

TRENDS OF ECONOMIC INTEGRATION WITHIN AND BETWEEN REGIONS

Bazar Sanjmyatav²²
Perenlei Undarmaa²³

Abstract

Integration within and between regions is becoming the main trend of development in international economic relations. Regional integration has known an increasing trend due to development and the reduction of cost of transportation and communication, tariff reduction, lesser trade barriers, and liberalized labor migration. In the beginning phases of integration, countries within a region worked on trade and economic cooperation. In the current stages, regional integration is being expanded even further.

Keywords: economy, trade, integration

In the current globalized world, economies of the states are becoming more integrated with one another and their development pertains to each other. Regional integration has been increasing due to development and cost of transportation and communication, tariff reduction, lesser trade barriers, and liberalized labor migration. Since 1990, regional trade and economic integration have developed rapidly. Formed regional integration groups have been working together since 2000. It shows a future trend of new development in regional integration groups. In the beginning stages of integration, countries within a region worked on trade and economic cooperation. In the next stage, regional integration is currently being expanded into cooperation between regions.

Therefore, integration within and between regions is becoming the main trend of development in international economic relations.

Regional trade, economic integration, and their primary conditions

²² Ph.D. Professor, Head of Department of International Relations, School of International Relations and Public Administration of National University of Mongolia

²³ Doctorate Student, School of International Relations and Public Administration of National University of Mongolia

International trade and economic integration are initiated by government agreements in order to approximate their enterprise mechanisms, create unified business environment, and develop at the same pace. The management of their cooperation is usually carried out by organizations that were created for this purpose.

Thus, trade and economic integration within and between regions are directly dependent on government policies and mutual understanding between countries.

Regional trade and economic integration has following stages depending on how deeply the participant countries work with each other:

- Trade preferential zone,
- Free trade zone,
- Customs union,
- Economic union.

When countries participate in regional economic integration and deepen their cooperation, the states aim to accomplish the following:

- Expanding the economic and market size, which creates opportunities to bring investment and heighten the effect.
- Creating political and business stability / strengthening the common trust between countries.
- Adjusting the economic structural change to regional development trend with increased effects.
- Sustaining further integration which creates the possibility to use the region's resources, materials, human capital, and bigger market.
- Creating more suitable conditions for the stakeholders domestically, and protecting them from competitors of third countries as a result of a deeper cooperation between the countries.

Economic integration differs from other trade and economic cooperation in the following ways (Sanjmyatav 2015: 160-161):

- Amid integration, economies of the states blend with each other and increase the process of production.
- In the production, technological, and science sectors of the countries, the process of cooperation, specialization, and differentiation actively occurs.
- As a result, regional production value chain occurs creating change in economic structure.
- In order to administer these events, the stakeholders make unified management and regulate their policies relatively.
- Economic integration usually occurs between countries that are located close to each other geographically.

Consequently, regional integration provides the friendliest atmosphere of international trade, in other words trade without tax, avoidance of customs bureaucracy, unification of standards, and opportunity to expand the market for the participant countries as well as connecting to infrastructure of the other countries in the region, and developing with the support of other countries' common wealth, raw materials, labor force, capital, and leading technology. In the region, markets integrate and expand while production and foreign investment increases.

By joining regional and international integration, countries with small economies mitigate their vulnerability. Subsequently, the countries get the opportunity to expand their market, increase their production, and receive or exchange products that are expensive to produce or not produced domestically in a reasonably cheaper way. In addition, regional cooperation reduces transportation costs and investment risk, and affects increase of the investment margin. It supports companies to boost their productivity and interest to invest (World Development Report 2005: 65). Another feature of customs union and free trade zone is that products or services without competitive capacity in the world market can have opportunity to be competitive within certain customs union or free trade zones. Also, World Trade Organization permits developing countries to be able to receive some exemption and assistance related to their development.

If the following condition precedents are assembled, regional trade and economic integration can expatiate

On the occasion of integration between countries with comparable development level, the market can supplement each other. If the countries with different degree of development partake in integration, it creates circumstance where developed countries can assimilate the countries with lesser economic development.

Geographically, the countries should be adjacent.

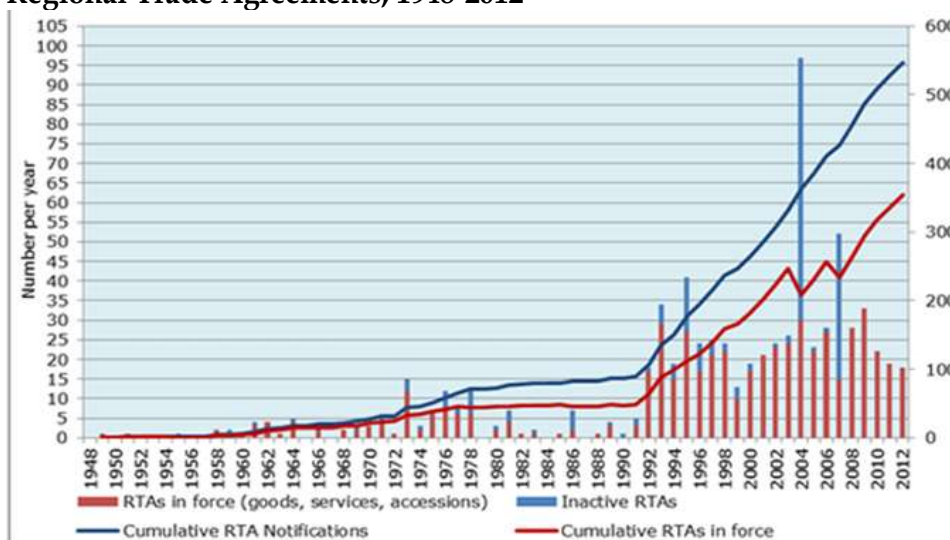
Economic interests of the integrated countries should be similar and willing to cooperate in decision making.

At present, the process of regional trade and economic integration determines the trend of world economy. Figure 1 demonstrates this process.

As of January 15, 2016, 419 regional free trade agreements are effective out of 622 that were initiated. 90% of these agreements are free trade agreements and 10% are about customs unions. Moreover, there are several pending free trade agreements at the negotiation stage. This trend has been increasing rapidly in the recent years. For instance, 123 free trade

agreements were recorded between 1948 and 1994. Nonetheless, approximately 500 service trade agreements have been recorded since the establishment of World Trade Organization in 1994. The trend is illustrated in the following figure.

Figure 1
Regional Trade Agreements, 1948-2012



Source: WTO, www.wto.org/RTA

The legal environment of regional integration is based on multilateral agreements of World Trade Organization and multilateral arrangements. Member states of WTO are regulated to follow “Principle of most favored nations” according to Article I of 1947 General Agreement on Tariffs and Trade, and have no discrimination towards other members. However, the memorandum to explain Article 24 of 1947 General Agreement on Tariffs and Trade (Multilateral Trade Agreement 2000: 31) conformed to **create free trade zone between certain countries and participants that are not obligated to provide advantages that are given to one another to other members in order to deepen regional integration between countries and encourage development.**

Measures to create trade preferential legal environment and eliminate trade barriers regulated amongst customs unions and free trade zones becomes the basis for multilateral trade agreements that would originate from WTO. Correspondingly, declaration of WTO member states’ ministerial meeting held in Doha in 2001 asserts, “Regional trade agreements play vital role in freeing and expanding the trades as well as accelerating development” (Qatar Conference Declaration 2001).

Trade and Economic Integration between Regions

Since the beginning of this century, countries have been expanding regional integration and dilating regional cooperation. It is feasible to say this process has the following reasons:

- Countries or regions became unable to solve bigger world issues. Hence, regions had no choice but to work together.
- Throughout the world, natural wealth/resources are growing scarce resulting in dominant suppliers and consumers establish long term collaboration.
- In order to deliver raw materials and parts for final products that are needed for production and service to the desired destination in timely manner, it became essential to connect and develop infrastructure.
- For the purpose of enhancing product competitiveness and reducing cost, joining global production and value chain became imperative.
- Nowadays, time equates to money. Therefore, developing international cooperation became necessary to decrease bureaucracy, create prompt service, reduce price, and immediate customs service.
- To utilize conditions to improve governance, transparent decision making, and foreseeable decisions, common effort is required to establish and enforce international standards.

Nowadays, **internal regional integration among developed and developing countries is coming to an end**, which leads to development in integration between regions. The following examples can demonstrate this trend:

- World's biggest economies, European Union and the United States, have been negotiating since 2013 in order to set up Transatlantic Trade and Investment Partnership which is currently at its final stage. If this agreement is established, it will cover 40% of the world economy (Malstrom 2015).

As stated by EU trade commissioner Karel De Gucht regarding the purpose of above agreement, "Today's decision sends an important signal to people across Europe that we are united in our determination to create jobs and strengthen our economies on both sides of the Atlantic. Our aim is to release the untapped potential of a comprehensive transatlantic trade and investment partnership (TTIP) by bringing our economies closer together than ever before. We will achieve this through increased access to the US market, by working with the US towards setting global standards and by

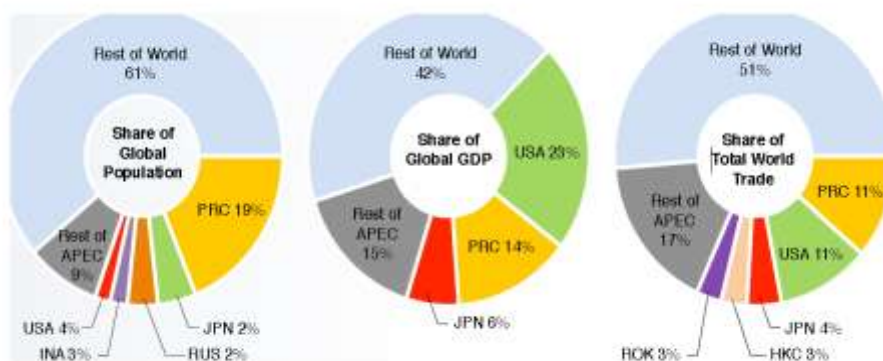
greater compatibility between our respective regulations” (Press Release of the EU Commission 2013).

In 2006, EU conducted 24.8% of its total trade in other tax-free zones. This index increased to 35% in 2015. If the current agreements settled successfully, this indicator will be 66.4% which can bring a growth equivalent to 2% (€ 250 billion) of EU GDP. Currently, EU is in the process of negotiating approximately 20 agreements with 60 countries or groups from Asia, Africa, and America. As a result of EU free trade agreement with South Korea, EU export to the South Korea increased by 50% (Malstrom 2015).

- Within the scope of Asia-Pacific Economic Cooperation, 21 economies of Asia and Pacific have set out an objective to achieve Free trade zone. Following chart illustrates current world economic share of APEC member states on scale (APEC in Charts 2015: 4).

Chart 1

World Economic Share of APEC Members on a Scale, 2014



The chart shows APEC member countries consist of 40% (2.8 billion people) of world population producing 57% (44.1 trillion USD) of world GDP, trading 49% (18.5 trillion USD) of world trade, and receiving 53.1% (652 billion USD) of foreign direct investment (APEC Declaration 2015: 1). Three primary goals of APEC are creating pleasant trade and investment environment, eliminating business obstacles, and encouraging economic and technical cooperation. Its operations principles include respecting each other, promoting equality, benefitting mutually, helping each other, honoring productive and fair partnership, and making decisions based on common agreements.

“**Trans-Pacific Partnership (TPP)**” agreement was signed by 12 Pacific countries in Oakland, New Zealand on February 4, 2016. According

to the Prime Minister of Canada, member states would likely to endorse this within next two years (Fakete 2015).

The main objective of this agreement is to create free trade zone between the stakeholders, and it was signed by countries Brunei, Chili, New Zealand, Singapore, Australia, Canada, Japan, Malaysia, Mexico, Peru, USA, and Vietnam.

Historically, the TPP is an expansion of the Trans-Pacific Strategic Economic Partnership Agreement (TPSEP or P4), which was signed by Brunei, Chile, New Zealand, and Singapore in 2005. Beginning in 2008, additional countries joined the discussion for a broader agreement: Australia, Canada, Japan, Malaysia, Mexico, Peru, the United States, and Vietnam, bringing the total number of participating countries in the negotiations to twelve. Current trade agreements between participating countries, such as the North American Free Trade Agreement, will be reduced to those provisions that do not conflict with the TPP, or that provide greater trade liberalization than the TPP (Jegarajah, Dale, Shaffer.[9]

- ASEM originally aimed to broaden mutual understanding and cooperation between Asian and European countries. However, it is now more focused on developing trade and economic integration between the two continents in recent years. Currently, European Union has signed free trade agreements with South Korea, Singapore, and Vietnam and in the process of establishing same agreement with China, Myanmar, Japan, Thailand, Malaysia, and India.

In 2016, member states of ASEM will be meeting in Mongolia. During the meeting, the result of the past 20 years' cooperation and the future goals will be determined.

- Shanghai Cooperation Organization (SCO) was first established in 2001 to protect borders of several Eurasian countries and fight against separatism and extremism. Yet, SCO has expanded with a structure to develop trade, economy, and infrastructure in Eurasia. In 2016, India and Pakistan are planning to join the SCO which will broaden the scope of the organization making it an influential integration scheme in the world.

- Regions' cooperation mechanisms have been instituted in the recent years as well. For example, China-Africa, China-Latin America, India-Africa clubs have been set up by the standard of French-African summits. They discuss the affairs of their cooperation and implement vast projects.

- In recent times, initiatives of certain countries have been connecting the regions and expanding their cooperation on trade, economy, and investment. For instance, China has initiated "Silk Road Economic Belt," "Maritime Silk Road," "Asian Infrastructure Investment Bank," and India initiated "South-North Road" have been supported by South, Central Asia,

Europe, and Arabian countries and they are being successfully implemented. Furthermore, fast developing countries of BRICS have enlarged their cooperation on international trade, investment, and finance, and even formed BRICS Development Bank.

Chinese “Silk Road Initiatives” will cover 60 countries and wait for each country’s support. The government of China has created 40 billion USD fund in order to implement this project, and has possibility to be funded from Asian Infrastructure Investment Bank and ADB. The following image illustrates the scope of the project Chinese initiative will cover.

Image

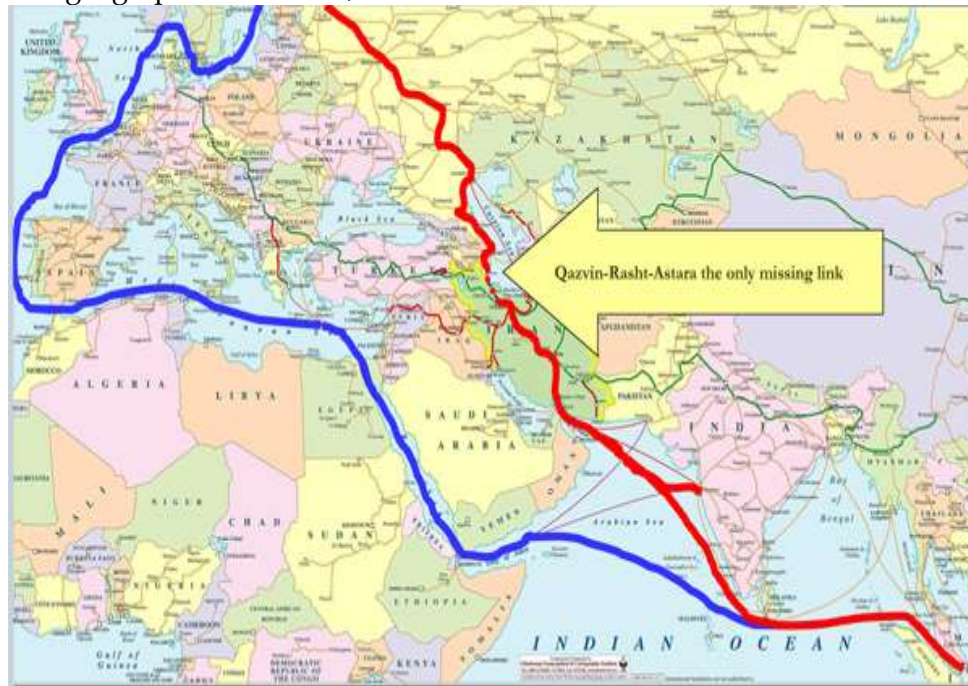
The geographic area the Chinese initiated Silk Road will cover



There is a possibility for South-North Road project initiated by India and Russian Federation in 2000 to be implemented. Iran was one of the transit countries of the project which had international economic ban; however, this obstruction is eliminated now. After this initiative is implemented, Asia and European continents will have another road to be connected with each other. Scope of the project is shown in the image below.

Image

The geographic area India, Russia initiated North-South Road will cover



Although there is rapid development of regions' cooperation on such projects and many have been successful, it is also important to note the negative aspects. For instance, many regional conflicts and wars have occurred because of dreadful motivations, such as: gaining more and more influence in the region, seeking strategic location for bigger countries or getting control over natural resources, especially those which are scarce (for instance, energy sources and metal reserves). Examples include the Arabian revolution in North Africa and the wars in Iraq, Afghanistan, and Syria.

In conclusion, the process of regional trade and economic integration is at its final stages, and it is obvious that the cooperation between regions is expanding and being integrated.

The trend answers the question presented in this conference, **"Can the regions have mutual understanding and are they cooperating with each other?"** as **"Yes"** in other words, **"Most Definitely."** Europe and Asia have common understandings and they are able to work together while enhancing their cooperation and essence. We anticipate to see the implementation of Chinese "Silk Road," Indian "North-South Road

Corridor" initiatives which will be of vital contribution to the trade and economic integration between the two continents.

Mongolia is the only country out of WTO member countries that has not been involved in regional integration. It presents Mongolia as a country muddled in least profitable trades and economic cooperation. Thereupon, Mongolia faces the risk of being left out alone from the world trend, and regional production and value chain while not receiving foreign direct investment in other sectors except mining if Mongolia continues not to get involved in regional cooperation and integration.

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