

REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP

# RCEP



## RCEP Impact on Taiwanese Fastener Industry

by Dr. Wayne Sung

### 15 Asia Pacific Countries Signed RCEP

The Regional Comprehensive Economic Partnership (RCEP) that entails a big influence on regional economy across the world was signed among 15 countries at the 37th ASEAN Summit in Hanoi City, capital of Vietnam on November 15, 2020. Specifically, it is the world's largest free trade agreement at a total GDP scale of USD26.2 trillion from RCEP member countries. It covers about 30% (2.2 billion people) of the world's population and 30% of the world's export (around USD 5.5 trillion). **It has established the world's largest free trade zone including Indonesia, Thailand, Singapore, Malaysia, Philippines, Vietnam, Myanmar, Cambodia, Laos, Brunei, China, and South Korea. Tariff abolishment rate is as high as 91%.** Indian Prime Minister Modi took us by surprise with his last-minute announcement that India will not be a part of RCEP out of two worries: imbalanced trade and domestic trade protectionism. Indian's decision creates a void in RCEP's deployment in Asia Pacific economy. Nonetheless, this doesn't affect RCEP's economic influence. Nguyen Xuan Phuc, Vietnam Prime Minister and rotating chairman of ASEAN, said the completion of this massive free trade agreement will create a new trade structure in Asia Pacific to foster trade convenience and make for an internationally competitive supply chain in the region, and support the region's economic entity to recover as soon as possible when COVID-19 comes to an end.

The idea for RCEP originated from China in 2012 when the trade negotiation between the U.S and China came to a halt. A massive regional economic entity of 15 countries was formed out of the basis of 10 Asian countries and "plus 5" countries being China, Japan, South Korea, Australia, and New Zealand. To China as the largest factory and market with a population of 1.3 billion in Asia Pacific, RCEP is much economically and politically lucrative to open up a new playing field in globalization and multi-lateral collaboration for China. It alleviates the economic impact of tariff battle between the U.S. and China starting in 2019, and also makes for a bigger influence for China in Asia Pacific trade, providing synergy in strategic integration of China's Belt and Road Initiative.

### Tariffs on 90% of Goods will be Reduced to 0%

The RCEP protocol covers 20 chapters including Trade in Goods, Rules of Origin, Customs Procedures and Trade Facilitation, Sanitary and Phytosanitary Measures, Standards, Technical Regulations and Conformity Assessment Procedures, Trade Remedies, Trade in Services, Movement of Natural Persons, Investment, Intellectual Property, Electronic Commerce, Economic and Technical Cooperation, Government Procurement, etc. Additionally, RCEP provides special and differential treatment and various execution time frames for members of various economic development levels. The World Trade Organization has to cater to over a hundred member countries with different opinions, but communication is easier with RCEP having just 15 countries and a scale much bigger than FTA between two countries. The openness and depth of collaboration are unmatched by WTO. Besides opening a channel for countries not having FTA, RCEP expands and deepens FTA. Regarding tariff, **the RCEP agreement demands that over 90% of goods trade within the regions will be tariff-free once the agreement kicks in.** The tariff will either be slashed to zero immediately, or gradually within 10 months. Especially the trade in services and the openness for investment is higher than the free trade agreement of ASEAN 10+1. Meanwhile, RCEP adds free trade for two critical pairs of countries, China-Japan and Japan-South Korea, to significantly improve free trade within the region. **With the opening of trade under RCEP, the top beneficiary except for China is Japan. RCEP connects Japan to China, South Korea, and New Zealand which otherwise wouldn't have a bilateral free trade agreement with Japan, and therefore improves trade preferences among China, Japan and South Korea.** To Taiwan, the three countries provide important cooperation. In other words, RCEP does raise the intensity of Taiwan's external environment of competition.



## What RCEP Does to China

Trump lashed out at China with punitive tariffs since he took presidency in 2017, which made China push for the signing of RCEP. We will have to wait and see if the signing will put the new President Biden in a position to redraw trade policies and related economic strategies. As far as this Author's assessment, the America First policy with the Trump administration will not change much after Trump steps down. However, the Democrats know free trade is the way to prosperity. Given the current complexity of international work division, shorter product cycle, and broad and dispersed consumers market, Biden could return to CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) after the signing of RCEP, or revoke multiple Trump's sanctions on China and bring the U.S. back on the track of free trade.

In China's perspective on regional economy following the signing of RCEP, China will turn linear point-to-point trade into a trade network to form an alliance of shared economic benefits among RCEP members. **China guaranteed the members that it won't shut itself off from them in a worst-case scenario, and that it won't be excluded from free world trade.** ASEAN became the top trading partner for China since 2019. The EU ranked second, followed by the U.S, Japan, and South Korea. RCEP encompasses ASEAN, Japan and South Korea. In the region which RCEP covers, Japan is the only country currently without a free trade agreement with China, and negotiation with China, Japan and South Korea on free trade zone is met with obstacles. Japan and South Korea are allies to the U.S., and Japan in particular is the central pillar in Asia for the U.S. to leverage against China. It is the interference of the U.S. that stalls the negotiation with China, Japan and South Korea on free trade zone, but China reached an agreement on tariff with Japan and South Korea under the RCEP framework, breaking the trade barrier between each other. As long as China's products are competitive, China will remain as a critical and even the most essential trading partner to Japan and South Korea. With RECP as a layer of protection for China, hurdles are high for the U.S. to economically exclude China via Japan, South Korea and even ASEAN. Even in an extreme case that, hypothetically, the U.S and Europe both shut off trade with China, China can be

assured to have trade with three out of its top 5 trading partners. Add Russia, Africa and Latin America to the list, and China can keep a fundamental scale for external trade. Then on RCEP's geopolitical value to China, despite a priority seat in RCEP was reserved for India, given the Indian economic development before and during the pandemic, India will not be part of RCEP in the short term to this author's assessment. Regarding India's decision to opt out of RECP, with tension on the borders of China and India, and the Indian population of 1.3 billion people that adds weight to India's remarks, as well as India's speed of economic development in the future, India would have been countering China and become an obstacle against China's operation if it had stayed in RCEP. Therefore, India opting out of RCEP is, geopolitically, a benefit for China. Wrapping up, China is the biggest winner of the signing of RCEP.

## RCEP Impact on Taiwanese Fastener Industry

As far as Taiwan is concerned, the RCEP agreement is **A**one with excludability and allows only its members to be entitled to various benefits. Considering the current relationship between Taiwan and China, it is out of the question for Taiwan to join RCEP. Given that Taiwanese companies cannot have preferential tariffs in the region that RCEP covers, they will have to move their production lines out of the region to develop the RCEP market with the same benefits as other countries'. However, moving out the production line could raise Taiwan's unemployment rate, undermine the industry, put the economy in a standstill and form a negative cycle. On the other hand, if they choose not to move out, they are left with covering tariff costs on their own in order to compete with other countries having preferential benefits. Therefore, quality improvement and product innovation is critically fundamental. High quality from Japan and South Korea and low price from China has put a lot of pressure on them. Taiwan's Minister of Economic Affairs and

**Table1. Taiwanese Steel Fastener Export to 15 RCEP Countries from 2015 to 2019**

Year		2019		2018		2017		2016		2015	
Ranking	Country	Value (USD 1,000)	Volume (KG) Ton								
1	Japan	241,269	72,772	230,497	69,040	207,135	67,152	182,441	62,321	194,534	65,477
2	China	114,095	20,277	143,922	24,332	144,904	25,732	117,885	22,013	110,659	19,416
3	Thailand	69,484	21,720	77,332	23,745	66,870	21,538	61,522	21,829	64,967	21,960
4	Australia	69,232	19,377	80,345	22,883	67,138	19,531	62,062	19,037	71,023	21,407
5	Vietnam	32,719	8,587	47,936	17,653	49,010	20,664	44,718	21,526	41,815	18,085
6	Singapore	27,781	6,157	31,884	6,673	31,015	6,592	26,324	6,180	35,098	7,397
7	S. Korea	23,422	8,198	31,903	10,667	31,434	10,853	24,778	9,556	24,675	8,991
8	New Zealand	21,872	5489	21,267	5,221	18,877	5,108	18,064	5,146	20,436	5,431
9	Philippines	21,658	6,507	25,781	7,357	23,735	7,407	21,368	6,925	19,968	6,040
10	Indonesia	19,416	6,902	26,714	10,058	16,178	6,305	17,627	7,790	21,573	8,940
11	Malaysia	16,506	4,126	18,720	5,046	17,911	4,760	19,503	5,150	17,498	5,584
12	Myanmar	1,812	857	1,562	750	2,096	1,049	1,463	804	1,836	969
13	Cambodia	1,591	155	1,460	200	1,440	178	959	83	1,004	92
14	Brunei	110	56	68	36	37	17	84	51	203	115
15	Laos	0	0	4	0	0	0	0	0	0	0
Total in 15 Countries		660,967	181,180	739,395	203,661	677,780	196,886	598,798	188,411	625,289	189,904
Sum		4,316,160	1,479,292	4,638,379	1,595,705	4,090,044	1,498,070	3,610,630	1,435,750	3,880,625	1,470,992
Proportions in 15 Countries		15%	12%	16%	13%	17%	13%	17%	13%	16%	13%



Councilor of the Executive Yuan made a statement on the signing of RCEP as briefly listed below:

1. RCEP will enhance interaction among China, Japan, South Korea and ASEAN. **Initial assessment concludes the impact will cast on Taiwanese petrochemical, textile, steel and some other industries.**
2. The final determined tariff rates will not all drop to zero percent, and thus RCEP is a free trade zone with a lower level of freedom. **Most of the members of RCEP have a free trade agreement with one another. Less change in competition on the market.** India drops out and slashes a large chunk of benefits off RCEP.
3. Facing the changes in international trade, **the Taiwanese government will continue to help industries improve and seek to join CPTPP of higher level and of more freedom.**
4. **70% of Taiwan's products exported to RCEP countries are tariff-free ICT (Information and Communications Technology) products.** Machinery, steel and textile taking up the remaining 30% will take the impact but it won't be much.

To sum up, the Taiwanese government thinks the signing of RCEP is within the tolerance range, but it requires deliberation over traditional industries including machinery, steel and textile. **Taiwan's fasteners are part of the steel industry that is subject to the impact and could face tariffs from 5% to 15%.** This clearly shows the specific impact on Taiwanese fastener industry. The table above is the value (USD 1,000) and volume (ton) of Taiwanese steel fastener export to 15 RCEP countries from 2015 to 2019.

## The Role of Taiwanese Relevant Associations and Government

The statistics indicate steel fasteners exported to RCEP countries take up 12% to 17% of the total steel fastener export from Taiwan. In 2019, the 3 export destinations were Japan (at USD 3,310/ton), China (USD 5,620/ton) and Thailand (USD 3,570/ton). **Taiwan sells fasteners of high unit price to China, but to Japan at a price that is the lowest among the top 3. Will the market in China be taken over by South Korea and Japan? Will the market in Japan be taken over by South Korea and China?** This should be on the watch list of Taiwanese fastener companies.

To the Taiwanese government, seeking and enlarging Taiwanese fasteners' presence in Southeast Asia is essential in the government's New Southbound Strategy. The RCEP members agreed to clear tariffs and non-tariff trade barriers for one another while retaining their individual tariff on external countries and FTAs/ ECAs. **In Taiwan's perspective, there is a window of opportunity among the 15 member countries of RCEP, and that is Singapore and New Zealand.** Taiwan signed ASTEP, effective from April 19 of 2014, with Singapore which was the first economic cooperation agreement that Taiwan signed with a Southeast Asian country. The freedom of trade with ASTEP can expand the export market for both Taiwan and New Zealand, foster investment, and increase benefits for consumers. Singapore is a critical economic trading hub in Southeast Asia. ASTEP will help Taiwanese companies open the market in that region. **Taiwan signed ANZTEC with New Zealand on July 10 of 2013** which grants freedom of trade on 99.88% of taxable Taiwanese products, and 100% on taxable products in New Zealand. Excluding partial reserved product categories, the service and investment markets are fully open between Taiwan and New Zealand. Besides Singapore and New Zealand, Taiwan must work harder to have free trade agreements with other countries. The government should tailor make subsidies for individual industries when details on tariff reduction is released. Taiwanese fastener associations should closely monitor this and seek government subsidies for association members.

The signing of RCEP will not cause an immediate and obvious impact on Taiwanese fastener industry because most of the companies have prepared for years. The most direct and common way is to set up an overseas plant or register a plant at a third-party location, apply for export rebate, or use other product categories to cover tariff cost. Taiwanese fastener companies are adept and nimble so the impact of RCEP isn't apparent. In 2020, COVID-19 was effectively controlled in China because of lockdown. The U.S. and Europe are still in the pandemic storm so that the world is more economically reliant on China, which inevitably is also the case for Taiwan. **The Taiwanese government should take into account RCEP's long-term impact on Taiwanese economy and come up with a corresponding strategy. It should also make efforts on tariff agreement and FTA/ECA with other countries, and more importantly, tailor make RCEP-related subsidies for Taiwanese fastener industry.** ■

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