

ASEAN's economic integration and its role in developing trade and investment flows in the region

التكامل الاقتصادي للرابطة ودورها في تنمية تدفقات التجارة والاستثمار في المنطقة

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Abstract:

This paper aims to shed light on the role of economic integration of the Association of Southeast Asian Nations in developing trade and investment flows in the region. As the free flow of goods, services and investment is an important objective of the economic integration of the Association of Southeast Asian Nations to achieve economic growth. Through this research, several results were reached, the most important of which is that the establishment of the Free Trade Area of the Association of Southeast Asian Nations (AFTA) has an important role in stimulating and intensifying the volume of trade and investment in the region.

Keywords : ASEAN Economic Integration, international Economy, Economic Growth, Investment, Trade.

Jel Classification Codes : F02, F13, F15, F21

ملخص:

يهدف هذا البحث إلى تسليط الضوء على دور التكامل الاقتصادي لرابطة دول جنوب شرق آسيا في تطوير حجم تدفقات التجارة والاستثمار في المنطقة. حيث أن التدفق الحر للسلع والخدمات والاستثمار يعتبر أحد الأهداف المهمة لرابطة الآسيان لتحقيق النمو الاقتصادي. من خلال هذا البحث تم التوصل إلى عدة نتائج أهمها أن إنشاء منطقة التجارة الحرة لرابطة دول جنوب شرق آسيا (AFTA) له دوره فعال في تحفيز وزيادة حجم تدفقات التجارة والاستثمار في المنطقة.

كلمات مفتاحية: التكامل الاقتصادي للآسيان، الإقتصاد العالمي، النمو الاقتصادي، الاستثمار، التجارة .

تصنيف JEL: F02, F13, F15, F21

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1. INTRODUCTION

Economic integration has been growing in international importance and is rapidly expanding in all regions. Economic integration remains the subject of global debate and affects the domestic economy in several ways, such as trade creation, trade diversion, free movement of production factors, and economies of scale(Preepremmote, P., Santipolwut, S., Puttitanun, T. 2018), all of which contribute to economic growth. The ASEAN established in 1967 is representative of developing regional economic integration within the structural changes of the worldwide economy and developed from a customs union into a common market, namely the ASEAN Economic Community (AEC) in 2015. And in this year it was created and implemented of the ASEAN Economic Community (AEC) was a crucial initiative to integrate the 10-member countries as a single market and production base, with investments, services, free movement of goods, skilled labour, and flow of capital among its key underpinnings. Its extension is the ASEAN Economic Community Blueprint 2025 which strives to build a regional monolith that has the ability to compete with other blocs across the globe.(ASEAN Integration Report ,2019)

An apparent positive outcome of ASEAN integration is the gradual increase of cumulative GDP within the region. Through the implementation of the ASEAN Economic Blueprint 2025, an ASEAN-wide Self-Certification Scheme has been created. This scheme helps facilitate the utilisation of the ASEAN Trade in Goods Agreement by allowing exporters to issue an origin declaration which will cut transaction costs.

The integration of ASEAN and ASEAN Economic Communities (AEC) has made it the largest market among the major blocs in term population and became significantly attractive as the investment destination for the foreign investors (Elliot, R.J.R. and Ikemoto, K. 2004).the Objectives of the integration was to accelerate the economic growth and the trade development for the sustained prosperity in the region and also to enhance competitiveness of the region through the free flow of goods, free flow of services in the form of tax relief, and free flow of skilled labors and capital. The main problem of the research revolves around:

What is the role of the economic integration of ASEAN in the development of trade and investment flows in the region?

*order to answer this question, we pose the following two working hypotheses :**Hypothesis I** :The economic integration of the ASEAN countries is an important factor in achieving a prominent position in the global economy*

Hypothesis 2 : *The economic integration of ASEAN has effectively contributed to increasing the volume of trade and investment flows in the region*

To answer our main question and verify our hypotheses, we adopted a research of the methodology empirical analysis, which is based on the exploitation and analysis of data and statistics from various official international bodies and organizations interested in the exchange of goods and services and the circulation of capital flows and investment flows, in order to meet the objectives of the research and whether regional economic integration within ASEAN has a positive impact on trade and investment flows in the region, And has been relying on the following plan:

- ***Overview of the economy integration of ASEAN and its position in the global economy***
- ***The development of trade and investment flows In a frame the economic integration of ASEAN***

2. Overview of the economic integration of ASEAN and its position in the global economy :

ASEAN's economic integration is a dynamic process, where long-term objectives are pursued in the context of a changing environment. Despite persistent challenges in the global economy And will be studied in this axis to the following :

2.1. The emergence and development of the ASEAN Cluster

The Association of Southeast Asian Nations (ASEAN) was formed in 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand to promote political and economic cooperation and regional stability (<https://globaledge.msu.edu/trade-blocs/asean/memo>, (consulted on : 21 January 2020)). The ASEAN Declaration in 1967, considered an ASEAN's founding document, formalized the principles of peace and cooperation to which ASEAN is dedicated. The ASEAN Charter entered into force on 15 December 2008. With the entry into force of the ASEAN Charter, ASEAN established its legal identity as an international organization and took a major step in its community-building process. The ASEAN Community is comprised of three pillars, the Political-Security Community, Economic Community, and Socio-Cultural Community. (Nusrate Aziz, Belayet Hossain & Irfan Mowlah, 2018)

in 1976 - First ASEAN Summit convenes in Bali, Indonesia. In 1984 - Brunei joins ASEAN. And in 1995 - Vietnam joins ASEAN. In 1999 - Cambodia joins ASEAN.

2005 - First meeting of ASEAN Plus Six, also called the East Asia Summit, comprising the ASEAN countries plus China, Japan, South Korea, India, Australia and New Zealand (Hal

Hil, 2010). In 2007 - ASEAN signs charter giving its 10 member states a legal identity, a first step towards its aim of a free trade area by 2015. In 2013 - ASEAN members and their trading partners (Australia, China, India, Japan, New Zealand, and South Korea) begin the first round of negotiations on establishment of the Regional Comprehensive Economic Partnership. In 2015 - The ASEAN Economic Community (AEC) Blueprint is adopted by ASEAN leaders at the 27th ASEAN summit. This blueprint provides broad directions to achieve a highly integrated and cohesive economy; a competitive, innovative, and dynamic ASEAN; enhanced connectivity and sectoral cooperation; a resilient, inclusive, people-oriented, and people-centered ASEAN; and a global ASEAN.

2.2 FUNDAMENTAL PRINCIPLES :

In their relations with one another, the ASEAN Member States have adopted the following fundamental principles, as contained in the Treaty of Amity and Cooperation in Southeast Asia (TAC) of 1976, (Muhammad NaufalDjatnika, Nurul FadliNugroho ,Hannasya Qurie,2019)

- Mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nations;
- The right of every State to lead its national existence free from external interference, subversion or coercion;
- Non-interference in the internal affairs of one another;
- Settlement of differences or disputes by peaceful manner;
- Renunciation of the threat or use of force; and Effective cooperation among themselves. (Kawai, M. 2005)

2.3. The objectives of the ASEAN bloc:

As stated in the ASEAN Declaration, the goals and objectives of ASEAN are:

- The primary objective of the formation of ASEAN is to accelerate economic growth, social progress and cultural development in the region through the joint endeavors of member states and partnership in order to consolidate the foundation for a prosperous and peaceful society of Southeast Asian countries .(Bhattacharyay, B. N. 2009)
- Enhancing regional peace and stability through commitment to respect justice and the rule of law in the relationship between the countries of the region and adherence to the principles of the United Nations Charter; (<https://asean.org/asean/about-asean/overview/> ,(consulted on : 17 January 2020))
- To promote the principle of mutual cooperation in matters of mutual interest in the economic, social, technological, cultural, technical, scientific and administrative fields;

To provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative fields;

-To cooperate more in the fields of agriculture and industries, and expand their trade, including studying the problems of international commodity trade, improving their transportation and raising their living standards;

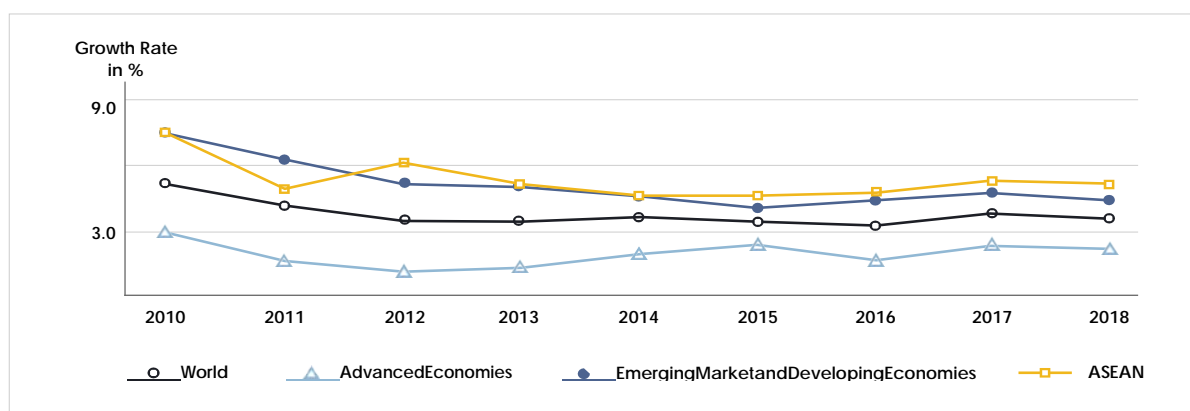
- Maintain close and beneficial cooperation with existing international organizations and regional blocs with similar goals and objectives, and explore all avenues for closer cooperation between them.(David Martin Jones and Michael L. R. Smith ,2007)

2.4 ASEAN position in the world economy :

The global economy experienced a period of recovery after the economic crisis in 2008, raising global GDP by 5.4 % in 2010 and then falling to a rate of 3.4 % in 2012, then to 3.8 in 2018 (UNCTAD Handbook of Statistics ,2019)(see Figure 1). Both developed and emerging economies have seen the implementation of measures and measures for stimulus and the adoption of quantitative easing, despite political differences and escalating trade tensions, with global GDP growth dropping from 3.8% in 2017 to 3.6%, as growth in developed economies slowed to 2.3 % In 2018 after slowing industrial production, political problems and natural disasters. While growth in emerging economies fell to 4.5% in 2018 from 4.8% in 2017 due to financial difficulties and unstable economic conditions.(International Monetary Fund (IMF, 2019)

ASEAN's economy has also consistently outperformed the global economy with regional GDP growth close to 5.0% in 2018, while global GDP remained below 4.0% during the same period.

Fig 1: Real GDP Growth Rate, 2010-2018



Source: UNCTAD Handbook of Statistics 2019, Available at: https://unctad.org/en/PublicationChapters/tdstat44_FS07_en.pdf, consulted on : 10/08/ 2020

By 2018, the share of the Association of Southeast Asian Nations (ASEAN) in the global economy increased, in nominal terms, to 3.5% (from 2.9% in 2010). ASEAN ranked fifth among the largest economies in the world, with nominal GDP estimated at US \$ 3.0 trillion, an increase of more than 50% over its 2010 level (see Table 1). Where ASEAN comes after the United States of America (24.2%), the European Union (22.1%), China (15.8%), and Japan (5.9%).

The region ranks well within the global value chains, and it is also one of the largest regions in the world in terms of trade in goods. As ASEAN possesses 7.2% of the world trade in commodities, i.e. (fourth place after the European Union, China and the United States) and 6.8% share in world trade in services, and thus the fourth place after the European Union, the United States and China. With strong economic fundamentals and a rapidly growing market, ASEAN is also an attractive investment destination. Whereas, in 2018, ASEAN received 154.7 billion US dollars, or 11.9% of total global FDI inflows, the highest in its history, ranking third after the European Union and the United States. The region is also among the most attractive areas for global investment, with its foreign investments amounting to US \$ 69.6 billion, 6.9% of the global total.

Table 1. ASEAN Ranking in the Global Economy, Trade, and FDI

Indicator	Rank			Value (USD billion)			Global Share (%)		
	2010	2015	2018	2010	2015	2018	2010	2015	2018
Nominal GDP	6	5	5	1,931.2	2,455.6	2,986.4	2.9	3.3	3.5
Trade in Goods	4	4	4	2,001.4	2,272.9	2,817.4	6.5	6.8	7.2
Exports	4	4	4	1,049.0	1,171.7	1,432.6	6.9	7.1	7.3
Imports	4	4	4	952.4	1,101.1	1,384.8	6.2	6.6	6.9
Trade in Services	3	4	4	439.2	640.2	778.6	5.7	6.5	6.8
Exports	3	3	3	213.8	317.9	404.9	5.5	6.4	6.9
Imports	3	4	4	225.4	322.3	373.8	5.9	6.6	6.7
FDI In ows	4	5	3	108.2	118.7	154.7	7.9	5.8	11.9
Out ows	5	8	6	63.3	69.0	69.6	4.6	4.1	6.9

Source: ASEAN Secretariat (2018) ASEAN key figures 2018. Jakarta: ASEAN Secretariat.

Available from: [https:// www.aseanstats.org/wp](https://www.aseanstats.org/wp) consulted on: 20 January 2020

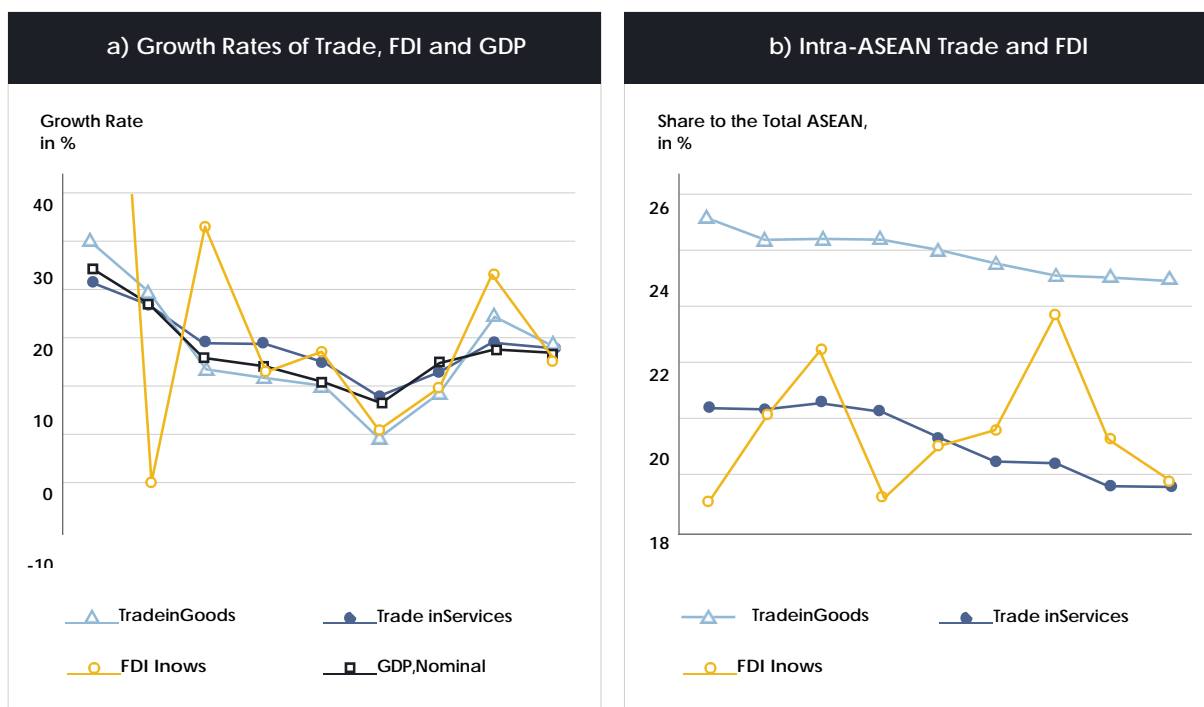
3. The development of trade and investment flows In a frametheeconomic integration of ASEAN

3.1 Trade and investment in the ASEAN:

Trade and investment in the ASEAN region have fluctuated since 2010 (see Figure 2) as this was the result of the recession and then the general periodic recovery in trade and the global

economy. Trade volume increased in 2017, when advanced economies began to recover and market instability subsided. However, in 2018, trade tensions exacerbated political differences between different countries of the world, as well as some major economic blocs that impeded economic growth. Nominal GDP growth rates, trade in goods and services, and foreign direct investment usually move together, with slight differences in foreign direct investment. With the decline in economic activities in the wake of increasing trade and investment protectionism among the major economies, trade in goods, services and investments also decreased in 2018.

Fig 2 . ASEAN Trade and Investments, 2010-2018



Source: The ASEAN Secretariat(2019),ASEAN Integration Report 2019, The ASEAN Secretariat is based in Jakarta, Indonesia, p 12.

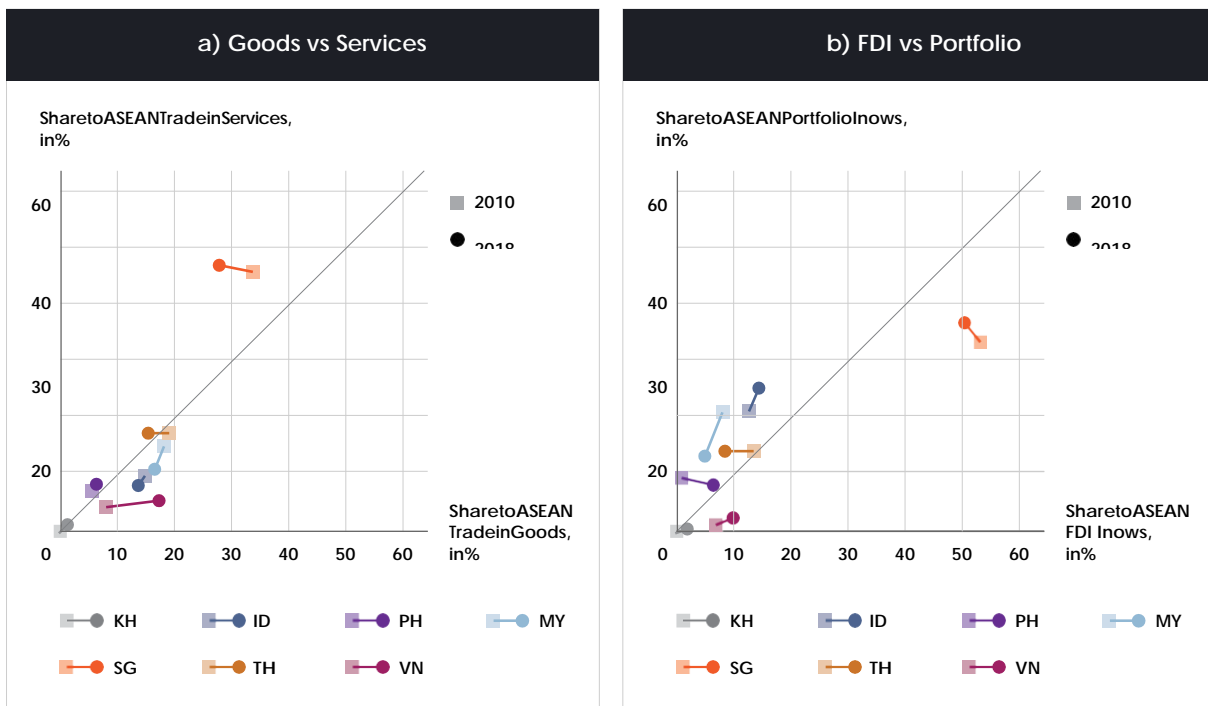
The share of intra-regional trade in goods and services between ASEAN member countries remained relatively stable between 2010 and 2018, and declined slightly in the second half of the decade. The intra-trade share of commodities fell slightly to 23.0% in 2018 from 25.1% in 2010, while the intra-trade share in services decreased from 18.4% in 2010 to 15.7% in 2018. As for foreign direct investment, the -ASEAN share remained In the range of 15% -22% from 2010 to 2018, the share in 2018 (15.9%) was just above 15.1% in 2010.

3.2 Contribution of member states to the total trade and investment of the ASEAN

Contribution of member states with higher shares in commodity trade also has higher shares in services trade compared to services of other member states (Heinrich, J. and Konan, D. E.

2000), with the exception of Singapore and Vietnam. Singapore has a much higher share of trade in services (47.1% versus 27.8% for commodity trade), while Vietnam has higher merchandise trade (17.1% versus 5.4% for trade in services). Some countries have higher shares in trade in commodities mainly because they have a strong manufacturing sector, such as Indonesia and Vietnam. On the other hand, those with relatively higher shares in the services trade have strong financial sectors like Singapore or the Philippines

Fig 3 .Contribution of ASEAN member countries to total trade and investment during the period 2010 and 2018



Source: ASEAN Secretariat (2018) ASEAN key figures 2018. Jakarta: ASEAN Secretariat. Available from: [https:// www.aseanstats.org/wp/](https://www.aseanstats.org/wp/),(consulted on:20 January 2020)

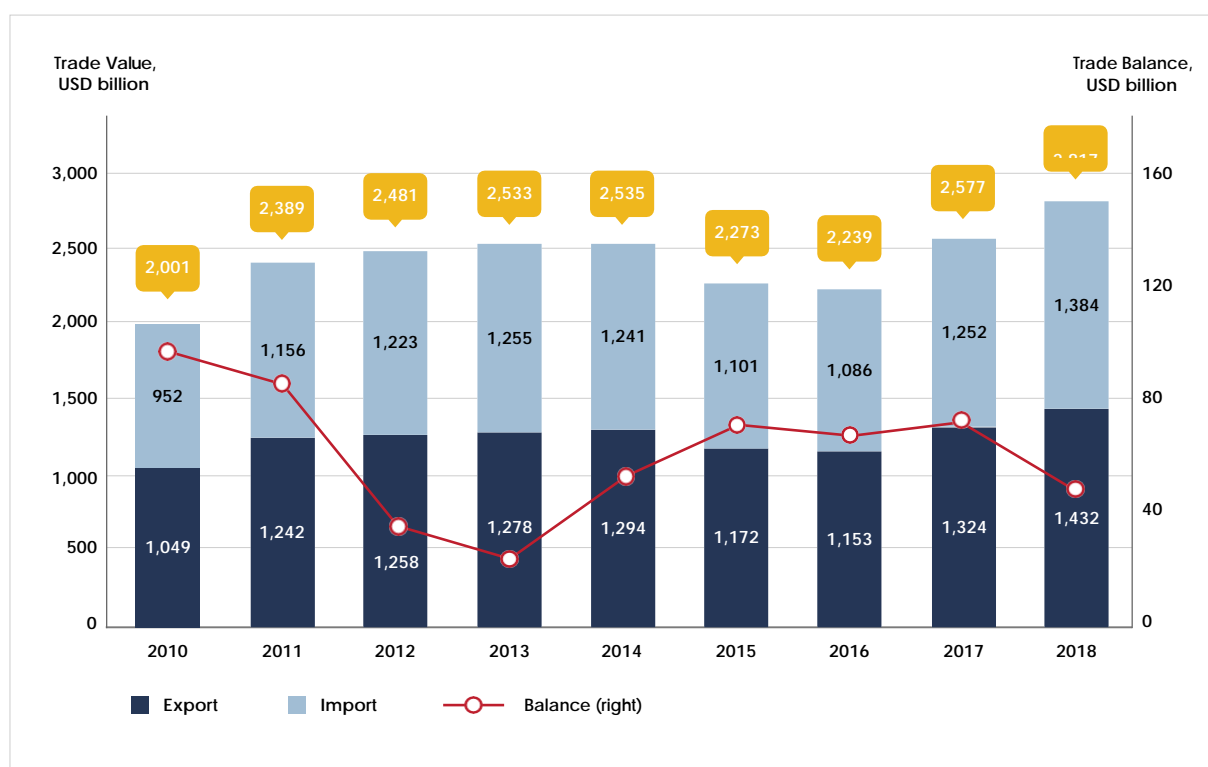
There are significant changes in the volume of foreign direct investment for ASEAN member countries (Hubert P. J. and Phanindra V. W, 2004) (for example the Philippines, whose share of FDI flows increased from 1.2% in 2010 to 6.3% in 2018; and Thailand, whose share of foreign investment flows decreased Direct from 13.6% to 8.6%, and Malaysia's share in FDI inflows decreased from 20.6% in 2010 to 13.3% in the first half of 2018). Likewise, Singapore's share of total investment inflows into the region has declined, although the country still maintains in the region more than 50% of FDI inflows and nearly 40% of intra-investment flows to member countries. Meanwhile, for Cambodia, Lao PDR, Myanmar and Vietnam, the shares of FDI inflows to ASEAN total are much higher compared to their respective shares in intra-regional investment flows(Blonigen, B. A., and J. Piger,2014). The

main reason is that the capital markets in these countries are still in their early stages, and therefore foreign direct investment remains dominant as a source of investment financing and various productive projects.

3.4 The development of goods trade in ASEAN

The free flow of commodities is an important goal of ASEAN's economic integration. In fact, the establishment of the Association of Southeast Asian Nations (AFTA) Free Trade Area (AFTA) in 1992 (Chia, Siow Yue, 2013), preceded the launch of the 2015 AEC Plan in 2007. As the ASEAN countries became increasingly stronger in global trade. Merchandise trade in the region increased significantly from \$ 2 trillion in 2010 to \$ 2.8 trillion in 2018, or 7.2% of global trade, making ASEAN - collectively - the fourth largest trading economy in the world.8 except for 2015 and 2016 Commodity exports increased continuously during this period, reaching \$ 1.4 trillion in 2018. Meanwhile, commodity imports showed a similar path and reached \$ 1.4 trillion by 2018. Imports were consistently lower than exports, which made the trade balance of the Association Southeast Asian countries are positive. Throughout the observed period .

Fig4. ASEAN's Trade in Goods, 2010-2018



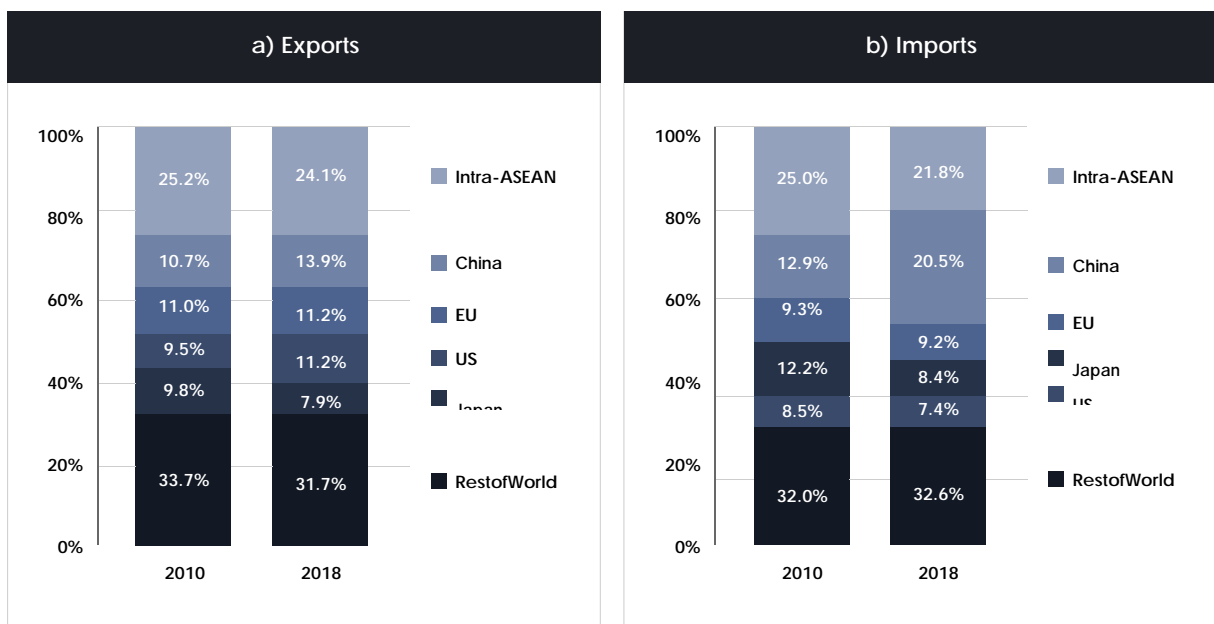
Source : [https://ec.europa.eu/eurostat/statistics-explained/index.php/ASEAN-EU - international trade in goods statistics](https://ec.europa.eu/eurostat/statistics-explained/index.php/ASEAN-EU_-_international_trade_in_goods_statistics), (consulted on : 17 /07/ 2020)

The first strategic action taken by ASEAN in the 2016-2025 SAP Trade in Goods Plan is to further strengthen the ATIGA Agreement. As it has made remarkable progress in liberalizing

tariffs under this agreement. As of May 2019, 99.3% of all tariffs have been removed by ASEAN (such as Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand), while the corresponding figure for Cambodia, Lao PDR, Myanmar, and Vietnam is 97.7%. Collectively, ASEAN eliminated 98.6% of the total number of tariff lines in 2019

ASEAN is the largest domestic market for its total trade, by 23.0% in 2018; China (17.2%), the European Union (10.2%), and the United States (9.3%) followed. The shares of exports and imports of goods within ASEAN in 2018 were 24.2% and 21.7% of the total exports and imports of ASEAN, respectively. Other important markets for ASEAN exports in 2018 were China (13.9% of total ASEAN exports), followed by the European Union (11.2%), the United States (11.2%), and Japan (7.9%). For ASEAN imports, the largest sources after ASEAN were China (20.5%), the European Union 28 (9.2%), Japan (8.4%), and the United States (7.4%). shows the ASEAN export market and import sources between 2010 and 2018.(see Figure5)

Fig5. The shares and directions of exports and imports of goods for ASEAN during the years 2010 and 2018



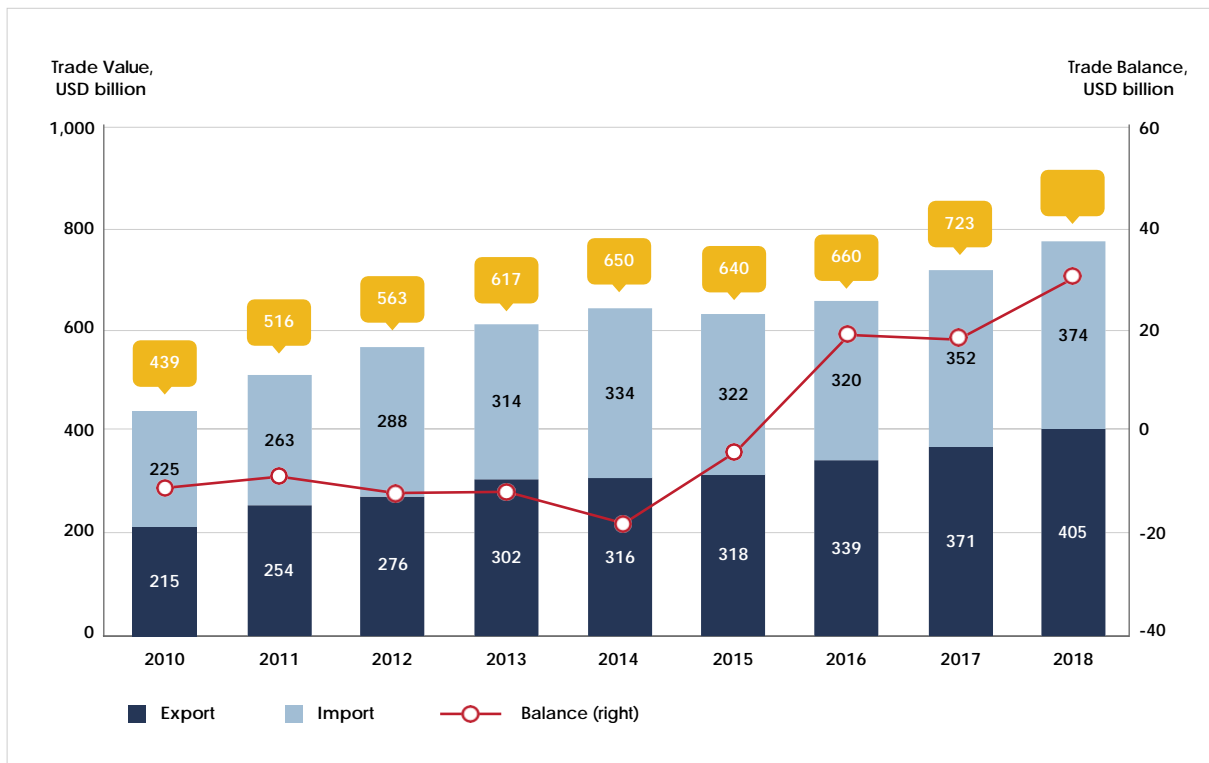
Source: UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (2020), key statistics and trends in international trade 2019 , united nations , Geneva, p 07.

3.5 The development of Trade in services

The services sector is an important driver of economic growth in the Association of Southeast Asian Nations. The sector contributed 50.1% of the region's GDP of \$ 3.0 trillion in 2018, making it the largest component of ASEAN GDP, and the services sector accounts for nearly

half of its real production, as some countries, such as Singapore, Thailand, the Philippines, and Malaysia, registered shares. Top. At 60.7%, services also received the largest share of FDI inflows to ASEAN in 2018, with the largest share of financial and insurance activities contributing. The services sector also provides a good job opportunity for women since in some AMS, such as Brunei Darussalam, Singapore, Philippines and Malaysia, this workforce accounts for more than half of the employment in these countries(see Figure6)

Fig6. ASEAN's Trade in Services, 2010-2018



Source:The ASEAN Secretariat(2019),ASEAN Integration Report 2019, The ASEAN Secretariat is based in Jakarta, Indonesia, p 8.

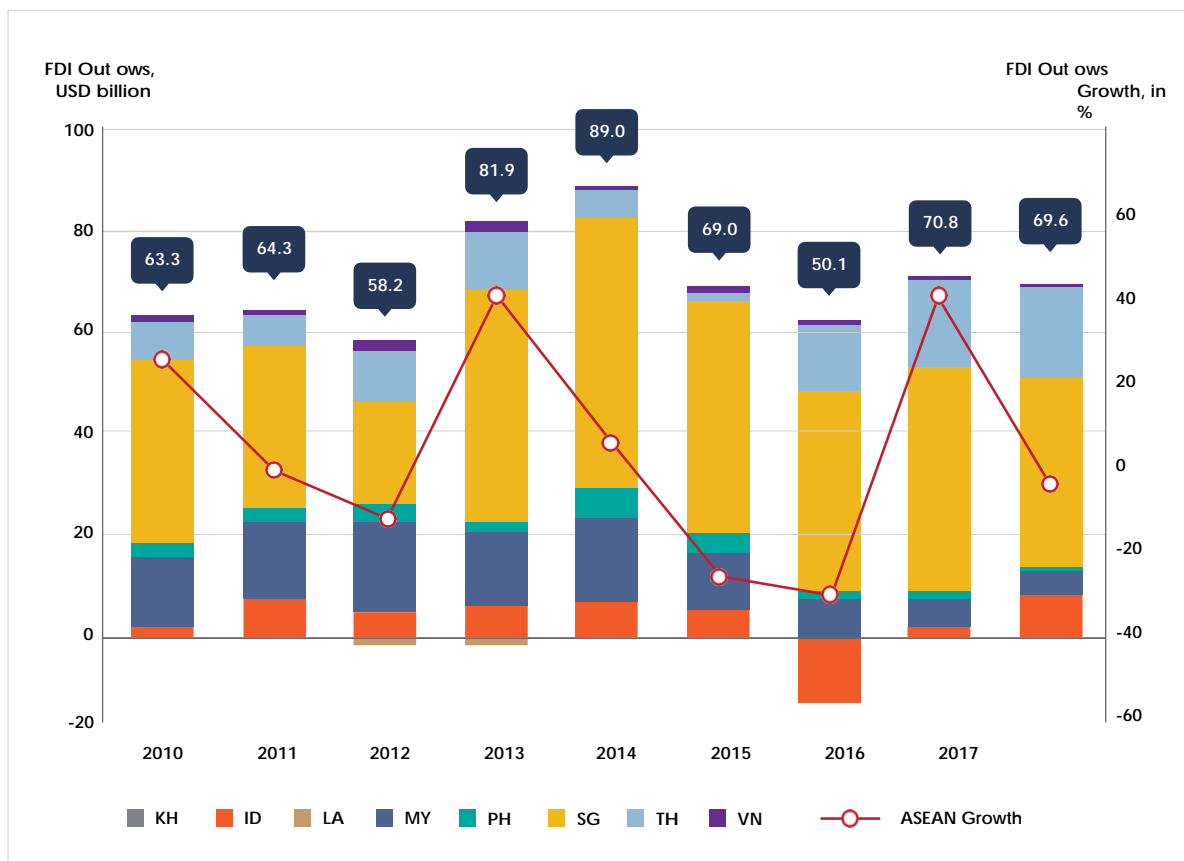
ASEAN trade in services has increased continuously from 2010 to 2018, growing at an average rate of 7.4% annually, or 4.4% faster than trade in goods. During the same period, it grew by 8.3% annually on average. In 2018, services trade in the region amounted to \$ 778.6 billion - an increase of 77.3% from \$ 439.2 billion in 2010 (see Figure 6). Meanwhile, trade in services between ASEAN countries increased by 50.7% from 81.0 billion US dollars in 2010 to 122.1 billion US dollars in 2018. Services exports within ASEAN grew at an average of 5.5% annually during this period, compared to 5.0% for services imports. In terms of the share in total services exports and total services imports, however, the share of ASEAN countries in total exports of ASEAN services decreased from 19.5% in 2010 to 15.8% in

2018, while the share of ASEAN countries in total decreased ASEAN services imports from 17.5 % In 2010 to 15.5% in 2018

3.6 Development of FDI inflows into ASEAN member countries

The importance of FDI for a country's economic growth and long-term competitiveness is widely acknowledged. As investment increases, the capacity of an economy to produce more goods and services also increases, driving economic growth. In ASEAN (Normaz Wana Ismail, 2009), investment has played a critical role in the formation of supply chains and production networks (Kawai and Naknoi, 2015), with AMS pursuing policies that allow FDI inflows as part of their industrialisation strategies and drive the region to become a major production base in the global economy

Fig 7. ASEAN FDI Outflows by Country Source, 2010-2018



Source : Foreign direct investment - outward flows, Available at: <https://globaledege.msu.edu/trade-blocs/asean/statistics>, (consulted on: 17 /07/ 2020)

FDI inflows from the ASEAN region increased from US \$ 63.3 billion in 2010 to US \$ 69.6 billion in 2018. The increase in foreign direct investment flows in the region indicates the major role of ASEAN as an attractive source of foreign investment globally, or 53.4% Of the total FDI inflows in the region, Singapore remained the largest source of foreign investment

in the region in 2018; Then followed by Thailand with \$ 17.7 billion (25.5%), and Malaysia with \$ 5.3 billion (7.6%) (see Figure 7)

The service sector received the highest FDI inflows of \$ 154.7 billion, equivalent to 60.7%, of total FDI inflows to ASEAN in 2018, followed by the manufacturing sector with \$ 55.1 billion (35.6%) and then in the primary sector 1.9 One billion US dollars (-1.2%). FDI inflows into the services sector made significant contributions to the following sub-sectors: financial intermediation (27.4%), trade and commerce (13.5%), and professional social services and others (9.9%) of the total flows in 2018. (The ASEAN Secretariat, 2019)

4. CONCLUSION

We conclude through this research that despite the uncertainty prevailing in the global economy, the overall economic performance of the Association of Southeast Asian Nations remains strong. With a GDP of US \$ 3.0 trillion in 2018, ASEAN is currently the fifth largest economy in the world. As a global trading powerhouse, total trade in the region reached \$ 2.8 trillion in 2018, an increase of 23.9% over the 2015 figure of \$ 2.3 trillion. The region also attracted \$ 154.7 billion in investment in 2018 - the highest in history - and a 30.4% increase in total FDI inflows of \$ 118.7 billion in 2015. ASEAN's economic integration continues to contribute to developing its profile. The emerging region as an engine of global economic growth, with ASEAN countries accounting for the largest share of total trade and FDI inflows in 2018 at 23.0% and 15.9%, respectively. This is due to regional initiatives and measures taken by ASEAN and its member states. In order to make this progress and achieve these achievements

- *With regard to trade in goods, tariffs within the ASEAN countries have been abolished (98.6% of the tariff lines are zero), and efforts are being intensified to enhance commodity trade facilitation and address the effects of barriers and non-tariff measures in the region. The aim was originally within the framework of the AEC 2015 scheme, to fully activate the trade facilitation initiative of the Association of Southeast Asian Nations.*
- *The ASEAN intra-shares of total exports and imports did not change much between 2010 and 2018 (from 25.2% to 24.1% and 25.0% to 21.8% respectively), but ASEAN intra-exports increased by 30.6% during this period to reach \$ 345.2 billion in 2018, and intra-ASEAN imports increased by 26.8% to \$ 302.3 billion.*
- *The importance of the services sector in the region's economy lies in the strong economic position of the ASEAN countries as the sector that attracts the highest*

foreign direct investment inflows in the region, and holds the largest component of the Association of Southeast Asian Nations (ASEAN) GDP. These countries continue to work more towards achieving greater integration of the services market in the Association of Southeast Asian Nations, with an increased focus on cooperation to deepen the integration of their services, which has become an urgent necessity due to the development of digital payment methods that contribute to the development of services trade flows.

- *ASEAN's efforts to create a free and open investment system have survived and this is evidenced by the performance of steady investment flows, with total foreign investment reaching \$ 154.7 billion in 2018 after it was \$ 108.2 billion in 2010, (representing an average annual growth of 4.6%),*
- *Total FDI inflows into ASEAN countries exceeded all shares of other emerging economies, such as China (139.0 billion US dollars), the Republic of Korea (14.5 billion dollars) and India (42.3 billion dollars).*
- *FDI inflows from ASEAN have also achieved higher values than some other advanced economies, such as Canada (39.6 billion USD), Australia (60.4 billion USD), Japan (9.9 billion USD) and New Zealand (1.4 billion USD).)*
- *Despite fluctuations in investment flows from 2010 to 2017, Singapore remained the largest recipient of foreign direct investment in the region with a 50.2% share of total inflows to the region in 2018 (\$ 77.6 billion), followed by Indonesia (14.2%) and Vietnam (10.0%).) And Thailand (8.6%).*
- *Moving forward, ASEAN needs to capitalize on various contributions to invest in the region's total productivity, by facilitating the transfer of skills, technology and capabilities related to digitization to all member states in the region. In addition, ASEAN investment policies should be directed towards addressing trends in investment flows to the economies of emerging countries, particularly in addressing the long-term sustainability of investment growth in the region.*

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