9

Chapter

Trade and Investment Opportunities Between China and RCEP Countries

Chapter 9 Trade and Investment Opportunities Between China and RCEP Countries

Section 1 China's Trade in Goods With Other RCEP Parties

This section introduces the preferential tariffs under the Agreement imposed by each RCEP party for each type of product by industry in terms of import and export. Enterprises will be able to understand how large the tariff preferences are for various types of goods between China and other RCEP parties by comparing the RCEP tariffs with the existing bilateral agreement tariffs.

I. Development of Trade in Goods Between China and Other RCEP Parties

In terms of the scale of China's import and export trade with other RCEP parties, the scale of import and export trade between China and other RCEP parties had expanded between 2010 to 2020. China's exports to other RCEP parties reached US$698.4 billion in 2020, accounting for about 27.0% of China's total exports, and imports reached US$775.4 billion, accounting for about 37.7% of China's total imports. China's overall trade with other RCEP Parties increased by 3.28% in 2020 compared to 2019, and the overall trade development trend showed a steady increase. China's imports and exports in 2020 to its top five trading partners, ASEAN, the European Union, the United States of America, Japan, and South Korea was RMB$4.7 trillion, RMB$4.5 trillion, RMB$4.1

trillion, RMB$2.2 trillion and RMB$2.0 trillion respectively, accounting for 54.3% of total imports and exports. ASEAN continued to maintain its position as China's top trading partner. Imports and exports to countries of the "Belt and Road Initiative" totaled RMB9.4 trillion, accounting for 29.1% of the total import and export. Import and export to ASEAN, the European Union, the United States of America were up 7%, 5.3% and 8.8%, respectively, higher than the overall growth rates of 5.1, 3.4, and 6.9 percentage points.

China has an overall trade deficit with other RCEP Parties, with higher import dependence than export dependence, highlighting the different resource endowments and industrial division of labor among RCEP Parties. In recent years, the scale of China's imports and exports with five countries, including Japan, South Korea, Australia, Vietnam, and Malaysia accounted for about 60-75% of China's total imports and exports with RCEP. China's exports to five Parties in 2020, including Japan, Vietnam, South Korea, Singapore, and Malaysia, were US$142.7 billion, US$113.8 billion, US$112.5 billion, US$57.5 billion, and US$56.4, accounting for about 70% of China's total exports to RCEP. China's imports from Japan, Korea, Australia, Vietnam, Malaysia totaled US$174.9 US$172.8 billion, US$114.8 billion, US$78.5 billion, and US$74.7 billion respectively, accounting for about 80% of China's total imports from RCEP. Meanwhile, China recorded a trade deficit with South Korea, Japan, Australia, New Zealand, and Malaysia. It can be seen that China's import concentration to other RCEP parties is higher than its export concentration. The conclusion of RCEP will help China expand its export market, meet domestic import demand, and strengthen the regional industrial chain supply chain. The common framework of rules of origin established in the RCEP Agreement will significantly expand the scope of trade and investment liberalization and enhance the strength of China's FTA network.

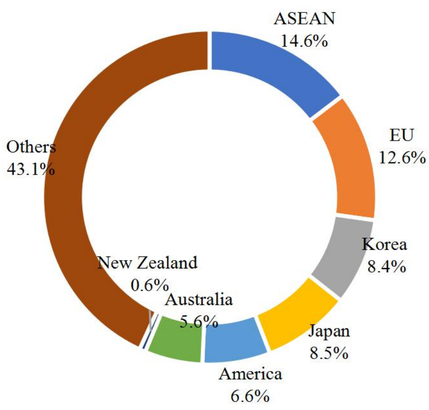

Figure 9.1.1 China's import composition in 2020
Source: Ministry of Commerce.

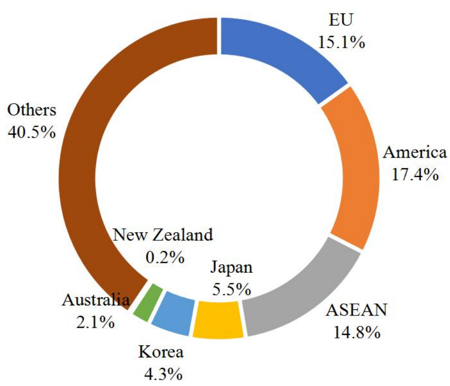

Figure 9.1.2 China's export composition in 2020
Source: Ministry of Commerce.

Table 9.1.1 China's trade in goods with other RCEP Parties in 2020 (USD billion)

Country or Region	Imports	year-on-year growth	Exports	year-on-year growth	Trade Value	year-on-year growth
ASEAN	300.88	6.7%	383.72	6.8%	684.60	7.0%
Japan	174.87	1.9%	142.66	-0.4%	317.53	0.8%
Korea	172.76	-0.5%	112.50	1.4%	285.26	0.3%
Australia	114.84	-5.4%	53.48	1.1%	168.32	-0.7%
New Zealand	12.06	-4.0%	6.06	5.6%	18.12	-1.0%

Source: ASEAN, Japan, Korea, and Australia data are compiled from the Ministry of Commerce, People's Republic of China; New Zealand data is compiled from China Customs.

China and ASEAN became each other's top trading partners in 2020. Due to the influence of the COVID-19 pandemic, ASEAN overtook the European Union to become China's top trading partner in 2020 and became China's third-largest export market and largest source of imports. 2020 China-ASEAN bilateral trade in goods was US$684.60 billion, up 7.0% year-on-year, which was about four times that of when the China-ASEAN Free Trade Agreement came into force in 2005. Among ASEAN parties, apart from Vietnam and Malaysia mentioned above, Thailand ranked third in terms of import and export trade with China. Total trade volume between China and Thailand in 2020 was US$98.62 billion, up 7.5% year-on-year, accounting for 2.1% of China's total import and export volume, of which the export volume was US$50.53 billion and import volume 48.10 billion USD. In addition, China's total trade volume with Singapore was 89.10 billion USD, accounting for 1.9% of China's total imports and exports.

China and Japan share a close bilateral relationship and China was Japan's top trading partner for 12 consecutive years. 2019 was when the global economy recorded a decline in growth, but trade volume between China and Japan remained above US$300 billion. Bilateral trade between China and Japan was affected by various factors especially by the COVID-19 pandemic, and total trade volume was US$147.1 billion in the first half of 2020, significantly less than the same period the previous year. However, due to the effective management of the epidemic, bilateral trade rebounded in the second half of 2020, ad total trade volume between China and Japan totaled US$317.53 billion, a 0.8% year-on-year increase, with exports dropping 0.4% to US$142.66 billion and imports rising by 1.8% to US$174.87 billion. Japan remained China's fourth-largest trade partner in 2020.

China has been South Korea's largest trading partner, largest export market, and largest source of imports for many years in a row. The China-South Korea Free Trade Agreement went into force on December 20, 2015. It is the free trade agreement with the widest coverage, largest country-specific trade volume, and the highest level of openness negotiated between China and a foreign country. The proportion of bilateral goods trade liberalization under the Agreement exceeds 90% of tax items and 85% of trade volume. The terms of the China-South Korea FTA cover 17 areas, including trade in goods, trade in services, investment, and norms of mutual relations, including issues such as competition policies, government procurement, environment, and electronic commerce. Presently, both sides are in the process of negotiating the second stage of the free trade agreement, which involves trade in services and investment. The negotiations will be conducted by way of pre-establishment national treatment plus a negative list. According to the Ministry of Commerce, trade in goods between China and South Korea rose slightly to US$285.26 billion in 2020, or 0.3%, with exports up 1.4% to US$112.50 billion and imports down 0.5% to US$172.76 billion.

China continues to be Australia's top trading partner, largest export market, and largest source of imports. Bilateral trade in goods totaled US$168.32 billion in 2020, down 0.7% year-on-year, with China's exports to Australia amounting to US$53.48 billion and China's imports from Australia amounting to US$114.84 billion.

Bilateral trade in goods between China and New Zealand. According to China Customs Statistics, the bilateral import and export volumes of the goods between China and New Zealand in 2020 was US$18.12 billion, down 1.0% year-on-year, of which the total value of China's goods exports to New Zealand was US$6.06 billion, and the total value of China's goods imports from New Zealand was US$12.06 billion. The trade balance between China and New Zealand was US$6 billion.

II. Liberalization Policies for Trade in Goods Under the RCEP

(A) Electromechanical Products

Electromechanical products are classified under the Harmonized System Code Of Section 16, Chapters 84-85.

Table 9.1.2 Subcategories of electromechanical products

HS Code	Product Description
84	Nuclear Reactors, Boilers, Machinery and Mechanical Appliances; Parts Thereof
85	Electrical Machinery and Equipment and Parts Thereof; Sound Recorders and Reproducers, Television Image and Sound Recorders and Reproducers, And Parts and Accessories of Such Articles

In terms of exports, China's exports of electromechanical products to most RCEP Parties have shown positive growth on average over the past five years. Vietnam recorded the largest increase in export trade volume with an average annual growth rate of 21.77%. In general, the average annual growth rate of China's exports to RCEP Parties was 5.37% and overall growth was stable. China's exports of electromechanical products to four Parties, South Korea, Japan, Singapore, and Vietnam, have always exceeded the average and these are the key Parties for China's exports of electromechanical products. Vietnam still managed to achieve substantial growth despite the tightening of the export market of electromechanical products, with an annual average growth rate of 21.77%. The Philippines, Cambodia, Malaysia, and other parties also achieved a certain degree of growth, which indicates potential in the electromechanical products' market of these Parties.

With regards to the imports of electromechanical products, the average annual growth rate of China's import of electromechanical products from RCEP Parties was 5.58% between 2015 to 2020. South Korea has always been China's largest trading partner with respect to the import of electromechanical products, and exports of electromechanical products from South Korea to China have grown in recent years. In terms of growth rate in the trade of electromechanical products, Cambodia and Laos have higher average annual growth rates. Although Cambodia's growth rate has reached 320.79%, the trade volume is small and it has limited potential.

Table 9.1.3 2015-2020 China's Trade Volume of Electromechanical Products to Other RCEP Parties and the Average Growth Rate

Country or Region	China exports to the country or region			China imports to the country or region		
	2015	2020	Average Growth Rate (%)	2015	2020	Average Growth Rate (%)
Australia	13682.	18181.	5.85	472.33	306.59	-8.28

	94	73				
Philippines	6923.52	11651.27	10.97	14386.57	13799.71	-0.83
Rep. of Korea	48138.65	47715.94	-0.18	94151.07	106019.06	2.40
Cambodia	648.61	1567.64	19.30	0.12	158.31	320.79
Lao People's Dem. Rep.	495.36	535.96	1.59	1.13	32.43	95.69
Malaysia	14162.91	22421.77	9.62	35989.87	43288.43	3.76
Myanmar	2626.68	2492.08	-1.05	25.05	64.45	20.80
Japan	55688.22	58275.85	0.91	70948.65	82699.52	3.11
Thailand	15143.82	19247.43	4.91	14393.53	20939.36	7.79
Brunei Darussalam	118.15	98.89	-3.50	0.01	0.13	66.37
Singapore	21968.10	24451.94	2.17	13173.35	13795.95	0.93
New Zealand	1238.91	1503.23	3.94	96.30	59.18	-9.28
Indonesia	12034.20	15643.43	5.39	1557.11	1779.51	2.71
Viet Nam	19381.90	51891.57	21.77	9372.87	51095.24	40.38
TOTAL	212251.97	275678.72	5.37	254567.96	334037.86	5.58

Source: UN Comtrade Database.

The difference between duty rates on an MFN basis among RCEP Parties duty rates paid under the FTAs in the electromechanical industry is calculated as the margin of preference (MOP). The greater the difference, the larger the trade volume and the greater the potential benefits of using the agreed duty rates. The duty rates of electromechanical products under the RCEP are generally lower in the first year of the Agreement, and more significant reductions will be achieved by the tenth year of the agreement.

In the first year of the RCEP's entry into force, the Philippines and Thailand will have the highest tax differential, both exceeding 2%, indicating that China has more room for preferential treatment for exports of electromechanical products to these two Parties. Singapore's MFN tariff rate will be reduced to zero and has liberalized trade in electromechanical products. **Ten years after the RCEP comes into force,** Cambodia and Thailand will have the highest tax differentials, both exceeding 3%, indicating that China has a large room to leverage the potential of the export tariff rates under the Agreement of these Parties. China's duty rate for Cambodia will remain unchanged in the first year with no preferential treatments, but the tariff rate will reduce significantly after ten years, which will benefit exporters.

Table 9.1.4 Comparison of Weighted Export MFN Rates, FTA Rates and Tax Differentials Between RCEP and Bilateral Agreements

Country or Region	Export-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Export-Weighted FTA (%)	Tax Difference (%)	Export-Weighted FTA (%)	Tax Difference (%)
Australia	2.09	0.28	1.81	0.21	1.88
Brunei Darussalam	3.53	3.50	0.03	3.50	0.03
Cambodia	10.76	10.76	0.00	7.33	3.43
Indonesia	4.00	2.40	1.59	2.40	1.59
Japan	0.01	0.01	0.00	0.00	0.01
Lao People's Dem. Rep.	6.85	5.10	1.75	2.88	3.96
Malaysia	2.78	2.59	0.19	1.41	1.37
Myanmar	4.36	3.92	0.44	3.76	0.60
New Zealand	2.32	1.83	0.49	0.65	1.67
Philippines	2.74	0.63	2.11	0.39	2.35
Rep. of Korea	2.33	1.30	1.03	0.19	2.14
Singapore	0.00	0.00	0.00	0.00	0.00
Thailand	5.01	2.99	2.02	1.82	3.19
Viet Nam	2.53	1.87	0.66	0.95	1.58

Source: UN Comtrade Database and WITS.

In terms of import tariff rates, the agreed tariffs rate for electromechanical products under the RCEP Agreement is generally low in the first year, and tariff rates will be gradually be further reduced by the tenth year. In the first year of the Agreement, Brunei's tariff differential will be as high as 3.83%, indicating that Brunei's tariff preferences under RECP are very substantial. Ten years after the Agreement enters into force, the tax differential will increase to 3.86% in Australia and 5.27% in Cambodia, indicating that both Parties will have the greatest room for tax reduction and profitability in this sector in the next decade.

Table 9.1.5 Comparison of Weighted Import MFN Rates, FTA Rates and Tax Differentials Between RCEP and Bilateral Agreements

Country or Region	Import-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Import-Weighted FTA (%)	Tax Difference (%)	Import-Weighted FTA (%)	Tax Difference (%)
Australia	4.33	1.62	2.70	0.47	3.86
Brunei Darussalam	3.84	0.02	3.83	0.01	3.84
Cambodia	7.35	5.05	2.29	2.07	5.27
Indonesia	3.68	1.80	1.88	0.70	2.98
Japan	3.06	2.74	0.32	1.32	1.74
Lao People's Dem. Rep.	0.74	0.02	0.72	0.01	0.73
Malaysia	0.99	0.45	0.54	0.20	0.79
Myanmar	2.67	1.06	1.60	0.37	2.30
New Zealand	3.93	1.36	2.57	0.53	3.41
Philippines	0.89	0.39	0.50	0.18	0.71
Rep. of Korea	1.10	0.87	0.23	0.42	0.68
Singapore	1.41	0.64	0.77	0.18	1.22
Thailand	1.34	0.56	0.78	0.18	1.16
Viet Nam	2.12	0.80	1.31	0.51	1.60

Source: WITS database.

(B) Base Metals and Articles of Base Metal

Base metals and articles of base metal are classified under the Harmonized System Code of Section 15, Chapters 72-83.

Table 9.1.6 Subcategories of Base Metals and Articles of Base Metal

HS Code	Product Description
72	Iron and steel
73	Articles of iron or steel
74	Copper and articles thereof
75	Nickel and articles thereof
76	Aluminium and articles thereof
78	Lead and articles thereof
79	Zinc and articles thereof

80	Tin and articles thereof
81	Other base metals; cermets; articles thereof
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal
83	Miscellaneous articles of base metal

In terms of exports, the market prospect of Chinese base metals and their products in the RCEP Parties is moderate, with an average annual growth rate of 0.22%. China's exports of base metals and articles of base metal to five countries in the RCEP, namely Korea, Malaysia, Thailand, Indonesia, and Vietnam, have always exceeded the total average amount of China's exports of base metals and articles of base metal to RCEP Parties, and these are the key Parties for China's exports of such products. **In terms of imports,** the average annual growth rate of China's imports of base metals and articles of base metal from RCEP Parties is 8.46%. Japan and South Korea have been China's largest trading partners in the imports of base metals and articles of base metals, and the multi-country trade including these two Parties have registered positive growth in recent years, among which Cambodia has recorded an average annual growth rate of 198.44%.

Table 9.1.7 2015-2020 Export of China's Base Metals and Their Products to Other RCEP Parties and the Average Growth Rate

Country or Region	China exports to the country or region			China imports to the country or region		
	2015	2020	Average Growth Rate (%)	2015	2020	Average Growth Rate (%)
Australia	3586.51	4733.30	5.71	3755.25	2825.03	-5.53
Philippines	3956.88	5316.46	6.09	508.70	1108.33	16.85
Rep. of Korea	11619.34	8699.62	-5.62	8834.90	9360.07	1.16
Cambodia	169.00	724.16	33.78	0.31	73.39	198.44
Lao People's Dem. Rep.	178.34	352.66	14.61	151.65	193.59	5.00
Malaysia	5247.53	4560.46	-2.77	1200.87	4467.89	30.05
Myanmar	1645.22	1754.73	1.30	286.27	1027.89	29.13
Japan	7493.88	7984.03	1.28	13573.12	13890.15	0.46

Thailand	4830.51	6456.01	5.97	330.83	1176.53	28.88
Brunei Darussalam	193.12	74.13	-17.43	0.04	0.01	-26.57
Singapore	3881.13	3128.76	-4.22	466.78	229.32	-13.25
New Zealand	485.11	561.38	2.96	75.79	46.13	-9.45
Indonesia	4675.50	5021.92	1.44	818.37	8807.71	60.84
Viet Nam	9905.70	9134.44	-1.61	129.24	2025.23	73.39
TOTAL	57867.77	58502.07	0.22	30132.12	45231.26	8.46

Source: UN Comtrade Database and WITS.

The difference between duty rates on an MFN basis among RCEP Parties duty rates paid under the FTAs in the electromechanical industry is calculated as the margin of preference (MOP). The greater the difference, the larger the trade volume and the greater the potential benefits of using the agreed duty rates. Currently, Thailand and Vietnam have imposed relatively high duties on China, and RCEP will provide greater benefits to companies exporting base metals and articles of base metal to these Parties.

In the first year of the RCEP's entry into force, Australia, Thailand, and Vietnam will have the highest tax differentials, all exceeding 2%, indicating that China has more room for preferential treatment for exports of such products to these Parties. Ten years after the RCEP comes into force, the tariff rates of Malaysia, the Philippines, Thailand, and Vietnam would have dropped significantly, and the tariff differential will exceed 5%, indicating that China has more room for preferential treatment for exports of such products to these Parties. **Ten years after the RCEP comes into force,** Japan would have eliminated tariffs on such products in trade with China. China's exports of base metals and articles of base metals to Vietnam are the largest among RCEP Parties, and Vietnam has also committed to the largest reduction in tariffs on such products in trade with China. Based on the export volume and scale of tariff reductions, Chinese enterprises will receive the greatest tariff preference by exporting base metals and articles of base metal to Vietnam.

Table 9.1.8 Comparison of Weighted Export MFN Rates, FTA Rates and Tax Differentials Between RCEP and Bilateral Agreements

Country or Region	Export-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Export-Weighted FTA (%)	Tax Difference (%)	Export-Weighted FTA (%)	Tax Difference (%)
Australia	4.82	1.93	2.89	0.90	3.93
Brunei Darussalam	0.03	0.03	0.00	0.03	0.00
Cambodia	7.69	7.69	0.00	5.35	2.33
Indonesia	9.21	7.59	1.62	7.59	1.62
Japan	1.07	0.98	0.09	0.19	0.88
Lao People's Dem. Rep.	5.27	3.34	1.93	1.48	3.79
Malaysia	12.91	12.15	0.77	6.58	6.34
Myanmar	2.15	1.25	0.90	0.94	1.21
New Zealand	3.92	3.44	0.47	1.17	2.75
Philippines	7.31	3.39	3.92	1.72	5.58
Rep. of Korea	3.40	2.46	0.95	1.02	2.39
Singapore	0.00	0.00	0.00	0.00	0.00
Thailand	7.33	4.64	2.69	1.79	5.53
Viet Nam	9.21	6.70	2.51	2.49	6.72

Source: UN Comtrade Database and WITS.

In terms of import tariff rates, **most of the difference in the first-year agreed tariff rates for base metals and articles of base metal under the RCEP are around the range of 1%-3%**, while Singapore's tariff differential will be as high as 4.22%. This shows that China's tariff preference for Singapore under RECP is relatively substantial. **Ten years after the agreement enters into force**, Singapore's tariff differential will further increase to 5.21% and Brunei's tariff differential will be 9.50%, indicating that both countries will enjoy the greatest room for tax reduction and profitability in this industry in the next ten years.

Table 9.1.9 Comparison of Weighted Import MFN Rates, FTA Rates and Tax Differentials Between RCEP and Bilateral Agreements

Country or Region	Import-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Import-Weighted FTA (%)	Tax Difference (%)	Import-Weighted FTA (%)	Tax Difference (%)
Australia	2.68	0.37	2.31	0.01	2.67
Brunei Darussalam	11.79	10.54	1.25	2.29	9.50
Cambodia	2.51	1.34	1.17	0.01	2.50
Indonesia	2.85	0.49	2.36	0.13	2.71
Japan	5.52	4.32	1.20	1.95	3.57
Lao People's Dem. Rep.	2.05	0.02	2.03	0.00	2.05
Malaysia	3.48	1.24	2.25	0.15	3.33
Myanmar	2.10	0.15	1.96	0.00	2.10
New Zealand	3.80	0.62	3.18	0.17	3.63
Philippines	2.25	0.45	1.80	0.03	2.22
Rep. of Korea	5.14	3.69	1.46	1.15	4.00
Singapore	5.64	1.42	4.22	0.43	5.21
Thailand	3.78	1.60	2.18	0.26	3.52
Viet Nam	3.24	0.98	2.26	0.08	3.15

Source: WITS database.

(C) Chemical Products

Chemical products are classified under the Harmonized System Code Of Section 6, Chapters 28-38.

Table 9.1.10 Subcategories of Chemical Products

HS Code	Product Description
28	Inorganic Chemicals; Organic or Inorganic Compounds of Precious Metals, Of Rare-Earth Metals, Of Radioactive Elements or Of Isotopes
29	Organic Chemicals
30	Pharmaceutical Products
31	Fertilizers
32	Tanning Or Dyeing Extracts; Tannins and Their Derivatives; Dyes, Pigments and Other Coloring Matter; Paints and Varnishes; Putty and Other Mastics; Inks
33	Essential Oils and Resinoids; Perfumery, Cosmetic or Toilet Preparations
34	Soap, Organic Surfactants, Washing Preparations, Lubricating Preparations
35	Albuminoidal substances; modified starches; glues;
36	Explosives; Pyrotechnic Products; Matches; Pyrophoric Alloys; Certain Combustible Preparations
37	Photographic Or Cinematographic Goods
38	Miscellaneous Chemical Products

In terms of exports, the average growth of China's chemical products exports to the rest of RCEP Parties except Japan in the past five years has been positive, indicating that Chinese chemical products in RCEP Parties have rosy market prospects. Among them, the export value of chemical products from China to Australia, South Korea, Malaysia, Japan, Thailand, Indonesia and Vietnam has consistently exceeded the total average export value of chemical products from China to RCEP Parties, and these Parties are key Parties for China's export of chemical products. **In terms of imports,** the average annual growth rate of China's imports of chemical products from RCEP Parties is 2.96%, and the overall growth has been stable. Japan and South Korea have been China's largest trading partners in the imports of such products in recent years, and the overall trade volume has shown an increasing trend.

Table 9.1.11 2015-2020 China's Trade Volume of Chemical Products to Other RCEP Parties and the Average Growth Rate

Country or Region	China exports to the country or region			China imports to the country or region		
	2015	2020	Average Growth Rate (%)	2015	2020	Average Growth Rate (%)
Australia	2595.69	2782.05	1.40	1783.73	1882.99	1.09
Philippines	1455.53	1547.73	1.24	202.46	149.91	-5.83
Rep. of Korea	6582.85	7968.16	3.89	15830.55	15797.47	-0.04
Cambodia	87.82	289.89	26.98	4.76	11.90	20.12
Lao People's Dem. Rep.	57.47	111.95	14.27	94.37	36.88	-17.13
Malaysia	2422.36	2658.95	1.88	1719.50	2036.58	3.44
Myanmar	287.35	824.03	23.45	6.60	401.87	127.46
Japan	7081.58	7029.57	-0.15	14504.85	18140.15	4.57
Thailand	3328.59	3683.75	2.05	2074.61	1895.46	-1.79
Brunei Darussalam	6.82	13.73	15.01	40.52	871.91	84.74
Singapore	1481.26	1771.39	3.64	3417.67	3701.17	1.61
New Zealand	418.97	426.48	0.36	338.76	655.98	14.13
Indonesia	3333.01	3451.73	0.70	1313.57	1847.69	7.06
Viet Nam	3113.78	4535.60	7.81	292.55	737.80	20.32

TOTAL	32253.08	37095.00	2.84	41624.50	48167.76	2.96

Source: UN Comtrade Database and WITS.

The difference between duty rates on an MFN basis among RCEP Parties duty rates paid under the FTAs in the electromechanical industry is calculated as the margin of preference (MOP). The greater the difference, the larger the trade volume and the greater the potential benefits of using the agreed duty rates. Presently, South Korea and Thailand have levied higher tariffs on China, and the RCEP will provide greater preferential treatment for enterprises that export chemical products to these Parties.

In the first year of the RCEP's entry into force, the Philippines and South Korea will have the highest tax differentials, all exceeding 3%, indicating that China has more room for preferential treatment for exports of such products to these Parties. Singapore's MFN rate will be reduced to zero, achieving the liberalization of chemical products. **Ten years after the RCEP comes into force**, the tariff rates of Laos, Thailand, and Vietnam would have dropped significantly, and the tariff differential will exceed 3%, indicating that China has more room for preferential treatment for exports of such products to these Parties. Australia and Brunei will be further reduced and tariffs will ultimately be eliminated. These tariff preferences will significantly reduce the tariff burden for enterprises exporting chemical products to China.

Table 9.1.12 Comparison of Weighted Import MFN Rates, FTA Rates and Tax Differences Between the RCEP and Bilateral Agreements

Country or Region	**Export-Weighted MFN (%)**	**RCEP Year1**		**RCEP Year10**	
		Export-Weighted FTA (%)	**Tax Difference (%)**	**Export-Weighted FTA (%)**	**Tax Difference (%)**
Australia	2.09	0.59	1.50	0.00	2.09
Brunei Darussalam	0.68	0.68	0.00	0.68	0.00
Cambodia	4.98	4.41	0.57	2.69	2.28

Indonesia	4.48	2.10	2.38	2.10	2.38
Japan	1.47	1.34	0.13	0.24	1.23
Lao People's Dem. Rep.	7.46	6.48	0.98	3.74	3.72
Malaysia	1.87	1.80	0.07	1.50	0.37
Myanmar	2.69	2.47	0.22	2.29	0.40
New Zealand	0.73	0.58	0.15	0.12	0.61
Philippines	3.48	0.17	3.30	0.14	3.34
Rep. of Korea	5.19	2.09	3.10	0.35	4.84
Singapore	0.00	0.00	0.00	0.00	0.00
Thailand	3.94	0.99	2.95	0.10	3.84
Viet Nam	3.29	1.76	1.54	0.26	3.04

Source: UN Comtrade Database and WITS.

In terms of import tariff rates, **there is an obvious difference in the first-year agreed tariff rates for chemical products under RCEP,** and Australia's tariff differential will reach 5.56%, indicating that China's tariff preferences for Australia under the RECP are relatively substantial. **Ten years after the agreement enters into force,** Indonesia and Cambodia will get the most trade benefits from the tariff preferential treatment, and the tax differential of both Parties will increase to 8.32% and 8.31% respectively, which will significantly increase the competitive edge of chemical products from the two countries in the international markets.

Table 9.1.13 Comparison of Weighted Import MFN Rates, FTA Rates and Tax Differences Between the RCEP and Bilateral Agreements

Country or Region	Import-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Import-Weighted FTA (%)	Tax Difference (%)	Import-Weighted FTA (%)	Tax Difference (%)
Australia	6.70	1.14	5.56	0.48	6.22
Brunei Darussalam	2.20	1.90	0.30	1.00	1.20
Cambodia	10.00	4.78	5.22	1.69	8.31
Indonesia	10.93	7.74	3.19	2.61	8.32
Japan	6.43	5.75	0.68	3.06	3.37
Lao People's Dem. Rep.	3.53	0.00	3.53	0.00	3.53
Malaysia	7.11	3.94	3.17	1.49	5.62
Myanmar	5.53	0.07	5.45	0.00	5.53

New Zealand	7.23	4.03	3.20	1.65	5.58
Philippines	6.72	3.19	3.53	0.85	5.87
Rep. of Korea	5.04	3.97	1.07	2.46	2.58
Singapore	5.26	2.11	3.15	0.91	4.35
Thailand	5.96	2.89	3.07	1.38	4.58
Viet Nam	5.57	1.50	4.07	0.60	4.97

Source: WITS database.

(D) Textiles and Textile Materials

Textiles and textile articles are classified under the Harmonized System Code Of Section 11, Chapters 50-63.

Table 9.1.14 Subcategories of textile and textile articles

HS Code	Product Description
50	silk
51	wool, fine or coarse animal hair; horsehair yarn and woven fabric
52	cotton
53	other vegetable textile fibers; paper yarn and woven fabrics of paper yarn
54	man-made filaments; strip and the like of man-made textile materials
55	man-made staple fibers
56	wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof
57	carpets and other textile floor coverings
58	special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery
59	impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial
60	knitted or crocheted fabrics
61	articles of apparel and clothing accessories, knitted or crocheted
62	articles of apparel and clothing accessories, not knitted or crocheted
63	other made up textile articles; sets; worn clothing and worn textile articles; rags

In terms of exports, China's exports of textiles and textile materials to Australia, South Korea, Japan and Vietnam have consistently exceeded the total average volume of China's exports of such products to RCEP parties. These four countries are key destinations for China's exports of textiles and textile materials. In addition, South Korea, Brunei, Malaysia and other countries have registered negative growth in the import of textiles and raw materials, and the decline is significant enough to warrant the attention of enterprises. **In terms of imports,** the average annual growth rate of China's imports of textiles and raw materials from RCEP Parties is -0.33%. Vietnam is China's largest trading partner in the imports of such products and trade volume has been on a steady rise.

Table 9.1.15 2015-2020 China's Trade Volume of Textiles and Textile Articles to Other RCEP Parties and the Average Growth Rate

Country or Region	China exports to the country or region			China imports to the country or region		
	2015	2020	Average Growth Rate (%)	2015	2020	Average Growth Rate (%)
Australia	5253.36	5852.43	2.18	2053.50	1475.38	-6.40
Philippines	4014.03	5677.97	7.18	84.00	107.91	5.14
Rep. of Korea	8876.52	6796.70	-5.20	2155.96	1542.68	-6.48
Cambodia	2081.97	3008.18	7.64	207.60	444.32	16.44
Lao People's Dem. Rep.	14.88	40.79	22.34	1.03	3.27	26.02
Malaysia	4744.09	4012.85	-3.29	182.80	217.58	3.55
Myanmar	1040.93	2375.32	17.94	43.32	115.64	21.70
Japan	20945.19	20512.00	-0.42	2785.44	2162.59	-4.94
Thailand	2661.95	3131.03	3.30	602.50	554.37	-1.65
Brunei Darussalam	88.07	29.17	-19.83	0.01	0.01	-5.05
Singapore	1999.33	2228.51	2.19	44.40	51.44	2.99
New Zealand	856.61	756.90	-2.44	337.24	105.24	-20.78
Indonesia	4066.63	3732.64	-1.70	825.20	727.60	-2.49
Viet Nam	14880.32	14743.41	-0.18	2535.00	4152.95	10.38
TOTAL	71523.88	72897.89	0.38	11858.00	11660.99	-0.33

Source: UN Comtrade Database and WITS.

The difference between duty rates on an MFN basis among RCEP Parties duty rates paid under the FTAs in the electromechanical industry is calculated as the margin of preference (MOP). The greater the difference, the larger the trade volume and the greater the potential benefits of using the agreed duty rates. The Philippines and Thailand currently levy the highest tariffs on China, and the RCEP will provide greater benefits to enterprises exporting textiles and textile materials to these Parties.

In the first year after the RCEP comes into effect, the Philippines, Thailand and Vietnam will have the highest tax differences, all exceeding 7%, far exceeding those of other RCEP Parties, indicating that there are greater potential preferential benefits in China's export tax rates for these three Parties. Singapore, as a free trade port, will have reduced its MFN tariff rate to zero and liberalized trade in textiles and raw textile materials. **Ten years after the RCEP comes into effect,** the Philippines, South Korea and Thailand will have the highest tax differences, all exceeding 10%, indicating that there are greater potential preferential benefits in China's export tax rates for these Parties. Although Thailand does not have the largest tariff reduction in the first year, it will rank first among the RCEP Parties in terms of tariff reduction after ten years. Once the RCEP comes into effect, the tariff burden on Chinese enterprises exporting textiles and raw textile materials is expected to be substantially reduced, and exports of textiles and raw textile materials by Chinese enterprises to the RCEP Parties will further increase.

Table 9.1.16 Comparison of Export-Weighted MFN Rates, FTA Rates and Tax Differences Between the RCEP and Bilateral Agreements

Country or Region	Export-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Export-Weighted FTA (%)	Tax Difference (%)	Export-Weighted FTA (%)	Tax Difference (%)
Australia	2.09	0.59	1.50	0.00	2.09
Brunei Darussalam	0.68	0.68	0.00	0.68	0.00
Cambodia	4.98	4.41	0.57	2.69	2.28
Indonesia	4.48	2.10	2.38	2.10	2.38
Japan	1.47	1.34	0.13	0.24	1.23
Lao People's Dem. Rep.	7.46	6.48	0.98	3.74	3.72
Malaysia	1.87	1.80	0.07	1.50	0.37
Myanmar	2.69	2.47	0.22	2.29	0.40

New Zealand	0.73	0.58	0.15	0.12	0.61
Philippines	3.48	0.17	3.30	0.14	3.34
Rep. of Korea	5.19	2.09	3.10	0.35	4.84
Singapore	0.00	0.00	0.00	0.00	0.00
Thailand	3.94	0.99	2.95	0.10	3.84
Viet Nam	3.29	1.76	1.54	0.26	3.04

Source: UN Comtrade Database and WITS.

In terms of import tax rates, **Cambodia will benefit the most from China's tariff reduction in the first year of the RCEP,** and Cambodia's tax difference will be as high as 9.15%. Ten years after the RCEP comes into effect, there will still be large differences in the tax differences of the Parties. With the gradual reduction of tariffs, countries like Brunei, Cambodia, Indonesia, Laos, Myanmar, the Philippines, Thailand, Vietnam will enjoy and benefit from China's tariff reductions. The tax differences of these Parties are higher than 9%, among which Cambodia's tax difference will be as high as 15.16% and Myanmar's tax difference will increase to 13.36%, which will vastly improve the international competitiveness of textiles and raw textile exports from both countries.

Table 9.1.17 Comparison of Weighted Import MFN Rates, FTA Rates and Tax Differences Between the RCEP and Bilateral Agreements

Country or Region	Import-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Import-Weighted FTA (%)	Tax Difference (%)	Import-Weighted FTA (%)	Tax Difference (%)
Australia	37.75	37.57	0.17	37.50	0.25
Brunei Darussalam	14.04	12.90	1.13	4.63	9.40
Cambodia	15.60	6.45	9.15	0.45	15.16
Indonesia	10.54	5.62	4.92	0.74	9.80
Japan	9.42	8.45	0.97	2.71	6.71
Lao People's Dem. Rep.	14.29	11.01	3.29	2.76	11.53
Malaysia	7.03	4.56	2.47	0.68	6.35
Myanmar	18.07	10.04	8.03	4.71	13.36
New Zealand	36.55	36.27	0.28	36.20	0.35
Philippines	13.31	5.96	7.35	1.57	11.74
Rep. of Korea	10.32	8.05	2.27	3.08	7.23

Singapore	6.83	3.74	3.09	1.74	5.09
Thailand	10.67	5.00	5.67	1.23	9.44
Viet Nam	9.59	5.35	4.24	0.51	9.08

Source: WITS database.

(E) Optical Instruments, Watches and Clocks, and Medical Equipment

Optical instruments, watches and clocks, and medical equipment belong to Category 18 of the customs trade product classification, covered in Chapters 90-92.

Table 8.1.18 Subcategories of optical instruments, watches and clocks, and medical equipment sector

HS Code	Product Description
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof
91	Clocks and watches and parts thereof
92	Musical instruments; parts and accessories of such articles

In export trade, China's exports of optical instruments, watches and clocks, and medical equipment to South Korea, Malaysia, Japan and Vietnam have always exceeded the total average of China's total exports to the RCEP Parties, which are the key Parties in such exports. In addition, South Korea, Malaysia, Japan and Brunei have seen negative growth of a significant degree, which requires the attention of enterprises. China's import trade with the RCEP Parties generally showed a declining trend, with an average annual growth rate of -1.69%. **In the import trade of this industry,** South Korea and Japan have occupied a large share of China's import volumes in recent years. China's imports from Japan, which has the largest trade volume, have maintained stable growth in recent years. However, imports from South Korea have grown at an average annual growth rate of -11.46%, which has somewhat lowered the overall growth rate. Its prospect in the domestic market is not optimistic.

Table 9.1.19 China's Trade Value of Optical Instruments, Watches and Clocks, and Medical Equipment With Other RCEP Parties and Average Growth Rate, 2015-2020

Country or Region	China exports to the country or region			China imports to the country or region		
	2015	2020	Average Growth Rate (%)	2015	2020	Average Growth Rate (%)
Australia	552.69	908.94	10.46	181.36	170.26	-1.26
Philippines	469.89	681.35	7.71	434.60	493.69	2.58
Rep. of Korea	4385.07	3474.82	-4.55	21077.04	11467.60	-11.46
Cambodia	35.41	52.01	7.99	80.96	0.79	-60.37
Lao People's Dem. Rep.	6.59	16.30	19.86	0.00	0.92	#DIV/0!
Malaysia	2044.30	1727.18	-3.32	1040.00	2393.65	18.14
Myanmar	68.20	84.33	4.34	18.18	23.11	4.91
Japan	5256.00	4615.36	-2.57	15127.40	16683.18	1.98
Thailand	1013.39	1196.71	3.38	1890.00	2378.67	4.71
Brunei Darussalam	13.92	6.96	-12.95	1.07	0.02	-54.91
Singapore	1096.84	1436.48	5.54	1451.00	3153.52	16.80
New Zealand	72.60	93.35	5.16	19.23	42.89	17.40
Indonesia	969.35	1369.95	7.16	176.20	206.91	3.27
Viet Nam	2116.97	3705.47	11.85	394.40	1448.36	29.71
TOTAL	18101.22	19369.22	1.36	41891.44	38463.57	-1.69

Source: UN Comtrade Database and WITS.

By calculating the weighted MFN and FTA tax rates in the other RCEP Parties, the total tax difference between the two is obtained as the margin of preference (MOP). A larger tax difference means a larger trade volume and a greater potential preferential benefit from using the agreed tax rates. The tax rates under the RCEP are generally lower in the first year of the Agreement, with more significant reductions in tax rates achieved in the 10th year.

In the first year after the RCEP comes into effect, Thailand and Indonesia will have the highest tax differences, both exceeding 4%, indicating that there are greater potential preferential benefits in China's export tax rates for these Parties. Singapore, as a free trade port, will have reduced its MFN tariff rate to zero and liberalized trade in optical instruments, watches and clocks, and medical equipment. **Ten years after the RCEP comes into effect,** Korea, Thailand, and Indonesia will have the highest tax differences, all exceeding 4%, indicating that there are greater potential preferential benefits in China's export tax rates for these Parties. Korea's tariff reductions in the first year of the RCEP are modest, but ten years after that, the tariff reductions will be more substantial. Among the RCEP Parties, Korea is China's third-largest export trading partner in optical instruments, watches and clocks, and medical equipment, and has the highest tariff reduction rate, with an overall reduction of 5.65%. Taking into account both overall trade volume and tariff reduction rate, the RCEP will provide greater tariff preferential benefits for enterprises exporting optical instruments, watches and clocks, and medical equipment to Korea.

Table 9.1.20 Comparison of Export-Weighted MFN Rates, FTA Rates and Tax Differences Between the RCEP and Bilateral Agreements

Country or Region	Export-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Export-Weighted FTA (%)	Tax Difference (%)	Export-Weighted FTA (%)	Tax Difference (%)
Australia	1.48	0.17	1.31	0.09	1.39
Brunei Darussalam	2.53	2.53	0.00	2.53	0.00
Cambodia	10.49	10.49	0.00	7.39	3.10
Indonesia	5.00	0.81	4.20	0.81	4.20
Japan	0.20	0.19	0.01	0.07	0.13
Lao People's Dem. Rep.	5.14	3.11	2.03	1.25	3.88
Malaysia	0.12	0.08	0.04	0.02	0.10
Myanmar	2.47	2.26	0.21	1.83	0.64
New Zealand	1.08	0.70	0.38	0.31	0.77
Philippines	2.71	0.01	2.70	0.00	2.71
Rep. of Korea	5.66	3.74	1.92	0.02	5.65
Singapore	0.00	0.00	0.00	0.00	0.00
Thailand	5.06	0.16	4.91	0.08	4.98
Vietnam	1.10	0.66	0.44	0.00	1.10

Source: UN Comtrade Database and WITS.

In terms of import tariff rates, the first-year tariff rates for optical instruments, watches and clocks, and medical equipment under the RCEP are generally low, with large tariff reductions for most Parties, among which Cambodia's tax difference is as high as 9.81%, with a lot of room for profit. Ten years after the RCEP comes into effect, most of the Parties' tax differences will be higher than 4%. Indonesia's tax difference will rise to 11.45%, Cambodia's tax difference will increase to 10.78%, and China will achieve zero tariffs for Brunei and Myanmar, and the tariff rates for Australia, Cambodia and New Zealand will be close to zero, which will greatly help expand the export markets of such products in these Parties.

Table 9.1.21 Comparison of Import-Weighted MFN Rates, FTA Rates and Tax Differences Between the RCEP and Bilateral Agreements

Country or Region	Import-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Import-Weighted FTA (%)	Tax Difference (%)	Import-Weighted FTA (%)	Tax Difference (%)
Australia	3.89	1.78	2.11	0.10	3.80
Brunei Darussalam	4.33	0.06	4.26	0.00	4.33
Cambodia	10.49	0.67	9.81	0.01	10.48
Indonesia	14.51	6.11	8.40	3.06	11.45
Japan	6.12	5.22	0.90	1.25	4.87
Lao People's Dem. Rep.	13.72	10.95	2.77	2.94	10.78
Malaysia	5.30	1.92	3.38	0.22	5.08
Myanmar	8.58	0.24	8.35	0.00	8.58
New Zealand	4.25	3.23	1.02	0.02	4.24
Philippines	7.79	3.05	4.74	0.70	7.09
Rep. of Korea	7.21	6.56	0.65	0.57	6.64
Singapore	3.10	0.83	2.27	0.06	3.05
Thailand	7.95	3.16	4.79	0.53	7.42
Viet Nam	8.38	1.46	6.92	0.42	7.95

Source: WITS database.

(F) Plastics and Rubber

Plastics and rubber belong to Category 7 of the customs trade product classification, covered in Chapters 39-40.

Table 8.1.22 Subcategories of plastics and rubber sector

HS Code	Product Description
39	Plastics and articles thereof
40	Rubber and articles thereof

In export trade, Japan, Vietnam, South Korea, Australia, Malaysia are the five main markets for China's plastic and rubber exports. China's exports of plastics and rubber to Vietnam have always exceeded China's total average exports to the RCEP Parties, and have been growing at a rapid rate in recent years, making Vietnam a key Party for China's plastics and rubber exports. **In import trade,** China's imports of plastic and rubber products from the RCEP parties have an average annual growth rate of 0.59%. South Korea and Japan are China's largest trading partners. In terms of trade growth rate, in the plastics and rubber industry, the prospect of China's import trade with other RCEP Parties is not optimistic. China has experienced negative growth in import trade with half of the Parties (including South Korea) in recent years.

Table 9.1.23 China's Export Value of Plastics and Rubber Products to Other RCEP Parties and Average Growth Rate, 2015-2020

Country or Region	China exports to the country or region			China imports to the country or region		
	2015	2020	Average Growth Rate (%)	2015	2020	Average Growth Rate (%)
Australia	2300.46	3417.57	8.24	201.36	113.03	-10.91
Philippines	1259.42	2322.58	13.02	194.30	112.68	-10.32
Rep. of Korea	2412.47	3503.57	7.75	11930.41	11327.72	-1.03
Cambodia	104.64	476.28	35.40	15.89	33.18	15.86
Lao People's Dem. Rep.	30.44	59.86	14.48	71.15	298.72	33.23
Malaysia	1995.53	3186.50	9.81	2729.00	3610.55	5.76
Myanmar	321.22	494.45	9.01	75.10	329.01	34.37
Japan	4720.09	5811.70	4.25	10279.68	11088.96	1.53
Thailand	1702.26	3067.54	12.50	7557.00	6941.95	-1.68
Brunei Darussalam	71.59	34.07	-13.80	0.03	0.00	-50.24

Singapore	1154.17	2185.96	13.63	3904.00	2573.05	-8.00
New Zealand	343.02	333.75	-0.55	18.19	7.81	-15.56
Indonesia	1496.31	2034.72	6.34	857.90	1105.53	5.20
Viet Nam	2027.20	5566.21	22.39	1099.00	2550.74	18.34
TOTAL	19938.82	32494.76	10.26	38933.01	40092.92	0.59

Source: UN Comtrade Database.

By calculating the weighted MFN and FTA tax rates in the other RCEP Parties, the total tax difference between the two is obtained as the margin of preference (MOP). A larger tax difference means a larger trade volume and a greater potential preferential benefit from using the agreed tax rates. Currently, Laos and Thailand are levying higher tariffs on China, and the RCEP will provide greater preferential benefits for companies exporting plastics and rubber to these Parties.

In the first year after the RCEP comes into effect, Australia, Indonesia, the Philippines and Vietnam will have higher tax differences, all exceeding 3%, indicating that there are greater potential preferential benefits in China's export tax rates for these Parties. Singapore, as a free trade port, will have reduced its MFN tariff rate to zero and liberalized trade in plastics and rubber. **Ten years after the RCEP comes into effect,** the Philippines, Thailand and Vietnam will have the highest tax differences, all exceeding 6%, indicating that there are greater potential preferential benefits in China's export tax rates for these Parties. Although Thailand's tariff reductions in the first year of the RCEP are relatively small, its tariff reductions will be more significant after ten years, ranking first among RCEP Parties. The implementation of the RCEP will greatly promote the trade of plastic and rubber products between countries and reduce costs for Chinese exporters.

Table 9.1.24 Comparison of Export-Weighted MFN Rates, FTA Rates and Tax Differences Between the RCEP and Bilateral Agreements

Country or Region	Export-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Export-Weighted FTA (%)	Tax Difference (%)	Export-Weighted FTA (%)	Tax Difference (%)
Australia	4.97	0.98	3.99	0.80	4.17
Brunei Darussalam	6.73	6.73	0.00	6.73	0.00
Cambodia	10.85	10.67	0.18	9.05	1.80
Indonesia	10.66	7.12	3.54	7.12	3.54
Japan	3.24	2.95	0.29	0.43	2.81
Lao People's Dem. Rep.	13.88	10.98	2.91	9.16	4.72
Malaysia	14.86	14.77	0.09	13.29	1.57
Myanmar	3.82	3.79	0.03	2.86	0.96
New Zealand	3.93	3.30	0.63	0.71	3.22
Philippines	11.51	8.18	3.33	4.84	6.68
Rep. of Korea	6.48	5.43	1.05	0.11	6.37
Singapore	0.00	0.00	0.00	0.00	0.00
Thailand	9.50	7.79	1.70	0.28	9.22
Vietnam	8.55	4.65	3.90	2.52	6.03

Source: UN Comtrade Database and WITS.

In import tax rates, **the agreed tax rates in the first year of the RCEP for plastic and rubber products are generally high, but by the tenth year,** they will be significantly reduced. Brunei has the highest tax difference of 10.00% in the first year and will achieve complete zero tariffs, indicating that China will reap relatively more significant preferential benefits with Brunei. **Ten years after the RCEP comes into effect,** China's tariffs on New Zealand and Vietnamese products will also drop significantly, and the tax differences will increase to 7.75% and 6.48% respectively, indicating that the signing of the RCEP will be more favorable for these two countries. New Zealand and Vietnam will enjoy the greatest preferential benefits in tax reduction and profitability in this sector over the next decade.

Table 9.1.25 Comparison of Import-Weighted MFN Rates, FTA Rates and Tax Differences Between the RCEP and Bilateral Agreements

Country or Region	Import-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Import-Weighted	Tax	Import-Weighted	Tax

		FTA (%)	Difference (%)	FTA (%)	Difference (%)
Australia	8.07	5.53	2.54	2.79	5.29
Brunei Darussalam	10.00	0.00	10.00	0.00	10.00
Cambodia	13.08	11.33	1.75	8.77	4.30
Indonesia	12.35	10.51	1.84	8.36	3.99
Japan	7.27	6.64	0.63	3.01	4.26
Lao People's Dem. Rep.	18.68	18.51	0.17	18.15	0.54
Malaysia	9.76	6.12	3.64	3.39	6.37
Myanmar	15.44	15.15	0.30	12.76	2.69
New Zealand	9.12	4.82	4.29	1.37	7.75
Philippines	8.19	4.88	3.31	2.92	5.27
Rep. of Korea	6.91	6.16	0.75	2.82	4.09
Singapore	6.77	3.23	3.54	1.24	5.53
Thailand	9.91	7.90	2.01	4.38	5.53
Viet Nam	8.81	6.97	1.83	2.33	6.48

Source: WITS database.

(G) Furniture, Toys, and Miscellaneous Manufactured Products

Furniture, toys, and miscellaneous manufactured products belong to Category 20 of the customs trade product classification, covered in Chapters 94-96.

Table 9.1.26 Subcategories of furniture, toys, and miscellaneous manufactured products sector

HS Code	Product Description
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated name-plates and the like; prefabricated buildings
95	Toys, games and sports requisites; parts and accessories thereof
96	Miscellaneous manufactured articles

In export trade, China's exports of furniture, toys and miscellaneous manufactured products to Japan far exceed those to other Parties, and the growth rate has been stable in recent years, making Japan the key Party for China's exports of such products. **In the import trade,** China's imports grew at an average annual rate of -3.64%, with the Philippines, South Korea, Japan and

Indonesia all experiencing negative growth in their exports to China. Japan has been China's largest trading partner; its trade volume of exports to China of furniture, toys, miscellaneous products far exceeds those of other Parties. Taking into account the negative growth of the domestic market, its prospect is not optimistic.

Table 9.1.27 China's Trade Value of Electromechanical Products with Other RCEP Parties and the Average Growth Rate, 2015-2020

Country or Region	China exports to the country or region			China imports to the country or region		
	2015	**2020**	**Average Growth Rate (%)**	**2015**	**2020**	**Average Growth Rate (%)**
Australia	4230.74	6491.48	8.94	13.30	44.87	27.53
Philippines	2040.10	2495.98	4.12	94.05	38.41	-16.40
Rep. of Korea	3535.14	6522.09	13.03	517.58	166.56	-20.29
Cambodia	75.75	404.41	39.79	0.76	2.37	25.54
Lao People's Dem. Rep.	9.95	38.39	31.00	5.64	15.14	21.83
Malaysia	3414.17	4547.32	5.90	118.29	160.83	6.34
Myanmar	169.08	370.68	17.00	0.41	1.12	22.26
Japan	7713.13	10131.39	5.61	1910.72	1608.22	-3.39
Thailand	1617.24	2832.06	11.86	152.11	201.10	5.74
Brunei Darussalam	324.02	53.30	-30.30	0.00	0.00	#DIV/0!
Singapore	4423.16	5130.70	3.01	4.95	7.43	8.45
New Zealand	545.75	696.74	5.01	7.35	10.35	7.08
Indonesia	1583.03	1720.08	1.67	101.62	86.47	-3.18
Viet Nam	1583.45	4465.93	23.04	241.35	289.08	3.68
TOTAL	31264.71	45900.55	7.98	3168.13	2631.91	-3.64

Source: UN Comtrade Database.

By calculating the weighted MFN and FTA tax rates in other RCEP Parties, the total tax difference between the two is obtained as the margin of preference (MOP). A larger tax difference means a larger trade volume and a greater potential preferential benefit from using the agreed tax rates. With the promotion of the RCEP, the tariff reduction measures granted to China by other RCEP Parties will further reduce the tariff burden on Chinese exporters.

In the first year after the RCEP comes into effect, Thailand has the highest tax difference of over 13%, far exceeding those of other RCEP Parties. China's exports to Thailand in this sector also exceed the average export value to other RCEP Parties. In terms of combined trade volumes, China's exports of furniture, toys, and miscellaneous manufactured products to Thailand will have the greatest room for tax reduction and profitability in the first year of the RCEP. As a free trade port, Singapore will have reduced its MFN tax rate to zero and liberalized trade in furniture, toys and miscellaneous manufactured products. **Ten years after the RCEP comes into effect,** Thailand and Vietnam will have the highest tax differences, both exceeding 15%, indicating that there are greater potential preferential benefits in China's export tax rates for these Parties. Among them, Vietnam's tax reduction in the first year of the RCEP is not substantial, but after ten years, its tax reduction rate will be ranked second. Enterprises can use the Agreement to reap a large number of preferential benefits.

Table 9.1.28 Comparison of Export-Weighted MFN Rates, FTA Rates and Tax Differences Between the RCEP and Bilateral Agreements

Country or Region	Export-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Export-Weighted FTA (%)	Tax Difference (%)	Export-Weighted FTA (%)	Tax Difference (%)
Australia	4.36	0.62	3.74	0.29	4.08
Brunei Darussalam	3.81	3.81	0.00	3.81	0.00
Cambodia	18.15	18.15	0.00	11.61	6.55
Indonesia	10.34	5.77	4.56	5.77	4.56
Japan	1.12	1.03	0.09	0.27	0.85
Lao People's Dem. Rep.	11.50	9.70	1.81	8.32	3.18
Malaysia	5.25	4.52	0.73	1.27	3.98
Myanmar	7.95	7.21	0.74	4.51	3.44
New Zealand	4.21	3.06	1.15	0.67	3.54
Philippines	10.19	1.37	8.83	0.71	9.49

Rep. of Korea	4.30	3.10	1.20	0.02	4.28
Singapore	0.00	0.00	0.00	0.00	0.00
Thailand	17.74	3.75	13.99	2.43	15.31
Viet Nam	16.09	9.28	6.81	1.92	14.17

Source: UN Comtrade Database and WITS.

In terms of import tariff rates, **the tax difference in the first year of the RCEP for furniture, toys and miscellaneous manufactured products is large,** while a large number of products will achieve zero tariffs by the tenth year, allowing even more substantial tariff preferential benefits. In the first year, Australia's tax difference is the highest at 10.39%, indicating that Australia will enjoy the largest tariff preferential benefits under the RCEP. **Ten years after the Agreement comes into effect,** Australia's tax difference will increase to 12.96%, while the Philippines' tax difference will be 11.02%, indicating that both countries will have the greatest room for tax reduction and profitability in this sector over the next decade.

Table 9.1.29 Comparison of Import-Weighted MFN Rates, FTA Rates and Tax Differences Between the RCEP and Bilateral Agreements

Country or Region	Import-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Import-Weighted FTA (%)	Tax Difference (%)	Import-Weighted FTA (%)	Tax Difference (%)
Australia	15.24	4.84	10.39	2.27	12.96
Cambodia	6.23	2.54	3.69	0.47	5.76
Indonesia	6.94	4.59	2.35	2.64	4.30
Japan	10.85	10.27	0.58	5.13	5.71
Lao People's Dem. Rep.	0.18	0.18	0.00	0.18	0.00
Malaysia	12.17	9.69	2.48	4.88	7.28
Myanmar	7.62	4.90	2.72	2.01	5.61
New Zealand	15.05	13.91	1.15	7.18	7.87
Philippines	15.13	8.54	6.59	4.10	11.02
Rep. of Korea	9.40	8.81	0.59	3.41	6.00
Singapore	7.40	5.18	2.22	1.71	5.70
Thailand	13.34	9.79	3.55	3.90	9.44
Viet Nam	4.81	3.25	1.56	1.29	3.52

Source: WITS database.

Section 2 Trade in Service

As the largest exporter and importer of trade in services among RCEP Parties, China's trade structure and scale have an important impact on the trade-in-services transactions with the other RCEP Parties.

I. The Current Status of China's Trade in Services With Other RCEP Parties

The RCEP Parties are important destinations for China's foreign trade in services, and China shows an overall trade deficit in services with them, mainly concentrated in related industries like transportation and freight and tourism. Statistics show that China's total trade-in-services imports and exports with other RCEP Parties amounted to US$168.765 billion in 2019, accounting for 21.5% of its total exports and imports to the rest of the world, worth US$783.872 billion. China's trade-in-services exports to other RCEP Parties amounted to US$59.570 billion, accounting for 21.0% of its total exports to the rest of the world in 2019, worth US$283.192 billion. China's trade-in-services imports from other RCEP Parties amounted to US$109.195 billion, accounting for 21.8% of the total imports from the rest of the world that year, worth US$500.680 billion. This section analyzes the current status of China's trade in services with other RCEP Parties by examining China's import and export data on trade in services with the other RCEP Parties.

Looking at China's export stock of trade in services from 2013–2019, the ASEAN Parties are the regions with the highest export value of China's trade in services, with a total stock of US$154.236 billion. Singapore is not only the largest importer of China's trade in services among the ASEAN Parties, but also its largest importer among other RCEP Parties, with a stock of

US$66.737 billion, higher than China's exports to neighboring Japan at US$71.899 billion and to South Korea at US$66.849 billion. China's trade-in-services exports to Australia and New Zealand are relatively small, at US$41.705 billion and US$6.398 billion respectively.

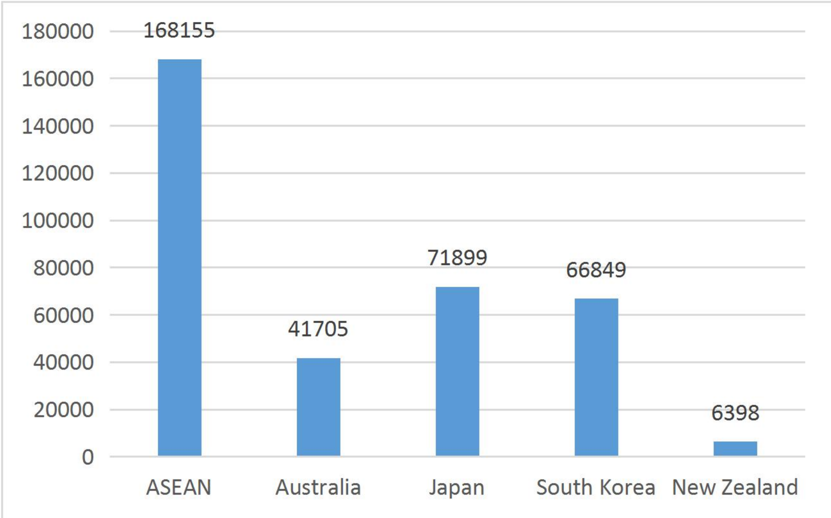

Figure 9.2.1 China's export stock of trade in services in other RCEP Parties, 2013-2019 (USD million)
Source: WTO database, Trade in Services.

China's export flows of trade in services are similar to its stock ranking. China's trade-in-services exports to the ASEAN are high in volume, totaling US$26.858 billion in 2019, accounting for 45.1% of China's total exports to other RCEP Parties that year. There was a significant rise in exports to the ASEAN from 2016 to 2018, with an average annual growth of 5.1% from 2013 to 2019. China's trade-in-services exports to Japan and South Korea are similar in scale and follow the same trend, with exports to Japan and South Korea accounting for 21.1% and 19.7% respectively of China's total exports to other RCEP Parties in 2019. From 2013 to 2019, China's trade-in-services exports to Japan and South Korea both grew at an average annual rate of 5.0%. China's trade-in-services exports to Australia are relatively low but rose significantly in 2016, with an average annual growth of 4.8% from 2013 to 2019. China's exports to New Zealand are lower and the increase is smaller. In 2019, three of China's top ten global export partners in foreign trade in services are from the RCEP, namely Japan, Singapore and South Korea, in that order.

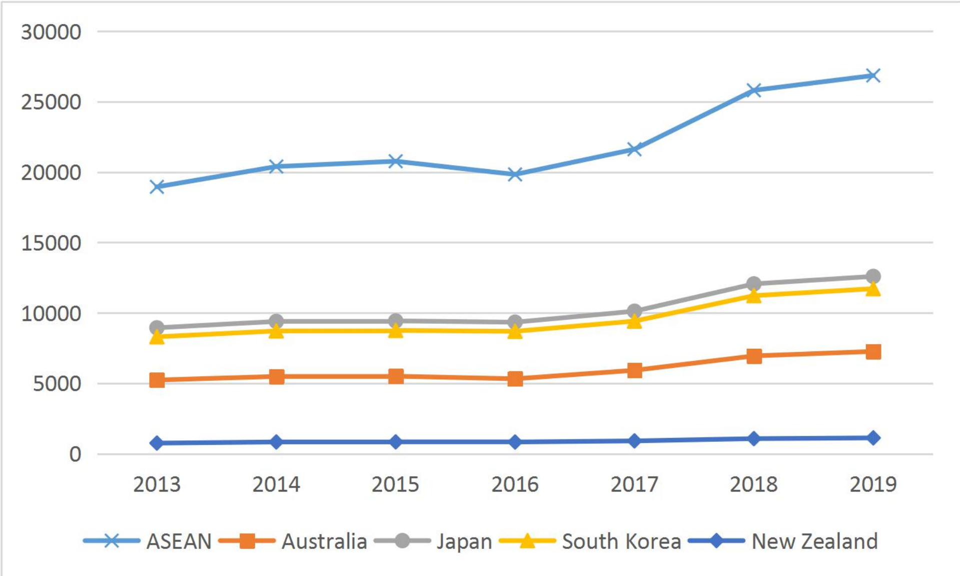

Figure 9.2.2 China's export flows in services to other RCEP Parties, 2013-2019 (USD million)
Source: WTO database, Trade in Services.

Looking at specific industries, China's trade-in-services exports to other RCEP Parties are mainly concentrated in related industries like construction, computer and information services, transportation and freight, tourism, other business services. Disregarding other service industries, construction services, an industry in which China has comparative advantages, exported a total of US$9.815 billion to other RCEP Parties in 2019, accounting for 19.9% of China's exports to other RCEP Parties. Computer and information services exports reached US$9.691 billion in 2019, accounting for 19.7% of exports of major trade in services. It is the second-ranked industry in terms of exports. Transportation and freight and tourism accounted for 17% and 12% of major trade-in-services exports respectively, while these two sectors have been the main sources for China's trade deficit in services. Other business services accounted for 29% of China's exports to the RCEP, which mainly include professional services and education.

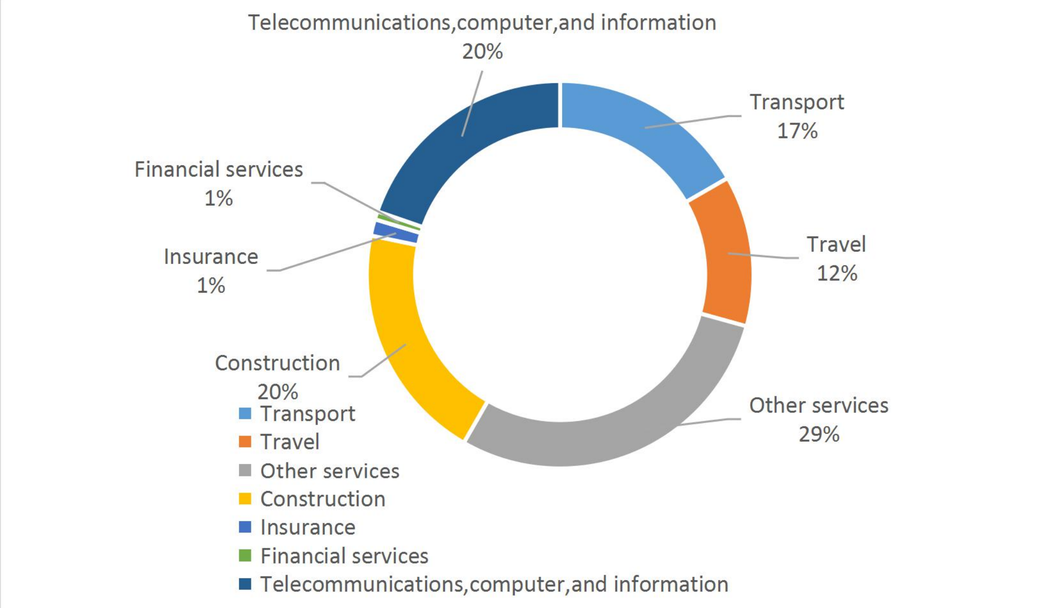

Figure 9.2.3 China's Composition of Exports to Other RCEP Parties in 2019 (Overall)
Source: WTO database, Trade in Services.

	ASEAN	Australia	Japan	South Korea	New Zealand
Transport	3,050	1,387	1,454	2,031	288
Travel	2,507	955	861	1,686	193
Other services	6,424	1,378	4,696	1,593	185
Construction	7,979	994	453	280	109
Insurance	281	219	59	75	42
Financial services	120	65	83	62	8
Telecommunications, computer, and information	3,850	1,660	2,949	1,010	222

Table 8.2.1 China's Export Value of Services to Other RCEP Parties in 2019 (USD million)
Source: WTO database, Trade in Services.

In terms of annual industrial trends, besides other commercial services, China's trade-in-services exports to the other RCEP Parties in the construction industry grew rapidly from 2013 to 2019, from US$3.773 billion in 2013 to US$9.815 billion in 2019, an average annual growth rate of 21%. On the whole, there was an overall trade surplus, amounting to US$8.360 billion in 2019. Computer and information services followed, with exports growing from US$2.961 billion in 2013 to US$9.691 billion in 2019, an increase of 15.4% year-on-year, making it the second-ranked export industry. Due to China's policy monopoly and the development of service outsourcing, exports of knowledge-intensive services continued to grow and show a trade surplus, amounting to US$4.881 billion in 2019. Looking at other industries, exports of transportation and freight grew from US$6.471 billion in 2013 to US$8.21 billion in 2019, with an average annual growth of 4%. The industry showed a trade deficit, amounting to US$16.087 billion in 2019. Exports of intellectual property use services grew from US$133 million in 2013 to US$1.496 billion in 2019, an average annual growth rate of 62.2%. But on the whole, there was still a trade deficit, though with decreasing deficit, increasing from US$6.02 billion in 2013 to US$8.455 billion. Tourism exports have been declining from US$9.915 billion in 2013 to US$6.202 billion in 2019 and are running an overall trade deficit, which is also increasing, from US$18.163 billion in 2013 to US$48.439 billion in 2019.

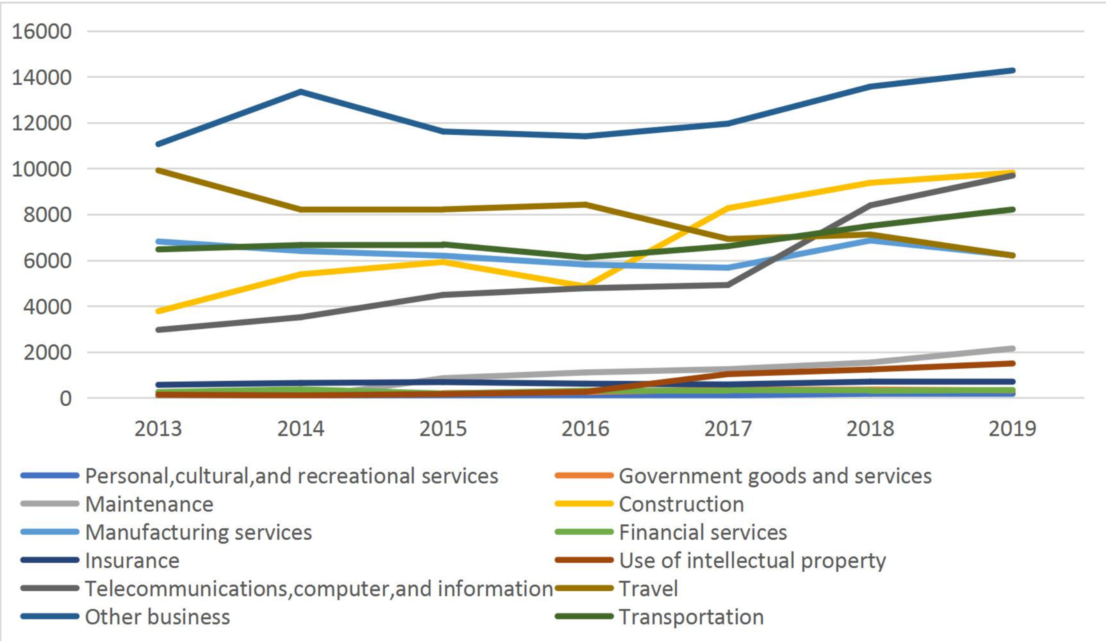

Figure 9.2.4 China's export flows in services to other RCEP Parties, 2013-2019 (USD million)
Source: WTO database, Trade in Services.

Looking at the ASEAN, China's largest exports to the ASEAN are in the construction services, followed by other business services, telecommunications and transportation and freight services, in that order. China's exports of construction services to the ASEAN grew from US$3.236 billion in 2013 to US$7.979 billion in 2019, accounting for 29.7% of China's total exports to the ASEAN in 2019 and 81.3% of China's total construction exports to the RCEP. Malaysia is the main importer of China's construction services, with imports of US$1.985 billion in 2019. Among China's overall exports to the ASEAN, China's exports to Singapore far exceed those to the others, growing from US$8.299 billion in 2013 to US$11.529 billion in 2019, far ahead of those to Malaysia, which rank second in China's exports to the ASEAN, with 2019 exports worth US$3.593 billion. Several industries mainly export to Singapore, including telecommunications services (US$2.134 billion, accounting for 55.4% of the industry's total exports to the ASEAN); transportation and freight (US$1.621 billion, accounting for 53.1% of the industry's total exports to the ASEAN); insurance services (US$145 million, accounting for 51.6% of the industry's total exports to the ASEAN); and financial services (US$82 million, accounting for 68.3% of the industry's total exports to the ASEAN). Singapore and Vietnam are the two Parties with the largest tourism imports from China, with US$717 million and US$559 million worth in tourism services respectively, but China's overall tourism exports to the ASEAN are declining, falling from US$4.885 billion in 2013 to US$2.507 billion in 2019. Among China's exports to the ASEAN, the computer industry is growing very rapidly, from US$1.349 billion in 2013 to US$3.850 billion in 2019, accounting for 14% of China's total exports to the ASEAN in 2019. It has an average annual growth rate of 23%, showing a positive growth trend.

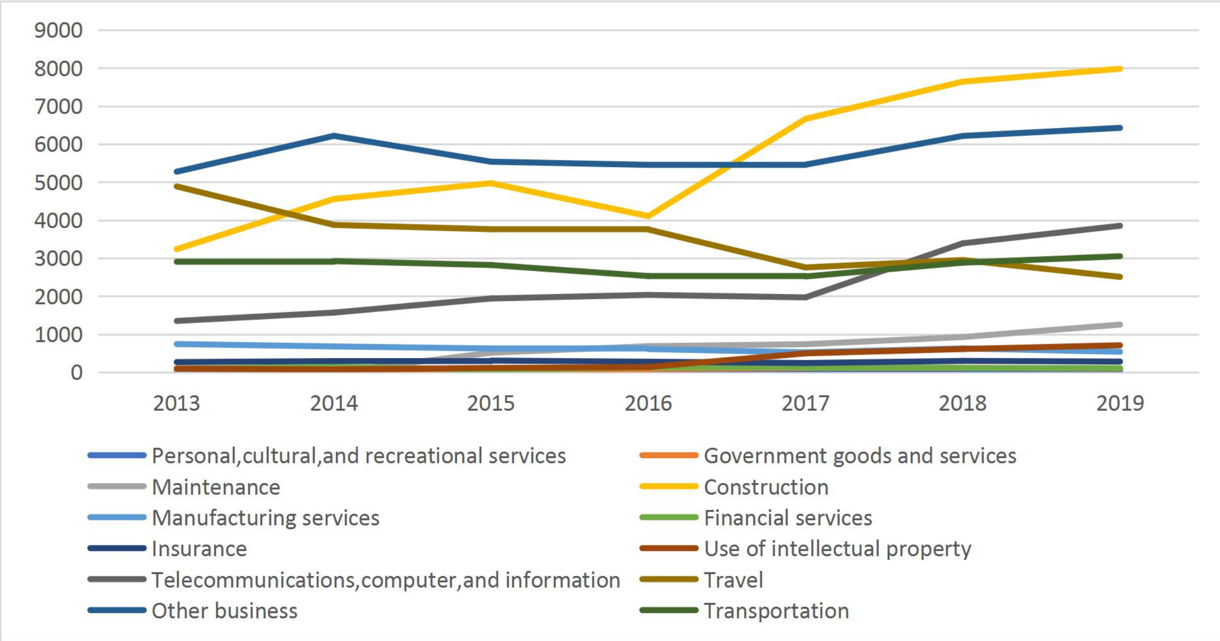

Figure 9.2.5 China's export flows in services to the ASEAN Parties, 2013-2019 (USD million)
Source: WTO database, Trade in Services.

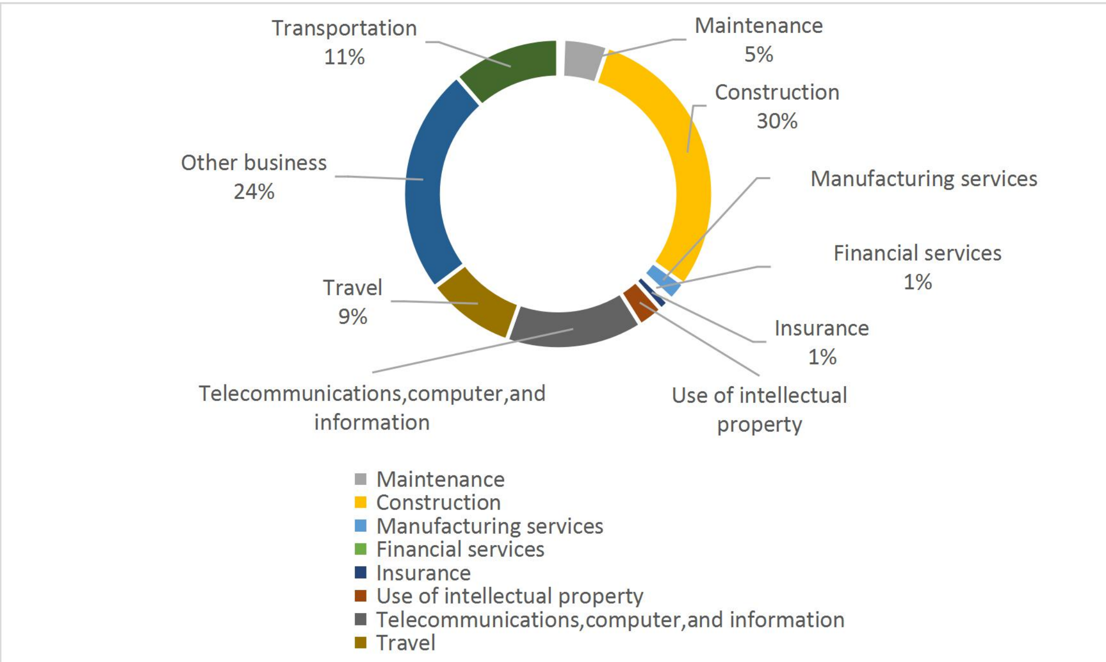

Figure 9.2.6 China's Export Composition to the ASEAN Parties in 2019 (%)
Source: Trade in Services, WTO database.

In terms of other RCEP contract parties, China's exports to Japan, South Korea, New Zealand, Australia in 2019 consisted mainly of transportation, tourism, computer and information services, and other commercial services. Apart from other commercial services, the highest volume of exports of trade in services from China to Japan and Australia in 2019 consisted of both knowledge-intensive industries and computer and information services, accounting for 23.4% and 22.9% of China's total exports of trade in services to these countries respectively. This is mainly the result of the restructuring of China's trade in services in recent years. Meanwhile, the highest volume of exports of trade in services from China to South Korea and New Zealand was a traditional capital-intensive industry, transportation industry, accounting for 17.3% and 25.7% of China's total exports of trade in services with these countries respectively.

II. The Current Status of Trade in Services of Other RCEP Parties With China

The total value of exports of trade in services from other RCEP contract parties to China is growing, accounting for a higher proportion of China's major sources of trade in services. With the continuous liberalization of market access for trade in services on the RCEP negative list, other RCEP contract parties will continue to expand their respective levels of trade in services. The ease of trade in services will improve, and confidence in trade in services will continue to rise.

From 2013-2019, **China's stock of import of trade in services** from other RCEP contract parties was similar to its flow dynamics during the same period. China's imports of trade in services from Japan and South Korea far exceeded its imports from other RCEP contract parties, at 195.231 billion US dollars and 127.358 billion US dollars respectively. As China, South Korea, and Japan are geographically and historically well-connected, trade and commerce correspondences are convenient, transport and logistics infrastructure are well-developed, and personnel exchanges are frequent. These factors lay a good foundation for the development of trade in services. At the same time, different development modes of China-Japan and China-South Korea complement each other, promoting the transformation and upgrading of trade in services between the countries. Among the ASEAN contract parties, Singapore has the largest export volume of trade in services to China, with a stock of 97.5 billion US dollars. Singapore started the trade in services early, developed rapidly, and has a good foundation, so the stock is the largest among all ASEAN contract parties.

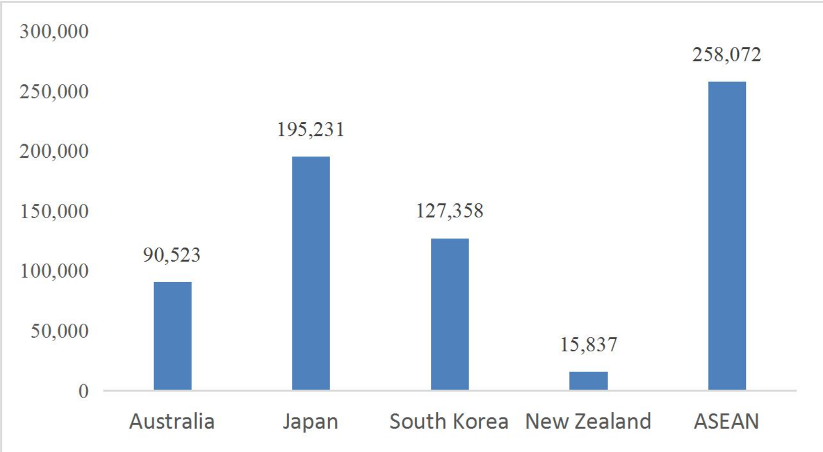

Figure 9.2.7 China's stock of import of trade in services from other RCEP contract parties from 2013 to 2019 (USD million)
Source: WTO database in Trade in Services.

China's import flows for trade in services from 2013 to 2019 show that China imported 28.327 billion US dollars from ASEAN in 2013 and 41.066 billion US dollars from ASEAN contracting parties in 2019, a 44.97% year-on-year growth. In 2019, of China's top ten partners of global import of trade in services, three were RCEP members, namely Japan, South Korea, and Singapore. Specifically, Japan topped among RCEP contracting parties with 31.068 billion US dollars imports. South Korea ranked second, with China's imports from South Korea amounting to 20.454 billion US dollars, followed by Singapore, which amounted to 18.118 billion US dollars. Excluding these three countries, Australia's imports of trade in services reached 14.103 billion US dollars, Thailand reached 6.556 billion US dollars, and New Zealand 2.504 billion US dollars.

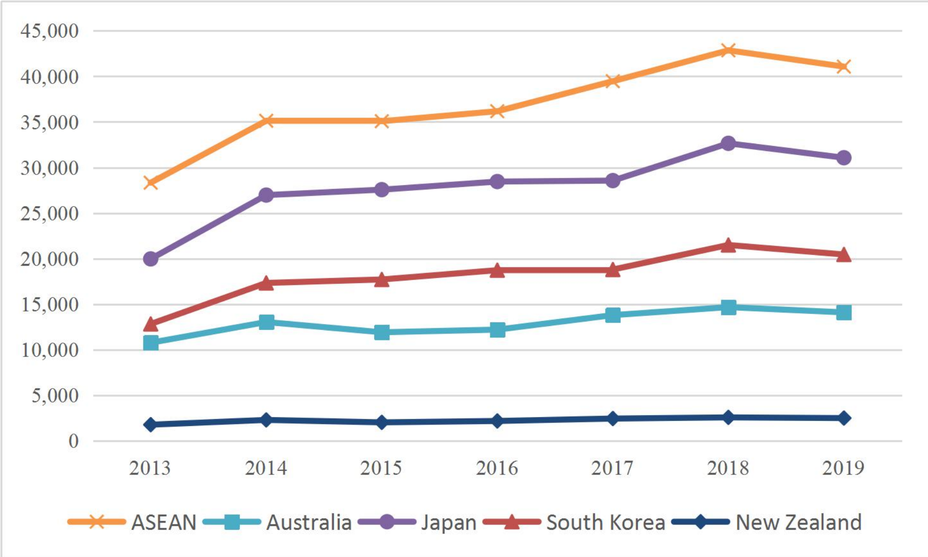

Figure 9.2.8 China's import flows for trade in services from other RCEP contracting parties from 2013 to 2019 (USD million)
Source: WTO database in Trade in Services.

In terms of specific industries, the trade in services of other RCEP contracting parties in China is mainly concentrated in tourism, transportation and insurance, computer and information technology and other related industries. The tourism industry is China's largest import from other RCEP contracting parties. In 2019, the import value reached 54.641 billion US dollars, accounting for 56.1% of other RCEP contracting parties' exports of services to China; followed by the transportation industry, with the export value of trade in service of other RCEP contracting parties to China in 2019 being 24.297 billion US dollars, accounting for 25%. In addition to other industries, computer and information services and insurance services accounted for 4.9% and 2.7% of China's imports from other RCEP contracting parties in 2019, respectively. China's service trade import mix is obviously different given the different development levels of each country and innate and acquired resource endowments.

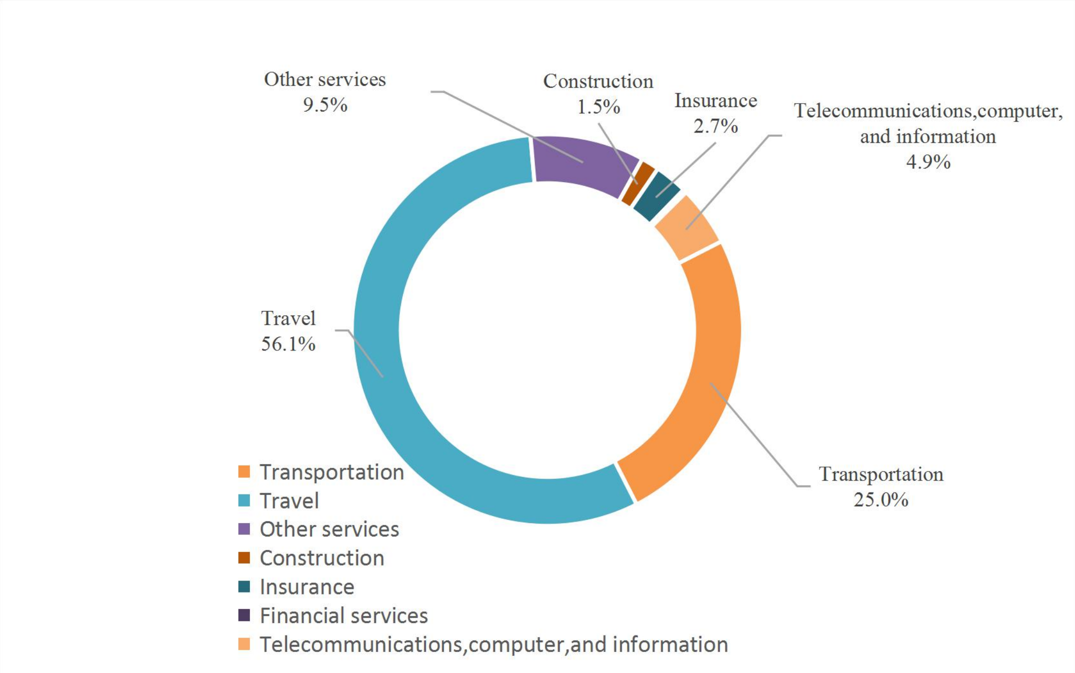

Figure 9.2.9 China's Import Mix From Other RCEP Contracting Parties 2019 (Overall)
Source: WTO database in Trade in Services.

Table 9.2.2 China's Import Mix From Other RCEP Contracting Parties 2019 (USD million)

	ASEAN	Australia	Japan	South Korea	New Zealand
Transportation	8,617	2,756	6,353	6,165	406
Travel	22,661	8,676	13,756	7,630	1,918
Other services	4,297	2,494	10,664	6,414	165
Construction	1,036	86	184	130	19
Insurance	416	156	1,633	418	10
Financial services	150	31	51	51	1
Telecommunications, computer, and information	2,477	760	576	956	41

Source: WTO database in Trade in Services.

From the perspective of the annual trends of industries, from 2013 to 2019, among the trade in services of other RCEP contracting parties to China, the tourism industry was the biggest and was growing rapidly. Except for a slight decline in 2019, the scale of tourism consumption of Chinese residents in other RCEP contracting parties continued to rise from 28.078 billion US dollars in 2013 to 54.641 billion US dollars in 2019, an average annual increase of 14%. The export value of intellectual property rights is also growing. Except for a slight decline in 2019, the export value from other RCEP contracting parties to China has increased from

6.153 billion US dollars in 2013 to 9.951 billion US dollars, with an average annual growth of 9%, with an overall trade surplus which has been expanding. The export value of computer and information services increased from 1.474 billion US dollars in 2013 to 4.81 billion US dollars in 2019, with an average annual growth rate of 26% which is a rapid growth rate.

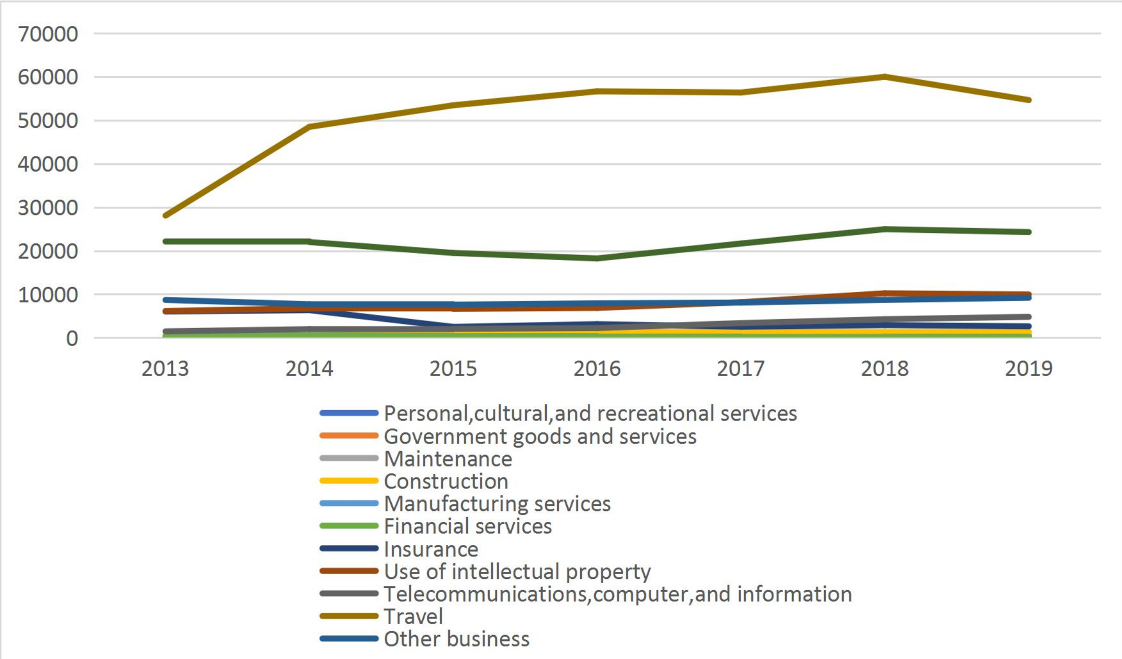

Figure 9.2.10 China's import flows for trade in services from other RCEP contracting parties from 2013 to 2019 (USD million)
Source: WTO database in Trade in Services.

From the perspective of the ASEAN contracting parties, the industries in which China's imports from ASEAN service sectors account for a large proportion are still mainly traditional service industries, and tourism and transportation are still the two industries with a large proportion of China's imports. Among them, thanks to the rapid economic development and high level of economic prosperity, Singapore is the ASEAN country that imports the most trade in service from China. Its imports from China increased from 13.276 billion US dollars in 2013 to 18.818 billion US dollars in 2019, 45.8% of China's total import value from ASEAN and far exceeding that of Thailand (which is the second biggest ASEAN exporter for China and whose export value to China in 2019 was 6.556 billion US dollars). China imports a number of industries from Singapore, mostly in industries that have comparative advantages among ASEAN contracting parties, such as finance and knowledge. In 2019, the import value of intellectual property rights reached 800 million US dollars, accounting for 97% of the imports of this industry from ASEAN. Financial service exports were 138 million US dollars, accounting for 92% of the imports of this industry from ASEAN; transportation industry imports reached 6.265 billion USD, accounting for 72% of the imports of this industry from ASEAN and 33% of China's imports from Singapore; computer and information technology imports reached 1.637 billion US dollars, accounting for 66% of the imports of this industry from ASEAN; insurance imports reached 145 million US dollars, accounting for 61% of the imports of this industry from ASEAN; tourism imports reached 5.879 billion US dollars, accounting for 25.9% of the imports of this industry from ASEAN, and the country is the biggest importer in this industry.

Except for Singapore, other ASEAN contracting parties are developing countries with fast economic development rates but generally low levels of development of the service industry. China's imports from these countries are mostly concentrated in tourism and transportation. In addition to Singapore, Thailand and Vietnam are the two parties from whom China imports the most tourism (5.411 billion US dollars and 3.152 billion US dollars in 2019, accounting for 23.9% and 13.9% of the imports of the industry). Therefore, bilateral trade in service is dominated by labor- and capital-intensive traditional services. Companies should make full use of excellent platforms such as the China-ASEAN Expo and actively take advantage of the new opportunities brought about by the Belt and Road Initiative to promote China and ASEAN contracting parties to seize the business opportunities of various industries under big data through interconnection, accelerate the transformation and upgrading of trade in service, and upgrade China-ASEAN cooperation.

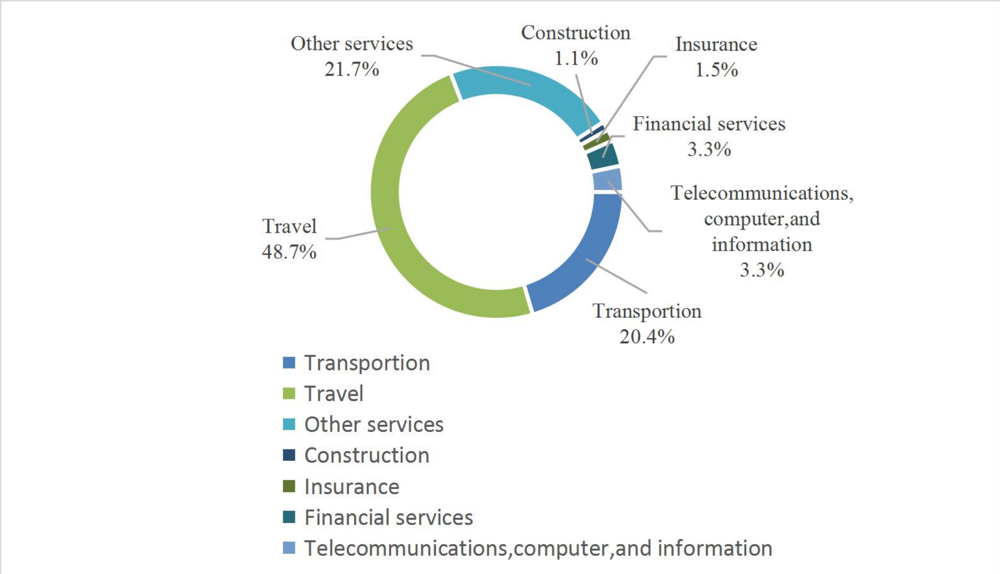

Figure 9.2.11 The industry mix of bilateral trade in services between China and ASEAN contracting parties in 2019 (China imports from ASEAN contracting parties)
Source: Trade in Services database, World Bank.

From the perspective of other RCEP contracting parties, China's imports from Japan, South Korea, New Zealand, and Australia in 2019 are mainly concentrated in tourism and transportation services. Among other RCEP contracting parties, Japan and South Korea are the main partners to China in terms of trade in service. The two countries' industries with the highest proportion of trade in service in 2019 were both tourism, with exports to China of 13.756 billion US dollars and 7.63 billion US dollars, respectively, accounting for 44% and 37% of their total exports to China. The second biggest industry is the transportation service industry. In 2019, Japan and South Korea exported 6.353 billion US dollars and 6.165 billion US dollars to China, respectively, accounting for 20.4% and 30.1% of their total exports to China, and

40.5% and 39.3% of the total exports of this industry to the other four countries. In terms of economic mix, Japan has a goose-shaped mix led by industrialization, and the status of its service industry and trade in service in economic development has always been inferior to that of manufacturing. In terms of industries, Japan exported 5.47 billion US dollars in intellectual property services to China in 2019, accounting for 60% of the exports of this industry; exports of computer and information services were 576 million US dollars, accounting for 24.7% of the exports of this industry. Although South Korea's trade in service development started later and its trade volume base is low, it has good development momentum, and the total service trade volume has maintained double-digit growth for many years. In terms of industries, South Korea exported 956 million US dollars in computer and information services to China in 2019, accounting for 40.9% of the exports of this industry; financial services exports were 51 million USD dollars, accounting for 38% of the exports of this industry; exports of intellectual property use were 3.371 billion US dollars, accounting for 36.9% of the exports of this industry. South Korea's transportation services occupy an important position in the export of trade in services and play a supporting role. New Zealand and Australia are geographically similar, and China's import mix of trade in service from these two countries is similar.

Table 9.2.3 China's Import from Japan, South Korea, New Zealand, Australia in 2019 (USD million)

	Australia	Japan	South Korea	New Zealand
Manufacturing services	1	14	45	0
Maintenance	129	131	101	12
Transportation	2756	6353	6165	406
Travel	8676	13756	7630	1918
Construction	86	184	130	19
Insurance	156	1633	418	10
Financial services	31	51	51	1
Charges for the use of intellectual property	274	5469	3371	13
Telecommunications,computer,and	760	576	956	41

information				
Other business	1080	2585	1165	71
Personal,cultural,and recreational services	108	165	322	9
Government goods and services	48	150	99	3

Source: Trade in Services, WTO database.

III. Understanding China's Commitment to RCEP With Regards to Trade In Services

In accordance with the service model of cross-border supply, consumption abroad, commercial presence, and movement of natural persons as stipulated in the General Agreement on Trade in Services (GATS), China has established concession standards for trade in services in a positive list, and proposed "except for the content in the horizontal commitment, no commitment is made" for the movement of natural persons and most other trades in services. China has also liberalized 12 major sectors under the CPC classification of trade in services, including consultancy services related to the installation of computer hardware, data processing and tabulation, time-sharing services, advertising services; franchising, wholesale or retailing sales without fixed location for distribution services; sports and other recreational services; shipping agencies, road trucking, and motor cargo transport for transport services; professional design, hairdressing and beauty services, which means there will be no restrictions on service modes such as cross-border delivery, consumption abroad, and commercial presence, etc. Meanwhile, most-favored-nation treatments for professional services, courier services, architectural and engineering services, environmental services, rail and road transport services, etc. are provided. The specific standards are as follows:

(A) Business Services

Eight activities belonging to 11 professional services are unbounded, including legal services, accounting, auditing and bookkeeping services, taxation services, architectural services, engineering services, integrated engineering services, urban planning services, and medical and dental services; four activities belonging to five types of computer and computer-related services are unbounded, including consultancy services related to the installation of computer hardware, software implementation services, data processing services, and maintenance and repair services of office machinery and equipment; two types of real estate services are unbounded, including real estate involving owned or leased property and real estate services on a fee or contract basis; five activities of dry lease services are unbounded, including ship leasing, aircraft leasing, other transport equipment leasing, and other machinery and equipment leasing, etc.; 16 activities belonging to 20 other business services are unbounded, including advertising services, market research services, management consulting services, services related to management consulting, technical testing and analysis services, services incidental to forestry and manufacturing, placement and supply services of personnel, science and technology-related consulting services, building-cleaning services, printing and binding services, translation and interpretating services, photography services, convention services, packaging services, and maintenance and repair services.

Foreign law firms can only provide legal services in the form of representative offices, which can engage in for-profit activities. All representatives must stay in China for no less than six months each year. Representative offices should not hire certified lawyers in China. Partnership accounting firms or limited liability accounting firms are limited to hiring certified public accountants approved by Chinese competent authorities. In terms of tax services, the establishment of wholly foreign-owned subsidiaries is allowed. In terms of architectural design services, cooperation with Chinese professional institutions is required, except for schematic design.

(B) Business Services

Including express delivery services; telecommunications services, including value-added telecommunications services, basic telecommunications services (paging services), mobile voice and data services (domestic and international services); audiovisual services, including video distribution and distribution services of sound recording and cinema services. For telecommunications services, foreign service providers are allowed to set up some telecommunications enterprises invested by foreign investors, and the foreign investment in such enterprises shall not exceed 50% or 49%. For cinema services, foreign service providers are allowed to construct and renovate cinemas, and foreign investment shall not exceed 49%.

(C) Business Services

General construction work on buildings, civil works, installation and assembly, renovation work on buildings, etc.; dredging services related to infrastructure construction. Wholly foreign-owned enterprises are permitted, but they are only allowed to undertake one of four types of prescribed construction projects.

(D) Business Services

Commission agents' services, wholesale trade services, retailing services (excluding salt and tobacco), franchising, wholesale or retailing services without a fixed location.

(E) Education Services

Excluding special education services, such as military, police, political and party school education. Primary and secondary education services, excluding national compulsory education; adult education services, including non-academic training of beauty treatment, spa, acupuncture; other education services, including the following non-academic training: English language training, cooking education, handicraft education, and other educational services.

(F) Environmental Services

Sewage services, solid waste disposal services, exhaust gas cleaning services, noise abatement services, sanitation services, natural and landscape protection services, and other environmental protection services, excluding environmental quality monitoring and pollution source inspection.

(G) Financial Services

All insurance and related services (including life, health and pension/annuity insurance, non-life insurance services, reinsurance and insurance auxiliary services); banking and other financial services (excluding insurance and securities), including the acceptance of public deposits and other funds payable to the public, lending of all types, including consumer credit, mortgage credit, factoring and financing of commercial transactions, financial leasing, credit cards, charge cards and debit cards, travelers' cheques and bankers drafts, guarantees and commitments, and foreign exchange transactions.

(H) Tourism Services

Hotels (including apartment buildings) and restaurants, travel agencies and tour operators. Foreign service providers may build, renovate, and operate hotel and restaurant facilities in China. The establishment of wholly foreign-owned subsidiaries is permitted.

(I) Health Services

Elderly care services. Foreign service providers are allowed to set up wholly foreign-owned, for-profit elderly care institutions in China.

(I) Entertainment, Cultural and Sports Services

Excluding audiovisual services, including only sports and other recreational services, also including yoga, but excluding golf and eSports.

(J) Business Services

Maritime transport services (including only international transport (freight and passenger)), excluding coastal and internal waterway transport services; auxiliary services including maritime cargo handling services, customs clearance services for maritime transport, container station depot services; internal waterway transport, freight only; air transport services including computer reservation system (CRS) services, aircraft maintenance and repair computer reservation system, as well as rail and road transport services.

(K) Business Services

Professional design services, hairdressing, and other beauty services.

China has also liberalized 12 major sectors under the CPC classification of trade in services, including consultancy services related to the installation of computer hardware, data processing and tabulation, time-sharing services, advertising services; franchising, wholesale or retailing sales without fixed location for distribution services; sports and other recreational services; shipping agencies, road trucking, and motor cargo transport for transport services; professional design, hairdressing and beauty services, which means there will be no restrictions on service modes such as cross-border delivery, consumption abroad, and commercial presence, etc. Meanwhile, most-favored-nation treatments for professional services, courier services, architectural and engineering services, environmental services, rail and road transport services, etc. are provided.

IV. Trade in Services Opportunities for China Brought by RCEP

The signing of RCEP will further promote economic integration between China and other RCEP contracting parties. While providing a larger market of supply and demand for China's trade in service, it will also provide opening up commitments of greater freedom and convenience in key areas such as finance, communications, technical services, and digital services.

Compared with previous free trade agreements signed by China, the RCEP's rules of trade in services are more open. It establishes a consistent framework and set of services rules across the entire RCEP region. This will significantly increase the regulatory certainty and transparency for Chinese service suppliers that provide services in the RCEP region. At the same time, the huge potential for service consumption in the markets of other RCEP contracting parties will provide assurance to promote China's domestic and international circulation. Moreover, the RCEP provides for greater facilitation in areas related to the movement of natural persons, customs procedures, and digital services, which will directly benefit trade in services industries such as port shipping, cross-border e-commerce, cross-border logistics, and outbound tourism.

The focus of the RCEP on financial services, telecommunications services, and professional services will provide new opportunities for China's opening-up in these sectors. In the financial sector, the transparent, open, and fair competitive environment created by the RCEP will play an important role in improving China's multi-level and high-quality financial market and deepening the reform and opening-up of the capital market. In the communications sector, the access to international submarine cables, electricity poles, pipelines and pipeline networks along with the development of rules for international mobile roaming will continue to promote the opening and integration of the telecommunications industry in the RCEP region, helping China's telecommunications industry to seize the international market and take the lead in the industry proactively. In the professional services sector, the RCEP has elevated the openness criteria for access conditions, qualification certifications, and consumer protections. At the same time, the RCEP also builds an important platform in the digital services sector for Chinese enterprises to explore digital transformation, develop digitalized trade in services, and better cope with the impact of COVID-19.

China is the country with the largest economic volume, the most complete industrial chain, and the strongest comprehensive strength in the RCEP, and China's signing of the RCEP will provide Chinese companies with huge opportunities to explore the global market, and will become an important focus for China's construction of the Belt and Road Initiative. At the same time, the signing of RCEP also marks China's determination to deepen reform and opening up and seek unity and cooperation, laying a solid foundation for strengthening China's voice in the global economic and trade development pattern and its initiative in formulating trade rules.

Section 3 Bilateral Investment

China is an important capital importer and exporter among other RCEP contracting parties, and its investment directions and trends have an important influence on the capital circulation among other RCEP contracting parties. Analyzing the current situation of bilateral investment between China and other RCEP contracting parties will help clarify China's investment status in other RCEP contracting parties and provide background support for further investment decisions.

I. Current State of Chinese Investments in Other RCEP

Parties

Other RCEP contracting parties are important destinations for China's foreign direct investment. Data show that as of the end of 2019, China's investment stock in other RCEP contracting parties reached 161.19 billion US dollars, a year-on-year increase of 4.3%. As of the end of 2019, investment flows from China to other RCEP contracting parties reached 15.85 billion US dollars. The unfolding of ASEAN integration predated the signing of the RCEP, and the deepening of economic cooperation within the ASEAN region may also potentially affect the flow of foreign capital of other RCEP contracting parties. And China also demonstrates regular investment trends in Japan, South Korea, New Zealand, and Australia. This section will analyze China's investment in other RCEP contracting parties based on bilateral investment data.

Looking at the overall stock of investment, in 2019, China's OFDI stock (including mainland China's investment in Taiwan, Hong Kong and Macau) amounted to 2,198.88 billion USD, a 216.61 billion-dollar increase from the previous year. China's OFDI stock to the other RCEP Parties reached 161.19 billion USD, accounting for 7.33% of China's OFDI stock. China's OFDI stock to other RCEP Parties continued to grow over the seven years, especially from 2016 to 2017, when the stock increased by about 450 billion USD. However, due to the faster growth rate of China's OFDI stock, the change of proportion of RCEP investment to total investment was smaller, with a slight overall decline.

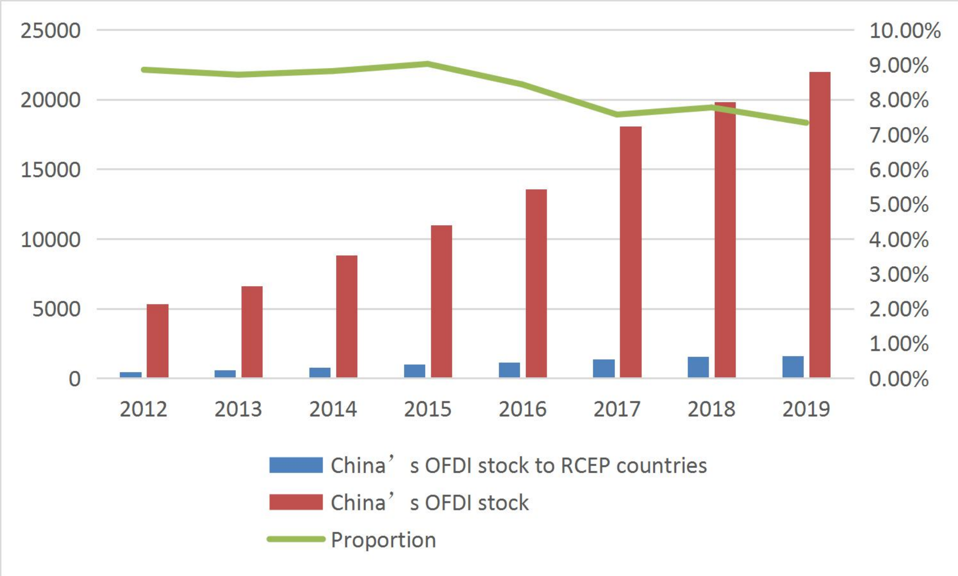

Figure 9.3.1 China's FDI stock and share in other RCEP Parties, 2012-2019 (100 million USD)
Source: Ministry of Commerce.

In terms of investment flows, China's OFDI flows (including mainland China's investments in Taiwan, Hong Kong and Macao) in 2019 amounted to 136.91 billion USD, a decrease of 6.13 billion USD from the previous year. China's OFDI flows to other RCEP Parties amounted to 16.36 billion USD, accounting for 11.95% of China's OFDI flows in 2019. China's direct investment flows to RCEP fluctuated with an upward trend from 2012 to 2019, with a continuous increase from 2012 to 2015, reaching 19.92 billion USD in 2015, and a more volatile change from 2016 to 2019, showing an upward-downward trend. The proportion of China's investment flows to other RCEP Parties fell significantly in 2016 due to the significant increase of Chinese OFDI flows. In 2017 there was a bounce, after which it remained relatively stable.

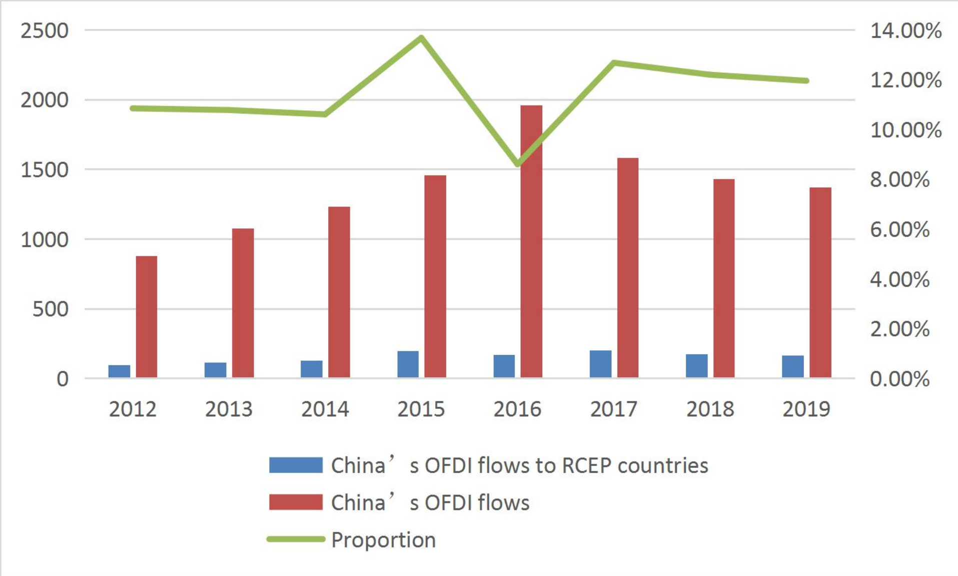

Figure 9.3.2 2014-2019 China’s FDI flows and share to other RCEP Parties, 2012-2019 (100 million USD)

Source: Ministry of Commerce.

Country specifically, among the top 20 destination countries (regions) for China's OFDI stock in 2019, five were other RCEP Parties, namely Singapore, Australia, Indonesia, Laos, and Malaysia. Singapore ranked fifth with an investment stock of 52.64 billion USD. Singapore was also the country with the largest OFDI stock from China among the other RCEP Parties. Australia was the second-largest recipient of Chinese investment stock among the RCEP Parties, with 38.068 billion USD.

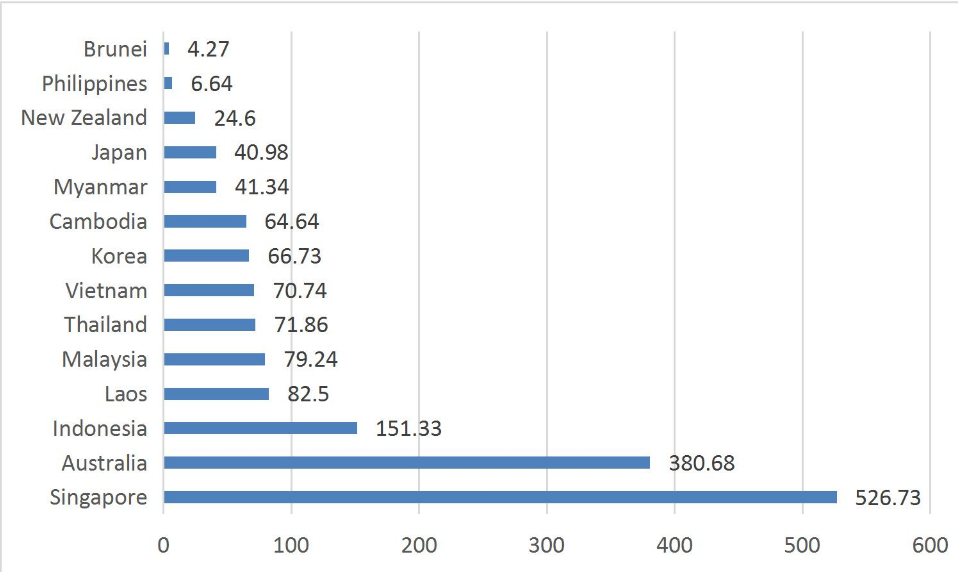

Figure 9.3.3 China's OFDI stock to other RCEP Parties in 2019 (100 million USD billion)

Source: Ministry of Commerce.

Sector specifically, current bilateral investments involve a diversity of sectors, including service industries such as finance, insurance, wholesale, and retailing, as well as traditional industries such as agriculture and forestry, the mining industry, and the hydropower industry. The implementation of the RCEP will boost up sectors such as textiles and garments, light industry, construction materials, electronic equipment, agricultural products, and extractive industries, particularly the textile and garment sector. China's manufacturing advantages across the entire industrial chain can be combined with the significant advantage of labor costs in Southeast Asia. RCEP's unified Rule of Origin will bring convenience to Chinese garment enterprises in terms of suppliers, logistics, and customs clearance.

China is the third-largest source of foreign investment for ASEAN. According to the Chinese Ministry of Commerce, China's investment in ASEAN exceeded ASEAN's investment in China for the fifth consecutive year by 2019, making ASEAN one of the key destinations for Chinese outbound investment[22]. In 2019, China's direct investment flowed to ten ASEAN Parties, amounting to 13.02 billion USD, a 4.9% year-on-year decrease, accounting for 9.55% of China's total OFDI flows in 2019. By the end of 2019, the stock of China's direct investment in the ten ASEAN Parties stood at 109.89 billion USD, accounting for 5.7% of China's total OFDI stock. By country, ASEAN accounted for six among the top 20 destination countries (regions) for China's OFDI flows in 2019, namely Singapore, Indonesia, Malaysia, Laos, Vietnam, and Cambodia, all of which exceeded one billion USD except Cambodia. By the end of 2019, China's largest direct investment stock in ASEAN went to Singapore and Indonesia, accounting for 47.9% and 13.8% respectively, and the smallest went to the Philippines and Brunei,

[22]Ministry of Commerce, "The Guide for Countries (and Regions) on Overseas Investment and Co operation - ASEAN", http://www.mofcom.gov.cn/dl/gbdqzn/upload/dongmeng.pdf

both accounting for less than 1%.

Looking at other RCEP Parties, South Korea received the largest stock of FDI from China, followed by Japan, Australia, and New Zealand. Compared with the FDI stock received by China from the four countries, there was a large gap in the OFDI stock, but the stock grows in recent years. Among the four countries, China's investments were mainly in the sectors of finance, chemicals, and real estate.

II. Current Status of Other RCEP Parties' Investments in China

The actual amount of foreign investment and the number of invested enterprises in China from other RCEP Parties are generally increasing, accounting for a higher proportion of the main sources of investment in China. With the continuous liberalization of investment market access of the RCEP negative list, the invested areas of other RCEP Parties into China will continue to expand, and the ease of investment and confidence in intra-regional investment will continue to rise.

The ranking of investment stock of RCEP Parties' direct investment in China from 2012–2019 was similar to the ranking of investment flow, with Singapore, South Korea and Japan exceeding other RCEP Parties in terms of investment value, at 49.875 billion USD, 35.806 billion USD, and 32.721 billion USD respectively. As of 2019, Singapore had been the largest source of foreign investment in China for seven consecutive years, and China had remained the top destination of Singapore's OFDI for 12 consecutive years. Major projects of Singapore's investment in China include the Suzhou Industrial Park, the Tianjin Eco-City, and the China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity. South Korea and Japan are also important sources of foreign investment in China. As China, South Korea, and

Japan are geographically and culturally close, with convenient transportation and logistics and frequent exchanges of personnel, there is a natural inclination for foreign investment among the countries. At the same time, different stages of economic development and industrial technologies between nations help them complement and benefit each other.

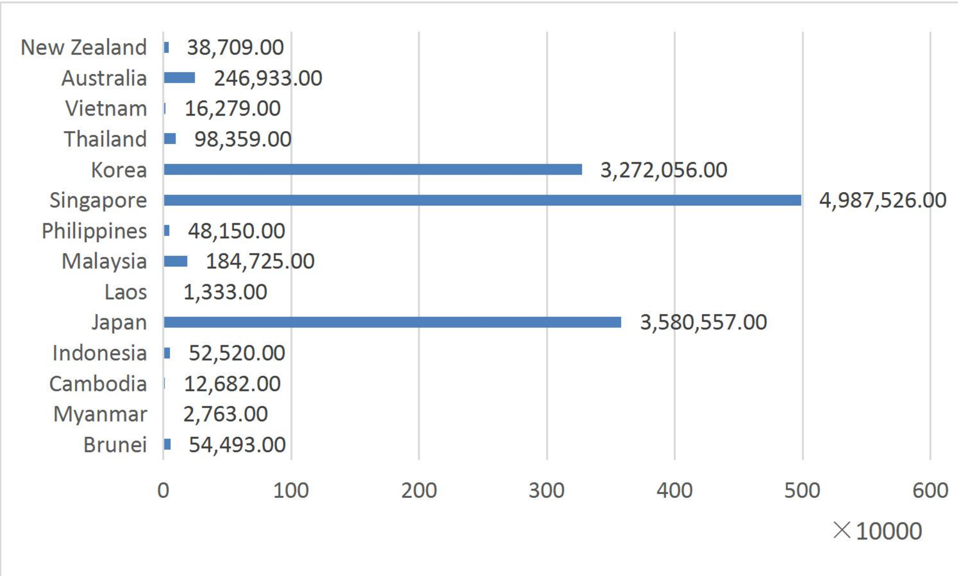

Figure 9.3.4 Stock of Direct Investment in China by Other RCEP Parties, 2012-2019 (100 million USD)[23]
Source: National Bureau of Statistics of China.

In terms of investment flows, 40,910 new foreign-invested enterprises were established in China in 2019, a 32.4% year-on-year decrease. The actual amount of foreign capital utilized totaled 141.23 billion USD, a 2.1% year-on-year increase, ranking 2nd in the world in terms of scale and accounting for 9.2% of total global FDI in 2019. There were three RCEP Parties among the top 15 countries (regions) in terms of investment in China in 2019, namely Singapore, South Korea, and Japan.

[23]Data for Myanmar, Laos, Cambodia, and Vietnam for some years are missing.

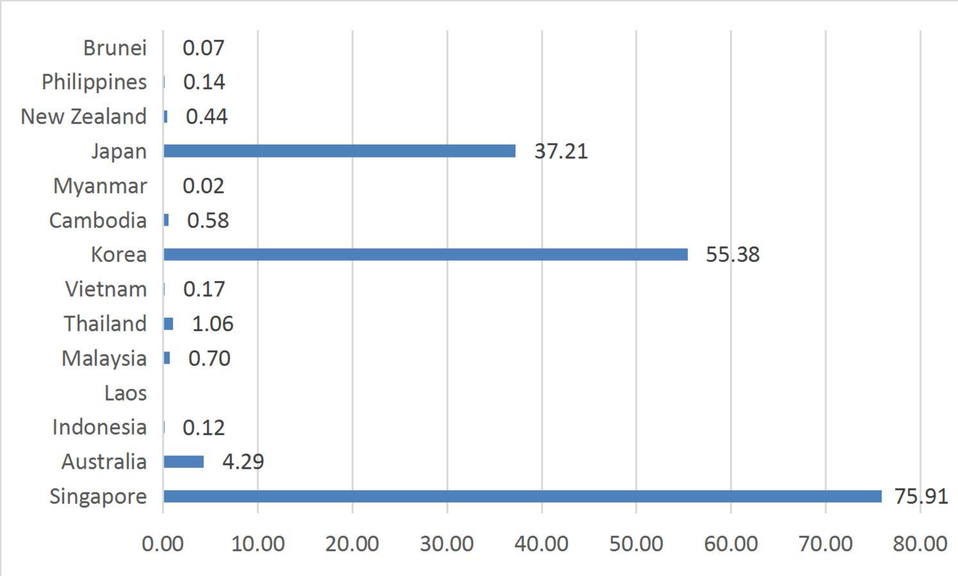

Figure 9.3.5 Direct Investment Flows of China from Other RCEP Parties, 2019 (100 million USD)[24]
Source: National Bureau of Statistics of China.

Country specifically, Singapore ranked first among other RCEP Parties with 7.591 billion USD in actual investment, followed by South Korea with 5.538 billion USD, and Japan with 3.721 billion USD. Apart from the top three countries with large investment totals, the remaining 11 Parties had relatively small and disparate amounts of FDI in China. Australia and Thailand invested over 100 million USD, while the remaining nine Parties, including Malaysia and Cambodia, invested amounts that fluctuated between 7 and 70 million USD. In terms of the number of new enterprises, among the top 15 countries that established the most enterprises in China, three were other RCEP Parties, namely South Korea, Singapore, and Japan. South Korea set up 2,108 new enterprises in 2019, ranking third in terms of the number of new enterprises established in China.

By industry, investment in China by RCEP Parties was concentrated in manufacturing, leasing and business services, real estate, wholesale and retailing, and other related industries. Singapore, South Korea, and Japan were the major investors in China among the other RCEP Parties, with manufacturing as their

[24]Data for Laos is missing.

focus of investment in 2019, accounting for 27.4%, 79.4%, and 69.4% of their actual investment respectively. Singapore's investment in China was relatively fragmented; leasing and business services ranked 2nd in its investment, accounting for 23.8% of its total investment, which was close to the investment in the manufacturing industry.

From 1987 to 2019, ASEAN's actual investment flows in China grew from 0.04 billion USD to 7.88 billion USD, with the top five investment sources being: Singapore, Thailand, Malaysia, the Philippines, and Indonesia. The share of ASEAN's OFDI in China to its overall OFDI increased from 1.6% to 5.6%, which started with a rise, then a decline, and finally a subsequent stabilization. The inflection points occurred in 1991, 1998, 2012, and around 2016. Despite the COVID-19 pandemic, ASEAN's actual investment rose to 7.95 billion USD, a 1.0% year-on-year increase with the top three sources of investment being Singapore, Thailand, and Malaysia. A very important reason behind this is that in October 2019, the China-ASEAN FTA upgraded its agreement, allowing it to come into full effect for all members, thus lowering the threshold in terms of Rules of Origin, trade clearance, trade in services, and investment sectors, further releasing the dividends of the FTA implementation and strongly promoting investment and trade.

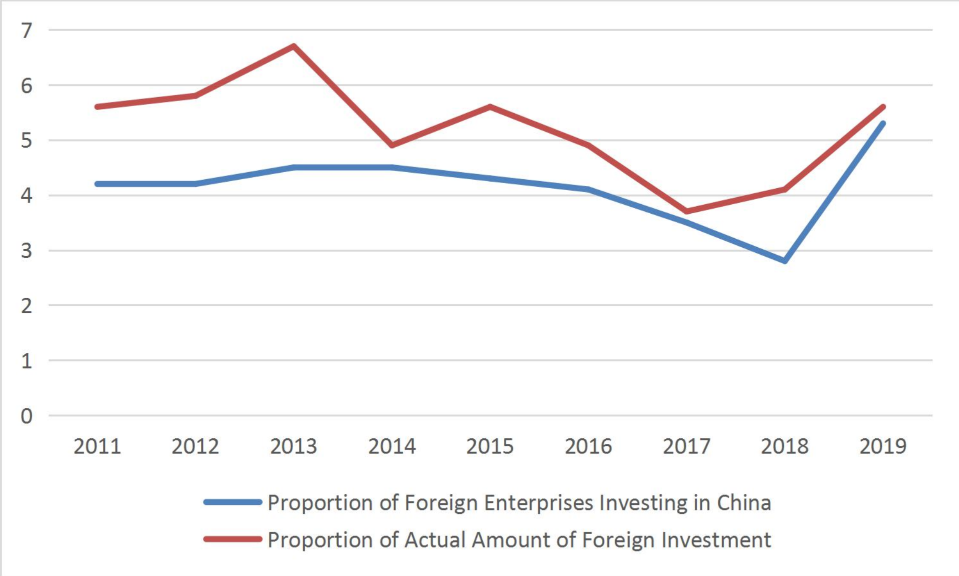

Figure 9.3.6 Investment in China by ASEAN Parties (%), 2011-2019
Source: Foreign Investment Enterprise Database, Ministry of Commerce of China.

Among the other RCEP Parties, South Korea and Japan lead the way in terms of the number of foreign enterprises investing in China and the actual amount of foreign investment, with Australia ranking third and New Zealand having the least amount of foreign investment. 2019 saw South Korea ranked 3rd and Japan ranked 5th among China's major sources of investment by actual amount, with the number of new enterprises established and the amount of foreign investment actually invested both far exceeding those from Australia and New Zealand.

III. Interpretation of China's Investment Commitment Under the RCEP

In the face of the huge impact of the sudden outbreak of COVID-19, China has taken the lead in the global economic recovery and has become a "stabilizer" for global cross-border investment. According to the Global Investment Trends Monitor report released by the United Nations Conference on Trade and Development (UNCTAD), China's foreign investment inflows rose against the declining trend in 2020, surpassing the US and becoming the world's largest foreign investment inflow country. According to the report, China absorbed 163 billion USD (1,056.4

billion RMB) of foreign investment in 2020, an increase of 4% compared to 2019, and its global share increased significantly to 19%. In addition, total global FDI falls sharply in 2020 due to the impact of the COVID-19 pandemic, shrinking by 42% compared to 2019, the lowest level since the 1990s. This is mainly due to a slowdown in investment activity triggered by the sharp downturn in the global economy due to the pandemic. China, however, was the first in the world to contain the pandemic and achieve a rapid economic recovery, and may become the only major economy in the world to achieve positive economic growth, a move that not only boosted confidence in the global economy, but also reinforced foreign investment in China. In terms of medium to long-term factors, China's stable economic policies and huge growth potential have given foreign investors full confidence in China's future development, and investment in China has continued to grow steadily. Although China faces a complex and severe external development environment in recent years, and international competition for attracting foreign investment has further intensified, China's comprehensive advantages in attracting foreign investment remain unchanged. In particular, China's economy has maintained a generally stable, steady with positive momentum, and the huge potential of the domestic market is gradually being released.

China has long been committed to creating a fair, transparent and predictable business environment by deepening reforms and expanding openness. According to the World Bank's *Doing Business 2020* report, China had been among the top 10 economies in the world with the most improved business environment for the second consecutive year. China's improved business environment is also highly recognized by foreign enterprises. 40% of enterprises believe that the Chinese market eased restrictions on foreign enterprises, and 81% believe that

China's innovation path can bring business opportunities, according to a 2019 survey by the EU Chamber of Commerce in China.

The strength and quality of China's opening-up have been increasingly enhanced. While the previous "Catalog of Industries for Encourage Foreign Investment" was updated every 3-5 years, the 2020 revision was only one year after the previous edition and was an important step to further stabilize foreign investment under the current situation. Against the backdrop of complex changes in the external environment and the downward trend of global cross-border investment, China further expanded the scope of foreign investment encouraged, adding entries in manufacturing, productive services, and central and western regions. Overall, the revised Catalog has increased in terms of entries, with a total of 1,235 entries, 127 more than the 2019 version, with 65 more nationwide and 62 more in the central and western regions, an increase of more than 10%. 88 entries have been revised, mainly an expansion of the areas covered by the original entries. The additional entries mean that more new areas will be open to foreign investment, the scope of foreign investment will be further expanded and foreign enterprises will have more development opportunities.

With respect to the negative list for foreign investment market access, China continues to actively explore the management system of foreign investment. Since 2016, China's foreign investment management system has entered a period of high-speed reform. 2018 saw the introduction of the negative list, and since then, the list has been revised and narrowed down each year. A series of major liberalization initiatives have been launched in sectors such as finance and automobile manufacturing, all of which have greatly boosted the confidence of foreign investors.

Based on the principle of "only reducing, not increasing", the "Special Administrative Measures for Foreign Investment Access (Negative List) (2020 Version)" (hereinafter referred to as the "2020 Negative List"), jointly issued by the National Development and Reform Commission and the Ministry of Commerce, further narrow down the negative list for foreign investment access. Both the national FTZ 2020 Negative List and regional FTZ 2020 Negative Lists were revised from 9 articles to 8 articles, with the same amendments focusing on the responsibilities of relevant authorities, mergers and acquisitions of domestic enterprises by foreign enterprises, and preferential treatment for foreign investors. Provisions of exemptions from the negative list were added, and the content with references to related provisions in the Foreign Investment Law and its supporting documents were included. The narration is more flexible and more precise. Compared to the 2019 version of the Negative List, the 2020 version reduced the number of specific categories from 40 to 33, with changes to the control measures mainly in agriculture, manufacturing, water production and supply, transport, scientific research and technical services in the finance sector, education, business services and health sector, reflecting the relaxation of restrictions on foreign investment and conveying the demands for economic transformation and economic development in these areas. The finance sector is a key sector of expanded liberalization. The negative list for access to the finance sector has been officially cleared, with restrictions on the scope of business of foreign banks, securities enterprises, fund management enterprises and other financial institutions in China fully removed. Meanwhile, national treatment is given to foreign investors in areas such as corporate credit, credit rating and payment clearing, ushering accounting, taxation and transaction into an international standard.

The Special Administrative Measures for Foreign Investment Access to Hainan Free Trade Port (Negative List) (2020 Version) (hereinafter referred to as the "2020 FTA negative list") consist of 27 articles, which are further narrowed down compared to the 33 and 30 articles in the 2020 version of the national negative list and the 2020 version of FTA negative lists for foreign investment access. Some entries are partially liberalized to support the pioneering liberalization of Hainan's free trade port. The remaining restrictions on mining and automotive manufacturing are removed, while restrictions on foreign investment in telecommunications, education and legal services are further relaxed. The business environment for foreign investment access to Hainan's free trade port has been further optimized. With the steady progress of China's economy, the gradual implementation of a high level of opening-up and the continued optimization of the business environment, China's efforts to attract foreign investment will continue to increase. The 2020 FTA negative list is formulated in the general direction of improving the level of liberalization and facilitation of investment in Hainan free trade port, accelerating the establishment of internationally competitive opening policies and systems, which will support Hainan free trade port to become a distinctive banner and an important open portal to lead China's opening to the outside world in the new era.

In Annexes II and III of the RCEP, China sets out its foreign investment restrictions in trade in services and non-trade in services in the form of a "mixed list" of specific commitments for services and a list of reservations and non-conforming measures for services and investment. See section 2 for an explanation of China's commitments for trade in services. China's non-services investment is restricted in the form of a negative list, which is presented as List A and List B in Annex III. List A introduces three concepts: foreign investors (all investors except Chinese investors), foreign investors may not invest (i.e. no profit from any form of operation in China), and Chinese control (i.e. total investment proportion held by foreign investors must be no greater than 49%). Both List A and List B apply to manufacturing, agriculture, fisheries, forestry and hunting, mining and quarrying, and all sectors or combinations thereof for which reservations have been made. In List B, China updates or further clarifies existing measures.

Manufacturing industry: in the automobile manufacturing sector, aside from automobiles for special purposes and new energy vehicles, industries that require Chinese control are the manufacture of complete vehicles. In the communications equipment manufacturing sector, industries in which foreign investors are not allowed to invest include ground-receiving facilities for satellite television broadcasting and key components thereof. In the pharmaceutical manufacturing sector, foreign investors are not allowed to invest in the processing of Chinese herbal medicines under the Regulations on the Administration and Protection of Wild Medicinal Resources and the Catalog of Rare and Endangered Plants, as well as the manufacturing and production of confidential prescription products of Chinese herbal beverages or proprietary Chinese medicines. In the tobacco products sector, foreign investors may not invest in the manufacture, wholesale, retail, import, or export of a range of tobacco products. China reserves the right to use atomic energy, the processing, utilization, and disposal of nuclear fuel, and a range of other activities.

In the agriculture industry, foreign investors may not invest in any production industry related to rare and endemic previous and good varieties in China, and production activities related to the selection and breeding of transgenic seeds (sprouts) of agricultural crops, livestock and aquatic varieties.

Fishing: the sectors in which foreign investors may not invest include: fishing of aquatic products within the sea and inland waters under the jurisdiction of China.

Forestry and hunting: China reserves the right of research and development activities conducted on biological resources (including human, animals, plants, and microorganism resources) protected on the territory of China.

Mining and quarrying: any foreign organizations or individuals are required to obtain approval from the Chinese government before carrying out exploration and development work on natural resources within the territory of China. On this basis, the sectors in which foreign investors may not invest include the exploration, mining or beneficiation of rare earth ores and tungsten ores. Investment in the exploration, mining, or beneficiation of rare earth ores and tungsten ores is also prohibited without prior approval.

All sectors. Foreign investors may not apply for opening A share securities accounts unless they are qualified foreign institutional investors, and acquire Chinese permanent Residency permits; foreign investors may not apply for opening futures accounts unless they are qualified foreign institutional investors, acquire Chinese permanent Residency permits, and meet other requirements.

Foreign investors may not carry out business operations in China in the forms of Individual Business Entities or Individual Sole Proprietorship Enterprises, or as members of Specialized Cooperatives of Farmers. Meanwhile, foreign investors may not operate in the sections on the negative list through the establishment of partnerships.

China reserves the right to adopt or maintain any measure that grants rights or preferences to special social groups such as ethnic minorities, disabled and aged people with a view to maintaining social stability and justice. China reserves the right to adopt or maintain any measure with respect to national traditional craftsmanship and non-governmental organizations.

China reserves the right to adopt or maintain any measure with respect to land and assets held by state-owned enterprises and governmental agencies, as well as all rights under multilateral or bilateral trade agreements and in relation to any investment in Hong Kong, Macau or Taiwan and in new industries and sectors.

IV. Opportunities for Chinese investment brought about by the RCEP

The actual investment from other RCEP Parties accounts for more than 10% of the total actual foreign investment China attracts (including the investment from Taiwan, Hong Kong and Macau to mainland China). A large integrated market generated by the RCEP will unleash huge market potential and further promote intra-regional trade and investment exchanges, which will help China to further optimize its external trade and investment through a more comprehensive, deeper and more diversified opening to the outside world. It will also help China connect with high-standard international rules of trade and investment, and build a new economic system with a higher level of openness.

China's investment negative list reflects the latest progress of China's reform, and is the first time China has made commitments in the investment sector in the form of a negative list under an FTA. This is of great significance in improving the foreign investment management system that combines pre-entry national treatment and the negative list, retaining the accomplishments of domestic reform that has narrowed down the negative list of foreign investment, and achieving greater market access for foreign investment. There is still some time before the RCEP comes into effect, but on balance, China's outbound investment this year has remained essentially stable, with steady improvement in some areas. For example, investment in countries along the "Belt and Road" achieves greater growth, and the value of foreign contracting work in areas such as water conservancy construction and power engineering rises significantly.

On the one hand, the RCEP has become an important platform for China to attract foreign investment in the new era. The further liberalization of market access will help attract more quality foreign investment from the RCEP. In particular, the establishment of comprehensive FTAs with Japan, South Korea and Singapore helps attract FDI from these countries. The RCEP Rules of Origin accumulation helps create a siphon effect for investment. China's advantages of being the largest market, having the most complete industrial chain, largely comprehensive business environment and supporting infrastructure, and strong technological innovation capabilities will help multinational enterprises accelerate the integrated deployment of regional industrial chain and supply chain. The RCEP will enhance the economic capacity of foreign headquarters. The formation of a large regional market will help multinational enterprises better coordinate their offshore and onshore operations, support their headquarters enterprises to expand their jurisdictions and attract more enterprises to choose China as their Asia-Pacific headquarters. The connection to the RCEP will make China the first in expanding the opening up of the financial sector. The RCEP represents the highest level of China's financial liberalization commitment and will help attract more foreign institutions to operate in China, promote the cross-border utilization of RMB and settlement in RMB, thus facilitating the internationalization of RMB.

On the other hand, the RCEP will boost up China's two-way investment. The RCEP will become an important gateway for Chinese enterprises to go global. Parties have adopted a negative list approach for some investment areas, which improves policy transparency and reduces barriers to investment. This will facilitate Chinese enterprises to deploy industrial chains in the region, thus promoting the growth of Chinese outbound investment. Chinese foreign trade enterprises can take advantage of reciprocal investment measures, actively explore the RCEP market and make good use of the high level of openness commitments made by all Parties. For example, Japan's commitments under the RCEP are higher than those under the WTO, and therefore should be used to actively expand the Japanese market. Enterprises in finance, insurance, transport and healthcare, which are to China's advantage, should be encouraged to enter into the service markets of relevant countries, thus helping China's advantageous service industries grow and thrive. Chinese enterprises can effectively dovetail with cross-border data flow and other provisions, invest in leading enterprises in digital content, digital services and public clouds, and accelerate seizing the Parties' markets.