



RCEP – The World’s Largest Trade Agreement

Introduction

After 8 years and 21 rounds of negotiations, China and 14 other Asia-Pacific countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam, Australia, Japan, New Zealand, and South Korea) have signed one of the world’s largest trade agreements, the Regional Comprehensive Economic Partnership (RCEP) on November 15th, 2020 via the Vietnam-hosted virtual ASEAN Summit.

Figures and Statistics

The agreement, which covers a market of 2.3 billion people (effectively a third of the world’s population), USD 26.2 trillion of global output, amounting to 29% of global GDP according to 2019 data, is perhaps slightly limited in its scope when compared to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), as the RCEP does not cover labor or environmental standards, nor provisions on services and investment.

However, the RCEP is seen as a major asset in terms of post-pandemic recovery within the region as analysts have projected that by the year 2030, the agreement could increase global national income by USD 186 Billion and add 0.2% to the economy of its member states through improved trade within the region. Upon becoming fully effective, the agreement will create the World’s Largest Trading Bloc, larger than both the United States and the European Union.

The RCEP also holds particular historical value in that it is the first free trade agreement between China, Japan, and South Korea (three of the four largest economies in Asia), and is the first multilateral free trade agreement to include China.

Content of the Agreement

The content of the agreement, which had been drafted during the height of the pandemic and has not been reviewed since, seeks to reduce tariffs incrementally over a 20 years period, streamline customs procedures between the member states as well as replacing a number of bi-lateral agreements within the bloc with a single unified set of rules for signatories.

The agreement would take effect within the next two years after all countries ratified the agreement domestically, the main highlights of its contents include:

- Lowering Tariffs in the region

Chapter 2 of the agreement grants national treatment to the goods of the other Parties and the reduction or elimination of customs duties within the trading bloc. The Chapter also sets out rules of hierarchy to determine the applicable tariff treatment in cases of different tariff preferences as well as providing the possibility for sector specific initiatives to be carried out in order to better facilitate trade between the members in the future.

- Less Bureaucracy

Chapter 4 aims to ensure predictability, consistency, and transparency in the application of customs laws and regulations, and promote efficient administration of customs procedures and expeditious clearance of goods. For express consignments and perishable goods, the Agreement contains an expectation that these goods will be released from the customs control within six hours of arrival of the goods and the submission of necessary documents.

- New Rules for Government Procurement

Cooperation provisions will provide more transparency in the procurement process to enhance mutual understanding of RCEP parties' respective government procurement laws, regulations and procedures, and a mechanism to facilitate consultation and exchange of information on such matters. The RCEP is significant as it is the first time that major ASEAN economies such as Indonesia, Thailand and Philippines will embark on meaningful government procurement commitments.

- New Competition Policy Rules

Parties to the agreement shall implement competition laws and maintain independent competent authorities to enforce such laws. The RCEP will set the legal framework to ensure that such competition laws are transparent and follow due process. The agreement also includes provisions on the exchange of information and allows for the coordination in enforcement actions. Businesses in the region will get a more stable and predictable business environment and a more level playing field.

- New rules based around the Industry of E-Commerce

The chapter of the agreement on e-Commerce allows businesses and consumers to trade online with confidence with provisions aiming to promote e-commerce among the Parties and the wider use of e-commerce globally. Parties to the agreement are posed with the task of adopting or maintaining a legal framework which creates a favorable environment for e-commerce development. The Parties also agree to maintain the current practice of not imposing customs duties for electronic transmissions, which in itself is already in accordance with WTO Ministerial Decisions.

- Unified Rules of Origin Between the Parties

The unified rules of origin determine which goods under the RCEP Agreement are eligible for preferential tariff treatment, the new provisions also allow for compliance costs to be reduced, as traders will have a number of options on the type of proof of origin documentation they may use.

Effect on other Nations Around the World

The RCEP also comes amid questions over the U.S.'s engagement within the region, with the US absent from two of the most important trade groups that span the world's fastest growing region – the RCEP and the CPTPP, as shortly taking office in early 2017, US President Donald Trump withdrew the United States from the Trans-Pacific Partnership (TPP), the predecessor to the CPTPP.

While under Trump's presidential reign, the U.S has adopted a more protectionist policy, it is within the realm of possibility that President-Elect Joe Biden, will indeed seek to rejoin multinational organizations and amend his country's trade policy. However, with substantial domestic issues such as COVID-19 and climate change perhaps more pressing and therefore the influence of the U.S. within the region may diminish in the future amid trade cooperation between countries within Asia Pacific.

Another notable absentee was India, a significant loss in considering they were involved in RCEP negotiations from the start but pulled out of the pact in November of last year among concerns that the deal would result in a negative impact on Indian manufacturers and industry with the potential of cheap imports from neighboring Asian nations flooding the local market.

Even if India doesn't return to the deal, the current 15 RCEP participating economies will grow to account for 50% of global output by 2030, according to reports released recently.

While the E.U., which has seen the EU-Vietnam agreement entered into force this year and is also pursuing its own Comprehensive Agreement on Investment (CAI) with China (also eight years in the making) will take some heed in the news of the confirmation of this agreement with its investment partners in the bloc, as negotiations for the latter agreement enter a crucial time for finalization.

Asia Trade Bloc Powerhouse

The agreement provides Asia Pacific with the opportunity to become one of the largest trading blocs in the world at a very unique turning point in history. The geo-political significance of the agreement marks a shift from a traditionally western influenced export orientated market to a more constructive and self-sustaining model for prosperity moving forward.

In recent years, the world has seen a rise in more stringent and skeptical policies in regards to trade and globalization, with this agreement, Asia has shown a more open and collaborative attitude, which may bear fruit considering the effect on the economic climate post-pandemic.

All in all, the RCEP seems to reinforce the trend that's been already underway for decades, that the global economic centre keeps pushing away from the established superpowers in the West and towards the East.

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