

PwC

International Market Services

Connect 155 global think tanks
Win global infinite dreams

China-ASEAN Economic and Trade Cooperation Survey Report: Investor Confidence and Outlook

November 2021





Contents

06 Preface

08 Report Highlights

10 Chapter 1 China-ASEAN Economic and Trade Cooperation Development

15 Chapter 2 China-ASEAN Economic and Trade Cooperation Enterprise Confidence and Outlook Survey Results

16 Chinese Enterprises

31 ASEAN Enterprises

47 Chapter 3 Current Status & Outlook of Trade Cooperation between Major ASEAN Countries and China

48 1. Indonesia

50 2. Thailand

52 3. Malaysia

54 4. Singapore

56 5. Philippines

58 6. Vietnam



60 Appendix Brief Analysis of Regional Comprehensive Economic Partnership

61 1. Signing of RCEP: coexistence of strategic and economic significance

61 2. RCEP Framework: Facilitating the continuous deepening of China-ASEAN economic and trade cooperation

62 3. Main terms of RCEP: practical, forward-looking and advanced

68 Conclusion

69 Acknowledgment

72 Contact



Preface

In 2020, China has remained ASEAN's largest trading partner for 12 consecutive years, and also one of the top three sources of foreign investment in ASEAN, and ASEAN, in turn, has become China's largest trading partner for the first time and has been China's long-term largest source of foreign investment except for Hong Kong SAR, Macao SAR and the Taiwan region. In the same year, China and ASEAN accounted for more than 28% of the global population, 21% of the global economy, 41% of international trade, and 33% of foreign direct investment. The economic and trade cooperation between China and ASEAN plays a pivotal role in the global economic development. It is also one of the best practices of multilateralism and economic globalisation in the context of current international environment. The continuous extensive cooperation between China and ASEAN in various fields will contribute to regional stability and development, improve the lives and social welfare of residents, and promote more extensive economic and trade exchanges across the globe.

Since the establishment of the dialogue relationship between China and ASEAN in 1991, the two sides have progressed alongside each other and enhanced interconnection based on the principles of mutual trust, mutual assistance and mutual benefit, and successively established strategic partnerships and upgraded free trade zones, and developed medium- and long-term cooperation and development vision. 2021 is a year for China and ASEAN to inherit the past and open the future in economic and trade cooperation, and it also marks the 30th anniversary of China-ASEAN cooperative relations and prospects and the intensive promotion of the Regional Comprehensive Economic Partnership (RCEP). China, meanwhile, is also confronting a volatile global business environment. For the “dual circulation” economy, ASEAN will be an indispensable partner in the “external circulation”. Parts of ASEAN states are currently facing repeated outbreaks of COVID-19, and therefore the all-round collaboration with China is also an important step for joint response to the pandemic and the recovery of economic growth.

In order to demonstrate the significance of China-ASEAN economic and trade cooperation from the perspective of enterprises, and to help more governments, enterprises and investors understand the market's confidence and future prospects for bilateral economic and trade cooperation, PwC China, along with the network agencies of PwC in the ASEAN region, have surveyed the enterprises in China and ASEAN region, and compiled the main chapters of the report based on the survey results. In addition, in order to help readers understand RCEP, we have also briefly analyzed the relevant impact, advantages, and core provisions of RCEP in the appendix.

Between July 20 and August 15, 2021, the survey was carried out in the form of questionnaires, supplemented by interviews. The survey covers the existing business, the future plan, confidence and prospect of these enterprises in China-ASEAN economic and trade cooperation, and their perceived impact of RCEP. We'd like to express our gratitude to the partners in the survey, and to all the enterprises and experts from different countries for their active participation and valuable insights shared with us.

In view of the fact that the industrial structure of most ASEAN countries is dominated by non-financial industry, we interviewed a relatively high proportion of manufacturing enterprises, and the survey results, to a large extent, reflected the general thinking of manufacturing enterprises in the region. Furthermore, due to the huge geographical span covered by this survey, the randomly sampled interviewed enterprises may be too few to be representative when compared with the number of countries involved. However, the survey results show good agreement with the current market conditions we have observed in many respects. We hope that government agencies, enterprises and investors that are participating or planning to participate in China-ASEAN economic and trade collaboration may read and understand this report from the perspective of market practice.

Report Highlights

We conducted the survey in the form of questionnaires, supplemented by interviews, and received replies from 220 business representatives. In order to make the survey more targeted, 28 different questionnaire topics were selected for Chinese enterprises and ASEAN enterprises respectively to investigate respondents' current trade and investment between China and ASEAN and their future plans and prospect in China-ASEAN economic and trade exchanges. The findings are presented as follows:

Chinese Enterprises

Current status

- 61% of the Chinese enterprises participating in the survey, mostly the manufacturing and non-state-owned enterprises, have established trade relations with the ASEAN region, primarily with ASEAN countries like Malaysia, Indonesia and Singapore. Among them, 50% of respondents have the trade volume with ASEAN accounted for more than 10% of their international trade business, and 30% believed that the trade business with ASEAN ranks among the top three in their international business as a whole.
- About 38% of the Chinese enterprises surveyed have currently made investment in ASEAN, of which 42% are manufacturing enterprises and 33% state-owned enterprises, which is higher than the proportion of state-owned enterprises that have trade contacts with ASEAN. The survey also demonstrates that the main reasons restricting Chinese enterprises' investment in ASEAN are the market access restrictions imposed by some ASEAN countries, as well as the lack of international talents and experience in international operation and management.

Outlook

- Among all Chinese enterprises surveyed, 50% considered the ASEAN market "important" or "very important", 57% said they have future business plans specifically tailored for ASEAN, and 56% regarded ASEAN as their target market of export.
- 46% of respondents plan to increase investment in ASEAN in the next 3 years. Among them, about 29% focus in manufacturing, 88% will invest in the existing main business or upstream and downstream business, and 51% choose to complete investment in the form of joint operation or green field, and only a very low proportion of respondents realize market access by means of merger and acquisition. The main planned investment destinations are Malaysia, Thailand and Vietnam. In a longer time horizon, 66% of Chinese enterprises interviewed have expressed their intention to invest in ASEAN. Access to the ASEAN market and strategic diversification are the core driving forces of such intentions. Relevant enterprises with the intention to invest in ASEAN need the support primarily with respect to tax incentives, convenient capital flow, talent, and market openness.
- In terms of RCEP, 69% of Chinese enterprises surveyed said that RCEP will create new opportunities for China-ASEAN economic and trade collaboration, and 62% believe that RCEP will have a more optimistic or optimistic impact on enterprises. Specifically, on the business side, about 33% of respondents, the largest proportion, believe that the agreement will help expand overseas markets, and on the strategic side, a relatively high proportion of respondents, 48% and 44% respectively, believe that the agreement will facilitate enterprises to develop their trade business and accelerate industrial upgrading.

ASEAN Enterprises

Current status

- 65% of ASEAN enterprises surveyed have already started trading with China. Among them, 61% have the trade volume with China exceeding 10% of their global trade volume, and 44% of enterprises, mainly engaged in the manufacturing industry, regard China as their largest trade market.
- Relatively few ASEAN respondents have invested in China, accounting for only 25% of all ASEAN enterprises surveyed, mainly from Singapore, Thailand and Malaysia, and are mostly manufacturing enterprises. For all the ASEAN enterprises interviewed, the main reasons for delaying their investment decisions in China are the insufficient understanding of the Chinese market and market access restrictions.

Outlook

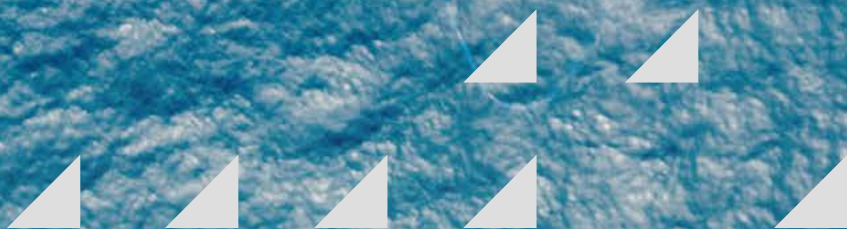
- Among the ASEAN enterprises surveyed, 57% have further business plans in place for the Chinese market. Among them, the respondents planning to incorporate China in their supply chain strategy account for the largest proportion, followed by those listing China as the target market of export.
- Although only 25% of the surveyed ASEAN enterprises plan to invest in China in the next three years, 33% of these enterprises have the intention to make new investment in the country, showing an even distribution across the industries. Their investment focuses on production plants, in addition to the establishment of sales or procurement centres.
- The Yangtze River Delta Economic Belt, the Guangdong-Hong Kong-Macao Greater Bay Area, the Beijing-Tianjin-Hebei Region, the Hainan Free Trade Zone, and the new western

land-sea corridor (especially the Chengdu-Chongqing double circle) are the investment areas of special concern in China. In terms of the support for investment in China, in addition to foreign tax incentives, these ASEAN enterprises are also very concerned about transparent regulation, open market and fair competition.

- Unlike investment in China, more ASEAN enterprises surveyed are willing to accept Chinese investment, accounting for 45%. Among them, Thai enterprises rank the first, followed by Singapore enterprises, and they mostly engage in the manufacturing, real estate, mining and energy industries. Capital, market and technology are the resources these ASEAN enterprises are eager to obtain from Chinese investors.
- In terms of RCEP, 66% of ASEAN enterprises surveyed said that RCEP will create new opportunities for China-ASEAN economic and trade collaboration, and 49% believe that RCEP will generate a relatively optimistic or optimistic impact on their enterprises. In terms of impacts on their business, ASEAN respondents believe that RCEP will benefit their enterprises in the form of trade facilitation, cost reduction, and overseas market expansion. However, 49% of respondents believe that ASEAN's manufacturing industry may be disrupted by overseas manufacturing industries that possess more capital and better technology.

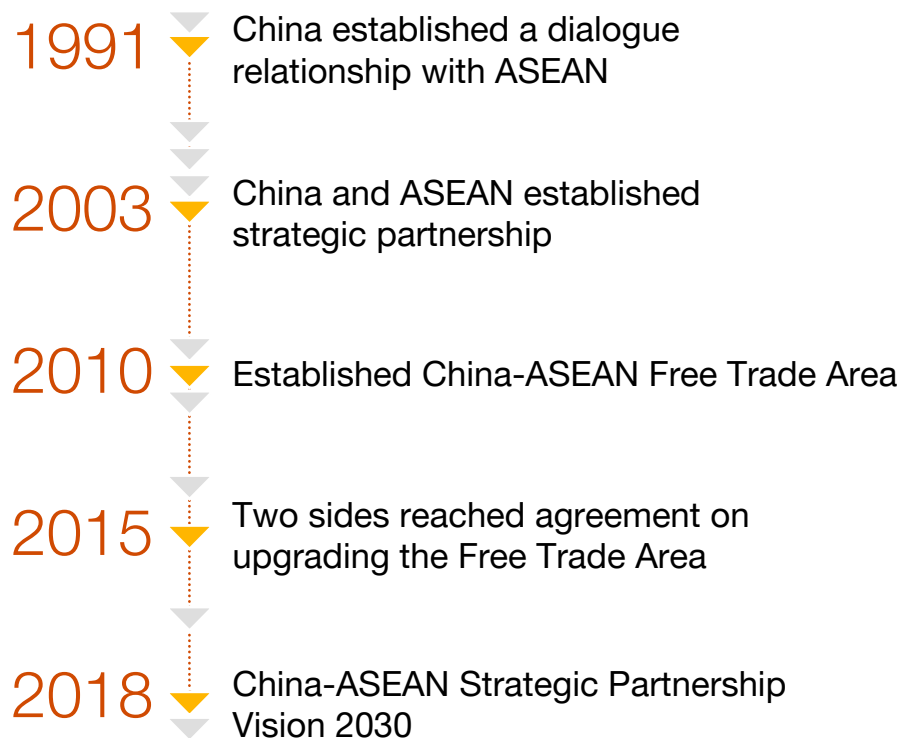
Chapter 1

China-ASEAN Economic and Trade Cooperation Development

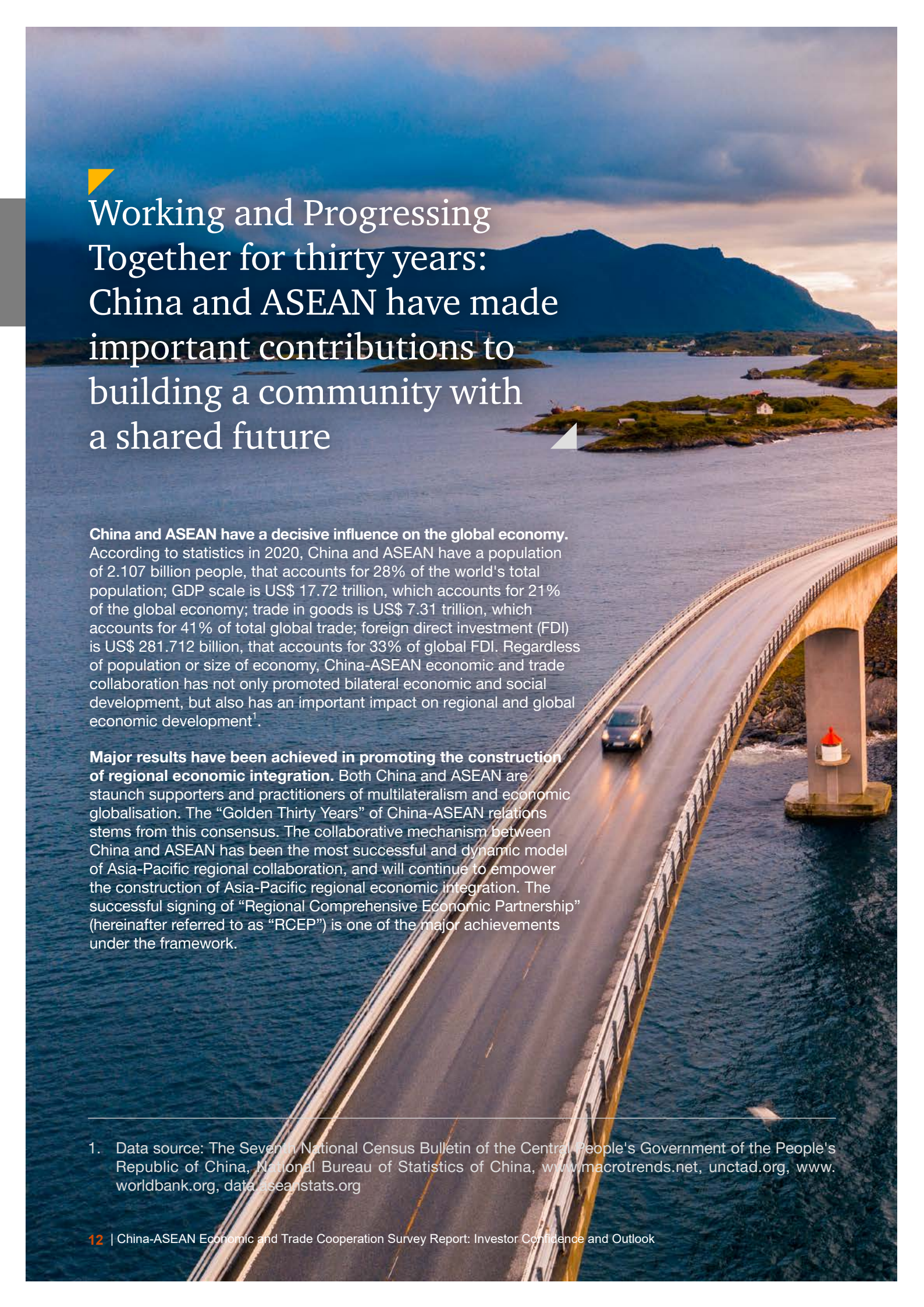


Standing together for thirty years: China and ASEAN have become the closest strategic partners

The Association of Southeast Asian Nations (hereinafter referred to as “ASEAN”), was established on 8 August 1967 in Bangkok, Thailand, comprising 10 member states, namely Indonesia, Malaysia, Philippines, Thailand, Singapore, Brunei, Cambodia, Laos, Myanmar and Vietnam. In 1991, China established a dialogue relationship with ASEAN. In 2002, China and ASEAN signed the Comprehensive Economic Cooperation Framework Agreement, which stipulated the basic framework for the establishment of the China-ASEAN Free Trade Area (CAFTA). In 2003, China took the lead in signing the “Joint Declaration on Strategic Partnership for Peace and Prosperity” with ASEAN, which provides a strong guarantee for the development of ASEAN. From 2004 to 2009, the two sides successively signed the Agreement on Trade in Goods and the Agreement on Dispute Settlement Mechanism, the Agreement on Trade and Services and the Agreement on Investment, forming the basic legal framework for the free trade zone. In January 2010, the two parties basically completed the tax reduction arrangement, marking the completion of the CAFTA. In November 2015, after 15 months of negotiation, China and ASEAN signed the Protocol on Amending Framework Agreement on Comprehensive Economic Cooperation and some of the agreements under it between China and ASEAN, which took full effect in 5 years later. In November 2018, China and ASEAN released the China-ASEAN Strategic Partnership Vision 2030, committed to promoting closer cooperation between China and ASEAN and forging a higher level of strategic partnership between the two sides.



2021 marks the 30th anniversary of the establishment of dialogue relations between China and ASEAN. Over the past 30 years, the two sides have been committed to interconnection, intercommunication, mutual trust, mutual assistance, and mutual benefit, and pragmatic cooperation in various fields, and yielded fruitful results.



Working and Progressing Together for thirty years: China and ASEAN have made important contributions to building a community with a shared future

China and ASEAN have a decisive influence on the global economy.

According to statistics in 2020, China and ASEAN have a population of 2.107 billion people, that accounts for 28% of the world's total population; GDP scale is US\$ 17.72 trillion, which accounts for 21% of the global economy; trade in goods is US\$ 7.31 trillion, which accounts for 41% of total global trade; foreign direct investment (FDI) is US\$ 281.712 billion, that accounts for 33% of global FDI. Regardless of population or size of economy, China-ASEAN economic and trade collaboration has not only promoted bilateral economic and social development, but also has an important impact on regional and global economic development¹.

Major results have been achieved in promoting the construction of regional economic integration. Both China and ASEAN are staunch supporters and practitioners of multilateralism and economic globalisation. The “Golden Thirty Years” of China-ASEAN relations stems from this consensus. The collaborative mechanism between China and ASEAN has been the most successful and dynamic model of Asia-Pacific regional collaboration, and will continue to empower the construction of Asia-Pacific regional economic integration. The successful signing of “Regional Comprehensive Economic Partnership” (hereinafter referred to as “RCEP”) is one of the major achievements under the framework.

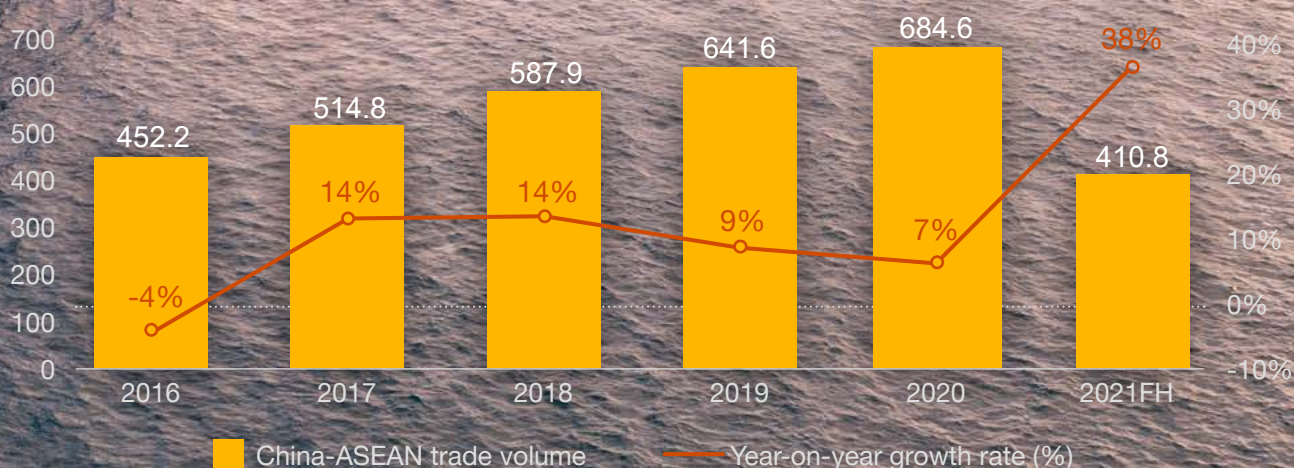
1. Data source: The Seventh National Census Bulletin of the Central People's Government of the People's Republic of China, National Bureau of Statistics of China, www.macrotrends.net, unctad.org, www.worldbank.org, data.aseanstats.org

Forging ahead over thirty years: Sustaining China-ASEAN economic cooperation

1. Increasing close trade exchanges

In the 30 years since the establishment of the dialogue relationship, the trade volume between China and ASEAN has risen sharply from US\$ 7.96 billion to US\$ 684.6 billion, an increase of 85 times. Especially after the establishment of the China-ASEAN Free Trade Area, over 90% of the goods of both sides enjoy zero tariffs, and bilateral trade continues to develop rapidly. As of the end of 2020, China has remained ASEAN's largest trading partner for 12 consecutive years, and ASEAN also surpassed the EU to become China's largest trading partner that year, forming a good pattern in which the two sides are each other's largest trading partners. In the first half of this year, the bilateral trade in goods reached US\$ 410.75 billion, a year-on-year increase of 38.1%, showing a strong growth momentum.

Chart 1: The scale of bilateral trade in goods between China and ASEAN (unit: US\$ 1 billion)

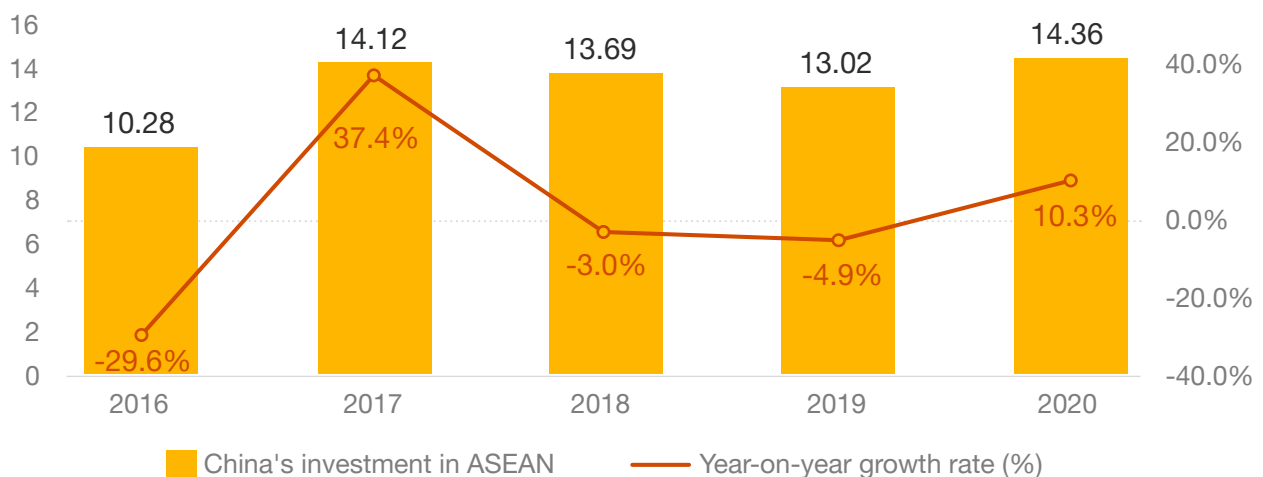


Data source: Ministry of Commerce of China, Economic and Commercial Office of the Mission of the People's Republic of China to ASEAN

2. Two-way investment has achieved remarkable results

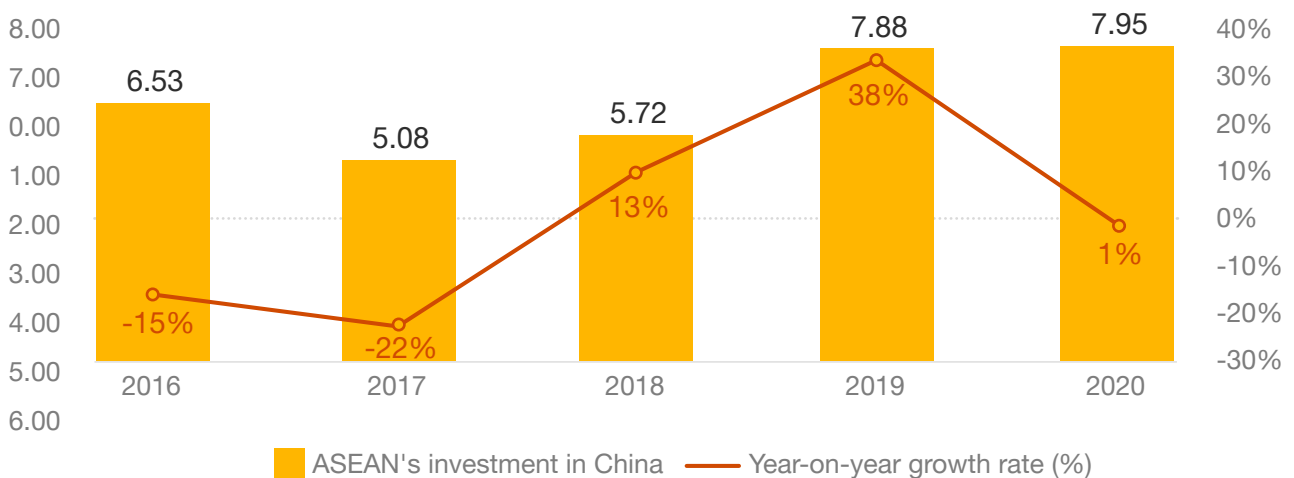
As of the end of June 2021, China and ASEAN countries have accumulated a total mutual investment of more than US\$ 310 billion, and steadily expanded their investment cooperation in manufacturing, agriculture, infrastructure, high-tech, digital economy, and green economy. In 2020, China's direct investment in ASEAN in the entire industry was US\$ 14.36 billion, a year-on-year increase of 10.3%; ASEAN's actual investment in China was US\$ 7.95 billion, a year-on-year increase of 1%. China and ASEAN are mutually important destinations for foreign investment and sources of foreign direct investment.

Chart 2: China's investment in ASEAN countries during 2016-2020 (unit: US\$ 1 billion)



Data source: Ministry of Commerce of China, Economic and Commercial Office of the Mission of the People's Republic of China to ASEAN

Chart 3: ASEAN's investment in China during 2016-2020 (unit: US\$ 1 billion)



Data source: Ministry of Commerce of China, Economic and Commercial Office of the Mission of the People's Republic of China to ASEAN

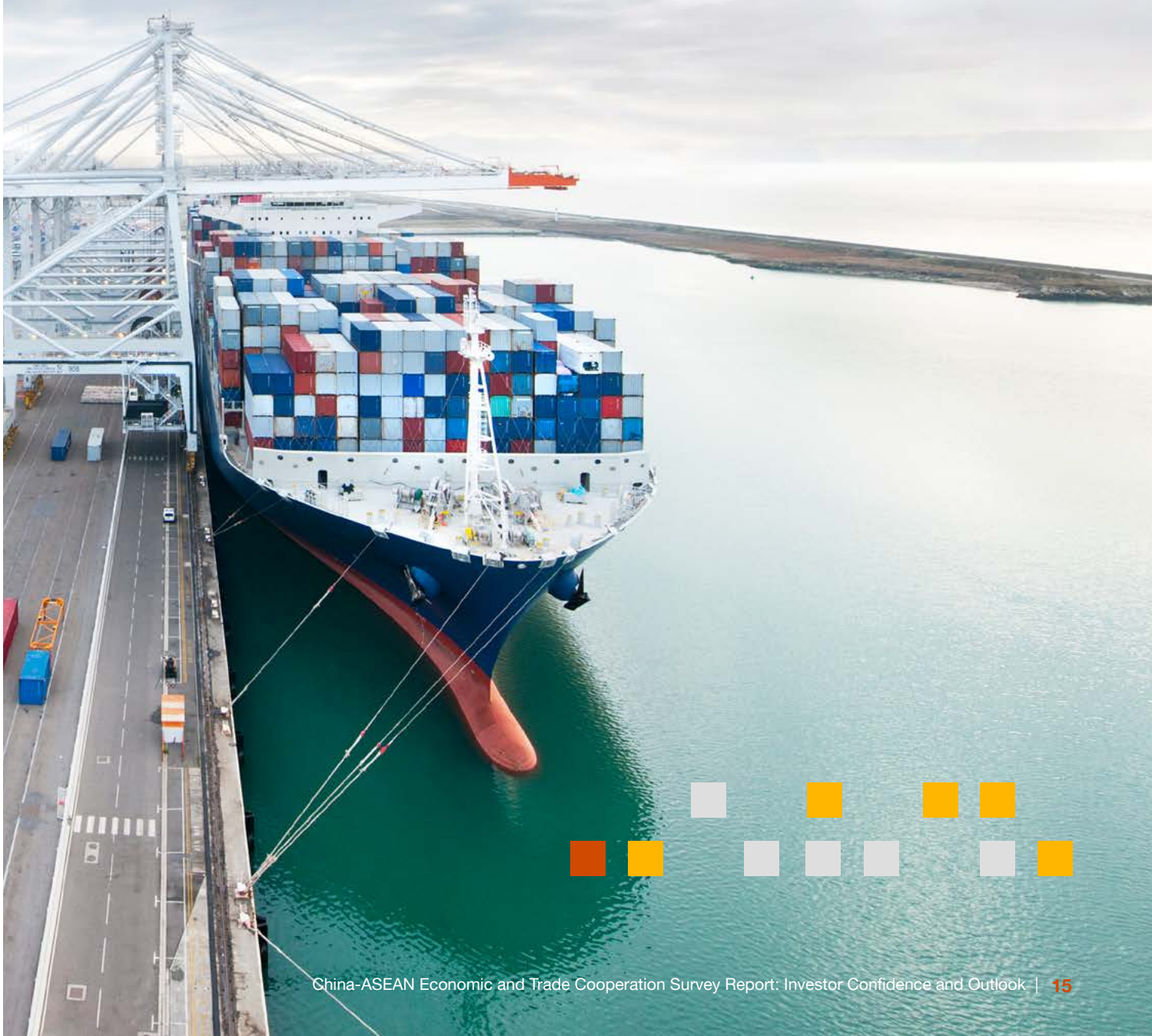


Chapter 2

China-ASEAN Economic and Trade Cooperation

Enterprise Confidence and Outlook

Survey Results



Chinese Enterprises

Trade

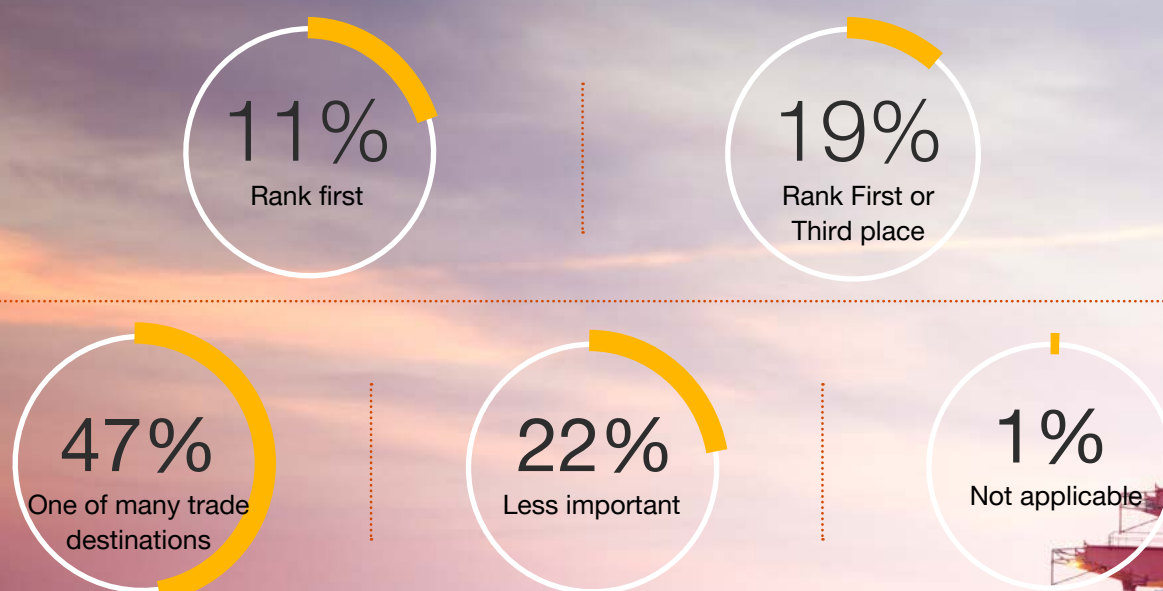
1. The ASEAN market is becoming increasingly important for Chinese enterprises to expand international trade business

Among the Chinese enterprises participating in this survey, 61% have already started international trade with ASEAN, dominated by the enterprises in the manufacturing, construction, transportation, and warehousing and logistics industries, which account for 44%, 10% and 8% respectively among the participants that already have ASEAN trading business. In terms of corporate ownership, they are primarily non-state-owned enterprises, accounting for nearly 73%. Private enterprises are the main driving force behind the trade between China and ASEAN. The remaining 39% enterprises surveyed that have not yet started international trade with ASEAN are mainly engaged in the real estate, environmental protection and food and beverage industries.

Among the Chinese enterprises surveyed that have engaged in international trade with ASEAN, 11% believe that ASEAN is in the first place in their international trade business, and 19% rank ASEAN in the second or third position. These 30% of the surveyed enterprises mainly engage in manufacturing, service industries (except financial industry), wholesale and retail industries. 47% of those enterprises, mostly the manufacturing enterprises, believe that the ASEAN market is one of the many trading places for their international trade business, and another 22% believe that the ASEAN market is less important to their international trade business.

Chart 4:

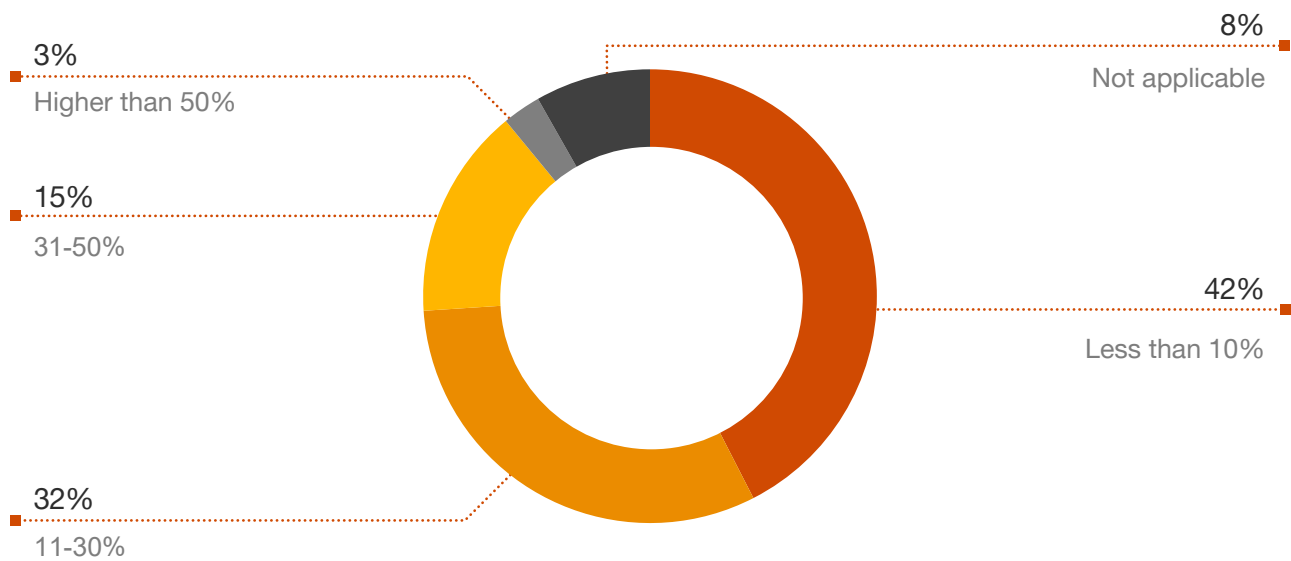
Importance of ASEAN market to the Chinese enterprises surveyed with which they already have trading business





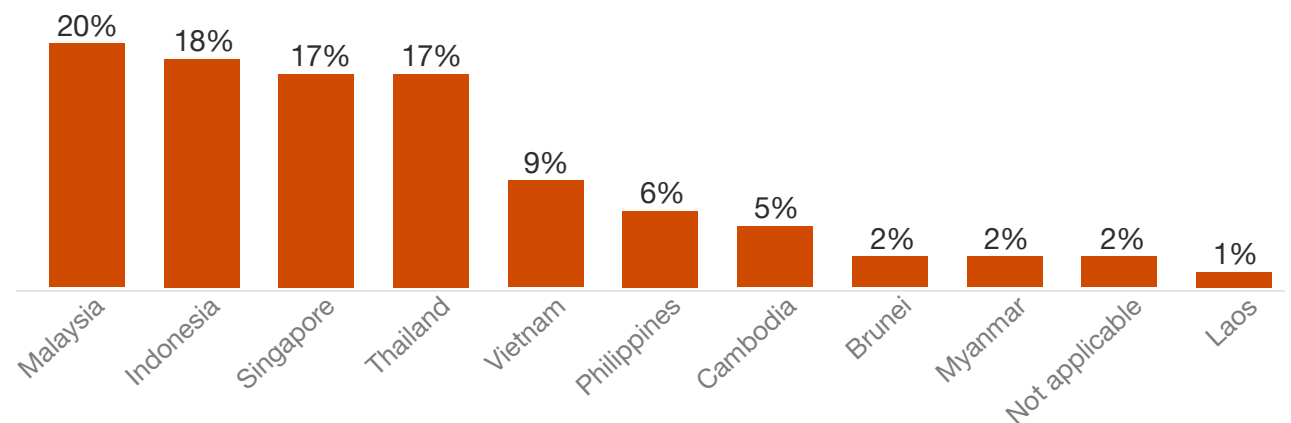
In addition, among the interviewed enterprises which have already conducted trade business with ASEAN, nearly half of them said their ASEAN business takes up about 11%-50% of their global trade business, but a relatively small number of respondents, only 3%, said such proportion is more than 50%. Another 42% of the respondents said the trade volume with ASEAN is less than 10% of their global trade volume.

Chart 5: The proportion of ASEAN business in the global trade business of surveyed Chinese enterprises



Malaysia, Indonesia, Singapore and Thailand are the main ASEAN destinations with which Chinese enterprises interviewed have maintained trade relation. Among the respondents who have traded in ASEAN, 20% have traded with Malaysia, followed by Indonesia, Singapore and Thailand, 18%, 17% and 17% respectively.

Chart 6: Main trading partners of Chinese enterprises in ASEAN



2. ASEAN is an important part of Chinese enterprises' global expansion strategy

In this survey, more than 57% of Chinese enterprises surveyed stated that they have business plans for the ASEAN market, including 7% of them that currently have no trade with ASEAN. Specifically, among the respondents with business plans, 56% regard ASEAN as an export market for their products, 26% regard ASEAN as a sector in the supply chain of goods and services, and another 18% regard ASEAN as a processing re-export centre.

Chart 7: Whether the surveyed Chinese enterprises have a business plan for the ASEAN market

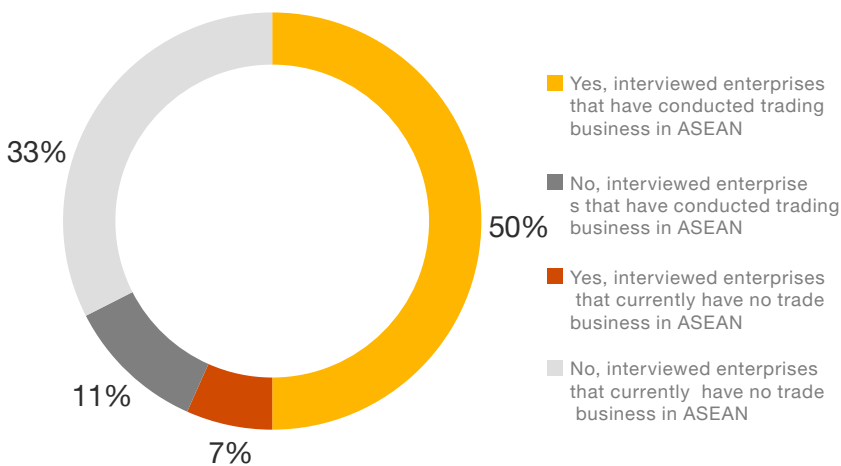
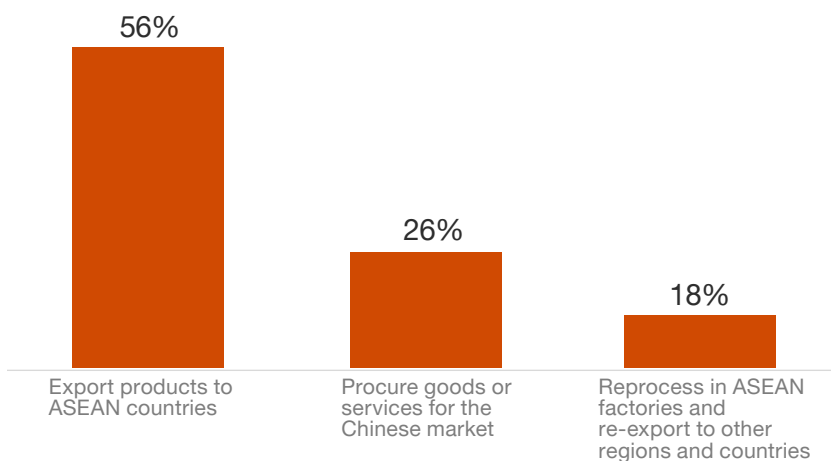


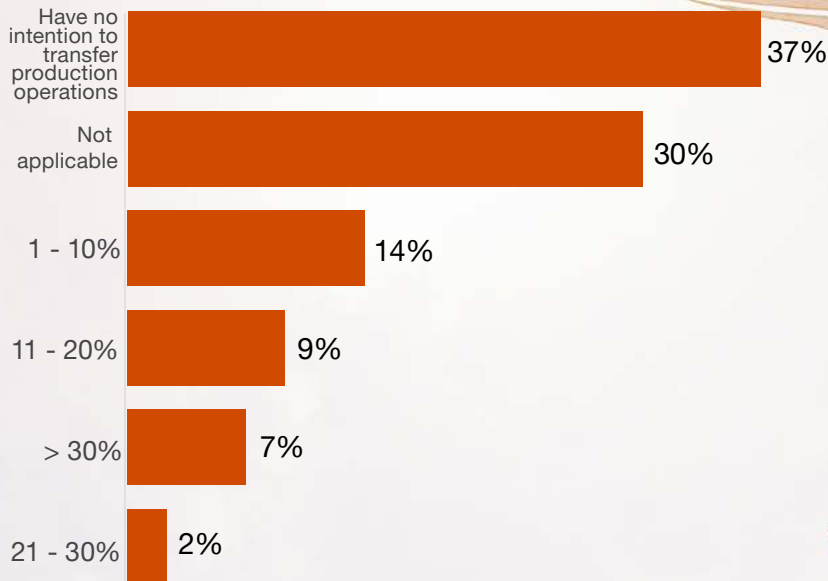
Chart 8: Specific business plans of surveyed Chinese enterprises in the ASEAN market



Although a lot of interviewed enterprises have formulated business plans for the ASEAN market, only 32% of the manufacturing enterprises interviewed indicated that they would consider relocating their production to ASEAN in the next three years. Among them, 23% have planned production migration proportion not exceeding 20%, and 7% have planned production migration proportion more than 30%, indicating that Chinese manufacturing enterprises will, in the short term, still position ASEAN as the upstream or downstream in the value chain of their respective industries.

Chart 9:

Production migration plans of surveyed Chinese manufacturing enterprises for ASEAN



Regardless of whether the Chinese enterprises interviewed have specific business plans for ASEAN, more than 72% of the respondents believe that opening up trade with ASEAN has certain significance for their future business strategies. Of these, 15% said that trading with ASEAN is very important, and only 10% believe that opening up the ASEAN market is not important for their future business strategies and that they have no relevant plans.

Chart 10:

The importance of opening up ASEAN trade for the Chinese enterprises

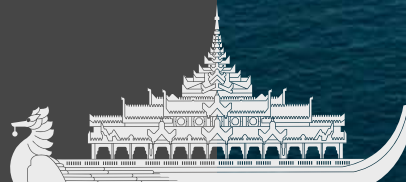


Drivers of China's trade with ASEAN

ASEAN maintains stable economic development. Its economy comprises developed countries, developing countries and underdeveloped countries, characterised by high versatility in terms of economic growth. With a population of nearly 660 million and a high proportion of young residents, ASEAN presents huge attraction to Chinese enterprises for its market size and consumption power. In addition, ASEAN and China also have highly complementary industrial structures. ASEAN's industrial advantages in agriculture, mining and energy have made it an important part of the supply chain of Chinese enterprises.

With the continuous cooperation among ASEAN countries, the deepening bilateral trade liberalisation with China, and the implementation of RCEP and other free trade agreements, intra- and inter-regional interconnections have gradually strengthened, the business environment and infrastructure have continued to improve, while business and logistics efficiency have improved. These characteristics, coupled with the close geographical location and historical and cultural connection between ASEAN and China, have further promoted China's trade with ASEAN.

The accelerated development of China's "Belt and Road" initiative, the continuously deepened joint efforts to battle the pandemic with ASEAN, and the rapid development of digital economy have also infused new impetus to China's trade with ASEAN. At the same time, the good relationship between ASEAN and developed countries has also enabled ASEAN as a trade re-export centre, and played a positive role in hedging the risks of international trade disputes for Chinese enterprises.

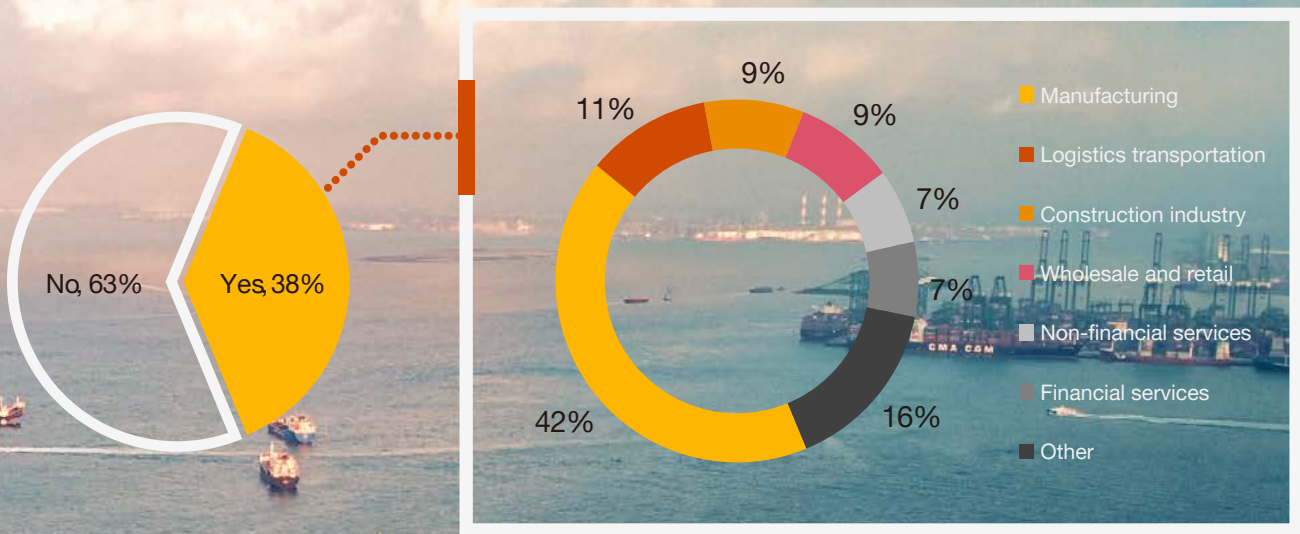


Investment

1. Chinese enterprises' investment in ASEAN is still in the development stage

In this survey, only 37.5% of the respondents have invested in ASEAN. Among them, manufacturing enterprises account for 42%, followed by logistics and transportation enterprises, accounting for about 11%. Many enterprises choose to invest in ASEAN in the form of new construction or joint ventures, respectively accounting for 36% and 31% of the respondents who have invested. Contrary to the trade situation, 33% of the surveyed enterprises that have invested in ASEAN are state-owned enterprises, higher than the proportion of state-owned enterprises that have maintained trade relations with ASEAN, indicating that state-owned enterprises have played a leading role in “going global” and promoting investment in ASEAN.

Chart 11: Proportion and industry distribution of surveyed Chinese enterprises that have invested in ASEAN



Limited market access, lack of international talents and operational management experience, and ASEAN’s complex legal and standard environment may be the main reasons why Chinese enterprises’ investment in ASEAN is still at the development stage. Although China’s annual investment in ASEAN in 2020 has already exceeded US\$ 14 billion, but it is still less than behind the investment in ASEAN by such countries or regions as the European Union, the United States, and Japan. In this survey, 24% of the enterprises regarded limited market access and lack of international talents as the primary factors restricting their investment in ASEAN, and 23% said they lack international operation management experience and ASEAN countries’ business regulations or standards are too stringent.





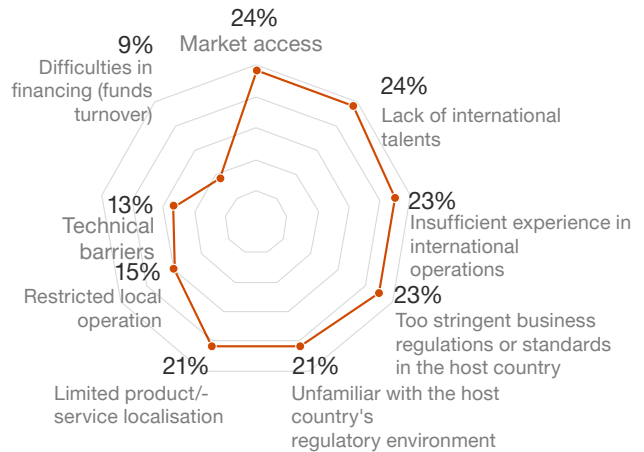
Since some ASEAN countries are still in the developing stage, it is an internationally accepted practice for them to protect local labor employment and avoid unprepared competition in certain industries by restricting market access. Even under the China-ASEAN Free Trade Agreement and the RCEP framework, some industries in China still face access restrictions, especially the service industry, and ASEAN also has the right to gradually open up certain industries. The lack of international talents and international operation and management experience for Chinese enterprises is not just limiting their investment in ASEAN, but also an obstacle of the globalization for nearly all Chinese enterprises, which arises from their capability of building up endogenous competitiveness. Strengthening the training of talents, relaxing the restrictions on the movement of international talents, continuously absorbing leading globalization experience are the essential tasks that need to be accomplished based on current dual circulation economy and international business environment.

In terms of ASEAN's laws, regulations and standard environment, first of all, every enterprise investing in the local area shall abide by the cultural customs and institutional requirements of the investment destination, since profit generated from rule-breaking operations are difficult to sustain. Therefore, strengthening the enterprises' standardised operation, hiring talents and external consultants familiar with the local environment are also a necessary process for enterprise development and globalisation. Secondly, both ASEAN and China have realised that having an explicit and consistent legal and regulatory context and providing legislative protection for investors is one of the main approaches for a country to attract

foreign investment.

In the future, with the economic growth of China and ASEAN and the deepening implementation of investment and trade agreements, ASEAN's business environment will continue to improve. In addition, the current international environment will force Chinese enterprises to standardise their operations, implement new globalisation strategies and build endogenous competitiveness, the above investment barriers will inevitably be lowered, and ASEAN will also usher in a rapid growth of investment from China.

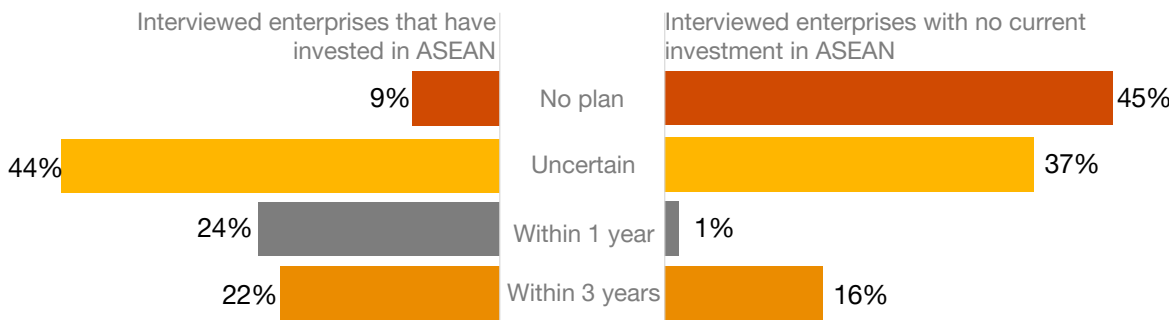
Chart 12: Main challenges faced by surveyed Chinese enterprises investing in ASEAN



2. Chinese enterprises contemplate investment plans in ASEAN

According to the survey results, nearly 46% of Chinese respondents who have already invested in ASEAN will continue to increase their investment in ASEAN. Among them, 24% plan to do so within 1 year and 22% within 3 years. More than 17% of the surveyed enterprises with no current investment in ASEAN plan to invest in ASEAN, and 16% are expected to make investment within 3 years. Among all respondents who plan to invest in ASEAN, state-owned enterprises take an important position, accounting for nearly 35%, demonstrating their leading role in investing in ASEAN. In terms of industry breakdown, manufacturing enterprises account for the highest proportion, 29%, followed by the logistics and transportation, and financial service enterprises, accounting for 15% and 12% respectively.

Chart 13: Surveyed Chinese enterprises' investment plans in ASEAN



In terms of planned investment destinations, Malaysia, Thailand and Vietnam are the top three most popular investment destinations in ASEAN, attracting 53%, 41% and 38% of interviewed enterprises respectively. This may be a result of the relatively high proportion of manufacturing enterprises among the survey participants.

From the perspective of planned investment ways and target industries, 35% said they would consider joint operation with local ASEAN partners, and 26% would adopt new green field investments, and only 9% chose to gain control of existing ASEAN enterprises through cross-border merger and acquisition. 88% of respondents chose investment industry similar to their current main business or the upstream and downstream businesses. and only 3% would consider investing in other industries. As the data suggests, when choosing investment methods and industries in ASEAN, investors primarily considered how to reduce the risk of being unfamiliar with the local environment and industry, followed by how to avoid potential conflicts in enterprise management culture.

The survey also showed that among the interviewed enterprises that plan to invest in ASEAN, in terms of the nature of specific business invested, 29% of the enterprises chose to set up production plants and regional headquarters, followed by 24% for sales/purchasing offices, indicating that their investment plan for ASEAN aims for long-term operation and expansion rather than short-term consideration.

Chart 14: Major ASEAN countries that Chinese enterprises plan to invest in

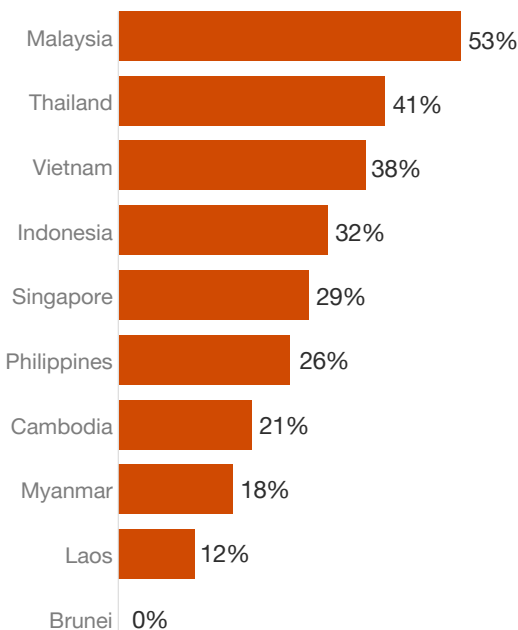
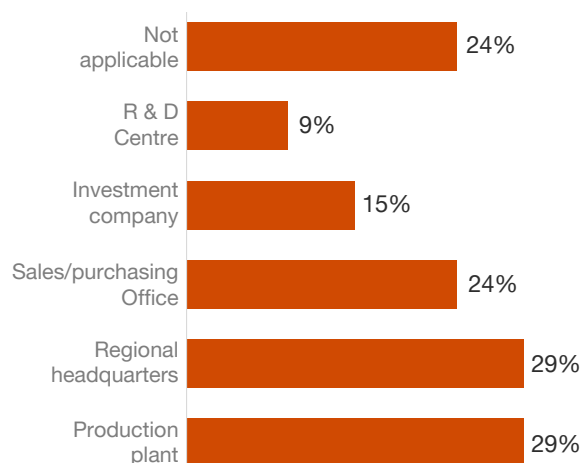


Chart 15: Nature of the main business in which the surveyed Chinese enterprises plan to invest in ASEAN



3. Market has a long-term attraction for Chinese enterprises to invest in ASEAN

Does ASEAN have investment appeal to Chinese enterprises over a longer time horizon? To answer this question, we asked all Chinese enterprises about their potential purpose of investing in ASEAN. The proportion of respondents who do not intend to invest in ASEAN at all dropped to 34%, while 40% of respondents make investment in ASEAN primarily for acquiring new markets in the region, followed by strategic/diversified asset allocation and potential opportunities for logistics and transportation, accounting for 31% and 20% respectively. In addition, 13% of respondents invest in ASEAN in order to shift supply chain based on the current international business environment, that is, to enter other regions by obtaining the certificate of origin through ASEAN, ranking the fourth in the potential purpose of investing in ASEAN.

Chart 16: Potential purposes of surveyed Chinese enterprises investing in ASEAN

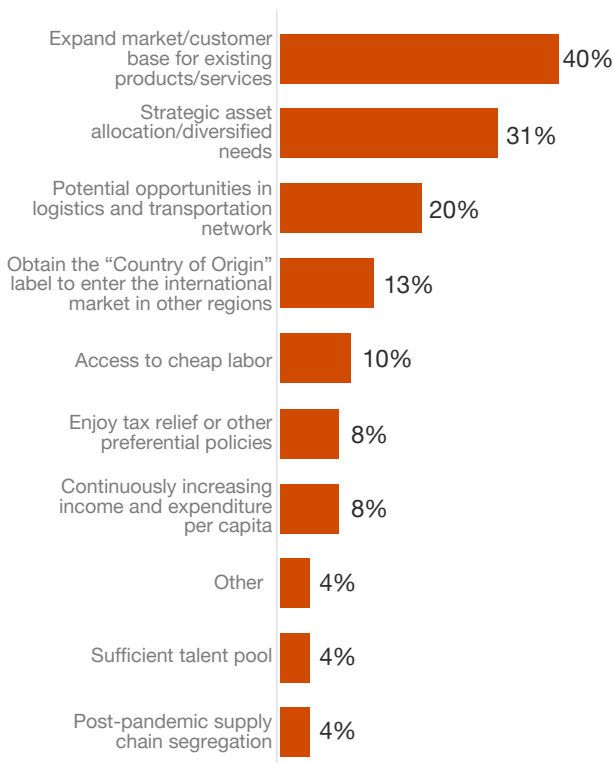
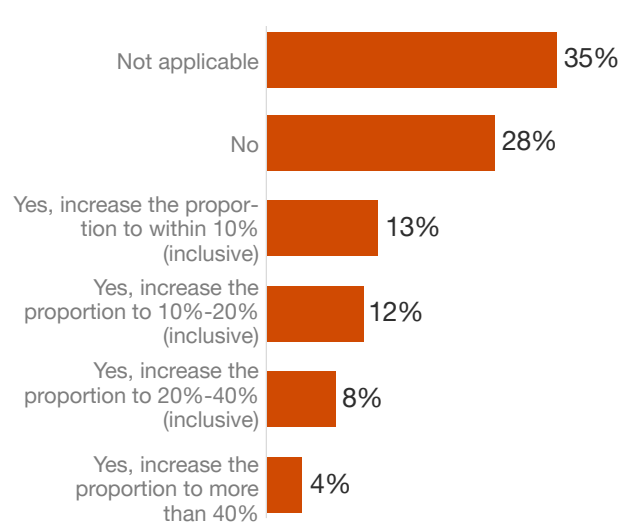


Chart 17: Whether the surveyed Chinese enterprises have plans to adjust the revenue share from the ASEAN market



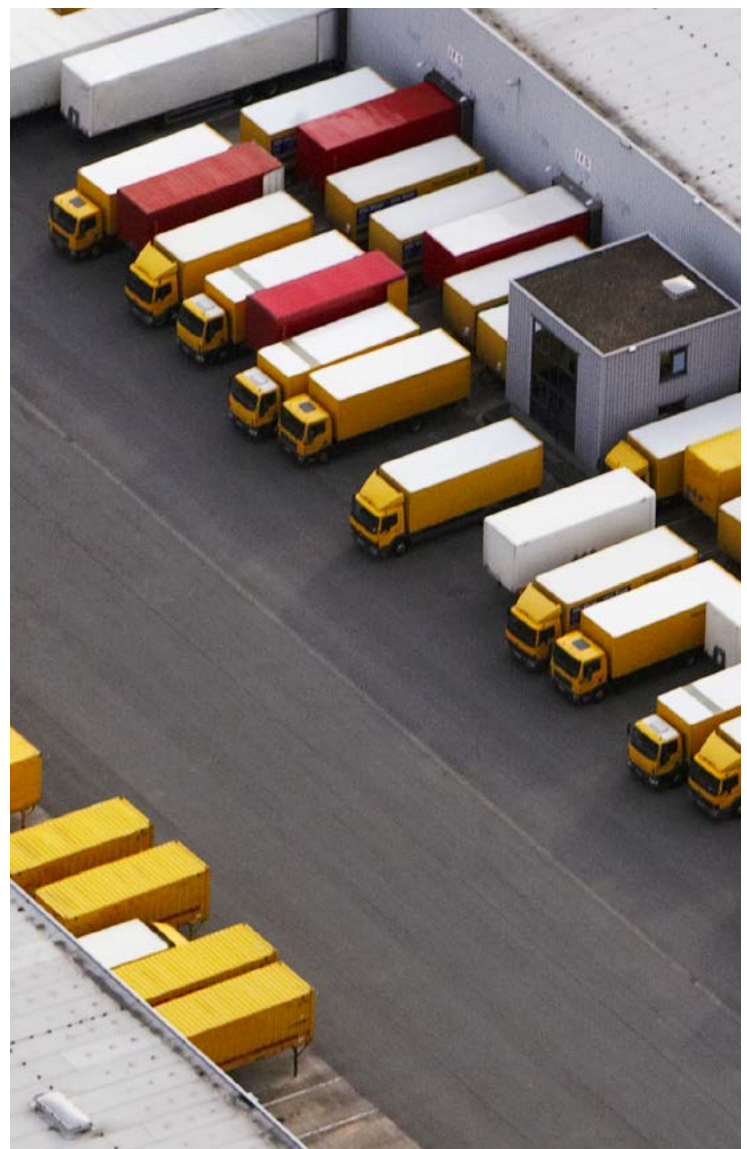
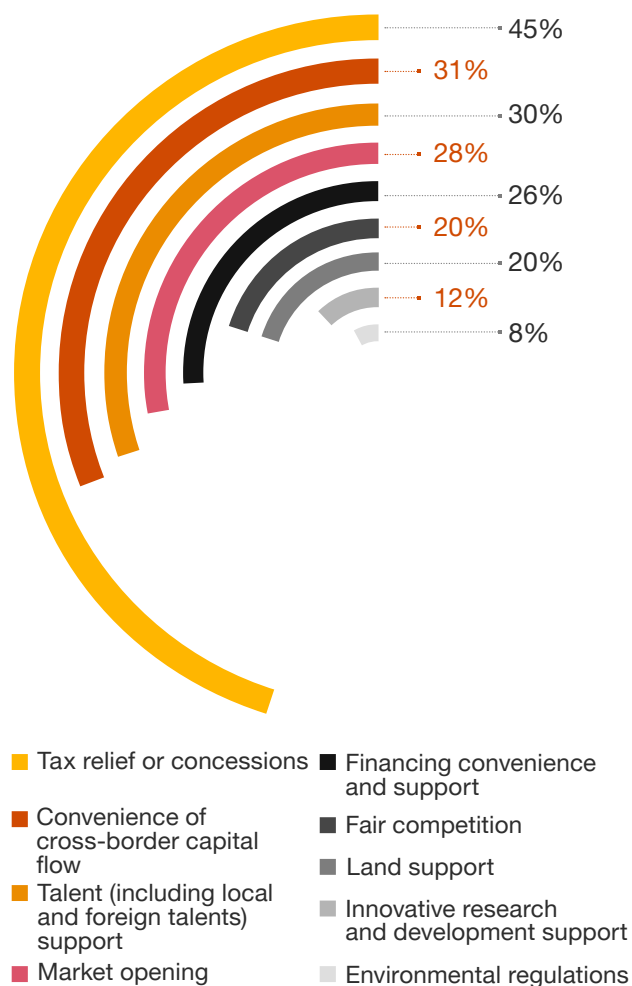
Based on the fact that access to the market is one of the main driving factors for respondents to invest in ASEAN, we further investigated the long-term plans of the interviewed enterprises to adjust the proportion of their businesses in the ASEAN market. Under such scenario, the proportion of respondents who had no plans for the ASEAN market dropped to 28%, indicating that some of the interviewed enterprises that originally had no purpose of investing in ASEAN even in the long-term do have long-term plans for trading in the ASEAN market. Specifically, 24% of respondents plan to increase the proportion of their business in the ASEAN market by more than 10%, and 13% of respondents plan to increase the proportion in the range of 1%-10%.

4. Tax incentives, capital flow, talent support, and market opening will boost Chinese enterprises' investment in ASEAN

Regarding the type of policies that will promote Chinese enterprises' investment in ASEAN, 45% of the respondents, the highest proportion, wish to obtain tax incentives, followed by 31% of respondents wishing to enjoy the convenience of cross-border capital flow, 30% hoping for talent (including local and foreign nationals) support, and 28% hoping for a more opened market.

The relevant policy support demanded by interviewed enterprises is highly targeted for overseas investment risks. Among them, the talent support and market opening-up correspond to the shortage of international talents and market access restrictions among the aforementioned major obstacles for Chinese enterprises to invest in ASEAN. The demand for tax incentives is more based on the consideration of corporate profits and is also one of the most practical cushions hedging overseas investment risks. The requirement for convenient cross-border capital flow more relates to the ease of investing and the protection of corporate rights and interests. In addition, the foreign exchange control exercised by China and many ASEAN countries has, on the other hand, increased the complexity of procedures for Chinese enterprises to invest in ASEAN. This restricted ASEAN's roles as an intermediary location for overseas reinvestment, and also raised the uncertainty of whether Chinese enterprises can fully repatriate their earnings after making profits from ASEAN investments.

Chart 18: Policy support that the surveyed Chinese enterprises hope to obtain when investing in ASEAN

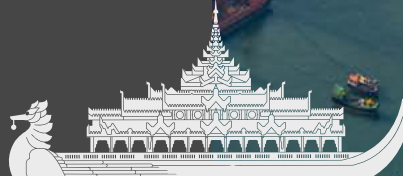


Driving forces and challenges for China's Investment in ASEAN

As discussed above, market potential is the main factor that promotes Chinese enterprises' investment in ASEAN. Furthermore, ASEAN has advantages over China in some resources, i.e. Malaysia's oil and gas, Indonesia's ores, Thailand's rubber and agricultural products, etc. Therefore, resource acquisition is also the main driving force for Chinese enterprises to invest in ASEAN. Secondly, certain industries in ASEAN and China are highly complementary to one another, given the affordability of labor cost in ASEAN, the manufacturing capacity and technological advances cultivated by the investment from developed countries, as well as some restrictions imposed by China on industrial capacity and environmental protection. The labor-intensive industries in ASEAN developing countries, like garments, papermaking, and some technology-intensive industries, like automobile, computer and consumer electronic parts manufacturing, are appealing to Chinese capital.

In addition, ASEAN's yet-to-be improved current infrastructure has also expedited the shift of China's construction industry to the region. In view of the good relations between ASEAN and developed countries, the signed free trade agreements, and the special tariff support policies still enjoyed by some ASEAN countries, it is of great significance for Chinese enterprises to transfer their production and supply chains to ASEAN in order to hedge the risks arising from frequent international trade disputes. The similar cultural backgrounds between China and ASEAN countries have laid a social foundation for the aforementioned investment cooperation.

At present, the main obstacles restricting Chinese enterprises' investment in ASEAN can be divided into two categories: exogenous and endogenous. Exogenous factors pertain to some non-developed countries in ASEAN and include the uncertain and complex business environment, weak infrastructure, less opened service industry and employment restrictions on foreigners, while the endogenous factors relate to the lack of talents and of international management capabilities faced by Chinese enterprises. With the free trade agreements, such as RCEP, in place and the acceleration of the "Belt and Road" initiative, exogenous barriers will gradually diminish, but Chinese enterprises have to make active improvement themselves to tackle these endogenous barriers. Of course, the volatile and complex international business context will, to a certain extent, also urged Chinese enterprises to further develop and reform.





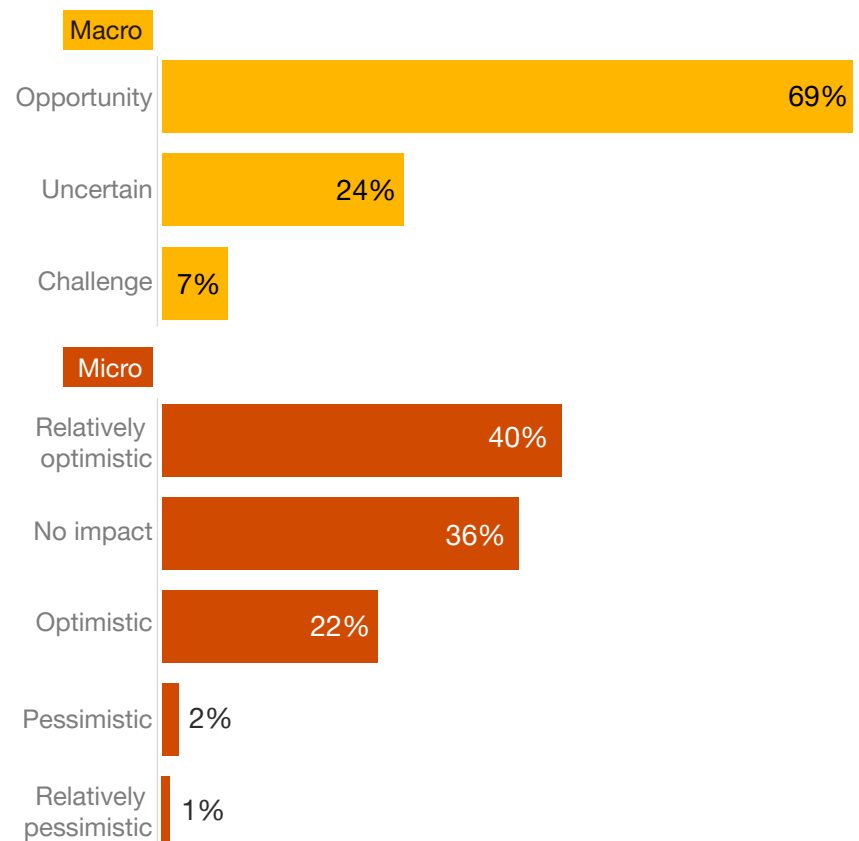
About RCEP

1. Chinese enterprises generally believe that RCEP will bring opportunities for economic and trade cooperation with ASEAN

At the macro level, nearly 69% of the Chinese enterprises interviewed in the survey believe that RCEP will bring opportunities for China-ASEAN economic and trade cooperation, relative to 7% with opposite view, and another 24% held an uncertain attitude towards the prospects of China-ASEAN economic and trade cooperation under the framework of RCEP. At the micro level, 62% of respondents expressed a relatively optimistic or optimistic view of the impact of RCEP on the development prospects of enterprises, 36% believed that there is no impact, and only 3% expressed pessimistic or relatively pessimistic views. Both at the macro level and micro level, the impact of RCEP is positive, and the respondents who held a neutral attitude are more likely to have doubts about the specific implementation effect and timing of RCEP, and some enterprises have already benefited from certain preferential policies under the framework. As mentioned in Chapter 2 of this report, the coverage rate of RCEP's tariff reduction and exemption for some commodity trades may be slightly lower than that of the free trade agreement signed previously.

Chart 19:

Evaluation of surveyed Chinese enterprises on the impact of RCEP



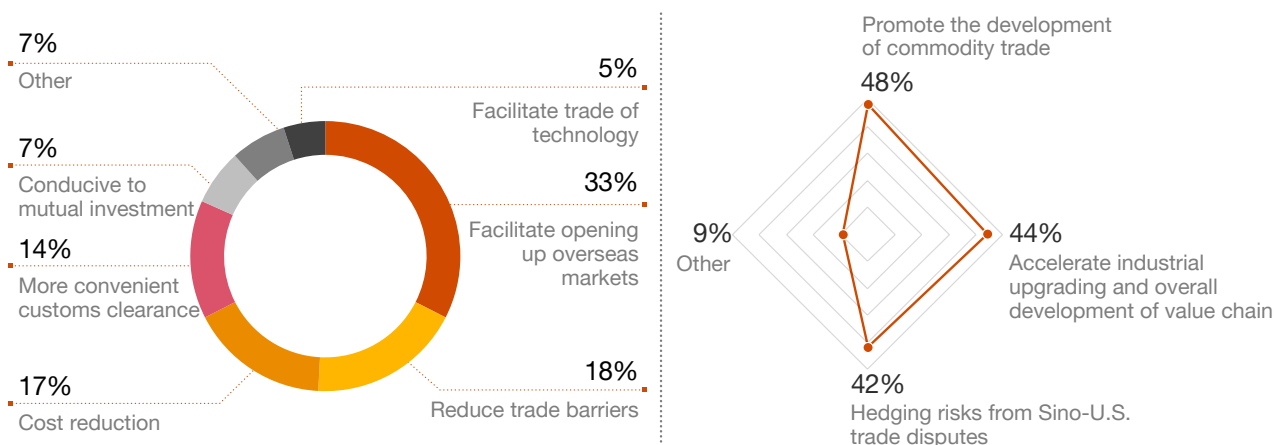
2. Promoting trade development is the main perceived impact of RCEP

The major business opportunities that RCEP may bring to enterprises mainly relate to the market, trade and cost. Among all Chinese respondents, 33% believe that RCEP will help to open up overseas markets, and 32% believe it will help reduce trade barriers and costs, and improve the convenience of customs clearance, 17% believe it will help reduce business costs, and only 7% believe it will facilitate mutual investment between contracting states.

From the perspective of the strategic impacts on enterprises after the signing of RCEP, 48% of respondents believe that it will promote enterprises to develop commodity trade, and 44% believe that it will accelerate their industrial upgrading and overall development of the value chains of their respective industries. Meanwhile, 42% believe that RCEP will provide them with new insights for hedging the risks arising from the Sino-US trade disputes.

Chart 20:

RCEP brings business opportunities and strategic impact to the Chinese enterprises surveyed

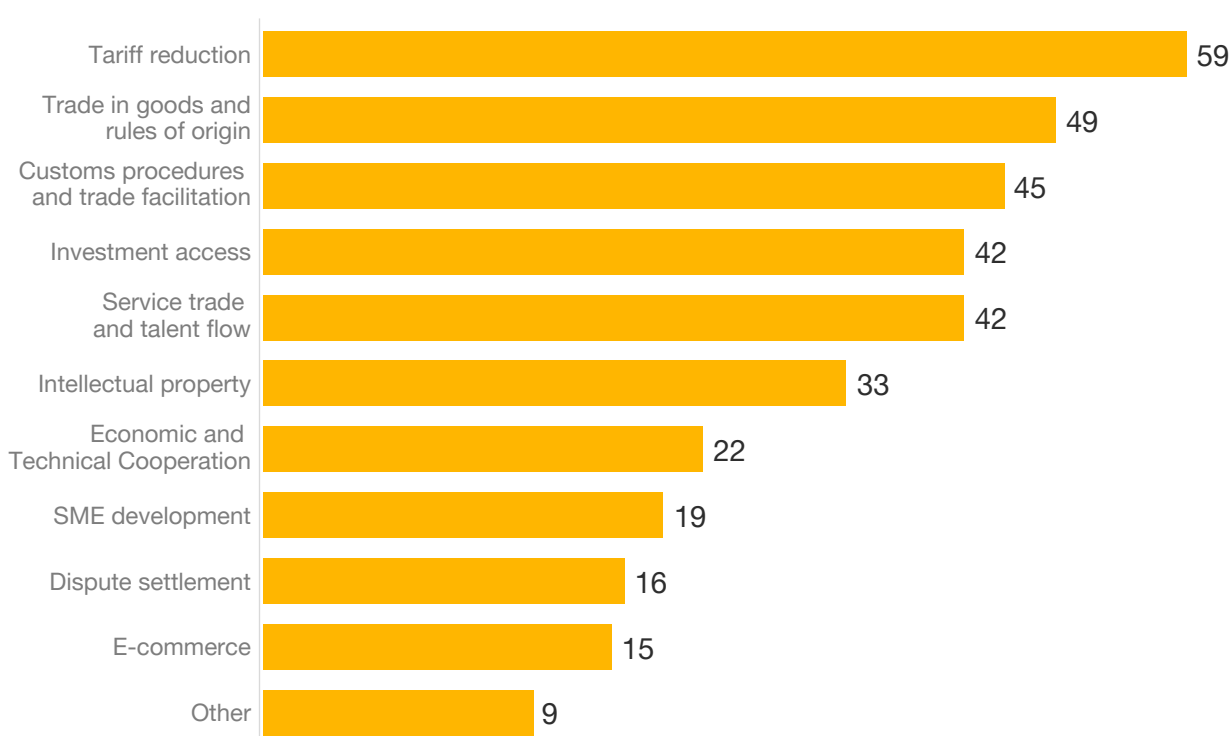


Consistent with the fact that the interviewed enterprises' perception of the impacts of RCEP are mostly associated with trade, the top three RCEP rules that have received the most attention are tariff reductions and exemptions, trade in goods and rules of origin, as well as customs procedures and trade facilitation, accounting for 49%, 41% and 38% respectively, followed by 35% for investment access and 35% for service trade related rules.

It is evident that promoting trade development is the RCEP impact of most recognition and concern to all interviewed Chinese enterprises. This may be due to the fact that RCEP's trade-related rules have more prominent effects when it comes to implementation than investment or other rules, and that the benefit of RCEP that enterprises can enjoy with low risk in the short term are also associated with international trade businesses.

In addition, although some respondents believe that RCEP can accelerate their own industrial upgrading and the overall development of value chain of their respective industries, as far as investment is concerned, there are certain inherent obstacles to mutual investment between contracting states, which are not the ones that RCEP can address. Therefore, the investment-related content in RCEP has not received equal attention from the respondents compared to those concerning trade. Furthermore, in this survey, the respondents who have maintained trade transactions with other RCEP countries are also far more abundant than those who have invested or planned to invest in other contracting states, leading to potential bias in their attention to the RCEP rules. In terms of the overall market, there are more Chinese enterprises that trade with other contracting states than those who invest in them.

Chart 21: RCEP content most concerned by surveyed Chinese enterprises



3. Major industries in China that will benefit from RCEP

Respondents believe that China's major industries will generally benefit from RCEP. Among the 10 industries surveyed, except for manufacturing, an average of 20% respondents in the remaining 9 industries believe that RCEP is beneficial for their industries, while an average of 11% think that RCEP is unfavorable for them². Specifically, the highest proportion of respondents, 66%, believe that RCEP will benefit China's manufacturing industry, but there is also a relatively high proportion of respondents, as high as 51%, who believe that RCEP will have an impact on China's manufacturing industry. One of the possible reasons is the marked difference in relative advantages among the manufacturing sectors of RCEP member states. Although China has outstanding advantages in the quality and integrity of its overall manufacturing capabilities, in some high-end manufacturing fields, however, China still has a relatively large room for improvement, especially in the semiconductor industry, compared with RCEP member states such as Japan and South Korea. Moreover, China has begun to face a diminishing advantage in demographic dividend for some of its low-end manufacturing industries.

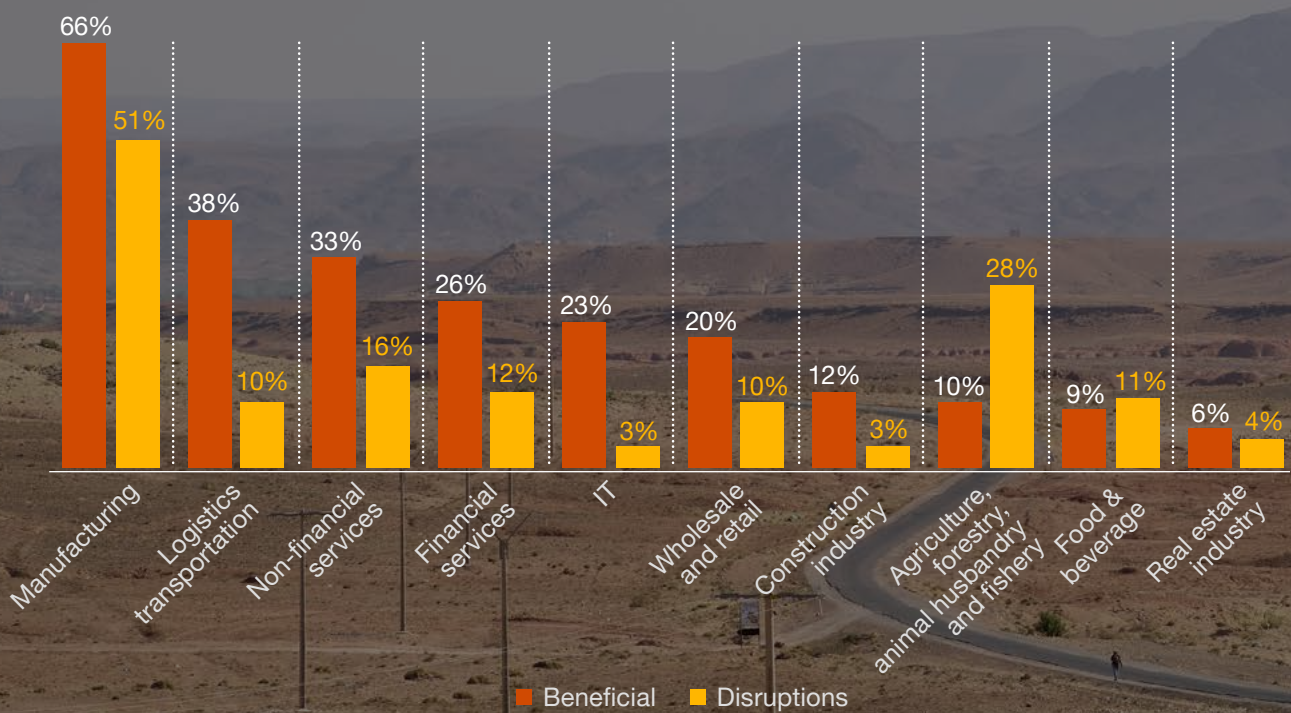
The gradually relaxed investment restrictions and lowered trade barriers under the RCEP may, on the one hand, pose an impact on local industries after the direct introduction of advantageous manufacturing industries in other contracting states to China, and may also increase investment in related industries among other contracting states except China, leading to a certain degree migration or decline of China's manufacturing supply chains; on the other hand, it will cause a rise in labour cost and overcapacity in some manufacturing industries in China. RCEP has also made it easier to transfer related industries to low-cost contracting countries. Therefore, it is still questionable how the impact of RCEP will be translated into China's manufacturing industry.

Besides the manufacturing industry, 38%, 33%, 26% and 23% of respondents respectively believe that China's logistics and transportation, non-financial and financial services, and IT industries will overwhelmingly benefit from RCEP, compared with only 10%, 16%, 12%, and 3% of respondents who think that related industries will face disruptions, that is, on the one hand, thanks to China's own industrial advantages, and on the other hand, it stems from the potential market brought by RCEP.

2. Notes: The positive and negative impacts of RCEP on a certain industry are non-mutually exclusive, that is, for example, the same respondent may simultaneously think that the manufacturing industry can benefit or be shocked.

The RCEP is considered to do more harm than good to only two Chinese industries, i.e. agriculture, forestry, animal husbandry and fishery, and food & beverage. 10% and 9% of respondents think these two industries will benefit from RCEP, compared to 28% and 11% of respondents who think that RCEP will have an adverse effect. These results may be pointing to the fact that other RCEP contracting parties, especially ASEAN countries, have natural resource advantages in related industries.

Chart 22: Evaluation of surveyed Chinese enterprises on the industrial impact of the RCEP



ASEAN Enterprises

Trade

1. ASEAN enterprises have maintained close trade relations with China

Although the pandemic has affected the bilateral trade between ASEAN and China to a certain extent, factors such as industrial value chain, supply chain, geographical location, and geopolitics are constantly deepening the bilateral trade relations. In this survey, more than 65% of ASEAN enterprises have maintained trade relations with China, 61% of them have their trade volume with China exceeding more than 10% of their global volume, and 44% have regarded China as their largest trade market³.

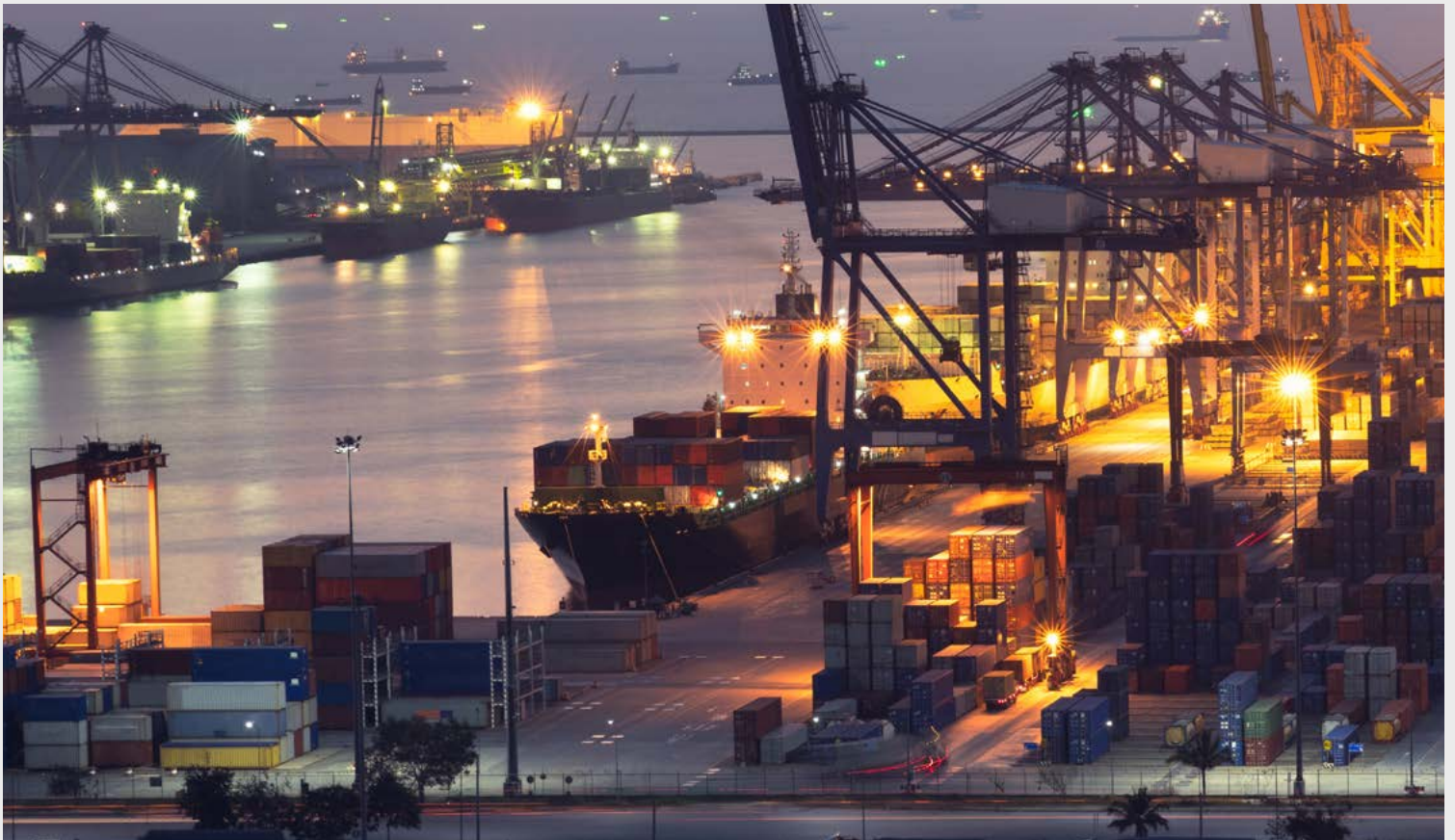
In addition, more than 35% of enterprises that trade with China regard the country as the source of goods or services procurement, and more than 27% regard China as the target market for goods or services export. The survey data also indirectly pointed to the current trade deficit between ASEAN and China. In 2020, the trade deficit between ASEAN and China was close to US\$ 80 billion, while ASEAN maintained a surplus in total international trade over the same period⁴. This is closely related to the integrity of ASEAN's industrial structure and supply chain. ASEAN mainly imports from China mechanical and electrical equipment, industrial equipment, plastics, metals and other raw materials or semi-finished products for reprocessing and production, and exports to developed countries such as Europe and the United States.

Chart 23: China's importance to the trade business of ASEAN enterprises surveyed



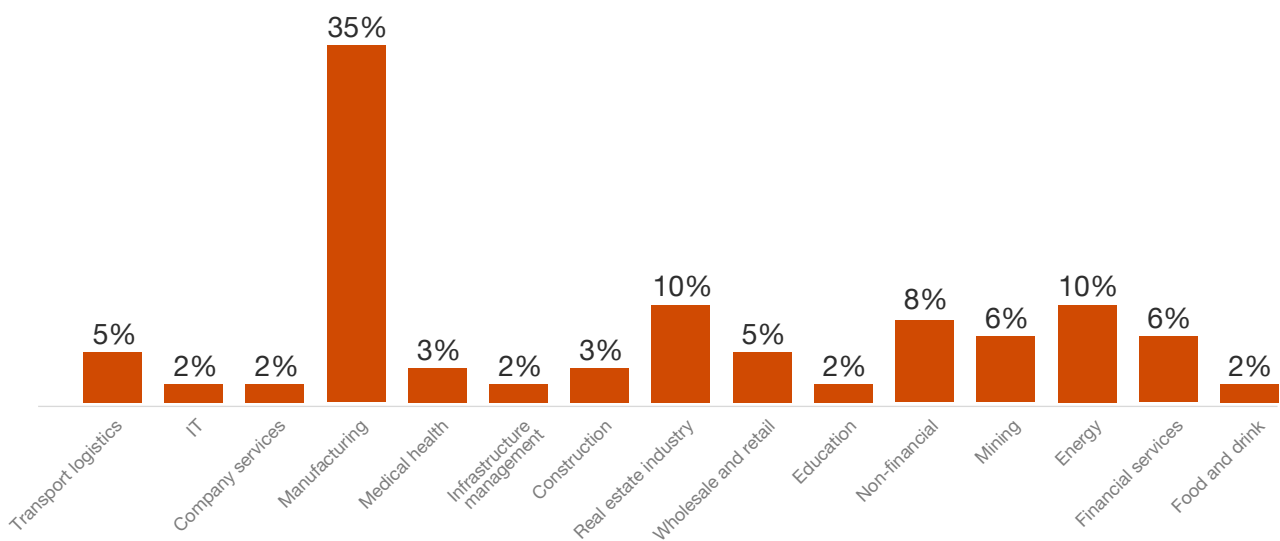
3. Including import and export.

4. Data source: ASEANStatsDataPortal



Taking a closer look at the characteristics of the relevant industries and enterprises, among all ASEAN enterprises surveyed, ASEAN foreign-funded and private enterprises dominate in their trade activities with China, while the manufacturing industry was the most frequently cited example, followed by real estate, energy, and non-financial services industry. As a whole, the even industrial distribution reflects the economic vitality of ASEAN’s foreign capital and private sector. All the major industries have more or less trade relations with China in goods or services, while the manufacturing industry shows an obvious characteristic of being export-oriented. Among all ASEAN enterprises surveyed that have maintained trade with China, non-state-owned enterprises accounted for approximately 92%, 35% of which are manufacturing enterprises (92% of the total manufacturing enterprises surveyed), and less than 10% are enterprises in other industries.

Chart 24: Industry distribution of surveyed ASEAN enterprises that have maintained trade with China



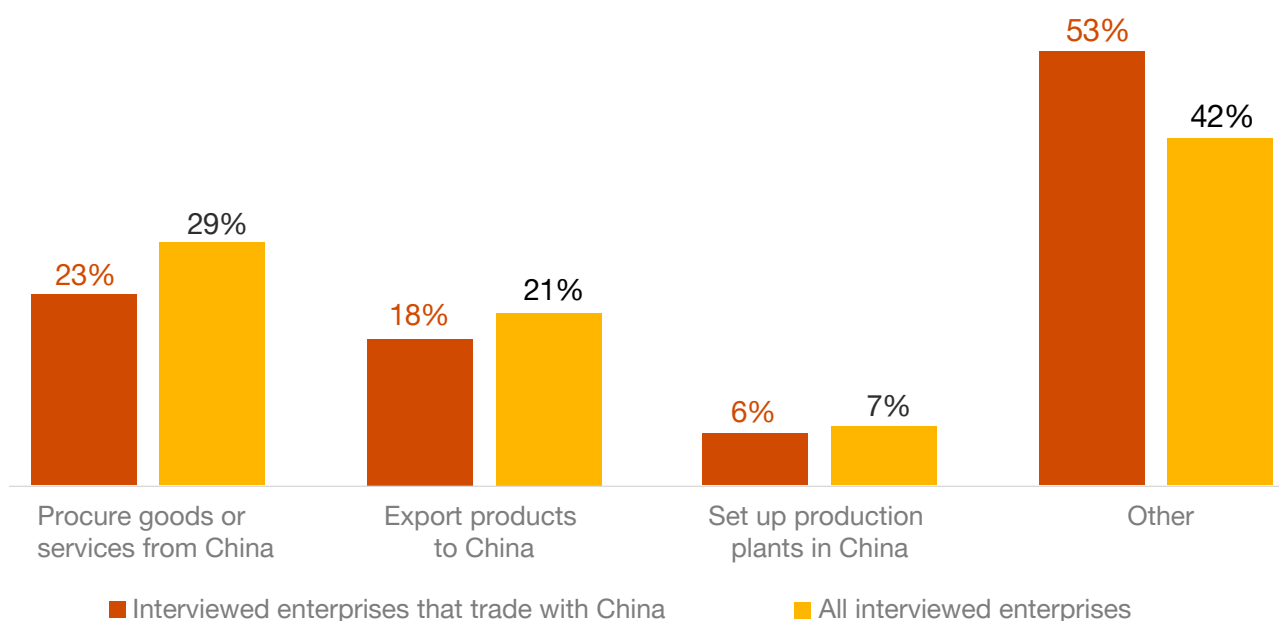


2. China is an important component of the long-term business strategy of ASEAN enterprises

Although the pandemic has delayed the overseas expansion of some ASEAN enterprises, most of the ASEAN enterprises surveyed still incorporate China as the integral part of their future business plans. Of the ASEAN enterprises that have traded with China, 23% plan to incorporate China in their supply chain in the future, 18% consider China as a target export market, and 6% plan to set up production plants in China. However, when the statistics comes to ASEAN enterprises that currently have no trade with China, the proportions increase to 29%, 21% and 7%, respectively, reflecting China's complete layout of industrial chain and the willingness of ASEAN enterprises for long-term cooperation stimulated by the huge market potential of 1.4 billion people.

Chart 25:

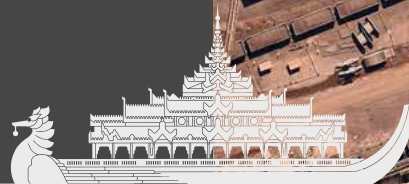
Business strategies and market trends of the ASEAN enterprises interviewed regarding the Chinese market



Driving forces behind ASEAN-China trade

The economic development of ASEAN countries is inseparable from the supply of China's goods, services, markets, capital and technology. The ASEAN region is also home to two of the six major economic corridors under the framework of the "One Belt and One Road" initiative, is a core node of the "21st Century Maritime Silk Road". The two sides are highly complementary in a number of industries and have deep cultural origins and a history of cooperation. China is also continuously strengthening its opening up and cooperation with ASEAN countries. The successive establishment of a number of multilateral or bilateral regional economic and trade cooperation systems, including the upgraded China-ASEAN Free Trade Area and the Greater Mekong Sub-regional Economic Cooperation, in addition to the latest RCEP, has promoted the active commercial exchanges between ASEAN and China.

In addition, Chinese enterprises are gradually expanding investment in ASEAN and shifting their supply chains to hedge the risk of trade disputes. The affiliates of these enterprises in ASEAN still rely on China's front-end supply chain system to a certain extent, which has also propelled the trade cooperation between the two sides.





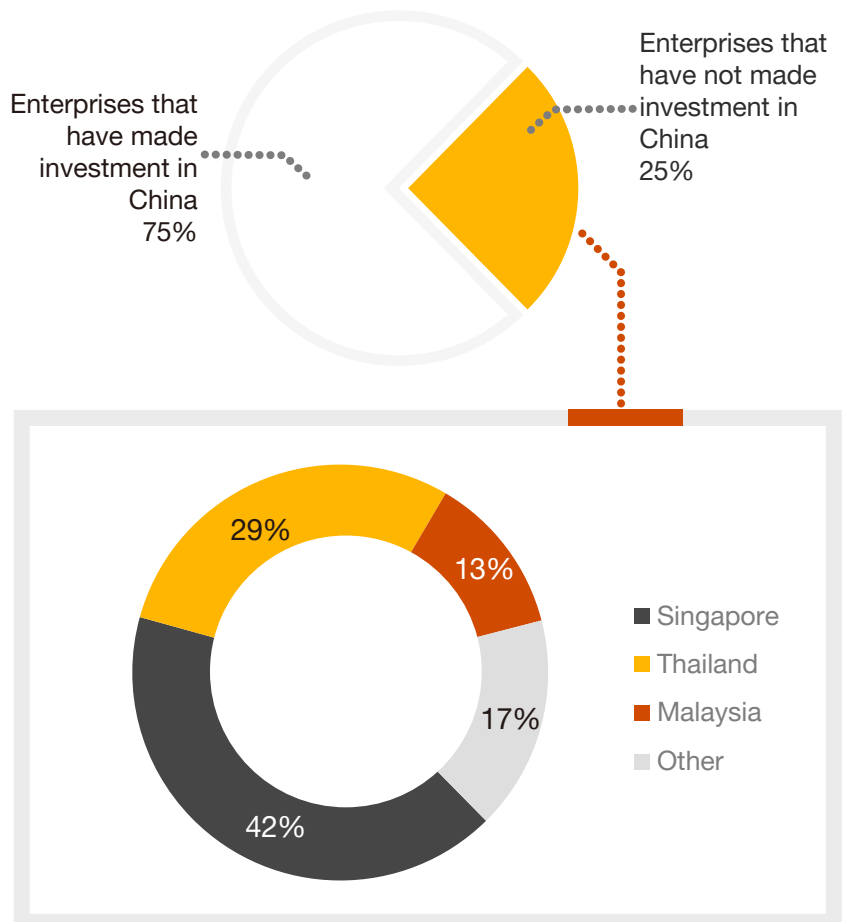
Investment

1. There is still untapped opportunities for ASEAN enterprises to invest in China

Subject to factors such as the stage of economic development, the differences in industrial advantages, and the familiarity of business environment, ASEAN enterprises make relatively small investment in China. According to statistics from the Ministry of Commerce of China in 2020, ASEAN's investment in China was US\$ 7.95 billion, about 55% of China's investment in ASEAN.

Of all the ASEAN enterprises surveyed, 25% have invested in China, mostly from Singapore, Thailand, and Malaysia, accounting for 42%, 29% and 13% respectively. In terms of the industry breakdown, of the ASEAN enterprises that have invested in China, 25% engage in the manufacturing industry, followed by 17% in the real estate industry, and 8% in the financial service industry. In terms of means of investment, about 42% of the ASEAN enterprises that have invested in China establish companies or factories, followed by 17% through merger and acquisition of Chinese enterprises, and 13% through joint venture with Chinese enterprises.

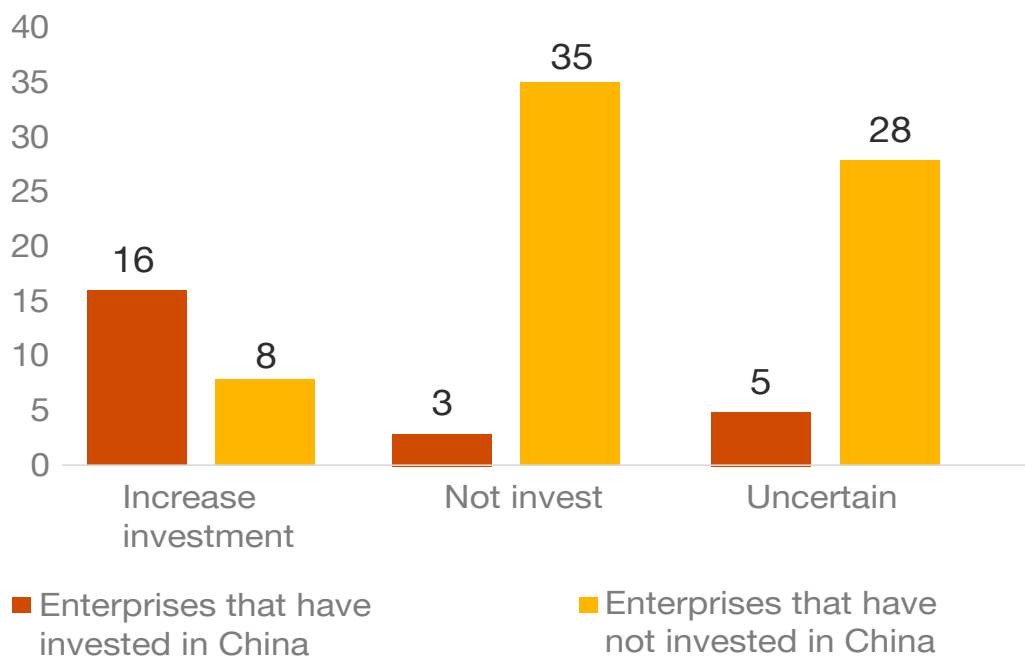
Chart 26: Investment in China of ASEAN enterprises surveyed and their geographic distribution



Regarding future plans, 25% of the ASEAN enterprises interviewed plan to invest in China within 1-3 years. About 67% of the enterprises that have already invested in China are willing to increase their investment, about 13% clearly will not increase their investment. On the other hand, 11% of the enterprises that have not previously invested in China, dominated by Singapore and Thai enterprises, have expressed their willingness to invest in China in the future. On the whole, a mild trend of increased investments in China is evident from the ASEAN enterprises surveyed.

Chart 27: Investment plan in China of ASEAN enterprises surveyed

The number of enterprises that originally have not invested in China but now plan to increase investment in the country is slightly higher than that of the enterprises that have already invested in China but do not plan to increase investment

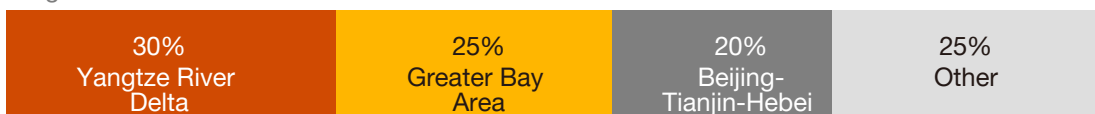


For the ASEAN enterprises surveyed who intend to invest in China, the Yangtze River Delta Economic Belt and the Guangdong-Hong Kong-Macao Greater Bay Area are the top two most popular target areas, accounting for 30% and 25%, respectively. Secondly, the Beijing-Tianjin-Hebei, Hainan Free Trade Zone, and the new Western Land-Sea Corridor (especially the Chengdu-Chongqing Twin-City Economic Circle) have also received close attention. In addition, 63% of respondents who intend to invest in China hope to merge and acquire or realise joint venture with local Chinese enterprises. This mirrors the popularity of certain regions of China in ASEAN and the advantages of the local business environment, and also reflects that the familiarity of the environment, adaptation costs and convenience of logistics network are issues of most concern to the ASEAN enterprises investing in China.

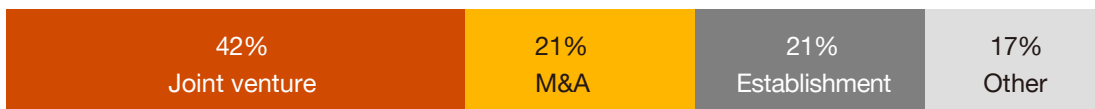
From the industry perspective, 92% of those with plans to invest in China will continue to invest in their main business and upstream and downstream businesses. The industry breakdown is relatively disperse with most demand for investment concentrated in the manufacturing sector, which accounts for only 25%. In terms of investment methods, ASEAN respondents primarily aims to set up sales or purchasing centres, accounting for 44%, followed by setting up plants, accounting for 31%. The research result evidences that China's advantages in supply chain and huge consumer market are the main source of attraction for ASEAN enterprises, and that they still focus on the investment in China's physical industries, and show less willingness to make pure financial investment in the country.

Chart 28: Distribution of investment plans in China of ASEAN enterprises surveyed

Target area



Investment methods



Investment industry



Investment content

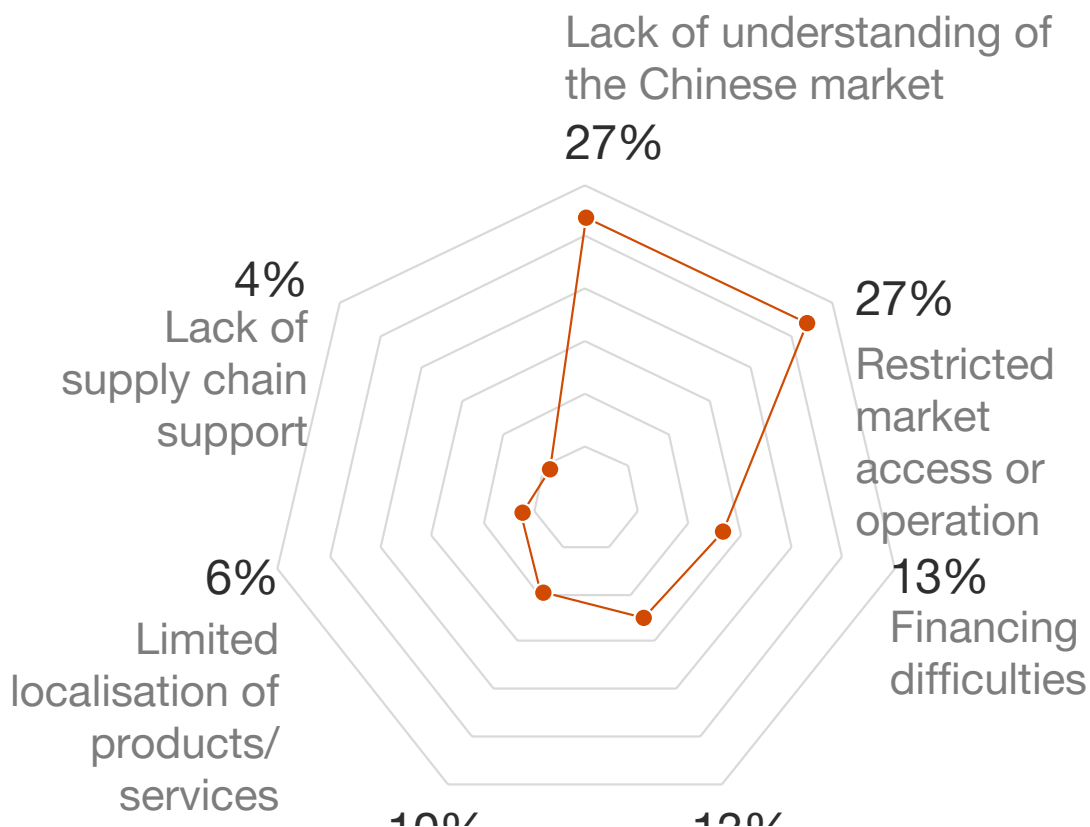


2. Lack of understanding and access restrictions are the main factors restricting ASEAN enterprises' investment in China

In this survey, 42% of ASEAN respondents clearly pointed out the factors that restrict their investment in China. Lack of understanding of the Chinese market and restricted market access or operation are the two most important factors, accounting for both 27%, followed by financing difficulties and China's stringent commercial laws and regulations on labor and environmental protection. Only 4% of ASEAN respondents, the lowest proportion, considered the lack of supply chain facilities as the key limiting factor.

The survey results, on the one hand, reflect that China's supply chain advantages have been widely recognised by foreign investors, and also show that there is still room for improvement in the external reputation on China's economic practice, humanities and business environment, as helping foreign investors to better understand China is an important means to attracting foreign investment. In terms of market access or business restrictions, which restrict foreign investment, China has continuously strengthened its opening to the world in recent years. In 2020, China has reduced the negative list of foreign investment by nearly 20%, especially in the service industry, and added list exemptions. With the further implementation and deepening of RCEP, we believe that market access, a barrier to foreign investment, will gradually fade, especially for the ASEAN region. The ASEAN enterprises in service industry account for a relatively high proportion and are thus more affected by China's restrictions on foreign investment, which perhaps explained the aforementioned data results.

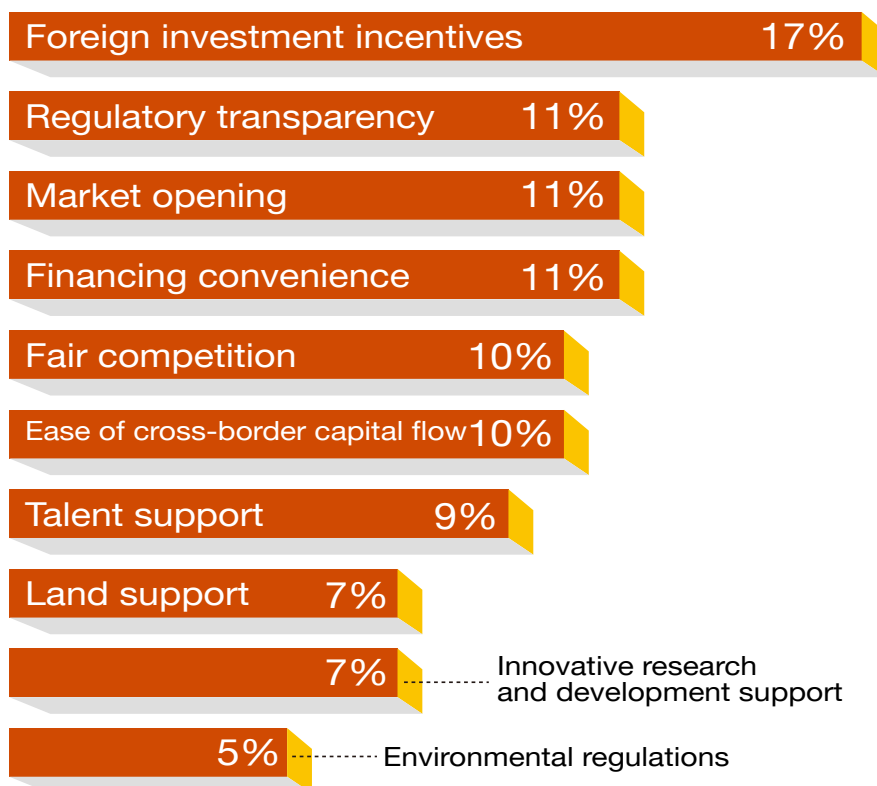
Chart 29: Reasons that restrict the investment in China by ASEAN enterprises surveyed



3. Optimised taxation, regulation, market and competitive environment will support ASEAN enterprises to invest in China

There are 59% of ASEAN respondents in the survey clearly indicated the support they need when making investment in China. Among the alternative required support options, tax-related foreign investment allowances rank first, accounting for 17%, followed by the transparency of laws and regulations, open market and fair competition, all with 11%. Tax incentives are an important factor for a country to attract foreign investment. On one hand, it is in line with the profit-seeking nature of capital, especially for some industries that compete primarily on the basis of prices and, on the other hand, it also helps foreign investors mitigate part of the costs of adapting to a new environment and reduces investment risk. Providing transparency of laws and regulations, market openness and fair competition are the fundamental building blocks of a conducive business environment. Among them, market openness has been discussed in the previous section, while the transparency of laws and regulations and fair competition reflect the core demand of foreign investors that their legitimate rights and interests should be fully protected when they invest in China. In fact, the new “Foreign Investment Law” implemented in China since 2020, along with the recent anti-monopoly investigations, and the restrictions on the use of capital advantages to interfere fair competition all demonstrate the Chinese government’s determination to uphold regulatory transparency, fair competition, and the legal rights and interests of foreign capital. Enhancing the external reputation of China’s business environment is a way to promote ASEAN enterprises’ understanding of China, while clarifying policies and regulations and providing legislative guarantees are the underlying principle for boosting ASEAN enterprises’ confidence in China.

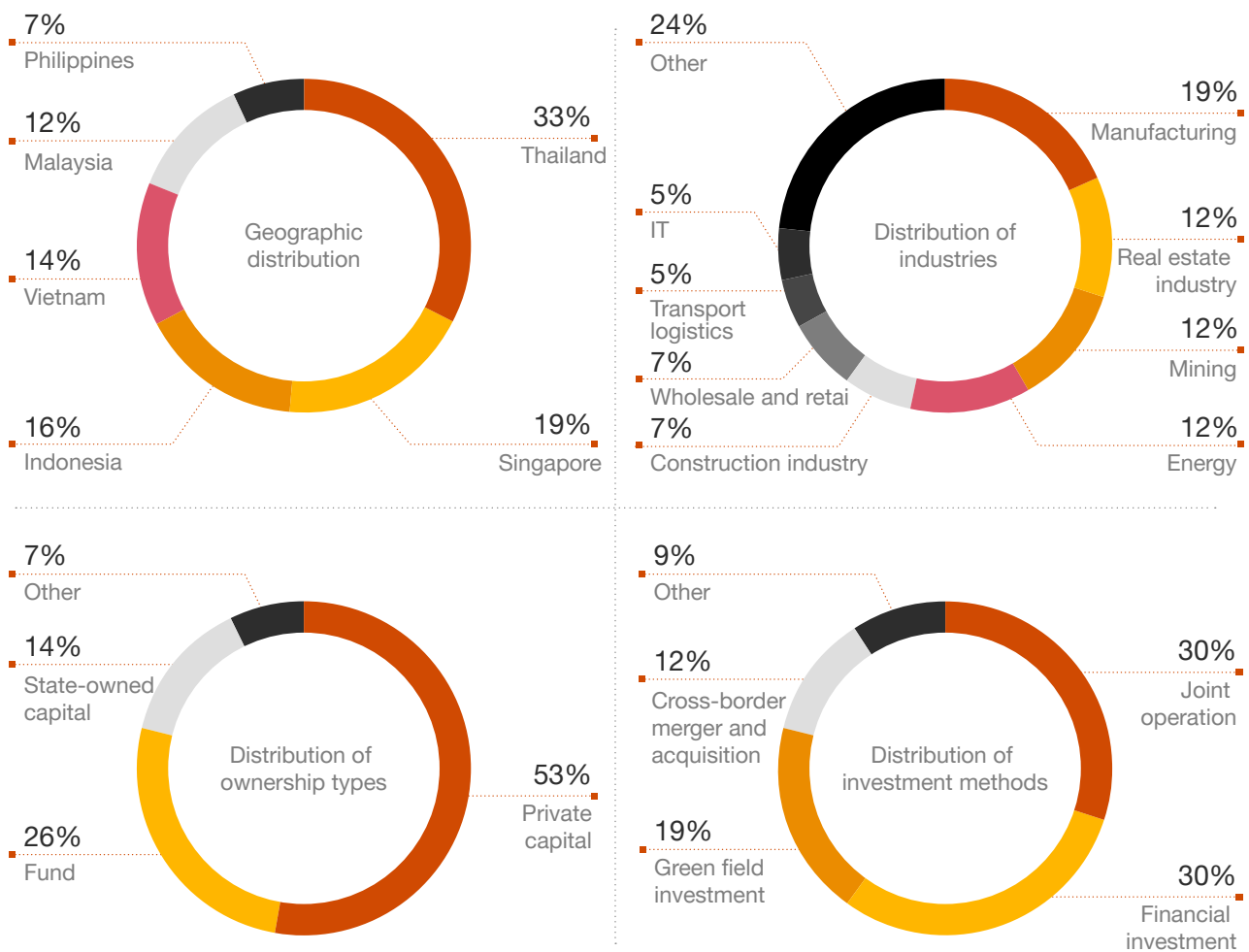
Chart 30: **The support that the ASEAN enterprises surveyed hope to obtain for their investment in China**



4. ASEAN enterprises are open to accepting Chinese investment

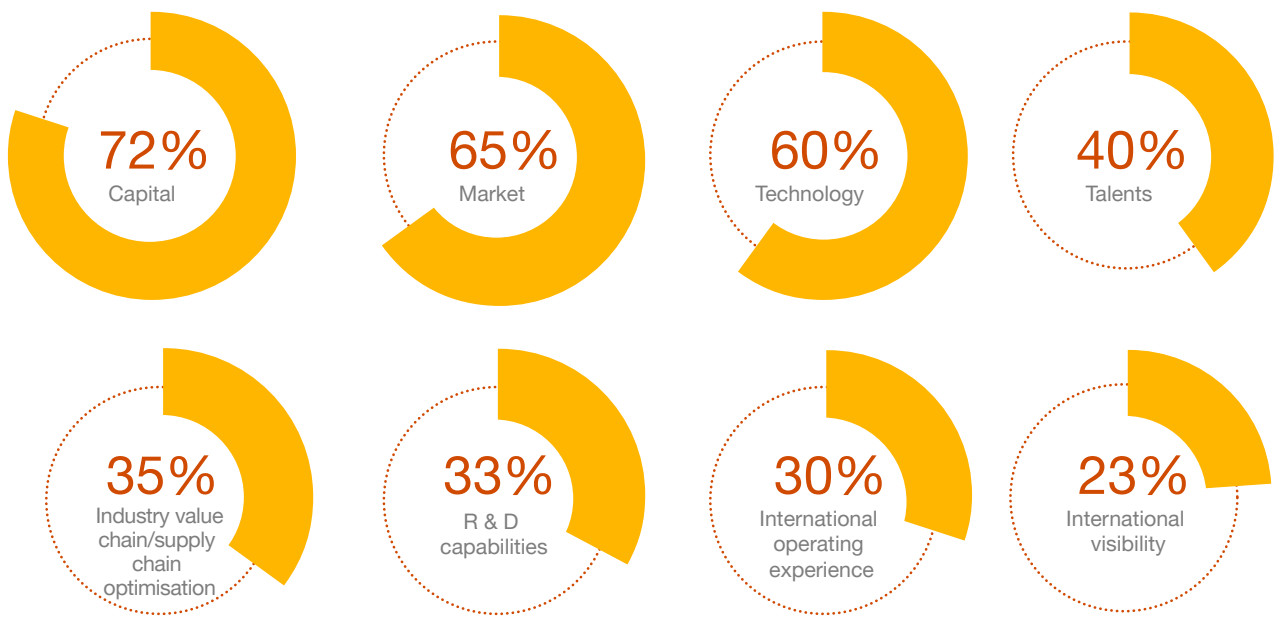
This survey also focuses on ASEAN enterprises' degree of acceptance of Chinese investment. Among all the respondents, more than 45% are willing to accept Chinese investment in recent years. Of them, nearly 33% are Thai enterprises and about 19% Singaporean enterprises. From a perspective of industry, manufacturing enterprises accounted for 19%, followed by real estate, mining and energy enterprises, accounting for 12% each. Regarding the nature of capital, China's non-state-owned capital is highly welcomed. 86% of the ASEAN enterprises surveyed are willing to accept Chinese investment and cooperate with non-state-owned capital, and 60% prefer to accept financial investment or joint operation from Chinese investors, only 12% expressed willingness to sell the control rights of their enterprises. On the whole, the ASEAN enterprises interviewed still exercise caution over accepting Chinese investment. This is probably due to the fact that ASEAN enterprises are not familiar with Chinese corporate culture and employee culture, and thus concerned about potential management conflicts.

Chart 31: Distribution of characteristics of the surveyed ASEAN enterprises willing to accept Chinese investment



Based on the consideration of the advantages and disadvantages of Chinese investors and the tentative cooperation intentions of ASEAN enterprises, among the ASEAN enterprises that are willing to accept Chinese investment, the benefits that they hope Chinese capital can bring still relate to basic means of production; 72% of respondents chose capital, followed by 65% selecting market, 60% selecting technology, and 30% and 23% respectively choosing the deep integration of international operating experience and international brand building.

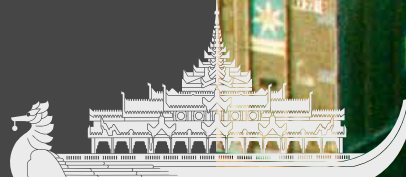
Chart 32: The resources that surveyed ASEAN enterprises expect from Chinese investors



Driving Forces and Challenges for ASEAN's Investment in China

As the world's emerging manufacturing and trade centre, ASEAN will have inseparable connection with China. In this survey, although only 25% of the ASEAN enterprises surveyed have an intention to invest in China in the short term, when it comes to the purpose of investing in China, the proportion increased to 43%. As far as all respondents are concerned, 28% seek market and customer base expansion, 12% for brand awareness, 10% for strategic diversification, and 6% for talents, technology, and resources. More than 36% of respondents wish to increase the proportion of revenue in the Chinese market to more than 10% of total revenue.

This is demonstrative of China's huge potential market, growing economy, increasing emphasis on talents and technology, the integrity of its supply chain, and its rapidly growing capital market, which are all the factors that may drive ASEAN enterprises' investment in China. However, at this stage, ASEAN enterprises still face a number of challenges when investing in China. The first challenge is the stage of economic development and the difference in industrial competitiveness, reflected in the geographic and industry distribution of respondents who have invested in China; Concerns about China's business environment, the second challenge, specifically cover the country's restrictions on market access, policy clarity, regulatory transparency, and fairness in competition as shown in this survey. In the future, enhancing mutual trust, further opening up, and strengthening legislative protection for foreign investment from both the macro and micro levels are effective ways to cope with the related challenges.





About RCEP

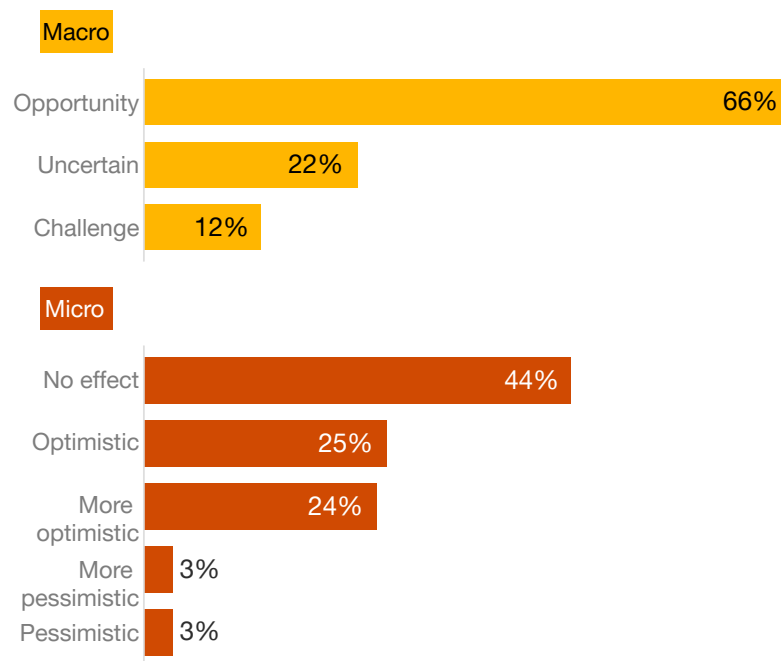
1. RCEP will bring opportunities for ASEAN-China economic and trade cooperation

The signing and implementation of RCEP will affect the economic and trade cooperation between ASEAN and China from both macro and micro levels, specifically in the area of the trade, investment, talent flow, intellectual property, and dispute settlement. In this survey, 66% of ASEAN enterprises believe that as a whole RCEP represents an opportunity for ASEAN-China economic and trade cooperation, and 12% believe that RCEP will pose challenges to such cooperation. At the micro level, 44% believe that the impact of RCEP would be neutral on their enterprises, 49% are relatively optimistic or optimistic, and 6% relatively pessimistic or pessimistic.

The possible contributing factors may include the following aspects. First, 35% of interviewed enterprises have not yet traded with China, and 75% have not yet invested or planned to invest in China. Therefore, it will take time for those enterprises to appreciate the roles and functions of RCEP. Secondly, ASEAN currently has reached a number of trade or investment agreements with other RCEP contracting states. Under such framework, interviewed ASEAN enterprises that have traded with or invested in other contracting states have already enjoyed preferential policies that partially overlap with RCEP. It is therefore normal for such enterprises to hold a neutral point of view towards RCEP only from the business perspective. Compared with some economic and trade agreements that have been signed between the contracting states, however, RCEP covers more extensive and in-depth details on the specific implementation of trade and investment. 99% of respondents made specific choices regarding the details of RCEP concerned by ASEAN enterprises.

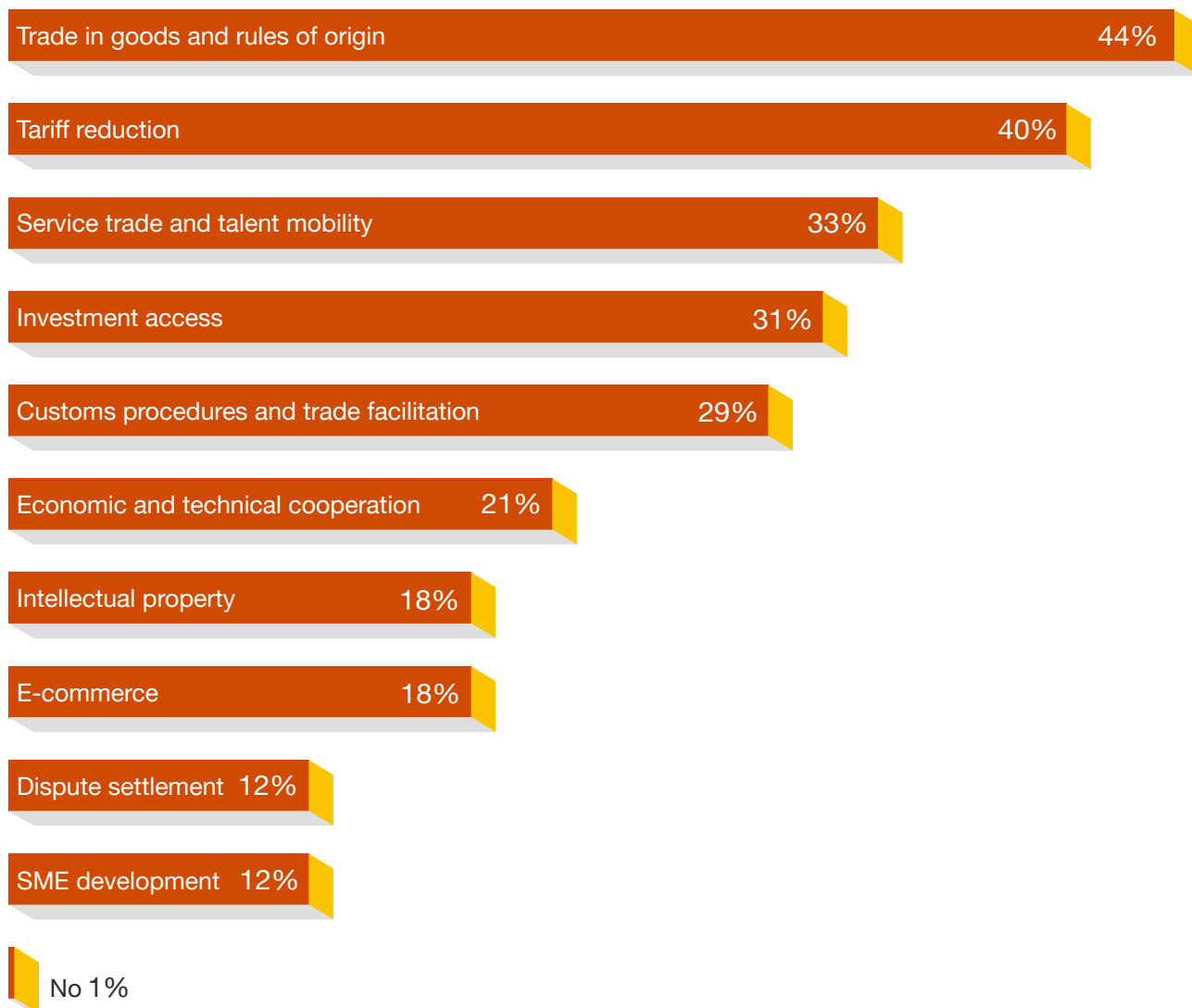
Chart 33:

Judgments of the surveyed ASEAN enterprises on the impact of RCEP



Regarding the specific content of RCEP, trade in goods, rules of origin, and tariff reductions received attention from 44% and 40% of surveyed ASEAN enterprises respectively, followed by trade in services and talent mobility, investment access, customs procedures and trade facilitation, all around 30%, while e-commerce, dispute settlement and support for the development of small and medium-sized enterprises received the least attention, about 18%, 12% and 12% respectively. In summary, ASEAN enterprises still focus on the trade aspects of RCEP, for example, the aforementioned goods/service trade rules, tariff reduction and exemption, and customs facilitation are all factors that promote cross-border trade, consistent with the characteristic of ASEAN countries with relatively high proportion of export-oriented economy. In addition, due to the industrial nature of processing and re-export, some ASEAN countries highly value the rules of origin of RCEP. In recent years, Chinese enterprises have increased investment in ASEAN, transferred some production supply chains to hedge against the risk of international trade disputes, and in turn, further strengthened the ASEAN region's requirements for more relaxed trade and rules of origin. Under the RCEP framework, the value components of a contracting nation may be recognised as origin, which will promote the broader production and investment footprints of enterprises in ASEAN.

Chart 34: **Key RCEP details important to the surveyed ASEAN Enterprises**



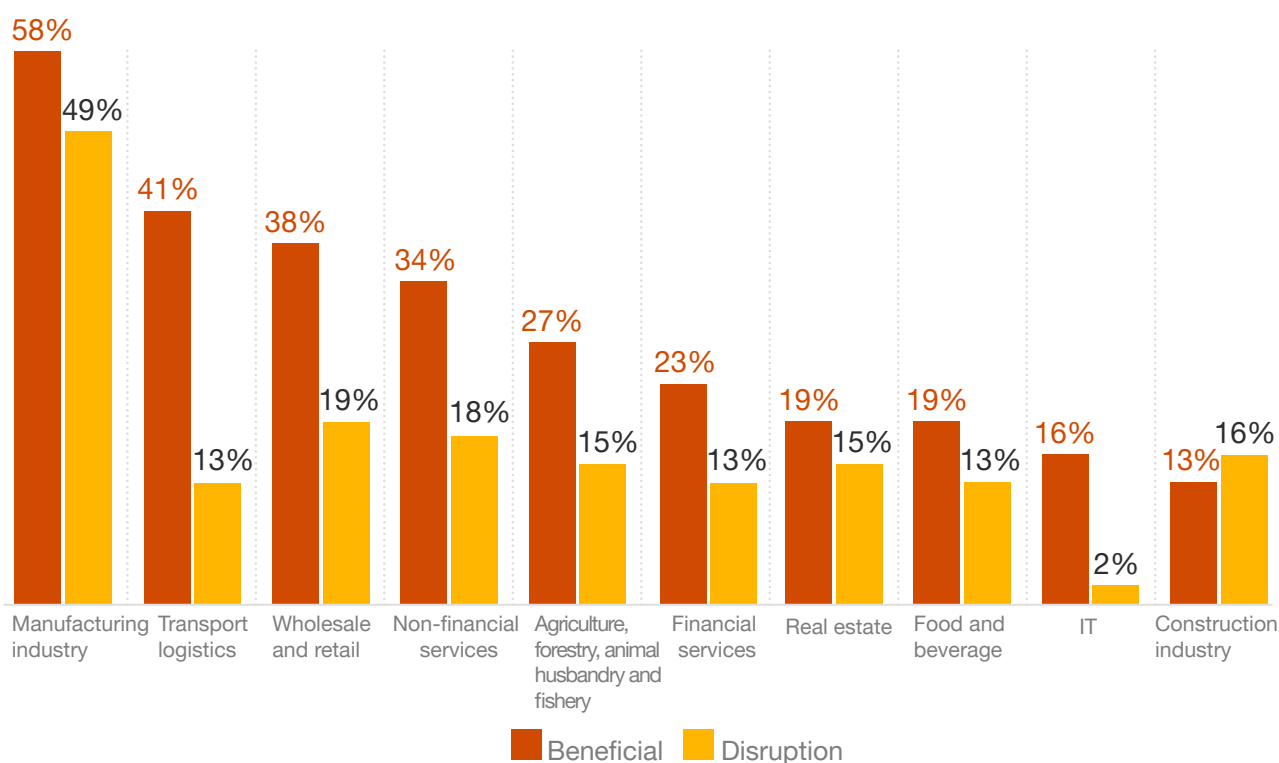
2. RCEP has beneficial effects on various industries in ASEAN

For the major industries in ASEAN, the interviewed ASEAN enterprises believe that the advantages of RCEP outweigh the disadvantages as a whole. 25% of interviewed enterprises, on average, believe that RCEP is beneficial for 9 of 10 industries surveyed, with the exception of manufacturing, compared with 14% selecting unfavorable impact⁵. Specifically, the views of respondents from the manufacturing industry are more divided, with 58% of respondents saying they can benefit from RCEP while 49% of respondents saying their business will be disrupted. This is probably due to the overall development progress of the manufacturing industry in some ASEAN countries and the differences in advantages of industries and subsectors. Compared with other contracting states under the RCEP framework, such as China, Japan, and South Korea, most countries in ASEAN have certain advantages in manufacturing labor costs, but relatively weak in high-tech, high-value-added manufacturing industries. RCEP can, on the one hand, expand the manufacturing market of ASEAN and bring corresponding capital and technology. On the other hand, it will also promote the entrance of foreign capital with technological know-how into the manufacturing industry in

ASEAN, and drive competing products to be sold in the ASEAN region at low prices and cause an impact on the local manufacturing industry. Therefore the interviewees expressed mixed feelings about the manufacturing industry in ASEAN under the RCEP framework.

RCEP not only lowers tariffs at the trade level, but also proposes broader and clearer measures to alleviate non-tax barriers, for example, the unified standards and mutual recognition of technologies among contracting states, unified animal and plant quarantine policies, and facilitation of customs clearance, will boost the development of cross-border trade in ASEAN. Respondents believe that ASEAN's transportation, logistics, and wholesale and retail industries will benefit second only to the manufacturing industry, and are less affected by RCEP. The construction industry is the only industry within ASEAN where respondents believe that the negative impact under the RCEP is greater than its benefits. 16% of the respondents believe that RCEP will have a negative impact on the local construction industry, while only 13% think it will be beneficial to the industry.

Chart 35: Assessment of surveyed ASEAN enterprises on the industrial impact of RCEP

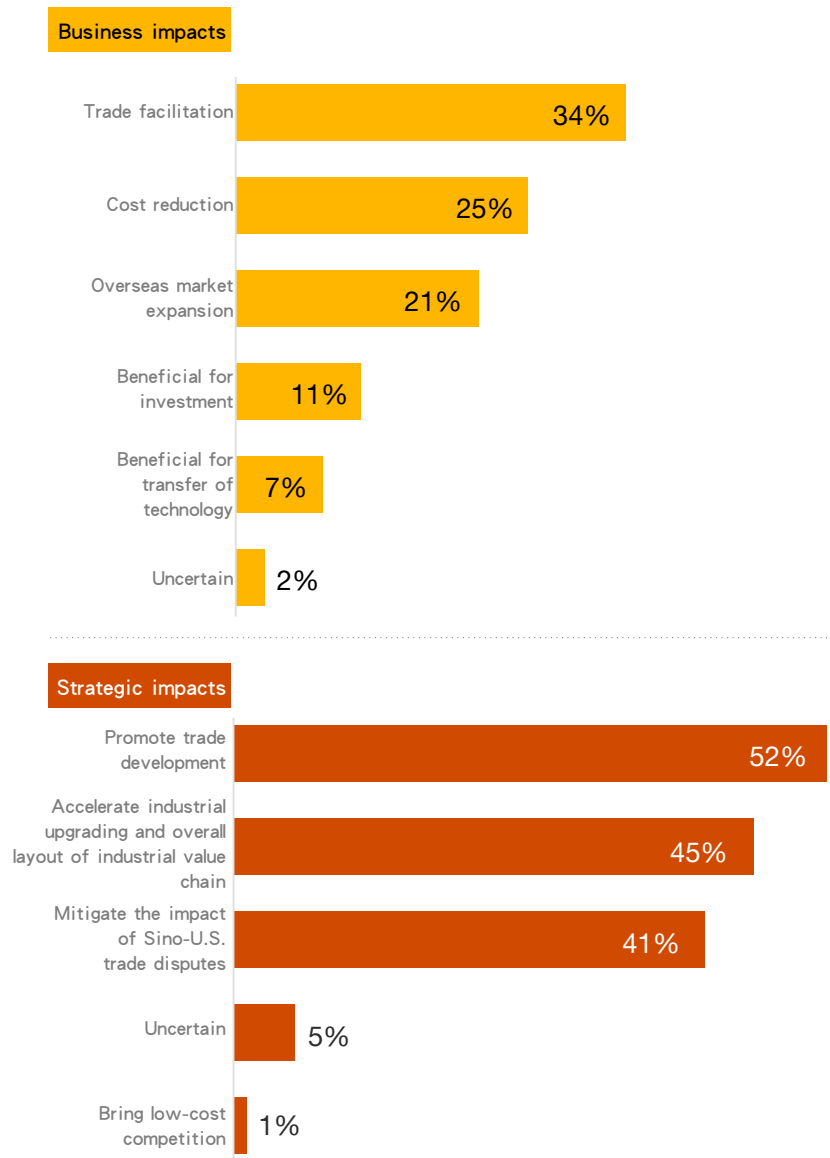


5. Notes: The positive and negative impacts of RCEP on a certain industry are non-mutually exclusive, that is, for example, the same respondent may simultaneously think that the manufacturing industry can benefit or be shocked.

3. RCEP will promote the development of trade business and industrial upgrade of ASEAN enterprises

The specific impact of RCEP on the enterprises can be divided into two levels: business and strategy. First of all, in terms of business, 34% of the ASEAN enterprises interviewed chose trade facilitation, followed by 25% for cost reduction, 21% for overseas market expansion, and relatively fewer respondents opted for facilitation of investment and technology transaction. At the strategic level, 52% of the respondents believe that RCEP will promote the development of trade, 45% believe that it will accelerate the industrial upgrading of enterprises and the overall layout of industrial chain, and 41% believe it can mitigate the impact of Sino-US trade disputes and diversify the risk of over-dependence on single market and supply chain.

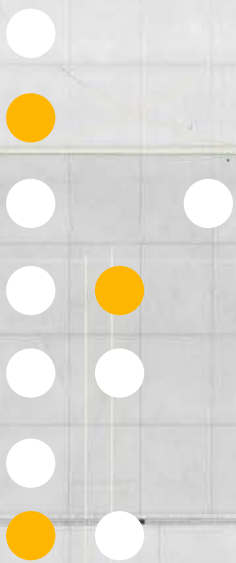
Chart 36: RCEP's specific impact on the ASEAN enterprises surveyed





Chapter 3

Current Status & Outlook of Trade Cooperation between Major ASEAN Countries and China



The ASEAN member states, on the one hand, have the same regional development goals, that is, to promote regional economic growth, social and cultural progress, and establish a prosperous and peaceful community of Southeast Asian countries and, on the other hand, have maintained their independent economic, industrial, cultural, and geo-political development. Therefore different ASEAN member states have different development stages, directions and goals in terms of their economic and trade cooperation with China.

To this end, we selected six major ASEAN member states based on their relative size of GDP, and together with local economic experts and industry consultants, conducted targeted summary analysis of the status quo, opportunities and challenges of economic and trade cooperation between these countries and China, as well as the impact of RCEP, in order to help readers better understand the local markets in ASEAN and provide a reference for formulating possible business strategies⁶.

1. Indonesia

1. Trade and Investment

Since the resumption of diplomatic relations between China and Indonesia in 1990, the two sides have significantly deepened their cooperation in trade and investment. In October 2013, Chinese President Xi Jinping first proposed the concept of jointly building the “21st Century Maritime Silk Road” during his visit to Indonesia, inviting positive reactions from ASEAN member states. Under this initiative, China and Indonesia have entered a stage of comprehensive strategic partnership cooperation. As of 2020, China has become Indonesia's largest trading partner for 10 consecutive years and has become its second largest source of foreign capital. According to statistics, the bilateral trade volume between China and Indonesia reached US\$ 78.37 billion in 2020, and the compound annual growth rate in the past five years was about 10%. In the same year, China's FDI in Indonesia reached US\$ 4.8 billion, accounting for 16.7% of the total foreign investment in Indonesia. In the first half of 2021, the bilateral trade volume between the two countries reached US\$ 53.57 billion, an increase of nearly 50% year-on-year, and China's investment in Indonesia reached US\$ 1.11 billion, an increase of more than 17% year-on-year.

Chart 37: **Bilateral trade volume between China and Indonesia**

Chart 38: **China's direct investment in Indonesia**

US\$ 100 million
US\$ 100 million



Data source:

National Bureau of Statistics of China, Ministry of Commerce of the People's Republic of China

6. Notes: When enumerating the economic and trade data between the six major ASEAN countries and China, we mainly chose the data from the National Bureau of Statistics of China and the Ministry of Commerce of the People's Republic of China in order to maintain the consistency of statistical methods and measures. In terms of investment data, the data from the relevant statistical agencies of the six major ASEAN countries are more than those from the National Bureau of Statistics of China and the Ministry of Commerce of the People's Republic of China, this is mainly due to the fact that local statistical departments mostly regard the projects declared by Chinese investors as the statistical caliber, which also reflects the active Chinese investment in ASEAN.



2. Opportunities and Challenges

Indonesia's development potential is recognised by Chinese investors beyond doubt. Based on Indonesia's natural resource advantages and the demand for infrastructure stimulated by economic development, Chinese enterprises have made a lot of investment in related fields, and are expected to maintain the current robust momentum. In March 2021, the Indonesian government announced plans to restart the first phase of capital relocation from Jakarta to East Kalimantan. The infrastructure construction part will rely heavily on the "PPP" model. The government is expected to bear only about 10%- 20% of the cost of constructing the new capital, which will generate significant opportunities of infrastructure investment and construction in the coming years.

In addition, with the huge domestic market size and consumption power, Indonesia's e-commerce and consumer market will also provide opportunities for Chinese enterprises. At present, China's Internet giants, such as Alibaba, JD.com and Tencent, are constantly expanding their presence in the Indonesian market. In the first half of 2021, Chinese smartphone brands Xiaomi, OPPO, RealMe and Vivo have occupied the top five in Indonesia, the world's fourth largest smartphone market, with a total market share of over 80%.

However, Chinese investors are still facing certain challenges when conducting business in Indonesia, mainly from the local complex regulatory requirements and management systems. According to the "Doing Business" report released by the World Bank in 2020, Indonesia ranked 73rd in the ease of doing business category in more than 180 economies. The local overlapping laws and regulations have generated uncertainty to investors, may lead to delays of investment projects. At the same time, government departments still have to improve transparency and uniformity in the management of investment projects. In particular, the complex tax system and higher degree of judicial

discretion made it difficult for investors to adapt. The skill level of workforce in Indonesia is also one of the main factors restricting the investment of Chinese enterprises. Indonesia, although with abundant labor resources, shows less advantages in productivity and professional skills, and the strong position of trade unions has made it difficult for investors to operate and manage locally. In addition, the absence of an effective and transparent business environment and local information inquiry system also adds to the difficulty for Chinese investors to conduct business or investment feasibility studies in the Indonesian market. Besides, investors have few ways to accurately understand the local economic, cultural, policy and other macroeconomic conditions, as well as the possible impact on their operations.

3. Impact and prospect of RCEP

The industrial and commercial sectors of Indonesia have appeared to welcome RCEP, believing that it is a way for Indonesia to expand and increase trade with the contracting states, and would give the country an opportunity to become the centre of production links in the global and regional supply chain. For the purpose of further relaxing the trade and investment restrictions between member states, RCEP will encourage the Indonesian government to improve its competitiveness and further optimise its business environment.

On the other hand, some entrepreneurs and economic experts in Indonesia also expressed concerns about RCEP, because they believe that RCEP will make the import of certain products easier and cheaper, posing a certain competitive threat to local enterprises that are mainly oriented to the domestic market. In addition, RCEP may also restrict the Indonesian government's policy decisions in certain areas, such as the current public health and climate issues facing the country. Moreover, the removal of tariffs may also cause a short-term negative impact on Indonesia's national income.

2. Thailand

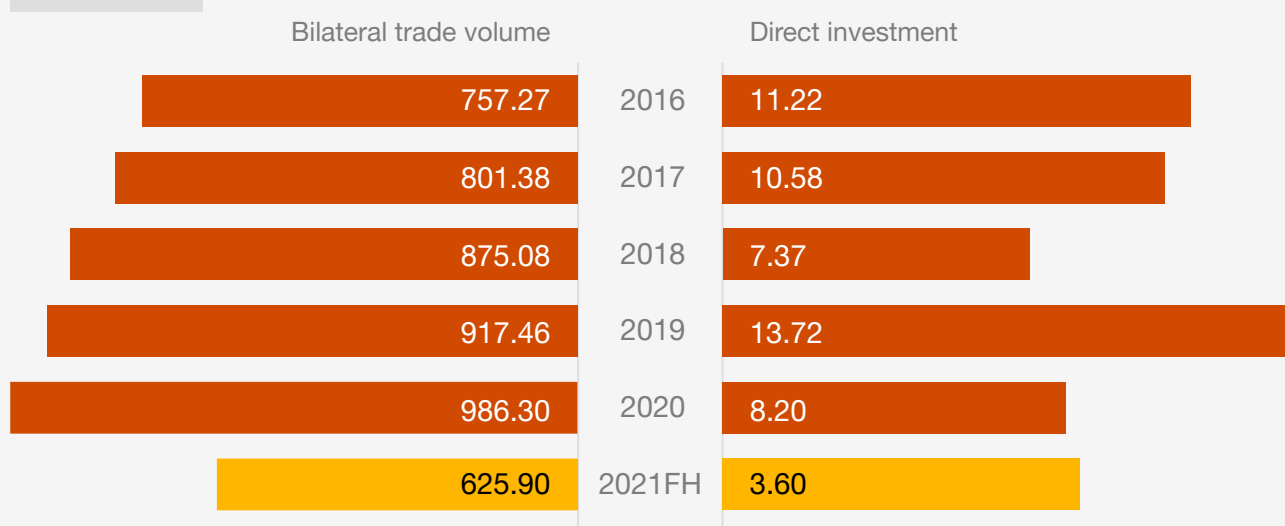
1. Trade and Investment

With a relatively leading consumer market among ASEAN countries, Thailand features a high degree of openness, encourages foreign investment and talent mobility, and also has regional competitive advantages in some manufacturing and agricultural sectors. Thailand and China have deep historical and cultural origins and long-term close economic and trade exchanges. As of 2020, China has been Thailand's largest trading partner and main source of foreign investment for eight consecutive years, while Thailand is also one of the top three ASEAN countries that have invested in China. The bilateral trade volume between the two countries reached US\$ 98.63 billion in 2020, and the annual compound growth rate in the past five years reached 7%. In the same year, China's foreign direct investment in Thailand reached US\$ 820 million. In the first half of 2021, China is Thailand's largest source of foreign investment, and has made a total investment of US\$ 360 million, accounting for 19% of the latter's total FDI.

Chart 39: **Bilateral trade volume between China and Thailand**

Chart 40: **China's direct investment in Thailand**

US\$ 100 million



Data source: National Bureau of Statistics of China, Ministry of Commerce of the People's Republic of China

2. Opportunities and Challenges

The Thai government has been committed to all-round reduction of obstacles to foreign economic and trade cooperation. Compared with other ASEAN countries, Thailand has performed well in building a business environment suitable for foreign investment, specifically through improving the government's service efficiency in terms of business registration and other aspects, simplifying the approval procedures for foreign exchange supervision, and increasing the limit of overseas

remittances. Thailand ranks 47th and 62nd in the world respectively in the "Doing Business 2020" release by the World Bank and the Trading across Borders rankings.

In order to further attract foreign investment, the Thai government has launched a multi-level industry investment incentive policy focused on the manufacturing industry, including the foreign business preferential frameworks such as Thailand Board of Investment (BOI) and the Eastern Economic Corridor (EEC), specifically involving reduction and exemption of corporate income tax, import tariffs on production equipment, import tariffs

on raw materials for production and research and development, and permission of land ownership. Foreign investment in certain industries can be exempted from corporate income tax for up to 10 years and import tariffs for up to five years.

Thailand is a relatively developed economy among the ASEAN member states. Although only ranking 4th among ASEAN countries by population size, Thailand has a relatively high income level and active consumer market and is also one of the most popular destinations for tourism and residence, having a local consumer market supported by a large immigrant population. During the pandemic, in order to maintain the overall market vitality and hedge against the risk of the pandemic, the government has also introduced largescale programs to increase residents' sources of income by supporting under-privileged groups and strengthening continued investment in infrastructure projects.

From the industrial standpoint, Thailand is one of the manufacturing centres of ASEAN. Thanks to the early technological and capital investment from developed countries, Thailand has accumulated strong industrial advantages, evidenced by its more than 2,400 enterprises and 750,000 employees in electrical and electronic product manufacturing. In the automotive sector, Thailand is home to manufacturing plants of most major brands in the world. Coupled with its natural agricultural resource advantages, Thailand is industrial complementary with China to a certain degree. In addition, Thailand has relatively low labour costs and sufficient skilled employees, and has the minimum wage in major foreign investment regions increased by less than 1% from 2015 to 2020, representing a higher wage efficiency ratio among ASEAN countries. The above factors, combined with Thailand's superior geographic location, relatively robust infrastructure and public utilities, and inclusive and similar historical culture, are all conducive to the development of economic and trade cooperation between China and Thailand.

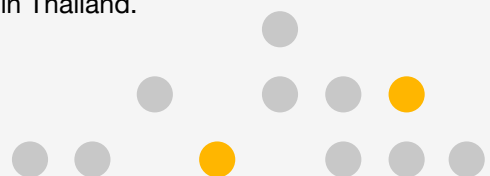
Electrical and electronic product manufacturing is the sector where China has invested the most in Thailand, with a total investment of US\$ 314 billion, followed by metal products and machinery manufacturing. In addition, according to Thai BOI statistics, Chinese investors are also highly enthusiastic about Thailand's solar cell and tire manufacturing. Related industries have received Chinese investment of up to US\$ 289 billion and US\$ 219 billion, respectively. Thailand has the

potential to become a strategic centre connecting other ASEAN countries. In addition, Thailand has the ability to provide necessary materials and labour for the manufacturing industry, and maintains good political and economic relations with developed countries in Europe and the United States. Hence, Chinese investors usually choose Thailand as the overseas base for production expansion and intermediary trade.

At present, the main obstacles to business operations confronted by Chinese investors in Thailand lie in the restriction on access to certain industries in the Foreign Investment Law and the management of cultural conflicts. In terms of cultural conflict management, Thai employees value company welfare and work-life balance. Therefore, overtime work, which are more common in China, are often difficult to arrange. As a result, Thailand, despite of a certain advantage in labour cost, may still have a greater room for improvement in overall labour efficiency compared with China.

3. Impact and prospect of RCEP

Although Thailand has participated in many free trade agreements, different free trade agreements have different rules, and it may be more complicated for enterprises to manage the application of multiple free trade agreements at the same time, these issues can be resolved under a unified RCEP regime. In addition, RCEP simplifies the exporter's rules of origin and cumulatively opens up more regions (that is, using materials from all member states as materials of origin), giving manufacturing enterprises in Thailand more flexibility in supply chain configurations. However, RCEP may cause harm to local Thai enterprises in multiple industries due to reduced tariffs. Commitment to the contracting states to give the same national treatment to domestic and foreign investors may require revising some restrictions on the current protective market access, thereby resulting in more competition, for local small and medium-sized enterprises in Thailand.



3. Malaysia

1. Trade and Investment

With abundant natural resources, Malaysia is one of the leading ASEAN countries in terms of economic development and openness. Malaysia has a certain degree of industrial agglomeration and a relatively complete industrial system thanks to the inflow of foreign investment and industrial transfer from the US, Europe, Japan and South Korea especially in the 1990s. Meanwhile, due to its relatively small population size and total economic volume, the main production capacity in Malaysia is highly dependent on overseas markets. Besides, it has maintained the total international trade volume at about 1.2 times of GDP in 2020, an indication of a high degree of dependence on foreign economies. Therefore, promoting trade and investment exchanges with other countries is one of the main levers for Malaysia to develop its economy, especially through the economic and trade cooperation with China. For the past ten years, China has been Malaysia's largest trading partner and an important source of foreign investment. From 2016 to 2020, the bilateral trade volume between China and Malaysia rose from US\$ 58 billion to US\$ 79 billion, with a compound annual growth rate of nearly 8%. In 2020, China's foreign investment in Malaysia reached US\$ 4.4 billion, making it the largest source of foreign investment in Malaysia's manufacturing industry for five consecutive years. In the first half of 2021, driven by the demand for electronics and electrical products (E&E), manufactures of metal and LNG, Malaysia has seen a rapid growth in total exports and imports, with exports to China increased by 27.7% and imports from China increased by 31.7%⁷.

Chart 41:

Bilateral trade volume between China and Malaysia

Chart 42:

China's direct investment in Malaysia

US\$ 100 million



Data source: National Bureau of Statistics of China, Ministry of Commerce of the People's Republic of China, Bank Negara Malaysia

2. Opportunities and Challenges

Malaysia has a highly open and friendly business environment, ranking 2nd in the ASEAN region and 12th in the world in the World Bank's Doing Business 2020. Since the 1980s, Malaysia has begun to actively attract foreign investment. This is driven by the inflow of labor-intensive industries in the country's early stage of development, together with the natural resource advantages in oil and gas, tin ores, rubber and other fields,

7. Data source: Malaysia Department of Statistics

8. Data source: MATRADE (Malaysia External Trade Development Corporation)

Malaysia has gradually formed an industry structure with E&E, petroleum, chemical, palm oil and rubber products, and machinery and equipment as its core, and export processing as a growth engine.

As the economy enter the 21st century, capital and technology-intensive industries have gradually become new growth pillars, and the industries such as electronic and electrical manufacturing, rubber deep processing, and information technology have been the main areas attracting foreign investment. Malaysia is currently the world's largest exporter of 33 products, including palm oil, optical testing equipment, petrochemical products, and rubber products⁸.

For China, in addition to the attractiveness of the aforementioned industrial advantages, Malaysia's geographic location in the key energy spots of the Strait of Malacca also has huge strategic significance. For Malaysia, the importance of the Chinese market is unquestionable, and Malaysian Chinese make up a major proportion of the country's population and are an important force in its economic development. Therefore China and Malaysia have formed an inseparable bond with mutual reliance on politics, economy and trade, and culture.

China and Malaysia have jointly signed a number of free trade agreements, and have also reached a number of cooperation memorandums of understanding between the government and the private sector. In recent years Malaysia has expressed strong interest in China's high-tech and clean energy technologies. When the then Prime Minister of Malaysia visited China in 2018, he clearly expressed his interest in obtaining technology transfer from Chinese investment, with the purpose of promoting Malaysia's digital innovation. In addition, Malaysia and China have also signed a bilateral currency swap agreement and, considering the huge levels of trade and investment between the two countries, this extended currency swap arrangement will further promote bilateral trade and investment, as well as financial market liquidity.

China is the largest foreign investor in the manufacturing industry in Malaysia. Between 2016 and 2020, the Malaysian Investment Development Authority has approved more than 170 investment projects from China with a total value of more than US\$ 9.5 billion. Chinese investors are currently most interested in the manufacturing of photovoltaic module and steel industries, followed by information and communication, semiconductor packaging and testing, infrastructure, tropical agricultural products and marine aquaculture.

Malaysia's change in governance system may be the main reason for the uncertainty of China's investment in Malaysia, and policy continuity is the most concerned issue for Chinese investors. Malaysia had once re-examined the approved large-scale foreign investment projects due to the change of leadership in government, especially in the infrastructure and public utility industries, which caused delay or termination of some foreign investment projects to a certain extent.

3. Impact and Prospect of RCEP

RCEP will intensify the competition between Malaysia and other ASEAN countries, but the market generally believes that its benefits will outweigh its potential negative impacts. In addition to trade promotion, in terms of manufacturing, the Federation of Malaysian Manufacturers pointed out that RCEP will encourage Malaysian enterprises to actively improve their competitiveness and encourage SMEs to enter global and regional supply chain markets through digital technology. Meanwhile RCEP will benefit Malaysia's trade recovery and reconstruction after the pandemic, covering such industries as telecommunication, financial services, E&E, chemicals, rubber, plastics, and machinery and equipment.

The Ministry of International Trade and Industry of Malaysia stated that RCEP is expected to expand market access (such as price-competitive raw materials), integrate supply chains within and between the contracting states, and improve trade practices and standards, like increased transparency and trade facilitation, E-commerce standardisation, intellectual property protection, etc., which will help Malaysia continue to leverage its advantages in export-orient economy.



4. Singapore

1. Trade and Investment

As the most developed country in the ASEAN region, Singapore enjoys an advantageous geographic location, stable economic growth, sound legislation, openness and transparency, safety and livability, strong cultural tolerance, and good geopolitical relations. Singapore has world-leading competitiveness in the semiconductor, precision engineering, medical, chemical, aviation and logistics industries. Serving as an important global logistics centre and the fourth largest international financial centre, Singapore has attracted many major countries in the world, including China, to establish close relations with it with respect to political, economic, and trade cooperation.

In 2009, Singapore signed the China-Singapore Free Trade Agreement, becoming the first country in Asia to sign a comprehensive bilateral free trade agreement with China. The bilateral trade and investment between the two sides entered a new growth phase. Since 2013, China has been Singapore's largest trading partner, and Singapore has become China's largest source of foreign investment (excluding the investment in the mainland by Hong Kong SAR, Macao SAR and the Taiwan region).

In 2020, the bilateral trade volume between China and Singapore reached US\$ 89.09 billion, with an average annual growth rate of more than 6% in the past five years. In the same year, China's investment in Singapore reached US\$ 6.63 billion, with an average annual growth rate of more than 20% in the past five years. Singapore's investment in China reached US\$ 7.681 billion, with an average annual growth rate of 6% in the past five years.

Chart 43: **Bilateral trade volume between China and Singapore**

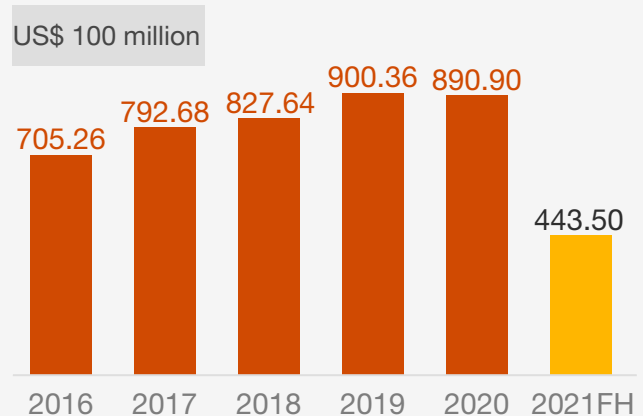
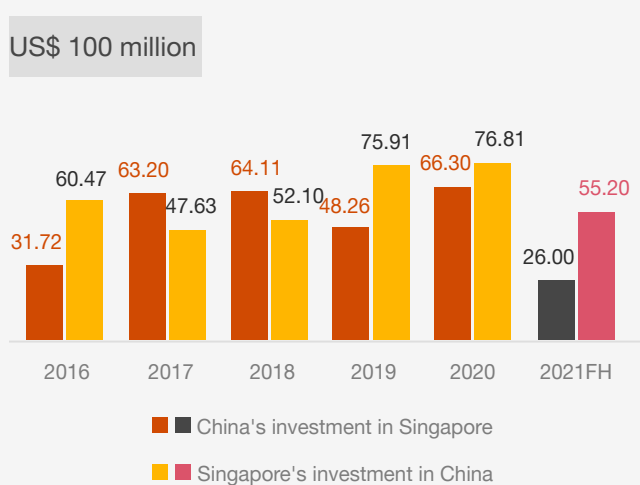


Chart 44: **Bilateral direct investment between China and Singapore**



Data source: National Bureau of Statistics of China, Ministry of Commerce of the People's Republic of China

2. Opportunities and Challenges

Since the 1960s, Singapore's manufacturing industry has undergone a transformation from being labor-intensive, to capital-intensive and technology-intensive. This has led to the creation of a comprehensive, end-to-end industry cluster, showcasing its world-class competitiveness in the semiconductor, precision engineering and other industries. Singapore has gradually transformed from a single-wheel drive by manufacturing to a dual-pillar economy of service and manufacturing industries. At present, high-value-added manufacturing industries, especially electronics and precision manufacturing, are still the main impetus of Singapore's economic growth, while non-financial services, information and communications, and finance and insurance industries have also demonstrated breakneck growth in recent years.

The economic ties between China and Singapore are mainly associated with trade and finance. Singapore's advantages in manufacturing and service industries have been reflected in the trade cooperation with China. Singapore is not only the ASEAN member state with the largest bilateral trade volume with China, but also the only one that has maintained a long-term service trade surplus. In terms of commodity trade, Singapore has always maintained significant amount of exports of semiconductors and precision engineering products to China, while China mainly imports electrical and electronic equipment and mechanical equipment. For service trade, Singapore's transportation services and financial insurance services are the main services imported by China. The "Updated China-Singapore Free Trade Agreement" that came into effect in 2019 has further liberalised trade in goods and services.

With the continuous development of the China-Singapore cooperation, more Singapore enterprises have begun to set foot in China's service industry. The high competitiveness of Singaporean enterprises in food, medical treatment, education and environmental services matches Chinese residents' growing demand for a higher-quality life. At the same time, Singapore is also actively building its own extraterritorial industrial parks in China to get around its problem of space constraints and promote the formation of transnational industrial clusters. Recent cooperation projects include the China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity (CCI), and the famous Sino-Singapore Suzhou Industrial Park project and Sino-Singapore Tianjin Eco-city project.

The Sino-Singapore (Chongqing) project, which features a new trade route connecting China and Southeast Asia via Singapore, will require integrated logistics and multimodal transport solutions. This is the core industry advantage that Singapore has accumulated over the years. In addition, Singapore's mature financial ecosystem comprises large international financial institutions, including DBS Bank, OCBC Bank, and UOB, which have also been expanding their branch networks in China to attract more Chinese customers looking to enhance their international financing capabilities.

Singapore's financial and insurance industries have absorbed major Chinese investment. Driven by the active promotion and expansion of Singapore's bank branches in China, about 80% of Chinese FDI flows into the related industries each year. Meanwhile, Singapore's ageing population and increasing emphasis on the environment and healthcare industry will provide potential opportunities for Chinese investors. The rise of e-commerce in

Singapore in recent years will provide Chinese investors with the opportunity to enter the mass market of Southeast Asia, leveraging the city state as a regional hub.

3. Impact and Prospect of RCEP

Majority of the Singapore market believe that RCEP is expected to increase overall trade flows between the contracting states, deepen cross-border industrial links among the 15 member economies, and realise a diversified product centre in non-ASEAN regions. This is achieved by enabling Singapore and ASEAN to integrate more deeply into the global supply chain. In addition, under the context of rising trade protectionism, trade flows between China and the United States may see a long-term slowdown, which will lead to a decline in global business confidence and have a serious impact on countries that have benefited thus far from globalisation, such as Singapore. In this context, RCEP can bring new international economic and trade cooperation models and channels, inject new impetus into the global economy, and promote and maintain the development of multilateralism.

According to the RCEP rules, foreign shareholding restrictions in at least 50 sub-sectors will be opened among the contracting states, including sectors in which Singapore has an advantage, such as professional services, telecommunications and financial services. This will enable Singaporean enterprises to enter a wider market, including China, in a more transparent and convenient manner. In addition, this will also provide opportunities for Chinese enterprises to invest in Singapore and promote the latter's economic growth.

Singapore will also benefit a lot from RCEP's rules of origin. The export enterprises will be able to enjoy preferential tariffs for purchasing raw materials in any of the RCEP contracting states and selling them to those states. The commitments of RCEP member states in e-commerce, digital services, intellectual property protection, dispute resolution and other key areas of digital trade coincide with Singapore's long-term goal of becoming a global knowledge and digital economic centre.

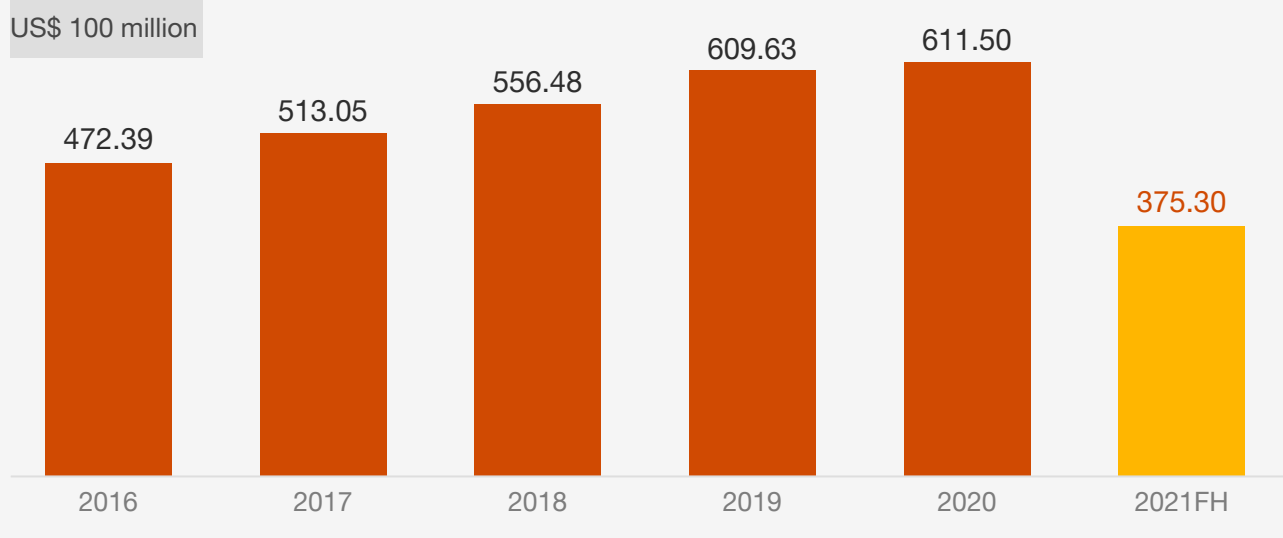
5. The Philippines

1. Trade and Investment

The Philippines is one of the ASEAN countries that has achieved rapid economic growth at an early stage, but it experienced a short period of stagnation in the middle of the last century. After that, it adhered to the economic-centric development strategy and recovered economic growth. Thanks to abundant natural resources, demographic dividend, and good education and business foundation formed by the early influence of European and American countries, the Philippines has gradually built a number of industrial advantages in the fields of business outsourcing services, tourism, and minerals. Meanwhile, the Philippines also have maintained good diplomatic relations with China, evidenced by continuous high-level exchanges of visits between the two countries. The Philippines attaches great importance to China's technology, capital, market, and favorable geopolitical relations with China, and in turn, the latter also pays great attention to the Philippines' advantageous industries and infrastructure needs, and actively supports Philippines' economic development.

China is currently the Philippines' largest trading partner. In 2020, the bilateral trade volume between the two countries reached US\$ 61.150 billion, with an average annual growth rate of about 7% in the past five years. China became one of the top three sources of foreign investment in the Philippines in 2018 and 2019, declined slightly in 2020. However, China's overall investment in the Philippines is still relatively small, and the investment volume in the first half of 2021 is approximately US\$ 89.24 million.

Chart 45: **Bilateral trade volume between China and the Philippines**



Data source: National Bureau of Statistics of China, Ministry of Commerce of the People's Republic of China



2. Opportunities and Challenges

The Philippines, the second most populous country in Southeast Asia, with its official language being English, is one of the countries with the highest English literacy rate in ASEAN, reaching 93%, rendering the country the natural advantage in international service export. Being the world's largest call service centre, the Philippines has attracted Chinese online education enterprises to invest in the country and employ local English teachers through the intermediary model. In addition, the Philippines is rich in natural resources, with high reserves of such minerals as chromium, copper, nickel, coal and others. Since Indonesia promulgated the ban on the export of nickel ores, the Philippines has become the world's largest exporter of nickel ores.

With a forest coverage rate of 52.7%, the Philippines produces precious woods such as ebony and red sandalwood. Moreover, the Philippines ranks first in the world in aquatic resources, especially the tuna, and has the developed seawater/freshwater fishing grounds of more than 2,080 square kilometers. The main products China imports from the Philippines include minerals (nickel/coal) and fresh food, while the products imported by the Philippines from China are mainly telecommunications and other computer equipment. At present, a large number of enterprises in the Philippines hope to collaborate with Chinese enterprises in retail, telecommunications, energy, real estate, logistics and financial services.

In order to promote economic development, the Philippines has also released a series of preferential measures to guide and encourage foreign investment, like the "Investment Priority Plan", for the purpose of "promoting inclusive growth through industrial development", covering 7 categories and 22 priority industries, focusing on energy, chemical, automotive, waste treatment, environmental protection and energy conservation, and construction. However, China still faces certain challenges when making investment in the Philippines, including local policy instability and market access restrictions. The upcoming national elections in 2022, for example, may cause the current government's policy continuity to fluctuate. In terms of market access, there are still many industries in the Philippines that do not allow foreign holdings, since nationalisation restrictions still exist in key sectors such as real estate, telecommunications, and retail.

Although Philippines has attempted to resolve the

above problems by promulgating a series of laws and regulations, including the "Business Facilitation and Efficient Government Service Delivery Act of 2018", Chinese enterprises are still relatively cautious about investing in the Philippines, and most investment originate from state-owned enterprises in related fields in response to the country's demand for economic infrastructure. One example is the development project of DITO TELECOMMUNITY CORPORATION, a joint venture with China Telecom, currently the largest Chinese investment project in Philippines.

3. Impact and Prospect of RCEP

The signing of the RCEP will present both opportunities and challenges for Philippines. Based on the current economic development status and industrial foundation, it is difficult to analyse the pros and cons given the complexity. The opening of service trade and population mobility under RCEP will promote the development in commercial outsourcing services. The promulgation of accumulation rules of origin will also bring a larger market for Philippines' resource exports, and lower tariffs will benefit Philippines accordingly with more inexpensive and good-quality goods, promote the development of wholesale and retail, and reduce the consumption burden of residents. Furthermore, the industry opening, customs facilitation, and unified standards along with the RCEP will also urge Philippines to further expand market access, enhance the transparency of legal environment, deepen the operating mechanism of market economy, and promote industrial upgrading.

Although the scale of Philippines' GDP lies in the middle level within ASEAN, it features relatively weak industrial foundation and mediocre advantages compared with other major ASEAN countries. The opening up brought by RCEP will introduce competition into Philippines with other ASEAN countries in the form of more extensive direct industry competition, for example with the manufacturing industry from China, Japan, and South Korea, and with the resource industry from Australia and New Zealand. With the upcoming nationwide elections, it will impose a huge challenge for Philippines to properly cope with such competition.



6. Vietnam

1. Trade and Investment

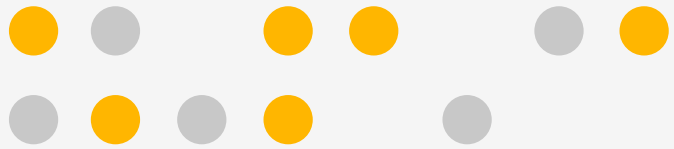
As one of the ASEAN countries with the most dazzling economic growth in recent years, Vietnam boasts high geographic proximity to China, competitive labour costs, preferential foreign investment incentive programs, stable social and political environment, unified national management system focusing on economic development, and trade agreements with multiple countries. Vietnam has positioned itself as a new world manufacturing centre, actively carried out institutional and policy reforms, strived to opening the door to cross-border trade and investment, and established brand-new bilateral and multilateral relations. The approval and implementation of the EU-Vietnam Free Trade Agreement and Investment Protection Agreement in 2020 is another important milestone for Vietnam's economic integration.

In the context of increasingly tense global business environment, Vietnam's development direction and positioning of its economy and industry, as well as its international relations, have provided Chinese goods and services with an alternative passage to access the international market, and accordingly Vietnam has become one of the best destinations for Chinese enterprises to transfer their supply chains, and thereby promoted the economic and trade cooperation between the two nations. From 2016 to 2020, the bilateral trade volume between China and Vietnam rose from US\$ 98.276 billion to US\$ 192.28 billion, with an average annual growth rate of over 18%. During the same period, China's direct investment in Vietnam also remained at an annual average of about 1.2 billion U.S. dollars, making China one of the top five sources of foreign capital for Vietnam. It is worth noting that although China is Vietnam's largest source of imports, Vietnam's trade surplus actually comes from the United States and the European Union, the two main export destinations. Vietnam's import demand from China is mainly concentrated in production equipment, refined processing raw materials and semi-finished products, including electrical and electronic equipment, mechanical equipment, textile raw materials, etc., clearly demonstrating its economic characteristic of re-export processing.



Data source: National Bureau of Statistics of China, Ministry of Commerce of the People's Republic of China

2. Opportunities and Challenges



Vietnam's primary task in recent years is to develop the economy, and the government has taken many measures in terms of regulatory and administrative reforms to improve the local business environment and enhance the national competitiveness, including simplifying administrative procedures and reducing costs, constantly improving relevant laws, adjusting economic structure, and reforming the growth model, etc. Vietnam is fulfilling its commitment to reducing tariffs by 98% within ASEAN, and also providing special tax exemptions and the preferential tax rates as low as 10% or 15% for investment enterprises participating in incentive programs. Furthermore, Vietnam has signed about 80 bilateral trade agreements to pave the way for more favorable conditions for Vietnamese enterprises to enter the international market. In addition, Vietnam has also continuously sought to improve infrastructures such as national industrial parks, export processing zones and economic zones, and these facilities can provide foreign-invested enterprises with a variety of entry options. Although the COVID-19 pandemic has caused a huge economic impact, Vietnam still managed to achieve positive economic growth in 2020, setting a role model for successful value chain transformation in Asia. In recent years, the Vietnamese government has strengthened its investment in public education, improved the quality of labour in terms of employee culture, skills training, and professional qualifications, thus enhancing labour productivity in preparation for the transfer of manufacturing industries from China, Japan, South Korea and other countries.

In the early days, Vietnam was based on agriculture and gradually developed labor-intensive manufacturing, and has amassed great experience in the field of light industry and textile. Now Vietnam is transforming into a capital and technology-intensive export economy dominated by foreign capital. In the past five years, Vietnam has attracted high-tech enterprises including Samsung, Microsoft, LG, Foxconn, etc., and also driven the migration of supporting links in the relevant industrial value chain to the country.

In general, the top five attractive industries in Vietnam are light industry and electronic parts manufacturing, electric energy, real estate, wholesale and retail, and communication technology. Most of China's investment in Vietnam focus on the light industrial manufacturing, and the focus of investment has gradually shifted from Vietnam's advantages in labor cost and tax incentives to circumventing anti-dumping trade barriers. Consumer electronics, e-commerce, and logistics industries are more attractive to other foreign investors. In addition, with the gradual increase in the proportion of the young population and middle class in Vietnam, the real estate industry has

also attracted attention from foreign investors.

When investing in Vietnam, Chinese enterprises usually face certain difficulties in regard to industry access, location selection, land ownership, and expatriate personnel. The geographic location and development level of northern Vietnam, for example, are beneficial to enterprises migrating from China, but this comes with a higher labour costs accordingly. Lands in Vietnam are public properties subject to the public ownership, representation and management rights under the state, and foreign investors do not yet have the right to buy or sell land use rights. Finally, it is also involves a cumbersome process for Chinese experts to obtain work permits in Vietnam.

3. Impact and Prospect of RCEP

Joining RCEP will further help Vietnam reduce trade barriers and improve market access for its products. The main export industries are expected to benefit from RCEP including information technology, footwear, agriculture, automobiles and telecommunications. RCEP will also bring new service trade opportunities to the country's communications, finance, logistics and e-commerce industries. After joining RCEP, Vietnamese enterprises can import production materials from a wider area with preferential tariffs. RCEP will benefit Vietnam since much of Vietnam's production inputs come from the countries that have not previously joined trade agreements with Vietnam, such as China and South Korea.

The challenges facing Vietnam mainly include the more intense competition that comes along with RCEP. The imported products with lower tariffs will deprive domestic products of their comparative advantages. Since long-standing trade agreements that do not involve China had existed between Vietnam, and Japan and South Korea, and other ASEAN countries, Vietnam has certain non-industrial competitiveness or non-technological advantages in some areas compared with China. However, these advantages will no longer exist after the implementation of RCEP. Compared with Vietnam, China has obvious industrial advantages other than labour. Japan, South Korea and other enterprises that originally targeted Vietnam for collaboration may consider shifting their operations to China.

Appendix

– Brief Analysis of Regional Comprehensive Economic Partnership

On November 15, 2020, China, ten member states of ASEAN, Japan, South Korea, Australia and New Zealand formally signed the Regional Comprehensive Economic Partnership (RCEP). The member states are currently speeding up the approval procedure in order to enforce the agreement. As of the end of July 2021, Thailand, China, Singapore, and Japan have successively completed the domestic approval procedures for the RCEP, and the member states unanimously stated that they will actively promote the formal enforcement of the agreement on January 1, 2022.

1. Signing RCEP: coexistence of strategic and economic significance

Compared with WTO, the RCEP has higher openness, higher final zero-tariff arrangement (90% vs 85%), richer investment rules, and deeper arrangement of modern issues like intellectual property and e-commerce. The different economic development level of RCEP member countries determines that trade opening and market access cannot be achieved overnight at this stage, and the relevant standards are inferior to the “Comprehensive and Progressive Trans-Pacific Partnership Agreement” (CPTPP). However, RCEP’s economic influence will exceed CPTPP because the economic scale, intra-regional trade volume and population of the area covered by RCEP account for about 30% of the world. Especially in the context of the rise of “zero-sum mentality” in international economics and trade, and the faltering economic recovery around the world, the signing of RCEP is of great significance and far-reaching impact on the world, the Asia-Pacific region as well as China.

From a global perspective, the signing of RCEP is conducive to boosting the confidence of countries and promoting global economic recovery; facilitating the formation of a global economic structure dominated by North America, the European Union and Asia; providing experience for WTO reform and the construction of multilateral free trade mechanisms, and accelerating the conclusion of other multilateral and bilateral free trade agreements and the reconstruction of a high-standard international investment and trade rule system.

From a regional perspective, the entry into force of RCEP will accelerate the free flow of commodities, technologies, talents, capital, data and other elements within the region, and help the 15 member states to jointly cope with the uncertainty of international economic and trade environment, promote the liberalisation and facilitation of intra-regional trade and investment, strengthening the resilience of the industrial and supply chain in the region, and enhance the well-being of the people of relevant countries.

From the Chinese perspective, RCEP is conducive to stabilising foreign trade and foreign investment, and expanding domestic demand, and provides strong support for the construction of a new dual circulation economic development strategy. It will further push domestic industrial transformation and upgrading, while opening up the domestic economy to promote innovation, reform, and high-quality development. In addition, in line with the “Belt and Road” initiative, RCEP overlaps the domestic independent open platforms, helping to build a comprehensive, multi-layered, and three-dimensional pattern of opening-up and connection with the rest of the world.

2. RCEP Framework: Facilitating the continuous deepening of China-ASEAN economic and trade cooperation

In 2011, ASEAN first proposed the concept of RCEP. Under its leadership, RCEP negotiations were officially launched in 2012. Since then, RCEP has achieved positive results after 8 years and 31 rounds of formal negotiations. The signing of RCEP not only embodies the important achievement of deepening bilateral cooperation between China and ASEAN, but also will push the two sides into a new era of economic collaboration.

There will be a huge growth potential of trade in goods and services. Although the pace of market liberalisation of trade of goods promised by China and ASEAN in the RCEP does not completely exceed the free trade agreement signed previously, the application of the accumulation rules of origin, customs facilitation, and the unification of technology and standards, as well as the opening of investment and market access under the RCEP, from a regional perspective, will promote the reconstruction of the industrial chain, supply chain and value chain in the region, and provide a powerful impetus for the growth of China-ASEAN trade in goods.

In addition, it is worth noting that under the RCEP framework, China has made the commitment of market openness at the highest level to service trade so far, and ASEAN has also made high-level opening

arrangements for service sectors that China focuses on, providing institutional guarantees for the growth of bilateral service trade. The development of bilateral trade in goods and bilateral investment will also substantially drive the growth of trade in services and productive services directly related to trade of goods.

China and ASEAN have seen an increase in bilateral investment, and deepened industrial integration. ASEAN member states include developed countries, developing countries and even the least developed countries, with clear industrial levels and strong synergy with China in terms of industrial structure. Most ASEAN countries have comparative advantages in resources, energy, and labor-intensive industries, while China has comparative advantages in high-end manufacturing, Internet, communications, and industrial chain integrity. In the future, the two sides will have a large space for collaboration in traditional industries such as infrastructure, energy, and manufacturing. China can, based on its own industrial advantages, further increase investment in ASEAN by enterprises in textile and apparel, machinery manufacturing, automobile manufacturing, electrical, petrochemical and other sectors, ASEAN can also gradually expand its investment in China from the perspective of technology, capital, innovation, and on the basis of service industry output that continuously deepened China-ASEAN economic and trade collaboration.

In addition, China and ASEAN have achieved more collaborative results in digital infrastructure construction and digital industrial transformation. According to the “White Paper on China-ASEAN Digital Economy Cooperation” released by the National Industrial Information Security Development Research Centre in April 2021, there are 989 million internet users in China and close to 500 million in ASEAN, and there is huge room for collaboration between the two parties in the digital economy in the future. RCEP regulates cross-border data transmission and is committed to promoting cross-border data flow within the region. It will provide the conditions for implementing the Initiative on Building China-ASEAN Partnership on Digital Economy and accelerating collaboration between the two parties in the digital economy.

3. Main terms of RCEP: practical, forward-looking and advanced

The RCEP agreement consists of a Preamble, 20 Chapters, and 4 Market Access Annexes, and involves the market access and facilitation issues in the three major areas, i.e. goods, services and investment, as well as the new topics in the 21st century’s negotiations on international economic and trade rules, such as intellectual property rights, e-commerce, and government procurement, and dispute settlement. It is a modern, comprehensive, high-quality, and mutually beneficial large-scale regional free trade agreement.

Text of RCEP Agreement

Preamble

20 Chapters

Chapter 1 Initial Provisions and General Definitions	Chapter 6 Standards, Technical Regulations, and Conformity Assessment Procedures	Chapter 11 Intellectual Property	Chapter 16 Government Procurement
Chapter 2 Trade in Goods	Chapter 7 Trade Remedies	Chapter 12 Electronic Commerce	Chapter 17 General Provisions and Exceptions
Chapter 3 Rules of Origin	Chapter 8 Trade in Services	Chapter 13 Competition	Chapter 18 Institutional Provisions
Chapter 4 Customs Procedures and Trade Facilitation	Chapter 9 Temporary Movement of Natural Persons	Chapter 14 Small and Medium Enterprises	Chapter 19 Dispute Settlement
Chapter 5 Sanitary and Phytosanitary Measures	Chapter 10 Investment	Chapter 15 Economic and Technical Cooperation	Chapter 20 Final Provisions

4 Annexes: schedules of commitments

Annex I Schedules of Tariff Commitments

Annex III Schedules of Reservations and Non-Conforming Measures for Services and Investment

Annex II Schedules of Specific Commitments for Services

Annex IV Schedules of Specific Commitments on Temporary Movement of Natural Persons

1. Rules for the liberalization of trade in goods: Committed to speeding up the elimination of tariff and non-tariff barriers in the region

Chapters 2-7 of the RCEP deal with the rules in the field of trade in goods. The degree of openness is mainly reflected in the commitment to tax reduction and the arrangements for rules of origin and trade facilitation.

Over 90% of goods will achieve zero tariffs and be provided with accelerated or improved tax reduction

In general, the RCEP liberalisation rate of trade in goods exceeds 90%, that is, more than 90% of the trade in goods in the region will eventually achieve zero tariffs after the agreement takes effect, and the tariffs will be zero immediately or reduced to zero within the next 10 years. The signing of RCEP will, for the first time, establish a free trade partnership between China and Japan, and between Japan and South Korea, laying a solid foundation for the China-Japan-Korea free trade area negotiations and the integration process of East Asia, and will promote the flow of commodity elements in the region on a larger scale and at a deeper level.

It is worth noting that according to RCEP, contracting states can unilaterally accelerate or improve tariff commitments at any time, and two or more contracting states can also accelerate or improve tariff commitments based on consensus, and the latest arrangements will benefit all member states.

The rules of origin are flexible, unified and widely beneficial

Originating goods are a prerequisite to enjoy preferential tariff rates under RCEP. Compared with other free trade agreements, the rules of origin under RCEP are richer and more detailed.

The application of regional accumulation rules will greatly reduce the threshold for member states' enterprises to obtain preferential tariffs and increase the diversity of the industrial value chain layout in the region. Under the RCEP framework, regional accumulation will be implemented in two phases. The first stage is to accumulate the goods or materials in the region after the agreement enters into force; and the second stage is to expand the scope of application of accumulation to all production and value-added goods in the contracting parties, that is, complete accumulation in the true sense.

The diversified rules for the application of the qualifications of origin will increase the autonomy of enterprises in the application of the rules of origin. For wholly obtained goods, RCEP has formulated substantial transformation standards, including regional value content 40 (RVC40) standard, tax classification change standards (chapter changes, item changes, subheading changes), specific manufacturing or processing procedure standards (chemical reaction rules), etc. If a product-specific rule of origin is a selective rule that includes any or any combination of the above standards, the exporters of the member states may decide on their own the specific rules that apply when determining the qualifications of the origin of the goods.

The activation of the declaration of origin system is conducive to reducing the administrative costs of the government departments of the member states and the operating costs of enterprises. In addition to the traditional certificate of origin issued by a visa agency, RCEP allows approved exporters, the exporters or manufacturers of goods to issue a declaration of origin as a certificate of origin which will take effect within one year from the date of distribution or issuance. For the first time, RCEP added the qualifications for exporters or producers of goods to issue a declaration of origin, and clarified the time limit for each contracting country to implement the system. After the RCEP becomes effective, member states shall deliberate and consider introducing the declaration of origin issued by the importer as the certificate of origin.

The proposal of back-to-back certificate of origin is expected to increase the flexibility of enterprises in the region in terms of sales and logistics strategies. RCEP allows the visa agencies, approved exporters or producers of intermediary party to issue back-to-back certificate of origin again in batches and stages for the goods for which the original exporter has issued an initial certificate of origin, and the goods involved will still enjoy the treaty preferential tax rate at the time of customs clearance in other contracting states.

The arrangement of retrospective application for tax refund will provide enterprises in the region with greater flexibility and room to carry out trade. Under the premise of complying with the laws and regulations of the member states, after RCEP allows importing the goods with qualification of origin, importers can submit the proof of origin or other relevant documents to the customs, and apply for refund of any overpayment of duty or security deposit due to the goods not enjoying preferential tariff treatment.

Trade facilitation measures are more comprehensive and the level of facilitation is higher

The key provisions of RCEP related to trade facilitation include: advance rulings on tariff classification, origin and customs valuation; provision to operators meeting certain conditions (authorised economic operators) of facilitation measures related to import and export, transit procedures and processes; risk management methods for customs supervision and post-customs clearance audits, etc.

The implementation of advance rulings on tariff classification, origin and customs valuation may effectively reduce the compliance cost of customs clearance, classification difficulty and pre-judgment risks of origin. Under the RCEP framework, the subjects that submit advance ruling applications include importers and exporters and any persons or other representatives with reasonable causes, and special consideration is given to the needs of small and medium-sized enterprises. The member states have made obligatory commitments on pre-ruling matters involving valuation methods and standards, which have greatly exceeded the level of commitments of the WTO and the free trade agreement China has signed; the advance ruling decision should be made within 90 days, with validity period not less than three years.

The arrangement of pre-arrival processing is conducive to the release of the goods as soon as they arrive. RCEP's provisions on pre-arrival processing include two parts: pre-shipment inspection and pre-declaration before arrival, that is, pre-shipment inspection related to tariff classification and customs valuation is not allowed, but other types of pre-shipment inspections for sanitary and phytosanitary purposes are not excluded. In addition, member states are encouraged to no longer adopt other or new inspection requirements, and instead allowed to, in electronic format, submit the documents and other information required for the import of goods in advance.

Optimised arrangements for the release time of goods will accelerate intra-regional trade exchanges and promote the development of the express delivery industry. RCEP requires to clear customs to the extent possible within 48 hours after the arrival of general cargo and submission of the information required, and provide for the release of express cargo and perishable cargo in less than six hours.

Providing additional trade facilitation measures to authorised economic operators (AEO) may improve the credit management level of enterprises in the region. RCEP encourages member states to formulate AEO plans based on international standards and strengthen information exchange and cooperation using contact points, meanwhile, requires other member states to provide the possibility of mutual recognition of AEO plans through negotiation.

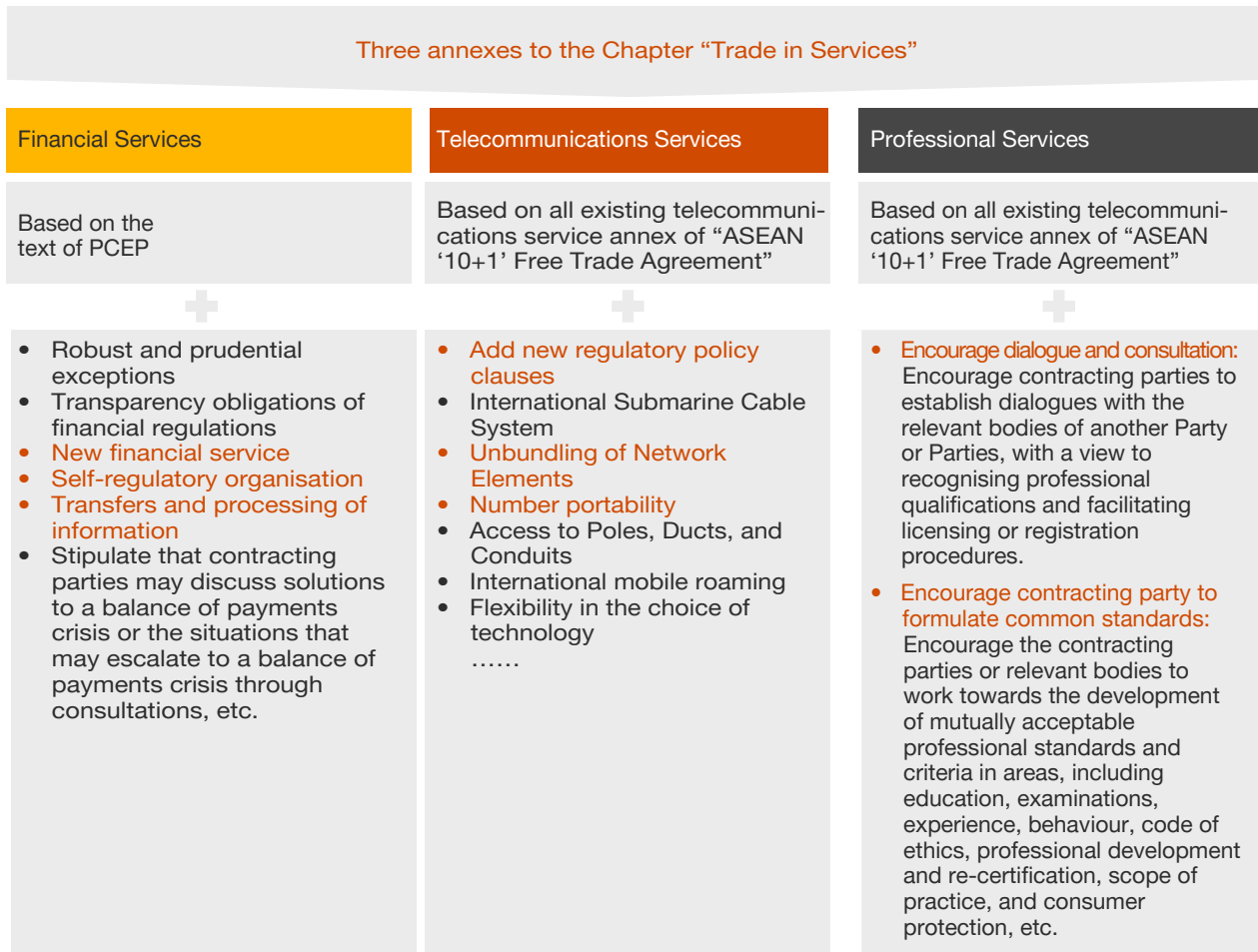
2. Rules for opening service trade: Committed to cultivating new momentum for regional economic development

In Chapter 8 Trade in Services and Chapter 9 Temporary Movement of Natural Persons, RCEP regulates the obligations and disciplines that member states should perform in the trade in services.

The commitment model of opening the trade in services is both advanced and inclusive

High-level market access commitments and the reduction of restrictive and discriminatory measures on the trade in cross-border services will significantly enhance the degree of openness of trade in services in the region. The 15 member states of RCEP have, in the pattern of positive or negative list, made open commitments higher than their respective “10+1” free trade agreements. Under the RCEP framework, China has achieved the highest level of openness in the trade in services by setting up 22 new departments

including R&D and management consulting, on the basis of the approximately 100 departments promised during WTO accession, and enhancing the commitment level in 37 departments. In addition to market opening and related rules, the Chapter “Trade in Services” of RCEP also contains three annexes: financial services, telecommunications services, and professional services. It has provided a more comprehensive and high-level commitment to the financial and telecommunications industries, and has made collaboration arrangements for mutual recognition of professional qualifications.



Compared with the current domestic independent opening-up measures, RCEP has a slightly higher level of commitment in the fields of accounting services, market research, and value-added telecommunications, including: allowing foreign accounting firms to conduct business with firms in China in the form of joint venture, and granting foreigners the national treatment by issuing professional licenses; allowing some enterprises invested by foreign investors to carry out product market prospects and performance information surveys, and foreign investors to hold majority shares with no more restrictions on the industry, etc.; the market commitments in architectural design, medical services, banking, insurance, securities, cloud service are the same as in China; the market commitments in legal services, construction and related engineering services, and education services are slightly lower.

Greater ease of talent mobility

The specific commitment for the temporary movement of natural persons will increase the facilitation and policy transparency of business personnel exchanges within the region. RCEP will expand the application scope of the commitment to temporary movement of natural persons to include investors, accompanying spouses and family members, with the overall level exceeding that of the commitments of contracting member states under existing free trade agreements. Conditions and restrictions on the temporary entry and residence of corresponding categories of natural persons are clearly specified to improve the policy transparency of the movement of persons in the region.

3. Rules for investment facilitation: Committed to creating a free, convenient, and internationally competitive regional investment environment

Chapter 10 “Investment” of RCEP comprises 18 articles, and also includes two annexes: customary international law and expropriation, making commitments from four aspects, i.e. liberalisation of investment, protection of investment, promotion of investment, and facilitation of investment.

Investment coverage is broad and specific

The clarified investment scope is conducive to enhancing the clarity of investment market access. Under RCEP, in addition to equity investment and project investment in the traditional sense, the investment coverage also clearly includes debt and credit investment, intellectual property rights, claims to money, contractual rights, etc.

Commitments to opening up investment should be in line with international practice

The pre-access national treatment plus the negative list management model will greatly enhance the policy transparency of the member states. The 15 member states of RCEP have adopted a negative list approach to make high-level opening-up commitments and apply the ratchet mechanism to investments in the five non-service sectors of manufacturing, agriculture, forestry, fishery, and mining; for investments not listed in the negative list, RCEP stipulates that, each contracting party shall accord to investors of another party, and to covered investments, treatment no less favorable than that it accords, in like circumstances, to its own investors and their investments with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition of investments in its territory.

Investment protection measures are clearer

Prohibition of performance requirements will further increase the protection of investors in the territory. RCEP details the requirements that must not be imposed or enforced before or after investment access, including such performance requirements as restriction on the percentage of import and export, restriction on domestic content, purchase restrictions on domestic products, foreign exchange balance, restriction on local sales, technology transfer, production process or transfer of other proprietary knowledge.

Non-discriminatory treatment for senior management personnel will reduce restrictive conditions for foreign investment in the region. RCEP allows that the member states may require that the board of directors, or any committee thereof, of a juridical person of the member state, be of a particular nationality in the territory of the member state, but does not allow nationality discriminatory provisions for natural persons holding senior management positions. This is the first time that China has promised to remove restrictions on the nationality of senior management personnel in a free trade agreement.

The detailed transfer and compensation for losses are designed to protect the interests of investors more vigorously. RCEP stipulates that each member state shall allow all transfers relating to a covered investment to be made freely and without delay into and out of its territory, and allow such transfers to be made in any freely usable currency at the market rate of exchange prevailing at the time of transfer. If the investors of other contracting states in the territory of a member state suffer losses owing to armed conflict, civil strife, or state of emergency, the RCEP stipulates that the compensation given by the member state to the investors of another member state or their covered investment shall equal to the national treatment and most-favored-nation treatment.

4. New topics in international economic and trade rules: Committed to comprehensively optimising the business environment in the territory

The new topics of economic and trade rules covered by RCEP generally involve the optimisation of business environment, economic collaboration and legal procedures.

Topics such as optimising business environment represented by intellectual property rights and e-commerce

Arrangements in relation to intellectual property rights may accelerate innovation collaboration within the territory and benefit sustainable development. RCEP has rich intellectual property content, covering all objects of intellectual property stipulated in China's Civil Code, including the rules in various fields, such as copyright and related rights, trademarks, geographical indications, patents, industrial designs, heritage resources, traditional knowledge and culture, protection against unfair competition, enforcement of intellectual property rights, transparency, and technical assistance. Compared with the free trade agreements that China has signed, the content in relation to each field is more detailed, and the overall level is higher than the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights.

The comprehensive and high-level multilateral e-commerce rules will greatly enhance the mutual trust of policy, mutual recognition of regulations and enterprise interoperability among member states in the field of e-commerce. RCEP maintains the current practice of not imposing tariffs on electronic transmissions in member countries, but allows adjustment of the above regulations in accordance with WTO Ministerial Decisions in relation to the Work Programme on Electronic Commerce tariffs, and does not completely prohibit the method of imposing electronic transmission tariffs. In addition, RCEP encourages member states to improve trade management and procedures by electronic means; requires member states to create a conducive environment for e-commerce, protects the personal information of e-commerce users, provides online consumer protection, and strengthens supervision and control of unsolicited commercial electronic messages; proposes relevant measures for the location of computing facilities and cross-border transfer of information by electronic means, and establishes a space for regulatory policy.

Economic collaboration issues from the perspective of SMEs

The arrangements for SMEs are expected to accelerate the establishment of a comprehensive service platform for SMEs by the governments of member states. RCEP clearly requires the establishment and maintenance of a publicly accessible information platform, and further stipulates the information that can be publicly accessed on the platform; lists the collaboration areas that are both pragmatic and forward-looking; and make arrangements for the establishment of contact points. RCEP is the first trade agreement where China provides separate coverage for small and medium-sized enterprises, reflecting the importance it attaches to the development of small and medium-sized enterprises.

Legal process issues represented by settlement of disputes

The arrangement of the dispute settlement mechanism will further enhance the transparency and efficiency of the settlement of investment disputes in the region. RCEP stipulates that an expert group can be set up to make a ruling in the context of negotiation failure, and also encourages the use of political settlement modes such as conciliation, mediation, mediation, and coordination. On the basis of the dispute settlement mechanism under WTO, RCEP shortens the announcement time of final results, improves efficiency by cancelling the review and approval of such reports and appeal; agrees on a reasonable time limit for the execution of the ruling, strengthens the consistency review in the implementation process, and formulates temporary relief measures to ensure the effective implementation of ruling results.

Conclusion

From January to June 2021, the trade volume of goods between China and ASEAN reached US\$ 410.75 billion, an increase of 38.20% year-on-year, and the total bilateral investment reached US\$ 12.44 billion, an increase of 24.03% year-on-year, indicating that in the context of a more complex global trade environment and repeated outbreaks of COVID-19, China-ASEAN economic and trade collaboration is still accelerating and deepening, and continues to exert strong influence on global economy, also reflecting the strategic values of globalisation and multilateral economy⁹.

In order to provide more governments, enterprises and investors with a strategic reference for China-ASEAN economic and trade collaboration from a practical perspective, PwC has launched a study into the confidence and prospects of China-ASEAN economic and trade collaboration on 220 enterprises from China and ASEAN. The results show that more than 50% of the Chinese enterprises surveyed take expanding trade with ASEAN as an important future business strategy, and 46% plan to invest in ASEAN within three years; 47% of the ASEAN enterprises surveyed have a business plan in the Chinese market and 45% are willing to accept Chinese investment. Meanwhile, more than 65% of respondents from China and ASEAN believe that the signing and implementation of the Regional Comprehensive Economic Partnership Agreement will bring new opportunities. This shows that at the micro level of the market, Chinese and ASEAN enterprises are generally optimistic about the future economic and trade collaboration between the two sides, and have confidence and expectations to benefit from new opportunities.

Of course, this survey has also revealed some factors restricting China's economic and trade exchanges with ASEAN, especially in the area of investment. All interviewed enterprises believe that China and ASEAN's market access requirements hinder mutual investment and moreover, Chinese respondents believe that their own lack of international talents and management experience are the main factors limiting their investment in ASEAN. ASEAN respondents regard the lack of understanding of the Chinese market as one of the main rationales for delaying their investment in China. This also demonstrates that deepening mutual trust, maintaining market openness, and enhancing the international competitiveness of enterprises will remain the core elements of future economic and trade collaboration between China and ASEAN.

This is the first survey conducted by PwC on China's foreign economic and trade collaboration. Given the speed and complexity of recent global changes, we will release a series of survey reports survey reports and related insights to assist governments, enterprises and investors in better understanding the practical market environment and formulating corresponding strategies and decisions.

9. Data source: Ministry of Commerce of the People's Republic of China

Acknowledgement

Editorial Board Members

Sridharan Nair

PwC Asia Pacific Vice Chairman, Markets

Thomas Leung

Managing Partner
PwC Mainland China and Hong Kong Markets
Member of PwC Mainland China and
Hong Kong Management Committee

Gabriel Wong

Head of China Corporate Finance
Inbound/Outbound Leader
Belt & Road Leader
PwC China

Randy Ko

Senior Advisor
PwC China

Tuck Seng Tham

China Business Group Lead Partner
Capital Markets Leader
PwC Singapore

Lorraine Yeoh

China Business Group Lead Partner
PwC Malaysia

Toto Harsono

China Business Group Lead Partner
PwC Indonesia

Chaisiri Ruangritchai

China Business Group Lead Partner
PwC Thailand

Bee Han Theng

China Business Group Lead Partner
PwC Vietnam

Pocholo Domondon

China Business Group Lead Partner
PwC Philippines

Echo Chen

China Business Group Joint Lead Partner
PwC Singapore

Hongbin Jiang

Partner
Capital Project and Infrastructure (CP&I)
PwC China

Cyrus Lu

Partner
Capital Project and Infrastructure (CP&I)
PwC China

William Yuan

Partner
Tax Services
PwC China

Vivian Zhou

Partner
Tax Services
PwC China

Grace Wong

Partner
Corporate Finance and M&A Services
PwC China

Pingping Zhang

Associate Director
Corporate Finance and M&A
Southeast Asia Market Development
PwC China

Thanks to the following PwC team members for their contribution in the preparation and publication of this report

Bo Yu

Lead Partner
General Business Advisory
PwC China

Cindy Chen

Partner
Corporate Finance and M&A
Guiyang Office Lead Partner
PwC China

Alex Chen

Associate Director
Global Cross-border Services
PwC China

Annie Han

Director
Client & Markets Development
PwC China

Sherry Shen

Associate Director
M&A Transaction Services
PwC China

Steven Shum

Associate Director
Global Cross-border Services
PwC China

Shahliza Rafiq

Senior Manager
Head of Marketing and Communications
PwC Malaysia

Khar Keong Ong

Senior Manager
Customer and Marketing
PwC Malaysia

Zhoudong Shangguan

Senior Manager
Strategic Research
PwC China

Tran Vi Cuong

Senior Manager
PwC Vietnam

Ding Tian

Senior Manager
Consulting Services
PwC Indonesia

Jade Lin

Senior Manager
Capital Project and Infrastructure (CP&I)
PwC China

Minmin Yang

Manager
Tax Services
PwC China

Ningjing Zhou

Senior Associate
Tax Services
PwC Thailand

Ran Zhang

Senior Designer
Marketing and Communications Department
PwC China

Catrina Li

Senior Consultant
Global Cross-border Services
PwC China

Serena Zhang

Senior Associate
Clients & Markets Development
PwC China



Contacts

Please contact us to learn more about PwC's global cross-border services

Gabriel Wong

Head of China Corporate Finance
Inbound/Outbound Leader
Belt & Road Leader
PwC China
gabriel.wong@cn.pwc.com

Pingping Zhang

Associate Director
Corporate Finance and M&A
Southeast Asia Market Development
PwC China
pingping.p.zhang@cn.pwc.com

Annie Han

Director
Client & Markets Development
PwC China
a.han@cn.pwc.com





This document is for the purpose of providing general information only, and shall not replace the advice provided by professional consultants.

© 2021 PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership)
All rights reserved.

PricewaterhouseCoopers refers to the Chinese member institutions of the PricewaterhouseCoopers Network, and sometimes also refers to the PricewaterhouseCoopers Network. Each member institution is independent. For details, please go to www.pwc.com/structure.