Active is: Expanding the boundaries of investing

How a new trading bloc signals a gravitational shift eastward

by Stefan Scheurer | 15/12/2020

Summary

The recently announced Regional Comprehensive Economic Partnership will likely enhance China's continued growth story – and will help boost global GDP.

Key takeaways

- The new Regional Comprehensive Economic Partnership (RCEP) creates an economic bloc of Asia-Pacific nations, covering a third of the world's population
- The deal will apply to almost 30% of global trade and GDP – more than either the European Union or the US-Mexico-Canada agreement
- By bolstering China and creating more efficient supply chains within Asia, the RCEP will contribute to boosting global GDP over the coming decade
- Against a backdrop of ongoing US-China tensions, the RCEP could strengthen Asian member nations

Following eight years of negotiations, the Regional Comprehensive Economic Partnership (RCEP) was officially signed by 15 Asia-Pacific countries in November 2020. Significantly, it creates a new economic bloc that covers about a third of the world's population, and almost a third of global GDP and trade. To put this in context, it is bigger than both the US-Mexico-Canada Agreement and the European Union.

The pact will progressively remove both tariff and non-tariff barriers on trade in both goods and services. According to the Center for Strategic and International Studies, it will lower tariffs on imports by up to 90% within 20 years. On top of this, the RCEP also sets common trade rules within the bloc.

The RCEP unites the 10 members of ASEAN (Association of South-East Asian Nations) – which first proposed the RCEP idea about a decade ago – along with China, Japan, South Korea, Australia and New Zealand as free trade agreement (FTA) partners.

Chinese growth will have global impact

China is likely to benefit strongly from the deal, as it will face fewer barriers to exports into the rest of Asia. But other members within the RCEP may benefit even more. The ASEAN countries, together with South Korea and Japan, will likely find it easier to build their value chains.

According to a recent report from the Peterson Institute for International Economics, Japan and South Korea are also the two countries most likely to benefit in real GDP terms, each enjoying a near 1% boost to GDP. China and ASEAN members meanwhile are forecast to see a smaller 0.3% impact. The report also predicts that by 2030, the RCEP will boost global GDP by USD 186 billion.

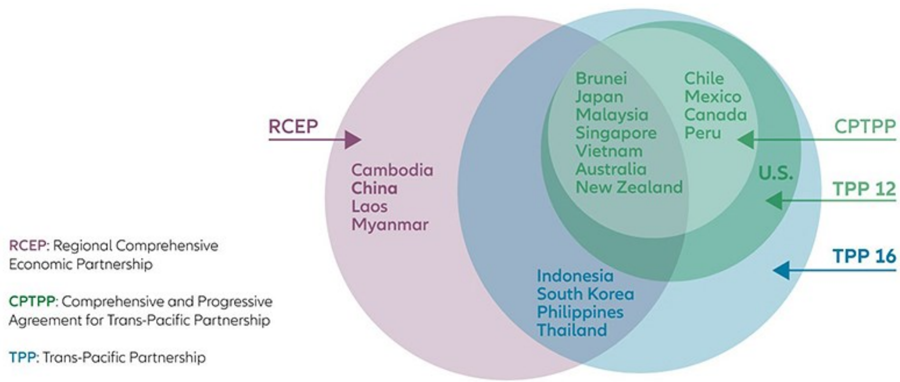
What does this mean for investors?

The RCEP represents an important step towards broader regional integration within Asia, helping to strengthen the regional supply chain over the medium-term and setting the stage for closer economic integration. This translates into several key implications for investors:

- The RCEP should foster deeper trade integration – and bring associated economic benefits. As a result, the systems involved in a cross-border production network will likely become more flexible, helping to enhance productivity, accelerate structural shifts and spur growth across the region in the medium term.
- The closer relationship between trade and investment is expected to deepen financial market integration in the Asia-Pacific region. This should help ensure China's trade with ASEAN member nations continues to outpace trade with other regions. ASEAN members will likely become further integrated into China's supply chain.
- The world's dependence on Asia – and mainland China in particular – for components of all sorts, has only increased; simplified trade will mean both Chinese and US importers may import more from third parties such as ASEAN member states.
- A unified "rules of origin" system under the RCEP should help reduce time and transaction costs as producers need fill out only one document to certify the origin of their products. This could also encourage firms to outsource some production to other countries within the RCEP for cost savings.

Perhaps most significantly, the RCEP signals that Asia is moving ahead with trade liberalisation. And from a global perspective, it reinforces the trend of the world's centre of economic gravity continuing to shift eastward.

Chart: RCEP vs existing trade deals
Asia-Pacific countries sign world's biggest free-trade deal



Source: Allianz Global Investors Global Economics & Strategy, November 2020.

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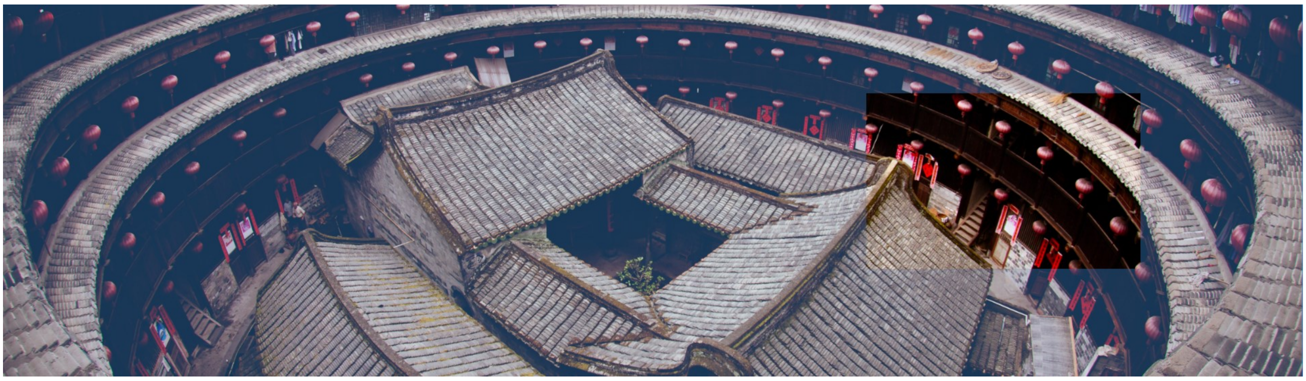
China reaches for the STAR market

by Christian McCormick , Shannon Zheng | 19/01/2021



Summary

China's nascent STAR market provides a platform for the technology and science firms that increasingly underpin the country's growth story.

Key takeaways

- China's new STAR market has been billed as the country's answer to the Nasdaq – the technology-focused US exchange
- Its listing rules make it easier for the country's tech and science startups to list domestically, thereby supporting the fast-growing sectors that are driving China's growth
- Since opening in July 2019 with 25 listings, the STAR market now comprises almost 200 firms – and nearly 500 are in the IPO pipeline.

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