

**Box 3.2****RCEP and its Possible Impacts on Hong Kong**

After eight years of negotiation, 15 economies in the Asia-Pacific region, comprising the ten Association of Southeast Asian Nations (ASEAN) Member States<sup>(1)</sup>, Mainland China, Japan, Korea, Australia and New Zealand, signed the Regional Comprehensive Economic Partnership (RCEP) Agreement on 15 November 2020. The RCEP is the largest free trade agreement (FTA) in history, covering around one-third of the world's population and accounting for about one-third of the global GDP. The RCEP will take effect 60 days after it is ratified by six ASEAN signatory economies and three non-ASEAN signatory economies. The market currently expects this FTA will enter into force later this year, and will boost the economic integration in the region further. This article discusses the significance of the RCEP to the regional economy and its possible impacts on Hong Kong.

One of the major breakthroughs with the RCEP is the expansion of free-trade network. It marks the first time Mainland China, Japan and Korea are in a single free-trade bloc, though both Mainland China and Korea have yet to reach bilateral FTA with Japan. Under the RCEP, trade among the three places and other RCEP members will be entitled to preferential treatments. In terms of merchandise trade, the RCEP will eventually eliminate more than 90% of tariffs on imports between its members. It will also establish common rules for e-commerce, custom procedures and intellectual property. These will strengthen trade flows between RCEP members by reducing costs of and barriers to trade.

Another breakthrough with the RCEP is the establishment of common rules of origin (ROOs) for merchandise trade among the members, which govern how the origin of a product is determined and thus its eligibility to preferential treatments. Under the RCEP, products produced and shipped across multiple members can enjoy preferential treatments by meeting one single set of ROOs that allows intermediate inputs from the region to be cumulated as regional value content. This will facilitate the developments of new and established supply chains in the region by significantly mitigating the “spaghetti bowl effect”, viz. the hindrance to trade caused by the tangled and differentiated ROOs under existing FTAs among RCEP members<sup>(2)</sup>.

Hong Kong, as one of the most externally-oriented economies worldwide, has long had close economic ties with RCEP members (*Table 1*). In particular, Mainland China and ASEAN were Hong Kong's largest and second largest merchandise trading partners in 2020, and the largest and fourth largest services trading partners in 2018<sup>(3)</sup>, respectively.

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(1) ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.

(2) For more details on how the “spaghetti bowl effect” affects trade and investment flows, please refer to “Box 2.2 ‘Spaghetti bowl effect’ of free trade agreements” in *Third Quarter Economic Report 2016*.

(3) The rankings are arrived at by taking ASEAN and the European Union as single entities while all other trading partners are considered on an individual economy basis.

**Box 3.2 (Cont'd)****Table 1: Hong Kong's close economic ties with RCEP members**

Trade with RCEP members	Hong Kong's merchandise trade in 2020		Hong Kong's services trade in 2018	
	Amount (HK\$ billion)	Share* (%)	Amount (HK\$ billion)	Share* (%)
Mainland China	4,248	51.8	578	39.3
ASEAN	1,034	12.6	137	9.3
Japan	349	4.3	88	6.0
Korea	299	3.7	25	1.7
Australia	49	0.6	47	3.2
New Zealand	9	0.1	4	0.3
<b>Total</b>	<b>5,988</b>	<b>73.0</b>	<b>878</b>	<b>59.7</b>

Note: (\*) Refer to the share in Hong Kong's corresponding overall total.

Source: Census and Statistics Department.

The RCEP will lower tariffs and cut red tapes of its members, thereby enhancing trade flows in the region. This will benefit Hong Kong's offshore trade and third-party logistics services, given our close ties with these economies as well as our prominence as an international trading centre. In addition, the RCEP will foster trade and investment relations within the region, thereby creating demand for financial and professional services, in which Hong Kong has strong competitiveness.

Hong Kong has already signed FTAs with 13 members (i.e. Mainland China, ten ASEAN Member States, Australia and New Zealand) of the RCEP. Yet, Hong Kong should also join the RCEP in order to reap the full benefits. These include, among others, making Hong Kong's re-exports and domestic exports eligible for all the preferential tariff treatments and trade facilitation measures of the RCEP. The Government expressed strong interest in joining the RCEP as early as in 2018 and has received positive responses. The Government will continue to actively engage RCEP members for commencement of discussions on Hong Kong's accession with the aim of being the first batch of economies joining the RCEP.