RCEP: A guide to the world's largest trade agreement

ASIA HOUSE ADVISORY **BRIEFING**

The world's largest trade agreement, driven by Asia

Leaders of 15 Asia-Pacific economies – the ASEAN 10 plus Australia, China, Japan, New Zealand and South Korea – signed the Regional Comprehensive Economic Partnership (RCEP) on Sunday 15 November, creating the world's largest economic bloc.

The 15 RCEP economies together make up 30 per cent of the world population and just under 30 per cent of global GDP. The agreement notably no longer includes India, which dropped out in November 2019, but the deal leaves the door open for New Delhi should they wish to join in the future.

Signatories hope that the agreement will boost trade across the bloc by lowering tariffs, standardising customs rules and procedures, and widening market access. According to the Brookings Institution, RCEP has the potential to grow global real incomes by US$285 billion annually if put into place before 2030 – which, in absolute gains, could be twice that of the Comprehensive and Progressive Trans-Pacific Partnership agreement (CPTPP).

What RCEP covers, and what it doesn't

RCEP's origins are in an attempt to harmonise ASEAN's agreements with its key trading partners though the project grew into a major trade expansion exercise for ASEAN and six neighbouring economies. The negotiations have been tricky throughout due to divergent goals, diversity of the economies taking part, and external factors, not least the US-China trade war and geopolitical tensions. There was a tension between a tariffs and goods-based agreement favoured by economies including China, and a 'high quality' agreement favoured by the more advanced economies of Japan, Australia and New Zealand. The lack of alignment from the outset has resulted in protracted negotiations and perhaps less ambitious targets overall. After causing significant delays, India eventually dropped out of the agreement (see below) although the door still remains open for them to join.

The final agreement is substantial and will drive trade in the region, lowering trade barriers at the border and improving the in-market regulatory environment. The agreement's 20 chapters cover tariffs, rules of origin, digital aspects, intellectual property, and provide a framework for future negotiations and updates.

Key benefits

- Tariff reductions – The agreement is expected to reduce tariffs on between 90 and 93 per cent of tariff lines but will maintain carve-outs for agricultural products.
- Creation of common rules of origin – The creation of a common rule of origin will allow companies to ship products between RCEP countries with a single certificate of origin, lowering costs and incentivising regional supply chains.
- Digital copyright rules and intellectual property – The digital copyright rules in the final draft are stronger than expected, going beyond what is included in the CPTPP.
- (Limited) Services, investment and standards provisions – Though the provisions are relatively weak, they are there, and may be expanded in the future.

Key limitations

- Environment and labour: Notably, RCEP does not include chapters on labour or the environment, two issues which are increasingly addressed in major trade agreements.
- Extent of tariff reductions: While tariffs will be reduced, by comparison, CPTPP will reduce tariffs to zero on 99 percent of tariff lines. Carveouts for agriculture also reduce the potential impact of the agreement considering the nature of the member economies.
- Missed opportunity on e-commerce: given the rising importance of e-commerce in the region, there are no prohibitions on data localisation or barriers, cross-border data flows, or customs duties on electronic transmissions.

Implications for business

RCEP is expected to primarily benefit goods trade by reducing tariffs, and most critically for supply chains, creating common rules of origin in the bloc. This will allow companies to ship products between RCEP countries without needing to worry about specific rules of origin criteria. Most significantly, this means that companies can make products in any RCEP country and be able to ship to any of the 15 RCEP with a single certificate of origin. This will reduce trade costs for companies and could further encourage multinationals to establish supply chains within the bloc. The regionalisation of supply chains has been on-going for some time, driven by changing patterns of demand and input costs, and a greater integration of risk into supply models. Global trade tensions driven by the US-China trade war and the disruption of the COVID-19 pandemic have further supported a regional model, enabled and reinforced by regional agreements such as RCEP.

Where does RCEP fit into global trade?

A simplistic interpretation has been that RCEP is a China-led agreement developed as a counterbalance to the CPTPP which is driven by close US ally Japan – the CPTPP's precursor, the TPP, was originally driven by the US itself. This analysis broadly falls apart on contact with reality, not least because Japan is a member of both agreements – the blocs share a total of seven members – and China announced its interest in joining the CPTPP earlier this year. The CPTPP has a much broader geographic scope – including economies in the Americas (Canada, Chile, Mexico, Peru) and possibly Europe (UK), whereas RCEP's foundations are firmly in Asia, being based around ASEAN and its key trading partners. However, it is true that China has been a big supporter of the agreement, and broadly its goods and tariffs preferences have been borne out.

	RCEP 15	CPTPP 11
Australia		
Brunei		
Cambodia		
Canada		
Chile		
China		*Announced interest, 2020*
Indonesia		*Announced interest, 2018*
Japan		
Laos		
Malaysia		
Mexico		
Myanmar		
New Zealand		
Peru		
Philippines		*Announced interest, 2020*
Singapore		
South Korea		*Announced interest, 2018*
Thailand		*Announced interest, 2018*
Vietnam		
India	*Dropped out, 2019*	
Taiwan		*Announced interest, 2016*
US		*Dropped out, 2017, announced interest, 2018*
UK		*Announced interest, 2018*
Columbia		*Announced interest, 2018*

In reality, ASEAN has been the real driver from the beginning, with the agreement based around a 'cooperation agenda' with more developed trading partners supporting the (generally) less-developed ASEAN economies. As mentioned above, the agreement is based on ASEAN's FTAs and ASEAN and its economies have played a major role driving negotiations. In geopolitical terms, the agreement positions ASEAN at the centre of the Asia Pacific region. The agreement could be seen as an example of ASEAN's refusal to choose between Chinese and US spheres of influence. The agreement also provides cover for other trade corridors that would be politically more challenging outside a plurilateral agreement – Japan-China and Japan-Korea trade for example.

RCEP's potential for key markets

Japan: The RCEP will be Japan's first signing of a free trade framework that includes both China and South Korea, two of its biggest trading partners. Political relations with both countries are frequently difficult and so the agreement may support continued economic relations even when the politics heats up. The bloc is likely to particularly benefit Japanese companies with manufacturing bases and supply chains across RCEP signatories.

China: China could benefit significantly from RCEP with increased market access for goods and the opportunity to build its strategic position for its investment support and state-owned enterprises. It is already ASEAN's biggest trading partner and the agreement will support this status quo.

ASEAN: Though ASEAN already has 'plus one' agreements with the non-ASEAN members of the RCEP, the signing and implementation of RCEP will provide concrete market access and boost investment commitments by simplifying the rules for each trade agreement within a single agreement. The opportunity for technical cooperation with advanced industrialised countries within the RCEP could also help ASEAN companies become more competitive, particularly in telecommunications and agriculture. Additionally, the collective added value of the deal for RCEP members will see ASEAN benefit in the aggregate, while the strengthening of regional supply chains is also advantageous to the bloc. Indonesia will likely benefit from the increase in market access, investment, and opportunities to participate in regional supply chains, while Thailand - where export shipments account for 70 per cent of GDP – will also benefit from greater integration of supply chains and markets in Asia Pacific.

Australia and New Zealand: Critically, RCEP will improve access to markets in the Asia Pacific region. For Australia, the countries in RCEP account for almost 60 per cent of two-way trade and over 56 per cent of goods and services exports. The agreement may also help diffuse growing tensions between China and Australia, both signatories to the RCEP.

Why did India withdraw?

India withdrew from RCEP in November 2019 with Indian Minister of External Affairs Subrahmanyam Jaishankar saying that 'no agreement was better than a bad agreement'. India's main concerns revolved around sections on market access and trade imbalances in industrial and agricultural trade. Fears of market access for more competitive goods from China was at the root of many of the concerns. India has trade deficits with 11 of the 15 economies– and calculated that the deal would exacerbate the situation. However, provisions that specifically address India will simply be frozen, and the agreement will remain open for India to re-join at any time.

Trade deals in force among original RCEP countries

	ASEAN	Australia	China	India	Japan	New Zealand	South Korea
ASEAN	N-A	Yes, with New Zealand	Yes	Yes	Yes	Yes, with Australia	Yes
Australia	Yes, with New Zealand	N-A	Yes	No	Yes	Yes	Yes
China	Yes	Yes	N-A	No	No	Yes	Yes
India	Yes	No	No	N-A	Yes	No	Yes
Japan	Yes	Yes	No	Yes	N-A	No	No
New Zealand	Yes, with Australia	Yes	Yes	No	No	N-A	Yes
South Korea	Yes	Yes	Yes	Yes	No	Yes	N-A

Source: CNBC

Asia House Advisory

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