

## KEY POINTS

- The signing of the Regional Comprehensive Economic Partnership (RCEP) among 15 members provides crucial momentum to redouble their strong commitment to pursuing free trade and expanding open and inclusive trade and investment regimes to enhance economic recovery beyond the COVID-19 pandemic.
- The RCEP will create the world's largest trading bloc and will pave the way for deeper economic integration among members. Members can additionally use its provisions as a springboard to deepen economic reforms and improve the competitiveness of their industries.

## Regional Comprehensive Economic Partnership: Overview and Economic Impact

### INTRODUCTION<sup>1</sup>

After several rounds of negotiation beginning in 2012, the Regional Comprehensive Economic Partnership (RCEP) Agreement was signed on 15 November 2020. RCEP is an overarching agreement to broaden and deepen free trade between the Association of Southeast Asian Nations (ASEAN) and existing partners, the so-called plus three countries—the People's Republic of China (PRC), Japan, and the Republic of Korea—and Australia and New Zealand.<sup>2</sup>

Together, RCEP's 15 participants account for about 29% (\$25.8 trillion) of global gross domestic product (GDP), 30% (2.3 billion) of the world's population, and 25% (\$12.7 trillion) of global trade in goods and services.<sup>3</sup> RCEP will be the world's biggest free trade agreement (FTA) measured in GDP—larger than the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the European Union, the MERCOSUR trade bloc in South America, and the recent United States–Mexico–Canada Free Trade Agreement. RCEP is the first multilateral agreement to include the PRC and it establishes the first free trade agreement between the PRC and Japan, and Japan and the Republic of Korea.

As regional economies take steps to deal with the impact of the coronavirus disease (COVID-19), and amid the pandemic's economic fallout, the signing of the RCEP provides crucial momentum to its members' strong commitment to pursuing free trade, upholding the multilateral trade system, and deepening their open, transparent, and inclusive trade and investment regimes for post-pandemic economic recovery. The signing of RCEP bodes well for strengthening regional supply chains and is a pivotal moment toward building a regional trading bloc on a mammoth scale.

<sup>1</sup> This brief partly draws from the past briefing notes on CPTPP and RCEP prepared by the Regional Cooperation and Integration Division (ERCI), Economic Research and Regional Cooperation Department (ERCD), for ADB management and ASEAN+3 meetings. Jong Woo Kang, Pramila Crivelli, Mara Claire Tayag, and Dorothea Ramizo are the main contributors to this brief. It was prepared under the supervision of Cyn-Young Park, director, ERCI, ERCD.

<sup>2</sup> ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic (Lao PDR), Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam.

<sup>3</sup> Based on 2019 data for GDP and population, and 2018 for trade in goods and services, calculated using data from World Bank. World Development Indicators. <https://databank.worldbank.org/source/world-development-indicators> (accessed 1 December 2020).

RCEP will enter into force following ratification by at least six ASEAN countries and three non-ASEAN signatory countries, a process that will take months to start and years to complete. It is open for accession by any economy 18 months after its entry into force. Fast-track accession is available for India—as an original negotiating state—to not have to wait; it can rejoin on the date of entry into force.

## KEY FEATURES OF THE RCEP AGREEMENT

RCEP is relatively comprehensive in coverage.<sup>4</sup> It comprises 20 chapters and includes many areas that ASEAN Plus One FTAs did not cover.<sup>5</sup> The agreement has specific provisions for trade in goods, including for rules of origin; customs procedures and trade facilitation; sanitary and phytosanitary measures; standards, technical regulations, and conformity assessment procedures; and trade remedies. Its chapters also encompass trade in services—including specific provisions on financial, telecommunication, and professional services—and the temporary movement of natural persons. Other chapters focus on investment, intellectual property, electronic commerce, competition, small and medium-sized enterprises, economic and technical cooperation, government procurement, and legal and institutional areas, including dispute settlement.

RCEP has added value as a single rule book that enables the development and expansion of supply chains among members. The agreement includes technical cooperation and capacity building to support their actions under the agreement. RCEP also allows considerable flexibility (e.g., in enforcement timelines) and includes special provisions for differential treatment, especially for Cambodia, the Lao People's Democratic Republic (Lao PDR), Myanmar, and Viet Nam. This ensures that economies at different levels of development, businesses of varying sizes, and the broader range of stakeholders have opportunities to maximize the benefits from implementing their commitments.

**Trade in goods.** The main contribution of RCEP in trade in goods is that it combines existing deals, which brings Asia a step closer to a regionwide trading bloc. This is because, while RCEP will improve market access, with tariffs and quotas eliminated in over 65% of goods traded (ASEAN Secretariat 2020a), it is not expected to lead to large overall tariff reductions since trade agreements are

already in place among many members. RCEP will also do less to remove tariffs on farm and fishery products than the CPTPP<sup>6</sup> or the Japan–European Union Economic Partnership Agreement, based on considerations about conditions for the many food exporters in the bloc.<sup>7</sup>

Some tariffs will be abolished immediately, while others will be eliminated gradually. Some members (Australia, Brunei Darussalam, Cambodia, Malaysia, Myanmar, New Zealand, Singapore, and Thailand)<sup>8</sup> have the same tariff on imports from all RCEP partners. Variations exist in the tariff schedules of other members,<sup>9</sup> while phase-out schedules for tariff reduction or elimination will take place over as long as 20 years. That said, many of the tariff lines are subject to early rate cuts, or elimination well before the end of the scheduled period. Furthermore, it is encouraging that many concessions take effect on the date of entry into force.

**Trade facilitation.** The agreement also contains several trade facilitation elements that go beyond commitments in the World Trade Organization (WTO) Trade Facilitation Agreement, including provisions on time frames for the release of goods, perishable goods, and advance rulings. RCEP will provide other avenues for tackling nontariff barriers by promoting compliance with WTO rules and further improving cooperation and transparency (DFAT 2020a; MFAT 2020a). Some countries, whose trade facilitation systems and regulations need substantial adjustment to comply with RCEP rules, have made the commitments with extended timelines for specific provisions. Cambodia receives a 5-year extension to implement provisions like the application of digital technology at customs points and a range of new rules to manage express shipments. Indonesia delays until February 2022 on two provisions for advance rulings and risk management. Malaysia secures a timeline adjustment to February 2022 for express consignments.

**Rules of origin.** One of the key features of RCEP is committing to common rules of origin for all goods traded (see Box 1). This means a product that meets RCEP originating criteria is subject to the same rules across all 15 member economies. RCEP's common rules of origin could foster contemporary production processes and trade logistics arrangements. The ease of movement of goods across the region through RCEP members and the use of regional distribution hubs will be enhanced (DFAT 2020a).

<sup>4</sup> The full text of the RCEP Agreement is available at <https://rcepsec.org/legal-text/>.

<sup>5</sup> ASEAN Plus One FTAs include ASEAN's existing bilateral FTAs with Australia and New Zealand, the PRC, India, Japan, and the Republic of Korea.

<sup>6</sup> CPTPP is an FTA between Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore, and Viet Nam. It represents 507.7 million people and a combined GDP of \$11.2 trillion, based on 2019 figures (see footnote 3 for data source). It was signed on 8 March 2018 and came into force in December 2018.

<sup>7</sup> Japan will eliminate 61% of tariffs on agriculture imports from ASEAN nations, Australia, and New Zealand; 56% for the PRC; and 49% for the Republic of Korea (Gakuto 2020).

<sup>8</sup> Thailand's schedules contain some variations on selected products from Japan.

<sup>9</sup> As an example, Indonesia has schedules for ASEAN and separate schedules for each of ASEAN's dialogue partners (Australia, the PRC, Japan, the Republic of Korea, and New Zealand).

Following the usual practice, the RCEP rules of origin chapter lists the minimal operations and processes considered insufficient to confer originating status on goods using non-originating materials. If a good does not satisfy a change in the tariff classification rule in the annex on product-specific rules, the chapter lays down certain *de minimis* rules through which a good could still acquire originating status (ASEAN Secretariat 2020b).

**Trade in services.** The agreement promotes greater services trade by lifting the most restrictive and discriminatory barriers to activity. It contains modern and comprehensive provisions including rules on market access, national treatment, most-favored-nation treatment, and local presence. RCEP takes on a

“negative” list approach, where member economies will be open to foreign service suppliers, unless they appear on the list. Eight members (Cambodia, the PRC, the Lao PDR, Myanmar, New Zealand, the Philippines, Thailand, and Viet Nam) have opted to initially use a “positive” list, but are required to transition to a “negative” list approach within 6 years after the RCEP Agreement is enforced (DFAT 2020b).

**Investment.** The agreement, aiming to create an enabling investment environment in the region, contains provisions on protection, liberalization, promotion, and facilitation, which upgrade existing ASEAN Plus One FTAs. It includes a most-favored-nation treatment clause and commitments to prohibiting

### Box 1: Regional Comprehensive Economic Partnership Rules of Origin

Rules of origin for the Regional Comprehensive Economic Partnership (RCEP) will bring under one umbrella countries that until now have had diverse sets of rules. Given the nature of the free trade agreements (FTAs), each RCEP country uses different sets of rules of origin enshrined in its FTAs with other countries. In other words, not only does the Association of Southeast Asian Nations (ASEAN) apply different rules of origin with each of its dialogue partners, but Australia, the People’s Republic of China (PRC), Japan, the Republic of Korea, and New Zealand also rely on diverse sets of rules of origin to trade with partners with whom they have signed an FTA. While this network of FTAs will continue to be in place, the RCEP provides the first opportunity to have a common trade platform on rules of origin among members.

In this vein, the potential to unravel the “spaghetti bowl” of rules governing origin in existing FTAs is among the key achievements of RCEP. The agreement does this by expanding the geographic scope of cumulation due to its wider membership. This allows the treatment of intermediate products and inputs from *all participating countries*, including major players such as the PRC, Japan, and the Republic of Korea, as originating for the purpose of defining the origin of the final goods regionally exported under the RCEP.

Empirical research finds that less restrictive cumulation systems in rules of origin (such as diagonal or full cumulation) promote sharing of the production value chain and expand trade in the cumulation zone, which generates greater trade gains than in more restrictive systems such as bilateral cumulation, as explained by Kim, Park, and Park (2013), and Hayakawa (2014). Yet, whereas RCEP provides for diagonal/regional cumulation (paragraph 1 of article 3.4 of the RCEP chapter 3), allowance of full cumulation will be negotiated at the RCEP entry into force (paragraph 2 of article 3.4 of chapter 3). Under full cumulation, all operations carried out in the RCEP region are considered in determining whether the origin criterion is fulfilled.

In contrast, under diagonal cumulation, only inputs that have already acquired originating status (i.e., fulfilled the origin criterion) in the RCEP region can be considered for cumulation purposes when used in further manufacturing processes (World Customs Organization 2017).

RCEP has embraced the concepts of product-specific rules of origin (PSROs) and regional value content (RVC) in the same spirit as other trading agreements.<sup>a</sup> Accordingly, goods are recognized as originating in RCEP if they meet product-specific rules of origin listed in the agreement’s annex 3(a). The main criteria used in the annex in determining rules of origin for a product are the regional value content and change of tariff classification (CTC). Depending on the PSROs contained in annex 3(a), the criteria could be a CTC or an alternative between an RVC and a CTC. The formula for regional value content allows as much as 60% of the materials used in production of a good to be non-originating (materials from outside RCEP) and, due to diagonal cumulation, all the materials<sup>b</sup> originating in RCEP will not be counted against this threshold. The formula for determining RVC is similar to that used in the ASEAN Trade in Goods Agreement, but under RCEP materials from the PRC, Japan, and the Republic of Korea will no longer be counted as non-originating (against the threshold of 60%), making it easier for member countries to meet the agreement’s product-specific rules of origin.

Given its wider geographic coverage, the possibility for cumulation within RCEP has potential to foster significant regional integration and value-chain creation by providing strong incentives to source intermediates within the RCEP region. Yet, turning potential success into reality depends on the timing of tariff phaseouts and, most importantly, the nature of administrative requirements related to origin, including certification, direct consignment, third-country invoicing, and how back-to-back certificates will be handled.

<sup>a</sup> The Comprehensive and Progressive Agreement for Trans-Pacific Partnership and ASEAN Trade in Goods Agreement.

<sup>b</sup> This only refers to materials originating in RCEP (diagonal cumulation), not to the working or processing operations in other RCEP countries (full cumulation).

Source: Authors.

performance requirements<sup>10</sup> that go beyond member economies' multilateral obligations under the WTO Trade-Related Investment Measures Agreement. Investment commitments using the “negative” list approach are included with standstill and ratchet mechanisms. Investment facilitation is strengthened by dealing with investor aftercare on issues such as assistance in resolving complaints and grievances associated with the investments made. RCEP does not provide for an Investor-State Dispute Settlement (ISDS) mechanism, but has built in an agenda allowing members to introduce one if all agree (ASEAN Secretariat 2020b). However, the agreement does include a long section and separate annex to detail the rules around expropriation (Elms 2020).

**E-commerce.** The agreement encourages member economies to improve trade administration and processes with electronic means. It requires them to adopt or maintain a legal framework that creates an environment conducive to e-commerce development, including data privacy and consumer protection. RCEP members agreed to maintain the practice of not imposing customs duties for electronic transmissions. RCEP covers commitments on cross-border data flows—the first of its kind for several large and emerging members. These commitments will not apply to financial services and they include exceptions for national security or other public policy reasons.

**Sanitary and phytosanitary measures.** The agreement upholds and enhances the implementation of the WTO Agreement on the Application of Sanitary and Phytosanitary Measures. It does this by incorporating relevant international standards, guidelines, and recommendations concerning equivalence, adaptation to regional conditions (including pest-free or disease-free areas and areas of low pest or disease prevalence), risk analysis, audit, certification, import checks, and emergency measures. In effect, RCEP improves the outcomes of existing ASEAN FTAs in several trade-facilitating ways, particularly for equivalence recognition, emergency measures, and transparency.

**Standards, technical regulations, and conformity assessment procedures.** RCEP aims not only to improve implementation of the WTO Agreement on Technical Barriers to Trade but also to promote mutual understanding between members about each other's standards, technical regulations, and conformity assessment procedures, and to improve information exchange and cooperation in this field. The agreement contains provisions that enhance transparency in the development of technical barriers to trade measures and encourage greater regulatory cooperation and good regulatory practice. These provisions are expected to minimize the adverse effects of regulations on trade by making information on exporting requirements easily available, reducing transaction costs for businesses, and institutionalizing

mechanisms for RCEP members to resolve specific trade issues, with the goal of reducing or eliminating unnecessary technical barriers to trade.

**Competition.** RCEP also aims to establish open and competitive markets that promote economic efficiency and uphold consumer welfare. To achieve this, the agreement includes obligations to adopt or maintain competition laws and independent competition authorities to enforce antitrust laws. It also protects consumer welfare by requiring that the domestic laws and regulations of RCEP members prohibit misleading practices, or false or misleading descriptions in trade, and that they increase awareness of, and access to, mechanisms for consumer redress. The agreement further ensures that competition laws are transparent and enforced following due process. It also establishes a mechanism to encourage cooperation among its members' competition authorities.

**Government procurement.** Existing ASEAN Plus One FTAs contain no provision on government procurement. This makes RCEP a significant step forward for the region and marks the first time that major ASEAN economies such as Indonesia, the Philippines, and Thailand will make meaningful government procurement commitments. The agreement underscores the important contribution of government procurement in regional economic integration, job creation, and economic growth. The Government Procurement chapter promotes transparency in procurement processes with a requirement that members publish laws and regulations on government procurement. It also includes cooperation provisions aimed at enhancing mutual understanding of RCEP members' respective government procurement laws, regulations, and procedures, and a mechanism to facilitate consultation and exchange of information on these matters.

**Intellectual property.** RCEP members represent a diverse mix of developed, developing, and least-developed economies with significant variations in intellectual property resources. A significant feature of the agreement is its balanced and inclusive approach to the coverage, protection, and enforcement of intellectual property rights. RCEP's importance is reinforced by the emphasis it places on fair use, the transfer of technology, and socioeconomic welfare in the international community, alongside provisions to protect the interests of rights holders.

The agreement also has specific provisions for establishing an international framework on the protection of genetic resources, traditional knowledge, and folklore. This important step signifies the region's commitment to the rights and interests of indigenous peoples in genetic resources and traditional knowledge. It is also an important development in international intellectual

<sup>10</sup> Performance requirements refer to operational measures or regulatory conditions imposed by host countries that require investors to meet certain economic and social objectives for approval of their investments. Such requirements are often used by host governments to exert influence on foreign investors' decisions and actions, and they can distort investment decisions by imposing conditions on investors that are not related to market considerations (OECD 1996).

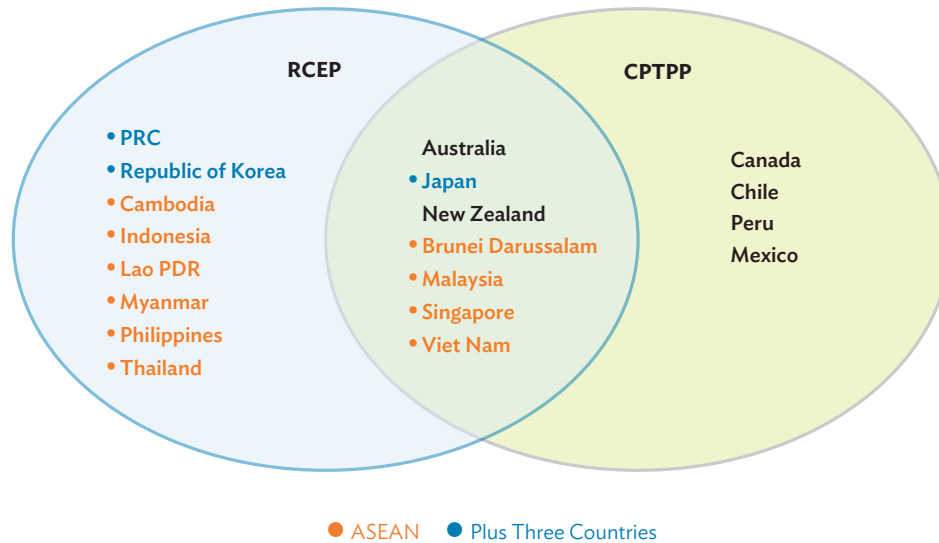
property protection for resolving the key concerns of developing and least-developed economies that have an abundance of genetic resources and traditional knowledge but lack industrial and commercial resources such as patents on pharmaceuticals and industrial designs, trademarks on iconic brand logos, and copyrights on software (Can 2020; MFAT 2020b).

**Small and medium-sized enterprises.** RCEP recognizes the significant role of small and medium-sized enterprises, including micro enterprises, in driving economic growth, employment, and innovation. It aims to ensure that they benefit from and utilize opportunities the agreement presents. To achieve this, the chapter on small and medium-sized enterprises obliges information sharing, requiring RCEP members to disseminate complete information about RCEP online such as the full text of the RCEP Agreement, including other RCEP-related information of relevance to small and medium-sized enterprises in the region. It also aims to bolster cooperation in e-commerce, intellectual property rights, access to markets, and innovation, among others.

## ECONOMIC IMPACT OF THE RCEP AGREEMENT

The major regional trade groupings involving ASEAN economies are RCEP and the CPTPP. While both are mega trade deals, their breadth and depth are different. Overall, the degree of liberalization within RCEP is not as deep as in the CPTPP, and the coverage is less comprehensive. However, in terms of economic size, RCEP is much bigger. The 15 nations in RCEP (Figure 1) account for 29% of global GDP, 25% of global trade, and a population of 2.3 billion, while the 11 nations in CPTPP account for 13% of global GDP, 14% of global trade, and a population of 507.7 million.<sup>11</sup> Further, RCEP is expected to spur renewed momentum for intraregional trade and strengthen value chains among the plus three countries, as well as between them and other members. While RCEP is the first free trade agreement covering the PRC, Japan, and the Republic of Korea at the same time, it bears mention that it is also the first to include two of the world's three largest economies. Unlike the CPTPP, RCEP does not include provisions to harmonize regulatory standards on the environment or labor markets.

Figure 1: Regional Trade Groupings Involving ASEAN+3



ASEAN+3 = Association of Southeast Asian Nations plus the People's Republic of China, Japan, and the Republic of Korea; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; Lao PDR = Lao People's Democratic Republic; PRC = People's Republic of China; RCEP = Regional Comprehensive Economic Partnership.

Source: Asian Development Bank.

<sup>11</sup> Based on 2019 data for GDP and population, and 2018 for trade in goods and services, calculated using data from World Bank. World Development Indicators. <https://databank.worldbank.org/source/world-development-indicators> (accessed 1 December 2020).

Meantime, ASEAN countries that have joined CPTPP can expect additional opportunities. For example, it could help Brunei Darussalam diversify its economy away from oil and gas. It could allow Singapore to have local presence in accounting, consulting, and engineering in other CPTPP members. For Viet Nam, it would bring footwear, textiles, and electronic products to Canada, Mexico, and Peru, with whom it has had limited trade relations. Malaysia could also gain from the expansion of its export market having positive impact on employment.

Petri and Plummer (2020) estimated economic gains for the global economy from the combination of the CPTPP and RCEP using a computable general equilibrium model. In a business-as-usual scenario which assumed a return to pre-trade warpath, they added the CPTPP and RCEP agreements in sequence, estimating their respective incremental effects. According to Petri and Plummer (2020), the CPTPP is estimated to increase world real income by \$147 billion by 2030 and RCEP may add \$186 billion to this gain. The potential benefits from the two mega-regional trade agreements for Asia (including nonmembers) far exceed gains the agreements are expected to generate in the rest of the world (Figure 2).

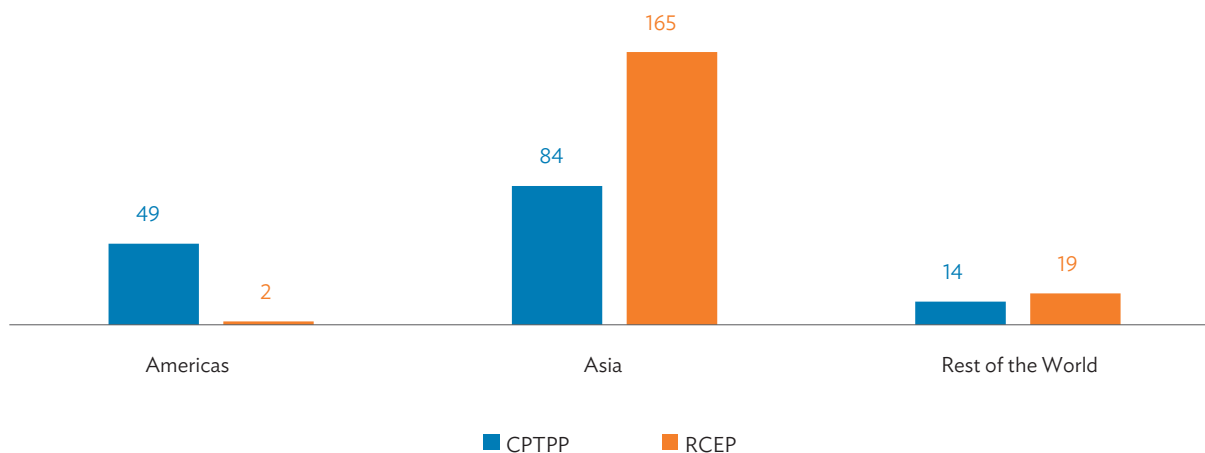
RCEP members are projected to gain \$174 billion in real income by 2030, equivalent to 0.4% of the members' aggregate GDP (Table 1). The plus three countries will benefit the most, with likely gains of \$85 billion for the PRC, \$48 billion for Japan, and

\$23 billion for the Republic of Korea. Other significant RCEP gains will accrue to Indonesia, Malaysia, Thailand, and Viet Nam. RCEP will also create sizable new trade among the plus three countries. ASEAN countries' free trade agreement with non-ASEAN member countries precede RCEP, and ASEAN's already-significant economic integration means that the marginal benefit RCEP creates for trade among them would be limited.

Traditional economic modeling exercises forecast that RCEP members, particularly the plus three countries, will gain the most from RCEP. The largest gains for the plus three economies are due to their sheer economic size and comparative advantage in higher-end, richer value-added segments of industrial production. However, other economies also gain significantly from larger regional trade, stronger regional value-chain linkages, and the opening of more opportunities for foreign investment. As well as reaping benefits from deeper regional economic integration, members could take the regional trading bloc as a springboard to deepen economic reforms and improve their industries' competitiveness. Such dynamic gains, which are difficult to capture through economic modeling, more often than not far exceed the numerical economic gains forecast (Kang 2020).

As more detailed information about country and sectoral level market access and tariff concessions is released, further analyses and assessments of RCEP's economic impact are expected to become available in the coming months.

Figure 2: Potential Benefits of Regional Trade Agreements—Real Income Increases in 2030 (\$ billion)



CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership, RCEP = Regional Comprehensive Economic Partnership.

Note: Estimates include income effects to non-members of CPTPP and RCEP. See Table 1 for the composition of Asia. Americas and rest of the world are based on Petri and Plummer (2020).

Source: Petri, P. and M. Plummer. 2020. East Asia Decouples from the United States: Trade War, COVID-19, and East Asia's New Trade Blocs. *PIIE Working Paper*. June. Washington, DC: Peterson Institute for International Economics.

Table 1: Real Income Effects, 2030

Economy	Income (\$ billion, 2030)	Incremental Change (\$ billion)		Incremental Percentage Change (% of GDP)	
		CPTPP	RCEP	CPTPP	RCEP
<b>Asia</b>	<b>53,513</b>	<b>84</b>	<b>165</b>	<b>0.2</b>	<b>0.3</b>
<i>RCEP members</i>	43,516	87	174	0.2	0.4
Australia	2,590	12	1	0.5	0.0
Brunei Darussalam	31	1	0	2.6	0.5
China, People's Rep. of	27,839	-10	85	0.0	0.3
Indonesia	2,192	-1	3	-0.1	0.1
Japan	4,924	46	48	0.9	1.0
Korea, Republic of	2,243	-3	23	-0.1	1.0
Malaysia	675	21	4	3.1	0.6
New Zealand	264	3	1	1.1	0.2
Philippines	680	0	2	0.0	0.3
Singapore	485	13	0	2.7	0.0
Thailand	812	-5	4	-0.6	0.5
Viet Nam	497	11	3	2.2	0.5
Other ASEAN	283	0	1	0.0	0.3
<i>Other Asia</i>	9,998	-4	-10	0.0	-0.1
<b>Americas</b>	<b>39,569</b>	<b>49</b>	<b>2</b>	<b>0.1</b>	<b>0.0</b>
<b>Rest of the world</b>	<b>40,720</b>	<b>14</b>	<b>19</b>	<b>0.0</b>	<b>0.0</b>
<b>World</b>	<b>133,801</b>	<b>147</b>	<b>186</b>	<b>0.1</b>	<b>0.1</b>

ASEAN = Association of Southeast Asian Nations, CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership, RCEP = Regional Comprehensive Economic Partnership.

Notes: Other ASEAN economies include Cambodia, the Lao People's Democratic Republic, and Myanmar. Asia includes Oceania (Australia and New Zealand), following the Asian Development Bank's definition of regional members. Americas and the rest of the world are based on Petri and Plummer (2020).

Source: Petri, P. and M. Plummer. 2020. East Asia Decouples from the United States: Trade War, COVID-19, and East Asia's New Trade Blocs. *PIIE Working Paper*. June. Washington, DC: Peterson Institute for International Economics.

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Asian Development Bank  
6 ADB Avenue, Mandaluyong City  
1550 Metro Manila, Philippines  
Tel +63 2 8632 4444  
Fax +63 2 8636 2444

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