

Asia-Pacific Countries Push to Sign China-Backed Trade Megadeal

The 15-nation pact would create a second broad regional bloc without the U.S. as a member

By Jon Emont *and* Alastair Gale

China and 14 other Asia-Pacific nations seek to sign a trade deal this weekend that will knit their economies closer together—the second pact covering large swaths of the region whose signatories don't include the U.S.

The U.S. originally intended to be part of the first—a group of Pacific Rim countries called the Trans-Pacific Partnership, or TPP—but quit after President Trump took office. **The other 11 countries, including Japan, Canada, Mexico and Australia, went ahead without the U.S. and signed a lower-impact version of the deal in 2018.**

But that pact didn't include China, and the one now at the finish line does. Its progress after years of tough negotiation suggests Beijing's determination to further link its market with those of its neighbors, many of which already count China as their largest trading partner. The bloc would encompass 10 Southeast Asian countries, including Vietnam, Thailand and Singapore, as well as Japan, South Korea, Australia and New Zealand.

The agreement, **the Regional Comprehensive Economic Partnership, or RCEP,** could be signed Sunday. It would give a further boost to China's economy, already benefiting from the country's having controlled the coronavirus within its borders. China is expected to grow more than any major economy this year.

“The risk for the China-skeptical countries is this adds to the momentum of the China narrative in the region,” said Robert Ward, director of geo-economics and strategy at the International Institute for Strategic Studies, a think tank.

The deal will increase pressure on U.S. President-elect Joe Biden to bolster U.S. economic ties and fill a policy vacuum in a critical part of the world. Washington's withdrawal from the TPP became a symbol of what many in the region saw as a U.S. turn inward.

“RCEP’s exclusion of the U.S. may give Washington additional impetus to return” to the trade agreement, said Thitinan Pongsudhirak, director of the Institute of Security and International Studies at Chulalongkorn University in Thailand.

Mr. Biden said last year he would try to renegotiate the TPP. At best that won't be fast or easy: Trading partners like Japan may require concessions, and many in the U.S. remain skeptical of big free-trade pacts. Even before President Trump triumphantly withdrew from the TPP as one of his first official acts, it was effectively dead in the U.S.

No draft of the new China-backed pact has been released, but experts say it is likely to be shallower than the TPP. One official involved in the negotiations said it aims to lower tariffs, strengthen supply chains, set common rules on intellectual-property protection and ease business-visa arrangements, but doesn't touch on labor rights or environmental protections.

Still, it will facilitate trade, said Deborah Elms, Singapore-based executive director of the Asian Trade Centre, which works with businesses and governments on making trade policy. Currently, even countries with bilateral trade deals often impose high tariffs on finished goods such as televisions if a significant portion of the raw materials comes from a third country. The deal would allow companies to source raw materials from within the bloc, with their final product enjoying low or no tariffs.

“The net result is you're producing television sets in Asia for Asia that ultimately should have significantly lower prices for consumers,” said Dr. Elms, giving an example of a product that could be affected by the deal.

One significant impact is likely to be on trade between China and Japan, a rare pair of countries in the bloc not already part of a mutual free-trade arrangement. While Tokyo, a close U.S. ally, is wary of Beijing's growing political and military power, it has sought to sell

goods to China as its neighbor's economy has overtaken its own. They are now the second- and third-largest.

Japanese trade officials have highlighted expected reductions of Chinese tariffs on Japanese seafood and alcoholic beverages, but have said Japan will keep existing tariffs on some major agricultural goods such as rice to protect its farmers.

The person involved in the negotiations declined to discuss how much trade might increase, as the terms aren't yet final. But he said Japan would benefit from better access to the Chinese market, where it sells goods ranging from autos to semiconductor parts.

"China's consumer market is booming, so Japan could be able to sell more things like processed foods and beverages," the official said.

Japanese officials have played down suggestions China is leading the bloc and could use it to increase its regional influence.

U.S. ally Australia is also navigating a delicate relationship with China, its top trading partner. After Australia called for investigations into the origins of the Covid-19 outbreak in China earlier this year, Beijing slapped import restrictions on Australian beef, barley and wine.

Jeffrey Wilson, a trade specialist at Perth USAsia Centre, a foreign-policy think tank based at the University of Western Australia, said that while Beijing is part of the equation, the deal would help diversify Australia's exports beyond China. "It is actually a boon for Australia having access to all these markets for its products if they can't export to China," he said.

China has said the deal will benefit its businesses, workers and consumers and fight protectionism. "China is willing to work together with all members to build the RCEP free-trade zone to achieve common development and benefit the people of all countries," Gao Feng, a spokesman of China's commerce ministry, said in a briefing late last year.

Negotiations began in 2013, with progress slow in part because of the diversity of countries involved—from Asia’s poorest, such as Laos and Cambodia, to its wealthiest, such as Singapore and Japan. Talks were set back last year when India dropped out, fearing a flood of imports if it cut tariffs.

The others plowed ahead. The pandemic, which has devastated the region’s economies, has added to the appeal of the agreement. Many countries expected to join, including China, Vietnam and New Zealand, have effectively squashed Covid-19 and seen domestic demand revive—creating trade opportunities for the others.

—Rachel Pannett in Sydney and Grace Zhu in Beijing contributed to this article.