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Can the US-ASEAN Connect Initiative Create Stronger US-ASEAN Economic Relations?

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Sanchita Basu Das, Fellow and Lead Researcher (Economic Affairs) at the ASEAN Studies Centre, explains that “While for ASEAN, [US-ASEAN Connect] will make the region more competitive compared to China and India, for the US, a strong and developed ASEAN can help to diversify US investment in Asia and can lessen the influence of an economically rising China.”

In February 2016, at the special US-ASEAN Leaders Summit at Sunnylands in California, the US-ASEAN Connect initiative was launched. The initiative consolidates the work of a number of existing mechanisms, including the US Trade and Development Agency, the US-Asia-Pacific Comprehensive Energy Partnership, the Young Southeast Asian Leaders Initiative, and the US-ASEAN Trade and Investment Agreement. The initiative joins two other Obama administration initiatives, US-ASEAN Expanded Economic Engagement and the Trans-Pacific Partnership, in efforts to enhance economies ties.

US-ASEAN Connect has four pillars. First, Business Connect will link information and communication technology and infrastructure firms across the US and ASEAN. Second, Energy Connect will assist ASEAN in developing its power sector with efficient and innovative technologies. Third, Innovation Connect will encourage ASEAN entrepreneurs through policy and knowledge exchanges with US practitioners. Finally, Policy Connect will generate a trade and investment friendly ecosystem in ASEAN countries. US-ASEAN Connect also promises three centers in Jakarta, Singapore, and Bangkok, in order to coordinate US economic engagement in the region and to create a network among policy makers, entrepreneurs, investors, and businesses.

The US and ASEAN already share a strong economic connection. The trade between the two sides totaled \$254 billion in 2014, up from \$161 billion in 2006 and US businesses are the largest cumulative source of foreign direct investment in ASEAN. However, the aggregate figures fail to convey the country-specific nuances in US-ASEAN relations. While Singapore, Malaysia, and Thailand are the top three trading partners of the US in ASEAN and account for similar levels of goods and services trade, Singapore is the prime destination for US investment by a wide margin, due to the city-state’s friendly investment policies and developed business infrastructure. The idea of Policy Connect, covering capacity building and technical support exercises for ASEAN members, attempts to ameliorate this asymmetry. Policy Connect also covers measures for small and medium-sized enterprises (SMEs), customs modernization, and product standards cooperation for regional trade facilitation.

US business engagement in Southeast Asia spans several industries, such as hospitality, oil and gas, aerospace, energy services, electronic manufacturing, infrastructure, and financial services, but businesses are cautious, especially in the less developed countries. These countries lack human resources and institutions, are still developing their investment rules, or have political uncertainties. In order to raise US investors’ confidence in the region, Business Connect, in conjunction with Policy Connect, aims to

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develop a policy infrastructure for US firms to engage in the recently established ASEAN Economic Community (AEC).

Energy Connect emphasizes ASEAN’s Energy Cooperation Plan 2015-2025 and the Master Plan on ASEAN Connectivity, thereby hinting at the US desire to be actively involved in ASEAN’s power projects. The International Energy Agency predicts that the electricity demand in ASEAN will triple by 2040. Infrastructure development, including for power, is a priority among ASEAN countries. Almost all of them are striving to develop a Public-Private Partnership infrastructure program to finance the planned projects. However, US companies occupy only about 13 per cent of this market and are hesitant to expand further due to concerns over investment protection, long-term returns, host country regulations, and governance. The US does not utilize practices similar to China and Japan when it comes to infrastructure funding. China’s Asian Infrastructure Investment Bank (AIIB) and the Japanese promise of an additional \$110 billion for Asian infrastructure projects are more recent initiatives, but have yet to make a visible impact in the region. Hence, US interest in energy infrastructure, along with its initiatives under Policy Connect and Business Connect, are a welcome step toward a more significant investment in long-term projects in ASEAN.

Finally, Innovation Connect will encourage entrepreneurship and innovation in ASEAN. The idea focuses on people and promotes a culture of inclusive and sustainable growth. The measure is pertinent, given that ASEAN’s youth population is much larger than that of more developed nations, as well as the fact that most of the jobs are created by SMEs. At a basic level, Innovation Connect will address the common barriers faced by young entrepreneurs everywhere – access to capital, lack of business and management skills, and lack of mentorship support.

Beyond its four pillars, US-ASEAN Connect will serve strategic purposes, too. The three new centers are expected to act like one-stop-shops for different US stakeholders to coordinate and market their activities. The growing competition between China and Japan to invest in ASEAN infrastructure projects necessitates the US to be actively engaged in order to maintain relevance in the region. The three US-ASEAN Connect centers could also be viewed as small but physical manifestation of the “strategic pivot” in foreign policy towards a greater focus on ASEAN that was called for by the Obama administration in 2011.

On the whole, US-ASEAN Connect is likely to facilitate a deeper, rules-based economic integration among the ten ASEAN nations. Because the AEC is a work-in-progress and there are several regional measures that are yet to be translated to national policies, the four pillars of US-ASEAN Connect may provide the extra impetus and the necessary resources for the member countries to comply with the regional commitments. While for ASEAN, this will make the region more competitive compared to China and India, for the US, a strong and developed ASEAN can help to diversify US investment in Asia and can lessen the influence of an economically rising China, especially in regional organizations like the ASEAN+3 and the East Asia Summit.

US-ASEAN Connect, through a series of US-ASEAN trade workshops, should also pave the way for other ASEAN members to join TPP in the future. Only Singapore, Malaysia, Brunei, and Vietnam are signatories now. If US-ASEAN Connect facilitates the remaining ASEAN countries to join TPP, it will silence critics who suggest the US is dividing ASEAN through its trade policy. Indeed, the US seems to be working for a stronger ASEAN amid growing geo-political and economic uncertainty.

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