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Evgeny A. Kanaev, Alexander S. Korolev

FACTORY ASIA AND ASIA-PACIFIC ECONOMIC REGIONALISM: THE CONNECTIVITY FACTOR REVISITED

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FACTORY ASIA AND ASIA-PACIFIC ECONOMIC REGIONALISM: THE CONNECTIVITY FACTOR REVISITED³

With its strong economic, technological and innovative potential, Asia-Pacific has the potential to drive the global economy. The “engine” of this drive is the system of supply-value chains within the vertically-organized Asia-Pacific conglomerates specializing in producing value-added intermediate goods and services. In the academic literature, this phenomenon is conceptualized as “Factory Asia”.

To unlock Asia-Pacific’s true potential, the implementation of measures embracing regional infrastructural, institutional and people-to-people connectivity becomes the key prerequisite for success. The initiatives of Asia-Pacific economic regionalism covering the trans-Pacific and the East Asian/South Asian geographical domain—the Free Trade Area of Asia-Pacific (FTAAP), the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP)—have different possibilities to develop the connectivity agenda. While FTAAP and potentially RCEP can stimulate these processes, for TPP it is highly problematic.

This broadens the possibilities for Russia to get more involved in Asia-Pacific economic cooperation with an emphasis upon technologically-advanced exchanges within Factory Asia. Strengthening regional connectivity is the key component in Russia’s agenda in multilateral cooperation with Asia-Pacific countries, which was exemplified by Russia’s APEC agenda. While at present the resource-intensive production in Russia’s Far East is prioritized, the multiplier effect produced by the Territories of Advanced Development on the industrial and innovative sectors of Russian economy can help Russia to enter Factory Asia.

JEL Classification: F5.

Keywords: Asia-Pacific, economic regionalism, Factory Asia, TPP, RCEP, Russia.

¹ National Research University Higher School of Economics, Center of Comprehensive European and International Studies, Head of Asia-Pacific Section; E-mail: ekanaev@hse.ru

² National Research University Higher School of Economics, Center of Comprehensive European and International Studies, Junior Research Fellow; E-mail: askorolev@hse.ru

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Introduction

The course, depth and nature of Asia-Pacific economic regionalism is increasingly outlining the likely contours of the emerging regional and global economic mega-blocks which are shaping the key parameters of world development. This gives rise to the questions of what the most important components of this growth and potential are, and which FTAs can best unlock them.

The first answer seems clear: a prerequisite for Asia-Pacific economic growth based upon an innovative rather than labour-intensive paradigm stems from the vertically-organized supply and production chains of technologically-advanced production which have existed in the region for more than half a century. This is encapsulated in the term “Factory Asia” capturing the foundation of the regional innovative economic growth.

The second seems more difficult as in spite of flurry of regional FTAs since the 1990s, not all of them are able to stimulate exchange or address the bottlenecks within Factory Asia. If so, to trace the extent to which these initiatives, among which the key are Free Trade Area in Asia-Pacific (FTAAP), the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) can affect the evolution of Factory Asia linking this analysis with Russia’s interests and policy options in Asia-Pacific is a timely exercise.

Starting with the analysis of the Factory Asia phenomenon, this paper then identifies the potential of FTAAP, TPP and RCEP in terms of facilitating trade in intermediate goods within Factory Asia and turns to tracing this set of issues from Russia’s perspective. The summary of the analysis is presented in the conclusion.

The anatomy of Asia-Pacific Economic Growth: the Factory Asia Phenomenon

The emergence of Factory Asia and its further evolution reflects the consolidation of the demand for individual and mass production coming from the US market with an adequate supply potential in Asia. This process reached its peak in the 2000s with robust household consumption⁴. Fuelled by cheap labour, Asian countries—China, Japan and Korea—became the main driving forces of Factory Asia, manufacturing consumer goods for the US and Europe. The gradual rise of Japan and Korea led to the creation of vast networks of supply and production chains and expanded the geography of export supplies. As a result, Asia-Pacific has become a production base for many Asian trans-national conglomerates. The attraction of FDI and the

⁴ Asian Development Bank and Korea Economic Research Institute. (2014). *Future of Factory Asia*. Retrieved from: <http://www.adb.org/sites/default/files/publication/42477/future-factory-asia.pdf>

enhancement of regional supply chains based on close industrial interconnections contributed to transforming Japan and Korea into pioneers of globally innovative products and the leading exporters of intermediate or final goods⁵.

However, at present Factory Asia faces several challenges including the transition to a new “Asia for Asia” economic model which means greater concentration on Asian internal markets, an increase in domestic consumption and the growth of Asian economies. Of course, this transition does not cancel or deny the traditional Factory Asia format, which has allowed the region to make huge economic leaps over the past twenty years, and in the case of Korea and Japan, over the last five decades. But as for developed countries, the factory is gradually changing its specialization, moving to more complex and technologically-advanced products. This mega-trend also forced Asian countries to learn how to meet the demand of a growing number of middle class consumers. Another constraint to the expansion of cooperation within Factory Asia is the economic slowdown in China. Finally, the implementation of a key US economic initiative—the Trans-Pacific Partnership—might result in a growing overdependence of Asian countries and industries on policies implemented by the US and multinational corporations.

Factory Asia has been driven by Japanese, Korean and, more recently, Chinese conglomerates. In hindsight, the Japanese economic model has gone through several stages. The period of 1950s and 1960s was characterized by state policy towards the accelerated development of science and technology, the promotion of R&D services, and the training of highly skilled specialists. During the 1980s, the Japanese automotive industry became the main source of country’s economic development, which made Japan the world-leader in car exports. In 2014, Japan was second in the list of the largest global car exporters.

Tab. 1. List of Countries-Exporters of the Highest Dollar Value Worth of Cars in 2014

Rank	Exporter	Car Exports (US billion \$)	World Total (%)
1	Germany	160.1	22.9
2	Japan	88.7	12.7
3	USA	61.7	8.8
4	Canada	44.9	6.4
5	South Korea	44.8	6.4

⁵ World Trade Organization. (2011). *Trade patterns and global value chains in East Asia: From trade in goods to trade in tasks*. Retrieved from: https://www.wto.org/english/res_e/booksp_e/stat_tradepat_globvalchains_e.pdf

6	United Kingdom	42.4	6.1
7	Mexico	32.4	4.6
8	Spain	31.9	4.6
9	Belgium	30.3	4.3
10	France	19.2	2.7

Source: *World's Top Exports. (2014). Searchable List of Car Exporting Countries. Retrieved from: <http://www.worldstopexports.com/car-exports-country/>*

The main geographical export destination of Japanese cars is North America, primarily, the United States. In 2014, the US accounted for more than 34% of total Japanese car exports. Japan is striving to diversify its export flows by strengthening its positions in the European, Middle Eastern and Asian markets, but the US still remains the key market for Japanese companies. In the foreseeable future, this situation is unlikely to change.

Another key export item, which in the long term will contribute to the gradual recovery of the Japanese economy, is electronics. Despite stiff competition with technologically advanced countries—the US, Korea, China and Singapore—Japan's electronics sector occupies about 30–40% of the global electronics market, being one of the world's largest electronics manufacturing industries⁶.

The development of the Korean automotive industry can be divided into four distinct stages. The first was 1962-1973, when the country was only assembling cars from imported components. The second was 1974–1982 when the foundations of the Korean automotive base were laid. The third, 1983–1997, saw an increase in mass production and exports of automotive products. The fourth is from 1998 to the present time. Nowadays Korea is the 5th largest automotive market with giants like Hyundai Motor Corp., KIA Motor Corp., and Daewoo Motor Corp. The main export market for Korean automakers is the United States which is the recipient for 28% of Korean cars⁷.

The Korean electronics industry began in the 1960s and later developed rapidly. In the 1970s, consumer electronics production in the country increased on average by 47.2% per year⁸. As a result of the continuous growth during the 1970s and 1980s, Korean consumer electronics solidified its positions in both domestic and foreign markets. At present, Korea is one of the world's leading powers in the production of electronic equipment which includes video, audio

⁶ Eurotechnology Japan. (2015, July 25). *Japan electronics industries: mono zukuri*. Retrieved from: http://www.eurotechnology.com/store/j_electric/

⁷ The Observatory of Economic Complexity. (2013). *Where does South Korea export cars to*. Retrieved from: http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/kor/show/8703/2013/

⁸ Kim, G. (2010). Respublika Koreja [The Republic of Korea]. *Almaty: Dajk-press*, 389-400.

and telecommunication components. Semiconductors account for about 10% of Korean exports. These mainly go to China (49%), Japan (13%), and Hong Kong (8.2%)⁹.

Factory Asia is being increasingly shaped by the economic and technological rise of China. A sharp increase in the production of cars and commercial vehicles in China—from 7 million in 2013 to 18 million in 2015, is closely related to the steady growth in consumer demand, rising urbanization and, by implication, living standards. As of 2013, China was the world’s largest cars producer. According to the latest available data, around 20% of global car production was manufactured in China¹⁰.

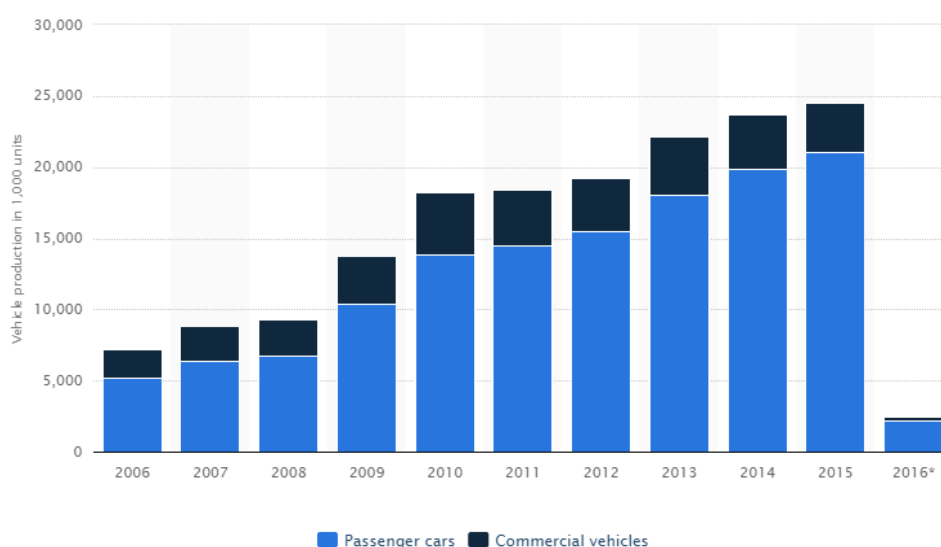


Fig. 1. Production of Cars in China from 2006 (in 1,000 units)

The main items of the Chinese ICT industry are computers (including software), biometric devices, communication equipment, electronic components, household appliances and entertainment equipment. They are designed by national technology giants—Lenovo Group Ltd., Huawei Technologies Co. Ltd. Many global brands have plants in China—Phillips, Samsung, Panasonic, LG. This factor contributes to the professional growth of Chinese workers and the attraction of innovative technologies. The European Union (especially Germany), the US, Hong Kong, Japan and Korea are the key importers of Chinese electronic products.

It seems hardly possible—or necessary—to trace the exact route of intermediate production, equipment and service exchanges from one assembly plant to another. What is important is to clarify to what extent these processes influence the flurry of FTAs which have

⁹ The Observatory of Economic Complexity. (2013). *Where does South Korea export Other Electrical Machinery to*. Retrieved from: http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/kor/show/8543/2013/

¹⁰ The Observatory of Economic Complexity. (2013). *Where does China export Cars to*. Retrieved from: http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/chn/show/8703/2013/

been abundant in Asia-Pacific since the late 1990s. Ostensibly, trade in intermediate goods and services require numerous border crossings, and tariffs are levied each time. Therefore, reducing tariffs by means of FTAs can lead to cost savings making the overall process of production cheaper. In reality, however, this may not entirely capture the essence of these exchanges.

First, many of these supply and production chains originated long before FTAs became widely practiced. More than that, many components of IT products travel without duties between countries which are signatories of the Ministerial Declaration on Trade in Information Technology Products (ITA) concluded in 1996 and currently embracing 81 participants. The ITA agreement covers nearly all countries of Northeast Asia, Southeast Asia and South Asia which form the bedrock of Factory Asia¹¹.

Second, production within the vertically specialized conglomerates is concentrated primarily in export processing enclaves or free trade zones, therefore trade in intermediary goods and services enjoys tax exemptions. Various additional schemes to stimulate the export of technologically advanced production, including zero-tariff, are constantly being developed by national governments to attract trans-national corporations.

Third, FTAs by their very nature limit economic exchanges to their members, therefore an expansion of the existing supply and production chains to other countries for cost-saving reasons becomes problematic.

With these factors in mind, neither tariff reductions nor non-tariff measures can provide exchanges within Asia's supply and production chains with a really strong impetus. What really matters is trade facilitation rather than trade liberalization. Trade facilitation means complex measures aimed at what ASEAN and APEC members outlined as strengthening regional connectivity. In practical terms, connectivity has three dimensions: trans-boundary logistics, institutional (easing conditions for doing business) and people-to-people (fostering human contacts). This is supposed to produce a multiplier effect upon the processes of economic cooperation in Asia-Pacific and, by implication, stimulate exchanges within Factory Asia.

Asia-Pacific Economic Regionalism: Rising Demand for Connectivity

The pre-APEC stage of Asia-Pacific economic cooperation mirrored its bottom-top paradigm. The establishment of Pacific Basin Economic Council and Pacific Economic Cooperation Council in 1967 and 1980 respectively, manifested the earliest pan-regional

¹¹ See: World Trade Organization. (2016). *Map of ITA participants*. Retrieved from: https://www.wto.org/english/tratop_e/inftec_e/ita_map_e.htm

attempts by Asia-Pacific economies to institutionalize de-facto existing and rapidly developing business ties. This made it relatively easy to establish APEC as a higher institutional framework to deal with virtually the same issues.

APEC was a product of the transitional phase of the global history. Expectations to embrace “the new brave world” in which globalization would bring previously unthinkable benefits to all nations and resolve security challenges overcame apprehensions about its unavoidable expenses. While the latter did exist, mirrored in Malaysian proposals to establish East Asian Economic Caucus as a complement to APEC, they did not sway the Asia-Pacific elites¹². To a large extent, such sentiments predetermined the relatively quick, although not completely smooth, success in outlining APEC goals and modalities in 1994 and 1995 respectively¹³.

Nevertheless, disillusionment came no less quickly. By the mid-late 1990s, APEC was unable to implement the Early Voluntary Sectoral Liberalization programme and, more importantly, to give real assistance to its members hit by the Asian financial and economic crisis of 1997-1998¹⁴. This made APEC economies give a careful thought to what benefits APEC could bring them and, more broadly, what safety measures to tackle similar crises should be taken.

These sentiments resulted in the establishment of new multilateral dialogue platforms and initiatives. The key was ASEAN+3 institutionalized in 1999 which very quickly offered its participants what they needed the most—financial safety mechanisms to withstand financial disorders like the one that had hit the region a short time before. Although it took nearly a decade to make the Chiang Mai Initiative multilateral, currently East Asia has satisfactory financial safeguards. This was followed by subsequent ASEAN+3 initiatives, first and foremost, the East Asia Emergency Rice Reserve, which was a response to food security concerns of East Asian countries.

Along similar lines, in the 2000s APEC encountered a number of difficulties which were exacerbated by the global financial and economic crisis of 2008-2009 and coincided with

¹² Dent, C. M. (2016). *East Asian Regionalism*. Routledge.

¹³ Bogor Declaration - APEC Economic Leaders' Declaration of Common Resolve. Bogor, Indonesia, 15 Nov 1994. // http://apec.org/Meeting-Papers/Leaders-Declarations/1994/1994_aelm.aspx; The Osaka Action Agenda. Implementation of the Bogor Declaration. // http://www.apec.org/~media/Files/Groups/IP/02_esc_oaaupdate.pdf

¹⁴ For details, see: Ferguson R.J. East Asian Regionalism: The Challenge of Political Reform and Systemic Crisis in the Late 1990s. Paper Prepared for the Centre for the Study of Globalization and Regionalization Conference *After the Global Crisis: What Next for Regionalism?* University of Warwick 16-17th September 1999. // http://www2.warwick.ac.uk/fac/soc/csgr/events/conferences/1999_conferences/3rdannualconference/papers/ferguson.pdf;

Wesley, M. (2001). APEC's mid-life crisis? The rise and fall of early voluntary sectoral liberalization. *Pacific Affairs*, 185-204.

the first deadline outlined in the Bogor Declaration. Although the Yokohama Declaration described the interim results of the Bogor goals in mostly positive terms¹⁵, it was clear that APEC urgently needed a second wind. Two lines of cooperation were chosen to fulfil this task.

The first is the FTAAP. It was initially outlined during Vietnam's APEC chairmanship and developed in subsequent years. This project aims to create a pan-regional FTA embracing 21 APEC economies and based on the principle of open regionalism. The move to FTAAP should proceed from the current practices of intra-APEC cooperation. But success may be hampered by a growing number of FTAs concluded by APEC economies which generate "a legal noodle bowl effect". The terms of these FTAs are very difficult to reconcile with each other while they are a key prerequisite for successfully implementing FTAAP.

Another crucial issue affecting Asia-Pacific economic regionalism is conditioned by political factors. The military and political situation in Asia-Pacific is characterized by the flare-up between key regional powers, which is directly connected with territorial disputes in the South China and East China Seas. The use of the Asian paradox principle which means the efforts of Asia-Pacific countries to set apart the economic interdependence and political contradictions allows them to strengthen economic relations without regard to political controversies, although sometimes the disregard of political issues becomes a stumbling block for further trade and economic cooperation in general. The most striking example is the attempt of China, Japan and Korea to sign a trilateral FTA.

The increase in competition between China and the US in Asia-Pacific amplifies the divergence of regional trade blocs promoted by both sides, especially RCEP and TPP, which are considered by the majority of experts mutually exclusive rather than complementary projects of Asia-Pacific economic regionalism. In this context, TPP can be considered a Washington attempt to mobilize the US regional allies in order to contain Beijing's growing geo-strategic ambitions.

The second line of cooperation is the strengthening of intra-APEC connectivity as the foundation for fostering economic exchange. Initially, connectivity was a response to the missing logistics in APEC Trade Facilitation Action Plans I and II¹⁶. At this juncture, APEC Supply

¹⁵ Yokohama Declaration - The Yokohama Vision - Bogor and Beyond. Yokohama, Japan, 13 - 14 Nov 2010. // http://www.apec.org/Meeting-Papers/Leaders-Declarations/2010/2010_aelm.aspx

¹⁶ APEC Trade Facilitation Action Plan. // http://www.apec.org/~media/Files/Groups/CTI/03_cti_tfactionplan.pdf; APEC's Second Trade Facilitation Action Plan. // <http://www.apec.org/en/Groups/Committee-on-Trade-and-Investment/~media/1E898BBD474347F8807AB1EB44E1C6DE.ashx>

Chain Connectivity Framework / Action Plan (2010–2015) was issued where connectivity was thoroughly assessed¹⁷.

The connectivity discourse was conceptualized during the Indonesian and Chinese APEC chairmanships in 2013 and 2014 respectively. In 2013, APEC leaders adopted two documents—the APEC Framework on Connectivity and the APEC Multi Year Plan on Infrastructure Development and Investment. Connectivity was outlined as consisting of physical (infrastructure), institutional (regulatory and procedural cooperation) and people-to-people (interaction between citizens) dimensions¹⁸.

The objectives outlined in the APEC Connectivity Blueprint for 2015-2025 appear to be much more realistic. The deadline to achieve physical, institutional and people-to-people connectivity was scheduled for 2025, which gives even the slowest APEC economies enough time to implement the necessary measures. The fostering of the public-private partnership, which is an important instrument to develop infrastructure, including the establishment of a regional PPP centre network to share good practices, was prioritized. The promotion of people-to-people contacts, including those at the grass-root level, with a likely multiplier effect on the present and future processes of economic cooperation was given special attention¹⁹. This balanced and realistic approach suggests that the planned measures will probably bring expected results.

In sum, APEC economies see connectivity as giving a stronger and more diversified economic foundation for trade, investment and technological exchange. This connectivity forms a unifying agenda for cooperation between countries and it allows these countries to focus on concrete and achievable objectives, the implementation of which will strengthen connectivity as well as mitigate the regional contradictions. If successful, the future APEC as a multilateral dialogue platform will depend on to what extent the planned measures to strengthen intra-APEC connectivity are translated into concrete policy actions.

Apart from APEC, TPP and RCEP are likely to be the main drivers of Asia-Pacific economic regionalism.

¹⁷ Das, S. B., Pham, T. P. T., & James, C. R. (2013). *APEC and ASEAN connectivity: areas of mutual interest and prospects of cooperation*. Institute of Southeast Asian Studies.

¹⁸ Asia-Pacific Economic Cooperation. (2013, October 8). *Annex A - APEC Framework on Connectivity*. Retrieved from: http://apec.org/Meeting-Papers/Leaders-Declarations/2013/2013_aelm/2013_aelm_annexA.aspx

¹⁹ Asia-Pacific Economic Cooperation. (2014). *Annex D - APEC Connectivity Blueprint for 2015-2025*. Retrieved from: http://www.apec.org/Meeting-Papers/Leaders-Declarations/2014/2014_aelm/2014_aelm_annexd.aspx

While predictions on how TPP and RCEP will shape the region are in abundance²⁰, they are mostly speculative rather than of a practical nature. All the more so since negotiations on RCEP are not finalized, and the topics under consideration and interim results are available mostly through unofficial channels. In these circumstances, instead of making predictions of what either initiative—or both—will bring to Asia-Pacific in terms of presumable growth of GDP, trade turnover, consumer demand etc., it seems more practical to trace the fundamental factors which are for or against the connectivity agenda within these formats.

Concerning TPP, the following points are noteworthy. First, TPP is a highly politicized initiative. Comments made by US President Obama when TPP negotiations were finalized that “we [the US] can’t let countries like China write the rules of the global economy”²¹ were preceded by a remark from US Secretary of Defence Carter that “...passing TPP is as important to me as another aircraft carrier”²². Since the US started to participate in TPP, Sino-American contradictions over Asia-Pacific maritime security have intensified. Taiwan periodically outlines its interests in TPP provoking China’s dissatisfaction. By their very nature, the political contradictions undermine the connectivity agenda within TPP.

Second, three key Asia-Pacific economies—China, India and Indonesia—are not members of TPP. In spite of occasional remarks, for instance those made by Indonesian President of Indonesia Widodo that “Indonesia intends to join the TPP”²³ and academic debates on why it is in China’s interests to join TPP²⁴, little evidence suggests that they might join, at least in the foreseeable future. The reasons are numerous and mostly concentrate on prospects of losing competitiveness vis-à-vis US corporations in many sectors, particularly in the most technologically advanced, owing to a reduction in government support of state-owned enterprises. It can be argued that without China, India and Indonesia as natural centres of economic gravity in Northeast Asia, Southeast Asia and South Asia respectively, any attempts to develop connectivity linkages are doomed to fail.

Third, TPP runs counter to the prospective plans of ASEAN as an international organization. Only four ASEAN members—Singapore, Brunei, Malaysia and Vietnam—are

²⁰ Das, S. B. (2013). *RCEP and TPP: Comparisons and Concerns*. Institute of Southeast Asian Studies; Wilson, J. D. (2015). Mega-regional trade deals in the Asia-Pacific: Choosing between the TPP and RCEP?. *Journal of Contemporary Asia*, 45(2), 345-353; Lewis, M. K. (2013). The TPP and the RCEP (ASEAN+ 6) as Potential Paths Toward Deeper Asian Economic Integration. *Asian Journal of WTO & International Health Law and Policy*, 8(2), 359-378.

²¹ BBC News. (2015, October 27). *Joko Widodo says Indonesia will join TPP free trade deal*. Retrieved from: <http://www.bbc.com/news/world-asia-34645097>

²² See: Carter, A. (2015, April 6). *Remarks on the Next Phase of the U.S. Rebalance to the Asia-Pacific*. U.S. Department of State. Retrieved from: <http://www.defense.gov/News/Speeches/Speech-View/Article/606660/remarks-on-the-next-phase-of-the-us-rebalance-to-the-asia-pacific-mccain-instit>

²³ Davis, J. (2015, October 27) *President Joko Widodo of Indonesia Joins Trans-Pacific Partnership*. New York Times. Retrieved from: http://www.nytimes.com/2015/10/27/us/politics/president-joko-widodo-of-indonesia-joins-trans-pacific-partnership.html?_r=0

²⁴ See, for instance: Greed, M., Goodman, M. (2016). After TPP: the Geopolitics of Asia and the Pacific. *The Washington Quarterly*. 38 (4), 19-34.

members of TPP. This hampers making Southeast Asia a unified, competitive geo-economic area which is attractive to FDI.

In Factory Asia, this is all the more important because as things currently stand, Southeast Asian countries are rising to prominence for Japanese multinationals. Many of these companies are trying to enhance trade and investment cooperation with Vietnam by boosting investments in Vietnamese agriculture sector. For example, Showa Denko is developing a pilot plant in the northern province of Ha Nam, supplying clean vegetables by means of LED lights²⁵. Indonesia is a very attractive place for Japanese car manufacturers and a prospective market for food and beverage producers from Japan²⁶. Apart from establishing the assembly plants of national manufacturing giants like Toshiba, Hitachi and Panasonic, Japan has tried to strengthen its positions in Myanmar by launching joint investment zones²⁷ and providing assistance to the Mekong countries²⁸.

Further, multinationals outside Southeast Asia are serious about ASEAN plans to establish the ASEAN Economic Community. As a study commissioned by the Economist Intelligence Unit argues, “Companies are increasingly managing the ASEAN region as an integrated economic area, with a pan-regional strategy”. This trend is encapsulated in a poll conducted among the top management of large non-ASEAN companies in December 2014 and July 2015. While the percentage of respondents for whom it is “somewhat important” remained relatively unchanged (60% and 57% respectively) “extremely important” rose from 23% to 31% and “not important at all” fell from 17% to 12%²⁹. It is worth bearing in mind that since the Master Plan on ASEAN Connectivity was launched in 2010, in the ASEAN political lexicon the term “integration” has become identical to the term “connectivity”. Multinationals outside ASEAN share this perception.

At this juncture, connectivity is not and highly unlikely to be the top priority of TPP. Occasional steps may be taken, but reasons to expect for systemic measures to produce a significant and far-reaching effect upon regional connectivity do not appear convincing.

²⁵ Vietnam Trade Promotion Agency. (2015, September 29). *Japan eyes co-operation with Vietnam in agriculture*. Retrieved from: http://www.vietrade.gov.vn/en/index.php?option=com_content&view=article&id=2353:japan-eyes-co-operation-with-vietnam-in-agriculture-&catid=20:news&Itemid=287

²⁶ The Jakarta Post. (2014, June 10). *20 Japanese F&B firms to open plants*. Retrieved from: <http://www.thejakartapost.com/news/2014/06/10/20-japanese-fb-firms-open-plants.html>

²⁷ The Wall Street Journal. (2015, September 23). *Myanmar Opens Japanese-Backed Economic Zone Amid Election Campaign*. Retrieved from: <http://www.wsj.com/articles/myanmar-opens-japanese-backed-economic-zone-amid-election-campaign-1443006607>

²⁸ Bloomberg Business. (2015, July 4) *Japan, Mekong States Seek Closer Ties Amid South China Sea Spats*. Retrieved from: <http://www.bloomberg.com/news/articles/2015-07-04/japan-mekong-states-seek-closer-ties-amid-south-china-sea-spats>

²⁹ The Economist Intelligence Unit. (2014). *Re-Drawing the ASEAN Map: How Companies are Crafting New Strategies in South-East Asia*. Retrieved from: http://www.bakermckenzie.com/files/Uploads/Documents/Asia%20Pacific/bk_ap_redrawingaseanmap_15.pdf

Finally RCEP is a pan-regional initiative launched by ASEAN in November 2012. There is ample evidence to suggest that RCEP fits the logic of Asia-Pacific economic regionalism much more substantially. Most of its participants have already concluded FTAs. The presence of China, India and Indonesia adds much substance to this project.

RCEP is an ASEAN response to the developments of Asia-Pacific economic regionalism which were unfavourable to the association. After East Asia Summit (EAS) was launched in 2005, contradictions between two initiatives of economic cooperation—the Chinese EAFTA (East Asia Free Trade Area) and the Japanese CEPEA (Comprehensive Economic Partnership in East Asia)—undermined practical cooperation. Owing to ASEAN's lack of ability to integrate the Chinese and Japanese projects, alternative dialogue platforms, the key being Australia's initiative of Asia-Pacific Community (APC) appeared. No less serious were ASEAN apprehensions that TPP would undermine ASEAN unity on economic issues. An unpleasant surprise for ASEAN came in that APC did not mean to delegate the status of its driving force to the association. Last but not least, the establishment of the trilateral summit China-Japan-Korea, made ASEAN think in substantial terms, regional multilateral economic cooperation was more Northern Asian than ASEAN-centric.

However, and most importantly, ASEAN realized that without a contribution from external partners the establishment of the ASEAN Economic Community as part of the ASEAN Community as its key project might be seriously questioned. The rise of ASEAN competitiveness and its integration into the global economy could not materialize without costly cross-border infrastructure development. Taking into account limited ASEAN financial resources, the association counted upon assistance from its neighbours from Northeast Asia and South Asia.

Driven by these motivations, ASEAN launched RCEP. This initiative aims to achieve “a high quality and comprehensive” economic partnership agreement. Apart from trade in goods, RCEP is supposed to cover trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement and other issues. At the same time, RCEP permits flexibility, taking into consideration the individual characteristics of its members. The assessment of RCEP is mixed. On the one hand, the unification of the terms of cooperation is a very difficult task, especially given the tight deadline. The FTAs concluded or negotiated between RCEP participants are very different in terms of the tempo and scale of liberalization. In some FTAs, the liberalization of trade in services is included, in others it is not. The political

factors undermining RCEP prospects also play an important role, as exemplified by the decision made by China, Japan and South Korea to delay the establishment of trilateral FTA.

On the other hand, there are reasons to argue that in the years to come, RCEP will probably be the most resourceful project of Asia-Pacific economic regionalism as RCEP participants are ready to bring connectivity to its agenda. The idea of integrating the Master Plan on ASEAN Connectivity and cooperation within RCEP has already been put forward³⁰. The more so since the Chinese Maritime Silk Road aims to be a large-scale zone of economic growth³¹, which, by implication, will strengthen connectivity within RCEP area.

The Russian Dimension

Outlining its intention to become better integrated in Asia-Pacific economic cooperation³², Russia understands both its strengths and weaknesses. The trade and investment liberalization agenda does not seem to correspond to Russia's priorities as Russia has just entered the FTA games, the e Free Trade Agreement between EAEU and Vietnam being the only example. In terms of connectivity, Russia has more relevant experience. In the year of Russia's APEC chairmanship, the agenda included the establishment of reliable supply chains and intensive cooperation to foster growth in innovation³³. This presupposes monitoring the activities of Asian conglomerates and, ideally, integrating in their technology supply and production chains.

To succeed, Russia has to make its own success story. For multilateral economic cooperation, this means expanding the range of Russia's commodities exported to Asia-Pacific with particular emphasis on the production of resource-intensive goods. This could lead to the development of large industrial clusters with technologically advanced production. Russia's plans to establish territories of advanced development in the Far East include attracting FDI³⁴, starting joint investment and financing platforms with Asian partners³⁵ and negotiations on the

³⁰ Elek, A. (2014, June 7). *RCEP will help get Asian integration back on track*. East Asia Forum. Retrieved from: <http://www.eastasiaforum.org/2014/06/07/rcep-will-help-get-asian-integration-back-on-track/>

³¹ See, for instance: Xinhuanet News. (2015, April 26). *China Focus: Belt and Road Initiative a boost to China, regional economy*. Retrieved from: http://news.xinhuanet.com/english/2015-04/26/c_134186100.htm

³² Global Research. (2014, November 11). *Vladimir Putin's Asia-Pacific Economic Cooperation (APEC) Summit Speech: Trade in Rubles and Yuan Will Weaken Dollar's Influence*. Retrieved from: <http://www.globalresearch.ca/putins-asia-pacific-economic-cooperation-apec-summit-speech-trade-in-rubles-yuan-will-weaken-dollars-influence/5413432>

³³ APEC E-Commerce Business Alliance. (2012, May 15) *APEC Russia 2012 Priorities*. Retrieved from: http://en.apec-ecba.org/article2/enalliancenews/ennewsnews/201205/19628_1.html

³⁴ The Siberian Times. (2013, October 8). *Invest in Siberia' - Putin call to Asia-Pacific business partners*. Retrieved from: <http://siberiantimes.com/business/investment/news/invest-in-siberia-putin-call-to-asia-pacific-business-partners/>

³⁵ The Wall Street Journal. (2013, November 13). *South Korea, Russia to Create \$500 Million Joint Investment Fund*. Retrieved from: <http://blogs.wsj.com/moneybeat/2013/11/13/south-korea-russia-to-create-500-million-joint-investment-fund/>

industrial allocation of territory in the Russian Far East³⁶ in particular the establishment of car manufacturing plants³⁷.

The Territories of Advanced Development reflect Russia's top priorities for the development of the Far Eastern Federal District. There is an emphasis on oil refining, agriculture, mining, forestry and the wood industry, transport and logistics, and tourism. The linkage of these sectors with the interests of businesses from Asia-Pacific countries—to import products from Russia and invest in Far East projects—is of special significance. The implementation of joint projects in the most sensitive industries for Asia-Pacific countries—food security, increasing energy efficiency, and the implementation of infrastructure projects—have the most obvious potential. This will create the necessary preconditions for building up links with Asia-Pacific multinationals and, in the long run, integrating various stages of regional technologically advanced supply and production chains.

This process can be facilitated by Russia's active policy in the processes of Asia-Pacific economic regionalism. At present, Russia participates in APEC, but it is outside both RCEP and TPP. Since the APEC connectivity agenda is at the initial stage, to adopt a wait-and-see policy would be logical as Russia is already a part of the process. With respect to TPP and RCEP specifically, Russia should better understand the particulars of these multilateral initiatives in order to implement a coherent and well-calculated policy. While prospects for Russia to join TPP are hardly realistic, Russian membership in RCEP is not impossible. The formal precondition for joining RCEP is an agreement on FTA with ASEAN—on which Russian and ASEAN leaders are building their strategic partnership³⁸.

The times have changed, and now Russia's joining RCEP should not be regarded as a one-way street as Russia asks for RCEP membership and waits to be accepted. As things are, ASEAN is no less interested in developing cooperation with Russia. For ASEAN, Russia is one of the key partners in raising its global credentials. The formation of the Eurasian geopolitical and geo-economic space has a strong connectivity dimension, which is exemplified by China's project "One Belt, One Road" (OBOR), Russia's and China's agreement to coordinate OBOR and the Eurasian Economic Union, Russia's plans to develop its transit potential from Asia to Europe, and Russia and the Association's plans to develop links between ASEAN, SCO and

³⁶ Ministry for the Development of the Russian Far East. (2016, February 19). *Minvostokrazvitija priglasjaet japonskih investorov v Rossiju. Ministerstvo Rossijskoj Federacii po razvitiju Dal'nego Vostoka.* [The Ministry invites Japanese investors to Russia.] Retrieved from: http://minvostokrazvitia.ru/press-center/news_minvostok/?ELEMENT_ID=4065

³⁷ Sollers. (2013, February 18). Sollers-Bussan zapustil proizvodstvo Toyota na Dal'nem Vostoke. [Sollers-Bussan started production of Toyota in the Far East.] Retrieved from: <http://sollers-auto.com/ru/press-center/news/index.php?from35=2&id35=673>

³⁸ New Straits Times Online. (2016, May 22). *Summit significant, ASEAN seriously looking at FTA with EAEU.* Retrieved from: <http://www.nst.com.my/news/2016/05/147103/summit-significant-asean-seriously-looking-fta-eaeu>

EAEU³⁹. The connectivity agenda can make the Russian Far East part of an interconnected Asia-Pacific and later a pan-Eurasian continent. Stating that its Asia-Pacific partners will only welcome it, over time this scenario will allow Russia to increase the technologically advanced components of its production, and as a result, to enter Factory Asia.

³⁹ Russia's Presidential Executive Office. (2015, December 3). Poslanie Prezidenta Federal'nomu Sobraniju. [Presidential address to the Federal Assembly]. Retrieved from: <http://kremlin.ru/events/president/news/50864>

Conclusion

Factory Asia is a classic example of the market-driven paradigm of cooperation with extensive regional production networks. De-facto existing technologically advanced value chains provided the foundation for trade in intermediary goods and services which have driven the innovative development of Asia-Pacific countries.

At present, this top-down integration model is being adapted to the Asia-Pacific initiatives of economic regionalism. At this juncture, their success will depend upon the extent to which the foundations for the de-facto exchanges are deepened and diversified. In practical terms, this means that measures aimed to foster pan-Asia-Pacific connectivity have become of paramount significance.

So far, connectivity has the best chance of being developed within APEC and the RCEP. Ample evidence suggests that the future of APEC as a multilateral dialogue platform will depend upon the extent to which connectivity is developed. Concerning RCEP, its advantage is geography, with the supply and production chains covering the key aspects of Factory Asia located within the RCEP territorial area.

Over time, this will help solidify Russia's position in the processes of economic regionalism in Asia-Pacific. Outlining its intention to support the connectivity discourse in regional discussions and policy actions, Russia demonstrated that it and its Asia-Pacific partners are speaking the same language. Now the time has come to substantiate intentions with practical action. There are expectations that it will include exchanges in technologically advanced production stimulated by the further evolution of Territories of Advanced Development.

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Evgeny. A. Kanaev,

National Research University Higher School of Economics (Moscow, Russia). Centre of Comprehensive European and International Studies. Head of Asia-Pacific Section;

E-mail: ekanaev@hse.ru,

Alexander. S. Korolev,

National Research University Higher School of Economics (Moscow, Russia). Centre of Comprehensive European and International Studies. Junior Research Fellow;

E-mail: askorolev@hse.ru

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