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ASEAN-U.S. ECONOMIC RELATIONS An Overview

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**ASEAN-U.S.
ECONOMIC RELATIONS
An Overview**

Edited by
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and
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Institute of Southeast Asian Studies

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Foreword

The ASEAN Economic Research Unit (AERU) of the Institute was formed in 1979 to promote research and critical thinking, and debate on the economics and related political issues of ASEAN. Priority areas identified for research and discussion include investment, industry, and trade; finance and monetary aspects; food, energy, and commodities; transportation/shipping; and political factors in ASEAN economic co-operation. Within these, work relating to ASEAN economic relations with its main trading partners and sources of investment has been most prominent, including the project on "ASEAN-U.S. Economic Relations".

This project has been designed as a three-year undertaking with each year focusing on a distinct but related aspect of the economic links between ASEAN and the United States. The theme for the first year was "The current state of ASEAN-U.S. economic relations". For this, eight papers were commissioned and presented at a workshop on 22–24 April 1985 in Singapore. They covered patterns of trade between ASEAN and the United States; U.S. investment in ASEAN; transfer of technology by U.S. transnational corporations and contractual arrangements; ASEAN manufactured exports to the United States; U.S. exports of goods and services to ASEAN; and the impact of U.S. policy mix on the ASEAN economies.

Following revisions these papers will be prepared for publication. As this process will take some time, it was felt that summaries of the main conclusions of the papers should be circulated forthwith, so as not to lose the currency of the investigations and findings. Accordingly, the booklet that follows comprises these summaries.

For the workshop and preparation of this booklet, the Institute received assistance from several institutions and it would like to acknowledge its appreciation of such help. It is grateful in particular

to the Asia Foundation for the financial support for the project on ASEAN-U.S. Economic Relations as a whole, as well as to the researchers and the editors for their contributions and promptness in meeting seemingly unreasonable demands and deadlines. While wishing them all the best, it is clearly understood that the responsibility for the accuracy of statements made rests exclusively with the editors and the individual authors.

Kernal S. Sandhu
Director

July 1986

Institute of Southeast Asian Studies

Introduction

Agustin Kintanar, Jr. and Tan Loong-Hoe

The importance of ASEAN-U.S. relations was recently highlighted by President Reagan on the eve of his meeting with ASEAN foreign ministers in Bali, April 1986. President Reagan stated that “support for and co-operation with ASEAN remains the foundation of United States policy in Southeast-Asia”.¹ More substantively and broadly, as one observer cogently pointed out:²

The ASEAN countries are of great political and strategic importance in themselves because they straddle crucial sea-lanes and are neighbours of troubled Indochina. The United States stations military forces in the Philippines under treaty, has an explicit security commitment to Thailand under the Manila Pact, and implicitly depends on the others from hostile external threats. *Thus U.S. economic policy for ASEAN has an important political and strategic dimension.* (Emphasis added)

In a similar vein, the importance of the United States from the ASEAN perspective can be conveyed, for instance:

(a) The Malaysian *New Straits Times* reported that³

Singapore’s Prime Minister Lee Kuan Yew said ASEAN still needed America to balance the strength of Soviet ships and aircraft in this region. The renewal of self-confidence in America has assured ASEAN that America will help maintain the peace and stability of the region. ... *it was the balance of power that had enabled free market economies to thrive.* (Emphasis added)

(b) In his opening statement on behalf of ASEAN, (Singapore was the country-coordinator for the Seventh ASEAN-U.S. Dialogue, 9–10 May 1986) Mr Yeo Cheow Tong, Singapore’s Minister of State (Foreign Affairs), stated:⁴

As a grouping of developing countries which shares important strategic interests with the U.S. in peace and security, ASEAN’s interests should be taken into consideration by the U.S. ... Both ASEAN and the U.S. should consult each other closely on international and bilateral economic issues.

Indeed, although the concern here is on economic relationships between ASEAN and the United States the associated political and strategic factors cannot be overemphasized.⁵

Economic relations between ASEAN and the United States have progressed rapidly, if not impressively, over the years. The bilateral trade accounted for merely US\$945 million in 1967, at the time of the formation of this regional grouping. However, by 1985, ASEAN-U.S. trade had grown about 25 times to US\$23.5 billion. It is also noteworthy that the trade balance is in ASEAN's favour amounting to US\$7.7 billion, which is over three times the amount (US\$2.3 billion) in 1982. As an economic group, ASEAN is the United States' fifth largest trading partner – after the EEC, Canada, Japan, and Mexico. The United States on the other hand, is ASEAN's second largest trading partner after Japan. For instance, in 1983, ASEAN's exports to the United States accounted for about 21 per cent of its total exports while its imports from the United States amounted to about 13 per cent of its total imports. In addition, ASEAN presently accounts for nearly 20 per cent of total U.S. direct investments in developing countries. American investment in ASEAN currently exceeds US\$10 billion.⁶

Despite its own recession, the United States alone provided the major stimulus to ASEAN and the world economy during the first half of the 1980s. As the imports of other developed countries were expanding much more slowly, if at all, the ASEAN countries became more dependent on the U.S. market. The U.S. market has been important to ASEAN for some time and in recent years it is notable that this dependence has increased even more (see Table 1). However, there is certainty that the United States will no longer in the foreseeable future be the locomotive of world economic growth, a factor of considerable importance to ASEAN.⁷

Formal ties between ASEAN and the United States were first established in September 1977 when the United States joined Japan, the EEC, Australia, and New Zealand in a dialogue relationship with ASEAN. This emerged in the wake of the first ASEAN Summit convened in Bali in 1976 and the American withdrawal from Indochina in 1975. The United States' recognition of the dialogue

TABLE 1
External Trade Relations of ASEAN:
Exports as a Percentage of Total Exports

	USA			JAPAN			ENTIRE PACIFIC BASIN ^a		
	1975	1980	1984	1975	1980	1984	1975	1980	1984
ASEAN ^d									
Indonesia	26.27	19.64	20.59	44.10	49.26	47.31	83.83	86.79	87.59
Malaysia	16.09	16.35	13.53	14.35	22.82	22.89	60.85 ^b	67.78 ^b	71.94 ^b
Philippines	29.17	27.53	38.03	37.76	26.61	19.36	75.16	72.44	79.22
Singapore	13.87	12.51	20.04	8.68	8.05	9.37	61.76 ^c	58.91 ^c	65.59 ^c
Thailand	11.05	12.66	17.24	27.60	15.10	13.01	67.93	52.75	54.62

Imports as a Percentage of Total Imports

	USA			JAPAN			ENTIRE PACIFIC BASIN ^a		
	1975	1980	1984	1975	1980	1984	1975	1980	1984
ASEAN ^d									
Indonesia	14.05	13.00	18.44	30.97	31.49	23.83	64.07	69.19	66.50
Malaysia	10.68	15.08	16.06	20.06	22.83	25.98	58.13 ^b	65.09 ^b	71.94 ^b
Philippines	22.05	23.52	27.36	27.19	19.91	13.59	64.39	61.05	65.72
Singapore	15.73	14.11	14.58	16.89	17.95	18.35	55.79 ^c	56.85 ^c	60.66 ^c
Thailand	14.78	14.46	13.44	32.44	21.19	26.92	57.45	54.02	64.04

SOURCE: IMF, *Direction of Trade Statistics* tape and 1984 year book; *Taiwan Statistical Data Book*, 1985, Council for Planning and Development, Republic of China (Adapted from: Lawrence B. Krause, "Key International Economic Issues Facing Southeast Asia", mimeographed, February 18, 1986).

- (a) Pacific-Basin refers to: Australia, Canada, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, Papua New Guinea, Philippines, Singapore, Taiwan, Thailand, United States.
 (b) Does not include Taiwan.
 (c) Does not include Indonesia.
 (d) The countries of ASEAN are: Indonesia, Malaysia, the Philippines, Singapore and Thailand; Brunei joined the Association upon its independence in 1984. Brunei is not included in the above table owing to insufficiency of data.

system with ASEAN's major trading partners initiated by ASEAN clearly demonstrated a renewed American interest in Southeast Asia.

The United States has accorded increasing attention to and notable support of ASEAN. For instance, in August 1978 Secretary of State, Cyrus Vance, convened the Second U.S.-ASEAN Dialogue in Washington, D.C. with significant participation by members of President Carter's cabinet. Also, U.S. Secretaries of State have been attending the Annual ASEAN Post-Ministerial Conference since 1979; and at the July 1985 meeting in Kuala Lumpur, Mr George Shultz, like his predecessors, reaffirmed U.S. interest in and commitment to ASEAN by declaring:⁸

The United States is proud to be a partner of ASEAN in the pursuit of economic development and the quest for peace. ... Our relationship with you is a rich one. The United States is tied to individual countries by history, by treaty commitments and by shared interests.

The U.S. commitment to ASEAN's dialogue system with developed countries is important also to promote the assistance and co-operation of these developed countries for ASEAN's economic development through access to their markets, capital, technology transfer, and technical assistance, especially during times of economic difficulties.⁹

In the 1970s and until recently, the ASEAN countries were capable of sustaining consistently high annual rates of growth.¹⁰ However, countries in ASEAN are currently confronted with the most difficult economic challenges, the major ones being:¹¹

1. the rising tide of protectionism in developed market economies;
2. sharp declines in oil and commodity prices;
3. failure of international commodity arrangements;
4. the increasing burden of foreign debt;
5. unemployment.

These major economic challenges, which are in no small measure induced externally, are substantive economic problems faced by ASEAN countries in their interaction with the United States; for instance:¹²

- (a) Growing protectionist policies emanating from U.S. attempts to reduce its burgeoning trade deficit with Japan have potentially damaging fall-out effects on ASEAN countries. Deputy U.S. Trade Representative, Alan Woods stated that "... over 300 bills were introduced in U.S. Congress in 1985 proposing various measures intended to restrict U.S. imports".¹³
- (b) Lack of U.S. support for international commodity agreements and price stabilization schemes. Indonesia, Malaysia, and Brunei are not encouraged by U.S. participation in international efforts to stabilize oil prices which continued to experience a sharp decline. Thailand, Malaysia, and the Philippines, in particular, are concerned over the disruptive effects on their economies of specific U.S. interventions in the rice, sugar, and tin markets. The U.S. Farm Bill, which provided American farmers with subsidies when it became effective in April 1986, "threatens the livelihood of 30 million poor Thai farmers".¹⁴
- (c) Uneven distribution of U.S. investment in the region; particularly, the excessive concentration of U.S. capital in oil exploration in Indonesia and Malaysia;
- (d) When compared with Japanese investment in ASEAN, the low level of U.S. investment outside the petroleum sector is significant;
- (e) The performance record of American MNCs in the transfer of technology to the ASEAN host countries leaves much to be desired.

From the perspective of the United States, however, there are various outstanding economic problems with ASEAN which U.S. officials in government and business can raise, some of the major ones being:¹⁵

1. Countries in ASEAN need to strengthen their national enforcement of patents and intellectual property rights; copyright and trade mark violations are common in some countries while patent laws are inadequately administered in others.
2. ASEAN countries should open up their service industries to greater international competition. Some ASEAN countries should (a) scale down their domestic protectionism to create conditions more conducive for foreign capital to operate; (b) lengthen the period of permissible foreign equity participation and expedite the

administrative, regulatory and other approvals necessary for foreign business to be established.

3. ASEAN should promote greater freedom across borders for trade-related investments;
4. ASEAN countries as U.S. trading partners should open their markets much more and introduce measures which would promote a greater volume of U.S. imports.

The importance of studying the economic relations between the ASEAN countries and the United States can be attributed to the following fourfold rationale:¹⁶

- (1) The countries in ASEAN were among the fastest growing countries in the world in the last two decades before 1984; perhaps their growth experience may offer some useful guidelines to other developing countries.
- (2) Since the creation of the European Community, the institution of ASEAN seems to be the most important economic and political effort at regional integration. It has most probably the greatest chance of success of all such efforts among developing countries.
- (3) Japan has increasingly become the dominant economic partner of the ASEAN countries. The U.S. ability to compete in the ASEAN region has serious implications for meeting the Japanese challenge globally.
- (4) An examination of U.S. economic policy in the ASEAN context provides insight into the usefulness and appropriateness of U.S. policy more generally; likewise, similar insight can be derived from the study of the foreign economic policies of ASEAN countries.

Some of these problems, together with the challenges and opportunities present in the economic interactions between the ASEAN countries and the United States,¹⁷ are discussed in the eight papers commissioned by the Institute's project on "ASEAN-U.S. Economic Relations". These papers are presently being revised prior to publication. In the meantime, summaries of them are presented here to allow for earlier circulation of findings and conclusions.

Notes

1. "Visit will show importance of ASEAN to U.S." *Straits Times*, 29 April 1986.
2. Lawrence B. Krause, *U.S. Economic Policy towards the Association of Southeast Asian Nations* (Washington, D.C. The Brookings Institution, 1982), p. 68.
3. "Lee reminds ASEAN: We need America", *New Straits Times (NST)*, 24 April 1986. See also Keith Stafford, "Soviet Union woos ASEAN with new trade markets", *NST*, 22 May 1986.
4. "Singapore expresses the region's concern", *Straits Times*, 9 May 1986.
5. Robert C. Horn, "U.S. ASEAN Relations in the 1980s", *Contemporary Southeast Asia* 6, no. 2 (September 1984): 119-34; and Richard Nations, "Symbols not substance: ASEAN gains little from Reagan's visit to Bali", *Far Eastern Economic Review*, 15 May 1980, p. 46:
 'Unless economic growth can be nurtured and developed,' said a confidential memorandum to Reagan outlining the dangers of political instability and social dislocation if the regional economy continues to stagnate, 'ASEAN support for democratic ideals and institutions may be undermined and can cause [it] to be vulnerable to external and internal threats.'
6. "7th ASEAN-U.S. Dialogue: Economic ties 'being eroded' ", *Straits Times*, 9 May 1986. "Address to Council on Foreign Relations: ASEAN growing more important — B.G. Lee", *Straits Times*, 1 July, 1986.
7. Lawrence B. Krause, "Key International Economic Issues Facing Southeast Asia", mimeographed (18 February 1986), pp. 2-3.
8. Statement by H.E. Mr George Shultz, Secretary of State of the United States of America, at the ASEAN-United States Discussions in *18th ASEAN Ministerial Meeting and Post-Ministerial Conferences with the Dialogue Countries*, Kuala Lumpur, 7-13 July 1985 (Jakarta: ASEAN Secretariat), p. 116.
9. For a recent discussion on the scope of ASEAN-U.S. economic cooperation to maximize the chance of the "high-growth scenerio" in the context of global economic development in the future, see Ow Chin Hock, "ASEAN-U.S. Economic Relations: Problems and Prospects", Paper presented at the Conference on U.S.-ASEAN Relations: Prospects for the 1990s, sponsored by the Center for Strategic and International Studies, Georgetown University, Washington, D.C. and Institute of Strategic and International Studies, Malaysia 31 March-2 April 1986, Kuala Lumpur, Malaysia. See also Melvin W. Searls, Jr. "The U.S. Role in ASEAN's Future Economic Growth" and Gastion Sigur, "U.S.-ASEAN Relations", papers presented at same conference.

10. "ASEAN: Economic Situation and Prospects", by Seiji Naya, Chief Economist, Asian Development Bank, Economic Office Report Series No. 12, March 1983 and "ASEAN-Scandinavian Economic Relations: An Overview", Paper presented at the symposium on Economic Relations of Scandinavia and ASEAN, 21–25 October 1985, Centre for Pacific Asia Studies, University of Stockholm, pp. 3–8.
11. See Hans Christoph Rieger, "The Market Economies of Southeast Asia in 1985: ASEAN Pays the Prices", *Southeast Asian Affairs 1986* (Singapore: Institute of Southeast Asian Studies, 1986). Ed Chesky, "Commodities in U.S.-ASEAN Relations", Paper presented at same conference as in fn. 9.
12. "Interview with Reagan: U.S. Stake in a Stable Asia", *New Straits Times* (Kuala Lumpur), 28 April 1986. President Reagan answered questions put to him by five publications in ASEAN countries before leaving Washington for the 19th ASEAN Ministerial Meeting in Bali, 29 April–1 May 1986. The publications are: *Kompas* (Jakarta), *Business Day* (Manila), *Straits Times* (Singapore), *News Straits Times* (Kuala Lumpur), and *Bangkok Post* (Bangkok).
Richard Nations, "Uncle Sam is asked for help: ASEAN Foreign Ministers press Reagan on trade constraints", *Far Eastern Economic Review* (8 May 1986), pp. 14-15.
13. U.S.-Asia Trade Conference Speech, 19 February 1986 in USIS (Singapore) Wireless File, 21 February 1986, p. 19.
14. "Rice Rumbles", (Editorial Review and Outlook) *Asian Wall Street Journal*, 28 April 1986. Also, feature article in *Business in Thailand* (March 1986).
15. Richard Nations, "Symbols, not Substance: ASEAN gains little from Reagan's visit to Bali", *Far Eastern Economic Review* (15 May 1986), pp. 46–47. "Schultz seeks in battle against protectionism: U.S. trading partners urged to buy more", *Business Times* (Singapore), 27 June 1986; "ASEAN seeks reaffirmation of commitment", *Straits Times*, 29 April 1986.
16. This fourfold rationale is essentially drawn from Krause (1982), op. cit., p. 3.
17. See *Singapore Economic Bulletin* (June 1986); pp. 11–12. "Wide range of issues covered at ASEAN-U.S. Dialogue", extracts from the joint press statement issued at the conclusion of the 7th ASEAN-U.S. Dialogue meeting in Singapore, 9–10 May 1986. This is the first such meeting to be hosted by Singapore since it took over from the Philippines last July as country-coordinator of the dialogue series.