

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

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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 Emirates¹.

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-\$3.2b².

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



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