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DIPLOMA THESIS ABSTRACT

Effectiveness of Economic Groupings

in a selected world region

Asia - Pacific Economic Cooperation

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SUMMARY

Integrated associations have become in recent years an integral part of relations between many countries of the world. The second half of the XX century and the beginning of the XXI century are characterized by increased development of integration processes in all regions of the world. Examples include the European Union, APEC, NAFTA, free trade agreements, etc.

One of the most dynamic elements of the integration process is the development of Asia - Pacific Economic Cooperation's countries. In recent decades, the APEC turned into the fastest growing part of the world economy. A key element in the mechanism of the rapid economic development of East Asian countries became an active use of external economic factors, trade liberalization and the growth of export, import oriented policies.

Despite the different levels and sizes of economic development, various forms of state and models of national economies, member countries are trying to find ways of regional development and form their integration structures. Implementation of APEC plans is different for developed and developing countries.

Elimination of unjustified tariff and nontariff restrictions, liberalization of trade between countries determine the relevance of the chosen topic of the diploma thesis and clearly indicate the need for analysis of the trade liberalization of developed and developing APEC countries.

Keywords: Economic integration, APEC, economic groupings, developing countries, developed countries, trade liberalization, trade barriers, export, import.

Klíčová slova: Ekonomická integrace, APEC, ekonomické seskupení, rozvojové země, vyspělé země, liberalizace obchodu, překážky obchodu, vývoz, dovoz.

Aims and methodologies

The diploma thesis investigates the impact of membership of countries in APEC. Main goal of this diploma thesis is to evaluate trade liberalization of developed and developing APEC countries.

Partial goals are:

- Evaluate export and import relations of small member countries (Malaysia and Singapore)
- Analyze trends of trade barriers in developed and developing member countries (Canada, US, China and Russia)
- Evaluate export and import relations of Canada, United States, China and Russia with other APEC member countries.

Practical process and analysis of diploma thesis will draw on results which will be given by the research study. The methodology of the thesis is based on research and analysis of relevant information resources. The main methodologies used in analysis are case study and statistical observation. To be among Asia-Pacific Economic Cooperation members is not equally effective for both developed and developing countries. Some member countries still may have high rates of trade barriers in intra exports and imports. Effect of membership in APEC of small countries such as Malaysia and Singapore will be analyzed (on the basis of export and import). The primary source of export and import data of 2 developed (Canada and United States) and 2 developing countries (China and Russia) will be taken to evaluate APEC trade liberalization. The Thesis concludes results of the studies based on the synthesis of the theoretical and the practical knowledge.

Analysis

APEC amazes with an exceptional diversity of its constituent states. They are very different from each other by their geographical conditions, cultural and historical traditions, level of economic development, social and political systems. It seems that there are more differences between them, than common characteristics. Member countries are separated by enormous distances. United States and Japan are among the industrially developed countries in the region. Along with them there are more than two dozen developing countries, starting with such giants as Indonesia and ending with tiny mini-states of the South Pacific with a population of only a few tens of thousands of people (Brunei). So, the US is interested in a quick and complete removal of barriers, liberalization of trade, financial flows and the opening of markets in East Asian countries. In turn, other APEC countries such as Japan, China, Russia and South Korea defend the voluntary

nature of this process. Developing East Asia countries believe that APEC priorities are not the liberalization of trade and capitals but promotion trade and economic, scientific and technical cooperation. Despite disagreements there were made steps towards trade liberalization. One of the steps is tariff barriers, which leads to changes in export and imports of developed and developing countries and increases level of liberalization.

Next we will consider these changes on the examples of Malaysia, Singapore (small countries), Canada and United States (APEC developed countries), China and Russia (developing countries).

Malaysia

The average highest rate of tariff in Malaysia was 14.67% in 1988, after accepting in APEC (1989) tariff rate decreased and now it consist 6.07% (2014). This process led to changes in Malaysian exports and imports.

Next we will analyze Malaysian export to the world and to APEC countries.

In first years of Malaysian membership in APEC the export to member countries was high. It could be predicted that Malaysian export to APEC will be higher than to the rest of the world. But the difference becomes bigger. In 2012 the difference in export between APEC and world consisted \$ 51.607 billion which is for 171% more than in 1989 (\$ 19.092 billion). The reason might be in the reduction of tariff barriers in non-member countries.

Malaysian imports from non-member countries are bigger than from APEC countries. The difference is growing up from 2005, which might be depending on changes of Malaysian consumer preferences or changing the production commodities of member countries. Import has the same trend as Malaysian export.

Malaysian membership in APEC gave many advantages to Malaysia. Except the growth of GDP, reduction of inflation the biggest achievement was that proportion of people living "below the poverty line" decreased from 37 to 5% (1989-2010). But a large dependence on the external market (90% economic dependency) makes the economy of Malaysia sensitive to fluctuating APEC trade prices and changes in the conditions of sale and purchase of goods.

Singapore

During the Singapore membership in APEC the tariff rate decreased from 0.4 (in 1989) to 0%. Undoubtedly this has led to changes in the structure of exports and imports.

Next we will analyze Singapore export to the world and to APEC countries.

Singapore export to APEC was enough high and close to world's amount. From the 2000 Singapore began to export to the rest of world more. The reason of big difference could be related with Singapore signing economic agreements with APEC non member countries. Some Singapore's bilateral agreements are: bilateral agreement with EFTA (in 2002), Free trade agreement with Jordan (in 2004), Comprehensive Economic Cooperation Agreement with India (in 2004).

Singapore import declined due to world financial crisis. The difference in Singapore import between the APEC and world is growing. If Singapore will continue to import more from the rest of the world it can be said that Singapore may not to need be the APEC member.

Due to the important strategic position at the crossroads of maritime routes between Europe, Asia and Australia, Singapore has become one of the leading trading centers in the world. In relation to other countries in APEC, it has traditionally played the role of "marketplace", here comes the goods produced in neighboring countries.

Canada

Canada has gradually reduced the existing barriers (from 9.1% to 6.7%) between member countries and made more free rules in various sectors such as agriculture, services, energy, financial services and investments.

Now we will analyze Canadian export to the world and to APEC. Canadian export to APEC member countries increasing intensively. Since Canadian membership in APEC, new Asian markets opened. Trade between Canada and APEC countries increased and reached its peak in 2008. After Canadian membership in NAFTA, Canada trades with United States of America and Mexico more than with APEC.

During the last year, imports from Asia-Pacific region fell by 6%, largely due to a substantial reduction in trade with all major Asian partners in Canada except China. Fell substantially imports from Japan, and four of the five major suppliers recorded a significant reduction in turnover.

Summing up Canadian trade it can be said that membership in APEC, opened new Asian markets and gave an opportunities to focus on them. However Canada continues to trade with it's closest neighbor (US).

United States

As a result of the signing of APEC, the average American tariff on member countries goods fell from 6.6% to 6.4 %.

Observed decline of United States export to APEC countries in 1997-98. The reason might be an impact of the Asian crisis of 1997-98 years. Exports to Asian countries were a third of all United States exports (33%). In 1998, exports to Asia fell by 13%. The United States export share in the world is growing compare to APEC.

However, in assessing the dynamics of trade it necessary to mention a significant weakening of APEC in US imports. In 2000, they accounted for one-fifth of all United States imports.

Summing up analysis on United States can be said that America plays an important role in APEC building. United States gives to APEC more than it receives which makes them main player within APEC. United States helps to small APEC countries to emergence of their economy through the trade. But according to conducted analysis in the struggle with United States trading partners Americans often use classical methods of protectionism.

China

The average tariff rate on imports has decreased from 35.9% to 23%. But still it was the high level of customs duties among the APEC countries. Next we will analyze Chinese trade with APEC countries.

The difference between Chinese export to the world and to APEC was quite low (1992-2002).But from the 2003 the difference has become bigger. The reason might be in compensation of foreign export by an increase in domestic demand (as population is growing). In spite of that most of the exports done out of the Asia-Pacific economic cooperation, China uses it's membership effectively, which means that it has export and import relations with all regional participants.

During the analysis of Chinese import following changes were revealed. The highest difference between Chinese export to the world and to APEC was in 2012 and amounted \$70.61 billion which is for 198% more than in 1992. The lowest difference value was in 1992.

In the conclusion of Chinese analysis can be said that accession to the APEC has opened new opportunities for China in the multilateral diplomacy, demonstrations a new state image and promotion the internal development. APEC was a platform for China to build profitable bilateral contacts, in which China does not differ from Japan and Korea.

As well China has number of internal problems, such as poor quality of many Chinese goods, their inconsistency with international standards, the lack of training for workers and technical staffs are big problems for APEC investors.

Russia

There was a decrease in the average 1/3 import duties on basic kinds of meat, milk, butter and sunflower oil and baby food. Now we will analyze how it effected on Russian's trade.

During the analysis revealed that trade relation of Russia with member economies was constantly expanding. For the period of 1998-2004 Russia's trade with APEC members increased from \$21.1 billion to \$ 44.93 billion (more than 2 times). Russian exports to the APEC countries increased from \$ 12milliard, to \$ 28.66 billion in 1998, Russia is also one of the most important trading partners of China.

Difference in Russian export to the world and to APEC is quite big. Dispite it's membership in 1994, Russia start to trade with APEC countries after 2 years. The reason was that Russia didn't have certain plan of activitis. Russia trade with the rest of world more than within APEC (for instance with Europe).

Next we will analyze Russian import. An interesting situation is observed with Russian import to the world and to APEC. Russia imports from the rest of the world more than from APEC countries. In 2003 the Russian import from the world start to increase and reached its peak in 2008. In 2009 the value declined because of financial world crisis.

The analysis of Russian trade relations show that it's participation in the APEC integration contributes to deepen cooperation with the countries of the Asia-Pacific region and the strategic interests of country, because it provides a favorable external conditions for the development of the national economy and improve the living standards of the population.

Despite the perspectives and interests of APEC in the Russian economy, APEC members do not hurry to trade and still not consider Russia as a potential investment object. The main obstacles to the implementation of investment might be political and economic instability in Russia.

Conclusions

The removal of tariff barriers is a real challenge, especially taking into account that members of the organization are not just post-industrial nations. In general, the Manila Action Programme fixed APEC long-term goals as reducing average tariff rates to 0-5% and the elimination of non-tariff barriers by the 2010 (for developed countries), 2020 (for developing countries), introduction of reservations "standstill", i.e. not to increase the level of protection and conduct the progressive trade liberalization. Despite the reduction of tariff barriers in developed countries it's still higher than mentioned range.

To create free trade zone APEC participants need to solve internal problems for instance simplify taxation, to implement economic reforms, to adopt new laws (case of Russia). It is also necessary to improve the quality of products and service (case of China). Small countries such as Malaysia and Singapore, which 90% of the economy depends on foreign trade must try to increase the sale of goods within the country.

The effectiveness of participation of developed and developing countries in the integration processes of Asia-Pacific region depend on how the mentioned problems will be solved.

The main conclusion from the analysis is that not all countries are ready for trade liberalization (neither developed nor developing). After the adoption of the law on the trade liberalization, exports and imports between the participating countries has increased. But in recent years there was a decline. The APEC countries began to trade with non member countries more. Such developed countries as Canada and US started to trade within NAFTA (in which Mexico is also included) more than with APEC countries. This strong trade relation may be related with a close distance. A similar situation is observed in Malaysia which strengthens trade relations with Europe and Central Asia. United States, Canada are main export partners of many small member countries and refusal of giant countries from APEC will lead to collapse of small APEC members.

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