CHAPTER 2
THE U.S. ECONOMIC STAKE IN ASIA

America benefits not only from order and stability in the Asia-Pacific region, but also from our deepening economic inter-dependence, which has grown to become a vital American security interest. Managing this interdependence, with its attendant benefits and problems, will require enhanced economic cooperation and increased attention to diplomatic and military security relations. As a result of Asia's demographic potential, U.S. producers will increasingly turn to Asia's markets and will capitalize on U.S. strengths in technology, agriculture, consumer goods, and media—critical to improving U.S. trade balances—but also on services such as telecommunications, banking, environmental cleanup, and tourism. Beyond trade, investors will find that Asia's untapped markets can be fertile soil for profits.

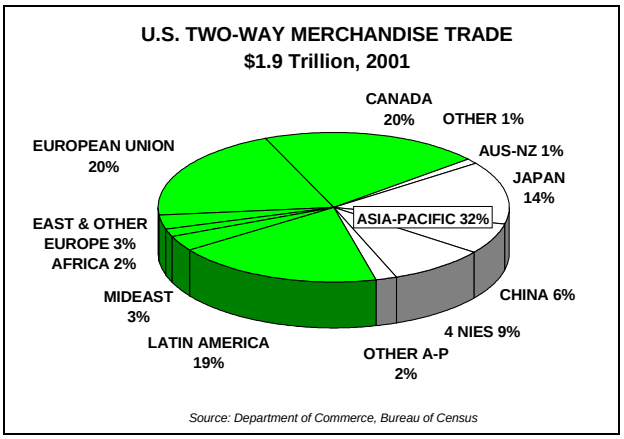
Trade and the U.S. Economy

International trade has become an increasingly important component of the American economy, as reflected in the rising share of exports and imports in the U.S. economy.[1] The ratio of imports to U.S. GDP rose from 8% in 1975 to 15% in 2000, while the export ratio rose from 8% to 11% over the same period. The small size of this trade ratio compared to those of other countries reflects the sheer size of the U.S. economy. It also explains the low priority that American institutions—such as its schools and language programs—often give to improving their international foundations. Don Evans, U.S. Secretary of Commerce, observes:

"We're now in a new century with intense competition. Falling market share where commercial opportunities are greatest—and the unmet export potential of our small firms—compel us to take a new look at the needs of our customers, as well as at the best practices of our competitors. Many of these competitors, frankly, may be doing a better job when it comes to getting their small and medium sized companies into the markets with greatest potential." [2]

Although most public attention focuses on America's persistent trade deficits with the region, trans-Pacific trade ties remain, on balance, mutually beneficial. The Asia-Pacific region accounted for an estimated $604B—or 32%—of total U.S merchandise exports and imports in 2001.[3] (See Figure 2-A.) Developing Asia and Japan are simultaneously key sources of U.S. imports and major markets for U.S. exports.

Figure 2-A



American companies and their workers both benefit from ties to the global economy. According to Commerce Department calculations, $1B of exports correlate to between 14.325K to 19K jobs,[4] indicating that more than three million jobs are generated by U.S. exports to Asia. Wages in export industries are about 16% higher than those firms concentrating on domestic sales.[5]

These linkages dictate a major stake in preserving an open trading system on both sides of the Pacific. With interdependencies of trade and investment, security frictions will become less volatile and international frictions will carry a strong economic dimension. Companies pursuing profits will promote peaceful methods within their own countries, and will challenge their governments to avoid heavy-handed shows of force that threaten trade. As such, U.S. exports and imports are part of a broader security strategy that promotes the peaceful exchange of goods for the profit of all participants.

U.S. Exports. The Asia-Pacific region purchased nearly one-third—some $194B—of U.S. merchandise exports during 2001 (see Figure 2-B).[6] Japan is America's second-largest export market ($65B), after Canada ($179B). Developing Asia bought $135B in U.S. exports, a sizeable 20% increase over 1999. Major American merchandise exports include agricultural products, power industry equipment, computers and electronics, and aircraft and parts. Trade in services—which includes such industries as finance, engineering, and transportation—is not reflected in the merchandise trade data, and represents another opportunity for American firms. Exports of U.S. services to the Asia Pacific totaled some $65B in 2000 or 22% of total services exports.[7]

U.S. Imports. American consumers bought $455B worth of goods from the Asia-Pacific market last year, a full 37% of total U.S. merchandise imports in 2000. (See Figure 2-C.) Although Japan is America's second-largest individual source of imports—with sales totaling $146B in 2000—Developing Asia as a whole sold a far larger volume, $300B. While a significant share of these goods represent low-end, labor-intensive production (such as toys and textiles), imports from Developing Asia now include electronics and machinery. The diversity of low-end and high-tech products sold by the region reflects its progress up the development ladder.

The U.S. Trade Deficit. The region alone accounted for 55% of the U.S. merchandise trade deficit in 2000. (See Figure 2-D.) Bilateral imbalances with Japan and China represent the lion's share of this total. The size of trade deficits is influenced more by macroeconomic policy than disputes over trade barriers. Macroeconomic policy seeks a balance among the inflow and outflow of savings and investment, taxes and government spending, and foreign transactions of goods, services, and finance.[8] These balances reflect not only government policies and market conditions but also domestic politics, management practices, and cultural dispositions toward savings and consumption.

Figure 2-B

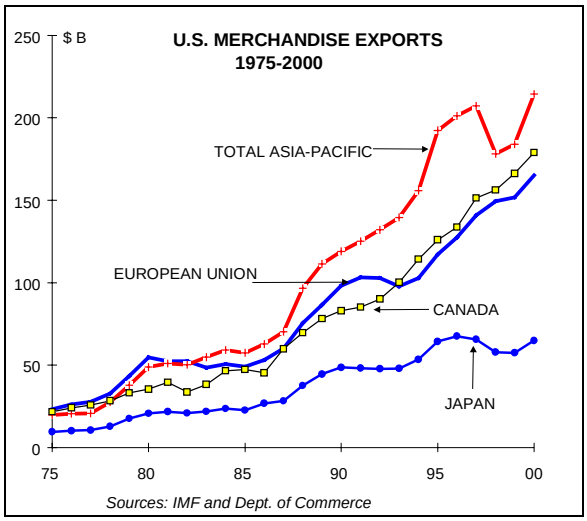


Figure 2-C

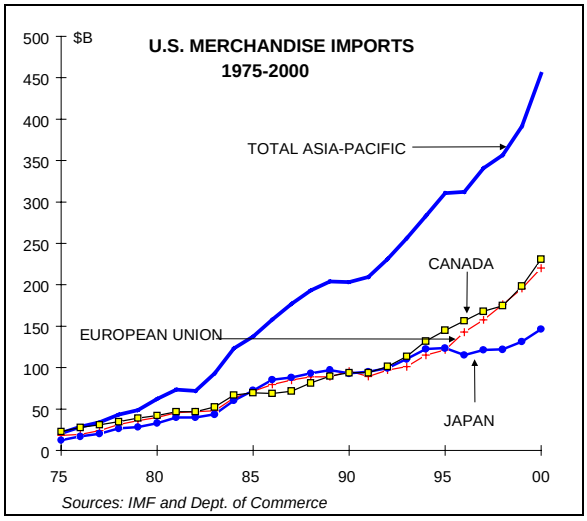
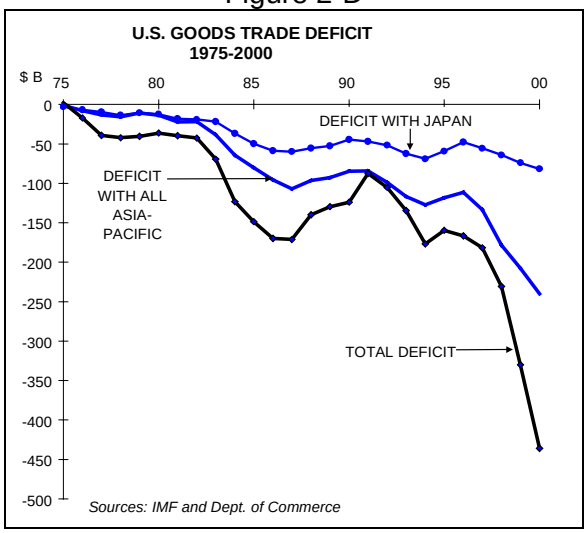


Figure 2-D

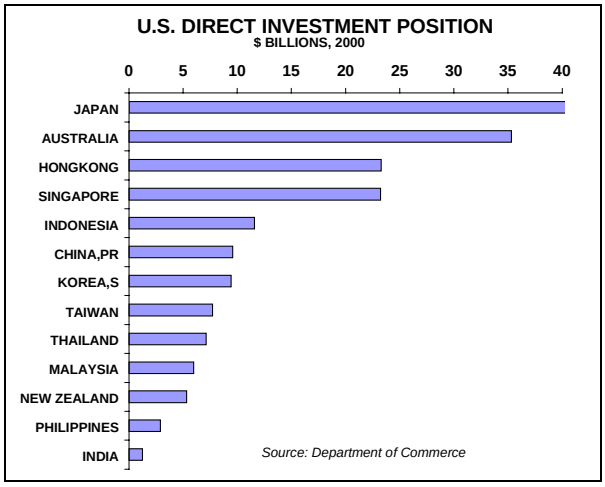


U.S. Direct Investment in Asia

Typically U.S. companies use their direct investments in Asia to augment the market for U.S. export sales. U.S. holdings in the Asia-Pacific region increased substantially from $46B in 1987 to $200B in 2000.[9] These U.S. direct investment holdings were primarily in the industrialized Asian economies of Japan, Australia, and the Four NIEs. It is interesting to note, however, that U.S. energy holdings in Indonesia yielded a higher overall position for that country than with China. (See Figure 2-E.)

American companies have yet to realize the full potential of investing in Asia than they are achieving in Europe. While 33% of U.S. merchandise trade is with Asia, only 16% of total U.S. overseas holdings are in the Asia-Pacific region.

Figure 2-E



Prospects

Although trade and investment obstacles are not the full cause of the U.S. trade deficit, American business has yet to reach its full potential in the region. The attainment of mutual prosperity is made inefficient not only by official tariffs, but also by other barriers in the form of non-transparent or incomplete legal and regulatory frameworks, insufficient protection of intellectual property rights, bungled industry standards, and official corruption.

The *perception* that barriers to trade and investment in Asia have victimized the United States creates political pressures that should not be underestimated. America's past economic boom placated the loudest critics of current U.S. policy, and any prolonged downturn could bring a resurgence in voices claiming that the Asia Pacific region is "free-riding" on American security guarantees while exploiting the relative openness of American markets.

Endnotes

1 Department of Commerce, Bureau of Economic Analysis, *National Income and Product Accounts* (www.bea.doc.gov/bea/dn/nipaweb/). Includes goods and services trade, and is based on a recent revision of the National Income and Product Accounts.

2 Donald Evans, *Testimony Before the Senate Banking Committee*, October 2, 2001. (www2.osec.doc.gov/)

3 Department of Commerce, Bureau of the Census, *FT-900 Supplement*, (www.census.gov/foreign-trade/) February 2001. Census import figures do not include freight and insurance.

4 U.S. Trade Promotion Coordinating Committee, *National Export Strategy*, October 1995 and October 1996. Job ratio estimates are of limited use when applied to an economy in equilibrium.

5 U.S. Trade Promotion Coordinating Committee, *National Export Strategy 2000*, October 2000 (www.tda.doc.gov/).

6 Department of Commerce, Bureau of the Census, (www.census.gov/foreign-trade/) February 2000.

7 Department of Commerce, *Survey of Current Business*, April 2001 and "International Accounts Articles" (www.bea.doc.gov/bea/ai1.htm/) . ("Other Asia" also includes a minor amount to Africa.)

8 *Economic Report of the President together with the Annual Report of the Council of Economic Advisors*, February 2001 (w3.access.gpo.gov/usbudget/fy2002/)

9 Department of Commerce, *Survey of Current Business*, September 2001 and "International Accounts Articles" (www.bea.doc.gov/bea/ai1.htm/) .