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PREPARING FOR THE PACIFIC CENTURY: FOSTERING TECHNOLOGY TRANSFER IN SOUTHEAST ASIA*

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The economies of Southeast Asia are among the fastest growing in the world. This fact has led many analysts to conclude that we are on the verge of the "Pacific Century" in which Southeast Asia will be the center of the world's technical and economic expansion. Along with this growth has come increasing investment in the region by foreign corporations and increased demand for high technology, particularly in the semiconductor, broadcasting, electronics, and telecommunications areas. These conditions have, in turn, created a rapid rise in technology transfer agreements resulting from investment in manufacturing plants and facilities by multinational corporations (hereinafter MNCs), joint ventures between MNCs and local companies and government entities, and the direct sale of technology into the region. In Malaysia alone, more than 800

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agreements for technology transfer were entered into between local and foreign companies from 1990 to 1995.[1]

Although the countries of Southeast Asia have a strong interest in encouraging technology transfer, there are also many pitfalls for the unwary transferor or vendor. Some of these pitfalls result from the scope and nature of available intellectual property protection in the host country. Others arise from specific laws and regulations regarding technology transfer and foreign investment, government policies favoring certain types of investments and transactions over others, and the manner in which such laws and policies are implemented and enforced.

This article discusses a number of considerations that are central to structuring a successful technology transfer or investment in Southeast Asia. Most of the discussion examines these considerations from the perspective of an MNC that is a potential technology transferor, investor, or vendor in the region. However, this article should also be of interest to those responsible for formulating government policies to encourage technology transfer, since it is important to do so with the MNC's perspective in mind. Clearly, for a technology transfer to be successful over the long term, a balance must be achieved between the goals of the Southeast Asian nation in attracting foreign investment and technology, and the need of the MNC to profit from and protect its investment and technology.

I. TECHNOLOGY TRANSFER IN SOUTHEAST ASIA: A GENERAL BACKGROUND

In general, three interactive and complimentary agents are responsible for technology transfer into the Southeast Asian region. These are direct foreign investment (DFI), the increased presence of MNC's operating plants and facilities in the region, and the specific technology provided by and used by MNCs. Of course, it is an objective of each country in Southeast Asia to maintain policies that foster DFI and technology

1. *834 Technology Transfer Deals Signed Since 1990*, NEW STRAITS TIMES PRESS (Malaysia), Nov. 29, 1995, at 11.

transfer through the transmission mechanism of MNCs. However, given that economics and the interrelationship of government policy to foreign investment are still an inexact science, Southeast Asian countries tend to play catch up with one another and to modify their policies in this area in response to the successes or failures of their neighbors.

Adhering to the neoclassical view of trade as an engine of growth, most Southeast Asian governments typically place great emphasis on reducing trade deficits. Accordingly, these governments generally seek a reduction of imported goods and technology in favor of local manufacturing, technology transfer, and the training of technical personnel in the host country - even though the causal link between these factors and reductions in trade deficits is far from clear. The economic policies of such nations will usually include the following objectives:

- Inflow of technology, including intellectual property in the form of patents, inventions, and know-how;

- Importation of capital equipment (as opposed to consumer products);

- Promotion of DFI in technology and infrastructure;

- Training of technically skilled local labor; and

- Export of value-added technology.

From the perspective of the MNC, investment in a Southeast Asian country makes sense only if it will help the MNC to increase profits and remain competitive. As a result, MNCs will invest in those countries where costs are lowest and the infrastructure exists to support their operations.

In the past, MNCs moved into Southeast Asia primarily to take advantage of cheaper labor costs and to secure raw materials from the region. More recently, however, improvements in telecommunications technology and manufacturing processes and techniques have allowed MNCs to spread their operations among various Southeast Asian economies to take advantage of different comparative advantages available in specific host countries. They do this by creating a "spider web" of marketing, R&D, and other support functions, as well as distributed production facilities that manufacture intermediate products. For example, a disk drive plant in Singapore may obtain integrated circuits from Japan, printed circuit boards from Korea, magnetic heads from Hong Kong, magnetic head assemblies from Thailand, and motors and other related parts from other Asian countries. When established and maintained properly, this "global value added chain" results in greater efficiency and higher profitability.

An MNC seeking to maximize its profits through investment in Southeast Asia will also seek to identify the resources that each of the nations in the region provide relative to the MNC's manufacturing needs. For example, a supply of cheap labor is desirable for certain labor intensive industries. However, the quantity of the available labor is not by itself sufficient, as there must also be a corresponding quality of labor that meets the MNC's specific requirements. By way of example, while inexpensive and relatively unskilled labor may be acceptable for construction operations and certain types of traditional manufacturing, an unskilled labor force is not usually well-suited for MNCs involved in developing and manufacturing high-technology goods. Thus, to attract this type of "high end" manufacturing and benefit from the transfer of advanced technology that it can provide, Southeast Asian countries must foster the training of skilled labor and engineers.

II. FACTORS THAT INFLUENCE THE DECISION TO ENTER INTO TECHNOLOGY TRANSFER VENTURES IN SOUTHEAST ASIA AND THE SELECTION OF A HOST COUNTRY

An MNC will consider a number of factors in deciding whether to enter into a technology transfer venture in Southeast Asia and in selecting a host country for particular types of plants and operations. These factors include:

- Whether there is an existing physical infrastructure that is adequate to support the MNC's operations;

- What tax treatment the operations will receive;

• What restrictions affect the movement of liquid capital in and out of the country;

• What in-country human resources exist;

• What restrictions are placed on the movement of expatriates into the country and the procurement of visa/work permits;

• What licenses the government will require for the MNC's operations;

• What intellectual property protection and enforcement mechanisms are available;

• What withholding or other taxes are placed upon intellectual property licenses or royalties;

• Whether there is an adequate legal infrastructure and judicial and nonjudicial mechanisms for contract enforcement;

• How the costs of living and business operation compare to those of countries offering comparable human and natural resources; and

• Whether there are high incidences of corruption, bribery, and other "unofficial" trade barriers.

A closer look at the "Singapore disk drive plant" example raised above shows how several of these considerations might come into play in locating a distributed manufacturing network. In this example, the MNC operated the disk drive plant on an around-the-clock, "just in time" basis, meaning that component parts arrive at the assembly plant from their respective sources just as they are needed. Singapore was chosen as the location for the assembly plant because its existing infrastructure can support this type of manufacturing model. "Just in time" manufacturing would be difficult to accomplish in Bangkok with its perpetual traffic problems, or in Vietnam with its lack of a modern highway system.

In addition, the relatively expensive and difficult to produce motors used in the disk drives are manufactured in Japan, despite the comparatively high cost of doing business there. This is because Japan offers the human, technical, and physical resources needed to produce these components. The magnetic head assemblies, which are a less expensive component and require less expertise and technology to produce, are manufactured in Thailand. As a result, due to its lower position on this distributed manufacturing "food chain," Thailand benefits from capital investment, worker training, and technology transfer to a much lesser extent than either Singapore or Japan. To move up the food chain, Thailand and other Southeast Asian nations must provide an environment that is better suited to high-technology manufacturing. This means, for example, that the potential host nation must offer an adequate transportation infrastructure, engineering and assembly human resources sufficient for the manufacturing task at hand, a non-onerous legal system, and favorable tax treatment.

A detailed analysis of all the factors involved in selecting a potential host country and in assessing the probable success of technology transfer or investment in Southeast Asia is beyond the scope of this article. Instead, the remainder of this article focuses on several of the considerations that have been especially instrumental in determining the success of such transactions, or that present particularly thorny pitfalls for the unwary. Those factors are the intellectual property protection available in the host country, the licensing requirements of the host country, the tax implications of the contemplated transaction, the degree to which doing business in the host country will require the MNC to engage in bribery or other questionable practices, and the mechanisms available in the host country for resolving disputes and enforcing technology transfer agreements.

A. Intellectual Property Protection in the Host Country

For an MNC planning to invest in Southeast Asia, the level and type of intellectual property protection in a potential host country should be key considerations in determining whether and to what extent to enter into technology transfer ventures in that country.[2] Despite the trend toward international harmonization of intellectual property laws, intellectual property protection remains territorial in nature. While GATT/TRIPS[3] will, when fully implemented, set minimum levels and standards of intellectual property protection for member countries, some important Southeast Asian jurisdictions such as Vietnam and the People's Republic of China are not yet members.[4] Moreover, even with the minimum standards required by international treaties and conventions, the specific intellectual property laws of each jurisdiction are unique and reflect local culture and concerns. As a result, any analysis of the intellectual property laws and other legal structures of a particular nation must include some understanding of the culture of that nation.

In the United States and many other Western countries, intellectual property laws reflect the cultural emphasis on individual rights, values, and ideals. For example, under U.S. law, a patent is an intangible property right under which the patent holder has an exclusive monopoly over the patented invention.[5] With very limited exceptions, a U.S. patent owner cannot be forced by the government to grant a license to a third party to practice the invention. That is, if the patent holder wishes to "sit on" his rights rather than license the

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2. The exact interrelationship of technological investment by foreign companies and the intellectual property protection available in host countries is complicated and not easily quantifiable, although a number of studies have explored it. *See, e.g.*, U.N. TRANSNATIONAL CORPORATIONS & MANAGEMENT DIVISION, DEPT. OF ECON. & SOC. DEV., U.N. Sales No. E.93.II.A.10 (1993); *see also Property Developers, Why Asia Needs Intellectual Property Rights*, FAR EASTERN ECON. REV., Sept. 1, 1994, for a strongly worded editorial on the need for Asian nations to protect intellectual property rights to encourage foreign direct investment.

3. The General Agreement on Tariffs and Trade (GATT), Oct. 30, 1947, T.I.A.S. No. 1700, 55 U.N.T.S. 187, includes in Annex 1C the Agreement on Trade Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods (TRIPS). The United States has ratified this all encompassing treaty and Congress has passed a number of bills to amend U.S. law to achieve GATT/TRIPS compliance.

4. *See* TRIPS, *supra* note 3, part VI, art. 65. Developed countries are obliged to pass legislation conforming to the provisions of TRIPS within one year after entering into the Agreement. A developing country must comply with the TRIPS provisions within four years, while least developed countries have ten years to come into compliance.

5. This period will run for 20 years from the earliest date of filing under TRIPS as implemented by 35 U.S.C. § 154(a)(2) (1993).

invention, he is free to do so. Similarly, with some exceptions, U.S. copyright law and statutory and common law provisions governing trademarks and trade secrets grant individuals exclusive ownership rights in these forms of intellectual property.

However, it is important for MNCs to understand that many Southeast Asian jurisdictions do not enjoy the same history of intellectual property protection and individual ownership as do the U.S. and other Western countries. In addition to operating under civil law or socialist legal systems, countries of Southeast Asia generally reflect in their laws a consensus building, decision making process and a greater concern for the good and protection of the society as a whole (with consequently less protection for individual rights). Given these cultural factors, intellectual property laws in Southeast Asia often include certain limitations to ensure that the rights granted under these laws serve the society as a whole.[6] Although the grantee of these rights is usually given a legal monopoly to exploit the property, the monopoly must be exercised in a manner that benefits society. As a result, an intellectual property owner who chooses simply to sit on his rights or attempts to place "undue" restrictions on licensees may trigger the compulsory licensing provisions in effect in many Southeast Asian countries. Moreover, a foreign MNC that possesses intellectual property rights in valuable proprietary technology may find that, although it has exclusive control over that intellectual property in the U.S. or Europe, it has no right to a similar monopoly once it imports the technology into a Southeast Asian country. In fact, the inventions and trade secrets that underlie the technology may be open for public use.

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6. Of course, in the U.S. and other Western nations, the ultimate goal of IP laws is also to benefit society by promoting innovation and technological advancement. *See, e.g.*, U.S. CONST., art. I, § 8, cl. 8 ("Congress shall have power . . . [*t*]*o promote the progress of science and useful arts*, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.") (emphasis added). The difference is that, under the IP laws of these Western nations, the social benefits are presumed to flow from granting individuals exclusive ownership in their inventions and other forms of intellectual property, while Southeast Asian nations often place limitations on the grant of exclusive individual rights in an effort to ensure that society derives these benefits.

Moreover, despite some general similarities in cultural concerns and priorities, the nature of available intellectual property protection also differs among the individual Southeast Asian nations. As a result, it is important for an MNC to understand and appreciate the specific culture and intellectual property laws of the country in which the MNC is considering doing business. Accordingly, an MNC that is considering entering into a technology transfer agreement should conduct a comprehensive "intellectual property audit" of the protection available in the potential host country for the particular technology that will be transferred.

For example, if the technology being transferred is computer hardware and software, the MNC should determine whether the country's patent laws fully protect the technology, or whether there are limitations as to what is protectable by patent. In some Southeast Asia countries, the patent laws protect computer hardware but not software. Other countries protect combinations of hardware and software by patent, but not "pure" software. In addition, the MNC should discern whether the host country has a comprehensive copyright law and, if so, whether that law protects computer software explicitly. Has the host country acceded to the Berne Convention, the Uniform Copyright Convention, or a bilateral copyright treaty? Does the country's copyright law protect semiconductor topologies ("mask works"), or is protection afforded by a *sui generis* law? What about trade secret protection and the enforcement of confidential disclosure agreements? Are there any limitations on the ability of the owner of a trade secret to maintain the trade secret status of the technology after the expiration of the technology transfer agreement, or does the trade secret stay in the host country and become part of the technical base of the country for others to use?

The intellectual property protection afforded by Thailand illustrates these points. Under the new Thai patent law, computer hardware is protectable by patent, but computer software is not.[7] However, if an invention is composed of a combi-

7. *See* Patents Act, B.E. 2522, ch. 2, part 1, § 9(3) (1979) *amended by* Patents Act (No. 2) B.E. 2535 (1992) (Thail.) (computer programs not protected by patent).

nation of hardware and software, it may be possible to obtain protection for the invention under the guidelines of the Thai Department of Intellectual Property.

Similarly, under the old Thai copyright law, there was no explicit protection for computer software.[8] Even though the new Thai Copyright Act provides protection for computer software consistent with the TRIPS requirements, a foreign transferor of software technology must still examine the limits of and its potential exposure under the new law.[9] For example, is the breadth of the provisions that correspond to the U.S. concept of "fair use" within acceptable limits?[10] In addition, since Thailand does not provide statutory trade secret protection or other equitable remedies under common law, a foreign MNC must consider how best to protect its trade secrets under Thai law.[11] Can the MNC rely upon the existing Thai penal statutes related to protecting confidential information?[12] Or can the MNC anticipate that Thailand will enact statutes for trade secret protection in accordance with the requirements of

8. Copyright Act, B.E. 2521 (1978) (Thail.). The question as to whether or not the old Thai copyright law protected computer software has been the subject of much debate. However, the Juridical Council has ruled that software is covered under the existing copyright law. The Juridical Council ruled that software is a "creative work" that is recorded in a form such as the language COBOL, FORTRAN, or other computer language, and which can be reproduced or adapted, and therefore qualifies as "any other work in the scientific domain." However, the Juridical Council rulings are not binding on Thai courts. *See also* Memorandum of the Juridical Council, Re Enquiry Letter Concerning Legal Problem Under the Copyright Act, B.E. 2521 (1978) (Thail.).

9. *See* Copyright Act, B.E. 2537 (1994) (Thail.).

10. *See, e.g., id.* at B.E. 2521, § 31 (1978). Historically, "personal use" of copyrighted works has been considered to include personal business use. Thus, the use of unauthorized reproductions of copyrighted works in a family business has not been considered an infringement. Under the old act, "personal businesses" also could include large corporations. Under the new act (§ 32), personal family use is still not considered an infringement, but distribution within a business will likely be. However, the dividing line between lawful use and infringement in this area is not well defined.

11. *See* Christopher Moore, *Confidentiality and Nondisclosure Agreements Under Thai Law*, LEX MUNDI WORLD REP., Oct.-Dec., 1993, at 74.

12. Criminal Code, B.E. 2499, § 324 (Thail.), provides in pertinent part: "[W]hoever, by reason of having a position, profession or occupation of trust, discloses or makes use of any secret of another person concerning industry, discovery or scientific invention, which became known or communicated to him, for the benefit of himself or any other person, shall be punished with imprisonment not exceeding six months or fine . . . , or both."

TRIPS,[13] and rely on other mechanisms in the interim to bridge the gap in protection?

As this example illustrates, when structuring a technology transfer agreement, it is critical to conduct a full audit of the extent and nature of the intellectual property protection afforded by the potential host jurisdiction. This audit should encompass not only an analysis of the specific statutory protection available, but also cultural attitudes toward intellectual property ownership rights and the enforcement alternatives and remedies provided under local law. A key factor in this analysis is the type of industry in which the MNC is involved and the specific business activity that the MNC will be undertaking in the host country. For example, manufacturing activities often have relatively high components of know-how, proprietary methods, confidential business data, and trade secrets. Weak protection in the trade secret area in one country may weigh against conducting this type of activity in that country, while stronger trade secret protection in some other Southeast Asian nation would weigh in favor of locating the activity in that country.

Conducting a comprehensive intellectual property audit is an essential step in analyzing the prospective technology transfer venture from both a legal and business perspective. With this audit information in hand, it is in most cases possible to structure an imaginative and successful technology investment in the region - despite the relative lack of intellectual property protection in some Southeast Asian nations.

B. LICENSING REQUIREMENTS OF THE HOST NATION

Many Southeast Asian nations have licensing requirements that apply to foreign investment and technology transfer agreements, and that are intended at least in part to ensure that technology is shared with and benefits the host country. Thus, in addition to conducting an audit of the available intellectual property protection, it is necessary to understand the

13. *See* TRIPS, *supra* note 3, at art. 39 (Protection of Undisclosed Information). Thailand is apparently moving toward enacting civil legislation that would bring it into compliance with this TRIPS provision.

legal requirements for licensing and technology transfer agreements imposed by the host government.

Some Southeast Asian countries (including Thailand, as noted above) include in their patent laws the obligation to exploit a patented invention.[14] Those countries that impose a "strict" obligation to produce the patented invention (known as "working" the invention) may require the patentee to work the invention in the host country or risk being forced to grant a compulsory license to a third party that will do so. Those countries that impose "partial" or "weak" obligations to work the invention generally allow the patentee to decide whether to exploit the invention through local production, to import the patented technology into the host country, or to license third parties to use the technology in the host country.

The question of whether a country's intellectual property laws contain compulsory licensing provisions under which patent holders can be required to work their patents should be a factor in both selecting a host nation and in structuring any technology transfer agreement to minimize the risk of having such provisions applied against the technology transferor. In addition to determining the existence and extent of such provisions, it is also important to understand the conditions and circumstances under which compulsory license rules have historically been applied by particular countries.

14. The Thai Patent Act provides, in pertinent part, that four years following the filing of a patent application or three years from the patent grant, whichever is later, a third party may file a request with the Director General of the Department of Intellectual Property for a compulsory license to practice the patent. The requester must show that either:

1. The patented product has not been produced, or the patented process has not been applied, in Thailand, without any legitimate reason, or

2. That no product produced under the patent is being sold in Thailand or that, if such a product is being sold, it is being sold at an unreasonably high price or in a manner that does not meet the public demand, without legitimate reason.

Patents Act (No. 2) B.E. 2535, § 46 (1992) (Thail.).

The party seeking the compulsory license must also show that it attempted to negotiate a voluntary license with the patent holder and disclose the terms, conditions, and royalties proposed to the patent holder. Patents Act, *supra*, at § 50.

Significantly, TRIPS places limits on, but does not eliminate, the compulsory licensing requirements that may be imposed by member countries.[15] Under TRIPS, if a compulsory license is required or granted by a host country, the patentee is entitled to some reasonable royalty as determined by the host government. In fact, TRIPS explicitly requires that member states enact laws to provide the patentee with "adequate remuneration . . . taking into account the economic value of the authorization."[16]

One particular type of compulsory license involves a license to exploit a secondary patent owned by a third party that is based on an improvement to a primary patent owned by a foreign technology transferor. If the secondary patent is deemed to be very important to the host country's economy and cannot be practiced by the third party without infringing the primary patent, many Southeast Asian countries will grant a compulsory license in the primary patent to the third party, with the government setting the royalty for the license if the parties cannot agree. With certain limitations, TRIPS permits this type of compulsory license.[17]

In addition to these compulsory licensing requirements, many Southeast Asian countries place other restrictions on technology transfer agreements and licenses. All countries of Southeast Asia permit some form of technology licensing, and the licensor is generally given fairly wide latitude in structuring the license agreement. For example, in all Southeast Asian countries, a patent license may be exclusive or non-exclusive, and the parties are free to select the method for calculating royalties. However, many governments have regulations that control certain other licensing terms, with the goal of restricting licensing provisions that may result in what the government perceives as undesirable economic or social effects. These regulations and policies may, for example, prohibit a patentee from imposing any condition or restriction in a license, or any

15. *See* TRIPS, *supra* note 3, at art. 31 for limitations on the granting of compulsory licenses under the domestic patent laws of member states.
16. *Id.* at art. 31(h).
17. *Id.* at art. 31(l).

royalty, that may amount to an unfair restraint of trade.[18] The patentee may also be prohibited from charging a royalty after its patent expires.[19]

As the preceding discussion shows, regardless of what country it is considering as the host nation for such technology transactions, an MNC should be sure to determine in advance how the patent laws and regulatory requirements of that country will affect the terms of the technology license and the negotiating process. Armed with this knowledge, and with patience and persistence, an MNC can structure a technology licensing agreement that is successful in satisfying both the applicable government requirements and the MNC's goals and interests.

C. TAX IMPLICATIONS OF TECHNOLOGY TRANSFERS

Needless to say, a technology transfer or investment in Southeast Asia can have significant tax implications for the MNC involved. Those implications can differ depending on the nature of the MNC's ownership interest in the company, subsidiary, or joint venture that will receive the technology, as well as the tax relationship between the various countries in which the MNC is doing business. In addition, many countries of Southeast Asia have withholding tax requirements for local companies that are acquiring intellectual property rights, paying royalties for intellectual property licenses, or acquiring technical or legal services from foreign companies.

A thorough review of the potential host country's tax laws can often reveal ways that the proposed transaction may be structured to reduce the tax burden for the parties. For example, Malaysian tax laws provide that a Malaysian company contracting for services with a foreign company must withhold as an estimated tax 10 to 15% on the amounts to be paid to the foreign company under such contracts. However, if the services are "support" services being provided in connection with the sale of equipment (such as training or warranty services), Malaysian taxes may be minimized by structuring the

18. Patents Act (No. 2), B.E. 2535, § 39(1) (1992) (Thail.).
19. *Id.* § 39(2).

transaction to provide the service portion of the contract through a local Malaysian subsidiary or partner company. In addition, the fees, royalties, and equipment costs covered by a contract should be divided and defined in a manner that will minimize the possibility of a foreign government's tax office considering the entire contract price as being subject to taxes.

D. FOREIGN CORRUPT PRACTICES ACT

For U.S. companies and their subsidiaries, it is important to be aware of how the Foreign Corrupt Practices Act (hereinafter FCPA)[20] can affect business dealings with Southeast Asian countries. The FCPA prohibits, among other things, furnishing something of value to a third party for the purpose of influencing that party to do or not to do an act in violation of his lawful duty.[21] Under the FCPA, a person is deemed to "know" that the thing of value will be given to a foreign official if the person is "aware of a high probability . . . that the funds will be so used."[22]

Although the FCPA is primarily directed at preventing bribery of foreign officials and the influencing of foreign government processes, the FCPA is also a potential trap for the unwary MNC that is seeking to establish technology transactions in Southeast Asia. Gift giving and the payment of a little "extra" in appreciation of services promptly performed is common in Asia. This is in addition to those rather clear cut instances in which sums of money are accepted by foreign officials for preferential treatment in the granting of the licenses, approvals, and permissions necessary to proceed with a proposed business transaction.

As these examples suggest, Western concepts of arms length and impartial dealings between government officials and corporate entities are not always directly applicable to Asian traditions and social norms. In Asian countries, the building and maintenance of personal relationships are critical

20. The FCPA is codified in various sections of the U.S. Code: 15 U.S.C.A. §§ 78a, m, dd-1, and dd-2 (West Supp. 1994).

21. 15 U.S.C.A. § 78dd-(a)(3) (West Supp. 1994).

22. *Id.* § 78dd-(a)(3)(B).

to the success of any business endeavor. Thus, the challenge faced by a U.S. company or individual attempting to do business in the region is to avoid violating the FCPA, while at the same time gaining acceptance into the host country's culture.

A published company policy regarding the giving and acceptance of gifts will assist employees of a U.S. company to avoid actions that may be construed as violations of the FCPA. In the event of an alleged violation by an officer or employee, such a written policy is also useful as evidence of the corporate entity's intent to comply with the FCPA.

Recently, the U.S. government began an international campaign to counteract bribery as a hidden trade barrier to American business growth overseas.[23] For many European countries, the payment of a bribe to win a contract is not only legal but also a legitimate business expense deductible on corporate tax returns. According to the U.S. Trade Representative, such "inducements" are considered tax deductible expenses in Austria, Australia, Belgium, Canada, Denmark, France, Germany, Greece, Ireland, Luxembourg, The Netherlands, New Zealand, Norway, Spain, and Switzerland. However, if a U.S. company made such a payment, it would be liable for criminal prosecution under the FCPA. The U.S. position is that the acceptance of such bribes constitutes a barrier to free trade. From a U.S. perspective, the contract should be awarded to the company offering the best technology at competitive prices - a position that, in theory, should benefit the U.S. as the world leader in many areas of high technology.

As trade becomes more globalized, non-tariff trade barriers such as bribes and similar payoffs become increasingly important and problematic. Southeast Asian countries should help to level the playing field for all MNCs by actively seeking to eliminate the effects of bribery and corruption as unofficial, but quite real, non-tariff trade barriers. In the long term, these countries will benefit most by obtaining the best technology at the best price.

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23. *See* James Gerstenzang, *U.S. to Crack Down on Foreign Trade Bribery*, L.A. TIMES, Mar. 7, 1996, at D1.

E. Resolving Disputes and Enforcing Agreements

1. Traditional Methods of Enforcement and Dispute Resolution

Another important question that arises in the negotiation and structuring of technology transfer agreements in Southeast Asia is how the agreements will be enforced and disputes resolved in the all-too-likely event that conflicts arise. As a general rule, an MNC doing business in Southeast Asia should attempt to avoid litigating disputes in the host country's court system if at all possible. One exception to this general rule is that many companies with a history of doing business in the region believe that they will obtain fair treatment in the Courts of Singapore and Hong Kong due to the common law legal history of and/or relative lack of corruption in those jurisdictions. At the other extreme, most experienced companies try to avoid Vietnam's "People's Courts" at all costs.

Thailand is fairly representative of the types of enforcement and dispute resolution issues that can arise in Southeast Asia. Thailand is a civil law country that has not yet developed a common law system of equity and the specific equitable principles required to protect trade secrets and confidential information.[24] As a result, in drafting a technology transfer agreement for a Thailand-based transaction, the MNC should explicitly specify in that agreement the parties' obligations to protect trade secrets and that any failure to adhere to these obligations will constitute a material breach of the agreement. The objective is to create a specific contractual obligation for the licensee to keep the trade secrets of the transferor company secure - an obligation that should generally be enforceable in Thailand and other Southeast Asian courts under relatively well-developed contract law principles.

24. *But see* Civil & Commercial Code, art. IV (Undue Enrichment) and art. V (Liability for Wrongful Acts) (Thail.) for possible avenues of relief in the event a property right is "injured." However, these sections were clearly not written with the protection of trade secrets in mind. Moreover, as noted above, Thailand is developing a civil trade secrets statute to comply with the TRIPS requirements in this area.

In addition, although the unauthorized use or disclosure of trade secrets can constitute a crime under the Thai criminal code, it is difficult to predict if the Thai government would pursue a criminal action against a Thai company for violating its nondisclosure obligations to a foreign MNC.[25] In fact, given the history of Thai criminal enforcement in such business contexts, it is fairly safe to predict that the relevant penal statutes will probably not be adequate to protect the MNC's commercial interests under these circumstances. Accordingly, it is in the MNC's interest to specify some mechanism other than the Thai court system for resolving disputes over trade secret disclosures.

In Vietnam, the legal and administrative enforcement mechanisms for enforcing intellectual property rights and obtaining appropriate relief are in their infancy and undergoing continual reform.[26] The current system is a hodgepodge of procedures and remedies that can best be categorized as an impenetrable jungle,[27] rivaled only by the comparable chaos of the Cambodian and Laotian judicial systems. Given the deficiencies of the judicial and administrative dispute resolution systems in most Southeast Asian nations, MNCs should anticipate that any reliance on these formal systems is likely to yield results that are deficient by Western standards. Even with this acknowledgement, it is usually advisable that the transfer agreement at least refer to, and provide for using where appropriate, the host country's local judicial system in the event of a breach of contract, an infringement of intellectual property rights, or a misappropriation of trade secrets. It is equally essential, however, that the agreement provides for

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25. *See* TRIPS, *supra* note 3.

26. In July of 1994, author Jeffrey Blatt presented a course covering the U.S. legal system and intellectual property laws to the National Office of Industrial Property (NOIP) in Hanoi, along with representatives of other ministries. The participants evidenced a particular interest in the area of U.S. court proceedings, civil enforcement mechanisms, and U.S. Customs activity to curb counterfeiting, as well as strategies to avoid Special § 301 trade sanctions. For a review of recent changes in Vietnam's intellectual property laws intended in part to attract more foreign investment, *see* Thai Nguyen Luu, *To Slay a Paper Tiger: Closing the Loopholes in Vietnam's New Copyright Laws*, 47 HASTINGS L.J. 821 (1996).

27. *See* Harish Mehta, *Vietnam: Surviving the Legal Jungles*, BUS. TIMES (Singapore), Oct. 8, 1992, at 11.

alternative dispute resolution mechanisms to avoid reliance on judicial systems that may prove inadequate to the task.

2. Alternative Dispute Resolution

Most Southeast Asian nations permit the parties to a technology transfer to agree to extra-judicial dispute resolution mechanisms. In fact, some jurisdictions require that the parties first attempt to settle any dispute by negotiation and, if negotiations fail, to submit the dispute to arbitration prior to pursuing a remedy through the court system.[28] Most jurisdictions permit the parties considerable latitude in specifying dispute resolution mechanisms, including arbitration by a designated international body. There are a number of appropriate international arbitration rules and organizations, including the Arbitration Rules of the United Nations Commission on International Trade and the newly created World Intellectual Property Organization Arbitration Center (hereinafter WIPO Center) in Geneva. In addition, the United States and many of the countries of Southeast Asia are members of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (hereinafter Convention). The Convention provides that arbitral awards made between contracting parties by arbitrators appointed by the parties, or awards made by permanent arbitral bodies, are enforceable in the member countries. Thus, an arbitral award made by the WIPO Center would be enforceable in a member country, such as Thailand, Malaysia, or Singapore.[29]

The most helpful alternative dispute resolution provisions are those that provide for a choice of law, that categorize the possible breaches that must be mediated or arbitrated, and that specify the corresponding relief the parties may seek. For example, the agreement may specify a mandatory negotiation or mediation provision that sets out a schedule pursuant to

28. *See, e.g.*, Vietnam Decree No. 201/HDBT, ch. IV, art. 21, (Dec. 28, 1988) of the Council of Ministers on the Licensing of Patents, Utility Solutions, Industrial Design, Trademarks and Know-How [hereinafter Vietnam Decree No. 201/HDBT].

29. 9 U.S.C.A. § 201 (West Supp. 1994); Selected International Conventions to Which the United States is a Party, part VII at IC-11, MARTINDALE-HUBBELL INT'L LAW DIGEST (1994). Southeast Asian member countries include: Thailand, Malaysia, Singapore, Cambodia, Indonesia, and the Philippines.

which the parties must meet and attempt to settle any dispute. If the parties still cannot resolve their differences, the agreement provides an arbitration procedure for those breaches that involve economic loss due to breach or failure to perform. In the case of a breach involving immediate and irreparable harm, it may be best to avoid the arbitration provision, specifying instead that the non-breaching party may pursue interlocutory relief in a jurisdiction selected in the contract or in the local jurisdiction, at the option of the non-breaching party.

III. MISCELLANEOUS CONSIDERATIONS IN DRAFTING A TECHNOLOGY TRANSFER AGREEMENT

In addition to the considerations discussed above, a technology transfer agreement should anticipate and address a number of other concerns and issues. For example, along with clearly identifying the technology to be transferred, the agreement should specify the terms and time periods under which the transfer will actually take place. In many cases, the agreement will also provide for the licensing of a trademark or service mark owned by the licensor as part of the transfer.

If the transaction encompasses the eventual sale in the host country of products produced pursuant to the technology transfer agreement, the licensor may also find it necessary or advisable to provide the licensee with sales and pricing information and other data to assist in marketing and selling the products. It is important to specify in the agreement whether this information is considered proprietary and must be kept confidential by the licensee. Moreover, the agreement should require the return of all trade secret material upon the expiration of the agreement, or upon the demand of the licensor in the event of a breach by the licensee.

Provisions relating to technical assistance and training may also comprise an important part of the technology transfer. When this is the case, the agreement should set forth the number of technical and training personnel to be provided by the licensor and where and under what circumstances the service and training will be delivered, along with specifying which party is to bear the expense of travel, accommodations, and other incidental costs. Moreover, the agreement should carefully define the technical standards and required scope of any documentation relating to the technology.

The use and ownership of improvements to the transferred technology is another key area that the host government may attempt to regulate. A generally accepted provision is that if at any time during the agreement one party discovers or develops an improvement to the transferred technology, that party must notify the other party of the improvement, which is then incorporated into the license agreement.[30] From the transferor's perspective, it is preferable to specify in the agreement that any improvements made or discovered by the transferor or transferee *in the host country* shall automatically be subject to the technology license - although it may not always be possible due to government pressure to limit this provision in this way. Moreover, it is important to provide clear guidelines for the ownership of any such improvements, and whether there is any right to continue to use the improvements after the expiration of the technology license agreement. So-called "grant back" clauses under which the licensee agrees to grant back to the licensor any ownership rights to improvements that the licensee discovers or develops, and under which such improvements are then covered by the original license, are preferable for the licensor but may be rejected by the host government. Such a grant back runs counter to the policy of Southeast Asian governments to retain as much of the technology as possible in the host country.

One of the goals of a carefully drafted technology transfer agreement is to minimize misunderstanding and to avoid material breaches and consequent losses for the technology transferor. To this end, detailed specifications, engineering requirements, test methods, and delivery and payment schedules are essential elements of agreements under which technology will be transferred, manufacturing facilities constructed, or products manufactured for internal sale and possible re-export. The agreement should also provide for the transferee obtaining certificates of readiness for commercial production, complying with test standards and obtaining necessary government ap-

30. *See, e.g.*, Vietnam Decree No. 201/HDBT, *supra* note 28, at ch. II, art. 6.

provals for such compliance, and satisfying other performance milestones. In many agreements, the performance obligations of the transferee may be tied to additional technology transfer or capital investment obligations of the transferor.

It is also important to specify in the transfer agreement the obligations of the parties in the event that a third party claims that its intellectual property rights have been infringed by the technology licensed under the transfer agreement. In general, it is common to require either party to notify the other once either becomes aware of a claim of infringement by a third party. It is also common in licensing technology in Southeast Asia for the agreement to specify that it is the responsibility of the transferor to defend and indemnify the transferee for any damages or costs resulting from such infringements, with the transferee typically being obligated to assist the transferor in mounting the defense.

A related issue arises when a third party is infringing the intellectual property rights of the transferor that are the subject of the license. Here again, technology agreements in Southeast Asia generally require the transferee to report the infringement, and the transferor to take steps to abate the infringement and protect the local market.

In some cases, as in the disk drive assembly plant example discussed earlier and similar "kit assembly" operations,[31] the components of an end product to be assembled in the host country must be imported because the current infrastructure and state of technological sophistication in the host country are insufficient to provide all of the necessary components. From the perspective of the host country, the importation, assembly, and sale of kit-built products are deficient in that such an operation does not adequately contribute to the technology

31. One example of a "kit technology transfer" involves a small U.S. company, Tech-Mark, Inc.. Tech-Mark successfully completed a transaction to sell a $1.2 million dollar, ready-to-operate, 7,400 square foot meat processing plant to China (some assembly required). *See How Many Rolls of Bubble Wrap?*, L.A. TIMES, Sept. 6, 1994, at D1. In addition, Hanoi-based Vietnam Motors Corp. purchases car kits from Mazda Motor Corp. in Japan to assemble vehicles for domestic sale in Vietnam. *See* Dan Biers, *Renewed Rivalry: In Vietnam, Japanese Take Early Lead Over U.S.*, ASIAN WALL ST. J., Aug. 31, 1994.

base of the country. There may also be additional costs for the transferor as a result of higher duties payable on the imported component products. However, such an "assembly" operation may be more palatable to the host government if the agreement includes some form of "localization" plan that is designed to phase in the use of local sources over time for manufacturing all or most of the components needed for production and assembly of the final product. By including this type of plan in the agreement, it may be possible to obtain concessions from the host government, ranging from lower tax rates or tax moratoriums to streamlined routes through the license approval process.

The controlling language of the agreement and its interpretation should also be specified in the contract. In most transactions, English is selected by the parties as the language of interpretation, with a reference version of the contract provided in the language of the host country. In the event of a discrepancy, the English version should prevail. It is also common for both the English and foreign language version of the agreement to be executed. In general, the language for correspondence and other communications between the parties is the same language as that chosen for the contract and its interpretation.

Finally, the agreement should include warranties and insurance requirements as appropriate for the particular transaction. If the agreement includes the sale or purchase of component parts or other goods, the United Nations Convention on Contracts for the International Sale of Goods may apply.[32] This U.N. Convention is comparable to the Uniform Commercial Code in the United States, and sets forth the rights and obligations of a buyer and seller for those areas not covered in the agreement between them. In many instances, the parties may prefer to waive the provisions of the U.N. Convention and rely only on the terms of their express agreement.

32. 15 U.S.C.A. app. 24 (West Supp. 1994), 52 C.F.R. 6262 (1987) (official text of U.N. Version); Selected International Conventions to Which the United States is a Party, part VII at IC-29, MARTINDALE-HUBBEL LAW DIGEST (1994).

IV. CONCLUSION

Structuring a successful technology transfer, license, or sale in Southeast Asia requires considering and addressing a variety of complex issues. Prior to entering into negotiations with the host government or a potential transferee, an MNC should conduct a comprehensive intellectual property audit of the host country and construct a detailed plan for proceeding with the proposed transaction. In its planning, the MNC must weigh the benefits of doing business in the region with the potential risks - including the risk that the MNC may lose some level of its exclusive rights in the technology being transferred. Once the MNC has decided to proceed and negotiations have commenced, it is important for the MNC to be sensitive to cultural issues and to remain flexible and patient without jeopardizing good business judgment. Given the rapid growth and economic potential of Southeast Asian nations, it is likely that these countries will continue to provide strong incentives to encourage foreign direct investment and technology transfer well into the next century. For many MNCs, this opportunity is too good to miss. With patience and persistence, it is possible to structure a technology transfer agreement that succeeds for the long term by addressing the needs and interests of both the MNC and the host nation.