
TRANSFORMATION OF FREE TRADE INTEGRATION OF ASEAN-AFTA ECONOMICS

Taufiq

Universitas Muhammadiyah Aceh, Indonesia

Corresponding Author Email: taufiq@unmuha.ac.id

Abstract:

The Common Effective Preferential Tariff (CEPT) program of the ASEAN Free Trade Area (AFTA) is examined in this paper as a crucial tool for advancing economic integration in Southeast Asia. Originally motivated by economic concerns, trade liberalization has expanded to include political, security, and sociocultural aspects, creating a multifaceted framework for regional integration. Theoretically, these results are consistent with viewpoints in regional integration theory and international political economy, especially neo-functionalism, which highlights the spillover effects of economic cooperation on the growth of political institutions and policy coordination. The findings demonstrate that an open investment environment and a free trade regime act as catalysts for raising ASEAN's overall competitiveness. Economic and trade cooperation among member nations is strengthened by the efficient flow of goods, which is bolstered by competitive production capacity and the development of intraregional production networks. In addition to serving as a gradual regulatory mechanism to lower tariff and non-tariff barriers, the inference implies that ASEAN-AFTA, as an international regime invention, increases the strategic position of the ASEAN organization in the activities of world trade regime provisions. In order to achieve highly competitive, sustainable, and adaptable regional integration based on natural resources toward global competition and the progressive development of the welfare of ASEAN regional countries, ASEAN-AFTA free trade finds comparative advantages.

Keywords: *ASEAN, AFTA, Free Trade, Regional Integration, CEPT, International Political Economy.*

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INTRODUCTION

Within the framework of liberalization and a free market in Southeast Asia, ASEAN economic cooperation is carried out through the establishment of the ASEAN Free economic Area (AFTA). The regional free trade agreement that went into effect on January 1, 1993, is strengthened by the implementation of this program, which is carried out without tariff or non-tariff restrictions. In order to boost intraregional trade, each

ASEAN member nation is intended to progressively adopt various AFTA agreements (ASEAN Secretariat, 2010).

The main tenet of ASEAN's regional economic cooperation is liberalism, which propels the organization's endeavours to promote shared prosperity and collective growth via cooperation. However, a number of global political and economic obstacles, such as the rise of regionalism like that observed in Europe, hindered the implementation of AFTA in the 1990s. ASEAN nations were compelled to bolster their economic cooperation initiatives in light of this. Mustafa (2009) pointed out that 168 of the 250 Regional Trade Agreements (RTAs) that had been agreed upon as of March 2002 were still in effect, according to data from the World Trade Organization. At the ASEAN meeting in Hanoi in 1998, a major decision was made to accelerate the AFTA's implementation target from 2008 to 2003. This decision was again advanced to 2002 at the meeting on September 14, 2001.

The foundational ideas that have made ASEAN one of the most prosperous regional international organisations among developing nations form the basis of this agreement (Arifin, Djaafara, & Budiman, 2008; Cipto, 2007). Realising ASEAN as a production-based single market requires liberalisation of the movement of products. This economic openness has an impact on political dynamics in addition to the economy. On the other hand, even at the level of government, an inclusive political system fosters economic expansion and improves international relations (Dahl, 1994).

International commerce is necessary to foster economic cooperation and deepen the region's awareness of ASEAN organisations. In order to guarantee inclusive prosperity and regional security in the face of global challenges, ASEAN organisations' economic and trade integration continues to work toward strengthening its three primary pillars: political-security, economic, and sociocultural. Thus, in keeping with the ASEAN Community 2025's objective, pursuing the dynamic process of harmonious, equal, peaceful, and balanced ASEAN integration becomes the primary basis for attaining sustainable regional stability. The ASEAN Community Vision 2025, which states that the ASEAN Economic Community by 2025 will be highly integrated and cohesive, competitive, innovative, and dynamic, with improved connectivity and sectoral cooperation, and a more resilient, inclusive, and people-oriented, people-centered community, integrated with the global economy, is consistent with the growth of organisational cooperation between nations (ASEAN Secretariat, 2025).

According to Narjoko (2020), integration necessitates improving coordination of trade and economic cooperation between nations. In the case of East and Southeast Asia's economic integration, a large portion of the integration's future depends on actions and coordination among the region's nations. Therefore, in the framework of international collaboration, equality and suitable capacity are required. According to Anthony J.

Venables (2000), depending on the economic levels of the members, regional integration agreements (RIAs) may result in either convergence or divergence. In keeping with ASEAN's vision and objective as an organization to improve international cooperation, this is primarily the existence of equality and sustainable harmonisation among nations in the ASEAN region. According to Venables (2000), regional economic integration of free trade eliminates tariffs and quotas and includes total integration to a higher level in order to provide the greatest feasible commercial access among them. The primary objective of this intricate process of economic integration, according to Miftahun Ni'am et al. (2024), is to improve people's welfare through increased trade, investment, and economic cooperation among member nations.

Increasing ASEAN cooperation puts the organization in a position to play a significant role in the global order on both an economic and political level. According to Jervis (1991), "international institutions can shape behavior only if the connection between outcomes and national power is indirect and mediated." For ASEAN's economic activities to remain relevant and competitive on a global scale, harmonic changes in international organizational connections are necessary. According to Bennett and Oliver (2002), in order for nations and international organizations to stay relevant in international relations, these developments require them to modify their operations and policies.

ASEAN has the ability to establish a production network as a component of the global supply chain in the context of globalization. Ikhsan (2011) observed that, despite some volatility, ASEAN's economic growth tended to expand once the partnership was established. This proves that ASEAN is a crucial component of the world economy. The mechanisms of the ASEAN Free Trade Area (AFTA) and Preferential Trading Arrangement (PTA) place a strong emphasis on lowering and doing away with tariff and non-tariff obstacles. While AFTA uses the Common Effective Preferential Tariff (CEPT) framework, which governs incremental tariff reductions for specific types of goods in accordance with mutual agreement, PTA reduces tariffs unilaterally (ASEAN Secretariat, 2010).

A key tactic for enhancing regional integration is the adoption of free trade through AFTA, with its gradual tariff reduction process. International political-economic processes, according to Faisal (1995), produce uncertainty and more intense market competition, requiring all global actors to constantly adapt and develop their capacities. The dynamics of ASEAN free trade through AFTA are examined from the viewpoints of regional integration theory and international political economy. According to neofunctionalism theory, political and institutional integration can result from economic cooperation. Regional stability can be strengthened by interdependence brought about by economic liberalism, market openness, and the removal of trade obstacles. AFTA acts as a tangible tool to boost member nations' comparative advantages, ease trade, boost

production capacity, and create intraregional production networks through the CEPT plan.

While AFTA has been extensively researched from an economic standpoint, little is known about how changes in free trade policies relate to multifaceted regional integration that includes political, security, and sociocultural elements. The majority of research focuses on the quantitative effects of tariff reductions, which primarily influence how ASEAN nations are structurally interconnected within global political-economic dynamics. As a result, this study aims to offer a thorough examination of AFTA's function as a strategic tool of ASEAN integration and its consequences for the region's ability to compete and negotiate on a global scale.

LITERATURE REVIEW

Ernst B. Haas's theory of neofunctionalism, which emphasizes that cooperation in some sectors can have spillover effects to other sectors, including encouraging the formation of supranational institutions, had a significant initial influence on regional integration studies (Haas, 1958). In the framework of ASEAN, free trade cooperation via the ASEAN Free Trade Area (AFTA) might be viewed as the first sector that sets off a more extensive process of political, security, and sociocultural integration. According to the fundamental tenet of neofunctionalism—that success in one sector will generate incentives and pressure to expand cooperation to other sectors—this dynamic demonstrates how economic efforts frequently serve as the starting point for broader integration. ASEAN Economic Cooperation, according Simamora et al. (2025). ASEAN has significantly accelerated economic development over the short and long terms through structures like the ASEAN Economic Community (AEC), the ASEAN Free Trade Area (AFTA), and numerous other efforts. As a result, institutional liberalism approaches ASEAN organizational operations in a cohesive way. Campbell (2024) highlights that integration with ASEAN is anticipated to expedite this development through increasing regional cooperation, investment, and technology and knowledge transfer.

In the 1990s, a contemporary variation that was especially pertinent in the Asia-Pacific area was the open regionalism approach. This strategy maintains strong intraregional collaboration while highlighting the openness of regional markets to outside partners. With its Common Effective Preferential Tariff (CEPT) structure, AFTA exemplifies open regionalism within this framework while permitting economic collaborations with non-ASEAN nations. Strengthening internal integration and maximizing potential from global connectivity are two strategies reflected in this paradigm.

Additionally, the liberal view of international political economy offers a crucial conceptual foundation for comprehending the function of AFTA. Free trade and economic openness are seen by liberalism as ways to increase interdependence, which can promote

political stability (Keohane & Nye, 1977). In this context, AFTA serves as a tool for both lowering trade barriers and strengthening interstate ties through mutually beneficial economic integration. According to Robert O. Keohane, if the results are indirectly mediated by national power, international organizations can influence state action (Jervis, 1991). This viewpoint is pertinent to ASEAN, as AFTA acts as a platform for policy coordination that boosts group competitiveness without compromising the sovereignty of member states.

Numerous empirical studies have demonstrated that the implementation of AFTA has strengthened cross-border production networks and increased intraregional trade volume in Southeast Asia (Ikhsan, 2011). This achievement is inextricably linked to the ASEAN Summit's decision to expedite implementation, which modified the liberalization schedule in response to regional and global circumstances (Mustafa, 2009). The strategic dimension of AFTA as a multifaceted regional integration tool includes political, security, and sociocultural elements to improve ASEAN regional integration, however the majority of earlier research still concentrates on the quantitative aspect of tariff reductions. This study aims to strengthen ASEAN-AFTA as an international regime by taking a multifaceted strategy that combines the viewpoints of regional integration theory and international political economy. Therefore, through the rules and provisions of international trade cooperation understandings at the intra-regional and global levels, the implementation of ASEAN-AFTA will further enhance the ASEAN organization.

METHOD

This study examines trends in ASEAN free trade liberalization policies toward regional integration through the ASEAN Free Trade Area (AFTA) using a qualitative methodology and a library research design. Thus, the goal of the study is to comprehend how the conceptual dynamics of regional international trade cooperation and the strategic policies of the ASEAN-AFTA agreement relate to the theoretical underpinnings of international trade liberalism. With constantly enhanced regulatory tools, this functions as ASEAN's organizational approach for multifaceted integration in Southeast Asia. As a result, trade liberalization promotes prosperity, ensures long-term sustainability, and enhances regional integration.

Secondary sources of data include official ASEAN documents, the annual report of the ASEAN Secretariat, statements from the ASEAN Summit, trade statistics from the World Trade Organization (WTO), and scholarly publications such books, scientific journals, and pertinent policy articles. Purposive selection of quantitative and qualitative data sources was carried out, taking into account legitimacy, credibility, and relevance to advancements in ASEAN collaboration.

In international political economy operations, the content analysis approach classifies data according to its applicability to theoretical frameworks, specifically

liberalism, neofunctionalism, and open regionalism. As a result, the analysis process entails investigating the connections between regional cooperation stages and regulations, regional harmonization, tariff reduction policies, the development of production networks, and the fortification of the pillars of economic, political, and sociocultural cooperation.

Thus, source triangulation, which contrasts conclusions from scholarly literature with official statistics data and stages of ASEAN policy documents, strengthens the validity of the examination of ASEAN's fundamental beliefs and conceptions. A descriptive-analytical narrative that explains the causal relationship between free trade policies and the ASEAN regional integration process presents the analysis's findings. The strategic position of ASEAN-AFTA cooperation as an international regime that fortifies comprehensive regulations, both inside ASEAN and regional alliances, as well as countries outside the international region within the global political-economic system, are also included.

RESULT AND DISCUSSION

Research on the phases of free trade policy in Southeast Asia toward ASEAN economic integration is presented in this section. As required by the ASEAN Economic Community (AEC), it examines the shift from the implementation of the ASEAN Free Trade Area (AFTA), which first involved the removal of tariff and non-tariff barriers, to the stage of economic integration.

Both quantitative and qualitative data from policy documents, official ASEAN reports, international trade data, and interviews with business actors and economic experts are used to conduct the discussion. This strategy seeks to fully comprehend how modifications to the free trade framework impact labour, investment, and the movement of goods and services around the area.

This section also looks at the variables that promote and hinder integration, including the dynamics of geopolitics and international trade, member country disparities in economic development, and regulatory harmonization. The extent to which these changes in free trade policy are creating a single ASEAN market is then explained by analyzing the results using the theoretical framework of regional economic integration and intergovernmentalism.

Therefore, the debate offers an academic analysis of the strategic significance of changes in ASEAN organisational cooperation policies for the viability of ASEAN economic integration in addition to describing the current empirical realities

ASEAN Trade Development

The Common Effective Preferential Tariff (CEPT) scheme, which covers 12 important sectors agricultural production, air transport, automotive, e-ASEAN,

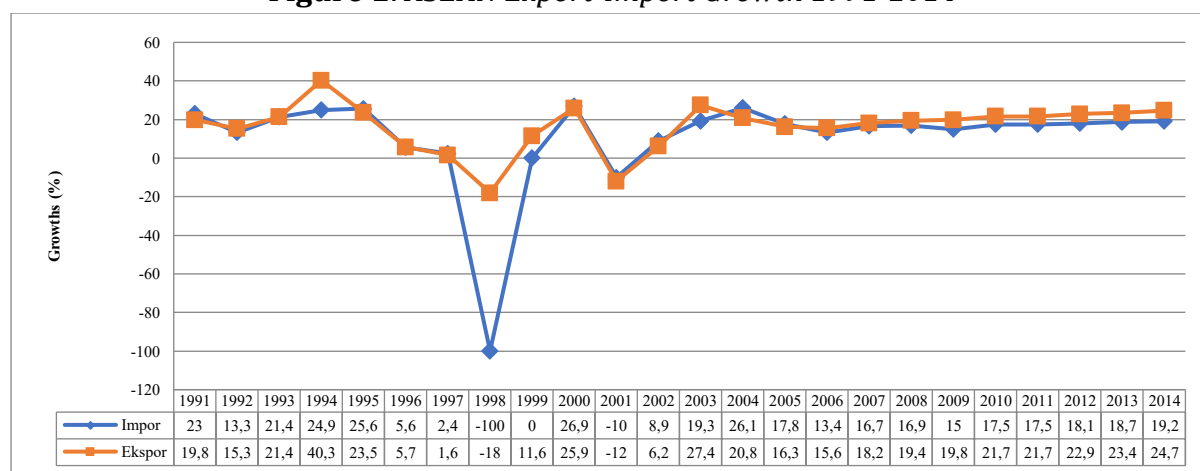
electronics, fisheries, healthcare, rubber production, textiles and apparel, tourism, wood production, and logistics services is used to remove tariff barriers within the framework of ASEAN trade cooperation (ASEAN Secretariat, 2010). This demonstrates the dedication of ASEAN members to creating a more integrated, competitive, and open market integration across key industries (Thanh, 2011).

In the process of regional economic integration, lowering non-tariff barriers is just as important as eliminating tariffs. In order to harmonize trade policy, member nations must reaffirm their understanding and increase transparency regarding non-tariff rules that have impeded the flow of goods (Koh & Tin, 2010). In order to foster stability and predictability in intra-ASEAN commerce, this strategy seeks to both remove administrative obstacles and establish regulatory uniformity.

ASEAN products are guaranteed to fulfil internationally accepted standards for quality, safety, health, and technological specifications through harmonization evaluations with international legislation (ERIA, 2012). This guarantees that ASEAN goods are competitive in both local and foreign markets. In this regard, expediting the customs clearance procedure is an essential instrument for lowering logistical expenses, accelerating the flow of goods, and boosting trade efficiency (Menon, 2013).

From an academic perspective, this policy shows that two important foundations of ASEAN economic integration are tariff liberalization and harmonization of non-tariff rules. While non-tariff and customs reforms act as spurs for deeper integration, CEPT is a first tool for fostering trust among member states (Soesastro, 2005). Increased trade volume and the strategy's capacity to boost ASEAN's collective competitiveness in international free trade are two indicators of its success. As a free trade region heading toward a single market and integrated manufacturing base, this growth thus illustrates ASEAN's position in the global economy.

Figure 1: ASEAN Export-Import Growth 1991-2014



Source: Processed from ASEAN Secretariat, February 2015

According to the figures in Figure 1, imports increased by 12.25 percent while ASEAN exports rose at an average annual pace of 16.38 percent between 1991 and 2014 (ASEAN Secretariat, 2015). ASEAN's trade performance was severely hit by the Asian economic crisis of 1997–1998, as evidenced by an 18% drop in exports and an even more severe loss in imports, which fell below 100% (Athukorala, 2006).

Although the growth rates were not as strong as they had been prior to the crisis, ASEAN's imports and exports recovered. Pre-crisis average export growth was 18.23 percent and imports were 16.60 percent; post-crisis average growth was 17.73 percent and imports were 13.10 percent (Menon, 2013). With fluctuating oscillations and usually showing a tendency toward expanding free trade in the region, the post-crisis implementation of AFTA sparked a recovery in ASEAN trade (Thanh, 2011). Trade between ASEAN members is increased and regional economic integration is promoted by the removal of tariffs and other trade barriers (Putri, 2022).

The share of trade between member states is still quite small, despite the fact that intra-ASEAN trade integration is increasing. Only over 25% of all trade in 2014 was done within ASEAN; the remaining 75% was done with commercial partners outside the area (ASEAN Secretariat, 2015). Japan, the US, the EU, and China are ASEAN's principal trading partners.

Tham (2015) claims that while Japan, the US, and the EU have historically dominated ASEAN's trading partnerships, China's involvement has grown dramatically as it integrates into global supply chains run by multinational corporations (MNCs). Together, these four major allies make up over 44% of ASEAN's trade share.

Table 1. ASEAN Trade with Major Partner Countries, 2014

Partner Countries	Exports (billion US\$)	Imports (billion US\$)	Total Trade (billion US\$)
ASEAN	1.266,1	1.135,4	2.361,5
Japan	903,9	948,0	1.851,9
United States of America	1.405,0	3.298,0	4.703,0
European Union*	6.806,4	7.083,8	13.889,4
China	1.806,0	1.334,0	3.140,0
South Korea	758,6	937,0	1.695,6
Australia	364,3	457,0	821,3
India	272,6	365,0	637,6
Canada	627,3	452,0	1.079,3
Russia	465,3	298,5	763,8
New Zealand	345,7	237,1	582,8
Pakistan	278,2	168,6	446,8
Number of Main Partners	11.632,9	12.579,9	24.212,8

Other countries	675,3	713,2	1.388,5
Total	12.308,2	13.293,1	25.601,3

Source: Processed from the ASEAN Statistical Appendix (World Trade Report, 2014)

When it comes to product categories, electronics, machinery, and oil and its derivatives dominate ASEAN exports, making for around 60% of all ASEAN commerce. This classification refers to the Harmonized System (HS), a goods numbering system created by the World Customs Organization that uses two-digit identifiers for aggregate commodity groups.

Using a neo-functional approach, the theory of economic and trade integration is used to examine changes in ASEAN free trade. The process of creating economic cooperation, including free trade zones, common markets, single markets, and eventually complete economic integration, is referred to as integration. Trade between ASEAN members is increased and regional economic integration is promoted by the removal of tariffs and other trade barriers (Putri, 2022). Increased economic activity, improved regional stability, and the development of shared understandings that form the basis for peaceful and long-lasting ASEAN integration are also linked to this stage.

Free Flow of Services

ASEAN reaffirmed its commitment to fostering liberalization in the services sector after liberalising trade in goods within the region by lowering and eliminating tariffs to 5% and 0% on nearly all commodities under the AFTA framework. The ASEAN Framework Agreement on Services (AFAS), which was signed in 1995, made this endeavor a reality (ASEAN Secretariat, 1995). As a platform for regional services trade, AFAS functions as a collection of standards and guidelines that must be followed within the context of services cooperation in Southeast Asia, according to Abdurrasyid et al. (2020).

Tham (2015) claims that while AFAS has been implemented in a number of service industries, there hasn't been much development in the ASEAN Investment Area (AIA). The AFAS agreement then incorporated five service sectors tourism, healthcare, aviation services, e-ASEAN, and logistics into the previously established list of twelve important sectors. The logistics industry was liberalized in 2013 after the first four sectors tourism, health, aviation services, and e-ASEAN—were liberalized in 2010 (Chia, 2014).

In keeping with global economic dynamics and the growing flow of products, people, and services, the service sector is becoming more and more important to Southeast Asia's international economy (OECD, 2014). Harmonization with international regulations and consideration of the internal circumstances of ASEAN member nations are necessary for the implementation of this liberalization. According to Rizal Sukma (2009), the implementation of AFTA takes into account the service sector as a major force behind economic liberalization in ASEAN and does not only concentrate on trade in

products. As a result, the service sector's economic development is balanced, and in certain instances, it has even demonstrated quicker growth rates.

The service sector's contribution to member nations' overseas trade and Gross Regional Domestic Product (GRDP) reflects this. According to the ASEAN Secretariat (2015), the service sector accounted for 25–27% of the ASEAN economy's total GDP in 2013. This contribution was greater than that of the industrial and agricultural sectors in a few member nations. This assertion highlights how the service sector has developed into a vital weapon for ASEAN nations, bolstering the region's economy, providing a crucial basis for liberalization, and propelling the expansion of regional economic activity.

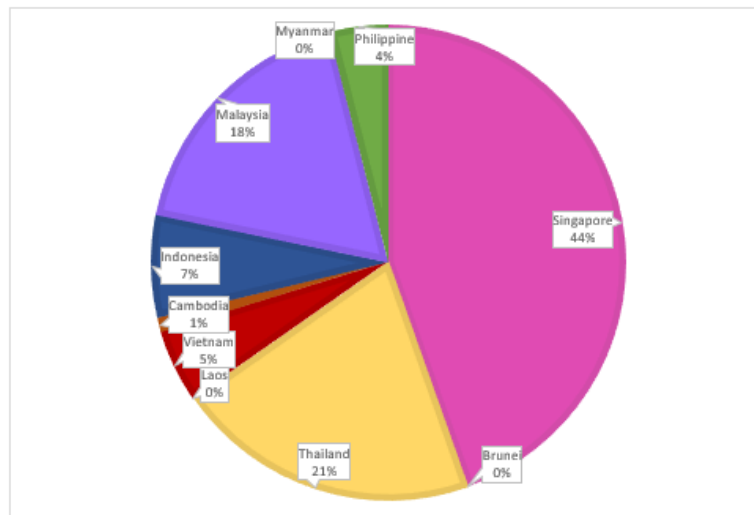
Table 2. *Role of the Service Sector in ASEAN GRDP, 2013*

Countries	Agriculture (%)	Industry (%)	Service (%)
Brunei Darussalam	6,5	77,0	63,5
Cambodia	70,6	57,2	73,6
Indonesia	67,0	79,9	86,8
Laos	74,6	44,7	53,5
Malaysia	35,7	89,5	91,4
Philippines	43,6	68,6	79,4
Singapore	0,7	66,7	95,8
Thailand	69,7	83,6	89,7
Vietnam	69,4	68,6	77,3

Source: Processed from ASEAN Data, 2013

Additionally, all ASEAN nations have had comparatively large increases in international trade in the ASEAN services sector, which is consistent with current trends in both international trade and economic activity. A number of nations, such as Singapore, Malaysia, Thailand, and Indonesia, have demonstrated comparatively strong growth in their service industries. As can be seen in Table 2, there are still variations in the growth of the service sector, but they are not considerable because other nations in the region have also followed suit with progressively beneficial improvements.

Foreign direct investment in the region is what propels the expansion of ASEAN's service sector activity. This rises in the need for a greater range of services, such as technical assistance, expert services, and machine repair. In the services sector, Singapore, Malaysia, Thailand, and Indonesia lead global commerce, followed by Vietnam and the Philippines. Thanks to advancements in information technology, modernization of economic activity, and cutting-edge technological equipment in services, these nations have become attractive destinations for international investment in Southeast Asia. Competitiveness is also enhanced by government service facilities and the hiring of foreign specialists.

Figure 2: *Composition of Member Countries' Opportunities in Trade in Services in ASEAN*

Source: ASEAN Secretariat, 2014.

The opening of four major sectors in 2010—tourism, healthcare, aviation, and e-ASEAN and the logistics sector in 2013 marked the start of ASEAN's service sector liberalization. These policies offer a wide range of development prospects because they were created with the geographic and demographic conditions of the area in mind. But as of 2014, different member nations have made different strides toward liberalizing the service sector. However, because of its economic advantages, abundant natural resources, sizable market, and dedication to gradual liberalization policies targeted at regional harmonization and stability, ASEAN has the strategic potential to grow its service sector. As a result, the AFAS, the AEC Blueprint 2025, which takes the place of the AEC Blueprint 2015, highlights the necessity of deepening and expanding service sector integration (ASEAN Secretariat, 2025). Mitsuyo and Ando (2022) claim that because capital in services trade necessitates cross-border movement between service providers and consumers, trade in services has been more impacted.

The nation's best equipped to grow their service industries are Singapore, Malaysia, Thailand, and Indonesia. Proactive government initiatives and cutting-edge technology help this. By coordinating policies in key areas like ASEAN tourism promotion and the creation of Mutual Recognition Arrangements (MRAs) for services, these four nations are spearheading regional integration. They also facilitate the movement of skilled workers, like physicians and healthcare professionals, between member nations.

The ASEAN Framework Agreement on Services (AFAS), which was reached in 1995 as part of initiatives to support AFTA and the modifications to the AEC Blueprint 2025,

which promote regional economic integration, is referred to as the implementation of services sector policies. The growth of the free flow of services sector is viewed as an integration process that broadens cross-border economic cooperation, according to economic integration theory and the neo-functional perspective. This is consistent with the functional-structural viewpoint, which holds that the establishment of stronger regional institutions is based on sectoral cooperation.

Liberalizing the services sector is important for ASEAN economic integration, but there are structural and political obstacles to overcome. First, there are still large regulatory differences among member nations. The mobility of service providers across borders is frequently hampered by variations in technical standards, licensing processes, and legislation in certain industries, such as finance, healthcare, or transportation (Das, 2017). Second, the smooth operation of services is impacted by uneven infrastructural readiness, especially between member nations with developed economies like Singapore or Malaysia and others with limited capacity like Laos or Myanmar. The technology-based services industry has significant challenges due to uneven digital and logistics infrastructure (Menon & Melendez, 2015). Third, worries about the loss of economic sovereignty and the danger that increased competition poses to regional service sectors give rise to domestic political opposition. Government commitment to full liberalization is frequently slowed down by pressure from domestic interest groups, such as labor unions or professional associations (Nicolas, 2019).

Therefore, extensive internal reforms, strategic infrastructure investment, and handling political opposition through inclusive public engagement processes are all necessary for liberalizing the service sector in ASEAN. These challenges result from the fact that ASEAN's liberalization of the service sector entails intricate local political-economic processes and calls for more rigorous regional policy coordination.

Free Flow of Investment Policy in ASEAN

The goal of the ASEAN area's free flow of investment policy is to make Southeast Asia a competitive and appealing place for investors from both inside and outside the region. Creating a business-friendly environment is the main goal in order to draw in foreign direct investment (FDI). The region's appeal to investors is indirectly increased by the establishment of the ASEAN Free Trade Area (AFTA), which permits the free movement of commodities (Tham, 2015). Southeast Asia is intended to become a competitive, integrated, and single-production-based global investment hub under ASEAN's free flow of investment policy, especially through the ASEAN Comprehensive Investment Agreement (ACIA) and the ASEAN Economic Community (AEC) 2025 framework (ASEAN Secretariat, 2025).

Efforts to attract investment have been ongoing since the early 1980s, with the recognition that investment is an essential component of economic development. This

approach catapulted ASEAN into a critical component of global productivity, notably for Transnational Corporations. However, the 1997/1998 Asian financial crisis harmed the region's attractiveness, especially in hard-hit nations such as Indonesia and Thailand, which saw a major drop in FDI inflows and a contraction in the manufacturing sector.

ASEAN now has a vast and expanded market thanks to regional economic integration, and investment brings two benefits: directly increasing production capacity and indirectly facilitating knowledge transfer. In this setting, maintaining an open and liberal investment regime is critical for increasing regional competitiveness. According to Haas and Ernst (2000), the establishment of such a regime reflects a process of collective learning and social growth among member nations, as well as technological considerations.

ASEAN investment benefits from economies of scale, population, strategic position, plentiful natural resources, labor, and open economic policies. Investment integration is intrinsically tied to global trade, the role of multinational firms, and market access. The establishment of the ASEAN Investment Area (AIA) in 2010 created an open and competitive investment region. Intra-ASEAN investment is relatively small when compared to investment from outside the area, driven mostly by excellent economic conditions, growing labor costs, and the need for strategic alliances.

One of the foundations of the ASEAN Economic Community (AEC) is investment liberalization, which corresponds to the free flow of products, services, and skilled workers. The AIA framework emphasizes the value of investment policies that are appealing, competitive, open, and sustainable. Ahmad Nizar Yaakub (2018) contends that AFTA will increase trade and investment integration by fostering collaboration among economic blocs, notwithstanding disagreements among member countries. Kawai and Takagi (2008) emphasize that there are no shortcuts to effective trade and investment liberalization; rather, this process necessitates a staged strategy that takes into account each country's unique circumstances. This is consistent with Aida's (2006) call for a balance between capital flow liberalization and the notion of prudence in anticipating probable economic turbulence.

Changes in ASEAN Investment Cooperation and Liberalization

The Framework for the ASEAN Investment Area (AIA) was signed on October 7, 1998. This program is a regional policy designed to make ASEAN an open, competitive, and appealing investment destination for international investors. The AIA aims to enhance investment cooperation, create market opportunities, and encourage sustainable inflows of Foreign Direct Investment (FDI), both from outside the region and between member nations. ASEAN investment by 2025 aims to strengthen the region's status as a single, integrated, resilient, and sustainable investment destination, in accordance with the AEC Blueprint 2025 and ASEAN Future Plan 2045. As a result, the

ASEAN Investment Area (AIA) 2025's principal objective is the implementation of the ASEAN Regional Investment Promotion Action Plan (RIPAP) 2025-2030, which aims to attract high-quality FDI in vital industries.

This agreement commits all member countries to gradually removing or revising legislation, practices, and business climates that impede investment flows. According to Tham (2015), AFTA has made the area more integrated, but foreign investors still see ASEAN as an incompletely integrated market. This situation highlights the necessity for member countries to make a deeper commitment to preventing incentive conflicts and collectively increasing the region's attractiveness.

The AIA covers all non-portfolio direct investment. ASEAN Secretariat (2014) established nine critical initiatives to attain this goal:

1. Coordinating the implementation of investment cooperation and facilitation initiatives.
2. Implementing integration promotion and investment awareness campaigns.
3. Opening up all major sectors, including industry, agriculture, fisheries, forestry, mining/quarrying, and allied services, subject to temporary exclusions (Temporary Exclusion List/TEL) and a Sensitive List. The TEL will be phased out, while the SL, while indeterminate, is projected to be gradually reduced.
4. Ensuring that ASEAN investors receive the same national treatment as domestic investors.
5. Actively involve the private sector in the AIA development process.
6. Promoting the transfer of capital, experience, and technology among member countries.
7. Ensuring the transparency of investment policies, rules, and procedures.
8. Simplifying the investment procedure.
9. Eliminate investment barriers and liberalism policy in all areas as agreed in 2003 (for all members except Cambodia, Laos, and Vietnam beginning in 2010).

The AIA expects investors to have a regional attitude when allocating capital and conducting production activities. This promotes cross-border labor division, improves industrial efficiency, and lowers production costs. The AIA's primary benefits for investors are increased access to numerous industries, equitable treatment (national treatment), more accessible investment options, greater market information, and a more competitive investment regime with lower transaction costs.

The ASEAN Coordinating Committee on Investment (CCI) implements the AIA using three major ways (ASEAN Secretariat, 2008):

1. Facilitate collaboration and projects to boost ASEAN's competitiveness and lower transaction costs.

2. Enhance and reinforce ASEAN's image as a single investment destination.
3. Liberalization to establish a free and open investment environment.

Prior to the AIA, ASEAN had signed a Promotion and Protection of Investment Agreement (PPIA) in 1987 to boost industrialization. With the formation of the ASEAN Economic Community (AEC) in 2015, the AIA and PPIA, as well as any relevant regulatory amendments, were reviewed and consolidated into the ASEAN Comprehensive Investment Agreement (ACIA), which was then updated to the AEC-2025 Blueprint. As a result, the ACIA evolved into a more comprehensive legislative umbrella that encompassed ASEAN collaboration, facilitation, promotion, liberalization, and investment protection.

Changes in ASEAN Investment Liberalization

Recognizing the significance of investment flows for development, ASEAN members are revising their investment regimes to improve coordination within the regional cooperation framework. The ASEAN-5 (Singapore, Malaysia, Thailand, the Philippines, and Indonesia) enacted Trade-connected Investment Measures (TRIMs) to lower foreign investment barriers, particularly those connected to trade-related performance standards.

Singapore is the only ASEAN country that does not have stringent conditions for foreign investment. Other member countries continue to impose various restrictions, notwithstanding the legally obligatory AIA. The implementation of investment liberalization policies varies each country, with no set timescale. Some nations, including Malaysia, the Philippines, Thailand, and Indonesia, have adopted local content criteria, export orientation, and technology transfer (Tham, 2015).

To streamline the licensing process, the ASEAN-5 has implemented a one-stop-shop system. Foreign investment (inward FDI) and outward FDI are both quite open, with a few exceptions. Foreign ownership prohibitions typically apply to vital sectors such as national security, health, and transportation. Except for banking, air transportation, and shipping, Singapore imposes few limitations. Indonesia and the Philippines use a negative list, but Malaysia and Thailand limit ownership depending on export proportion or industry type (ASEAN Secretariat, 2010).

Singapore, Brunei, and Indonesia have no substantial limitations on external investment flows, although Thailand, Malaysia, and the Philippines have, particularly in terms of foreign payments and local levies. ASEAN's investment liberalization changes gradually, adjusting to each country's conditions and capacities (Tham, 2015). This study emphasizes the achievement of common goals through the removal of cross-border barriers. According to neo-functionalism, sectoral agreements in the investment sector promote collaborative strategies that combine national objectives within a regional framework.

Changes in Foreign Direct Investment (FDI) Flows in ASEAN

In principle, the dynamics of foreign direct investment (FDI) flows in the ASEAN region are showing fascinating developments. Over a seven-year period (2003-2010), FDI inflows increased significantly when compared to the average FDI inflows from 1990-2000 (ASEAN Secretariat, 2014). In 2013, overall FDI inflows into ASEAN countries was US\$113.75 billion, more than five times the average from 1990 to 2000. According to the ASEAN Investment Report 2025 and the most recent data, FDI flows into ASEAN countries in 2025 exhibit strong resilience in the face of global uncertainties, with a focus on developing the manufacturing sector, supply chain, and digital economy. Overall, 2025 will be defined by ASEAN's efforts to transition from a low-cost manufacturing base to a high-tech innovation and supply chain hub, despite external factors that stifle global investment growth in general (ASEAN Secretariat, 2025).

Thus, in the early phases, the majority of FDI flows were focused in the five biggest ASEAN member nations (ASEAN-5), which together absorbed nearly 97% of the region's total FDI (Table 3). Singapore ranks top as the largest FDI recipient, accounting for nearly 56% of total ASEAN FDI. Thailand came in second (23%), followed by Malaysia (17%). Indonesia finished fourth with around 14%, overtaking the Philippines, which garnered approximately 7% (Tham Siew Yean, 2015). Meanwhile, other ASEAN member countries remained comparatively behind in garnering FDI flows. This scenario implies that there is still a significant difference in the allocation of foreign direct investment among ASEAN member nations, which can have an impact on regional economic development equality (Ikhsan, 2011).

Table 3. Foreign Direct Investment (FDI) Inflows in ASEAN, 1990–2013 (million US\$)

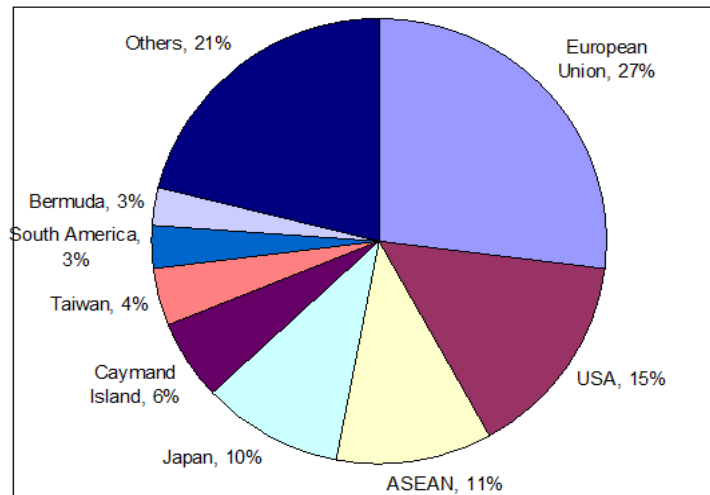
State	Average 1990–2000	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Singapore	9.204	11.664	19.828	15.004	24.207	26.100	27.515	28.012	29.435	30.125	31.342	32.543
Thailand	3.198	5.235	5.862	8.957	9.751	10.556	11.223	13.326	15.338	15.654	16.291	16.765
Malaysia	4.722	2.473	4.624	3.965	6.060	8.764	9.875	11.657	13.258	15.675	16.875	17.385
Indonesia	1.547	597	1.896	8.337	5.556	7.657	8.021	10.453	11.675	13.243	14.578	15.324
Philippine	1.289	491	688	1.854	2.345	3.432	5.765	6.721	8.154	9.187	9.462	9.758
Vietnam	1.322	1.450	1.610	2.021	2.315	3.421	5.897	7.654	9.387	9.479	9.762	9.856
Cambodia	155	84	131	381	483	579	653	733	871	912	934	968
Brunei	349	3.375	334	289	434	595	756	875	924	9.327	9.483	9.595
Laos	50	19	17	28	187	232	352	429	532	655	724	745
Myanmar	346	291	25	236	143	246	425	528	653	765	792	812
Amount	22.182	25.679	35.015	41.072	51.481	61.582	70.482	80.388	90.227	105.022	110.243	113.751
Growth (%)	—	13,62	26,66	14,75	20,22	16,40	12,63	12,32	10,90	14,09	4,74	3,08

Source: Processed from UNCTAD, *World Investment Report (2014)* and ASEAN Secretariat (2014)

Given Singapore's important significance as a distribution center and financial center, the ongoing high rate of change in FDI (Table 3) is understandable. This position is aided by Singapore's permissive foreign investment regulations. However, these provisions are not the only ones encouraging FDI to the ASEAN region. Thailand and

Malaysia continue to impose limitations on foreign ownership, yet they remain key FDI destinations (ASEAN Secretariat, 2014).

Figure 3: *Origin of PMA Entering ASEAN*



Source: Processed from ASEAN Secretariat 2014 and UNCTAD, World Investment Report, 2014.

Similarly, four nations dominate ASEAN FDI flows, both as donors and recipients: Singapore, Malaysia, Thailand, and Indonesia. These four countries absorb around 91% of total FDI inflows in the ASEAN area, while also accounting for 96% of FDI outflows among member countries (Tham, 2015). This rise has not been evenly distributed throughout ASEAN countries. Singapore, Malaysia, Thailand, and Indonesia remain the region's top FDI beneficiaries (Ikhsan, 2011).

The substantial flow of FDI into these countries is intimately linked to the activity of transnational businesses (TNCs), particularly in the manufacturing, financial services, and trade sectors, which seek to meet global market demands. FDI in these four countries reflects the nature of intra-industry trade, particularly in electronics manufacturing and information and communications technology. In this regard, Singapore is the most appealing investment destination in ASEAN. This advantage is reinforced by adequate infrastructure and considerable supporting facilities, which can attract FDI funding and promote international trade liberalization (Tham, 2015; Ikhsan, 2011).

Thus, the analysis of changes in ASEAN FDI flows reveals the usefulness of integration theory in conjunction with functional-structural and neo-functional techniques. ASEAN, as an international organization, serves to integrate political power by harmonizing international collaboration. The international regime for ASEAN-AFTA is based on the concept of economic integration, which emphasizes the concepts of economic and political cooperation among ASEAN member nations through shared

interests and regional agreements. As a result, ASEAN economic integration is a complex phenomenon with interconnected economic, political, and institutional dimensions (Haas, 1958; Art et al., 2023).

CONCLUSION

This study looks at the shift in ASEAN free trade toward regional integration under the framework of the ASEAN Free Trade Area (AFTA), which is an expression of economic liberalism through a free trade zone agreed by all member countries. This technique is implemented through the Common Effective Preferential Tariff (CEPT).

ASEAN's economic and trade liberalization through the CEPT mechanism aims to cut tariffs on all listed items to 0%-5% in 2003 for ASEAN-6 and from 2006 to 2010 for ASEAN-4, or Cambodia, Laos, Myanmar, and Vietnam (CLMV). These differences indicate regional implementation gaps in AFTA. The ASEAN Economic Ministers' Meeting gradually built policy harmonization procedures to ensure the successful implementation of AFTA, accomplishing the goals of regional trade liberalization and strengthening the international regime. Economic and trade policy changes facilitated inter-industry cooperation in Southeast Asia, emphasizing the significance of adopting legislation for regional trade liberalization.

According to the survey, ASEAN's commerce is primarily with partners outside the area. This is relevant to efforts to boost policy credibility and create investment incentives. In this framework, an open and free investment system improves ASEAN's competitiveness. Member nations are specifically aiming to eliminate tariff and non-tariff barriers, allowing goods to flow freely within the area without being hampered by different protectionist policies. This measure increases the appeal of foreign investment in the face of comparative advantage competition among ASEAN countries and around the world.

Tariff and non-tariff reductions implemented within the ASEAN-AFTA framework indicate a liberalization of ASEAN's strategic objectives, allowing vital service sectors to grow. Member countries' readiness varies; Singapore, Malaysia, Thailand, and Indonesia are better equipped than others. These four countries are key drivers of regional transformation, particularly in terms of coordinating strategic policy activities within ASEAN. While ASEAN's investment policy is reasonably open, discrepancies in investment laws among countries remain an issue. Multinational firms have an impact on regional investment movements, the capital acquisition gap between member nations remains large, and intra-ASEAN distribution is suboptimal.

ASEAN-AFTA economic cooperation has consequences for international trade beyond the region, notably with key partners like Japan, Taiwan, and other East Asian countries. Utilizing substantial natural resources (factor endowments) through a

comparative advantage method, as well as capital and labor intensity, has increased ASEAN's production capacity and global competitiveness.

Thus, Southeast Asian member countries' collective consciousness has spurred ASEAN-AFTA integration towards economic cooperation for long-term prosperity. Intra-ASEAN commerce strengthens regional industrial networks, which are crucial to the success of the AFTA free trade regime. As an international system, AFTA is constantly improving its core rules, processes, and policies. The ASEAN integration process is carried out through economic cooperation based on comparative advantages, while continuing to rely on plentiful natural resources and adhering to the ASEAN legal framework's laws and agreements.

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