

Investment opportunities in ASEAN post-RCEP

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The Regional Comprehensive Economic Partnership (RCEP), the world's largest free-trade agreement, took effect on 1 January 2022. The RCEP brings together 10 ASEAN countries, Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam, and five other regional economies, Australia, the People's Republic of China, Japan, New Zealand and the Republic of Korea. It includes close to three billion people and accounts for about 30% of global GDP.

The RCEP is expected to boost trade, promote investments and create jobs and aspires to create an integrated single market and production base, similar to the European Union. The agreement ranges from traditional topics such as trade in goods, rules of origin, customs procedures and trade facilitation, trade in services, investment, intellectual property and government procurement to new areas such as competition policy and e-commerce. A key element of the grouping is the commitment by the RCEP members to eliminate tariffs on nearly 90% of the goods traded among them over 20 years, as well as to implement a single rule of origin requirement across all member countries.

While India was part of the RCEP negotiations, it decided not to join the RCEP in November 2019, as important concerns had not been addressed. The country considered that signing up for the RCEP would have immediate detrimental consequences for its economy. The RCEP is therefore not expected to impact India. However, the indirect and tangential implications of the RCEP for the economy and businesses from the perspective of investment and trade diversion cannot be underestimated.

From an investment perspective, the RCEP is likely to stimulate investments across ASEAN and other RCEP member countries. Lower tariffs, streamlined customs procedures and expanded market access will make investing in the region more attractive and viable. Having a common rule of origin will reduce expenses for businesses with supply chains spanning the Asia-Pacific region, and will spur multinationals to invest in RCEP countries. This will develop cross-border supply chain linkage, thereby expanding global value chain activity in the region. In such a scenario, investors that were previously considering investing in India may redirect their investments to one or more RCEP countries. This will result in the diversion of **foreign direct investment** away from India.



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From a trade perspective, the RCEP trade concessions will enhance trade among member countries while redirecting trade away from non-member countries. Lower tariffs will result in lower import prices, which stimulate demand and thus increase imports. The concessions will divert trade towards exporters who enjoy those reductions and away from exporters in non-member nations.

A recent study by the United Nations Conference on Trade and Development (UNCTAD) estimated that intra-RCEP trade in 2019 was worth USD2.3 trillion. Following the tariff concessions, intra-regional exports will increase by 2% or USD42 billion. Lower tariffs will create trade between members of USD17 billion and trade diversion from non-members to members of USD25 billion. The study expects that 2% per cent of India's current exports to RCEP members amounting to USD1 billion will be lost. This analysis shows that the RCEP's impact on international trade will be significant. Driven by ASEAN's centrality, the economic size of the emerging bloc and its trade dynamism will make the RCEP region a "centre of gravity for global trade".

Indian businesses wishing to participate in inter-regional trade should consider investment options in the ASEAN region. ASEAN is already an attractive investment destination and the RCEP further enhances its desirability. ASEAN countries are strategically located for businesses operating in the Asia-Pacific and are well connected. This facilitates business operations in the region. ASEAN can serve as a key platform for Indian companies to build global value chains. RCEP countries are already home to a significant proportion of global supply chains, and there are significant opportunities for Indian businesses.

Businesses would expand their regional presence, while also allowing them the possibility of capitalising on market access opportunities afforded by ASEAN-RCEP membership.

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