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# An Assessment of the Regional Comprehensive Economic Partnership (RCEP) Tariff Concessions

## Abstract

This paper analyses the tariff concessions of the Regional Comprehensive Economic Partnership (RCEP). The paper first summarizes the tariff concessions across members and economic sectors finding that most of the reduction in tariffs applies to trade related to the major economies of RCEP. Then the paper investigates whether the heterogeneity in the concessions reflects political economy forces. The findings suggest cooperation among RCEP members which resulted in reciprocal tariff concession balancing the interests of importing governments and exporters' lobbies. Finally, the paper provides a quantification of the trade effects of the RCEP agreements for members and non-members economies. The analysis finds that the tariff concessions increase trade among its members by almost two per cent, with trade diversion dominating trade creation effects.

**Key words:** International trade, trade policy, tariffs, trade agreements, regional integration, RCEP



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## Contents

<b>Acknowledgements .....</b>	<b>2</b>
<b>1. Introduction .....</b>	<b>3</b>
<b>2. Trade integration among RCEP members .....</b>	<b>4</b>
<b>3. Tariff concessions of RCEP .....</b>	<b>6</b>
<b>4. Mutually beneficial tariff concessions.....</b>	<b>10</b>
<b>5. Trade effects of RCEP .....</b>	<b>17</b>
<b>6. Conclusions.....</b>	<b>21</b>
<b>References .....</b>	<b>22</b>

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# 1. Introduction

The Regional Comprehensive Economic Partnership (RCEP) is a free trade agreement promoting economic integration among the fifteen East Asian and Pacific nations of Australia, Brunei Darussalam, Cambodia, China, Japan, the Republic of Korea, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand, and Viet Nam. RCEP was signed on November 15 2020 and should enter into force 60 days after six ASEAN<sup>1</sup> member states and three non-ASEAN member states have ratified the Agreement.

The impact of RCEP on international trade is expected to be significant. RCEP members account for about 30 per cent of global GDP. Trade in goods among RCEP members was close to US\$ 2.5 trillion in 2019, or about 13 per cent of global trade. RCEP should be instrumental to advance trade relationships between the economies whose bilateral trade relationships were not previously regulated by any trade agreement. The RCEP agreement aims to further advance regional trade by providing members with better market access conditions largely by reducing tariffs and implementing trade facilitation measures, therefore bringing RCEP countries a step closer to becoming a regional trading bloc.

This paper focuses on a particular aspect of the RCEP agreement: tariff concessions. While the RCEP agreement encompasses other areas of cooperation, tariff concessions are a very important element. RCEP's tariff concessions should ultimately eliminate tariffs on more than 90 per cent of goods traded within the bloc. The RCEP framework allows for significant discretionality in the form of postponements (the implementation period is 20 years), exemptions for sensitive and strategic sectors and discrimination across members.

The first contribution of this paper is to provide a meaningful summary of RCEP tariff concessions across importers, exporters and economic sectors. Overall, the analysis finds that most of the reduction in tariffs will apply to trade related China, Japan and the Republic of Korea, as the tariffs applied to trade among many of the other members are already low due to existing trade agreements. Still, the magnitude of concessions is not trivial. Average concessions are in the order of about 9 percentage points and concerns about 6 per cent of tariff lines. The tariff concessions present substantial heterogeneity as several RCEP members have been relatively more cautious in committing to the liberalization of imports originating from particular members. Moreover, while RCEP's tariff concessions encompass all economic sectors, there is also heterogeneity at the product level.

A second contribution of this paper is an analysis of the political economy forces behind the negotiation outcome.<sup>2</sup> The analysis of this paper takes advantage of the heterogeneity and level of detail of the tariff concessions by confronting them with the patterns as predicted by economic theory (Bagwell and Staiger, 2011). The results suggest a degree of cooperation among RCEP members during negotiations which resulted in reciprocal tariff concession balancing the interests of importing governments and exporters' lobbies. This outcome should lead to an increase in overall economic efficiency and welfare within the RCEP area. The results also suggest that tariff concessions do not exclusively reflect the interests of the largest economies. Smaller members also succeeded to improve market access where it mattered for them.

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<sup>1</sup> 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.

<sup>2</sup> Tariff concessions have been painstakingly negotiated during eight years of negotiations and are detailed in thousands of pages in Annex I of the agreement. For example, the tariff concessions of Japan are 1344 pages long and the tariff concessions of the Republic of Korea cover about 590 pages for each of the RCEP members.

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A third contribution of this paper is to quantify the trade effects of RCEP tariff concessions on signatories and non-signatories of the agreement. The analysis adapts a partial equilibrium model taking into account demand and supply shifts from tariff concessions in order to calculate trade creation and trade diversion effects. Overall, RCEP tariff concessions are expected to increase trade within RCEP by about US\$ 40 billion, equivalent to an increase of almost 2 per cent. Most of the increase in intra-RCEP trade would be driven by trade diversion away from non-member countries. Trade creation effects due to lower tariffs are found to be of lower magnitude. The trade effects show a large degree of heterogeneity both across countries and across products.

This paper proceeds as follows. Section 2 provides a brief overview of trade integration among RCEP members. Section 3 details and summarizes RCEP tariff concessions. Section 4 investigates the political economy behind RCEP tariff concessions. Section 5 calculates the trade effects of tariff concessions for members and non-member economies. Section 6 concludes.

## 2. Trade integration among RCEP members

In 2019, merchandise trade among RCEP members was close to US\$ 2.3 trillion, or about 13 per cent of global trade in goods. RCEP membership includes some of the largest and most advanced economies in the world alongside with several lesser-developed economies. China's merchandise trade with RCEP members was in the order of about US\$ 750 billion in imports and US\$ 700 billion in exports. Japan was second with about US\$ 380 billion in imports and US\$ 360 billion in exports. The Republic of Korea is third with imports of about US\$ 280 billion, and exports of about US\$ 230 billion. On the other hand, countries such as the Lao People's Democratic Republic, Myanmar and Brunei Darussalam contribute only a minimal fraction of the intra-RCEP trade (Table 1).

Table 1. Trade among RCEP members

	Intra-RCEP Trade (US\$ billion)		Percentage of Trade with RCEP members	
	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>
Australia	122	206	56	73
Brunei Darussalam	3	7	52	88
Cambodia	22	9	85	33
China	738	688	39	27
Indonesia	115	101	67	57
Japan	355	321	49	43
Lao People's Democratic Republic	5	6	94	91
Myanmar	16	13	84	67
Malaysia	123	142	60	56
New Zealand	24	26	56	62
Philippines	79	37	68	49
Republic of Korea	233	284	46	50
Singapore	168	222	47	54
Thailand	130	134	61	54
Viet Nam	179	117	72	42
<b>RCEP</b>	<b>2 311</b>	<b>2 311</b>	<b>51</b>	<b>45</b>

Source: Key Statistics and Trends in Trade Policy 2020 (UNCTAD). Note: figures refer to trade in goods.

The RCEP economies are already well integrated with each other. Overall, the share of intra-RCEP trade is about 50 per cent of the RCEP members' total trade. Although contributing less in value terms, the smaller members' trade is relatively more dependent on RCEP. In the example of Brunei Darussalam, Myanmar, and the Lao People's Democratic Republic, more than 70 per cent of their total trade is with other RCEP members. In contrast, China's trade with RCEP countries is much more modest in relative terms as RCEP countries represent only about 27 per cent of China's exports and about 39 per cent of China's imports. The trade integration with RCEP countries is also below average in the cases of Japan and the Republic of Korea.

RCEP economies are generally open to trade, both because of their low WTO MFN rates and because of their participation in other regional trade agreements. In fact, prior to the RCEP, most of its member countries already had some trade agreement already in place (Table 2).

Table 2. Trade agreements between RCEP members

	Australia	China	Japan	Republic of Korea	New Zealand
ASEAN	AANZFTA	ACFTA	AJCEP	AKFTA	AANZFTA
Australia		ChAFTA	JAPEA, CPTTP	KAFTA	ANCERTA, CPTTP
China			-	CKFTA	NZCFTA
Japan				-	CPTTP
Republic of Korea					NZKFTA

Source: Asia Pacific Trade and Investment Database (ESCAP). Note: AANZFTA is the ASEAN-Australia-New Zealand Free Trade Area (2010); ACFTA is the ASEAN-China Free Trade Area (2003); AJCEP is the ASEAN-Japan Comprehensive Economic Partnership (2008); AKFTA is the ASEAN- Republic of Korea Free Trade Agreement (2007); ChAFTA is the China-Australia Free Trade Agreement (2015); CPTTP is the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (2018); KAFTA is the Republic of Korea-Australia Free Trade Agreement (2014); ANZCERTA is the Australia - New Zealand Closer Economic Relations Trade Agreement (2013); CKFTA is the China- Republic of Korea Free Trade Agreement (2015). NZCFTA New Zealand-China Free Trade Agreement (2008), NZKFTA is the New Zealand-Republic of Korea Free Trade Agreement (2015). In parenthesis is the date of entry into force.

RCEP members' low MFN rates and the existing bilateral agreements inherently result in very low tariffs for intra-RCEP trade overall. Still, there are some significant differences among members. Australia, Brunei Darussalam, New Zealand and Singapore have already liberalized all, or almost all trade originating from other RCEP members (Table 3). On the other hand, tariffs on imports from RCEP members are relatively higher for Cambodia, China, and the Republic of Korea, and substantial also for Japan and Thailand. Across broad economic sectors, the existing level of protection between RCEP members tends to be relatively higher in agriculture while being minor for natural resources. Tariffs are also relatively important in the manufacturing sectors especially for Cambodia, China and the Republic of Korea, whose average import tariffs stand above 3 per cent.

Table 3. Average effectively applied tariffs on intra-RCEP trade

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

Source: Author's calculation based on UNCTAD TRAINS. Note: tariffs are trade weighted averages and include preferences from existing trade agreements.

### 3. Tariff concessions of RCEP

This section provides a meaningful summary of RCEP tariff concessions across importers, exporters and economic sectors. Tariff concessions are detailed in Annex I "Schedules of Tariff Commitments" of the RCEP agreement and cover thousands of pages.<sup>3</sup> RCEP tariff concessions cover only a small part of tariff lines (on average about 6 per cent) as most of intra-RCEP trade is already free from tariffs. Still, trade liberalization in these lines is significant, on average the tariff reduction is about 9 per cent.

Under the RCEP framework, trade liberalization will be achieved with gradual tariff reductions allowing for significant exemptions in sensitive and strategic sectors. RCEP tariff concessions should ultimately eliminate tariffs on over 90 per cent of goods traded within the bloc. Many tariffs will be abolished immediately, while others will be reduced gradually during a 20 year period (Figure 1). Remaining tariffs will be largely limited to strategic sectors, in which many of the RCEP members have opted out from any liberalization commitments. Overall, RCEP will gradually reduce tariffs for trade among members, especially in regard to the imports of China, Japan and the Republic of Korea because the import tariffs for the other RCEP members are already low.

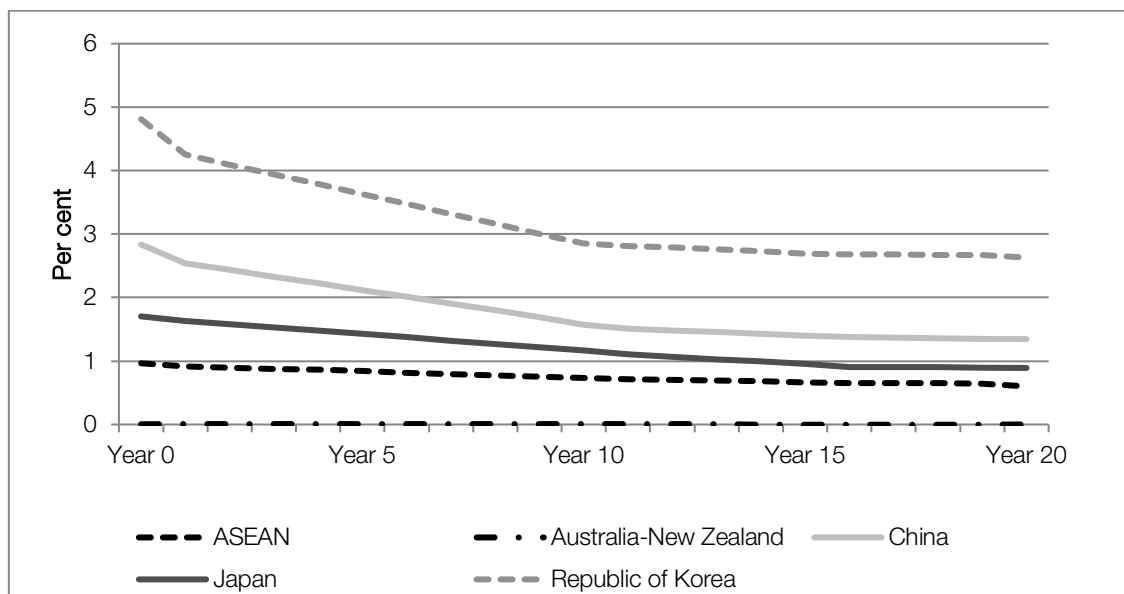
Tariff concessions vary substantially across RCEP members (Table 4).<sup>4</sup> Tariff concessions of countries already applying low tariffs would necessarily be lower than the concessions of countries where the existing tariffs are higher. In the example of Australia and New Zealand the percentage of products covered by tariff concessions is very low because almost all of their tariffs are already at zero (98.6 per cent). On the other hand, tariff concessions by China, Japan and the Republic of Korea are larger and wider in coverage because of the relatively higher tariffs they currently apply.

<sup>3</sup> see: <https://www.dfat.gov.au/trade/agreements/not-yet-in-force/rcep/rcep-text>

<sup>4</sup> The statistics of ASEAN countries, as well as Australia and New Zealand, are aggregated as their tariff concessions have similar patterns and their bilateral trade has already been largely liberalized.

On average, RCEP concessions by China and the Republic of Korea cover about 20 per cent of their HS 6-digit lines<sup>5</sup> for an average reduction of almost 10 percentage points. Japan's tariff concessions are notably smaller than the concession of China and Republic of Korea, both in coverage and magnitude. Importantly, the three major economies remained uncommitted to liberalize tariffs on a substantial share of HS 6-digit products (8.8 per cent for China, 12.3 per cent for Japan, and 9.3 per cent for Republic of Korea). Average tariffs on these products are substantially high, especially for the Republic of Korea.

Figure 1. Average tariffs on intra-RCEP trade during 20 year implementation



Source: Author's calculation based on the Annex I "Schedules of Tariff Commitments" of the RCEP agreement.

Note: tariffs are trade weighed.

Table 4. Tariff concessions by RCEP member

	Pre-RCEP		RCEP concessions		RCEP exceptions	
	Percentage of lines with zero tariff	Percentage of lines with non-zero tariffs	Percentage of lines for tariff reduction	Average concession (percentage points)	Percentage of lines remaining uncommitted	Average tariff on uncommitted lines
ASEAN	91.1	8.9	3.9	9.0	5.0	20.9
Australia and New Zealand	98.6	1.4	1.0	4.9	0.4	3.6
China	71.6	28.4	19.6	9.8	8.8	16.7
Japan	79.5	20.5	8.2	7.4	12.3	32.3
Republic of Korea	70.4	29.6	20.3	9.7	9.3	110.7

Source: Author's calculation based on the Annex I "Schedules of Tariff Commitments" of the RCEP agreement.

<sup>5</sup> In the "Schedules of Tariff Commitments" RCEP countries' tariff concessions are detailed up to the 10-digit of the Harmonized System (HS). However, the Harmonized System (HS) for classifying goods is internationally harmonized at the 6-digit level. The analysis of this paper aggregates the data at the HS 6-digit categorization comprises approximately 5,300 article/product descriptions.

RCEP allows for tariff concessions to discriminate across members. More specifically, countries can remain uncommitted to liberalization, or decide to reduce tariffs more slowly on trade originating from specific RCEP members. In practice, while some members' tariff concessions uniformly apply to all members, many RCEP members have decided to substantially vary their level of commitments across trading partners, both in relation to uncommitted products and magnitude of concessions. Table 5 shows the percentage of uncommitted HS 6-digit products across trading partners. Overall, there has been lower propensity to liberalize markets toward imports originating from the three major economies. In the example of Japan, the percentage of products uncommitted to tariff liberalization is about 14.9 per cent for goods originating from China and about 18.5 per cent for goods originating in the Republic of Korea, while being much lower for other members. Similar patterns are found for most of the RCEP members except for Australia and New Zealand which, for their few uncommitted HS 6-digit products, do not discriminate across RCEP members.<sup>6</sup>

Table 5. Percentage of bilateral lines remaining uncommitted

Importer	Exporter				
	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: Author's calculation based on the Annex I "Schedule of Tariff commitments" of the RCEP agreement.

The pattern of a lower level of commitments towards the largest RCEP economies is also found when examining the scale of bilateral tariff concessions (Table 6). The tariff concessions of the three major economies are relatively lower for the trade among each other. In the example of the Republic of Korea, the average tariff concession is about 10.2 percentage points for ASEAN members but only 7.7 percentage points for Japan. The comparison is unfeasible in the case of ASEAN countries and Australia and New Zealand as their bilateral trade is mostly liberalized.

Table 6. Average tariff concessions on committed lines (percentage points)

	Exporter	
	Australia and New Zealand	Republic of Korea

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