

Executive Summary

1. Purpose of the study and research method

Purpose of the study

The purpose of this study is to establish what is the present situation regarding intellectual property (IP) systems in the Association of Southeast Asian Nations (ASEAN) countries and to derive political recommendations for their improvement and renewal with a view to promoting foreign direct investment (FDI) by multinational corporations (MNCs).

Research method

To achieve this purpose, we conducted two types of survey—a questionnaire survey and an interview survey—from March to June 2014.

Our questionnaire sheet included the following items:

- 1) The present state of and plans for direct investment in ASEAN countries;
- 2) Profile of subsidiary in ASEAN countries (operating country in ASEAN, year of establishment, type of activity, sales volume, number of employees, etc.);
- 3) Factors that were given importance in determining (or planning) direct investment in ASEAN countries;
- 4) Particulars of the above IP elements given importance in determining (or planning) direct investment in ASEAN countries;
- 5) Problems faced after expanding into ASEAN countries;
- 6) Involvement of IP divisions in the decision-making on FDI;
- 7) Expectations regarding sound and satisfactory IP systems and policies in the ASEAN countries.

We sent the questionnaire to Japanese (JP), Chinese (CN), Korean (KR), American (US), and European (EU) MNCs. We assigned the manager of the intellectual property division and, as necessary, the manager of the international business division and/or corporate planning division as the responding persons.

Once the completed surveys had been returned to us, we conducted interview surveys with the companies that had responded to the questionnaire, in which we asked them about the reasons for their answers and for any comments on the actual situations and problems of IP systems in ASEAN countries. Most of the interviewees were the managers of the IP-related division of the company, whom we interviewed for about 1.5 to 2 hours in most cases.

Selection of target companies

We selected JP, CN, KR, US, and EU companies that have already established local subsidiaries in ASEAN countries. Considering the potential impact on future economic growth in ASEAN, in choosing our target companies we focused on those in four economic sectors: electric devices, transportation machines, chemicals, and food.

Working group members and their role

We formed a working group consisting of members from Japan, China, Korea, Singapore, Thailand, Indonesia, and Viet Nam. The number of core members was 10 in total: 4 from Japan and 1 from each of the other countries. Some assistant researchers also joined to the group.

Japanese, Chinese, and Korean members conducted the surveys with the Japanese, Chinese, and Korean companies, respectively. Members from Singapore, Thailand, Indonesia, and Viet Nam conducted the surveys with American and European companies' subsidiaries, which were located in the group members' home countries.

Respondent companies and their composition

For the questionnaire survey, we asked JP, CN and KR companies to provide answers about two different local subsidiaries in ASEAN countries if possible. The US and EU companies answered for a selected local subsidiary located in each country.

As a result, we collected responses from about a total of 95 subsidiaries—31 subsidiaries of 16 JP companies, 11 subsidiaries of 8 CN companies, and 17 subsidiaries of 10 KR companies. As for the subsidiaries reported on by the US and EU companies, 12 were located in Indonesia, 7 in Singapore, 7 in Thailand, and 10 in Viet Nam.

Dividing our sample into Asian (JP/CN/KR) companies and Western (US/EU) companies, 58 subsidiaries were established by Asian companies and 33 by Western companies.

2. Results of the research

Conducting the questionnaire and interview surveys of MNCs resulted in important findings that provided an indication of the problems and challenges of IP policies and systems in ASEAN countries to be tackled:

General factors determining foreign direct investment in ASEAN countries

(1) *IP-related issues are not usually critical factors before expanding to ASEAN countries, but they are perceived as major problems after expansion*

Although US and EU MNCs are more concerned about IP-related issues before establishing a new subsidiary in ASEAN than JP, CN, and KR companies, the major factors considered by MNCs were economy-related and market-related—“Size and growth rate of GDP”, “Wage level (labour cost)”, and “Size and growth rate of the relevant market”—whereas IP-related issues such as “Level of legal development concerning intellectual property rights” and “Level of implementation and enforcement of intellectual property law” were less considered before expansion. However, after establishing a new subsidiary there, they were perceived as major problems. This suggests that many MNCs have experienced some problems concerning their IP rights and the IP-related systems in ASEAN countries. Indeed, according to the interviews, the managers of some MNCs reported they were suffering from many IP problems, including counterfeit products and excessively long examination periods to obtain IPR, and this situation hinders further expansion of their business to ASEAN countries. Such problems related to IP systems are likely to increase withdrawals of existing subsidiaries from ASEAN countries. Therefore, a possible implication from this finding is that appropriate IP systems may not always be very effective in terms of increasing investment, but may be effective in sustaining investment in ASEAN countries.

(2) *Of all MNCs, US and EU companies showed a tendency to pay greater attention to IP-related issues before expanding to ASEAN countries*

IP systems do play some part in attracting investment from MNCs. Our survey data shows that in 32 percent of all the MNCs examined in this study, the IP department was highly involved in decisions on expansion to ASEAN countries. Indeed, for 55 percent of

US and EU companies, the IP divisions were highly involved. The interview data also suggest that direct investment in ASEAN countries is affected not only by economic and market factors, but to some extent also by IP issues as well. Developing effective IP systems could induce US and EU companies in particular to increase their direct investment in ASEAN countries.

IP-related factors affecting direct investment in ASEAN countries

(1) *Major aspects of IP related factors considered before and after expansion into ASEAN countries are “trademark”, “trade secret”, and “patent”*

When focusing on IP and IP-related issues, we found that the major aspects considered before and after establishing a new subsidiary in ASEAN countries were trademark, trade secret, and patent. Of those, trademark-related issues were of the highest concern to the companies surveyed, before and after expansion to ASEAN countries. Trade secret and patent-related issues were given much attention apart from trademark, before and after establishing local subsidiaries. This applied nearly equally to JP/CN/KR companies and US/EU companies, although US/EU companies accorded relatively high importance to patent protection, especially before expansion. These results could be indicative of the high concern about counterfeit goods among sales-based companies, and about technology drain among both production-based and R&D-based companies. With regard to trade secret, our analysis revealed that the present situation of insufficient protection might lead to reshoring, or withdrawal, of MNC subsidiaries established in ASEAN countries.

(2) *Cost of obtaining IP rights and examination timeline are the most common and of highest concern in trademark, patent and design related issues, especially before expansion to ASEAN countries*

The cost of obtaining IP rights was one of the biggest concerns in trademark, patent, and design related issues before expansion for the companies surveyed. US and EU companies were also concerned about the maintenance fee of trademark and patent rights before establishment of subsidiaries. According to the results of our questionnaire and interview survey, the cost of obtaining IP rights in ASEAN countries is regarded as too high. The costs involved are not just the payment to the patent office, but also fees for local attorneys and for translation into local languages. Consequently, the total cost of the process in ASEAN countries can sometimes be much higher than the cost incurred in the home countries of MNCs. Our interviews with Japanese companies revealed that to them

the acceptable cost is, on average, nearly 60 percent of the actual cost. In one ASEAN country, the actual cost is about twice as high as the acceptable cost, and in another country the actual cost is five times as high as the acceptable cost, according to one of the interviewees.

Apart from the issue of high cost, excessively long prosecution timelines of patent, trademark and design patent was a serious concern for most MNCs surveyed before and after expansion to ASEAN countries. According to the interview survey in Japan, the acceptable duration is 12 months, but in one ASEAN country the actual timeline exceeds 48 months.

(3) Injunctions and damages in trademark and patent are other important factors considered before and after expansion to ASEAN countries

Regarding trademark and patent, injunctions and damages were of high concern among companies surveyed, before and after establishment. For trademark in particular, they were the biggest concerns after expansion to ASEAN countries. Even if all the relevant laws and regulations are in place, implementation and law enforcement in ASEAN countries are often lacking or ineffective. Most MNCs were of the opinion that the impact of counterfeit products is serious and that it is necessary for them to be eliminated by protecting IPR. Trademarks of consumer products in particular are likely to be infringed in many countries, so injunctions and damages were also recognised as important problems after establishment.

(4) Harmonisation of IP examination systems is important for most MNCs when considering direct investment in ASEAN countries

MNCs suggested that the harmonisation of IP examination systems is very important to them. For example, regarding trademark, among ASEAN countries only four countries are members of the Madrid Protocol. This means that, although they can make use of the Madrid Protocol to apply for trademark registration in those countries that are members, they must apply separately in other ASEAN countries. So for MNCs it is desirable that ASEAN countries harmonise their trademark registration system through adherence to the Madrid Protocol. Similarly for design protection, only two ASEAN countries are members of the Hague Agreement Concerning the International Registration of Industrial Designs.

(5) *Developing and improving IP-related systems, such as import and export control of counterfeit goods, a transparent and predictable tax system on transfer pricing, control of licence contracts, and export controls on technology transfer, are other issues considered by US and EU MNCs before expansion to ASEAN countries*

In addition to the issues described above, US and EU MNCs surveyed were highly concerned about other IP-related issues, such as inadequate import and export controls of counterfeit goods, lack of a transparent and predictable tax system on transfer pricing, lack of control of licence contracts, and inadequate export controls on technology transfer. Although JP, CN, and KR companies did not attach much importance to these particular matters, development and improvement of these aspects could be expected to boost FDI.

(6) *Lack of a well-structured IP-related information system is a critical factor of great concern to most MNCs*

One of the common problems for MNCs that have expanded to ASEAN countries is the difficulty of obtaining sufficient information on IP and IP systems in those countries. Many MNCs complained, for example, that the standard of IPR examination, the procedure of IP rights examination, and the current status of specific IPR that have been applied for, are unclear. They are expecting that IP offices in ASEAN countries establish a well-structured information system and open it for public use. Availability of this information in English is strongly desired by most companies surveyed.

Problems and challenges of IP systems in each ASEAN country

Although it is difficult to induce clear features of the IP systems in each of the ASEAN countries due to the limited number of samples in our study, we have a certain level of information about the situation and problems of some key countries. Below are some brief sketches of each of those countries.

(1) Singapore

Our study results suggest there is no major problem with the IP system in Singapore. The relatively large number of IPR specialists in Singapore compared with other ASEAN countries is attractive to companies considering direct investment and the overall IP system in Singapore is well constituted and meets international standards. Recently, Singapore has been attracting companies for R&D activities because it has a good supply of high-level, talented researchers and engineers. Probably because of this, the employer's

duty in employee's invention is considered more highly than in other countries. Because of the small size of the Singapore market, however, many companies have no incentives to file their patents rights in Singapore. Nevertheless, if Singapore can take the leadership in establishing a harmonised IP system within other ASEAN countries, MNCs would be very keen to establish their Asian base in Singapore. In this sense, Singapore has the potential to become ASEAN's IP hub.

(2) Thailand

Regarding patent and trademark-specific issues, the high cost and the excessively long and complicated timeline for obtaining IP rights are of a higher concern in Thailand than in other ASEAN countries. Some of the MNCs interviewed complained about examination durations of more than 10 years and the higher costs, including fees for local agents and translation into local language. Patent injunction and patent damages are also issues of higher concern in Thailand than in other ASEAN countries. Improvement of the IP system, examination capability in particular, is strongly desired to attract further sustainable direct investment in Thailand, as are greater efforts towards harmonisation such as becoming a member of the Madrid Protocol.

(3) Indonesia

Law enforcement and timeline for registration of IPRs were some of the most frequently mentioned problems by MNCs surveyed regarding the IP situation in Indonesia. It is clear that solving these problems are likely to encourage MNCs to expand their business in the country. Enhancement of IP information system and enforcement are the key areas that could support enhancement of Indonesia's IP system according to the survey respondents. Moreover, the trade secret protection system was of greater concern to the companies surveyed than in other ASEAN countries. Greater harmonisation efforts, like becoming a member of the Madrid Protocol, was also strongly desired by survey respondents.

(4) Viet Nam

The issues of concern tend to be similar to those in the other ASEAN countries, but for some of the MNCs surveyed, the IP system and level of enforcement in Viet Nam are of a relatively high standard.

3. Recommendations

From those findings, the following recommendations for improvements in and renewal of the IP systems and policies in ASEAN countries were derived:

(1) Improve the level of legal development of IP rights and the level of implementation and enforcement of IP laws

Reliable IP law and its effective implementation and enforcement are the foundation for promoting FDI in ASEAN countries. Inconsistencies between them causes serious problems for the business operations of the companies that have expanded to the region. For instance, failing to eliminate counterfeit goods from the market can destroy companies' business. Criminal sanctions and civil sanctions are effective ways to prevent wilful counterfeiting. Customs controls should be the front line to prevent such infringing goods from entering the ASEAN market. To establish such effective enforcement systems, each country and ASEAN authorities need a special organisation with skilled professionals. Policymakers should pay much more attention to this issue to improve the situation. At the same time, governments of advanced countries should support the improvement in the level of legal development of IP rights and in their implementation and enforcement in ASEAN.

(2) Establish a well-structured and user-friendly information system and services for searching IP rights and referring IP-related procedures, etc.

Insufficient information about IP rights and IP systems and procedures not only increases the cost and time it takes for companies to apply for and obtain IP rights, it also leads to mistrust by companies that have established subsidiaries or are planning to establish subsidiaries in ASEAN. Information about existing IP rights, the standard of the IP rights examination, the examination procedure, the current status of specific applications, and so, on should be provided at low cost and should be easy to use. IP offices in ASEAN countries should establish well-structured and user-friendly information systems and governments of advanced countries should support the establishment of a reliable IP information providing system in ASEAN.

(3) Construct a more harmonised IP system in ASEAN

The present IP system in ASEAN is highly diverse as there are considerable differences in terms of the maturity of the systems between ASEAN countries. It seems unrealistic, therefore, to unify all of the IP systems in ASEAN. But ASEAN countries should regard the harmonisation issue as an opportunity to better understand each other and solve problems together. A solution for the harmonisation issue is expected to be the outcome of those discussions.

The first recommendation is to join some of the important international treaties, such as the Madrid Protocol and the Hague Agreement Concerning the International Registration of Industrial Designs. The second recommendation is to build on the ASEAN Patent Examination Co-operation (ASPEC), which is the first regional patent work-sharing program among nine ASEAN countries. The third recommendation is that the patent offices in ASEAN countries should learn from the patent examination information highway created by three offices (US, EU, and Japan), or by five offices (those three plus Korea and China) to study access channels of examination harmonisation and to further enhance examination.

(4) Leverage IP system to foster innovation in the ASEAN region

ASEAN countries are expected to grow their economics through strong innovation policies like Japan, Korea, and recently China have done in recent decades, adapting and growing their economies. From their experiences, the first key issue in this regard is how to develop a high-quality manufacturing industry. Patent, utility model, and trade secret are relatively more important than other IP rights to attract manufacturing companies. Strengthening the protection of these IP rights in ASEAN countries should contribute to the promotion of domestic technological capabilities as well as induce direct investment from advanced countries. Accordingly, we recommend that ASEAN governments closely cooperate with US, EU, JP, CN, and KR companies to promote their domestic technologies, which will eventually require stronger IP protection both for domestic and foreign companies. The second important issue is how to attract R&D sectors. Innovation needs R&D activity in local regions. Except in Singapore, there are not so many MNCs that are conducting R&D in ASEAN. The employee invention system and improvement of export and import regulation of IP rights transfer are expected to promote R&D activity in ASEAN countries and attract foreign resources for building a strong local innovation system.

(5) Enhance the knowledge and awareness of IP rights from a long-term perspective

The results of our survey show that the lack of a reliable IP system is caused in part by a lack of knowledge about IP of local staffs. Professional human resource development by governments is highly needed. We recommend that ASEAN governments provide appropriate education and training for legal professionals responsible for IP. Although education and increasing awareness about IP rights and IP systems are important to solve the current problems, it would take considerable time for such efforts to be effective. In that sense, short-term and temporary action may not be effective. ASEAN governments should increase public awareness continuously through education with a long-term perspective. Advanced countries should support the building such education programmes through modification of their already developed education tools to fit the situation in ASEAN.