



Regional Comprehensive Economic Partnership (RCEP)

On 15 November 2020, Thailand signed up to the Regional Comprehensive Economic Partnership (RCEP) agreement in conjunction with 14 other countries, including ASEAN member states, China, Japan, South Korea, Australia, and New Zealand. This agreement will act as a framework for greater economic cooperation – a goal that has been officially in the works since November 2012. The RCEP agreement covers economic liberalization, trade in services and investment, and other areas of cooperation with the aim to link the economies of member countries.

Thailand's total trade flows between RCEP members accounted for 56.9% of Thailand's imports and exports in 2019. It is expected that the agreement will enable significant growth in Thailand's trade flow with RCEP members, especially in industries where Thailand has a strong trading presence such as automotive and parts production, plastics and petrochemicals, and electronics.

The agreement extends the scope of existing free trade agreements (FTA) between RCEP countries. The benefits of RCEP will be most pronounced in jurisdictions which did not already have a bilateral free trade agreement in place such as between Japan and China, and between Japan and South Korea. Refer to KPMG publication - [*Signing of Regional Comprehensive Economic Partnership – Impacts for the Asia Pacific region.*](#)

Implications for Thailand businesses

- As RCEP is currently made up of 15 member countries – the highest number of members among all the FTAs of which Thailand is a member party – businesses should explore the benefits of regional accumulation. The RCEP accumulation rule considers goods obtained in or processed in one member country as originating in another country. Therefore, some products that did not qualify under other FTAs' rules of origin because they were unable to obtain the minimum Regional Value Content ("RVC") may now be able to enjoy the potential benefits of preferential rates of duty under RCEP by utilizing RCEP's accumulation rule.
- Many RCEP member states aim for a greater reduction in tariffs to reduce barriers to trade. The movement of raw materials, semi-finished goods and finished goods should become freer under RCEP with less cause for concern about customs duty. However, businesses should closely monitor the final preferential rates on duty schedules and exclusion lists of each member country to identify opportunities or risks for their products.



- RCEP’s benefits mentioned above have the potential to support strategies that aim to decentralize manufacturing. These are strategies where a business sets up manufacturing facilities for their supply chain in several countries. This can not only diversify risk caused by production disruption compared to the use of a single facility, but it can also unlock unique advantages in each country such as low production costs, better transportation lead times, and ease of carrying out certain manufacturing activities.
- It is quite clear that RCEP’s trade in goods rules have the potential to transform the whole supply chain of the Asia-Pacific region in ways that can help many businesses to reduce their costs or increase their revenue. Therefore, Thai businesses should try to review and improve their existing supply chain and consider how to maximize RCEP’s potential benefits, especially for market expansion opportunities.
- Another key highlight is that the RCEP agreement introduces new chapters on e-commerce and small and medium enterprises (SMEs), which were not previously discussed in other FTAs. The RCEP e-commerce provisions aim to promote cross-border e-commerce between member states, and to assist small and medium enterprises’ engagements with e-commerce. These provisions include enhancements for e-commerce development and online personal data protection, as well as improvements in trade administration using electronic means, e.g. paperless trading, electronic authentication, and electronic signatures. Meanwhile, small and medium enterprises are recognized in the RCEP as significant contributors to economic growth, employment, and innovation for member states, and as such member states will encourage and support small and medium enterprises in their participation with these RCEP provisions.
- As suggested above, RCEP provisions could motivate multinational companies to reorganize supply chains within their groups in order to make the most of the potential benefits provided by RCEP. In such a scenario, companies must be aware that issues of cross-border taxation, along with taxation in the country that a business is relocated to, should also be taken into account.
- The RCEP agreement contains a great deal of detail about several criteria, some of which differ from other FTAs that follow quite similar rules and details. As a result, all importers and exporters who aim to make the most of RCEP’s potential benefits should identify and review all of its relevant rules and details. This can help to prevent any risks that may occur from non-compliant activities.

KPMG is at the forefront of developments in bylaws to be issued by governments of RCEP member states and will endeavor to offer support on RCEP provisions and provide updates in due course.



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