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**ASEAN Economic Community: Theoretical versus Practical Economic  
Integration**

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# **ASEAN Economic Community: Theoretical versus Practical Economic Integration**

## **Abstract**

ASEAN countries have committed achieving the ASEAN Economic Community (AEC) with the timeline set at 2015. Policy measures are being implemented based on the AEC Blueprint agreed upon 2007. However, concerns have been expressed that the regional integration project's 2015 deadline will be missed due to an overly ambitious timeline and there are wide development gap in this region. This article critically reviews the progress that has been made, some of the potential problems, and suggests the next step for the AEC.

**Key words:** ASEAN, integration, potential problems, AEC  
JEL : F14, F17

## **1. Introduction**

Since the beginning of multilateral trade system, many regional trade agreements (RTAs) and regional economic integrations have been achieved, for examples the European Union (EU), the North American Free Trade Agreement (NAFTA), the *Mercado Común del Sur* (MERCOSUR, Southern Common Market) , the Association of South East Asian Nations (ASEAN) - Free Trade Area (AFTA), etc.

The economic integration was a primary topic for 19<sup>th</sup> century, especially since Viner's (1950) seminal work on Customs Unions. Most of literature has been expanded through the analysis of Custom Unions (CU) while other forms of integration tend to be considered as variations of this basic case (Arguello, 2000 : 4). Forming economic coalitions, countries' efforts reflect a partial movement to free trade and an attempt by each participating country to obtain some of the economic benefits without sacrificing control over the goods and services that cross its borders and hence over its production and consumption structure.

The achievement of RTAs (Regional Trade Agreements) and regional economic integration, to some extent, have brought positive as well as negative implications that might appear in the form of trade creation and trade diversion for the non-members countries (Viner, 1950). RTAs in the East Asia did not exist

until the ASEAN reached the Preferential Trading Agreements (PTAs) in 1977. The ASEAN Declaration (also known as the Bangkok Declaration) is signed by Indonesia, Malaysia, the Philippines, Singapore, and Thailand in 1967 in Bangkok, Thailand. Now, its membership has expanded to include Brunei, Cambodia, Laos, Myanmar, and Vietnam. The Association of Southeast Asian Nation (ASEAN) and the Asia-Pacific Economic Cooperation (APEC) forum are the most significant movement toward regional economic integration in Asia .

ASEAN Free Trade Agreement was signed in 1992. AFTA was realized through implementing the Common Effective Preferential Agreement (CEPT). The ASEAN has focused on regional cooperation in the “three pillars”, which are security, sociocultural integration, and economic integration. The biggest step toward regional economic integration among ASEAN member countries has been the moving toward by creating an ASEAN Economic Community (AEC) by 2015. It was committed by the ASEAN leaders at the 9th ASEAN Summit in 2003. The Community is comprised of three pillars, namely the ASEAN Political Security Community, ASEAN Economic Community, and ASEAN Socio-Cultural Community.

The AEC will establish ASEAN as a single market and production base making ASEAN more dynamic and competitive with new mechanisms measures to strengthen the implementation of its existing economic initiatives; accelerating regional integration in the priority sectors, facilitating movement of businesspersons, skilled labor and talents; and strengthening the institutional mechanisms of ASEAN (ASEAN Secretariat, 2011). If realized, it will create a single market with the free movement of goods, services, foreign direct investment, and skilled labor, and freer movement of capital encompassing approximately 600 million people, but achieving this degree of cooperation has proven very difficult. Moreover, Ten economies in ASEAN vary substantially in population and economic structure. Their performance has been somewhat not equal, but strong on average; the region has grown at a 5% annual rate over the last two decades, despite two major financial crises (table 1).

### **Table 1 about here**

Singapore's GDP per capita (PPP \$)(at US \$ 85,256) is registered the highest among the ASEAN member countries, followed by Brunei (at US \$ 82,240) and Malaysia (at US \$ 26,158). However, achieving the AEC in 2015 may be on the optimistic side. This one of the interesting topic for research and discussion since the ASEAN has frequently been criticized as an indulgent directed by weak peer pressure.

The graphs below address about trade in ASEAN country members. Singapore dominated the trade between ASEAN members, followed by Thailand, Malaysia, and Indonesia. The market share of Brunei, Cambodia, Laos, and Myanmar still little relatively in ASEAN market, but gradually increased.

### **Figure 1 about here**

### **Figure 2 about here**

Conceptually, an economic integration and trading system would generate benefit to a country since performance among economic sectors and competitiveness that formed. ASEAN Economic Integration, which signed with free mobility of five key elements, i.e., goods, services, investment, capital, and skilled labor. The integration generates a hope that ASEAN would be a third biggest market area in the world. This hope could achieve with determination of priority in 12 sectors, i.e.: (1) *Wood based products*, (2) *Automotives*, (3) *Rubber based products*, (4) *Textile and apparels*, (5) *Agro based products*, (6) *Fisheries*, (7) *Electronics*, (8) *e-ASEAN*, (9) *Healthcare*, (10) *Air travel*, (11) *Tourism*, dan (12) *Logistics Services*. The more integrated in economic among ASEAN members would make similarity on trading profile, especially on priority sectors. It would support a high interconnection among the 12 priority sectors and surely, that it needs empowerment of competitiveness that generate in industrial specialization in every country. However, positive benefit in this integration could be realized with market expansion, increasing in production efficiency, decreasing in production cost, taking out investment from ASEAN members or outer

ASEAN. It would stimulate economic activity, creating labor opportunities and increasing their yields, that be needed to stimulate economic growth.

On the other hand, if the development gap within ASEAN greater, then the process of realizing the ASEAN Community will be difficult to achieve. Theoretically, follow the stages of integration introduced Balassa (1961) there is a process that is exceeded in towards the ASEAN Economic Community. Custom Union level that is not taken by the ASEAN countries. Custom Union (CU) is a form of trade agreements in which member states provide free market access between each member state and apply a set of uniform external tariff for trade outside members. Although there is no obligation to follow the order or stage of integration Balassa from the stage to the next, in its development stage of integration it is said that the FTA and custom union can be used as a basis for forming further integration, namely the common market need to fulfill the establishment of the FTA and Custom Union (Bank Indonesia, 2008). However, Crowley (2006) in his analysis stating that stage of integration through a sequential process has a positive benefit for achieve further economic integration, but if not then this is a political decision to shift to the stage of certain integration (Crowley, 2006).

ASEAN countries have chosen to define the “ASEAN way” that immediately made an agreement as a common market; the process towards this cooperation can theoretically cause problems in the member states, as the agreement is not implemented in full. An example is the absence of external policy harmonization among member states to trade with non-member countries, still the enactment of Rule of Origin (ROO), on the other hand the mobility of capital and labor increasingly educated free outgoing and incoming member states. One thing that is becoming increasingly complex in this matter is each ASEAN member countries also cooperate and make agreements with other countries, which do not involve all ASEAN countries in it. Here is an illustration Trans regional groups involving ASEAN countries.

**Figure 3 about here**

This paper analyze the potential problems will discuss important issue that is the AEC and Theory of Economic

## **2. The ASEAN's Economic Cooperation : From AFTA to ASEAN Economic Community (AEC)**

ASEAN countries have liberalized intra-ASEAN trade over the last 20 years by establishing the ASEAN Free Trade Area (AFTA). It was launched in 1992 by the ASEAN itself. There are several motives behind the establishment of AFTA, that may be understood. First, ASEAN policy makers thought that an expansion of intra-ASEAN trade would promote economic development of the ASEAN countries as the expansion of exports would result in output growth and the expansion of imports would improve productive efficiency. Second, a rising trend of regional trade agreement (RTAs), which include FTAs and customs unions, in the world put pressure on ASEAN members to form an FTA, as they saw that such a trend would result in discrimination against their products in their export market. Third, the rise of China as an economic force was seen as a strong threat to the ASEAN members in terms of export competition and attracting foreign direct investment, which would contribute to economic growth (Okabe and Urata, 2013 : 1). AFTA began with six ASEAN members, namely Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand, and then it was joined by Vietnam in 1995, Lao PDR and Myanmar in 1997, and Cambodia in 1999. Today, AFTA has 10 members.

The AFTA will be realized by applying the Common Effective Preferential Tariff (CEPT) Scheme to eliminate tariffs of intra-AFTA trade, which have been in effect since January 1993. Under the agreement, the AFTA members set the target years for tariff elimination to be completed. By 2010, more than 99% of the tariff lines in the CEPT inclusion list had been eliminated in the six original AFTA members, while around 95-99% of the tariff lines had been brought down to the 0-5 percentage tariff range for the new members. Moreover, it is agreed effective tariff, preferential to the ASEAN, to be applied to goods originating from the ASEAN member countries (at least 40% of its contents originates from members of the ASEAN).

ASEAN member countries are moving towards achieving the ASEAN Economic Community with the time line set at 2015. There are several studies have referred the benefit of the AEC. For example, as study edited by Petri et,al (2009) , using Computable General Equilibrium, it presents estimates that ASEAN welfare (riil income) will rise by 5.3 percent relative to the baseline.

The AEC Blueprint (ASEAN Secretariat , 2008) serves the road map of the AEC project's integrated ASEAN economic region, that was built on four pillars of integration: (i) a single market and production base, (ii) a competitive economic region, (iii) equitable economic development, and (iv) integration with the global economy.

### **3. The ASEAN and Theory of Economic Integration**

Theoretically, there are five successive stages of economic integration i.e. Free Trade Area (FTA), Customs Union (CU), Common Market (CM), Economic Union (EU), and Complete Economic Integration (CEI) (Balassa, 1961; McCarthy, 2006) (See Figure 4). The forms of economic integration involve different degrees of discrimination between partner countries and between them and third parties (see Appleyard et.al, 2008 : 386-387, Hill,et.al, 2011: 289-290, Arguello, 2000 : 4-5, Andrei, 2012 : ).The most common integration scheme is referred to as a free-trade area (FTA). In FTA, tariffs (and other quantitative restrictions) among the participating countries are abolished. However, each country still maintains its own tariffs against the nonmembers. In a free trade area, all barriers to the trade of goods and services among member countries are removed. Theoretically, in an ideal free trade area, there is no discriminatory tariffs, quotas, subsidies, or administrative impediments are allowed to distort trade policies with regard to nonmembers. In other words, individual tariffs and other trade barriers on the "outside world" can be maintained by members of FTA. In CU, besides introduction of the free movements of commodities within the union, the common external tariffs in trade with the nonmember countries are set up. In CM, not only trade restrictions but also restrictions on factor movements are abolished. In EU, the countries combine the suppression of restrictions on



commodity and factor movements with some degree of harmonization of national economic policies, in order to remove discrimination due to disparities in these policies. In CEI, unification of monetary, fiscal, social and countercyclical policies will be observed. It also requires the setting-up of a supra-national authority whose decisions are binding for the member states.

**Figure 4 about here**

The direction currently followed by the ASEAN Economic Community in 2015 seems to be different from the theory of economic integration. The only one *de jure* economic integration in the East Asia is the ASEAN Free Trade Area (AFTA). ASEAN will establish ASEAN Economic Community (AEC) in 2015. It would be argued the AEC has the similar characteristics with those of Common Market (CM) in third successive stage of the theoretical economic integration. Currently, ASEAN has ASEAN-Free Trade Area (AFTA) in the first stage of economic integration, and it want to be AEC in 2015. Therefore, Custom Union (CU) the second succeeding stage of economic integration has not been considered by the governments of ASEAN countries. Harmonization of the common external tariffs in trade with the nonmember countries has not been discussed intensively yet.

Could AEC work without the common external tariffs in trade with the nonmember countries? Could the free movement of production factors (capital and labor) work smoothly without the common external tariffs? Theoretically, could Common Market been created without the common external tariffs? In other words, is the common external tariff a sufficient condition for Common Market? It was argued that in the AEC, issue of rule of origin (ROO) will still exist because each member county still maintain their own tariffs against non-member countries. Flow of production factors (capital and labor), trade diversion and trade creation could not be optimized in AEC due to the absence of common external tariffs. However, ASEAN countries have their own way in integrating their economy, "ASEAN way". So, the governments of ASEAN have been obviously eager to realize the AEC on schedule 2015.

#### **4. The Potential Problems in AEC Implementation**

##### ***4.1. The Gap Between ASEAN Economic Cooperation and The Ballasa Stages of Economic Integration***

Many economist believe that increased economic integration between the developed economies of the world has tended to increase the long-run rate of economic growth. If they were asked to make an intuitive predictions, they would suggest that prospects for growth would be permanently diminished if a barrier were erected that impeded the flow of all goods, ideas, and people between Asia, Europe, and North America.

##### **Table 2 about here**

According to McCarthy(2002) economic convergences refers to the phenomenon of catch-up development, that is, developing economies will catch up with developed countries, resulting in increased per capita income. Theoretically, it can be said that countries that join in regional trade of varying levels of economy have negative implications related to the exchange rate. For example, change in international policies as well as macroeconomic policies taken (both fiscal and monetary) of the dominant member countries will also affect other member countries whose economies are relatively smaller.

The description of the significant differences in intraregional trade between the more advanced countries and other member states can indicate the production sites of export products that are only in certain region only. Thus it can be said that the dominant member countries importing and exporting will play an important role in regional trade agreements. Table 3 below shows the share of intra regional trade for individual ASEAN countries in 2000 until 2015.

##### **Table 3 about here**

From the previous table it is clear that the first ASEAN member countries (Singapore, Malaysia, Thailand, Indonesia and Philippines) dominate intraregional trade in the ASEAN region. These countries as a whole account for more than 80 percent of intra-regional trade. In detail it can be seen that in the period 2000 to 2015 the largest total export comes from Singapore, followed by

Malaysia. Although gradually the share of Malaysian exports to ASEAN countries has decreased gradually, but Malaysia's market share remains large in the ASEAN market. Singapore's export share to ASEAN remains large and tend to increase.

When viewed from its imports, Singapore and Malaysia still have the second largest import value in ASEAN. As with exports, imports to Singapore and Malaysia gradually declined. Nevertheless, the imports in both countries are still much larger than the eight other ASEAN countries.

Thailand is one of the countries that has a relatively rapid growth of export share compared to the other ASEAN countries. Indonesia's development is still below Thailand. Philippines and Vietnam are relatively small export shares compared to Indonesia.

Thus it becomes clear that these four ASEAN countries are relatively dominating ASEAN export market. The problem that will be caused by the dominance of certain countries in ASEAN will affect other countries which relatively smaller role in trade in ASEAN region. It became that the gap between ASEAN member countries is increasing. This is as proposed by Kimura (2013) on the relationship between economic integration and the stage of development. The existence of the development gap will not be able to achieve a pure economic integration/single market. In connection with the integration theory proposed by Balassa, the condition of development of difference member states will be one of the problems that will occur in achieving efficient market integration. In the other words, it can be revealed that Balassa theory application can achieve optimal result and can be perceived equally if state integrated development condition has the same level of development.

When viewed from ASEAN trade data, extra-ASEAN trade is relatively much larger than intra-ASEAN trade. The establishment of the AEC is one of the efforts to enlarge the intra-ASEAN trade through the ASEAN Free Trade Agreement (AFTA) from the elimination of tariff barriers to the elimination of non-tariff barriers. Elimination of these non-tariff barriers is a requirement to

achieve a single market, which together with a single production base is one of the main objectives of the AEC.

Although through the Common Effective Preferential Tariff (CEPT) scheme, the AFTA realization is almost complete, but this achievement does not show significant trade in the ASEAN region. Trade in goods that reach low tariffs is not the main product of the need of member countries. In addition, many business and entrepreneur have not utilized the CEPT mechanism due to complicated provisions and procedures (Cipto, 2010).

The ASEAN trade pattern is also still unchanged, from the calculation of input output (Global Input Output in 2012) 75% significant trade ASEAN is an extra ASEAN trade especially with Japan, European Union (EU), United States (US) and China. This reflects that the people of ASEAN still rely on major industrial products imported from their main import countries. Thus the application of Balassa theory will be able to manifest well if the share of trade among member countries is greater than its external trade.

#### ***4.2. The absence of harmonization of external policies between member countries***

ASEAN organically has developed collective economic cooperation through AFTA and AEC. However, each country also develops bilateral economic relations with developed countries. With the existence of AEC, then trade between ASEAN countries become increasingly. One of the things that is not accommodated in the AEC agreement is the amount of external tariff of ASEAN member countries (which should have been agreed in the Custom Union). The following shows the amount of tariffs in ASEAN countries. If an external tariff agreement is not made, then each country will apply the tariff outside as required by the country concerned. In accordance with Balassa's integration theory, the absence of this external tariff agreement will be a barrier to trade with other countries outside ASEAN members. Countries outside members will tend to trade agreements with countries that charge the tariffs as small as possible. From the

table below shows that the imposition of the smallest trade tariff is Singapore, with an average rate of 0. Thus it can be said that Singapore is relative more dominate trade than other ASEAN countries. In other words, countries that apply low tariffs, theoritically will enjoy more benefits than members countries that apply higher tariffs.

**Table 4 about here**

#### ***4.3. Cooperation relations of ASEAN member countries with other Countries and Trade Agreements with Other Countries (noodle bowl)***

The important position of ASEAN is showm by its participation in groups/groups that involve ASEAN as its central focus, namely ASEAN+3 (ASEAN plus People's Republic of China, Japan and Republic of Korea), ASEAN+6 (ASEAN+3 plus Australia, New Zeland and India), EAS/East Asia Summit (ASEAN+6 plus United States and Russian Federation), dan ARF/ASEAN Regional Forum (EAS plus Canada, European Union, Democratic People's Republic of Korea, Pakistan, Bangladesh, Sri Lanka, East Timor, Papua New Gini). If membership in a group/group involves all ASEAN countries, it will not affect the conditions of ASEAN integration itself. But one of the things that becomes increasingly complex is that each ASEAN member country also cooperates and makes economic agreements with other countries which do not involne all ASEAN countries in it.

Since 2002, ASEAN countries have signed or negoitated six regional trade agreements. In the same periode, ASEAN countries have engaged or are negoitating more than sixty other bilateral or multilateral free trade arrangements. Singapore is the most active country developing bilateral channels with developed countries, and has started in the late 1990's. Thailand is a second ASEAN country that is also very active in building bilateral economic cooperation with strong economic countries, followed by Malaysia.

Singapore has signed thirteen FTAs both bilaterally and multilaterally, with the ten other negotiations. The FTA has differences in both scope and depth. The most comprehensive and the most difficult to negotiated-include trade in

goods, services, investments, government regulation, intellectual property rights, and other non trade items. This is often referred to as the "WTO plus" deal (Weatherbee, 2010). The table below illustrates some trade agreements of ASEAN countries with developed countries often referred to as ASEAN's Noodle Bowl.

**Table 5 about here**

From the table 5, at a glance it appears that the CLMV countries (Cambodia, Laos, Myanmar and Vietnam) are relatively still lacking participation in ASEAN regional trade. This may indicate that a weaker economy will be increasingly marginalized and disadvantaged otherwise a more developed country will benefit more. Conflicting membership constraints within regional economic communities may be classified as an obstacle to successful regional economic integration. Mc Carthy (1999) and Shams (2005) state that regional integration area (RIA) in developing countries is hampered by overlapping memberships, of which one country has more than one RIA member, and each with a different. One of the reasons why a country joins a different regional economic community is the hope that they will gain more than economic benefits.

As a result, in reality, RIAs may have different agendas and ends. Developing countries will catch scenarios that require to implement different policies from conflicting agendas. Thus it takes better resources of human resources, money and time that will be able to accommodate these differences of interest arising from membership of more than one of the regional economic communities. In addition, the inequalities in complex trade rules from one FTA to another, make trade more expensive for businesses and ultimately burden consumers.

#### ***4.4. Capital Mobility***

The progress in realizing the goals of liberalizing investment and capital flows has been seen in ASEAN. The ASEAN Comprehensive Investment Agreement in 2012 was an important step in building a better business environment for the privat sector in the region. Moreover, enhancing trade

facilitation, the National Single Window (NSW) program is currently being implemented in the ASEAN-6 countries (namely, Malaysia, Brunei Darussalam, Indonesia, Philippines, Singapore, and Thailand).

Urata and Ando (2009) examine and evaluate the restrictiveness/openness of the Foreign Direct investment (FDI) policy regime and environment for ASEAN countries. They found that in legal documents related to six aspects : market access or right of establishment, national treatment, screening and approval of procedure, restrictions on boards of directors as well as foreign investors, and performance requirement. Urata and Ando used information on barriers to FDI from the survey compiled by the Japan Machinery Center for Trade and Investment (JMC). The survey looked into the obstacles faced by Japanese firms operating in ASEAN countries. The scoring system used shows a high score for a relatively open FDI regime and the various factors are given different weights. The following table show that the FDI policy regime in Singapore is very open and those in Phillipines, Thailand, Indonesia and Cambodia are relatively open, but those in Myanmar, malaysia, Brunei and Lao PDR are relatively closed.

**Table 6 about here**

With the enactment of the AEC, the capital mobility will increase especially in ASEAN. However, although capital can move freely, it should be noted that in the presence of different economic conditions among ASEAN members and their characteristics, mobility capital is not easy. Investors must have an idea of where their money will be invested. In addition to the differences in the imposition of external tariff among ASEAN member countries, it can be assumed that the imposition of the lowest tariff may indicate that the country has a tendency to have a relatively low cost and profitable production structure.

FDI can lead to diversification of the host country's exports, directly or indirectly. It can do so directly by entering the nontraditional export sector (because foreign firms possess certain ownership advantages that make them more capable of exporting than domestic firms) or indirectly (by increasing exports of traditional exports with the lowest share). The impact of FDI on export

diversification is a priori ambiguous. If FDI is directed mainly to the exploitation of natural resources, it should lead to a more concentrated output and export structure. This may be the case for oil-exporting countries in the sample. Alternatively, foreign firms may invest in order to serve the market in the host country (referred to as *market-seeking* or *horizontal* FDI). Here the impact on export concentration should be nil or even negative if domestic costs rise as a consequence of the foreign capital inflows (Aizenman and Marion 2004)'

Firms also undertake FDI to reduce production costs (referred to as efficiency-seeking or vertical FDI), where output is often produced for overseas markets. This form of FDI often increases export diversification in developing countries for several reasons. First, if the foreign-owned plant produces export products that differ from those of other exporting firms in the host country, efficiency-seeking FDI will affect the composition of the export bundle. Because the vertical FDI is often used to establish integrated, cross border production chains in product that otherwise could not be.

#### ***4.5. The Movement of Skilled Labour***

Free movement of skilled labour is one of the announced objectives included in the ASEAN Economic Community (AEC) Blueprint under the aegis of the ASEAN framework agreement on services and the ASEAN comprehensive investment agreement. The former involves allowing the entry of foreign services suppliers while the latter involves allowing the employment of foreign corporate personal.

Theoretically, integration may change both the barriers to, and the incentives for, labour migration. In a perfectly competitive environment the story is provided by factor price equalization. The expectation is that trade liberalization reduces the incentives for labour to move. And if migration does occur, then it promotes convergence of income levels, raising wage in the source economy and reducing them in the host.

Combining labour mobility with the location decision of firms in imperfectly competitive industries creates the possibility of a very different



income. A good market integration and firms' location decisions could cause divergence of wage levels between regions, with regions with a larger market having higher wages. Today, labour migration potentially makes a destabilizing force. Workers move from the small economy to the large, and as they move they take their expenditure with them, so increasing the difference between market sizes. Migration may therefore increase the wage gap between locations, this encouraging further migration and possibly leading to an outcome in which all mobile factors concentrate in a few locations (Krugman, 1991)

During this time, the mobility of professional and skilled workers among ASEAN countries is increasing (Chia, 2014). Differences in educational and economic development will encourage the mobility of skilled workers from surplus countries to countries with a shortage of skilled workers in ASEAN. In addition, wage and employment differentials will result in the shifting of labour from countries that set low wages and labour surpluses, to countries that provide higher wages and labour shortages. Employment opportunities, payrolls and preferences in both geographical, social, cultural, linguistic conditions also determine location decisions for skilled workers to migrate. Singapore, Brunei and Malaysia are migration destination countries in ASEAN, other ASEAN countries are known as sending workers. Recorded in the Migration and Remittance Factbook 2016, the ASEAN countries which are migration destinations are Malaysia and Singapore. Indonesians occupy the largest number of migrant workers to Malaysia, while Malaysian labour is recorded as the most migrant worker in Singapore. Below is an estimate of the amount of remittance between ASEAN countries and some developed countries.

**Table 7 about here**

From the data above shows that Malaysia's largest remittance revenue comes from Singapore, as well as Indonesia received the largest remittance comes from Malaysia. Like Indonesia, the largest remittance of ASEAN countries is from Malaysia. Thus it can be predicted the direction of labor mobility among ASEAN countries.

Educated labor mobility is crucial for the development of the service sector and increased investment and should have a synergic impact on expected domestic resources that may also support domestic consumer choice of service providers. With the existence of the AEC, the possible problem is that if the different levels of development among ASEAN countries continue, the wage differential will be greater and the mobility of the workforce will move from small incentive country to country that provides a large incentive. Thus the gap in ASEAN will be wider.

#### ***4.6. Trade Deflection***

Rules of Origin (RoO) are integral part of the proliferating Free Trade Area (FTAs) or the non-reciprocal Preferential trading agreement (PTAs) such as the Generalized System of Preferences (GSP). RoO are required in any PTA to prevent trade deflection, by which is meant that the country with the lowest external tariff acts as port of entry for the entire bloc's imports, depriving partners of tariff revenue. RoO are about to become important in the trade policy landscape in Asia as at least 45 but up to 70 discriminatory trade deals will be in existence at the end of 2006 (Cadot, et. al, 2006 : 2)

Recently, under AFTA, two criteria are used. The "wholly obtained" criterion is used for a few agricultural products. For the vast majority of product, a single value content countries belonging to the FTA (i.e. non originating imports cannot exceed 60% of the value of the final product) is used in combining with diagonal cumulation.

With the integration of trade, RoO should not be treated again, because goods and services will move freely in the ASEAN region. However, in the absence of an external tariff agreement among ASEAN countries, this RoO regulation is indispensable. The problem that arose with this RoO is that the impact of trade integration in ASEAN will not reach the optimum point because only certain goods can move freely in ASEAN region. Countries that apply low

tariffs will benefit because with the relatively cheap cost of imported raw materials will be able to compete in the ASEAN market.

## **5. Concluding Remark**

The ASEAN has frequently been criticized as an indulgent directed by weak peer pressure. But it is a very successful model of economic corporation and integration for developing countries. From the theoretical point of view, the ASEAN jump from AFTA to ASEAN Economic Community (Common Market) that creates some potential problems.

There are several potential problems facing ASEAN countries in trade integration in the form of the ASEAN Economic Community. The prominent issues are : differences in economic development in ASEAN countries, lack of harmonization of external policies among member countries, ASEAN country relations with other countries, capital and mobility and trade deflection.

- The impact of difference in economic development can be said that the dominant member countries importing and exporting will play an important role in regional trade agreements.
- Countries that apply low tariffs, theoretically will enjoy more benefits than members countries that apply higher tariffs.
- RIAs may have different agendas and ends. Developing countries will catch scenarios that require to implement different policies from conflicting agendas. Thus it takes better resources of human resources, money and time that will be able to accommodate these differences of interest arising from membership of more than one of the regional economic communities. In addition, the inequalities in complex trade rules from one FTA to another, make trade more expensive for businesses and ultimately burden consumers.
- Although capital can move freely, it should be noted that in the presence of different economic conditions among ASEAN members and their characteristics, mobility capital is not easy.
- With the existence of the AEC, the possible problem is that if the different levels of development among ASEAN countries continue, the wage differential

will be greater and the mobility of the workforce will move from small incentive country to country that provides a large incentive. Thus the gap in ASEAN will be wider.

- Countries that apply low tariffs will benefit because with the relatively cheap cost of imported raw materials will be able to compete in the ASEAN market.

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**Table 1 The Performance of ASEAN Member Countries**

Country	Population 2015 (millions)	GDP based on PPP ( <i>Purchasing Power Parity</i> ) 2015 (millions US\$ )	Real GDP growth 2015	Export growth (%)	Import growth (%)	Share of GDP to total World GDP
ASEAN	628,65	6913,878	4,839	5,159	5,159	6,109
Brunei	0,4	32,896	-1,158	-1,158	-1158	0,029
Cambodia	15,5	54,174	6,95	9,046	10,149	0,048
Indonesia	255,5	2.838,64	4,66	-1,347	-5,147	2,508
Lao	7,0	37,499	7,538	6,652	-0,952	0,033
Malaysia	31,1	813,517	4,7	12,588	18,566	0,719
Myanmar	51,85	267,736	8,499	5,734	16,108	0,237
Philippines	101,4	742,251	6,002	9,043	15,656	0,656
Singapore	5,5	468,909	2.202	1,985	8,334	0,414
Thailand	68,8	1.107,00	2,494	3,886	4,275	0,978
Vietnam	91,6	551,256	6,5	15,89	21,36	0,487

Source : IMF World Economic Outlook database, accessed 18 Januari 2016

**Table 2. Extended Balassa Stages of Economic Integration**

Level of Integration	Description	Characteristics	Examples
O	Regional Autarky	- Bilateral trade Agreements	Japan (before ASEAN)
A	FTA	- Tariffs and quotas removed internally - National tariffs retained against outside	NAFTA
B	Customs Union	- Tariffs and quotas removed internally - Common external tariff	Mercosur
C	Common Market	- Free movement of factors of production, goods and services	EU ( before EMU)
D	Economic Union	- Harmonization or coordination of some national policies - Transfer of some policies to supranational level	Competition policy in the EU
E	Monetary Union	- Single currency - Single central bank	ECB in the EU
F	Fiscal Union	- Harmonization of taxes - Fiscal sovereignty	EU
G	Political union	- effective and democratic body at supranational level	Does not exist out of a regional integration project

Note : E and F are actually interchangeable, as for example various authors place these two levels of integration in different orders (see Molle (1997) and contrast with the order of chapters in Robson (1998)).

Source: Crowley, 2006 : 3



**Table 3. Intra ASEAN Trade Share: 2000,2005, 2010 and 2015 in percent**

**Intra ASEAN Trade Share: 2000**

Eksportir	Importir										
	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Filipina	Singapore	Thailand	Vietnam	Total
Brunei Darussalam		0.0000	0.0235	0.0000	0.0062	0.0000	0.0001	0.2201	0.4251	0.0001	0.6751
Cambodia	0.0001		0.0015	0.0029	0.0091	0.0000	0.0011	0.0166	0.0211	0.0180	0.0704
Indonesia	0.0235	0.0476		0.0008	1.8180	0.0597	0.7556	6.0503	0.9464	0.3325	10.0343
Laos	0.0000	0.0000	0.0010		0.0001	0.0000	0.0000	0.0007	0.0635	0.0886	0.1540
Malaysia	0.2342	0.0657	1.5742	0.0016		0.2130	1.5919	16.6415	3.2732	0.4382	24.0336
Myanmar	0.0002	0.0001	0.0184		0.0583		0.0019	0.0920	0.2148	0.0030	0.3887
Philippines	0.0037	0.0022	0.1691	0.0000	1.2699	0.0094		2.8804	1.1123	0.0688	5.5157
Singapore	0.4477	0.3929	0.0000	0.0276	23.0873	0.4020	3.1225		5.4139	1.9279	34.8217
Thailand	0.0367	0.3203	1.2337	0.3512	2.5937	0.4649	0.9975	5.5288		0.7722	12.2990
Vietnam	0.0019	0.1306	0.2295	0.0651	0.3816	0.0052	0.4410	0.8168	0.3433		2.4150
Total	0.7479	0.9594	3.2510	0.4493	29.2241	1.1543	6.9116	32.2472	11.8135	3.6493	100

**Intra ASEAN Trade Share: 2005**

Eksportir	Importir										
	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	Total
Brunei		0.0002	0.6116	0.0000	0.0066	0.0000	0.0005	0.0760	0.1036	0.0000	0.7985
Cambodia	0.0000		0.0007	0.0001	0.0048	0.0000	0.0010	0.0391	0.0086	0.0259	0.0803
Indonesia	0.0221	0.0528		0.0010	1.9278	0.0438	0.7973	4.4028	1.2621	0.3812	8.8908
Laos	0.0000	0.0001	0.0000		0.0066	0.0000	0.0000	0.0007	0.1148	0.0498	0.1721
Malaysia	0.1985	0.0614	1.8665	0.0035		0.1380	1.1091	12.3654	4.2612	0.6517	20.6554
Myanmar	0.0001	0.0002	0.0072		0.0683		0.0006	0.0554	0.9118	0.0234	1.0670
Filipina	0.0053	0.0042	0.2676	0.0004	1.3805	0.0051		1.5202	0.6566	0.1750	4.0149
Singapore	0.2785	0.1704	12.4213	0.0225	17.0821	0.3351	2.3514		5.2987	2.4835	40.4436
Thailand	0.0382	0.5132	2.2207	0.4322	3.2477	0.3970	1.1471	4.2929		1.3189	13.6080
Vietnam	0.0000	0.3121	0.2634	0.0389	0.5777	0.0067	0.4657	1.0770	0.4849		3.2265
Total	0.5427	1.1147	17.6591	0.4986	24.3021	0.9259	5.8727	23.8295	13.1022	5.1094	100

**Intra ASEAN Trade Share: 2010**

Eksportir	Importir										
	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	Total
Brunei		0.0002	0.2174	0.0000	0.0155	0.0000	0.0009	0.0425	0.0322	0.0033	0.3120
Cambodia	0.0000		0.0015	0.0003	0.0070	0.0000	0.0009	0.1542	0.0538	0.0345	0.2522
Indonesia	0.0219	0.0782		0.0020	3.3608	0.1020	1.1418	4.9262	1.6393	0.6986	11.9707
Laos	0.0000	0.0005	0.0002		0.0007	0.0000	0.0000	0.0009	0.2476	0.0952	0.3451
Malaysia	0.1618	0.0712	2.0159	0.0051		0.1312	1.1149	9.5285	3.8005	1.2736	18.1029
Myanmar	0.0002	0.0000	0.0104		0.0744		0.0045	0.0268	0.9298	0.0336	1.0797
Philippines	0.0021	0.0030	0.1613	0.0001	0.5013	0.0040		2.6317	0.6405	0.2048	4.1488
Singapore	0.3395	0.7950	11.8786	0.0083	15.0455	0.4151	2.5753		4.5594	2.6518	38.2684
Thailand	0.0462	0.8401	2.6375	0.7664	3.7941	0.7441	1.7545	3.2320		2.0984	15.9131
Vietnam	0.0051	0.5570	0.5146	0.0712	0.7514	0.0178	0.6125	0.7615	0.4246		3.7157
Total	0.5768	2.3452	17.4373	0.8534	23.5506	1.4142	7.2055	21.3043	12.3277	7.0937	100

**Intra ASEAN Trade Share: 2015**

Eksportir	Importir										
	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	Total

Brunei		0.0000	0.1559	0.0000	0.0663	0.0000	0.0218	0.0607	0.1715	0.0310	0.5073
Cambodia	0.0001		0.0049	0.0002	0.0480	0.0002	0.0061	0.0689	0.1548	0.1640	0.4472
Indonesia	0.0289	0.1200		0.0013	2.8163	0.1636	1.1220	4.8501	1.6824	0.7074	11.491
Lao People's	0.0000	0.0015	0.0134		0.0003	0.0000	0.0001	0.0041	0.3704	0.2120	0.6018
Malaysia	0.2483	0.0701	2.8043	0.0071		0.2325	1.0646	9.6073	3.5539	1.2636	18.851
Myanmar	0.0002	0.0001	0.0320		0.0438		0.0041	0.0417	1.0276	0.0354	1.1849
Philippines	0.0028	0.0239	0.2189	0.0000	0.3350	0.0054		1.2853	0.6787	0.1081	2.6582
Singapore	0.5473	0.3190	11.1278	0.0345	14.1522	0.6920	1.9817		4.3426	3.7490	36.946
Thailand	0.0407	1.2919	2.7161	1.1517	3.6454	1.2107	1.6756	2.9836		2.2511	16.967
Vietnam	0.0143	0.7695	0.8342	0.1377	1.1343	0.0998	0.6698	0.8463	1.0030		5.5091
Total	0.8826	2.5960	17.9076	1.3326	22.2417	2.4043	6.5459	19.748 1	12.984 9	8.5217	100

Source: DOTs(2017), author's calculation

**Table 4. The Rate of Sectoral Rates Applied by ASEAN Countries (in %)**

Sector	Cambodia	Indonesia	Laos	Malaysia	Filipina	Singapore	Thailand	Vietnam	RoSE Asia
Primer	4,1	3,1	3,4	3,7	4,2	0,0	7,0	4,4	1,8
Energy	0,0	0,0	0,7	1,7	0,0	0,0	0,0	0,5	1,9
BvrgTbcc	6,4	7,6	5,7	38,5	5,2	1,4	14,1	24,4	12
Textil	4,2	1,6	0,8	5,7	1,5	0,0	4,7	6,3	6,9
Apparel	15,3	6,9	2,2	9,2	1,9	0,0	12,7	11,1	4,2
skin	4,8	2,7	1,8	3,2	4,0	0,0	10,7	6,5	2,6
wood	9,0	1,3	3,4	2,3	2,5	0,0	5,7	3,7	3,6
paper	3,3	1,6	1,5	4,2	2,9	0,0	2,5	5,2	1,0
PetCoProduct	3,9	1,0	1,2	0,2	0,0	0,0	1,8	4,2	0,7
Chemical material	2,6	2,4	1,6	2,9	1,7	0,0	4,3	2,1	1,3
Mineral	3,7	3,8	0,8	7,7	1,7	0,0	5,0	7,5	1,1
Iron metal	2,1	2,1	0,6	11,3	0,9	0,0	2,3	1,1	0,7
Other metal	3,0	1,0	2,9	2,3	0,5	1,4	0,5	0,7	1,1
Metal product	5,2	2,1	1,4	6,5	2,0	0,0	6,2	5,2	1,2
Vehicle	11,8	5,1	8,6	8,2	4,6	0,0	12,3	12,2	6,8
Transportation equipment	5,8	1,1	8,5	1,2	3,3	0,0	3,5	7,7	1,7
Electric equipment	8,6	0,2	2,2	0,1	0,6	0,0	1,1	10,0	4,0
Macine	6,8	2,0	1,8	1,9	0,8	0,0	3,8	2,2	2,7
OthManct	4,9	2,7	5,5	4,0	1,1	0,0	5,6	11,5	3,5
Utilities	80,7	178,8	52,9	63,6	138,0	0,0	97,3	152,2	-
Trade	89,1	185,0	58,9	67,5	143,4	0,0	110,0	138,4	-
Communication transportation	78,4	167,4	46,6	54,0	126,6	0,0	96,0	138,4	-
Financial business	77,4	159,9	46,1	53,1	123,2	0,0	93,0	136,7	-
Other services	87,0	181,0	58,8	63,6	140,2	0,0	107,4	154,6	-

Source : Wang, et al(2009)

**Tabel 5. ASEAN's Noodle Bowl of FTA**

<b>Agreement</b>	<b>Negotiation</b>	<b>Proposed</b>
ASEAN- China ASEAN-Jepang ASEAN-Korea Selatan	ASEAN-Australia/Selandia Baru ASEAN-Uni Eropa ASEAN-India	ASEAN-Canada
Brunei-Japan	Malaysia-Australia Malaysia-Selandia Baru Malaysia-Amerika Serikat	Brunei-Pakistan Brunei-Amerika Serikat
Indonesia- Jepang	Singapore-China Singapore-Pakistan	Indonesia-Australia Indonesia-India Indonesia-Selandia Baru Indonesia-Amerika Serikat
Malaysia- Jepang Malaysia-Pakistan Malaysia-Australia	Thailand-India Thailand-Korea Selatan Thailand-Amerika Serikat	Malaysia-India Malaysia-Korea Selatan
Philippina- Jepang	Vietnam-Jepang	Philippina-Pakistan  Philippina-Amerika Serikat
Singapore-Australia Singapore-India Singapore-Jepang Singapore-Selandia Baru Singapore-Korea Selatan Singapore-Amerika Serikat (USA) Singapore-China		Thailand-Pakistan  Thailand-Korea Selatan
Thailand-Australia Thailand-China Thailand-India Thailand-Jepang Thailand-Selandia Baru		

Source : (Weatherbee, 2010), updated with wto.org

**Table 6. Assessment of FDI Policy Regimes of ASEAN Countries**

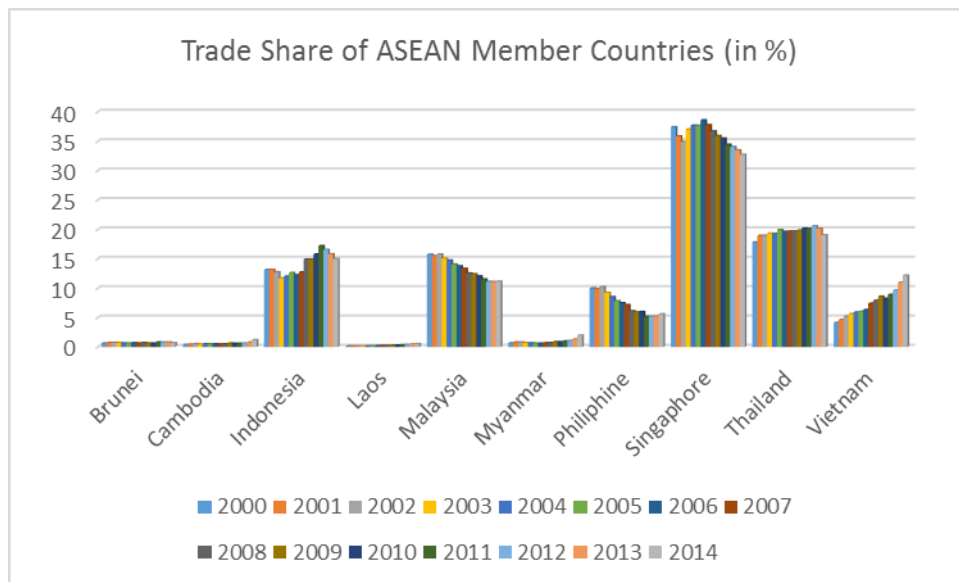
Information	Market access	National Treatment	Total Score
Very open	Cambodia, Singapore	Thailand, Singapore	Singapore, Philippines, Indonesia and Cambodia
Very restricted	Thailand, Lao	Malaysia, Brunei	Myanmar, Malaysia and Lao

Source : Urata and Ando (2010)

**Table 7. Estimation of Bilateral Remittance in 2016 with Migrant Stocks**

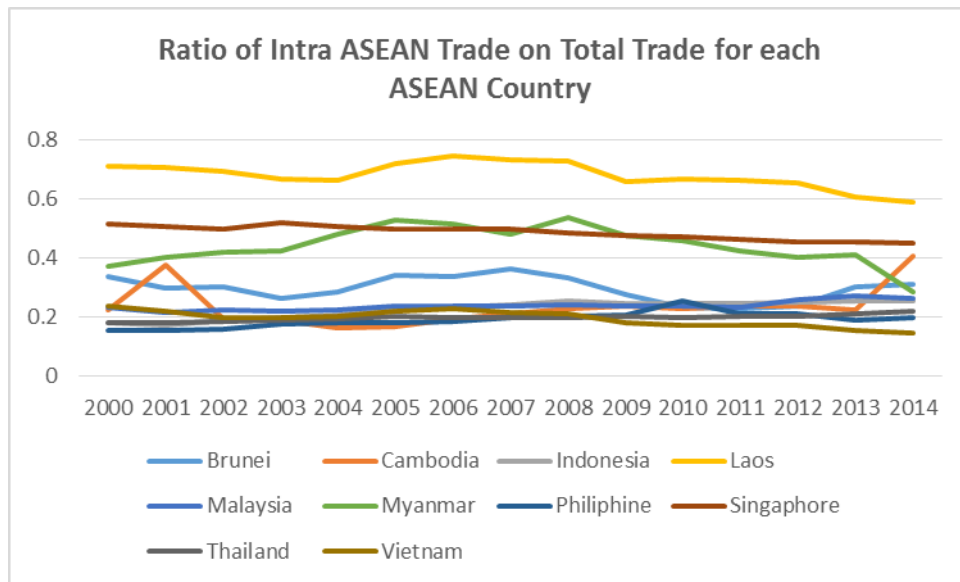
Countries	Bru	Kam	China	Ind	Jpg	Laos	Mal	Myan	Fil	Sing	Thai	US	Viet	Dunia
Brunei	0	0	6	1	381	0	1	0	17	0	257	1	0	693
Kamboja	0	0	8	0	0	0	0	0	1	0	172	0	115	302
China	0	0	0	109	246	0	9	8	509	0	128	148	129	2708
Indonesia	0	0	343	0	61	0	2	0	14	0	108	22	0	838
Jepang	0	0	4048	53	0	0	8	0	1117	0	286	124	168	8835
Laos	0	0	116	0	0	0	0	0	0	0	9	0	35	61
Malaysia	0	0	320	2148	23	0	0	18	1863	0	546	31	112	5965
Myanmar	0	0	259	0	0	0	0	0	0	0	0	0	0	395
Filipina	0	0	19	6	51	0	1	0	0	0	2	74	1	509
Singapore	0	0	2639	379	0	0	1019	0	82	0	122	34	0	5935
Thailand	0	221	817	6	301	79	7	367	74	0	0	83	63	2997
US	0	77	15418	248	1328	23	60	37	10536	0	1733	0	8868	138155
Vietnam	0	1	47	14	2	0	0	1	1	0	3	5	0	100
World	0	371	61000	8977	3819	116	1585	682	31145	0	6273	6547	11880	573551

Source: World Bank, 2016



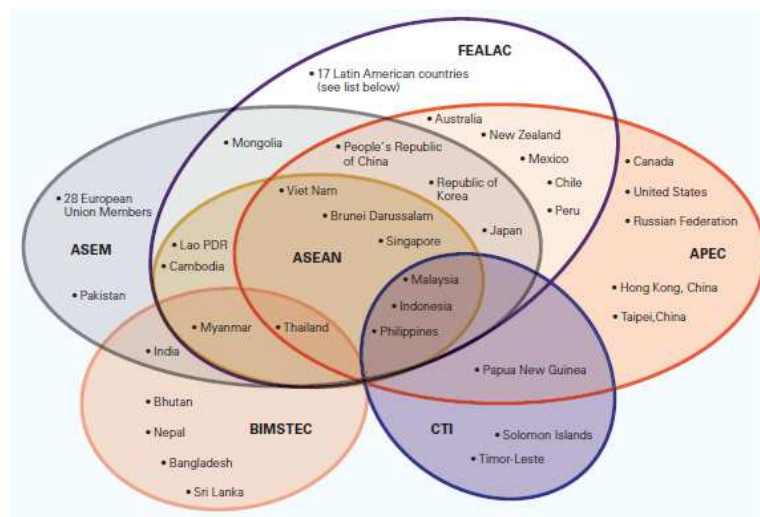
Source: DOTS, 2015, author's calculation

**Figure 1 Trade Share of ASEAN Member Countries**



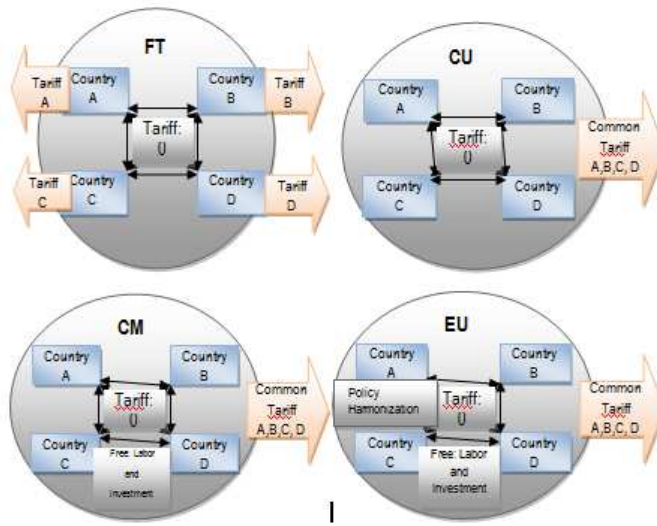
Source: DOTS, 2015, author's calculation

**Figure 2 The Ratio of Intra ASEAN Trade on Total Trade for each ASEAN Country**



Sumber : (ADB, 2014)

**Figure 3. Transregional Members that involved ASEAN Member Countries**



**Figure 4. Different stages of economic integration have different requirements**