

# Session 4

## International Cooperation among Industries

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## **Ian Davies**

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As UNIDO Country Director for both China and North Korea, and having been closely involved in investment-related developments in the Tumen River area for over two years, I was invited by the organizers to start off this session with an outline of the kinds of activities UNIDO is undertaking to promote international cooperation among the industrial enterprises in Northeast Asia.

UNIDO is active in China and North Korea in providing technical assistance at the request of these two governments, in the areas of industrial technology transfers, upgrading of industrial institutions, and foreign investment promotion in industrial and infrastructure enterprises. Everyone is familiar with the UNDP Tumen River Area Development Programme, but few, I believe, are aware that UNIDO has an active program in support of the UNDP efforts in the Tumen River area and that we are organized around the practical activities, actions, and results in investment promotion and in the improvement of the investment environment in the area. We feel that all our activities in the mainland of Northeast Asia will have, in the near future, important implications for cross-border trade and investment. We also believe that the west coast business communities of Japan will have a key role to play in this process as providers of capital to small and medium-scale investments in the mainland area and as a major market for these new joint venture enterprises, especially in the areas of light industrial manufactures and food products.

UNIDO recognizes the major commercial impact that the new railway and port facilities now under construction and design in the Tumen River area will have on the diversion and growth of international trade in the region surrounding the Sea of Japan. This trade is particularly driven by Northeast China's Jilin Province, although the potential for the further expansion in the volume of trans-Siberian trade and transit trade using Zarubino Port and Rajin Port in North Korea is also substantial, particularly in the areas of metallurgical products, timber, fertilizers, coal, and alumina. But it is substantial only if freight rates on the trans-Siberian railway return to competitive levels.

UNIDO also recognizes the impact that the new communication facilities will have on attracting manufacturing investment and tourism into China's Yanbian Korean Autonomous Prefecture and North Korea's Rajin-Sonbong zone. Most of these infrastructure activities are well under way and will be completed this year and next year. These investments will also bring considerable benefits to the port and shipping businesses and the communities of Russia's southern Primorsky Territory and its Khasan region.

UNIDO's role in support of the UNDP in this area is focused on investment promotion at the enterprise and project level, but it has and will continue to include training. Our training programs have been aimed at harmonizing regulations and reducing barriers to cross-border trade, finance, and investment, and generally at improving the business and investment climate in Hunchun and Rajin-Sonbong, ultimately making these two areas more attractive to foreign investment. Training has been primarily directed to North Korea's Rajin-Sonbong authorities and in building a capacity in North Korea to support an efficient foreign investment administration in the Rajin-Sonbong zone. It has taken the form of inviting North Korean officials to

examine the enabling legislation, the investment incentives, and investment institutions in China's and Southeast Asia's investment and special economic zones. These programs of assistance to the North Koreans are expected to result in a series of integrated promotional projects later this year and next year aimed at promoting the Rajin-Sonbong zone internationally and promoting about fifty individual investment projects in the zone.

Our most important activity, however, commences next month and will provide assistance to Jilin Province's Yanbian Korean Autonomous Prefecture government in promoting internationally the prefecture, and Hunchun in particular, as ideal investment locations. More specifically, it is aimed at identifying, screening, and profiling seventy industrial and infrastructure projects and promoting these projects through UNIDO's international investment network. In this region we will be drawing on the assistance of UNIDO's Investment Promotion Service offices in Tokyo and Seoul, and we will concentrate the bulk of our promotion efforts in Asia, stretching from Japan to Singapore.

After the screening of these seventy projects by our industrial and financial specialists and their promotion abroad, we will draft and publish a new investment guide for Yanbian. We will arrange for a Yanbian investment promotion mission to visit Japan and other Asian countries in June 1995. We will locate a Yanbian investment expert in UNIDO's Investment Promotion Service offices in Japan and the Republic of Korea in July and August. In mid-October, we will hold a major investment and negotiation conference in Yanji, capital of Yanbian, to bring potential foreign partners and Chinese enterprises in Northeast China and Yanbian to discuss investment and trade opportunities. This conference will then be extended to the city of Hunchun, on the Sino-Russian-Korean border, where business people will be able to examine investment conditions in the special Hunchun Border Economic Cooperation Zone. Plans are being discussed to have one-day business tours from Hunchun to inspect Zarubino and Posyet ports in Russia and Rajin-Sonbong in the DPRK.

In holding such an investment meeting, we intend to invite business and government delegations from Primorsky Territory and from the DPRK's Committee for the Promotion of External Economic Cooperation in order to try to expand business contacts at the subregional level and provide greater opportunities for more integration of businesses on either side of the border and improve understanding among business communities.

In conclusion, UNIDO is hoping to involve Niigata Prefecture and other west coast prefectures and cities in the Yanbian promotional program, and we have already taken advantage of this conference to hold talks with the Niigata prefectural government and with ERINA about their participation in the Yanbian promotional mission due in Japan in mid-June this year. We hope that through activities of this nature we can make a very cost-effective, positive impact on enterprise-to-enterprise cooperation and boost overall commercial understanding and trade across the Sea of Japan.

## **Nicholay V. Pimenov**

*Deputy Governor  
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The Russian economy is moving from a centrally planned economy to a market economy. Primorsky Territory needs cooperation with other countries, particularly foreign aid and capital. With regard to the future outlook, for development of the Far Eastern region of Russia, the capital we have is very limited, so it is important for us to attract foreign entities, to attract foreign capital. The amount needed is not large at present, but the situation is changing gradually. Since 1994, last year, the investment market in the Far East has changed a great deal. T

Keidanren has been very active in this area. Toward the early part of July 1994 the Keidanren's Japan-Russia Economic Committee's Far East Subcommittee sent a delegation to Far Eastern Russia. It was a very big delegation; thirty-two major corporations sent seventy executives to the mission. There were sixteen development projects submitted by the Russians totaling US\$23 billion. A memorandum was signed, and the ensuing Japan-Russo Central Governors' Conference confirmed the contents. In the Japan-Russo Central Governors' Conference, the Far East Subcommittee's results were reported and a working group was formed, and Russians participated in various projects. The following projects have been named. First, coal open-pit mining at Sonsevsk in Sakhalin, and the coal-producing area in Alexei Nicholaisk in Primorsky, and also the development of Khasan Port, and the development of Vanino Port and Sovietskaya Guberny Port in Khabarovsk. With cooperation from the Far Eastern Subcommittee of the Japan-Russo Economic Committee, the Nissho Iwai and Mitsui and Company are pursuing four possible projects. These represent the development of natural resources.

To attract foreign capital, the Russian Federation has taken several actions. On September 21, 1994, it passed legislation to improve the legal structure and attract foreign capital. Also last year, on December 15 and 16 in Khabarovsk, an important conference took place. The Council on International Affairs for the Russian Federation and the Interregional Council cosponsored a meeting to talk about security and Russian participation in regional affairs. In Primorsky Territory, a seminar attracted the participation of the top managers of a number of companies from Korea. These are some of the companies that are already in operation in this part of the world, and the Regional Conference of Far Eastern Businesses sponsored the meeting. The development of energy and fuel was one of the projects discussed.

How can Russia participate in the economic integration in this area? First, active bilateral cooperation is called for. I'm talking about economic cooperation in Northeast Asia, but there has to be cooperation from Japan and South Korea. There are now four hundred joint ventures between Russia and the Asia-Pacific region. In 1993 the amount of trade by Russia was \$22 billion. In 1994, compared with the earlier year, the value of trade decreased by 8 percent, but with regard to trade with China, there was a decline by 37 percent.

Next, I would like to talk about the trade potential in the Russia and Northeast Asian border area. Russia is pressing international cooperative projects: Tumen River, Grand China, and the Japan Sea Economic Zone. Russia is ready to participate actively in these, but with regard to the TRADP some things have not yet been made specific. On behalf of the authorities, for Russia to participate in international

projects, we need to secure capital and other points before we can participate in these. I would like to emphasize this point.

We also emphasize the export of high-tech products and exports from the former military industries, and we have to change the structure of exports.

In the Asia-Pacific region, economic and social cooperation has been pursued by ESCAP, of the UN network. We would like to facilitate cooperation with this organization so that we can participate in the trade network and the information network in this part of the world.

As far as Far Eastern Russia and Primorsky Territory are concerned, there are natural resources and there is high economic potential. Primorsky Territory can be a contact point for various markets in the Asia-Pacific region, a sort of pioneer for entering into other parts of the region.

One of the characteristics of Primorsky Territory is the well-developed transportation network. With regard to the density of trunk transportation routes per 1,000 km<sup>2</sup>, it surpasses the Russian average. With regard to seaports, 80 percent goes through the ports in Primorsky, and there are ten ship repair docks and many ports. Throughout the year such ports as Vladivostok, Nakhodka, and Vostochny can be used. Niigata and Toyama in Japan are connected by regular routes, and a number of air routes as well as international regular routes are planned for operation.

In the Far East many consulates-general are already open. In 1994, in Primorsky Territory, various international seminars, shows, and meetings were held. In February the modern art seminar was conducted, and in September a new education seminar was held. In Vladivostok, a bankers' meeting was also held. At present, the Russian Far East's economy is shifting. Various advantages have already been taken. To support corporate activities, we now have a fund to look at the production of the non-state-owned industries, and 70 percent of the goods are produced by non-state-owned industries. The financial mechanism is under development, and the financial markets are playing roles. The securities market and the national bond market are operating, and there is a foreign exchange market. In Primorsky Territory a deposit organization is already in operation, and a mortgage fund is being operated. The authorities in the Primorsky Territory are looking at the next ten years from 1995 to 2010 to compile a planning strategy to look at the interests of this region.

## **Kim Chang-dal**

*President*

*Korean Technology Banking Corporation*

### **"WAYS TO FACILITATE COMMERCIALIZATION THROUGH TECHNOLOGICAL COOPERATION IN THE NORTHEAST ASIA REGION"**

As we face together new challenges and opportunities in this era of rapid globalization, it is essential to move forward with a clear vision of the future. Today, I am honored to have this opportunity to offer you a view of the future as I envision it, a view that calls for closer cooperation in the Northeast Asia region.

This region possesses unique qualities that permit effective economic and technological cooperation. Therefore, each economy is able to play a complementary role. Japan has abundant capital and state-of-the-art technologies, while Korea has considerable capital and technical expertise. In turn, the other countries within the region all have distinctive characteristics that make them ideal for interregional cooperation.

In this era of never-ending competition, the key to a nation's survival would be to strengthen its industrial competitiveness. I am sure all of you will agree that technological competence is the basic factor that determines industrial competitiveness. However, achieving this will require a long period of time and a gradual accumulation of technology. Therefore, a tremendous amount of effort into R&D and technology import would be inevitable.

People today generally agree that technology transfer is indispensable. However, there have been delicate controversies on the subject due to differing viewpoints. Such phrases as "technological subordination," "free riding," and "boomerang effect" have been used to criticize technology transfer. In this era of globalization, it is necessary to understand technology transfer as a virtuous cycle. We can relate this concept as the "spring effect" of technology transfer. Just as a spring is always automatically replenished, active technology transfer means increasing technological innovation from a developed country's standpoint. This will maintain the technology "spring" through continuous demand pull and R&D push. Likewise, the country that is importing the technology can digest and strengthen its technological competence and eventually increase the production of new products.

Technology development strategies do not merely depend on a company's technological capability and willingness to pursue development. The environment that fosters technology innovation, especially the relationship with the technology leader, is also important. The possessor of technology considers technology transfer when there is a huge gap in the level of technology. However, the technology importer may not readily have the capability to absorb and digest these technologies. Korea, in this respect, is in a very good position both geographically and technologically to act as an intermediary between Japan and other developing countries within the region.

Economic cooperation in the Northeast Asia region should be based on international specialization, which begins with the consolidation of accumulated capital and technologies with natural and human resources. Likewise, the pattern for technological cooperation in the region should have a vertical framework of technology specialization as its base and at the same time pursue a form of horizontal specialization. Traditional technology transfer methods such as licensing and foreign

direct investments can be utilized when laying the framework for horizontal technology specialization.

The establishment of vertical technology specialization that encompasses the technologies of Japan, Korea, and other countries in the Northeast Asia region would allow companies to mutually supplement each other. In addition, we can understand the establishment of such a framework as part of a global management strategy where companies actively try to achieve economic efficiency by ideally allocating their managerial resources.

Vertical specialization has to be implemented with technology-related strategic alliances that are oriented toward fostering horizontal specialization. It is virtually impossible for a company to maintain its leading-edge status in all areas of technology. Therefore, a strategic alliance is an ideal strategy to avoid a "zero sum" or "negative sum" result. A strategic alliance usually requires each partner to possess distinctive competence in a certain field in order to mutually supplement the other. In the past, these alliances were formed mainly between large companies in the advanced countries. Therefore, it would be necessary to maximize the effects of the strategic alliances by broadening its definition and by efficiently consolidating the technologies with comparative advantages within the region.

When referring to these types of technology relationships, we should pay special attention to the role of small and medium-sized enterprises (SMEs). Numerous SMEs possess a high level of technological competence and are confidently taking part in strategic alliances formed mainly between large companies. As John Naisbitt noted in his book *Global Paradox*, "small companies will play a greater and more powerful role in the world economy as national economies merge into unified global markets." Such strengthening of the role of SMEs is expected to increase over time.

The fundamental objective of technological cooperation lies in competitive commercialization. Therefore, I would like to propose two ways of promoting competitive commercialization within the Northeast Asia region. First is the formation of an information pooling center (IPC). There are countless numbers of companies within this region. If technological cooperation were to actually exist, these companies would have to take a proactive stance. However, a steady flow of information is a prerequisite for active cooperation. Since what each company needs and is able to supply differ, an IPC is necessary to link these needs and supplies through a network. In addition to technology information, the IPC should provide market information to increase a company's probability of success and provide direct consultations in the fields of technology and finance.

Governor Hirayama mentioned the formation of a Northeast Asia regional information exchange system. Mr. Shishido of ERINA also proposed the establishment of an information network system in the region. I was highly encouraged by their views. The Korean Technology Banking Corporation (KTB) has realized the importance of technology transfer and the need to support the commercialization of technologies. Hence, we have opened the Center for R&D Commercialization, which facilitates the effective transfer of R&D results from research institutes to industries. We are also in the midst of establishing the Technology Planning Information Center, which will provide information pertaining to markets and new technologies as well as financial support to businesses. Furthermore, as the current chair organization of several international organizations such as the World Federation of Development Planning Institutes, the Association of Development Financing Institutes in Asia and the Pacific (ADFIAP), and the National Research Development Organization, KTB is receiving considerable help with respect to accessing information and global networking. As an

example, such a global cooperating structure assisted KTB to successfully establish an industrial adhesive manufacturing joint venture in Indonesia. This company, P.T. Aristek Highpolymer, was formed with one of our local client companies and the Indonesian partner, P.T. Amindo, which was introduced to us by ADFIAP. In addition, we were also able to obtain direct equity from an Indonesian venture capital company, P.T. BPUI, which is also a member institution of ADFIAP.

My second proposal is to raise funds to facilitate commercialization of technologies produced in the region. Adequate funds are necessary for technological cooperation to blossom into commercialization, and I believe funds from the private sector would be more effective. With this in mind, there is a need to draw the attention of financial institutions within the region such as venture capital companies. We also must actively support the establishment of a Northeast Asia Development Bank and, as Dr. Sung Sang Park proposed, a Tumen River Development International Commercial Bank to fill the gap until the NEADB becomes a reality.

If these kinds of financial institution are established, a small proportion of the available funds might be used for the commercialization of regional technologies. It is my hope that such funds would be used to render special support for technological cooperation-based commercialization, especially in supporting the strategic alliances of technology cooperation projects to succeed, fostering more technological cooperation, and raising more capital. This mechanism will work because of the tendency for private capital to accumulate in successful business projects.



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Northeast Asia is a region with abundant and diverse natural resources on a large scale: many varieties of metal and non-metal mineral resources, abundant fresh water supply, forests, and wildlife. Each region within Northeast Asia has its own strengths and weaknesses. There is a high level of complementarity among these differences, so there is ample room for cooperation among the different countries.

Tumen River area development is a realistic choice for development cooperation. Various scholars have conducted studies and come up with proposals for the establishment of free economic zones. Concerning such proposals, we should take into consideration the realistic circumstances existing within the region. With regard to development of the Tumen River area, there are certain conditions which must be fulfilled. First, the governments within this area need to support this idea strongly, and under the coordination of the UNDP the governments must try to conclude an agreement in order to activate this project. Second, various countries within the region must act on the principle of mutual economic benefit. Third, an overall development plan needs to be formulated and implemented step by step.

The construction of infrastructure is of utmost importance, and considering the distribution of resources it is necessary to try to develop processing industries. International collaboration on the Tumen River area is necessary. We need to open up the route of the Tumen River into the sea, and we need to link up land transportation with water transportation so that we will be able to create an economic cooperation area in Northeast Asia.

China established an Authority responsible for Tumen River area development in 1993. The PRC government is strongly supportive of this project. Chinese enterprises must be further reformed so that international cooperation between Chinese enterprises and overseas enterprises can be enhanced. Presently, the PRC is trying to step up economic reform to open its markets. It is now trying to make a transition from the central command economy to a market economy. We are especially trying to establish a modernized form of company. Modernized companies would have mass production methodology, and they must try to link up the domestic and international markets. Enterprises should become the major players. There must be division of labor and separation between the government and the private sectors.

Compared to the previous command economy, there are basic differences. First, the enterprise is the major player within the market and must abide by the rules of the market, and not plan production according to the instructions of government. The development of the company should be driven by the market. Second, the organization and the management methodology of enterprises should be according to laws and regulations. The operational efficiency of enterprises must be raised so that there will be a high degree of adaptability of such enterprises to domestic and international situations. That means that enterprises must take into consideration international factors and determine how they can survive in the context of competition from overseas.

Chinese enterprises should try to step up joint ventures with overseas companies, and in order to enhance collaboration in Northeast Asia there are several measures that can be taken. First, China is an agricultural power, so to other

Northeast Asian countries China should try to export agricultural products of high value. China must, of course, produce and distribute food for its 1.2 billion citizens. Cultivated land in China is quite extensive, and the quality of land is also quite good. Over the past few years, marketing, production, and so forth have been streamlined and integrated and have been organized into enterprises. Some of these have established joint ventures with overseas companies, and agricultural products have been exported to overseas markets. Such collaboration between Chinese and overseas enterprises should serve to raise the efficiency of production. Biotechnology can be applied in order to raise quality of such crops and also to raise the level of added value.

Second, as the largest developing country demanding capital and technology, China should provide more opportunities for foreign investment. Since the policy of reform and market-opening measures, considerable foreign capital has been introduced into China and accelerated China's economic and social development. Northeast China was the first area designated for infrastructure construction. Cross-industry output value for China in 1993 in this area reached 522 billion yuan, of which 85 percent was contributed by heavy industry. The main products of heavy industry include iron, steel, petroleum, coal, machinery, and power generation, accounting for more than 20 percent of the whole nation's output. However, technological improvement is required for many of the old-fashioned state-owned enterprises.

Dalian City was one of the earliest cities to develop an open-door policy, whereas most areas of Northeast China began to open up after 1988. So it must try to take advantage of the fact that this region happens to be a laggard. There are various development areas set up in Northeast Asia: the High Technology Development Zone, four Boundary Economic Cooperation Zones, and seven High and New Technology Development Zones. Such development zones were established based on the market mechanism, and therefore the restrictions existing vis-à-vis foreigners there are quite limited. Foreign investors should be able to find appropriate partners in these areas. Since the land area in China is quite extensive, this is really a desirable destination for investments.

Cooperation between China and other countries in Northeast Asia is multifaceted. Joint ventures are possible, as are transnational corporations. Of course, multinational corporations are limited in number at the moment, but to establish the Chinese modern enterprise the number of multinational companies should go up. Northeast Asia has a large number of big businesses and therefore would be a good place in which to establish multinational companies.

There are many small and medium-size enterprises in Northeast China as well, and of course it is important to step up cooperation with small and medium-size enterprises in the rest of the region. One way of doing this is for Japanese and other foreign experts to be invited to China so that they will be able to evaluate existing enterprises. A second way is for industrialized countries to provide funds and technology so that the small and medium-size enterprises can raise their value added. A third way is training vis-à-vis employees. A fourth way is by providing information. This is important.

In China an office has been established for the small and medium-size enterprises which provides various types of economic information. It serves as a pipeline between Chinese and non-Chinese companies, and foreign companies can rely on this authority.

Last but not least, companies from Japan, Korea, and other economies should visit Northeast China, and especially the Tumen River area, to find opportunities for investment. We welcome such visits.

## **Monte Kashim**

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### **"THE BISS ALTERNATIVE: ANTIDOTE OR PANACEA?"**

#### **Background: Territorial vs. Network Integration**

The current tendency in the Asia-Pacific region, in regard to promoting cross-national trade and investment, is to consider the delineation of free trade areas (e.g., AFTA), forums for discussing economic exchange and cooperation (e.g., APEC, EAEC), or spatially contiguous international development projects (e.g., growth triangles in ASEAN, the TRADP in Northeast Asia). All of these share the feature that they are territorially delineated attempts at integration.

Proponents of such territorially integrated blocs, irrespective of whether they are large or small, argue that these are preliminary steps toward the ultimate realization of a truly integrated borderless world economy. Opponents insist that territorially integrated blocs will breed a fortress-like mentality, with the benefits of integration going to those within, and will result in the less favorable treatment of nations and peoples outside the territory. It must be admitted that large economic blocs can yield a certain political leverage in bargaining internationally. However, the bloc is also likely to internalize inefficiencies and may be slow to respond to changes of significance which occur outside the bloc.<sup>1</sup> In this regard, the growth triangles and the international development project areas mentioned above have the advantage of being small and, therefore, more manageable experiments in promoting cross-national economic exchange. Their very smallness facilitates dismantling or modifying arrangements in response to changing circumstances, when compared with larger territorial units. However, they too are fundamentally based on territorial delineation made with the objective of achieving integration. Is there an alternative to territorial integration?

Given the opportunities offered by the telematics and logistics revolution in recent years, network integration of several smaller nodes or (subnational) regional entities is a possible alternative paradigm for promoting cross-national economic exchange. The Business Information and Support System (BISS) concept, which is currently entering the implementation phase after some years of testing, can be seen as an example of a network integration-based alternative.

#### **What Is BISS and What Are Its Objectives?**

BISS can be viewed as the business infrastructure that facilitates cross-national economic exchange (investments and purchases) among small and medium-sized enterprises and local producer associations (farmers' cooperatives, craft associations, etc.). It is a network of nuclei which can be integrated nationally and cross-nationally. In selecting the nuclei, special (although not exclusive) consideration is given to middle to lower-middle level regions, in terms of economic strength.

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Extracted and adapted from Kashim, "Laying the Foundations for Lasting Prosperity in Asia: Possibilities Offered by Network Integration through BISS," Ritsumeikan University-American University Joint Seminar, 1-12 November 1994, Kyoto, Japan.

Each nucleus may be of either public or private sector origin, and they are bound together by virtue of subscription to shared ideals. These ideals, which may also be described as the objectives of BISS, are as follows: The establishment of a business infrastructure that will

a. facilitate cross-national and national economic exchange among small and medium-sized enterprises and local producer associations;

b. serve to mitigate the inequities and diseconomies that currently prevail in the world's economic environment and strengthen the bargaining power of the weaker elements;

c. have an egalitarian ethic that will guide relationships among partner nuclei in the network and work toward the mutual benefit of all participating nuclei;

d. promote a sustainable form of economic exchange that is both environmentally and culturally sensitive.

### **The Organization and Structure of BISS Nuclei**

The BISS network is integrated through transaction-centered dialogue, which leads to the exchange of mutually beneficial business information among the participating nuclei. Information at each nucleus is organized in the form of a data base that is built up as transaction-centered exchange proceeds. The BISS Data Base (BISS D-Base) is managed by a core consulting unit (BISS CCU), which has around it a network of resource persons from various specialist disciplines, from whom advice is sought when necessary.

The BISS D-Base attempts to overcome the current lack of information on investment and transaction opportunities at the subnational level. There is also a lack of "real-time" information about the needs and operations of small and medium-sized enterprises and local producers. The transaction dialogue-based approach to data base development mitigates the build-up of information dead load, which could paralyze the information system over time. Broadening the narrow range of choices available to interested entrepreneurs at the pre-feasibility stage of cross-national investment or trade is one of the purposes of developing this data base.

Major data base components are likely to be (a) firm/producer association profiles; (b) investors'/buyers' needs; (c) investment/foreign trade promotion incentives; (d) key persons and institutional resources; and (e) supporting environmental factors, including resources, infrastructure, local business practices, and so on.

However, this data base does not come alive until it is put to good use by the BISS CCU staff. They provide the "human face" behind the information, which a two-year study preparing for the implementation of BISS indicated as important. Their principal task is to provide the "advisory and consulting bridge" desired by entrepreneurs using the BISS network. A core staff capacity of 3-5 persons appears to be adequate, provided the CCU can commence with telephone/facsimile exchanges. Later, it could take place through telematic networks (such as Internet).

### **Landmarks in the Evolution of BISS**

Landmarks in the history of establishing BISS go back to 1987, when the United Nations Centre for Regional Development (UNCRD) established its Industrial Development Unit (IDU). Between 1987 and 1989, preliminary studies were conducted on (subnational) regional economic transformation against a background of global change. The studies covered Asia, North American, and Western Europe.

These findings tell us, in essence, that (subnational) regional economic development can no longer be viewed only within the national policy framework and needs to take the international dimension into consideration. This message was transmitted to developing countries in the Asian region through two seminars (the ASEAN Roving Seminars) held in Malaysia and Indonesia between 1990 and 1991. These awareness-building seminars concluded that there was a need to establish some form of network for promoting cross-national regional economic exchange. How? becomes the key question, and this marks the end of the preparatory stage (1987-91).

In the next (pre-implementation) stage, the seeds of the BISS concept emerged. In 1991, the focus on small and medium-sized enterprises and local producer associations was determined and the first investor survey conducted in 1992. Armed with responses from 225 firms in a less-developed Japanese prefecture, the BISS concept was charted in and discussed both in Japan and overseas through a series of small seminars. Broad consensus was gained for the concept and a seminar to discuss the establishment of BISS nuclei in the developing countries of Asia was held in October 1992. This marked the turning point as six countries—China, Indonesia, Malaysia, Philippines, Thailand, and Sri Lanka—came up with concrete proposals just six months later in March 1993. Around this time, a second, more extensive investor needs survey was conducted in Japan. This time it covered twenty-eight of Japan's forty-seven prefectures and received responses from nearly three thousand firms. These findings provided many hints for identifying the nature of BISS services, were shared among the interested country representatives, and culminated in discussions on how to actually implement BISS in each country.

In the meantime, ideas were drawn from several quarters. The modalities for network integration which would strengthen the bargaining power of the weak were drawn from the "Farma" network and the Minami Kinki Regiphone Centre. In both cases, weak, independent elements joined in a network to strengthen their position vis-à-vis strong business counterparts with whom they had trade. The analysis of point-of-sales (POS) information provided the key to strengthening the bargaining position of the weak. The critical question for BISS became how the system could receive such a steady and vital stream of real-time information. A hint came from the Dial Technology Programme of the University of São Paulo (USP).<sup>2</sup> Here, a simple telephone hotline was used to link the possible queries from around 700,000 small and medium-sized firms in the State of São Paulo with the consulting capacity of the 3,000-4,000 member research faculty of USP. A 3-5 person core staff group handled around two thousand inquiries in the first year after initiation in 1990. This confirmed the logistical needs assessed for the BISS CCU in the concept draft.

With such experiences in mind, the pilot testing of BISS network exchanges was carried out between 1993 and 1994. A BISS nucleus was simulated at UNCRD/IDU and pilot testing of actual exchanges was carried out by a large Japanese securities company sympathetic to the cause which established a BISS unit. The hotline requests, akin to that of USP's Dial Technology, ranged from overseas counterpart-seeking requests to consultancy service requests for market survey and potential analyses in specific industrial sectors. The requests covered the primary, secondary, and tertiary industrial sectors. The investment considered by many of the smaller-end firms ranged from 20 to 200 million yen. Reasons for seeking new ventures overseas by Japanese small and medium-sized enterprises were the rising cost or unavailability of labor in Japan, currency appreciation accompanied by falling profits, a search for new market access routes to free themselves from continued dependence on large trading houses, and the like. The demand for a timely, up-to-date overseas

investment information newsletter was also confirmed. These findings are currently in the process of being documented, as this pre-implementation test phase draws to a close.

### **Current Status of BISS Nuclei in Japan and Overseas**

At present, commitment to participate in BISS has been confirmed in eight countries: China, Indonesia, Japan, Malaysia, Philippines, Sri Lanka, Thailand, and Vietnam. Institutions in three other countries have expressed interest in joining the BISS network: Australia, Mongolia, and Singapore. Although the BISS program is currently hoping to serve the Asia-Pacific region, by virtue of its network integration nature it could be extended in the future to serve other regions of the world as well. In fact, if the experiment now under way in the countries mentioned proves successful, there is no reason it should not be.

In Japan, two major BISS nuclei are emerging in the post-pilot phase. In one case, we have a private company, with close links to a public sector foundation affiliated to a key central government ministry, taking the initiative. In the other, we have an academic research center (Keihanna Center), attached to Ritsumeikan University, doing likewise. Recently, the establishment of BISS in Japan was discussed at a seminar held at the Keihanna Science (and Culture) Town on the border of the prefectures of Kyoto, Osaka, and Nara by representatives of both nuclei.<sup>3</sup>

The BISS nuclei that are emerging outside Japan show a wide diversity in terms of organizational structure and institutional background. In some instances, as in Shendong Province in China, they are a result of the transformation of an existing institutional infrastructure to serve a new need. In other instances, as in the case of the Board of Investment of Thailand, an institution currently providing services of a similar nature agrees to take on the BISS service. In yet others, as in the Southern Province of Sri Lanka, where the Federation of Chambers of Commerce offered to establish a BISS nucleus, the institutional arrangement is totally new.

In all these instances, the gentle but persistent prodding of a key central government agency has played an important part. This is in part because the UNCRD, which initiated the BISS pilot project, is by nature of its institutional character close to central government agencies in the developing countries. As the pilot project transforms into a full-fledged operational system, as it is struggling to do now, BISS is likely to become a social institution that spreads beyond the confines of the public sector. What is important in such instances is that BISS nuclei must be impartial and fair, reflecting the heart of the public sector, but with the speed and efficiency of response that characterize the private sector. Despite their institutional character being heterogeneous, both within Japan and outside, the shared ideals and the sharing of information on the basis of mutual trust are what will bind the nuclei of the BISS network together.

### **In Conclusion**

The final challenge for the BISS network will be whether its operations can indeed meet the ideals stated in its objectives. If they do, BISS can become a powerful tool for overcoming many of the problems the Asian region faces, leveling out the unevenness that accompanies rapid economic growth at present. Perhaps it can achieve even more, laying the foundations for democratic forms of government and the genuine devolution of local autonomy, if it does provide the economic heart so essential for such reforms to succeed. With around two-thirds of the world's population and a poor

land/man ratio, rapidly changing Asia is perhaps a useful crucible for testing the complex structural adjustments required and their consequences.

Sustaining the current development momentum in Asian countries will require sensitive handling in the short term, coupled with reforms over the medium to long term which address more fundamental issues—achieving growth with equity, maintaining national unity amid a great deal of cultural diversity, making long-term commitments to manage the environment, and establishing institutional structures to promote democracy and peace. The extent to which the BISS network can lay foundations for achieving these broader goals will determine whether it is merely a specific antidote for a few of the current ailments in the Asian socioeconomic and political environment or if it can indeed be a much sought-after panacea. In addition to achieving these broader goals, lasting prosperity in Asia can only come about if the world at large prospers. In this regard, at least, the non-territoriality-bound BISS concept has a fighting chance to draw the world closer through the integration of its network of nuclei.

### Notes

1. See Monte Cassim, "Globalization, Privatization, and the Regional Economy: Prospects Offered to Small and Medium-Sized Enterprises and Regional Producers by the BISS Network," UNCRD and the University of São Paulo, 1993.

2. Luis Carlos de Menezes, "Business Information Support Systems for an Era of Transition: Consultancy for Small Enterprises—a Brazilian Experience," UNCRD and the University of São Paulo, 1993.

3. "The Internationalization of Small and Medium-Sized Enterprises and Information Support Networks," 4th Ritsumeikan University Keihanna Seminar, 7 October 1994, Nara, Japan.



**"EXPECTATIONS AND PROBLEMS FOR  
INTERNATIONAL PRIVATE SECTOR COOPERATION"**

The Northeast Asian countries are interdependent in terms of geography, natural resources, labor force, technology, and financing facilities. For this reason, there is a great expectation for cooperation among the private sectors in order to formulate a large-scale economic region. The Northeast Asia region is one of the remaining underdeveloped regions of the world with abundant resources. In this respect, unlimited potential for economic development comparable to that of the EU, NAFTA, and Southeast Asian economic region can be expected. For example, a large-scale development plan including the Greater Vladivostok Free Trade Zone Development Plan, surveyed and forecasted by UNIDO, and the Tumen River Area Development Programme, initiated by the UNDP and coordinated by UNIDO, offer enormous potential for industrial development in the region. Furthermore, due to the rapidly aging labor force, pinching competitiveness, and elevated Japanese yen, the Japanese small and medium-scale industries are likely to seek their production platforms in this region.

In the eyes of foreign investors, there are several hurdles to be cleared before business cooperation can be mobilized in the Northeast Asian countries.

1. Each country in the region has established foreign investment regulations. However, in many cases their application differs from what is prescribed in the regulations. Sudden alteration of regulations can cause and has caused a substantial decrease in the profit for foreign joint venture companies and thus discouraged further foreign investments.

2. The real concept of a market economy and the importance of observing contracts and international agreements are not clearly understood and accepted in the minds of some business people in Northeast Asia. This has sometimes resulted in non-performance on a contract or breach of law.

3. There is a lack of manpower with experience in modern management and a lack of high-quality, efficient labor in the region.

4. There is a lack of financing facilities to construct and improve industrial infrastructure such as industrial parks, transportation, and electric power.

These hurdles can, however, be minimized through the following measures:

1. Holding of periodic conferences or seminars in the region to discuss and solve current problems on legislation, application of laws or regulations, and services provided by regional investment promotion authorities as well as management or operation of joint ventures. Such programs should basically be initiated by a semigovernmental organization such as a chamber of commerce and industry.

2. Upon identification of potential investment sectors by developing countries to which foreign investments are welcome, sector-specific Japanese and other investor missions should visit the countries and hold intensive business negotiation along with factory visits. Similar missions to visit Japan and other investor countries should be organized by the developing countries. In this case, conferences and seminars merely to introduce investment regulations or investment environments will not lead to immediate practical results.

3. Chambers of commerce and industry or other relevant organizations in the region should sign an agreement such as a business promotion agreement for the frequent exchange of information concerning buying, selling, transferring technology, and investing in joint ventures.

4. Development of air and surface transportation between Japan and the rest of Northeast Asia will help facilitate business contacts.

5. UNIDO will hold an investors' forum in Yanbian, China, in Autumn 1995 under the cosponsorship of the PRC government and the municipalities. The forum aims to attract potential investors from all over the world and to assist them in forming business contacts with Chinese business circles.

The *Japan Economic Journal* announced in December 1994 that the Japan-Russia Economic Council, which was established by the Japan Federation of Economic Association (Keidanren) in coordination with Japanese civil engineering and transportation companies as well as trading houses, plans to discuss the development of coal mines, harbors, and railways in the Primorsky, Khabarovsk, and Sakhalin regions of the Russian Federation. The total investment cost was said to be US\$2 billion. This indicates the launching of large-scale Japanese private sector projects in the region, and a sizable number of Japanese small and medium-scale enterprises have already established joint ventures in the region.

In conclusion, I would like to make three brief points. First, if a human resource development program is undertaken in parallel to the activities mentioned above, business cooperation and the formulation of business transactions could be further accelerated. Second, we hope that parties involved in the development of Northeast Asia will devote most careful attention to conserving the beautiful environment of our region. Third, UNIDO Investment Promotion Service-Tokyo is always pleased to promote any type of Japanese joint venture into the region, including transfer of technology and coordination with the relevant domestic and foreign institutions.

## **Kobayashi Shoichi**

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The TRADP and Northeast Asian regional development: is it a regional growth pole or just a dream? This is a very provocative question, so I'd like to answer it briefly first. My answer is that the Northeast Asian region is a growth pole. But we have a lot of work to do, so the answer is yes, but we have needs. We must discuss what we must do to make this region a growth pole in the world, competitive with the many competing growth poles.

I fully agree with Mr. Nambara, who this morning told us that the global situation is very competitive. Everybody is jumping in to attract foreign investment: India, Vietnam, China, all the ASEAN countries, Mexico, Eastern Europe. Now some African countries are also looking for foreign investment. Anyway, foreign investment is the real engine of economic growth. I think we have to keep that in mind. So, how can we make this region attractive enough to bring in foreign investment and also maybe support from other multinational agencies?

I've been working for about five years in this region, starting with the Greater Vladivostok Free Economic Zone, formulated with UNIDO. Since then I've visited this region maybe thirty times, in Far Eastern Russia and China. Through my observations in these past five years, I have seen this region progressing in many ways. Particularly on the Chinese side, it's very drastic. Even on the Russian side—there are still some problems, but there is also progress. So what's the problem?

Looking at many of the successful subregional growth poles, we might count five requirements for success: (1) We have to have a common vision that brings sufficient and balanced benefits to all members. (2) Full participation of members and mutual trust is required. (3) A unifying, leading institutional setup is required. (4) Sufficient bankable projects and programs must exist in the region. (5) Sufficient supporters, such as private multinational agencies like development banks, must be in existence.

In all successful subregional programs, I think we will find that all five conditions are met. The Greater Mekong subregion started just about the same time as the Northeast Asian program. They have done a lot of work and are moving ahead. They came up with very bankable projects and solid institutions, so I think we should look at their performance.

How does Northeast Asia stand up to the five requirements? Regarding the first requirement, a common vision—I think we have not yet come up with one. The TRADP project is just one of the bankable projects in this area; it is not a common vision. I think a common vision in Northeast Asia will need the full participation of Russia, Mongolia, and all the rest. The TRADP is just one project; we have many more attractive projects in this area, so the common vision should be, for example, that Northeast Asia become a growth pole able to grow, say, 5 percent annually. To repeat, I think a much wider vision will be needed.

The second point is the full participation of members. Unfortunately, so far we are not getting active, full participation on this project. In China, yes. Mongolia, yes. But I think Russia still is having difficulty participating. Why? I think the current vision is too narrow. We have to expand the vision of Northeast Asia to make this vision a globally competitive vision, and also I think that means we have to really expand the whole area.

Third, if we look for a unifying leading institution already set up—not yet. The UNDP has been working for the past three years but unfortunately has not been a solid, leading institution. I propose that the UNDP continue to be the leader, but we can now bring in bankers. Creating maybe a new development bank is fine, but that will take some time, so I think we can immediately bring in the World Bank, which can cover both Russia and Asia, the ADB, which can cover Mongolia and China, and the EBRD, which can cover Russia. So three development banks could be part of it, plus the UNDP; put together, we could have a Northeast Asia development fund. In the initial stages, we need maybe \$10–15 million to prepare a new strategic plan for the whole region, including Mongolia, all the Far Eastern part of Russia, and the northeastern part of China; North Korea is tentative, but at least we can include the Rajin-Sonbong area. So perhaps we can draw a much bigger picture as the development plan. In this way, everybody has enough participation, and I think Russia will fully participate in such a project.

The fourth condition: are there sufficient bankable projects? I think many projects have already been identified. The TRADP I consider just one bankable project. For example, we have been working with many American and Japanese companies and preparing preliminary studies. I can mention at least twenty or thirty bankable projects. For example, as you know, the 4M gas and oil project in Sakhalin. They are ready to move this spring, if Russia signs one law to allow the new oil and gas exploration. This one project alone will be \$10 billion plus. The SODECO project is another \$10 billion plus project. Another two or three gas and oil projects are under preparation, plus more in coal and forestry. This region potential has the same amount of forestry products as are available in all of North America. Also, as you know, the Sanko-Hegen area is the cornbelt of Northeast Asia. In all these areas, sufficient bankable projects exist.

How about the supporting groups? If we can put together the World Bank, ADB, and EBRD, I think that the private sector will follow. There is no worry about where the support will come from if we can prepare the proper institutional setup, if we straighten out the rules and regulations, and of course, at the same time, we have to build infrastructure. But I think the most important thing is that we have to produce something in this area. That's value added. Otherwise you cannot build infrastructure.

In conclusion, I am confident that by expanding our attention to a region that includes all of the Russian Far East, Mongolia, Northeast China, and North Korea—as well as South Korea and the western prefectures of Japan—we can indeed develop a regional growth pole within several years. But lots of work remains to be done by all participating members and supporters.

Among the supporters, Japan can and should play an important role not only with money but also in human resource development, trade, and investment. I would like to suggest that Niigata take the initiative to establish a manpower development center with the assistance of the central government and also consider the idea of using the newly created work-study program by private companies in Japan. Manpower training is one of the most important factors of the developing region, and it will take some time to be effective, so the manpower training program should start immediately. Niigata is the right geographic location for such a program. ERINA might also expand its activities to these training efforts.

## **Douglas K. Berry**

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We in Alaska consider ourselves part of Northeast Asia; we live in this neighborhood, and we're very proud to be a part of it. I work with small and medium-size businesses in Alaska, the U.S. Pacific Northwest, and the Russian Far East.

I have a little story of Alaska Airlines, which now serves Seattle, Anchorage, and the Russian Far East all the way down to Vladivostok. This was the initial flight of the airline, which happened two years ago. It was full of important people. It stopped in the city of Magadan to refuel, it was late in the season, getting cold, and the pilot discovered that ice had built up on the wings. The plane could not take off, because it was also discovered that at this airport there was no de-icing fluid. So, after consulting with the Russian ground technicians, it was decided that the call would go out to buy every liter of vodka in the airport. The technicians returned with the vodka, then found a garden hose and a device that is normally used during the summer for spraying bugs. They put the vodka in the spray container, it was good vodka, Stolichnaya, and soon the plane was covered with this expensive vodka. Russians have a great sense of humor, so the ground crews were saying, "Why waste this delicious vodka? Why don't we just get under the wings, open our mouths, and enjoy a little refreshment?"

Well, they didn't do that. But the ice melted from the wings and pretty soon the plane took off. I think this is a metaphor for the challenges of doing business in this part of Northeast Asia, but also for the rewards for those who persist, who are patient and flexible, and above all for those who cooperate.

At a time when Russian Far East imports and exports have crashed, exports from Alaska to the Russian Far East doubled in 1994. There are several reasons, causes, and trends behind this. One trend, of course, is the role of local governments. These governments are catalysts in building personal networks, creating new bilateral and multilateral relationships such as the Northern Forum, an organization for governors in the region, and the sister-state relationships between, for example, Alaska and Magadan, and Alaska and the Sakha Autonomous Region. Business seems to accompany or follow these initiatives, as Dr. Shen suggested in his presentation.

Another trend is more support from national governments. The Overseas Private Investment Corporation is available to American small and medium-size businesses as export insurance. There is also the American-Russian Enterprise Fund, which encourages investment from U.S. businesses and provides capital and technical assistance to Russian banks for commercial lending. The staff comes often to Alaska; an Alaskan is on the board of directors, and the Fund seems to realize the value of subregional organizations.

Overseas development assistance and the importance of passing it through subregional institutions, where it can take advantage of local expertise and networks, cannot be overlooked. Our university received \$3 million from the U.S. Agency for International Development, and we've opened four small business development centers in Khabarovsk, Magadan, Yuzhno-Sakhalinsk, and Yakhutzk. So far a thousand small business people from the Russian Far East have attended our classes and seminars. This is technology transfer: software, human resource development.

There are many new small enterprises. They're successful, they're profitable, and they're growing. One of them involves Russian biotechnology that dissolves the organic matter around salmon eggs and makes them fresher and tastier and preserves them for a longer period of time. This is Russian technology being utilized in joint cooperation with small ventures in Alaska. This is not to minimize all the problems that you've heard about; the situation is unstable and bleak, but it's certainly not hopeless, and I would argue that the work going on now is essential to improving the current situation.

I would like to make a recommendation: that the United States and Japan, especially using local government expertise to work together to enlarge the total benefits, develop new models of small business assistance and technical training, better information and match-making among businesses in the region—including North Korea, Northern China, Mongolia, and elsewhere in the region. It is this cooperation that is the "wind beneath our wings." It can remove the ice from these wings and help us soar to even greater heights in the future.