

The Economic Partnership in Asia after the COVID-19 Pandemic

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1. The US-China Trade Friction and the Search for Wider Economic Sphere Creation in East Asia

The trade friction between the United States and China has been giving such an impact on the supply-chain which Japan is deeply involved in, that some Japanese businesses are moving their labor-intensive or North America-bound exports production hubs from China to ASEAN or South Asian countries. Originally, Japan is the world biggest value-added trade partner as well as the biggest investor for both the U.S. and China. Therefore, Japan would be in the best position to bridge the U.S. and China, based on the rules, by expanding the trade and investment. Japan also shall actively promote the observation of the international rules and rule-making processes, by strengthening the dialogue with other countries through the international cooperation, in the fields such as the trade (WTO reform), technology (investment/technology management), digital (Data Free Flow with Trust), infrastructure (high quality infrastructure principle).

How Japan should be involved in forming the wider economic sphere in Asia? The key is the "Free and Open Indo-Pacific." This concept was first laid out by then-Prime Minister ABE Shinzo at the Tokyo International Conference on African Development in 2016, which consists of 3 pillars of principles: 1) Promotion and establishment of the rule of law, freedom of navigation, free trade, etc.; 2) Pursuit of economic prosperity; and 3) Commitment for peace and stability. The concept eyes the significant economic growth of India and surrounding South Asian countries and the Africas, as well as the need of the supply-chain in East Asia to be expanded to those areas, while there is also a need in security field of the region, for example, to secure the sea lane against the emerging China and its Belt and Road Initiative (BRI) announced in 2013. The Belt and Road Forum for International Cooperation (BaRF) was held twice in Beijing, in 2017 and 2019 so far. Interestingly, at BaRF 2019, China indicated to accept an international standard by emphasizing the importance of 'universal international rule' which might have been due to the worsening environment for them ---trade conflict with the U.S. and the security concerns raised by originally pro-China Europe.

What are the reactions of countries on the Free and Open Indo-Pacific Initiative? First, ASEAN countries adopted their own version of the initiative, the ASEAN Outlook on the Indo-Pacific (AOIP) at the ASEAN Summit held last year, to promote the cooperation in the fields of maritime cooperation, connectivity, SDGs and other economic areas, which was widely welcomed

at the East Asia Summit last year as well. Second, U.S., Australia and India have their version of Indo-Pacific initiatives, too. Henceforth it is important that the initiative be spread to like-minded countries of Europe, Canada and New Zealand, as well. In the future, it would be important to seek a possibility to form a wider economic sphere that includes Russia and China under a common international rule.

2. RCEP Aimed at Signing within This Year

The Regional Comprehensive Economic Partnership (RCEP) negotiation began in 2013 among ASEAN+6 countries, that targeted to conclude the 7 years-long talks by the end of this year, despite India attempting to withdraw. The RCEP subsumes the 16 countries under the free trade agreement even if they were not bilaterally signed ---Japan with China and Korea, or India with China, Australia and New Zealand, etc.--- and also strengthens the existing ASEAN+1 FTA. As the development of the economic servicification and digitalization progressing in East Asia, high standard rule-making on e-commerce and intellectual properties under RCEP would be particularly beneficial for the region.

Despite the negotiations in 20 areas are almost completed after the long time talks at the time of the RCEP Summit in November, 2019, the Indian Minister of Commerce and Industry criticized at the press conference that the RCEP has become China-India FTA, thus India was willing to withdraw. India indeed has high domestic hurdles to overcome before joining the RCEP: a huge trade deficit with China, opposition to RCEP by farmers and low income workers, no significant achievements from 'Make in India' policy, protectionist policy with high tariff, and the economic/trade affairs with China being politicized since the spread of coronavirus, etc. While the COVID-19 pandemic raised the importance of sooner signing of the RCEP, it is likely be signed by 15 countries besides India at the Summit in November this year, judging from the result of the RCEP Ministerial Meetings held in June and August. Even so, RCEP will remain open to India's participation, as voiced at the ministerial meeting. For Japan, India's participation in RCEP will help realize the 'Free and Open Indo-Pacific,' will be a key to promote the free trade in the region, and critically important for the strengthening of and expanding the supply-chains between ASEAN or Northeast Asia and India. Besides RCEP, Japan has already been revising the ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEP), then would work on the China-Japan-Korea FTA that should be a higher value-added framework than RCEP. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) expects the joining of more countries, such as Thailand and the United Kingdom.

3. The Potentials of East Asia Cooperation after COVID-19 Pandemic

The coronavirus pandemic of this time has brought, not only to a particular area but worldwide, the 'supply shock' by the supply-chains being cut, the 'demand shock' by stopping the consumer services, and the 'income/unemployment shock' by decreasing the income and employment

opportunities from the aforementioned two, which in total has been further worsening the economy. The International Monetary Fund (IMF) forecasted in June the world economic growth would be, by further degrading its forecast in April, -4.9% compared to the year before, which was the lowest ever since the Great Depression. The physical movements of people, goods, money and data under globalization were the driving force of the world economic growth till this day. As those physical movements are limited today, the advanced digitalization would take over the role. Despite the US-China friction, the world needs to cooperate more than ever, and the role for Japan would be bigger in such areas of infectious disease prevention or economic recovery. Given the current pandemic circumstance, Japan needs to come up with specific policies to respond to avoid the conceivable risks, with the required time frames for the policy performances in mind, considering the direction of economy and society (i.e., 'new normal'), by utilizing the international/regional arena such as East Asia Summit.

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