SERC Sdn Bhd
Socio-Economic Research Centre

Regional Comprehensive Economic Partnership (RCEP)

Can It Be A Game Changer?

23 November 2020 (Updated version as at 27 August 2021)

Outline

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Overview of RCEP

- The **Regional Comprehensive Economic Partnership (RCEP)**, is the world's **largest free-trade agreement** (FTA) comprising 15 countries: **10** member states of the **Association of Southeast Asian Nations (ASEAN) – Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand** and **Vietnam,** and **five of their FTA partners (Australia, China, Japan, New Zealand and South Korea).**

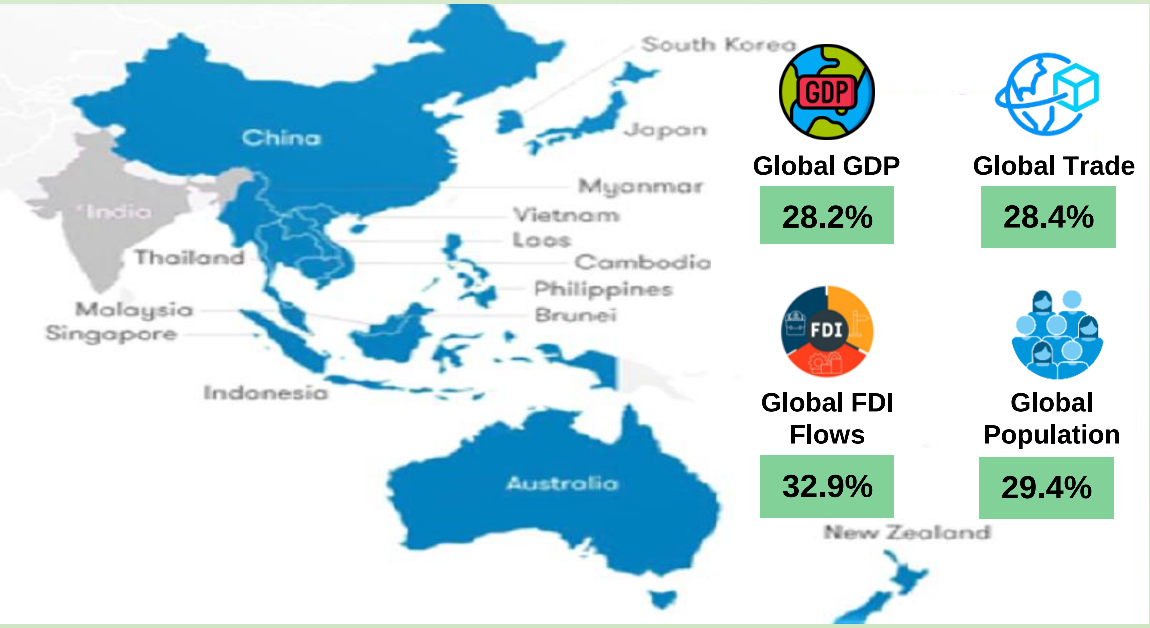
- The RCEP's negotiation is an ASEAN driven initiative, which was launched during the 21st ASEAN Summit in Phnom Penh, Cambodia in November **2012**. It is the second mega-regional FTA to involve the Asia-Pacific region after the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

- RCEP was built upon the **existing ASEAN+1 FTAs** aims to **strengthen economic linkages, to enhance trade and investment related activities** as well as **contribute to minimising development gaps** among the parties.

- RCEP negotiations are to achieve a **modern, comprehensive, high-quality**, and **mutually beneficial economic partnership agreement** among the ASEAN member states and ASEAN's FTA partners.

- **RCEP will only come into force after 9 signatory countries** (**a minimum of 6 from ASEAN, 3 from non-ASEAN**) have ratified the agreement, which may take more than a year.

RCEP – The world's largest free trade deal



- By numbers, RCEP which connects **29.4%** of the **worlds population** (**2.3 billion**), **28.2%** of **global GDP** (**US$24.0 trillion**), **28.4%** of **global trade** (**US$10.1 trillion**), and **32.9%** of **global FDI flows** (**US$329.1 billion**), will generate significant economic, trade and investment gains.

India withdrew form RCEP
Notes: GDP data as at 2019 due to Japan GDP (2020) data unavailable
Source: World Bank, UNTACD; data as at 2020

Snapshot of RCEP member countries

Country	GDP (US$ billion)	GDP per capita (US$)	Total Trade (US$ billion)	Population (million)
Snapshot of RCEP member countries (ASEAN) in 2020				
Brunei	14.2 *(0.8%)*	32,402.4	11.4	0.4
Cambodia	20.3 *(5.0%)*	1,212.0	36.2	16.7
Indonesia	1,179.5 *(3.6%)*	4,312.4	304.9	273.5
Laos	13.4 *(5.2%)*	1,835.7	11.3	7.3
Malaysia	376.7 *(2.7%)*	11,637.4	424.0	32.4
Myanmar	80.4 *(2.7%)*	1,478.1	34.7	54.4
Philippines	326.6 *(3.2%)*	2.980.0	154.4	109.6
Singapore	320.4 *(1.4%)*	56,349.0	692.4	5.7
Thailand	425.4 *(1.5%)*	6,094.4	438.5	69.8
Vietnam	206.7 *(6.0%)*	2,123.5	545.4	97.3
Snapshot of RCEP member countries (FTA partners) in 2020				
Australia	1,446.4 *(2.0%)*	56,307.3	458.8	25.7
China	11,785.0 *(5.7%)*	8,405.2	4,646.9	1,402.1
Japan	6,210.7* *(0.9%)*	49,187.8*	1,275.9	125.8
New Zealand	192.8 *(2.7%)*	37,922.2	76.1	5.1
South Korea	1,468.6 *(2.0%)*	28,361.2	980.1	51.8

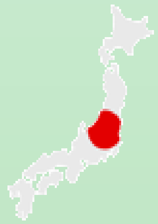
Data as at 2020; % in parenthesis refers to CAGR in 2016-2020
Note: Japan's GDP data as at 2019 due to (2020) data unavailable
Source: World Bank

RCEP member's total trade with its respective RCEP partner

Top 3 in 15th RCEP members

China

US$1427.1 billion (31.2%)



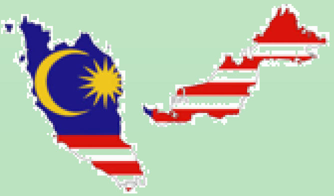
Japan

US$658.7 billion (46.2%)

Korea

US$501.9 billion (48.0%)

Ranked 7th in RCEP



Malaysia

US$257.1 billion (58.0%)

Total trade with respective RCEP partners in 2019

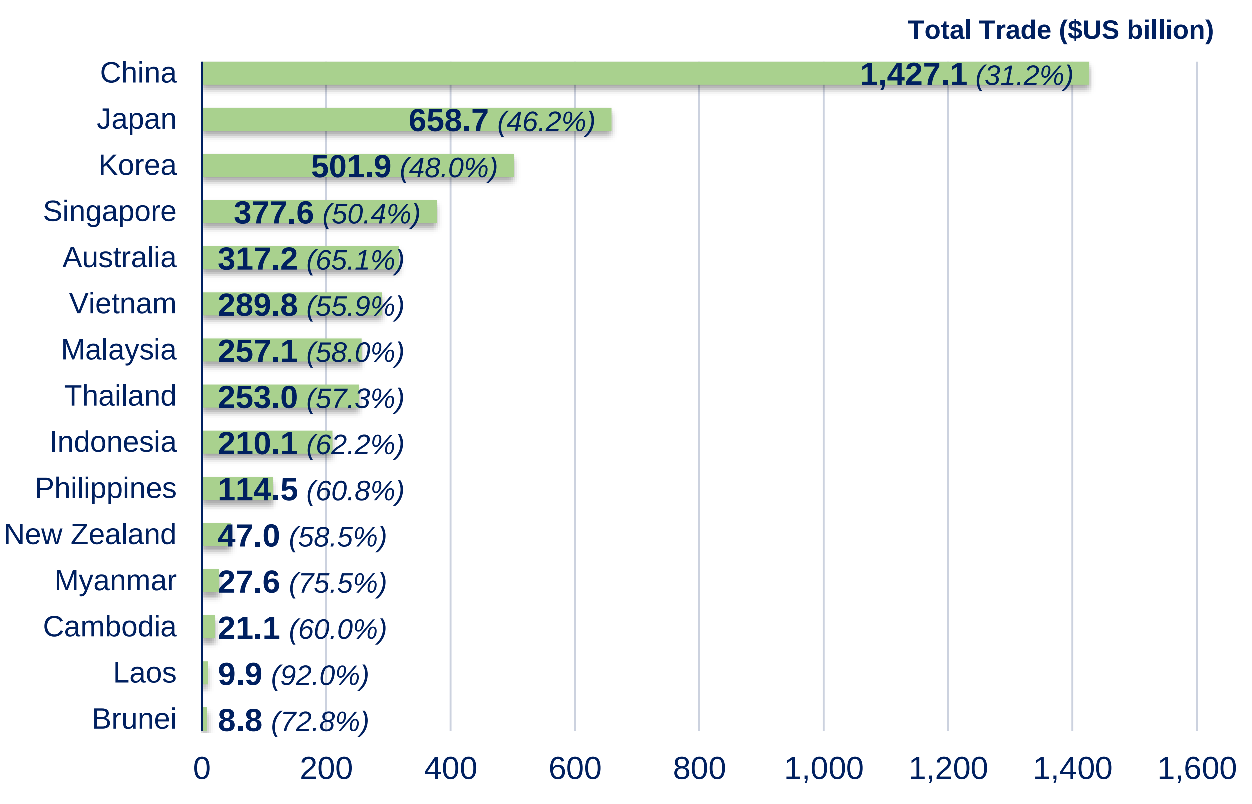
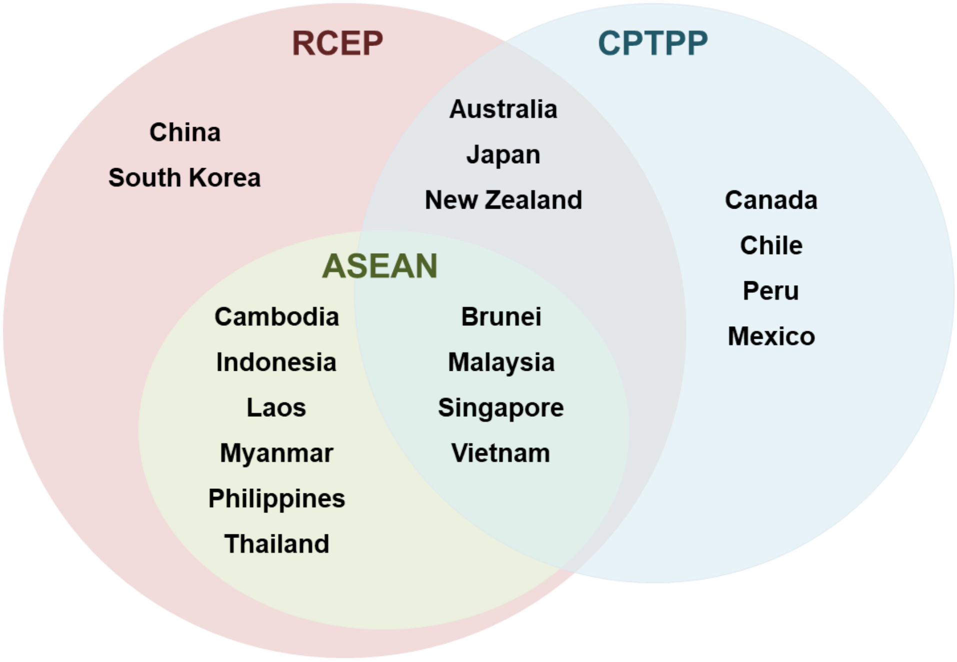


Figure in parenthesis indicates % share to total trade with world
Source: UN Comtrade

Overview of RCEP vs. CPTPP and ASEAN

Asia-Pacific trade groupings




	GDP (US$ billion) *% of global GDP*	Population (million) *% of world population*	Total trade (US$ billion) *% of global trade*
World	81,912.6	7,752.8	35,578.2
RCEP	**17,856.2*** ***21.8%***	**2,277.6** ***29.4%***	**10,091.0** ***28.4%***
CPTPP	6,062.8* *7.4%*	511.5 *6.6%*	5,308.4 *14.9%*
ASEAN	2,963.4 *3.6%*	667.1 *8.6%*	2,653.2 *7.5%*

Data as at 2020
Note: Data for RCEP's and CPTPP's GDP consist of 14 and 10 members countries due to Japan's GDP (2020) data unavailable.
Source: World Bank

Overview of RCEP vs. CPTPP

RCEP	CPTPP
• Coverage: **Less ambitious** than the CPTPP in **scope and depth** • RCEP is both **wider and shallower in issues concerning labour, environment standards, intellectual property and investor state protection**	• Coverage: **More ambitious in terms of scope** though narrower but it is deeper into "sensitive" and "contentious" areas • **More depth and wider scope**
• **20 chapters** – focusing on harmonizing barriers and procedures in regional trade, and setting "lowest common denominator" standards between member countries	• **About 30 different chapters** – aim for stricter common standards on labour issues, environmental protection and dispute resolution, transparency, state-owned enterprises, anti-corruption than those proposed in the RCEP

RCEP
• **Some key issues in CPTPP were not covered or have limited coverage in RCEP** as follows: a) **Trade in Services** – Chapter 8 (Limited coverage) b) **Investment** – Chapter 10 (Limited coverage) c) **E-commerce** – Chapter 12 (Limited coverage) d) **Labour** – (Not covered) e) **Environmental** – (Not covered) f) **State-owned enterprises** – (Not covered) g) **Transparency and anti-corruption** – (Not covered)

The scope of RCEP

- Tariff elimination for **trade in goods**, including the related chapters of **Rules of Origin (ROO), Customs Procedures and Trade Facilitation (CPTF), Sanitary and Phytosanitary (SPS) Measures, Standards, Technical Regulations and Conformity Assessment Procedures (STRACAP), and trade remedies;**

- Liberalisation of **services** sectors, including **financial services, telecommunications services** and movement of natural persons;

- **Promotion, facilitation, protection and liberalisation** of **investment**;

- **Competition policy** (countries are allowed to implement national laws related to state-owned enterprises), **intellectual property rights, electronic commerce and government procurement** (no market access, only for information exchange and promotion of transparency measures);

- **Economic and technical cooperation and SMEs**; and

- **Legal** and **institutional issues**.

RCEP – Setting a new global trade order

- Since the 2008-09 Global Financial Crisis, **countries have implemented protectionist measures in responding to slowing growth in their economies, creating a "global trade disorder**". According to the Global Trade Alert report, the number of protectionist measures introduced in 2013 exceeded those in 2009 during the depth of the crisis. The G20 economies had introduced more than 450 protectionist measures, an average of one in every 23 hours. The most significant of which have been higher tariffs on bilateral trade between the US and China since mid-2018. Since then, rising global protectionism has not relented.

- Following eight years of negotiations since November 2012, the signing of Regional Comprehensive Economic Partnership (RCEP), the world's largest free trade deal in the Asia-Pacific region underscores that **the multilateral trading system is vital in defending global trading order in fighting against rising protectionism in advanced economies**.

- Pending ratification, **RCEP will come into force within the next two years**. Based on past experience with other existing ASEAN-related FTAs, we expect existing RCEP provisions will continue to be refined, enhanced and deepened over time as RCEP economies' economic development gaps continue to narrow.

- The best way to support the **rules-based multilateral trading system is for members to do what they said they would do by implementing, monitoring and enforcing what has already been agreed**.

- RCEP comes on the heels of the world economy is reeling from the COVID-19 pandemic slump. **The participating countries are pinning hopes on a quick and effective implementation of the trade deal to serve as an engine for economic recovery in post COVID-19's new normal era**. Post the US Presidential Election, the fundamental issues behind the US-China trade tensions are not going to be resolved any time soon and their bilateral, or even unilateral, resolution would also damage the rest of the world.

- The RCEP's conclusion would **cement ASEAN bloc's pivotal role in forging regional integration** as it links together ASEAN countries and their six FTA partners, that is ASEAN plus-one FTAs.

- The trade deal is timely for ASEAN as its member countries, which had been disrupted by a prolonged the US-China's trade tension were further severely impacted by the COVID-19 global pandemic. As safeguarding against growing protectionism, it is believed that **a smooth and effective implementation of RCEP in terms of compliance and trade as well as investment facilitation can be beneficial for countries to stabilise and revitalise economic recovery** post the COVID-19 outbreak.

Why RCEP is vital for ASEAN?

- ASEAN's economic dynamism is expected to benefit from RCEP that will **provide a basis for broader regional market integration in trade, services and investment**. **For China and Japan**, Asia's largest and second largest economies, RCEP is the first free trade agreement to connect them.

- ASEAN currently has multiple 'plus-one' trade agreements with its FTA partners. In order to provide concrete market access and investment commitments, **RCEP will simplify rules and procedures for each FTA within a single arrangement and reduce existing trade inefficiencies**. This solves the so-called 'noodle bowl' effect of ASEAN becoming entangled with overlapping bilateral and regional FTAs and different rules for each country.

- The **technical cooperation like Japan, South Korea, New Zealand, and Australia** will assist ASEAN SMEs in developing **better quality and standards as well as more competitive products**. The **telecommunication services and agriculture industry** are likely to boom with businesses competing regionally.

- Southeast Asia has also one of the highest intra-industry trade in its well-established supply chains, especially in the electronics and electrical products industry. It is expected that the **reduction of tariffs** and **application of new innovations** that **increase the value-added** contents of **local products** will deepen ASEAN SMEs' linkages with global supply chains.

- **Lowering of barriers and non-barriers, further streamlining of rules and regulations in trade facilitation** will boost trade among these countries and improve market access for goods and services. The creation of a large integrated market in RCEP would attract global companies to locate their business in the region, and be part of the growing global value chain activities. **Most members are expected to reduce tariffs on at least 92% of tariff lines within 20 years and maintain carveouts for agricultural products**.

- **The multiplicative effects will kick in as the easing as well as simplification of trade and investment rules will facilitate greater inclusion of ASEAN's small and medium-sized enterprises (SMEs) into global and regional supply chains**.

- One of the most significant changes under RCEP is the **creation of common rules of origin (ROO) for the entire bloc.** Once implemented, RCEP countries will **only require a single certificate of origin**. This will allow companies to easily ship products between RCEP countries without needing to worry about specific rules of origin criteria in each country or for each step of manufacturing. **A common rule of origin for RCEP bloc will lower costs for companies with supply chains that stretch throughout Asia** and may encourage multinationals that export to RCEP countries to establish supply chains across the bloc.

Why RCEP is vital for ASEAN? (cont.)

- While tariff reductions in RCEP matter, **it is equally important to enhance trade facilitation and custom procedures in a manner that is predictable, consistent and transparent**. Trade facilitation can contribute to lowering trade transaction costs and creating standard efficiencies. Inefficient trade facilitation causes direct and administrative costs to traders; direct administrative cost to governments; time and efficiency lost; and uncertainty.

- It is reckoned that the **different levels of development of participating countries, RCEP will include appropriate forms of flexibility, including provision for special and differential treatment as well as additional flexibility** to the least-developed ASEAN member states.

- The **movement of information across borders**, which is a key way for businesses to not only reach customers abroad but coordinate activity across countries.

- **There is a stronger provisions to address non-tariff measures (NTMs)**, which include establishing a platform for RCEP countries to conduct technical consultations, and enter into strong binding commitments to improve transparency on import regulations.

- **E-commerce and digital trade are of increasing importance** in Asia to revolutionise trade and services. Block chain technology, industrial Internet of Things (IOT) and electronic communication are all essential elements of a globally competitive industry. The democratising nature of the internet has reduced the barriers that previously excluded small to medium businesses to global markets, exposing them to greater opportunities and risks. Hence, **decrease barriers for e-commerce and create coherent rules throughout the region to support digital-driven trade and services**.

- **Intellectual property right (IPR), digital copyright rules as well as investor-state dispute settlement provision** are areas that have to be strengthened to enhance investors' and businesses' confidence in committing investment in the region.

  It is important to **raise the standards of IP protection and enforcement**, in line with the Madrid Protocol that most RCEP member countries have already signed up to. Acceding to IPI treaties that will enable companies to file a single patent or trade mark application for multiple countries, rather than individual applications for each country.

Multiplicative effects of RCEP

A) Better market access on a level playing field

- Provide a strong platform to **expand trade in services** throughout the region
- Establish **high quality rules for the supply of services** between the parties, including obligations to provide access to foreign service suppliers (**market access**), to **treat local and foreign suppliers equally (national treatment)** and to **treat foreign suppliers at least as well as suppliers of any other non-RCEP country** (most-favoured nation or MFN).
- **Service suppliers** will benefit from commitments to **enhance the transparency and predictability of domestic regulations** affecting trade in services, improving the business environment across the region.
- The ASEAN-China Free Trade Agreement (ACFTA) has been cited to have provided the **greatest positive impact** on ASEAN among the other plus-one agreements, and all ASEAN members have now already established deep trade relations with China.

B) Improve regulatory environment and business opportunities

- The **government procurement** commitment will support **improved transparency and cooperation** among the RCEP parties on procurement by central governments. RCEP is the first Agreement where ASEAN as a whole, as well as a number of individual RCEP countries, have included rules on government procurement in a trade agreement.
- RCEP member countries are **committing to publish laws, regulations and procedures and may include tender opportunities for government procurement for greater transparency**.
- The provisions on **competition**, which will require parties to maintain **competition laws and regulations** that proscribe anti-competitive activities, and ensure independent enforcement. RCEP will also include obligations in relation to the use of misleading practices or false or misleading descriptions.

Multiplicative effects of RCEP

C) Support economic capacity building and capability of SMEs

- Provide for the effective implementation and utilisation of the Agreement through economic cooperation activities, including capacity building and technical assistance. RCEP will provide **a framework for programs and activities that can enhance the capability of SMEs** to participate in and benefit from the opportunities created by the Agreement.

D) Support the recognition of professional services in key markets

- The inclusion of a separate Annex **on professional services represents a first for almost half of the RCEP countries**. It will provide specific disciplines addressing behind the border barriers to the supply of professional services. It will also provide a framework for professional bodies to engage in dialogue on the recognition of qualifications, licences and registration, and the development of mutual recognition agreements in professions of mutual interest.

- On market access, **foreign shareholding limits will be increased for at 65% of services sectors, including professional services, telecommunications, financial services, computer and related services, distribution and logistics services**.

E) Enhance the rules governing financial services

- **Enhanced rules** on the **supply of financial services**, which will facilitate business operations across the RCEP region. It will also **provide sufficient policy and regulatory flexibility** for parties to guard against instability in the financial system.

F) High quality rules on telecommunications

- Set out a framework of rules to **govern trade in, and the access and use of, telecommunications services across the region**. For example, RCEP countries have committed to allow the **portability of mobile telephone numbers, and have agreed to cooperate to promote reasonable international mobile roaming rates**.

Multiplicative effects of RCEP – Individual Economy

- Several studies showed that all RCEP member countries would gain in terms of real **Gross Domestic Product (GDP)** through **liberalising their trade and fostering investment**.
- RCEP member countries' committed investment will **lead to lower country-specific risk** and **gain in real GDP will be reinforced further**.
- RCEP member countries will gain from the implementation of RCEP such as **growth in investment and attract more capital inflows**.
- **Free trade in goods and services and logistics efficiency** will lead to **higher investment** in all RCEP member countries.
- **Free trade in goods and services and logistics efficiency** will lead to **higher investment** in all RCEP member countries.

GDP

Studies	Economic Impact
World Bank	• In 2030, RCEP is projected to increase overall members' GDP by **1.5% ($654 billion). China and Korea** are projected to register **highest GDP increase** in relative terms. • RCEP agreements' global impact is **0.6% of the expected world GDP** (US$674 billion). • By 2030, **Malaysia'**s estimated gains is **0.8% of GDP** • Estimated increases in **exports and imports** under RCEP agreements are **US$24.4 billion and US$24.8 billion** respectively.

Economic Welfare

Studies	Economic Impact
EIA Research Project Report	• The RCEP could bring **economic benefits** to all participating countries for most of the policy scenarios. Further**, economic welfare gains** become more substantial once the RCEP includes **investment commitment**.

Multiplicative effects of RCEP – Individual Economy (cont.)

Tariff liberalization

Studies	Economic Impact
World Bank	• Biggest reductions are expected in several countries, including **Malaysia**. For example, the highest level of imposed NTMs occur in Philippines, **Malaysia,** New Zealand, Myanmar, and Vietnam – up to 15% in ad-valorem equivalents (including 15.3% in India, but withdrew from RCEP). • However, NTMs are much higher in some specific sectors such as **Food, Beverages and Tobacco (26% in Malaysia) and Wearing apparel (19% in Malaysia).** In addition, **Malaysia** is expected to experience **greatest declines in facing trade barriers in RCEP** markets.
UNESCAP	• RCEP is estimated to generate larger aggregate gains than the TPP, both for its members and the world as a whole, conditional on a full liberalization of tariff barriers. • A fully liberalizing RCEP **generates significantly larger welfare gains** for several economies, in particular **Australia and Japan**, and of course **China, Korea** and the **remaining members of ASEAN**.

Investment and Trade Volume

Studies	Economic Impact
EIA Research Project Report	• Countries participating in RCEP would commit to **promoting investment**, and this commitment can **improve the rate of return on capital by reducing country-specific negative factors.** • The country has **higher tariffs on imports used for physical capital formation**, and **liberalization lowers the price of capital goods**. • For example, due to **the fall in the price of capital goods**, **large increase in investment** in Cambodia contributes to **higher gain in real GDP**. **By increasing the degree of reduction in tariffs, the gains in real GDP become larger.**
EIA Research Project Report	• The **deeper the cuts in bilateral tariffs, the higher the trade volumes for RCEP members**. • **Freer trade in goods and services and efficient logistics** lead to **higher investment** in all RCEP member countries. As expected, **improvements in the rate of return** caused by **reducing the country-specific risk** resulted **in higher investment**. • The results on **increased foreign ownership of capital stock** indicate **that capital will flow into the region**. Thus, all RCEP participating countries would **attract more investment from abroad.**

Export and Import

Studies	Economic Impact
World Bank	• Under RCEP, **highest growth of exports and production** are projected to occur in **Food and Beverages** (up by 23.4% driven by increases in several countries which includes **Malaysia**), **Textiles, Natural resources/Mining, Metals and Chemical, Rubber, Plastic products** (up by 5.5% driven by increases in several countries which includes **Malaysia**). • RCEP will boost **significant expansion of Trade and Transport services** that are projected to obtain **the largest production increase by $235 billion in 2030.** • **The largest market opportunities** caused by the RCEP market access will be in **China, Japan and Korea**, which will experience **largest increases in their exports.** • Under the RCEP, **export flows of signatory countries to RCEP markets** is projected to increase by **$616 billion in 2030. China and Japan** are expected to reorient their exports towards RCEP members the most. • RCEP exports will increase slightly (mostly in **Wearing apparel, Textiles, and Chemical, Rubber, Plastic products)** to such non-member markets as Other TPP and the US. • Exports directed to RCEP members would increase in all sectors, with the greatest increases in **Food, Beverages, Tobacco (26.6%), Textiles (25.8%), Transport equipment (15.4%), Wearing apparel and leather (13.6%), Metals (12%), Trade and Transport services (16.6%), and Chemical, Rubber, Plastic products (11.4%)**. • The relocation of export flows towards RCEP markets from other markets will be the most evident in **Agriculture, Natural resources/mining, Transport equipment, Other manufacturing, and Services**.
UNESCAP	• RCEP is estimated to **generate larger aggregate gains** than the TPP, both for its members **Australia and Japan** thus seem to benefit from **less competition from the US**. To the extent that it is due to preferential access in some sensitive products (such as rice) that may not be part of an actual RCEP agreement. • The North and South American members of the TPP are worse off under the RCEP scenario. As in the case of Vietnam, probably due in part to the inclusion of China, which will generate more competition for Vietnam in the **Textiles** sector.

Impact of RCEP on selected ASEAN economies

Singapore

- **This deepened integration is set to benefit Singapore as a pivotal player in regional trade and supply chains in ASEAN**. The boost to exports are likely when RCEP is implemented in phases through the years of implementation. Singapore already has bilateral agreements with all the non-ASEAN partners, namely Japan, South Korea, Australia, New Zealand, and China.

Thailand

- Thailand with **export shipments account for 70% of its GDP** can **benefit from RCEP through greater integration of its economy with supply chains and larger markets in Asia-Pacific**. Manufacturers can also obtain cheaper raw materials from a larger network of sources and suppliers. Its food-based processing and automotive hub will be further deepened.

Indonesia

- Being the largest economy in ASEAN, it will benefit from **an increase in market access, investment, and opportunities to participate in regional supply chains**. Amidst the US-China trade war, the government has made it a priority to complete various trade deals with countries and organizations to boost its trade and investment. Indonesia’s corporate tax rate will be reduced to 20% in 2022 from 22% in 2020-2021.

Impact of RCEP on selected ASEAN economies

Philippines

- The RCEP would **open markets for 92% of products produced by the Philippines,** which includes the business process outsourcing industry. In addition, **service workers in such as seafarers, teachers, IT programmers, and engineers can benefit** due to demand from countries like Japan and South Korea, which are in need of service workers.

Vietnam

- RCEP would enhance opportunities for **Vietnamese enterprises to boost exports, engage in new value chains, and attract further foreign investment**. The lowering of import tariffs would open up new opportunities for products from its prominent sectors like **telecommunications, ICT, textiles and footwear, and agriculture**.

Smaller ASEAN economies

- The agreement could also **facilitate smaller ASEAN economies (Laos, Myanmar, Brunei, Cambodia) to further strengthen their FTAs**, and helps to narrow the development gaps between ASEAN members.

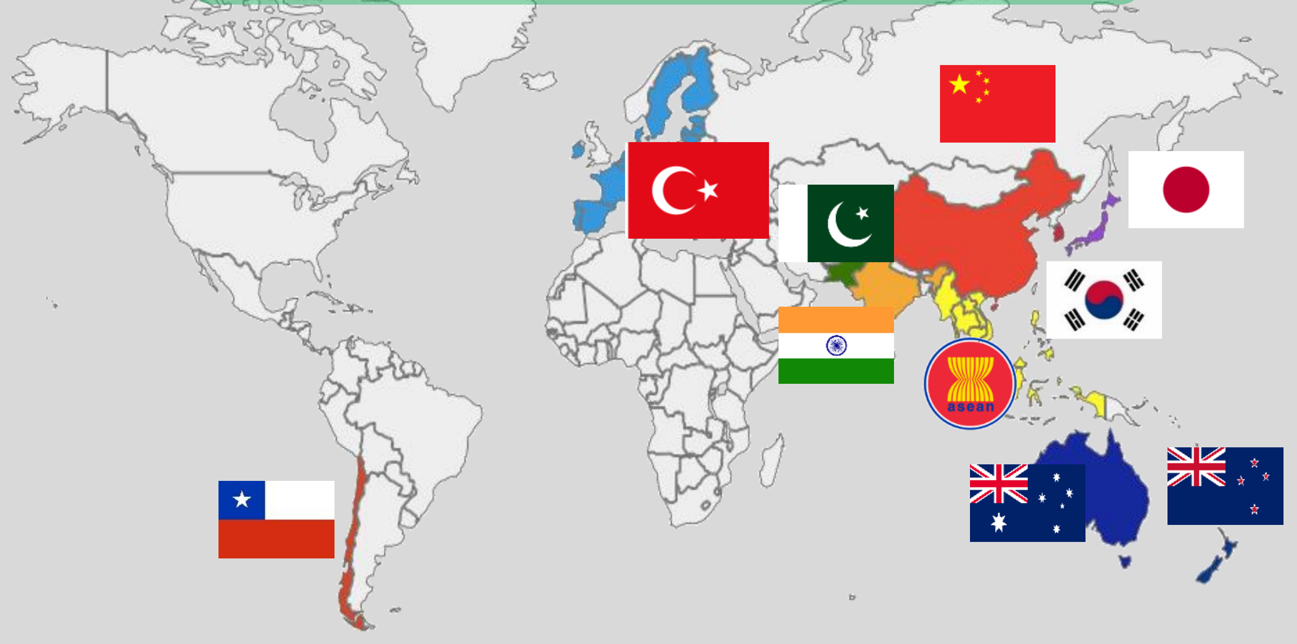
Impact of RCEP on Malaysia: Gain or Pain?

- Following the signing of the Regional Comprehensive Economic Partnership (RCEP), **doors will soon open to attract more investment and swell Malaysia's trade with partnering countries**.

- **Almost 60% of Malaysia's trade involves RCEP Members and around 56% of Malaysia's exports go towards the countries covered by RCEP** (58.0% of total trade in 2020; exports share: 56.7%; imports share: 59.7%). ASEAN members are also amongst Malaysia's top trading partners (25.1% of total trade in 2020; exports share: 27.7%; imports share: 21.8%).

- Malaysia's **open trade position will be greatly enhanced by increased market integration, reduced trade barriers and enhanced trade facilitation**. Malaysia stands to benefit in terms of geographical location (market access) of participating countries, supported by **better trade facilitation to lower transaction costs for businesses and investors**.

FTAs of Malaysia



Malaysia has already signed and implemented **7 bilateral FTAs** with **Japan, Pakistan, New Zealand, India, Chile, Australia and Turkey.** While at the ASEAN level, Malaysia has **6 regional FTAs** with **ASEAN Free Trade Agreement (AFTA), China, Korea, Japan, Australia-New Zealand and India**.	**FTAs currently under negotiation:** • Malaysia-Iran Preferential Trade Agreement (MIPTA) • Malaysia-European Free Trade Area Economic Partnership Agreement (MEEPA) • Malaysia-EU Free Trade Agreement (MEUFTA) **FTAs signed but pending ratification:** • ASEAN-Hong Kong Free Trade Agreement (AHKFTA) • Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

Source: MITI

Malaysia's trade with RCEP partners

Top 3 Major Trading Partners (RCEP members)

China

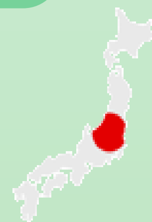
EX: RM158.6 billion (16.2%)

IM: RM171.2 billion (21.5%)

Singapore

RM142.2 billion (14.5%)

RM73.6 billion (9.3%)



Japan

RM61.7 billion (6.3%)

RM61.0 billion (7.7%)

Exports to RCEP partners in 2020
RM billion

	RM billion (% share)	CAGR (2016-2020)
China	**158.6** *(16.2%)*	9.3%
Singapore	**142.2** *(14.5%)*	5.6%
Japan	**61.7** *(6.3%)*	-3.2%
Thailand	**45.3** *(4.6%)*	0.4%
South Korea	**34.6** *(3.5%)*	7.0%
Vietnam	**30.9** *(3.1%)*	12.2%
Indonesia	**29.6** *(3.0%)*	0.3%
Australia	**24.3** *(2.5%)*	-2.8%
Philippines	**17.6** *(1.8%)*	5.9%
New Zealand	**3.8** *(0.4%)*	-1.0%
Myanmar	**3.1** *(0.3%)*	0.2%
Brunei	**2.7** *(0.3%)*	0.7%
Cambodia	**1.5** *(0.2%)*	10.3%
Laos	**0.04** *(0.006%)*	-0.6%

Imports from RCEP partners in 2020
RM billion

	RM billion (% share)	CAGR (2016-2020)
China	**171.2** *(21.5%)*	5.8%
Singapore	**73.6** *(9.3%)*	2.2%
Japan	**61.0** *(7.7%)*	2.6%
South Korea	**45.2** *(5.7%)*	7.7%
Indonesia	**36.6** *(4.6%)*	3.4%
Thailand	**34.1** *(4.3%)*	5.6%
Australia	**19.5** *(2.4%)*	2.0%
Vietnam	**18.0** *(2.3%)*	-1.0%
Philippines	**8.8** *(1.1%)*	6.0%
New Zealand	**3.1** *(0.4%)*	0.3%
Brunei	**1.9** *(0.2%)*	28.8%
Myanmar	**0.9** *(0.1%)*	6.4%
Cambodia	**0.5** *(0.1%)*	-4.3%
Laos	**0.05** *(0.006%)*	33.6%

Figure in parenthesis indicates % share of total exports/imports
Notes: EX refer to Exports; IM refer to Imports
Source: DOSM

Malaysia's trade with RCEP partners (cont.)

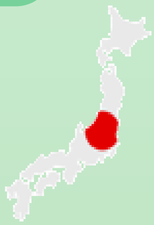
Top 3 Major Trading Partners (RCEP members)

China

RM316.6 billion (17.2%)

Singapore

RM226.6 billion (12.3%)



Japan

RM129.6 billion (7.0%)

Total trade with RCEP partners in 2020
RM billion

CAGR (2016-2020)

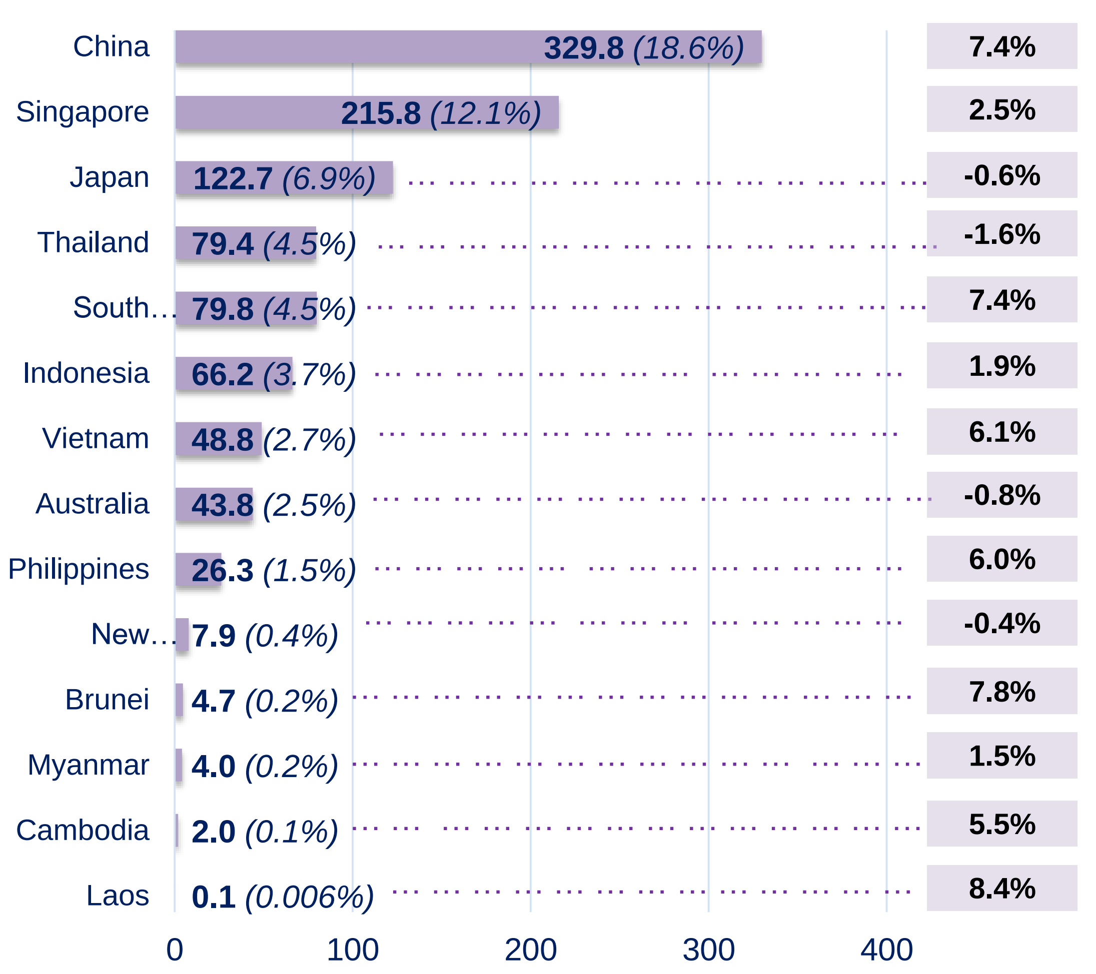


Figure in parenthesis indicates % share of total trade
Source: DOSM

Malaysia's major export products to RCEP members*

Australia	RM mil	% share
Mineral fuels and oils	9,267	38.0%
Machinery and equipment	2,663	10.9%
Electrical and electronic products	2,114	8.7%
Plastics products	1,279	5.2%
Rubber products	1,029	4.2%

Brunei	RM mil	% share
Mineral fuels and oils	472.5	17.0%
Machinery and equipment	275.3	9.9%
Preparations of cereals, etc	254.0	9.1%
Miscellaneous edible preparations	157.1	5.7%
Pharmaceutical products	152.6	5.5%

Cambodia	RM mil	% share
Knitted or crocheted fabrics	339.4	22.7%
Mineral fuels and oils	291.4	19.5%
Vehicles	117.7	7.9%
Machinery and equipment	76.1	5.1%
Aluminium products	72.8	4.9%

China	RM mil	% share
Electrical and electronic products	59,813.2	37.6%
Mineral fuels and oils	18,665.7	11.7%
Iron and steel	9,588.4	6.0%
Plastics products	9,448.4	5.9%
Animal or vegetable fats and oils	8,154.9	5.1%

Indonesia	RM mil	% share
Mineral fuels and oils	6,499.9	22.0%
Aircraft and parts	4,119.4	13.9%
Plastics products	3,006.2	10.2%
Machinery and equipment	2,388.3	8.1%
Electrical and electronic products	2,200.0	7.4%

Japan	RM mil	% share
Electrical and electronic products	17,678.8	28.3%
Mineral fuels and oils	16,943.5	27.1%
Machinery and equipment	3,346.2	5.3%
Optical and medical equipment	2,804.0	4.5%
Plastics products	2,543.9	4.1%

South Korea	RM mil	% share
Electrical and electronic products	13,020.8	37.5%
Mineral fuels and oils	8,565.4	24.7%
Optical and medical equipment	1,753.3	5.1%
Machinery and equipment	1,412.0	4.1%
Aluminium products	1,275.2	3.7%

Lao PDR	RM mil	% share
Man-made staple fibres	30.8	54.8%
Machinery and equipment	5.9	10.5%
Cotton	3.3	5.9%
Beverages	2.9	5.1%
Man-made filaments	2.6	4.6%

*Note: *By HS code; data as at 2020*
Source: DOSM

Malaysia's major export products to RCEP members* (cont.)

Myanmar	RM mil	% share
Iron and steel	767.4	25.0%
Mineral fuels and oils	665.6	21.7%
Plastics products	229.5	7.5%
Fertilisers	202.2	6.6%
Machinery and equipment	160.9	5.2%

New Zealand	RM mil	% share
Mineral fuels and oils	1,051.9	27.6%
Residues from food industries	400.2	10.5%
Animal or vegetable fats and oils	331.8	8.7%
Machinery and equipment	295.1	7.7%
Electrical and electronic products	285.2	7.5%

Philippines	RM mil	% share
Electrical and electronic products	3,459.8	19.7%
Animal or vegetable fats and oils	2,331.3	13.2%
Mineral fuels and oils	1,993.1	11.3%
Iron and stee	1,629.2	9.3%
Plastics products	1,259.6	7.2%

Singapore	RM mil	% share
Electrical and electronic products	64,240.0	45.2%
Mineral fuels and oils	21,252.3	15.0%
Machinery and equipment	16,684.0	11.7%
Optical and medical equipment	6,230.3	4.4%
Plastics products	3,164.0	2.2%

Thailand	RM mil	% share
Electrical and electronic products	16,554.7	36.5%
Mineral fuels and oils	5,493.5	12.1%
Machinery and equipment	5,134.4	11.3%
Plastics products	2,494.1	5.5%
Vehicles	1,423.8	3.1%

Vietnam	RM mil	% share
Electrical and electronic products	10,385.3	33.6%
Mineral fuels and oils	4,032.7	13.0%
Machinery and equipment	2,933.1	9.5%
Plastics products	2,613.1	8.5%
Aluminium products	1,385.1	4.5%

*Note: *By HS code; data as at 2020*
Source: DOSM

Malaysia's major import products from RCEP members*

Australia	RM mil	% share
Mineral fuels and oils	7,861.8	39.9%
Ores, slag and ash	2,029.6	10.3%
Copper products	1,562.5	7.9%
Inorganic chemicals	1,510.6	7.7%
Meal and edible meat offal	935.8	4.8%

Brunei	RM mil	% share
Mineral fuels and oils	1,698.6	87.7%
Organic chemical	171.1	8.8%
Machinery and equipment	12.0	0.6%
Aircraft and parts	11.2	0.6%
Other base metals	5.6	0.3%

Cambodia	RM mil	% share
Cereals	137.4	28.7%
Knitted or crocheted apparel and clothing accessories	109.5	22.9%
Not knitted or crocheted apparel and clothing accessories	47.9	10.0%
Footwear	45.8	9.6%
Leather products	30.9	6.5%

China	RM mil	% share
Electrical and electronic products	59,927.9	34.8%
Machinery and equipment	27,776.5	16.1%
Mineral fuels and oils	8,462.8	4.9%
Plastics products	7,135.9	4.1%
Miscellaneous chemical products	4,530.3	2.6%

Indonesia	RM mil	% share
Mineral fuels and oils	9,808.8	26.7%
Animal or vegetable fats and oils	4,744.3	12.9%
Miscellaneous chemical products	2,120.6	5.8%
Electrical and electronic products	1,927.3	5.3%
Iron and steel	1,785.4	4.9%

Japan	RM mil	% share
Electrical and electronic products	21,757.7	35.3%
Machinery and equipment	7,449.1	12.1%
Vehicles	4,409.0	7.2%
Iron and steel	4,365.1	7.1%
Plastics products	3,506.0	5.7%

South Korea	RM mil	% share
Electrical and electronic products	11,492.7	24.9%
Ships, boats and floating structures	10,088.7	21.9%
Mineral fuels and oils	6,166.3	13.4%
Iron and steel	2,922.3	6.3%
Machinery and equipment	2,701.5	5.9%

Lao PDR	RM mil	% share
Electrical and electronic products	17.8	37.4%
Fertilisers	13.7	28.7%
Machinery and equipment	12.5	26.3%
Not knitted or crocheted apparel and clothing accessories	0.8	1.7%
Animal or vegetable fats and oils	0.7	1.5%

*Note: *By HS code; data as at 2020*
Source: DOSM

Malaysia's major import products from RCEP members* (cont.)

Myanmar	RM mil	% share
Cereals	170.9	18.2%
Rubber products	160.3	17.1%
Edible vegetables	140.5	15.0%
Fish and other aquatic invertebrates	126.0	13.5%
Knitted or crocheted apparel and clothing accessories	104.7	11.2%

New Zealand	RM mil	% share
Dairy products, eggs, honey and edible products of animal origin	1,672.4	54.5%
Meat and edible meat offal	353.0	11.5%
Preparations of cereals, etc	176.0	5.7%
Fruits and nuts	121.5	4.0%
Paper and paperboard	79.5	2.6%

Philippines	RM mil	% share
Electrical and electronic products	5,463.4	62.2%
Machinery and equipment	541.5	6.2%
Rubber products	441.1	5.0%
Animal or vegetable fats and oils	390.7	4.5%
Mineral fuels and oils	294.3	3.4%

Singapore	RM mil	% share
Electrical and electronic products	26,772.6	36.3%
Mineral fuels and oils	17,589.8	23.9%
Machinery and equipment	5,520.7	7.5%
Pearls, precious stones and metals	5,489.6	7.5%
Plastics products	3,158.3	4.3%

Thailand	RM mil	% share
Electrical and electronic products	6,967.1	20.3%
Rubber products	4,593.8	13.4%
Vehicles	4,118.1	12.0%
Machinery and equipment	3,688.3	10.8%
Plastics products	1,825.8	5.3%

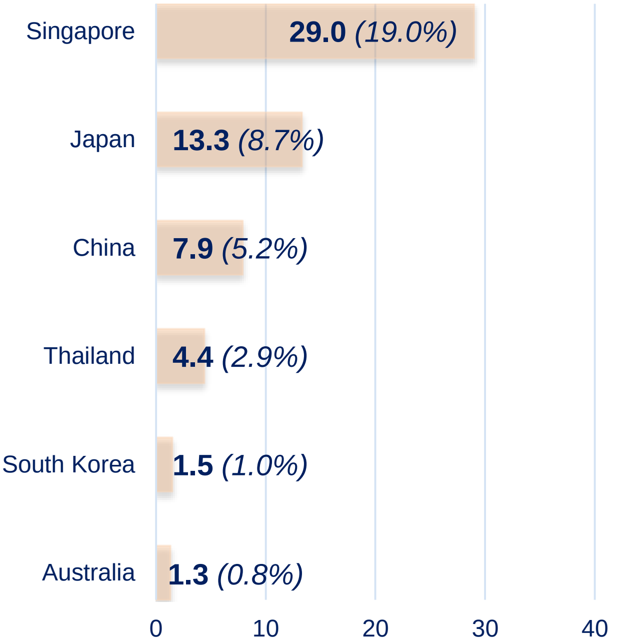
Vietnam	RM mil	% share
Electrical and electronic products	5,507.5	30.6%
Iron and steel	1,593.7	8.8%
Mineral fuels and oils	1,119.2	6.2%
Cereals	1,040.6	5.8%
Machinery and equipment	957.7	5.4%

*Note: *By HS code; data as at 2020*
Source: DOSM

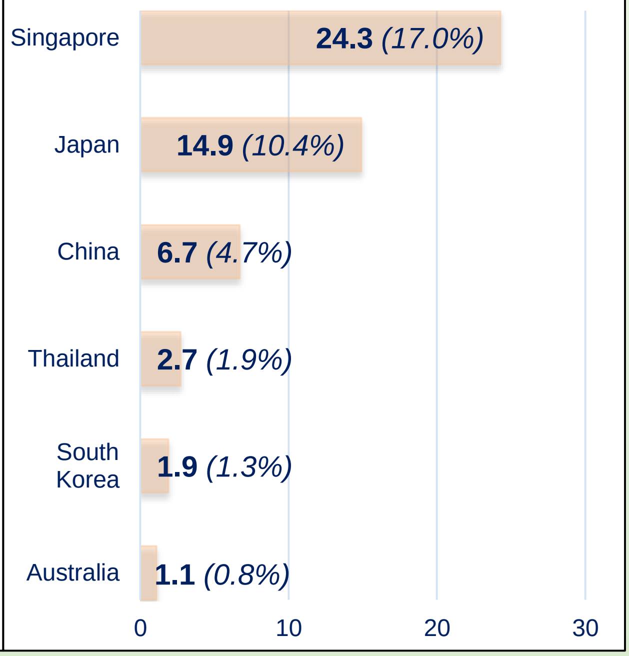
Investment Relations between Malaysia and RCEP

Gross FDI

Gross FDI in Malaysia by selected RCEP partners
RM billion, 2020

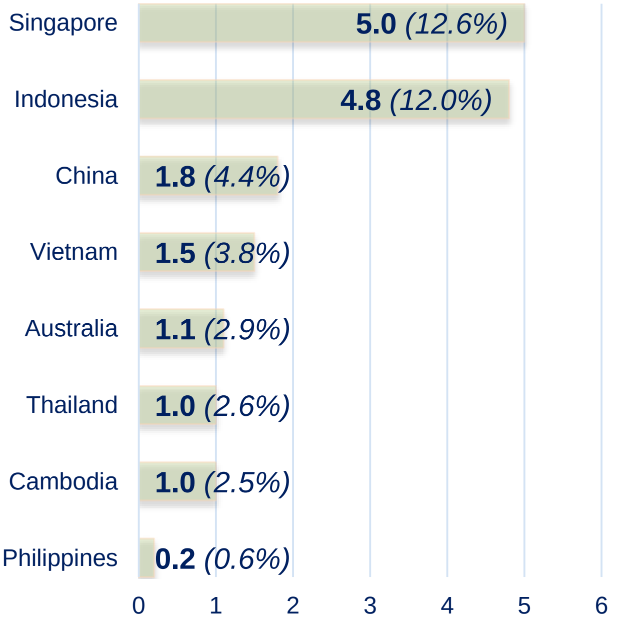


Gross FDI in Malaysia by selected RCEP partners
RM billion, average 2015-2020

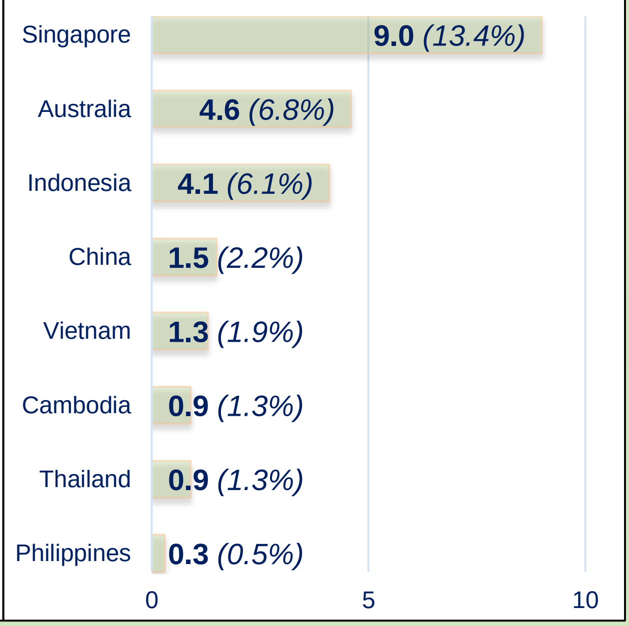


Gross DIA

Gross DIA from Malaysia to selected RCEP partners
RM billion, 2020



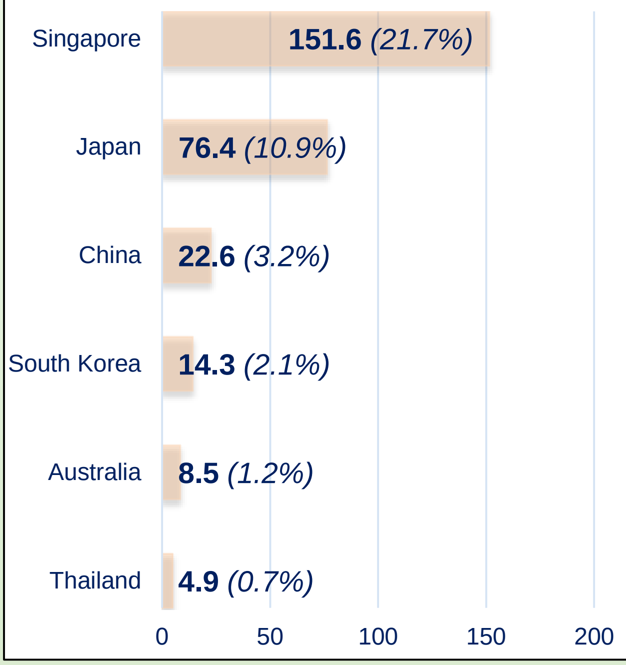
Gross DIA from Malaysia to selected RCEP partners
RM billion, average 2015-2020



Note: Figure in parenthesis indicates % share to total gross FDI /DIA flows
Source: DOSM

FDI Stock and DIA Stock

FDI stock in Malaysia by selected RCEP partners
RM billion, 2020



DIA stock of Malaysia in selected RCEP partners
RM billion, 2020

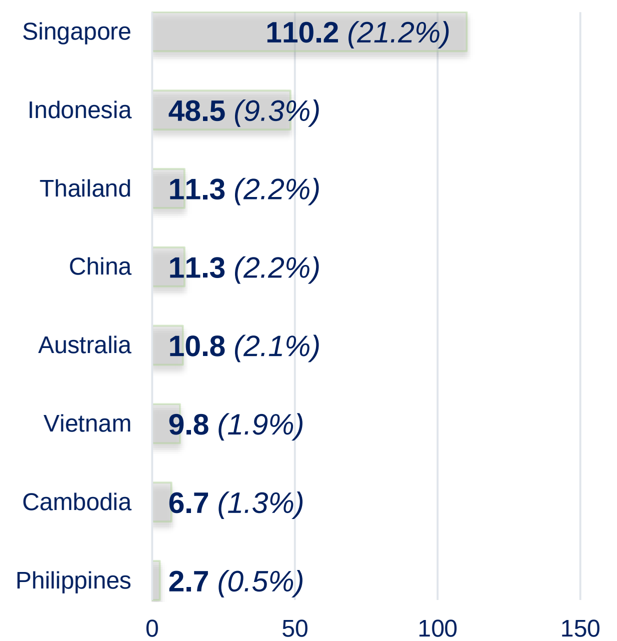
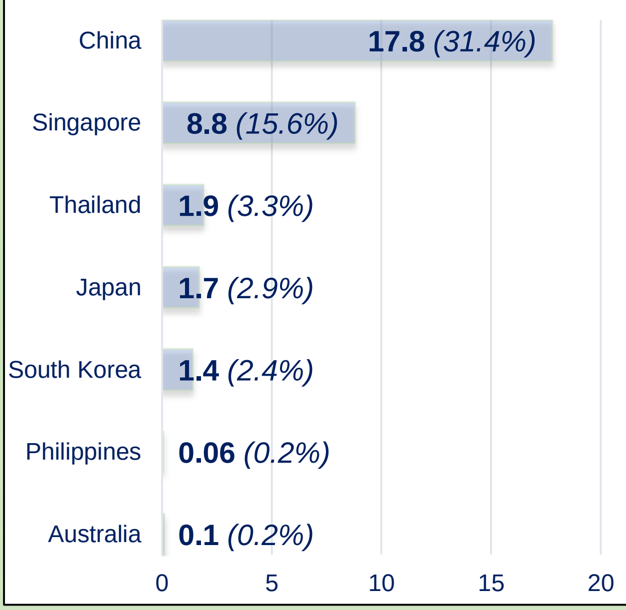


Figure in parenthesis indicates % share of total FDI/DIA stock

Approved RCEP partners' manufacturing investment in Malaysia

Approved manufacturing investment in Malaysia by selected RCEP partners
RM billion, 2020



Approved manufacturing investment in Malaysia by selected RCEP partners
RM billion, average 2015-2020

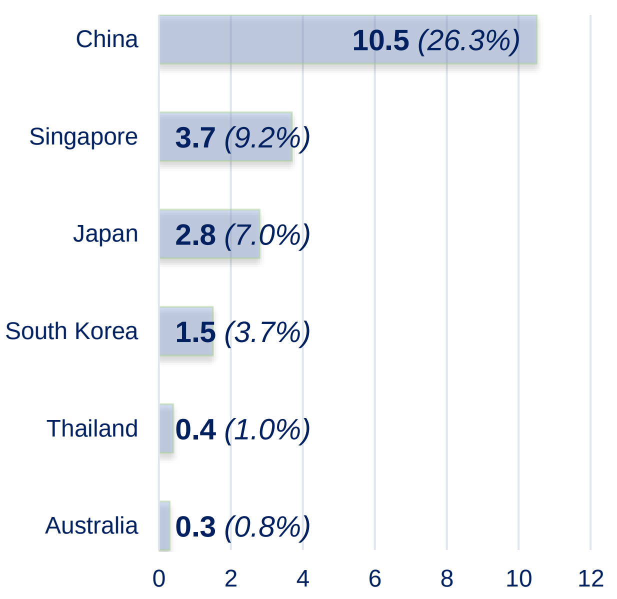


Figure in parenthesis indicates % share of total approved manufacturing investment
Source: DOSM; MIDA

Overview of RCEP vs. CPTPP and ASEAN

Source: Nikkei Asia

Impact of RCEP on Malaysia: Gain or Pain? (cont.)

a) RCEP will **provide Malaysian companies and foreign investors with increased commercial opportunities and partnerships with other RCEP members**.

- Foreign investment in Malaysia are expected to support Malaysian businesses by giving them access to capital and the technology and expertise of overseas partners.

b) RCEP would **provide growing opportunities for foreign companies and domestic companies in positioning Malaysia as a growing hub for economic activities, and be part of the growing global value chain activities**.

- Streamlining all ASEAN +1 FTAs into one single agreement allows access to almost 50% of global market through a single agreement. The **improved connectivity will also see Malaysia gain from other economic sectors such as travel, tourism, hospitality and aviation industry**.

c) The trade deal not **only gives consumers wide choices of goods and services at competitive prices but also for manufacturers and suppliers, they have an opportunity to obtain good quality and competitively priced raw materials** as well as **wider scope for accumulation under the rules of origin's (ROO) calculation**.

d) Companies specializing in industries like telecommunications, banking and finance, and consultancy will benefit from enhanced cooperation.

- A model simulation suggests that due to better access to large RCEP markets, the most dynamic export growth will be experienced by the **food and beverages industry, chemical and chemical products, rubber products, plastic products, machinery and equipment as well as electronics and electrical products**. Textiles and wearing apparels will be dampened by low-cost competitors such as Vietnam while the timber and timber products industry too face competition from the participating countries.

e) RCEP is expected to complement ASEAN's efforts in becoming **a single production base, thus ensuring that Malaysia would be on the investment radar of investors**.

- Malaysia remains a good investment location for both domestic and global investors and will continue to be given its proactive economic policies, a highly-diversified economy and multilingual workforce, coupled with good infrastructure and connectivity as well as strategic location.

- **What's more important is to maintain an investment climate that is politically and economically stable as well as a transparent, business-friendly legal and regulatory environment** to attract more foreign direct investment (FDI) from RCEP partnering countries. In 2020, ASEAN's investment of RM36.9 billion made up 26.5% of total investment in Malaysia, followed by Japan (9.6%), and China (5.7%).

f) **With digitalisation and e-commerce delivering more trade and services,** Malaysian companies, especially SMEs must continue to step up the deployment digital technology and e-trade platform to have a wider market reach.

- Like other trade agreements, increasing market liberalisation and step up competition in the home base market place**, ASEAN market and also in partnering countries' market will pose challenges to some domestic sectors and SMEs in terms of costs and products' competitiveness and also the companies' capability to produce high quality and standard products and services in international markets**. Building a healthy, competitive business environment can increase innovation, efficiency, and championship.

- Overall, various studies have indicated that RCEP is expected to **generate net positive effect on Malaysia with net increase in GDP between 0.8% and 1.7%** while **increases in exports are expected to remain substantial at 24.4%**.

g) Opportunities come with challenges

- There are also **growing concerns having "a level playing field" will place our domestic industries and businesses, especially SMEs in a less competitive position** to compete with foreign players not only in the domestic marketplace but also in international markets, particularly in RCEP participating countries.

- While businesses and consumers have a wider sources of raw materials and final products supplying amongst RCEP participating countries and not only sourced locally. Hence, the influx of cheaper and competitive priced goods in domestic market could pose competition in terms of pricing and product quality to domestic businesses. **Maintaining product brand trust, good quality and standard products are important to retain market share and expand market reach**.

- **A company's and businesses' competitiveness depends on the capacity of its industry to innovate and upgrade**. Companies gain advantage against their competitors because of pressure and challenge. They benefit from having strong domestic rivals, aggressive home-based suppliers, and demanding local customers.

- **Companies achieve competitive advantage through acts of innovation and advance technology development**. Some innovations create competitive advantage by perceiving an entirely new market opportunity or by serving a market segment that others have ignored. **Innovation can be manifested in a new product design, a new production process, a new marketing approach, or a new way of conducting training**.

- **Domestic SMEs must accelerate the adoption of digital technology and e-commerce platform to drive more sales**. With the support of various funds and financial facilities and grants provided by the Government and agencies, SMEs must transform to adopt new technologies and find better means for competing. **It always involves investments in product development, skill and knowledge as well as in physical assets and brand reputations.**

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