

TRADE AND POLITICS IN THE PACIFIC AREA: TRENDS IN MULTILATERAL TRADE NEGOTIATIONS

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Abstract

The paper analyzes the ongoing multilateral trade negotiations from the Asia – Pacific area in the larger context of the shift of the economic center of the world economy from the Atlantic to the Pacific area. The high economic dynamism of the region has been accompanied in the past two decades by the establishment of a large number of bilateral and multilateral free trade agreements that included in many cases regulations on investments and other topics. In the wake of the Doha Round of negotiations failure, two more or less competing large multilateral trade negotiations (Trans Pacific Partnership and Regional Comprehensive Economic Cooperation) are presented in the context of the rise of the economic and political power of China in the region and of the interest of USA to maintain its decades long influence in the Pacific area. The conclusion is that given the strong economic interactions among the countries of the region, regional interests will prevail and the existing and new agreements will, in fact, pave the way first to a comprehensive regional trade and investment agreement and then to a global one.

Key words: Asia – Pacific region, free trade agreements, APEC, TPP, RCEP, Pacific Charter

JEL classification: F02, F13, F15, F53.

Regional and global economic dimension of Asia – Pacific area in a historical context

The Asia – Pacific area has been in the last two decades the most dynamic region of the world economy from the point of view of economic growth as well as from the point of view of increasing its share in the world trade and investment flows. These trends correlated with the share of the region in the world population determined the justified question whether the 21st century would be “the Asian century” or even “the Pacific century” (Clinton, 2011), in the same way as the 19th century was the British century and the 20th century was the American century.

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Given these global dynamics, from the perspective of 2014 one can note that the world economy is characterized by the existence of two large areas:

- **The Atlantic area** which is mainly bipolar (USA – European Union). Anyway, in this case one of the members of the bipole, European Union, is a non-homogenous entity, being in fact an organization reuniting 28 member countries which are rather diverse. If we are to describe the Atlantic area as a bipole in a true scientifically consistent way, then the two participating entities would be NAFTA (North American Free Trade Area) and European Union. But because United States is such a prominent center of economic, political and military power, NAFTA is left in a shadow cone.
- **The Pacific area** which is intrinsically multipolar and having as main participating entities: China, Japan, India, Korea, Taiwan, ASEAN (particularly Indonesia, Vietnam, Philippine, Thailand, Malaysia, Singapore), Australia, Russian Federation, Canada, Mexico and USA. One important observation is that in the Pacific area there are the first three economies of the world: USA, China and Japan.

As we note from the above, the Pacific area has intrinsically more economic potential as among its members there are notably USA, Canada, China, Japan, India, Australia, Russian Federation. The existence of this potential as well as its ever increasing capitalization generated during the past two decades several results that fully justifies the title of “most dynamic region of the world economy” for Asia – Pacific area. In this respect, a research on 49 Asian economies¹ (Asian Development Bank, 2011, p.12) pointed out that for that group of countries:

- The GDP/habitant during 2001 – 2010 increased by 9,4 % per year;
- The yearly investment rates were of 35 %;
- The yearly export growth rates were of 11,4 %;
- The foreign investment flows in the region were of about 83 billion dollars per year.

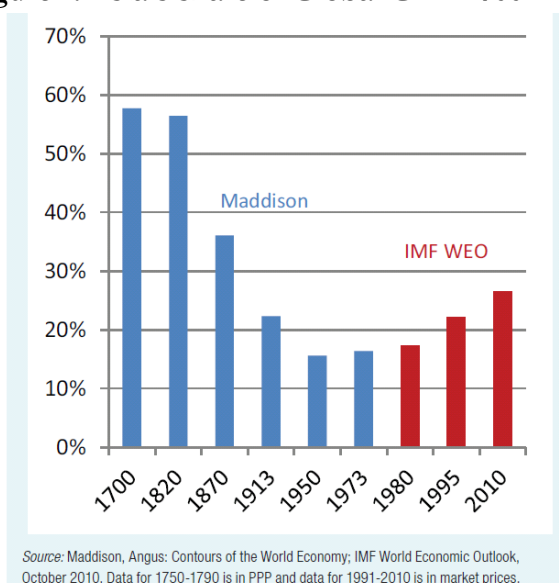
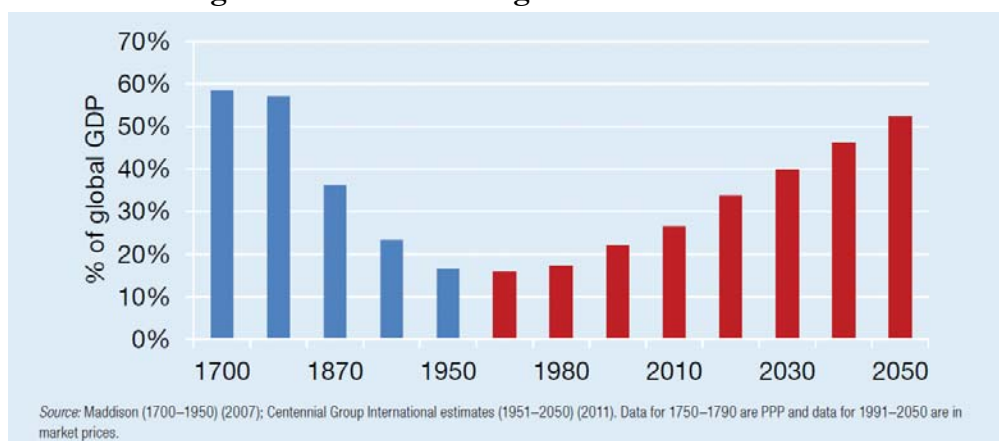
¹ The 49 economies included in the mentioned study were: Afghanistan; Armenia; Azerbaijan; Bangladesh; Bhutan; Brunei Darussalam; Cambodia; People's Republic of China (PRC); Cook Islands; Democratic People's Republic of Korea; Fiji; Georgia; Hong Kong, China; India; Indonesia; Iran; Japan; Kazakhstan; Kiribati; Republic of Korea; Kyrgyz Republic; Lao PDR; Macau, China; Malaysia; Maldives; Marshall Islands; Federated States of Micronesia; Mongolia; Myanmar; Nauru; Nepal; Pakistan; Palau; Papua New Guinea; Philippines; Samoa; Singapore; Solomon Islands; Sri Lanka; Taipei, China; Thailand; Tajikistan; Timor-Leste; Tonga; Turkmenistan; Tuvalu; Uzbekistan; Vanuatu; and Viet Nam.

For the non-specialists the rise of Asia – Pacific is “a miracle” or a phenomenon specific to the end of 20th century and the beginning of the 21st century. Many people have taken note of this phenomenon mostly in relation to news mentioning the immediacy of the moment (possibly even 2014) when China will become the first economy in the world (Samuelson, 2014), at least from the point of view of total Gross Domestic Products expressed in PPP (Purchasing Power Parity) terms.

But for those devoted to the study of history or economic history the picture is quite different. Because the 49 Asian economies mentioned above represented 58 % of Gross World Product before the First Industrial Revolution, by mid 18th century. From that peak level the region declined for about two and a half centuries to about 15 % in 1950 (Maddison, 2007, p.117). After 1950 the spectacular economic growth of Japan has opened the way to a return of the Asia – Pacific pre-eminence in the world economy. Japan was followed in the economic race by a first wave of countries formed of Hong Kong, Republic of Korea, Singapore and Taiwan, and then a second wave in the 1980s formed of Malaysia, Thailand, China, India, Indonesia and Vietnam. In 2010 the 49 Asian economies represented 27 % of global output.

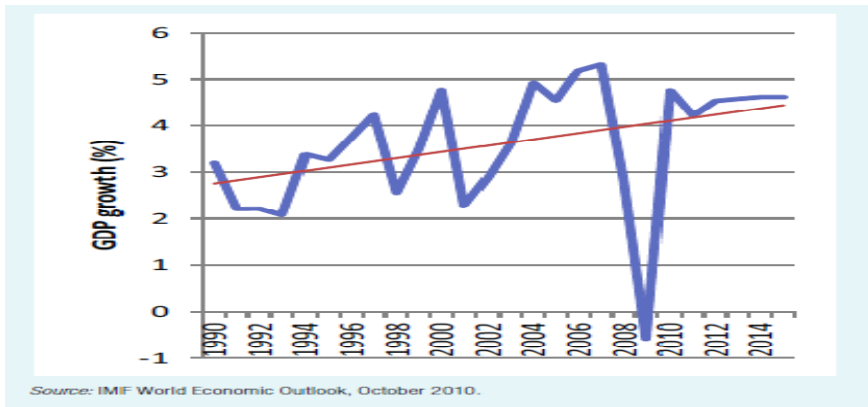
In case these current trends continue, and this is not just a speculation as the multi-year economic outlook point in this direction, the region will double its share in the global GDP from about 27 % in 2010 to about 51 % in 2050. In such a scenario the GDP/habitant in the 49 Asian economies will increase 6 times from 2010 levels to 2050 levels and will become comparable to European GDP/habitant of 2010. More significantly this will imply that over 3 billion people in the area will become members of the middle class (Asian Development Bank, 2011, p.23). One confirmation of these trends is represented by the fact that in 2009 the middle class was located in a proportion of 54 % in North America and Europe while Asia – Pacific had only 28 %. In just a decade, till 2020, the middle class will be located in a proportion of 53 % in Asia – Pacific and only 32 % in North America and Europe (Mahbubani, p.26)

Therefore if one extrapolate the current trends of the Asia – Pacific area to 2050 the result is in fact a “return” of the Asia – Pacific to the place that characterized it for centuries before the beginning of the First Industrial Revolution. The two graphs below illustrate clearly and impressively this historical pendulum that took Asia – Pacific area from a maximum to a minimum and back (Asian Development Bank, 2011, p.25)

Figure 1. Asia's share of Global GDP 1700 - 2010**Figure 2. Asia's share of global GDP 1700 – 2050**

The multi-decade impressive economic results for Asia – Pacific countries determine the interest for explaining the causes and factors that contributed to such a steady growth.

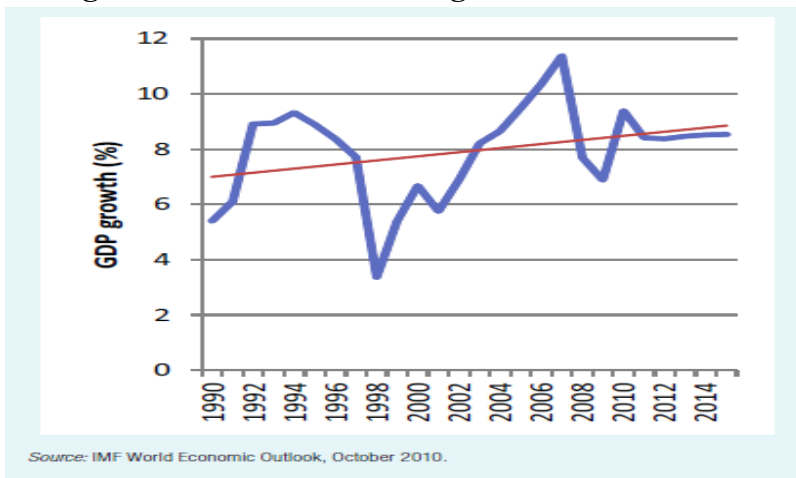
A first observation is that the “return” in a leading position within the world economy of the Asia – Pacific is the result of a long period of higher economic growth rates in the region as compared to the rest of the world. This is particularly evident if we refer to the recent crisis period after 2008. This statement can be easily proved by the next two graphs based on data originating from International Monetary Fund.

Figure 3. Global GDP growth rate 1990 - 2015

Comparing data from Figure 3 and 4 we note that at the world economy level the GDP growth rate between 1990 and 2015 varied in a band between 2 % and 5 % with a single and notable exception in 2009 when a less than 1 % negative rate was recorded.

For the same time interval 1990 – 2015 (as Figure 4 shows) the Asia – Pacific GDP growth rate varied in a band between 4 % and almost 12 % without a single year with negative rate, even in 2009 when a small decline was recorded at a global level.

This period of 25 years of significant higher economic growth rates in the Asia – Pacific led to a “return” on a pre-eminence position and also to a number of changes in the world balance of economic and political power.

Figure 4. Asia – Pacific GDP growth rate 1990 - 2015

Regional cooperation in the Asia – Pacific area

Based on this long perspective background we analyze the regional cooperation in the Asia – Pacific area. The high economic growth has been mirrored by a symmetrical growth of trade and investment flows within the region as well as between the region and the rest of the world, which fact, in turn, has led to the existence of a multitude of (economic and not only) cooperation organizations. Among these organizations one can note:

- **ASEAN** (Association of Southeast Asian Nations), established in 1967, which includes a Free Trade Area (AFTA);
- **APEC** (Asia Pacific Economic Forum), established in 1989, which has in view the creation of a Free Trade Area Asia Pacific – FTAAP;
- **RCEP** (Regional Comprehensive Economic Partnership);
- **TPP** (Trans Pacific Partnership) which aims to be much more than a free trade area.

Besides these multilateral forums and organizations, by 2012 there were about 180 bilateral trade agreements in the area (Kirk, 2011, p.4).

In order to determine the scope, content but also the political implications of the existing large discussion forums and trade agreements in the region as well as of those currently under negotiations we are going to present the main aspects characterizing APEC, RCEP and TPP. We are not going to focus on ASEAN because this is a well establish and truly regional organization and as such it is not one of the global actors interested in gaining or maintaining influence in the area. Anyway, the role and importance of ASEAN in the impressive development of Asia – Pacific region have been very significant and contributed to an unprecedented multilateralism in the area.

Regional and economic cooperation in Asia – Pacific area

Asia Pacific Economic Forum – APEC

APEC reunites 21 economies located on 4 continents which represent about 40 % of world population, 56 % of world GDP, 47 % of world trade (StatsAPEC, 2014). APEC is a rather flexible and large discussion forum which allows the debate on a variety of topics, many of which are also present in the ongoing negotiations of multilateral economic cooperation agreements such as TPP (Trans Pacific Partnership) or RCEP (Regional Comprehensive Economic Partnership).

Therefore, as far as APEC is concerned, this is not a competing organization with TPP and RCEP but rather a complement to them which may help in the clarification of certain positions of the participants or in finding new or middle-of-the-road solutions to divergences.

APEC has been established in 1989 as a regional response to the growing regional interdependence in the wider context of the globalization process. Other factors that gave an impulse to the establishment of this forum were represented by: the economic integration that took place in Europe (European Union) and North America (NAFTA), the interest of the member countries for the establishment of a regional market for agricultural products and raw materials, as well as the preoccupation of many countries in the region for the avoidance of allowing Japan to obtain a dominant market position.

APEC is characterized by some interesting aspects. The first one is that APEC is neither a trade agreement or a negotiating process, but it is a discussion forum supporting economic and trade development in the region. The complex interactions between economic, trade and political aspects within this forum are reflected in its diverse participating entities:

- 12 of its members (among which US and Japan but not China) take part in the Trans-Pacific Partnership negotiations;

- 8 of the participants to Trans-Pacific Partnership (but not US), plus 4 APEC members (among which is China) plus India plus 3 other non-APEC economies negotiate on the establishment of a Regional Comprehensive Economic Partnership.

A geographical overview of the APEC membership is presented in Figure 5 which also illustrates the years of accession to the forum of different members.

Figure 5. Member economies of the Asia Pacific Economic Cooperation Forum - APEC



Source: <http://mfat.govt.nz/Trade-and-Economic-relations/APEC/index.php>

Given the participants, from a general perspective one can say that APEC is a sort of umbrella forum, while RCEP and TPP are competing negotiations reflecting mainly the USA interest of containment of China's sphere of influence.

RCEP - Regional Comprehensive Economic Partnership

The Regional Comprehensive Economic Partnership is a multilateral free trade agreement among the 10 ASEAN states and the 6 states with which ASEAN has already free trade agreements: Australia, China, India, Japan, Korea, New Zealand. The fact that the 10 ASEAN countries are already part of a free trade area within ASEAN (AFTA) and, at the same time the other 6 non-ASEAN states have bilateral free trade agreements with ASEAN is a big plus for this agreement that allows for much less problems and divergences and also for a rapid implementation.

The RCEP was announced in 2011 and negotiations for the agreement started in 2012. The current estimates indicate the conclusion of the agreement in 2015.

In order to assess the position that RCEP might have in the world economy enough is to say that the states involved represent 46 % of world population, 32 % of world GDP, 40 % of world trade.

Anyway, the establishment of RCEP is confronted with some difficulties that arise from the fact that:

- RCEP is the first integration organization that involves a large number of developing countries;
- Some of the participants to RCEP have currently territorial disputes: Japan, China, Korea;
- The existence of significant differences in the levels of economic development and potential among participants;
- The fact that simultaneous participation of some of the members in the negotiations related to the Trans-Pacific Partnership may create confusion and expectative.

Without limiting in any way the presentation of RCEP to this factor, it is worth mentioning that China is by far the largest and most powerful partner that will play a significant role in case the agreement is finalized.

The Trans Pacific Partnership – TPP

Negotiations on cooperation in the Pacific area started in 2005 by an agreement among Singapore, Chile, New Zealand and Brunei. Anyway since 2009 the initiative for this project has been taken by the US that considers this partnership the central element of its economic policy in Asia – Pacific area.

Negotiating partners to TPP are: Australia, Brunei, Chile, Malaysia, Mexico, New Zealand, Canada, Peru, Singapore, Vietnam, USA and Japan (Japan joined these negotiations in July 2013). Korea expressed interest for TPP but its first priority is the finalizing of free trade agreement with China. At the same time Thailand, Costa Rica and Columbia expressed their interest to join TPP.

From the point of view of its content the Trans Pacific Partnership - TPP is regarded as a 21st century type of trade agreement because besides free trade it includes other aspects related to:

- labor circulation;
- public procurement;
- state owned companies;
- intellectual property and e-commerce;
- facilitation of global-value-chains.

The importance of TPP for the US results from the fact that in 2012 about 45 % of its exports were directed to TPP countries, economic relations with these countries generated 14.9 million job in the US, and companies from these states have invested about 600 billion dollars in the US, thus creating 1.5 million direct jobs (Fergusson, 2013, p.11).

Moreover US has already signed free trade agreements with 6 TPP countries (namely Australia, Canada, Chile, Mexico, Peru and Singapore).

From both an economic and political point of view the obvious missing country from TPP negotiations is China. China is an economy of the region and is the second economic power in the world with serious chances to become the first before 2020.

From the USA point of view the interest is to speed up the finalization of TPP negotiations just to avoid having China as a founding member. If this happens China will have to negotiate accession to TPP in a similar way to its accession to the World Trade Organization. These particulars can be easier understood if we put the whole TPP negotiations in a historical and geo-political context.

Geo-political context of TPP negotiations

For reasons specific to the historical circumstances after the second World War for many decades the USA have been the central element of the economic and political relations in the Pacific area (Dormandy, Kinane, 2014, p.10).

This decade long picture has changed because the economic, political and military rise of China, particularly after 2010. Therefore, the emergence of this new,

high profile regional power – China - generated the need for some clarifications on the new role of the USA in the area. In this respect the official position of the USA were expressed in November 2011 under the name of rebalancing US foreign policy to Asia. The main objective of this rebalancing policy is for the USA to continue to have a leading role in the Asia – Pacific (Manyin, 2012, p.5).

In this context some strategists and politicians in the Western world and particularly in the USA started to discuss about the need for the creation of a Pacific Charter (similar to North Atlantic Chart) to cover at least 4 areas: free navigation and settlement of sea litigations; establishment of an Asia – Pacific free trade area; provision of security by cooperation; securing human rights and democracy .

The negotiations and structuring of the TPP is particularly complex because the participant countries are already members in many overlapping multi-lateral and bi-lateral trade agreements and while this may provide useful building blocks for the future agreement (that is TPP), at the same time determines the need to give up existing structures and replacing them with a new and unifying one.

The existing multilateral Free Trade Agreements in the TPP area are the following:

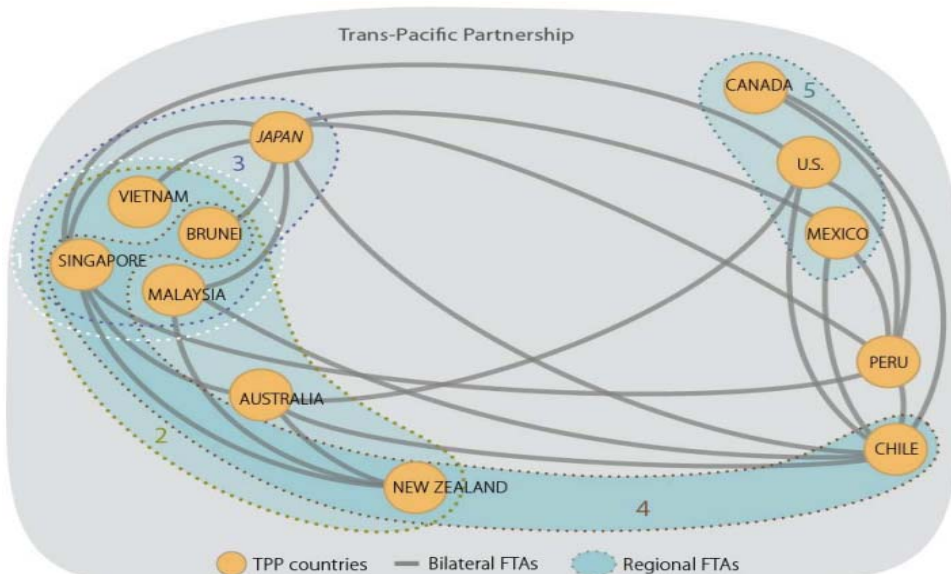
- 1) Singapore, Vietnam, Malaysia and Brunei are AFTA – ASEAN Free Trade Agreement members;
- 2) the 4 countries plus Australia and New Zealand are AANZFTA members – Free Trade Agreement ASEAN – Australia – New Zealand;
- 3) the 4 countries plus Japan are members of Free Trade Agreement ASEAN – Japan;
- 4) Chile, New Zealand, Singapore and Brunei are members of the Trans Pacific Strategic Economic Partnership - TPSEP or P4;
- 5) US, Canada and Mexico are NAFTA members.

The existing bi-lateral Free Trade Agreements in the TPP are:

- 1) Canada with Chile and Peru;
- 2) SUA with Singapore, Australia, Peru, Chile;
- 3) Mexico with Chile, Peru, Japan;
- 4) Peru with Mexico, Japan, Singapore, Chile;
- 5) Chile with Canada, Peru, Japan, Malaysia, Australia;
- 6) New Zealand with Australia, Malaysia, Singapore;
- 7) Australia with US, New Zealand, Singapore;
- 8) Vietnam with Japan;
- 9) Brunei with Japan;

- 10) Singapore with US, Japan, New Zealand, Australia, Peru;
 - 11) Malaysia with Japan, Chile, New Zealand;
 - 12) Japan with Mexico, Peru, Chile, Singapore, Vietnam, Brunei, Malaysia.
- This complex, overlapping situation is reflected in Figure 6 below.

Figure 6. TPP negotiations and existing Free Trade Agreements



Source: Congressional Research Service

Conclusions

The high economic dynamism of the Asia – Pacific region has been accompanied by an equally high dynamism of regional trade and investment flows which, in turn, generated a high interest for the establishment of a multilateral regulation framework. As result the majority if not all the countries in the region are part of bilateral and multilateral free trade agreements and most of them are also part in at least one comprehensive multilateral negotiation.

From a larger, worldwide perspective, we can say that the ongoing negotiations on free trade areas are an expression of the dynamics of globalization and of the higher than world average dynamics in Asia – Pacific area. As result of failure of Doha Round that aimed to create a global enabling framework for trade and investment the importance of these regional negotiations has increased. Regional progress albeit meaning less than world progress is anyway a step forward.

In the Asia – Pacific area the RCEP and TPP negotiations may be regarded as an expression of the intersection of two spheres of influence: one regional, that of

China and one global, that of the USA. In this case the stake is represented by the accession to a position of controlling or at least influencing the rules of the game for the economic cooperation in the area for the rest of the century.

The presence of many players / states in both negotiations is proof of this competition but also an expression of globalization and of the global-value-chains that interconnect more and more companies large and small across the globe and particularly within the same geographical area. The economic actors, large and small, need better regulations and they continuously strive for this in any way they can.

In this context, the overlapping determined by the existence of many bilateral and multilateral free trade agreements as well as the ongoing negotiations of some large free trade agreements in the Asia – Pacific area is not necessarily a bad thing. It may actually help in the long run as generating building blocks for larger and larger agreements. In a positive scenario that eventually may lead to a true global trade agreement fulfilling and over passing the Doha Agenda.

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