

## THE REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP) AS “SINGLE RULEBOOK” BRINGING FREE TRADE TO 30% OF THE WORLD ECONOMY AND 30% OF WORLD POPULATION – WHAT DOES IT MEAN FOR SWISS COMPANIES?

Patrick Ziltener, 2020, November 19

### Introduction

Negotiations on the Regional Comprehensive Economic Partnership (RCEP) were launched in November 2012 between the Association of Southeast Asian Nations (ASEAN) and ASEAN's free trade agreement partners Australia, China, India, Japan, New Zealand and South Korea. Up to 700 officials participated in each of the more than 30 negotiations rounds. On 15 November 2020, Ministers from 15 countries signed the Agreement. In November 2019, India indicated it had several issues preventing it from joining RCEP and has since indicated it is not in a position to sign the Agreement. Even without India, RCEP will still be the world's largest free trade agreement, covering about 30% of global GDP and 30% of world population. 3 of the 15 RCEP countries have been identified by S-GE as being among the ten most important target countries for Swiss exporters, namely China (1), Singapore (4), and South Korea (5).<sup>1</sup>

The RCEP Agreement will enter into force 60 days after six ASEAN Member States and three non-ASEAN Member States have ratified the Agreement, likely in the year 2021.

This paper is a first attempt at assessing the significance of this new regional free trade agreement, beyond the aggregates mentioned, with a focus on China – Japan – South Korea (for reasons that will be discussed), against the background of the existing network of bilateral FTAs and ASEAN-Plus-One-FTAs in the region and also in comparison with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) Agreement. Given the short time period, only selected topics can be analyzed and discussed. A more in-depth analysis is necessary, especially a detailed comparison of the elements of the Agreement, since the RCEP Agreement is complex, consisting of 20 Chapters on a wide range of topics.

### A First Assessment

The Australian Department of Foreign Affairs and Trade sees RCEP as “a modern and comprehensive free trade agreement”.<sup>2</sup> Indeed, RCEP contains 20 Chapters on the topics covered by up-to-date trade agreements (cf. Table 1). The most important issues *not* covered in RCEP are state-owned enterprises, labour and environmental standards, transparency and anti-corruption. Based on first assessments, the Chapters on intellectual property and e-commerce can be identified as clearly less ambitious than the provisions in CPTPP, but this may not hinder them to have an impact on the further economic integration of the region.

### The ASEAN perspective

ASEAN sees RCEP as modern, comprehensive, high-quality agreement “not made just for today but also ... for tomorrow”. In terms of both coverage and depth of commitments, RCEP goes *beyond* the existing ASEAN-Plus-One-FTAs on which ASEAN has grounded its free trade policy so far. For

1 <https://www.s-ge.com/en/20191-c1-top-export-markets-smes>.

2 <https://www.dfat.gov.au/trade/agreements/not-yet-in-force/rcep>, November 18, 2020.

ASEAN, the RCEP Agreement has “the added value of bringing together a single rulebook to help facilitate the development and expansion of regional supply chains”.<sup>3</sup> From a Japanese business perspective this will contribute to making supply chains already established by Japanese companies in Asia “more broad, effective and resilient”.<sup>4</sup> As all ASEAN Agreements, RCEP contains provisions for special and differential treatment for the less developed countries Cambodia, Lao PDR, Myanmar, and Vietnam, as well as technical cooperation and capacity building.

### **What's in for Japan?**

RCEP is highly significant for Japan: It will cover about 46% of Japan's total foreign trade. Tariffs are expected to be removed from 91.5% of goods exported from Japan to RCEP countries, as well as 98.6% of goods imported by Japan from these.<sup>5</sup> The exemption rate is lower than the 99.9% agreed for the Trans-Pacific Partnership (CPTPP), but not much. Furthermore, RCEP includes – other than CPTPP – China and South Korea (Japan's largest and third-largest trading partner, respectively), and *all* ASEAN countries.<sup>6</sup>

Tariffs will likely be eliminated on 86% of industrial goods exported from Japan to China.

As for Japan's exports to South Korea, 92% of goods will be waived from duties, up from the current 19%. About 80% of automotive goods, including air bags and electronic parts, will experience a gradual phasing out of tariffs. Japan itself has almost no tariffs applied on the import of industrial goods (exceptions being textiles and footwear). Japan will remove tariffs on 49% to 61% of agricultural and fisheries products, but managed successfully to keep import duties on five agricultural products, including rice, wheat, beef and pork, dairy products, and sugar crops.

### **The Chinese perspective**

China lauds RCEP in first place as the historically first agreement between China, Japan, and South Korea. It sees the three countries in different positions in the global value chain, with highly complementary economies and closely linked industrial and supply chains that are expected to further deepen under RCEP. China intends to speed up and conclude also the negotiations on a trilateral FTA among the countries mentioned. RCEP is also seen as a Chinese success against US-led initiatives such as APEC and CPTPP.<sup>7</sup>

Chinese companies, especially the internet giants, see in RCEP a way to expand e-commerce and to get better market access in Southeast Asia, since factors such as customs clearance and logistics efficiency, as well as the consumer shopping experience, will be improved and imposing taxes on electronic transmissions hindered.<sup>8</sup> RCEP is expected to increase the imports of certain goods by making it cheaper for Chinese consumers, e.g. luxury cars and cosmetics from South Korea, or electronics, food and sake from Japan.

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3 *SUMMARY OF THE REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT*, asean.org, November 18, 2020.

4 Akio Mimura, chairman of Japan Chamber of Commerce and Industry, *KYODO*, November 16, 2020.

5 *NikkeiAsia*, November 15, 2020.

6 CPTPP includes only four ASEAN countries (Brunei, Malaysia, Singapore, and Vietnam).

7 APEC's Post-2020 vision will get RCEP support as US wanes, *Global Times*, 2020/11/18.

8 RCEP's boost to e-commerce. Benefits in the world's largest FTZ offer huge potential amid coronavirus; Asian auto sector to make major gains under RCEP, *Global Times*, 2020/11/17.

# Issue Coverage: CPTPP, RCEP, WTO

	CPTPP	RCEP	WTO
Market Access for Goods	●	●	●
Rules of Origin and Origin Procedures	●	●	●
Textiles and Apparel	●	●	●
Customs Administration and Trade Facilitation	●	●	●
Trade Remedies	●	●	●
Sanitary and Phytosanitary Measures	●	●	●
Technical Barriers to Trade	●	●	●
Investment	●	●	▲
Cross Border Trade in Services	●	●	●
Financial Services	●	●	●
Temporary Entry for Business Persons	●	●	●
Telecommunications	●	●	●
Electronic Commerce	●	●	
Government Procurement	●	●	▲
Competition Policy	●	●	
State-Owned Enterprises and Designated Monopolies	●		
Intellectual Property	●	●	●
Labor	●		
Environment	●		
Cooperation and Capacity Building	●	●	
Competitiveness and Business Facilitation	●		
Development	●	●	
Small and Medium-Sized Enterprises	●	●	
Regulatory Coherence	●		
Transparency and Anti-corruption	●		
Administrative and Institutional Provisions	●	●	
Dispute Settlement	●	●	●
Note: ● indicates the issue is covered, ▲ is partially covered.			
Sources: CPTPP are taken from the CPTPP text and RCEP are based on the information given by RCEP "Guiding Principle and Objectives for Negotiating RCEP" and other sources			

**Table 1: RCEP Issue Coverage in Comparison**

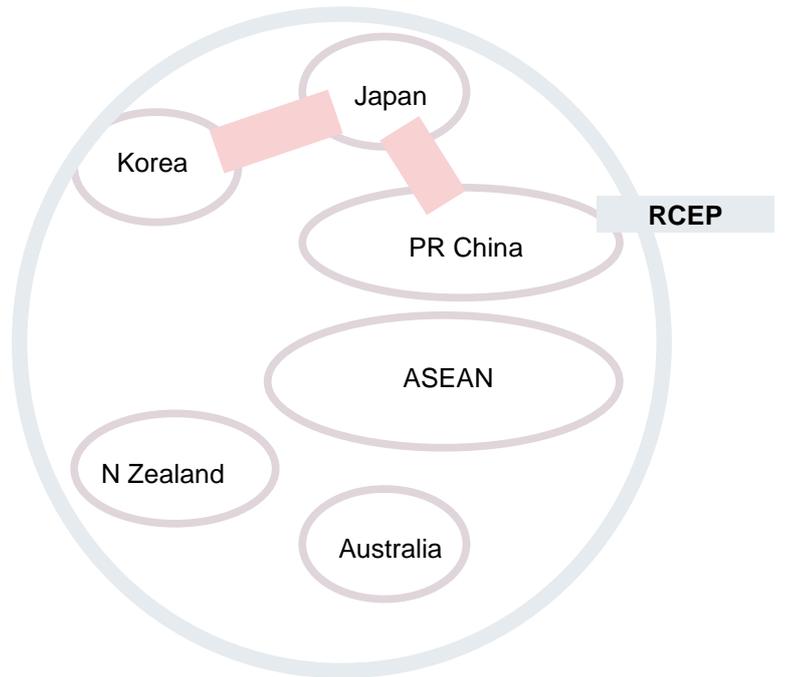
Source: Republic Indonesia Ministry of Trade *Policy Dialogue on Trade and Investment Integration* Presentation S. Urata ERIA & Waseda University, 20 August 2019.

**Graph 1: The Regional Comprehensive Economic Partnership (RCEP), 2020**

Only 2 cases of newly established free trade relations, all other relations were based on FTAs already!

The RCEP Agreement potentially replaces 28 existing bilateral/plurilateral FTAs among its members

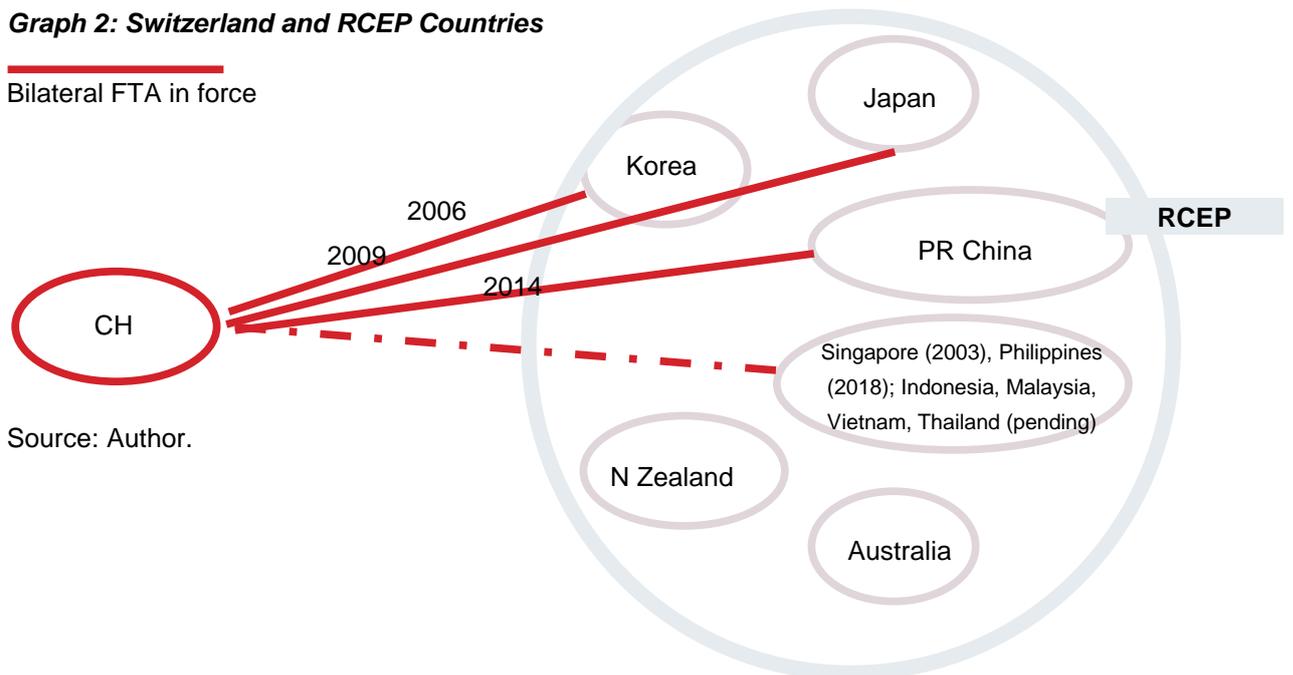
Source: Author.



RCEP is the first plurilateral free trade agreement China has ever participated in. It is the first regional agreement in Northeast Asia. It is the first FTA between Japan and South Korea. Actually it would be possible to speak of a successful *multilateralization* of an existing dense network of bilateral FTAs in East Asia or the Asia Pacific region. What does this mean for Swiss companies, based in Switzerland and/or based in East Asia? The focus will be on China – Japan – South Korea, because here the changes will be most significant.

**Graph 2: Switzerland and RCEP Countries**

Bilateral FTA in force



Source: Author.

The following analysis will focus on relevant aspects for Swiss exporters to China, Japan and Korea, and then deepen the analysis in some sectors, namely information technology, pharma, and government procurement.

**Table 2: Schedule of RCEP Tariff Commitments of China for Japan: Machine-tools**

HS Code	Product Description	Base Rate	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
8460.90.20	—Polishing machines	15.0%	13.6%	12.3%	10.9%	9.5%	8.2%	6.8%	5.5%	4.1%	2.7%	1.4%	0.0%
8460.90.90	—Other	15.0%	U	U	U	U	U	U	U	U	U	U	U
8461	Machine-tools for planing, shaping, slotting, broaching, gear cutting, gear grinding or gear finishing, sawing, cutting-off and other machine-tools working by removing metal or cermets, not elsewhere specified or included:												
8461.2	Shaping or slotting machines:												
8461.20.10	—Shaping machines	15.0%	13.6%	12.3%	10.9%	9.5%	8.2%	6.8%	5.5%	4.1%	2.7%	1.4%	0.0%
8461.20.20	—Slotting machines	15.0%	13.6%	12.3%	10.9%	9.5%	8.2%	6.8%	5.5%	4.1%	2.7%	1.4%	0.0%
8461.30.00	—Broaching machines	12.0%	10.9%	9.8%	8.7%	7.6%	6.5%	5.5%	4.4%	3.3%	2.2%	1.1%	0.0%
8461.4	—Gear cutting, gear grinding or gear finishing machines:												

Source: RCEP Annex 1 *Schedule of Tariff Commitments of China, Section C: For Japan*.

[www.dfat.gov.au](http://www.dfat.gov.au), November 16 2020.

**Table 3: Schedule of FTA Tariff Commitments of China for Switzerland: Machine-tools**

No.	Tariff Line	Description	Base Rate %	Category	Preferential Rate % (Year)									
					1	2	3	4	5	6	7	8	9	10
6258	84602930	Mill roller grindg machn,pos of one axis acc to 0.01mm,non-num cntrl	13	C1	11.7	10.4	9.1	7.8	6.5	5.2	3.9	2.6	1.3	0.0
6259	84602990	Grinding mach, pod of one axis acc to 0.01mm, non-numr contrld, nes	13	D										
6260	84603100	Sharpening (tool/cutter grinding) machines, numerically controlled	9.7	D										
6261	84603900	Sharpening (tool/cutter grinding) machines, not numerical contrld	15	D										
6262	84604010	Honing machines	13	C1	11.7	10.4	9.1	7.8	6.5	5.2	3.9	2.6	1.3	0.0
6263	84604020	Lapping machines	13	C1	11.7	10.4	9.1	7.8	6.5	5.2	3.9	2.6	1.3	0.0
6264	84609010	Grinding wheel mechnes	15	C1	13.5	12.0	10.5	9.0	7.5	6.0	4.5	3.0	1.5	0.0
6265	84609020	Polishing machines	15	C1	13.5	12.0	10.5	9.0	7.5	6.0	4.5	3.0	1.5	0.0
6266	84609090	Mach-tools for finishing metals with polishing prod, nes	15	C1	13.5	12.0	10.5	9.0	7.5	6.0	4.5	3.0	1.5	0.0
6267	84612010	Shaping machines	15	C1	13.5	12.0	10.5	9.0	7.5	6.0	4.5	3.0	1.5	0.0
6268	84612020	Slotting machines	15	C1	13.5	12.0	10.5	9.0	7.5	6.0	4.5	3.0	1.5	0.0
6269	84613000	Broaching machines	12	C1	10.8	9.6	8.4	7.2	6.0	4.8	3.6	2.4	1.2	0.0

### Case 1: Changes in China

Once RCEP is in force, China is phasing out tariffs on MEM products made in Japan, in most cases over 10 years (as shown in Table 1 for machine-tools HS8461), in some cases in 5 or 20 years. That is quite similar to the provisions in the bilateral Sino-Swiss FTA, but this process has started in 2014 which gives Swiss exporters a headstart of about seven years.

Let's have a closer look at the phasing out-models by China, with the example of machine-tools. In the bilateral FTA with Switzerland the process takes ten steps (10 years), in the case of RCEP for Japan one more step (year). As a results, the downward curve of phasing out is steeper in the case of Switzerland, and the goal of 0% tariff is reached not only earlier but also faster. For Swiss exporters of these machine-tools, this year a tariff of 4.5% and 3.6% has to be paid, and complete free trade will be achieved in 2023. For Japanese exporters, after the enforcement of RCEP, a tariff of 13.6% and 10.9% has to be paid, and complete free trade will likely be achieved in 2031.

This a relevant competitive advantage for Swiss companies exporting to China, but this advantage, as shown with the example, is eroding over time. The longer the phasing out takes, the longer a competitive advantage for Swiss companies with a FTA headstart exists.

The total savings potential for Japanese exporters to China is enormous: more than 8 Billion USD annually, once tariffs have phased out completely. In the vehicles sector (HS86-89) alone, this amounts to more than 2.5 Billion USD, in machinery (HS84-85, information technology products cut out) 1.8 Billion USD, in chemicals/pharma (HS28-38) 724 Mio USD.<sup>9</sup>

### **Case 2: Changes in Korea**

Similar is the case of the South Korean market. Especially the high-tech and luxury goods imports from Japan are expected to increase as a consequence of lower tariffs. Swiss companies exporting to Korea will gradually lose the competitive advantage based on the bilateral FTA implemented in 2006, when the vast majority of industrial goods were exempted from duties immediately.<sup>10</sup> In the food sector imports from Japan will become cheaper and increase in volume, but these are different types of products from what Swiss companies export.

A detailed comparative FTA analysis is necessary to determine whether Japanese exporters have been given more advantageous concessions by Korea than Switzerland/EFTA in the years up to 2006. If positive, the situation might be reverse from today's.

### **Case 3: Changes in Japan**

Chinese exporters to the Japanese market are to be found mainly in the textile and footwear sector (a savings potential of more than 2.2 Billion USD annually), in foodstuffs (711 Mio USD), in leather, plastics, and chemicals.<sup>11</sup> Here Japanese tariffs are still significant, in contrast to the main industrial sectors. However, these are not the main sectors where Swiss companies are active in export to Japan (or the kind of products are very different, e.g. foodstuff or textiles), therefore the impact on Swiss companies will be small. Exporters in Southeast Asia or in Latin America (with which Japan has already bilateral FTAs), however, will feel this now increasingly competitive level field.

In the case of Japan too, a detailed comparative FTA analysis is necessary to determine whether RCEP exporters have been given more advantageous concessions than Switzerland in the bilateral FTA. An analysis of the EU-Japan FTA has shown that Japan has given better conditions in some areas of foodstuffs and footwear.<sup>12</sup> It is likely that such cases will be found in RCEP too, not because of protectionist policies, but rather because Japan has further developed its liberalization and opening-up over time, in reference to when the Switzerland-Japan FTA has been concluded.

### **RCEP and Information Technology**

Switzerland and all RCEP members (except Myanmar, Laos, Cambodia) are participants in the WTO Information Technology Agreement (ITA). The ITA signed by 81 WTO members covers a large number of high technology products, including computers, telecommunication equipment, semiconductors, semiconductor manufacturing and testing equipment, software, scientific instruments, as well as most of the parts and accessories of these products. Tariffs on these products are abolished or phasing out.

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9 Wardani, R. Y., & Cooray, N. S. (2019). Saving Potential of Regional Comprehensive Economic Partnership (RCEP): Implication for China and Japan. *Journal of Economic Info (JEI)*, 6(1), 34-42. <https://doi.org/10.31580/jei.v6i1.122>.

10 Vgl. SECO 2005: "Ein Wettbewerbsvorteil ergibt sich ... daraus, dass die EFTA-Staaten auf dem koreanischen Markt präferenziellen Zugang erhalten, ohne dass dies zur Zeit für ihre Hauptkonkurrenten aus der EU, den USA und Japan der Fall ist." (*Botschaft zum Freihandelsabkommen zwischen den EFTA-Staaten und der Republik Korea, zum Investitionsabkommen zwischen Island, Liechtenstein, der Schweiz und Korea sowie zum Landwirtschaftsabkommen zwischen der Schweiz und Korea vom 9. Dezember 2005*).

11 Wardani, R. Y., & Cooray, N. S. (2019). Saving Potential of Regional Comprehensive Economic Partnership (RCEP): Implication for China and Japan. *Journal of Economic Info (JEI)*, 6(1), 34-42. <https://doi.org/10.31580/jei.v6i1.122>.

12 Ziltener, P. (2018). *How Does the New EU-Japan Free Trade Agreement (FTA) Affect the Competitiveness of Swiss Companies on the Japanese Market / in Their Exports to Japan?* Studie im Auftrag von Switzerland Global Enterprise.

**Conclusion:** Since the ITA covers a wide range of products that are made by Swiss companies, in these sectors no discriminatory effects are to be expected. The implementation of the ITA and its practical utilization in cross-border trading by Swiss companies should be empirically monitored, also possible non-tariff barriers.

### **RCEP and Pharmaceuticals**

A similar case is the sectorial agreement for the pharmaceutical industry. The Agreement on Trade in Pharmaceutical Products (also known as the Pharmaceutical Agreement or the Pharma Agreement) has been concluded in 1994 and foresees free trade for pharma products. But, so far, only one RCEP country has joined this Agreement under the WTO, Japan.

How will RCEP change the competitive situation?

- Japan does not levy duties on pharmaceuticals, therefore no changes.
- Korea either has 0% tariffs (HS3001-2, 5-6) or sets it to 0% for Japanese pharmaceuticals on the first day of RCEP implementation. Under the EFTA-Korea FTA, the tariff phasing out for pharmaceuticals has been completed already. On day one of RCEP enforcement, therefore, Japanese companies will have the same advantages on the Korean market as Swiss companies have enjoyed for the last couple of years already.
- Under RCEP, China will phase out its 3-6% tariffs on Japanese pharmaceuticals over 10 years. Under the Sino-Swiss FTA, China has set tariffs on pharma 0% on day one, or has phased out tariffs over 5 years. This process is completed already, and there very few cases where the phasing out is still ongoing. This means that the Swiss competitive advantage on this important market will keep eroding, over the next decade.

**Conclusion:** Swiss pharmaceutical companies have strongly benefitted from bilateral FTAs, which gave them a competitive advantage, e.g. vis-à-vis Japanese competitors on the Chinese and Korean market. Given RCEP implementation, this competitive advantage will come to an end.

### **RCEP and Government Procurement**

Switzerland and the RCEP members Japan, Korea, Singapore, Australia, and New Zealand are participants in the WTO Agreement on Government Procurement (GPA).

China is still the GPA accession process, and the bilateral FTA Switzerland-China provides only information clauses and a declaration of intent to “commence negotiations on government procurement as soon as possible following the completion of negotiations on the accession of China to the WTO-GPA with a view to concluding, on a reciprocal basis, an agreement on government procurement” (Article 13.4.4). Switzerland has an interest in bringing China and other non-GPA-member states into the GPA and/or to negotiate an ambitious Public Procurement chapter in bilateral FTAs.

**Conclusion:** At the current stage, the RCEP Public Procurement Chapter (16) contains merely transparency and cooperation clauses, which are likely not to have a significant impact on current practices of public procurement in the RCEP countries. Therefore, no immediate negative effect for Swiss exporters is to be expected. However, if RCEP aspires in the future for a higher liberalization level than the GPA foresees (“GPA-plus”) and moves into this direction, then Swiss companies will have a competitive disadvantage in the competition for procurement markets in RCEP countries, even in the case of GPA-members. In other cases this has already happened, e.g. Japan has liberalized its public procurement with the EU in their bilateral FTA more than with Switzerland.

### **Conclusions**

RCEP has some positive and negative impact for Swiss companies. In certain areas, no significant impact will be felt.

First of all, RCEP improves the business environment and opportunities for transnational value chains and cross-border trading for *all* companies operating in the RCEP area. It standardizes rules and procedures (the “Single Rulebook”), creates more transparency and (hopefully) increases the level of compliance to these rules and procedures. Swiss companies will benefit from that as well.

Under certain conditions effects negative for Swiss companies may occur:

- If Switzerland is not capable or does not manage successfully to extend its FTA network to cover all RCEP countries, or is not able to revise and update its FTAs to the levels foreseen by RCEP, then competitors of Swiss companies may have a long-term competitive advantage on certain markets
- If the level of liberalization in public procurement in some countries go beyond the concessions and procedures agreed upon in the GPA, and/or important RCEP economies remain non-GPA-members
- While in these two cases we can speak of discriminatory effects (not necessarily intended), in other cases Swiss companies benefitted from advantages based on our FTAs that competitors in RCEP countries did not have. From this perspective, in some sectors, RCEP creates a level playing field. Swiss companies' advantages will end soon or gradually erode over some time.

In order to fully assess the emerging situation, a comparative analysis of the RCEP members concession lists with the concessions Switzerland received in its actual FTAs should be conducted, at least for the main export sectors, both for the markets where the erosion of competitive advantages have to be expected (Japan, Korea, China), and the countries with which Switzerland is not going to conclude an FTA soon (Australia, New Zealand).

In certain areas, no significant impact will be felt, e.g. in the IT products sector thanks to the WTO-ITA. Switzerland's interest is to negotiate more sectorial agreements in the WTO framework, to make them as comprehensive as possible and to bring in as many countries as possible. This is the best remedy against exclusionary regionalism of the RCEP type.

In other cases, e.g. most metall goods and machinery in Japan, there has been 0% tariffs on MFN-basis (most favoured nations, means for all WTO-members) for quite a time. RCEP does not change that.

Regarding bilateral FTAs, the conclusion and/or swift implementation of Agreements with the major ASEAN economies (Indonesia, Malaysia, Vietnam, Thailand) are most urgent. The five non-ASEAN countries in RCEP, however, have had free trade conditions with ASEAN for quite a time already. So this is about ending competitive disadvantages for Swiss companies, with or without RCEP.