RCEP: CAN MULTILATERALISM LEAD TO ECONOMIC GROWTH IN ASIA PACIFIC?

A Report by Cheung Kong Graduate School of Business (CKGSB)

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Introduction

Accounting for nearly a third of the world's population and almost 30% of global GDP, the Regional Comprehensive Economic Partnership (RCEP) entered into force on January 1, 2022. This free trade agreement includes 15 countries from Asia Pacific, forming the world's largest trading bloc. Initially conceived by ASEAN as a means of bringing its pre-existing regional trade partners together under a comprehensive economic agreement, RCEP is expected to add US$200 billion to global GDP annually by 2030.

This report aims to explore the various opportunities and challenges this new agreement will bring to the region. It will consider the likely impact on the region's economy, politics and practical implications for businesses. In a time when many economies are turning away from multilateralism, will RCEP prove these skeptics wrong? Can it represent an opportunity to leverage liberalized trade and supply chain optimization while kick-starting Asia Pacific's economies?

The Cheung Kong Graduate School of Business has convened experts in the region to share insights on how RCEP will change the economic and political landscape of Asia Pacific and how businesses can practically benefit from the agreement.

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Is Asia the New World Order?

RCEP will form the world's largest trading bloc, marking the beginning of what many experts refer to as the "Asia Century." What geopolitical and economic shifts will take place to put Asia at the center of growth and power?

Will RCEP Facilitate Asia's Dominance of the Digital Economy?

RCEP is expected to speed up the development of cross-border e-commerce, which is shaping digital trade in the region. What roles will e-commerce, digital payments, AI and analytics play as economies digitally integrate under RCEP?

Boosting Value Chains, Trade Flows and Investment

RCEP is expected to expand trade in the region by reducing tariffs on goods and creating a higher-quality rules-based system for trade in services. It will also reduce non-tariff barriers, such as on technical standards and customs and quarantine procedures, as well as foster interregional investment. How can RCEP facilitate foreign direct investment and investments into small and medium-sized enterprises? What opportunities and challenges will businesses operating in the region face?

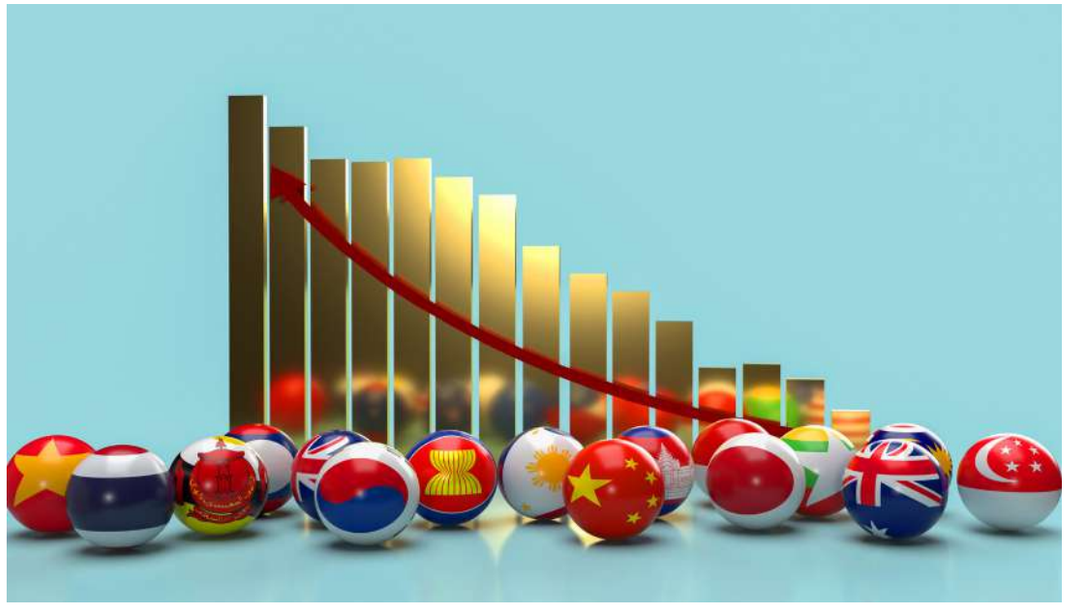
01

RCEP: A Milestone in Multilateral Global Relations

Xiang Bing

Founding Dean and Professor of China Business and Globalization, CKGSB

Dr. Xiang Bing is the Founding Dean and Professor of China Business and Globalization at Cheung Kong Graduate School of Business (CKGSB). Dr. Xiang is a leading authority on China business. His research interests include the reform of state-owned enterprises, economic disruption, innovation and the role of the private sector in China. His insights on the innovations in China, globalization of Chinese companies, China's development models, global implications of China's transformation, social innovation, economic disruption, China-US relations, global trade and investment systems and global governance have been widely acclaimed.



RCEP represents Asia's response to an increasingly fractured world. Asia's proactive role in supporting globalization will also help increase its influence on the world stage.

The Regional Comprehensive Economic Partnership (RCEP) was ratified on 1st January 2022. It has become the world's largest trade deal, and will hopefully provide a much-anticipated uplift to the global economy in 2022 and beyond.

Beleaguered by the rise of trade protectionism, anti-globalization, geopolitical tensions and the impacts of the pandemic, the world may have already begun its transition to a 'post-WTO' global trade order, where regional agreements take precedence over any attempts at constructing an all-encompassing trade mechanism. It is against this background that treaties such as USMCA, CPTPP and RCEP have emerged.

Although regional in nature, RCEP will have tremendous global economic implications. RCEP countries are home to almost one-third of the world's population, and collectively produce around 30% of the world's GDP. Trade within the region stands at USD $10 trillion, which is 28.4% of global trade volume. Just by looking at the size alone, RCEP's economic impact will be staggering.

Why Is RCEP so Important?

The RCEP negotiations were launched by leaders from 10 ASEAN member states and six ASEAN FTA partners during the 21st ASEAN Summit in Phnom Penh, Cambodia in November 2012. ASEAN economies, which played the leading role in driving RCEP's conceptualization, design and ratification, have shown the world how countries with drastically different levels of economic development can team up to drive regional growth for collective prosperity. RCEP is, hence, estimated to increase world trade by nearly USD $500 billion annually by 2030 and raise world incomes by USD $263 billion annually[1].

RCEP also represents the first free trade agreement between China, Japan and South Korea. It is worth noting that since 2012, attempts at building a tripartite free trade zone have not borne any fruits. Since these three countries contribute a combined 25% of global economic output, RCEP, as the first successful trade agreement between these three nations, will significantly boost production, trade and innovation within the area. Deeper trade relations between these three countries may also pave the way for further economic and cultural integration in East Asia.

China has undoubtedly played a significant role in RCEP's successful ratification. The nation is home to 61.7% of the RCEP population, and contributes 56.7% of the region's total GDP. At the same time, China, alongside Laos, Cambodia and Vietnam, were the only countries that achieved positive GDP growth in 2020. China is also the largest trading partner with RCEP countries such as Korea, Japan, ASEAN economies, Australia and New Zealand. While some commentators may view China's involvement as a ploy to gain the upper hand in the region, the reality is that RCEP's emphasis on equity and shared complementarity means that each participating nation is able to benefit from a virtuous cycle of free trade and a shared pool of resources and expertise. China's proactive role in RCEP shows its determination to defend globalization and multilateral trade relations, as well as fostering regional economic integration and harmony.

What We Can Look Forward to

The paradigm of neoliberalism and unilateral global policymaking has left much to be desired for the majority of the world's population. Resulting discontent has partly fueled the recent worldwide upsurge populism and anti-globalization. While these trends claim to offer a quick fix to many of the world's woes, such shortsightedness must inevitably yield to ever-larger strides towards regional integration and globalization. RCEP, which sees the latter as its main task, will play a major role in lessening geopolitical friction and promoting harmonious global relations.

Even though RCEP is still in its early days, what history will remember about this agreement might be its contribution to healthy multilateral global relations. Just as organizations increasingly realize the vital importance of prioritizing socially-responsible growth over short-term profiteering, like-minded nations are pulling together to signal the importance of collectivism over populist wars of words. Indeed, terms like 'partisanship' and 'coercion' have no place in RCEP's dictionary.

RCEP represents Asia's response to an increasingly fractured world. By displaying such a sustained commitment to regional integration and globalization, participating nations signal to the world that the only way out of the current global political and economic impasse is equal, fair and open dialogues. Asia's proactive role in supporting globalization will also help increase its influence on the world stage.

RCEP's ratification also demonstrates the feasibility of a rule-based regional order in which all participating countries are invited to shape their common destiny. In this configuration, deeper trade relations lay the foundation for increased cultural exchange and provide fertile soil for future technological and social innovation.

In twenty years' time, we may see a completely different global landscape: one where RCEP economies play a major role in fostering high quality global growth and pioneering equitable forms of geopolitical relations. What lies ahead is both exciting and inspirational.

02

China's New Challenges and Opportunities Through RCEP

Tao Zhigang

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RCEP is an intermediate step to take before you finally reach CPTPP, offering a strategy of gradualism.

Why Is RCEP so Important?

The idea of RCEP was first conceived in 2011, followed by a very long period of difficult negotiations and finally a quick and somewhat surprising agreement in November 2020 in a virtual meeting. It shows the urgency and determination of the member countries in pushing for this trade agreement and using it as a catalyst for post-COVID economic recovery.

RCEP presents a major departure from the trend of deglobalization, which we have witnessed since 2017. The process of deglobalization, initiated by the Trump administration, has not yet been reversed since Biden took the presidency more than one year ago. So, it is good to have ten ASEAN countries together with five other economies, including some of the most important economies in the world (particularly China, Korea, and Japan), to have a new regional trade agreement, reinvigorating multilateralism. As RCEP includes a mix of high-income, middle-income, and low-income countries, it presents challenges in both the agreement and the actual implementation. However, I am confident that RCEP will make it work for each member country through a twenty-year window for reducing tariffs and ensuring a smooth transition to a more integrated world for all parties involved, paving ways for better and more sustainable multilateralism.

RCEP represents both opportunities and challenges to China.
It showcases China's willingness to embrace globalization.

It Is Not Geopolitics but Will Have Geopolitical Implications

Some commentators, especially those outside of Asia, consider RCEP and CPTPP as rival agreements, partly because China led RCEP whereas US used to lead CPTPP. I tend to think otherwise. Compared with RCEP, CPTPP aims at reaching much higher standards on labor and environmental issues, state ownership, government procurement, intellectual property rights protection, etc. So, if countries cannot agree on RCEP, it will be almost impossible to have CPTPP. In my view, RCEP is an intermediate step to take before you finally reach CPTPP, offering a strategy of gradualism. In this regard, it is not surprising that China has indicated its interests in joining CPTPP shortly after the completion of RCEP negotiations.

One of the most important impacts of RCEP is to bring China and Japan together and facilitate more trade and investment between the two countries. This is because the two countries have not yet reached a bilateral trade agreement despite many years of effort.

If you follow Japanese media reports about Japan's exports to China, which surpassed Japan's exports to the United States in 2020, you realize that there has been some hesitation in Japan about its so-called over-reliance on the Chinese market. Likewise, my earlier work shows that the animosity between China and Japan dating back to the World War II still has adverse effects on their bilateral trade and investment ("Once an Enemy, Forever an Enemy? The Long-run Impact of the Japanese Invasion of China From 1937 to 1945 on Trade and Investment," https://www.sciencedirect.com/science/article/abs/pii/S0022199615000021).

The economic models would suggest much more trade between China and Japan, not just because of the large size of the two countries (the bigger the size, the more the trade) but also because of the much shorter physical distance between Japan and China, versus Japan and the United States. Hopefully through RCEP, the two countries will have the level of economic cooperation and specialization predicted by the economic models, which in turn may lead to better political relations between China and Japan.

Opportunities for China

One obvious strategy made possible by RCEP is for export-orientated firms currently based in China to relocate part of its production to ASEAN. This is because of the rising labor costs in China on one hand and US tariff on China on the other hand. This set of firms includes both China's indigenous firms and foreign affiliates operating in China. My own research ("The Impact of the US-China Trade War on Japanese Multinational Corporations," supported by Japan's Research Institute for Economy, Trade and Industry, or RIETI, https://www.rieti.go.jp/en/publications/summary/19070006.html) shows that Japanese operations in China were caught in the middle during the US-China trade war, because many Japanese firms have used China as a low-cost production base for exporting to the United States.

The reorganization of supply chains away from China but within Asia partly explains the rising trade between China and ASEAN. Indeed, ASEAN

has been China's number one trading partner and become even more so with the passage of RCEP. According to the statistics from the General Administration of Customs of China, in 2021, China's trade with ASEAN was RMB 5.67 trillion (USD $850 billion), ahead of its trade with the US (RMB 5.35 trillion which is USD $803 billion) and Europe (RMB 4.88 trillion which is USD $733 billion). In the first quarter of 2022, China's trade with ASEAN, the EU, and the US reached RMB 1.35 trillion (USD $202 billion), RMB 1.31 trillion (USD $197 billion), and RMB 1.18 trillion (USD $177 billion), respectively, noting that China's trade with Europe surpassing that with the US, possibly because of the rerouting of China's export to the US via ASEAN.

As the United States and Europe face the highest inflation rate in the last 39 years, the reorganization of supply chains within Asia and the reinvigoration of the globalization through RCEP will offer an opportunity for Asia-based firms to provide affordable yet high-quality goods to the world thereby alleviating the pressure of rising inflation.

Challenges for China

One challenge for China is the job losses associated with the relocation of low-tech industries or low-skilled segments of high-tech industries from China to ASEAN. This is no different from some of the American workers who lost their jobs due to the offshoring and outsourcing of American multinationals overseas, especially to China, after China's entry into the WTO in 2001. To deal with this challenge, the Chinese government is big on re-training and economic assistance programs (a type of redistribution program). Targeted poverty alleviation and common prosperity programs in China are something along this line, ensuring all parties in China benefit from its process of globalization.

Another and possibly even bigger challenge for China is that its high-tech industries and firms are expected to face import competition from Japan and Korea. Available evidence suggests, however, that the Chinese government is going to bite the bullet by exposing its high-tech industries and firms to Japanese import competition. The Chinese government feels the urgency of spurring its high-tech industries and firms to innovate in view of the imminent technological decoupling between the United States and China. And, based on the experience of China's entry into the WTO more than twenty years ago, the Chinese government has the confidence that its high-tech industries and firms will rise to the challenge by moving toward the global technological frontier.

In sum, while RCEP represents both opportunities and challenges to China, it showcases China's willingness to embrace globalization. It is expected that RCEP will help Asia come together, develop closer and deeper economic integration, and ultimately become the growth engine for the world in the twenty first century.

03

The Strategic Considerations of China Joining RCEP

Liang Wentao

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Liang Wentao is the former Deputy Director General of the Department of Asia Affairs at China's Ministry of Commerce. He is also an alumnus of the Executive MBA Program and ASEAN New Economy Leadership Program of Cheung Kong Graduate School of Business. Having served as Economic and Commercial Counsellor at Chinese Embassies to Turkey and the Philippines, he was closely involved in China's trade relations with Asian countries. Liang participated as the Senior Economic Official in many pre-RCEP negotiations and has been a key figure in China's trade relations with Asian countries. In August 2017, he went over to the private sector to work for China Fortune Land Development as the chairman until 2021, where he helped the business expand into Indonesia and Vietnam.

Political and diplomatic tensions disrupt the implementation of RCEP, but that does not change the fact that RCEP signifies member countries' belief in collaborating for common prosperity in Asia Pacific.

Since its accession to WTO in 2001, China's economy ushered in a new era of rapid growth. Behind China's economic boom was its thriving trade with developed countries like the United States (US), Japan, South Korea, and Germany. In the meantime, as part of its diversification strategy, China has long been developing trade relations with developing countries, ASEAN in particular.

Southeast Asia is a region with significant potential, economically but also geopolitically - abundant in natural resources, politically neutral, and boasting a growing market size and potential. China launched the Belt and Road Initiative in the early 2010s to further enhance trade ties with its neighboring developing countries through better business ties and economic collaborations. It also served to diversify China's dependence on developed countries in the West, which was the rationale for its membership in the Regional Comprehensive Economic Partnership (RCEP).

Joining RCEP marks another stride in China's reform and opening-up agenda. It is the first multi-lateral trade agreement that China joined with advanced economies like Japan, South Korea, Australia and New Zealand. RCEP would eliminate tariffs on 90% of all trade within the member states, as well as other barriers to trade and customs. By lowering tariffs and easing market entry policies, the RCEP agreement also offers Chinese companies greater access to invest and allocate their supply chains in the ASEAN region, which became China's largest trading partner for merchandise in 2021. In fact, we have already seen the trend of Chinese

companies transferring their factories to countries such as Vietnam or Indonesia, in order to lower production costs or circumvent U.S. tariffs on goods.

RCEP will also facilitate trade for other signatory countries with China. For ASEAN, China has been its largest trading partner since 2009, a result of an ongoing relationship. Chinese president Xi Jinping announced in 2021 a comprehensive strategic partnership between China and ASEAN, emphasizing the importance of a peaceful, prosperous bilateral relationship between the two sides. Due to the giant trade deficit, ASEAN needs inbound industrial capital investment, financial capital investment and venture capital investment. China's foreign direct investment (FDI) and industry transfer can help ASEAN countries establish or improve their industrial structure and create more jobs and income for local people. Meanwhile, China's vast consumer market is the perfect destination for the exports of Southeast Asian countries. All of these factors enable China to play a unique role in this ASEAN-led initiative.

While the specific impact of RCEP remains to be seen, we should feel confident. Export-oriented companies are bound to benefit more than others. Political and diplomatic tensions may to a certain extent disrupt the implementation of the agreement, as may the pandemic. However, that does not change the fact that RCEP signifies member countries' belief in collaborating for common prosperity in Asia Pacific, one of the most economically vibrant regions in the world.

04

Thailand, ASEAN and RCEP: Opportunities for Further Integration

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Dr. Piti Srisangnam holds a Ph.D. degree[2] in Economics from the University of Melbourne (Australia), and an M.A. degree in International Economics and Finance from Chulalongkorn University (Thailand). He was teaching International Economics and Microeconomics for bachelor and master degree students at Chulalongkorn University since 2002. He has been Deputy Director for Academic Affairs of the Centre for European Studies from 2010 to 2012 and Deputy Director for Academic Affairs of the ASEAN Studies Center in 2012, both at Chulalongkorn University, before he became Director of the Center in 2013.

RCEP Is the Opportunity

RCEP is an opportunity for Thailand and ASEAN. RCEP will strengthen the Regional Value Chains (RVCs) to support the post-COVID recovery of Global Value Chains (GVCs). It will create opportunities for ASEAN and Dialogue Partners to be part of the GVCs and it is a good starting point for preparing member countries for other more complicated trade negotiations.

Regional or bilateral trade agreements focus on more comprehensive issues rather than just reducing taxes. They also focus on issues like rules and regulations, mutual recognition agreements (MRA), standards and conformity as well as the commitment to the declaration on TRIPS (the WHO agreement on Trade-Related Aspects of Intellectual Property Rights), public health, human security and labor-related issues. For Thailand and ASEAN member states, RCEP is the first comprehensive and high standard foreign trade agreement (FTA) to be fully implemented. There are many benefits of RCEP to Thailand:

Trade:	Elimination of tariffs on at least 92% of goods traded among RCEP countries, with additional preferential market access for Thailand's and ASEAN exports, as well as stronger provisions to allow the temporary admission of duty-free goods into the region.
Non-tariff measures (NTMs)	Measures to ensure greater transparency and stronger discipline when implementing NTMs, for example, rules for import licensing procedures to better facilitate preferential market access for Thailand's and ASEAN exports.

Rules of Origin (ROO)	A streamlined and rule-based ROO system gives Thai and ASEAN businesses greater flexibility to tap into markets, and to take advantage of value chains with regional cumulation provisions. Key sectors include Processed Foods, Electronics and Electrical Appliances, Automobiles & Parts and Chemicals & Plastics.
Custom Procedures and Trade Facilitations (TFs)	Simplified customs procedures and enhanced trade facilitation (RCEP Chapter 4) lowers transaction time and costs, and gives Thailand and ASEAN traders greater clarity.
Trade in Services	At least 65% of RCEP countries' services sector will be fully open (Negative List Approach), with greater regulatory transparency. (Including the possibility of the liberalization of more sectors in the future)
Investment	Performance requirements for Thai investors as conditions for entering, expanding or operating in RCEP countries are prohibited. A built-in Investor-State Dispute Settlement (ISDS) provisions framework provides greater security and assurance for Thai and ASEAN Investors.
E-Commerce	Elements such as online consumer protection, online personal information protection, transparency, paperless trade, acceptance of electronic signatures and commitments on cross-border data flows provide a more conducive trade environment for Thai businesses.
Intellectual Property (IP)	Businesses can obtain protection, including for non-traditional trademarks and a wider range of industrial designs in the region. RCEP countries have also committed to accede to international IP treaties, which will streamline applications to enable companies to file a single patent or trademark application across multiple designated countries.
Competition	Commitment to maintain competition law regimes based on international best practices and agreed principles protects RCEP businesses from anti-competitive activity when operating in other RCEP countries.
Government Procurement	A new area of cooperation amongst RCEP countries. Transparent laws, regulations and procedures provide greater clarity for Thai businesses that bid for government procurement projects in RCEP countries.

Further Economic Integration

From Thailand's perspective, it will need to be mindful of whether it can participate in this rapid recovery of GVCs. Ideally, Thailand should revitalize the growth of its domestic economy. Of course, compared to other members of the ASEAN region, Thailand only has trade advantages when it comes to other Asian and East Asian partners through the Regional Comprehensive Economic Cooperation (RCEP) between ASEAN, China, Japan, South Korea, Australia and New Zealand.

At the moment, however, Thailand does not have any trade advantages when it comes to connecting Asia's regional value chains (RVCs) with US-led RVCs. Currently, there is only one bridge that links them together - which is the CPTPP Agreement – the advantages of which are also enjoyed by Vietnam, Malaysia, Singapore and Brunei. In the case of Vietnam, there are free trade agreements that serve in linking and promoting trade and investment with the EU and the Eurasian Economic Union (EaEU). This means that Vietnam - which like Thailand possesses 14 trade agreements in force but is able to conduct unrestricted trade in 18 economic zones - is able to trade in as many as 53 free-trade zones around the world, despite having the same number of trade agreements in force [3] (Asia Regional Integration Center 2021).

From this comparison, it becomes evident that Thailand is running the risk of losing the benefits that come with economic recovery, where GVCs and RVCs recover without Thailand being a key participant.

This will likely be the case if Thailand foregoes its opportunity to participate and be part of various ongoing free-trade agreements. Thailand will need to seriously and urgently consider taking an active stance in comprehensive and high-standard free trade agreements, such as the Comprehensive and Progressive Trans-pacific Partnership (CPTPP) – comprising 11 economies: Malaysia, Singapore, Brunei, Vietnam, Japan, Canada, Mexico, Chile, Peru, Australia and New Zealand. Thailand should also reach out to other free trade agreements and regional integration agreements like the Eurasian Economic Union (EAEU), which comprises Belarus, Kazakhstan, Kyrgyzstan, Armenia and Russia, or the European Union and the United Kingdom. In addition, Thailand will need to initiate free trade agreements with new emerging market countries, such as South Asian countries.

In order to negotiate more sophisticated and comprehensive regional trading agreements, RCEP is a good starting point for preparing member countries.

FTA 2.0	TRIPS Plus The Expansion of Agreement on Trade-Related Aspects of Intellectual Property Rights			TRIPS Compulsory Licensing (CL)	International Union for the Protection of New Varieties of Plants (UPOV-1991)	Government Procurement	An SOE acts in accordance with commercial considerations	Compliance with international labor standards (ILO), such as establishment of associations and rights
	Patent Linkage	Patent Term Extension	Data Exclusivity					
CPTPP	○	×	×	○	○	○	○	○
USMCA	○	○	○	○	○	○	○	○
EU-Vietnam FTA	×	○	○	○	○	○	○	○
EU-Singapore FTA	×	○	○	○	○	○	○	○
EFTA	×	×	○	○	○	○	○	○
EaEU	×	×	×	○	○	○	○	○
RCEP	×	×	×	○	×	○	×	×

○ Negotiated and Enforced; × Neither negotiation nor enforcement; n.a = No negotiation data

CPTPP: The Comprehensive and Progressive Agreement for Trans Pacific Partnership (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam; **USMCA:** United States-Mexico-Canada Agreement; **EFTA:** European Free Trade Assciation (Iceland, Liechtenstein, Norway, and Switzerland); **EaEU:** Eurasian Economic Union (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia); **RCEP:** The Regional Comprehensive Economic Partnership (Brunei, Cambodgia, Indonesia, Laos, Malaysia, Myanmar, the Phillipines, Singapore, Thailand, Vietnam, Australia, China, Japan, New Zealand, South Korea and India)

From the table above, the already in force RCEP agreement covers the dimensions of the basic or entry-level comprehensive and high standard trade talks. RCEP does not cover more complex issues such as TRIPS Plus (an informal term for protection of intellectual property rights that goes beyond the requirements in the WHO's TRIPS Agreement), UPOV-1991 (established by the International Convention for the Protection of New Varieties of Plants), or compliance with high international standards. It is like forcing Thailand and ASEAN members to swim in an Olympic pool after only having swam in a paddling pool before the agreement.

05

RCEP is a Gargantuan Trade Deal but Will Economies be Able to Make the Most of It?

Jong Woo Kang

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Jong Woo Kang is a seasoned economist with extensive knowledge and experience on policy and strategic issues. He leads the publication of Asian Economic Integration Report. Jong Woo's areas of research interest include regional integration, inclusive growth, macroeconomic and trade policies, and aid effectiveness.

Strengthening regional value chains is vital because it offers economic and societal benefits that cascade not only across nations but throughout the region.

The Regional Comprehensive Economic Partnership brings 15 nations and 2.2 billion people into a trade partnership. It also offers broad economic and societal benefits that go beyond imports and exports.

The gargantuan trade pact known as the Regional Comprehensive Economic Partnership, or RCEP, could be a game changer for trade liberalization in the region. It partners Southeast Asian nations with Australia, the People's Republic of China, Japan, New Zealand and the Republic of Korea. The 15 nations and 2.2 billion people involved in the partnership account for 29% of global gross domestic product. According to one recent study, real income increase for the world from the trade pact will amount to USD $186 billion by 2030.

Around USD $164 billion, a majority of the expected income gains from RCEP, are forecast to accrue to Asia, and in particular the People's Republic of China, Japan and the Republic of Korea – the so called "plus three countries," which are estimated to gain the lion's share of the income gains at USD $156 billion.

This broad sketch of country-level, regional and global welfare effect, while useful in gauging the overall economic gains, might obscure the greater potential to be unlocked through profound structural changes in the landscape of regional trade and value chain linkages created by this mega, regional trade deal.

An examination of global and regional value chains – the production networks that help drive

trade in Asia and across the world – provide insights into why it is important to look below the surface at the structural links between the 15 RCEP member countries.

Asia's regional value chain has deepened over time. Using ADB's measurement based on its multi-regional input-output table data, Asia has seen regional value chain linkage increase from 46.6% in 2000 to 48.9% in 2018. An analysis of Asia's more complex regional value chains show that they have increased as well, from 23.4% in 2000 to 26.2% in 2018.

Nevertheless, regional value chain linkages among members of the Regional Comprehensive Economic Partnership are much lower than the Asian average, reflecting relatively lower economic interconnectedness spanning a highly heterogeneous group of member countries. Overall, the regional value chain participation rate among the member countries remains at 46.8% and the complex regional value chain participation rate a mere 15.8% in 2018, much lower than the regionwide level (26.2%).

This means 46.8% of trade among RCEP members involves production stages spread over two or more economies within the group, and 15.8% of their trade entails intermediate goods crossing borders twice or more before final goods are exported.

For the overall regional value chain participation, Brunei Darussalam and Australia show the highest regional linkages, as major suppliers of natural resources. For complex regional value chains, ASEAN countries such as Malaysia, Singapore and Vietnam have the highest participation rate—between 23% and 28%. Among non-ASEAN economies, the Republic of Korea followed by Japan demonstrate relatively higher regional value chain participation with RCEP members at 15%-18%.

While the traditional economic modeling exercises forecast that the "plus three" countries will gain the most from RCEP due to their sheer economic size and comparative advantages in the higher-end, richer value-added segment of the industrial spectrum, this means ASEAN economies also could expect sizeable economic gains from RCEP.

Imagine a case where the tariff concession rate on a set of intermediate goods for the

production of final goods between country A and B is determined at 10%. If these two countries are connected through a simple bilateral value chain, the expected tariff concession effect will only be 10%, but if they are connected through complex value chains involving intermediate goods crossing the border twice or more before producing final goods, the effective tariff concession effect could be a multiple of two or more of 10%.

Conversely, the lower economic integration measured by regional value chain linkages among RCEP members at the moment suggests there could be huge gains due to strengthening value chain linkages from trade liberalization and facilitation under the partnership in the long term. We may see their regional value chain participation rate among the members exceed the Asian average over time, as members take advantage of a simplified, common framework of rules of origin and regional cumulation of value contents. This will allow additional flexibility in mobilizing production networks within the RCEP region.

Strengthening and expanding these regional value chains is vital moving forward because it offers economic and societal benefits that cascade not only across nations but throughout the region.

In addition to reaping the gains from deeper regional economic integration, members could take the regional trading bloc as a springboard to deepen economic reforms and enhance the competitiveness of their industries. Such dynamic gains, which are difficult to capture through economic modeling, more often than not far exceed the numerical economic gains forecast.

A regional trading bloc should make sense not only for economic gains but from an environmental perspective as economic engagement among neighbors could leave smaller carbon footprints than arrangements with remote trading partners, other things being equal.

A big step toward a grand regional trading bloc has been made, yet how much economies are willing to seize the opportunity and transform this into future prosperity remains to be seen.

Published first in ADB blogs.[4]

06

China's Leading Role in Building RCEP's Cross-Border Digital Payment System

Li Haitao

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Dr Li Haitao is the Dean's Distinguished Chair Professor of Finance, Associate Dean for Business Scholars Program and Associate Dean for Alumni Affairs and the Development Foundation, and the Director of the Family Business Research Center at CKGSB. Previously, he was the Jack D. Sparks Whirlpool Corporation Research Professor in the Finance Department of the Stephen M. Ross School of Business at the University of Michigan. He also served on the faculty of the Johnson Graduate School of Management at Cornell University.

China will play a vital role in encouraging more RCEP members to engage in building a better cross-border digital payment system.

The Regional Comprehensive Economic Partnership (RCEP), aims to create the world's largest free trade zone, consisting of 15 countries, 2.2 billion people and a total GDP of USD $25.6 trillion.

The members are diversified in resources. While China is the world's manufacturing center, Southeast Asian countries are known for their natural resources and Japan has been exporting electronic products worldwide for decades. Such diversification gives rise to the huge potential of intra-regional trade and commerce, which in succession calls for a smooth cross-border payment system.

Traditional banks and the SWIFT system still play a vital role. However, the SWIFT system has long been criticized for its high cost and low efficiency. Banking card organizations such as American Express, Visa and MasterCard, have complicated interface systems, requiring high amounts of cash deposits and the risk of withholding payments.

This makes this an opportune time for the development of digital cross-border payment, which not only increases the efficiency of payments across nations that can be done in seconds through QR payments, but also helps in easing procedures, since the entire flow of cash and capital can be traced digitally.

The digital payment trend has only intensified with the increasingly capricious nature of the COVID-19 pandemic. With billions of people facing restricted movement, digital payment has become the only way for them to make payments across borders.

The seemingly ongoing Russia-Ukraine war is another driver in the development of digital payments. With Russia being excluded from the SWIFT system, the current international cross-border payment system has become more fragile and uncertain, given that Russia is still the 11th largest economy in the world and has ties to a complicated global trade network with more than 100 countries, including RCEP countries.

But, how can an efficient cross-border digital payment system be set up for RCEP?

The Fast and Secure Transfers (FAST) and Singapore Quick Response Code (SGQR) from Singapore, the Unified Payment Interface (UPI) system from India, along with their counterparts from Thailand, all represent Asian countries' efforts to achieve a smoother regional cross-border payment system. However, with smaller domestic markets and GDP, their transactions and market shares are limited.

China's Cross-border Interbank Payment System (CIPS) is another cross-border payment system that reaches a much wider range. It covers over 180 countries and, in 2021, its trade volume grew by 51.6%. But with the uncertainty of the COVID-19 pandemic and ongoing Russia-Ukraine war, we must be prudent when talking about its future growth rate.

Nonetheless, China does have an advantageous position in promoting cross-border digital payments across RCEP nations.

Firstly, compared with other Asian countries, China's growing GDP is overwhelmingly large. In 2021, China's GDP reached USD $17.72 trillion compared to the USD $23.04 trillion GDP of the United States. The gap continues to narrow year on year. As the world's second largest economy, China's Renminbi (RMB) should have a bigger say on the international payment system, especially within the RCEP region.

Secondly, China has set up a relatively mature digital payment system in its own turf. In 2021, over 872 million Chinese people, accounting for 61.72% of its entire population, had access to digital payments and over half of the payments made in China were done electronically. This rapid development

has given rise to related laws, regulations and infrastructures that are constantly improving. Furthermore, a batch of third-party cross-border digital payment platforms, such as AliPay, Tenpay, Lian Lian Global and Baofu, have all refined their services over the past three decades, thanks to the rise of China's cross border e-commerce. These have all paved the way for China to further expand digital payments abroad.

More importantly, China has been exporting its e-commerce to the rest of the world, escalating the development of global cross-border digital payments. While Alibaba is a veteran in this field, there are many new players emerging. For example, China-based cross-border e-commerce platform, SHEIN, has surpassed Amazon to become the world's number one shopping app in 2021, with an annual revenue growth rate exceeding 100% over the past eight years.

China can play various roles in facilitating better cross-border digital payment systems within RCEP.

Firstly, China can serve as an example by creating infrastructure for cross-border digital payments, including establishing laws, regulations and technology. China can be an excellent reference for almost all of the diverse nations in the RCEP region – from developed nations like Singapore to less developed countries like Laos and Cambodia – since it has gone from an underdeveloped nation to a powerhouse for digital payments.

Secondly, China's practice of encouraging multiple players is also a good model. While the state-owned Union Pay offers cross-border digital payment services in over 170 countries, private players such as AliPay and Wechat Pay are also expanding their service scope.

Third and most importantly, China will play a vital role in encouraging more RCEP members to engage in building a better cross-border digital payment system. This is understandable given its giant GDP, successful e-commerce and ongoing Belt and Road Initiative.

To achieve this goal, multilateral agreement is a must. But it's truly difficult given that the development stages of cross border digital payment in RCEP countries are vastly diverse. For China, offering both technological and financial support for those underdeveloped countries can be a way to start.

Another problem is, while technology has hastened the development of cross-border digital payment, it also gives rise to complicated regulatory matters concerning data security and privacy protection, etc. Though this is not a problem that can be solved purely with technology, China will have to put an emphasis on technological development worldwide.

The good news is, multiple RCEP countries have or are in the process of embarking on their own sovereign digital currencies, or central bank digital currency (CBDC), which is believed to boost a mature cross-border digital payment system.

Singapore has taken the lead to develop retail CBDC through the Global CBDC Challenge. In 2021, Singapore, Australia, Malaysia, and South Africa have all reportedly developed prototypes and test shared platforms to process cross border digital currency transactions. Japan is also looking at starting its own digital currency. China, has seen a relatively successful launch of its digital currency at the Beijing Winter Olympic in 2022, which has further spurred the market's imagination for an RCEP region with a free flow of currencies and digital payments.

07

Expanding the Reach of Chinese Innovations in the RCEP Region

Dr. Edward Tse

Founder & CEO, Gao Feng Advisory Company; Professor of Managerial Practice of Strategy, CKGSB

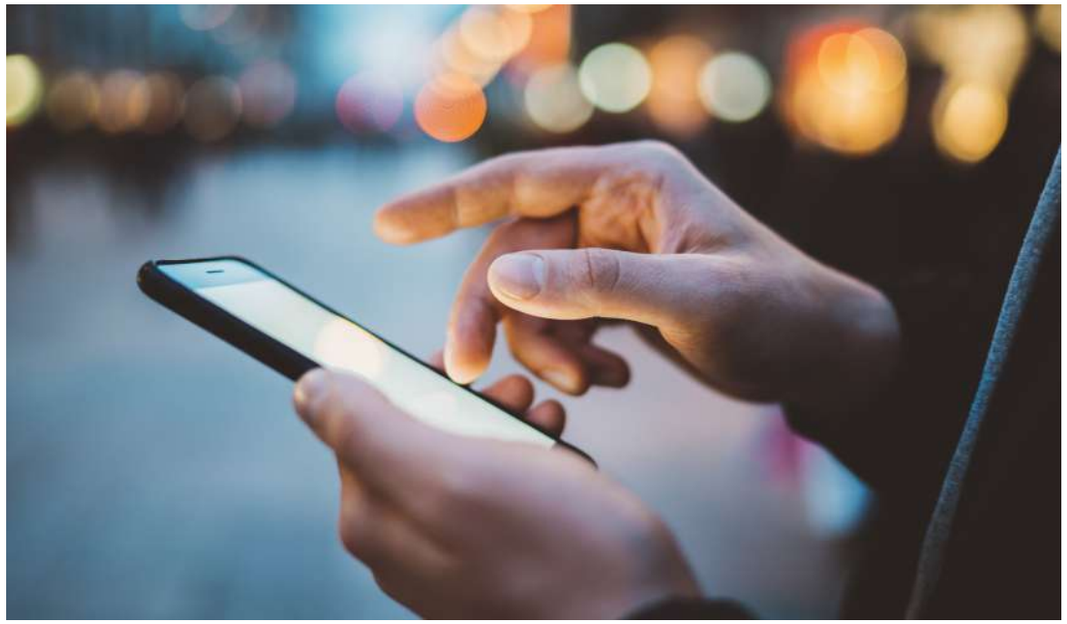
Dr. Edward Tse is founder and CEO, Gao Feng Advisory Company, a founding Governor of Hong Kong Institution for International Finance, Adjunct Professor of Managerial Practice, CKGSB and Adjunct Professor, School of Business Administration, Chinese University of Hong Kong. He has 30 years of strategy and management consulting and senior executive experience, in 20 of which he started and led the China practice of two leading international consulting firms, first as Managing Partner of China for the Boston Consulting Group and later as global Senior Partner as well as Managing Partner and Chairman of Greater China for Booz Allen Hamilton/Booz & Company, having started his strategy consulting career with McKinsey & Company in San Francisco in 1988.

With the implementation of RCEP, more companies in the region will view Chinese innovations as a source of inspiration and knowledge and shall use them not only for producing and selling new products and services but also for designing new business models.

Over the last decade or so, China has evolved from being perceived as a copycat to an economy known for innovation. Numerous successful entrepreneurs have built companies with remarkable innovations to their credit. Innovation emerged in a wide range of segments of the economy and a large number of companies have leveraged technology to build their businesses. The most prevalent technology platform has been the wireless internet which is now accompanied by the industrial internet, internet of things, artificial intelligence, cloud computing, 5G and blockchain technology.

Some companies have acquired dominant positions in China and would naturally now look for overseas expansion opportunities. RCEP countries constitute a natural destination of choice. Companies in RCEP countries are already in fact learning from Chinese innovations. This phenomenon can be seen throughout RCEP countries in areas such as e-commerce, social commerce, mobile payment and mobility-as-a-service. China has reduced the cost of leading technologies, benefiting the public, and changing many people's lives. RCEP countries are gaining a great deal as their lifestyles are being affected by these changes. Chinese businesses continue to invest into these markets, raising local innovation, supporting these economies, improving their public services and creating symbiotic relationships with local players and governments.

According to Nikkei Asia, the shared economy, home deliveries and live streaming have increased significantly in Japan in the last few years, and Japanese entrepreneurs are now "copying China". Founder and Chairman of Inforich of Japan Akiyama



Hiroxuan first learned about shared power bank rental services in 2016 from the Chinese. He saw its market potential, as smartphones are of key importance in modern digitalized lifestyles, so he launched a shared power bank service called ChargeSPOT in 2018, which currently owns over 90% of the Japanese market.

In 2019, Alibaba cooperated with Amorepacific, South Korea's leading cosmetics company, to digitalize its shopping experience, facilitate online-to-offline sales, gain better consumer insights and explore overseas markets. Late last year, Alibaba also launched a data center in South Korea.

In Australia, Alipay has partnered with the payment service provider Quest to co-develop payment solutions in e-commerce. Alipay is simultaneously working with Chemist Warehouse, an Australian pharmaceutical company, to bolster its online e-commerce platform, and to popularize China's famous shopping festivals such as Double Eleven.

Singapore Prime Minister Lee Hsien Loong repeatedly praised China's mobile payment systems in his national day speech on August 20, 2017. He said a smart country has to be inseparable from its own mobile payment system, and Singapore needs to actively learn from China's electronic payment system. He said he had actively witnessed China change significantly over the last three decades, all the way from infrastructure, airports, high-speed rail, to telecommunications.

Chinese companies are investing throughout Southeast Asia, spreading their innovative products and services. The China Investment Research Institute says in the last three years Southeast Asia has received more than USD $26.3 billion of investment, of which China accounts for 46.8%. Major investors include internet giants Alibaba and Tencent. Tencent has invested in Gojek, Indonesia's on-demand multi-service platform, and Alibaba acquired Mynt, the first unicorn in the Philippines to focus on fintech and digital payment systems. Besides digital banking and mobile payments, China's Hellobike is exploring the potential for two-wheelers in Southeast Asian markets as the cost of four-wheeled vehicles is still out of reach for most of their people. The growing presence of Chinese companies is leading to Southeast Asian markets

to rapidly adopt innovations, technologies, and business models used by Chinese firms.

In 2021, TikTok launched its live e-commerce business in Indonesia. Google research says over 69% of people surf its app over five times daily and the pandemic, lockdowns and quarantines have further boosted demand for e-commerce and entertainment streaming. The new business model created by China has become popular in Southeast Asia.

In the Philippines, Ace International, a Chinese media advertising solutions provider has already cooperated with more than 400 companies in 10 major business districts of Manila, replicating China's Focus Media business model.

In Thailand, Huawei was bestowed the 2020 "Digital International Enterprise of the Year" award. Thai Prime Minister Prayut has emphasized the importance of innovative technologies to promote digitalization while praising Huawei for its contribution to local development, digital transformation, and economic and social development. Huawei has provided Thailand telemedicine systems and AI-assisted diagnosis and treatment facilities, greatly contributing to prevention and control of the COVID pandemic. Huawei has also helped Thailand design a program "Seeds for the Future" to cultivate talents, besides launch of the 5G Ecological Innovation Center in Bangkok.

Clearly, geopolitics creates much uncertainty surrounding cross-border businesses which constitutes potential barriers to adoption of Chinese innovations by RCEP countries or to formation of partnerships with Chinese tech companies. Nonetheless, we expect that with the formal implementation of the RCEP, more companies in the region will view Chinese innovations as a source of inspiration and knowledge and shall use them not only for producing and selling new products and services but also for designing new business models. While we must not ignore the realities of geopolitics and other factors, we can expect more and new forms of partnerships to emerge, enhancing the competitive advantages of the region and generating more win-win situations.

08

Can RCEP Facilitate an Integrated Digital Economy?

Zhang Kaifu

Head of Taobao Operations, Alibaba Group, Former CKGSB Professor

Kaifu Zhang is a former professor at CKGSB. Currently, he is the vice president of global commerce at Alibaba Group. His research interests include the business and policy aspects of the digital economy. He holds a PhD in management from INSEAD and has previously taught at the Tepper School of Business, Carnegie Mellon University.

Europe benefits from its own regional comprehensive economic partnership by creating a unified framework for personal data regulation, the GDPR. RCEP should do the same.

RCEP carries its spirit in the name. The word 'comprehensive' indicates that it is not just about trade liberalization and supply chain optimization. To truly reach its full potential, a comprehensive framework for economic partnership must span both the physical and digital world. In fact, creating an integrated digital economy promises greater benefit than ever, especially as we enter the third decade of the century – a time when the world economy is decidedly digital. To do this, RCEP should facilitate regulatory standards that are integral to the digital economy across its member countries, promote the free flow of data and lower the cost of doing business in the digital world.

The digital economy includes e-commerce to entertainment to some of the latest innovations in fin-tech. However, it cannot prosper unless there is a clear, predictable and well-designed regulatory framework. Let's consider three examples: personal data regulation; harmful content regulation and cross-border e-commerce.

Let's first consider the example of personal data regulation. Protecting consumer privacy is like protecting 'a fundamental right,' according to the EU's General Data Protection Regulation (GDPR). But overly stringent rules can hamper economic efficiency by preventing firms from utilizing personal data to provide personalized services. In addition, it may lead to huge compliance costs for small-and-medium-sized firms. The estimates vary, but often the extra costs can add up to millions of dollars. For example, GDPR includes detailed stipulations on how a website should acquire users' explicit consent before it can utilize the user's personal data

for customized services. This, however, requires a website to spend technical resources in order to modify its user registration procedure and content acquisition procedures. GDPR also stipulates the local storage of data, which may require physically migrating a firm's data centres. Such are the reasons why compliance cost can be high.

The situation can be worsened if each country decides to implement its own regulatory framework, and firms have to multiply its investment in data regulation compliance. Europe benefits from its own regional comprehensive economic partnership by creating a unified framework for personal data regulation, the GDPR. RCEP should do the same. If done right, this ensures that a firm who is compliant in one country is compliant in all RCEP countries, thus ensuring that data can flow freely among member countries without being taxed, withheld or wasted.

As a second example, consider the policing of online content - which can be harmful to consumers in a variety of ways. Online content posted by a user in country A can be viewed by another user in country B. Without international cooperation, it is difficult for law enforcement in country B to punish the original poster of such content. In addition, without a shared framework to define what content is harmful, websites have to multiply their efforts to implement different standard operating procedures to meet regulations and delete harmful content in each country they operate in.

Finally, online commerce can benefit from a unified regional regulatory frameworks. Online commerce provides a low barrier way for SMEs or even individuals to do business. Different countries have different regulatory framework on doing business online, from 'know your business' requirements to taxation policies. This is further complicated when businesses engage in cross-border commerce. Implementing a shared framework for doing business online, and lowering the barrier of cross-border sales can both stimulate business dynamism, especially for small and medium enterprises.

The EU started with trade and economic partnership, progressed through the free movement of labor and a single currency, and arrived at a shared regulatory framework for the digital economy. We can skip some steps. RCEP must be digital in order to be comprehensive.

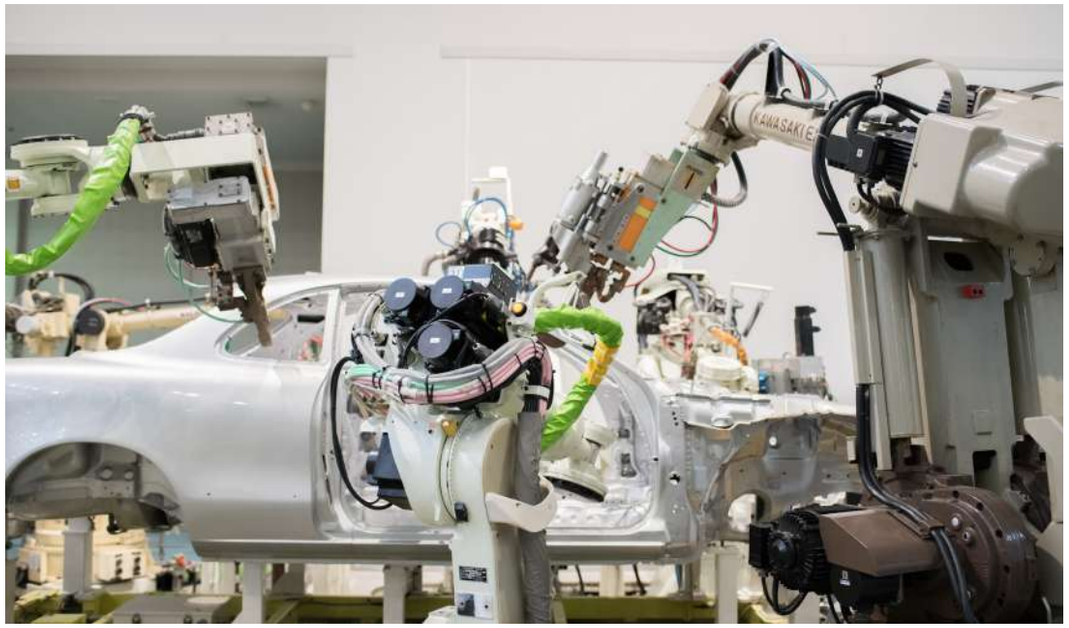
09

A Key Milestone for Economic Integration in the Most Dynamic Growth Center in the World

Tetsuya Watanabe

Vice-President, Research Institute of Economy, Trade, and Industry (RIETI)

Tetsuya Watanabe is Vice President at the Research Institute of Economy, Trade and Industry (RIETI) and Visiting Professor at Graduate School of Public Policy, the University of Tokyo. In his capacity at RIETI, he hosts the RIETI Global Intelligence Series where he discusses and analyses, with experts from the US, the EU and Asia, the geopolitical tensions, global trade governance, climate change challenges, digital transformation and regional integration in Asia. He joined RIETI in 2020 after over three decades of a career as a trade policy maker and negotiator in the Ministry of Economy, Trade and Industry (METI), where he served as Director General for the Trade Policy. During his career at METI he worked on a wide range of bilateral, regional and multilateral trade negotiations and initiatives, including the WTO Joint Statement Initiatives on E-Commerce, the Trilateral Trade Ministers Meetings, the Regional Comprehensive Economic Partnership, the Japan-US Trade Agreement and the Japan-UK Comprehensive Economic Partnership Agreement. He also served as the Chief Counsellor at the Government Headquarter for the Trans Pacific Partnership at the Cabinet Secretariat.



The government of Japan estimates RCEP will boost the Japanese GDP by 2.7% in the long run.

The Regional Comprehensive Economic Partnership (RCEP) came into force at a time when we are faced with a changing global and regional landscape. The geopolitical uncertainties have increased. The COVID-19 pandemic has exposed the vulnerability of supply chains and calls for protectionism have heightened. In the meantime, technological development and digitalization are rapidly transforming supply chains. Decarbonization throughout supply chains is also an urgent task facing countries and companies.

RCEP is the largest regional pact in terms of GDP, trade volume, foreign direct investment and population, connecting the most dynamic growth region in the world. The agreement is the key driver of economic integration and dynamism, and will provide institutional infrastructure that will boost regional supply chains and facilitate trade and investment flows.

RCEP reduces barriers for trade in goods, services and investment by eliminating and reducing tariffs and non-tariff barriers- facilitating custom procedures and providing common rules of origin. RCEP has also updated rules for investment, digital trade and interllectual property.

Digital technology is rapidly transforming the economic landscape of the region, providing opportunities for start-ups to leap-frog areas such as cashless payments and fintech, ecommerce, ride-hailing, food delivery, games and entertainment, consumer and micro-finance, smart cities. A large and youthful population equipped with smart phones are spearheading a new life-style in the digital age.

RCEP digital trade rules will help facilitate this trend and promote innovation.

RCEP will change the region's economic and business environment. Japanese manufacturing companies in the areas of automobiles, electronics, and steel sectors are expanding their business operations extensively in the region including Southeast Asian countries, and China will greatly benefit from RCEP.

Small-and-medium-sized companies and emerging tech start-ups are also joining value chains. The government of Japan estimates RCEP will boost the Japanese GDP by 2.7% in the long run.

RCEP is also a valued source of peace and stability for the region amid a rising protectionist sentiment and the looming crisis facing the WTO. Economic integration plays a critical role in promoting peace and stability, connecting major economies in more interdependence and a rule-based multilateralism.

The agreement is designed as an evolving one with a mechanism for monitoring implementation and discussing improvement and a 5-year review. Thus, it has the capacity to adapt to itself and adapt to the ever-changing economic development in the region. It will engage members at various levels of development continuously and step-by-step toward deeper economic integration. Slow movers are allowed special and differential treatment or a grace period to achieve the same goals. Capacity building and technical cooperation are important elements of the agreement to assist the least developed members to implement RCEP's commitments.

Going forward, the implementation of the agreement is just the start. RCEP could serve as a framework to facilitate deeper economic cooperation by promoting dialogue among the members to share experiences. The countries in this region face common challenges including COVID-19 recovery, supply chain resiliance, infrastructure investment principles and standards, the transition towards decarbonization and the realization of a more sustainable society.

I was involved in the launch and negotiations of RCEP as the chief negotiator. I hope, with RCEP as a key milestone in the deepening of economic integration, that this region will become a vibrant, innovative and sustainable economic center.

10

What Does RCEP Mean for Indonesia?

Gita Wirjawan

Former Trade Minister, Indonesia

Gita Irawan Wirjawan is an Indonesian entrepreneur, investment banker and philanthropist. Previously he served as Minister of Trade of the Republic of Indonesia during President Susilo Bambang Yudhoyono's Kabinet Indonesia Bersatu II. He is the founder of Ancora Group and Ancora Foundation.

As Indonesia will likely ratify its membership of the Regional Comprehensive Economic Partnership (RCEP) in 2022, we spoke with Gita Wirjawan, former Minister of Trade of Indonesia, to explore the opportunities and challenges this agreement will bring for member countries. Wirjawan is a well-respected government official, presidential candidate and business veteran in Indonesia. He led the enactment of the Trade Law in Indonesia and achieved the only major trade deal that has been agreed since the formation of the WTO. He also held key positions in Goldman Sachs and JPMorgan, and founded Ancora Group, a Jakarta-based private equity fund. In this interview, he discusses how RCEP will benefit Indonesia, where the growth areas will lie and what the agreement will mean for the wider Asia Pacific region.

How important is RCEP, particularly for countries that aren't in it? Is this the architecture of the 'Asian Century' or is it another trade deal?

I think it is importantt on the basis of a couple of accounts. I was a trade minister until some years ago. It has been a while but I am proud to have been part of the initiation of this [agreement] in 2011. The first account would have been the realism with which a multilateral framework should be undertaken with respect to quite a number of developing economies in Southeast Asia. I think we say this with full recognition of the fact that there are countries with much higher GDP per capita capabilities and much lower GDP per capita capabilities. The second is the incrementalism with which the framing of this was being done.

I was part of a small group that was not very sure about the potential implementation of the TPP framework, which is now called the CPTPP.

I basically contrasted the two frameworks in the sense that TPP would have been a 22nd century frame[work], as opposed to RCEP being a 19th, if not 18th century, frame[work]. And from a geopolitical, social and cultural standpoint, I think it's a lot easier to roll things forward, as opposed to trying to think and rolling things backward with the risk of stumbling. That is the metaphor that I try to share with some of my friends in the more developed economies who were trying to push Indonesia into the TPP framework. I would say those two accounts would have made the RCEP framework very important for a lot of people in Indonesia.

How important is China's participation in RCEP from the Southeast Asia point of view?

China is inevitably a very crucial part of this framework, as much as we have, we still do, and we will believe in the centrality of Asia or Southeast Asia. Without China, I think this would still be a very good framework. But with China, I think this is a much better framework. But I think there is a risk of this being perceived as a China-led initiative, as opposed to an ASEAN-led initiative. I think this would have been perceived or desired as an ASEAN-led type of initiative.

What does RCEP mean for Indonesia?

People are seduced too much into the trade part of the equation, but we need to be more cognizant of the investment part of the equation, which is very important for countries like Indonesia.

If we take a look at the FDI on a per capita per year basis for Indonesia, Thailand or the Philippines, it stands at about $100 as compared to that for Singapore at $19,000. When somebody wants to talk about potential relocation of value chain capabilities from China to any part of Southeast Asia, it's a no-brainer in terms of where you want to relocate. You want to relocate to the destination with higher, if not the highest, marginal productivity, and higher, if not highest, efficiency that could be offered to any potential investor inclusive of China.

Hence, that point of FDI which stands at a very low level for countries like the Philippines, Thailand, or Indonesia, needs to be addressed in the conversations not just within RCEP, but beyond RCEP.

If we're writing a history of the 21st century, will there be a big chapter on RCEP? Or will it be a couple of paragraphs?

It deserves at least a paragraph in the sense that we have seen the death of multilateralism in the last decade. And this is, I hypothesize here, attributable to how conversations are polarized in many countries, developed, developing, and underdeveloped. And I think the polarization of conversation has entailed a little bit too much nationalism, which tends to make multilateralism somewhat more difficult than ever.

As a result, we are going through this episode, if not cycle, of a lack of multilateralism, but the fact that the member countries of RCEP have decided to move ahead with this and show to the world that this is a good piece of multilateral understanding is equity for humanity's ability to re-multilateralize in a much bigger way.

RCEP is really significant when it comes to manufacturing and supply chain, but it doesn't really touch on issues that businesses care about. What should we do to address 21st century trade issues?

For the average Laotians, Cambodians, and Indonesians, what matters more is to be able to create jobs, by way of the building of a factory, the typical brick-and-mortar, before we start talking about data privacy, or whether or not we want to embrace GDPR, intellectual property, human rights. Eventually, we have to embrace the kind of framework that is symbolic if not representative of the twenty second century. At the same time, we have to recognize the lack of symmetry of welfare on a per capita basis in Southeast Asia. RCEP is a really good starting point for ten nation states in Southeast Asia before we embark upon something that has a little bit more sophistication. I think inevitably we're going to get there. Inevitably we will get there, even though I cannot predict the timing.

How do you think the ASEAN-China free trade area has affected the Indonesian economy, particularly its industry? Do you expect any opposition or concerns about the ratification of RCEP? Are you worries about the influx of China's manufacturing products?

I think we tend to lose sight of the importance of the long term. At times, we tend to lose sight of the importance of the long term. I am less worried about the deficit created by way of the influx of goods and services from China [being] more than what we can export to China. I would be a lot more concerned about whether or not we are doing what we have to do in terms of getting more money into Indonesia, so that we can actually ramp up our educational narratives so that we can actually start building the things that we need to be building to help Indonesia move up the value chain. Those, I think, are the things that are a lot more important in the long term.

I do believe that the ratification of RCEP will take place [in Indonesia]. It is a process-related issue, and it's more a matter of time. Indonesia stands at a marginal productivity of only $24,000 on a per capital per year basis compared to the Singapore. I think of Singapore as the LeBron James, when it comes to FDI, when it comes to productivity. They stand at about $170,000 on a per capita per year basis for marginal productivity. We should use the the Singapore example as an inspiration.

11

Enhancing Trade Exchange Between Indonesia and China

Deny Wachyudi Kurnia

Consul General of Indonesia in Shanghai

Deny Wachyudi Kurnia is the Consul General of Indonesia in Shanghai. He is a career diplomat who has served at multiple Indonesian posts in Canberra and Brussels. After joining the Indonesian Mission in Geneva in 2007, he coordinated the G33 work at the expert level and also chaired the WTO SPS Committee in 2011. In 2012-2019, he served as a Director of APEC and International Trade Negotiation, Indonesia. He holds a Master's degree in international relations from Monash University, Australia.

As Indonesia is expected to ratify its membership of the Regional Comprehensive Economic Partnership (RCEP) in 2022, Deny Wachyudi Kurnia, Consul General of Indonesia in Shanghai, shares with CKGSB his perspectives on how RCEP, once ratified, will impact the trade exchange between Indonesia and China.

How will RCEP affect the relationship between Indonesia and China?

Since ASEAN and China first set up a free trade agreement (FTA), we have started from an underdog position in the trade between Indonesia and China to the optimal position we are in nowadays - almost one fourth of Indonesia's trade is with China. The FTA has been helping to facilitate all of these increased business opportunities.

As an FTA, RCEP integrates a dynamic region in which there is great potential to unlock. It is bound to bring hope and better confidence for businesses. There will be a lot of opportunities arising from RCEP in the future, such as the upgrading of the original value chain, increased productivity, more investment and increased trade. Consequently more jobs will be created, purchasing power increased and the general welfare improved. All of these will build up our existing friendship and mutual understanding and consequently contribute to a stable partnership between the two countries.

China and Indonesia have long been trading economically under the ASEAN+1 framework. Will RCEP change the general interactive mechanism between the two countries?

If anything, RCEP will strengthen what is now the trend. The statistics speak for themselves. In 2021, Indonesia's export to China has increased by close to 70%, and China's export to Indonesia by about 45%. This might be unusual, but it could become a pattern, indicating increased interaction that could take the two countries' trade and investment to another level. More investment from China in Indonesia could help Indonesia upgrade its capacity to produce and export higher-end goods. Trade in machineries and other higher-end, value-added products ought to increase in volume between Indonesia and China instead of basic commodities such as plastics, chemicals, paper and palm oil. Trading higher-end goods may become the pattern of the bilateral trade between our two countries. Hence, I foresee a stable trade relationship, more mutual understanding, more partnership.

How will RCEP affect the foreign direct investment (FDI) between China and Indonesia?

At a time when the WTO has a limited capacity to increase global trade, a regional trade agreement is ever more important in order to create clear rules and enhane predictability. When RCEP enters into force, more predictable trading and investment activities will take place within the region.

Indonesia aims to ratify RCEP this year. Hopefully it can help bring business confidence back and stimulate investment and trade dampened by the COVID-19 pandemic.

Does the Indonesian government have any plans to facilitate the implementation of RCEP in Indonesia?

Investment, trade and employment have always been on the top of the agenda of the Indonesian government.

Once it enters into force, the Indonesian government will issue relevant policies to ensure the RCEP agreement is carried out smoothly. We believe with RCEP there lies a great opportunity for Indonesia to build our capacity and to increase our competitiveness.

We will work on improving the quality of our workforce, optimizing the efficiency of bureaucratic efficiency and having regulations and laws in place.

We will also increase the capacity of SMEs and their involvement into the global value chain. This will be done by establishing of a specific ministry in charge of SME affairs.

I believe Indonesia will need to reform with or without RCEP. RCEP only speeds up the process.

12

Opportunities for Australian Agriculture in RCEP

Brett Stevens

Commissioner to Greater China, State Government of Victoria, Australia

Brett Stevens represents the State Government of Victoria as Commissioner to Greater China with a remit including Hong Kong, Taiwan and Mongolia. Based in Shanghai, he leads a team focused on developing opportunities for Victoria in trade and foreign direct investment activities across the region.

A growth in export prospects is also expected for agricultural professional services, particularly in the dairy, meat and grains industries, where China has shown confidence in integrating Australian expertise and management.

In January this year, the Regional Comprehensive Economic Partnership Agreement came into force, uniting 15 countries in the world's largest free-trade agreement.

It brings together 29 per cent of the world's GDP from 30 per cent of the population. When it was signed in 2020, it was eagerly anticipated by Australia and notably our agriculture industry, which is on a trajectory to becoming this country's next $100 billion industry by 2030.

The RCEP is a macro strengthening of international ties. It's a global tool of mutual respect that opens up greater multinational opportunities for trade benefits that may not have been captured through the pre-existing bilateral free-trade agreements that Australia had with each of the 14 other RCEP members.

RCEP was also confirmation of the long-standing relationship between all member countries. With regards to Australia and China, it built upon on the free-trade agreement CHAFTA which the two countries signed in 2015, formalising a trading partnership that extended back 50 years with the establishment of diplomatic relations in 1972.

Opportunities for growth identified for Australian agriculture lie in expanding exports of premium food and fibre, including traditional commodities, onto new and innovative goods, such as plant-based proteins and AgTech advancements.

A growth in export prospects is also expected for agricultural professional services, particularly in

the dairy, meat and grains industries, where China has shown confidence in integrating Australian expertise and management.

Victoria, a small state in the southeast corner of the continent with Melbourne as its capital, is a strong agricultural product exporter. Despite having just 3 per cent of the country's arable land, its farmers produced more than a quarter of Australia's exports with AUD $13.3 billion (USD $9.44 billion) in agricultural products.

Both Australia and Victoria count China as their largest trading partner in agricultural products. China accounts for just over a fifth of the country's total export in 2020-1. It imported AUD $10.8 billion (USD $7.67 billion) in agriculture products from Australia, including AUD $3.69 billion (USD $2.62 billion) of Victorian food and fibre last year.

For mature trading relationships, like that enjoyed by China and Australia and specifically between China and Victoria, the opportunities can be found in the deepening of relationships at a more micro level between our sectors and commercial partners.

Wool is one of the great examples of a truly mutually beneficial partnership between China and Australia. Victoria is major wool producer and exporter in Australia, accounting for just under a third of Australia's total wool production. Victoria exports 76 per cent of its wool clip to China, where it is then processed, before being sent around the globe. Chinese processors engage deeply with suppliers of wool from Australia, with about 74 per cent of its total wool imports being sourced from Australia.

Victoria's world-class product with its eco-friendly credentials is in strong demand among discerning, knowledgeable Chinese consumers of high-end fashion, along with the emerging trends for wool in sportswear, casual wear, and fashion accessories.

Further opportunities are being touted for woollen interior furnishings as processors and manufacturers look to counteract the global downturn in formal wear that occurred during the pandemic.

China's domestic fashion market remains thriving, with clear opportunities for growth.

Last year, the Australian wool industry's research and development corporation, Australian Wool Innovation (AWI), partnered with Alibaba's TMALL, China's most influential business-to-consumer

e-commerce platform, for Double 11 and Double 12 wool promotions.

The partnership raised awareness of Australian Merino wool while promoting premium Chinese and international brands. The online shopping festivals on 11 November and 12 December proved wool's popularity, with AWI reporting 54 million video views, 380 million Wool Hub Page views on TMALL, a 40.5 per cent increase in awareness for Merino wool and AUD $122 million (USD $ 86.61 million) in wool sales. It bodes well for the future for Victorian and Australian wool producers.

There are clear opportunities for Victoria's agriculture services, which are benefiting both countries with Victorian agriculture expertise being employed across sectors in China.

Again, we turn to wool for a great example of this partnership working to expand opportunities.

In 2014, AWI established the Woolmark Wool Science and Technology Education program at the Yantai Nanshan University, where AWI teaches cutting-edge wool processing techniques to China's textile engineering students to develop the skills required to manufacture premium Australian wool products.

In 2018, AWI helped establish the Wool Education Centre at Donghua University in Shanghai. The centre enables students, designers and supply chain partners to explore the benefits and possibilities of Australian wool, and learn about trends, new technology and supply chain developments, according to AWI.

The "wool model" of connecting producers, manufactures and consumers on the ground in both countries is being replicated to uncover new opportunities for other agriculture commodities.

With the expected increase in trade in agriculture from RCEP and as part of its continuous dedication to the China market, the Victoria Government Trade and Investment Office in Shanghai in partnership with Agriculture Victoria established 'Vic House' in Shanghai last year. Vic House is the first in-country trade pavilion to showcase Victoria's finest food and fibre. The pavilion supports Victoria's established and emerging export businesses, while providing Chinese buyers a first-hand experience of the gourmet products in its demonstration kitchen and display centre, as well as a chance to meet the producers face-to-face.

The Victorian Government values its expanding agriculture trade through RCEP. Food and fibre exports to RCEP member countries totalled AUD $9.18 billion (USD $6.51 billion), representing 69 percent of Victoria exports in this sector.

As part of its commitment to RCEP and other regional trade agreements, Victoria has appointed three agriculture in-market specialists to link buyers with producers, of which two are located in the RCEP region, one in South-East Asia and another, a dedicated in-market specialist for China, based in Beijing. The third is located in Dubai and services the Middle East and North African markets.

These are the most micro of moves – one person in one city – but it is where the real opportunities are discovered and the true value creation lies, in a deep understanding and connection of the cultures of both countries.

RCEP is a positive step on what is a continual journey towards freer trade across the globe. Its formalisation this year is timely, given the immense trading and geopolitical challenges countries have faced over the past two years, with a pandemic and global conflicts leading to freight challenges, market access volatility, and rising input prices.

But these omnipresent factors are an unavoidable part of international relationships and China and Australia have a history of finding opportunities regardless of the prevailing conditions. Both countries know patience, and having people well connected and understanding of each other is essential in preparing for the opportunities that will undoubtedly be realised in the future.

13

Building Better Trade Links Between China and The Philippines

Glenn Penaranda

Commercial Counselor at the Philippine Trade & Investment Center, Embassy of the Republic of the Philippines in China, CKGSB New Economy Leadership Program Alumnus

Glenn Guieb Peñaranda is currently the Commercial Counsellor of the Philippine Trade & Investment Center (PTIC) in the Embassy of the Republic of the Philippines in Beijing, China. He represents the Department of Trade & Industry (DTI) and leads the promotion of Philippine exports to and foreign investments from China. Glenn also acts as China Team Leader working with PTIC-Shanghai, PTIC-Guangzhou and PTIC-Hong Kong.

The global dynamics of business has challenged global value chains but has more than ever offered many opportunities for us all.

The Philippines and RCEP

The implementation of the RCEP Agreement during the COVID-19 pandemic and at a time of global uncertainties highlights a renewed commitment to a rules-based system of trade and investment in the region, providing stability, predictability, and confidence for investors and businesses.

The Philippines also sees the agreement as a catalyst for the country's economic development. It not only provides enhanced market access for our key products, but also provides a platform to invite more investment.

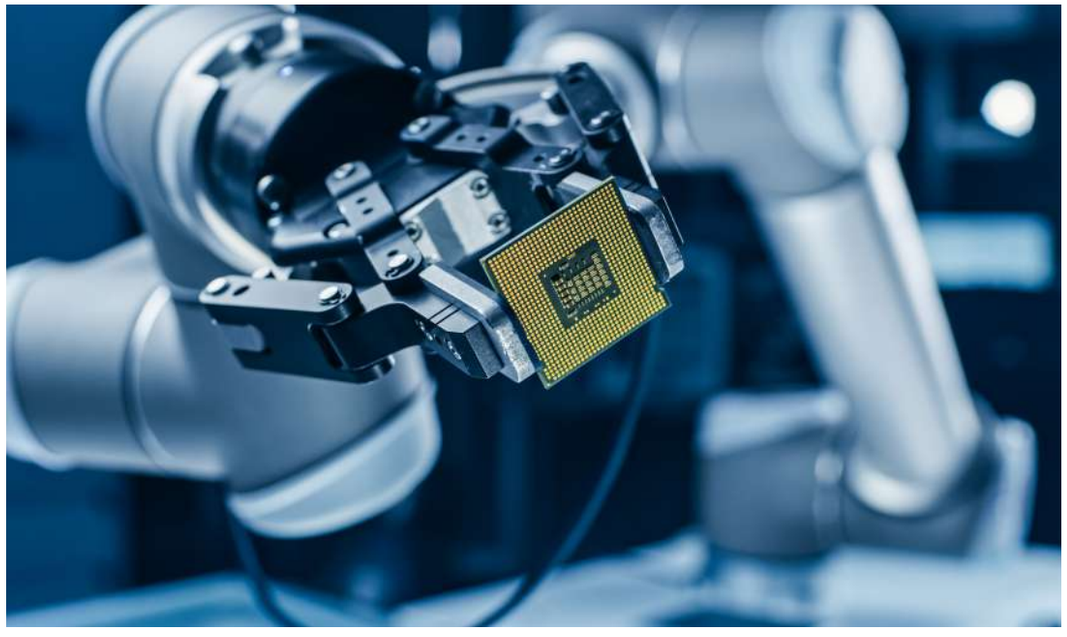
China is a strategic and important economic partner of the Philippines. It is already our largest trading partner and becoming a major source of investment.

RCEP will support the Philippines' goal to seek a stronger partnership with China. The Philippines is a close neighbor of China with a long history of business relations. This relationship has further been enhanced by cooperation under the Belt & Road Initiative and now through RCEP, particularly in complementary key industries.

Philippine exports to Mainland China and Hong Kong reached USD $19.7 billion in 2021, thereby remaining as the Philippines' largest export market. China also remains our largest source of imports.

There is continued strong demand for products and services from the Philippines particularly in China. Investment will be critical to expand our capacities to meet this demand.

Bilateral trade between the two countries is growing fast, primarily on electronics parts and components, industrial products such as iron and steel, machineries, building materials, minerals and agri-food products. Chinese investment has gone into infrastructure, manufacturing, real estate development, telecommunications and construction. New areas that offer many opportunities are in digital services and renewable energy.



The Philippines as Market and Resource

The attractiveness of the Philippines as a place to do business is based on many factors. These include a large market of 110 million consumers, a resilient and growing economy, and the availability of a skilled, young workforce – which is a strategic resource for growing global businesses.

As other countries pursue opportunities in RCEP, international companies looking for a market to diversify their business locations can consider the Philippines as an ideal location. We can also be an alternative hub for their production and service facilities.

The global dynamics of business has challenged global value chains but has more than ever offered many opportunities for us all.

Our resilience is rooted in our strength in innovation. In the 2021 Global Innovation Index (GII), the Philippines ranked 51st among 134 economies. Our country's strengths identified in the GII Report are in the areas of high-tech imports and exports, formal training provided by firms, utility models, ICT exports, creative goods exports, and science and engineering graduates, among others.

Our Trade Agreements (FTAs), including RCEP and our eligibility for US & EU GSP schemes, allow us to competitively trade in major markets. This would expand the Philippines' trade ties, as well as create more opportunities to enhance competitiveness and market access of our companies.

Game Changers: Easing of Foreign Equity Restrictions

In the last quarter of 2021, the Philippines passed game changing new measures to further open the economy for foreign investors. This is in addition to the earlier passed Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law which reduced income taxes and instituted a new and competitive incentive scheme.

In the Public Service Act, foreign equity restrictions in key sectors will be eased from a maximum 40% to 100% foreign equity. This shall attract more global players that will modernize sectors such as telecommunications, shipping, air carriers, railway, and subways.

The other measures are the amended Retail Trade Liberalization Act (RTLA) and the Foreign Investment Act (FIA) which will establish reforms to remove barriers for foreign entry. Soon there would be a lower capital requirement for foreign investors in retail trade— from a previous investment requirement of USD $2.5 million, down to just USD $500,000.

Recent Engagements with Chinese Businesses

In terms of our engagements so far in 2022, we have been working with Chinese investors in pursuing interests in Renewable Energy Projects, particularly solar and wind; COVID vaccines and pharmaceuticals; minerals; e-commerce and logistics; industrial park development and in building materials and construction.

We particularly welcome the ongoing projects of telecommunications infrastructure and e-commerce and logistics, as they not only provide an essential link for serving the needs of consumers and industries during the COVID-19 pandemic, but will also be an important channel for enhancing trade and industrial links with both China and the rest of the RCEP region.

This is aligned with our governments' mutual interests to deepen cooperation in e-commerce and digital trade, to support industries such as retail and logistics, including Micro, Small, and Medium Enterprises (MSMEs), and to support and strengthen global trade.

As trade increases, it is important that engagement between industries and enterprises is strengthened. The Philippines appreciates ongoing engagement with various business organizations, such as the China Council for the Promotion of International Trade (CCPIT), the China ASEAN Business Council (CABC), China International Contractors Association (CHINCA), China Overseas Development Association (CODA), the China Building Materials Federation (CBMF) as well as with many enterprises.

Fertile Ground for Future Business Expansion and Cooperation

Over the years, the Philippines and China have strengthened commercial, social, and cultural ties in pursuit of shared goals of prosperity and inclusive growth.

While business prospects in RCEP remain bright, we will be challenged by the impact of geopolitical conflicts, particularly in terms of input and production costs, and on supply chains.

Cooperation and strengthened business links will be useful as we all face these headwinds. It will be important to continue to expand and build resilient and sustainable supply chains under RCEP.

14

RCEP- A Chance for Indonesia to Elevate Its Exports

Liky Sutikno

Chairman of the Indonesia Chamber of Commerce in China

Liky Sutikno is the Chairman of Indonesia Chamber of Commerce in China (INACHAM). He has over 20 years of experience in supply chain management, manufacturing, corporate strategy, merger & acquisition and investment. He has broad experience working in multicultural teams in the US, Europe and Asia. He serves as a board member for several companies in the US and Asia, including a medical company listed on the Hong Kong Stock Exchange. He has also been involved in numerous deals between Indonesia and China as part of his role as the Chairman of INACHAM.

Although Indonesia is still in the process of ratifying the Regional Comprehensive Economic Partnership (RCEP), Indonesia, as the key initiator of RCEP, sees it as an opportunity to deepen its role in the global supply chain and attract investment and technology from countries like China.

Indonesia has always been an active player in global trade, and a good one too. In 2021, bilateral trade between Indonesia and China reached USD $124.3 billion. In the first quarter of 2022, bilateral trade reached USD $32.76 billion. Indonesia has continuously experienced a trade deficit with China in the past few years, but it has turned into a trade surplus, living up to its name as one of the most influential countries in ASEAN.

Under the leadership of our President Jokowi, Indonesia has converted its exports from commodity-based products to higher-end, value-added products in the last 5 years. However, Indonesian products are still struggling to gain access to the Chinese market.

Only five kinds of tropical fruits grown in Indonesia have been approved for entry into the Chinese market, whereas other countries sell more than ten varieties at much larger trade volumes.

With RCEP, not only will tariffs be reduced, but we also expect to gain a level playing field and equal access for all signatories.

Indonesia is blessed with rich natural resources. Among some of the most popular "non-mining related" resources, like coffee, cacao, rubber, seaweeds, wood and wood-related products, most are exported as raw or semi-processed materials. However, these resources would offer much higher value if they were processed locally in Indonesia into higher-end products through better technology. Other RCEP members, such as China, are stronger in processing technology and technical know-how. By joining RCEP, the flow of investment and technology will be easier and all signatories can leverage each other's strengths to unlock greater economic potentials.

Indonesian firms will have better access to more advanced technology to upgrade their production processes to convert the abundant natural resources into products with higher value and be part of the global supply chain. This will create more local jobs with increased skillsets.

Indonesia's cost-effective labor, coupled with cheap abundant raw materials, makes it an ideal destination for Chinese manufacturers looking to relocate their factories or invest overseas. This will in turn help both China and Indonesia move up the value chain, making it a win-win opportunity for both countries. We are already seeing the trend for industrial transfer from China to Southeast Asian countries like Indonesia. Chinese manufacturers process raw materials or assemble parts into value-added products locally in Indonesia before shipping the final products worldwide. We hope to see China, a country with advanced technical know-how and engineering prowess, invest more into Indonesia. We believe that the ratification of RCEP will accelerate the rebalancing in the region.

To become more competitive, Indonesia needs to upgrade its infrastructure, develop manufacturing technology, train its workforce, reduce bureaucracy and enhance regulations. All in all, combined with the country's natural resources, Indonesia has many advantages in global trade.

Foreign investment has played an important role in speeding up Indonesia's industrial transformation and its transition to using more green renewable energy as part of its Net Zero commitment. North Kalimantan is strategically positioned to be the green energy hub in Asia by leveraging its hydropower potentials. Sulawesi, with its abundant nickel resources, has been transformed into the world's 3rd largest exporter of stainless steel products and in Weda Bay Industrial Park, we are building an EV battery center with investment from global players like CATL and LG.

Given that Indonesia has the largest Muslim population in the world, I hope Indonesia and other signatories can work together in the context of RCEP to establish a halal healthcare center in Indonesia, by building tropical disease R&D centers, medical devices and bio-tech parks to serve the global Muslim community. Indonesia hopes to receive technological and investment support from China or India in upgrading its healthcare supply chain.

China is now Indonesia's second largest source of foreign direct investment. Under the framework of RCEP, we believe more collaboration can happen in its bilateral relationship in the next two to three years.

The Indonesian Chamber of Commerce (INACHAM) is very much looking forward to the full implementation of RCEP. Our members are mainly Indonesian companies doing business in and with China. Most of them engage in plantation-related sectors. Two of Indonesia's largest paper factories, the largest tire manufacturer and the largest coffee producers are all operating in China. Hopefully with more transparency, trust and collaboration generated from joining RCEP, more Indonesian companies can overcome existential trade barriers and jointly support Indonesia to move up the value chain in the Asia Pacific region. As a facilitator, the Chamber is always ready to support its members and their Chinese partners in accelerating trade, investment and economic relations between Indonesia and China.

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Opportunities for Growth in Food Trade between Malaysia and China

Loh Wee Keng

Chairman of Malaysian Chamber of Commerce and Industry in China

Mr. Loh Wee Keng currently serves as the Chairman of the Malaysia Chamber of Commerce and Industry in China. Mr. Loh spearheads Regal Plus, a nationwide food distribution company based in Beijing. He also runs a consultancy firm that provides business consultancy services to enterprises that focus on Malaysia-China bilateral trade. Other business ventures of Loh include automotive spare parts and animal feeds.

If the world thought China's dual circulation policy was a sign of retreat from globalization, China's recent ratification of RCEP proves otherwise. Malaysia has witnessed China's consistent emphasis on international trade. Now, China has been Malaysia's largest trading partner for 13 years in a row.

Malaysia ratified the Regional Comprehensive Economic Partnership (RCEP) on March 18th this year and China ratified the agreement shortly after on March 22. China's readiness has expedited trade with Malaysia. Fresh food exports, in particular, have benefited from the shortened time of customs clearance. In many cases, the timeframe has been reduced to 48 hours following the ratification of RCEP.

When I first came to China in 1996, trade in food between Malaysia and China was still limited. It wasn't until 2010 when Malaysia started to trade a wider range of products, such as food and light manufactured products, with China under the ASEAN +3 framework. During this period Malaysian SMEs secured opportunities to sell food, such as white coffee, durians, pineapples and coconuts, to the Chinese market in large volumes. Although it only accounts for a small percentage of all exports to China, Malaysian food exports have grown over the years. In 2020, Malaysia's food export to China grew by more than 20 times to USD $1.06 billion[1], up from the USD $46.6 million in 1996 when I first arrived. As business collaborations deepen, innovative new business models have emerged. Besides receiving wholesale food orders, Malaysian companies are also taking advantage of China's e-commerce platforms, which has provided Malaysian food businesses ready access to a growing body of Chinese consumers. Now that RCEP has expedited the length of custom clearance, e-commerce could be a promising channel for international trade once the cost of logistics becomes cheaper and efficiency becomes higher. Leveraging cross-border e-commerce platforms, small-and-medium-sized enterprises (SMEs) in Malaysia and other RCEP signatory countries can seize new business opportunities to further expand into the Chinese market. This will consequently develop the e-commerce ecosystem, which will help RCEP signatory countries further integrate into China's massive market.

When it comes to multilateral trade, Malaysia has an advantageous position, being part of ASEAN +3 and having previously signed free trade agreements with Japan and Australia. This time, to meet the terms of RCEP, Malaysian government worked closely with its customs department and businesses to establish trans-national trade infrastructures, despite facing some disruptions caused by the COVID-19 pandemic. For example, Malaysia accelerated its exporting procedures and sped up its issuance of the 'Place of Origin' certificates.

RCEP's low tariff and non-tariff barriers coupled with enhanced transparency in transaction costs and paperwork will offer Malaysian SMEs easier access to the Chinese market. Over half of the Malaysian Chamber of Commerce and Industry in China (MAYCHAM) members are small-to-medium-sized companies, most of whom trade with RCEP signatory countries. We are seeing a positive growth in their exports and investments since RCEP came into force.

To better leverage the RCEP agreement, we are seeing that logistics, including warehousing, transportation and deliveries, have improved. As upstream and downstream businesses no longer need to cluster together, some of our MNC members who own production or investment businesses are considering relocating their production units now that RCEP facilitates the free movement of products and materials among countries.

Once products can flow freely within RCEP countries, overall export and import costs will decrease significantly and more resources can be allocated to improve product quality. This is a win-win situation for producers, industries and consumers. This virtuous cycle will help to strengthen a country's competitiveness.

Besides logistics, the inspection process of import and exports can also be a lucrative business due to RCEP's requirements for faster customs clearance. As international trade volumes grow, there will be a greater demand for reliable and speedy inspection and testing for quality assurance. What's more, the fees for inspection are expected to decrease once they improve their efficiency, so that it contributes to the competitiveness of the exported products. In the foreseeable future, the need for air transportation will rise exponentially. Leading Chinese logistics companies such as SF Express and JD.com are already entering into Southeast Asian countries. By working with local logistics companies like Pos Malaysia, Chinese companies are bringing in their more advanced business models and technologies to Malaysia.

The Malaysian Chamber of Commerce and Industry in China (MAYCHAM) aims to facilitate market entry for its members. We offer our members knowledge about local business opportunities and policies, trainings on ways to market products and on how to file documents to certain authorities, consultancy on investment and operational practices and government outreach opportunities. We also provide support to our members who are Chinese companies looking to enter the Malaysian market.

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RCEP and China's Dual Circulation Strategy

Suan Teck Kin

CFA, Head of Research, Executive Director, Global Economics and Markets Research, United Overseas Bank (UOB)

Teck Kin joined UOB as an economist in 2006. In his current role as Executive Director in Global Economics and Markets Research, he is responsible for macroeconomic and foreign exchange research with a primary focus on mainland China, Hong Kong and Taiwan, and secondary coverage for the ASEAN region. As a member of the Research team, he presents the team's market views regularly to the Bank's management team and clients in Singapore and the region. Teck Kin has more than ten years of experience in macroeconomic and equity research. Fluent in English and Mandarin, Teck Kin is interviewed frequently by local and international print and broadcast media, as well as financial newswires on the economic and market outlook.

RCEP is China's largest trade partner accounting for more than 30% of China's total trade (Jan-Sep 2021), compared to ASEAN's 14% share in China's total trade.

As the world's second largest economy, China's merchandise trade with the RCEP members is already quite substantial. As a group, RCEP is China's largest trade partner accounting for more than 30% of China's total trade (Jan-Sep 2021), compared to ASEAN's 14% share in China's total trade. In addition, China's Belt & Road Initiative (BRI) will also be entrenched further within the RCEP context, as many member states are also connected via BRI.

With China's retail market set to overtake the US to become the world's largest in the years ahead, it is important that businesses have access to opportunities in such a sizeable market and in the most efficient manner.

Coupled with the rising affluence in ASEAN itself, RCEP will help attract investors beyond the region as the Chinese and regional markets will be seen as an "integrated market".

As such, RCEP fits well into China's dual circulation strategy, which capitalizes its large domestic market at the core of the strategy, and interacts the domestic market with the external market through trade, investment and capital flows and its manufacturing capability. With nearly half of the world's manufacturing output produced by RCEP members, the Agreement will further elevate their export competitiveness and efficiency.

As RCEP integrates economics and markets in the Asia Pacific further, there is a reasonable chance that China will be able to achieve the doubling of the Chinese economy by 2035. This will in turn reinforce the growth and economic prospects of RCEP members.

Summary table: Comparison of RCEP with other Trade Agreements (2020)

	RCEP	RCEP+India	CPTPP	CPTPP+US	USMCA
Population (million people)	2,314.7	3,694.7	511.6	842.6	497.7
Population (% of world's population)	29.7	47.1	6.5	10.7	6.3
Nominal GDP (USD Trillion)	26.2	28.9	10.8	31.7	23.6
Nominal GDP (% of world's GDP)	30.8	34.0	12.7	37.3	27.8
Per Capita GDP (USD)	11,320	7,812	21,156	37,643	47,444
Total Exports (USD trillion)	5.42	5.69	2.74	4.17	2.24
Total Exports (% of world's exports)	30.8	32.3	15.6	23.7	12.7
Total Imports (USD trillion)	4.68	5.05	2.57	4.98	3.21
Total Imports (% of world's imports)	26.2	28.3	14.4	25.8	18.0
Total Trade (USD trillion)	10.10	10.75	5.32	9.15	5.45
Total Trade (% of world's trade)	28.5	30.3	15.0	25.8	15.4
Foreign Direct Investment, FDI (USD billion)	329.1	393.2	207.3	363.6	209.2
FDI Inflows (% of world's total FDI)	32.9	39.4	20.8	36.4	20.9
Manufacturing value added (USD trillion)	6.10	6.50	1.69	3.87	2.54
Manufacturing value added (% of world's output)	43.4	46.2	12.9	29.4	19.3

Source: Macrobond, UOB Global Economics & Markets Research est

- RCEP: Regional Comprehensive Economic Partnership, comprising the 10 ASEAN members, plus China, Japan, South Korea, Australia and New Zeland;
- CPTPP: The Comprehensive and Progressive Agreement for Trans Pacific Partnership; comprizes of 11 members: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam;
- USMCA: United States-Mexico-Canada Agreement, which succeeds the North American Free Trade Agreement (NAFTA)

What is Next for RCEP?

RCEP will eliminate as much as 90% of the tariffs on imports between its parties, and some of the cuts would take place 20 years after the ratification of the agreement .

India pulled out of talks in Nov 2019, concerned that the elimination of tariffs would open its markets to a flood of imports that could harm local producers. While there may be a chance that India could rejoin in future, RCEP on its own is already quite a substantial FTA. This is unlike the CPTPP, which is just a shadow of its former self without the participation of the US.

President Trump withdrew the United States from the Trans-Pacific Partnership (TPP) in 2017, which was set to become the world's largest trade agreement at that time. Even with the absence of an anchor economy, the remaining 11 member states of the TPP forged the CPTPP, which entered into force on 30 December 2018. CPTPP is about half the size of RCEP in terms of GDP and export value.

With RCEP showing the way forward, it remains to be seen whether the US will rejoin CPTPP to exert its influence in global trade. To a certain extent, the demise of TPP and rising trade protectionism in subsequent years could be a key catalyst for the accelerating of the RCEP into reality. However, with China indicating its interest in joining the CPTPP, a successful bid will bolster the size and influence of CPTPP significantly.

A longer version of this article first appeared on UOB's website.[5]

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RCEP and the Rise of the Nickel-Based Industry

Cyrillus Harinowo

Independent Commissioner of BCA Bank, CKGSB ASEAN Global Leadership Program Alumnus

Dr. Harinowo served the Central Bank of Indonesia for twenty-five years, including as Director and Head of the Money Market and Monetary Management Department, where he led the implementation and management of the bank's monetary policy. He also served the government as Assistant to the Minister of Trade, and in various roles, including as delegate to the Inter-Governmental Group on Indonesia (IGGI) and the Consultative Group for Indonesia (CGI) at IMF and World Bank annual meetings. In addition, Dr. Harinowo served at the IMF in Washington D.C. as Alternate Executive Director and as Technical Assistance Advisor at the Monetary and Exchange Affairs Department of the organization.

The collaboration between Chinese, Korean, Japanese and Indonesian companies will strongly promote the development of the EV industries in Indonesia.

The Regional Comprehensive Economic Partnership is a free trade agreement between ASEAN countries and its free trade partners, like China, Japan, South Korea, Australia and New Zealand. India was initially part of the negotiating parties, but at the end of the process opted out from the Agreement.

Among various sectors that fit into the spirit of the Agreement, one of them is certainly the rise of the electronic vehicles (EV) industry. China and South Korea are at the forefront of that competition.

Japan, initially slow to catch on in the early stages, eventually joined the bandwagon and quickly developed its own EV industry.

In the fierce competition of the global EV industry, the performance of cars has certainly become the hottest bet. In this case, the performance of EV batteries plays a significant role in that competition. TESLA was the first player to use nickel-based batteries in its premium cars. For their standard cars, such as the Model 3 and Model Y, TESLA uses lithium ferro-phosphate ($LiFePO_4$) batteries. Since the cost of nickel-based batteries is still very expensive, the global batteries manufacturers, such as CATL and LG Chem, eventually tried to reduce the cobalt content of the batteries. Therefore, they introduced NCM811 (nickel, cobalt manganese with the ratio 8-1-1) and further developed NCM955, which only has a Cobalt and Maganese to Nickel proportion of 0.5 to 9.

In the development of the nickel-based batteries, the largest producers of nickel products in the RCEP countries are Indonesia and the Philippines. In this case, the Philippines was the pioneer. With the help of Sumitomo Metal Mining Co Ltd, the Philippines developed HPAL (High Pressure Acid Leaching) facilities in Taganito and Coral Bay. However, in recent years, a Chinese company has successfully developed HPAL facilities in Ramu, Papua New Guinea, heating up the competition between the Japanese and the Chinese companies to become the largest player in the EV battery industry.

The rise of the nickel industry started when the Indonesian government introduced a mineral down-streaming policy. In the past, mineral ores, including nickel, was exported as ores. Thus, the value created from those exports were small. Starting in 2014, a number of Chinese companies have built smelters in Indonesia, to produce nickel pig iron, ferronickel, nickel matte or even carbon steel and stainless steel. These companies have increased their commercial production and, in 2017, exports of iron and steel were on the rise. This case highlights the success of cross-border collaboration between the manufacturers and the mining companies in developing a supply chain for the stainless-steel industry.

In 2017, Indonesian nickel-based industry saw a new opportunity on the horizon to the boom in the global EV industry. They developed new collaborations to build facilities for EV battery materials. HPAL technology created a number of companies ready to take advantage of this new market, especially after the success of the Chinese made HPAL facility in Ramu, Papua New Guinea.

The first company to successfully develop a facility that has started producing and exporting commercially viable products in the middle of 2021 is Halmahera Persada Lygend, a joint venture between Indonesian company Harita Group and Chinese company Ningbo Lygend. The joint venture built their facility on Obi Island, Northern Mollucas Province. This year, two more companies will complete their construction and production will start once they pass the commissioning process. In not too long afterwards, Sumitomo Metal Mining Co Ltd will also develop a HPAL facility together with Vale Nickel Company.

The HPAL facility produces mixed hydroxide precipitates (MHP). This product should be processed further into nickel sulfate and cobalt sulfate in the refining plant. Currently the refining process is being done in China. Therefore, companies like Halmahera Persada Lygend have to export the MHP to China. In the future, refining plant will be built in Indonesia so that no transaction cost to China is needed. The third process is the precursor plant, which can also be built in Indonesia. If that is the case, the cost of production for EV batteries can be economized quite significantly.

Korean company, LG Chem, has already developed an EV batteries industry in West Java, Indonesia. Not too long after LG Chem, a Chinese company, CATL, will also develop an EV batteries plant in Indonesia. These companies currently import precursor from China. With the development of the precursor plant in Indonesia, the full cycle of EV battery supply chain can be developed in one place. This is an example of how collaboration between Chinese, Korean, Japanese and Indonesian companies will strongly promote the development of the EV industries in the region.

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How RCEP Will Shape the Recovery of Asia's Economy and Service Industries

Saran Song

Co-Founder and CEO of Amru Rice (Cambodia) Co. Ltd, CKGSB ASEAN Global Leadership Program Alumnus

Song Saran is the Co-founder and CEO of Amru Rice (Cambodia) Co. Ltd, the prime leader in the country's organic rice export, the President of Cambodian Rice Federation, Member of Cambodia Chamber of Commerce, Member of AmCham, Board member of Cambodian Investment Club, PhD Candidate at Royal Academic of Cambodia, and an alumus of CKGSB's AGLP Program.

RCEP is an important geostrategic initiative that consolidates smaller existing agreements to create a comprehensive partnership fit for Asia in the 21st century.

At a time when many economies are still navigating their recoveries from the impact of COVID-19 and the high oil prices brought about by the Russia-Ukraine war, the Regional Comprehensive Economic Partnership (RCEP) represents a timely opportunity to pursue and leverage liberalised trade and supply chains to kick-start Asia Pacific's ailing economies.

RCEP is an important geostrategic initiative that consolidates smaller existing agreements to create a comprehensive partnership fit for Asia in the 21st century. This is the largest free trade agreement in the world and covers one third of the world's GDP and population.

For more than 2 years, COVID-19 caused global disruptions to production and supply chains and stalled growth, recovery and progress everywhere. RCEP is a solid support to global trade and would place the region at the forefront of the global economic recovery and continue to be an attractive investment destination.

An effective RCEP would broaden and deepen economic linkages with the additional preferential trade in goods, and market access into China, Japan and South Korea. Tariffs and expedited procedures would cut down the cost for companies supplying to these markets. It would enhance foreign equity participation across various sectors with government

guarantees or support on their investment. Emerging trade fields would also be empowered through RCEP, including e-commerce and intellectual property (IP) rights, providing a more conducive digital trade environment and offer greater access to markets.

Upon ratification by participating countries, RCEP will provide a platform for businesses to collaborate and negotiate new ties. For Cambodia, RCEP provides a strong foundation for it to spur its economy and help overcome the challenges caused by the pandemic.

The Cambodian economic outlook is on track for a 4.5% growth in 2022 as we emerge from a slowdown at the height of the pandemic. This recovery is underpinned by domestic economic activity as well as agricultural and agri-processed exports. Cambodia's export-oriented manufacturing is expected to grow, on the back of external environments shaped by larger economies like the U.S and China, and less affected by energy and food price hikes stemming from the Russia-Ukraine conflict.

Domestic laws and free trade agreements within the RCEP agenda can help boost investment and trade over the coming years. The economic recovery plan to improve Cambodia's external competitiveness should address supply side bottlenecks by reducing costs of doing business, logistics, and energy costs, while enhancing regulations to boost job creation and GDP. Our small-and-medium enterprises should be given opportunities to access cheaper raw materials for production and manufacturing and access to bigger markets for their products. Farmers can benefit from having access to cheaper farm inputs and farm implements that can be used to boost production, yields and quality.

Cambodian businesses, through direct investments and business-to-business partnerships, should be given chances to optimize the benefits of these agreements in order to improve their business environment, skills, and innovation, and strengthen their competitiveness. This could all happen through RCEP's impetus.

We look forward to RCEP promoting a practical narrative on trade and investment. We would like to see how inclusive economic participation through the digital economy and technology would lead to innovation and digitalisation among governments, businesses and people, especially women. We also want to see how the RCEP food security agenda would proceed on enhancing the global food supply chains that ensure sufficient, safe, and nutritious food to people. Amidst our fragile dependence on limited energy sources, we look forward to the RCEP agenda for affordable energy and transitions to cleaner energy. We also want to see how RCEP will address the challenges of climate change, extreme weather and natural disasters, to strengthen emergency preparedness.

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RCEP's Key Provisions for Corporate Asia

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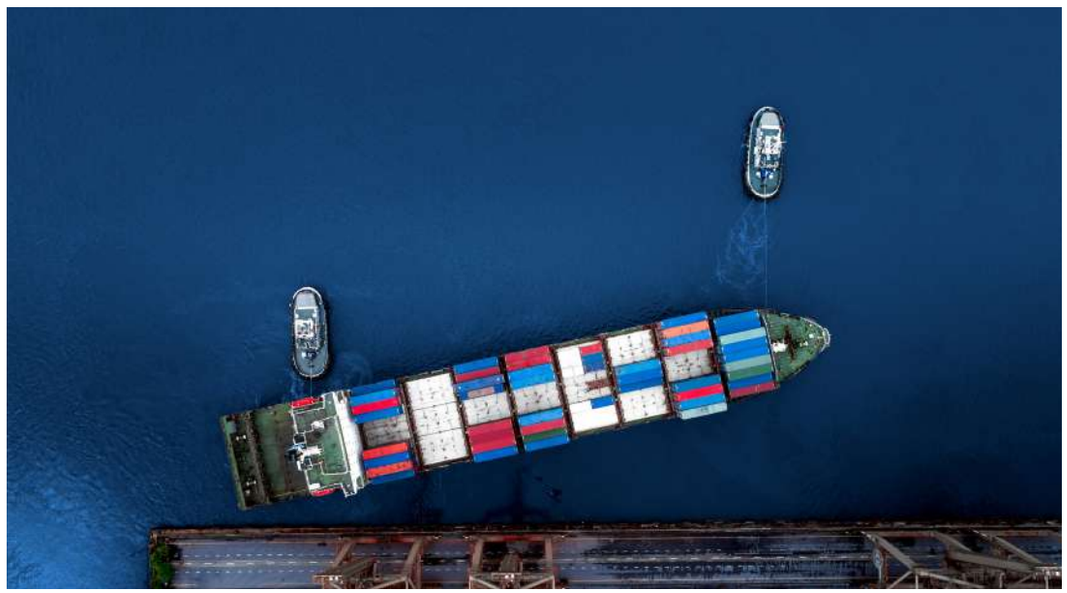
RCEP covers 30% of global GDP, 28% of global trade and 29% of the global population and is considered a promising and constructive step towards free trade in the Asia-Pacific region. Almost all companies – from micro-companies with fewer than 10 employees, to small to medium-sized enterprises, to large corporations will be affected by the agreement. Many of them will gain new opportunities to trade in the region.

RCEP, as the world' largest trade and investment pact, is very comprehensive. Even for South Korea, which already has bilateral free trade agreements (FTAs) with the EU, China, and Australia, amongst many others, RCEP offers new opportunities. Both local and foreign companies based in South Korea have realized that RCEP's levels of tariff concessions on goods as well as rules of origin criteria are different from existing FTAs.

There are a few key provisions of the agreement for companies trying to move up the regional value chain (RVC) that are worth noting. The first is RCEP Article 3.4: "Cumulation". According to the provision, goods and materials which are used in another member country as materials in the production of other goods or materials, shall be considered as originating in the member country where working or processing of the finished good or material has taken place. As for the manufacturing company, if the final product is produced in Korea, even if the raw materials came from elsewhere, the final product may be treated as originating in South Korea, so long as materials comply with the origin requirement. As a result, companies will be able to avoid trade barriers and improve the integration of industrial supply chains.

In addition, RCEP allows private exporters in the member countries to issue certificates of origin by themselves if they are properly authorized. This is different from other FTAs that only allow the governing body to issue certificates. The rule will make the process of authorization more efficient in each member country.

Secondly, Article 3.16: Proof of Origin stipulates that an issuing body, approved exporter, or exporter of an intermediate member country may issue a 'Back-to-Back Proof of Origin'



certificate, which is a key feature of RCEP. It is a kind of proof of origin issued by the issuing authorities in the intermediate RCEP country for re-exports of goods, based on proof of origin issued in the initial exporting member country. This could mean that micro, small and medium enterprises (MSME) carrying out packaging, separation of consignments and labeling in intermediate countries will grow. RCEP's back-to-back proof of origin rules have important and positive implications for regional value chains by providing opportunities to traders among member countries. Eventually, RCEP will allow member countries to benefit from preferential tariffs when importing goods and materials from other member countries.

Thirdly, RCEP will have a big impact on intra-regional foreign direct investment (FDI). Chapter 10: "Investment" includes provisions regarding the treatment of favorable nations, fairness and equity among member countries. Articles in Chapter 10 also specify the promotion and facilitation of investment to boost mutual cooperation in investment activities. The region has already been a key FDI destination accounting for 16% of global FDI stock and 24% of total global FDI flows. Many investors around the world motivated by the easing of FDI restrictions, coupled with the growing value of intra-regional trade, will see new investment opportunities in the region.

Chapter 8: "Trade in Services" will boost some service industries such as finance, telecommunications, and electronic commerce - which will benefit most from growing FDI opportunities. Less restrictive regulations on these industries will make the market more attractive and increase international capital flows.

Finally, tariff concessions vary substantially among member countries with each member country maintaining their own schedules of tariff concessions on goods. This means that tariff rates could vary even if the goods imported are the same.

In order to assist local exporters and importers, the Korea Customs Service (KCS) is setting up customs centers in five major cities, including Seoul. 146 staff from these centers will be ready to provide their services at the appropriate time.

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The Lubricant for the Giant Wheel: The Role of Business Education Institutions in RCEP

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The Regional Comprehensive Economic Partnership (RCEP) is considered a major free trade agreement (FTA) as it covers about one-third of the world's population and 30% of the world's GDP, worth about USD 25.84 trillion in 2019. Over the next 20 years, tariffs will be eliminated on 92% of goods and 65 service sectors will be opened to foreign investment by increasing the foreign ownership cap. It is estimated that this free trade agreement will add up to USD 186 trillion in value to the global economy. Participating countries are expected to benefit from the opportunities to increase economic activity. On the other hand, there are also skeptics who believe that the benefits of RCEP will not be as great as they have been calculated.

Opportunities are not the same as prospects. Prospects arise because of opportunities and the ability to take advantage of those opportunities. Big waves are a good opportunity to surf. However, this opportunity is a prospect only for those who have a surfboard and the ability to surf. For those who do not have that, this wave is just an opportunity and they can only watch it.

To use the metaphor above: Macro policies, such as the elimination of tariffs, certainly create a 'big wave'. But whether these big waves are used for surfing or are just a pretty sight depends on the extent to which businesspeople manage to make it a prospect for themselves. It is the prospect that makes economic and business actors move to take advantage of the opportunities, and that is also an important factor in the success of a free trade agreement.

The opportunities may be the same, but the prospects for each RCEP participating country may be different because the ability to take advantage of those opportunities varies. For example, requirements for quality standards for products and services, which vary widely from country to country, have often become obstacles that characterize many FTAs. Establishing fair standards that all interested parties can agree on is very important. This, of course, will help create opportunities. However, even more critical to creating prospects for all parties involved in this RCEP is the ability to produce products and services that meet the agreed upon standards.

Equality of capabilities among economic and business actors is an important factor in enabling them to take advantage of RCEP opportunities. The wide gap in capabilities leads to a sense of threat, and this is the main enemy of free trade. This sense of threat will be even stronger if the FTA is seen only as lifting barriers to competition and opening a larger market, and is implemented on a "winner takes all" basis.

This is an area where business education institutions can play a role. Building equity in business skills requires cross-national and cross-cultural collaboration among business education institutions. This collaboration can take many forms. Projects involving students from different universities and countries, or joint teaching and research programs are good examples of building equal skills and a spirit of collaboration. Consistent collaboration also builds trust. Equal capabilities and trust are the antidote to feelings of threat. Other creative activities with similar goals can be undertaken to reach graduates of educational institutions who are currently in the business world.

The next question is whether this also requires the presence of a business education institution that also crosses national boundaries. Indeed, the presence of business education institutions in different countries can be realized in the form of a physical presence in different countries to take advantage of the opportunities that also exist under RCEP. Apart from natural barriers such as language and purchasing power, the presence of cross-border educational institutions can be defined in several ways.

If the "product" of a business education institution is knowledge, then the presence of knowledge that crosses national boundaries is a manifestation of the presence of a business education institution. In the academic tradition, knowledge exchange is a free and fluid exchange that has long occurred even without free trade agreements.

If the 'product' of a business education institution is its graduates, then the presence of graduates crossing national borders is an indicator of the 'success' of educational institutions present outside their national borders. How to produce 'products' that have the quality to cross national borders must be a major concern for any business education institution.

If the 'product' of a business education institution is measured not only by output (graduates) but also by outcome (what the graduates do), then the presence of a business education institution can also be measured by how many graduates produce products and services that cross national borders, i.e. how many graduates really benefit from this RCEP.

Regardless of how one defines their presence in different countries, business education institutions play an important role in ensuring that RCEP maximizes all of its benefits. This role is critical because they are the lubricant for the giant wheel of FTAs like RCEP.

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Established in Beijing in November 2002, Cheung Kong Graduate School of Business (CKGSB) aims to cultivate transformative business leaders with a global vision, social responsibility, innovative mindset, and ability to lead with empathy and compassion. Funded with generous support from the Li Ka Shing Foundation in November 2002, CKGSB is China's first privately-funded and research-driven business school.

CKGSB is the preferred choice for management education among China's established business leaders and a new generation of disruptors. It is also the leading choice for academics returning to China from top business schools worldwide. CKGSB has more than 40 full-time professors, many of whom held tenured positions at leading business schools, such as Wharton and Yale. Their research has provided the basis for over 500 case studies of both China-specific and global business. CKGSB's alumni network is also the most influential in China. More than half of CKGSB's 18,000 alumni are at the CEO or Chairman level and, collectively lead one-fifth of China's most valuable brands.

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