



# RCEP Opportunities & Challenges

Asia Pacific Regional Comprehensive Economic Partnership Agreement Analysis

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2021 EDITION

HORIZONS CORPORATE ADVISORY



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## BACKGROUND

*The Regional Comprehensive Economic Partnership is a free trade agreement between the Asia-Pacific nations of Australia, Brunei, Cambodia, China, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam. The RCEP was signed on 15 November 2020 at a virtual ASEAN Summit hosted by Vietnam and shall enter into force on 1 January 2022.*



RCEP connects 30% of the world's population and could increase the world's income by USD 209 billion. The agreement will significantly benefit Southeast Asia with an estimate USD 19 billion annual contribution.

After eight years of negotiations, RCEP encompasses ten member states from the Association of Southeast Asian Nations (ASEAN) (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam and five free trade agreement ("FTA") partners (Australia, China, Japan, New Zealand, and Republic of Korea). **The RCEP free trade bloc will be larger than Canada-USA-Mexico Agreement and the European Union.**

Although, many member states have concluded FTA with each other, the RCEP shall accelerate free trading in the next 20 years by eliminating tariffs on 91% of goods. For companies, RCEP consolidates supply-chains to one trade-bloc, permitting finished goods to be directly traded between member states. Today, existing tariffs generate high costs for companies, and many finished goods are shipped to Europe or USA.

The RCEP requires six ASEAN out of the ten members and three non-ASEAN members to ratify the agreement in national legislation. On 2 November, a total 11 member states have ratified the RCEP. Namely, the ASEAN Secretariat received Instruments of Ratification/ Acceptance from six ASEAN member states – Brunei Darussalam, Cambodia, Lao, Singapore, Thailand, and Vietnam, and four non-ASEAN members- Australia, China, Japan, and New Zealand. Therefore, RCEP comes into full force on the 1 January 2022





## RCEP: Key Benefits

*The RCEP is a comprehensive agreement designed to facilitate the changing and emerging trade forms within member states. Comprising of twenty chapters, the coverage of the agreement includes e-commerce, micro, small and medium enterprises, deepening regional value chains and market competition.*

*RCEP considers the varying economic development and needs of each member state and recognizes that the success of RCEP depends on generating mutually beneficial factors for each member state. The provisions in the agreement are formulated to align with the demands of both developing and developed state members.*

Though the practical implications of RCEP have yet to be adopted within each member state, companies should be gearing up for this robust trading framework. Specifically, RCEP shall substantially influence the development and operations not only for multinationals, but also small and medium enterprises in the trade bloc. In the following, we outline the key benefits of the RCEP for businesses.

### Trade in goods

The RCEP dedicates four chapters in liberalising the trade of goods and granting greater market access for member states. Significant measures for trading companies within member states include:

- national treatment of goods from other member states;
- reduction or elimination of custom duties by approximately 92% over 20 years period;
- tariff reductions and varying tariff preferences;
- simplified custom procedures and enhanced trade facilitation, specifically an expectation for express consignment and perishable goods to be released from customs control upon six hours from arrival;
- rules of origin for goods which are (a) wholly obtained or produced in a member state (b) produced in a member state exclusively from originating materials from one or more member state or non-originating materials provided that certain criteria are satisfied.



The provisions should foster greater advantages for supply chains operating across member states. Under existing FTA between member states, tariffs may still be applied on goods produced in the party of the FTA and containing components of another country. With the rule of origin in place, goods produced in a member state with components from other member states or non-member states (subject to provisions) would be treated equally. As a result, companies with supply chains across the region could benefit from lower tariffs and custom duties, streamlined and faster administrative procedures, as well as greater access to the suppliers across the region.

## Trade in services

Greater access to member's trade in services market are set forth in RCEP, by relaxing regulations for foreign trade in services. Members are obliged to implement commitment schedules through either adopting schedules of specific commitments (positive list – a list of services permissible to foreign investment) or schedules of non-conforming measures (negative list – a list of services prohibited to foreign services, whilst services outside the list are permissible). Both schedules require member states to adopt market access, national treatment, and most favoured treatment to optimise the environment for trade in services among member states.

Equally, member states shall unlock three sectors that are often considered sensitive industries to national security and sovereignty, to member states.

### *Financial services*

Members states shall enable financial institutions to provide new services within their territory. New services are defined as any financial service which is not supplied in the territory of a Party but is supplied and regulated in the territory of any other Party, including a service related to current and new products, or the manner a product is delivered. In other words, a financial institution in New Zealand, looking to expand into Thailand, could provide an existing service offered in New Zealand, but not available in Thailand.

### *Telecommunications services*

Greater access is established for the telecommunications service market. Member states shall ensure terms and conditions to supply public telecommunications networks and services are reasonably, non-discriminatory, and transparent for companies of member states. Therefore, widening market access can offer greater choice in the supply of telecommunications services and enhance consumer welfare.

### *Professional services*

Professional bodies of member states are encouraged to recognize professional qualifications and facilitate licensing or registration procedures. Additionally, professional bodies of member states shall work towards developing mutual professional standards and criteria, which may include education; examination; experience; conduct and ethics; professional development and re-certification; scope of practice; local knowledge; and consumer protection. Such cross-collaboration and development for professional bodies could amplify mobility and stimulate dialogue between professions from member states. Ultimately, the measures could further understandings and cooperation between member states.

## Small and medium enterprises ('SME')

SME in APAC accounts from 88.8% to 99.9% of total established companies and between 51.7% and 97.2% of total employment. Thus, the RCEP establishes a specific chapter for SME and recognizes that SME including micro enterprises significantly contribute to economic growth, employment, and innovation. Under the RCEP, members states shall facilitate information sharing and cooperation with SME, so SME can utilise and benefit from the opportunities created by the RCEP. Members states may involve SME by improving market access and participation in global value chains, entrepreneurial exchange programmes, formulate regulations, policies and programmes which contribute to SME development and so forth. Whilst each member state may implement varying measures, the RCEP requires each member state to designate one or more contact points to facilitate the information sharing and cooperation with SME with the 30 days upon the date of agreement enforcement,

thus, it is worthwhile for SME to keep abreast of related policies to maximise such opportunities.

## E-commerce

As e-commerce continues to accelerate and generate economic growth and opportunities, RCEP notes importance of developing a legal framework to advance a conducive e-commerce environment. Member states are required to increase consumer confidence in e-commerce through adopting and maintaining regulations in the following:

- transparent and effective consumer protection – particularly protection against fraudulent and misleading practices;
- online personal information protection including publishing information on personal information protection and how ecommerce users may seek remedies for violations;
- ensuring secure cybersecurity for cross-border data transfers and prohibiting the prevention of cross-border transfers of information unless related to public policy objectives or protection of security interests;
- improved trade facilitation through electronic signatures and administration.

## Temporary mobility between member states

The RCEP sets commitments in facilitating temporary entries and stays between member states. Specifically, the provisions require applications for individuals engaged in trading goods, supplying services, or conducting investments to be expediated and reasonable costs to be imposed, as well as an option to extend the measures to spouses and dependents of the individuals. The temporary movement between member states could expediate intra-corporate transfers, particularly for multinationals expanding within member states and require key employees to move temporarily between the member states.

## Strengthening Intellectual Property Rights

Member states are required to ratify key multilateral agreements concerning the protection of intellectual property rights (“IPR”) to step up and align IPR protection and enforcement. Furthermore, the RCEP extends the scope of copyright and trademark protection in parallel with the modern business environment, by including sound marks, range of industrial designs, forms of digital copyright and so forth.

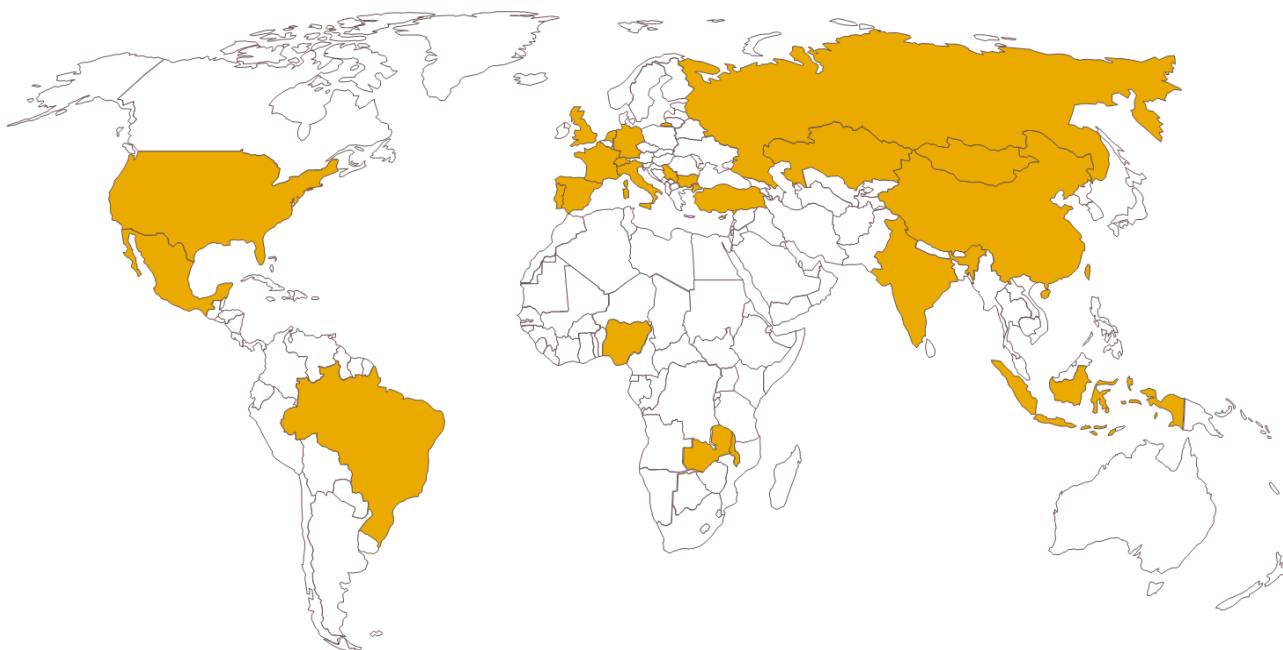
## Conclusion

RCEP launches an overall framework to enhance and consolidate trade and cooperation between member states. Although, companies may not see immediate effects till the RCEP is ratified in domestic regulation, RCEP will substantially impact trading and innovate new opportunities within member states. Companies established in member states should evaluate any forthcoming measures to seize prospects.

Additionally, RCEP marks the first free-trade agreement to integrate developed and developing economies within the APEC region. For China, Republic of Korea, and Japan, the RCEP is the first free trade agreement bridging the three major economies in East Asia, whilst bilateral trade and investment between the three countries have yet to be reached. Therefore, there are substantial trade and investment opportunities for companies to develop.

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