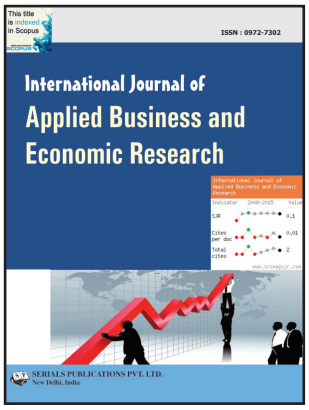

International Journal of Applied Business and Economic Research

ISSN : 0972-7302

available at http: www.serialsjournals.com

Volume 15 • Number 21 • 2017

Peculiarities of the Legislation of the Asean Countries During the Technology Transfer within the Framework of Foreign Investment Projects and by Other Means (in Case of Vietnam, the Philippines and Indonesia)

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ABSTRACT

The article considers the main provisions of the legislation of the ASEAN countries in the field of technology transfer (within the framework of foreign investments projects, by other means). The authors study the regulatory prescriptions in the corresponding sphere at the international, regional and national levels. What is understood under the technology transfer is studied. The creation and activity of enterprises with foreign capital and the peculiarities of contractual arrangements of the technology transfer are emphasized; some aspects of the privileged mode for joint-venture enterprises with foreign companies and sale to the local enterprises under licenses in the form of (non-)patented know-how are covered. The conclusions of the provided material are made.

Keywords: ASEAN, Vietnam, the Philippines, Indonesia, innovations, technology transfer, foreign investments, patenting, license contracts, settlement of disputes.

1. INTRODUCTION

In the modern period, the technologies are the base of progress of any country; they influence directly its economic development and accelerate its rate. That is the reason why innovations and process developments become the factor of the increase of competitiveness. (Belikova, Badaeva, Ifraimov, Akhmadova, Illarionova, et al. 2015). The ASEAN countries are not exclusion.

Many countries face the dilemma: shall they invest money into their own developments and innovations or use the technologies of other countries?

On the one hand, taking into account the transferred technologies, any country obtainsthe possibility to choose and quickly satisfy its own technological needs in various branches of the national economy without performing expensive research, spending time and taking risk of failure. On the other hand, thus it will depend upon the imported technologies. Due to this, at different stages of the national identity development, the country can choose one or another way of development.

During the last 30 years, to decrease the process costs the Western countries transferred their industrial and technological competences into Asia, as a result of which the developing countries (Singapore, etc.) built factories, began to export the finished products and gathered huge wealth (Tilleke & Gibbins 2014).Due to this, there is no necessity, as it seems, to develop their own technological best practices and innovations. They cooperate, use the qualified workforce, create the network of the suppliers, and develop the long-term relations in the main markets of the region. In this sense, the technology transfer is a tool of the state scientific and technical policy as well as R&D using which the state should perform the corresponding control to avoid the dependence from the foreign technologies.

In Vietnam, for example, the technology transfer is determined as a transfer of property right or the right of use of technology based upon the patent by the party having the right to transfer the technology to the receiving party (Cl.8 Art.3 of the Law on Technology Transfer SRV 2006) (*No. 80/2006/QH11,* 2006).The transfer of technologies in the form of services rendering presupposes the assistance to the pre-contract stage, conclusion and execution of the agreement of technology transfer (Cl.12 Art.3, Art. 8 of the Law on Technology Transfer SRV 2006). Such transfer is possible in Vietnam (Cl.9 Art.3), from abroad to Vietnam (Cl.10 Art.3) and from Vietnam to abroad (Cl.11 Art.3). The objects of the transfer are: technical know-how, that is, the knowledge of the transferred technologies in the form of the technological plan, solutions, formulas, parameters, pictures, diagrams, computer programs or data (information); labor-saving solutions or decisions directed to the renewal of the technology (Art.7 of the Law on Technology Transfer SRV 2006).

In the Philippines, the technology transfer is understood as a process during which oneparty transfers systematically the knowledge to the other party for the production of goods (products), application of processes or rendering services and that can include the transfer, concession or licensing of the intellectual property rights (Cl. "o"Art.4 of the Law on Technology Transfer, 2009 No. 10055).(*Philippine Technology Transfer Act,* 2009).

In regard to this, some researchers of the technology transfer into the developing countries (Thalib, 2014) notice that there are two main methods of such transfer: the sale of the patented and unpatented know-how to the local enterprises under license and by the direct investments.

As a rule, the transferred technology shall improve the technological standards, efficiency of production, improve the quality of products or to represent the more rational way of use of energy, natural resources and workforce. Technology shall not serve for the production of unsafe products or damage the environment, destroying the ecological balance.

2. METHODOLOGY

The authors in this work judge from the objective and subjective predetermined outcome of any phenomena and processes of the external world. In this format, the general scientific methods are used in the work: system analysis and generalization of the regulatory and practical materials, as well as formal and dialectic logics: analysis, synthesis, induction, deduction, hypothesis, analogies and special methods of the legal research – comparative legal and historical legal, system analysis and interpretation of the legal norms.

3. RESULTS

It was revealed that together with the general approaches of the ASEAN countries in the field of the technology transfer based upon the idea of the combining of use of foreign technologies with the developing ofown process developments, particular legal norms of such transfer depend upon the local conditions, habits, mentality, needs, social and economic development of every particular country.

They are united by the fact that the legal support of the technology transfer is in the stage of formation and gradually gets the characteristics of a tool of the state policy in the scientific and technical field and on this base it is possible to execute the medium-term and long-term planning.

Moreover, it is counterproductive to rely upon the state only in this field, because the success of the technological development is facilitated by the favorable conditions at the micro level created by the market and market factors. At the same time, on the assumption that the technology transfer is not limited by the purchase of a new technology and it is completed when the receiving party adopted the technology and can develop it, in the ASEAN countries the question of the qualified staff training is acute, especially the staff that can later train the others.

In the broad sense of the word such actions shall be made for the economic development of every of the considered countries.

4. DISCUSSION

4.1. Normative framework of regulation at the international, regional and national levels

At the *international* level, the basis of the regulation consists of the international conventions and agreements of the global character (for example, all 10 ASEAN countries are the participants of the Paris Convention 1883 (*Convention of Industrial Property Protection*, 1883))and the documents of such specialized institutions of UNO as WIPO, UNCTAD and UNIDO.

The sources of the legal regulation of the technology transfer in the ASEAN countries of the *regional* level are not provided: though there is a close economic cooperation between the countries – ASEAN members, there is no special regulation of the technology transfer at this level.

The base of the formation of assumptions at this level is the results of work of the ASEAN special committee on scientific and technical cooperation (Committee on Science and Technology, COST) and its departments (Sub-Committees), the function of which includes also the facilitating and acceleration of the technology transfer (The ASEAN Science and Technology Network, n.d).Although the countries – ASEAN members have not concluded a contract or agreement with each other regulating the process of the technology transfer, practically it goes actively and it is regulated by the laws of the particular countries of the block (Chang 1998).

The absence of the contractual legal mechanisms, regardless the provisions of the Charter of the Objectives of ASEAN Functioning and the significant specific weight of the political decisions and initiatives of the leaders of the ASEAN countries expressed during the summits of ASEAN and in the program documents (for example, Vientiane Action Programme), increase the role of such ASEAN bodies as COST in assembly with the ministers of the scientific research and developments (S&T Ministers), branch (of R&D) of the annual interministerial conference, etc.in solving the particular problems of cooperation in this field at the level of ASEAN and the value of the corresponding national plans of the countries-members.

Moreover, though the objectives and tasks of ASEAN confirmed by the Bangkok Declaration 1967 do not contain an investment component, among the acts of the regional level the Framework Agreement on the ASEAN Investment Area (hereinafter referred to as – Agreement 1986) signed in 1986 is valid that creates the base for attraction of the internal and external investments. To protect the basic interests of investors (property rights, order of expropriation and compensation, disputes settlement, conversion and transfer of currency) the Agreement 1986 provides, firstly, the provision of the national regime by 2010 and tax privileges and cancellation of restrictions for the share of the foreign capital by 2020 for the investors from the ASEAN countries and for the investments from all other counties of the world accordingly; secondly, providing of access to all branches of the national economy for the direct foreign investments by 2010 and by 2020; thirdly, the increase in the volume of cooperation at the level of regulation of the investment flows including the provision of the freedom of movement of capital, technologies, qualified specialists and workforce in the ASEAN countries (Guseynov, 2015).Together with the mentioned act, an additional international and legal mechanism of liberalization of the investment movement is such acts as: Agreement on the ASEAN Preferential Trading Arrangements(1977), ASEAN Free Trade Area Agreement (1992), ASEAN Framework Agreement on Services (1995) and the Basic Agreement on the ASEAN Industrial Cooperation Scheme (1996), agreements of ASEAN free trade zones with other countries of the region (for example, Agreement of Trade between ASEAN and China 2004, etc. (Melkin 2012)), bilateral investment contracts (Kandalintsev 2014).

Except*national* regulatory acts that regulate the technology transfer directly such as civil codes, laws of companies, governmental resolutions on the technology transfer, and other directives, the problem of technology transfer is regulated by the special acts of foreign investments (for example, the Law on Foreign Investments in Vietnam 1987 and the Resolution of the Council of Ministers of SRV No. 18/SR 1993),of the industrial property (for example, the Code of Intellectual Property of the Republic of Philippines (Law of Republic No. 8293)), etc., and the national investment policy of the ASEAN countries is based upon the Western standards of promotion and protection of the foreign investments. Thus, the state can restrict the property law including the foreign one in the public interest but this restriction shall not infringe the interests of private parties.

The peculiarity of the deals of the technology transfer is that the phrase "typical contract on the technology transfer" means many types of the concluded contracts: license contract, contract of know-how transfer and contract of lease, technical support, etc. (Bogatyrev, 1992).It should be mentioned that the "pure" technology transfer in the form of purchase of the licenses or know-how is quite unpopular in many countries therefore, mainly the technology transfer is performed through the projects of foreign investments (for example, in Vietnam). Thus, it seems reasonable to specify the general features of the investment legislation of the considered ASEAN countries.

4.2. Technology transfer within the framework of the projects of foreign investments: some aspectsin case of Vietnam

The specific character of the investment legislation of SRV is that almost half of its acts are sublegislative (acts of the particular ministries and administrations, acts of the government bodies such as the Council of Ministers, etc.). Besides, Vietnam is one of the countries of the modern world that is based in the field of law as well as in the other fields upon the ideas lying in the base of the socialistic organization of the society and that makes impact on the legislation in the field of investments and technology transfer. However, the statutory enactments provide the rights of the foreign investors at the level of international standards (Ho Suan Thang 2003).

The factor having a favorable effect on the extension of flow of the foreign capital in SRV was and still is the privileged tax legislation. Thus, the income tax is 21-25% and can be reduced to 10-14%. And the tax free period for foreign investors is two years. Besides, the legislation of SRV provides the exemptionof the tax payment also during four years. The maximal period of activity of a jointventure in Vietnam is 70 years. For foreign investors acting in the special export and economic zones, the exemption of the tax payment is limited to four-year "tax holidays". And the largest enterprises with foreign capital, as in the other countries (Dudin 2016),are jointventures that make more than 70% of the total number of all enterprises with foreign investments.

The unified body acting in the country and performing the development and approval of investment projects with foreign capital, consideration of the applications, registration and issue of licenses is the Executive Administrative State Committee of Cooperation and Investments (EASCCI). In cases when the volume of foreign investment exceeds 40 mln dollars, the question of establishing of a joint-venture enterprise is solved at the level of the Chairman of the Government.

The order of the creation and registration of jointventures in SRV is realized in the lighter variant of "one window" – EASCCI. Jointventures can be created by establishing or as a result of the acquiring of a share of participation by the foreign investor in the already existing enterprise without the foreign investments.

In SRV, the creation and activity of the enterprises with 100% foreign capital is allowed; they are always established in the form of companies with the limited liability and are Vietnamese legal entities for the term of 20-50 years.

The order of establishment, control and regulation of the activity of such enterprises are analogous to the actions provided for jointventures. For this type of enterprises in Vietnam the privileged taxation is applied, during their activity the companies pay income tax in the amount of 15-20%.

When the technology transfer is performed as a part of the foreign investment project (for example, subparagraph "*a*" Cl. 2, Art. 12 of the Law on Technology Transfer in SRV 2006) it shall be confirmed in a separate contract that is an appendix to the main contract of investment. The other methods of technology transfer in SRV can be the franchise contract, cession contract of industrial property rights, purchase contract of the machines and equipment followed by the technology transfer (subparagraphs "*b*", "*c*", "*d*", Cl. 2, Art. 12 of the Law 2006). Any technology transfer shall be performed on the base of the contract in a written form (Art. 14 of the Law2006). Other equivalent forms of contract as telegraph, telex, facsimile, informational messages, etc. are also allowed. If the technology transfer includes the relations with the foreign element, such party in the contract on the technology transfer can agree the application of

the foreign law and international trading practice provided that the latter does not contradict to the main principles of the Vietnamese Law (Art. 4 of the Law 2006). The new Civil Code of SRV recognizes the order of conclusion of a contract with the foreign counterparty according to which a foreigner concluding the contract, including the investment contracts and the cession contracts on the technology transfer, cannot litigate their validity referring to the fact that at the moment of signing of contracts he/she has not reached the legal age stated by the legislation of the state a citizen of which he/she is, or there are other obstaclesfor his participation in the deal. At this, before the approval of the contract on the technology transfer, the government body responsible for the performance of the said policy (for example, EASCCI) shall receive the written approval from the state body authorized to solve the problems of the technology transfer (Art. 23 of the Law 2006), that is, the State Committee of Science and Technology, and after its approval it shall send the copy and other parts of the contract to it. To use the advantages that the Law on Technology Transfer in SRV 2006 and other laws provide, the parties of the contract can register their contract in the competent state body of control in the field of science and technology (Art. 25 of the Law). Such advantages are not distributed for the technologies created at the expense of the budget funds of SRV (Art. 40 of the Law 2006).

The contract of the technology transfer shall contain: 1) name of the contract that includes the name of the transferred technology; 2) description of the essence of the transferred technology and objects (goods, etc.) that will be created using the transferred technology; 3) the transfer of property right or the right of use of technology; 4) the method of the technology transfer; 5) rights and obligations of the parties; 6) the size of payment (price of the contract) and the methods of payment; 7) term of contract; 8) determination of the special terms used in the contract (if there is a necessity); 9) plan and schedule of the technology transfer and also the place of such transfer; 10) guarantee responsibility of the party transferring the technology; 11) penalty for the breach of terms of the contract; 12) other responsibility for the breach of contract; 13) the right applied in case of necessity of settlement of disputes of the contract; 14) the body where such settlement will take place; 15) other agreements that do not contradict to the Vietnamese legislation (Art. 15 of the Law 2006).

Earlier, the conditions did not include the provision of the term of contract because such terms were established by the regulatory acts and did not exceed seven years but in the cases of necessity it could be prolonged by the state body on request of both parties. Such limitation of the term of contract was the problem for the party transferring the technology when the latter had the longer term of operation and had the detail that cannot be repaired in the short period of time. The provisions of the Law 2006 solved these problems.

The Law 2006 does not allow the inclusion of some provisions into the contract regarding the technology transfer directed to the protection of the national interests, public health, etc. (Art. 11) or technologies directed to the creation of goods (products) that damage the social and economic development or have a pernicious effect on the defense, safety, social order on the country, etc. (Art. 10).

Among other developments of the Law 2006, there is a possibility of issue of compulsory licenses and establishment of the privileged taxation regime for the entities (individuals and legal entities) participating in the promotion of the new technologies. Thus, both categories are exempted from the payment of the income tax or profit tax if the patent or the new technologyis introduced intothe authorized capital of the enterprise (Cl. 1 Art. 44 of the Law on Technology Transfer in SRV 2006).

The Law 2006 established that in the court of original jurisdiction the disputes of the technology transfer between the parties of the contract shall be settled in the course of negotiations (Cl. 1 Art. 55 of the Law) and by the conciliation procedure performed by the mediator (conciliator or the organization that performs the conciliation procedures – Cl. 2 Art. 55 of the Law). If the result is not reached the case is transferred to the arbitration court or to the court of SRV or the foreign state (Cl. 3 Art. 55 of the Law). In this regard, it should be mentioned that during many years in Vietnam the efforts were taken to promote and consolidate the role of the arbitration institutions, first of all, of the Vietnam International Arbitration Centre(http://eng.viac.vn/index.php). It is located in Hanoi and has three offices in Da Nang, Kan-To and Ho Chi Minh City. Among other institutions of this type, we can name the Commercial Arbitration Centre (TRACENT), Indochina Trade Arbitration Centre (ITAC), Pacific International Arbitration Centre (PIAC), ASEAN International Arbitration Centre (ACIAC), etc.(Bezbakh, Belikova, and Badaeva, et al., 2015).

4.3. Technology transfer by methods other than investment projects, in case of the Philippines and Indonesia

Inthe *Philippines*, there are the restrictions for the foreign investments in the trade. The provisions of the Constitution 1987 allow the participation of the foreign capital in the enterprises that exploit the natural resources, up to 40% of shares. And also according to Section 6 of Article 12 of the main law, the property performs the social function and all economic agents shall promote the increase of the general wealth.

Traditionally, the Philippines encourage the foreign investments. The legal basis of this was made by the Law on Foreign Investments 1991 and the Law on Special Economic Zones 1995. The enterprises with the foreign participation can be created according to the laws of the Philippines and other states (The Republic of the Philippines, 2003).

The foreign investors that invest capital into more than one enterprise or company making business in the agriculture or mining cannot have more that 15% of shares (provisions of Section 13 of the Law on Corporations). There are no restrictions of the national or state affiliation in the country for carrying on business by the enterprises with the foreign capital. The only criterion of the restriction is the share of the foreign participation in them. On the whole, according to the local legislation, minimum 60% of the capital of a jointventure shall belong or to be controlled by a citizen of the Philippines by means of participation in the Board of Directors of the enterprise. Also, there are some exclusions according to which the enterprises can be registered having the foreign capital of more than 40% and in some branches of economy the foreign investments are restricted or not allowed at all (retail, trade of rise and corn, mass media, supplies to the government, etc.). The Council of Investments can register the enterprise in several branches of economy with 100% foreign capital if it is an enterprise-pioneer or if it will be oriented to export (at least 70% of the output). Such foreign enterprises shall obtain the status of the Philippine enterprises during 30 years or more.

In 1987, the Parliament approved the special law on the capital investments (Omnibus Investments Code of 1987)that determines the main directions and principles of the investment policy of the Philippines. On the base of this document, several governmental enactments and departmental regulations were developed that regulate the order and procedure of the capital investment into the economy of the country and creation of jointventures.

The general control of the performance of the investment policy is made by the Council of Investments that is subjected to the Department of Commerce and Industry. This Council prepares the plan of priority investments, considers and registers new jointventures and also foreign capital investments into the existing objects.

Annually, the plan of priority investments is developed, that includes the list of branches and separate directions of the economy preferable for the foreign investments and also priority goods for export; thus, the current regulation of the capital investments is performed.

In the situation of the lack of the own financial funds for the financing of the economy, the administration provided the following privileges for jointventures and companies to attract the foreign capital investments:

1. Exemption of the income taxfrom the beginning of the commercial operations for six years for companies-pioneers and for four years for all the others (these terms can be prolonged for a year in some cases);
2. Simplification of customs procedures whilea jointventure imports the equipment, spare parts, raw material and exports the finished products;
3. Access of the foreign technical specialists and consultants to work at the enterprises during five years since the date of registration of such enterprise.

The length of work of the non-Philippine people as the president, manager, financial director or specialists equal to them is not limited. To stimulate the creation of jointventures in the economically weak regions of the country it is provided that a jointventure that will be organized in these regions will receive the rights of the pioneers, and the cost of expenses of the enterprises to create the infrastructure objects in these regions is compensated from the taxes paid by them.

The companies established in the export zones of the Philippines obtain the same privileges as those registered by the Council of Investments. Besides, they are provided the right for the special tax regime for the goods inside the zone, exemption of the local taxes and licenses and also for the property taxes.

However, the above-mentioned Law on Technology Transfer 2009 of the Philippines says that its content is not directed to the regulation of the technology transfer from abroad and does not include the regulations of the research and developments performed on the base of the international bilateral and multilateral agreements in this field (Cl. I Art. 4 of the Law). It is limited in the field of its application by the ideas of creation of the control system, use and commercialization of the intellectual property rights that are the derivatives of the researches and development financed by the government on behalf and in the interests of the Philippines (Art. 5 of the Law 2009). Thus, this issue is solved at the level of bilateral agreements.

In *Indonesia* two main means of technology transfer from the developed countries are used: sale to the local enterprises under license in the form (un)patented know-how and direct investments. Let us consider these issues in detail.

In Indonesia,the patent is a temporary monopoly issued by the state in regard to the invention. The owner of the patent, that is, a patent holder is obliged to use the patent in the territory of Indonesia (Art. 1(6) of the Patent Law No. 14 2001, Indonesia (*Law of the Republic of Indonesia No. 14 regarding Patents*, 2001),

here in after referred to as the Law 2001). Hepossesses the exclusive rights and monopoly for the extraction of the useful properties including the commercial use from his patent personally or by means of giving a consent to other people for manufacture, sale, lease, use, supply for the further sale or hire of product, for protection of which this patent was issued (Art. 16 of the Law 2001). He has the right also to transfer one or several of these powers completely or partially to the other parties (Art. 66 of the Law 2001) or to provide a permissionfor the performance of actions for the performance of which only he has the exclusive right in a particular country during the limited period of time to the other individual or legal entity (Art. 69 of the Law 2001). The latter case concerns the conclusion of the license agreement. The license agreements (different agreements depending upon their type are expressed, implied, statutory, (non)exclusive, limited) shall be concluded in the written form (Art. 72 of the Law 2001) and are subjected to the registration in the different subdivisions ofthe Directorate General of Intellectual Property Rights that has the right to register only the agreements that cannot make damage to the Republic of Indonesia and do not contain the restrictions for the Indonesians in the issue of the technology development (Art. 71, 72 of the Law 2001, Art. 43(3) and 43(4) of the Law on Trademarks, Art. 38C(2) of the Law on Copyright, Article 8 of the Law on Secrets of Production, Art. 35 of the Law on Industrial Samples, Art. 27 of the Law on Topologies of Integral Microcircuits).Until now, there are no bylaws that provide the further regulation of these relations; license agreements can be concluded, but they have no legal force against any third parties and cannot be enforced in court.(Gautama & Winata 2000).

In any case, according to the license agreement, the patent holder is obliged to provide the right for use of the protected object in the volume provided by the agreement to the other party that takes the responsibility to make the payments specified by the agreement and/or perform other actions provided by the agreement.

The content of the license agreement includes the condition of its subject; bonus to the license holder (as a rule, in the form of royalty); term for which the rights are transferred and the territory of their application.

The obligations of the license grantor include the provision of the possibility to perform the transferred rights by the license holder, keeping the patent in force, including the payment of annual state duty.

The obligations of the license holder can include the maintaining of the quality not lower than the quality of the license grantor, informing of the license holder about the improvements and developments of the protected object and products (works, services) manufactured on its base.

The system of such agreements is especially profitable for the developing countries, including Indonesia, because a patent being transferred under the license agreement does not depend any longer upon the will of the possessor of right and anyone can receive the permission and on its base to make the invention on an industrial scale in Indonesia. The disadvantage of such approach is that the license holder cannot be comforted while receiving the non-exclusive license because his competitors can also receive such license and in this case the essence of the obtained advantage from the application of this patent can be decreased significantly. (Ladas, 1975)

Concerning the problem of investments, together with the Law 2001, according to Articles 11 and 12 of the Investment Law No. 25 2007 of Indonesia (*Law of the Republic of Indonesia No. 25 Concerning Investment*, 2007),the enterprises with the foreign capital are obliged to organize and/or provide in an orderly manner the sites for the training and re-training of the Indonesians in Indonesia or outside so that foreign workers can be replaced in time with the Indonesian workers. Such programs can be organized by the employers

or using the services of the third parties (art. 8 of the President decree No. 75 1955 declares this). Non-fulfilment of this obligation of the gradual transition of the employment of the local citizens leads to the obligation of employer to pay the special compensation for the education and training in favor of the Government of Indonesia (Resolution of the Minister of Human Resources No. 143 A/MEN/19 of the obligatory payments for education and training).

5. CONCLUSION

Nowadays, the national doctrine of the investment law in the considered ASEAN countries is starting to form facing a lot of difficulties during the process of its establishment. There are lots of reasons including the condition of the transition period with the typical temporary contradictions between the instructions of the old and new regulatory acts. There is a necessity to make a reform of the national legislations to coordinate them with imperatives resulting from their joining to the ASEAN countries. The relevance of the chosen problem is stipulated by the necessity of the legal analysis of the modern investment regulation of the ASEAN countries, the demand for the interpretation and clarification of the investment norms acting in the country for their practical application, informing of the Russian and foreign scientific and business circles of the ASEAN investment policy. It seems that because the considered ASEAN countries follow the course of the market economy and also the socialistic ideas of economy, for the better understanding they should, first of all, lay down the legal bases for the economic relations based upon the international experience and standards and that is what they are trying to do now.

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