

Economic Integration in Southeast Asia: Its Impact on the Business Environment

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Abstract. Southeast Asia is considered one of the fastest growing regions in the world. Without a doubt, this region has accelerated the pace of its integration with the global economy. This case study evaluates the opportunities and challenges of regional economic integration in Southeast Asia. Southeast Asia has been a major beneficiary of foreign direct investment in the establishment of global manufacturing and supply chain due to its comparative advantage in a plethora of production factors. China's changing role in the global economy encourages an agglomeration of industries as there is a greater tendency for businesses to trade with one another due to the centrality of location. Additionally, China's Belt and Road Initiative will facilitate larger investments into Southeast Asia.

Keywords: Belt and Road Initiative, economic integration, international business, agglomeration of industries, ASEAN.

1. Introduction

The Association of Southeast Asian Nations (ASEAN) has made boundless progress towards greater economic integration since its inception in 1967¹. The recent launch of the ASEAN Economic Community in December 2015 opens up tremendous opportunities in terms of trade and investment for various stakeholders. By 2025, Southeast Asia is poised to become an integrated and global economy². The changing landscape coupled with the growth of intra-regional trade is set to be a prime mover of manufacturing exports from developed countries to developing and less developed countries in Southeast Asia. Currency instability and global uncertainty create the need for intra-regional dependence via regional cooperation. The question then arises, what business opportunities lie ahead for an economically integrated ASEAN?

1. Economic integration in Southeast Asia is said to have begun through the formation of ASEAN to safeguard the nations from political instability. During the first two decades of its existence, economic cooperation was rather limited and little progress seen in the drive to achieve economic integration amongst its members.
2. ASEAN Secretariat (2015), *ASEAN Economic Community Blueprint 2025*. Retrieved from <http://www.asean.org/storage/images/2015/November/aec-page/AEC-Blueprint-2025-FINAL.pdf>

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2. The Rise of Southeast Asia

ASEAN celebrated its 50 years of commemoration in August 2017, marking an important milestone among its member states. The ten members include Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei Darussalam, Vietnam, Lao PDR, Myanmar, and Cambodia. As a combined economy, the ASEAN economy is the 3rd largest in Asia and 6th largest in the world with a combined population of more than 600 million³.

The rise of Southeast Asia rides on the coat-tails of the newly industrialized economies of Hong Kong, Korea, Taiwan, and Singapore, known as the four “Asian Tigers”. According to the World Bank policy research report⁴, these high performing economies benefitted from pro-export government policies and minimal government interventions. They were initially favored by the United States and Japan as major beneficiaries of foreign direct investment (FDI) and accounted for the bulk of offshore electronic manufacturing companies in the 1980s and 1990s. Nevertheless, as the “tiger” economies of Asia developed, businesses shifted to the emerging economies in Southeast Asia. The four developing and newly industrializing countries (Indonesia, Malaysia, the Philippines, and Thailand) are called the “tiger cub” economies⁵. The emergence of Asian tiger and tiger cub economies confirm the economic significance of Asia at the global front. Greater trade liberalization is expected to benefit ASEAN’s economic development significantly.

Drawing from the European Union’s (EU) model, the ASEAN Economic Community was launched in 2015 to create a single market and production base to promote tariff reduction and free movement of goods, services, skilled labor, capital, and investment. The European Single Market⁶ has so far provided vast “opportunities for European businesses, greater choice and lower prices for consumers” – whereby it impacts an estimated 500 million consumers and 21 million small medium enterprises (SMEs). The removal of intra-EU trade barriers has led to increased trade activities. Similarly, the ASEAN Economic Community is anticipated to boost intra-regional trade further. Among the top five trade partners, ASEAN intra-regional trade value accounted for USD 544 billion, followed by USD 446 billion with China, USD 228 billion with the E.U., USD 238 billion with Japan, and USD 212 billion with the US in 2015⁷.

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3. ASEAN Secretariat (2016), *ASEAN Economic Community at a Glance*. Retrieved from http://asean.org/storage/2015/11/AECat-a-glance-2016_web_version2.pdf
 4. Birdsall, N. M.; Campos, J. E. L.; Kim, C; Corden, W. M; MacDonald, L.; Pack, H.; Page, J.; Sabor, R.; Stiglitz, J. E. (1993). *Main Report*. A World Bank Policy Research Report. New York, New York: Oxford University Press. Retrieved from <http://documents.worldbank.org/curated/en/975081468244550798/Main-report>
 5. The four largest developing Southeast Asian economies are coined the tiger cub economies due to their success in emulating the export-led model adopted by the Asian Tigers.
 6. European Commission (n.d.), *The European Single Market*. Retrieved from https://ec.europa.eu/growth/single-market_en
 7. ASEAN Statistics, ASEAN Secretariat. Retrieved from <https://data.aseanstats.org/>