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# ECONOMIC ORDER IN THE ASIA-PACIFIC AND RUSSIAN INTERESTS

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## Introduction

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Over the past ten years, the Asia-Pacific region has been the global economy's main center of gravity. The world's leading non-Asian centers of power, the United States and Russia, almost simultaneously announced their turn to the Asia Pacific and proclaimed the region a main foreign policy priority. However, the region's economic order remains unclear, and represents a concentration of diverse and often incompatible projects and regimes, from ASEAN, the region's most advanced integration project, to APEC, the most broad-based and inclusive economic cooperation forum.

On the one hand, all the major Asia-Pacific economies support further liberalization of the region's trade and economic regime. On the other hand, there is no agreement as to what rules and regimes this liberalization should be based on and how deep it should be. At the same time, the Asia Pacific's main power centers, the US and China, seek to shape the economic order in the region to their benefit, so that it mostly reflects their economic interests and geopolitical aspirations.

In recent years, polarization between the United States and China has been the prevailing trend in the region's economy and politics. Both powers have promoted competing projects for the region's economic order. The United States sought to put in its foundation Trans-Pacific Partnership (TPP), an economic community that would be based on the most advanced and stringent trade, investment and economic regulations and would include 12 founding nations, all of which are allies and close partners of the United States.

China was excluded from this project. The Obama administration sought, on the one hand, to consolidate key partners around the US, and on the other hand, to ensure that the rules underlying the economic order

in the region mostly benefit US corporations. These rules would ultimately be imposed on the potential members of the community.

China is keen to base the economic order in the Asia-Pacific region to another project – the Regional Comprehensive Economic Partnership (RCEP) as the foundation of the economic order in the region, which presupposes profound trade liberalization, but does not cover investment and economic policy regulation and excludes the United States.

By the middle of 2016, the US project appeared to be gaining the upper hand. In February 2016, the TPP agreement was signed, while talks to create the Regional Comprehensive Economic Partnership were far from over. However, the new US president Donald Trump, in line with his nationalistic and even protectionist foreign economic policy agenda, withdrew the US signature under the TPP agreement on his first day in office, thus destroying the Obama administration's efforts of the past several years and once again muddling the shape of the future economic order of the Asia Pacific.

The region's future architecture and contents are once again unclear, as is the future US policy on this issue. The Trump administration prefers bilateral trade and economic agreements with the countries in the region. However, it is also possible that the US will return to the TPP in one form or another under the next president after Trump. There is also a possibility that many of the TPP provisions will be included in the US bilateral economic agreements with Asian countries, especially those where there is little threat of outsourcing production due to cheap labor.

What does all of this mean for Russia, which is still a relative newcomer in the Asia-Pacific region? Which of the economic order

scenarios in the Asia Pacific is most beneficial for Russia? Does it stand to benefit from the region's polarization between the Chinese and US projects, and should it join one of them? Can Russia seriously affect the development of the economic configuration in the Asia-Pacific region or even propose its own economic project for the region? Which areas should Moscow focus its efforts on? These and many other issues are raised and discussed in this report.

The report analyzes the approaches of the United States and China, as the Asia Pacific's two key poles, to shaping the region's economic order, and describes in detail Russia's interests in this dynamic region, which has significant importance for its economic development and global positioning.

In his analysis of the US strategy on the economic order in the Asia-Pacific region, Robert Manning, senior research fellow at the Atlantic Council, argues that the creation of an inclusive economic order in the region, reflecting both the US and Chinese interests, is possible, but for this to happen, Washington would need to display flexibility and afford more rights to Beijing and other non-Western players in terms of global economic governance. The TPP rules, according to Manning, should play an important role in this future order.

In their analysis of the Chinese approach, Fudan University professors Chen Zhimin and Song Guoyu emphasize that the regional players and institutions should have the main role in shaping the economic order in the Asia Pacific. According to them, the rules of this order should be aimed at promoting the development of the countries of the region, rather than causing rivalry between them.

Since Donald Trump has assumed the presidency in the United States it

appears that the Chinese initiatives to create an inclusive and open economic order in the Asia Pacific (the RCEP and One Belt, One Road) are beginning to prevail, but the region and China are still facing serious challenges. First of all, there is still potential for a trade war between the US and China. The policy of the current US president on the economic order in the Asia Pacific, just as that of his predecessor, is causing concern in Beijing.

Tatiana Flegontova, Director of the Russian APEC Study Center (The Russian Presidential Academy of National Economy and Public Administration), has presented Russia's comprehensive strategy on the economic processes in the Asia-Pacific region, including detailed recommendations on the approaches toward the RCEP, APEC, One Belt, One Road and other key initiatives that shape the region's economic landscape.

Strategically, according to Tatiana Flegontova, Russia and the Eurasian Economic Union should orient themselves toward, but not limit themselves to, joining the RCEP, and simultaneously continue to work actively within APEC and the Great Eurasian Partnership. The expert believes that Russia should work within the existing projects and initiatives in the Asia Pacific, without trying to offer its own "megaproject," for which Moscow is still lacking sufficient resources and standing in the region.

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## U.S. Strategy and the Evolving Economic Order in the Asia-Pacific

Robert A. Manning

US strategy toward the economic order in the Asia-Pacific is a subset of American global strategy. In the post-WW2 era, it has been, and continues to be (though its future is uncertain given the views expressed by President Trump) pursuit of an open, rules-based order to promote stable, prosperous middle class societies in Asia, Europe and across the globe that trade with and invest in each other. The underlying premise has been that expanding the circle of prosperity would lead nations to develop a stake in the international system and the values and norms therein.

Few would question that the post WW2 global trade and financial system, underpinned by the US security umbrella, has been of immense benefit to the Asia-Pacific, if not a catalyst for its economic miracle.<sup>1</sup> For more than four decades, the region has displayed spectacular economic growth: China's economy grew from a \$202 billion GDP in 1980 to \$11 trillion in 2015; per capita annual income in the ROK went from \$200 in 1950 to \$26,000 in 2015. The Asia-Pacific is a driver of the global economy, with a \$22 trillion economy, nearly 35% of global GDP, and some \$6 trillion in foreign currency reserves.<sup>2</sup>

Yet this very success is also at the center of a global diffusion of wealth and power from West to East, North to South that is reshaping the global system and posing new challenges to the post-WW2 Bretton Woods set of institutions governing the world economy over the past seven decades. Asia's creation of the Chiang Mai agreement in response to its 1997–98 financial crisis was an early sign of this trend. China's assertiveness as an emerging Great Power in the aftermath of the 2007–8 Western financial crisis is also emblematic of this trajectory.

<sup>1</sup> See *Brookings Study*: <http://www.brookings.edu/~media/Research/Files/Interactives/2014/thinktank20/chapters/tt20-asia-economic-growth-ahluwalia.pdf?la=en>

<sup>2</sup> See *World Bank*: <http://data.worldbank.org/indicator/FI.RES.TOTL.CD>

Through growing trade and investment, the US has sought to weave itself more deeply into the economic fabric of the region. That is the logic of the Trans-Pacific Partnership (TPP) trade accord, which has been a key pillar of the US “rebalance” to Asia. US strategy is to more deeply embed itself in the region.<sup>3</sup> The more prominent pillar is security, via deepening and widening its long-standing alliances and burgeoning security network as Asian states bandwagon with the US and each other, hedging in response to Chinese assertiveness. US Secretary of Defense Ashton Carter underscored the strategic importance of trade, saying that in regard to the US “rebalance” to Asia, “passing TPP is as important to me as getting another aircraft carrier.”<sup>4</sup>

TPP would have been a central vehicle to expand the US economic presence in the Asia-Pacific. TPP covers “WTO+” issues (competition policy, intellectual property, government procurement, investment). TPP thus includes issues well beyond tariff reductions such as technical barriers to trade, e-commerce, fast growing and increasingly digitized services – banking and finance, engineering, legal, architecture—as well as environment and labor standards. Many of these are sectors where the US is particularly competitive.

However, the firm rejection of TPP by Donald Trump (and his opponent, Hillary Clinton) in the face of counter-globalization, populist sentiments, leaves TPP at best, comatose, if not dead. It also shuffles the deck in regard to the future of regional trade arrangements. US rejection of TPP constitutes a major blow

<sup>3</sup> See Olin Wethington and Robert A. Manning, *Shaping the Asia-Pacific Future*: [http://www.atlanticcouncil.org/images/publications/Shaping\\_AP\\_Future\\_Digital.pdf](http://www.atlanticcouncil.org/images/publications/Shaping_AP_Future_Digital.pdf)

<sup>4</sup> See Ashton Carter, “Remarks on the Rebalance to Asia,” Department of Defense, April 6, 2015: <http://www.defense.gov/News/Speeches/Speech-View/Article/606660/remarks-on-the-next-phase-of-the-us-rebalance-to-the-asia-pacific-mccain-institute/>

to its credibility in the Asia-Pacific. Nationalist “America First” rhetoric has sparked doubts about Washington’s reliability among US allies and partners in the region. The most prominent example has been Philippines President Rodrigo Duterte’s tilt to China and threats to curb military cooperation and rescind an accord allowing the US access to bases in the Philippines.

Given that much of the US anti-trade views are more emotional than fact-based, exaggerating the role of trade in causing job losses, it is possible that Trump’s formal rejection may not be the end of the story. Some US analysts and in the Japanese government think that by 2019 the shortcomings of Trump’s trade view might lead his administration to revisit TPP fix its deficiencies and put a Trump stamp on it. There is also interest in pursuing a US-Japan FTA, favored by some in Japan.<sup>5</sup> Such developments would mitigate the damage to US interests.

## *Asia’s Coming of Age*

But regardless of Trump’s intentions, Asia’s growing weight in an increasingly polycentric economic order raises questions about some of the core assumptions of US strategy. That the relatively static 1948 Bretton Woods institutions and governance structures no longer reflect the proportionate weight of emerging economic and financial actors in the world of the 21st century was dramatized by China’s launch of the AIIB, its push for the RMB to become a global reserve currency and its pursuit of other parallel institutions like the BRICS bank, known officially as New Development Bank, and not least, by Beijing’s “One Belt, One Road” (OBOR) ‘pivot West’ strategy.

Asian nations are increasingly trading with, and investing in, each other. This is indicative of a larger global trend of burgeoning intra-regional

trade and investment (e.g., Europe, North America, Latin America) altering the dynamics of globalization.

As a burgeoning Asian middle class has grown, consumption of goods and services have risen. The region relies less on US markets, and more on their own. This activity comprises a large portion of the global supply chains and trade and financial flows that define globalization. In 2013, intra-Asian trade exceeded 53% of the region’s total trade.<sup>6</sup> Inter-regional trade between emerging economies – South-South trade – evident in China’s trade with Africa and Latin America, and a large and growing energy nexus between Asia and the Middle East. . China’s “One Belt, One Road,” promises to strengthen intra-Asian connectivity and that of Eurasia more broadly.

While largely the result of market-driven integration, this pattern is also reflected in a growing number of bilateral and multilateral trade agreements between regional trading partners, according the WTO, over 524 of them.<sup>7</sup> These trends have given rise to the BRICS (Brazil, Russia India, China South Africa) an unlikely grouping united in their impatience with the status quo. For the US, it is indicative of the weight of the balance of forces tilting against Washington: even as US trade and investment in Asia grows in absolute terms, it is diminishing in relative terms, as the region is growing faster than the US.

It is only natural to wonder how much of China’s behavior has been due to frustration at the inability of the Bretton Woods system to adequately reform, how much is a hedging strategy or whether it reflects Beijing’s hopes for a Sino-centric world. One stark example of the international system’s inertia is the International Energy Agency (IEA) which was created by OECD energy-consuming nations in the aftermath of the 1973–74 energy crisis. Today, China and India, the two largest drivers of growth

<sup>6</sup> See WTO statistics, 2014: [https://www.wto.org/english/res\\_e/statis\\_e/its2014\\_e/its14\\_world\\_trade\\_dev\\_e.pdf](https://www.wto.org/english/res_e/statis_e/its2014_e/its14_world_trade_dev_e.pdf)

<sup>7</sup> See WTO statistics: [https://www.wto.org/english/tratop\\_e/region\\_e/regfac\\_e.htm](https://www.wto.org/english/tratop_e/region_e/regfac_e.htm) Member-states are obliged to notify the WTO of FTAs.

<sup>5</sup> Both METI officials and Japanese think-tank analysts have raised the FTA idea in conversations with the author.

in energy demand over the past two decades, are not members. Though the IEA has made efforts to work with both Beijing and New Delhi, it has failed to make the necessary structural changes to modernize the IEA such that it reflects current energy realities.

If the 2010 G-20 reforms of the International Monetary Fund had not been blocked by the U.S. Congress (not passed until 2015) – leaving China with voting shares equal to those of France, even though its economy is five times larger – and if the Asian Development Bank had been reformed to give China a larger role, would Beijing have gone ahead with the AIIB?

### *US Scoring ‘Own Goals’*

The political inertia of international economic institutions and deficit of proactive US leadership to remodel the system to reflect current geoeconomic realities is part of a larger US political dysfunction epitomized by a polarized US Congress that has passed a record dearth of legislation. Beyond the fate of TPP, neither Trump nor many in the new Republican-controlled Congress are strong supporters of the Bretton Woods and related institutions. US rejection of TPP would undermine US credibility and likely be an inflection point marking a downward trajectory in Asian perceptions of the durability of the US commitment to the region.

To ensure durable economic prosperity in the Asia-Pacific, the region’s institutions must have broad support among its major constituent countries. Otherwise, these structures will be unstable. The U.S. should be prepared to accept new institutional frameworks that operate on standards compatible with those now in place and which are inclusive. As a Pacific but not an Asian power, the U.S. need not participate in all regional arrangements. After all, the U.S. has the North American Free Trade Agreement, and Europe has the European Union. Institutional initiatives with high standards should be welcomed.

Major multilateral economic and financial institutions with proven track records have facilitated growth and development over the past 70 years, and reliance on them continues, – particularly if they adapt to new realities. The system has shown some ability to make adjustments in policy and country representation: The US did finally approve the G-20 reforms giving China and other emerging economies larger votes in the IMF; The G-20 role in global financial governance was elevated after the 2008 financial crisis in which it played a critical role; The RMB has been added to the IMF basket of global currencies known as Special Drawing Rights, and given substantial weight.

### *Maintain the Foundations*

The prospect remains that the U.S., China, Russia and other major countries, such as Japan, South Korea and the ten in ASEAN, can find common ground within an inclusive, open, rules-based economic order. Trade is not a zero-sum game. If the TPP (or its successor), various US, EU and Japanese investment treaties with China, and the EU-Japan Free Trade Agreement are realized, they will create benchmark norms of higher standards for a majority of global trade. If not, the Regional Comprehensive Economic Partnership (RCEP) – which China is promoting and includes, Japan, South Korea and India, but not the U.S. – will shape the trade architecture in the region.

As China implements its market-based economic reforms, it will benefit from higher standards for trade. In any case, new rules for trade covering digital commerce, Intellectual Property Protection, and emerging new technologies will be needed, whether under TPP or other mechanisms. If some revised version of TPP is realized, China should be welcomed as a member – as soon as it is prepared. If not, the RCEP might serve as the stepping stone to the APEC vision of an



FTAAP evolving by the 2025–2030 period could be realized. Russia, as a WTO and APEC member, could participate in any such arrangements.

In the finance realm, despite its initial fears, the US is coming to terms with the AIIB. The AIIB initial loans – for OBOR infrastructure loans in Pakistan and Central Asia – were co-financed with the ADB. So far, AIIB appears more just another regional MDB, like the ADB, than it does a challenge to the international system. If Japan joined the AIIB, it would gain leverage in shaping that institution and forging strong ties to the ADB. While it is unlikely that Congress would allocate the funds to join AIIB, the US could become an observer.<sup>8</sup>

Similarly, the rise of the RMB and Asian financial cooperation via the Chiang Mai Initiative Multilateralizations (CIMM) with \$240 billion in currency swap funds is linked to the IMF surveillance system. Speculation about it evolving into an Asian Monetary Fund (AMF) appears at most, premature. However, if the next major financial crisis is generated externally from the West, it is possible to imagine the CIMM evolving into an AMF.

Asians are fearful that the wheels of history are turning and that the U.S. role is unlikely to continue, at least in its current form. They are concerned about safeguarding their interests and avoiding future shocks, such as a repeat of the 1997–98 financial crisis.

This requires that both U.S. and Chinese leaders understand the difference between what they would prefer to have and what they need to have. To adapt an open regional and global trade and financial system to the 21st century requires modernizing the Bretton Woods system, it must give emerging economies a stronger sense of enfranchisement. This necessarily entails accepting a larger footprint for China, India, Brazil and others, often at the expense of entrenched interests. U.S. leadership and G-7 adaptability will be an essential ingredient in achieving this transition.

<sup>8</sup> See the *Financial Times*: <https://next.ft.com/content/a36af0d0-05fc-11e6-9b51-0fb5e65703ce>

## Conclusion

Thus, in regard to the economic order, it is not difficult to envision an accommodation of US and Chinese interests. China has worked within the WTO system.

Nor is China challenging the IMF. The Asian Infrastructure Investment Bank, which some feared Beijing would push as an alternative to the Bretton Woods system, appears to be on a trajectory to define its structure, governance and transparency as being compatible with the World Bank and Asian Development Bank. Clearly the ‘win–win’ vision of an integrated, inclusive Asia Pacific economic order is feasible, if not already taking shape. While Asia is seeking to reconfigure the system to better reflect their interests and growing weight, here is little appetite to overturn the existing order and roll the dice on alternative arrangements. China and other emerging economies seek a role as rule-makers, not just passive rule-takers.

In any case, there are several problematic factors that could lead to scenarios other than one of an inclusive, open rules-based order. First is a question about US willingness to pursue its enlightened self-interest in accommodating the trends and dynamics discussed above.

In addition, there are countervailing dynamics in the Asia-Pacific: while in the economic sphere the trend continues to be toward more trade/investment integration, both intra-Asian and trans-Pacific; in the political/security sphere the trend is toward security dilemma behavior – rising nationalisms, arms races, and confrontation.<sup>9</sup> As economics is not a zero-sum game, it is not difficult to see competing agendas reconciled; security, however, is a dangerous wildcard. In particular US-China strategic competition is not abating. After all, the earlier stage of globalized economic integration was fatally interrupted by the Guns of August, 1914.

<sup>9</sup> See Evan Feigenbaum and Robert A. Manning, “A Tale of Two Asias,” *Foreign Policy*, Oct. 31, 2012

<sup>h</sup><http://foreignpolicy.com/2012/10/31/a-tale-of-two-asias/>

## Asia-Pacific: a Chinese Perspective

Chen Zhimin, Song Guoyou

Asia-Pacific is the most dynamic region in world economy, and an inclusive, open, cooperative and pro-development economic order in the region is of vital importance to China. An inclusive order calls for wider regional arrangements which can include all regional economies, as the Free Trade Area of the Asia-Pacific (FTAAP) initiative envisaged. An open economic order requires all regional economic arrangements to be WTO-compatible or WTO-plus, and do not discriminate non-members in the region. It should be a cooperative order which facilitates cooperation among nations in the region, rather than intensify rivalry among regional great powers. Most of all, such a regional economic order should be pro-development, giving new impetus to growth momentum to all economies in the region, particularly to the developing ones in the Asia-Pacific. Under such an order, China hopes to see every economy can find its own right place, and benefit from it through intensified economic cooperation.

Such an order rests on economic rules. For China, regional economic rules should reflect the wider global trends in economic rule-making, while respect the national and regional economic conditions. China does see the urgent need to develop a more open economic order in the world as well as in the region, in the context of growing protectionism and the election of new US President Donald Trump who decided to pursue a inward-looking and protectionist economic policy. Therefore, in its pursuit of bilateral and regional free trade agreements, China supports to set up higher standards for these arrangements and to cover wider aspects of economic relations.

In shaping regional economic rules, regional institutions play a central role. China

seeks to build them in an inclusive fashion, that is why China made efforts to push for a wider FTAAP during China's host of APEC summit. Beijing also believes that these institutions should mainly serve the purpose for regional cooperation and development, not as instruments for power rivalry. Moreover, China, being the second largest economy in the world and in the region (if calculated in exchange rates), or even the first largest economy (if calculated in purchase power parity) would also expect a major role in the regional institutions.

Just in the past year countries in Asia Pacific have been engaging in a contest of economic rule-making, with the Obama administration pushing for a 12-nations high standard trade pact, the Trans-Pacific Partnership (TPP), aiming to set economic rules for the region. This TPP endeavor, for obvious reasons, was not welcomed in China. China did not like the creation of an economic bloc which intentionally excluded China, and China also did not believe TPP's high standards of economic rules will always be good rules, if such rules are not conducive for the development in the region. If the theoretically good rules cannot adapt to the reality of the economies in the region, then we should respect countries' rights to choose different rules instead of imposing some rules upon them.

As the TPP agreement was reached in October 2015 and signed in February 2016, a debate on how Beijing should respond to it was intensified. Public opinions on TPP in China were divergent. Some scholars thought that TPP and concrete provisions and regulations it introduced represented the trend in international trade, and could promote further opening up and reform in China;

therefore, China should learn from it and join it in the future. Yet another and a much bigger group of people argued that TPP was essentially a tool for the United States to reshape the economic order in the Asia-Pacific region, and by excluding China in the first place, TPP was a rule-club targeting at China. Nevertheless, even this kind of negative perception of TPP did not argue that China needed to worry too much about the emergence of the TPP economic bloc. On the one hand, Chinese tend to believe that, with the increase of influence in regional economy and China's expanding domestic market, a TTP without China would not serve as the only economic option for all members of the TTP, including the United States itself, let alone for other smaller economies. Furthermore, TTP itself would have had huge hurdles to overcome in order to make it effective, considering the adverse attitude towards free trade in the United States, and the uncertain economic impacts on its other members.

Partly as a response to the TPP, Beijing has been working on a number of initiatives in building a more inclusive and cooperative regional economic order. One effort is to support the Regional Comprehensive Economic Partnership (RCEP) negotiation. Even though RCEP started later than TPP, it is regarded by China as an important attempt to deepen Asian-Pacific economic integration, to open up their markets further to each other, remove more trade and investment barriers among sixteen countries in the region, including the China, India and Japan.

Certainly, China's "One Belt One Road" initiative is another development in shaping regional economic order. Through deepening economic relations with maritime Pacific Asian countries and large number of countries on the Eurasian continent, China has focused on project-based economic

cooperation with countries along the Belt and the Road, established bilateral FTAs with key economies in the region, such as Australian, Korea, Singapore and New Zealand, upgraded the existing FTA with ASEAN, created new international financing institutions to meet the wider regional demands for funding in infrastructure building. Such an approach may be more in line with the immediate interests of the countries in the region, and thus may generate more fruitful and substantial benefits for China and other countries to ensure a win-win relationship.

The election of Donald Trump, who has been criticizing the TPP project throughout his campaign, marked a sudden and dramatic shift of American foreign economic policy. President Trump decided to pull the US out of TPP on the 1<sup>st</sup> working day in the Oval office, which changed the economic landscape in the Asia-Pacific. Even if countries like Japan still wants to keep the TPP, a TPP without the United States is not conceivable and is meaningless. For China, it is comforting to see a project which excluded and targeted China is dead for the moment, and many countries in the region starts to give more urgency to reach an early conclusion of the RCEP negotiation, a project which China strongly favors and supports. Furthermore, as the United States is becoming more economically inward looking and protectionist, China's "One Belt and One Road" initiative is attracting more interests from the neighboring countries. In a word, in Asia-Pacific, China's view of a regional economic order is becoming more popular than before.

However, there are a number of concerns China should take very seriously. The first is the potential major trade conflict between the United States and China. President Trump has pledged during the election

campaign that he would impose additional tariff on imported Chinese goods and label China as a currency manipulator if elected. Now as he is in the White House, China and the rest of the world would watch very carefully if president Trump acts as he pledged before. Certainly, China does not want a trade war with the United States, which is bound to be a “lose-lose” game for both economies and economies highly interdependent with China and the United States. And it would be still possible that president Trump would not launch a full-scale trade war with China, considering the huge stakes it involves. Such a trade war between two largest economies in the world would shake the very foundation of an open and inclusive economic order in the region, which will be in no countries’ interests.

Second, even if a full-fledged trade war is absent, economic tension will still run high between the United States and China, casting a long shadow over the prospect of economic development and cooperation in the region. We have to see how the two countries will manage their economic relations in the coming months.

Third, we also need to be cautious about the prospect of the RCEP negotiation. For instance, Japan, a staunch supporter of the TPP out of strong counter-China strategic motivation, may not be willing to facilitate an early conclusion of the RECP negotiation.

The Asian-Pacific economic order is undergoing major shifts. As the TPP fading away, and the Trump administration’s trade policy is in the process of taking shape, uncertainty is the only word to describe the current situation in the region. Few people have anticipated such a U-turn of American foreign economic policy, from a neoliberal fashion towards a protectionist one. Clearly,

China did not like the Obama’s neoliberal order in the sense that it tried to make new trade rules for the region, which China was not ready for. China is also not welcoming the Trump policy that is negating the whole concept of free trade, which might jeopardize the very foundation of an open economic order in the region, and trigger potential trade wars between major economies.

This uncertainty indicates the presence of competitive economic orders in the making in the region. Such a competition could be positive if they could generate new development opportunities, inspire best practices. However, as we are witnessing a trend towards a possibly more malign competition, countries in the region shall avoid a race-to-bottom competition, which would hurt each other economically and further erode strategic trust in an already fragile regional order. Therefore, the United States and China do have a major responsibility to manage their economic disputes and to ensure an overall cooperative economic relationship. That will be a tremendous challenge for them in the coming months and years.

In addition, China believes that Asia-Pacific is a vast area with many important nations in it. Neither China nor America alone can decide the economic order of this region. Russia, Japan, ASEAN and other countries are all important forces in shaping the future economic order. For building a new economic order in the region, participation and contribution from other economies are necessary. The cooperation between China’s “Belt and Road” initiative with Russia’s Eurasian Economic Union could be beneficial in this regard, and both China and Russia could think seriously of the idea of Russia-China FTA in the coming years.

## Russia's Approach and Interests

Tatiana Flegontova

Economic integration processes in the world today tend to be comprehensive and global in nature, striving to bring about new forms and rules for trade and economic activity on global and regional levels. These trends have taken on a special significance in the Asia Pacific Region.

Regional economic heavyweights seek to shape the global architecture to their liking, which further increases the complexity of the global economy and challenges its connectivity. The major regional integration projects in the Asia Pacific as of today are the Regional Comprehensive Economic Partnership (RCEP) based on ASEAN+6 with China's active support, and, until recently, the Trans-Pacific Partnership (TPP), which was to be an economic block in Asia Pacific formed with the US leading role. One of the very first decisions of the new US President Donald Trump was to sign an order to withdraw from the TPP, thus triggering many speculations about possible development of integration processes in Asia Pacific and the fate of the agreement. There are also cross-regional projects of a different kind, such as China's "One Belt– One Road" initiative originally aimed at upgrading Eurasian logistics infrastructure, but also having profound trade, economic and geopolitical agendas.

In general, there are two key dimensions in regional economic cooperation. The first is regional economic integration. The key regional blocks include Eurasian Economic Union (EAEU), ASEAN, NAFTA, the Pacific Alliance, TPP (if it is implemented in this or that form) and RCEP. The second dimension are the initiatives consisting of specific projects to promote inclusive connectivity. For example the "One Belt– One Road", the Extended Tumanan Initiative (ETI), the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), APEC and ASEAN. The region also has a number

of structures that serve as platforms for exchanging experience and information. These include the Shanghai Cooperation Organization (SCO), BRICS and APEC. While lacking the capability to serve as negotiating platforms, they provide fertile ground for nurturing new ideas.

In the current geopolitical environment and with regional initiatives picking up steam, Russia faces a number of obvious risks. On one hand, these are political risks that boil down to certain countries gaining ground in territories that Russia used to view as its geopolitical priority (Central Asia) and the deteriorating relations with the West. On the other hand, there are purely economic risks. The emergence of major economic blocks to deal with issues that go beyond the agenda of the WTO and other international organizations and the transition from multilateral to regional arrangements against the backdrop of a deadlocked DDA could potentially result in consolidating regional preferences through multilateral negotiations, creating and formalizing new trade rules. This in turn would impose new regulations on non-members, including Russia, as well as preserve production and value chains based on existing regional arrangements. If Russia does not participate in these arrangements, it will be kept out of those chains, which are necessary for its economic development.

Russia's integration agenda, consisting above all of strengthening and expanding the EAEU, looks in the current situation uncompetitive compared to the ambitious projects of the RCEP and the TPP (if it eventually survives without the US or is reestablished in this or that form with Washington's participation). The "One Belt– One Road" initiative competes against Russia's project to upgrade the Baikal-Amur Railway and promote navigation along the Northern Sea Route in terms of infrastructure development and investment. Thus, Russia clearly

needs to step up its “pivot to the East” policy, provide it with substance and, most importantly, devise its own strategy for becoming part of regional geo-economic architecture.

Taking into account the two major dimensions of trade and economic cooperation mentioned above, it is necessary to divide the recommendations for Russia into two blocks as well. The first is regional economic integration through non-preferential, preferential agreements and FTAs with leading regional partners. The second is developing a proactive agenda to strengthen regional connectivity.

As for the first – integration – dimension, recommendation is the following. Given the fact that multilateral cooperation is gaining momentum in the region, it seems advisable for Russia and its EAEU partners to join one of the mega-regional integration projects in the long-term prospect. RCEP appears to be more relevant and acceptable for Russia compared to the TPP, especially considering its uncertain future. In fact, RCEP is less ambitious in terms of mutual trade liberalization, the possibility to operate the agreement as a living document, as well as the general propensity of Russia and its EAEU partners to promote political cooperation with RCEP members, including China and ASEAN member states. A simulation of the consequences of EAEU becoming part of each of the two blocks has shown that joining RCEP would lead to higher GDP growth for EAEU countries compared to TPP.

Remarkably, the fact that Russia seems to prefer RCEP has been confirmed at the official level. According to the final documents of the May 2016 ASEAN-Russia Summit and statements made by the Russian President following the event, Russia will explore ways to join RCEP. They also said that creating an EAEU– ASEAN FTA could become a major contribution by Russia and the EAEU to Regional Comprehensive Economic Partnership.

Still, Russia should not rush to join the RCEP formally. Since Russia joined the WTO

only recently, and taking into account its current commitments, it seems advisable to adopt a step-by-step approach in terms of joining the integration processes in the Asia Pacific.

Speaking of specific steps, before joining RCEP Russia and EAEU should enter into an FTA with ASEAN. The EAEU-Vietnam FTA entered into force on October 5, 2016. Depending on its effectiveness decisions to further liberalize trade with other ASEAN countries could be made. It is important to note that many representatives of economic ministries of the ASEAN countries, most of which had already shown interest in stepping up integration with the EAEU, supported during the 2016 Sochi Summit Russia’s ambitious initiative to establish an EAEU-ASEAN free-trade area.

There is a need for enhanced cooperation with other RCEP members as well, primarily South Korea and China. In this respect, it seems advisable to sign broad non-preferential agreements with a focus on economic cooperation. The main areas of cooperation could be to explore liberalization opportunities, assess opportunities for trade facilitation and rules harmonization, and identify sectoral and industrial cooperation opportunities.

A number of initiatives to this effect are already in place. Russia is proactive in its contacts with South Korea. In addition, the Eurasian Economic Commission’s Trade Minister, Veronika Nikishina, and the Chinese Commerce Minister, Gao Hucheng, signed a joint statement July 25, 2016 on the start of talks to establish a non-preferential EAEU-China partnership. Ms. Nikishina said the talks covered a “broad agenda leading to advanced agreements on non-tariff matters and on mutual trade facilitation. Duties and tariffs will also be discussed at a certain point, but it is so far too early for that.”

Gradually advancing toward full mutual liberalization of trade could make it easier for Russia and EAEU to join RCEP and minimize potential shortcomings. Entering into several or

at least one FTA with RCEP members, shaping a common position on issues debated within WTO and possibly joining any plurilateral agreements (GPA, ITA-2, TISA, EGA)<sup>10</sup> could have a positive impact not just in terms of reduction of tariff protection, but also help to improve domestic economic regulations. These changes, in turn, will strengthen Russia's bargaining position in RCEP talks, securing better terms for Russian and EAEU accession to the Partnership.

As for Russia's and the EAEU's relations with the Pacific integration associations as such, the primary objective should be to liberalize trade and investment with ASEAN by having the EAEU sign bilateral FTAs with individual ASEAN members— Indonesia, Malaysia and Thailand, since cooperation with these countries has the biggest economic impact. Besides it is desirable to consider creating an FTA with India, who is also involved in RCEP negotiations, and some countries of the East. It is also important to step up efforts to sign broad non-preferential agreements focusing on sectoral cooperation and harmonization of regulations with those key regional partners with whom EAEU (because of a number of things, including the often contradicting interests of its member states) is not yet ready to sign full-fledged agreements on trade and investment liberalization.. This is the case for China and South Korea first and foremost. Moving along all these tracks at the same time will serve as a foundation for the EAEU members' accession to RCEP and facilitate active participation of Russia and its Eurasian integration partners in the key integration processes in the Asia-Pacific, as well as guarantee the overall success of Russia's turn to the East strategy.

Still, Russia should refrain from placing all of its stakes on RCEP only. After Donald Trump's

decision to withdraw from the TPP, Japan, Australia and New Zealand, who participate in both blocks, will be seeking to impose on their RCEP partners higher TPP-level standards. There is no way China will accept this. It is also worth noting that India stands apart in this respect. It has the most closed economy compared to the other parties in the talks, and does not seem to be inclined to move towards greater liberalization.

In this situation, using APEC to set up a Free Trade Area in Asia-Pacific (FTAAP) could provide Russia a promising, if not a strategic avenue for bolstering its involvement in the integration processes in the Pacific. There is however an issue in that APEC economies currently lack a common vision for FTAAP' development prospects. Until recently, the 12 APEC economies that had signed the TPP agreement were focusing on its ratification and considering that the FTAAP's role should be limited to capacity building. Whereas China being a non-TPP country insists on setting up FTAAP as a viable negotiating platform. In fact, China wants the final part of the Collective Strategic Study on Issues Related to the Realization of the FTAAP to clearly designate 2020 as the deadline for launching the relevant talks. It is now unclear how the remaining TPP participants will evolve their positions provided the US withdrawal from the agreement, and how the US approach to this project will evolve.

In time the FTAAP could well become the centerpiece of China's strategy to reinforce its positions in terms of regional integration, especially given the lack of progress in China's talks in the ASEAN+6 format (RCEP). As already mentioned above, seven of the parties who have already signed on to the TPP, are now seeking to bring future RCEP arrangements in line with higher TPP standards, and are very likely to intensify these efforts even further after the US withdrawal from the TPP. This does not suit many developing countries participating in the RCEP negotiations, including China.

<sup>10</sup> GPA – Agreement on Government Procurement; ITA-2 – Information Technology Agreement; TISA – Trade in Services Agreement; EGA – Environmental Goods Agreement.

For FTAAP to be regarded by Russia as a more welcoming negotiating platform, its APEC partners have to recognize the EAEU as an important regional body with a stake in shaping a new economic architecture in the Asia-Pacific. As for now much of the trade-related issues have already been transferred by EAEU countries to the authority of the supranational Eurasian Economic Commission (EEC). Foreign partners initially struggled to frame the EUEU as a vehicle Russia could use to secure a spot in FTAAP, since the majority of EAEU members were closer to Europe than the Asia-Pacific (Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia). However, Asian partners are beginning to realize that the EAEU's experience should be taken into account when building the FTAAP. Overall, EAEU recognition within APEC could serve as an impetus for Russia and its Eurasian integration partners to become involved in regional integration processes in Asia Pacific.

In terms of a strategic vision for stepping up regional cooperation, special attention should be given to the “Greater Eurasia” project or “Bigger Eurasian Partnership”, which Russia proposed in 2016. This concept was offered by Vladimir Putin at the Saint-Petersburg Economic Forum in June 2016 and approved at the level of heads of state at the Eastern Economic Forum in Vladivostok in September the same year. However, the technical details of this strategy have yet to be developed. It is important to understand that countries participating in the “Greater Eurasia” project could face issues in terms of leadership, satisfying the interests of all the participants and aligning various institutional formats that coexist within Greater Eurasia. This should be an exclusive Russian national initiative aimed at bringing together existing and future cooperation initiatives.

Equally important is intensifying Russia's participation in the second dimension of economic cooperation in Asia Pacific – developing regional

connectivity, including physical, institutional and people-to-people linkages.

Efforts to promote physical connectivity should be aimed at diversifying global supply chains, including the integration of Russia's transit capabilities in the Pacific transport and logistics systems so as to replace or supplement existing routes; stepping up trans-Eurasian transport links between Europe and Asia; developing Siberia and Russia's Far East (relying on regional initiatives such as the “One Belt– One Road” project or the Extended Tumangan Initiative).

“One Belt, One Road” is an economic project, involving not only physical infrastructure issues, but also creating opportunities to promote industrial cooperation within regional value chains. There are currently a number of promising areas for expanding industrial cooperation among the key players involved in the “One Belt– One Road” project, which is attributable to the competitive advantages offered by its potential participants. For instance, Russia is competitive and established in the chemical, engineering, metallurgy, pulp and paper sectors, heavy industry-related services and IT, which could help Russian producers to gain a foothold in the markets along the “One Belt One Road” and move up the value chain.

It is important to realize that the effectiveness of value chains depends not only on industrial policy, but also on trade policy, which includes tariff and non-tariff barriers, trade facilitation, and harmonizing specific horizontal and sector-specific regulations. In this context, measures that have already been implemented by the EAEU and are expected to be carried out in the future could enhance institutional connectivity within the “One Belt, One Road” project and provide a foundation for further cooperation. This substantially strengthens attractiveness and promising nature of aligning the EAEU with China's “One Belt– One Road”



initiative, including efforts to devise a roadmap of hands-on projects and mechanisms for implementing them.

It is vital to ensure Russia's involvement into recently established investment banks, including the BRICS New Development Bank and the Asian Infrastructure Investment Bank. Structure-wise AIIB has all it takes to compete with the Asian Development Bank and the World Bank successfully.

There is also a third dimension to Russia's turn to the East policy, which consists of stepping up efforts within various international platforms,

including APEC, BRICS, the SCO and the G20 by both participating in various projects and shaping a common strategy on the key cooperation areas discussed at these forums.

Specifically, Russia updated its APEC agenda in 2016 by putting forward a number of new initiatives regarding enhancing public procurement efficiency, e-commerce, SMEs promotion and human capital development. Russia can rely on its updated APEC agenda to promote its interests in a number of international frameworks, including the ASEAN-Russia Dialogue Partnership, G20, BRICS and SCO.



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