# CHAPTER 1

Introduction

1.1 Principle and Rational Backgrounds

In 1967, ten nations combined to form ASEAN, which stands for the Association of Southeast Asian Nations. The member nations of ASEAN are Indonesia, Malaysia, Philippines, Thailand, Vietnam, Brunei Darussalam, Singapore, Cambodia, Laos and Myanmar. In 1967 the primary goal for ASEAN was to accelerate economic growth, improve social progress and promote peace and security in Southeast Asia. The region covers 1.7 million square miles and includes a population of approximately 622 million. From the total 622 million population of ASEAN, over 50% of the population is under 30 year. This 50 % of the population will make up the huge portion of the current and the future workforce. The main projects of the organisation are economic cooperation, trade promotion among ASEAN member countries and joining technical, research cooperation among members in the global economy and to influence the ASEAN's trade with other developed countries.

The ASEAN countries are the developing countries in the world and the growth in the ASEAN region will be similar and is projected to average 4.6% in 2015 and 5.2% over 2016-20. In this paper, the author investigates the relationship between economic growth and trading in ASEAN countries plus China, Korea, and Japan and the author separate these countries into two groups by the ASEAN countries be developing the country and China, Korea, Japan be the developed country. The author studies the relationship between developed country and developing countries according to their trade and economic growth. During the history of Asian growth over half a century, the ways that go to success was not always smooth. Despite the unprecedented impact of the crisis, the regional economy proved its strength and resilience, with its foundations firmly rooted in a strong manufacturing base, as many Asian economies soon regained the prosperous export-led recovery trail.

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A quarter of a century later, the ASEAN's ten country economies are growing force in global affairs. However, in the 1997 Asian Financial Crisis effect the collapse of Asian stock markets, devaluation of domestic currencies and a reduction in assets prices throughout Asian countries. In 1997, there was a big recession happened in Asian. It was called Asian Financial Crisis, that started in Thailand with the collapse of the Thai Baht. In that time, Thailand had faced a big problem of foreign debt that made the country effectively bankrupt before the collapse of its currency. This crisis is most affected in Indonesia, South Korea, Hong Kong, Laos, Malaysia and Philippines. However, less affected on Brunei, China, Singapore, Taiwan and Vietnam. In the year of the following Asian Financial Crisis, ASEAN leaders discussed the two policies they want that are to support the economic growth of their countries and to protect the region from any potential future economic shock. Finally, the ASEAN Economic Community emerged as the appropriate needs in the meeting. The most urgent action of the ASEAN economies is to improve technology and innovation infrastructure to escalate labour productivity, to provide business internationalisation platform to all business level and proper conditions for high skills development.

The growth of ASEAN's major export-oriented economies, Singapore, Malaysia and Thailand will remain weaker than those of domestic demand-driven economies, Indonesia and the Philippines in 2016 and 2017. The ASEAN economies have founded their main driver of growth in the service sector after moving away from agriculture sector over the last five years. Moreover, the services sector has continued to increase in the region. In 2012, the services sector was the largest source of national income in six ASEAN Member States, namely Cambodia, Indonesia, Lao PDR, Malaysia, Philippines, and Singapore. Brunei Darussalam, Thailand and Vietnam were predominant in the industrial sector, while agriculture dominated the Myanmar economy. Some point showed that services sector had become the most important sector in ASEAN countries. This figure (1.1) demonstrates the growth of the economy in each ASEAN state by using the data from 1995 to 2014.
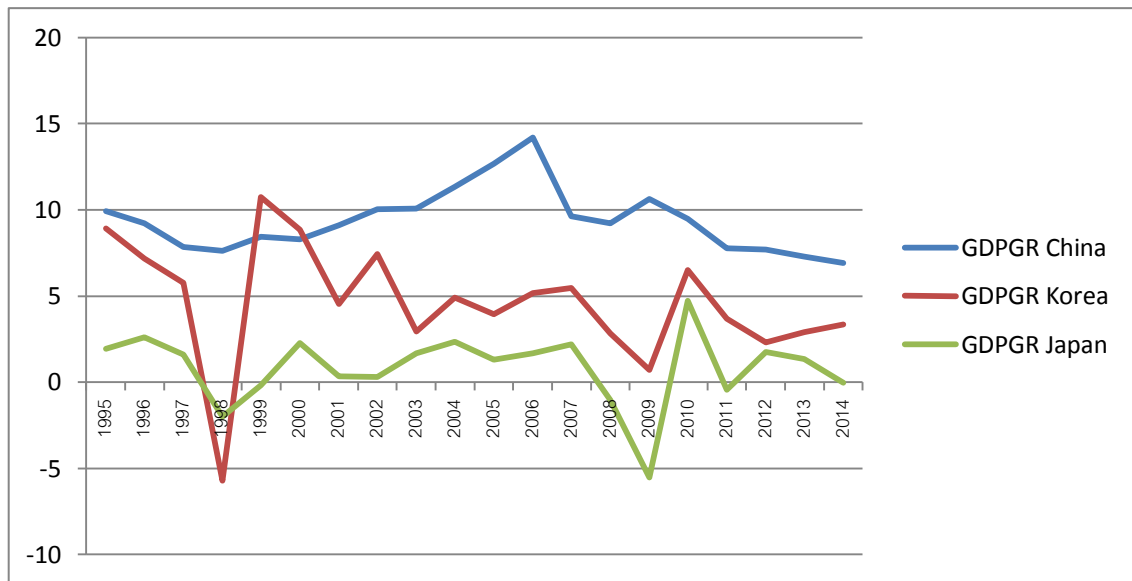
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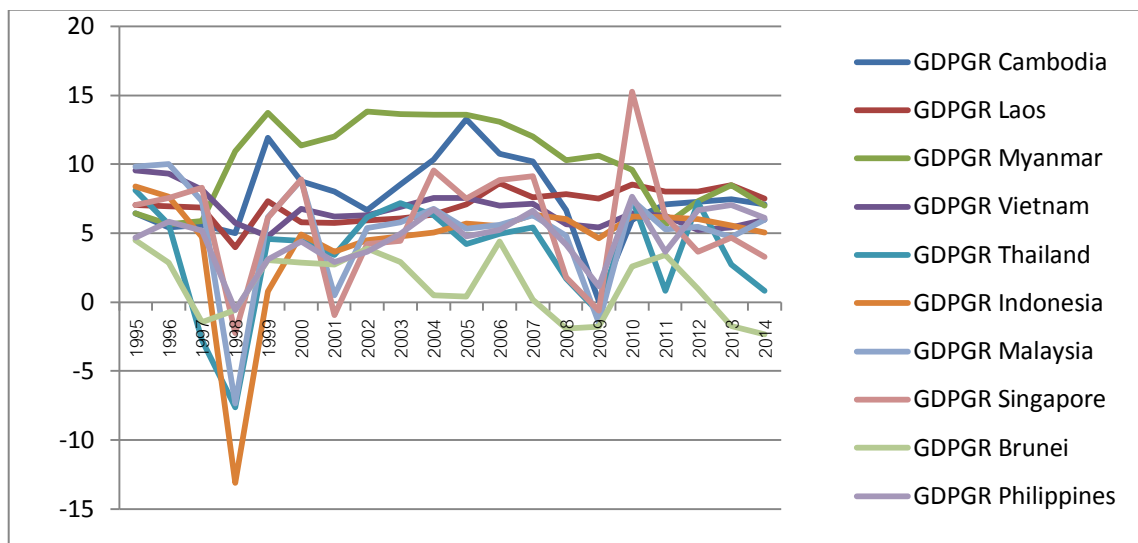
Source: Author's drawing based on data provided by World Bank

Figure 1.1: GDP growth of ASEAN countries

The relation of the three greatest nations of East Asia – China, Korea and Japan hangs in the balance. Today, the people of East Asia are increasingly engaged in the trade and cultural exchange. They distrust a legacy of decades of conflict in the 19th and 20th centuries shadow prospect for a brighter era of peace and corporation in the 21st century. The war in East Asian was begun by the armed struggle between China and Japan in 1984-95 within eight years of conflict during World War-II. Nowadays, they are also arming themselves against the prospect of future belligerence. Over 1500 year, the relationship between Japan and Korea were characterised by cultural exchange, trade, war and political contact.

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Figure 2.1: GDP growth of China, Korea and Japan

In the year 2015 of ASEAN integration agenda, the ASEAN's GDP has doubled since in 2007, and the total GDP is over 2.5 trillion USD. The average GDP per capita also grew by almost 80percent to over 4,000 USD. Beyond this period, ASEAN has economically achieved a significant prosperity, and ASEAN's wide markets become more influential in regionally and globally. It is worth noting for setting at research problem how, in addition to the previously discussed, the relationship between economic growth and trading. Also, the countries will export more of goods and services with excellent quality and more trade to other developed countries to access the economic growth. The government also should focus on foreign trade with other nations to higher and higher economic growth.

1.2 Purpose of the Study

The main objective of this research is to examine the relationship between economic growth and economic powers consisting of import and export, reducing exchange rates and inflation in ASEAN countries plus three countries covering China, Japan, and Korea, over the period of 1995 to 2014, 20 years. Also, to gain economic growth of ASEAN, the government have to focus on economic powers. The estimation methodology adopted in this process used Panel ARDL model (Autoregressive distributed lag model) estimations. The specific objectives of this research are to:

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- Examine the explanation of economic powers among import and export, reducing exchange rates and inflation that influence on the GDP of ASEAN countries plus China, Korea and Japan.
- Investigates the effects of export and import on the GDP economic growth, using Panel ARDL model (Autoregressive distributed lag model) estimations of ASEAN countries plus China, Korea and Japan.

1.3 Scope of the study

In this study, the author analysed the empirical studies of the trading in ASEAN plus three countries and the data used are collected from 1995 to 2014. Moreover, investigating the trading variables that impact on economic growth of the ASEAN members plus China, Korea and Japan nations. Variables were chosen based on the guidelines of the theories, the previous empirical evidence and availability of the data. The author used the secondary data series of data sets and collected the data mostly from the World Bank database. Even though many factors affect economic growth, but the author excluded some of the data unavailable. Making decisions of choosing the appropriate variables and data is one of the most challenging parts of this paper.

Table 1.1: Summary of scope, time frame, sources and method

Scope	ASEAN + China, Korea, and Japan
Time	1995 – 2014
Source of data	World Bank
Method	Panel ARDL approach to Co integration

Source: Author's design

1.4 Advantage of the Study

The advantage of this study is to cheer the government to promote trading in ASEAN countries, Japan, China, and Korea with a stronger growth. Trading is one of the critical sectors for the development process of the countries and also improve the economic development of the countries. By analysing the trading variables and examining their effects, the results of this research can provide the facts about the main sectors that the government need to focus on trade and the countries seek how to develop their nations' economy.

To study this research, the ASEAN plus three countries will get an enormous valuable information of the relationship between trading and economic development and knew it is essential for the county development.

1.5 Outline of the Chapters

In study contains five chapters: 1) Introduction, 2) Theoretical Foundations and Literature Review, 3) Methodology, 4) Empirical Results and Discussion, and 5) Conclusion. In Chapter One, the author discusses the economic background of the study for ASEAN + China +Korea+ Japan, and speaks to the scope, the purpose and the advantages of the survey. Chapter Two includes the methodology review, the literature review and some theories which address trading and economic growth. It also includes the table summary of the literature. Chapter Three provides a rationale for the research design, the conceptual framework, and the selected model, data and methodology. Chapter Four addresses the empirical results. Chapter Five concludes the discussion and offers some suggestions for future study and policy recommendation, as well as the references and the appendices.

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