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ABSTRACT

The purpose of this article is to test the hypothesis that the ‘ASEAN way’ is different from other regional integration schemes, as measured by the relative importance of its *de facto* regionalization patterns, the importance of its ASEAN+ frameworks, and its globalization-regionalization nexus. A set of indicators using intra- and extra-regional flow data of various sorts are explored and used to compare the ASEAN integration experience with some benchmark cases worldwide. Four aspects are thereby considered: (1) globalization and economic openness, (2) trade liberalization, (3) regional production sharing, and (4) foreign investment promotion.

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AEC; ASEAN; Asian regionalism; globalization; regional integration

1. Introduction

It is generally assumed that the cooperation and integration experience of the Association of Southeast Asian Nations (ASEAN) in the past half century is different from that in other regions such as Europe, the Americas, or elsewhere in the world. Its specific character is associated with the ‘ASEAN way’. It is further argued that the intra-regional integration dynamics cannot be seen independently from the trade and investment dynamics and patterns in the wider East and Southeast Asian region. This pattern is associated with the so-called ‘flying geese’ formation (Akamatsu 1962).

In this context, the 1990s turned out to be a vital period that fundamentally transformed ASEAN. The end of the Cold War and the 1997–1998 Asian financial crises altered the orbit of the ASEAN project from the geopolitical to the economic dimension. The termination of the Warsaw Pact and the dissolution of the Soviet Union broke the original geopolitical balance in Asia-Pacific during the Cold War. Globalization and the worldwide progress of regional integration, especially in Europe and the Americas, changed the global economic landscape. In Europe, the 12 members of the European Community signed the Maastricht Treaty that gave birth to the European Union (EU) and led to the establishment the European Monetary Union years later. On the other side of the Atlantic, the United States, Canada, and Mexico signed the North American Free Trade Agreement (NAFTA). It was time for the six original ASEAN Member States (AMS) to accelerate their pace of intra-ASEAN trade liberalization to secure the region’s competitiveness in the global market.

The project of establishing the ASEAN Free Trade Area (AFTA) started in 1992. Its aim was to improve ASEAN’s competitive edge in the global market through the

facilitation of international trade and foreign investment. The creation of AFTA led to the Declaration of ASEAN Concord II (the Bali Concord II) in 2003, indicating the direction of further development of the region by defining the three pillars of the ASEAN Community, namely: an ASEAN Economic Community (AEC), an ASEAN Political-Security Community (ASC), and an ASEAN Social-Cultural Community. The AEC Blueprint consisted of four pillars, 17 core elements, and 176 priority actions.

This intra-regional process is complemented by ASEAN's efforts to promote integration in the wider region. After signing a series of bilateral/trilateral free trade agreements (FTAs) and comprehensive economic partnerships (CEP) with China, Japan, the Republic of Korea (henceforth Korea), India, Australia, and New Zealand, ASEAN is positioning itself as a hub in the ASEAN+6 network (see Figure 1). The 16 countries then moved forward to negotiate a Regional Comprehensive Economic Partnership (RCEP), of which the basic idea is to put

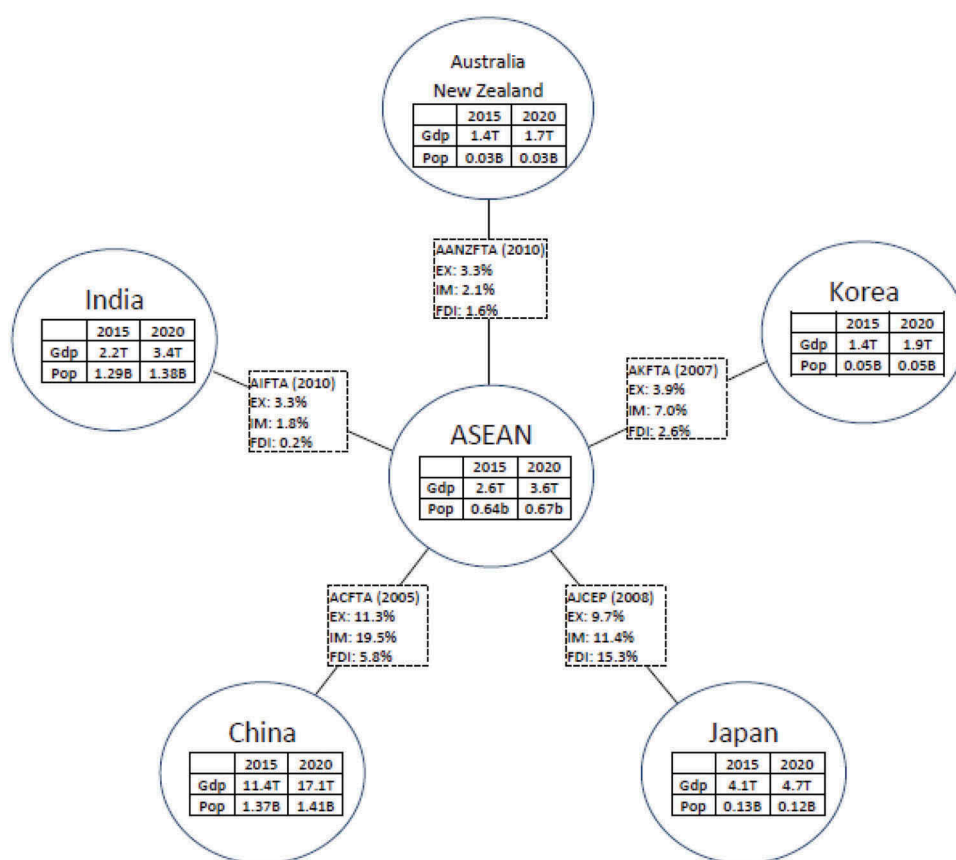


Figure 1. ASEAN+6 free trade agreements network.

Notes: ASEAN and China signed the Free Trade Agreement upgrade protocol (ACFTA 2.0) in 2015. AANZFTA = ASEAN-Australia-New Zealand Free Trade Agreement; ACFTA = ASEAN-China Free Trade Agreement; AIFTA = ASEAN-India Free Trade Agreement; AJCEP = ASEAN-Japan Comprehensive Economic Partnership; AKFTA = ASEAN-Korea Free Trade Agreement; ASEAN = Association of Southeast Asian Nations; Gdp = gross domestic product; Pop = population; B = billion; T = trillion USD.

Source: The Authors. Raw data from the International Monetary Fund's (2016) World Economic Outlook database, and the ASEAN Secretariat database.

together the existing ASEAN+1 FTAs into a plurilateral arrangement in order to facilitate FTA utilization and consolidate ASEAN's centrality in regional arrangements. Economically, this ASEAN-centred network accounted for one-third of ASEAN's total exports and over 40% of its total imports in 2015.

Such pan-East/Southeast Asia approach has the potential to reinforce the ASEAN integration process as this role as a central node of Asian regionalism could imply an incentive for ASEAN to further integrate its own internal market first. This double objective (deepening the ASEAN Economic Community and developing ASEAN as a production base) poses conceptual issues though, makes it difficult to disentangle the distinct policies, and to evaluate the coherence of the overall policy package (see e.g. Pelkmans 2016).

This article assesses to what extent the ASEAN integration experience has been different from that in other parts of the world, with respect to the relative importance of *de facto* and *de jure* aspects of the process, and with respect to how the regionalization and globalization processes interact. The structure of the article is as follows: in the next section we connect it first with the relevant literature. We then present the research questions and methodology. This is followed by the data analysis and discussion. Finally, implications of our analysis will be presented, together with the conclusions.

2. Literature review

In the literature, the 'ASEAN way' refers to cultural and diplomatic features of the regional integration process, including the principle of non-interference (Acharya 1995, 2009; Narine 2012). In the economic sphere, the ASEAN case is presented as a model in which more weight is attached to market driven (*de facto*) regionalization than to the *de jure* regional integration process. According to this model, the market engines behind the process of regional integration in East Asia are mainly powered by the *de facto* cross-border production linkages among individual economies. We will refer to this as the 'ASEAN approach' to regional economic integration and cooperation. While geo-political and security motives might explain the creation of ASEAN and have been playing a role in the background since then, the market mechanism has played a key role in pushing forward the regional integration process and it only later spilled over from the economic domain(s) again to other areas.

The connexions between the intra-regional integration dynamics and the trade and investment dynamics and patterns in the wider East and Southeast Asian region are associated with the so-called 'flying geese' formation (Akamatsu 1962) which characterized the pattern of regional economic development until the late 1980s. We refer to Kojima (2000) and Kumagai (2008) for historical perspectives on the concept. The flying geese model was further refined and developed by Kojima (1960, 1970, 1973, 1995) and Ozawa (2003, 2005), among others. When arranging East Asian 'wild geese' into a four-tiered formation, one may regard Japan as the lead goose, followed by the four Asian Newly Industrialized Economies (the second tier), the four main ASEAN countries (the third tier), and finally other developing economies such as China and Viet Nam. International trade and investments are the key linkages among them.

Most ASEAN member states started as a supplier of raw materials to the region and the global market and then followed the footprint of sequential industrialization. This

process stimulated economic growth through the promotion of cross-border business connectivity in East Asia. The establishment of a region-wide business network and the process of Asian industrialization mutually reinforce each other (Chen 2008).

But various factors contributed to the breaking away from the original flight order of the East Asian economies. First, after signing the Plaza Accord in 1985, Japan accelerated the industrial transition to its followers. Second, the Japanese economy fell into a liquidity trap and started a decade-long recession in the early 1990s when its economic bubble collapsed. Third, Korea and China continued to achieve strong growth. China has surpassed Japan as the region's largest economy in terms of GDP, while Korea has challenged Japan as the regional leader in high-tech industries (Chen 2018). Fourth, the Internet revolution provided countries with more options for access to knowledge and new technology.

However, the market mechanism continued to drive the ASEAN economies. Indeed, the 'second unbundling' of globalization (Baldwin 2016) has since then been further enhancing the connectivity within the region and between ASEAN and the world. International fragmentation of production has turned the original business network, which looks more like a hierarchical tree, into a multi-layered network intertwined by intensive cross-border activities of production sharing in the exchange in intermediate goods, services, parts, and components.

In contrast with an integrated production pattern, fragmented technology allows the sub-stage production blocks to be geographically distributed (Jones and Kierzkowski 1990). For that reason, competitiveness can be identified on the sub-stage production level, rather than as whole production, and the characteristics and productivity of various categories of labour can be more clearly defined. Therefore, it leads to a finer division of labour and a new pattern of international trade.

Even before the establishment of AEC, Ng and Yeats (2003) found that regional production sharing in ASEAN and East Asia was 'a positive factor facilitating regional cooperation and increased interdependence'; and that the intensifying trade in parts and components and trade of manufacturing goods could be 'positive factors in regional trade arrangements'.

3. Research questions and methodology

The purpose of this article is to test the hypothesis that ASEAN is different from other regional integration schemes, as measured by the (greater) relative importance of its *de facto* regionalization patterns, the importance of its ASEAN+ frameworks, and its particular globalization-regionalization nexus.

A set of indicators using intra- and extra- regional flow data of various sorts will be explored and used to compare the ASEAN integration experience with some benchmark cases worldwide. Four aspects will thereby be considered: (1) globalization and economic openness, (2) trade liberalization, (3) regional production sharing, and (4) foreign investment promotion. Each of these aspects will be treated in subsequent sections.

To measure the relative degree of regional economic globalization, we use the Konjunkturforschungsstelle Index of Globalization (the KOF index), a composite index first introduced by Dreher (2006). It conceptualizes globalization as a process of producing/improving mutual interdependence among countries via the integration of their national economies, cultures, technologies, and governance. Higher values of the index denote greater globalization, and vice versa. The composite KOF index is a weighted sum of three indices –

the KOF index of economic globalization (36%), the KOF index of political globalization (27%), and the KOF index of social globalization (37%). It has been calculated for a large number of countries over a long time period since 1970. The calculation of the index of economic globalization is based on a country's performance in international trade and investment, foreign payments, and measures on trade barriers, including tariffs, non-tariff barriers, tax, and capital restrictions (Dreher 2006). As the need to distinguish between indicators of *de facto* globalization, on the one hand, and indicators of globalization policies, on the other, became clear (De Lombaerde and lapadre 2008, 2011), the most recent iteration of the KOF index allows to distinguish between *de jure* and *de facto* globalization (Gygli, Haelg, and Sturm 2018).

The indicator that is commonly used to measure *de facto* regional integration is the intra-regional trade share (ITS). This is the ratio between intra-regional trade and regional total trade, using data on bilateral trade in goods. Using ITS alone in cross-regional comparisons could be misleading, however, due to the index's bias towards the economic size of the region (lapadre 2006). This can be addressed by using the intra-regional trade intensity (ITII) indicator, which is calculated by dividing ITS by the region's share in world GDP.

Trade patterns will also be looked at based on the standard product groups defined in the Harmonized Commodity Description and Coding System. Based on stages of processing, all products are classified into four groups – raw materials, intermediate goods, consumer goods, and capital goods. This can reveal the changes in countries' nominal tariffs along the production chain.

The evolution of production sharing will be analysed by means of the Organization for Economic Co-operation and Development's (OECD) Global Value Chains (GVC) Indicators. The forward indicator shows the share of a country's goods and services exports that are used by its trade partners as imported inputs to their production for exports, and proxies the contribution of a country's domestic value-added to others' exports. The backward indicator measures the foreign value added embodied in a country's gross exports. It is expressed as the ratio between the value of imported inputs and a country's total exports. For both, higher values indicate deeper involvement in the GVCs.

4. Data analysis and discussion

4.1. Globalization and economic openness

From a historical perspective, one can see that ASEAN is indeed a joint product of globalization and regional integration. As Katzenstein (1996) points out, regional integration in Asia occurred in markets that were changing rapidly under the confluence of globalization and growing links between national economies. It did not lead to the creation of a 'trading bloc'. Instead, the enhancement of intra-ASEAN connexions and the deepening of economic globalization have gone hand-in-hand in the evolution of ASEAN, showing that the two complementary processes can mutually reinforce each other and effectively push forward the progress of regional development (Chen and De Lombaerde 2014). In addition to their commitment to ASEAN community building and the participation in RCEP negotiation, AMS have been active in promoting trade liberalization multilaterally and bilaterally. All ASEAN countries are members of the World Trade Organization (WTO). By the beginning of 2018, the AMS participated in over 150 FTAs. Two-thirds of them were signed and in effect (see Table 1).

Table 1. Free trade agreement status by ASEAN member states, as of Jan. 2018.

	WTO membership since year	Under Negotiation		Signed but not yet In Effect	Signed and In Effect	TOTAL
		Framework Agreement signed	Negotiations launched			
Brunei	1995	0	2	1	8	11
Cambodia	2004	0	2	0	6	8
Indonesia	1995	0	7	1	9	17
Lao PDR	2013	0	2	0	7	9
Malaysia	1995	1	5	2	14	22
Myanmar	1995	1	3	0	6	10
Philippines	1995	0	3	1	7	11
Singapore	1995	0	9	2	20	31
Thailand	1995	1	9	0	13	23
Viet Nam	2007	0	5	1	10	16
ASEAN		3	47	8	100	158

Notes:

1. Framework Agreement signed: The parties initially negotiate the contents of a framework agreement which serves as a framework for future negotiations.

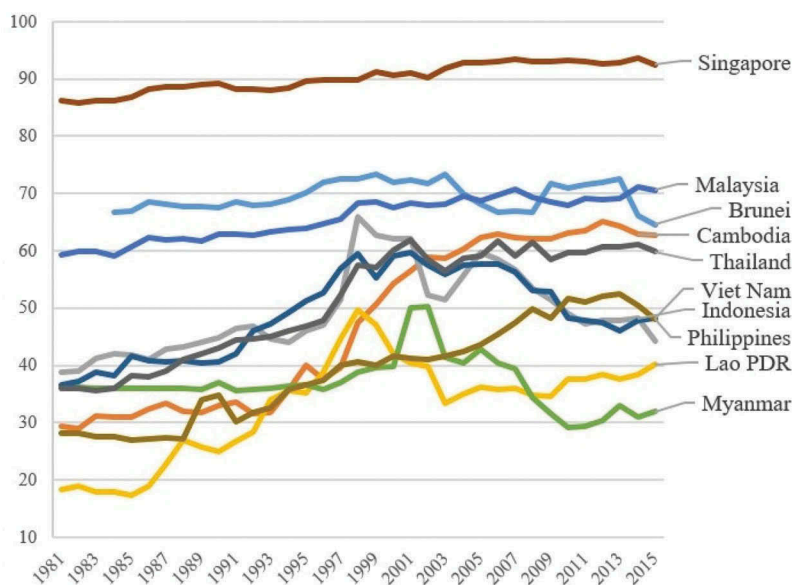
2. Negotiations launched: The parties, through the relevant ministries, declare the official launch of negotiations or set the date for such, or start the first round of negotiations.

3. Signed but not yet in effect: Parties sign the agreement after negotiations have been completed. However, the agreement has yet to be implemented.

4. Signed and in effect: Provisions of the free trade agreement come into force after legislative or executive ratification.

Source: The Authors. Raw data from the Asia Regional Integration Centre database (ARIC), Available at <https://aric.adb.org/database/fta>.

Generally speaking, the late 1980s–1990s witnessed worldwide rapid progress in economic globalization. In general, the value of the KOF economic globalization index for ASEAN Member State has been increasing substantially (see Figure 2). But there is still a big gap among AMS. Singapore has for many years been ranked as the world's

**Figure 2.** ASEAN member states' scores of overall economic globalization.

Source: The Authors. Raw data from KOF Index of Globalization 2018. Accessed on 9 July 2018.

most liberalized economy, as well as the most globalized country in the world. Some other AMS, such as Thailand and Malaysia, have also substantially increased their degree of economic globalization. It is also evident that the least developed AMS, Cambodia, Lao PDR, Myanmar, and Viet Nam (CLMV), have made substantial progress since 2000.

The data for 2015 reveal a mixed picture for ASEAN: Broadly speaking, three categories of AMS can be distinguished: (a) countries for which *de jure* and *de facto* globalization seems to go hand-in-hand (Laos, Singapore, Vietnam), (b) countries that show significantly higher scores on *de facto* globalization (Cambodia, Malaysia, Thailand), and (c) countries that show significantly higher scores on *de jure* globalization (Indonesia, Myanmar, Philippines) (see Table 2). The latter category might be scoring relatively lower on *de facto* globalization because of political contextual factors, but this should be further analysed. In the case of Indonesia, the relatively large size of the economy might also (partly) explain this result.

Multilateral trade liberalization during the Uruguay Round (1986–1994) drew down the world average tariff rates. There was also progress in areas such as non-tariff measures, rule of law, dispute settlement, and so on. In Asia and the Pacific region, the end of the Warsaw Pact and the dissolution of the Soviet Union broke the original geopolitical balance in Asia during the Cold War. In addition, amidst the challenges that were perceived from the progress of regional integration in Europe and America, the six original ASEAN members decided to set up AFTA in 1992.¹ AFTA accelerated the pace of intra-ASEAN trade liberalization to secure the region's competitiveness in the global market. The major instrument of AFTA is the Common Effective Preferential Tariff (CEPT) Scheme, under which tariffs on manufactured and processed agricultural products in the Inclusion List (IL) were to be brought down to 0–5%.

A direct result of trade and investment liberation is the increasing importance of foreign trade in gross domestic product (GDP) and inward foreign investment in the domestic capital formation. The former is commonly measured by the indicator of regional trade reliance, which is the ratio between regional trade in goods and services

Table 2. AMS' scores (ranking) on *de jure*, *de facto* and overall economic globalization, 2015.

	<i>de jure</i>	<i>de facto</i>	overall
Brunei	n.a.	72,89 (55)	64,59 (58)
Cambodia	49,81 (84)	75,57 (45)	62,69 (67)
Indonesia	52 (80)	36,46 (164)	44,23 (132)
Lao PDR	31,31 (126)	49,08 (136)	40,2 (141)
Malaysia	59,64 (73)	81,52 (22)	70,58 (41)
Myanmar	31,31 (127)	32,60 (177)	31,96 (160)
Philippines	42,99 (100)	53,42 (125)	48,2 (121)
Singapore	87,06 (2)	97,87 (1)	92,47 (1)
Thailand	45,84 (95)	73,94 (50)	59,89 (77)
Viet Nam	35,65 (108)	60,53 (102)	48,09 (123)
(Highest score)	87,98	97,87	92,47
	(Hong Kong)	(Singapore)	(Singapore)
(Lowest score)	11,95	15,63	20,05
	(Ethiopia)	(Iran, Islamic Rep.)	(Ethiopia)
World average			56,19
# of countries	166	189	178

Notes: KOF = Konjunkturforschungsstelle Index of Globalization; n.a. = not available.

Source: 2018 KOF Index of Globalization.

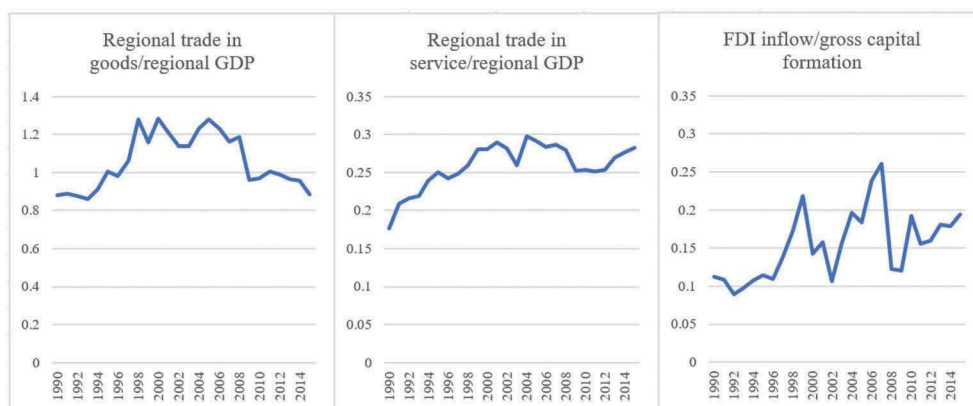


Figure 3. The trade-investment-GDP nexus in ASEAN.

Source: The Authors. Raw data from the World Bank's 2018 World Development Indicator 2018.

(total imports plus total exports) and regional GDP.² The latter is calculated by the total inward FDI divided by regional gross capital formation.³ The comparison of these two indicators gives us an idea of the dynamics of the trade-investment-GDP nexus in ASEAN (see Figure 3).

It is worthwhile to point out that the data here can only illustrate the importance of trade and investment, regardless of their sources (either intra-regionally or extra-regionally). Apparently, ASEAN is not the only region that increased its reliance on international trade over the last few decades. What distinguishes ASEAN from other regional arrangements is the degree of such reliance. Since the 1990s, regional trade in goods and services surpassed regional GDP. This can be seen as the result of trade liberalization and part of the reasons for the region to further open domestic market to foreign products.

The importance of FDI for the regional economy also increased over time. This is evident when observing the booming FDI inflow and its increasing share in gross capital formation. In the 1980s, the annual FDI inflow to ASEAN was on average only US\$4 billion. This figure increased to US\$20 billion in the 1990s and over US\$40 billion in the 2000s. During the period between 2010 and 2014, the average FDI inflow to ASEAN was almost US\$120 billion per year. FDI inflow was equivalent to almost one-fifth of regional gross capital formation in 2015 compared to 7% in the 1980s.

4.2. Trade liberalization

In order to analyse the relative importance of intra-regional trade and its evolution over time, Table 3 shows the average value of ITS.

In general, intra-ASEAN trade deepened over time. It now accounts for one-quarter of total trade compared to about a fifth in the early 1990s. During this period, intra-RCEP trade share also increased significantly from 30% at the beginning to over 40% in the end. Since 2010, the values of ITS looked rather stable – they varied in

Table 3. Intra-regional trade shares (Merchandise trade).

	1980s	1990s	2000s	2010s
ASEAN	18.6	22.5	24.4	25.3
RCEP	30.0	34.9	38.9	41.2
EU	61.6	66.5	67.1	62.2
Mercosur	6.9	17.1	13.4	14.1
NAFTA	39.5	47.9	53.3	49.2
SAARC	3.9	4.5	5.8	6.1

Notes: ASEAN = Association of Southeast Asian Nations; EU = European Union; RCEP = Regional Comprehensive Economic Partnership; NAFTA = North American Free Trade Agreement; SAARC = South Asian Association for Regional Cooperation.

Source: The Authors. Raw data from the United Nations' COMTRADE database.

a narrow range between 24% and 26%. This does not indicate the sluggishness of ASEAN integration. Instead, it is mainly driven by underlying changes in ASEAN's trade structure. When looking at trade patterns based on the standard product groups defined in the Harmonized Commodity Description and Coding System, consumer goods increased their importance in East Asia's international trade portfolio between 2003 and 2015, while the value of intra-ASEAN trade of consumer goods increased by over four times (see Table 4). This is much more than the growth of extra-ASEAN trade, either imports or exports. In 2015, almost 40% of intra-regional trade was made up of consumer goods, while in 2003, the share was about 20%. As a result of regional integration and trade liberalization, most consumer goods that are traded in the regional market are subject to zero or very low tariff. Since it is now easier for the consumers to access low-cost and/or more varied foreign products, the overall household welfare tends to increase. Meanwhile, the economies of scale allow producers to save on costs, which then further drives down the price of consumer goods.

Second, the share of intermediate goods has increased in ASEAN's trade profile in all dimensions. This goes hand-in-hand with the implementation of fragmentation production technologies and the intensification of production sharing. ASEAN countries trade more intermediate goods than before, not only among themselves but also with countries outside the region. Trade in intermediate goods accounted for over one-fifth of ASEAN's total trade.

Third, in order to support the expansion of its production capacity, the region demands more raw materials supplied from outside. In 2016, it accounted for 10% of

Table 4. ASEAN trade composition, 2003 vs. 2016, %.

	Trade Composition, 2003			Trade Composition, 2016			Annual Growth Rate		
	Intra-ASEAN	Export to RoW	Import from RoW	Intra-ASEAN	Export to RoW	Import from RoW	Intra-ASEAN	Export to RoW	Import from RoW
Capital goods	57.1	53.4	48.5	36.8	40.7	42.2	5.4	7.9	8.9
Consumer goods	22.9	26.2	15.2	35.1	32.6	19.9	12.7	12.0	12.5
Intermediate goods	14.8	15.7	17.1	22.1	18.6	25.5	12.1	11.6	13.6
Raw materials	5.2	4.7	9.0	7.0	8.1	9.8	11.5	14.8	10.9

Source: The authors. Raw data from the United Nations' COMTRADE database.

Table 5. Intra-regional trade intensity indices, 1980s–2010s.

	1980s	1990s	2000s	2010s
ASEAN	4.4	3.6	3.7	3.5
RCEP	1.5	1.5	1.5	1.4
EU	1.3	1.5	1.7	1.8
Mercosur	3.2	8.8	6.4	6.0
NAFTA	2.2	2.6	3.7	3.9
SAARC	4.7	4.8	4.2	3.0

Source: The Authors. Raw data from the United Nations' COMTRADE database.

ASEAN's total imports from the rest of the world. Over 80% of East Asia's imports of raw materials were sourced from outside the region.

Forth, trade of capital goods has relatively lowered its weight in ASEAN's trade profile, although its scale has almost tripled within between 2003 and 2016. In 2003, capital goods dominated in products exchanged within ASEAN; while in 2016, only one-third of intra-ASEAN trade were capital goods. One reason for this is the rise of the Chinese economy, particularly after its WTO entry. China's share in world total exports has increased from 2% in 1990 to 17% in 2016. In the early 1990s, China only contributed 0.8% of the world trade in capital goods, far less than ASEAN's 5.6% share. In 2001, the share of Chinese exports in the world total trade of capital goods reached 5.9%. But ASEAN also grew significantly and increased its share by 9%. Chinese exports grew much faster afterwards. By the end of 2016, China was the world's largest exporter, contributing more than one-fifth of the world's total trade in capital goods. Almost half of Chinese exported products were classified as capital goods.

Table 5 shows that the score of the ITII for ASEAN is relatively low and has been almost continuously decreasing since the 1980s. From 1980 to 2016, although ASEAN's ITS score increased from 18% to 25%, the ITII score declined from 4.4 to 3.5. This is because ASEAN's weight in world total trade increased much faster than the growth of intra-regional trade.

ASEAN's weight in world total trade has been increasing continuously since the 1980s, from 4% in 1980 to 7% in 2016. This result emphasizes the region's *de facto* achievements in integrating regional markets and liberalizing intra-regional trade. During the same period, RCEP's global share also increased significantly from 16% to 31%. In comparison, in 2016, the 27 EU member countries altogether accounted for one-third of the world's total trade, while in 1993, when the Maastricht Treaty came into force, the 15 initial member states accounted for more than 40% of global trade.

The changing value of the indicator of economic openness further illustrates that the growth of intra-ASEAN trade was overcompensated by its increasing share in world GDP. Regional economic openness vis-à-vis the global market is one of the indicators that sets ASEAN apart from the other regions. The overall economic openness of the ASEAN region, measured by the ratio of extra-regional trade in goods on regional GDP, is clearly higher than the corresponding levels in other regions (see Table 6). It first increased from 55% on average in the 1980s to over 90% on average in the 2000s. But a sharp decline occurred in the late 2000s and afterwards, the ratio stayed below 80%. This has, in general, mirrored the waves of economic globalization as well as the region's fast integration into the global economy.

The high degree of economic openness indicates ASEAN's deep interdependency with the world economy, which could be a double-edged sword to the region. One of the concerns comes from the region's limited resistance to economic or financial shocks.

Table 6. Openness of regional economies, %.

	1980s	1990s	2000s	2010s
ASEAN	55.5	80.0	92.8	78.1
RCEP	16.4	17.0	25.2	27.1
EU	16.9	14.9	20.3	25.6
Mercosur	15.6	14.6	23.3	20.8
NAFTA	10.4	11.6	13.6	16.1
SAARC	12.6	18.0	28.8	36.0

Note: Openness of the regional economies is measured by the ratio between extra-regional trade (extra-regional imports plus extra-regional exports) and regional gross domestic product.

Sources: The Authors. Raw data from United Nations' COMTRADE database and the World Bank's 2018 World Development Indicator database.

This originates mainly from the region's passive position in the value chains due to its heavy reliance on foreign demand and technology inputs in the real economy and to the lack of a regional stability and coordination mechanism in the financial market.

Most ASEAN countries still stay at the relatively low value-added end of global value chains. This induces the two-tiered dependence of the regional economy on the global market. On the one hand, exports contribute significantly to regional GDP (around 40%–50% since 2000). On the other hand, foreign-supplied intermediate goods and technology play vital roles in building its export capacity. This makes the export sector, and then the whole economy, vulnerable to external shocks from both the demand side and the supply side.

Table 7 shows that the exports–GDP ratio of individual AMS ranges from about 17% in Myanmar to nearly 170% in Singapore. Despite the fast growth of trade in services, trade in goods still accounts for the largest shares. In 2016, the ratio between trade in goods, trade in services, and FDI was 19:5:1. As a group, ASEAN has been a net exporter of not only goods but also services, although the size of the services trade surplus was still much smaller than the one generated from trade in goods. The overall trade surplus corresponded to around 2% of the region's annual GDP.

Table 7. ASEAN trade profile, 2016.

	GDP (billion US\$)	Trade in Goods (billion US\$)		Trade in Services (billion US\$)	
		Export	Import	Export	Import
Brunei	11.4	5.1	2.7	0.5	1.6
Cambodia	20.0	9.2	12.6	3.0	0.5
Indonesia	932.3	144.5	129.2	33.8	41.6
Lao PDR	15.8	3.4	4.7	1.9	1.9
Malaysia	296.5	165.5	141.0	35.1	39.8
Myanmar	63.2	9.2	12.8	1.6	1.1
Philippines	304.9	42.7	78.3	42.5	34.3
Singapore	309.8	363.0	277.6	158.0	162.5
Thailand	411.8	214.3	177.7	66.2	42.8
Viet Nam	205.3	176.6	162.6	15.6	24.3
ASEAN	2570.9	1133.6	999.2	358.2	350.5

Source: ASEAN stats Database, available at <http://aseanstats.asean.org/>

Table 8. Average applied tariff rate, 1991–2015.

	1991–1995	1996–2000	2001–2005	2006–2010	2011–2015
ASEAN	17.74 (20.33)	7.48 (9.07)	5.27 (8.44)	2.89 (7.39)	0.76 (6.68)
RCEP	12.22	7.59	6.35	4.44	1.64
NAFTA	2.06	1.91	1.51	0.26	0.19
Mercosur	14.50	9.49	3.06	2.29	0.74
SAARC	34.91	18.80	13.87	11.32	6.40

Source: The Authors. Raw data from the United Nations Conference on Trade and Development (UNCTAD)'s 2017 TRAIN database.

Multilateral trade liberalization, together with the implementation of AFTA and the AEC blueprint, has dramatically driven down the average tariff rate within ASEAN. The average preferential tariff rate on intra-ASEAN trade declined from over 20% in 1990 to 0.64% in 2015, and the effective applied rate was even lower. Table 8 shows that the pace of tariff reduction of ASEAN is much faster than that of other regional arrangements. Compared to the average most-favoured-nation rate (shown between brackets), the fall driven by regional or unilateral efforts is quite significant. Despite this, ASEAN still keeps relatively high bound tariffs on trade. For instance, although the average rate of effective applied tariff on intra-ASEAN trade was less than 0.3% in 2015, the average bound tariff was over 15%.

With respect to integration by reducing barriers, quantifying the progress of *de jure* regional integration in ASEAN and comparing across regions is difficult because of the existence of non-tariff measures (NTM). Ing, De Cordoba, and Cadot (2016) shows that there are almost 6,000 NTM items in existence, about three-quarters of which are sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT) (see Table 9).

4.3. Regional production sharing

A significant part of ASEAN's trade is cross-border exchange of parts and components. The importance of regional production sharing was evident when observing the successive waves of industrialization in East Asia in the post-war era. Production sharing networks in East Asia were found in various industries, particularly in the

Table 9. Coverage and total number of NTMs in ASEAN, by 2015.

	NTM Coverage, %	Total Number	SPS	TBT	Export-Related Measures	Others
Brunei	65	516	31	56	9	4
Cambodia	100	243	15	50	29	7
Indonesia	75	638	20	51	12	18
Lao PDR	100	301	13	30	27	30
Malaysia	71	713	36	47	10	7
Myanmar	42	172	44	24	20	12
Philippines	100	854	27	42	17	13
Singapore	100	529	24	59	9	7
Thailand	100	1630	48	34	8	9
Viet Nam	100	379	37	37	17	8
ASEAN		5975	29	43	16	12

Notes: SPS = sanitary and phytosanitary measures; TBT = technical barriers to trade.

Source: The Authors. Based on Ing, De Cordoba, and Cadot (2016), Tables 2.1 and 2.3.

machinery and transportation equipment sectors which are characterized by multi-layered vertical production or distribution. In the 1980s, on average, one-fifth of manufacturing goods being traded within ASEAN were parts and components. This is very close to NAFTA's share. While the ratio of trade in parts and components to regional trade in NAFTA declined over time, ASEAN's ratio increased substantially and reached a peak in the mid-2000s. But after 2008, it moved back and stayed around the 20% of total trade of manufacturing goods. Despite this, parts and components still takes a much larger share, especially in machinery trade, in ASEAN than any other regions.

However, it is worth noting that production sharing in ASEAN is indeed part of the wider East Asian regional network rather than a closed cycle. (Chen 2008) The share of parts and components in intra-regional trade is higher than that in extra-regional trade. By 2016, half of ASEAN trade in parts and components occurred within ASEAN plus Six. This gives us two insights. First, production sharing in ASEAN is not a closed network but an open system composed of both global and regional dimensions. Second, ASEAN countries exchange relatively more parts and components within the region (ASEAN plus Six) than with countries from outside.

Measured in US dollars, the absolute scale of ASEAN's trade in parts and components increased by 1.5 times from 2001 to 2016. Singapore is the regional hub of production sharing within ASEAN (see Table 10). This is followed by Malaysia and Thailand. Viet Nam and Indonesia are catching up quickly. Viet Nam's share in regional trade increased rapidly, on both exporting and importing sides. By 2016, it bypassed The Philippines as the region's fourth largest trading country in trade of parts and components.

Looking at the OECD GVC indices, Table 11 shows the value of countries' forward and backward participation indices. Data is available for eight AMS. Except for Brunei and Indonesia, the value of the backward participation index is in general higher than that of the forward participation index. The foreign value added is increasingly important to their exports. In 2011, on average, 30%–50% of the value of exports were 'foreign added'. On the other side, around one-third of exports from Indonesia's exports were used as inputs for further processing and then exported again. It is evident that in both

Table 10. AMS share in regional trade in parts and components, %.

	Export		Import	
	2001–2005	2012–2016	2001–2005	2012–2016
Brunei	0.0	0.0	0.1	0.1
Cambodia	0.0	0.1	0.0	0.2
Indonesia	4.1	3.5	3.9	8.7
Lao PDR	0.0	0.0	0.0	0.2
Malaysia	27.7	19.8	29.8	18.9
Myanmar	0.0	0.0	0.0	0.4
Philippines	15.7	8.6	15.6	6.8
Singapore	36.8	47.6	32.8	36.8
Thailand	14.6	14.0	15.8	15.6
Viet Nam	0.9	6.3	2.0	12.3

Sources: The Authors. Raw data the United Nations' COMTRADE database.

Table 11. Participation index of global value chains.

	Participation Index, Forward				Participation Index, Backward			
	1995	2000	2005	2011	1995	2000	2005	2011
Brunei	20.93	32.56	37.6	42.69	7.28	5.37	4.65	4.27
Cambodia	17.89	9.5	8.62	11.95	12.73	36.99	42.21	36.81
Indonesia	13.57	18.42	19.61	19.16	9.33	11.27	17.45	24.03
Malaysia	15.53	15.85	16.27	19.89	30.42	47.67	45.89	40.58
Philippines	12.75	18.64	22.14	27.5	29.81	33.01	37.91	23.53
Singapore	12.29	18.3	20.86	19.95	42.06	45.29	39.76	41.73
Thailand	11.98	15.03	16.36	15.45	24.21	31.88	36.8	38.95
Viet Nam	12.6	19.49	18.17	15.99	21.62	27.24	30.97	36.33

Source: Organization for Economic Co-operation and Development (OECD)'s online database. Data retrieved on 9 January 2018.

directions, there is a tendency of increasing value of participation indices. Although this alone cannot clearly show each country's role in GVCs, it reflects the increasingly close links among ASEAN as well as ASEAN's ties with the global economy.

The definition of GVC participation in the OECD participation index seems to be broader than the ones normally referred to. It does not distinguish production in different sectors and considers the raw material supply as part of the GVC activities. Focusing on the manufacturing sector, the OECD foreign value-added share of gross exports of manufacturing tries to measure the depth of a country's involvement in production sharing. Basically, deepening the participation in GVCs tends to increase the share of foreign value added. However, the value of the index is also influenced by the country's domestic productivity. The growth of domestic productivity tends to increase domestic value added and therefore lowers the value of the foreign value-added share. Table 12 shows the divergence among AMS. Around 30%–50% of the value added from exporting products goes to foreign suppliers.

4.4. Foreign investment promotion

In 2015, ASEAN's total GDP accounted for 3.3% of world GDP. But the region hosted 6% of the world's total FDI flows for that year. Between 2010 and 2015, a quarter of FDI inflows into RCEP worth over US\$600 billion were hosted by ASEAN.⁴ On average, over 17% of inward FDI to ASEAN were intra-regional. This is close to that of NAFTA (about

Table 12. The foreign value-added share of gross exports of manufacturing, %.

	2000	2005	2011
Brunei	22.26	29.78	33.39
Indonesia	52.86	60.92	56.99
Cambodia	24.07	22.28	18.61
Malaysia	60.46	56.52	52.40
Philippines	40.41	49.47	29.02
Singapore	53.43	43.45	49.02
Thailand	39.65	44.48	48.34
Viet Nam	39.45	45.27	48.80

Source: The Authors. Raw data from OECD online database. Data retrieved on 9 July 2018.

one-fifth of intra-regional FDI) but lower than that of RCEP (30% of intra-regional FDI) or the EU, of which over half of total FDI came from within the region.⁵ On the other side, outward FDI from the ASEAN countries significantly increased. It now contributes to around 4% of world FDI.

Table 13 shows AMS share in ASEAN FDI inflows. The data highlights Singapore as a regional hub of FDI. By the end of 2017, cumulatively over 50% of FDI were hosted by Singapore. Another 40% went to Indonesia, Viet Nam, Malaysia, and Thailand. Relatively, only a small amount of capital went to CLM countries (CLM). Despite the size of total FDI inflow expanded by almost 2 times between 2010 and 2017. By the end of 2017, CLM together accounted for around 4% of regional inward FDI.

The regional annual FDI inflow reached a historical high at 137 billion USD in 2017, almost 12 percent higher than the year before. However, it is hard to foresee if there is an upward or downward trend of change afterwards. Singapore seemed to further strengthen its position in recent years. Since 2014, every year 60–70 percent of FDI inflow in ASEAN went to Singapore. Indonesia is the second largest FDI host country in the region. On average about 15% of regional FDI went to Indonesia. But the figure varied from year to year. In comparison, Viet Nam caught up very quickly and more steadily. Viet Nam has bypassed Thailand and Malaysia to be the third largest FDI host country in the region. Although the share of Malaysia and Thailand decreased, this does not necessarily mean that they were losing interest in FDI. Instead, this can be seen as a signal that with the establishment of AEC and the continuous progress on regional services and investment facilitation, it is easier for capital to flow more freely and competition among countries for FDI became more intense.

Financial and Insurance, and Wholesale and Retail Trade are respectively the largest and the third largest destination sectors in absorbing FDI between 2010 and 2017. In both of these, US and Japan were the top two largest foreign investor countries. Manufacturing was the second largest sector in terms of FDI hosting. FDI in this sector during the period were mainly sourced from Japan (35%), ASEAN (25%), and Korea (9%). Japan took the lead in Asian industrialization. Despite the transformation of the flying-geese formation, Japan still played a key role in the regional production sharing network via international trade and foreign investment. Investment in manufacturing accounted for 44% of Japan's total FDI in the region. Korea has caught up quickly in expanding production in the region. More than half of its FDI to ASEAN focused on the

Table 13. Allocation of inward FDI, %.

	2010	2011	2012	2013	2014	2015	2016	2017	2010–2017
Brunei Darussalam	0.60	1.40	0.70	0.60	0.40	0.10	−0.10	0.30	0.50
Cambodia	0.70	1.00	1.30	1.00	1.30	1.40	1.90	2.00	1.40
Indonesia	12.70	21.90	16.40	15.10	16.70	13.70	3.20	16.80	14.40
Lao PDR	0.30	0.50	0.30	0.40	0.70	0.90	0.90	1.20	0.70
Malaysia	8.50	13.70	8.10	9.90	8.30	8.40	9.20	6.90	8.90
Myanmar	2.10	2.30	1.20	2.20	0.70	2.30	2.40	3.20	2.00
Philippines	1.20	2.10	2.40	3.20	4.50	4.60	6.70	7.30	4.20
Singapore	52.90	45.60	51.40	47.20	56.40	51.60	63.10	45.30	51.80
Thailand	13.60	2.80	11.10	13.10	3.80	7.30	2.50	6.60	7.60
Viet Nam	7.40	8.60	7.20	7.30	7.10	9.70	10.30	10.30	8.50
ASEAN TOTAL (billion USD)	108.2	87.7	116.5	121.7	130.3	121.7	122.8	137.0	945.9

Sources: The Authors. Raw data available at www.aseanstats.org. Last access on 7 June 2018.

manufacturing sector. Chinese investment in ASEAN also boomed. ASEAN's statistics show that China's main interests are real estate, finance and insurance, and manufacturing. In addition, Chinese capital is important to ASEAN in the areas such as construction, transportation and storage, and electricity.

The share of intra-regional investment in total FDI inflow to ASEAN rose from 15% in 2010 to 19.4% in 2017. Cumulatively, nearly one-fifth of ASEAN FDI from 2010 to 2017 was intra-regional (see Table 14). RCEP countries altogether contributed 44% of ASEAN's total inward FDI. There are increasing investment links, not only within ASEAN, but also at the RCEP scale. The EU and US continue as ASEAN's two largest FDI sources outside the region. They each contribute 15–20 percent of regional FDI every year.

Indonesia is the first destination of intra-ASEAN FDI. Over 40% of intra-ASEAN FDI flew to Indonesia between 2010 and 2017. On the other side, Singapore is the largest capital outflow country in the region. More than half of Indonesia's annual inward FDI came from Singapore. But overall, Singapore is the largest FDI host country in the region. It absorbed more than half of the region's total inward FDI from the world. In addition, about 25–30% of intra-ASEAN FDI is located in Singapore. On average, Singapore's intra-ASEAN investment accounted for less than 10% of its annual FDI inflow. Its largest FDI sources were still the EU and the US. Respectively, four-fifths of FDI from the EU in ASEAN and three-quarters of that from the US are concentrated in Singapore.

The third largest receiver of intra-ASEAN FDI is Malaysia. For Malaysia, Singapore is the largest source of FDI. Three-quarters of intra-regional FDI inflow during 2010 and 2017 was from Singapore. For the CLMV countries, ASEAN has been a main source of FDI. The scale of intra-ASEAN FDI increased substantially from US\$16 billion in 2010 to US\$27.4 billion in 2017. With the success of AFTA and AEC, tariff reductions have stimulated intra-regional trade. CLMV are attractive to foreign capital because of the low production cost and abundance in natural resource. Region-wise, the continuous progress in service liberalization and NTM elimination tend to further promote and facilitate cross-border investment.

Japanese investment is highly concentrated in Indonesia and Thailand. 60–70% of Japanese investment in ASEAN during the period from 2010 to 2017 went to these two countries. Japan is Thailand's third largest trading partner in both imports and exports. It

Table 14. Cumulative FDI Inflows to ASEAN member states, US\$ billion, 2010–2017.

Source Host												
	World	EU	USA	ASEAN +6	Australia	New Zealand	India	ASEAN +3	Japan	China	Korea	ASEAN
Brunei	4.5	2.3	0.0	1.1	0.0	0.0	0.0	1.0	0.0	0.2	0.0	0.8
Cambodia	12.9	1.1	0.3	8.5	0.2	0.0	0.0	8.3	3.2	0.6	1.0	3.4
Indonesia	136.0	9.6	−1.3	126.0	2.0	0.2	0.0	123.8	5.1	39.8	4.3	74.6
Lao PDR	6.3	0.1	0.0	5.3	0.0	0.0	0.0	5.2	3.6	0.2	0.2	1.1
Malaysia	84.5	16.0	4.2	37.6	0.2	−0.2	0.6	37.0	3.7	13.7	1.9	17.6
Myanmar	19.4	3.3	0.9	12.8	0.0	0.0	0.0	12.7	4.1	0.3	0.2	8.1
Philippines	39.6	3.3	7.8	7.5	0.4	0.0	0.0	7.1	0.2	4.4	0.9	1.6
Singapore	490.2	133.0	96.9	122.8	16.5	15.8	0.0	90.4	33.0	10.5	5.8	41.1
Thailand	72.1	0.6	10.1	42.9	1.5	0.2	0.0	41.2	3.5	29.6	1.7	6.3
Viet Nam	80.5	6.4	2.0	52.2	0.6	0.2	0.0	51.3	4.0	14.4	18.2	14.7
ASEAN	945.9	175.8	121.0	416.6	21.5	16.4	0.7	378.0	60.4	113.8	34.3	169.5

Source: The Authors. Raw data from the ASEAN Secretariat.

is also the largest FDI source country to Thailand, contributing to almost 60% of Thailand's inward FDI during the period. The Japan–Indonesia trade and investment ties have also been enhanced. Japan is now the largest exporting destination of Indonesia. Historically, Japanese FDI accounted for about 8% of Indonesia's total FDI in-stock until 2012. But in recent years, Japan has increased its investment. Japan is now Indonesia's largest FDI source outside ASEAN. About 20% Indonesia's inward FDI in 2017 was from Japan.

In comparison, Korea's investment in ASEAN is highly concentrated in Viet Nam. About two-thirds of Korean investment in ASEAN in the past decade located in Viet Nam. Investment from Korea as a share of Viet Nam's total inward FDI increased from 10% in 2011 to 20% in 2013, and then to 30% in 2015. For a long period, Korea is Viet Nam's largest FDI source country. But it is worth noting that according to statistics published by the ASEAN secretariat⁶, FDI from Japan in Viet Nam bypassed that from Korea in 2017.

Within ASEAN, Singapore has developed into a regional financial centre. Every year, half to two-thirds of intra-ASEAN FDI originated in Singapore. This is followed by Malaysia, who on average contributed 15% to 25% to the pool of intra-ASEAN FDI.

The main sources of FDI for CLM countries are Thailand, China, and Singapore. It is evident that with deepening regional integration and cooperation, both countries are trying to expand the value chains to CLM to support its industrial upgrade to the stages with higher value-added. ASEAN Secretariat (2015) points out that there is a strong regional economic fundamental, including regional integration, lying behind the motivations of increasing FDI flows in ASEAN. The rise of intra-ASEAN investment 'suggests a growing interest of ASEAN companies in establishing a stronger regional presence ... in light of emerging opportunities and the influence of the impending AEC 2015' (ASEAN 2015a). The increasing investment in CLMV countries started to relocate labour-intensive activities from high-cost AMS. This tends to strengthen the connectivity of ASEAN economies and improve the overall competitiveness of regional production sharing. In addition, this also attracts FDI inflows from outside the region.

Behind the scene is ASEAN's progress in improving the regional investment environment. In order to encourage foreign investment to support development, AMS took actions, both nationally and internationally. Some typical domestic actions include national investment policy reforms, incentive tax treatment, infrastructure development, and investment facilitation, as well as transparency of investment procedures and institutional support for investors (ASEAN 2015b). In addition, there were international efforts from the negotiation, signing, and implementation of investment treaties and FTAs such as the ASEAN comprehensive investment agreement, RCEP, and so on.

The World Bank Doing Business Index⁷ shows that ASEAN has significantly improved the regional business environment. Within 10 years' time, ASEAN has narrowed its gap with NAFTA and the EU with respect to the ease of doing business. Singapore, Malaysia, and Thailand ranked as the top three AMS on the easiness to conduct business. There was also significant progress in CLM countries. Regional integration, the improvement of the business environment, and the promotion of FDI reinforced one another. Market integration and region-wide regulatory harmonization can facilitate business activities and encourage foreign investment. The inflow of foreign capital will further improve the

efficiency of the market by introducing advanced know-how and best practices for conducting business in the region.

As a result, regional production sharing networks that involve international trade and cross-border investment continued to grow. ASEAN and UNCTAD (2016) observed that after the implementation of AEC, investor perception of the region rose. While foreign companies continued to strengthen their footprint in the region in manufacturing, finance, infrastructure, and other services, local players were also actively expanding existing business or investing in new projects in the region. Thus, higher FDI flows in ASEAN are foreseeable in the future.

5. Implications

5.1. Implications for theory

Our article speaks to the literature and theorizing on Southeast Asian economic integration in a comparative perspective, corroborates the thesis about the specificity of the ASEAN integration process, and provides some additional evidence on the regionalization-globalization nexus and on the *de jure-de facto* nexus. Compared to the other processes of regional integration, ASEAN integration is associated with three core features that intertwine and mutually affect each other – gradualism, open regionalism, and market-driven regionalization.

From a political and governance perspective, ASEAN integration followed a top-down approach, but the whole process seemed to be less formal than that of the EU or NAFTA. Even though the treaties or agreements among AMS were either non-binding, or when binding, without a feasible and effective monitoring and sanctioning mechanism, they have subtly worked in promoting ASEAN integration in the past decades.

This is partially because ASEAN relied more on the market mechanism than on formal legal mechanisms to push forward regional integration. In addition to regional integration policies, regional economic development was also fuelled by broader patterns of *de facto* economic interactions in East Asia (Chen 2018). At the early stage of development, the ‘wild-geese-flying’ pattern of region-wide sequential industrialization has strengthened the cross-border business connectivity in East Asia. In the following stage, when the world economy was characterized by the second unbundling of globalization, the market mechanism did not and will not lose its function as the driver for ASEAN integration. Instead, it became more effective in enhancing the connectivity among Asian countries. From an economic perspective, ASEAN is part of an integrated ‘Factory Asia’ (Baldwin 2006) that is set on a multi-layered network intertwined by intensive cross-border activities of production sharing. This allows the region as a group to play as an ‘export platform’ in the global economy.

Although formal regionalism was outweighed by *de facto* regionalization, the initial market-led regional integration has provided a solid foundation for ASEAN to set up an institutional scheme to enhance inter-governmental cooperation in promoting regional integration as the region has reached a critical stage where developing region-wide political institutions is indispensable for the further promotion of regional integration (Fujita 2005). To date, a common production base across the region was achieved. The

market's desire for a deeper integrated regional economy facilitated the implementation of formal agreements set by AMS. With market integration, regional institutional building is seen as complementary to economic globalization to increase the region's resilience.

Supported by an effective market mechanism, ASEAN is exploring a unique approach to regional integration. Drysdale (1988) has suggested the term 'open regionalism' to summarize the key factors to the success of the ASEAN project. It contains three basic principles in the community building of East Asia, namely: openness, equality, and evolution. Openness emphasizes the non-discrimination and transparency of policy making; equality requires the needs for mutual benefits to participants; and evolution refers to the importance of gradualism and pragmatism in pushing forward the process of regional cooperation (Bergsten 1997; Drysdale and Vines 1998).

These principles of open regionalism are to a great extent determined by the structure of Factory Asia and the way it links to the global market. On the one hand, the global demand and production sharing within Factory Asia are positively correlated as the exchange of parts and components acts as the main channel for penetrating the markets of high technology-intensive or high skills-intensive products from advanced economies outside the region. On the other hand, foreign inputs of intermediate products, parts, and components are still critical to the ASEAN economies since the competitiveness of its export sectors is still mainly concentrated on the relatively labour-intensive stages of production.

The concept has been widely accepted by ASEAN policymakers. As Chng (1995), Former Deputy Secretary General of ASEAN, once stated, 'Open regionalism is not just an empty boast or a pious word in AFTA. It is built into the very mechanism of the CEPT scheme.' Since the very beginning, ASEAN has regarded open regionalism as a core value of regional integration. Its ultimate goal is to improve the region's competitive edge as a world production platform via regional integration and cooperation rather than creating a regional trading bloc. For that reason, the region remains outward-looking.

5.2. Implications for business

Our article highlights the importance of ASEAN for the development and growth of Southeast Asian manufacturing and services companies, even if their framing within wider East Asian trade and production networks is fully acknowledged. Given the limited size of most of the domestic markets in ASEAN, the regional economic integration project remains crucial for the competitiveness of companies rooted in ASEAN. Not only does it offer preferential market access to the Southeast Asian markets, but it creates an appropriate environment for the development of regional value chains and the optimal use of complementarities and synergies in production. At the same time, the ASEAN environment has proven adequate for attracting extra-regional FDI, leading to positive knowledge and productivity spillovers.

From our analysis, two main challenges come to the fore for ASEAN businesses and the organizations that represent their interests: one is the need to effectively contribute to the ongoing debate on sustaining development of ASEAN and its economic community (including market integration), the other is the need to contribute to

ASEAN's external strategic positioning by means of its network of free trade agreements.

6. Conclusions

Fast economic growth in ASEAN can be seen as a combined outcome of globalization and regional integration, and a key driving force behind regional community building. AMS have shown rising economic globalization, be it that there is quite some variation among members and that *de jure* liberalization should thereby not be underestimated. It is also evident that ASEAN relies relatively more on foreign trade than other regions and that intra-regional trade shares have gone up, although not necessarily more than in other regions. What is of interest is the composition of intra-regional trade though: more consumer goods and intermediate goods are being exchanged intra-regionally. The intra-regional trade intensity indices confirmed that ASEAN does not trade more intensely than other regions; the growth of intra-regional trade has been overcompensated by its increasing share in world GDP. However, intra-regional tariff reductions have been faster than in other regions. Data on trade in parts and components and on GVCs reveal relatively intense production sharing patterns, both intra-regionally and extra-regionally. Finally, we have shown that investment flows reflect similar patterns as trade flows, with increasing intra-regional flows (but still with a strong Japanese participation). The investment flows also show the gradual inclusion of the poorer AMS into the ASEAN production platform.

Notes

1. In 1991, Anand Panyarachun, Prime Minister of Thailand at the time, proposed to create the ASEAN Free Trade Area (AFTA).
2. It includes both intra-regional and extra-regional trade.
3. It includes FDI within the region (between member states) and FDI from outside the region.
4. Data source: World Bank: World Development Indicator (World Bank 2016).
5. Data source: United Nations Conference on Trade and Development (2016).
6. www.aseanstats.org.
7. The World Bank Doing Business Index measures a country's overall business regulations from 10 aspects – starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency. A higher value of the indicator means more investment-friendly business environment. The simple average of the member states' scores is used to proxy the whole region's general ease in conducting business.

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Disclosure statement

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