



TRANS - PACIFIC¹ ECONOMIC INTEGRATION PROCESSES

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Abstract: Asia-Pacific (AP) region is the world's most important region today from the viewpoint of long-term economic growth. It is also the extremely important cite of rivalries or partnerships - or both - between China and the United States. The strong expansion of trade, investment and other economic ties within the AP region has stimulated the process of economic integration. The network of bilateral and regional free trade agreements has increased dramatically in recent years, linking virtually all major trading countries in the region, with one exception: either the US or China have not become members of the free trade arrangements involving the other country. The paper examines the scope, principles and characteristics of economic relations and cooperation in the AP region. The issue of whether Asian efforts for regional integration have been compatible with an open multilateral trading system at the global level is also addressed. The paper also assesses changes in the dynamics of regional integration and its future prospects. In this sense, in the Asia Pacific there are now two tracks which lead to the formation of a Free Trade Area of the Asia-Pacific (FTAAP): Asian, based on the Association of Southeast Asian Nations (ASEAN) and the Regional Comprehensive Economic Partnership (RCEP) and trans-pacific, based on Trans-Pacific Partnership (TPP).

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1. Introduction

The growth of the newly industrialised countries (NICs) and the trans-pacific economic interdependence, the shift of the global economic power from Europe and Atlantic to the Asia-Pacific (A-P) region, as well as the changed status of Japan, China and the USA in the global economy, have created a new focus in international economic relations.

¹ In literature, the terms trans-pacific and Asia-Pacific are used as synonyms.

“Data show that the A-P region is the most dynamic region in the global economy today” (Goeltom, 1997, p. 279), because it dominates in the expansion of the global interregional trade, which gives it new importance and influence in the international system. During the period 1965-1987, the participation of the A-P region in global trade has increased from 30% to nearly 37%. The share of A-P region in the overall global export has grown steadily, from 11,3% in 1963 to 12,6% in 1968, 15,4% in 1973 and 16,2% in 1977. According to the ESCAP data, A-P region nowadays (2012) participates with 37% in world merchandise export and with 36% in world merchandise import, whereas its share in world trade in services has increased from 21% in 2002 to 28% in 2012.

The economic definition of A-P region includes, apart from the countries in the region of East Asia² (EA) and the USA, Canada, Russia, Australia, New Zealand, Latin American countries (LA) bordering the Pacific Ocean, as well as all smaller countries also bordering the Pacific Ocean. „Starting from one widely accepted definition of the Pacific Basin, according to which it is consisted of the countries in the Asian and American continent bordering the Pacific Ocean, it should be emphasized that it is the area larger then 65 million km² and the market covering half of the world’s population“ (Gajinov, 1997, p. 538). According to the Economic and Social Commission for Asia and the Pacific (ESCAP), A-P region consists of 58 countries.

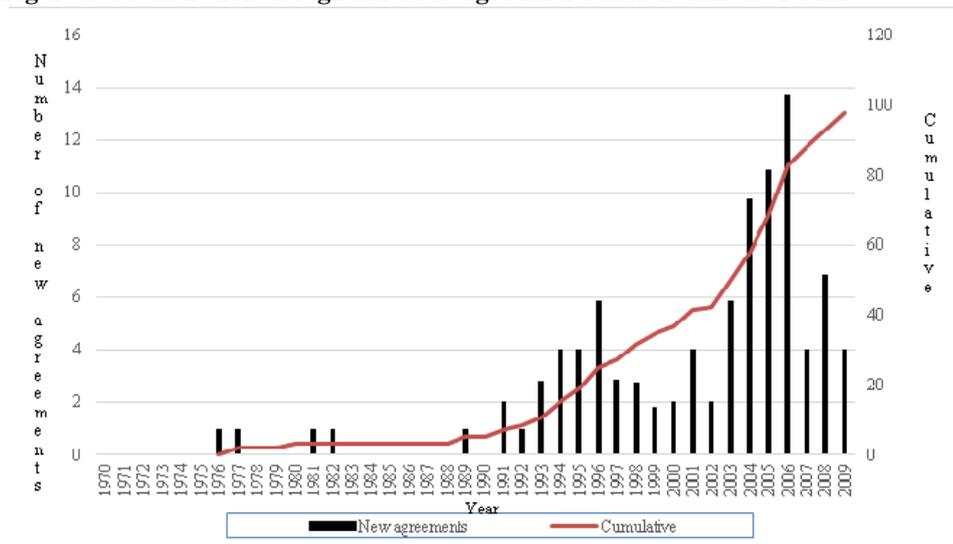
It is not surprising that there was a lack of intraregional economic cooperation in the past, due to the significant differences among these countries in terms of national history, culture, population, the level of the economic development, economic system, etc. However, the interest for participation in the regional cooperation which would include the countries of the entire Pacific Basin has existed for decades. „However, this wide membership is too diversified and with the conflict of interests. The common aim is too general to be operative. Many authors think that the solution may be some kind of organisation like the Organisation for Economic Co-operation and Development (OECD), which serves as a forum for discussion on the questions about the regional trade. However, it can’t be the substitute for a much closely connected group which has the precisely defined common interest.“ (Yang, 1994, p. 30). Some authors „ascribe the major obstacle for closer economic integration primarily to political factors“ (Yip, 2001, p. 106). On the other hand, the most important cohesive factor is the appearance of regionalisms or trading blocs.

As Fujioka points out, Asian-Pacific countries resist protectionism and insist on the system of the liberal trade on the global level. “The measurements that include increased openness on multilateral basis can contribute a lot to encouraging intraregional trade.“ Such *evolutive approach* would enable

² The economic definition of East Asia usually includes the economies of North-east Asia: Japan, Republic of Korea and Taiwan, but lately also China, as well as the member countries of the Association of Southeast Asian Nations (ASEAN).

coexistence between various groupations – ASEAN Free Trade Area (AFTA), North American Free Trade Agreement (NAFTA) and Asia-Pacific Economic Cooperation (APEC) – with minimal negative effects or conflicts. Applied to the Trans-Pacific or Asia-Pacific economic cooperation it would be more accurate to adopt the concept of *evolutive integration* in order to enlighten more natural processes of accomplishing the integration. The evolutive integration refers to overall estimation of bilateral, plurilateral and multilateral initiatives, including both the economic cooperation led by the private sector, and the processes encouraged by the state economic politics“ (Gajinov, 2002, p. 83). Disparities between the countries of the region give argument against the establishing of the formal integration groupation; that is, economic cooperation should be encouraged by *step-by-step* approach.

Figure 1. Proliferation of regional trade agreements in Asia and the Pacific



Source: Asia-Pacific Trade and Investment Agreement Database.

There are two profiled paths to full regional integration in A-P region nowadays: one *Asian*, based on the Association of Southeast Asian Nations (ASEAN), that is on the Regional Comprehensive Economic Partnership (RCEP), and the other, *transpacific*, based on the Trans-Pacific Partnership (TPP). There are similarities as well as differences between these two paths. However, the differences primarily lie in the pragmatic adaptation to current political and economic conditions.

“Even 223 agreements on the preferential trade between the economies in A-P region have been signed since August 2013, 150 of which are effective, whereas the others are in different phases of the negotiation“ (UNESCAP, 2013,

p. 68). The preference in bilateral agreements, 118 of which have been signed in the same period, is obvious. Apart from that, there are 15 plurilateral trade agreements with the average of 8,1 country per agreement. Most of the plurilateral agreements is subregional. The increasing of the bilateral (and other) agreements contribute to their multiple overlapping, that is the appearance of the phenomenon known as the *spaghetti bowl*.³ More than half of all trade agreements effective between the A-P economies refer to the free merchandise trade zones, whereas almost 30% refer to both free merchandise trade and the services trade. Only 2% of all agreements are customs unions. “The countries become more and more creative trying to name their agreements other than free trade agreements. As a result, a lot of agreements are called the agreement on economic and/or overall partnership, which should show the intention on the commitment to the wider integration... However, the current speed of liberalisation remains slow, and the number of the countries involved is small. The average deadline for the customs liberalisation is 5-7 years in the developing countries and 10 years for the least developed member countries” (UNESCAP. 2013, P. 70).

2. Intraregional Trade

Significant dimension for the understanding of the transpacific processes of economic integration is the huge increase of the intraregional trade in A-P region.

Since the beginning of the 1970s, the intraregional trade in the region has grown faster than the world trade: according to MMF, the two-way trade between Europe and North America, expressed in dollars, has increased a little over six times; between Japan and North America almost ten times; between Japan and NICs in East Asia eleven times and between North America and northeast Asian countries even 48 times. “In the 1980s the volume of the transpacific trade outdid the volume of transatlantic trade (Chaponniere, 1997, p. 183) for the first time, which marked the beginning of the *Pacific Era*.

The expansion of the intraregional trade in the A-P region is proven by its absolute level (841 billion USD in 1990, 1,580 billion USD in 2000, and 6,963 billion USD in 2012), as well as by the increase of its share in the overall trade of this region, from 34% in 1984 to 45% in 1990, 50% in 2003 and 56% in 2011. According to ESCAP data, it is expected that the intraregional import increases from 3,100 billion USD to 6,300 billion USD in 2016.

There is a huge potential for the increase of the intraregional trade of the A-P region based on the differences in the relative richness of the natural resources, work and capital which suggest substantial complementarity between

³ The concept *spaghetti bowl* was introduced by Bhagwati at the beginning of 1990s. It refers to the problem of overlapping rules of the multiple free trade agreements some countries belong to.

Australasia and North America, on the one side, and East Asia, especially Japan and NICs, on the other side. However, unfortunately, there are some old and new barriers which prevent the realisation of the potential gains from trade between Asian-Pacific countries. The major instances of the extra precautions are taken in the sectors which lose comparative advantages very quickly.

Therefore, in the short run, the focus should be on eliminating the barriers which still exist in spite of the numerous agreements on free trade between Asian-Pacific economies. In that sense, “several different models of trade liberalisation have been created, including *panasian-pacific* customs elimination, ASEAN +6 customs elimination and *multilateral* trade liberalisation within the World Trade Organisation (WTO)” (Ratnayake, Mikic, 2009, p. 7).

3. Intraregional Financial Flows

A-P region, and especially the subregion of the East Asia from the mid 1980s have become the most dynamic regions in terms of the profitable investment possibilities in industry and services. „This led to the increased share of A-P region in the overall foreign direct investments (FDI) in the world, from 7% to 12% during the period from 1980-1993, and from 30% to 49% in the overall FDI in developing countries in the same period“ (Kerk, 1997, p. 15). In Asian countries, FDI make almost half of the foreign capital inflow of the A-P region, especially showing the increasing trend of intra-ASEAN FDI. This very increase has promoted interdependence as the key factor for the economic development of the region.

However, although intraregional financial flows increase, their absolute level is still relatively low. It is even more accurate in case of the intraregional portfolio capital flow.

Financial integration is probably the weakest of all components of the regional integration (goods, services, work and capital). Accordingly to that, data on other aspects of the regional integration are more available than those on the financial integration.

4. The concept of *Open Regionalism*

The concept of *open regionalism* was articulated on the First conference of the Pacific Economic Cooperation Council (PECC) in 1980 and on the First Ministerial Meeting of APEC in 1989, as the ideal for the future development of the economic relations in the A-P region. The minimal interpretation of the open regionalism implicates that it includes regional trade liberalisation without causing damage to other countries. Open regionalism includes trade integration, as well as the integration facilitated by the state politics as long as it doesn't

involve discrimination in comparison to non-member countries. As Garnaut says, the concept of the open regionalism can basically reconcile the growth of the regional agreements with multilateral system, provided that there is still plenty of room between the possibility and the realization.

Ruggiero pointed out that there are two interpretations of the open regionalism. „The first is based on the assumption that any preferential trade area can be consistent with the requests of the multilateral system. That would mean that such zones could at the same time be compatible with the rules of the World Trade Organisation and preferential by its own nature, which would further mean that they would represent the exception from the clause of the most favoured nation, which is the basic principle of the multilateral system...

...Nowadays, with the expansion of the regional groupations, the exception can be turned into the rule, which would mean the risk in the form of the complete change of the system. The other interpretation is present within the APEC or the Southern Common Market (MERCOSUR). According to this scenario, the gradual elimination of the internal trade barriers within the regional groupation will be applied to more or less same rate and on the same schedule as the reduction of the barriers with regard to non-member countries. It would imply that the regional liberalisation would be generally consistent not only with the WTO rules, but also...with the principle of the most favoured nation“ (Garnaut, 1996, p. 3).

The mentioned alternatives lead to very different results. In the first case, it would be the division of the world of trade into two or three intercontinental preferential zones, whereby each of them would have its own rules and its own trade within the zone, with the external barriers in relation to other blocs. The other alternative has a tendency towards gradual convergence based on the rules and principles of all major regional groupations, which leads to global free market with internationally arranged rules and discipline applied to everyone.

Since the growth of the regional trade blocs can jeopardize multilateral rules, the concept of open regionalism can reconcile these fluctuations by maintaining the multilateral system.

5. Initiatives in Trans-Pacific Free Trade Zone

Drysdale and Patrick say that the idea of the union of the countries of the A-P region, connected by some form of the regional agreement, started to appear in the mid 1960s. Soesastro states that the Japanese proposal of the Pacific Free Trade Agreement (PAFTA) from 1966, which would consist of five developed Pacific countries as the full member countries and developing countries from East Asia as the associate member countries, was primarily the reaction to the creation of the European Economic Community (EEC). PAFTA initiated the

organisation of the Pacific Trade and Development Conference (PAFTAD) in 1968 and the Pacific Economic Cooperation Council (PECC) in 1980.

The most important factor against the initial PAFTA proposal were global interests of the USA, which couldn't participate in the discriminatory regional trade arrangements, as that would be incompatible with their status in the world trade at that time. Moreover, it was not probable that ASEAN countries would accept the membership in this zone, regardless of the attractiveness of the free approach to the North-American and Australasian market. Also, Arndt points out that so-called developed pacific countries or the *Pacific five* (the USA, Canada, Australia, New Zealand and Japan) have incorporated countries of different size and without the required level of integration necessary to make the reducing of precautions within the group politically and economically possible. All in all, PAFTA was undesirable, even if it were a practical possibility, because it would place barriers to market-oriented reforms.

Garnaut expresses the view that by the end of the 1980s, the USA have changed the commercial diplomacy based on the conditional approach to the most favoured nation offering the suggestion for some kind of *free trade zone* between the USA and the West-Pacific countries. The American proposal was not aimed at formation of the pacific zone, but at maintaining bilateral arrangements between the USA and some West-Pacific countries on different basis from, and apart from the American bilateral relations with Japan. "Relying on the *specific reciprocity* as the leading principle...has become stronger and stronger in the USA over this period. The specific reciprocity (which refers to the careful balancing of the benefits in accounts country by country and sector by sector) opposes the insecure benefits of the *diffuse reciprocity* (included in GATT system)" (Garnaut, 1996, p. 172).

Until few years ago, Asia-Pacific Economic Cooperation (APEC) was the most ambitious initiative in the transpacific processes of the economic integration. However, "as Calvert points out, APEC is a groupation which yet needs to provide for the organisational noun that should follow four adjectives its name is made of. What keeps such a panpacific group together, he claims, is the estimation, or at least acceptance of the specific denominator of unique common regional economic interests" (Lele, 1996, p. 14).

APEC was established in 1989 and it represents the organisation whose aim is to create the Free Trade Area of the Asia-Pacific (FTAAP) until 2020. It consists of 21 member countries, with the population of over 2,8 billion people (36% of the world population) and the overall GDP of approximately 42,000 billion USD, that is, almost 53% of the world GDP goes to this groupation, as well as 50% of the world trade. (2013). When APEC was established, the average customs rate in the region was 16,9%, and in 2010 it was reduced to 5,8%. Consequently, intra-APEC merchandise trade increased from 1,700

billion in 1989 to 9,900 billion in 2010 and to 11,000 billion in 2011. In that way, the share of the intraregional trade in overall trade between the member countries was 67% in 2011, which shows the decrease compared to 72,2% in 2000. The trend of growth is noticed in intra-APEC trade in services.

APEC was supposed to represent „informal forum of the dialogue, based on informal rather than on binding agreements“ (Tarmidi, 2013, p. 159-60), without the formation of a trade bloc. Therefore, until 1994 APEC has been characterized as a rather loose organisation (which was the condition for ASEAN member countries to take part in APEC).

In 1994, at the Bogor summit, APEC has transported the vision of the *open trading system* into a very ambitious goal of the *free trade and investments* in the region until 2010 for the economically developed member countries, and until 2020 for the member countries still in the process of development.

However, within the A-P region there is a deep and principal division in terms of adequate and precise content of *free trade*, trade politics towards the third countries, as well as practicality and desirability of various means and speed of the improvement of free trade. Also, it should be stressed out that the difference between the developed and developing countries hasn't been defined, that „Malaysia added a note to the Declaration according to which the final date of 2020 is not binding, and also Japan and the Republic of Korea were not satisfied because of the excluding of agriculture from APEC agendas“ (Fernandez Jilberto & Mommen, 1996, p. 22). Australia and the USA wanted the customs rates within APEC to reduce faster than those previously arranged within GATT, whereas Japan and Thailand insisted that WTO determine the speed. Japan specifically emphasised that the liberalisation mustn't cause damage to the poorer member countries in APEC. „Asymmetric approach throughout the Pacific brings two major practical implications for the realization of the APEC obligations in domain of the free trade. First of all, the success will depend on the continuous meaningful trade liberalisation in West-Pacific economies, so that the USA can see their future liberalisation as the reciprocal step already taken somewhere else. Secondly, the success is more likeable if others, especially the EU, join the commitments of APEC, so that the North-American liberalisation can be observed within the wider reciprocity ” (Imada-Iboshi, 1995, p. 142).

The possibility for APEC to remain the relevant factor in the region is questionable. First of all, there is a multiplying of the competitive economic and political organisations, and numerous bilateral free trade agreements. That includes the proposals for creating the Trans-Pacific Partnership (TPP), East Asian Community (EAC), that is, Regional Comprehensive Economic Partnership (RCEP) and the Free Trade Area of the Asia-Pacific (FTAAP). Secondly, the diversity of the member countries of APEC complicates the

process of negotiation. Different interests and priorities, especially between the major pacific economies, of Japan, China and the USA, brought about the competitive visions about the role of APEC. Thirdly, the slow implementation of the Bogor goals: since the deadline of 2010 for the free trade and investmensts among the more developed member countries of APEC has expired without fulfilling that goal, the trade liberalisation which was supposed to involve all member countries until 2020 has been blocked and probably will not advance in the foreseeable future.

Finally the global economic recession reduced the interest for free trade, forcing APEC to spend more time fighting against the protectionism than promoting the liberalisation. “If TPP or EAC develop into valid option for the free trade in the A-P region, APEC might easily use these agreements as the example of further expansion. Its strength lies in larger institualisation, in comparison to other two groupations, and the wide membership is also of the essential importance for ensuring the necessary driving force to fulfill Asia-Pacific free trade zone as a long-term goal ” (Aggarwal & Volberding, 2010, p. 13).

6. Trans-Pacific Partnership (TPP)

One of the latest initiatives for the creation of the free trade zone in the A-P region is the Trans-Pacific Partnership (TPP). TPP represents the expansion of the Agreement P-4 (known as the Trans-Pacific Strategic Economic Partnership – TPSEP) from 2005, which connected Singapore, Brunei, New Zealand and Chile in a free trade zone. At the end of 2009, the USA started negotiations on the expansion of the P-4, which apart from the USA, included Vietnam, Australia and Peru. Later on, Malaysia, Japan, Canada and Mexico joined too. Taiwan, Republic of Korea, Thailand, Indonesia, Philippines, Laos, Bangladesh, India, Costa Rica and Columbia also showed interest for accession. The accession of other Latin American countries to the negotiations about TPP is not likely, in case of which priority should be given to the member countries of the Pacific Alliance.⁴ All members of the TPP are at the same time members of APEC.

Member countries of TPP, which currently are involved in the agreement, realised merchandise trade of 1,500 billion USD in 2012, and trade in services of 242 billion USD in 2011. TPP covers almost 40% of world GDP and 26% in global trade, which makes him equal in importance and size to the Transatlantic Trade and Investment Partnership (TTIP), the second huge trade agreement appeared in 2013 (Table 1). The common customs tariff is now 4,43%, which is lower than in APEC and RCEP.

⁴ Member countries of the Pacific Alliance are Chile, Columbia, Mexico and Peru. Costa Rica and Panama are bystanders from the beginning, and the request of Paraguay is still on discussion.

As Aggarwal and Volberding point out, TPP represents the most dynamic alternative to APEC. On the one hand, TPP might create the free trade bloc which exceeds APEC in authority and importance. Its growing expansion might slowly include other Asia-Pacific countries into the larger free trade zone, thus even more eroding the economic relevance of APEC. On the other hand, TPP might provide the necessary example for overcoming of the delay in fulfilling the goals of APEC. Since TPP lacks high level of institutionalisation, APEC might provide necessary forum for negotiation, implementation and expansion of the free trade contracts. It needs to be mentioned, as Williams says, that APEC consider itself as an *incubator* for the Free Trade Area of the Asia-Pacific (FTAAP) and supports TPP as the means in the accomplishing of that goal.

Many analysts consider the appearance of TPP as the consequence of the failure of APEC to create FTAAP. There are three reasons for such attitude. Firstly, the speed of liberalisation was very slow. The failure in accomplishing *the Bogor goals* is the sign of the failure of APEC to create FTAAP. Secondly, the member countries of APEC are very diverse in terms of the level of economic development, which leads to difficulties in reaching the consensus. Moreover, the consensus deciding system in APEC is the problem itself. Thirdly, there is the lack of the institutional stability. "If the member countries strongly disagree about domestic economic and political management, then it is not likely that healthy regional institution will be established." (Powers & Goertz, 2011, p. 2401) It is obviously the case with APEC Free Trade Area (FTAAP) in terms of disagreement between the USA and China concerning the role of the state companies in economy, or the political tensions between Japan and China, which stopped ASEAN+3, as well as the further development of Chiang Mai Initiative.

On the other hand, TPP is completely opposite to APEC weaknesses. Member countries of APEC are of the similar levels of the economic development, ideological aspect is convergent, which makes the institutions more stable; the range covered by the trade agreement is wider; and what is even more important, it is expected that TPP will initiate the yearly income of 295 billion USD.

However, some authors claim that TPP is not the consequence of the APEC failure. To confirm their attitude, they mention the following facts. Firstly, although FTAAP progress is rather slow, the customs have decreased, and non-tariff barriers have been significantly reduced. Secondly, TPP is not a substitute for APEC; TPP is rather complementary to APEC FTAAP. Namely, TPP is established with the aim to create the *high standard* free trade zone and includes a vast number of questions which are still challenging to many member countries of APEC, such as public supplies, protection of the intellectual property and the environmental protection.

However, regardless of the possibilities (the content of the groupation still hasn't been finalized), there is a scepticism concerning the achievements of TPP

in the immediate future. First of all, although the opposite would be expected, the share of intraregional trade in the overall trade between member countries is reducing: from 48,1% in 2000 to 38,1% in 2011.

Table 1 Economic indicators of the TPP members

	Population		GDP		GDP per capita (US\$)	Trade	
	(million)	(%)	(US\$ billion)	(%)		(US\$ billion)	(%)
Brunei	0,4	0,0	17,0	0,0	41.126,6	17,0	0,0
Malaysia	29,2	0,4	305,0	0,4	10.432,1	424,0	1,1
Singapore	5,3	0,1	274,7	0,4	51.709,5	788,1	2,1
Vietnam	88,8	1,3	155,8	0,2	1.755,2	228,4	0,6
Japan	127,6	1,8	5959,7	8,2	46.720,4	1.684,4	4,6
Australia	22,7	0,3	1532,4	2,1	67.555,8	517,8	1,4
New Zealand	4,4	0,1	167,3	0,2	37.749,4	75,6	0,2
USA	313,9	4,5	16.244,6	22,4	51.748,6	3.882,7	10,5
Canada	34,9	0,5	1.821,4	2,5	52.219,0	929,7	2,5
Mexico	120,8	1,7	1.178,1	1,6	9.748,9	751,4	2,0
Chile	17,5	0,2	269,9	0,4	15.452,2	158,1	0,4
Peru	30,0	0,4	203,8	0,3	6.795,8	88,2	0,2
TPP total	795,5	11,3	28.129,8	38,8	32.751,1	9.545,2	25,8

Source: World Bank, World Development Indicators, 2014.

Secondly, there is a strong disagreement on how to include the already existing free trade agreements in TPP. That problem is the most prominent in the case of two integration groupations: Pacific Alliance and the Association of Southeast Asian Nations – ASEAN. “Many member countries of TPP have already signed free trade agreements among themselves. Also, many have trade agreements with the partners who are not expected to join TPP. In Latin America, some countries, with already existing strong transpacific trade connections, are in the process of negotiation, the others are not. Also, it is considered that TPP, the way it currently functions, can disturb already existing intra-American integration arrangements, meaning that some countries and trade blocs can be completely left out” (Kotschwar, Schott, 2013, p. 81). In the case of Pacific Alliance, the problem can be solved by deepening the relations with the Western hemisphere countries, free trade agreements have already been signed with, including the USA.⁵ The problem with the members of ASEAN can be solved by parallel negotiation about RCEP.

⁵ Although currently there is no common approach to negotiations with the Asian countries, the members of Pacific Alliance are involved in the negotiations with the Asian economies respectively: Chile and Peru have signed the agreements with China and the Republic of Korea, Chile and Mexico negotiate on free trade zone with Japan, and Columbia has recently signed such an agreement with

Thirdly, there is an insecurity about the way TPP countries will lead the negotiations on trade liberalisation: bilateral or plurilateral. The USA suggested that every member country negotiates bilateral, whereas Australia, New Zealand and Singapore favourise the plurilateral approach.

Fourthly, as well as ASEAN, TPP takes a risk by disregarding other great A-P economies. Apart from the USA and Japan, all other participants are relatively small economies. Bhagwati points out that many of the current TPP clauses are actually created in order to exclude China. However, China itself is not so interested to join in, because it sees TPP as the poorly disguised attempt of the USA to regain the influence in the region, preferring the alternative groupations such as ASEAN+3 and RCEP.

6. Regional Comprehensive Economic Partnership – RCEP

The Association of Southeast Asian Nations (ASEAN) was established in 1967. For a long time, „most of the ASEAN member countries, due to the above average economic growth, haven't had the need to improve the cooperation with each other. Less developed countries had doubts about the stronger integration, because they were afraid that free trade might cause collapse of *infant* domestic industry sectors, the increasing of the unemployment rate and the deterioration of the balance of payments positions... “ (Gajinov, 2000, p. 57).

Nowadays, ASEAN is characterised by active subregional and regional cooperation. Establishing of the *informal* ASEAN+3 (that is, ASEAN + China, Japan and the Republic of Korea) de facto represents relaunching of the Malaysian proposal about the East Asia Economic Caucus (EAEC). The groupation is established in 1997 and institutionalised in 1999. Within ASEAN+x ili ASEAN+1FTA⁶ formula, the free trade agreements were signed with Japan (2003), China (2004), Republic of Korea (2005) and Australia, New Zealand and India (2009). Thus, in 2005, the *formal* East Asia Summit (EAS), that is, ASEAN+6 was created. In 2011 the number of the member countries increased to 18 countries, including the USA and Russia.

By establishing EAS, the status of ASEAN+3 became confusing. Also, there is a disagreement between the member countries in terms of whether EAS or ASEAN+3 should be the basis for the East Asian Community (EAC). China suggested EAC to be formed through the concentric circles, with ASEAN in the centre, ASEAN+3 being the first, and EAS the second circle. In 2009 Japan suggested the concept of economic community which would involve member

Republic of Korea and is negotiating with Japan. The membership in TPP offers much coordinated path to fulfilling their goal to expansion of their relations with the Asian market.

⁶ FTA represents an acronym for the Free Trade Area. Because of the easier use of the foreign literature, the author has kept the acronym ASEAN+1FTA.

countries of EAS and focus on the political connections, with the common currency being *a very distant goal in the future*. Subsequent meetings did not give more precise explanation of the role and shape EAC should have.

The negotiations about the establishing of the Regional Comprehensive Economic Partnership (RCEP) formally started in 2012 and should be ended by the end of 2015. In a word, RCEP is a free trade zone led by ASEAN, because it consists of 10 member countries plus the partners with whom the free trade agreements have been signed. This integration groupation was originally called ASEAN +1FTA, inspired by the huge intraregional trade within ASEAN+1 formation: it totals in 20% to 23% in case of ASEAN+1FTA with India, Republic of Korea and China, and in 24% to 25% in case of ASEAN+1FTA with New Zealand, Australia and Japan.

Sixteen member countries of RCEP would involve 48,8% of the world population, 28,7% of the global GDP (with overall member countries GDP of 21,200 billion USD in 2013), 27% of the world trade and 24,4% of SDI in the world. There are various estimates as far as the share of the intra-RCEP trade in overall member countries trade is concerned. Most authors think that it would be around 40%, whereas others think it would go to even 60% (Table 2). At this moment, the average customs rate is 6,94%.

RCEP is expected to: 1) strengthen ASEAN and the region of East Asia as the output basis, increasing the level of the customs liberalisation, making source rules more liberal and strengthen the liberalisation services trade; 2) reduce the consequences of the *spaghetti bowl* phenomenon and 3) strengthen of the *central position of ASEAN*.

If TPP and RCEP are compared in terms of the economic indicators, it is noticeable that „all RCEP member countries together have significantly larger population – 3,4 billion, compared to TPP membership, which in total comes to 0,8 billion. The member countries of TPP have higher GDP – 28,000 billion USD, in comparison to RCEP countries – 21,000 billion USD. The amount of the overall trade or the total of import and export is similar for both TPP and RCEP, whereby it comes to 10,000 billion USD in each groupation. ...Finally, it should be pointed out that the average GDP p/c is significantly higher for the member countries of TPP (32,751 USD) in comparison to member countries of RCEP (18,879 USD), which reflects the fact that low-income economies are included in RCEP“ (Urata, 2014, p. 122).

The similarity between two regional groupations, TPP and RCEP refers to the fact that both represent a possible path for creation of FTAAP. Both advocate the trade liberalisation and the reducing of the customs and non-customs barriers in trade and investments; both include elements of open regionalism and represent the step to the larger and more comprehensive integration totalities.

Table 2 economic indicators of the RCEP members

	Population		GDP		GDP per capita (US\$)	Trade	
	(million)	(%)	(US\$ billion)	(%)		(US\$ billion)	(%)
China	1.350,7	19,2	8.227,1	11,4	6.091,0	3.866,9	10,4
S. Korea	50,0	0,7	1.129,6	1,6	22.590,2	1.067,5	2,9
India	1.236,7	17,6	1.841,7	2,5	1.489,2	782,6	2,1
Cambodia	14,9	0,2	14,0	0,0	944,4	19,2	0,1
Indonesia	246,9	3,5	878,0	1,2	3.556,8	378,4	1,0
Laos	6,6	0,1	9,4	0,0	1.417,1	5,1	0,0
Myanmar	52,8	0,7	52,5	0,1	861,0	20,4	0,1
Philippines	96,7	1,4	250,2	0,3	2.587,0	117,4	0,3
Thailand	66,8	0,9	366,0	0,5	5.479,8	477,1	1,3
Brunei	0,4	0,0	17,0	0,0	41.126,6	17,0	0,0
Malaysia	29,2	0,4	305,0	0,4	10.432,1	424,0	1,1
Singapore	5,3	0,1	274,7	0,4	51.709,5	788,1	2,1
Vietnam	88,8	1,3	155,8	0,2	1.755,2	228,4	0,6
Japan	127,6	1,8	5.959,7	8,2	46.720,4	1.684,4	4,6
Australia	22,7	0,3	1.532,4	2,1	67.555,8	517,8	1,4
New Zealand	4,4	0,1	167,3	0,2	37.749,4	75,6	0,2
RCEP total	3.400,5	48,3	21.180,6	29,2	18.879,1	10.469,6	28,3

Notes: All the figures except GDP and GDP for Myanmar are taken from World bank, while GDP and GDP per capita for Myanmar are taken from the ASEAN Secretariat.

Sources: World Bank, World Development Indicators, 2014; ASEAN Secretariat, 2014.

However, the differences between these two groupations are numerous and outnumber the similarities. The first difference refers to the membership regarding the total number, as well as the level of the economic development. The latest primarily refers to the low-income Cambodia, Laos and Myanmar. Also, RCEP, at least for now, does not include the countries of the American continent, whereas China and some other countries do not take part in negotiations about TPP.

The second difference refers to the motives and goals: RCEP was initiated after the financial crisis 1997/1998, in order to enhance the ability of the region to react more properly to various economic shocks, whereas TPP was launched in order to speed up the realisation of APEC goals in free trade and investments. The goals of TPP and RCEP are different because TPP is aimed at increasing of the intra-groupation trade and investments, and the goal of RCEP is the overall agreement of economic partnership between the member countries in order to achieve the equal economic development.

The third difference is that the areas covered by TPP and RCEP are completely different. The major differences lie in domain of public procurement, environment protection, fluctuation of the labour force etc.

The fourth difference refers to the methods and the way of functioning of the two trade arrangements: RCEP is based on the gradual and sequential approach according to which different contract components are negotiable and vary according to different time schedule depending on the difficulty in reaching the agreement, whereas TPP uses *one-move* overall approach. RCEP is more ready to accept exceptions (agriculture or services) and to avoid limitations of domestic economic regulative, anticipating 90% trade liberalisation based on the trade liberalisation accomplished by the member countries of ASEAN+6. On the other hand, TPP insists on 100% customs elimination (although trade liberalisation rates for some countries can be 97-98% due to political sensitivity of particular products).

The fifth, there are differences regarding the treatment of the least developed countries. There is no such thing in TPP, although it will provide different time schedule for the implementation of the agreement for the least developed countries. On the other hand, RCEP will offer a special and different treatment to the least developed member countries.

7. Free Trade Area of the Asia-Pacific – FTAAP

The idea of the free trade area of the Pacific, whose more practical details were shaped in 1994 in Bogor, was imposed by the Japanese economist Kiyoshi Kojima, and reached its final form in FTAAP. Such an agreement would represent the largest individual liberalisation in the world history. In general, creating of FTAAP is a challenge and the possibilities offered by this integration arrangement are numerous. At this moment, it is necessary to establish basis for transforming FTAAP from pure vision into reality.

FTAAP has been of the marginal importance for the A-P region for a long time, since the USA and Asian NICs have been improving their own trade initiatives. In the USA, TPP has priority over the FTAAP. On the contrary, China gives advantage to FTAAP, seeing it as the potential counterbalance to TPP led by the USA. In most of Asia, FTAAP is seen as the broader platform which might represent the compromise between TPP, led by the USA, which favours developed economies, and RCEP, which reflects the interests of the *newly industrialized* Asia. That is why it is especially important that FTAAP would include both the USA and China.⁷

⁷ The contract about bilateral investments and trade (BITT) which creates the free trade zone between China and the USA will lead to merging of TPP and RCEP rules and create the path for developing countries to adapt to the trade rules of the next generation. Although such a process

The goals of FTAAP may be summarized as the following: “1) to create positive income from free trade induced by the largest unique trade bloc in the world; 2) to become a building block of the realization of free trade in the world by encouraging WTO and non-member countries, like EU, to continue with multilateral Doha negotiations; 3) to become the best possible *plan B* for Doha negotiations; 4) to prevent competitive liberalisation in A-P region and to alleviate negative effects of the reproduction... of mutually overlapping regional trade agreements...; 5) to revitalize APEC; 6) to fix China-American economic conflict... and 7) to maintain American involvement in Asia” (Basu Das, 2014, p. 4).

FTAAP has numerous advantages over TPP and RCEP, since the limited membership and strict source rules make TPP destroy production networks in East Asia, whereas RCEP does the same by not involving economic entities on the east Pacific coast. However, there are some negative factors of creating FTAAP. First of all, it is its complexity. Although there are going to be fewer member countries in FTAAP than in WTO, it has very similar demographic structure, and its member countries have completely different interests and goals.

Secondly, FTAAP has at first been incorporated in APEC agenda in 2006, under the sponsorship of the USA. However, the USA made TPP their current imperative, showing less interest for FTAAP.

There are two possible scenarios for the development of the integration processes in the region: 1) merging of TPP and RCEP in order to form FTAAP (TPP with the USA as the leading member country and RCEP with China and ASEAN as the leaders), and 2) RCEP and TPP remain separate without dual membership for China and the USA.

Member countries, especially those with the dual membership, will be in favour of the merging in order to avoid inefficiency which arises from coexistence of two regional trade blocs. Also, larger free trade zone implies the bigger effect of *trade creation* for the member countries, compared to the effect of *trade diversion*. However, member countries of both RCEP and TPP are on different levels of the economic development which will lead to different priorities in negotiations and will result in a *dual-track* approach.

RCEP and TPP can be complementary and coexistent, with no demand for merging in order to become FTAAP: They can be observed as two stages in creating FTAAP. Developing countries in East Asia can first participate in RCEP, and then, once they achieve higher level of economic development, they might join TPP. Generally speaking, the chances are higher for RCEP and TPP to remain separate, in which case they would have bigger support of Asian countries which want American presence in the A-P region, but still on distance from *Asian questions*.

can be long and hard, from the perspective of regional economic integration in A-P region it is consistent with FTAAP and thus worth paying serious attention on both sides.

“Both RCEP and TPP are sustainable paths to creating FTAAP and each of them has its comparative advantages: RCEP to the higher degree represents the goals of the developing countries in regional economic integration; TPP represents the intention of industrialised developed countries to establish trade rules of the 21st century. FTAAP obviously must consider both sets of goals. Incorporating of the RCEP and TPP in FTAAP, and gradual removing and merging of these two groupations is in the best interest of the entire A-P region, and hence the most reasonable strategic choice for the region” (Guoqiang, Yhenyu, 2015, p. 37).

8. Conclusion

Due to its enormous potential, A-P region will be of a greater importance in the future. Economic relations within the region will become even closer under the combined influence of both trade and investment. It will result in consolidation of the existing bloc structure, whereby a strong regional bloc will develop in the Pacific region, which will assume its position together with the European and North-American blocs.

In general, „although increasing number of trade agreements in A-P region has drawn attention from APEC, this integration groupation still keeps its numerous advantages. First of all, its inclusive nature has greatly enabled avoiding of the rivalry for the membership. APEC involves the most dynamic actors in the region, ... whereas TPP excludes Japan, China and Republic of Korea, and ASEAN+x groupations of the countries from the American continent...Moreover, APEC has the ability to balance political attitudes, since the suggestions about trade arrangements usually reflect the priorities of the country which gives suggestions . For example, TPP is seen as the means of enhancing the American influence, whereas EAC emphasizes the renewed role of Japan. However, grounded and inclusive nature of APEC restricts the possibilities of any member country to selfpromote its own special interests“ (Aggarwal, Volberding, 2010, p. 12).

Many authors think that the groupations ASEAN+3 and ASEAN+6 can be the source of the huge problems for the relations within the region. First of all, it is because they lack any important institutionalisation outside the 10 major members of ASEAN. Although ASEAN has made the free trade agreements with China, the Republic of Korea and Japan, trade agreements between these three actors do not exist. This created segmented trade bloc which does not lead to integration or to overall free trade. Secondly, there are suggestions about ASEAN+8, which would include the USA and Russia, in order to include growing interests of these countries into the region. Although ASEAN+8 represents encroaching into the functions of APEC, it excludes Canada and Latin American countries, and disturbs the realisation of FTAAP. Willingness

of ASEAN to sign the free trade agreements which connect the A-P region, helped to put Asia in the leading position of the trade liberalisation, and also to stimulate the trade liberalisation in Asian non-member countries of ASEAN. In other words, openness of ASEAN to these agreements has created some kind of regional race in this domain.

The USA actively promotes their own interests both through the Pacific and the Atlantic. On Asian-Pacific side, manifestation of the American trade politics is TPP, and on the Atlantic side it is Transatlantic Trade and Investment Partnership (TTIP). Discarding of the plans about the Free Trade Area of the Americas (FTAA) has risen the process of growing focus on, and integration with, the Pacific oriented countries of the American continent. This has had some negative consequences as well. There was a delay in expansion of MERCOSUR, and the Andean Community has sunk into the crisis of identity.

It is too soon to draw definite conclusions about the future FTAAP. There are some negotiations about China to join in TPP, and about the interests of the USA in RCEP. RCEP and TPP are still in the negotiation phase and it is not clear what form the eventual FTAAP would have.

It is important to keep couple of key things in mind. First of all, ASEAN should maintain its *central position* and seriously react to any potential conflict coming from RCEP and TPP. Secondly, since the member countries of ASEAN benefit from the fact that both the USA and China are their key partners, it is very important that they keep both countries interested in development of the regional trade institutions. Finally, the countries which have dual membership – 4 ASEAN member countries (Brunei, Malaysia, Singapore and Vietnam) and Australia, Japan and New Zealand – do not want the conflicting rules to be created by the trade liberalization, both through TPP or RCEP. Harmonization of the rules in both agreements might help to reduce business and transaction expenses in the region.

What the A-P region really needs is one inclusive bloc, which maintains the interests of both developed and developing economies, and which relies on economic benefits rather than on the strategic distrust.

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TRANSPACIFIČKI PROCESI EKONOMSKE INTEGRACIJE

Apstrakt: Azijsko-pacifički (A-P) region je danas najvažniji region u svetu sa stanovišta dugoročnog ekonomskog rasta. On je takođe mesto izuzetno važnih rivalstava ili partnerstava – ili oba – između Kine i SAD. Snažna ekspanzija trgovine, investicija i drugih ekonomskih veza u okviru A-P regiona je stimulisala proces ekonomske integracije. Mreža bilateralnih i regionalnih sporazuma o slobodnoj trgovini se dramatično povećala poslednjih godina, povezujući gotovo sve velike trgovačke zemlje u regionu sa jednim izuzetkom: ni SAD, ni Kina nisu postale članice aranžmana o slobodnoj trgovini koji uključuje onu drugu zemlju. Rad ispituje obim, principe i karakteristike ekonomskih odnosa i saradnje u A-P regionu. Obrađuju se pitanja kompatibilnosti azijskih napora u smeru regionalne integracije sa otvorenim multilateralnim trgovinskim sistemom na svetskom nivou. Rad, takođe, procenjuje promene u dinamici regionalne integracije i njene buduće izgleda. U tom smislu, danas su se u A-P regionu profilisala dva puta ka formiranju Azijsko-pacifičke zone slobodne trgovine (FTAAP): azijski, zasnovan na Udruženju zemalja Jugoistočne Azije (ASEAN), odnosno Regionalnom sveobuhvatnom ekonomskom partnerstvu (RCEP) i transpacifički, zasnovan na Transpacifičkom partnerstvu (TPP).

Ključne reči: ekonomska integracija, Azijsko-pacifički region, otvoreni regionalizam, ASEAN, EAC, RCEP, APEC, TPP, FTAAP.

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