

## 2nd ADB - Asian Think Tank Development Forum

### Paper Proposal

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Title: East Asian Economies, Regional Economic Structure and the Emerging Regional Trade Regimes: TPP and RECP

#### Abstract:

TPP and RCEP have emerged as two most recent efforts in forming a multilateral trade regime in the Asia-Pacific. They represent significant development in approaching regional economic cooperation and management, and significant progress in search of a more effective, feasible multilateral arrangement for the region. Questions and concerns arise along with their development from the beginning as whether they are a pathway to economic integration and governance in the broad region or they simply reflect the changing economic conditions and structure in the region, and what impact they will have on the long term prospects of economic cooperation and management in the region.

This paper starts with an assumption that there are critical interests, forces and relations that shape the structure and arrangements in the region beyond trade and investment liberalization. The paper will investigate each of these three sets of interests and relations and how they relate to the shaping of the regional economic structure and institutions, so that we will have a better understanding of why we have TPP and RCEP now and what implications and impact they have on economic growth and development in the future. The paper will have a significant amount data to sustain analysis and argument, though it is more a political economy analysis of the regional economic structure and institutions than a sectoral, regulatory cost-effect analysis.

The paper will first examine the historical development of regional institutions in the Asia-Pacific for trade and investment liberalization and economic integration, from APEC since the late 1980s, ASEAN-plus 3 the 1990s and 2000s, and the East Asia Summit in more recent years. There are some defining features underlying these institutional efforts. One notices the tendency in these efforts for region-wide mega institution design, with a large membership going beyond the region, benefits of the arrangements open to all, as well as soft institutionalism and ASEAN centrality. These features are shaped by the dominant interests and policy in international economic relations of the time, notably those of the 1980s and 1990s, seeking trade and investment liberalization in the economically emerging Asia-Pacific. 30 years onwards, lessons are learnt in building regional institutions: why we need regional institutions? What kind of regional institutions we want, and how do we build useful and effective regional institutions? And of course, economic interests and conditions underlying regional structure have also experienced a significant shift, notably among them is the greater weight and influence of

Northeast Asian economies and their interests and influence on regional institutions. TPP, in an important way, is a response to the lessons we have learnt and a reflection of the changing conditions and interests for regional institution building. RCEP can also be seen as part of this. To be feasible and effective, regional institutions in the Asia-Pacific might need to take a smaller scale in membership to start with, to pursue clear aims beyond trade and investment liberalization, and to reflect the changing structure and conditions of economy in the region. A two-block structure emerging in regional economic grouping, therefore, are not necessarily undesirable, at least for now, even though there are complicating ambiguities and overlappings in the current memberships of TPP and RCEP.

Secondly, the shaping of the regional economic structure in the Asia-Pacific is an inevitable part of the global economic structure, given how economies in the region are integrated with the global economy in the first place. The shaping effects of the global economic structure come in through the influence of world dominant economies (ironically some of them are now located in the Asia-Pacific itself, notably Northeast Asia), the prevailing economic ideologies, values and policy priorities of the time, and the institutions and processes in which the world economy is governed. From a combination of the first and second elements, one can see a strong drive behind the efforts in building regional institutions in the Asia-Pacific. Neoliberal economic values and priorities of the 1980s and 1990s, embodied in the US, UK and other advanced economies, pushed for the opening up of the region's economies, and a unified, integrated institutional platform for international economic activities, primarily inwards trade and investment. Such efforts however do have their unexpected consequences for some world leading economies: the global shift to East Asia in economic activities - manufacturing, consumption and investment, and technology advances and developments, and consequences on the sustainable development of the national economies back home, a problem often framed as "global economic imbalances." TPP and RCEP reflect not only the structural shifts in the world economy, but also efforts in their rebalancing.

Finally, the shaping of regional economic structure is also closely related to the conditions, structural change, and shift in growth model and priorities of the countries in the region, a factor that has not always been properly reflected in our thinking and analysis. Post-World War II economic growth and development of East Asian economies, particularly those of Northeast Asia, have significantly changed the global economic structure. These economies have in turn reached a point where the growth strategy and development model they have relied upon for their successful economic growth and transformation in the past are no longer effective or useful. Japan has been muddling through in the past 20-30 years, hoping to emerge with a new effective model or strategy of sustainable development. Abe economics is addressing this in a quite innovative way, but it is not clear how this will connect Japan with the region for its long term economic growth. China was long marginalized in the development of regional institutions but this has changed significantly in recent years. Added to that is the structural shift and deeper institutional reforms that China is undertaking on its own economy. How this will affect China's posture in regional economic structure and institutions requires a thorough analysis of its structural reforms and programme of economic rebalancing, and the

directions of its economic activities and relations in the region to emerge from this reform and rebalancing. One thing is evident that the momentum of the global expansion of the Chinese economy brings China a significant presence and influence in the region, and sees broader economic interests, and diverse and innovative forms of its economic activity and pursuit in the region going significantly beyond trade. Even on trade, it is perhaps China that now holds up the banner for trade and investment liberalization. Korea and Taiwan are seeking to position themselves in the region and with regional institutions. The gravity of Chinese economy can and indeed are drawing them to integrate more with the Chinese economy than before. The scale and influence of ASEAN's economies are less significant. The integration within ASEAN will not lead to a significant increase of that in the region, much less in the world economy. TPP and RCEP are effects of the impact of these national economies on regional economic structure and indicators of how this economic structure in turn constrains or facilitates the growth and development of these national economies.

In conclusion and overall argument, the paper shall demonstrate that TPP and RCEP reflect substantive structural shifts in economic activities, interests and capacity. They are also a move forward in building multilateral institutions, towards a two-block structure with a significant leading role of Northeast Asia. The paper will argue that TPP and RCEP are strongly influenced by the shift in the global economic structure. Whether they will be effective and useful, and how far they can go to achieve that will significantly depend on how these arrangements can build positive connections between economic activities and capacity in the region and the wellbeing of the globally dominant economies. Third, the paper makes a case that TPP and RCEP, at their current forms and directions, do not seem to present an optimal institutional environment for regional economic cooperation and management. TPP and RCEP seem to be a pathway, not necessarily to an Asia-Pacific wide regime for trade and investment management and facilitation, but toward something that can more closely reflect the changing conditions and structure of the regional economy in the region, and allow positive relations to develop between the global, regional and national economies.

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