Policy Brief

SENATE ECONOMIC PLANNING OFFICE

November 2022 PB-22-01

The Regional Comprehensive Economic Partnership

I. Introduction

The Regional Comprehensive Economic Partnership (RCEP) is currently the world's largest trade and investment agreement. RCEP members include the 10 countries of the Association of Southeast Asian Nations (ASEAN)[1] as well as five of its major trading partners—Australia, China, Japan, South Korea, and New Zealand. As an economic bloc, RCEP accounts for almost a third of the world's gross domestic product (GDP) and a combined market that covers a third of the world's population. In 2021, the region contributed about 29.3 percent of global trade flows and more than a quarter of foreign direct investments (FDI) (Table 1).

Table 1. Configuration of the RCEP Region

Parameters	Value (2021)	Share of World
Population	2.3 billion	29.3%
GDP	US$ 29.6 trillion	30.8%
Merchandise Trade	US$ 12.9 trillion	29.3%
of which exports	US$ 6.9 trillion	31.6%
of which imports	US$ 6.0 trillion	27.0%
Net FDI	US$ 862.1 billion	26.2%
of which inflow	US$ 426.1 billion	26.9%
of which outflow	US$ 436.0 billion	25.5%

Source of basic data: World Bank, International Trade Center

The Agreement entered into force on January 1, 2022 after the required number of member states that should ratify or approve the landmark trade deal was met.[2] To date, out of the 15 signatory States, only the Philippines has yet to complete its ratification process. RCEP was virtually signed in November 2020, underpinning ASEAN's role in strengthening trade relations to bolster the region's recovery from the Coronavirus Disease 2019 (COVID-19) pandemic. It was ratified by former President Rodrigo R. Duterte in September 2021 but for it to be valid and binding, the Philippine Senate must concur with the ratification. It was sponsored and deliberated in the 18th Congress but concerns raised particularly by farmers' groups and civil society organizations have delayed the concurrence of the Senate. Once President Ferdinand R. Marcos Jr. ratifies RCEP, the Agreement will again undergo deliberations in the 19th Congress for the Senate's concurrence.

This Policy Brief aims to present an overview of RCEP and its salient features, explore the potential gains from the Agreement, identify the issues and concerns raised against it, and discuss some of the challenges that need to be addressed to fully reap the benefits that can be obtained from the trade deal.

II. Overview of RCEP

Rationale. There are three primary underlying reasons why East Asian countries began to pursue regional economic integration more actively. First is the growing economic interdependence in the region driven by the liberalization of trade and investment regimes, as well as the formation of production networks and

[1] *ASEAN members include the Philippines, Brunei, Cambodia, Indonesia, Laos, Myanmar, Malaysia, Singapore, Thailand and Vietnam.*
[2] *For RCEP to enter into force, at least six ASEAN Member States and three non-ASEAN Member States must ratify the trade deal.*

supply chains. Second is the slow progress in multilateralism and the rise of European and North American regional free trade agreements (FTAs) which could potentially undermine East Asia's bargaining power in global trade issues. Third is the realization, in the wake of the 1997 Asian Financial Crisis, that broader and deeper economic ties and stronger regional cooperation are necessary to address common challenges and sustain economic growth.

Brief History. Prior to the launch of RCEP negotiations in 2012, discussions were undertaken to determine the best framework for cooperation in East Asia. China proposed the East Asia Free Trade Area (EAFTA) in 2003 comprised of the ASEAN+3 (China, Japan, and South Korea) economies while Japan came up with the Comprehensive Economic Partnership for East Asia (CEPEA) in 2006 which adds India, Australia, and New Zealand to the grouping. After years of studying both proposals, ASEAN leaders later proposed their own model for a regional FTA—the ASEAN Framework for a Regional Comprehensive Economic Partnership, which became the foundation for RCEP. Negotiations for RCEP took eight long years before the 15 RCEP participating countries signed the Agreement in November 2020. India, which was initially part of the negotiations, opted out of the Agreement citing domestic concerns. The country's withdrawal is also attributed to its outstanding issues with China.

Objective. RCEP aims to achieve a modern, comprehensive, high-quality, and mutually beneficial economic partnership agreement that will facilitate the expansion of regional trade and investment. By creating an integrated market with 15 countries, RCEP aims to harmonize and upgrade the overlapping FTAs (i.e., ASEAN-Australia-New Zealand FTA (AANZFTA), ASEAN-China FTA (ACFTA), ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEP), and ASEAN-Korea FTA (AKFTA)) in the region.

Table 2. Chapters of RCEP

Chapter	Topic	Chapter	Topic
1	Initial Provisions and General Definitions	11	Intellectual Property
2	Trade in Goods	12	Electronic Commerce
3	Rules of Origin	13	Competition
4	Customs Procedures & Trade Facilitation	14	Small and Medium Enterprises
5	Sanitary and Phytosanitary Measures	15	Economic and Technical Cooperation
6	Standards, Technical Regulations and Conformity Assessment Procedures	16	Government Procurement
7	Trade Remedies	17	General Provisions and Exceptions
8	Trade in Services	18	Institutional Provisions
9	Temporary Movement of Natural Persons	19	Dispute Settlement
10	Investment	20	Final Provisions

Source: RCEP Agreement text

Scope. RCEP comprises 20 chapters and contains features of a traditional FTA, focusing on trade in goods, trade in services, investments, movement of natural persons, economic and technical cooperation, dispute settlement and more (Table 2). RCEP also addresses changing and emerging trade realities through enhanced provisions in areas such as intellectual property (IP), electronic commerce, competition, small and medium enterprises (SMEs), and government procurement. Key features of selected chapters are discussed below:

- *Rules of Origin.* A salient feature of RCEP and perhaps one of its biggest selling points is the adoption of a single, common rules of origin (ROO) for all goods traded within the bloc. ROO determines the origin of goods and whether they are eligible for preferential treatment or not. Prior to RCEP, firms had to contend with the complexity and administrative burden of dealing with multiple tariffs and ROOs (from different FTAs). Under RCEP, performing minimal operations on inputs sourced from other RCEP countries will no longer prevent qualification for preferential tariffs, provided that the product complies with origin requirements and is excluded from the tariff differential list. The consolidation of the various rules and procedures under one FTA is expected to further ease the movement of goods within the region, enhance the use of regional distribution hubs, and reduce transaction costs among exporters and importers, particularly for SMEs.

- *Intellectual Property.* The chapter builds mostly on World Trade Organization (WTO) law and is accompanied by a list of country-specific transition periods and technical assistance requests. RCEP requires members to ratify key multilateral agreements[3] and to reaffirm the flexibilities related to the WTO Doha Declaration on Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement and Public Health. The harmonization of IP protection standards will ensure that Philippine interests are secured across the region. Notably, RCEP provides for stronger measures to protect digital rights management information, and builds up enforcement efforts against pirated and counterfeit products. These provisions would help create a business environment conducive for creativity and innovation. Finally, flexibility is also provided for each member to establish measures that protect the rights and interests of indigenous peoples in genetic resources, traditional knowledge and folklore.

- *Electronic Commerce.* RCEP recognizes the role of electronic commerce in facilitating trade digitalization and cross-border trade. As such, the chapter requires members to adopt or maintain a legal framework which would safeguard online personal information and ensure consumer protection. Further, RCEP members agreed to maintain the current practice of not imposing customs duties for electronic transmission. The chapter commitments, however, do not apply to financial services and will include exceptions for security and other public policy reasons. With reference to data localization, RCEP provides more policy space through the self-judging nature of legitimate public policy objectives and the non-application of dispute settlement.

- *Competition.* RCEP obliges member countries to establish competition authorities to increase economic efficiency and promote consumer welfare. The improved commitments under RCEP is seen to benefit the country by ensuring a level playing field in the region. The advantage is amplified by the fact that all commitments under the chapter are already consistent with the Constitution and the Philippine Competition Act. The chapter also promotes capacity building for regulatory agencies through information exchange, consultations, and technical cooperation.

- *Small and Medium Enterprises.* Unlike other ASEAN+1 FTAs, RCEP dedicates a separate chapter on SMEs which contains provisions that support development objectives of SMEs and their integration into the global value chain (GVC). RCEP trade facilitation provisions (e.g., simple and flexible certification procedures) are likewise expected to streamline trade procedures and reduce barriers for these businesses to encourage participation in international trade. The chapter promotes information sharing and cooperation to empower SMEs in utilizing and benefiting from the Agreement. In addition, the Electronic Commerce Chapter and the Financial Services Annex are expected to contribute to the digitalization of micro, small and medium enterprises (MSMEs) by way of providing a platform to manage transactions and access financing.

- *Government Procurement.* RCEP is the only ASEAN FTA with provisions on government procurement. The chapter sets out provisions regarding transparency and acknowledges the need for future cooperation. Government procurement was not part of the original mandate but was later added in the negotiations. As there are no substantial commitments at this stage, the chapter is envisioned as a stepping stone to enhance the Agreement.

III. Economic Significance of RCEP to the Philippines

Merchandise Trade. Majority of Philippine trade is concentrated within the RCEP region. In the past five years, more than half of total Philippine exports (50.3%) and imports (67.7%) went to RCEP member countries (Figures 1 and 2). During the same period, Philippine trade was driven by shipments to and from RCEP countries, outpacing trade growth from outside the region. This underscores the importance of the RCEP region as an engine to strengthen trade performance and advance economic development. The

[3] *Such as the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the Patent Cooperation Treaty, the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, among others.*

significance of RCEP is further amplified by its central role in global manufacturing, accounting for nearly half of world output (e.g., 70% of electronics production and 50% of global automotive output) (UNCTAD, 2020).

Figure 1. Average Share of Philippine Exports (2017-2021)

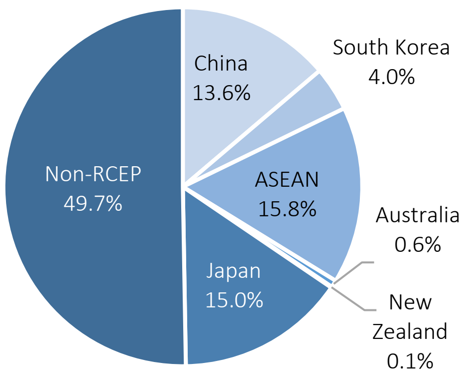
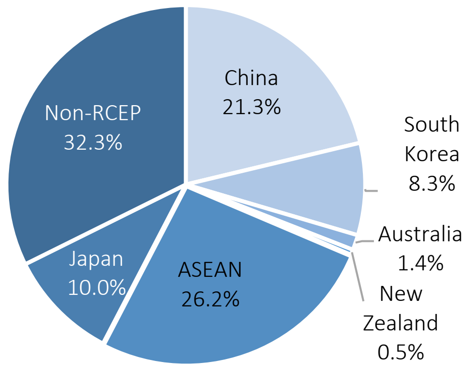


Figure 2. Average Share of Philippine Imports (2017-2021)



Source of basic data: International Trade Center

Foreign Direct Investment. Similarly, a significant share of FDI also comes from RCEP member countries. From 2017 to 2021, the RCEP region accounted for an average of 59.2 percent of total foreign equity (other than reinvestments) (Table 3). Total investments have declined since 2017, bouncing back in 2021 driven by a surge in net equity from Singapore. With global FDI stagnating due to lingering economic uncertainties, investments from RCEP remain a promising prospect as it showed a consistent upward trend. Notice also that the jump in FDI from RCEP member countries in 2018 coincided with the beginning of the United States-China trade war. With investors seeking to diversify investments from China, RCEP thus provides an opportunity for the Philippines to lock in these advantages and gains.[4]

Table 3. Foreign Equity (other than reinvestment of earning), Philippines, in US$ million

Source	2017	2018	2019	2020	2021	Average
RCEP	836.6	1,309.4	1,416.5	1,082.3	2,979.3	1,524.8
Non-RCEP	2,561.3	1,036.2	878.7	624.0	323.3	1,084.7
Total	3,397.9	2,345.6	2,295.2	1,706.3	3,302.7	2,609.5
Share of RCEP	*24.6%*	*55.8%*	*61.7%*	*63.4%*	*90.2%*	*59.2%*

Source of basic data: Bangko Sentral ng Pilipinas

IV. Potential Benefits of RCEP

Improved market access for goods and services and reduced trade barriers

RCEP aims to reduce or eliminate customs duties imposed by each member state over a period of 20 years. Under the Agreement, average tariff liberalization (i.e., tariff lines subject to elimination or reduction) across participating countries will improve to 97.4 percent compared with existing ASEAN+1 FTAs where average liberalization ranges from 89.8 percent (under AJCEP) to 94.6 percent (under AANZFTA).

With RCEP, the Philippines will be able to secure enhanced market access for the country's key export interests (Table 4). For example, Philippine exports of preserved pineapples to China will see its tariff rate go down to zero by Year 20 under RCEP vis-à-vis a 5 percent tariff rate under the ACFTA. Similarly, applicable tariffs for exports of Philippine chocolates to Japan will be eliminated by Year 16 under RCEP compared to 21.3 percent under the Philippines-Japan Economic Partnership Agreement (PJEPA) and AJCEP. Meanwhile, exports of fresh papayas from the Philippines to South Korea will be duty-free by Year 10 as opposed to 24

[4] *Incidentally on 4 February 2022, the Biden administration has extended the Trump-era level of tariffs on solar panels and cells.*

percent under AKFTA. These tariff concessions from the Philippines' trading partners are seen to lower the costs of the country's exports, thereby increasing its price competitiveness.

Table 4. Example of Products where the Philippines Secured Improved Tariff Concessions under RCEP

China	Japan	South Korea
• Preserved pineapples • Pineapple juice • Coconut juice • Diesel oil • Polyacetal resin • Self-adhesive paper • Printed paper • Light signaling equipment for motor vehicles (e.g. head light, signal light) • Sound signaling equipment for motor vehicles (e.g. horn, siren, buzzer) • Ignition wiring sets • Flexographic plate	• Fish fillet (salmon, trout, flatfish, tilapia) • Pineapple (cooked) • Coffee • Sunflower-seed oil • Canned salmon • Prepared/preserved oyster and mussels • Chocolate • Crispbread, gingerbread • Mixtures of preserved fruits (i.e. fruit cocktail) • Fruit juices (e.g. orange, pomelo, apple, mixtures) • Leather gloves • Footwear	• Dried/salted tilapia • Cheddar cheese • Papaya (fresh) • Durian (fresh) • Soya-bean oil • Canned tuna • Preserved pineapple • Alcoholic beverages (beer, gin, rum) • Cement • Fuel oil • Fertilizers • Plywood • Women's garments • Men's garments • Bicycle

Source: Department of Trade and Industry

With reference to market access for services, the Philippines secured a total of 46 additional subsectors relative to subsector commitments in existing FTAs. The largest increase was from Australia with 32 additional subsectors, followed by South Korea and China with five each, and New Zealand with four. No additional subsectors were recorded for Japan as it already committed 139 subsectors under PJEPA and AJCEP, the highest among RCEP economies. These commitments guarantee Filipino service providers that no additional laws would be imposed by partner countries adversely affecting their market access in the subsector. Table 5 provides a sample of subsector groupings which have been committed to 100 percent foreign equity under RCEP, providing certainty for Filipinos that would want to establish fully-owned businesses in these countries.

Table 5. Example of Subsectors where the Philippines Secured Improved Commitments under RCEP

Australia	China	Japan	South Korea	New Zealand
• Other Business Services (e.g. professional and management consulting services, and technical, trade-related services); • Telecommunication Services • Audio Visual Services	• Legal services and accounting (excluding Chinese law practice); • Auditing and bookkeeping services; • Taxation services; • Architectural services; • Hairdressing and other beauty services • Passenger and Freight Transport Services	• Professional Services; • Hotel Management Services; • Transport Services.	• Financial Services • Game Development Services • Transport Services particularly in Rail Transport Services and Maintenance and Repair of Rail Transport Equipment.	• Air Transport Services, particularly Cargo and Baggage Handling Services and Airport Management Services, and Banking • Other Financial Services

Source: Department of Trade and Industry

In line with the Agreement's objective of reducing non-tariff barriers, RCEP includes enhanced rules on non-tariff measures (NTMs) to counter any potential trade-distortive effects. The Agreement contains provisions on transparency, notification, and consultations regarding these measures. For instance, technical consultations on NTMs will now have a prescribed timeline for its completion to ensure the timely resolution of issues. The reduction and elimination of these trade barriers are expected to lower the costs and complement the greater market access provided by RCEP. Notably, Petri and Plummer (2020) indicate that the reduction in non-tariff barriers will be the most important driver of RCEP's projected benefits, accounting for about two-thirds of the total effects on income.

Reduced trade costs and improved export competitiveness from simplified and harmonized rules

In the advent of globalization, countries have established GVCs which facilitated production across countries. The products' crossing of borders, however, have rendered some exports ineligible to avail lower tariffs from existing FTAs due to stringent ROOs. This issue is expected to be addressed by RCEP as the Agreement aims to consolidate and harmonize the ROO of existing FTAs (i.e., inputs from the 15 RCEP countries may now be considered as part of domestic production), further strengthening economic linkages and promoting the expansion of existing supply chains. With trade costs reduced (from preferential tariffs and lower transaction costs), RCEP will help make trade within the region more price competitive and final products cheaper for consumers. A sample computation of tariff savings for Philippine exporters is illustrated in Table 6.

Table 6. Sample Tariff Savings Computation for the Philippines under RCEP

Product	ASEAN+1 FTA end rate	RCEP end rate	2021 import value	Tariff savings
			(in US$ thousand)	
Waters, containing added sugar	5%	0%	139,906	6,995
Ignition wiring sets for motor vehicles	5%	0%	78,071	3,904
Footwear	5%	0%	49,236	2,462
Cooked pineapple	23.8%	0%	4,584	1,091
Beer made from malt	15%	0%	3,870	581
Total			275,667	15,032

Source of basic data: China, Japan, and South Korea Schedule of RCEP Tariff Commitments; International Trade Center
Note: Import values are limited to countries where the relevant tariff concession is applicable; Import values may be underestimated due to data constraints on trade data and tariff line coverage.

The standardization of origin certification procedures will also make it easier to do business with FTA partners while reducing administrative costs. This is particularly important for complex GVCs. Furthermore, as it is the first FTA that links China, Japan, and South Korea, RCEP constitutes a significant broadening and deepening of integration in the region. The synergy between the three manufacturing powerhouses is also expected to benefit ASEAN through efficiency gains from trade creation.

RCEP also provides liberal product specific rules (PSRs) for key products, allowing businesses to source raw materials from outside the RCEP region without forfeiting the preferential tariff rates. For instance, tuna from non-RCEP countries such as Norway and Papua New Guinea, may be used as input by Philippine canning firms for export to other RCEP members. Similar PSRs have been secured for other products such as fruit cocktails, garments, and footwear.

Stronger impetus for foreign investments

RCEP presents an opportunity to better integrate the Philippines into global and regional value chains and attract investments into its industries. The broader manufacturing supply chain is seen as a likely winner as enterprises with existing supply chains take advantage of the reduction in industrial tariff rates. Sectors such as electronics, industrial equipment, and automotives will likely see the most benefit. RCEP's favorable ROO also adds to the investment appeal for multinational corporations as member states are obliged to undertake numerous measures with respect to investment facilitation such as the easing of administrative procedures.

With its strategic location, dynamic workforce, and a relatively stable legal regime on IP and competition, the Philippines can make a niche for itself as an investment hub for manufacturing and research and development (R&D). Under trade in services, the Philippines committed to improve market access to R&D services, opening the sector to 51 percent foreign equity participation. These R&D services include agricultural sciences, economics, and interdisciplinary research and experimental development services on information and communications technology (ICT) (excluding cybersecurity). It is expected that the Philippines' openness to R&D will help bring in more investments and technology transfers in the country.

Technical cooperation with advanced and industrialized RCEP countries will assist MSMEs in developing better and more competitive products, with the telecommunication services and agriculture industries likely to gain most from such arrangements (Malvenda, 2019). In addition, the Agreement will also complement recent structural reforms achieved through amendments to the Retail Trade Liberalization Act, the Foreign Investments Act, and the Public Service Act.

Income growth and welfare gains over time

The greater liberalization and stronger integration under the Agreement is seen to improve real income and welfare across the region. Petri and Plummer (2020) estimate that RCEP will add US$186.0 billion to the world economy and 0.2 percent to its members' GDP on a permanent basis. Since RCEP is the first FTA between all three East Asian manufacturing powerhouses (i.e., China, Japan and South Korea) and since these three countries make up around 80 percent of RCEP's GDP, they are projected to be the largest gainers from the Agreement. Nevertheless, income gains for ASEAN are estimated at US$17.0 billion, with US$2.0 billion accounted for by the Philippines. On the other hand, neighboring non-RCEP countries such as India and Taiwan, are expected to be worse off due to the Agreement, losing US$6.0 billion and US$3.0 billion, respectively.

The forecasted positive effects of RCEP are largely consistent with other studies in the Philippine context. Their findings could be summarized into three key points: a positive impact to the Philippines under RCEP; a negative impact to non-RCEP economies; and a negative effect to the Philippines if it does not join RCEP. Table 7 contains a summary of the estimates from Cororaton (2021) and Quimba, Barral & Andrada (2021). These studies suggest that RCEP will lead to an increase in real GDP and an improvement in export performance, among others. With respect to non-participation in RCEP, the projected effect is negative since liberalization under the Agreement would divert trade away from non-RCEP countries.

Table 7. Projected Effects of the RCEP Agreement

Party	RCEP Participation	Cororaton (2021)	Quimba, Barral & Andrada (2021)
Philippines	Yes	↑ Real GDP (0.84%) ↑ Net exports (US$51.7mn) ↓ Poverty incidence (4.97%) ↓ GINI coefficient (0.08%)	↑ Real GDP (2.02%) ↑ Exports (10.47%)
	No	↓ Real GDP (0.19%) ↑ Poverty incidence (0.65%) ↑ GINI coefficient (0.02%) ↑ Net exports (US$18.0mn)	↓ Real GDP (0.26%)
Non-RCEP countries	No	↓ Exports (US$5.3 bn)	↓ Exports, India (1.25%) ↓ Exports, USA (0.17%)

Sources: Cororaton (2021); Quimba, Barral & Andrada (2021)
Note: Arrows indicate the movement (increase/decrease) of the figure while text colors indicate whether an impact is positive or negative.

V. Issues and Concerns Raised Against RCEP

Imported agricultural products may overwhelm the local farming industry

Agricultural stakeholders have raised concerns that RCEP would lead to a surge of imported agricultural products which would adversely affect local farmers and producers. This concern is rooted on the assumption that RCEP would eliminate Philippine tariffs on sensitive agricultural goods. An assessment of the country's tariff commitments under RCEP, however, finds that this is not the case. Under the Agreement, only 33 agricultural tariff lines or less than 2 percent of the total agricultural tariff lines would essentially be liberalized (i.e., tariffs will either be reduced or eliminated). Table 8 summarizes the Philippines' agricultural tariff concessions under RCEP. Further analyzing these offers on a per product level will show that only 12 tariff lines would actually be subject to tariff elimination (i.e., tariffs will be brought down to zero). Moreover, majority of the country's affected agricultural tariff lines will be provided transition periods ranging from 5 to 14 years before the tariff adjustments even take effect.

Table 8. Summary of Philippine Tariff Commitments on Agricultural Products under RCEP

Tariff Commitment	Product (# of Tariff Lines)
Tariff elimination on Year 1	Olives (1); Olive oil (1); Feeds for primates (1)
Tariff elimination on Year 15	Fish fillet (5); Spinach (1); Black pepper (1); Palm nuts & kernels (2)
Incremental tariff reduction starting Year 6	Live chicken (6); Live swine (4); Preserved sweet corn, chilies, onions & other capers (6); Sausages (2); Corn starch (1); Celery (1)
Incremental tariff reduction starting Year 8	Frozen mackerel (1)

Source of basic data: Philippine Schedule of RCEP Tariff Commitments

Another issue raised by critics of RCEP is the alleged lack of consultations with agricultural stakeholders. Consultations, after all, are of prime importance in any trade negotiation since they guide the development of the country's negotiating position. The Department of Agriculture (DA) reported that consultations with agricultural stakeholders have been undertaken through the Philippine Council for Agriculture and Fisheries-Committee on International Trade (PCAF-CIT) since the launch of RCEP negotiations in November 2012. These consultations were reportedly attended by different agricultural sector groups such as *Alyansa Agrikultura*, *Samahang Industriya ng Agrikultura* (SINAG), Federation of Free Farmers, United Broilers Association, National Federation of Hog Farmers, Pork Producers Federation of the Philippines (ProPork), Meat Importers and Traders Association, Dairy Confederation of the Philippines (DairyCon), and Rice Watch Network, among others. Relatedly, the Tariff Commission (TC) also conducted a public consultation in May 2015 in accordance with Section 1609 of the Customs Modernization and Tariff Act (CMTA). The public hearing allowed stakeholders to express their concerns and to submit positions papers which were considered in the Commission's report on its findings and recommendations on RCEP.

The RCEP negotiation team added that the composition of the country's sensitive/highly-sensitive/exclusion lists was the product of its consultations with several stakeholders. Through this mechanism, Philippine negotiators ensured that key agricultural products, such as rice, sugar and corn, will continue to be protected as they form part of the sensitive/highly-sensitive (subject to a longer tariff reduction schedule) and exclusion lists (not subject to tariff commitments). Table 9 contains a sample of agricultural products, which are part of the exclusion list under RCEP.

Apart from the exclusion of key agricultural goods from any tariff commitments, the Philippines also secured trade remedies and safety nets in case the domestic sector faces a serious injury or threat. For instance, Parties are entitled to RCEP transitional safeguards should RCEP commitments need to be adjusted or addressed due to exceptional circumstances affecting the country's economy and industries. It must also be emphasized that this RCEP transitional safeguard is an additional feature of the Agreement and does not preclude Parties from availing other safeguards[5] provided for in the WTO Agreement. This distinction is expressly reflected in Articles 7.9 and 7.11 of the Trade Remedies Chapter of RCEP. The Agreement only prohibits the simultaneous application of an RCEP safeguard measure and a measure under Article XIX of the WTO General Agreement on Tariffs and Trade (GATT) 1994 on the same good, hence, a Party must only choose one.

Table 9. Sample of Agricultural Products under the Philippine Exclusion List

Agricultural Goods			
• Swine meat	• Cauliflowers	• Maize (corn)	• Cabbages
• Rice	• Carrots	• Garlics	• Sweet potatoes
• Sugar	• Lettuce	• Coffee	• Cassava
• Potatoes	• Onions	• Instant Coffee	• Cereal groat
• Other preserved meat	• Tunas in airtight containers	• Poultry meat and edible offals	• Rolled or flaked oats

Source of basic data: Department of Trade and Industry

Lower tariff revenues due to concessions under RCEP

One concern raised against RCEP was that its tariff concessions would result in foregone revenue. It must be noted though that foregone revenue is an expected outcome from FTAs. Under these trade arrangements, countries negotiate to reduce or to eliminate trade barriers such as tariffs. For example, a country will commit to lower its tariffs in exchange for lower tariffs on its exports to the partner country as well. Through the mutual reduction in tariffs, trade costs are expected to decline for both countries, generating efficiency gains from trade and increase in aggregate income which would ideally compensate for the foregone revenue.

Banga, Gallagher & Sharma (2021) estimate that the Philippines may lose roughly US$58.2 million in tariff revenues due to RCEP concessions. Put into perspective however, this figure accounts for less than one percent of total revenues collected from taxes on imported goods (i.e., 0.48% in 2019; 0.54% in 2020). On the average, this represents only 0.60 percent of annual tariff revenues in the past five years pre-pandemic. Note that the estimated marginal loss in tariff revenue is minimal simply because the Philippines has already committed to reduce and eliminate tariffs under its existing FTAs. This likewise reflects the highly liberalized goods trade regime of the Philippines which would be further enhanced if RCEP is to be ratified.

Wider trade deficits from increased importations

The Philippines has been running a perennial trade in goods deficit which means that the country is importing more than it is exporting. In 2021, the country's trade deficit sharply widened to a three-year high of US$43.2 billion and critics fear that the country's participation in RCEP would further deteriorate its trade position. Banga, Gallagher & Sharma (2021) project that RCEP would result to an increase in importations, worth about US$148.1 million. Breaking down this figure, however, shows that more than half of the projected increase in imports is from arms and ammunition (e.g., bombs, grenades and military weapons). It must be noted though that procurement of such products may not be as responsive to tariff changes since these importations are subject to other security considerations and must be in line with the military's modernization program.

The authors also estimate that Philippine exports to RCEP countries will decline, amounting to around US$115.9 million in foregone export revenue. Such contraction is attributed to a trade diversion effect towards more efficient exporters (e.g., China) within RCEP region, leading to a decline in intra-ASEAN trade. Put into perspective, this accounts for only 0.17 percent of the country's average export earnings in the past five years. This finding contradicts results from other studies (Table 7) which project an expansion in

[5] *Safeguard measures can consist of quantitative import restrictions or of duty increases to higher than bound rates*

Philippine exports. It bears emphasizing that simulation results are dependent on each study's models and assumptions, each with its own advantage and disadvantages. For instance, Banga, Gallagher & Sharma made use of a partial equilibrium modeling tool in its analysis while Cororaton utilized a global computable general equilibrium model.

Lastly, Banga, Gallagher & Sharma estimate that the country's trade deficit could widen by about US$264.0 million. Based on 2021 figures, the projected impact is equivalent to a 0.61 percent increase in the country's trade deficit. Nevertheless, it bears noting that the study does not consider the effect on the country's trade balance with other major trading partners where the Philippines usually observes a trade surplus (i.e., the United States of America and the European Union).

While a trade deficit points to an imbalance, it is not necessarily a bad thing because it reflects each trading partners' comparative advantage and can lead to what economists call net-wealth creation (i.e., there are more products and services available for the same amount or price).

Table 10. Philippine Trade by Stage of Processing (2018-2020 average)

Products by stage of processing	Export (in US$ billion)	Import (in US$ billion)	Deficit (in US$ billion)	% share in deficit
All products	203.6	327.4	(123.7)	100.0
Consumer goods	33.6	87.7	(54.1)	43.8
Intermediate goods	22.5	71.0	(48.6)	39.3
Raw materials	16.5	33.9	(17.4)	14.0
Capital goods	131.0	134.7	(3.7)	3.0

Source of basic data: World Bank, World Integrated Trade Solution

A further analysis of the data will show that more than half or about 56.3 percent of this deficit, is accounted for by raw materials and intermediate products (used as inputs in production and manufacturing activities) or products used for capital formation. This finding suggests that the Philippines is highly dependent in sourcing inputs for further production. For example, agricultural products may require imported inputs such as fertilizer, insecticides, and farm machinery. The preferential tariffs under RCEP are thus expected to lower the costs of products (i.e., cheaper raw materials, cheaper capital goods and cheaper consumer goods) and will likewise benefit local producers and exporters.

This benefit partly explains the outpouring of support calling for the immediate ratification of RCEP from different sectors (e.g., the Pilipino Banana Growers and Exporters Association (PBGEA), Semiconductor and Electronics Industries in the Philippines Foundation (SEIPI), Philippine Exporters Confederation (PHILEXPORT), Confederation of Wearables Exporters of the Philippines (CONWEP), Garment Business Association of the Philippines (GBAP), Canned Sardines Association of the Philippines (CSAP), Tuna Canners Association of the Philippines (TCAP), Information Technology and Business Process Association of the Philippines (IBPAP), and Federation of Philippine Industries (FPI)) and business chambers (e.g., Joint Foreign Chambers (JFC) and Philippine Chamber of Commerce and Industry (PCCI)).

Absence of provisions on labor and environmental standards

RCEP's silence on labor and environmental standards is often highlighted in comparison to other recent regional trade agreements. It should be understood though that RCEP participating countries have varying degrees of development and that some Parties may be constrained from making commitments at present. Nevertheless, the Philippines and many of the RCEP countries remain signatories to the eight fundamental International Labour Organization (ILO) Conventions such as the Right to Organize and Collective Bargaining Convention, the Abolition of Forced Labour Convention, and the Worst Forms of Child Labour Convention, among others, which can be invoked if the need arises. Moreover, any emerging labor issues can also be discussed by the Committee on Sustainable Growth which would be established under RCEP.

Constraints on policy space

Other stakeholders have also raised that RCEP would severely constrain policy space to respond to national issues. Philippine negotiators, however, ensured that the commitments made under RCEP were aligned with the country's domestic laws. As such, there is no need to amend domestic laws for the implementation of RCEP, apart from the amendment to the IP Code to incorporate the Philippines' commitment on the protection of sound marks.[6] The Agreement also provides enough flexibilities to respond to concerns on security, health, safety, taxation measures and balance of payments, through relevant clauses under the General Provisions and Exceptions Chapter.

VI. Maximizing the Gains from RCEP

As the biggest FTA in the world, RCEP is a potential game changer for trade and investment integration. It must be emphasized though that mere signing of any trade agreement does not guarantee that potential benefits would materialize. The Philippines' experience with FTAs has shown that policy and sectoral limitations have hindered it from fully reaping the potential benefits of FTAs. RCEP, or any FTA for that matter, can be a double-edged sword if the appropriate measures are not implemented. As such, apart from ratification, both the Legislature and the Executive should work together to address lingering issues and challenges that prevent domestic firms from maximizing the benefits of FTAs.

Timely participation to mitigate trade diversion effects

With the Agreement already in force in other member countries, the Philippines continues to miss out on the benefits provided by RCEP. The delayed or continued non-participation, however, could have long-term effects since the liberalization under RCEP would ultimately shape trade patterns. For instance, new investment decisions may favor countries where RCEP is already in force due to the ease in business and better market access (i.e., trade facilitation provisions, lower tariffs) that the Agreement provides. Market shares of Philippine exports may start to erode due to higher effective tariffs and more troublesome procedures relative to other RCEP economies.

The Agreement's potential to create and divert trade is a consistent theme across different studies on RCEP. For instance, Andal and Cuevas (2020) utilized a gravity model of trade to estimate the potential effect of RCEP membership on bilateral trade flows. The authors find that the potential trade creation and diversion effects of RCEP differ across agricultural commodities, performing best in fish and crustaceans where no potential trade diversion was projected. This would bode well for the domestic seafood industry which will benefit from lower tariffs on canned tuna and salmon, fish fillet, and dried/salted tilapia if the country joins RCEP.

Meanwhile, a study by Nicita (2021) found that while the Philippines, together with Cambodia, Indonesia, and Vietnam may initially be affected negatively by trade diversion due to the differences in the magnitude of tariff concessions, these countries would still be better off inside the RCEP region as trade diversion effects would have accrued notwithstanding. If the Philippines remains outside the RCEP free trade area, it would not be able to offset the resulting trade diversion with the Agreement's trade creation effect. In addition, the country would also be missing out on the strengthened economic integration, along with the potential benefits that come with it such as FDI, technology sharing, and structural transformations.

Improve domestic support to enhance competitiveness

As raised by farmers' groups pertaining to agricultural exports, adjustment measures meant to help farmers take advantage of previous trade agreements and cushion their possible adverse effects were not fully implemented. The Agriculture and Fisheries Modernization Act (AFMA), for instance, did not receive its full

[6] Bills amending the IP Code have already been filed in Congress which would include the protection of non-visual marks such as sound marks. Nevertheless, RCEP provides a five-year transition period for the Philippines (may be subject to extension) to implement this change.

budget for several years. If the full suite of programs under AFMA was properly implemented, then perhaps the agriculture sector would have maximized the benefits provided by the FTAs. These include improved programs for financing, extension, participation in trade fairs and trade missions, and development of Agri-Industrial Business Corridors that will provide farmers with better access to inputs, production technology, and trading posts, among others.

Farmers' groups have pointed out that despite already being a part of several FTAs, the Philippines' agricultural exports have continued to underperform compared to neighboring countries. This suggests that there are underlying issues which prevent the domestic agricultural sector from taking full advantage of the concessions under existing FTAs. Farmers believe that as long as these issues remain unresolved, the sector's performance would not improve under RCEP.

Table 11. Agricultural Exports of Select ASEAN Countries

Country	Average growth (in percent, %)				Average share (in percent, %)				Top Exports
	1980s	1990s	2000s	2010s	1980s	1990s	2000s	2010s	
Indonesia	1.7	5.6	14.5	7.0	17	16	17	25	Palm oil, coconut oil
Malaysia	4.3	1.8	10.5	3.7	39	17	11	13	Palm oil, other vegetable oils
Thailand	10.0	4.4	9.7	5.3	54	26	18	18	Rice, sugar, processed fish
Vietnam	-	6.7	14.9	9.0	-	32	25	17	Rice, coconuts, coffee
Philippines	**(2.4)**	**0.3**	**6.6**	**10.4**	**33**	**14**	**7**	**10**	Banana, coconut oil

Source of basic data: World Bank, World Integrated Trade Solution; Observatory of Economic Complexity
Note: Data for Vietnam only available starting 1997.

To this end, the government must intensify efforts to address structural issues (e.g., lack of irrigation, access to financing, smuggling, and border controls) which have stunted the sector's growth. This must also be complemented by a comprehensive plan to improve agricultural productivity and promote expansion beyond traditional export products. With respect to a potential surge in imports, the government should consider crafting a support package to assist producers and workers who may be affected by the improved RCEP tariff concessions on the 33 agricultural and 1,397 industrial tariff lines.

Table 12. Tariff Effect of Philippine Tariff Commitments on Agricultural Goods under RCEP

Tariff Effect	Products	2021 import value (USD thousand)	Remarks
8-12%	Live poultry	-	Not for breeding; may not be practical to import for slaughter; used by *sabong* operators
1-12%	Preserved sweet corn, chilies, onions, and other capers	130	Used as input in soup products, cup noodles and for final consumption
4-10%	Live swine	260	Not for breeding; may not be practical to import for slaughter
9%	Sausages	2,430	Used by restaurants or for final consumption
5%	Fish fillet	-	Used as input by food processors, restaurants, and canning companies
	Olives	110	Used by restaurants and for final consumption
	Spinach	20	Used as input in soup products, cup noodles
	Black pepper	20,120	Used as condiment or input in canned and processed food
	Palm nuts & kernels	50	Includes seedlings for farms
	Olive oil	-	Used by restaurants or as input in canned goods
3%	Feeds for primates	600	Used by local zoos
2%	Frozen mackerel	51,720	Used as input by food processors, restaurants, and canning companies
1%	Celery	10	Used as input in soup products, cup noodles
	Corn starch	56,080	Used by restaurants

Source of basic data: Department of Trade and Industry; National Economic and Development Authority
Note: Tariff effect corresponds to the marginal improvement of PH tariff commitments in RCEP compared to those in ASEAN+1 FTAs; Import values may have discrepancies due to rounding.

Studies have also emphasized the need to maintain a stable macroeconomic environment, increase investments in infrastructure development, and strengthen competition in the delivery of public services amid increasing globalization. As such, recently passed amendments aimed at opening the economy further and loosening restrictions on trade and investments bode well with the envisioned integration under RCEP. Moreover, other proposed reforms (on trade facilitation and ease of doing business, among others) which could further enhance the expected benefits from RCEP should be considered.

Increase FTA utilization to fully harness the benefits of tariff concessions

Another key challenge to maximizing gains from FTAs is the low utilization rate (ranging from 20.0% to 30.6%) of FTAs by firms in the Philippines. The low FTA utilization rate is mainly attributed to a lack of awareness and information about the FTAs. For instance, firms may have no idea about the processes related to availing tariff references or they may be discouraged from availing them since professional assistance is expensive. To address this issue, studies have recommended a stronger communication campaign on the use of FTAs and to establish other mechanisms that will assist businesses in utilization (Wignaraja et al. 2010; Aldaba et al. 2015). Particular attention should also be given to MSMEs and those located in rural areas (Quimba et al. 2020).

Table 13. Survey Results on FTA Utilization of Philippine Firms

Particular	Wignaraja et al. (2010)	Aldaba et al. (2015)	Department of Trade and Industry (2015)
No. of surveyed firms	155	108	939
Utilization rate	20.0%	30.6%	22.0%
Other findings	- 41% of firms plan to use FTAs soon	- 28% of SMEs use FTAs - 35% of large firms use FTAs	- 16% of SMEs use FTAs - 39% of large firms use FTAs

Source of basic data: Wignaraja et al. (2010); Aldaba et al. (2015); Department of Trade and Industry (2015)

Other considerations are high compliance costs associated with administrative and procedural delays (Wignaraja et al. 2010; Aldaba et al. 2015; DTI 2015) which could discourage smaller enterprises from utilizing the FTAs, notwithstanding the potential gains. To this end, the government must likewise strive to streamline certification processes (e.g., organic, ISO-certification, etc.) to make it convenient and less expensive for agricultural exporters to enter regional/global markets. Understanding that the government's limited resources may prevent a wider reach, it is also recommended that government agencies partner with business groups and organize information sessions and workshops to specifically increase the capacity of importers/exporters to utilize the provisions of FTAs to their advantage.

VII. Final Analysis

Farmer groups oppose the ratification of RCEP because they claim that they are *not yet ready* to compete with cheaper agricultural imports. This concern, however, may be misplaced since tariffs of key agricultural products (e.g., rice, sugar, and corn, among others) will continue to be protected by their present applicable tariffs, even if the country joins RCEP.

It must also be emphasized that the goals of economic integration and industry development could be pursued simultaneously. Joining RCEP does not prevent the Philippines from continuously improving its domestic support to resolve problems on productivity and smuggling, among others. The underlying issues stunting the agricultural sector's growth must be addressed and should not depend on the country's participation in RCEP.

Oppositors have also raised that most of the benefits from RCEP could already be availed from the Philippines' existing FTAs. After all, majority of the tariffs have already been brought down in previous FTAs and will not expire but coexist with RCEP. The biggest selling point of RCEP, however, is not solely in the tariff liberalization but in the integration of a mega free trade market. This integration entails streamlining and harmonizing of trade processes which are expected to reduce costs and strengthen trade relations across the region. Due to the sheer size of RCEP, the trading bloc will have a stronger leverage to dictate global rulemaking and setting of standards. Without joining the bloc, the Philippines would lose an opportunity to influence institutional policies that could shape the future of international trade.

While the current text still has room for improvement, the RCEP Agreement remains a living document which can be updated and enhanced. A review mechanism is incorporated in the Final Provisions Chapter which provides for a General Review of the Agreement five years after its entry into force, and every five years thereafter. Should the Philippines choose not to participate in the ASEAN-led mega FTA, it would have no say in how RCEP would develop moving forward.[7]

[7] *The Agreement will become open for accession to new members 18 months after it entered into force. At least two economies, Hong Kong and Bangladesh have already applied for accession into RCEP.*

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