



# The Regional Comprehensive Economic Partnership

**Why it's good for  
New Zealand businesses**



DECEMBER | 2020



On 15 November 2020, 15 Asia Pacific countries signed the ‘Regional Comprehensive Economic Partnership’ (RCEP) agreement. Member countries include the 10 ASEAN states of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam as well as Australia, China, Japan, New Zealand and South Korea.

RCEP is expected to come into force in either late 2021 or early 2022 - once it has been ratified by at least six countries. It will be the world’s largest Free Trade Agreement (FTA) when measured by combined GDP (26 trillion US dollars), population (2.3 billion) and total export value (5.2 trillion US dollars) of the signatory parties. However it is not yet clear whether it will be as large when it comes to market access and competitiveness of imported goods and services. **RCEP will act as a safety net for New Zealand’s participation in global supply chains.**

While the Asia Pacific region is already awash with FTAs, the establishment of RCEP is a positive milestone. It will promote a strategic focus, help bring the region together and assist with streamlining the supply side of trade. Not only is it signed at a time when free trade is under pressure around the world, but it links three key countries in Asia through a FTA (China, Japan and South Korea) for the first time. It also allows for an enhanced regional supply chain for trade in goods. India has not yet signed the agreement and had it done so it would have been much stronger. However, there is a fast-track accession process for India to join in the future.

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**Businesses trading in the region should perform an impact assessment early in order to take full advantage of RCEP’s benefits when the agreement comes into effect. Given that most RCEP members already have existing FTAs with most other RCEP members, this is also a good time to review benefits that other FTAs may already offer to ensure an overall FTA strategy is optimised.**

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In this report we focus on the impact for New Zealand businesses. A number of advantages will arise from RCEP. These include streamlining current processes, a ‘green line’ vision to Customs clearances, ensuring there is consistency across the region and the concept of a single rulebook. There are a number of other tangible benefits e.g. tariff reductions on goods destined for Indonesia and new commitments for services across the region. RCEP also gives New Zealand a seat at the table.



## Key facts

### Largest

FTA in the world

Agreement will cover over:

**30%**

of the world's population (2.3b)

**30%**

of the world's GDP (US\$26tr covering exports of US\$5.2tr)

NZ exports to RCEP countries of:

**Goods**

NZ\$36b or

**61%**

of Goods exports

**Services**

NZ\$12b or

**45%**

of Services exports

COVERS 7/10 OF OUR

**top trading partners**

60% of foreign direct investment is with RCEP countries

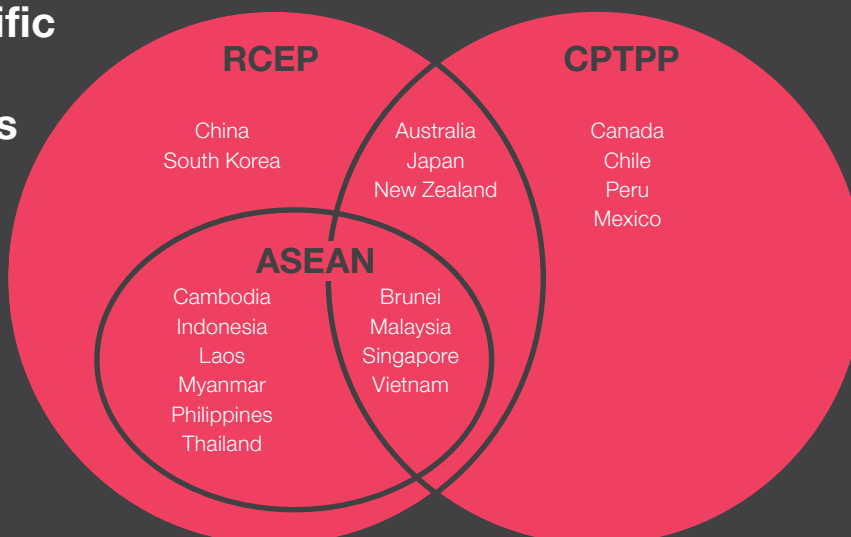
### First agreement

linking China, Japan and South Korea

## Key NZ benefits

- Strengthens connections with Asia Pacific
- Facilitates trade, reducing red tape for exporters
- Opens doors for our goods and services exporters (better commitments than before in relation to services)
- Improves transparency and certainty around investment in RCEP countries
- Modernises and deepens our trade relationships and supply chain
- Better rules for Indonesia 'RCEP will, however, achieve new market access for New Zealand goods exporters to Indonesia, through tariff elimination on a number of primary products including sheep meat, beef, fish and fish products, liquid milk, grated or powdered cheese, honey, avocados, tomatoes and persimmons.'

## Asia-Pacific trade groupings





# What does RCEP mean for New Zealand?

With some of New Zealand's largest export destinations signing up to RCEP, this agreement should be beneficial for local exporters.

Rules that are clearer and more streamlined should create new efficiencies and revitalise trade across the Asia Pacific region.

The agreement highlights that the focus of global trade and development is on Asia Pacific. The time is now for businesses to sharpen their focus and ensure that their networks are set up to meet the ever growing demands of this region. In the long run, RCEP is expected to provide New Zealand exporters and importers with a number of advantages and new opportunities.



# Benefits for New Zealand businesses

RCEP is not a magic wand that will deliver instant benefits and many of these may take time to materialise. However, there are many positive features and opportunities.

## **Positive consumer experience**

By streamlining border processes and providing clarity and transparency, businesses should be able to deliver goods and services to consumers with minimal fuss and without large time delays.

## **Single set of rules**

RCEP will streamline trade and investment rules across all member countries. While New Zealand is currently party to a number of FTAs, each agreement is subject to varying rules. This puts pressure on businesses to understand the patchwork of FTAs and build processes for each (often complicated) set of rules. Good news for New Zealand exporters looking for efficiencies.

It is the first agreement that brings together China, Japan and South Korea. Improving the ease of movement of goods and services between these countries should, in turn, increase the demand for New Zealand products flowing into the region.

## **Consistency and improvements across the region**

The agreement is expected to make the processes and non-tariff barriers currently impacting member countries consistent. This will improve the free flow of goods across the

region and remove various impediments. We can expect to see improved and consistent Customs procedures, inspection and technical standards and this will help businesses plan and improve cross-border supply chains.

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**A key example of streamlined customs procedures is the commitment to efficient clearance processes, including clearing perishable goods within six hours of arrival at port.**

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All member countries have agreed to apply consistent Rules of Origin for all products. This means exporters will only have to demonstrate that products meet the RCEP origin requirements for them to be met across multiple jurisdictions.

Unlike many other FTAs across the region, RCEP will gradually introduce self-certification of origin, which will further streamline trade and simplify matters.

RCEP will also extend the rules on cumulation. This means that materials sourced by a manufacturer in one RCEP country can be used in another member country's product and can be counted as originating under the agreement. This is a key benefit over other FTAs as it gives manufacturers greater flexibility in sourcing.



## The RCEP intends to eventually eliminate duties on 90% of tariff lines for goods originating from member countries.

It's expected that traders will benefit from RCEP's proposed streamlined approach towards entering goods and utilising technology to reduce compliance obligations. Along with time efficiencies, reduced transaction and certification costs are expected.

### Duty elimination and refunds

The RCEP intends to eventually eliminate duties on 90% of tariff lines for goods originating from member countries. Some tariff lines will have duties removed as soon as RCEP comes into force and others will be withdrawn over time. This agreement will provide clear guidance on those items for which duty will be payable and businesses will be able to plan accordingly.

### Wins for services

The definition of 'services' is wide and covers many aspects of modern economic life. The agreement offers opportunities for businesses to offer their services to consumers in other RCEP countries. For example, the Philippines, Thailand and Laos have made new commitments for cross-border trade in **education services**. There are annexes that deal with **telecommunications services** (mainly covering regulation and preserving New Zealand's unique approach to regulation) and **financial services** (providing more transparency and certainty regarding access).

Under various country commitments, there are better rules for **computer and technology services** e.g. computer services, software implementation, data processing, input preparation, and consultancy services related to the installation of computer hardware.

The Professional Services annex encourages RCEP parties to establish arrangements for the mutual recognition of qualifications, licensing regimes and registration procedures for professional services.

### Protection

The chapters on **competition, e-commerce, intellectual property and investment** are focused on protecting traders so they have a fair chance of making the most of their business commitments to RCEP.

### Government procurement

In a marked addition to the ASEAN+1 agreements, the RCEP makes specific provisions for government procurement. It is a step in the right direction especially given the increased levels of government stimulus globally in 2020.

### E-commerce

The RCEP parties recognise the economic growth and opportunities provided by e-commerce, the importance of frameworks that promote consumer confidence in it, and facilitate its development and use. The 'Electronic Commerce' chapter covers these objectives and wider use of e-commerce globally. At a practical level, we can expect to see countries work towards implementing initiatives which allow the use of paperless trading.

### Other benefits and facilitators to trade and investment

The agreement will provide new market access for New Zealand exporters to Indonesia through tariff elimination on a number of primary products (e.g. meat, dairy products, fish and fish products, liquid milk, grated and powdered cheese, honey, avocados and tomatoes).

The Temporary Movement of Natural Persons chapter will enhance access into RCEP countries for business people who engage in the trade of goods, the supply of services and the conduct of investment activities.

In addition to the Electronic Commerce chapter, RCEP also looks to modernise our trading relationships by including a Small and Medium Enterprises (SME) chapter. This requires the RCEP parties to share information about the agreement online and include links to information relevant to SMEs.



# What you can do to prepare

While RCEP is expected to come into force in a year or so, businesses trading in Asia Pacific should get ready now by performing an impact assessment to determine the benefits for them.

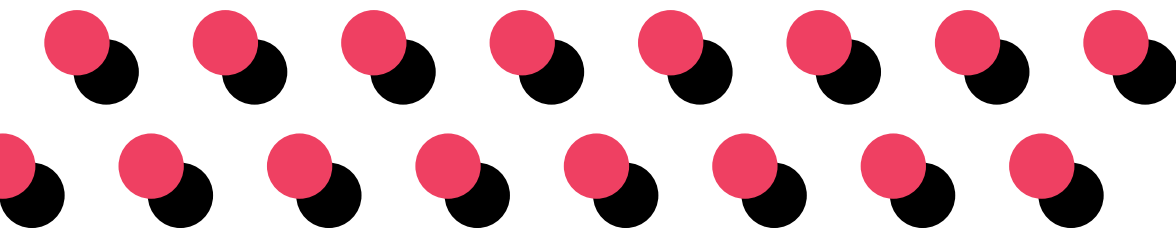
When doing so, the benefits that other FTAs already offer should be reconsidered, as they may have changed since they were last reviewed. Comparing benefits already available under existing FTAs to the pluses of RCEP will allow businesses to develop an optimal overall FTA strategy.

Once the RCEP agreement becomes active, origin compliance management and proactive application of preferential tariff treatment should be prioritised to optimise the benefits. Implementation details on additional tariff reductions, Customs procedures, inspections, quarantine measures and other technical standards should be actively monitored to further reduce the costs and enhance efficiencies in the supply chain.

Many businesses in Asia Pacific have started thinking about **long term supply chain planning**. New Zealand businesses also need to think along these lines. Building a more resilient business model and being prepared to respond to disruption are key priorities.

The signing of RCEP can have an important role to play. The signing itself will have an immediate impact by sending a positive message about how the leading economies in Asia Pacific are looking to free trade and maintaining multilateral trading systems to promote economic growth and recovery. Not only will this help the region to build a stronger foundation and encourage greater regional collaboration, it will also shift focus towards Asia from elsewhere when important supply chain decisions are being made.

In addition, the RCEP development may ease some of the pressure businesses feel to diversify their manufacturing footprint. With better market access possible through existing features, more drastic changes to physical supply chains may be put on hold for a period of time.



# How can PwC help?

With an agreement that covers such a large region expected to be ratified in the next year, now is the time for New Zealand businesses to undertake an impact assessment to identify the key benefits this agreement could create.

In light of a turbulent year on the global stage, acting now will ensure your business is maximising all of the available opportunities. An RCEP supply chain review will not only highlight the benefits that will be available under RCEP but may also confirm opportunities under existing FTAs between New Zealand and other countries. This would create an optimal FTA strategy.

Where New Zealand is exporting across the entire world, PwC's Worldtrade Management Services can assist to provide an integrated review to advise on the best ways to optimise FTAs, improve customs operational improvement and efficient supply chain practices.

It is time to undertake a comprehensive supply chain review and identify any potential risks and opportunities. To discuss how we can help you develop an impact assessment and prepare your business to take advantage of RCEP please contact a member of the PwC team.

**Talk to our team about your business and RCEP**



**Eugen Trombitas**

Partner, Global Tax and Trade  
+64 21 493 903  
eugen.x.trombitas@pwc.com



**Matt Keenan**

Partner, PwC Legal  
+64 21 834 216  
matt.p.keenan@pwc.com



**Pete Chambers**

Partner, Supply Chain  
+64 21 404 015  
peter.x.chambers@pwc.com



**Catherine Francis**

Director, Indirect Tax  
+64 20 4067 6744  
catherine.d.francis@pwc.com



**Andrew Jamieson**

Executive Director, Strategy  
+64 21 711 641  
andrew.x.jamieson@pwc.com



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