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## US Economic Ties to ASEAN Demand a New Agility

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The Association of Southeast Asian Nations (ASEAN) holds a pivotal position in configuring the space that China employs as it seeks to tilt the balance in global economic relations. In the last decade or more, China has been taking gradual but firm steps in establishing its economic hold over Africa, parts of South Asia, and of course ASEAN. Its grand connectivity projects and its role in the international funding system will further extend its reach. Although China has taken a belligerent stance on the South China Sea, it has developed a constructive, non-intrusive approach to trade and investments with many ASEAN member states, resulting in some measure of reliance on China. China's growing economic influence in Southeast Asia is a dimension that the US cannot afford to ignore.

Despite its rhetoric, the US lingers along in its economic policy towards ASEAN. Although the Obama administration's policy of "rebalancing" towards Asia includes ASEAN, the US has lost ground. The Expanded Economic Engagement (E3) Initiative, a successor to the Enterprise for ASEAN Initiative, is supposed to prioritize trade facilitation, improve connectivity between ASEAN economies, develop principles that will address investment policies, and harmonize standards across the region. But it is perceived as serving the business interests of multinational companies rather than those of individual ASEAN economies.

Moreover, Cambodia, Laos and Myanmar are still not at that stage of development where trade and investment facilitation matters or where the government can rely on the right institutions to make progress on the required reforms. Good governance and the right institutional framework are necessary ingredients for economic development. Assistance from the US in these areas will be useful, but the US has to participate more actively in helping to meet what ASEAN governments see as pressing current needs.

Some ASEAN governments and influential constituencies within them see investor protection, non-discrimination against foreign companies, and the simplification of customs procedures as tools to pry open domestic markets that would benefit multinational companies from the developed world, much to the disadvantage of domestic companies. Although there is great merit in eliminating the institutional barriers to trade and investment, China does not pursue these objectives, preferring to win support by extending assistance in building infrastructure, founding science parks, and offering development financing. US pressure for institutional reform must be balanced with assistance on the ground, simply because the latter is more tangible and its results more immediate.

Some progress will be achieved in securing commitment for institutional reform via the TPP, once it comes to fruition. But that is not enough, because only four ASEAN countries are TPP members (Singapore, Malaysia, Brunei and Vietnam). Other strategies for a more

**Shankaran Nambiar, Senior Research Fellow at the Malaysian Institute of Economic Research, explains that "US-ASEAN economic relations will receive a huge boost if the US makes a more concerted effort to address issues such as the financing of large-scale developmental projects, be they to improve regional connectivity, build roads and dams, or enhance capabilities in cyber security and satellite technology."**

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inclusive trade strategy have to be devised. Obvious candidates would include adding the US to the Regional Comprehensive Economic Partnership agreement (RCEP), including China in the TPP, or moving ahead with the proposed Free Trade Area of the Asia Pacific (FTAAP).

The Declaration resulting from the US-ASEAN Summit at Sunnylands, California in February attempts to take E3 forward. The Declaration has some useful points. Chief among them is the acceptance of “ASEAN centrality,” the notion that ASEAN is a cohesive and integrated region that is able to form reliable relationships with the rest of world. The Declaration also contains a veiled call for stability in the South China Sea and support for growth and development in the region. The question is how these goals can be made more concrete.

The new US-ASEAN Connect initiative, also a result of the summit at Sunnylands, has four pillars that can ostensibly work towards achieving these objectives: Business, Energy, Innovation, and Policy Connects. However, the Business Connect pillar seems aimed at increasing commercial engagement between the private sectors in the US and respective ASEAN member states. Business Connect officially claims to offer “coordinated, proactive support for US business,” which has undertones of bias against business in ASEAN member states. Domestic companies in ASEAN typically worry that the domestic market will be deluged by foreign investors who will put them out of business. In addition, the state is often heavily involved in ASEAN businesses. The TPP negotiations adopted an accommodative stance towards state-owned enterprises, prominent as they are in Singapore, Malaysia and Vietnam. Business Connect should be similarly realistic.

The Policy Connect pillar is concerned with creating a favorable policy environment for information, communications, and technology (ICT). The main focus of this pillar is trade and investment, with specific programs to expedite trade and investment facilitation and the simplification and computerization of customs procedures. Presumably, standards and conformance will be given due attention, thorny as these issues are and given the technical complexities that are involved.

The Innovation Connect pillar is rather fuzzy and not likely to draw much attention since it has not been clearly enunciated. This pillar is directed at entrepreneurial development. Although venture capital, coaching and mentoring for aspiring entrepreneurs, and seed funding are matters of great interest in the US, there is not the same enthusiasm in ASEAN. The nature of entrepreneurship in, say, Manila is not quite what it is in Silicon Valley. Innovation Connect will have to take into account national differences and levels of development as well as providing a bridge to the US.

The choice of Connect Centers raises yet another problem because no Center has been selected to represent Cambodia, Laos, Myanmar, and Vietnam. These countries lag behind the other members and deserve the extra push that the US can give them.

In the short-term, the US has to design initiatives that support the developmental needs of individual states. China has done this eminently well in recent years. The longer-term strategy should be to work towards institutional reform that supports trade and investment and also draws all of ASEAN into a wider form of trade architecture. US-ASEAN economic relations will receive a huge boost if the US makes a more concerted effort to address issues such as the financing of large-scale developmental projects, be they to improve regional connectivity, build roads and dams, or enhance capabilities in cyber security and satellite technology. Cooperation can also be extended to build technological universities. Though US-ASEAN economic relations have gathered speed in recent years, by comparison with what China has been doing, US efforts are slow and clumsy. A more nimble and proactive approach that is in line with ASEAN’s aspirations will do much for both ASEAN and US-ASEAN relations.

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