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The Effects of FDI on Regionalism in states of ASEAN

Diploma thesis

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ABSTRACT

KOLEČKOVÁ, Denisa. The Effects of FDI on Regionalism in states of ASEAN. Brno, 2016. Diploma thesis

This diploma thesis is aimed to analyze and investigate theoretically and empirically whether FDI affects regionalism in Southeast and East Asia. It applies regression analysis to examine how foreign direct investment influence GDP growth, the most visible aspect of ASEAN's open regionalism. Panel data analysis was carried out, using time series data over the period from 2005 to 2014 to establish a relationship between chosen variables. The findings indicate that foreign direct investment has influential role in the economic integration and development of the ASEAN countries. The contribution of FDI to growth is significant in East and Southeast Asia.

Keywords: FDI, regionalism, ASEAN, GDP growth, economic integration, regression analysis

ABSTRAKT

KOLEČKOVÁ, Denisa. Vliv přímých zahraničních investic na regionalismus v zemích ASEAN. Brno, 2016. Diplomová práce

Předmětem diplomové práce je teoretické shrnutí přímých zahraničních investic a regionalismu se zaměřením na Východní a Jihovýchodní Asii. Použitá regresní analýza vyšetřuje zejména vztah přímých zahraničních investic a růstu GDP, významného aspektu tzv. otevřeného regionalismu propagujícího zeměmi ASEAN. Pro panelovou a trendovou analýzu byla použita data v rozmezí od roku 2005 do 2014. Výsledky poukazují na významnou roli přímých zahraničních investic na ekonomickou integraci a rozvoj států ASEAN. Přímé zahraniční investice mají značný vliv na GDP v zemích Východní a Jihovýchodní Asie.

Klíčová slova: FDI, regionalismus, ASEAN, GDP růst, ekonomická integrace, regresní analýza

CONTENTS

INTRODUCTION

The shifting of the global power center from the West to the East is on the forefront of the world affairs. The emergence of market-driven “new regionalism” is changing the balance between market and state regulation and redefines regional trade agreements and regional cooperation over the world. This new wave of regionalism is typical for Southeast and East Asia where economies in the region are experiencing rapid growth. ASEAN is a significant element of the regional architecture in Asia and has been the core of East Asian regionalism for last decades. It has strategic location in the center of Asia between one of the most dynamic markets such as India and People’s Republic of China, in the Northeast by the Republic of Korea, in the South by Australia and New Zealand. Its membership expanded and association started to be a center of many multilateral institutions. Increasing mutual relations between regionalism, multilateralism and globalization has went through deep changes during last decades. Increasing economic cooperation in East and Southeast Asia has significant impact on the global economic order. Countries embarked on regional dialogue processes to manage and promote economic interactions with the world and also among them.

ASEAN is characterized by huge internal diversity, high economic growth and also reluctance to establish a strong supranational structure. Even though Southeast Asia has experienced impressive growth during last decades, the region still suffers from inequalities, such as food insecurity, informal employment, human rights violations, environmental depletion which are hampering it development. There are huge disparities in levels of region’s development and differences in political systems across countries.

ASEAN members are becoming one of the most popular destinations for investments. FDI has grown steadily in a volume and are becoming more important to improve economic performances of countries and getting increasingly significant for development of states and regions. FDI is considered as an engine for development of states and their business climate. One of the most remarkable features of globalization is the flow of private capital in the form of FDI. ASEAN members are significant recipients of FDI in the last three decades. The increase in foreign direct investment into developing countries resulted in a wave of regional trade agreements. The multinational and transnational firms are perceived as a significant stimulus for trade and development and focal point of regional and also multinational trade negotiations.

The thesis is divided mainly into three parts and organized as follows. In the first part, author performs a literature review on FDI and regionalism. The paper examines different forms of capital, the role of FDI in economic development and determinants of FDI. Study gives a deeper insight to regionalism presented by ASEAN with focus on economic performance and it openness. It provides a comprehensive overview of the theoretical and empirical literature on the effects of FDI on economic integration, development and regionalism in context of developing countries.

Trend analysis of chosen variables and econometric analysis is presented in the second part. The first subpart present trend analysis of individual member states in the years 2005-2014 for macroeconomic and development indicators. Another subpart covers panel data analyses and investigate link between foreign direct investment and GDP growth.

The third part provides policy recommendations together with discussion for ASEAN. At the end, author concludes theoretical and empirical findings.

AIMS

Major purpose of this study is to understand the effects of foreign direct investment on ASEAN regionalism based on regression analysis. Apart from the empirical study, the aim of this work is to give a detailed theoretical background for FDI and regionalism. The thesis investigates the relationship between foreign direct investment, economic, human and infrastructure development and address to what extent ASEAN members benefited from FDI experience. Author's intention is to give better understanding of economic integration and regionalism in ASEAN countries.

METHODOLOGY

In the first part, thesis uses a descriptive method to provide a theoretical background on foreign direct investment-regionalism related issues. It is based on the literature reviews of articles, books, research papers and report of foreign authors especially.

The second part is approached in the context of fixed effects model conceptual framework. It is based on secondary data sources, mainly from reports and studies from international agencies, namely World Bank, OECD, ADB, UN and ILO. Quantitative data were used from online databases such as World Bank database and UNCTAD database.

Key for the elaboration of the second part of the thesis is to run regression analysis of the time data series from 2005 to 2014 to analyze the relationship between FDI, economic and development indicators. Author used stacked cross sectional panel data. The unit of analysis is the country-year. The dataset used for the purpose of panel analysis comprises ten East and Southeast Asian countries. The countries included in the model are Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. Crucial is to verify the following research hypothesis:

H_1: There is a positive relationship between foreign direct investment (% in GDP) and GDP growth (in %) in ASEAN members

Data are presented in comprehensive tables, author used statistical software, namely Microsoft Excel and Gretl followed by logical conclusions, which were used as a basis for recommendations in the last part of the thesis.

METHODS OF ESTIMATION

In order to investigate link between foreign direct investment and regionalism of the ASEAN countries, the regression analysis was implemented. Before panel data analysis, author carried out descriptive statistics and correlation matrix.

DESCRIPTIVE STATISTICS

As the first part of empirical analysis, thesis uses descriptive statistics. Descriptive statistics gives numerical and graphical procedures to summarize a collection of data in a clear and understandable way. Each descriptive statistic reduces lots of data into a simpler summary.

CORRELATION COEFFICIENTS

To get better insight into the relationship between growth, development and FDI, author carried out correlation coefficients. Correlation coefficients measure the direction and strength of linear relationship between variables.

REGRESSION ANALYSIS

Regression is a statistical technique which determines the linear relationship between two or more variables. According to Campbell (2008), regression is mainly used for causal inference and prediction. In the simplest form, regression shows relationship between one independent variable (X) and one dependent variable (Y) as in this formula:

$$Y = \beta_0 + \beta_1 X + \varepsilon \qquad \textbf{Eq. (1)}$$

It is referred to X as the predictor or regressor variable and Y as the response variable. Because there is just one regressor variable, it is called a simple linear regression model (Montgomery, p. 2). Campbell (2008) calls the parameters β_0 and β_1 as regression coefficients. 0 is an intercept and 1 is a slope. ε is an unobserved error term. It is a statistical error, a random variable that accounts for the failure of the model to fit data exactly. The errors are assumed to have mean zero and unknown variance.

Regression analysis allows for models which contain all of the information relevant for determining whether it is directly of interest or not. One view for model is that of the data generating process (Hayashi, p. 140, 2010). Regression analysis is an iterative procedure, in which data lead to a mode and a fit of the model to the data is produced. A significant objective of regression analysis is to estimate unknown parameters in the regression models. It process is called fitting the model to the data (Montgomery, p.4-5).

Even though there is a strong relationship between variables. It doesn't mean that dependent and explanatory variables are related in cause and effect manner. The relationship should be suggested by theoretical considerations.

PANEL DATA MODELS

Panel data are also called cross-sectional time-series data. It has multiple entities with repeated measurements at different time periods. These models examine group effects, time effects, or both effects for a purpose to deal with individual effects or heterogeneity that may be observed. These effects may be fixed or random. Fixed effects model (FEM) examines if intercepts vary across time period or across group. FEM is estimated by least squares dummy variable (LSDV) regression and within effects estimation methods. Random effects model explores differences in error variance components across individual or time period. If cross sectional or time specific effects does not exist, ordinary least squares (OLS) produces consistent and efficient parameter estimates (Park, p. 1-9, 2011).

MODEL SPECIFICATION

In order to analyze the effects of foreign direct investment on selected indicators of the ASEAN regionalism, the author carried out empirical analysis, using panel data analysis, namely stacked cross sections.

BASE MODEL

Empirical models are similar in the literature about FDI and regionalism. The author established the following empirical model:

$$GDP_{it} = \alpha_i + \beta_1 FDI_{it} + \beta_2 Trade_{it} + \beta_3 Infra_{it} + \beta_4 Unem_{it} + e_{it} \qquad \textbf{Eq. (2)}$$

DATA

Author collected data from World Bank database, OECD and UNCTAD. Development indicators were extracted from World Bank database and OECD.

Dependent Variable

GDP Growth (annual %) is annual percentage growth rate of GDP at market prices which is based on constant local currency. It represents the sum of value by all it producers. An economy's growth is measured by the change in the volume of its output or in the real incomes of its residents (World Bank Database, 2016).

Independent Variables

The independent (explanatory) variables employed in our analysis are following: FDI (% of GDP), trade (% of GDP), fixed telephone subscriptions (per 100 people), unemployment rate (%) (World Bank Database, 2016).

FDI are the net inflows of investment to acquire a lasting management interest, at least ten % in an enterprise operating in an economy other than that of investor and is divided by GDP (World Bank Database, 2016).

Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product (World Bank Database).

INFRA is Fixed telephone subscriptions (per 100 people). A fixed telephone line is an active line connecting the subscriber's terminal equipment to the public switched telephone network. The quality of an economy's infrastructure, including a communications and power is an important element in investment decisions for domestic and foreign investor. Infrastructure value chains involve networks of players. MNEs participate as equipment and material suppliers, engineering, project financiers and solution providers. MNEs also contribute specific skill and technology sets which support the delivery of infrastructure (ASEAN Investment Report, p. 25, 2015).

Unemployment, total (%) of total labor force refers to the share of the labor force that is without work but available for and at the same time seeking employment. It is indicator of economic activity reflected by the labor market. Change in rate may mean changes in the demand or supply of labor (World Bank Database, 2016).

TESTING MODELS

It is necessary to test firstly what model the sampling data are suitable for. If they don't fit panel data models, author then test which models are more appropriate, fixed or random effects (Xie and Wong, p. 103, 2009). Pooled regression model is used as the baseline for comparison. For best model selection, significance test with F test, Hausman test and Breusch-Pagan test are usually conducted.

- ✓ Fixed Effects Hypothesis Testing- significance test with an F test resembling the structure of the F test for coefficient of determination change. If there are significant improvements in the coefficient of determination, then there is significant group effects.

- ✓ Hausman test- it tests null hypothesis that the coefficients estimated by the efficient random effects estimator are the same as the ones estimated by the consistent fixed effects estimator. If author gets significant P-value, should use fixed effects.
- ✓ Breusch-Pagan Test- tests the null hypothesis that the pooled OLS estimator is adequate against the random effects alternative (Akbar et al., p. 151, 2011)

VERIFICATION OF MODEL

Crucial after running of regression analysis is to check the adequacy of the model. R-squared is a measure of how close the data are to the fitted regression line. It's called coefficient of determination. It is telling us how well a model can predict the data. R-squared ranges from 0 to 1. The value of 0 indicates that the model explains none of the variability of the response data around its mean. The value of 1 indicates that model explains all the variability of the response around mean (Frost, 2014). R-squared provides only the strength of relationship between variables.

It is important to check P value for significance. P value is the probability of obtaining an effect at least as extreme as the one in a sample data. The α level is the probability of rejecting of the null hypothesis and accepting alternative hypothesis and is set at 5%.
It measures how compatible author's data are with null hypothesis (Frost, 2013).

1. THEORETICAL FRAMEWORK

Detailed literature research is crucial for empirical part of the thesis. Theoretical framework gives more comprehensive understanding of the linkages between FDI, GDP growth and regionalism in the context of ASEAN.

1.1. FDI

FDI is described as a cross- border investment by domestic companies abroad and is defined as a permanent interest of the investor. According to OECD, the lasting interest means that the existence of a long-term relationship between direct investment enterprise and the direct investor and also important degree of influence on the management side of the enterprise. The indirect or direct ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is proof of such relationship. FDI is reflected in takeovers or equity participation of existing foreign enterprises or also in the establishment by domestic companies in foreign firms in practice. The aspiration of the domestic firms doing investment abroad is to obtain control over economic decisions of affiliates or foreign firms (Knödler et Albertshauser, p. 8, 2001).

1.1.1. Classification

Dunning belongs among one of the most spelled authors working on FDI. He described three major types of FDI depending on the motive behind the investment from the perspective of the investing firm. The first type of FDI is called (1) market-seeking FDI, whose objective is to serve regional and local markets. The second type of FDI is called (2) resource-seeking and occurs when firms invest abroad to obtain resources which are not available in the home country, such as low-cost labor, raw materials and natural resources. The third type is called (3) efficiency-seeking FDI, it takes place when firm can gain from the common governance of geographically dispersed activities in the presence of economies of scope and scale (Demirhan, p. 358, 2008).

1.1.2. Components

In the balance of payments, direct investment flows are recorded on a directional basis, resident direct investment and also non-resident direct investment in reporting economy (Wong and Adams, 2002, p. 3). The major financial instrument components of FDI are debt instruments and equity. Equity contains common and preferred shares, reserves, reinvestment of earnings and capital contributions. All cross-border positions and its transactions in equity between FDI- related enterprises are included in FDI. Debt instruments comprise marketable securities such as debentures, promissory notes and other non-equity securities such as deposits, trade credit and loans. All cross-border transactions related to these instruments, between companies covered by an FDI relationship other than between its related financial intermediaries are included in FDI (OECD, p. 60, 2008).

1.1.3. MNEs and TNCs

Transnational corporation is an enterprise operating under a system of decision making which permits coherent policies and a common strategy. TNCs comprises entities located in two or more countries which are linked by ownership or otherwise, one or more of them may be able to exercise significant influence over it activities of others to share knowledge, resources and responsibilities with the others. Ii is happening irrespective of its country of origin and its ownership, including public, private or mixed (UNCTAD, © 2016).

1.1.4. Vertical, Horizontal and Platform FDI

There are different types of FDI, it depends on the way the Multinational Enterprises (MNEs) organize its international business, namely vertically or horizontally. Horizontal FDI takes place when a company produces a product with the same production line and value chain in host countries as in the home country. Usually Horizontal FDI is associated with bilateral flows of investments between developed countries. Vertical FDI means that home company fragments the production process across different countries matters to their respective comparative advantages which generates intra-trade firm trade (Magalhães and Africano, p.3, 2007). Vertical FDI occurs when a company optimizes production costs through the fragmentation of the value chain toward countries with lower factor costs. Platform FDI is used with the aim of exporting production to third countries (Wu, Havaheri and Banach, p. 6, 2016). Vertical FDI are usually present in flows from developed economies to less developed and refers to less sophisticated stages of the production process such as assembling operations (Magalhaes and Africano, p.3, 2007).

1.1.5. Greenfield and M&A

There are mainly two forms of how FDI can take place. FDI can takes place in a form of greenfield investment. Occurs when a firm invest in a new activities or facilities in a host country. Greenfield direct investment add to total domestic investment and create employment opportunities especially for the host country (Wu, Javaheri and Banach, p. 6, 2016). Intraregional greenfield FDI goes to a broader range of industries, away from natural resource-heavy industries to more knowledge-based industries and services (United Nations, p. 17, 2014). Foreign companies have also the option to acquire existing domestic firms and it's referred to a cross-border mergers and acquisition (M&A) (Wu, Javaheri and Banach, p. 6, 2016). It is considered that cross-border investments in the form of M&A won't involve significant changes in the performance of economic variables including f.e. employment, production and turnover (OECD, p. 87, 2008).

1.1.6. Determinants

It depends for a significant part on the type and volume of FDI, the way that FDI affects development and growth. It's important to understand what attracts FDI and how is it changing over time. Among the main determinants of inward FDI belongs general policy factors, such as political stability. Most of the studies on the preconditions of FDI inflows into a country have identified variables as market size, labor cost, market size, political stability, economic openness and quality of infrastructure as main factors that drive the flow of FDI into a host country (Khine, p.4, 2008). The theory suggests that investment for long-term benefits from it stability. Another significant factor is FDI policies including investment promotion, investment treaties and international trade. Countries tries to attract FDI and have established promotion agencies for it. General FDI policies become less restrictive to inward FDI. Factors such as infrastructure, human resources, market size and growth become more important as determinants. Firm specific factors, namely technology matters. Information and communications developments have had a profound impact on the way companies structure their international activities. Determinants can explain why FDI has gone more to some countries and regions than others (Velde, p. 9-12, 2006).

1.1.7. Theories of FDI

1.1.7.1. The Production Cycle Theory

The production cycle theory was originally proposed by Raymond Vernon in the mid-1960s (Popovici, Calin, p.7, 2014). Theory was used to explain certain types of foreign direct investment made by U.S. companies in Western Europe in manufacturing industry between years 1950-1970. Although there are areas where Americans have not possessed the foreign direct investments and technological advantage were made during that period after the Second World War (Denisia, p. 106-107, 2010). There are three stages in the life cycle of product. The innovative and new product is sold on the internal market in the first stage. For the second stage is characteristic that the product is exported due to standardization and the scale economies. In the third stage, the company in order to find lower production costs and cheaper inputs will decide to have subsidiaries in other countries (Popovici, p.7, 2014). Though, the most products are at first developed by industrially advanced countries and then shifted to developing countries when the production and products became standardized. These products are exported back to the country that originally developed them (Khine, p.2, 2008)

1.1.7.2. Eclectic Paradigm

The Eclectic or OLI paradigm has remained leading analytical framework for accommodating of variety of operationally testable economic theories of the determinants of FDI and MNEs' foreign activities. It paradigm argues that the extent, industrial composition and geography of foreign production by MNEs is determined by the interaction of the three sets of interdependent variables which contain the components of three sub-paradigms. The first one is ownership advantage (O), the second is location attractions (L) of alternative regions or countries and the third one internalization (I) (Dunning, 2000, 163-164). The first ownership refers to intangible assets, which are exclusive possesses of the company and can be transferred within transnational companies at low costs. When the ownership advantage is fulfilled it must be more advantageous for the company that owns them to use them. Location advantages are main factors to determining who will become host countries for the activities of TNCs and it includes political advantages, social advantages and also economic advantages including qualitative and quantitative factors of production, telecommunications and costs of transports (Denisia, 2010, p. 108). The third sub-paradigm of OLI offers a framework for evaluating alternative ways in which firms can organize the exploitation and creation of their core competencies Eclectic paradigm suppose that enterprises develop O advantage at home, after that transfer through FDI abroad depending on L advantage. This process allows multinational enterprises to internalize O advantage (Dunning, 2000, 163-164).

1.1.7.3. Internalization theory

Theory tries to explain growth of TNCs and their motivations for achieving FDI. The theory was firstly developed by Buckley and Casson in 1976 and they demonstrated that TNCs are organizing their internal activities so as to develop specific advantages. The theory was launched by Hymer in 1976 in an international context. Hymer is the author of firm-specific advantages' concept which says that FDI take place only if the benefits of exploiting firm-specific advantages outweigh the relative costs of operations abroad. According to Hymer, FDI is a firm-level strategy decision rather than capital-market financial decision (Denisia, 2010, p. 107). Internalization theory says that firms aspire to develop their own internal markets whenever transactions can be made at lower cost within the firm. Internalization involves a form of vertical integration and brings new activities and operations, which were formerly carried out by intermediate markets, under governance and also ownership of the firm. Firms will gain in creating their own internal market such that transactions and may be carried out at a lower cost within the firm (Morgan and Katsikeas, p 70, 1997). Internalization theory differs from eclectic paradigm in its treatment of the mode of it entry. MNE can choose to expand abroad either through FDI or another form of entry, such as joint ventures, licensing or alliances (Rugman, p.4, 2010).

1.1.7.4. The New Trade Theory

The New Trade Theory (NTT) explains real trade flows and is an alternative of the classical trade theories. Initially, theory was taking into account the scale return, the differences of the product and also market imperfections. Later Helpman and Markusen extended the model and include MNCs and FDI (Popovici, p. 12, 2014). The main idea of the theory is that home government support to the domestic champions can alter strategic alternatives in their favor. It recognizes oligopoly or monopolistic competition in international markets externalities related with international involvement of domestic firms. It pronounces strategic interactions between MNEs as important determinant of their international strategy and thus rationalizes the use of home governmental support and its interventions in the favor of home-based firms. MNEs are seen as drivers of international business activities and competitive advantage of firms is seen as a determinant of location and composition of international business activities based on a number of firm specific assets (Siddiqui, p.61, 2012). In it approach, the home-market size is exogenous. Mainly labor is presumed to be immobile. In NTT model, capital is allowed some ability to relocate to bring clustering and exploitation of scale economies to benefit from given home-market effects (Harris, p. 12, 2011). The New Trade Theory predicts that the large or centrally located countries increasingly dominate the production of industrial goods as trade costs fall (Niepmann et Felbermayr, p.2, 2009).

1.1.7.4 The New New Trade Theory

Models of this theory share many of the features of the new trade theory of the 1980s. The New New Trade Theory begins in the early 2000s, drew its inspiration from dynamic industrial models of firm entry, innovation, growth and death. These models incorporate differences in characteristics of firms both across and within industries, mainly with regard to productivity. There is important an additional source of gains from trade and a rise in productivity as increased trade forces the least efficient firms out of the market and reallocates production and resources to the most efficient firms (Ciuriak, p.3, 2011). It allows for the best firms to expand and replace weaker firms which results in increased productivity, improved standards of living and higher wages. According to the New New Trade Theory, trade takes place as a result of the differences between individual firms that possess a technology or intellectual property which makes them better to compete internationally (Sydor, p.4, 2011)

1.1.7.6. The Theory of New Economic Geography

The New Economic Geography (NEG) approach extends NTT to produce explanations for geographic clustering of industries. It allows the home-market effect to become endogenous, especially through the mobility of labor and the mobility of firms which have high levels of intermediate demand. With labor and firm mobility, there is greater reallocation of economic activities across regions. NEG model has renewed interest in trade, agglomeration and also cumulative causation as key factors which determine regional growth (Harris, p. 12-13, 2011).

1.2. Regionalism

Regionalism has many dimensions and thus a conceptual clarification of the terms such as region, regionalism and regional cooperation, regionalization and regional integration is essential (Gochhayat, p. 13, 2013). Historically, the concept of region has evolved as a space between the national and local within a particular state. This type of regions is referred as micro-regions or sub-national. The concept of region can also refer to macro-regions, called world regions, these regions are territorially larger units, between state and global system level. There are also mesoregions, it region is mid-range state or non-state arrangements and processes (Lombaerde, p. 7, 2010).

Regionalism refers to the common values, objectives and identities that lead to region-formation and regional cooperation within given geographical area. It usually leads to the development and creation of regional institutions and regional governance frameworks in order to shape collective action **(**Söderbaum and Granit, p. 7, 2014). Regionalism refers to economic integration between two or more countries based on formal agreements (Glania and Matthes, p. 4, 2005).

The concept of regionalism emerged in the 1960s. Even though regionalism or initiative at the regional level was already in existence since World War the Second to deal with security challenge of the Cold War, the process of regional integration was only encouraged in its intensity following the European Economic Community (EEC) model as observed by the other parts of the world. When the EEC moved towards the formation of European Union (EU), other regions started to move fast to accelerate the process of regionalism as a significant tool of managing globalization, mainly in facilitating the free flow of goods and services in trade (Balakrishnan, p. 1, 2013).

Multilateralism has been strongly influenced by globalization (Hnát, p. 9, 2008). Based on international trade theory, multilateralism is mainly concerned about how to achieve the optimal-sized market for trade, which is the global market. Viewed from this perspective, multilateralism is the “first best” and regionalism as “second best” which asserts a hierarchical relationship. It hierarchical relationship has been established whereby regional trade agreements must be made compatible with multilateral rules (Gavin, p.4, 2005).

When it comes to the dynamics that have been feeding the astonishing growth of it regionalism, mostly authors pointed towards its correlation with the process of globalization (Behr and Jokela, p.6 ,2011). Regionalism is closely linked with a shifting nature of global politics and the intensification of globalization. It encompasses deepening interdependence in various spheres of economic activity, widening cooperative efforts and growing commitment to international collaboration (Asian Development Bank, p. 39, 2008). Cumulative knowledge has grown within the study of regional integration and regionalism during last two decades, the institutional design of regional organizations, the problem of collective action on the regional level and the relationship between regionalism and globalization **(**Söderbaum p. 477, 2009). There is strong evidence that contemporary regionalism influence the quality and context of transnational policy ranging from economic development, trade, social affairs, education, health and security to peace (Söderbaum and Granit, p. 7, 2014). Regionalism represents a business, more specifically economic policy of two or more states, leading to the liberalization of relations between them and contributes to closer ties and regional development (Cihelkova and Frolova, p.1, 2014).

Concept of regionalism acquires different values according to the academic discipline studying this phenomenon. Some of the most important dimensions of regionalism are security, environmental, economic and social dimension. Environmental regionalism can be illustrated by initiatives to manage fresh and marine water sources. Social regionalism is another type of regionalism. Health is one of the most widely discussed examples of social policy. Security regionalism is on the rise especially from the end of the Second World War. Security regions are becoming the most relevant actors in the global security architecture. Economic regionalism focuses on international trade especially regional economic integration, which is market-driven, outward-looking and remove obstacles of goods, services, capital and investment within the region and at the same time to the rest of the world (Söderbaum and Granit, p. 18-21, 2014). Nowadays, regionalism is understood as response to the incentives and pressures connected with economic globalization (Nesadurai, p. 236, 2003).

The term regionalization is close to and very often used interchangeably with regionalism. Regionalization is understood as the outcome of states-led regionalism (Kettunen, p. 21, 2004). Most theorists define regionalism as the ideas, identities and ideologies related to regional project, whereas regionalization is usually defined as the process of regional interaction creating a regional space or outcome (Söderbaum and Granit, p. 7, 2014). Hastiadi (2016) argues that a certain region can thrive if it experiences an institution-driven process that is regionalism. Regionalism outlines cooperation in the economic, institutional, security and also defense fields and occurring at a political decision- making level. Regionalization defines an increase on region-based activity and is characterized by undirected economic and social interactions (International Peace Institute, p.1, 2013). Regionalization reflects undirected processes which forms economic interface within the region. Regionalization is a part of dynamic process explained as a persistent alignment of regions and regional communities (Hastiadi, 2016, p. 15).

1.2.1. Regionalism as Normative Theories

Regionalism, which is practiced mainly through Regional Trade Agreements (RTAs) and Free Trade Agreements (FTAs) at this stage, is questioned by conventional economic theory for its benefits to both the contracting parties and third countries outside of the agreements. An alternative measure of the extent of regionalism is the share of world trade conducted under RTAs (Pomfret, p.7, 2006). The analytical framework of the economics of RTAs is still on the essential concepts of trade creation and trade diversion introduced by Viner (Wang, p.273, 2006). One of the most classical works on the welfare consequences of RTAs is the Custom Union Issue of Jacob Viner also. It shows the possibility of improvement of worldwide economic welfare and pointed out that a common external tariff would have trade diverting as well as trade-creating effects. It can eliminates the barriers among members, an arrangement can create trade and improve efficiency through specialization of the arrangement on the one hand or it can divert trade by expanding the production of less efficient members and reducing the production of members which are more efficient (Yamamoto, p. 7, 2002).

The theoretical probability of Welfare-Increasing custom unions and FTAs was stated by many authors, among the most significant belongs Murray Kemp and Henry Wan (Yamamoto, p. 7, 2002). The Kemp-Wan proposition is independent on a number of countries involved, their development levels and size and as such is very useful in the analysis of custom union formation. If we assume there are countries in the world willing to create a custom union, then, there are a finite number of steps possible to differentiate any welfare change between these steps. Each step leads to enlarged customs union. The last step leads to the world that is just one large custom union and no outsiders aside that could produce welfare losses in terms of trade diversion effects. According to them, it is always possible to have Pareto improvement for individual countries in integration that won't negatively affect outside countries (Jošić and Jošić, p. 4,7, 2013).

Krugman's approach is mainly to imagine that all countries are identical and after that to consider their division into two or more identical blocs, consisting of a large number of small, identical units, which are called provinces. Each province specializes in the production of distinct goods. The results of this model are as follows: given a large number of blocks, the representative bloc is small and the majority of trade is with outside provinces. When another block is created, the expansion of trade with its outside provinces dominates the contraction of trade with the provinces that are moved out to create the new block. As it turns out, welfare must rise (Yamamoto, p. 8-9, 2002).

Today's world trade trends reflect in FTA creations where multilateral agreements overlap. This phenomenon is called "spaghetti bowl" and results in distortion effects where different tariff rates apply to outside countries (Jošić and Jošić, p. 7, 2013).

1.2.2. Types of Regionalism

1.2.2.1. New Regionalism

The emergence of new regionalism can be seen as a logical development in the transformed environment of global economics and politics and rising trend of globalization (Cai, p. 87, 2010). In 1993, J. Bhagwati, described features of the new stage "new regionalism". Among these features belong mainly expansion of foreign investment and international trade, boosting of numerous regional grouping and emergence of new regional entities of a modern type (Cihelková and Frolova, 48, 2014).

New regionalism is being driven by markets and by the forces of global corporatisation and global competition and by the globalization of financial markets, capital flows, product/service brands and consumer demand (Teunissen, p. 21, 1995). As a consequence, regional groupings are becoming more attractive, not that much because of their market size but for the guarantees they offer to keep opening up their economies to international trade (Pizarro, p. 38, 1998). New regionalism requires more detailed analyses with a special focus on its economic dimensions (Cihelkova and Frolova, p. 48, 2014).

Countries usually form trade blocks for noneconomic reasons such as peace, national security and help in developing political and social institutions. Political benefits, namely peace and security can often swamp the simple material consideration that usually determines economic policy. Regional Trade Agreement (RIA) may be effective way to deal with security tensions between member countries. Joining RIA with democratic countries can help a developing country achieve democracy. RIA imposes on it member countries rules such as democracy and civil rights compliance. The argument is mainly that mutual trade fosters peace between neighboring countries and that regionalism fosters trade. Standard trade theory holds that trade and migration as substitutes, it means that increased trade integration is likely to reduce income or wage differentials and decrease labor migration flows (Schiff and Winters, p. 22-197, 2003). Regional arrangements are likely more comprehensive in coverage, involving areas such as trade, security, monetary, environment, social policy (Cai, p. 88, 2010).

Regional trade agreement (RTA) is a basic term that refers to a whole spectrum of levels of economic integration (Burfisher, Thierfelder and Robinson, p.7, 2004). RTAs are defined as groupings of countries which are formed for a purpose of reduction of barriers to trade between member countries. It groupings may be concluded between countries not necessarily belonging to the same geographical region. The process towards regionalism is long. To set up regional economic institutions, country must endure several stages of integration (Hastiadi, 2016, p.15). RTAs can be divided into five categories and it depends upon their level of integration. It categories conclude Preferential Trade Agreements (PTAs), Free Trade Agreements (FTAs), Custom Unions (CUs), Economic Unions and Common Markets. A Preferential Trade Agreement is a union where member countries impose lower trade barriers on goods produced within the union. A free Trade Area is special case of PTA where member countries abolish trade barriers for goods origination within countries which are members. Custom Union provides greater integration that an FTAs and member countries apply common external tariff on a goods imported from outside countries (Pal, p.2, 2005). A significant distinction is between FTAs and CUs. FTAs are easier to create and can be institutionally very light, whereas CUs require the negotiation of the common external tariff and coordination of all future trade policy changes (Schiff and Winters, p.16, 2003). Common external tariff cannot vary across union partners. The final deep integration level is Economic Union where countries adopt a single currency and implement common economic policies and regulations (Pal, p.2, 2005). The most advanced part of regionalism is economic union (Hastiadi, 2016, p 15). For developing countries, RTAs are the main tool of a wider regional economic integration process that is an integral aspect of national development strategies. The formation of an enlarged regional market space through regional trade liberalization is perceived as a stepping-stone towards the future attainment of a single social, cultural and economic grouping spanning several countries (Mashayekhi, Puri and Ito, p. 6, 2005).

According to Burfisher, Thierfelder and Robinson (2004), new regionalism can be characterized as involving many elements found in the achievement of full economic union and may include:

- ✓ Facilitating financial and foreign direct investment flows by establishing investment protections and protocols
- ✓ Liberalization of movement of labor within RTA
- ✓ Harmonization of macro policies, including fiscal and monetary policy and coordinated exchange rate policy. Important is to achieve a stable macroeconomic environment within the RTA

1.2.2.2. Open Regionalism

Open regionalism was the idea of the 1990s. It crafted to describe original aspirations of APEC to convey their complete consistency with multilateral objectives. Openness is a significant component of development and a valid objective for all developing countries (Schiff and Winters, p. 242-244, 2003). By far, this is the most central principle for assuring consistency and complementarity between national reform programs and also the sub-regional agenda. Sub-regional programs must be bred in the same, outward-oriented, market driven and private sector-led development philosophy that has constituted the heart of national reform programs. Open regionalism would mean coordinated integration rather than collective retreat from the countries of the sub-region (Niekerk and Lolette, p. 7, 2005).

The gains and benefits of regional cooperation with a mindset of open regionalism are very much encouraged today on the global stage. Countries and regions no longer just practice open regionalism but they also participate in many inter-regional and also intra-regional cooperation and initiatives to speed up the process of regionalism (Balakrishnan, p. 1-2, 2013).

1.2.2.3. Economic Regionalism

Economic regionalism has consistently existed since the early 1950s (Cai, p. 68, 73, 2010). Economic regionalism is taking root in East Asia. The region is becoming highly integrated mainly through market-driven trade and FDI activities and at the same time, RTAs are proliferating (Kawai and Naknoi, 2007, p. 24). Economic integration is conducted through trade agreements (Wang, p. 272, 2006). RTAs in the form of custom unions and free trade agreements are openly sanctioned by GATT. In the 1980s, there was a significant revival of regionalism in the world economy. From economic perspective, regionalism in the form of PTAs and closer regional ties provides nation-states in its region advantages such as improvement of economic competitiveness, lower economic costs and handling of common economic problems in an effective way. Regionalism may help provide more stable markets for member states of regional group (Cai, p. 68-85, 2010).

New waves of RIAs are usually more outward looking and more committed to boosting rather than controlling international commerce (Schiff and Winters, p.2, 2003). Forming

RIAs almost always increases trade among member countries. International trade offers an important means of increasing competition by allowing new suppliers to enter markets. RIAs through fostering trade between members can generate these benefits because of the combination of larger firm size and a larger firm size (Schiff and Winters, p. 7, 14, 2003). Not only regional intergovernmental organizations (RIGOs) like ASEAN but also regional free trade agreements (RFTAs) are driving forces of regionalism. Regionalism is not the only determinant of economic development. Other international economic variables can affect it and globalization belongs to one of them. FDI is an important ingredient of economic globalization (Kim, p 143-144, 2013).

1.2.3. ASEAN

ASEAN members have been at the forefront of Asian regionalism (Asian Development Bank, p. 48, 2008). Regional integration has not come easily to Southeast Asia. ASEAN was established on 8th August 1967 by five original member countries, namely, Malaysia, Indonesia, Philippines, Singapore and Thailand. On 8th January 1984, Brunei Darussalam joined, Vietnam on 28 the July 1995, Myanmar and Lao PDR on 23rd July 1997 and Cambodia on 30th April 1999 (Guerrero, p. 53, 2008). The ASEAN Community has three pillars as stipulated in Bali Concord II: (1) Political and security community, (2) Socio-cultural community and (3) Economic community. Each of these three pillars have a blueprint for realization of the ASEAN community (IBON International, p.3, 2015). One of the main goals was to temper the influence that any outside power could exert. Conversely, colonial experience has restrained member states from ceding too much authority to regional actors. The pace and nature of integration in Southeast Asia has been an ongoing negotiation between preserving state autonomy and on the other hand maintaining security and fostering economic growth. ASEAN serves as a useful proxy for integration and also the state of regional politics (Wright, p. 1-2, 2013).

The table n. 1 summarizes the ASEAN economic integration process from the birth of the association until now. Regional integration of Southeast Asian economic regionalism during

1990s took form of a regional free trade area, the ASEAN Free Trade Area (AFTA) was jointly initiated in 1992 (Nesadurai, p. 235, 2003). Among AFTA targets belongs the expanding trade in ASEAN countries, promoting inflow of FDI from broad and regional investment and enhancing the international competitiveness (Yokota an Unemoto, p.2, 2007).

Table 1: ASEAN Economic Integration Process

ASEAN Economic Integration Process

Date	Event
1967	Birth of ASEAN
1993	AFTA launched, ASEAN Free Trade Area
1995	AFAS signed, ASEAN Framework Agreement on services
1997	ASEAN Vision 2010
1997	ASEAN Preferential Trade Agreement
1998	AIA ASEAN Investment Agreement
2003	Bali Concord II
2004	Vientiane Action Program
2007	Adoption of AEC Blueprint of 2015
2008	Adoption of ASEAN Charter
2010	ATIGA Trade in Goods Agreement entered into force
2012	ACIA, ASEAN Comprehensive Investment Agreement entered into force
2012	Phnom Penh Agenda
2013	Bandar Sri Begawan Declaration on the ASEAN Community Post-2015 Vision
2015	Formal establishment of AEC, adoption of AEC Blueprint 2025

Source: own elaboration based on ASEAN (2015a) and Asian Development Bank (2012)

After successful implementation of AFTA, ASEAN intensified efforts to establish ASEAN Economic Community (AEC). AEC is supposed to create a single market for goods and services and allow free movement of capital and people (Panagiotopoulos, p.11, 2012). In 2007, AEC was boosted by the adoption of the AEC Blueprint in Singapore. The ASEAN Economic Community was formally launched at the end of 2015. The Blueprint stipulates the vision and goals envisaging by four main characteristics of the Economic Community (Hansakul, p. 6, 2013). Among the AEC four main pillars belong creation of a single market and production base, competitive economic region, equitable economic development and integration into global economy. With aim of single market and production base, ASEAN focuses on free flow of goods, services, investment, labor and capital (Kawai and Naknoi, p. 12, 2015). ASEAN strives to integrate itself better as a bloc into the global supply chain. For that purpose, coherent approach regarding economic relations is pursued together with enhanced participation in global supply networks (Hansakul, p. 6, 2013). Association is working on establishing an integrated regional economy, AEC is helping the region to achieve its full economic potential and position itself as a host of global production networks. Focus of the ASEAN on maintaining centrality and its external relations influences its approach to economic integration under AEC and its engagement with the broader region through regional and also bilateral trade agreements (Australian government, p. 10-28, 2016). Not all the measures which were planned in the AEC Blueprint have been implemented, main progress has been achieved in certain areas such as liberalization of trade in goods (Umezaki, 2016).

ASEAN also initiated the ASEAN Investment Area (AIA) in October 1998. The major objective is to attain the greater and more sustainable levels of FDI into region and substantially realize a surge in FDI flows from both ASEAN and non-ASEAN sources by transformation into liberal, attractive and competitive investment area (Thangavelu and Chongvilaivan, p. 9, 2009).

There are recently proliferation numbers of new Asian regionalism and FTAs, namely ASEAN+3, ASEAN+5, ASEAN+5+Taiwan and Japan-Singapore. ASEAN forged five main FTAs with six dialogue partners. They are the ASEA+1 FTAs with the People's Republic of China (2005), with the Republic of Korea (2007), Japan (2008), New Zealand and Australia (2010) and India (2010) (Kawai and Naknoi, p. 14, 2015).

The establishment of AEC in 2015 is not an end goal, but dynamic process that requires an ongoing reinvention of the region to maintain reintegrating in an evolving global economy. The AEC Blueprint 2025 main aim is to guide economic integration of ASEAN members from 2016 untill 2025. Through AEC Blueprint 2025, association wants to reach a highly integrated and cohesive economy, also competitive, innovative and dynamic ASEAN. Among other characteristics belong enhanced connectivity, sectoral cooperation and global ASEAN. AEC Blueprint aims to address any unfinished agenda from AEC 2015 which is critical for regional economic integration (ASEAN, p.3, 2015a).

In fact, Asia is relatively a latecomer to FTAs. In 2002, there has been just 36 ratified FTAs in Asia, in 2014 the number of ratified RTAs increased to 113. The development of supply chains is driven by business in this region and it is FTAs that are catching up with business reality of more investment and trade (Baldwin, Kawai and Wignaraja, p.10, 2014).

One of the main characteristics that distinguishes regionalism of Asia-Pacific is the development in a region with almost no tradition of regional policies (Pizarro, p. 17, 1999). Asia has been experiencing significant progress of regionalism over last decade with China, Japan, Korea. Asian countries are now being more integrated than before. Regionally speaking, Asia has been nurtured by a market driven expansion of trade and FDI (Hastiadi, 2011, p. 13-14). ASEAN is an open economy region with low barriers for FDI and trade (Bhatt, p. 137, 2014).

We can see the demonstration of ASEAN attitude in the speech of Secretary-General of ASEAN H.E.M.r. Le Luong Minh: *"Over the past few decades, we have seen how globalization has connected the world, interlinking many aspects of our lives and businesses. The ASEAN region is not an exception. In order to keep pace with the rest of the world, we realize that not only must ASEAN build a greater Community among our 10 Member States, we must also integrate ASEAN into the global community."* (ASEAN, 2013, p.1)

1.3. Effects of FDI on Growth and Development

The relationship between FDI and economic growth generated a great amount of empirical literature focusing on developing countries. FDI as a growth accelerating component has received a great attention during recent years (Iqbal, p. 73, 2013). The relationship between FDI and economic growth has been long time a subject of great interest in the field of international development and resulted in a great amount of empirical literature focusing on developed and also developing countries (Hussain and Haque, p.2, 2016). The authors state that there are mixed conclusions about the impact of FDI on growth and literature contains many studies where FDI has positive, negative and no significant effects on growth. It can exist also bi-directional causality between growth and FDI (Hussain and Haque, p.2, 2016). The table number 2 presents studies on link between FDI and other economic and development variables.

Table 2: Overview of empirical studies on the effects of FDI on growth

Author	Period	Countries	Variables	Method	Results
Borensztein, Gregorio and Lee (1998)	1970-1989	69 developing countries	Productivity of FDI, domestic investment and per capita GDP growth	Cross-country regression framework	*FDI important for transfer of technology *contributing relatively more to growth than domestic investment

Carkovic and Levine, 2002	1960-1995	72 countries	GDP growth, FDI inflows, schooling, population, inflation rate, size of the government and trade to GDP, black market premium	OLS regressions, dynamic panel procedure with data averaged	*FDI inflows do not exert an independent influence on economic growth
Bengoa and Sanchez-Robles, 2002	1970-1999	18 Latin American countries	Real and nominal GDP, FDI, Gross Capital Formation as a % of GDP, Debt as a % of GDP, Inflation, Literacy rate, Primary school enrollment, black market premium, index of Openness	Panel data analysis	*FDI correlated with economic growth*host country requires adequate human capital, economic stability and liberalized markets to benefit from long-term capital flows
Hansen and Rand,2004	1970-2000	31 developing countries	FDI, GDP growth	Fixed effects estimator, FEM, VAR models, Granger Causality	*FDI lasting impact on the level of GDP *GDP has no long run impact on the FDI/GDP ratio *FDI causes Growth
Khaliq and Noy, 2007	1997-2006	Indonesia	FDI (F), Domestic Investment (D) Labor	Cobb-Douglas Production Function	*at aggregate level, FDI has positive effect on economic growth *at sectoral level, the effects of FDI on economic growth vary-negative at mining sector)
Ozturk and Kalyoncu, 2007	1975-2004	Turkey and Pakistan	FDI as a % of GDP, GDP growth	Engle-Granger co-integration and Granger causality tests	*GDP that causes FDI in case of Pakistan *strong evidence of a bi-directional causality between the two variables for Turkey
Chee, 2010	1996-2005	44 Asia and Oceania countries	per capita GDP growth rate, FDI to GDP ratio, Ratio of financial system liquid liabilities to GDP, liquid Liabilities, Private Credit	Panel data methods (fixed effects-estimator, random effects-estimator)	*FDI contributes to economic growth *financial sector development has an important role to enhance contributions of FDI

Iqbal et al.,2013	1983-2012	Pakistan	Gross Capital Formation (K), Labor (L), Health Expenditure (H), FDI AND OPENESS (OP*FDI)	Cobb-Douglas Production Function, Regression model	*positive relationship FDI and GDP *greater impact of FDI in the open trade regimes *impact may be culture related

Source: author´s own collaboration

There is a great amount of literature which deals with the growth of intra-regional trade and investment, mostly in the context of economic integration. Trade is usually first activity to be undertaken by firms, for various reasons of transaction and production costs, followed by FDI, which in turn creates more trade. This pattern is mainly marked when FDI takes the form of placement of distinct but connected parts of a production process in diverse geographic locations, which has been proceeding especially in East Asia in past four decades (Panagiotopoulos, p.7, 2012).

Previous work has looked at the relationship of FDI with several macroeconomic variables. Some of them might be thought to have a connection to FDI flows are the size and growth potential of the host market, the degree of openness of the host economy, economic stability, quality of institutions, income level and level of development (Walsch, Yu, p.4, 2010). According to Borenztein, De Gregorio and Lee (1998), FDI has an important role in promoting economic growth. They found a strong positive interaction between FDI and the level of educational attainment. The effect of FDI on economic growth is dependent on the level of human capital which is available in the host economy. For many developing countries, which usually have relatively more labor than capital, FDI provides a source of additional capital that is usually less volatile than portfolio investment flows since it is less reversible. It additional capital can make labor more productive, allowing higher incomes and wages which can induce greater consumption, creating of a larger market. The capital of FDI is very often accompanied by technological and managerial innovations which may not be present in the host country. It can boost exports and foreign exchange earnings by marketing and distribution networks and also by expanding linkages to local suppliers, leading to multiplier effects on host country employment and income (APEC, p. 2, 2015). It has been shown that FDI increases the capital available for investment and thus leading to increased economic growth needed to raise living standards and to reduce poverty (Food and Agriculture Organization of the United Nations, p 16, 2012). FDI provides needed funds for upgrading the economies and fosters economic growth through technology transfer and spillovers (Masron, p. 36, 2009). Economic literature identifies transfer of technology as perhaps the most important channel through which foreign corporate presence may produce positive externalities in a developing economy of host countries (OECD, p. 12, 2002).

Increasing FDI flows among East Asian economies imply much closer economic integration (Cai, p. 100, 2010). In many members of ASEAN, foreign capital remains a main source of exports and growth, especially in the high value-added and advanced sectors of the economy that all governments are targeting (Nesadurai, p. 39, 2003). ASEAN is seeking to increase intra-ASEAN FDI. Studies have shown that migration flows tend to mirror the movement of FDI (the South Centre, p. 43, 2007).

Kim (2013) introduced study which evaluates the effects of regionalism on economic development basing on the panel data of 217 countries. Generally, regionalism pursued by countries through their respective regional organizations was found to have no crucial independent effect on the economic development. Regionalism was found non-affective and insignificant in affecting economic development. Ansari and Tamanna (2011) analyzed the role of regional integration in South Asia. Their analyses state that regional integration has the potential to promote economic development in member countries regardless of size and level of growth. It potential may be exploited through deeper cooperation.

Relationship between FDI flows and regional agreements is complex and outcome is determined by many factors, such as the nature of capital flows, the degree of integration, structural composition and the level of development of partner countries (Aggarwal, p. 1, 2008). The rapid growth of East Asian economies in the last two decades has driven especially by the international trade and FDI expansion and moved to integration through bilateral and plurilateral FTAs. ASEAN is as hub for FTAs in the region (Wattanakul, p. 5, 2009).

2. ANALYTICAL PART

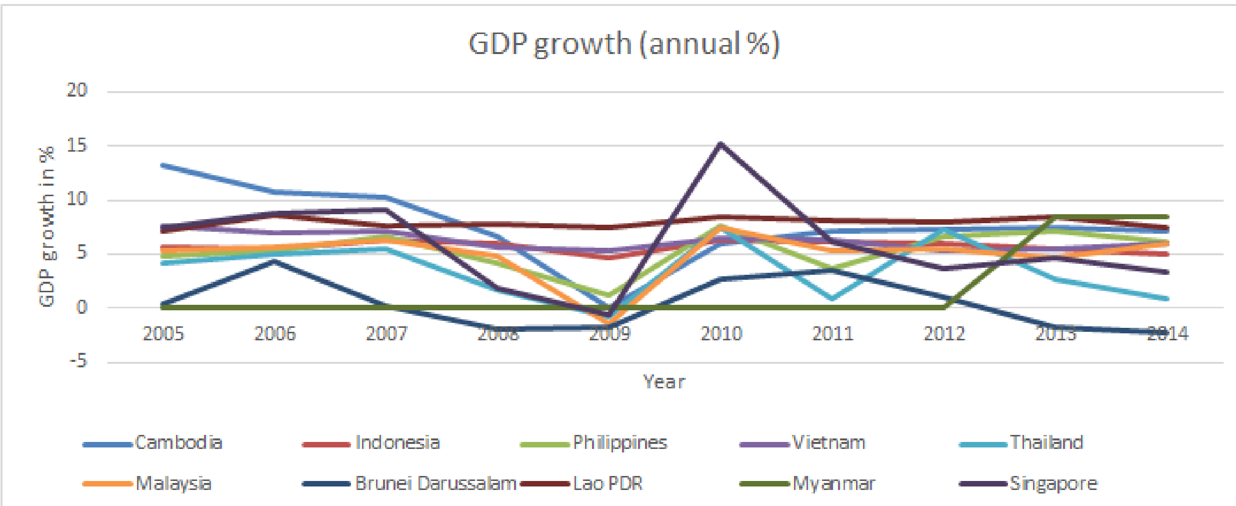
2.1. Trend Analysis

ASEAN's diverse landscape results in different stages of members' economic integration. The fast-growing, large and young working population in ASEAN is giving the region great opportunities. ASEAN is a middle-income region with population of around 620 million of people, larger than those of European Union or North America. Only over one third of people are living in the cities but contribute over two third of the GDP of region. Around 80 million of households are part of the rising middle class in ASEAN (Australian government, 9). ASEAN is diverse region with different factor endowments, human capital development, productivity, technological capabilities (Kawai and Naknoi, p.4, 2015). ASEAN members differs in every aspect. There are huge differences in levels of development and also in commercial and institutional policy environments. Singapore is rated as the most advanced economy in ASEAN with highly open economy. Thailand and Malaysia were classified as open economies. Cambodia, Lao PDR and Vietnam were considered as largely closed to internationally economy (Asian Development Bank, 2011).

2.1.1. Annual Trend Analysis of GDP

The figure n. 1 shows the trend analysis of GDP over the years 2005 to 2014 for ASEAN members. Standard Chartered Bank states that ASEAN GDP growth was at 4.9% from 2005 to 2009, even during the global financial crisis. Between the years 2009 and 2010, Singapore experienced significant sharp increase from -0.60 % to 15.25 %. Singapore wasn’t the only one who experienced the biggest increase during the years 2009 and 2010. Cambodia, Philippines, Thailand, Malaysia did the same. The GDP for Lao PDR, Vietnam and Indonesia was constant during it ten years period. The figure n. 1 shows that Cambodia’s GDP growth declined from 13.25 in 2004 to 7.07 in 2014. There are missing values for Myanmar till the year 2012. In 2013 and 2014, Myanmar experienced the GDP growth around 8.5 %. Brunei Darussalam, one of the poorest states in ASEAN had negative values of GDP growth in 2008, 2009, 2013 and 2014. According to Standard Chartered Bank, Myanmar, Cambodia and also Laos PDR are growing as fast that at 7% growth, the economy doubles in size every 10 years.

Figure 1: The GDP growth (annual %), 2005-2014



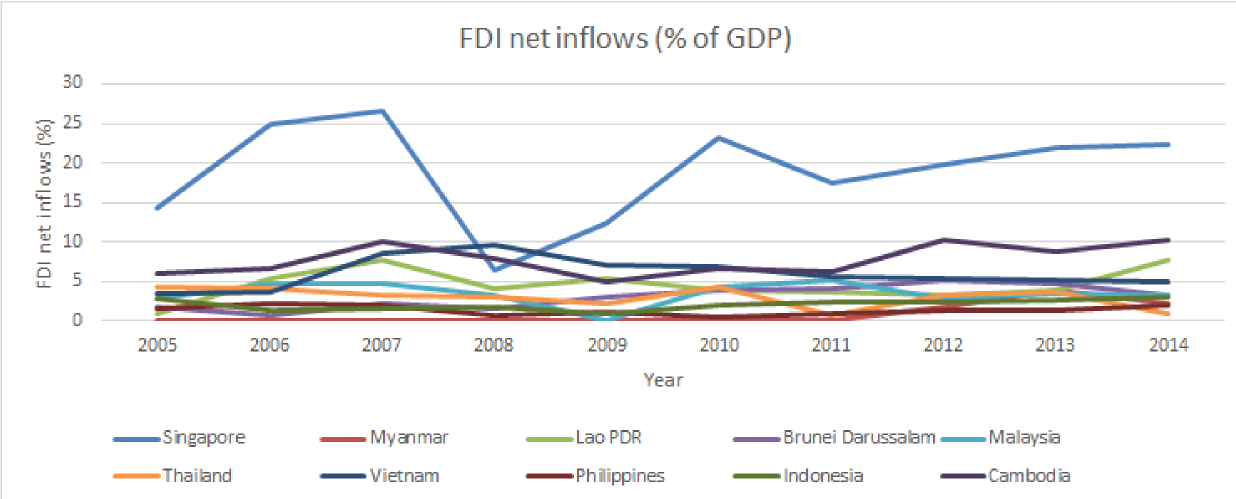
Source: own elaboration based on WB Database

ASEAN is one of the fastest growing regions in the world. According to ASEAN Statistic the real GDP grew by 4.6 % to US$ 2.57 trillion. The sustained GDP growth led to it increase in GDP per capita from US$ 3,908 in 2013 to US$ 4,130 in 2014. ASEAN share of GDP in the world increased from 3.18% in 2013 to 3.33% in 2014. ASEAN grew 2ppt faster than global growth on average from 1980 to 2013 (Standard Chartered Bank, p.3, 2014). Since 2007, the annual average growth in the global economy has been 3.35, it has been 5.15 in ASEAN (International Labor Organization and Asian Development Bank, p. 11, 2014).

2.1.2. Annual Trend Analysis of FDI

The figure n.2 presents the trend analysis of FDI from 2005 to 2014. The graph shows that Singapore had the highest FDI comparing to other ASEAN members. In 2007, Singapore's FDI decreased the most in 2007 to 6.34 %. For Cambodia, Singapore and Brunei Darussalam experienced almost double increase during years 2005 and 2007. The FDI net inflows for Indonesia and Philippines were constant. Lao PDR experienced significant increase from 2.02 % in 2005 to 7.79 % in 2014. Vietnam's FDI increased sharply during the year 2008 to 9.66 % and then decreased steadily to 4.94 in 2014 and then declined FDI of Thailand decreased from 4.34 % in 2005 to 0.91 % in 2014. There are missing values for Myanmar until 2011, the FDI net inflows was equal of 2.17 % in 2014 for Myanmar. Malaysia experienced slight increase to 3.14 % in 2014. Graph shows that the values for every ASEAN member except of Vietnam and Indonesia fell down in 2008 clearly because of financial crisis. FDI inflows into ASEAN members are historically highs in nominal terms and region of the Southeast Asia was the only region which experienced positive growth in FDI inflows in 2012 (OECD, p. 8, 2014b). According to UNCTAD data, FDI rose from 43 bn in 2005 to 125 bn in 2014, FDI inflows almost tripled during observed period. Regarding ASEAN-3, FDI inflows in 2005 equaled for 131 bn and increased to 264 bn in 2014, it values twice bigger.

Figure 2: FDI net inflows (% of GDP), 2005-2014



Source: own elaboration based on WB Database

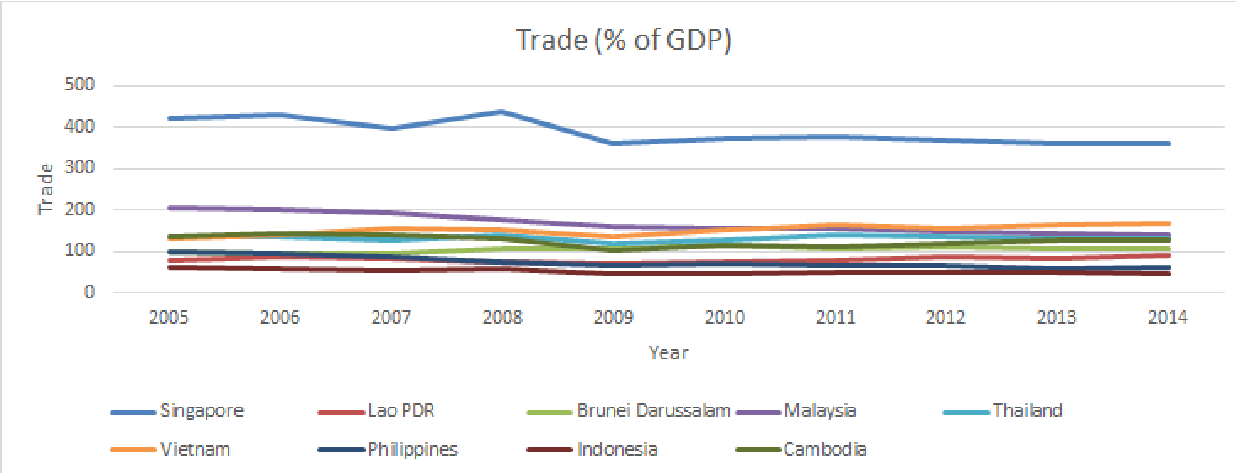
A key characteristic of the economy which is successful is its openness to FDI. An essential strategy of the AEC is to strengthen ASEAN's ties with the global economy (Standard Chartered Bank, p. 15, 2014). Southeast Asian countries has long been a magnet for FDI and has been welcoming FDI as a part of a strategy of export-led development. ASEAN members have mostly refrained from protectionist policies during Asian financial crisis and also the global financial crisis which occurred in 2007-2008. All of its elements contributed to the rise in the ASEAN share of FDI inflows in last decade (OECD, p. 5-8, 2014). The region's share of global FDI increased from 4.1 % in 2005 to 9% in 2013. In 2003, ASEAN attracted 9% of global FDI (Standard Chartered Bank, p. 4, 2014). Direct investment in ASEAN, from outside and also within the region, is supposed to be at record levels for the majority of countries over next few years (OECD, p. 5-8, 2014). ASEAN is the second-largest investor in the region and accounts for around 16% of total FDI in the region (Standard Chartered Bank, p. 15, 2014). In terms of extra-ASEAN FDI, Singapore received almost 50% of all FDI in 2013. Indonesia received 15.1%, Thailand gained 10.6% and the fourth biggest recipient was Malaysia with 10.0%. Laos had the lowest share with 0.3%. Philippines, Myanmar, Cambodia and Brunei, all of them received less than 3.3%. The biggest investor for

ASEA is European Union with share of 22% of total FDI inflows, following by Japan with 18.7% share, ASEAN with 17.4% and China of 7.1% (ASEAN UP, ©2016). ASEAN growth prospects are expected at around 5.4 % until 2018 (OECD, p. 5-8, 2014b). It region is attractive for foreign investors. It overtook China in terms of FDI in 2013 (Standard Chartered Bank, p. 12, 2014).

2.1.3. Annual Trend Analysis of Trade

The figure n. 3 shows recent trends in trade of ASEAN members. When economists are talking about open economy, they are usually looking at country's trade to GDP (in %) the sum of exports and imports which is divided by the value of GDP (Perihal, 2014). We can see that Singapore has extremely open economy, which is significantly dependent on exports. The trade to GDP ratio (in %) of Cambodia, Vietnam, Thailand and Brunei Darussalam is usually over 100 %, indicating an increasing openness. It indicates that country exports and imports far more than it produces. From the figure n. 3, we can see that some of the ASEAN members, namely Malaysia, Philippines and Indonesia experienced decrease in trade to GDP during observed period. There are no values for Myanmar for trade to GDP variable in World Bank Database. According to Asian Development Bank (2013) most of the ASEAN member chose to pursue an export-oriented development strategy over the past several decades and it strategy led to a large tradable sector.

Figure 3: Trade (% of GDP), 2005-2014



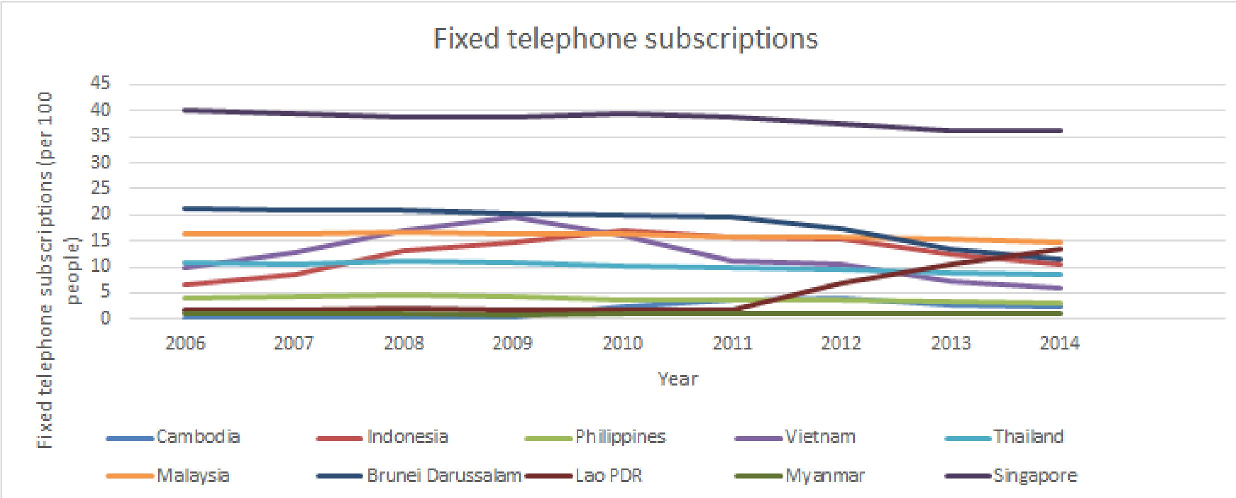
Source: own elaboration based on WB Database

In 2003, ASEAN is the fourth-largest exporter in the world and accounts for almost 7% of global exports (Standard Chartered Bank, p. 4, 2014). Region is experiencing an inevitable expansion of the ASEAN services sector (Australian government, p. 14). It is set to benefit mainly from proposed FTAs over the longer term. Especially through the Regional Comprehensive Economic Partnership and Trans Pacific Partnership, ASEAN economies can gain better to access many times their size through its agreements (Standard Chartered Bank, p. 4, 2014). Trade between ASEAN members accounts for almost a quarter of trade by ASEAN countries with the rest of the world (ASEAN, p. 3, 2012). The growth in regional value chains is one of the main drivers of intra ASEAN trade. It internal market it still lags. As ASEAN governments deepen and consolidate the integration of regional and global value chains, and as they continue to proliferate, it is expected a market rise in the volume of intra-ASEAN trade (Australian government, p. 9). There are huge different patterns across members in export. There is a domination of commercial services in Singapore and Philippines. Malaysia, Cambodia, Philippines, Thailand, Singapore and Vietnam dominate in manufactured products export. The greatest exporters of agricultural products are Vietnam, Myanmar and Indonesia. Myanmar, Brunei Darussalam, Malaysia and Indonesia are large exporters of fuels and minerals (Kawai and Naknoi, p.4, 2015). In general, ASEAN economies are export-oriented and also outward looking, thanks to a regional trend towards trade liberalization and structural reform. To touch the benefits of globalization, ASEAN adopted open regionalism as an approach (Pitakdumrongkit, p. 249, 2016). Based on recent developments and forecasts ASEAN is heading to its position to be a one of the top exporters in the world.

2.1.4. Annual Trend Analysis of Infrastructure

The figure n. 4 represents the trend analysis of fixed telephone subscriptions (per 100 people). We can see that the values among ASEAN members vary significantly. It is clear, that Singapore has the best performance during the years 2005 and 2014. The line for Singapore is mostly constant with a little deterioration from 41.02 in 2005 to 36.19 for fixed subscriptions (per 100) in 2014. Figure n. 4 shows significant decrease for Brunei Darussalam from 22.80 to 11.40 during observed 10-years period. Myanmar has the lowest values from ASEAN members. Lao PDR increased 8 times it value for variable representing infrastructure. Fixed subscriptions for Vietnam increased from 9.99 in 2006 to 19.75 in 2009 and then declined up to 6.01 in 2014. For the majority of member countries telephone subscriptions had decreasing tendency during 2005 and 2014.

Figure 4: Fixed telephone subscriptions (per 100 people), 2005-2014



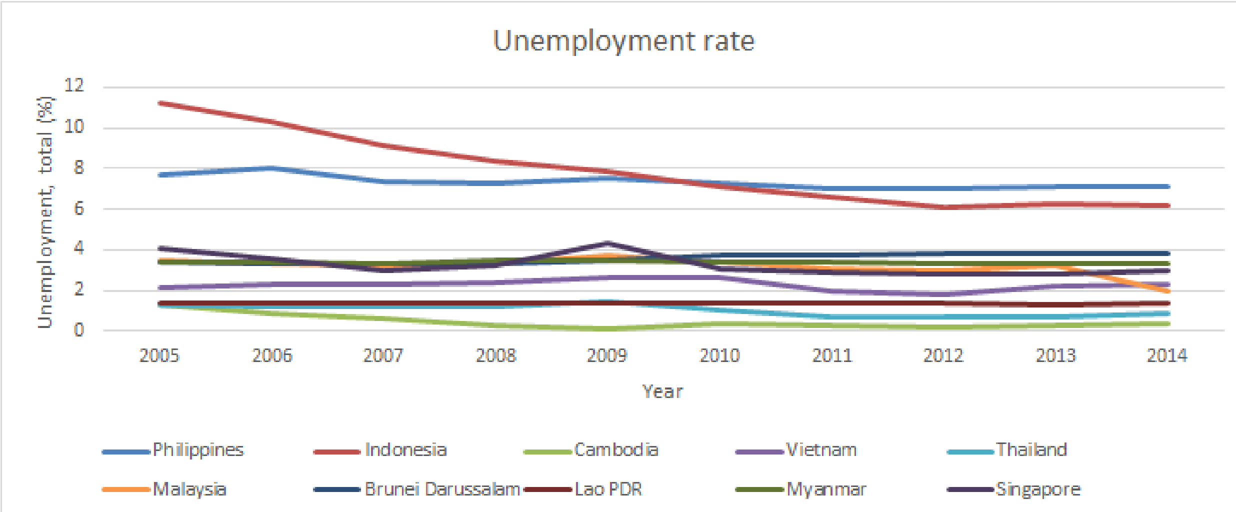
Source: own elaboration based on WB Database

2.1.5. Annual Trend Analysis of Unemployment rate

The figure n. 5 shows that during observed 10-year period, unemployment has slowed. In 2005, Indonesia had the worst unemployment rate of 11.2 % and experienced significant improvement every year up to 6.2 % in 2014. Myanmar has constant line from 2005 to 2014 with average unemployment rate around 3.4 %. Lao PDR has unemployment rate of 1.4 % for almost every year except of year 2013 with value of 1.3 %. Cambodia together with Thailand is experiencing the lowest rate of unemployment. The decrease of unemployment rate and the rise of labor force participation rate show that labor market in ASEAN is positive. Labor force, both males and females have increased in the past decade (CEIC, ©2016). From the figure n. 5 is obvious that Indonesia and Philippines are countries with the highest unemployment rates. Even though unemployment rates remain low across the region, women and youth are represented highly among the unemployed in majority of member countries (ILO, p.8, 2013).

ASEAN has seen a decline in unemployment rate from 4.7% in 2010 to 4.2% in 2013. It rate for ASEAN is lower than the global rate of 6% (ADB, p. 9, 2015).

Figure 5: Unemployment, total (%), 2005-2014



Source: own elaboration based on WB Database

ASEAN with 620 million people has the third largest labor force in the world. ASEAN has been achieving improvements in labor force expansion and also productivity improvements. Labor force together with employment is increasing (CEIC, ©2016). ASEAN's labor force is the third largest labor force in the world. It is expected that the Philippines, Vietnam, Malaysia and Indonesia will record double-digit labor force growth over next decade (Australian government, p. 9). Trade liberalization is generating income growth and is one of the main source of prosperity in the region, it generates also shocks on the market with labor as jobs are created or lost. It market access provides opportunities for new jobs and only jobs for which skills exist may be created (Fernandez and Powell, p. 6, 2009). Around 65% of region's population is under the age of 35. It means that demand for skills development and training is significant. There is a lot of opportunities in providing a training in soft skills (Australian government, p. 13).

2.2. Analysis of Model

This part describes econometric methods that author used to assess the relationship between FDI and GDP growth and regional development. Thesis analyzes the effects of foreign direct investment (FDI) on regionalism. Author firstly used fixed effects panel data analysis. The dataset used for this purpose of panel analyses comprises 10 East and Southeast Asian countries. The countries included in the model are Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam. The analysis uses annual data over the period 2005-2014. Author would like to examine cointegration relationship between determinants of regional development and FDI in the long run for ASEAN members.

The base model:

$GDP_{it} = \alpha_i + \beta_1 FDI_{it} + \beta_2 Trade_{it} + \beta_3 Infra_{it} + \beta_4 Unem_{it} + e_{it}$ **Eq. (2)**

Null and alternative hypothesis:

Ho: There is no relationship between FDI and GDP growth

H1a: There is relationship between FDI and GDP growth

2.2.1. Descriptive Statistics

The table n. 3 shows the summary statistics on dependent and explanatory variables that are used in the model. The study shows results on measures of central tendency of the variables, namely GDP, FDI, trade, infrastructure and unemployment. Descriptive statistics provides minimum and maximum values of variables.

The overall mean of GDP is 5.53153 (%) and it indicates the average of GDP in ASEAN countries. The median of GDP is 5.97337, it implies that this value has half of the observations of the GDP during the period from 2005 to 2014. GDP has a standard deviation of 3.21858. The standard deviation of GDP is 3.21858 and it number is the average distance that individual data points are from the mean. The skewness of GDP is 0.346260, the data are approximately symmetric. The skewness is negative, the data are skewed left or negatively skewed. Kurtosis of 0.767908 has light tailed distribution.

The overall mean of FDI is 5.48749 (% of GDP) and indicates the average FDI growth of ASEAN members. The median of FDI is 3.81210. The standard deviation of 5.59555 indicates that the FDI varied through ought the measurement period. The smallest data value of FDI is 0.0566923 and the largest accounts for 26.5212. The skewness of FDI equals 2.22203, the distribution is highly skewed, data are skewed right. Kurtosis equals to 4.59788 has heavy tailed distribution.

The arithmetic variable of trade is 142.426. There are 10 missing values in dataset for Trade openness. The median is equal to 123.746. The smallest number of trade values is 45.5121 and the largest is 439.657. With the skewness of 1.83871, the sample data for trade are highly skewed and skewed right. Kurtosis of 2.58342 is light tailed.

Table n.3 indicates that average fixed telephone subscription (per 100 people) in ASEAN members is 11.8539. The median of infrastructure variable dataset is 10.3654. The skewness of sample data for infrastructure is 1.24318, the distribution is highly skewed. Kurtosis accounts for 0.930743 and has light tailed distribution.

The arithmetic average of unemployment rate is 3.38200 and the average distance of unemployment variable from the mean accounts for 2.44658. The median of unemployment rate is 3.2000. Skewness for unemployment rate accounts for 1.04891, the data are highly skewed, right skewed. Kurtosis of unemployment rate has light tailed distribution, equals to 0.546271. As for the only variable, there is no missing observation for unemployment rate.

Table 3: Summary statistics

Summary Statistics, using the observations 1:01 - 10:10

(missing values were skipped)

Variable	Mean	Median	Minimum	Maximum
GDP	5.35153	5.97337	-2.34000	15.2404
FDI	5.48749	3.81210	0.0566923	26.5212
Trade	142.426	123.746	45.5121	439.657
Infra	11.8539	10.3654	0.189214	41.0274
Unem	3.38200	3.20000	0.100000	11.2000
Variable	Std. Dev.	C.V.	Skewness	Ex. kurtosis
GDP	3.21858	0.601433	-0.346260	0.787908
FDI	5.59555	1.01969	2.22203	4.59788
Trade	95.8249	0.672803	1.83871	2.58342
Infra	11.0453	0.931782	1.24318	0.930743
Unem	2.44658	0.723411	1.04891	0.546271
Variable	5% Perc.	95% Perc.	IQ range	Missing obs.
GDP	-1.59708	9.49689	3.22328	8
FDI	0.768218	22.1085	4.13511	7
Trade	49.1574	386.912	72.3824	10
Infra	0.383195	38.8956	13.5217	1
Unem	0.305000	7.99500	2.37500	0

Source: own calculation using the econometric software Gretl

2.2.2. Correlation Coefficients

To gain some insight into the relationship between GDP Growth and FDI, we carried out correlation coefficients. From the table n. 4, we can observe, that FDI has strong positive correlation with trade. The coefficient correlation between trade and FDI is 0.8207. The strong significant correlation is between the variable for infrastructure and for trade. Table 4 shows weak positive relationship between FDI and GDP. Coefficient correlation of FDI and infrastructure indicates significant relationship. Coefficient correlation between unemployment and infrastructure is close to 0 and it implicate a weak linear relationship between those variables. Trade and GDP variable have coefficient correlation of 0.650 inducing weak positive correlation. GDP, FDI and Trade has weak negative linear relationship with unemployment, the values of correlation coefficient ranges between -0.1034 and -0.2580. The coefficient correlation of variable for infrastructure and GDP induces weak negative correlation. The is no significant negative correlation between variables. From the correlation matrix for the raw data author notices that FDI variable is positively correlated with GDP, Trade, infrastructure and negatively correlated with unemployment rate.

Table 4: Correlation coefficients

Correlation coefficients, using the observations 1:01 - 10:10

(missing values were skipped)

5% critical value (two-tailed) = 0.1966 for n = 100

GDP	FDI	Trade	Infra	Unem	
1.0000	0.2903	0.0650	-0.1861	-0.1034	GDP
	1.0000	0.8207	0.6536	-0.2580	FDI
		1.0000	0.8187	-0.2322	Trade
			1.0000	0.0395	Infra

				1.0000	Unem

Source: own calculation using the econometric software Gretl

2.2.3. Testing Between Models

There are three models for panel data, pooled OLS, fixed effects model and random effects model. Author tested models to see, which one is the most appropriate for our data. We have three major tests and author has to test on OLS model (see Appendix A), namely through F test, Breusch- Pagan test and Hausman test. First test is F statistics test. It testes what approach is better. Null hypothesis is pooled OLS and alternative hypothesis is fixed effects. According to p- value of 7.13293e-005, which is fewer than 0.05 the best approach to use is fixed effects (see Appendix B). Second test is Breusch- Pagan test (see Appendix C). Test shows that random effects alternative is better approach than pooled OLS. The third test is called Hausman test (see Appendix C). It has also 2 hypotheses, null hypotheses random effects, alternative hypothesis is fixed effects. P- value is 0.0155611, it value is fewer than 0.05. It means that author rejected random effects and accepted fixed effects model. Based on these testes, the most appropriate estimation model is fixed effects model to explain the dependent variable GDP growth rate among the three models for panel data.

2.2.4. Fixed Effects Model

The table n. 5 shows the below multiple linear regression analysis model summary and it overall fit statistics. Multiple coefficient of determination, R2, of our model is 0.566883 and it means that the regression model is able to explain 56.68% of the variation in dependent variable. Around 57% of GDP growth is explained by FDI. Fixed effects model presents that FDI has positive coefficient for GDP growth as expected. The percentage of growth of FDI (% of GDP) tends to raise GDP growth by 0.43 point. This value confirms the importance of FDI to create greater possibilities for regionalism. The negative coefficient for unemployment rate indices that the higher rate of unemployment, the more it will deteriorate the GDP growth. The variable for infrastructure shows the positive coefficient. One point rise in variable for infrastructure will raise the tendency of growth by 0.05. Another variable with positive coefficient is for trade. The percentage growth of trade tends to raise GDP growth by 0.03. From the fixed-effects model we notice that p-values are statistically significant. The fixed effects model tells us that variable FDI and trade have a statistically significant impact on GDP growth of ASEAN countries. The trade variable is significant at the 5% level and the value of FDI at the 1% level.

Table 5: Fixed effects model

Model 1: Fixed-effects, using 89 observations
Included 9 cross-sectional units
Time-series length: minimum 9, maximum 10
Dependent variable: GDP

	Coefficient	*Std. Error*	*t-ratio*	*p-value*	
const	−2.51186	2.90481	−0.8647	0.3899	
FDI	0.42664	0.100581	4.2418	<0.0001	***
Trade	0.034797	0.0169422	2.0539	0.0434	**
Infra	0.0477697	0.0932332	0.5124	0.6099	
Unem	−0.0618737	0.403289	−0.1534	0.8785	
Mean dependent var		5.255923		S.D. dependent var	3.228308
Sum squared resid		397.2263		S.E. of regression	2.286190
LSDV R-squared		0.566883		Within R-squared	0.222849
LSDV F(12, 76)		8.289340		P-value(F)	9.67e-10
Log-likelihood		−192.8517		Akaike criterion	411.7035
Schwarz criterion		444.0558		Hannan-Quinn	424.7438
rho		0.019556		Durbin-Watson	1.739450

Joint test on named regressors -

Test statistic: $F(4, 76) = 5.44828$

with p-value = $P(F(4, 76) > 5.44828) = 0.000653839$

Test for differing group intercepts -

Null hypothesis: The groups have a common intercept

Test statistic: $F(8, 76) = 4.87134$

with p-value = $P(F(8, 76) > 4.87134) = 7.13293e-005$

Source: own calculation using the econometric software Gretl

Based on the above results, higher level of foreign direct investment is positively associated to higher level of GDP growth. Using a significance level of 0.05, author rejects the null hypothesis Ho and accept the alternative hypothesis H_{1a}.

3. RECOMMENDATIONS AND DISCUSSIONS

Member economies are facing opportunities and challenges with its rapid growth and FDI inflows. Author's recommendations are mainly focused on investment and business environment and how to manage sustainable development and equitable growth in ASEAN countries. Regionalism of the 21st century is more about investment-trade-service nexus.

Greater macroeconomic cooperation with ASEAN and also within ASEAN+3, and ASEAN+6 is recommending. New agreements with other potential countries should be negotiated and existing revised. RTAs are meant to facilitate regional and global trade and are important tool to promote growth and competitiveness. Regional trade agreements should be in force together with facilitation and improvement of effectiveness of implementation basically through investment. There are ongoing discussions about so called "noodle bowl" in Asia. ASEAN countries would be more aware of overwhelming of agreements and it potential chaotic implications. Implementation of such an amount of FTAs and RTAs can induce ineffectiveness and too much bureaucracy. ASEAN would more focus on improving institutional functions, it needs institutional reform to support efficiency. Keeping "ASEAN Way" and avoid creating a regional bureaucracy is key. Agreements can be a barrier preventing association for export-driven economies from obtaining better access to other markets. To avoid over extension, ASEAN and it member countries should be more selective in the organizations they are joining and at the same time choose properly initiatives in which they are associating themselves.

Member countries need to adopt appropriate policies including very deep domestic structural reforms to heighten regional integration and transform association into borderless economic community. It is necessary to introduce more reforms to facilitate liberalization and economic restructuring. It measures would lead to cost reductions and at the same time to higher productivity. ASEAN countries need to delegate more powers to regional bodies to implement initiatives of regional co-operations. Members would modify domestic laws and align national interests to long-term regional ambitions and goals. But at the same time, there is a need to ensure effective regional integration with maintaining national autonomy and preserving regional diversity. Links among sub-regional cooperation programs and initiatives must be strong to work properly. The process of harmonization of national standards to international ones is also necessary. Providing of liberalized environment is essential factor of the sustain economic growth in the regions. Appropriate macroeconomic policies would hamper economic performance of states.

Since trade and FDI are significant components of region's growth, it is imperative to frame policies that will promote growth. ASEAN should keep improving institutional capacities related bodies with investment, take into account the best practices in the world and to enhance and implement after care services for investors. To go globally and to keep integration into the global markets are a central objective of the ASEAN and it should keep in the future. ASEAN has great expectations for AEC Blueprint 2015. It may become significant pillar of global economic structure.

Author perceives FDI as a partnership between foreign firms and host economies. In every successful and durable partnership, both sides would offer some willing and substantial contributions. Incentives must build on each other. SMEs represent a significant part of production system in ASEAN. Promotion and also support of small and medium sized enterprises within ASEAN are recommending. Even small enterprises can go global with their commitment to expand abroad and knowledge of overseas markets. Association should create the environment for every enterprise to grow to its full potential. In terms of increasing productivity and strengthening trade, economies should promote business incubators for small and medium size enterprises.

ASEAN should more cooperate with United Nations in terms of human rights. The human rights violation would deteriorate relations with West countries and could induce worsening of ASEAN credibility. Individual members' domestic policies need to enhance investment in human capital and development. FTAs which proliferated a lot during last decade can help in binding region together. To reach fully integrated ASEAN, it's recommended to strengthen education and training of workers to have skilled labor. Market in terms of labor should become more efficient and include bigger participation of female workers. Important is also the facilitation of the use of technology to enable enterprises to access market and innovate.

Even though ASEAN countries are experiencing rapid economic growth, not all parts of society are benefiting from increased prosperity. There are just some areas where association can have inclusive growth and at the same time improve competitiveness. Development gaps among members create barriers to the implementation of the common targets and it approaches to implementation. The economic integration benefits should be implemented in an effective way. ASEAN development process needs to ensure convergence in people's quality of life and also their incomes. Equitable development of ASEAN members is perceived as a one of the main priorities. Reduction of disparities needs to be more emphasized in the region.

In ASEAN there still persist infrastructure deficit even though much capital was already deployed through regional, multilateral initiatives. Inadequate infrastructure is a huge limitation for private sector. Bridging gaps in infrastructure capacity would connect people to markets and boost efficiency, better transportation can reduce logistics costs. Its improvement would result in shared prosperity and better economic performance of ASEAN. Based on author theoretical and empirical analysis, better infrastructure would not only boost growth but also accelerate economic development. Infrastructure improves also financial ties.

Greater transparency for better public awareness together with effective monitoring is recommended to be applied. Strong monitoring mechanism should be put in place and for both country and regional levels. Transparency is needed for successful integration. Corruption needs to be addressed to promote development and to maximize capacities of institutions. The maintaining of the impetus for stronger institutions is critical.

For better regional integration, ASEAN should keep adopting an open regionalism policy. We can see some similarities with European Union model. A great step ahead is free flow of goods, services, labor and capital and with that related the ease of entry and exit of firms. For further integration, it is necessary to continue in focusing on investment, services, export and import of goods. It is necessary for members to promote unilateral reforms in this field and at the same time to improve ease of doing business, which is not well accessed. According to Doing Business report (2014), ASEAN is ranked at 87th place from 183 countries for the ease of doing business. ASEAN's rank is not changing that much during last years. Association is striving to transform into service-driven economy. In service sector, there is a huge potential, ASEAN's overall contribution to services is still low. Expand trade in digital service, goods and transportation is worth to mention. Author recommends the active support of the expansion of the information technology agreements. More digital trade would bring substantial trade benefits. Information and communication technologies are core.

ASEAN offers huge opportunities for business sector as well as for other stakeholders. Private sector is perceived as a key motor of growth of ASEAN. It's important to create an attractive business and investment environment. There is a huge gap between best and worst performing countries in terms of business and it means that there is a lot to work on. ASEAN should strengthen the role of private sector.

There are some threats, which can show up, namely vulnerability to external shocks due to a high degree of openness. As mentioned in analytical part, the share of intra-ASEAN trade is just ¼ of total ASEAN trade. It is a question, what effects would some lower demand do from the biggest partners such as European Union, Japan or the United states from ASEAN.

Among the potential threat belong geopolitical tensions, increased competition for influence. There is a potential threat of loss of centrality in the geopolitical context due to the rise of India and the People's Republic of China. Author recommends increased dialogue with China and the United States to prevent tensions from other superpowers. There are some limitations of Asian open regionalism. It does not address in a bigger scope conflicts and diplomatic tensions. Another threat can be unresolved intra and extra territorial disputes and ethnic conflicts. Any confrontation would serve to no one's interest. ASEAN must keep moving forward and keep more stable environment in East and Southeast Asia.

It should be addressed issues connecting with renewable energy and to green growth. Environmentally friendly technologies and pollution management system should be applied. Corporate social responsibility, corporate governance and environmental responsibility must be applied. Environmental cooperation deserves also attention.

CONCLUSION

The main aim of the diploma thesis was to examine link between foreign direct investment and regionalism. The first part reviewed available literature on the foreign direct investment and regionalism related concepts as well as on the growth-development linkages from perspective of ten member states. Author intended to provide background of the ASEAN ‘s history, institutions and their goals to understand the role of foreign direct investments in association. Author also assumed the effects of FDI on regionalism from previous empirical studies.

The second part focused on trend analysis of chosen variables. It gave us a better insight to economic performance of ASEAN. Annual data from 2005 to 2014 period of GDP growth as a dependent variable and variables for FDI growth, trade, unemployment and quality of infrastructure as explanatory ones were chosen for regression analysis. Firstly, the OLS panel data analysis was carried out and results were tested for it validity. Fixed effect model was evaluated as the most appropriate option from three possible models for panel data. Author ran econometric analysis to investigate the link between it variables. Results based on fixed effects model showed positive relationship between GDP growth and foreign direct investment. FDI have statistically significant impact on GDP growth.

Author found that FDI has a GDP growth enhancing effect and H1a hypothesis has been confirmed. Empirical analysis confirmed a consensus in the literature and previous studies on growing importance of foreign direct investments as a source of development for developing and also developed countries. Based on author’s analytical part, it is obvious that economies in the region are performing better than world’s average. Study reflects that FDI can stimulate economic growth in ASEAN members. FDI together with trade openness is estimated to be the most significant determinant of GDP growth.

Member states are showing great macroeconomic fundamentals and rapid economic growth. Fast growth is reflected in FDI data. ASEAN countries have made considerable progress during observed period. FDI is a catalyst for regional growth and a key player in bringing out for the sustainable economic goal. ASEAN has long been pursued market-driven integration.

In Asia, regionalism didn't really start to develop until the 1990s. In the mid-1990s, ASEAN expanded to include 10 Southeast Asian states and from that times is considered as a significant "icebreaker" in Asian regionalism, mainly in economic as well as security areas. ASEAN created dialogue partnership with many important economies adopting open regionalism and seeking support from other external actors. It is one of the most successful regional groups among developing nations. It regionalism is characterized by openness. Long economic prosperity of the region should be seen as strength of East Asian regionalism. Nowadays, globalization and regionalism influence greatly each other. ASEAN's openness and it integration into global economy is considering as an important sign that FDI has important effects on regionalism in Southeast and East Asia. FDI has significantly contributed to the transformation of ASEAN economies. Regionalism transformed individual members' economies into large economic arena and helped to incorporate in a globalizing world economy.

Among drivers of new regionalism in Asia is considering status of the ASEAN's as an emerging FDI destination, the upgrade of infrastructure and labor force skills, another development of regional and global value chains and further integrated economy of member states under regional FTAs. Investment and trade are key drivers of ASEAN economic growth.

Globalization resulted in a growth of global value chains where MNCs have huge influence. National approaches were replaced by more multilateral ones. Integration into global supply chains, finding new customers and support of international market is key for increasing Asian open regionalism. 21st century is mostly about regulations more than tariffs in terms of regionalism.

ASEAN largely benefits from it open regionalism which generates high GDP growth and regional integration. The boost of the growth is a measure which were gradually implemented through the AEC Blueprint 2015. Due to ASEAN’s economic aspiration, region becomes borderless. According to author's empirical study, regional economic integration has impact on the growth of the member states. Key challenge of ASEAN is to support equitable growth. According our trend analysis, we can see, that countries are experiencing better performances and the gap between countries is eliminating. Implementation of AEC Blueprint 2025 together with the same speed of Asian economy can result into fully integrated economic union.

Considering the recommendation part of the thesis for the above matters, it seems that all ASEAN countries cannot follow the same policies in terms of attracting FDI. It is also necessary to understand the FDI in each country individually. The countries differ a lot through their economic performance and development stages and must determine their requirements. The policy recommendations of author's analysis are obvious, to spur and finance growth, policymakers should encourage FDI.

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LIST OF ABBREVIATIONS

AIA ASEAN Investment Area

AEC ASEAN Economic Community

AFTA ASEAN Free Trade Area

ASEAN Association of Southeast Asian Nations

ADB Asian Development Bank

APEC Asia-Pacific Economic Cooperation

CU Custom Union

EEC European Economic Community

EU European Union

FTA Free Trade Agreement

GATT General Agreement on Tariff and Trade

GDP Gross Domestic Product

LSDV Least Squares Dummy Variable

OLI Ownership, Location and Internalization

OLS Ordinary Least Squares

FDI Foreign Direct Investment

OECD Organization for Economic Co-operation and Development

NTT New Trade Theory

NEG New Economic Geography

M&A Mergers and Acquisition

MNEs Multinational Enterprises

PTA Preferential Trade Agreement

RIGO Regional Intergovernmental organization

RFTA Regional Free Trade Agreement

RIA Regional Integration Agreement

RTA Regional Trade Agreement

TNCs Transnational Enterprises

UNCTAD The United Nations Conference on Trade and Development

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APPENDIX A

Model 3: Pooled OLS, using 89 observations
Included 9 cross-sectional units
Time-series length: minimum 9, maximum 10
Dependent variable: GDP

	Coefficient	*Std. Error*	*t-ratio*	*p-value*	
const	4.68018	0.742912	6.2998	<0.0001	***
FDI	0.433417	0.0885158	4.8965	<0.0001	***
Trade	0.00208963	0.00721661	0.2896	0.7729	
Infra	−0.211382	0.0496539	−4.2571	<0.0001	***
Unem	0.179886	0.125192	1.4369	0.1545	

Mean dependent var	5.255923	S.D. dependent var	3.228308
Sum squared resid	600.9130	S.E. of regression	2.674645
R-squared	0.344792	Adjusted R-squared	0.313592
F(4, 84)	11.05090	P-value(F)	3.00e-07
Log-likelihood	−211.2722	Akaike criterion	432.5445
Schwarz criterion	444.9877	Hannan-Quinn	437.5600
rho	0.288707	Durbin-Watson	1.256344

Source: own calculation using the econometric software Gretl

APPENDIX B

```
Fixed effects estimator
allows for differing intercepts by cross-sectional unit
slope standard errors in parentheses, p-values in brackets

       const:        -2.5119        (2.9048)       [0.38991]
         FDI:        0.42664       (0.10058)       [0.00006]
       Trade:       0.034797      (0.016942)       [0.04343]
       Infra:        0.04777      (0.093233)       [0.60988]
        Unem:      -0.061874       (0.40329)       [0.87847]

9 group means were subtracted from the data

Residual variance: 397.226/(89 - 13) = 5.22666
Joint significance of differing group means:
 F(8, 76) = 4.87134 with p-value 7.13293e-005
(A low p-value counts against the null hypothesis that the pooled OLS model
is adequate, in favor of the fixed effects alternative.)


Means of pooled OLS residuals for cross-sectional units:

 unit  1:      -0.45261
 unit  2:        1.1319
 unit  3:       -0.6302
 unit  4:       0.50071
 unit  5:         1.238
 unit  6:      -0.82389
 unit  7:      -0.15606
 unit  9:        1.7195
 unit 10:       -2.4773
```

Source: own calculation using the econometric software Gretl

APPENDIX C

```
Breusch-Pagan test statistic:
 LM = 7.59765 with p-value = prob(chi-square(1) > 7.59765) = 0.00584444
(A low p-value counts against the null hypothesis that the pooled OLS model
is adequate, in favor of the random effects alternative.)

Variance estimators:
 between = 2.5534
 within = 5.22666
Panel is unbalanced: theta varies across units

                         Random effects estimator
           allows for a unit-specific component to the error term
           (standard errors in parentheses, p-values in brackets)

          const:        4.5459          (1.3522)        [0.00117]
            FDI:       0.38065        (0.095077)        [0.00013]
          Trade:   -0.00075478       (0.0089163)        [0.93274]
          Infra:      -0.11856        (0.067633)        [0.08325]
           Unem:      0.069988         (0.21297)        [0.74326]

Hausman test statistic:
 H = 12.2537 with p-value = prob(chi-square(4) > 12.2537) = 0.0155611
(A low p-value counts against the null hypothesis that the random effects
model is consistent, in favor of the fixed effects model.)
```

Source: own calculation using the econometric software Gretl