

15 November 2020



Free trade still kickin'

Asian nations sign RCEP deal

- ASEAN and its five partners signed deal to form free trade area covering over 30% of world GDP
- According to HSBC projections, RCEP will account for more than 50% of global GDP by 2030, even if India does not subsequently join

While a shallower agreement than the CPTPP, RCEP provides a platform for meaningful further integration in the coming years

It's done. **ASEAN** and its five partners – **mainland China, Korea, Japan, Australia, and New Zealand** – have been trying to ink an agreement **since 2013**. While initially the negotiations moved slowly, since around 2017 there has been a renewed drive to arrive at an agreement, not least as a counterbalance to rising protectionist impulses elsewhere in the global economy. With an agreement in place, the next step requires national ratifications, after which RCEP ('Regional Comprehensive Economic Partnership') will come into force likely by the **middle of next year**.

The precise details have not yet been made public. However, according to the ASEAN statement today, the deal will **eliminate tariffs and quotas on 65 percent of goods** traded within the region. Meanwhile, other tariffs and restrictions will be liberalized over the next 20 years, covering ultimately **over 90 per cent of trade** within the bloc (although some duties on sensitive products, for example on beef and rice imports into Japan, will remain in place).

Moreover, RCEP establishes a **common rules-of-origin framework**, which will enable exporters in RCEP economies to use inputs sourced from other members in order to qualify for preferential access when trading within the bloc. Importantly, this should provide a **platform for further liberalization** over time.

RCEP is a modern and 'high quality' agreement, that also aims to tackle **non-tariff barriers** to trade in areas such as **services**, **investment**, **e-commerce**, **competition**, **government procurement**, **intellectual property**, **and the movement of people**.

Although the details of the final agreement still need to be released, the main beneficiaries from the RCEP deal are likely to be **Korea, Japan, Malaysia, Thailand, and mainland China** (see also Chart 1 below). India has withdrawn from the negotiations and will thus not see direct benefits. However, the deal provides for other economies to potentially join in the future, **keeping the door open for India to join** at a later date.

RCEP's 15 members generated USD 26 trillion of GDP in 2019, or a little over 30% of world output. This makes the free trade area slightly larger than USMCA and significantly larger than CPTPP (see chart 2). According to HSBC forecasts, the **share of RCEP-15 will rise to over 50% of global output in 2030**.

Already, the majority of RCEP economies send more than half of their exports to other members, and the **proportion is likely to rise** given the region's growing share of global GDP over time and the effect of deeper liberalization (see Chart 3).

This is a redacted version of the report published on 15-Nov-20. Please contact your HSBC representative or email <u>*AskResearch@hsbc.com*</u> *for information.*



Co-Head of Asian Economics Research The Hongkong and Shanghai Banking Corporation Limited



Trade Economist HSBC Bank plc

View HSBC Global Research at: <u>http://www.research.hsbc.com</u>

Issuer of report

The Hongkong and Shanghai Banking Corporation Limited

Disclosures & Disclaimer

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it



The new deal also aims to streamline the various overlapping preferential trading arrangements that most RCEP members already have with each other by establishing common trade rules. This should help to reduce trade costs for businesses. In addition, RCEP is the **first trade agreement that links Japan and mainland China**, the region's economic heavyweights.

Although RCEP is not as far-reaching, in terms of tariff liberalisation, as some other deals such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) or the EU-Japan Economic Partnership Agreement, it represents an important step towards broader regional integration. The unified rules of origin may help to **strengthen regional supply chains** in the wake of COVID-19, and provide market diversification opportunities for exporters and importers of intermediate inputs operating within the bloc.

In terms of next steps, the deal is expected to **take effect sometime next year** once parties complete their domestic ratification procedures. RCEP will reportedly enter into force once it has been approved by either half the membership or by six ASEAN economies and half of the non-ASEAN parties.

From a global perspective, the RCEP agreement, even if a littler shallower than other 'mega-deals', signals that **Asia keeps pushing ahead with trade liberalization** even as other regions have become more sceptical. As such, it may reinforce a trend that's been already underway for decades: that **the global centre of economic gravity keeps pushing relentlessly to the East**.

Frederic Neumann, Co-head Asian Economics Research

Shanella Rajanayagam, Trade Economist

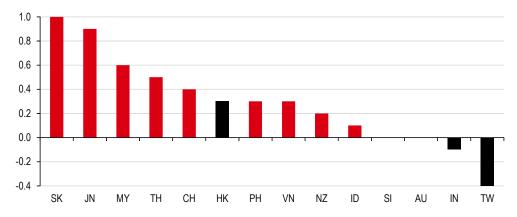
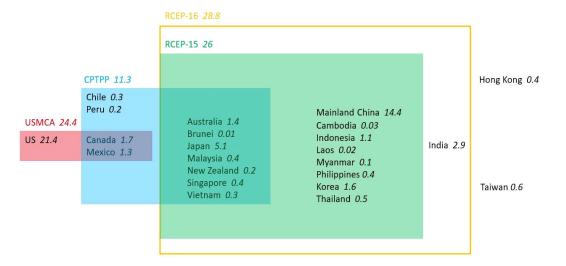


Figure 1: RCEP-15 - Projected incremental real income gains by 2030* (%; red = members, black = non-members)

Source: Peter A. Petri and Michael G. Plummer, East Asia decouples from the United States: Trade war, COVID-19, and East Asia's new trade blocs, PIIE Working Paper, 20-9, June 2020; NB: CH refers to mainland China; *assumes ongoing trade friction between mainland China and US



Figure 2: Trade blocs and economies: GDP, 2019, trillions of USD



Source: IMF, HSBC

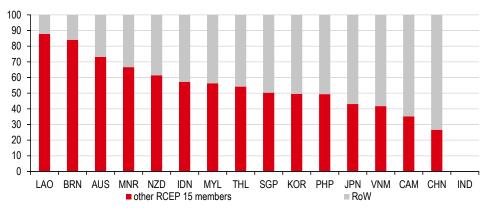
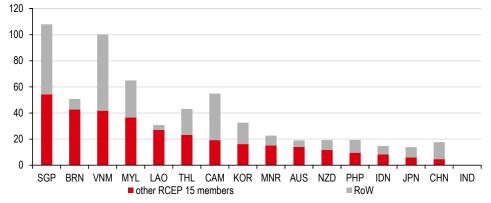


Figure 3: Exports by destination (% share, 2019)

Source: CEIC, HSBC; NB: CHN refers to mainland China, RoW refers to Rest of World, BRN refers to Brunei, LAO refers to Laos, MNR refers to Myanmar, CAM refers to Cambodia



Figure 4: Gross exports by destination (% of local GDP, 2019)



Source: CEIC, HSBC; NB: CHN refers to mainland China, RoW refers to Rest of World, BRN refers to Brunei, LAO refers to Laos, MNR refers to Myanmar, CAM refers to Cambodia



Disclosure appendix

Analyst certification

The following analyst(s), who is(are) primarily responsible for this document, certifies(y) that the opinion(s), views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Frederic Neumann and Shanella Rajanayagam

This document has been prepared and is being distributed by the Research Department of HSBC and is not for publication to other persons, whether through the press or by other means.

This document does not provide individually tailored investment advice and should not be construed as an offer or the solicitation of an offer to buy or sell any securities or to participate in any trading strategy. The information contained within this document is believed to be reliable but we do not guarantee its completeness or accuracy. Any opinions expressed herein are subject to change without notice. HSBC may hold a position in, buy or sell on a principal basis or act as a market maker in any financial instrument discussed herein.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments (including derivatives) of companies covered in HSBC Research on a principal or agency basis.

Analyst(s) are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Chinese Wall procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

- 1 This report is dated as at 15 November 2020.
- 2 All market data included in this report are dated as at close 15 November 2020, unless a different date and/or a specific time of day is indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
- 4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.



Disclaimer

Legal entities as at 1 September 2020

¹UAE' HSBC Bank Middle East Limited, DIFC; HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc.; HSBC France, S.A., Madrid, Milan, Stockholm; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Securities Gouth Africa) (Pty) Ltd, Johannesburg; HSBC Bank plc, London, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Australia Limited, New Zealand Branch incorporated in Hong Kong SAR; The Hongkong and Shanghai Banking Corporation Limited, Seough and Shanghai Banking Corporation Limited, Securities (South Africa) (Pty) Ltd, Johannesburg; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR; The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch; PT Bank HSBC Indonesia; HSBC Qianhai Securities Limited; Banco HSBC SA

Issuer of report The Hongkong and Shanghai Banking Corporation Limited Level 19, 1 Queen's Road Central Hong Kong SAR Telephone: +852 2843 9111 Fax: +852 2801 4138 Website: www.research.hsbc.com

The Hongkong and Shanghai Banking Corporation Limited ("HSBC") has issued this research material. The Hongkong and Shanghai Banking Corporation Limited is regulated by the Hong Kong Monetary Authority. If it is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate.

In the UK, this publication is distributed by HSBC Bank plc for the information of its Clients (as defined in the Rules of FCA) and those of its affiliates only. Nothing herein excludes or restricts any duty or liability to a customer which HSBC Bank plc has under the Financial Services and Markets Act 2000 or under the Rules of FCA and PRA. A recipient who chooses to deal with any person who is not a representative of HSBC Bank plc in the UK will not enjoy the protections afforded by the UK regulatory regime. HSBC Bank plc is regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (ABN 48 006 434 162, AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR.

This material is distributed in Japan by HSBC Securities (Japan) Limited. HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. The information contained herein is under no circumstances to be construed as investment advice and is not tailored to the needs of the recipient. All US persons receiving and/or accessing this report and intending to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report. In Korea, this publication is distributed by either The Hongkong and Shanghai Banking Corporation Limited. Secul Securities Branch ("HBAP SEL") or The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch ("HBAP SEL") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. Both HBAP SLS and HBAP SEL are regulated by the Financial Services Commission and the Financial Supervisory Service of Korea. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. Only Economics or Currencies reports are intended for distribution to a person who is not an Accredited Investor, Expert Investor or Institutional Investor as defined in SFA. The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch accepts legal responsibility for the contents of reports pursuant to Regulation 32C(1)(d) of the Financial Advisers Regulations. This publication is not a prospectus as defined in the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. Please refer to The Hongkong and Shanghai Banking Corporation Limited Singapore Branch's website at www.business.hsbc.com.sg for contact details. HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC is authorized and regulated by Secretaría de Hacienda y Crédito Público and Comisión Nacional Bancaria y de Valores (CNBV).

In Canada, this document has been distributed by HSBC Securities (Canada) Inc. (member IIROC), and/or its affiliates. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offense. In Brazil, this document has been distributed by BABC S.A. ("HSBC Brazil"), and/or its affiliates. As required by Instruction No. 598/18 of the Securities and Exchange Commission of Brazil (Comissão de Valores Mobiliários), potential conflicts of interest concerning (i) HSBC Brazil and/or its affiliates; and (ii) the analyst(s) responsible for authoring this report are stated on the chart above labelled "HSBC & Analyst Disclosures".

Any recommendations contained in it are intended for the professional investors to whom it is distributed. This material is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of HSBC only and are subject to change without notice. From time to time research analysts conduct site visits of covered issues. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits. The decision and responsibility on whether or not to invest must be taken by the reader. HSBC and its affiliates and/or their officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment). HSBC and its affiliates may act as market maker or have assumed an underwriting commitment in the securities of any companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform banking or underwriting services for or relating to those companies. This material may not be further distributed in whole or in part for any purpose. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. (070905)

If you are an HSBC Private Banking ("PB") customer with approval for receipt of relevant research publications by an applicable HSBC legal entity, you are eligible to receive this publication. To be eligible to receive such publications, you must have agreed to the applicable HSBC entity's terms and conditions ("KRC Terms") for access to the KRC, and the terms and conditions of any other internet banking service offered by that HSBC entity through which you will access research publications using the KRC. Distribution of this publication is the sole responsibility of the HSBC entity with whom you have agreed the KRC Terms.

If you do not meet the aforementioned eligibility requirements please disregard this publication and, if you are a customer of PB, please notify your Relationship Manager. Receipt of research publications is strictly subject to the KRC Terms, which can be found at https://research.privatebank.hsbc.com/ – we draw your attention also to the provisions contained in the Important Notes section therein.

© Copyright 2020, The Hongkong and Shanghai Banking Corporation Limited, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of The Hongkong and Shanghai Banking Corporation Limited. MCI (P) 016/02/2020, MCI (P) 087/10/2020