

*Czech University of Life Science Prague*

Faculty of Economics and Management

Department of Economics



**DIPLOMA THESIS**

**Effectiveness of Economic Groupings**

**in a selected world region**

**Asia - Pacific Economic Cooperation**

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Department of Economics

Faculty of Economics and Management

## DIPLOMA THESIS ASSIGNMENT

Nazira Tadjieva

Economics and Management

Thesis title

**Effectiveness of Economic Groupings in a Selected World Region – Asia-Pacific economic cooperation**

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### Objectives of thesis

Evaluation of Effectiveness of economic Groupings in a selected world region (case of APEC):

- 1) Reveal analysis of specific economic integration, to determine advantages and disadvantages of economic groupings.
- 2) Define objective preconditions, levels, goals and objectives of integration forms, and the development of international economic integration.
- 3) Analyze the impact of economic groupings into its member s economy.

### Methodology

The several methodology parts are defined to accomplish the thesis. The methodology of the thesis is based on research and analysis of relevant information resources. The theory part consists of 3 paragraphs. Definition of economic groupings is described in the first paragraph. Advantages and disadvantages discussed in the second paragraph. The last paragraph consists of information about one of the biggest economic grouping APEC.

Practical process and analysis will draw on results which will be given by the research study. APEC works under its three main pillars of activity, Trade and Investment Liberalisation, Business Facilitation and Economic and Technical Cooperation. In the practical part of diploma thesis the impact of APEC participation into member s economy will be researched from trade and investment liberalization s view. Finally, comparison of analysis of the economic indicators of several APEC member countries will be compared with previous years. Based on the synthesis of the theoretical and the practical knowledge, final conclusions will be formulated.

### **The proposed extent of the thesis**

60 – 80 pages

### **Keywords**

Economic integration, A.Smith, APEC, free trade zone, customs union, common market, economic and monetary union.

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### **Recommended information sources**

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## **Declaration**

I declare that the Diploma Thesis “Effectiveness of Economic Groupings in a selected world region (case of Asia Pacific Economic Cooperation)” is my own work and all the sources I cited in it are listed in Bibliography.

Prague 2015

Signature:

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Nazira Tadjieva

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**Účinnost Ekonomických Seskupení**

**ve vybrané oblasti**

**Asie - Pacific Ekonomické Seskupení**

**Effectiveness of Economic Groupings**

**in a selected world region**

**Asia - Pacific Economic Cooperation**

## 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.**

## SOUHRN

Integrovaná sdružení se v posledních letech stala nedílnou součástí vztahů v mnoha zemích světa. Druhá polovina dvacátého století a počátek dvacátého prvního století se ve všech oblastech světa vyznačují zvýšeným rozvojem integračních procesů. Jedná se například o Evropskou Unii, APEC, NAFTA, dohody o volném obchodu a další.

Jedním z nejvíce dynamických prvků integračního procesu je rozvoj Asijsko-tichomořské hospodářské spolupráce. V posledních desetiletích, se APEC stala nejrychleji rostoucí částí světového hospodářství. Klíčovým prvkem v mechanismu rychlého ekonomického rozvoje východoasijských zemí se stalo aktivní využívání externích ekonomických faktorů. Přispěla také liberalizace obchodu, růst vývozu a v neposlední řadě opatření podporující dovoz.

I přes různé úrovně a velikosti hospodářského rozvoje se různé druhy státních uskupení, modely národních ekonomik, ale i členské státy, snaží o regionální rozvoj a vytváření integrační struktury. Implementace APEC plánů je pro vyspělé a rozvojové země odlišná.

Odstranění neodůvodněných tarifů a netarifních omezení, ale i liberalizace obchodu mezi zeměmi jsou relevantními tématy diplomové práce a jasně ukazují na potřebu analýzy liberalizace obchodu ve vyspělých a rozvojových zemích v rámci APEC.

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



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## **1. INTRODUCTION**

The term “Asian Pacific Economic Cooperation” (APEC) is relatively new in our political vocabulary. In January 1989, the Minister of Australia Bob Hawke took the initiative of convening a meeting of ministers representing the economies of the region, in order to create a fundamentally new organization for economic cooperation. B. Hawk’s offer was seen in the region as "an idea the time of which has come." The first meeting was held in the capital of Australian, Canberra, in November 1989. 26 ministers from 12 countries took participation. Now, organization of APEC unites 21 countries.

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. Very different historical destiny between Far Eastern countries such as China, Japan, Korea, established in antiquity under the strong influence of religious and cultural traditions, and so-called “white dominions” of England - Australia, New Zealand, Canada, inhabited mainly by people from the British Isles. 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).

Currently in the foreign policy of the states a special attention is done on expansion of trade and economic cooperation with Asia Pacific countries. Trade and economic relations are the most reliable basis to strengthen peace and good neighborliness among countries.

Prospects for a full-scale integration group are uncertain, largely due to the different priorities of Anglo-Saxon and Asian developing countries. 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. Canada, Australia, New Zealand and several other states support US suggestion. 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.

## **2. 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.

### **METHODOLOGIES**

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.

### **3. Reasons of creation economic groupings**

Economic cooperation among people began about 10 thousand years ago. Basis of association of national economies into the global economy has made international division of labor. It is a specialization of individual countries in the production of certain products. First neighbouring tribes began to exchange with surplus of manufactured products, individual families and persons and then the states. Merchant caravans crossing the desert, and merchant ships sailed the seas and oceans, paved the way of more and stronger economic interaction distant from each other states. These were the first attempts at rapprochement of peoples, largely due to differences in the natural factor in the choice of economic direction. Real interaction began in the early stages of capitalist development. Established before bilateral and trilateral foreign trade relations begin to grow into a worldwide communication. In the era of the industrial revolution, increasing interconnection of national economy, growing over them into the world market is not so much natural as on the human factor activity. With the development of large-scale machine industry, increased the scale of production, deepened specialization in the industry. It has become impossible to produce an ever-increasing range of products within individual countries. Further development of the world's productive forces led to a tendency to deepen the international division of labor. Each country has a certain amount of natural resources, historically accumulated intelligence of people (knowledge, skills, and experience). The first argument in favor of sharing the results of economic activity between the two countries would be such a difference of production conditions: one country has something that is not present in the other, but without which it cannot develop modern industry. This applies to the subjects of personal consumption.

The second argument in favour of the exchange act is production costs. The production costs of a product in different countries vary. Costs per unit of capacity of car in Japan lower compared to the U.S. auto industry. This is due to many factors, for example South Korean and Taiwanese electronics cheaper than Japanese, primarily because of cheap labor. Often it used to be cheaper to buy from others than to make all fully at home.

Adam Smith has supported this position with a simple example: It is possible - he wrote, make grape wine in Scotland, but in this case the costs will be excessive. More profitable to produce in Scotland oats and exchange it for wine from Portugal. David Ricardo, went further, arguing that principle to the labour theory of value, and proved that from the specialization both countries benefit. He also believed that the benefits of specialization receive, ultimately, all classes, because it leads to the accumulation of capital, respectively - to economic growth and increase demand for labor.

Economic groupings has become a common denominator for the phenomena that in Europe is known as 'Regional Economic Integration' – e.g. it is the economic and political process of increasing integration of nation states by removing physical and other barriers to the free movement of goods, services, labor and capital. The word "integration" comes from the Latin "integratio" - filling or "integer" – "whole".

There is no clear-cut definition of economic integration in the international trade literature. But scientists try to explain, for example Balassa (1962) defines economic integration as both a process and a state of affairs. Integration is a process in that involves the removal of trade discrimination between different states, while it is a state of affairs to the extent that it is the absence of different forms of discrimination. Robson (1987) refers to economic integration as being basically concerned with efficiency in resource use, with particular reference to spatial aspects. The necessary conditions for its fullest attainment include the freedom of movement of goods and factors of production and an absence of discrimination amongst members. In addition, where resources are allocated by the price mechanism, measures are required to ensure that the market provides the right signals and institutions are required to give effect to the integrating force of the market. Molle (1990) takes economic integration to indicate the gradual elimination of economic frontiers between countries. In the first stage, trade among partners is liberalized. This is followed by the liberalization of movement of production factors. The objective of the third stage is the co-ordination of national policies with regard to economic sectors, possibly including exchange rates. Economic integration is a process of accretion of the economies of neighbouring countries into a single economic complex on the basis of strong economic ties between their companies.

### **3.1 History, definition and types of international economic groupings**

Where exactly the idea about Economic Integration originates and starts is hard to establish. The Fathers of European Economic Integration (which took pace especially after the 2nd World War) were the French Statesman Robert Schuman, the American General George C. Marshall and the French Political Economist, Diplomat Jean Monnet. (Dr.C.Jensen, 2013)

If the first half of the 20th century was the era of formation of independent nation states, in the second half of the 20th century reverse process began. This new trend first (since 1950) has been developed only in Europe, then (since 1960) it has spread to other regions. Many countries voluntarily waive full national sovereignty and form integration associations with other states. The main reason of this process is the desire to improve economic efficiency and integration, primarily economic in nature.

Basic forms of global economic relations - international trade, capital flows, migration and labor, transnational activities, actions of international organizations, finally, the integration processes in the world - reached previously unknown proportions. International foreign trade becomes more real and tangible factor of the reproduce process; it needs the population and all economic activity. Foreign exchange goods and services is now over one third in relation to the total GDP of the world - more than \$ 27 trillion (2012). Thus, every sixth product or service reaches the consumer through world trade. Now it is impossible to meet the diverse of everyday people's needs, not only in small countries, but also in medium and large countries, where the share of imported consumer goods in the middle reaches 12-20% of the population consume.

One of the main objectives of economic integration is the use of inter-state division of labor, specialization and cooperation, mutually beneficial trade to achieve the overall strategic and operational interests of the participating countries.

The simplest form of economic integration is a **free trade zone** within which abolished trade restrictions among member countries, primarily customs duties. In this case, the canceled trade restrictions for countries - participants of the integration group, primarily reduced or abolished all customs duties. As practice shows, the interstate agreement on the establishment of free trade zones typically involve a gradual over the

years, the mutual reduction of customs duties on industrial goods and services until their subsequent cancellation, as well as the elimination of non-tariff barriers on these goods and services. Often, a special place is given to agricultural products, in relation to which usually integrates states pursue a policy with a certain degree of protectionism in defense of the national farmers.

Agreements on free trade zones typically include commitments not to rise of partner's duties unilaterally and not to erect new trade barriers, adhere to the principle of mutual moratorium on restrictions and worsening terms of trade. In the agreements on free trade areas may be provided for special cases in which the contracting parties may extend for a certain period at a mutually agreed circumstances, the incidence of protective measures, including an increase in the customs duty on the agreed amount. Participation in free trade zones can complicate the situation of countries - manufacturers, import liberalization creates favorable conditions for opponents of the number of countries participating in the agreement, products which may be of higher quality and technical level. Increased competition threatens bankruptcy for domestic producers have not sustained competition with foreign suppliers of goods and services.

The main free trade zones:

1. Free Trade Agreement of Southeast Asian Nations (ASEAN -Association of South East Asian Nations) -one of the largest regional organizations, with all the countries of South-East Asia (1967);
2. North American Free Trade Agreement (NAFTA) - Agreement between the US, Canada and Mexico, which came into force in 1994. The Agreement provides for the gradual elimination of tariffs and non-tariff barriers;
3. European Free Trade Association -in 1960 an agreement was signed between Iceland, Liechtenstein, Norway, Switzerland;
4. Baltic Free Trade Area - an agreement between Latvia, Lithuania and Estonia, signed in 1993;
5. Central European Free Trade Agreement - an agreement between Hungary, Poland, Romania, Slovakia, Slovenia and the Czech Republic, signed in 1992;

Another form is a **customs union**. Along with the free trade zone establishes a single external tariff and implementation of a unified foreign policy with regard to "third countries".

The agreement on the establishment of a customs union includes the following points:

- 1) Removing the internal customs borders between member countries of the Union;
- 2) Elimination of customs procedures in mutual trade in goods of national production;
- 3) The standardization of forms and methods of collection of foreign trade statistics;
- 4) Approval of forms and methods of providing benefits to participants of foreign economic activity;
- 5) Introduction of common tariff and non-tariff regulation in trade with third countries
- 6) Create a generalized system of preferences.

Examples of customs unions:

EU-Turkey Association - a customs union between the European Economic Community (now - the European Union) and Turkey, created in 1963.

Arab common market - customs union, uniting Egypt, Iraq, Jordan, Yemen, Libya, Mauritania, Syria. Agreement on its establishment was signed in 1964.

More complex form is a **common market**, which aims to provide the participants along with mutual free trade and a single external tariff, free movement of capital and labor, as well as coordination of economic policies. Creation of the Single Market is a long, complex and controversial process. Special difficulty, as experience of the European Common Market has shown is the quota - means establishment of shares in the production, sale and purchase of goods both inside and outside of each participating country and the single market as a whole.

**Economic Union** - the type of international integration, in addition to providing a common customs tariff and the freedom of movement of goods and factors of production includes macroeconomic policy coordination and harmonization of legislation in key areas such as fiscal and monetary. This is the highest level of economic integration. At this stage of integration rises the need for bodies with not just the ability to coordinate and oversee the economic development of member countries, but also to make operational decisions on



behalf of the group as a whole. Governments agreed to concede part of national sovereignty in favor of intergovernmental bodies with the function of a supranational regulation. Such international bodies empowered to take decisions on matters relating to the organization, without the consent of the member governments.

**Political Union** is a full integration with a single economic policy, a common currency and a supranational regulation bodies. Achieving this level of integration (political union) suggests that the acceding States, taking into account the results achieved earlier stages of integration, agree on conduct of joint trade and then the whole economic policy in relation to third countries, as well as the unification of regulatory systems economy.

**Table 1** Stages of development of regional economic integration

Stages	Essence	Examples
1. Free trade zone	Elimination of customs duties in trade between the countries - participants of the integration group	APEC in 1976 EEC in 1958-1968 EFTA 1960 NAFTA 1988 MERCOSUR 1991
2. Customs union	Unification of customs duties in respect of third countries	EEC in 1968-1986 MERCOSUR since 1996
3. Common market	Liberalization of resources (capital, labor, etc.) between the countries - participants of the integration group	EEC in 1987-1992
4. Economic union and monetary union	Coordination and harmonization of domestic economic policies of the Member States, including the transition to a single currency	EU since 1993
5. Political union	Implementation of a single foreign policy	United States

*Source:* Author.

Economic integration provides a number of favorable conditions for the interacting parties: First, integration cooperation gives economic actors (firms) wider access to various resources (financial, material, labor), to new technologies across the region, and also allows to produce products based on the large market throughout the integration group.

Secondly, creates preferential conditions for firms participating countries of economic integration, protecting them from the competition of firms "third countries".

Third, it allows to participants to work together to solve the most pressing social problems, such as the leveling of development some of the most backward areas, softening the condition in labor market, the provision of social security to poor people, etc.

### **3.2 Trade liberalization**

World experience shows that the openness of the economy extends the use of external factors in order to accelerate development. It allows to increase the scale of application of mastered abroad advanced technology, new machines and equipment, modern production management experience and sales, also to attract additional material and financial resources and gives a chance to be included in international production networks. National economies of all countries more or less dependent on foreign trade, which affect the economic interests of the various segments of the population. Therefore, state law establishes certain rules and conditions of foreign trade policy.

There are export-oriented States with a trade deficit, among them many countries of Latin American. In economically developed countries generally the balance is in equilibrium with some margin in one side or another. In the qualitative structure of exports and imports there are also many differences. For example, in China's exports a considerable proportion of consumer goods. Germany is active in supplying the means of production - machines and installations. United States of America is trafficked primarily in advanced and high-performance technologies and know-how. Developing countries export mainly raw materials. Commodity flow in these countries can be divided into the following main categories: raw materials; hardware products; technology; equipment; finished

products. However, overreliance on foreign trade turnover without sufficient attention to the qualitative component of exports and imports threatens the transformation of the economy in an irrational economic scheme. Such a scheme usually leads to disproportions, which hampers the development of the domestic economy, especially the industry.

Currently, any country strives in import to focus on the purchase of advanced technologies and modern high-performance equipment that can stimulate the production of domestic enterprises and ensure the production of competitive products. Solution of external problems is inextricably linked with arrangement of internal economic life without having a normal internal market, it is impossible to become a full member of the world. Economic growth has been accompanied by fundamental changes in the active introduction of new technologies, more effective factors of production and the structure of demand. Communication of economic growth and foreign trade through the consumption carried out on the effects and law of Engel's. The essence of the law is that the growth of income of the population decreases share of expenditure on food, it entails, reducing the relative prices of these goods in international trade, *ceteris paribus*.

The assumption about the impact of demand on foreign trade represented by the hypothesis of prevailing demand of Lindert, according to which the growth of per capita income changes in the structure of demand encourages countries expand production of certain luxury goods. This leads to lower costs for their production, and the country has a comparative advantage as luxuries become a new object of exports. Thus, the position in the foreign market will always emerged in favor of countries with high per capita consumption, since these countries are able to export goods with a high specific gravity in their own consumption. The increase in supply of production factors can affect foreign trade through several channels. If all factors are growing at the same pace or if the growing factor is intensively used in all industries (for instance happens a balanced expansion of production capacity), it leads to an increase in the volume of foreign trade, leaving without changing relative prices and the share of exports in production. Fundamentals of modern ideas about what determines the direction and structure of interstate trade flows, were established by Swedish scientists E. Heckscher and B. Ohlin and developed by P.Samuelson. The meaning of these concepts is that the products that take a considerable expenses in production (excess of factors of production) and small cost (scarce factors) are exported in exchange for goods produced using the factors in inverse proportion.

Analysis of the status and forecasting trends in the development of international economic relations is extremely important in the formation of economic policy as well as the justification and selection of the most efficient configuration of a particular integration group. On the value of appropriate ratios and structure of export and import operations depends a lot in the financial system of the country and its economy. Foreign trade turnover is duty that replenishes the state budget, it is workplaces for those employed in the export production and trade, and finally, it is taxes on income, that replenishes the state budget. Exports and imports predetermine the effectiveness of any country's economy, its stability and foreign orientation. In different countries, this is manifested in different ways. The growth in trade of developed countries with each other and strengthen their interdependence occur in the dramatic setting of acute competition between them. Therefore, foreign trade is one of the priority areas for government intervention. Many countries have trade policies of protectionism but at the same time, all developed countries have traditionally proclaimed principle of free trade. At the disposal of the state there is a broad arsenal instrument of influence, such as:

- Tariffs (special taxes on imported goods into the country);
- Quotas and import bans;
- Export subsidies;
- Political pressure on the country

Developing countries accounts for only about 1/5 of the foreign trade turnover of the capitalist world, and only about 1/20 - on their mutual trade. Specialization of most Third World countries has changed little since the time of open colonialism and satisfies the interests of highly developed nations than their own. Food, raw materials and fuel accounts about 50% in total exports of developing countries but of the remaining share of processing industry for more than 50%, about 33% are only in 17 countries.

**Table 2** Indicators of the world economy

Years	World GDP (in milliard USD)	Exports of goods (in milliard USD)	Foreign direct investment (in milliard USD)
2008	69620.0	15970.0	0.15 679
2009	70170.0	12460.0	0.18 427
2010	74540.0	15140.0	0.20 370
2011	78950.0	18150.0	0.21 117
2012	83120.0	18170.0	0.23 304
2013	87180.0	18480.0	0.25 464

Source: compiled according to <http://www.indexmundi.com/>

### **3.3 Advantages and disadvantages of economic groupings**

Advantages of economic groupings:

1. Increasing the size of the market - the action through the scale of production (for countries with small capacity of the national market), on this basis, it is necessary to determine the optimal size of the enterprise.
2. Growing struggle between countries.
3. Provide the best trading conditions.
4. The expansion of trade in parallel with improvements of infrastructure.
5. Spread of new technologies.

Disadvantages of economic groupings:

1. For more backward countries, integration leads to an outflow of resources (factors of production), redistribution to more powerful partners.
2. The loss effect of scale of production in a very strong concentration.

The process of international economic integration includes the development and strengthening international division of labor. From the simple exchange of goods - to a sustainable large-scale international trade in goods and services to the international movement of capital and the creation of new industries - to close industrial and scientific-

technical cooperation. Economic interdependence of countries and nations becomes a tangible reality. International economic integration takes on practical implementation, identifying prospects for further economic progress.

In terms of the geographical scope of integration processes global, regional, sub regional levels of integration are distinguished. There are also various stages or phases of integration - from ties of interdependence within a pluralistic international system to the form of single political community. Scientific study of the problems of integration associated with the comprehension of the actual integration processes - from attempts to create a pre-war League of Nations and the current efforts until the U.S., Canada and Mexico to form the North American economic union - and is aimed at to reveal in them the general trends associated with causes determining factor, the main features of this phenomenon, the most advanced form of which is the European Union.

The driving force of international economic integration is firms. They are interested in achieving optimal scale of operations, including through collaboration and co-operation with foreign companies within the region without customs and other restrictions. Firms use advantages of integration in the following sequence: expanding markets creates conditions for revival of international trade; This in turn becomes the impetus for the reorganization of production of goods and services and revitalization in housekeeper. Last creates incentives for investment growth and ultimately leads to increased profits.

In conditions of international economic integration at the level of the participants of foreign trade accounted for the following economic effects: no need to maintain sales offices in each country; growth benefits of specialization exports due to economies of scale; increase in demand within the region; increase in the degree of price competitiveness by eliminating tariff and non-tariff barriers: rising incomes that allow successful develop the markets of third countries. At the macro level the intra-regional trade becomes more effective; new opportunities for optimal location enterprises in the integration group; reduced costs of production and marketing of goods and services; growing size of the market allows to increase R & D spending.

Legal framework of regional economic groupings usually aimed at protecting the economically weaker member countries. It reduces the negative impact of conjunctural character from the world economy and in the interest of formally both strengths and weaknesses of its members.

Convergence and merging of national economies leads to a substantial revision of approaches to the development of many branches of the national economy in each country and the need for coordination and adaptation of domestic markets to emerging common interests of countries - participants of integration association . In this regard, there is need to improve the level of regulation of interstate economic relations by limiting the sovereignty of each state and the creation of supranational government, whose functions include the development, coordination and monitoring of the individual sectors of the economy - integration organizations participating . At the same time, giving some of their sovereignty of integrate state seem to acquire in common use part of the sovereignty of other states. In this case subject of sharp controversy usually is to determine the limits of delegation of economic and political sovereignty to the collective use. In particular, the duty of the state to bring their integrates technical norms and standards in line with the standards adopted in the integration association, can cause substantial material damage to national firms supplying products to the local market.

Increasing and strengthening the specialization in the production of certain product lines, specific countries draw their products in the international market due to the exchange with other countries, specializing in various product groups.

In conditions of the preemptive position of the country in the production of several products, it should specialize in the production of only those for which it has maximum advantage. Imperfection of this theory on the following items:

- limit consider only a specific pair of goods and countries;
- assumed direct exchange of one commodity;
- not include the impact of the scale of production and transportation costs.

Factors that encourage countries to participate in international division of labor:

- domestic market of the country;
- level of economic development of the country;
- availability of the country's natural resources;
- share in the economic structure of the basic industries.

The economic success of any country is based on foreign trade. No one country has been able to create a healthy economy yet, isolated from the world economic system. Foreign trade turnover includes the sum of the value of exports and imports of a country participating in international exchanges.

International trade volume is calculated by summing the volume of exports of all countries. Adam Smith and David Ricardo defined the terms of international trade as free from all sorts of restrictions. "The exchange is favorable for each country, each country finds it an absolute advantage".



### **3.4 Creation, economic development and summits of APEC**

Asia-Pacific Economic Cooperation (APEC) is an international economic organization established for the development of integration relations between Pacific countries. At this moment the economy unites 21 countries of different levels of development (Australia, Canada, China, Indonesia, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Russia, Singapore, USA, Thailand, Taiwan, Chile, Philippines, South Korea, Japan).

The organization was founded in Canberra (Australia) at the initiative of Australian Prime Minister B. Hawke in 1989. Originally it included 12 countries - six developed countries Pacific (Australia, Canada , New Zealand , USA, South Korea, Japan) and 6 developing countries of Southeast Asia ( Brunei, Indonesia, Malaysia, Singapore, Philippines and Thailand) . By 1997 APEC included almost all major countries of the Pacific region: the new members were Hong Kong (1993) , China (1993) , Mexico (1994), Papua New Guinea (1994 ) , Taiwan (1993 ) , Chile ( 1995). In 1998, simultaneously with the acquisition of three new APEC members - Russia, Vietnam and Peru - 10 - year moratorium on further expansion of the membership of the Forum was introduced. Applications for admission to the APEC served India and Mongolia. The organization was founded as a forum for exchange of views, but quickly became a focal point of economic life in the region. Among the areas of organization's work are consultations and workshops on the most pressing issues in the region, managing the processes of liberalization, the development of rules of doing business in the Pacific basin. Despite some contradictions and unceasing debate on the effectiveness of APEC, it is one of the most influential regional organizations in the world. Its main long-term goal is deepening intraregional economic relations by removing barriers to trade and investment and technological cooperation. Before creation of APEC there were local economic unions such as ASEAN, Pacific Basin Economic Council, the Conference of the Pacific Economic Cooperation, the South Pacific Forum, etc.

In 1965 Japanese economist K. Kojima suggested to create a Pacific free trade zone with the participation of the industrialized countries of the region. Interaction process activated in the 1980s, when the Far East began to show high and stable economic growth.

Such a number of states, including both major industrialized countries and newly industrialized countries, by itself, makes the economic power of the organization one of the influential groups in the international economic arena. The objectives of the Forum have been formally identified in 1991 in the Seoul Declaration. They are:

- Maintaining economic growth in the region;
- Strengthening mutual trade;
- The elimination of restrictions on movement between countries of goods, services and capital, according to the norms of the GATT / WTO;

In 1990-2000 years the share of exports of countries - members of APEC within the organization increased from 67.5 to 72.6% of total exports of these countries, the share of imports - from 65.4 to 68.1%. In the mid-2000s the APEC member countries had more than one third of the world population, they produced about 60% of world GDP and about 50 % was carried out in world trade. This organization was one of three (along with the EU and NAFTA), the most influential in the modern world economy integration blocs. Although APEC is the youngest of the “third” of the largest economic integration blocs, it has become an important means to promote trade and economic cooperation in the region. APEC Economic Zone is the most dynamic on the planet, it is predicted that organization will be the main leader of the global economy in the 21<sup>st</sup> century.

APEC countries were hard hit by the 1997's Asian financial crisis but the organization has shown a record growth. So, for the 1989-1999 the total GNP of member countries increased by 26% in developed countries and 83% in the developing countries of the region. This is significantly higher than global indicators (24% for developed and 11% for developing countries).

During the first decade the organization achieved a strong reduction of customs duties, although it continues to retain their differentiation (see Table 3). Also decreased other non-tariff protectionist barriers (quantitative restrictions on exports and imports, the difficulties in the import and export licensing, export subsidies, and others.). As a result, for example, the annual growth rate of exports to APEC countries accounted for 1995-2011 was 4.7%, while in other countries - only 3.0%.

**Table 3** Average rates of customs duties in some APEC countries

Country	1988 y. (in %)	2011y.(in %)
Australia	15.6	6.1
Indonesia	20.3	13.1
Canada	9.1	6.7
China	40.3	23
Mexico	10.6	12.5
South Korea	19.2	7.9
Singapore	0.4	0
USA	6.6	6.4
Thailand	40.8	17
Taiwan	12.6	8.6
Japan	7.2	7.9
Average in APEC	15.4	9.1

Source: compiled according to <http://www.indexmundi.com/>

APEC's weight in the world economy and population is quite impressive. It accounts for almost 40 percent of the population of our planet. But even more important is the role of APEC in the world economy. In 1994, they produced 56 percent of world output. With 36.2 percent in 1980, it increased to 45 percent in 1994, mainly due to a sharp increase in exports of East Asian countries. For five years (until 1994) the total income of the APEC countries increased by 9.6 percent per year compared with the expansion of total world exports during this period by five percent. The main producers not only in APEC, but also in the world in 1994 were the United States (26.5 %) and Japan (17 %). China accounted for 2.5 % of world production (World Bank estimates), ranking 3<sup>rd</sup> place among APEC economies. However, there is other, perhaps more accurate calculations, coming from so called purchasing power parity (PPP). Although in this case, the combined share of APEC in world production is about the same (54 percent) and the US remains the world's leader. But completely different looks the position of China, which moved into second place, by passing Japan. Asia-Pacific economic region includes some of the fastest growing countries in the world. This is primarily East Asian countries whose economic growth in the last decade accounted for about 8.5 percent per year. According to the British magazine

"The Economist", the pace of development of APEC in the period up to 2000 year exceed 5.5 percent. Their share in world production, calculated according to PPP, will be approximately two-thirds of its volume. However, it is likely that by this time within the region occurs even greater change, for instance the possibility that China in the first or second decade of the next century can (according to the criteria PPP) to become the largest economy in the world. Economic growth in the association and the structural changes taking place are aimed at strengthening regional interdependence. Among East Asian countries Japan is increasingly relies on the development of research sectors, while the newly industrialized countries of the region ("Asian tigers") more intrude into the industry, where previously were dominated by Japan. China and those ASEAN countries that are less industrialized, become competitive suppliers of labor-intensive products. Now China is the world's largest exporter of these goods, "Asian Tigers" began to buy more labor-intensive products than they sell.

A big economic difference of APEC countries attracts special attention. Along with the great powers there are also countries with average level of economic development and low economic potential. They also differ considerably in size, population density and natural resources. These differences open a huge opportunities for mutual trade and investment. The fact that such a variety of countries have been able to set a common problem indicates their strong desire to work together for the sake of future economic development. The purpose of APEC from the time when the participants declared Bogor Declaration on freedom of trade and investment is to find a compromise between the different approaches to the question of economic cooperation.

APEC regional integration bloc includes countries differ greatly in terms of economic development. For example, per capita indicators of U.S. and Papua - New Guinea differ by three times. Every year heads of government met to discuss plans for further development.

The first meeting of ministers of foreign affairs, economy and trade has been in November 1989 in Canberra (Australia). The key principles for organizing, the non-political forum, consultative status and equal rights for all participants were settled that defined following task: to create a free and open trading system in the region, promote

further economic growth. In Seattle (more precisely, on the island of Blake near Seattle) was held the first informal meeting of Heads of State and Government of the APEC. Main activities of the forum were set and included support of an open multilateral trading system; improving the welfare of the population; development of education, science, telecommunication facilities; protection of the environment.

At the second summit, held in Bogor (Indonesia) in November 1994, was adopted the "Declaration of the total economic determination of the APEC's leaders, which officially recorded the main long-term goal of the organization, as well as the deadlines for its implementation: for developed countries to establish free and open trade and investment regime should be achieved by 2010 for developing countries – by 2020.

If the Bogor Declaration defined the strategy of the forum, the Osaka Action Agenda, adopted at the third meeting of the leaders of the APEC countries (Japan, 1995), identified the tactics of the organization. It was called the 15 areas in which members of APEC had to make the transformation in the following spheres to achieve the "Bogor Goals" in tariffs and non-tariff barriers, services, investment, standards and compliance, customs procedures, intellectual property rights, competition policy, government contracts, the obligations of the World Trade Organization, the mediation of disputes, the mobility of business people, gathering and analyzing information.

In the Manila summit (Philippines, 1996), it was decided that the actual steps to liberalization processes will be undertaken in 1997. However financial and economic crisis in South-East Asia in 1997-1999 slowed down implementation of these plans and the main subject of several subsequent annual meetings was to study the causes and find ways out of the crisis. The main achievement of the meeting in Vancouver (Canada, 1997) was the adoption of a program for voluntary liberalization, this program identified 15 sectors in which by 2010 should be eliminated tariff and non-tariff barriers. Among the important outcomes of this summit was the decision on Russia's accession to APEC. At the sixth Summit (Kuala Lumpur, Malaysia, 1998), it was decided to submit the issue to the WTO. Declaration on "Strengthening the foundations for growth" was adopted, in which special attention was paid to the migration of capital, check the reliability of banks, control of

hedge funds and offshore zones. In summit was approved a program of action in respect of e-commerce and a program of action to improve the training of specialists in different fields. In addition, summit participants agreed on an approach to overcome the financial and economic crisis. At the next meeting (12-13 September 1999, Auckland, New Zealand) have been approved the principles of competition, including transparency of economic policy. Responsibility for compliance these principles has been entrusted to national authorities.

Eighth informal meeting of APEC leaders, which took place in November 2000 in Brunei, was devoted to discussions of the impact of the globalization process and its costs and benefits in development of the region. For the first time in the forum political issues were discussed, the most important of which was the international terrorism.

In 20-21 October 2001, Shanghai, China was adopted the strategy of the "E-APEC". The key idea of the "new economy", involves the development of Internet commerce, e-government and the development of new fields of science. On the tenth summit (26-27 October 2002, Los Cabos, Mexico) was declared the implementation of the APEC Transparency Standards. The summit participants called North Korea to abandon its nuclear program.

Much attention was paid to political issues, including the problem of the proliferation of weapons of mass destruction and the six-party talks on North Korea on the summit in 20-21 October 2003, Bangkok, Thailand.

According to the results of the Chile's summit (20-21 November 2004) the Special Unit for Combating Corruption was created. On the thirteenth summit (18-19 November 2005, Busan, Republic of Korea), the participants agreed to take measures to resist the terrorism, combine efforts against the cross-border terrorist groups and using of weapons of mass destruction. Protection of regional economies from the effects of natural disasters was considerate.

At the next meeting (18-19 November 2006, Hanoi, Vietnam) approved a plan to combat avian influenza, adopted directives to combat piracy. Final Declaration of the Fifteenth Summit (8-9 September 2007, Sydney, Australia) was devoted to the problems of climate change and energy security. The forum set a target to reduce carbon dioxide emissions by 25% by 2030 and to increase the area of forests in the region to 20 million hectares by 2020. The document also provides the establishment of the Pacific Free Trade Area (from Chile and Canada to China and Australia).

At summit in Lima, Peru (22-23 November 2008), special attention was paid to the problems of food security and volatile energy prices. The final document is devoted to issues related to overcoming the consequences of natural disasters and emergencies. The creation of the post of Executive Director of the APEC was approved.

At the next summit (14-15 November 2009, Singapore) accepted the documents that set out the obligations in the medium term to abandon the practice of subsidizing fossil fuels sector and to improve the model of economic integration.

At the eighteenth Summit (13-14 November 2010, Yokohama, Japan) there was introduced a new program of integration in the region. Agreement on the formation of the Asia-Pacific free trade zone was made. In Honolulu, Hawaii, USA (12-13 November 2011,) ways to create an integrated regional economic system was discussed. At the final document the participants noted the need for market-oriented innovative policy, the participation of small and medium-sized enterprises in global production and combating protectionism.

At the twentieth meeting leaders highlighted (8-9 September 2012, Vladivostok, Russian) the need for further trade liberalization, economic integration, improve food safety, innovation, development of transport and logistics.

At the last Summit (7-8 October 2013, Denpasar, Bali, Indonesia) a declaration on "Sustainable Asia-Pacific region as an engine of global growth" was adopted. The document contains a plan for infrastructure development and investment for 2013-2016. Participants agreed to establish an APEC's pilot center in Indonesia.

To interact very diverse countries, APEC developed mechanisms that are more or less formal than the rules of the EU and NAFTA. Some of these mechanisms are:

1) Co-operation only in the economic sphere. From the very beginning APEC does not see itself as a politically cohesive group of countries, but as a free “set of economies”. The term "economics" emphasizes that the organization is discussing economic rather than political issues. The fact that China did not recognize the independent state of Hong Kong and Taiwan, so they are not officially considered as countries but as territories (Taiwan, and in the mid-2000s still has that status).

2) The almost complete absence of a special administrative apparatus. APEC is formed as a free consultative forum without a rigid organizational structure or large bureaucracy. APEC Secretariat, located in Singapore, includes only 23 diplomats representing the member countries of APEC, as well as 20 local employees. The main form of organization of the Forum 1993 is the annual summits (informal meeting) APEC leaders, during which the declaration made that lead the grand total of the Forum for the year and the prospects for future activities. Often there are meetings of Ministers of Foreign Affairs and Trade of the participating countries. The main working bodies are APEC Business Advisory Council, three expert committee (Committee on Trade and Investment, Economic Committee, Administrative and Budgetary Committee) and 11 working groups on various sectors of the economy.

3) APEC works only on the basis of consultation and consensus. The main motive for positive examples are the "neighbors", the desire to follow them. APEC countries formally demonstrate commitment to the principle of open regionalism, which is usually interpreted as the freedom to choose the specific mechanisms APEC trade liberalization.

4) Priority to information exchange. The main element of the interaction of APEC is the open exchange of information. We can say that the immediate goal of economic integration is not so much a single economic, as a common information space. Being exchanged, primarily information about the business projects of the participating countries. Growth of information openness allows businessmen of each country included in the entrepreneurial activity throughout the APEC region.



5) Rejection of strict planning prospects evolution of the Forum. APEC conferences repeatedly raised the question of the establishment of the Asia-Pacific Economic Cooperation, APEC as a zone of free trade and investment. However, the huge diversity of the participating countries prevents the execution of these plans. Therefore, even in the mid-2000s, APEC is more a discussion forum that has some features integrated union than such an association in the full sense of the resources.

#### **4. Analysis of trade liberalization of small APEC countries**

APEC is guided by two main principles: "Open regionalism" and "concerted unilateral action". The essence of the first principle lies in the fact that the development of cooperation and the removal of restrictions on the movement of goods, money and human flows within the Asia-Pacific region combined with the principles of WTO and the rejection of protectionism in relation to States that are not members of the organization. The second principle is a reflection of the so-called "soft law" which allows to participants to choose their own pace acceptable for trade and financial liberalization which means execution of "agreed unilateral action" is not legally compulsory for the Participants of APEC. The main driving motivation is positive examples of other participants, the desire to follow them. APEC adopted many documents that are not optional for fulfillment, but represent serious intentions and have indirect impact on national law.

The growing process of differentiation of the developing countries, due to the law of uneven economic development, led to the creation of a particular group of countries and territories so called "newly industrialized countries"(NIC). These countries are South Korea, Taiwan, Hong Kong, Singapore - four "Asian tigers", as well as Malaysia, Thailand, Indonesia, Philippines and Mexico. The pace of economic development in NIC is sometimes higher than in developing countries. Rapid economic growth has led to an increase in the absolute size of the gross domestic product (GDP), including per capita. Exports of these countries increased rapidly; possessing highly competitiveness, their products intensively gaining global markets. NIC have become the APEC and world's largest exporters of shoes, clothes, textiles, rapidly increasing export of consumer electronics, personal computers, electronic computers, cars and other high-tech products. The main increase in world exports is provided by the dynamic increase in export of goods from the NIC, especially to the Asian region.

The average level of tariff barriers of many developing countries is much higher than in industrialized countries. This is primarily due to the need to protect young industries. In addition, fees are very significant source of government revenue.

## 4.1 Malaysia

Malaysia is a country with a developing economy. Since 1980, Malaysia began the transition, from an economy based on agriculture and mining to the economy based on industry. With the help of various countries (APEC countries), the industry began to develop, and for several years Malaysia's exports has become an "engine" of economic growth. Currently, Malaysia applies two tariff classification systems: one for trade within APEC and nine-harmonized system for trade with other countries.

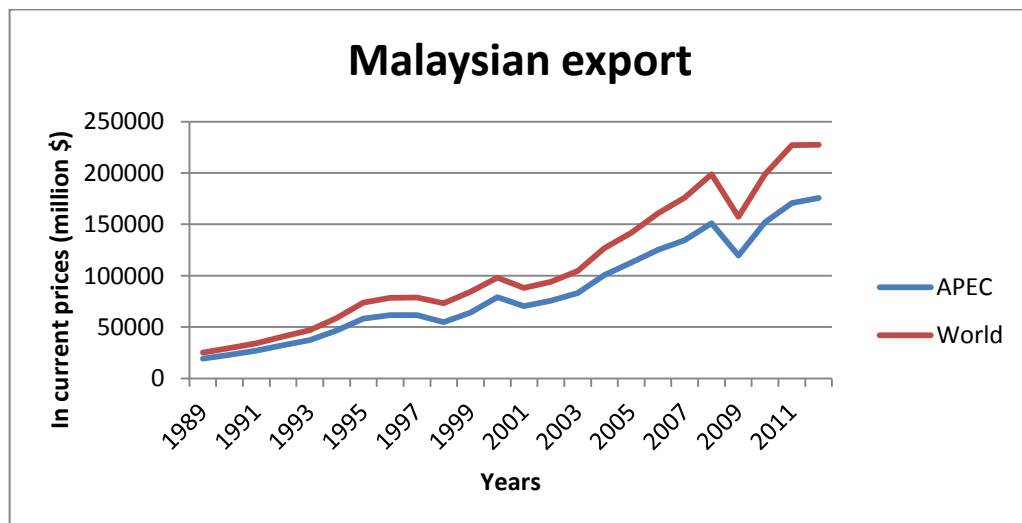
In the 80-90ies Malaysia formed industrial and agricultural economy, oriented on the needs of the global market. The export quota in the mid 60s which was about 50% of GDP, increased by 80% in the mid of 90s.

Despite the fact that tariffs are gradually declining in Malaysia, there are a significant number of non-tariff barriers such as licensing of export and import operations. In general, the value of exports and imports per container remains below the regional average and consist \$ 450. Standard export or import of goods supply in Malaysia is required to provide 7 types of documents; the average procedure takes 14-18 days.

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.

**Graph 1** Malaysian export



Source: compiled according to <http://statistics.apec.org/>

According to Graph 2, Malaysian export with APEC countries in 2012 reached \$175.8 billion and imports amounted to \$146.5 billion. 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 as we can see 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. In the see graph 1 we can see the leap in 2008 but in 2009 the amount of export declined because of world financial crisis.

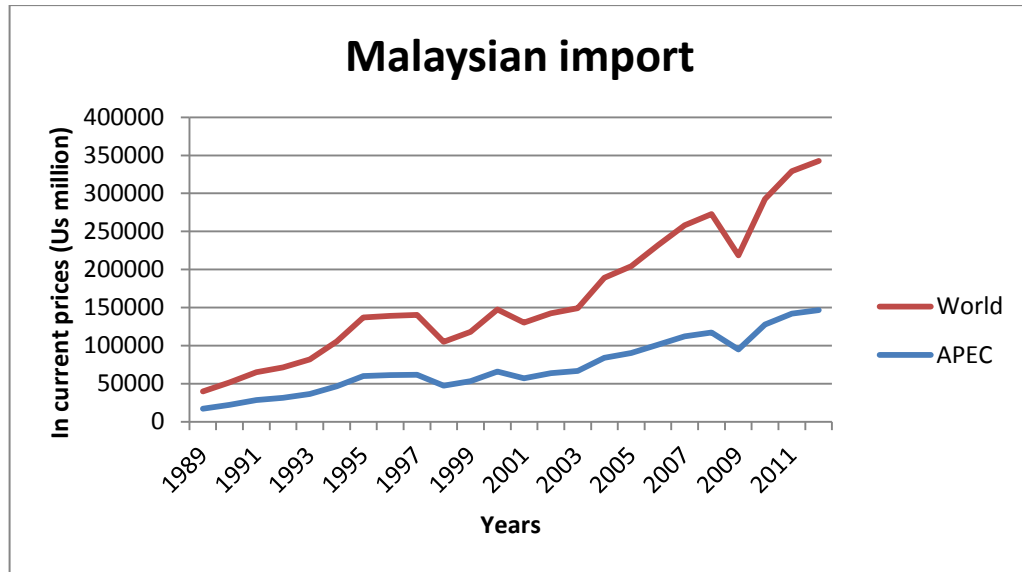
**Graph 2** Malaysian export partners in 2012



Source: compiled according to <http://statistics.apec.org/>

Main Malaysian export markets in (2012) were: Singapore (14%), China (12%) and the USA (11%).

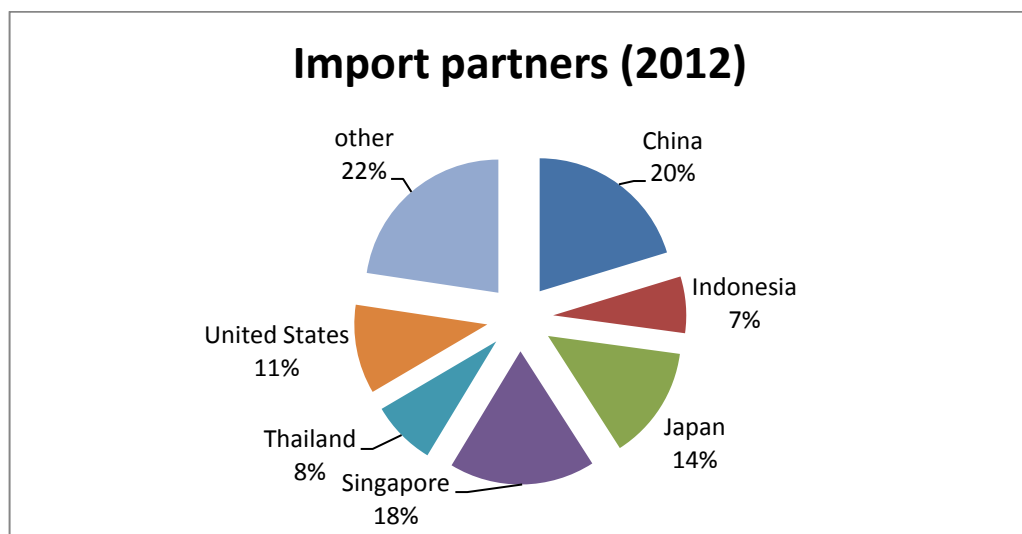
**Graph 3** Malaysian import



Source: compiled according to <http://statistics.apec.org/>

Our next Graph 3 shows Malaysian import from APEC members and non-member countries. Malaysian imports from non-member countries are bigger than from APEC. 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. The difference of import from APEC countries is less than from the rest of world and this difference is increasing. Malaysian main importers in 2012 were China (14%), Japan (12%) and USA (11%).

**Graph 4** Malaysian import partners in 2012



Source: compiled according to <http://statistics.apec.org/>

The reason of growing difference of Malaysian international trade between the world and APEC also might be in it's membership (in 2002) to other organization which is called Asia Cooperation Dialogue (ACD). The ACD is a continent-wide forum, the first of its kind in Asia. The ACD aims are to constitute the missing link in APEC by incorporating every Asian country and building an Asian Community without duplicating other organizations or creating a bloc against others. Now, Malaysia strengthens economic relations with the countries of the Commonwealth of Independent States (which are also members of ACD).

Malaysia depends on a limited number of commodities. Their market is experiencing strong competition from other APEC developing countries (Indonesia, China and Thailand). Export revenues are the main source of Malaysia's currency to pay for imports, foreign freight transport and payment for income on the invested foreign capital in the country and so on. To support its export-oriented economy, the Malaysian government is guided by a policy of open trade regimes, as well as the signing bilateral and multilateral trade regimes.

As we can see membership in APEC gave many advantages to Malaysia. Due to an increase of exports and imports with the countries of APEC, Malaysian economy reached great heights. 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.

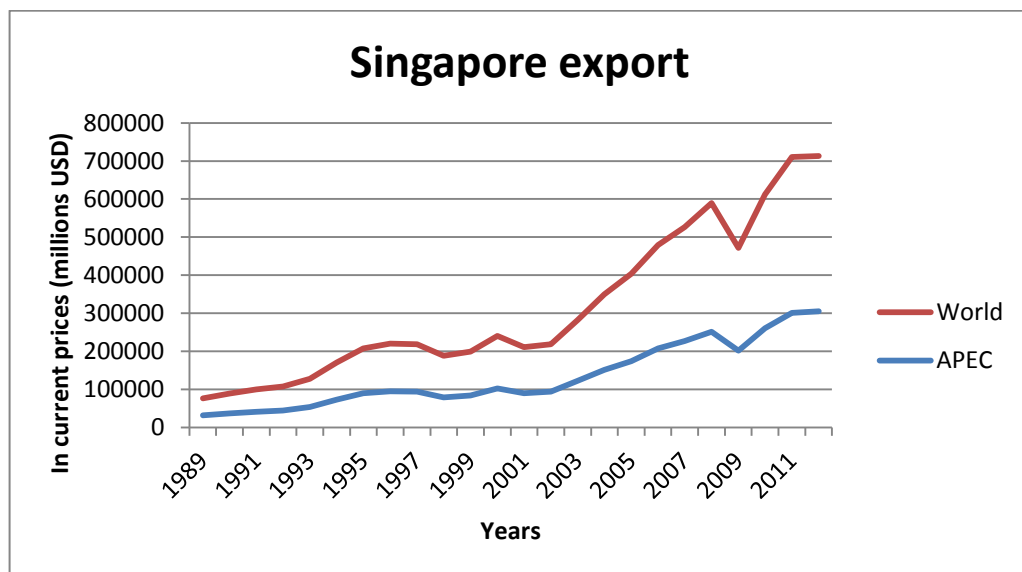
## 4.2 Singapore.

There are few countries where foreign trade plays such a large role in the economy, as in Singapore. Singapore is an example of the successful development of free trade zones, with export oriented products. APEC doesn't contradict to Singapore's development and strengthening of intra- relations, but rather it is the logical conclusion of it's foreign policy of strengthening relations with the United States. Singapore signs bilateral trade agreements within the APEC - Japan, Mexico, Chile, New Zealand, as well as with EFTA group (which includes Iceland, Liechtenstein, Norway and Switzerland), etc.

Liberalization of export-import regimes in Singapore allows considering the state virtually as a single export processing zone. For the organization of export production, the government announced a number of areas of industrial zones, which means areas, fully equipped for the creation of industrial enterprises. The state financed the creation of communications systems, electricity, telecommunications and other industrial systems. 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.

**Graph 5** Singapore export



Source: compiled according to <http://statistics.apec.org/>

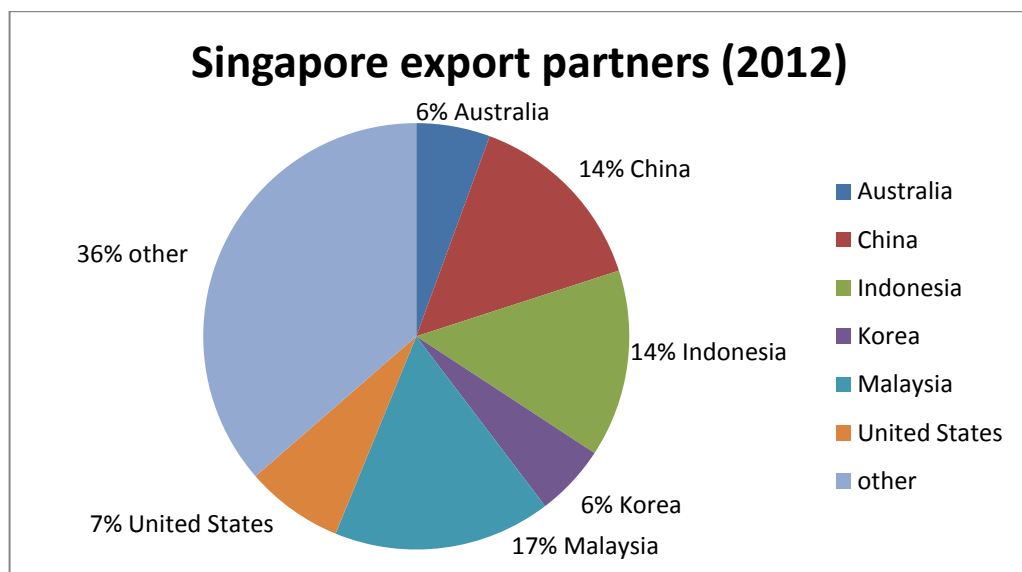
According to the data from the Ministry of Trade and Industry of Singapore, the volume of foreign trade of the country in 2009 amounted to \$ 557.67 billion, of which \$243.68 million is export and \$ 313.97 million is import.

As we can see in the Graph 5 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. In the graph 5 observed the increase share of world's export in Singapore trade. The highest difference was in 2008 and consist \$ 87.094 billion which is for 161% more than in 1989.

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).

The main export partners of Singapore among APEC countries in 2012 were nearest neighbors: Malaysia (17%), China (14.0%) and Indonesia (14%). The main export goods and services: machinery and equipment (66%), oil products (25%), electronics, consumer goods, pharmaceuticals, chemicals, mineral fuels.

**Graph 6** Singapore export partners in 2012



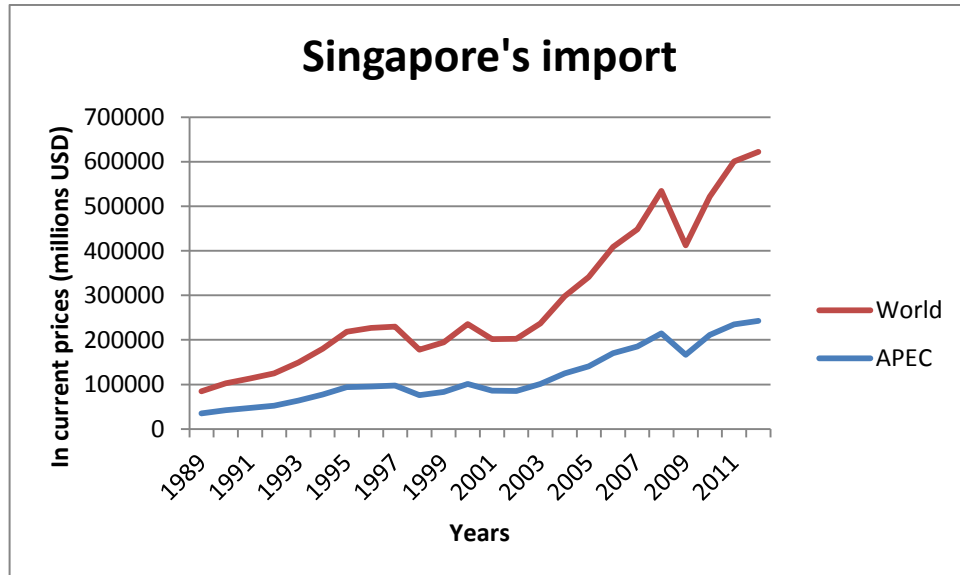
Source: compiled according to <http://statistics.apec.org/>



Thus, we see that international trade plays a vital role in the economic development of Singapore.

Next we will analyze trends of Singapore import.

**Graph 7** Singapore import

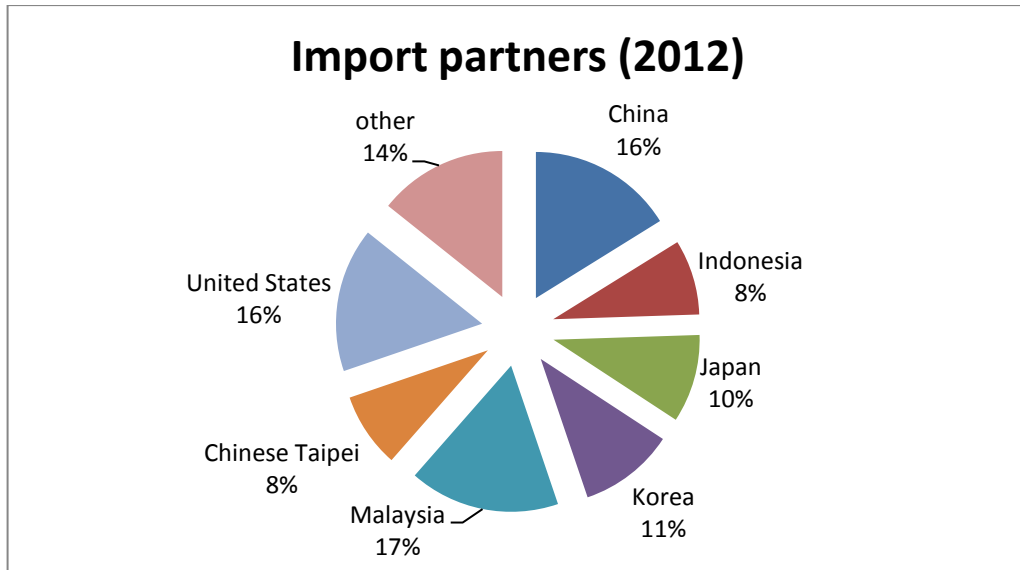


Source: compiled according to <http://statistics.apec.org/>

In the Graph 7 observed similar changes to export. Essential change was in 2009. 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.

The main import partners of Singapore among APEC countries in 2012 were: Malaysia (17%), United States (16%) and China (16%) (see Graph 8).

**Graph 8** Singapore import partners in 2012



Source: compiled according to <http://statistics.apec.org/>

A special place in the foreign policy of Singapore is given comply with its regional interests, so it takes an active part in the activities of APEC and its specialized agencies.

The purpose of Singapore participation in the Asia-Pacific Economic Cooperation (APEC) is to promote the maintenance of stable economic growth of its members, ensuring a positive effect on the growing economic interdependence, including the promotion of exchanges of goods, services, capital and technology, strengthening the open multilateral trading system, reducing barriers to trade in goods and services in accordance with the principles of the GATT / WTO.

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 - such as tin from Malaysia, rice from Thailand, which are then sent to other regions. At the same time here are imported manufactured goods from the United States, Europe, Japan and distributed among the neighboring countries.

## **5. Analysis of trade liberalization of developed and developing countries**

### **5.1 CANADA**

In the 19th informal meeting of APEC leaders, Canada's Prime Minister Stephen Harper said that APEC members have contributed to the liberalization of trade and investment, so that all member countries have benefited and advanced global economic development. According to Mr. Harper commercial ties with the APEC, which is continuously strengthened, promoted to employment and economic growth in Canada.

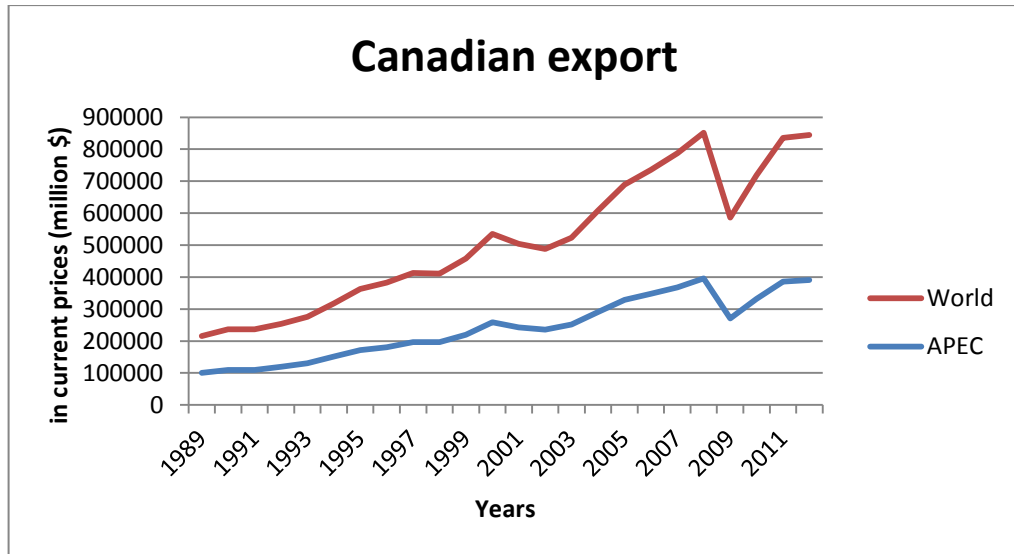
Minister of International Trade of Canada Edward Fast noted that one-fifth of jobs in Canada depend on trade and investments, so the desire for further deepen the economic and trade relations with the Asia-Pacific partners will bring benefits to Canada. The purpose of S. Harper's participation in the APEC meetings is to promote the further integration of the economy of the Asia-Pacific cooperation, the expansion of the economic interests of Canada, familiarize participants with the policies and objectives of Canada, preparedness and response to emergency situations and open governance in APEC.

Canada is one of the leading trading countries in the world. In external trade turnover it is in the 6th place in the world, in terms of turnover per capita Canada is ahead of all other major capitalist countries. It indicates a high degree of integration into the world economy, as well as a narrow specialization of the economy compared with the leading world countries.

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. As we can see in the Graph 9 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. But compare to Canadian export to the world it's declining. The highest difference between Canadian export to the world and to APEC was in 2011 and amounted \$65.05 billion which is for 185% more than in 1989. In 2000 there was a leap in Canadian export to the world and APEC.

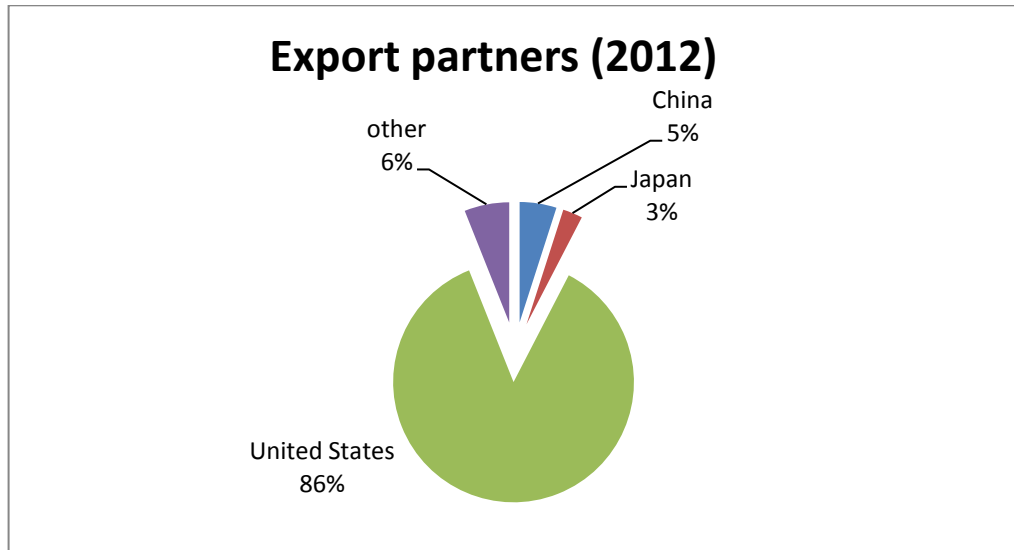
**Graph 9** Canadian export



Source: compiled according to <http://statistics.apec.org/>

Since Canadian membership in NAFTA, Canada trades with United States of America and Mexico more than with APEC.

**Graph 10** Canadian export partners in 2012



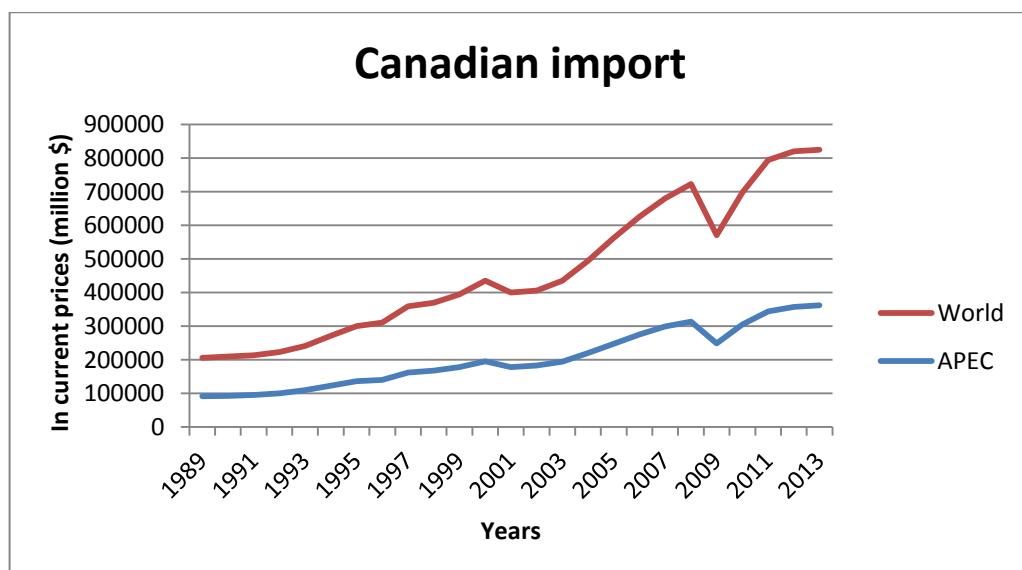
Source: compiled according to <http://statistics.apec.org/>

United States is the largest trading partner of the Canada (86%). China accounts for 5% and Japan 3%. Daily trade between these two countries exceeds 1.4 billion Canadian dollars. The value of United States exports to Canada exceeds the value of United States exports to the European Union.

In 2012 Canada exported to United States more than to other member countries. It might be related with the distance and with the similar language. Approximately two-thirds of all goods made of wood and its derivatives, for instance cellulose, exported to the USA. The value of Canada for the United States is not only it's proximity to the US border, but it is also a major international consumer product 35 of the 50 US. Bilateral trade has increased by 50% since 1989, when the APEC came into effect. Since then, the volume of international trade increased by 40%. But Canadian export to other APEC countries is small, trade passing on the bridge Embassador between Windsor (Ontario) and Detroit (Michigan) equals to US exports to Japan.

Canada implements the separate goals to each of the APEC member countries, based on the specifics of economic relations. So with regard to Japan, the third after the China trading partner of Canada, seeks to: reduce customs duties on a number of Canadian goods (in particular, vegetable oil, canola, products of the timber industry, nonferrous metals, etc.), reduces or eliminates technical and legislative barriers existing in Japan in relation to the priority of Canadian exports (food products, construction materials, services), as well as changes in the rules and standards that differ from international ones). With regard to China, the Canadian government is seeking ways to improve access to the Chinese market of agricultural products, banking, insurance, securities, the resumption of negotiations on the conclusion of agreements on the protection of foreign investments.

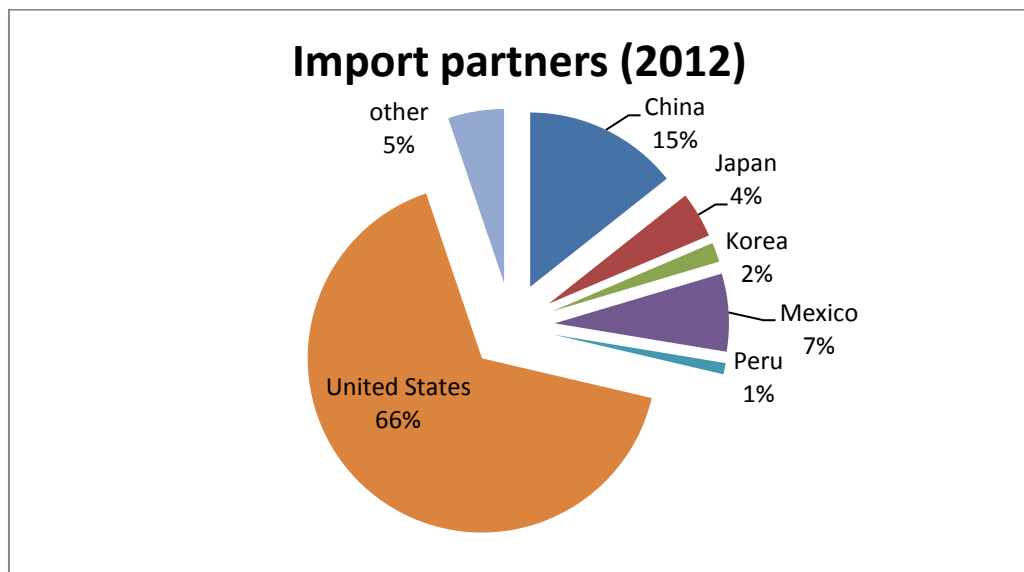
**Graph 11** Canadian import



Source: compiled according to <http://statistics.apec.org/>

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. Only China and Vietnam have achieved significant increases in trade with Canada. Indicators of Vietnam, despite sustained global recession, increased by 12.3%.

**Graph 12** Canadian import partners in 2012



Source: compiled according to <http://statistics.apec.org/>

In the Graph 12 shown main Canadian import partners. United States accounts 66% of Canadian import, which evidence that these two countries depend on each other in trade. China is the first trade partner from Asia (15%) and then Mexico (7%).

The main Canadian achievement in the Asia-Pacific was the mission of Team Canada in February, the largest ever sent delegations consisting of about 600 businessmen, eight provincial premiers and the leaders of the three Canadian territories. It was the second business trip to China for seven years. Prime Minister Chrétien sent a similar mission to China in 1994. The Canadian two-way trade with China increased by 178% in the first mission. The only area where the government did not give enough attention in 2001, related on agreements on the facilitation of the access of goods to the Asian markets. Countries such as Japan and South Korea have shown interest in the development of

bilateral free trade agreements with Canada, Mexico and Australia. Negotiations on FTA between Canada and Singapore did not take place in 2001 (started in January 2002), despite the fact that the start of learning and consultation were in June 2000. As for Japan, the government continues to turn to the private sector with a request to take the lead in establishing closer economic relations.

With regard to other spheres of activity with the APEC, Canada promoted programs aimed at helping of developing economies. At a meeting of the APEC leaders in Shanghai, Canadian Prime Minister Chrétien announced CIDA program with \$9 million. Fund is aimed at supporting these initiatives.

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).From the region Canadian special attention is focused on China. Lack of results in the promotion and development of relations with Asian trading partners continues to exist. Overall, Canada has moved the center of his interests in 2008 from the interests of the Pacific powers to the interests of its nearest neighbor, increasingly strengthening relations with the United States.

## **5.2 United States of America**

International economic cooperation defines today's economic and political life of the United States. Its intensity and scales evidence that the US entered a new phase of internationalization of economic and social life, characterized by active participation in the development of world integration processes. Activation of integration processes between the US, Canada and Mexico may push Japan to the appearance higher willingness to engage in cooperation with the North American integration complex. During the US-Canadian negotiations on the establishment of a common market, the United States made a proposal to Japan on a similar agreement. Canada expressed support for the connection of both Japan and Mexico to the processes of the US-Canadian integration.

Thus, in the last two decades active US involvement in world integration processes in the Asia-Pacific region is growing. US traditionally attach great importance to the work of APEC, based on the fact that it is - one of the main economic entities in the world, which accounts for about two-thirds of US trade. Four major US trading partners (Canada, Mexico, Japan, and China) are parties of the forum.

In the United States believes that APEC is a major regional economic grouping to promote the principles of free trade and practical economic cooperation. The US position on the activities of APEC is based on the growing importance of the Asia-Pacific region for the US and world economy. US pays special attention to the implementation of joint action to promote a gradual economic recovery began in the countries of the region and the world economy as a whole and ensure a more stable and rapid economic growth.

APEC activities directly related to the interests of large groups of American businessmen, economists and politicians so-called Eminent Persons Group. This group drew the attention to the problems of trade liberalization at a meeting of APEC in November 1993 in Seattle (USA). At this meeting, APEC has identified three priorities of its activities, two of which are directly related to international trade: the exchange of information; development of strategies to reduce barriers to regional trade; active promotion of regional trade and economic growth. According to American experts from the Center for National Security (Mississippi) in the early 1990s : "Acting in the Pacific basin, the United States remains the largest market for Asian exports and security guarantees for large-scale investment in Japan, China and other countries in the region.



Growing American service industry is likely to find a market here, and the international movement of capital and technology will enhance the value of the United States among allies and friends in the region. "The dynamic development of the US economy in the 90s created a favorable climate for economic growth in the Asia-Pacific region as a whole.

The United States supported trade liberalization and played an imported role in the creation of the Asia Pacific economic cooperation. APEC which brought together the United States, Canada and Mexico under the agreement extends to almost 400 million people, which together produce goods and services valued at approximately 8.5 trillion dollars (in 2012). Geographical proximity facilitates to the active development of trade between the United States, Canada and Mexico. As a result of the signing of APEC, the average American tariff on member countries goods fell from 6.6% to 6.4 %. The US government is trying to negotiate on further reduction of trade barriers in agricultural trade. American purposes in APEC include a greater liberalization of trade in services, the implementation of a more reliable means of intellectual property protection, new negotiations of reduction of tariff and non-tariff barriers to trade in industrial goods and achieving progress towards the establishment of worldwide recognized labor standards.

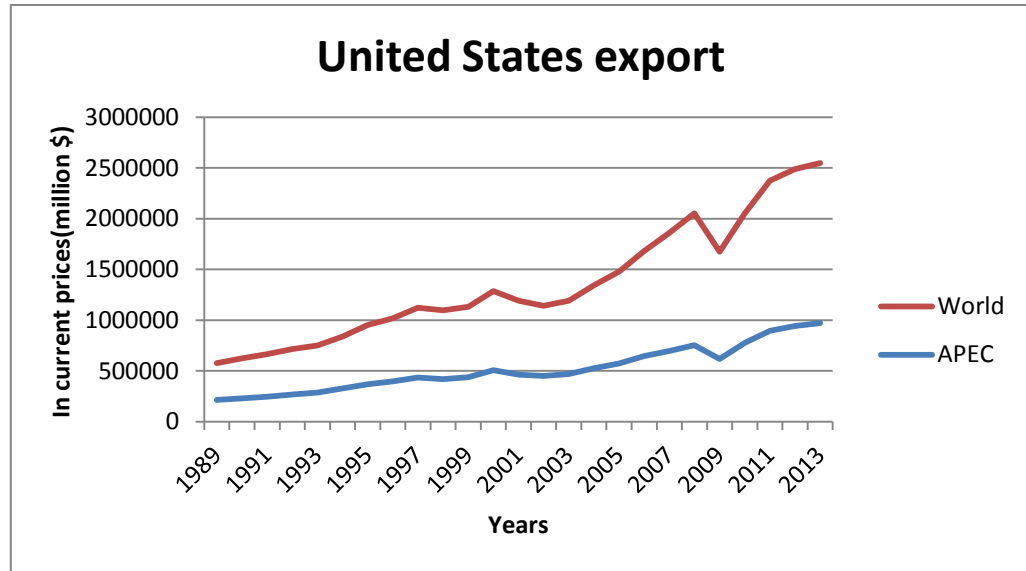
Despite some progress, efforts to liberalize world trade are associated with enormous difficulties. Trade barriers remain high, especially in such sectors as the production of services and agriculture, in which United States producers have particularly high competitiveness.

The most important direction of relations United States with APEC is trading. There is a clear upward trend in US trade with Asia-Pacific countries (see Graph 13). United States trade balance with Pacific countries in 1990 amounted to \$ 3 billion 612 million, in 2000 - \$ 19 billion 561 million, in 2010 - \$ 95 billion 951 million.

During the analysis revealed that United States is the world's largest exporter of goods (13% of world exports) and services (18% of world exports). In general, the volume of US exports is 16% of the world total exports. Today, about 10% of the gross domestic product and 30% of all manufactured in the United States material assets realized in foreign markets. In 2010, exports totaled about \$ 1.2 trillion. To favorable export positions of the country contributed to the improvement of the economic situation in the developed world in the second half of the 90s.

As we can see since 1994, United States exports to APEC countries increased, and trade with them in 2002 reached \$1.2 trillion, which is 2/3 of United States trade, including more than half of all United States exports.

**Graph 13** United States export

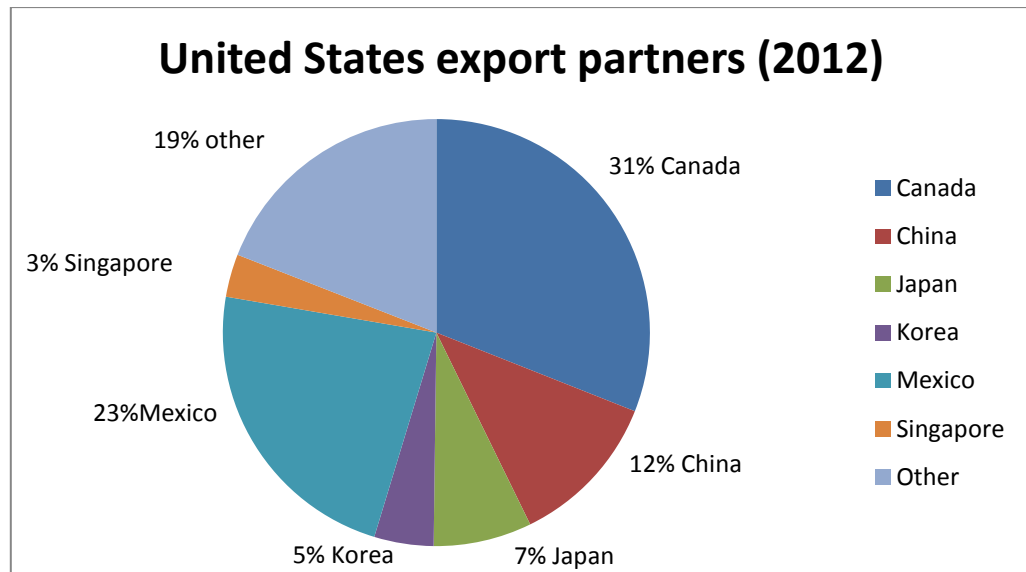


Source: compiled according to <http://statistics.apec.org/>

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.

Main export partners of United States among APEC in 1989 were Canada, Japan and Mexico but in last years Chinese share in United States export has grown and amounted 12% (from 6%).

**Graph 14** United States export partners in 2012



Source: compiled according to <http://statistics.apec.org/>

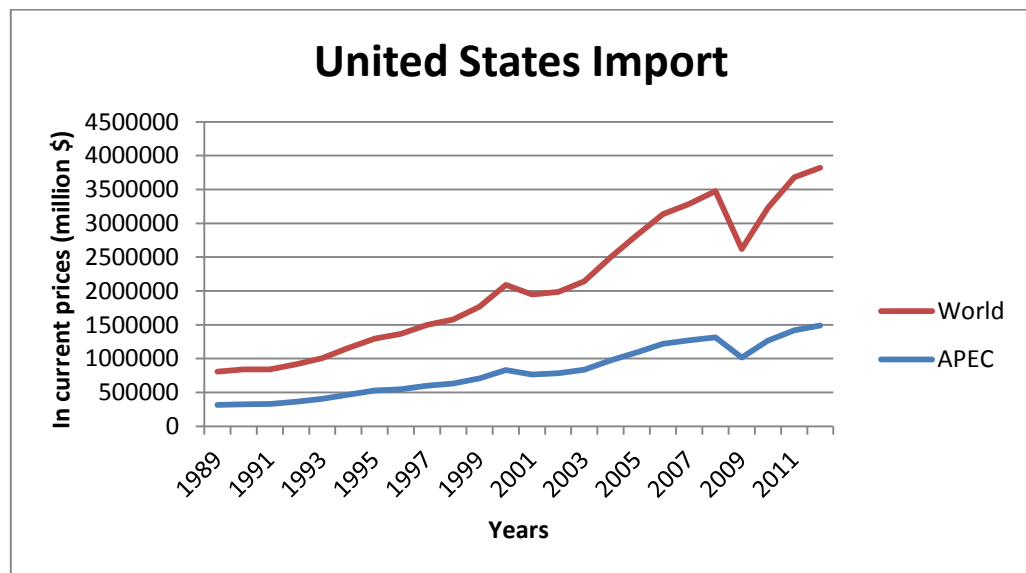
The relationship between the United States and China, despite the abundant political problems, economically considered so wonderful that many experts say about the economic symbiosis of these two countries. So, interrelatedness and interdependence of the United States and China produce version called "two-headed dragon". American corporations for many years moving their production to China, actively using the Chinese policy of "open doors". The benefits are Chinese labor costs ten, twenty or even fifty times cheaper than in the United States, so the cost of labor in production costs (which in some products can reach up to 50%), falling sharply. In the United States market becomes more expensive only that is not made in China - housing and oil.

According to conducted analysis Mexican share in United States export in 1989 was 12%, but in 2012 it has increased and amounted 23%. The reason is Mexican membership in APEC and elimination of Mexican tariff and non-tariff barriers. The interaction of economic structures of Mexico and Canada is far inferior to the depth and scope of the Canadian-American and Mexican-American integration. The asymmetry of the integration process is due to the multiple superiority of the leader and the weak coupling between the junior partners. Canada and Mexico are rather competitors in the United States market goods and labor, than partners. Since the end of 1993, the United States trade with Mexico grew at a faster pace than the rest of the world, exports grew three times.

Japan and South Korea are the second and third largest trading United States partners in Asia, accounting for about 9.9% of total trade in goods in the United States. One of the most vulnerable export markets of the United States is Japan with which the United States has a large trade deficit. The main problem between the United States and Japan is United States trade deficit in bilateral trade (in June 1994 was designated another sore point - the largest decline of the dollar against the yen), reflecting the loss of competitiveness and a general weakening of the United States economy. Japan begins to export from other developing countries.

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, covering office equipment, data processing, telecommunications, sound recording, electrical tools and appliances but in 2011 it was only 10%. At the same time in a specified commodity group sharply increased the share of Chinese products in United States imports (from 18 to 43%) that promoted to redistribution of the contribution of China and APEC into US trade deficit.

**Graph 15** United States import

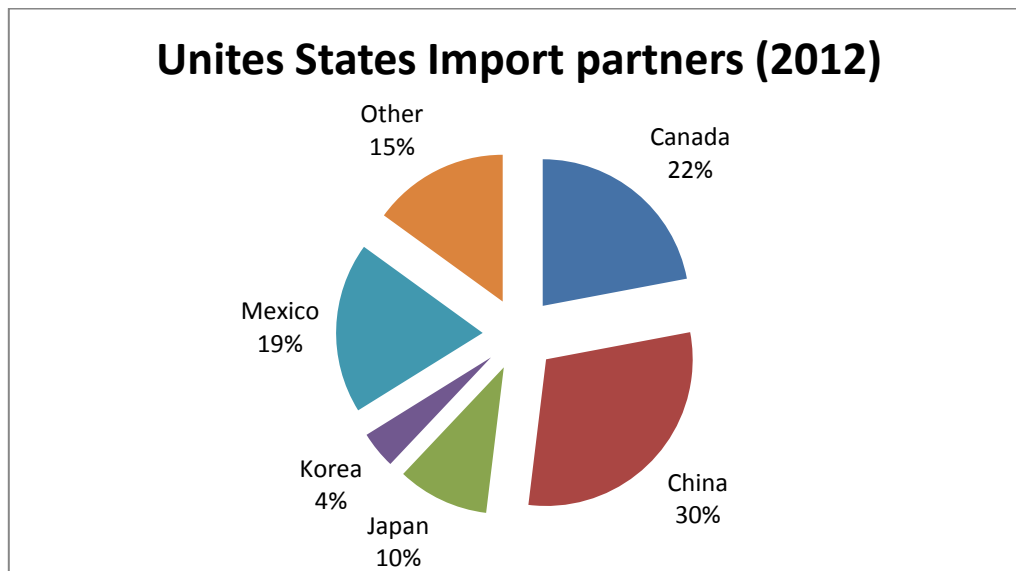


Source: compiled according to <http://statistics.apec.org/>

An import into the United States is 23% of the global volume of imports. (In 2002 United States imports amounted to \$ 1.7 trillion). Import for the United States economy is more important than exports.

United States imports from China amounts 30% , from Canada 22% and Mexico 19%.

**Graph 16** United States import partners in 2012



Source: compiled according to <http://statistics.apec.org/>

However, in recent years begun a slowdown of the US economy, may indicate the beginning of a cyclical downturn, it can in the short term have a negative impact on the economic development of Asia-Pacific countries, especially for export, a significant share of which belongs to the production of electronic and electrical industry (Philippines, Singapore and Malaysia).

Meanwhile, the United States continues to attempt to solve specific trade issues relating to individual APEC countries. At least since the seventies of the last century US concerns on trade relations with Japan, and in the late nineties of the XX century Americans continued to pay special attention to barriers raised by Japan on US imports, including agricultural products, cars and spare parts. Americans also complained that Japan is exporting steel to the United States at prices below than world's (a practice known as dumping), and the US government continues to put pressure on Japan to conduct its deregulation of various sectors of the economy, including telecommunications, housing, financial services, medical equipment and pharmaceutical products.

In addition, Americans have trade problems with other APEC countries, including Canada, Mexico and China. In the nineties of the last century the US trade deficit with China has increased. This deficit even exceeded the trade deficit of the United States with Japan. From the point of view of the Americans, China is a huge potential export market, but it is extremely difficult to get. In the late 90s a number of American economists and government members have expressed concern over the US economy depending on 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. These approaches are widely used by the United States in trade negotiations not only with Japan, and APEC countries but also with the countries of Latin America and the European Union. In recent years, these same techniques are practiced in trade relations with developing countries, corporations which began to penetrate the domestic United States market. The weakening of dollar and increasing the size of United States trade deficit, causes talks about the fact that the world economy will not be able to survive a possible reduction in domestic demand of such a major power.

### **5.3 China**

In the 70s and early 80s of 20<sup>th</sup> century Chinese researchers had very negative attitude to the concept of "Pacific Community". The reasons for it were varied and diverse. Main of the reason was the Chinese isolation from the external world economy and the question of participation in the integration groupings meant to open the economy which seemed irrelevant, inappropriate and even harmful. Beijing government recognized the necessity to develop economic relations with Japan, the US and other Asia-Pacific countries in order to accelerate the social-economic formation of China, but the country had a fear to be "tied" to newly created organization with limited rights of conducting an independent course in the international arena. For the Chinese leaders this new groupings had unclear aspects such as number of members, the level of integration and the technical sides of the project. Therefore, the Chinese government chose to take a silent pause, peering into the discussions around this project both inside China and abroad. Turn in the politician of China with regard to the integration processes region changed its attitude to participation in a number of regional economic organizations, including the newly created.

But an admission in 1991 in interstate APEC forum had a particular importance for China. Since its entry into the APEC, Chinese politicians pay special attention to participation in the activities of the Forum, taking into account that the APEC is the only organization in the region, which holds regular meetings at the highest level that allows discussing both economic and political problems. Despite the fact that United States and other industrialized countries believe that trade and investment liberalization is seen as the main problem and the main focus of the APEC, Beijing makes emphasis on the activation of economic, scientific and technical cooperation (Ecotech) which meet interests of China and most developing countries and areas of the organization. As an important part of the program of economic and scientific-technical cooperation, Chinese leaders consider the support of small and medium-sized businesses. The Chinese government has consistently pursued an appropriate course almost in all APEC summits performing various kinds of initiatives, among which was the concept of human development.

In practical terms, Beijing goes to the reduction of tariff and non-tariff restrictions on strictly defined product groups, taking into account that the conservation of tariff barriers, which was surrounded by the Chinese economy, rather an evil than good for the development of the national economy. During the Osaka Summit in 1995 China announced 30% of reduction in tariffs on 4 thousand imported goods. Beginning a real reduction in tariffs amounted to 35% and 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. The process of removing non-tariff barriers by China was less successful, although the level of non-tariff barriers in the total Chinese imports decreased from 46% (by value) to 21% in 1997 year.

APEC countries account for 70% of China's foreign trade and over the 70% of attracted foreign direct investments. The development of China and the region seriously interconnected. Although the Chinese National Republic was not among countries that founded APEC the country-founders understood the necessity of China's presence as a possible counterweight to the United States and as the largest economy in the region.

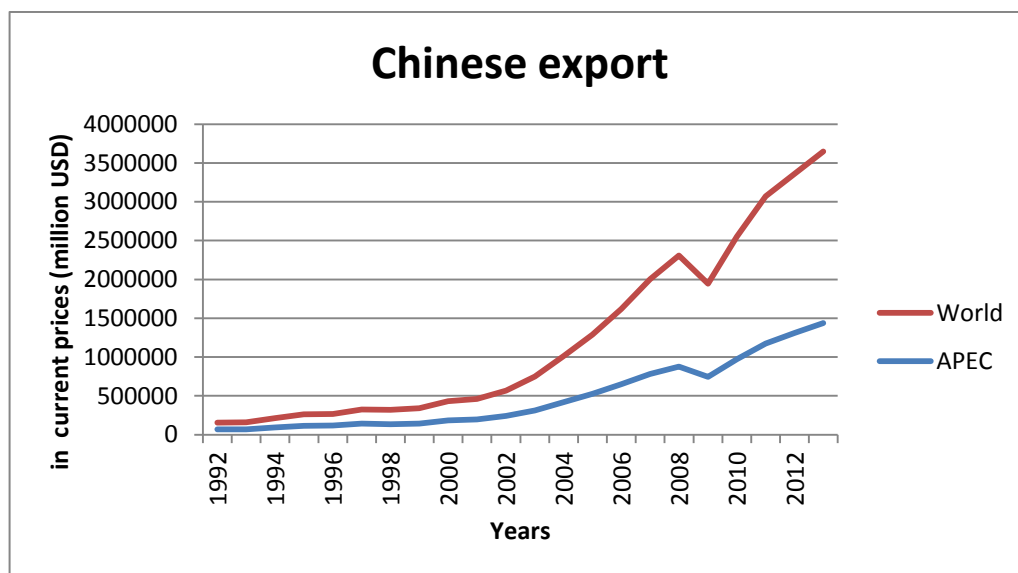
China draws attention to such issues of economic integration in the Asia-Pacific region as combating protectionism, creating facilities for investors, quick respond to climate changes, promotion the regional economic integration. Particular attention is paid to the development of small and medium businesses, the maximum number of removal of barriers and possibilities for the creation of such enterprises across the APEC. Among the issues that have both economic and political reasons is a discussion of inclusive development.

Next we will analyze Chinese trade with APEC countries. Foreign Trade is one of the ways of cooperation China with other APEC countries. In 1980 the volume of foreign trade was only \$381 million. According to this indicator China was on 32<sup>nd</sup> place and its share in global merchandise trade was less than 1%. Due to statistics of China's Head Customs Department in 2011 the foreign trade turnover amounted to \$ 36. 420. 6 million while the share of imports accounted for 52.1%. Share of exports and imports in the world have risen to 10.4% and 9.1%, respectively, China was the largest exporter and second largest importer in the world.



In despite to a number of serious cyclical and structural problems, China could to maintain high rates of economic growth. In recent years, a certain recession can be seen in exports from China to APEC countries (see Graph 17).

**Graph 17** Chinese export



Source: compiled according to <http://statistics.apec.org/>

As we can see 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 its membership effectively, which means that it has export and import relations with all regional participants. China exports crude oil, coal, grain, tea, fish, textiles, silk, tungsten ore, etc. Chinese light industry products are in high demand in the world and APEC markets.

Five APEC countries included in the top ten leaders among the exporter partners of China, they are: the United States, Japan, Hong Kong, Korea and Russia.

**Graph 18** Chinese export to APEC countries in 2012

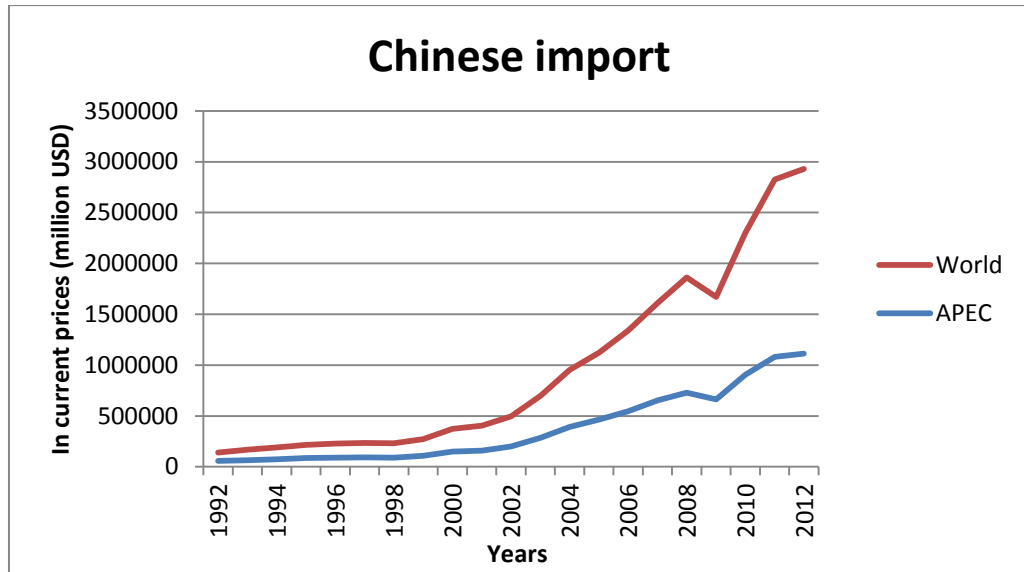


Source: compiled according to <http://statistics.apec.org/>

Foreign trade relations of China and APEC countries is constantly strengthen. In the Graph 18 shown largest export partners of China among APEC countries, they are the United States (27%). US companies noted that the increase in income from activities in China (2012) exceeded 10 percents, and 75 percents of US companies said that their profitability in China exceeds the average profitability in global markets. The second big Chinese importer is Hong Kong (26%) and then Japan (11%).

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.

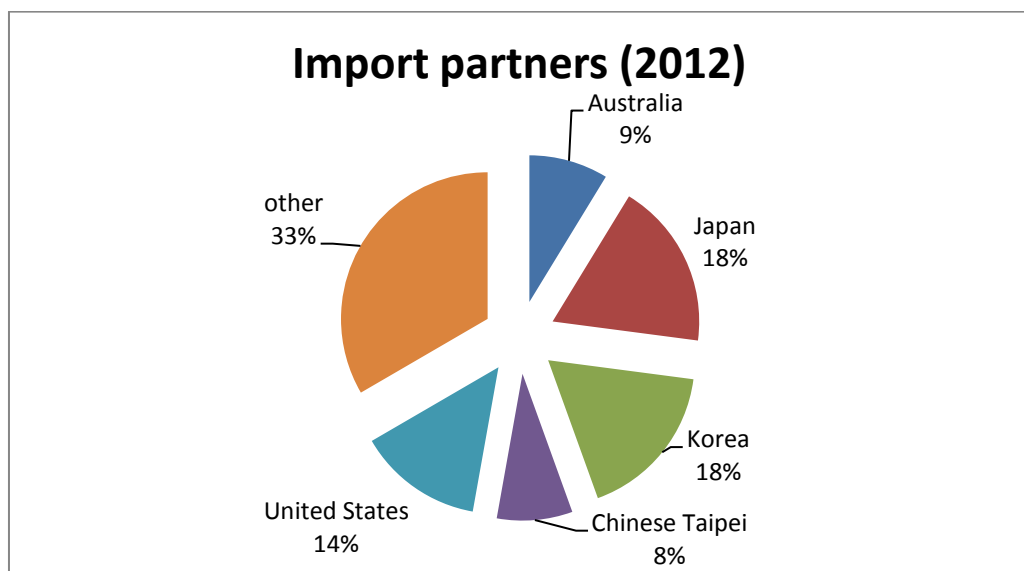
**Graph 19** Chinese import



Source: compiled according to <http://statistics.apec.org/>

China imports machinery and equipment, sophisticated computing equipment, hydraulic equipment, chemical fertilizers, pesticides, high technologies, weapons, etc. According to Graph 20 main Chinese importers in 2012 were: Korea (18%), Japan (18%) and US (14%).

**Graph 20** Chinese import partners in 2012



Source: compiled according to <http://statistics.apec.org/>

With the growth of economic, industrial and export potential of China, it gained an opportunity to promote their products to markets of the Asia-Pacific region in order to improve its competitiveness and attract more investment. Movement in this direction should be introduced gradually, with the transition to the next stage as the previous one is developed, for instance from trade to more complexes (the service sector).

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. Meanwhile, since the Chinese accession into the WTO, APEC was no longer urgent for it.

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. Chinese work in labor-intensive industries on the conveyor and assembly has a narrow specialization which does not give broad technological skills. APEC investors are concerned about the incomplete legislation, the presence of many "closed" instructions that impede free enterprise, a complex procedure for collecting taxes and the lack of legal protection of the interests of investors, the lack of an arbitration dispute resolution system, incomplete convertibility of the Yuan and finally bureaucracy and corruption.

## **5.4 Russia**

Membership in APEC will enable Russia to achieve the removal of existing restrictions on Russian exports more effectively, as participants in the regional pledged to follow the principle of mutual non-discrimination. Russia, developing ties with Asia-Pacific countries, it interested in improving its imports. First of all it's about cooperation with the dynamic Asian newly industrialized APEC member countries.

Membership in APEC allows to Russia to join the process of formation the basic principles of international economic policy, trade rules and investment mechanisms, affecting them in accordance with their national interests.

Russia also plays an important role in APEC activities. Today it is a unique mechanism for dialogue and coordination of positions of the participating countries on key issues of economy, trade and investment, enhancing economic and technical cooperation in the Asia-Pacific region.

Major changes in the customs tariff in Russia happend after it's membership in APEC in 1998. 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.

Results shown that more than 70% of Russia's trade with Asian countries accounted for the Asia-Pacific Region (APR). Russia is making a real contribution to the economic development of the region. An increase of the annual turnover Russia with APEC member countries more than 20%. At present, the Asia-Pacific countries is the only region in the world with whom Russia is steadily increasing volume of trade: it accounts for 22% of exports and 15% of imports of Russia's foreign trade.

As shown in the Graph 20 difference in Russian export to the world and to APEC is quite big. Despite its membership in 1994, Russia started to trade with APEC countries after 2 years. The reason was that Russia didn't have certain plan of activities. Russia traded with the rest of the world more than within APEC (for instance with Europe).

**Graph 21** Russian export



Source: compiled according to <http://statistics.apec.org/>

The major trade partners of Russia in the region in 2012 were: China (39%), Japan (17%) and Republic of Korea (15%).

**Graph 22** Russian export partners in 2012



Source: compiled according to <http://statistics.apec.org/>

It should be noted that during the period 1998-2004 in trade between Russia and China observed a positive trade balance in favor of Russia. Commodity structure of Russian exports in recent years as a whole remained stable. As in previous years, it tends to increase the share of primary commodities and primary processing of products. In 2012, compared with 2013 in the structure of Russian exports, the share of commodity groups such as mineral oil, wood, fertilizers, fish and seafood, ferrous and non-ferrous metals, pulp, ore, increased from 76.1% to 84.2%.

As it was mentioned above in Russia's trade with APEC member countries, Japan is the second partner (after China). In 2012, Japan's share in Russia's trade with the countries of forum was 16.49%, including exports - 17%. During the period of 1998-2012 there was a tendency of constant increase in trade between these two economies.

Despite the relatively short history of relations between the two countries, Russia and South Korea have made great progress in economic cooperation not only in scale but also in quality. In 2003 in Moscow was signed an intergovernmental agreement on the settlement of Russia's debt to the Republic of Korea provided by the USSR government loans, which created favorable conditions for the development of bilateral cooperation and giving it a strategic character.

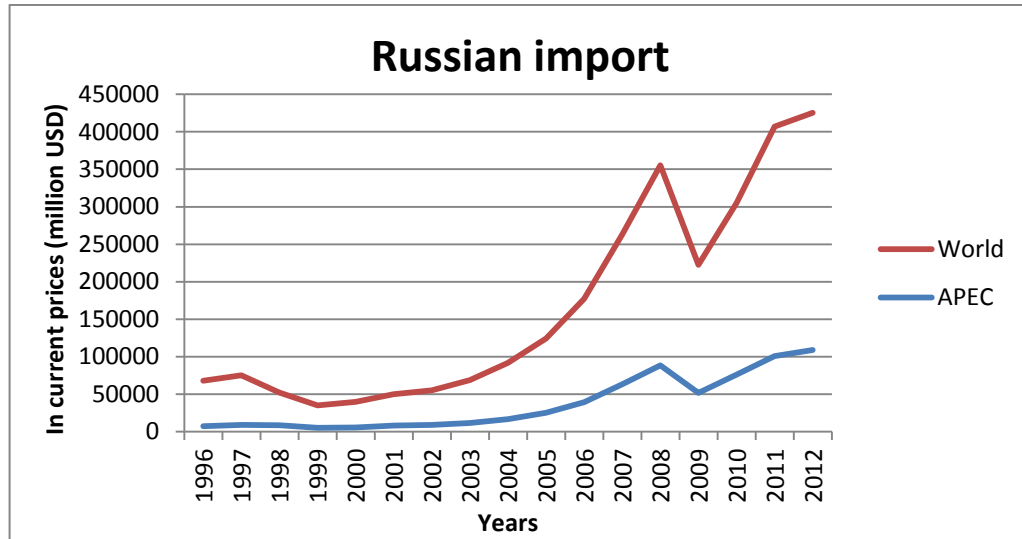
Another trade partner of Russia in Southeast Asia is Thailand. The share of export of the country in 2012 was only 2%. Since 2003 Thailand buys Russian oil. The government of this country was the first Southeast Asian countries stated that considers Russia as an alternative source of oil and gas (the main provider in the Middle East).

In Russia's trade with APEC member economies Singapore occupies a small place. In 2012, the share of this country in Russian export was 2%. Share of other member countries in Russian export is insignificant and consist from 0.01% - Chili to 0.76% - The Philippines.

Trade and economic cooperation between Russia and Brunei is virtually nonexistent. Official contacts are limited mainly by the interaction of the Ministries of Foreign Affairs of two countries. Trade Cooperation between Russia and Papua New Guinea is negligible. Only since 2002 countries began to trade, but trade amounts to only \$ 5 million.

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.

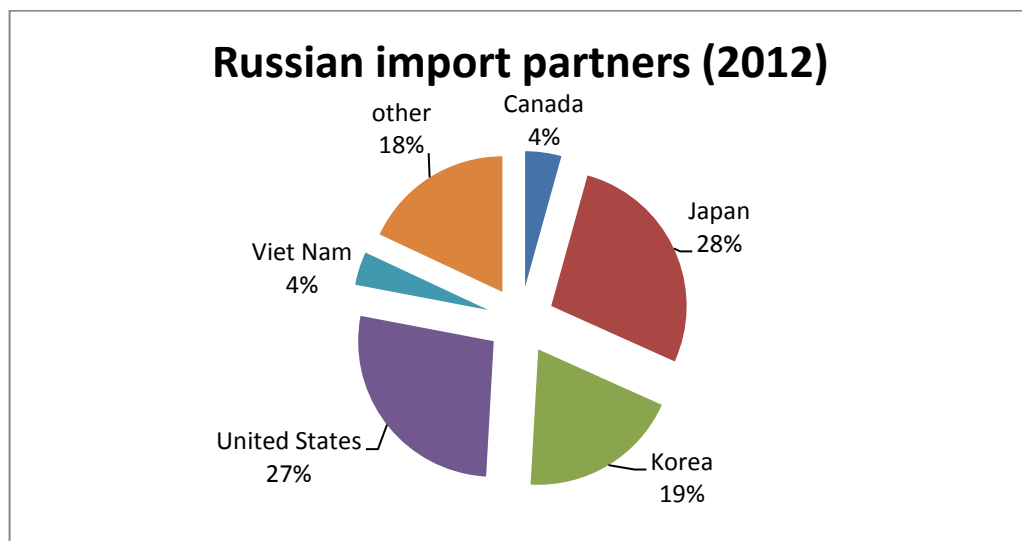
**Graph 23** Russian import



Source: compiled according to <http://statistics.apec.org/>

Japan is the biggest Russian importer. Imports from Japan dominated by engineering products: vehicles, road construction machinery, household goods, metal processing equipment, communications (over 80%), as well as chemical products, iron and steel products.

**Graph 24** Russian import partners in 2012



Source: compiled according to <http://statistics.apec.org/>



United States was the second importer country with the share 27%. Russian purchases from US increased by almost all major commodity groups, including the import of machinery and equipment - by 16.4%.

According to 2012 results, the volume of Russian-Canadian trade turnover increased compared to 2011 by 31% to \$ 1.4 billion. Main import commodities are aviation equipment, meat and meat products (pork, beef), road construction machinery, compressors equipment, agricultural machinery and tractors, fish and seafood, grains (soybeans, corn).

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. In addition, membership in APEC created conditions for the settlement of disputes and to identify common interests with other States Parties. It contributed to the solution of economic problems, defined by Russian national priorities, and allowed to build a new system of partnerships with the countries of the Asia-Pacific.

Russia, as the core of the Commonwealth of Independent States (CIS) and being the only member of its having access to the Pacific Ocean, joining APEC can play now the role of "economic, trade and transport bridge" between the CIS and the Asia-Pacific region, and in the more distant future - between APEC and the EU.

Despite the perspectives and interests of APEC in the Russian economy, APEC investors do not hurry to invest 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. In addition, fears of crime, corruption of Russian officials, uncivilized business practices. Other obstacles are a large number of different taxes on businesses and their high rates, low return on investment compared with international practice, complicated procedure of business registration, a set of rules imposed by administrative bodies.

## **6. DISCUSSIONS**

Asia-Pacific Economic Cooperation is not an international economic organization in the legal sense, but it's permanent, official and free consultative forum of member states for discussion of pure economic issues, which has all the inherent features of international economic organization that plays an incentive role in standard-setting activities of the participating countries. If in Europe integration process takes place under the influence of branched political, legal and institutional mechanism of inter-state and supra-state regulation, in the Asia-Pacific economic region, the integration process developed in the form of so-called "soft integration" which means integration through the coordination of interests, especially at the microeconomic level.

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.

## **7. CONCLUSIONS**

Cooperation is the key word in all official documents of the Asia Pacific economic cooperation. But while this cooperation rather passively and is expressed mainly in the holding of meetings at various levels, in the preparation of projects and the organization of seminars.

APEC is a special format for all member countries that allows simultaneously contact with many countries and to have access to new markets. However, cooperation in APEC and in other integration groupings is associated not only with the acquisitions, but also with serious challenges and problems. Successful participation in a competitive competition on the regional and global markets requires a change in the structure.

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.

With all disadvantages APEC is undoubtedly the most representative of all existing in the Asia-Pacific zone.

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