

**SOME ISSUES OF THE THEORY OF ECONOMIC INTEGRATION
AND PRACTICE OF MEGA-REGIONAL AGREEMENTS**

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Abstract: The author gives a definition of mega-agreements and outlines their qualitative characteristics such as versatility, extra regionality, large scale, regulatory questions which do not fall in WTO competence. Quantitative criteria of mega-integration (a cumulative share of alliance in the world trade, GWP, world investments, market capacity) and their threshold values are offered. It is proved that mega-agreements' practice does not conform to the majority of requirements for the linearly-stadial model devised by B. Balassa. Specific features of TTP and TTIP are revealed on the basis of the hub-and-spoke model.

Keywords: linearly-stadial model of integration; mega-regional agreements (MRA); TTP, TTIP, hub-and-spoke model

From 1960s development of integration across the globe followed the linear-stadial model of B. Balassa¹. At the end of the XX c. – beginning of the XXI c. new integration forms began to emerge under the impact of external factors, while an evolution of integration was determined by a shift from separate integration groups to global geoeconomic alliances (mega-regional agreements - MRA).² These transformations mainstreamed searching for a new theoretical platform of the integration process. Some scholars added integration stages to the scheme of B. Balassa, other devised alternative topologies matching the modern integration practice. For instance, E. Marinov³ suggests 8 forms of integration (preferential trade agreement, free trade area, customs union, common market, economic union, economic and currency union, full economic integration, political integration) and underpins the differences between them. Such forms obviously are typical for the EC integration model; however, their reproduction in other regions of the world is questionable.

¹ Balassa, B. *The Theory of Economic Integration*. 1962. London: Georgi Alien & Unwin.

² In 2015 Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the USA and Vietnam signed the Trans-Pacific Partnership Agreement (TTP).

³ Marinov, E. Economic determinants of regional integration in developing counties// *International Journal of Business and Management*, 2015, Vol. III, No. 3. DOI: 10.20472/BM.2015.3.3.003

WTO experts classify integration agreements by the level of development of the member-countries (North-South, South-South), geographic localization (regional, interregional), the depth of interaction (traditional free-trade areas and deep integration zones), membership (bilateral, multi-lateral, interblock)⁴.

Kang Yoo-Duk forms integration topology on dichotomy (integration de jure / de facto, open/closed, deep/shallow); or trichotomy (by the number of members: bilateral, gravitational, multilateral; relationship between market and power: regionalism on the basis of rules and sanctions (the EU), risk management (NAFTA), regulated markets (the USSR))⁵.

Mega-regional agreements (MRA), however, fit none of the suggested topologies. Thus, the purpose of the paper is to justify the quantitative and qualitative criteria of MRA and a theoretical model that matches the practices of such agreements.

The author defines MRA as multilateral agreements on integration between regionally dispersed countries or groups of countries, where one of the parties to an agreement is the largest participant of international trade (a state or a valid integration union) to enhance their economic capacity and competitiveness, create a receptive internal market that provides incentives for self-reproduction and growth.

Such kind of integration can be described in similar terms – mega-regional agreements⁶; comprehensive trade agreements⁷; transregional agreements at the global level⁸; geoeconomic alliances of the global nature⁹. All of them indicate qualitative characteristics of new groups: large scale and

⁴ World Trade Report. 2011. "The WTO and preferential trade agreements: From co-existence to coherence". Available at: http://www.wto.org/english/res_e/publications_e/wtr11_e.htm (viewed 20.08.2016).

⁵ Kang, Yoo-Duk. Development of Regionalism: New Criteria and Typology.// Journal of Economic Integration. 2016. Vol.31. No. 2, June, pp.234-274.

⁶ World Investment Report. 2014. UNCTAD. "Investing in the Sdgs: an Action Plan". Available at: <http://unctad.org/en/pages/publicationwebflyer.aspx?publicationid=937> viewed 02.09.2016).

⁷ Mendosa M. R. Mega-regional agreements and negotiations of the Doha round: an impact upon developing countries // MOSTY. 2015. No.1. March, pp.4-8. [in Russian]

⁸ Hnát P., Cihelková E. New regionalism as a part of the transformation strategy - cases in Central and Eastern Europe and Asia (the Czech Republic, Russia and China).// Prague Economic Papers. 2007. No. 4. pp.358-377. DOI: 10.18267/j.pep.314

⁹ Voronina T. V. Transformation of the linear-stadial model of international economic integration in the era of globalization: causes, forms, consequences // Fundamental research. 2014. No. 6. P. 3, pp. 539-541 [in Russian]; Voronina T. Causes, directions and consequences of transformation of international economic integration's linear stage model in the era of globalization/ Global vectors 2014: from the technological partnership to the systematic integration. Prague: Willenberg Foundation, 2014. pp. 55-60. DOI: 10.14311/WFGV.2014.00010

multidimensionality; considerable contribution to the world economy; ability to influence the rules of international trade and inter-regional trade; the urge of their leader countries to produce “new points of growth” and power centres for the world economy.

Therefore, the MRA signs include: 1) multilateralisation; 2) non-regional nature; 3) large-scale cumulative economic potential; 4) extended content and regulatory issues beyond the WTO competence.

The first two elements can be present in interregional and interblock agreements, so the *key* MRA features are the large-scale cumulative economic potential and regulatory issues beyond the WTO competence.

Draper P., Lacey S., Ramkolowan Y. emphasize a world trade share higher than 25 % as an MRA criterion. In the author’s opinion, the following criteria enable a more accurate demonstration of the large scale of mega-alliances: a group ratio in the world GDP and global investments with the lowest threshold at 25%; exceeding the optimal market size¹⁰ by at least 2.5 times (more than 750 million people) (Table1).

Currently none of the leading subjects of international trade generates 25% of the world GDP *independently* (the EU – 23.9%, the USA – 21.8%, KHP - 13%), and their share in global investments is also below 25% (the EU – 20.9%, NAFTA -13.8%, ASEAN+3 – 22.3%, the USA -7.5%).¹¹ Notably, a combination of countries involving the EC or the US is a mega-integration. Agreements concluded by the EC with a particular country are multilateral; however, determining their world trade share, trade within the EC should be excluded since it is not external. The same adjustment is required for any other customs union participating in a mega-alliance.

The global nature of alliances is demonstrated in their ability to influence the rules of international trade. In this context, the agreements’ content should be analyzed in terms of in-depth liberalization and trade regulation measures based on high standards that go beyond the WTO. The TTP Agreement provides for regulating e-commerce, labour and environmental relations, public procurement, investments, sanitary and phyto-sanitary standards, technical barriers in trade, etc. Some extended issues also fall under the frame of TTIP.

Large-scale projects of the Pan-African FTA and the Economic Belt of the New Silk Road do not meet Nos. 3 and 4 mega-integration signs. Considering Regional Comprehensive Economic Partnership (RCEP) as a mega-alliance is also questionable. For instance, Draper P., Lacey S.,

¹⁰ According to the World Bank, the optimal market size for an integration alliance is 300-320 million people.

¹¹ Estimated using UNCTAD.

<http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>. (viewed 20.08.16)

Ramkolowan Y. point out that their negotiations focus on rather traditional agenda; and according to P. Kadochnikov and O. Ponomaryova¹², several RCEP provisions belong to WTO+ and potentially can influence the international trade.

TPP, TTIP and RCEP meet the author's MRA criteria (Table 1).

Table1. The positions of mega-agreements in the world economy

Mega-regional agreements (MRA)	World GDP share	Share of the world export of goods and services	Share of the world import of goods and services	Share of world FDI	Population, mln/ Exceeding the optimal market size, times
TPP	36%	24% / 28.5%*	30 %/35.8%*	35%	816 112 / 2.7
TTIP	50%	43,8 / 33.0*	49,4/39.1*	42.5%	991099 / 3.3
RCEP	29%	27,5%/ 32.8*	30.2 %/36.3%*	27.5%	3 494 737 /11.6

* Without intra-integration EU trade (2014). Source: estimated using UNCTAD data (2014). <http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx>

Traditional integration conditions have practically lost their significance for mega-alliances: economic (a similar level of economic development across countries), geographic (shared borders), cultural-and-historic (common history, language, cultural identity) as well as motivation. The alliance participants get considerable advantages through abolishing non-tariff measures and achieving compatibility of the standards for regulating investments and public procurement rather than from tariff reduction. Already the average customs duties in TPP countries reach 4.2 % against no higher than 3-4% in the US and the EU. Mega-agreements do not seek convergence of the member-economies; on the contrary, the principle of vertical production integration in line with the global value chains requires preserving the differences in the development level across the alliance.

Thus, MRA do not meet most of the requirements for the model described by B. Balassa. They are better explained through the "hub-and-spoke" model developed by Kowalczyk and Wonnacott.¹³ Under the hub-and-spoke model, a dominant large-scale economy in the region plays the role of a coordinating connecting point (hub, concentrator) and connects small spoke-countries between themselves through bilateral trade agree-

¹² Kadochnikov P.A., Ponomaryova O.V. Formation of Regional Comprehensive Economic Partnership: prospects and consequences // Russian Foreign Economic Bulletin. 2014. No.10. pp.3-9. [in Russian]

¹³ Kowalczyk, C., Wonnacott, R. J. Hubs and spokes, and free trade in the Americas.// NBER Working Paper, 1992. № 4198 (October).- 36 p.

ments (TA); those countries trade mostly with the dominant country. The hub terminates in it not only the trade flows from spokes but also investment and R&D flows so the countries ultimately have unequal positions.

The network structure and the position of countries in the hub-and-spoke model vary. TTP builds up a type of relationship when two hubs (the US, Japan) do not interact with each other directly but have a preferential access to the common spoke-countries. For instance, TTP has established between the states that earlier had a network of bilateral TA with the US and Japan (the US – with Peru, Chile, Singapore, etc., Japan – with Mexico, Singapore, Chile, Peru, etc.), while Chile and Singapore have free-trade areas (FTA) with all TPP economies.

TTIP reveals a more complex type of relations. The two hubs (the US and the EU) and some spoke-economies are linked with each other through bilateral TA. For example, the US and the EU entered into bilateral FTA agreements with Israel, and Israel – with Mexico; Morocco concluded bilateral TA with the EU and the US and Malaysia, a TTP member.

Therefore, the hub-and-spoke model enshrines asymmetry in country positions and advantages from integration, overlapping membership in trade agreements, which is in line with TTP practice. The TTP economic kernel is the US and Japan so it's them who will achieve 64% of the total GDP growth. As forecasted by Petri P.A. and Plummer M.G.¹⁴, due to TTP by 2030 the US GDP will increase by 0.5% per year and export - by 9.1 %. The US laws on copyright, patents and trademarks in the movies industry, telecommunications or pharmaceuticals are being imposed upon 11 TTP counties that are also obligated to reform their public administration, labour and environmental laws, etc. Potential asymmetry of TTIP advantages to the benefit of the US causes concerns of the EU members.

To conclude, MRA is a new type of integration characterized by a multilateral, non-regional nature; large scale; and regulatory issues that fall beyond WTO competence. MRA quantitative criteria include: consolidated alliance share in the world trade, GWP, 25% threshold of global investments as well as market capacity no less than 750 million people. MRA does not meet most requirements of the linear-stadial model proposed by B. Balassa, and can be better explained using the Hub-and-spoke model.

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¹⁴ Petri P.A., Plummer M.G. 2016. "The Economic Effects of the TPP: New Estimates". available at: <http://bookstore.piie.com/book-store/7137.html> (viewed 18.06.2016)

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