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**ECONOMIC REGIONALISM AND FDI INFLOWS IN THE ASEAN  
REGION****Abstract:**

The creation of free trade areas and the implementation of other forms of liberalization covering two or more countries to support the effective functioning and expansion of global value chains is not a new phenomena. Since the second half of the 1980s, the rapid expansion of global value chains due to the emerging North-South production sharing have been facilitated by the growing number of regional economic initiatives. In this study, the ASEAN's regional economic initiatives/agreements are examined to assess the role of economic regionalism in the attraction of FDI and the spread of production networks.

The economic cooperation of the ASEAN countries can be divided into two periods. Between 1976 and 1987, the ASEAN's regional cooperation was aimed at achieving import substituting industrialization. Since the late 1980s, the regional initiatives and agreements of the ASEAN countries have been embedded in an export-oriented, FDI-dependent strategy. The shift in the regional economic cooperation from import substitution to export-oriented and FDI-based strategy was triggered by the emerging market-led integration in the region. In the second half of the 1980s, efficiency-seeking FDI started to increase in Southeast Asia. Northeast Asian, American and European transnational corporations have created production networks in electronics, automotive and textile/garment industries in the ASEAN region.

In the last two decades, the main aim of ASEAN's regional agreements and initiatives was to transform the region into a single market and production base which is attractive for foreign direct investments and where production networks can work efficiently. The birth and/or the acceleration of liberalization efforts of several regional initiatives/agreements (e.g. AFTA, AFAS, AICO, AIA) can be linked to the period of 1997-2003, when due to the Asian financial crisis, FDI inflows into the ASEAN region decreased and later stagnated. In 2003, ASEAN agreed on the creation of ASEAN Economic Community by 2015 which is based on former regional initiatives and agreements. The efforts for accelerating regional integration contributed to the fact that ASEAN managed to increase its share in global FDI inflows in the last decade. In 2012, FDI inflows into ASEAN reached a record level. Nowadays, ASEAN countries can draw together nearly as much FDIs as China does.

**Keywords:**

ASEAN, single market, production networks, foreign direct investments

**JEL Classification:** F15, F21