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The First Anniversary of the Implementation of the Regional Comprehensive Economic Partnership

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After a marathon of 31 rounds of negotiations in eight years, the RCEP (Regional Comprehensive Economic Partnership), which includes the 10 ASEAN members (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam) and Australia, China, Japan, New Zealand and the Republic of Korea, was signed in November 2020. From January 2022, RCEP has officially become operational.

In the face of a fast-changing global geostrategic environment, the conclusion of the RCEP agreement shows that member countries are showing their support for free trade and multilateralism with practical measures, and for rules-based multilateral trade.

RCEP is a modern and comprehensive mega-regional trade agreement. It covers a third of the global population and gross domestic product (GDP), and remains the largest free trade agreement. It marks a milestone in regional integration amidst increasing doubts about globalisation in Western countries.

Furthermore, RCEP is the first regional free trade agreement that includes the three Northeast Asian economies of China, Japan and the Republic of Korea. Over the years, there has been little progress in negotiations between China, Japan and Republic of Korea on the trilateral free trade area agreement; the RCEP agreement is to some extent close to achieving this goal.

Member states are committed to achieving zero tariffs on more than 90% of intra-regional trade in goods through immediate and gradual tariff reductions over a period of 10 years, and to the gradual elimination of non-tariff barriers. RCEP's inclusive and reciprocal free trade agreement

meets the interests of different member countries to the greatest extent. The agreement establishes special and differential treatment provisions to give additional flexibility to the lowest-income countries such as Myanmar and Cambodia.

RCEP has achieved greater access to service trade and cross-border investment, and greatly eliminated discriminatory measures in service trade. It has fully liberalised at least 65% of the service sector, including professional services, communication services and financial services. Besides, new rules on e-commerce facilitation have been added, providing for paperless trade, electronic authentication and signatures, online protection of consumers' personal information and cybersecurity. The agreement aims to promote the widespread promotion of the use of e-commerce among member countries and strengthen cross-border e-commerce cooperation.

According to the agreement, the 15 member countries will comply with common tariff rates, rules of origin, investment access, intellectual property and e-commerce. RCEP intra-regional common rules of origin will reduce the production costs of multinational enterprises in the regional supply chain. Enterprises can flexibly allocate production resources in RCEP member countries to reduce the production cost of final products and enjoy tariff preferences under the RCEP agreement. The pragmatic arrangement of common rules of origin reflects the resilience of the RCEP agreement. It will benefit developing member states (e.g. Cambodia, Laos and Vietnam) by attracting more foreign investment and incentivising the relocation of labour-intensive manufacturing factories out of China.

RCEP member countries only need a certificate of origin or declaration of origin. Harmonised rules of origin and commitment to calculate the added value of products within all RCEP member countries have been implemented. This will enable multinational companies to conveniently inspect and transport products in member countries without having to worry about specific rules of origin standards for each member state or manufacturing step.

The RCEP agreement will not only effectively reduce trade costs and eliminate market barriers between member countries, thereby improving the level of trade and investment facilitation, but also promote the process of economic integration in the Asia-Pacific region. The huge consumer market and economic strength of RCEP member countries will lead to an increase in real trade in the Asia-Pacific region and bring new business opportunities for enterprises in member countries in their quest for expanding investment and increasing market share. For example, in the case of Malaysia, according to the Asian Development Bank's estimation, RCEP will generate additional economic benefits of US\$7 billion per year and an additional US\$12 billion per year in exports by 2030. Industries such as electronic communications, financial services, catering, chemicals and rubber will receive additional development opportunities.

ASEAN has played an important role in the RCEP, since negotiations were initiated in 2012 in Phnom Penh, Cambodia, to the final agreement that was formally signed by the 15 RCEP member nations when the negotiations were completed during Vietnam's chairmanship of ASEAN. By leading the RCEP negotiation process, ASEAN has consolidated its pivotal position in formulating regional trade rules and promoting regional economic integration.

RCEP is expected to help ASEAN economies integrate into the global economy and ASEAN's less developed member countries accelerate industrialisation. It is also set to enhance the ability of the latter countries to participate in regional industrial chains, thereby driving their economic growth and narrowing the economic development gap with developed member countries.

RCEP is approaching its first anniversary; the agreement has boosted the trade of its member countries thanks to the reduction of tariffs and measures taken to facilitate trade. The flow of logistics, people and capital within RCEP countries has become more frequent and convenient. Thai exports of goods, such as automobiles, have benefitted from an export dividend deriving from expanded market access and elimination of tariff and non-tariff barriers. RCEP has also injected a vital impetus to Cambodia's trade growth in the post COVID-19 pandemic era. Cambodia's trade with other member countries was valued at US\$24 billion for the first nine months of 2022, up 11% year-on-year.

Likewise for Singapore, it was the first country to ratify the agreement. As one of the signatories to the RCEP, Singapore can enjoy an average tariff elimination of about 92% for traded goods, progressively over the next 20 years. The preferential market access is set to enhance the competitiveness of Singaporean producers in regional markets. Singapore's financial services sector will benefit from the increased demand for banking, insurance and other financial services delivered to companies in member countries through the financial services liberalisation chapter of the agreement.

In the case of the Republic of Korea, the RCEP agreement has helped to boost its foreign trade with other RCEP countries since its implementation in 2022. According to Korea Customs statistics in Table 1, the export value of the Republic of Korea to ASEAN increased by 14.7% to US\$124.92 billion in 2022 from US\$108.83 billion in 2021, while its import value from ASEAN countries reached US\$82.54 billion in 2022, compared to the corresponding figure of US\$67.71 billion in 2021. The bilateral trade between the Republic of Korea and Australia also increased by 49.2% to US\$63.67 billion in 2022 from US\$42.67 billion in 2021.

TABLE 1 REPUBLIC OF KOREA TRADE STATISTICS FOR EXPORT/IMPORT TO OTHER RCEP MEMBER STATES (US\$ Billion)

Country	Export Value		Import Value		Trade Balance	
	2021	2022	2021	2022	2021	2022
ASEAN Countries	108.83	124.92	67.71	82.54	41.12	42.38
China	162.91	155.78	138.63	154.57	24.28	1.21
Japan	30.06	30.63	54.64	54.71	-24.58	-24.08
Australia	9.75	18.76	32.92	44.91	-23.17	-26.15
New Zealand	1.82	3.49	1.85	1.60	-0.03	1.89

Source: Korea Customs Service.

According to the latest data released by China Customs in January 2023, in 2022, China's trade volume with other RCEP member countries grew rapidly, reaching US\$1.94 trillion, up by about four per cent over the previous year and accounting for 46.3% of China's total foreign trade in goods. According to China Customs statistics in Table 2, China's export value to other RCEP member countries increased in 2022, compared to the corresponding figure in 2021. Nevertheless, except for ASEAN countries, China's import value from other RCEP member countries had witnessed a slight decline mainly due to the widespread lockdowns imposed and the weak domestic consumption demands.

TABLE 2 CHINA TRADE STATISTICS FOR EXPORT/IMPORT TO OTHER RCEP MEMBER STATES (US\$ Billion)

Country	Export Value		Import Value		Trade Balance	
	2021	2022	2021	2022	2021	2022
ASEAN Countries	483.69	567.28	394.51	408.05	89.18	159.23
Japan	165.84	172.92	205.55	184.49	-39.71	-11.57
Republic of Korea	148.86	162.62	213.48	199.66	-64.62	-37.04
Australia	66.38	78.82	164.82	142.09	-98.44	-63.27
New Zealand	8.56	9.17	16.15	15.97	-7.59	-6.8

Source: China Customs.

When combined, ASEAN countries particularly continue to maintain their positions as China's largest trading partners. From Cambodian rice to Thai coconut perfume and Vietnamese passion fruit and durian, more and more ASEAN agricultural products have better access to the Chinese market.

RCEP will bring new business opportunities to Chinese companies and direct investment to ASEAN. In 2022, the Chinese electric vehicle company BYD announced that it will set up an electric vehicle factory in Thailand to produce 150,000 electric vehicles per year after completion in 2024 for markets in Thailand and other ASEAN countries. The Thai plant will be BYD's first electric vehicle manufacturing plant in Southeast Asia and the company's first passenger car plant overseas.

BYD's investment will not only help to strengthen Thailand's development as an automobile manufacturing centre and new energy industry in Southeast Asia, but also allow Chinese enterprises to capitalise on relevant technological advantages in order to expand outbound investment and ASEAN market opportunities. In the same vein, it will strengthen cooperation between China and ASEAN in the field of manufacturing.

Nevertheless, RCEP has certain limitations. First, RCEP is not the most open free trade agreement. It lacks the depth and breadth of a full free trade agreement as zero tariffs apply to only around 90% of industries and products.

Second, the RCEP agreement does not set strict standards and restrictions on member countries in terms of intellectual property protection, state-owned enterprises, labour market, competition policy and internet rules. These aspects not covered by the RCEP agreement represent important policy directions and new opening up negotiations for the future construction of a high-level regional free trade area.

While RCEP cannot achieve the goal of reforming global economic and trade rules, it could meet the challenges of the global economic downturn and the decline in international market demand by accelerating regional economic integration. By further consolidating the RCEP agreement, market access between member countries can be expanded, and two-way investment areas and sectors can be increased to expand the scale of intra-regional trade and find new export markets for surplus capacity.

Note: An initial version of this article was first published as a CGTN Commentary at <https://news.cgtn.com/news/2023-01-01/The-RCEP-approaches-its-first-anniversary-1g9xLQ5KdK8/index.html>.

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