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ADVISORS



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RCEP: Seize Your Opportunity

# Over 400 free trade agreements exist worldwide, most of them bilateral. Multinational FTAs reduce complexity expand economical partnerships and trade links

USMCA (NAFTA)



CPTPP



Mercosur



RCEP



CETA



AfCFTA



EU-27/ETFA



ATIGA (AFTA)



## Definition

FTAs are treaties between two or more countries designed to reduce or eliminate barriers to trade and investment and to facilitate stronger trade and commercial ties between participating countries.

## Benefits

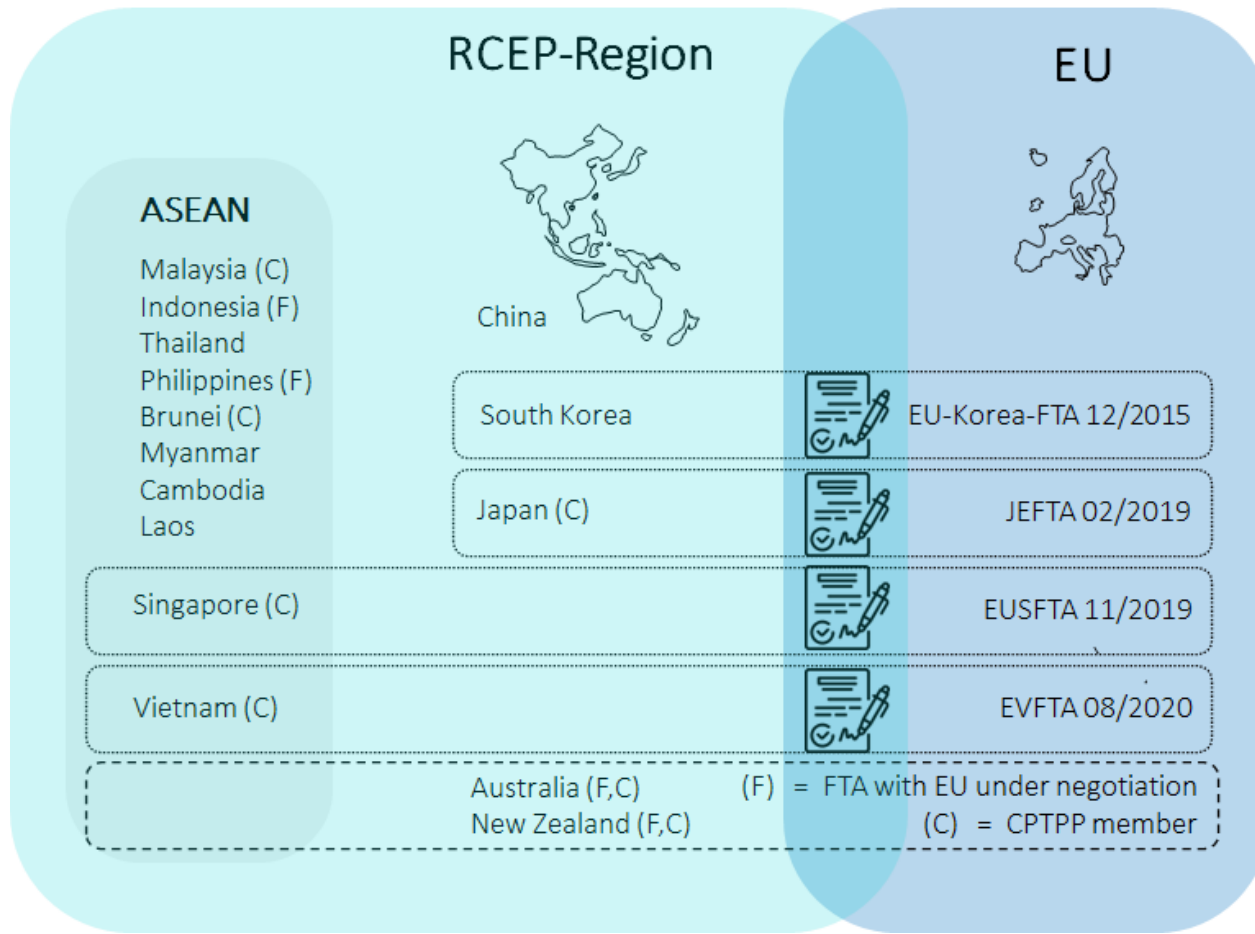
- FTAs help to boost economic growth and employment levels in partnering countries by improving big and small companies' global competitiveness through greater trade and investment.
- Multinational FTAs increase efficiencies.
- Consumers and businesses benefit from improved access to a wider range of competitively priced goods and services.

## Risks

Required are the right framework of policies (e.g. non-tariff barriers) to mitigate negative impact on economic welfare. Possible limitation on liberalizing trade in sectors on which parties outside the agreement have a major influence.



# The regional comprehensive economic partnership “RCEP” comprises 15 countries from South-East Asia and overlaps with numerous other free trade agreements



The EU is connected with RCEP by four bilateral Free Trade Agreements  
 The EU partners with Vietnam, Singapore, South Korea and Japan.



Future EU and RCEP cooperation with four new bilateral FTAs under negotiation with Indonesia, Philippines, Australia and New Zealand.



The EU currently negotiates with China on CAI “Comprehensive Agreement on Investment”.



Seven RCEP members joined also CPTPP, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership since 2018.



Identifying opportunities within RCEP and Europe to assess how existing and new FTAs could support trade and investments in both regions.



# RCEP started in January 2022 and is now on its way to become the largest free trade agreement worldwide – Apart from the World Trade Organisation

Regional Comprehensive Economic Partnership (RCEP)  
effective since January 1st, 2022



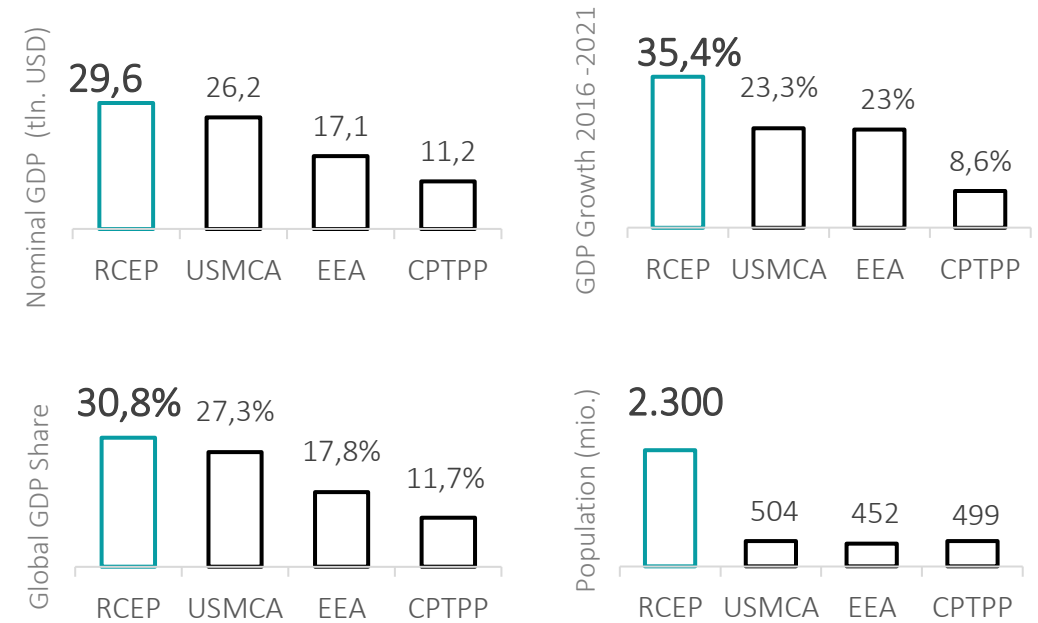
15 Countries

FTA with highest number of member countries.  
First time FTA between China, Japan and South Korea.

## Development Targets

- Liberalization and facilitation of trade
- Removal of non-tariff barriers and barriers to service sectors
- IP protection, government procurement practices, e-commerce
- etc.

## The RCEP trade zone is leading in size and potential



China contributes with 17.7 tln. USD approximately 60% to RCEP's GDP.  
China's five-year GDP growth of 58% stands out compared to ASEAN and Germany with both 22% and World with 20%.  
Even without China RCEP provides a population 900 mio.



# RCEP's most relevant key levers relate to trade in goods produced within the region – but also to the movement of finance and provision of services



## Facilitating & Accelerating Trade

RCEP stipulates trade facilitation and transparency measures, including procedures for approved exporters to make declaration of origin; transparency around import, export and licensing procedures. A simplified rule book and addressing non-tariff trade barriers intended to accelerate trade. RCEP is a “living” agreement with yearly reviews.

## Rule of Origin (ROO) Harmonization

Products with 40% value added and/or sourced content from **within** the RCEP **qualify as localized** under the cumulation rule and is treated as originating goods and therefore **benefiting** from **cross sharing resources**.

## Tariff commitments

RCEP targets customs duties elimination of ca. 92% among the partner countries within the next 20 years. Differential tariff concessions as a “work in progress” clause is a flexible feature. Tariff commitments differ by country, sector and tariff line.

## New emerging topics

RCEP **falls** short **behind** the **gold standard** of CPTPP on **intellectual property, government procurement, labor law or environmental regulations**. This reflects a balancing approach between developed and developing countries' economic positions and markets.



## Sourcing & Supply Chain

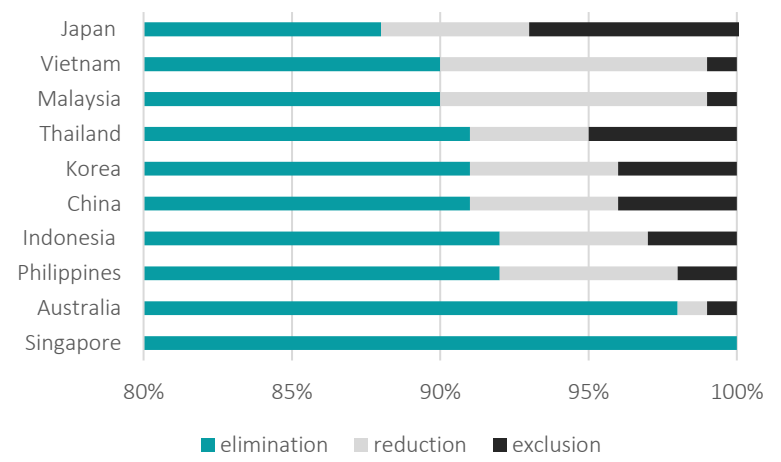
Wider, more **competitive sourcing flexibility and choices** arise in combination with ongoing **logistic advancements**, e.g. the "Road and Belt Initiative" connecting RCEP countries even intercontinentally. RCEP creates new opportunities to **create new hubs** in the region for assembly, production and trading and triggered a significant increase in foreign direct investments out of investments.

RCEP also provides for the **liberalization of trade in services** amongst the members, who are to set out their respective detailed commitments (positive list) and/or non-conforming measures (negative list). 65% of service sectors will be open to foreign investors.

## Benefits of RCEP's single consolidated rule book

Leads to greater efficiency and ease of doing business for both MNCs as well as SMEs.

Status of tariff changes



# European companies can mitigate local and global challenges by tapping into the potential of the RCEP region

The RCEP **will challenge** European companies increasingly to **stay competitive** but offers **great opportunities** to those with well-established intra-Asian supply chains. RCEP is a **crucial trade partner for the EU** accounting 20% of its global export and 31% of its global imports (in 2019).



European companies with **own RCEP subsidiaries or regional cooperation partners** with already established intra-RCEP supply chains can **directly benefit** from ROO, increasing supply choices, competitive production and energy costs.



For companies with **sole European business activities**, RCEP provides increasingly attractive chances **to venture into Asia-Pacific** utilizing intra-RCEP dynamics, diversifying supply chains and enter new markets



**Manufacturers and Distributors** have new options for sustainable business development by aligning their **production footprint**, e.g. including off- and near- shoring, sourcing and supply chain by capitalizing on RCEP potentials

The four European FTAs with RCEP countries offer a **gateway** with better exchange between the RCEP and EEA region. Further **four new FTAs** with RCEP signatories are **in the making** (Australia, New Zealand, Philippines, Indonesia).

## EU and RCEP Top traded goods



### EU exports to RCEP

1. Machinery 19%
2. Vehicles and Parts 13%
3. Electronic machinery 12%
4. Pharmaceutical 7%
5. Optical 7%



### EU Imports from RCEP

1. Electronic machinery 28%
2. Machinery 19%
3. Vehicles and Parts 6%
4. Optical 4%
5. Apparel 3%

(in 2019)



# The RCEP countries share the aspiration to catch up with developed countries more rapidly in a time of volatile geo-strategical challenges.

## General Trade Effects & Links

- “**Big 3**” **China, Japan and Korea** are ranking with each other in the top 5 as trading partners and **will benefit substantially** from tariff liberalizations.
- **Particularly Japanese exports to China and Korea expected to grow** by liberalizing tariffs from 8% to 86% respectively 19% to 92%. It can be observed that Japan and China’s bilateral trade values hitting records already.
- Also trade between the **Big 3 and ASEAN** expected to strongly develop. **China's and Korean's trade development** is influenced by their bilateral FTA since 2015.



### EU’s Trade Link Opportunities into RCEP

- Under EUSFTA 100% of tariffs eliminated from **Singapore** to EU and 80% from EU to SG (100% by 2024). Singapore is already a popular hub into Southeast Asia for European companies.
- Under EVFTA 75% (100% by 2030) of tariffs eliminated from **Vietnam** to EU and 65% (100% by 2027) from EU to VN. EUKFTA **Korea** allows tariff elimination of 99% since 2015. Under JEUFTA **Japan** eliminated 97% and EU 99% of tariffs.
- **Four new FTAs between RCEP members and EU** will widen the trade link with RCEP (Indonesia, Philippines, Australia, New Zealand).
- Established **ASEAN+1 FTAs** with CN, JP, KR, IN, AUS, NZ could be another gateway for European companies with foreign subsidiaries.

Opportunities for companies in newly assessing opportunities and impact of new and announced FTAs.



# Particularly ASEAN countries within RCEP push to attract companies and develop new trending industries to increase economic growth and convergence

## Investments in the region

- **Foreign Direct Investment in RCEP** accounts for approx. 30% of global FDI inflow. **China's inbound FDIs** grew 21% in 2021 to US\$ 181 bn but with less new companies coming in, while facing a record outflow in hedge funds. **Korea** hitting an all-time high with US\$ 29.51 bn in 2021 mainly driven by the service sector whereof US\$ 12.8 bn are EU investments. Japan accounted for US\$ 27.5 bn almost doubling from 2019.
- **ASEAN's FDI** grew in 2021 by 42% to US\$ 174 bn USD (similar with China's FDI) to pre-pandemic level, whereof 69% contributed by economies outside RCEP. Manufacturing sector e.g. for EVs, electronics, pharma with highest growth, while finance and banking have largest share.
- **Top 5 ASEAN FDI recipients:** Singapore 57%, Indonesia 12%, Vietnam 9%, Malaysia 7%, Thailand 7% Japanese, Korean and Chinese **OEMs extend their production footprint in ASEAN** including the automotive, EV and Electric/Electronic sector.
- Several Southeast Asian economies push to create hubs for EV value chains with success, e.g. world's largest battery manufacturers setting up factories in ASEAN.



## Government incentives

- New technological, market and consumer trends in sectors as energy, electric mobility, digitalization cause **shifts in the industry** with new countries and players rising at the same time as RCEP becoming effective.
- New incoming international companies and investors expand and re-align their production, sourcing and market presence in the region and RCEP member countries as particularly **ASEAN are in competition** for attracting fresh FDIs.
- Companies can take advantage of **incentive programs** to stimulate consumers and investors, e.g. on sales related taxes, corporate taxes, equipment investments, land acquisition, infrastructure etc.



RCEP's increasing influence and opportunities are reflected in the increase in FDIs.





# The automotive sector is a priority for most RCEP countries. Gradual reduction of tariffs still shield passenger cars and electric vehicles for a significant time in the future.

## Examples for Passenger Cars

### ICE and Hybrid Passenger Cars (for example 1.000-1.500 ccm)

- Auto manufacturing sector with long grace periods and lowest uncommitted tariff lines of 17% compared to other categories.
- **Flexible tariff differentials** prevail with **CN, KR, TH** and **VN** for **KR** and **JP**.
- **ASEAN members** **MY, IND, TH, VN** with strong CKD industry still impose protective tariffs of 30-70% on CBUs.
- **Indonesia** with 40% starts to reduce after 10 years.
- **Japan** liberalized tariffs entirely targeting a better **CN, KR** market access.
- **Australia** reduces from 5% to 3% after 10 years.

### Electric Passenger Cars

- Several countries and in particularly ASEAN exempted temporarily tariffs entirely, which otherwise are similar to ICEs/Hybrids.
- **China** reduces from 25% to 15% and for **KR** to tariff differentials.
- **Korea** switches from 8% to tariff differentials.
- Those **ASEAN** states with CKD industry remain at less favorable tariffs for CBUs ranging from 30% to 40%.
- **Australia** reduces after 10 years tariffs from 5%.
- **Japan** liberalized already.
- **Vietnam** with highest tariffs at 70% while developing into a EV and battery production hub.
- China, Japan, Korea brands expand their **EV assemblies in ASEAN** and could trade freely under ATIGA as locally manufactured.

RCEP tariff commitments still complex due to country specific definition, exceptions and changing tariff differentials. RCEP members could use alternatively tariff schedules of participating trade agreements, e.g. ASEA+1 etc. if preferable tariffs compared to RCEP exist. Non-member states who entertain FTAs with RCEP members could tap into the trade opportunity for vehicles, which comply with RCEP's ROO.



# RCEP implies higher tariff reductions for automotive parts compared to complete passenger vehicles and commits to a faster phase out of tariffs

## Examples for Parts & Components

### Automotive Parts

- Tariffs differentials exist with all RCEP members meaning specific goods may be liberalized depending on the circumstances at a time.
- China eliminates tariffs from an actual base of 0%-25% in phases for most goods within 20 years.
- Australia remains at 0-5% and tariff differentials for 10 years and reduces thereafter.
- Korea currently at 6-10% eliminates within 10 years with few exceptions.
- Japan eliminated tariffs from MFN level for selected goods. Malaysia phases tariffs from up to 30% within 15 years out. Indonesia eliminates from 10% within 5 years.
- Vietnam reduces from 5% to 25% gradually for most goods within 20 years.
- Thailand eliminates tariffs from 10% to 30% for majority of parts within 15 years.



### Passenger Car Kits EV, ICE/Hybrid for CKD (completely knocked down)

- Countries with comparatively smaller volume potentials and less developed related own industries for sourcing often assemble rather on a component (CKD) bases than part by part. CKD component kits are **assembled locally** in several **ASEAN countries**. CKD vehicles with a local content of 40% qualify for free trade within ASEAN under ATIGA.
- CKD kits qualify for tariffs between 6% and 10% or are subject to tariff differentials. CKD kits are significantly **lower taxed compared to CBU** imports in MY, TH, IND, VN.
- **Indonesia** committed under RCEP elimination gradually over 10 years.

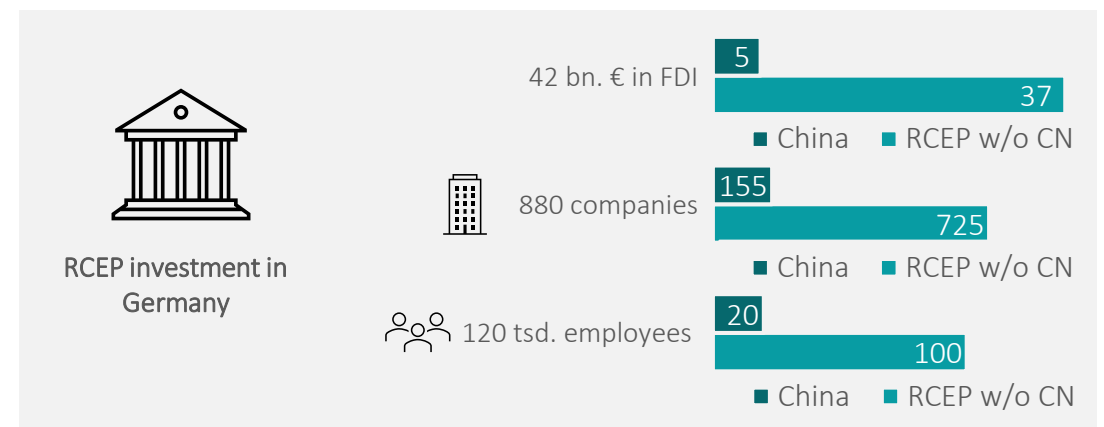
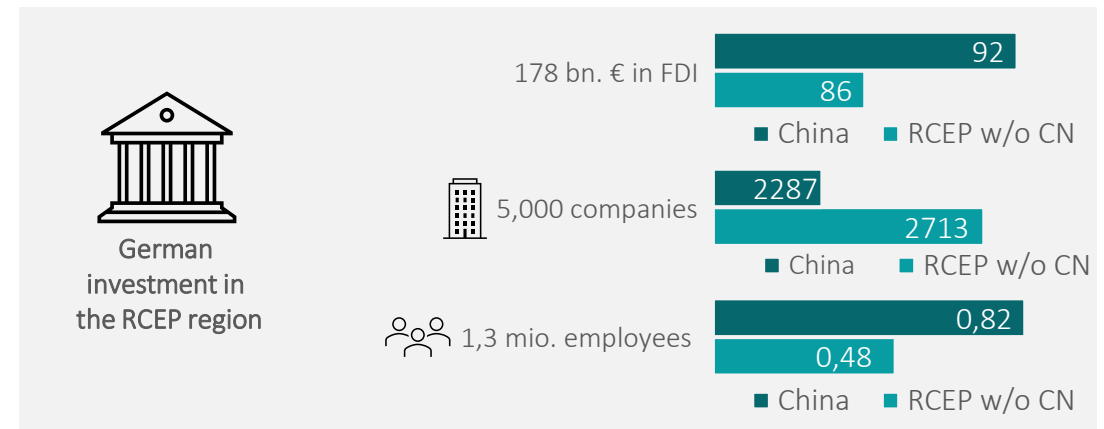
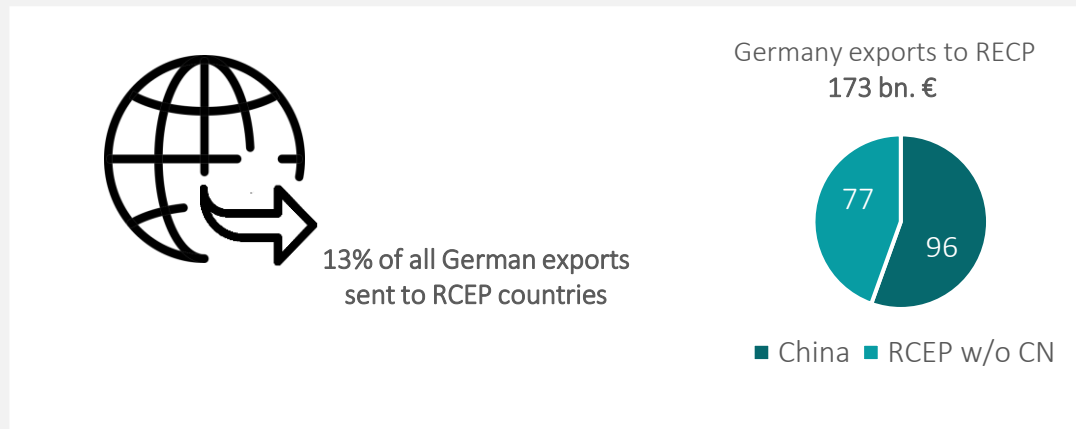


Under RCEP the choice of goods and sourcing partners will increase. The effect within RCEP is partially reduced by beneficial tariff commitments under existing bilateral ASEAN+1 FTAs. Non-member states with trade links still could capitalize on sourcing diversification.

# The RCEP region is already Germany's second largest export and import partner - after the EU countries

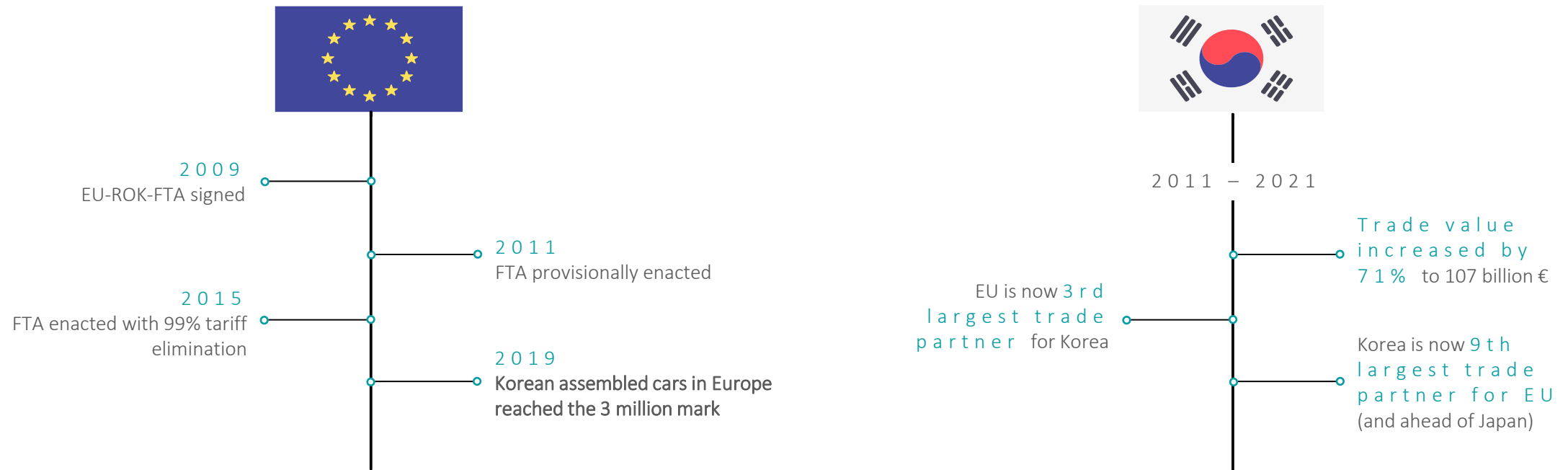
Germany had a trade deficit with RCEP of 18 bn. Euro and with China of 5 bn. Euro in 2019

10% of all German direct investments dedicated to RCEP countries



per  
2018

# FTA showcase Europe-Korea: One of the first Asian FTAs with the EU resulted in increased bilateral trade and a strong economic partnership



Main categories for traded goods: machinery 33.9%, transport equipment 18.9%, chemicals 15.1%



The Automotive Sector is for both Europe and Korea a sensitive and strategic industry. Cooperation and trade instead of protectionism has led to mutually beneficial economic gains, as demonstrated by Hyundai's and Korea's assembly plant investments in Czech Republic and Serbia.



Moving forward: EU-Rok-FTA could be upgraded with provisions on new trade-related areas, such as e-commerce, green technologies and cross-border data flows

# Vindelici Advisors and astutus consult have formed an international partnership to help you seize the new business opportunities resulting from the formation of RCEP

## Strategy - Planning - Implementation



We identify your Asian growth, localization and diversification potential with you



We consult you on capitalizing on off- and near shoring possibilities including "Workbench ASEAN"



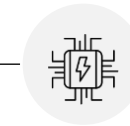
We help you to enhance the connection between Europe and RCEP for your business



We create feasibility studies, business models and support finding partners and cooperations for you



We support you in diversifying local production, value- and supply chains in the ASEAN and RCEP region



We advise you in establishing your business, operations, investments and utilizing incentives



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## Connecting Europe and Asia

**VINDELICI  
ADVISORS**



We take care of all aspects of PMO as well as the responsibility for a successful expansion

**astutus consult**




astutus consult's and Vindelici's connections in the RCEP region, and representations in Malaysia and Shanghai, makes securing high value contacts, understanding the region, and developing multi-national supply chains an uncomplicated endeavor





# Let's Work on this Together!



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