NZ Insight: RCEP – What is in it for New Zealand?

19 November 2020

This is not personal advice. It does not consider your objectives or circumstances. Please refer to the Important Notice.

Contact

Susan Kilsby for more details.

Trade agreement strengthens ties with Asia

Key takeouts

- The world's largest trade agreement, the Regional Comprehensive Economic Partnership (RCEP), was signed on 15 November and will help facilitate trade between its 15 Asia-Pacific member countries.
- NZ already has trade agreements with all of the other member countries, so the only substantial tariff benefits will be in exports to Indonesia.
- The reduction of non-tariff barriers for goods trade provides the majority of the economic benefit of the RCEP to New Zealand.
- The value of the deal would have been far greater if India were included, but the door remains open for India, and other countries, to join in the future.

Agreement will help facilitate trade

The Regional Comprehensive Economic Partnership (RCEP) is a multilateral trade agreement between 15 countries. These countries include the 10 members of ASEAN: Brunei-Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam, plus five additional countries: Australia, China, Japan, South Korea and New Zealand.

The agreement was signed on 15 November but each of the 15 member countries must ratify the agreement before it comes into force. This could take a further two years.

New Zealand already has trade agreements with all of the RCEP member countries, meaning there are limited tariff reduction benefits in this deal. However, the deal will facilitate trade into some member countries such as Indonesia.

There are no downsides to being involved in this globally significant regional economic agreement. Where New Zealand already has a free trade agreement with one of the member countries, the most favourable agreement can be applied.

There would be substantially greater potential benefits to New Zealand should India join the group. India withdrew from the RCEP negotiations in November 2019, but there is a fast-track process in place should India wish to join RCEP in the future.

Overall very little has been given up in terms of agricultural protection from member countries such as Japan. However, the agreement is expected to strengthen trade and investment and New Zealand exporters will benefit from the rules being consistent between member countries.

Economic growth in the member countries is expected to outperform the global average in the coming years. NZ is already heavily aligned with the RCEP group of countries and this agreement will strengthen relationships further.

RCEP countries account for:

- 30% of the world's GDP
- 30% of the world's population
- 61% of NZ's goods exports
- 45% of NZ's services exports
- 61% of foreign direct investment in NZ.

The RCEP group includes seven of NZ's top 10 trading partners, those being China, Australia, Japan, Singapore, South Korea, Thailand, and Malaysia. The other top-10 trading partners not included in the deal are the US, the European Union, and the United Arab Emirates[1].

Benefits of RCEP to New Zealand

The RCEP is expected to increase the rate of New Zealand's GDP growth for about the next 20 years. Once fully implemented it is estimated by ImpactEcon that it will boost New Zealand's annual GDP by between 0.3% and 0.6% per annum, ie a benefit of $1.5-$3.2b[2].

If New Zealand decided not to join the RCEP, but the other members did, then New Zealand would be relatively worse off. This is reflected in Table 1 below, where at the lower end of the forecast range there is a negative benefit (ie a cost) to New Zealand through the reduction in tariffs.

There are winners and losers. The processed food sector will benefit considerably more from RCEP than agricultural will. The manufacturing sector is forecast to be worse off, while the services sector will benefit.

Table 1: Economic benefit of RCEP to New Zealand

Benefit	Percent of real GDP
Reduced tariffs on goods trade	-0.12% to +0.05%
Reduced non-tariff measures on goods trade	0.19% to 0.39%
Reduced non-tariff measures on services trade	0.03% to 0.06%
Improved trade facilitation	0.08% to 0.12%
Reduced barriers to foreign direct investment	0.04%
Total economic benefit	0.29% to 0.62%

Source: ImpactEcon, MFAT

The Peterson Institute for International Economics estimates that the RCEP will add USD186bn to the global economy by 2030. They estimate that most of the gains will go to China (USD85bn), Japan (USD48bn), and South Korea (USD23bn).

Another important aspect is the RCEP provides one set of trade rules for all of the countries involved, which will reduce complexity for exporters who trade with a number of RCEP countries.

NZ already has high-quality trade agreements with the other RCEP countries, so the majority of the benefits come from non-tariff measures (see Table 2).

[1] Based on Statistics NZ 2019 total trade data.
[2] Upper bound assumes India re-joins RCEP.

Table 2: New Zealand's existing trade agreements

	RCEP	CPTPP	AANZFTA (ASEAN + NZ and Australia)	P4	NZ Bilateral Free Trade Agreements (FTA), Closer Economic Partnership (CEP), or Closer Economic Relations (CER)
NZ	√	√	√	√	
Australia	√	√	√		NZ-Australia CER
China	√				NZ-China FTA and NZ-Hong Kong, China CEP
Korea	√				NZ-Korea FTA
Japan	√	√			
Singapore	√	√	√	√	NZ-Singapore CEP
Indonesia	√		√		
Malaysia	√	√	√		NZ-Malaysia FTA
Thailand	√		√		NZ-Thailand CEP
Viet Nam	√	√	√		
Cambodia	√		√		
Laos	√		√		
Myanmar	√		√		
Philippines	√		√		
Brunei	√	√	√	√	
Chile		√		√	
Mexico		√			
Peru		√			

Source: MFAT, ANZ Research

Tariff reductions

Tariffs reductions will be phased in over a 15 or 20-year period. The countries that will fully implement their tariff reductions within 15 years are New Zealand, Australia, Singapore, Brunei, Philippines, Vietnam and Japan. The remaining member countries will implement tariff reductions over a 20-year period.

Not all tariffs will be removed. Tariffs will be reduced to 10% or less by most countries, but six countries will retain tariffs on 35% of products. These countries are: Cambodia, Laos, Myanmar, Thailand, Korea, and Japan.

Most of the tariff benefits to New Zealand exporters will occur quite quickly once the agreement is ratified.

New Zealand has existing FTAs with all the RCEP countries. These have already eliminated tariffs on most New Zealand exports. This means RCEP does not deliver significant new market access for goods exports as a result of tariff cuts. However, New Zealand exporters do encounter significant tariffs on product entering Indonesia.

The RCEP will eliminate tariff barriers for the following New Zealand exports to Indonesia:

- on beef exports (bone in cuts), and all sheep meat exports;
- preserved and prepared meat exports;
- table salt;
- fish and fish products;
- liquid milk, grated or powdered cheese, honey, avocados, tomatoes, persimmons, and many manufactured goods.

For exports to Indonesia the tariff reduction on fresh lamb and beef products will happen in the first year after the RCEP is ratified, whereas the tariff on frozen carcasses and bone-in products will be phased in over 15 years. Tariffs on cheese and butter will be eliminated in the first year of the agreement, while tariffs on liquid milk and milk powder will be phased out over 10 years.

Non-tariff benefits

Benefits of the RCEP are also derived from improved market access, reduced processing times for clearing customs and a disputes process.

In 2019 there were over 1700 non-trade measures notified to the World Trade Organisation.[3] Non-trade measures are anything other than tariffs that can potentially impact trade, such as technical barriers to trade, sanitary and phytosanitary measures, certification or testing requirements, quotas, import or export licenses, taxes surcharges etc.

Delays in getting product across borders is a common non-tariff barrier used. The RCEP states that customs procedures must be predictable, consistent and transparent. There should also be processes in place to resolve any issues. The RCEP provides increased protection for and recognition of intellectual property (IP) rights.

Services exports will also benefit from the agreement, as some of the commitments regarding services go beyond what is included in the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA). This will benefit sectors such as professional, educational and environmental services, computer related services, air transport, research and development, and distribution services.

Less comprehensive

The RCEP is considered to be less comprehensive than CPTPP. This is not surprising considering the large number of countries involved which included very rich and very poor countries. RCEP mainly focuses on reducing tariffs and improving market access. It focuses less on issues like labour rights and environmental protection. As it stands it has taken nearly a decade to negotiate the RCEP agreement.

More information about the Regional Comprehensive Economic Partnership can be found on the links below.

- Regional Comprehensive Economic Partnership (RCEP)
- Key Outcomes
- Key points for the Primary sector
- Impacts of a RCEP on New Zealand, ImpactEcon, Oct 2019
- Schedule of Indonesia tariff reductions for New Zealand

3 'Regional Comprehensive Economic Partnership National Interest Analysis' MFAT

Contact us

Meet the team

We welcome your questions and feedback. Click here for more information about our team.

Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 27 664 3554
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
@ANZ_Research (global)

David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com

Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com

Liz Kendall
Senior Economist

Research co-ordinator, publication strategy, property market analysis, monetary and prudential policy.

Telephone: +64 27 240 9969
Email: elizabeth.kendall@anz.com

Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com

Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com

Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com

Important notice

This document is intended for ANZ's Institutional, Markets and Private Banking clients. It should not be forwarded, copied or distributed. The information in this document is general in nature, and does not constitute personal financial product advice or take into account your objectives, financial situation or needs.

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

Disclaimer for all jurisdictions: This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**); or its relevant subsidiary or branch (each, an **Affiliate**), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (**recipients**).

This document is solely for informational purposes and nothing contained within is intended to be an invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document and the information contained within is believed to be accurate, ANZ does not represent or warrant the accuracy or completeness of the information Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. The products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (Liability) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ's policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

Country/region specific information: Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (**ANZ**).

Australia. ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ's Financial Services Guide please click here or request from your ANZ point of contact.

Brazil, Brunei, India, Japan, Kuwait, Malaysia, Switzerland, Taiwan. This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

Cambodia. This document is distributed in Cambodia by ANZ Royal Bank (Cambodia) Limited (**ANZ Royal Bank**). The recipient acknowledges that although ANZ Royal Bank is a subsidiary of ANZ, it is a separate entity to ANZ and the obligations of ANZ Royal Bank do not constitute deposits or other liabilities of ANZ and ANZ is not required to meet the obligations of ANZ Royal Bank.

European Economic Area (EEA): ***United Kingdom.*** ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (**PRA**) and is subject to regulation by the Financial Conduct Authority (**FCA**) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited ANZ solely for the information of persons who would come within the FCA definition of "eligible counterparty" or "professional client". It is not intended for and must not be distributed to any person who would come within the FCA definition of "retail client". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (**PRA**) and the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

Fiji. For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

Hong Kong. This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong.

India. If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.

Myanmar. This publication is intended to be general and part of ANZ's customer service and marketing activities when implementing its functions as a licensed bank. This publication is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).

Important notice

New Zealand. This document is intended to be of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008 (**FAA**).

Oman. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

People's Republic of China (PRC). This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (**ANZ China**). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

Qatar. This document has not been, and will not be:

- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (**QCB**), the Qatar Financial Centre (**QFC**) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (**Qatar**); or
- authorised or licensed for distribution in Qatar,

and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this document have not been, and will not be:

- registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
- authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

Singapore. This document is distributed in Singapore by the Singapore branch of ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore.

United Arab Emirates (UAE). This document is distributed in the UAE or the Dubai International Financial Centre (**DIFC**) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCML) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**) ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**). The financial products or services described in this document are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules.

United States. Except where this is a FX- related document, this document is distributed in the United States by ANZ Securities, Inc. (**ANZ SI**) which is a member of the Financial Regulatory Authority (**FINRA**) (www.finra.org) and registered with the SEC. ANZSI's address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as "US person" is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use this website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts: Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is an FX-related document, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 916 0 Fax: +1 212 801 9163).

Vietnam. This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.

This document has been prepared by ANZ Bank New Zealand Limited, Level 26, 23-29 Albert Street, Auckland 1010, New Zealand, Ph 64-9-357 4094, e-mail nzeconomics@anz.com, http://www.anz.co.nz