

RCEP Effect on U.S. Light Vehicle Exports Limited

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The Regional Comprehensive Economic Partnership (RCEP) was signed on November 15, 2020. RCEP is a regional trade agreement between fifteen countries: ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam), Australia, China, Japan, New Zealand, and South Korea. The agreement includes several significant automotive manufacturing countries (China, Japan, South Korea, Thailand), but it does not appear that the agreement will have a significant effect on automotive trade, because most of the countries had pre-existing trade agreements. For those without pre-existing agreements, tariffs are eventually reduced or eliminated for only a relatively small share of imports. Further, some of the apparent reductions are in-line with planned reductions in Chinese applied rates.

Introduction

Only three pairs of trade partners in RCEP did not have existing FTAs: China-Japan, South Korea-Japan, and New Zealand-Japan. This EBOT examines the former two, as South Korea, Japan, and China are all major automotive manufacturers and consumers, while New Zealand is not. Some experts have described RCEP as not providing significant market access increases, as many of the trade partners already had existing FTAs. However, this paper seeks to examine market access for motor vehicles and parts, whether there were any meaningful increases, and if any of those increases in market access could negatively affect U.S. exports in those markets. Five RCEP members are major automotive manufacturers: China, Japan, Malaysia, South Korea, and Thailand. China is the largest automotive manufacturer, while Malaysia is the smallest. Japan is the largest exporter of vehicles. None of these countries are major vehicle importers.

RCEP Rules of Origin

One benefit of RCEP to member countries is the common rules of origin, which may make it easier for parts to accumulate value from multiple partners. For vehicles and automotive parts, the minimum regional value content required for a part to qualify for duty-free treatment under RCEP is 40 percent, or non-originating material must come from a different HS 4-digit subheading.¹ For example, a vehicle produced in Japan might use content from China and Thailand to qualify as originating under RCEP. This may reduce the competitiveness of U.S. suppliers, since the United States is not a part of the agreement, and U.S. parts would not count as originating.

Gains in Tariff Reduction, but Few Eliminated

The only two country pairs without a trade agreement that included two significant automotive manufacturers were China-Japan and South Korea-Japan, and the tariffs for a significant share of existing trade between these country pairs will be unchanged. Despite China eventually eliminating tariffs on nearly half of the automotive-related tariff lines (124), these eliminations would only affect 10.5 percent (\$2.1 billion) of Chinese automotive imports from Japan in 2020. By comparison, the 91 tariff lines that are unchanged made up 33 percent (\$6.5 billion). The remaining 26 tariff lines, which will be reduced to either 15 percent or 6 percent, made up 57 percent (\$11.3 billion) of Chinese automotive imports from Japan in 2020. The tariff lines that will be reduced from 25 to 15 percent are certain light vehicles (including electric vehicles).

¹ RCEP, Chapter 3 Rules of Origin-Annex 3A Product Specific Rules, 3A-103, 3A-132, 3A-145 (HS 8407, 8408.20, 8507.60, 8703, 8704, 8708).

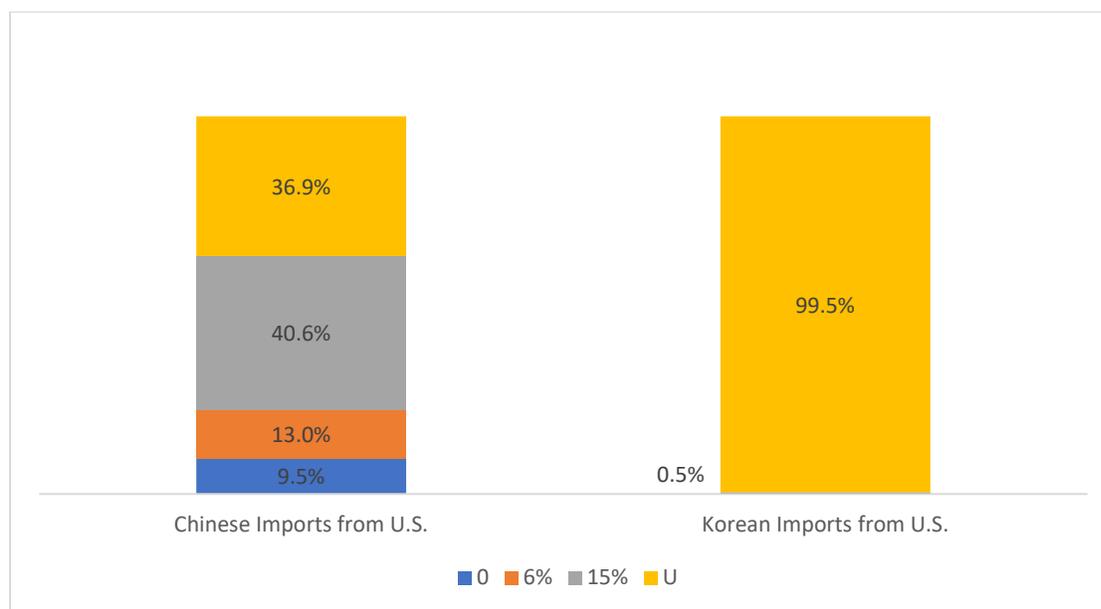
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South Korea liberalized even fewer imports from Japan than China. Two-thirds of tariff lines (accounting for 89 percent of 2020 trade) have unchanged tariff levels, while the other third only made up 11 percent of trade (\$146 million). Further, the starting tariff was slightly lower for those tariff lines where the duty was removed than those that were unchanged.

U.S. Exports Mostly in Tariff Lines Where Tariffs Not Eliminated

Only a small percentage of Chinese and South Korean imports were in areas where tariffs were removed, so tariff reductions are unlikely to have a significant effect on import prices for either country. China imported \$11.3 billion in vehicles and parts from the United States in 2020. Although the agreement eliminates duties on many tariff lines, only 9.5 percent (\$1.1 billion) of Chinese automotive imports from the United States occurred in tariff lines where the duties will be eliminated (figure 1). Another 53.6 percent (\$6 billion) of Chinese imports from the United States came in tariff lines that will have their tariffs reduced to either 15 or 6 percent. Certain passenger vehicles (including electric vehicles) make up the tariff lines that will be reduced to 15 percent (from 25 percent). These tariff reductions occur in tariff lines that made up 40.6 percent (\$4.6 billion) of Chinese imports from the United States in 2020. However, these tariff reductions appear to be in line with changes to MFN applied rates which China announced in May 2018. Japan benefits from more certainty, as its tariff reductions are memorialized in an agreement, but otherwise the tariff reductions match those that all other countries stand to receive. For the other 36.9 percent, the tariff will not change. In South Korea, the difference is even more stark, with nearly all South Korean imports unaffected by RCEP.

Figure 1: Share of U.S. automotive exports to RCEP partners affected by tariff changes, 2019



Sources: China-Japan Tariff Schedule; Korea-Japan Tariff Schedule; IHS Markit, Global Trade Atlas (Accessed January 25, 2021).

Note: RCEP tariff schedules use HS2012, so not all imports are shown here.

0, 6, and 15 percent are final tariff rates below WTO Bound Rates. "U" stands for unchanged.

Sources: RCEP, [Chapter 3 Rules of Origin-Annex 3A Product Specific Rules](#); RCEP, [China-Japan Tariff Schedule](#); RCEP, [Korea-Japan Tariff Schedule](#); IHS Markit, [Global Trade Atlas](#), (accessed January 25, 2021) subscription required; Bradsher, "[China Cuts Car Tariffs](#)," May 18, 2020.

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