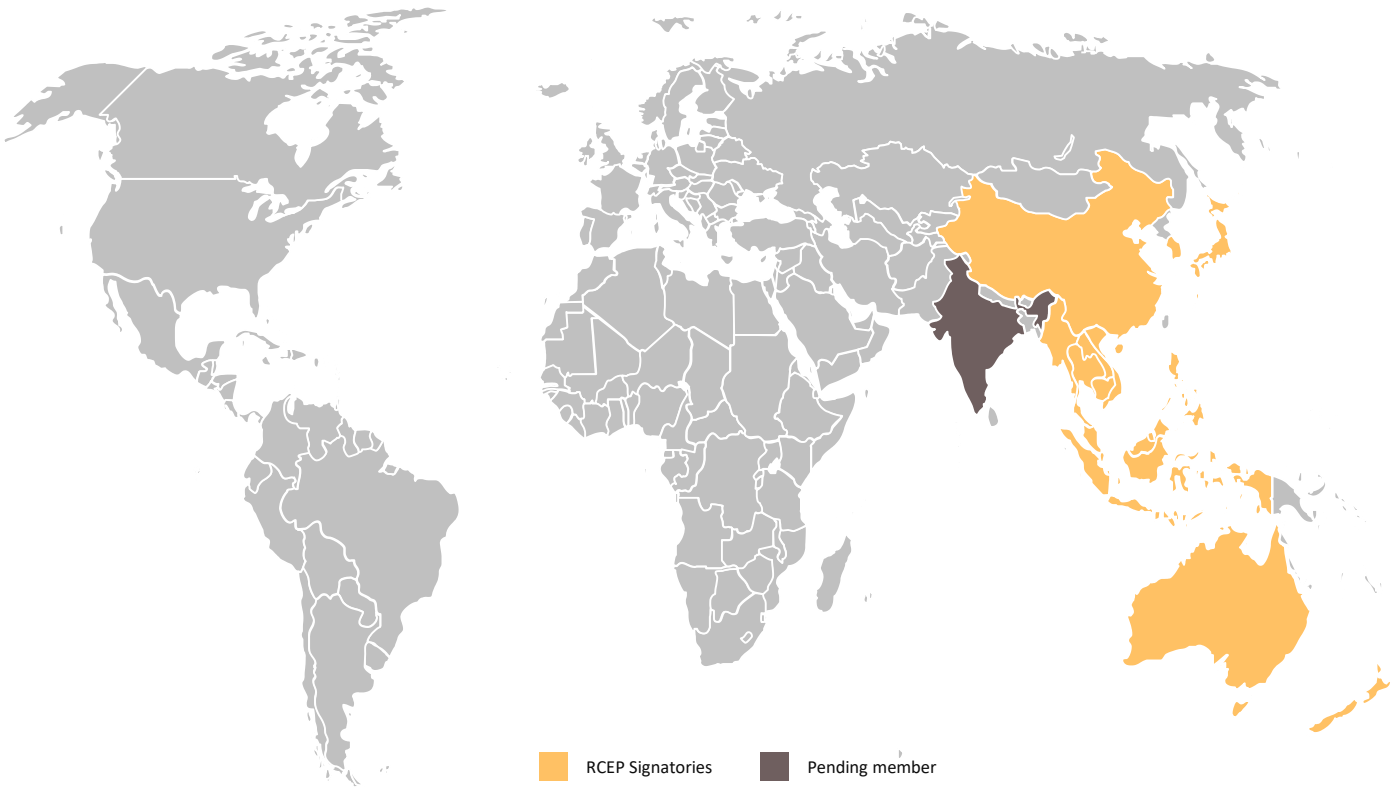
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15 countries sign the Regional Comprehensive Economic Partnership (RCEP) Agreement

Facts:

- **On 15 November, 15 countries penned virtual signatures on the RCEP agreement after 8 years of negotiations. They comprised 10 members of ASEAN and its key dialogue partners - China, Japan, South Korea, Australia and New Zealand.** These 15 members account for approximately 30% of global Gross Domestic Product (GDP), cross-border trade flows, and population. This makes the Agreement the world's largest trade pact.

The Member of the Regional Comprehensive Economic Partnership (RCEP)



Source: ASEAN Secretariat, Krungsri Research

- **The Agreement extends the scope of, and combines, the existing ASEAN Plus One FTAs (ASEAN FTAs with the five dialogue partners) into a single comprehensive pact, in terms of both coverage and depth of liberalization.** Comprising 20 chapters, the Agreement has provisions to cover trade in goods, including rules of origin, customs procedures and trade facilitation, sanitary and phytosanitary measures, standards, technical regulations and conformity assessment procedures, and trade remedies. It also covers trade in services, including specific provisions for financial services, telecommunication services, and professional services, as well as the temporary movement of natural persons. Reportedly, up to 90% of tariffs will be eliminated over a period of 10-20 years after the Agreement comes into effect. This will allow members the flexibility to make the necessary adjustments depending on the level of development and economic needs.

- **The Agreement is expected to come into effect in the middle of 2021 following ratification by at least 6 members of ASEAN and 3 non-ASEAN signatories.** RCEP was officially proposed by ASEAN in 2012, and trade talks had progressed slowly in the beginning. However, negotiations had gained momentum since 2017 after Donald Trump became the US president.
- **The Agreement is the first immense non-bilateral free trade agreement for China.** The Agreement originally involved ASEAN+ 6 countries. However, India opted out in 2019 due to concerns over its competitiveness in some sensitive sectors. But the door is open for India to join in the future.

Krungsri Research's view

- **The RCEP Agreement will be a tailwind to support post Covid economic recovery.** Most of the signatories have been dependent on international trade as one of the key growth engines and cross-border trade between RCEP members are substantial. For example, the ratios of total trade flows between RCEP members are 92.4% for Lao PDR, 76% for Myanmar, and about 60% for other ASEAN countries. Based on a study by Itakura, K. (2015), the RCEP will provide a significant boost to growth of member countries. For example, Cambodia, South Korea, Thailand, and Vietnam will be the largest beneficiaries as growth will rise by 6.1%, 2.8%, 2.4%, and 1.7% in 2030, respectively. The Peterson Institute (2015) study concluded the RCEP-15 will boost growth of its members by between 0.1% and 0.9% in 2030.

Quantitative Economic impacts of the RCEP1/



Source: Itakura, K. (2015), 'Assessing the Economic Effects of the Regional Comprehensive Economic Partnership on ASEAN Member States', in Ing, L.Y. (ed.), East Asian Integration.

- **The Agreement would cement our view on regionalization and shorter global value chains.** One of the key aspects of the RCEP is that it plays a crucial role in linking East Asian economic powerhouses that did not previously have bilateral free trade agreements, such as Japan-China, Japan-South Korea, as well as the combined ASEAN Plus One FTAs. Japan will enjoy greater tariff-free exports to China (from 8% to 86% of total exports) and South Korea (from 19% to 92%). In addition, the overarching structure of the RCEP Agreement makes it easier to build more flexible and complementary regional supply chains facilitated by supportive rules of origin. That will range from the garment & textile industry to the electronic and auto industries. This will enable ASEAN countries, especially the CLMV countries, as well as Indonesia and the Philippines, to integrate further into regional manufacturing supply chains.

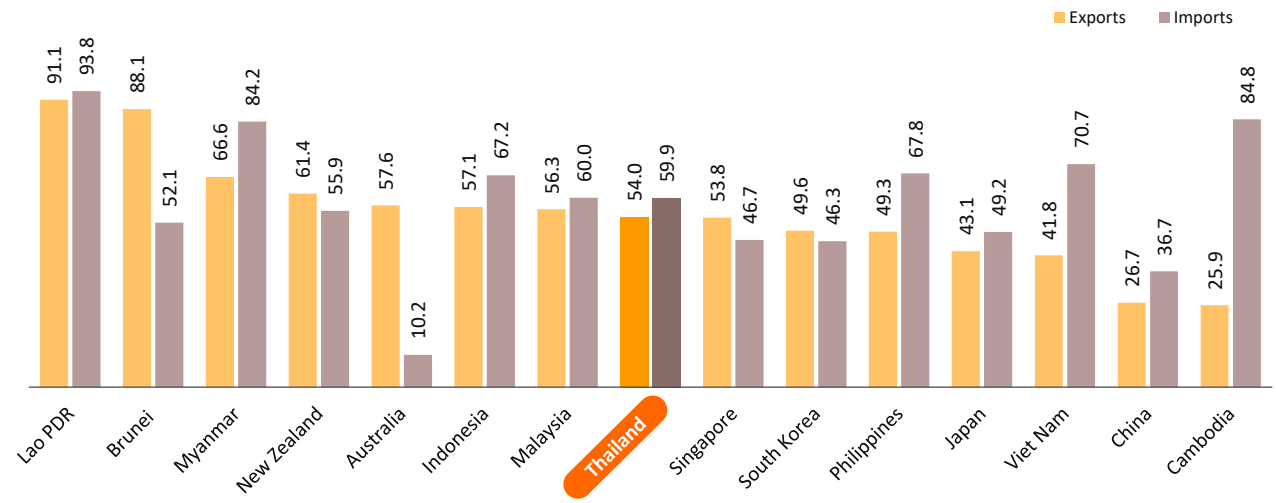
Shares of Total Trade with RCEP Members (% of total, 2019)



Note: Total trade is sum of export and import value

Source: Trade Map, Krungsri Research

Trade Flows among RCEP Members (% of total, 2019)

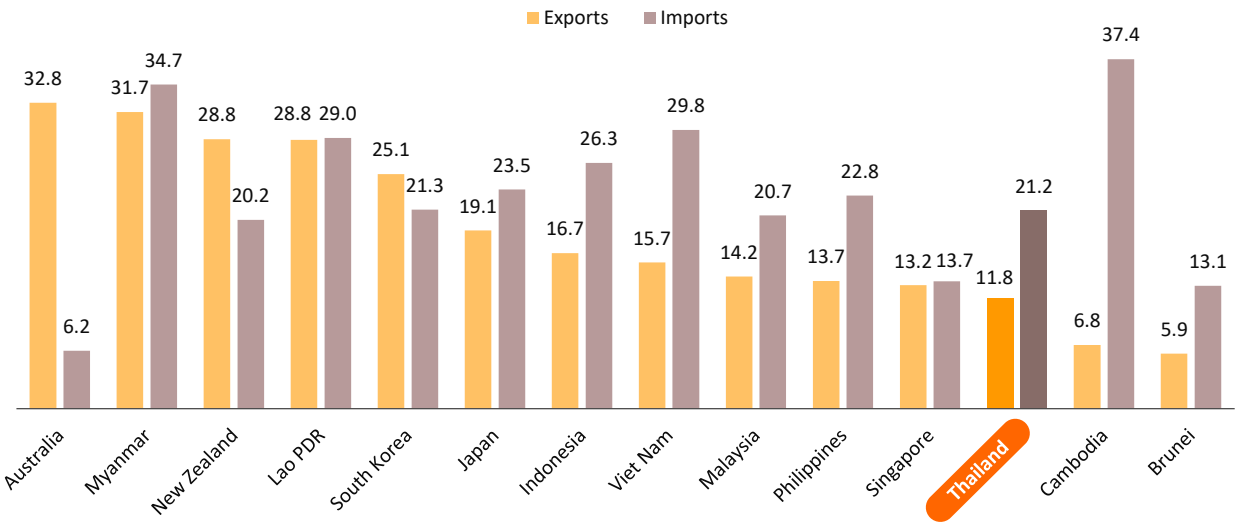


Source: Trade Map, Krungsri Research

- **RCEP would make it more attractive to relocate labor-intensive manufacturing from North Asia, especially China, to Southeast Asia.** Recently, there has been a noticeable relocation of MNC manufacturers to ASEAN and other parts of Asia, due to relatively higher wages in China and the covid-19 pandemic. When the RCEP Agreement comes into effect, possibly by the middle of next year, the relocation and diversification trends could accelerate. Manufacturers will continue to seek cheaper wage destinations, and diversification in anticipation of ongoing US-China trade tension even with Biden as the US president. This would be another key growth driver for ASEAN members, especially the CLMV countries where there is still room for industrialization.

- **RCEP will also enhance China's economic presence in Southeast Asia.** Despite already-low tariffs between ASEAN and China under bilateral FTAs, they will drop further under the RCEP Agreement. Trade and investment flows will rise as bilateral trade links deepen between ASEAN members and China. Currently, China is a major trading partner for countries across the region in terms of exports, imports, or both, as well as the largest foreign investor. The RCEP Agreement will likely integrate ASEAN countries even closer to China through trade in goods and services, investment, e-commerce, and cross-border migration. This will come with both opportunities and challenges. While trade liberalization tends to generate new jobs and income opportunities, there are also issues to deal with, such as stiffer competition and ensuring the survival of domestic businesses.

Trade Interconnectedness of RCEP members and China
(% of total, 2019)



Source: Trade Map, Krungsri Research

- **For Thailand, the RCEP Agreement will be a tailwind for growth in a lackluster domestic economy.** The Peterson Institute (June 2020) study concluded that the RCEP Agreement would boost Thailand's GDP by about 0.5% in 2030. In the medium to longer term, following gradual liberalization, the recently signed pact will open up business opportunities for key exports including agriculture products, electronics and other manufacturing goods, as well as strengthen supply chain linkages with the other members.

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