Analysis of International Trade between Indonesia with ASEAN-8

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By:
Pisi Bethania Titalessy
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Pisi Bethania Titalessy

Economics Development Major Faculty of Economics and Business Brawijaya University

Email: peaceshe95@gmail.com

Abstract

International trade is one of way to increase foreign exchange of a country. AEC is a form of economic integration of ASEAN in terms of a system of free trade between ASEAN countries. Because there is free trade system, Indonesia should prepare to face the AEC. This study aimed to analyze the factors that affect international trade by looking at the effect of variables Gross Domestic Product (GDP), Foreign Direct Investment (FDI), the distance between exporters and importers, and the population towards total exports.

Analyses were performed using panel data regression to know the influence that occurs between the independent variables and the dependent. From the results of the panel data regression is known that variables of GDP of importer country, FDI of importer country, and the total population of the importer country has a positive and significant impact on Indonesia's total exports. Meanwhile, the variable distance between the exporter and importer countries showed a negative influence on bilateral trade in ASEAN.

Keywords: GDP, FDI, Distance, Population

A. INTRODUCTION

Every country in the world certainly will do interaction with other countries in the vicinity. Usually it is in a form of cooperation or interaction that creates interstate commerce or international trade. International trade is the buying and selling process involving a larger subject, which is a country with other countries. International trade in the real world, however, is a complex interaction of economic, political, social and other factors that encourage or inhibit the movement of goods from one location to another.

As a country located in South East Asia, Indonesia has good relation with the countries in the area. Southeast Asia is a strategic region for Indonesia in cooperation between countries. After initiating the formation of ASEAN, Indonesia is also more active in ASEAN meeting forums. Indonesia is the country initiating collaborations between countries in Southeast Asia, both bilateral and multilateral. In the context of bilateral relations, Indonesia cooperates with the countries in South-East Asian region in the fields of economy, politics, and more.

Indonesian cooperation with the countries in the ASEAN region will be realized with the establishment of ASEAN Economic Community (AEC), which is a form of economic integration of ASEAN in terms of free trade system among ASEAN countries. Indonesia and nine other ASEAN members have agreed on ASEAN Economic Community (AEC).

According to Salvatore (1996), with the process of economic integration, each country will specialize in the production of commodities, which has an absolute advantage, and exchange part of the output that has the absolute loss, so that the two trading countries can consume more products.

ASEAN Economic Community (AEC) is the realization of the ultimate goal of economic integration adopted in Vision 2020, which is based on the convergence of the interests of ASEAN member countries to deepen and broaden economic integration through existing and new initiatives with a clear deadline. In establishing the ASEAN Economic Community (AEC), ASEAN must act in accordance with the open principles, outward looking, inclusive, and a market-oriented economy consistent with multilateral rules and compliance with the system for compliance and effective implementation of economic commitments based on rules.

ASEAN Economic Community (AEC) will establish ASEAN as a single market and production base that makes ASEAN more dynamic and competitive with the mechanisms and measures to strengthen the implementation of existing and new economic initiatives; accelerate regional integration in priority sectors; facilitating the movement of business, skilled labor and talent; and institutional strengthening of ASEAN mechanism.

AEC is expected to be realized by the end of 2015. It will not only bring many benefits, but also polemic for Indonesia in facing the challenges ahead, especially when compete the free trade system. Of course, this will force us as Indonesian to have a powerful ability to compete with other ASEAN countries and stabilize the economy.

The research presented in this paper contributes to analyses the factors that affect the Indonesian exports to ASEAN-8, which will be an evaluation to improve the system, as well as the future prospects of Indonesian trade with other countries. Specifically the following research questions will be addressed: How does GDP, FDI, Distance and Population influence Indonesian exports to ASEAN-8?

B. LITERATURE REVIEW

GDP (Gross Domestic Product)

Gross Domestic Product is one method for calculating national income. GDP is defined as the total value of all goods and services produced in the region within a specified period (usually a year). International trade is one factor to increase the GDP of a country. According to Rivera (1994), GDP is considered as the final value of production of goods and services from residents of a country in a given period entered into the variation of expenditure categories.

GDP is the calculation used by countries as the primary measure of national economic activity. However, GDP measures the entire production volume of a region (country) geographically (Madura, 1997). According to McEachern (2000), GDP measures the market value of final goods and services produced by the resources within a country in a given period, usually one year. GDP can also be used to study the economy from time to time or to compare several economies at a time.

The size of a country's economy can be seen from the potential ability of those countries to realize trade internationally, the ability of two countries to sell or buy products from each other. The larger size of the economy, the greater the ability of the country to undertake the production of goods. Production of large items can increase trade flows by way of exporting domestic products. Nevertheless, the larger size of the economy of a country, the greater the ability of the country to increase the demand for goods by importing from other countries is.

GDP in real terms indicate the size of the economy of a country. GDP is estimated to have a positive relationship with total exports. High levels of national income can increase the level of exports from the country in international trade. Increasing of GDP in importer countries also affect the demand of exports to exporter countries.

FDI (Foreign Direct Investment)

Foreign Direct Investment (FDI) plays an extraordinary and significant role in global business. It can provide a firm with new markets, marketing channels, cheaper production facilities, access to new technology, products, skills and financing. The host country for the foreign firm, which receives the investment, it will be awarded with new technologies, capital, products, organizational techniques, management skills, and a strong impetus to its economic development. FDI is a measure of foreign ownership of domestic productive assets such as factories, land and organizations. Foreign Direct Investments have become the major economic trigger of globalization, accounting for overhead aspects of all cross-border investments.

Foreign Direct Investment (FDI) is an international capital flows out of a country where companies establish or expand its company in another country (Krugman, 1994). Foreign Direct Investment (FDI) is an investment, which is directly implemented into production or business in a country by individuals or companies from other countries, either by buying a company in the country of destination or to expand operations existing business in the country. FDI includes investment in real assets such as plant construction, procurement of various kinds of capital good, the purchase of land for production, procurement of various equipment of production and inventory, and so on. In international context, FDI is generally carried out by multinational companies (MNCs) engaged in manufacturing (processing), extracting natural resources or in the service sector.

Geographical Distance

Distance refers to the ease or difficulty of goods and services to traverse space. This will measure the ease flow of capital, labor, distribution of goods, and services delivered between the two locations. For trade in goods and services, the distance takes time and monetary costs. Distance is an indication of transportation costs. Distance is constant each year. Distance increases transaction costs of international exchange of goods and services.

The farther the distance separating a country to another, the greater the cost of transportation to trade between them, so trade decreases. However, the development of transportation technology can minimize the time and distance between the countries. Placement and quality of transport infrastructure and the availability of transportation became a major influence in the economic distance between countries.

Krugman (2009) considers that the distance of the two countries is an important determinant in the geographical pattern of trade. The greater the distance, the greater the cost of transportation is. Therefore, the estimated distance negatively correlated with bilateral trade. Krugman argues there is a negative relationship between geographic distance and total bilateral trade. This is an indication that the greater the distance the two countries trade, the higher transportation costs incurred.

Population

Population is the total number of people living in a country. The population is also a reflection of the magnitude of domestic demand to trade in meeting the needs of the country. The population is used to measure the size of a country. Larger size shows that the country has a more diverse production and tends to meet their needs (Kalbasi, 2001).

Addition on the country's population could be the supply side and the demand side. Population growth on the demand side will increase the demand for the product, and then a country tends to increase imports of the product. on the supply side, population growth will increase domestic production. In this condition, the demand for imported products tends to decline.

The greater the demand for the products of a country, the greater the production is. Thus, it requires a larger population to achieve higher productivity. The increasing population of importer countries affects the demand for imports to meet the needs of the country.

C. RESEARCH METHOD

The research design of this research is descriptive quantitative. It systematically examines the relationship between variables and provides a more detailed description of a phenomenon. In this approach, the process measurement of variable is a central part because it describes the relationship between empirical observations and the results of the mathematical model. In addition, it assesses the validity of hypotheses that have been set. This research was conducted with the levels of study and the conclusions were drawn to express a symptom/sign and circumstances as they are, and the results illustrated the events of what really happened.

In this research, the variables are one dependent variable and several independent variables. The dependent variable (Y) is a variable affected by independent variables. Meanwhile, the independent variables (X) are variable expected to affect the dependent variable. The estimation method used in this research is panel data. Panel data is the combined data from the two types of data, the time series and cross section. The data were processed by using the software package STATA.

Type of Research	Quantitative
Scope	ASEAN-8
Type and Source of Data	Secondary
Data Collection Method	BPS, World Bank, Geobytes
Data analysis Techniques	Panel Data

D. ANALYSIS RESULT

First, classic assumption test is statistical assumption testing that must be met on multiple linear regression analysis based on Ordinary Least Square (OLS). Classical assumption test is carried out before the regression model created. Classical assumption test is done to see deviations on the classic assumption in the regression.

1. Multicollinearity Assumption

The definition of this assumption is that each independent variable (predictor) only affects the response variable and not on other independent variables. The hypothesis on this assumption, namely:

H0: There is multicollinearity in independent variable

H1: There is no multicollinearity in independent variable

In the multiple linear regression, it is expected to accept the hypothesis H1, If there is a linear relationship between independent variable / predictor. H1 hypothesis is accepted, if the value of the correlation between independent variable or Variance Inflation Factor (VIF) is smaller than 10. Table 4.1 below displays the result of multicollinearity test.

Variabel	VIF	1/VIF
Ln (GDPj)	5.27	0.189695
Ln (POPj)	4.51	0.221912
Ln (FDIj)	4.35	0.230061
Ln (FDIi)	4.19	0.238700
Ln (GDPi)	4.12	0.242932
Ln (Distance)	3.61	0.276867
Mean VIF	4.34	

The result of multicollinearity testing shows that the value of Variance Inflation Factor (VIF) of Ln (GDPi), Ln (GDPj), Ln (FDIi), Ln (FDIj), Ln (Dis), Ln (POPj) variables are less than 10. Therefore, H1 is accepted and indicates that there is no linear relationship between independent variable, or it could be said that the non-multicollinearity assumptions in this model are met.

2. Normality Assumption

The normality assumption is to determine whether the standardized residual studied is in normal distribution or not. In the study, the number of observation is 80, which consisted of ASEAN-8 countries for 10 years. According to Ajijah (2011) said if the number of observations are more than 30, so the data can be stated that the data have normal distribution. Because the number is greater than 30, then the data could be declared to have a normal distribution.

PANEL DATA RESULT

The Result of Panel Data Processing Approach to Fixed Effect Model (FEM)

Independent Variable	Dependent Variabel			
	LnEXij			
	Coefficient	Std. Error	t-Value	Probability
Constant	-1.912878	2.808644	-0.68	0.498
LnGDPi	0	(omitted)		
LnGDPj	1.081607	.09631	11.23	0.000
LnFDIi	0	(omitted)		
LnFDIj	.1719441	.0735865	2.34	0.023
LnDISij	-1.763819	.0291279	-6.06	0.000
LnPOPj	.324356	.077319	4.20	0.000
N	80			
Prob > F	0.0000			
R-sq	0.9584			

Note:*LnGDPi, LnFDIi omitted because of collinearity
*indicates significance at the 5% level
Source: writer's own calculation (based on data from World Bank, BPS, Geobytes), 2015

The regression model:

TOTAL EXPORT INDONESIA = -1,912878 + 1,081607 Ln(GDP ASEAN-8) + 0,1719441 Ln(FDI ASEAN-8) – 1,763819 Ln(DISij) + 0,324356 Ln(POP ASEAN-8) + ε_{it}

The interpretation of the previous formula can be explained based on the regression model as follows:

1. The value of GDP ASEAN-8 = 1.081607. It means that if the value of GDP ASEAN-8 increases to 1%, Indonesia Total Export variable will increase 1.081607%, while other independent variables remain ceteris paribus.
2. The value of FDI ASEAN-8 = 0.1719441. It means that if the value of FDI ASEAN-8 increases to 1%, Indonesia Total Export variable will increase 0.1719441%, while other independent variables remain ceteris paribus.
3. The Distance value = -1.763819. It means that if Distance value increases to 1%, Indonesia Total Export variable will decrease 1.763819%, %, while other independent variables remain ceteris paribus.
4. The Population value of ASEAN-8 = 0.324356. It means that if the Population value of ASEAN-8 increases to 1%, Indonesia Total Export variable will increase 0.324356%, while other independent variables remain ceteris paribus.

Determination Coefficient (R^2)

Determination coefficient shows the significant effect of independent variable towards dependent variable in presentage units. The advantage of this research design is measured by using determination coefficient (R^2). The value of R^2 nearly increases to one, so it can be said that the research design is good. The value of determination coefficient (R^2) is amounted at 0.9584. Thus, the effect of total independent variable towards dependent variable is 0.9584 or 95%, and other 5% are affected by extern variables of research.

The Effect of GDP (Gross Domestic Product) towards Export

Based on the regression result, it revealed that the GDP of importer country positively affects to the Total Export of exporter country. The positive effect of significant level amounted to 5%, and the coefficient value is 1.081607. Based on the result, it can be concluded that the GDP of importer country increases to 1%, so the effect towards the change of total export of exporter country is 1.081607%. It indicates that the GDP of importer country increases to 1%, so the total export by exporter country and trade partners will increase to 1.081607%. Vise versa, if the GDP of importer country decreases by 1%, so the total export by exporter country and trade partners will decrease to 1.081607%.

The GDP of importer country (ASEAN-8) has the positive effect towards Indonesia Total Export. Based on the previous study, Yue (2004) said that GDP positively correlated to the country’s trade. It shows that the country’s higher economic capacity by GDP, so the consumption on the goods demand in a country will be higher towards other countries. The GDP of importer country represents the country’s absorption capacity. The higher absorption capacity in a country will encourage another country to obtain the goods and service which cannot be produced in the country. However, sometimes, the country prefer to import the goods from other country than produces it by themselves, because the country should spend more expensive cost to produce the goods than import the goods from other country.

The next factor which affects the country to import the goods and service is resources. Sometimes, a country tends to import the goods from another country than produces the goods by themselves, because the lack of resources. However, when the resources are abundant, the country will have potency to produce the goods in the country and will be able to export the goods and service to the other country. That is known Indonesia is a country which has great resources, especially the natural resources.

The Effect of Foreign Direct Investment towards Export

Based on the regression result, it is revealed that the FDI of importer country positively affects to the total export of exporter country by 5% significant level, and the coefficient value is 0.1719441. Based on the result, it can be concluded that the FDI of importer country increases 1%, so the effect towards the total export of exporter country change is 0.1719441%. Therefore, if the FDI of importer country increases by 1%, the total export of the exporter country will increases by 0.1719441%. Vise versa, if the FDI of importer country decreases to 1%, the total export of exporter country will decrease to 0.1719441%.

Foreign Direct Investment (FDI) is a potent instrument of economic development, especially for the less developed countries. It enables capital-poor countries or developing countries, to build up physical capital, create employment opportunities, develop productive capacity, enhance skills of local labor through transfer of technology and managerial know-how, and help integrate the domestic economy with the global economy. In integrating the local economy with the global economy, it affects the Balance of Payment (BoP) of country.

Blomstrom and Kokko (1998) argued that multinational companies in international trade and foreign investment are often considered as the main source of technology diffusion and economic growth in host countries. In other words, international trade and foreign investment is regarded as a source of knowledge, performance, and technology transfer especially from industrialized countries to developing countries.

FDI ASEAN-8 has a positive impact on Indonesia's total exports. This means that the greater the FDI of ASEAN-8 will increase their imports from Indonesia. Benefit of FDI is to provide capital funds to host country that mostly in the form of technology that will improve the efficiency of productivity in the industry. FDI from ASEAN-8 has the potential to increase the total exports of Indonesia because Indonesia is a country which rich of natural resources that are needed for countries that want to produce, but does not have the raw materials.

There are bi-directional links possibilities between FDI and imports. First, if imports are evidence that a market exists for a commodity, FDI might be attracted to the host country to produce the product locally. In other words, a rise in imports in the host country justifies investment and production by MNCs; thus, imports stimulate FDI inflows. Second, as soon as MNCs establish in the host country, they import certain types of supplies (basic components and intermediate goods produced by the headquarters) to satisfy the quality standards required by the international market; therefore, FDI inflows increase the demand for imports.

In the later phases of the investment; input nature, output type, productivity spill-over and type of relationship with other role players in the industry determine the direction of effect of FDI on import of a country. If FDI uses local raw materials and other inputs of production, it may not have significant adverse effect on import.

On the contrary, if it relies on imported inputs like raw material, human skill, and other intangibles assets, it affects import positively. The relationship between import and output type of FDI can be positive or negative.

According to Jayakumar, L.Kannan, and G. Anbalagan (2014), if the output is complementary to other products that are imported, it may encourage import and would have positive effect. However, if FDI is concentrated in import substituting industries, then it is expected to affect imports negatively because the goods that were imported earlier would now be produced in the host country by foreign investors.

The Effect of Distance towards Export

The distance represents the transportation cost which has to be paid by the country in accordance with the agreement among two countries in trading. The further distance among two countries will increase the cost to be paid. According to Krugman (2009), he said that the distance will decrease the trade total in the country. Larger distances between countries are expected to decrease bilateral trade (Clark et al.: 2004; Glick and Rose: 2002; Rose et al.:2000). By leading to a higher transportation costs and some other difficulties to trade such as informational and psychological frictions (Huang: 2007).

The negative relationship between distance and trade has been quoted as one of the most robust empirical findings in the international trade literature (Leamer & Levinsohn, 1995). Countries situated close to each other trade more intensively than countries that are farther apart. Such an effect can be caused by the exporter’s transportation costs of shipping from home to the destination, so that the greater distance entails greater transportation costs. Large distance can also imply greater transaction costs of having to deal with culturally or institutionally unfamiliar markets, which in turn makes it more difficult for exporters to establish the necessary network of distributors abroad.

Based on the analysis results, it found that there is negative effect of distance. The significant level amounted at 5%, and the coefficient value is -1.763819. Therefore, it can be concluded that the distance of exporter country and importer country increase to 1%, so the effect towards the change of total export is 1.763819%. It indicates that when the distance of exporter country and importer country increase to 1%, so the total export by exporter country to importer country will decrease to 1.763819%.

The further distance between two countries, the importer and exporter country will increase the transportation cost to paid in trading process. According to Krugman (2001), there is another cost which has to be paid by two countries in trading that are paying attention on shipping and time. Based on the theory in trading, it has been explained that the country should pay attention on the cost which has to be paid in delivering the goods. Thus, the country tends to import the goods from the country which is closer to exporter country. Indonesia and ASEAN-8 countries in which most countries in ASEAN had sea territory frequently trade using marine transportation.

The Effect of Population towards Export

The population in the country represents the potency of country in trading activity. The potency can be viewed based on the offer or demand. The country with large population will have potency to fulfill the country's needs even another country's needs. However the country with large population might also import more goods because the country with large population cannot fulfill their needs.

In this research, it is found that there is positive effect on the country with large population towards the total export at significant level amounted at 5% with the coefficient value amounted at 0.324356. Based on this result, it can be concluded that the population in the importer country increases to 1%, so the effect towards the total export of exporter country change amounted at 0.324356%. Therefore, it indicates when the population in the importer country increases to 1%, so the total export by exporter country will increase to 0.324356%.

The population in the importer country will have positive effect. It is inline with Ikemoto (2004), Zarzoso (2010) researches which found that the higher population in the importer country, the country's need will be higher too. In fulfilling the country's needs, the country needs to trade with other countries which have abundant products.

The positive trend shows that the measurement of country is related to the trade. The country with large population will have large capacity to import more goods and service from other countries which have smaller population. It causes the unequal distribution of benefits point between cost integration and other countries support which will be industrialized faster and larger.

ASEAN-8 population needs import more to fulfil their need, so if the population growth of ASEAN-8 increases then the demand of import from Indonesia also raised. Hence, it is chance for Indonesia to expand the production which can be more popular abroad and also Indonesia will get more profit by export by make more competitive advantage in the product.

E. Conclusion and Recommendation

Conclusion

1. GDP variables of importer country, FDI of importer country, and population of importer country pose positive and significant impact on trade (export) between Indonesia and the ASEAN-8. Therefore, if these variables increase, the value of exports between countries will also increase. GDP increase in revenue on the related country, if income increases, the welfare state will also increase and international trade will be better. Therefore, it needs efforts to improve the

country's GDP from year to year. Similarly, FDI inflow will encourage and help smooth international trade between Indonesia and the ASEAN-8. Population growth is followed with increased consumption in the importer countries, as well as the quality of resources of exporter state are things that are essential to support the country in conducting trading activities.

2. Among all the variables that has been analyzed, it is only distance variable that has a negative effect on international trade between Indonesia and the ASEAN-8. As the distance between trading partners increases, it can reduce the value of exports. It is because the costs incurred will soar, if the distance between trading partners further away. But with a diminishing rate as well as the development of means of transportation, the existing cost can be minimized. To further enhance intra-ASEAN trade, it requires strategic policies which support transportation and infrastructure development to facilitate trade and improve the quality of human resources, the application of the same operational standards, and the development of cooperation between countries, etc.
3. Realizing policies to establish trade relations between ASEAN countries is eminent. It is necessary for all parties to communicate and involve in implementing policies agreed as stated in the discourse AEC (ASEAN ECONOMIC COMMUNITY) which will be held at the end of 2015.

Recommendation

For Indonesia, the ASEAN regional economic integration opportunities should be utilized to maximally. The potency on population, area and geographical location, and the largest GDP in ASEAN should be an asset so that Indonesia could become a major player in the AEC.

From this research, there are several suggestions proposed, among others:

1. The government should immediately formulate strategic steps that can be implemented on the specific targets in order to open the market opportunity. Strategic steps are arranged in an integrated manner among sectors ranging from upstream to downstream under the coordination of a specialized agency or the Coordinating Ministry for Economic Affairs.
2. To increase Indonesia total export, ASEAN should attract investor to increase their FDI inflow that will be bringing much benefit, such as capital fund, technology, and also knowledge.
3. To attract the investment, ASEAN have to improve and develop the physical and non-physical infrastructure in every sector, in order to improve efficiency and boost export performance. The plan must be done in a coordinated manner with all sectors of trustees and businesses. Coordination between sectors and related institutions is particularly to develop a common perception among government and business actors, and harmonize (reform) policy at central and regional level.
4. Make some many others cooperation with country abroad that will be can give more access to ASEAN promote their product.

5. Make policies to minimize Visa or tax holiday, so people from other country interested to visit ASEAN, it makes increase the tourism income and certainly it is also chance for ASEAN to increase their GDP.
6. Adjustment, preparation and improvement of regulation should be done both collectively and individually (regulatory reform).
7. Improving the quality of human resources should be both on the bureaucracy and the business or professional world.
8. Strengthening the position of medium-scale enterprises, small, and businesses in general should be done by domestic manufacturers by improving efficiency, productivity, and innovation. These can also increase the value-added products and improve the competitiveness of domestic products.
9. The development of priority sectors should have broad impact on commodities.

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