



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

The RCEP Advantage

Part 4:

New Trade Opportunities in China

Webinar | June 30, 2022 | Thursday | 4 PM China Time | Dezan Shira & Associates



About Us



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

1992

Dezan Shira's establishment

400+

Our **team** of legal, tax, accounting, business intelligence and audit professionals

3,000+

Multinational **clients** that have already chosen us

80+

Countries served by our professional services

25

Offices in China, Hong Kong, India, Vietnam, Singapore, Indonesia and Mongolia; Liaison offices in Italy, the United States and Germany, and Asian Alliance offices in Malaysia, the Philippines, Thailand, Bangladesh, Japan, South Korea and Taiwan.



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What is RCEP?

- The Regional Comprehensive Economic Partnership (RCEP) is an agreement between the member states of the Association of Southeast Asian Nations (ASEAN) and its free trade agreement (FTA) partners.
- The pact aims to cover trade in goods and services, intellectual property, etc.
- Member states of ASEAN and their FTA partners are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam, China, Japan, South Korea, Australia and New Zealand.
- The RCEP includes a mix of high-, middle-, and low-income countries.



What is the objective of RCEP?

- expected to eliminate about 90% of the tariffs on imports between its signatories
- would offer significant economic gains for signatory nations:
 - boost post-pandemic economic recovery
 - "pull the economic center of gravity back towards Asia"
- other reactions were neutral or negative
- RCEP is intended to reduce tariffs and red tape
- RCEP includes unified rules of origin throughout the bloc, which may facilitate international supply chains and trade within the region
- RCEP prohibits certain tariffs. It does not focus on labor unions, environmental protection, or government subsidies
- RCEP does not establish unified standards on labor and the environment
- RCEP does not commit countries to open services and other vulnerable areas of their economies



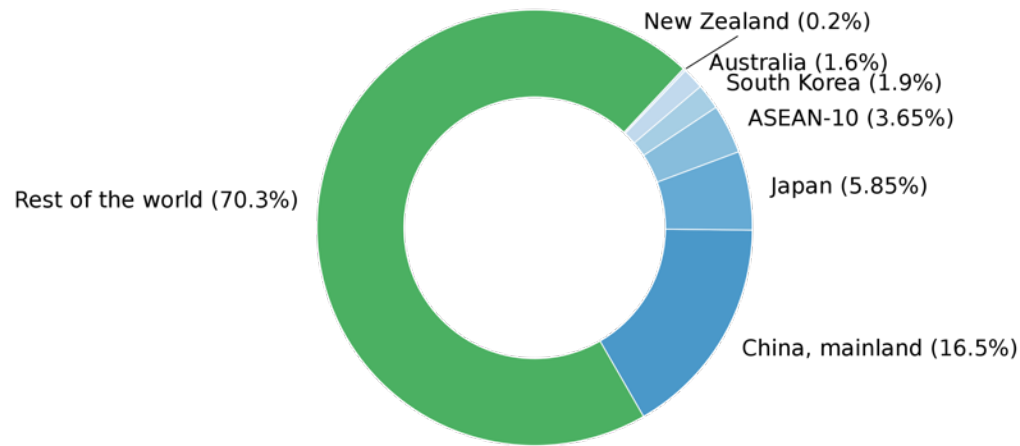
RCEP – A Timeline

- 2011: Envisioned at 2011 ASEAN Summit in Bali, Indonesia,
- 2012: Negotiations formally launched during the 2012 ASEAN Summit in Cambodia.
- 2020: The treaty was formally signed on 15 November 2020 at the virtual ASEAN Summit hosted by Vietnam.
- 2022: For the first ten ratifying countries, the trade pact took effect on 1 January 2022. As of 17 January 2022, 7 of the 10 ASEAN and all 5 of the non-ASEAN signatories have signed
- 2023: Any other country or separate customs territory in the region can accede to the pact from 18 months after the date of entry into force of the pact i.e. from 1 July 2023.



Why is RCEP important?

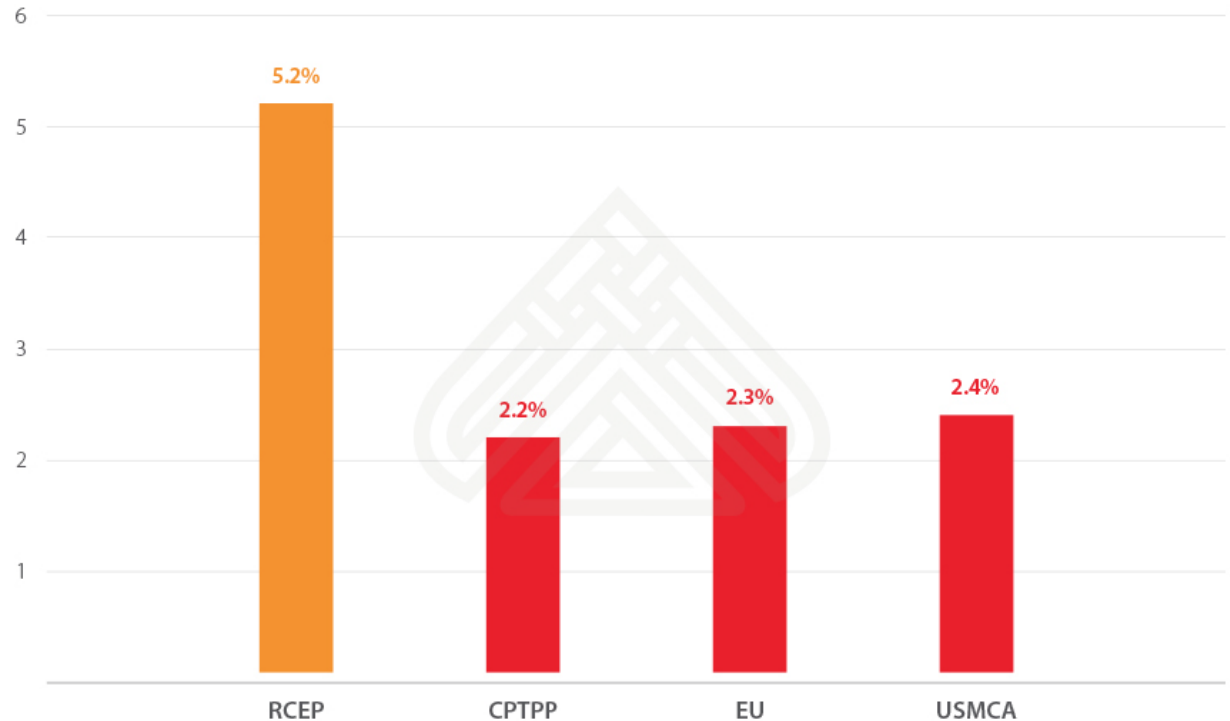
The 15 member countries account for about **30% of the world's population** (2.2 billion people) and **30% of global GDP** (\$29.7 trillion), making it the largest trade bloc in history.



2020 RCEP-15's share of global GDP (%)

Average Economic Growth Rate of Member Countries of Major International FTAs
















Average economic growth rate (2015-2019)



*Note: The average economic growth rate is the GDP growth rate (from 2015 to 2019) weighted by the PPP GDP data of each country.
Source: KPMG*

Graphic© Asia Briefing Ltd.

RCEP Member States

Flag	Country	Capital	Area (km ²)	Population	PPP GDP (millions USD)	PPP GDP per cap. (USD)	Trade (% of GDP)	HDI
	Australia	Canberra	7,692,024	25,698,300	1,296,075	50,817	44	0.944
	Brunei	Bandar Seri Begawan	5,765	459,500	33,756	76,567	110	0.838
	Cambodia	Phnom Penh	181,035	15,626,444	69,884	4,022	124	0.594
	China	Beijing	9,596,961	1,400,050,000	25,102,916	18,158	35	0.761
	Indonesia	Jakarta	1,910,931	263,510,000	3,481,107	12,432	33	0.718
	Japan	Tokyo	377,930	126,760,000	5,545,884	42,860	31	0.919
	South Korea	Seoul	100,210	51,709,098	2,127,164	39,446	69	0.916
	Laos	Vientiane	236,800	7,123,205	53,626	6,115	75	0.613
	Malaysia	Kuala Lumpur	330,803	32,273,000	988,993	28,636	116	0.81
	Myanmar	Naypyidaw	676,578	54,836,000	362,969	6,360	54	0.583
	New Zealand	Wellington	270,467	4,786,710	195,103	38,706	44	0.931
	Philippines	Manila	300,000	109,048,269	951,224	8,270	58	0.718
	Singapore	Singapore	719	5,703,600	578,204	101,376	321	0.938
	Thailand	Bangkok	513,120	68,298,000	1,296,095	17,749	98	0.777
	Vietnam	Hanoi	331,699	96,208,984	1,016,475	10,537	208	0.704

43 of the World's 100 Most Populous Cities are in RCEP

Rank	Name	Country	2022 Population
1	Tokyo	Japan	37,274,000
3	Shanghai	China	28,516,904
8	Beijing	China	21,333,332
10	Osaka	Japan	19,059,856
11	Chongqing	China	16,874,740
18	Manila	Philippines	14,406,059
19	Tianjin	China	14,011,828
20	Guangzhou	China	13,964,637
24	Shenzhen	China	12,831,330
29	Jakarta	Indonesia	11,074,811
31	Bangkok	Thailand	10,899,698
33	Seoul	South Korea	9,975,709
34	Nagoya	Japan	9,571,596
36	Chengdu	China	9,478,521
37	Nanjing	China	9,429,381
39	Ho Chi Minh City	Vietnam	9,077,158
41	Wuhan	China	8,591,611
42	Xi'an	China	8,537,646
44	Kuala Lumpur	Malaysia	8,419,566
46	Hangzhou	China	8,044,878
48	Suzhou	China	7,764,499
51	Shenyang	China	7,527,975

Rank	Name	Country	2022 Population
53	Dongguan	China	7,511,851
54	Foshan	China	7,497,263
59	Harbin	China	6,665,951
64	Singapore	Singapore	6,039,577
65	Dalian	China	5,930,140
66	Qingdao	China	5,865,232
67	Zhengzhou	China	5,690,312
68	Jinan	China	5,663,015
72	Yangon	Myanmar	5,514,454
73	Fukuoka	Japan	5,502,591
79	Melbourne	Australia	5,150,766
81	Hanoi	Vietnam	5,067,352
82	Sydney	Australia	5,056,571
84	Changsha	China	4,809,887
88	Urumqi	China	4,710,203
89	Kunming	China	4,657,381
90	Changchun	China	4,616,002
91	Hefei	China	4,496,456
92	Shantou	China	4,490,411
95	Ningbo	China	4,405,292
99	Shijiazhuang	China	4,285,135

India's Role in RCEP

- 2019 India decided against joining RCEP
- PM Modi said *"the present form of the RCEP agreement does not fully reflect the basic spirit and the agreed guiding principles of RCEP. It also does not address satisfactorily India's outstanding issues and concerns in such a situation."*
- Why was India cautious in its RCEP negotiations? - fear in India that its industries would be unable to compete with China and Chinese goods would flood Indian markets
- How could India have gained from signing the RCEP? - A section of Indian industry felt that being part of RCEP would have allowed the country to tap into a huge market.



But what about IPEF?

- Indo-Pacific Economic Framework for Prosperity launched by Biden in May 2022
- 14 founding member states
 - Australia, Brunei, Fiji, India, Indonesia, Japan, South Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, United States, Vietnam
- representing 40% of world GDP, outweighing RCEP in population and GDP
- China's reaction: negative
- Critics:
 - lack of inclusion of Taiwan
 - really economic grouping or political?

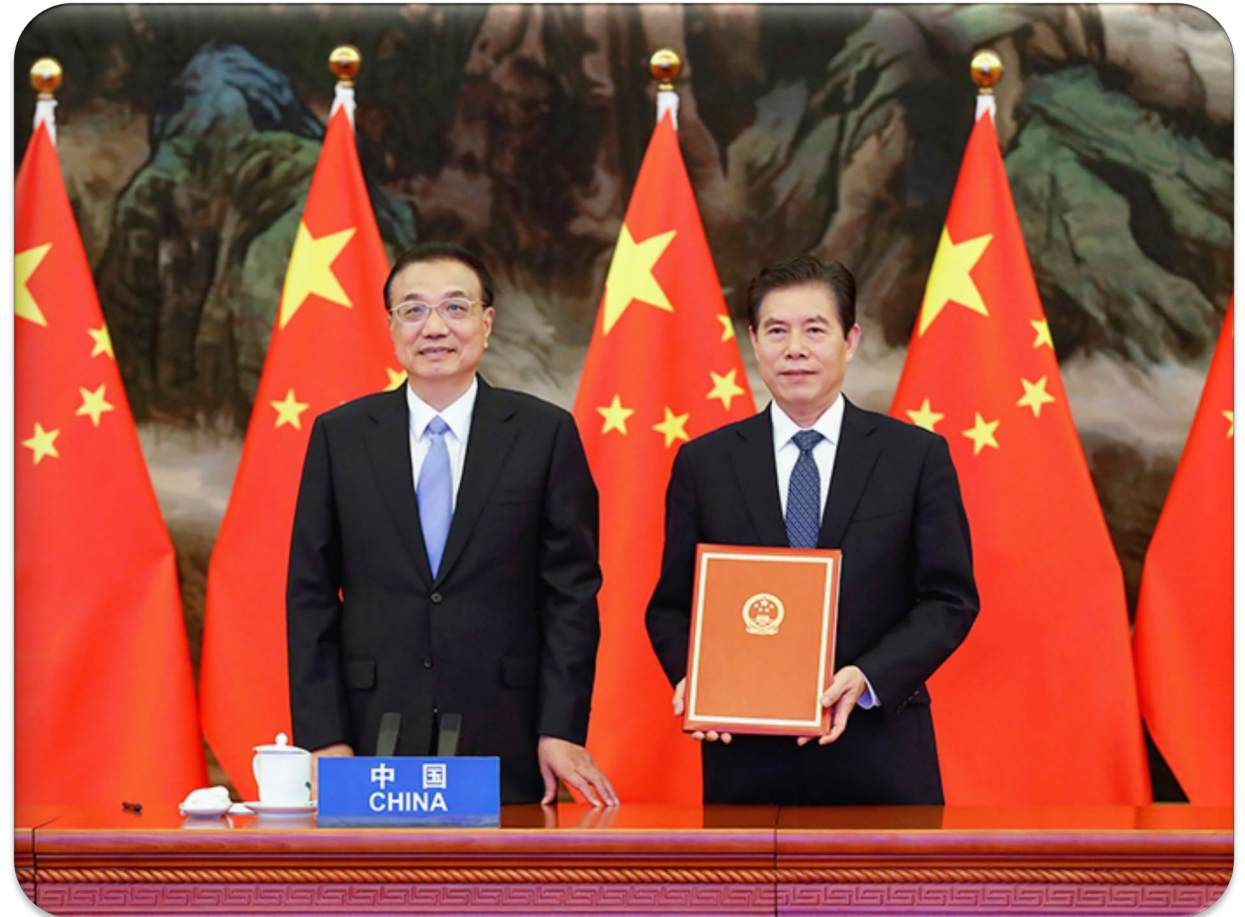


RCEP and China



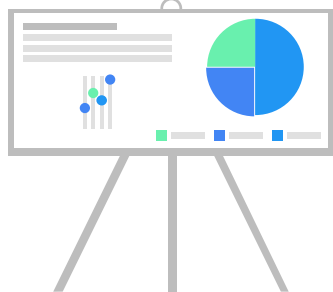
China's Role in RCEP

- RCEP was pushed by China in 2012 to counter TPP
- The US-led TPP excluded China
- However, in 2016 US President Donald Trump withdrew US from TPP
- RCEP now has become a major tool for China to counter the US efforts to prevent trade with Beijing



The RCEP in China - Main Facts

“The RCEP holds great significance for China and for foreign investors. The pact brings huge import-export opportunities for China, encouraging enterprises to expand exports in which China has comparative advantages, and increase imports of key technologies, components, and raw materials.”



01

Came Into force January 1st, 2022.

02

Trade with member countries expanded 6.9 percent year-on-year

03

Allows China to secure market access in the ASEAN region.

04

Main winners are mechanical and electrical industries & e-commerce

05

Chinese SMEs also.

Long Term China Perspective

IMPORTANT: *The RCEP aims to remove tariffs on at least 90 percent of the goods traded among member countries*



Covering about one third of the world's population and GDP



Represents the world's largest free trade agreement to date.



Members are 15 Asia-Pacific countries – China, Japan, South Korea, New Zealand, Australia, and the 10 ASEAN member states – entered into force at the start of 2022.



As of date, the agreement is effective for 12 of its 15 signatories

The RCEP holds great significance for China and for foreign investors. WHY?

1. Huge opportunities for Chinese SMEs and others present in China;
2. Easier to expand to the countries in the region;
3. Increase of key technologies at a cheaper price.



Long Term China Perspective

On January 26, 2022, China introduced a new guideline to promote high-quality implementation of the trade pact.

This will mean:



01 Further economic liberalization

02 Stabilization of foreign trade and investment;

03 There will be more demand from overseas

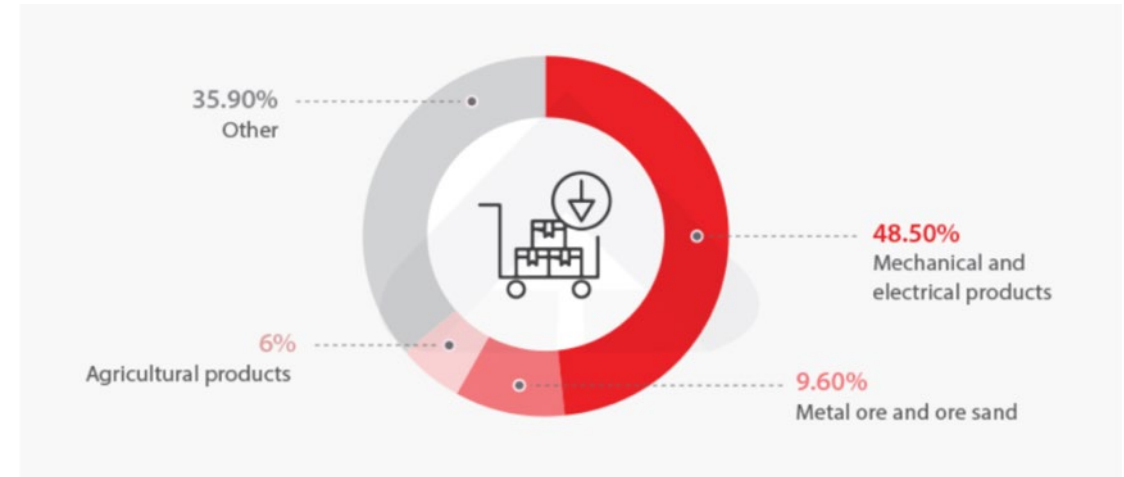
04 RMB internationalization has potential and as a replacement to US dollar;

05 Coupled with the Belt and Road initiative to promote regional economic growth

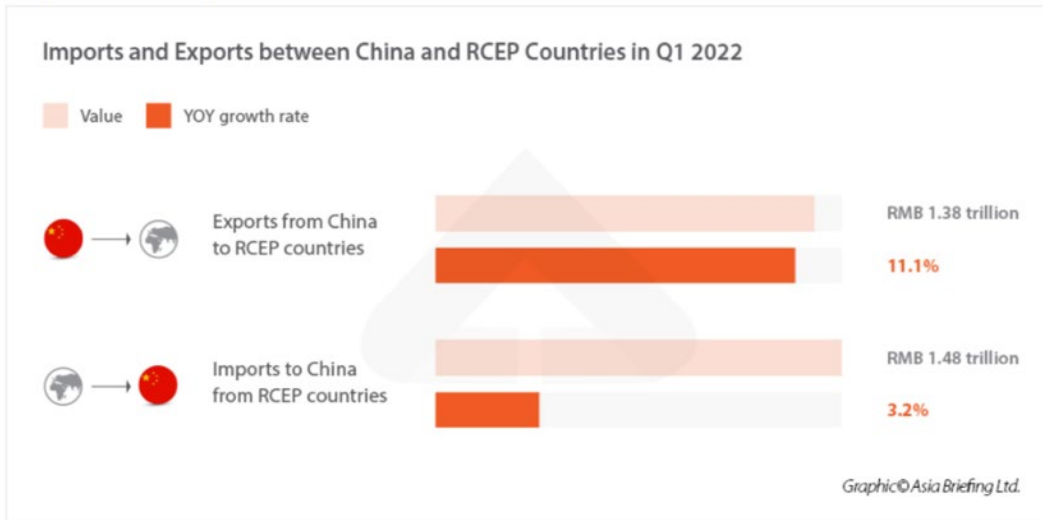
06 China has made investments in the value of RMB 20 Billion

China is winning the RCEP

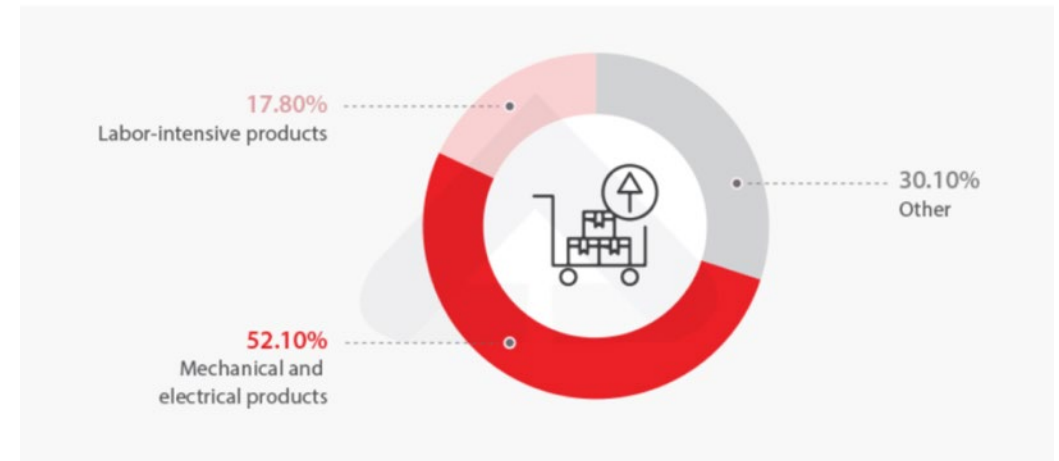
Major products imported to China from RCEP countries



Imports and Exports between China and RCEP Countries in Q1 2022



Major Products Exported from China to RCEP Countries



How will RCEP benefit the GBA?

Given the large number of processing trade enterprises in the GBA, RCEP will enhance utilization of foreign investment in the region and introduce leading-edge machinery and equipment, which will benefit the advanced processing trade sector.

01

More demand for High-tech products
(the GBA's specialty)

02

The GBA has a great supply chain
infrastructure.

03

Hong Kong will also benefit has providing
more services to buyers, investors in the
GBA

"Now we have a new boost. The Regional Comprehensive Economic Partnership (RCEP) is the largest free trade agreement ever forged," Leung said in a pre-recorded video speech from Beijing, noting that the RCEP will enhance Hong Kong's status as a regional hub for professional services."



How will RCEP benefit Hong Kong in particular?



Why is joining the RCEP is an important milestone for Hong Kong?

- 01** **USD\$770** Billion HK= 15 Member economies. It will increase
- 02** Lower the costs of trading and create new business opportunities
- 03** More RCEP country companies will come to HK, due to its GBA connection
- 04** Government will have more funds to invest in infrastructure and they already plan to securize loans from local banks.



How will RCEP benefit Hong Kong in particular?



Why will Membership of RCEP make Hong Kong's trade more liberal?

01

Hong Kong's decision to seek membership of RCEP, as an export-oriented economy with intensive trade with other RCEP members, makes sense. Membership will also favor Hong Kong's future investment ideals. At the moment, Hong Kong does not have bilateral trade agreements with Japan or South Korea. By joining RCEP, Hong Kong may be able to capitalize on significant new trade and investment opportunities with both these countries.

02

Hong Kong boasts a stable financial market and free flows of capital and services -- This provides an advantage that Mainland China cannot provide





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