

## RCEP: Key Regional Trends for Multinational Companies

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### OVERVIEW

On November 15, 2020, after eight years of negotiations, the 10 ASEAN nations alongside Australia, China, Japan, New Zealand and South Korea signed the Regional Comprehensive Economic Partnership (RCEP). The deal is considered an enormous boost for advocates of multilateralism and free trade, considering the particularly challenging nature of negotiations, which included differing economic priorities, the external environment caused by tensions between the United States (US) and China, and weakened global demand from the COVID-19 pandemic.

RCEP signatories account for approximately 30% of the world's GDP and the global population, as well as 28% of global trade. It aims to eradicate 90-93% of tariffs within 20 years and add \$186bn annually to the global economy by 2030. The deal specifically has potential to increase trilateral trade between China, Japan and South Korea, with the Peterson Institute for International Economics (PIIE) [estimating](#) that these countries will gain \$85 billion, \$48 billion and \$23 billion, respectively. Advocates also cite the advantageous changes to the region's previously fragmented Rules of Origin (RoO) provisions. The new framework is expected to strengthen supply chains by enabling companies to produce and export products to any RCEP signatory with a single certificate of origin.

Despite the optimism, critics claim that the deal lacks ambition compared to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which reduces tariffs on 99% of tariff lines compared to RCEP's 93%. They also point to the lack of provisions on the environment, labor, data localization, cross-border data flows and customs duties on electronic goods. A final shortcoming is the notable absence of India as a signatory, which withdrew from the agreement for reasons including a lack of adequate protection against import surges and lack of credible assurances on market access, among others.

Provisions aside, Western observers point to RCEP's geopolitical implications. Specifically, despite the misconception that the deal was "China-led" when it was actually put forward by ASEAN, there are concerns about how the deal will provide China with enhanced political and economic clout to shape regional trade rules. This has, in turn, raised questions as to how Joe Biden's administration will seek to re-engage with the Asia-Pacific region after four years of apathy for multilateralism under President Trump, with signs suggesting that Biden will [prioritize](#) the domestic issues of COVID-19, economic recovery, racism and climate action.

Although the effectiveness of RCEP has split opinion, it will inevitably cause a significant change in the regional trade environment for multinational companies. To help companies filter the noise, APCO's analysts across China, Japan, Singapore, Thailand, India, Vietnam,

Indonesia and South Korea have provided a summary of the reactions from their respective government, media and industry stakeholders (see full report below) identifying the following major trends:

- The key message from all governments, with the exception of India, is that RCEP is a huge step towards a free and open international economic order as the world recovers from the COVID-19 pandemic;
- There is a divide between Southeast Asian countries and Japan/Korea on what the deal means for relations with China. Stakeholders in Singapore, Indonesia and Vietnam view RCEP as an opportunity to develop further positive trade ties with China, whereas the same groups in Japan and Korea, while expressing optimism, also show concern about how to balance growing regional integration with their relations with the United States;
- Voices in the Korean business community have questioned RCEP's effectiveness for the country due to their existing free-trade agreements (FTA) with 14 of the 15 participatory countries;
- In Thailand, there is slight concern that trade with the EU and the US might recede given the lack of support mechanisms for companies to market their products to these blocs compared with RCEP signatories;
- While India's government and media stakeholders reinforced the reasons for the country's withdrawal, its business community has expressed some concern that the decision could cause market access issues to the wider APAC region;
- Media and industry stakeholders in Japan and Korea see RCEP as a foundation for the conclusion of a future Korea-China-Japan FTA; and
- The three most prevalent risks identified by the assessed countries are the potential for import surges, the need to protect domestic agricultural markets from increased competition, and the need to improve domestic market landscapes to take full advantage of the deal and avoid the risk of increasing competition among ASEAN exporters, especially for Small and Medium Enterprises (SMEs) in countries such as Thailand.

The 20-year tariff implementation period means that the impact of RCEP will not be felt for a while. This offers multinationals an opportunity to consider how the deal will alter the political and economic dynamics facing their company, especially how it could create new stakeholders across government and industry, as well as opportunities for new commercial partnerships.

**Click here to read and download the full report, which includes country-specific analysis from APCO Worldwide's consultants on the responses from China, Japan, Singapore, Thailand, India, Vietnam, Indonesia and South Korea.**

### **THE VIEW FROM CHINA**

**Overall:** Since President Xi Jinping's Davos [speech](#) in January 2017, leaders across government, industry and the media have continued to position China as the global advocate for multilateralism and free trade in the face of growing unilateralism and protectionism. The successful completion of RCEP has been leveraged by China to back up this narrative. It is the first multilateral trade deal that China has been a part of and it comes at an opportune time for the country to increase its regional political and economic weight in the face of a swifter economic recovery from the COVID-19 pandemic and four years of U.S. withdrawal from the international stage. RCEP will also encourage greater regional integration, and as the largest economy, China will inevitably be in an enhanced position to set regional trade rules. This is

especially so as U.S. President-elect Joe Biden is expected to prioritize domestic issues over trade in his first months in office.

**Government:** Chinese Premier Li Keqiang called the deal a “victory for multilateralism and free trade” while foreign ministry spokesperson Zhao Lijian [described](#) it as a boost to regional economic recovery and global economic growth “against the backdrop of the COVID-19 pandemic, the severe global economic recession and rising unilateralism and protectionism.” While not directly commenting on the deal, at the APEC CEO dialogue, President Xi [described](#) how China will “continue to advance trade and investment liberalization and facilitation, to conclude, through negotiation, high-standard free trade agreements with more countries.” President Xi also said that China will consider joining CPTPP to build on the positive momentum from RCEP. Additionally, Vice Minister of Commerce Wang Bingnan [advocated](#) for Hong Kong to join RCEP to “enhance its international and regional collaboration, as well as expand its own network.”

**Media:** China’s media outlets echoed the narrative of government officials, with the addition of more subtle criticisms of U.S. trade policy under President Trump. Xinhua described RCEP as a “[victory for multilateralism over unilateralism and free trade over protectionism](#)” while Global Times released two pieces. One editorial cited RCEP as evidence that China is not a “[global expansionist empire](#)” and remains committed to multilateralism and win-win cooperation, while another took on a more assertive tone, describing RCEP’s signing as “the end of U.S. hegemony in the [Western Pacific](#)” and a sign that Asia-Pacific nations do not “blindly follow” the United States. [CGTN](#), the international arm of state-controlled broadcaster CCTV, described the signing as an opportunity to position China’s regional strategy as not one of “aggression” but as “well contemplated diplomacy.”

**Industry:** The response from the business community largely echoed the positive response from government and media. For example, Zhou Lihong, chairwoman of the China Chamber of Commerce to the European Union (CCCEU) [described](#) the deal as an uplifting example of “international economic cooperation, which has been affected by protectionism and unilateralism; and it has also injected confidence to boost global economic recovery hit by the recession”. Zhang Yuyan, director of the Institute of World Economics and Politics of the Chinese Academy of Social Sciences, [described](#) the deal as showing that “openness remains the prevailing trend” in the Asia-Pacific. The Vice President of Haier, Zhang Qingfu, also gave a generally positive [comment](#) about RCEP, saying that it will “help stabilize China’s exports to neighboring countries and maintain security of industrial and supply chains in the region.”

## THE VIEW FROM JAPAN

**Overall:** RCEP represents Japan's first free trade agreement with both China and South Korea, its closest neighbors and second and third largest trading partners respectively. The agreement is considered overall beneficial to Japan economically, offering export opportunities for automobiles, other manufactured goods and high-end “Japanese brand” food products. Nonetheless, with India being absent from the deal and the new U.S. administration’s expected focus on domestic issues, Japan will face China’s stronger regional presence. Thus, alignment with traditional allies such as Australia, as well as relatively neutral parties such as ASEAN and New Zealand, will become more important.

**Government:** Key Japanese government officials, including Prime Minister Suga, Secretary Kato, the Minister of Economy and Trade, and the Minister in charge of TPP have all

[commented positively](#) on the deal. They have emphasized the economic benefits, including that the 15 member countries account for 50% of Japan's overall trade volume and that 92% of manufactured goods exported from Japan will be eventually exempt of tariffs. He also highlighted Japan's contribution to free and fair trade and rulemaking in the region, especially related to patents and e-commerce.

**Media:** The Japanese media has been generally positive in its reporting of the deal when discussing the economic aspects, however it has been raising [concerns](#) surrounding China's regional influence, including its aspiration to spread the use of the digital RMB. Furthermore, some media has highlighted the importance of maintaining Japan's commitment to free trade, fair practice and cooperation with countries which share democratic values – including Australia, New Zealand, ASEAN countries, as well as potentially the UK and the United States, which might join or return to TPP.

**Industry:** The reaction from industry has been [overwhelmingly positive](#), with key industry leaders underlining that this pact will strengthen supply chains established by Japanese companies in Asia due to the alignment of rules and lowering of tariffs. Hiroaki Nakanishi, Chairman of the Japan Business Federation (Keidanren), has declared that the signing is extremely significant toward realizing a free and open international economic order at a time when some countries are becoming inward-looking due to the COVID-19 pandemic.

## THE VIEW FROM SINGAPORE

**Overall:** As a champion of international trade, Singapore has historically played a significant role in regional and international trade agreement negotiations. In this context, the general response to RCEP in Singapore has been overwhelmingly positive. For years, Singapore has acted as a regional base from which multinational companies have ventured into the Southeast Asian market. Therefore, being part of the largest multilateral FTA in history has been considered a massive win for Singapore by its key stakeholders.

**Government:** The public responses from Singaporean government officials have been positive. The Minister for Trade and Industry Chan Chun Sing [said](#), "The RCEP is a demonstration of partner countries' commitment to greater economic integration for the benefit of our people and businesses. Beyond its economic value, it is also a statement of our strategic intent to have a shared interest in each other's prosperity and success. This bodes well for the security of the region. We look forward to the swift implementation of the agreement and we are committed to keeping this agreement up to date to meet the evolving realities and demands." The Singaporean government is highly unified politically, and their responses have all fallen along the line of those given by Minister Chan.

**Media:** The mainstream media in Singapore is typically well aligned with the government on policy decisions and this holds true in the case of RCEP. In its coverage of the deal's signing, Singapore's newspaper of record the Straits Times' [most critical commentary](#) related to the agricultural sector and how RCEP did not build beyond existing FTAs. The remainder of the article was positive, lauding its harmonization of trade standards, reduction of tariffs, and even giving a positive take on the inclusion of China in the deal by arguing that it presents a huge opportunity for Southeast Asia to tap into the massive Chinese consumer market. All major publications and broadcasters have appeared to echo the Straits Times, presenting RCEP as a big win for trade-dependent Singapore.

**Industry:** Business leaders have viewed RCEP as an exciting opportunity for cost cutting and growth. Ho Meng Kit, CEO of the Singapore Business Federation, told the [Straits Times](#) that Singaporean businesses should seriously consider how they can take advantage of RCEP once ratified, particularly when it comes to its liberal services and e-commerce regulations as well as IP protection clauses. Comments from other business leaders were similarly sanguine.

## THE VIEW FROM THAILAND

**Overview:** RCEP is Thailand's most open trade agreement compared to the bilateral FTAs that it has signed before, given that tariff elimination is capped at 99%. This agreement is seen to benefit Thailand especially on exports given that the country is considered a strong production base for Asia in the following industries: automotive and parts, plastic resin products, chemicals, rubber products and electrical parts. Other industries perceived to benefit the most from this FTA are agriculture, food, electronics, the service industry and retail.

**Government:** Prime Minister Prayuth Chan-o-cha and Jurin Laksanavisit, Minister of Commerce, made a statement expressing their gratitude that RCEP had finally concluded after almost 10 years of negotiation. Both the Prime Minister and Commerce Minister stressed that RCEP is a high-standard deal that will have positive implications for improving the economies of all signatories, which will attract a favorable environment for global trade and investment. Moreover, they [said](#) that it gives member countries the flexibility to cope with future economic challenges and emphasized that RCEP is the tool to drive the world economy towards a more open trade environment. Jurin also stated that the signing of RCEP will benefit Thailand in terms of exports, trade and investments. This is especially the case for agricultural products, with hopes that the deal will push Thailand to become a leading food exporter. Moreover, the benefits will also spill over to other industries including electrical equipment, paper, plastic, chemicals, motorcycles, automotive parts and services in the construction, health, film, entertainment, animation and retail sectors, with the hope that this will generate considerable income for Thailand in the future.

**Media:** The Thai media is mostly positive about the signing of RCEP, especially on the trade and investment aspects. However, concerns have been raised as to whether the signing of RCEP will put pressure on Thailand's financial sector given that a freer market will mean increased competition in the service sector, especially on labor and capital. There are also concerns as to whether SMEs will be able to adapt and survive to the increased competition as RCEP will allow more foreign products to enter the market.

**Industry:** There is limited reaction from industries in Thailand. However, according to a [study](#) done by the Kasikorn Research Centre, it is observed that RCEP will not have a significant impact on the Thai economy despite its potential to tighten up Asia's production chain. However, in the near future, trade with other partners such as the EU and the United States might recede given the lack of support mechanisms for Thai companies to market their products to these blocs compared to RCEP signatories. Therefore, Thailand might have to turn to CPTPP. According to Kasikorn Research, although there are signs that the United States might resume negotiations on CPTPP, it is not likely that negotiations will conclude soon given that President-elect Joe Biden will have to focus on internal matters such as managing COVID-19.

## THE VIEW FROM INDIA

**Overall:** India decided to walk out of RCEP negotiations in November 2019. The understanding at that time was that it would continue to negotiate on the main issues, which mostly entailed

greater market access for Indian goods and concerns over tariffs. Adding to these concerns, the COVID-19 pandemic and the geopolitical tensions with China this year pushed India to remain outside the pact, although RCEP retains a provision to allow India to join later.

There are concerns that India's decision would impact its bilateral trade ties with RCEP member nations and could impact other trade deals in the future. More so, some experts believe that Indian consumers may end up paying more than they should. However, India's apprehension over the deal comes from the country's past learnings and its sizeable trade deficits with 11 of the 15 RCEP countries. The Indian government is now focused on bolstering its ["vocal for local" strategy and "Make in India"](#) initiative to boost local manufacturing.

**Government:** India's Minister of External Affairs, S Jaishankar, made a [public statement](#) where he mentioned that the RCEP deal in its present state would have negative consequences for the country. At the conclusion of the 17th ASEAN-India virtual summit, Prime Minister Narendra Modi also said that India is committed to deepening its trade relations with ASEAN.

**Media:** The media in India has extensively covered the country's stance on RCEP. Most reports have concentrated on explaining India's decision without much bias, as well as the potential impact of RCEP on future trade deals. The RCEP deal itself has been covered in a mainly neutral to positive tone by Indian journalists and has been referred to as one of the largest trade pacts. Only a minor section of the media has questioned China's "influence" on the trade pact.

**Industry:** Several large Indian industry associations such as the Confederation of Indian Industry and exporters have lauded India's decision to pull out of RCEP in media and public events. Despite this, some exporters are concerned about how their expansion plans may take a hit due to a lack of competitive access to a huge market. Recently, Sharad Kumar Saraf, president of the Federation of Indian Export Organization, India's largest exporters' group, [said](#), "Many sectors would want to shift to nations in the bloc to get access to the market and common rules of origin is a big advantage." According to a paper by the Peterson Institute for International Economics, the withdrawal will result in a loss of 1.2% of the nation's projected GDP in 2030.

## THE VIEW FROM VIETNAM

**Overall:** RCEP marks an important milestone for the integration of Vietnam into the global economy. Along with other new generation FTAs in which Vietnam is participating, this trade agreement demonstrates the determination of the Vietnamese Government to create an open and competitive economy. The agreement is expected to accelerate Vietnam's economic growth with more exports in key sectors including agriculture, electronics, textile and footwear. To reap the full benefits of RCEP in terms of trade and investment, however, there are certain gaps in Vietnamese national legislation and regulations which need to be addressed.

**Government:** Both Prime Minister Nguyen Xuan Phuc and Minister of Industry and Trade Tran Tuan Anh take a positive view of the RCEP agreement and its potential benefits to domestic enterprises. They highlighted the influential role of Vietnam's ASEAN chairmanship role in facilitating the signing of RCEP in 2020. The Ministry of Industry and Trade [pledged to coordinate](#) with relevant ministries and government agencies to develop a detailed action plan for the implementation of RCEP.

**Media:** Generally, the Vietnamese mainstream media has reported positively, highlighting how RCEP, together with other major trade deals including CPTPP and EVFTA, will open new opportunities for trade with China and other developed countries. Some media highlighted the need for Vietnamese enterprises to proactively restructure business models in order to fully take advantage of RCEP and participate in global supply chains.

**Industry:** The business community has reacted positively to the signing of RCEP. Industry players and local think tanks strongly believe that the trade pact will reduce trade barriers, cut red tape and enhance market access for goods and services for Vietnam. Looking from a trade perspective, the Vietnam Chamber of Commerce and Industry [said](#) the implementation of RCEP will boost exports of Vietnamese companies to 14 RCEP member countries. There are, however, concerns over increasing competition at home for domestic companies and competition among ASEAN exporters.

### THE VIEW FROM INDONESIA

**Overall:** RCEP was hailed by senior officials from the Ministerial level to the President himself as a new hope for Indonesia to boost its economy, strengthen its partnerships with member states and to heal the damaged national economy due to the pandemic. The Ministry of Trade has been the main actor showing optimism for the deal. The Minister of Trade, Agus Suparmanto, quoted a [study](#) which shows that RCEP could potentially increase Indonesia's exports to the other member states by 8 to 11% in the next five years, while investment to Indonesia would increase by 18 to 22%. Indonesia could also complement RCEP with the Omnibus Law – or the job creation law – a law that aims to improve the business and investment climate in the country. The deal is also anticipated to further generate a welfare gain of around \$1.52 billion for Indonesia, an increase of GDP by 0.05% from 2021 to 2032 and 0.26% of economic growth.

**Government:** Several high-ranking ministers such as the Minister of Trade, Minister of Foreign Affairs and the Coordinating Minister of Economic Affairs expressed great hope for RCEP, stating that the deal will boost Indonesia's economy during the pandemic and push for stability in the region. [The Minister of Trade](#) has urged that Indonesia take advantage of RCEP by improving the investment climate, improving infrastructure and creating ease of traffic for goods and services. The [Minister of Foreign Affairs](#), Retno Marsudi, also hopes that RCEP will create conduciveness and competitiveness in the Indo-Pacific region “and has emphasized the vital role of Indonesia in driving this deal forward.” [The Coordinating Minister of Economic Affairs](#) echoed the Minister of Trade's view that Indonesia take advantage of the deal, which will be supported by an improved investment climate and a better business environment through the Omnibus Law. Last but not least, [President Joko Widodo](#) commented on the deal as a historic moment which showed a strong commitment for multilateralism.

**Media:** All major publications such as The Jakarta Post, Detik, Kompas, Tribunnews, and Metro TV have showed positive sentiment towards the deal, stating that it could bring positive impacts to the Indonesia economy. Some media outlets have [discussed](#) Indonesia's gains from this deal and how it could help the country's economic recovery, despite concern for import surges also being shown in notable publications such as [Kompas](#), [Liputan 6](#), and [Detik](#). Other media also reported on how Indonesia should be prepared to protect farmers and improve its downstream industry to make the best out of this deal including [Tribunnews](#), [Republika](#), and [Media Indonesia](#). Overall, the media's sentiment is positive and neutral, explaining Indonesia's gains

from this deal while covering several concerns such as import surges and protection for domestic industries.

**Industry:** [The Indonesian Chamber of Commerce and Industry](#) (KADIN) welcomed the agreement, seeing it as a way for Indonesia to expand and increase trade deals with the member states and to make Indonesia a production hub in the global and regional supply chain. KADIN also believes that the agreement will create higher certainty for business to normalize trade flows and investment. However, KADIN also commented that every member state could take advantage of the deal; therefore, Indonesia needs to be willing to improve its domestic policy environment to prepare for competition with other member states. [The Employers' Association of Indonesia](#) also expressed hope that the government gives supports to their industry, namely exporters in order to take advantage of the agreement. Those supports, namely, are improving incentives and market access for the industry.

### THE VIEW FROM SOUTH KOREA

**Overall:** RCEP can be understood in the context of Korea's general push to diversify its trade policies and partners. In particular, the new agreement is likely to accelerate the country's New Southern Policy, which aims to bolster Seoul's strategic and economic relations with Southeast Asian countries. RCEP also represents the country's first FTA with neighboring Japan, a particularly meaningful development considering the conflict that has ensued between the two countries over export regulations. Many see the RCEP as laying a foundation for the conclusion of a Korea-China-Japan FTA in the future. Korea has consolidated its self-proclaimed reputation as an 'FTA power' through the conclusion of RCEP, as with the addition of Japan it now holds FTAs with the world's top five economies.

**Government:** President Moon Jae-in called the signing of RCEP an "historic moment," [citing](#) his hopes for RCEP to "contribute beyond the region to the recovery of global multilateralism and the development of the free trade order." Other senior government officials have similarly endorsed the agreement, with Industry Minister Sung Yun-mo saying "the RCEP is expected to vitalize the nation's exports and help us overcome difficulties caused by the COVID-19 pandemic." Government stakeholders have especially welcomed the creation of a common Rule of Origin, which they expect will help drive up the country's export competitiveness.

**Media:** Korean media coverage of RCEP has been generally positive regarding the economic impact of the agreement. Many outlets have commented on the large scope of RCEP and its potential to contribute to an expansion of Korean exports and help Korean companies make inroads into foreign markets. However, some have cited RCEP's relatively low rate of market liberalization to predict that the economic benefits will not be as significant as they may seem, especially for Korea which already has FTAs with 14 of the 15 participatory countries. There is also a moderate level of concern about balancing a relationship between the United States and China, should America rejoin the TPP.

**Industry:** The reaction from industry has been largely positive, with the semiconductor, IT, automobile, steel, petrochemical and machinery sectors all expressing hopes of seeing positive economic effects from RCEP. The Korea Chamber of Commerce, Korea International Trade Association, Korea Automobile Manufacturers Association and Korea Steel Association have all issued statements of support for the agreement. RCEP is also expected to accelerate the export of Korean cultural content including K-pop and computer games particularly in Southeast Asia, as the agreement expands upon the level of market opening set by the 2007 Korea-ASEAN



FTA. On the other hand, there are concerns that the country's relatively vulnerable agricultural and fishery sectors will suffer with further market opening.