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## China Tax & Investment News

30 November 2020

# A bridge to shared benefits 15 Asia-Pacific countries reached a mega free-trade deal

On 15 November 2020, the Regional Comprehensive Economic Partnership Agreement was signed among 15 Asia-Pacific countries, including 10 members of the Association of Southeast Asian Nations, Australia, China, Japan, South Korea and New Zealand.

As a landmark achievement of regional cooperation, the RCEP Agreement was initiated with the objective to establish an open, inclusive, rule-based trade and investment arrangement.

After nearly a decade in the making, on 15 November 2020<sup>1</sup>, the Regional Comprehensive Economic Partnership Agreement (RCEP Agreement or Agreement) was signed among 15 Asia-Pacific countries, including 10 members of the Association of Southeast Asian Nations (ASEAN)<sup>2</sup>, Australia, China, Japan, South Korea and New Zealand (collectively referred as RCEP Members).

As a landmark achievement of regional cooperation, the RCEP Agreement was initiated with the objective to establish an open, inclusive, rule-based trade and investment arrangement. It is expected that, within the RCEP framework it will help to lead countries in the region to achieve a remarkable level of opening-up in trade of goods, services, and investment, greatly boost liberalization and facilitation for trade and investment among member countries, and enhance the overall attractions and competitiveness of the region.

While giving a strong push to regional economic recovery and injecting new momentum into its development and prosperity, the RCEP Agreement would likely become an important engine for global economic development.

The RCEP Members also expressed the unique importance of the Agreement under the special situation where the globe is still fighting against and recovering from the coronavirus pandemic<sup>3</sup>. It is expected that the RCEP would help to build the region's resilience through inclusive and sustainable post-pandemic economic recovery process.

Note:

1. [http://www.gov.cn/premier/2020-11/15/content\\_5561696.htm](http://www.gov.cn/premier/2020-11/15/content_5561696.htm)

2. 10 ASEAN Members: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam

3. <http://new.fmprc.gov.cn/ce/ceun/chn/zgyw/t1832614.htm>



## The size of the RCEP Agreement

Many media referred RCEP as the largest free-trade deal in the world so far based on the region's sizable market and complex economy.

Based on 2019 data<sup>4</sup>, the 15 RCEP Members with population of 2.27 billion or nearly 30% of the globe, contributed a combined GDP of roughly USD26 trillion and totaled USD5.2 trillion for exports, which represented nearly 28% of global trade.

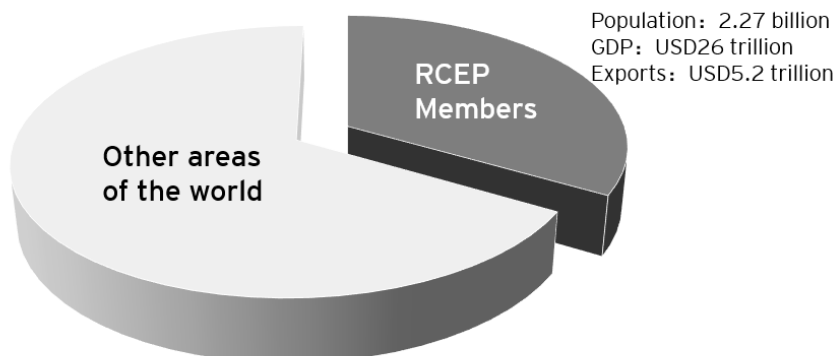
In light of the rising unilateralism and protectionism around the globe in addition to the adverse impact of the pandemic, the signing of the RCEP Agreement demonstrates a joint commitment to supporting economic recovery, comprehensive development, job creations and strengthening regional supply chains as well as backing an open, inclusive and rule-based trade and investment arrangement. It also provides a strong confidence to the market and would build a solid bridge to support multilateralism and free trade.

### RCEP Members

ASEAN Members      Other 5 Members

Philippines	Australia
Cambodia	South Korea
Laos	Japan
Malaysia	New Zealand
Myanmar	China
Thailand	
Brunei	
Singapore	
Indonesia	
Vietnam	

### RCEP Members cover about 30% of the world's population, GDP and exports



*Note: India pulled out the negotiations over the RCEP in November 2019.*

## Key features of the RCEP Agreement<sup>5</sup>

RCEP is an ambitious free trade agreement initiated by ASEAN, which contributes to enhancing ASEAN's centrality in the regional framework and strengthening ASEAN countries' cooperation with regional partners. With 20 Chapters, the RCEP Agreement, as a modern, comprehensive, high-quality and mutually beneficial agreement, includes areas and disciplines that were not covered in the existing free trade agreements between ASEAN and those non-ASEAN countries participating in RCEP. Besides the specific provisions that cover trade in goods, services and investment, RCEP also includes chapters on intellectual property, e-commerce, competition, small and medium enterprises (SMEs), economic and technical cooperation and government procurement.

Note:

4. [http://www.gov.cn/zhengce/2020-11/15/content\\_5561731.htm](http://www.gov.cn/zhengce/2020-11/15/content_5561731.htm)

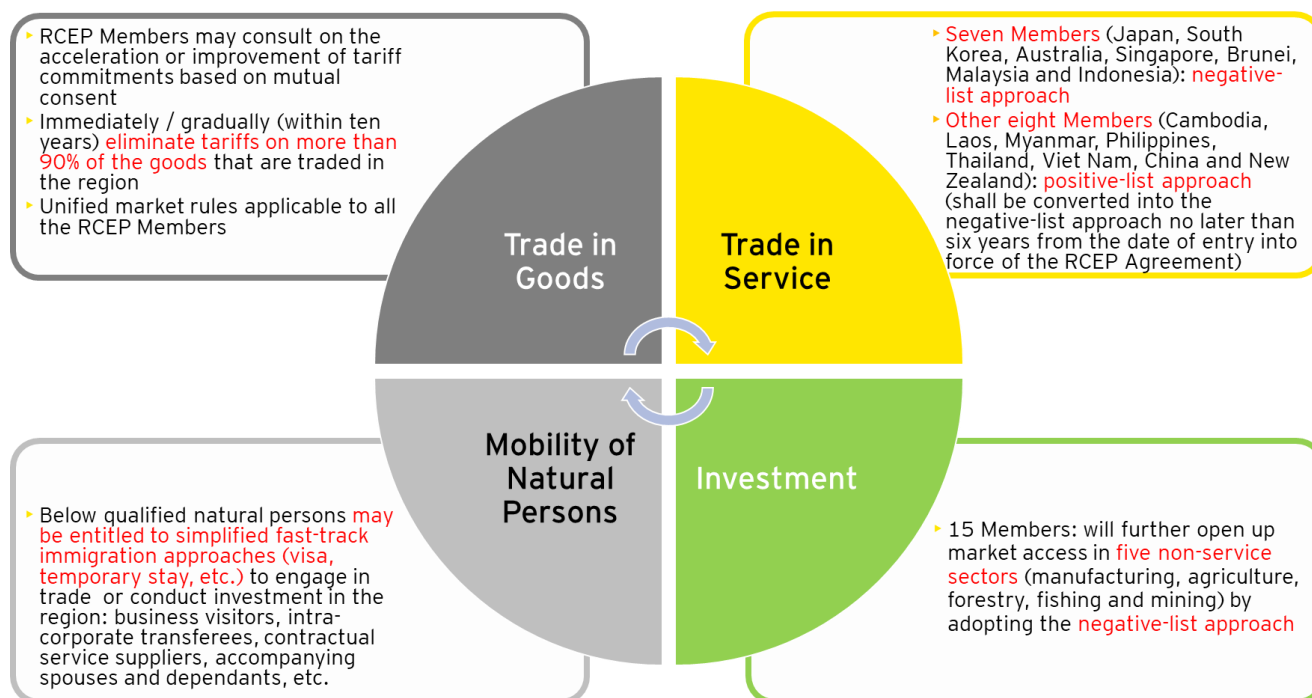
5. [http://www.gov.cn/zhengce/2020-11/15/content\\_5561731.htm](http://www.gov.cn/zhengce/2020-11/15/content_5561731.htm)



## ► Market opening-up

Focusing on broader market opening-up, RCEP Members reached a consensus on various areas including trade in goods, trade in services, investment and regional mobility.

### Consensus among the RCEP Members on market opening-up



## ► A modern, comprehensive, high-quality and mutually beneficial economic partnership

The RCEP Members also reached consensus on rules of origin and enhancement of intra-regional trade facilitation. At the same time, more comprehensive and high-level commitments in areas such as finance and telecommunications were made in the RCEP Agreement.

## ► Effectiveness

The opportunities arising from the RCEP Agreement and its full potential can only be realized upon the Agreement enters into force which will take place when at least six ASEAN Member States and three non-ASEAN signatories deposit their instrument of ratification, acceptance or approval with the Agreement's Depository. In other words, the effective date of the Agreement is subject to the Members' respective domestic legislative procedures.

Considering the complex interests and focuses of each member country from both political and economic perspectives, the possibility for RCEP entering into force within 12 months might be low.

## ► India's participation

India opted out the Agreement late last year. Nevertheless, the door is still open for them.

According to a joint Ministers' Declaration<sup>6</sup> in November 2020, acknowledging the strategic importance of India's participation in the Agreement, 15 members expressed their strong will and welcome India to re-engage in the RCEP Agreement.

Note:

6. <http://new.fmprc.gov.cn/ce/ceun/chn/zgyw/W020201116528848243088.pdf>





The Declaration affirmed the following flexible arrangements commencing on the date of the signing of RCEP Agreement, and will continue until India joins into the RCEP Agreement:

- ✓ The Agreement is open for accession by India from the date of entry into force of the Agreement;
- ✓ The RCEP Members will commence negotiations with India at any time after the signing of the RCEP Agreement once India submits a request in writing of its intention to accede to the RCEP Agreement, taking into consideration the latest status of India's participation in the RCEP negotiations and any new development thereafter; and
- ✓ Any time prior to its accession to the Agreement, India may participate in RCEP meetings as an observer and in economic cooperation activities undertaken by the RCEP Members, on terms and conditions to be jointly decided upon by the RCEP Signatory States.

### Significant impact of the RCEP Agreement on regional economic development

The signing of the RCEP Agreement represents the birth of a super free-trade alliance that accounts for about one-third of the world economy. Factors driving this huge unified market (e.g., resources, goods, services, human resources, capital, technology) will be circulated more efficiently and effectively within the region to benefit the countries involved and lift their competitiveness.

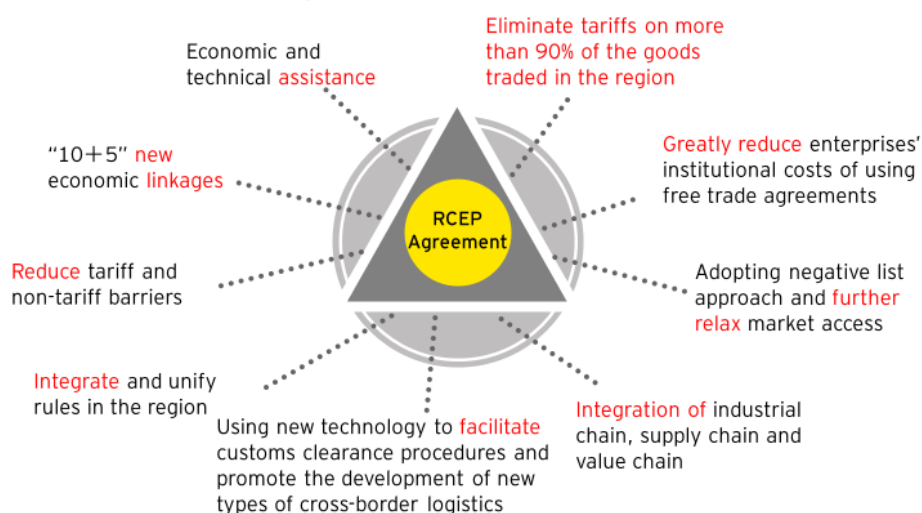
#### ► Tariffs will be reduced to promote trade among the 15 Members

RCEP Agreement is an unprecedented regional trading arrangement that comprises a diverse mix of developed, developing and least developed economies. Each country carries their own unique strength and specialties will certainly extend the possibilities of the region's potentials. In addition to other ASEAN countries' reputation for their immense growth potential and rising up as a global hub of manufacturing, Singapore advances in its innovation competitiveness, Japan and South Korea own leading brands and technologies, Australia and New Zealand there are rich in their natural resources and agricultural products, while China provides a huge market as well as skillful labors. In addition to the overall collective benefits, the framework could effectively enhance each individual member's competitiveness and advancement by utilizing the advantages of each country possibly on a multilateral basis.

The Agreement also integrates existing free trade agreements and partnerships among the Members, and for the first time, put China, Japan and South Korea together in a free trade deal. It certainly would open a vast range of opportunities for businesses located in the region especially in terms of market access given the level of liberalization for trade in goods, services and investment.

In terms of tariff reductions, more than 90% of goods covered in the RCEP Agreement will be subject to zero tariff, either under immediate-reduction plan or a 10-year gradual-reduction plan. The elimination of tariff barriers will certainly lead to prosperity of in-region trade and help increase the GDP of RCEP Members.

#### Key words of the RCEP Agreement





## ► Impact of the RCEP Agreement on China

The RCEP Agreement is vital for regional integration and would help China participate in the regional growth, particularly to tackle the possible challenges from advanced economies which may opt for greater protectionism in the future. China has been proactively supporting both global and regional integration, which is also a natural choice of its rapid economic development.

China vows stability in face of “complex, volatile” economic climate, quoted from China Premier Li. The country’s economy has bounced back from the hit of the COVID-19, a GDP growth of 4.9% was recorded for 2020 third quarter on a year to year basis<sup>7</sup>. Premier Li said China’s economy would surpass USD15.2 trillion this year, while he also admitted that it is “very difficult to keep the economy running smoothly”. The challenges came from the oppositions from the US and the adverse impact of the pandemic that is still raging across much of the world; those are significant hurdles laying ahead of China’s economic recovery.

In October 2020, the CPC (Communist Party of China) held its 5th Plenary Session of the 19th Central Committee. The Communique of the Session emphasized China’s new development paradigm with both the domestic and cross-border circulations reinforcing each other. China’s signing the RCEP Agreement echoes this strategy and would help China to integrate deeper with its Asian partners, although the direct economic benefits to China might not be significant in the beginning.

RCEP Agreement is also the first free trade agreement involving Japan, Korea and China. Some analysts commented that RCEP may help accelerating the negotiations among the three countries to reach an enhanced trilateral free trade deal after many years of differences.

## Impact on businesses

RCEP is expected to add an estimated US\$186 billion to the global economy, according to some economists<sup>8</sup>.

Trade among RCEP Members are expected to be greatly increased with the elimination of import tariffs on more than 90% of goods. The Agreement also lays out basic rules for cross-border data transmission; protects digital trading against any hurdles created by the Members like data localization requirement (local storage). It also sets out rules for paperless trading, electronic authentication and signatory, aiming to safeguard consumers data privacy while enhancing cross-border trading. Further, with a set of more balanced and inclusive common rules for intellectual property protection and investment, more market and employment opportunities are expected to be created.

Multinational corporations that previously planned to redesign their supply chains and relocate their businesses due to policy barriers and or sustainability concerns, now may have more incentives for the reorientation towards RCEP markets.

The Agreement consolidates existing market access provisions in the current mix of overlapping Asian trade agreements. Currently about half of RCEP Member countries use a Negative List method for investment access - meaning that only sectors specifically listed are NOT allowed - it facilitates cross-border investment by improving transparency and streamlining administrative processes. Six years later all RCEP Member countries will adopt this Negative List approach.

The Agreement untangles the system of overlapping Asian trade agreements through establishing common Rules of Origin in the region, i.e., harmonizing the information requirements and local content standards for business to be eligible to the preferential terms of the Agreement, RCEP will therefore facilitate supply chain management by creating a more certain trading environment. Companies with operations in 15 Member countries will be able to source and sell within the bloc without struggling the compliance to the different trade agreement standards.

RCEP also provides for certain level of liberalization in financial services, which could open opportunities for financial services firms in Asia. It also aims to facilitate standardization of the professional services sector. This could potentially ease cross-border labor mobility for professional services firms within the region.

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Note:

7. [http://www.stats.gov.cn/tjsj/sjjd/202010/t20201020\\_1794987.html](http://www.stats.gov.cn/tjsj/sjjd/202010/t20201020_1794987.html)

8. <https://www.piie.com/system/files/documents/wp20-9.pdf>



## Conclusion

While the COVID-19 pandemic is still wreaking havoc globally, the world cannot avoid suffering a severe recession, global trade and investment are naturally shrinking; but on the other hand, protectionism and unilateralism are escalating that cause a big challenge to the global economy. Against that gloomy backdrop, RCEP Agreement offers a ray of light and hope, showing that multilateralism and free trade is the right way and remains as the correct direction for future development.

The RCEP Agreement, according to China Premier Li, “will guide towards solidarity and collaboration instead of conflicts and confrontations while facing challenges”.<sup>9</sup>

In the keynote speech addressed at the APEC CEO Dialogues on 19 November 2020<sup>10</sup>, Chinese President Xi Jinping mentioned, “As the Asia-Pacific economies are connected by the same ocean, we benefit from close interactions between our peoples and geographic proximity”. Asia-Pacific business community is an engine driving economic growth, and the greater economic cooperation in the Asia-Pacific region will continue to display strong vitality. He also emphasized that China will remain committed to openness and cooperation and adhere to multilateralism, which will enable China to fully unlock its market potential and create greater demand for other countries. President Xi called for a broader vision, greater resilience and stronger entrepreneurship from the business community, with those, he believes a broader horizon will be created for business development”.

As the effective date of RCEP Agreement remains uncertain, businesses are suggested to closely observe the development and plan accordingly. The business climax in this context could be challenging but it will provide a lot of newly emerged opportunities. As stated in the Joint Leaders’ Statements on RCEP, the agreement opens a vast range of opportunities for businesses especially in terms of market access given the level of liberalization for trade and investment. Companies should explore potential M&A and greenfield investment opportunities within the RCEP bloc. If effectively leveraging the promising policies under this mega RCEP Agreement, businesses would have great potentials to grow together with the 15 economies in Asia-Pacific. Do consider seeking your EY advisors’ help to design a best-fit plan for optimum outcomes.

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Note:

9. [http://www.gov.cn/premier/2020-11/16/content\\_5561749.htm](http://www.gov.cn/premier/2020-11/16/content_5561749.htm)

10. <http://new.fmprc.gov.cn/ce/ceun/chn/zgyw/t1833590.htm>



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