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New Trade Agreement in Asia: China Is in, the United States is Out

Eyal Propper and Dan Catarivas

The Regional Comprehensive Economic Partnership (RCEP), signed under the auspices of the Association of Southeast Asian Nations (ASEAN), has created the largest free trade zone in the world, which includes nearly a third of the world's population and global GNP. China appears to be the winner among the member countries, particularly given the absence of the United States from the framework and India's decision to withdraw from the negotiations. Considering the changes to the world map, at least economically, and the migration of the centers of power and future growth to the Asia-Pacific region, Israel must examine how to connect to the emerging trade bloc, particularly by advancing free trade agreements with central countries in it.

On November 15, 2020, in an online ceremony, the Regional Comprehensive Economic Partnership (RCEP) was signed by 15 countries that include the ten members of **the** Association of Southeast Asian Nations (ASEAN) – Vietnam, Singapore, Malaysia, Indonesia, Thailand, the Philippines, Brunei, Cambodia, Myanmar, and Laos – as well as New Zealand, Australia, Japan, South Korea, and China. The new agreement, which was signed after eight years of negotiations under ASEAN auspices, has created the largest free trade zone in the world, which includes nearly a third of the world's population and global GNP. Among the countries that are parties to the agreement, China is apparently the winner, in light of its increasing influence over the global market following its quick recovery amidst the COVID-19 pandemic. China's presence is especially prominent given the absence of the United States from the agreement, along with India's decision to withdraw from the negotiations last year, mainly out of concern that membership in the agreement would lead to the Indian market being flooded with Chinese goods.

ASEAN's concluding announcement stated that the new partnership complements and connects existing agreements between the organization's countries and their neighbors; unites separate agreements between the countries into a "single basket" in a way that will ease conditions for exporters; institutes uniform source rules among the partners; and expands other agreements signed under the auspices of the World Trade Organization (WTO). The agreement is of wide scope, comprising 20 chapters that cover a variety of issues not covered in previous agreements, including trade in financial services, e-

commerce, investments, and intellectual properties. The announcement also stated that the agreement takes into account economic disparities between the countries and provides preferential treatment to less developed countries like Laos, Cambodia, Myanmar, and Vietnam. The agreement strengthens a trend of creating a unified trade bloc – "Asia plus" – that is larger than the European bloc and the bloc of North American countries (Canada, the United States, and Mexico).

The signing of the new agreement, after the US presidential elections and before Democrat President-elect Joe Biden begins his term, underscores the United States' disengagement from Asia during the Trump presidency, which coincided with the strengthening of China's regional standing. In February 2016, in the last year of his presidency, President Barack Obama signed the Trans-Pacific Partnership (TPP) agreement, which aimed to strengthen US economic and diplomatic relations with 12 countries in Asia and the Pacific region, without China. Immediately after entering the White House, President Trump announced the US withdrawal from this agreement, which had not yet come into force. The 11 other countries, including Australia, New Zealand, Singapore, Japan, Malaysia, Vietnam, and Brunei, decided to pursue the agreement without the United States, and it entered into force in December 2018 under the name Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). At the Asia-Pacific Economic Cooperation (APEC) summit (November 20, 2020), Chinese President Xi Jinping announced that China was eager to join the CPTPP in order to strengthen regional economic integration and develop a framework for free trade agreements for the Asia and Pacific region. In so doing, Xi signaled that China is interested in integrating in the organizations from which the United States has disengaged.

Although the agreement was drawn up and formulated at the initiative of the ASEAN countries, the RCEP is an important achievement for Chinese diplomacy. Inter alia, the agreement will help expand Chinese trade and investment in the neighboring states. For example, Chinese companies that grew significantly during the past two decades within China have in recent years begun to expand and build factories in the neighboring countries, where labor is cheaper. The new agreement will make these partnerships easier, with transfer of some of the industrial production from China to its neighbors, and a greater focus within China itself on advance industries.

Beyond the economic issues, the agreement reflects the geopolitical trend of China's increasing strength in the Asia region and multilateral partnerships. In his speech at the signing event, Chinese Premier Li Keqiang emphasized that the agreement symbolizes a victory for those who believe in multilateralism and free trade. The Chinese media showered praise on the agreement "which clarifies that the Chinese approach is not

aggressive," as the Western media tends to present it, but rather presents a balanced diplomatic approach "during a period with increasing geopolitical hostility, protectionism, and isolationism." The editor of the *Global Times* daily newspaper, which serves as an extremist Communist Party mouthpiece, wrote that the agreement proves the failure of the United States attempt to lead sanctions against China that would cause countries to disengage from it: "Washington embarrassed several countries that are its allies with its demands regarding China, while for them China is their biggest trade partner. Even the island of Taiwan has close economic connections with the continent – despite the tension between the two sides of the strait."

The agreement raises the question how Australia and New Zealand, alongside other countries in Asia, signed a comprehensive economic agreement with China during a period of political tension that saw exchanges of verbal blows with Beijing and Chinese punitive economic steps against some of them. Why would they not wait for President-elect Biden to begin his term in order to renew attempts to advance joint economic agreements with the US administration?

Figures in New Zealand responded to the decision to enter the agreement by saying that as a small country, its interests would be best maintained and advanced if it were part of the agreement and could protect them directly vis-à-vis China or Japan. ASEAN's decision in 2019 to continue the negotiation process and sign the agreement despite India's withdrawal made it clear to the various countries that even if they decided to leave, the process would continue without them. Perhaps this is also the reason that led Australia to sign the agreement, even while its tension with China has intensified. After the signing of the agreement, Chinese diplomats in Canberra claimed that Australia is at fault for the current bleak situation between the two countries, and presented a list of 14 issues that demand Australia's "improvement." These include China's demand that the Australian government stop funding anti-Chinese research institutes, not intervene in internal Chinese issues and stop denouncing China's behavior in Hong Kong and Taiwan, refrain from boycotting Huawei in the new 5G communications infrastructure, and stop blocking Chinese investments in infrastructure and agriculture. Australia claimed in response that there should be direct contact between the leaderships to resolve the disputes. As part of the increasing tension, Australia's Prime Minister visited Tokyo and agreed in principle with his Japanese counterpart on advancing a bilateral agreement for military cooperation, which would include joint exercises.

It seems that some of the countries in Asia believe that alongside the substantial difficulties that have arisen in their relations with China, they must act whereby "if you can't beat them, join them," and try to advance economic partnerships with China while strengthening their strategic and military relations with other countries in the region. At

the same time, a significant portion of Asian countries expect that the Biden administration will return to the Asian arena in a consistent and orderly manner, including by rejoining the economic agreement that President Trump abandoned.

Implications for Israel

In recent years Israel has consistently and significantly expanded its economic relations with Asian countries. According to Central Bureau of Statistics figures, exports to Asia (2018) reached 24.7 percent of total Israeli exports, an increase of 2.5 percent from 2017, and overall they increased 12.6 percent over the previous year (6.1 billion NIS). Israeli imports from Asia reached 24.5 percent of total imports, and overall rose 11 percent (7.1 billion NIS). In the same year, exports to Europe dropped by 3.9 percent (2.5 billion NIS) and exports to the United States decreased by 1.6 percent (1 billion NIS). The quick recovery of the East Asian economies in the wake of the COVID-19 pandemic strengthens this trend, and underscores Israel's need to study the developing economic agreements among Asian countries and try, through them, to take part in more comprehensive trade with the region's countries.

The RCEP agreement will come into force after being ratified by all of the member countries – a process that is expected to take about two years. Its full implementation, with all of its various sections, is meant to extend over the course of 20 years. The agreement could have a negative impact on continued trade with countries outside the region, including Israel, due to the economic preference for trade between the partners. However, proper and focused preparations, under government auspices, could help Israeli exports trade with a uniform trade bloc, and strengthening the penetration of this bloc would develop new opportunities.

Israel succeeded in signing free trade agreements with the European Union, the United States, Canada, and Mexico at an early stage, and was able to advance its exports through these agreements. During the past few years negotiations have been underway regarding free trade agreements with several Asian countries, and Israel must adapt to the new reality in the region and examine how to use these negotiations to connect to the emerging trade bloc. The negotiations with South Korea are essentially complete, and they are in the final stages before an agreement is signed. For the past three years there have been negotiations with China, as well as with Vietnam, and last year negotiations with India were renewed. The Asian bloc emerging under the auspices of the RCEP makes it necessary for Israel to accelerate its negotiations with the member countries and expand them to additional countries included in the agreement. Israel would do well to advance a free trade agreement with Japan, with whom economic relations have strengthened in recent years, including with a signed investment agreement. Israel should also advance a free trade agreement with Thailand, which is a member of the ASEAN

organization. These, along with Singapore, could be "anchor" countries through which Israel could connect to the emerging trade bloc, while exploring future possibilities for advancing an economic partnership with the economic bloc itself. The Abraham Accords with the Gulf states also open up new opportunities in the East, as the UAE sees itself as a bridge between the East and the West.

In conclusion, the map of the world is changing, at least economically, and the centers of power and future growth are migrating to the Asia-Pacific region. It is recommended that the entities responsible for Israel's foreign relations and economy work together and strengthen the economic connections with this developing region that will help advance Israeli exports and the Israeli economy.