Key Findings From 'RCEP: Goods Market Access Implications for ASEAN' by Rashmi Banga et al

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- The paper undertakes a ***disaggregated product-level impact analysis of tariff reduction commitments in RCEP*** and analyses impacts on export and import patterns of specific sectors and products, goods trade balance, as well as lost tariff revenue from reduction of import duties. This study provides a superior analytical methodology compared to the usual CGE modeling (e.g. Japan's GTAP analysis) which are based on aggregate sector level data and unrealistic assumptions. In comparison, this study looks at actual tariff commitments in RCEP including sensitive lists and tariff rate quotas (TRQs), and uses detailed 6 digit product level data. This paper also analyses results across all partner countries rather than individual countries which gives a much clearer and comparative macro picture.
- The ***goods trade balance (net exports) of ASEAN vis-à-vis RCEP countries will deteriorate*** by 6 per cent per annum amounting to USD 8.5 billion/annum, with almost all ASEAN members (Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) seeing a decline while only Brunei will see a modest increase. Of this, Malaysia's trade balance will worsen by USD 4 billion (a massive 36% decline), followed by Cambodia with a loss of USD 2.3 billion (17% decline). The trade balance of Myanmar and Thailand will worsen by more than 20%.
- In contrast, ***most of the non-ASEAN partners stand to make gains in goods trade balance*** with ***Japan being the biggest winner***, followed by New Zealand and Australia. Japan's goods trade balance will improve by 99% by rising from 12.1 billion to USD 24 billion. Australia's (and probably New Zealand's) increased exports in future may be mainly due to the ongoing implementation of the CPTPP rather than from RCEP. Of the non-ASEAN members, China and South Korea will both see deterioration of their trade balance by 3.5% and 8% respectively.
- ***Total imports into ASEAN will increase by USD 7.8 billion***. This increasing trend is seen across all RCEP countries post RCEP, notwithstanding their sensitive lists and TRQs. Of the ASEAN countries, Malaysia will face the greatest absolute increase of USD 3.7 billion per annum, followed by Cambodia (USD 2.3 billion) and Thailand (USD 876 million).
- ***Product level imports*** of textiles and clothing show the greatest increase for Brunei, Cambodia and Indonesia, while vehicles show large increases for Malaysia, Myanmar and Vietnam. Imports of electrical machinery and mechanical appliances face large increases for Cambodia, Lao PDR, Philippines, Malaysia and Vietnam; while imports of certain agricultural products increase the most for Thailand. (See the top 5 imports for each ASEAN country under RCEP in Annex 1 below).
- ***Exports*** to RCEP countries are estimated to fall for Cambodia, Malaysia, Myanmar, Philippines, Singapore and Vietnam because of trade diversion in favour of more efficient exporters within the RCEP. It will marginally improve for Indonesia, Lao PDR and Thailand although less than their increase in imports, therefore leading to a rise in overall trade deficit for ASEAN.
- ***RCEP may be undermining ASEAN integration*** as intra-ASEAN trade is increasingly diverted to China, and away from each other, as a result of RCEP. *Imports of almost all ASEAN countries increase significantly from China (being the largest contributor to rising imports)*, except for Lao PDR and Vietnam. However, *China's imports decline from all ASEAN countries* (and increase mainly from Japan and South Korea), thus contributing to an increase in net trade deficit in ASEAN's trade with China.
- Malaysia faces the maximum ***loss of tariff* revenue** among the RCEP member states, amounting to USD 2.2 billion per year. For a poor country such as Cambodia, the tariff revenue loss is a significant USD 334 million per year or 1.24% of its 2019 GDP, which is almost the same as its national public spending on health at 1.28% of GDP (according to data from the World Bank's World Development Indicator (https://data.worldbank.org/indicator/SH.XPD.GHED.GD.ZS).

- Calculation from ILO data shows that ***the estimated loss in tariff revenue is significantly higher than the entire wage bill (at national average wage rates) of the total number of nurses in Malaysia, Cambodia and Myanmar, and of around 60% of nurses in Thailand*** (https://www.who.int/data/gho/data/indicators/indicator-details/GHO/nursing-personnel-(number). ***The lost revenue could have paid for around 230,000 nurses in Malaysia, 150,000 nurses in Cambodia and 130,000 nurses in Thailand***. Even Myanmar and Vietnam will lose potential wages of over 50000 nurses each.

Annex 1:

Top 5 products contributing to increased imports in ASEAN Countries from RCEP & their % share in total increase in imports in brackets *(for absolute values see paper)*

Cambodia: Knitted or crocheted fabrics (44%); man-made staple fibres (13%); nuclear reactors, boilers, machinery and mechanical appliances & parts thereof (8%); cotton (4%); and vehicles other than railway or tramway rolling stock, and parts and accessories thereof (3%)
Indonesia: Articles of apparel and clothing accessories, knitted or crocheted (22%); articles of apparel and clothing accessories, not knitted or crocheted (19%); articles of iron or steel (9%); meat and edible meat offal (8%); and copper and articles thereof (7%)
Lao PDR: Live animals (72%); man-made staple fibres (7%); nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (3%); electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles (2%); and products of animal origin, not elsewhere specified or included (2%)
Malaysia: vehicles other than railway or tramway rolling stock, and parts and accessories thereof (21%); nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (14%); electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles (9%); paper and paperboard; articles of paper pulp, of paper or of paperboard (7%); and, articles of iron or steel (6%)
Myanmar: Vehicles other than railway or tramway rolling stock, and parts and accessories thereof (34%); articles of iron or steel (7%); cereals (7%); plastics and articles thereof (7%); and, products of the milling industry; malt; starches; inulin; wheat gluten (6%)
Philippines: Arms and ammunition; parts and accessories thereof (51%); plastics and articles thereof (13%); electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles (6%); articles of apparel and clothing accessories, not knitted or crocheted (5%); and nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (5%)
Thailand: Edible vegetables and certain roots and tubers (39%); cereals (17%); articles of iron or steel (14%); dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included (12%); and, coffee, tea, maté and spices (9%)
Vietnam: Albuminoidal substances; modified starches; glues; enzymes (46%); electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles (41%); vehicles other than railway or tramway rolling stock, and parts and accessories thereof (24%); articles of iron or steel (5%); and, miscellaneous manufactured articles (5%).