

EMBARGO

The contents of this Report must not be quoted or summarized in the print, broadcast or electronic media before
15 December 2021, 6 a.m. GMT
(1.00 a.m. New York, 7.00 a.m. Geneva, 2.00 p.m. Beijing)



A NEW CENTRE OF GRAVITY



The Regional Comprehensive Economic
Partnership and its trade effects

2021, United Nations Conference on Trade and Development

The findings, interpretations and conclusions expressed herein are those of the authors and do not necessarily reflect the views of the United Nations or its officials or Member States.

The designations employed and the presentation of material on any map in this work do not imply the expression of any opinion whatsoever on the part of the United Nations concerning the legal status of any country, territory, city or areas or of its authorities, or concerning the delimitation of its frontiers and boundaries.

This publication has not been formally edited.



Acknowledgements

This paper was prepared by Alessandro Nicita, Carlos Razo, Graham Mott, Ralf Peters and Miho Shirotori from the Division on International Trade and Commodities, based on the study *An assessment of the Regional Comprehensive Economic Partnership tariff concessions*, by Alessandro Nicita.

Graphic design and desktop publishing were done by Nadege Hadjemian.



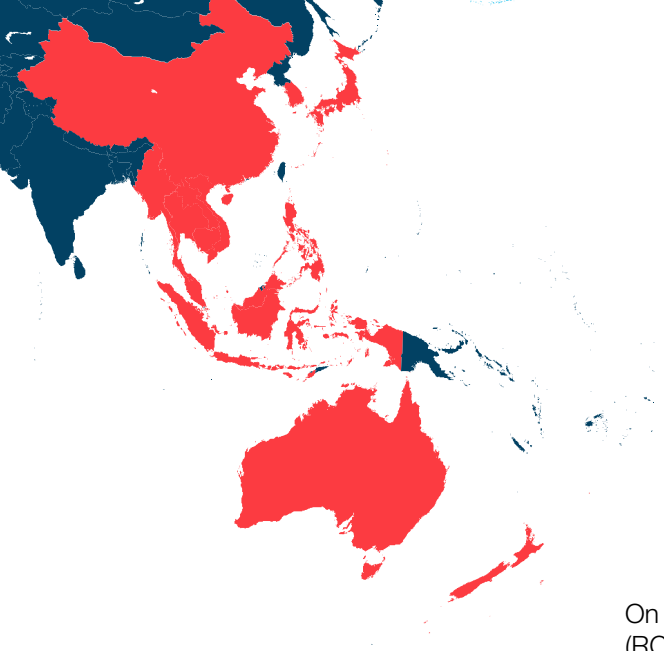


Table of contents



I RCEP

5	Summary
6	Facts and features
9	Tariff concessions
12	Trade effects
15	Conclusions



Summary

RCEP



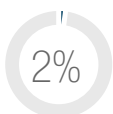
30% of world GDP



US\$ 2.3 trillion
Trade in goods among RCEP members



90% tariffs on goods eliminated within the bloc



Boost to intraregional exports = US\$ 42 billion



Gains come from
60% trade diversion
40% trade creation

On 1 January 2022, the Regional Comprehensive Economic Partnership (RCEP) will enter into force. This free trade agreement includes 15 East Asian and Pacific Nations of different economic sizes and stages of development, representing around 30 per cent of world GDP. The RCEP will be the world's largest trading bloc, in economic size, and is set to become a new centre of gravity for global trade.

The agreement encompasses several areas of cooperation, with tariff concessions a central principle, which will eliminate 90 per cent of tariffs within the bloc. The concessions are key in understanding the initial impacts of RCEP on trade, both inside and outside of the bloc.

Intra RCEP-trade was already worth about US\$ 2.3 trillion (2019) and this analysis shows that RCEP's tariff concessions would further boost the intraregional exports of the newly formed alliance by nearly 2 per cent, approximately US\$42 billion. This is the result of two forces: *trade creation*, as lower tariffs would stimulate trade between members, by nearly US\$17 billion; and *trade diversion*, as lower tariffs within RCEP would redirect trade away from non-members to members, equivalent to nearly US\$25 billion.

As in any other trade agreement, RCEP's members are expected to gain to a varying extents from the agreement. Tariff concessions are expected to produce higher trade effects for the largest economies of the bloc, not because of negotiations asymmetries, but largely due to the already low tariffs between many of the other RCEP members. Indeed, the patterns of tariff concessions in RCEP show a degree of cooperation in the negotiation process.

This finding may have implications for potential new members because latecomers may find little left to negotiate, as the concessions of many of the existing RCEP members might already be shaped around the interests of the incumbents.

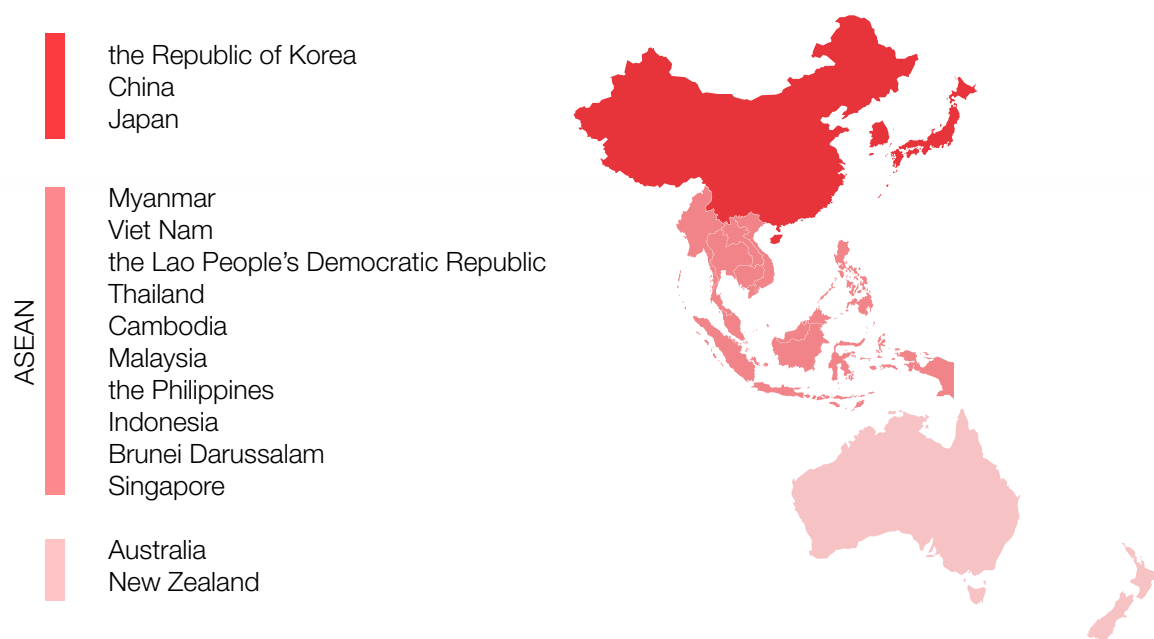
Overall, the tariff concessions of RCEP result in gains for the entire region. Most of these gains come from trade diverted away from non-members. As the process of integration of RCEP members goes further, these diversion effects could be magnified, a factor that should not be underestimated by non-RCEP members.





Facts and features

The Regional Comprehensive Economic Partnership (RCEP) is a free trade agreement promoting economic integration among the 15 East Asian and Pacific nations:



RCEP was signed on 15 November 2020, and following ratification by at least six ASEAN¹ member States² and three non-ASEAN³ economies the agreement will enter into force on 1 January 2022, making it the largest trading bloc in the world.

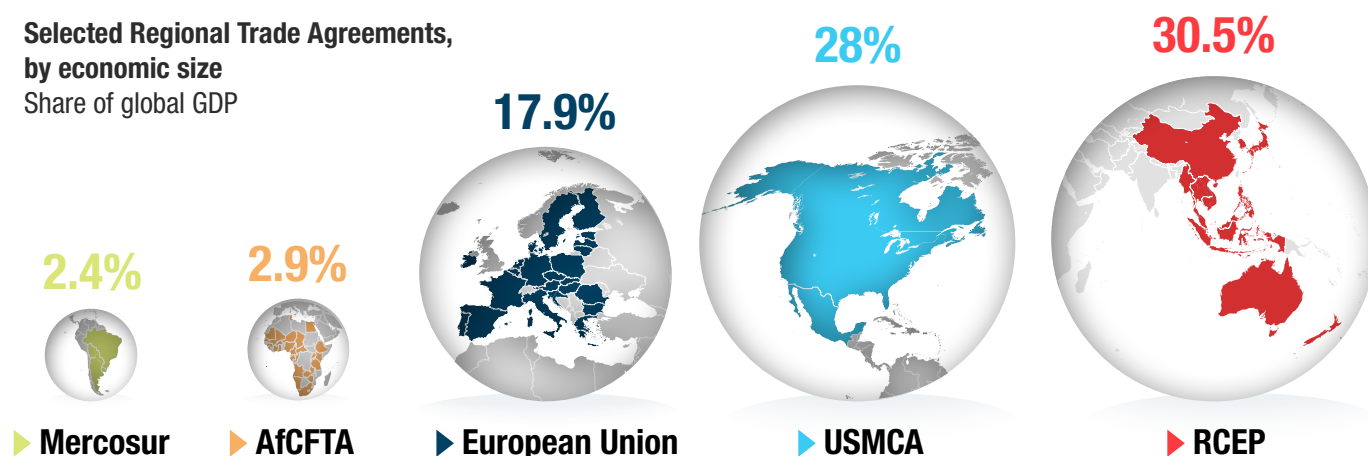
¹ The Association of Southeast Asian Nations (ASEAN) is an economic union comprising Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam.

² Ratifiers: Brunei Darussalam, Cambodia, Laos, Singapore, Thailand, Viet Nam, as at 8 December 2021.

³ Ratifiers: Australia, China, Japan, New Zealand



Figure 1 | RCEP the largest trading bloc of the world.



Source: UNCTAD secretariat calculations based on UNCTAD Statistics.

A key aspect of the RCEP is tariff concessions. The agreement is expected to ultimately eliminate tariffs on more than 90 per cent of goods traded within the bloc. In addition, it allows for significant discretion in the form of postponements. The implementation period is 20 years, it allows for exemptions for sensitive and strategic sectors, and some distinctions among members. The agreement goes beyond tariff concessions and encompasses other areas of cooperation to foster regional integration among its members. For instance, by setting up a time limit for the release of goods at customs, and by harmonizing rules of origins so as facilitate businesses to take advantage of the preferential terms of the agreement.

RCEP will further advance trade relationships among signatory members, especially for those not previously regulated by any trade agreement. By enhancing market access conditions, largely by reducing tariffs and implementing trade facilitation measures, RCEP countries are a step closer to becoming a regional trading bloc. Additionally, its impact on international trade is expected to be significant. The economic size of the emerging bloc and its trade dynamism will make it a centre of gravity for global trade.
















Trade among RCEP economies

The RCEP economies are already well integrated with one another. In 2019, Intra-RCEP trade represented about 50 per cent of the total trade of RCEP members, reaching nearly US\$ 2.3 trillion, or 13 per cent of global trade in goods (Table 1).

There is wide heterogeneity in terms of trade flows within the RCEP members. For instance, while the top 3 exporters, China, Japan and the Republic of Korea account for nearly 60 per cent of intra-RCEP trade, Cambodia, Brunei Darussalam and Lao People's Democratic Republic, only account for 1 per cent of these flows. However, the smaller members' trade is relatively more dependent on RCEP. For Brunei Darussalam, Myanmar, and the Lao People's Democratic Republic, more than 70 per cent of their total trade is intra-RCEP. In contrast, intra RCEP trade is more modest in the cases of China, Japan and the Republic of Korea.



Table 1 | Trade among RCEP members, 2019.

Country	Intra-RCEP Trade (US\$ billion)		Intra-RCEP Trade (Percentage)	
	Imports	Exports	Imports	Exports
 China	738	688	39	27
 Japan	355	321	49	43
 Republic of Korea	233	284	46	50
 Singapore	168	222	47	54
 Australia	122	206	56	73
 Malaysia	123	142	60	56
 Thailand	130	134	61	54
 Viet Nam	179	117	72	42
 Indonesia	115	101	67	57
 Philippines	79	37	68	49
 New Zealand	24	26	56	62
 Myanmar	16	13	84	67
 Cambodia	22	9	85	33
 Brunei Darussalam	3	7	52	88
 Lao People's Democratic Republic	5	6	94	91
RCEP	2311	2311	51	45

Note: figures refer to trade in goods.

Source: Key Statistics and Trends in Trade Policy 2020 (UNCTAD).

























Tariff Concessions

Most RCEP economies are already relatively open to trade, both because of their low WTO MFN tariffs⁴ and because of their participation in other regional trade agreements. In fact, prior to the RCEP, most of its member countries already had trade agreements in place, such as ASEAN.

Nevertheless, significant differences still exist among RCEP members. Australia, Brunei Darussalam, New Zealand and Singapore have already liberalized all, or almost all, trade originating from other RCEP members (Table 2). In contrast, tariffs on imports from RCEP members are relatively higher for the Republic of Korea, Cambodia, and China. They are also substantial for Japan and Thailand.

Table 2 I Average effectively applied tariffs on intra-RCEP trade, 2020

 Country	 Overall	 Agriculture	 Natural Resources	 Manufacturing
 Republic of Korea	4.8	44.7	0.3	3.1
 Cambodia	3.3	0.6	0.0	4.0
 China	2.8	6.7	0.4	3.1
 Japan	1.7	10.2	0.0	1.2
 Thailand	1.7	1.0	0.0	2.0
 Viet Nam	1.2	1.1	0.1	1.3
 Indonesia	0.9	1.0	0.0	1.0
 Malaysia	0.9	0.1	0.0	1.1
 Philippines	0.7	0.4	0.0	0.8
 Myanmar	0.6	0.2	0.0	0.7
 Lao People's Democratic Republic	0.2	0.2	0.0	0.2
 Australia	0.0	0.0	0.0	0.0
 Brunei Darussalam	0.0	0.0	0.0	0.0
 New Zealand	0.0	0.0	0.0	0.0
 Singapore	0.0	0.0	0.0	0.0

Note: tariffs are trade weighted averages.

Source: UNCTAD secretariat based on Nicita (2021).

⁴ MFN (most-favoured-nation) tariff is a normal non-discriminatory tariff charged on imports. It excludes preferential tariffs under free trade agreements and other schemes, or tariffs charged inside quotas.

In terms of economic sectors, the existing level of protection between RCEP members is higher in agriculture and lower for natural resources. Tariffs are also relatively important in the manufacturing sectors especially for Cambodia, China and the Republic of Korea.

Under the RCEP framework, trade liberalization will be achieved through gradual tariff reductions. Many tariffs will be abolished immediately, while others will be reduced gradually during a 20-year period. Remaining tariffs will be largely limited to strategic sectors, such as agriculture and the automotive sector, in which many of the RCEP members have opted out from any liberalization commitments.

Overall, since import tariffs between many RCEP members were already low, the agreement will mostly reduce these tariffs on imports from China, Japan and the Republic of Korea. For ASEAN members, along with Australia and New Zealand, the share of products with zero tariffs was already above 90 per cent, thus the main areas of opportunity for tariff reductions were with the other RCEP members. This general pattern is detailed by three main features of the concessions.

First, the largest share of tariff lines for tariff reduction is with the Republic of Korea, China and Japan and thus also the magnitude of the average tariff concessions, which range between 7 and 10 percentage points. There is also a significant number of lines uncommitted to liberalization. For these lines, the remaining tariffs are relatively high, particularly for the Republic of Korea (Table 3).

Table 3 I Tariff concessions by RCEP members

Share of tariff lines (%), average concessions and average tariffs

	With zero tariff (percentage)	For tariff reduction (percentage)	Average concession (percentage points)	Uncommitted tariff lines (percentage)	Average tariff on uncommitted lines (percentage)
ASEAN	91	4	9	5	21
Australia and New Zealand	99	1	5	0	4
China	72	20	10	9	17
Japan	80	8	7	12	32
Republic of Korea	70	20	10	9	111

Source: UNCTAD secretariat based on the Annex I "Schedules of Tariff Commitments" of the RCEP agreement.

Second, liberalization commitments vary across trading partners both in relation to uncommitted tariff lines and magnitude of concessions. Many RCEP members have been more cautious about liberalizing imports coming from China, Japan and the Republic of Korea, which will continue to face relatively higher import tariffs. (Table 4).

Table 4 I Caution remains to imports from major RCEP members

Percentage of bilateral lines remaining uncommitted

Importer	ASEAN	Australia and New Zealand	China	Japan	Republic of Korea
ASEAN		4.3%	6.4%	5.4%	5.5%
Australia and New Zealand	0.4%		0.4%	0.4%	0.4%
China	4.1%	4.5%		13.6%	13.0%
Japan	8.5%	8.5%	14.9%		18.5%
Republic of Korea	3.6%	3.8%	12.9%	17.0%	




Source: UNCTAD secretariat based on the Annex I "Schedule of Tariff commitments" of the RCEP agreement.



Third, RCEP members have opted out of any commitment in several sensitive and strategic sectors (Table 6). While tariff concessions on agriculture have been substantial, the sector will remain relatively protected, largely because the large number of uncommitted products, and the remaining high tariffs. Tariff liberalization and commitments also vary across industrial sectors, where substantial tariffs will continue to affect intra-RCEP trade in transport equipment and motor vehicles.

Table 5 I Agriculture remains the most protected sector

Share of tariff lines (%), average concessions and average tariffs

	With zero tariff (percentage)	For tariff reduction (percentage)	Average concession (percentage points)	Uncommitted tariff lines (percentage)	Average tariff on uncommitted lines (percentage)
 Agriculture	75	8	13	17	70
 Natural Resources	90	5	5	6	14
 Manufacturing	91	6	8	4	15

Source: UNCTAD secretariat based on the Annex I “Schedule of Tariff commitments” of the RCEP agreement.

Better in than out RCEP.

For trade agreements to occur they should result in mutual gains for the countries involved. This is what the patterns of tariff concessions in RCEP indicate, according to our latest research, (Nicita, 2021).

RCEP’s tariff concessions broadly follow the patterns predicted by trade theory. Their outcome implies a certain degree of cooperation during negotiations among RCEP’s members. Such patterns result in an increase in overall economic efficiency and overall welfare within RCEP.

These patterns suggest that tariff concessions are the results of:

- 1 importing governments seeking to improve national income under political economy and distributional concerns, and
- 2 exporters lobbies seeking to increase market access.

The general results indicate that everyone gained something in the negotiation process. The fact that the terms-of-trade predictions individually apply to RCEP’s major economies suggests that other parties were able to obtain some gain from the negotiation process.





Trade Effects
















Overall, RCEP tariff concessions are expected to increase trade within RCEP by nearly US\$ 42 billion, equivalent to almost 2 per cent. Most of the effects would be driven by trade diversion (about US\$ 25 billion) away from non-member countries. Trade creation due to lower tariffs would contribute about US\$ 17 billion.

As shown in Table 6, Japan would benefit the most from RCEP tariff concessions, largely because of trade diversion effects. Japan's exports are expected to rise by about US\$ 20 billion, an increase equivalent to about 5.5 per cent relative to Japan's exports to RCEP members in 2019. Substantial positive effects are also found for the exports of most other economies, including Australia, China, the Republic of Korea, and New Zealand. On the other hand, RCEP tariff concessions result in lower exports for Cambodia, Indonesia, Philippines and Viet Nam. The reason for this is the negative trade diversion effects, as some exports of these economies are expected to be diverted to the advantage of other RCEP members because differences in the magnitude of tariff concessions. For example, some of the imports of China from Viet Nam will be replaced by imports from Japan because of the stronger tariff liberalization between China and Japan.

Importantly, the overall negative effects for some of the RCEP members do not imply that they would have been better off by excluding themselves from the RCEP agreement, as trade diversion effects would have accrued notwithstanding. Even without considering the other benefits of the RCEP agreement besides tariff concessions, the trade creation effects associated with participation in RCEP softens the negative trade diversion effects. For example, Thailand's trade creation effects completely compensates the negative trade diversion effects.



Table 6 I RCEP members export changes due to tariff concessions














	Overall Effects (billion US\$)	Trade Diversion (billion US\$)	Trade Creation (billion US\$)	As percentage of exports to RCEP
RCEP Members	41.8	25.2	16.6	1.8
 Japan	20.2	15.7	4.5	5.5
 China	11.2	6.9	4.3	1.8
 Republic of Korea	6.7	4.4	2.3	2.0
 Australia	4.1	2.8	1.3	1.9
 New Zealand	1.1	0.8	0.3	4.5
 Malaysia	0.2	-0.3	0.6	0.1
 Singapore	0.2	-0.3	0.5	0.2
 Lao People's Democratic Republic	0.1	0.0	0.1	2.7
 Myanmar	0.1	0.0	0.1	1.2
 Brunei Darussalam	0.0	0.0	0.0	0.6
 Thailand	0.0	-1.1	1.1	0.0
 Philippines	-0.1	-0.2	0.2	-0.1
 Cambodia	-0.3	-0.4	0.0	-3.9
 Indonesia	-0.3	-0.8	0.4	-0.3
 Viet Nam	-1.5	-2.3	0.8	-1.2

Source: UNCTAD secretariat based on Nicita (2021).

The tariff concessions among RCEP member would divert trade from non-member to member economies. The magnitude of these effects for non-members is related to the exposure of each non-member economy to the RCEP area. The largest export losses in value terms are expected to accrue to the European Union, the United States and to the economies of Taiwan, Province of China, and Hong Kong, SAR. However, their losses are relatively low in relation to their total exports. The export losses of countries such as Bangladesh, Pakistan, Sri Lanka are more significant when measured in percentage terms. In the case of Bangladesh, it is expected that about 12 per cent of its export to RCEP would be diverted to favour RCEP members.






Table 7 | Non-RCEP members: export changes due to tariff concessions

	Overall Effects (billion US\$)	As percentage of exports to RCEP
Non-Members	-25.2	-1.0
 European Union	-8.3	-2.0
 United States of America	-5.1	-1.0
Hong Kong, SAR	-3.3	-1.0
Taiwan, Province of China	-3.0	-1.0
 India	-0.9	-2.0
 Canada	-0.6	-1.0
 United Kingdom	-0.5	-1.0
 Bangladesh	-0.4	-12.0
 Russian Federation	-0.4	0.0
 Brazil	-0.2	0.0
 Turkey	-0.2	0.0
 Pakistan	-0.2	-4.0
 Mexico	-0.1	-1.0
 South Africa	-0.1	0.0
 Sri Lanka	0.0	-3.0
Rest of the World	-1.8	0.0

Source: UNCTAD secretariat based on Nicita (2021).

RCEP tariff concessions would significantly increase trade in all sectors (Table 8). In most cases the effects result both from trade creation and trade diversion effects. Despite the many exceptions exercised by member countries in liberalizing their agricultural sectors, the effects on this sector should be relevant. Agricultural trade is expected to see gains of about US\$ 10 billion, equivalent to an increase of 7 per cent. Most of this gain is expected to come from trade diversion effects from non-member countries.

Table 8 | Overall export changes for RCEP members due to tariff concessions, by sector

	Overall Effects (billion US\$)	Trade Diversion (billion US\$)	Trade Creation (billion US\$)	As percentage of exports to RCEP
 Manufacturing	29	18	11	2
 Agriculture	10	6	4	7
 Natural Resources	3	2	1	1

Source: UNCTAD Secretariat based on Nicita (2021).

Tariff concessions in the manufacturing sectors are expected to add about US\$ 30 billion to intra-RCEP trade, or an increase of about 2 per cent. More than 60 per cent of this gain, US\$ 18 billion, comes from trade diversion effects. Trade effects are much smaller for natural resources where tariffs are typically lower.

Overall, the tariff concession of RCEP results in gains where trade diversion effects represent 60 per cent, while trade creation represents 40 per cent. As the process of integration goes further these effects could be magnified, a factor that should not be underestimated by non-RCEP members.



►► Conclusions

RCEP is set to become the world's largest trading block, and thus a new centre of gravity for global trade. Indeed, RCEP's tariff concessions are expected to further boost trade within the newly formed partnership not only by creating trade within the block, but more so by diverting trade from outside the region. As RCEP process of integration goes further, trade diversion effects could increase, a factor that should not be underestimated by non-RCEP members.

The large potential of the RCEP agreement in creating trade for the member economies also implies that even for members that may initially negatively affected by trade diversion effects, it is better to be in than out the RCEP agreement. Not only because being part of the deal creates additional trade that may offset the losses, but because it strengthens economic integration and the benefits that may come with it, such as foreign direct investment, technology sharing, structural transformations, among others.

Moreover, in the current context of the pandemic, the entry into force of RCEP can also serve an additional purpose: trade resilience. Recent [UNCTAD research](#) shows that trade within trade agreements has been relatively more resilient against the COVID-19 global trade downturn. This may provide a further catalyst to RCEP's gravity.



