

ASEAN-U.S. INITIATIVE

Assessment and Recommendations
for Improved Economic Relations



Joint Final Report

Co-ordinated by

Seiji Naya Kernial S. Sandhu
Michael Plummer Narongchai Akrasanee



East-West Center
Honolulu



Institute of Southeast Asian Studies
Singapore

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Joint Final Report

Submitted to the
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PREFACE

A joint effort by U.S. and ASEAN researchers, the study on the ASEAN-U.S. Initiative (AUI) commenced in July 1988, and was completed within nine months. Its goal is to assess the current ASEAN-U.S. economic situation and provide recommendations for future policy action to enhance bilateral economic relations. Although the policy prescriptions are generally intended for implementation over the next five years, the suggested Framework Agreement could serve as a model for increased co-operation throughout the next decade.

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This *Joint Final Report* has been prepared under the overall guidance of the Resource Systems Institute, East-West Center, Honolulu, and the Institute of Southeast Asian Studies, Singapore, the two co-ordinating Institutes for the AUI Study for the United States and ASEAN, respectively.

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EXECUTIVE SUMMARY

INTRODUCTION

As part of their development effort, the ASEAN countries place increasing emphasis on intra-regional economic co-operation. They also act as an economic bloc in multilateral negotiations. ASEAN has seven dialogue partners: the United States, Japan, the European Communities (EC), New Zealand, Australia, Canada, and the United Nations Development Program. The ASEAN-U.S. Initiative (AUI) stems from the economic dialogue and is designed to enhance bilateral economic co-operation. This study on the AUI was commissioned in July 1988.

Both the ASEAN countries and the United States have achieved solid rates of economic growth in recent years. Singapore, Malaysia, and Thailand have exhibited high growth rates; Indonesia has coped well with the fall in oil prices, diversifying its economy away from nearly exclusive reliance on oil, as Brunei Darussalam is beginning to do. The Philippines has rebounded from the slump of the 1983-86 period. The United States is experiencing its longest peacetime economic expansion, now into its seventh year.

The relationship between the United States and ASEAN is growing in importance. In the past ten years, ASEAN trade with the United States more than doubled. The United States is now ASEAN's largest export market and its second largest source of imports, after Japan. At the same time, the composition of this bilateral trade is changing. Although ASEAN remains a major supplier of primary products, over 36 per cent of U.S. imports from ASEAN are manufactured goods. The growing trade relationship is paralleled by expanded U.S. investment in the region. The rate of increase in U.S. direct investment to ASEAN over the past decade has been double that to any other country, with the stock reaching more than US\$10 billion in 1987. There is evidence that actual direct foreign investment (DFI) is substantially larger than the reported figures indicate.

Trade in goods and services between the United States and ASEAN are considered in Chapters 2 and 3, respectively, of the report. Chapter 4 addresses the intellectual property rights issue. This is followed by a review of U.S. investment in ASEAN in Chapter 5. The medium- and short-term economic outlook for the United States and ASEAN are examined in Chapter 6. Finally, Chapter 7 presents recommendations for a Framework Agreement between ASEAN and the United States.

TRADE IN GOODS

Most ASEAN members depend on exports as a major source of income, ranging from more than 130 per cent of GNP for Singapore to 23 per cent for the Philippines. And the most important destination of these exports is the U.S. market. The increased reliance on trade is the outcome of outward-looking development strategies, involving structural changes based on the countries' comparative advantage. As a result of industrial restructuring, the commodity structure of ASEAN-U.S. trade has changed in recent years. The promotion of manufacturing as an essential ingredient in the development strategy plays an important role in this change. Though labour-intensive manufactures and food processing remain large, the ASEAN countries are starting to turn towards industries with higher value added. The decline of world primary commodity prices also intensifies the structural change.

The United States ranks first in bilateral trade with Singapore and the Philippines while Japan ranks first with other ASEAN members. U.S. imports from Brunei Darussalam, Indonesia, and Thailand have increased significantly in recent years. The relatively free access to the U.S. market, compared with that in Japan and the EC, coupled with the increased export orientation of the ASEAN economies, has underlined the importance of the United States for the economic future of ASEAN. This dependence is especially pronounced in the case of manufactured exports. The United States is not dependent on ASEAN to the same degree, but it is seeking to expand its exports to this fast-growing market with which it currently has a US\$8 billion trade deficit.

The U.S. and ASEAN economies are complementary in nature. ASEAN is a large exporter of petroleum, rubber, sugar, and tin, while the United States is a net importer of these goods. The trade patterns for manufactures reflect the factor and technology endowments of the respective countries. The ASEAN countries are competitive exporters of labour-intensive manufactures such as textiles, garments, handbags, and other light consumer manufactures. The United States is a large net importer of these goods. In turn, the United States is a large producer of capital- and technology-intensive goods such as chemicals, electrical and non-electrical machinery, and transportation equipment, while the ASEAN countries are primarily net importers of these items.

The exception is electrical machinery where a significant amount of intra-industry trade takes place, as many U.S. multinational corporations (MNCs) have subsidiary plants in the region. While there is a potential for significant increases in U.S.-ASEAN trade, Japan and increasingly the Asian Newly Industrialized Economies (NIEs) are strong competitors in most products of interest to U.S. exporters.

There is a danger that the intensified trade relations could be halted by rising U.S. protectionism or inward-looking policies in ASEAN. While tariffs in the United States are low and the U.S. market continues to be one of the most open in the world, it has used in recent years voluntary export restraints to protect certain (mainly labour-intensive) industries. High trade deficits, coupled with the perception that the United States is fighting with "one hand tied behind its back", have encouraged protectionist sentiments. The U.S. Government has been largely successful in resisting demands for increased protection, but this stand is losing popularity. The U.S. trade deficit should not be addressed by trade barriers, which lead to decreases in domestic and global welfare; it should be reduced through rational macroeconomic policies at home, increased competitiveness of U.S. exports abroad, and more rapid opening of foreign markets to U.S. exports. Trade barriers in ASEAN are significantly greater than in the United States, and much work remains in further liberalization. These barriers include high tariff levels in most ASEAN countries, import licensing, and various quantitative restrictions. Yet, the ASEAN countries have undertaken unilateral trade liberalization in the 1970s and 1980s. It is desirable for domestic and international reasons that these policies be continued and trade liberalization carried further.

Both the United States and ASEAN are dedicated to the success of the Uruguay Round of GATT negotiations. Both have already demonstrated a potential to work together, especially on agricultural trade issues.

Despite more than ten years of negotiations, the trade impact of ASEAN economic co-operation has not been substantial. The high economic and export growth rates in the region in the 1970s cannot be directly attributable to the ASEAN Preferential Trading Arrangements (PTA). In fact, it is estimated that only 5 per cent of the trade within ASEAN is covered under the PTA. None the less, significant improvements in the PTA were made at the Third ASEAN Summit, including a programme to place 50 per cent of the total intra-ASEAN trade under the PTA within five years. The ASEAN Industrial Joint Ventures (AIJV) programme was also expanded; it now allows for 60 per cent foreign participation.

In sum, the ASEAN-U.S. economic relationship in trade in goods is strong and strengthening. However, there remains much work to be done before it reaches its vast potential. Liberalization of trade barriers, promotion of efficient production, greater information on export opportunities in each other's markets, and expanded participation at the Uruguay Round of GATT to reduce direct and indirect barriers to global trade are in the interest of all.

TRADE IN SERVICES

Services trade now accounts for about a third of world trade. U.S. exports of private services (travel, transportation, royalties and fees, banking, and other miscellaneous private services) increased more than fivefold since the early 1970s to more than US\$57 billion in 1987. A similar increase took place in U.S. imports of services, which amounted to US\$56 billion in 1987.

ASEAN's service-sector trade has been growing as well. Since 1976 ASEAN exports of service have quadrupled to over US\$11 billion. The Philippines, Thailand, and especially Singapore had surpluses in service transactions in the 1980s. There are, however, many problems involved in addressing trade in this sector. Most fundamentally, there is no clear definition of what the service sector is and data are very difficult to obtain. In addition, trade in services is closely tied to investment in services. In most service industries, including banking, production and consumption occur at the same time and place. Therefore any discussion of service-trade liberalization must include some liberalization of investment in this sector as well. This has been an extremely contentious issue to most developing countries, which worry about domestic sovereignty, national security, and protecting fledgeling service-sector industries.

Important barriers to services in ASEAN include (1) restricted access to markets in services; (2) leasing restrictions; (3) motion picture limitations; (4) limited foreign ownership of banking; (5) advertising restrictions; and (6) preferential treatment of domestic transportation. Many of these barriers are investment-related in the sense that they constitute obstacles to establishing and operating affiliates in host countries. Significant efficiency gains have been realized in the United States from deregulating certain service industries, and ASEAN could benefit from a similar action, especially in the information sector. Moreover, ASEAN would increase efficiency and attract larger amounts of foreign investment by relaxing foreign equity controls. Services in the United States are generally free of barriers at the federal level, although there are some restrictions at the state level. The United States has been criticized for certain antitrust laws which inhibit international trade, as well as a lack of U.S. export consciousness. Improvements in these areas would facilitate trade in services as well as goods.

We recommend that ASEAN liberalize the service sector to facilitate export-oriented growth. Liberalization and deregulation would also enhance market incentives and allocative efficiency, thereby strengthening the dynamism of the ASEAN economies.

INTELLECTUAL PROPERTY RIGHTS

Protection of copyrights, trademarks, patents, and trade secrets has been a contentious issue in the Uruguay Round. The United States has pressured several ASEAN countries to tighten their intellectual property laws and to

increase their enforcement efforts, and threatened retaliatory measures against developing countries that fail to do this. Moreover, it has emphasized the long-run benefits of increasing intellectual property protection to encourage domestically generated innovations. For their part, some ASEAN members believe that in demanding intellectual property rights protection, the United States is intruding on their sovereignty and is not sensitive enough to their development needs. Others insist that they have already legislated sufficient protection. The ASEAN countries have responded differentially to American pressure in terms of *de jure* laws and actual enforcement, reflecting the diverse nature of ASEAN. All of them have improved protection of intellectual property to conform more closely to international standards. Indonesia made major improvements in protecting trademarks and copyrights, is considering joining one of the two international copyright conventions, and is negotiating with the United States on a bilateral copyright agreement. Malaysia has greatly strengthened legislation protecting intellectual property and is negotiating a bilateral copyright agreement with the United States. The Philippines is a signatory of both the Paris and the Berne Conventions. Thailand is in the process of changing its laws to conform to modern commercial practices world-wide; it is already a signatory of the Berne Convention. Singapore strengthened comprehensive laws protecting intellectual property. However, the enforcement of intellectual property rights has been inadequate in some ASEAN countries.

In sum, the ASEAN countries' protection of intellectual property has improved considerably. Nevertheless, the United States continues to be dissatisfied with some aspects of ASEAN intellectual property protection, for example, in pharmaceuticals and computer software.

As ASEAN improves its protection of intellectual property, it will benefit from increased foreign investment and technology transfer, as well as greater incentives to indigenous technological development. If intellectual property is not adequately protected, the country will be deprived of cutting-edge technologies, products and techniques, as well as risking continued frictions with innovation-exporting countries.

For its part, the United States should concentrate its efforts on developing broader international standards and should continue to improve its own system of enforcing intellectual property rights. U.S. accession to the Berne Convention was a step forward.

INVESTMENT

The chapter on investment in this report concentrates on direct foreign investment (DFI), even though DFI constitutes a relatively small share of total capital flows. This is because DFI is important in the development process. Along with Japan, the United States is the most significant source of DFI in ASEAN. U.S. DFI is concentrated in petroleum and electronics. High

rates of return to DFI in ASEAN, stable political environments, economic robustness, low-cost of indigenous labour, large markets, and an atmosphere conducive to foreign business are the attractions for U.S. investment. U.S. firms have not been found to have responded significantly to investment incentives. An area in which U.S. capital may be able to play a somewhat greater role in the future is in service industries such as trade, banking, and finance.

In any case, U.S. DFI in ASEAN has become increasingly important in the 1980s, accounting for more than 3-5 per cent of total U.S. investment. But Japanese investment in the region, as elsewhere, has been growing more rapidly. This trend is also likely to continue given the large Japanese trade surplus. The Japanese have been very successful at their attempts to blend official development assistance with private-sector projects in a way in which the United States has not attempted.

U.S. DFI in ASEAN has obviously been of benefit to U.S. firms and contributes to the U.S. economy. At the same time, it benefits ASEAN nations in a number of ways, by (1) providing access to modern and efficient management techniques; (2) facilitating the transfer of technology in production, management, marketing, and other intangible assets; (3) training the indigenous labour force for high-skill jobs; (4) providing needed foreign exchange; (5) providing jobs, especially in manufactures; and (6) engaging significantly in international trade. The dynamics of industrial restructuring (along the lines dictated by comparative advantage) attendant upon DFI may be the most important beneficial consequence for ASEAN in the long run. On the other hand, DFI in ASEAN that depends on tariff barriers erected for sectors with comparative disadvantage can inhibit long-run economic growth by drawing resources into inefficient industries.

Aspects of U.S. policy that might be promoted to increase DFI to ASEAN, include (1) more rational taxation measures; (2) relaxation of international trade and strategic trade controls; (3) more comprehensive information on DFI opportunities, especially for small- and medium-sized firms; and (4) further revision of the Foreign Corrupt Practices Act.

At the same time, ASEAN can reduce certain impediments to DFI including (1) lack of infrastructure; (2) performance requirements; (3) bureaucratic red tape; (4) trade restrictions; and (5) equity restrictions.

ASEAN governments should provide more business infrastructure. This is an important consideration in a firm's plans to invest in a particular country. In some cases, it may even be possible to solicit foreign involvement in the infrastructure development projects themselves. Moreover, the achievement of a more regional ASEAN market through improvements in the ASEAN PTA, and the possibility of greater foreign involvement in AIJVs should also increase the flow of foreign investment.

Complicated and restrictive performance requirements, equity restrictions, and extensive bureaucracy are widely acknowledged to be the greatest barriers to DFI in ASEAN. In addition, because these requirements vary considerably within ASEAN, many U.S. firms, particularly small- and medium-

sized enterprises, find it difficult to take a regional approach to investment in ASEAN. A common set of general DFI guidelines would greatly facilitate this process. A Bilateral Investment Treaty between the United States and ASEAN would be an effective way of achieving this goal.

The United States and ASEAN could jointly implement a number of measures to promote greater flows of DFI as well as increase benefits from existing investments. For example, the United States and ASEAN should work together to increase the supply of information. Although the U.S. Government supplies a considerable amount of information on investment opportunities in ASEAN, it appears that the use of such information is limited. The government or business organizations, such as the Chamber of Commerce, could expand efforts to disseminate information on ASEAN investment opportunities. Furthermore, ASEAN governments also provide a substantial amount of information, but accessibility could be improved. Governments will have to bear partial responsibility in making improvements in the distribution of this public good, although it is clearly in the interest of business organizations to assist such efforts wherever possible since their members will be the primary beneficiaries. Hence, the establishment of an institution, initiated through public action but financed through private means, that could provide information dissemination and a channel for co-ordination of U.S. investors, especially for small- and medium-sized firms, could be an important catalyst in shifting the orientation of American firms towards the Asia-Pacific in general and ASEAN in particular.

The growth in importance of the U.S. Overseas Private Investment Corporation (OPIC) in the mid-1980s is impressive and increased OPIC activity is likely to assist in the advancement of DFI as well as forge a closer relationship between the U.S. Government and U.S. private firms interested in making foreign investments. It is also possible that special incentives designed to redirect factors of production away from inefficient industries could be beneficial. If well conceived, such schemes could promote more efficient rationalization of production capacity in activities where the United States is clearly losing comparative advantage. This principle extends to the ASEAN economies as well.

U.S. AND ASEAN ECONOMIC OUTLOOK

Led by robust growth in the United States, the world has experienced an uninterrupted period of expansion since 1983. Annual growth in global real GNP in the period 1983-87 averaged 3.3 per cent.

While developing countries are expected to grow at 3.9 per cent in 1988-89, Asian developing countries should grow at about 7 per cent. Associated with the growth of the global economy has been an annual expansion of 6 per cent in the value of world trade in the last three years.

Although the prospect for world growth in the near future is good, there

are several uncertainties. First, the "twin deficits" in the United States are expected to continue well into the 1990s, as a revised Gramm-Rudman-Hollings amendment allows. The trade deficit has improved in 1987-88 but remains well above US\$130 billion. Capacity constraints could slow export growth and lead to higher inflation. The ASEAN countries continue to depend on oil and other primary commodities for the bulk of their exports, and the price prospects of these are not clear at this time. The global debt crisis continues to plague many countries in the developing world, including the Philippines, as well as financial institutions in the developed world.

In the medium run, the U.S. outlook is dominated by several factors. First, there is declining labour force growth, which is likely to lead to an improvement in the domestic investment climate, a gradual revival of productivity growth, and consequent rebuilding of U.S. competitiveness. Household and business savings may increase because of positive demographic changes and possible tax revisions to encourage saving. Without adequate domestic saving, the need to rely on capital imports to finance investment would place intolerable burdens on the balance of payments. The second major consideration is the U.S. budget deficit, which must be progressively lowered to restore the confidence of financial markets and reduce the need for foreign capital. Thirdly, the international debt crisis remains a critical problem. A viable resolution of this debt crisis will include a return to better economic growth in debtor countries, which will in turn benefit the United States.

The U.S. outlook for the next twelve to fifteen months is continued expansion amid increased uncertainty. As of December 1988, the consensus forecast was for real output growth of approximately 3 per cent in 1988 and 2.5 per cent in 1989. Evidence that the economy performed more strongly than expected in the first half of the year is causing analysts to revise their forecasts. Recent forecasts placed inflation in the neighbourhood of 4 per cent in 1988 and 4.25 per cent in 1989. The outlook for employment remains strong. Unemployment should continue in the range of 5.4 per cent for much of the next twelve months, barring any major policy shocks. The current account deficit is expected to run at approximately US\$150 billion in 1988 and fall to US\$130 billion in 1989. The trade balance should be in deficit of about US\$135-140 billion in 1988 and of US\$120 billion in 1989.

The ASEAN countries are expected to continue their robust economic growth through 1989, outpacing the world average. Inflation rates are expected to be moderate, and the restructuring of many ASEAN nations towards more open and increasingly private economies should continue. However, the debt and unemployment problems in some ASEAN countries, as well as political instability, continue to exist. ASEAN nations will replace the Asian NIEs in a broad range of product areas. There are promising opportunities, provided that trade frictions can be avoided. One way to do that is for both sides to make certain that market access remains open so that mutually beneficial two-way trade can develop. It is especially important that channels for intra-industry trade be developed and expanded.

Because economic growth in ASEAN is closely linked to growth in the OECD countries, optimistic forecasts of OECD growth are welcome. Singapore, Thailand, and Malaysia may attain high annual growth rates of about 7 to 9 per cent in the short run, while real GDP growth for the Philippines is expected to remain at around 6 to 7 per cent. As for Indonesia and Brunei Darussalam, the corresponding rates are projected to be around 4 to 5 per cent annually. These projections are likely to be valid also for the medium term, with ASEAN remaining one of the most dynamic regions in the world.

RECOMMENDATIONS FOR AN ASEAN-U.S. TRADE AND INVESTMENT AGREEMENT

Based on our findings and arguments, it is desirable that ASEAN and the United States consider entering into an economic co-operation agreement. It should consist of a general umbrella agreement which would have provisions for more specific bilateral arrangements. Within the scope of such an agreement, the United States and ASEAN would be able to negotiate a wide range of formal agreements, ranging from formal comprehensive treaties to sector- and issue-specific arrangements. The umbrella agreement would become an important catalyst for increased trade and investment between the two parties, and would also provide for negotiations between the United States and individual ASEAN nations.

Recommendations for an Umbrella Agreement

The umbrella agreement should include characteristics of other successful bilateral pacts by focusing on trade and investment liberalization and promoting economic welfare and efficiency, and should serve as a model for similar arrangements with other nations in the Asia-Pacific region. Yet, an ASEAN-U.S. agreement would be unique, as the ASEAN-U.S. economic relationship is unique. The complementary nature of the U.S. and ASEAN economies and the extensive economic interchange suggest that bilateral agreements under the umbrella designed to resolve any disagreements or seize important opportunities would be welfare-enhancing, without contradicting multilateralist ideals. Indeed, all actions would be consistent with GATT.

The initial umbrella should consist of the following components. First, it should establish a set of basic guiding principles for the conduct of trade and other economic relations between the United States and ASEAN, based on GATT compatibility and affirming the primacy of multilateral liberalization. It should be grounded on the presumption that trade and investment flows are determined by market forces as much as possible; the nature of government intervention should be strictly defined and temporary. Most basically, the United States and ASEAN should commit themselves to the principle of "stand-still and roll-back" of trade barriers. Moreover, measures harming other trading partners should be avoided.

Second, the umbrella should establish the administrative and implementing guidelines for the United States and ASEAN negotiating a series of subsidiary agreements on subjects such as subsidies, double taxation, intellectual property rights, investment, services, non-tariff barriers, and safeguards, supplemented by more detailed accords where needed.

Third, the umbrella should delineate effective procedures to administer the agreement and resolve disputes in a timely and efficient manner.

Fourth, it should create a Consultative Committee, composed of government representatives at the level of trade minister and advised by experts and private-sector representatives, which should meet at least on an annual basis. The Consultative Committee would have several important tasks. It should be responsible for considering trade and investment disputes in a manner defined by the umbrella agreement. Also it should oversee the negotiations of the subsidiary agreements, and should serve as a forum for moulding joint ASEAN-U.S. positions on these issues at the current and subsequent GATT rounds. Moreover, the Consultative Committee should authorize the preparation of studies, formation of working groups, and other vehicles for improving understanding of and co-operation in bilateral economic relations.

Fifth, the umbrella agreement should lay the foundation for further bilateral and multilateral co-operation.

Possible Trade and Investment Pacts under the Umbrella

After the establishment of the umbrella agreement, the United States and ASEAN could negotiate a series of bilateral pacts, from a formal free-trade agreement (FTA) to sector-specific agreements. In this section, we assess some of the available options which the Consultative Committee should consider. However, the list is not exhaustive. Many of the issue-specific topics are being considered at the Uruguay Round. Nevertheless, bilateral ASEAN-U.S. trade and investment agreements could complement the GATT talks and, perhaps, provide an exemplary framework in certain areas.

ASEAN-U.S. Free-Trade Agreement

We believe that an ASEAN-U.S. FTA should be the ultimate goal of the Framework Agreement. An ASEAN-U.S. FTA would be very complex and is likely to take a long time to negotiate. However, there is great potential for improved trade and investment relations in such a pact. Commissioning a comprehensive study should be among the first inquiries the Consultative Committee should launch.

The conformity of an FTA with GATT rules is clearer than with any other option. Free-trade agreements have come to mean far more than merely reducing internal tariffs on trade in merchandise. As in the U.S.-Canada agreement and the Closer Economic Relations pact between New Zealand and Australia, trade in services, investment liberalization, protection of intellectual property, and so forth, are often included. Similarly, an FTA between

the United States and ASEAN should include an entire range of issues. A U.S.-ASEAN FTA could also serve as a forerunner to a wider accord in the Asia-Pacific region.

Because of the complicated nature of negotiating something as complex as an FTA, we recommend that the technical details of such an arrangement be studied in depth by a bilateral commission under the supervision of the Consultative Committee. Questions such as the net effect on global efficiency (for example, trade creation and diversion), the impact on third countries, implications for multilateralism, rules of origin provisions, and the polarization of industrial production should be addressed. In addition, the complicated question of how and in what sequence tariff barriers should be reduced must be addressed. The possibility of FTAs with various Asia-Pacific nations or groups has already received attention in Washington. The U.S. International Trade Commission (ITC) has released a report summarizing the views of recognized experts on the pros and cons of entering into an FTA with Japan. Similar inquiries are being made with respect to other Pacific Rim nations, including Taiwan, South Korea, members of ASEAN, and countries in the Asia-Pacific region.

The complementary nature of the U.S. and ASEAN economies suggests that such a trading bloc would significantly expand bilateral trade. In addition, increased DFI flows, trade in services, technology transfer, economies of scale in production and other dynamic benefits would serve to promote the goals of both parties without negating their respective commitments under GATT. Moreover, an effective formal dispute-settlement process is more easily established in the context of a comprehensive accord because there is a larger and more detailed base of jointly agreed disciplines.

Other Issues

At the sectoral level, the Consultative Committee should investigate several issues concerning bilateral trade and investment, including subsidies, double taxation and tax-sparing provision, intellectual property rights, investment, services, tariff and non-tariff barriers, and safeguard provisions. Most of the issues are currently being examined in various Committees at the Uruguay Round. Being committed to multilateralist ideals, the United States and ASEAN should negotiate subsidiary agreements in these areas only where they are complementary to the GATT process. Nevertheless, the United States and ASEAN have and should continue to work together to take a common position on these issues, a process which will be improved with increased economic consultation under the umbrella.

INTRODUCTION

I. OVERVIEW

The economies of the six countries of the Association of Southeast Asian Nations (ASEAN) are small in comparison to that of the United States; together ASEAN GDP is about 5 per cent of U.S. GDP. But their rapid growth in the 1970s and early 1980s and outward-orientation make them more important in terms of trade and investment than their small size would indicate. ASEAN real economic growth rate in the last decade averaged over 6 per cent per annum; at the present rate, ASEAN's gross national product (GNP) will double within ten years. After a weak performance in 1984-86, ASEAN has rebounded impressively (Table 1.1). The annual growth rate of GDP in 1987 was 3.5 per cent in Indonesia, 2 per cent in Brunei Darussalam, 4.7 per cent in Malaysia, 5.1 per cent in the Philippines, 8.8 per cent in Singapore, and 6.6 per cent in Thailand. Strong growth is expected to continue in 1988 except for Brunei Darussalam, and most experts expect ASEAN to grow at the same impressive rate in the next decade. It is thus no wonder that many refer to the ASEAN nations as the next generation of Newly Industrialized Economies (NIEs), except Singapore which has been an NIE for some time and has a per capita income level above that of some developed countries.

Comparing the United States and ASEAN, one can easily see substantial differences (Table 1.2). The United States and ASEAN have about the same population, but population density and population growth are much higher in ASEAN. Per capita income is, of course, much greater in the United States than in any ASEAN country, exceeding ASEAN per capita income by over 25-fold.

Table 1.2 shows considerable diversity among the countries themselves. Singapore and Brunei are small in area and population, and each has a relatively high per capita income. However, Brunei Darussalam has an almost non-existent industrial sector and is dependent on its rich petroleum

TABLE 1.1
Average Annual Rates of Growth of Real GDP, 1960-87

Country	1960-69	1970-79	1980-87	1987
ASEAN				
Singapore	7.8	9.6	6.4	8.8
Brunei Darussalam	n.a.	15.1 ^a	-3.7 ^b	n.a.
Indonesia	3.5 ^c	7.7	4.9	3.5
Malaysia	6.5	7.2	4.9	4.7
Philippines ^d	4.8	6.1	1.2	5.1
Thailand	8.3	7.0	5.1	6.3
Developed countries				
Japan ^b	12.1	5.2	3.9	4.4
United States	4.1	2.7	2.4	3.1

n.a. = Not available.

^a1976-79.

^b1980-85.

^c1961-69.

^dReal GNP.

Sources: Asian Development Bank, *Asian Development Bank Annual Report 1987*; Asian Development Bank, *Key Indicators of Developing Member Countries of ADB* (April 1983 and 1984, and July 1987 and 1988); IMF, *International Financial Statistics, Yearbook 1988*; World Bank, *World Development Report 1982*.

TABLE 1.2
Size of the ASEAN Countries, Japan, and the United States, 1986

Group/ Countries	Population (millions)	Area (1,000 km. ²)	GDP	
			(US\$ millions)	Per Capita (US\$)
ASEAN				
Brunei	0.2 ^a	6 ^a	3,422 ^a	15,421 ^a
Indonesia	166.9	1,919	75,229	451
Malaysia	16.1	330	27,788	1,725
Philippines	56.0	300	30,743	559
Singapore	2.6	1	17,348	6,698
Thailand	52.1	514	41,764	802
Developed countries				
Japan	121.5	372	1,958,913	16,124
United States	241.6	9,363	4,168,900	17,255

^a1985.

Sources: Asian Development Bank, *Key Indicators of Developing Member Countries of ADB* (July 1988); Brunei, Ministry of Finance, *Brunei Statistical Yearbook 1984/1985*; IMF, *International Financial Statistics* (yearbook, 1987; August 1988); World Bank, *World Development Report 1988*.

sector, whereas Singapore is devoid of natural resources, even drinking water. The ASEAN-4 (Malaysia, Thailand, Indonesia, and the Philippines) are all resource-rich. Yet, they differ substantially in terms of population size, the level of industrialization, and economic policy.

Despite the small size of the ASEAN economies, they have increased significantly their share in both U.S. trade and investment and it appears that this trend will continue. At the same time the United States continues to be among the largest trading and investment partners of the ASEAN countries.

This report is a recognition of the increasing interdependence between ASEAN and the United States. Although the U.S. interest in Southeast Asia has historically been based largely on security factors, economic concerns have become more important in recent years. This accounts for the increasing emphasis on trade and investment issues placed by both groups in the annual ASEAN-U.S. dialogue, the eighth of which took place in February 1988.

II. ASEAN-U.S. DIALOGUE

The ASEAN countries individually had co-operative relations with the United States prior to the establishment of the Association in 1967. Two of them — the Philippines and Thailand — were linked to the Western Alliance system through the Southeast Asia Treaty Organization (SEATO). The United States in 1966 and 1967 restored close relations with Indonesia (which had been interrupted in the closing years of the Soekarno government) and was the principal source of external assistance for the New Order government. It is not surprising that the United States welcomed the creation of an association among these friendly nations of Southeast Asia. It was hoped that this association would help prevent conflicts of the type that troubled Indonesian, Malaysian, and Philippine relations in the first part of the 1960s and encourage development-oriented economic policies. The United States regarded ASEAN as a force for regional stability and favourable to a U.S. presence and role in the region. For their part, the ASEAN states brought to their dialogue with the United States differing histories and issues in their individual bilateral relationships. However, they basically agreed in wanting the United States to continue to make a positive contribution to regional stability. Their economies were also closely linked with the market-oriented world economy, in which the United States and Japan were major players.

Despite the extensive political and economic ties already existing between the ASEAN countries and the United States in the later part of the 1960s, both sides avoided any formal links until the first ASEAN-U.S. dialogue in 1978. This reflected concern in both ASEAN and the United States that the association needed to establish its legitimacy as an economic, social, and

cultural organization before engaging in formal relations with a superpower. As a consequence, U.S. policy towards ASEAN, from its founding, was one of strong, but low-key endorsement.

By 1977, however, a new Southeast Asian environment had emerged in which a closer and more formal dialogue process seemed important. After the end of the Vietnam War, there was some concern in Southeast Asia that the United States was disengaging from the region, especially from the countries on the Southeast Asian mainland. The ASEAN group hoped to encourage the United States to remain involved, especially economically. It also believed it could play a role in influencing U.S. economic policy towards the Third World in general through the dialogue process. On the U.S. side, it hoped that the dialogue process would demonstrate a continuing U.S. interest in the region, encourage mutually beneficial economic relations, and provide a venue for the discussion of potentially divisive issues.

By the late 1970s, new political issues had emerged as important in the ASEAN-U.S. relationship. There was a strong coincidence of U.S. and ASEAN interests regarding the Vietnamese invasion of Kampuchea in 1978. The United States decided to defer to ASEAN for international leadership on this question and ASEAN's positions strongly influenced U.S. policies towards Kampuchea. ASEAN looked to the United States and other dialogue partners for support on this and other issues relating to Indochina, including the huge flow of Indochinese refugees into the ASEAN countries. Leaders in both Japan and the United States sought to improve their co-operation in helping the ASEAN group. The 1984 report of the bilateral U.S.-Japan Advisory Commission reflected these sentiments, calling on Japan and the United States to work together in accelerating ASEAN development, maintaining access to developed country markets, and supporting ASEAN efforts towards Kampuchea and Vietnam.

ASEAN launched a formal dialogue programme at its Second Summit in 1977. The first dialogue meeting with the United States took place very shortly afterwards. ASEAN now conducts dialogues with the European Communities and the five developed countries of the Asia-Pacific region — Australia, Canada, Japan, New Zealand, and the United States — as well as the United Nations Development Program.

In addition to these bilateral dialogues ASEAN initiated in 1979 a series of post-ministerial conferences (PMCs) in which the ASEAN foreign ministers meet with their colleagues from the dialogue partner countries following their own annual meetings. The PMCs have, in fact, become the main instrumentality of dialogue between ASEAN and the major developed countries although the bilateral meetings also continue. This reflects two features of the environment: the interdependence of economic, political, and strategic issues and the growing interdependence of the Pacific Basin. The PMCs permit a free-flowing discussion of major issues on a multilateral basis with ASEAN's major economic partners.

III. ASEAN-U.S. ECONOMIC RELATIONS

The relationship between the United States and ASEAN is far more harmonious than confrontational. In the last ten years, ASEAN trade with the United States had more than doubled; ASEAN exports to and imports from the United States increased from US\$7 billion to US\$17.5 billion and imports from US\$4 billion to US\$11 billion. The United States is ASEAN's largest export market, especially for manufactures, and its second largest source of imports after Japan.

Since World War II, the economic relationship between ASEAN and the United States has changed considerably as the economies of the respective regions and their international roles have been transformed rapidly. The United States and ASEAN have complementary economies. Furthermore, they have been experiencing a change in the composition of trade away from a traditional developed-developing country trading pattern. Although ASEAN is still a major supplier of primary products, almost 40 per cent of U.S. imports from ASEAN are manufactured goods. The development of this extensive trade relationship has been paralleled by a growth of U.S. investment in the region. The rate of increase in U.S. direct private investment over the past decade was greater than for other countries, reaching a total stock of more than US\$10 billion by 1987. There is evidence that actual investment is substantially larger than this reported figure indicates.

This growth in trade and investment between ASEAN and the United States is in large part a result of the change in the international trade situation. Following the period of turmoil and transition for the world economy in the 1970s, the international trading environment became more stable and yielded the opportunity for some developing countries to resume the momentum of trade expansion, especially in manufactures. The growth and trade policies in industrial countries have had a direct bearing on export opportunities for developing countries. Steady growth and more liberal trade policies in developed countries have generated enormous opportunities and benefits for the wider world economy throughout the post-war period. Prudent domestic macroeconomic policies and outward-looking strategies have also given developing countries greater resilience and flexibility.

The United States remains an important catalyst of growth in ASEAN. In the context of the world economic environment, the policies of the United States have helped to promote a rapid rise in both trade and investment, and these have led to expansion and diversification in ASEAN's economic relationship with the United States. The increased investment by the United States in the region, due in part to the fact that ASEAN exhibits one of the highest rates of return on investment in the world, has contributed to the increasing interdependence of the United States and ASEAN.

As the ASEAN countries seek to expand their flow of non-primary product

exports, they attach great importance to access to the U.S. market, by far the largest in the world. However, they are concerned by growing protectionist sentiment in the United States. For its part, the United States insists that as the ASEAN countries develop, their trade barriers be increasingly dismantled, especially in the area of trade in services and related investment.

The United States and ASEAN have been working at the bilateral and multilateral levels to resolve their common differences. Although discussions at the Uruguay Round have moved slowly, the United States and ASEAN continue to have confidence in the multilateral system. Yet bilateral negotiations play an important role in ASEAN-U.S. relations, serving to complement rather than contradict the GATT talks.

Thus, under the framework of the evolving international trading system and new business environment, ASEAN and the United States should strengthen their economic ties. Past economic co-operation tended to emphasize bilateral economic relations with the individual member countries of ASEAN rather than with ASEAN as a single economic entity. In addition to recommending means to fortify U.S. relations with each member, this study endeavours to find ways to improve its economic relations with ASEAN as a group. The willingness of ASEAN and the United States to develop complementarity in their economic relations would enable both to better realize their respective economic growth objectives.

IV. OUTLINE OF STUDY

The present study begins with an analysis of ASEAN-U.S. economic relations focusing on trade and investment issues. Trade in goods and trade in services are considered in Chapters 2 and 3, respectively. In both areas, there is room for significant increases in trade. Further reductions in trade barriers will facilitate the process but expansion of trade shares by both the United States and ASEAN in each other's markets will require a strong competitive effort against the other important trading partners, especially the Northeast Asian NIEs and Japan. Chapter 4 analyses the intellectual property rights issue, which currently is probably the most prominent area of dispute in the ASEAN-U.S. relationship. This is followed by a review of ASEAN-U.S. investment in Chapter 5. The medium- and short-term outlook for the United States and ASEAN economies are examined in Chapter 6. Finally, Chapter 7 presents recommendations for a Framework Agreement between ASEAN and the United States. The suggested negotiation on an umbrella agreement, under which the United States and ASEAN can establish comprehensive and issue-specific pacts, is designed to further develop mutually beneficial economic interdependence in a manner compatible with national interests and international obligation.

2

TRADE IN GOODS

I. TRADING RELATIONSHIP BETWEEN ASEAN AND THE UNITED STATES

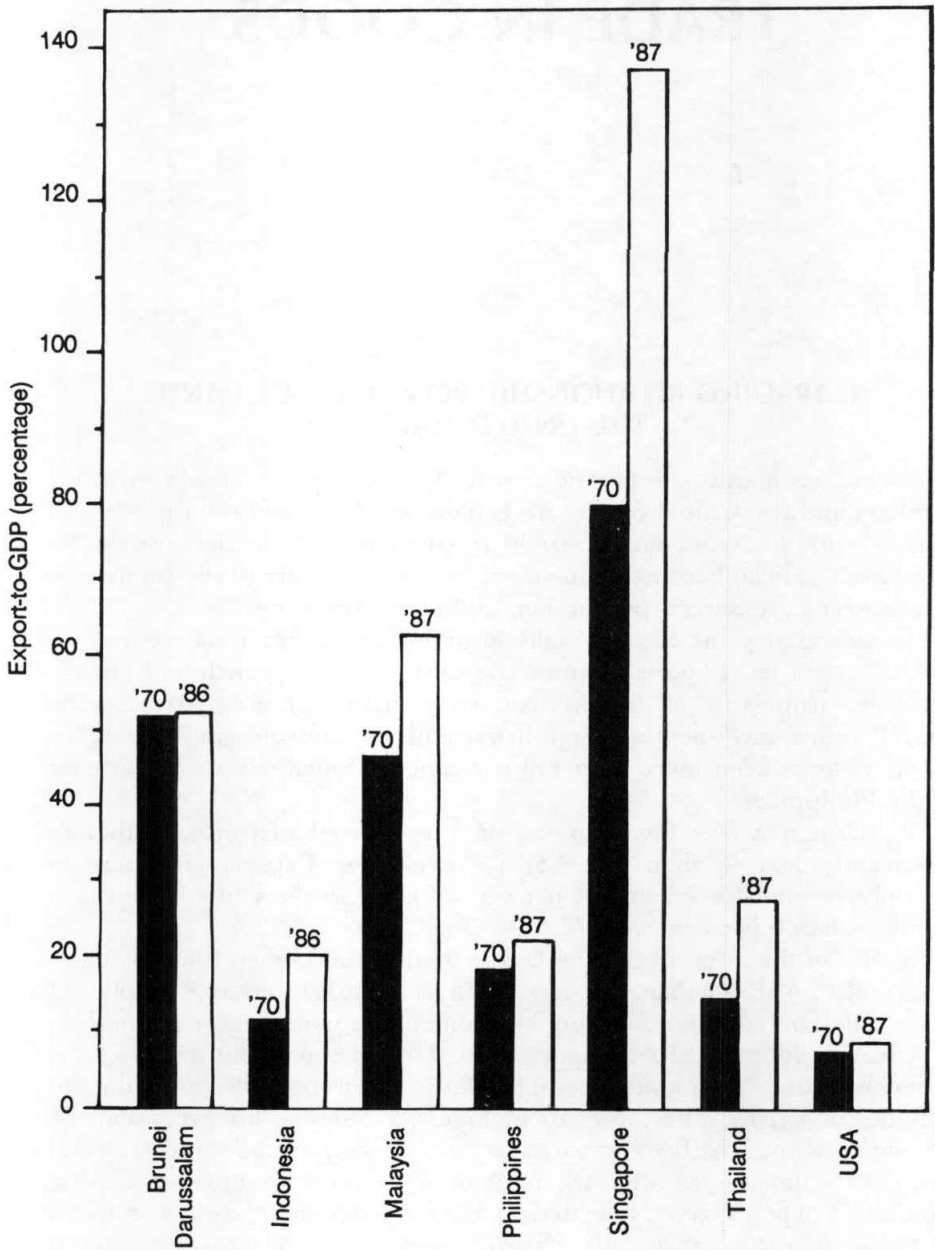
Improving economic co-operation is in the interest of all six ASEAN members and the United States. An expansion of trade in both goods and services and the reduction of trade restrictions and barriers would be mutually beneficial because of the complementary nature of the economies with respect to resources, production, and trade structures.

The potential gains are especially clear for the highly trade-dependent ASEAN countries. Exports are an important source of growth and foreign exchange earnings for all ASEAN countries. Figure 2.1 shows that export-to-GDP ratios have increased significantly in all countries since the 1970s and now range from more than 130 per cent for Singapore to 23 per cent for the Philippines.

The United States has also become more trade-dependent, though significantly less so than the ASEAN countries. Exports and imports presently account for 7.5 and 11 per cent of GDP in the United States, up from less than 6 per cent in 1970.

Because of the large size of the U.S. economy, the United States is more important to ASEAN than vice versa both as a market and as a supplier of goods. The United States has long been one of the most important markets for ASEAN exports. ASEAN exports to the United States continued to grow throughout the 1970s until the mid-1980s, when they dropped due to declining oil prices. The top chart of Figure 2.2 shows, however, that the U.S. share of total ASEAN exports declined sharply in the late 1970s and early 1980s due to the increase in ASEAN exports to other countries, particularly of petroleum. None the less, the United States presently accounts for more than 20 per cent of ASEAN exports. The large U.S. share is particularly important because the U.S. market accounts for about a third of ASEAN's manufactured exports. On the other hand, the United States

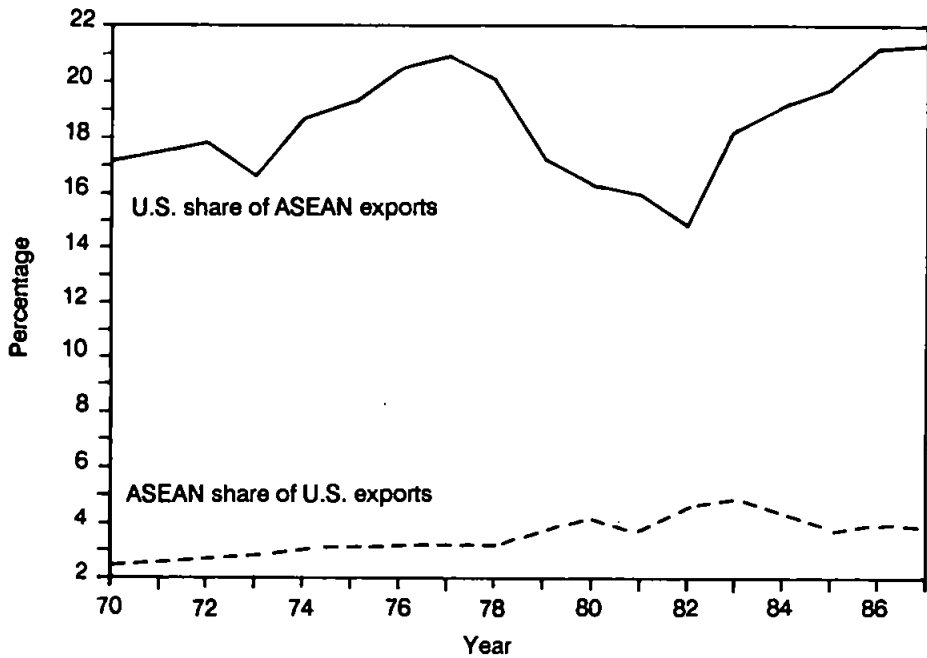
FIGURE 2.1
Export Ratios



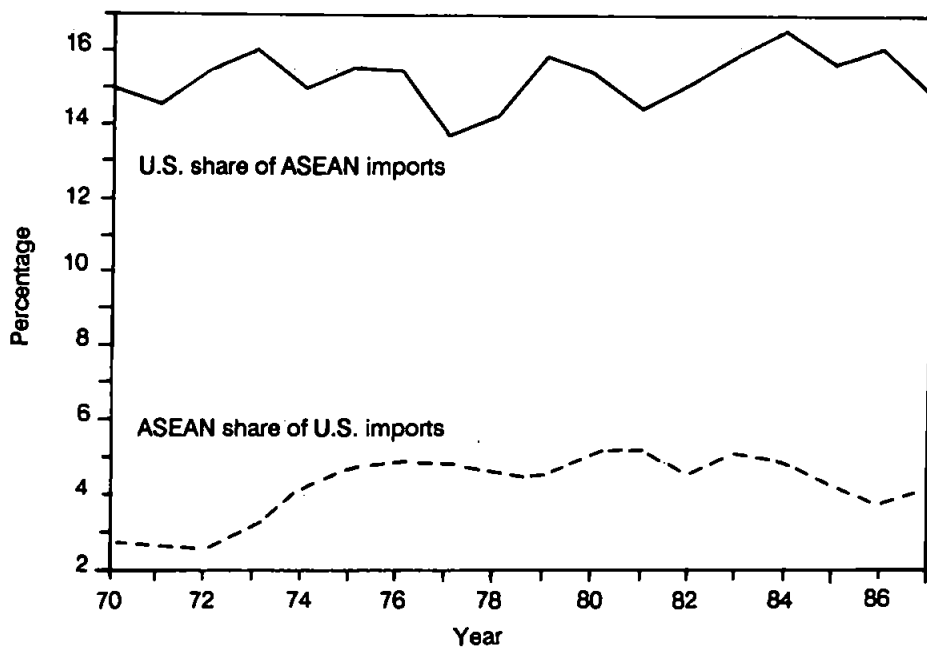
Sources: Asian Development Bank, *Key Indicators of Developing Member Countries of ADB* (1988); Brunei, Ministry of Finance, *Brunei Statistical Yearbook* (1979, 1985); IMF, *International Financial Statistics, Yearbook 1988*.

FIGURE 2.2
U.S.-ASEAN Trade Relationship

A. Exports



B. Imports



Source: IMF, Direction of Trade Statistics (1988).

has been able to maintain a relatively steady market share of ASEAN imports at 15 per cent (see lower chart of Figure 2.2). A large part of ASEAN's imports from the United States are capital goods and equipment.

Despite its relatively small size, ASEAN has become more important to the United States. Total U.S. exports to and imports from ASEAN as a percentage of total trade nearly doubled from about 2.5 per cent in 1970 to 4 and 5 per cent in the 1980s. Further, ASEAN is an important supplier of essential raw materials and the recipient of an increasing amount of U.S. investment. With the continued growth in the region, the outward-looking ASEAN countries are likely to become even more important trading partners. As the ASEAN countries continue to industrialize, they will expand imports of high-technology equipment and machinery which the United States can provide. Increasing co-operative efforts between ASEAN and the United States would therefore be mutually advantageous.

II. EXPORT PERFORMANCE IN THE EIGHTIES

Growth of exports was a key factor in the rapid growth and development of the ASEAN countries in the 1970s and, thus, the sharp fall in world export growth in the 1980s seriously affected their economic performance. Although nominal export growth of the ASEAN countries exceeded the growth of world trade in the 1970s in all cases except for the Philippines, Table 2.1 shows that the growth rates dropped significantly in the 1980s, especially in Brunei Darussalam, Indonesia, and the Philippines. For the former two countries, the decline was due primarily to the drop in the price of oil in the mid-1980s. Because the recovery of export growth in these two countries is highly dependent on the price of oil, and because of the high probability of low oil prices in the near future, growth rates may continue to be depressed in Brunei Darussalam and Indonesia. None the less, Indonesia has made significant progress in expanding its manufactured exports and hopefully will continue to do so. Export diversification will be an important element in Indonesia's export performance. For the Philippines, the sharp fall in exports in the 1980s was due to the combination of low commodity prices and poor economic conditions in the country. None the less, it appears that the worst is over and export growth rates had improved in 1986 and 1987.

In Malaysia and Thailand, export performance was below the level attained in the 1970s, but it still exceeded the world average of 6 per cent in the 1980s. Despite price declines of many of its major commodity exports, average rates of export growth in the 1980s were relatively high at 7 per cent in Malaysia and 11 per cent in Thailand. In real terms, export performance was even more impressive, growing at 10 per cent as compared with the real growth of world trade of 2 per cent. These two countries have managed to perform well despite the fears of protectionism and the export pessimism that re-emerged in the 1980s. They have taken advantage of export opportunities by diversifying their exports, especially manufactured

TABLE 2.1
Average Annual Growth of Merchandise Exports,
1960-87

Group/Country	In Current Prices			In 1980 Prices		
	1960-69	1970-79	1980-87	1960-69	1970-79	1980-87
Developing countries	5.9	25.2	3.3	4.6	4.4	0.6 ^a
ASEAN						
Brunei Darussalam	-0.8	47.9	-1.3 ^a	n.a.	n.a.	n.a.
Indonesia	-0.5	38.1	0.8 ^a	1.4	5.9	5.1 ^a
Malaysia	5.1	23.5	7.1	5.9	7.4	10.5
Philippines	5.8	20.4	3.5	5.2	10.1	5.3
Singapore	3.8	26.7	10.0	n.a.	13.2 ^b	n.a.
Thailand	7.4	23.8	11.3	6.8	12.6	10.4
Developed countries						
Japan	16.8	21.0	11.2	18.3	9.7	6.9
United States	8.1	17.7	4.5	6.4	7.2	0.9
World	8.8	20.5	5.8	7.7	6.7	2.4

n.a. = Not available.

^a1980-86.

^b1973-79.

Sources: IMF, *International Financial Statistics, Yearbook 1988*; Republic of China, Council for Economic Planning and Development, *Taiwan Statistical Data Book 1987*.

goods, and taking over markets in areas where the competitiveness of the Asian NIEs has declined because of rising production costs in those countries.

Singapore also managed to do well with average nominal export growth of 10 per cent in the 1980s. However, being one of the most open and trade-dependent economies in the world, it had a very different experience in the 1980s from the other ASEAN countries. Entrepôt imports and exports contribute significantly to Singapore's high trade ratio and traditionally dominated Singapore's merchandise trade; however, with industrialization — as well as the slow growth of entrepôt trade itself — domestic exports (that is, non-entrepôt exports) and retained imports (that is, non-entrepôt imports) have become increasingly important. The share of entrepôt exports fell from over 90 per cent of total merchandise exports in the early 1960s to 35 per cent in 1987.

For the United States, export growth rates also fell sharply in both real and nominal terms in the 1980s compared with the 1970s. With the sharp depreciation of the U.S. dollar, however, export performance has improved since 1986, and in fact grew by 15 per cent in 1987.

The decline in export growth in the 1980s was a cause for concern for the outward-looking ASEAN countries. Yet their experience shows that most obstacles can be overcome and that outward-looking policies increase the

ability of the economy to adjust to changes in the international economy by promoting efficiency and flexibility. None the less, the actions of the United States, one of ASEAN's most important trading partners, will have a significant effect on trade and overall development prospects. At the same time, the continued growth of the ASEAN countries will have an impact on U.S. exports in the future as well as continued stability in the region.

III. CHANGING TRADE PATTERNS IN ASEAN AND THE UNITED STATES

In addition to the fluctuations in the growth of trade, the structure and direction of trade in the region have changed. These changes reflect the higher level of industrialization of ASEAN as well as the changing conditions in the international environment.

A. ASEAN's Overall Trade Composition

The changing composition of exports and imports in the ASEAN countries can be seen in Table 2.2.¹ Except for Brunei Darussalam, the rising share of manufactured exports clearly reflects the increasing level of ASEAN industrialization (Appendix Table A2.1a). The promotion of the manufacturing sector as an essential ingredient in development strategy plays an important role in this change. As many ASEAN members shifted away from the agricultural sector to manufactures, export-oriented industries grew dramatically. The decline of world primary commodity prices also intensifies the structural change and while petroleum and refined petroleum products boomed in the 1970s, the 1980s saw a reversal in this trend.

Significant increases can be seen especially in export shares of electrical machinery and clothing. These items accounted for a large share of the manufactured exports of the four larger countries (Appendix Table A2.1a). In Indonesia, exports of resource-based manufactures became important, reflecting increases in plywood exports due to diversification efforts, which include the restriction of log and timber exports. Thailand's success at export diversification is shown by the rise in its export shares of a wide range of manufactured products while Singapore's higher level of industrialization is reflected in its high export shares of electrical and non-electrical machinery.

None the less, primary commodities still account for a large share of merchandise exports in the region, ranging from 99 per cent in Brunei Darussalam to 43 per cent in the Philippines and Singapore. Mineral fuels are the most important commodity in trade for Brunei Darussalam, Indonesia, Malaysia, and Singapore, while the trade of Thailand and the Philippines are more commodity-based.

In contrast to changing export composition, import structures did not change significantly (Appendix Table A2.1b). Manufactured products continued to account for more than half of total imports. These generally

TABLE 2.2
Structure of ASEAN Trade with the World and the United States, 1970 and Latest Year
(As percentages of total trade with the United States)

Commodity Group	World				United States			
	Exports		Imports		Exports		Imports	
	1970	Latest Year ^a	1970	Latest Year ^a	1970	Latest Year ^a	1970	Latest Year ^a
Primary commodities	88.0	76.2	39.9	35.7	87.3	56.9	27.9	20.1
Raw materials	63.6	58.7	23.5	26.9	44.4	43.1	12.5	7.4
Agricultural and food products	24.4	17.5	14.4	8.8	42.8	13.8	15.3	12.8
Manufactured goods	10.4	20.9	58.3	59.5	11.6	35.9	68.9	70.0
Chemicals	1.1	1.4	8.9	13.1	0.2	0.8	9.3	14.3
Resource-based manufactures	2.5	3.5	4.6	3.4	5.0	3.9	3.6	2.3
Textiles	1.2	1.8	7.5	2.4	0.6	1.7	2.5	0.5
Metal manufactures	0.4	0.2	2.7	2.2	0.0	0.1	2.1	2.2
Electrical machinery	1.1	6.8	6.1	11.9	2.5	16.1	7.8	22.5
Non-electrical machinery	1.3	1.1	14.6	15.0	0.9	0.9	26.7	18.5
Transport equipment	1.0	0.6	8.9	7.6	0.3	0.5	12.2	5.4
Furniture	0.1	0.3	0.1	0.1	0.1	0.8	0.1	0.1
Clothing	0.6	3.2	0.6	0.2	1.4	7.2	0.3	0.0
Footwear	0.1	0.3	0.1	0.0	0.1	0.4	0.0	0.0
Precision instruments	0.2	0.3	1.7	2.1	0.0	0.2	2.3	3.0
Miscellaneous manufactures	0.8	1.4	2.5	1.5	0.5	3.3	2.0	1.2
Total trade (US\$ millions)	6,160.7	54,175.1	7,340.1	41,628.2	1,076.6	10,070.3	1,108.8	7,227.5

^aFigures were calculated using data from the latest year available for each ASEAN member country.

Sources: United Nations, *Commodity Trade Statistics* (1970 and 1986).

consisted of more capital-intensive goods such as electrical and non-electrical machinery, chemicals, and transport equipment. It is interesting to note that textile imports dropped significantly in most of the ASEAN countries as they became competitive producers. At the same time increases in imports of electrical machinery were largest in the same ASEAN countries that were also large exporters of these products. This illustrates the nature of intra-industry trade in advanced manufactured products.

B. Direction of ASEAN Trade

The direction of ASEAN trade is shown in Figure 2.3. Intra-ASEAN trade accounts for a significant share of ASEAN's total exports and imports. In fact, exports to other ASEAN countries have been larger than ASEAN exports to the EC, and in the late 1970s and early 1980s, larger than ASEAN exports to the United States. Also, since 1976, intra-ASEAN imports have been larger than imports from all other countries or regions except for Japan. However, the bulk of intra-ASEAN trade is in petroleum and centres around Singapore as an entrepôt and processing centre.² There are none the less some signs that trade in manufactures among the other ASEAN countries (excluding Singapore) is increasing.

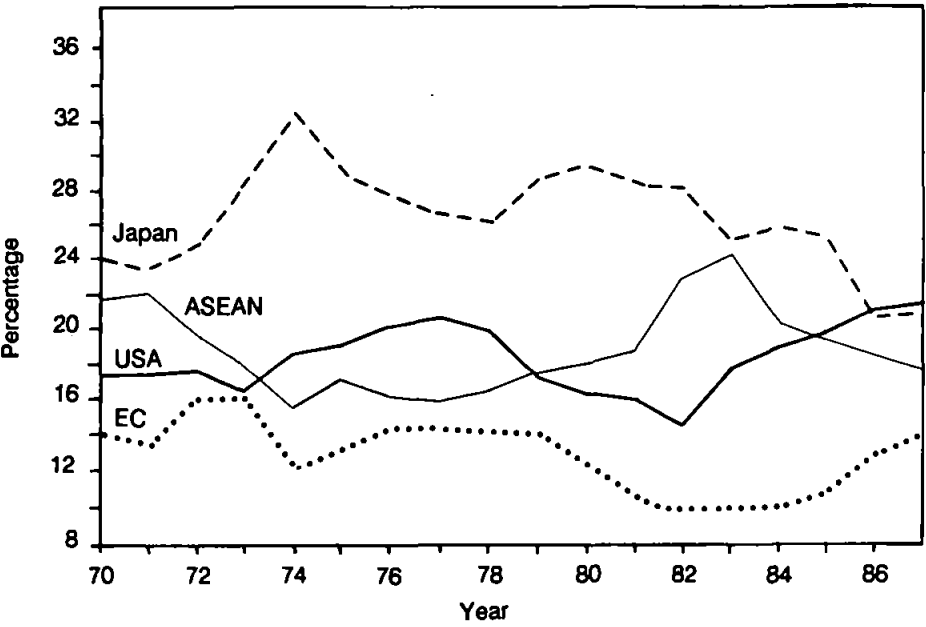
As with most other developing countries, ASEAN's largest trading partners are the developed countries, particularly Japan and the United States. Since the 1960s, Japan has been ASEAN's single largest trading partner, but its share in both ASEAN's exports and imports declined beginning in the mid-1970s. By 1986 the United States had overtaken Japan as ASEAN's largest export market.

The composition of trade with Japan is in the traditional pattern of trade between developing and developed countries. That is, Japan exports manufactured goods to and imports raw materials from ASEAN. Although the share of manufactures to total exports has increased, primary commodities still comprise more than 94 per cent of ASEAN's total exports to Japan (Appendix Tables A2.2a and A2.2b). Thus, Japan accounts for only 7 per cent of ASEAN's manufactured exports. Reflecting the same phenomenon, Japan accounted for significant shares of the exports of the large oil-producing countries, Brunei Darussalam and Indonesia (averaging 70 and 40 per cent of their total exports, respectively), but only for 10 to 20 per cent of the exports of the other countries.

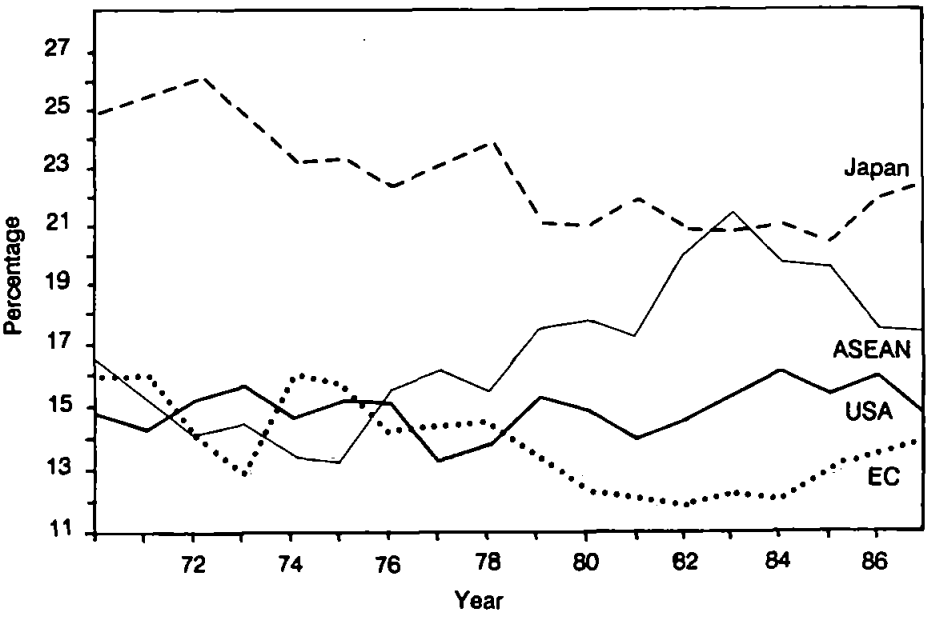
On the other hand, Japan was a dominant supplier of manufactures to ASEAN (Appendix Tables A2.3a and A2.3b). Manufactures comprised more than 75 per cent of ASEAN's total imports from Japan. And in turn, Japanese sources accounted for one-third of total ASEAN imports of manufactures, the bulk of them being in the chemicals, machinery, and transportation equipment categories. In terms of total exports, the United States was ASEAN's second largest trading market up to 1986, when it surpassed Japan's share and accounted for more than 21 per cent of ASEAN exports.

FIGURE 2.3
Direction of ASEAN Trade

A. Exports



B. Imports



Source: IMF, *Direction of Trade Statistics* (1988).

But in 1987 36 per cent of ASEAN's exports to the United States were in manufactures, up from 12 per cent in 1970. This accounted for nearly one-third of ASEAN's manufactured exports in the mid-1980s.

The United States was less important as a supplier to the ASEAN countries, accounting for only 15 to 16 per cent of total ASEAN imports and 20 per cent of manufactured imports in the 1980s. The composition of ASEAN's imports from the United States is similar to that of Japan. However, in contrast to Japan, the United States maintains a large and growing trade deficit (US\$8 billion in 1987) with ASEAN as a whole.

Although the U.S. market was second to that of Japan (especially for the oil exporters Brunei Darussalam and Indonesia), it was the largest market for Singapore and the Philippines. America's traditional relationship and strategic interests in the Philippines is reflected in the fact that the U.S. market accounts for approximately one-third of total Philippine exports and around one-quarter of its imports. The U.S. share of Singapore's total exports was also significant, rising dramatically in the 1980s to 24 per cent in 1987 (and for domestic exports 31 per cent). This was due in part to the large presence of American multinational companies in Singapore. However, imports from the United States grew more slowly, and in 1987 Singapore had a sizeable surplus (US\$2.2 billion) in its bilateral merchandise trade with the United States, but a huge deficit with Japan (US\$4.3 billion).

The United States has been an extremely important market for Thai exports and a supplier of their imports for several decades. And in the early 1980s, Thai exports to the United States represented between 10 and 20 per cent of its overall exports, surpassing the share of Japan. On the other hand, Thai imports from the United States have remained quite stable, within the narrow range of between 13 and 15 per cent throughout the 1970s and 1980s. Japan is the largest source of Thai imports, accounting for a third of Thai imports in the 1970s and 25 per cent in the 1980s.

The United States replaced Singapore as Malaysia's second largest trading partner after Japan (accounting for 17.5 per cent of Malaysia's global trade) in 1987. In that same year, 16.6 per cent of Malaysia's total exports was destined for the United States, while 18.7 per cent of Malaysia's total imports originated in the United States.

C. Composition of U.S. Trade

The United States is primarily an exporter and importer of manufactures, which accounted for more than 70 per cent of its total world trade in 1986 (Table 2.3). But the structure of manufactured exports experienced little change since 1970, with chemicals, machinery, and transport equipment accounting for nearly 80 per cent of manufactured exports. On the other hand, significant increases were seen in the share of machinery and transport equipment in total imports. From 28 per cent of total imports in 1970, that share soared to 43 per cent in 1986.

TABLE 2.3
Structure of U.S. Trade with the World and ASEAN, 1970 and 1986
 (As percentages of total trade with the United States)

Commodity Group	World				ASEAN			
	Exports		Imports		Exports		Imports	
	1970	1986	1970	1986	1970	1986	1970	1986
Primary commodities	33.0	23.1	41.2	24.7	32.3	14.1	84.3	34.9
Raw materials	17.0	11.0	25.1	17.7	12.7	5.5	43.4	23.2
Agricultural and food products	16.0	12.1	16.1	7.0	19.5	8.5	40.9	11.7
Manufactured goods	63.6	70.1	55.6	71.4	64.1	83.9	14.4	63.6
Chemicals	8.9	10.3	3.6	4.0	7.6	10.5	0.3	1.4
Resource-based manufactures	3.6	3.2	7.0	5.5	3.6	2.7	4.3	4.1
Textiles	1.4	1.2	2.8	1.5	2.4	0.8	0.7	1.3
Metal manufactures	1.7	1.3	2.1	2.0	2.3	0.8	0.0	0.4
Electrical machinery	7.0	9.0	5.7	10.9	8.1	31.5	3.2	26.3
Non-electrical machinery	19.5	20.4	7.6	12.5	25.7	19.6	0.2	12.0
Transport equipment	15.1	16.3	14.7	19.6	9.4	12.6	0.1	0.8
Furniture	0.1	0.3	0.6	1.2	0.1	0.2	0.1	1.1
Clothing	0.5	0.4	3.2	4.8	0.6	0.1	4.8	11.3
Footwear	0.0	0.1	1.6	1.8	0.0	0.0	0.1	0.4
Precision instruments	2.7	4.4	1.6	2.4	2.0	3.4	0.0	1.1
Miscellaneous manufactures	2.6	3.1	5.2	5.2	2.2	1.6	0.7	3.4
Total trade (US\$ millions)	43,226.4	217,335.9	39,963.2	387,054.0	1,103.8	8,412.9	1,109.5	15,181.6

Sources: United Nations, *Commodity Trade Statistics* (1970 and 1986).

D. Direction of U.S. Trade

U.S. trade is largely directed towards the developed countries, with its largest trading partners being the EC, Canada, and Japan, which together accounted for roughly 50 per cent of U.S. exports and 60 to 70 per cent of imports for the last two decades (Figure 2.4). The structure of U.S. exports and imports to the EC and Canada conform to the pattern of total U.S. trade, but nearly 40 per cent of U.S. exports to Japan are in primary products while 95 per cent of its imports are in manufactured goods (Appendix Tables A2.4 and A2.5).

In terms of developing countries, the geographical proximity and close historical ties with Latin America are reflected in U.S. trade flows. Latin America and the Caribbean countries continue to account for an average of 15 per cent of U.S. exports but have increased their share of U.S. imports to about 20 per cent in the mid-1980s. Similar to U.S. trade with other developing countries, the bulk of U.S. exports to this region is in manufactured goods while imports from Latin America are mainly in primary commodities.

The Asian NIEs have also become more important in U.S. trade. The share of U.S. exports destined for the NIEs increased from 3 per cent in 1970 to almost 8 per cent in 1987. The share of U.S. imports originating in these countries increased even more dramatically, rising from less than 5 per cent to about 13 per cent over the same period. Unlike U.S. trade with Latin America, imports from these countries are primarily in manufactured goods.

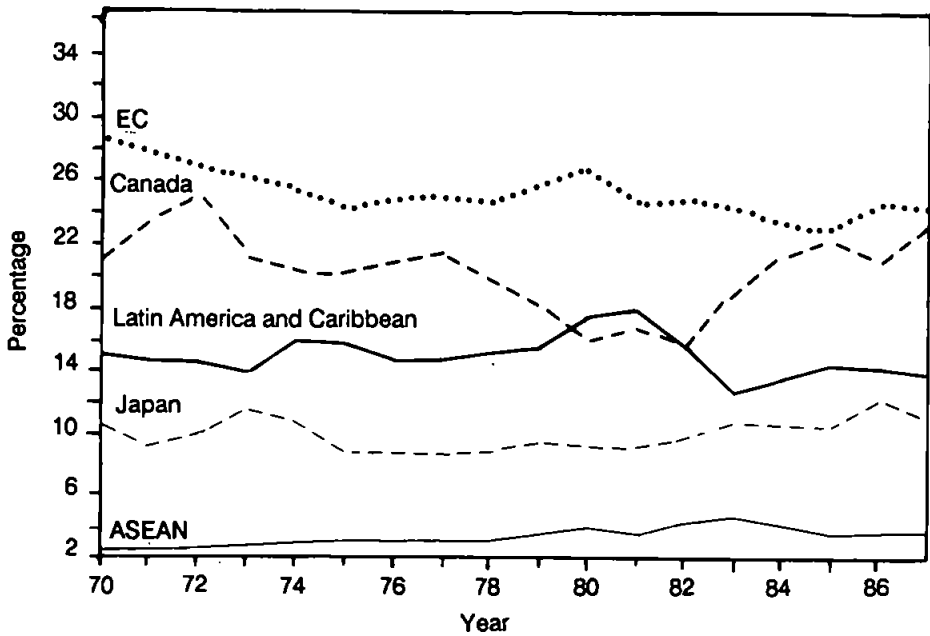
Although U.S. trade with ASEAN countries remains small as a percentage of its total trade, it has gradually increased over the period. Manufactured goods have become even more important in U.S. trade with ASEAN than U.S. trade overall. The large share of electrical machinery (mainly electronic parts and components) in both exports and imports is of particular interest. U.S. trade in electrical machinery is heavily concentrated in Malaysia, but is also important in trade with the Philippines, Singapore, and Thailand.

IV. ASEAN AND U.S. COMPARATIVE ADVANTAGE

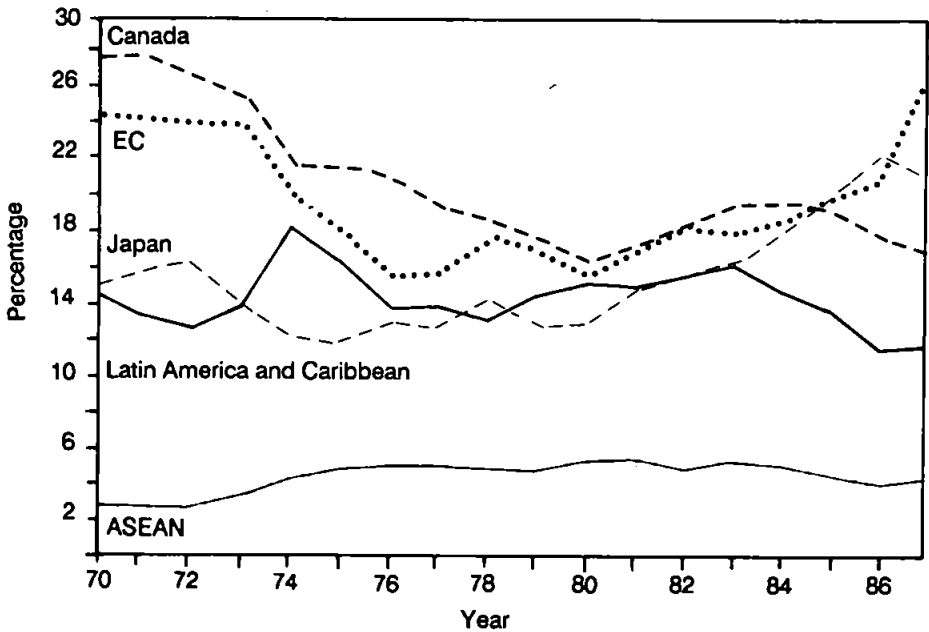
The factor endowment theory of international trade explains inter-industry trading patterns of nations by the relative scarcity or abundance of factors of production, such as land, labour, and capital. Simply put, countries will tend to be net exporters (importers) of goods whose production embodies relatively large amounts of the abundant (scarce) factors of production. For example, one study found that the abundance of physical capital was the principal determinant of U.S. net exports in 1975; human capital was found to play a very minor role (although positively related to net exports) while unskilled labour scarcity played a major role. U.S. trade also economized on natural resources.³ In contrast, the same study found that scarcity of

FIGURE 2.4
Direction of U.S. Trade

A. Exports



B. Imports



Source: IMF, *Direction of Trade Statistics* (1988).

capital was the most important determinant of the net exports of both Singapore and Malaysia. At the same time, the net trade of these two countries made use of the abundance of professional and technical labour (and tropical land and minerals as well for Malaysia). The net trade of the Philippines and Thailand was found to have economized on capital and taken advantage of the abundance of professional and technical workers, tropical land, and minerals.

Further, insights may be provided by an indirect measure of comparative advantage. Rather than relying on endowment of factors, or making inter-country cost comparisons (which are not always accurate) an index of "revealed" comparative advantage (RCA) can be constructed.⁴ RCA is calculated by assuming that the export performance should give an indication of a country's comparative advantage since comparative advantage would be expected to determine the structure of exports. The RCA measure is defined as the share of commodity i in the country's (j) total exports relative to the commodity's share in total world exports.⁵ An $RCA = 1$ means that the share of i in the country's total exports equals the share of i in total world exports.⁶ As the RCA ratio of less than unity means that commodity i is less important in country i exports than it is in total world trade, this implies that the country is at a comparative disadvantage in that product. Conversely, a ratio greater than unity indicates that the country has a revealed comparative advantage in the product. In general, the higher the index for a given commodity, the higher it is assumed to be in the ranking of goods by comparative advantage.

As a possible (dynamic) variant of this index, one can compute each of the four magnitudes in the equation as a *change* between two periods, such as between 1974/75 and 1985/86. Under this variant a country is said to have a comparative advantage in commodity i if its share in the country's total exports *grew* faster than the growth in the share of the commodity in total world trade over the same period. But this variant may not be appropriate for the ASEAN countries because manufacturing exports were very small (in some ASEAN members — non-existent) in any base year that may be reasonably chosen.

A. Changing Pattern of ASEAN Comparative Advantage

In 1965, ASEAN exports were largely confined to primary products and cereals and this situation continued throughout the early 1970s.⁷ However, by 1974–75 the Philippines and Thailand had emerged with a comparative advantage in certain light manufactures such as cork and wood manufactures (SITC 63), handbags (SITC 83) in the Philippines, and clothing (SITC 84) in Thailand.⁸ When only manufactures are considered, RCAs were greater than unity in footwear, clothing, furniture, and sanitary fixtures in the Philippines, as well as textiles (SITC 65) in both countries.

On the other hand, in Indonesia and Malaysia, exports were heavily

concentrated in primary products; few manufactured goods had RCAs greater than one when all goods were considered. In fact, in Indonesia no manufactured products had RCAs greater than one when all goods are considered, reflecting the dominance of petroleum in the country's exports. But Indonesia appears to have been competitive in some chemical products (SITC 54 and 55), leather goods, cork and wood manufactures, and a few miscellaneous manufactures when only manufactures were considered. RCAs were greater than unity in cork and wood manufactures and precision instruments for Malaysia. Malaysia was also competitive in other light manufactured products, including footwear and rubber manufactures, when only manufactured products are considered. Chemicals and electrical machinery, as well as light manufactures such as clothing and wood products became important export items in Singapore. Looking only at manufactured goods, Singapore was also competitive in other light manufactures and some chemical products.

By the 1983-84 period, the situation changed significantly (Appendix Table A2.6). Although primary commodities continued to dominate Indonesia's trade, plywood manufactures and undergarments became important export items. In addition, when only manufactures are considered, several chemical products (SITC 522, 531, 551, 553, 562), labour-intensive manufactures — such as cotton and other woven fabrics, glassware, and various garments — and some natural resource-intensive products — cement and wood products — had RCAs greater than unity. The wider range of products shows that Indonesia was able to diversify somewhat its exports and to become competitive in a few resource-intensive and labour-intensive manufactures.

Malaysia also succeeded in diversifying its exports and became a competitive producer of various electrical and electronic items — such as radio broadcast receivers, electrical power-generating equipment, and valves and tubes — and various garments. When considering only manufactured exports, RCAs were greater than one for various natural resource-intensive goods — rubber manufactures and wood products — as well as textiles and various garments.

The Philippines and Thailand also began exporting a number of light manufactures including furniture and footwear. Even the technology-intensive category of electrical parts and components had an RCA greater than unity when only manufactures are included. When only manufactures are considered, Thailand also showed strong export performance in several human capital-intensive industries such as optical goods and watches and clocks.

In Singapore, exports of chemicals such as organo-inorganic compounds (SITC 515) continued to be important. It remained, however, a strong exporter of electrical machinery and equipment. Considering only manufactures, we see that Singapore's more advanced industrial level is indicated by

its significant exports of the technology-intensive electrical and non-electrical machinery and equipment.

B. U.S. Competitive Industries

During the period 1974/75 to 1983/84, the United States maintained its strong comparative advantage in some agricultural and food products and was also a competitive exporter of capital- and technology-intensive manufactures. The United States did well in exports of a wide range of chemical products. RCAs of less than one were found for two two-digit SITC categories — dyeing and tanning materials (SITC 53) and essential oils and perfume materials (SITC 55). U.S. competitiveness was also strong in all but three sectors of machinery and transport equipment — metal working machines (SITC 73), telecommunications and sound recording equipment (SITC 77), and road vehicles (SITC 78). Professional and scientific equipment were other important export items for the United States.

C. Areas of Complementarity between the United States and ASEAN

The above analysis indicates that there is a great deal of complementarity within the ASEAN countries, and especially between the ASEAN countries and the United States.

In agriculture and food products, Thailand has the highest RCAs among the ASEAN countries. It is the only significant exporter of rice, other cereals, vegetables, and miscellaneous edible products in the region. Moreover, along with the Philippines, Thailand is a strong exporter of preserved fruits, sugar, and tobacco.

The other ASEAN countries, on the other hand, are net importers of agriculture and food products. Most of the import requirements of the ASEAN countries are already provided by Thailand, though this is not always the case even where Thailand and the Philippines had extremely high RCAs. For example, Singapore is a large net importer of sugar but the bulk of the sugar imports comes from Australia and other developed countries, including the United States. Only 5 per cent of Singapore's sugar imports comes from Thailand and virtually none from the Philippines.

The United States is also a strong exporter of agriculture and food products, the most important of which are cereals, tobacco, animal hides and furs, animal fats, and soybeans. In terms of U.S. exports to ASEAN, the United States is in most cases also a strong exporter of rice, maize, other cereals, and tobacco to the region, despite the strong competitive position of Thailand. Further increases in U.S. exports of agriculture and food products are, however, limited. Although the United States is the only country that has a comparative advantage in wheat and soybeans, export growth in these products is unlikely. In addition, most of the imports of the Philippines and Indonesia for these commodities already comes from the United States.

Turning next to other primary commodities, all of the ASEAN countries

as well as the United States are significant exporters of wood and wood products. The Philippines is the only ASEAN country which does not have a comparative advantage in natural rubber although it is a small net exporter. At the same time, it is a net importer of reclaimed rubber from the United States. The United States has large exports in synthetic rubber and wastes.

With regard to mineral fuels, Brunei Darussalam, Indonesia, and Malaysia have substantial exports of petroleum products (largely crude petroleum) and natural gas, while Singapore exports refined petroleum. On the other hand, about 40 per cent of Thailand's imports of petroleum comes from the other ASEAN countries while less than 20 per cent of the Philippines petroleum imports so originates. The United States is also an important market for ASEAN exports of mineral fuels.

Other small items that are of interest to the United States include cotton (SITC 263) and other man-made fibres (SITC 266), in which it is the only country with RCAs greater than one. Except for Singapore, the United States already supplies a large share of the cotton imports to the region, but Japan is the principal supplier of man-made fibres.

Within the region, the potential for increases in trade in manufactures is even larger than in primary commodities. Except in a few instances (Singapore in SITC 515 and 598, and Indonesia in SITC 551), the ASEAN countries do not have a comparative advantage in chemicals, while the United States has a strong comparative advantage in most sectors in this industry. However, the amount of growth that can be expected is uncertain as the United States is already the largest supplier of chemicals to ASEAN in most cases, averaging about 25 per cent of the region's total imports.

In textiles, clothing, and wood manufactures all of the ASEAN countries are strong exporters relative to the rest of the world or are at the very least net exporters. In fact, for several ASEAN members, these products are the strongest exports. But because the United States either has RCAs greater than one in wood products or is a net exporter of several wood products, or already purchases a large share of wood products from the ASEAN countries, significant trade expansion in wood manufactures is unlikely. However, the United States is a net importer of textiles and clothing and has low RCAs. Thus there is room for additional trade growth in textiles and clothing exports of ASEAN to the United States, despite existing trade restrictions. Presently, the majority of U.S. imports are accounted for by Korea, Hong Kong, and the developed countries.

One area of special interest to the United States is non-electrical equipment and machines (SITC 71, 72, 73, 74, and 75) which accounts for more than 20 per cent of U.S. exports. Within this category, the United States is a strong exporter in many specific goods, while ASEAN countries are net importers and purchase a substantial amount of these goods from the United States. But the Japanese position in these products is very significant and in many cases surpasses the U.S. share. Therefore, any increase in this area will entail vigorous competition against Japanese goods.

All of the countries with the exception of Indonesia are large exporters of electronic parts and components and in some specific items within this sector, several of the ASEAN countries and the United States all have high RCAs. In these cases, a large share of both exports and imports of the region is traded with United States, indicating that intra-industry trade has been growing in these areas. Large U.S. direct foreign investment in electrical and electronic equipment in the region seems to be linked directly to this intra-industry trade expansion. In areas where at least one of the ASEAN countries has a comparative advantage and the United States does not (SITC 761, 762, 764, and 775), a large share of ASEAN exports of these products goes to the United States, though these generally account for a small share of total U.S. imports. Electrical equipment in which only the United States has comparative advantage (SITC 772 and 773) faces strong competition from goods from Japan and the EC.

With respect to transport equipment, there are clear complementarities. The United States has a significant comparative advantage in some transport equipment, including car parts (SITC 784), railway vehicles (SITC 791), and aircraft (SITC 792). With the exception of aircraft, U.S. exports in these areas are significantly smaller than Japanese exports to the region.

Singapore is the only country with a comparative advantage in the production of ships. It supplies Indonesia and Malaysia with about a third of their imports of ships, but is a small supplier of ship imports of other countries. Japan is Singapore's largest market.

Several of the countries in ASEAN have a comparative advantage in miscellaneous light manufactures, including furniture (SITC 821), handbags (SITC 831), and footwear (SITC 851). But with a few exceptions, exports of these goods from the ASEAN countries generally comprise a small share of total U.S. imports of these products; the EC is the largest exporter of light manufactures to the United States. However, from the ASEAN point of view, the U.S. market is very important, especially in terms of export potential.

In precision and photographic instruments and equipment (SITC 87 and 88) the United States is a large exporter in many categories. It is by far the largest exporter of precision instruments to the ASEAN region, though in some cases it is closely followed by Japan. However, the United States is not as competitive as Japan in photographic equipment and instruments.

D. Intra-Industry Trade

It is interesting to look briefly at trade in electronics goods as it is one of the few areas where significant trade within an industry, or intra-industry trade, appears to be taking place.⁹ One measure of intra-industry trade is defined as the value of exports of an industry which is exactly matched by the imports of the same industry. In other words, intra-industry trade is the value of total trade ($X_i + M_i$) remaining after subtracting net exports of the

industry $|X_i + M_i|$. The greater the degree of intra-industry trade, the closer will be the value of exports and imports, and therefore, $(X_i - M_i)$ will be close to zero and $(X_i + M_i) - |X_i - M_i|$ will be close to $(X_i + M_i)$. Dividing this number by the country's combined exports and imports to facilitate cross-country comparison will give us a simple index expressed in percentage terms (B). When exports exactly equal imports ($X = M$), then $B = 100$. On the other hand, if $X = 0$ or $M = 0$, then $B = 0$.

According to this index, the amount of intra-industry trade taking place between the United States and ASEAN is concentrated in a few areas. Little or no intra-industry trade occurs in chemicals (SITC 5), basic and miscellaneous manufactures (SITC 6 and 8), and non-electrical machinery (SITC 2071-75), where comparative advantage is clearly divided between the United States and ASEAN.¹⁰ The low ratios reflect the uni-directional nature of trade flows in these areas. However, the numbers are much higher within SITC 77. Important sectors include electrical power machinery (SITC 771), electrical apparatus for making and breaking electrical circuits (SITC 772), and especially picture and other electronic valves and tubes (including transistors and similar semi-conductor devices).

The small amount of intra-industry trade corresponds to the analysis of comparative advantage in the region. That is, the ASEAN countries and the United States have very complementary economies with dissimilar trade patterns and intra-industry trade is concentrated in electrical and electronic equipment.

The high degree of intra-industry trade in the electronics industry stems from the activity of U.S. firms in the ASEAN countries. As will be discussed in Chapter 5, the direct investment by U.S. electronics firms in the region has been large and U.S. policies have promoted the movement of the labour-intensive parts of the production process in semi-conductors, television apparatus and so forth by allowing duty-free entry after assembly or processing of U.S. parts. It is not surprising, therefore, that U.S. affiliates account for a significant share of both U.S. and ASEAN trade.

V. DEGREE AND PATTERN OF PROTECTION

The pattern of protection may be expected to be inverse to the pattern of comparative advantage.¹¹ Therefore, we would expect to find that protection is highest in the ASEAN countries in capital-intensive products while for the United States, protection would be highest in labour-intensive products.

A. Protection in the United States

Indeed, industries receiving the greatest protection in the United States tend to be characterized by large numbers of unskilled workers, high labour-output coefficients, small number of firms, slow growth, and high imports.

1. Tariff Barriers

In particular, nominal tariff rates of protection in the United States, like those of other developed countries, tend to be relatively high in labour-intensive industries such as textiles and clothing (Table 2.4) which are significant manufacturing export products for ASEAN. Due to the escalated U.S. tariff structure, as one moves up the processing chains from raw materials to goods with greater value added in processing, effective rates of protection begin to exceed nominal ones. For example, effective rates of protection on intermediate and final goods are substantially higher for wood manufactures, processed vegetables and fruits, textile products and clothing, and leather manufactures than the nominal rates would indicate (Table 2.5).

2. Non-Tariff Barriers

In addition to tariffs, imports are restricted through the use of non-tariff barriers. In fact, non-tariff barriers constitute the single most important obstacle to free trade in the world international trading environment. There are three basic types of non-tariff barriers: (1) quantitative restrictions (QRs) limit (or in some cases prohibit entirely) the amounts of a product imported into a country for a given period and can be imposed at the global level or country-specific level, or on seasonal terms; (2) voluntary export restraints (VERs) are agreements between an exporter and an importer on the maximum amount of exports permitted in a given period, and are typically concluded under a threat of more stringent unilateral restrictions; and (3) monitoring measures which are administrative actions to control imports of "sensitive" goods.

The United States is one of the large users of VERs, as well as anti-dumping and countervailing measures.¹² None the less, as shown in Table 2.6, only a few categories of products have actually faced such barriers. Still, the product categories covered by non-tariff barriers in the United States are generally in the same product categories as those with higher tariff barriers. Several of these are of importance to one or more members of ASEAN, for example, textiles, apparel, sugar, and canned tuna.

The table shows that the quota system under the Multi-Fibre Agreement (MFA), an orderly marketing agreement, covers more than 70 per cent of U.S. imports of textiles and apparel. This number is estimated to be about 80 per cent when only imports of low-cost textiles to the United States are considered.¹³ Although the MFA was established in 1974 as a temporary mechanism to limit imports and protect domestic industries, it has been repeatedly renewed. The latest renewal (1 August 1986), MFA IV, extended the coverage of the agreement from cotton, wool, and man-made fibres to include silk and other vegetable fibres such as ramie and linen.¹⁴ In terms of formal structure, the MFA IV represents a move towards liberalization in that it recognizes for the first time that the final objective of the MFA is the application of GATT rules to trade in textiles. But, in practice restrictive

TABLE 2.4
Post-Tokyo and GSP Tariffs in Selected Developed Countries

Product Group	EEC		Japan		United States		All Developed	
	MFN	GSP	MFN	GSP	MFN	GSP	MFN	GSP
All food items.	3.7	5.0	9.7	11.1	4.1	3.6	6.4	5.5
Food and live animals	3.2	5.1	10.0	11.7	3.8	3.4	6.5	5.6
Oilseeds and nuts	10.3	6.2	5.6	5.0	1.4	0.3	5.3	4.5
Animal and vegetable oils	0.1	0.0	0.3	1.2	0.9	0.1	0.1	0.4
Agricultural raw materials	3.4	0.5	0.7	0.5	0.3	0.1	0.8	0.5
Ores and metals	2.8	0.5	2.5	1.3	1.9	1.1	2.3	0.9
Iron and steel	5.5	3.3	5.0	2.0	4.3	3.5	5.1	3.0
Non-ferrous metals	3.2	0.5	5.5	3.1	0.7	0.3	2.3	1.1
Fuels	0.1	0.2	1.5	1.3	0.4	0.3	1.1	0.6
Chemicals	8.4	4.1	5.5	5.1	3.7	1.0	5.8	3.7
Manufactures excluding chemicals	8.1	6.4	5.7	4.2	5.6	6.6	7.0	6.7
Leather	10.2	2.8	11.9	8.4	4.2	1.4	5.1	3.2
Textile yarn and fabrics	17.3	7.6	8.6	6.1	10.6	9.0	11.7	8.4
Clothing	19.9	9.3	15.0	8.6	20.3	17.8	17.5	14.6
Footwear	22.5	9.1	14.2	7.9	11.7	9.4	13.4	10.1
Other items	4.8	0.1	2.3	1.0		0.4		3.8
All products		2.1		2.3		3.6		2.7

Source: Yeats (1987).

TABLE 2.5
Approximations of the Effective Rate of Protection
for Selected Processed Commodities

Processed Commodity	Aus- tralia	EC	Japan	New Zealand	United States	All Developed.
Processed meat products	18.4	51.7	59.6	15.2	4.4	15.0
Preserved seafood	3.0	26.5	23.2	- 2.1	2.5	3.7
Preserved fruits	22.8	40.8	21.6	41.0	72.5	43.4
Processed vegetables	27.0	37.9	40.2	21.0	20.2	30.6
Coffee extracts	2.2	45.5	76.6	136.8	0.0	42.6
Chocolate	44.6	*	82.6	78.6	0.1	- 3.3
Wood manufactures	30.4	9.2	1.3	24.6	10.3	7.4
Paper and paperboard	13.7	5.5	13.7	2.2	0.7	4.3
Articles of paper	19.7	12.6	0.7	53.1	8.7	7.6
Rubber manufactures	22.7	4.5	1.1	16.1	- 0.4	5.0
Cotton yarn	- 27.8	7.6	13.7	4.7	18.3	9.0
Wool yarn	12.2	1.1	14.0	70.9	18.1	7.8
Jute yarn	32.0	7.2	19.8	0.0	4.7	8.7
Cotton fibres	- 19.9	11.8	10.0	1.3	13.5	11.0
Wool fabrics	69.1	5.1	25.3	60.1	85.8	34.0
Jute fabrics	*	10.0	5.3	0.0	*	0.3
Leather	22.8	6.0	21.2	43.2	8.1	7.0
Leather manufactures	36.0	9.9	18.6	45.3	17.5	13.7
Vegetable oils	10.5	50.6	49.6	0.0	- 1.5	36.1
Tobacco manufactures	23.2	117.4	156.0	50.6	9.4	47.0

* No effective tariff rate given since the ratio of the input to final product tariff could not be computed.

Source: Yeats (1987).

elements remain. In addition to the extension in the coverage of fibres, the acceptance of the rate of growth of *per capita consumption* as a relevant indicator in market disruption is a clear indication of a more restrictive arrangement.¹⁵

The Asian countries have generally not complained about the quota system because it guarantees continued market shares to dominant traditional suppliers such as the Asian NIEs. With the recent renegotiations, however, allowed growth of imports from the NIEs have been cut back drastically to 1 per cent per annum. The second- and third-tier producers, including the ASEAN countries, have been allowed growth rates of up to 6 per cent. But while this permits them a higher growth of exports to the United States, it locks them into an inefficient quota system that may frustrate their efforts to industrialize efficiently and move up the ladder of comparative advantage.¹⁶

Non-tariff barriers are also an important tool used to protect agricultural imports. Section XXII of the Agricultural Adjustment Act of 1933 provides a mechanism for imposing fees or quantitative restrictions on imports of

TABLE 2.6
Principal U.S. Non-Tariff Trade Restrictions, 1970-87

Product	Related SITC Division	Control Measure	Country Coverage	Duration	1980 Imports Affected	
					US\$ Millions	% SITC Div.
Certain meat	01	VER	ANZ, Canada	1965-	1,331	51.6
Certain cheese	02	Quota	Global	1953-	338	95.8
Other dairy products	02	Quota, tariff-quota	Global	1930-	16	4.5
Certain fish	03	Tariff-quota	Global	1936-	257	9.4
Canned tuna	03	Tariff-quota	Global	1956-	97	3.5
Certain potatoes	05	Quota	Global	1936-	13	0.5
Peanuts	05	Quota	Global	1953-	1	0.0
Canned mushrooms	05	SG	Global	1980-83	122	5.2
Sugar	06	Quota, VL	Global	1948-	1,995	84.3
Certain chocolate	07	Quota	Global	1971-	10	0.3
Cedar shingles, shakes	63	SG	Canada	1986-	n.a.	n.a.
Specialty steel	67	OMA, bilateral quota	Japan, EC, Canada	1976-81	283	3.5
High carbon steel	67	SG	Global	1978-82	8	0.1
Certain steel products	67	VER	EC	1982-	2,440	30.0
Specialty steel products	67	SG	Global	1983-	n.a.	n.a.
Carbon steel products	67	VER	ANZ, Brazil, Japan, KO, Mexico, S. Africa, Spain	1984-	n.a.	n.a.
Lagbolts, screws	69	SG	Global	1979-82	330	8.1
Certain cookware	69	SG	Global	1979-84	2	0.0

Trade in Goods

Table 2.6 (Continued)

Product	Related SITC Division	Control Measure	Country Coverage	Duration	1980 Imports Affected	
					US\$ Millions	% SITC Div.
Machine tools	72,73	VER	Japan, TA	1986-	n.a.	n.a.
Citizens band transceivers	76	SG	TA	1978-80	37	0.5
Colour television assemblies	76	OMA	Japan, KO, TA	1979-82	156	2.2
Semiconductors	77	OMA	Japan	1986-	n.a.	n.a.
Automobiles	78	VER	Japan	1981-	8,231	29.9
Motor cycles	78	SG	Japan, Germany	1983-87	393	1.4
Textiles, apparel	68,84	MFA bilateral quota	Japan, LCDs	1974-	6,800	71.7
Non-rubber footwear	85	OMA	KO, TA	1979-81	n.a.	n.a.
Clothespins	89	Quota	Global	1979-84	n.a.	n.a.

n.a. = Not available.

MFA = Multi-Fibre Arrangement.

OMA = Orderly Marketing Agreement.

SG = GATT Article XIX (U.S. Section 201) safeguard tariff, quotas, or other measures.

VER = Voluntary Export Restraint.

VL = Variable Levy.

ANZ = Australia and New Zealand.

EC = European Community.

KO = Korea.

TA = Taiwan.

Source: Campbell and DeRosa (1988).

agricultural products that "render or tend to render ineffective, or materially interfere with" any programme or operation of the U.S. Department of Agriculture or "reduce substantially the amount of any produce processed in the United States from any agricultural commodity or product thereof". In addition, the bill introduced on Capitol Hill in 1987 to require labelling of products containing palm and coconut oil as "saturated fat" represents a tacit barrier to trade.¹⁷

Sugar is by far the most important product of ASEAN that is currently subject to a quota.¹⁸ More than 80 per cent of all sugar imports to the United States is affected by quotas (Table 2.6). The United States has regulated sugar imports with a quota system since 1934 with only a short interruption in the late 1970s (when sugar prices soared and Congress seized the opportunity to let sugar sell at free market prices).¹⁹ At first, a system of tariff and import fees was used to keep the price of sugar high enough to maintain the market price at the desired level. But with the world price of sugar falling drastically during the recession of 1981-82, the quota system was re-established on an "emergency basis". The emergency apparently has not ended.²⁰

In 1985 because of the government budget crisis, the farm bill revised the sugar programme stipulating that the programme should be run at no budgetary cost to the government. This meant that the government had to rely mainly on the quota system to keep domestic prices at the high levels. As a result, the United States reduced its sugar import quota from 1.7 million tons in 1986 to just over 1 million tons in 1987. If this trend continues, the quota may have to be cut to zero in the next few years.²¹

For the Philippines, the decline in the U.S. import quota meant a cut of 40 per cent in its sugar exports to the United States to 143,780 tons in 1987.²² However, the Philippines (as well as the Caribbean nations) was granted compensatory increases in their 1988 sugar quotas of 110,000 short tons (1 short ton = 2,000 pounds).²³

3. Other Agricultural Protection

U.S. protection of agriculture relies less on border measures than the EC and Japan, and relies more on producer subsidies. To compare the degree of protection across commodities and countries, the various forms of government intervention can be expressed as producer or consumer subsidy equivalents. Using this approach, it has been estimated that transfers to producers and taxes on consumers of sugar in the United States are exceptionally high relative to the value of production both in comparison with other agricultural products and other countries. United States producer subsidy equivalents are large on rice compared with other exporters, but are on the same order with U.S. subsidies of other grains. In contrast, Thailand provides approximately a zero subsidy to its producers while it imposes a slight tax on consumption of agricultural goods, and Indonesia subsidizes

consumers. It should be noted, however, that these figures are for 1982-84, and do not reflect revision of the U.S. agricultural support programme in 1985. Further, the figures may overstate U.S. producer subsidy equivalents since the effect of the U.S. agricultural support programme in toto during the period served to support world grain prices. The new Omnibus Trade and Competitiveness Act has provided renewed support for agricultural export subsidies and has extended subsidies to wood products for the first time (export credit guarantees).

B. U.S. Trade Actions against ASEAN

The ASEAN nations have seldom been the subject of affirmative U.S.-administered trade actions (Table 2.7), despite the rise in investigations of unfair trade practices in the United States in recent years. The administered trade actions are a response by trade officials to suits filed by domestic producers against imports with an "unfair" advantage. These include suits against dumping, export subsidies, misrepresentation of imported items (generally patent infringement or false designation of origin), and violations of international trade agreements. In addition, suits for import relief can be filed on behalf of an entire industry if significant "injury" occurs to a number of domestic producers.

In anti-dumping cases, separate investigations are undertaken to establish sales of goods at less-than-fair value. If this finding is affirmative, an anti-dumping (AD) duty equal to the dollar amount of the dumping margin is imposed. In the case of countervailing duty (CVD) investigations where the Department of Commerce has made an initial finding of imports being unfairly subsidized by the exporting country, an International Trade Commission investigation of material injury to the domestic industry is undertaken involving the signatories of the Subsidies Code. If both investigations are affirmative, the Department of Commerce imposes a CVD equal to the dollar amount of the net subsidy. However, the newly passed Omnibus Trade and Competitiveness Act of 1988 permits the United States to revoke the right to an injury test if the country violates its commitments to the United States under the GATT Subsidies Code. A few ASEAN administrative cases are pending. Both Indonesia and the Philippines have been subject to CVD investigations of certain textile products and apparel. However, in both cases the investigations were terminated after the nations signed the Subsidies Code. In the same product lines, cases have been brought against Malaysia and Thailand. In the former case, no subsidies were found and in the latter case, CVD was imposed with respect to apparel although the textile mill products investigation was suspended.

Carbon steel wire rod, and carbon steel pipes and tubes have been the subject of AD and CVD investigations with respect to Malaysia, the Philippines, Singapore, and Thailand. Two cases in Singapore and one in Malaysia involving wire rod failed to result in a CVD order. However, in

TABLE 2.7
U.S.-Administered Trade Actions, 1984-87
(Affirmative decisions)

Type of Investigation	Industrial Countries				Developing Countries			Affected Products
	Total	Japan	Canada	Others	NICs ^a	ASEAN ^b	Others	
<i>Less than fair value (dumping)</i>								
1984	0	0	0	0	0	0	0	Aspirin, brass sheets, cellular phones, chemicals, construction castings, cookware, computer chips, copper wire and rods, crankshafts, fencing, flowers, ground fish, hollow ware, juice concentrates, neoprane laminate, phosphoric acid, photo albums, picture tubes, pipe fittings, pistachios, raspberries, roller bearings, silica fabric, steel pipe, steel wheels, urea, wire nails.
1985	9	2	2	2	1	0	1	
1986	17	1	3	1	6	0	6	
1987	37	5	2	14	5	1	10	
Pending investigation	12	6	1	4	0	0	1	
<i>Countervailing duty (subsidy)</i>								
1984	0	0	0	0	0	0	0	Apparel, aspirin, brass sheets, cookware, flowers, ground fish, lamb meat, phosphoric acid, pistachios, rebars, rice steel pipe, steel wire, swine, textiles.
1985	10	0	1	1	0	1	7	
1986	5	0	2	1	0	1	1	
1987	15	0	1	6	2	0	6	
Pending investigation	2	0	0	0	1	1	0	
<i>Unfair trading practices</i>								
1984	0	0	0	0	0	0	0	Lap computers, pasta products, power tools, television receivers.
1985	1	0	0	1	0	0	0	
1986	0	0	0	0	0	0	0	
1987	1	1	0	0	0	0	0	
Pending investigation	10	0	1	4	0	0	5	

^aHong Kong, South Korea, Singapore, and Taiwan.

^bIndonesia, Malaysia, the Philippines, and Thailand.

Source: DeRosa (1988).

another case in Malaysia an affirmative finding of subsidies did lead to a CVD order. No AD order was issued in regard to a Philippine pipe and tube case. However, AD orders were issued in cases involving Singapore and Thailand, and a CVD order was applied to one case of Thai exports in this commodity group.

Moreover, CVD orders have been issued involving canned tuna from the Philippines (which has since been revoked), rice and steel wire from Thailand, and refrigerator compressors from Singapore. Additionally, AD orders have been issued with respect to colour picture tubes from Singapore and malleable cast iron pipe fittings from Thailand.

Pending cases (as of August 1988) include a CVD investigation of carbon steel wire rods, carbon steel, pipes and tubes, thermoplugs (CVD and AD investigations) from Malaysia, AD and CVD investigations of anti-friction bearings and parts thereof from both Singapore and Thailand, and AD and CVD investigations of industrial belts and components thereof from Singapore. In addition, both AD and CVD investigations have been initiated regarding thermostatically controlled appliance plugs and internal probe thermoplugs on which there has been a preliminary negative finding of subsidies.

C. U.S. Generalized System of Preferences²⁴

Like most developed nations of the world, the United States has adopted the GSP programme of tariff preferences which is granted to developing countries to assist them in their economic development. At present, the United States grants duty-free treatment on approximately 4,000 products from 140 developing countries and territories. ASEAN members, like other developing countries, also benefit from the U.S. GSP scheme; however, ASEAN members have differing opinions as to its importance in their respective development strategies.

The U.S. GSP is quite important for Singapore, is important to some extent for Indonesia, Malaysia, and Thailand, and important to a lesser extent for Brunei Darussalam and the Philippines. Brunei Darussalam became the first ASEAN country to be graduated out of the GSP (effective July 1988), because its per capita GNP exceeds the US\$8,500 limit. Brunei Darussalam, however, considered this most unfair, and claimed that its level of industrialization was still in its infancy. Its exports had not reached an adequate level of competitiveness exhibited by developed countries. For its part, the Philippines chose to rely less on GSP. However, given its urgent need to expand exports, the Philippines has changed its position and is now trying to exploit GSP as much as possible.

On the other hand, Singapore has been a major beneficiary of the U.S. GSP, having the sixth largest GSP export value among the beneficiary countries. Singapore's exports received GSP duty-free treatment in the

United States valued at US\$730 million in 1986, accounting for 5.0 per cent of Singapore's total domestic exports, 13.9 per cent of its total exports to the United States, 16.3 per cent of its domestic exports to the United States, and 17.8 per cent of its non-oil domestic exports. Singapore was extremely unhappy over the U.S. decision to graduate Singapore out of the GSP programme effective January 1989 and protested strongly, but to no avail. The Singapore position is that the U.S. decision was contrary to an understanding reached when Singapore amended its copyright legislation; the decision was premature as Singapore's per capita income was below US\$8,500, there was no proper and full consultation, and Singapore had never restricted imports from the United States so that there was a level playing field.

Other ASEAN countries now face the threat of GSP withdrawal because of alleged failure to satisfy the internationally recognized workers' rights and for not enacting adequate copyright protection. This has affected ASEAN members to varying degrees.

For Thailand, GSP has been most helpful especially to new exports, by allowing these exports to have a relatively easier access to the U.S. market. The system has obviously contributed to the recent boom in Thailand's manufactured exports. The withdrawal of GSP from new and potential exports will certainly limit their chances for growth, although the U.S. nominal tariffs are low, in the range of 5 to 7 per cent.

It should be pointed out, however, that for established exports the phasing out of GSP has not hurt much. For example, in July 1987 the United States decided to withdraw the GSP privilege to Thai jewellers; the Thai jewellery industry has been able to partly diversify to other overseas markets.

The U.S. move to review the GSP status of Malaysia, which arises from the allegation that the Malaysian Government had violated workers' rights to form active labour movements in the country, is also becoming a major concern for the government. This has made the U.S. GSP even more problematic and uncertain. In the past, Malaysia was only concerned with the problem of exclusion of products of major interest to Malaysia from the U.S. GSP, the early exhaustion of GSP quotas and ceilings, erosion of the U.S. GSP margin of preferences (MOP), and U.S. stringent provision of the rule of origin. Malaysia is also particularly concerned over the new U.S. GSP scheme's elements such as conditionality and linkage of non-trade issues with GSP offers, all of which will impose undue encumbrances on the beneficiaries from utilizing the scheme. Together with the latest controversies surrounding the GSP, the above problem goes to show that while the U.S. GSP has been somewhat beneficial to Malaysia, it cannot be relied upon heavily for future growth in exports.

Indonesia perceives the GSP as an important element of its bilateral trade with the United States, though the country has not made use of the programme on a meaningful scale. Only a very small fraction of Indonesia's exports going to the United States has enjoyed the MOP offered by the GSP

mainly because the composition of exports is dominated by oil. Textiles and garments which constitute the largest part of manufactured products exported from Indonesia to the United States are governed by the MFA. That the GSP became an issue is basically due to the petition by the American Intellectual Property Alliance asking the U.S. Government to exclude Indonesia from the beneficiary list of U.S. GSP because of allegedly large-scale counterfeiting on the Indonesian side. A similar petition was recently filed by the AFL-CIO against Indonesia for reasons related to sub-standard labour protection. Nevertheless, the GSP is seen by many Indonesians as a symbol of goodwill. Its withdrawal will be interpreted as a sign of a weakening commitment on the part of the United States to economic development of Southeast Asia, even though the performance of Indonesia in making use of the GSP may continue to be meagre.

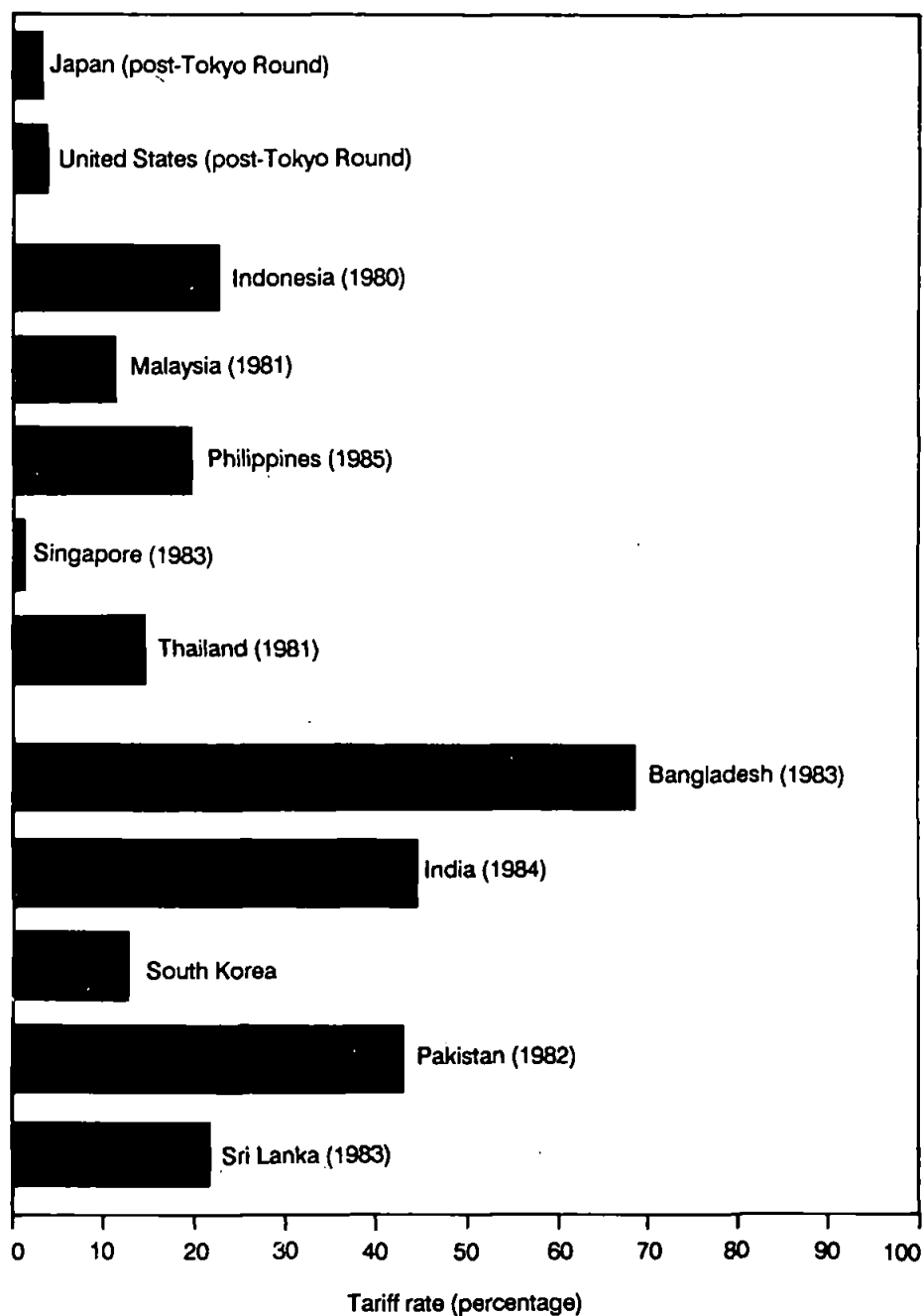
D. Protection in ASEAN

The comparative tariff structures of the ASEAN countries are notable for the near absence of tariffs in Singapore and Brunei Darussalam and the relatively high tariffs on manufactured goods in the other ASEAN countries as compared with the United States (Figure 2.5). None the less, in comparison with tariff levels in other developing countries, tariff protection in ASEAN is generally quite modest, although substantially higher for Indonesia and the Philippines than in Malaysia and Thailand.

Protection in ASEAN was generally reduced beginning in the 1970s. For example, in the early 1980s, the Philippines reduced substantially its tariff rates. The tariff reform would have been accompanied by liberalization in import licensing if not for the economic crisis that erupted in 1983. The ASEAN tariff structures tend to have low levels of protection for natural resource-, capital-, and skill-intensive goods, and contrary to what would be expected, labour-intensive products tend to be highly protected. Table 2.8 shows that like the United States, ASEAN protection schedules are escalated by the degree of processing. Primary, intermediate, and capital goods tend to have lower levels of protection than final goods. This structure of protection is due to the perceived notion that industrialization by means of import substitution should start from final goods, making use of imported capital and intermediate goods.

Quantitative restrictions are a characteristic response of developing countries to adverse movements in income or the terms of trade. There are substantial numbers of commodities affected by quantitative restrictions in ASEAN, some of which are important to the United States, especially chemicals and machinery and transport equipment (Table 2.9). The number of items affected are especially large in Indonesia and the Philippines, especially before 1984. In Indonesia, non-tariff barriers were used most widely in food and beverages, basic manufactures, and machinery. The restrictions account for about 30 per cent of all items in food and beverages,

FIGURE 2.5
Trade-Weighted Average MFN Tariffs



Source: Laird and Yeats (1987).

TABLE 2.8
Comparison of Average Levels of Import Duties
in ASEAN by Broad Economic Categories (BEC)

UN-BEC Code No. and Description	Indo- nesia (1980)	Malay- sia (1982)	Philip- pines (1982)	Singa- pore (1983)	Thai- land (1983)	ASEAN
<i>Primary</i>	14.86	3.46	23.56	0.11	19.76	12.35
111 Unprocessed foodstuffs	26.48	3.20	33.78	0.00	37.18	20.13
21 Raw materials	12.64	3.50	21.95	0.13	16.90	11.02
31 Unprocessed fuels	11.56	3.75	11.25	0.00	1.75	5.66
<i>Intermediate</i>	24.94	17.04	26.65	8.62	26.96	20.84
121 Processed food and beverages for industry	44.20	72.89	36.81	27.21	37.23	43.67
22 Industrial supplies, processed	24.09	14.26	26.20	7.73	26.54	19.76
322 Processed fuels and lubricants, n.e.s.	5.27	7.33	16.66	0.24	10.33	7.97
<i>Capital goods, including parts and accessories</i>	20.05	6.50	21.97	0.28	23.72	14.50
41 Capital goods (except transport equipment)	20.50	5.88	21.55	0.33	23.44	14.34
42 Parts and accessories of capital goods (except transport equipment)	17.25	10.41	24.54	0.00	25.44	15.53

<i>Consumer goods</i>	65.57	63.85	42.21	9.46	49.40	46.10
112 Food and beverages, primary, mainly for household consumption	56.55	11.22	48.74	0.72	52.46	33.94
122 Food and beverages, processed mainly for household consumption	60.05	257.85	45.36	21.99	67.35	90.52
321 Motor spirit	10.71	7.57	24.00	11.84	25.00	15.82
51 Passenger motor cars	76.32	71.52	37.14	7.50	76.00	53.69
61 Durable goods	45.31	11.61	32.18	0.12	35.93	25.03
62 Semi-durable goods	71.33	18.67	44.96	0.57	58.03	38.71
63 Non-durable goods	82.22	21.80	42.27	17.65	37.48	40.29
<i>Transport equipment (excluding passenger motor cars), including parts and accessories</i>	27.39	19.26	20.92	2.00	22.41	18.40
521 Transport equipment, industrial	2.00	0.83	12.00	0.00	9.50	4.86
522 Transport equipment, non-industrial	32.53	11.96	28.60	2.25	24.00	19.87
53 Parts and accessories of transport equipment	44.96	36.24	24.84	3.46	31.73	28.24
<i>Others</i>	17.16	10.64	27.66	0.00	13.12	13.72
7 Goods not elsewhere specified	17.16	10.64	27.66	0.00	13.12	13.72
Total	32.59	24.99	29.18	6.41	30.66	24.77

Source: Philippine Tariff Commission, *Tariff Profiles in ASEAN: An Update*.

TABLE 2.9
ASEAN Quantitative Import Restrictions
and Other Non-Tariff Barriers by SITC Section
(In numbers of six-digit CCCN products affected)

SITC Section/Non-Tariff Barrier		Brunei Darussalam	Indonesia (1980)	Malaysia (1981)	Philippines (1983)	Singapore (1983)	Thailand (1983)
Food, beverages, and tobacco	0,1	41	237	62	117	67	28
Restrictive licensing		41	1	55	9	67 ^a	13
Quotas		—	0	0	30	0	0
Import prohibitions		—	213 ^a	7	3	0	15
Restricted foreign exchange		—	0	0	61	0	0
State import monopoly		—	23 ^a	0	14 ^a	0	0
Crude materials	2	21	78	41	16	3	33
Restrictive licensing		20	31	41	0	3	24
Quotas		—	0	0	9	0	0
Import prohibitions		1	44	0	2	0	9
Restricted foreign exchange		—	0	0	5	0	0
State import monopoly		—	3	0	0	0	0
Fuels and animal, vegetable oils	3,4	—	4	0	14	0	4
Restrictive licensing		—	1	0	0	0	3
Quotas		—	0	0	14 ^b	0	0
Import prohibitions		—	2 ^c	0	0	0	1 ^c
State import monopoly		—	1 ^b	0	0	0	0
Chemicals	5	23	57	3	29	25	8
Restrictive licensing		21	53	3	0	24	8
Quotas		—	4	0	24	0	0
Import prohibitions		2	0	0	1	1	0
Restrictive foreign exchange		—	0	0	4	0	0
Basic manufactures	6	30	280	11	175	11	54
Restrictive licensing		29	241	10	0	11	43
Quotas		—	36	0	132	0	0

Import prohibitions		1	3	1	0	0	11
Restricted foreign exchange		—	0	0	43	0	0
Machinery, transport equipment	7	9	122	39	88	27	30
Restrictive licensing		9	117	39	0	27	21
Quotas		—	5	0	81	0	0
Import prohibitions		—	0	0	1	0	9
Restricted foreign exchange		—	0	0	6	0	0
Miscellaneous manufactures	8	15	21	17	58	28	26
Restrictive licensing		14	10	9	0	24	0
Quotas		—	0	0	2	0	0
Import prohibitions		1	11	8	3	4	26
Restricted foreign exchange		—	0	0	53	0	0
<i>Memorandum items</i>							
Primary commodities	0-4	62	319	103	147	70	65
Restrictive licensing		61	33	96	9	70	40
Quotas		—	0	0	53	0	0
Import prohibitions		1	359	7	5	0	25
Restricted foreign exchange		—	0	0	66	0	0
State import monopoly		—	27	0	14	0	0
Manufactures	5-8	77	480	70	350	91	118
Restrictive licensing		73	421	61	0	86	72
Quotas		—	45	0	239	0	0
Import prohibitions		2	14	9	5	5	46
Restrictive foreign exchange		—	0	0	106	0	0

^aImport restrictions principally on food products (SITC 0).

^bImport restrictions principally on mineral fuels (SITC 3).

^cImport restrictions principally on animal and vegetable oils (SITC 4).

Sources: DeRosa (1986); UNCTAD, *Trade Information System*.

and about 15 per cent for the other two categories, although a number of them have been removed since 1986. For the Philippines in 1983, the coverage is higher for the same product categories, at 60 per cent for food and beverages and about 20 per cent for basic manufactures and machinery. Since 1986, however, the Aquino government has removed quantitative restrictions for a large number of products, leaving only around 12 per cent of the total number of items regulated by 1988. For the other ASEAN countries, quantitative restrictions cover a small share of total trade.

E. Summary

In sum, a relatively liberal trading situation exists on both sides of the North-South trade between ASEAN and the United States. Rising protectionist sentiment in the United States has not negatively impacted upon ASEAN export growth to a significant degree in the first half of the 1980s when falling commodity prices followed by dollar depreciation disrupted the long-run pattern of trade.²⁵ At the same time, protection in ASEAN during this period had no measurable effect on trade. In fact, in both cases export growth was higher for both the United States and ASEAN than would be expected by income growth rates.

The record of U.S. trade policy has shown a commitment to tolerance with respect to the trade policies of other nations, the most-favoured-nation principle, and to rules rather than administrative discretion in trade matters as the basis for mutual benefit from trade which was to be "open but fair" (with fairness measured by consistency with GATT principles).²⁶ In recent years, ASEAN has moved closer to these same principles; at the same time, the United States, in spite of contrary pressures, has continued to advocate them. Both partners have the most to gain from bilateral negotiations that emphasize these principles promoting a liberal system, and that can through joint efforts extend negotiations to agricultural trade world-wide through GATT.

VI. URUGUAY ROUND AND ITS POSSIBLE OUTCOMES

Officially launched in September 1986, the Uruguay Round of GATT at Punta del Este had its Midterm Review in December 1988. The important issues that the Uruguay Round is dedicated to address have been extensively debated, but little has been accomplished. In fact, it is widely thought that GATT has reached an impasse on the important issues facing the international trade community.

However, both the United States and ASEAN are dedicated to increasing multilateral trade and investment liberalization. The United States has been the leader in all rounds of multilateral tariff negotiations; yet ASEAN, having abandoned its passive role in previous negotiations, has also increased its participation in GATT at the Uruguay Round. ASEAN has come to the

realization that (1) reductions in trade barriers are essential for further growth in their respective economies and (2) if they do not participate actively in GATT, the items of interest to them will be ignored. ASEAN is now looking for a "cheap fare" in lieu of a "free-ride".²⁷

The following is an outline of the important issues discussed so far at the Uruguay Round.²⁸ Although previous GATT rounds have been very successful in reducing tariff barriers in developed countries, the Uruguay Round endeavours to include other forms of distortive trade mechanisms. First, a task force has been assigned to analyse how non-tariff barriers can be reduced. Negotiations on formal "request lists" that delineate the various barriers affecting partner countries will be presented in the Spring of 1989. Second, negotiators are working to eliminate all forms of protective barriers to trade in tropical products. Much of the time spent on this area has been dedicated to information gathering, which has been difficult. Developing countries had expressed a desire to reach an agreement by the Midterm Review, but this did not materialize as tropical products have been included as part of the general negotiations on liberalizing trade in agriculture. Included in these negotiations is the Cairns Group proposal, supported by the United States and ASEAN, that suggests the elimination of all agricultural subsidies. Moreover, the very sensitive topic of trade in textiles and clothing has been extensively researched. It is hoped that these negotiations will succeed in bringing global trade in textiles and apparel into GATT, and out of the "grey area". This, of course, entails a re-examination of the status of the MFA.

Other trade-related issues constitute important goals at Punta del Este. Negotiators are trying to better clarify rules governing subsidies and CVD practices. Although the Subsidies Code was negotiated at the Tokyo Round, many ambiguities remain with respect to important rules and there is a lack of effective dispute settlement mechanisms. The United States has been an outspoken protagonist of reform in this crucial area. The issue has been particularly sensitive for subsidies which many developing countries consider to be an important part of their development strategy. Furthermore, services and intellectual property rights have received centre-stage attention. Developing countries, including ASEAN, have been very active in this area and the United States has proposed the establishment of a services framework agreement in GATT addressing such issues as transparency, non-discrimination, national treatment, discipline on state-sanctioned monopolies, discipline on subsidies, non-discriminatory accreditation procedures, and a consultative and dispute mechanism. It is hoped that some consensus on an outline for a service agreement and a framework for an intellectual property agreement will be reached.

It is impossible to predict what will be the ultimate outcome of the Uruguay Round. However, the issues on the table are paramount to both the United States and ASEAN, and if the negotiations succeed in accomplishing what it has set out to do, all economies will benefit.

VII. INTRA-ASEAN ECONOMIC CO-OPERATION

The ASEAN countries have been able to increase their visibility and bargaining power *vis-à-vis* the rest of the world by taking a strong common stance. Even within GATT negotiations, ASEAN as a group has become known for its active participation and its moderate position on developing country issues. However, the pace of ASEAN economic co-operation in trade and investment has been slow. Increases in intra-ASEAN trade are not primarily the result of preferences, despite the increase in coverage of the ASEAN Preferential Trading Arrangements (PTA). Further, only a few of the industrial schemes set up by ASEAN have taken off.

However, the drop in commodity prices in the 1980s and the slower growth in world trade contributed to a slow-down in the overall economic growth in these outward-looking countries. As a result of this economic slow-down and the increased uncertainty in the world trade environment caused by large trade imbalances among major trading nations, the ASEAN countries have begun to look at their own markets as a source of future growth. A renewed interest in regional economic co-operation has been sparked. Ten years had passed since the Second Summit and thus the announcement of the Third ASEAN Summit in December 1987 was met with a great deal of hope and expectation. The summit made important changes in both the substance and philosophy behind ASEAN co-operation. The main instruments of intra-ASEAN trade and investment co-operation are the ASEAN PTA and the ASEAN Industrial Joint Ventures (AIJV).

Below we summarize the important characteristics of these two programmes. Naya and Imada (1987) provide a detailed review of inter-ASEAN trade and investment schemes.

A. ASEAN Preferential Trading Arrangements

It is widely acknowledged that the PTA has not significantly stimulated intra-ASEAN trade, either through replacement of domestic production by imports from ASEAN member countries, or through trade diversion from non-ASEAN countries to ASEAN member countries. This limited success may be attributed in part to the features of the PTA itself, such as the selectiveness of PTA items and the large list of exclusions, the low depth of tariff cuts, bureaucratic rules of origin, and the existence of non-tariff barriers that nullify the effects of tariff cuts. This limited success may also be attributed to the similarity in the trade patterns of the ASEAN member countries. Not only do the ASEAN countries tend to produce similar commodities and labour-intensive manufactures geared for markets in OECD countries rather than intra-ASEAN, they also produce similar goods without sharp differences in production costs.

Recognizing these problems, the ASEAN leaders made several improvements to the PTA. Most importantly, a clear direction to trade co-operation was made by setting a goal to cover 50 per cent of the value or 90 per cent

of all items under the ASEAN PTA within five to seven years. The degree of tariff preferences given to ASEAN members was also deepened from 25 to 50 per cent, and the exclusion list was restricted to 10 per cent of all items.

The overwhelming message given by the ASEAN leaders at the summit was that they were indeed serious about expanding ASEAN economic co-operation and that this would be done in a practical manner that emphasized private sector participation. It remains to be seen, however, how effective ASEAN will be at implementing the proposals. Critics point to loopholes still remaining in the agreements and predict that these loopholes will be used in the same way the exclusion list was used earlier to reduce the impact of increasing trade preferences. But with the improvements made at the summit and the greater commitment of the member countries to ASEAN co-operation, continuation of the slow pace of economic co-operation will be difficult to justify.

As of 1 April 1988, the ASEAN countries have published the 1988 programmes and product lists for improvement of the PTA. With the implementation of the 1988 programmes, the number of items in the PTA have increased from 12,655 items before the summit to 14,462 after it. The total number of items that were given deeper MOP up to a maximum of 50 per cent have increased from 3,500 to 11,596 items. Also, at least 90 per cent of the traded items of individual member countries will be granted a 25 per cent preferential margin on their import duty if the items originate in ASEAN.

If the decisions made at the summit are implemented, the scope of intra-ASEAN trade will expand and in some cases, inefficient domestic production in protected industries will be replaced by more efficient partner country imports. Having a timetable for the increased tariff preferences will also allow the private sector to plan effectively and take advantage of these changes. The AIJV, discussed below, can also help to speed up the process of trade integration by increasing both the number of items and the preference given.

It is important to address the question of what expanded co-operation will actually imply. Nevertheless, judging from their past record, it is doubtful that the ASEAN countries will become more inward-looking and increase protection *vis-à-vis* the rest of the world. Unlike the EC, ASEAN cannot afford to concentrate so heavily on intra-regional economic co-operation. In particular, ASEAN must look at trade co-operation as a step towards overall trade liberalization rather than as a movement towards protectionism on a regional scale.

The ASEAN members are well aware of the inherent limitations to intra-regional trade expansion, including the tendency for the exports of these countries to be in similar goods. Furthermore, they understand that trade with the rest of the world will continue to be an important element in their future economic growth and development, and comprehend the problems that are created by an inward-looking development strategy. This

awareness of the importance of maintaining a relatively open position *vis-à-vis* the rest of the world is exemplified by the fact that they have decreased the tariff rates among themselves at the same time they have promoted intra-ASEAN trade.

B. ASEAN Industrial Co-operation

Three industrial co-operation schemes — the ASEAN Industrial Complementation (AIC), the ASEAN Industrial Projects (AIP), and the ASEAN Industrial Joint Ventures (AIJV) — were established to promote specialization of industrial production within the region. However, the performance of these schemes has been relatively poor. Under the AIP, one regional industry would be established in each country by the government (with the other member governments equally sharing 40 per cent of the equity) and the output of that industry would be allowed into the other member countries duty-free. The industries that were included under this scheme were typically large-scale projects that the government wanted to promote. However, only two of the designated projects under the AIP have been undertaken so far. The AIC was meant to be a smaller-scale, private-sector-based co-operative effort in which member countries were to specialize in producing different components or parts of a product.

The AIJV, however, has had more success. Under the AIJV, output from joint ventures that include firms from two ASEAN countries can, in conjunction with foreign firms, receive preferential tariff rates for their exports in the ASEAN participating countries. The AIJV scheme was improved further in the Third ASEAN Summit, where non-ASEAN equity was increased from a maximum of 49 per cent to a maximum of 60 per cent; and tariff preference increased from a minimum of 75 per cent to a minimum of 80 per cent. To strengthen and promote more investment in the region, an agreement for the protection and promotion of investment in the ASEAN region was also concluded. And until recently, a Brand-to-Brand complementation in the Automobile Industry Scheme has been approved under the AIC.

C. Future Prospects

The ASEAN members have found that the increasing level of industrialization in all of the countries have made integration easier. The exports of individual members have diversified and the prospects for horizontal trade in manufactures, particularly in electronic components, have increased. The improvement in the AIJV may accelerate this process by encouraging foreign investment in the region.

With the increased foreign investment into the ASEAN region, the increase in intra-regional activities is unlikely to have a negative effect on other countries and the largest trading partners of the individual ASEAN countries will continue to be developed countries. In other words, the

ASEAN countries will continue to look to the United States, Japan, and the EC as the major markets for their raw material and manufactured exports, and as a source of supply of technology-intensive intermediate and capital goods. Additionally, the ASEAN countries will continue to encourage U.S., Japanese, and European firms to invest in the domestic market in a wide range of industries to gain technology and financial capital. The emphasis on the AIJV at the summit and the loosening of regulations regarding foreign firm participation all point to increasing investment opportunities in the region. Therefore, in as much as increased ASEAN co-operation serves to increase trade and growth in the region, the effect on other trading partners is likely to be beneficial.

VIII. POLICY RECOMMENDATIONS AND CONCLUSIONS

The above discussion centred around several salient points that deserve close attention. First of all, it is important to recognize the fact that the United States and ASEAN are different, with widely divergent levels of economic development, per capita income, political systems, and cultures. Indeed, individual ASEAN countries themselves exhibit a substantial degree of diversity in all these categories. Hence, when discussing recommendations for trade in goods, the multidimensional character of the ASEAN-U.S. relationship must be considered.

Second, ASEAN countries and the United States have rapidly expanded their participation in international trade in goods in the post-war period. The global economic restructuring in the past several decades towards a more efficient international division of labour has significantly transformed each economy, albeit with varying degrees of success. This phenomenon has been an important source of increased global allocative efficiency and unprecedented economic growth.

Third, the United States and ASEAN have experienced an increase in their economic (and political) interdependence. Although this relationship began with a classical developed-developing country economic trading pattern with the former exporting manufactures in exchange for raw materials from the latter, the 1980s have witnessed an evolution in the ASEAN-U.S. trading partnership. ASEAN has reversed its excessive reliance on primary commodity exports which experienced a serious decline in prices, and now successfully exports to the United States — and the world — an impressive array of manufactured goods. Empirical estimates that were presented showed a significant degree of intra-industry trade in certain manufactured categories. It was also noted, however, that the United States and ASEAN still have complementary trade structures suggesting continued potential for an expansion in their bilateral trade.

None the less, increases in the U.S. export position will require a significant effort by U.S. exporters to compete against the dominant presence of Japan. Increasing U.S. investment in the region may help in this regard

and is especially important in light of the large-scale movement by Japanese firms into the region. ASEAN too will have to compete increasingly with the NIEs and to some extent with Japan to increase its market share in the United States.

Fourth, U.S. trade is closely related to the U.S. investment position in the region. The link between trade and investment is especially clear in services, where production and consumption generally occur at the same time. But it is also evident in trade in goods, where U.S. affiliates account for a significant share of both U.S. and ASEAN exports and imports. This linkage will be discussed in detail in Chapter 5, but it is important to recognize that trade issues cannot be considered in isolation.

Fifth, the U.S. market is by global standards quite open to international trade; however, there have been some recent popular trends and legislation that may jeopardize the United States' reputation as the guardian of international free trade. The rising use of quotas, voluntary export restraints, orderly marketing arrangements, and so forth, in the United States — and other industrial nations — is indeed a cause for concern. The above analysis strongly lends itself to the recommendation that the United States endeavour to restrain these protectionist tendencies and, indeed, reverse the trend. In addition, the United States should seek to ensure that new distortive inventions, however ingenious, be still-born. Moreover, although many have suggested that the Omnibus Trade and Competitiveness Act of 1988 has been "gutted" of its protectionist measures, this is not entirely true. Closer scrutiny of the legislation reveals that it could be detrimental to free trade, even though it is not an inevitable outcome. In fact, ASEAN nations have already expressed concern that they may be adversely affected by this bill.

Still, it is important that U.S. trading partners understand the political economy of protectionism in the United States. The complaints of unfair trading practices and "fighting with one hand tied behind its back" are sometimes justified. Indeed, it is difficult to convince the U.S. Congress that a country which has a US\$150 billion trade deficit is protectionist. Thus, in order to expedite the battle against increased protectionism in the United States, other countries should be willing to liberalize their markets. Not only will this help deflect U.S. protectionist arguments, but trade liberalization will also be salutary to their own economies by increasing allocative efficiency. The world needs to move away from its neo-mercantilistic ideas.

Sixth, the United States must make a move in the near future to rectify its large twin deficits. The way in which this is accomplished will have a significant effect on the region and the world. Experience has shown that exchange rate changes alone cannot deal with the problem. The trade balance has improved with the sharp depreciation of the dollar, but it has been a slow and unsteady process. Further devaluation may have undesirable inflationary effects. If the United States moves to improve the trade balance by only reducing imports through protectionist policies or by creating a

recession, U.S. consumers as well as other countries in the world will be negatively affected. This is also likely to have a backlash effect on U.S. exports by reducing economic growth in the rest of the world. The United States must correct its macroeconomic disequilibrium by revenue-enhancing measures, cutting government spending, or boosting domestic savings. Any of these policies are likely to reduce U.S. imports to some extent. At the same time, it will be important for the United States to substantially increase its exports. For this to occur, it is important that partner countries maintain open markets. At the same time, U.S. producers must strive to increase their competitiveness. The previous analysis has shown that U.S. products, even in industries where they have a comparative advantage, face strong competition from Japanese and European goods.

Seventh, ASEAN has come a long way in opening up its respective markets to international trade, although the degree of openness varies dramatically. They are relatively more open than other developing countries. The augmented reliance on outward-looking export expansion as opposed to inward-looking import substitution has yielded substantial dividends to the ASEAN economies as well as to East Asia. The flaws in the arguments for protectionism, for example, the infant-industry argument, have been exposed and the benefits of increased efficiency have been realized. The ASEAN countries have been generally "fair-traders"; very few cases of dumping and export subsidies to the U.S. market have been reported by the U.S. Trade Representative, and the U.S. Department of Commerce has reaffirmed that no ASEAN nation has been engaging in competitive depreciation of their currencies. None the less, many ASEAN countries have a long way to go in their liberalization programmes. The remnants of the inward-looking, import-substituting policies should be removed and care should be taken to eschew renewed attempts to move into protection of large-scale inefficient import-substituting industries.

Eighth, although intra-ASEAN integration is still in its infancy, increased regional trade through a more comprehensive and substantive PTA would be beneficial to all ASEAN countries. Similarly, expansion of the AIJV will open new opportunities for ASEAN as well as U.S. investors in the region.

Finally, the United States and ASEAN should work together in the GATT for multilateral solutions to trade disputes and liberalization. Indeed, ASEAN's increased participation in the Uruguay Round of negotiations is a very positive sign for multilateralism. The recent Cairns Group proposal, supported by the United States, to abolish export subsidies in agriculture is exemplary of how the United States and ASEAN can work together in multilateral talks for mutual benefit.

In sum, the ASEAN-U.S. economic relationship in trade in goods is strong and strengthening. However, there remains much work to be done before it reaches its vast potential. It is hoped that the ASEAN-U.S. initiative will be instrumental in aiding this process.

NOTES

- 1 The data does not include Singapore's trade with Indonesia, which is not reported. This omission may overstate the share of manufactures in total ASEAN trade because of the large size of the bilateral trade in petroleum and petroleum products.
- 2 Naya with Imada (1987).
- 3 Leamer (1984).
- 4 This index was developed by Balassa (1965). A number of the assumptions in this approach have been questioned, but the measures are used frequently as a facile and informative index (See, for example, Bowen 1983 and Yeats 1985). This index is preferable to export-import ratios since data on relative export performance are not distorted by differences in the degree of tariff protection as long as all exporters are subject to the same tariff. As Yeats (1985) points out, however, voluntary export restraints, MFN tariffs, and the MFA, all have clear-discriminatory effects. In the case of the ASEAN countries, however, these differences can be considered negligible. Distortions will be present to the extent that export subsidies and so forth are used, however. Care must therefore be taken in interpreting results.
- 5 Formally $RCA = (X_{ij}/X_j)/(X_{iw}/X_w)$,
 where X_{ij} = exports of country j in commodity i ,
 X_j = total exports of country j ,
 X_{iw} = world exports of commodity i , and
 X_w = total world exports.
 The RCA index is computed at the two- and three-digit SITC levels. To avoid the problem of distortions due to unusual years, a two-year average was used to compute each index.
- 6 Assume that country j exports of commodity i (X_{ij}) is 100, while country j total exports (X_j) is 1,000. At the same time, world exports of commodity i (X_{iw}) is 10,000 while total exports (X_w) is 100,000. Then the RCA index would be $(100/1,000)/(10,000/100,000) = 1$.
- 7 Rana (1987), and Ariff and Hill (1987).
- 8 These calculations were done by the Resource Systems Institute using the United Nations' *Commodity Trade Statistics*, two- and three-digit SITC data averaged for 1974/75 and 1983/84. Indices shown in Appendix Table A2.6 are only for 1983/84 at the one- and two-digit SITC levels.
- 9 One index of intra-industry trade commonly used is that proposed by Grubel and Lloyd (1975): $B_i = ((X_i + M_i) - |X_i - M_i|)/(X_i + M_i) \cdot 100$.
- 10 There are a few notable exceptions. Singapore and the United States have a substantial amount of intra-industry trade in SITC 716 and 752 (rotating electrical plants and parts, and automatic data-processing machines and units).
- 11 Although at a conceptual level it would be preferable to work with effective rates of protection, as Baldwin (1988) observes, available estimates are frequently out of date, and "the entire issue is not very important as a practical matter, since there is generally a high degree of correlation between nominal and effective rates" (p. 580).
- 12 Olechowski (1987).
- 13 *Far Eastern Economic Review*, 8 August 1985.
- 14 *Far Eastern Economic Review*, 14 August 1986.
- 15 Majmudar (1988).
- 16 *Far Eastern Economic Review*, 25 February 1988.
- 17 *Far Eastern Economic Review*, 1 October 1987.

- 18 Echols (1983).
- 19 *Asian Wall Street Journal*, 9 November 1987.
- 20 Ibid.
- 21 Ibid.
- 22 *Asian Wall Street Journal*, 26 November 1987.
- 23 *Wall Street Journal*, 24 December 1987.
- 24 "ASEAN Preliminary Integrative Report to ASEAN-U.S. Initiative" (1988).
- 25 Campbell and DeRosa (1988).
- 26 Baldwin (1987).
- 27 Ariff and Tan (1988).
- 28 The following review has been taken from U.S. Department of Commerce, *Uruguay Round Update* (September 1988).

APPENDIX TABLE A2.1a
Structure of Exports of the ASEAN Countries, 1970 and Latest Year
(As percentages of total exports^a)

Commodity Group	Brunei		Indonesia		Malaysia		Philippines		Singapore		Thailand		ASEAN	
	Darussalam													
	1970	1985	1970	1984	1970	1985	1970	1986	1970	1985	1970	1986	1970	Latest Year ^b
Primary commodities	97.4	98.8	98.6	90.9	92.8	72.9	93.5	42.8	70.3	42.6	89.5	56.3	88.0	76.2
Raw materials	96.5	98.6	79.0	83.6	80.2	55.5	49.5	16.5	53.9	34.6	39.0	12.0	63.6	58.7
Agricultural & food products	0.9	0.2	19.6	7.3	12.6	17.4	44.0	26.2	16.4	8.1	50.5	44.2	24.4	17.5
Manufactured goods	2.4	1.2	1.2	8.4	6.3	26.9	6.4	54.1	26.7	50.1	5.2	42.8	10.4	20.9
Chemicals	0.5	0.1	0.5	0.8	0.7	1.1	0.5	5.0	2.7	5.4	0.4	1.6	1.1	1.4
Resource-based manufactures	0.0	0.0	0.0	3.9	2.6	1.8	4.4	3.0	3.0	2.2	2.1	7.2	2.5	3.5
Textiles	0.0	0.0	0.2	0.9	0.4	1.2	0.5	0.9	3.5	1.5	1.2	5.8	1.2	1.8
Metal manufactures	0.3	0.1	0.0	0.0	0.2	0.3	0.0	3.6	1.3	1.1	0.2	0.7	0.4	0.2
Electrical machinery	0.0	0.1	0.0	0.6	0.3	15.5	0.0	19.0	4.0	17.6	0.1	8.1	1.1	6.8
Non-electrical machinery	0.9	0.7	0.3	0.4	0.7	1.8	0.1	0.4	4.0	12.0	0.2	2.2	1.3	1.1
Transport equipment	0.2	0.1	0.0	0.0	0.6	1.5	0.0	0.7	3.0	3.4	0.3	0.5	1.0	0.6
Furniture	0.0	0.0	0.0	0.0	0.0	0.1	0.1	1.8	0.1	0.3	0.0	0.8	0.1	0.3
Clothing	0.0	0.0	0.0	1.4	0.3	2.1	0.0	15.5	2.0	2.3	0.1	9.3	0.6	3.2
Footwear	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.6	0.3	0.1	0.0	1.3	0.1	0.3
Precision instruments	0.2	0.1	0.0	0.0	0.1	0.6	0.0	0.1	0.7	1.7	0.2	0.6	0.2	0.3
Miscellaneous manufactures	0.1	0.0	0.0	0.3	0.3	0.8	0.6	3.5	2.1	2.3	0.4	4.5	0.8	1.4
Total exports (US\$ millions)	95.4	2,972.0	1,055.1	21,887.8	1,686.6	15,637.9	1,059.7	4,841.8	1,553.5	22,845.8	710.3	8,835.6	6,160.7	54,175.1

^aThe categories of manufactured exports do not necessarily add up to total manufactured exports since not all categories are listed. Manufactured plus primary commodities may not add up to 100 because SITC 9 (commodities and transactions not classified elsewhere) is excluded.

^bExports were calculated using data from the latest year available for each ASEAN member country.

Sources: United Nations, *Commodity Trade Statistics* (1970, 1984, 1985, and 1986).

APPENDIX TABLE A2.1b
Structure of Imports of the ASEAN Countries, 1970 and Latest Year
(As percentages of total exports^a)

Commodity Group	Brunei Darussalam		Indonesia		Malaysia		Philippines		Singapore		Thailand		ASEAN	
	1970	1985	1970	1984	1970	1985	1970	1986	1970	1985	1970	1986	1970	Latest Year ^b
Primary commodities	36.9	31.1	28.3	38.8	46.1	32.6	41.9	37.1	45.9	45.5	28.2	35.1	39.9	35.7
Raw materials	19.8	10.5	13.5	32.3	24.6	20.9	30.6	26.9	29.5	36.0	22.8	28.2	25.5	26.9
Agricultural and food products	17.1	20.6	14.8	6.5	21.5	11.7	11.2	10.3	16.4	9.6	5.4	6.8	14.4	8.8
Manufactured goods	61.1	66.1	71.5	60.5	52.4	66.4	57.7	40.0	52.0	52.9	67.8	59.4	58.3	59.5
Chemicals	5.0	7.2	12.8	15.4	7.3	8.7	11.5	14.4	5.2	5.0	12.9	15.4	8.9	13.1
Resource-based manufactures	5.8	6.9	6.8	2.5	4.5	3.8	4.3	2.7	4.0	3.6	4.3	4.1	4.6	3.4
Textiles	1.0	1.5	11.8	0.9	5.0	2.6	2.1	4.0	10.8	3.2	6.4	3.4	7.5	2.4
Metal manufactures	6.6	5.8	2.5	2.7	3.0	2.2	2.0	1.2	2.1	2.2	3.9	1.8	2.7	2.2
Electrical machinery	5.4	7.0	5.9	6.3	4.5	20.6	5.4	6.4	6.5	14.2	8.1	12.1	6.1	11.9
Non-electrical machinery	17.3	16.1	16.8	18.6	12.1	14.9	20.0	7.6	11.2	11.5	17.0	13.6	14.6	15.0
Transport equipment	13.9	10.9	11.6	11.3	11.3	8.0	10.0	1.6	5.1	6.0	10.4	4.7	8.9	7.6
Furniture	0.7	1.3	0.1	0.1	0.1	0.2	0.0	0.0	0.1	0.5	0.1	0.0	0.1	0.1
Clothing	0.6	1.1	0.2	0.0	0.9	0.4	0.0	0.0	0.9	1.1	0.4	0.1	0.6	0.2
Footwear	0.4	0.6	0.2	0.0	0.1	0.1	0.0	0.0	0.1	0.3	0.1	0.0	0.1	0.0
Precision instruments	1.3	3.2	1.2	1.8	1.1	2.6	1.2	1.1	2.5	2.7	1.5	2.5	1.7	2.1
Miscellaneous manufactures	3.1	4.6	1.8	0.8	2.5	2.3	1.3	1.0	3.4	2.7	2.5	1.6	2.5	1.5
Total imports (US\$ millions)	82.6	610.5	892.1	13,882.1	1,400.6	12,602.4	1,210.4	5,394.3	2,461.1	26,286.2	1,293.4	9,139.0	7,340.1	41,628.2

^aThe categories of manufactured imports do not necessarily add up to total manufactured imports since not all categories are listed. Manufactured plus primary commodities may not add up to 100 because SITC 9 (commodities and transactions not classified elsewhere) is excluded.

^bImports were calculated using data from the latest year available for each ASEAN member country.

Sources: United Nations, *Commodity Trade Statistics* (1970, 1984, 1985, and 1986).

APPENDIX TABLE A2.2a
Exports of ASEAN by Destination and Principal Commodity Group, 1970
 (As percentages of total exports^a to destination country)

Commodity Group	Brunei Darussalam	Indonesia	Malaysia	Philip- pines	Singa- pore	Thailand	United States	Japan	EC	World
Primary commodities	43.6	65.8	63.7	90.6	90.0	74.2	87.3	97.8	92.5	88.0
Raw materials	18.9	16.6	44.1	86.2	68.7	64.3	44.4	86.5	58.9	63.6
Agricultural & food products	24.7	49.2	19.6	4.5	21.3	9.9	42.8	11.3	33.6	24.4
Manufactured goods	52.6	30.8	34.3	8.0	8.3	24.8	11.6	1.4	5.7	10.4
Chemicals	5.5	2.4	4.7	0.5	1.0	7.2	0.2	0.2	0.5	1.1
Resource-based manufactures	6.8	7.4	2.6	0.0	1.5	0.8	5.0	0.7	2.0	2.5
Textiles	2.1	6.0	6.2	0.8	0.9	2.7	0.6	0.2	0.7	1.2
Metal manufactures	4.4	0.7	2.1	0.2	0.4	1.3	0.0	0.0	0.0	0.4
Electrical machinery	3.6	1.0	2.0	0.0	0.3	1.4	2.5	0.0	0.7	1.1
Non-electrical machinery	10.6	5.9	7.4	1.3	1.7	2.5	0.9	0.1	0.3	1.3
Transport equipment	9.2	2.6	4.6	3.7	1.4	5.7	0.3	0.0	0.1	1.0
Furniture	1.3	0.0	0.2	0.0	0.0	0.0	0.1	0.0	0.0	0.1
Clothing	1.4	0.0	1.2	0.6	0.1	0.2	1.4	0.0	0.2	0.6
Footwear	1.1	0.0	0.3	0.0	0.0	0.2	0.1	0.0	0.1	0.1
Precision instruments	0.9	0.4	0.8	0.0	0.1	0.0	0.0	0.0	0.0	0.2
Miscellaneous manufactures	5.2	2.8	2.2	0.4	0.8	2.1	0.5	0.1	0.8	0.8
Total ASEAN exports (US\$ million)	35.5	28.6	566.1	59.8	587.5	69.2	1,076.6	1,381.3	1,012.6	6,160.7

^aThe categories of manufactured exports do not necessarily add up to total manufactured exports since not all categories are listed. Manufactured plus primary commodities may not add up to 100 because SITC 9 (commodities and transactions not classified elsewhere) is excluded.

Source: United Nations, *Commodity Trade Statistics* (1970).

APPENDIX TABLE A2.2b
Exports of ASEAN by Destination and Principal Commodity Group, Latest Year
(As percentages of total exports^a to destination country)

Commodity Group	Brunei Darussalam	Indonesia	Malaysia	Philip- pines	Singa- pore	Thailand	United States	Japan	EC	World
Primary commodities	48.5	52.4	57.7	86.0	68.3	86.0	56.9	94.9	64.3	76.2
Raw materials	4.2	18.6	14.8	83.7	49.7	84.2	43.1	87.3	29.1	58.7
Agricultural and food products	44.4	33.7	42.8	2.3	18.5	1.8	13.8	7.6	35.3	17.5
Manufactured goods	49.3	45.8	34.8	13.6	28.9	9.0	35.9	4.3	32.1	20.9
Chemicals	13.7	21.5	4.8	3.3	1.5	1.6	0.8	0.5	0.9	1.4
Resource-based manufactures	4.6	3.0	3.4	0.7	4.0	1.5	3.9	1.1	5.4	3.5
Textiles	0.8	2.6	2.3	3.5	1.4	1.3	1.7	0.4	3.4	1.8
Metal manufactures	2.6	1.4	1.2	0.3	0.6	0.1	0.1	0.0	0.2	0.2
Electrical machinery	1.2	3.2	17.7	3.9	12.9	1.5	16.1	1.1	9.4	6.8
Non-electrical machinery	8.9	10.6	2.1	0.7	3.4	0.5	0.9	0.5	0.8	1.1
Transport equipment	0.8	1.5	1.4	0.1	2.1	1.0	0.5	0.1	0.7	0.6
Furniture	2.1	0.0	0.0	0.0	0.2	0.0	0.8	0.1	0.6	0.3
Clothing	6.3	0.2	0.7	0.2	0.8	0.8	7.2	0.2	7.1	3.2
Footwear	0.9	0.0	0.0	0.0	0.2	0.0	0.4	0.0	0.6	0.3
Precision instruments	1.0	0.4	0.4	0.1	0.4	0.2	0.2	0.1	0.7	0.3
Miscellaneous manufactures	4.9	0.9	0.7	0.6	1.3	0.3	3.3	0.2	2.3	1.4
Total ASEAN exports (US\$ millions)	47.0	162.6	594.9	588.8	6,375.8	1,017.8	10,070.3	17,998.4	6,220.3	54,175.1

^aThe categories of manufactured exports do not necessarily add up to total manufactured exports since not all categories are listed. Manufactured plus primary commodities may not add up to 100 because SITC 9 (commodities and transactions not classified elsewhere) is excluded.

Source: United Nations, *Commodity Trade Statistics* (1984, 1985, and 1986).

APPENDIX TABLE A2.3a
Imports of ASEAN by Country of Origin and Principal Commodity Group, 1970
 (As percentages of total imports^a from country of origin)

Commodity Group	Brunei Darussalam	Indonesia	Malaysia	Philip- pines	Singa- pore	Thailand	United States	Japan	EC	World
Primary commodities	99.4	98.1	85.5	58.4	47.2	91.8	27.9	23.9	15.2	39.9
Raw materials	99.4	84.1	62.6	50.9	30.3	18.7	12.5	21.7	6.3	25.5
Agricultural and food products	0.0	13.9	22.9	7.5	16.9	73.1	15.3	2.3	8.9	14.4
Manufactured goods	0.0	1.6	13.5	36.5	46.6	7.1	68.9	75.6	82.4	58.3
Chemicals	0.0	0.7	2.1	13.6	6.6	0.8	9.3	9.9	16.4	8.9
Resource-based manufactures	0.0	0.0	2.9	3.6	5.7	0.4	3.6	6.0	4.3	4.6
Textiles	0.0	0.0	1.3	7.6	4.7	4.3	2.5	13.7	2.7	7.5
Metal manufactures	0.0	0.0	0.6	0.0	6.8	0.1	2.1	3.2	3.9	2.7
Electrical machinery	0.0	0.0	0.9	0.0	1.8	0.0	7.8	8.5	10.4	6.1
Non-electrical machinery	0.0	0.0	1.8	4.0	6.4	0.4	26.7	16.7	23.8	14.6
Transport equipment	0.0	0.0	1.4	1.3	7.7	0.0	12.2	12.5	14.8	8.9
Furniture	0.0	0.0	0.2	0.0	0.6	0.0	0.1	0.1	0.1	0.1
Clothing	0.0	0.8	0.7	0.0	0.8	0.0	0.3	0.5	0.2	0.6
Footwear	0.0	0.0	0.3	0.0	0.3	0.0	0.0	0.1	0.0	0.1
Precision instruments	0.0	0.0	0.1	0.0	0.4	0.0	2.3	2.0	2.0	1.7
Miscellaneous manufactures	0.0	0.0	1.0	1.8	4.4	0.5	2.0	2.5	3.4	2.5
Total ASEAN imports (US\$ millions)	91.5	116.7	503.8	15.9	184.9	111.1	1,108.8	1,851.8	1,421.0	7,340.1

^aThe categories of manufactured imports do not necessarily add up to total manufactured imports since not all categories are listed. Manufactured plus primary commodities may not add up to 100 because SITC 9 (commodities and transactions not classified elsewhere) is excluded.

Source: United Nations, *Commodity Trade Statistics* (1970).

APPENDIX TABLE A2.3b
Imports of ASEAN by Country of Origin and Principal Commodity Group, Latest Year
(As percentages of total imports^a from country of origin)

Commodity Group	Brunei Darussalam	Indonesia	Malaysia	Philip- pines	Singa- pore	Thailand	United States	Japan	EC	World
Primary commodities	97.7	58.8	79.3	11.8	61.7	77.6	20.1	19.2	11.7	35.7
Raw materials	97.7	41.5	71.3	6.3	58.7	9.2	7.4	17.7	5.9	26.9
Agricultural & food products	0.1	17.3	8.1	5.5	3.0	68.3	12.8	1.6	5.8	8.8
Manufactured goods	0.4	38.8	15.8	87.8	36.5	20.8	70.0	78.3	81.7	59.5
Chemicals	0.0	28.0	5.8	7.0	7.8	3.7	14.3	11.1	21.6	13.1
Resource-based manufactures	0.2	3.9	1.2	0.8	2.0	2.3	2.3	3.1	4.8	3.4
Textiles	0.0	3.1	1.0	0.3	0.4	2.8	0.5	2.4	0.9	2.4
Metal manufactures	0.0	0.1	0.5	0.4	1.5	1.2	2.2	2.9	3.3	2.2
Electrical machinery	0.0	2.3	3.9	62.5	10.4	6.5	22.5	13.8	12.0	11.9
Non-electrical machinery	0.0	0.1	2.0	13.2	6.9	1.4	18.5	22.9	23.5	15.0
Transport equipment	0.0	0.1	0.4	0.1	4.9	0.7	5.4	17.5	10.2	7.6
Furniture	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.2	0.1
Clothing	0.0	0.5	0.1	0.2	0.2	1.0	0.0	0.1	0.1	0.2
Footwear	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Precision instruments	0.0	0.0	0.1	0.5	0.8	0.1	3.0	2.9	3.1	2.1
Miscellaneous manufactures	0.1	0.4	0.5	2.5	1.4	1.0	1.2	1.6	1.9	1.5
Total ASEAN imports (US\$ millions)	193.0	345.4	724.4	321.9	4,670.2	551.2	7,227.5	9,665.3	6,043.1	41,628.2

^aThe categories of manufactured imports do not necessarily add up to total manufactured imports since not all categories are listed. Manufactured plus primary commodities may not add up to 100 because SITC 9 (commodities and transactions not classified elsewhere) is excluded.

Source: United Nations, *Commodity Trade Statistics* (1984, 1985, and 1986).

APPENDIX TABLE A2.4a
Exports of the United States by Destination and Principal Commodity Group, 1970
 (As percentages of total exports^a to destination country)

Commodity Group	Brunei								
	Darussalam	Indonesia	Malaysia	Philippines	Singapore	Thailand	Japan	EC	World
Primary commodities	14.6	51.8	30.7	30.8	13.1	33.9	59.7	37.7	33.0
Raw materials	13.2	14.3	7.8	15.2	4.9	18.6	35.1	15.5	17.0
Agricultural and food products	1.3	37.5	23.0	15.6	8.3	15.3	24.6	22.2	16.0
Manufactured goods	81.2	45.1	64.0	66.2	81.0	64.4	40.4	59.2	63.6
Chemicals	2.6	2.3	9.9	10.2	7.3	10.1	7.0	10.4	8.9
Resource-based manufactures	0.0	1.1	4.3	6.5	2.2	3.3	2.1	3.6	3.6
Textiles	0.0	2.7	0.7	4.2	0.7	1.1	0.4	1.2	1.4
Metal manufactures	5.0	1.7	1.4	2.4	2.5	2.9	0.5	1.1	1.7
Electrical machinery	2.4	3.7	4.6	8.6	13.7	7.7	5.3	7.5	7.0
Non-electrical machinery	46.6	20.0	31.9	21.2	35.9	26.2	13.6	19.2	19.5
Transport equipment	20.6	11.9	4.8	8.2	11.0	7.0	6.2	9.7	15.1
Furniture	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.1
Clothing	0.0	0.2	0.9	1.1	0.5	0.4	0.1	0.4	0.5
Footwear	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Precision instruments	2.2	0.8	1.9	1.8	3.6	2.3	2.4	3.2	2.7
Miscellaneous manufactures	0.3	0.6	3.5	1.9	3.5	3.3	2.9	2.8	2.8
Total U.S. exports (US\$ millions)	9.7	264.4	66.6	373.2	239.7	150.2	4,652.0	12,364.5	43,226.4

^aThe categories of manufactured exports do not necessarily add up to total manufactured exports since not all categories are listed. Manufactured plus primary commodities may not add up to 100 because SITC 9 (commodities and transactions not classified elsewhere) is excluded.

Source: United Nations, *Commodity Trade Statistics* (1970).

APPENDIX TABLE A2.4b
Exports of the United States by Destination and Principal Commodity Group, 1986
(As percentages of total exports^a to destination country)

Commodity Group	Brunei								
	Darussalam	Indonesia	Malaysia	Philippines	Singapore	Thailand	Japan	EC	World
Primary commodities	0.8	32.7	6.4	22.2	9.9	16.1	38.9	24.7	23.1
Raw materials	0.0	16.7	1.8	4.9	4.6	7.1	18.5	11.6	11.0
Agricultural and food products	0.8	16.0	4.6	17.3	5.4	9.0	20.4	13.1	12.1
Manufactured goods	97.4	66.2	92.0	74.8	87.9	82.0	47.5	72.6	70.1
Chemicals	0.2	21.1	7.0	10.2	8.8	15.9	11.5	11.7	10.3
Resource-based manufactures	0.2	1.2	2.7	5.0	2.2	3.8	2.6	2.7	3.2
Textiles	0.0	0.8	0.2	2.9	0.5	0.4	0.5	1.2	1.2
Metal manufactures	0.2	0.4	0.5	0.9	1.1	1.1	0.6	1.2	1.3
Electrical machinery	0.8	4.0	60.0	37.3	23.1	34.3	5.4	7.9	9.0
Non-electrical machinery	7.4	20.8	9.3	11.2	29.9	15.1	11.3	26.7	20.4
Transport equipment	87.0	12.2	9.2	1.8	15.7	6.8	8.1	10.3	16.3
Furniture	0.3	0.2	0.0	0.2	0.2	0.1	0.1	0.2	0.3
Clothing	0.1	0.0	0.0	0.6	0.1	0.0	0.2	0.2	0.4
Footwear	0.1	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1
Precision instruments	0.5	4.5	2.4	2.8	4.1	3.0	4.3	6.5	4.4
Miscellaneous manufactures	0.5	1.0	0.8	1.8	2.3	1.5	2.8	3.8	3.1
Total U.S. exports (US\$ millions)	201.6	918.8	1,727.4	1,345.1	3,365.6	854.5	26,619.9	52,384.9	217,335.9

^aThe categories of manufactured exports do not necessarily add up to total manufactured exports since not all categories are listed. Manufactured plus primary commodities may not add up to 100 because SITC 9 (commodities and transactions not classified elsewhere) is excluded.

Source: United Nations, *Commodity Trade Statistics* (1986).

APPENDIX TABLE A2.5a
Imports of the United States by Country of Origin and Principal Commodity Group, 1970
 (As percentages of total imports^a from country of origin)

Commodity Group	Brunei Darussalam	Indonesia	Malaysia	Philippines	Singapore	Thailand	Japan	EC	World
Primary commodities	51.4	98.4	94.2	82.0	23.8	92.5	20.0	25.0	41.2
Raw materials	0.0	62.2	87.4	8.2	19.8	77.5	17.1	13.2	25.1
Agricultural and food products	51.4	36.1	6.8	73.8	4.0	15.0	2.9	11.8	16.1
Manufactured goods	0.0	1.5	5.4	17.1	69.3	4.9	78.7	71.6	55.6
Chemicals	0.0	1.2	0.2	0.0	0.3	0.0	3.0	5.4	3.6
Resource-based manufactures	0.0	0.0	2.9	7.2	2.7	3.4	5.1	7.2	7.0
Textiles	0.0	0.1	0.4	0.7	2.9	0.3	5.1	4.3	2.8
Metal manufactures	0.0	0.0	0.0	0.0	0.0	0.0	5.5	2.4	2.1
Electrical machinery	0.0	0.0	0.2	0.0	42.4	0.0	16.8	4.4	5.7
Non-electrical machinery	0.0	0.0	0.2	0.1	1.1	0.0	7.3	14.1	7.6
Transport equipment	0.0	0.0	0.0	0.0	1.6	0.0	14.1	17.8	14.7
Furniture	0.0	0.0	0.1	0.2	0.0	0.0	0.3	0.5	0.6
Clothing	0.0	0.0	1.4	8.0	13.6	0.5	4.8	2.5	3.2
Footwear	0.0	0.0	0.0	0.2	0.0	0.0	1.6	4.2	1.6
Precision instruments	0.0	0.0	0.0	0.0	0.0	0.0	3.4	2.6	1.6
Miscellaneous manufactures	0.0	0.2	0.1	0.6	4.7	0.6	11.7	6.4	5.2
Total U.S. imports (US\$ millions)	0.2	182.2	270.2	475.9	81.1	100.0	5,885.0	9,731.3	39,963.2

^aThe categories of manufactured imports do not necessarily add up to total manufactured imports since not all categories are listed. Manufactured plus primary commodities may not add up to 100 because SITC 9 (commodities and transactions not classified elsewhere) is excluded.

Source: United Nations, *Commodity Trade Statistics* (1970).

APPENDIX TABLE A2.5b
Imports of the United States by Country of Origin and Principal Commodity Group, 1986
(As percentages of total imports^a from country of origin)

Commodity Group	Brunei								
	Darussalam	Indonesia	Malaysia	Philippines	Singapore	Thailand	Japan	EC	World
Primary commodities	97.1	79.9	20.9	29.4	8.2	39.3	4.4	18.5	24.7
Raw materials	97.1	69.6	12.5	1.9	6.4	12.4	3.8	11.7	17.7
Agricultural and food products	0.0	10.3	8.4	27.5	1.8	26.9	0.6	6.9	7.0
Manufactured goods	0.9	19.8	77.5	69.3	89.3	59.5	94.6	77.1	71.4
Chemicals	0.0	0.6	1.2	1.2	2.5	0.7	2.2	8.4	4.0
Resource-based manufactures	0.0	9.1	1.4	2.4	0.7	8.9	2.3	6.0	5.5
Textiles	0.0	1.3	1.3	1.5	0.1	4.4	1.1	1.9	1.5
Metal manufactures	0.0	0.0	0.1	0.1	0.8	0.6	2.0	1.9	2.0
Electrical machinery	0.0	0.4	58.9	25.7	34.0	14.3	21.5	5.0	10.9
Non-electrical machinery	0.4	0.0	0.4	1.0	35.3	3.9	19.2	19.8	12.5
Transport equipment	0.0	0.0	0.2	0.1	2.2	0.2	38.1	18.5	19.6
Furniture	0.0	0.1	0.1	4.2	1.1	1.2	0.2	1.5	1.2
Clothing	0.3	8.1	11.0	23.7	8.4	12.0	0.6	2.2	4.8
Footwear	0.0	0.0	0.0	1.0	0.0	2.0	0.0	2.0	1.8
Precision instruments	0.0	0.0	0.7	2.8	1.7	0.1	4.1	3.3	2.4
Miscellaneous manufactures	0.0	0.2	2.1	5.6	2.5	11.2	3.4	6.4	5.2
Total U.S. imports (US\$ millions)	64.3	3,675.4	2,533.5	2,150.3	4,885.9	1,872.2	84,454.5	79,517.8	387,054.0

^aThe categories of manufactured imports do not necessarily add up to total manufactured imports since not all categories are listed. Manufactured plus primary commodities may not add up to 100 because SITC 9 (commodities and transactions not classified elsewhere) is excluded.

Source: United Nations, *Commodity Trade Statistics* (1986).

APPENDIX TABLE A2.6
Index of Revealed Comparative Advantage for the ASEAN-5 Countries
and the United States with respect to the World, 1983/84^a

SITC	ASEAN-5	Indonesia	Malaysia	Philippines	Singapore	Thailand	United States
All	1.00	1.00	1.00	1.00	1.00	1.00	1.00
0	1.04	0.60	0.40	1.95	0.48	5.21	1.23
00	0.14	0.01	0.37	0.14	0.10	0.25	0.57
01	0.13	0.04	0.01	0.01	0.13	0.74	0.57
02	0.13	0.00	0.14	0.04	0.23	0.20	0.24
03	1.83	1.27	0.93	2.81	0.71	9.03	0.53
04	1.02	0.04	0.09	0.08	0.44	8.97	3.16
05	1.44	0.15	0.34	4.61	0.45	9.18	0.81
06	1.23	0.16	0.20	8.64	0.05	5.65	0.10
07	1.74	3.21	1.13	1.29	1.32	0.42	0.15
08	0.63	0.50	0.55	1.66	0.29	1.65	1.72
09	0.71	0.05	1.01	0.69	0.75	1.98	1.13
1	0.36	0.21	0.08	0.67	0.39	1.08	1.33
11	0.18	0.00	0.14	0.10	0.42	0.04	0.15
12	0.54	0.43	0.01	1.30	0.35	2.22	2.62
2	1.85	1.32	3.82	2.10	1.06	1.83	1.55
21	0.25	0.42	0.00	0.00	0.28	0.34	2.11
22	0.18	0.08	0.16	0.33	0.22	0.31	5.13
23	11.91	9.22	22.68	0.23	8.70	17.02	0.66
24	3.74	1.83	12.66	4.63	0.78	0.07	1.19
25	0.08	0.03	0.00	0.40	0.13	0.03	1.66
26	0.18	0.01	0.19	0.73	0.12	0.49	1.62
27	0.33	0.16	0.31	0.20	0.31	1.09	1.22
28	0.86	0.86	0.46	4.53	0.46	0.44	0.79
29	1.26	1.46	0.15	0.96	1.25	3.40	0.69
3	2.06	3.97	1.56	0.10	1.69	0.03	0.24
32	0.06	0.11	0.11	0.00	0.01	0.00	2.44
33	2.07	3.71	1.57	0.11	1.93	0.03	0.14
34	2.91	8.25	2.11	0.05	0.21	0.06	0.21
4	6.91	1.16	20.89	16.72	3.12	0.35	1.28
41	0.10	0.02	0.00	0.36	0.19	0.02	3.70
42	8.75	1.13	27.78	22.73	3.15	0.36	1.02
43	4.20	2.31	6.63	2.61	5.63	0.61	0.32
5	0.27	0.09	0.13	0.23	0.57	0.12	1.29
51	0.27	0.03	0.05	0.52	0.60	0.07	1.15
52	0.13	0.09	0.12	0.07	0.21	0.06	1.67
53	0.21	0.09	0.06	0.06	0.44	0.15	0.53
54	0.29	0.07	0.14	0.14	0.62	0.19	1.44
55	0.45	0.46	0.26	0.14	0.66	0.27	0.92
56	0.41	0.45	0.02	0.02	0.81	0.01	1.69

APPENDIX TABLE A2.6 (Continued)

SITC	ASEAN-5	Indonesia	Malaysia	Philippines	Singapore	Thailand	United States
57	0.32	0.00	0.13	0.25	0.81	0.00	1.26
58	0.21	0.00	0.08	0.13	0.50	0.17	1.15
59	0.39	0.01	0.39	0.26	0.81	0.11	1.68
6	0.53	0.44	0.51	0.47	0.47	1.08	0.51
61	0.15	0.09	0.06	0.02	0.04	1.00	0.63
62	0.28	0.01	0.44	0.05	0.35	0.70	0.73
63	4.48	8.44	3.01	6.50	2.22	2.17	0.53
64	0.12	0.04	0.05	0.02	0.25	0.09	0.80
65	0.54	0.27	0.41	0.29	0.53	1.86	0.42
66	0.42	0.06	0.18	0.24	0.37	2.36	0.54
67	0.13	0.01	0.04	0.18	0.27	0.13	0.21
68	1.14	1.00	1.95	1.03	0.63	1.72	0.48
69	0.25	0.00	0.15	0.10	0.52	0.34	0.82
7	0.52	0.03	0.61	0.22	1.02	0.22	1.43
71	0.23	0.00	0.22	0.01	0.54	0.01	2.02
72	0.27	0.00	0.16	0.05	0.65	0.13	1.55
73	0.16	0.00	0.06	0.02	0.43	0.03	0.89
74	0.37	0.06	0.18	0.02	0.87	0.17	1.26
75	0.51	0.00	0.04	0.01	1.44	0.03	2.44
76	0.89	0.01	0.70	0.14	2.13	0.04	0.77
77	1.69	0.13	3.05	1.25	2.42	1.17	1.48
78	0.04	0.00	0.02	0.06	0.10	0.02	0.94
79	0.48	0.00	0.39	0.01	1.15	0.03	2.08
8	0.57	0.15	0.33	1.25	0.69	1.36	0.86
81	0.21	0.02	0.13	0.20	0.33	0.53	0.72
82	0.54	0.04	0.11	2.90	0.58	1.10	0.52
83	0.50	0.01	0.03	1.01	0.59	2.37	0.18
84	1.11	0.49	0.77	2.56	0.95	3.27	0.20
85	0.38	0.03	0.20	1.59	0.13	1.87	0.10
87	0.25	0.00	0.17	0.02	0.58	0.21	2.23
88	0.29	0.02	0.17	0.15	0.63	0.31	0.98
89	0.48	0.09	0.24	0.97	0.76	0.82	0.96
9	2.16	0.42	0.11	12.94	3.06	0.69	1.87
91	0.61	0.34	0.18	0.00	1.39	0.00	0.00
93	3.74	0.72	0.14	22.88	5.22	1.21	1.50
94	0.55	0.00	0.66	1.54	0.42	1.77	1.44
95	0.00	0.00	0.01	0.00	0.00	0.02	4.87
96	0.06	0.00	0.00	0.40	0.09	0.00	0.09
97	0.09	0.00	0.09	0.09	0.20	0.00	1.50

^aSingapore's trade with Indonesia was derived using Indonesian data.

Sources: United Nations, *Commodity Trade Statistics* (1983 and 1984).

TRADE IN SERVICES

I. INTRODUCTION

In line with the increased share of services in the domestic economy, the United States has experienced a significant expansion in international trade in services and an increased presence in the provision of services on location overseas. The annual average of U.S. exports of private services (travel, passenger fares, transportation, royalties and fees, and other miscellaneous private services) amounted to approximately US\$11.5 billion during the 1970-73 period, whereas they exceeded US\$57 billion in 1987. An increase is also found in U.S. imports of services, which exceeded US\$56 billion in 1987 (Table 3.1).

During the 1980-87 period the United States ran ever-increasing deficits in its balance on the merchandise account. In contrast, the United States experienced a surplus in its balance on services account every year during 1974-87 except in 1985 when it registered a small deficit of US\$148 million. The surplus peaked in 1981 when it reached a little over US\$10 billion and since then it has been generally on a declining trend. As can be seen in Table 3.2, these surpluses helped to offset partially the deficits on the merchandise account.

However, the figures in the tables do not reveal the full extent of U.S. international transactions in services and their contribution to its balance of payments. In recent years, U.S. service industries have contributed to a rapid increase in direct foreign investment (DFI), raising their share of total U.S. foreign investment position from 20 per cent in 1975 to 25 per cent in 1983. This increase implies that U.S. service firms now carry out a significant portion of their overseas sales through their foreign affiliates, and that a large share of the growing income from U.S. direct investment is attributable to DFI in service industries (Table 3.1).

There are two important problems in considering trade in services. First, there is no general agreement on the definition of services. Secondly, because

TABLE 3.1
Major Types of U.S. Service Transactions, 1970-87
(In US\$ millions)

Transactions	1970-73 ^a	1974-77 ^a	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
<i>Exports</i>												
U.S. government transactions	3,101	6,822	10,436	9,331	11,234	14,238	16,680	17,842	15,894	15,049	15,826	17,731
Income on investment	14,353	27,315	40,402	61,837	69,944	82,731	79,431	72,419	80,681	82,796	81,888	94,458
Private services ^b	11,464	20,200	27,103	31,155	37,040	42,445	42,260	42,341	44,303	45,678	50,733	57,120
Total	28,917	54,337	77,941	102,323	118,218	139,414	138,371	132,602	140,878	143,523	148,447	169,309
<i>Imports</i>												
U.S. government transactions	- 7,718	- 10,696	- 17,125	- 20,655	- 24,317	- 29,389	- 32,005	- 31,979	- 33,196	- 35,048	- 36,868	- 39,837
Income on investment	- 4,448	- 8,328	- 13,006	- 21,838	- 29,528	- 35,451	- 36,598	- 34,551	- 47,650	- 41,595	- 44,758	- 61,242
Private services ^b	- 11,038	- 17,917	- 23,738	- 27,157	- 29,428	- 32,253	- 33,048	- 35,759	- 42,346	- 45,826	- 48,174	- 56,243
Total	- 23,203	- 36,940	- 53,869	- 69,650	- 83,273	- 97,093	- 101,651	- 102,289	- 123,192	- 122,469	- 129,800	- 157,322

^aAnnual average.

^bIncludes travel, passenger fares, transportation, royalties and fees, and miscellaneous private services.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business* (June 1987 and March 1988).

TABLE 3.2
U.S. Balance of Trade in Merchandise and Services, 1974-87
(In US\$ millions)

Year	Merchandise Trade	Private Services ^a	Total
1974	- 5,505	1,350	- 4,155
1975	8,903	2,384	11,287
1976	- 9,483	2,891	- 6,592
1977	- 31,091	2,508	- 28,583
1978	- 33,947	3,365	- 30,582
1979	- 27,536	3,998	- 23,538
1980	- 25,480	7,612	- 17,868
1981	- 27,978	10,192	- 17,786
1982	- 36,444	9,212	- 27,232
1983	- 67,080	6,582	- 60,498
1984	- 112,522	1,957	- 110,565
1985	- 122,148	- 148	- 122,296
1986	- 144,339	2,559	- 141,780
1987	- 159,201	877	- 158,324

^aIncludes travel, passenger fares, transportation, royalties and fees, and miscellaneous private services.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business* (June 1987 and March 1988).

of its very nature, data on service transactions rarely correspond to any single definition that might be accepted. Some authors include income from DFI in trade in services investment. Others go one step further by including investment income from internationally held private and government assets, thus equating trade in services with the invisible transactions in the balance of payments. Another major definitional issue yet to be resolved is whether or not DFI in services should be included in trade in services.

In this section, trade in services is defined in a way that most closely corresponds to the definition of trade in merchandise. It refers to trans-border transactions by service industries which do not require the establishment of foreign affiliates or subsidiaries through DFI. Hence, included in trade in services are transactions carried out by firms in accounting, advertising, banking, building, construction, engineering, franchising, hotels and motels, insurance, leasing, legal services, motion pictures, telecommunications, data processing and information services, tourism, and transportation.

II. SIGNIFICANCE OF TRADE IN SERVICES

The relative importance of the service sector in the ASEAN and U.S. economies is shown in Table 3.3. In 1981, the sector's share of employment

TABLE 3.3
Services' Share of Employment and GDP
and the Share of Services and Merchandise Exported
in ASEAN and the United States
(In percentages)

Country	Services' Share of Employment ^a 1981	Services' Share of GDP 1983	Share of Services Exported ^b 1983	Share of Merchandise Exported ^c 1983
Brunei Darussalam	34	26	n.a.	n.a.
Indonesia	30	35	2	37
Malaysia	34	44	14	86
Philippines	30	42	10	24
Singapore	59	62	87	216
Thailand ^d	15	50	8	38
United States	66	66	2	18

^aServices are all branches of economic activities excluding the agricultural sector (agriculture, forestry, hunting, and fishing) and the industrial sector (mining, manufacturing, construction, and electricity, water, and gas).

^bPercentage of services exported as percentage of total services produced. Services exported include shipment, passenger services, other transportation, travel, and other private goods, services, and income.

^cPercentage of merchandise exported as percentage of total merchandise produced.

^dAccording to Asian Development Bank, *Key Indicators of Developing Member Countries of ADB* (April 1985 and 1987) the share of services in employment (actually other than agriculture, manufactures, and mining) was 19.4 per cent in 1978 and 29.5 per cent in 1985. The figures in this table are taken from the World Bank and are used here for consistency.

Sources: IMF, *Balance of Payments Statistics Yearbook*, part I (1985); World Bank, *World Development Report* (1985); Brunei Darussalam National Statistics.

ranged from 66 per cent for the United States to 30 per cent for Indonesia, and its share of gross domestic product (GDP) ranged from 66 per cent for the United States to 35 per cent for Indonesia. With the exception of Singapore, the ASEAN countries have a smaller service sector in terms of both employment and GDP than the United States. This is consistent with the general pattern that the more developed the economy, the larger its service sector as measured in terms of the share of employment or GDP.

The figures in the last two columns of Table 3.3 show the share of services exported and the share of merchandise exported. They may be taken as measures of the openness of the respective sectors. The figures indicate that the service sector is less open than the other sectors, but the large variation in the share of services suggests diversity in services and varying degrees of tradability of services.

As noted above, DFI in services and sales of foreign affiliates are far more important than trade in services for the United States. Consequently, what

is at issue is more the question of whether U.S. firms in the service industries have a firm-specific competitive edge not bound to a particular location and less whether the United States has a comparative advantage in service industries. As Lipsey and Kravis¹ have pointed out, a country's comparative advantage and the competitiveness of its firms are not the same because firms in certain industries which are highly mobile internationally may be very competitive in foreign countries even though their native country, given its immobile factor endowments, does not have a comparative advantage in these industries. Thus, it is quite possible that, although there has not been any significant change in the comparative advantage of the United States with respect to service industries, some of the firms in these industries have recently gained a competitive edge which allows them to compete in the global market for services. Once again, to grasp the full extent of the international transactions of U.S. service industries, we must look into their investment activities as well as trade in services as defined in this chapter.

III. COMPOSITION OF TRADE IN SERVICES

Although an analysis of the composition of trade in services in ASEAN is difficult because of data paucity, some salient features of this trade can be delineated for each ASEAN country.²

In Brunei Darussalam, government services — which include wholesale and retail trade — dominate the service sector, which has been expanding rapidly in recent years. This is followed by banking, insurance, real estate, and business services. Because the service sector is one of the fastest growing sectors of the economy, the government has been placing greater emphasis on its development. However, it has only been since the inception of the Fifth Five-Year National Development Plan, 1986–90, that a coherent strategy of service sector development has been formulated.

The biggest category of trade in services in Indonesia is shipping, which is largely related to the oil industry, followed by other transportation services. Although it is practically impossible to make a reliable assessment of Indonesia-U.S. bilateral trade in services because of the lack of information, the presence of U.S. service companies is extensive; approximately 111 firms are represented in various forms. Engineering consultancy ranks first with fifteen companies, followed by financial services with thirteen firms.

As for Malaysia, the major component of the gross outflow in 1986 has been payments for travel (45.5 per cent) followed by payments for "other services" (30.0 per cent) and payments for freight and insurance (22.3 per cent). With regard to travel, the main item in this component is payment for education which comprises 75 per cent of the total travel payment to the United States. Since the imposition of the full-cost fee structure in British universities in 1979, the United States has become a more attractive destination for Malaysian students. Presently, the United States has the

largest Malaysian student population abroad (23,580) and is consequently the largest recipient of its educational payments.

The largest item in Philippine bilateral service exports to the United States is found in the "other services" category, which includes construction activities, operating expenses, commissions and fees, and so forth. This category represents 47 per cent of total acquisitions from the United States. Travel and tourism make up the next important item with approximately 17 per cent. Labour income is also an important source of "invisible acquisitions" of foreign exchange.

Services trade in Singapore has shown steadily rising surpluses, from US\$446 million in 1970 to US\$3.5 billion by 1987. Exports of services grew at an average annual rate of 24.4 per cent in the 1970s, but these slowed down to an average of only 4.9 per cent in the 1980s. Imports of services grew at an average annual rate of 27.5 per cent in the 1970s, and 6.3 per cent in the 1980s. Earnings in services are mainly from tourism, transportation, ship repairing, and port and bunkering services. Singapore has a chronic deficit in shipment services, but continuous surpluses on travel services, official transactions, and other transportation and services.

The main earnings for Singapore's trade in services with the United States are likely to be found in tourism. In 1987, 211,400 U.S. residents visited Singapore in transit, on holiday and business. This number formed 5.7 per cent of all visitor arrivals by air and sea. U.S. visitors ranked fifth in Singapore, after Malaysians, Japanese, Australians, and Indians. On the minus side, the number of Singapore residents visiting the United States on holiday and business each year is not known. However, there are thousands of Singapore students studying in U.S. tertiary educational institutions.

U.S. investments in the services industries in Singapore are substantial. The biggest is in banking, reflecting the role of Singapore as a financial centre. Data from the U.S. Department of Commerce show that in 1985 there were US\$529 million worth of U.S. investments in Singapore in trade, banking, finance and other services (excluding petroleum services which are lumped together with petroleum refining), together accounting for 27.9 per cent of total U.S. investment in Singapore.

Between 1978 and 1979, the United States had a surplus in services account with Thailand. During the same period, there were deficits in Thai services with every major trading partner except the ASEAN countries. In the 1981-83 period, the overall services trade improved markedly with surplus accounts with all nations, except the United States. This general picture is still true today. During the 1980-82 and 1984-87 periods, the United States had, respectively US\$214 million and US\$90 million in services surpluses with Thailand. It should also be mentioned that Thailand has had surpluses in the areas of travel and tourism with most countries around the world. In fact, Thailand was visited by more than 3 million people in 1987.

IV. GOVERNMENT POLICIES TOWARDS SERVICES IN THE ASEAN COUNTRIES

In most countries of the world, service industries are regulated to an extent unmatched in other industries. Some of the regulations are explicitly protectionist in intent, acting as barriers to trade and investment in services. Others are not, although they may function as such. In fact, a regulation does not have to be overtly protectionist to be an obstacle to trade, as Alexander and Tan³ clearly demonstrated in their study of barriers to U.S. services trade in Japan. Consequently, it is not easy to determine whether a law or regulation governing a service industry is a trade barrier or not.

One way to define what constitutes a barrier to trade in services is to establish basic principles and procedures as criteria for such a definition. The following criteria were proposed in the U.S. Study on Trade in Services:⁴

- National treatment: This principle states that “foreign services and their suppliers should be treated on the same basis as domestic firms supplying these services”. In other words, this principle requires that laws and regulations should be applied non-discriminately to domestic and foreign firms.
- Least restrictive regulations: If regulation of an industry is justified, it should be regulated in the least restrictive manner possible.
- Non-discrimination: This is the most-favoured-nation principle extended to services.
- Right to sell: This principle would prohibit the practice of denying market access to foreign service firms, provided that access does not conflict with “sovereign goals and interests”.
- Transparency: Regulations that hamper or distort trade in services should be transparent, that is, open and unambiguous.
- Subsidies: Subsidies can distort the flow of international trade in services, adversely affecting foreign producers of services.

What follows is a list of barriers encountered by U.S. service industries in the ASEAN as compiled by the U.S. Trade Representative (1985), which met the above stated criteria. The list is not comprehensive; nevertheless, it provides a general picture of the types of barriers encountered by U.S. service firms in the ASEAN countries.

A. Brunei Darussalam

- No barriers towards U.S. services industries have been identified.

B. Indonesia

- Insurance: Market access is denied; foreign insurers are not permitted to establish branches or subsidiaries.
- Leasing: The application process to obtain authorization for new

leasing operations is not transparent, lacking specified criteria; there are percentage limitations on foreign ownership and expatriate employment.

- Motion pictures: There are quotas on film imports; market access is denied to foreign film distributors.
- Franchising: There is a lack of protection of trademark; trademark litigation involves costly court proceedings.
- Maritime transportation: There is a cargo-sharing requirement for national-flag carriers.

C. Malaysia

- Advertising: All broadcasting materials are required to be produced locally using local labour.
- Insurance: Market access is denied; foreign insurers are not permitted to establish branches or subsidiaries.
- Leasing: There are percentage requirements for foreign ownership and expatriate employment.
- Motion pictures: Use of foreign technical experts is restricted.

D. Philippines

- Banking: Foreign ownership is limited; establishment of foreign bank branches is prohibited.
- Franchising: The central bank must approve all contracts calling for royalty payments.
- Insurance: Cessions to unauthorized foreign reinsurers are limited.
- Motion pictures: Quotas on film imports.
- Air transportation: The national carrier receives preferential treatment in charter flight operations and pays lower taxes than foreign carriers.
- Maritime transportation: The national-flag line receives preferential tax treatment.
- Advertising: Some advertising restrictions have been cited as barriers to trade in services.

E. Singapore

- Insurance: Foreign insurers are not permitted to establish new branches or subsidiaries (though existing companies may be purchased by foreigners); a portion of reinsurance must be purchased locally.
- Maritime transportation: There is one discriminatory agreement with South Korea.
- Banking: Some banking rules have been identified as barriers to trade in services.

F. Thailand

- Advertising: Market access is limited; the establishment of wholly

- owned or majority-owned branches or subsidiaries is not permitted.
- Banking: Establishment of new foreign banks and additional branches is banned.
- Insurance: Market access is denied; foreign insurers are not permitted to establish branches or subsidiaries.
- Leasing: Percentage limitations on foreign ownership.
- Motion pictures: Use of foreign technical experts is restricted.
- Air transportation: There is a monopoly on ground handling services by the national carrier.

Many of the above barriers are in fact investment-related in the sense that they constitute obstacles or difficulties in establishing and operating affiliates in these countries. It follows that various issues relating to barriers to international transactions in services and their removal have to do primarily with DFI in services and not with trade in services *per se*.

For the sake of fairness and symmetry it should be pointed out that the United States itself is not free of regulation over its service industries which may, in fact, function as barriers to trade and investment in services. At the federal level, this is true most notably for air and water transportation, and radio and television broadcasting. None the less, these regulations have normally been justified on the grounds of maintaining economic efficiency, protecting the public from exploitation by natural monopolies in some cases, and eliminating inefficiencies associated with excessive competition in other industries.⁵ However, since the mid-1970s the United States has started deregulating many industries such as airlines and telecommunications in both their domestic and international operations. For example, foreign firms are given considerable latitude in cable television and computer-linked data communications, which are rapidly expanding markets. Whether as a result of the deregulation or not, these are the industries which seem to have experienced rapid technological improvements in recent years and have gained a competitive edge over their foreign competitors.

V. PRESENT REGULATION AND PROTECTION OF SPECIFIC SERVICE INDUSTRIES

Developed and developing countries alike have adopted numerous policies to regulate and protect their service industries. This section examines the types, motivations, and effectiveness of policies that have been generally adopted throughout the world in the specific areas of telecommunications and banking. Although the question of protection of intellectual property rights could be considered here, this topic is dealt with in the next chapter.

A. Telecommunications

For various reasons, mainly economies of scale and national security considerations, telecommunication systems have been introduced historically

under the protective aegis of state monopoly. Except for the United States, government monopolies in post, telegraph, and telephone activities (PTT ministries) were the norm for industrialized and developing countries well into the 1970s and, in some cases, up to the present. The following are the major ways in which telecommunications networks are regulated and protected from competition.

1. Monopolization

A single enterprise can be chartered by the national Parliament and protected from competition. It can be part of a public bureaucracy, as in the case of PTT ministries, or it can be a private firm (such as Comsat in the United States) protected from competition so that it can exploit a particular technology or market.

2. Standardization

State-mandated technical standards can be established in such a way that they pose effective barriers to the market entry of firms wishing to compete with the incumbent.

3. Procurement

State procurement practices can favour a select circle of large suppliers, foreclosing the entry of smaller competitors. Less frequently, the state itself undertakes the manufacture of telecommunications gear and components, often through profit-oriented subsidiaries (as in the case of France).

4. Prohibition of Foreign Competition

Entry of foreign entities such as manufacturers or network operators is generally difficult or impossible. Such policies are usually justified on national security grounds, but their effect is to reduce DFI and trade in services and manufactured goods.

5. Radio and Television Broadcasting

Practically all developing countries and many industrialized countries designate radio and television broadcasting as a state activity, financially supported by taxes or user fees. Some countries allow a modicum of commercial programming by private broadcasters, supplemented by state-supported public programming. The balance between public and private broadcasting is in many countries a political or even ideological matter of some consequence. Other countries have achieved a political consensus on the optimum balance of the two. The United States is unique in having exclusively commercial radio and television stations supported completely by advertising revenues.

In all countries, however, the licensing of radio and television broadcasters is tightly controlled by the national authorities. The basis for such restriction has been the presumed scarcity of the radio-frequency spectrum used for

broadcasting. However, recent developments in transmission, modulation, and switching techniques have greatly increased the capacity available, and the U.S. cable television industry, for example, has many more channels than it can profitably programme and sell. Clearly, the scarcity of the radio-frequency spectrum and television channels can thus no longer be a basis for regulating the radio and television industries.

6. Trans-Border Data Flow

Many countries prohibit or heavily regulate the flow of certain types of data that are transmitted across international boundaries. Typical examples of the trans-border data flow (TBDF) include the transmission over privately leased facilities of data from a developing to a developed country for storage or processing in the latter; communications between the headquarters of a multinational corporation in an industrialized country and one of its subsidiaries overseas; and data transmitted for commercial purposes using public international data channels. Although seemingly arcane and specialized, the TBDF has been the subject of intense concern among diplomats, academics, and researchers in international organizations, such as the OECD, in recent years. Authorities engaging in TBDF regulation generally claim that they are doing so to protect the privacy of their country itself. Dispassionate analysis usually suggests a stronger economic motive in TBDF regulation akin to that underlying the more conventional barriers to international trade.

B. Banking

As noted in Section III and also reported by the ASEAN-U.S. Business Council,⁶ protection of domestic ASEAN banks, in the form of discrimination against foreign banks, includes the following practices: (1) bans or limits placed on the establishment of branches; (2) the inability to underwrite government securities; (3) limits on the range of services a foreign bank can offer, such as managing trust funds or issuing negotiable certificates of deposit; and (4) prohibitions against purchasing local property or business premises. It should be noted that these practices hold with particular severity in the ASEAN-4 (Indonesia, Malaysia, the Philippines, and Thailand) and much less stringently in Singapore and Brunei Darussalam. Singapore has many foreign banks and an economic structure and political culture relatively amenable to foreign banking. In fact, foreign institutions hold 89 per cent of all financial assets and 75 per cent of all deposits in Singapore.⁷ Banking regulations in Brunei Darussalam are also generally less restrictive, with foreign banking institutions managing a large proportion of the country's external reserves. There is no need to rehearse here the vital role of commercial and investment activities by foreign banks in catalysing the development of the ASEAN countries. Barriers such as those noted above curtail the ability of banks to offer attractive interest rates to their depositors, to realize capital growth and effect cost control, and to facilitate customers'

access to their deposits. While restrictive banking regulations might confer benefits on the small number of a developing country's citizens who are in a position to marshal financial resources and to profit from lending them for domestic development and while the timing of banking deregulation might be in dispute, the overall effect of regulations is definitely antithetical to economic development.

VI. CONSEQUENCES OF DEREGULATION

In most countries, developed or developing, many service industries are highly regulated in terms of rates charged and entry conditions. Arguments in favour of regulations are that competition leads to the disruption of services, that buyers have only imperfect information on services provided, and that foreign entry would increase dependency on foreign countries, suppressing the development of indigenous service industries.

In the context of this chapter, there are two issues relating to regulation of service industries. The first is whether there should be such regulation; the second is whether there should be discrimination against the entry of foreign service establishments. These are separate issues, since service industries may be regulated either without discrimination against foreign firms or with restrictions against them. This distinction becomes important when negotiations are carried out to reduce or eliminate barriers to trade in services. If regulations are bona fide and are not set up to discriminate against foreign firms, then demanding deregulation, however much it may be justified in terms of economic logic and evidence, could be construed as an invasion on national sovereignty over domestic policy matters. If regulations are discriminatory, however, demands for "national treatment" of foreign establishments are less likely to be viewed as an incursion into national sovereignty. The problem is that such a distinction between non-discriminatory and discriminatory regulations is difficult to make in practice, as regulations do not have to be overtly discriminatory to protect local firms against foreign competition. To make the necessary distinction in such a situation and to make the true objective for regulation transparent are formidable tasks.

An argument may be made against liberalizing service industries on the ground that it has a negative effect on the balance of payments. However, such liberalization may have a positive effect. Since it leads to improved efficiency in service industries, there would be a decrease in the relative prices of service-intensive commodities. If service-intensive commodities are exportables, the liberalization will bring about an increase in the country's exports, or a decrease in imports. Thus, liberalization could improve the country's trade balance, although it may have an adverse direct effect on the service account. This link between the liberalization of service industries and trade in goods needs to be estimated empirically. And that may help allay the fear on the part of the ASEAN countries that liberalizing service

industries will lead to balance-of-payment difficulties.

In addition, because government regulations are considered a major obstacle to foreign investment, liberalization of the service industry in the ASEAN countries is likely to lead to an influx of beneficial foreign investment.

VII. POLICY RECOMMENDATIONS FOR THE UNITED STATES AND ASEAN

On the basis of the information presented and arguments advanced in the preceding sections the following initiatives by the United States and (as appropriate) by the ASEAN member countries individually and collectively are recommended. The probable effects of these initiatives, if implemented, are set forth in Section VIII.

A. Greater Liberalization and Enhanced Role for Private Enterprise in the Information Sector

The ASEAN countries should examine the benefits to be gained from relaxing the often onerous regulatory and non-regulatory burdens in their telecommunications, banking, and other information-intensive industries. In particular, the domestic and overseas telecommunications networks and the services they provide merit special consideration as the nerve centre of the information-intensive sector. Specific policies could include high-level inquiries into changes in telecommunications policies, an initiative already undertaken by virtually all major industrialized countries; partial or complete privatization of networks or network components; and easing of restrictions on procurement, standard setting, licensing, and other government regulations and activities.

B. Revision of U.S. Antitrust Laws to Facilitate International Trade

U.S. competitiveness in international trade is blunted by provisions of U.S. antitrust laws that were passed many years ago when the United States was not the major trading nation it is today. The Webb-Pomerene Act of 1918,⁸ which allows U.S. firms to co-operate for the purpose of exporting, and the Export Trading Company Act of 1982 have not been very effective. Encouragement of U.S. export trading companies along the lines of those in Japan might be the best approach to take. Perhaps an initiative to establish a quasi-public Asia-Pacific Trade and Investment Fund would be beneficial. If established, it would function like a Japanese general trading company gathering market information and establishing distributional channels for small- and medium-sized U.S. firms.

C. Relaxation of Foreign Equity Control in the ASEAN Countries

Although there is diversity among the ASEAN countries, each reduces its ability to attract foreign investment in the service industries by placing

restrictions on the extent of foreign ownership. These restrictions are often politically motivated, especially in former colonial areas that have traditionally pursued policies of import substitution to foster economic development. Such policies, however, are particularly inimical to the export-oriented, high-growth strategies increasingly being adopted by developing countries as a more effective path to economic growth.

D. Relaxation of Controls on Foreign Banking

To promote their domestic banking sectors, some ASEAN countries have adopted protectionist legislation heavily disadvantageous to foreign banks. Particularly restrictive policies include limits placed on the range of services a foreign bank may offer; prohibitions against the purchase of local properties or business premises; restrictive access to host-country government funds; and the inability to underwrite host-country government securities. Relaxation of these controls should be carried out, however, in a manner that does not provoke speculative capital inflows. If not, there could be a loss of domestic monetary control with consequent economic instability. The painful experiences of Chile and Argentina in the 1970s clearly point to the importance of containing short-term speculative capital inflows during the process of financial liberalization.

E. Continued Emphasis on U.S. Export Consciousness

Despite continuing efforts by the U.S. Department of Commerce and other government agencies to promote U.S. exports, the United States is perceived by the ASEAN countries and other developing trading partners as having a national culture resistant to international trade. This inclination is conditioned by its history as a large and self-reliant continental power. In its swift transition from the world's largest creditor nation to the largest debtor, some of this anachronistic consciousness persists and hampers badly needed export awareness in the United States. Joint government/private sector campaigns to increase export awareness and information among the business community and the general public in the United States should continue and increase.

F. Relaxation of Limits on Professional Services by Foreigners

Protectionist impulses have given rise to legislation in ASEAN and other countries that sharply limits the ability of foreign professionals to practise their occupation in their countries. Such restrictions are found typically in information-intensive professions and specialties such as financial planning, architecture, engineering, construction, law, telecommunications, and accounting. ASEAN could well learn from the EC's experience in opening up its vast internal market to professionals from throughout Western Europe. More urgently, the ASEAN countries need to allow greater leeway for professionals to plan, design, implement, and operate large-scale development projects requiring significant infusion of foreign capital and expertise.

G. Reduction of Marketing Restrictions in the ASEAN Countries

The ASEAN countries vary considerably in the extent of such restrictions. Indonesia, for example, used to require that the distribution of all products except textiles be carried out by Indonesian nationals, while the ASEAN-4 impose various restrictions on the foreign import, refining, pricing, and distribution of petroleum and other hydrocarbon products. The World Bank estimates, for example, that Indonesia's restrictions on the distribution of imported steel and plastic products have increased the prices of those commodities by 25 to 45 per cent. While this instance involves physical goods rather than services, the marketing and distribution functions alluded to are themselves information-intensive services vital to completing the chain of international trade.

H. Development of Better Theory and Data

Numerous writers, including Lee and Naya⁹ and Yuan,¹⁰ have noted the dearth of disaggregated data relating to international trade and investment in services, and more fundamentally to the persistence of conceptual gaps in the theoretical underpinnings of important concepts and distinctions, such as the difference between international trade in services and DFI in services. Practical policy initiatives built on the shifting sands of such theoretical and empirical uncertainties cannot be fully effective. Basic research on the theory of international trade must continue and increase so that these gaps in theory and data can be closed as rapidly and completely as possible.

VIII. PROSPECTS FOR TRADE EXPANSION AND GROWTH

Since the overall causal nexus is still poorly understood, no effort will be made to relate particular policies recommended in Section VI to particular effects. No doubt such individual policies could give rise to several desirable outcomes; conversely, it seems clear that each individual economic consequence listed below can be seen as having resulted from more than one of the policies. Thus, the complex of desirable economic consequences which follow can be thought of collectively as resulting from the implementation of the policies recommended above taken as a whole.

A. Transition to Export-Oriented Growth

The policies proposed can be expected to facilitate further the transition to export-oriented, high-growth trade strategies in the ASEAN countries. Export-oriented growth stresses comparative advantage, efficiency in production, technology transfer, and employment rather than self-sufficiency. Such a policy is much more promising than import substitution in a world where information production, storage, transfer, and processing have become important inputs in the production and distribution of goods and services.

B. Allocative Efficiency and Price/Cost Reductions

As the ASEAN economies constitute a relatively small market for U.S. service industries, liberalization of ASEAN service industries is likely to have a greater effect on these economies than on the U.S. economy. For the latter it will have at best the effect of improving allocative efficiency, as it allows the expansion of industries in which the United States has a comparative advantage.

For the ASEAN countries the liberalization will do more than improve allocative efficiency. Because internationally transacted services, especially those provided by foreign affiliates, tend to be producer services, liberalization will lower the prices of producer services to their users, which include other service industries. Liberalization will thus decrease absolutely and relatively the prices of service-intensive commodities. Service-intensive commodities are in effect information-intensive commodities as well, and price reductions in such services, whether produced domestically or imported, will enable the countries involved to expand their informational infrastructure more cheaply.

C. Information Sector Liberalization as a Stimulus to Economic Growth

It is true that government monopoly and operation are appropriate for many public utilities in the early stages of economic development. As the economy matures, however, liberalization of the information sector, particularly of telecommunications networks, is both an effect of and a prerequisite for sustained economic growth.¹¹ For example, economies of scope and scale, demand-based pricing, and natural monopoly properties generally become less influential as the level of trade, output, and income increases. Variety and flexibility in information-intensive services, which are qualities particularly important to business users, become more rapidly forthcoming given the incentives offered by private ownership and an unregulated market-place. Naturally, the ASEAN countries will wish to assess carefully how far they have advanced along this continuum individually and collectively. As development proceeds, however, it is clear that liberalization will become more rather than less advisable.

D. Effect of Competition and Market Incentives on Government Efficiency

There are good reasons why many infrastructural and other tasks — such as electricity, water, transportation, health, broadcasting, and education — remain in government hands during the process of economic development.¹² To the extent that particular sectors such as telecommunications become privatized or deregulated, however, they serve as a touchstone against which the public and private sectors can be compared by users, voters, and taxpayers as to their relative efficiency and flexibility. It is true that many

of these infrastructural tasks are at first highly redistributive in nature and so cannot make full use of market incentives or efficient production and pricing regimes. Other things being equal, however, such tasks can be carried out more efficiently if policy-makers, administrators, and the civil service in general observe the salutary effects of liberalization in allied sectors and sense the possibility that their own pay-packets may someday be issued by private entrepreneurs. Jonscher,¹³ for example, has noted the bracing effect on British Telecom personnel of contemplating such eventualities.

In sum, the ASEAN countries could significantly augment their economic growth potential by liberalizing and deregulating their services sector. Moreover, the United States could improve its performance in international markets by revising domestic laws which inhibit the export of services and by increasing the flow of information on export opportunities in the ASEAN region.

Because the issue is so important, the United States and ASEAN should not only negotiate bilateral arrangements on trade in services but also work together at GATT. Indeed, the proposal for a framework agreement on trade in services now on the table at the Uruguay Round presents an excellent opportunity for negotiation in this regard.

NOTES

- 1 Lipsey and Kravis (1985).
- 2 The figures presented in the following discussion were extracted from the "ASEAN Preliminary Integrative Report to ASEAN-U.S. Initiative" (1988), which is a background paper to this study.
- 3 Alexander and Tan (1984).
- 4 Office of the U.S. Trade Representative (1985).
- 5 U.S. Trade Representative (1983).
- 6 ASEAN-U.S. Business Council (1987).
- 7 Ibid.
- 8 Krause (1982).
- 9 Lee and Naya (1988a, 1988b).
- 10 Yuan (1988).
- 11 Snow (1985).
- 12 Snow (1988).
- 13 Jonscher (1984).

4

INTELLECTUAL PROPERTY RIGHTS

I. INTRODUCTION

Intellectual property rights (IPR) have been a contentious issue for the United States and other countries, developed and developing. Especially many developing countries have different standards of intellectual property protection from those of the United States and this has led to charges of piracy of protected intellectual property by U.S. firms. The International Trade Commission (January 1988) estimated that in 1986 inadequate foreign protection of intellectual property rights cost U.S. companies between US\$43 billion and US\$61 billion. Several ASEAN countries have been identified as "problem countries" by various studies conducted by U.S. government agencies and private trade associations. The United States has recently pressured several ASEAN countries to reform their intellectual property laws and to increase their enforcement efforts. Reform has been pushed by the U.S. Government's use of Section 301 of the Trade Act of 1974 (as amended in 1984) and Section 503 of the Trade and Tariff Act of 1984, which allow the continued provision of Generalized System of Preferences (GSP) benefits to developing countries to be tied to the provision of a minimum level of protection of IPR. In fact, the United States has insisted that negotiations on intellectual property protection be continued at the Uruguay Round.

Small open economies often have fewer incentives than large economies to establish IPR. Suppose that the small open economy generates a smaller portion of the world's productive patents than its share in world gross national product (GNP). This could occur because the small country participates in industries (such as agriculture) that generate few important patents or because economies of scale is required in research and development (R&D). Economies of scale may lead to R&D activities being located in a large country, as there are often complementarities between R&D and the number and variety of production facilities for the product and related products.

Small countries that are net importers of technology must decide how to acquire the technology. First, they can encourage direct foreign investment, that is, foreign firms provide the technology and retain control over its use. Second, domestic firms can license the technology from foreign firms; control over the use of the technology and the extent of production is acquired by the local firm and a combination of royalties and lump sum payments are made to the foreign firms. Third, domestic firms can free-ride on the foreign technology by failing to protect intellectual property. However, this has the negative effects of *inter alia* discouraging technology transfer and stifling domestic innovation.

This chapter provides a discussion of bilateral and multilateral negotiations on IPR in the context of the ASEAN-U.S. relationship in Section II. In Section III an overview of major patent, copyright, trademark, and design statutes in the ASEAN countries and the United States is presented, while Section IV presents some conclusions.

II. INTERNATIONAL NEGOTIATIONS ON INTELLECTUAL PROPERTY

Negotiations over IPR have been added to the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) talks. Gould¹ argues that four objectives could be accomplished via GATT negotiations:

- 1 that there is a level to which the minimum standard for world-wide patent protection can be raised which would obviate overly protective legislation;
- 2 that raising of world-wide minimum patent protection cannot be performed out of the context of international trade and international trade laws;
- 3 that bilateral attempts to balance the interrelated issues of trade and patent laws have not been and will not be successful; and
- 4 that reliance upon unilateral retaliation is harmful to all nations including the retaliator. These objectives, *inter alia*, are discussed below.

A. Bilateral versus Multilateral IPR Agreements

Suppose that a larger flow of innovations per dollar of GNP is forthcoming from the industrialized economies than from the developing countries. The industrialized countries would have an incentive to establish long-term IPR protection with strict enforcement, while small developing open economies would argue for shorter terms of protection with less strict enforcement. The former are net exporters of technology and would take this position because they have less incentives to consider the welfare effects of their innovations on developing countries; by contrast, the latter also have reduced incentives to consider the effect of their intellectual property policies on R&D in the

developed countries. While each developing economy individually would have only a minor effect on R&D in the developed countries, developing countries together are a large enough force to stifle global R&D if they fail to provide adequate protection to intellectual property.

International co-operation on this type of issue is difficult, as each developing economy has incentives to free-ride on any international agreement. It would tend to argue for a multilateral agreement which other countries would obey but which it can violate. Therefore, the key element in any multilateral negotiations is to devise a system of penalties to deter free-rider behaviour, and which encourages other countries to apply. Implementation of penalties is a problem which plagues multilateral agreements as the penalties imposed are not severe. Moreover, if the penalties hurt the penalizer more than the free-riding country, there will be no incentive to implement the penalties.

Perhaps bilateral agreements between an industrial and developing country would be more effective in eliminating free-rider behaviour, as trade disputes can be resolved without disrupting the entire fabric of international trade. Moreover, bilateral agreements that provide for faster adjudication of private disputes could also be utilized by other trading partners. Bilateral agreements allow parties to focus on a wide array of issues specific to the relationship, while international agreements tend to be limited in dimension, often have very little teeth, and have additional clauses which could generate inefficiencies.

But bilateral agreements also have some severe defects. The large country usually finds that only a small proportion of its trade is with the small partner, while the small country finds that a large proportion of its trade is with the industrialized country. This leaves the large country with more bargaining power than the small country and may enable the contract (treaty) governing trade to be skewed towards distributing the lion's share of the gains to the large country. Of course, international treaties with many signatories bring on the free-riding problem; the best world for a single small country is one in which the rest of the world has strict patent protection and the one small country free-rides on the protection.

B. Existing Multilateral IPR Agreements

International agreements governing IPR standards have been in existence since the late nineteenth century. The 1883 Paris Convention on Industrial Property covers inventions, trade names, trademarks, service marks, industrial designs, indications of source, and appellations of origin. The Convention is administered by the World Intellectual Property Organization (WIPO), an agency of the United Nations. Of the ASEAN countries, only Indonesia and the Philippines are members of WIPO. The Convention's main accomplishment has been to establish the principle of national treatment. Each signatory is obligated to offer citizens of other states belonging to the Convention the same rights and protection offered to its

own citizens. By giving up discrimination against foreign patents at home, a signatory country gains equal treatment abroad. The Convention does not, however, standardize the level of protection; in fact, two early signatories to the Paris Convention, Switzerland and the Netherlands, did not have patent systems. While the Paris Convention has a dispute resolution mechanism, several nations have signed the Convention only with the reservation that they will not adhere to it. The United States is a party to the Paris Convention; of the ASEAN countries, only the Philippines is a signatory, although the Malaysian Government has recently stated that it plans to join the Convention shortly.

The Berne Convention covers copyrights. Under WIPO's jurisdiction, it establishes national treatment, allows for copyrights to be established without formal registration procedures, and sets certain minimum standards for each signatory's copyright laws. But unlike the Paris Convention, it lacks meaningful dispute resolution procedures. Of the ASEAN countries, only Thailand and the Philippines are signatories. The United States has recently become a signatory; China and the Soviet Union are among the few countries which are not parties to the Convention.

The United States is also a signatory to the 1952 Universal Copyright Convention (UCC), which is administered by the United Nations Educational, Scientific, and Cultural Organization (UNESCO). Revised in 1971, the treaty provides a simple mechanism for creators of literary works to obtain copyright protection. The UCC makes it possible for governments to obtain preferred access to works protected by copyrights.

These multilateral agreements suffer from two deficiencies. They have no mechanism to remedy disputes and they either do not have or have only minimal standards of property rights protection. The equal treatment provisions allow foreigners to have access to a nation's courts, but this may not prove valuable if the court system in the offending firm's country works poorly or if the nation's statutes provide only weak protection for intellectual property. The procedures which reduce the transaction costs associated with applying for patents and copyrights in foreign countries are, however, certainly beneficial and should not be overlooked. International agreements of this type are useful in co-ordinating relationships between well-functioning systems of intellectual property protection, but they do not provide incentives for developing countries to strengthen their protection of IPR.

III. IPR IN THE ASEAN COUNTRIES AND THE UNITED STATES

A. Philippines

1. Laws

The Philippines has a patent law (Republic Act No. 165) which grants the awardee of patents for invention exclusive rights to use and make the

patented product or process for seventeen years. An invention is patentable only if it can be considered new and useful. It must not have been used or known in the Philippines more than one year prior to the patent application. Foreign patent holders must file for a patent within one year of being awarded their foreign patent.

Design patents can also be obtained for any new, useful, original, and ornamental design of a product. Model patents can be obtained for a new model, implement, tool, or industrial product which is new, but does not meet the criteria for invention. Both types of patents have a term of five years and are renewable for two additional terms, thus yielding an effective life of fifteen years.

Domestic patent holders can contract freely with Philippine residents to license a patent, but foreign patent holders must have licensing contracts approved by the government's Technology Transfer Board (TTB). Certain types of patents, in particular patents for medicines, are subject to compulsory licensing agreements if the patent holder does not produce and market the product in the Philippines for two years after the patent is awarded.

Trade secrets which are licensed by one firm to another can be protected for five years. Protection of trade secrets within a particular firm is unavailable. Licensing of trade secrets must also be approved by the TTB.

Copyrights are granted under the "Decree on the Protection of Intellectual Property" (PD No. 49 as amended). The grantee has "the exclusive right to print, reproduce, sell, perform in public, exhibit and do other acts in respect of original literary, dramatic, historical, artistic and musical works and certain other protected works (e.g., computer programs, cinematographic works)". Copyrights are granted for fifty years beyond the death of the author, and works must be registered with the National Library.

Trademarks and trade names are protected by the Trade Mark Law (RA No. 166 as amended). To be registered, the mark or name must be distinctive. Trade names which are well known internationally cannot be registered except by their international owners. Business names must be registered with the Bureau of Domestic Trade. Licensing agreements with foreign firms must be approved by the TTB.

The Philippines is a signatory of both the Paris (industrial property) and the Berne (copyright) Conventions.

2. Enforcement

If a firm makes, sells, or uses a patented product or process without authorization from the patent holder, the latter can apply for a preliminary injunction; a final injunction can only be obtained after a formal trial on the infringement action. Damages can also be awarded by the court. The court can award damages equal to a reasonable royalty on the infringer's sales or it can calculate the actual damages of the patent holder. For damages to be awarded, notification of the existence of the patent on the process or

product must have been available to the infringer. Copyright infringement actions proceed in a similar manner; while patent law does not provide for the seizure of infringing products and processes, copyright laws allow for infringing products to be impounded and for the device used to produce the reproductions to be destroyed.

Violation of a trade-secrets agreement is treated as a breach of contract, and patent holders can take action in court to recover damages under Philippine contract law. Trademark infringement occurs whenever another firm uses the trademark (or a close variant) in a manner such that the "use is likely to cause confusion or mistake or to deceive purchasers or others as to the source of origin of such goods or services". Trademark protection is limited, however, to one line of products. For example, a trademark registered for shoes could be used by another firm as a trademark for cigarettes. Unregistered trademarks are also granted substantial protection. Suppose that a firm is associated with a particular trade name by the public. If it can be demonstrated that a manufacturer of competing goods was attempting to deceive customers as to the producer of the product, then the first firm can bring action against the imitating firm alleging unfair competition.

The mechanism for obtaining relief from trade name infringement is similar to that outlined above for patent holders. Foreign companies can bring actions against a domestic producer as long as the foreign country in which the foreign manufacturer is domiciled grants similar protection to Philippine citizens.

B. Singapore

1. Laws

The Copyright Act of 1911 has been replaced by the Copyright Act 1987 and provides copyright protection for dramatic, literary, and musical works. It is a comprehensive and stringent piece of legislation with protection of works and other subject matter arising from the moment of creation. Protection then runs for the life of the author plus fifty years generally for works, and fifty years generally after the first publication of other subject matter. Protection for unpublished works is indefinite. However, once publication takes place, the work is protected for fifty years after the date of publication. Infringement is punishable by fines ranging between S\$10,000 and S\$100,000 and imprisonment of up to five years. The maximum penalty for illegally performing a copyrighted work in public is S\$20,000, or two years' imprisonment, or both. Under a memorandum of agreement signed between the United States and Singapore, there is reciprocal protection for Singapore works in the United States, both existing and future.

Patent rights can only be obtained in Singapore after a patent has been issued in Great Britain or under the European Patent Convention. Patent

protection is coterminous with the protection period in Great Britain. Singapore issues a Certificate of Registration once it has ascertained that the British patent was obtained within the last three years. Patents can be freely transferred or assigned. It is felt that the present system does not give Singapore enough opportunity to further develop local patent advisory services or formulate a patent policy to serve its own needs. The system is thus under review.

Designs can be registered under Great Britain's Registered Designs Act of 1949. Protection lasts for fifteen years. The Act gives to the registered design owner the right to make, sell, import, or use any product which incorporates the design. Some designs cannot be registered under the Registered Design Act, but can be protected under the Copyright Act of 1911. The sale or assignment of design registrations must be registered at the Patent Office in Great Britain.

The statutes governing the registration of trademarks in Singapore are the Trade Marks Act (Cap 332), the Trade Marks Rules of 1968, and the Trade Marks Amendment Rules of 1983. The Trade Marks Act is modelled on the U.K. Trade Marks Act of 1938. Although registration of trademarks is not compulsory, it is beneficial since it confers a statutory monopoly in the use of the trademark and the right to sue for infringement in the courts. The period of protection for first registration lasts for seven years while each renewal is for fourteen years. Penalties for trademark infringement include a maximum fine of S\$2,000 or imprisonment of up to one year, or both. The government has recognized the need to amend the law, and review is in progress.

2. Enforcement

Provisions in Singapore's penal code provide sanctions for individuals supplying counterfeit products to the market. An action for "cheating" can be brought against an individual who puts "a counterfeit mark on article, intentionally deceives z into a belief that this article was made by a certain celebrated manufacturer, and thus dishonestly induces z to buy and pay for the article". Z, the person who purchases the article, is the only one who can make the complaint. Complaints can also be made that the counterfeiter has engaged in forgery, as counterfeit products are often accompanied by counterfeit documentation. Only the writer of the counterfeit documents can be charged with forgery. The Consumer Protection Act of 1975 allows the government to bring actions against any firm which (1) applies a false trade description to any goods or (2) supplies any goods to which a false trade description has been applied. The Act allows for forfeiture of the goods and allows the court to award compensation to the victim; in addition, the victim can sue for damages.

Law enforcement in Singapore is not known to be lax. Going by recent reports, the number of police raids and anti-touting operations have

increased significantly, as has the number of offenders caught and successfully prosecuted in court.

C. Malaysia

1. Laws

Prior to 1984, patent law varied across West Malaysia, Sarawak, and Sabah. A uniform standard was established by the Patents Act of 1983, which created a common process of patent registry which provides protection in all eleven Malaysian states. A process or a patent is patentable if it is new, involves an inventive step, or is industrially applicable. The term for a patent is fifteen years subject to the payment of annual fees. A utility patent lasts for five years with possibility of renewal for 5 + 5 years upon proof of working. Some inventions are classified as utility innovations; they are defined as "any model of an implement, tool, or process which does not possess the quality of invention, but which is of practical utility by reason of its form, configuration, construction, or composition which is new to, and for use in, Malaysia". Patents and patent applications can be transferred at will as long as the transfer is recorded by the Registrar of Patents.

Copyrights were granted under the Copyright Act of 1969 which was repealed and replaced by the Copyright Act of 1987. The 1987 Act offers protection to works such as artistic, literary (which includes computer programs), musical, films, sound recordings, and broadcasts. The duration of protection is generally life plus fifty years and is not renewable. Protection is granted on the basis of Malaysian nationality or permanent residency; or that first publication is in Malaysia or publication in Malaysia within thirty days of publication in a foreign country; or lastly, that the work is made in Malaysia.

All designs requiring protection in Malaysia are required to register in the United Kingdom under the United Kingdom law which then confers protection on those designs in Malaysia. The design must be new and original. The period of protection is fifteen years and it gives the owner the exclusive right to use, sell, and produce the design. The proprietor shall have all the rights conferred upon the proprietor under the United Kingdom law in Malaysia, including the right to assign. These rights also include the right to recover damages in consequence of an infringement.

Trademarks can be registered under the Trade Marks Act of 1976 (effective in September 1983) and before this it was registered under the different ordinances for protection in Malaya Sabah and Sarawak. Trademarks must be distinctive in that they identify the goods with the mark from goods produced by other firms. Registrations are valid for seven years from date of application and can be renewed. Corporate trade names must be registered under the Companies Act of 1985 and partnerships and other businesses must register their names under the 1956 Registration of Businesses Act. Trademarks can be freely transferred or assigned unless the transaction does not include the goodwill associated with the trademark or

unless the use of the trademark by several parties is likely to confuse consumers.

2. Enforcement

The Trade Descriptions Act makes it illegal to use a false trade description on goods supplied to the market. This includes usage of a trademark without the owner's permission. The Act allows "enforcement officers to enter premises and inspect and seize products bearing false trade descriptions", but the enforcement department does not have adequate manpower to conduct such investigations. Penalties for violations of the Act range from a fine of up to M\$100,000, or up to three years' imprisonment. The Act allows for the forfeiture of goods.

The Patent Act of 1983 has infringement provisions which allow the patent holder to bring a suit against an individual who has infringed or is likely to infringe on the patent. The courts can grant an injunction and/or award damages. An individual who falsely claims that he has a patent for a product or process can be fined, upon conviction, up to M\$15,000, or imprisoned for up to two years.

The Copyright Act has criminal sanctions for infringement of copyright. The offences include:

- 1 making for sale or hire an infringing copy;
- 2 selling or hiring an infringing copy;
- 3 possessing or importing into Malaysia other than for private and domestic use an infringing copy; and
- 4 making or having in one's possession any contrivance used for the purpose of making infringing copies.

An offence in direct infringement shall on conviction be liable to a fine not exceeding M\$10,000 for each infringing copy, or imprisonment to a term not exceeding five years, or both; any subsequent offence is liable to a fine not exceeding M\$20,000 for each infringing copy, or imprisonment for a term not exceeding ten years, or both. A copyright holder can bring a suit for infringement and obtain an injunction and receive damages as warranted by the evidence. If, however, the defendant did not know that the article was copyrighted, then the copyright holder cannot recover damages. Infringing copies can be confiscated. Criminal conviction for infringement can lead to penalties of up to M\$100,000 and imprisonment up to five years.

D. Thailand

1. Laws

Thai patent law is based on the model proposed by WIPO of the United Nations. The Patent Act of 1979 protects inventions and product designs by giving to the patent holder the right to use the protected process or to manufacture and sell the protected product. The term of a patent for an

invention is fifteen years from the application filing date, while that for a product design has a term of seven years. Patents can be freely licensed between residents of Thailand; the licence must be made in writing and registered with the Commerce Department. Patent licences to non-residents must be approved by the Bank of Thailand. Patents can be freely assigned as long as the assignment is made in writing.

Foreign patents are not recognized unless the patent holder also has a patent in Thailand; a foreigner can obtain a parallel Thai patent only if the Thai patent application is filed before the foreign patent is granted and is filed no earlier than twelve months before the foreign patent is granted. Some inventions are not patentable, such as pharmaceutical products, beverages, agricultural machines, and computer software.

Trade secrets are not protected by any specific law. They can, however, be protected by contracts between employers and employees or between a firm licensing the use of the process and the licensee. Damages can be recovered by the licensor if the licensee breaches the contract. Trade secrets can also be transferred under the general law of contract.

Copyrights are respected under the Copyright Act of 1978. There is no system for registering copyrights; it is assumed that a copyright is inherent in every new work. It is unclear whether the Copyright Act covers computer software. A copyright gives the owner the right to copy, perform, or sell his works. Thailand has signed the Berne Convention for the Protection of Literary and Artistic Works; this means that foreign copyrights are protected as long as that country and Thailand have both ratified a copyright treaty, such as the Berne Convention, which respects each country's copyright system. Otherwise, foreign copyrights are not respected in Thailand.

Copyrights can be freely licensed; if the licence is not made in writing, it is not presumed to be exclusive. Copyright transfers can be freely made, but must be in writing to be upheld by a court.

Trademarks receive legal protection under the Trade Mark Act of 1931 (amended in 1961). Most trademarks are registered in Thai and Roman script to facilitate infringement proceedings. A trademark must be sufficiently distinctive to identify the goods in question as stemming from the firm using the trademark. Thailand has not signed an international treaty respecting trademarks, although foreign trademark holders can apply for a trademark in Thailand. Trademarks can be licensed at will; assignments must be registered with the Registrar of Trade Marks.

Trade names receive protection under the Civil and Commercial Code. If an unauthorized individual uses the trade name, the owner of the trade name can seek an injunction and/or sue for damages. Criminal action can be taken against an individual who uses another's trade name in such a way that the public believes that the product stems from the trade name holder. Every trade name must be registered with the Department of Commercial Registration in the Ministry of Commerce. Licences of trade names are only

valid if the licensor is adequately monitoring the quality of the goods produced by the licensee.

2. Enforcement

Actions can be taken against patent infringement if the patented process or product is imported, used, sold, or applied by an unauthorized party. However, if the product or process is "utilized for the benefit of education, research, experimentation, or analysis, then infringement actions cannot be taken". Criminal actions can be brought against individuals who infringe on another's patent. The patent holder can ask the court to confiscate the products produced by unauthorized users of the patent. Patent holders can also bring a civil suit for damages. Connors² notes that this procedure is "very time consuming and often results in recovery of only nominal money damages". The remedy for a breach of contract protecting trade secrets is the same: to institute a civil suit for damages. This remedy would be similarly defective if only nominal damages are awarded to the plaintiff.

The remedy for infringement of a copyright or a registered design is also a civil suit. Copies of the work made by the infringer become the property of the copyright holder. Criminal action can be brought by the authorities and half of the fines are paid to the copyright holder.

Registered trademark infringement can also be remedied by a civil suit. The Thai Penal Code has specific penalties for forgery of a trademark: imprisonment for a term of up to three years and/or a fine of up to 6,000 baht. Copying a trademark has a lesser penalty: imprisonment for a term of up to one year and/or a fine of up to 2,000 baht. An unregistered trademark holder cannot bring a damage suit, but can request a court to void the registration of a similar mark by demonstrating that he has a better claim to the name.

E. Indonesia

1. Laws

Indonesia does not have a patent law yet, though it is party to the Paris Convention. However, the country does have a Patent Office attached to the Department of Industry. Based on a government decree originating in the 1950s, the Patent Office files patent applications in its General Register. The majority of patent applications registered so far are foreign in origin, of which applications by American firms constitute the majority. A patent law is presently being prepared. There is generally wide support for such legislation. However, disagreement exists on some issues such as industry coverage of the proposed patent law, the level of protection to be granted to a patentee, and the mechanism of granting a patent, that is, whether or not the novelty of the invention for which patent protection has been applied should be investigated. Furthermore, there has been fear that patent

protection may turn out to be an extra barrier to technology transactions. Thus, the inclusion of compulsory licensing with due attention to adequate compensation has been suggested:

A Trade Mark Law has been in existence in Indonesia since the early 1960s. It is based — among other things — on the principle of “first-come-first-served”, meaning that trademark protection is granted to the applicant who is the first user of the trademark concerned in Indonesia. As a result, a number of trademark disputes have been brought before the court especially by foreigners whose trademarks were used in Indonesia for the first time by local firms. In recent years, the court has demonstrated flexibility in interpreting this principle.

Indonesia's Copy Right Law has also existed for a long time and covers a wide variety of inventive, artistic, and literary works. It was revised in 1986 mainly for reasons related to the protection of foreign rights and their violations. Before 1986 the nature and level of penalty for infringement was perceived to be too low. Both foreign and local artists complained about the proliferation of copyright violations. The revised version of the Copy Right Law sets, therefore, a much more stringent provision on copyright violation. The fine has been increased up to Rp25 million, and/or imprisonment of up to five years.

2. Enforcement

Patent protection has never been an important part of the controversy over the enforcement of IPR in Indonesia. This reflects primarily the lack of technological capability to develop an invention that has to be protected by a patent. Furthermore, the government has adopted a very flexible stance on issues related to technology transactions in that it refrains from imposing restrictions on them except for strategic industries. The private sector enjoys total freedom to deal with their foreign counterparts as far as technology transactions are concerned. A patent law is likely to be adopted in the near future. The controversy over the pharmaceutical industry which centres on the demand of this industry for special treatment is also likely to be resolved soon. The tendency is towards the inclusion of this industry in the patent law with certain transitional provisions.

While the principle of “first-come-first-served” of the Trade Mark Law exists, its interpretation by the court has turned out to be flexible in favour of those who are not the first users of the trademark in Indonesia but can prove that the trademark concerned was originally theirs.

As regards the enforcement of copyright protection, much remains to be done. Both domestic and foreign owners of copyrights complain about widespread infringement. Nevertheless, the enforcement effort in the recording industry is noteworthy in this connection. Triggered by the petition by American Intellectual Property Alliance against Indonesia, joined later on by the EC, a strong campaign against piracy in the recording industry was initiated two years ago. As a result, it is now difficult to find Western music

cassettes in Indonesia. The video rental industry also seems to have changed. Licensees have launched a campaign against piracy though it is difficult to judge the result of this campaign.

In sum, a greater appreciation of IPR is observable in Indonesia in recent years. Enforcement, however, remains difficult. IPR legislation is not an exception in this respect.

F. Brunei Darussalam

Under the Invention Act of 1925, patent rights in Brunei Darussalam can only be obtained after a patent has been granted in the United Kingdom or in Malaysia, or has sole and exclusive privileges in an invention in the Republic of Singapore. Certification of registration can be obtained within three years.

Trademarks can be registered under the Merchandise Marks Act of 1953. Registration is valid for an unlimited period.

G. United States

The protection of intellectual property in the United States might seem irrelevant to the concerns of the ASEAN countries. Yet, as the largest single market in the world, the United States is potentially an important market for ASEAN firms wishing to patent, trademark, or copyright products in foreign countries.

The ASEAN countries cite the U.S. experience in defence of their general reluctance to enforce IPR legislation. The United States has recently pressured the ASEAN countries to strengthen their statutory protection of IPR and to increase the amount of resources devoted to enforcing these rights. Ironically, although the laws protecting intellectual property in the United States are hailed as being solid, the U.S. system has been criticized for inadequate enforcement.

The U.S. patent law has had problems in enforcing IPR in recent years. The average percentage of patents upheld in all circuit courts was only 27 per cent in the period 1953–77. Federal courts in the eighth circuit upheld only 8.6 per cent of all patents adjudicated between 1953 and 1977. Weak patent protection may have been partially responsible for the decline in R&D in the 1970s — between 1972 and 1982 the annual number of patents awarded to U.S. inventors declined by 34 per cent. Patent enforcement has recently been strengthened by the creation of the Court of Appeals for the Federal Circuit (CAFC), which hears only patent appeal cases. As of October 1985, the CAFC had upheld 54 per cent of patent claims, a major change from the decisions by federal appeals courts in the 1970s.

Moreover, the United States has not adopted an adequate system of design protection. In this case, an overly strict standard for protection has eliminated protection for all but the most novel designs. While such a standard may or may not be “optimal”, it contrasts with stronger statutory protection provided

in the United Kingdom, Australia, New Zealand, and some ASEAN countries.

IV. CONCLUSION

In our discussion above, we have noted the difficulties characterizing both multilateral and bilateral negotiations to resolve the IPR problem. The United States and the ASEAN countries often find that they have conflicting interpretations of how legislation should be written and applied. However, pressuring the ASEAN governments into taking actions which harm the economy in the short run is inconsistent with political equilibrium. Governments will often resist such policies. On the other hand, increased IPR protection should not harm the host country. If a low level of property rights protection has been established because a politically powerful special interest gains at the expense of the general economy, then economic growth may actually improve with greater protection, even in the short run. In addition, the host economy will reap the long-run benefits of increased technology transfer, new products, and domestic innovation. Moreover, it is important for the U.S. Government to consider the effects on the foreign economy before it pushes for increased protection. Stronger IPR may not be desirable if they undermine otherwise stable political situations. However, this is not generally a problem in ASEAN.

NOTES

- 1 Gould (1987).
- 2 Connors (1984).

5

INVESTMENT

I. INTRODUCTION

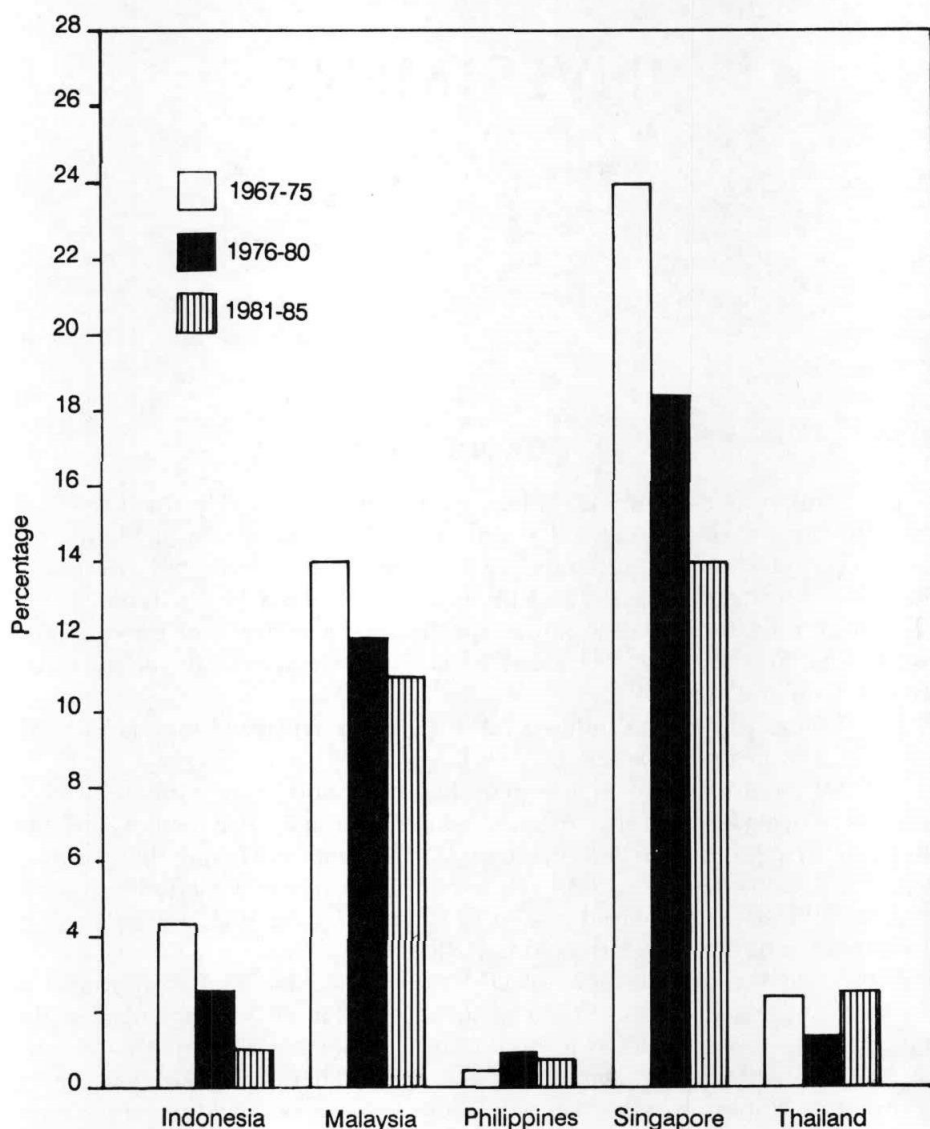
Direct foreign investment (DFI) has contributed a relatively small share of total investment in the ASEAN region as a whole. As shown in Figure 5.1, DFI in recent years has accounted for less than 5 per cent of total investment activity in ASEAN with the exception of Singapore and Malaysia, where DFI accounted for about 14 and 11 per cent, respectively, of gross capital formation. Furthermore, the share of DFI has decreased in all countries except Thailand since 1970.

In addition, the capital inflows into the region consisted mainly of bank loans and bond issues rather than DFI.

Yet, DFI is important in the manufacturing and petroleum industries. This is especially true in Singapore where foreign firm activity in the manufacturing industry has been high, and manufacturing has been a significant element in the country's industrialization and economic performance. DFI has also played a significant role in the phenomenal export performance of the outward-looking ASEAN countries.

Moreover, the contributions of DFI to the host economy go beyond the simple transfer of capital. The transfer of technology, management skills, and marketing is considered to be the most important benefits that can be obtained by developing countries from DFI. Therefore, DFI can be of paramount importance in the development process, yielding significant tangible and intangible assets. The ASEAN countries have recognized the potential gains from foreign investment and have moved to encourage DFI. This chapter attempts to analyse the role of U.S. DFI in ASEAN from both the ASEAN and U.S. perspectives. In Section II, trends in DFI flows, the distribution of DFI by source country, and the sectoral distribution of DFI in ASEAN are considered. This is followed by an analysis of the U.S. investment position and trends in U.S. DFI in Section III. A discussion of factors and policies affecting U.S. DFI in the ASEAN region is offered in

FIGURE 5.1
Direct Foreign Investment Shares of Gross Capital Formation



Sources: Asian Development Bank, *Key Indicators of Developing Member Countries of ADB* (1987); IMF, *Balance of Payments Statistics* (1987), *International Financial Statistics, Yearbook 1987*; OECD, *Geographical Distribution of Financial Flows to Developing Countries* (1976, 1979, 1980, 1983, and 1986); U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business* (1987); U.S. Department of Commerce (1982).

Section IV. Section V explores the impacts of U.S. DFI; technology transfer and structural change are considered in Section VI. Finally, recommendations for future policies towards U.S. investment in ASEAN are presented in Section VII.

II. TRENDS AND SECTORAL DISTRIBUTION OF DFI IN THE REGION

A. Trends in DFI Flows to ASEAN

From 1970 to the early 1980s (with the exception of 1976 and 1978), net DFI flows to the group of ASEAN countries generally followed an increasing trend (Table 5.1). But for the individual ASEAN members, net DFI flows actually fluctuated considerably over this period (Appendix Table A5.1). Beginning in 1982, the trend of increasing DFI flows to ASEAN was reversed. This reversal was especially marked in Malaysia and Singapore where net DFI decreased almost every year through 1986. In the three other ASEAN countries, net DFI continued to fluctuate year to year. This trend reversal may be partly explained by the world economic recession during the early 1980s. Moreover, for Indonesia the contraction of DFI flows may have been caused by the drop in petroleum prices and DFI flows to this sector; for the Philippines, the sluggish growth of DFI flows can be partly attributed to the instability of the internal political environment during this period.

In 1987, however, DFI flows to ASEAN rose considerably, increasing from US\$1.7 billion in the previous year to US\$2.2 billion. Singapore registered the largest increase in DFI flows in terms of both value (US\$503 million) and in percentage increase over the previous year (105 per cent). At the same time, net DFI flows to the Philippines, Indonesia, and Malaysia increased by 46, 19, and 4 per cent, respectively. Only in Thailand did net DFI flows decline from its 1986 level. However, as a result of significant increases in portfolio investment and other short-term capital flows to Thailand, net capital flows to the country increased from a net outflow of US\$22 million in 1986 to a net inflow of US\$754 million in 1987.

B. Sectoral Distribution of DFI in ASEAN

In the past five years, the manufacturing sectors of all ASEAN countries (save Brunei Darussalam) have received significant amounts of DFI. From Table 5.2, it is clear that DFI has become more diversified during the past five years, especially in the Philippines and Indonesia. However, the data should be treated with caution as Indonesia does not generally report DFI activity in the petroleum sector. Other sectors with significant amounts of DFI are the following: services, agriculture, and construction in the case of Indonesia; services, trade, agriculture, and fishery in the case of the

TABLE 5.1
Net Capital Flows in ASEAN,^a 1970-87
(In US\$ millions)

Year	Total	Official Transfers	Private Transfers	Direct Investment	Portfolio Investment	Other Long-Term Capital	Other Short-Term Capital	Others ^b
1970	875	221	- 54	284	0	47	196	181
1971	1,546	211	- 44	388	87	363	477	64
1972	1,392	199	46	509	130	666	538	- 696
1973	788	242	121	645	46	708	931	- 1,905
1974	1,747	240	245	995	- 5	1,139	944	- 1,811
1975	2,953	219	135	1,262	292	1,255	- 856	646
1976	2,399	158	83	1,116	115	3,116	462	- 2,651
1977	2,458	163	83	1,163	168	2,513	152	- 1,784
1978	4,134	190	99	1,116	130	2,915	2,344	- 2,660
1979	2,695	217	185	1,526	369	3,754	- 45	- 3,311
1980	3,551	352	227	2,336	148	5,141	1,456	- 6,109
1981	9,890	529	175	3,533	1,177	4,917	1,514	- 1,955
1982	14,987	404	150	3,125	2,159	8,051	2,480	- 1,382
1983	16,710	481	158	3,091	1,844	7,595	1,410	2,131
1984	7,762	512	- 47	2,638	994	5,343	2,401	- 4,079
1985	4,586	384	29	1,988	1,375	5,800	- 2,907	- 2,083
1986	2,861	592	179	1,679	783	3,395	- 1,598	- 2,169
1987	820	609	340	2,232	- 458	2,104	- 522	- 3,485

^aData for Brunei Darussalam are not available.

^bIncludes net errors and omissions, counterpart items, exceptional financing, liabilities constituting foreign authorities reserves, and total change in reserves.

Sources: IMF, *International Financial Statistics* (yearbook, 1979, 1987, and 1988; October 1988).

TABLE 5.2
Sectoral Distribution of Direct Foreign Investment in ASEAN, 1979-87
(In percentages)

Sector	Indonesia			Philippines			Singapore			Thailand			Malaysia
	1983	1985	1987	1983	1985	1987	1979	1981	1985	1983	1985	1987	1985
Agriculture	0.3	1.0	8.0	1.9	1.1	5.4	0.2	0.5	0.3	0.4	0.8	2.3	14.4
Forestry	0.2	0.0	0.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Fishery	0.7	1.3	0.8	0.1	0.5	3.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Mining and quarrying	n.a.	n.a.	n.a.	7.6	0.9	1.3	0.1	0.1	-0.2	21.1	5.2	2.4	7.3
Manufacturing	90.7	78.6	58.5	61.1	75.7	57.5	56.3	48.9	47.2	19.9	20.8	44.7	32.4
Construction	1.5	14.0	2.9	1.3	2.7	0.7	1.1	1.3	1.0	6.0	16.6	10.9	10.1
Trade	n.a.	n.a.	n.a.	0.2	0.0	8.5	15.4	16.2	13.8	14.4	16.5	17.3	7.8
Financial institutions	n.a.	n.a.	n.a.	0.4	0.6	0.1	23.0	29.2	36.8	32.6	28.1	12.8	24.5
Services	6.5	5.0	29.5	26.3	18.1	19.2	4.0	3.8	1.2	5.6	11.9	9.6	
Others	n.a.	n.a.	n.a.	1.1	0.4	3.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

n.a. = Not available or not disclosed.

Source: "ASEAN Preliminary Integrative Report to ASEAN-U.S. Initiative" (1988).

Philippines; financial institutions, trade, and services in the case of Singapore; and trade, construction, financial institutions, services, and mining and quarrying in the case of Thailand. For Malaysia, at the time of independence, DFI was concentrated in the rubber and tin industries as well as in trade and commerce. By 1985 about one-third of total DFI was in the manufacturing sector and about a quarter in the banking and financial area. The percentage share of DFI in the agricultural sector had sharply declined to about 14.4 per cent in 1985 while the share of "other mining" (mainly petroleum) now exceeds tin mining. Foreign investment has also diversified into other sectors, including services.

Within the manufacturing sector from 1983 to 1987, Indonesia attracted significant DFI in chemicals and chemical products, processed foods, paper, textiles, and basic metal products (Table 5.3). Data on investment in the petroleum sector were unavailable. For Malaysia, the bulk of DFI was in electrical and electronic products, processed foods, chemical products, non-metallic products, and basic metal products. In the case of Singapore, DFI was concentrated in petroleum and petroleum products, followed by electronic products, machinery, chemicals and chemical products, transportation equipment, and metal products. In the Philippines, electrical and electronic products and processed foods were the two most important areas of DFI inflow in 1981-87, although DFI in basic industrial chemicals, drugs and pharmaceuticals, textiles, machinery and equipment, fertilizer, and pulp and paper products were not negligible. As for Thailand, DFI has expanded significantly in electrical and electronic products, chemicals and chemical products, textiles, metal products, and processed food. Data on DFI by industries are not available for Brunei Darussalam.

There are no comprehensive data on DFI in services in ASEAN. In general, for most ASEAN countries, significant service DFI is found in such services as hotel, transportation, travel, and real estate. Given the robust nature of these countries, it is likely that the services share of DFI will continue to expand.

C. Distribution of DFI in ASEAN by Source

Although U.S. DFI in the world is much larger than that of Japan, the latter country is the larger investor in ASEAN. In 1986, total Japanese and U.S. investment in the world was US\$106 billion and US\$260 billion, respectively, while Japanese and U.S. investments in ASEAN were US\$14.0 billion and US\$9.8 billion, respectively (Figure 5.2).

However, these figures need to be modified in at least two ways. First, U.S. petroleum investment in Indonesia is grossly under-reported. In fact, estimates indicate that in the period 1982-88, there was a US\$19.9 billion investment in Indonesia's petroleum industries under product-sharing arrangements, and of this investment in petroleum, 85 per cent came from U.S. companies, implying an estimated US\$17 billion in U.S. petroleum

TABLE 5.3
Distribution of Direct Foreign Investment in Manufacturing in ASEAN, 1979-87
(In percentages)

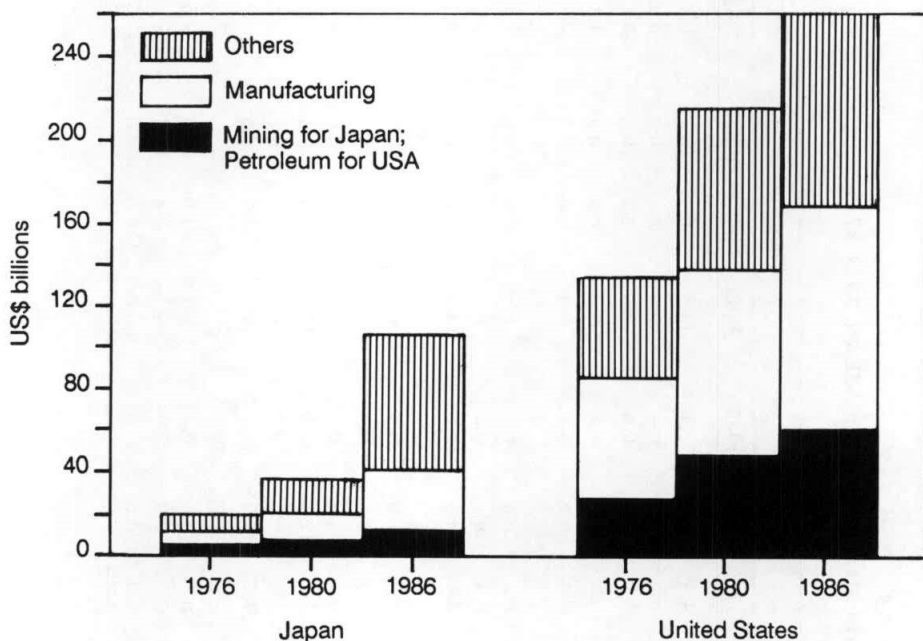
Industry	Indonesia			Malaysia			Singapore			Thailand			Philippines		
	1983	1985	1987	1983	1985	1987	1979	1981	1985	1983	1985	1987	1983	1985	1987
Food	2.9	0.7	3.7	1.7	8.8	13.4	4.4	3.4	2.1	19.3	30.4	9.2	6.2	12.3	12.5
Beverage and tobacco	n.a.	n.a.	n.a.	0.1	0.1	0.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Textiles	0.4	0.8	8.1	2.3	5.8	2.9	1.1	1.9	0.6	2.9	3.3	18.5	0.1	0.3	8.6
Wood products	0.4	n.a.	3.1	1.2	1.9	5.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.1	0.4	3.3
Paper, printing and publishing	25.1	2.9	7.5	0.3	6.6	2.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.4	3.5	3.0
Rubber products	n.a.	n.a.	n.a.	4.0	3.6	7.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.7	0.7	1.8
Plastic products	n.a.	n.a.	n.a.	3.6	2.5	5.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.2	0.6	6.3
Chemical and chemical products	6.3	39.3	14.3	4.6	3.5	15.1	8.1	10.3	12.8	13.9	29.8	18.6	9.1	4.0	7.0
Petroleum products	n.a.	n.a.	n.a.	18.4	0.1	n.a.	36.5	31.9	19.3	0.0	0.0	0.2	2.2	1.4	3.8
Metal products	53.9	36.0	4.4	4.2	15.4	5.2	3.9	4.3	5.5	37.2	7.9	15.3	17.0	1.6	0.7
Non-metallic products	1.7	0.3	17.3	9.3	17.6	3.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.0	n.a.	2.1
Machinery	n.a.	n.a.	n.a.	24.8	5.5	1.7	11.2	12.5	20.5	17.1	2.4	3.1	1.0	4.6	4.2
Transport equipment	n.a.	n.a.	n.a.	7.4	17.3	1.1	3.7	6.8	9.7	n.a.	n.a.	n.a.	3.6	22.4	3.2
Electrical and electronic products	n.a.	n.a.	n.a.	14.8	8.5	35.3	21.4	19.9	22.5	14.3	15.2	20.6	23.2	39.9	17.2
Construction materials	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.7	1.8	0.3	0.5	n.a.	n.a.
Others	9.3	20.0	41.6	3.3	2.8	1.0	9.6	8.9	7.0	4.7	9.4	14.3	n.a.	n.a.	n.a.
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

n.a. = Not available or not disclosed.

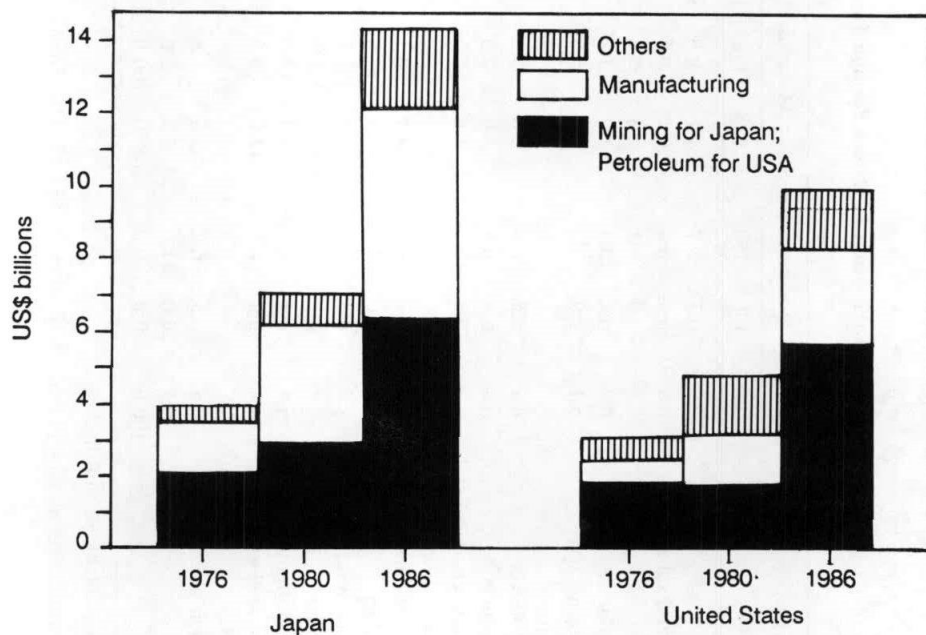
Source: "ASEAN Preliminary Integrative Report to ASEAN-U.S. Initiative" (1988).

FIGURE 5.2
Japan and U.S. DFI Stocks in the World and ASEAN

A. World



B. ASEAN



Sources: Japan, Ministry of Finance (various years); U.S. Department of Commerce (1981, 1982, and 1987).

investment in the past six years.¹ However, the U.S. petroleum DFI stock of US\$3.3 billion is reported by U.S. statistics (Appendix Table A5.3). Therefore, if Indonesia is excluded from the ASEAN total, Japanese and U.S. total investments are similar in magnitude although distributed differently among the sectors within each economy. Second, Japanese investment is reported on an approval basis, and hence its size may be relatively inflated.

None the less, both investing and host country data indicate that the Japanese are a significantly larger source of investment in ASEAN and particularly in the manufacturing sectors of Indonesia, Malaysia, and Thailand. In the Philippines and Singapore, both Japan and the United States are important investors in the manufacturing and the petroleum/mining sectors. None the less, Japanese investment in the region has been increasing more rapidly than U.S. investment in recent years. This trend is likely to continue given the large Japanese trade surplus. One indication of this is the US\$2 billion ASEAN-Japan Development Fund granted by Japan. This fund is largely made up of private sector monies and therefore, it is expected that private-sector-based projects will be emphasized. The Japanese have been very successful at blending official development assistance (ODA) activities in private-sector projects. The United States has not attempted such blending of ODA despite the fact that private-sector-based projects are very important in ASEAN, where there has been significant emphasis on market-oriented growth.

With regard to intra-ASEAN investments, the most significant has been the substantial investment made by Singapore nationals in Malaysia due to their close proximity and socio-economic ties. Up to 1986, Singapore was the top investor in Malaysia before being surpassed by Japan, accounting for about 12.2 per cent of total foreign investment in Malaysia's manufacturing sector. In the case of other ASEAN countries, there have been increasing volumes of intra-ASEAN private sector investment in recent years, as each government steps up its drive to attract foreign investment, offering various incentives and the conclusion of an agreement for the protection and promotion of ASEAN investments in 1987.

III. U.S. INVESTMENT IN ASEAN

As shown in Table 5.4, the United States has been an important source of private flows for the ASEAN countries in the 1980s, and an important source of official flows for some ASEAN members, in particular Indonesia and the Philippines (Appendix Table A5.2). However, in 1986 U.S. private flows to ASEAN actually fell by US\$538 million while official flows increased by only US\$257 million, and as a result, total financial flows from the United States to ASEAN were negative at US\$281 million. This compares quite unfavourably with the US\$1,224 million increase in total net financial flows to ASEAN from Japan.

TABLE 5.4
Net Financial Flows to ASEAN from OPEC and OECD Countries, 1976-86
(In US\$ millions)

Year	Total from OPEC and OECD			United States			Japan			Other DAC			Multilateral and OPEC Official
	Total	Official	Private	Total	Official	Private	Total	Official	Private	Total	Official	Private	
1976	4,469	1,885	2,584	837	458	379	1,539	363	1,176	1,352	323	1,029	741
1977	2,363	1,643	720	-35	346	-381	687	274	412	1,009	320	689	703
1978	3,719	2,037	1,682	540	311	229	1,646	453	1,193	675	415	260	858
1979	3,775	2,457	1,317	587	484	103	1,309	573	736	857	379	478	1,022
1980	5,309	2,846	2,463	938	194	744	1,367	781	587	1,736	604	1,133	1,268
1981	9,729	3,148	6,581	1,798	13	1,785	3,481	813	2,669	2,860	732	2,128	1,590
1982	6,802	3,311	3,491	1,303	38	1,265	2,426	766	1,659	1,253	686	566	1,821
1983	7,878	4,162	3,716	1,590	445	1,145	2,317	947	1,370	1,851	650	1,201	2,120
1984	8,499	4,013	4,486	1,779	402	1,377	2,576	984	1,592	2,330	812	1,517	1,815
1985	3,381	3,337	44	-1,004	228	-1,232	1,497	787	710	1,391	825	566	1,497
1986	3,252	3,194	59	-281	257	-538	1,225	917	307	1,076	786	290	1,233

Sources: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (1976-79, 1983-86).

The fall in U.S. private flows from 1981 to 1985/86 — especially in Indonesia, Malaysia, and Singapore — is largely a result of the significant decline in the price of oil. Furthermore, the Philippines also experienced negative net private flows from both Japan and the United States in 1985 and 1986, although the growth in official flows compensated for this decline. U.S. DFI flows to the region followed a similar pattern, rising from less than 2 per cent of U.S. DFI to the world in 1977/78 to 56 per cent in 1983/84, and falling in 1985 and 1986 (Table 5.5).

A. U.S. DFI Position in ASEAN

Because of the increase in U.S. DFI flows to the ASEAN countries, the U.S. DFI position (stock) in ASEAN has grown rapidly rising from US\$3,038 million in 1977 to US\$10,054 million in 1987 (Table 5.6). Because this growth rate was much more rapid than that of the total U.S. DFI position, ASEAN's share of total U.S. DFI position in the world increased from less than 2 per cent in 1970 to 4.5 per cent in 1984, before falling off to 3.0 per cent in 1987 (Figure 5.3).

Over the past two decades, there has also been a change in the distribution of U.S. DFI across the individual ASEAN countries (Appendix Table A5.3). In 1966, the Philippines (US\$486 million) was host to over half of the U.S. investment in ASEAN, followed by Indonesia (US\$106 million), Malaysia (US\$57 million), Thailand (US\$51 million), Singapore (US\$30 million), and Brunei Darussalam (less than US\$0.5 million). By 1977 the country distribution had evened out somewhat with Indonesia becoming the largest host of U.S. DFI (US\$984 million), followed by the Philippines (US\$837 million), Singapore (US\$516 million), Malaysia (US\$464 million), Thailand (US\$237 million), and Brunei Darussalam (US\$5 million). By 1986, the pattern became very skewed again, with Indonesia (US\$4,395 million) and Singapore (US\$2,238 million) accounting for over two-thirds of all U.S. DFI in ASEAN. Investment in Malaysia, the Philippines, and Thailand totalled just over US\$1 billion in each country and the net U.S. DFI position in Brunei Darussalam actually became negative (–US\$28 million). In 1987, stocks of U.S. DFI increased in all of the ASEAN countries, except Indonesia.

U.S. direct investment has been highly concentrated in a few sectors of the ASEAN members (Tables 5.5 and 5.6 and Appendix Tables A5.3 and A5.4). Petroleum accounts for over three-fourths of reported DFI stocks in Indonesia, over 50 per cent of the DFI stocks in Malaysia and Thailand, over 30 per cent in the Philippines and Singapore for selected years. However, as a result of plummeting petroleum prices, U.S. petroleum firms have been divesting from all countries except Malaysia in 1986 with divestitures being particularly large in Indonesia. ASEAN petroleum accounted for 8 per cent of all U.S. petroleum DFI stocks at the end of 1987, and the bulk of this was in Indonesia. For the period 1981–84, U.S. petroleum DFI flows to Indonesia were particularly large accounting for

TABLE 5.5
U.S. Direct Investment Capital Flows Abroad, 1977-87
(In US\$ millions)

Host Region/ Country	Year	All Sectors	Petroleum	Manufac- turing Subtotal	Food and Kindred Products	Chemicals	Primary and Fabri- cated Metals	Non- Electric Machinery	Electric and Electronic Machinery	Trans- portation Equipment	Trade ^a	Banking	Other Finance, Insurance, and Real Estate
World	1977	11,893	1,696	4,147	411	1,276	218	902	230	511	1,423	852	3,135
	1978	16,056	1,848	7,462	941	2,038	164	1,781	541	253	2,643	1,240	2,281
	1979	25,222	8,864	9,140	1,028	2,876	685	1,353	455	859	3,147	871	1,713
	1980	19,222	2,034	9,825	844	1,750	762	1,637	670	1,971	2,951	729	1,817
	1981	9,624	3,102	2,869	832	1,301	193	579	248	- 759	2,360	1,368	- 1,416
	1982	- 4,756	3,145	542	232	323	- 451	439	154	- 247	- 422	1,212	- 6,652
	1983	373	- 697	- 775	25	116	- 249	- 134	- 21	140	670	1,995	- 1,360
	1984	2,821	- 565	1,862	478	242	33	216	760	29	455	1,246	394
	1985	18,068	- 1,433	9,043	1,196	782	62	3,996	275	1,065	1,834	1,094	7,246
	1986	27,811	3,964	9,838	1,469	1,932	571	3,675	- 1,374	1,914	2,352	- 529	12,251
	1987	44,455	4,657	20,087	1,630	4,093	219	4,691	1,419	3,456	5,040	604	13,829
Developing	1977	170	- 99	24	10	47	n.a.	- 16	- 25	- 1	60	85	n.a.
Asia and	1978	641	- 35	220	35	73	5	28	78	12	200	113	86
Pacific	1979	1,161	284	365	34	78	2	22	116	57	175	83	107

	1980	839	306	213	25	-68	19	52	136	-5	2	72	127
	1981	2,523	1,289	338	51	62	27	28	101	14	249	216	263
	1982	1,327	889	31	-111	-12	13	-15	110	14	7	151	180
	1983	867	349	21	17	33	17	-10	95	-64	371	209	-57
	1984	1,670	770	510	51	115	0	87	287	6	157	162	56
	1985	186	-10	207	-32	58	-2	25	87	37	187	-240	100
	1986	959	21	513	26	154	-5	122	276	22	100	-158	597
	1987	2,469	-161	786	10	274	31	80	348	-12	533	443	815
ASEAN	1977	12	n.a.	26	8	23	n.a.	-8	n.a.	n.a.	n.a.	17	n.a.
	1978	435	n.a.	152	26	22	n.a.	12	n.a.	8	n.a.	40	-1
	1979	500	n.a.	213	21	31	n.a.	3	n.a.	n.a.	n.a.	46	2
	1980	700	373	255	12	45	n.a.	11	n.a.	n.a.	19	-7	6
	1981	1,549	n.a.	207	48	21	n.a.	n.a.	n.a.	n.a.	n.a.	68	n.a.
	1982	968	847	-32	-109	5	n.a.	-17	48	n.a.	23	33	n.a.
	1983	637	n.a.	41	n.a.	20	n.a.	n.a.	n.a.	n.a.	n.a.	80	n.a.
	1984	1,154	n.a.	304	36	87	1	n.a.	196	n.a.	n.a.	138	0
	1985	-114	-33	62	n.a.	-9	n.a.	n.a.	n.a.	3	n.a.	-79	5
	1986	197	18	355	n.a.	46	n.a.	n.a.	n.a.	9	n.a.	-91	-11
	1987	103	-264	206	12	n.a.	0	n.a.	n.a.	-3	n.a.	83	84

n.a. = Not available.

^aWholesale and retail trade for 1977-82, wholesale trade only for 1983-87.

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, *U.S. Direct Investment Abroad* (1977); *Survey of Current Business* (August 1984 and 1988); Mimeographs, 25 January 1985 and 21 November 1986.

TABLE 5.6
U.S. Direct Investment Position Abroad by Sectors, 1976-87
(In US\$ millions)

Host Region/ Country	Year	All Sectors	Petroleum	Manufac- turing Subtotal	Food and Kindred Products	Chemicals	Primary and Fabri- cated Metals	Non- Electric Machinery	Electric and Electronic Machinery	Trans- portation Equipment	Trade ^a	Banking	Other Finance, Insurance, and Real Estate
World	1976	133,335	26,636	57,651	5,063	10,519	4,493	10,340	5,150	8,813	15,079	3,531	17,773
	1977	145,990	28,030	62,019	5,571	11,864	4,626	11,223	5,494	9,321	16,836	4,370	21,248
	1978	162,727	30,532	69,669	6,409	13,989	4,805	13,007	6,061	9,640	19,517	5,622	23,339
	1979	187,858	39,128	79,023	7,467	16,894	5,517	14,375	6,546	10,549	22,670	6,501	25,129
	1980	215,375	47,591	89,290	8,278	18,877	6,322	16,095	7,263	12,514	25,913	7,264	27,506
	1981	228,348	53,244	92,388	9,163	20,178	6,521	16,805	7,466	11,753	28,336	8,513	26,561
	1982	221,512	56,642	90,582	9,009	20,218	6,181	15,766	7,502	11,328	27,449	9,712	19,191
	1983	207,203	57,574	82,907	7,661	18,788	4,974	14,294	7,328	10,512	21,278	12,387	15,075
	1984	211,480	58,051	85,865	8,156	19,200	5,256	14,816	8,193	10,664	21,117	13,516	15,683
	1985	230,250	57,695	94,700	9,252	20,273	5,012	18,987	8,515	11,719	22,790	14,461	22,501
	1986	259,562	61,731	104,877	10,968	22,741	5,311	22,401	7,405	14,186	26,168	14,576	34,413
	1987	308,793	66,381	126,640	12,643	26,914	5,662	27,344	9,784	17,708	31,330	15,354	49,097
Developing	1976	5,346	2,352	1,440	132	445	88	91	349	n.a.	597	298	168
Asia and	1977	5,503	2,177	1,496	149	494	99	76	345	n.a.	677	387	251
Pacific	1978	6,214	2,188	1,731	185	571	104	103	426	n.a.	873	498	342
	1979	7,427	2,463	2,140	222	649	106	125	553	n.a.	1,053	585	451

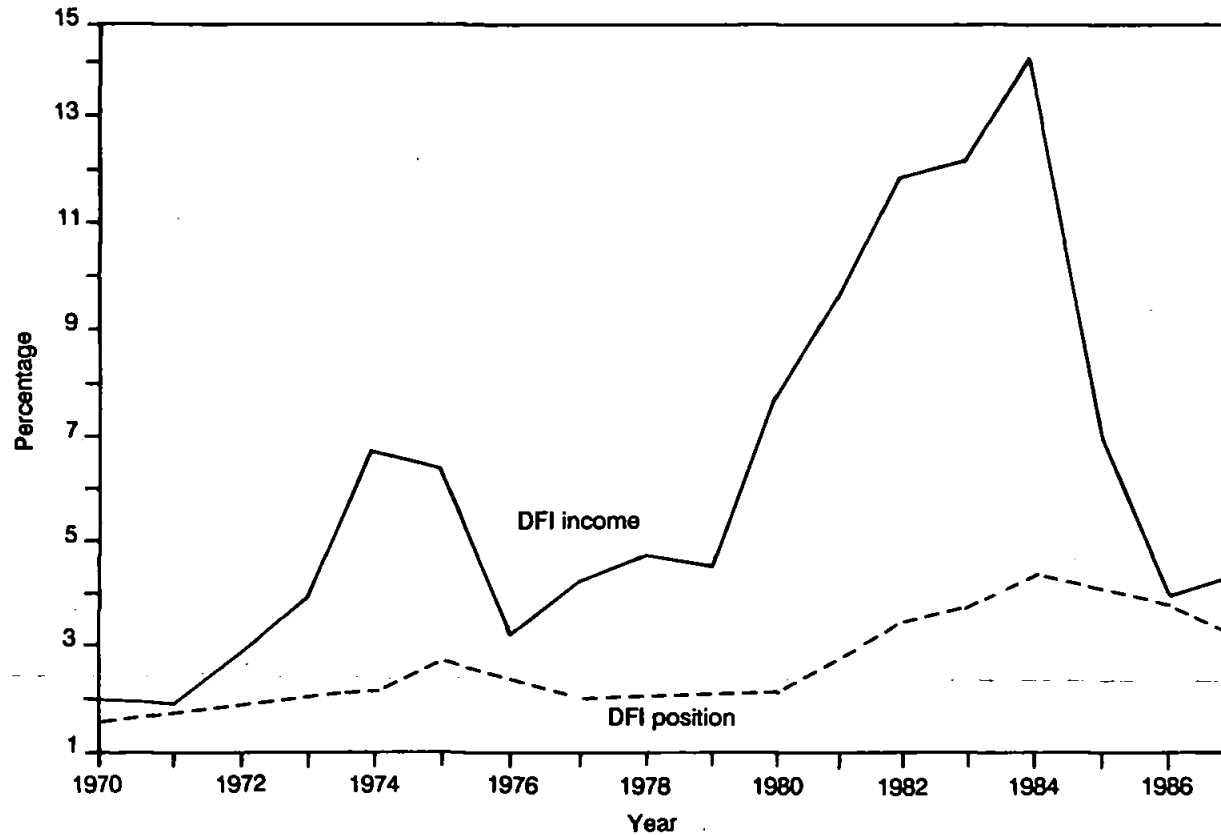
	1980	8,505	2,777	2,567	247	703	127	236	711	n.a.	1,058	660	579
	1981	11,117	4,138	2,911	300	767	154	270	809	n.a.	1,305	873	843
	1982	12,445	5,068	2,859	183	738	172	269	825	n.a.	1,318	1,037	1,079
	1983	13,039	5,269	2,761	143	699	120	298	1,018	85	1,711	1,494	785
	1984	15,045	6,280	3,476	200	957	113	387	1,346	102	1,871	1,513	943
	1985	15,400	6,270	3,694	154	1,026	106	445	1,439	140	2,058	1,302	1,189
	1986	16,577	6,410	4,432	320	1,204	101	562	1,691	172	2,238	1,142	1,542
	1987	18,991	6,188	5,264	350	1,480	132	642	2,058	160	2,771	1,559	2,364
ASEAN	1976	3,051	1,786	609	102	122	43	28	131	2	217	145	37
	1977	3,038	1,241	657	119	145	48	20	149	1	160	185	57
	1978	3,509	1,521	814	146	170	46	33	202	12	192	220	59
	1979	4,046	1,527	1,068	169	200	41	37	292	30	252	266	62
	1980	4,770	1,757	1,344	181	244	34	49	457	59	269	261	69
	1981	6,403	3,422	1,559	233	267	75	64	514	3	408	331	148
	1982	7,349	4,300	1,438	113	268	27	59	453	0	431	364	187
	1983	7,971	3,927	1,580	76	280	42	75	806	134	455	573	191
	1984	9,470	5,587	2,079	115	519	34	103	1,047	79	484	588	192
	1985	9,595	5,618	2,172	61	517	22	184	1,118	81	373	522	355
	1986	9,956	5,755	2,679	230	575	26	243	1,331	96	343	435	204
	1987	10,054	5,492	2,914	261	430	23	217	1,473	59	335	482	288

n.a. = Not available.

^aWholesale and retail trade for 1977-82, wholesale trade only for 1983-87.

Sources: As for Table 5.5

FIGURE 5.3
Shares of U.S. DFI Position and Income in ASEAN^a



^aNot including Brunei Darussalam.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business* (various years).

about 50 per cent of total petroleum DFI flows in that period. Thus, petroleum is by far the most significant ASEAN sector for U.S. multinational corporations (MNCs).

Relative to petroleum, manufacturing accounts for a significantly smaller share of U.S. DFI stocks in all ASEAN economies except Singapore. Yet even in Singapore, petroleum's share of DFI stocks was larger than manufacturing as late as 1980, but manufacturing DFI flows increased dramatically to an average of US\$237 million annually in 1986-87. As a result, manufacturing accounted for 59 per cent of all U.S. DFI stocks in Singapore by 1987. Corresponding shares were 50 per cent in the Philippines, 30 per cent in Malaysia, 20 per cent in Thailand, and 6 per cent in Indonesia. Within manufacturing, electric and electronic machinery (hereafter referred to as electronics) have come to dominate U.S. DFI in Malaysia, Singapore, and Thailand and constitute the third most important manufacturing sector for U.S. DFI in the Philippines. At the end of 1987, electronics accounted for 55 per cent of manufacturing DFI stocks and 24 per cent of total DFI stocks in these four economies. Moreover, electronics DFI in these countries represented 16 per cent of electronics DFI world-wide. This concentration reflects the fact that ASEAN is fast joining Japan and the Asian NIEs as a major centre of electronics activity.

Although less significant in a global context, chemicals constitute an important manufacturing sector for U.S. DFI in ASEAN. This industry was the most important manufacturing sector at the end of 1987 in Indonesia, and was important in the Philippines as well. Further, chemicals attracted over US\$100 million of U.S. DFI in Singapore in 1986; this was as much as U.S. DFI in Singaporean non-electric machinery (hereafter referred to as machinery) and transportation equipment in that year.

An area where the United States may be able to play a somewhat greater role in the future is in service industries such as trade, banking and other finance, insurance, and real estate (hereafter referred to as finance). In developing Asia as a whole, DFI in all of these sectors has grown very rapidly in the last decade, with their share of total DFI increasing from 20 to 73 per cent between 1976 and 1987. However, most of this growth has been concentrated in the Asian NIEs (in particular the trade sector of Hong Kong); the five ASEAN countries accounted for only about 17 per cent of the stock of U.S. DFI in these Asian service sectors. Even so, among the service industries within ASEAN, Philippine banking and Indonesian finance each had about US\$200 million in U.S. DFI stocks, and Singaporean trade and banking each had about US\$150 million in U.S. DFI stocks by 1987. Yet, due to the rapid growth of other investments, the combined share of trade, banking, and finance in total ASEAN DFI stocks remained relatively constant, falling from 13 per cent in 1976 to 11 per cent in 1987. If ASEAN policies become more accommodating to service-sector investment, this area exhibits great potential for U.S. DFI growth in the future.

B. Income and Rate of Return from U.S. DFI in ASEAN

Rates of return on U.S. DFI in ASEAN have always been high (Figure 5.3). The five original ASEAN members accounted for 4.2 per cent of total income of U.S. DFI in 1969-76 and 7.6 per cent in 1977-86. Corresponding shares of income of DFI in all developing economies were 11.0 and 24.6 per cent, respectively. Indonesia accounted for the major share of income from U.S. DFI in ASEAN (nearly 70 per cent in 1977-87), followed by Singapore (nearly 20 per cent), and Malaysia (about 10 per cent). Income on U.S. DFI from the Philippines and Thailand accounted for a small share of total U.S. DFI income. Data available for Brunei Darussalam for the years 1969-73, 1977-78, and 1982-86 indicate that income from U.S. DFI in Brunei Darussalam is less than 1 per cent of income from U.S. DFI in ASEAN as a whole.

The sectoral distribution of U.S. DFI income from ASEAN is even more concentrated than U.S. DFI stocks and flows (Table 5.7). Despite a total average annual income of US\$2.5 billion for 1977-87, only three individual sectors, Indonesia's petroleum (all years), Singapore's electronics (1983-87), and Singapore's banking (1981-84) averaged over US\$100 million in DFI income (Appendix Table A5.5).

This concentration further underscores the importance of ASEAN for U.S. petroleum and electronics MNCs as well as the potential for increased DFI in ASEAN banking. Indonesia's petroleum alone accounted for 14 per cent of total U.S. income from petroleum DFI for the entire 1977-87 period. Singapore's and Malaysia's electronics sectors together accounted for 14 per cent of total U.S. DFI income in electronics for 1977-87. Banking income is presently much less significant, but the relatively high investment incomes from banking in all ASEAN countries (except Thailand) suggest a potential for expanding banking activities in the future.

Data on rates of return provided in Table 5.8 highlight the profitability of U.S. investments in ASEAN. Again, Indonesian petroleum leads the way with very high rates of return that topped 100 per cent in 1979-82.² Despite low levels of investment, relatively high rates of return are also observed in Indonesian food, chemicals, and banking for several years. In Malaysia, rates of return in petroleum cannot be calculated, but investments in electronics and banking have relatively high rates of return. In Singapore, rates of return have been high in the electronics and banking industries, as well as in machinery. Data for Thailand are scanty but reveal consistently high returns only in chemicals for 1977-84 (Appendix Table A5.6).

IV. FACTORS AND POLICIES AFFECTING U.S. DFI IN ASEAN

The discussion above points to one important motive for U.S. DFI: earning profits which can be repatriated or reinvested. However, it is difficult to link

TABLE 5.7
Income from U.S. Direct Investment Abroad by Sectors, 1976-87
(In US\$ millions)

Host Region/ Country	Year	All Sectors	Petroleum	Manufac- turing Subtotal	Food and Kindred Products	Chemicals	Primary and Fabri- cated Metals	Non- Electric Machinery	Electric and Electronic Machinery	Trans- portation Equipment	Trade ^a	Banking	Other Finance, Insurance, and Real Estate
World	1976	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	1977	19,673	5,331	6,655	690	1,206	412	1,662	569	881	2,041	1,819	2,220
	1978	25,458	6,010	9,980	1,053	1,831	407	2,475	805	1,363	2,937	2,281	2,647
	1979	38,183	13,292	13,054	1,319	3,020	658	2,542	768	2,221	3,907	1,791	3,618
	1980	37,146	13,181	11,053	1,152	2,880	813	2,391	1,016	220	4,003	2,044	3,779
	1981	32,549	13,330	8,194	1,263	2,270	433	1,322	626	122	3,341	2,241	3,056
	1982	22,268	10,059	4,987	833	1,248	87	1,782	463	100	2,016	2,821	1,283
	1983	20,499	9,441	4,585	676	1,120	160	1,036	552	590	1,637	2,889	253
	1984	21,217	9,269	5,839	683	1,206	292	1,389	862	495	2,210	2,630	64
	1985	33,202	9,306	14,677	1,619	2,320	253	4,738	1,042	2,005	3,161	2,886	1,464
	1986	38,417	8,065	17,911	2,091	3,896	724	5,096	1,371	1,347	4,493	2,495	3,657
	1987	52,308	8,130	27,041	2,784	5,369	1,170	6,542	1,573	3,979	6,633	2,152	5,640
Developing Asia and Pacific	1976	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	1977	1,308	600	249	28	96	11	7	77	- 2	139	199	50
	1978	1,840	925	338	44	102	10	25	102	3	174	219	85
	1979	2,488	1,303	465	49	150	17	42	115	18	278	225	67
	1980	3,542	2,277	453	50	84	26	36	174	14	244	300	99
	1981	3,990	2,438	534	41	85	28	46	219	37	305	363	n.a.

TABLE 5.7 (Continued)

Host Region/ Country	Year	All Sectors	Petroleum	Manufacturing Subtotal	Food and Kindred Products	Chemicals	Primary and Fabricated Metals	Non-Electric Machinery	Electric and Electronic Machinery	Transportation Equipment	Trade ^a	Banking	Other Finance, Insurance, and Real Estate
	1982	3,552	2,257	363	- 97	87	34	40	142	81	235	408	137
	1983	3,260	1,966	512	- 14	99	17	92	286	24	297	344	57
	1984	3,805	2,249	682	- 5	151	n.a.	75	332	94	376	337	141
	1985	3,163	1,665	677	- 26	120	14	n.a.	256	181	352	215	90
	1986	2,431	876	767	46	195	14	55	270	n.a.	432	138	103
	1987	4,016	1,199	1,350	101	278	35	220	434	172	498	515	266
ASEAN	1976	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	1977	850	596	115	22	33	6	4	35	n.a.	44	74	5
	1978	1,228	892	175	n.a.	32	6	11	59	n.a.	45	75	3
	1979	1,750	n.a.	243	37	47	11	22	71	n.a.	77	73	4
	1980	2,908	n.a.	322	35	50	20	25	119	n.a.	n.a.	n.a.	n.a.
	1981	3,146	n.a.	n.a.	31	53	n.a.	35	163	n.a.	n.a.	n.a.	n.a.
	1982	2,754	n.a.	201	- 107	50	n.a.	n.a.	86	80	61	175	n.a.
	1983	2,525	n.a.	336	- 29	n.a.	9	50	181	n.a.	n.a.	188	3
	1984	3,024	n.a.	378	- 16	n.a.	3	28	226	n.a.	n.a.	208	13
	1985	2,370	n.a.	n.a.	- 45	n.a.	0	56	189	n.a.	n.a.	128	9
	1986	1,547	n.a.	489	32	n.a.	- 2	37	207	n.a.	73	70	5
	1987	2,364	n.a.	776	77	n.a.	1	n.a.	301	n.a.	n.a.	n.a.	n.a.

n.a. = Not available.

^aWholesale and retail trade for 1977-82, wholesale trade only for 1983-87.

Sources: FAs for Table 5.5.

TABLE 5.8
Rates of Return on U.S. Direct Investment Abroad by Sectors, 1976-87
(In US\$ millions)

Host Region/ Country	Year	All Sectors	Petroleum	Manufac- turing Subtotal	Food and Kindred Products	Chemicals	Primary and Fabri- cated Metals	Non- Electric Machinery	Electric and Electronic Machinery	Trans- portation Equipment	Trade ^a	Banking	Other Finance, Insurance, and Real Estate
World	1976	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	1977	14	20	11	13	11	9	15	11	10	13	46	11
	1978	16	21	15	18	14	9	20	14	14	16	46	12
	1979	22	38	18	19	20	13	19	12	22	19	30	15
	1980	18	30	13	15	16	14	16	15	2	16	30	14
	1981	15	26	9	14	12	7	8	9	1	12	28	11
	1982	10	18	5	9	6	1	11	6	1	7	31	6
	1983	10	16	6	9	6	3	7	8	5	8	25	2
	1984	10	16	7	9	6	6	10	11	5	10	20	0
	1985	15	16	16	19	12	5	28	12	18	14	21	8
	1986	16	14	18	21	18	14	25	17	10	18	17	13
	1987	18	13	23	24	22	21	26	18	25	23	14	14
Developing	1976	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Asia and	1977	24	27	17	20	20	12	8	22	n.a.	22	58	24
Pacific	1978	31	42	21	26	19	10	28	26	n.a.	22	49	29
	1979	36	56	24	24	25	16	37	23	n.a.	29	42	17
	1980	44	87	19	21	12	22	20	28	n.a.	23	48	19
	1981	41	71	20	15	12	20	18	29	n.a.	26	47	n.a.

TABLE 5.8 (Continued)

Host Region/ Country	Year	All Sectors	Petroleum	Manufac- turing Subtotal	Food and Kindred Products	Chemicals	Primary and Fabri- cated Metals	Non- Electric Machinery	Electric and Electronic Machinery	Trans- portation Equipment	Trade ^a	Banking	Other Finance, Insurance, and Real Estate
	1982	30	49	13	- 40	12	21	15	17	n.a.	18	43	14
	1983	26	39	19	- 11	15	15	31	29	21	20	25	7
	1984	27	39	22	- 3	18	n.a.	22	28	101	21	22	16
	1985	21	27	19	- 15	12	13	0	18	150	18	15	8
	1986	15	14	19	19	17	14	11	17	0	20	11	8
	1987	23	19	28	30	21	30	37	23	104	20	38	14
ASEAN	1976	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	1977	104	n.a.	92	117	151	n.a.	n.a.	112	n.a.	n.a.	302	54
	1978	149	n.a.	117	115	123	n.a.	n.a.	n.a.	n.a.	n.a.	231	27
	1979	171	n.a.	135	126	123	n.a.	n.a.	n.a.	n.a.	n.a.	191	- 57
	1980	271	n.a.	140	113	110	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	53
	1981	228	n.a.	n.a.	84	105	n.a.	n.a.	n.a.	n.a.	n.a.	347	n.a.
	1982	143	n.a.	- 20	- 60	103	- 18	n.a.	n.a.	n.a.	59	382	n.a.
	1983	126	n.a.	84	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	324	n.a.
	1984	132	n.a.	65	17	n.a.	44	n.a.	70	n.a.	n.a.	196	n.a.
	1985	25	25	17	- 51	5	0	39	17	0	n.a.	23	3
	1986	16	12	20	22	7	- 8	17	17	3	n.a.	15	2
	1987	24	16	28	31	13	4	37	21	3	n.a.	26	0

n.a. = Not available.

^aWholesale and retail trade for 1977-82, wholesale trade only for 1983-87.

Sources: As for Table 5.5.

entirely DFI to high rates of return to capital invested. Rather, the most sophisticated explanations of MNC motives stress the advantages MNCs require to compete with indigenous firms. For example, there may be ownership-specific advantages, location-specific advantages, and advantages arising from internationalization of market activities. Although location-specific advantages are often uniquely related to operating in Asia, ownership-specific advantages and internationalization advantages are generally relevant to all U.S. MNCs, including those in Asia.

A. Internalization and Ownership-Specific Advantages of U.S. Affiliates

World-wide, U.S. MNCs have two characteristics that stand out. First, the presence of large intra-firm multinational networks is very common; these networks allow U.S. MNCs to internalize transactions in physical capital, finance, technology, information, and other goods and services that otherwise must be obtained through arms-length market transactions. Firms can reduce transaction costs and realize scale economies through such internalization creating a powerful motive for DFI. Related to this feature is the relatively large size of U.S. affiliates. The U.S. affiliates in the region are even larger than many other foreign affiliates, especially those from Japan. This also indicates how the U.S. pattern of internalization contrasts with that of the Japanese where a trading firm will often act as an integrating unit for a group of smaller MNCs. In this sense, inter-firm integration is generally more complete among Japanese MNCs, while intra-firm integration is often more advanced within U.S. MNCs.

Another important characteristic of U.S. MNCs in manufacturing and natural resource extraction is heavy reliance on internally generated technologies. This factor often results in a substantial cost advantage over indigenous firms and, as a result, a high priority is given to maintaining control over technology. This is reflected in a high propensity for majority ownership among U.S. affiliates, which contrasts with a much greater Japanese tendency to participate in joint ventures with local firms. Majority-owned, non-bank affiliates of non-bank parents (hereafter referred to as majority-owned affiliates) accounted for 48 per cent of all reporting affiliates in 1977 and 80 per cent in 1982. Moreover, the share of total DFI capital stocks accounted for by majority-owned affiliates has always been very high, 88 to 89 per cent in these two years. On average, majority-owned affiliates accounted for only 75 to 79 per cent of the DFI stocks in developing Asia, but there were exceedingly large shares in both Indonesia and Malaysia — 93 per cent in 1977 and 98 per cent in 1982. The lowest ASEAN shares were in the Philippines (75 per cent in 1977 to 79 per cent in 1982), while the share in Thailand increased drastically from 76 per cent in 1977 to 92 per cent in 1982. Thus, not only are U.S. firms in ASEAN often large, but they are also majority-owned.

B. Location-Specific Advantages of U.S. Affiliates

Broadly speaking, location-specific advantages of DFI can be divided into two types, — those related to increasing access to relatively cheap labour and natural-resource inputs and those related to increasing market access, either in the host economy or in third economies.

One of the most obvious location-specific advantages of operating in the larger ASEAN economies is the access gained to a wide variety of natural resources. Mining and petroleum MNCs must obviously go where the resources exist for exploration, development, and extraction. The presence of a wide range of mineral and petroleum resources in some ASEAN countries has thus interested U.S. mining and petroleum MNCs in this area. Furthermore, resources can often be refined and processed more cheaply at a location close to the resource base itself.

The desire to lower labour costs has also been important for U.S. MNCs in ASEAN and Asia in general, especially in manufacturing, and this is reflected in data on employment of affiliates in Table 5.9. In 1986, ASEAN's share of total employment was 4 per cent, slightly larger than its share of total DFI capital stocks. However, in manufacturing the ASEAN employment share was 5 per cent, over two times larger than the capital stock share. In other words, although manufacturing accounted for only 27 per cent of U.S. DFI stocks in ASEAN, manufacturing employment accounted for over 70 per cent of total affiliate employment, with electronics alone accounting for 68 per cent of the total in Malaysia, 44 per cent in Singapore, and 38 per cent in Thailand; in the Philippines, food processing affiliates accounted for 35 per cent of the total (Appendix Table A5.7). Only in Indonesia is manufacturing employment comparatively minor, and the decline of manufacturing employment in recent years suggests that Indonesia has not been successful in attracting employment-generating U.S. investments.

Although the availability of cheap unskilled labour does create a powerful motive for some U.S. DFI, qualitative factors are also important. Firms also seek to reduce the cost of skilled and professional labour. Due to technical change, which makes automation more efficient than a number of labour-intensive production lines even in developing economies, the product cycles involved in this industry are becoming exceedingly complex. Thus, whereas only the most labour-intensive operations of a given production line (for example, assembly) used to be transferred to affiliates in developing economies in the past, increased emphasis is being put on the performance of more sophisticated tasks, often requiring automation, by affiliates. A major consequence of this is the increased reliance on skilled labour abroad, a trend which will continue and become even more important in ASEAN as the pool of engineers and technicians becomes larger. This will tend to produce a growing indigenous middle class in ASEAN, and promises to increase the respective countries' potential for domestically induced economic growth.

In addition to minimizing costs through increased access to cheaper factors

TABLE 5.9
Employment of Non-Bank Affiliates in the ASEAN Countries, 1977-86
(In number of employees)

Host Region/ Country	Year	All Sectors	Petroleum	Manufac- turing Subtotal	Food and Kindred Products	Chemicals	Primary and Fabri- cated Metals	Non- Electric Machinery	Electric and Electronic Machinery	Trans- portation Equipment	Trade ^a	Other Finance, Insurance, and Real Estate
World	1977	7,196,691	369,905	4,848,957	436,216	614,086	396,241	627,374	756,324	909,628	990,312	93,745
	1983	6,383,100	380,100	4,229,600	422,900	572,800	287,300	504,900	673,800	893,000	460,400	127,100
	1986	6,262,700	296,300	4,175,100	405,300	571,800	271,600	581,800	745,700	751,300	483,000	147,900
Developing	1977	528,614	26,058	398,408	33,338	55,751	15,773	21,967	158,421	21,018	33,602	4,461
Asia and	1983	542,100	34,400	412,700	60,000	49,500	10,900	25,700	180,500	17,800	28,300	8,200
Pacific	1986	509,600	33,700	390,000	48,600	49,200	10,100	28,500	165,300	25,200	30,200	9,300
ASEAN	1977	271,723	18,854	173,743	30,368	12,590	3,256	3,750	62,920	—	21,869	2,083
	1983	297,600	26,600	209,700	48,400	14,600	3,900	10,800	95,400	2,600	16,100	3,400
	1986	270,100	24,800	191,700	33,900	14,200	1,900	11,600	87,500	1,900	14,400	3,200

— = Not disclosed or employment equal to zero.

^aRetail and wholesale trade for 1977, wholesale trade only for 1983 and 1986.

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, *U.S. Direct Investment Abroad* (1977), *U.S. Direct Investment Abroad: 1982 Benchmark Survey Data* (1985), *U.S. Direct Investment Abroad: Operations of U.S. Parent Companies and Their Foreign Affiliates* (revised estimates, 1983-85; preliminary estimates, 1986).

of production, MNCs also work to increase revenues by increasing access to markets. Barriers to market access are often policy-induced, but there are also significant natural barriers arising primarily from transportation and transaction costs. The scope of these natural barriers is generally rather limited, especially in the case of merchandise trade. In trade in services, however, transportation costs are often prohibitive (that is, the services are not transportable and thus not exportable in the sense that merchandise is). In many other cases, services can only be competitively supplied from locations relatively close to the market. As noted above, an increasingly large amount of U.S. DFI in Asia, especially in the East Asian NICs, has been in the service sector. The recognition of markets which can be developed has led several U.S. MNCs, especially in banking and trade, to attempt servicing these markets by establishing foreign affiliates. This activity is also likely to expand in ASEAN as its economies develop. Furthermore, the GATT Uruguay Round is discussing service-related issues and could produce a more favourable environment for service DFI.

C. Government Policies

1. The United States

Unlike Japan, the United States Government does not extensively promote DFI abroad. However, one long-standing policy which has encouraged vertically integrated U.S. firms to move labour-intensive production to developing countries is the specification of items 806 and 807 goods in the U.S. tariff code. Under this provision, goods with a certain level of U.S. content may be re-imported after being previously exported for repair, processing, and assembly abroad with duty paid only on value added abroad. Item 807 commodity imports have accounted for the vast majority of total 806/807 imports in recent years, reaching US\$21.4 billion or 98 per cent of total 806/807 imports and 8 per cent of total U.S. imports in 1983. In the same year, four Asian developing economies — Malaysia, Singapore, the Philippines, and South Korea — accounted for 16 per cent of total 807 imports, and 807 imports accounted for over 10 per cent of total U.S. imports from Malaysia and the Philippines. Not surprisingly, 807 imports from developing economies are primarily semiconductors, television apparatus, office machines and parts, as well as other electrical equipment.

In addition to this tariff provision, direct financial assistance to firms undertaking DFI, especially in developing economies, has increased in recent years. The major entity offering such assistance is the Overseas Private Investment Corporation (OPIC), although some assistance is also available through the Trade and Development Program (TDP). OPIC's primary function has been the provision of insurance for U.S. foreign investors in developing economies. Total insurance in force reached US\$11.0 billion at fiscal year-end 1985 but fell to US\$9.5 billion in 1986 and US\$9.4 billion in 1987, the 1985–86 figures representing 16 to 21 per cent of the net U.S.

DFI position at calendar year-end (Table 5.10). Insurance issued annually has grown very rapidly in the mid-1980s, from US\$1.5 billion in fiscal year 1981 to US\$5.3 billion in fiscal year 1985 but fell to US\$1.4 billion in 1986 and US\$1.8 billion in 1987.

Yet, there are a number of U.S. policies which work to inhibit DFI abroad and related trade activities. In a recent survey of U.S. firms with operations in ASEAN, (1) regulation of corruption (Foreign Corrupt Practices Act), (2) taxation, and (3) regulation of international trade (through "international trade controls", "strategic trade controls", and trade legislation/import programmes) by the United States were all asserted to adversely affect U.S. competition in ASEAN.³ The regulation of corruption and the level of U.S. taxation may be difficult to change, even though the Omnibus Trade and Competitiveness Act of 1988 mitigates the restrictive provisions in the Foreign Corrupt Practices Act. Moreover, with the growing concern about the U.S. balance of payments, it should be politically feasible to institute less restrictive export policies, as first attempted in the Export Promotion Act of 1982. On the other hand, the prospects for liberalizing U.S. import regulations (which are often just as irksome to U.S. firms) seem bleak as reflected in the trade legislation enacted in August of 1988. Yet, it is notable that the United States has very few formal restrictions on investments abroad.

2. ASEAN

In order to attract foreign capital, all countries in ASEAN grant inducements in one form or another to foreign investment. Whether investment incentives are an important factor in the decision of foreign investors to invest in the region is debatable. However, the investment incentives do influence the direction, if not the level, of foreign investment.

Recently, the emphasis of the ASEAN countries' foreign investment policies has been more on encouraging export expansion and rural industrialization. Special incentives are available for projects producing for exports or locating in rural or remote areas. In Indonesia, investment policies have been changing since 1983 in order to improve the business climate. These include the deregulation of the banking system in 1983; the reduction of personal and corporate income taxes from maximum rates of 45 and 50 per cent, respectively, to 35 per cent in 1984; the improvement of customs and port operations as well as export formalities; the availability of low-interest-rate export credits to foreign investors; lowering tariff rates on raw materials, parts, and components needed for domestic industry; and the simplification of licensing procedures. Investment projects in remote areas are provided extra incentives.

In 1986 the business areas opened for foreign investment in the Investment Priority List increased substantially, and the restrictions on foreign equity ownership were relaxed. A foreign ownership as high as 95 per cent has been allowed for certain joint ventures, particularly export-oriented projects.

TABLE 5.10
Selected OPIC Activities, 1979-87
(In US\$ millions)

Year ^a	Total Insurance in Force at Fiscal Year-End	Capital and Reserves at Fiscal Year-End	Insurance Issued during Fiscal Year	Finance Commitments during Fiscal Year	U.S. DFI OPIC-Assisted Projects during Fiscal Year	U.S. DFI Position in Developing Economies at Calendar Year-End	U.S. DFI Flows to Developing Economies Calendar Year
1979	n.a.	n.a.	n.a.	n.a.	499	44,680	6,967
1980	n.a.	n.a.	n.a.	n.a.	917	53,206	1,150
1981	n.a.	800	1,500	101	1,851	56,163	2,993
1982	n.a.	n.a.	n.a.	n.a.	1,115	48,058	-2,456
1983	n.a.	n.a.	n.a.	n.a.	2,203	45,746	-1,943
1984	n.a.	883	4,300	n.a.	1,636	49,153	2,382
1985	10,975	984	5,300	166	2,028	52,539	3,799
1986	9,578	1,187	1,400	153	551	60,609	8,233
1987	9,422	1,084	1,800	226	1,477	n.a.	n.a.

n.a. = Not available.

^aFiscal year begins 1 October of the previous calendar year and ends on 30 September of the current calendar year.

Sources: Barovick (1982); Feinberg (1985); OPIC (various years); U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business* (November 1984 and August 1987).

Furthermore, foreign firms with a high propensity to export have been allowed greater access to imported inputs. On 12 September 1986, Indonesia devalued its currency in order to safeguard its balance-of-payments position and to strengthen its economy as well as to further improve the investment climate.

To ensure the expansion of exports and optimal exploitation of the country's comparative advantage, Malaysia replaced its Investment Incentive Act of 1968 with the Promotion of Investment Act of 1986. The new act is intended to provide a package of balanced incentives for import substitution and export activities.

Firms producing promoted products qualify to receive an investment tax allowance of up to 100 per cent of capital investments; an abatement of 5 per cent of adjusted income; an accelerated depreciation allowance of 20 to 40 per cent; a reinvestment allowance of 40 per cent; and a number of additional incentives.

In addition to the above incentives, export-oriented producers may be eligible for specific incentives. These include export credit refinancing schemes, abatement of adjusted income for export, export allowance, double deduction of export credit insurance premiums, double deduction for promotion of exports, and industrial building allowances. A double-deduction procedure is available in order to encourage research, development, and training. Additional investment incentives are provided to further improve the overall investment climate and to encourage greater domestic and foreign investments. Some of them are the liberalization of Malaysia's policy on the employment of expatriate personnel and the establishment of a one-stop centre for investments at the Ministry of Trade and Industry.

Malaysia has become more flexible with respect to ownership and control. More wholly foreign-owned projects have been established. For export-oriented industries, foreign investors are permitted to hold whatever levels of equity — up to 100 per cent if the company exports 80 per cent or more of its production — irrespective of whether or not the company's products compete with products presently being manufactured locally for the domestic market. Foreign investors whose applications are received between 1 October 1986 and 31 December 1990 are also permitted to hold whatever levels of equity up to 100 per cent on meeting the following conditions: (1) The company exports 50 per cent or more of its production, or the company employs 350 full-time Malaysian workers; and (2) The company's products do not compete with products presently being manufactured locally for the domestic market.

The new guidelines have also set the level of equity participation for other export-oriented projects. For projects exporting between 51 and 79 per cent of their production, foreign equity ownership of up to 70 per cent may be allowed depending on factors such as the level of technology, spin-off effects, size of the investment, location, value added, and the utilization of local raw materials and components. For projects exporting between 20 and 50 per

cent of their production, foreign equity ownership of 30–51 per cent will be allowed, depending upon similar factors as those mentioned above. However, for projects exporting less than 20 per cent of their production, foreign equity ownership is allowed up to a maximum of 30 per cent.

Given the above policies, no major issues have been raised in Malaysia with respect to U.S. investment compared with those of the Japanese. Overall, Malaysia has been fairly satisfied with the characteristics of U.S. investment except on issues such as (1) over-concentration of U.S. investment in a very limited number of sectors and subsectors; (2) lack of upstream and downstream linkages; and (3) reluctance to form joint-venture projects with locals, particularly involving small- and medium-scale projects.

In addition to import liberalization and privatization of public industrial assets undertaken in the early 1980s, the Philippines has continued to provide various incentives to attract DFI, albeit at a slow pace. Generally, foreign ownership is limited to 40 per cent of total equity. However, up to 100 per cent ownership is allowed if the project satisfies any one of the following conditions: (1) it is located in an export processing zone; (2) it exports 100 per cent of its output; and (3) it obtains prior authorization from the Board of Investment (BOI).

Since the 1950s the Philippines has offered significant incentives to enterprises engaging in preferred areas or activities. In 1987 the Omnibus Investments Code (Executive Order 226) was promulgated. It replaced the admittedly performance-oriented incentives of the earlier legislation with an income-tax holiday and tax and duty-free acquisition of imported capital equipment and other tax concessions. The main objective of the new investment code is to be at par with other Asian countries in attracting foreign investment.

In addition to fiscal incentives, the code guarantees foreign investors freedom from expropriation and property requisition and the right to repatriate investments and remit earnings and other foreign obligations. Other non-tax incentives are provided to BOI-registered firms. These include the right to employ foreign nationals, anti-dumping protection, simplified customs procedures, unrestricted use of consigned equipment, protection from government competition, protection of patents and other proprietary rights, assistance to exporters, and assistance to individual applicants.

Singapore has adopted a consistently friendly and open policy towards foreign investment since 1960. It includes promotion of political stability, social discipline, and economic efficiency; the development of physical and institutional infrastructure; fiscal incentives; and minimal regulations. Singapore's emphasis is on factor availability and cost reduction rather than factor and market protection. There is hardly any protection of the domestic market. Consequently, this and the limited size of its domestic market force foreign investors to be export-oriented and to be cost-efficient and competitive. Singapore's strategy is to maximize net incentives to foreign investors.

There are no restrictions or requirements on foreign ownership (100 per cent foreign ownership is freely allowed except in finance and security-related areas), domestic value-added content, employment of locals, export performance, and foreign exchange remittance and repatriation. Among the investment incentives offered by the Singapore Government are tax exemption, concessionary tax arrangements for non-residents, double-taxation relief, investment guarantees, and a one-stop service at the Economic Development Board (EDB). Investment in the manufacturing sector is particularly encouraged, especially in the production of higher value-added products employing medium-range and higher-range technology. The Singapore Government is now promoting the development of the service sector. In addition, industrial research and development are promoted through a range of fiscal incentives and cash grants offered by the government. International business surveys, such as *Business Environment Risk Information (BERI)*, have consistently ranked Singapore as one of the most attractive investment locations in the world.

Thailand generally has had an open-door policy towards DFI, except for ownership restriction on certain businesses. While trying to attract more foreign investment into the economy, the country strives to ensure that benefits from foreign investments are maximized and that costs are minimized. As a result, a wide range of measures has been used by Thailand in order to handle DFI.

All business activities in Thailand are open to foreign investment except in the areas of fundamental infrastructure, public utilities, savings banks, rural banking, insurance, and production of certain military goods. Among the open areas, there are certain ones in which the extent of foreign ownership is restricted. In addition, Thailand also has set certain industrial priorities both in the form of broad categories set by the National Economic and Social Development Board (NESDB) and in a specified list of promoted industries set by the BOI, in which foreign investors can get privileges under certain conditions.

Thailand has preferred joint ventures of Thai and foreign capital to 100 per cent foreign ownership, but such a preference was not enforced until 1972. The Alien Business Law (National Executive Council Announcement No. 281) was announced by the government in 1972. Its main thrust is to limit the legal ownership and control of foreigners in certain industries. However, the law has proven either redundant or ineffective in practice. Many kinds of the businesses listed were not of interest to foreign investors, while at the same time foreign investors were still able to have control over the firms by using other means. As a result, the law has had little effect on the level of DFI in Thailand.

Apart from ownership policy and control under the Alien Business Law, there are ownership conditions specified for certain industrial activities as a requirement for promotion privileges. A majority or total foreign ownership is allowed for export-oriented projects (if production is mainly for the

domestic market, a minority foreign ownership is required). In order to reduce uncertainty for foreign investors, Thailand has offered some guarantees. Foreigners are usually accorded national treatment, unless specified otherwise. The guarantees against expropriation and nationalization, government competition, and freedom to export and remit investment capital, profits and other payments in foreign currency were offered during the early period of investment promotion. In order to further convince potential investors, a few more guarantees were added to the list in the 1977 Investment Promotion Act. They are the guarantees against state monopolization of sale of similar products and against price controls, and towards the freedom from privileged treatment of any government agency or state enterprise which opposes the interests of the investors.

Besides the basic guarantees mentioned above, foreign investors are also guaranteed the rights of access to all investment and export incentives, local sources, and awards for government work or supply contracts, unless otherwise specified.

Some fiscal and other incentives have been provided, the extent of which depends on the perceived contribution to the Thai economy. The current emphasis is on foreign exchange earnings, location outside Greater Bangkok, employment, and agricultural linkage. Agro-based projects exporting no less than 80 per cent of production or which saves or earns foreign exchange of at least US\$1 million per year, located in Investment Promotion Zones and employing at least 200 persons may be subject to practically no tax at all for eight years. The tax incentives decline for those projects that satisfy only a few of these development objectives. While the incentive scheme has changed since 1960 from the emphasis on import substitution to export promotion, investment policy has become more restrictive in terms of greater numbers of conditions imposed and has been more open-ended, which allows some room for the authorities to negotiate with investors. Although dynamic patterns have been adopted in incentive schemes regarding foreign exchange earnings, it has still not been applied to other requirements including technology transfer. The incentive scheme has not changed much in recent years, except a reduction in tax incentives given to those projects located in Greater Bangkok. The adjustment aims at enhancing rural industrialization.

In addition, Thailand also has treaties with several countries to avoid double taxation. Under these treaties, profits shall be taxable only if the taxpayer has a "permanent establishment" in Thailand. Reduced rates of tax are provided for certain dividends, interests, royalties, and other income, and provisions are available for visiting experts. A system of tax credits is also established to avoid double taxation.

Since DFI is treated very much like local investment, export and investment credits with a low interest rate are available for foreign investors. Moreover, special permissions are provided for promoted foreign-owned firms with respect to bringing in foreign nationals to undertake investment feasibility studies as well as to work in the promoted projects. The promoted

firms are also permitted to own land and to take or remit foreign exchange abroad.

Brunei Darussalam is also striving to increase DFI flows. To facilitate its diversification programme, pioneer status is granted to (1) industries which have not yet been developed in Brunei Darussalam on a commercial scale suitable to the economic requirements of Brunei Darussalam; (2) existing industries which have favourable prospects for further development; and (3) industries which are for the export market. Tax exemptions are granted for a basic period of two to five years depending on the level of capital expenditure, with a possible extension of up to three years.

D. Effects of ASEAN Investment Incentives on U.S. DFI

Greater incentives should be associated with higher DFI levels because they reduce MNC costs, and more performance requirements should be associated with the opposite because they increase such costs. However, the access to incentives may entail substantial transactions costs, and strict performance requirements often discourage MNCs that seek to avoid restrictions whenever possible. U.S. MNCs are particularly interested in avoiding bureaucracy and often do not even seek to profit from incentives available to them if red tape is involved. Furthermore, the proliferation of incentives and requirements in Asia has made it difficult to offer a uniquely attractive set of incentives.

In this regard, only a relatively small number of U.S. affiliates reported being influenced by incentives and performance requirements in 1977 and 1982. Tax concessions were the most common incentive affecting 35 to 40 per cent of U.S. affiliates in Malaysia and Singapore in 1982 and 15 to 21 per cent of the affiliates in other countries. Tariff concessions are also relatively common, affecting by 1982 one-fifth to one-third of the affiliates in all countries except Singapore, which has tariffs so low that concessions would be largely irrelevant. Among the performance requirements, local content and labour requirements (Malaysia and Indonesia), and equity limits (Indonesia and the Philippines) were the most common. All other incentives and performance requirements affected less than 15 per cent of U.S. affiliates in these countries. Part of the reason for this lies in an apparent tendency for U.S. MNCs to avoid government regulation to the greatest extent possible; instead of involving themselves in DFI promotion schemes, they opt for non-promoted status where government involvement is more limited.

In sum, with regard to both ASEAN and U.S. policies, U.S. MNCs appear much more concerned with general trade and investment policies than with MNC-specific incentives or requirements. Beyond that, MNCs are attracted by rapidly expanding markets and by economies which operate relatively efficiently. In this sense, even seemingly unrelated monetary, fiscal, and regulatory policies can have important effects on investment motives through their impacts on growth and stability. Also, reductions in equity restrictions

and promotion of national treatment, which have been important questions in U.S.-ASEAN investment disputes, would tend to increase the magnitude of DFI. Finally, adequate supplies of public goods such as education and infrastructure can also make an economy very attractive to MNCs.

Moreover, the various schemes aimed at promoting intra-ASEAN investments in industry, reviewed in Chapter 2, have not been marked by outstanding success. Essentially, industrial investments are best left to the private sectors. The proper role of the ASEAN governments is to provide information on market opportunities and market conditions in the different member countries, develop the institutions and infrastructure to facilitate business intercourse, remove the administrative and trade policy obstacles to freer flows of capital and goods, and provide as much national treatment as possible for intra-ASEAN investments. In recent years, there have been increasing volumes of intra-ASEAN private sector investment as each government steps up its drive to attract foreign investments by offering various attractive incentives. Nevertheless, recent changes in the ASEAN Industrial Joint Ventures (AIJV) programme to allow for 60 per cent foreign participation in joint ventures present an opportunity for an expanded role of U.S. DFI in ASEAN. Hence, as ASEAN itself becomes more integrated, increased U.S. DFI could follow.

V. IMPACT OF U.S. DFI

Foreign affiliates play a particularly large role in Singapore manufacturing, accounting for a significant share of its foreign activity. However, Singapore is atypical as the foreign affiliate shares of investment, employment, and value added are much more limited in the other ASEAN economies.

A. Investment and Saving

As mentioned in Section I, DFI accounts for a relatively small share of total investment (gross domestic capital formation including changes in stocks), except in Malaysia and Singapore (Figure 5.1). However, even in Singapore, the foreign share of total investment has fallen below 15 per cent in recent years and never exceeded 21 per cent. U.S. DFI shares of total investment have also been highest in Indonesia and Malaysia prior to 1975 and in Singapore prior to 1980. On the other hand, in Indonesia (1976-80), Malaysia (since 1976), the Philippines, and Thailand, U.S. DFI shares of total investment did not exceed 2 per cent and were usually under 1 per cent.

Although DFI has accounted for a limited share of total investment, manufacturing DFI has accounted for a more significant share of manufacturing sector investment in Asia's developing economies. For example, foreign shares of investment (gross fixed capital formation) in manufacturing averaged 3 per cent in South Korea (1966-81; 10 per cent for 1965-74) and 4 per cent in Taiwan (1972-85), whereas shares of foreign investment were

under 2 per cent for each country during these periods. This pattern is even more pronounced in Singapore where the share of manufacturing capital expenditures by firms with a majority of the capital coming from foreign sources rose from 65 to 67 per cent in 1975-77 to 70 per cent or more in 1978-81 before declining again to 59 to 64 per cent in 1982-85. For 1977-85, firms in which the United States was the major capital source accounted for 16 to 30 per cent of the total or US\$1.6 billion in expenditures; note, however, that the manufacturing DFI total reported in U.S. data was only half this size.

B. Employment and Output

In the aggregate, shares of foreign (including U.S.) affiliates in total employment are smaller than investment shares in most economies, suggesting relatively low employment-to-investment ratios for foreign affiliates as compared with domestic firms. However, the contribution is far more significant in specific sectors (Table 5.11). For example, in Malaysia, the Philippines, and Singapore, U.S. non-bank affiliates accounted for over 10 per cent of all manufacturing employment since 1983 and over 48 per cent of all employment in Malaysian electronics, 23 to 35 per cent of all employment in Philippine food processing (1983-84 only) and electronics (all years), and 25 to 55 per cent of all employment in Singapore's non-electric machinery and electronics industries. It is clear that U.S. affiliates are an important source of employment in a number of manufacturing sectors.

As for value added, a Thai survey for 1975 suggests that the foreign share has been somewhat larger than the corresponding investment share, with Japanese manufacturing affiliates in promoted sectors accounting for 5 per cent of manufacturing value added and U.S. manufacturing affiliates, 1 per cent. In contrast, value added and capital expenditure shares have been roughly equivalent for the foreign firm aggregate in Singapore manufacturing for 1975-85. For 1977, calculations based on U.S. data indicate that U.S. affiliate shares of host country GDP were 11 per cent in Indonesia, 3 per cent in Malaysia and the Philippines, 7 per cent in Singapore, and 1 per cent in Thailand. In this case, the high Indonesian ratio is almost certainly due to petroleum affiliates, reflecting their importance in the economy.

C. International Trade

International trade is the area where the roles of foreign and U.S. affiliates in Asia and ASEAN are most conspicuous. Foreign-affiliate shares of exports and imports exceed their shares of investment, employment, and output in virtually all Asian countries. Thus, total foreign share of manufacturing exports were 6 to 17 per cent in Thailand and over 80 per cent in Singapore, implying a higher export-to-investment ratio of foreign affiliates as compared with domestic firms.

TABLE 5.11
Employment of Non-Bank Affiliates as Shares of Employment in ASEAN,^a 1977-85
(In percentages)

Country	Year	Manufacturing Subtotal	Food and Kindred Products	Chemicals	Primary and Fabricated Metals	Non-Electric Machinery	Electric and Electronic Equipment	Transportation Equipment
Indonesia	1977 ^b	1.8	0.2	5.1	0.9	n.a.	25.5	n.a.
	1982 ^b	1.7	0.2	4.4	1.5	0.8	17.6	0.0
	1983 ^b	1.0	0.2	4.2	1.2	0.8	8.1	0.0
	1984 ^b	0.8	0.1	3.2	0.4	n.a.	8.5	0.0
Malaysia	1977 ^c	7.8	0.9	8.7	n.a.	n.a.	48.1	n.a.
	1982	9.5	1.5	8.3	n.a.	n.a.	54.5	0.0
	1983	10.6	1.6	9.2	1.4	6.2	51.3	0.0
	1984	11.7	1.6	9.3	0.8	6.3	52.8	0.0
Philippines	1977 ^d	8.8	10.8	18.2	n.a.	n.a.	22.9	n.a.
	1982 ^d	8.2	14.9	20.8	3.8	1.1	31.4	6.9
	1983 ^e	12.9	25.8	23.3	5.2	0.0	31.3	n.a.
	1984 ^e	13.4	26.4	24.4	4.0	n.a.	33.7	n.a.
Singapore	1977	16.2	n.a.	6.8	13.4	25.3	46.2	n.a.
	1982 ^e	12.1	3.1	8.8	2.5	34.9	26.6	7.2
	1983 ^e	14.3	3.1	8.8	1.7	43.7	28.9	9.6
	1984 ^e	16.4	4.7	12.8	1.7	58.4	30.0	9.3
	1985 ^e	14.4	5.9	15.5	0.9	54.9	24.8	8.3

n.a. = Not available.

^aSectoral definitions for total employment based on ISIC commodity classifications; note that petroleum-related activity (ISIC 53-54) is excluded from manufacturing to increase compatibility with data on foreign affiliates. Also note that total manufacturing employment is usually much larger than that reported in the surveys used here and that the surveys often exclude smaller firms.

^bAs a percentage of employment in establishments with twenty or more employees.

^cPeninsular Malaysia plus Sarawak.

^dPercentage of employment in establishments with one or more employees.

^ePercentage of employment in establishments with ten or more employees.

Sources: United Nations, *Industrial Statistics Yearbook* (1981 and 1985); as for Table 5.9.

U.S. and Japanese data also give us a good view of foreign multinational trade in the region as a whole, albeit at the cost of ignoring multinationals from other economies. According to the data, foreign firm shares of total exports were especially large in Singapore and Indonesia, exceeding 35 per cent throughout the early 1980s (Table 5.12). Although these shares were smaller in the other ASEAN countries, the share of foreign firm exports in manufactured goods were high in Malaysia, the Philippines, and Singapore. Other data show that the share of foreign firms' manufactured exports in total manufactured exports may have been even higher in Singapore and Thailand and indicate that electronics, textiles, and food and beverage industries are important areas of foreign activity. Recent data for Japan are not available except for Thailand where exports of Japanese firms made up more than 8 per cent of total Thai exports and 6 per cent of total Thai manufactured exports.

In the United States, exports to affiliates were more important in trade to the world than in U.S. trade to ASEAN. Although there were persistent surpluses in both the overall trade balance of parent firms as well as the intra-firm trade of these firms, particularly in manufacturing, U.S. parent firms generally had trade deficits with their affiliates in ASEAN and this was particularly true in intra-firm trade. This result is not surprising considering the importance of the electronics sector in investment and trade in the region. Intra-firm exports to the ASEAN countries were large on average, especially in electronics, where they accounted for about 32 per cent of U.S. electronic exports to the world (Table 5.13) and about 40 per cent of total U.S. electronic exports to ASEAN. As would be expected, the share of intra-firm exports in total exports was especially important in Malaysia. Imports from affiliates by parent firms, however, were even larger than exports.

Additional insight into trade and investment linkages is given by the trade propensities of multinational firms as compared with those of other firms. These propensities are most often defined as export-sales (export sales to total sales) and import-content (imported input to total input) ratios. Comparatively higher ratios for multinational firms than for other firms indicate that multinationals in the industry are more likely to engage in trade. Although this is just a rough measure, it gives us some indication of the link between multinational sales and trade orientation.

Export-sales ratios in the ASEAN economies indicate that foreign multinationals often do export more of their product than do domestic firms. In Singapore, export-sales ratios for foreign affiliates were double those for domestic firms in the late 1970s, after which the differential closed slightly (Table 5.14). In Thailand, foreign affiliates had larger export-sales ratios than domestic firms in most cases, though with a much smaller differential. Major exceptions are the food and beverages sector in 1975 where foreign affiliates became more export-oriented in later periods, and the electronics industry in 1975 where Japanese affiliates were geared primarily to the home

TABLE 5.12
Japanese and U.S. Firm Exports^a and Host Economy Exports, 1972-85

			Total Exports ^b		Manufactured Exports ^c	
Country		Period	US\$ Millions	% of Total	US\$ Millions	% of Total
ASEAN						
Indonesia	Japanese	1972-73	36	1.4	10	8.7
	U.S.	1977	4,426	40.5	107	27.8
	U.S.	1982-85 ^d	7,592	36.4	47	2.2
Malaysia	Japanese	1972-73	40	1.5	32	5.2
	U.S.	1977	508	7.4	339	21.1
	U.S.	1982-85 ^d	2,346	13.9	1,400	33.6
Philippines	Japanese	1973	80	3.2	74	27.8
	U.S.	1977	355	8.4	260	45.1
	U.S.	1982-85	600	7.5	488	35.7
Singapore	Japanese	1972-73	77	1.8	71	5.6
	U.S.	1977	1,423	12.7	822	23.2
	U.S.	1982-85 ^e	10,914	35.5	2,224	20.6
Thailand	Japanese	1972-73	143	7.6	29	10.8
	Japanese	1972-77	n.a.	n.a.	76	15.6
	Japanese	1977-79	807	15.1	104	8.4
	Japanese	1981-83	780	8.4	134	6.1
	U.S.	1977	104	2.4	n.a.	n.a.
	U.S.	1982-85	460	4.7	n.a.	n.a.

NIEs

Hong Kong	Japanese	1972-73	262	4.8	42	1.3
	U.S.	1977	3,822	31.2	600	8.3
	U.S.	1982-85 ^f	5,119	16.6	880	6.0
Korea	Japanese	1972-73	138	4.3	137	6.7
	U.S.	1977	128	1.0	128	1.5
	U.S.	1982-83 ^g	296	1.0	303	1.4
Taiwan	Japanese	1972-73	339	7.9	339	11.2
	U.S.	1977	591	5.4	558	7.0
	U.S.	1982-83	1,021	3.7	926	4.4

n.a. = Not available or not disclosed.

^aFor U.S. firms data refer to export sales of majority-owned non-bank affiliates of non-bank parents. Japanese firm data refer to fiscal years ending March 31 of the following calendar year.

^bTotal exports defined as exports of goods and services as reported in the balance of payments except for Hong Kong where exports of goods and non-factor services from national accounts are used.

^cManufacturing exports defined as the sum of SITC 5-8. Note that industrial classifications used in sources of firm data do not correspond with the SITC; hence these ratios are only rough approximations.

^d1982-83 for manufacturing.

^eExcludes 1984 for manufacturing.

^f1982-84 for manufacturing.

^g1982 only for manufacturing.

Sources: Asian Development Bank, *Key Indicators of Developing Member Countries of ADB* (July 1986 and 1987); Hong Kong, Census and Statistics Department, *Estimates of Gross Domestic Product, 1966 to 1983* (1984), *Hong Kong Monthly Digest of Statistics* (October 1984, August 1985 and 1986, and February 1987); IMF, *International Financial Statistics, Yearbook 1987*; Japan, Bangkok Chamber of Commerce, *Survey of Japanese Firm Activities*, Survey nos. 7-9; Japan, Ministry of International Trade and Industry, *Foreign Activities of National Firms*, Survey nos. 3 and 4; as for Table 5.9.

TABLE 5.13
Intra-Firm Trade in Japan and the United States, 1973-85
(In US\$ millions, shares of total trade in percentages)

Sector	Japan ^a			United States ^b		
	1973-75	1977-78	1979-81	1977	1982-83	1984-85
All sectors	17,844 (36.1)	28,268 (31.7)	36,650 (28.6)	31,265 (26.5)	48,186 (23.9)	59,287 (28.3)
Manufactures ^c	6,694 (14.1)	11,647 (13.4)	14,274 (11.5)	26,669 (28.5)	42,533 (26.9)	54,119 (32.0)
Textiles	166 (4.5)	90 (1.9)	92 (1.5)	186 (8.0)	126 (4.4)	122 (4.8)
Chemicals	206 (6.1)	530 (11.2)	585 (8.9)	4,070 (38.2)	6,196 (31.2)	6,912 (31.4)
Metals	298 (2.7)	350 (2.3)	415 (2.0)	1,071 (14.4)	1,228 (9.9)	1,366 (12.2)
Machinery	434 (7.7)	689 (5.7)	1,349 (7.3)	5,279 (24.6)	9,985 (27.7)	12,995 (34.8)
Electronics	1,773 (27.6)	3,879 (27.3)	4,356 (19.0)	2,629 (29.8)	5,333 (29.5)	6,229 (31.9)
Transport equipment	2,525 (20.3)	3,742 (14.3)	4,119 (12.2)	9,159 (48.5)	13,446 (44.4)	20,004 (57.0)

^aData for Japanese parent companies refer to fiscal years but trade totals refer to calendar years.

^bData for U.S. parent companies refer to non-bank parents of non-bank affiliates; for 1982-85 a large number of smaller firms included in the 1977 survey are excluded.

^cExcludes petroleum and coal products for U.S. data.

Sources: Japan, Ministry of International Trade and Industry, *Foreign Activities of National Firms*, Survey nos. 3-12, *White Paper on International Trade* (1976-84); U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States* (1986-88); U.S. Department of Commerce, Bureau of Economic Analysis, *U.S. Direct Investment Abroad* (1977), *U.S. Direct Investment Abroad: 1982 Benchmark Survey Data* (1985), *U.S. Direct Investment Abroad: Operations of U.S. Parent Companies and Their Foreign Affiliates* (revised estimates, 1983 and 1984; preliminary estimates, 1985).

market. This is consistent with the notion that one of the more important intangible assets possessed by multinationals is easy extensive international marketing network, either internalized within the multinational itself or through other trading firms.

Export-sales data from the investor countries, Japan, and the United States provide more complete regional coverage, although recent Japanese data are not available for individual countries (Table 5.15). The regional figures show that in the early 1980s, Japanese mining/petroleum and trading affiliates in the Asian developing economies are somewhat more export-

TABLE 5.14
Export-Sales Ratios for Foreign Affiliates
in Selected Host Economies, 1977-86
(Export sales as a percentage of total sales)

Host Economy	Period	Industries Covered	Domestic Firms	All Foreign Affiliates	Japanese Affiliates	U.S. Affiliates
Singapore	1977-80	Manufacturing	35.4	74.9	68.7	79.8
	1981-85	Manufacturing	43.3	71.9	64.6	70.7
Thailand (Board of Investment, promoted firms)	1975 ^a	Manufacturing	—	—	9.7	74.3
		Food/beverages	54.7	29.4	22.4	0.2
		Textiles/apparel	7.3	28.6	17.2	—
		Basic metals	6.0	19.7	—	98.8
		Electronics	0.0	14.4	0.3	100.0
	1979	Manufacturing	20.9	31.5	17.6	41.7
		Food/beverages	52.5	53.7	—	—
		Textiles/apparel	15.9	41.8	—	—
		Basic metals	3.4	9.8	—	—
		Electronics	0.5	16.8	—	—
	1984	Manufacturing	39.0	33.0	21.0	35.0
		Food/beverages	55.1	56.4	—	—
		Textiles/apparel	47.3	49.4	—	—
		Basic metals	6.7	2.8	—	—
		Electronics	63.1	28.6	—	—
	1974-78	All	—	35.0	—	—
		Manufacturing	23.5	35.1	49.0	21.0
	1984-86	All	—	48.9	73.2	43.9

Investment

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TABLE 5.14 (Continued)

Host Economy	Period	Industries Covered	Domestic Firms	All Foreign Affiliates	Japanese Affiliates	U.S. Affiliates
Taiwan ^b	1974-79 ^c	All	—	58.1	—	—
		Manufacturing	33.9	58.9	58.2	63.4
		Textiles	33.5	82.5	81.9	75.6
		Garments, etc.	93.2	95.7	96.6	84.1
		Chemicals	9.8	47.4	40.6	27.3
		Machinery	25.8	32.1	69.2	26.3
		Electronics	48.1	68.0	53.0	94.9
	1980-85	All	—	52.5	—	—
		Manufacturing	—	53.3	—	—
		Textiles	—	68.0	—	—
		Garments, etc.	—	93.6	—	—
		Chemicals	—	33.1	—	—
		Machinery	—	29.3	—	—
		Electronics	—	74.3	—	—

— = Not available, not disclosed, or zero total sales.

^aManufacturing and sectoral data for Japanese and U.S. firms from Tambunlertchai (1977), other data from Sibunruang and Brimble (1987).

^bThe foreign total includes overseas Chinese firms.

^c1976 for domestic firms; 1979-80 for Japanese firms; 1974-78 for U.S. firms; Japanese and U.S. figures are averages of annual ratios; all other figures in the table are period averages calculated from export and sales figures.

Sources: Koo (1985, pp. 199-200); Koo and Bark (1988, p. 39); Lee (1983, p. 750); Liu et al. (1983, p. 111); Ranis and Schive (1985, p. 116); Republic of China, Central Bank of China, *Financial Statistics: Taiwan District, The Republic of China* (January 1981, February 1982, 1983, and 1984, February and December 1985, and January and December 1987); Republic of China, Ministry of Economic Affairs, Investment Commission, *A Survey of Overseas Chinese and Foreign Firms and Their Effects on National Economic Development* (1979-83); Sibunruang and Brimble (1987, pp. 335-36, 338, 345); Singapore, Department of Statistics, *Report on the Census of Industrial Production* (1977-85); Tambunlertchai (1977, pp. 57-58); Wu et al. (1980, p. 124).

TABLE 5.15
Export-Sales Ratios for Japanese and U.S. Affiliates
in Selected Industries, 1972-85
 (Export sales/total sales, in percentages)

Host Region/ Economy	Investor ^a	Year	All Indus- tries	Mining/ Petro- leum ^b	Manu- fac- turing	Tex- tiles	Chem- icals	Metals	Machin- ery	Elec- tronics	Transpor- tation Equipment	Trade ^c
World	Japan	1972	48.3	94.5	27.2	32.5	15.1	13.9	9.9	34.1	6.4	27.2
	Japan	1975	36.8	63.0	35.4	38.3	17.2	—	24.7	42.7	19.9	33.7
	Japan	1977	49.3	62.2	21.7	32.0	18.3	8.6	16.0	18.8	10.6	56.6
	U.S.	1977	38.2	49.5	30.8	34.9	26.1	26.8	36.8	33.7	38.8	34.6
	Japan	1981	50.1	77.2	25.9	31.5	25.0	12.7	21.8	21.9	13.5	57.0
	U.S.	1982	34.5	35.4	33.9	42.9	31.7	25.7	40.6	40.7	43.3	41.7
	U.S.	1985	36.2	35.0	38.0	40.2	33.0	29.2	43.4	44.8	49.4	40.5
Asian developing economies ^d	Japan	1972	38.6	73.7	37.6	55.4	14.2	9.0	21.4	39.8	13.4	40.3
	Japan	1975	44.7	31.7	42.6	48.8	17.8	—	27.7	53.7	22.2	45.5
	Japan	1977	38.7	21.0	33.3	37.3	14.1	8.7	33.9	39.6	14.7	48.6
	U.S.	1977	60.9	67.5	57.0	—	15.3	66.3	70.8	—	—	62.4
	Japan	1981	58.8	73.4	34.5	35.2	15.5	16.6	35.8	48.9	20.8	75.5
	U.S.	1982	58.7	63.7	—	—	12.0	29.9	—	87.8	—	56.3
	U.S.	1985	63.3	66.2	68.0	—	—	65.3	—	89.9	—	58.5
ASEAN												
Indonesia	Japan	1972	23.1	—	4.0	3.6	0.0	0.0	0.0	0.6	0.0	0.0
	Japan	1975	27.8	—	9.6	0.0	4.4	3.3	0.0	—	0.0	—
	U.S.	1977	80.9	—	40.8	—	0.0	0.0	—	—	—	0.0
	U.S.	1982	66.1	73.2	—	—	—	—	0.0	68.6	—	—
	U.S.	1985	82.5	86.6	—	—	1.4	0.0	—	79.5	—	0.9

TABLE 5.15 (Continued)

Host Region/ Economy	Investor ^a	Year	All Indus- tries	Mining/ Petro- leum ^b	Manu- fac- turing	Tex- tiles	Chemi- cals	Metals	Machin- ery	Elec- tronics	Transpor- tation Equipment	Trade ^c
Malaysia	Japan	1972	14.8	10.0	9.3	21.5	0.2	0.0	0.0	0.6	0.0	2.7
	Japan	1975	48.4	50.0	50.0	72.7	16.5	25.9	25.0	71.7	50.0	50.0
	U.S.	1977	44.3	19.0	76.2	—	12.1	0.0	—	—	—	—
	U.S.	1982	47.4	29.3	81.5	—	14.8	—	—	96.1	—	3.3
	U.S.	1985	95.1	—	83.4	—	18.0	0.0	17.0	—	—	—
Philippines	Japan	1973	—	—	29.0	55.0	28.3	—	0.0	1.3	—	—
	Japan	1975	90.0	36.0	52.3	40.6	100.0	—	0.0	5.7	0.0	—
	U.S.	1977	17.2	0.0	25.7	—	8.5	—	—	36.8	—	—
	U.S.	1982	15.7	—	26.5	—	5.0	—	—	72.5	—	—
	U.S.	1985	22.2	—	40.5	—	8.8	0.0	—	—	0.0	—
Singapore	Japan	1972	35.1	—	37.5	88.4	51.0	1.8	—	31.2	56.3	29.3
	Japan	1975	40.9	—	40.2	73.0	29.6	26.0	0.0	45.1	49.8	44.8
	U.S.	1977	67.3	30.4	93.2	—	—	—	—	97.0	—	—
	U.S.	1982	82.0	82.9	91.8	—	72.4	80.0	85.4	95.8	98.1	62.0
	U.S.	1985	84.4	87.8	90.7	—	—	90.0	89.0	94.3	95.2	63.3
Thailand	Japan	1972	16.0	—	6.1	9.7	1.3	5.1	—	1.3	0.0	27.9
	Japan	1975	19.9	0.0	13.7	16.4	0.7	4.7	—	16.1	2.0	55.9
	U.S.	1977	11.4	—	—	—	9.4	—	—	—	—	—
	U.S.	1982	17.5	—	—	—	—	—	—	88.2	—	14.8
	U.S.	1985	18.1	6.4	—	—	1.7	—	—	89.5	—	—

NIEs

Hong Kong	Japan	1972	64.5	—	70.4	76.3	—	0.0	—	40.2	—	61.5
	Japan	1975	45.5	—	35.0	38.9	50.0	0.0	50.0	70.3	0.0	50.7
	U.S.	1977	77.5	—	80.5	—	34.4	—	—	90.0	—	83.4
	U.S.	1982	59.5	55.6	77.4	—	31.0	—	78.3	91.1	—	72.9
	U.S.	1985	65.3	57.3	—	—	32.7	—	89.7	90.1	—	73.9
Korea	Japan	1972	50.7	—	47.6	66.0	7.5	11.8	59.7	51.0	—	—
	Japan	1975	65.4	45.0	65.3	83.9	18.3	36.9	36.9	67.8	50.0	82.0
	U.S.	1977	58.4	—	68.4	—	25.0	—	—	—	—	—
	U.S.	1982	44.0	—	—	—	—	—	—	—	—	—
	U.S.	1985	—	—	—	—	0.0	—	—	—	—	—
Taiwan	Japan	1972	53.5	—	54.8	77.6	18.0	5.0	14.8	47.9	17.9	0.0
	Japan	1975	49.5	0.0	50.3	61.9	17.6	52.5	31.1	48.9	39.5	0.0
	U.S.	1977	58.9	—	71.4	—	67.9	—	—	91.7	—	—
	U.S.	1982	49.9	—	59.4	—	10.5	—	—	88.7	—	—
	U.S.	1985	—	—	—	—	17.0	68.8	93.1	89.7	—	—

— = Not available, not disclosed, or zero total sales.

^aData for U.S. affiliates refer to majority-owned non-bank affiliates of non-bank parents. For Japanese affiliates data refer to fiscal years ending 31 March of the following calendar year.

^bMining (including petroleum) for Japan, petroleum only for the United States.

^cFor the United States, wholesale trade only in 1982, 1985; retail trade included in 1977.

^dFor the United States, investment in developing Pacific island economies is included; note that such activity is very small, having little effect on the figures presented.

Sources: Japan, Ministry of International Trade and Industry, *Foreign Activities of National Firms*, Survey nos. 3-12; U.S. Department of Commerce, Bureau of Economic Analysis, *U.S. Direct Investment Abroad* (1977), *U.S. Direct Investment Abroad: 1982 Benchmark Survey Data* (1985), *U.S. Direct Investment Abroad: Operations of U.S. Parent Companies and Their Foreign Affiliates* (revised estimates, 1983 and 1984; preliminary estimates, 1985).

oriented than U.S. affiliates; but in manufacturing, the export-sales ratio is much higher for U.S. affiliates indicating a more significant export orientation. On the Japanese side, the strong emphasis on security of mineral and petroleum supplies, and the large role of trading firms in Japanese business networks lead to large export-sales ratios for affiliates in mining/petroleum and trade. On the U.S. side, the relatively strong tendency for affiliates, especially in electronics, to export back to the home market leads to high ratios in this sector. For example, in 1977 Japan's manufacturing affiliates in Asia made 33 per cent of their sales to Japan while U.S. Asian affiliates in the same sector made 57 per cent of their sales to the United States. In 1985 the U.S. ratio was 68 per cent in all manufacturing and 90 per cent in the electronics sector; for Japan in 1981 the corresponding ratios were 35 and 49 per cent, respectively. Japan's figures, however, are expected to rise as Japanese multinationals become increasingly oriented towards serving the home market.

D. Role of Small- and Medium-Sized Firms

The large share of MNC-related trade of total U.S. exports to ASEAN indicates that the awareness of the growing ASEAN market by the small- and medium-sized businesses in the United States is highly limited. Yet, this is not a unique phenomenon as the MNC-related share of total U.S. exports is even higher in many other regions. Small- and medium-sized firms are often unaware or unable to take advantage of many export opportunities which may exist for them outside the United States. In contrast, Japanese small- and medium-sized firms have been very successful exporters and investors in the region. This is in large part due to their links with trading companies that provide financing, information, and marketing channels to these firms. As a result, the risk involved in international trade and investment is reduced. This suggests that the export competitiveness of U.S. industry can be enhanced if trade and investment opportunities in the region could be attractively presented to small- and medium-scale firms.

VI. TECHNOLOGY TRANSFER AND STRUCTURAL CHANGE

Although the subject of technology transfer is important in the study of DFI's impacts, there is a paucity of data on the extent of technology-related activities among U.S. affiliates in Asia. U.S. data fall into two types, those on research and development (R&D) expenditures and those on payments and receipts of royalties and licence fees. This information shows that the vast majority of technology-related activity is concentrated in developed economies, coming to 90 per cent in each category; developing Asia accounted for under 2.5 per cent. None the less, expenditures on manufacturing R&D and total receipts of royalties and licence fees grew much more

rapidly in Asia than in the rest of the world for 1977-82. Studies by Chen⁴ and Lee⁵ indicate little differences in the technologies and factor proportions employed by Japanese and U.S. affiliates within certain industries. Thus, another aspect of the Kojima argument,⁶ the assertion that Japanese firms transfer more labour-intensive, standardized technology, finds little empirical support at a micro level. Yet, the past concentration of Japanese firms in industries relying on standardized technologies (for example, textiles), as opposed to concentration of U.S. firms in industries utilizing more sophisticated technologies (example, chemicals), does suggest that some aggregate difference may have existed, although such differences seem to have disappeared as DFI patterns become more similar.

While the nature of technology transfer is an empirical issue attracting some controversy, economists emphasize the role of technology (production technology, marketing know-how and other intangible assets transferred by MNCs) transfer in the DFI process. Indeed, the relatively large trade effects of DFI observed in ASEAN may have more to do with transfers of marketing know-how than with production technology *per se*. Whatever the primary source, it is clear that DFI-related transfers of intangible assets are an important catalyst to recipient industries in ASEAN. The growth of these industries has in turn stimulated changes in investment, employment, value added, and trade structures as they soaked up labour previously engaged in less productive activities. Indeed, the dynamics of "industrial restructuring" may be the most important long-run consequence of DFI. As a result, policy-makers in the ASEAN economies need to ensure that any restructuring induced through DFI can be efficiently sustained. In this respect, we must reiterate the need to provide rational economic incentives and to avoid policies which promote the development of industries which cannot become competitive in world export markets within a reasonably short period of time. Also, as mentioned in Chapter 4, improved protection of intellectual property will lead to a greater flow of foreign innovations, as well as increased indigenous involvement in the area of science and technology and development of new product lines.

The United States is also experiencing a significant change in the structure of production, which is expedited by DFI. To the extent that U.S. MNCs transfer certain (often labour-intensive) production lines to developing countries like ASEAN, it then becomes necessary to restructure U.S. employment. This in itself is costly in terms of retraining and often meets with resistance from the U.S. worker. The increasing inability of certain (especially labour-intensive) U.S. industries to compete with foreign competition aggravates the situation since foreigners, even when employed by U.S. firms, are convenient political scapegoats. Indeed, the primary resistance to expanded U.S. DFI in ASEAN on the U.S. side is likely to come from U.S. labour. This is a political reality whose significance should not be underestimated by ASEAN or the United States. Yet, as the United States

adjusts to this new international division of labour, efficiency and global welfare will increase.

VII. RECOMMENDATIONS FOR FUTURE POLICIES TOWARDS U.S. INVESTMENT IN ASEAN

The above sections outline the major areas in which U.S. DFI affects both ASEAN and the United States as well as the major factors behind U.S. MNC investment decisions. This section describes a number of possible measures which U.S. and ASEAN governments can undertake to promote increased DFI and increase benefits from existing investments. In all cases, recommendations are made to strengthen market forces directing DFI while correcting any existing shortcomings and distortions that cause a perverse allocation of resources.

A. Public Goods: Information and Infrastructure

The proper role of government is to provide public goods which the private sector has a tendency to undersupply. With regard to DFI, the government can provide information to potential investors, as the U.S. Government already does. Published government information is readily available both from libraries and the government. However, despite this apparently high degree of availability, it appears that use of such information is limited. In this respect, it may be possible for the government or business organizations such as the Chamber of Commerce to publicize the types of information and opportunities available to a greater extent. Furthermore, ASEAN governments also provide a substantial amount of information, but accessibility could be improved in this respect as well.

We perceive a major problem in getting the U.S. private sector to trust and utilize information provided by governments. The problems are twofold: first, U.S. firms are historically accustomed to an adversarial relationship with government and tend to be somewhat sceptical of public information; second, public information should be more relevant to the needs of U.S. and ASEAN businessmen, as well as more accessible. On both counts, governments will have to bear partial responsibility in making improvements although it is clearly in the interest of business to assist such efforts. Hence, the establishment of an institution that specializes in providing information dissemination and a channel for co-ordination of U.S. investors, especially for small- and medium-sized firms, would be an important catalyst in shifting the orientation of American firms towards the Asia-Pacific in general and ASEAN in particular.

ASEAN governments can also provide more business infrastructure. This is an important consideration in a firm's plans to invest in a particular country. In this respect, careful planning and implementation of infrastructure development projects by ASEAN governments can be important

elements of promoting DFI. In some cases, it may even be possible to solicit foreign involvement in infrastructure development.

B. Regulation, Fiscal Incentives, and Related Issues

Economists often discourage extensive use of regulation and fiscal incentives arguing that the distortions they introduce are likely to result in non-optimal investment decisions. In the United States, regulation of monopoly, although justified in many respects, has created problems for foreign investors. Until the Export Trading Company Act of 1982, several practices, such as packaging the provision of technology, finance, and marketing arrangements, were often prohibited, constraining the ability of U.S. banks and other intermediaries to get involved in U.S. ventures abroad. Although this law has removed some of these limits, the response to it has not been very substantial. Part of the reason lies in the nature of trading companies; to be efficient they must often operate at home as well as abroad. For example, Japanese trading companies often represent large integrated networks of domestic firms. Thus, for the United States to spawn trading firms of similar scope, it may be necessary to change the very fabric of domestic antitrust law as well — an unlikely occurrence. Until such a time, the Export Trading Company Act is likely to result in increased co-ordination of international activity by banks and other established intermediaries, but not stimulate the emergence of trading firms comparable with those of the Japanese. The effectiveness and benefits of other U.S. regulations on foreign activity and incentives for DFI abroad are also difficult to assess. Krause⁷ points out that revision of laws regarding corrupting foreign officials and taxation of foreign income could provide further incentives for U.S. trade and investment, a point further emphasized by the ASEAN-U.S. Business Council.⁸ A recent revision of this law may reduce some of its adversarial consequences. No analytical assessment of OPIC's increased insurance of DFI in developing economies is known, but the growth of OPIC's importance in the mid-1980s is impressive and increased OPIC activity is likely to assist in the advancement of DFI as well as forge a closer relationship between the U.S. Government and U.S. private firms interested in making foreign investments. It is also possible that special incentives for DFI in declining industries could be beneficial; assistance would have to be provided for simultaneous labour retraining programmes in the United States. Such schemes could promote more efficient rationalization of production capacity in activities where the United States is clearly losing its comparative advantage (for example, many textile product lines, some wood products). None the less, these cases of direct intervention should be the exception, not the rule. In most cases, the greatest benefits will be reaped by promoting the free operation of undistorted, competitive markets. This principle extends to developing economies as well.

We have already discussed host-government investment incentives and

performance requirements, suggesting that the response of U.S. MNCs in ASEAN has been limited. Strict performance requirements are not generally helpful because increased costs and welfare losses result. Rather, the use of flexible guidelines should be emphasized. Most importantly, efficiency and competition, correct fiscal and monetary policies, and other policies resulting in an improved investment environment are essential in attracting optimal DFI and other capital flows.

C. Potential for Constructive ASEAN-U.S. Investment Agreements

There is significant potential for beneficial agreements to be reached in the investment area. The following are major areas which such agreements might cover.

First, there should be greater co-ordination of information exchanges and greater efforts to provide public information to investors as discussed above.

Next, there is a potential for increased ASEAN-U.S. co-operation in the development of ASEAN business infrastructure. Use of U.S. and other forms of economic assistance to this end would appear particularly beneficial although all firms, not just U.S. MNCs, would be the beneficiaries.

Third, agreements to standardize and codify the types of government intervention that takes place could make investments in ASEAN subject to much less uncertainty. Such agreements could also facilitate increased and more favourable OPIC insurance and funding for investment in ASEAN if the risks of investment were substantially reduced. These agreements could substitute for costly incentive schemes in ASEAN which are apparently of limited use in promoting U.S. investment in ASEAN. Indeed, the United States should continue to consider negotiating Bilateral Investment Treaties (BITs) either with ASEAN as a group or individually. The United States has attempted to negotiate a BIT with Malaysia and Singapore. Discussions with the former encountered a stalemate on the national treatment issue, and negotiations with the latter stalled due to the question of applicability to existing investment. The Philippines and Indonesia have been unwilling to start negotiation on a BIT. However, the United States has a BIT with twelve developing countries. The successes resulting from these agreements, as well as the benefits of liberalization given above, should be incentives to ASEAN nations to reopen (or begin) discussions with the United States in this regard.

Finally, agreements to liberalize trade would be highly beneficial. Because much of the activity conducted by U.S. firms in ASEAN is trade-related, trade liberalization may be the single most beneficial step that either the United States or ASEAN can take. There are several aspects to this liberalization which are important; the following are salient. First, reducing the barriers to ASEAN-U.S. trade would be helpful for sourcing inputs and marketing output. Second, as the international division of the production process evolves, liberalization of intra-ASEAN trade and continued improve-

ments in possible foreign participation in AIJV, which are discussed in Chapter 2, will also benefit U.S. affiliates which source inputs from other affiliates in ASEAN. Third, agreements to liberalize service-sector interactions, both trade and investment, could have a large and beneficial impact on U.S. DFI in ASEAN. Fourth, agricultural sector liberalization would also be helpful, especially if it could alleviate some of the pressure caused by previous ASEAN-U.S. conflicts in this area.

NOTES

- 1 These figures come from East-West Center, Resource System Institute estimates.
- 2 The rates of return may be overstated due to problems associated with petroleum data in Indonesia.
- 3 ASEAN-U.S. Business Council (1987).
- 4 Chen (1983).
- 5 Lee (1984).
- 6 Kojima (1978).
- 7 Krause (1982).
- 8 ASEAN-U.S. Business Council (1987).

APPENDIX TABLE A5.1
Net Capital Flows in the ASEAN Countries, 1970-87
(In US\$ millions)

Country	Year	Total	Official Transfers	Private Transfers	Direct Investment	Portfolio Investment	Other Long-Term Capital	Other Short-Term Capital	Others ^a
Indonesia	1970	169	66	0	83	0	0	3	17
	1971	418	46	0	139	0	238	60	-65
	1972	384	51	0	207	0	293	154	-321
	1973	529	55	0	15	0	505	217	-263
	1974	-549	49	0	-49	0	541	-87	-1,003
	1975	-65	27	0	476	0	567	-1,889	754
	1976	641	15	0	344	0	1,638	-268	-1,088
	1977	74	24	0	235	0	1,256	-391	-1,050
	1978	1,427	14	0	279	103	1,214	121	-304
	1979	-950	30	0	226	60	1,034	-454	-1,846
	1980	-2,810	55	0	183	46	1,927	-820	-4,201
	1981	816	250	0	133	47	1,971	-290	-1,295
	1982	5,458	134	0	225	315	4,556	526	-298
	1983	6,451	104	10	292	368	4,663	731	283
	1984	2,022	114	53	222	-10	2,769	476	-1,602
	1985	2,011	27	61	310	-35	1,605	-98	141
	1986	4,170	188	71	258	268	2,356	1,295	-266
	1987	1,907	142	86	307	-37	2,302	642	-1,535
Malaysia	1970	-69	6	-65	94	0	0	-6	-98
	1971	63	17	-62	100	87	45	21	-145
	1972	216	7	-62	114	67	139	-4	-45
	1973	-165	14	-76	172	-11	72	105	-441
	1974	500	9	-52	571	11	85	152	-276
	1975	461	15	-48	349	266	105	-66	-160
	1976	-620	8	-48	381	50	174	-95	-1,090
	1977	-469	14	-46	406	65	184	-399	-693
	1978	-153	23	-68	500	79	111	-63	-735
	1979	-937	28	-36	573	194	158	-724	-1,130
	1980	265	23	-43	934	-11	98	414	-1,150
	1981	2,452	21	-55	1,265	1,131	178	42	-130
	1982	3,568	21	-53	1,397	1,804	404	140	-145
	1983	3,489	26	-35	1,261	1,410	1,296	-113	-356
	1984	1,633	24	-63	797	1,003	1,343	-123	-1,348
	1985	686	40	-46	695	335	552	350	-1,240
	1986	0	56	-19	554	599	126	33	-1,349
	1987	-2,194	167	-25	575	-948	-69	-955	-939
Philippines	1970	-21	90	29	-29	0	0	112	-223
	1971	135	100	34	-6	0	-3	251	-241
	1972	184	107	80	-21	-1	137	168	-286
	1973	-287	136	94	54	11	68	80	-730
	1974	485	154	123	4	-43	267	625	-645
	1975	1,241	153	165	97	27	393	577	-171
	1976	1,373	120	148	126	16	995	60	-92
	1977	1,484	111	148	210	7	648	123	237
	1978	1,306	122	197	101	-1	831	857	-801
	1979	1,790	126	229	7	13	1,090	453	-128

APPENDIX TABLE A5.1 (Continued)

Country	Year	Total	Official Transfers	Private Transfers	Direct Investment	Portfolio Investment	Other Long-Term Capital	Other Short-Term Capital	Others ^a
	1980	2,352	135	299	- 106	4	980	1,806	- 766
	1981	2,567	147	325	172	3	1,131	712	77
	1982	3,685	152	322	16	1	1,548	1,281	365
	1983	3,223	235	237	105	7	1,044	- 1,550	3,145
	1984	1,654	268	118	9	- 3	285	474	503
	1985	397	207	172	12	5	3,051	- 2,741	- 309
	1986	- 555	206	235	127	13	1,158	- 1,059	- 1,235
	1987	1,093	197	357	186	20	249	- 274	358
Singapore	1970	564	13	- 21	93	0	47	33	399
	1971	712	11	- 23	116	0	42	129	437
	1972	498	5	- 2	141	64	9	182	99
	1973	520	10	- 14	327	33	74	289	- 199
	1974	983	2	- 41	280	15	58	117	552
	1975	546	0	- 38	254	- 2	21	307	4
	1976	519	- 3	- 46	186	50	69	544	- 281
	1977	250	- 4	- 41	206	96	103	202	- 312
	1978	412	- 3	- 36	186	- 127	239	714	- 561
	1979	701	- 4	- 31	669	- 78	226	181	- 262
	1980	1,456	- 3	- 104	1,138	13	312	119	- 19
	1981	1,317	- 8	- 145	1,675	- 48	84	456	- 697
	1982	1,091	- 11	- 194	1,298	- 29	565	475	- 1,013
	1983	397	- 8	- 207	1,085	- 49	- 252	1,680	- 1,852
	1984	171	- 9	- 214	1,210	- 151	- 285	807	- 1,187
	1985	- 210	- 8	- 205	809	175	34	- 319	- 696
	1986	- 732	- 19	- 172	479	- 68	- 71	- 1,648	767
	1987	- 740	- 22	- 178	982	161	- 421	- 397	- 865
Thailand	1970	232	46	3	43	0	0	54	86
	1971	218	37	7	39	0	41	16	78
	1972	110	29	30	68	0	88	38	- 143
	1973	191	27	117	77	13	- 11	240	- 272
	1974	328	26	215	189	12	188	137	- 439
	1975	770	24	56	86	1	169	215	219
	1976	486	18	29	79	- 1	240	221	- 100
	1977	1,119	18	22	106	0	322	617	34
	1978	1,142	34	6	50	76	520	715	- 259
	1979	2,091	37	23	51	180	1,246	499	55
	1980	2,288	142	75	187	96	1,824	- 63	27
	1981	2,738	119	50	288	44	1,553	594	90
	1982	1,185	108	75	189	68	978	58	- 291
	1983	3,150	124	153	348	108	844	662	911
	1984	2,282	115	59	400	155	1,231	767	- 445
	1985	1,702	118	47	162	895	558	- 99	21
	1986	- 22	161	64	261	- 29	- 174	- 219	- 86
	1987	754	125	100	182	346	43	462	- 504

^aIncludes net errors and omissions, counterpart items, exceptional financing, liabilities constituting foreign authorities reserves, and total change in reserves.

Sources: IMF, *International Financial Statistics* (yearbook, 1979, 1987, and 1988; October 1988).

APPENDIX TABLE A5.2
Net Financial Flows to the ASEAN Countries from OECD and OPEC Countries, 1976-86
(In US\$ millions)

Recipient Country	Year	Total			United States			Japan			Other DAC			Multi-lateral & OPEC Official
		Total	Official	Private	Total	Official	Private	Total	Official	Private	Total	Official	Private	
Indonesia	1976	2,698	1,083	1,615	272	325	-53	1,110	201	909	981	223	758	335
	1977	908	837	71	-203	147	-350	349	148	200	441	221	221	321
	1978	1,446	941	504	299	151	148	646	228	419	238	300	-62	262
	1979	430	907	-477	-106	161	-267	143	227	-84	91	217	-126	302
	1980	1,780	1,321	459	267	109	158	541	350	191	521	412	109	451
	1981	4,547	1,237	3,310	539	-1	540	2,384	304	2,080	1,109	419	691	515
	1982	2,871	1,579	1,291	494	-2	496	744	361	384	852	440	412	780
	1983	3,116	1,520	1,597	989	250	739	450	245	205	1,011	358	653	667
	1984	3,323	1,818	1,505	748	218	530	561	166	396	1,101	522	579	913
	1985	1,823	1,325	499	87	46	41	524	153	371	387	301	87	826
Malaysia	1986	1,655	1,458	198	27	26	1	111	172	-62	670	412	258	847
	1976	307	155	152	14	14	0	81	34	47	125	21	105	87
	1977	240	194	47	-135	10	-145	46	30	17	223	47	175	107
	1978	204	163	41	-20	-16	-4	212	48	164	-84	35	-119	97
	1979	718	213	505	-5	-3	-2	209	75	135	392	20	373	122
	1980	689	217	472	54	-4	58	167	66	102	352	40	312	115
	1981	991	258	733	296	-4	300	73	65	8	492	67	425	130
	1982	834	265	569	574	0	574	531	75	456	-437	25	-461	165
	1983	1,750	359	1,391	249	67	182	920	93	827	439	57	382	142
	1984	1,420	454	966	45	-12	57	985	305	681	298	69	229	92
Philippines	1985	234	380	-145	-473	-12	-461	296	118	178	365	227	138	47
	1986	49	209	-160	-166	-11	-155	115	34	81	106	192	-86	-6
	1976	1,085	30	705	550	96	454	253	80	173	139	61	78	144
	1977	716	351	365	260	143	117	122	35	87	184	23	161	150
	1978	1,061	422	639	166	125	41	461	55	406	222	29	193	213
	1979	1,153	605	548	425	144	281	332	89	242	55	31	24	341

	1980	975	534	442	116	34	82	263	94	168	237	46	191	360
	1981	1,244	860	383	86	24	62	298	210	88	313	79	234	547
	1982	945	621	323	121	40	81	337	153	185	154	97	58	332
	1983	1,543	1,283	260	232	146	86	341	287	54	212	92	120	758
	1984	946	784	162	266	118	148	201	221	-20	109	76	33	370
	1985	635	882	247	37	252	-215	114	244	-130	236	138	98	249
	1986	1,118	1,132	-14	438	420	18	462	453	9	60	100	-41	158
Singapore	1976	171	35	136	6	16	-10	57	6	51	98	4	95	10
	1977	215	8	207	14	-3	17	98	9	89	102	2	101	1
	1978	364	103	262	91	39	52	98	4	95	116	1	115	60
	1979	527	95	433	130	93	37	286	2	284	116	5	111	-5
	1980	752	43	709	311	25	286	122	4	118	310	4	306	10
	1981	1,385	11	1,373	637	-14	651	310	11	299	440	17	423	-3
	1982	914	23	891	44	-15	59	417	8	409	453	30	423	0
	1983	192	-30	222	-46	-34	-12	176	4	172	63	0	62	-1
	1984	1,339	87	1,252	479	56	423	246	28	217	622	11	611	-9
	1985	-192	-56	136	-536	-53	-483	154	8	146	206	5	200	-16
Thailand	1986	-122	-188	67	-603	-184	-419	176	15	161	328	3	325	-23
	1976	207	230	-23	-5	7	-12	38	43	-5	9	14	-6	166
	1977	284	254	31	29	49	-20	72	53	19	59	28	32	124
	1978	643	408	236	4	12	-8	229	118	110	184	51	133	227
	1979	946	638	308	143	89	54	339	180	158	202	107	96	262
	1980	1,114	731	382	190	30	160	275	267	8	317	102	215	332
	1981	1,563	782	781	240	8	232	418	223	195	505	150	355	401
	1982	1,238	822	416	70	15	55	396	170	226	230	94	135	543
	1983	1,277	1,031	246	166	16	150	430	318	112	127	143	-16	554
	1984	1,472	870	602	241	22	219	583	265	318	200	134	65	448
	1985	880	806	74	-119	-5	-114	409	265	144	199	155	44	391
	1986	552	583	-32	23	6	17	361	243	118	-89	78	-167	257

Sources: As for Table 5.4.

APPENDIX TABLE A5.3
U.S. Direct Investment Position Abroad by Sectors, 1976-87
(In US\$ millions)

Host Region/ Country	Year	All Sectors	Petroleum	Manufac- turing Subtotal	Food and Kindred Products	Chemicals	Primary and Fabri- cated Metals	Non- Electric Machinery	Electric & Electronic Machinery	Trans- portation Equipment	Trade ^a	Banking	Other Finance, Insurance, & Real Estate
Indonesia	1976	1,298	1,029	103	2	27	n.a.	0	12	0	9	5	5
	1977	984	736	97	2	30	n.a.	0	13	0	9	8	5
	1978	1,253	996	92	4	23	n.a.	1	n.a.	0	13	9	5
	1979	1,166	875	102	6	16	n.a.	1	n.a.	0	16	11	6
	1980	1,314	962	140	7	22	n.a.	1	n.a.	0	20	9	6
	1981	1,847	1,501	141	9	26	8	1	21	0	20	9	6
	1982	2,615	2,231	144	10	29	3	1	31	0	19	6	8
	1983	2,770	2,414	111	5	39	13	n.a.	18	0	n.a.	15	18
	1984	4,093	3,549	231	5	198	6	n.a.	0	0	n.a.	25	22
	1985	4,475	3,760	238	5	187	7	3	n.a.	0	n.a.	17	184
	1986	4,395	3,766	225	6	191	7	3	n.a.	0	n.a.	- 11	165
	1987	3,929	3,251	234	7	196	7	9	- 2	0	n.a.	3	195
Malaysia	1976	419	278	76	3	11	2	3	38	1	39	6	1
	1977	464	n.a.	86	3	15	2	4	46	0	n.a.	8	2
	1978	355	n.a.	65	4	22	2	3	19	1	n.a.	6	2
	1979	559	n.a.	110	4	24	2	3	59	1	n.a.	10	3
	1980	632	n.a.	179	4	27	5	5	114	2	n.a.	7	3
	1981	847	497	242	5	30	5	n.a.	157	3	68	10	3
	1982	1,030	669	246	6	27	6	n.a.	143	n.a.	74	8	7
	1983	1,157	n.a.	270	6	18	6	n.a.	176	0	82	18	14

	1984	1,101	630	337	6	18	7	n.a.	251	0	79	23	16
	1985	1,140	604	408	8	19	n.a.	n.a.	309	0	65	27	15
	1986	1,109	694	316	8	19	6	n.a.	236	0	55	1	21
	1987	1,111	704	329	4	21	5	n.a.	246	0	52	- 8	11
Philippines	1976	698	215	274	85	75	12	1	25	n.a.	87	72	23
	1977	837	273	317	100	88	14	1	34	n.a.	76	93	26
	1978	933	258	374	124	109	14	1	40	n.a.	82	112	26
	1979	1,256	381	495	142	127	16	3	56	n.a.	95	138	28
	1980	1,259	335	546	149	147	n.a.	4	95	8	86	116	29
	1981	1,319	263	563	198	160	18	4	n.a.	n.a.	93	141	n.a.
	1982	1,297	297	444	84	163	18	4	n.a.	n.a.	80	166	n.a.
	1983	1,331	434	371	53	147	12	0	129	n.a.	86	168	105
	1984	1,263	202	433	83	180	12	0	121	- 34	74	253	99
	1985	1,032	92	385	33	172	13	0	99	- 2	71	177	106
	1986	1,135	106	568	195	187	13	0	100	- 4	63	238	- 36
	1987	1,211	101	602	222	213	14	- 4	91	- 2	84	237	1
Singapore	1976	402	148	109	3	2	25	24	45	0	51	37	5
	1977	516	232	106	5	3	28	15	45	1	75	49	18
	1978	726	267	234	6	7	30	28	143	11	97	64	21
	1979	865	271	296	7	14	23	30	177	29	141	76	24
	1980	1,204	460	392	8	18	29	39	228	49	163	90	30
	1981	1,839	755	587	9	22	44	59	336	n.a.	155	130	139
	1982	1,822	677	574	9	22	n.a.	54	279	n.a.	180	138	172
	1983	1,821	491	653	4	43	9	75	375	134	241	330	54
	1984	1,932	419	896	16	83	7	102	562	113	274	245	55
	1985	1,874	372	999	15	102	0	181	606	83	191	223	48
	1986	2,238	469	1,353	15	138	- 2	245	845	100	187	132	46
	1987	2,521	579	1,493	22	n.a.	- 3	208	966	61	150	163	72

APPENDIX TABLE A5.3 (Continued)

Host Region/ Country	Year	All Sectors	Petroleum	Manufac- turing Subtotal	Food and Kindred Products	Chemicals	Primary and Fabri- cated Metals	Non- Electric Machinery	Electric & Electronic Machinery	Trans- portation Equipment	Trade ^a	Banking	Other Finance, Insurance, & Real Estate
Thailand	1976	234	116	47	9	7	4	0	11	1	31	25	3
	1977	237	n.a.	51	9	9	4	0	11	0	n.a.	27	6
	1978	242	n.a.	49	8	9	n.a.	0	n.a.	0	n.a.	29	5
	1979	200	n.a.	65	10	19	n.a.	0	n.a.	0	n.a.	31	1
	1980	361	n.a.	87	13	30	n.a.	0	20	0	n.a.	39	1
	1981	551	406	26	12	29	n.a.	0	n.a.	0	72	41	0
	1982	585	426	30	4	27	n.a.	0	n.a.	0	78	46	0
	1983	892	588	175	8	33	2	0	108	0	46	42	n.a.
	1984	1,081	787	182	5	40	2	1	113	0	57	42	n.a.
	1985	1,074	790	142	n.a.	37	2	n.a.	104	0	46	78	2
	1986	1,079	720	217	6	40	2	- 5	150	0	38	75	8
	1987	1,282	857	256	6	n.a.	n.a.	4	172	0	49	87	9

n.a. = Not available.

^aWholesale and retail trade for 1977-82, wholesale trade only for 1983-87.Sources: U.S. Department of Commerce, Bureau of Economic Analysis, *U.S. Direct Investment Aboard* (1977), *Survey of Current Business* (August 1984 and 1988); Mimeographs, 25 January 1985 and 21 November 1986.

APPENDIX TABLE A5.4
U.S. Direct Investment Capital Flows Abroad, 1977-87
(In US\$ millions)

Host Region/ Country	Year	All Sectors	Petroleum	Manufac- turing Subtotal	Food and Kindred Products	Chemicals	Primary and Fabri- cated Metals	Non- Electric Machinery	Electric & Electronic Machinery	Trans- portation Equipment	Trade ^a	Banking	Other Finance, Insurance, & Real Estate
Indonesia	1977	-275	-252	-9	-4	3	0	0	1	0	n.a.	3	1
	1978	240	232	-6	2	-8	-2	0	n.a.	0	4	0	0
	1979	-79	-113	11	2	-6	-2	0	n.a.	0	3	2	1
	1980	148	87	38	2	6	4	0	1	0	4	-2	0
	1981	463	471	-1	1	3	n.a.	0	n.a.	0	0	0	0
	1982	734	699	4	1	3	-6	0	10	0	-1	-2	1
	1983	445	437	-19	n.a.	2	n.a.	n.a.	n.a.	0	n.a.	8	1
	1984	930	910	-25	0	7	0	n.a.	-17	0	n.a.	9	4
	1985	176	191	8	0	-14	0	n.a.	n.a.	0	n.a.	-8	6
	1986	-79	18	3	0	4	0	0	n.a.	0	n.a.	-27	-19
	1987	-475	-516	7	1	3	0	6	n.a.	0	n.a.	14	29
Malaysia	1977	39	26	8	0	5	0	1	6	0	7	2	0
	1978	-117	-106	-25	0	5	0	-1	-29	0	11	0	0
	1979	201	143	44	0	2	0	1	40	1	8	4	-1
	1980	53	11	50	0	3	2	1	35	1	-5	-3	0
	1981	214	n.a.	63	1	3	1	n.a.	46	1	n.a.	2	0
	1982	169	169	-3	1	-4	-8	2	-13	n.a.	5	-1	4
	1983	-81	n.a.	25	0	-1	1	n.a.	15	0	17	5	n.a.
	1984	-113	n.a.	52	0	0	2	n.a.	61	-1	-3	5	1
	1985	42	-26	70	0	0	n.a.	n.a.	58	0	-10	4	-1
	1986	-36	90	-104	-1	0	n.a.	n.a.	-82	0	-3	-27	6
	1987	13	9	12	-3	2	0	n.a.	8	0	-2	-9	0

APPENDIX TABLE A5.4 (Continued)

Host Region/ Country	Year	All Sectors	Petroleum	Manufac- turing Subtotal	Food and Kindred Products	Chemicals	Primary and Fabri- cated Metals	Non- Electric Machinery	Electric & Electronic Machinery	Trans- portation Equipment	Trade ^a	Banking	Other Finance, Insurance, & Real Estate
Philippines	1977	115	n.a.	36	11	11	n.a.	0	4	n.a.	-25	n.a.	3
	1978	94	-16	59	24	24	1	0	5	-2	6	20	-3
	1979	293	124	91	16	18	2	2	16	n.a.	13	25	2
	1980	1	-46	51	7	20	n.a.	1	39	n.a.	-9	-23	1
	1981	52	-76	13	46	13	n.a.	0	n.a.	n.a.	6	25	n.a.
	1982	-24	34	-102	-106	7	1	0	2	1	-12	27	n.a.
	1983	68	99	-10	12	-2	4	0	6	n.a.	-20	19	n.a.
	1984	-69	-234	57	30	34	0	0	-8	n.a.	-7	85	-5
	1985	-244	-140	-24	-39	-8	0	0	-13	33	-4	-77	7
	1986	114	21	47	22	15	1	0	0	2	-8	59	-2
	1987	48	-5	14	7	26	1	-3	-9	2	21	-7	37
Singapore	1977	124	91	-13	0	1	n.a.	-9	n.a.	0	28	11	n.a.
	1978	211	33	131	1	2	2	13	98	10	23	16	3
	1979	127	4	50	1	7	-6	0	24	18	43	12	3
	1980	338	193	95	0	5	5	9	52	20	21	13	6

	1981	630	295	193	1	3	16	21	106	n.a.	-8	39	109
	1982	53	-78	64	1	1	n.a.	-19	35	n.a.	24	6	29
	1983	95	-67	33	0	11	-1	-56	70	4	59	42	18
	1984	220	-87	243	12	40	-1	31	183	-21	40	39	0
	1985	-45	-47	59	-1	15	-2	50	27	-30	-29	-19	-7
	1986	195	-41	334	-1	24	-2	84	222	7	-6	-91	-2
	1987	321	111	140	7	n.a.	-1	-37	121	-39	-37	72	19
Thailand	1977	9	-7	4	1	3	0	0	1	0	8	1	2
	1978	7	n.a.	-7	-1	-1	n.a.	0	n.a.	0	n.a.	4	-1
	1979	-42	n.a.	17	2	10	n.a.	0	n.a.	0	n.a.	3	-3
	1980	160	128	21	3	11	0	0	n.a.	0	8	8	-1
	1981	190	n.a.	-61	-1	-1	-1	0	n.a.	0	n.a.	2	-1
	1982	36	23	5	-6	-2	n.a.	0	14	0	7	3	0
	1983	110	105	12	-1	10	-3	0	2	0	n.a.	6	n.a.
	1984	186	199	-23	-6	6	0	1	-23	0	10	0	n.a.
	1985	-43	-11	-51	n.a.	-2	0	n.a.	-20	0	-5	21	n.a.
	1986	3	-70	75	n.a.	3	0	n.a.	46	0	-8	-5	6
	1987	196	137	33	0	n.a.	n.a.	10	22	0	10	13	-1

n.a. = Not available.

^aWholesale and retail trade for 1977-82, wholesale trade only for 1983-87.

Sources: As for Appendix Table A5.3.

APPENDIX TABLE A5.5
Income from U.S. Direct Investment Abroad by Sectors, 1976-87
(In US\$ millions)

Host Region/ Country	Year	All Sectors	Petroleum	Manufac- turing Subtotal	Food and Kindred Products	Chemicals	Primary and Fabri- cated Metals	Non- Electric Machinery	Electric & Electronic Machinery	Trans- portation Equipment	Trade ^a	Banking	Other Finance, Insurance, & Real Estate
Indonesia	1976	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	1977	596	574	9	1	3	-1	0	4	0	2	8	1
	1978	825	798	7	2	-2	-2	0	4	0	-2	7	0
	1979	1,170	1,087	21	2	4	-1	0	4	n.a.	5	7	1
	1980	2,080	1,973	32	3	5	3	0	5	0	5	n.a.	1
	1981	2,159	2,056	n.a.	4	9	n.a.	0	11	0	n.a.	16	n.a.
	1982	1,996	1,924	26	3	8	3	0	3	0	1	13	1
	1983	1,630	1,583	7	2	8	9	0	-1	0	n.a.	20	2
	1984	1,985	1,940	-4	2	5	1	0	-7	0	14	13	5
	1985	1,385	1,371	-5	1	-7	1	0	4	0	8	3	4
	1986	564	546	11	2	11	0	0	5	0	2	-13	3
	1987	975	871	14	2	12	1	0	0	0	n.a.	4	n.a.
Malaysia	1976	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	1977	45	15	13	0	3	0	0	8	0	9	4	0
	1978	106	63	19	0	4	0	0	10	0	13	4	0
	1979	265	n.a.	30	1	5	0	1	14	1	17	4	0
	1980	314	n.a.	56	1	5	0	1	42	1	n.a.	n.a.	n.a.
	1981	265	n.a.	n.a.	1	3	n.a.	1	41	1	n.a.	4	1
	1982	273	n.a.	34	2	2	-4	3	25	1	14	8	n.a.
	1983	381	n.a.	66	0	2	1	2	58	0	n.a.	11	1

	1984	393	n.a.	47	1	2	3	0	43	0	n.a.	12	1
	1985	332	n.a.	n.a.	0	3	0	0	23	0	22	14	1
	1986	155	n.a.	-10	0	2	-1	0	-8	0	18	-6	4
	1987	288	n.a.	22	1	5	0	1	8	0	n.a.	2	0
Philippines	1976	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	1977	91	-6	54	18	22	2	0	8	n.a.	10	24	3
	1978	111	-6	69	28	24	2	1	9	n.a.	8	30	1
	1979	136	-6	78	31	31	2	1	8	n.a.	15	34	2
	1980	168	17	73	29	31	2	1	15	n.a.	7	40	3
	1981	202	n.a.	62	27	31	1	0	15	n.a.	6	34	n.a.
	1982	47	n.a.	-52	-108	28	0	0	16	2	-6	32	22
	1983	3	10	-35	-32	14	0	0	4	-14	-19	29	-10
	1984	84	-10	-6	-17	35	0	0	2	-24	-5	71	-1
	1985	116	-4	n.a.	-44	26	1	0	7	n.a.	n.a.	33	4
	1986	203	-5	66	29	22	1	0	1	3	7	86	-1
	1987	194	n.a.	121	65	41	1	0	12	2	10	25	n.a.
Singapore	1976	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	1977	97	22	28	1	1	5	4	15	3	10	35	0
	1978	160	39	68	n.a.	2	6	10	36	n.a.	13	33	1
	1979	237	70	101	1	2	9	20	44	n.a.	26	26	4
	1980	332	89	147	1	2	15	23	54	n.a.	25	57	7
	1981	482	100	236	1	2	n.a.	34	99	n.a.	36	100	5
	1982	466	71	215	1	7	n.a.	n.a.	67	77	39	117	17
	1983	510	79	263	0	n.a.	-1	48	120	n.a.	33	123	9
	1984	511	32	320	-3	n.a.	-1	27	176	n.a.	36	112	8
	1985	397	-39	335	-2	n.a.	-2	50	138	n.a.	19	77	1
	1986	479	41	403	-1	n.a.	-2	35	199	n.a.	29	5	-3
	1987	734	33	568	8	n.a.	-1	84	252	n.a.	37	89	-2

APPENDIX TABLE A5.5 (Continued)

Host Region/ Country	Year	All Sectors	Petroleum	Manufac- turing Subtotal	Food and Kindred Products	Chemicals	Primary and Fabri- cated Metals	Non- Electric Machinery	Electric & Electronic Machinery	Trans- portation Equipment	Trade ^a	Banking	Other Finance, Insurance, & Real Estate
Thailand	1976	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	1977	21	- 9	11	2	4	0	0	0	0	13	3	1
	1978	26	- 2	12	2	4	0	0	0	0	13	1	1
	1979	- 58	- 89	13	2	5	1	0	1	0	14	2	- 3
	1980	14	- 13	14	1	7	0	0	3	0	16	3	0
	1981	38	28	7	- 2	8	- 1	0	- 3	0	9	2	0
	1982	- 28	- 23	- 22	- 5	5	0	0	- 25	0	13	5	0
	1983	1	- 43	35	1	8	0	0	n.a.	0	6	5	1
	1984	51	15	21	1	6	0	1	12	0	12	0	0
	1985	140	99	27	0	3	0	6	17	0	7	1	- 1
	1986	146	104	19	2	3	0	2	10	0	17	- 2	2
	1987	173	n.a.	51	1	7	0	n.a.	29	0	17	n.a.	3

n.a. = Not available.

^aWholesale and retail trade for 1977-82, wholesale trade only for 1983-87.

Sources: As for Appendix Table A5.3.

APPENDIX TABLE A5.6
Rates of Return on U.S. Direct Investment Abroad by Sectors, 1976-87
(In US\$ millions)

Host Region/ Country	Year	All Sectors	Petroleum	Manufac- turing Subtotal	Food and Kindred Products	Chemicals	Primary and Fabri- cated Metals	Non- Electric Machinery	Electric & Electronic Machinery	Trans- portation Equipment	Trade ^a	Banking	Other Finance, Insurance, & Real Estate
Indonesia	1976	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	1977	52	65	9	50	11	n.a.	n.a.	32	n.a.	22	123	20
	1978	74	92	7	67	- 8	n.a.	n.a.	n.a.	n.a.	- 18	82	0
	1979	97	116	22	40	21	n.a.	0	n.a.	n.a.	34	70	18
	1980	168	215	26	46	26	n.a.	0	n.a.	n.a.	28	n.a.	17
	1981	137	167	n.a.	50	38	n.a.	0	n.a.	n.a.	n.a.	178	n.a.
	1982	89	103	18	32	29	55	0	12	n.a.	5	173	14
	1983	64	72	6	n.a.	21	n.a.	n.a.	n.a.	n.a.	n.a.	182	11
	1984	58	65	- 2	40	4	11	n.a.	n.a.	n.a.	n.a.	65	25
	1985	32	38	- 2	20	- 4	15	0	n.a.	n.a.	n.a.	14	4
Malaysia	1986	13	15	5	36	6	0	0	n.a.	n.a.	n.a.	- 433	2
	1987	23	25	6	31	6	14	0	0	n.a.	n.a.	- 100	0
	1976	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	1977	10	n.a.	16	0	23	0	0	19	n.a.	n.a.	57	0
	1978	26	n.a.	25	0	22	0	0	31	n.a.	n.a.	57	0
	1979	58	n.a.	34	25	22	0	33	36	100	n.a.	50	0
	1980	53	n.a.	39	25	20	0	25	49	67	n.a.	n.a.	n.a.
	1981	36	n.a.	n.a.	22	11	n.a.	n.a.	30	40	n.a.	47	33
	1982	29	n.a.	14	36	7	- 73	n.a.	17	n.a.	20	89	n.a.
	1983	32	n.a.	26	0	11	18	n.a.	34	n.a.	n.a.	71	n.a.
	1984	35	n.a.	15	17	11	46	n.a.	20	n.a.	n.a.	59	7
	1985	30	0	0	0	16	0	n.a.	8	n.a.	31	56	6
	1986	14	0	- 3	0	11	- 33	n.a.	- 3	n.a.	30	- 43	22
	1987	26	0	7	17	25	0	n.a.	3	n.a.	0	- 57	0

Appendix Table A5.6 (Continued)

Host Region/ Country	Year	All Sectors	Petroleum	Manufacturing Subtotal	Food and Kindred Products	Chemicals	Primary and Fabricated Metals	Non-Electric Machinery	Electric & Electronic Machinery	Transportation Equipment	Trade ^a	Banking	Other Finance, Insurance, & Real Estate
Philippines	1976	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	1977	12	- 2	18	19	27	15	0	27	n.a.	12	29	12
	1978	13	- 2	20	25	24	14	100	24	n.a.	10	29	4
	1979	12	- 2	18	23	26	13	50	17	n.a.	17	27	7
	1980	13	5	14	20	23	n.a.	29	20	n.a.	8	32	11
	1981	16	n.a.	11	16	20	n.a.	0	n.a.	n.a.	7	26	n.a.
	1982	4	n.a.	- 10	- 77	17	0	0	n.a.	n.a.	- 7	21	n.a.
	1983	0	2	- 10	- 84	9	0	n.a.	3	n.a.	- 23	18	n.a.
	1984	6	- 3	- 1	- 25	21	0	n.a.	2	n.a.	- 6	34	- 1
	1985	10	- 3	0	- 76	15	8	n.a.	6	0	0	15	4
	1986	19	- 5	14	25	12	8	n.a.	1	- 100	10	41	- 3
	1987	17	0	21	31	21	7	0	13	- 67	14	11	0
Singapore	1976	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	1977	21	12	26	25	40	19	21	33	n.a.	16	81	0
	1978	26	16	40	n.a.	40	21	47	38	n.a.	15	58	5
	1979	30	26	38	15	19	34	69	28	n.a.	22	37	18
	1980	32	24	43	13	13	58	67	27	n.a.	16	69	26

	1981	32	16	48	12	10	n.a.	69	35	n.a.	23	91	6
	1982	25	10	37	11	32	n.a.	n.a.	22	n.a.	23	87	11
	1983	29	15	41	0	n.a.	- 12	49	35	n.a.	15	40	20
	1984	27	7	41	- 30	n.a.	- 13	31	38	n.a.	14	39	15
	1985	21	- 10	35	- 13	0	- 57	35	24	0	8	33	2
	1986	23	10	34	- 7	0	200	16	27	0	15	3	- 6
	1987	31	6	40	43	0	40	37	28	0	22	60	- 3
Thailand	1976	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	1977	9	n.a.	22	22	50	0	n.a.	0	n.a.	n.a.	12	22
	1978	11	n.a.	24	24	44	n.a.	n.a.	n.a.	n.a.	n.a.	4	18
	1979	- 26	n.a.	23	22	36	n.a.	n.a.	n.a.	n.a.	n.a.	7	- 100
	1980	5	n.a.	18	9	29	n.a.	n.a.	n.a.	n.a.	n.a.	9	0
	1981	8	n.a.	12	- 16	27	n.a.	n.a.	n.a.	n.a.	n.a.	5	n.a.
	1982	- 5	- 6	- 79	- 63	18	n.a.	n.a.	n.a.	n.a.	17	11	n.a.
	1983	0	- 8	21	13	29	0	n.a.	n.a.	n.a.	n.a.	13	n.a.
	1984	5	2	12	15	16	0	n.a.	11	n.a.	23	0	n.a.
	1985	13	13	17	0	8	0	1,200	16	n.a.	14	2	- 100
	1986	14	14	11	67	8	0	- 80	8	n.a.	40	- 3	40
	1987	15	0	22	17	35	0	0	18	n.a.	39	0	35

n.a. = Not available.

^aWholesale and retail trade for 1977-82, wholesale trade only for 1983-87.

Sources: As for Appendix Table A5.3.

APPENDIX TABLE A5.7
Employment of Non-Bank Affiliates in the ASEAN Countries, 1977-86
(In number of employees)

Host Region/ Country	Year	All Sectors	Petroleum	Manufac- turing Subtotal	Food and Kindred Products	Chemicals	Primary and Fabri- cated Metals	Non- Electric Machinery	Electric & Electronic Machinery	Trans- portation Equipment	Trade ^a	Other Finance, Insurance, & Real Estate
Indonesia	1977	52,465	12,792	14,454	306	2,224	293	-	5,250	-	2,323	273
	1983	49,700	19,000	11,000	300	3,100	700	100	3,000	0	500	300
	1986	38,300	18,800	7,600	400	2,300	200	200	-	0	400	300
Malaysia	1977	35,969	1,324	28,608	456	1,100	-	-	23,586	-	1,690	202
	1983	62,800	2,500	52,300	1,100	1,400	500	900	44,600	0	3,600	400
	1986	62,800	3,000	54,600	1,200	1,300	100	1,000	43,000	0	3,100	400
Philippines	1977	111,768	1,978	80,221	25,379	7,696	-	-	8,922	-	8,331	1,268
	1983	104,400	1,200	89,000	41,300	8,100	2,100	0	16,600	-	4,700	2,000
	1986	92,100	-	72,700	31,800	7,400	1,300	300	12,500	300	3,700	1,900
Singapore	1977	44,184	2,760	35,330	-	359	1,965	3,750	25,162	-	3,075	340
	1983	51,300	3,900	38,400	400	600	400	9,800	23,500	2,600	4,900	600
	1986	47,200	3,000	35,200	800	1,500	200	9,500	20,700	1,600	4,200	600
Thailand	1977	27,337	-	15,130	4,227	1,211	998	0	-	-	6,450	-
	1983	29,400	-	19,000	5,300	1,700	200	0	7,700	0	2,400	100
	1986	29,700	-	22,200	-	1,700	100	600	11,300	0	3,000	-

- = Not disclosed or employment equal to zero.

^aRetail and wholesale trade for 1977, wholesale trade only for 1983 and 1986.

Sources: As for Table 5.9.

U.S. AND ASEAN ECONOMIC OUTLOOK

I. OVERVIEW OF WORLD ECONOMIC OUTLOOK

The outlook for economic growth in the industrial and developing nations has improved considerably over what it was a year ago. The October 1987 stock market crash did little to disrupt real growth in world output and trade. Instead, growth in the industrial countries became even more robust in 1988. Thus, the world economy, helped by the continuous expansion of the United States and Japan, has experienced an uninterrupted expansion since 1983. Growth in world output between 1983 and 1987 averaged 3.4 per cent per annum (Table 6.1).

Real growth in the developing countries has also recovered somewhat from the dismal performance during 1981-83 of less than 2 per cent per annum. In 1988 and 1989, real growth is expected to continue to rise from 3.6 to 4.0 per cent (Table 6.1). The developing Asian countries will continue to grow much faster than the average for the developing world, at 7.3 and 6.3 per cent over the same two years.

The stronger growth in both industrial and developing countries has been led by even more rapid expansion in world trade. Merchandise trade was virtually stagnant in the early 1980s. Since then it has grown at an average real rate of nearly 6 per cent, just a little below the growth rate of the 1970s (Table 6.2).

Although the prospects for continued world growth appear favourable at least for the short term, a number of uncertainties remain. The bilateral trade imbalances among the United States, West Germany, and Japan reflect continuing macroeconomic imbalances. While U.S. budget and trade deficits have improved, they cannot be expected to disappear overnight. If more substantial progress in reducing the U.S. trade deficit is not made soon through measures such as dollar depreciation, improved U.S. productivity, and demand expansion outside the United States (and hence greater U.S. exports), then a correction may come about through a recession. The global

TABLE 6.1
World Output, 1970-89^a
 (Annual changes, in percentages)

	1970-79 ^b	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
World	4.1	2.2	1.7	0.5	2.7	4.5	3.4	3.2	3.2	3.8	3.1
Industrial countries	3.3	1.4	1.5	- 0.3	2.8	5.0	3.3	2.7	3.3	3.9	2.8
Developing countries	5.7	3.4	1.8	1.7	1.9	4.0	3.5	4.2	3.4	3.6	4.0
Africa	4.4	3.6	2.0	1.2	- 1.3	0.8	3.7	2.1	2.3	2.6	2.8
Asia	5.4	5.5	5.8	5.2	7.6	7.8	6.3	6.4	6.8	7.3	6.3
Europe	5.6	0.1	0.0	1.1	1.9	4.3	2.4	4.1	2.5	2.6	2.8
Middle East	7.3	- 2.5	- 2.1	0.2	0.9	- 0.2	- 1.1	2.2	- 0.5	0.9	1.8
Western hemisphere	5.7	6.0	0.2	- 1.1	- 2.4	3.5	3.5	3.9	2.5	1.4	3.4

^aReal GDP (or GNP) for industrial and developing countries and real net material product (NMP) for other countries. Composites for the country groups are averages of percentage changes for individual countries weighted by the average U.S. dollar value of their respective GDPs (GNPs or NMPs where applicable) over the preceding three years. Because of the uncertainty surrounding the valuation of the composite NMP of the other countries, they have been assigned — somewhat arbitrarily — a weight of 15 per cent in the calculation of the growth of world output.

^bCompound annual rates of change, excluding China.

Source: IMF, *World Economic Outlook* (October 1988).

TABLE 6.2
Real Growth Rate of World Trade, 1970-89
(Annual rates of change in volume)

	1970-79 ^a	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989 ^b
World trade ^c	6.4	1.3	1.1	-2.0	3.0	8.7	2.8	4.5	5.8	7.5	5.6
<i>Exports</i>											
Industrial countries	6.6	4.2	3.8	-2.1	3.0	9.9	4.7	2.6	5.3	7.7	5.1
Developing countries	4.8	-4.1	-5.9	-7.7	3.0	7.1	0.6	10.5	8.6	7.7	6.8
Africa	3.2	-1.6	-15.0	-4.9	3.5	6.4	6.7	6.1	-2.9	0.1	4.7
Asia	10.7	8.8	8.8	1.1	10.5	14.2	4.3	17.6	16.6	10.9	9.7
Europe	6.4	3.8	3.4	3.6	8.6	11.8	3.5	-0.1	7.8	4.7	5.7
Middle East	3.8	-15.2	-17.7	-20.1	-9.4	-4.5	-9.4	18.5	-1.3	4.9	2.9
Western hemisphere	1.9	2.0	6.7	-3.0	7.6	8.1	0.6	-0.8	6.5	8.0	2.7
<i>Imports</i>											
Industrial countries	6.5	-1.5	-1.7	-0.6	4.7	12.5	4.6	8.3	6.9	8.0	5.4
Developing countries	8.3	7.4	8.0	-3.3	-2.4	2.7	-0.9	-4.5	4.4	8.0	8.0
Africa	5.9	9.2	10.9	-7.5	-10.3	-0.2	-7.0	-11.1	-5.3	1.2	2.5
Asia	8.9	9.7	7.5	2.2	8.7	7.9	5.7	2.0	11.8	14.3	11.2
Europe	6.6	-3.2	-1.1	-6.9	2.1	6.6	3.8	0.2	5.6	7.1	6.8
Middle East	13.5	9.1	16.9	5.9	-2.5	-6.1	-13.8	-21.7	-8.7	-1.8	2.6
Western hemisphere	6.8	9.4	4.0	-17.7	-22.6	3.1	1.5	3.2	3.6	3.2	6.6

^aCompound annual rates of change, excluding China.

^bEstimated.

^cAverages of growth rates for world exports and imports based on data for the two groups of countries shown separately below and on partly estimated data for the USSR and non-member countries of Eastern Europe. Estimates of the growth of world trade are uncertain, and appear especially so in 1986. The GATT Secretariat estimates that world trade rose by only 3.5 per cent, significantly less than the IMF staff's estimate of about 4.5 per cent. This difference results mainly from the choice of data used for the United States and non-member countries.

Source: As for Table 6.1.

debt problem could flare up, especially if exports of developing countries fail to grow. The threat of protectionism and the continued sluggish demand for primary commodity exports are worrisome. A recession in the industrial countries could easily aggravate these two problems and precipitate anew a financial crisis of grave consequences.

The avoidance of such a scenario will depend largely on continued adjustments in the industrial and developing countries and maintenance of a relatively open world trade environment. The progress of the Uruguay Round will have substantial bearing on the medium-term trade outlook.

II. U.S. OUTLOOK

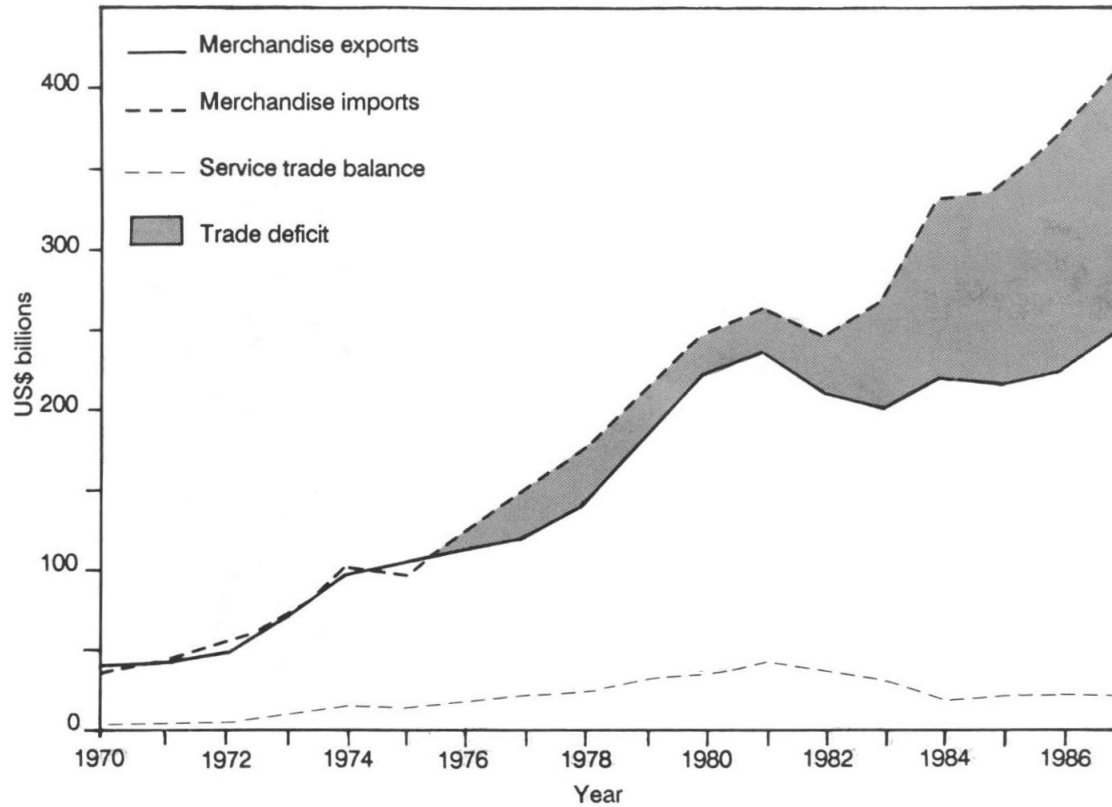
The macroeconomic environment in the United States will play an important role in future ASEAN-U.S. economic relations. In recent years, macroeconomic forces have strongly influenced real exchange rates, patterns of trade, and the balance on current account. There is little doubt that sentiment in favour of protectionism has been stimulated by the deterioration in the U.S. trade balance since 1980 (Figure 6.1). The surplus in service-sector trade declined after 1981 and cannot make up for the merchandise deficit as it has in the past. In addition, given the new status of the United States as a net importer of capital, this sector will continue to decline. Macroeconomic policies, particularly the strong fiscal expansion (Table 6.3) in the United States, promoted economic growth but also contributed to the rise of budgetary and trade deficits. The budget deficit accounted for an average of nearly 5 per cent of gross national product (GNP) since 1983 as compared with less than 3 per cent in the early 1980s. The mix of monetary, fiscal, and exchange rate policies has been adjusted in order to correct the imbalances in the U.S. economy.

A number of underlying economy-wide forces have also shaped the macroeconomic environment in which international trade and financial relations are conducted. The regulatory framework within which firms and individuals operate is one such factor. Another is demographic in nature and pertains to longer-run patterns in labour force growth and human resource development. These factors interact together with policies to affect incentives to work, earn, save, and invest. The medium-term outlook with respect to these factors is examined below.

A. Medium-Term Outlook

Demographic pressures have been more intense in the United States for many years now than in most other industrial countries (Table 6.4). Population growth has been close to 1 per cent in the 1980s as compared with .66 per cent in Japan and .30 per cent in Western Europe (hereafter referred to as Europe). The need to rapidly expand employment opportunity because of rising labour participation, immigration, and previous natural

FIGURE 6.1
U.S. Exports and Imports of Goods and Services



Source: IMF, *International Financial Statistics*, Yearbook 1988.

TABLE 6.3
U.S. Government Budget Deficit, 1980-87

Year	GNP (US\$ millions)	Deficit	
		US\$ Millions	% of GNP
1980	2,732.00	76.20	2.79
1981	3,052.60	78.70	2.58
1982	3,166.00	125.70	3.97
1983	3,405.70	202.50	5.95
1984	3,765.00	178.30	4.74
1985	4,010.30	212.10	5.29
1986	4,235.00	212.60	5.02
1987	4,513.40	156.00	3.46

Source: IMF, *International Financial Statistics* (yearbook, 1988; October 1988).

increases in population made it more difficult to raise productivity in the United States than elsewhere. However, these pressures are expected to ease somewhat and this could help improve U.S. competitiveness in the next few years. One likely result of declining labour force growth is an improvement in the investment climate, a gradual revival of productivity growth, and the consequent rebuilding of U.S. competitiveness. National saving is likely to benefit at both household and business levels. If public expenditures are not reduced significantly, improvement in domestic saving is necessary for better current account performance. Otherwise, the need to rely on capital inflows to finance domestic investment will place undesirable future burdens on the U.S. balance of payments.

A major influence on U.S. performance during the 1970s and 1980s has been relatively rapid labour force growth (Table 6.4) with high and often rising labour participation rates. When labour grows faster than capital, labour productivity suffers. When new entrants into the labour force are relatively unskilled, total factor productivity also falls. Although the problems associated with rapid labour force growth were compounded by two oil price shocks in the 1970s, these shocks were not limited to the United States.

When the labour force grows rapidly, a country must work hard to create jobs for large numbers of new entrants. The U.S. economy succeeded admirably in this respect, creating new jobs at a pace that earned it the sobriquet of the magnificent job machine.

The need to create many new jobs, often for entrants with lower skill levels, sometimes involves heavy investment in on-the-job training. Relatively unskilled workers in a high-wage country will have difficulty competing in world markets for standardized products. These competitiveness problems were exacerbated by the real dollar appreciation of the 1980s. It should perhaps not come as a surprise, in view of the concatenation of forces, that protectionism flourished in the United States during that period.

TABLE 6.4
Growth Rates and Projections of Population and Labour Force
for Developed Countries, 1980-90

Country	Population					Labour Force ^a				
	In Millions			Growth Rate ^b		In Millions			Growth Rate ^b	
	1980	1985	1990	1980-85	1985-90	1980	1985	1990	1980-85	1985-90
United States	227.74	239.28	250.41	0.99	0.91	109.87	116.80	122.00	1.23	0.88
Japan	116.81	120.74	123.86	0.66	0.51	57.10	59.77	62.20	0.92	0.80
Europe	484.55	491.85	498.59	0.30	0.27	217.95	226.37	231.70	0.76	0.47

^aLabour force is defined as the economically active population.

^bCompounded growth.

Sources: ILO, *Economically Active Population 1950-2025: Estimates and Projections*; IMF, *International Financial Statistics* (yearbook, 1988; November 1988); U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States* (1988).

The pressures on productivity may abate with growth rates of the labour force projected to decline to below 1 per cent per annum, assuming that new immigration laws will be reasonably effective in controlling immigration. However, this is likely to strengthen labour unions and enhance workers' bargaining power. It will, therefore, be important to link wage gains closely to productivity increases or else risk continued problems for competitiveness of U.S. products. Tightening labour market conditions create incentives for capital formation and for upgrading the quality of labour. There will be better opportunities, as well as better incentives, for a shift from quantity towards quality in America's labour markets. The tighter labour market will necessitate better management and organization of production. Eventually, it could, by raising real wages relative to capital cost, spur more investment in machinery to replace lower-skilled jobs as workers gain experience and upgrade their skills. Therefore, it is reasonable to expect better performance in total as well as in labour productivity.

The effect of these developments on the future of American competitiveness in world markets and hence on protectionist sentiments within the United States depends upon the relative evolution of productivity and real wages. In principle, there is ample room for moderate real wage growth, but some of the early productivity gains will have to be invested in skill enhancement and in the general upgrading of labour quality. Otherwise, substantial mismatches between available jobs and available workers are likely to develop.

Together with a weak dollar, improved productivity should enable the United States to deal more effectively with foreign competition. In some instances, better productivity will allow higher-priced U.S. workers to compete more effectively in world markets. And in cases where competitiveness has been lost permanently, resource redeployment and trade adjustment will be easier when unemployment is low and of brief duration as overall labour supply grows less rapidly.

The second major consideration is the U.S. budget deficit or, more generally, the imbalance between domestic demand and output. This is the major shadow over an otherwise optimistic medium-term outlook. More by default than design, U.S. policy has become one of gradual reduction of the budget overhang. If public expenditure growth can be controlled relative to revenue growth, the budget deficit will gradually shrink in nominal terms as well as in relation to GNP. As it declines, it will make room for current account improvement, provided private savings does not decline relative to private investment. But the success of such an approach is far from certain.

For this strategy to work, the economy must continue to expand and yet with every additional quarter of what is already a recovery of record duration, the probability of a recession increases. In addition, foreign investors must continue to lend, and risks mount as the proportion of dollar assets in foreign portfolios rises.

Gradual deficit reduction also implies that the United States will run large

current account deficits for a long time, with interest payments on the debt rising as the debt itself rises. Servicing the debt will absorb a growing proportion of future productivity growth and hence leave less for domestic uses, including labour quality improvements, investment in plant and equipment, and real consumption growth.

If gradual adjustment is the criterion, then the dollar has probably depreciated enough in real terms. The main purpose of real depreciation is to raise the price of tradables relative to non-tradables in order to provide incentives for resource redeployment and capacity creation in tradables industries. As capacity creation progresses in tradable sectors, there will be a tendency for the dollar to appreciate in real terms. This is one of the factors that makes continued investment in dollar assets attractive.

If the gradual adjustment approach should run into trouble, so that faster correction of the deficit problem becomes necessary, substantial further depreciation of the dollar may become unavoidable. For the time being, however, the *fundamentals* suggest no need for further depreciation.

Clearly, it is desirable to reverse the decline of the personal saving rate in the United States as an additional means of improving gross national savings and investment. Gross national savings rate in the 1980s fell because of the decline in the already low rate of personal savings and the increasing government deficit (Table 6.5). The ability to improve savings would also stem the need for continuous depreciation of the dollar and would thus improve the stability of world financial markets.

The external environment has also clearly challenged the U.S. economy. One major external force affecting the U.S. medium-term outlook is the transformation of the global trading environment and international division of labour as new countries enter world markets and established competitors adopt new production techniques and consumption patterns. The transformation of developing countries into producers of standardized goods has offered stiff competition to producers in the United States and other industrial countries. In past years, the Asian NIEs have been the most aggressive challengers. As these countries move upscale towards products of higher value added they directly compete with the Japanese and Americans for shares of world markets. More recently other Asian countries, including ASEAN, have also started to expand manufactured exports. ASEAN may replace the Asian NIEs in a broad range of product areas, including labour-intensive goods and processed raw materials. The United States and its trade and investment partners need to work to develop approaches for smoothing the adjustment process and facilitating the transition to new patterns of specialization. There are promising opportunities, provided that trade frictions can be avoided. One way to accomplish a smooth transition is for both sides to make certain that market access remains open so that mutually beneficial two-way trade can develop. It is especially important that channels for intra-industry trade be developed and expanded.

A second external element affecting the medium-term outlook for the

TABLE 6.5
Gross Saving and Investment in the United States, 1970-87
(In US\$ billions)

	1970	1975	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Gross saving	154.7	238.7	408.6	458.4	445.0	522.0	446.4	463.6	568.5	533.5	537.2	560.4
Gross private saving	164.5	303.6	409.0	445.8	478.4	550.5	557.1	592.2	673.5	665.3	681.6	665.3
Personal saving	57.7	104.6	110.2	118.1	136.9	159.4	153.9	130.6	164.1	125.4	121.7	104.2
Undistributed corporate profits ^a	17.9	37.1	69.0	62.0	37.7	43.2	20.0	65.0	94.0	102.6	104.1	81.1
Government surplus or deficit ^b	-10.6	-64.9	-0.4	11.5	-34.5	-29.7	-110.8	-128.6	-105.0	-131.8	-144.4	-104.9
Federal	-12.4	-69.4	-29.3	-16.1	-61.3	-63.8	-145.9	-176.0	-169.6	-196.9	-205.6	-157.8
State and local	1.8	4.5	28.9	27.6	26.8	34.1	35.1	47.5	64.6	65.1	61.2	52.9
Capital grants received by U.S. (net)	0.9	0.0	0.0	1.1	1.2	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Gross investment	153.6	241.2	406.7	457.4	450.0	526.1	446.3	468.8	573.9	528.7	523.6	552.3

^aWith inventory valuation and capital consumption adjustment.

^bNational income and product accounts basis.

Sources: U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States* (1988); U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business* (August 1988).

United States is the debt crisis and the manner in which it is handled. Viable resolution of the debt crisis must include a return to better economic growth in debtor countries. U.S. exports to debtor countries suffered severely in the wake of the debt crisis, while more aggressive export promotion by indebted countries scrambling for foreign exchange has added to the import penetration problems of the United States. U.S. exports to Western hemisphere developing nations alone declined from a peak of US\$42 billion in 1981 to US\$26 billion in 1983 and stood at US\$34 billion in 1987. A significant revival of economic growth in debtor countries would increase their imports, thereby helping to improve the U.S. trade picture. Such an improvement cannot but help trade relations and defuse protectionist pressures.

The other major industrial countries have resisted U.S. pressures on them to adopt more expansionary fiscal and monetary policies. They have been much more agreeable to measures seeking to provide relief to the debt crisis in developing countries.

If resolution of the debt problem includes import liberalization on the part of today's indebted countries, trade frictions will be further reduced, because trade liberalization among developing countries is likely to open new opportunities for intra-industry trade between developed and developing countries. That will make resource allocation more efficient and productive in the latter and ease the burden of trade adjustment in the former.

Resolution of the debt crisis and a return to faster economic growth is also likely to alter investors' risk perceptions and portfolio preferences, shifting the latter away from dollar-denominated assets. Such a shift would raise the cost of foreign borrowing to finance the U.S. deficit, thereby adding to pressures for speedier resolution of the twin deficits. The danger here is that a sudden rather than gradual realignment of investors' preferences could create turmoil in financial and foreign exchange markets and drive the United States into a recession. On balance, however, the net effect of the various influences that would be triggered by debt crisis resolution should be positive in the medium term.

In sum, the outlook for the medium term is for an improved trade and competitive environment and hence for some relaxation of protectionist pressures.

B. Short-Term Outlook

The outlook for the next twelve to fifteen months is continued expansion amid increased uncertainty. The U.S. economy is now in its sixth year of recovery, a post-war record. Following the stock market crash of October 1987, there were widespread fears of a recession or at least a substantial decline in real growth. These fears failed to materialize. And the consensus forecast was for real output growth of approximately 3 per cent in 1988 and 2.5 per cent in 1989. Evidence that the economy performed more strongly in the first half of the year than expected is causing analysts to revise their

forecasts. It is now quite likely that U.S. growth in 1988 will run between 3.5 and 4.0 per cent and then recede to slightly below 3 per cent in 1989.

Recent forecasts placed inflation in the neighbourhood of 4.00 per cent in 1988 and 4.25 per cent in 1989. Although newly released data are still consistent with this outlook, the rate of capacity utilization makes higher inflation rates probable. The uncertainty regarding the rate at which new capacity is being added contributes to sentiments for the higher inflation forecast. However, the outcome also depends on the response of the Fed to a significant rise in the expected rate of inflation. The effects of changes in oil prices and in labour market tightness also have to be weighed against these other factors.

The employment outlook remains strong. Unemployment should stay in the neighbourhood of 5.4 per cent for much of the next twelve to fifteen months, barring any major policy shocks.

The current account deficit is expected to run at approximately US\$150 billion in 1988 and to recede to US\$130 billion in 1989, with the trade balance running a deficit of approximately US\$142 billion in 1988 and of US\$119 billion in 1989. Here, again, it is possible in light of data just becoming available that the current account deficit and the trade deficit for 1988 will be lower than those estimated above, so that more of the improvement expected over the next fifteen months will materialize earlier.

Although the fundamentals justify an optimistic view of economic performance over the next twelve to fifteen months, the uncertainties attached to the forecast are on the rise. First, as the current expansion continues, the "law of averages" makes recession increasingly likely. Second, there is the concern that foreign investors will suddenly alter their portfolio preferences and dump the dollar, forcing the United States to raise interest rates in order to attract foreign funds and thereby trigger a recession. Alternatively, should the Federal Reserve Bank fail to raise interest rates, the exchange value of the dollar would decline sharply. These worries are compounded by the natural uncertainties about future economic policies of an incoming administration.

Concerns over the availability of foreign capital underscore the precarious nature of an adjustment process aimed at a gradual reduction of the twin deficits. Such a strategy places heavy, and perhaps excessive, reliance on the persistence of favourable conditions in the domestic economy and in world financial markets. The policy seems to be one of "growing" out of the budget dilemma by means of a gradual reduction of the budgetary shortfall relative to GNP. Such a process will stall if economic growth falters or if foreign financing runs out. This may be less than ideal, but the politically acceptable alternatives are all worse.

Although President George Bush has promised a strong hand in dealing with the twin deficits and although many observers expect taxes to be raised eventually, regardless of election year statements to the contrary, such

policies are far from simple to enact and can, if mismanaged, do more harm than good by destroying the tenuous balance that now prevails. In any event, any new policy initiatives are not likely to be taken until the new President and the new Congress have settled in — their effects are likely to materialize only after 1989.

A significant reduction in the huge U.S. trade deficit, whether gradual or not, must be accommodated by matching adjustments in the external positions of other countries. And that means that other countries must avoid policies that resist reductions in their current account surpluses. It is widely expected that Japan and Germany, as well as other industrial nations and Asian NIEs such as Taiwan and South Korea, will be forthcoming in this respect. In view of the magnitude of the turnaround needed, the process is likely to be protracted.

III. ECONOMIC PROSPECTS FOR THE ASEAN COUNTRIES

The ASEAN economies appear to have bright prospects for future development and almost certainly will outpace other developing countries over the next five to ten years. The improved outlook for ASEAN comes after a rather disappointing period from 1980 to 1986. During that period, growth rates were well below the standards of the 1970s and reflected external and internal difficulties (Table 6.6). Among these were the secular decline in market prices for primary commodities that comprise a large share of the region's exports, not least of which is petroleum. Internally, expenditures had to be adjusted to reflect stringent financial conditions and the economies had to be restructured to reduce costs and make better use of domestic resources.

By 1986 balance-of-payments positions improved sufficiently to allow the pursuit of high growth. Current account balance was largely restored in each country (Table 6.7). In general, the ASEAN countries have moved to reduce distortions created by excessive government interventions. The private sector and competitive markets are being increasingly relied on to sustain development, as the government concentrates on improving macroeconomic management. The relatively low inflation and strong resource mobilization in the ASEAN region reflects generally sound economic management (Tables 6.8 and 6.9).

There are serious structural problems emanating from poverty and rapid growth of the labour force that provide formidable challenges to the stability of countries like the Philippines, Indonesia, and Thailand. Large external debt and the burden of servicing it continue to drain resources from other urgent priorities (Table 6.10). Nevertheless, the region seems to have overcome the most serious immediate problems. With appropriate policies and more conducive conditions in the world economy, the outlook is quite good.

TABLE 6.6
Real GDP Growth of the ASEAN Countries, 1980-88
(In percentages)

Country	1980	1981	1982	1983	1984	1985	1986	1987	1988 ^a
Brunei Darussalam	-7.0	-19.8	4.0	0.5	0.3	-0.3	n.a.	n.a.	n.a.
Indonesia	9.9	7.9	2.2	4.2	6.2	1.9	3.2	3.5	3.0-4.0
Malaysia	7.4	6.9	5.9	6.3	7.8	-1.0	1.0	4.7	6.0-8.0
Philippines	5.2	3.9	2.9	0.9	-6.0	-4.3	1.5	5.1	5.5-6.5
Singapore	9.7	9.6	6.9	8.2	8.3	-1.6	1.7	8.8	9.5-11.0
Thailand	5.8	6.3	4.1	5.9	5.5	3.2	3.5	6.3	10.0-11.0

n.a. = Not available.

^aEstimated.

Sources: Asian Development Bank, *Key Indicators of Developing Member Countries of ADB* (July 1988); IMF, *International Financial Statistics, Yearbook 1988*.

TABLE 6.7
ASEAN Current Account Balance, 1980-87
(In US\$ millions)

Country	Year	Current Account	Merchandise Exports	Merchandise Imports	Services
Indonesia	1980	2,864	21,795	12,624	-6,361
	1981	-566	23,348	16,542	-7,622
	1982	-5,324	19,747	17,854	-7,351
	1983	-6,338	18,689	17,726	-7,415
	1984	-1,856	20,754	15,047	-7,730
	1985	-1,923	18,527	12,705	-7,833
	1986	-3,911	14,396	11,938	-6,628
	1987	-1,678	16,981	12,013	-6,874
Malaysia	1980	-285	12,868	10,462	-2,670
	1981	-2,486	11,675	11,780	-2,347
	1982	-3,601	11,966	12,719	-2,816
	1983	-3,497	13,683	13,251	-3,920
	1984	-1,671	16,407	13,426	-4,614
	1985	-694	15,133	11,556	-4,265
	1986	35	13,703	10,301	-3,404
	1987	2,336	17,668	11,843	-3,630
Philippines	1980	-1,917	5,788	7,727	-412
	1981	-2,096	5,722	7,946	-344
	1982	-3,212	5,021	7,667	-1,040
	1983	-2,751	5,005	7,490	-738
	1984	-1,268	5,391	6,070	-975
	1985	-18	4,629	5,111	85
	1986	996	4,842	5,044	757
	1987	-539	5,720	6,737	-76
Singapore	1980	-1,563	18,200	22,400	2,745
	1981	-1,470	19,662	25,785	4,807
	1982	-1,296	19,435	26,196	5,670
	1983	-610	20,429	26,252	5,427
	1984	-385	22,662	26,734	3,909
	1985	-4	21,533	24,362	3,038
	1986	542	21,336	23,402	2,798
	1987	539	27,277	29,817	3,279
Thailand	1980	-2,070	6,449	8,352	-384
	1981	-2,569	6,902	8,931	-710
	1982	-1,003	6,835	7,565	-456
	1983	-2,874	6,308	9,169	-290
	1984	-2,109	7,338	9,236	-386
	1985	-1,537	7,059	8,391	-370
	1986	247	8,803	8,415	-367
	1987	-529	11,595	11,981	-369

Sources: IMF, *International Financial Statistics* (yearbook, 1988; November 1988).

TABLE 6.8
Inflation Rates^a in the ASEAN Countries, 1960-87

Country	1960-69	1970-79	1980-85	1986	1987
Brunei Darussalam	n.a.	n.a.	4.5	1.8	1.3
Indonesia	n.a.	17.3	11.2	5.8	9.3
Malaysia	0.8 ^b	5.5	5.0	0.7	1.1
Philippines	4.7	14.6	20.8	0.8	3.8
Singapore	1.2 ^b	5.9	4.2	-1.4	0.5
Thailand	2.0 ^c	8.0	7.5	1.8	2.5

n.a. = Not available.

^aAverage annual change in consumer prices.

^b1961-69.

^c1964-69.

Sources: IMF, *International Financial Statistics, Yearbook 1988*; Brunei Darussalam Statistical Planning Unit.

TABLE 6.9
**Gross Domestic Saving, Gross Domestic Investment,
and Resource Gaps of the ASEAN Countries, 1970-87**
(As percentages of GDP)

Country	1970-79			1980-87		
	Gross Domestic Saving	Gross Domestic Investment	Resource Gap	Gross Domestic Saving	Gross Domestic Investment	Resource Gap
Indonesia	23.7	19.8	3.9	29.2 ^a	27.6 ^a	1.5 ^a
Malaysia	30.1	25.3	4.8	32.6	30.9	1.7
Philippines	23.8	27.7	-3.9	18.9	19.4	-0.5
Singapore	29.7	40.2	-10.5	41.8	44.4	-2.6
Thailand	23.6	26.8	-3.2	21.9	23.0	-1.1

^a1980-86.

Source: IMF, *International Financial Statistics, Yearbook 1988*.

A. Singapore

A severe recession in 1985-86 was followed by a dramatic recovery in 1987 when the economy grew by 8.8 per cent (Table 6.6). Growth accelerated to over 11 per cent in the first three quarters of 1988. The economic expansion has been broad-based and, of the various economic sectors, only construction lagged.

Domestically produced exports grew rapidly, particularly in electronic products and computer peripherals. Exports of petroleum refinery products were less buoyant. Growth is expected to slow down in 1989 to around 7 to

TABLE 6.10
Total External Debt Outstanding^a and Debt-Service Ratio^b
in Selected Developing Countries, 1978-86

Year	Debt	Indonesia	Malaysia	Philippines	Singapore	Thailand
1978	US\$ millions	17,976	2,518 ^c	10,222	1,227 ^c	4,852
	Percentage of GNP	36.3	16.9 ^c	42.5	15.8 ^c	21.2
	Debt-service ratio	25.0	10.0 ^d	26.3	2.2 ^d	16.0
1982	US\$ millions	26,500	11,336	23,483	1,521 ^c	11,496
	Percentage of GNP	29.4	44.3	59.8	11.7 ^c	32.3
	Debt-service ratio	16.5	9.2	23.4	0.8 ^d	16.0
1983	US\$ millions	29,693	14,557	23,116	1,563 ^c	12,961
	Percentage of GNP	38.4	51.6	67.8	10.3 ^c	33.1
	Debt-service ratio	18.4	10.2	22.9	1.3 ^d	19.1
1984	US\$ millions	31,966	16,094	23,837	1,729 ^c	14,464
	Percentage of GNP	39.3	50.8	75.5	11.3 ^c	35.7
	Debt-service ratio	19.0	12.8	17.7	1.0 ^d	21.5
1985	US\$ millions	35,745	18,056	25,155	1,753 ^c	16,407
	Percentage of GNP	43.8	62.4	79.1	11.6 ^c	44.5
	Debt-service ratio	25.1	29.2	19.6	2.4 ^d	25.4
1986	US\$ millions	42,038	19,649	27,000	2,113 ^c	16,970
	Percentage of GNP	58.5	76.2	89.7	13.6 ^c	42.3
	Debt-service ratio	34.9	20.0	21.3	1.4 ^d	26.3

^aIncludes long-term (public and publicly guaranteed and private long-term debt) and short-term debt.

^bPercentage of exports of goods and services. Includes debt service on public and publicly guaranteed and private non-guaranteed debt.

^cExcludes private non-guaranteed long-term debt.

^dIncludes debt service on public and publicly guaranteed debt only.

Source: World Bank, *World Debt Tables* (1985/86, 1986/87, and 1987/88).

9 per cent as labour becomes increasingly scarce and export prospects are clouded by possible slow-down in U.S. demand. *The Singapore Economy: New Direction* (1986) placed the likely average real GDP growth rate for Singapore over the next ten years at 4 to 6 per cent per year. This may be considered to be conservative. It is based on growth in the domestic labour force of under 2 per cent annually, the continuing dependence on foreign workers at a reasonably constant level, and a productivity increase of 3 to 4 per cent per year.

B. Thailand

During the difficult 1980-86 period, Thailand was the steadiest economy in the ASEAN region (Table 6.6). Its growth declined from the 1970s level but by less than in the other ASEAN countries. In the past two years, Thailand's

growth has been spectacular. The real economic growth rate was impressive at 6.6 per cent in 1987, and the estimates of growth in 1988 have been almost continuously revised upwards. A 10 to 11 per cent expansion is likely, placing Thailand in a position to join the ranks of the fastest growing economies in the world. The exceptional growth is being led by booming investment, particularly in the domestic manufacturing sector. It has also been spurred by some recovery of commodity prices, exports, and record receipts from tourism. Signs of a foreign investment boom are apparent as well, though direct foreign investment (DFI) figures do not yet reflect the magnitude of interest in Thailand. There are concerns that the economy may be overheating, that growth is excessively concentrated in the Bangkok metropolis, and that human resource and infrastructure bottlenecks in transport and communication are becoming increasingly severe. The government is also concerned about real estate speculation, environmental problems, and worsening income inequalities.

Still, Thailand has been successful in most areas of economic management. Consumer price increases have been in the low single-digit range since 1982, far below the average for developing countries (Table 6.8). The debt-service ratio has declined to 17 per cent in 1987 after reaching 26 per cent in 1986 (Table 6.10). It is expected that debt-service as a percentage of exports will be less than 15 per cent by 1989.

Future growth prospects are favourable as the economy is expected to grow at a rate of 7 to 8 per cent for the next few years. This forecast is based on assumptions that commodity exports will remain buoyant and that manufacturing will continue to grow rapidly based on a strong domestic demand, exports, and continuing foreign investment. Both exports and imports are expected to increase significantly as Thailand further restructures and opens its economy.

C. Indonesia

Among the ASEAN members, Indonesia, Brunei Darussalam and to some extent Malaysia have depended on oil as their main source of revenue. Facing a drop in oil prices, the respective governments have been compelled to change their economic development strategies to diversify their economic base and rely more on export-led growth in non-oil products. For Indonesia, the process has turned out to be slow given the excessive reliance on oil in the past. About 50 per cent of its exports continue to originate in oil and natural gas, and about 43 per cent of tax revenues are still derived from corporate oil taxes. While the government has introduced comprehensive tax reforms between 1984 and 1986, increases in broad-based tax revenues have remained small relative to oil- and gas-related revenues, as a fraction of GDP they have increased from 6 per cent before the reforms to 8 per cent in 1987. On the other hand, external debt-service payments increased rapidly, partly because of the appreciation of the yen in which about half of

Indonesia's external debts are denominated. One of the main problems confronting Indonesia is burdensome external debt services amounting to US\$7 billion per annum.

External debt-service payments accounted for 45 per cent of routine expenditures in 1987 and are estimated to rise to around 53 per cent in 1988. As a fraction of total expenditures, they are even expected to rise from 30 per cent in 1987 to 37 per cent in 1988. As a combined result of this and the decline in oil tax revenue, government saving which is available for the financing of development expenditures dropped sharply between 1985 and 1987, constraining at the same time the ability of the government to make use of project aid.

Even under the very tight budgetary constraint the government refuses to resort to domestic borrowing, because it could lead to uncontrolled inflation as experienced by Indonesia in the first half of the 1960s. The possibility of crowding out private borrowers is one of the high costs of government borrowing. Yet, reducing development expenditure to the level of government saving not only is politically unrealistic but also would depress private investment, which partly depends on the availability of additional infrastructure. Consequently, the government decided to borrow externally, making extensive use of programme borrowing, especially from Japan. In turn, the United States is expected to be forthcoming in its position on the lending policy of multilateral institutions, notably the World Bank and the Asian Development Bank.

Yet, there are limits to international borrowing. Even with a generous policy on the part of creditors, Indonesia recognizes that new borrowing is not a solution to the resource gap it is facing. Accordingly, a very austere fiscal policy has been adopted since 1983, and this fiscal stance is to continue for the next five years. Counting on an expansionary monetary policy is also misplaced. With a flexible exchange system, capital can move very quickly out of Indonesia should there be any sign of a renewed inflation or a decline in interest rates. A tight monetary policy is, therefore, very likely to be maintained, in spite of repeated complaints about high costs of money. At the same time, decontrol of interest rates in the financial sector can stimulate private savings and thereby make work funds available to investors.

Under the circumstances outlined above, Indonesia has three options to promote economic development over the next five years, namely expansion of exports (especially manufactures), increases in DFI, and improvement in the mobilization and allocation of domestic financial resources. Given the limits to these sources, Indonesia would be constrained to a GDP growth rate of 4 to 5 per cent per annum over the next five years. To attain this rate, the various changes in trade and industrial policies introduced in the first seven years of the 1980s will have to be continued. Currency devaluation, which has occurred twice in the 1980s, is inadequate to fuel the growth of exports and DFI simultaneously.

The agricultural sector will remain the largest source of income and

employment for the next several years, yet it will be difficult for agriculture to absorb all of the additions to the rural labour force. Efforts to improve productivity in secondary food crops, edible oils, rubber, coconut, and a variety of other crops besides staples like rice will be an important source of growth for low-income groups. At the same time, efforts to promote employment-generating non-farm activities in rural areas will be critical to maintenance of incomes and social stability. If these activities can be geared to production and export of labour-intensive goods, they will help both the employment and balance-of-payments objectives. Any deterioration in the international trading environment can turn out to be a serious blow to the economic development of Indonesia.

D. Brunei Darussalam

Brunei Darussalam has been seriously hurt by the collapse in oil prices. Its economy expanded at a rate of 2 per cent in 1987 and is expected to achieve real economic growth in the range of 2 to 2.5 per cent in 1988. The increase is led by the non-oil sector, which is growing at a rate of over 10 per cent; the oil sector remains sluggish and depressed due to low prices of oil and government conservation policy. Brunei Darussalam's balance of trade continues to be favourable despite the low price of oil.

Over the next five years, real GDP growth is expected to rebound to approximately 5 to 6 per cent, as a result of restructuring. The target is based on the assumption that the current industrial policy and activities initiated by the government and the private sector in the establishment of new industrial and manufacturing products for export are successfully implemented.

E. Malaysia

Malaysia is in a better position than Indonesia and Brunei Darussalam. The diversification of exported commodities and production of manufactured goods will help maintain steady economic growth. After two consecutive years of economic stagnation, the Malaysian economy recovered gradually in 1987, with real GDP increasing at 4.7 per cent, against an increase of 1.2 per cent in 1986 and a contraction of 1.0 per cent in 1985. As a result, per capita GNP rose sharply in 1987 following two successive years of decline in 1985 and 1986.

In 1988 the economy is expected to register a higher growth rate of 7.4 per cent and in 1989 it is envisaged to expand further, albeit at a more moderate rate amidst the prospect of a deceleration in the OECD growth rates. The expected growth rate in 1989 is 6.5 per cent.

The recovery was led largely by the external sector and the revival of private-sector spending. The external sector has undergone considerable adjustments since 1982. The rising competitiveness of Malaysian industry, the price recovery of minerals, palm oil, and rubber, and buoyant external

demand led to a substantial strengthening of the Malaysian balance-of-payments position over the last four years.

In 1987 external demand contributed nearly 7.3 percentage points to growth. Merchandise exports rose by 25.9 per cent to account for 60 per cent of GNP in 1987, primarily because of the recovery in the exports of major commodities and manufactured products. The resultant surplus on the current account was equivalent to 8.1 per cent of GNP.

However, the major impetus with growth in 1989 will emanate from the manufacturing sector as external demand slackens with the lower international growth prospect. For the year 1988, output from the manufacturing sector is forecasted to increase by 10.5 per cent compared with the previous increase of 15.5 per cent. None the less, as plant capacity in major non-traditional export industries, especially rubber products, expands and the demand for electronic and electrical products remains favourable, the share of the manufacturing sector in total GDP is forecasted to strengthen further to 25.1 per cent in 1989 compared with 24.2 per cent in 1988 and the Industrial Master Plan (IMP) target of 29.9 per cent by 1995. The growth forecast for other sectors in 1989 is 4.4 per cent (in agriculture), 4.6 per cent (in mining), 3 per cent (in construction), and 6.2 per cent (in services).

On the demand side, after two consecutive years of decline in 1985 and 1986 and a weak recovery in 1987, growth in aggregate demand in 1989 is expected to remain strong at 8.8 per cent in current terms compared with 13.1 per cent in 1988.

On external demand, merchandise exports are projected to grow less rapidly, by 7.6 per cent to M\$57,955 million in comparison with growth in 1987 and 1988 of 25.9 per cent and 20.8 per cent, respectively.

With respect to employment, its growth is expected to increase by 3.4 per cent compared with a labour-force expansion of 3.1 per cent. Total unemployment is, therefore, projected to decline to 7.9 per cent in 1989 compared with 8.1 per cent in 1988. With regard to the level of wages, the introduction of the proposed changes in the labour laws due to be implemented shortly is anticipated to reduce labour costs of doing business in the country.

On the price front, the generally strong domestic demand is, however, expected to increase by 3 per cent in 1989. To some extent, the rise in consumer's prices is expected to originate from the expected higher cost of imports.

Projections for the medium-term outlook of the Malaysian economy are scarce, fragmentary, and have somewhat been superseded by recent events. None the less, most projections generally concur that the prospect for GDP growth of the Malaysian economy is bright: 6.4 per cent annually during 1985-95 according to the IMP and 6.7 per cent per annum according to the WEFA Group projection. To support such growth rates, total investment for the economy would increase at a rate of 6.4 per cent per annum, coming mostly from the private sector. More importantly, the outward-oriented

TABLE 6.11
Growth Rates and Projections of ASEAN Population and Labour Force, 1980-90

Country	Population					Labour Force ^a				
	In Millions			Growth Rate ^b		In Millions			Growth Rate ^b	
	1980	1987	1990	1980-87	1987-90	1980	1985	1990	1980-85	1985-90
Brunei Darussalam	0.18	0.22 ^c	n.a.	3.53 ^d	n.a.	0.03	0.03	n.a.	3.70	n.a.
Indonesia	146.36	170.18	181.54	2.18	2.18	56.25	63.43	71.31	2.43	2.37
Malaysia	13.76	16.56	17.30	2.68	1.47	5.34	6.17	7.07	2.95	2.76
Philippines	48.32	57.36	60.97	2.48	2.06	17.53	19.87	22.47	2.54	2.49
Singapore	2.41	2.61	2.70	1.15	1.14	1.12	1.23	1.30	1.90	1.15
Thailand	46.50	53.60	55.71	2.05	1.30	23.58	26.66	29.53	2.48	2.07

n.a. = Not available.

^aLabour force is defined as the economically active population, with the exception of Brunei.

^bCompounded growth.

^c1985.

^d1980-85.

Sources: Brunei, Ministry of Finance, *Brunei Statistical Yearbook 1984/1985*; ILO, *Economically Active Population 1950-2025: Estimates and Projections*; IMF, *International Financial Statistics* (yearbook, 1988; November 1988).

RECOMMENDATIONS FOR FRAMEWORK AGREEMENT

I. INTRODUCTION

ASEAN and the United States will continue to pursue their mutual and individual interests through multilateral negotiations at the Uruguay Round. However, there are many possible bilateral agreements that might cover numerous topics, ranging from a procedure for resolving disputes and more regularized mechanisms for mutual consultation to formal bilateral trade and investment treaties. This chapter examines the possibility of negotiating an umbrella agreement between the United States and ASEAN, consistent with their respective domestic laws and international obligations, under which the United States and ASEAN as a group or as individual countries could negotiate a wide spectrum of trade and investment agreements, from a free-trade area (FTA) to sector-specific issues.

Trade and other forms of economic interchange between the United States and ASEAN have grown rapidly in recent years. Mutual economic interdependence has never been greater. Ways to improve and expand the bilateral economic relationship should naturally be explored. At the same time, the United States and ASEAN are experiencing structural changes. ASEAN is becoming more trade-oriented and is one of the fastest growing regions in the world. The profound changes its countries are undergoing are bound to have significant implications for interest groups as well as for general political and social stability. The United States, too, has been undergoing changes in its role as the leading economic power. Nevertheless, the United States should continue to resist strong protectionist pressure from domestic interest groups, and ASEAN should continue to follow the path of liberalization and deregulation in its respective domestic markets. This course will maximize global efficiency along the lines dictated by comparative advantage. Thus, any bilateral agreement should reflect these principles.

Bilateral agreements between the United States and ASEAN should facilitate flows of direct foreign investment and technology. This will include

strategy is expected to be followed more vigorously as is evident in the recent budget proposal which proposes among other things further liberalization in trade and investment measures, reformation of the tax system, and enhancement of the role of the private sector — which together should promote a better economic environment in the near future.

F. Philippines

The Philippines recovered from an economic downswing to achieve economic growth of about 5.1 per cent in 1987. This was the result of government efforts to stimulate the economy once stabilization had been achieved after the turmoil of the February Revolution of 1986. GDP in 1986 increased by only 1.5 per cent, a turnaround from the cumulative decline of nearly 11 per cent during 1984–85. In the next five years, real GDP growth is expected to remain at around 6.5 per cent under the government development plan ending in 1992. Substantial reforms in the area of fiscal (particularly the conversion to value-added taxation), financial (move towards liberalization), and trade policies have been instituted. Steps towards greater decentralization and privatization have also been significant. In general, all these reforms are intended to rid the economy of existing distortions and lead to a strong private sector conducive to efficient economic growth.

However, the Philippines is under extreme pressure not only to attain growth targets, but also to address serious institutional and structural problems. Mounting incidence of poverty has been a focus of attention. Low and declining productivity in crucial sectors like sugar, coconut, and upland farming are cause for alarm. The population growth rate remains extremely high and the labour force is expanding continuously (Table 6.11). It is imperative that a more labour-intensive pattern of industrial growth based on efficient use of domestic resources be achieved. The rural economy also requires investment to boost depressed incomes and contribute to economic recovery. These efforts are critical as the moratorium on debt rescheduled will end in the early 1990s. If the debt-service burden is to be held at tolerable limits with adequate growth, exports will have to rise rapidly indeed.

ASEAN has the potential of becoming an important economic entity in world economic affairs. The ASEAN economies are likely to attain among the highest growth rate among countries in the Pacific region in the coming decade. Part of this achievement is due to the fact that ASEAN members were able to use regional identity to promote their common interests. It is one of the most positive international developments of recent years.

actions on the part of both the U.S. and ASEAN governments to reduce uncertainty, increase market information, mitigate bureaucratic restrictions and unproductive performance requirements, promote national treatment, reduce equity restrictions, encourage innovation and technology transfer through the protection of intellectual property, and increase export consciousness. Deregulation and liberalization of some of the service sector and increased economic co-operation will also be beneficial in increasing investment flows.

In addition, any bilateral agreement should respect the diverse requirements of individual ASEAN nations. Because of the diversity of the ASEAN countries, certain issues may best be negotiated with individual members rather than with ASEAN as a group.

Finally, the United States and ASEAN must take into account concerns and sensitivities of third countries. The dedication of both parties to multilateralism and free trade should be reflected in the framework agreement.

Section II of this chapter reviews the roles of ASEAN and the United States at the multilateral level. Pursuant to the recommendations of the previous chapters, Section III provides a discussion of possible options that the United States and ASEAN might consider under an umbrella agreement in order to strengthen economic relations.

II. ASEAN AND U.S. ROLE IN THE MULTILATERAL TRADING SYSTEM

Although their international economic roles differ, the United States and the ASEAN countries are committed to global liberalization of trade and investment and economic development. The United States took leadership in promoting free trade in the post-war era. The founding ASEAN countries, although not major participants, are all members of GATT and support its principles of multilateralism, including trade liberalization and non-discrimination, and have reaped rich benefits from doing so. ASEAN is recognized by GATT as a regional grouping. The tariff levels and non-tariff barriers of most ASEAN countries are greater than those in the United States. However, ASEAN countries with high barriers have shown a great willingness to reduce these distortions, both as part of the multilateral negotiating process and unilaterally in order to promote allocative efficiency. However, much work remains to be done.

A. United States and ASEAN in the Uruguay Round

The current Uruguay Round of trade negotiations is of paramount importance to the future of world trade. It is also the most risky, as it involves politically sensitive areas that have not been fully addressed in the previous rounds of negotiations, including non-tariff barriers and orderly marketing

arrangements, agricultural trade, service transactions, intellectual property rights, and trade-related investment measures.

The United States and ASEAN have worked together on the issue of subsidies in agriculture, and both accept the long-term objective of the Cairns Group, which has several ASEAN countries as members, favouring free trade in agriculture. Agricultural subsidies are very costly, promote inefficient allocation of resources, and create international tension. ASEAN's active support of this position demonstrates that developing countries can contribute significantly to multilateral negotiations.

Although a Subsidies Code was negotiated at the Tokyo Round, many ambiguities remain with respect to important rules and the lack of an effective dispute-settlement mechanism. The United States has advocated reform in this area. Yet, it remains a sensitive topic for many developing countries who believe that subsidies are an important component of development strategy. Being a developing country association, ASEAN is sympathetic to this view. Indeed, only Indonesia and the Philippines have signed the Subsidies Code. Others do not benefit from a provision in U.S. law which requires proof of imports causing injury to domestic production before countervailing duties (CVD) are administered. However, all countries stand to benefit from a fair Subsidies Code and from an effective dispute-settlement mechanism. Agreements in these areas would also reduce the number of CVD cases. This is of particular interest in the ASEAN-U.S. relationship since, as noted in Chapter 2, many CVD investigations against ASEAN were initiated in the United States, yet very few findings of subsidies were made. The legal process in defending themselves in CVD investigations is costly to the innocent ASEAN exporters and provoke ill feelings. Thus, a more effective Subsidies Code at the multinational level would serve to diffuse international tensions, and the United States and ASEAN should work together towards this end. Because it is difficult to affect the Uruguay Round from outside the Code Committee, those ASEAN countries which have yet to sign the Code should consider doing so.

The GATT negotiations on service transactions are important not only to developed countries but also to the ASEAN nations, whose service sectors are expanding and some of whom have become net exporters of services. The United States has tabled at the Uruguay Round a proposed framework for trade in services. The tentative agreement on liberalizing trade in services reached by the negotiating-country ministers was one important outcome of the Midterm Review in December 1988. But there remain large differences in points of view, with the United States pushing for a comprehensive agreement and ASEAN insisting on greater flexibility. Despite divergent views, this area offers opportunities for the United States and ASEAN to work towards reconciling differences in the economic interests of developed and developing countries alike.

As pointed out in Chapter 4, the United States and the ASEAN nations

have had disputes over intellectual property rights. The United States has proposed a comprehensive GATT agreement on standards for patents, copyrights, trademarks, and trade secrets. ASEAN is prepared to consider such proposals, and can play an effective role in helping the United States fashion an agreement that will be acceptable to developing countries. The failure to reach any consensus in this area at the Midterm Review does not reflect any general disagreements between developing and developed countries, but rather the opposition of very few developing countries. We believe that the United States and ASEAN share similar interests in promoting intellectual property and that their differences on specific items can be reconciled. A joint ASEAN-U.S. position could help reach a more general GATT consensus.

B. Bilateralism versus Multilateralism in the ASEAN-U.S. Relationship

Past rounds of GATT negotiations have been principally successful at reducing world-wide tariff barriers. The current round is dedicated to a reduction of non-tariff barriers as well as to other issues in international trade and investment. But the inherently sensitive nature of these issues is compounded by rapid restructuring of the contemporary world economy. Consequently, progress has been slow.

Partly because many nations have become disillusioned with GATT, the growth of bilateralism has increased significantly. The success of the European Communities (EC) has served as an example of the possible benefits from regional economic integration. And the anticipated completion of a unified EC market in 1992 has received considerable attention. Since the mid-1980s, there has been a myriad of proposed and actual agreements covering bilateral trade and investment relations. For example, the United States has signed free-trade agreements with Canada and Israel, while New Zealand and Australia have the Closer Economic Relations free-trade agreement. Care needs to be taken to ensure that such arrangements do not erode the multilateral GATT system, as many countries see bilateral pacts as attractive alternatives to stalled multilateral negotiations. A successful Uruguay Round can help to dissipate the trend towards bilateralism.

Any trade and investment agreement between the United States and ASEAN should be compatible with the broader goal of multilateral liberalization. Nevertheless, a bilateral agreement between the United States and ASEAN need not necessarily conflict with this goal. In the following section, we recommend such an arrangement, which would include the adoption of an umbrella agreement, under which the United States and ASEAN (as a group or as individual countries) could negotiate a wide spectrum of bilateral agreements, which would include agreements ranging from sector-specific issues to an FTA.

III. RECOMMENDATIONS FOR AN ASEAN-U.S. TRADE AND INVESTMENT AGREEMENT

Based on our findings and arguments, it is desirable that ASEAN and the United States consider entering into an economic co-operation agreement. It should consist of a general umbrella agreement which would have provisions for more specific bilateral arrangements. Within the scope of such an agreement, the United States and ASEAN would be able to negotiate a wide range of formal agreements, ranging from formal comprehensive treaties to sector- and issue-specific arrangements. The umbrella agreement would become an important catalyst for increased trade and investment between the two parties, and would also provide for negotiation between the United States and individual ASEAN nations.

A. Recommendations for an Umbrella Agreement

The umbrella agreement should include characteristics of other successful bilateral pacts by focusing on trade and investment liberalization and promoting economic welfare and efficiency, and should serve as a model for similar arrangements with other nations in the Asia-Pacific region. Yet, an ASEAN-U.S. agreement would be unique, as the ASEAN-U.S. economic relationship is unique. The complementary nature of U.S. and ASEAN economies and the extensive economic interchange suggest that bilateral agreements under the umbrella designed to resolve any disagreements or seize important opportunities would be welfare-enhancing, without contradicting multilateralist ideals. Indeed, all actions would be consistent with GATT.

The initial umbrella should consist of the following components. First, it should establish a set of basic guiding principles for the conduct of trade and other economic relations between the United States and ASEAN, based on GATT compatibility and affirming the primacy of multilateral liberalization. It should be grounded on the presumption that trade and investment flows are determined by market forces as much as possible; the nature of government intervention should be strictly defined and temporary. Most basically, the United States and ASEAN should commit themselves to the principle of "stand-still and roll-back" of trade barriers. Moreover, measures harming other trading partners should be avoided.

Second, the umbrella should establish the administrative and implementing guidelines for the United States and ASEAN negotiating a series of subsidiary agreements on subjects such as subsidies, double taxation, intellectual property rights, investment, services, non-tariff barriers, and safeguards (discussed below), supplemented by more detailed accords where needed.

Third, the umbrella should delineate effective procedures to administer the agreement and resolve disputes in a timely and efficient manner.

Fourth, it should create a Consultative Committee, composed of govern-

ment representatives at the level of trade minister and advised by experts and private-sector representatives, which should meet at least on an annual basis. The Consultative Committee would have several important tasks. It should be responsible for considering trade and investment disputes in a manner defined by the umbrella agreement. Also it should oversee the negotiations of the subsidiary agreements, and should serve as a forum for moulding joint ASEAN-U.S. positions on these issues at the current and subsequent GATT rounds. Moreover, the Consultative Committee should authorize the preparation of studies, formation of working groups, and other vehicles for improving understanding of and co-operation in bilateral economic relations.

Fifth, the umbrella agreement should lay the foundation for further bilateral and multilateral co-operation.

B. Possible Trade and Investment Pacts under the Umbrella

After the establishment of the umbrella agreement, the United States and ASEAN could negotiate a series of bilateral pacts, from a formal FTA to sector-specific agreements. In this section, we assess some of the available options which the Consultative Committee should consider. However, the list is not exhaustive. Many of the issue-specific topics are being considered at the Uruguay Round. Nevertheless, bilateral ASEAN-U.S. trade and investment agreements could complement the GATT talks and, perhaps, provide an exemplary framework in certain areas.

1. ASEAN-U.S. Free-Trade Agreement

We believe that an ASEAN-U.S. FTA should be the ultimate goal of the Framework Agreement. An ASEAN-U.S. FTA would be very complex and is likely to take a long time to negotiate. However, there is great potential for improved trade and investment relations in such a pact. Commissioning a comprehensive study should be among the first inquiries the Consultative Committee should launch.

The conformity of an FTA with GATT rules is clearer than with any other option. Free-trade agreements have come to mean far more than merely reducing internal tariffs on trade in merchandise. As in the U.S.-Canada agreement and the Closer Economic Relations pact between New Zealand and Australia, trade in services, investment liberalization, protection of intellectual property, and so forth, are often included. Similarly, an FTA between the United States and ASEAN should include an entire range of issues. A U.S.-ASEAN FTA could also serve as a forerunner to a wider accord in the Asia-Pacific region.

Because of the complicated nature of negotiating something as complex as an FTA, we recommend that the technical details of such an arrangement be studied in depth by a bilateral commission under the supervision of the Consultative Committee. Questions such as the net effect on global efficiency

(for example, trade creation and diversion), the impact on third countries, implications for multilateralism, rules of origin provisions, and the polarization of industrial production should be addressed. In addition, the complicated question of how and in what sequence tariff barriers should be reduced must be addressed. The possibility of FTAs with various Asia-Pacific nations or groups has already received attention in Washington. The U.S. International Trade Commission (ITC) has released a report summarizing the views of recognized experts on the pros and cons of entering into an FTA with Japan. Similar inquiries are being made with respect to other Pacific Rim nations, including Taiwan, South Korea, members of ASEAN, and other countries of the Asia-Pacific region.

The complementary nature of the U.S. and ASEAN economies suggests that such a trading bloc would significantly expand bilateral trade. In addition, increased DFI flows, trade in services, technology transfer, economies of scale in production and other dynamic benefits would serve to promote the goals of both parties without negating their respective commitments under GATT. Moreover, an effective formal dispute-settlement process is more easily established in the context of a comprehensive accord because there is a larger and more detailed base of jointly agreed disciplines.

2. Issue-Specific Agreements

Below we consider several important issues, not necessarily listed in order of priority, that the Consultative Committee should investigate, keeping in mind GATT and domestic law compatibility. Included are subsidies, double taxation and tax-sparing provision, intellectual property rights, investment, services, tariff and non-tariff barriers, and safeguard provisions.

Most of the issues are currently being examined in various Committees of the Uruguay Round. Being committed to multilateralist ideals, the United States and ASEAN should negotiate subsidiary agreements in these areas only where they are complementary to the GATT process. Nevertheless, the United States and ASEAN have and should continue to work together to take a common position on these issues, a process which will be improved with increased economic consultation under the umbrella.

Subsidies: The United States and ASEAN should pursue the subsidies issues within the current Uruguay Round, and should seek to set out codes of conduct on subsidies, negotiated by a committee under the auspices of the Consultative Committee, that would govern their bilateral relations in this area. Such an agreement would reduce frictions resulting from the subsidies issue.

Subsidies continue to generate frictions among trading partners. It is at the centre of the Uruguay Round and is an important element in the future of ASEAN-U.S. relations. Earlier GATT rounds made some progress towards the establishment of a Subsidies Code, but many issues remain unresolved. Many countries attach legitimate purposes to subsidies (espe-

cially internal ones) as a development tool or as an instrument to promote or smooth the process of structural change.

The subsidies question may be separated into problems of principle and of implementation. The principle is that subsidies should not discriminate nor should they distort the allocation of resources. Implementation is complicated by difficulties in determining the type and magnitude of the distortions to be overcome. Acceptable standards need to be developed and transparency enforced. Also needed are dispute-settlement procedures to deal effectively with complaints.

Double Taxation and Tax-Sparing Provision: Another area of significance to ASEAN-U.S. economic relations that should be addressed at both the multilateral and bilateral levels is the interaction of tax systems of capital-exporting (source) countries with the tax concessions provided by the recipient (host) countries.

Most countries tax citizens and corporations incorporated within their borders on the basis of a global income concept. Some — for example, the United States, the United Kingdom, and West Germany — credit foreign taxes paid on foreign-sourced income against domestic taxes, while others treat foreign taxes as a business deduction in computing net income for domestic tax purposes. At the same time, a number of capital-exporting countries have negotiated bilateral tax treaties with various host countries, essentially for the purpose of eliminating double taxation and defining how tax revenues should be shared by the respective governments. What is particularly significant is the absence of a tax-sparing provision in these treaties in connection with income-tax holidays granted by the host countries as an important part of their investment-promotion efforts.

This is an important and complicated issue. On the one hand, income-tax holidays often merely transfer revenues from the developing (host) country to the developed (source) country treasury. On the other hand, any double-taxation treaty and tax-sparing provision would entail changes in domestic U.S. law. In addition, such a change in law to accommodate the outflow of U.S. investment would be met with opposition from those who believe that U.S. jobs would be lost. In any event, the issue should be studied at both the bilateral and multilateral levels as it is an important concern of developing countries.

Intellectual Property Rights: Bilateral negotiations can serve as a model for multilateral negotiations, where the United States and the ASEAN countries are all supportive of a framework for a GATT intellectual property agreement. But because the laws and implementation of protection of intellectual property are so diverse in ASEAN, these negotiations should continue to take place at the country level. Nevertheless, individual-country negotiations could be undertaken under guidelines established by the United States and ASEAN as a group. This concept could also be applied at the

GATT level: developing countries and developed countries could work together to strengthen current international intellectual property organizations, while leaving room for bilateral negotiations between individual developed and developing countries.

The United States has been the chief protagonist at the Uruguay Round, and has also been extensively involved with bilateral talks, particularly with governments in East and Southeast Asia. As a net exporter of intellectual property, the United States has a vested interest in assuring that the product of its research, which is becoming increasingly expensive in the high-tech age, be protected. It is argued that increased protection of intellectual property helps to stimulate home-grown innovation. The U.S. Government also has appealed for such protection on moral grounds, arguing that the uncompensated use of intellectual property is in effect theft. Its attempts to induce changes in ASEAN laws on stronger enforcement, including the threat to take GSP away from non-complying countries, have often led to difficult negotiations.

Mutually satisfactory agreements on this issue will benefit ASEAN through increased technology transfer, new products, and domestically generated innovations. The United States will benefit through increased incentives promoting research and development, in which it has comparative advantage. Hence, agreements in this area should be welfare-generating and should reduce frictions.

Investment: The Consultative Committee should consider the negotiation of a comprehensive investment pact, perhaps along the lines of a Bilateral Investment Treaty (BIT), which would liberalize bilateral investment by reducing or eliminating existing impediments. The United States already has attempted to negotiate a BIT with two ASEAN countries but to no avail. However, if a U.S.-ASEAN comprehensive agreement were tied in with other bilateral negotiations under the umbrella, as well as allowing flexibility for individual ASEAN members, such a treaty should be beneficial in stimulating welfare-generating investment flows.

Foreign investment is an important part of the ASEAN-U.S. economic relationship. Yet, there exist few standards governing foreign bilateral investment. Since investment affects the location of production and comparative advantage generally, barriers to foreign investment as well as unwarranted or unproductive incentives distort the allocation of resources.

At the national level, it is important that the ASEAN countries and the United States assess domestic policies that might inhibit foreign investment. On the ASEAN side, these include lack of national treatment, equity restrictions, performance requirements, trade-related investment measures, and stifling red tape. On the U.S. side, it may include further revisions in the Foreign Corrupt Practices Act.

Finally, the United States and ASEAN should work together to disseminate information about investment opportunities in ASEAN. It was noted

in the chapter on investment that small- and medium-sized U.S. firms could benefit from participating in the ASEAN market through trade and investment. But they are often ignorant of the opportunities, because information is either unavailable in the United States or is poorly distributed. Increased participation of these firms would be of mutual benefit.

Services: The Study recommends that there be rules to reduce barriers to international service transactions. The United States has put forth a proposal for a Framework Agreement on services in GATT, and there have been encouraging results in this area at the Midterm Review, where GATT ministers agreed on a number of key concepts for a Framework Agreement on services.

The relevant issues include proper definition of services, establishment of non-discriminatory treatment (on the basis of national treatment), transparency, dispute-settlement mechanisms, and enforcement procedures. Because all these issues are important to the U.S.-ASEAN economic relationship, these parties should seek to improve their dialogue in this area, perhaps setting an example for GATT negotiations.

Tariffs: The United States and ASEAN should continue to work together to reduce tariffs at the Uruguay Round. In this context, the question of special and differential treatment should be recognized. However, the issue is complex, as special and differential treatment is not easily accepted by the United States, which is experiencing large trade deficits. All the same, for lesser developed ASEAN countries special and differential treatment should be considered.

Although preceding GATT rounds have reduced tariffs substantially, more work remains to be done. Before further tariff reductions can be achieved, an agreement on negotiating procedures is needed. Differences between those advocating the offer/request approach and those who prefer formula cuts need to be resolved. At the Uruguay Round, participants established a goal for general tariff reductions at least as ambitious as that achieved in the Tokyo Round.

The participation of developing countries in tariff reductions needs also to be clarified, although some developing countries have recently undertaken unilateral tariff liberalization which is motivated mainly by domestic considerations.

Non-Tariff Barriers: Non-tariff barriers are a major element of the New Protectionism. Although some such barriers may be implicitly covered by existing GATT rules and codes, others are not. Procedures need to be developed for determining the GATT-legality of existing discriminatory trade practices, and new codes need to be formulated for non-tariff barriers that are not now covered by GATT. This may be another area where the ASEAN-U.S. group could break new ground.

Safeguards: The Consultative Committee should seek to make progress towards an agreement that would codify standards and establish disciplinary measures. One issue that may be addressed jointly is that of selectivity versus MFN applications of safeguard measures. Other issues include definitions and measurement of inquiry; the duration of safeguard measures and the type of decay provisions that would ensure timely liberalization; and the conditions under which compensation would be required as well as the type of compensation.

C. Other Possible Topics

The Consultative Committee should also be responsible for considering other topics that would be relevant to ASEAN-U.S. economic relationship. It should be innovative in seeking out novel ways to promote welfare-increasing projects and opportunities on an ongoing basis.

One such opportunity would be the establishment of an institution, initiated by the Consultative Committee but financed by private funds, to promote small- and medium-sized firm investment in ASEAN. As noted in Chapter 5, despite growing opportunities, the United States has lagged behind Japan in its trade and investment in Asia. While U.S. trade and investment in the region is for the most part carried out by large MNCs, Japanese firms of all sizes have done well. This is due largely to the role of the Japanese trading company in providing information and finance to Japanese firms, and to the large information base set up by the Japanese Government.

Many small- and medium-sized U.S. firms have products and technologies desired by countries in the Asia-Pacific region. While U.S. firms aspire to penetrate these markets, the institutional mechanisms to help them are not in place. An information gap persists in the United States; many small- and medium-sized enterprises lack the knowledge and experience in Asia in general and ASEAN in particular. Moreover, many U.S. firms are handicapped by the lack of market intelligence and know-how pertinent to competing in Asia. Different customs and language barriers have also limited the ability of U.S. firms to invest and market products in Asia.

Hence, such an institution should be specifically designed to facilitate a shift in orientation of American firms towards the Asia-Pacific region. Although there are several institutions that provide financing for projects in developing countries in the United States, for example, OPIC, none fits exactly the needs of American small- and medium-sized businesses in ASEAN. Such an institution should gather market information; provide data on upcoming projects, investment regulations, and procedures; and serve to reduce uncertainties arising from bureaucratic interference. In turn, existing ASEAN firms and new entrepreneurs would benefit from having access to newer technologies and market niches not otherwise available. It could also take an active administrative role in blending official development assistance with private capital, something that the Japanese have done successfully.

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