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# Enterprise for ASEAN Initiative: Implications for ASEAN and Its Members



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**AUTHORED BY**  
Seiji F. Naya  
East West Center

Michael G. Plummer  
Johns Hopkins University SAIA-Bologna

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**SUBMITTED BY**  
Teri Simpson Lojewski  
Chief of Party & Resident Trade Specialist

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# **Enterprise for ASEAN Initiative: Implications for ASEAN and Its Members**

**By  
Seiji F. Naya<sup>1</sup> and  
Michael G. Plummer<sup>2</sup>**

## **Abstract**

The Enterprise for ASEAN Initiative (EAI) constitutes a rubric under which the United States plans to negotiate bilateral free-trade areas (FTAs) with ASEAN Member Countries. This paper considers the EAI from the perspective of ASEAN and its ten Member Countries. It begins with an analysis of the costs and benefits of negotiating a series of bilateral FTAs between ASEAN Member Countries and the United States, rather than a regional ASEAN-US FTA. Section III gives a statistical survey of the US-ASEAN economic relationship, followed by a brief analytical treatment of policy issues associated with the EAI in the context of the global economy. Next, the paper develops an augmented gravity model to capture the essence of the determinants of US-ASEAN trade and consider its performance over time. A clear “trade bias” is found in this relationship, even if at the individual country level its significance has been falling over time. Finally, the paper develops a novel disaggregated “matching” technique to consider which ASEAN exports will be the most significantly affected by a series of US-ASEAN FTAs, at the regional and individual ASEAN partner-country levels. This approach identifies a number of key products that will likely be affected by FTAs with the United States. Moreover, it shows that the CLMV (Cambodia, Laos, Myanmar, Vietnam) countries will be among the greatest beneficiaries, particularly since their comparative advantage in labor-intensive and agricultural/primary products lies in product lines with the highest level of protection in the United States.

**JEL Codes: F150, F130**

## ***I. Introduction***

During the APEC Annual Summit in October 2002, President Bush announced his desire to pursue a series of bilateral free-trade areas (FTAs) under the rubric of the “Enterprise for ASEAN Initiative” (EAI). The conditions for being included under the EAI were only two in number: (1) ASEAN members needed to be a member of the WTO; and (2) they had to have in place a Trade and Investment Framework Agreement (TIFA) agreement with the United States. This effectively posed no problem for the original ASEAN Member Countries (Indonesia, Malaysia, the Philippines, Thailand and Singapore) and Brunei Darussalam but could impede negotiations with the new members, i.e.,

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<sup>1</sup> East-West Center and the University of Hawaii-Manoa.

<sup>2</sup> Johns Hopkins University SAIS-Bologna.

Cambodia, Laos, Myanmar, and Vietnam (“CLMV”), all of which are transitional economies. Of this group, only Cambodia is now a WTO member-state (as of September 2004). Still, Vietnam has normal trade relations with the United States and a Bilateral Trading Agreement (BTA) and could join the WTO in 2005-2006. Laos and the United States have already negotiated a BTA, similar to the US-Vietnam accord, which was put into place in 2005 when the US Congress granted normal trade relations status to Laos. Only Myanmar is likely to be left on the sidelines for at least the medium-term.

Given that the United States has embraced bilateral and regional trading arrangements as a key commercial policy strategy, ASEAN is a natural priority “target.” As can be seen in Table 1, ASEAN Member Countries differ considerably in terms of size, *per capita* income, and openness. In fact, the coefficient of variation of *per capita* incomes in ASEAN, which is an indication of how diverse the region is, comes to 1.6, among the highest of any economic grouping in the Asia-Pacific region and, indeed, the world.<sup>3</sup> Nevertheless, they are all important and--for most countries--growing trading partners of the United States. If one controls for their size, as discussed below, the US trade with these countries is several *times* more than one would expect if they were randomly-selected partners. Also, the ASEAN Member Countries play host to a more than proportionate share of US multinational investment and have become key to the trade and investment strategies of many American companies. The major push towards greater economic integration in ASEAN over the past decade and a half--from the ASEAN Free Trade Area, or AFTA, to the decision in October 2003 to create an “ASEAN Economic Community” (AEC)--makes it an even more attractive region.

Moreover, the United States has long pondered a series of FTAs with the ASEAN Member Countries. In the late 1980s, the authors of this study were asked to lead a group of both ASEAN and American scholars to study the growing importance of ASEAN-US economic relations and to

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<sup>3</sup> Asian Development Bank (2002). The coefficient of variation is calculated as the standard deviation divided by the mean.

recommend means of strengthening bilateral and regional relations. This study was titled the *ASEAN-US Initiative* (AUI), funded by the State Department and UNDP and published by the Institute of Southeast Asian Nations (Singapore) in late 1989 (Naya, et.al., 1989). The most salient conclusion of this study was that, in order to promote closer relations, a framework agreement should be developed under which the United States and ASEAN could eventually form an FTA. However, it noted that before an FTA could be negotiated, ASEAN needed to deepen economic integration significantly, which it subsequently did. Coupled with the new US interest in bilateralism, “supply” and “demand” appear to be in place, making the moment propitious.

While the motivations for US-ASEAN FTAs are evident, it is less clear why the United States would choose to negotiate with ASEAN Member Countries on a *bilateral* level, rather than as a *group*. The AUI considered a framework agreement that would be ASEAN-wide, though it recognized the need to compensate for regional diversity. The 2004 China-ASEAN FTA includes ASEAN as a region. Although certain Japanese regional initiatives in terms of finance, e.g., the Chiang Mai Initiative, include a regional framework based on bilateral accords, and Japan has negotiated free-trade areas (FTAs) with several ASEAN Member Countries (including Thailand in August 2005), it has ongoing regional initiatives, e.g., within the framework of the “ASEAN+3” (ASEAN plus South Korea, China, and Japan). While The EU has not launched any FTA initiatives with Asian countries yet, it tends to prefer regional accords as well. For example, it had originally negotiated a series of Association Agreements with North African countries using a bilateral approach, but discovered that a region-wide policy would create fewer problems and would be more consistent. Hence the creation of its Global Mediterranean Policy. Why is the United States, then, intent on negotiating its FTAs with ASEAN on a bilateral basis?

**Table 1: Economic Characteristics of the ASEAN and Selected Asia-Pacific Economies**

	Population	GDP	Per Capita GNI		Goods		Goods	
			\$ dollars	PPP	Exports	Imports	Export	Imports
	millions	\$ billions			\$ millions		percentage of GDP	
<b>Developed Countries</b>								
United States	288	10383	35400	36110	693860	1202430	7	12
Canada	31	714	22390	28930	252394	227463	35	32
Japan	127	3993	34010	27380	416726	337194	10	8
Australia	20	409	19530	27.440	65034	72689	16	18
New Zealand	4	59	13260	20550	14363	15077	25	26
China	1280	1266	960	4520	325565	295203	26	23
<b>NIEs</b>								
Hong Kong	7	162	24690	27490	201150	207168	125	128
Korea	48	477	9930	16960	162470	152126	34	32
Singapore	4	87	20690	23730	125177	116441	144	134
Taiwan	19	291	13420	NA	135065	112602	46	39
<b>ASEAN</b>								
Brunei (2)	0.37			18600				
Cambodia	12	4	300	1970	1500	1989	38	50
Indonesia	212	173	710	3070	57130	31288	33	18
Laos	6	1.7	310	1660	298	431	18	26
Malaysia	24	95	3540	8500	93265	79869	98	84
Myanmar	49				3015	2324		
Philippines	80	78	1030	4450	36265	35229	47	45
Thailand	62	127	2000	6890	68853	64721	54	51
Vietnam	80	35	430	2300	16530	19000	47	54
<b>South Asia</b>								
Bangladesh	136	48	380	1770	6093	7914	13	17
India	1049	510	470	2650	49251	56595	10	11
Nepal	24	6	230	1370	568	1419	10	26
Pakistan	145	59	420	1960	9913	11233	17	19
Sri Lanka	19	17	850	3510	4699	6140	28	37
World	6199	32312	5120	7820	6454929	6590272	20	20

Table 1, con'd

	Services		Services		Good and Services				GDP Growth Rate %	
	Exports	Imports	Export	Imports	Exports	Imports	Inv't	Saving	2003	2004
	\$ millions		%GDP		%GDP		%GDP			
<b>Developed Countries</b>										
United States	272630	205580	3	2	9	14	18	14	3	4.3
Canada	36272	41932	5	6	40	38	20	25		
Japan	64909	106612	2	3	12	11	26	26	2.4	4.0
Australia	17443	17740	4	4	20	22	24	22		
New Zealand	5041	4682	9	8	33	34	20	22		
China	39381	46080	3	4	29	27	40	43	9.1	8.8
<b>NICs</b>										
Hong Kong	43333	24800	27	15	151	144	23	32	3.2	7.5
Korea	27080	35145	6	7	40	39	26	27	3.1	4.4
Singapore	29599	27155	34	31	178	165		45	1.1	8.1
Taiwan					51	45			3.3	6.0
<b>ASEAN</b>										
Brunei (2)					53	25				
Cambodia	593	372	15	9	52	59	8	14	5.2	4.5
Indonesia	6517	16779	4	10	37	28	14	21	4.5	4.8
Laos	127	5	8	0.3	25	26	22		5.8	6.5
Malaysia	14753	16248	16	17	114	101	32	42	5.3	6.8
Myanmar	405	364					13	12		
Philippines	3029	4311	4	6	50	51	19	19	4.7	5.5
Thailand	15232	16573	12	13	66	64	24	31	6.8	6.4
Vietnam	2948	3698	8	11	56	65	56	28	7.1	7.5
<b>South Asia</b>										
Bangladesh	305	1391	0.6	3	14	20			5.3	5.5
India	24553	18464	5	4	15	15	23	22	8.2	6.5
Nepal	303	205	6	4	16	29	25	12	2.7	3.6
Pakistan	1536	2093	3	4	19	23	15	14	5.1	6.4
Sri Lanka	1247	966	8	6	36	43	21	14	5.9	5.0
World	1511226	1475405	4,7	4,6	24,7	25,0	20	20		

(1) GNI PPP

(2) Source [www.cia.gov/cia/publications/factbook](http://www.cia.gov/cia/publications/factbook)

Source: World Economic Indicators, 2004, World Bank

The answers are many, and we limit ourselves to a few salient explanations. First, technically the United States could not negotiate with ASEAN as a region due to membership problems related to the CLMV members: it has imposed economic sanctions on Myanmar, and Laos and Vietnam are not yet members of the WTO. Any such agreement, therefore, could not be entirely regional, but rather of the “10-X” sort. Second, even the AUI acknowledged with respect to the ASEAN-6 (the original ASEAN members plus Brunei) that the tremendous diversity of ASEAN posed a great challenge to a US-ASEAN regional accord. ASEAN includes a developed, rich, and resource-poor Singapore; an extremely small, rich, resource (energy) dependent Brunei; middle- to high-middle income, resource-rich Indonesia, the Philippines, Thailand and Malaysia; and, of course, the CLMV, which are still building market economies, not to mention being among the Least Developed Countries (see Table 1). Cultural and political diversity also complicate matters. Coupled with the diverse needs and sensitive industries of the ASEAN Member Countries, how could a regional agreement be possible? The CLMV countries were not even members of ASEAN when the AUI recommendations were tabled.

In sum, there are some strong arguments in favor of bilateral FTAs. However, given that ASEAN itself has an “FTA plus” in place (AFTA, plus many industrial and other accords) and is working toward the AEC, having a common framework for these accords with the ASEAN Member Countries would make a great deal of sense, as it would ensure consistency, minimize policy discrepancies, and actually make it easier for ASEAN to promote intra-regional cooperation in the future (e.g., within the framework of the AEC) due to certain necessary policy harmonization and adoption of “best practices.” This is why the United States chose to negotiate these bilaterals under the ASEAN-based framework that is the EAI.

But we would argue that it is important to consider the economics of the EAI from a regional—rather than merely a bilateral--perspective, that is, not only to include the CLMV countries but also to

consider its overall implications for ASEAN. In this paper,<sup>4</sup> we attempt to do this. In Section II we consider more in-depth the costs and benefits of a bilateral versus a regional approach to accords with the United States from the ASEAN perspective. Section III gives a statistical survey of the US-ASEAN economic relationship, followed in Section IV by a review of policy issues associated with the EAI. Section V considers the EAI from an empirical perspective. First, it uses an augmented gravity model to identify the determinants of US trade with its ASEAN partners and to identify any “trade bias” in favor of trade with the region. Second, it develops a disaggregated “matching” technique to consider which ASEAN exports will be the most significantly affected by a series of US FTAs with the ten Member Countries of ASEAN, at the regional and individual partner-country levels. Section VI gives some concluding remarks.

## ***II. Will Bilaterals be Detrimental to ASEAN?***

Above, we noted that there are reasons as to why the United States chose to launch the EAI as a general rubric for bilateral initiatives, forming a model for various accords that would allow for diversity as well as consistency. However, what will be the costs and benefits to ASEAN of a series of bilaterals, rather than a regional accord? In this section we ponder some of the more salient considerations in this regard.

First, ASEAN has always been skeptical of outside regional agreements that could possibly harm regional solidarity. Given the importance of ASEAN as a regional organization in terms of security, diplomacy, and economics, a dilution of ASEAN integration has always been seen as a threat. Even within the basically innocuous confines of APEC, an organization in which ASEAN itself plays a central role, leaders have been hesitant at times to move forward on economic cooperation. For example, the “Kuching Consensus” endeavored to put limits on the scope of cooperation in APEC

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<sup>4</sup> This paper draws from Naya and Plummer (forthcoming 2005).

beyond mere consultations. The Kuching Consensus was surpassed by events (particularly the “Bogor Vision”) but the hesitancy remains.

The decision of Singapore to begin its own series of FTAs was, therefore, seen as a threat to regional solidarity. However, the organization did accept Singapore’s initiatives, and the ASEAN Member Countries have been negotiating their own FTAs with countries outside the region. Beyond the many Singapore-based preferential trading agreements, Thailand has negotiated FTAs with Japan and Australia (in addition to being in its third round of FTA negotiations with the United States), and it likely will not be long before the Philippines, Malaysia, and Indonesian FTAs with Japan are in place. Nevertheless, ASEAN continues to have a “revealed” preference for negotiating FTAs as a group (“ASEAN+1” initiatives): There are framework agreements in this regard with Japan and China (FTAs to be completed by 2012), Australia and New Zealand (an FTA by 2010, with negotiations having begun in 2005), and even India (A “Regional Trade and Investment Area” by 2007). Moreover, the EU has expressed interest in negotiating an FTA with ASEAN as a group and is commissioning studies to this end.

Hence, the decision to undertake exclusively bilaterals under the EAI with the United States must hold costs as well as benefits. These would include:

***a. Costs of Bilaterals in lieu of a Regional Agreement.***

*1. Possible diluting of ASEAN cooperation.* Traditionally, ASEAN has always placed a key emphasis on solidarity and harmony, through which it could enhance security and political cooperation. And without the harmonious environment created by ASEAN cooperation, the region’s strong economic growth and development would have been extremely difficult, if not impossible. Hence, to the extent that these extra-regional agreements could do damage to the primacy of solidarity and harmony in ASEAN, they could be threatening to the most essential goals of the region.

2. *The “parts” added separately being weaker in negotiations than the “sum of the parts”.* An important motivation for regional economic cooperation relates to the group’s being able to exert influence in regional and international forums in ways that would be far less effective at the bilateral level. In Europe, for example, the customs union created by the EEC with the Treaty of Rome in 1957 allowed the six member states to exert far more forcefully the region’s interests in the GATT and ultimately the WTO than would have been the case had they acted on their own. This effect is even more pronounced in the context of developing-country groups such as ASEAN: individually, from an economic point of view each Member Country is small, but the 500 million people and half-trillion dollar economy are potentially a force to be reckoned with. When ASEAN enters into bilateral accords, it could lose this advantage.<sup>5</sup>

3. *“Spaghetti bowl” problems.* The “spaghetti bowl” effect refers to the Italian pasta dish famous for being highly intertwined. The term is used generally in a derogatory manner by critics of regionalism to underscore problems in terms of coverage diversity, overlap, and “contradictions” associated with a country’s having many different preferential trading agreements. As ASEAN advances into “deeper” levels of economic integration, touching on many non-border and other policy issues, the fear is that bilateral agreements could make regional initiatives in this regard more difficult.

***b. Benefits of Bilaterals in lieu of a Regional Agreement.***

1. *Diversity of ASEAN requires diverse agreements.* As noted above, the fact that ASEAN is so diverse has hampered progress in regional economic initiatives. Relations with non-partner countries are also asymmetric, complicated sometimes by different priorities, historical context, and political objectives. As interaction with non-partner countries generally dominates trade and investment of the ASEAN Member Countries, how external commercial relations are handled is an extremely important

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<sup>5</sup> It is worth noting, however, that this advantage is more theoretical than practical, as ASEAN has never been particularly effective in negotiating as a group in regional and international forums. In part, this is no doubt due to the fact that ASEAN is an FTA, rather than a customs union (like the EEC), and the diversity of economic interests within the region.

issue. A region-wide agreement would require the acceptance of a “lowest common denominator” in terms of an accord; bilateral agreements would allow for more flexibility. For example, the US-Singapore FTA stipulates highly-advanced provisions in terms of financial-sector liberalization, which could even make the US-Singapore a more united market in this area than the EU, which has had a “Single Market” for over a decade and now monetary union. It is unlikely that all ASEAN Member Countries would be in a position to offer the same degree of market access and the same implementation period. Bilateral agreements allow for deeper integration than what a “lowest common denominator” approach would permit (and is really at the core of the problems currently being experienced in the WTO). This would help ASEAN in that it would not impose a “one-size-fits-all” agreement, which could be potentially detrimental to its Member Countries (and could lead to division during the negotiation phase, as each country scrambles to include/exclude various sectors based on its own national priorities). Moreover, in the context of relations with the United States, it is unlikely that limited commitments in a “lower common denominator” approach would satisfy political exigencies in the US body politic anyway.

*2. Timing becomes an important issue: bilateral FTAs allow for faster progress.* A related point to the above would be that, since individual FTAs would be easier to negotiate and implement, the negotiations could be accomplished over a shorter period of time. By allowing the separation of, say, sensitive issues in the Malaysian and Thai context, the negotiators are able to focus on one set of problems at a time, thereby reducing the length of the negotiations and most likely the probability of success, particularly when one considers the diversity of the ASEAN region. Again, this result would derive from less time-consuming and potentially disharmonious issues than would be the case in a regional accord.

*3. From a practical point of view, a truly regional agreement would be impossible due to US-Myanmar problems.* Certain OECD countries, including the United States, were against the accession of

Myanmar to ASEAN in 1997 because of its record with respect to domestic political reform. ASEAN believed that it could make far more progress through “constructive engagement” with Myanmar. One might argue as to whether or not constructive engagement has made progress; most likely a majority of observers would conclude that it has made a difference in terms of economic policy reform, particularly commercial policies, but has not made any significant difference in terms of political reform. And, in any event, the United States and other countries continue to have sanctions in place. The issue has been so sensitive of late that Myanmar backed down from its turn as hosting the presidency of ASEAN due to pressure from within and outside ASEAN. If ASEAN were to insist on negotiating with the United States exclusively as a group, the Myanmar issue would probably have precluded any progress at all.

In any event, the EAI is a reality and ASEAN at this point has signed on to bilateral negotiations. Many of the costs delineated above can be avoided by keeping the bilaterals: (1) open, with minimal discrimination against outsiders; (2) focused on “best practices” and cost minimization strategies regarding “spaghetti bowl” effects; and (3) consistent to the greatest extent possible. Indeed, the fact that the United States explicitly referred to the US-Singapore FTA as a “model” would suggest that it, too, is interested in symmetry across agreements. Moreover, US bilateral FTAs tend to be open and focused on “best practices”, with the possible exception of rules of origin issues. Nevertheless, rules of origin constitute a problem in the context of *all* developed country FTAs. In addition, if the United States *did* accept FTA negotiations with ASEAN as a group, it *still* would have included detailed and highly-complicated rules of origin at the commodity level. For example, NAFTA was only negotiated with two US trading partners and results in 190 pages specifying rules of origin.

ASEAN has also reacted to any threat to regional solidarity and harmony by making a deliberate move to deepen economic cooperation within ASEAN itself. This began with the expansion

and deepening of AFTA and is currently manifesting itself in the decision to create an “ASEAN Economic Community” by 2020.

### ***III. The US-ASEAN Economic Relationship: An Overview***

#### ***A. Bilateral Trade***

Without doubt, the United States has been a key-trading partner of ASEAN. Over the past two decades, the share of the United States in ASEAN exports has grown for Indonesia and Malaysia and stayed fairly constant in the case of Thailand (at about one-fifth of total exports in 2002). While it has fallen in the case of the Philippines, the US share of Philippine exports is the highest of any ASEAN country at one-fourth of total exports in the early 2000s (Table 2). Of the CLMV countries, US trade with Vietnam has grown at an especially rapid pace over the past decade since diplomatic relations were restored, and especially since the implementation of the US-Vietnam Bilateral Trade Agreement (BTA) in 2001.

Tables 2 and 3 summarize the direction of exports and imports, respectively, of the United States, ASEAN, and other selected Asian countries and country groupings in 2002. The United States was by far the most important export market for ASEAN in 2002. It accounted for 18 percent of total ASEAN exports, well ahead of Japan (12 percent) and the EU (14 percent).

At the bilateral level, the United States was the destination of 13 percent of Indonesian exports, in third place behind Japan (21 percent) and the EU (14 percent). It falls to fourth place in terms of imports, behind Japan (14), Singapore (13)<sup>6</sup>, and the EU (12). The United States plays a more prominent role as a trading partner in the cases of Malaysia, the Philippines and Thailand. It is the most important market for Malaysian exports (20 percent of the total) and second to Japan in terms of imports (17 percent), whereas it is number one for the Philippines in terms of both exports (24 percent)

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<sup>6</sup> Most of the trade between Singapore and Indonesia fall under the category of petroleum trade and, hence, “double counting” is an important issue.

and imports (20.6 percent, slightly above Japan's share of 20.4 percent). It is also the largest market for Thailand with a 20 percent share of total exports, well ahead of the EU (14.8 percent), Japan (14.5 percent), and on par with the entire ASEAN-10. As a source of Thai imports, however, the United States is far less important; with only a 10 percent share it is in fourth place behind Japan (23 percent), the EU (11 percent), and the ASEAN-10 (16 percent). The United States is a fairly small market for the oil-dominated exports of Brunei Darussalam (13 percent of the total) and as a source of imports (3 percent).

With respect to the CLMV countries, the United States is by far the most important export market for Cambodia, constituting 42 percent of total exports. However, the United States is a much less important source of imports; in fact, half of all Cambodian imports derive from the rest of ASEAN. The United States is an insignificant market for Laos and Myanmar, at less than one percent of their respective totals. However, with the granting of normal trade relations to Laos by the United States and as the US-Laos Bilateral Trade Agreement comes into force, US-Laotian trade will likely increase rapidly, as it did in the case of Vietnam. Growth in trade with Myanmar, however, will have to wait until the sanctions are removed. The United States was the second most important export market for Vietnam in 2002 with 15 percent of its total exports (significantly behind the EU, which accounted for 24 percent of Vietnam's exports), but was a fairly insignificant source of imports (3 percent). Most of Vietnam's imports are sourced from elsewhere in Asia, with an almost equal share (11-12 percent) sourced from China, Japan, and Singapore.

In fact, the growth in trade of the ASEAN Member Countries is increasingly intra-regional in nature. The "ASEAN Plus Three" (APT) countries (ASEAN-10, China, South Korea, and Japan), which formed the core of the "East Asian Economic Bloc" proposed by Prime Minister Mahathir of Malaysia in December 1990, constituted in 2002 an overwhelming majority of Brunei exports and a majority of exports for Malaysia and Indonesia, as well as a large share of Thai (47 percent) and

Philippine (43 percent) exports. ASEAN dominates Laotian trade, constituting 51 percent and 75 percent of total exports and imports, respectively, and almost accounts for half of Cambodian imports. Myanmar also engages significantly in intra-regional trade, sending 39 percent of its exports to, and receiving 43 percent of its import from, ASEAN. The ASEAN market is less significant to Vietnam (15 percent of exports; 24 percent of imports) but is still important. Moreover, this trend has been market-led, as preferential trading arrangements were not important in Asia over this period, with the possible exception of the ASEAN Free-Trade Area (AFTA), which was being implemented over this period. But it is important to recall the trade-prohibiting/inhibiting regimes that have existed between certain CLMV countries and the West, particularly the United States, which ended up biasing trade in favour of ASEAN.

### ***B. Foreign Direct Investment***

Table 4 summarizes the stock of US FDI (on a historical-cost basis) and US FDI outflows to the world, ASEAN, and China for selected years, 1989-2003. The US FDI stock (or “position”) increased tremendously over this period, growing from \$382 billion to \$1.8 trillion. Moreover, US outflows rose steadily and significantly each year as the 1990s progressed, peaking at \$209 billion in 1999 before settling in to an average of \$134 billion over the 2000-2003 period.

Table 2: Bilateral Exports of US, ASEAN, and Selected Others: 2002

(% and US\$ millions)

OF TO	World (US\$ mill)	IN	MA	PH	SI	TH	BR	ASEAN-6	ASEAN-10	CH	HK	KO	JA	APT <sup>1</sup>	DA <sup>2</sup>	CER	US	NAFTA	EU
Indonesia	57,144	-	3.55	1.36	9.36	2.15	0.06	16.48	17.33	5.08	2.17	7.19	21.08	52.85	39.06	3.63	13.25	13.95	13.87
Malaysia	93,265	1.93	-	1.43	17.11	4.26	0.28	25.01	25.76	5.63	5.69	3.37	11.29	51.74	47.53	2.61	20.19	21.40	12.40
Philippines	36,502	0.56	4.51	-	6.77	2.97	0.01	14.82	15.13	3.71	6.46	3.67	14.50	43.47	36.15	1.03	23.81	25.67	17.44
Singapore	125,087	3.28	17.43	2.43	-	4.56	0.36	28.07	30.09	5.49	9.17	4.16	7.14	56.06	54.96	3.03	15.27	16.17	12.53
Thailand	68,851	2.44	4.12	1.85	8.07	-	0.06	16.53	19.66	5.16	5.37	2.03	14.52	46.74	36.80	2.68	19.64	21.54	14.82
Brunei	2,109	1.50	0.20	0.02	9.21	19.58	-	30.51	19.58	10.42	0.03	19.92	65.29	115.25	60.92	18.30	13.20	13.38	3.02
ASEAN-6	382,958	2.03	7.39	1.68	7.66	3.13	0.21	22.10	23.77	5.26	6.29	4.08	12.58	51.98	45.75	2.85	17.75	18.97	13.53
Cambodia	2,476	0.03	0.74	0.07	3.10	0.41	0.00	4.36	5.47	0.90	0.33	0.11	2.75	9.57	7.06	0.08	42.08	42.62	16.77
Laos	298	0.05	0.12	0.01	0.15	28.55	-	28.88	51.44	2.95	0.02	0.03	2.05	56.49	55.59	0.11	0.89	1.61	38.09
Myanmar	2,629	1.09	2.65	0.06	3.70	31.61	0.01	39.12	39.25	4.73	0.85	1.94	3.80	50.58	56.80	0.40	13.13	14.26	13.67
Vietnam	15,713	1.50	1.89	1.63	5.43	1.39	0.01	11.85	13.33	6.45	1.50	2.72	7.46	31.45	27.07	15.78	14.96	16.11	24.20
ASEAN-10	404,074	1.99	7.10	1.65	7.51	3.25	0.20	21.71	23.38	5.28	6.03	3.98	12.26	50.92	44.87	3.32	17.75	18.96	13.98
China	325,711	1.05	1.53	0.63	2.14	0.91	0.01	6.26	7.23	-	17.96	4.76	14.89	44.83	33.99	1.59	21.51	23.71	14.81
Hong Kong	200,199	0.43	0.99	1.15	2.02	1.08	0.03	5.71	6.26	39.33	-	1.95	5.37	52.92	51.55	1.35	21.42	23.75	13.26
Korea	162,471	1.94	1.98	1.82	2.60	1.44	0.02	9.79	11.31	14.62	6.24	-	9.32	41.49	38.13	1.64	20.28	23.09	13.37
India	50,447	1.15	1.16	0.77	2.09	1.40	0.01	6.57	7.14	4.10	4.50	2.25	3.77	21.76	23.38	1.17	22.44	25.02	22.42
Japan	416,632	1.50	2.64	2.03	3.40	3.17	0.08	12.82	13.31	9.59	6.10	6.87	-	35.87	43.18	2.34	28.85	31.51	14.71
ASEAN+3 <sup>1</sup>	1,509,087	1.44	3.31	1.49	3.96	2.24	0.08	12.52	13.54	10.85	7.85	4.25	8.21	44.70	42.21	2.23	22.39	24.53	14.20

Table 2: Bilateral Exports of US, ASEAN, and Selected Others: 2002, cont.  
(% and US\$ millions)

OF TO	World (US\$ mill)	IN	MA	PH	SI	TH	BR	ASEAN-6	ASEAN-10	CH	HK	KO	JA	APT <sup>1</sup>	DA <sup>2</sup>	CER	US	NAFTA	EU
Dvlpg Asia <sup>2</sup>	1,299,000	1.08	3.29	1.24	3.96	1.86	0.07	11.50	12.80	10.53	9.77	3.15	10.77	47.02	41.25	2.02	20.25	22.23	14.54
Australia	65,159	2.60	1.91	0.96	4.05	2.10	0.04	11.67	12.10	6.95	2.93	8.33	18.49	48.80	39.32	6.51	9.59	11.49	12.32
New Zealand	14,159	1.47	1.94	1.50	1.25	1.16	0.01	7.33	7.79	4.63	2.03	4.39	11.49	30.32	25.34	20.31	15.53	19.15	14.96
ANZCERTA	79,318	2.40	1.91	1.06	3.55	1.94	0.04	10.90	11.33	6.53	2.77	7.62	17.24	45.50	36.83	8.97	10.65	12.86	12.79
United States	693,000	0.37	1.49	1.05	2.34	0.70	0.01	5.96	6.05	3.18	1.82	3.26	7.42	21.73	17.79	2.15	-	15.96	20.79
Canada	252,381	0.12	0.11	0.08	0.13	0.13	0.00	0.57	0.59	1.01	0.29	0.50	2.04	4.43	2.85	0.33	87.68	88.28	4.18
Mexico	160,038	0.01	0.05	0.01	0.19	0.03	-	0.27	0.27	0.28	0.12	0.13	0.29	1.10	1.17	0.07	89.38	91.14	3.26
NAFTA	1,105,419	0.26	0.97	0.68	1.52	0.47	0.00	3.91	3.97	2.27	1.23	2.18	5.16	14.79	11.97	1.43	32.96	43.36	14.46
EU	2,430,000	0.18	0.32	0.13	0.55	0.26	0.01	1.44	1.52	1.31	0.78	0.64	1.64	5.90	5.51	0.74	9.32	10.77	61.07

Source: IMF, *Direction of Trade Statistics, 2003*

1/ ASEAN-10 plus China, Korea, Japan and Hong Kong

2/ Developing Asia refers to all Asia except for Japan

Table 3: Bilateral Imports of US, ASEAN, and Selected Others: 2002  
(% and US\$ millions)

OF/FROM	World (US\$Mil)	IN	MA	PH	SI	TH	BR	ASEAN-6	ASEAN-10	CH	HK	KO	JA	APT <sup>1</sup>	DA	CER	US	NAFTA	EU
Indonesia	31,285	-	3.31	0.36	13.11	3.81	0.11	20.70	21.52	7.76	0.77	5.26	14.09	48.64	41.32	5.57	8.45	9.84	12.38
Malaysia	79,506	3.21	-	3.27	12.00	3.97	0.01	22.45	22.98	7.74	2.92	5.32	17.82	53.87	45.48	2.18	16.48	17.07	11.38
Philippines	35,397	2.16	3.62	-	6.53	2.97	0.07	15.35	16.09	3.54	4.47	7.78	20.43	47.85	38.34	2.25	20.59	21.40	7.78
Singapore	116,482	4.59	18.22	2.15	-	4.64	0.18	29.78	25.98	7.61	2.44	3.69	12.51	49.80	45.67	2.02	14.26	15.03	11.84
Thailand	64,721	2.41	5.62	1.67	4.49	-	0.70	14.89	16.14	7.61	1.41	3.90	23.02	50.68	35.94	2.62	9.57	10.44	10.98
Brunei	1,635	2.14	17.43	0.28	30.64	2.69	-	53.19	70.74	1.41	3.99	1.77	21.47	99.38	61.83	1.99	3.12	3.19	10.76
ASEAN-6	329,026	3.12	8.35	1.91	5.88	3.30	0.22	22.78	22.05	7.19	2.42	4.71	16.91	50.88	42.59	2.54	13.95	14.75	11.17
Cambodia	2,476	3.07	2.42	0.36	15.67	22.90	0.00	44.43	49.23	11.19	15.06	5.13	3.10	83.71	89.66	0.36	1.29	1.34	4.97
Laos	736	0.11	0.41	0.00	3.94	60.36	-	64.82	75.39	8.11	0.83	0.67	2.67	87.68	86.16	1.73	0.63	0.68	5.85
Myanmar	2,951	2.03	8.91	0.14	19.54	12.06	-	42.68	42.90	27.02	2.37	5.35	4.30	81.94	79.59	0.63	0.39	0.41	3.15
Vietnam	19,976	2.16	3.66	0.57	11.46	5.22	-	23.07	23.58	11.84	4.23	12.33	11.76	63.75	66.17	1.85	3.19	3.43	9.40
ASEAN-10	355,164	3.05	8.03	1.81	6.37	3.73	0.21	23.20	22.61	7.65	2.61	5.14	16.39	52.17	44.64	2.47	13.11	13.87	10.95
China	295,440	1.52	3.15	1.09	2.39	1.90	0.08	10.12	10.56	-	3.65	9.67	18.10	41.99	37.93	2.25	9.22	10.83	13.06
Hong Kong	207,761	0.72	2.45	1.30	4.68	1.83	-	10.98	11.12	44.30	-	4.70	11.30	71.42	68.93	0.92	5.69	6.31	8.50
Korea	152,123	3.10	2.66	1.23	2.25	1.12	0.30	10.67	11.01	11.44	1.11	-	19.63	43.19	27.85	4.42	15.19	16.60	11.25
India	64,960	2.20	2.98	0.15	4.49	0.70	-	10.52	10.93	4.53	2.44	2.34	3.17	23.41	22.37	2.44	6.94	8.07	21.96
Japan	337,194	4.20	3.31	1.93	1.48	3.12	0.45	14.49	15.30	18.33	0.42	4.60	-	38.64	43.61	4.71	17.38	20.03	13.00

Table 3: Bilateral Imports of US, ASEAN, and Selected Others: 2002, cont.  
(% and US\$ millions)

OF/FROM	World (US\$Mil)	IN	MA	PH	SI	TH	BR	ASEAN-6	ASEAN-10	CH	HK	KO	JA	APT <sup>1</sup>	DA	CER	US	NAFTA	EU
ASEAN+3 <sup>1</sup>	1,347,682	2.65	4.31	1.54	3.55	2.59	0.22	14.86	15.06	14.72	1.72	5.35	12.25	48.51	44.76	2.96	12.42	13.89	11.58
Dvlp. Asia <sup>2</sup>	1,224,000	1.71	4.41	1.47	4.24	2.26	0.12	14.22	14.64	12.32	2.17	5.50	16.04	50.67	42.73	2.57	10.87	11.69	11.81
Australia	69,551	3.40	3.04	0.61	3.36	2.44	0.45	13.30	15.00	10.07	1.04	3.73	12.34	42.18	34.69	3.82	18.33	20.11	22.98
New Zealand	14,853	1.24	2.50	0.29	1.80	1.75	0.53	8.11	8.35	8.14	0.44	2.47	12.21	31.61	22.90	22.46	13.88	15.42	19.61
ANZCERTA	84,404	3.02	2.95	0.55	3.09	2.32	0.47	12.39	13.83	9.73	0.93	3.51	12.31	40.32	32.62	7.10	17.55	19.29	22.39
United States	1,202,000	0.86	2.06	0.95	1.26	1.31	0.03	6.46	6.80	11.11	0.81	3.07	10.37	32.16	26.35	0.77	-	29.13	19.32
Canada	221,981	0.28	0.58	0.32	0.28	0.51	0.00	1.97	2.07	4.59	0.29	1.40	4.42	12.76	10.14	0.65	62.65	66.28	11.13
Mexico	168,679	0.31	1.18	0.55	0.92	0.50	-	3.46	3.46	3.72	0.30	2.34	5.54	15.37	12.79	0.35	63.17	65.83	9.75
NAFTA	1,592,660	0.72	1.76	0.82	1.08	1.11	0.02	5.52	5.79	9.41	0.69	2.76	9.03	27.68	22.65	0.71	15.42	38.19	17.16
EU	2,321,900	0.42	0.60	0.29	0.58	0.47	0.00	2.37	2.59	3.12	0.68	0.95	2.89	10.24	9.13	0.48	7.29	8.23	58.62

Source: IMF, *Direction of Trade Statistics, 2003*

1/ ASEAN-10 plus China, Korea, Japan and Hong Kong

2/ Developing Asia refers to all Asia except for Japan

Taking the region together, we find that the stock of US investment in the ASEAN Member Countries came only to about \$87 billion in 2003, or less than five percent of the US total.<sup>7</sup> Singapore accounts for 70 percent of total US FDI in ASEAN. Indonesia, where investment totalled \$10.4 billion, is a distant second, followed by Malaysia (\$7.6 billion), Thailand (\$7.4 billion) and the Philippines (\$4.7 billion).<sup>8</sup> US FDI in the CLMV countries is extremely small; in Vietnam, it came to \$222 million but was close to zero for the other countries. Since the Asian Crisis US FDI outflows to the EAI have varied considerably.

Table 5 presents US FDI outflows to ASEAN from a comparative perspective. Table 5a presents FDI outflows from selected OECD countries to ASEAN (based on OECD data) and Table 5b summarizes FDI inflows reported by the individual ASEAN Member Countries themselves (based on Asian Development Bank data). From Table 5a we note that, as we saw in Table 4, there is no clear trend in US FDI outflows to region but, in general, they are usually only second to Japan. This would be the case even if the Big Four EU countries were aggregated. Table 5 confirms that Singapore has been by far the largest recipient of overall FDI flows to ASEAN.

Thailand's FDI inflows were also larger than any of the other ASEAN Member Countries over the 1998-1999 period (Singapore comes in a close second). If we consider the Asian Crisis to have lasted from July 1997 to August 1998, this period would be the first year and a half of the post-Crisis era. Prior to the Crisis, FDI inflows to Malaysia tended to be on par or higher than those of Thailand. While it is difficult to determine a trend in such a short time period, this change is somewhat puzzling. One argument might be that there was (at least) a short-term cost associated with the imposition of capital controls targeted at short-term capital flows,

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<sup>7</sup> It should be noted at this point that one would think that changes in the US FDI position in ASEAN over, say, a two year time frame would be essentially equivalent to US FDI outflows. From the figures included in Table 4, this does not always seem to be the case; in fact, in certain cases, the differences are substantial (compare, for example, changes in the US FDI position in Singapore over 2000-2001 and net outflows to Singapore. The former are far greater than the latter). This inconsistency, according to the US Commerce Bureau of Economic Analysis, is due to the way that US FDI position abroad is calculated. Variations in this stock can be due to two changes: capital flows (which are recorded as net outflows in our case) *and* valuation adjustments. The two major categories of valuation adjustments are currency adjustments—i.e., changes in exchange rates and whatnot--and “other” adjustments—e.g., differences in proceeds of asset sales and book values and various capital gains and losses.

<sup>8</sup> Brunei actually shows a negative US stock position, but this is due to the way that the figures are calculated, e.g., with respect to the valuation adjustments and capital losses. Suffice it to say that the US position in Brunei is virtually nil.

that is, the (mostly temporary) restrictions on certain financial transactions of foreigners introduced in on September 1, 1998 in Malaysia. These may have negatively affected long-term capital flows (like FDI), even if these latter flows were generally not affected by the package.

#### ***IV. Policy Implications of of a Bilateral Approach to US-ASEAN Economic Relations***

Much has been written on the economics of FTAs. The effect of integration is generally measured in terms of trade creation and trade diversion when tariffs and other trade barriers are eliminated. This measurement is obviously too narrow in terms of actual reality. If the driving force behind policy change is merely reducing tariffs to zero, and tariffs are already fairly close to zero, the net effect cannot be large. But modern FTAs, at least with the United States, go far beyond trade and trade barriers to span issues and concessions affecting foreign investment, e-commerce, intellectual property rights, telecom services, ICT, various key services--such as banking, consulting, and legal services--foreign investment laws, and other areas.

**Table 4 US FDI Outward Position in and Outflows to ASEAN and China, Selected Years 1989-2003**

**a: US FDI Stock in ASEAN (Historical-Cost Basis, US\$ Millions)**

	1989	1990	1993	1996	1997	1998	1999	2000	2001	2002	2003
<b>All countries</b>	<b>381781</b>	<b>430521</b>	<b>564283</b>	<b>795195</b>	<b>871316</b>	<b>1000703</b>	<b>1,215,960</b>	<b>1,316,247</b>	<b>1,460,352</b>	<b>1,601,414</b>	<b>1,788,911</b>
<b>ASEAN-6</b>											
Indonesia	2771	3207	4864	8322	6729	8104	8,402	8,904	10,551	10,341	10,387
Malaysia	1263	1466	1975	5663	6530	5629	6,222	7,910	7,489	6,954	7,580
Philippines	1107	1355	1953	3541	3219	3931	3,517	3,638	5,436	4,642	4,700
Singapore	2998	3975	8875	14912	18026	17550	20,665	24,133	40,746	52,449	57,589
Thailand	1511	1790	2943	5000	4332	5209	5,500	5,824	6,176	7,608	7,393
Brunei	17	26	47	-18	10	62	21	-2	-17	-33	-28
<b>CLMV</b>											
Myanmar	(D)	(D)	(D)	90	(D)	(D)	(D)	(D)	(D)	(D)	(D)
Cambodia				0	0	-1	-2	1	1	1	1
Laos	0	0	0	-2	-4	-6	(*)	(*)	(*)	(*)	(*)
Vietnam	0	0	0	24	15	(D)	168	141	172	222	222
China	436	354	916	3848	5150	6350	9,401	11,140	12,081	10,499	11,877

**b. US FDI Outflows to ASEAN and Selected Asian Countries (US\$ Millions)**

	1989	1990	1993	1996	1997	1998	1999	2000	2001	2002	2003
<b>All countries</b>	<b>37,604</b>	<b>30,982</b>	<b>77,247</b>	<b>84,426</b>	<b>95,769</b>	<b>131,004</b>	<b>209,392</b>	<b>142,627</b>	<b>124,873</b>	<b>115,340</b>	<b>151,884</b>
<b>ASEAN-6</b>											
Indonesia	-65	691	475	956	21	461	505	683	985	1,207	72
Malaysia	50	175	377	1,298	733	-470	-250	1,787	17	-609	763
Philippines	49	177	369	738	107	287	-255	480	970	-597	-325
Singapore	165	620	1743	2,760	3,697	261	3,863	3,688	5,593	4,377	5,699
Thailand	384	316	285	849	-16	424	1,103	722	1,286	1,501	-560
Brunei	10	7	8	-57	25	-19	-20	-24	-15	-17	4
<b>CLMV</b>											
Myanmar	(D)	(D)	(D)	29	(D)	(D)	(D)	(D)	(D)	(D)	(D)
Cambodia				0	0	-1	-1	1	(*)	(*)	(*)
Laos	0	0	0	-2	-2	-2	4	(*)	(*)	(*)	(*)
Vietnam	0	0	0	56	-10	(D)	122	-18	-1	26	-14
China	100	30	556	933	1,250	1,497	1,947	1,817	1,912	924	1,540

Source: US Department of Commerce, Bureau of Economic Analysis website, US Direct Investment: Country position on a historical cost basis and capital flows  
 Note: In this table, unlike in the international transaction accounts, capital outflows are shown without a current-cost adjustment.

In short, US investment in the ASEAN Member Countries has been disappointing to the region's officials in both relative and absolute contexts. Given the inherent benefits of FDI, the priority placed by ASEAN Member Countries on luring FDI to the region, and the critical role of policy in determining FDI, economic cooperation, by lowering transaction costs associated with FDI, could significantly improve incentives for US FDI in the region. This is particularly true for the CLMV countries, who could potentially benefit the most from an increase in US FDI.

**Table 5: OECD FDI Outflows to ASEAN, Selected Years 1985-2000**

**a. FDI Outflows from Selected OECD to ASEAN**

	1985	1990	1995	1996	1997	1998	1999	2000
United States	-108	1979	3411	6657	4532	963	6075	4680
Major EU								
France	68.2	177	251.4	441.3	280.7	1338.8	1660.8	158
Germany	18.7	93.7	1128.4	1059.2	-224.9	395.1	1729.8	1804.2
Italy	..	..	13	76	120.5	26.7	16.1	8.4
UK	263	975	398.4	1988.1	2515.7	-3297.8	3791.6	6065.7
Japan	935	4082	4558	5888.8	7097.7	4404	4197.1	..

Sources: OECD, Int'l Direct Investment Statistics Yearbook 2001, CD-ROM; author's calculations

**b. Inflows Reported by ASEAN Countries:**

<b>ASEAN-6</b>	1989	1990	1995	1996	1997	1998	1999
Thailand	1775.5	2444.0	2068.0	2335.9	3894.7	7315.0	6213.0
Indonesia	682.0	1093.0	4346.0	6194.0	4677.0	-356.0	-2745.0
Malaysia	1667.9	2333.0	4178.2	5078.0	5136.5	2163.4	1552.9
Philippines	563.0	530.0	1478.0	1517.0	1222.0	2287.0	573.0
Singapore	2886.6	5574.7	7206.4	8984.1	8085.2	5492.9	6984.3
<b>CLMV</b>							
Myanmar	7.8	161.0	277.2	310.4	387.2	314.5	216.3
Lao PDR	4.0	6.0	95.4	160.0	86.0	45.0	79.0
Viet Nam	4.0	16.0	2349.0	2455.0	2745.0	1972.0	1609.0
Cambodia	...	....	150.8	293.6	204.0	121.0	125.5
<b>ASEAN Total</b>	7590.8	12157.7	22149	27328	26437.6	19354.8	14608

Source: Asian Development Bank, *Key Economic Indicators*, Table 33, [www.adb.org](http://www.adb.org).

Modern FTAs address many non-border issues that not only tend to increase flows of FDI but also reduce many transactions costs associated with multinational business. As was clearly demonstrated in the case of EU integration with the creation of the Single Market, a key area relates to harmonization of product standards, mutual recognition of product testing, mutual recognition of professional certifications and qualifications, and the like. Many of these areas are covered in the US-Singapore agreement and will likely be an important part of the EAI. Now, it is important to underscore that these areas generally imply the adoption of “best practices,” reducing unnecessary costs, and bolstering competition, rather than creating a “fortress.”

In the case of most recent FTAs, trade and investment in goods and services are affected in various ways, giving rise to income and employment changes and economic growth, lowering transactions costs and stimulating FDI inflows, particularly from outside the region. Increasing FDI inflows from the United States—and from other countries wishing to have duty-free access to the US market—constitutes a prominent incentive for the ASEAN Member Countries. This is especially important in the current ASEAN economic context, as a number of Member Countries have had particularly disappointing inflows of FDI in recent years (noted above). Enhancing FDI should be a major benefit of EAI FTAs. These changes are expected to lead to considerable gains in efficiency and productivity, as well as provide for the necessary groundwork to facilitate technology transfer. Most of these areas are already priorities of the various ASEAN governments. In many ways, modern FTAs will complement government efforts to restructure the economy to enhance its competitiveness and upgrade the industrial base to higher value added sectors.

As ASEAN Member Countries move up the development ladder, they will be competing increasingly in areas in which economies of scale matter, including electronics, chemicals, and auto-related production. They are currently restricted by the small size of each ASEAN market. As

ASEAN integration proceeds apace, exports will have duty-free (or close to duty-free) access to a regional market, but once again, the combined ASEAN market is not that big relative to the domestic markets of the United States, Japan, and the EU. Hence, the EAI—as well as ASEAN+3 initiatives—could help competitiveness in these areas.

Moreover, the non-border issues that are covered in the agreement tend to make frequent reference to WTO protocols, disciplines and agreements, e.g., in the area of services, government procurement, and intellectual property. In this sense, the forced-efficiency related areas are clearly “building blocs” to multilateral cooperation.

#### ***b. International Policy Issues***

Every major FTA or customs union in the world has arguably been more of a political, political-economy, and/or diplomatic tool than an economic one. This is true of the creation of the EEC and its expansion; NAFTA; even APEC. Hence, there are many policy-related considerations that need to be addresses in considering the economics of the EAI. Some of the main issues in the context of the global economy in general and the Asia-Pacific in particular would be:

1. As was apparent from the analysis of Section III, while the United States continues to be a key market for ASEAN Member Countries, intra-regional economic integration in East Asia has been increasing substantially. Moreover, this trend is market-driven, rather than policy-driven, as was arguably the case in the early years of EU integration. Hence, regional initiatives such as AFTA tend to be of the “flag following trade” variety.
2. ASEAN economic cooperation, though in the form of a preferential trading agreement, has unambiguously embraced an outward-oriented approach to trade and investment with other countries

and regions. This “open regionalism” will tend to be welfare enhancing and meets the “qualitative dependency” criteria, that is, regionalism can be efficient provided that it is open.

3. Intra-ASEAN economic integration is being driven by a desire to increase regional economic efficiency in order to increase efficiency and competitiveness at the *global* level, rather than to increase intra-regional trade as a goal in and of itself (as is the case with many other FTAs in the developing world, which are driven more by politics than economics).

4. Economic integration within ASEAN—and with the world in general—is also being used as a means of promoting needed domestic economic reform, in much the same as regional initiatives enabled countries in the EU and NAFTA to undertake reforms that would otherwise have been difficult or impossible. In this sense, we argue that the United States will be the best possible FTA partner for the ASEAN Member Countries.

5. Many of the initiatives that are being developed within ASEAN and between ASEAN Member Countries and other partners, such as the United States, could also have been accomplished under the WTO, at least in theory. However, the WTO process is currently experiencing considerable difficulties and, besides, in some areas much more can be done within a regional framework.

6. Given the importance of Japan as a trading partner and source of FDI, ASEAN Member Countries have a strong incentive to link up with Japan. The fact that Japan has negotiated FTAs with the Philippines, Malaysia, and just signed an accord with Thailand testifies to this. However, as can be seen in these bilaterals, agreements with Japan exclude many sensitive sectors and do not address many of the “hard” policy issues that are necessary to promote and facilitate structural change in the region.

7. While the EU has not negotiated any FTAs with ASEAN Member Countries thus far, ASEAN Member Countries do suffer from the loss of most-favored nation status created by the EU’s complicated “pyramid of preferences,” in which all (original) ASEAN Member Countries find themselves among the lowest preferential rankings (along with other WTO members). The CLMV

countries, however, do generally benefit from the "anything but arms" program for Least Developed Countries, and no doubt this has helped to spur exports (as was noted above, the EU is a key export market for the CLMV countries). ASEAN has also been negatively affected by the Single Market Program, which created a common market in Europe, and will be hurt (though marginally) by the Fifth Enlargement of the EU, which began on May 1, 2004.

8. With respect to the United States, the Bush Administration has been far more aggressive than its predecessors in pursuing FTAs. Many of these are already being undertaken with ASEAN-country competitors. The EAI is an important part of this process and will likely receive a priority in the near future; the USTR is already in the first phase of negotiations with Thailand over a bilateral FTA. The most significant FTA that the United States currently has is NAFTA, and it is a bit too early to gauge just how much trade diversion the region has suffered due to preferential treatment in favor of Mexico. One study actually has estimated a positive effect. However, certain key sectors are no doubt being negatively affected, and there is strong anecdotal evidence that ASEAN is suffering from investment diversion in favor of Mexico. The EAI would allow ASEAN to redeem its most-favored-nation treatment in the US market and could give it a competitive edge over other competitors, most notably China.

9. China is always cited as an important threat to ASEAN, as a competitor both for trade and FDI. It is true that Chinese exports increasingly compete with ASEAN in OECD markets,<sup>9</sup> and while FDI to ASEAN has been volatile and relatively low, China has been among the world's largest recipients. In order to compete with China, ASEAN Member Countries need to concentrate on lowering the costs of doing business, improving productivity, and facilitating market-consistent structural change. In fact, the Chinese Threat strengthens the case for the EAI. The ASEAN Member Countries have the incentive to obtain a competitive edge over China in the US market, and the United States needs to

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<sup>9</sup> See Naya and Plummer (forthcoming 2005).

avoid being locked out of the East Asian integration process, of which China will ultimately be a key protagonist.

## ***V. An Applied Statistical Analysis of the US-ASEAN Economic Relationship***

### ***a. Econometric Approach to Determinants of US-ASEAN Trade***

In Section II, we gave a statistical overview of the relationship between the United States and ASEAN Member Countries in a comparative context. But we were not able to say much about what drives that relationship, outside of certain references to policy change (such as liberalization policies in the ASEAN Member Countries) and various shocks (such as the Asian Crisis). In this subsection, we attempt to evaluate the relationship from an econometric (or “applied statistical”) perspective and ask the question: “to what extent is the US-ASEAN economic relationship ‘special’?” In other words, is US-ASEAN economic interaction on the order of what one would expect from countries with the economic characteristics of the United States and ASEAN?

We attempt to answer this question by using a “gravity model” of international trade flows. This is an econometric procedure in which trade in a certain year is posited as a function of the GDP of the source and partner country (or their product) as a proxy for *size*, *per capita* income of the source and partner country (or their product) as a proxy for *wealth*,<sup>10</sup> distance between the two countries as a proxy for transportation and other “costs,” and an “adjacency” binary (“dummy”) variable to control for whether or not the trading countries have a common border. Some models, as we discuss below, use a number of other variables that might be “exogenous” factors relevant to trade flows. This is essentially the “benchmark” model, that is, it is what we would expect to determine trade flows if special relationships—say, in the form of an FTA, or just a heightened tendency to trade with one

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<sup>10</sup> Modern international trade theory suggests that *per capita* income between countries is correlated positively with trade.

another—did not exist. In order to test the hypothesis that the region really makes a difference, we add a regional dummy variable. For example, if we are interested in whether or not ASEAN as a group is significant for bilateral trade flows globally, we would include a dummy variable which would take on the value one if the two countries trading with each other are both members of ASEAN, and zero otherwise. If the dummy variable is statistically significant and positive, then we conclude that there does, indeed, exist a special relationship (or favorable bias) between ASEAN Member Countries. If the estimated coefficient on the dummy variable is statistically insignificant, however, we conclude that ASEAN as a regional grouping made no difference, that is, being a member of ASEAN gives no additional explanatory power to the model in determining trade flows.

The database provided by Rose (2003)<sup>11</sup> includes international bilateral trade for almost the entire post-World War II period (1948-1999) for 178 (IMF-delineated) trading entities, and encompasses the standard gravity variables we mention above along with some additional ones, that is (we give the expected sign of the estimated coefficient in parentheses): currency union (+), common language (+), common land border (+), if one of the countries is landlocked (-), if one of the countries is an island (+), and whether or not the two countries were recently colonies of the same country (+).<sup>12</sup> Regressions are first run using “pooled” (or panel) data, i.e., we model bilateral trade flows across countries and time. As the database features bilateral flows for 52 years between the 178 countries, this approach allows us to have almost a quarter of a million observations in the unrestricted (that is, the

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<sup>11</sup> In order to exploit data on bilateral flows for as many countries as possible over as long as possible in order to construct our “benchmark” and tests for US-EAI regional relationships, our primary data source is that constructed by Andrew Rose and available from his website as part of research for the article, “Do We Really Know that the WTO increases Trade?,” recently published in the *American Economic Review* (March 2004). The database is available at <http://faculty.haas.berkeley.edu/arose/RecRes.htm#GATTWTO>.

<sup>12</sup> As Rose explains regarding his sources, the trade data come from the Direction of Trade Statistics CD-ROM data (IMF). Population and real GDP data (in constant American dollars) are obtained from the Penn World Table, the World Bank’s *World Development Indicators*, and the IMF’s *International Financial Statistics*. Rose uses the CIA’s *World Factbook* for a number of country-specific variables, including: latitude and longitude, land area, landlocked and island status, physically contiguous neighbors, language, colonizers, and dates of independence. He also adds information on whether pairs of countries were involved in a currency unions and from the WTO to create his indicator of regional trade agreements.

“full-blown”) model. All ASEAN Member Countries are included in the model (but, of course, for different time periods<sup>13</sup>), with the exception of Brunei for which no data were available.

We begin by running three benchmark-model regressions, in which we add to the traditional approach variables accounting for two specifications of ASEAN partnership: (1) Both trading partners for a given bilateral trade flow are in ASEAN (i.e., if so, the bilateral trade flow receives a “one”, zero otherwise); and (2) One of the two trading partners is an ASEAN member. We do this in order to capture not only ASEAN membership in which both ASEAN Member Countries have been members but also to understand how well ASEAN Member Countries have performed in general. We use 1992 as the starting date for the original ASEAN Member Countries, since no major regional trade initiative had been undertaken in ASEAN before AFTA. Next, we include a variable for participation in the Generalized System of Preferences (GSP) program, in which developed countries give preferential treatment to developing countries<sup>14</sup> in certain manufactured and processed agricultural goods. We express the variables in logarithmic terms where possible (obviously, this is impossible with binary variables), which linearizes the equations and allows us to interpret the estimated coefficients as elasticities.

The results of these gravity specifications are provided in Table 6a. The first column includes the results for the entire model, that is, all countries in the system (the “unrestricted” scenario). The model’s “fit” (i.e., how well the independent or right-hand-side variables explain variance in the dependent variable, i.e., bilateral trade flows) is strong, explaining almost two-thirds of bilateral trade flows ( $R^2=0.64$ ). All variables are of the expected sign (that is, they affect bilateral trade just as we thought they would), and all are statistically significant except the binary variable capturing whether or not countries had common colonizers. It is interesting to note that: (1) the largest effects are derived

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<sup>13</sup> These are: Indonesia: 1960-99; Malaysia: 1956-99; the Philippines: 1948-99; Singapore: 1958-99; Thailand: 1950-99; Vietnam: 1998-99; Laos: 1982-99; Myanmar: 1950-97; and Cambodia: 1998-99.

<sup>14</sup> Some more advanced developing countries have been “graduated” from the GSP, e.g., the United States no longer grants GSP treatment to Malaysia. Also, Vietnam, Laos, and Myanmar do not currently benefit from the US GDP program.

for the existence of a common currency. This supports the notion discussed above that groupings cannot pretend that macroeconomic and financial realities do not have an important bearing on the “real” sector (i.e., trade); extreme currency stability obviously has a very strong effect; and (2) distance is critical, supporting the literature on “economic geography”.

With respect to our ASEAN binary variables, we note that being part of ASEAN as a regional grouping does indeed matter (the estimated coefficient on the ASEAN binary variable is 0.879); ASEAN Member Countries do tend to trade more with each other, controlling for all other variables. This would suggest that both countries’ being in ASEAN, *ceteris paribus*, increases bilateral trade by approximately 140 percent ( $\exp^{(0.879)-1} = 140\%$ ) than what we would have expected otherwise. Moreover, just being an ASEAN country makes a difference (estimated coefficient=0.738), though this effect is somewhat less important than the “both in” effect. Thus, at the global level, we have our first conclusion: ASEAN is special.

Table 6b uses the same general specifications as the benchmark model, but runs regressions for selected markets, including the United States. Of greatest interest to us are the estimated coefficients on the two ASEAN-related binary variables. We note that the ASEAN “one-in” coefficient estimate is statistically significant in all regressions, but is especially large in the case of US bilateral trade. This estimated coefficient (1.222) in the US market is actually about two-thirds higher than for the unrestricted (i.e., global) model (0.738) and about three-fourths higher than for the EU regressions (0.68-0.69). Our second conclusion, therefore, is like the first: there does exist a trade bias in favor of US-ASEAN trade.

Our final series of tests regards how special ASEAN and the individual EAI countries in particular have been to the United States *over time*. To answer this question, we estimate our regressions on a yearly basis (rather than including all years at the same time, as in the regressions above) and then report our results for the relevant binary variables. We note the magnitude of the

estimated coefficients in these regressions over time in the form of a chart, in which the y-axis shows the magnitude of the estimated coefficients and the x-axis the year for which a specific regression was run, indicating whether the coefficient was statistically significant or not. We also do this for trade with the EU for comparison.

Chart 1 reports the estimated coefficients on the ASEAN binary variables for the United States and the EU. As expected (given the results of the pooled data above), the estimated coefficients are larger for the US market than for the EU market. Moreover, prior to 1970, there were no statistically significant ASEAN binaries for Europe, whereas they were statistically significant for most of the period 1948-1970 for the United States, albeit with considerable volatility. Since the mid-1980s, i.e., when ASEAN Member Countries began to embrace an aggressive outward-oriented development policy, the magnitudes of the ASEAN binary coefficients have been rising for both the United States and the EU, peaking just before the Asian Crisis. Estimated coefficients for the EU and the United States tend to move together over time.

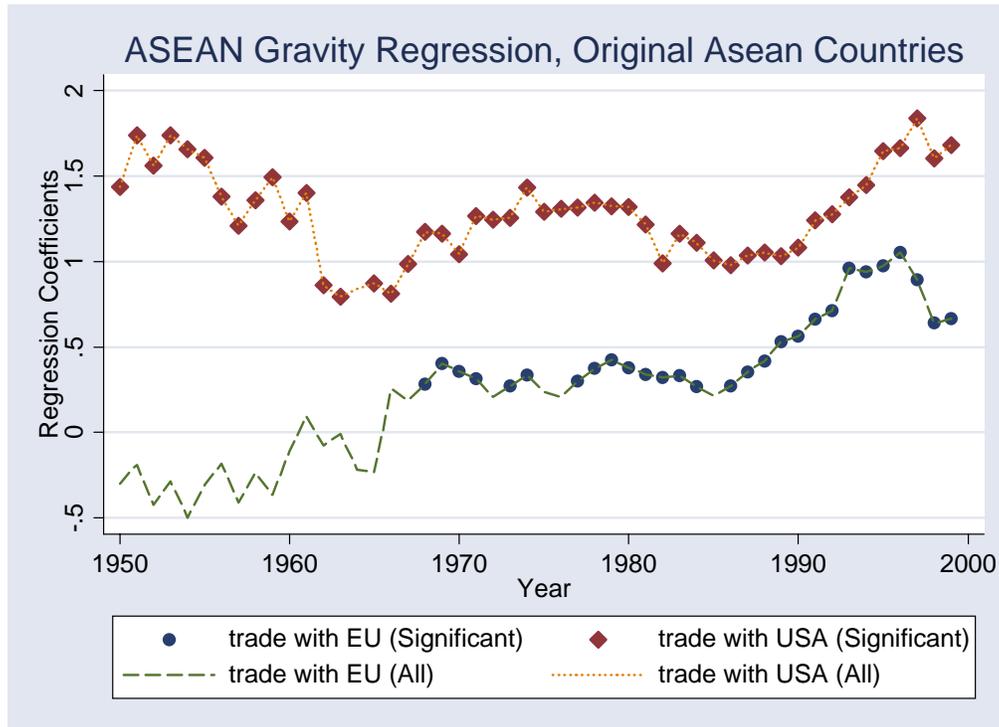
**Table 6a: Gravity Trade Regression Estimates: Benchmark Tests**

	<b>Baseline Model:</b>		
	<b>All Bilateral Trade</b>	<b>International Countries</b>	<b>No Industrial Trade Post 1970</b>
<i>Both In ASEAN</i>	0.879 (3.68)**	0.577 (2.32)*	0.612 (2.58)**
<b>One In ASEAN</b>	0.738 (12.98)**	0.785 (10.86)**	0.773 (13.58)**
<b>GSP</b>	0.849 (26.22)**	0.015 (0.15)	0.838 (24.79)**
<b>Log of Distance</b>	-1.188 (53.80)**	-1.296 (40.91)**	-1.303 (53.81)**
<b>Log of Product of Real GDPs</b>	0.917 (96.28)**	0.934 (58.13)**	0.947 (92.26)**
<b>Log of Product of Real GDPs per capita</b>	0.316 (22.14)**	0.196 (8.30)**	0.320 (21.00)**
<b>Strict Currency Union</b>	1.543 (12.75)**	1.348 (9.44)**	1.507 (10.01)**
<b>Common Language</b>	0.536 (13.58)**	0.367 (6.35)**	0.574 (13.31)**
<b>Land Border</b>	0.502 (4.67)**	0.667 (5.41)**	0.663 (5.76)**
<b>Landlocked</b>	-0.288 (9.03)**	-0.281 (5.60)**	-0.325 (9.54)**
<b>Islands</b>	0.073 (1.98)*	-0.056 (0.92)	0.059 (1.49)
<b>Log of Product of Land Areas</b>	-0.108 (13.39)**	-0.179 (13.22)**	-0.111 (12.79)**
<b>Same Nation/Perennial Colonies</b>	1.744 (1.65)	0.000 (.)	1.677 (1.83)
<b>Constant</b>	-26.917 (73.55)**	-23.419 (38.77)**	-27.797 (68.86)**
<b>Observations</b>	234597	114615	183328
<b>R-squared</b>	0.64	0.47	0.64
Robust t statistics in parentheses * significant at 5%; ** significant at 1%			

**Table 6b: Gravity Trade Regression Estimates: Selected Major Markets**

	Benchmark: All Countries	Trade with US	Trade with NAFTA Countries	Trade with Countries of EU 15, Any Year	Trade with EU, limited by Accession date	ASEAN Trade
<i>Both In ASEAN</i>	0.879 (3.68)**	0.000 (.)	0.000 (.)	0.000 (.)	0.000 (.)	0.959 (4.12)**
<b>One In ASEAN</b>	0.738 (12.98)**	1.222 (4.12)**	1.165 (5.67)**	0.698 (8.40)**	0.683 (7.82)**	0.000 (.)
<b>GSP</b>	0.849 (26.22)**	0.260 (1.85)	0.756 (8.58)**	0.312 (7.22)**	0.199 (4.19)**	0.698 (5.38)**
<b>Log Distance</b>	-1.188 (53.80)**	-1.096 (7.82)**	-1.362 (12.37)**	-0.949 (28.63)**	-0.948 (26.17)**	-1.175 (11.77)**
<b>Log Product of Real GDPs</b>	0.917 (96.28)**	0.881 (16.94)**	0.944 (30.49)**	0.859 (55.89)**	0.860 (47.33)**	0.962 (21.97)**
<b>Log Product of Real GDPs per capita</b>	0.316 (22.14)**	0.392 (5.22)**	0.594 (11.90)**	0.385 (15.21)**	0.339 (12.25)**	0.287 (5.12)**
<b>Strict Currency Union</b>	1.543 (12.75)**	0.612 (2.29)*	0.854 (2.64)**	2.037 (7.75)**	1.795 (3.39)**	0.000 (.)
<b>Common Language</b>	0.536 (13.58)**	0.588 (5.23)**	0.875 (9.45)**	0.879 (11.86)**	0.909 (11.74)**	0.436 (3.48)**
<b>Land Border</b>	0.502 (4.67)**	-0.287 (0.72)	-0.235 (0.48)	-0.231 (1.50)	-0.244 (1.93)	0.013 (0.03)
<b>Landlocked</b>	-0.288 (9.03)**	-0.531 (2.84)**	-0.163 (1.29)	-0.440 (9.69)**	-0.575 (9.86)**	-1.015 (7.08)**
<b>Islands</b>	0.073 (1.98)*	0.128 (0.70)	0.434 (2.88)**	0.004 (0.05)	-0.035 (0.45)	-0.459 (4.44)**
<b>Log Product of Land Areas</b>	-0.108 (13.39)**	0.024 (0.50)	0.064 (2.13)*	-0.016 (1.11)	-0.017 (1.01)	-0.218 (7.00)**
<b>Same Nation/Perennial Colonies</b>	1.744 (1.65)	0.000 (.)	0.000 (.)	1.264 (1.47)	1.444 (1.68)	0.000 (.)
<b>Constant</b>	-26.917 (73.55)**	-29.934 (16.16)**	-36.347 (29.77)**	-28.843 (50.18)**	-28.136 (44.65)**	-25.570 (13.41)**
<b>Observations</b>	234597	6077	15781	71979	42627	5478
<b>R-squared</b>	0.64	0.83	0.79	0.79	0.82	0.68
Robust t statistics in parentheses * significant at 5%; ** significant at 1%						

# CHART 1



## *b. Product Matching Technique Applied to the Trade Effects of the EAI*

In this section, we develop a disaggregated approach to the potential economic effects of the EAI that will be useful to especially businesspeople but also policymakers. The technique is fairly straightforward. We first gather SITC 5-digit data for the exports of the individual EAI countries to the United States, and from the United States to the EAI countries, for the year 2001. This level of disaggregation gives us a maximum of approximately 3000 commodities and is of the greatest detail available under the SITC system. We then rank these commodities by the value of exports to each market. This ranking system shows us clearly which individual products are the most important in bilateral trade.

Next, we have to consider levels of protection. The higher the value of an export and the higher the level of protection facing the proposed FTA partner, the greater is the potential for trade expansion.

Hence, we need to calculate protection at these high levels of disaggregation, which is difficult for two reasons: first, tariff levels of the United States and the EAI countries are published under the HS system and include an even *higher* level of disaggregation than the SITC. Hence, we had to produce a weighted average of HS-based tariffs for each 5-digit SITC commodity, using a correspondence table that maps out the comparable commodities. These are called the “MFN-based” tariffs in our analysis. However, for US protection, we also have to take into account the fact that the United States offers GSP and other forms of preferential treatment to Indonesia, the Philippines, Thailand and Cambodia, whereas Malaysia, Brunei, Singapore, Laos, Myanmar and Vietnam do not currently qualify for this program. Therefore we had to go into each tariff line and assign a zero tariff to any commodity receiving GSP treatment, and recalculate the average tariffs by commodity.<sup>15</sup>

Finally, we would like to estimate how much potential there is in each product for trade expansion under an FTA. We do this by multiplying the value of the product by the change in the tariff (which gives us our price change) and the elasticity of demand, using a rule-of-thumb estimate of  $-1$ .<sup>16</sup> Such an approach has a long tradition in the empirical literature (under the “price-elasticities” approach), though it has not been done before at this level of disaggregation and in this sort of framework. Using  $-1$  as an elasticity for all commodities is obviously a generalization, but there exist no estimates of elasticity demand at the 2-digit level, let along the 5-digit level. Moreover, in many CGE models, elasticities seem to be very close to one for many commodities, though they tend to be somewhat smaller in agriculture and higher in manufactured goods. However, we are interested in merely a general idea of how much an individual export could possibly expand, and this seemed to be

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<sup>15</sup> We are unable to also include NTBs, as information is insufficiently detailed and quantitative estimates of their effects on price are very difficult. We also leave out anti-dumping duties and other administered actions. This poses a problem for agriculture exports of the EAI to the United States, though one might argue that the other area most affected in the US market, textiles and clothing, will see its NTBs abolished in 2005 under its Uruguay Round commitments.

<sup>16</sup> We also make the implicit assumption that the exporting country will be able to supply additional products to the target market at no additional costs, i.e., we assume that the export supply curve is flat (infinitely elastic).

the easiest approach. One can easily adjust these estimates for higher (lower) elasticities by just multiplying through by another parametric value.

To give a concrete example of how this procedure works, let's consider an example from the Indonesian market. The most important Indonesian export to the US market in 2001 was video recording or reproducing apparatus, with a value of \$588 million. How would a proposed FTA with the United States affect Indonesian exporters of this commodity? We first look at levels of protection. The United States does have certain tariffs in this area under the HS system, but they are obviously quite low, as the average tariff comes out to be less than one percent (0.0035 percent). Moreover, the products facing a tariff in the United States in this category are included under the US GSP program, so we assign a zero to them when calculating the applied tariff on Indonesian exports. Hence, the estimated trade expansion in this area will be zero; an FTA would have no effect because Indonesia is already accorded free access to the US market.

However, as was noted at length above, this does not mean that exporters of this product should be indifferent to an FTA. This procedure is useful in terms of supplying information, first in identifying which are the key sectors in bilateral trade (and now we know how important video recording or reproducing apparatus in nominal and relative terms) and second in determining levels of protection. In addition, there could be many non-tariff and indirect aspects of the agreement that could benefit the sector. The increased certainty, transparency, and assurances created by the agreement could make Indonesia a less risky place in which to invest, perhaps bringing more resources to this sector. For example, better protection of intellectual property, which would likely be included in the agreement, would make multinationals less nervous about investing in high-tech areas in Indonesia, which may include video recording apparatus. Thus, our discussion below focuses on tariffs, but it is important to keep in mind that there is much more to the EAI than mere tariff-based trade protection.

The results from this matching technique are presented in Table 7. We begin with a summary of the top ten exports of the ASEAN-10 as a regional group (using the US MFN tariff, for simplicity), followed by the results for the individual ASEAN Member Countries. While space constraints confine us to only ten commodities per country<sup>17</sup>, we do sum the effects of potential trade expansion for each ASEAN Member Countries as well as ASEAN as a whole.

When aggregating all ASEAN exports, we find that by far the most important exports of the region are: (1) digital monolithic integrated circuits and parts; and (2) accessories of certain electronic-related machines, together accounting for over \$13 billion in exports (out of a total of \$50 billion). Trade expansion, however, will technically be zero, as the United States has effectively zero tariffs on these imports. The largest trade expansion estimate is derived therefore for footwear--number 10 on this list—for which relatively high tariffs imply trade expansion of about \$49 million. *In toto* trade expansion is calculated to be approximately 3 percent of total ASEAN exports.

At the individual country level, while video recording or reproducing apparatus is the most important Indonesian export to the US market, “other footwear” (SITC 85132) and “footwear” (SITC 85148) should be able to profit most from an Indonesian-US FTA. This is due both to their relative value (\$203 million and \$420 million, respectively) and size of the US tariff, which is relatively high in both cases (26.8 percent and 7.4 percent, respectively). These items are excluded from the US GSP. Trade expansion should be on the order of \$55 million and \$31 million, respectively.

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<sup>17</sup> Greater commodity detail for all countries and the ASEAN-10 are available from the authors upon request.

**Table 7: ASEAN Exports, US Protection, and Potential Trade Expansion**

**(Top 10 Products in 2001 ranked by export value and Sum Totals; SITC 5-digit Level)**

	<b>US Applied Tariff (%)</b>	<b>Exports (US\$000)</b>	<b>Trade Expansion</b>
<b>A. ASEAN-10 Aggregate</b>			
77641 Digital monolithic integrated circuits	0,000	7769866,4	0,0
75997 Parts, accessories of the machines of group 752	0,000	5552482,5	0,0
77643 Non-digital monolithiques integrated circuits	0,000	2064849	0,0
76381 Video recording or reproducing apparatus	0,004	1767397,5	6185,9
76432 Transmission apparatus with reception apparatus	0,000	1397291,8	0,0
03611 Shrimps and prawns, frozen	0,000	1299255,1	0,0
84822 Rubber gloves	0,057	783963,3	44424,6
03721 Crustaceans, prepared or preserved, n.e.s.	0,030	737298,2	22118,9
89731 Articles of jewellery & parts, of precious metals	0,063	721116,7	45286,1
85148 Footwear, n.e.s., with outer soles of leather	0,074	655171,4	48701,1
<b>Total Included ASEAN Exports: \$49.5 billion</b>			
<b>Total Trade Expansion: \$1.5 billion (3 percent of total exports)</b>			

**B. Indonesia (GSP recipient)**

76381 Video recording or reproducing apparatus	588254,7	0	0
85148 Footwear, n.e.s., with outer soles of leather	419353,1	0,0743333	31171,91
23125 Technically specified natural rubber	310743	0	0
75997 Parts, accessories of the machines of group 752	206470,7	0	0
85132 Other footwear, outer soles & uppers of rubber, pla.	203452,6	0,2683257	54591,56
82159 Other wooden furniture	196244,9	0	0
63431 Plywood, sheets of wood, ply of tropi. or non-conif.	182181,5	0,056	10202,16
84151 Shirts of cotton, for men	145200,4	0,145	21054,06
03611 Shrimps and prawns, frozen	143649,9	0	0
83199 Other holsters, cases, bags & containers, n.e.s.	139643,2	0,0830769	11601,13
<b>Total Expansion Value for All Exports: \$301.1 million</b>			
<b>Expansion as a Percentage of Total Included Exports: 3%</b>			

**C. Malaysia**

77641 Digital monolithic integrated circuits	3408248,9	0	0
75997 Parts, accessories of the machines of group 752	2478967,7	0	0
76432 Transmission apparatus with reception apparatus	1098085,7	0	0
76381 Video recording or reproducing apparatus	945374,7	0,0035	3308,811
77643 Non-digital monolithiques integrated circuits	611069	0	0
84822 Rubber gloves	447353,3	0,0566667	25350,02
76411 Telephone sets	310190,5	0	0
76281 Other radio receivers, combined with sound reprodu.	298854	0,021	6275,934
76211 Radio, external source of power, vehicles, combined	186365,9	0,01	1863,659
76289 Other radio-broad-cast receivers, non-combined	181153,8	0,03	5434,614
<b>Total Expansion Value for All Exports: \$179.3 million</b>			
<b>Expansion as a Percentage of Total Included Exports: 1%</b>			

### **D.Philippines (GSP Recipient)**

77643 Non-digital monolithiques integrated circuits	855309,8	0	0
75997 Parts, accessories of the machines of group 752	412575,5	0	0
77313 Ignit. wiring sets & the like used in vehicl., etc.	288219,3	0	0
77121 Static converters	222464,6	0	0
83199 Other holsters, cases, bags & containers, n.e.s.	183800,8	0,0830769	15269,60068
88541 Wrist watches, electrically powered	124613,9	0	0
76431 Transmission apparatus	103489,2	0,0045	465,7014
84151 Shirts of cotton, for men	100841,4	0,145	14622,003
42231 Coconut oil, crude	99113,5	0	0
83122 Satchels & simil., outer surface of plast. or text.	95143,6	0,127	12083,2372

**Total Expansion Value for All Exports: \$212.4 million**

**Expansion as a Percentage of Total Included Exports: 3%**

### **E. Thailand (GSP Recipient)**

03611 Shrimps and prawns, frozen	799810.1	0	0
89731 Articles of jewellery & parts, of precious metals	649021.3	0.00333333	2.163.404
77641 Digital monolithic integrated circuits	530565.7	0	0
03721 Crustaceans, prepared or preserved, n.e.s.	526482.2	0	0
75997 Parts, accessories of the machines of group 752	309631.3	0	0
84822 Rubber gloves	295463.9	0.0466667	13788.32
84512 Babies' garments & clothing accessories, knitted	247522.3	0.1841579	45583.18
77121 Static converters	233668.7	0	0
83122 Satchels & simil., outer surface of plast. or text.	197387.3	0,088194444	25068.19
77643 Non-digital monolithiques integrated circuits	192253.8	0	0

Total Expansion Value for All Included Exports: \$338 million

Expansion as a Percentage of Total Included Exports: 1.8%

### **F. Brunei**

84371 Shirts, of cotton, knitted or crocheted, for men	18600.6	0,139583333	3.738.721
33542 Petroleum coke	17220.2	0	0
84426 Trousers, bib & brace overalls, shorts, knitted, women	13543.5	1,059027778	2.065.384
33541 Petroleum bitumen, other residues; bitumin. mixtures	8773.03.00	0	0
84512 Babies' garments & clothing accessories, knitted	5286.01.00	0.1841579	9.734.771
84324 Trousers, bib & brace overalls, shorts, knitted, men	5149.03.00	0.1562107	8.043.759
51127 Cumene	4184.03.00	0	0
84599 Garments, knitted or crocheted, n.e.s.	2982.06.00	0.1561428	4.657.116
84489 Other night clothing or bopdywear, knitted, women	2058.04.00	0,575	1.704.355
84483 Nightdresses & pyjamas, knitted or crocheted, women	1764.08.00	0,575	1.461.254

**Total Expansion Value for All Included Exports: \$9 million**

**Expansion as a Percentage of Total Included Exports: 10%**

## G. Singapore

75997	Parts, accessories of the machines of group 752	2144827,8	0	0
77641	Digital monolithic integrated circuits	1307038,6	0	0
77643	Non-digital monolithiques integrated circuits	347783,2	0	0
87229	Other instruments, appli. for medical, etc., sciences	246955,9	0	0
76281	Other radio receivers, combined with sound reprodu.	203598,4	0,021	4275,566
76432	Transmission apparatus with reception apparatus	165085,6	0	0
51577	Other heterocyclic comp. with nitrogen hetero-atom	130652,9	0,0131	1711,553
51569	Heterocyclic compo. with ox. hetero-atom (s), n.e.s.	122118,3	0,0313	3822,303
89219	Other books, brochures & simil., printed, excluding sheets	96037,6	0	0
76493	Parts & accessories of 761, 762, 7643, 7648	95010	0,0181714	1726,467

**Total Trade Expansion for ALL Included Products: \$44 million**

**Expansion as a Percentage of Total Exports: 0.7 percent**

## H. Cambodia (GSP Recipient)

84483	Nightdresses & pyjamas, knitted or crocheted, women	0,083	51072,2	4228,8
84151	Shirts of cotton, for men	0,145	31339,7	4544,3
84282	Nightdresses & pyjamas, for women	0,089	29279,5	2605,9
84119	Coats, capes & similar of other materials, for men	0,111	22391,8	2481,0
84512	Babies' garments & clothing accessories, knitted	0,184	22301,2	4106,9
84371	Shirts, of cotton, knitted or crocheted, for men	0,201	17715,2	3560,8
84561	Swimwear, men's & boys', not knitted or crocheted	0,137	15477,7	2120,4
84843	Hats & other headgear, of other textile fabric	0,082	14895,1	1221,6
84382	Nightshirts & pyjamas, knitted or crocheted, men	0,089	14749,2	1312,7
84169	Other vests, pyjamas & similar articles, for men	0,086	11972,9	1025,2

**Total Included Exports: \$367 million**

**Total Trade Expansion: \$42.1 million (11 percent of Total)**

## I. Myanmar (Assume MFN)

84119	Coats, capes & similar of other materials, for men	0,111	61274,3	6789,19
84371	Shirts, of cotton, knitted or crocheted, for men	0,201	25043,9	5033,82
03611	Shrimps and prawns, frozen	0,000	24262,1	0,00
84219	Wind-jackets, anoraks & similar articles, for women	0,110	15798,7	1739,56
84482	Brief & panties, knitted or crocheted, for women	0,107	12294,5	1320,43
84522	Men's garments of fabrics of 65732 through 65734	0,057	7926,5	449,83
84599	Garments, knitted or crocheted, n.e.s.	0,156	6729,2	1050,72
83199	Other holsters, cases, bags & containers, n.e.s.	0,092	6175	569,53
84221	Suits, for women	0,162	4887,1	791,13
84843	Hats & other headgear, of other textile fabric	0,091	4328,4	392,76

**Total Included Exports: \$224 million**

**Total Trade Expansion: \$24 million (11 percent of total exports)**

## J. Laos

84371	Shirts, of cotton, knitted or crocheted, for men	0,201	2069,5	415,97
84151	Shirts of cotton, for men	0,145	552	80,04
89421	Wheeled toys for children; doll's carriages	0,000	48,9	0,00
00151	Horses, live	0,000	35	0,00
24752	Wood (excluding coniferous, tropical), rough, not treated	0,000	23,8	0,00
69973	Articles of copper, n.e.s.	0,015	20,7	0,31
29297	Seaweeds and other algae	0,000	13,7	0,00
89971	Articles made directly to shape from plaiting mat.	0,048	11,6	0,56
63599	Other articles of wood	0,031	6,3	0,20
84612	Shawls, scarves, mufflers, mantillas, veils & the like	0,056	3,1	0,17

**Total Included Exports: \$2.8 million**

**Total Trade Expansion: \$498 thousand (18 percent of total)**

## K. Vietnam

03611	Shrimps and prawns, frozen	0,000	296086,4	0,00
03721	Crustaceans, prepared or preserved, n.e.s.	0,030	88670,8	2660,12
07111	Coffee, not roasted, not decaffeinated	0,000	72927,9	0,00
85148	Footwear, n.e.s., with outer soles of leather	0,074	51650,3	3839,34
85132	Other footwear, outer soles & uppers of rubber, pla.	0,268	50267,8	13488,14
05773	Cashew nuts	0,000	47639,3	0,00
85125	Tennis shoes, training shoes & the like, rubber, pla.	0,347	28747	9963,66
03414	Tunas, skipjack or striped bonito, fresh or chilled	0,000	15891,6	0,00
33541	Petroleum bitumen, other residues; bitumin. mixtures	0,000	11982,7	0,00
07511	Pepper, neither crushed nor ground	0,000	10611,4	0,00

**Total Included Exports: \$795 million**

**Total Trade Expansion: \$36 million (5 percent of total exports)**

The top three Malaysian exports to the United States account for a large share of total Malaysia exports to the United States; out of the top 40 products' total of \$12.7 billion in exports, these three commodities account for about \$7 billion, or 55 percent. Hence, Malaysian exports to the United States are fairly concentrated in a few commodities. However, the US MFN tariff on these electronics-related items comes to zero in every case, suggesting that there will be no trade expansion in these areas, subject, of course, to the same *caveat* discussed above on the non-tariff benefits of an FTA. The fourth most important export is video recording or reproducing apparatus (SITC 76381), which it will be recalled was number one for Indonesia. However, as Malaysia does not benefit from the US GSP anymore, there is the possibility of some trade expansion (\$3.3 million), though it is small as the US MFN tariff is very low. The top potential beneficiaries in terms of trade expansion would be: rubber gloves (\$25 million) and babies' garments (\$14 million).

The Philippines export story is similar to that of Malaysia in that its top 4 exports are all electronics-related goods and constitute the lion's share of top 40 exports but face zero tariffs in the US market, though in part this is due to the fact that the Philippines is able to profit from the US GSP. By far the commodity that has the greatest potential for trade expansion is raw cane sugar, not because it is such an important Philippine export to the US (\$37 million) but due to the high level of protection (87 percent).<sup>18</sup> Potential trade expansion is calculated to be \$32 million. Note, however, that this will be one of the toughest products for the United States to include in a US-Philippines FTA. Indeed, in the recently-signed US-Australia FTA, sugar was excluded all together.

Analysis of Thai exports to the US market also yields generally similar conclusions to those of the other ASEAN Member Countries, with the exception of the fact that agricultural exports from Thailand to the US market tend to be more important and, hence, there is more potential for trade expansion. Given the greater degree of non-tariff barriers in agriculture (which will *not* be phased out

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<sup>18</sup> Of course, one reason that it is not an important export to the United States is because the high level of protection in the US market.

in 2005 in the same way that the apparel, textiles, and clothing agreement have been), the trade expansion in these static calculations may even be more promising in the case of Thailand.

Two of the top Thai exports to the United States were related to seafood, i.e., shrimps and prawns, which was the most important Thai export at \$800 million, and crustaceans (prepared or preserved), at \$526 million. These products had very low (or zero, in the case of the former) applied tariffs, and, hence, trade expansion is small. However, non-tariff barriers do exist, and the recent decision to place anti-dumping duties on Thai exports of shrimp to the United States in July 2004 suggest a much greater incentive for these sectors to advocate an FTA. Articles of jewelry (\$649 million) and digital integrated circuits (\$531 million) were number three and number four, respectively. The product line with the greatest potential for trade expansion (\$46 million) would be, once again, babies garments, mainly due to the relatively high tariff (18 percent) in the US market.

Table 7 underscores the relatively small amount of trade that Brunei does with the United States; total Brunei exports come to \$86 million, mainly because petroleum exports dominate Brunei's export regime and it exports very little in terms of energy-related products to the United States. However, it is interesting to note that, since many of Brunei's exports fall in relatively protected areas in the US markets (particularly textiles and clothing), the potential for trade expansion is actually quite high, at about 10 percent of total exports (\$8 million).

Low tariffs on electronics products in the United States ensure that trade-expansion calculations in the Singapore market will be small as well. Twenty-five out of the top 40 products that Singapore exported to the United States faced zero tariffs in 2001. This is even more impressive if one recalls that Singapore does not benefit from the US GSP program. Singapore exports are also fairly concentrated; the top five Singaporean exports (parts and accessories of machines, digital integrated circuits, non-digital integrated circuits, "other" instruments for medical and scientific purposes, and "other" radio receivers) constituted over 60 percent of the included exports in the database. The top four exports

faced zero tariffs in the US markets. The largest increase in trade expansion is expected to come in the knitted trousers and shorts for women (SITC 84426), but this mainly due to the relatively high tariff in this sector (15 percent) rather than the sheer value of exports, which came to only \$36 million in 2001.

Trade expansion in the case of the CLMV countries tends to be much larger than in the case of the original ASEAN Member Countries. In large part, this is because, being at a lower-step on the economic-development ladder, they continue to produce more labor-intensive and agriculture-intensive products, which in turn are more heavily protected in the United States. We would anticipate that, in the event of a free-trade area between the United States and Laos, exports of the latter would increase by 18 percent from the 2001 base. Exports from Myanmar and Cambodia would expand by 11 percent and those from Vietnam by 5 percent.

All top ten Cambodian exports to the United States are textiles and clothing related products, each falling under product category SITC 84. The same is basically true for the exports of Myanmar, with the exception of shrimp exports, which is its third most important export to the United States in terms of value (\$24 million). While the top ten Laotian exports to the United States tend to be more diversified, including various wood products and even live horses, cotton shirts is by far the dominant export, accounting for \$2 million in exports (out of a total of \$2.8 million). This is the reason why Laotian exports have the potential to rise by almost one-fifth: the US tariff on cotton shirts comes to 20 percent.

Exports from Vietnam to the United States are by far the most important (in terms of value) of all the CLMV countries; its included exports are valued at \$795 million, fully 57 percent of CLMV exports to the United States. They also tend to be the most diverse. As in the case of Thai exports to the United States, shellfish are the most important; shrimp exports are number one (\$296 million) and crustaceans (\$89 million) number two. Coffee exports are next (\$73 million), followed by footwear (SITC 85148 and 85132) and cashew nuts.

## **VI. Concluding Remarks**

The US-ASEAN economic relationship is important to all parties. The United States is a key market for the vast majority of ASEAN Member Countries and an important source of FDI. Moreover, ASEAN is a significant economic area for the United States; while the region's share of its trade is small, ASEAN takes on an importance that is more than proportionate when controlling for its size. The same is true of FDI. In addition, ASEAN is crucial to the United States in terms of its strategic significance. Hence, strengthening the US-ASEAN economic relationship is a salient objective of both US and ASEAN policymakers. The Enterprise for ASEAN Initiative is designed to do just this.

In this paper, we evaluated the US-ASEAN economic relationship from a variety of perspectives, including a statistical review, an econometric inquiry into the determinants of the relationship, and identification and analysis of ASEAN exports that will be significantly affected by a series of bilateral FTAs under the EAI (using a disaggregated matching technique). In sum, we found that, while overall these FTAs will not generally have a significant impact on ASEAN exports due to tariff elimination (after all, the United States is one of the most important markets in the world, with an average tariff of around 4 percent), the non-tariff measure that will be put in place due to the EAI could potentially have a highly-significant effect.

We also considered the degree to which the EAI approach, that is, a series of bilateral agreements rather than a regional agreement, could be beneficial to or inhibit ASEAN integration. We noted that the costs of a bilateral approach included: (1) the possible dilution of ASEAN economic integration, which the Member Countries have tried assiduously to avoid; (2) less negotiating power *vis a vis* the United States (and other large countries) as separate countries rather than a group, suggesting a relatively inferior outcome; and (3) the problem of the "spaghetti bowl effect," that is, promoting

ASEAN economic integration at the same time that each Member Country is adopting potentially divergent policies with other countries. The benefits we discussed included the fact that a regional agreement would require a “one-size-fits-all” agreement, which would generate a “lowest common denominator” outcome and could potentially create disaccord among the ASEAN countries during the negotiation process, as well as likely taking much more time to finalize and implement the accord (should one be feasible). Moreover, the Myanmar issue at present would preclude any truly regional approach to negotiations with the United States.

While a bilateral approach under the rubric of the EAI will continue to be controversial, it is clear that both the benefits *and* costs noted above generate incentives to deepen economic integration within ASEAN itself. And the ASEAN leaders understand this: in response to the implicit and explicit approval for Member Countries to move forward at the bilateral level, ASEAN has committed itself to moving beyond a mere FTA to a common market in which goods, services, capital, and skilled labor will flow freely by 2020. The ASEAN Economic Community could be an important guarantor of the integrity of ASEAN integration and an ever-more closer union of its Member Countries.

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