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**China, Japan and the RCEP: Part - I**

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On November 15, 2020, China and Japan led 15 countries to sign the largest trade pact in the world called the Regional Comprehensive Economic Partnership (RCEP). Though it just has 15 countries at the moment, it has become the largest trade pact thanks to its economic strength which is nearly one thirds of the world economy that China and Japan are leading.

The RCEP, in addition to China and Japan also includes ASEAN countries and Australia, New Zealand, and South Korea. The negotiations to form the RCEP started in 2012 and after eight years of long discussions now Vietnam hosted a virtual session of ASEAN in which the RCEP countries signed the agreement. ASEAN has already been working with other Asia-Pacific countries to promote economic and political cooperation in the region. It also has another significant partnership with the Shanghai Cooperation Organization (SCO).

A distinguishing feature of the SCO is that in addition to China it also includes the Central Asian Republics (CARs) and Russia. The SCO came into being in 2002, whereas ASEAN was formed in 1967. That’s how we have seen in the past 50 years or so the countries of South East Asia and Central Asia have gradually come closer to each other, but some other big economies of the world such as America, India, and Japan were not part of them. Now Japan has taken a major step by joining the RCEP as it will have positive implications not only for this region but also for Asia and the world.

Japan is now led by a new prime minister, Yoshihide Suga, who was elected in September 2020. He has diligently worked to promote regional cooperation and development by visiting Vietnam and Indonesia within one month after assuming power. His vision of a free and open Asia Pacific is quite in consonance with other ASEAN countries that at times feel threatened by Chinese expansionism in the region. Though China is also investing hugely in ASEAN countries, its territorial and military expansion in the South China Sea puts neighbouring countries in a tight corner.

Japan on the other hand has been trying to maintain peace without jeopardizing regional balance. Its strong democratic traditions have helped it nurture regional cooperation and have created a goodwill that not many countries enjoy in the world including other big economies such as America, China, and India. Japan’s help to other countries is not as blatantly self-seeking as China’s. Still, in the RCEP both have played a leading role to the benefit of the entire region.

According to the RCEP agreement, in the coming years most goods and services especially in telecommunication and financial services will see a drastic reduction in levies and electronic commerce is also likely to see a new boom. You may wonder why, in the presence of ASEAN and SCO, a new partnership was needed at all. In the previous two agreements, the range and scope of cooperation have been rather limited. Then there were certain complications that rendered them ineffective in many areas. For example, in supply chain management there were major issues.

If one equipment or machine used parts from another country, taxes were imposed. If Vietnam made a machine using parts from Australia, according to the ASEAN agreement levies could be imposed as Australia was not part of ASEAN. Now, with the RCEP in force any equipment of machinery using parts from any RCEP country will be considered local with no taxes. This will encourage the 15 countries of the RCEP to buy from each other so that taxes could be avoided. If they bought parts from America or India the levies would be imposed.

That is one reason Japan followed a sagacious approach to join this partnership without the United States. It is worth recalling that after WWII the US has assumed the responsibility of defending Japan against any foreign aggression. Of course, this service is not for free and Japan has to pay a huge amount annually to the US for its imaginary or real protection. By facilitating the signing of this agreement, Japan will be enjoying economic and financial benefits with the 15 countries in the RCEP. Such trade pacts also serve as a catalyst for diplomatic and political cooperation and understanding.

They also prompt the member countries to look for diplomatic solutions rather than military ones. That’s why Australia, China, and Japan cooperating in RCEP is a good omen for the region. Traditionally, Australia and Japan have been much closer to the US than to any other country. This created a distance between them and China, because the US has followed an overall unfriendly approach toward China and Russia. Especially, during the past four years of the Trump presidency, the US has been trying to encircle China resulting in the estranged relationship of Australia and Japan too with China.

With this RCEP, China and Japan are likely to benefit the most. The US could also partake of the benefits but the Trump administration preferred not to. In 2017, the US withdrew from any talks with the Asia-Pacific countries involving 12 nations. Former US president Obama was keen on joining the talks so that the US could also play its role in this region with China and Japan, and enjoy the benefits. That would have helped in reducing political and military tensions in the region too. During the past four years, China and Japan have displayed their better diplomacy and broader vision than the US.

Both China and Japan have contributed positively in the promotion of free trade, whereas President Trump has led the US on a retrogressive journey leading to a reduced role for the US in Asia. Taking its cue from the US, even India withdrew from the trade talks as perhaps Indian PM Modi expected more benefits emanating from the US which may help India become a mightier force to face China. In a sense, both Modi and Trump have harmed their own countries more than they did China. Modi should have learned his lesson from Pakistan which has served American interests for decades but could not set its own economy right.

If Pakistan could not get much from the US in 70 years, how can Modi expect to gain in a couple of years? Now both India and the US are relatively isolated, whereas China and Japan will be reaping the rewards. Compared with other trade pacts such as between Canada, Mexico, and the US; or the European Union (EU), the RCEP not only has around one-third of the world population it also boasts nearly one-third of the world GP. This pact appears to be even more significant if you look at the recent economic analysis of the world economy by the IMF.

The latest IMF review of the world economy puts India among those countries that will suffer the most decline in their GDP whereas China and Japan may fare better. The IMF review released in October 2020, predicts surprising results for the world economy, including one of the worst performances for India and one of the best for China. In the same token, Bangladesh is likely to perform much better in comparison with India, showing better GDP growth rate than both India and Pakistan. The GDP in Bangladesh is likely to grow at an impressive rate of nearly four percent whereas India is likely to see a 10 percent decline.

To be continued

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