Stronger US-ASEAN trade cooperation will help offset economic doldrums

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A slowing global economy needs a spark to re-ignite the world's most reliable engine of growth – trade. That's why recent talks to boost business connectivity between the two huge economic blocs, expand international cooperation and help countries participate in the most ambitious free trade deal in around two decades must be a good thing.

The recent US-ASEAN Summit should be viewed as a very welcome development for Southeast Asia, and for Singapore in particular, against a backdrop of clearly moderating economic growth in tandem with that of the region's biggest trading partner, China.

Commensurately lower demand for commodities has weighed on prices in key producing economies of the Association of Southeast Asian Nations (ASEAN), in turn dampening intra-regional trade, subduing commercial activity and souring consumer sentiment – all of which creates a drag on Singapore.

A steadily strengthening US economy offers an encouraging counterpoint. The US is a US$17 trillion economy that is on the cusp of a return to buoyant consumer spending.

The rebound comes as Washington's doors are opening wider to trade with the 10 countries that make up ASEAN, heralding the prospect of genuine win-win outcomes with improved US-ASEAN cooperation.

For the US, closer cooperation means tapping into a region set to see trade volumes roughly double to US$2.8 trillion by 2025 from 2014, where economies are typically growing twice as fast as it is at home, and where 57 million new middle class households – roughly two Britains – will be added to world consumption in the coming decade.

For ASEAN countries, it means easier access to the world's largest economy and a direct line to the 470 million consumers in the North American Free Trade Agreement area - the world's third biggest free trade zone – home to the world's most consistent buyers of goods Asia produces and transports.

Leveraging these linkages could pay particular dividends for ASEAN economies that have yet to join the Trans-Pacific Partnership (TPP), the mega-regional trade accord involving 12 countries including the US and four ASEAN members (Brunei, Malaysia, Singapore and Vietnam) that represents almost 40 per cent of global output and 25 per cent of global exports of goods and services.

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The TPP — widely regarded as the most significant trade agreement since the World Trade Organisation was formed 20 years ago — is forecast to grow trade in Southeast Asia by 10 per cent and deliver a permanent 1.1 per cent uplift to the region's annual economic output once ratified (expected by end-2016).

Trade liberalisation floats all boats and there will be advantages across the economic spectrum, whether you export commodities, or like Singapore, deal more in services, technology and innovation.

The World Bank estimates that 70 per cent of global trade is now in intermediate goods and services and capital goods. Making the US a friction-free component of the ASEAN supply chain will bring down import costs, while a borderless production base should increase ASEAN's appeal as a destination for Foreign Direct Investment (FDI) from countries like the US.

Especially with the anticipated delivery of improved intellectual property (IP) protection promised by the TPP – robust IP protection promotes both technology transfer and inflows of FDI. OECD research suggests a 1per cent increase in patent protection boosts FDI by 1.4 per cent.

Meanwhile services offers a third way to boost commercial activity between the US and ASEAN.

Services liberalisation driven by the advent of the ASEAN Economic Community (AEC) gives American firms access to some 650 million people who are on the cusp of being middle income earners, while reducing barriers to trade in services is clearly good news for the top six ASEAN nations – Singapore, Malaysia, Indonesia, Thailand and Vietnam and Philippines – which generated 50 per cent or more of their GDP from the tertiary sector.

Forward-looking companies in the region are preparing now for the opportunities ahead.

SGX-listed garment and apparel manufacturer, Sing Lun Holdings, is a case in point. It supports brands like GAP and Puma and the US is one of its biggest sources of revenue. Closer links between ASEAN and the US will only improve the apparel industry's outlook across Southeast Asia.

In Sing Lun's case, improved business prospects in the US will benefit staff at its regional headquarters in Singapore as well as its production facilities in Vietnam, Cambodia and Malaysia. It will be a pattern repeated around the region.

On the flip side, an anticipated increase in the number of US companies coming to ASEAN is an opportunity for entrepreneurs across the region to grow networks, reap the benefits of economies of scale and specialisation, and drive their businesses to greater commercial heights.

The key to harnessing this huge potential is to link economies and make it easier to do business across a network of trade corridors that bring people, capital and ambition together.

In that context, a deeper US-ASEAN relationship that delivers on the vision of cooperation laid out by national leaders at the Sunnylands Summit could be a crucial catalyst for a global economy in need of a spark.

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