

## Role of ASEAN In Process Of Globalization

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**Abstract:** The Objective of this manuscript is to inspect the role of ASEAN<sup>3</sup> in globalization process. To study it, FDI<sup>4</sup> inflows- have been taken as proxy variable for the measurement of globalization. In this connection, data of ASEAN pertaining to seven countries has extracted<sup>1</sup>. The time series data has been taken from World Development Indicator for the period of 1991 to 2013. It has been found that ASEAN has been playing vital role in the process of globalization, as their FDI graph is showing increasing trend. Moreover here Singapore is taken for checking the relationship of foreign direct investment with some other variables namely urban population, net trade and gross domestic product. For this purpose OLS method has been used, where the regression analysis has been done through the software Eviews 8. The results are showing that FDI is giving positive and significant relationship with GDP, net trade and also it is showing negative and significant relationship with population.

**Key Words:** FDI, Globalization<sup>5</sup>, ASEAN, and Trade<sup>6</sup>.

### I. Introduction

ASEAN is a major trading bloc in Asia; it was come into being in August 1967. After the flare up of Asian economic financial crisis its main focus is to create poise and prosperity in the bloc. This bloc has been struggling to achieve this objective after 1997. At the time of its institutionalization this bloc comprised up of five nations, namely Indonesia, Malaysia, Philippine, Singapore and Thailand. After its establishment this regional bloc expended and included the remaining Southeast Asian nations, which are Brunei Darussalam, Laos Myanmar, Cambodia and Vietnam.

This region abstracts the population of about 600 million. ASEAN is a middle income region. The five ASEAN predicated members (Indonesia, Malaysia, Philippine, Singapore and Thailand) nominal per capita GDP was \$4500 in 2011. As ASEAN trading bloc contains ten members so with regard to all these ten members nominal GDP per capita was \$3600. Where the Singapore and Brunei are at the top level of GDP per capita around 4900 and \$3900 respectively, they are at the top column of developed market economies, in comparison Myanmar and Cambodia has GDP per capita is below \$900.

### II. Objectives Of ASEAN

According to the ASEAN proposition it was being established with two foundational objectives.

1. To speed up economic fibroid, social advancement and cultural development in the region.
2. To curtail the economic chronicle disputes and nurture regional peace and poise without interference in the domestic affairs.

In order to achieve the above describe foundational objectives the ASIAN economic community has adopted a detailed plan of action in Singapore in 2007. This detailed plan of action postulate vision, aim and logistic schedule. The plan contains four key characteristics that detail has been described below.

1. A single market and production base.
2. A competitive economic region.
3. Equitable economic development.
4. Integration into the global economy.

The first character talks about to reduce the trade barriers for the free flow of goods and services and to ensure the mobility of skilled labor, flow of capital and investment will be making easier among the member countries.

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<sup>4</sup> Foreign direct investment inflows. (FDI inflows are the value of inward direct investments , which is made by foreign investors in coverage country)

<sup>5</sup> The increasing persuade of companies further than their national borders and enhanced inter connectivity among the economies and traditions of countries.

<sup>6</sup> All transactions that include the sale and purchase of goods and services.

Second recommendation focuses on the competitiveness of the ASEAN trading bloc and to set a standard in trade policy in order to enhance its competitiveness at world level. This recommendation requires that it should increase its competitiveness in the following given areas.

- intellectual property rights
- infrastructure development
- taxation
- E-commerce

Third characteristic is very significant and plays vital role in growth of this trading bloc that is it should struggle, and all members contribute equally for the economic development, in this connection two areas should be more focused.

- **Small and medium enterprise development**
- **Initiative ASIAN integration.**

Its main objective is to curtail the distance between member nations and to increase economic integration particularly of the newly introduced member nations, which are Cambodia and Lao PDR, Myanmar and Vietnam.

Moreover ideogram suggests that ASEAN should struggle to integrate by itself as an affective bloc into the global chain supply. In order to achieve this ideogram it requires two action plans.

1. It should create healthy relations with external economies.
2. Enhanced its contribution in the global market supply networks.

Importance of foreign direct investment has been increasing more in the process of globalization than trade. Researchers observing that for many past years the economic ties between nations have been improving and getting stronger through inflows of foreign direct investment. In order to increase process of internationalization the multinational firms have been also considering foreign direct investment for being more globalize.

Studies on foreign direct investment and globalization are not much; they are few in the history. Basically the study on FDI started in the era of 1960s and 1970s. Hymer Kindel Berger 1969, cove 1971, and Dunning 1981 viewed foreign direct invest as follows. Hymer stated that the multinational firm pursuit, technological advancement and exchange of technologies can't play role only in the globalization process. Foreign direct investment is also important for it. According to the cove 1971 FDI reduces the trade barriers, bring technological advancement and Dunning in 1981 explained the FDI benefits for the consignee country, one of them most important is that the FDI provides opportunities to have ownership that is to have cost free access to technologies, where newly introduced firms can also get ownership rights on brand names and patents. The word globalization is very vast to explain as in the world everyone has various concepts for globalization, in this way there is no single and frequently considered definition for globalization subsist. There have been found different concepts on globalization as some says that globalization occurs due to economical factors. On the other hand, some says that the main factors for globalization are cultural and political factors.

Caselli 2006 an economist explained globalization by dividing it in three ways that is economic, political and cultural, these three ways can be additionally divided into more segmented ways. In the light of caselli 2006 view the definition of globalization ought to cover all three ways. The process of globalization is different from other kinds of international trade on the bases of that it considers all needs of the world should be catered. Globalization provides platform to make single market which contain free mobility of goods and services, free mobility of capital, mobility of labor force and free supply of technology which provide opportunity to developed nations to improve their economic ties and become more together. Liberalization and increasing directness to trade are proving highly beneficial for developing economies. The process of globalization is much beyond the growth expansion, trade expansion and mobility of factors of production, it also contain exchange of ideas, information and mass transition.

Trade and foreign direct investment plays vital role in the process of globalization. FDI accelerates the growth of country's economy. Through global investment infrastructure of developing countries improves particularly where it is difficult to improve their infrastructure through local investments. Process of globalization softens the strict policies for trade as it breaks the barriers which gives opportunities to the developing economies to have access to technology and foreign assets. Globalization gives reward to the people in form of improved skills level, improved education system and more advance organizational skills.

Globalization has connected the people from different location of the world, due to this people has access to each other county's information, products, goods and services easily. To access any part of the world has become easy because of globalization. Globalization has advantages and disadvantages both; detail of advantages and disadvantages has been discussed below.

Globalization has following prominent advantages which are.

**1. Employment Opportunities.**

This is the core advantage of globalization. Companies establish their business in foreign countries, which is opening the window of employment in the host countries. Now the people of less developed areas have more opportunities to move towards country side for betterment of their living standards.

**2. Education.**

Educational institution has widened transversely the globe, due to which it has become easier to the people to move toward those countries which have good educational prospects. The migration for education has been leading towards integration of different culture and people which are having different educational and backgrounds are bringing different cultures.

**3. Increase in quality of trade**

Globalization has brought competition in the world market due to this many countries has been entered with the standard quality goods, in result of competition quality of trading goods has been improved. Now the consumers are able to compromises for the prices but they are sure they will get standard quality products.

**4. Low Prices.**

Due to the competition in the market for customers prices of goods have become reasonable and affordable as competition has broken the monopoly power to some extent.

**5. Source of Communication.**

It has made easy to communicate people easily irrespective of how far they are. In result cost of communication has declined drastically as compare to the before the period of globalization.

**6. Free Mobilization Of Capital**

As capital formation for any developing economy is the most important factor, with process of globalization It has become easy to transfer money with the one click, transactions cost has become reduced. Developed countries of the world are investing huge amount in the developing economies it is the most helpful factor for the development and growth of underdeveloped economies.

**7. Increased In GDP.**

As we know that GDP is the abbreviation of Gross domestic product and GDP is the value of all final goods and services produced in a country in a country during fiscal year. Due to the globalization the market has expended, in result demand for goods and services has also increased. In order to meet the increasing demand different economies of the world has been producing more, which has increased the GDP of developing economies to many folds. Following are disadvantages of globalization.

**1. Increasing Inequalities.**

Income inequality is the main drawback of globalization, as in this process rich people is becoming richer and poor people are becoming poorer. From the higher management point of view globalization is beneficial while on the other hand labor point of view it is costly for them.

**2. Environmental Reparation.**

Multinational firms are irrespective of environment damages, they are responsible for ecological destructions.

**3. Loss of Culture.**

People migrated from their own country to foreign countries, they adopt the foreigners culture, which is the main reason for the failure of culture, in result they loss their roots and identity that is from where they originally belong.

**4. Disputes.**

In race of to be at the top, every country wants to be a leader, such behavior gives boost to terrorist activates and it also creates violence and become major cause of the loss of human life.

This paper analyzing the role of ASEAN in globalization by discussing the relationship between FDI and globalization for the time span 1991 to 2013 of ASEAN seven countries.

In this paper part one contains introduction, part two contains literature review part three contains methodology, graph finding and discussion and the last part providing conclusion.

## **Review of Literature**

(Anderson.K, 1997) Stated that extensively forthrightness of interdependent between nations and their economies is good chance for the poorer economies but itself it brings lots of challenges. The globalization proves beneficial only for those economies that have good economic governance and it become costly for those countries that have bad economic governance.(Pomfert.R, 1997) Poor countries can only achieve good economic governance with sustainable economic development and by providing secured rights over property to the upcoming investors in their economy, so that they can win their confidence (chaipan.l , 2007).large number of studies evidence that regional integration animate economic growth and it also bring international investment, it ultimately increases the welfare and help to improve it more for those countries who are engage in integration process.(Sudsawad.S, 2007) Free trade agreement persuades growth in the country. FTA's become more beneficial if they are done outside the trading bloc members. Like in case of ASEAN it should promote to FTA agreement with China, Japan, Korea, Newzeland and Australia .By doing so it brings growth in shape of elevated GDP. Besides its benefits it also produce unfavorable effect which is it leads toward trade diversion which cause to increase in cost factors.(Plummer.M, 2000) Emphasized that trade agreements should be well defined before the free trade agreement which will prove to be gainful for both the nations.(Plummer.M.G, 2007) in order to bring growth in the globalization process of ASEAN, this bloc should concentrate to involve developed countries in free trade agreement this will be more fruitful for the ASEAN members particularly.(Stifung, 2007) In the phenomenon of economic integration the members of ASEAN consider the predispose of the globalization.(Oman.C, 1994) Regionalization is the outcome of difficulties and causes of globalization. It has been further suggested that the member of ASEAN consider the changes in their surrounding milieu especially in the case of China as China has been chief consignee of the FDI from developing countries.(Skabic.I, 2007) Pointed out that in order to determine level of FDI in country, trade forthrightness is the significant factor as it gives positive result on FDI.(Carcovic.M, 2002) Some researchers have proved that globalization is positively related with FDI inflow.Aekapol.C. (September 2009) pointed out that the growth of ASEAN is for strengthening economies relations is pity slow as it has been facing some challenges one them is the members of ASEAN countries are rivals which is leading towards absence of leadership, such situation is demanding that it requires some revised policies which will become helpful to make it effective in achieving its target.(Baloton.R, 1996) Numerous policy makers and scholars has supported that regional blocs are playing vital role for reducing the U.S influence all over the world and now the countries are moving towards multilateralism and liberalization which is resulting with gain of both side countries.(Menon.J, 2002) In his view that regional trade agreement main objective is to strengthen the trade relations whether it is on political ground or economic, but its main focus is to accelerate growth and welfare of countries.(Mundell.J, 1964) The importance of trading bloc and regional trade agreement RTA'S has been stated by Mundel in this way, he stated that those trading partners who do not give importance to join preferential trading agreement will be worse off by the effects of TOT.(Bhagwati.Z, 2007) The discussion on the effects of regionalism at the world economic level is quite disputed. The discussion main focus is on the question t hat the emergence of regional trading bloc will play helpful role to accelerate the globalization process of free trade or not, in this regard two sides have been observed one is in favor, that it will be auxiliary for the global free trade and the other side tells that the regionalism creates biased policies and it is the cause of obstacle in the path of globalization.(Levy.P, 1997) in the connection of above explained review of literature numerous scholars debate that in the result of regionalism trade diversion appears which is the spillover effect when the low cost non member country shifts to high cost countries it has been further debated that the regionalism is becoming harmful for the world trading process, as it encourage bias policies.(Krugman.P, 1991) On the other side in his notion trading blocs are contributing in the process of multilateralism.(Leamer, 1994) He debated that the regionalism is the only way which can lead towards globalization as the process reduces the obstacle which are political issues and also curtail its complexities, so regionalism is the first step towards global trade.(Bharamshah.Z, 2007) Regional Trade Agreement (RTA) is the hindrance in the process of liberalization and globalization, as it creates trade diversion, on the other hand another view has been observed that RTA is performing positive role as it increasing the market size and increasing the supply of inputs at the world level.(Chongvilavan.A, 2009) The motive of this paper is to evaluate the growth in ASEAN a Trading Bloc, here its performance and free trade Agreement affects has been undertaken for the growth evaluation, along with its growth hurdles in the way of its fibroid. The member countries are having rivalry among them which is due to lack of leadership. In order to accelerate its growth, it should extend ties with External countries and for this FTAs, will play vital role for the achievement of this objective.

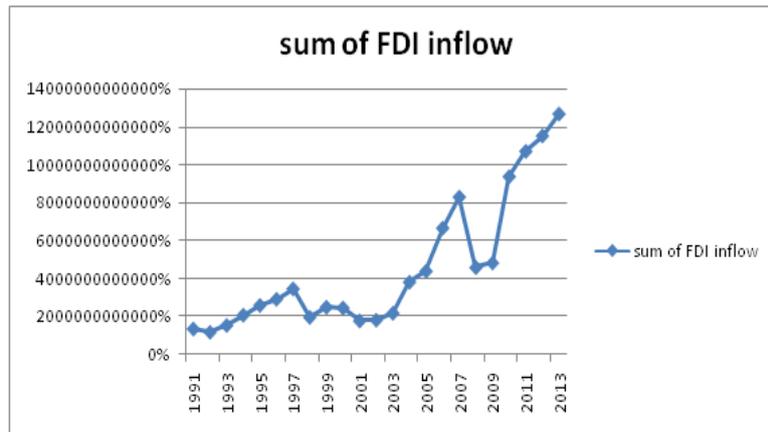
## **III. Methodology**

Secondary data set has been used in this paper. The data has been gathered from **World Development Indicators** published by World Bank, which contains the annual data of Foreign Direct Investment inflow taken at percentage of balance of payment of U.S dollar, for the period 1991 to 2013. The data pertains to seven

members of ASEAN countries namely Indonesia, Malaysia, Thailand, Singapore, Vietnam, and Cambodia, Philippine out of ten. In order to compile data Microsoft Excel has been used, where figure is drawn which is showing graphical trend of Foreign Direct Investment for the purpose of knowing the role of ASEAN in globalization process. Moreover the graph has been drawn by taking sum of member country's Foreign Direct Investment inflow.

The paper has also examined the relationship of FDI with net trade, urban population and gross domestic product by taking one of the member countries of ASEAN which is Singapore. In this connection the OLS method has been used to run the regression.

#### IV. Findings And Discussion



Foreign Direct Investment inflow has positive relationship with globalization as stated by carcovic and Levine (2002)

Here in the above graph I have found that ASEAN member country's Foreign Direct Investment has been increasing overall. Since 1991 to 1997 it has slight increasing trend but after 1997 to 2004 it is showing decreasing trend with slightly upward movement. In 2005 there is highly increasing trend as compare to previous years till 2007. Moreover the trend has decline for the one year duration that is from 2008-2009. Just after 2009 FDI inflows in ASEAN members has continuous great upward trend up till 2013 according to the graph.

In the light of above trend of FDI inflows it has been observed that ASEAN has been playing significant role in the globalization process as its intra ASEAN trade and trade with rest of the world has been increasing with the passage of time. ASEAN's main trading partners are china, Japan, Republic of Korea, Australia, Canada and European Union. Before the eruption of financial crises Malaysia and Thailand were open economies in the developing world to FDI. They were experiencing high growth trend which has been supported by foreign investors in their economy. During the financial crises the FDI is even showing increasing trend excluding the Indonesia. It has been noticed that in the period of financial crisis the foreign investors have positive response to open the new brass rings and were also supporting the local companies. By looking at the FDI trend of ASEAN 4 which are Malaysia, Indonesia, Thailand and Philippine have been the most centered destination for FDI. It has been studied that as a set of four they were the fifth most famous recipient to FDI at world level in the period of 1990. Malaysia in the period of 1990's has attracted the major export leaning investors. In case of Indonesia, it has elevated its oil and gas sector with FDI inflows and Thailand was also the recipient of export leaning firms.

As here in this paper I have taken FDI as a proxy variable for the measurement of globalization. I have found that FDI doesn't play significant part only in the global economy wellbeing but it also provides number of benefits to the recipient county. The most significant benefit is that it provide platform to channelize the resources at place where they are in abundant to the place where they are scarce. FDI inflows support recipient country to invest in efficiently productive activities which seems impossible only with the help of their own funding.

#### Modal/Equation

Estimation Equation:

$$FDI = C(1) + C(2)*TRA + C(3)*POP + C(4)*GDP$$

$$FDI = 89805576310.5 + 59673963.488*TRA - 56713.9704877*POP + 1.20591599005*GDP$$

## V. Result

Dependent Variable: FDI				
Method: Least Squares				
Date: 01/27/16 Time: 21:21				
Sample: 1991 2013				
Included observations: 23				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.98E+10	3.90E+10	2.302722	0.0328
POP	-56713.97	20419.41	-2.777453	0.0120
GDP	1.205916	0.299538	4.025919	0.0007
TRA	59673963	63464988	0.940266	0.0089
R-squared	0.857420	Mean dependent var		2.23E+10
Adjusted R-squared	0.834907	S.D. dependent var		1.90E+10
S.E. of regression	7.73E+09	Akaike info criterion		48.53147
Sum squared resid	1.14E+21	Schwarz criterion		48.72895
Log likelihood	-554.1119	Hannan-Quinn criter.		48.58114
F-statistic	38.08609	Durbin-Watson stat		1.967788
Prob(F-statistic)	0.000000			

### Result's Explanation

In the above model FDI has been taken as dependent variable and the independent variables are net trade, urban population and gross domestic product. FDI is giving positive and significant relationship with GDP and net trade, also FDI is showing negative and significant relationship with population. In this model it has been proved that if any country wants to increase its GDP and trade so it has to increase its FDI. From the theoretical point of view many studies has inspected the relationship between foreign direct investment and gross domestic product. Foreign direct investment is the major source to the adaptation of new technology in process of production. Foreign direct investment is also the source to get knowledge transfers not only in meaning of labor training but also in the sense of skill gaining. In result when the country's production increases, its GDP graph also increases, it shows that FDI and GDP has positive relationship. Same in the above result has been shown as FDI is significant and positively related with GDP. Countries which have more FDI inflows their GDP rate is higher than those who don't have FDI inflows.

## VI. Conclusion

In the light of above study it has been concluded that ASEAN has been playing vital role in the globalization process as its FDI inflows has been increasing with the passage of time and ASEAN has major trading partners of the world like Japan, China, Australia, Republic of Korea and Canada. It has not only inter-trade profile but also intra trade profile which is giving benefit to the host country and foreign countries as well. Moreover I have also checked FDI relationship with GDP, net trade and urban population .where it has been found that FDI has positive significant relationship with net trade and GDP, and negative significant relationship with population.

## VII. Recommendation

### Following Are the Recommendations In The Light Of Above Study

- ASEAN members should increase its FDI inflow more in order to increase the process of globalization which benefits this trade bloc more.
- FDI inflows should increase as it causes to increase the gross domestic product of any country.

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<sup>i</sup> ASEAN countries Indonesia, Malaysia, Thailand, Singapore, Philippine, Cambodia and Vietnam have been taken in the study.