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A NEW CENTRE OF GRAVITY



The Regional Comprehensive Economic Partnership and its trade effects



UNITED NATIONS
UNCTAD

2021, United Nations Conference on Trade and Development

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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.



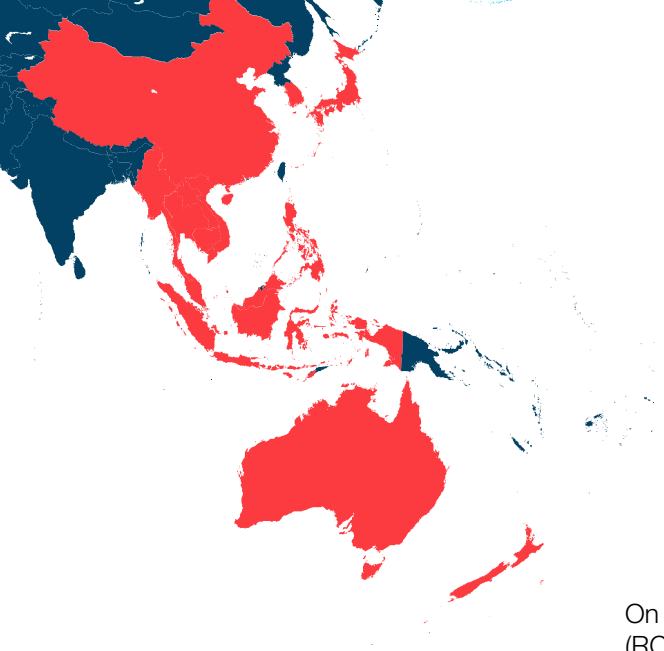


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Summary

RCEP

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.

30%

of world
GDP

US\$
2.3
trillion

Trade in goods
among RCEP members

90%

tariffs on goods
eliminated within the bloc

2%

Boost to
intraregional exports
= US\$ 42 billion

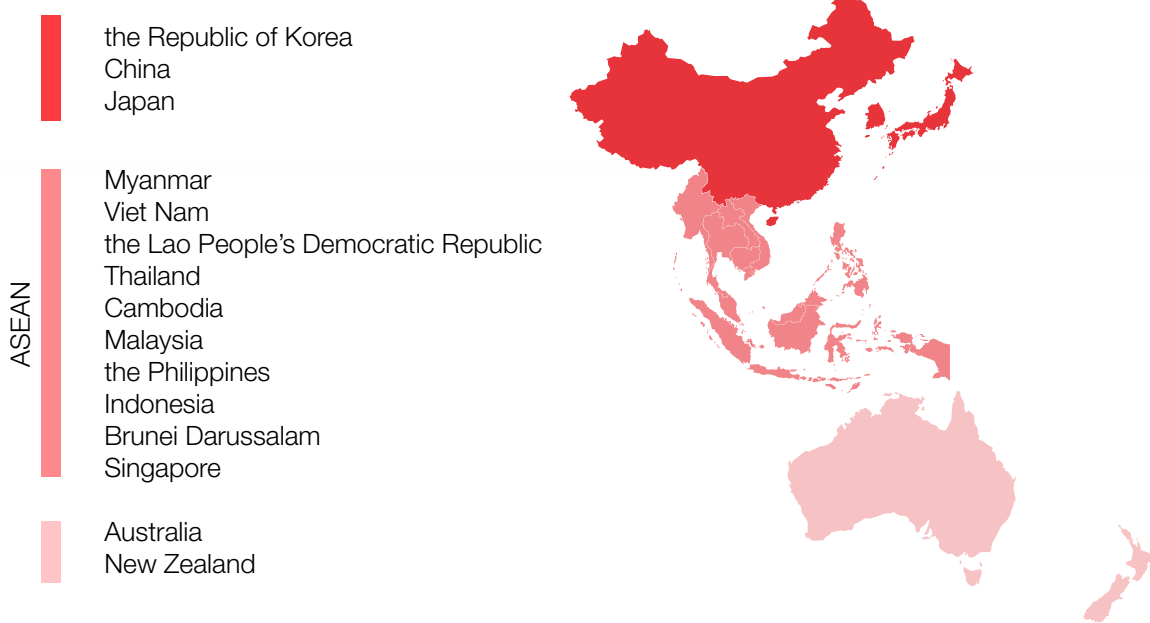
Gains come from
60% trade diversion
40% trade creation





▶▶ 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.

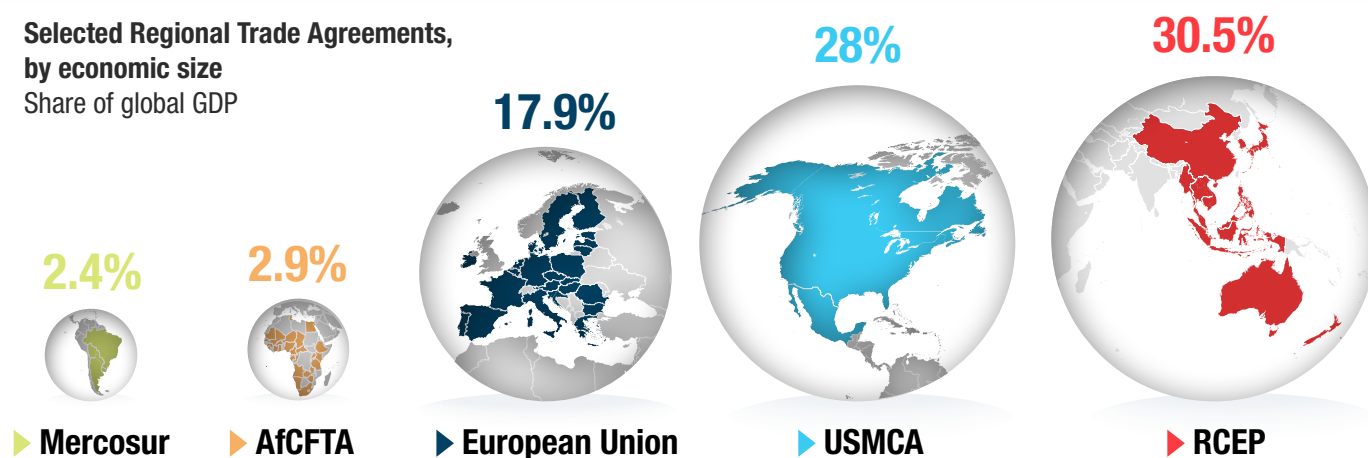
1 The Association of Southeast Asian Nations (ASEAN) is an economic union comprising Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam.

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).

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