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## Article

### The actual balance of power in Asia-Pacific : determinants, characteristics and new trends

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# The Actual Balance of Power in Asia-Pacific: Determinants, Characteristics and New Trends

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**Abstract** *The present paper is structured around the following research objectives: (1) identification of the main characteristics of Asia-Pacific relations, strategic partnerships and regional rivalries; (2) justification of the need to address this topic both economically and geostrategically; (3) correlation between India's intention to become a member of APEC (aimed at expanding its sphere of influence in the region), its Act East strategy and the invigoration of strategic partnerships with China's competitors; (4) reactivation of the debate on principles of governance in Asia and the features of the Factory Asia, highlighting the roles played by China, Japan, ASEAN and India's new role in the Asian economic integration; (5) the entry of the UK into the Asia-Pacific equation, supported, among other determinants, by the goal of expanding its sphere of influence worldwide.*

**Key words** Asia-Pacific, APEC, ASEAN, ASEAN+6, Factory Asia

**JEL Codes:** F02, F15, F50, F51, F52, F53, F55, F60

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## 1. Introduction

The present paper emphasizes the catalyst forces and key partnerships in Asia-Pacific. It brings to the forefront the major actors in the region taking into account their economic, political and military strengths and also their relevant partnerships. It underscores the economic and geopolitical factors which determine the declining/enduring powers to simultaneously cooperate and compete with the actual rising powers. In this equation it is necessary to define first the Asia-Pacific region. Analyzing the composition of the UNESCAP, Asia-Pacific is defined as a group of 53 Member States and 9 associated members with a total population of 4.1 billion people (60% of the world total). In addition to countries on the Asian continent, Oceania and Pacific island countries, the US and the UK are among UNESCAP members. The main objective of UNESCAP since its establishment in 1947 has been regional development through technical and financial assistance projects in areas such as: poverty reduction, trade, investment, innovation, transport, environment, information and communication technology, social development, energy etc.

In comparison, the APEC Forum is a group launched in 1989 to support *sustainable development and prosperity* in East and Southeast Asia and countries of the American continent bordering the Pacific Ocean (US, Canada, Chile, Mexico, Peru). Among the major objectives of the group there are: liberalizing trade and investment, promoting regional economic integration, encouraging economic and technical cooperation etc.

Therefore, viewed from the perspective of the composition of UNESCAP and APEC, the Asia-Pacific region is not limited to countries and territories in Asia and Oceania, but it includes also Pacific Rim states and even the UK. The latter's inclusion in Asia-Pacific is justified by the argument of the history marked by the presence of the British East India Company in Asia (1600-1857) and the regional expansion of the British Empire through the manifold forms of colonialism until the end of the Second World War. At the same time, referring to the present, the introduction of the UK into the Asia-Pacific equation makes sense if take into account that UK has been reconfiguring its role in the post-Brexit international relations system. At the same time, UK is reactivating strategic partnerships with Commonwealth countries, including India.

According to McDougall (2007), from a political standpoint, the concept of Asia-Pacific *legitimizes the involvement of the US* (and other actors such the UK) in Asia. From a geographic point of view, the region includes the Asian countries and Oceania. From an economic viewpoint, as reflected by Factory Asia (i.e. the cross-border supply chains as part of value chains, which are mostly concentrated in Asia) the region refers mainly to Asian economies.

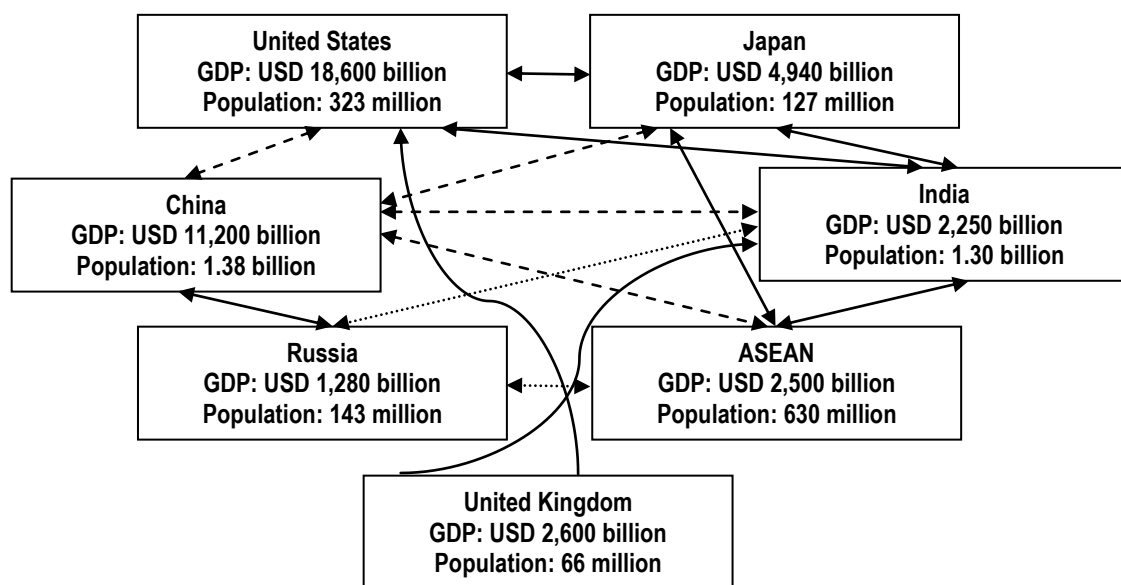
The Asia-Pacific extended region (including UNESCAP members and APEC members) owns over 60% of the: world population, gross world product, and international trade and investment flows. In economic and geostrategic terms, at the regional level there are three significant groups of countries and territories which are intertwined: APEC, ASEAN and ASEAN+6. These three groups' relevance is explained by the fact that they are major centers of economic growth and include strategic partnerships with international resonance, involving regional players (ASEAN, India, Russia, Japan) and global ones (US, China). In the Asian-Pacific system of relations, it is worth noting the ever more active presence of the UK, which, although geographically positioned outside the region under review, is part of the region as it has been redefining its strategic alliances with regional partners. The recent changes in US foreign policy and its obvious protectionist stance are reflected directly on the Asian-Pacific alliances. US withdrawal from the TPP and the possibility of leaving NAFTA are

accompanied by uncertainty, counterbalanced by the reiteration by other APEC participants but also by India of the objectives of strengthening regional integration.

At an economic level, the region is undergoing a recovery process amid a favorable evolution of external demand, internal reforms, but also the shift of the center of gravity towards innovation, human capital and infrastructure as main determinants of increasing labor productivity. Such factors determine emerging and developing Asia to currently have the largest contribution to global economic growth of 60%, despite the slowdown in China's GDP growth rate (ADB, 2017).

From a different perspective, the 21st century marks from its very beginning the dominance of the geopolitical determinants over economic factors. The former ones have become the main factors in shaping the economic evolution of the countries of the world, as highlighted by the effects of phenomena like the large-scale civil conflicts, mass migration, the unprecedented rise of terrorism, the unilateral drafting by some countries of new rules governing the system of international relations, coupled with generating economic sanctions against them etc. Figure 1 synthesizes the system of relations in the region, to which we dedicate this analysis.

Figure 1. The Asian-Pacific catalyst forces and relevant partnerships



Note: Partnerships of the first rank are marked by a continuous line ↔

those of the second rank by - - - - - ↔ and those including sensitive issues by . . . . . ↔

**Source:** Figure elaborated by the author, based on IMF (2017) and ASEAN Secretariat (2016).

The main research questions are the following: (1) Which is the relevance of Asia-Pacific nowadays? (2) Which are the driving forces in Asia-Pacific and why? (3) Why is the UK anew a key player in Asia-Pacific?

## 2. Literature review

### Need to approach the topic from a dual perspective, economic and geopolitical

The power of a state is not only given by its economic force, but by an ensemble of elements (Figure 2). This represents the “raw material” used by the state to achieve its own goals and to exert its influence on other actors, while the transformation of power into influence is achieved through the classic “carrots and sticks” strategy or the use of the mix of “soft power and hard power” (differentiation that belongs to the reputed specialist in political sciences and the art of diplomacy Joseph Nye) (Oehler-Şincai, 2015).

In the literature, Rogers, Simon and Fiott (2014) present a country ranking according to economic strength, military reach, diplomatic influence and attraction through culture (EMDC). The four attributes synthesize a country's ability to mobilize its resources through its political, economic and financial infrastructure. Eight Asian-Pacific countries are in this ranking among the first ten. The US is the only superpower, UK is the only global power, while China, Russia, Japan, Australia, Canada and India are considered regional powers. Several of the Asian countries mentioned (and in particular China) have a relevant “international footprint” and military resources to reach “most geopolitical theaters”, particularly in the Middle East, Southeast Asia and East Asia, Africa. However they are not included in the *global power* category. It should be noted,

however, that Rogers, Simon and Fiott (2014) do not consider the size of the population and the surface of the territory to be relevant in determining the power of a country, which also explains the positions of the countries of the world in this hierarchy.

Figure 2. Sources of power

<u>Economic resources (potential)</u>	<u>National economic performance</u>	<u>Military capacity and performance</u>	<u>Political leadership, quality of governance and alliances</u>
<ul style="list-style-type: none"> <li>- Natural resources;</li> <li>- Human resources;</li> <li>- Financial resources;</li> <li>- Infrastructure;</li> <li>- Technology;</li> <li>- Entrepreneurship (innovation capacity);</li> <li>- Connectivity;</li> </ul>	<ul style="list-style-type: none"> <li>- Infrastructure quality;</li> <li>- "Human development";</li> <li>- Quality of institutions;</li> <li>- Government support for research, development, innovation, education, health;</li> <li>- Innovation index;</li> <li>- Competitiveness index;</li> <li>- Knowledge economy index;</li> <li>- Environmental performance index;</li> </ul>	<ul style="list-style-type: none"> <li>- Geography: location, climate, communications, resources for the military industry;</li> <li>- Strategic resources (economic resources which can be used for military objectives);</li> <li>- Conversion capability (strategy developed to cope with the threats, structure of civil-military relations, density of foreign military relations, potential and capacity for innovation);</li> <li>- Index of military strength;</li> </ul>	<ul style="list-style-type: none"> <li>- Strategic purpose;</li> <li>- Political leadership, government's ability to make decisions and create achievable objectives, accepted by a large majority;</li> <li>- Political will to pursue objectives.</li> </ul>

**Source:** Oehler-Şincai (2015), based on literature review.

Taking into account the *composite index of national capabilities* (CINC) (based on: total population, urban population, iron and steel production, energy consumption, army personnel and military budget), seven Asian-Pacific countries are included among the top ten. The US, China, Japan, United Kingdom, India and Canada are ranked among the top ten countries in the world according to nominal GDP (Table 1).

Table 1. Ranking of the top 10 powers of the world according to  
1. nominal GDP, 2. CINC and 3. EMDC

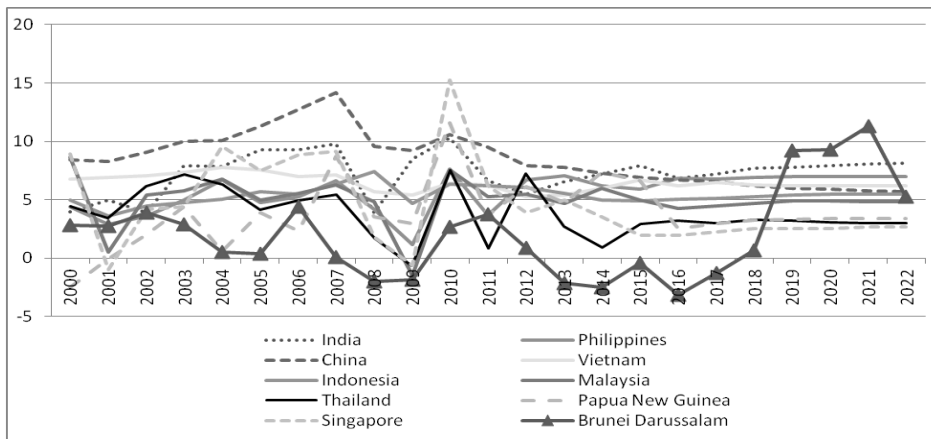
1. GDP Ranking	2. CINC Ranking/score	3. EMDC Ranking/score
1. United States	1. China 9.991	1. United States 100.0 (Superpower)
2. China	2. United States 7.073	2. United Kingdom 48.6 (Global power)
3. Japan	3. India 3.521	3. France 39.0 (Regional power)
4. Germany	4. Japan 1.930	4. China 37.6 (Regional power)
5. United Kingdom	5. Russia 1.754	5. Russia 30.3 (Regional power)
6. India	6. Brazil 0.995	6. Japan 20.0 (Regional power)
7. France	7. Germany 0.968	7. Germany 19.0 (Regional power)
8. Brazil	8. South Korea 0.958	8. Australia 17.6 (Regional power)
9. Italy	9. United Kingdom 0.817	9. Canada 16.7 (Regional power)
10. Canada	10. France 0.702	10. India 15.7 (Regional power)

Notes: CINC=Composite index of national capabilities is based on total population, urban population, iron and steel production, energy consumption, army personnel and budget. EMDC=Economic power, range of military action, diplomatic influence and the power of attraction through culture.

**Source:** Table elaborated by the author based on IMF (2017), Rogers, Simon and Fiott (2014) and <http://www.nationalpower.info/cinc/>.

Regarding the economic situation of the Asian-Pacific countries, it is necessary to underscore the following. (1) The IMF data emphasize that among the major countries included in the present analysis, India, the Philippines, China and Vietnam, followed by Indonesia and Malaysia, have been recording the most robust GDP growth rates (see Chart 1). India's economic performance is a special case because it has a lower degree of integration in the Asian economy and is less involved in global production networks. That is why we are introducing in the analysis a separate section on regional economic integration, in which we explain India's specific factors of economic growth.

Chart 1. GDP growth rate of selected Asian emerging countries during 2000-2022 in real terms (%)

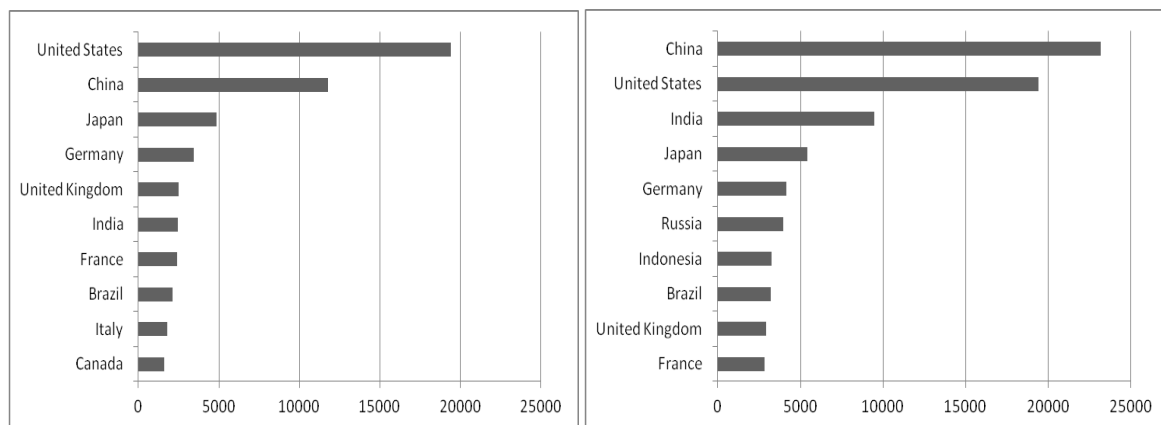


Note: Estimations for 2017 and projections for 2018-2022

Source: Chart elaborated by the author based on IMF data (2017).

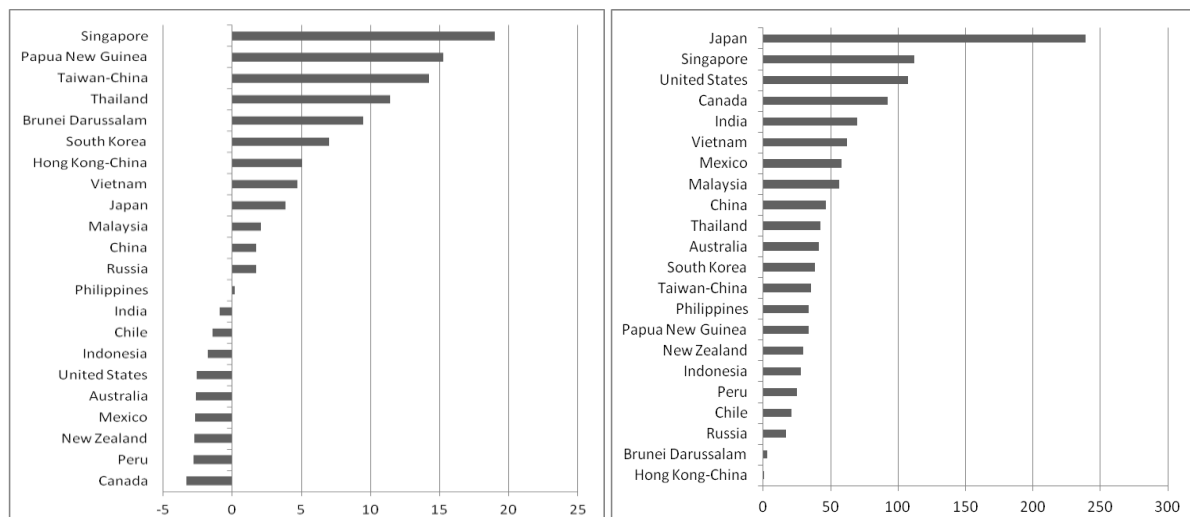
The US, China, Japan, United Kingdom, India and Canada are ranked in the top ten countries of the world according to nominal GDP, and China, US, India, Japan, Russia, Indonesia and UK are among the global top 10 taking into account GDP at purchasing power parity (Chart 2).

Chart 2. Country ranking by nominal GDP and GDP based on PPP in 2017 (USD billion)



Source: Chart elaborated by the author based on IMF data (2017).

Chart 3. Current account balance and public debt of the APEC members and India in 2016 (percentage of GDP)



Source: Chart elaborated by the author based on IMF data (2017).

At regional level, it is highlighted the accumulation of imbalances such as current account deficits of over 2% of GDP in Canada, Peru, New Zealand, Mexico, Australia, US and public debts of over 90% of GDP in Japan, Singapore, US and Canada (Chart 3). We appreciate that the future direction of US policies will continue to influence the region's economies, as evidenced by the correlation between the evolution of monetary policy interest rates in the country, the "capital flight" from other countries and the subsequent depreciation of their currencies.

Therefore, there is a need to address the regional issues both in economic and geopolitical terms. This dual perspective will be taken into account throughout the paper.

### 3. Methodology of research

The present analysis is based on literature review, relevant statistics, case studies, investigation of national strategies and foreign policy initiatives adopted by major players. The Asian economic integration process and the strategic alliances remain the foundation of Asian-Pacific relations. Beyond that, five new specific elements have added to the characteristics of the system of relations in the region as reflected by the following section. This is mainly due to strong leadership in the US, China, India, Russia and the UK.

We include in our analysis the case study of India as a stakeholder in Asia-Pacific. Since 2014, the government led by Narendra Modi has repeatedly expressed the goal of increasing India's integration into the regional economy, associated with its changing role. This explains also India's target of joining APEC. The organization's initiatives to support trade and investment liberalization, business facilitation and economic and technical cooperation represent essential elements for expanding global production chains and at the same time are in line with India's goals of modernizing the economy and turning it into a hub of production in Asia through national programs such as *Made in India*, *Digital India*, *Qualified India* and *Smart Cities*. Beyond these arguments, however, we appreciate that its accession to APEC would also support India's *Act East strategy* (suggested by US in July 2011 and subsequently taken over by India), aimed at expanding its sphere of influence in the region and counterbalancing China's rise.

A distinct section is focused on specific features of economic integration in Asia-Pacific. The official statements by leaders at the level of Asia-Pacific countries, as well as leaders of the countries at the APEC and ASEAN presidencies (Vietnam and the Philippines, respectively) as well as the results of the RCEP recent rounds of negotiations, underline the support for further liberalization of trade. The US temporary decision to withdraw from the TPP has rather stimulated the political will of other participants to support the integration and liberalization processes. India itself, which is among the most protectionist Asian economies and is less integrated in the Asian economy, is interested in becoming an APEC member and supports the process of regional integration.

### 4. Data analysis and results

#### 4.1. New features of the Asian-Pacific system of relations

Our investigation reveals that among the recent characteristics of the system of relations in Asia-Pacific are the following. First, China has assumed a significant, increasing role in recent times, not only regionally but also globally. For China, the global financial and economic crisis of 2008-2009 has been an opportunity to intensify economic relations with the rest of the world, since major economies, including the old US-EU-Japan triad, had to face the effects of recession, and world countries had started to search for cooperation alternatives.

China's importance on the international stage became even more visible after 2013 (the year when Xi Jinping became the president of the country, and Li Keqiang the prime minister) and it was highlighted by a series of large-scale initiatives such as: "Belt and Road", active presence in the BRICS group of countries, the establishment of the Asian Infrastructure Investment Bank and so on. A common feature of China's relevant projects in the 21<sup>st</sup> century is their openness and inclusiveness through the declared goal of cooperation "for the benefit of all" (Oehler-Sincai, 2016a). At the same time, one can remark the acceleration of the Renminbi internationalization via multiple channels (Zhang, Tao, 2014), including: relaxing the rules on operations in Renminbi, encouraging cross-border commercial transactions in national currencies, concluding foreign exchange swap agreements with central banks in partner countries, the inclusion of the Chinese national currency in the IMF Special Drawing Rights basket, together with the USD, the euro, the Japanese yen and the pound sterling from 1 October 2016, and also the launch in 2015 of the cross-border interbank payment system (CIPS) competing with the US-dominated SWIFT system.

In 2014, at the APEC summit in Beijing (celebrating the 25th anniversary of the organization's inauguration), the Chinese president proposed China's vision of an "Asia-Pacific dream", namely the creation of a free trade area extended across the region. Implementation of such an ambitious project remains a long-term desiderate, especially after the US withdrew from the TPP negotiations in January 2017. Other two major objectives for the period 2015-2025 relate to increasing physical, institutional and interpersonal connectivity and the development of global value chains in Asia-Pacific. In 2016, China took over for the first time the G20 rotating presidency and included in the Hangzhou Consensus a set of basic principles for a

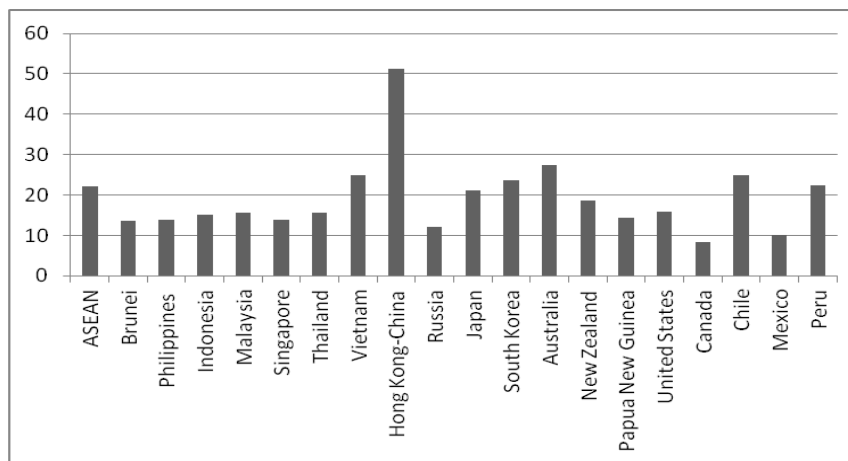
*strong, sustainable, balanced and inclusive economic growth*, accepted and recognized by the international community (Oehler-Sincai, 2016b).

Such initiatives underscore China's obvious rise at both regional and global levels. Nevertheless this has generated some tensions with relevant players but also contributed to the consolidation of the relationship with another rising power, namely Russia, as revealed by *two other major features of the regional configuration*.

The sensitive aspects of China's relationship with the US, Japan, India and the ASEAN countries (Figure 1) are intensified by its "peaceful" rise. This is promoting a *new type of relations between major powers on an equal footing* (Zhang, 2015) and consequently generates rivalry with: declining powers (US, Japan), an emerging power (India), and countries willing to increase their negotiation strength in East and South China Seas (ASEAN countries) through alliances with China's competitors.

However, China remains the main trading partner of most of the Asia-Pacific countries. Chart 4 emphasizes China's share in the trade flows of ASEAN and several other Asia-Pacific countries. It is the first trade partner for ASEAN as a group and 12 countries in the region, the second for the Philippines, Russia, Papua New Guinea, the US, Mexico, and the third for Brunei and Canada. For eight of them, the percentages are over 20%.

Chart 4. China's shares in the trade flows of major partners in Asia-Pacific in 2015 (%)



**Source:** Chart elaborated by the author based on DG Trade (2017).

*Relations between China and India* are characterized by "occasional uncertainty and antagonism" (Bajpai *et al.*, 2016). This is due to several factors, including: (1) China's economic rise and its assertiveness not only at regional but also international level; (2) special relations between China and India's declared enemy, Pakistan; (3) India's offers from partners (US, Japan, and more recently the UK) to strengthen relations in diverse areas, which can lead to counteracting China's influence in Asia-Pacific.

Taking into account the position of the Asia-Pacific countries towards the US and the sensitive issues in the relationship with China, we classify them into *seven main categories according to their attitude towards China*:

- Strong supporters (Russia, Pakistan etc.);
- Supporters (Cambodia, Laos, Myanmar etc.);
- Partner-competitors (India);
- Critical partners (Indonesia, Thailand, Vietnam etc.);
- Unstable partners (Philippines, Malaysia) (i.e. countries whose leaders oscillate between China and the US);
- Opponents (Australia, South Korea, Singapore etc.);
- Strong opponents (US, Japan).

The motives are both economic (in terms of China's role in the process of regional economic integration) and geopolitical (given the tensions created by the territorial disputes in the South and East China Seas and the ambitions to keep or occupy a more favorable position at regional level).

Third, there is an unprecedented level of cooperation between *China and Russia* and one can remark the transformation of their alliance into the engine of the BRICS and also of the SCO. The US and EU sanctions against Russia in response to the latter's takeover of Crimea has severely affected the Russian economy and has led Russia to "pivot" towards China.

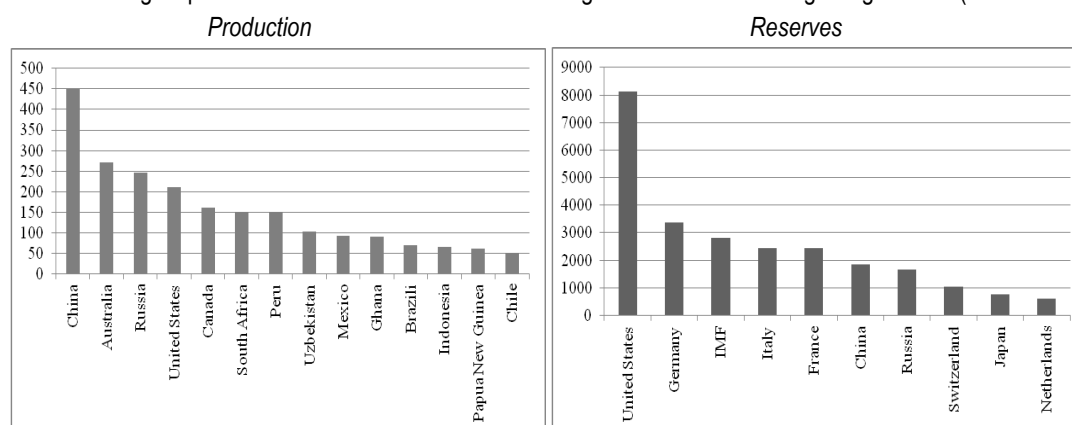
Recent analyses (Clichici, 2016) reveal the following: (1) The bilateral strategic partnership is one of the most favorable and intensive cooperation framework ever known in the history of the Sino-Russian relationship, despite an asymmetric relationship, due to Russia's greater dependence on China than the other way round; (2) The additional Sino-Russian State Border Agreement of October 2004 has been an important step in the development of these relations and is considered by the two partners as an example of *peaceful settlement of border disputes for the international community*; (3) The Action Plan for the implementation of the provisions of the Treaty of good neighborhood, friendly relations and cooperation between the Russian Federation and the People's Republic of China (2013-2016) has established the priority to increase economic cooperation, including by reaching a volume of bilateral trade of USD 100 billion by 2015 (even if the volume of bilateral exchanges was about USD 95 billion in 2014, the volume of bilateral trade sharply decreased in 2016) and dollar 200 billion by 2020, and the diversification of trade patterns; (4) Bilateral cooperation in the energy field remains the pillar of Sino-Russian economic cooperation. China's main objective is to diversify its oil resources, reduce the risks of supply disruptions and create strategic reserves, while Russia aims at diversifying its export markets and increasing export revenues that are so necessary in order to diversify the structure of the economy. Russia became the main source of crude oil imports for China, surpassing the Saudi Arabia in 2016, with oil exports to China substantially increasing due to the construction of the Eastern Siberia-Pacific Ocean (EEOP) pipeline; (5) Co-operation in the field of natural gas, centered on Siberian Force 1 and Siberian Force 2, is less advanced than that in the field of crude oil, given China's cooperation with Central Asian countries, but also the high level of its own production.

Regarding financial cooperation, the Central Bank of Russia announced at the end of 2015 that it would include the Renminbi in its international reserve basket, which is equivalent to recognizing the Chinese currency as a reserve currency. In March 2017, the first Russian National Bank office abroad was opened in Beijing, followed shortly by the opening of a branch of the ICBC Chinese bank in Moscow. This will facilitate transactions in local currencies (Xinhua, 2017). Moreover, Russia is supporting China in introducing a coin backed by gold in the coming period, having as goal the removing of the USD from bilateral transactions, and extending the use of the gold standard in trade with other countries, such as the Eurasian Economic Union. The international debate on the replacement of the dollar-centered financial system with the gold standard has intensified in the recent period (Lewis, 2016), China having all the chances of introducing such a system, given that it is the world's leading gold producer and it is on the list of main gold reserves holders, even if it represent at present only 4.4% of the US reserves (Chart 5).

Fourth, we notice a nuance of the US's reorientation strategy towards the Asia-Pacific ("pivot" initiated by Hilary Clinton and Barack Obama in 2011). Reorientation is no longer automatic and unconditional, since US foreign policy focuses on the national interest (*America first*) and national security.

A number of US strengths during 2011-2016 – such as consolidation of traditional partnerships (with Australia, Japan, South Korea), reinforcing of alliances with other countries and groups of countries (India, ASEAN), boosting trade and investment through free trade agreements (South Korea, Singapore) and the TPP negotiation and active participation in multilateral regional mechanisms (ASEAN Regional Forum, East Asia Summit, Pacific Islands Forum, Lower Mekong Initiative, including Cambodia, Laos, Myanmar, Thailand and Vietnam) (Kang, 2012) – have been canceled by the new strategic directions adopted by President Donald Trump. Thus, by withdrawing from the TPP, enhancing protectionism and increasing military presence in the area, the US "pivot" towards Asia-Pacific acquires new significations.

Chart 5. Main gold producers in 2016 and holders of official gold reserves at the beginning of 2017 (metric tonnes)



**Source:** Chart elaborated by the author based on World Atlas and World Gold Council (2017).



The US withdrawal from the TPP and the increase of protectionism attract criticism from US partners in the Asia-Pacific region and create an obvious advantage for China. On the other hand, the increase of military presence in the area is accompanied by new risks and challenges.

Fifth, Britain is reconfiguring its strategic alliances with countries and groups of countries to regain a leading role on the global stage. In view of the possible exit from the EU in 2019, the British government has already drawn an ambitious vision of the UK's global role. In this context, reactivation of partnerships with Commonwealth countries (especially with India) is evident.

#### 4.2. India, a future member of APEC?

India has applied for APEC membership since 1993 but was rejected due to its limited participation in the regional economic integration agenda, while six other countries were admitted as members after 1993 (Mexico and Papua New Guinea in 1993, Chile in 1994, Peru, Russia and Vietnam in 1998). In 1997 (when it was taken the decision to accept three new members, namely Peru, Russia and Vietnam) it was imposed a moratorium on accepting new members in the organization until 2007 (Gupta, 2015, Seshadri, 2015). That was justified by the 21 members' need to concentrate on the Bogor Objectives (1994) and the Osaka Action Plan (1995) on supporting regional economic integration by liberalizing trade and investment (Seshadri, 2015). India filed a new application for membership in APEC in 2007, but the moratorium was extended again.

In 2010, the moratorium was lifted, and in 2011 India was invited to attend the Hawaiian APEC Summit as an observer. India also participated as an observer at the APEC Summit in Beijing in 2014. Countries such as the US, Japan, Australia, South Korea, China and Russia (strategic partners of India) support India's membership of the organization. However in order to join APEC, the consensus of all 21 members is needed, which has not yet been achieved (Panda, 2014, Singh and Gupta, 2016).

India's level of integration into the Asian economy is still at low levels. Analyzing Asia's share of India's trade and investment, as well as the time needed for export-import operations and the logistics performance index, India remains behind most Asian economies. At the same time, customs duties on imports of agricultural and non-agricultural products remain above the average for APEC countries.

Many APEC countries are suspicious of receiving India into the organization, given the difficulties encountered by foreign companies in doing business in the country (amid excessive red tape), the slow pace of reforms (despite ambitious government goals) and also the reluctance of negotiating bilateral investment agreements (which would ensure a balance between protecting foreign investment and the role played by the state in the field of regulation) (Singh, Gupta, 2016).

Therefore, India does not fully meet all APEC membership criteria: (1) strong economic links at regional level; (2) acceptance of the objectives and principles expressed in the Seoul Declaration of November 1991 (encouraging trade, investment and technology transfer among others); (3) meeting the consensus of all APEC members for accepting India as a member in the organization.

Moreover, in the international debate on the possible accession of India to APEC, it is maintained the *geographic argument* against its admission, given that India is not part of the Pacific Rim. Definitely this argument conceals another reason, namely that accepting India as a member would be equivalent to moving the APEC Asia-Pacific priorities towards Asia instead of Pacific (Jha, 2014). Given that other countries (Colombia, Costa Rica, Ecuador, Mongolia, Bangladesh, Pakistan, Sri Lanka and the three least developed countries of ASEAN, Cambodia, Laos and Myanmar) are on the list for APEC membership, it is possible that accepting new members will be postponed until 2020, when the goal of free and open trade must also be met in the case of emerging/developing economies in APEC, according to the Bogor Objectives.

#### 4.3. Specific features of economic integration in Asia-Pacific

The process of regional integration in the Asia Pacific started late and was slow as compared to other regions of the world. The Asian financial crisis in the late 1990s was the accelerator of this process, and so far the region has not lost interest in deepening regional integration. This is also reflected by the constitution of the AEC in 2015, which is the core of Asian integration, closely linked to economic ties with six major economies: China, Japan, India, South Korea, Australia and New Zealand. The AEC Plan and Vision at the horizon of 2025 set as main objectives: the integration of ASEAN economies; competitiveness, innovation and dynamism; interconnection and sectoral cooperation; resilience, inclusion, placing people at the center of the community; integration into the global economy. It is intended to ensure the four freedoms of movement (of goods, services, capital and persons), but with some limitations.

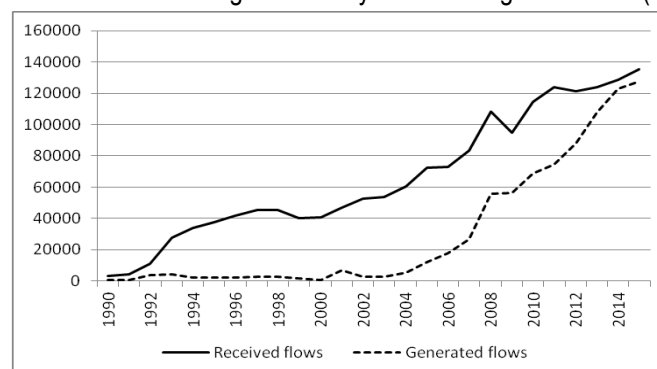
The current features of regional integration are highlighted in the literature as follows (ADB, 2016, Menon, 2013, Capannelli and Tan, 2012, Baldwin, 2011, Kawai and Wignaraja, 2009, Oehler-Şincai, 2014):

- Asian integration is dynamic, flexible and pragmatic and with a gradual increasing trend, referred to in the literature as the *Asian way of integration*;

- Over time, its determinants have been linked to the need to avoid risks and obstacles;
- *Factory Asia* is currently facing a number of risks associated with the gradual erosion of competitive advantages, increasing the complexity and costs associated with global production networks, demographic factors and, in particular, sharpening protectionism and relocations (trend concentrated at US level);
- The typology of Asian institutions that define the process of Asian regionalization is complex and in literature it is associated with a *spaghetti bowl*, suggesting a combination of varied arrangements, which often overlap each other and instead of leading to acceleration of regional integration, it hinders it;
- The institutions and agreements associated with Asian integration fall into three categories: *major ones* (ASEAN, Comprehensive Regional Economic Partnership, East Asian Summit, APEC, South Asian Association for Regional Cooperation etc.); *functional ones* (ASEAN Regional Forum, SCO, Pacific Islands Forum, growth triangles etc.); *facilitators* (UNESCAP, ADB etc.).

At present, about 57% of Asian trade is intra-regional, amid a natural integration process (*de facto, market-driven and associated with the supply side*), based on intense trade in intermediate goods. Banga (2013) underlines that global value chains have evolved from Eastern Asia's regional chains, with Japanese investors as leaders. This "flying geese" paradigm gradually changed. The first Asian expansion cycle was generated by Japan, and the growth spread to first-generation Asian tigers (Hong Kong-China, Taiwan-China, Singapore and South Korea) and later China became the engine of the entire region. Gradually, Chinese companies became active investors abroad (Chart 6), not just in search of market and efficiency, but especially strategic assets.

Chart 6. FDI flows received and generated by China during 1990-2015 (USD millions)



Source: Chart elaborated by the author based on UNCTAD (2016).

Currently, China combines the features of a *headquarter economy* (as a generator of new technologies) and *factory economy* (as a producer of goods and services). Taking into account the size of its internal market, the different levels of economic development between its provinces, solid relationships with other economies, and solid macroeconomic fundamentals, we consider that the actual transformation of the Chinese growth pattern is viable. The gradual shift from trade and investment as central determinants of growth towards domestic demand, innovation and human capital may maintain China as a modeling factor in the long term, not only regionally but also globally (Oehler-Şincal, 2014).

## 5. Conclusions

At present, the Asian economic integration process and strategic alliances remain the foundation of relations in Asia-Pacific. Five new specific elements have added to the characteristics of the system of relations in the region, mainly due to strong leadership at the level of US, China, India, Russia and the UK. First, China has assumed a significant, growing role in recent times, not only regionally but also globally. China's rise has, however, attracted two other major features of the regional configuration.

Second, one can remark the intensification of tensions in the Asia-Pacific relations, with China as epicenter. Sensitive issues are related to its "peaceful" rise, which promotes a new kind of relationship between major powers *on an equal footing* and generates rivalry with declining powers (US, Japan), emerging ones (India), and countries willing to increase their bargaining power in East and South China Seas (ASEAN countries) through alliances with China's competitors. Third, it is obvious the unprecedented level of cooperation between China and Russia. The US and EU sanctions against Russia in response to the takeover of Crimea by Russia has severely affected the Russian economy and has led Russia to "pivot" towards China.

Our analysis underscored seven categories of countries according to their attitude towards China: strong supporters (Russia, Pakistan etc.), supporters (Cambodia, Laos, Myanmar etc.), partner-competitors (India), critical partners (Indonesia, Thailand, Vietnam etc.), unstable partners, whose leaders oscillate between China and the US (Philippines, Malaysia), opponents (Australia, South Korea, Singapore etc.) and firm opponents (US, Japan). There were identified both economic motivations (in terms of China's role in the process of regional economic integration) and geopolitical ones (in view of the tensions generated by the territorial disputes in the South and East China Seas, as well as the ambitions to occupy a most favorable position at regional level, as indicated by the case study of India).

Fourth, the changes induced by the Trump Administration to American foreign policy (focused now on national interest and security) are directly reflected on Asia-Pacific alliances. The US withdrawal from the TPP and the possibility of leaving the NAFTA are accompanied by uncertainty, counterbalanced by the reiteration by other APEC participants – especially China – but also by India of the objectives of strengthening regional integration.

Fifth, Britain is reconfiguring its strategic alliances with countries and groups of countries to regain a leading role on the global stage. In view of the possible Brexit in 2019, the British government has already drawn an ambitious vision of the UK's global role. In this context, partnerships with Commonwealth countries (especially with India) are evident and the UK-India strategic partnership gains a new relevance.

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### Glossary

ADB: Asian Development Bank.

AEC: ASEAN Economic Community.

APEC: Asia Pacific Economic Cooperation composed of seven member countries of the Association of South-Eastern Asian Nations (ten minus Cambodia, Laos, Myanmar) together with China, Hong Kong-China, Taiwan-China, Russia, Japan, South Korea, Australia, New Zealand, Papua New Guinea, United States, Canada, Chile, Mexico and Peru.

ASEAN: Association of South-Eastern Asian Nations composed of Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

ASEAN+6: potential free trade agreement negotiated at present between ASEAN countries and Australia, China, India, Japan, South Korea and New Zealand.

BRICS: Brazil, Russia, India, China, South Africa.

CINC: Composite Index of National Capabilities.

Commonwealth: An intergovernmental organization of 52 states (most of the former British Empire territory), which continues to operate. Among the member states there are: Australia, New Zealand, Canada, India, Malaysia, Singapore, Bangladesh, Brunei, Pakistan and South Africa.

EMDC: Economic power, range of military action, diplomatic influence and the power of attraction through culture.

FDI: Foreign Direct Investment.

ICBC: Industrial and Commercial Bank of China

IMF: International Monetary Fund.

NAFTA: North American Free Trade Area.

RCEP: Regional Comprehensive Economic Partnership or ASEAN+6.

SCO: Shanghai Cooperation Organization.

TPP: Transpacific Partnership.

UNESCAP: United Nations Economic and Social Commission for Asia-Pacific.

UK: United Kingdom.

US: United States.

USD: US dollar.