coordination.

There have been dramatic shifts in areas of investment countries preferred in which to have FDI participation – from a positive list to a slimmer negative list. In the case of India, only a short number of 18 industries remained restricted; the number of industries in which the public sector had exclusive entry was reduced from 17 to 8. India has also introduced a free-floating exchange rate.

FDI continued to be promoted in export processing zones with more liberal provision in the ownership of land (in the case of Sri Lanka, up to 99-year lease in any of its three export processing zones).

The importance of the private sector has also been emphasized in the privatization efforts of many countries of the region. Sri Lanka has undertaken a divestment process in 39 public enterprises. Nepal appeared fully committed to private sector growth, as reflected in its privatization programme and the reorganization of its investment policies and programmes.

Except for the Republic of Korea and partly India, the other country reports did not touch on issues of technology choice and constraints and the private sector's role in those areas.

The report of the Republic of Korea clearly indicated two tracks in technology acquisition – technology purchase and licensing and FDI. The Republic of Korea deliberately followed a "debundling" strategy before FDI was allowed. In the most recent wave of liberalization, the country has allowed a greater participation of FDI in its economy.

The Indian restrictions on licensing in the engineering industry and in technology agreements seemed to have been lifted and a new trend was emerging towards automatic approval for foreign technology agreements subject only to ceilings on lump sum payments and royalties, and not on the content of technology itself.

III. CONSIDERATION OF ISSUES

The Seminar expressed its deep gratitude to the Honourable Prime Minister of Bangladesh for gracing the inaugural session of the Seminar and addressing it, thus setting the tone for the meeting.

The Seminar noted that the last two decades had seen a resurgence of development efforts in the ESCAP region and an explosion of creative energies of the teeming millions who inhabited that part of the world. As a consequence, the ESCAP region has emerged as a dynamic manufacturing powerhouse, transforming many of its economies into robust growth centres. In the transformation, trade and foreign investment flows acted as key agents and were expected to continue to do so as almost all economies of the region had adopted far-reaching liberalization and deregulation measures. Although grave doubts had been expressed about the ability of the world economy to recover from its present recession in the near

future, the convergence of development strategies had given rise to a renewed optimism in sustaining the region's industrialization process through greater trade and investment flows.

The Seminar observed that the general dynamism of the Asian and Pacific region had not been shared equally by all the countries. A good number of them, particularly the least developed countries, the Pacific island economies and the transitionally disadvantaged economies, were yet to be fully integrated into the regional flow of trade and investment. Their integration into the regional flows of trade and investment was one of the main challenges facing the economies of the region. In that regard, the Seminar felt that the current account surplus of several economies of the region and the resurgence of interest in foreign direct investment, provided an unprecedented opportunity to meet that challenge.

The Seminar maintained that although the debt crisis, which broke out in 1982, rekindled an interest in foreign direct investment as a significant source of capital for developing countries, the countries of the region had began to view FDI more as a package of benefits in terms of acquiring technology, obtaining access to new markets, encouraging skill formation and entrepreneurial development. As a consequence, many countries of the region had responded swiftly and decisively by enacting appropriate legislation and instituting a whole range of fiscal and other incentives. Those incentives included guarantees against nationalization and expropriation, easier legislation and licensing procedures, a variety of tax breaks, import concessions and maximum equity participation. The Seminar noted that boards of investment or such similar organizations had played a very important role as a "one window" mechanism to implement many of the incentives to attract FDI.

The Seminar observed that, almost parallel to those incentives, the home countries themselves (i.e., the source of FDI) had also heightened their efforts to encourage a greater outflow of investment abroad. In the case of the Asian-Pacific investing economies such as Hong Kong, Japan, Republic of Korea, and Taiwan Province of China, those efforts had been generally facilitated by their burgeoning current account surplus.

Although intraregional and interregional FDI flows had gone up significantly in nominal terms, the Seminar observed that a significant part of those flows had tended to cluster around a limited number of countries in South-East Asia, and more recently in China. That had led to a reassessment of the traditional determinants of FDI which put heavy emphasis on fiscal and other related incentives. In that regard, there was a general consensus in the Seminar that along with political stability, the overall economic environment and government attitude toward private enterprise had a determining effect on foreign investors' decisions to invest in a particular country. Countries such as Indonesia, Malaysia and Thailand had achieved remarkable success in attracting FDI owing to the prevalence of a conducive overall economic environment.

The Seminar noted that regional experience suggested that a country's growth potential, trade regime, extent of government participation in the economy, recognition accorded to the private sector as an engine of development, and the government's commitment to reforms in both policy and programmes, were more important than a country's tax and other related incentives.

The Seminar was unanimous in its view that the recognition accorded to the private sector as an engine of development and government commitment to reforms had emerged as the two most important determinants of an environment conducive to FDI. The extent of privatization and the magnitude and scope of policy reforms acted as powerful signals of the commitment of a country to create an environment favourable to private sector initiative. The timing and sequencing of such programmes and reforms were also important. Delays and reversals in policy formulation and implementation generally reflected a weak environment for FDI.

The Seminar felt that the sharing of regional experience was extremely useful in the promotion of domestic as well as foreign investment. The Seminar observed that common standards, harmonized policies, and uniform methodologies for the collection of data were useful in attracting FDI. The Seminar, therefore, felt that regular seminars and workshops along those lines could be useful in developing a dialogue between countries of the region and in improving the prospects for FDI.

The Seminar strongly emphasized the need for the Government, the private sector and other important sections of the society to be seen to speak with one voice on critical policy issues and programmes. That type of social consensus would have to find its expression in a healthy and growing partnership between the Government and the private sector in which the Government would have to play a promotional and supportive, rather than a controlling, role as in Indonesia, Malaysia, the Republic of Korea and Thailand. That role must include an efficient administrative set-up and a transparent, non-discriminating regulatory framework.

The Seminar observed that, in many economies of the region, the process and spirit of introducing economic reforms had progressed in the right direction. Almost all the economies of the region were making concerted efforts to improve the functioning of the market forces and to bring about stability in the policy framework. However implementation bottlenecks, particularly at the lower levels of the administrative apparatus, were fast appearing as a key constraint in the reform process. The Seminar, therefore, urged the institutionalization of the reform process and the implementation of programmes to train the personnel responsible for government policy and reform measures.

The Seminar maintained that the advocacy for a supportive role of the Government in economic development in general and in industrial development in particular, should not be interpreted as an argument for the government to be a passive partner, taking the back seat. On the contrary, it had to assume a leadership role in all spheres of development activities. In particular, recent regional experience suggested that its direct and indirect activities in the areas of infrastructure development, human resources development and mobilization of financial resources for the right types of industrial investment, had very powerful effects on the investment decisions of the private sector. In all those areas, the Government could participate actively, thereby stimulating private investment, yet not directly owning industrial assets.

The promotional and supportive role of the Government should also ensure that all feasible steps were taken to prevent the formation of monopolies, whether in the public sector or in the private sector. It must aim to create competitive industrial structures which were able to produce and deliver goods and services at competitive prices.

The Seminar felt that, in order to promote investment, there was an urgent need to adopt policies and programmes towards technological upgrading for long-term industrial progress and structural change, and to forge greater regional cooperation to assist that process. In that respect, the Seminar noted the success of several countries such as India and the Republic of Korea which have been able to acquire the needed technological capability through licensing. In contrast, countries such as Malaysia and Thailand had generally relied on FDI as a mechanism to develop their indigenous technological capability. The Seminar felt that those two approaches could be either combined or pursued independently, depending on the circumstances of the individual country. The Seminar felt that since many developing countries lacked their own technological base, they would continue to depend on the import of foreign technology for quite some time to come. However, that raised the complex issues of technology choice, transfer, adaptation and diffusion. While the Government's trade and investment policies would have an important bearing on all those issues, the Seminar felt that the private sector normally would have a major influence in the choice and subsequent adaptation and diffusion of technology.

The Seminar deliberated on ways to forge regional cooperation in the development of human resources capabilities, including their greater mobility for successful industrial transformation. The Seminar noted that the present industrial leaders had invested wisely in the past in their human resources. Given the long gestation period involved in developing an all comprehensive human resources base, the Seminar felt that specific proposals in promoting science- and technology-based education should be found. Some other areas which could be emphasized included the development of vocational training facilities, strengthening of the management capacity of the chambers of commerce and industries on-the-job training and re-training programmes, and more enterprise-based investment aimed at improving the composition and extent of skills of the workforce.

The Seminar felt that entrepreneurship was a key area which required urgent attention in promoting private sector development. As many entrepreneurs with limited financial and organizational resources

found it very difficult to utilize fully all available investment opportunities, special measures would be required to develop their full potential. Those measures could include the creation of national, subregional and regional networks to facilitate the flow of information on investment opportunities, and the continuing dialogue between the Government and private sector representatives through the organization of symposium, seminars and workshops to improve their capacities to seize investment opportunities at national and regional levels.

The Seminar strongly urged the full exploitation of the complementation opportunities that already existed in the region. In that regard, the Seminar felt that countries would have to pay more attention to the growing complementarities in trade and investment that have been evolving over the last few decades.

The Seminar noted the establishment of the Regional Investment Information and Promotion Services for Asia and the Pacific (RIIPS) and hoped that it would be able to provide the much needed information of FDI opportunities and profiles of FDI in various countries.

The early operationalization of the service would be very timely since it would provide much needed information. It also noted with satisfaction that the entity would provide for needed information to industries, especially the small and medium scale ones. It further recommended that the private sector, which was the intended beneficiary of the services, should be fully involved in the operationalization of the network.

IV. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

1. The Seminar observed that all countries represented were moving in the same direction of promoting FDI and enhancing the role of the private sector. Although there were differences in the modalities of the direction, the speed of the movement, and the circumstances surrounding the changes, the essential features accompanying it were the same: greater openness and trade liberalization, liberal FDI policies, improved economic environment, bureaucratic deregulation, private sector primacy, and consistency of commitment.

2. There was general satisfaction that the direction of recent policy changes towards the promotion of FDI had been appropriate. The degree of involvement of the private sector had varied across countries, some more integral and others more ad hoc. The Seminar felt that countries should adopt a balanced approach to private sector development. In that regard, it emphasized the need for a partnership between the two sectors through continuous dialogue.

3. Most of the countries viewed FDI as important to the industrial and development processes. In the context of the declining overall FDI to developing countries in general, and Asia and the Pacific in particular, arising from competing claims and inducements from Eastern Europe, a unified Germany, and Indo-Chinese States, the question was raised as to whether FDI was absolutely necessary. It was noted that FDI was expected to bring in foreign capital, technology and associated skills, the option of technology purchase and licensing especially for countries with high savings rates.

4. The main constraints to encouraging sustained FDI included the political and economic environment, a stable policy regime, adequate and supportive infrastructure, and an active private sector. Incentives were important, but could not substitute for the main constraints.

5. The role of the private sector has tremendously increased within the framework of hosting FDI. It ranged from being responsive to collaboration with foreign capital to communicating to Government possible policy changes affecting the flow of FDI and private sector participation. The magnitude of that role increased rapidly as more public enterprises were privatized, public infrastructure phased in for private sector implementation, and as government involvement in the economy diminished.

6. The policy foundations and other facilities for the promotion of FDI needed to be strengthened. In that regard, there was a need to prioritize areas of FDI participation and encourage the formulation of a short negative list. The formulation of such a list generally has led to an improvement in the investment climate.

7. The promotion of the development of integrated industries should proceed from parts assembly to final products. In that context, backward and forward linkages could be promoted through subcontracting arrangements and the interaction between small and medium enterprises and large firms.

8. The Seminar put strong emphasis on improving the implementation capabilities of government agencies entrusted with the policy reforms and deregulation, especially at the lower ranges of administration. It noted that the policy initiatives were not trickling down to the lower levels of implementing bodies. It, therefore, recommended the organization of training programmes for officials and personnel responsible for regulatory functions.

9. The Seminar reiterated the need to evolve a social consensus for the successful formulation and implementation of policies and programmes for industrial development. In that regard, the Seminar recommended the organization of exchange programmes for the parliamentarians and other related government personnel to familiarize themselves with contemporary issues and trends in industrial development.

10. The systematic, sustained and regular dialogue between the public and private sector through mechanisms that build mutual confidence should be continued. That would mean going beyond the formal mechanisms instituted by the Government for private sector involvement.

11. The Seminar observed that the role of the boards of Investment or similar institutions was highly instrumental in attracting FDI into countries such as India, Indonesia, Malaysia, Pakistan and Thailand. The Seminar, therefore, felt that boards of Investment ought to function as a "one window" mechanism so that all relevant matters relating to foreign investors' needs could be addressed effectively and speedily. The Seminar recommended that the institutional capability of such boards in several countries of the region should be strengthened to make their FDI policies and programmes more effective.

12. There was a need to build capacities in Asian and Pacific countries in technology choices, negotiating skills for foreign-domestic collaboration, and in dealing with transnational corporations.

13. The focus of public sector reform efforts should be on education, training and skills development consistent with the level and depth of technology utilization in industry and FDI.

14. The Seminar discussed at length the social costs of industrial adjustment policies and programmes. In particular, the impact of privatization on labour needed special attention. The Seminar felt that the measures adopted by some countries in that regard could be examined by other countries interested in implementing privatization measures.

15. The Seminar observed that countries would have to develop their own approaches and strategies within the broad ambit of the conclusions drawn above. While the approaches and strategies could vary, the Seminar felt that in order to succeed in promoting investment on a sustained basis, almost all of them would have to emphasize the creation of a conducive environment with policy stability and private sector development as key components. In that regard, there was urgent need to institutionalize the present process of liberalization and deregulation. Furthermore, the Seminar felt that countries would have to improve the administrative and professional capability to implement policy reforms, pay increased attention towards fostering better employee-management relations and conduct a continuing dialogue between the Government and the private sector.

The Seminar appreciated the secretariat activities in strengthening the role of the private sector and recommended that it should further strengthen its activities in that area. ESCAP, being a unique forum for conducting dialogues for cooperation, should undertake activities in strengthening regional cooperation for investment promotion, especially taking into consideration the present global economic realities, such as the advent of trade arrangements and the newly independent transitional market economies.

The Seminar recommended that the secretariat should, on a priority basis, seek assistance to undertake the following activities:

1. To undertake a comprehensive and systematic assessment of the incentive schemes offered by the countries of the region, with the aim of creating a better understanding of the success and failure of investment promotion efforts. Assessment should also be made of the global trends towards the creation of trade blocks and their effects on FDI flows to the ESCAP region. In that context, it suggested that studies should be undertaken in areas such as harmonization of industrial and investment policies and strategies, the building up of industrial and investment complementarities and the development of innovative schemes and cooperative arrangements.

2. To ensure greater participation of the private sector in those activities, direct contact with the private sector should be maintained through various private sector organizations. The Seminar noted with appreciation the current initiative to organize a private sector symposium on privatization, which was likely to be hosted by Pakistan.

3. To assist countries of the region in assessing skill needs in the short and long run. The Seminar reiterated that the availability of adequate skills is one of the major determinants for industrial development and especially for attracting FDI and recommended that such activities should be continued and expanded. Assistance should also be provided in developing a regional programme on the training of trainers to enhance the capabilities of the countries of the region in industrial skills.

4. To strengthen the activities undertaken by the Regional Network for Agricultural Machinery and the Asian and Pacific Centre for Transfer of Technology. There was a need for the promotion of collective research and development efforts in specific industries which would have general applicability to most countries in the region.

5. To explore the possibility of organizing regional training programmes addressed to government officials on investment promotion measures, technology transfer and diffusion, and the performance of FDI.

Underscoring the utility of sharing experiences, as was the case in this particular Seminar, it was suggested that there should be a continued dialogue between regional countries to examine the variation in policies and strategies to stimulate discussions before concrete individual and collective actions were undertaken to enhance FDI. It felt that the systematic sharing of investment promotion experiences in the region following a common set of questions and concerns, a common definition of data etc. would assist Governments in making the proper adjustments. In that context, the Seminar suggested that the secretariat should organize such dialogues at periodic intervals through the organization of workshops, seminars and symposia.

Realizing that personal contacts between potential investors of recipient countries and the investing countries would enhance the chances of better understanding and cooperation, the Seminar suggested that investment promotion tours for countries of the region should be organized. Technical cooperation among developing countries (TCDC) exchange visits by private sector representatives to various countries of the region could also result in more FDI flows.

It suggested that the secretariat should assist countries in their efforts in capacity building through the organization of training programmes in the fields of entrepreneurship development and identification, preparation and evaluation of industrial projects. It should also assist in the areas of enhancing negotiating skills for joint ventures and technology transfer contracts.

It further suggested that the secretariat should continue providing expert and advisory services to countries on specific issues and problems of industrial development. These services should be extended to the private sector also.

The Seminar expressed its deep gratitude to the Government of Bangladesh and the Federation of Bangladesh Chambers of Commerce and Industry for providing the host facilities and extending their cooperation in organizing the Seminar. It also extended its sincere appreciation to the Government of the Netherlands for providing generous financial assistance in organizing the Regional Seminar.

Part Two

DISCUSSION PAPERS

I. INVESTMENT PROMOTION POLICIES AND PERSPECTIVES IN ASIA AND THE PACIFIC

This paper has been prepared with the assistance of Professor F. Alburo.

A. RECENT FOREIGN DIRECT INVESTMENT TRENDS: RATIONALE FOR COUNTRY FOCUS

Since the outbreak of the debt crisis in 1982 there has been a rekindling of interest in, and an appreciation of, foreign direct investment (FDI) as a significant source of capital for developing countries, whether highly indebted or not. Bank loans, which were recycled petrol dollars from the 1972 and 1989 oil crises, were drying up as sources of foreign exchange to fill up resource gaps.

From a peak of more than a US$ 70 billion flow in 1981, bank loans fell to less than US$ 10 billion by 1986, in real terms. Indeed if net transfers are calculated for international bank lending to all developing countries, what was a positive transfer of US$ 35 billion in 1981 becomes a negative transfer of more than the same amount by 1987. The same was experienced in the Asian and Pacific region and within it by the highly indebted and the least developing countries.

Accompanying this renewed interest in FDI were concerted efforts by many countries to promote and attract investment. But even within the Asian and Pacific region, the efforts have been varied during the last two decades. Some countries had already in place systematic, if not sophisticated, investment codes for FDI even before the renewed interest in attracting it. Others were just starting to put up programmes for attracting FDI. Still others were yet in the process of policy debates, complicated by vested interests, nationalist views etc, on the advantages or disadvantages of FDI before embarking on specific promotional programmes.

The efforts undertaken by many of the developing countries had taken a shape and form defined more by what others have put up than their relative effectiveness in bringing in FDI. They range from some general features such as guarantees against nationalization, unfair expropriation, and easier registration and licensing procedures to some of the more specific provisions such as a variety of tax breaks (deferred payments, tax credits, tax exemptions, tax holidays), import concessions (reduction of tariff rates, tariff exemption), protection from competition (restrictions against competing imports), and maximum equity participation (between 40 and 100 per cent depending on sectors). Some countries improvise with other special features such as more liberal provisions to FDI from former citizens of the host countries.

Since the resurging interest in FDI, the home countries themselves (i.e., the sources of FDI) have also instituted efforts to encourage a greater outflow of investment. Except in the case of Japan where encouragement of more FDI stems from its large trade surpluses, the efforts in the home countries have been more to secure sufficient safeguards for FDI than for influencing the direction and content of FDI.

The promotional activities for FDI in the home countries are reflected in the following: in the broad schemes to protect investors from double taxation by entering into tax treaties with host countries; in specific tariff provisions that allow, for example, duties to be based on the value added of imports which use inputs coming from firm subsidiaries in host countries; in actual incentives for FDI especially if tied to projects supported by official development assistance (ODA); and in other schemes (for example, differential tax deductions) meant to support outward flows of investment.

Despite the apparent neutrality of FDI promotions in home countries, they do influence the direction of FDI. The time frame in which tax treaties are negotiated and concluded will vary by host countries and will definitely have a bearing on the actual profile of FDI.

What is clear is that there is keen competition for FDI in various developing countries. That competition is circumscribed by the seeming constancy of FDI itself in recent years.

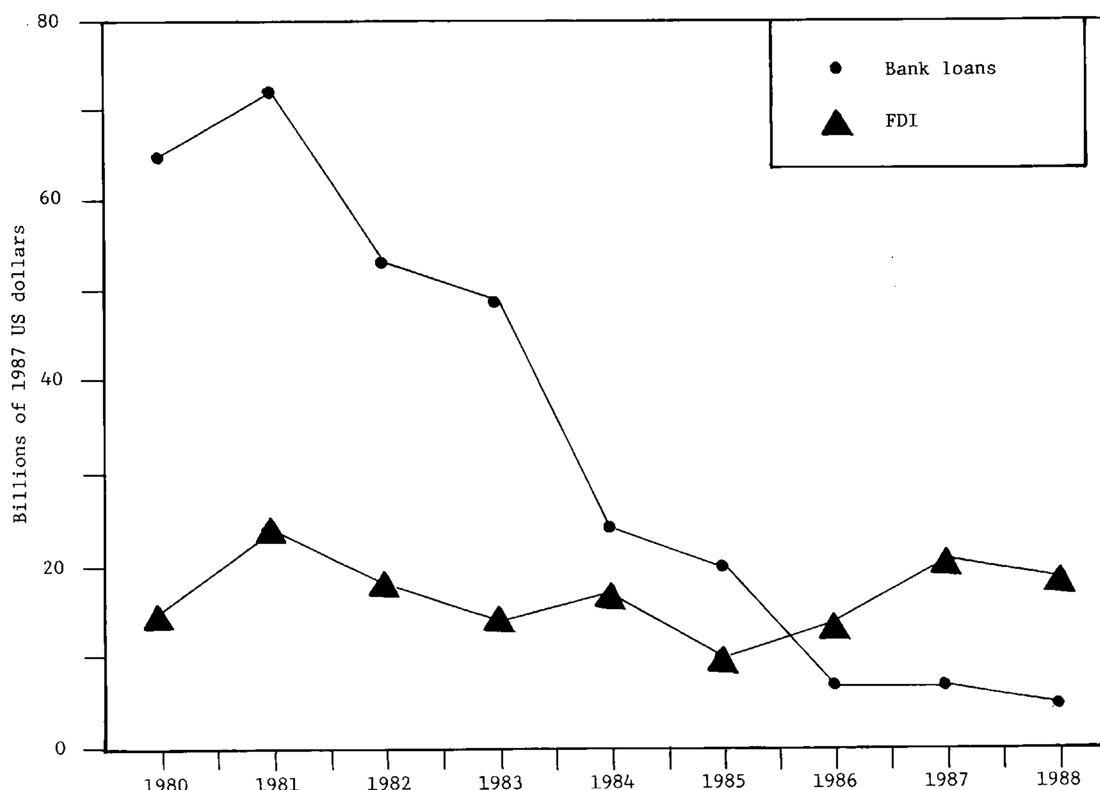
Figure I shows that there has really been no secular shift in FDI since 1980. In real terms, the flow in the 1987 peak is not too far away from the peak in 1981. This stability, in constant 1987 prices, of FDI is in sharp contrast to the secular decline in bank lending over the same period. In fact the share of all developing countries to the total FDI from the Organisation for Economic Co-operation and Development (OECD) countries has declined in relative and absolute terms. For example, one data set shows a decline in FDI from a peak of US$ 17.2 billion in developing countries in 1981 to US$ 11.2 billion in 1988 in

the same areas. As a proportion this flow fell from 37.8 per cent in 1981 to 9.8 per cent in 1988 (see table 1).

This means that the incentives and promotions activities put up by the developing countries, including those of Asia and the Pacific, have been pursued even in the wake of the same overall magnitude of FDI if not a declining real value.

The pursuit of FDI promotion and incentives in the context of its renewed importance and in the absense of their conclusive effects in actually attracting investment suggests that continuing documentation of country experiences may lead to more insights than presently known.

Figure I. Foreign direct investment (FDI) and band flows to development countries



Source: Organisation for Economic Co-operation and Development (OECD) 1989.

Table 1. Foreign direct investment (FDI) outflows from the Organisation of Economic Co-operation and Development (OECD) to developing countries (1981-1988)

	1981	1982	1983	1984	1985	1986	1987	1988
(Billions of US dollars)								
FDI in developing countries	17.2	12.8	9.9	11.4	6.7	12.2	13.2	11.2[a]
Total OECD FDI outflows	45.5	18.9	23.7	30.7	49.7	81.3	125.9	114.5[b]
(Percentage)								
Share of developing countries in total OECD FDI outflows	37.8	67.7	41.7	37.2	13.5	15.0	10.5	9.8

Source: United Nations Industrial Development Organization (UNIDO), *Foreign Direct Investment Flows to Developing Countries: Recent Trends, Major Determinants and Policy Implication*, July 1990, p. 5.

Notes: [a] Not including the United Kingdom of Great Britain and Northern Ireland.
[b] Provisional figure.

One of the problems in studies of FDI is the difficulty of consistent measures and data both from the home and host country. For one, country data on FDI vary depending on the fiscal year reported, the timing of the flows and their recording, the distinction made between investment approvals and disbursements, and the reporting source, among others. For another, even international sources of informaion vary depending on their own primary sources (for example, the United Nations Centre on Transnational Corporations (UNCTC) and Organisation for Economic Co-operation and Development (OECD)). What is probably more definitive is the actual recorded flow of FDI in a country's balance of payments.

This paper attempts to document country experiences in Asia and the Pacific in investment promotions and incentives. No new database will be constructed. Instead liberal use of various data sources has been made although qualifications are given to ensure full awareness of either data paucity or their fragmentary nature. The objective of the study is really to discern varying national structures or policies which affect or are impacted by FDI.

Focus is made here on the experiences of four countries in the Economic and Social Commission for Asia and the Pacific (ESCAP) region which are at different points of the development spectrum. First is India which can be roughly characterized as populous with large markets as well as resources but experiencing slow economic growth. Second is the Republic of Korea which is now a newly industrializing economy (NIE) and with significant natural resources (unlike Hong Kong, Singapore or Taiwan Province of China). Third is Thailand which is now moving towards NIE status and had a recent surge of FDI in spite of an overall decline globally. Fourth is Bangladesh as illustrative of the least developed economies in the region.

These four countries have had varying specific flows of FDI. They also had varying degrees of promotions and incentives for FDI which were set up either prior to the resurgence in FDI interest (for example, the Republic of Korea, Thailand) or with a significant overhaul in their systems in recent years (for example, Bangladesh and India).

Table 2 contrasts the FDI flows among the four countries to be studied. One notices the decline in FDI in Bangladesh after a peak in 1982 whereas for both the Republic of Korea and Thailand there has really been no perceptible decline, in fact there has been an increase for some years. Relative to the net private flows into these countries one also notices the relative importance of FDI to the Republic of Korea and Thailand. Not only in the four countries' economic standing can comparisons be made but also in their flows of FDI as well.

Table 2. Net private flows and foreign direct investment (FDI) to four ESCAP countries (1981-1987)

(millions of US dollars)

	1981	1982	1983	1984	1985	1986	1987
Bangladesh	-19.6	40.4	6.3	37.9	-16.8	-2.5	1.2
FDI	5.4	7.0	1.1	3.8	-6.7	-1.1	–
India	273.2	217.1	153.9	266.2	635.1	1,127.7	1,058.3
FDI	91.9	72.1	5.6	-36.9	70.0	–	–
Korea, Republic of	660.9	385.2	376.3	1,338.8	1,446.1	578.8	1,033.4
FDI (MSDR)[1]	86.0	62.0	65.0	109.0	227.0	365.0	462.0
Thailand	781.4	416.1	246.0	602.0	72.8	-7.7	495.4
FDI (MSDR)[1]	249.0	175.0	327.0	394.0	159.0	225.0	146.0

Sources: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (July 1990), table 56

United Nations Centre or Transnational Corporations, *Foreign Direct Investment, Debt and Home Country Policies,* UNCTC Current Studies No. 20 Series A (New York: UN July 1990)

United Nations, 1988

Note: [1] Millions of Special drawing rights

The study begins, in the next section, with a profile of the economic environment of the four countries, describing the role of the private sector in that environment. Many hypotheses have been advanced about the importance of the economic environment and the private sector. Which aspects are important are never clear. An attempt has been made to synthesize from what is known in terms of the environment while emphasis has been placed on the degree of privatization (or government participation in the market) as the principal indicator of the importance of the private sector.

The importance of physical facilities and infrastructure is next examined in the context of their influence on the flow of FDI. The four countries are looked at in terms of specific indicators of facilities from road networks to telecommunications and power, including the consistency between the timing of the development of facilities and promotional or incentives activities for FDI.

The study then tackles the factor of technology and human resources as a constraint to or facilitator of FDI in the four countries. Technology, both as a carrier of FDI and as an indigenous receptor and facilitator of FDI is addressed. In the same vein, the critical factor of human resources (reflected in skills composition, employment of scientists, research and development expenditures etc.) is reviewed. The overall thrust in this part of the study is to examine the absorptive capacity of the countries to FDI given their efforts at promoting and providing incentives.

The succeeding section analyzes the various institutional support for FDI in the four countries. In particular, the importance of the licensing bureaucracies (for example, boards of investment in the countries studied) is described. The role of other government agencies in dispensing incentives or implementing promotional activities is likewise analyzed.

There are advantages and disadvantages to the operation of transnational corporations (TNCs) as carriers of FDI in developing countries. The study seeks to evaluate the relative importance and impact, where information is available, of TNCs in the four countries under study.

Finally, the study tackles the agenda of promoting investment. After the synthesis based on the experience of the four countries, some implications are apparent and should be considered by individual countries. The agenda includes actions that can be taken by regional bodies toward cooperation in FDI.

Relying on in-country studies or regional data, the study does not attempt to generate new data but puts together pieces of work and evidence from a variety of sources. To remedy the lack of a cohesive theme among various sources, checklists have been constructed for a number of the sections highlighting country characteristics. In this manner some comparable analysis has been achieved.

B. ECONOMIC ENVIRONMENT AND THE PRIVATE SECTOR

In surveys of potential or actual investors in developing countries the responses invariably show that next to political stability it is the economic environment and government attitude toward private enterprise and the profit motive that is crucial in decisions whether to undertake investment or not. It is the economic and financial stability that matters more. What factors of the economic environment is seldom spelled out in detail. More often means it is gut feeling, and that varies depending on the investment project.

The focus of this study being four countries at different points of the development spectrum allows the examination of common economic factors across the countries. Its aim is more to understand the meaning of economic environment, especially as it relates to FDI, than to deliberately undertake comparisons or to evaluate the impact of FDI.

The first part presents a stylized framework for viewing the economic environment in macroeconomic terms, the trade regime, government participation in the economy and the policy context. In the second part, the broad parameters of the environment are summarized for the four countries. Then a checklist is presented before closing with its implications.

1. The economy: A framework

Within a given political setting, investment promotion or incentives are more seriously considered under certain macroeconomic conditions. This means there should be a positive economic growth, or a potential for growth based on recent economic performance. FDI is viewed by investors as a complement and not a substitute for inherent in-country efforts at economic stimulation. Neither should such growth or potential be eroded by inflationary pressures.

At this aggregate level there may be further investor interests in sectoral performance or potential, but much would depend on where the FDI is going. It would then become a matter of individual profitability calculations rather than pure economic stability.

A second area of the economic environment that is important in promoting FDI is the state of a country's trade regime. Apart from broad measures of openness or international integration, the extent of restrictiveness or liberalization matters more in terms of how goods and capital flow in and out of the country. In the same breath, the extent of external economic performance, reflected in the trade and balance-of-payments accounts, is an integral part of the overall trade regime. These are essential to eventual interest in and concern for the country's exchange rate (i.e., value to other currencies, convertibility and stability). After all inward FDI will eventually require outward remittances.

A third area in the economic environment is the extent of the Government's participation in the economy. This broadly dwells on the magnitude of government expenditures, budget deficits, and overall intervention in the economic system. One would guess that the real area of concern here is the magnitude of government influence (both direct and indirect) on sectors or areas that FDI may go into.

Then there is the specific environment displaying the country's recognition of private sector initiative as driving the economic forces. The weight of participation in the output production of state-operated enterprises is an indication of adherence to private sector initiative. State-operated enterprises may in fact be found only in a few and narrower sectors. The larger question of FDI interest is the transparency or discretion of criteria in operating government enterprises.

Finally, in a prospective sense, what is looked for in the economic environment is government commitment to reforms in both policy and programmes. More than this, the environmental scanning for FDI includes the scope of economic reforms that most countries initiate. Thus, it is not just the commitment to undertake reforms but also the spread of such reforms, their timetable and safeguard measures to ensure credibility in carrying them out. The broad political setting of an economic environment includes common economic parameters that are normally adhered to if investment promotion is to succeed. These pertain to guarantees of repatriation (of profits as well as capital), freedom from nationalization (without fair compensation), fair treatment (i.e., no discrimination against FDI), and security of investment. There may be varying degrees of bureaucracy associated with them (for example, permits and licenses required, time required for transactions to take place, manner of determining compensation etc) but by and large they are respected. These parameters would be even more binding for some host countries which are signatories to international agreements such as the General Agreement on Tariffs and Trade (GATT). While they may also affect decisions to invest since their variations across countries clearly matter, the economic environment provides the dynamic setting for FDI to flourish or collapse. Their interaction is quite important as well. Distortions between them or in the environment itself may constrain the effective flow of FDI, change decisions irrespective of the setting, and render promotional activities ineffective.

2. Empirical record

The Republic of Korea has had a stable and sustained real gross domestic product (GDP) growth rate since the 1970s when it had larger net flows of FDI. This high growth rate has been maintained in the recent decade in a period when the country itself has had outflows of FDI overseas. It annual rate of 9.6 per cent in 1975-1979 meant it doubled its economic performance in less than a decade. With only a set-back of -2.2 per cent in 1980 and thus an annual rate of 6.7 per cent in 1980-1985, growth soared

further to 10.5 per cent annually in 1986-1989. Based on just this growth rate alone, it belonged to the league of the other newly industrializing economies (NIEs) experiencing a similar performance.

Thailand, as an illustrative economy potentially graduating into an NIE, has equally had a stable and sustained annual real GDP growth rate over the same period, but at lower absolute levels (8.5 per cent in 1975-1979, 5.5 per cent in 1980-1985, 8.9 per cent in 1986-1989). Its record in the last 10 years has not seen a negative growth rate even at the height of world recession (the lowest having been the 3.5 per cent growth rate in 1985). In fact in recent years (after 1985) when FDI accelerated, its growth rate surged as well exceeding 10 per cent annually after 1987 (which was the experience of the Republic of Korea in 1986-1988).

India's real GDP growth of 3.9 per cent annually in 1975-1979 and 6.0 per cent in 1980-1985 also means a stable and sustained increase in the last decade although at levels lower than Thailand or the Republic of Korea. When account is taken of the population rate then the per capita real growth rate is lower. When further account is taken of absolute levels, such lower rates imply a longer length of time for real incomes to increase (for example, double the time for the growth rate of 8.5 per cent).

Although Bangladesh experienced similar sustained and positive real growth rates between the mid-1970s and the 1980s, this revealed both a declining annual rate (5.6 per cent in 1975-1979, 4.1 per cent in 1980-1985, 3.4 per cent in 1986-1989) and rates far from those experienced by the NIEs.

These growth rates of real GDP have already been adjusted for inflation rates. All four countries seem to have had movements in their consumer price indices that do not indicate a runaway inflation. It is Bangladesh which has seen recent rates of 9.8 per cent in 1988 and 11.4 per cent in 1989. For the same period it was 9.4 per cent and 4.8 per cent in India, respectively. The Republic of Korea has a deceleration of inflation from 6.9 per cent in 1988 to 5.6 per cent in 1989. Thailand, however, saw an increase from 3.7 per cent in 1988 to 6.3 per cent in 1989.

While the general picture appears to indicate a stable growth and presumably some positive growth potential (given past experience) one may have to look at certain sectors to see variations in sustained growth. Since most recent FDI has been in the manufacturing sector, an environmental scan may have to move in that perspective.

The manufacturing sector in the Republic of Korea has seen a high and sustained growth in real value added in most of the two decades of the 1970s and 1980s and in any of the subperiods between. Even the annual growth rate of 9.0 per cent in 1980-1985 was high by NIE standards which since then has remained above 11 per cent a year.

In Thailand's case, its growth rate annually of 10 per cent for most of the 1970s suffered in the early 1980, but has since managed to sustain high growth rates. It has also done much better than the other three Association of South-East Asian Nations (ASEAN) economies of Indonesia, Malaysia and the Philippines.

India's manufacturing sector had an annual growth rate of 4.6 per cent in 1970-1985 which was about the overall economic growth for the period as well. The sector growth fell in the early 1970s before recovering to an annual growth of 5.9 per cent in 1980-1985 and 7.8 per cent in 1986-1988.

Bangladesh experienced record high growth in manufacturing in the early 1970s before a drastic fall in growth in the mid-1970s, and with the exception of 1987, continued to decline. Contrast the growth of 14.2 per cent a year in 1970-1973 and 31.4 per cent a year in 1973-1975 with the 4.3 per cent annual rate in 1975-1980 and 2 per cent for the period 1980-1985.

Thus, what has been a broad, stable and seemingly sustained growth, and growth potential, in the aggregate has become qualified.

The trade picture in the economic environment deals with the openness of the economy, the sustainability of its external accounts, the degree of restrictions or liberalization, and the stability of the exchange rate, among others.

Measured by the rates of exports to GDP (or imports to GDP), the Republic of Korea had the same openness as Thailand in 1970 (14.9 and 15.0 per cent respectively). By 1980 and 1988, the degree of export orientation of the two countries had diverged. The ratio in the Republic of Korea was 33.7 per cent in 1980 and 40.8 per cent in 1988. Thailand, however, had an export ratio of 24.3 and 34.5 per cent over the same period.

If a full quarter of GDP is traded world prices presumably get transmitted to the rest of the economy, assuming no government intervention between border and domestic prices. Similarly a higher ratio of imports to GDP leads to the same kind of exposure to world prices.

For the Republic of Korea and Thailand imports to GDP ratio stood at more than one third, 32.3 per cent for the Republic of Korea and 36.2 per cent for Thailand, for 1988.

The Bangladesh export ratio was 6.1 per cent in 1970, rising marginally to 6.9 per cent by 1988. In fact the ratio fell to 5.6 per cent in 1980. The import ratio which was 8.4 per cent in 1970 reached only 15.3 per cent in 1988. These ratios suggest that Bangladesh has its own openness track that significantly differs from the Republic of Korea or Thailand.

Similar magnitudes can be seen for India. From an export ratio of 4.4 per cent in 1970, this rose to 5.8 per cent by 1988. Its import ratio also began with a 4.5 per cent value. By 1988 the ratio had reached 7.7 per cent.

Measures of openness do not provide a clue as to the extent of trade or balance-of-payments imbalances since these depend on both inflows and outflows which in turn are a function of competitiveness and comparative advantage. Trade and balance-of-payments accounts, however, are critical variables which influence FDI. In order to normalize the measures, the trade or current account balance as a proportion of GNP or GDP will be used.

The current account balance deficit in the Republic of Korea rose in the 1970s before a sustained decline in the early 1980s and a surplus was registered in 1986. For example, its current account deficit as a ratio of GNP reached a peak of -8.8 per cent in 1980 to a surplus of 8.2 per cent of GNP in 1988.

In the case of Thailand, its current account deficit exceeded 4 per cent of GNP between the late 1970s and early 1980s (except 1982) before significantly declining by 1986 to a 1989 ratio of -3.2 per cent of GNP. Its trade balance deficit also dramatically declined on an annual average between 1973-1980 and 1980-1986 (from -10 per cent of GDP to -3.0 per cent of GDP, respectively). This is about the same ratio as experienced by the Republic of Korea.

India's current account deficit never exceeded -2.0 per cent of GNP between the late 1970s and the late 1980s. Its trade balance deficit, however, remained between -2.4 to -3.7 per cent of GDP on an annual average.

For Bangladesh, its current account deficit as a proportion of GNP has been erratic with a peak of -9.8 per cent in 1978, although there has been a sustained decline since 1984 (at -1.5 per cent of GNP annually) until a 1989 rate of -0.7 per cent of GNP. Its trade deficit/GNP ratio, however, has not changed on an annual average basis of -12.5 per cent of GDP (1973-1980) and -12.7 per cent of GDP (1980-1986).

The magnitudes of current account balances, trade deficits and the balance-of-payments in general are only manifestations of private economic transactions which themselves may be subject to repression, supervision or outright control. Thus, what may appear in the accounts does not reveal the extent of restrictions or liberalization of the trade and payments regime.

While the Republic of Korea had an early period of restrictions to imports, what is useful to point out is that it geared its trade structure to promoting exports via direct incentives if not subsidies, and promotion for the world markets. Combined with an early elimination of multiple exchange rates, its trade reforms in the late 1960s and in the 1970s removed quantitative restrictions to imports, reduced tariff rates, deregulated

interest rates, liberalized foreign capital transactions etc. There is now a broad period of liberalization in the country.

After protection in its trade and payments system, Thailand instituted reforms in the late 1970s, liberalized trade and attended to its payments imbalances. Major tariff reductions have resulted in a freer flow of goods, there is now complete exchange rate convertibility, and a further opening up of its previously restricted sectors have characterized its trade regime.

India's restrictions are complex and the various components mutually reinforcing. Licensing and non-tariff barriers are the common form of restrictions. There is also an investment licensing system to protect its engineering industry from competition. Tariffs have also been used for restrictions to imports and have been employed liberally during times of balance-of-payments crisis (and keeping the exchange rate stable).

There has been some relaxation since 1985. Some sectors have been de-licensed while existing licensing mechanisms made more flexible. Tariffs have been lowered for imports of machinery in return for exporting. Yet the overall regime is still restrictive.

In Bangladesh's case, its restrictive and distorted environment since 1971 has been gradually improved since 1982. Balance-of-payments problems have been corrected, inflation managed, and the exchange rate adjusted. Since 1986 and 1987, Bangladesh has rationalized import restrictions and tariffs, lifted many quantitative restrictions, and streamlined licensing procedures.

Related to the restrictionist regime is the extent of currency convertibility or stability of the foreign exchange rate. Balance-of-payments problems can be corrected through restrictions or high tariffs or controls without letting go of the exchange rate, as in the case of India.

The Republic of Korea has extensively used the exchange rate as part of its liberalization efforts. The Korean currency was depreciated a number of times, and in recent years appreciated as a result of its accumulated trade surpluses.

The Thai baht had been stable for a number of years before a more active exchange rate policy was followed. As a result the exchange rate changes have been part of the changes in the trade regime.

The Indian currency has seldom been adjusted because of the use of trade restrictions as a substitute for exchange rate changes. In the presence of trade restrictions, there is a priori reason for the currency to be overvalued.

In the case of Bangladesh, the institution of a freer secondary exchange rate, determined by bidding by importers in an auction market for receipts from export performance licensing schemes has signalled a basis for more realistic rates and more room for a liberalized trade regime.

How much adherence countries have given to the dominance of the private sector in their economies is illustrated by the participation of the Government in the economy, particularly in sectors where there is no rationale or where the private sector is deemed more efficient.

The Republic of Korea used to have state-owned enterprises (SOEs) which played a dominant role in its early development. SOEs were in transport, manufacturing and the financial sector. Beginning in 1983, however, the Government began privatization of SOEs, and has succeeded in transferring ownership of many of them to the private sector or has disposed of government shares to the public.

Similarly, in Thailand privatization began in the mid-1980s as the Government divested itself of its shares in SOE's or abolished the monopolies of the SOEs as in electric power generation.

In India, instead of divestment or privatization in the early 1970s, it was only in 1982 that systematic divestment took place including denationalization and financial restructuring.

What is over-arching in all these discussions seems to be the commitment to allow the private sector maximum participation in economic activities. The magnitude of FDI flows in the end hinges on this, and policy reforms have been undertaken to address this.

Table 3 gives a summary picture of the economic environment for FDI in the four countries. A qualitative criterion is used to examine the environment, not a quantitative indicator. The range is from the aggregate economy to the specific industry and trade sectors and overall commitment to private sector initiative.

Table 3. The economic environment (three year period)[a]
Bangladesh, India, Republic of Korea, Thailand

Criteria	Bangladesh	India	Republic of Korea	Thailand
1. Overall GDP[b] growth	Positive: Low	Positive: Low	Positive: High	Positive: High
2. Inflation rate	Moderate	Moderate	Low	Low
3. Manufacturing growth	Uneven with GDP	Uneven with GDP	Greater than GDP	Equal or greater than GDP
4. Openness	Low	Low	High	High
5. Current account balance	Deficit	Deficit	Surplus	Deficit
6. Nominal exchange rate	Flexible	Rigid	Competitive	Competitive
7. Trade balance	Deficit: Constant	Deficit: Increasing	Deficit: Declining	Deficit: Declining
8. Overall price distortion[c] (1970s)	Moderately high	Moderate	Moderately low	Low
9. Privatization	Comprehensive: Ongoing	Partial: Delays	Comprehensive: Ongoing	Comprehensive: Ongoing
10. Economic reforms	Ongoing	Committed	Ongoing	Ongoing

[a] for explanation, see text.
[b] gross domestic product.
[c] World Bank, 1983.

The GDP growth rates are examined and assessed more in the context of in-country standards than comparisons across countries. For example, low growth rates for Bangladesh and India mean they had achieved much higher growth than more in recent years (for example, 6.8 per cent for Bangladesh in 1981 or 8.6 per cent for India in 1983).

The inflation rate criteria also follow the same spirit but more generally use a double digit rate as a threshold rate to define "high". Obviously with broader comparisons (for example, the Latin American experience) the qualifications will differ.

For manufacturing growth, the qualification has been whether it has exceeded overall GDP/GNP growth rates or not. In recent years, as noted above, the Korean and Thai manufacturing sectors have seen growth rates equal to, or much higher than, the overall economy. With an uneven pattern of GDP/GNP, its growth rate in some years fell below and in some years rose above the growth rate of GDP/GNP.

Openness uses a more specific export to GNP ratio of 25 per cent as a standard, not with any magical or analytical basis but simply because of its common use and the fact that both the Republic of Korea and Thailand had such low rates in the past.

A flexible nominal exchange rate for Bangladesh means it moves as supply and demand changes, in spite of the existence of a principal and a secondary exchange market. The coefficient of variation of its nominal exchange rate has, for example, been the highest among the four. This will not necessarily imply a competitive rate in the sense of a real effective exchange rate (REER) index. A competitive rate means adjustments (for example, devaluation or appreciation for the Republic of Korea and Thailand) in an REER sense. A rigid rate is self-explanatory.

A committed set of economic reforms accepts the principle but is yet to be fully implemented. A comprehensive privatization programme recognizes its interaction with other liberalization measures.

3. Implications

This cursory review of the economic environment is obviously an inadequate profile, fraught with distortions in interpretations, and may be misleading. What is the rationale, then, behind this environmental scan?

It was noted earlier that investors generally consider the economic environment and government attitude toward private enterprise next to political stability in decisions as to whether to undertake investments or not. By knowing which aspects of the environment discriminate among countries it will allow the identification of alternative actions to address them. And by going through this exercise in the concrete terms of four countries, one may be able to discern variations in the environment relevant to the flow of FDI. The step-wise framework suggested here is one such approach.

For as long as growth (actual and potential) is positive all countries are candidates for FDI. After all investment projects can vary in scale according to growth potential. Similarly as long as inflation rates are not runaway, they will not inhibit FDI.

When it comes to specific sectors where FDI is intended, additional criteria are needed and this is where differences arise. Where FDI is for the manufacturing sector, the potential payback is obviously greater the more dynamic it is. And one measure of dynamism is the growth of the sector relative to the overall economy. Note that both the Republic of Korea and Thailand exhibit such dynamism. Alternatively when agriculture is the intended FDI sector, it is also the dynamism there that is examined.

Opennness may facilitate or inhibit FDI especially as it affects exchange rate regulations and the management of the trade and balance-of-payments.

The extent of privatization and the magnitude and scope of economic reforms carried out signal the commitment of the countries to provide a conducive environment for the private sector to respond to appropriate markets and to correct inherent distortions. The timing of such programmes and reforms may even be equally important. Delays and reversals will scuttle the necessary changes and reflect a weak environment for FDI.

Given the flow of FDI (see table 2 above) to these four countries under study, one can see national economic characteristics which distinguish each other (manufacturing growth, openness, nominal exchange rate etc.), and for which national policies may have to be understood fully and responded to. These go beyond the broad or overall aggregates. Both incentives or promotional activities for investment may then have to be geared toward compensating these aspects of the environment.

C. PHYSICAL FACILITIES AND INFRASTRUCTURE

In a setting where the political context is given and where a systematic scan of the economic environment can be pursued (as followed in the previous section), what investors would look for is the physical and infrastructural logistics to support FDI. Part of the promotions activities will include marketing these facilities that the country can provide. There might even be a trade-off between the magnitude and quality of country infrastructure and the need to provide investment incentives to investors. An inverse relationship exists between infrastructure support for investment and costs and thus incentives are meant to offset the additional costs.

This section describes various types of national infrastructure among the four countries and the role they play in attracting investment. The first part gives a brief overview of the physical support facilities in the four countries. The description also places the support in the context of schemes by which FDI is attracted. The next part goes on to an overview of other infrastructure facilities such as banking and

peripheral social overheads. A summary is finally given along with possible directions by which investment itself can be attracted to provide the infrastructure.

1. Physical support

Judgments, and comparisons of judgments, on the adequacy or inadequacy of physical support to FDI across countries suffer from a lack of common standards. More so if the judgments are to be confined to the requirements of foreign investments. On the one hand host Governments may provide exceptional infrastructure (both physical and non-physical) to meet FDI needs. On the other hand there is always the argument that it must be overall investment that provides the support structures especially since domestic investment remains the largest component of total capital formation.

The physical facilities that investments require are usually those public goods that do not satisfy the exclusion principle or those with externalities for which the private sector would not otherwise undertake. In more recent times, however, with the wide use of such schemes as "build-operate-transfer", even public investment could be undertaken by the private sector. It becomes a matter of how to attract profitably private undertaking in public investment.

Extensive road networks facilitate the movement of capital goods, raw materials and other inputs from points of procurement to end use. Conversely they facilitate the flow of final products from factories to other distribution systems and to the ultimate customers.

In countries which are non-archipelagic (such as the four countries studied here) the rate of road construction may constrain the rate at which investment can proceed unhampered. Quality-wise it is also the rate of paved road construction that may be important for the more modern, sophisticated and precise manufacturing ventures such as electronics which require delicate transport.

But even if the rate of road construction may be high by historical standards in a country, without some sense of the requirements or targets or a potential growth, rates will not be meaningful. Perhaps the growth of roads needs to keep pace with overall capital formation, as one rule of thumb.

It is interesting to note that the road length (in terms of kilometres) in the Republic of Korea had an annual increase of 2.2 per cent (1980-1987), slightly higher than the 1.1 per cent in 1978-1980. More interesting is that the rate of paved roads increased by 10.5 per cent and 7.3 per cent respectively. As a result the ratio of unpaved road length (gravel, or crushed stone or stabilized surface) to paved road length declined from 1.81 in 1980 to 0.72 in 1987. Since the Republic of Korea has a finer distinction of roads into unimproved, its ratio to paved roads fell further from 0.19 in 1980 to 0.02 in 1987.

Taking this as a reference experience (but not a standard) Thailand's rate of road construction had an annual growth of 6.0 per cent in the late 1980s and 5.2 per cent in 1980-1987. The length of its unpaved roads declined absolutely so that their ratio to paved roads declined as well from 0.26 to 0.16 between 1980 and 1987.

In the case of Bangladesh, there was a rapid paving of roads growing at 6.1 per cent annually in the 1980s compared with 2.5 per cent a year in the late 1970s. In the same period the length of unpaved road construction decreased from 57.7 per cent (1978-1980) to 18.7 per cent (1980-1987). This led to a drastic decline in the ratio of unpaved road to paved road from 0.72 in 1980 to 0.33 in 1986.

For India, its road construction has been growing at 1.5 per cent a year in the period 1978-1982, with a 4.4 per cent annual rate in the increase of surfaced roads. Thus, the length of its unsurfaced road declined over the same period. While not readily comparable, with the measure of unpaved road, the ratio of unsurfaced road to surfaced road fell from 1.24 in 1978 to 1.0 in 1982.

The availability of deep and secure ports for the sea transport of goods also facilitates investment. While road networks increase the land mobility of goods, ports facilitate shipments into and out of the country. Each of the four countries have their own programmes of port development, but an index of their existing facilities may be roughly measured by their current shipments. For example, Korean ports

unloaded 144.2 million metric tons of goods in 1988. Thai ports unloaded 7.2 million metric tons in 1987 and India unloaded 39.5 million metric tons in 1985.

All four countries also provide air facilities for both passengers and cargo. There may be differences in civil aviation services among them. International air services in the Republic of Korea, for example, flew 75.4 million kilometres in 1987 in comparison with Thailand's 53.1 million kilometres in 1985. In India, international air services had flown 43.7 million kilometres in 1985 while Bangladesh had 11.3 million kilometres in 1987.

The above figures are not comparable nor based on the same standards. To do so would require that the numbers be adjusted for the country's GDP, population or some other common denominator. This is not done here precisely to avoid inappropriate comparability. But is quite obvious that the volume of sea or air traffic in the Republic of Korea is larger than India given the latter's population size.

There are clearly substitution possibilities among different modes of transport facilities depending on the nature of the investment projects. Some products require immediate shipment, others can take longer routes. An extensive rail network, as in India, can substitute for poorer road networks.

The provision of power facilities may not be physical support but in their absence, economic production may require an infrastructure investment for alternative electric power. Except for Thailand, all four are self-sufficient in electricity. Both India and the Republic of Korea have nuclear sources of electric production 71 and 49 per cent of total output for India and the Republic of Korea, respectively. In Thailand between 1 to 3 per cent of its consumption is imported.

As noted earlier, these magnitudes of physical facilities do not really mean much without standards to reckon with which could be targets, the potential or some normative values. Indeed the facilities may also be thinly spread over the country. For these reasons developing countries, including the four considered here, often designate areas where the support facilities are fully provided for investment. These are industrial estates, or export processing zones, or special economic zones.

Even more than the physical facilities described above, these designated areas provide a variety of factory buildings, zoned production areas and, depending on their location, physical housing for workers. When the estates are in capital cities or urban areas, the physical facilities are appropriately reduced, for example, bonded warehouses. In any case, when investment is concentrated in these special areas the physical support is clearly provided optimally.

There are of course advantages and disadvantages of processing zones or estates. The rationale for their emergence, however, has been the inadequacy of physical support to FDI; hence by focusing the facilities on narrower areas they would have maximum impact and utilization.

The Republic of Korea was one of the first countries to create export processing zones as means of attracting FDI and providing comprehensive physical support. Later, Bangladesh, India and Thailand also developed special zones for industrial production for exports.

More generally, there is now a recognition that greater planning for physical facilities would attract more sustained investment than isolated locations. The Eastern Seaboard of Thailand is meant to provide an alternative location for investment with sufficient physical facilities yet still integral to the backbone of business activities of the country. The planning for interconnecting highways in India was also meant to attract investment.

2. Other infrastructure

Apart from the pure physical support to move goods across the border or within the countries' markets there are other infrastructure facilities which are equally critical to investment. These range from telecommunications and their various modes to social development infrastructure such as health care. More recently this has included broader amenities from entertainment to media facilities.

The extent of telecommunications support can be for domestic (internal) communications or foreign services. The modes include letter mail, telegraphic services, telephone services, facsimiles, telexes, televisions and radio.

How far these have expanded can be measured by the amount of traffic that the services have generated. In the Republic of Korea, communications via letter mails, both foreign and domestic, had only modest annual increases in the 1980s. Foreign telegraph services in fact declined in absolute number. What has tremendously grown, and has been the major communications mode, is telephone and telex services. Long-distance calls received from or made to other countries expanded by more than 30 per cent a year. With an 18.7 per cent annual increase in telephone services, this means an increasing intensity of phone use in communications.

Overall, the communications system in the Republic of Korea is fairly advanced. The number of television receivers per 1,000 inhabitants increased from 164.7 in 1980 to 189.2 in 1985. In terms of radio broadcasting receivers, almost one out of 2 own a receiver (i.e., 451 per 1000 inhabitants)

In Thailand letter mail also had a modest annual growth rate of 4.8 per cent (with foreign mails sent growing at 7.3 per cent) in the 1980s (1980-1987). Telegrams sent, domestically and internationally, declined in absolute members. For example, from 250,000 telegrams sent abroad in 1980, this dropped to 86,000 in 1987.

Again, it is in voice communication that expansion is significant. In the period 1980-1986 telephone services in Thailand increased at an annual rate of 12.6 per cent with international calls increasing even more at 32.4 per cent a year. Telex services increased by more than 10 per cent a year.

Video reach continued to be limited given 16.9 television receivers per 1,000 inhabitants in 1983. Audio reach, based on radio receivers per 1000 inhabitants, was 176.6 sets in 1986.

For India, domestic telegraph services (in terms of number of telegrams) increased by 0.7 per cent annually (1980-1986) but foreign telegraph services (telegrams received and sent) declined in absolute numbers by more than half between 1980 and 1986.

However, telex services in terms of number of circuits increased at an annual rate of 7.1 per cent over the same period while the number of subscribers increased by 10.1 per cent a year.

Telephone services (number of telephones in use) increased by 8.1 per cent a year with long-distance calls slightly more at 8.6 per cent a year.

In India video and audio communications are at 6.5 sets per 1000 inhabitants and 78.3 sets per 1000 inhabitants, respectively (1986).

Data for Bangladesh are not readily available although its telephone services grew by 9.3 per cent a year (1980-1986). Communications reach was only 0.9 television sets and 8.1 radio receiver sets per 1000 inhabitants (1983).

There are also difficulties in data as well as systematic analysis, of the financial services facilities supportive of investment. Liberalization and banking reforms are only recent in the Republic of Korea and Thailand. For Bangladesh and India financial services have yet to be provided extensively and need systematic understanding before specific measures facilitative of investment can be comprehensively instituted.

For foreign investment, some substitution can take place between banking and financial services, and communications facilities. Financial transactions can be made offshore with domestic businesses limited to what are necessary. Domestic investment, however, would suffer from such a weak financial infrastructure, or it would be hampered in expansion.

Anecdotal evidence points to the importance of other infrastructure support for FDI. There is concerns for weak medical facilities. Inadequate, and not internationally acceptable, educational services reduce

the flow of potential investment. Then there are housing and general living facilities not only for regular work forces but for expatriate management staff that go with increased FDI.

3. Summary

Table 4 is a brief summary of the discussion in this section. There are not too many implications which can be drawn. But the summary gives a clue as to the relative importance of infrastructures and facilities and what contribution the promotion of FDI may have in improving or upgrading them.

Table 4. Physical facilities and infrastructure (1980-1987)[a]
Bangladesh, India, Republic of Korea, Thailand

Criteria	Bangladesh	India	Republic of Korea	Thailand
1. Road construction (annual growth rate)	6.1 per cent	1.5 per cent	2.2 per cent	5.2 per cent
a. Paved road	7.3	4.4	10.5	6.4
b. Other road	decrease	decrease	decrease	decrease
c. Ration of (b) / (a)	0.33	1.0	0.72	0.16
2. Goods unloaded at port (million m. tons)	7.2	39.5	144.2	16.4
3. Power adequacy	Self-sufficient	Self-sufficient	Self-sufficient	1-3 per cent imports
4. Special zones	Available	Available	Available	Available
5. Foreign Telegrams		decrease	decrease	decrease
6. Long-distance telephone calls		increase	accelerate	accelerate
7. Telex		increase	increase	increase
8. Television per 1000 population	0.9 (1983)	6.3 (1976)	189.2 (1985)	16.9 (1983)
9. Radio set per 1000 population	8.1 (1983)	78.3 (1986)	451 (1985)	176.6 (1986)
10. Financial services	Limited	Limited	Ongoing reforms	Ongoing reforms

[a] For explanation, See text
[b] 1978-1982

Road networks are indicated by recent overall growth in the kilometres of road built, the relative increase of paved over other kinds of road, and the ratio of other roads, to paved roads. There is no clear comparability since "other road" may have different qualities across countries.

The volume of goods unloaded at ports is simply used to give a sense of how much trade there is in a country without any reference to the quality of ports, turn-around time, availability of container services etc.

Power adequacy is indicated by the consistency between production and consumption without a judgment of quality. The intent is to show dependency, if any, on external sources of power generation.

Without considering the absolute volume of communications, foreign telegraph is the use of telegram services for international communication, their growth in recent years. Long-distance telephone is usually for overseas (or international) communications and facsimile transmissions. The indicator here is generally relative to the growth of telephone lines. An acceleration of long-distance telephone use means an increase (50 per cent to 3 times) in frequency of distant communication relative to telephone line installation, i.e., intensity of phone usage. Telex facilities are measured by the numbers sent.

In the absence of measures of adequacy of facilities or in-country or international standards, no credible comparability can be made across the four countries. This summary, however, reveals a number of salient points. First there is a clear (and even wide) substitution of infrastructure in physically moving goods – road, rail, sea, air – and investment decisions on the mode of physical facilities used would be a function of security, distance, time etc which all have a common denominator in terms of costs. In attracting

investment, efforts at public investment have been in increasing the pace of paving roads and reducing the proportion of unsurfaced roads.

Second, the creation of special zones (industrial estates, export processing zones etc) for investment is meant to concentrate infrastructure and other facilities to service the needs and requirements of investors. Thus, while infrastructure may be inadequate on average, at designated zones it is more accessible. Experiences in countries differ however.

Third, there is an adequate supply of power in the four countries surveyed here. Although Thailand imports power, it constitutes no more than three per cent of total consumption. How much capacity these countries have (except for Thailand which is a net power importer) to respond to surges of investment is not indicated in the summary.

Fourth, given the wider substitution possibilities in the mode for the physical movement of goods into or out of, and within the country, it appears that a more critical facility and infrastructure is telecommunication. It has wide potential for efficiency, more accurate, and immediate in application. Witness for example the intensive use of telecommunications in the Republic of Korea and Thailand for a given increase in telephone lines. Moreover, the common use of facsimile for data, document and other transmission increases the scale economies of such infrastructure. They even partly facilitate the use of other facilities (for example, banking and financial services).

Finally, while the infrastructure needs of investment (domestic and FDI) may be privately undertaken or upgraded this would vary by the kind of infrastructure. For instance, road, water or even air facility infrastructure may be undertaken on a turnkey basis (or build-operate-transfer). Unless such infrastructure is very specialized, it can become public goods. Telecommunications, however, tend to be custom-built (for a specific FDI network, or main office-factory links) and cannot be viewed as a public good. Private investment can then be promoted for the physical flow of goods while public investment in broad telecommunications can yield the economies of scals of a public good.

The recognition of the critical importance of physical facilities and infrastructure in hosting FDI has made the creation of confined areas appealing as a concrete way of supporting investment. In those special zones there is certainty that facilities are adequate. Yet the trade-off here is the isolation of the areas from the rest of the country, the weak linkages between economic activities in the zones and the rest of the economy, and the neglect of the infrastructural needs of other locations. If the intention is to address both the broad economic objectives of the country (including greater equity) and the requirements of FDI, physical facilities and infrastructure may have to be planned and implemented as integral to the overall economy.

D. TECHNOLOGY AND HUMAN RESOURCES: ABSORPTIVE CAPACITY

The effectiveness of promotional activities for investment will depend on how responsive it is to factors that matter in decisions by investors, local or foreign. Even if the response is there, the process and its associated policies, does not end.

Investment is often viewed as a means of achieving economic welfare over a timetable that could be short or roundabout depending on its character. Economic welfare is often a function itself of broader economic and social policies. The magnitude of investment flows in turm is a function of the relative attractiveness of channelling savings into them.

Foreign capital, in which FDI is part, is supposed to fill a financing gap in a country's overall financial programming. However, it is not really the quantity of flows that matter as much as whether the country can absorb them. In addition the pace of the country's development will also vary with the quality of capital.

FDI is unique in the sense that it can carry different technology, causes the production of an output with perhaps an exposure to international markets, and effectively competes with local investments. But its search for profitable markets may not be consistent with the broad needs of and desires for development by the country. Efforts at investment promotions, therefore, have to be quantified in such a way that the flows of FDI not only satisfy the quantitative financing gap but also its quality. The flow of investment is a necessary condition. This is what the environment and promotional activities seek to address. What is sufficient is that the economy itself must have the capacity to absorb them in optimal ways.

In this section of the study, the relationship between investment and technology is looked at closely. It is argued that there are certain preconditions in the relationship that would allow a difference in the character of FDI absorption. The argument is based mostly on the experience of the NIEs including the Korean case described here. Despite the paucity of date, especially on technology, the argument appears to be valid.

The section then examines the resource requirments for effectively absorbing FDI, and changes in the home countries in the context of the experiences in the countries reviewed here. An attempt is made to outline possible leads for action by other countries in Asia and the Pacific to increase and improve their absorptive capacities for FDI.

1. Investment and technology

One school of thought points to the separation of investment from technology through the direct purchase of techniques and processes, rigid licensing agreements, and supervision of payments of royalties and fees. This version alludes to the Japanese and Korean experience in their early stages of development. Once technology transfer is arranged, successful production takes place for exports.

However, the experience of Hong Kong, Singapore and Taiwan Province of China suggest the inherent use of foreign-based transnational corporations (TNCs) as integral carriers of both capital and technology.

The actual track taken has depended on the critical importance of other factors than technology itself. For example, for a country such as Japan which has had a historically high savings rates, external capital may not be significantly needed since local investment can be carried out from internal savings. For others, the financing gap may indicate the need for foreign savings via FDI.

The empirical record of the NIEs in FDI and this technology framework is not in either of the two schools of thought, but in a parsimonious combination with different timing and sequencing stages along the growth path. One must, therefore, look beyond this classification to understand more fully the interaction between investment and technology.

The whole gamut of applied technology, technical processes, post-production services, quality control, distribution, marketing, management etc., vary according to the industry and product itself. There are those which require crude and those which require sophisticated technology; those which require specific skills and those which require simple manual handiwork. Technology's application, therefore, is conditioned by the existing resource endowments of a country.

An industrial structure is often classified into resource-intensive, labour-intensive, capital-intensive, technology-intensive, or science-based intensive. The level and degree of the technology requirement varies across these different types of industries. The relative magnitudes of these industries (and their associated investment requirements) reflect the country's existing resource endowments, market signals and international trade.

Over time and as the economic transformation takes place, resource endowments change and so does the industrial and production structure apart from pure changes in technologies themselves. In this sense technology use and application are intricately related to investment although the act of technology use and investment need not be a homogenous decision.

By looking at the experience of the NIEs, and the developed countries of the Pacific such as Japan one can then draw some lessons about the interaction between investment and technology. Japan, for example, had a large portion of its industry output produced and exported in labour-intensive goods in the 1960s before sharp declines beginning in the 1970s and increased share of differentiated goods and science-based products.

In the Republic of Korea exported industrial goods that were resource-intensive were 21 per cent of the total in 1965 before going down to 4.3 per cent in 1987. Sixty-nine per cent were labour-intensive goods in 1970, falling to 40 per cent by 1987. Conversely, science-based goods exports increased in share from 0.2 per cent in 1970 to 4.8 per cent in 1987.

Early exports of Thailand were even more skewed in industrial composition to resource-intensive goods at over 90 per cent in the 1960s and 1970s. But this has since decreased to 9.9 per cent in 1987. Labour-intensive goods, however, dramatically rose in share from 8.8 per cent (1970) to 52.3 per cent in 1987. Scale-intensive goods increased from 1.3 per cent of composition to 4 per cent in the same period.

In India's case, the pattern is quite erratic. First, its resource-intensive exports remained between 11 and 25 per cent from 1965 until 1985. Second, there has been the same fluctuation of between 45 and 55 per cent (from 1970-1985) for the share of labour-intensive products. Finally, there has likewise been little sustainable trend in the shares of other industrial products in exports (although the composition of science-based industries in exports of 6.2 per cent in 1985 is higher than that of the Republic of Korea or Thailand).

Neither does Bangladesh's experience show any traceable trends. As in India, its output that is exported which is resource-intensive did not change in proportion to the total in the 1980s. The share of labour-intensive products has stayed between 80 and 84 per cent and there has been a practically negligible share for science-based or differentiated goods.

What accounts for this lack of consistency. It has already been pointed out that part of the character of the experience of those countries which had effectively absorbed FDI and technology has been an emphasis on production for a global market. It can be argued that even the school of thought that separates investment from technology (as in Japan and the Republic of Korea) utilized technology for exports. Thus outward orientation has been the associated behaviour with shifting shares of industrial output. In other words once technology is acquired production outcomes from its use have been for open and global markets. The growth of exports or sales abroad has, therefore, been reinforcing industrial transformation itself, especially if that growth has been self-sustaining. The merchandise exports of the Republic of Korea have grown at positive rates throughout the 1980s and at high values except for 1982 (at 1.0 per cent) and 1985 (at 0.4 per cent). Its average annual growth rate in the past 10 years has been 15.2 per cent.

While Thailand did experience more decline in the growth of its merchandise exports (1982, 1983, 1985), along with the pattern of global recession in the early 1980s, it also rebounded quickly with growth rates exceeding 30 per cent annually in the latter part of the decade. Indeed its average annual growth rate of exports in the last 10 years has been 15.1 per cent.

The growth of merchandise exports in Bangladesh and India has been fluctuating in the early part of the last decade. There has been however, some growth in the latter part, although not as sustained as in the Republic of Korea or Thailand. The average annual growth rate of exports of Bangladesh has been 7.8 per cent (1981-1990) while that of India averaged 8.1 per cent a year for the same period.

The ability of industrial development to take place and be sustained, i.e., the structural transformation of industries, is perhaps conditioned not only by investment, technology adaptation and generation, but by a critical mass of export volume in the international market.

This combination of forces, both internal and external at critical levels, can best be illustrated by the experience of the Bangladesh textile industry. From a stagnant domestic investment activity and productivity in the 1960s, labour productivity began a steady increase in 1971. Thence followed an increase

in exports and subsequently increases in imports of capital goods. The eventual combination of export surge, productivity acceleration, and capital imports in the textile industry led to the sustained build-up of technological capacities and industrial growth which can be a base for further expansion and technology absorption.

The levels of technology necessary for the particular pattern of industrial development illustrated by Japan and the NIEs on the one hand and Bangladesh, among others, on the other hand have been varied. At early stages, especially in the production and export of labour-intensive goods, the techniques and processes are standard, quite simple, and require low levels of skills. At the stages of production of differentiated goods or science-based products, processes become more complex, requiring more sophisticated capabilities.

There have been at least two tracks in the acquisition of technology that has been put to bear on industries in the context of the structure described above. One is product and process imitation. This ranges from pure copying (design, label, physical structure etc.) to reverse engineering of processes and techniques. Often the technology is unbundled from the integral elements that go into the production of output. Thus the means of product or process imitation range from illegal infringement of intellectual property rights or patents (for example, product piracy) to licensing, equity participation, and joint ventures.

The formal purchase or licensing of product or process may facilitate imitation, reduce technical errors and capture other aspects of production that are not integral to technology itself. Technology acquisition in this case is clearly upon mutual agreement of user and originator.

Aside from copying as a way of product or process imitation, industries have sometimes resorted to reverse engineering, i.e., the physical dissembly of a finished product in order to either improve on the process or substitute alternative components. Much of engineering machinery for instance can be copied through reverse engineering.

In the context of greater adherence to the General Agreement on Tariffs and Trade (GATT) codes, product and process copying may not be a viable way of technology acquisition although reverse engineering would be difficult to monitor for code violations.

The other track followed is through FDI itself, especially via transnational corporations. By encouraging a greater inflow of FDI, more innovative technologies for products and processes are introduced and the base for profitable investment becomes wider. Although the technologies that come with FDI may not be at the frontier, a self-selection process takes place, especially if given the appropriate environment.

FDI makes no distinction on the type of technology that comes in as opposed to technology targeting that the first track makes possible. But underlying such targets is a known industrial structure.

Transnational corporations, as carriers of technology, may in fact withhold the diffusion of processes and designs by confining them to inter-company, intra-firm transactions and trade. But even with such limited widespread effects, vertical and horizontal linkages build a stronger technological infrastructure.

How important technology is to recent industrial and trade patterns can be gleaned from the relative dynamism of technology – intensive products trade. For example, products with high research and development inputs experienced the highest average annual growth rate of exports among developing countries between the 1970s and the 1980s. There has been a deceleration of export growth in low research and development products. Moreover, the share of high technology exports has increased dramatically between 1970 (2.6 per cent) and 1987 (13.1 per cent), although the value continues to be at the lower end compared with the low technology trade.

The two tracks of technology acquisition described above are not mutually exclusive and there is interaction between the two. Given a country commitment to open trade and market orientation, encouraging FDI seems to be an optimal track. First, depending on trade policies, there is a wider set of accessible technology suited to country conditions. Second, if transnational corporations are the carriers of technology, the whole gamut of associated activities are carried as well. Finally, other formal forms of process or product adaptation are carried out with the least disruption.

It is important to identify and understand some of the resource requirements for hosting FDI in a manner facilitating technology acquisition. The needs may be broader than the specific elements of technology itself. Apart from these, given the requirements, there may be implications for policy action beyond trade or investment. By knowing the interaction between investment and technology the resource requirements become clearer.

Technology generation, acquisition, adaptation or modification are associated with a country's resource endowments and industrial structure, which in turn is associated with the levels and scale of exports. While there is no doubt that technological advancement is both a cause and effect of economic transformation or industrial restructuring, the interaction is more complicated. Even at a very low base of knowledge and technology there is an implied industrial structure. Openness may enhance both technology and industry.

That is why the technological content of the industrial distribution of exports is a product of investment, trade and technology, unless technology generation is removed from actual application. In the experience of developing countries however, these interactions are most reinforcing when the country is aggressively outward looking.

The greater sophistication of today's technology, especially at the intermediate and higher end of the industrial ladder, requires a more suitable infrastructure than otherwise. For example, the increasing use of electronically based or computer intensive technologies suggests a stronger communications backbone to facilitate the adoption or application of technology. This was the message of the previous section's discussion.

2. Hosting FDI: Resource requirements

The successful acquisition of technology requires more than the immediate means of securing patents or processes. It was noted that one way is to encourage FDI. The factors required for the successful absorption of FDI (which is a vehicle for technology acquisition) must, therefore, be spelled out. Based on the discussion earlier and on the experiences of the four countries, it is possible to discuss what these are.

Depending on the configuration of the industrial structure, the resource requirements may differ. At the lower end of the industry the labour skills needed may be simple. At the other end, they may be more sophisticated. The educational foundation for these skills in turn differs, from vocational to more rigorous scientific capacities.

The extent to which countries successfully host FDI along the spectrum of a technological base for industry is a function of the extent to which skill requirements are provided. This is in part measured by the supply of vocational education at the beginning phase of industrial development. As the industrial and trade structure moves to products and processes requiring higher skills or scientific capacities, the educational support also shifts beyond vocational education to tertiary education.

As countries change their character of industry and exports, and there is a supportive system responding to their requirements one would expect changes in the educational character of the country as well.

For example, given the Republic of Korea's experience in the industrial distribution of its exports in terms of technological content, its skills capacity configuration should also see a change from one providing the needs of labour-intensive, skill-intensive industries to the more technology-using science based products. In fact, students enrolled in vocational schools in the Republic of Korea increased substantively in the late 1970s and early 1980s (26 per cent a year in the period 1978-1980) before absolutely declining thereafter. However, enrolment in the tertiary level increased gradually throughout the two decades.

The pattern for Thailand is not quite as market. First, vocational enrolment peaked in 1983 before declining, quite early given the preponderance of labour-intensive industries as late as 1987. Second, tertiary level enrolment also peaked at about the same time. There is probably a lag in the absorption of these skills in industry and thus an adjustment factor. Indeed, the annual growth rate of vocational education enrolment in Thailand was 14.5 per cent between 1978 and 1983. Yet tertiary enrolment increased annually at an even higher rate of 29.2 per cent.

This phenomenon, illustrated in Thailand's case, of high growth of tertiary level education is a common experience among developing countries, implying a mismatch between needs and supply. Educated unemployed plus an insufficient cadre of skilled workers weakens a country's ability to absorb technology appropriate for its industrial structure.

The limited data for India show a similar phenomenon, an annual increase in tertiary level enrolment of 14.7 per cent (1978-1982) whereas there was an absolute decline in vocational enrolment. Bangladesh also reflects a parallel situation. Tertiary-level enrolment has grown on average by 15.6 per cent a year (1978-1985) whereas vocational students have increased by only 2.6 per cent a year.

These illustrations of "mismatches" do not mean that the types of education noted are not relevant. The content is not the issue here but rather its quantitative consistency with the technological and industrial pattern followed. There is an inherent sequencing of requirements for industry and technology at various development phases.

The skills levels define a country's capacity to adapt a given technology at various stages of its industrial, production and export development. In the context of the product cycle of international trade the necessary skills can be appropriately identified.

But both adaption of technology and the generation of new ones require a base of science capacities, infrastructure support in the form of resources devoted to research and development (R and D), and the training in the cadre of human resources engaged in the sciences. There is a mutual interaction between effective and efficient adaption of technology along given industrial stages.

Much of the R and D effort is done by developed market economies. Measuring R and D expenditure as a percentage of GNP, the effort is substantially higher in Japan, the United Kingdom of Great Britain and Northern Ireland and the United States of America compared with efforts of Pakistan, the Philippines and Sri Lanka.

The developed market economies spend in excess of 2 per cent of GNP for R and D. Ratios in Japan and the United States stand at 2.8 per cent of GNP, comparable with the 2.3 per cent for the United Kingdom.

The R and D ratio in the Republic of Korea is at 1.8 per cent of GNP followed by India's 0.9 per cent, and Thailand's ratio at 0.2 per cent. These figures, while indicative of resources devoted to invention and innovation, are not really reflective of overall effort at R and D. For example, the similarity of efforts of the United States and Japan actually hide the common perception about Japan's ability to use R and D for commercial ends. Moreover, the aggregate ratio does not really say anything about how pervasive R and D effort is across varying firm sizes in a given industry. There is fragmented evidence, for instance, showing a significant number of Thai companies engaged in the design and upgrading of production processes.

The supply of capacities to undertake R and D work is reflected in the country's science base. One measure of a sustained capacity is the educational orientation towards the sciences (Natural Sciences, Mathematics, Engineering). Bearing in mind the importance of quality differences, the higher the proportion of students in the tertiary level in the sciences, the greater the potential scientific capacities to carry out relevant R and D work.

A look at the limited data for the Asian and Pacific countries will reveal that this measure of capacity seems invariant across some countries. For example, for Bangladesh and the Republic of Korea – at opposite points on some of the measures examined here – the proportion of students in the tertiary level enrolled in the sciences is the same, 24 per cent. Japan's proportion of 20 per cent is even lower than Pakistan's 29 per cent or Sri Lanka's 22 per cent.

In part, the scientific base may not be responding to the capacity needs for industry or exports in the country but across its borders. What this means is that the trained skills migrate and are elsewhere

utilized for industry and trade. This seems consistent with patterns of migration especially of scientists from the third world to the developed market economies. Thus, the invariance of the ratios across countries.

However, given the existence of the rudiments for scientific capacities, it seems clear that with more trade and industrial expansion adjustment becomes smoother. The scientific base provides the means for technology adaptation, from testing to commercial use.

Barring the generation of indigenous technologies that are at the frontier of a discipline, it follows that it is FDI which needs the resources of skills, science capacities, and R and D ahead of local investment. Attention to them then lays the groundwork for easier absorption of FDI. Subsequently as production expands the widespread diffusion of technology takes place and resource demand impinges from both domestic and foreign investors. In the end resource needs do not differ between local and foreign investment except for their temporal use.

3. Implications

Table 5 summarizes the main thrust of this section, technology and human resources figuring in the successful absorption of FDI into the country. At least three factors influence the technical absorption of FDI apart from other dimensions spelled out in the previous sections. These are (1) trade, its composition and dynamism, (2) the scientific infrastructure for hosting FDI, and (3) the human resources pool.

Table 5. Indicators of FDI absorption: Technology and human resources Bangladesh, India, Republic of Korea, Thailand

Criteria	Bangladesh	India	Republic of Korea	Thailand
1. Annual growth rate of merchandise exports (percentage)[a]	7.8	8.1	15.2	15.1
2. Share of exports (percentage)[b]				
(a) Resource-intensive goods[c]	16.1 (1987)	25.2 (1985)	4.3 (1987)	9.9 (1987)
(b) Labour-intensive goods[d]	81.5	50.0	39.7	52.3
(c) Science-based goods[e]	0.4	6.2	4.8	4.0
3. Annual growth rate of gross domestic capital formation (percentage), 1985-1987[f]	2.0	4.1	12.5	10.2
4 Annual growth rate of enrolment (percentage)				
(a) Vocational education	2.6 (1978-1985)	-2.9 (1980-1981)	4.2 (1978-1987)	6.1 (1978-1986)
(b) Secondary education	5.1 (1979-1985)	8.1	3.0	4.4 (1978-1984)
(c) Tertiary education	15.6 (1978-1985)	14.7 (1978-1980)	15.5	10.0 (1978-1987)
5. Scientists and engineers per 10,000 work force[g]	15.2 (1974)	21.0 (1979)	40.5 (1978)	9.1 (1975)
6. Scientists and engineers in R and D per 10,000 work force[h]	0.4	0.7	7.1	2.7
7. R and D ratio to GNP[i]	–	0.91 (1986)	1.9 (1988)	0.2 (1987)

[a] 1981-1990 (1989 and 1990 figures are estimates and projections, respectively), ESCAP (1990).
[b] Percentage do not add up to 100 as other categories are not included, ESCAP (1990).
[c] Includes Standard Industrial Trade Classification (SITC) 41, 42, 43, 61, 63, 641, 251, 334, 335, 661, 662, 663-663.9, 68.
[d] Includes Standard Industrial Trade Classification (SITC) 65, 691, 692, 695, 696, 697, 699, 84, 851, 821, 898, 899.
[e] Includes Standard Industrial Trade Classification (SITC) 533, 54, 55, 75, 792, 87.
[f] Asian Development Bank (1991).
[g] Lim Teck Ghee (1987).
[h] Lim Teck Ghee (1987).
[i] ESCAP (1990).

Strictly speaking FDI and technology are interchangeable since in the context of this study either one is a vehicle for growth. As explained FDI is a carrier of both capital and technology while technology can be acquired as a self-contained product or process. But for purposes of analytical classification, we look at them distinctly.

From among these factors, it appears that it is in vigorous trade that FDI is fully absorbed. Table 5 shows that it is both the Republic of Korea and Thailand that had merchandise exports growing annually above 15 per cent compared with the 7-8 per cent annual growth for Bangladesh and India. Such growth rates accelerate and facilitate the change in the composition of exports along a technological spectrum, i.e., from products using less technology to those more science-based. Indeed there were dramatic shifts in export composition in the two decades in both the Republic of Korea and Thailand. Yet these were not true for Bangladesh and India where product composition has remained the same or the shifts were marginal. While it is true that the science-based goods export of India is higher at 6.2 per cent of all exports, this has not been accompanied by changes in overall exports and may simply reflect an over abundance of science capacities.

Whether the technology is acquired via straight purchase (licensing agreements, joint ventures etc) or FDI, dynamic trade enhances the ability of the economy to restructure its industry and export that becomes self sustaining. Although there are clearly export niches for trading countries according to some order, this dynamism is important in being able to capture early the benefits of global trade that is increasingly into research and science-based goods.

A number of implications arise from these considerations. First, openness and greater trade liberation are conducive not just to the successful absorption of FDI or the use of technology but to structural transformation of trade and industry. Moreover it is not also just openness but a dynamic growth of trade characterized by the Republic of Korea and recently Thailand with annual rates exceeding 15 per cent. Such dynamism facilitates compositional changes of industry and exports from dominantly resource – or labour-intensive goods towards technology- or science-based products over a shorter period of time. Moreover whatever its mode, FDI or direct acquisition, technology feeds on trade and vice versa. Conversely, where trade is slow and there is restrictiveness, there are fewer technological changes and less rapid FDI flows.

Second, where FDI is the major vehicle for technology adaptation and capital augmentation transnational corporations are the usual carriers. As transmitters of new products and processes, a conducive environment for transnational corporations spreads technology faster even if in its initial stages it is confined vertically or horizontally among transnational corporation networks. Either by way of technology targeting or broad adaptation, depending on resource endowments, transnational corporations are generally at the frontier in adaption and diffusion especially if the associated trade policy is openness.

Thus, it is policies that relate to transnational corporations that generally matter. In specific terms these include screening processes for licensing agreements, a regulatory system for pricing (where applicable), and equity limits, among others. Transnational corporations are treated separately in another section.

Third, there is an apparent synergy among trade dynamism, FDI flows and gross domestic capital formation (GDCF). Since both local and foreign investment responds to the same signals, one feeds on the other in an accelerating manner. Where technology is acquired through a purchase or licensing arrangement dynamic GDCF insures quick production response on a scale that an equally dynamic trade accommodates.

A look at table 5 reveals that many of these implications are borne out by the four country experiences, reinforcing interaction among trade, FDI and GDCF, and more dynamic restructuring of trade. Conversely there is a lethargic interaction among them under less vigorous growth.

Looking now at the implications drawn from the human resources aspect of FDI and technology absorption, there are three interesting observations. First, many of the resources and scientific infrastructure

required for the absorption of FDI and technology are necessarily indigenous, and have varying gestation periods. Even at the initial stages of openness, adjustment is faster in a situation where capacities required are internally available.

Second, the human resources development dimension has to be in tandem with the industrial and trade structure in such a way that their technical capacities are fully utilized. Without such a "match", technical skills leak out as migration and brain drain or become underutilized. In the case of the four countries examined here, there is a high ratio of total scientists and engineers relative to the labour force in Bangladesh and India compared with Thailand, yet when corrected for those actually engaged in technology related work, i.e., in research and development, the ratio falls dramatically. This implies some magnitude of underutilization of appropriate human resources. This mismatch does not take into account the quantitative flow of skills out of these countries. However, the previous subsection noted the patterns of enrolment growth in vocational and technical, secondary and tertiary-level education relative to the structure of trade and industry and associated technological content. Except for the Republic of Korea, where growth rates of enrolment come close to its pattern of trade, there were apparent mismatches in the other three countries, either vocational, technical and secondary human capacity generation tapered off before significant compositional change in industry, or tertiary-level capacities grew faster or both.

Finally, it is necessary to translate a commitment to scientific infrastructure into actual expenditure for research and development (R and D). Usually measured as the ratio of R and D to GNP, this encompasses the resources expended, publicly and privately, with technology-related work, such as adaptation, process and product testing, replication, and knowledge generation. It is important to distinguish the source of R and D effort since there may be externalities to public resources at different stages of trade composition for which private efforts will be suboptimal. In more open trade this could be less crucial especially at the lower end of product cycles but will eventually become critical. While the ratio of R and D to GNP has been quite low in Thailand this has not been a major constraint to its initial take-off, but is increasingly becoming critical.

E. INSTITUTIONAL SUPPORT AND INCENTIVES

This section consolidates some of the important generally accepted findings on the role of institutions and incentives in generating FDI. No new data nor analysis will be made here. One task is simply to point out what lessons can be drawn, both from the experience of the four countries examined and the larger empirical base, for promoting investment.

There is a proliferation of incentives schemes for FDI among developing countries in the ESCAP region, many similar in nature and often competing with each other. This is looked at first in the sense of broad categories, second at their cost where there are quantitative estimates, and third at their effectiveness.

Institutional support describes the various ways and organizations by which FDI is facilitated, from the regulatory environment to the mechanism of providing educational and secientific capacities for absorbing it. A second subsection addresses this.

Some relevant principles are then expounded based on these reviews. It may be opportune to reassess the role of incentives and their interaction with institutional mechanisms in generating FDI. Indeed, there may be more room for gearing up these instruments to attract more FDI.

1. The advent of incentives

Investment incentives are becoming a popular policy instrument in attracting capital, in directing it into desired sectors and activities, and in compensating for other inadequacies that would otherwise inhibit its flows. Its popularity stems from the fact that as one developing country puts up a package, others follow suit in order to maintain attractiveness.

Inadequate savings mobilization suggests that domestic capital is not enough. Thus, there is interest in foreign capital. Given the fungibility of capital for other destinations, incentives are provided despite a natural tendency for returns to be higher than in home markets.

One can, therefore, distinguish between those measures meant to assure foreign capital of its safety and those meant to increase its profitability. All countries for example guarantee foreign capital against expropriation except for public purpose, but for which there is adequate compensation. There is a guarantee of capital repatriation, remittances of royalty fees, and profits. In addition there is often a guarantee of equal treatment between domestic and foreign capital as well as patent or trade mark protection.

There may be subtle difference even among standard guarantees. Bangladesh, for instance, limits remittances of the incomes of foreign nationals earned in the country up to a certain ceiling. This is not explicitly specified in the foreign capital laws in other countries.

It is in the provision of positive measures that Governments generally implicitly pay for drawing in foreign investment through forgone revenues or direct subsidies. The magnitude of allowable foreign equity defines the broad policy attitude towards foreign capital. Among the four countries examined here, it is India which appears to be more restrictive in the extent of foreign equity participation although earlier the Republic of Korea discouraged foreign equity and instead preferred licensing agreements and technology purchases. India limits foreign equity up to 40 per cent except for those engaged in export production or high-technology areas where up to 74 per cent majority ownership is allowed. Contrast this to the 49 per cent limit in Thailand or Bangladesh and up to 100 per cent ownership in cases where 100 per cent of output is exported.

But the differences in thrust seems to be beyond equity limits. For India the condition has always been that majority ownership and effective control should be Indian even in cases where there is FDI except where there is vital technology in an enterprise. FDI is not resorted to for filling in financing gaps but as vehicles for technology. The country considers loans as a means for obtaining exchange resources rather than equity. Both Bangladesh and Thailand appear more open to FDI in general. In fact there is even some liberalization for FDI into India for non-resident Indians.

Most countries which have incentives spell out sectors or industries for which foreign investment is encouraged and those for which it is discouraged. It is interesting to note, however, that Bangladesh seems to rely on a notion of measured capacity to define where foreign investment is discouraged. While India broadly discourages FDI (and in fact has Indianized foreign companies), the other countries simply state the areas for which FDI is not allowed.

Depending on the period in which an investment is provided incentives and several forms of tax incentives are invariably given. These include income tax holidays, tariff exemption for certain imports, tax deductions, and tax credits. A common five-to eight-year income tax holiday is found among the four countries although Bangladesh provides up to 12 years for industries that are established in special economic zones.

Tariff exemption is another form of incentive. For those qualified, exemption or a significant percentage reduction of import duties is given in Thailand (50 per cent) as well as in Bangladesh and the Republic of Korea. In the case of Bangladesh, a separate schedule of import duties is imposed depending on where the machinery is to be used (in least developed areas or not). Apart from straight import duties (tariffs), there are also excise duties which are reduced or waived if qualified for incentives.

Where exemptions, or reductions are not provided, a system of duty-drawbacks or tax credit is instituted. This is the recent improvement of export incentives in India where the duty drawback scheme covers all imported inputs for direct and indirect exports.

There are various deductible items from taxable corporate income which eligible firms may avail themselves of. These include accelerated depreciation allowances, carry foward of losses, and deduction of organization and pre-operating expenses (Thailand).

Table 6 provides an overall summary of various incentives given in the four countries compared here. More liberal in terms of the incentives per se are Thailand and Bangladesh compared with the Republic of Korea or clearly restrictive India.

Table 6. Comparative investment incentives
Bangladesh, India, Republic of Korea, Thailand

	Bangladesh	India	Republic of Korea	Thailand
1. Extent of foreign equity				
General	49 per cent	40 per cent		49 per cent
Specific areas	100 per cent	74 per cent		100 per cent
2. Restricted areas	"Saturated" industries	All except hightech and related industries		Defined by 1972 Alien Business
Law				
3. Screening/licensing	Yes	Yes	Yes for FDI above a ceiling	Yes
4. Incentives!				
Tax holiday	5-12 years	5 years	Yes	3-8 years
Tax exemption	Yes	Yes	Yes	Yes
Tax credit	Yes	Yes	Yes	Yes
Customs duty concession	Yes	Yes	Yes	Yes
Deduction from taxable income	Yes	Yes	Yes	Yes
	Yes	Yes	Yes	Yes
5. Basic guarantees	Yes	Yes	Yes	Yes
6. Capital and profit repatriation	Yes	Yes	Yes	Yes
7. Local content/export requirements	Yes	Yes	Yes	Yes
8. Special preferences	None	None	None	ASEAN equity: 51 per cent
9. Special (free trade, export processing economic) zones	Yes	Yes	Yes	Yes
10. Average tariff rates (1980-1984)	75 per cent	72 per cent	33 per cent	26 per cent

Source: Various official documents.

There are no solid estimates of the revenue losses and costs attributed to the institution of investment incentives. The more systematic comparisons of incentives schemes in ASEAN tend to show that incentives do not add much to the competitiveness of the countries with each other. Thus, whatever losses there may be are without marginal returns.

The largest cost to the institution of incentives, however, may not be revenue losses but the failure of adjustments to take place because of the existence of incentives.

The original rationale for incentives is to compensate for distortions in the economy, the institution of minimum wages, exchange rate overvaluation, weak infrastructure, lack of labour skills, for example. These are associated with the infant industry argument. Yet it is clear that the best way to correct them is to remove the distortions at the source. Unfortunately this is easier said than done. Indeed incentives may create more distortions, including the costs mentioned above.

A common distortion-creating incentive, for instance, is the promotion of certain industries. Besides the problem of being able to identify unambiguously products for which a country has a comparative advantage, other industries (particularly agriculture) are relatively penalized. Thus expansion is discouraged in the other industries.

Although it may be recognized that incentives are redundant, that they do not really alter decisions made to invest, and are costly in both forgone revenues and adjustments, they are unlikely to be removed unilaterally. Surveys reveal that they do not matter in consideration of investment locations, yet there are also findings indicating that their removal in one country while others retained their systems would affect flows in that particular country. In other words, investment would not have flowed had incentives in one country been removed while others remained.

The general statements we can make with regard to incentives are that (a) there is a proliferation of them in the ESCAP region with more or less similar features, (b) they do not really alter investment decisions that are based more on other economic and political considerations, and (c) there are serious and significant costs in financial and economic terms of incentives.

In the final analysis, incentives are becoming a poor and expensive substitute for a basic attention to the structure of the economy and industry, the removal of distortions and macroeconomic imbalances, and the creation of a stable environment for the future economic expansion and restructuring to take place smoothly. This is addressed below.

2. Institutional support

The promotion of investment is not only a function of the environment, the facilities and infrastructure, or human resources, but of the various institutions that are set up to put these together so that collectively they support the flow of FDI into the country.

Instead of looking at specific organizations in countries, what will be done here is to consider three objectives of institutional support systems. The first is to direct the flow of FDI. The second is to provide the infrastructure for technology generation and adaptation. The third is to formulate a framework for defining the broad role of FDI.

Countries generally have investment licensing organizations to oversee the flows of FDI. Many have boards of investment (BOI), such as Bangladesh and Thailand. The overall function of these boards is to approve investment applications and incentives. While these types of organizations appear to be basically regulatory, much depends on how approvals and incentives are carried out. In the case of the Republic of Korea, the shift from a positive list of approvals for trade imports, and hence industrial development, to a negative list was instrumental in shaping the country's incentive schemes into greater export-orientation. However as noted above, Bangladesh appears to rely on "measured capacity" as a basis for defining whether incentives ought to be provided or not.

Both India and the Republic of Korea do not have a board of investment, and investment approvals are made by the ministries or the central bank. Both countries, however, declare that some committee reviews and approves the foreign investment. The difference appears to be that the existence of set rules and negative lists renders most action by the Korean Committee straightforward while in India there is substantial discretion. In the Republic of Korea, the Foreign Capital Project Review Committee (FCPRC) looks at foreign investment projects exceeding US$ 5 million. A Capital Goods Committee (CGC) in India examines investment proposals especially in terms of foreign exchange outlays, and local procurement of machinery and equipment.

As a whole, whether through boards of investment, regular government agencies, or committees, directing FDI involves more than market parameters rather it identifies industries or products in which a country will have a competitive advantage in export destinations. Instead of the normal entry and exit of firms, there is a regular pronouncement of items for licensing, industries to be discouraged and encouraged, products freely importable, and the scale of incentives that are available. Instead of rates of return based on actual conditions, ratios change as boards or committees dispense incentives.

The provision of institutional support for a successful technology generation and adaptation, whether indigenous to the point of self-reliance or through FDI hinges on an argument that a significant amount of technical information is general, that is to say applicable to a broad range of specific uses. Private

firms, therefore, tend not to provide those capacities which cannot be appropriated and invest only in those they can directly benefit from. There is, therefore, a combination of a private-public good element to these activities.

The institutional mechanisms to address the public good nature of technology and FDI support range from the provision of facilities for testing and standardizing new and acquired technology to financing access for research and development.

However, the availability of human resources capacities, which also has a public good element, requires an infrastructure ranging from public education resources to incentives for expenditure involving training, human resources development, and full scale research programmes.

In all these, there are varying country experiences. What is more interesting to follow is the development of private sector efforts at institution building and their interactions with public sector infrastructures in facilitating the generation, use, and diffusion of technology.

The case of institutional support in the Republic of Korea is interesting and didactic in many respects. First, it began with crude copying and imitation although the emphasis was always on technology licensing not FDI. Second, it also began with no indigenous technological capacity in either the public or private sector. Third, a series of policy initiatives were taken in support of technology build-up. Fourth, the private sector later took the burden of sustaining capacities.

From the early 1960s to the early 1970s there was very little recongition of R and D in industrial development. But the Government began to create an environment for technology through the establishment of institutes and manpower development programmes and the creation of a Ministry of Science and Technology.

This was further reinforced in the early 1970s with the need for local sourcing of parts and components in manufacturing which required technical capacities, the recognition of learning from imports of foreign technologies and other policy moves to encourage R and D work. This included financial loans from the Korea Development Bank for R and D investment, new research institutes, and a technology development promotion law dictating the broad measures to support the private sector in R and D.

It has only been since the early 1980s however, that the private sector really took off in terms of individual firm initiatives for R and D, strengthened by far-reaching changes in policies including full liberalization of technology imports, expansion of financial credit for related activities, and other legislation.

The experience of the Republic of Korea in creating an institutional environment for technological development for industrial adjustment shows the effect of cumulative action combining incentives and legislation. Even protection early on (in the form of permits required for technology imports) had a positive impact.

There are other elements that form part of the whole infrastructure, such as technical information services which can be provided privately (for example, industry associations), publicly (for example, government media), or multilaterally (for example, technology information services by United Nations agencies), the growth of engineering services (maintenance and repair contracts), and capital syndication etc.

The experiences of Bangladesh, India, and Thailand do not fully illustrate the interweaving relationship between the public and private sectors, the cumulative effect of policy changes which have sequential dimensions, and the strong sustainable drive of the private sector in the aftermath. In other words, despite the necessity of the institutional infrastructure because of the public good aspects of technology, the private sector eventually carried the burden of R and D investment.

Institutional support for defining a comprehensive view of FDI and technology development is a product of coordination among differing agencies and institutions. Again, it is the Republic of Korea which displays a more consistent interaction among both agencies and policies towards building an environment for technology development.

One of the weaknesses of the comprehensive view of investment promotion among countries is the continued revision of the list of industries to encourage or discourage. Because of inter-industry linkages alterations to trade in identified products distorts not just one sector but the overall economy. The shift early on in the Republic of Korea from a positive list to a negative list reduced the likelihood of distortions and increased the stability of investment signals as well as consistancy with the other sectors of the economy. Indeed changing promoted industries in the context of defined five-year development plans is already distortionary.

There is also a public good/private good dichotomy with regard to the human resources required in support of technological development and diffusion and FDI absorption. The previous section pointed out the scale of education and skills required of various stages of trade and economic transformation. Even the more precise skills, however, rest on a strong general education foundation.

It is, therefore, not surprising that many countries in the region provide public education up to the second level based on the general applicability of knowledge gained towards specific skills. The institutions administering public education aim to increase enrolment ratios. But more than this is the importance of recognizing the education and skills appropriate for the level of technology employed in industry. Increasing vocational education relative to tertiary levels is necessary in the early stages of trade and its attendant technology requirements. In the later stages the general foundations may be more complex (for example, computer literacy) yet they need to be publicly provided.

This recognition underlies a need for directing public investment in education towards a distribution that facilitates FDI and the appropriate technology. There are significant social costs, for example, in an institutional setting where third level graduates end up working in jobs requiring only second or vocational levels.

Once the educational system, public institutions, and investments are geared up for human resources development responsive to technology and FDI requirements, parallel efforts should be pursued to make sure that the private sector can effectively satisfy its capacity needs or make additional private investment. The latter may not take place or is less than socially desirable if private training provided is transferable as workers leave for other jobs. The notion of on-the-job training may induce private firms to support skills formation. But the efforts to improve R and D work may be short since knowledge generated is also transferable. What may be useful is for Governments to subsidize such efforts, give tax breaks and incentives to the private sector, or undertake extension services aimed at supporting the efforts. In addition the private sector itself may institute programmes aimed at spreading the diffusion of technology through industry training tailored to specific industry needs, consultancy services, and information networks. Because of the public good element, the private sector may decide on how these will be supported.

In the end, the institutional mechanisms that attend to the human resources element of FDI have to link up as well with the other institutions geared for technology acquisition, diffusion and development, and those administering the incentives system so that there is mutual reinforcement of efforts. Then even private efforts will be closer to optimum social benefits.

3. Some basic principles

This brief discussion into the incentive structure employed in developing countries to attract FDI and the institutional environment for facilitating it reveal a number of interesting observations. They can be considered as basic principles to use in formulating the environmental framework to bring in FDI.

There is no doubt that each aspect of the environment is as important as the other and both incentives and institutions are part of the broad package serving to attract FDI. Given the physical facilities, the existence of sufficient endowments, and a stable set of rules, incentives and institutions cumulatively contribute to drawing in foreign capital and technology.

There is significant doubt, however, whether measures beyond basic guarantees and liberal foreign equity rules have a positive effect in attracting FDI. The empirical record seems to show that various

fiscal incentives do not change the relative attractiveness of investment destinations, that they impose financial costs to Governments, and in many cases they create added distortions. The evidence says there are more important factors that weigh in investment decisions that have nothing to do with incentives. There is, of course, the asymmetry in evidence that withdrawal of incentives by one country may lead to less future foreign investment.

Another interesting implication is that where there are sources of discretion in decisions regarding the approval or disapproval of investment, the adjustments towards greater facilitation of technology and FDI are constrained. The shift from a positive list to a negative list in the Republic of Korea contributed to a more predictable environment and accelerated the development of indigenous technological capacity. Conversely frequent changes in what industries or products can attract foreign investment dilute the potential for a focus in technology adaptation and diffusion.

This does not mean that regulation does not play a role or that it is not necessary. What is essential is to see it as a stage in a sequential process leading to a situation which is promotive of FDI. This is what happened in the Republic of Korea, i.e., from a strict technology licensing and targeting to eventual liberalization of technology imports and FDI. Thailand seems to be moving into a promoting stage and away from excessive regulatory functions.

With respect to the human resources development aspect of FDI, what is suggested by this review is an institutional setting where the capacities required for absorbing FDI and facilitating technology adaptation, diffusion and development can be provided in sufficient quantity and quality. The variety of educational institutions and policies has to be in sequence with the development of the country's trade and investment regime. It is not really the magnitude of investment in public education (although capital infrastructure is admittedly important in certain types of education) but their consistency in terms of timing and sequencing with overall trade and industrial development. Thus the different elements of the educational system require cumulative effects and feed into individual private sector efforts in building capacities.

Both secondary and vocational education is necessary at the early stages of trade and industrial development which tertiary level education is essential in succeeding stages (especially in the more complex technology- and research-intensive types of goods).

What is clear is that the human resources development foundation rests on a strong general second and vocational level education early on and a tertiary level with postgraduate education later on. The former highlights the basic component of this root while the latter may be provided by a combination of public and private initiative. The institutional setting and resource requirements, therefore, do not appear to be formidable. What is needed is appropriate timing and sequencing.

The private sector, however, may be underinvesting in human resources development. But with a meshing of public education, fiscal incentives for private efforts at training and capacity build up for R and D work, and technical extension services, private institutions would reinforce public investment.

In summary, it is worthy to note that basic principles should be carefully attended to in terms of attracting FDI and technology and in creating the institutional support for them. These are not beyond the existing endowments of developing countries.

F. THE ROLE OF TRANSNATIONAL CORPORATIONS

The objective of this section is more to set in context the role of transnational corporations in promoting FDI than to expound on their general relationship to host countries.

There has been for some time now increasing recognition of the importance of transnational corporations (TNCs) in the global economy. Their importance, function, and impact on developing countries are regularly monitored and studied. In the ESCAP region, a separate unit of the United Nations Centre on Transnational Corporations (UNCTC) provides an information base on transnational corporations,

conducts surveys on their contribution to host economies, and evaluates their impact on larger areas of economic and social concerns. The UNCTC also puts out case studies of specific industries which have TNCs across countries. These specific case studies analyze how TNCs operate within countries.

In addition, the unit also keeps tab of the global movements of FDI, assembles lists of TNCs networks, and tracks down changes in national balance of payments associated with FDI. We now actually have a better empirical understanding of TNCs than before.

It would, therefore, be redundant to discuss these kinds of details on TNCs which are adequately documented elsewhere.

It will be recalled from the previous section that TNCs are seen as carriers of capital, technology or both. In the two modes of technology acquisition, FDI, as one mode, is carried by TNCs technology purchase (for example, licensing agreements) as the other mode is, of course, discriminating in the choice of techniques based on the targets and preferences of the purchaser.

A general presumption is often made that the operations of TNCs in developing countries bring with them advanced techniques and products, which along with their marketing networks, and experience, rub off in local affiliates, leading to further diffusion and an overall productivity improvement in industry.

This, however, may not always be the case. For one, TNCs may be using obsolescent technologies and not really pushing frontier techniques. They may be hesitant to part with the latest patents as they move up the technology scale. For another, even with frontier products and processes, they may all be confined within the TNC network and branches and may not really spill over to local industries.

Such a characterization of TNC behaviour was prevalent in the 1960s and the 1970s when the basic objective was to capture protected markets by establishing plants overseas. Given protection walls, TNCs retain their markets without necessarily raising the technological content. Profit-maximization in host countries was the driving force in the establishment of branches.

Beginning in the early 1980s, however, several factors contributed to a shift in character of TNC behaviour. Greater trade liberalization reduced domestic protection, and consequently the incentive to establish overseas production to retain markets. The Japanese types of FDI were geared towards the globalization of production units based on country cost advantages. And advances in technology were such that production inputs could be manufactured in different places without loss of quality.

As a result, the competitive nature of global production pushes TNCs to operate with state-of-the art technology in overseas plants. Moreover, by the very nature of the global division of labour, TNCs operate for exports either to home countries or third country destinations. Thus in the decade of the 1980s, TNCs have been established for export expansion.

The matter of technology employed by TNCs in overseas plants is now reinforced by their trade orientation. If the TNCs become more export-oriented, they cannot rely on obsolescent techniques but need more up-to-date production processes and management style.

Whether the technology used is consistent with the host country's factor endowments or not has been empirically examined. It used to be the case, especially in the 1960s and the 1970s, that factor proportions employed by TNCs were more capital intensive (and within them, more so by the United States TNCs than Japanese TNCs) than local firms. This does not seem to be pervasive now as factor proportions are similar across TNCs, implying technological convergence. Nevertheless, all TNCs employ more capital per unit of labour compared with local firms which is to be expected if they are the starting point of technological diffusion.

The point that diffusion is more limited because new processes are confined to TNC affiliates and branches does not seem to be relevant as well because of a number of factors. One is that as long as there is local inter-firm linkages some of the technology ultimately becomes unbundled and adopted across the industry. Another is that where there is local capacity to absorb new technology, such as R and D

efforts, technical skills and the like, TNCs will likely dispense licensing agreements locally than face possible competition upon adaptation of new processes. This is independent of diffusion which takes place in cases of joint ventures.

It is quite clear then that as carriers of technology, and capital where appropriate, TNCs in more recent times have made a positive contribution to the development processes in host countries. This could be in the form of the transfer of technology and trade orientation.

The promotion of FDI implies a role for TNCs as primary vehicles for foreign investment. That the behaviour of TNCs has shifted from one of operating in protected markets to production for global destinations augurs well for greater consistency of FDI flows with development needs. This is in addition to the tradition that TNCs generated trade between home and host countries because of intra-firm transactions.

Conversely, there seems to be less attraction in securing technology by direct acquisition or purchase via licensing agreements, or transfer arrangements etc. In particular the experience of the Republic of Korea in scrutinizing technology imports, and in encouraging licensing agreements and direct purchase in order to guarantee closer consistency with development plans may not be as relevant today as before. Other than specific choices through technology targeting, if the TNCs as carriers of FDI behave in ways that actually enhance trade and development, broad macroeconomic and trade policy may be more effective in getting the right technology on stream in terms of adaptation, diffusion and generation.

Once FDI is liberalized and technology is more openly accessible, this will not of course solve specific technology-related problems. Very often, technology is industry or firm specific and how it is transferred locally depends on the existing policy framework and the environment. The establishment of a TNC affiliate or subsidiary is just the beginning of a process. There are definitely start up costs in technology adoption. Apart from pure technical nuances (for example, manufacturing equipment requiring different electrical properties), related investments are needed to operationalize the technology. To the extent that there is a sufficient cadre of skills or scientific capacities to respond to those needs, transfer is more effective.

Then there is the problem of how far technological capabilities can be acquired by local counterparts or local partners of TNCs. Again much depends on existing capacities and on the willingness of TNCs, as a matter of their own internal policies or safeguard of technology, to transfer know-how. Sometimes host country policies try to facilitate transfer such as imposing local content and limiting expatriate personnel. But overall the degree to which transfers take place would be a function of the firm or industry and on the practice of the home country TNCs, for example, the Japanese style of management in contrast to the United States style.

The evidence on the extent of the role of TNCs among the four countries is patchy and in any event quite dated. The shift in orientation, however, from FDI and TNCs in protected import substituting industries into export-oriented ones can be seen in Thailand in particular. In India the evidence does not indicate that TNCs export more then local firms, reflecting continued restrictive trade policies. As a general observation in countries where trade liberalization has been pursued, FDI flows have been in search of the global division of labour. Obviously where domestic markets are well protected, FDI stimulus would be profit opportunities in those markets.

The extent to which technology transfer actually takes place depends on the nature of the technology, the competitiveness of its market, and government policy. Where there is no monopoly over a certain type of technology, its transfer is usually faster than if it were at the leading edge or frontier. TNCs, through FDI, would not be hesitant to transfer know-how if they knew that the technology is marketed from many suppliers. The policy of the Government either to encourage or discourage FDI as a means of technology acquisition also influences the degree of technology transfer since some TNCs weigh the trade-off between losing a market and the need to agree to licensing or joint venture rather than straight subsidiary.

Early in the literature on FDI and TNCs was the notion that Japanese and United States FDI have differing effects on host countries in the sense that Japanese FDI was more trade oriented while the United States FDI was anti-trade oriented. Put differently, Japanese TNCs conformed to the resource configuration

of the country while the United States TNCs followed American resource endowments in its overseas operations. If true, what this suggests is that perhaps there should be policy action in investing countries so that TNCs behave in the better interest of the host countries.

This is not apparently so in the various empirical investigations. In the TNC behaviour of the 1980s there is no significant distinction between United States and Japanese FDI in terms of trade orientation. Both types of TNCs are into export, predominant in manufacturing and services, and display similar factor proportions. What this means is that investing country policies do not really have a substantial influence on how and where TNCs locate in the global economy. Moreover, it is probably the policies of the host countries that matter more in directing the pace and pattern of TNC movements in host countries.

It is a common policy among investing countries to impose various taxes on the basis of value added in the country so that components produced in other countries are fully deducted. This encourages overseas investment. However, various tax agreements provide for equity in burden between the investing and host countries.

What is critical to realize then is that the policies of the host countries will exert a greater effect on the flow of FDI and the role of TNCs than the environment of the home countries. This brings us back to the principles raised in the previous section and the larger issues of physical facilities, human resources, and institutions.

Although these first principles would address the stimulation of investments whether domestic or foreign, TNCs have some unique characteristics which suggest that they require certain attention.

First, they generally possess more advanced technology than local counterparts and have first move advantages. Depending on the mode of business (affiliate, licensees, joint venture etc.), local firms need mechanisms to respond to TNC requirement without being unduly taken advantage of, from information on available alternative technologies to sources of skills capacities and R and D.

Second, such an advantage leads to possible inequality in negotiations for contracts, fees, and other arrangements. There might be a need for technical assistance to local firms along these lines to improve parity with the TNCs.

Third, the extensive network of TNCs overseas extends not only to technology but financial accounting as well. The practice of transfer pricing deprives host governments of needed revenues which could otherwise be used for public investment to improve infrastructure and other services. Continuous monitoring and coordination is essential to minimize such practices.

Fourth, while TNCs are carriers of technology there might be some advantage to alternative ways of acquiring the appropriate technology. To the extent that the Government can provide support in technology assessment, consideration of various options, and in financing requirements, such assistance should be provided.

Finally, there is something to be said in working towards localization of some production input content, management staff, and auxillary services. However such programmes should be balanced by greater flexibility as to manner and timing of implementation. After all, this is a signal to other future TNCs on how Governments view their utility. Besides there should be ongoing measures to provide for adjustment (such as the development of related industries for local content, educational facilities that respond to management staff capacity requirements etc).

In summary, TNCs play an important role in promoting FDI. Recently, they appear to have displayed a more positive role in both trade and development than in the past. In part this has been because of the greater liberalization that has taken place. Although there are exceptions to the manner of TNC performance, much of how they behave is fashioned by domestic policies in the host countries, not by uniquely TNC practices (though they are important) or policies in the investing home countries.

G. PROMOTING INVESTMENT: AGENDA FOR COOPERATION

This section aims to take a summary analysis of investment promotion, policies and perspectives as elaborated in the previous sections. Then an agenda is briefly spelled out for in-country policy and programme reforms, regional action and cooperation, and regional dialogue and coordination.

1. Summary

This study is not an in-depth country profile of Bangladesh, India, the Republic of Korea and Thailand. Nor is this a detailed comparison along specific themes. The purpose of looking at four specific countries is to view some of their experiences as departure points for understanding what factors should be considered or what activities should be pursued to promote foreign direct investment in the developing countries of Asia and the Pacific.

Apart from the four countries being at different points along the development spectrum, they show more interestingly varying attitudes and experiences with FDI. These range from the more open reception of Thailand and the avoidance of the Republic of Korea to the suspicious philosophy of India. Of course, in recent times there has been a convergence of attitudes among them towards FDI in a more liberal fashion.

The examination of a few economic parameters and a scan of the macro, trade, and industry environment in the four countries is meant to illustrate the point that short of economies that are really suffering from stagnation and collapse, those that display sustained, i.e., modest, but respectable economic growth would normally give positive rates of return to investment, including FDI. The direction of economic policy towards credible reforms, the primacy of the private sector, and monetary responsibility are strong signals for consideration by FDI.

But this is just the starting point. Whether FDI intentions based on profitability are translated into actual capital flows requires more than just a good economic environment. Physical facilities and infrastructure are critical public overheads that investors seek, and whose bottlenecks alter their perception of investment horizons. There may be substitution possibilities among the infrastructure that moves goods (land-based, water-based, rail-based, air-based) but to the extent that any one is inadequate, FDI is less likely to come in a general way. It could only be industry specific. And for the more dynamic traded goods, communication facilities are the most critical as shown by the accelerated utilization rates in recent years among the four countries. A strong communications backbone may in fact turn out to be the most important facilitator of FDI in the coming decades as the increasing incidence of their use is for foreign transactions.

The absorptive capacity of FDI does not rest with physical and infrastructure facilities alone. FDI is a carrier of technology and there is the question of whether the technology that is carried can be adequately transferred, diffused, or modified to suit the host country endowment configuration. This depends on the scientific resources available and the educational foundation for providing skills and other human resources.

Trade itself drives the degree of technology absorption. As a country's trade increase, the technological content of its tradeable goods changes from low-skill levels to the highly sophisticated research-based goods. And where indigenous resources are not responsive to or facilitative of these changes, trade and overall development is further constrained. This is evident in the smooth adjustments in the Republic of Korea, and partly Thailand, but also of the weak consistency and mismatches between resource capacities and trade for Bangladesh and India.

The emergence of investment incentives has sometimes been viewed as a panacea for attracting FDI. There is a theoretical basis for these measures as compensating for distortions and market imperfections. The four countries have incentives systems which are mostly fiscal in nature, i.e., tax holidays, tariff exemptions, duty drawbacks and others.

By and large however, the provision of incentives does not really change the relative attractiveness of investment sites. They may improve the profitability of individual projects. The more important result is that the system does not really correct the distortions, that it leads to real financial losses to the Government in terms of forgone revenues, that it penalizes other sectors (especially agriculture), and it prevents real economic adjustments from taking place.

Incentives structures, however, are not likely to be withdrawn unilaterally. Regional cooperation and action are needed in order to address them seriously (more on this below). They are here to stay. Given this, each of the four countries has incentives systems which are quite comparable. It is, however, in the general openness to FDI that there are differences with India being more restrictive in the amount of foreign equity ownership allowed.

Related to this, TNCs play a major role in carrying technology and FDI. The important thing to appreciate about TNCs is the apparent shift in their objectives from that of overcoming protective barriers in host countries and retaining domestic market shares to that of locating in places where the costs of production are the lowest for specific activities. This is a broad trend but in terms of the four countries that are looked at, where there are still strong trade restrictions, TNCs operate to gain a foothold in domestic markets. This is especially the case in India where the degree of export orientation of TNCs is no different from that of local firms.

This shift also bodes well for more modern and up-to-date technologies that TNCs carry in overseas investment and a greater transfer of technology. The globalization of production, competitiveness of technology generation and application, and increasing trade all suggest that TNCs must be at the cutting edge of production processes. There may, of course, be instances where overseas facilities operate on obsolescent technologies but such cases are more likely influenced by domestic trade policies than the global behaviour of TNCs. The mode of FDI remains an important factor in influencing the rate of technology transfer.

The institutional environment and support for FDI hinge on the consistency of educational and scientific infrastructure to the nature of technology and pattern of trade taking place. In particular this involves both public and private sector initiatives and responses in the facilitation of FDI. Public educational institutions at early stages have to provide for vocational and second level skills matching the technological content of FDI and trade. In the later stages provisions for tertiary level and science-based disciplines become increasingly important as the trade composition changes.

Where there are inconsistancies in the pace and pattern of various kinds of institutional support for FDI, there is bound to be a social waste of resources. For instance, where the tertiary level skills supply is growing faster than the vocational levels, there is an underutilization of human resources.

In the final analysis, how a country views FDI, its place in the overall development thrust, the associated institutions, facilities and requirements, and broad macro and trade policies are important. But more than this, there has to be a coordinated approach to FDI in terms of defining its place, gearing up resources for it, and directing it in a most socially desirable manner. The fragmented nature of experiences among the four countries with the possible exception of the Republic of Korea illustrates this need.

2. Agenda for policy and programme reforms

It is not possible, based on the cursory data used here, or on the brief description of the four-country experiences, to formulate a direction that would increase investment. What can be done is to spell out a number of leads based on the perspectives drawn here which could be considered not only by the four countries covered but by the other countries in the Asian and Pacific region.

It is possible to identify an agenda for policy reforms which would be promotive of FDI. It includes:

1. Greater openness and trade liberalization – Recent changes in the behaviour of FDI show that with the liberalization of trade in host countries, FDI carries more up-to-date technologies, increased

technology transfer, and more trade. With high protective walls, FDI merely establishes a foothold to retain lucrative markets but with no inducement to bring new processes or products;

2. Liberalization of FDI policies – Increasing the foreign equity ceiling while at the same time safeguarding national interests sends a more receptive signal to FDI. More than this, policy liberalization as an ultimate objective builds indigenous technological capacities. The shift from positive to negative lists and the eventual liberalization of technology imports in the Republic of Korea is illustrative of this policy;

3. Improved economic environment – Ultimately, the degree of attractiveness of an economy to FDI is influenced by the stability of its policies, aside from the critical importance of political stability. But two aspects of an improved environment are essential:

(a) The commitment to real reforms;

(b) The primacy of the private sector and thus privatization efforts.

There are also programme reforms individual countries can initiate. These constitute actual resource flows that change the environment for FDI. They include:

1. The focus of public investment into basic physical facilities and infrastructure that are derived from industrial and trade plans. These range from roads and road links, rail lines, ports and airports that actually serve production units to more efficient and advanced telecommunications facilities that link up global networks of industries and services. Such public investment programmes have to be formulated with a long-term vision of FDI;

2. A domestic information network (print, voice, video) emphasizing investment rules, investment areas, new technologies, and products, lists of prospective buyers and joint ventures and investors, and other information promotive of FDI. This network would have externalities far more extensive in returns than if privately provided;

3. The consolidation and coordination of public resources engaged in education, training, and skills formation so as to fit them to the pace and pattern of trade and FDI flows. This is unlikely to be any different from the pace and pattern of national development, assuming a more open economy.

In addition to these specific agenda items for policy and programme reforms are other initiatives that are supportive of them. A technical assistance and extension programme by the relevant ministries (for example, Industry and Science and Technology) that provides specific information and assistance to firms (for example project feasibility studies, financing access etc) both domestic and foreign (although the latter may be assisted in terms of contacts, government agency liaision etc.) is one effort.

3. Agenda for regional action and cooperation

In terms of an agenda for regional action and cooperation there have been many raised in various resolutions in the ESCAP region. Without detailing them (inasmuch as these have been spelled out in various documents), these include:

1. Regional information networking on FDI opportunities in the region, technological breakthroughs in industries for which the region has production advantages, TNCs operations, profiles of FDI in various countries, investment laws, and others that improve the flow of capital within the region. Much of this is being done, and can be regularly and quickly updated by the UNCTC unit of ESCAP;

2. A regional technical assistance programme enhancing country strategies in dealing with TNCs and FDI flows based on documented experiences of countries in the region. While the documentation is being adequately undertaken by the UNCTC unit, what may be more useful is to translate the experiences into actual support to specific countries (for example, through the provision of expertise or consultancy services);

3. The promotion of a collective R and D effort in specific industries which would have general applicability to most countries in the region. This would probably deal more with standards and testing, market surveys, and technical specifications of production inputs than with product designs and machine calibration. There are certainly areas of technological development that are of general use;

4. The provision of a regional training programme for Governments to evolve comprehensive investment promotion; technology transfer and diffusion; analysis of TNC operations, their supervision and impact; evaluation of FDI; and others for which country experiences would be instructive;

5. A systematic assessment of the incentives schemes offered by the countries in the region with the aim of understanding their cross-country effects, importance in attracting FDI and economic adjustment and of exploring ways to increase the complementarity of them. This agenda item would also include coming to some agreement, where appropriate, on a freeze, or roll back, of incentives.

Apart from this regional action agenda, there are other areas of promoting cooperation in the region. International institutions operating in the region, whether multilateral or bilateral, can provide direct or indirect support to Governments in the promotion of investment. The provision of technical assistance, consultancy and advisory services, and networking in specific industries or product lines is one such support. More general capacity building efforts along the lines suggested above can be undertaken by these institutions. Even private sector initiatives for technology assessment, testing, adoption or replication can be enriched with support from specialized international agencies.

Beyond direct or indirect support to Governments is the cooperation among countries in the process of investment promotion. The sharing of experiences, cross-country visits, and cross-country studies can best be stimulated, supported and carried out by, or with the support of, multilateral or international organizations as part of a broader regional cooperation.

4. Agenda for regional dialogue and coordination

Inter-country studies which show variations in experience and therefore variations in policy direction are bound to stimulate further discussion before concrete individual and collective steps are taken. This study is no exception. More important than the substantive merits of the study is the promotion of a regional dialogue and coordination in aiming at a fuller understanding of investment promotions and policies in Asia and the Pacific. Among these would be:

1. The systematic sharing of investment promotion experiences in countries of the region following a common set of questions and concerns, common definition of data etc. While the broad results of this study may be temporal or geographically specific, expanding them to other areas or periods of time will increase the confidence Governments make of their applicability elsewhere;

2. A discussion of case studies of specific investment policies, TNC behaviour, FDI incentives, or technology – related instruments with the aim of generating lessons for the improvement of policies, the institution of safeguard mechanisms, or the formulation of administrative provisions;

3. A policy forum for considering alternative strategies to promote investment focusing on promotive instruments, not regulations. The policy forum can depart from case studies but could also begin from comprehensive development plans;

4. An exchange dialogue with FDI home country policy makers regarding the flow of FDI. This would ensure greater understanding of the possible mutual benefits to home and host countries of FDI through tax measures, trade and broad macroeconomic policies.

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II. ROLE OF ESCAP IN FOREIGN INVESTMENT PROMOTION

A. OVERVIEW OF FDI FLOWS IN ASIA AND THE PACIFIC

The Asian and Pacific region is emerging as an important centre of industrial growth. Some countries of the region are now categorized as newly industrializing economies (NIEs) and have achieved remarkable progress, even in an adverse external economic environment. However, a majority of the countries with vast potential for further industrial growth have not been able to progress well owing, in a large part, to inadequate investment.

During the 1960s and the 1970s, most of the developing countries emphasized the development of public sector industries. This was basically because of an inadequacy of investment funds, entrepreneurial skills and insufficient knowledge about future prospects. Several countries pursued policies that restrained foreign investment while promoting import-substitution industires. Although some developing countries were thus able to create an atmosphere for wider industrialization, the achievements of many countries did not, however, meet the minimum requirements of industrial growth. Some of these countries have slowly moved away from such strategies by opening up their economies and reorienting their industrial and investment policies through the introduction of incentive systems and encouragement of the private sector.

In recent years, several developing countries of the region have embarked upon the process of nurturing greater private-sector participation in industrialization and have introduced measures such as the privatization of public sector industries.

With the onset of the debt crisis in many developing countries, attitudes to foreign direct investment (FDI) altered dramatically. Furthermore, it had become widely recognized over the 1980s that export-oriented industrialization strategies were more conducive to sustained, efficient industrial growth than the previous inward-looking strategies, and that investment could play a valuable role in promoting such growth. The acceleration of technological change in industry led many countries to realize that they needed much more foreign technology to overcome the large gaps that had developed in their competitiveness. Moreover, the awareness grew that simply importing new equipment and licences did not always lead to efficiency; improved managerial, technical and engineering skills were also required. Since transnational corporations were generally the major sources of new technology, and were equipped to provide the entire package of knowledge, capabilities and training, even countries without pressing debt problems and with traditionally hostile attitudes to FDI (India and China being the best example) amended their policies in this area. A generally more favourable attitude towards the private sector, supported by privatization programmes in some countries, strengthened this tendency.

It is clear that the basic determinants of FDI are not only the implementation of liberal policy measures, but the existence of efficient infrastructure facilities, stable economic policies, a skilled labour force and outward-oriented trade and industrial polices. Recent studies undertaken have brought out the major factors determining the flows of FDI from the perspective of the capital-exporting countries. Foremost among these: the availability, at economical cost, of high levels of skills relevant to the specific areas of production, design or management. The precise composition of skills required will depend on the industry and the elements of the production process transferred, but minimum requirements will be highly trained production skills, some process engineering, quality control, maintenance skills and management skills able to adjust to emerging forms of organization. There is an increasing awareness now that it is the education and skill level of the labour force which largely determines a country's competitive strength and resilience, its capacity to adjust to new sophisticated technologies while reducing the economic and social cost of the adjustment process.

Future FDI will depend on the availability, in fairly close proximity, of a variety of supporting firms, providing components, services (maintenance, machinery, software, consultancy) and back-up of various kinds. Industrial efficiency increasingly requires individual firms to be highly specialized, in close interaction with a number of other firms of different specialization, working in close union to minimize inventory costs (i.e., the just-in-time delivery system), delays in information flows and the costs of product development. Process industries (paper, chemicals, metals and food) of the old type have relatively limited

needs of this kind, and FDI in these will continue to be determined by traditional cost, market and material supply factors. In contrast, new industries in the electronic, electrical and mechanical engineering fields (in which there is an increasing tendency to merge) are greatly affected by the economies of specialization. For these groups, locations offering efficient support systems will be favoured over others.

During the 1980s the flow of FDI world-wide increased significantly and reached a figure of US$ 115 billion in 1988. For 1989 the total outflow of FDI was estimated at US$ 180 billion, an increase of 57 per cent over 1988.

Although total FDI increased significantly during the 1980s, the share of developing countries was markedly reduced. The share of developing countries in total Organisation for Economic Co-operation and Development (OECD) FDI outflows was only 9.8 per cent in 1988 compared with 67.7 per cent in 1982.[1]

Thus, despite the significant increase in the outflows of FDI, especially after 1985, the trend has been to direct FDI outflows towards the developed economies. In 1987, only five countries, France, the Federal Republic of Germany, Japan, the United Kingdom of Great Britain and Northern Ireland and the United States of America, were the source of 80 per cent of all FDI outflows and the recipients of 60 per cent of all FDI flows.

Asia and the Pacific, having overtaken Latin America and the Caribbean as the largest recipients of investment among developing regions in 1986 (on average, during the period 1989-1990, investment inflows have been almost twice as large in Asia and the Pacific as in Latin America), continued to surpass all other developing regions in terms of the size of inflows. Flows of investment to Asia and the Pacific continued to grow in 1990, reaching approximately $ 18 billion, an 18 per cent increase over the previous year. Attracted by high rates of domestic growth, relatively low production costs and increasingly lucrative domestic markets owing to rising consumer purchasing power, investment flows to those countries have grown at the highest rate among all developing regions: by 20 per cent throughout the 1980s and by 29 per cent during the period 1986-1990.[2] Flows of FDI to Asia are likely to continue on an upward path, given that China has reconfirmed its open policy and continues to attract substantial investment and given the substantial liberalization of India's FDI regime and other changes in the economy of that country.

The position of Asia and the Pacific as the leading recipient of FDI flows among developing countries was further consolidated, with Asia and the Pacific accounting for almost 60 per cent of total flows to all developing countries in 1992.[3] At the same time, that group of countries accounted for an overwhelming share of investment outflows from developing countries (about 86 per cent in 1990), with the Asian newly industrializing economies being the leading source. Moreover, the Republic of Korea and Taiwan Province of China have become net exporters of capital and are responsible for an increasing share of all investment flows to Asia.

As can be seen from above, the FDI flows to the Asian and Pacific region increased significantly during the 1980s. However, these flows were mostly concentrated in a few economies of the region. China, Hong Kong, Indonesia, Malaysia, the Republic of Korea, Singapore, Taiwan Province of China and Thailand have benefited by receiving 90 per cent of the FDI inflow during the 1980s. Foreign direct investment continued to grow in 1990, although at a slower rate as compared with the late 1980s.

The consequence of transnational corporations from the newly industrializing economies increasingly focusing on Asia as a low cost production base for supplying the region and the rest of the world, has led to diversifying export markets in the face of growing protectionism in developed countries. As a result, intraregional flows of investment in East, South and South-East Asia and the Pacific expanded rapidly during the second half of the 1980s (mostly in manufacturing) and account for a growing share of the inward investment of the recipient countries. In particular, transnational corporations of the newly

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1 ESCAP, Industrial Restructuring in Asia and the Pacific, in Particular with a View to Strengthening Regional Cooperation, (ST/ESCAP/960), p. 20.

2 World Investment Report, 1991

3 World Investment Report, 1992, p. 22.

industrializing economies accounted for an increasing share of total annual average investment flows to countries in South and South-East Asia and to other newly industrializing economies. While outward investment from those economies is driven primarily by supply factors (low production costs and the need to retain export competitiveness), investment is motivated by the growth in domestic demand.

As noted above, FDI flow continues to be concentrated in the developed market economies such as China, Hong Kong, Republic of Korea, Singapore, Tawian Province of China and Thailand, whereas the investment flow to other countries and economies has not been that significant. It is, therefore, necessary that several countries of the region have a hard look at the experience of the developed market economies in order to accelerate FDI flows into their countries.

B. REVIEW OF ACTIVITIES OF ESCAP IN THE AREAS OF INVESTMENT PROMOTION

During the latter part of the 1970s, with financial support from the Government of the Netherlands and substantive support from the International Bureau of Fiscal Documentation (IBFD), ESCAP organized three workshops in the areas of foreign investment and tax administration, with a view to initiating an information exchange between countries of the region and establishing a regional institution for that purpose. Such an institution, the Tax and Investment Centre for Asia and the Pacific, was established in Singapore in the early 1980s as a non-profit-making organization which, in addition to the above objective, has also been providing valuable consultancy services to the countries. It may, however, be noted that, owing to financial constraints, it has not been in full operation. Since there is a need for the provision of such services, particularly to the poorer developing countries of the region, it is necessary to review the Centre's operations and examine ways and means to make it fully operational and financially viable.

With the assistance of the Government of the Netherlands, ESCAP initiated during late 1970s, a project on "Prime Mover Industries". The objective of the project was to identify one or two industrial projects for investment purposes and conduct a feasibility survey for the establishment of such identified projects. The project activities were carried out in two least developed countries of the ESCAP region, i.e., Bangladesh and Nepal. In Nepal the preliminary study identified a remote area in the far western region for the establishment of an industrial estate and also the establishment of an oil processing industry. Based on the study prepared by ESCAP, the Government of the Netherlands provided bilateral assistance for the establishment of the estate and the oil processing industry. In Bangladesh two industrial subsectors, i.e., leather tanning and leather goods and herbs processing, were identified and with the assistance of the Bangladesh Small Industrial Development Corporation a complete feasibility study for both the sectors was completed.

In order to fulfill the demand for assistance in investment promotion, ESCAP has cooperated with the United Nations Industrial Development Organization (UNIDO) in organizing many activities, including the Solidarity Ministerial Meeting in Nepal, investment promotion meetings in Bangladesh, China, Viet Nam and Nepal, and the South Pacific Investors Forum. ESCAP has provided assistance to the recently held Investment Forum in Napal and will also be providing assistance in the follow-up. The contribution of ESCAP to these activities was to assist the countries in the identification of projects for investment promotion, the preparation of project profiles (prefeasibility studies) for discussions with potential foreign investors, and the organization of workshops and seminars on market research and, especially, negotiating techniques for technology transfer contracts. Such seminars provided identified local entrepreneurs with an adequate knowledge of the problems of negotiating technology and know-how contracts. For the above, ESCAP had been fortunate to receive assistance from the Governments of Australia, Germany and the Netherlands.

With financial assistance from the Government of Germany, ESCAP organized a series of investment promotion meetings in Germany in 1987, 1988 and 1990. The purpose of those meetings was primarily to identify interested potential entrepreneurs of developing countries of the region and arrange for one-on-one discussions with potential investors from Germany. First, projects were identified and screened,

a profile for each project for promotion was prepared together with the profile of the perspective entrepreneurs. That information was widely disseminated in Germany to inform the German investor of the opportunities available. Several interested parties would then be identified for discussions with entrepreneurs from the developing countries on an individual basis in Germany. The first of the series meeting was held in Hanover in 1987, where two interested entrepreneurs each from seven countries of the ESCAP region were brought to Germany to seek investment from interested partners, participants of the Hanover Fair. However, the results of such meetings were not very successful because the needs and interests of seven different countries were diverse and seeking partners was not an easy task. Therefore, the second programme held in 1987 concentrated on projects from Thailand. A total of 36 project were selected for promotion and around 89 individual meetings were held with interested German entrepreneurs. A total of 24 projects were discussed as viable for further discussions and follow-up. Recent indications are that almost all of them will be established by 1994/1995. The third of the series was a similar project for Nepal in which 12 enterprises with 18 projects were identified for promotion; a total of 32 individual meetings were held in Germany, and 7 projects are still being disussed between potential partners. A similar project has been prepared for Bangladesh and is now under consideration by the Government of Germany.

With the assistance of the Government of Japan, ESCAP will implement a project on the organization of a study tour-cum-investment forum for promoting direct investment for the least developed countries of the region. The purpose of this project is to identify a selection of industries for promotion in Japan and the Republic of Korea. ESCAP will provide assistance in identifying the projects and preparing the project profile for promotion in these countries. A study tour-cum-investment meeting will be organized in Seoul and Tokyo where project profiles from each of the participating countries will be presented for review and deliberation by government representatives, business entrepreneurs and prospective foreign investors. It is expected that a good number of project proposals will receive favourable consideration and lead to joint ventures and technical collaboration. During these discussions the perspective entrepreneurs will be taken to see for themselves those sample industrial enterprises they are wishing to establish in their own country.

Through the generous contribution of the Government of the Netherlands, ESCAP received a non-reimbursable loan (NRL) expert for carrying out activities in the area of joint ventures and investment promotion in 1986/87. The expert provided services to Bhutan, Malaysia, Nepal, and Viet Nam.

It may be noted that all these missions undertaken by the expert were appreciated, and found useful, by the concerned Governments. This activity was taken over by a regional advisor on Industrial and Technological Development, who provided services to countries such as India, Indonesia, Malaysia, Nepal, Republic of Korea and Singapore, services which were highly appreciated by the countries concerned. In the near future, ESCAP is fielding a mission to the Commonwealth of Independent States to assist the countries in reorienting their policies and strategies regarding industrial development in general and investment in particular in their transition to market-oriented economies.

In the area of human resources development which is regarded as the main obstacle for foreign investment in many of the developing countries of the region, ESCAP has been undertaking activities. One of the major activities was to convene two high-level seminars-cum-study tours on human resources development policy and planning for industrial development. The Governments of Japan and the Republic of Korea provided financial assistance for both the activities. The purpose of the seminars was to appraise policy planners of the need to redesign skill development planning and policy. Traditional human resources planning on a national basis would not be sufficient. It was necessary to assess training needs and to provide training on a more or less continuous basis if the process of industrialization was to be accelerated.

Furthermore, in most developing countries there was still an inadequate recognition of technology as an important variable in the overall development process. For the most part, the prevailing infrastructure for research and development was meagre. Planners and policy makers faced great problems in developing technological strategies that were consistent with their socio-economic priorities. Effective measures were lacking whereby the import and adaptation of foreign technologies would be accompanied by the optimum utilization of indigenous resources. These problems stemmed from the elusive and unstructured quality

of national science and technology policies and the shortage of technically-skilled manpower. These problems would not be resolved overnight. It was essential, therefore, that the Governments of the region reorient their human resources development policies and adopt a two-way approach: one for the short run in which the training of trainees for specific skills to meet the immediate and interimmediate needs of the country for the industrialization policy and second, for the longer term, to create a science and technology based education system from the primary level so that the future generation could catch up with the rapidly changing technological development.

It may be noted that this is a crucial factor that Governments have to take into serious consideration if a successful industrialization programme is to initiated and even more so for attracting foreign direct investment.

Realizing that there is a lack of qualified personnel for preparing projects for promotion, especially in the lesser developed countries, ESCAP has in the past been providing training programmes in project preparation and management of industrial projects. Recently there were two training programmes, one for the government sector and one for the private sector, where more than 40 persons were provided with training in basic principles of project preparation, selection and management of industrial projects.

Since late 1970s, ESCAP has been providing the services of an expert on strengthening national capabilities on technology transfer, especially on one of the most important areas of negotiating techniques for foreign technologies, and joint ventures. Two separate sets of training manuals have been prepared by ESCAP and distributed to the Governments for their use in training the public sector and the private sector in those areas. Expert services have been provided to countries that have requested assistance in organizing the training of trainees in that area.

Since the adoption of the Kabul Ministers Declaration on Economic Cooperation among Asian and Pacific Developing Countries, the United Nations Conference on Trade and Development (UNCTAD) and ESCAP have given support to the countries in trade and investment activities. One of the outcomes of these efforts is the adoption of the First Agreement on Trade Negotiation Among Asian and Pacific Developing Countries (Bangkok Agreement). It was decided to collect, analyze and disseminate relevant and timely information on government policies and incentives regarding foreign investment and information on companies interested in forming joint ventures and entrepreneurial cooperation in the region. Keeping this in view, ESCAP in cooperation with UNCTAD, the United Nations Centre on Transnational Corporations (UNCTC), the International Trade Centre (ITC) and the Export-Import Bank of the Republic of Korea has been able to establish "Regional Investment Information and Promotion Science for Asia and the Pacific (RIIPS). The main objectives are to help enterprises, particularly small and medium size enterprises engaged in industrial cooperation for trade expansion through the promotion of intraregional investments, which would promote the establishment of industrial complementation schemes. In particular it aims to encourage the expansion of intraregional investment flows among capital and technology exporting and importing countries in the Asian and Pacific region.

The services to be provided by RIIPS can be categorized as follows:

1. Information services

   (a) Firm specific information;

   (b) Country specific information;

   (c) Industry specific information;

   (d) Matchmaking complementary investment opportunities;

   (e) Information bulletins and publications.

2. Promotion services

   (a) Investment promotion seminars;

   (b) Technical training programmes.

3. Consultancy and advisory services

   (a) Project viability assessment;

   (b) Other advisory services.

The RIIPS has been established within the Export-Import Bank of the Republic of Korea in Seoul, the Republic of Korea. Members countries are most welcome to utilize the services for their benefit.

The Regional Network for Agricultural Machinery (RNAM) has been in operation since 1977. The project has contributed significantly to the formulation of national agricultural mechanization policies and strategies. As a result, an investment of US$ 41 million during the period 1984-1989 was made by the 10 (excluding China) participating countries for strengthening the national agricultural machinery networks. Such national institutes designed 130 agricultural machines in the past 12 years out of which 104 were commercialized involving 533 small- and medium-scale manufacturers and an investment commitment of US$ 80 million. To date, 504 engineers, other individuals and local manufacturers have been trained through 22 regional courses, 24 workshops and 26 study tours. On average, RNAM has organized six such activities each year. This has heightened the success of agricultural mechanization for crop production, its subsequent processing and improved the working conditions as well as income of farmers. The project has vigorously promoted technology transfer. Eighty-five designs of machines have been successfully introduced with assistance from RNAM.

The Asian and Pacific Centre for Transfer of Technology (APCTT) was established in 1977 in Bangalore, India, with a view to assisting member countries in their efforts to strengthen national capabilities in a systematic manner in the area of development, transfer and utilization of technology.

The Centre has already provided a pioneering methodological framework for the integration of technological considerations into the socio-economic development planning process. Country studies on technology policies and planning, documenting the varied regional country experiences, have been published. An effective technology information network is now in operation. Efforts have been made to facilitate technology transfer through technology expositions and syndications. In addition, human resources have been developed to manage the acquistition, generation and use of technology. These activities have laid a groundwork on which national superstructures for technology development and transfer are to be built. A comprehensive five-year programme of APCTT is now in operation. As technology transfer and adoption are among the major determinants of industrial development and FDI inflow, national capacity building in technology capabilities is essential and APCTT would be an effective mechanism to achieve that objective.

Throughout the 1950s to the 1970s, most of the developing countries had accorded the State and the public sector a role as the driving force in the process of industrialization. This was perceived as the key to development. In the face of a lack of capital accumulation in industrial production, the State was viewed as the last resort. The relative position of the private and public sector in these countries has been subjected to change over time according to the situation. However, an overall trend during this period was an accelerating and unrestrained growth in the public sector because of improvement in foreign earnings (including aid assistance) and easy access to international loans. This led to the proliferation of state control beyond the original goal of "strategic sector", "natural monopolies" and supply of goods and services to the public.

However, at the same time, public expenditure also grew drastically, aggravating government dependence on foreign sources of funding. At the beginning of the 1980s, commodity prices fell and interest rates were pushed higher. Moreover, the international financing that had been available became unavailable. This led to the problem of raising adequate funds to support the public sector expansion. Countries were then forced to look inwards for resources and one of the principal alternatives was profits from the public sector, which was of course tied to efficiency. As many of the empirical studies have shown in the past years, this was not an easy task to perform.[4]

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[4] World Bank Annual Report, 1983, p. 56

The time had come to reassess the role of the public and private sectors in the application of policies aimed at adopting economic restructuring for the developing countries to the new demand of the changed international environment. Therefore, the reform of the public sector enterprises became an important component of the structural adjustment programmes. Among measures adopted in assisting the reform of the public sector, privatization has become one of the most talked about and adopted policies particularly in reducing the pressure of the public sector. It has been seen that interest in privatization grew considerably in the wake of the British experience in early 1982 and on the insistence of the World Bank and USAID for their aid programmes.

With the re-emerging recognition of the private sector as the engine of industrial development, and of the strengths and limits of government in the whole process, some specific actions and recommendations are called for to assure its sustainability. Many are widely accepted and follow from the experience of other countries and from a delineation of key factors.

While acknowledging the critical role that it plays, knowing its strengths and limits, and understanding its relationship to Government, the private sector is hardly monolithic in any given country. Therefore, one cannot expect a single voice of agreement in industrial direction. Yet conflicts begin to arise and vested interests emerge when the directions are cast in terms of products and micro industries, not as an industrial vision. It is thus possible, if not desirable, to define the private sector's agenda in terms concrete enough for collective action even at the level of principles.

Recognizing the role of the private sector and the increasing role that is now being shouldered by them because of the new industrial deregulations, liberalization and restructuring measures, ESCAP has increasingly involved the private sector in its activities. In order to initiate a fruitful dialogue between the Government and the private sector, a Private Sector Symposium was held in Tehran, on 26 June 1992, in conjunction with the Meeting of Ministers of Industry and Technology, 23-29 June 1992. The purpose of the Symposium was to prepare a consolidated view of the private sector on perspectives for the industrial development process in the Asian and Pacific region which would be presented to the government officials or ministers for their consideration prior to policy formulation and reorientation. The Report of the Private Sector Symposium was presented to the Meeting of Ministers.

This sort of dialogue is necessary as the role of the private sector and the government sector has to be reviewed. It is now apparent that the private sector does not take a spectator's seat while the Government takes all the initiative. The private sector will have to take increasing responsibility, shared with the public sector and the Government if the developing countries are to catch up with the developed ones.

ESCAP is organizing, in the near future, two more seminars, one on the issues of privatization and the other on the role of the private sector in promoting international competitiveness in manufacturing. The major actors in these meetings will be the private sector representatives. The present Seminar that we are attending is also basically geared towards the creation of a better understanding of the partnership role of the Government and the private sector.

C. UNIDO ACTIVITIES IN INVESTMENT PROMOTION

The United Nations Industrial Development Organization (UNIDO), a global body for industrial development, has very comprehensive investment promotion programmes. The mandate of UNIDO allows it to initiate country, regional and global level action regarding the assessment of member countries in their efforts at industrial development.

The majority of the technical assistance and industrial promotion programmes carried out by UNIDO are directly or indirectly benefiting the private sector in terms of improving the overall business environment, initiating industrial policy dialogues, strengthening support institutions, providing research and information inputs and extending technical and managerial training. Also, in implementing technical assistance projects, approximately 50 per cent of all UNIDO experts are drawn from the private sector and the contracts awarded for the purchase of equipment and for operational activities are largely with companies in the private sector.

In what follows, attention is drawn to only a few selected UNIDO programmes of particular relevance for private industry, with a special emphasis on the trust fund scheme of UNIDO.

In 1986, UNIDO launched an innovative approach to project financing, the so-called special trust fund scheme. The scheme was aimed at enabling industrial partners to cooperate through projects arranged, supervised and carried out by UNIDO, with the main purpose of providing direct support to manufacturing plants, both public and private.

There is a strong and growing demand for such UNIDO services which meanwhile account for approximately 20 per cent of the total technical cooperation expenditure of UNIDO. The funds required for each project come either from the beneficiary of the UNIDO assistance in the developing country (in which case it is called a self-financed trust fund project), or from a third-party donor, which may be a development finance institution, a governmental or non-governmental donor agency, an individual or group of companies, or industrial associations.

For the sake of a speedy response, it is often necessary for UNIDO to open direct communication with the company or organization needing assistance, but in all cases clearance is sought from the Government of the developing country concerned before UNIDO finalizes the trust fund project. Such clearance is sought in the usual manner through the United Nations Development Programme (UNDP) Resident Representative who also represents UNIDO in the country concerned.

In implementing projects within the trust fund schemes, UNIDO can draw on its rich and long-standing expertise in plant-level assistance and on its international technology information and investment promotion networks. Two programme areas of special relevance to many ongoing trust fund projects in the private sector are outlined below: industrial rehabilitation and investment promotion.

UNIDO has developed a comprehensive approach of industrial rehabilitation and modernization which has been applied successfully in many cases.

As a direct component or as a follow-up to trust fund projects, very often opportunities for promoting foreign investment emerge. In such cases, UNIDO can draw on its resources and experience in fostering both North-South and South-South investment. UNIDO maintains a network of investment promotion services in Cologne, Milan, Paris, Seoul, Tokyo, Vienna, Warsaw, Washington and Zurich to encourage contacts between businessmen and Governments in developing countries and their counterparts in industrial and financial centres in the developed world. In addition, UNIDO recently opened two industrial cooperation centres in Moscow and Beijing to enable foreign enterprises to participate in joint ventures.

Every year UNIDO organizes national and regional investment promotion forums to bring together project sponsors and potential investors for a series of intensive individual negotiations on various forms of industrial cooperation.

At the pre-investment level, UNIDO's industrial investment programme identifies suitable projects, analyzing factors such as the processing of raw materials for added export value, size of local or neighbouring markets and alternative production processes. It also maintains a computer data bank to match up likely industrial partners.

The programmes outlined above clearly demonstrate that there is increasing scope and demand for international assistance to the private sector through international organizations, such as UNIDO. However, in rendering such assistance it needs to be taken into account that the private sector is the most dynamic segment in industrial and technological development and as such is subject to rapid changes in its development patterns and support requirements. There is a strong need, therefore, to establish appropriate mechanisms for a continued and flexible dialogue between private sector representatives in the countries of the region and the various international organizations active in the field of industry and technology.

D. LOOKING AHEAD

The previous desciption has been provided to give the participants and other users of the document an overview of the activities of ESCAP in assisting the member countries of the region in their efforts in attracting foreign direct investment and in enhancing of the role of the private sector. The future work of ESCAP in this area will continue to be guided by the member countries as decided at the Commission session held annually. However, in keeping with the present trend, ESCAP activities may be classified in the following broad areas:

(a) Regional cooperation in investment promotion:

In assessing the global trend towards the creation of trade blocks, the time has come to reassess the need of the Asian countries to strengthen the promotion of regional and subregional development strategies. ESCAP, under the guidance of the member countries, could undertake studies in these areas for the harmonization of industrial and investment policies and strategies, the building up of industrial and investment complementarities, and the development of innovative schemes and cooperation arrangements.

(b) Cooperation in the development of skills

ESCAP activities in this area will continue through the implementation of projects in the areas of training of trainees in vocational skills, skills development of women and other disadvantaged groups, technology transfer and adaptation. However, it is necessary that the countries of the region seriously consider the need for the reorientation of their human resources development strategies and methodologies. Skill requirements for the short term and long term have to be assessed and training and retraining programmes will have to be based on these needs assessments. Countries could join in identifying various national institutes to provide skills training from other countries in the spirit of technical cooperation among developing countries (TCDC). Several such institutes could be identified to cover the area of varied skill needs. Training opportunities provided through the regional institutes, such as APCTT, and the Regional Network for Agricultural Machinery (RNAM) should be utilized to the fullest extent.

(c) Holding of seminars and symposium for the exchange of experience and information is another area of assistance ESCAP provides. Specific areas of concern could be identified and experience and information exchanged. Since privatization is an area of concern to many countries of the region, ESCAP is planning to hold a regional seminar on privatization some time in the second or third quarter of 1993. Similar topics of concern could be identified for future meetings.

(d) Advisory services for trade and investment could be provided by ESCAP upon government request with detailed terms of reference. These advisory services could be extended to the private sector also.

(e) To enhance FDI flows in the needy countries, investment promotion meetings could be held on regular intervals, keeping the needs and the priorities of member countries in view.

Part Three

COUNTRY PAPERS

I. BANGLADESH COUNTRY PAPER*

* The paper is based on the Report of the Rapporteur-in-Chief of the National Seminar and was prepared by Dr. Debapriya Bhattacharya, Research Fellow, BIDS with active assistance from Ms. Ayesha Begum, Mr. Md. Yunus and Mr. S.M. Zulfiquar Ali – Research Associates, BIDS and Dr. Zaid Bakht, Senior Research Fellow, BIDS.

BANGLADESH COUNTRY PAPER

The National Seminar on "Private Sector Growth, Technology Choice and Investment in Industrial Development of Bangladesh", jointly organized by the Government of Bangladesh, ESCAP and the Bangladesh Chamber of Industries (BCI) was held in Dhaka from 23 to 25 January 1993. A total number of 13 papers were presented during the six working sessions of the Seminar. A large number of entrepreneurs, business people, policy makers, development practitioners, researchers and academics as well as members of the diplomatic missions in Bangladesh participated in the Seminar. Experts from ESCAP and some regional countries also took part in the Seminar.

Following is a resume of the major issues and recommendations which emerged during the Seminar.

A. THE NEED FOR A VIBRANT, GLOBALLY COMPETITIVE PRIVATE SECTOR

The Seminar underscored the universal recognition accorded to the private sector as the lead agent in the process of industrialization as well as in the economic development of less developed countries. Given the factor endowment and level of economic development of a country such as Bangladesh, it was all the more important that the private sector should come out more vigorously in performing this important task. For that purpose, it had to enhance its role in the economy by growing in size, diversifying its structure and also by becoming globally competitive. To achieve that objective, there was a growing necessity for an outward-oriented private sector growth in Bangladesh with the major emphasis on the export of manufactured and processed goods.

In that context, it was emphasized that Bangladesh needed to benefit from the experience and lessons of successful industrialization in the newly industrializing economies (NIEs) which suggested that a private sector-based industrialization strategy promoted the efficient use of scarce resources, increased investment and the creation of productive employment. A private sector-based industrialization strategy, using external demand as the main source of growth, also forced enterprises to adopt techniques of production commensurate with the country's factor endowment. The adoption of such an industrialization strategy would need far-reaching and continuous industrial restructuring, involving: (i) abandoning and phasing out those industrial activities which had lost their competitiveness; (ii) utilizing the capacities of potentially viable activities; and (iii) adopting and implementing policies and measures for augmenting future investment and growth commensurate with the country's dynamic comparative advantage. Attention was also drawn to the implications for the growth of a vibrant private sector in Bangladesh, and of the liberalization measures currently underway in the neighbouring countries.

B. EVOLVING AN APPROPRIATE POLICY AND INSTITUTIONAL ENVIRONMENT

There was a broad agreement that the general policy framework for the development of the private sector in Bangladesh had become more congenial over time. Unfortunately, in spite of the reform measures carried out in the past in that regard, corresponding improvement in the growth of the private sector had not taken place in the country. While some structural as well as environmental bottlenecks still impeded the growth of the private sector, the overall policy thrust of reform needed to be pursued steadfastly and deepened further. However, some concerns were expressed regarding the adoption of adjustment measures which might threaten the viability of certain industries, which were established on the basis of protection granted to those firms earlier. Apart from the adverse effect created by attempts towards rapid liberalization of the trade regime, the indigenous industries were also threatened by illegal imports and smuggling.

It was strongly felt that although many of the policy initiatives were in the right direction, the initiatives did not bear their intended results because of inefficient implementation and lack of monitoring. In some cases, inadequate coordination among the agencies concerned frustrated the policy initiatives. Ad hoc,

frequent and abrupt policy modifications and changes raised operation costs, affected profitability and ultimately, hindered private sector investment and growth. It was, thus, noted that the stability of the policy measures, the internal consistency among those measures as well as their transparency were of paramount importance for reaping the benefits of the reform process.

It was pointed out that the unsatisfactory law and order situation remained an important factor deterring investment in and affecting the performance of the private sector.

C. MOBILIZING RESOURCES FOR PRIVATE SECTOR GROWTH

It was observed that given the recent changes in the global scenario, the prospect for external resources for industrialization was not encouraging. The unification of Germany, the emergence of the Commonwealth of Independent States (CIS) and the development in Indo-Chinese countries was putting strain on the overseas development assistance trend. It had thus become all the more imperative to mobilize internal resources for industrialization.

1. Domestic resources

Bangladesh was endowed with a very poor resource base and the scarcity of resources had thwarted the investment and development of the country.

It was maintained that foreign capital was likely to be more expensive and uncertain. However, mobilization of domestic resources through the tax system was sometimes considered politically difficult. Given the low level of per capita income and low level of domestic saving, Bangladesh was faced with the formidable task of generating adequate resources for industrial investment and growth. Within the limits set by the structural weaknesses of the economy in Bangladesh, it was felt that there were, nevertheless, a number of areas where appropriate measures could bring about significant improvements in the resource mobilization situation.

The domestic resource mobilization effort should focus on (i) control on current government expenditure; (ii) cost recovery through appropriate pricing of goods and services provided by public enterprises; (iii) improvement of financial discipline through effective loan recovery in all sectors; (iv) mobilization of more private savings through the financial system; (v) reform of the tax structure; and (vi) the plugging of loopholes in the law with respect to taxes and fees by streamlining the tax administration.

Rationalization of current public expenditure and the gradual elimination of subsidies, particularly those which are at best of dubious justification, would improve the public saving situation.

One major source of depletion of public resources was the containing huge loss of public sector enterprises. Reforms of this sector and cost recovery through proper pricing were emphasized to improve the public resources position.

The problem of inadequate tax revenue was considered to be a result of deficient tax administration measures rather than an inappropriate structure of taxation.

2. Foreign resources

The Seminar considered that foreign direct investment (FDI) was an important input to the development process of Bangladesh and could effectively complement the resource need for investment in the country. It was observed that, although generous incentive packages were offered to the foreign investors, the level of FDI flow to Bangladesh remained totally unsatisfactory, both in absolute and relative terms.

In contrast to traditional import-subtituting foreign investment, it was maintained that future foreign investment should be primarily export-oriented. Moreover, apart from classical direct foreign investment, other new forms of foreign investment (for example, licensing, equity participation, multiple sourcing, international market intermediation) should be sought to enhance the foreign investment inflow.

To derive the maximum benefit from possible foreign investment, there was a need for prior identification of the sectors and subsectors where the country was likely to have a global competitive advantage. To that end, the formulation of appropriate policies and incentive structures for targeting foreign investment to these areas was necessary.

While it was recognized that more effective measures should be in place to attract FDI, it was reckoned that not all forms of FDI were equally desirable. In particular, FDI which crowded out local investment was considered to be less desirable. The opinion was expressed that FDI should be targeted mainly towards export and high-tech-oriented production activities.

It was also recommended that facilities extended to foreign enterprises located in export processing zones (EPZ) areas should also be made available to export-oriented units located outside EPZ.

Regarding factors inhibiting the flow of FDI, it was pointed out that both economic underdevelopment (lack of infrastructure and skilled and disciplined workforce, cumbersome regulatory mechanisms etc.) and socio-political underdevelopment (for example, the absence of political stability) inhibited the FDI flow. However, between the two, it was the latter, i.e., the socio-political situation, which created an image problem for the country, affecting the prospect of FDI.

D. MODIFYING THE REGULATORY FRAMEWORK

It was acknowledged that, over the years, some degree of decontrol had taken place in the rules and procedures governing the private sector in Bangladesh. Yet, the centralization of decision-making processes, administrative controls and procedural bottlenecks were identified as some of the major barriers to the growth of the private sector. Those impediments had given rise to red-tapism, duplication, delays and corruption. Emphasizing the need for improvement of the functional efficiency of the relevant ministries and agencies, it was further mentioned that lack of interministry and inter-agency coordination did not often allow the entrepreneurs to benefit from the decontrol measures.

The Seminar urged further simplification of government procedures relating to investment, credit, taxes, import and export, access to utilities, (for example, gas, water, telephone, electricity). Concrete suggestions were also put forward in that regard. For instance, registration of new enterprises could be made automatic and facilities as well as incentives should be provided through one single agency, such as, the Board of Investment (BOI) and BSCIC. The investment approval process should be further liberalized by eliminating the present requirement of permission for investment. The investment ceiling beyond which an enterprise was currently required to go public also needed further relaxation.

While supporting the principle of deregulation, attention was drawn to the necessity of monitoring by the Board of Investment of sectors where over-capacity had resulted in industrial sickness (for example, cold storages, oil mills).

It was pointed out that while some regulation was necessary for applying the rules of the game or a competitive market-oriented economy, those regulations should be framed and implemented in a manner that minimized disruptions of economic activity and generated greater confidence in the business community. The creation of a "market-friendly" public administration remained a critical element for putting in place an enabling environment for private sector growth.

E. FINANCING INDUSTRIAL INVESTMENT

The importance of the financial system in mobilizing and allocating resources in an efficient manner was highlighted in the Seminar. It was noted that the Government had already started gradual liberalization and rationalization of the interest rates.

It was stressed that the financial institutions should be equipped with adequate professional managerial cadres entrusted with proper autonomy and accountability. Clear procedures should be laid down so as to allow them full freedom in asset management, individual loan decisions and personnel policy administration.

It was suggested that the formulation of the financial system should be strengthened by improving the accounting and legal systems and the provision of adequate prudent regulations and banking supervision. Supervision by both the central bank and individual financial institutions should be strengthened and improved.

It was maintained that the individual financing institutions should be allowed to fix their own interest rates structure, including deposit rates, making them more responsive to the market situation.

It was noted that the Government should normally refrain from directing credit to any preferential sector at subsidized interest rates.

It was suggested that to activate the capital market, it would be necessary to streamline the regulatory framework, strengthen monitoring activities, improve incentives, ensure availability and liquidity of equity and other long-term financial instruments.

It was felt that there was scope for improving gross public investment by increasing the disbursement ratio which had been very low during the recent past. Moreover, it was pointed out that improvement in project implementation would contribute to higher investment and would accelerate gross domestic product (GDP) growth.

Concern was expressed that, because of the current credit policy, sickness of industries and enterprises was often transmitted to the banking system. It was suggested that the new credit policy should be such that the bankers could independently study the profitability, cost turnover, asset coverage, leverage etc. of a project and if found viable, could finance the project.

It was observed that the recent reform measures relating to the financial institutions and the streamlining of their activities had led to a situation in which the banks had accumulated excess liquidity and long-term credit to the industrial sector had dwindled. It would be incorrect to interpret that as an absence of viable investment opportunities. Potential investors were often discouraged by the procedural rigidities of the credit disbursement mechanism, and risk avertness of the bankers had also contributed to the accumulation of loanable funds.

It was recommended that the Stock Exchange Market of Bangladesh should be fully geared up and registered with the important stock exchanges of the world in order to facilitate the maximum flow of foreign cash.

F. RATIONALIZING THE INCENTIVE STRUCTURE

The incentive structure in Bangladesh had been made more attractive for the entrepreneurs. However, it was stressed that the incentive structure needed further rationalization and strengthening. Corporate tax was relatively high in Bangladesh and needed to be brought in line with that in other countries of the region. Entrepreneurs were still being subjected to double taxation. In addition the delays involved in getting the benefits of duty draw-back, as well as the system of assessment of benefits, limited the attractiveness of the scheme.

Effective measures should be taken in order to restrict pilferage from the bonded warehouse system (BWS).

An opinion was expressed that the Government had taken discriminatory policies affecting the multinationals particularly the pharmaceutical sector.

G. MODERNIZING THE LEGAL FRAMEWORK

The importance of a modern and effective legal framework for the smooth functioning of a market-oriented economy was highlighted in the Seminar. It was emphasized that an enabling environment needed to be created for the execution and enforcement of business and commercial contracts.

The Seminar recommended reforms of several laws, particularly the Companies Act, Patent Law, Trademark and Copy Right Protection Act, Law of Bankruptcy etc. It was suggested that a new comprehensive labour code should be formulated urgently to provide guidelines for an improved management-labour relationship. To facilitate foreign investment, it was considered necessary to revise certain aspects of Bangladesh Export Processing Zone Authority Act. The Seminar also recommended the devolution of certain regulatory functions to the chambers to improve the efficiency of the legal and regulatory framework.

H. IMPROVING INFRASTRUCTURAL FACILITIES

The Seminar was unanimous in its opinion that inadequate and antiquated infrastructural support facilities of the country were seriously affecting private sector growth. There was a renewed call, particularly to the Government to allocate increased resources towards the upgradation and modernization of the infrastructure and support services. It was reckoned that infrastructural improvements would significantly contribute in reducing costs, integrating the market and disseminating information.

Urgent attention should be given to the provision of basic services, such as electric energy supply, transportation, telecommunications, water supply, waste disposal and other utilities. Frustrations were expressed regarding the inordinate delays and high informal costs involved in getting telephone, electricity, water and gas connections. The issue of uninterrupted electricity supply figured prominently among the concerns.

It was further pointed out that apart from expanding the transportation network, maintenance and operation activities relating to roads, railways and ports required priority attention.

Given the growing demand placed on the country's existing infrastructure and in the context of inadequate fund availability for expansion, it was suggested that alternative strategies, such as build-operate-operate (BOO) and build-own-transfer (BOT) systems should be explored to make efficient use of scarce resources and to develop a competitive infrastructure system. It was suggested that the private sector should also be encouraged to invest directly in the infrastructure development. Divesting existing utilities in favour of the private sector might be considered.

I. DEVELOPING HUMAN RESOURCES

The role of human resources and related issues in the context of private sector-led industrialization received considerable attention.

Given the fact that, with technological development, the labour content in the cost structure was diminishing fast and the labour component was increasingly becoming skill intensive, it was felt that Bangladesh could not bank any more on the so-called cheap labour based comparative advantage. It was recommended in that regard that serious attention should be given towards implementing a conscious policy towards developing a trained and skilled workforce capable of competing internationally. Adequate use of the capacities available in the existing vocational training institutions and the establishment of new training facilities were considered important in the creation of a competent and balanced labour force. The importance of a universal education policy as well as the development of other human resources could augment government initiatives (for example, development of the health services).

The inadequacies in respect of entrepreneurial capacity and management skills were considered also as an emerging constraint to the growth of a dynamic private sector, particularly in the context of the international competitive environment. Given the nascent state of private entrepreneurs, it was deemed that it should be one of the fundamental objectives of the Government to extend its support facilities in providing business and entrepreneurship development training. The demand for these sorts of training programmes was particularly important for new incumbents in the organized sectors as well as small business operators. Training relating to the development of accounting standards and provisions of accounting practices was considered particularly important.

J. AUGMENTING TECHNOLOGICAL CAPABILITIES

It was emphasized that technology was the accelerating force for the industrial development of the country. However, it was pointed out that the technical facilities available in the country, the local human resources ability to adopt and adapt to new and improved technology, the availability of information regarding the technological advancement abroad were highly inadequate. In-service training on technology unpackaging, private sector participation on curriculum content, exploitation of the advisory services of overseas nationals and collaboration with foreign management with proven track records were some of the factors that could improve the human resources capabilities for technology choices in the private sector.

As technology knowledge was 'generic', individual firms could find their return from investment in technical knowledge much lower and thereby would be reluctant to invest at the required level. However, the Government had a comparative advantage in the diffusion and dissemination of technological knowledge. Once the Government ensured such diffusion and dissemination, private entrepreneurs would then be able to determine whether the terms and conditions were agreeable and whether it was cost effective relative to other comparable technology.

To facilitate acquisition, assimilation and upgrading of technology, the Government should play its role by creating a stable macroeconomic environment and by ensuring free access to inputs at international competitive prices.

It was noted that the success of technology-based development depended on the absorptive capacity and the level of technical know-how prevailing in the country. There was a need for the Government to support and strengthen the technical capabilities of the local entrepreneurs as well as the experts.

In assessing the environmental impacts of technology choice it was emphasized that the selection, development and management of environmentally sound technologies needed urgent consideration. However, those efforts should be conducted systematically to strengthen national capabilities.

It was maintained that the creation of technological capabilities and absorption of trained manpower should go hand in hand. A situation which created a shortage of trained manpower on the one hand and unemployment of skilled manpower on the other should be avoided.

It was observed that the technological information provided by the international and regional institutions should be utilized to upgrade technological capability in the country. There was thus a felt need to establish an effective national organization for efficient management and flow of technological information. It was felt that an innovative and supportive administrative system was needed to bring about positive changes in the sphere of technological development.

The Seminar recommended that the objective should be to develop national capabilities for successfully assimilating and absorbing imported technologies and gradually to innovate indigenous technologies to replace the imported ones.

It was recommended that in the importation of technology a sort of sequential sampling could be traced out, initially setting up one or two units and then gradually increasing those in size or number if the existing units proved to be suitable.

K. ADDRESSING LABOUR-MANAGEMENT RELATIONS

The Seminar observed with concern the deteriorating industrial labour management relationship. The entrepreneurs felt that they were increasingly becoming victims of coercion and intimidation by the motivated trade union movement which had made the private sector reluctant to invest in new industries. In that regard, wage demands, redundancy, the adoption of new technology adversely affecting employment, and politicization and violence in the labour movement had become matters requiring urgent attention. The need to have a correspondence between wage increases and productivity growth was singularly emphasized in the Seminar. Expectation was expressed that the ensuing wage commission award would take account of that aspect.

Against the backdrop of the large incidence of loss of work days for various reasons, it was pointed out that the number of holidays in the enterprises should be commensurate to the number of statutory public holidays.

It was advocated that the trade unions should abandon their militant stance so that the entrepreneurs could make best use of the incentives accorded to encourage the deployment of labour-intensive technology.

The widespread incidence of inter-union rivalry, political interference, threats of violence, lack of negotiation and arbitration in the management-labour bargaining process had aggravated the situation, leading to production and productivity loss. The legal framework and the law enforcing agency appeared to be quite ineffective in meeting the situation.

However, the Seminar also emphasized the responsibilities of the entrepreneurs towards creating a functioning labour market. Apart from the very important aspect of ensuring minimum wages for survival in the context of price hikes, the entrepreneurs should also undertake skill development programmes for their workers and improve management and organizational practices. The Seminar recognized that there were instances where labourers had come forward to keep production units in operation, for example, by handing over their provident fund as working capital for the enterprise. That indicated that a potential existed for better labour-management relations.

Notwithstanding the conflicting perspectives of the entrepreneurs and the labour leaders on many issues there was a fundamental agreement that the situation prevailing in the labour front needed to be drastically rectified in order to improve production performance as well as to attract new investment from both domestic and foreign sources. Both sides also agreed on the necessity of revising the Industrial Labour Code.

L. FURTHERING GOVERNMENT-PRIVAE SECTOR COOPERATION

One of the unifying themes which emerged from the deliberations of the Seminar was the urgent need for further closer cooperation between the Government and the private sector.

It was underscored that in order to promote private sector development in Bangladesh, the Government had a pivotal role to play. Apart from creating an enabling environment through trade and exchange rate policy, monetary and fiscal policy, labour and legal policy measures etc., the Government would have to retain its central role in developing the industries where the private sector would not be forthcoming. The supportive actions of the Government were also needed in the area of information collection and dissemination, access to foreign technology and in the development of indigenous technological capability.

Such a role for the Government was considered to be complementary to the envisaged role of the private sector, if not a prerequisite for the development of the latter.

The Seminar noted that in order to realize development objectives the Government needed to know and appreciate the felt needs of the private sector. Currently, the interactions between the Government and the private sector were taking place in an unsystematic and ad hoc fashion.

In order to streamline the Government and the private sector cooperation, it was stressed that the process of interaction needed to be institutionalized. Such a process of institutionalization was considered essential for incorporating the participation of the private sector in three respects, namely, formulation of policies, decision-making to change policies and implementation of the policies.

As a part of deregulation and decentralization, it was also suggested that the Government may consider divesting some of its functions in favour of the representative bodies of the private sector.

The participants expressed the view that the organization of the present National Seminar was a welcome event which could provide an added impulse in creating an atmosphere for conducting an effective dialogue between the Government and the private sector.

II. ECONOMIC PROBLEMS OF THE PRIVATE SECTOR IN CHINA

by
Li Yingji

ECONOMIC PROBLEMS OF THE PRIVATE SECTOR IN CHINA

Since more than a decade ago, the private economy has developed markedly after the reform and opening in China. It has now become an indispensable component in the economy of China, occupying a definite position in the national economy. According to statistics, the gross national product (GNP) in 1991 was RMB 1,750 billion yuan and that shared by private sector was RMB 21.46 billion yuan which accounted for about 1.23 per cent. With increasing economic cooperation in the Asian-Pacific region, an investigation of the economic problems regarding the private sector in China would undoubtedly reveal areas for the future expansion of economic cooperation.

A. SOME NOTES ON THE ECONOMIC PROBLEMS OF THE PRIVATE SECTOR IN CHINA

As China is a socialist country, there is something unique in describing the so-called private economy. Consequently, the policies toward the "private economy" are therefore somewhat unique too.

1. The concepts behind the "private economy"

Private economy is a form of economy relative to the state-owned economy. The main features are the private ownership of property and the consequent employment patterns.

The economic carrier for the private sector economy is private enterprise. Such enterprise refers to an organization run for profit, privately owning property and employing more than eight empoyees.

2. Policies and measures for the development of the private sector in China

The policies and regulations governing the private sector are mainly based on: "The Provisional Regulations Governing Private-owned Enterprise, People's Republic of China"; "Provisional Regulations Governing Income Tax for Private-owned Enterprise, People's Republic of China" and "Regulations Governing Individual Income Regulating Tax for Private-owned Enterprise, Stipulated by State Council". These regulations have been implemented since 1 July 1988.

(1) "The Provisional Regulations Governing Private-owned Enterprise" (excerpt)

i. Classification of private owned enterprise: sole investment enterprise, cooperative enterprise and company with limited liabilities.

ii. Scope of business: Private-owned enterprise can run industrial, construction, communication and transportation, commercial business, food, service and repair and technical consultation within the scope specified by laws, regulations and policies. Private enterprise is forbidden to run military and financial business.

iii. Rights and obligations of private enterprise: The private enterprise investor owns the legal property rights and their property is in heritable.

RIGHTS Autonomous running under approved registration; determining the structure of the enterprise; employing or dismissing their employees; determining the salary and wage system of the enterprise and forms for distribution of the profits earned; making out commodity price and charges due according to state criterior of price regulation and control; signing contracts; applying for patent and registering trade marks. Private enterprise can run a joint-venture business, joint cooperation business with foreign company, enterprise or other commercial organization or individual. Furthermore, they can receive orders with materials, samples or components supplied.

OBLIGATIONS Private enterprise should follow state laws, regulations and policies; pay tax due according to regulations and is subject to supervision and control by relevant government organizations.

(2) "The Provisional Regulations Governing Income Tax, People's Republic of China" (excerpt)

i. Income tax of private enterprise is levied at a tax rate of 35 per cent

ii. Reduction or exemption of tax depends on the practical situation of the taxpayer and is possible within a certain period subject to decisions made by the People's Government of Provincial, Autonomous or Municipality directly under the State Council.

(3) "Regulations Governing Individual Income Regulating Tax for Private-owned Enterprise, Stipulated by State Council" (excerpt)

i. A tax levy of 40 per cent to the portion of profit earned for individual consumption after tax will be made for a private investor as individual income regulating tax.

ii. Exemption of individual income regulating tax will be given for the portion of profit earned after tax for a private enterprise investor that is designated for production fund.

iii. A private enterprise investor should make up individual income regulating tax according to previous terms should be withdraw or transform the capital from the portion of profit earned after tax for them that is designated for production fund under whatever kind of form possible.

B. THE DEVELOPING STATUS OF THE PRIVATE SECTOR IN CHINA

The appearance of the private sector with Chinese special features after reform and opening is only natural. The private sector soon becomes a kind of necessary supplement to the state-owned economy under Chinese socialism. The emerging private sector has encountered many problems which were solved during operation. The Chinese Government has assumed prudent but positive attitudes from permission of private sector existence to encouraging and strengthening their control, supervising and guiding them while providing a beneficial environment.

1. The progress of the private sector

Fourteen years ago, there was no place for the private sector in the structure of ownership in China as China was implementing a socialist state-owned and planned production economy. At that time, the private economy was a synonym for capitalism. This is simply a result of misunderstanding.

At the beginning of the reform of the urban-rural economic system, a cooperative economy and individual economy were suggested and permitted to exist. At that time, it was impossible to deal deeply theoretically and practically into such sensitive problems as the private economy. As soon as the policy of allowing individual workers to exist legally with their legal rights and benefits protected, a mushroom growth of the individual runner appeared readily nationwide. Around 1981, some of them with considerable accumulation of capital expanded their scale of business quickly. The number of workers employed had exceeded the seven specified by the Government for hiring helpers or apprentices. These individuals had gradually evolved into private enterprises characterized with privately owned property and labour employment.

In fact, at the beginning of reform and opening, the development of the private sector revealed a positive effect on the social production force. The state-owned economy began to improve its efficiency, reduce cost, and shorten the production cycle etc. In the meantime, the development of the private sector and its consequent success helped in liberating the thought of the people which created a sound base for the substantial development of the private sector.

However, the new-born private owners are both investors and labourers because they employ workers and derive part of their income from investment, i.e., from non-labour income. According to traditional ideas non-labour income was considered a kind of "exploitation" which was not allowable in a socialist society. Hence, some of the people consider that the private sector should not be allowed to develop.

In 1984 the Government suggested a policy of "wait and see" toward the private economy as the relevant part in the society are more or less open-minded. They do not like to draw conclusions in haste.

Following the progress of reform and opening, people began to understand more clearly the nature, position and function of the private sector in the current stage of development. Early in 1987, the Central Committee of the Chinese Communist Party definitely made a decision that the private sector should be: "permitted to exist, strengthening of control, to pronounce the benefits and depress the disadvantages, and to lead gradually". The report of the 13th Central Committee of the Central Communist Party of China also discussed the nature, position and function of the private sector in the primary stage of socialism; and definitely stressed the encouragement and development of the private sector; speeding up the draft of relevant policies and laws in order to protect their legal rights and benefits, fortifying to lead, supervise and control.

The Chinese Government formerly decreed on 25 June 1988, three documents: "The Provisional Regulation Governing Private-owned Enterprise, People's Republic of China", "Provisional Regulation Governing Income Tax of Private-owned Enterprises, People's Republic of China" and "Regulations Governing Income Regulating Tax for Private-owned enterprise, Stipulated by State Council". Consequently the development of private-owned enterprise in China received full support and encouragement from the Government with the necessary laws and policies being implemented.

2. The status of private-owned enterprise in China

Under the guiding principle of developing diversified forms of economy and insisting on the pre-requisite of a state-owned system as a core constituting component of the economy, the private sector has seen a healthly growth. Up to the end of 1991, the progress of private enterprise can be summarized as following:

(a) Number of firms, persons and capital in private enterprise

The registered private enterprises in the country are 107,800 firms altogether, with a total staff and workers of 1,839,000 and a registered capital of RMB 10.317 billion yuan.

(b) Private enterprise in urban, town and village

There are 45,190 private enterprises in the urban areas with approximately 681,000 persons. The registered capital amounted to RMB 6.314 billion yuan. They have increased 19.9 per cent, 19.7 per cent and 44.2 per cent over the last three years. Private enterprises in the villages number 62,653 firms, 1.158 million persons and has a registered capital RMB 6.003 billion yuan that has increased 3.7 per cent, 3.2 per cent, and 16.8 per cent over the last three years. The share of the number of private firms in urban areas is about 41.9 per cent. The workforce increased from 33.4 per cent last year to 37 per cent while the registered capital increased from 46 per cent to 51.3 per cent.

(c) Production enterprise still in the majority, the commercial and food industry developing at the fastest rate

There are 77,126 industrial, construction, communication and transportation firms with a total of 1.467 million persons, which is about 71.5 per cent of the total amount. Among them, there are 22,378 industrial firms with 1,353 thousand persons. There are 22,378 commercial firms, with 252,000 people, an increase of 15.5 per cent over the previous year.

(d) A decrease in the number of workers employed, and an expansion in capital investment

Private industry has been contracting. In 1991, the number of employees per firm decreased from 15.1 to 14.8. The number of enterprises employing over 500 people has decreased from 23 to 20

while those having 100-499 persons decreased from 693 to 582 firms, a drop of 16 per cent. In the meanwhile, to improve their competitiveness, many private enterprises increased their capital investment. In 1991, capital investment per firm on the average increased from RMB 97,000 yuan to 114,000 yuan. There were 662 firms with a registered capital of over one million, about 0.6 per cent of the total.

(e) Greater increase in production and sales volume

In 1991 the production volume of industry, construction, communication and transportation totalled RMB 14.66 billion yuan, a boost of 20.4 per cent over the previous year. Among them, the industrial gross product is RMB 13.6 billion yuan which showed an increase of 21.3 per cent over the previous year. The sales volume of commercial business, food, service and repair and technical consulting amounted to RMB 6.8 billion yuan, an increase of 32.1 per cent. There were 1251 private firms running export businesses and generating foreign exchange to the value of RMB 540 million yuan, an increase of 13.5 per cent over the previous year. Average production volume per firm for the industry in RMB 187,000 yuan.

(f) Uneven distribution of private enterprise

The total number of firms in Guangdong, Zhejiang, Liaoning and Fujian amounts to 53.4 per cent while Beijing, Xinjiang, Ningxia and Qinghai have less than 1,000 firms each.

3. Problems in the development of the private sector

Currently, the development of the private sector is booming. It has already become a necessary supplement to the socialist state-owned economy. But speaking objectively, some problems still exist:

(a) The private sector chiefly comprises industrial processing as the core element. It mainly consists of manual labour and semi- mechanical production, scattered over the exploration of natural resources and simple working of primary products or maintainance and repair works.

(b) The private enterprise in villages is greater than in urban areas

There are 45,190 private firms in urban areas with a labour force of 681,000 and with a registered capital of RMB 631.4 billion yuan; while in the villages there are 62,653 private firms and a labour force of 1.158 million, the registered capital being RMB 600.3 billion yuan.

(c) Small scale, technically backward and lower management capability

Private enterprises are generally small in scale. For example, the number of employees per private enterprise on average nationwide is 14.8 persons. There are 20 firms with over 500 employees; 582 firms with 100-499 employees. The capital investment per firm on average is RMB 114 thousand yuan; 662 firms have a registered capital of over one million which is only 0.6 per cent of the total. Moreover, the equipment used by private enterprise is mostly obsolete, sold off by state-owned enterprises, and the quality of personnel is usually lower. Also, the owners of private enterprise often lack management capability.

(d) Sensitive to impacts from outside, less ability to adapt to changing circumstances

Because the present private sector economy is more dependent on the state-owned economy, the prevailing economic conditions have a greater effect on them. In 1990 for instance, 14,782 firms applied to cancel registration owing to a shortage of capital, raw materials and market.

In addition, the private sector makes less of a contribution toward reform and opening. In 1991, the foreign exchange generated was only RMB 540 million yuan which was less than 1 per cent in comparison with that of the whole country that year. During our positive introduction of foreign funds, there was less opportunity for those private enterprises to attract FDI. Thus, the private sector has not yet developed to an adequate size.

C. THE TRENDS AND OUTLOOK FOR THE DEVELOPMENT OF THE PRIVATE SECTOR

In compliance with the Chinese Government in realizing a socialist market system and to achieve the grand aim of resuming our position in GATT, the private sector in China will surely make progress and develop their larger functions. The following trends in the development of the private sector may be expected:

1. A constant increase in the number of private enterprises

On account of the establishment of a socialist market system, the economic environment will give the private investor more flexibility. As soon as individuals accumulate a certain amount of property, they will become positively involved in investment activities. The entire macroeconomic circumstances will give more opportunities to earn profit for private investors familiar with operating private enterprises.

2. Private enterprise will turn to production

Although private enterprise at present is mainly limited to the processing industry, 'communications and transportation and service business, it will readily turn to more stable, marketable and high value added production based on technology following the improvement of the technological market, financial market and talent market. Some talented retired technical people will sign contracts with private industry when conditions permit. This will improve the technical standard of the private enterprise without doubt.

3. Constant expansion of scale of private enterprise

During their operating process, private enterprise will positively utilize their profit for further investment in production, purchasing new equipment to improve their technical standards. Furthermore, they will increase their employment with the increasing scale of investment. Thus the scale of private industry will grow larger and larger.

4. Private enterprise will become more export-oriented

Following the re-entry of China in GATT, the running of private business will be easier and the Government will provide more flexible policies for private enterprise. The export business of private industry will be mainly fixed on native product processing and fine art articles production. The international market for these products is considerable.

5. More opportunities for private enterprise to run joint ventures

It has been clearly stated that the Government will encourage private enterprise to run joint ventures or joint cooperation enterprises. However private enterprise is not quite successful owing to limited capital, technology and smallness of scale. It will be possible for private enterprise to do more when private enterprise gains momentum. Currently, policies and regulations regarding the cooperation of private enterprise with foreign parties are under investigation by the relevant departments.

Undoubtedly, the Chinese private sector will develop and grow in the foreseeable future. Under the guiding policy of the state-owned economy as the core component, the private sector will develop positively. Particularly, the Chinese private sector will contribute their due function in promoting regional cooperation as a whole.

III. CHINA: INVESTMENT POLICY AND INDIVIDUAL AND PRIVATE ECONOMY

by
Luo Yunyi
Li Yingji

CHINA: INVESTMENT POLICY AND INDIVIDUAL AND PRIVATE ECONOMY

China's accumulation rate has been much higher than the other developing countries in the world. The average accumulation rate from 1985 through 1991 was 33.8 per cent, even in 1989 when China's economic growth was sluggish and there was negative investment growth. *We can say, in a sense, that China's economic growth relies mainly upon investment and the investment policy has thus become the core of China's national macroeconomic policy.

From 1993 onwards China's economic restructuring will come into a new stage; domestically China will move from the conventional planned economic system to a market economy and externally China will further extend its opening to the outside world and very likely regain its status as a contracting party to the General Agreement on Tariffs and Trade (GATT).

This paper analyses, under the above described political and economic situation, China's present investment policy and the policy for the private economy respectively and raises a number of suggestions so as to meet the requirements of further development and restructuring of China's economy.

A. ANALYSIS OF THE DOMESTIC INVESTMENT POLICY

Having undergone the economic reform that China has carried out since the late 1970s, the present investment policy has the following new features:

1. Theoretically most industries are open to various investors, including collective and private investors.

2. Enterprises have been authorized, with partial rights, for investment decision-making. According to the present regulations, any enterprises could decide to set up a project as long as the funds and relative production means are raised and provided by the enterprises themselves. The government departments are only concered with a report on the project for their records.

3. The examination and approval power of the central Government has been greatly reduced**.

4. The price restrictions on investment goods have been basically removed. For instance, the price of construction steel materials increased more than 50 per cent in 1992, but the Government did not act as usual and took no administrative measures about it.

5. Sources of investment have become diversified. The proportion of budget allocated funds has come down from 28.1 per cent in 1981 to 6.8 per cent in 1991, with the proportion of domestic loans increasing from 12.7 per cent up to 23.5 per cent over the same decade***.

6. Government regulation and control over investment scale and structure are already flexible to some extent.

Nevertheless, to meet the requirements of the market economy China's domestic investment policies are still insufficient in many aspects.

Government investment activities are still affected by conventional economic behaviour. On the one hand, government budget investments are still scattered among various national economic trades****, for many of which, according to international practice, investment should be made by the private sector only. On the other hand, government investment for the construction of infrastructural facilities is far from

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* *Calculated with data from China Investment Annuals,* 1992.

** *China Investment Annuals,* 1992, page 30.

*** *China Investment Annuals,* 1989, 1992.

**** *China Statistics Yearbook,* 1992, page 169.

sufficient, causing the power and communications industries to be "bottlenecks". In addition, the primary compulsory education funds cannot be quaranteed because of shortages and have to be raised through the "Hope Project", a non-governmental donation campaign.

There is still more direct state control on investment activities. For example, the price and total amount of bank credit are under control of the centralized mandatory planning with no decision-making rights given to the commercial banks and their branches. This causes the credit investment to be insensitive to market variations and directly affects in turn the enterprises investment decisions, so as to discount their self-investment-decision-making rights.

What is even more serious is that the phenomenon of "soft responsibility constraints" that J. Kornai criticized as generally existing in the socialist countries is still popular in the public sector's investment activities (including investment made by both the Government and the state-owned enterprises). This is the reason which directly causes the public sector to be in frequent hunger for investment. Because of this reason and since the public sector's investment takes up a decisive proportion in the total amount of the national investment (66 per cent in 1991), China's domestic investment has long been inclined to an excessive spontaneous expanding tendency. In order to limit damages caused by such a tendency to the national macro-economy, the Government should have taken a restrained, instead of an encouraging, policy for its domestic investment actions. "Construction tax" and "regulation tax on fixed assets investment direction" respectively levied in 1983 and 1991 on investment are two typical examples reflecting such a policy*.

To keep China's economy booming and consistent with the principles of market economy, the Government will further adjust its domestic investment policy. The adjustments under consideration may be as follows:

1. To provide the infrastructure industries with futher government investment and allow the private sector to play a major role in fields of general production, circulation and services;

2. To accelerate the reform on enterprises management mechanisms and let enterprises really have decision-making power for investment;

3. To enhance the public sector's investment responsibility system and progressively move from the restrained policy to an encouraging policy for domestic investment;

4. Gradually give up direct administrative regulation and control and rely instead on indirect regulation and control of various economic levers.

B. ANALYSIS OF FOREIGN INVESTMENT ATTRACTION POLICY

Just the opposite to a restrained policy, China has constantly pursued an encouraging policy for using foreign funds of various forms, especially for attracting foreign businessmen to invest directly in China.

As far as domestic investment is concerned, for instance, the central Government would control the overall scale, assign mandatory quotas to all provinces, and levy direction regulation tax on the investment. As for foreign investment, none of these restrictions would exist.

As China's economic restructuring and opening-up to the outside world are getting more and more deeper and wider, China would continuously expand the scale of using foreign investment. The total foreign funds invested in China in 1981 was about 600 million US dollars, amounting to 3.8 per cent of the total national investment value. In 1991, China obtained 5.2 billion US dollars of foreign investment, of which 4.3 billion US dollars were direct investment, making the same proportion up to 5.7 per cent.**

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* *The Reform, 6th issue,* 1991.

** *China Investment Annuals,* 1992, pages 29, 73.

In order to attract foreign investment, the Chinese Government has taken a number of steps to continue to improve the investment environment and provide better conditions for foreign businessmen to invest and do business in China. The major measures and policies are:

1. More areas will be open to foreign investment.

In the "Law of Joint Venture" approved in 1983, the areas open to foreign investment were listed by way of positive designation, while in the "Law of foreign enterprises" issued in 1986, the way of such a designation was negative, indicating that the number of areas open to foreign investment had been greatly expanded. In fact, during those years foreign investment had been already allowed to enter some previously prohibited trades, the commercial business for instance. One of the examples is a specialized Japanese trading company which settled in Shanghai in the summer of 1992. This is the first trading company ever set up in China exclusively with foreign investment*. According to the practice of China's reform, this specific precedent is often an indication of an extensive future policy.

2. Foreign investors will be allowed to possess 100 per cent shares over the enterprises they have invested in, i.e., setting up enterprises in China exclusively with foreign investment.

3. Preferential tax rates will be provided for foreign investors

The income tax rate for general joint ventures and other forms of cooperative enterprises is 30 per cent of the due income tax value with an additional 10 per cent collected on the said 30 per cent basis as the local income tax. So, the total of the two tax rates amounts to 33 per cent only, much lower than the 55 per cent income tax rate levied on the domestic state-owned enterprises. In addition, under certain circumstances, preferential treatement in terms of tax deduction or remission may be also provided to foreign investors.

4. Clear policies concerning personnel management for the three kinds of ventures, land utilization and foreign exchange control have been confirmed.

5. China has been officially ratified to join various international intellectual property rights protection treaties. Therefore foreign investors intellectual property rights will be fully protected to encourage them to invest in the hi-tech domains.

6. Government services will be further improved in accordance with international practice and the principles of market economy so as to provide better conditions and environment for foreign businessmen to invest in China. In 1988, for instance, the Shanghai Municipal Government established a comprehensive leading organization, the "Shanghai Foreign Investment Services Committee" concentrating all the departments concerned with offering services, such as consultancy, finding cooperation partners, handling project approval procedures, and resolving production and management problems, specifically for foreign businessmen. With this measure, Shanghai's investment environment has become more in accordance with international practice. This was extensively appreciated by foreign businessmen**. Besides, China has started to readjust its financial accounting and tax systems and made every effort to improve their transparency and applicability to meet further the needs of foreign investors.

Despite the fact that the Government has made considerable efforts in attracting foreign investment, from the economic development point of view, there are still some actual and potential obstacles.

1. Infrastructure is still a weak link and may be getting weaker***. This problem has become a major obstacle in attracting foreign investment into the underdeveloped interior regions in particular.

2. China's domestic market is still relatively closed to foreign businessmen. This would greatly reduce China's attraction as the world's largest potential market to foreign businessmen. One of the key reasons for why some large westen transnational corporations failed for many years to invest in China is due entirely to the entrance permission issue.

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* *Wen Hui Daily,* 31 December 1992.

** *Foreign Investment Report* by Planning Commission of Shanghai, 1992.

*** *Economic Reference,* 31 December 1992.

3. Policy transparency and stability are still insufficient. In particular, some local preferential policies and management measures are often issued at will, consequently making foreign businessmen lose confidence in investment.

4. Foreign and domestic investors are treated differently. In certain aspects such as taxation, personnel management, import and export power etc., foreign businessmen enjoy a preferential treatment; however, domestic enterprises are superior to some extent to their foreign counterparts in terms of raw materials supply, payment for some services etc. With this different treatment, both foreign and domestic investors cannot compete with each other fairly, which is also contrary to the current practice throughout the world.

The 14th Party Congress has decided to open wider to the outside world and make more and better use of foreign funds, resources, technology and management expertise.

From the principles point of view, China will:

1. Increase the number of regions open to other countries, i.e., a futher expansion from the coastal areas to the interior provinces;

2. Open more areas to foreign investment and allow foreign businessmen to invest in banking, commerce, tourism, real estate and other domains;

3. Further improve the investment environment with more flexible and diversified forms for using foreign funds;

4. Provide foreign businessmen with more convenient conditions and full legal protection to facilitate further their investment and business activities.

Under the above principles, we are confident that the construction of infrastructural facilities will be further enhanced; that China's domestic market will be open wider to foreign businessmen and that conditions of fair competition between domestic and foreign investors will be greatly improved and hopefully made equal eventually. All of these improvements will contribute to the attraction of foreign investors. What is particularly significant is that China will also encourage its domestic enterprises to expand their investments abroad and their transnational business operations, to play an important role on the international investment stage.

C. ANALYSIS OF THE POLICY OF THE PRIVATE ECONOMY

In China, the private sector of the economy is composed of private enterprises. According to the present policy, private enterprise is refered to as a profit-seeking economic organization with its assets privately owned and with more than 8 employed labourers.

The private sector once was the revolutionary target in China, consequently its development in the economic reform has long been a debatable issue. It was not until the early 1980s that the Government clearly decided to encourage the development of self-employed individuals. The Government initially adopted a prudent attitude when the number of private enterprises with more employed labourers had increased. And not until 1987 did the Government put forward the definite policy of "allow (them) to exist, enhance administration (over them), promote (their) advantages and restrain (their) disadvantages, and guide (them) gradually."

China adopted in 1988 its constitution amendment, in which it is stipulated that the State should allow the private sector of the economy to exist and develop within the scope of legal provisions; that the private sector would be a supplement to the public sector of the socialist economy; that the state should protect the lawful rights and interests of the private economy and would guide, supervise and administrate its operation.

From banning a private economy to letting it exist and even encouraging its development, this great change of economic policy has been thoroughly accomplished in China. Only after the experience and lessons over the past several decades had been summarized could this change be achieved. Thus, we can say that this was by no means an impetous action, but a strategic decision in the long run. No matter what will happen in the future, these cardinal policies will not change.

Although China's private sector so far has not yet occupied an important position in the national economy, its development has been very fast since the reform started in the 1970s. Statistics show that by the end of 1991 the private sector employed 24 million people, 4 per cent of the total national employment, and raised 17.9 billion yuan in taxation, 7.6 per cent of the total taxation value*.

It should be noted that a large number of privately owned enterprises have registered in the name of collective enterprises, thus the scale of private economy may be actually even much larger.

The private economy has the following noticeable characteristics from the investment point of view:

1. Nearly all trades of the national economy are open to investment by the private sector, but the major areas are concentrated in industry and commerce.

2. Investment in the private sector has been increasing among national investments. Statistical data released by the *China Investment Annual Report* (1989, 1992) showed that the urban and township private investment in 1981 amounted to 18.5 per cent of the total national investment value and this proportion increased to 22.5 per cent in 1991, topping the 1981 figure by 3 percentage points. The territory of China is so vast that the levels of economic development vary greatly from place to place. In those better developed coastal provinces, the proportion of private sector investment to the total national investment value is quite high (38.8 per cent in Jiangsu Province and 44 per cent in Zhe Jiang Province), but this proportion is much lower in the underdeveloped central and western provinces (20 per cent in Sichuang Province and 7.8 per cent in Qing Hai Province). Thus, as long as the process of the reform continues to move forward to promote further the level of economic development, private sector investment is expected to occupy an increasingly important position.

3. The main investment source of the private sector relies upon self-accumulation. An investigation (table 1) on the investment source for the individual and private, collective and public sectors of the economy shows that among all the sectors the individual and private sector is in the most unfavourable position for raising funds. It is very difficult for them to obtain bank loans and their chances of being financed with either foreign investment or the state budget allocated funds are nearly hopeless. Therefore they have to rely upon self-accumulation.

Obviously, the private sector suffered from severe restrictions in terms of fund raising. This is mainly because the government policy of individual and private economy has not been fully implemented yet.

Let us consider bank loans. There has been a popular way of dealing with the private enterprises' application for bank loans, even though such a way is not confirmed by and stipulated in any of the policies concerned. What the banks ask the private enterprises for is a guarantee that must be issued by a state-owned enterprise and attached to the bank loan application. Normally speaking, however, the private enterprises could hardly find any state-owned enterprise that would like to bear this guarantee, and so they could not obtain the bank loans they applied for.

So far, there has been no policy to prevent private enterprises from using foreign funds. Even so, private enterprises are still quite a distance away from reaching foreign investment because of the following reasons:

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* *Sino-Foreign Enterprises Report,* 27 September 1992.

Table 1. Proportion of funds sources for national investment in fixed assets in 1991 (percentage)

	Whole people owned enterprises	Collectively owned enterprises	Urban & township individual investment
Total	100.0	100.0	100.0
State budget allocated funds	10.2	0.3	0
Domestic Loans	28.1	31.7	4.5
Foreign investment	8.3	2.0	0
Self-raised investment	43.1	45.8	84.1
Others	10.3	20.3	11.4

Source: *China Investment Annuals,* 1992, page 148.

1. Foreign loans are directly controlled by the Government as a scarce resource. Under present conditions, private enterprises would have little chance of obtaining foreign loans.

2. With the common features of being small-scale, of a low technical level and changeable, private enterprises would also have little chance in terms of being provided by the Government with the necessary external conditions and consequently they would be much less attractive to direct foreign investment than their public and collective counterparts.

3. There are no reliable information exchange channels between foreign investors and private enterprises. This causes contacts between them to occur by chance.

In the light of the policies formulated as the 14th Party Congress, the Chinese Government will maintain policies to support the individual and private economy. In order to carry forward this significant strategy and promote investment into the private sector, we should deepen the reform in the following aspects:

1. We should be fully aware that the individual and private economy may develop so rapidly that it might become one of the key sectors in China's economy. Therefore, we should never link our policy, whether restrained or encouraging, only with the needs of ideology.

2. The Government should make every effort to bring about fair macro-external conditions, for instance the equal opportunity to obtain bank loans and foreign funds, to enable the individual and private economy to compete equally with the public and collective economies.

3. Some small state-owned enterprises may be leased or sold to individuals. This policy has been confirmed at the 14th Party Congress and will be particularly significant from the long-run point of view.

4. The development of the shareholding system and joint stock firms should be accelerated. This could be a major channel to improve the level of investment in the private economy and also extremely conductive to the merger and expansion between the individual/private and the collective/public sectors.

5. At present, the quality of personnel and the level of management are quite low in private enterprises. Therefore, training programmes offered by the Government are urgent and very important.

D. REVIEW

In the 1980s, the Asian and Pacific region witnessed robust growth while China gained the attention of the world with its reform achievement. It is expected that in the 1990s the economy in the Asian and

Pacific region will keep its momentum and China's economy will enter a new period of fast growth supported by continuous reform and opening up as well as adjustments in the investment policy.

In China most economists concluded that the key point to the adjustment of investment policy is the transformation of the government function and further delegation of investment decision. This would enable the Government to push several most important reforms including:

1. A reduction in government investment in the competitive industries and in direct control over investment decisions in the private sector, and more attention to creating a better investment environment.

2. The creation of equal conditions for all kinds of investors, including foreign investors and domestic private investors, in the hope that competition would be further promoted and investors would be more invigorated.

3. The establishment of credible hard budget constraints in the state economy and the reduction, hopefully, of the investment hunger so as to improve investment returns.

4. The abolition of direct control over investment factors so that the price reflects the scarcity of the goods, and the investment resources could be allocated most efficiently.

There is little doubt that this reform would allow China to play a more important role in the flow of international capital in the Asian and Pacific region.

IV. INDIAN ECONOMY: AN INVESTMENT PROFILE

by

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A. CHANGING BUSINESS ENVIRONMENT

The last year was very eventful for the Indian economy. The pace of economic reforms accelerated, driven in part by the need to integrate quickly with the global economy and by the need to address short-term economic imbalances which had assumed alarming proportions. This culminated in a tightly structured package of policy reforms announced in the Union Budget 1992 with the introduction of partial convertibility of rupees, the granting of access to the private sector, domestic and foreign, to virtually all areas of economic activity, the removal of controls on imports, tariff reductions, direct tax reforms and several financial sector reforms.

As far back as the mid-1980s, the Indian economy had begun moving towards a liberalized and deregulated environment. Areas hitherto restricted to the public sector were gradually opened up to domestic and foreign investment. Bureaucratic controls by way of licenses and permits were relaxed. Policy and procedural changes were introduced to open the domestic market to increased competition, particularly foreign, and to boost exports. Key measures initiated during the last year are described below.

1. The industrial sector

Industrial licenses have been abolished for all industries, except for a list of 18 industries of security or strategic concern. Licensing even in the case of these remaining industries is not aimed at capacity controls.

The steel sector which was subject to pricing and other controls has been fully decontrolled.

The phased manufacturing programme (PMP) which required a progressive reduction in the import content of certain projects over time has been discontinued.

The Monopolies and Restrictive Trade Practices Act (MRTP) has been amended so that larger Indian companies no longer require authorization from the Government for expansion, establishment of new units, mergers, amalgamation etc.

The set of activities reserved for the public sector has been narrowed considerably from 17 industries to 8. Sectors such as power, road and bridge construction, and telecommunications, which were hitherto considered strategic industries and therefore reserved for the public sector have been opened up to the private sector. Private sector investment in the remaining reserved areas will be allowed selectively. Proposals for private and foreign investment in production, refining and marketing of oil and gas are now welcome.

The Government has started to disinvest its equity holdings in public sector companies. In the last six months, about 25 billion rupees has been raised by the Government by way of disinvestment in such industries as petroleum, petrochemicals, engineering, electronics, trading companies etc. The policy of disinvestment is expected to continue in future.

The Board for Industrial and Financial Reconstruction (BIFR) deals with problems of sick units and facilitates revival or closure of a unit. Recognizing that sickness is a problem in many public sector units, the Government has brought them under BIFR.

A National Renewal Fund (NRF) has been set up as a social security mechanism to fund the costs involved in the retraining and redeployment of labour in problem units. NRF will be funded by the Government and multilateral financial institutions.

2. The financial sector

It has been proposed that government control over capital issues, including premium fixation be abolished. Companies will be allowed to enter the market directly and determine prices in conformity with published guidelines relating to disclosure and investor protection.

Private sector mutual funds have been permitted. They have been placed on par with the existing public sector mutual funds in tax status and operational matters.

Private banks, foreign banks and private financial companies are now being encouraged to grow and compete on a level playing field.

Permission is being given to reputable foreign investors, such as pension funds, to invest directly in the capital market.

The Securities and Exchange Board of India has been given statutory authority to regulate the capital market.

3. Trade policy

A system of partial convertibility of the rupees has been introduced as a step towards full convertibility of the currency.

Earlier all foreign currency inflow had to be surrended to the Government at official exchange rates. With the introduction of partial convertibility only 40 per cent of the remittances have to be converted at official rates. This will enable the Government to meet the requirements of essential imports such as petroleum and oil products, fertilizers, defence and life-saving drugs. The remaining 60 per cent can be traded at market rates. Besides, 15 per cent of remittances may be retained in a foreign currency account in India for subsequent use or sale.

As a result of this, the Government has done away with the system of commodity controls exercised earlier through foreign exchange allocation.

All foreign exchange for the import of goods and for payments on private account, such as travel, debt service, dividends, royalty, will be directly obtainable from the market.

Most imports were either canalized through select trading agencies or required import licenses. These controls have been removed and all raw materials, components and capital goods can be imported without requiring any license except for a specified negative list of items.

Tariff levels are being reduced gradually so that Indian Industry can become internationally competitive. The peak levels of custom duties which had been reduced from 300 per cent to 150 per cent in 1991, have been further reduced to 110 per cent. Besides, the tariff rates for a number of specific commodities have been rationalized and reduced. For example import duty on power projects has been made an uniform 30 per cent.

B. THE EVOLUTION OF FOREIGN INVESTMENT POLICY

India had followed a selective approach towards foreign direct investment and technical collaboration. Such investments were allowed within the framework of national priorities, especially for purposes of modernization, meeting critical gaps in technology and for boosting exports. Foreign investment by way of equity were allowed on a minority basis and normally did not exceed 40 per cent of the paid to capital. The approach was that the major interest in ownership and effective control had to be in Indian hands and foreign technology had to be carefully regulated in every case, with emphasis mainly on technology transfer. There was an element of discretion which led to the allegations that Indian policy was highly non-transparent, negative and lacking in clarity and consistency.

1. Foreign investment flows under the old policy

The administration of the policy relating to foreign direct investment, as it existed before 24 July 1991, did not result in substantial inflows. Direct foreign investment flows into India were an insignificant

0.16 per cent of the total world flow. In contrast, the world-wide flows of foreign direct investment grew rapidly during the 1980s, reaching the level of US$ 196 billion in 1989. Of the total flow, $163 billion was invested in developed countries and $30 billion in developing countries. Foreign direct investment inflows to the developing countries have posted an average annual growth of 16 per cent during the period 1984-1989. Ten developing countries accounted for three quarters of total inflows to developing countries: Singapore (12 per cent), Brazil (12 per cent), Mexico (11 per cent), China (10 per cent), Hong Kong (7 per cent), Malaysia (6 per cent), Egypt (6 per cent) Argentina (4 per cent) and Colombia (3 per cent).

(a) Irritants in the old policy

Some of the factors in the old policy that inhibited direct foreign investment were:

(i) Restriction regarding the holding of majority equity by foreigners;

(ii) Bar on foreign investors entering areas such as services, trading and marketing;

(iii) Insistence on clubbing of foreign technology and foreign investment;

(iv) Stipulation of a phased manufacturing programme;

(v) Lack of a single agency for granting approvals;

(vi) Difficulties with Foreign Exchange Regulation Act, Monopolies & Restrictive trade practices Act. and exchange control regulations.

(b) Objectives of the new policy

The objectives of the new foreign investment policy, apart from addressing irritants in the old regime are to upgrade technology levels, to expand the production base and to export, integrating our industry into the global economy and bringing in non-debt resources.

(c) Measures taken under the new policy

(i) Foreign investment policy

Majority foreign ownership, even up to 100 per cent in certain sectors, is allowed.

Foreign equity proposals need not necessarily be accompanied by foreign technology agreements.

Applications for foreign investment can also be made to Indian Missions abroad.

(ii) New companies

Automatic approval is given by the Reserve Bank of India for direct foreign investment up to 51 per cent of foreign equity in high priority industries; if foreign equity covers the foreign exchange requirement for imported capital goods, the plant and machinery must be new and not second-hand.

Automatic approval is also given by the Reserve Bank of India for majority foreign equity holding up to 51 per cent in trading companies primarily engaged in export activities subject to the condition of dividend balancing for a period of seven years from the date of recognition as export house/trading house/ star trading house. Such companies are to register themselves with the Ministry of Commerce (Office of DGIT) as a registered exporter/importer after which they may repatriate dividends.

In the case of foreign equity proposals outside the priority industries, including proposals involving more than 51 per cent foreign equity or which do not meet the criteria mentioned above for approval by the Reserve Bank of India, prior clearance is needed from the Secretariat for Industrial Approvals, Ministry of Industry.

(iii) Existing companies

The following categories of companies will get automatic approval from the Reserve Bank of India to raise their foreign levels up to 51 per cent.

a. Companies wishing to raise foreign equity as part of an expansion programme

A company wishing to raise its foreign equity from existing levels to 51 per cent may do so as part of an expansion programme. The expansion programme must be in high priority industries. The additional equity should be part of the financing of the expansion programme and the money to be remitted should be in foreign exchange. The company itself need not be exclusively engaged in high priority activities; only the proposed expansion must be exclusively in the area of high priority industries.

b. Companies wishing to raise the level of foreign equity up to 51 per cent without an expansion programme

A company exclusively engaged in high priority industries can also raise its equity from existing levels to 51 per cent without an expansion programme. The increase in equity level must result from expansion of the equity base of the existing company. The additional foreign equity must be from the remittance of foreign exchange

In case of existing companies already registered as export/trading/star trading house, the Reserve Bank of India will give automatic approval on an application for foreign investment up to 51 per cent foreign equity.

2. Foreign technology agreements

Automatic approvals are granted for foreign technology agreements in high priority industries, subject to the conditions that the lump-sum payment does not exceed ten million rupees (net of taxes), that royalties do not exceed five per cent (net of taxes) for exports and that the total payment of the lump sum and royalty does not exceed eight per cent of the sales over a period of ten years from the date of agreement or seven years from the date of commencement of commercial production.

Other foreign technology proposals, including ones involving 51 per cent foreign equity which do not meet any of the criteria mentioned in the previous paragraph, have to submit an application to the Secretariat for Industrial Approvals, Ministry of Industry.

(a) Import of drawings

All industries engaged in the manufacture of items included in the First Schedule to the Industries (Development and Regulation) Act, 1951 are allowed to import drawings and designs not exceeding ten million rupees in value in a year.

(b) Hiring of foreign technicians

No permission is necessary to hire foreign technicians and no application needs to be made to the Government for this purpose, whether or not the hiring of foreign technicians is under an approved collaboration agreement. Full powers have been delegated by the Government to the Reserve Bank of India to authorize payments either against blanket permits issued by the Reserve Bank of India or in free foreign exchange.

Clearance from the Ministry of Home Affairs is required only when the period of engagement of any single foreign technician exceeds three months at one time.

Foreign technicians can receive remuneration or fees up to US$ 1000 or its equivalent a day.

In the case of the engagement of foreign technicians from any firm or company outside India, the total remuneration or fee payable to such a company outside India should not exceed US$ 200,000 or its equivalent in a calendar year.

(c) Repatriation of dividends

Payment of dividends only in the case of consumer goods industries will be monitored through the Reserve Bank of India so as to ensure that outflows on account of dividend payments are balanced by export earnings over a period of time. The general condition of dividend balancing has been withdrawn with effect from 19 June 1992 in respect of all industries except consumer goods. Under the Liberalized Exchanged Rate Management System, as a consequence of the partial convertibility of the rupee, all payments flowing from approval of foreign technology agreements are to be met through foreign exchange purchased at market rates.

(d) Fera Liberalizations

The liberalization announced in the Budget for 1991 pertains to permitting FERA companies (those with more than 40 per cent equity) to deal in immovable property, open liaision offices and branches, borrow money and accept deposits, accept appointment as an agent or technical/management advisor etc. The Act was extensively amended by an Ordinance recently on 9 January 1993. The Ordinance deletes the sections which have lost their relevance over time and rationalizes the Act, doing away with rigours or irrationalities.

(e) Trade marks

Foreign companies are now free to use their trade marks for domestic sales.

3. Partial convertibility of the rupee

From March 1992 the rupee has become convertible for all approved external transactions. Exporters of goods and services and those in receipt of remittances will be able to sell the 60 per cent of the foreign exchange receipts at market rates. For the import of goods and services or travel abroad, foreign exchange can be bought at market determined rates.

(a) Capital account transactions

The exchange rate for permitted transactions under the capital account will be at free market rates.

(b) Foreign currency account

All exporters of goods and services and other recipients of inward remittances are allowed to retain up to 15 per cent of the receipts in foreign currency accounts with banks in India out of the amount to be surrendered at free market rates.

(c) Equity inflow/outflow

Equity inflows for foreign investment as well as outflows in the event of disinvestment will be at the market rate of exchange.

(d) Dividend repatriation

All payments in respect of dividend repatriation, lump sum and royalties will be at the market rates of exchange.

4. Capital mobilization

No government consent is required for raising capital from the public. Companies can freely raise capital from the public without obtaining consent from the Government. The only requirement is to file a prospectus with the Securities and Exchange Board of India who will satisfy itself in respect of compliance with its guidelines on disclosure and investor protection. Not less than 20 per cent of the equity should be offered to the public. Mandatory convertibility into an equity clause which was imposed by financial institutions on companies taking out loans has been dropped.

(a) Pricing

After the abolition of control over capital issues, companies are now free to price their issues in consultation with the lead managers to the issue. Even in the case of the first issue by new companies, premium is allowed provided the company is promoted by an existing company with a five-year record of consistent profitability. Existing companies wishing to enhance their foreign shareholding up to 51 per cent or more can make issues at the price determined by the shareholders in a special resolution. This also applies to foreign investors by closely held companies and also by other companies where there is no foreign shareholding at present.

(b) Underwriting

Underwriting is mandatory for the full issue and minimum requirement of 90 per cent subscription for each issue of capital to the public.

(c) Disclosure

The draft prospectus in the event of public issues is to be filed with the Securities and Exchange Board of India which will vet it to ensure adequacy of disclosures.

(d) Lock-in period

Promoters' contribution cannot be diluted for a lock-in period of five years from the date of commencement of production or date of allotment, whichever is later. Firm allotments and preferential allotments to collaborators or shareholders of promoter companies, whether corporate or individual, are not transferable for a period of three years from the date of the commencement of production or the date of allotment.

5. Portfolio investment

Foreign Institutional Investors (FIIs), such as Pension Funds, Mutual Funds, Investment Trusts, Asset Management Companies, Nominee Companies and Incorporated/Institutional Portfolio Managers may invest in all the securities traded on the primary and secondary markets.

FIIs are required to obtain an initial registration with the Securities and Exchange Board of India (SEBI). SEBI will act as a single window agency and seek necessary RBI approvals under FERA before granting approval.

Portfolio investments by all registered FIIs in any one company will be subject to a ceiling of 24 per cent of issued share capital. The holding of any one FII in any one company will be subject to a ceiling of 5 per cent. While counting the ceiling of 24 per cent foreign investment up to 51 per cent in priority areas and investments by FIIs through offshore single/regional funds, global depository receipts and Euroconvertibles will not be taken into account. Disinvestment will be only through stock exchanges in India, including OTC exchange except in extraordinary cases where SEBI may allow sales other than through stock exchanges. FIIs investing under this scheme will be taxed at a flat rate of 20 per cent on dividend and interest income and a tax rate of 10 per cent on long-term (one year or more) capital gains.

6. Investment in global depository receipts

Foreign investors can invest in Indian companies through the Global Depository Receipt Mechanism. There is no lock-in period for equities through the GDR mechanism. The Depository Receipt issued can be listed on any of the overseas stock exchanges and denominated in any hard foreign currency. However, the underlying shares should be denominated only in Indian rupees. Private placement with United States investors also in accordance with the United States Securities Act is permissible as per international practice. Short-term capital gains are taxable at the rate of 65 per cent along with business income. Long-term capital gains are taxable at the rate of 10 per cent.

7. Disinvestment

No government control on the pricing of shares at the time of disinvestment and transfers will take place at the market rates.

(a) Transfer of shares

The transfer of shares is freely permitted provided the sale is done on the Stock Exchanges through a registered merchant bank or stockbroker. The Reserve Bank of India will grant approval on an automatic basis without reference to the Government.

(b) Private transfers

In the event of foreign investors wishing to transfer their shareholding on a private basis to another non-resident or to a resident, for whatever reason, the Reserve Bank of India will give permission after satisfying itself that the shares have been sold at the market price or lower. To arrive at the market price in such transfers, the average price for the last calendar month or prevailing market price on the date of application or the price sought in the application, whichever is the lowest, will be taken.

(c) Unlisted/closely held companies

In the case of unlisted companies or closely held companies, the Reserve Bank of India will be guided for the transfer of shares by the net asset value and earning per share.

8. Trade policy

Trade is free, subject to small negative lists of imports and exports. The import of capital goods has been liberalized. The second-hand capital goods import has been allowed. The import of raw material has been liberalized.

Capital goods and raw materials may be imported without any restriction except for items that are given in the negative list of imports in the import – export policy. Second-hand capital goods may be imported in 15 sectors without a licence (list in annex III). The second-hand capital goods should not be more than seven years old and should have a minimum residual life of five years. Imported capital goods may be sent abroad for repairs and should have a minimum residual life of five years. Capital goods may be imported at a concessional rate of customs duty if the importer accepts an export obligation as follows:

Duty	Export obligation	Period
25% CIF[a] value	3 times CIF value	4 years
15% CIF value	4 times CIF value	5 years

[a] Cost insurance freight

9. EOUs/EPZ schemes

Units undertaking to export their entire production of goods may be set up under the export oriented units scheme or the export processing zones scheme. Foreign equity participation up to 100 per cent under both the scheme is allowed.

The units may import free of duty capital goods, including captive power plants, raw materials, components, semi-finished goods, spares, office equipment and material handling equipment etc. provided

these are not included in the negative list of imports. An EOU/EPZ unit may also source the capital goods from a domestic leasing company. In such a case, the domestic leasing company will be eligible to import the capital goods free of duty and supply to the EOU/EPZ unit. Such goods shall, however, remain a part of the capital asset of the EOU/EPZ.

Units under the scheme are supposed to export their entire production for a specified time period. This time period is normally 10 years. The unit may sell in the domestic tariff area a certain quantity of their production besides the by-products, rejects or wastage, subject to the permission and conditions laid down by the Government. However, such a percentage does not exceed 25 per cent of total production.

The units under these schemes are supposed to fulfill the condition of a minimum value added of 20 per cent.

10. Industrial policy

Industrial licensing has been abolished for all projects except 18 industries relating to security and strategic concerns, social reasons, and hazardous chemicals.

No approval is required for locating industries in and around cities with a population of less than one million, except for industries subject to compulsory licensing. In respect of cities with a population of more than one million, polluting industries will be located 25 kilometres outside the periphery of the city except in prior designated areas.

11. Tax policy

(a) Royalty & fees

Tax at the rate of 30 per cent is levied on royalties and technical fees. This rate, however, is reduced to 15 per cent to 20 per cent in the case of companies from 38 countries with which India has double taxation avoidance treaties.

(b) Interest & dividends

Repatriations of interest and dividends are subject to a tax of 25 per cent. This rate is also reduced in case of countries with which India has double taxation avoidance treaties.

(c) Capital gains

No capital gains are levied if shares held by a foreign company in an India company are transferred by the foreign company to another foreign company under any amalgamation scheme, subject to certain conditions.

(d) Export profits

Export profits are exempt from taxation.

(e) Corporate tax

In the case of widely held companies, the rate of corporate tax is 45 per cent plus surcharge. However in the case of closely held companies, the rate is 50 per cent plus surcharge.

(f) Special incentive in the oil sector

Special relief under the Income Tax Act is available to companies in the oil exploration sector. The rate of taxation for foreign companies, not registered in India, is 65 per cent. This is reduced to 50 per cent in the oil sector.

(g) Income in the case of technicians

Under the double taxation avoidance treaties, the income of technicians and others who come to India for business purposes for a period of up to 183 days is not subject to income tax.

C. ANALYSIS OF FOREIGN INVESTMENT AND FOREIGN TECHNICAL COLLABORATION

There has been a remarkable increase in foreign investment approvals and foreign technology agreements as may be seen from the tables in annex I.

Total foreign investment approved in one year of the post-policy period (August 1991 – July 1992) amount to 19536.4 million rupees. This is nearly 12 times the foreign investment approved (1663.4 million rupees) in the previous corresponding period (August 1990 to July 1991). This is also more than one and a half times the total foreign investment approved in the last decade (1981-1990) which was only 12740.3 million rupees.

Foreign investment approvals in the past year averaged more than 1500 million rupees per month, well above the annual average of 1274 million rupees of the last decade. Foreign investment approvals in 1992 averaged more than 2500 million rupees per month, signifying the increasing interest of foreign investors. Foreign investment approvals for Japanese companies increased from 50 million rupees in 1990 to 527.1 million rupees in 1991, i.e., by more than ten times. In seven months of 1992 these approvals stand at 3755.8 million rupees i.e., more than seven times the 1991 figures. Foreign investment approvals for companies from the Germany, Hong Kong, Republic of Korea, Sweden, Switzerland, United Kingdom, United States and a number of other countries also show quantum leaps in investment levels.

The Reserve Bank of India has accorded approvals to foreign investment amounting to 5969.5 million rupees which is nearly one third of the total foreign investment approved in the post-policy period and signifies the attractiveness of the automatic approval route.

Total foreign collaboration approvals in one year of the post-policy period are 1537 as compared with 524 in the previous corresponding period. Total foreign collaboraltion approvals, involving foreign investment (foreign equity) in one year of the post-policy period are 569 as compared with 151 in the previous corresponding period. Nearly 80 per cent of the approvals for foreign investment are in the priority areas.

NRI investment approvals accorded by the Special Approval Committee for NRIs amount to 2799.4 million rupees.

As many as 521 proposals for 100 per cent EOUs have been cleared, signifying the attractiveness of the scheme.

D. OPPORTUNITY AREAS

The above framework leads to the identification of opportunity areas which offer potential for both domestic and foreign investment.

Consumer goods: The Indian domestic market comprises an upper and middle income group of around 190 million which accounts for 50 per cent of the national income. This segment of the market is growing at a rapid pace, adding 20 million every year. This segment shows high growth rates in expenditure on consumer goods and durables. The penetration level of consumer durables in this segment is quite low (around 24 per cent for an established product such as refrigerators, which have been present in Indian markets for over two decades, and is lower for new items such as washing machines, vacuum cleaners

and microwave ovens, which have been introduced recently) and hence it offers a tremendous market potential. In the case of consumer non-durables, the rural market of around 630 million people shows higher growth rates than the urban markets in most products. The rural market accounts for 37 per cent of the packaged consumer non-durables sold. This market segment is growing in affluence and accounts for over 50 per cent of the sales in products such as laundry soaps, dry cells, toilet soaps and analgesics.

Software: The distinct competitive advantage of India is the availability of highly skilled manpower at low cost. In addition, the good knowledge of English facilitates the export of Indian software to all English-speaking markets. Despite these advantages, the exports of Indian software account for less than 0.2 per cent of the world market, which highlights the potential for investment.

Tourism: The tourism industry in Indian attracts less than 0.35 per cent of the world traffic despite the rich cultural heritage of India and the wide variety of interests that it can cater to. This sector offers immense potential in the development of infrastructure such as hotels, beach resorts, and amusement parks and in the promotion of tourism-related activities such as adventure sports.

Food processing: Indian produces around 60 million tonnes of a wide range of fruits and vegetables annually of which only 1 per cent is processed. The absence of processing facilities and the inadequancy of infrastructure facilities for packing, transportation and storage lead to colossal post-harvest losses of around 30 per cent.

Aquaculture: An emerging industry, aquaculture offers a vast potential owing to the availability of large tracts of brackish water. The current utilization is around 4 per cent of the total brackish water available at comparatively low yields of 0.5 tonnes per hectare because of the use of traditional methods.

Power: The power sector in India offers a huge potential for investment as the demand-supply gap of around 6 per cent is likely to continue. The power sector is significantly a cost-plus industry which assures a reasonable return to the investor.

E. FUTURE DIRECTION

The success of the gradual reform process in the 1980s has encouraged the acceleration of the process. Proper management of this change is critical to sustained growth. Strategic directions have been set and the Government will continue to be active in the areas of health education and social welfare.

Large and persistent macroeconomic imbalances, notably infiscal deficits and balance of payments, had resulted in a crisis in the economy during 1990/91. This was further intensified on account of the crisis in the Middle East which contributed to a higher oil import bill and temporary loss of export markets and remittances. The Government in 1991, therefore, had to first control the immediate short-term crisis before proceeding further towards liberalization measures.

The situation is now under control. The fiscal deficit as a proportion of gross domestic product has been brought down from over 8 per cent to below 6.5 per cent. This will be reduced further to 5 per cent in the next financial year. Foreign exchange reserves which had declilned to low levels have since recovered rapidly. The Indian record for permitting remittances of dividends, other earnings and debt servicing for approved projects has been excellent, even during the period of acute foreign exchange crisis. Moreover, the recent policy changes have evoked a positive response from both multilateral and bilateral sources. This has enabled India to continue with the reform process.

While the reforms already announced are significant, the Government has signalled its intentions in a number of areas which will further accelerate the process of integration of India with the global economy. Full convertibility on current account will be implemented if foreign exchange reserves can be maintained at reasonable levels. The experience so far with market determined foreign exchange rates has been encouraging and it is possible that this step may be effected early.

Customs tariffs have been reduced and rationalized. The extent of reduction announced recently was constrained on account of the revenue requirements of the Government. As the Government reduces its fiscal deficit and industry adjusts to the opening up process, there will be a further reduction in customs tariffs.

A high level committee has been appointed to review the direct and indirect tax structure in India. The committee has submitted its recommendations on direct personal taxes and indirect taxes which have been accepted in principle. The recommended simplification and reduction of personal income and wealth taxes has already been initiated. It is intended to lower corporate tax rates but major restructuring has been deferred until the next budget.

India believes in consensus building as integral to the process of structural transformation. Although consensus building often takes time, once gained, it is possible to implement changes much faster and less painfully. This gives India the confidence that the change process which started in a gradual and phased manner can now accelerate.

Annex I

Table 1. Foreign collaboration approvals – comparative figures

		1990	1991	1992 (Up to November)
1.	Total number of foreign collaboration approvals by:			
	i) SIA	666	760	552
	ii) RBI	–	188	683
	iii) FIPB	–	2	160
	TOTAL	**666**	**950**	**1,395**
2.	Number of FC approvals involving foreign equity:			
	i) SIA	194	246	241
	ii) RBI	–	41	232
	iii) FIPB	–	2	159
	TOTAL	**194**	**289**	**632**
3.	Total amount of foreign equity involved (billions of rupees)			
	i) SIA	1.2	3.6	3.8
	ii) RBI	–	1.4	6.6
	iii) FIPB	–	0.3	25.0
	TOTAL	**1.2**	**5.3**	**35.4**

Note: 1 billion = 100 crores.
SIA – Secretariat for Industrial Approvals
RBI – Reserve Bank of India
FIPB – Foreign Investment Promotion Board

Table 2. Foreign collaboration approvals – comparative figures (Post-policy period)

	First year		Second year	
	1990/91 (Aug.-July)	1991/92 (Aug.-July)	1991 (Aug.-Nov.)	1992 (Aug.-Nov.)
1. Total number of foreign collaboration approvals by:				
i) SIA	524	879	249	117
ii) RBI	–	638	130	233
iii) FIPB	–	20	2	142
TOTAL	**524**	**1,537**	**381**	**492**
2. Number of FC approvals involving foreign equity:				
i) SIA	151	360	51	40
ii) RBI	–	189	32	84
iii) FIPB	–	20	2	141
TOTAL	**151**	**569**	**85**	**265**
3. Total amount of foreign equity involved (billions of rupees)				
i) SIA	1.6	5.0	0.7	1.1
ii) RBI	–	6.0	0.9	2.0
iii) FIPB	–	8.5	0.3	16.8
TOTAL	**1.6**	**19.5**	**1.9**	**19.9**

Note: 1 billion = 100 crores.
SIA – Secretariat for Industrial Approvals
RBI – Reserve Bank of India
FIPB – Foreign Investment Promotion Board

Table 3. Statement showing foreign investment approved during the period 1990 to 1992 (Millions of rupees)

S. No.	Name of country/territory	1990	1991			1992		
			SIA	RBI	TOTAL	SIA	RBI	TOTAL
1.	United States	344.8	1,396.5	462.0	1,858.5	8,764.7	1,928.7	1,0693.4
2.	Switzerland	135.0	347.4	7.5	355.0	6,241.0	561.5	6,802.5
3.	Japan	50.0	195.5	331.6	527.1	4,302.6	982.5	5,285.1
4.	United Kingdom	90.6	243.2	77.8	321.0	684.2	482.1	1,166.3
5.	Germany	195.1	401.2	16.8	418.0	474.0	484.1	958.1
6.	Australia	6.3	13.4	12.7	26.1	648.2	128.0	776.2
7.	Malaysia	1.2	1.8	–	1.8	–	744.2	744.2
8.	Netherlands	37.6	233.3	325.9	559.2	627.0	90.5	717.5
9.	Singapore	–	12.5	1.2	13.7	542.9	30.3	573.2
10.	Hong Kong	11.5	211.5	–	211.5	522.5	48.2	570.7
11.	Italy	68.2	174.2	3.9	178.1	491.5	12.4	503.9
12.	Sweden	3.3	60.9	8.9	69.8	254.2	228.6	482.8
13.	Republic of Korea	70.6	61.5	–	61.5	358.5	31.4	389.9
14.	Belgium	–	16.1	–	16.1	234.9	2.1	237.0
15.	Denmark	27.2	111.7	–	111.7	66.2	166.1	232.3
16.	Taiwan Province of China	8.4	4.5	–	4.5	173.3	12.3	175.6
17.	France	88.8	91.3	102.0	193.3	65.1	87.4	152.5
18.	Finland	5.6	25.3	–	25.3	104.9	–	104.9
19.	Federation of Russia	71.8	56.1	30.0	86.1	84.9	17.4	102.3
20.	NRI	52.4	197.0	–	197.0	3,821.9	393.7	4,215.6
21.	All countries including above	1,283.2	3,918.7	1,422.4	5,341.1	2,8767.8	6,612.2	35,380.0

Note: i) 1 million = 10 lakhs
ii) SIA approvals in 1991 and 1992 include cases approved by FIPB also.
iii) Figures for 1992 up-dated to 30 November 1992.

Table 4. Distribution of investment among the states during the period from 1 August 1991 to 30 November 1992

Sl. No.	State Name	Number of cases	Investment (Rs. Crores)	Employment (numbers)
1.	ANDHRA PRADESH	438	16,669	156,328
2.	ASSAM	20	184	2,311
3.	BIHAR	73	2,573	10,421
4.	GUJARAT	1,059	27,426	221,892
5.	HARYANA	559	7,729	117,910
6.	HIMACHAL PRADESH	81	3,159	24,934
7.	JAMMU AND KASHMIR	10	29	5,244
8.	KARNATAKA	272	9,673	126,144
9.	KERALA	51	1,869	12,648
10.	MADHYA PRADESH	562	19,925	169,997
11.	MAHARASHTRA	1,228	31,703	958,156
12.	MEGHALAYA	2	9	217
13.	NAGALAND	1	1	140
14.	ORISSA	55	1,454	28,260
15.	PUNJAB	558	6,578	267,585
16.	RAJASTHAN	538	10,207	123,796
17.	TAMIL NADU	451	7,234	146,153
18.	TRIPURA	3	1,038	1,345
19.	UTTAR PRADESH	1,047	22,607	254,729
20.	WEST BENGAL	271	6,192	65,492
21.	SIKKIM	6	10	358
22.	ANDAMAN & NICOBAR	4	261	2,180
23.	CHANDIGARH	7	107	2,484
24.	DADRA & NAGAR HAVELI	58	947	5,959
25.	DELHI	188	4,621	45,666
26.	GOA	34	168	4,850
27.	PONDICHERRY	30	260	3,521
28.	DAMAN & DIU	31	1,136	2,802
	TOTAL	7,637	183,769	2,761,522

Annex II

INDIA IN THE 1990s

Geography

India is the seventh largest country in the world with a land area of over 3 million square kilometres. Bounded by the Himalayas in the north, it stretches south to the Tropic of Cancer where it tapers off into the Indian Ocean between the Bay of Bengal on the east and the Arabian Sea on the west.

Climate

Climate conditions in most of the country are tropical, while the northern plains are more temperate. Three seasons predominate- the monsoon (rainy season) from July to November, a mild winter between December to February and the summer from March to June.

Government

The Republic of India is the largest democracy in the world. It has a parliamentary system of government with two Houses of Parliament – the Lok Sabha or Lower House (the House of the People with around 545 members) and the Rajya Sabha or Upper House (comprising about 250 members). The President is the head of the Union of States. He is advised by a Council of Ministers, headed by the Prime Minister, who are accountable to Parliament.

People, religion and language

India is the second most populous country in the world. The population in 1991 was 811 million. The economy is predominantly agrarian in nature with agriculture providing employment to nearly 70 per cent of the work force. A little below three quarters of the population live in rural areas.

Hinduism is practiced by over 80 per cent of the people. The other major religions followed are Islam, with Christians, Sikhs, Buddhists, Jains and Zoroastrians making up the rest.

English and Hindi are the official languages and are widely used in commerce, government, courts, media and education. Fifteen other languages are also used in different parts of the country.

Overall growth

At the time of independence the Indian economy was predominantly agricultural with modest industrial capabilities. As a matter of conscious policy, the Government embarked on a process of planned economic development so as to make the best use of scarce capital and entrepreneurial resources. Thus, the Government did play an active role in all major economic sectors, such as agriculture, manufacturing, power generation, mining, telecommunications, railways, banking and industrial finance.

Over the last forty years, the economy has diversified enormously, with the capabilities to manufacture a wide range of agricultural and industrial products and provide a host of services. Today it is on the threshold of becoming an important participant in the global market-place.

During the 1980s real gross domestic product (GDP) grew at over 5 per cent as compared with 3.5 per cent during earlier decades. The composition of GDP has also changed. The share of agriculture has declined from 55 per cent of GDP in the 1950s to around one third today. Industry, which formed around 15 per cent of GDP, today accounts for around 27 per cent, while the share of the services sector has increased from 29 per cent to 40 per cent of GDP.

Savings and investment rates have generally been high in India. This has been sustained during the 1980s, with savings and investment rates averaging over 20 per cent of GDP.

Agriculture

Agriculture is an important sector of the economy, providing livihood to more than two thirds of the country's population and contributing over 30 per cent of the country's GDP. From being a chronically deficit country, India is today self-sufficient in food production. Production of food grains, oilseeds, sugar cane and fibres has more than trebled since the 1950s.

The improvement in agricultural capabilities has been a result of better farming technologies, increased application of high yielding varieties of seeds, fertilizers and intensive utilization of irrigation. A continuous process of modernization has imparted considerable resilience to Indian agriculture.

Industry

Since independence, industrial activity has expanded enormously as a result of the adoption of appropriate strategies for rapid industrialization. India has build up significant manufacturing capabilities with production facilities for a wide range of machinery, chemicals, consumer goods and intermediates.

In recent years, there has also been a shift from traditional industries to the more sophisticated petrochemicals, electronics, fertiliser and telecommunication industries. During the 1980s, growth in these industries has been higher than average, with electrical machinery growing at a compound rate of 19 per cent.

The rapid growth of industry has led to the growth of the services sector, particularly trade, transport, banking and insurance. These sectors today provide employment to around 18 per cent of the working population.

Foreign trade

The external sector forms a relatively small part of the Indian economy. Exports account for between 4 per cent and 6.5 per cent of India's GDP. Imports are slightly higher, ranging between 4 per cent to 9.5 per cent of GDP.

During the 1960s and 1970s primary products such as food products, cotton, iron and steel formed a sizeable portion of India's imports, along with capital goods, petroleum and fertizers. Since the 1980s, imports of petroleum products, fertilizer and capital goods have increased substantially with a reduction in food imports.

Correspondingly, exports of agricultural products and jute manufactures formed the bulk of India's exports during the 1960s and 1970s. Since the 1980s, the relative importance of these products has declined while that of manufactured goods including textiles, ready-made garments, handicrafts, gems and jewellery, light engineering products and chemicals has increased.

Financial system

India has an established, well developed and diversified financial system. Between the capital market, the money market, the commercial banking system, term lending institutions, investment institutions and other financial services companies virtually the entire long-term and short-term needs of industry and trade are met quickly and efficiently.

The Reserve Bank of India, as the central bank of the country, formulates and implements monetary and credit policies. It functions as banker to the Government, has the sole right to issue currency and maintains the foreign exchange reserves of the country.

The commercial banking system with 28 public sector commercial banks, 32 private banks, 196 regional rural banks and 23 foreign banks forms the major channel for financial savings of the household sector. Bank offices presently number around 60000, up from around 8000 in 1969. Bank deposits are of the order of 2100 billion rupees while bank credit is around 1300 billion rupees.

Over the years, an integrated structure of development financing institutions (DFIs) has emerged in the country, catering to the term financing needs of industry. The major DFIs are the Industrial Development Bank of India, Industrial Finance Corporation of India and the Industrial Credit and Investment Corporation of India. These are supported by institutions catering to specialized sectors of industry, investment institutions and state level financial institutions. Loan approvals are presently around 200 billion rupees, up from 25 billion rupees in 1981.

Capital market

The Indian capital market has, over the years, acquired considerable depth and reach. There are presently 19 stock exchanges in the country with more than 6500 companies listed, having a paid up capital in excess of 290 billion rupees. The Bombay Stock Exhange is more than 100 years old and accounts for nearly 80 per cent of trading volume on all stock exchanges. Market capitalization on all stock exchanges is estimated at over 1400 billion rupees against 25 billion rupees in 1970 and indicates the phenomenal growth of the capital market. The capital market is regulated by the Securities and Exchanges Board of India.

The 1980s has seen a tremendous growth in the amount of capital raised from the market. In a rapid spread of the equity culture, capital issues have increased from a modest 1.9 billion rupees during 1980s to 102 billion rupees in 1989. The total number of investors in the capital market is today estimated at over 12 million.

The Over-the-Counter Exchange of India Ltd., (OTCEIL) has recently been set up to provide medium sized green field ventures access to the capital market. The Stock Holding Corporation of India (SHICIL) has been established to provide custodial services for industrial securities.

Mutual funds, a relatively recent entry to the financial sector, have been remarkable successful in diverting household financial savings into market instruments. The private sector is now allowed to set up mutual funds. Foreign investors will also be allowed to invest directly in the Indian capital. This will provide further thrust to capital market growth.

The short-term money market comprises the interbank call money market, treasury bills, commercial bills, inter-corporate bonds, certificates of deposit and commercial paper. For a long time the money markets were regulated, both in terms of number of participants and interest rates. In a series of policy measures the money markets have been opened up to an increased number of participants and to market forces. The Discount and Finance House of India (DFHI) has been set up to provide greater liquidity to money market instruments.

Interest rates, which were administered in the past, have now been deregulated and are market determined, subject to a floor level of lending rates.

Infrastructure

The process of industrial expansion in the country has been aided by rapid expansion in infrastructure facilities such as energy, transport and telecommunications network.

Much of India's requirement of energy is provided through thermal sources such as coal and oil. India's coal reserves have been estimated at a substantial 192 billion tonnes. Coal production has increased by over seven times since the 1950s to 225 million tonnes in 1990/91.

India meets a large part of its requirements of crude oil and petroleum products through imports, as a proportion of which total crude requirements has been declining over the years and presently is around 40 per cent. India has built up considerable refining capacity and production of petroleum products is today estimated at 49 million tonnes while imports are a modest 9 million tonnes.

India generates electricity both from thermal and hydro sources. Electricity generation has increased from a marginal 7 billion kwh in 1950 to 289 billion kwh. Almost two thirds of this has been produced

through thermal plants. A small beginning was made in the generation of nuclear energy in 1970/71. This has increased over the years and is around 6 billion kwh.

The railways, with a route length of over 62000 kilometres are the predominant mode of freight and passenger transport in the country. Against 73 million tonnes of freight in 1950/51, the railways carried 318 million tonnes in 1990/91.

There has also been considerable expansion in the road network. Road length today stands at over 2 million kilometres and the number of registered vehicles are in excess of 21 million, an increase of four over the last ten years.

India has five international and 88 domestic airports. A number of international airlines operate flights to and from India. Air India, the country's international airline connects India to most countries of the world. Indian Airlines is India's domestic carrier and operates flights within the country. India's third airline, Vayudoot, provides feeder services to the domestic carrier. Recently, several private carriers have also begun providing localized air services.

India has 11 major ports which handled a total cargo of 152 million tonnes in 1990/91. This accounts for 90 per cent of the cargo handled by all ports. India has a fleet strengthen of over 400 ships with gross registered tonage of 6 million tonnes.

The telecommunication sector has been undergoing substantial expansion and upgradation. Electromechanical exchanges are being rapidly replaced by exchanges based on optical fibre technology. This sector has recently been opened to the private sector, domestic and foreign.

V. INDONESIA COUNTRY PAPER

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A. REVIEW OF CURRENT INVESTMENT POLICIES

Before 1984, for three consecutive five-year national development plans, Indonesia had adopted a development strategy in which industrialization was primarily to achieve the purpose of import substitution, while export revenue was heavily dependent on oil. Consequently, almost all of our regulations were meant to safeguard the achievement of this goal. However, because of the inherent structural shortcomings, this "inward-looking" strategy was found to be ineffective for Indonesia. It often turned out to be the cause of a high cost economy. For this reason, since 1984, in the beginning of our Fourth Five-year National Development Plan, Indonesia has dramatically changed the course of its economic development adopting a completely reversed strategy, that is an "outward-looking" one. This strategy adheres more to the globalized trend in the world economy, characterized by the mutual need between developed (industrialized) and developing countries to collaborate in trade activities as well as in investment through the division of labour. Indeed, through this economic collaboration based on principles of mutual benefit, the industrialized countries can maintain their role in the world market. In the meantime, world markets will subsequently expand as developing countries achieve relatively substantial economic growth.

After all, this kind of economic collaboration serves to bridge the economic gap between developed and developing countries in the framework of eventually achieving a sustainable world economic growth.

Implementing this "outward-looking" strategy implies that export-oriented industrial development, particularly in the non-oil and gas sectors, is to be given priority and special incentives. The dependence on oil and gas exports as the main source of foreign exchange revenue is to be significantly reduced. Another implication is that the share of the private sector in national economic development activities will increase. A further consequence will be an increased role for the private sector in providing infrastructure and public services owing to the insufficient funds of the public sector.

During the earlier "inward-looking" period, the growth of domestic as well as foreign investment was not very high. The size of an investment project, on average, was quite small. Annual foreign investment inflows were less than US$ 1.0 billion. When we encouraged the existing industries to compete in the world market, they encountered a lot of problems, such as product quality and also the cost per unit. Similar problems were also faced by the newly established investment projects.

We found out at that time that our main problem was that the existing investment policy and regulations were not yet conducive to export-oriented investment. We had no choice other than to introduce the deregulation and debureacratization policy in early 1984. We began with the reformation of taxation policy, followed by other sectors such as banking and import procedures improving for example the flow of goods at the seaports. SGS was hired in 1984 to substitute for the Customs Office in order to guarantee the smooth flow of goods in all Indonesia seaports.

The first deregulation measure in investment policy took place in 1985, followed by many deregulation measures in the subsequent years. The major breakthroughs in investment policy were in three main areas:

1. First, investment application procedures were totally simplified and the time needed to approve an investment application was reduced from six months to only four to six weeks. The application form was so simplified that investors could complete it in a matter of hours.

2. Second, the investment sector policy that was considered "over protective" was drastically changed to a new policy of a very positive and liberal character. In the past, Indonesia had a sectoral policy with a "List of Priority Scales" in which most investment sectors were listed and could only be opened under certain conditions. In 1989, we abandoned this policy and introduced the so called "Negative List". This list today has only fifteen sectors that are closed for new investment, and even the majority of these can still be opened under certain conditions such as for investment projects which will export at least 65 per cent of its products or in cooperation with a state-owned enterprise.

3. Third, restrictions toward foreign investment were eliminated except for a very few. Domestic as well as foreign investors in Indonesia today are equally treated except in certain areas such as retail

trading and small-scale/home indusry. Naturally we reserve those areas for our small-scale entrepreneurs since this small-scale industry and retail trading provides almost one half of the employment in our home industry and trading sectors.

These deregulatory measures have resulted in an upswing in Indonesia's economic performance during the past five years. Economic growth rates have persisted in the vicinity of 7.0 per cent, which is well above the 5 per cent targeted in the current Five-year National Development Plan. Export of non-oil and gas commodities including the manufactured products have also increased remarkably. For example, in 1982 the non-oil and gas export was only US$ 3.9 billion and accounted for 20 per cent of Indonesia's total export. However, in 1991, total non-oil and gas export jumped to US$ 18.2 billion and accounted for more than 60 per cent of Indonesia's total export. In other words, Indonesia has succesfully changed course from being dependent on oil exports to a range of more diversified non-oil exports.

Investment growth

Investment has also seen significant growth. Since 1967 up to 30 December 1992, we have approved US$ 63.0 billion of foreign investment in 2,426 projects plus about US$ 105.5 billion of domestic investment in 7,845 projects. More than 65 per cent of those amounts are investments that were approved in the last five years. Moreover, more than 70 per cent of investment projects approved in the last five years are export oriented.

Countries that have been very quick off the mark in utilizing Indonesia's improved investment climate are Japan and the newly industrializing economies (NIES) (Hong Kong, Republic of Korea, Singapore and Taiwan province of China). Their total investment today accounts for almost 50 per cent of all foreign investment in Indonesia. The Republic of Korea and Taiwan province of China, for example, have succesfully taken over the position of the United States of America as the third largest foreign investor in Indonesia.

Outline of basic policy and incentives on investment

Foreign investment projects must be organized in the form of a joint venture. At the outset a foreign investor is allowed to have 80 per cent of the equity but after 20 years the Indonesian partner/shareholder must be given the opportunity to have a simple majority of 51 per cent. However, with the recent deregulation measures that were issued in April and July this year, there are some exceptions as follows:

a. 100 per cent foreign equity is allowed for foreign investment projects located in a bonded zone (including Batam Island) which will export 100 per cent of their products. Five years after the start of commercial production the Indonesia partner should be given at least 5 per cent of its equity, leaving the foreign partner with 95 per cent ownership. This share ratio could be maintained indefinitely.

b. 100 per cent foreign equity is also permitted for a foreign investment project that has a paid-up capital of minimum US$ 50 million or is located in one of the 15 provinces outside the island of Java, Sumatra (not including the province of Jambi, Bengkulu and Bali).

The divestment schedule is that 5 years after the start of commercial production a new Indonesian partner should be invited to have 5 per cent equity, and 15 years later, the share of the Indonesian partner should be increased to 20 per cent. This share-ratio of 80 : 20 between the foreign and local shareholders can then be maintained indefinitely.

The minimum capital investment is US$ 1.0 million but it can be reduced to US$ 250,000 with the following conditions:

a. The project will hire at least 50 workers and will export 65 per cent of the products; or

b. The project will also hire at least 50 workers and their products will be used as raw/supporting materials or components by other industries; or

c. The project is in the engineering/services sector.

Negative list

The Negative List 1992 which was issued last July has reduced the number of investment sectors from 60 to 51 sectors. Out of 51 sectors only 15 sectors are totally closed to foreign investment such as the retail trade, radio and television broadcasting, casino/gambling, marijuana, veneer (rotary) and the chemicals (Penta chlorophenol, Dichloro Diphenyl Trichloro Ethene (DDT), Dieldrin and Chlordane). The rest of the sectors are open if the project can fulfil certain conditions, such as exporting 65 per cent of its production or by cooperating with state-owned enterprises.

Import duty exemptions

Import duties on capital goods and raw materials for two years of production are lifted or reduced. Export-oriented projects can continue to enjoy the exemption or refund of import duties and value added tax on raw materials used for the production of exported products without time limit.

Taxation

On taxation, attractive incentives are available in the form of an accelerated double declining balance method of depreciation on capital goods, the carrying forward of losses and various deductibles before tax. Our income tax rate is progressive, being 15 per cent as the lowest rate and 35 per cent at the highest level. To avoid double taxation Indonesia has agreements with foreign investing countries.

Expatriates

On the matter of expatriates, no restriction is imposed on the personnel composition of a joint-venture company board of management. While the employment of expatriates at the technical level is now less and less restricted, no restrictions are imposed for any projects that are export oriented.

Foreign currencies

Regarding the movement of foreign currencies, there is no control or restriction whatsoever imposed. Indonesia adopts a free foreign currency exchange system, which is a rarity, particularly among developing countries. Repatriation of capital, profits, cost related to expatriate employment and expenses such as loan principal and interest, royalty, technical fees etc. are free.

Intellectual property

Paving the way for a smoother investment inflow, the legal aspects concerning intellectual property rights are also being improved. Recently laws on copyrights and trademarks have been modified to become more compatible with internationally accepted standards and on 1 August 1991 the newly established patent law became effective.

Investment guarantee agreements

To provide security for foreign investment the Indonesian Government concluded Investment Guarantee Agreements (IGA) with the Association of South-East Asian Nations (ASEAN) Governments and 17 other foreign Governments.

Currently there are a number of other foreign Governments in ongoing negotiations for IGA. To deal with foreign investment disputes, Indonesia is a signatory member of the International Centre on the Settlement of Investment Disputes (ICSID); while in dealing with non-commercial investment risks, Indonesia has joined the Multilateral Investment Guarantee Agency (MIGA).

Meanwhile, the relatively high degree of our political stability and international financial credibility, acquired through prudent monetary management, are key Indonesian investment advantages.

B. INSTITUTIONAL AND INFRASTRUCTURAL MECHANISMS

1. Investment service agency

The Investment Coordinating Board (BKPM), since 1977 has become the only government agency responsible for the investment application, approvals and investment facilities. Investment in this regard, denotes any direct capital investment which is made under the framework of the Law No. 1/1967 on foreign investment and the Law No. 6/1968 on domestic investment.

Beside BKPM, every province in Indonesia has a regional investment service agency, namely a Regional Investment Coordinating Board which is abbreviated as BKPMD. BKPMD is a staff unit led by a chairman directly responsible to the Governor, the Head of the Provincial Government. For the approved investment projects, the Chairman of BKPMD on behalf of the Governor/Regent/Mayor, provides regional permits such as:

1. Location permit
2. Land Cultivation Right (HGU) on land less than 100 Hectares in area
3. Building permit
4. Nuisance Act permit
5. Land Right Certificate

The investor has to contact BKPMD to obtain the above regional permits. BKPMD is also called "a one stop regional investment service agency" within the Regional Government.

2. Investment procedures

(a) The application for domestic investment (PMDN).

The domestic investment application (Model I/PMDN) should first be completed and submitted to BKPM with seven copies (this form is available on request at the BKPM and BKPMD office).

Domestic investment applicants for projects located in a bonded zone should submit their application directly to the relevant bonded zone authority.

The following documents should be attached to the application as "enclosures"; failure to submit this information would lead to a delay in granting approval:

- Articles of Association;
- Tax registration code number (NPWP);
- Bank reference;
- Description of process and a flow chart of the process or block diagram of the production stages;
- Description of pollution prevention methods and/or safety equipment and controls where hazardous materials, such as solvents and acids are in the process;
- Confirmation letter of the land availability from the relevant provincial government.

Approval for the domestic investment application is given by the Chairman of the BKPM in the form of an approval letter (SP).

(b) The application for foreign investment (PMA).

Foreign investment projects in Indonesia should be in the form of joint ventures between foreign and domestic partners.

Foreign investment applicants should first complete and submit to BKPM seven copies of the application from Model I/PMA and one copy to the concerned BKPMD. Foreign investment applicants for projects located in a bonded zone should submit the application directly to the boned zone authority. The following documents should be attached to the application to allow efficient processing. It is expected that the applicant will furnish all information and documents required. Failure to submit this information will lead to a delay in granting approval. The required documents are:

- A power of attorney to sign/submit applications;
- The foreign company's annual general report;
- The articles of association of both the foreign and the Indonesian companies;
- Tax registration code number (NPWP) for the Indonesian company/individual (s);
- Joint venture agreement in complete draft form/technical assistance agreement in complete draft form;
- Description of pollution prevention methods and/or safety equipment/controls where hazardous materials, such as solvents and acids are in the process;
- A bank reference for both the foreign and Indonesian companies/individual(s);
- Confirmation letter of land availability from the relevant provincial government.

The approval of a foreign investment application (PMA) is given by the president based on the recommendation letter of the Chairman of BKPM. The Presidential Approval will be acknowledged to the investors by the Chairman of BKPM in the form of an acknowledgement letter presidential approval (SPPP).

C. BRIEF DESCRIPTION OF THE ROLE OF THE PRIVATE SECTOR IN ENHANCING FOREIGN INVESTMENT, PROJECT GENERATION, PARTNERS IDENTIFICATION, AND NEGOTIATION SKILLS

The role of the private sector in enhancing foreign investment in Indonesia has increased steadily. That can be shown by the growth of investment approvals for foreign investment over the last five years as follows:

Year	Project	Value (millions of US dollars)
1988	145	4 481.6
1989	294	4 718.8
1990	432	8 751.0
1991	376	8 778.2
1992	294	10 292.0

Obviously, from the table above we can see the increase in the number and value of projects during the last three years (1988, 1989, 1990) but from 1991 to 1992 the number of project slowed down while the value increased steadily.

To attract foreign partners to establish joint ventures in the private sector, we collected the names of private companies and put then in a book, *Potential Business Partners in Indonesia.* The book was distributed to Indonesian embassies and also to associations of trade, industry etc. The book is reprinted every year. The others way to indentify foreign investors is to send investment missions abroad with private/ domestic companies as members of the mission. These missions are organized by the Investment Coordinating Board (BKPM) at least six times a year. In addition, BKPM has investment missions from abroad to Indonesia and in any one year there are at least 20 to 40 such missions.

We usually arrange businnes meetings between mission participants and domestic copmanies to give them opportunities to meet.

Before establishing a joint venture investment, the private company should first be negotiate with the foreign investor. The private sector has been successful in project generation, one example is PT. Astra International, which produces cars for the domestic market and the export market. This company has expanded their factory to manufacture spare parts for cars.

D. CONCLUSION AND RECOMMENDATIONS

1. There should be an increasing exchange of views on the current obstacles and constraints in increasing the flow of Asian and Pacific investment into each Asian and Pacific country. Each Asian and Pacific (ASPAC) country should contribute information from its private sector on the possible obstacles, problems, constraints or even restrictions on investment in the ASPAC countries other than in their own country.

2. There should be an exchange of views on investment policies, regulations and opportunity in each ASPAC country. This type of information may be presented in the form of sectoral profiles or investment project profiles.

3. There should be regular investment missions, seminars or business meetings between potential investors of each ASPAC country. These activities may be organized and/or sponsored by the board of investment in each ASPAC country.

VI. MALAYSIA'S INVESTMENT EXPERIENCE

MALAYSIA'S INVESTMENT EXPERIENCE

Survey data, indicated below, show that foreign direct investment (FDI) in Malaysia has gone through tremendous structural changes. The trend of FDI in Malaysia from the major industrialized countries has led to the emergence of a new export market base.

The statistics provided below show the pattern of foreign investment in Malaysia for the past five years in approved projects.

MAJOR INVESTORS IN MALAYSIA

1988	(Malaysian ringgit)
Japan	1,733,131,659
Taiwan Province of China	1,402,815,589
United States	942,648,412
Singapore	885,892,885
Finland	94,985,113

1989	(Malaysian ringgit)
Japan	3,894,938,577
Taiwan Province of China	1,961,012,777
United States	763,608,271
Singapore	707,927,733
Finland	583,175,000

1990	(Malaysian ringgit)
Taiwan Province of China	9,119,972,756
Japan	6,614,946,754
United States	2,646,303,704
Singapore	1,779,113,432
Republic of Korea	1,755,704,980

1991	(Malaysian ringgit)
Taiwan Province of China	3,548,374,139
Japan	3,157,666,079
United States	1,724,302,400
Republic of Korea	1,668,893,297
Indonesia	1,234,270,341

1992	(Malaysian ringgit)
France	4.086 billion
United States	3.298 billion
Japan	2.635 billion
Australia	2.119 billion
Taiwan Province of China	1.505 billion

A. MOTIVATION FOR THE FLOW OF FDI IN MALAYSIA

There are several factors that contributed to the increasing flow of FDI into Malaysia. The survey data showed the sensitivity of private investment to the underlying domestic economic conditions in Malaysia. The key factors that help in motivating the flow of foreign investment into Malaysia are highlighted below.

1. The relative political stability and sound macroeconomics policies

Malaysia, among other countries within the Asian and Pacific region has been listed as one of the best investment locations owing to its stable economic growth and the remarkable changes in its manufacturing sector. The economy grew at 8.5 per cent in 1992, with a reduced rate of unemployment at 4.1 per cent and a relatively low rate of inflation (4.6 per cent). This performance is even more impressive in view of the fact that the world economy expanded by only 1.1 per cent last year (1992). At the current level of per capita income, RM7,554, Malaysia is now regarded as an upper middle income developing country. The strength of the Malaysian economy, and the consequent confidence in it, has helped increase foreign corporate investment proposals.

2. Attractive and liberal investment incentives packages

Significant changes introduced by the Government to the legislation governing foreign investment have contributed to the rapid growth of investment proposals. Also, the liberal steps taken by the Government regarding the guidelines on foreign equity, incentives for investment, immigration and labour laws, exchange

control administrative practices, transfer of technology as well as facilities for investment have attracted foreign investors. Furthermore, the establishment of the Securities Commission, the Futures Industries Bill and the development of the bond market will increase the number of instruments for investment and risk taking. These measures taken by the Government and its related agencies definitely help strengthen investors' confidence in our capital market and enable it to compete against other established markets in the region.

3. Ready availability of natural resources and skilled labour

The ready availability of natural resources and skilled labour are among the factors contributing to the increasing amount of foreign investment proposals inside the country. Foreign investors that mostly concentrated on labour-intensive projects such as Taiwan province of China used to be Malaysia's biggest investor. Since it is no longer applicable to the Malaysian investment climate, the investors have to change investment locations to other countries, such as China and Viet Nam.

4. Good infrastructural system

Malaysia has successfully upgraded its basic infrastructure, health and education services and the nutritional standards of the rural and urban communities. The Malaysian Government realizes the need of industry for competitively priced power and water supplies and reviews these rates from time to time. Malaysia has 16,000 miles of some of the finest roads in Asia and an efficient rail and air system. Malaysia's communications system has also been designated by the World Bank as being of the "A" category, that is, comparable to the developed countries. International air and sea ports assure efficient handling and transport of cargo whether liquid, bulk or containerized. These facilities for investment provided by the Government have certainly been a major attraction for foreign investors.

5. Liberal exchange control procedures

The value of the ringgit remains strong and has appreciated by 8 per cent against the US dollar. The value of the ringgit had fallen sharply after the Plaza Accord on 22 September 1985. However, the value of the ringgit has now regained the level before the Accord. As such, the appreciation of the ringgit has not affected the competitiveness of Malaysian exports. On the contrary, the appreciation of the ringgit has reduced the import value of machinery and equipment and surely this will benefit our industries. The strengthening of the ringgit has contributed to the reduction of the national debt which is expected to fall. The private sector has also taken similar steps to prepay or refinance its debts. The increase in domestic interest rates has encouraged inflows of funds, and this has helped to raise our international reserves to almost RM43 billion. For the first time, in 1992, international reserves were in excess of the national debt and were sufficient to finance five months of retained imports compared with just over three and a half months in 1990. This factor has also helped greatly in strengthening investors' confidence in the country.

B. THE ROLE OF THE PRIVATE SECTOR IN INVESTMENT PROMOTION IN THE PAST

Private investment has played an important role in the past, providing the impetus to economic growth and diversification in Malaysia and is expected to continue to play the lead role in the future. Supported by a wide range of policy measures at the fiscal, monetary and sectoral levels, private investment in norminal terms had accelerated rapidly from an average annual rate of 6.9 per cent in the 1960s to 24 per cent in the 1970s and further to 30.1 per cent in the period 1988-1990. All sectors of the economy have benefited from private investment, although there has been a distinct shift in the flow of private capital away from the traditional agricultural and non-oil mining sectors to the manufacturing, petroleum, services and

contruction sector, especially since the 1970s. Private investment in the manufacturing sector, in particular, has intensified since 1988 and remains strong today, boosted in large part by the wide array of incentives implemented under the Promotion of Investment Act of 1986 and other supportive schemes. Investment for oil exploration and exploitation has also been significant in the 1980s, while investment in the construction and services sectors has gained prominence as a result of the buoyant economic conditions in the latter half of the 1980s.

In 1990, private investment (in nominal terms) had reached US$ 24.2 billion with nearly one third being in the manufacturing sector, followed by the services sector (23.5 per cent share), mining (14.9 per cent) and construction (14.1 per cent). The agricultural sector only accounted for 7 per cent share of total private investment.

Malaysia's success in promoting private investment to date was because of a combination of factors. The active support given by the Government in terms of infrastructural facilities and wide-ranging fiscal incentives was important, and necessary in some cases, to induce private investment. However, in the overall context, it was the prevalence of political stability, prudent macroeconomic policies, price stability, liberal exchange control, good infrastructure and ready availability of labour and materials which were fundamental to promoting private investment in Malaysia.

Along with the upward trend in private investment, there have been shifts in the direction of investment, governed by the profitability factor. In particular, there have been higher capital outlays in the manufacturing, oil and services sectors, as these offered higher returns than investment in the traditional agricultural sector.

Profitability by sector

	1986	1987	1988	1989	1990
	Return on assets (percentage)				
Agriculture	2.6	4.8	9.4	7.1	3.4
Mining	15.8	18.9	18.7	25.3	30.1
Manufacturing	5.7	6.0	9.1	11.4	15.1
Transport	5.6	6.7	8.0	8.9	8.5
Distributive trade, hotel and restaurants	3.0	4.4	6.4	8.4	10.8

Source: Bank Negara, Malaysia, *Annual Surveys of Private Investment in Malaysia,* 1986 to 1990.

Note: Return on assets (ROA) is defined as profit/loss before tax as a percentage of total assets

In recent years, the strong wave of foreign investor interest in the manufacturing sector has been an important factor in boosting overall private investment. Based on approvals by the Malaysian Industrial Development Authority (MIDA), foreign investments (attracted by the move in 1986 by the Government to liberalise equity ownership) began to overtake domestic investments in 1987 and thereafter gained even greater momentum up to 1990. The indications are that this strong inflow of foreign investment will be sustained in 1991.

Approved investments by MIDA

	Total	Local ($ billion)	Foreign	Local	Foreign (percentage)
1984	3.8	3.1	0.7	81.1	18.9
1985	5.7	4.7	1.0	83.1	16.9
1986	5.2	3.5	1.7	67.3	32.7
1987	3.9	1.9	2.0	47.6	52.4
1988	9.1	4.2	4.9	46.4	53.6
1989	12.2	3.6	8.6	29.2	70.8
1990	28.2	10.6	17.6	37.4	62.6
1991 (Jan-Oct)	25.0	11.4	13.6	45.7	54.3

Source: Malaysian Industrial Development Authority (MIDA)

Based on MIDA's approved foreign equity investment in 1989/90, the largest foreign investors were from Taiwan Province of China and Japan. These were followed by Singapore, the United Kingdom, the United States, Hong Kong, Republic of Korea and Indonesia with much smaller shares. The approved foreign equity investment for these eight countries accounted for 87 per cent of total foreign equity in projects approved during the 1989/90 period.

Sources of approved foreign equity investment

	1985	1989	1990 (percentage)	1991 (Jan-Oct)
Taiwan Province of China	4.5	29.8	37.8	18.8
Japan	25.1	31.3	28.5	25.0
Singapore	14.5	7.9	5.2	3.7
United Kingdom	3.3	7.5	5.1	4.1
United States	11.3	3.7	3.0	8.0
Republic of Korea	3.2	2.3	2.6	8.3
Hong Kong	5.7	3.3	2.2	6.9
Indonesia	1.6	0.6	3.6	5.6
Others	30.8	13.6	12.0	19.6
Total	100.0	100.0	100.0	100.0

Source: Malaysian Industrial Development Authority.

Unlike in the 1970s and early 1980s, when foreign direct investment was mainly in the oil-related, electronics and textile industries, the current influx of foreign capital covers a broader range of industries. At one end are several large projects costing above $500 million each, which will be producing iron and steel products, petroleum products and petrochemicals. At the medium-cost range are a large proportion of foreign companies with projects for the manufacture of chemical, textiles and machinery. At the same time, a number of large multinational companies are setting up subsidiary companies to manufacture the necessary component parts for their end-products.

Main industries gaining foreign investment

	1985	1989	1990 (percentage)	1991 (Jan-Oct)
Basic metal products	10.5	4.5	24.5	16.4
Petroleum products	0.1	1.9	8.7	12.0
Chemicals & chemical products	3.1	13.4	10.5	13.6
Electrical & electronic products	7.6	32.6	26.6	15.3
Wood & wood products	0.7	9.7	2.9	6.6
Textiles & textile products	5.2	6.8	5.0	5.5
Machinery	4.9	1.8	5.8	2.8
Fabricated metal products	3.3	6.5	2.1	3.3
Food products	7.9	4.0	2.1	2.1
Transport equipment	15.6	1.8	1.7	2.2
Others	41.1	17.0	10.1	20.2
Total	100.0	100.0	100.0	100.0

Source: Malaysian Industrial Development Authority

C. ENHANCEMENT OF THE ROLE OF THE PRIVATE SECTOR

Malaysia's active promotion of foreign direct investment, especially for the export-oriented manufacturing sector, has been one of the main contributing factors for the country's high growth rates. The real effects of such an investment promotion programme can be seen by the technological and skills input made, as well as access to international markets afforded by the foreign presence.

However, despite the rapid expansion of the manufacturing sector in the 1980s and early 1990s, a narrow industrial base is still very much in place. This can be seen from the significant contribution of the electronics and electrical goods, and textiles and apparel to manufacturing output and exports. Mainly foreign controlled, these industries are the major export earners in the manufacturing sector and they have little inter-industry and sectoral linkages. Furthermore, growth in industries aimed for the domestic market, has been achieved by protection, thus diminishing their competitiveness in international markets.

Hence, some observers point to the quality and level of technology transfer which has been a result of foreign investment, in that it is still very limited and has not permeated beyond the bounds of foreign-owned businesses. The lack of substantive linkages with local investment has led observers to conclude that a dualistic structure exists between the capital intensive, hi-tech foreign multinational companies and the predominantly labour intensive, low-tech local private investors.

Objectives and strategies to enhance the role of the private sector

Several key objectives need to be achieved to redress this dual structure and to enhance the role of the domestic private sector. These objectives would require policy reforms which centre on:

(a) The promotion of the development of integrated industries from the assembly of parts to end product;

(b) The improvement and strengthening of inter-industry and sectoral linkages with emphasis on local participation, particularly in the non-resource based industries;

(c) The promotion of resource-based industries with increased utilization of local raw materials in other manufacturing industries;

(d) The fostering of linkages between the large industries and the small and medium scale enterprises (SMEs) through fiscal incentives and financing schemes;

(e) The promotion of more capital intensive industries which utilize advanced technology for the production of better quality and competitive products.

The current trend in the largely foreign controlled export-oriented manufacturing sector points to a bias in non-resource based industries which require large import requirements leading to higher trade deficits, while possessing minimal spillover effects across other sectors domestically.

In the interests of enhancing the role of the domestic private sector and creating a more balanced economic growth, several strategies need to be undertaken. They are:

(a) To intensify investment in resource-based industries and their downstream activities, such as rubber, palm oil and wood-based products. This strategy also has the effect of enhancing Malaysia's indigenous competitive advantage;

(b) To institute an investment incentive regime which encourages high value added, increased usage of domestic inputs, high export orientation and significant inter-indusry linkages. This should favour resource-based industries as they have higher linkages and utilize more domestic inputs, thus creating more spillover effects on the domestic economy;

(c) To ensure that public policies maintain an investment environment which is conducive to private sector investment, for instance in reducing price distortions by streamlining administrative procedures or deregulation;

(d) To promote flexi-wage systems in order to offset wage pressures in a tightening labour market-such a system would serve to re-orientate the existing wage system to one linked to productivity outputs;

(e) To promote greater private sector participation in skills training and curriculum development, particularly in highly specialized and industry specific areas;

(f) To encourage and promote industrial research and development (R and D) in the private sector to prepare for increased participation in high value added and high technology industries. In this respect, the Government could provide incentives for the creation of pooled private sector R and D;

(g) To ensure a more intensive transfer of technology from multinationals to local entrepreneurs, perhaps in the form of joint-venture enterprises with local management participation. To this end, the

Government must lead by initiating a long-term programme for technology development. Preliminary steps in this direction have already been taken with the formulation of the National Plan on Industrial Technology Development in 1990;

(h) To augment the existing database for the monitoring of private sector investment trends and patterns. Resources at key agencies and ministries such as MIDA, Department of Statistics, MITI must be upgraded for this purpose.

(i) To initiate more selective approval of new investments in the manufacturing sector to encourage resource-based industries;

(j) To reinforce backward linkages of the industrialization process by actively promoting small and medium-scaled industries (SMIs) and thereby reducing dependence on imports and other intermediate products;

(k) To promote exports through effective fiscal incentives and export financing schemes;

(l) To promote reinvestment by establishing a fiscal incentive programme which encourages a reduction in profit outflows.

VII. THE ECOLOGY OF INVESTMENT IN NEPAL: MOVING INTO A NEW POLICY ENVIRONMENT

by

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A. BACKGROUND

The industrial sector in Nepal remains relatively small and is at an early stage of development. As reported in national accounts, the overall share of the manufacturing sector in gross domestic product (GDP) staggered slightly above 4 per cent during the 1970s. During the 1980s, however, industrial investment and production gained momentum and the share of the manufacturing sector in GDP increased from 4.3 to 6 per cent. Even more significant are the accompanying structural changes. With the establishment of many new industries, the share of traditional industries declined considerably. The resulting diversification of the industrial structure is exemplified by the decline of the contribution of value added of the food, beverages and tobacco subsector in the manufacturing sector from 62 to 37 per cent during the decade 1980/81 to 1990/91. During the same period, the share of the textile and leather subsector went up from 5 to 31 per cent and that of the chemical subsector increased from 4 to 19 per cent.

Notwithstanding the recent advances, the manufacturing sector is dominated by cottage and small-scale industries.

A heartening feature in the recent past has been the surge in the export of manufactured products. Exports have been dominated by hand knotted woollen carpets and ready-made garments which are almost exclusively produced for overseas markets.

1. Issues and problems of industrialization

A number of constraints have affected the industrialization process in Nepal. Some of these constraints emanate from Nepal's limited natural resource base which provides the agricultural and mineral inputs to the manufacturing sector. Whereas some others arise from its physical and institutional infrastructure, a number of others result from previous policies. Some of the constraints identified are as follows:

(a) Geographical conditions

Nepal's land-locked position coupled with a rugged terrain and long border with India limits its access to imported inputs at competitive prices.

(b) Lack of capital

Nepal is one of the poorest countries in the world. The private sector itself is very shy and weak. Capital mobilization for the industry sector has always been a constraint.

(c) Inadequate physical infrastructure

Infrastructure facilities such as power, roads, communication are still too inadequate to support a modern industrial structure.

(d) Market limitation

The low level of income in Nepal restricts the size of domestic demand. The small domestic market also deprives the Nepalese industries of taking advantage of economies of scale.

(e) Weak natural resource base

The pressure on limited arable land because of population growth and declining agricultural productivity greatly limits the domestic availability of agricultural raw material. The inadequacy of known mineral resources also places Nepal at a considerable disadvantage.

(f) Shortage of skilled and technical manpower

Nepal's constant effort to develop a sound technical and skilled human resources base will take time to materialize. However, the existing manpower can be trained with a little extra effort to utilize in existing facilities.

In order to overcome the problems and to drive the country towards industrialization, it has been realized that all the efforts of the Government should be directed towards national development, not in isolation, but with due consideration for mutual global interdependence. For this a liberal and transparent policy package must be put forward. In this context the Government has announced two major investment policies and has synchronized all sectoral policies with the new liberal economic policy. "Industrial Policy 1992" and "Foreign Investment and One Window Policy 1992" represent the Government's endeavour to reform policies.

The strategies towards fostering industrial development have been affirmed through the current "Industrial Policy 1992". The Government's emphasis and seriousness in promoting foreign investment has also been replicated in the "Foreign Investment and One Window Policy".

B. OBJECTIVES AND SCOPE OF INDUSTRIAL POLICY

The new industrial policy strategy and management of the industrial sector emphasizes deregulation, competition and reliance on market forces in the allocation of resources between manufacturing industries. The aim of the policy is to promote, through the free play of market forces, the development of industries in which the country has a comparative advantage. Already many restrictive policies of the past have been relaxed in order to encourage the free flow of private investment. Realizing that the competition engendered by a market economy ensures optimum efficiency in existing units and canalizes available resources into optimum areas, Nepal has guaranteed the protection of the investment of private investors.

The major features of these new policies are:

1. A reduction in licensing intervention in order to facilitate entry and to promote competition;

2. More liberal income tax incentives and facilities for both domestic and foreign investment to encourage industrial investment;

3. The setting up or strengthening of several support institutions;

4. The de-bureaucratization of the sector in general by ensuring that services will be provided from one window.

1. Classification of industries

The new industrial policy maintains an industrial classification distinguishing between category and scale of industry. The categories of industries include:

(a) Manufacturing industries;

(b) Energy-used industries;

(c) Mineral-based industries;

(d) Tourism industry;

(e) Service industry;

(f) Construction industry.

With regard to the scale classification of industries, the main revision as compared with the scale classification of previous industrial policy concerns a considerable upward adjustment in the size limits delineating different size classes, which are expressed in terms of the value of fixed assets:

(a) Cottage industries, including firms utilizing local materials and firms which are related to the country's tradition, art and culture;

(b) Small-scale industries, including firms with fixed assets not exceeding a value of 10 million Nepalese rupees;

(c) Medium-scale industries, including firms with fixed assets valued between 10 and 50 million Nepalese rupees;

(d) Large-scale enterprises, including firms with fixed assets worth more than 50 million Nepalese rupees.

In addition a list of priority industries has been identified. The industries on this list account for some 15 per cent of manufacturing value added based on 1990/91 data. The main selection criteria for the present list are forward and backward linkages and technology development. The list of priority industries is shown in annex I.

2. Licensing regulations

The main area of deregulation of the new industrial policy concerns the reduction in licensing requirements. According to the new policy, an industry will only require a license if it is classified as being related to defence, public health and environment.

Production considerations, such as perceived levels of demand and installed capacity, are no longer taken into account in the approval procedure for a licence. In the case of licensing for environmental considerations, the approval procedure is to be based solely on the proposed measures for environmental control.

For industries not mentioned on this negative list, licences are no longer required. They need to register, however, with the Department of Industry prior to starting production. Also, cottage industries are required to register. They can do so up to six months after the start of production. Furthermore, government permission is required for all foreign investment projects. According to the new industrial policy the licence processing procedure is subject to a maximum period of 30 days.

3. Tax facilities

The new industrial policy incorporates a range of generous tax facilities. The thrust of these facilities concerns exemptions and reductions of income taxes. The proposed tax facilities are generally more generous than the prevailing tax incentives. They include:

(a) Full exemption of income, sales and excise taxes for cottage industries;

(b) Five-year tax holiday for all manufacturing industries (except cigarettes, bidi, alcohol and saw mill industries), energy and mining industries;

(c) Priority industries will be entitled to a seven-year tax holiday;

(d) Export industries are fully exempt from income tax;

(e) Existing industries will be given a discount of 5 per cent on the income tax scale;

(f) Industries established in remote, undeveloped and underdeveloped areas of the country will be granted income tax rebates of 50, 20 and 10 per cent of income tax.

Other tax facilities, not all of which are new, relate to accelerated depreciation (by adding to the amount of depreciation an amount equal to one third of the income tax payable). Issuing of shares through the Securities Exchange Centre (5 per cent corporate income tax exemption), ploughing back of earnings in investment (provision to deduct 40 per cent of the value of the new assets from taxable income), pollution control investments (50 per cent of the cost deductible from taxable income), operations costs of skill

development, technology development (maximum 10 per cent tax deduction), dividends (free of taxes), donations (maximum 5 per cent of taxable income), advertising (also maximum of 5 per cent of taxable income), use of domestic raw materials and employment (two years additional tax holidays). A major improvement in the system of tax incentives is that compared to some of the previous tax incentives, they concern exemptions rather than entitlement to remittances. The tax holidays for new enterprises become effective at the time of start of production.

The new industrial policy does not tackle the system of indirect taxes levied on industrial products, the sales tax and the excise tax. Sales tax rates vary from 5 to 20 per cent. For the collection of sales taxes two approaches exist. For industries importing inputs, an advance on the sales tax is levied at the time of importing inputs, which is then settled with sales taxes due at the time of sales. For industries relying only on domestic inputs, sales taxes are collected at the time of sales. There are no major discretionary problems with regard to the sales tax system, although importing manufacturers complain that the collection of the taxes at the source (imports) raises their costs of production requiring extra working capital.

Most excise tax revenue is obtained from such goods as cigarettes and alcoholic beverages. Relatively high excise taxes also apply to selected synthetic yarns and materials, cement and electronic products. Lower rates are due on a range of foodstuffs and consumable chemicals.

4. Foreign investment policy, 1992

Nepal is a very recently opened country. The economy of this small poor country cannot sustain technology transfer or build the equity base needed for industrialization on its own. After diagnosing the pathology in the industrialization endeavour, Nepal has not only encouraged the free flow of foreign investment but also encouraged private foreign investment without reservation. Nepal firmly believes that foreign investment, especially in the form of joint ventures, is useful for accelerating industrial development and productivity enhancement in the economy. The Government has expressed a clear commitment to promoting private sector-based economic growth structured on the foundation of liberalization and deregulated competitive markets.

The new policy makes adequate provisions on packages of incentives, facilities, and transparency in government policy.

The role of foreign investment and transfer of technology is hailed in the policy with the belief that implementation of these policy reforms will lead to the import of capital, modern technology and management, technical skills, access to international marketing, development of competitive attitudes and awareness of an industrial culture particularly in the private sector.

The foreign investment policy encompasses among others the following features:

(a) Forms of foreign investment and areas are clearly delineated. Hundred per cent foreign equity investment has been allowed in industries with a fixed investment of more than 20 million rupees. Technology transfer has been allowed in the cottage and small industries as well;

(b) Procedural details have been well spelt out;

(c) Matters relating to profit repatriation, mode of operation, nationalization, arbitration and facilities and incentives have been clearly laid down under the policy and related law. A foreign investor making an investment in foreign currency is allowed to repatriate the amount received as profit or dividend or the amount received by the sale of the investment and on the payment of the principal and interest on any foreign loan;

(d) Provision of a one window service facilitating the investment, both for the pre-investment stage as well as for the post-investment stage has been made.

C. INSTITUTIONS AND INDUSTRIAL DEVELOPMENT

1. Present institutional structure

The key institution for designing and implementing industrial policy is the Ministry of industry with its subsidiary departments and divisions. The Ministry of Industry has the responsibility for industrial policy formulation and industrial planning, and the promotion of industrial development.

There are four departments which report to the Ministry of industry:

(a) Department of industry which deals with policy implementation, including licensing and registration, of small, medium, and large-scale industries;

(b) Department of Cottage and Small Industries which administers and promotes small and cottage industry development;

(c) Department of Mines and Geology which provides information germane to mines and quarries;

(d) Department of Standards and Metrology;

(e) Company Registrar which has been recently established in order to ease the services for company registration.

The Minister of Industry chairs the Industrial Promotion Board, which has been set up as an interministerial coordination committee to review industrial policies and to approve licence applications for foreign investment as well for pollution prone or health-hazard industries.

Furthermore, there are several independent bodies directly involved in implementing industrial development programmes. The Economic Services Centre (ESEC), is a public limited company with the shares owned by the Ministry of Industry, which undertakes industrial research and consultancy services focusing mainly on productivity improvement.

In support of small scale industries development several other bodies operate under the umbrella of the Ministry of Industry. They include the Cottage and Small Industry Development Board (CSIDB) set up in the framework of the World Bank's Cottage and Small Industry Development Project (CSI) and the Small Business Promotion Project (SBPP) supported by the German Agency for Technical Cooperation (GTZ). The CSIDB is mainly involved in skill training for the manufacturing sector, whereas the SBPP project aims at providing entrepreneurial training both inside and outside manufacturing.

Outside the realm of the Ministry of Industry there are several other organizations involved in policies and programmes which affect industrial development. The National Planning Commission (NPC) contributes to industrial policies and planning in cooperation with the Planning Division of the Ministry of Industry and is responsible for integrating industrial planning in the overall development planning. The NPC formulates periodic macro and sectoral policies and programmes in conjunction with the line Ministry. Currently, it is preparing the eighth five-year plan which covers the period 1992/93-1997/98.

The Ministry of Finance also plays an important role in determining fiscal allocations for the Government's industrial development programmes. It is also responsible for determining import tariffs and for honouring tax incentives to industry. The performance of its implementing agencies, including the Customs Department, the Sales Tax and Excise Tax Departments, and the Income Tax Department, has a strong impact on the activities and performance of the industrial sector.

The Ministry of Commerce is entrusted with the responsibility to formulate trade policies and programmes. Firms have to register at the Department of Commerce to obtain trading licences. The Department of Commerce, in cooperation with the Nepal Rastra Bank (NRB, the Central Bank), and the Ministry of Finance, operates the bi-monthly import auction. The Ministry of Commerce also engages in trade promotion through the Trade Promotion Centre (TPC) and its affiliate the Export Services Centre

(ESC). The TPC provides advisory services to the exporters and also organizes participation in trade fairs to explore export markets. It has received considerable support from the International Trade Centre (ITC). The ESC is engaged in product development of export items, particularly carpets, woollen knitwear and silver jewelry. The ESC later was set up in the framework of the World Bank (IDA) cottage and small industry development project. The Ministry of Commerce also chairs a high level interministerial body, the Trade Board, set up to review trade policy issues. Furthermore, at the secretary level the ministry chairs the Garment Export Promotion Committee, which is also an interministerial body. It has representatives from the private sector as well. This committee reviews issues related to garment exports including the fixation of floor prices and the preparation of input-output coefficients to be used in the verification of material use in exported garments. The Ministry also chairs the Export Price Valuation Committee which sets floor prices for the exports of carpets and handicraft products.

The NRB still makes available foreign exchange at the official exchange rate for the importation of fertilizers, petroleum products, life-saving medicines and industrial machinery. This is an incentive as the market rates for foreign exchange are somewhat higher. The Department of Industry certification is required to obtain foreign exchange at the official exchange rate for the importation of machinery. Furthermore, permission from the NRB also provides back-to back letter-of-credit facilities to exporters.

Traditionally, the main institution for providing term-finance to the private sector was the Nepal Industrial Development Corporation (NIDC), which also has a promotional role and conducts feasibility and marketing studies. There are two other state-owned commercial banks. However, the recently established joint-venture banks play an increasingly important role in providing industries with working capital and investment credit. In addition, a security market is being developed to facilitate access to equity capital.

Chambers of Commerce and Industry Associations: At the national level, the Federation of Nepalese Chambers of Commerce and Industry looks after the interests of private industrial enterprises. This federation is also the main channel for industry's link with the Government. This apex body of the private sector is represented in most of the interministerial and interdepartmental bodies.

2. Institutional issues and the impact of reforms

The recently announced industrial and trade policies have a significant impact on the task and responsibilities of many of the government institutions related to the development of industry and trade. Regulatory functions are being reduced, to be partially replaced by more monitoring types of functions. In general, liberalization and deregulation imply a substantial reduction in the role of the Government. The role of the Government is limited now to support market-oriented activities. Such support has to come in the form of appropriate macroeconomic management and policies that ensure efficiently functioning factor and products markets. No unhealthy intervention is allowed from the bureaucracy. However, the Government is ready to assist the private sector in any area where they need support. The Governments committed to creating a congenial investment climate, to supporting the private sector by training and research, and other helpful regulatory policies.

In the area of support for industrial development, however, some government involvement in limited areas is still felt desirable. These include, in particular, support for small industry development, technology transfer, environmental protection, human resources development and the effective implementation of export promotion facilities. Furthermore, in view of the substantial changes in trade and industrial policies, which are likely to involve considerable adjustment costs, a temporary programme of assistance to affected industries will be implemented. It is obvious that the implementation of these programmes requires close cooperation with the private sector.

Monitoring industrial development and policy impact analysis

It has been realized that the Ministry of Industry has to create a cell which looks after how the new policy functions in the real world. The Government has developed a system to measure the trends and impact of the new policies. The Government has also developed its analytical capability for industrial

policy assessment. For this purpose a policy research and monitoring unit has been set up within the Planning Division of the Ministry of Industry. The types of capability to be developed within this unit include the ability to:

(a) Monitor developments in registration, licensing of industrial projects, as well as in incentives provided;

(b) Monitor changes in industrial production in relation to developments in export and import trade;

(c) Monitor changes in the trade regime and in the effective protection provided to manufacturing industries;

(d) Assess industry and trade policy changes in neighbouring countries and their implications for Nepal;

(e) Analyze developments in industrial efficiency, for example, in terms of capacity utilization, capital intensity and cost of production;

(f) Conduct ad hoc industrial sector studies regarding issues of interest to the Government as well as to the private sector.

3. One-window system

The procedural simplification is outlined as the "one window system" in the policy statement. The realization of the system, however, needs extra effort and a new institutional structure.

The programme of industrial policy reform is many steps ahead of the past procedures. The new programme is generous and ambitious in providing tax incentives. Close interdepartmental coordination and interministerial cooperation is required for the implementation of these reforms. To solve this coordination and cooperation problem, a one-window approach has been set up. Both domestic and foreign licence applications and tax facilities are to be assessed through a one-window committee which is envisaged to work under a high level Industrial Promotion Board. The One-Window Committee will be chaired by the Director General of the Department of Industry and with members at direct or general level from the Department of Sales Taxation, Department of Excise, Department of Custom, Department of Commerce, representative of Federation of Nepal Chambers of Commerce and Industries and the Chief Controller of the NRB. This committee will be formed to provide assistance in such matters as registration of land, electricity, water and determination of tax facilities. The secretariat for this committee is the Department of Industry. The functions of this secretariat are to receive licence applications, review them and send them on to the members of the One-Window Committee, which is expected to formulate a recommendation, while a final decision will be taken by the Industrial Promotion Board. Under this structure the ability to complete the licensing procedure in the target period of 30 days is highly dependent on the frequency of the One-Window Committee meetings, as well as of the Industrial Promotion Board.

In addition, other institutional arrangements are being established in order to support the private sector. A technology development and transfer centre will be established in order to make the process of technology development and transfer more effective as well as to support the pace of industrialization through proper import, development and management of the technology. Similarly a productivity council will be set up to make the industrial sector more efficient and productive through human resources development programmes and productivity awareness campaigns.

D. ROLE OF THE PRIVATE SECTOR IN ENHANCING FOREIGN INVESTMENT

Over the last decade, there has been considerable direct investment by the Government in public enterprise. Although small in number, the contribution to public enterprises has been substantial; public enterprises account for 20 per cent of output and 29 per cent of value added of the manufacturing sector.

The private sector used to be shy in Nepal particularly owing to lack of capital, lack of know-how, inadequate infrastructural support, greater risks and unfavourable government polices. In relation to foreign investment so far only 70 agreements for foreign investment and technology transfer have been concluded by the private sector. With the recent policy reforms particularly with the liberalized economy and private sector oriented approach of the Government, it is widely believed that the private sector will gear up its pace in industrial development. This has already been depicted by the participants of the private sector in two major exercises of the Government, namely.

1) The initiation of a privatisation programme of public enterprises by the Government and

2) the organization of the Investment Forum, 1992.

1. Privatization of public enterprises

Public enterprises in Nepal have a record of both poor economic and financial performance. This is reflected in the higher cost of production as compared with the prices of competing imports and negative financial rates of return. As a consequence, public enterprises are a considerable burden on the government budget. Consequently, a programme of public sector enterprise reform has been formulated, which envisages that most of public enterprises will eventually be privatized or liquidated. Last year three, namely leather and shoe factory, brick and tile factory and pulp and paper factory were chosen for privatization. With the encouraging participation of private industrialists, the Government successfully privatized all three public enterprises, two industries to local entrepreneurs and one to a foreign investor.

2. Investment Forum

Although the country is pushing hard for industrial and technology restructuring, it is obvious that with the acute shortage of investment resources for industrial and technological development, it would be very hard to change the scenario significantly unless serious initiatives are taken to assist in the augmentation of internal resources. In this connection the Ministry of Industry in association with UNIDO/UNDP has recently organized under an integrated programme for the identification, formulation and promotion of industrial investment an Investment forum from 30 November to 4 December 1992. Some 306 foreign participants from 26 countries attended the forum. During the forum, 86 Nepalese entrepreneurs presented 110 project proposals for joint ventures, supply of technology, licensing arrangements, sub-contracting and buy back arrangements, financing, equipment supply, turn key operations etc. At the end of the forum, 128 letters of intent which might attract a total sum of US$ 740 million had been signed. The letter of intents were signed with the objective of exploring the possibility of initiating joint ventures in various sectors. A sectoral breakdown of the envisaged investment and a countrywise classification are given in annex II and III respectively. Up to date, out of the 128 projects, 3 joint venture projects have already been registered and the Ministry of Industry has designed a serious follow-up mechanism in order to facilitate the materialization of other projects. Such interest shown by both foreign as well as local investors is definitely very much encouraging. This overwhelming response indicates that there is good scope for the expansion of the industrial sector with the participation of private foreign investment.

E. INVESTMENT CLIMATE IN THE NEW POLICY MILIEU

The Government is keen to create a conducive environment for the promotion of private sector participation. The policies, that were recently announced, clearly express the commitment of the Government. It is very interesting to note that the private sector has also started to feel that now they have to play a leading role in the industrial endeavour of the country. As mentioned earlier, this fact was attested by the encouraging participation of the private sector in the privatization exercise and Investment Forum. The role of Government is confined to the creation of support services, for example, human resources development, technology transfer activities, creation of information systems including information on energy efficient and environmentally friendly technology, assistance to the private sector in productivity improvement and quality enhancement.

Annex I

NATIONAL PRIORITY INDUSTRIES

1. Modern sugar and khandsari mills.
2. Modern oil mills processing local oilseeds.
3. Integrated dairy (Including animal husbandry) industry.
4. Fruit and vegetable seed production industry.
5. Tea and coffee farming and processing industry.
6. Fruit processing industry.
7. Herbs farming and processing industry.
8. Baby food and hygienic food producing industry.
9. Cotton, woolen and silk yarn industry, textile industry.
10. Leather processing and leather goods producing industry.
11. Commercial and professional tools and equipment industry.
12. Slate stone and concrete blocks producing industry.
13. Paper industry (writing, printing and news print).
14. Education materials and stationeries industry.
15. Pharmaceutical industry.
16. Medical equipment and tools industry.
17. Engineering industry (including agricultural and industrial tools and equipment producing).
18. Pesticides industry.
19. Chemical fertilizer (excluding blending and mixing) producing industry.
20. Industry manufacturing fuel saving devices.
21. Industry manufacturing pollution control devices.
22. Solid waste or waste product processing industry.
23. Hydropower generation and distribution.
24. Hotels, resorts.
25. Road, bridge, tunnel, ropeway, flying bridge, railway, trolley bus and office and residential complex etc.
26. Mineral-based industry.
27. Caustic soda, chlorine, aluminium smelter etc. industry which utilizes electricity as its main component.
28. Hospital, nursing home.
29. Computer software industry.
30. Export-oriented agro-based industry.
31. Precision goods.

Annex II

NEPAL INVESTMENT FORUM
SECTORAL CLASSIFICATION OF LETTERS OF INTENT SIGNED

S.NO.	CATAGORY	SECTOR	NUMBER OF PROJECTS	ENVISAGED INVESTMENT
1.	A	AGRICULTURE, ANIMAL HUSBANDRY AND FISHING	20	$13,933,000.00
2.	B.	MANUFACTURING INDUSTRIES		
3.	B1	FOOD AND BEVERAGES	18	$128,863,000.00
4.	B2	TEXTILES AND WEARING APPAREL	13	$22,780,000.00
5.	B3	WOOD AND PAPER PRODUCTS, PRINTING	8	$47,020,000.00
6.	B4	CHEMICAL, PLASTIC AND RUBBER-BASED INDUSTRIES	12	$13,017,000.00
7.	B5	NON-METALLIC MINERAL PRODUCTS	10	$120,890,000.00
8.	B6	BASIC METAL AND ENGINEERING INDUSTRIES	11	$35,550,000.00
9.	B7	ELECTRICAL AND ELECTRONIC INDUSTRIES	10	$33,340,000.00
10.	B8	OTHER INDUSTRIES	0	$0.00
11.	C	CONSTRUCTION, PROPERTY DEVELOPMENT AND HYDROPOWER	7	$153,101,000.00
12.	D	TOURIST HOTELS AND RECREATION FACILITIES	5	$82,600,000.00
13.	E	SERVICES	14	$87,950,000.00
		TOTAL ->	**128**	**$739,044,800.00**

Annex III

NEPAL INVESTMENT FORUM
LETTERS OF INTENT SIGNED BY COUNTRY

S.NO.	COUNTRY/AREA	NUMBER OF PROJECTS	ENVISAGED INVESTMENT
1.	AUSTRIA	1	$6,250,000.00
2.	CHINA	35	$217,935,800.00
3.	FINLAND	1	$0.00
4.	FRANCE	1	$0.00
5.	GERMANY	23	$201,950,000.00
6.	HONG KONG	1	$3,000,000.00
7.	INDIA	34	$187,309,000.00
8.	ITALY	1	$4,000,000.00
9.	JAPAN	3	$2,050,000.00
10.	REPUBLIC OF KOREA	4	$3,870,000.00
11.	PAKISTAN	6	$13,880,000.00
12.	FEDERATION OF RUSSIA	5	$6,000,000.00
13.	SINGAPORE	5	$32,250,000.00
14.	SRI LANKA	2	$0.00
15.	TAIWAN PROVINCE OF CHINA	1	$550,000.00
16.	UNITED KINGDOM	2	$46,000,000.00
17.	UNITED STATES	3	$14,000,000.00
	TOTAL	**128**	**$739,044,800.00**

VIII. NEPAL

(A) THE ROLE OF THE PRIVATE SECTOR IN PROMOTING FOREIGN INVESTMENT; (B) TECHNOLOGICAL CHOICES: PROBLEMS, CONSTRAINS AND PROSPECTS FOR THE PRIVATE SECTOR

by

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President
Federation of Nepalese Chambers of Commerce & Industry (FNCCI)

INTRODUCTION

The following comments in the background paper circulated by ESCAP attracted me. "(i) The countries that have not been able to achieve such success do possess potential but have been unable to do so, due to inadequacy of investment funds and at time unfavourable economic conditions." and "(ii)....there is a need for a systematic approach to promote domestic as well as foreign investment".

So far as the inadequacy of investment funds is concerned, it is definitely an important factor, but more than this we have to take into account the spectacular economic growth achieved by many, including the newly industrializing economies and this, in my opinion, was mainly due to suitable legal arrangements, required organizational support and harmonized economic policies. A country has to make great efforts to obtain economic prosperity. Mere pronouncements of a market-oriented economy and non-interference by government are not sufficient.

Since Mr. B.P. Koirala, Joint Secretary, Ministry of Industry, Nepal has already presented his paper on investment policies and institutional and infrastructural mechanisms, I would like to confine my presentation to "(i) the role of the private sector in promoting foreign investment and (ii) Technological choices : problems, constraints and prospects for the private sector".

A. ROLE OF THE PRIVATE SECTOR IN PROMOTING FOREIGN INVESTMENT

The Federation of Nepalese Chambers of Commerce and Industry (FNCCI) which I am representing, is the private sector apex representative body of district chambers and commodity associations in Nepal. FNCCI is a readily available forum for the Nepalese Government to hear the common views of the Nepalese private sector and thus has become a common platform to protect the legitimate interests of the Nepalese private sector. It has been organizing foreign investment meetings and also lending full support to the Government in organizing such meetings in and outside the country.

Despite such a role and representations at many important government forums, FNCCI is still trying hard to convince the Nepalese decision-makers to adopt financial and monetary policies, acts, rules and regulations which support private Nepalese investment supplemented by foreign investment. We all know there is no private property without government. So, for the economic prosperity of the country, it is the responsibility of any Government to activate and energize its private sector. And for this, the role of the private sector is no less important in the attainment of this national goal.

Currently there is no more need to put one's effort and energy into convincing the Government that efficient performance lies in private enterprises. The process of privatization has not only begun rather it is accelerating even in countries which never relied before on private enterprises. Such a widespread change has not only opened opportunities to private entrepreneurs but has also given them additional burdens and responsibilities to bear.

In these trying circumstances the following roles are now being played by FNCCI, that is, the private sector in Nepal:

a) Bearing in mind the national interest, full support is given to the policy of privatizing government owned factories/undertakings. Foreigners willing to invest in such privatized factories/undertakings get full support from FNCCI. FNCCI welcomes such enterprises as its members if they so desire.

FNCCI takes up with the concerned government agencies their grievances and their suggestions to bring improvements, if found justified and reasonable.

b) The catalytic role played by FNCCI assumes considerable significance mainly because of its internal organizational network and vast global linkages and affiliations. Its internal organizational network includes subcommittees that focus on specialized commercial and industrial issues and the Employers'

Council which provides services to employers in the area of employment and industrial relations. The availability of these services in the country is very much taken into account by foreign investors in their process of making decisions regarding investment. FNCCI is taken into confidence by nearly all the foreign investors before investment.

c) The dissemination of information not only when asked by foreign investors but also on a regular basis to various information and data centres around the world is of vital importance for any country to attract foreign investment. Realising this FNCCI is in the process of further strengthening its organization by introducing modern equipment and techniques. This helps FNCCI to play a proactive role and to gain confidence.

d) Active participation in international trade fairs/exhibitions is of great value in increasing exports and in buying the right kind of items at competitive prices. This also helps entrepreneurs to develop contacts with foreign collaborators which also can be instrumental in attracting foreign investment.

e) The Nepal Invesment Forum recently organized in Kathmandu from 30 November to 4 December 1992 was inaugurated by the Prime Minister. This led to the signing of more than 111 memorandum of understanding after discussions between 330 foreign company representatives and Nepalese entrepreneurs, including the Executive Committee members of FNCCI.

Various preparatory committees were formed under the chairmanship of the State Minister for Industry. FNCCI was represented in all those committees. Not only this, the FNCCI President was one of the dignitaries who addressed the inaugural session of the Forum. The FNCCI Vice-President and Secretary General also addressed the working sessions along with the ministers, secretaries and governor.

With a view to familiarizing the foreign investors with Nepalese products, FNCCI Trade Fair Subcommittee organized an "Industrial Exhibition" during the Forum. In the process of privatization by involving foreign investors, such an activity is considered to have enhanced the image of FNCCI and the Nepalese private sector as a whole in the eyes of the foreign investors.

f) Undertakings operating under joint collaboration are consulted before making any recommendations or presenting viewpoints by FNCCI in relation to foreign investment. This approach of FNCCI has earned the confidence of the foreign investors which is found to be one of the contributory factors in attracting foreign investment in Nepal.

g) The Chamber Law is also an important requirement which energises chamber/associations into playing more active roles.

B. TECHNOLOGICAL CHOICES: PROBLEMS, CONSTRAINTS AND PROSPECTS FOR THE PRIVATE SECTOR

Among the various types of resources that contribute to the economic development of a country, technological resources are of utmost importance, particularly when there is open and free competition and lack of indigenous natural resources, that is, raw materials. Nepal is facing this type of situation.

Modern equipment and machinery alone without an educated human resources base are not sufficient for technological transformation. This aspect of human resources base has not yet been given urgent attention in our country. Besides, import of equipment and machinery particularly from the west is too expensive and it is difficult to afford considering the scale of operation in a country like ours.

The technology available in any South Asian Association of Regional Countries (SAARC) or other developing countries is comparably very cheap. But to acquire this, one has to bear the pain of uncertainty and unreliability. There is not only the risk of not getting the right machinery and equipment in time, but also the risk of uncertainty regarding supply of spares. This factor is not seriously considered by the Governments of those developing countries which are at a higher stage of development in this region. We also lack institutional support to tap such resources available in our region.

FNCCI, right from the very beginning, has been insisting on the need to produce skilled manpower competent to make use of the up-to-date technology adopted by those countries from where goods are flooding our markets, replacing our indigenous products. In such circumstances very little choice is left for a country like ours. It is difficult to rectify this situation alone. Some concerted effort is necessary.

Developing countries should not be satisfied with their machinery and equipment prices which are cheaper, but these countries should also pay attention towards salesmanship and after sale services. This is important not only for them but also for those countries which have a limited financial resource base and cannot afford to buy expensive technology. Otherwise poor countries will be compelled to accept for survival even all the unreasonable and irrational terms and conditions of the foreign collaborators from countries with financial and technological resources. Hence, there will be no choice for them but to put an unsurmountable burden of loan on the shoulders of their citizens.

IX. REPUBLIC OF KOREA

FOREIGN DIRECT INVESTMENT AND GOVERNMENT POLICY IN THE REPUBLIC OF KOREA

A. INTRODUCTION

The purpose of this paper is to summarize the characteristics of foreign direct investment (FDI) and related government policy in the Republic of Korea. Section B will be a brief review of government policy and investment characteristics from the early 1960s up to now. Section C will deal with the Republic of Korea's overseas investment which has been gaining importance recently. Section D will cover the current issues in FDI and discuss future prospects. Section E is the conclusion.

B. REVIEW OF GOVERNMENT POLICY AND INVESTMENT CHARACTERISTICS

1. Promotion-cum-restriction phase (1960-1983)

In the process of industrialization under a strong government influence, foreign direct investment in the Republic of Korea has been basically determined by the government policy of promotion and restriction.

Promotion of FDI in the Republic of Korea dates back to the year 1960, when the Government enacted the Foreign Capital Inducement Act. The law and the related administrative decrees underwent several changes thereafter but the main contents remained the same until 1983.

During this period, FDI in the Republic of Korea was expected to supplement the domestic sources of investment, exploit export markets, and transfer advanced technologies. The Government (and firms under government incentive schemes), however, basically chose the "debundling" strategy: the Republic of Korea imported technology and capital separately through licensing and loans rather than in packages through FDI. FDI was allowed, when this approach did not work, to play more or less a residual role in industrial development. As the Government protected infant industries from imports, so it tried to preserve some prerogatives for local firms in relation to foreign investors. The policy stance of the Republic of Korea on FDI was to promote FDI under the condition that this principle was met. The Government also maintained control of the size and operational scheme of incoming foreign capital. But once approved, FDI was provided with various promotional measures.

The promotional aspect of FDI policy during this period was manifested in the following measures:

(a) To allow investors to remit the principal and earnings to their home country;

(b) To provide strict protection for intellectual property rights such as patents and trade marks belonging to investors;

(c) To reduce uncertainties and risks facing investors by pursuing bilateral negotiations such as the Investment Guarantee Agreement and the Double Taxation Avoidance Agreement;

(d) To give tax exemptions and deductions to investors;

(e) To ensure a favourable business environment for investors by constructing free export zones, facilitating the use of financial resources, and establishing a one-stop service centre where government officials from relevant ministries worked together.

The restrictive aspect of FDI policy consisted of the following measures:

(a) To prohibit FDI in general and designate industries where FDI was allowed, which was called positive list system: liberalized industries generally covered those with certain effects of export promotion, import substitution, development of domestic natural resources, and large-scale projects listed in the five-year economic development plans;

(b) To limit remittances of principal and earnings within a certain portion of invested capital: in the early 1960s, the sum of the remitted principal and earnings could not exceed one fifth of the initial investment;

(c) To restrict the equity share of foreign investors by putting a ceiling, which varied across industries depending upon the export/production ratio, and the technology transfer clause.

By international standards, the Republic of Korea's FDI policy during this period was characterized by the dominance of restrictive features, reflecting the industrial policy described above. As a result, the total amount of FDI approvals during the period 1962-1983 amounted to only 375 projects, or 1,179 million dollars. Compared with other developing countries, the size of FDI during this period was not impressive. The amount of total FDI into the Republic of Korea explained a mere 0.5 per cent of total domestic savings, in contrast to 23.4 per cent in Singapore, 7.1 per cent in Hong Kong, 8.2 per cent in Malaysia, 1.0 per cent in Taiwan Province of China and 2.6 per cent in Thailand.

2. Liberalization phase (1984+)

In the early 1980s FDI policy shifted towards liberalism. This was in line with the liberalization and deregulation of the Korean economy in general. The international environment was also changing: as the Korean economy grew rapidly, developed countries were increasingly unwilling to sell technology through licensing. With the rapid development of information technology, developed countries' firms were inclined towards more proprietary forms of international business. To cope with the situation, the Republic of Korea decided to enhance its research and development (R and D) efforts drastically on the one hand and to liberalize FDI on the other. The Republic of Korea also had to accommodate the request by the United States of America to open the service industries.

The policy change was directed both to lifting restrictions and to reducing privileged incentives for foreign investors. This seemingly contradictory change was aimed at giving national treatment to foreign investors.

In 1984, the listings of industries was changed from the positive list system to the negative list system. Under the new system, all industries not listed on the Government's announcement were qualified for FDI approval. Also, the automatic approval system was introduced to exempt certain categories of FDI projects form government screening before approval.

The automatic approval system was replaced by the prior notification system in 1991. The new system allowed certain categories of FDI projects to be freely carried out as long as they meet pre-announced criteria. Currently, the new system is applied to those projects which belong to liberalized industries, and with foreign equity holdings of less than 50 per cent. From 1 March 1993, all liberalized industries, with few exceptions, are to be covered by the prior notification system, regardless of the foreign investor's equity share.

With the introduction of the negative list system in July 1984, the FDI liberalization ratio rose to 66.1 per cent, compared with 60.9 per cent before July 1984. The ratio has continued to rise since then, to 76.3 per cent in 1985, and than to 81.8 per cent in 1992 for the whole industry. The manufacturing sector has been opened to FDI more rapidly than other industries, as is indicated by the higher liberalization ratio, which stood at 97.8 per cent in 1992. Although the liberalization ratio of service sector is far lower than that of the manufacturing sector, those service industries which are of interest to foreigners, such as finance, wholesale, and marine transportation, are at least partially open to FDI.

Restrictions of foreign equity holdings have been relaxed significantly. There is no limit to foreign equity participation in most industries. A few exceptions are observed in strategically important industries such as fishery, mining, marine transportation, and some infant manufacturing industries.

The Government abolished performance requirements such as export requirements and local content obligations in 1989, not only for new ventures but also for existing FDI projects.

In order to validate its liberalization policy, the Government is improving the transparency of its policies by integrating all relevant incentives and regulations into a single document so that foreign investors can refer to it more easily. Also, dissemination of information about FDI policy in the Republic of Korea is facilitated by various measures.

In the previous phase, the Government was restrictive and selective about FDI, but once approved, all FDI was provided with tax privileges. Along with liberalization, tax privileges were abolished with the exception of those for high technology industries. The Government now extends tax privileges only to industries such as precision testing machines, optical instruments, precision ejectors, industrial robots, electronic switching systems, computer programme media etc. This is because now the most important economic task in the Republic of Korea is industrial restructuring and here FDI is expected to play an important role, while the other roles of FDI such as capital import and export promotion have become less important.

The liberalization measures should have a positive effect on FDI inflow. FDI inflow into the Republic of Korea increased remarkably in the 1980s until 1988 (see figure I). The sudden jump in 1987 must have some correlation with the domestic economic boom during the 1986-1988 period, and the improvement of the Republic of Korea's image as a promising host country with the 1988 Seoul Olympics. Easier market access and a better business environment as a result of the more liberal policy stance toward FDI, however, also helped.

C. OVERSEAS INVESTMENT AND PROMOTIONAL POLICIES

Around the mid-1980s, industries in the Republic of Korea faced a mounting need to invest overseas. The erosion of competitiveness in some labour intensive industries, growing regional integration in Europe and North America, and rising protectionism in the world economy created new challenges for Korean industries. One of the solutions was overseas investment. Meanwhile, ending the status of the Republic of Korea as a chronic debtor country through the large balance-of-payment surplus during the 1986-1988 period enabled the Government to liberalize overseas investment.

The liberalization of overseas investment has been executed through various promotional measures. In the past, Korean investors had to obtain permission from the Government for overseas investment. Now investment not exceeding 5 million dollars is allowed by only notifying the authorities concerned (Bank of Korea) instead of prior permission. The Government plans to raise the minimum investment amount eligible for the prior notification system and gradually abolish the other restrictions in overseas investment.

For the purpose of enhancing financial availability, the Overseas Investment Credit was established by the Korea Eximbank in 1987 and its volume has been increasing rapidly, from 40 billion won in 1988 to 100 billion won in 1989, and again to 140 billion won in 1990.

Financially, small and medium sized enterprises benefit more than large enterprises; they especially benefit from the favourable interest rates and priority allocation of the Overseas Investment Credit. In 1990, 70 per cent of the total project supported by the Overseas Investment Credit were small and medium sized enterprises.

In addition to the Overseas Investment Credit, the Korea Eximbank is providing another loan programme using the budget-financed Economic Development Cooperation Fund. This loan programme is provided to Korean investors who are seeking foreign investment in developing countries with more favourable terms. It was introduced in the spirit of supporting international cooperation in the industrial development of developing countries. The projects eligible for loans are overseas investment projects which promote economic cooperation but are so risky, or the expected return so low, that they cannot be financed by commercial loans.

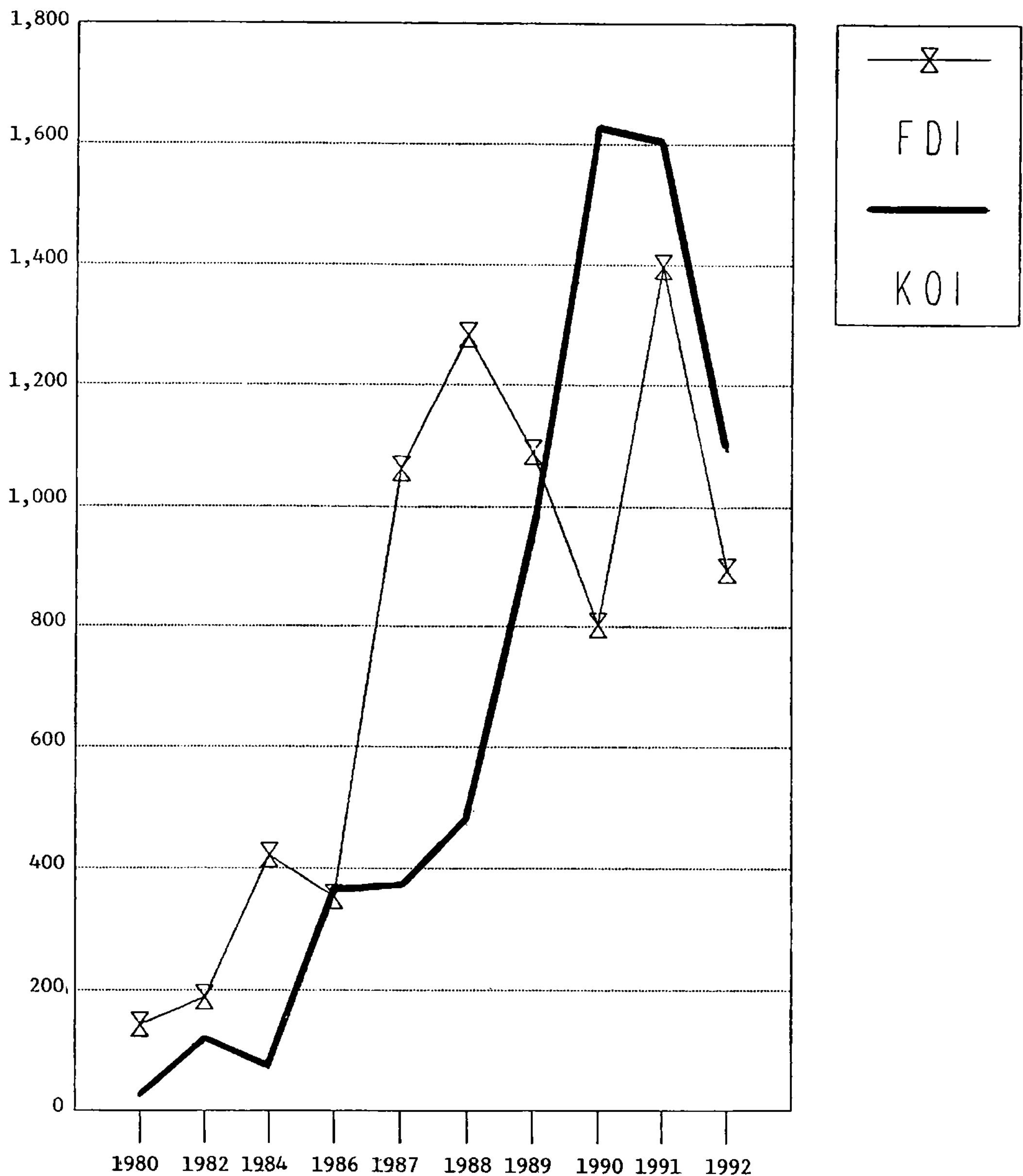
The Government also provides some tax incentive programme designed to support Korean investors abroad. One of them is the allowance of a reserve for overseas investment losses up to 20 per cent of

the investment amount, which is tax deductible as operating losses, and another is anti-double taxation on income earned from foreign investments.

The Korea Export Insurance Corporation offers overseas investment insurance on behalf of the Government to protect Korean investors from political risks such as war, expropriation or inconvertibility. Presently, 90 per cent of the losses caused by such incidents are covered. The Eximbank will improve overseas investment insurance as part of its ongoing plan to enhance the programme.

The Government plans to create a favourable and secure atmosphere for Korean firms' overseas investment by enlarging the number of countries with agreements on the promotion and protection of investment and/or anti-double taxation etc. At present, 30 countries have entered the former and 42 countries have entered the latter.

Figure I. Foreign direct investment (FDI) in the Republic of Korea and overseas investment (KOI) by the Republic of Korea



Source: Ministry of Finance, The Current Status of the FDI, 1992.

As shown in Figure I, overseas investment by the Republic of Korea began an upward trend in 1986, when the approved amount reached 356 million dollars, compared to 70 million dollars in 1984, and 220 million dollars in 1985. The increase is particularly visible in 1989, when the approved investment soared to 943 million dollars, from 479 million dollars in the previous year. The amount of overseas investment stayed high thereafter, surpassing that of FDI in 1990, 1991 and 1992.

D. CURRENT ISSUES AND PROSPECTS

Since 1989 the inflow of FDI has been stagnant. Moreover, the stagnation of FDI is more obvious in the manufacturing sector. As shown in table 1, except for the unusual surge in 1991 because of the joint venture investment of US$ 470.9 million between Ssang-yong and ARAMCO, the general trend of FDI manufacturing is stagnant. Still more worrisome is the decline of FDI in high technology industries. The tax-exempt FDI projects in the high technology industries accounted for 19.6 per cent of the total number of FDI projects in the manufacturing sector in 1988, but the share fell to 5.7 per cent in 1992.

Table 1. Foreign direct investment into the Republic of Korea

millions of US dollars

	Manufacturing		Service		Total	
	No.of projects	Amount	No.of projects	Amount	No.of projects	Amount
1987	321	772.6	36	287.0	362	1,063.3
1988	272	736.2	66	535.1	342	1,282.7
1989	194	727.4	141	359.4	336	1,090.3
1990	137	583.4	159	218.7	296	802.3
1991	109	1,069.3[1]	178	325.6	287	1,396.1
1992	81	647.0	152	245.4	234	894.6

Source : Ministry of Finance

Note : [1] Joint venture investment of US$470.9 million between ARAMCO and Ssang-young is included

The following factors appear responsible for these trends of FDI in recent years:

(1) Macroeconomic performance in the Republic of Korea has not been so good recently, both in terms of growth rate and balance of payments, slowing the rate of market expansion;

(2) The Korean democratization process since 1987 has resulted in a sharp rise in wage levels and labour disputes;

(3) Interest rates in the Republic of Korea have been high recently. Access to the domestic financial market for foreign investors is difficult because the practice of the Korean financial market is unfamiliar to foreign investors. The Republic of Korea also experienced a drastic rise in real estate prices recently;

(4) Although the Republic of Korea has an excellent social overhead capital, there has been an increasing congestion on the railways, highways and ports;

(5) Liberalization of imports, such as the reduction of tariff rate, has reduced the attractiveness of "tariff jumping investment".

(6) Export-platform type investment – especially that by Japan – is moving to the Association of South-East Asian Nations (ASEAN) countries and China, with their adoption of export-oriented industrialization;

(7) International competition for FDI has become more intensive recently. The regional integration of Europe and North America is conducive to more demand for FDI. The transition to market economies in Eastern Europe, Russia, Viet Nam and China has the same effect.

These disadvantages are offsetting the Republic of Korea's newly acquired advantage of good geographic location to exploit the markets of China and Siberia, which are going through a rapid transition towards a market economy.

The first four factors elaborated upon above, except for the difficulty of access to domestic credit, are not specific to FDI but affect domestic investment as well. An improved environment for FDI thus depends on what happens in the whole Korean economy. The problem is related to business cycles in the short run and to the transition to democracy in a newly industrializing country in the long run. The fifth factors is the inevitable result of the liberalization drive, and as the post-war experience shows tariff jumping investment has seldom had salubrious effects on developing countries, it is not something to be much worried about. The sixth factor is also basically an inevitable one with the growth of the Korean economy and the rise of income. Parallel to this is the Republic of Korea's increasing overseas investment in labour intensive manufacturing industries, discussed in the previous section. In both cases the real problem is not that the movement is occurring, but that it is occurring too fast because of the rapidly deteriorating domestic business environment.

Only the seventh factor is a matter of consideration for FDI policy. It should be noted, however, that unlike the Federation of Russia, Eastern Europe, China or Viet Nam, the Republic of Korea is not in a situation to seek the impetus of economic growth from FDI. At the same time, the private sector is still too weak to endure a full-scale liberalization overnight to the level of developed countries. The basic policy should thus be a gradual but consistent pursuit of further liberalization as a continuation of the process described in Section B. The seventh factor can somewhat hasten this process.

The agenda for further liberalization currently consists of the following:

(1) To shorten the remaining list of restrictions on FDI and to make prior notification rather than approval the major principle of the FDI process;

(2) To enhance transparency and consistency in the regulation of FDI, by clarifying the rule of regulation and thus reducing the room for the discretion of government officials;

(3) To reduce red tape in the investment process by reducing document requirements and by shortening the time for examination of documents;

(4) To ease the restrictions on the real estate ownership by foreign investors.

In addition, the following are to be implemented by the Government as promotional measures of FDI:

(1) To allow high technology investors who have difficulties obtaining domestic financing short-term to borrow overseas since the interest rate differential is large (this is not allowed to local firms);

(2) To extend tax exemptions to high technology service industries;

(3) To build high technology industrial complexes solely for foreign investors;

(4) To launch a public relations campaign to improve the image of FDI to the Korean people, who still have somewhat negative image of FDI;

(5) To strengthen efforts to disseminate information to foreign investors about improved FDI conditions in the Republic of Korea.

In addition to these measures, there are plans to entrust gradually the responsibilities related to foreign investment notification to local authorities so as to allow them to autonomously grant incentives such as tax exemption/reduction and establish industrial zones. Moreover, for the next five years (1993 – 1997), about 200 businesses previously approved on a restrictive basis will be liberalized through the implementation of the five-year plan of liberalization. This should help Korean businesses to prepare domestically for the competitive setting of a gradually liberalized market and also should give sufficient preparation time to foreign investors planning to launch into the Korean market.

All these liberalization and promotion measures will be implemented at least partially during 1993. As discussed above, however, much will depend on the turn-around of the economic situation in general. Lastly, much will also depend on the behaviour of the private sector. For a smooth liberalization, private enterprises should devote more effort to innovation and productivity increases. Most of all, they should not divert their resources to non-productive purposes such as real estate speculation or other rent-seeking activities. They will then be able to get a more efficient and effective technology transfer through FDI. This will also lead to the stimulation of competition rather than dominance by foreign firms through FDI.

Turning towards overseas investment, the prevailing opinion is that the Republic of Korea's economic policy should integrate the support of overseas investment in order to compensate for difficulties such as the deterioration of competitiveness in some labour intensive industries, expanded regional integration in Europe and North America, and the growing protectionism in the world economy. Adhering to this opinion, the Government is planning to make support of overseas investment in manufacturing part of the domestic industrial policy and also to expand the operation of overseas investment in non-manufacturing corresponding with the state of the balance of payment.

E. CONCLUSION

Although the Republic of Korea had a restrictive policy on FDI in the 1960s and the 1970s, it has been consistently liberalized since the early 1980s. Owning to the liberalization, FDI increased in the late 1980s, while at the same time the Republic of Korea's overseas investment also increased drastically. FDI inflow has been stagnating recently, mainly because of the plight of the overall economic situation. The Government is pursuing a gradual and consistent path of further liberalization, and, where necessary, serious promotional measures. The Korean experience, however, has revealed that systems and promotional plans are not the only factors in attracting FDI. Potential investors also consider the socio-political environment of an economy when making their investment decisions. For the Republic of Korea, such was the case in the early 1980s. On account of the lack of stability in the social and political setting, the inflow of FDI was disturbed in part. Such a result shows that a stable socio-political atmosphere is of as much importance in attracting FDI into an economy as a well formulated FDI system.

X. SRI LANKA

PRIVATIZATION IN SRI LANKA

Board of Investment of Sri Lanka
1993

PRIVATIZATION IN SRI LANKA

On 11 May 1990 an advertisement appeared in Sri Lankan newspapers and selected international journals, inviting "Established manufacturers of industrial and rare gases" to purchase 60 per cent of the shares in Ceylon Oxygen Ltd. The seller was Sri Lanka's Ministry of Finance which owned 100 per cent of the shares.

The announcement constituted another episode in the eventful history of "Ceylon Oxygen". Established in 1945, when Ceylon (now Sri Lanka) was another colony in the far flung British Empire, Ceylon, Oxygen was set up as one of the subsidiaries of the British Oxygen Company. From the time of its establishment, it enjoyed a total monopoly of the manufacture of gases in Sri Lanka. Until and after Sri Lanka emerged as an independent nation in 1948, the Company continued to be operated by British Oxygen and managed by British executives. At midnight on 5 November 1972, the Ceylon Oxygen Company was nationalized, acquired in its entirety by the then Sri Lankan Government. The acquisition was done by the mere publication of a Government Gazette Notification under the provisions of the Business Undertaking (Acquisition) Act, promulgated in 1971, and since repealed by the Government of President Premadasa in 1989.

Ceylon Oxygen continued to function as a "Government Owned Business Undertaking" (GOBU), one of 26 private sector businesses nationalized by previous socialist governments. Legally it lacked a judicial personality and was controlled and operated by a government nominated individual known as a "Competent Authority", in whose name business was done.

With the election of the government of President Premadasa in 1989, Sri Lanka chose to follow the path of privatization earmarking 62 state owned enterprises for divestiture. The obvious first choice of privatization were the 26 GOBU's enterprises which had been established and operated as privately owned companies prior to their nationalization in the 1960s and early 1970s.

Preparation for privatization required the conversion of these GOBU's into public companies with a corporate personality and a saleable share structure. Special legislation was enacted for this purpose and in June 1990, Ceylon Oxygen was reconverted into a public company with the entirety of its 6 million shares vested in the Secretary to the Treasury, on behalf of the State. Preparation for privatization commenced with the public advertisement calling for bids for the sale of 60 per cent of these shares.

This strategy, the sale of a majority shareholding in a state enterprise (usually 60 per cent) to a corporate investor through public tender and competitive bidding, was the culmination of diverse alternate strategies which had been experimented with in the early years of the privatization programme.

Sri Lanka's first privatization, unlike Ceylon Oxygen, had been effected through a public share issue/flotation of 90 per cent of the shares of United Motors Ltd., a motor car agency, which like Ceylon Oxygen had been through the stages of private ownership, nationalization and reincorportation as a wholly government owned company. The strategy of offering 90 per cent of the shares to the investing public was partly a response to a comprehensive public awareness campaign on the concept of privatization, which was launched in 1988 before the divestiture of state owned enterprises commenced.

The public awareness programme began with the commissioning of a jounalist to write a series of articles on the various aspects of privatization; its rationale; a description of the various methods and divestiture options, the costs of maintaining state enterprises and the universality of this phenomenon.

Sri Lanka had a socialist tradition throughout, dating from the exposure of its intelligentsia to the economic and political teachings of the London School of Economics in the 1930s, and these articles were deliberately written in a provocative manner, challenging the pervasive role which the State assumes in socialist thought. The response was the emergence of an aggressive, sometimes virulent anti-privatization lobby which sought to stem the onset of privatization through the expression of serious ideological concerns regarding the substitution of private ownership for state ownership, but mainly through emotive rhetoric intermingled with patriotic misgivings about selling the family silver, thus making the ensuing debate more a battle for the heart than the mind.

The main thrust of the anti-privatization publications was the charge that the primary beneficiaries would be favoured economic groups and that the end result of the exercise would be the making of "gifts on a golden platter to avaricious investors seeking to acquire profitable enterprises".

The decision to effect the first divestitute, United Motors, through a public share issue of 90 per cent of its equity was partly a response to the concerns expressed of the possible emergence of "crony capitalism". It was also a result of the somewhat idealistic thinking that a primary objective of the privatization strategy should be a broad based ownership of divested state owned enterprises among Sri Lankan citizens.

The share issue of United Motors failed however, with only a third of the shares on offer being taken up by the public, mainly because of the emergence at the time of a militant political group (the JVP) which carried out a systematic programme of civil disorganization prior to and during the period the issue was open for subscription.

The response to the failure of the United Motors share issue (which the political opposition interpreted as a lack of popular support for privatization), was a radical change in the divestiture strategy. Sri Lanka's second privatization transaction took the form of the total divestiture of a large textile mill through an 'asset sale' – to a single foreign corporate investor who was identified through an investor search.

The method of divestiture adopted in the second transaction came in for criticism; particularly the identification of the buyer through an investor search; the total transfer of the assets of the textile mill with the government absorbing the liabilities and the determination of the sale price without reference to a professional valuation.

The Government's immediate response was to decree that no further "asset sales" take place; that all sales of shares should be through public tender and that a benchmark price for each sale should be established by the Government Valuation Department.

The post-privatization performance of the textile mill, however, indicated the method of divestiture, US$ 22 million, was invested in immediate expansion by the foreign owner and the 300 strong workforce (which included substantial redundancies) grew to 4200 within two years. In terms of purely commercial criteria the transaction was a success.

This experience of the widely divergent methods led to a re-thinking of the privatization strategy. While the sale of the first state owned enterprise, United Motors, through a public share issue was intended to achieve the desirable social and political objective of broad-based ownership, the second transaction achieved the equally desirable commercial objective of rapid expansion and growth.

These realizations resulted in a reformulation of the divestiture strategy with a majority shareholding (usually 60 per cent), being offered for sale on tender to a corporate investor giving the buyer majority ownership and management control. The 60 per cent shares in Ceylon Oxygen were sold in November 1990 to the successful bidder, Norsk Hydro of Norway, an international gas and oil conglomerate.

This strategy (adopted in all twenty-one subsequent transactions) also recognized the need to meet the social and political objectives of the programme, and to give expression to the Premadasa Government's concept of "people-isation". Accordingly, a tranche of shares (usually 30 per cent), is offered for sale to the Sri Lankan investing public on a share issue. Such issues receive enthusiastic public response, and are hugely oversubscribed within the first few days. Allocation is strictly on the basis of a government approved formula which favours the small investor. In a country where traditional investments are in real estate, bank deposits and jewellery, share ownership is attracting increasing investor interest and all recent share issues in state-owned enterprises have resulted in over 30,000 individuals becoming shareholders in each privatized venture, as against the average of around 700 shareholders in private sector companies listed on the Colombo Stock Exchange, thus giving meaning and substance to the concept of "people-isation".

From the inception of its programme of "people-isation", the Sri Lanka Government also recognized the need to make the programme attractive to employees of state owned enterprises, who apart from fearing retrenchment, regard the substitution of private sector employment for public sector employment as a traumatic experience filled with apprehension of an unknown future. Accordingly 10 per cent of the shares in all privatized ventures are gifted to its employees, with the allotment being on the basis of length of service. To date, over 19,000 employees have received gifts of shares, in many cases the market value of these gifts exceeding the aggregate of several years emoluments, and giving added substance to the concept of "people-isation".

Annex I

PUBLIC ENTERPRISES TO BE PEOPLISED

1 Mattegama Textile Mills
2 Acland Insurance Service Ltd
3 Ceylon Manufacturers & Nerchants Ltd
4 Heavyquip Ltd & CCC (Engineering) Ltd
5 CCC (Teas) Ltd
6 CCC (Fertiliser) Ltd
7 MILCO Ltd
8 Sathosa Computers Company
9 Sathosa Printers Company
10 Trans Asia Hotels Ltd
11 Ceylon Fertilizer Corporation
    a) Ceylon Fertilizer Co Ltd
    b) Wayamba Agro Fertilizer Co Ltd
    c) Rajarata Agro Fertilizer Co Ltd
    d) Thamankaduwa Agro Fertilizer Co Ltd
    e) Ruhunu Agra Fertilizer Co Ltd
12 State Trading (Tractor) Corporation
13 Building Materials Corporation
14 Building Materials Manufacturing Corporation
15 Ceylon Steel Corporation
16 Sri Lanka Cement Corporation
    a) Ruhunu Cement Works
    b) Mankesanturai Cement Works
    c) Puttalam Cement Works
17 State Trading (Textile) Corporation (Salu Sala)
18 Lubricant Plant of Ceylon Petroleum Corporation
19 Sevanagala Sugar Co Ltd
20 Hingurana Sugar Co Ltd
21 Kantale Sugar Co Ltd
22 Sri Lanka State Trading (General) Corporation
23 Consolidated Exports & Trading Co Ltd
24 Lanka Canneries Ltd
25 Ceylon Shipping Lines Ltd
26 Cey-Nor Foundation Ltd
27 Janatha Fertilizer Enterprises Ltd
28 Sri Lanka Cashew Corporation
29 B C C Lanka Ltd
30 Sri Lanka (Cey.) Rubber Manufacturing Co Ltd
31 Tea Smallholder Factories Ltd
32 People's Merchant Bank Ltd
33 Lanka Machine Leasers Ltd
34 Hotel Services (Ceylon) Ltd
35 Colombo International School
36 Colombo Gas Co Ltd
37 Ceylon Plywood Corporation
38 Lanka Porcelain Ltd
39 Lanka Phoshpate Ltd

XI. THAILAND

THE INVESTMENT ENVIRONMENT AND INVESTMENT PROMOTION

by

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A. THAILAND'S INVESTMENT POLICY DEVELOPMENT

The broard policy directions of the Thai Government have been laid out in a series of seven five-year development plans beginning in 1961. The evolution of investment policies is described below.

Government policy during the first two plans in the 1960s was geared toward encouraging import-substituting industries. The Office of Industrial Investment was established this period to administer investment promotion policies.

This initial focus on import-substitution was shifted to the promotion of manufactured exports in the early 1970s. This policy specifically addressed the balance-of-payments deficit that had become a problem by the late 1960s. In the intervening years, export activities have continuously received particular attention from Thai policy makers with a variety of investment incentives offered as encouragement. As a result, the export sector has been a main force behind the growth of the Thai economy in recent years.

In the early 1980s, the Government recognized that the import-substitution policies it had continued to promote alongside the export drive had resulted in inefficiency in certain industries. Accordingly, since the fifth plan, efforts have been made to restructure existing and new industries to become more efficient and competitive in both foreign and domestic markets. In addition, the Government implemented its policy to encourage industrial decentralization by providing additional investment incentives for projects located in rural areas.

The export-led growth strategy has been further explicity reinforced in the sixth plan with an emphasis on improving the country's international competitiveness. Various initiatives promoting competition included tariff revisions and production liberalization in several industries.

This environment of positive industrial policies has remained constant throughout the past several decades and has contributed to Thailand's status as a favoured site for offshore manufacturers. More specifically, these policies include a government approach that is extremely favourable to the private sector in general, and to foreign investors in particular, and a prudent management of the economy which has contributed to macroeconomic stability.

The Seventh Development Plan, which runs from 1992 to 1997, continues to place emphasis on the private sector as the engine of growth with the Government playing a supporting, not a regulating, role. Specifically emphasized is the development of infrastructure,human resources, and science and technology. Increasing attention is being given to income distribution and to the environment.

The principles which the Thai Government aspires to embody in its economic policy can be summarized simply: free trade, fair competition, freedom from government intervention, and reduction of unnecessary regulations.

It has taken Thailand a full thirty years to achieve its current stage of industrialization. Various institutions and legislative tools have been created to support industrial development. A number of lessons can be learned from the Thai experience.

The first vivid lesson concerns the public policy of promoting import-substitution industries. Thailand started its industrialization process with this strategy in the 1960s.

This policy may result in economic distortions which ultimately can lead to industrial inefficiency. We have seen many examples of resource misallocation and excessive protection in a number of projects striving to construct their industrial bases. Import-substitution may seem to be the most effective policy focus in the initial stage of industrialization; none the less, measures against inefficiency must be implemented concurrently. As an example, protection afforded to accelerate the establishment of industries should be limited with a definite time frame.

The second lesson involves the export promotion policy. Thailand has adopted this export-led growth strategy for a decade, but elements of this same strategy have evolved over time. Value added creation must stand at the heart of this policy. The list of export activities should be continuously adjusted to the level of domestic industrial sophistication. Import-dependent export activities might be desirable in the short run because they help generate foreign exchange earnings. But in the longer term, resource-based export activities with a higher local content should be encouraged.

The third lesson lies in Thailand's core investment policy, adopted from the very beginning of its industrial development history – that is, the involvement of the private sector. The Thai Government has regarded the private sector as the engine of national economic growth. This liberal policy has proved to be a great success in Thailand.

The last lesson concerns the flexibility and consistency of public policies. The supportive role of Government can only be successful when its policies are well adjusted to the changing business environment. In addition, consistent public policy is a major factor in creating investor confidence.

B. THAILAND'S RECENT ECONOMIC PERFORMANCE AND ECONOMIC POLICY REFORMS

Following a steady 5.5 per cent growth in real gross domestic product (GDP) from 1980 to 1986, the Thai economy took off into double digit growth rates in 1988 with GDP increasing by 13.2 per cent. This was repeated in 1989 and 1990 with growth rates of 12.2 and 10 per cent respectively. The economy slowed down in 1991 and 1992 although the growth rate was still relatively high at 7.5 per cent.

Prudent monetary policy has resulted in relatively stable prices although, as the economy entered its rapid growth phase, inflation has crept up to relatively high but still manageable levels of 5.4 per cent in 1989 and 6.0 per cent in 1990. Inflation was contained at around 6.0 per cent again in 1991 and 4.6 per cent in 1992, notwithstanding the effect of the Middle East crisis.

On the external front, rapid export growth since 1986 – exceeding 20 per cent for four straight years – has been one of the major factors driving the Thai economy and contributing to the diversification of our industrial structure. Even in 1990 and 1991, with a global recession, we still managed to achieve a growth of exports of around 14 and 23 per cent respectively.

Manufactured exports, in particular, have become increasingly important, accounting for over 75 per cent of total exports in 1991. This, combined with the growth number of tourists visiting our country, has prevented a serious imbalance in the current account and has enabled Thailand to import the large amounts of capital goods required to support the export drive.

From the end of 1986, Thailand became a favorite location for foreign firms escaping from appreciating currencies and escalating labour costs. This resulted in a quantum leap in net foreign direct investment inflows from levels of around US$ 200 million in the mid-1980s to over US$ 2 billion in both 1990 and 1991.

The high inflows of foreign direct investment have been accompanied by significant growth in portfolio investment seeking to take advantage of Thailand's growth by investing in the rapidly growing stock market.

Overall, these increased capital inflows have contributed to a healthy balance of payments in recent years. A surplus of over US$ 2 billion was registered in 1990 down somewhat from the US$ 4 billion in 1989. At the same time, official international reserves at the end of 1991 amounted to over US$ 18 billion, almost six months of imports.

Careful management of the nation's foreign debt has resulted in a steady decline in the debt service ratio from over 21 per cent in 1985 to less than 9 per cent at the end of 1990. Increased government

revenues following the recovery of production and investment and the increased role of international trade have moved the fiscal position from one of deficit into one of surplus. The fiscal surplus rose from some US$ 2.3 billion in 1989 to US$ 4 billion in 1990 and almost US$ 5 billion in 1991. The fiscal picture in the decade of the 1990s is expected to remain solidly in the black.

In order to reposition Thailand in the international community, a comprehensive agenda of reforms and policy initiatives has been carried out over the past year.

As part of these ambitious reforms, the fundamental role of government has been further transformed from that of "regulator and controller" to that of "supporter, promoter and facilitator" of development. Government will help and not hinder the efforts of the private sector and will work within a transparent framework, with clear and fair guidelines and procedures.

A key goal of the reforms, and the main platform underlying the seventh Development Plan (1992-1997), was to strengthen the competitiveness of the economy and to promote the internationalization of the Thai economy. This has been achieved by emphasizing the role of the private sector, by encouraging the decentralization of economic activity and infrastructure development, and by reforming the policy and legal environment.

In this regard, foreign exchange services have already been extensively liberalized. All current account transactions and most capital account transactions are now completely free from government control. The reforms reflect the government's confidence in the foreign reserve position and have greatly facilitated foreign activities in Thailand.

Competitiveness is also being enhanced through new and far-reaching tax reforms. The new tax system will be clear-cut, minimizing the discretionary power of bureaucrats, and reducing distortional effects. Most importantly, a 7 per cent value added tax replaced the present business tax in January, 1992, corporate and personal income taxes have been reduced, and tariff rate structures have been rationalized and simplified.

Eventually, the restructuring of the tax system will reduce tax rates towards the levels of our key competitors in the international marketplace.

At the sectoral level, the controls of the Ministry of Industry covering more than 20 industries have been lifted, further reflecting the general policy trend towards liberalization and free competition.

At the same time as these macroeconomic reforms are being carried out, the Bank of Thailand and the Ministry of Finance have continued their prudent approach to fiscal and monetary policy. Their keen management ensures the continuity of macroeconomic stability.

A number of structural bottlenecks have also received significant attention in the foreign press – namely infrastructure and manpower constraints. Relieving these bottlenecks has been high on the agenda of the present Government. The administration has pushed through major infrastructure projects – including an expansion of more than three million telephone lines, the construction of several mass transit schemes to alleviate congestion in Bangkok, and numerous additions to the port and airport network in the country.

We are also further developing our human capital base, in particular through increasing the number of engineers and technicians being produced by the education system.

I am firmly convinced that these infrastructure and manpower constraints reflect only a problem of "time lag". In three years or so, infrastructure and manpower development projects already in the pipeline will come on stream and the situation will be alleviated. The overall investment environment will thus be greatly improved.

The approach of Thai policy makers in modifying the economic policy structure in response to developments both in the Thai economy and the world environment clearly demonstrates a serious commitment to promoting and facilitating private sector investment.

C. THAILAND'S STRENGTHS AS AN INVESTMENT LOCATION

In this part of my presentation, I shall briefly outline what I see as the major economic and social strengths of the Thai economy.

First, as I mentioned earlier, the Thai economy is resilient and dynamic with continuing high growth rates, favourable export performance, and financial stability. The industrial structure is well diversified and can respond quickly to changes in international demand patterns or increases in protectionism. In particular, this resilience enabled the Thai economy to weather the effects of the Middle East crisis with the minimum of disruption, and to proceed into the 1990s with uninterrupted growth prospects.

The rapid industrialization has meant that manufacturing activities have become increasingly important, contributing some 26 per cent of GDP and over 75 per cent of exports. In addition to a wide range of resource-based industries and light industries such as canned food, shoes, toys, jewelry, textiles, and garments, Thailand has also developed chemical, electrical, and engineering support industries.

Second, Thailand is endowed with abundant and diversified natural resources. Thailand is a leading exporter of rice, tapioca, rubber, sugar, and tin. Over 30 minerals are commercially produced in Thailand such as zinc, fluorite gypsum, lead, and tungsten. Oil reserves are estimated to be about 1.2 billion barrels and the natural gas reserves in the Gulf of Thailand are estimated to amount to 3.3 billion barrels.

Third, Thailand has a large and productive labour force with competitive wage costs. In comparison with other countries in the region, Thailand's labour force can no longer compete in terms of cost alone, the minimum wage rate is just over US$ 4 a day.

The size of the work force now exceeds 32 million, with the majority being under 30 years old. Each year about 800,000 persons join the work force and the literacy rate is higher than 90 per cent. More than 15,000 students are presently enrolled in engineering programmes at universities and about 75,000 students graduate each year from vocational schools around the country.

Fourth,Thailand has a large domestic market of more than 58 million people with rapidly increasing purchasing power. Gross national product (GNP) per capita in 1992 is estimated to have exceeded US$ 1,800 creating a domestic demand that can act as a cushion against global economic fluctuations.

In addition, Thailand provides an ideal springboard for foreign companies planning to do business in the rapidly growing Association of South-East Asian Nations (ASEAN) region as well as in the neighbouring countries of Indochina and Myanmar (Burma).

Fifth, with the caveats that I have mentioned earlier, Thailand offers a comprehensive range of services and infrastructure to support business operations.

These include:

(a) Long established financial institutions;

(b) A well developed inland transportation system;

(c) Adequate port facilities;

(d) Modern and efficient airports;

(e) Comprehensive public utilities, including a full range of telecommunications services;

(f) Many fully serviced industrial estates.

In addition, general living conditions in Thailand are comparable with most major cities in Asia. Good housing, shops, schools, and sports facilities are all conveniently available.

Sixth, Thailand's social structures display a high degree of stability, with the monarchy underpinning this stability. Thai society has neither religious nor ethnic conflicts, and personal freedoms of expression, mobility, and economic activity are widely enjoyed.

Finally, but very importantly, the private sector in Thailand has always been seen as the main engine of growth with the Government actively playing a promoting and supporting role.

The Thai Government has also taken a consistently favourable stance towards domestic and foreign investors, recognizing their important role in contributing to Thailand's economic and technological development. In fact, government approval to invest in Thailand is not even needed unless the special incentives offered by the Board of Investment are being applied for, and most sectors of the Thai economy are open to foreign investors.

D. THE MAJOR INVESTMENT OPPORTUNITIES

In a more concrete sense, what are the major investment opportunities offered by the industrializing Thai economy? I shall identify five major areas of potential interest.

1. **Supporting industries:** Increasing sophistication of the industrial structure

The rapid growth of the Thai economy has been accompanied by a dramatic increase of manufacturing activities and a significant diversification of the structure of exports. However, this process has depended primarily on the exploitation of inexpensive labour. The deepening of the industrial structure and the development of technological capability that will enable Thailand to sustain growth in the medium term have only just begun.

The clear need to increase the sophistication of the manufacturing sector opens up a wide range of investment opportunities in the engineering and supporting industries. These opportunities range from basic metal-working activities to the provision of testing and research and development (R and D) services. Foreign participation in these areas is being actively encouraged.

2. **Infrastructure and construction:** A new internal engine of growth

The second major area concerns the much discussed infrastructure constraints and manpower shortages being faced by the Thai economy. Such constraints are hardly surprising given the extremely rapid growth of recent years. However, the Government has recognized the problems and has undertaken numerous policy initiatives to address the bottlenecks and lay the foundations for sustainable growth in the medium term.

Given the magnitude of the required investment, increasing emphasis has been placed on involving private sector financing in many of the infrastructure projects. The private sector has already directly been very active in ongoing projects involving the development of numerous industrial estates and the co-generation of electricity.

In the future, much new infrastructure and manpower development investment will be carried out by private sector consortia. This will include electricity generation, roads, the proposed extension of the expressway to the international airport, mass transit schemes such as the "Skytrain" project, the communications project, and both port development and management.

This all adds up to increasing investment opportunities in infrastructure and costruction-related areas.

3. **The golden pentagon:** Thailand as the hub of Indochina and Myanmar

The third major area that deserves mention involves recent progress towards the opening up of the three economies in Indochina and Myanmar (Burma). Representing a market of over 120 million people

with substantial human and natural resources, the growth of these nations as they emerge from the near isolation of the past 15 years offers singnificant business possibilities.

At the risk of stretching the credibility of geometric analogies, the situation can be represented as a "Golden Pentagon". Both in terms of geographical location and availability of business and financial services and infrastructure, Thailand provides an ideal springboard for companies doing business in the neighbouring countries of Indochina and Myanmar.

I believe that the resources of Thailand and the Indochina countries are, to a large degree, complementary. Thailand, with its more advanced economic structure and more developed business sector, can play a role similar to that played in South-East Asia by the newly industrializing economies in the past decade.

South-East Asia is already seen as one of the major growth poles in the world economy for the remainder of the twentieth century. When the newly emerging nations of the "Golden Pentagon" are added to this growth pole, the possibilities for growth and investment are even greater.

4. Higher value added agro-industry

The fourth area that I shall look at today concerns agriculture and biotechnology. Despite the rapid transformation of the industries structure into manufacturing, we must remember that agriculture continues to play an important role in the Thai economy. The majority of the Thai population still earn their living in the agricultural sector, and many of the new export markets that Thai entrepreneurs have tapped in the last 20 years are related to agriculture in one way or another.

Although the role of agriculture *per se* is likely to continue to decline, the new trend that can be observed involves the use of technologies new to Thailand to enhance the quality and value aded of agricultural products.

To cite just a few examples: the transformation of tapioca slurry into modified starch to support the paper and chemical industries; the improvement of aquaculture technologies to increase yields and quality and to break into the most discerning markets; and the development of new chemicals to enable the increasing use of natural rubber.

It is generally accepted that Thailand's scientific base in the biotechnology area is relatively strong and many of the above-mentioned advances have contained a significant local content. Many opportunities exist to introduce new or matrue technologies into Thai agro-industry.

5. **Environmental concerns:** The greening of Thailand

The last area that I shall consider today concerns the increasing awareness in Thailand of environmental issues. The new administration has identified the environment as a key concern and projects which introduce technologies or processes that are environmentally sound will be actively encouraged by the Board of Investment and other concerned agencies.

With rapidly growing industrial and service sectors, Thailand will require large investments in waste treatment and pollution control facilities to prevent the rapid growth from irreparably harming the environment. Much of the appropriate technologies are expected to be provided by foreign investors.

E. THE BOARD OF INVESTMENT AND INVESTMENT INCENTIVES

To conclude my presentation, I shall consider the role and policies of the Board of Investment which is the Thai government agency responsible for administering incentives and providing services with a view to encouraging investment in priority areas. It comprises two bodies: the Board itself and the Office of the Board of Investment.

Chaired by the Prime Minister, the Board is responsible for administering the investment promotion law and establishment overall policy guidelines. The Office of the Board is the administrative arm of the Board, with its headquarters in Bangkok, three regional offices within Thailand, and four overseas offices in New York, Frankfurt, Tokyo, and Sydney.

The general guidelines used by the Board of Investment in granting approval are derived directly from national development priorities. Accordingly, the Board gives special consideration to investment projects which:

(a) Are export oriented;

(b) Support the country's resource development;

(c) Substantially increase employment;

(d) Locate operations in the provinces;

(e) Establish or develop industries which form the base for further stages of industrial and technological development;

(f) Carry out significant R and D activities;

(g) Establish basic transportation networks, public utilities, and environmental protection systems.

Since we aim to supplement and strengthen our domestic resources in order to accelerate development, we seek to encourage foreign businesses that:

(a) Allow constructive technology transfer;

(b) Encourage Thai participation in ownership and management;

(c) Help upgrade the product quality of Thai suppliers and subcontractors.

Within these general guidelines, the Board of Investment aims to help investors in three main ways:

(1) To reduce the risks associated with investment;

(2) To reduce the initial investment costs and to improve the overall rate of return on investment;

(3) To provide support services at all times.

In order to reduce risks, the Board offers guarantees, such as those against nationalization or competition from new state enterprises.

We can also grant permission to bring in foreign nationals to undertake investment feasibility studies or to work under promoted projects, and to own land for carrying out promoted activities, among others.

In order to reduce the initial investment costs and improve the overall rate of return, the Board offers a range of tax incentives which comprise some or all of the following benefits:

(a) Fifty per cent reduction of import duties on certain items of imported machinery;

(b) Reduction of import duties of up to 90 per cent on imported raw materials and components;

(c) Exemption from corporate income taxes for three to eight years with permission to carry forward losses for up to five years;

(d) Exclusion from taxable income of dividends from promoted companies during the income tax holiday.

In order to promote the decentralization of industrial activities away from Bangkok and the 15 neighbouring provinces, the Board has designated the remaining 57 provinces as investment promotion zones. We are in the process of further increasing the incentives provided to firms which locate their activities in rural areas.

Promoted projects locating in these zones may receive additional incentives which include further tax and duty reductions, as well as allowances for the cost of infrastructure investments.

In order to promote export production, the Board offers even further incentives, which, among others, include exemption from import duties and business taxes on imported raw materials, components, and re-export items.

In recent years, the Board has been shifting its emphasis towards a more service-oriented role. The general activities of the Board have been streamlined and project processing times reduced by a factor of 40 per cent. In addition, a number of programmes are underway to improve the range of investment-related services provided by the Board and to develop the in-house technical and research capability to achieve this.

The service-related measures being taken include the following:

(a) The upgrading of the Board of Investment offices in regional areas, in particular with regard to information provision;

(b) The development of a special Board of Investment Unit for Industrial Linkage Development (BUILD) to promote local subcontracting through the provision of information and technical assistance. Foreign firms in particular will be encouraged to assist local subcontractors in improving product quality, reliability, and timeliness;

(c) The improvement of the "One Stop Services" provided by the Board of Investment;

(d) The establishment of a centre to provide investment-related information and matchmaking services to both foreign and Thai investors seeking to identify joint venture partners or to establish an operation in Thailand;

(e) The establishment of a troubleshooting centre to deal with problems faced by foreign investors after receiving promotional privileges to ensure that their projects proceed smoothly.

ANNEX I

INAUGURAL STATEMENTS

A. ADDRESS OF WELCOME BY DR. MOHAMMAD HAROONUR RASHID SECRETARY, PLANNING DIVISION, MINISTRY OF PLANNING BANGLADESH

Mr. Chairman,
Honourable Prime Minister,
The Executive Secretary of ESCAP, Mr. Rafeeuddin Ahmed,
Honourable Ministers and Members of Parliament,
Excellencies, Delegates and Participants,

Ladies and Gentlemen,

Assalame Alaikum,

On behalf of the Organizing Committee and on behalf of myself, I extend to you a hearty welcome to the Regional Seminar on Investment Promotion and Enhancement of the Role of Private Sector in Asia and the Pacific jointly organized by the Government of Bangladesh, ESCAP and the Federation of Bangladesh Chambers of Commerce and Industries.

In response to our invitation, the Honourable Prime Minister has kindly agreed to be with us this morning to inaugurate this Seminar, despite her multiferious state appointments and other preoccupations. We feel honoured, and express our deep gratitude to her for this graciousness.

The Honourable Prime Minister's presence with us to inaugurate this Seminar is a clear testimony to the importance of an accelerated pace of investment, inevitability of the private sector's contribution and the need for national and international solidarity for economic dynamism in today's world.

Our special guests of today are the Honourable Ministers for Finance, Planning and Industries who have been closely involved in the national development efforts through their leadership and contribution to the private-sector led industrialization. This has earned them international recognition. It is our earnest expectation that their able guidance will herald a new era in the development of the private sector in Bangladesh.

We are particularly grateful to the Executive Secretary of ESCAP – Mr. Rafeeuddin Ahmed – our guest of honour. On very urgent business, he had to rush to Bangkok on 23 January after joining the National Seminar on Private Sector Growth, Technology Choice and Industrial Development of Bangladesh. But he made sure to be back with us to join today so as to keep up with his tireless efforts to strengthen the role of private sector investment in the Asian and Pacific region. We sincerely wish him success in his special efforts to help achieve economic development in Bangladesh and the region.

Mr. Chairman,

After the Second World War, many independent states came into being. Long years of colonial exploitation left these countries underdeveloped. In their efforts to accelerate their economic development and with a view to becoming self-reliant, these countries initially attached special importance to import-substitution industries. There was a dearth of entrepreneurs in these countries. Their exports comprised mainly primary agricultural commodities which faced a steady decline in global demand and gradual deterioration in terms of trade. As a result, while, on the one hand, they lost interest in exports, on the other hand, they developed increasing dependence on import-substitution industries created behind high tariff walls and protected on the plea of "infant industry" nursing.

Among them, the East Asian and South-East Asian countries, particularly the four newly industrializing economies (NIEs), though adopted import-substitution strategies initially, accorded high priority to export-oriented industries subsequently because of the limitations of their domestic markets, ease of access to foreign markets and the comparative advantage they enjoyed. Besides, they acquired higher technology

in keeping with the changing global demand and taste. Gradually, they opted for intermediate goods, in lieu of import-substituting consumption goods, and later, attached greater importance to high technology and heavy industries.

These countries, side by side with the development of physical infrastructure, laid special emphasis on the development of human resources through higher investment in education, health and science and technology. As a result, they were able to select, adapt and apply foreign technologies easily and thus develop their countries. The private sector which mainly played an entrepreneurial role joined hands with the Governments to restructure the industry sector in keeping with the changing world. Governments, on their part, assisted the private sector and created an enabling environment for industrial development. As a result, these countries who are known as the "Asian Tigers" achieved much higher growth than the South Asian countries, and were able to contribute to easing the adverse effect of the global trade recession in the late 1980s and early 1990s.

In contrast, the South Asian countries, including Bangladesh, which at their independence, had better socio-economic infrastructure compared with that of the East and South-East Asian countries, remain underdeveloped because of their reliance on import substitution, government intervention in the economy, dearth of managerial skill, lack of necessary initiatives in economic restructuring and a neglect of the importance of human resources development. As a consequence, most of the South Asian countries today have very low per capita income and are cursed with poverty, disease and illiteracy. These countries are trailing far behind in economic and industrial growth also because of political instability, lack of political direction as well as many legal and procedural complexities.

Mr. Chairman,

Representives from Bangladesh, China, India, Indonesia, Malaysia, Nepal, Pakistan, Republic of Korea, Sri Lanka and Thailand are going to meet face to face primarily to address themselves to two questions: How some countries could accelerate their development process by ensuring the rightful contribution of their private sector and why other countries could not take advantage of this opportunity.

Another important feature of this regional Seminar is that it will have before it the Report of the National Seminar held on 23-25 January 1993 to deliberate upon which would provide an opportunity for an in-depth discussion on the role of investment in technology choice and the enhancement of the role of the private sector.

B. ADDRESS BY MR. MAHBUBUR RAHMAN, PRESIDENT THE FEDERATION OF BANGLADESH CHAMBERS OF COMMERCE AND INDUSTRY (FBCCI) AND CHAIRMAN, INAUGURAL SESSION

Bismillahir Rahmanir Rahim

Respected Chief Guest, Honourable Prime Minister Begum Khaleda Zia,
Mr. Shamsul Islam Khan, Minister for Industries,
Mr. A.M. Zahiruddin Khan, Minister for Planning,
Mr. Rafeeuddin Ahmed, Executive Secretary, ESCAP,
Honourable Ministers and Members of Parliament,
Dr. Haroonur Rashid, Secretary, Planning Division,
Representatives of ESCAP and Participating Nations,
My colleagues of the Business Community, Members of the Media,
Excellencies, Ladies and Gentlemen,

Assalamu Alaikum

It gives me great pleasure to address you all in this inaugural session of the Regional Seminar on "Investment Promotion and Enhancement of the Role of Private Sector in Asia and the Pacific", which is sponsored and jointly organized by the Government of Bangladesh, ESCAP and the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI).

The Seminar provides a forum for discussion on investment promotion policies and strategies and on measures to increase the flow of investment among the countries of the region. The economic performance of some countries of the region has been very high, but not all economies of the region were able to attract substantial foreign direct investment in spite of overal economic liberalization and deregulation. It is hoped that a common understanding on regional cooperation in investment promotion and on strengthening the private sector's role can be reached in this Seminar.

Promotion of private enterprises based on competitive efficiency with an emphasis on export-oriented industries is a specific strategy of the Bangladesh Government under the "New Development Perspective". The low level of domestic savings and scarcity of foreign exchange are the two main constricting factors of the economy. Export revenues depend on a few products, most of which are subject to both domestic supply shocks and fluctuations in international demand and price.

It is a fact that one of the factors for Bangladesh remaining a least developed country lies in past imperfections in policy formulation and implementation. It is equally true that an environment did not prevail for attracting much foreign investment. The shift in policy brought about by the present Government is an outward-looking export-oriented industrialization increasingly reliant on private enterprises. Privatization, encouragement of foreign direct investment, easier industrial raw material import by exporters, fiscal and financial sector reforms are the current focus. Rapid simplification of still remaining administrative and legal issues, which depict an unfavourable business environment, is on.

The commitment of the Government for accelerated private sector investment and rapid export-led growth brings to the foreground issues relating to foreign direct investment which form the theme of this Seminar. We feel that if diversity in economic activity through foreign direct investment is to proliferate and the productive forces are to be let loose, then regulatory controls must be easy, efficient, receptive and fast.

To attract foreign private investment, the Government is actively striving to deregulate the economy and foster an environment in which all industrial enterprises can be easily set up, can perform optimally and can grow rapidly. Government intervention must be to facilitate and to promote. In fact, the Government has stated that one of its policy objectives is to change its role from a "regulatory" to a "promotional"

one, in so far as industrial expansion is concerned. FBCCI is actively cooperating with the Government as a catalyst in accelerating the process of private sector industrial development in the country.

An aspect which needs wisdom, understanding and cooperation of all sections of the society is the growth of a productive and disciplined labour force. Industrialization will benefit all of us and foreign direct investment can constitute a critical component of this process.

I am confident that with open, effective, constructive and wide participation in a national dialogue – deficiencies, pitfalls and obstacles in enforcement of labour laws will be identified and overcome in the larger national context of industrial growth. I must point out the fact that we have a large workforce overseas who have proved themselves to be dexterous, disciplined and highly productive. The "labour" thus remains proven and it should be our national duty to dispense with the stigma of "unrest" and set about the task of enriching the country.

It is pertinent here to highlight the intraregional economic cooperation in both trade and investment which ESCAP is consistently pursuing. The awareness for an impetus to intra-regional trade expansion was felt when the remarkable economic growth of the Asian and Pacific region during the last decade was matched by a corresponding growth in trade within the region. Furthermore, there are visible opportunities for growth in the ESCAP region by exploiting complementarities in an environment afflicted with protectionism, decline in commodity prices, erosion in preferential tariff treatment, new free trade agreements between developed economies, recession etc.

Recent ESCAP studies have shown that marked disparities in export and import structures have created significant complementarities for regional trade. Traditional complementarities have been reinforced by those arising from differences in the level of economic development. However, it was found that complementarities in subregions are limited and do not offer adequate opportunities for trade.

The trade complementarities in the ESCAP countries apparently parallel the investment complementarities. Most developing countries suffer from a scarcity of capital and technology while most newly industrializing economies have both capital and technology. Having a similar background these countries can also offer solutions from their own successful growth. With growing integration in the North there is an urgency for acquiring technological capabilities and for the enhancement of competitiveness and productivity in the South.

Among the factors responsible for the low level of Bangladesh's trade with countries in the Asian and Pacific region are high import barriers, inadequate trade financing, complex distribution systems for export cargo, stringent import inspection and certification procedures, high protection, non-transparent restrictions such as administrative approvals and sanitary regulations, small margin of preference and the exclusion of major trade items from tariff concession have all contributed to the stagnation of intraregional trade.

This Seminar will go a long way in bringing about an awareness of the opportunities, complementarities, regional needs and expectations. Both existing institutions and institutional needs for investment promotion will come under review. The recommendations emanating from the Seminar, I am certain, will be most useful for investment growth. I hope, the Seminar will bring about a spirit of togetherness and cooperation for growth and development through the expansion of investment and trade.

I now have the privilege to call upon investors from the developed countries of the region to note that we in Bangladesh are paying foremost national attention to private sector investment both local and foreign. Every possible facility and policy relaxation is being offered. A national ethic towards industrialization and export is catching on. The hospitality is traditional and the change in the economic arena is inevitable. The emergence of Bangladesh in the international market-place as a source of manufactured exports is taking place. We invite your participation and cooperation.

To our Government, Madam Prime Minister, we assure, the relentless effort of the private sector enterprise to live up to the expectations of the nation and remain of service to enrich it. From you we

earnestly seek regular interaction, and determined persistence with the policy of growth through private sector development.

Honourable Prime Minister, Excellencies, Distinguished Guests, Ladies and Gentlemen, may I thank you on behalf of FBCCI, the business community of Bangladesh and on my own behalf for gracing this inaugural session.

Khoda Hafez.

C. OPENING STATEMENT BY MR. RAFEEUDDIN AHMED, EXECUTIVE SECRETARY, ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

Your Excellency Begum Khaleda Zia,
Honourable Prime Minister of the People's Republic of Bangladesh
Your Excellency Mr. A.M. Zahiruddin Khan,
Minister of Planning
Dr. Mohammad Haroonur Rashid,
Secretary, Planning Division, Ministry of Planning
Mr. Mahbubur Rahman, President,
Federation of Bangladesh Chambers of Industries and Commerce
Excellencies, Distinguished Participants,

Ladies and Gentlemen,

It gives me great pleasure to extend to all of you a warm welcome at the opening of the Regional Seminar on Investment Promotion and Enhancement of the Private Sector in Asia and the Pacific, organized by the United Nations Economic and Social Commission for Asia and the Pacific and hosted by the Government of the People's Republic of Bangladesh.

I should first of all like to express my deep gratitude and sincere appreciation to the Honourable Prime Minister of the People's Republic of Bangladesh, Her Excellency Begum Khaleda Zia, for graciously consenting to inaugurate the Seminar in the midst of her pressing duties of State. Your presence here today, Excellency, is an eloquent testimony of your concern and commitment to accelerate the pace of industrial and technological development for attaining equitable socio-economic progress in our region. I am confident that your perceptions on investment promotion and private sector development, the critical elements in industrial and technological development, will provide us guidance throughout the deliberations of the Seminar.

I would also like to express our deep appreciation to the Government of Bangladesh for kindly agreeing to host this important event here in Dhaka. Special thanks in that context are due to H E Mr. A.M. Zahiruddin Khan, Minister of Planning for the personal interest he took in the organization of this Seminar as well as the National Seminar which preceded it. We are gratified that the private sector representatives in Bangladesh, particularly the Federation of Bangladesh Chambers of Industries and Commerce have taken keen interest and participated actively in the preparatory activities as well as in the organization of the Seminar. Our gratitude is equally extended to the Government of the Netherlands for providing generous financial support for this activity.

Honourable Prime Minister,

Excellencies, Distinguished Participants,

During the 1980s, all of us have witnessed wide-ranging economic and industrial policy reforms enacted in developing as well as developed countries to cope with the fast changing regional and global economic environment. Policies and strategies have been re-oriented with liberalization of trade regimes, exchange rate and interest reforms, financial sector restructuring and reforms, with emphasis being placed on export-orientation and human resources development. However, the impact of these policy reforms has varied among countries of the region, depending on the implementation capacity and commitment of the Governments and the response from other organizations and institutions, especially the private sector. It is quite evident that as a result of those reforms and other flexible measures, the newly industrializing economies and the Association of South-East Asian Nations (ASEAN) have been more successful in accelerating the pace of industrial and technological development and in integrating economic activities at the regional and global levels. The economies of South Asia and Indo-China are yet to move effectively in those directions, at least in improving the implementation capacity of the enacted policy reform measures.

I need not emphasize that the earlier inward-looking and restrictive policy approaches adopted in several countries of the region neither increased the rate of economic and industrial growth significantly, nor improved the competitiveness of the manufactured products. Access to modern technologies was limited and whatever existed became obsolete. In several economies with public sector dominance, opportunities for private sector growth were limited. Availability of investment resources was limited to domestic sources only. Vast human resources could not be utilized efficiently, owing to inadequacy of skills and expertise.

It is gratifying to note that countries of the region have now realized these inadequacies and have attempted to meet them through new economic measures. In this respect, the private sector is called upon to assume increasing responsibilities and is provided with new opportunities. The Governments have assumed the role of supporting and facilitating industrial development by creating an appropriate environment and providing critical services. Therefore, the shape, direction and degree of the economic and industrial development process during the 1990s and beyond, would largely be determined on the initiatives and strength of the private sector. Furthermore, the capability of nations to attract foreign direct investment and the participation of the external private sector would also depend, *inter alia,* on the confidence and capabilities of the domestic private sector.

Honourable Prime Minister,

Excellencies, Distinguished Participants,

I stressed earlier that the policy reforms aimed at developing an efficient market economy, need to be supplemented effectively by institutional reforms. However, this is lagging behind in several economies of the region. Therefore, there is an urgent need to proceed swiftly in this respect. Foremost in this respect, is the necessity to improve the administrative skills of government employees along with the expansion of opportunities to acquire technical skills for a large section of the population. The empirical evidence from the experience of developed, newly industrializing economies and ASEAN has clearly demonstrated that it is human beings and the skills they command that are the decisive factors in promoting investment and private sector growth. Timely and adequate investment in human capital have yielded higher returns and provided further impetus to industrialization and overall economic growth. The provision of appropriate technical skills has also led to technological development in those economies. It is, therefore, highly essential that knowledge be treated as an important factor in the production process, the provision of which should be given priority through adequate resource allocation, rather than being treated as a residual recipient.

Investment promotion and private sector development would also largely depend on the adequacy and efficiency of infrastructural facilities within the country. The existence of efficient transport and communication facilities are the basic prerequisites. The regular and sufficient supply of energy is another critical factor. The adequacy and efficiency of financial institutions servicing the various types of industries as well as the parts of the nation, is another crucial element not only in mobilizing financial resources and domestic savings but also in promoting investment. These along with the Government's commitment and stability in policy measures would be necessary in winning the confidence of the private sector. Furthermore, the success of the new approach of balancing the respective roles of the public and private sector, would also depend on the evolution of a national consensus with the participation of all sections of the national society.

It is pertinent to note that countries and regions are competing for investment resources available at the global and the regional levels. As many economies of the region begin to liberalize and open up along with Eastern and Central European countries, competition in attracting FDI intensifies. In this situation, economies and individual entrepreneurs need to be more efficient with high quality factor inputs and marketing prospects, both within and outside the countries to attract FDI. Furthermore, liberalization and greater openness among economies also provide opportunities for absorbing exports from each other. In such a situation, the private sector needs to improve its efficiency rather quickly to seize these opportunities. Unless the private sector is able to demonstrate its ability to respond quickly to changing conditions, the prospects for attracting FDI as partners would remain limited.

Keeping these perspectives and prospects in mind, ESCAP has been organizing several activities aimed at investment promotion and strengthening the role of the private sector in industrial and technological development in the region. This seminar is one of those activities. While policy reforms and the provision of support measures are within the sovereign prerogative of individual nations, ESCAP's efforts have been focussed on promoting regional cooperation for increased flows of inter- and intra-regional investments. Moreover, ESCAP aims to provide a forum where government officials and private sector representatives from various countries can together deliberate on problems, issues and prospects for private sector growth and cooperation in integrating industrial and technological activities at the regional and global levels.

In recent years, members and associate members of ESCAP have provided a fresh approach for dealing with related issues through the Seoul Plan of Action for Promoting Industrial Restructuring in Asia and the Pacific. It has also directed the ESCAP secretariat to explore the feasibility of setting up a regional investment information and promotion service (RIIPS) for Asia and the Pacific. The major objective of RIIPS would be to establish a regional network of investment promotion agencies and to encourage the exchange of information regarding prospective investment opportunities in various countries. It would also aim at facilitating the development of export-oriented industries, particularly the small and medium ones. Recently, the Meeting of Ministers of Industry and Technology, held at Tehran in June 1992, which was attended by H.E. Mr. Zahiruddin Khan, also emphasized the need for such services. The secretariat has been cooperating and coordinating with other United Nations agencies and organizations, the United Nations Development Programme (UNDP) and the United Nations Industrial Development Organization (UNIDO), in programmes related to investment promotion and private sector development. We are confident that our efforts will pave the way for greater cooperation among countries and enterprises so that the Asian and Pacific region would be able to sustain and improve its economic and industrial dynamism during the 1990s.

Honourable Prime Minister,

Excellencies, Distinguished Participants, Ladies and Gentlemen,

I am confident that your deliberations on the critical issues related to investment promotion and enhancement of the role of the private sector for industrial and technological development, would be fruitful and result in concrete recommendations both for national and regional level action. We in the secretariat are eagerly looking forward to your valuable suggestions for our future activities in these areas. I assure you that the secretariat stands ready to assist the countries and the private sector in this important endeavour in every possible way.

I wish the Seminar full success and thank you for your kind attention.

D. SPEECH OF MR. A.M. ZAHIRUDDIN KHAN
MINISTER FOR PLANNING
GOVERNMENT OF BANGLADESH

Mr. Chairman,
Honourable Chief Guest, Madam Prime Minister,
Honourable Ministers,
Mr. Rafeeuddin Ahmed, Executive Secretary of ESCAP, our Guest of Honour,
Honourable Members of Parliament,
Distinguished Participants,
Excellencies,

Ladies and Gentlemen,

I am privileged to be with you here today at this important Regional Seminar. The topic of discussion "Investment Promotion and Enhancement of Private Sector in Asia and Pacific" is of great interest and importance to Bangladesh and the region as a whole.

Past economic policies in the subcontinent have not achieved their growth and poverty alleviation objectives. The policy makers and economic thinkers in the subcontinent have already realized that the major reasons for sluggish economic growth in this region are the inward-looking economic approach and over-intervention and control as well as excessive protection of the domestic market. The result is low investment, low exports, low growth and an increase in the number of people living in poverty.

Noted economists in the 1950s and 1960s were projecting rapid economic growth for South Asia. They in fact suggested that South Asia, on average, would grow faster than East and South-East Asia, in view of the fairly developed infrastructure in place in South Asia. But in reality, the opposite has happened. While we were and are endeavouring to base our industrial and economic growth on the practically non-existing savings and purchasing power of our people after consumption stagnated, the Association of South-East Asian Nations (ASEAN) countries achieved phenomenal growth and some of them are today the newly industrializing economies. These countries adopted export-led growth policies, tapping the considerably higher purchasing power of the developed countries while taking comparative advantage of the low cost of labour and other inputs. As a result their export trade expanded very rapidly. It is well known to the economist that trade has the potential of expanding at a faster rate then gross national product (GNP); when it gains a certain momentum it pulls up the GNP. It is a phenomenon in the ASEAN countries which has taken place right in front of our eyes. A glowing example is the Republic of Korea whose per capita income in the mid and late 1950s was equal to that of the erstwhile East Pakistan.

Any viable and sustainable economic and industrial developed process requires substantial savings and purchasing power of the majority people since the savings and purchasing power of the people play a catalytic role in such a development process. Unfortunately the present investment rate in Bangladesh is now only around 12 per cent of the gross domestic product (GDP) compared with 18 per cent in Pakistan, 25 per cent in India and 38 per cent in Indonesia and Thailand. Exports have stagnated at around 7-9 per cent of GDP and manufactured export are also 6 per cent of GDP as compared with 11 per cent in Pakistan, 14 per cent in Sri Lanka, 24 per cent in Thailand and 35 per cent in Malaysia. This declining investment and stagnating exports obviously have a sustantial negative impact on the growth of the economy.

Mr. Chairman,

During the last three decades, some countries of the ESCAP region have achieved remarkable success in transforming themselves into internationally competitive and technologically dynamic engines of the global economy. However, this impressive dynamism conceals uneven industrial growth and performance in the region. In particular, the least developed countries are lagging far behind owing to their fragile infrastructure, lack of resources and obsolete industrial technologies.

In the twilight of this century the major challenges facing the countries of the Asian and Pacific region revolve around sustaining and improving the region's international competitiveness, complementarities, and linking-up of the disadvantaged and less developed economies with the regional and global development dynamism. To meet these challenges, these countries of the region will have to undertake meaningful industrial restructuring, particularly with a view to strengthening and expanding regional cooperation. They must concentrate their efforts on harmonization of their respective policies and strategies in order to sustain industrial and technological dynamism well into the next century.

Growing interdependence among the countries of the region can only unfold newer opportunities for technological and industrial advancement in the years ahead. The Government and private sectors of these countries, in cooperation with United Nations agencies and other international organizations have to work, hand in hand, in promoting their trade and industrial investment, technological flow and overall industrial efficiency. In this context, the speedy and successful completion of the Uruguay Round of Multilateral Trade Negotiations would have a salutary impact.

Developing countries of the region, particularly the least developed countries are making vigorous efforts, almost always at the cost of considerable social and political sacrifices. To follow sound macroeconomic policies, they have to exercise stringent fiscal and monetary discipline, rely increasingly on market forces for efficient allocation of resources and undertake necessary and painful adjustment in their external economic relations including opening their economies to the challenge of foreign competition. All these are being done with a view to creating a favourable climate for investment and industrial and technological cooperation with developed countries and advanced developing countries of the region. While developing countries are making efforts to ensure sustainable development, they are faced with the difficult problem of environmental degradation for which they are only marginally responsible. We seek the understanding of those among us who are more fortunate, so as to overcome the problems of the environment, which have a critical bearing on sustainable economic growth. We appreciate that success in our industrial development efforts requires stability coupled with strong political commitment, injecting new dynamism both to generate growth and sustaining its momentum through fuller and more efficient mobilization and utilization of available human and other resources. Over reliance on the public sector in the least developed countries is now increasingly giving way to an enhanced role for the private sector in their development efforts. Although this process of restructuring is difficult and painful, we must bear through this to create a stable basis for socio-economic development. This is predominantly dependent on harnessing the creative initiative of the people and their effective participation.

Governments can only create a favourable environment for development. In the ultimate analysis it is the people through whose initiative and participation that economic development can take place. Government must move away from its regulatory role to that of supportive role in the economic sector. It has been observed that the countries who followed this path were the ones who achieved sustainable economic development.

It is appreciated that the efforts of the least developed countries alone are not enough. They need moral and material support from the advanced developing countries and the developed countries, particularly of the ESCAP region, to achieve success in breaking the vicious circle of poverty and under development. Regrettably the growth of gross domestic product (GDP) of the least developed countries declined from 0.8 per cent in the 1970s to 0.1 per cent in the period 1980-1988, although the target of the SNPA for the least developed countries was 7 per cent a year. The alarming and dismal performance of these countries on the one hand was due to the unfavourable international trade and economic environment; and on the other to an over-emphasis on inefficient import substitution industries lacking economies of scale and constrained by the limited purchasing power of the people. As a result the decade of the 1980s proved to be a lost decade of industrial development for them.

Mr. Chairman,

From 23-25 January we had a National Seminar on "Private Sector Growth, Technology Choice and Industrial Development of Bangladesh", again jointly organized by the Government of Bangladesh, ESCAP

and Bangladesh Chamber of Industry (BCI) which was participated in by a large number of the members of the business community, academicians, government servants and experts from abroad. The Seminar dealt with various aspects of the issue and focused on some of them that are required to be addressed in order to accelerate the industrial development process in Bangladesh. In this Seminar these issues will be juxtaposed against the experiences of the participating countries so that lessons can be learnt and exchanged to the mutual benefit of the participating countries.

I wish to emphasize that for any policy to succeed the commitment of the planners, the bureaucrats, the entrepreneurs, the politicians and the parliamentarians is required. But to bring forth this commitment it is necessary for all to know and understand what they are committing to and how success can be realized. It is, therefore, important that not only private sector people and bureaucrats be provided with exposure to these experiences of development by East and South-East Asian countries, but this exposure should be provided to politicians and parliamentarians also. It would be appreciated if ESCAP can organize something in this direction.

It is essential to recognize that regional cooperation is mutually beneficial. This benefit arises from the diversity of the region. Certain industrial activities that are not economic in one part of the region may be appropriate for another because the differences in the comparative advantage based on factor endowments. If the productive factors are allowed to move more freely within the Asian and Pacific region, recognizing the potential complimentarities, all countries will benefit.

History teaches us that the rise and fall of civilization is intricately linked to economic growth. The phenomenon which we see in the Asian and Pacific region is not by chance, but is a result of the dynamics of the rising Asian civilization. As such this dynamic force will prevail upon us, and the sub-continent as a whole. The challenge is, whether our political and economic leaders would raise to the occasion to hasten this process.

Thank you Mr. Chairman, and all present here for giving me a patient hearing. I wish the seminar all the success.

Bangladesh Zindabad

E. INAUGURAL ADDRESS BY THE HONOURABLE BEGUM KHALEDA ZIA PRIME MINISTER OF BANGLADESH

Bismillahir Rahmanir Rahim

Colleagues,
Honourable Members of Parliament,
Executive Secretary of ESCAP,
Members of the Diplomatic Corps,
Representatives of Chamber bodies,
Ladies and Gentlemen,

Assalamu Alaikum.

Against the backdrop of the present socio-economic scenario, today's Seminar is, indeed, a timely step. Industrialization is the key to prosperity. For this reason, we have stressed industrialization. Rapid industrialization is possible if the necessary priority is given to the private sector. This is why we welcome today's Seminar.

Bangladesh is an agrarian country with a relatively large population. Agriculture cannot provide employment to this growing population. As a result, the number of landless farmers is increasing day by day. They are migrating to cities for their livelihood. But employment opportunities are limited in the cities too. The situation presents an acute problem for us. Rapid industrialization can be its only solution.

There are many reasons for our lagging behind in industrialization. Industrialization on our part was neglected during colonial days. Wholesale nationalization policy, pursued after Independence, created impediments to investment. The late President Shahid Ziaur Rahman was the first to realize the magnitude of this problem. A denationalization policy was adopted at his initiative. Ceilings on private investment were abolished. Local and foreign investment was encouraged. As a result, a new dynamism was injected into our industrialization effort.

Corruption, mismanagement and anarchy under the autocratic regime brough about stagnation in the industrial sector. We are making relentless efforts to clear this mess and create a favourable investment climate. We have taken in hand a massive programme for structural adjustments in the industrial sector. The National Industrial Council has been constituted to promote investment. The Board of Investment and the Bangladesh Export Processing Zone Authority have been placed under the Prime Minister's Office. "Sick" industries have been identified and initiatives are on to properly rehabilitate them. The necessary infrastructure is being built to establish a free market economy. To top it all, we are implementing a liberal industrial and investment policy which attaches priority to the private sector with special concessions and facilities for foreign investors. These reform measures have earned high commendations from all. In the area of investment, our industrial policy has been acclaimed as the most liberal one in South Asia. Employment, investment and exports have increased substantially in our export processing zone.

Some more programmes have recently been announced to accelerate investment in the private sector. Interest rates have been reduced. Commercial banks have been instructed to open a new credit line of taka 2000 million for loaning out within a five month period. Necessary amendments are being brought about in the Company Act. Two more export processing zones will be established at Dhaka and Khulna. Necessary legal steps have been taken to ensure continued peace, stability and discipline. To ensure the rightful role of the private sector in national development, the establishment of a private sector commission is under our active consideration. We are making all out efforts to eliminate red tapism in the area of investment.

Promotion of small and cottage industrial is the main feature of our industrial policy. Many countries achieved prosperity through the development of small and cottage industries. In the present context, we will also have to follow the same path. New entrepreneurs will have to be identified. They will require the necessary training and information. I urge upon the chamber bodies to take the necessary initiatives in this regard.

Alongside industrialization, we have also attached priority to the modernization of agriculture. The canal digging programme launched by Shaheed Zia has been reintroduced and has proved to be a success. We have also strengthened the implementation of the family planning programme. We are keen to create a sound and organized labour market.

Successful industrialization, to a great extent, depends on appropriate technology. We will therefore, have to pay attention to innovation and the transfer of environmentally sound technology. We have to keep a vigil on the preservation of our environment. Equal attention will have to be paid to the creation of employment opportunities for women. Our women have already proved their skill as an efficient workforce. Their role is central in the remarkable success of our ready-made garment industries.

The Asian and Pacific region has achieved revolutionary progress in the field of industrialization. Japan is in the lead followed by the Republic of Korea, Taiwan Province of China, Hong Kong and Singapore. Malaysia and Thailand are joining the march. We also have to follow their example and march ahead. In the not too distant past, their economic conditions were no better than ours. They have gradually become industrialized by encouraging the private sector and through the establishment of small and medium industries. We also have the same prospects.

Ladies and Gentlemen,

The organization of today's Seminar is a welcome step. For this, I congratulate ESCAP and the Federation of Bangladesh Chambers of Commerce and Industries. I am sure the valuable exchange of views, ideas and experiences through this Seminar will greatly inspire and enrich our entrepreneurs. Poverty is our main hurdle. Our social equilibrium and the future of our newly earned democracy largely depend on the effective elimination of poverty. Rapid industrialization is the panacea to elimination of poverty. I therefore, call upon our entrepreneurs to play a pioneering role in bringing about momentum in our industrialization process.

Finally, I thank you once again and declare the Seminar open and wish it all success.

Khoda Hafez
Bangladesh Zindabad

ANNEX II

PROGRAMME OF THE ESCAP/GOVERNMENT OF BANGLADESH REGIONAL SEMINAR ON INVESTMENT PROMOTION AND ENHANCEMENT OF THE ROLE OF PRIVATE SECTOR IN ASIA AND THE PACIFIC

PROGRAMME OF THE INAUGURAL SESSION

Tuesday, 26 January 1993

0945 hrs	Guests and participants take their seats.
1000 hrs	Arrival of the Chief Guest.
1001 hrs	Recitation from the Holy Quran.
1005 hrs	Address of Welcome by **Dr. Mohammad Haroonur Rashid** Secretary, Planning Division Ministry of Planning
1015 hrs	Speech by **Mr. Mahbubur Rahman** President, FBCCI, Chairman, Inaugural Session.
1025 hrs	Speech by the Guest of Honour **Mr. Rafeeuddin Ahmed** Executive Secretary, ESCAP.
1035 hrs	Speech by Special Guest **Mr. A.M. Zahiruddin Khan** Honourable Minister for Planning Government of Bangladesh.
1045 hrs	Inaugural Address by the Chief Guest **Begum Khaleda Zia** Prime Minister Government of the People's Republic of Bangladesh.
1100 hrs.	Vote of Thanks by Acting Chief, IHE Division, ESCAP.

PROGRAMME OF WORKING SESSION

Tuesday, 26 January 1993

1120 hrs	Election of Officers Chairman: 01 Vice Chairman: 03 Rapporteur General: 01
1130 hrs	Elected Chairman is invited to the Podium.
	WORKING SESSION - I
1140 hrs	Remarks by **Mr. Charles H. Larsimont** Resident Representative, United Nations Development Programme, Dhaka.
1150 hrs	Programme overview Acting Chief, Division of Industry Human Settlements and Environment, ESCAP.
1200 hrs	Study on investment promotion policies and perspective in Asia and the Pacific. Presentation and discussion **(Prof. F. Alburo).**
	WORKING SESSION - II
1400 hrs	Role of ESCAP in foreign investment promotion. Presentation and Discussion (Led by ESCAP)
1600 hrs	Presentation of the recommendations of the National Seminar on Private Sector Growth, Technology Choice and Investment in Industrial Development of Bangladesh.

Wednesday, 27 January 1993

	WORKING SESSION - III
0930 hrs	Country presentation on analytical review of investment policies both foreign and domestic (participants).
	WORKING SESSION - IV
1400 hrs	Country presentations on institutional and infrastructural mechanisms including incentives (participants).

Thursday, 28 January 1993

	WORKING SESSION - V
0930 hrs	Country presentation on the role of the private sector in promoting foreign investment.
	Continuation of discussions on the role of the private sector in promoting foreign investment.
	WORKING SESSION - VI
1400 hrs	Country presentation on technological choices: problems, constraints and prospects for private sector.

Friday, 29 January 1993

	WORKING SESSION - VII
0930 hrs	Open discussion: Drafting of recommendations.
	WORKING SESSION - VIII
1600 hrs	Closing of the Seminar.
1830 hrs.	Cultural show at Nazrul Institute, Dhanmondi.

ANNEX III

LIST OF PARTICIPANTS

LIST OF PARTICIPANTS

BANGLADESH

Dr. Mohammad Haroonur Rashid, Secretary, Planning Division, Ministry of Planning, Dhaka

Dr. M.I. Talukdar, Division Chief, Industries Division, Planning Commission, Ministry of Planning, Dhaka

Mr. A.B.M. Siddique, Joint Chief, Economic Relations Division, Ministry of Finance, Dhaka

Dr. S.Z. Majumdar, Division Chief, Planning Division, Ministry of Planning, Dhaka

Mr. Mahbubur Rahman, President, The Federation of Bangladesh Chambers of Commerce and Industry, Dhaka

Mr. S.H. Kabir, Managing Director, Pfizer Laboratories, Dhaka

Mr. M. Yunus, M/s. Howlader Yunus & Co., Dhaka

Mr. Syed Rezaul Karim, Managing Director, Hoechst (Bangladesh) Ltd., Dhaka

Mr. M.H. Rahman, Managing Director, Arenco Trade Ltd., Arenco Paribahan Ltd., Dhaka

Mr. A.K.M. Shamsuddoha, Managing Director, M/s. Associated Services, Dhaka

CHINA

Mr. Luo Yunyi, Division Chief, Institute of Investment, State Planning Commission, Beijing

Mr. Li Yingji, Director, Associated Professor, Department of Economic Cooperation with Foreign Country, China Association of Industrial Economics, Beijing

INDIA

Mr. J.M. Mauskar, Director, Ministry of Commerce, New Delhi

Mrs. S. Bhawani, Director, Department of Industries, New Delhi

INDONESIA

Mr. Firdaus Abdullah, Head, Sub-division of Investment Agreement, Bureau for Overseas for Investment Promotion, Jakarta

REPUBLIC OF KOREA

Mr. Suk-In Kang, Director, Foreign Investment Policy Division, Ministry of Finance, Seoul

Mr. Jay-Min Lee, Associate Professor of Economics, Yonsei University, Seoul

MALAYSIA

Mr. Syed Amin Aljeffri, Central Committee Member, Malay Chamber of Commerce, Kuala Lumpur

NEPAL

Mr. Bimal Prasad Koirala, Joint Secretary, Ministry of Industry, Kathmandu

Mr. Mahesh Lall Pradhan, President, Federation of Nepalese Chambers of Commerce and Industries (FNCCI), Kathmandu

PAKISTAN

Mr. Addul Jabbal, Additional Secretary, Ministry of Finance, Islamabad

SRI LANKA

Mr. H.B. Masinghe, Director (Promotion), Board of Investment of Sri Lanka, Colombo

THAILAND

Mr. Phairot Sompouti, Director, Investment Promotion Division III, (Light Industry), Board of Investment, Bangkok

Mr. Somkit Kunthamas, Director, Thai Chain Group of Industries, Bangkok

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