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Implications of RCEP for China's regional supply chains

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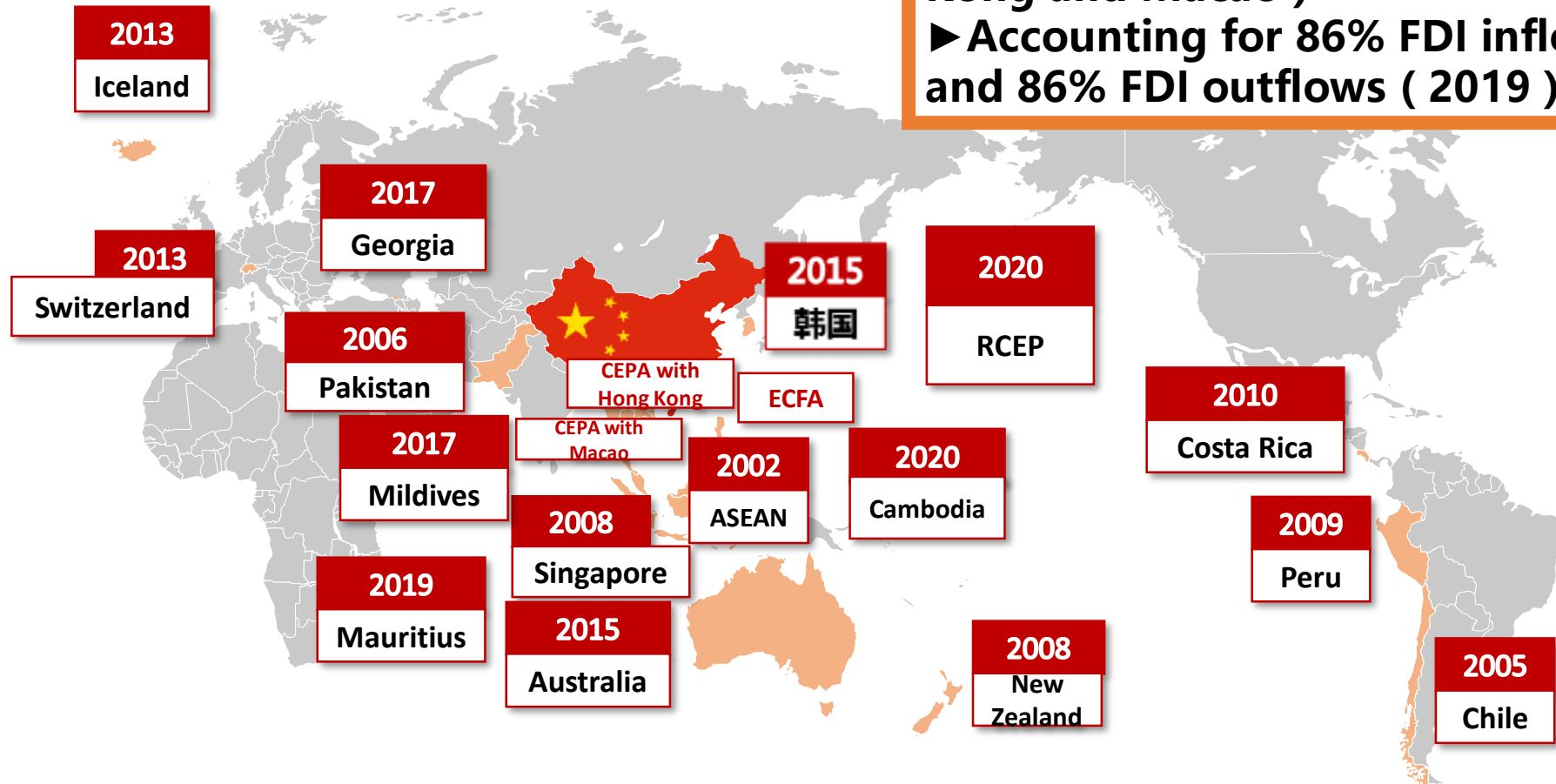
University of International Business and Economics

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China's progressive and ambitious FTA strategy

19 FTAs **26** Countries and regions

► Covering 35% foreign trade (45% if including Chinese Taiwan, Hong Kong and Macao)
► Accounting for 86% FDI inflows and 86% FDI outflows (2019)

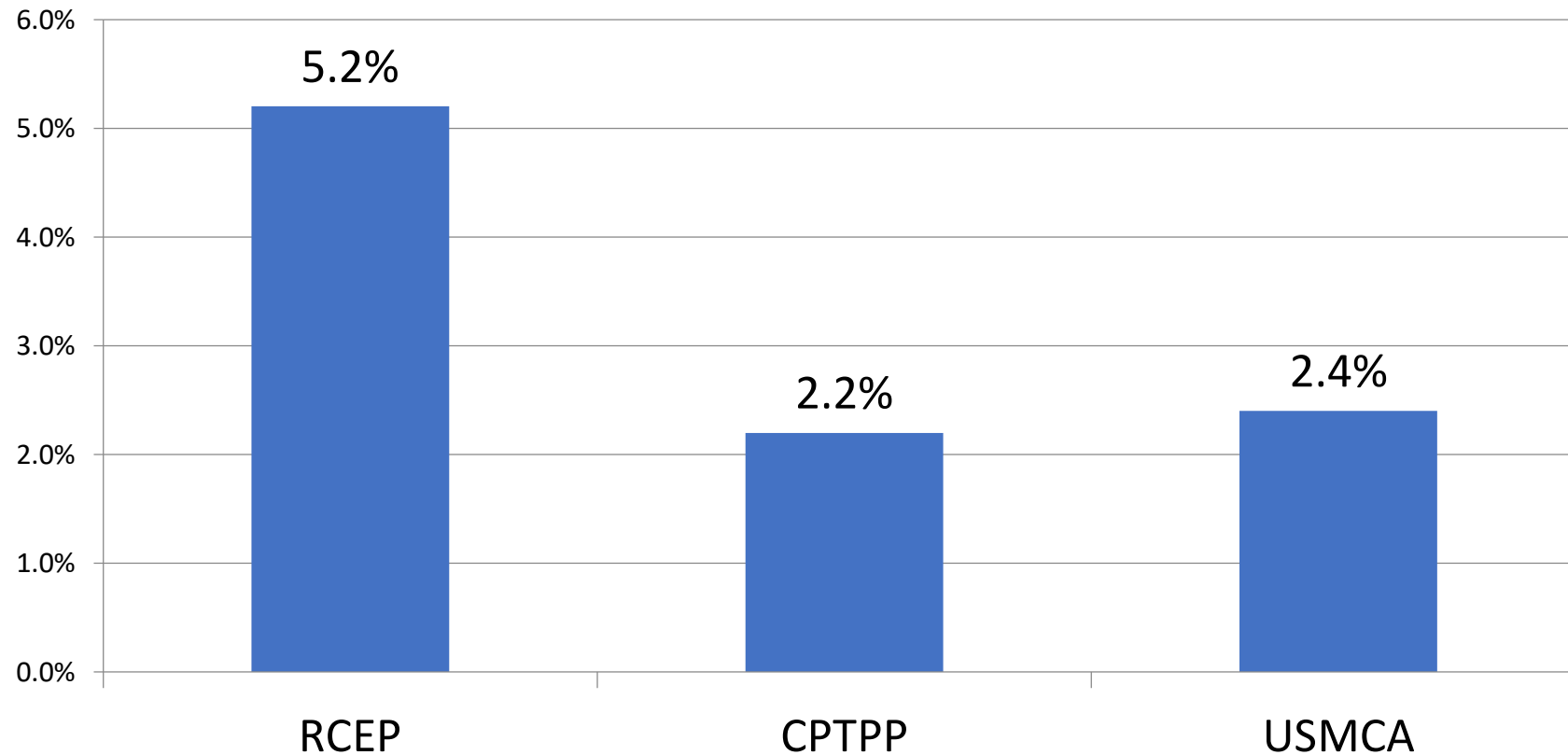


RCEP is the largest FTA in the world

- In 2020, 15 members of RCEP have the population of 2.27 billion, GDP of 26 trillion US dollars and 5.2 trillion of exports, all accounting for roughly 1/3 of the world aggregate
- RCEP is the ever largest RTA in the world
- RCEP is highly inclusive, diverse and multi-layered in terms of development stage, cultural, economic and political systems and a natural RTA with deep integration
- Members of RCEP have great potential of economic growth and high complementarity between them

RCEP has faster economic growth

Average GDP growth rate from 2015 to 2020



Launch and process of RCEP negotiations

- RCEP was initiated by ASEAN with the intention of integrating the existing five 10+1 FTAs with China, Japan, Korea, India, Australia and New Zealand
- One major purpose is to encounter the negative impacts of US action to push forward TPP
- The negotiations were slow in early years because many RCEP members imposed more emphasis on TPP
- Trump decided to withdraw from TPP in 2017 which was concluded in 2015
- The RCEP negotiations were accelerated since 2017 and almost concluded in the end of 2019 but the exit of India caused some delay
- RCEP was signed in the end of 2020 without India

	ASEAN-China	ASEAN-Korea	ASEAN-Japan	ASEAN-India	ASEAN-AN	RCEP
Tariff Reduction	○	○	○	○	○	○
Rules of origin	○	○	○	○	○	○
Technical barriers	○	○	○	○	○	○
Customs measures	*	*	○		○	○
SPS	○	○	○	○	○	○
Trade remedies	○	○	○	○	○	○
Investment	○	○	○	○	○	○
Trade in services	○	○	○		○	○
IPRs	*	*	○		○	○
Government procurement			○			○
Competition			○		○	○
E-commerce	*	*	○		○	○
Labor						
Environment	*	*	○			
Technical cooperation	○	○	○		○	○
Dispute settlement	○	○	○	○	○	○

Trade in goods: main progress in liberalization

- **The final result of tariff reductions will be zero tariff on over 90% lines**
- **The most important increments are FTA partnership between Japan and its two neighbors, China and Korea**
- **The ratio of zero tariff between Japan and China reaches 86%, 82% for Japan and Korea**

Accumulative regional rules of origin

- Value added in any RCEP member could be accumulated in determining the origin of a product
- This is highly important for regional division of labor and cooperation of regional supply chains
- The value-added standard of origin is mostly 40% which is not so high and helpful for members' participation in global supply chains
- The rules of origin are very beneficial for China as a core supplier of intermediate goods and largest investor in the region

Ambitious liberalization in trade in services

- Seven members apply negative listing in opening services immediately and five in 6 years and three in 15 years
- Members make larger concessions in many sectors than in the WTO
- Members deliver ambitious offers in movement of natural persons which is highly valuable for regional investments and human communications

RCEP makes the first regional investment rules in the region

- While there is no global rules on investment, RCEP has made a set of regional rules on investment with the largest coverage
- All members apply negative listing approach in making their market access concessions
- The investment chapter includes investment liberalization, investment facilitation and investment protection
- The chapter has strong disciplines on national treatment and non-discrimination

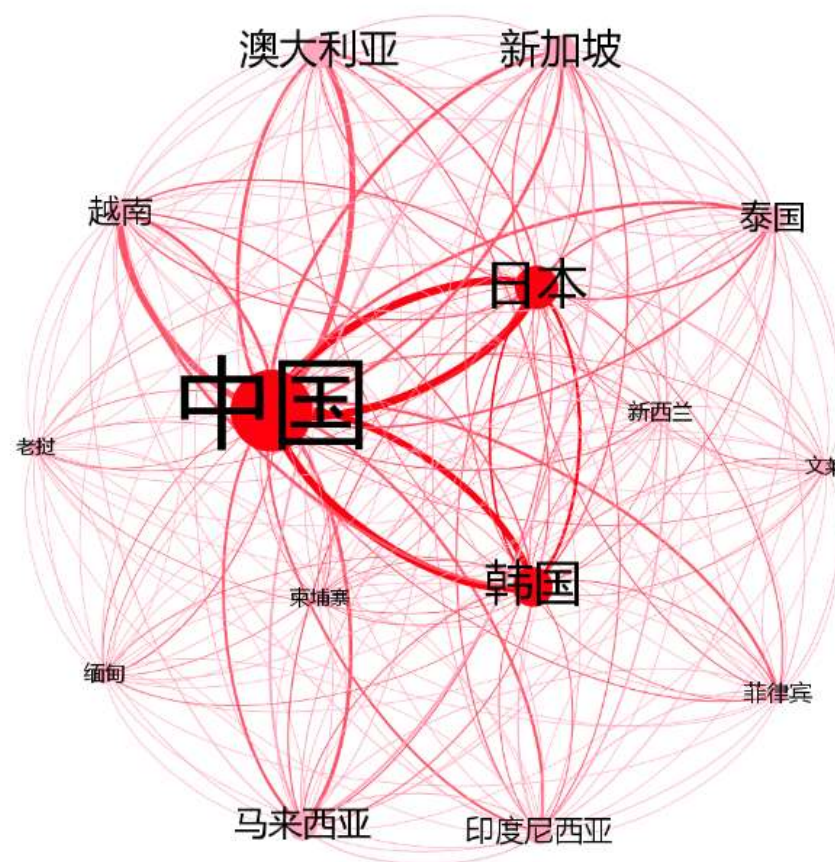
RCEP has a stronger IPRs protection system

- RCEP expands the protection coverage to some new types of IPRs
- RCEP offers higher protection level than TRIPS
- Higher protection of IPRs is critical for intra-regional investments and innovation cooperation
- China is pursuing stronger IPR protection with the aim of more innovation-driven economic growth

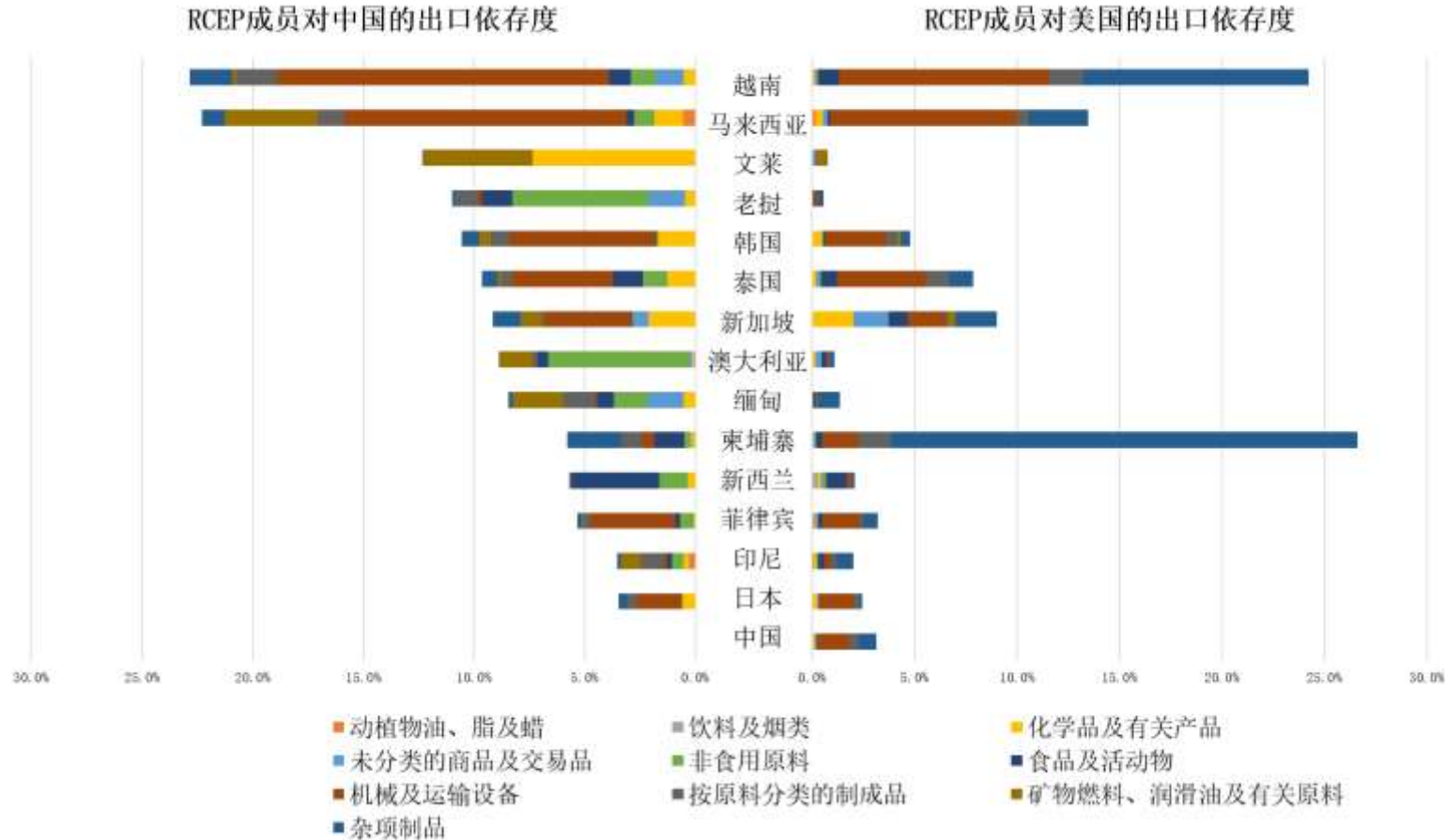
With a consolidated set of rules, RCEP will stimulate deeper cooperation in regional supply chains

- Goods trade liberalization with the help of accumulative rules of origin is still the most important part in RCEP because most RCEP members are goods producers in manufacturing, agriculture and commodities
- Services commitments are helpful to stimulate regional investments and human communications
- Investment rules could provide stronger predictability and stability for capital flows among RCEP members
- More importantly, RCEP members already have close economic cooperation with each other

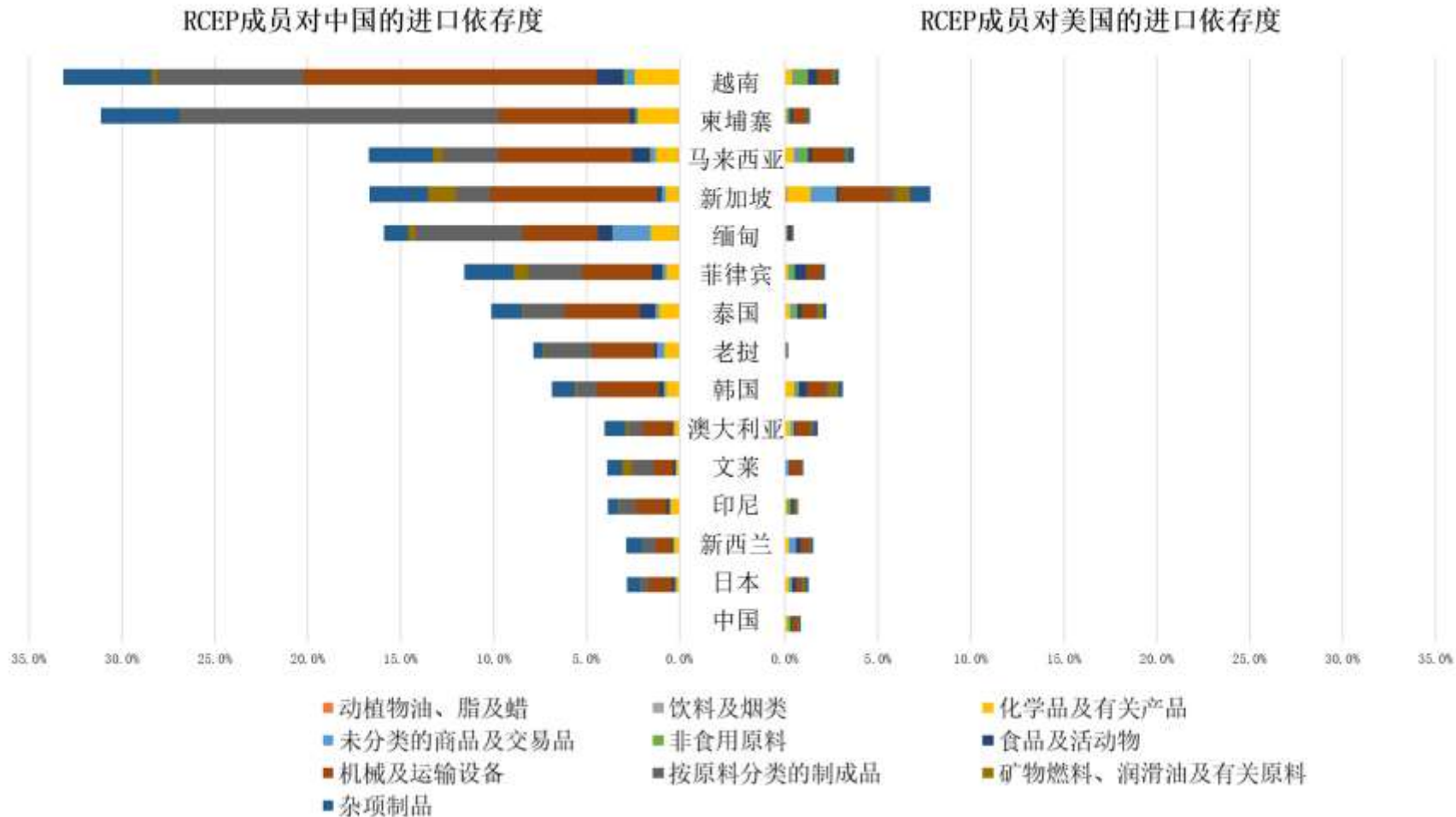
China is already the core of the regional supply chains



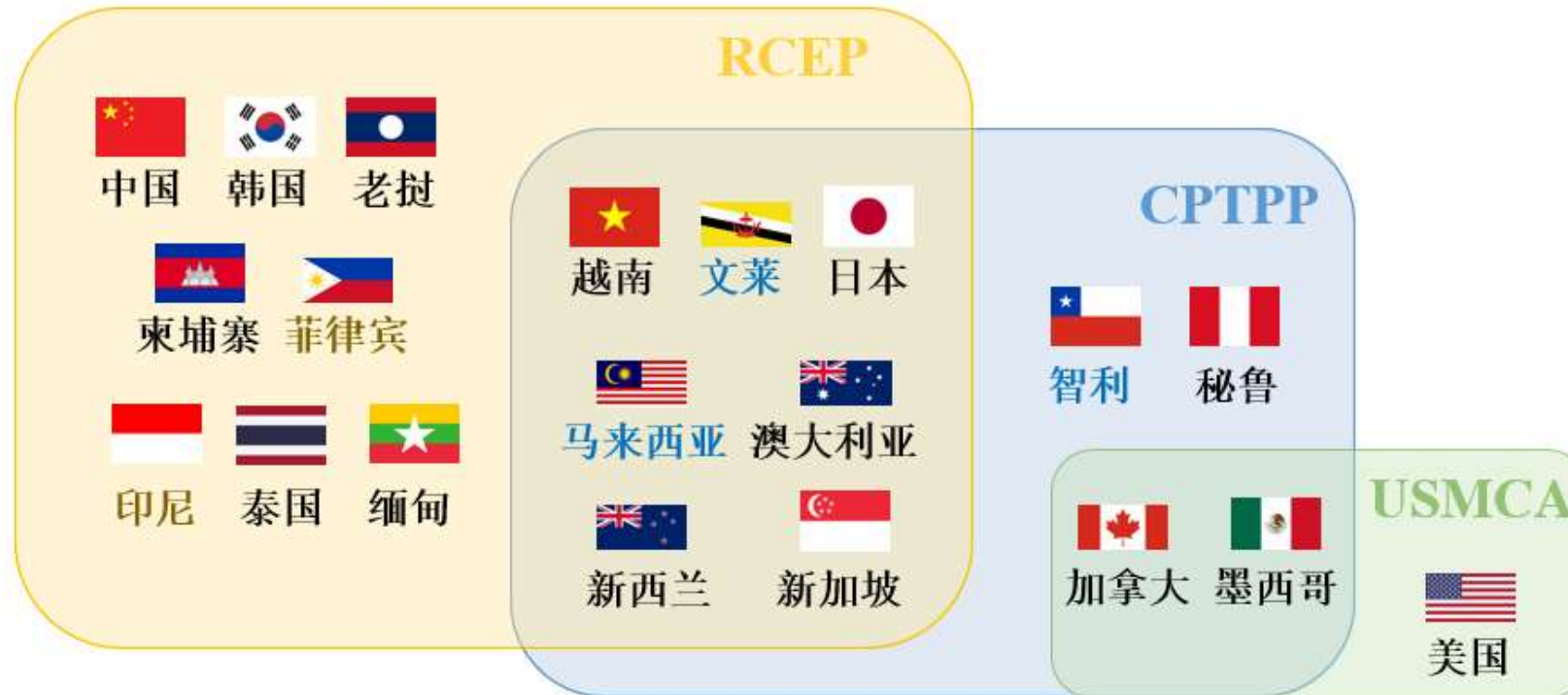
Comparison between China and US as an export destination of RCEP members



Comparison between China and US as an import source of RCEP members



China is leading the regional economic integration



IPEF is not considered a threat yet

- In May of 2022, the United States launched Indo-Pacific Economic Framework along with other 13 countries, 11 of which are RCEP members
- IPEF includes four pillars of trade, supply chains, clean energy and infrastructure and taxation and anti-corruption
- IPEF is not a free trade agreement with no intention of further trade liberalization
- India has temporarily exit the trade negotiation under IPEF
- China is not against IPEF but applying to join the CPTPP instead