

Macro Note

Asia: RCEP To Enter Into Force On 1 Jan 2022

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- After the governments of Australia and New Zealand announced on 2 Nov 2021 their ratification of the Regional Comprehensive Economic Partnership (RCEP), the Agreement will come into force from 1 Jan 2022. This follows Thailand's ratification on 28 Oct 2021, meeting the requirement of at least six ASEAN countries and three non-ASEAN countries ratifying and taking the Agreement into effect.
- RCEP is the world's largest free trade agreement (FTA), covering 30% of the global GDP and world's population, 27% of the world's total trade value, 33% of global FDI inflows, and more than 40% of the world's manufacturing output.
- With the broadening and deepening of linkages among the RCEP members, there will be benefits from lower tariffs, increase in services trade and investment flows from even beyond the region as well as enhanced protections in areas such as e-commerce and intellectual property.
- RCEP fits well into China's dual circulation strategy, which capitalizes its large domestic market at the core of the strategy, and interacts the domestic market with the external market through trade, investment and capital flows and its manufacturing capability. This will in turn reinforce the growth and economic prospects of RCEP members.

World's Largest Trade Agreement to Come Into Force

After the governments of Australia and New Zealand announced on 2 Nov 2021 their ratification of the Regional Comprehensive Economic Partnership (RCEP) Agreement, it will come into force from 1 Jan 2022. Ratification by members of the Agreement is required for it to come into force, requiring at least six ASEAN countries and three non-ASEAN countries.

This takes into consideration of the requirement that the Agreement will enter into force 60 days after Signatory States have deposited their instruments of ratification, acceptance, or approval, with the Depositary. With the deposit by Australia and New Zealand on 2 Nov, the Agreement will thus enter into force with the other Signatory States on 1 Jan 2022. Other Signatory States that have already ratified and deposited their ratification instruments include Brunei, Cambodia, Laos, Singapore, Thailand, Vietnam, China and Japan.

Ratification of the Agreement was no surprise and came almost one year after leaders and ministers from 15 RCEP economies announced the full conclusion of negotiations for the Agreement at a Summit on 15 Nov 2020.

Looking Back: Crossing the Finishing Line After 9 years

The RCEP Agreement was first proposed in 2012, and involved 46 negotiating meetings, 19 ministerial meetings and 3 Leaders Summits to reach the signing of the Agreement on 15 Nov 2020.

Against a backdrop of rising trade protectionism, deglobalisation and the COVID-19 pandemic causing severe disruption and uncertainty to global production and supply chains, the coming into force of the Agreement reaffirms the grouping's determination of further trade liberalization and closer economic cooperation, thus paving the way for renewed vigour for the RCEP members in the post-pandemic world.

What is RCEP?

The Regional Comprehensive Economic Partnership (RCEP) is the **world's largest free trade agreement (FTA), covering 30% of the global GDP and world's population, 27% of the world's total trade (i.e. merchandise exports and imports) value, 33% of global FDI (foreign direct investment) inflows, and more than 40% of the world's manufacturing output** in 2020.

RCEP has total of 15 member states and is based on existing FTAs among its members. They comprise a diverse group of countries in the Asia Pacific, from developed economies such as Japan, South Korea, Australia and New Zealand, to middle income economies in ASEAN, and China, which is the second largest economy in the world.

The main aim of RCEP is to lower tariffs, open up trade in services, facilitate the flow of foreign investments, and enhance protections in areas such as e-commerce and intellectual property, with the broadening and deepening of economic and trade linkages among its members.

RCEP will increase the ease for many of the Chinese companies to invest in the regional members, while other member countries will also benefit from having greater access to opportunities in the large and rising markets including China and ASEAN. Under the Agreement, there will be further market access into China, Japan and South Korea.

Under the Agreement, simplified customs procedures and enhanced trade facilitation measures will allow for efficient administration of procedures and expeditious clearance of goods. This includes the release of express consignments and perishable goods within six hours of arrival, thus lowering transaction time and costs for all parties.

Within the services trade, at least 65% of the sectors are open to foreign participation and with increase in permissible foreign shareholding limits in some RCEP markets. Certain sub-sectors will be open for 51% foreign equity participation across various sectors including Telecommunications, Financial Services, Computer Related Services, Professional Services, and the Distribution and Logistics Services.

Supply chains and value chains will be further integrated into the RCEP platform, as regional cumulation allows businesses to include the use of raw materials and parts sourced from any of the other 14 RCEP markets as originating content. This makes it easier for businesses to meet the required rules of origin for their exports, and thus benefit from preferential treatment and greater cost-savings.

This development is particularly significant to the **global manufacturing and value chains, as the RCEP Agreement covers more than 40% share of the world's manufacturing value added, or more than 3 times the amount generated by the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) agreement.** This suggests that RCEP will further accelerate integration of the production chain among its members, thus raising the efficiency and competitiveness of its member states.

Summary table: Comparison of RCEP With Other Trade Agreements (2020)

	RCEP	RCEP+India	CPTPP	CPTPP+US	USMCA
Population (million people)	2,314.7	3,694.7	511.6	842.6	497.7
<i>Population (% of world's population)</i>	<i>29.7</i>	<i>47.1</i>	<i>6.5</i>	<i>10.7</i>	<i>6.3</i>
Nominal GDP (USD trillion)	26.2	28.9	10.8	31.7	23.6
<i>Nominal GDP (% of world's GDP)</i>	<i>30.8</i>	<i>34.0</i>	<i>12.7</i>	<i>37.3</i>	<i>27.8</i>
Per capita GDP (USD)	11,320	7,812	21,156	37,643	47,444
Total exports (USD trillion)	5.42	5.69	2.74	4.17	2.24
<i>Total exports (% of world's exports)</i>	<i>30.8</i>	<i>32.3</i>	<i>15.6</i>	<i>23.7</i>	<i>12.7</i>
Total imports (USD trillion)	4.68	5.05	2.57	4.98	3.21
<i>Total imports (% of world's imports)</i>	<i>26.2</i>	<i>28.3</i>	<i>14.4</i>	<i>25.8</i>	<i>18.0</i>
Total trade (USD trillion)	10.10	10.75	5.32	9.15	5.45
<i>Total trade (% of world trade)</i>	<i>28.5</i>	<i>30.3</i>	<i>15.0</i>	<i>25.8</i>	<i>15.4</i>
Foreign Direct Investment, FDI (USD billion)	329.1	393.2	207.3	363.6	209.2
<i>FDI Inflows (% of world total FDI)</i>	<i>32.9</i>	<i>39.4</i>	<i>20.8</i>	<i>36.4</i>	<i>20.9</i>
Manufacturing value added (USD trillion)	6.10	6.50	1.69	3.87	2.54
<i>Manufacturing value added (% of world's output)</i>	<i>43.4</i>	<i>46.2</i>	<i>12.9</i>	<i>29.4</i>	<i>19.3</i>

Source: Macrobond, UOB Global Economics & Markets Research est

RCEP: Regional Comprehensive Economic Partnership, comprising the 10 ASEAN members, plus China, Japan, South Korea, Australia and New Zealand

CPTPP: The Comprehensive and Progressive Agreement for Trans-Pacific Partnership; comprises of 11 members: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam

USMCA: United States-Mexico-Canada Agreement, which succeeds the North American Free Trade Agreement (NAFTA)

What Is Next For RCEP?

RCEP will eliminate as much as 90% of the tariffs on imports between its parties, and some of the cuts would take place over 20 years of the Agreement coming into effect.

India had pulled out of talks in Nov 2019, concerned that the elimination of tariffs would open its markets to a flood of imports that could harm local producers. While there may be a chance that India could rejoin in future, RCEP on its own is already quite a substantial FTA. This is unlike the CPTPP, which is just a shadow of its former self without the participation of the US.

Recall that then US President Trump withdrew the United States from the Trans-Pacific Partnership (TPP) in 2017, which was set to become the world's largest trade agreement at that time. Even with the absence of an anchor economy, the remaining 11 member states of the TPP forged the CPTPP, which entered into force on 30 December 2018. **CPTPP is about half the size of RCEP in terms of GDP and export value.** For more background story of the TPP and RCEP, please refer to our report ([Asia: What Is In Store For Trade After TPP?](#), 25 November 2016).

With RCEP showing the way forward, it remains to be seen whether the US will rejoin CPTPP to exert its influence in global trade. To a certain extent, the demise of TPP and rising trade protectionism in subsequent years could be a key catalyst for the accelerating of the RCEP into reality. However, with China indicating its interest in joining the CPTPP, a successful bid will bolster the size and influence of CPTPP significantly.

RCEP and China's Dual Circulation Strategy

As the world's second largest economy, China's merchandise trade with the RCEP members is already quite substantial. As a group, RCEP is China's largest trade partner accounting for more than 30% of China's total trade (Jan-Sep 2021), compared to ASEAN's 14% share in China's total trade. In addition, China's Belt & Road Initiative (BRI) will also be entrenched further within the RCEP context, as many member states are also connected via BRI.

With China's retail market set to overtake the US to become the world's largest in the years ahead, it is important that businesses have access to opportunities in such a sizeable market and in the most efficient manner.

Coupled with the rising affluence in ASEAN itself, the RCEP will help attract investors beyond the region as the Chinese and regional markets will be seen as an "integrated market".

As such, RCEP fits well into China's dual circulation strategy, which capitalizes its large domestic market at the core of the strategy, and interacts the domestic market with the external market through trade, investment and capital flows and its manufacturing capability. With nearly half of the world's manufacturing output produced by RCEP members, the Agreement will further elevate their export competitiveness and efficiency.

As the RCEP integrates further the Asia Pacific economies and markets, there is a reasonable chance that China will be able to achieve the doubling of the Chinese economy by 2035. This will in turn reinforce the growth and economic prospects of RCEP members.

For more details on China's dual circulation strategy, please refer to our publications:

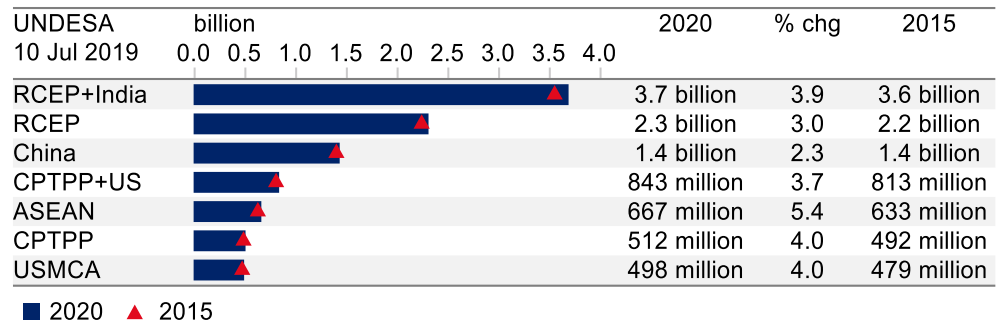
[China: 14th 5-Year Plan \(2021-2025\) and Long-Range Objectives Through the Year 2035](#), 4 Nov 2020 (English version);

[中国：十四五规划（2021-2025年）和2035年远景目标](#), 9 Nov 2020 (Chinese version).

RCEP Chart Pack

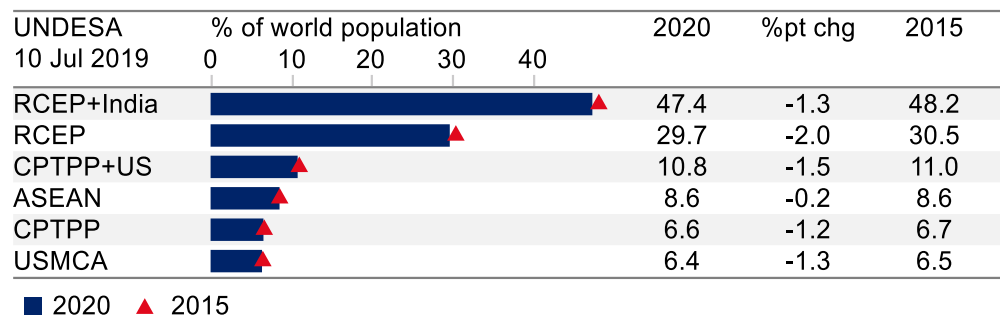
Population Size, Annual

Source: Macrobond, UOB Global Economics & Markets Research



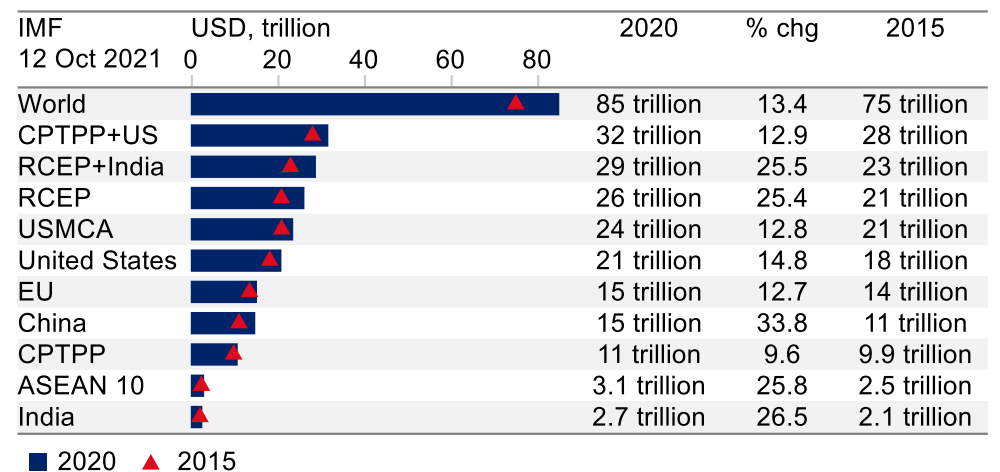
Population Size, Annual, % of World

Source: Macrobond, UOB Global Economics & Markets Research



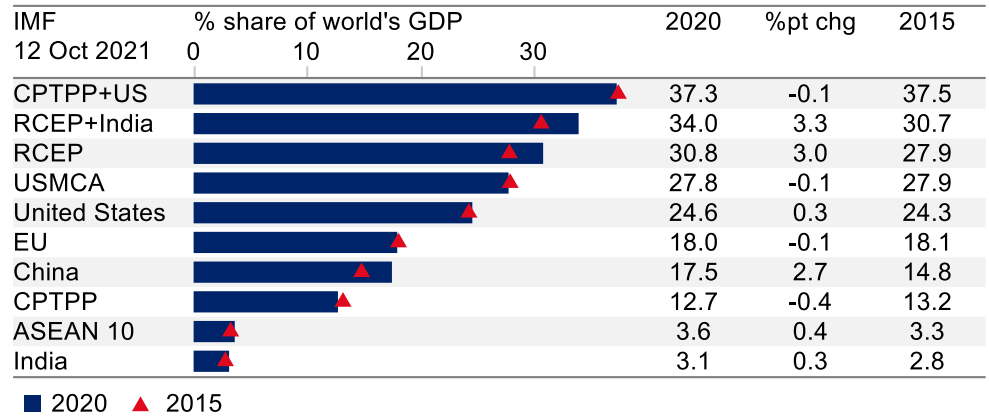
Size of Economy: GDP In Current Prices, USD

Source: Macrobond, UOB Global Economics & Markets Research



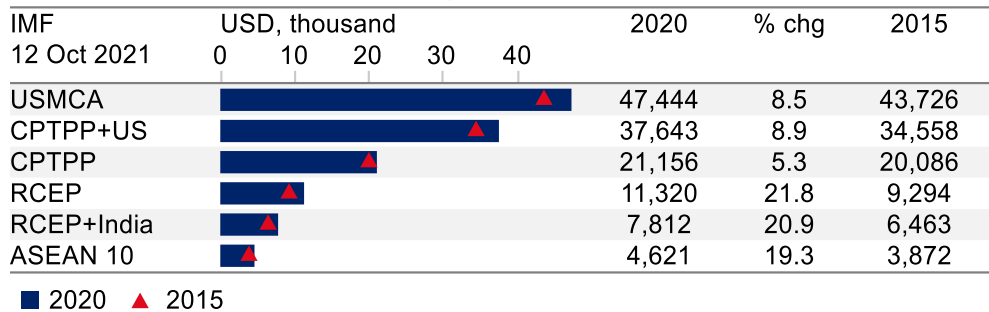
Size of Economy: GDP In Current Prices, % of Total

Source: Macrobond, UOB Global Economics & Markets Research



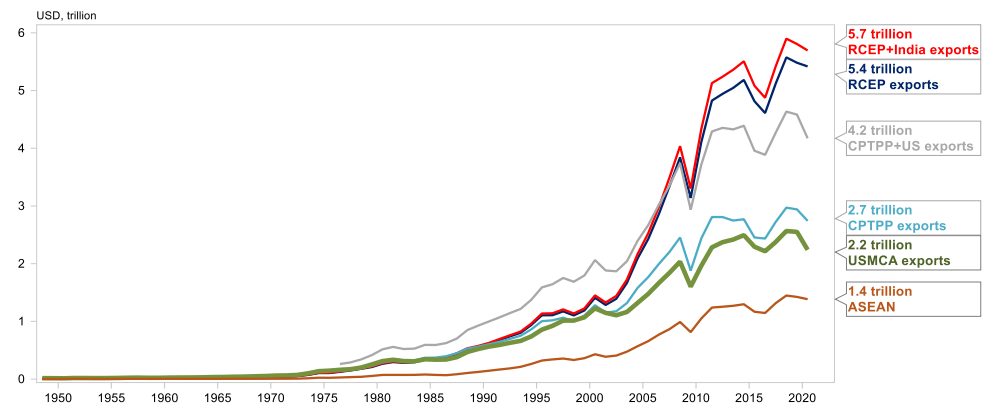
Per Capita GDP, USD

Source: Macrobond, UOB Global Economics & Markets Research



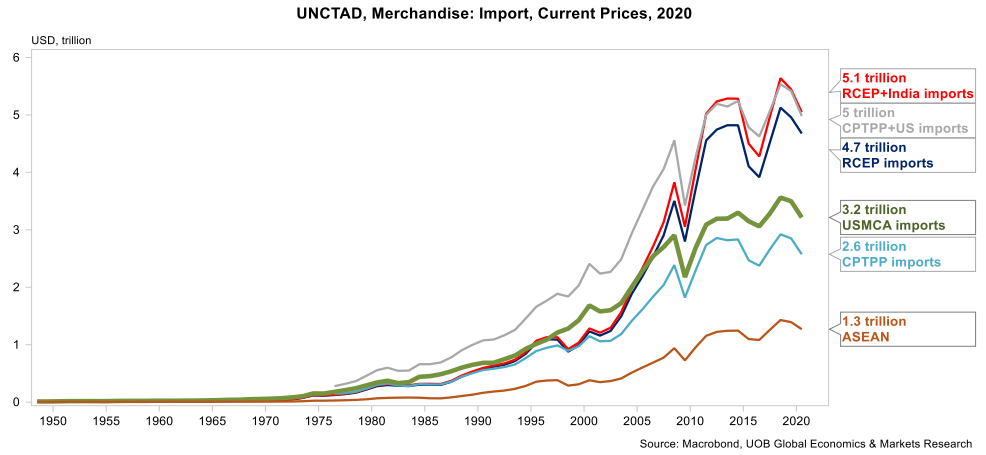
UNCTAD, Merchandise: Export, Current Prices, 2020

Source: Macrobond, UOB Global Economics & Markets Research



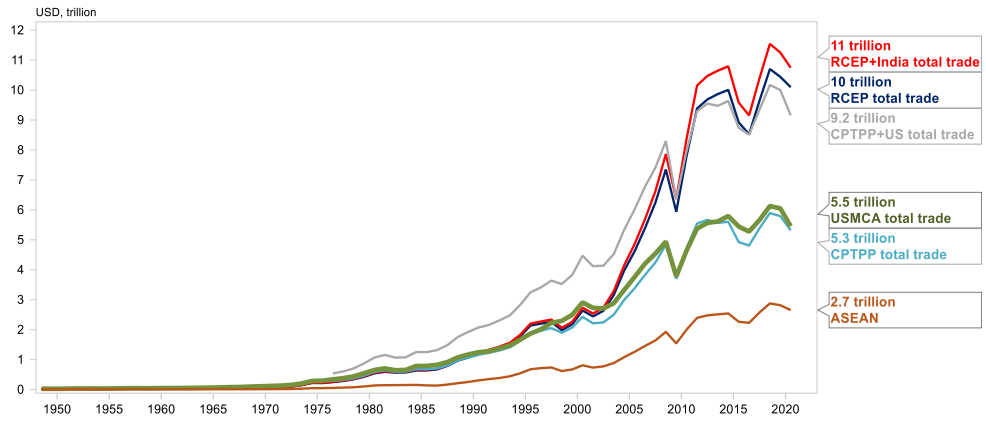
UNCTAD, Merchandise: Import, Current Prices, 2020

Source: Macrobond, UOB Global Economics & Markets Research



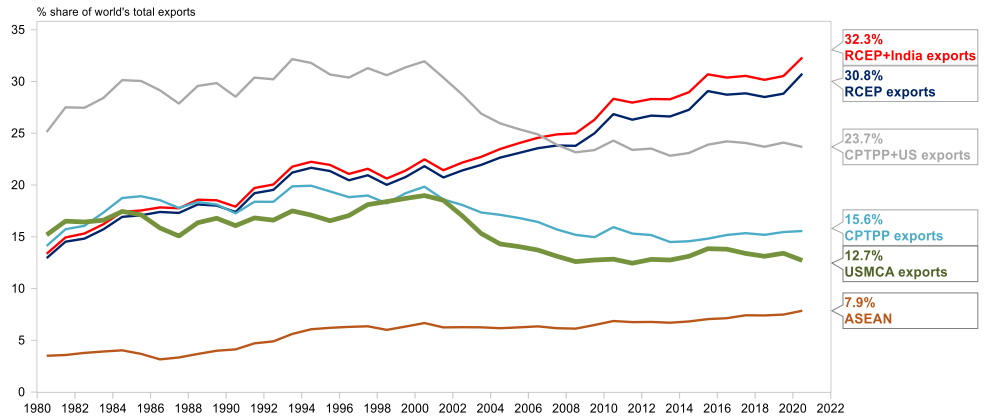
UNCTAD, Merchandise: Total Trade (Export+Import), Current Prices, 2020

Source: Macrobond, UOB Global Economics & Markets Research



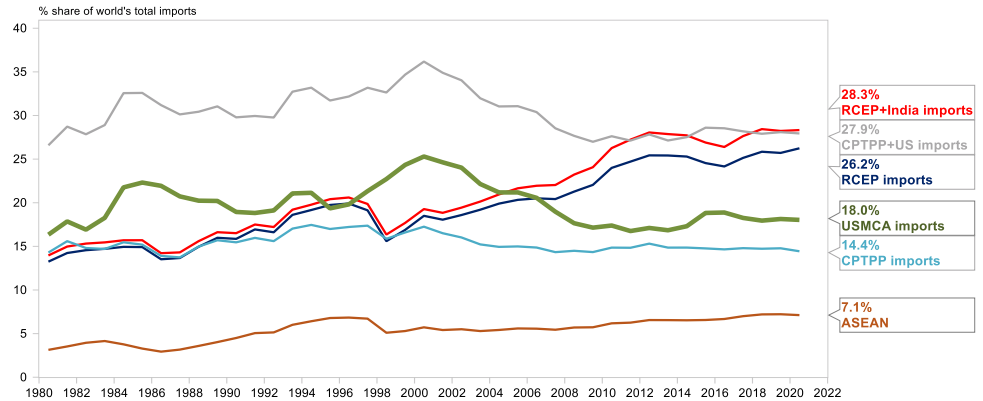
UNCTAD, Merchandise: Exports, % of World's Total Exports, 2020

Source: Macrobond, UOB Global Economics & Markets Research



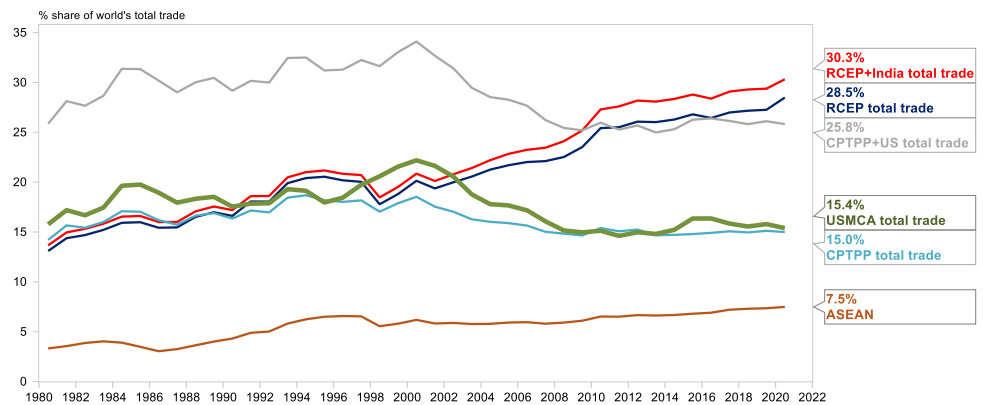
UNCTAD, Merchandise: Imports, % of World's Total Imports, 2020

Source: Macrobond, UOB Global Economics & Markets Research



UNCTAD, Merchandise: Total Trade, % of World's Total Trade, 2020

Source: Macrobond, UOB Global Economics & Markets Research



Top Foreign Direct Investment (FDI), Inflows Destinations

Source: Macrobond, UOB Global Economics & Markets Research

UNCTAD	USD, trillion				2020	y/y % chg	2019	CAGR %	2009
Last: 20 Oct 2021	0.0	0.4	0.8	1.2		2020		2009-19	
World					999 billion	-33.2	1.5 trillion	1.9	1.2 trillion
RCEP+India					393 billion	-14.1	458 billion	7.4	225 billion
CPTPP+US					364 billion	-35.4	563 billion	7.3	277 billion
RCEP					329 billion	-19.1	407 billion	8.0	189 billion
USMCA					209 billion	-39.3	345 billion	6.5	184 billion
CPTPP					207 billion	-30.9	300 billion	8.4	134 billion
ASEAN					136 billion	-24.9	181 billion	15.9	41 billion
EU					103 billion	-72.3	373 billion	0.3	362 billion

■ 2020 ▲ 2009

Foreign Direct Investment, Inward Flows, % Share

Source: Macrobond, UOB Global Economics & Markets Research

UNCTAD Last: 20 Oct 2021	% share of total				2020	% pt chg 2019-2020	2019	% pt chg 2009-19	2009
	0	10	20	30					
RCEP+India					39.4	8.8	30.6	12.5	18.1
CPTPP+US					36.4	-1.2	37.6	15.3	22.4
RCEP					32.9	5.7	27.2	12.0	15.3
USMCA					20.9	-2.1	23.1	8.2	14.9
CPTPP					20.8	0.7	20.1	9.3	10.8
ASEAN					13.6	1.5	12.1	8.8	3.3
EU					10.3	-14.6	24.9	-4.3	29.2

■ 2020 ▲ 2009

Manufacturing Value Added, Annual, USD

Source: Macrobond, UOB Global Economics & Markets Research

World Bank 29 Oct 2021	USD, trillion				Latest	% chg from 2015	2015
	0	4	8	12			
World					13 trillion	9.6	12 trillion
RCEP+India					6.5 trillion	19.2	5.5 trillion
RCEP					6.1 trillion	19.0	5.1 trillion
CPTPP+US					3.9 trillion	4.6	3.7 trillion
China					3.9 trillion	20.3	3.2 trillion
USMCA					2.5 trillion	2.4	2.5 trillion
United States					2.3 trillion	10.4	2.1 trillion
CPTPP					1.7 trillion	7.4	1.6 trillion
ASEAN					628 billion	20.8	520 billion
India					340 billion	3.7	328 billion

■ Latest ▲ 2015

Manufacturing Value Added, Annual, % Share

Source: Macrobond, UOB Global Economics & Markets Research

World Bank 29 Oct 2021	% share of world manufacturing					Latest	%pt chg from 2015	2015
	0	10	20	30	40			
RCEP+India						46.2	1.8	44.4
RCEP						43.4	1.6	41.7
CPTPP+US						29.4	-0.7	30.1
China						28.6	2.6	26.1
USMCA						19.3	-0.9	20.2
United States						16.8	-0.4	17.3
CPTPP						12.9	0.0	12.8
Japan						7.5	0.1	7.4
ASEAN						4.5	0.2	4.2
India						2.5	-0.1	2.7

■ Latest ▲ 2015

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