IMPACT OF ASEAN ECONOMIC INTEGRATION ON INVESTMENT IN THE ASEAN REGION

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Abstract

Economic integration in ASEAN is a long process that until now has periodically shown significant progress. However, ASEAN's economic integration, especially in the field of economic growth, has been achieved by opening up local markets to regional markets through cooperation. This research is legally discussed. Analysis of the data used, namely empirical data will also be presented to complete the discussion. The results of the discussion show that countries in the ASEAN region can create a stable trade climate and can offer large potential benefits from trade carried out in ASEAN countries. With economic integration, ASEAN countries can increase their competitiveness not only at the regional level but also at the global level.

Keywords: Economic Integration, ASEAN, AEC

Abstrak


Kata Kunci: Integrasi Ekonomi, ASEAN, MEA
1. Introduction

In a world order that is increasingly blurring national boundaries, the new agreement opens many possibilities for cooperation between nations, especially economic integration. One of the indicators is the proliferation of bilateral integration agreements formed in the last twenty years with the development of integration and rapid increase in various regions in the world. The Regional Integration Agreement includes the establishment of the Asia-Pacific Economic Cooperation (APEC) forum in the Asia-Pacific region, the European Union (EU) in the Asia-Pacific region, Mercado commune del sur (Mercosur) and US free trade (NAFTA) to the emergence of the Indo-Pacific. Economic integration is based on the concept of bringing economic benefits to a country (Ministry of Finance, 2014).

ASEAN economic integration began in 1967 covering the political, security, and economic fields as a concrete step in economic integration, so the Association of Southeast Asian Nations (AFTA) Free Trade Area (AFTA) was formed in 1992. Tariff reduction has been implemented since 1993 (Kurniasih, 2020). In addition, ASEAN member countries periodically carry out various synchronizations of domestic policies to comply with regulations at the global level. Standardization, improvement of workforce competence, and technological innovation are also carried out as the main supporters of the regional economic integration process (Luhulima, 2016).

ASEAN economic cooperation continued to develop until the formation of the Association of Southeast Asian Nations Economic Community (AEC), which entered into force in 2015, and most recently its full implementation will take place in 2025. Several previous studies failed to show convergence in the formation of monetary unions in ASEAN. This development raises the question of whether the economic integration of the Association of Southeast Asian Nations has a positive impact on the growth of trade, investment, and economic development of ASEAN countries.

1.1 Research question

The research questions:
1. How does ASEAN carry out economic integration?
2. To what extent does ASEAN's economic integration have an impact on investment in the ASEAN region?

1.2 Aims and Objectives

The purpose of this research is to get an idea of how ASEAN carries out the process of economic integration. As a regional organization that has the goal of being formed to maintain economic stability which is currently being pursued by ASEAN is a great achievement. This research is hoped that it will be useful to enrich studies on economic integration, especially in Southeast Asia. From this research, it is hoped that it will provide an overview of the process of synchronizing investment and trade sector policies that take place in the ASEAN region in welcoming AEC 2025.
2. Review Literature

2.1 Neoliberalism

In conducting research, at the global level, the paradigm in international relations that will be used is neoliberalism. In neoliberalism, the perspective that is highlighted is cooperation. In neoliberalism too, international relations are more inclined to a cooperative nature. This paradigm is in line with what is happening in the relations of ASEAN countries. The initial purpose of this establishment was to create a forum for cooperation for countries in the Southeast Asian region to maintain regional stability.

The term neoliberalism first appeared in 1930, and this term covers not only markets, money, and commodities. In mainland Europe and America, many judged that The Great Depression of 1929 was caused by the old model of liberalism -laissez-faire capitalism- where at that time state intervention was minimal, or even nil. This incident, many are looking for new approaches to the solution of this problem, either through socialist thinking, economic planning by the state, or various forms of regulation by the state.

During this period, liberalist groups emerged in Europe, one of the most prominent of which was Friedrich von Hayek. He proposed a new concept of liberalism, namely the concept of neoliberalism. The basic principle is the same, the laissez-faire market remains the reference, but they also add the role of the state which they call a minimal state. The minimal role of this state can be in the form of protection of private property assets, continuity of regulations, and protection for the underprivileged. Despite the abundance of rhetoric that declares this concept to be anti-state, neoliberal policies do not at all have the ultimate goal of eliminating the role of the state, but rather forming a new kind of state (Boakye, 2014).

After more than 50 years, ASEAN member countries have proven to be able to maintain regional stability. There are rarely large-scale conflicts between member countries that threaten regional stability. The existence of AEC 2025 is a tangible manifestation that this region prioritizes cooperation rather than having to choose a conflictual path. In addition, AEC 2025 is also another proof that ASEAN countries are more focused on the desire to achieve mutual prosperity.

2.2 ASEAN Economic Integration

Currently, the dynamics of world politics are at the stage of a multi-polar situation. America-centric is no longer the main discussion. China has emerged as a new power that is driving this shift. Regionalism is also no longer EU-centric. Regional cooperation with member countries with great power status is no longer the main factor that can encourage global power movements.

Regional cooperation involving countries with medium and small statuses also cannot be ruled out. Mie Oba in her journal Further Development of Asian Regionalism: Institutional Hedging in an Uncertain Era, sees that what ASEAN has done with the AEC is an example of contestation in the formation of regional institutions in the process of regional economic integration. This effort in the future can become a force that can determine the dynamics of global economic politics (Oba, 2019). The concept of economic integration which has been
successfully applied by the European Union for a long time is trying to be adopted with several modifications to be applied in ASEAN. The concept of economic integration will later be used to see the dynamics of economic cooperation relations at the regional level of ASEAN member countries.

Various efforts have been taken by ASEAN to encourage the creation of regional economic integration. Shimizu in The ASEAN Economic Community and the RCEP in the World Economy argues that the ASEAN economic integration process affects the structure of the global economy (Shimizu, 2021). The AEC is considered the main reference for economic integration in East Asia, which at this time is also considered the center of the rapid development of global economic power. AEC 2025, which is currently a follow-up to AEC 2025, has proven to be the main attraction for cooperation initiatives from East Asian countries, including ASEAN+3, ASEAN+6, and ASEAN+1 FTAs. In a broader scope, the creation of RCEP is also considered inseparable from ASEAN's major contribution to the process of economic integration cooperation in the region.

Economic integration in ASEAN is a long process that until now has periodically shown significant progress. Ishikawa argues that several factors support the ASEAN economic integration process. (I) liberalization is carried out in stages and its application is more flexible, at the same time ASEAN countries agree to achieve the goal of high standards; (ii) Foreign Direct Investment (FDI) companies play a central role; (iii) vigorous promotion of trade with countries outside the region; (iv) various policies have been approved and established to remove regional level barriers; and (v) the development of infrastructure and transportation in the region (Ishikawa, 2021).

The increasing economic cooperation between China and ASEAN has encouraged the creation of bilateral common interests and a solid foundation for the development of political relations. Bi in the journal Cooperation between China and ASEAN under the building of the ASEAN Economic Community sees it from two perspectives. From a political point of view, AEC that wants to create economic development in the ASEAN region can trigger the creation of a multi-polar structure in the East Asian region. With the strengthening of bilateral relations, China is getting more room in ASEAN and East Asia.

If the AEC 2025 is implemented successfully, the political and economic structure in the East Asia region will be more stable. From an economic point of view, the AEC provides a great opportunity for the development of cooperative relations in the region, the reduction and even elimination of various trade tariffs is one of the strong attractions to attract investment. The rapid pace of China's economy makes the large expansion of bamboo curtain state companies to ASEAN countries just a matter of time (Bi, 2021).

Sukiya Sukegawa in a journal entitled ASEAN's initiatives for free trade in East Asia under AEC conducted research related to ASEAN trade policies in the East Asia region within the AEC framework. In the article, Sukegawa explained that the free trade agreement in ASEAN which began with AFTA had undergone a big leap and made trade liberalization in the ASEAN region develop rapidly (Sukegawa, 2021). Three countries are the focus of the research, Thailand, Indonesia, and Vietnam. These three countries have made Japan a country in the East Asia region that has benefited greatly in the trade sector with ASEAN countries.
2.3 Domestic Level Analysis

In the science of international relations, there is a conceptual framework of thinking based on the level or better known as the level of analysis. In the wide scope of international relations, the selection of the focus of the study is very important because it can determine the direction of the focus of the study or research being carried out. The interrelated international system in the end also has an influence on the socio-political dynamics within a country. To be able to understand this dynamic, the level of analysis provides several levels of analysis, system level, state level, and individual level.

Kenneth Waltz revealed that in the level of analysis theory, there are three levels of analysis, namely individual, state, and system. This level of analysis is an instrument to help us understand and examine the dynamics of international relations. Each level has a different role and view of each event. The three cannot be used separately, all three complement each other, but each level has different values and characteristics from one level to another (Soltani et al., 2015).

The domestic level analysis is used in this study to find out how the socio-political conditions in Vietnam are. Economic development in Vietnam cannot be separated from the various policies that have been set by the Vietnamese government. The application of the single-party system makes the policy direction of the government in Vietnam very centralized. The Communist Party of Vietnam (CCP) has become a central actor in every strategic policy of Vietnam, without exception in the investment and trade sectors.

Jonathan London in Politics in Contemporary Vietnam; Party, State, and Authority Relations argue that there are three crucial policy aspects of CCP; the ability to be able to secure independence and unification from various external threats; the ability to maintain dominance in political contestations and be able to prevent the disintegration of the state after various difficult post-war situations; his role in promoting unprecedented breakthroughs in the economic sector and successful efforts to improve the living standards of the Vietnamese population (London, 2014). Formed based on the principles of Vietnam's national independence and the socialist revolution, the CCP is currently able to be consistent in managing a highly dynamic local market economy as well as being able to oversee adaptation to capitalist institutions at a global level. CCP proved capable of maintaining its sustainability. Although many think that authoritarian regimes are very difficult to predict, here the CCP appears with its extraordinary resilience (London, 2014).

The dynamics in the planning process, the decision process, and then the implementation of the Vietnamese government's policies will be analyzed more effectively by using this domestic-level analysis theory. Various factors behind the stipulation of various policies, especially in Vietnam's investment and trade sector will later be studied using this theory.

2.4 Relationship of Investment to Trade and Growth

One of the direct implications of the ongoing process of economic integration is the existence of Foreign Direct Investment (FDI). Soltani et al., (2015) state that FDI is one of the central factors in the economic development activities of a country. This is because FDI can have spillover effects, including
(1) economic growth and affect growth (economic strengthening) (2) creating jobs and increasing people's incomes, (3) opening export markets, and (4) enabling technology transfer to take place. which then has an impact on increasing human productivity.

Therefore, it can be concluded that theoretically, foreign investment has a positive effect on the country's economic development. From this, it can be seen that the entry of capital into a country can increase the total output of that country. With FDI, it is possible to use it to produce goods for export or to produce substitute goods for imports. The ongoing transfer of technology will also have a positive effect on the ability of the workforce. It is hoped that when the ability of the workforce increases, not only productivity will increase but will also be able to increase the added value of various products produced domestically for the benefit of domestic consumption and export needs.

3. Research methods

The method has a double meaning of the words method and logic. The method means doing something systematically or regularly but logically means knowledge according to the principle of reason. The method is the science of doing something systematically. Research is important for the development of science and technology and aims to verify and develop existing knowledge (Suharismi Arikunto, 2006).

In this study, the researcher decided to take a normative legal approach. Legal access refers to various laws and regulations that are already available, while normative access to library materials from both secondary and sample data sources is often referred to as a legal research library (Soekanto, 2014).

4. Research result

4.1 ASEAN's Economic Integration

The economic integration achieved by ASEAN within the framework of free trade has facilitated the flow of trade in goods in Southeast Asia. In addition, the preparation of free trade also prepares ASEAN member countries to compete with non-ASEAN partners. The proof is the signing of free trade agreements such as AANZFTA, ACFTA, AJCEP, and AIFTA. Smooth trade in goods in Southeast Asia facilitates cash flow in various Southeast Asian countries and investment and trade in the region can encourage economic growth (Ishikawa, 2021).

Economic growth can create national conditions for each country gradually and will improve the welfare of countries in ASEAN. Meanwhile, free trade has a greater impact on the economies of countries in the ASEAN region with a single regional market in commodity trading. On the other hand, data shows that many countries in ASEAN have relatively strong economies so that they can maximize their benefits from trading with commodity trading partners, both in terms of goods and services.

The objective of free trade in ASEAN is to create a single market and production base with free movement of goods, capital, and services and to enable ASEAN to be more competitive in the regional market economy when compared to other countries. Economic integration with the liberalization of free trade in ASEAN is the best solution to promote the national economy properly and
sustainably which will have an impact on the economy of the ASEAN region. Thus, free trade can be realized which aims to improve the welfare of all countries in the ASEAN region through the intensification of free trade, to be able to face economic competition in the region and the world.

Therefore, ASEAN is strongly committed to achieving common goals by increasing the competitiveness of each country. Free trade countries believe that the establishment of a free trade area will increase intra-ASEAN trade and contribute to ASEAN's economic openness. Meanwhile, the ASEAN free trade agreement has encouraged foreign investment through an integrated network of industrial relations and activities as well as improved overall trade and investment prospects for all ASEAN countries in the ASEAN region. Thus, AFTA will also significantly increase the level of industrial competence of countries in the ASEAN region.

ASEAN's economic integration particularly in the field of economic growth is done by opening up the domestic market to the regional market through cooperation. In addition, it is not only aspects of trade in goods that affect the country's economy, but also the service sector and the investment sector. Economic policies are export-oriented and trying to maintain a stable level of imports will result in the expected trade surplus. The readiness of the domestic investment climate greatly affects the volume of business transactions that will be carried out by the country. Therefore, the government's program is to create safe and comfortable conditions for the development of domestic industry and foreign investment in the country (Ishikawa, 2021).

Based on the description above, the authors can conclude that the countries in the ASEAN region have so far been able to create a stable trade climate and can offer the potential for large profits from trade carried out in ASEAN countries. The extent to which the government creates a friendly atmosphere for business transactions, and safe and convenient access for buying and selling will certainly affect the trade flows that take place in the country. So that the budget deficit recorded by ASEAN countries does not make free trade artificial, because the preparation of member countries is a determining factor because it is still limited in the process of meeting import and trade liberalization and the development of friendly superstructure and infrastructure for trading in goods and services.

4.2 Impact of ASEAN Economic Integration on ASEAN Regional Investment

Economic integration in a region cannot be separated from the existence of international exchange activities that take place between regional countries and in particular between other integrated countries. Abidin, (2019) states that international trade includes export and import activities as well as investments made by two or more countries in the world. Export is an international business that has the characteristics of bringing goods from the customs area of a country into the customs area of another country, while import is the process of releasing goods from the customs area of a country. In this case, the investment can be in the form of direct foreign investment such as the construction of a new building or the acquisition of a company in the destination country or it can also be in the form of investment in the form of an investment portfolio (Ridwan, 2009).

During the formation of ASEAN, Southeast Asia has repeatedly implemented economic links, one of which is the Free Trade Area Association of Southeast Asian Nations (AFTA). Free trade agreements in the ASEAN region
aim to increase trade in goods and services among other countries and to attract more foreign direct investment to the ASEAN region (ASEAN Secretariat, 1993). Since the implementation of the Arab Free Trade Agreement (AFTA), particularly in the period 1992 to 2002, its implementation has increased trade in goods between ASEAN countries by 102.87%, from an initial value of US$11 billion in 1993 to US$36.16 billion. In 2002 in ASEAN since the FTA, foreign direct investment in the country increased by 27.17% and increased from the initial value of US$11.505 billion in 1992 to US$1 (Ragimun, 2016).

The last decade of ASEAN marked a new era of economic liberalization with the establishment of the Economic Community of the Association of Southeast Asian Nations (AEC) in 2015. One of the pillars is to make ASEAN a single region, market sector, and production base through flow elements, namely services, investment, and labor. Skilled and capital moves more freely (Ministry of Finance, 2014). Although the AEC was only officially released in 2015, several strategies or policies have been developed and implemented since 2009. Some of these strategies were later identified in the ACS Master Plan which serves as a guide for ASEAN member countries in implementing the strategies and guidelines of the Economic Commission.

The positive impacts of ASEAN economic integration on investment in the ASEAN region are as follows (Ridwan, 2009):

1) Investment aspect
   The aspect that is positively influenced by ASEAN economic integration is the investment aspect. ASEAN provides favorable conditions for investors to access so that they can invest directly and without barriers in various fields, including the economic sector. In addition, the presence of ASEAN has led to wider, more innovative, and more competitive business opportunities.

2) Employment sector
   Sector employment is also positively impacted by ASEAN. With the presence of ASEAN, people will try to improve their quality and skills. Cheap labor is not the only way to attract investment. The increasing competence of the workforce also makes each ASEAN country compete to improve the competence of its workforce.

From the results of reports compiled by the ASEAN Secretariat after the AEC was agreed upon, ASEAN countries routinely carry out the progress of the agreed agreements. One of the most prominent is the lowering of intra-ASEAN trade tariffs, which are up to 0%. In addition, other progress made in the implementation of the AEC is the increasing number of ratifications of treaties at the domestic level by member countries. A clear indication of the commitment and strong will of all members to make the AEC agenda a success (Afandi, 2011) Based on the results of the research above, the authors can conclude that an integrated country in the ASEAN region will continue to pursue economic growth so that the welfare of its people also increases. If economic growth increases, it will increase investment as well as increase global competitiveness and facilitate investment. With economic integration, ASEAN member countries will also find it easier to attract FDI in their respective countries.

To see one example of how economic integration has a significant impact on economic progress, see what happened to one of the ASEAN member countries, namely Vietnam. Beginning with Doi Moi in 1986, Vietnam took concrete steps to advance its economy by carrying out economic integration. Becoming a member of ASEAN is a crucial step after the Doi Moi, which in the
end made Vietnam a member of ASEAN in 1995. Joining ASEAN became an important foundation for Vietnam. ASEAN has become the main supporter of Vietnam in economic cooperation to a high level, namely joining the WTO.

Joining a forum for international cooperation means being ready to take various steps to “get away from it”. Among the steps to "get away" is to make various adjustments, ranging from policies to standardization covering various aspects of economic support. One of the main factors why Vietnam can do well is because of the prevailing domestic political system. The single-party system adopted, made the Vietnamese Communist Party a central actor in making policy changes. The application of a single party allows the smooth running of a centralized policy. Starting from short-term policies, medium-term policies to long-term policies can be implemented smoothly, relatively without many obstacles (Suhandi, 2018).

This single-party system is also able to provide political stability which is the key to creating social and economic stability for the country of Vietnam. This single-party system also reduces the number of political contestations that occur in the country. Friction between interest groups did not occur, in fact, rarely existed. Not many factions have diverse political interests. This makes Vietnam's domestic policy not only solid but also includes a foreign policy that is always one voice without any anomaly.

Currently, Vietnam's status is still one of the prima donnas of investment destinations. In the 2010-2017 period, Vietnam was able to record economic growth of 6-7% stably. GDP growth is also stable, leading to a growing number of the new middle class in Vietnam. Currently, Vietnam's population is nearly 100 million, half of whom are under the age of 35. That is why Vietnam is intensively investing so that the available workforce meets the standardization requirements at the global level. Starting from being a member of ASEAN, and the WTO and then making various efforts to "extend itself", currently Vietnam has had various forms of economic cooperation, ranging from Vietnam-European Union, and Vietnam-United States cooperation to its active role in joining the Indo-Pacific.

Vietnam is just one successful example of how a country can take advantage of regional economic integration into a big advantage that can have a broad impact on improving the welfare of its people. Apart from a supportive political system, what Vietnam is currently doing is also being done by almost all other ASEAN members. With the existence of the AEC, currently, policy synchronization, standardization, and improving the competence of the workforce are the main agenda that is commonly carried out by ASEAN countries. ASEAN countries are well aware that what is currently being done at the regional level is the basic foundation as well as an important capital for ASEAN's bargaining power in the global realm. The bargaining position of ASEAN countries is no exception within the scope of agreements with western countries such as the US, EU, CPTPP, or even in the Indo-Pacific axis.

5. Conclusion

Based on various descriptions of the research above, it can be concluded that ASEAN economic integration has significantly increased investment in ASEAN countries. This increase in investment was due to increased competitiveness and ease of
investment. The path of economic integration chosen by ASEAN member countries is carried out through various collaborations which have the main objective of creating strong, stable trade conditions and can offer benefits from investment and trade activities carried out.

Economic integration in ASEAN also has a positive impact on its members. One of the indicators is the standardization of each member's domestic policy so that it is in sync with the applicable standards not only at the regional level but also at the global level. Tariff standards, raw materials, and labor have increased since the economic integration process in ASEAN took place. AEC is also an important foundation for ASEAN member countries to increase their competitiveness and bargaining power at the global level. This is an important capital for ASEAN countries to jointly compete at the level of cooperation on a wider scope.

5.1 Suggestion

ASEAN economic integration has been proven to have various positive impacts on the regional economy. It doesn't just stop there, the potential available to maximize this opportunity is also still very open. What should be the main concern at this time is the competence of the workforce. The government must see the workforce as a crucial asset in economic development. For this reason, it is necessary to make a high investment to improve the quality and competence of the workforce.

In addition, large-scale investments must also be made in the technology sector. This becomes very important because the conditions of technological progress are increasingly sophisticated. If the competence of the workforce is balanced with various innovations in the technology sector, the economic foundation of a country will be stronger. Readiness to compete in the dynamics of the global economy is increasingly guaranteed.
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