



Rethinking Supply Chains:

RCEP impact on the supply chain in ASEAN and beyond

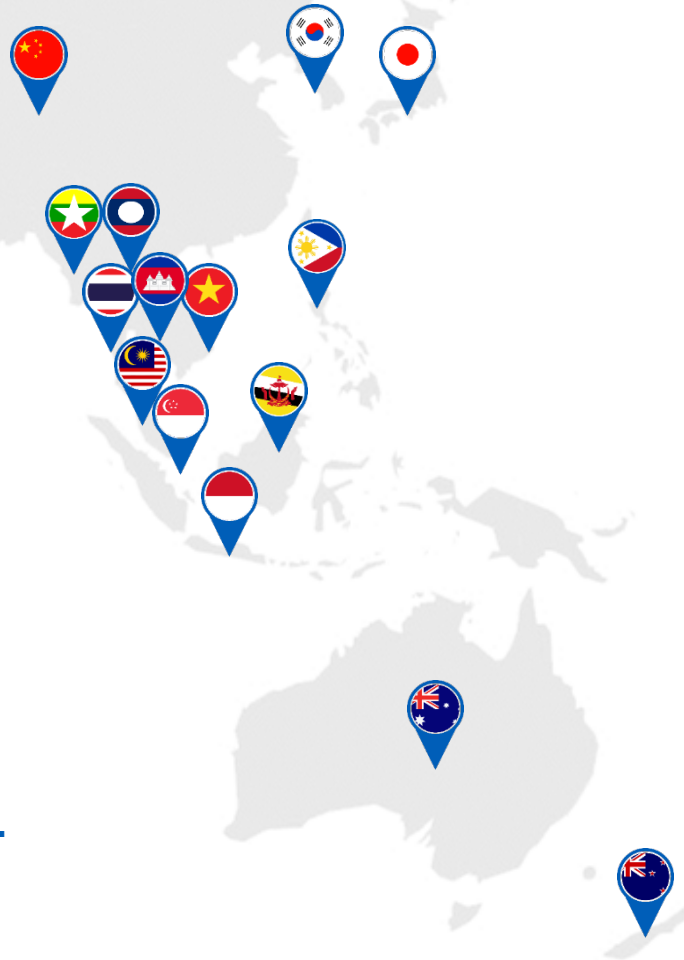
Special briefing

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What is RCEP?

Regional Comprehensive Economic Partnership (RCEP) is a free trade agreement between the Asia-Pacific nations of the 10 ASEAN member states (**Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam**) and **Australia, China, Japan, New Zealand** and **South Korea**.



ASEAN is considered a complicated region to manoeuvre by most company supply chain executives.

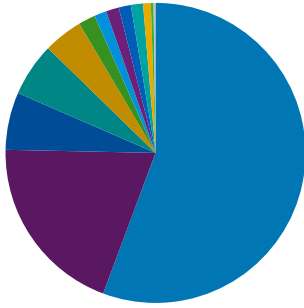
On top of the differences in tax and duty structures and naming conventions, the myriad trade agreements between individual countries also add to the complication. Instead of optimising supply chains to serve customers most responsively and efficiently, executives are focused on navigating the business and regulatory environment. With the RCEP agreement, they can now focus on consumer-related challenges instead of trying to overcome the multiple bureaucratic hurdles.

With its strong connectivity in the region, Singapore is well positioned to act as a hub.

Its large skilled workforce across multiple industries and domains also acts to its strength in providing leadership in the supply chain.



Share of GDP (\$26.2 Trillion) Across RCEP Countries



- China
- Japan
- South Korea
- Australia
- Indonesia
- Thailand
- Vietnam
- Philippines
- Singapore
- Malaysia
- New Zealand
- Myanmar (Burma)
- Cambodia
- Laos
- Brunei

Percentage Share Vis-À-Vis Global

Population



30%

(\$2.2 Billion)

GDP



30%

(\$26.2 Trillion)

Trade



28%

(\$5.3 Trillion)

Key features of RCEP



The RCEP aims to **reduce tariffs and red tape** on merchandise trade between the member states over the next 20 years. It also prohibits certain tariffs to enable easier trading among partner nations.



It will supersede a number of bilateral trade agreements in the region and offer **one set of rules for trade and customs procedures**.



It includes **unified rules of origin** throughout the bloc, which may facilitate international supply chains and trade within the region.



It does not focus on **labour unions, environmental protection, or government subsidies**.

FTAs among RCEP participating countries

| | ASEAN | Australia | China | Japan | South Korea | New Zealand |
|-------------|-------|-----------|-------|-------|-------------|-------------|
| ASEAN | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Australia | ✓ | | ✓ | ✓ | ✓ | ✓ |
| China | ✓ | ✓ | | | ✓ | ✓ |
| Japan | ✓ | ✓ | | | | |
| South Korea | ✓ | ✓ | ✓ | | | |
| New Zealand | ✓ | ✓ | ✓ | | ✓ | ✓ |

✓ FTA concluded, signed and in force

Potential Benefits of RCEP (Medium to longer run)



Trade movements stimulated and increased economic activity

This is a result of harmonisation of trade rules and a reduction in duties and tariffs over time with the RCEP. It should reduce the taxation costs arising from the movement of merchandised goods between the signatory members.



Global national income to rise by \$186bn annually by 2030




The Peterson Institute for International Economics also estimates that it will add 0.2% to the economy of the members states.

Analysis from the Brookings Institute argues the RCEP could add \$209bn to world incomes each year, and \$500bn to world trade by 2030. Perhaps more importantly, the analysis goes on to suggest that along with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the RCEP will **“offset global losses from the U.S.-China trade war, although not for China and the United States. The new agreements will make the economies of North and Southeast Asia more efficient, linking their strengths in technology, manufacturing, agriculture, and natural resources”**.

Key Focus Areas For Supply Chain Executives

SHORT TERM

0 – 12 MONTHS

-  **Quick evaluation of the current supply chain network** from the point of view of distribution, warehousing and current tax/duties.
-  **Standardise material codes and routes**, and rationalise 3PL processes and vendors across multiple countries.
-  **Standardise complex enterprise systems** to accommodate various regulatory tax and duties.

MEDIUM TERM

12 – 24 MONTHS

-  **Focus on Intra-Asia supply chains for Procurement & Production** where new ‘rules of origin’ will likely have the most significant impact.
-  **Provide incentive for value creation near the source of demand** to rebalance the risk associated with globalised supply chains in the post pandemic world.

STRATEGIC

24+ MONTHS

-  **Look into potential consolidation of companies providing supply chain services across the region.** Currently there are multiple companies offering services for launching products in the region via different distribution channels with expertise on specific countries.
-  **Provide impetus to ecommerce and other emerging business model.** The low cost approach of *pilot launch via online channels-evaluate response-ramp up and launch via other channel* business model has been too challenging for new companies across industries.

How we can help

Organisations everywhere are asking mission-critical questions pertaining to the supplier and operations issues. KPMG's team is here to support you in navigating this unprecedented situation. Our professionals are skilled across all areas of supply chain operations, whether it be strategy and analytics, supply chain risks, planning and execution, or logistics and distribution.



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