



# RCEP- What the world's largest trade agreement means



Source: [mapchart.net/world](http://mapchart.net/world)

The Asia-Pacific region is generally known for its high productivity and ambitious projects when it comes to steady economic growth. The Regional Comprehensive Economic Partnership (RCEP) was signed on November 15, 2020, after eight years of negotiations.

A total of 16 countries are involved:

- |   |                   |    |             |
|---|-------------------|----|-------------|
| 1 | Brunei-Darussalam | 9  | Thailand    |
| 2 | Cambodia          | 10 | Vietnam     |
| 3 | Indonesia         | 11 | Australia   |
| 4 | Laos              | 12 | China       |
| 5 | Malaysia          | 13 | Japan       |
| 6 | Myanmar           | 14 | South Korea |
| 7 | Philippines       | 15 | New Zealand |
| 8 | Singapore         | 16 | India       |



After Trump took over the Oval Office in 2017, he immediately pulled the U.S. out of the former Transpacific Partnership (TPP). Therefore, the United States is not part of the new trade zone. These circumstances are unlikely to change under Biden.

It is estimated that the agreement will increase global national income by \$186 billion annually by 2030. Especially China, Japan and South Korea will probably benefit more from the agreement than other member states.

### **Why is the RCEP so important?**

The participating countries account for almost one third of the world's population and economic output, making the RCEP the largest trade agreement ever established in the history of mankind. Surprisingly, the agreement has not been widely discussed in this country.

In the course of the new trade deal, China will further expand its power in Asia, making the country a very dominant player for its partners. Analysts interpret this step as a sign of growing independence from the USA. Trump's efforts to weaken the Asian giant have led to the Middle Kingdom strengthening its economic presence in many other regions (e.g. Russia).

But not only China, but especially Japan and South Korea will benefit from the new trade deal. In addition, there is currently very strong economic data from the region.

While Japan will not only be hosting the Olympic Games next year, the country with the strongest economic rebound of around **21.4% p.a.** can look forward to the coming year. China is currently at around **+ 4.9 % p.a.** Economic growth (5.3 % p.a. in the previous year) and South Korea at around **1.9 % p.a.**

By way of comparison: according to the OECD, global economic growth in 2020 will be **- 4.10 %**.

### **When economy is above diplomacy**

We consider the circumstances worthy of special mention that only last year an economic struggle between Japan and South Korea escalated, which already has its roots in the colonization of Korea Island but culminated in the early 20th century when the Japanese military brought Korea under its leadership. It is now all the more important that diplomatic disputes have been put aside in order to further accelerate economic growth.

The European Union has shown that close economic relations can lay the foundation for peaceful coexistence at the political level as well.

Japan welcomes the signing and announces significant increases in investment and strengthening of supply



chains within the newly established free trade zone. For the island state, RCEP means the first trade pact with China and Korea, which will account for around 46 % of the total trade volume.

Plans include an 86 % reduction in customs duties for trade with China and 81 % for trade with South Korea. Another 88 % will be abolished for the Southeast Asian member states as well as Australia and New Zealand.

In addition to sake, Japanese steel and household products as well as car parts will also be exempt from duty at a total of 86%, more than ten times the previous 8%.

### **Short summary of the agreement**

In total, the 510-page agreement includes provisions on telecommunications, financial services, electronic commerce and professional services, in addition to the obvious elimination of import duties. Another major achievement is the regulation on copyright or intellectual property. Since many existing FTAs have various restrictions and no transnational legislation, the participating countries benefit from a significant reduction in complexity.

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