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Diploma Thesis
Economic Integration of ASEAN and Analysis of its
Foreign Trade with China

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DIPLOMA THESIS ASSIGNMENT

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Economics and Management

Thesis title

Economic Integration of ASEAN and Analysis of its Foreign Trade with China

Objectives of thesis

This thesis deals with the theory of economic integration, concretely then the economic integration of ASEAN. First of all, the aim of the thesis is to provide an understanding of the theory of economic integration and its degrees and to provide a clear overview of the economic integration of ASEAN, its establishment, development, objectives and structure. When providing the overview, the second and main aim of the thesis is to analyse the foreign trade between ASEAN and China. The goal is to determine how the foreign trade will develop in the future, between ASEAN and China as well as between individual chosen members of ASEAN and China.

Methodology

The methodology of the theoretical part is based on descriptive and comparative analysis and on methods of investigation. The practical part predicts the future development of foreign trade between ASEAN and China by using trade analysis.

The proposed extent of the thesis

60 – 80 pages

Keywords

Integration, China, ASEAN, South-East Asia, import, export, Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar, Cambodia

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ASEAN. Secretariat, 1997. ASEAN economic co-operation: Transition & transformation. Institute of Southeast Asian.
Balassa, B., 2013. The Theory of Economic Integration (Routledge Revivals). Routledge
Robson, P., 1998. The economics of international integration. Psychology Press.

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Declaration

I declare that I have worked on my thesis called “Economic Integration of ASEAN and Analysis of its Foreign Trade with China” on my own and I have used only the scientific literature and other information sources that are mentioned in the reference at the end of the thesis. As the author of the thesis, I declare that the thesis does not break copyright of any third person.

In Prague on 27.11.2016

Kateřina Křížová

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Economic Integration of ASEAN and Analysis of its Foreign Trade with China

Sdružení národů jihovýchodní Asie a analýza zahraničního obchodu s Čínou

Summary

This diploma thesis deals with the economic integration of ASEAN and primarily focuses on its foreign trade with China.

The theoretical part gives a definition of economic integration, its forms, degrees and advantages. It also examines the history of ASEAN, describes the motives for its establishment and development. It also gives an overview of the latest trends in relation with economic integration and the development and trends of the foreign business relationships. The core part of this thesis is the practical part. The practical part focuses on the development of historical trade relationship between ASEAN and China and its analysis. Based on this analysis, it then provides a prediction of the future import and export of products between ASEAN and China, as well as between chosen countries of ASEAN and China between the period 2020 and 2045. It therefore focuses of the future foreign trade balance between ASEAN and China by using the trend analysis.

This work concludes that the export as well as import of ASEAN will continue increasing in relation with China. The main reason is the positive plan of both trade partners to build even closer relationship and continue eliminating any trade barriers in the future.

Key Words: Integration, China, ASEAN, South-East Asia, import, export, Malaysia, Singapore, Thailand, Indonesia

Souhrn

Tato diplomová práce se zabývá Sdružením národů jihovýchodní Asie a primárně se zaměřuje na jeho zahraniční obchod s Čínou.

V teoretické části práce popisuje význam ekonomické integrace, její formy, stupně a výhody. Dále zkoumá historii Sdružení národů jihovýchodní Asie, popisuje motivy jeho vzniku a jeho vývoj. Zároveň poskytuje přehled posledních trendů ve vztahu k ekonomické integraci a vývoje zahraničních obchodních vztahů. Stěžejní část této práce je praktická část. Praktická část se zaměřuje na historický vývoj zahraničního obchodu mezi Sdružením národů jihovýchodní Asie a Čínou a jeho analýzu. Na základě této analýzy dále poskytuje predikci budoucího dovozu a vývozu zboží mezi Sdružením národů jihovýchodní Asie jako celkem a Čínou, stejně tak jako mezi vybranými členy tohoto sdružení a Čínou v období mezi roky 2020 a 2045. Práce se tedy zaměřuje na budoucí bilanci zahraničního obchodu mezi těmito partnery pomocí analýzy trendových funkcí.

Tato práce dochází k závěru, že vývoz i dovoz se bude v budoucnu nadále zvyšovat. Hlavním důvodem je pozitivní vyhlídka a iniciativní plán obou partnerů na vytvoření ještě bližšího vztahu a na pokračování v odstraňování bariér zahraničního obchodu v budoucnosti.

Klíčová slova: Integrace, Čína, Sdružení národů jihovýchodní Asie, Jihovýchodní Asie, dovoz, vývoz, Malajsie, Singapur, Thajsko, Indonésie

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List of Abbreviations

ACFTA	ASEAN-China Free Trade Area
AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Area
AIA	ASEAN Investment Area
AIC	ASEAN Industrial Complementation
AIIB	Asian Infrastructure Bank
AIJV	ASEAN Industrial Joint Venture
AIP	ASEAN Industrial Projects
ASEAN	Association of Southeast Asian Nations
CARICOM	Caribbean Community
CEPT	Common Effective Preferential Tariff
COC	Code of Conduct
DOC	Declaration of Conduct
DVA	Domestic Value Added
Etc.	Etcetera, and so on
FDI	Foreign Direct Investment
FTA	Free Trade Area
FVA	Foreign Value Added
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GVC	Global Value Chain
M.	Million
PTA	Preferential Trading Agreement
RIA	Regional Integration Agreement
RTA	Regional Trade Agreement
RVC	Regional Value Chain
TAC	Treaty of Amity and Cooperation
TRIPS	Trade-Related Aspects of Intellectual Property Rights
US	Unites States

USD	United States Dollar
WTO	World Trade Organization
ZOPFAN	Zone of Peace, Freedom and Neutrality

1. Introduction

Association of Southeast Asian Nations (ASEAN) was established on 8th August 1967, after the end of World War II era. The founding countries were Thailand, Malaysia, Indonesia, Singapore and the Philippines. First new member to join the association was Brunei in 1994, followed by Vietnam in 1995, Laos and Myanmar in 1997 and Cambodia as the last one in 1999. The formation of ASEAN took place during the period of “Cold War” and the initial reason for its establishment was to suppress the spread of Communism and to distant the region from the fights between the two main world powers and their fights of ideologies, which were United States and the Soviet Union. Furthermore, there were another factors which led to creation of ASEAN, such as long lasting conflicts within the territory, which called for political consolidation and a level of cooperation. Therefore, the initial purpose of ASEAN was to establish a political peace within the region.

But with the time, economic cooperation has become an important part of the association and connected to this many different agreements followed, although not all of them were successful. Preferential Trading Agreement (PTA) signed during the first Summit in Bali in 1976 was the first attempt towards economic cooperation. Nevertheless, this first attempt was not very successful, as only less than 5% of the goods traded inside of ASEAN was included in the agreement. During 1980s more initiatives towards economic cooperation followed, such as “ASEAN Industrial Projects” (AIP), “ASEAN Industrial Complementation” (AIC) and “ASEAN Industrial Joint Venture” (AIJV), but none of these agreements caused a high improvement in the economic cooperation. In 1992 during a summit, the representatives of the member countries agreed on ASEAN market integration through “ASEAN Free Trade Area” (AFTA). The goal of this agreement was to integrate ASEAN as a single market and transform it into a region with a base of production and therefore increase its competitive advantage. This significantly decreased the trade barriers inside of ASEAN. Nevertheless, it was followed by further initiatives in the area of economic integration and towards the development of the region. An example of such initiatives is “ASEAN Investment Area” (AIA), which aims on increasing the level of Foreign Direct Investment. During the 9th Bali Summit in 2003, the member states also decided to create “ASEAN Economic Community” (AEC) by the year 2015.

ASEAN is nowadays one of the three largest regional economic integrations in the world. Since 2002 it also shows initiatives toward trade liberalization with China by establishment of different Free Trade Agreements. Since that the trade between ASEAN and China was rapidly increasing, with some fluctuations caused by different factors. Nevertheless, the overall trend is increasing. Many authors argue there might be still a great potential of trade development between ASEAN and China and this thesis concentrates on analyzing them.

2. Methodology and Objectives

2.1. Objectives

This thesis deals with the theory of economic integration, concretely then the economic integration of ASEAN. First of all, the aim of the thesis is to provide an understanding of the theory of economic integration and its degrees and to provide a clear overview of the economic integration of ASEAN, its establishment and development. Next to providing the overview, the second and main aim of the thesis is to analyze the foreign trade between ASEAN and China. The goal is to determine how the foreign trade will develop in the future, between ASEAN and China as well as between individual chosen members of ASEAN and China.

2.2. Methodology

In this thesis, the descriptive and comparative methods of research and investigation has been used.

In the theoretical part, the author has aimed on understanding of the establishment and historical development of the economic integration of ASEAN. The author has used available publications by different experts in the given area as well as articles and information published by ASEAN Organization. The author has also used other resources, such as internet sources.

In the practical part, the author has focused on the foreign trade between ASEAN as an economic integration and China. Firstly, the author has analyzed the current situation of the foreign trade between ASEAN and China and then based on this data the author has created a prediction of the future structure and development. Trend analysis served as the main tool used in the practical part and the author used it to predict the future development of the trade between ASEAN and China.

3. Theoretical Part

3.1. Economic Integration

Economic integration is related to decreasing investment and trade barriers between different countries and overall liberalization of their economic policy. This leads to augmentation in movement of goods and other factors across countries overpassing their national boundaries and leading the world to close integration. It is also important to mention the trend of RIAs – Regional Integration Arrangements whose establishment increased especially in the 1990s. It is an economic integration between countries which are situated in a particular region. Both ways provide the given country two levels of integration with areas out of its borders. In the first case it provides unrestricted integration with other parts of the world and in the second case we talk about a restricted integration with the given countries which are part of the economic integration agreement.

The theory of integration started to spread in the 1950s. In that time, it was mostly related to customs' unions, but with the time it got beyond it. The following chapter is dedicated to description of the different degrees of economic integration. (Balassa, 2013)

3.1.1 Degrees of Economic Integration

3.1.1.1 Free trade area

In the area included in the zone of free trade all tariffs and other types of restrictions on trade are eliminated. Nevertheless, this regulation does not include other countries, with which one of the member states of the free trade area trades individually. This means, that goods from the member states of this zone is deprived of the duty obligation, while in the case of import from other countries the member countries continue following their customs tariffs. This is achieved by labeling the goods imported from non-member countries with information about its origin. (Balassa, 2013)

3.1.1.2 Customs union

According to Balassa in his book “The Theory of Economic Integration” (2013) customs' union represents one of the most basic types of economic integration. To consider the economic integration as a custom union, following conditions must be met: between the

countries participating in the custom union, all tariffs and other types of restrictions on trade must be eliminated; and there must be created united tariffs and other types of restrictions on foreign trade between all the participating countries and other countries. (Balassa, 2013)

3.1.1.3 Common market

Common market is another level of the economic integration. If the common market agreement is in place, it means that not only the products can move freely through the members of the union, but the free movement also applies to the factors of production, thus the capital and the labor. All the inhabitants of the member countries can move freely through the union, which also includes the possibility of permanently residing or working in one of the member countries. Common market gives the possibility to allocate investments more effectively therefore it supports the economic growth and employment thus it leads to positive influence on the macroeconomic factors of the member countries. This degree of integration is also connected with the deepening of the free movement of products. (Balassa, 2013)

As an example of common market we can state the Caribbean Community (CARICOM) which exists since 1973. (Griffith, 2002)

3.1.1.4 Economic union

In the economic union, we can find all the advantages of previously explained degrees of economic integration, but it extends the integration in other areas. Beside the existence of the free movement of products, services, labor and capital between the member states, the members also promise to collaborate in other political areas, such as tax area. In the relationship towards third party countries, not only the common politics of commerce is applied, but also other economic politics. All the economic activities are interconnected, mutually integrated and coordinated. (Balassa, 2013)

3.1.154 Monetary Union

Economic and monetary union is considered to represent the highest degree of economic integration besides the political union. All of the economic activities are interconnected, mutually integrated and coordinated and the member countries are also obligated to create such a system that would make the system of fixed exchange rates and full convertibility of currencies possible. The member countries can also make the decision to exchange their national currency for a common currency with the other member states of the economic integration. This common currency is coordinated by the common central bank. This level of integration requires coordination of the monetary politics, common budget and at least partial harmonization of the tax system. (Balassa, 2013)

3.1.1.6 Political union

Political union is considered a formal fulfillment and sort of a development of the process of economic integration. Economic and political integration interact. In this degree of integration, the collaboration moves from the common economic politics also towards the area of foreign, security, defense and internal politics. The political union can have two main forms, as a federation or as a confederation. As examples of such a form of integration, we can state the Bosnia and Herzegovina political union, existing since 1995, the United Arab Emirates since 1971 or The United States of America, which first cooperated as a confederal union under the Articles of Confederation from 1781 and later became a federal union under the United States Constitution in 1788. (Balassa, 2013)

3.1.2 Advantages of Economic Integration

There are different explanations of economic integration. It is possible to find the same concept in some definitions provided by different authors, but the way they look at the objectives of establishing economic integration tends to differ, which is the result of the different area they focus on.

One of the most common objective we can find in the different theories is establishing economic integration is to drive the economic growth of the participatory countries. (Ravenhill, 2007, Okabe and Urata, 2013, Molle, 2006, Gauangsheng, 2006).

Okabe and Urata state in their paper that the creation of ASEAN was driven under three objectives. The most important one was to drive the growth of output and efficiency of production in the member states by rising the amount of import and export. (Okabe and Urata, 2013)

Guansheong argues that “many countries around the world feel the need to participate in a regional economic integration (very small countries included), which provides a proof that even though participating in an economic integration is not inevitable basis for economic success of a country, but it does not mean that the countries who have reached success before participating in an economic integration are always likely to achieve a bigger success after becoming a member of one. (Guangsheong, 2006)

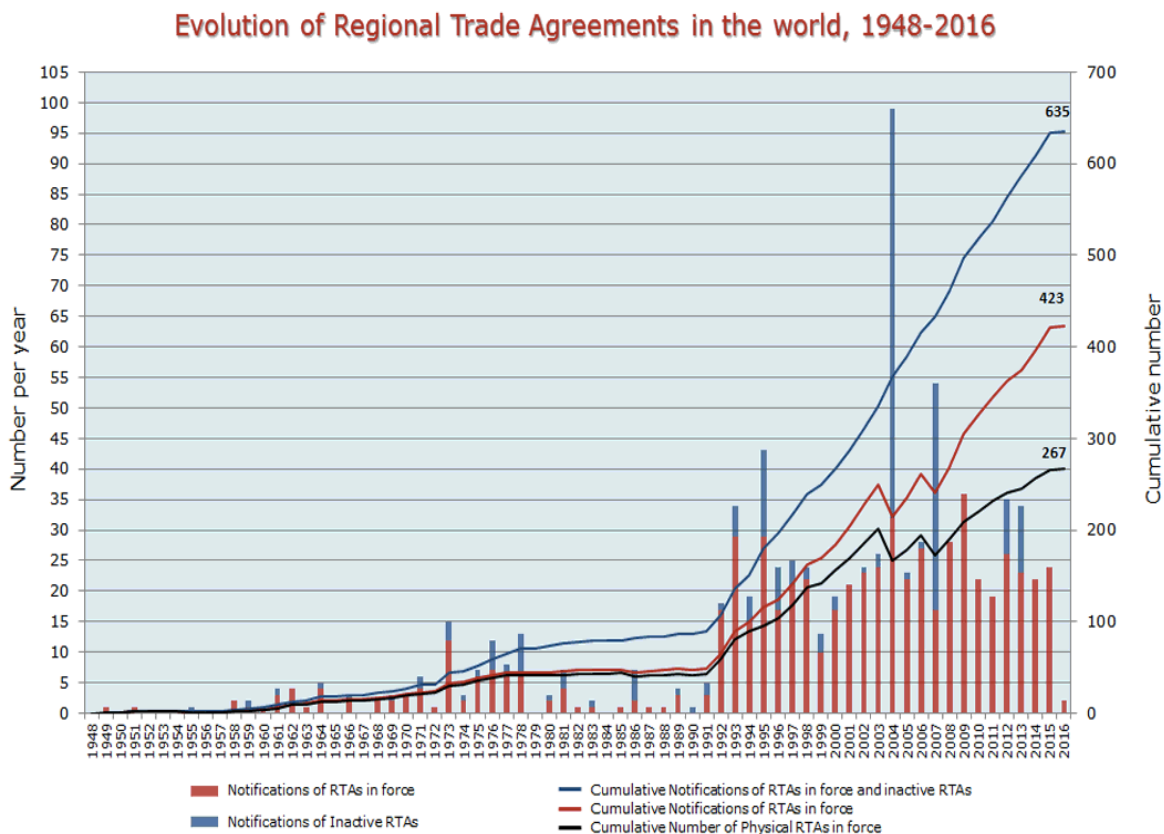
Furthermore, next to gaining an economic growth, Molle, an economist who mostly concentrated on the study of the Economic Integration of Europe, states that there are three other key purposes of an economic integration. According to him, the economic integration aims to “accelerate the economic growth and other development of the participatory states, to achieve economic prosperity which will lead to regional peace and overall security, to encourage the establishment of democracy in the particular states and to inspire the participatory states to concentrate on developing human rights. He sees the objectives of the economic integration as a whole of political, economic and also social goals. (Molle, 2006)

Some of the regional economic integrations are also created in order to prevent the increasing threats that can be presented by regional or even global forces. Okabe and Urata in their research paper, which is constructed as a case study based on ASEAN economic integration, state that one of the motives for establishment of the economic cooperation between the ASEAN member countries was the fear that their domestic product will get devaluated in the global market as a result of the creation of FTA or RTA. Even bigger thread for member states of ASEAN is represented by the rise of Chinese market which could negatively influence the export as well as the flow of FDI. This was one of the reasons that drove the south-east Asian countries into integration and creation of one production platform and a single market to overcome these threads. (Okabe and Urata, 2013)

3.1.3 New Regionalism

In the beginning of the 90's of the 20th century a huge shift took place in the understanding of the regional integration. Already existing integrations continued deepening their collaboration and the establishment of new regional integrations took place. In the graph No. 1 we can see the development of the number of registered regional agreements by World Trade Organization. It demonstrates that since the 90's of the last century the number of established regional integrations has been dramatically increasing. Newly established regional integrations helped the dynamic increase of international trade and the increase in international trade then led to the need to establish new trade agreements.

Graph No. 1 - Development of RTA's



Source: WTO. RTA Database. 2016

The main contribution of the increase of the number of registered RTA's is the development of trade. By this the global trade gets closer to the multilateral liberalization,

whose next development is not clear in the view of WTO, because of the lengthening of the multisided trade negotiations and also because of the increasing reluctance of the members of WTO to consent about the main negotiated topics. It is safe to mention that this contribution with the increasing number of regional integrations gradually exceeds the diversion of the trade coming from their establishment, because the number of economies with closed integrational contracts with their main trade partners is increasing. Also, the number of established so-called North-South regional integrations, which include developed as well as developing countries, is continuously increasing. (MacLeod, G., 2001)

One of the main contributions for the developing countries is the achievement of a better access to markets of the developed countries and also gaining a higher number of direct foreign investments. Another motivation for the developing countries to integrate with the developed economies lies with the fear of the loss of competitiveness on the markets of the developed countries in the relation of other developing countries in case those countries obtain a preferential customs conditions. Last but not least the developing countries also feel the frustration from the slow progress of multilateral liberalization in the framework of WTO. (Morales, R. and Quandt, C., 1992)

The North-South liberalization nevertheless means a lot of risks for the developing countries. The main negative point is especially the liberalization of the industrial sector, because the domestic producers tend to be put in the foreign competition, which they are not able to compete with in the given degree of economic development. Another risk is the loss of the control over the direct foreign investments or the difficulties to achieve the technical and phytosanitary standards and rules of origin on the markets of the developed countries. (Morales, R. and Quandt, C., 1992)

Besides the general quantitative and qualitative changes, new regionalism is also accompanied by formal changes. Since the year 2000 regional integrations which exceed the boundaries of the region have emerged, as well as in qualitative form (the existing integrations are deepening their collaboration), but especially in quantitative form (new integrational cooperations are established and the existing integrations are growing by new members). Transregional integrations are a consequence of the need to effectively use the resources in the global scale and from the point of view of the character of its members we

can divide it into three basic forms of transregional agreements (Gilson, J. and Hwee, Y.L., 2004):

- Agreements between two regional integrations (Interregionalism)
- Bi-regional and transregional agreements between individual countries
- Hybrid agreements, such as between regional integration and one country

Interregionalism stands for an agreement between two regional integrations and it is the oldest form of trans regionalism. Its origin goes back to 70's of the 20th century and it is characterized by more or less regular meetings of the representatives of the integrations, during which the exchange of information and establishment of collaborations mainly on the economic area takes place. There are no common institutions and both sides exclusively rely on their own institutional architecture. The dialog about economic cooperations in the integrations, whose part is the European Union, is usually widened by political attributes, such as the protection of human rights or democracy. (Hänggi, H., 2000, Rüländ, J., 2001)

Bi-regional and transregional agreements between individual countries represent a younger phenomenon in the international relationships and their establishment is connected to a new concept of the "Triad of Global Economy," which is the relationship between North America, Western Europe and East Asia. Bi-regional organizations include integrations of countries from two of the global regions. Transregional organizations integrate countries from three or more of the global regions. These agreements emerged as a consequence of the "Cold War" and the establishment of new regionalism. Last but not least one of the causes for the creation of these agreements was also the fast economic growth in many countries of South-East Asia. (Hänggi, H., 2000)

In the relation to usually higher number of members of bioregional and transregional agreements and from this resulting increase of agenda, these organizations create their own organizational structure such as for example the Secretariat for coordination of summits or implementation of closed contracts. Contrary to the case of interregionalistic agreements, the summits of bioregional and transregional integrations is usually attended by the highest representatives of the member countries. (Hänggi, H., 2000)

The third form of trans regionalism is represented by relationships between regional integrations and one country located in a different global region. In the case of a

dominance of the given country in the particular region (for example USA in the South-East Asia) these relationships can get close to interregionalistic agreement. The relationship between regional agreement and one country can also create an important component for future creation of bioregional and transregional integrational agreements. (Hänggi, H., 2000)

3.2 ASEAN

3.2.1 Establishment of the Economic Integration of ASEAN

Scheme No. 1 – Map of ASEAN



Source: ASEAN. Secretariat, 1997

The establishment of ASEAN is dated to August 8th 1967 by signing a document called the ASEAN Declaration. This document therefore gave the place to existence of the economic integration when it was signed by the representatives of the founding five countries in Bangkok, capital of Thailand. The five founding countries were Thailand, Malaysia, Indonesia, Singapore and Philippines. (Narine, S., 2008)

One of the reasons that lead to the establishment of ASEAN was related to the previous colonization of the area. During the Second World War the area was occupied by Japanese army. After the end of the Second World War with the leaving of the Japanese army, the

colonial powers tried to refresh the status quo in the area, but the inhabitants of the region started questioning their colonization after they did not protect them from the Japanese invasion. Therefore, that was a moment that laid down the path into the continuous process of decolonization of the individual countries. (Baker, A.P., 1996)

Table No. 1 - Declaration of Independence of the Member States of ASEAN

Country	Colonial Power	Declaration of Independence
Vietnam	France	1945
Indonesia	Netherlands	1945
Philippines	United States of America	1946
Myanmar	Great Britain	1948
Laos	France	1949
Cambodia	France	1953
Malaysia	Great Britain	1957
Singapore	Malaysia	1965
Brunei	Great Britain	1984

Own processing, source: Baker, A.P., 1996

In the table No. 1 above we can see the overview of the Declaration of Independence of the member countries of ASEAN in the chronological order. We can also see by which colonial power each state was colonized. Thailand is not included in the table, because it was never colonized. Philippines declared independence in 1946, but it is needed to mention that it also declared independence in 1946, when they got out of the power of Spain. Nevertheless, later on they became an US colony and its real independence was declared in 1946. Brunei was the last to declare independence. It was connected to the discovery of petroleum fields on its territory which led to Brunei preferring conservation of its dependence on Great Britain. Most of the member states declared their independence between the end of the Second World War and the year 1957. Some of them reached the independence based on peaceful negotiations, such as in the case of Malaysia, but some of them needed to fight for it, such as Indonesia. Another process was in the case of the new members of ASEAN (Cambodia, Myanmar, Laos and Vietnam), where the communistic regime got into power after the independence and their stabilization was a process of many

years. Connected to this, it is also necessary to mention that in the moment of the establishment of ASEAN, neither of the founder countries were stabilized. (Baker, A.P., 1996)

The new independent countries began to develop ties with neighbor states and create diplomatic relations. The successfully looking economic integration in Europe gave them motivation and decision to continue further in their mutual collaboration. Their motivation can be seen in the creation of some collaborations such as Association of Southeast Asia (1961) between Philippines, Malaysia and Thailand or Asian and Pacific Council (1966). Nevertheless, neither of these organizations lasted for long. Later on Thailand proposed to the initial members of Association of Southeast Asia to create a new regional integration. All the members agreed and also Singapore asked to become a member of the organization and in 1967 the ASEAN Declaration was signed between these five countries. (Narine, S., 2008)

3.2.2 The motivation of the founder countries

The integration of ASEAN had different goals, which were described in the ASEAN Declaration (or also so-called Bangkok Declaration) which was created in the year 1961 and, as stated above, accepted in the year 1967.

The goals of the Declaration were the following (Declaration, A.S.E.A.N., 1967):

- To accelerate the economic growth, social progress and cultural development of the region and to achieve this by creating a cooperation based on equality and partnership with the aim of strengthening the basis for prospering and peace of the nations of South-East Asia.
- To support peace and stability in the area with the respect towards justice, rules and following the law in the mutual relationships between the member countries, with consideration of the norms of the Charter of the United Nations.
- To support active collaboration and mutual help in the economic, social, cultural, technical, scientific and administrative areas.
- To ensure help to any member when forming educational and research institutions.

- To collaborate more intensively in the areas of agriculture, industry and commerce, enhancement of transport and increasing the standard of life of the inhabitants.
- To propagate studies about South-East Asia.
- To keep close and beneficial business cooperation with existing international and regional organizations with similar goals and to support their mutual cooperation.

In the beginnings of the organization the goals were mainly economic, the only mentioning about the safety of the region was the support of peace and stability in the region with the consideration of justice, rules and following the law in the mutual relationships between the member countries, with consideration of the norms of the Charter of the United Nations. Nevertheless, the Declaration did not appeal to the countries to acceptance of common political attitudes. The founders of ASEAN did not want ASEAN to be seen as a military group between political allies. There was still mutual suspiciousness present, the member states were overcoming isolation continuously, they were learning a mutual trust and they were recovering from the wild conflicts of previous years. Nevertheless, it is safe to say that not only economical, but social, political and security reasons were reasons for the establishment of ASEAN.

3.2.3 Bali Summit in 1976

Until the middle of the 70's of the past century ASEAN was based on politics of discussions and exchanging of opinions, no significant actions had taken place and economical results were only modest. Nevertheless, the political and economic situation in the middle of the 70's called for action. In the year 1973, the world has lived its first gasoline shock, the price of gasoline was increasing and it led to slower economic growth of developed countries, which as a result of recession were inclining towards protectionism. Taxes, quotes and non-tariff barriers were keeping economies of ASEAN from politics towards export, which drove the members of ASEAN into common advancement towards developed economies and into closer economic cooperation between them. The Summit which took place 24th February 1976 in Bali is considered a historical milestone in the development of ASEAN. During this summit, three documents were accepted: "Treaty of Amity and Cooperation," "Declaration of ASEAN Concord" and the contract of establishment of "ASEAN Secretariat." (Frost, F., 1990)

TAC determined basic principles of resolution of mutual relationships between members and their collaboration (Frost, F., 1990):

- Mutual respect for independence, sovereignty, equality, territorial integration and national identity of all nations.
- The right of all countries for national existence without external forces, subversion and enforcement.
- Non-interference in internal matters of other members.
- Peaceful resolution of conflicts.
- Renouncement of threats or using force.
- Effective collaboration between the members.

Active collaboration was connected with economic, social, technical, scientific, administrative and political areas. The member states wanted to increase economic liberalization inside of the region and to enhance relationships with the main trade partners of ASEAN. The document of TAC also included the statement that political and security dialogs and collaborations should be oriented to support of peace in the region and to stability.

In the Declaration of ASEAN Concord, which also adjusts the institutional structure of ASEAN, two important goals were added (Funston, J., 1999):

- Elimination of poverty, hunger, diseases and illiteracy. This became the main goal of ASEAN since the year 1976.

The increase of number of inhabitants, especially lower class, brings a reproductions of poverty, which comes from insufficient material resources, especially income. It means insufficient possibilities to be well fed, clothed, educated, have a healthy and creative life, live dignity, freedom and rights. (Watts, H.W., 1968)

Table No. 2 – Inhabitants living in poverty in the 70’s

Country	Timeframe	% of inhabitants living in poverty			% of inhabitants living in poverty in 1985
		Countryside	Cities	Total	
Indonesia	1976-79	51	28	47	39
Malaysia	1974-78	46	16	37	28
Philippines	1974-78	44	39	42	52
Thailand	1975-76	34	15	31	31

Source: Dixon, C., 1991, p. 210

In the Table No. 2 we can see that in the 70’s there was a high percentage of inhabitants living in poverty in the countryside., where also the population was increasing fast. Generally, regions or countries with a high level of poverty lack quality services in healthcare and education. Low soil production, labor, insufficient soil and always worse and worse state of natural resources then leads to urban migration. Low level of life living country-people without a qualification arrive to urban areas to do a non-qualified work with low wages. Younger generations also leave their home in the countryside to seek work in the urban areas. In most of the Asian countries, urbanization preceded industrialization and economic growth, therefore the population struggled with insufficient work possibilities, bad living conditions and other basic necessities. Generally, it is believed that the difference between urban areas and countryside is very big even nowadays and that the economic, social and other development only deepens this differences. (Dixon, C., 1991)

- Another priority goal stated in the Declaration is to achieve the stability of all the member countries as the fundamental factor of international peace and security, therefore the countries agreed to decrease the threats of revolutions and threatening the internal stability. The countries will strengthen flexibility and speed of reaction such as on national level, as well as on the level of the whole organization. (Watts, H.W., 1968)

“ZOPFAN” (“Zone of Peace, Freedom and Neutrality”) was supposed to serve as a device to guarantee the stability. It was a declaration signed by ministers of foreign affairs of all the member countries of ASEAN in the year 1971, where it was stated

that the member states are decided to make the necessary effort to ensure recognition and respect for South-East Asia as a zone of peace, freedom and neutrality and freed from any form of intervention of external forces. ZOPFAN accepts the law of all the countries and existence of the nation without external intervention into the internal matters, because such intervention would threaten its freedom, independence and inviolability. ZOPFAN was meant to minimize rivalry, competition, dominance and exploitation from the side of world powers. (Hanggi, H., 1991)

3.2.4 AFTA

The members of ASEAN have met during the Summit in Singapore in the January of 1992 and they committed to create an ASEAN Free Trade Area (AFTA) until the year 2007. The main mechanism of AFTA was the “Common Effective Preferential Tariff” (CEPT), whose goal was to establish a common tariff rate 0-5% for products originating in ASEAN countries until the year 2003 (with the exception of Vietnam – until the year 2006, Laos and Myanmar – until the year 2008 and Cambodia – until the year 2010). The member countries had the right to exclude some particular products from the process of decreasing the tariff levels. Those were temporary exceptions (including the products, whose tariff was going to be decreased to 0-5% with a temporary delay), delicate agricultural products (for example rice, the final year of including it into the mechanism of CEPT was the year 2010) and other exceptions (such as products, which can be excluded from the process of decreasing of tariffs from national security reasons, public moral, protection of life and health of people, animals and flora or protection of artistic, historical or archeologically valued products. (Fukase, E. and Martin, W., 2001)

For products not included in CEPT, it was possible to apply “Preferential Trading Agreement” (PTA) accepted by the member countries in the year 1977 with the goal of strengthening of intraregional trade. PTA provides a lower tariff for import of products originating in ASEAN member countries in the comparison with a tariff for the same product imported from a country outside of ASEAN. In the 90’s

Asian countries established an economic strategy oriented on export. It was needed to integrate more the regional market, which would attract foreign investors and that would lead to creation of new work positions, decrease of unemployment and increase in the life standard. Eliminations of tariffs and non-tariff barriers was supposed to support economic performance, productivity and competitiveness. The agreement of AFTA appealed for decrease of tariffs for trade inside of ASEAN to 0-5%, elimination of all other non-tariff barriers and of quantitative restrictions. Furthermore, the plan was to conduct a harmonization of tariff nomenclature (until the year 2002), a manner of establishing tariff value of products according to the WTO agreement (until the year 2002) and creation of common standards of certification. Elimination of tariff barriers was conducted in eleven priority sectors: wood products, automobile industry, natural rubber, textile, agriculture, fishery, electronics, IT, healthcare, aero travelling and tourism. The leading representatives of ASEAN agreed to eliminate the tariffs until the year 2007 for older and more mature members of ASEAN: Brunei, Indonesia, Laos, Myanmar, Philippines, Singapore and Thailand. The new members, Cambodia, Laos, Myanmar and Vietnam were planned to conduct the elimination of tariffs until the year 2012. (Fukase, E. and Martin, W., 2001)

3.2.5 ASEAN Vision 2020

In the December of 1997, couple months after the start of Asian crisis, the member countries have published the “ASEAN Vision 2020,” which aims to reach a maximum liberalization of economic aspects. Some of the mention goals were the following (Guerrero, R.B., 2008):

- Sustaining the regional macroeconomic and financial stability by supporting the deepening of cooperations about macroeconomic and financial politics.
- Expanding economic integration and collaboration as a consequence of full participation in the AFTA, liberalization of trade with products, establishing “ASEAN Investment Area” (AIA) until the year 2010 and free movement of investments until the year 2020.

- Supporting modern and competitive small and medium size enterprises, which could bring industrial development and increase the productivity of the region.
- Supporting liberalization of financial sector and deepening of collaboration on monetary and capital market.
- Speeding up the development of science and technology including IT by establishing regional IT web and center with an excellent expansion and easy and fast access to data and information.
- Supporting cooperation in energetic economy and in maintaining of natural resources (natural gas, gasoline, water), including support of use of new and renewable energy sources. Furthermore, ensuring effective management of food and raw materials.
- Improve alimentary security and international competitiveness of alimentary, agriculture and forestall products, to introduce ASEAN as a leading producer of these products and to support forestry.
- Improve infrastructure and communication by developing the transport net.
- Improve human factor by quality education, training, improvement of abilities and skills.

The events in the region led to a closer collaboration between the member countries, which would speed up the establishment of a big and integrated market, which would attract foreign investments. The economic integration does not need only the liberalization of trade and investments, also a better interconnections of national telecommunications in order to exchange data and information effectively and to develop transport net, which is composed by the main highway (international highway), train net, ports and lines for maritime transport, international river transport and civil aviation lines. Quality logistic ways would make the transport of products easier.

3.3. The Development and Trends of the Business Relationships

In the terms of the trends of the development of business relations, the most influential factor is the continuous globalization, although this is not in any case a new trend. Scholte (2005) defines globalization as “increased movements between countries in terms of

money, investments, human capital, messages, ideas, diseases, pollutants, etc. “ It is connected to the continuous process of enlargement of interconnections between mutual economical relationships and activities, which as a result leads to increasing mutual dependence of the countries. Globalization is reflected in the increase of the inter-country movements of products, services, capital and people. Many authors mention the technological evolvement as one of the most important factors, which allowed the globalization. In the past decades it was mainly the development of transport and the development of information and communication technologies, which let to the process of globalization. Nevertheless, it is not the only condition for the globalization, the continuous deregulation and the establishment of a new type of business units (transnational corporations) were also factors, which contributed to the process of globalization. (Levitt, 1993)

The continuous deregulation is connected on one side with the “General Agreement on Tariffs and Trade” which came into force in 1948 and which was built on the principles of multilateralism and reciprocity in the process of decreasing of business barriers. This agreement is still in force in the framework of the World Trade Organization, which was established in the year 1995 and since July 2016 it has 164 members. (WTO, 2016) Besides GATT, there are another agreements on this topic, such as “General Agreement on Trade in Services” (GATS) and “The Agreement on Trade-Related Aspects of Intellectual Property Rights” (TRIPS). As the achievement of consensus is very complicated related to the high number of members, individual countries have decided to go through an alternative way – establishments of regional agreements. (Cihelkova, 2004)

The political and economical approximation of at least two different countries creates the basis of regionalism, which can have many different forms. Its spectrum varies from less deep forms, such as regional forums or free trade areas to much deeper forms, such as common market and economical and political union. The main goal is to drive economical growth as a consequence of obtaining a preferential access to other markets. Therefore, based on the principles of multilateralism propagated by WTO, it is an example of violating the rules of anti-discrimination. WTO enables the establishment of regional agreements by granting exemptions. All the regional agreements established by members

of WTO have to be registered and they have to follow the rules established by this organization. The main point is to avoid the possible increase of business barriers in the relation to other members of the organization, which are not included in the given regional agreement. Even though there are some concerns about the fragmentation of the global economy as a consequence of expansion of regionalism, nowadays this phenomenon rather contributes to economical liberalization and global economical interconnection. (Cihelkova, 2004)

The regional agreements are nowadays not limited only to trade with products, but more and more often they include also services and they usually cover a complex spectrum of measures related to the protection of intellectual property, investments, economic competitions, movements of capital and regional cooperations, even in the case of North-South and South-South integrations. The amount of South-South integrations noted an increase after the year 2000, especially in the case of bilateral agreements. One of the examples is Chile, which took the way of establishing bilateral agreements through different continents, with developing economies such as China, Malaysia or Vietnam, as well as with developed countries such as Australia, USA, Japan and EU as a regional cluster. (RTA Database, WTO, 2016)

Another strong trend is nowadays the establishments of “Global Value Chains” (GVC). The term GVC includes all the activities and processes from the stage of the development of the concept, through individual stages of production to the delivery of the final product to the consumer. Therefore it also includes many other related services in the areas such as logistics, marketing and sales. The effective functioning of this complicated fragmentation of production is a consequence of the development of technologies and deregulation of business relationships. (Abe, 2016)

GVS's represents a better understanding of the contemporary business relationships, which are hard to comprehend in the terms of observation of international movements of products. It is very common for the GVC's to be coordinated by transnational corporations. According to some statistics, GVC's coordinated by transnational corporations create about 80% of the global trade. (Neilson, Pritchard, Yeung, 2014) Usually we talk about

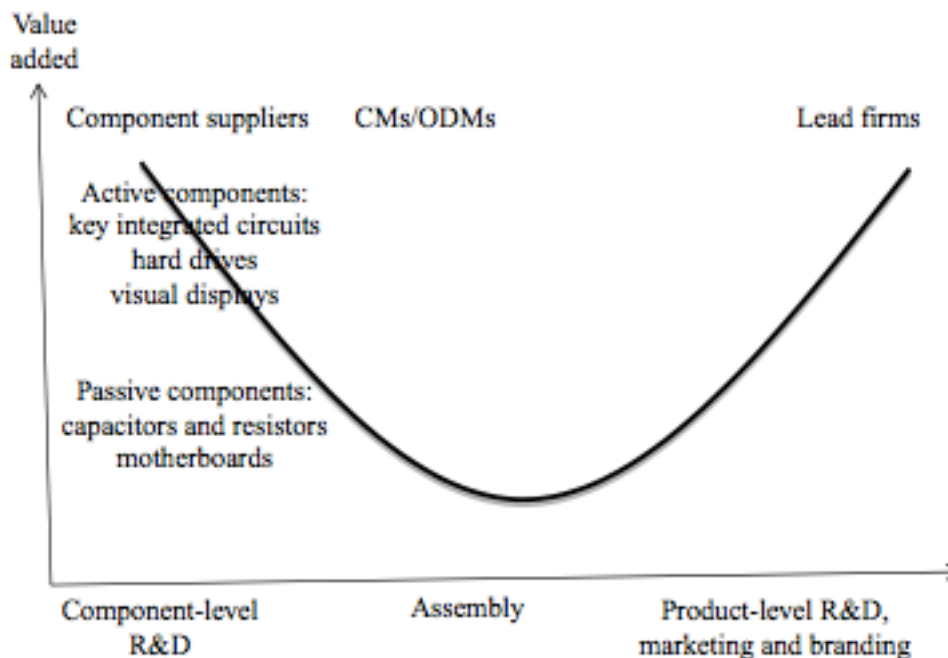
two types of production chains depending on how the control in the given chain works. Therefore, there is the “producer-driven” and “buyer-driven” chain. The “producer-driven” type is connected with transnational corporations, which take care of the necessary research and development in the area of technologies and they control each step of the production, which is divided in different countries. The “buyer-driven” type is controlled by retailers, who concentrate mainly on marketing, the production itself can be completely outsourced. (Gereffi, 2001)

Many countries nowadays show a high share of a concrete category of products, both in their import as well as in their export. This is a consequence of the inclusion into GVC's. Particular inter-products are imported to the given economy and they are meant to other processing and following export to another country, where another stage of production takes place or, in case it is already a final product, it travels to the consumer. The observation of statistics representing the simple movement of products therefore leads to the mistake when some products are included multiple times. Also, this measurement does not respect the level on which the given country truly contributed to the increase of added value of product. (Strugeon and Gereffi, 2009)

The measurement of mutual trade through GVC's on the other hand allows the recognition of the real source of value added according to individual countries and industries. It therefore underlines their mutual dependency. These statistics provide the division of value added of export of individual countries according to the origin. It is the “Domestic Value Added” (DVA), which is composed by three components. First, there is the value added of products and services, which are exported only to one another country and they are not moved through borders more. The second component is the domestic value added of products or services, which are exported country which exports them further, it therefore marks the degree of involvement into GVC's of the given country. The last component is the domestic value added, which is reimported to the given country and it becomes again a component of its export. The “Foreign Value Added” (FVA) on the other hand marks the value added of entrances used in the production of products of services, which is included in the export, but it does not origin in the given economy. (Albanese and Iabichino, 2013)

As stated above, every step of the production brings a specific part of value added into the production, the division of this value is nevertheless very unbalanced, as illustrated by the “Smile Curve”, as we can see in the Graph No. 2. The activities with the highest value added are located in the beginning of the process (research and development) and in the end of the process (marketing and sales). On the other hand, the production itself represents only a small fraction of the final value of the product. Nevertheless, it is mostly those activities included in the production itself, which are moved to a foreign country, which is usually motivated by lower costs (for example wages). Therefore, it is very important in which stage of production the given country is located. If the country takes care only about the activities with a low value added, the high involvement into GVC’s does not necessarily have to bring it a balanced economic growth. There is a risk that these activities will be moved to less costly locations in the future, because in the original country they are not connected with any specific factor which would keep them there. (Balwin, 2012, Shin, N., Kraemer, K.L. and Dedrick, J., 2012)

Graph No. 2 – Smile Curve



Source: Shin, N., Kraemer, K.L. and Dedrick, J., 2012

The higher involvement into GVC's is normally connected with a high concentration of foreign investments, which come from the transnational corporations, which control the given production chain. Also, a significant fact is that there is a positive correlation between the involvement in the GVC's and the growth of GDP and employment. The involvement in GVC's can also lead to the transfer of new technologies, to the development of abilities and education of the local inhabitants and, if the character of the production chain allows, also to the involvement of the local companies and their development. Nevertheless, it is important for the given country to be able to increase the share of DVA and orientate to a more sophisticated processes, where it is necessary to have the support and acceptance by the adequate government measures. (Balwin, 2012, Shin, N., Kraemer, K.L. and Dedrick, J., 2012)

These measures should mainly concentrate on the important areas such as the education system, infrastructure building, investments rules, functioning of public administration, quality system of law and its enforcement. These efforts of course sometimes need the international coordination. One of the proofs for that is for example the above mentioned complexity of regional arrangements established in the past few years, absence of globally accepted and followed norms forced the countries to deal with these issues on the basis of the bilateral and regional arrangements. All the accepted measures should on one side support the development and the possibility to involve in the GVC's and on the other hand it also should protect the domestic economy from abuse. They should ensure a fair treatment of the local workforce and controlled stressing of the environment. (Fernandez-Stark, K., Bamber, P. and Gereffi, G., 2012)

As stated above, one of the evidences of the existence of GVC's is the high share of inter-products in the global trade. In the year 2012 the main exporters and importer of inter-products included EU, USA and Japan, whose shares has been nevertheless slightly decreasing. China was on the second place and its share has been continuously increasing as well as in the case of Brazil or India. Between the developing economies, on the highest levels we could also find Malaysia. When comparing the foreign value added of the exported products of those countries, the developing countries in general show its lower share, which indicates that in the relation to GVC's they are included in the processes of

higher value added. Brazil also shows a very low share of foreign value added; in this case it is nevertheless caused by its high representation of primary commodities in its export. (International Trade Statistics 2016. WTO, 2016)

The intensity of the international trade with products and services has been continuously increasing, nevertheless products still represent the main part of the global export, its value is almost four times higher compared to the services. Europe, North America and the countries of South, South-East and East Asia export mainly industrial products, countries of Middle East and Africa then export mainly products of mining industry. South America has in this area relatively more balanced structure, it exports mainly products of mining industry, but the export of agricultural products is also significant, where Brazil and Argentina are one of the most significant exporters in the world, and the export of industrial products. Globally, chemicals are one of the most important group of industrial products (around 11% on the global export of products), clerical and telecommunication equipment (almost 10%) and products of automobile industry (more than 7%). (International Trade Statistics 2016. WTO, 2016)

4. Practical Part

4.1. Analysis of ASEAN-China trade in the years 2003-2015

The dialog between ASEAN and China started already in the year 1991, when H.E. Qian Qinchun (the then Foreign Minister of the People's Republic of China) during an ASEAN meeting in Kuala Lumpur. He there presented the initiatives of collaboration with ASEAN for mutual development and growth. (Chirathivat, S., 2002)

The trade of products and services between ASEAN and China has noted a significant growth in the past years. This is primarily a consequence of the general agreement about the economic cooperation between ASEAN and China, which was signed in November 2002. This agreement also included a part where ASEAN and China expressed the will to reach a free trade area in the timeframe of 10 years. The specific goals of the agreement were (Gaur, 2003):

- To strengthen and increase economic and investment cooperation.
- To liberalize and propagate the trade of products and services and the creation of transparent and liberal regime of investments.
- To research new areas and implement such measures which would help to reach a closer economic cooperation.
- To integrate a new and more effective way of integrating new member states of ASEAN which would help to balance the difference in economic development

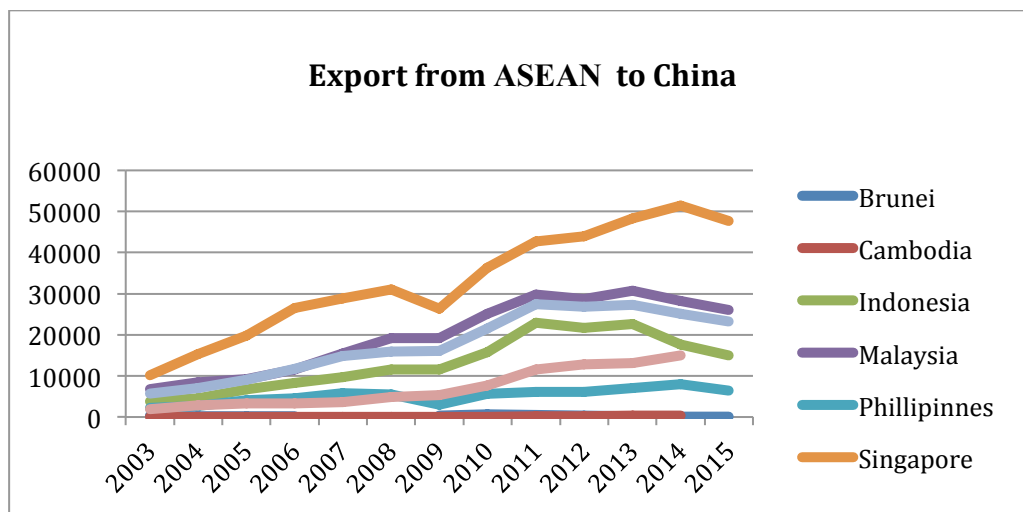
The agreement came into force in 2005. In the first two years it was only related to the trade of products, later on it also included agreement related to services. Nowadays, these agreements of free trade regulate especially following areas: “the decrease of amount of taxes, antidumping measures, resolution of conflicts, protection of intellectual property, rules of origin, protection measures, sanitary and phytosanitary measures and subventions and technical barriers in trade.” (Zhao, Malouche and Newfarmer, 2008)

The agreement of free trade between ASEAN and China primarily strengthens the commitment of both sides to follow the rules and regulations of WTO. It is a complex

agreement of a free trade, which is consistent to the current trend. For example, the agreement includes a prohibition of implementation of any other forms of quantitative restrictions than those approved by WTO. Both of the signed sides can implement measures restricting the import only in such case when the country has significant problems related to the deficit of current account or external financial problems. (Zhao, Malouche and Newfarmer, 2008)

4.1.1. Export from ASEAN to China between the years 2003-2015

Graph No. 3 – Export from ASEAN to China between the years 2003-2015 (in m. of USD)



Source: own illustration according to Trade Map, 2016.

Note: Laos and Myanmar are not included due to the unavailability of data.

In the graph No. 3 we can see the development of export of member countries of ASEAN to China between the years 2003 – 2015. During these years the amount of export has grown significantly. Especially between the years 2003 and 2013, when the amount of export has grown more than three times. In the year 2003 the member countries of ASEAN exported products to China in the total value of 30.7 m. USD, in the year 2013 in was more than 150 m. USD. The biggest growth in the export has been noted between the years 2005 – 2006. It was especially the consequence of the increase of export of electronic products from Singapore and the natural gas from Indonesia. Another significant growth took place between the years 2010 and 2011 after the crisis, when a growth of more than 25% has

been noted. This was after the year of the world crisis in 2009, during which the value of export has decreased by 7% compared to the previous year. After the crisis the values have grown again, but since the year 2013 a slight decrease has been noted again. (trade Map, 2016)

According to the statistical data, the most important exporter for China is Singapore, which represents over 30% of the import from ASEAN countries for China. This is connected to the fact that Singapore is a developed country and it also represents an important shipping point. Nevertheless, the relative share of the export of Singapore to China has decreased by almost 5% in 2015 compared to the year 2003. On the other hand, the relative share of export to China of Indonesia and Vietnam has increased. Moreover, the only country which has noted a loss in the total numbers was Brunei, especially in the years 2010 – 2013 when the value of its export has been continuously decreasing. This was caused by the decrease of the export of fuels, on which Brunei is partially dependent. Nevertheless, it is important to mention that in the years 2012 and 2013 the high percentage of export to China was formed by chemical industry. (Trade Map, 2016)

After Singapore, the most significant exporter has been Malaysia, with the value of export higher than 26 m. USD in the year 2015, which represented more than 21% of the total export from ASEAN to China. The next highest export positions were occupied by Thailand and Indonesia. Cambodia still represents only a very small portion in the structure of export from ASEAN to China. Its relative share was less than 0.5%, nevertheless it has noted the most dynamic increase in the analyzed timeframe. (Trade Map, 2016)

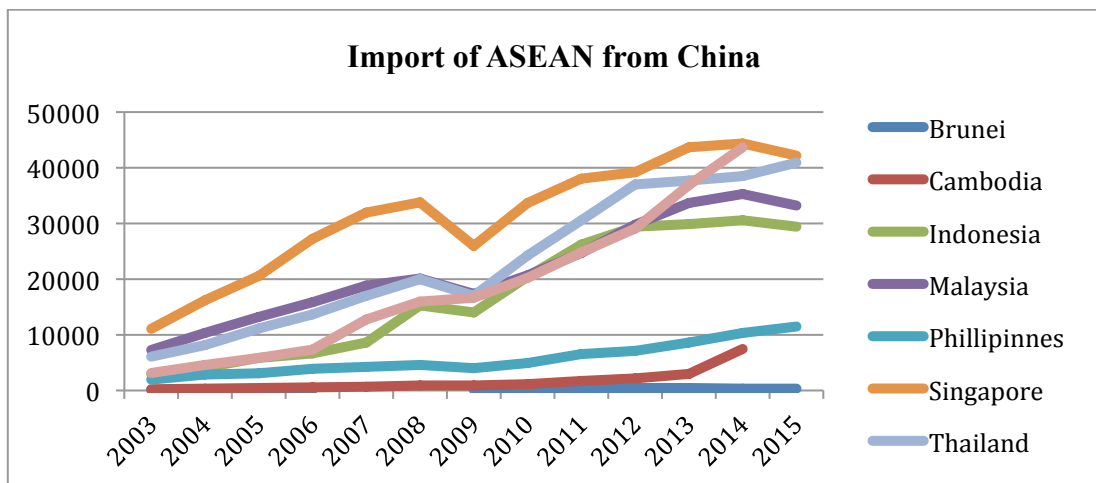
The industry products clearly dominate the structure of export of products from the member countries of ASEAN to China. In the year 2003 they represented more than 65% of the export, in the year 2015 it was less than 60%, their importance has therefore decreased slightly. Nevertheless, in the absolute numbers the export of industry products has been increasing, slight decrease has been noted only in the years 2007 and 2008. During the world crisis the export of industry products was stagnating followed by a dynamic increase took place in the year 2010, when its export has increased by 35%

compared to the previous year. 75% of all the export of industry products has been represented by products from the category “high-skill and technology-intensive” and 17% was created by products from the category “medium-skill and technology-intensive”, which is a positive result. Between the most significant groups of industry products were machines and means of transport (over 34% from the total value of export in the year 2015), then electrical products (over 22%) and chemical industry products (over 14%), whose importance has been even increased compared to the year 2003. On the other hand the importance of the products of petrochemical industry has been decreased. (Trade Map, 2016)

The export of primary commodities represented almost 40% from the total value of export of products, which was higher by 7% than in the year 2003. Moreover, from this value the export of fuels has represented almost 40%. In the years 2004 – 2009 the export of primary commodities has been increasing less dynamically in the comparison with industrial products and in the year 2009 there was even a decrease. This trend has nevertheless changed after the year 2010. (Trade Map, 2016)

4.1.2. Import of ASEAN from China between the years 2003-2015

Graph No. 4 – Import of ASEAN from China between the years 2003-2015 (in m. of USD)



Source: own illustration according to Trade Map, 2016

Note: Laos and Myanmar are not included due to the unavailability of data.

In the graph No. 4 we can see the import of products from China to individual member countries of ASEAN. In the comparison with the export of ASEAN, the imports from China has been increasing even more dynamically in the studied timeframe, especially in the period of the years 2012 – 2013, when the export of some member countries of ASEAN has been stagnating. Only in the years 2009 and 2015 the imports from China to ASEAN has noted a decrease with the comparison to the previous year. The value of Chinese import had increased from more 33 m. USD to more than 208 m. USD. Only in the period after the crisis in the years 2010 – 2011 the exports to China have been increasing faster than imports. All the member countries of ASEAN have a negative balance in the trade of products in relationship with China, except Singapore. Same as in the previous graph, we can see also here that according to the statistics Singapore is the most significant trade partner for China from the ASEAN member countries, even though its relative share on exports has increased by 12% to 21% in the studied period. (Trade Map, 2016)

The second most significant importer for China in the year 2015 was Vietnam, which represented over 20% of the import and its share has increased by 10% during the studied period. Only Laos has noted a faster increase, but it only represents 0,40% share on the total import. Moreover, other significant importers for China in 2015 were Thailand (18%), Malaysia (16%) and Indonesia (15%). (Trade Map, 2016)

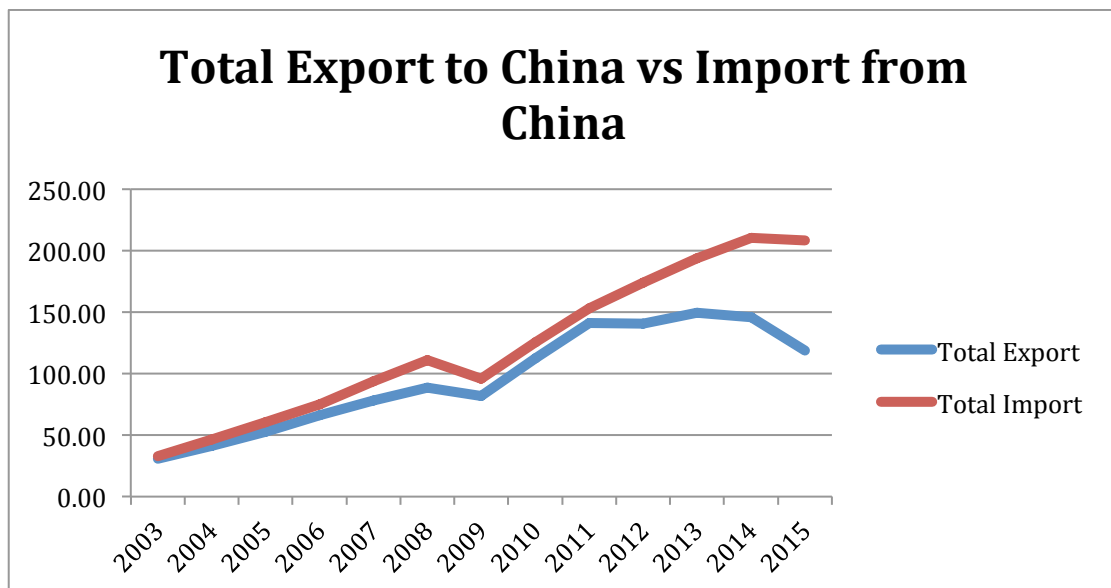
In the commodity structure of import from China, the industrial products have an important role. Their dominance in the structure is even more visible than in the structure of export from ASEAN to China. The industrial products represented more than 85% of the whole value of Chinese import, which was an increase by almost 2% in comparison with the data from the year 2003, which is an opposite phenomenon than in the case of export from ASEAN to China. From this number, products from “high-skill and technology-intensive” represented 30%, which was a notable decrease comparing to the year 2003 by more than 17%. Another 26% was represented by “labor-intensive and resource-intensive” products and the rest of 27% was represented by products from the category “medium-skill and technology-intensive”. Therefore, we can see that in the

comparison with the export from ASEAN to China, here the more labor demanding industrial products have a higher presence. (Trade Map, 2016)

Between some of the significant groups of products imported from China, we can find machines and transport means with a share of 39% from the total value of imported products from China in 2015, which was a relative decrease by 10% in comparison with the year 2003. Opposite development was seen in products of textile industry, which noted an increase of 4% from the year 2003 to 14% in the year 2015. (Trade Map, 2016)

4.1.3. Balance of trade between ASEAN and China between the years 2003-2015

Graph No. 5 - Balance of trade between ASEAN and China in the years 2003-2015 (in m. of USD)



Source: own illustration according to Trade Map, 2016

As we can see in the Graph No. 5, the balance of foreign trade between ASEAN and China has been decreasing in the monitored period. Both export and import have been increasing continuously, but we can see that import from China has increased notably more dynamically over the past 13 years. While the total value of export and import was almost equal in the first year of the monitored period in the year 2003 (30.7 millions of export and 32.7 millions of import) the difference in the year 2015 is much more significant (118 millions of export and 208.6 millions of import). Furthermore, the export has noted a

decrease in the past two years. From this data, we can conclude that the foreign trade between ASEAN and China has noted a dynamic development since the year 2003, but also the dependence of ASEAN on import from China has been deepened. The data also suggests that this situation will not change in the near future and is therefore a base for a calculating trend.

4.2. Estimations of Future Trade

The main goal of this thesis is to calculate the future foreign trade between ASEAN and China thus the balance of the future foreign trade. The current data available of the historical development of trade are used to create a trend analysis to calculate the future balance of foreign trade. The results can help to predict the future development of the trade and could be used to help to determine future changes in prices of some products.

To calculate the future trade between ASEAN and China, the author has used the trend analysis and for its correction the forecast function has been used. According to Investopedia (2016) *“a trend analysis is an aspect of technical analysis that tries to predict the future movement of a stock based on past data. Trend analysis is based on the idea that what has happened in the past gives traders an idea of what will happen in the future.”*

The available historical data has been used in order to calculate the future predictions for the years 2020,2025,2030,2035 and 2040. All the calculations have been done using the program “Microsoft Excel” (procedure “Add Trend line”) and then the equation $y=mx+b$ has been used. Furthermore, in order to analyze which line matches the point the best, the author has used the least square method. The R-square ranges between 0 and 1 and the closer to 1 it is located, the better it matches the data.

All results from these calculations are shown in the chapter No. 5 Results and Discussion.

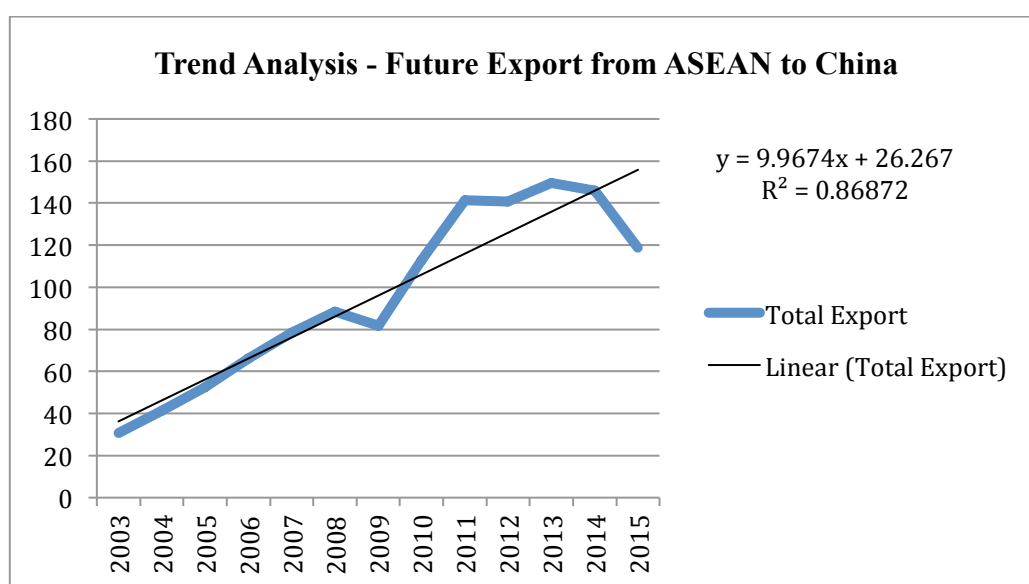
4.2.1 Estimation of total trade between ASEAN and China

**Table No. 3 - Total Trade between ASEAN and China between the years 2003-2015
(in m. of USD)**

	Total Export to China	Total Import from China
2003	30.73	32.74
2004	41.34	46.65
2005	52.42	60.24
2006	66.31	75.27
2007	78.32	93.99
2008	88.44	110.80
2009	81.78	96.04
2010	112.76	125.60
2011	141.23	152.94
2012	140.74	173.98
2013	149.62	193.89
2014	145.83	210.61
2015	118.96	208.58

Source: Trade Map, 2016

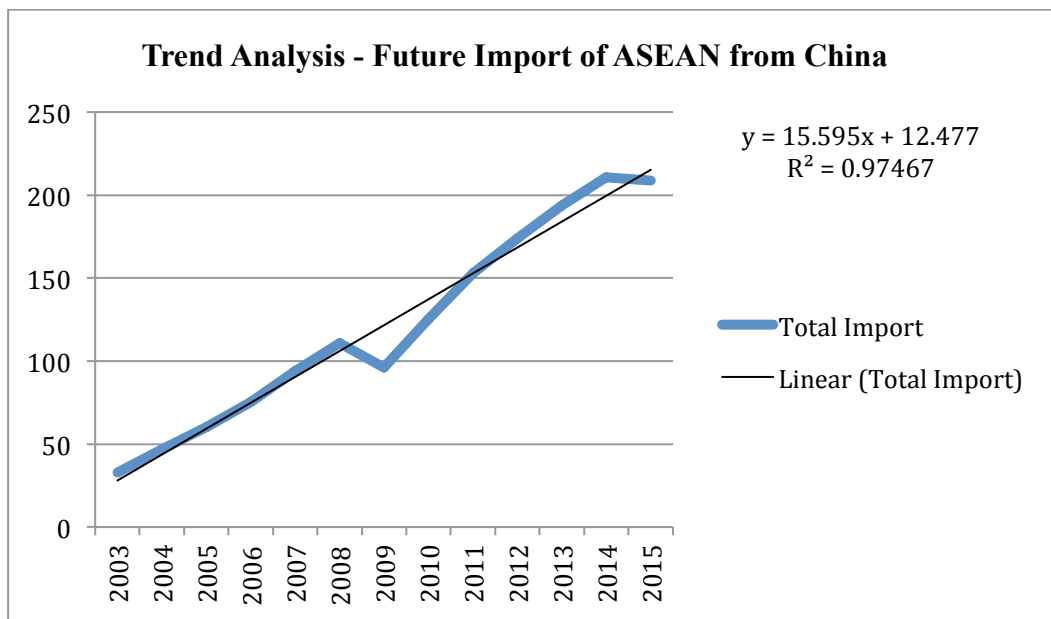
Graph No. 6 - Trend Analysis – Future Export from ASEAN to China (in m. of USD)



Source: own illustration according to Trade Map, 2016

In the graph No. 6 we can see the equation $y=9.9674x + 26.267$ and the R-square equals 0,87. In this case the R-square value gets close to 1, therefore it means that about 87% of variability of these values can be explained by this model. Therefore, the variability is not high and the deviation of the real data from the model can be up to 13%.

Graph No. 7 - Trend Analysis – Future Import of ASEAN from China (in m. of USD)



Source: own illustration according to Trade Map, 2016

The graph No. 7 shows the equation $y=15.595x+12.477$ and R-square value is equal to 0.97. It is therefore a high probability, because R-square value is very close to 1. Therefore 97% of the variability of these values can be explained by this model.

4.2.2 Estimation of total trade between Singapore and China

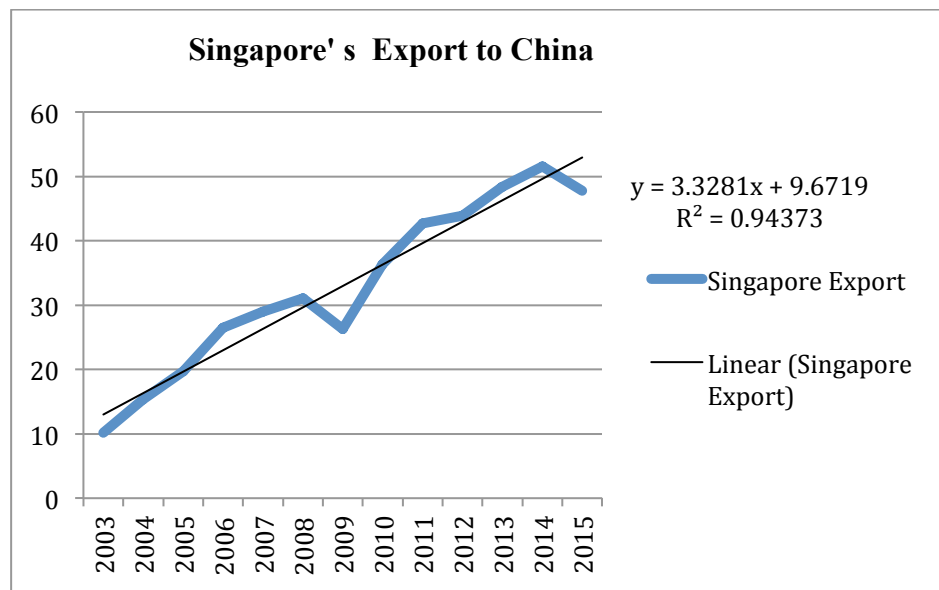
Table No. 4 - Total Trade between Singapore and China in the years 2003-2015 (in m. of USD)

	Export to China	Import from China
2003	10.13	11.07
2004	15.37	16.19
2005	19.76	20.52
2006	26.49	27.21
2007	28.92	31.91
2008	31.08	33.75
2009	26.30	25.93
2010	36.35	33.67
2011	42.68	38.00
2012	43.91	39.17
2013	48.37	43.69
2014	51.50	44.42
2015	47.72	42.12

Source: Trade Map, 2016

Singapore is a very important trade partner for China. Singapore is a relatively small, but quite rich economy. Also, its economy is more or less developed and diversified. The biggest part of the export to China is created by machines and electrical instruments, gasoline products and chemicals. China exports to Singapore mainly machines and electrical instruments as well, but also boats and their parts, telecommunication equipment and gasoline products. China is the biggest trade partner for Singapore, another significant partners are also Malaysia, USA, South Korea, Indonesia or Japan.

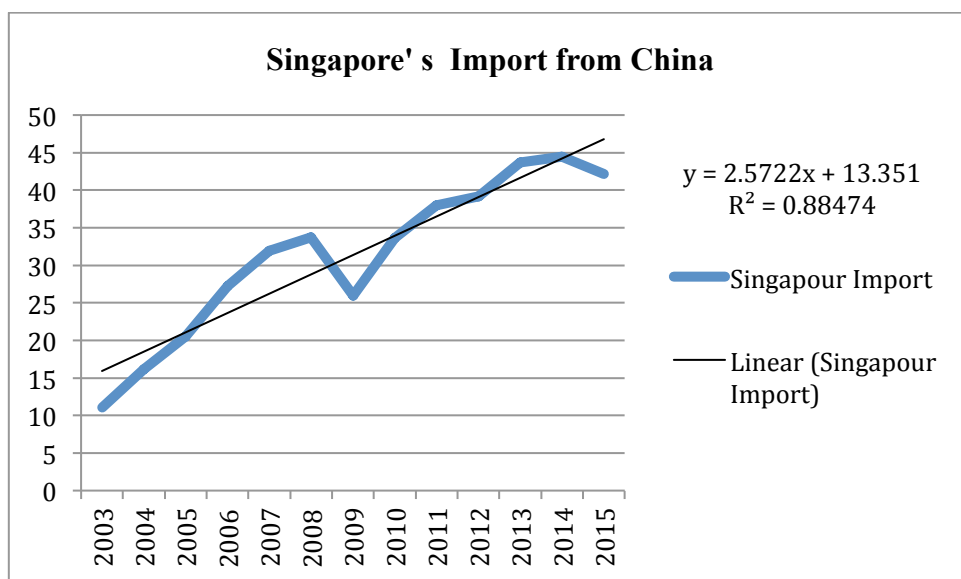
Graph No. 8 - Trend Analysis – Future Export from Singapore to China (in m. of USD)



Source: own illustration according to Trade Map, 2016

In the graph No. 8 we can see the equation $y=3.3281x+9.6719$ and we can observe that 94% of the variability of the given values can be explained by this model, because R-square equals value 0.94.

Graph No. 9 - Trend Analysis – Future Import of Singapore from China (in m. of USD)



Source: own illustration according to Trade Map, 2016

In the graph No. 9 we can see the equation $y=2.5722x+13.351$ and R-square value is 0.88474, which means that in this data set the model can explain up to 88% of the variability of these values.

4.2.3 Estimation of total trade between Malaysia and China

Table No. 5 - Total Trade between Malaysia and China in the years 2003-2015 (in m. of USD)

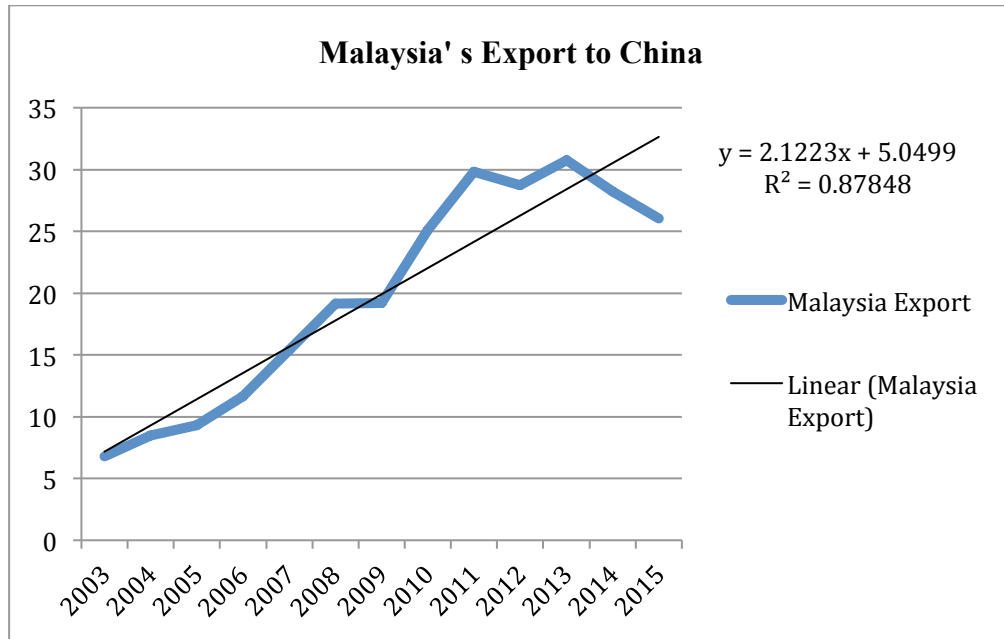
	Export to China	Import from China
2003	6.79	7.27
2004	8.50	10.34
2005	9.28	13.17
2006	11.64	15.88
2007	15.44	18.84
2008	19.17	20.14
2009	19.21	17.33
2010	25.12	20.73
2011	29.82	24.71
2012	28.74	29.72
2013	30.78	33.73
2014	28.22	35.32
2015	26.06	33.24

Source: Trade Map, 2016

Malaysia is one of the most important trade partners for China. Malaysia is the second biggest exporter to China from the members of ASEAN, after Singapore, as well as the fourth biggest importer. Most of the export from Malaysia to China is represented by electronics, which is as well the most important product in the export from China to Malaysia. Next important products in the export from Malaysia are machines for automatic data processing, agricultural products such as palm oil, natural rubber and plastic materials. Besides the electronics, China exports to Malaysia mainly telecommunication devices, furniture and its parts, optical devices or aluminum. The structure of mutual exports suggests that those countries could be included in the same GVC in the area of production

of electronics. Malaysia is not highly dependent on any of its trade partners. In the year 2015 it traded mainly with Singapore, Japan, China, USA and Thailand.

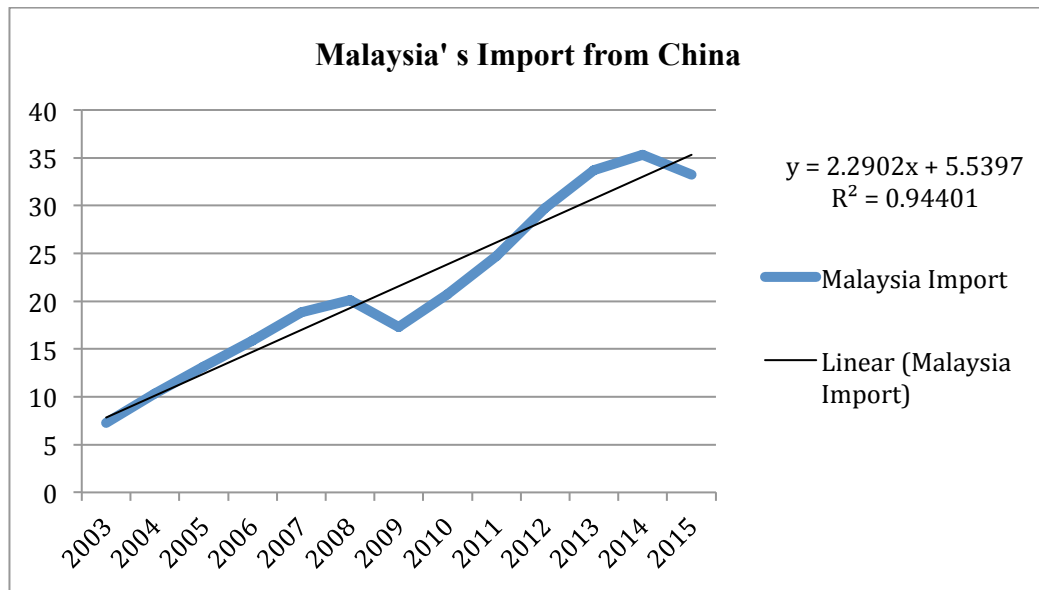
Graph No. 10 - Trend Analysis – Future Export from Malaysia to China (in m. of USD)



Source: own illustration according to Trade Map, 2016

In the graph No. 10 we can see the equation $y=2.1223x+5.0499$ and R-square value is 0.87848, which means that in this data set the model can explain up to 88% of the variability of these values.

Graph No. 11 - Trend Analysis – Future Import of Malaysia from China (in m. of USD)



Source: own illustration according to Trade Map, 2016

In the graph No. 11 we can see the equation $y=2.2902x+5.5397$ and R-square value is 0.94401, which means that in this data set the model can explain up to 94% of the variability of these values.

4.2.4 Estimation of total trade between Thailand and China

Table No. 6 - Total Trade between Thailand and China in the years 2003-2015 (in m. of USD)

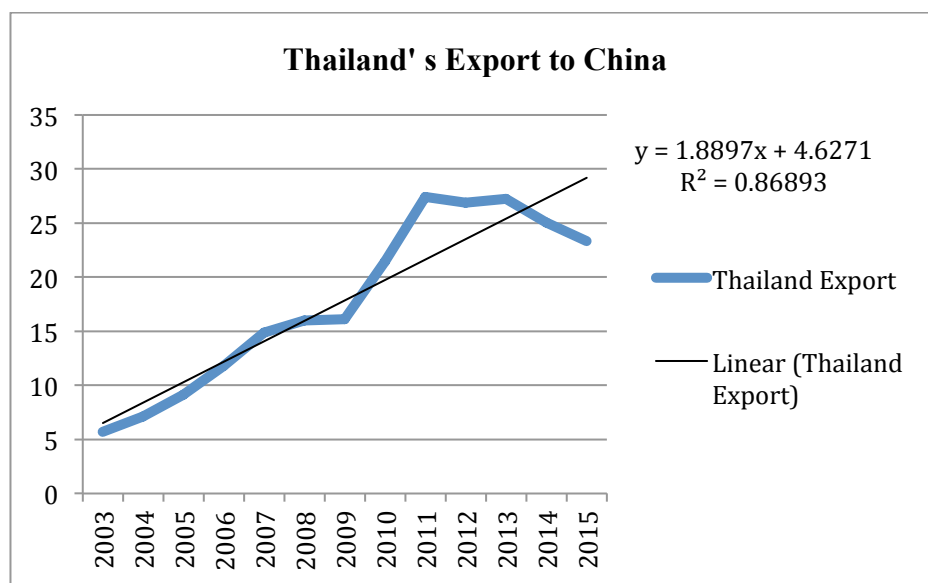
	Export to China	Import from China
2003	5.70	6.07
2004	7.10	8.19
2005	9.13	11.16
2006	11.77	13.62
2007	14.87	16.98
2008	16.00	20.05
2009	16.12	17.03
2010	21.47	24.24
2011	27.40	30.58

2012	26.90	36.96
2013	27.24	37.73
2014	25.08	38.50
2015	23.31	40.92

Source: Trade Map, 2016

Thailand is from the international trade point of view a very open economy; it is one of the most significant trade partners for China between the member countries of ASEAN. Thailand exports to China mainly natural rubber, plastic materials, chemicals, machines for automatic data processing (whose export has nevertheless a decreasing trend) as well as agricultural products and wood. Even though the means of transport represent one of the most significant categories in the global export for Thailand, it does not play a significant role in the export to China. China exports to Thailand mainly telecommunication equipment, machines for automatic data processing, iron-steel products, as well as electric machines and equipment. China is the most significant trade partner for Thailand. After China Thailand trades mainly with USA, Japan and Malaysia. Among the first ten most significant import destinations we can also find another ASEAN members, such as Singapore and Indonesia, as well as Vietnam and Philippines with less value.

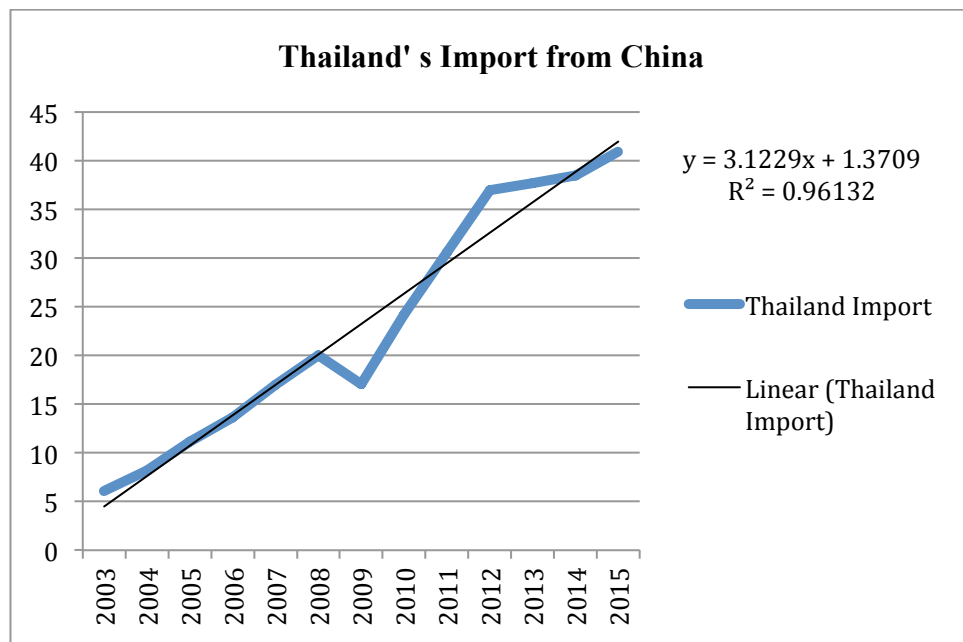
Graph No. 12 - Trend Analysis – Future Export from Thailand to China (in m. of USD)



Source: own illustration according to Trade Map, 2016

In the graph No. 12 we can see the equation $y=1.8897x+4.6271$ and R-square value is 0.86893, which means that in this data set the model can explain up to 87% of the variability of these values.

Graph No. 13 - Trend Analysis – Future Import of Thailand from China (in m. of USD)



Source: own illustration according to Trade Map, 2016

In the graph No. 13 we can see the equation $y=3.1229x+1.3709$ and R-square value is 0.96132, which means that in this data set the model can explain up to 96% of the variability of these values.

4.2.5 Estimation of total trade between Vietnam and China

Table No. 7 - Total Trade between Vietnam and China in the years 2003-2015 (in m. of USD)

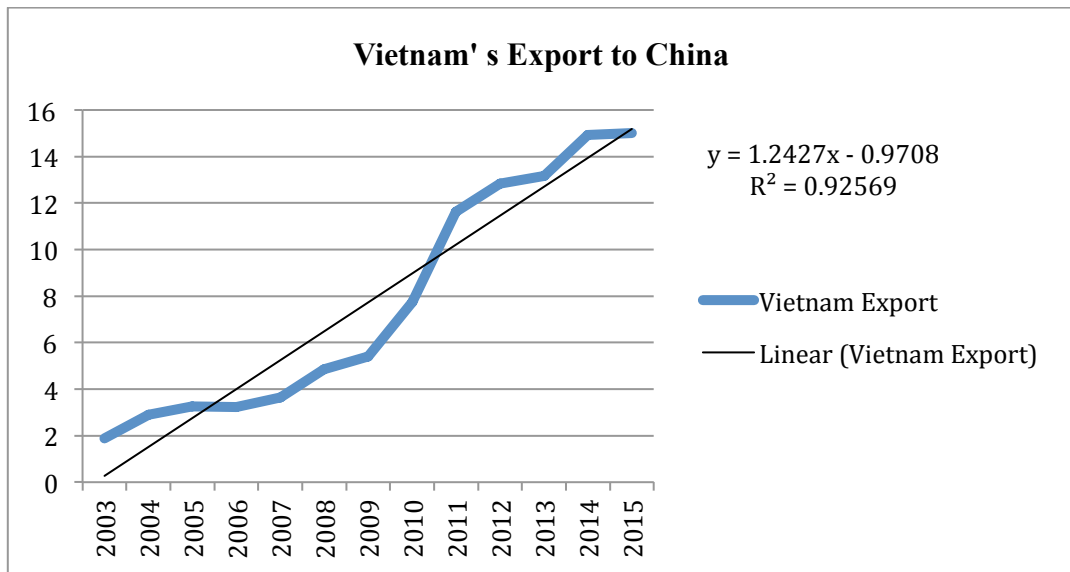
	Export to China	Import from China
2003	1.88	3.13
2004	2.89	4.59
2005	3.24	5.89

2006	3.24	7.39
2007	3.64	12.70
2008	4.85	15.97
2009	5.40	16.67
2010	7.74	20.20
2011	11.61	24.86
2012	12.83	29.03
2013	13.17	36.88
2014	14.92	43.64
2015	15	43.77

Source: Trade Map, 2016

The total amount of export from Vietnam has been increasing globally in the past years, as well as the exports to China. Nevertheless, the trade deficit with China has been increasing as well. After Singapore, Vietnam is the most important export destination for China out of the member countries of ASEAN. China exports to Vietnam mainly telecommunication equipment, textile materials and electrical equipment. Textile industry is the industry where Vietnam has the biggest trade deficit. The increasing trade imbalance and dependence on China could cause problems to Vietnam in the future, especially in the macroeconomics area. Vietnam exports to China mainly primary commodities such as gasoline, coal, natural rubber, groceries, fruits and vegetables, rice and also telecommunication equipment. China is the most significant exporter for Vietnam. After China it imports mainly from South Korea, Singapore and Japan. These countries are also one of the most important export destinations for Vietnam. The most significant importer is USA.

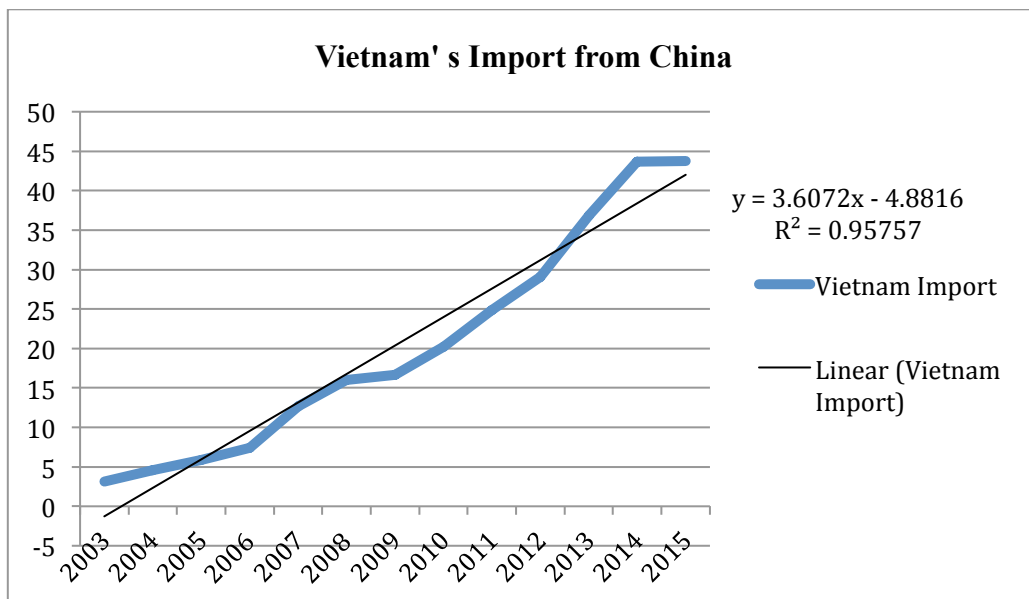
Graph No. 14 - Trend Analysis – Future Export from Vietnam to China (in m. of USD)



Source: own illustration according to Trade Map, 2016

In the graph No. 14 we can see the equation $y=1.2427x-0.9708$ and R-square value is 0.92569, which means that in this data set the model can explain up to 93% of the variability of these values.

Graph No. 15 - Trend Analysis – Future Import of Vietnam from China (in m. of USD)



Source: own illustration according to Trade Map, 2016

In the graph No. 15 we can see the equation $y=3.6072x-4.8816$ and R-square value is 0.95757, which means that in this data set the model can explain up to 96% of the variability of these values.

4.2.6 Estimation of total trade between Indonesia and China

Table No. 8 - Total Trade between Indonesia and China in the years 2003-2015 (in m. of USD)

	Export to China	Import from China
2003	3.80	2.96
2004	4.60	4.10
2005	6.66	5.84
2006	8.34	6.64
2007	9.67	8.56
2008	11.64	15.25
2009	11.50	14.00
2010	15.69	20.42
2011	22.94	26.21
2012	21.66	29.39
2013	22.60	29.85
2014	17.61	30.62
2015	15.05	29.41

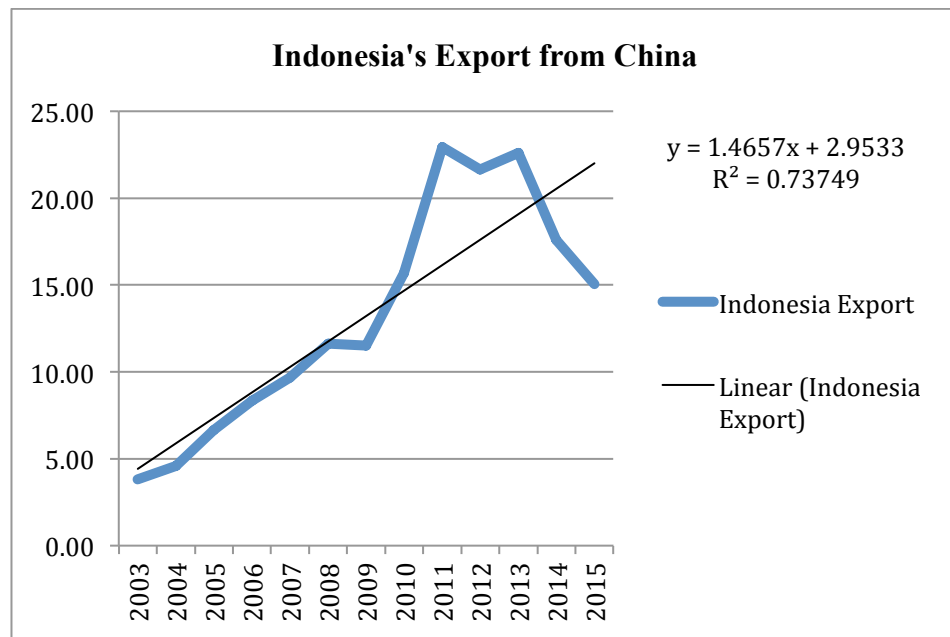
Source: Trade Map, 2016

Indonesia accepts around 15% of the whole export from China to ASEAN, even though it is the most populated and relatively more wealthy of the member countries of ASEAN. On the other hand, the rate of trade to GDP in Indonesia is lower than in the other members of ASEAN. In the year 2015 it was around 48% when in the most of member countries it is over 100%. (World Development Indicators, 2016)

The Chinese export to Indonesia has been increasing, although the value of imported products from Indonesia to China has been stagnating since the year 2011. China is the most important exporter for Indonesia, followed by Singapore and Japan and it is also its second main export destination. Besides ASEAN, another most important countries from

the trade of products point of view for Indonesia are Malaysia and Thailand. China exports to Indonesia especially telecommunication equipment, electronics and products of iron-steel industry. On the other hand, Indonesia exports to China especially primary commodities such as coal, nickel, aluminum, natural gas as well as agricultural products. (Trade Map, 2016)

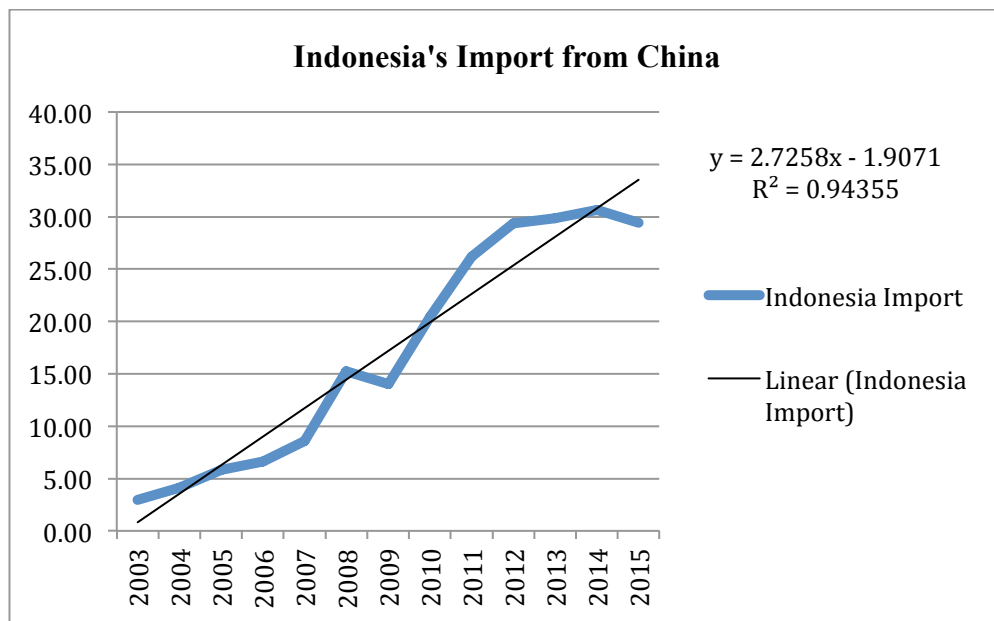
Graph No. 16 - Trend Analysis – Future Export from Vietnam to China (in m. of USD)



Source: own illustration according to Trade Map, 2016

In the graph No. 16 we can see the equation $y=1.4657x+2.9533$ and R-square value is 0.73749, which means that in this data set the model can explain up to 74% of the variability of these values.

Graph No. 17 - Trend Analysis – Future Import of Indonesia from China (in m. of USD)



Source: own illustration according to Trade Map, 2016

In the graph No. 17 we can see the equation $y=2.7258x-1.9071$ and R-square value is 0.94355, which means that in this data set the model can explain up to 94% of the variability of these values.

4.3 Prognosis of Future Trade between ASEAN and China

4.3.1 Positive factors

Since 2011 China has become the first destination market for exports from ASEAN. Moreover, China has become the largest economy in the world since 2014 in relation to GDP and also the purchasing power parity. It is also positioned as one of the five main partners for trade for each of the member countries of ASEAN. Each of the member countries has a different level of dependence on China and some of them are very dependent on China.

To sum up, the main factors of growth of trade between ASEAN and China are the following (Abbate, F. and Rosina, S., 2016):

- **ACFTA**

ACFTA came into force in 2010 and it represents the largest FTA in the world. It concerns around 2 billion consumers and it is placed as the third largest FTA in the relation to the total volume of mutual trade. China together with the six members of ASEAN with most developed economies has continuously managed to eliminate 90% of tariffs by 2010 and the rest of the members managed to achieve this by 2015. There are some non-tariffs barriers still affecting the trade in the region, but ACFTA has had an important influence in the economic integration process between ASEAN and China.

- **Very fast growth of GDP of both ASEAN and China**

The geographical location of ASEAN and China makes it very convenient for the trade development as well as the cultural similarity. Furthermore, one of the most important factors is the rapid GDP growth of both of them. The size of economies and their potential growth is one of the key factors affecting any economic cooperation. During the period between 2005-2014, ASEAN' s GDP was increasing in average by 5 percent every year and it was even 8.8 percent in the case of China.

- **RVCs**

RVC is a process of dividing the different phases of production into different countries located in the same region. During all of the production phases, different value is added in the given country, either by connected or independent companies. ASEAN and China together create big transnational production chains and these then importantly contribute to the fast growth of trade inside of the region.

- **FDI**

Although the FDI amount coming from China to ASEAN were not high, it still helped the development of integration inside of ACFTA, especially then for the less developed economies of ASEAN.

- **Prospects**

ACFTA has very ambitious goals for the future and there are some prospects which indicate further growth of trade between ASEAN and China, especially when considering the following:

- During the 18th Summit between ASEAN and China in November 2015 included a decision about continuously removing and non-tariffs barriers in relation to the trade of investment and services. ASEAN and China also agreed to improve and simplify customs processes and improve the rules of origins.

- More and more enterprises are relocating from China to ASEAN, motivated especially by the difference in the local wages. Those enterprises also face a decrease of domestic demand, therefore they have an excess of production capacity. Also, connected to the numerous trade agreements signed by ASEAN in the last period, Chinese enterprises are in a good position to use ASEAN members as a bridge towards another markets.

- The less developed economies of ASEAN have shown a rapid growth and they still have a big potential in this area. This could lead to a more rapid growth of trade between the members and China over the rest of the ASEAN economies.

- During the 19th Summit of China and ASEAN (which was held in Laos to commemorate the 25th anniversary of forming ASEAN-China relations) China has promised to create a space for even closer relationship and community with ASEAN in order to reach a common future. Chinese Premier Li Keqiang also proposed a five-point plan which should help to create even closer relations with ASEAN. This plan includes: better coordination of development strategies, establishment of a new platform for cooperation in relation to security and politics, to continue decreasing the barriers for trade and investments, support the cultural and human exchanges between the two partners (primarily in education and tourism) and improve together the regional cooperation.

- During the 2015, both partners have agreed on creating an advanced cooperation and reach a more integrated FTA and have created a plan on scaling up the mutual trade by 2020, called the “Action Plan”, where they also plan on increasing the bilateral revenue of trade to 1 trillion USD. Another positive factor is seen in huge project at work in the area of high-speed railways between China and some of the countries of ASEAN (namely Laos, Jakarta and Thailand), which could lead to a new age of even closer connectivity between the partners and shared production. Another positive factor is the “Asian Infrastructure bank” (AIIB), launched in 2014. China’s government proposed its establishment and its goal is to help the initiatives of creating an infrastructure in the region. All ASEAN countries were also founding members of the bank. (The Jakarta Post, 2016)

4.3.2 Negative factors

Under the scenario described above, the future of trade between ASEAN and China has a very optimistic vision. Nevertheless, there are also some weak spots, which could affect the scenario. For example, the trade inside of ASEAN has reached a sustained growth and this could lead to lower expansion of trade between ASEAN and China. Furthermore, the increase of trade deficit of some of the members of ASEAN in relation to China could also have a negative effect on the trade. Especially as it is not balanced by financial flows from China to these countries. In the past years, the biggest threat in cooperation of the two partner was represented by a territorial dispute:

- **South China sea issue**

The South China Sea Issue basically represents a fight between China and some of the Southeast Asian nations over a territory located in the South China Sea. This territory is especially important, because it represents a very important and strategic maritime ways and routes. During the past decade, China started controlling maritime territories, which were before understood as international waters or belonged to other states. Furthermore, China has also increase rapidly its maritime forces. This led to an understanding by the proximal countries that China intended to take control over the territory. Another question which arises is whether China will follow international rules and laws. This is a potential threat and it could

have negative effects on the relationship between China and Southeast Asia. (NYT, 2016)

Nevertheless, during the 19th Summit, both parties have confirmed to accept the “Declaration of the Conduct of Parties in the South China Sea” (DOC) and also promised to put initiatives in a sooner implementation of “The Code of Conduct in the South China Sea” (COC), which would be reached by consensus. Both parties expressed their efforts in order to resolve any issues in a peace way and by dialogues and not let it affect negatively their relationship. (English.Gov.Cn, 2016)

5. Results and Discussion

5.1 Future Trade between ASEAN and China

By using the trend analysis, the author has calculated the future import and export between ASEAN and China.

5.1.1 Future Export from ASEAN to China

The results of the calculation of export from ASEAN to China can be seen in the table No. 9. The model shows a rising trend, which indicates an increase of export from ASEAN to China between the period 2015 and 2045. The reason is the increasing power of ASEAN as a region and the continuous initiatives towards closer economic cooperation with China.

Table No. 9 - Future Export from ASEAN to China (in m. of USD)

Export from ASEAN to China	
Period	Export
2020	205.68
2025	255.52
2030	305.35
2035	355.19
2040	405.03

Source: Own Illustration

5.1.2 Future Import of ASEAN from China

The results of the calculation of export from ASEAN to China can be seen in the table No. 10. The model shows a rising trend, which indicates an increase of import of ASEAN from China between the period 2015 and 2045. The results are based on calculations, but can be very close to reality, as there are prospects which indicate a sustainable growth of the trade between the two partners.

Table No. 10 - Future Import of ASEAN from China (in m. of USD)

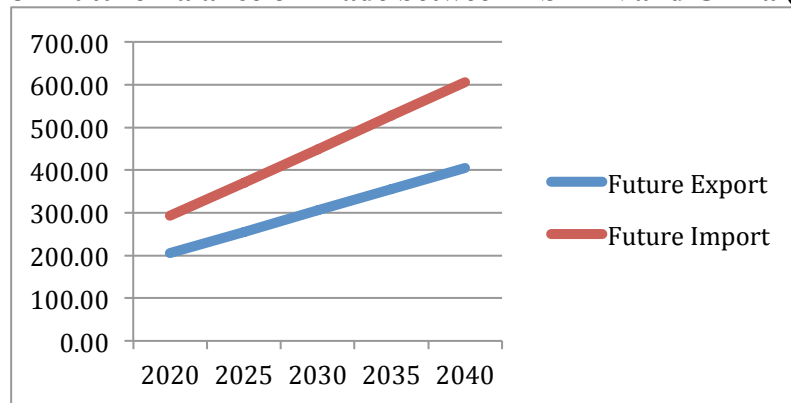
Import of ASEAN from China	
Period	Export
2020	293.19
2025	371.16
2030	449.14
2035	527.11
2040	605.08

Source: Own Illustration

5.1.3 Future balance of trade between ASEAN and China

The Graph No. 18 shows that the future trade balance will be decreasing. Even though both export and import will be increasing, the import to ASEAN from China will be increasing much more significantly. It will therefore cause decrease in the balance of trade. Although the export from ASEAN of China will be continuously increasing, it cannot equal the growth of the import and this will cause an increasing dependence of ASEAN on China in the future.

Graph No. 18 - Future Balance of Trade between ASEAN and China (in m. of UAS)



Source: Own Illustration

5.2 Future Trade between Singapore and China

By using the trend analysis, the author has calculated the future import and export between ASEAN and China.

5.2.1 Future Export from Singapore to China

The results of the calculation of export from Singapore to China can be seen in the table No. 11. The model shows a rising trend, which indicates an increase of export from ASEAN to China between the period 2015 and 2045. According to the calculations, the export should more than double during this period.

Table No. 11 - Future Export from Singapore to China (in m. of USD)

Export from Singapore to China	
2020	69.58
2025	86.22
2030	102.86
2035	119.50
2040	136.14

Source: Own Illustration

5.2.2 Future Import of Singapore from China

The results of the calculation of import of Singapore from China can be seen in the table No. 12. The model shows a rising trend, which indicates an increase of export from ASEAN to China between the period 2015 and 2045.

Table No. 12 - Future Import of Singapore from China (in m. of USD)

Import to Singapore from China	
2020	59.65
2025	72.51
2030	85.37
2035	98.23
2040	111.10

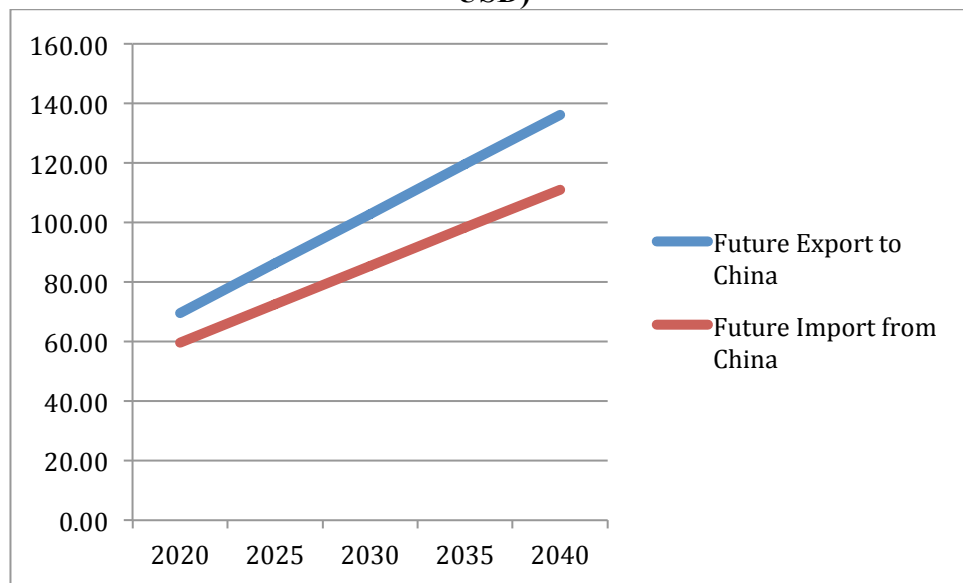
Source: Own Illustration

5.2.3 Future balance of trade between Singapore and China

The graph No. 19 shows that the balance of trade between Singapore and China will be decreasing. Even though China has managed to decrease its growing trade deficit with Singapore in the period of global financial crisis during the years 2009 and 2010, since then it has been expanding in a rapid speed. According to the calculations this trend will be

continuing in the future and therefore it will cause an increase of dependence of China on Singapore's export. Singapore's is the only member of ASEAN countries with a positive balance of trade with China. This could be even increased in the future, due to the fact that Singapore is an attractive destination for FDI for many Chinese individuals, especially due to the fact that it is one of the safest places in Asia to invest capital. This could lead to growth in FDI from China in the future.

Graph No. 19 - Future Balance of Trade between Singapore and China (in m. of USD)



Source: Own Illustration

5.3 Future Trade between Malaysia and China

5.3.1 Future Export from Malaysia to China

The results of the calculation of export from Malaysia to China can be seen in the table No. 13. The model shows a rising trend, which indicates an increase of export from Malaysia to China between the period 2015 and 2045. According to the calculations the export from Malaysia to China will almost double during the studied period.

Table No. 13 - Future Export from Malaysia to China (in m. of USD)

Export from Malaysia to China	
2020	43.25
2025	53.86
2030	64.48
2035	75.09
2040	85.70

Source: Own Illustration

5.3.2 Future Import of Malaysia from China

The results of the calculation of import of Malaysia from China can be seen in the table No. 14. The model shows a rising trend, which indicates an increase of import of Malaysia from China between the period 2015 and 2045. According to the calculations the import of Malaysia from China will almost exactly double during the studied period.

Table No. 14 - Future Import of Malaysia from China (in m. of USD)

Import of Malaysia from China	
2020	46.76
2025	58.22
2030	69.67
2035	81.12
2040	92.57

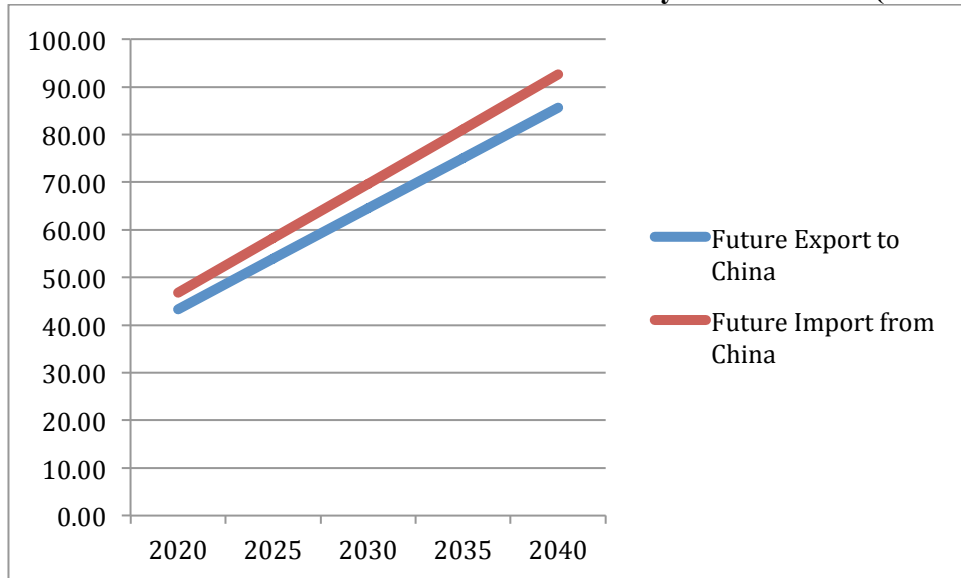
Source: Own Illustration

5.3.3 Future balance of trade between Malaysia and China

The graph No. 20 shows that the bilateral deficit of trade of Malaysia in relation to China will continue being very small. There is only a slight increase of bilateral deficit of Malaysia shown. Thanks to the good performance of Malaysia over the past years, it has become a country of higher and middle income and trade was one of the most significant factors for its success. Malaysia does not depend heavily on any of its trade partners. The leaders of the both partners have expressed their initiatives in further cooperation, as well as with the plans of building two industrial parks (one in China's city Qinzhou and one in

Kuantan in Malaysia). Therefore, the calculations could be very close to reality showing future increase in the overall trade between those two partners.

Graph No. 20 - Future Balance of Trade between Malaysia and China (in m. of USD)



Source: Own Illustration

5.4 Future Trade between Thailand and China

5.4.1 Future Export from Thailand to China

The results of the calculation of export from Thailand to China can be seen in the table No. 15. The model shows a rising trend, which indicates an increase of export from Thailand to China between the period 2015 and 2045. According the calculations, the export from Thailand to China should almost double during the studied period.

Table No. 15 - Future Export from Thailand to China (in m. of USD)

Export from Thailand to China	
2020	38.64
2025	48.09
2030	57.54
2035	66.99
2040	76.43

Source: Own Illustration

5.4.2 Future import of Thailand from China

The results of the calculation of import of Thailand from China can be seen in the table No. 16. The model shows a rising trend, which indicates an increase of import of Thailand from China between the period 2015 and 2045. According the calculations, the import of Thailand from China should more than double during the studied period.

Table No. 16 - Future Import of Thailand from China (in m. of USD)

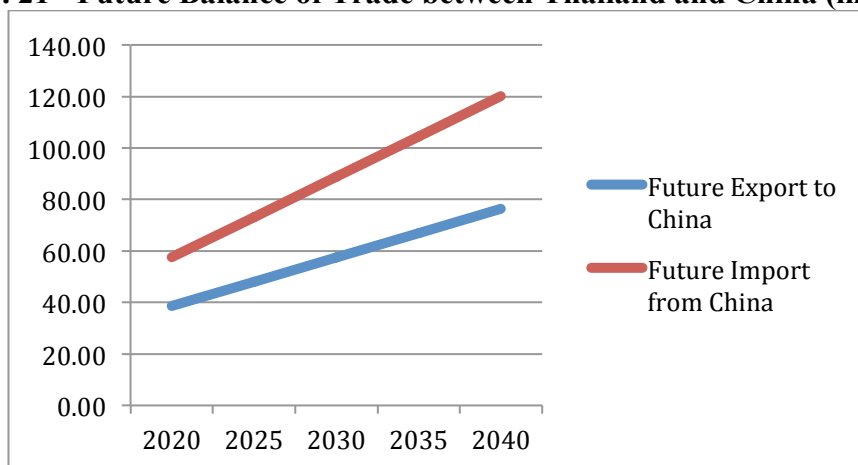
Import to Thailand from China	
2020	57.58
2025	73.20
2030	88.81
2035	104.43
2040	120.04

Source: Own Illustration

5.4.3 Future balance of trade between Thailand and China

In the graph No. 21 we can see that the balance of trade between Thailand and China will be decreasing. The import will be increasing much more rapidly than the export of Thailand; therefore, this will lead to increase in the dependency on Thailand on China. Thailand has a very diversified list of partners for trade, nevertheless China is situated on the top of the list. Therefore, the increase of the bilateral deficit could have negative impacts on the economy.

Graph No. 21 - Future Balance of Trade between Thailand and China (in m. of USD)



Source: Own Illustration

5.5 Future Trade between Vietnam and China

5.5.1 Future Export from Vietnam to China

The results of the calculation of export from Vietnam to China can be seen in the table No. 17. The model shows a rising trend, which indicates an increase of export from Vietnam to China between the period 2015 and 2045. According the calculations, the export from Vietnam to China will more double during the studied period.

Table No. 17 - Future Export from Vietnam to China (in m. of USD)

Export from Vietnam to China	
2020	21.39
2025	27.61
2030	33.82
2035	40.03
2040	46.25

Source: Own Illustration

5.5.2 Future import of Vietnam from China

The results of the calculation of import of Vietnam from China can be seen in the table No. 18. The model shows a rising trend, which indicates an increase of import of Vietnam from China between the period 2015 and 2045. According the calculations, the import of Vietnam from China should more than double during the studied period.

Table No. 18 - Future Import of Vietnam from China (in m. of USD)

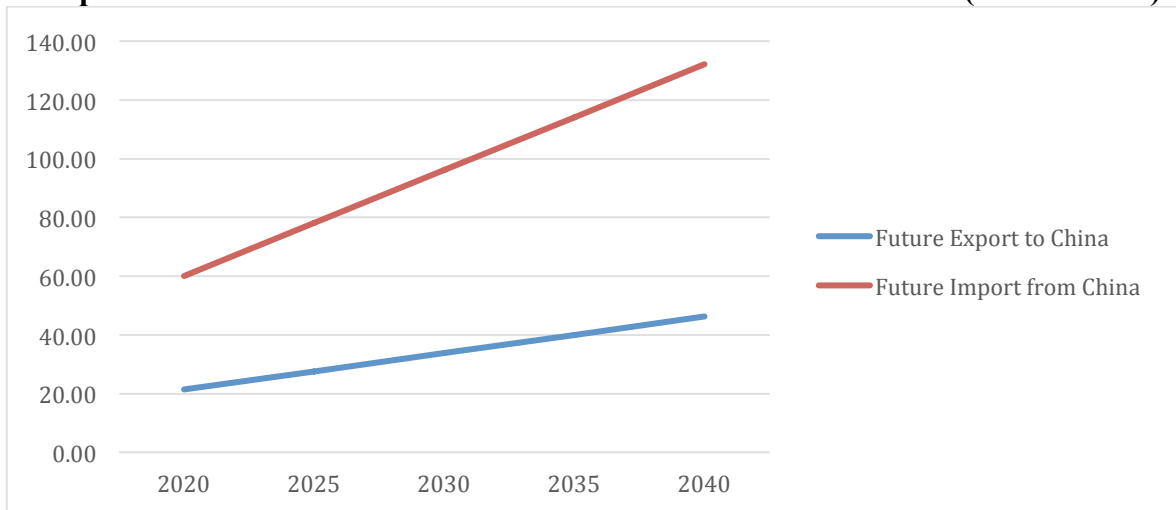
Import of Vietnam from China	
2020	60.04
2025	78.08
2030	96.12
2035	114.15
2040	132.19

Source: Own Illustration

5.5.3 Future balance of trade between Thailand and China

In the graph No. 22 we can see that the balance of trade between Vietnam and China will be drastically decreasing. The import will be increasing much more rapidly than the export of Vietnam; therefore, this will lead to increase in the dependency on Vietnam on China.

Graph No. 22 - Future balance of trade between Vietnam and China (in m. of USD)



Source: Own Illustration

5.6 Future Trade between Indonesia and China

5.6.1 Future Export from Indonesia to China

The results of the calculation of export from Indonesia to China can be seen in the table No. 19. The model shows a rising trend, which indicates an increase of export from Indonesia to China between the period 2015 and 2045. According the calculations, the export from Indonesia to China will almost double during the studied period.

Table No. 19 - Future Export from Indonesia to China (in m. of USD)

Export from Indonesia to China	
2020	29.20
2025	36.44
2030	43.68
2035	50.91
2040	58.15

Source: Own Illustration

5.6.2 Future import of Indonesia from China

The results of the calculation of import of Indonesia from China can be seen in the table No. 20. The model shows a rising trend, which indicates an increase of import of Indonesia from China between the period 2015 and 2045. According the calculations, the import of Indonesia from China should more than double during the studied period.

Table No. 20 - Future Import of Indonesia from China (in m. of USD)

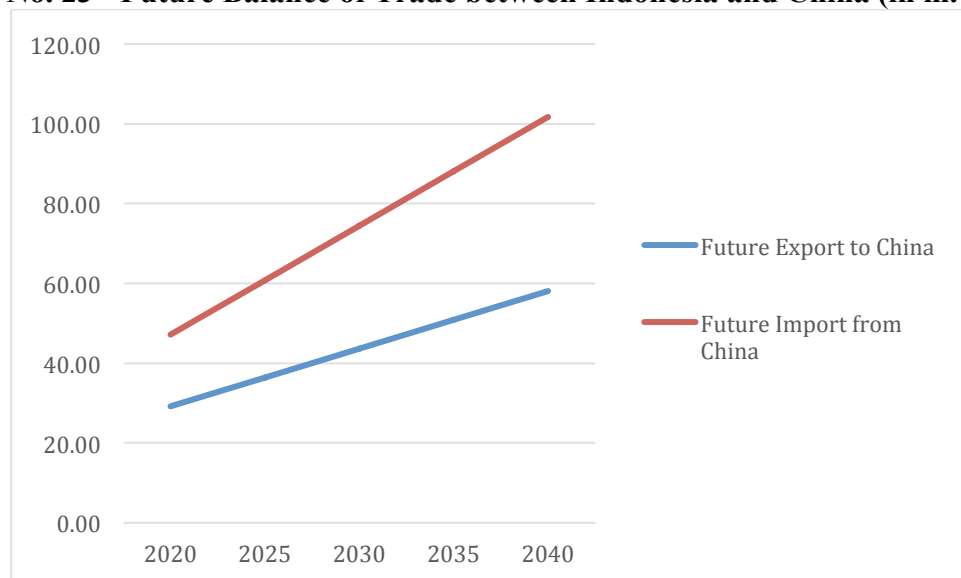
Import to Indonesia from China	
2020	47.15
2025	60.78
2030	74.41
2035	88.04
2040	101.67

Source: Own Illustration

5.5.3 Future balance of trade between Thailand and China

In the graph No. 23 we can see that the balance of trade between Indonesia and China will be drastically decreasing. The import will be increasing much more rapidly than the export of Indonesia; therefore, this will lead to increase in the dependency on Indonesia on China.

Graph No. 23 - Future Balance of Trade between Indonesia and China (in m. of USD)



Source: Own Illustration

6. Conclusion

ASEAN has already created a long history of economic integration and it has managed to create a peaceful and prospering regional integration. Throughout the years it has also developed strong trade relationships with other partners. The biggest trade partner for ASEAN is China nowadays. The dialogue between ASEAN and China started in 1991 and it has led to a dynamic increase of trade between the two partners.

The statistical data has played an important role in this thesis. Nevertheless, every subject has displayed some differences in the data which might have led to fluctuations in the calculations. According to the calculations, the import and export between ASEAN as a whole and China will continue increasing in the future, as well as between the chosen studied members of ASEAN (Thailand, Indonesia, Vietnam, Malaysia, Philippines and Singapore). Singapore will be the only country that will reach a positive balance of trade with China in the future. The rest of the studied members of ASEAN will have a negative balance of trade with China in the future. ASEAN as a whole will therefore also have a trade deficit in relation with China and this could all lead to a higher dependence of ASEAN on China. Nevertheless, there are positive predictions about increase of financial fluctuations from China to ASEAN in the future, which could help to balance this inequality.

This is based on author's calculations, nevertheless it is supported by many positive factors and views into the future. Both ASEAN and China have expressed the will in forming even closer relationship with each other in the future, which could support the increase of trade between them. There are other factors supporting the author's calculations, such as ACFTA (and the trade partners agreed on continuing on eliminating the trade barriers), GDP growth of both ASEAN and China and increasing number of shared RVC's. During the 19th Summit of China and ASEAN, the partners agreed on creating an advanced cooperation and reach a more integrated FTA and have created a plan on scaling up the mutual trade by 2020, called the "Action Plan." Another positive factor is seen in huge project at work in the area of high-speed railways between China and some of the countries of ASEAN as well the "Asian Infrastructure bank" (AIIB), launched in 2014.

The biggest threat for the ASEAN-China cooperation is now the "South China sea issue" and the disputes about the territory, which requires a restoration of mutual trust.

Nevertheless, both parties expressed their efforts in order to resolve any issues in a peace way and by dialogues and not let it affect negatively their relationship.

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http://www.trademap.org/Bilateral_TS.aspx?nvpm=1|24|156||TOTAL||2|1|1|1|2|1|1|1|

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http://www.trademap.org/Bilateral_TS.aspx?nvpm=1|704||156||TOTAL||2|1|1|1|2|1|1|1|1

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http://www.trademap.org/Bilateral_TS.aspx?nvpm=1|360||156||TOTAL||2|1|1|1|2|1|1|1|1

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http://www.trademap.org/Bilateral_TS.aspx?nvpm=1|458||156||TOTAL||2|1|1|1|2|1|1|1|1

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http://www.trademap.org/Bilateral_TS.aspx?nvpm=1|116||156||TOTAL||2|1|1|1|2|1|1|1|1

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http://www.trademap.org/Bilateral_TS.aspx?nvpm=1|702||156||TOTAL||2|1|1|1|2|1|1|1|1

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http://www.trademap.org/Bilateral_TS.aspx?nvpm=1|608||156||TOTAL||2|1|1|1|2|1|1|1|1|1

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Appendix No. 2 –Map of Brunei



Source: aseanup.com, 2016

Appendix No. 3 –Map of Cambodia



Source: aseanup.com, 2016

Appendix No. 4 –Map of Indonesia



Source: aseanup.com, 2016

Appendix No. 5 –Map of Laos



Source: aseanup.com, 2016

Appendix No. 6 –Map of Malaysia



Source: aseanup.com, 2016

Appendix No. 7 –Map of Myanmar



Source: aseanup.com, 2016

Appendix No. 8 –Map of Philippines



Source: aseanup.com, 2016

Appendix No. 9 –Map of Singapore



Source: aseanup.com, 2016

Appendix No. 10 –Map of Thailand



Source: aseanup.com, 2016

Appendix No. 11 –Map of Vietnam



Source: aseanup.com, 2016