

RCEP Economies as the Global Manufacturing Center

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Key Messages

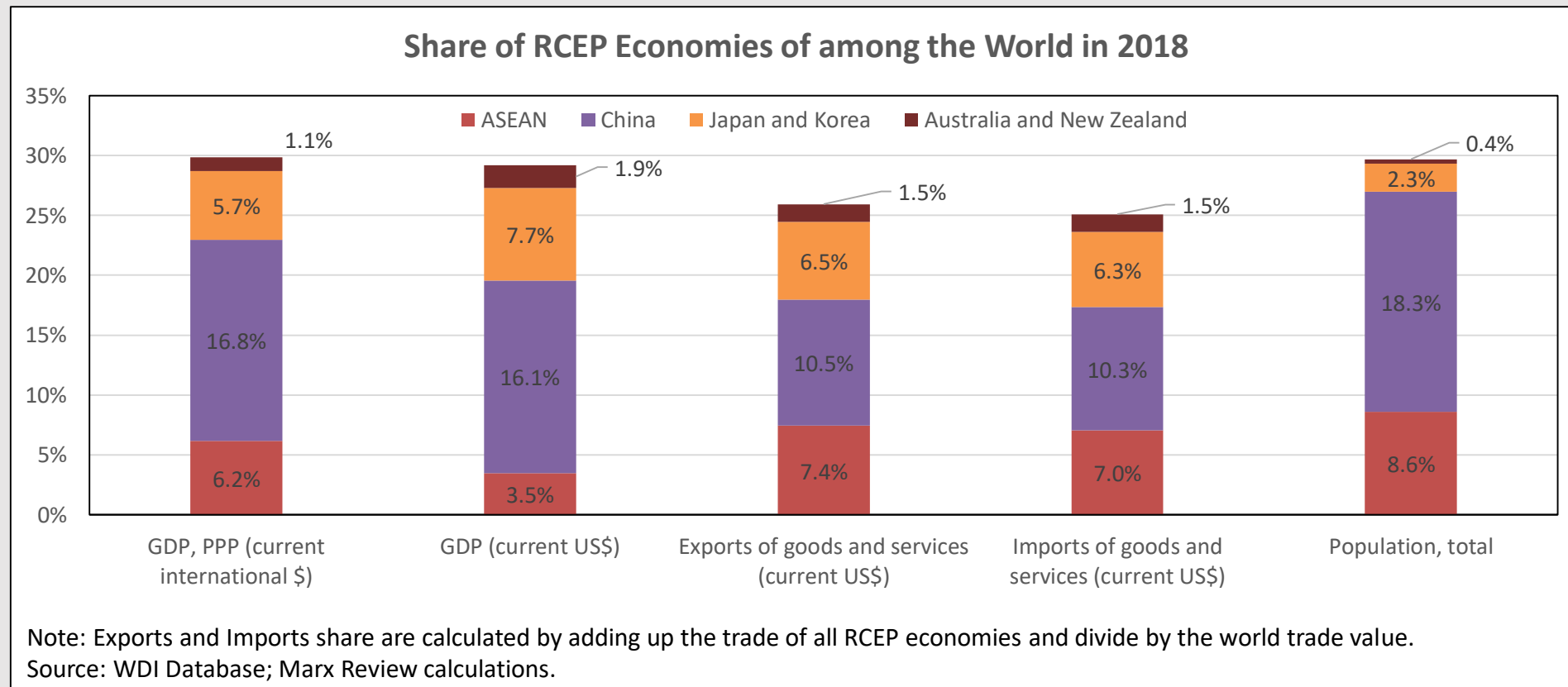
- **RCEP economies, as a group, are the global center for production.**
 - Altogether, they take up 44% of the global manufacturing value-added in 2018, significantly higher than their share of the world GDP (29% in 2018).
 - Trade of RCEP economies are production oriented (74% of RCEP economies' imports are used for industrial while 14% are for consumption).
- **The production capability of RCEP economies covers almost all the points along supply chains.**
 - Among the 5382 products traded around the world:
 - There are 4406 products (82%) where RCEP economies take at least 10% of the world exports.
 - There are 1264 products (23%) where RCEP economies take at least 50% of the world exports.
 - Among the 3942 products imported for industrial purposes around the world:
 - There are 3330 products (85%) where RCEP economies take at least 10% of the world exports.
 - There are 1264 products (21%) where RCEP economies take at least 50% of the world exports.
- **RCEP economies are internally linked.**
 - 47% of imports and 40% of exports of RCEP economies are traded with other RCEP economies.
 - For comparison, 8% of imports are from the US while 15% of exports are to the US.

- **RCEP economies as the global manufacturing center.**
- **The production capabilities of RCEP economies across supply chains.**
- **Close economic linkages of RCEP economies through merchandise trade.**

1 RCEP Economies as the Global Manufacturing Center

RCEP Economies, as a group, take a large share of the global economy

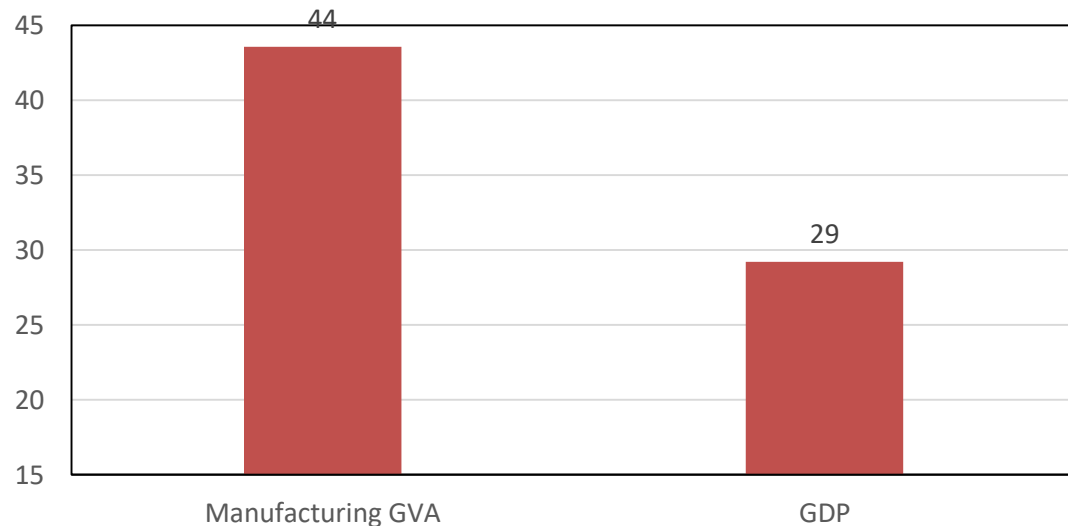
- In 2018, RCEP economies takes about 30% of the world GDP and population.
 - About half of them are contributed by China.
 - ASEAN economies are of a similar share to Japan plus Korea in terms of GDP (in PPP terms) and trade.



RCEP Economies, as a group, is the global manufacturing center

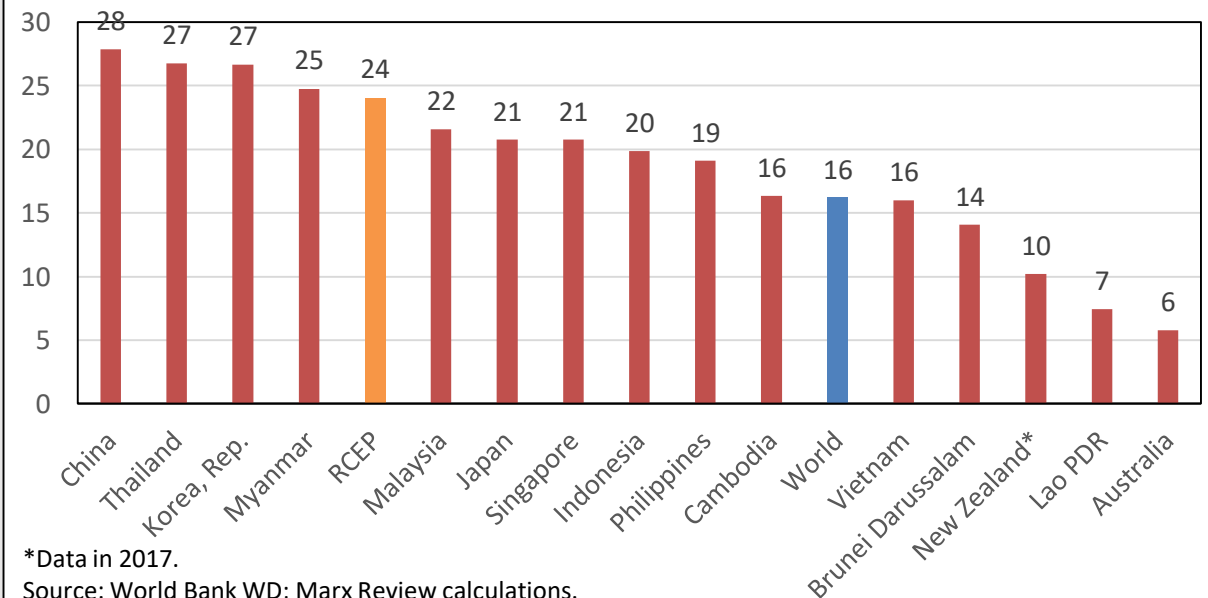
- **RCEP economies takes an even-higher share in the global manufacturing economy.**
 - Altogether, RCEP economies take 43.5% of the global manufacturing Gross Value Added (GVA) in 2018, 14.4 percentage points higher than their GDP share.
 - 11 out of the 15 RCEP economies has a larger share of Manufacturing GDP than the world economy (even Singapore has a share of 21%).

Share of Manufacturing GVA and GDP of RCEP Economies in 2018 (%)



Source: WDI Database; Marx Review calculations.

Manufacturing GDP Share in 2018 (%)

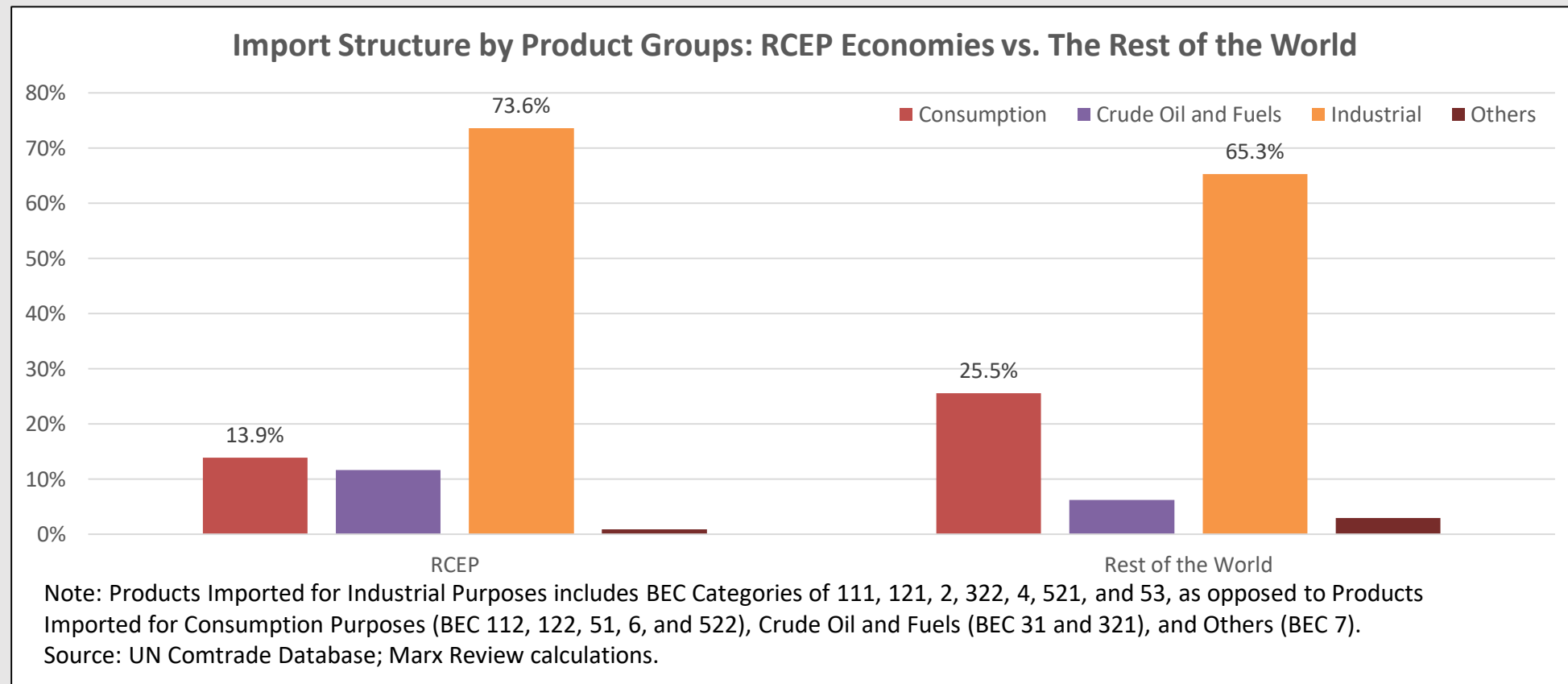


*Data in 2017.

Source: World Bank WD; Marx Review calculations.

RCEP Economies, as a group, take a large share of the global economy

- **Compare to other economies, RCEP economies' imports are more industrial-oriented.**
 - For RCEP economies, 74% of their imports are serving industrial purposes.
 - Only 14% are used for consumption, 12 percentage points lower than the rest.



2 The Production Capabilities of RCEP Economies across Supply Chains.

Production capabilities of RCEP Economies: stories and intuitions

- **There are many stories that RCEP economies produce a wide range of products.**
 - Australian iron ore;
 - Australia and New Zealand for beef and dairy;
 - Thailand Rice and Philippines bananas;
 - Clothes made in Vietnam;
 - Chips and DRAM from Korea;
 - Precision machine tools from Japan;
 - iPhone, steel and concrete from China.
- **Two examples of internal supply chains within RCEP economies.**
 - Photo-resist in Japan => Chips in Korea => Electronics in China
 - Wools in Australia => Cashmere fabric in China => Clothing in Vietnam

The Rule for Origins matters for the trade along supply chains

- **The RCEP Rule for Origins allows value-added to be accumulated among RCEP economies.**
 - For a coat with the following value distribution imported to :
 - Wools in Australia (40%) =>
 - Cashmere fabric in China (30%) =>
 - Clothing in Vietnam (30%) =>
 - Purchased by a Thailand consumer
 - Assuming the minimum share of value-added to enjoy the tariff exempt is 70% in both previous FTAs and the RCEP.
 - Before RCEP, the Thailand consumer would be enjoy the tariff exempt even though China and ASEAN had a FTA, because the share of value-added (60%) does not reach 70%.
 - However, with RCEP, the Thailand consumer will enjoy the exempt.

Measuring the range of production capabilities with export data

- **Original Question: what products can RCEP economies can produce?**
 - But there is no internationally-comparable data on what a country can produce.
- **Alternative Question: what products can RCEP economies can export?**
 - United Nations Comtrade Database keeps record of the world trade for each product.
 - An advantage of using export data is that it represents the Revealed Comparative Advantage.
 - The ability to export is usually associated with competence in the global market.

Measuring the range of production capabilities with export data

- **Technical notes**

- Products are defined by HS 6-digit-level categories, given the rising intra-industry trade.
 - An example (HS 2017)

17	Sugars and sugar confectionery
1701	Cane or beet sugar and chemically pure sucrose, in solid form
170112	Sugars; beet sugar, raw, in solid form, not containing added flavouring or colouring matter
170113	Sugars; cane sugar, raw, in solid form, as specified in Subheading Note 2 to this chapter, not containing added flavouring or colouring matter
170114	Sugars; cane sugar, raw, in solid form, other than as specified in Subheading Note 2 to this chapter, not containing added flavouring or colouring matter
170191	Sugars; sucrose, chemically pure, in solid form, containing added flavouring or colouring matter
170199	Sugars; sucrose, chemically pure, in solid form, not containing added flavouring or colouring matter

- To avoid transit-trade and other data errors, the value of exports of Country A is calculated by summing the imports from Country A reported by all other economies.

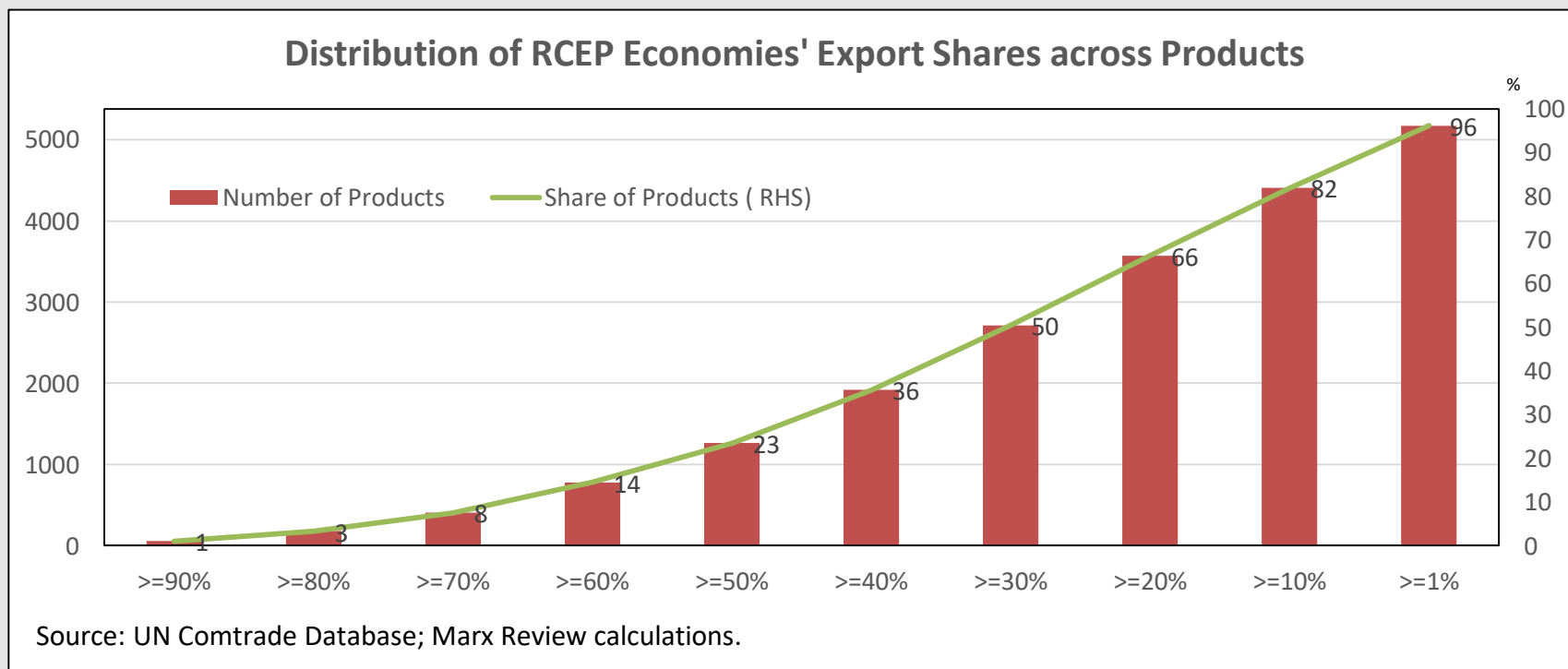
Measuring the range of production capabilities with export data

- **Distribution of RCEP Economies' Export Market Shares**
 - Step 1: for each product, calculate the share of RECP economies' exports among the world total exports;
 - Step 2: calculate how many products there are where RCEP economies' export share is larger than 90% (50%, 10%,etc.);

The production capabilities of RCEP Economies covers a very wide range

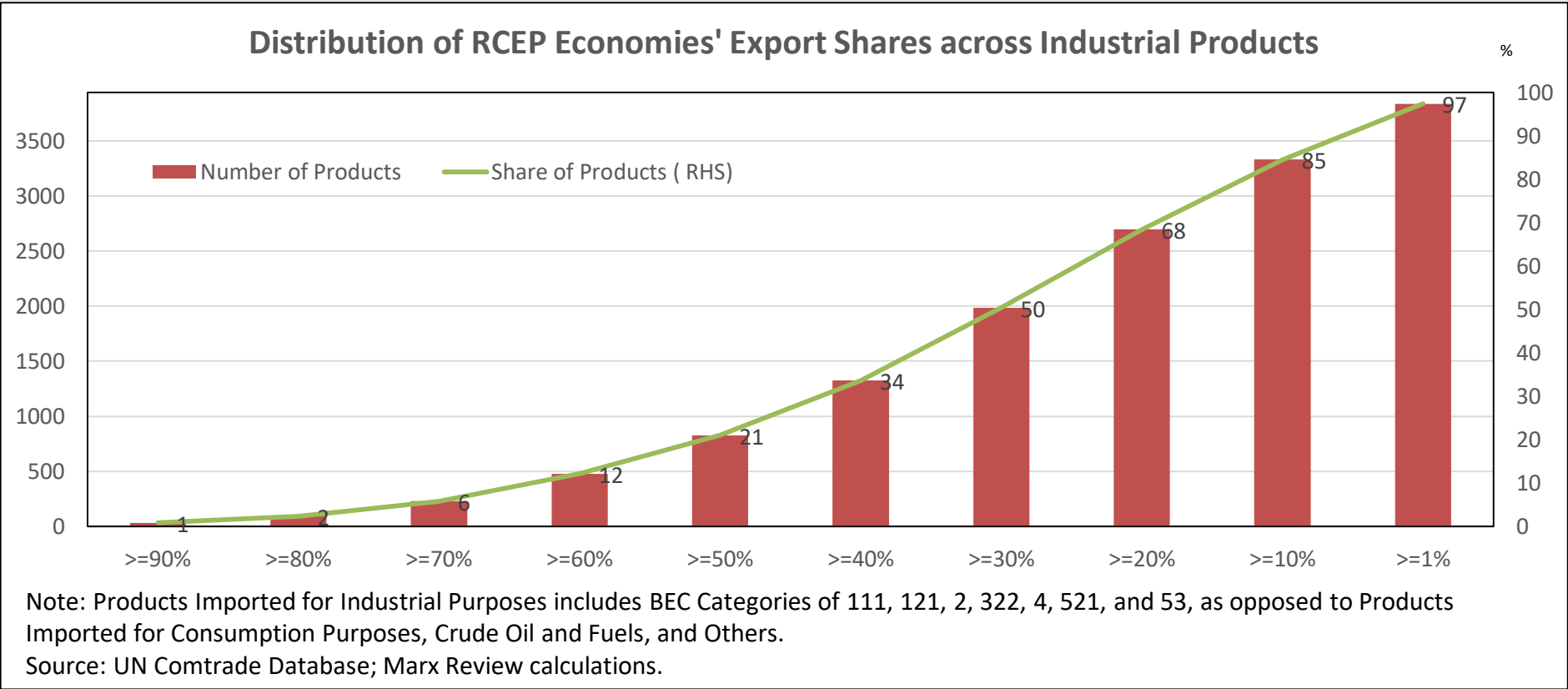
- **Among the 5382 HS-6-digit products**

- There are 4406 (82%) products where RCEP economies' exports share $\geq 10\%$
- There are 1264 (23%) products where RCEP economies' exports share $\geq 50\%$
- There are only 207 (4%) where RCEP economies' exports share $\leq 1\%$
 - Among them, 105 are raw materials.



The production capabilities of RCEP Economies covers a very wide range

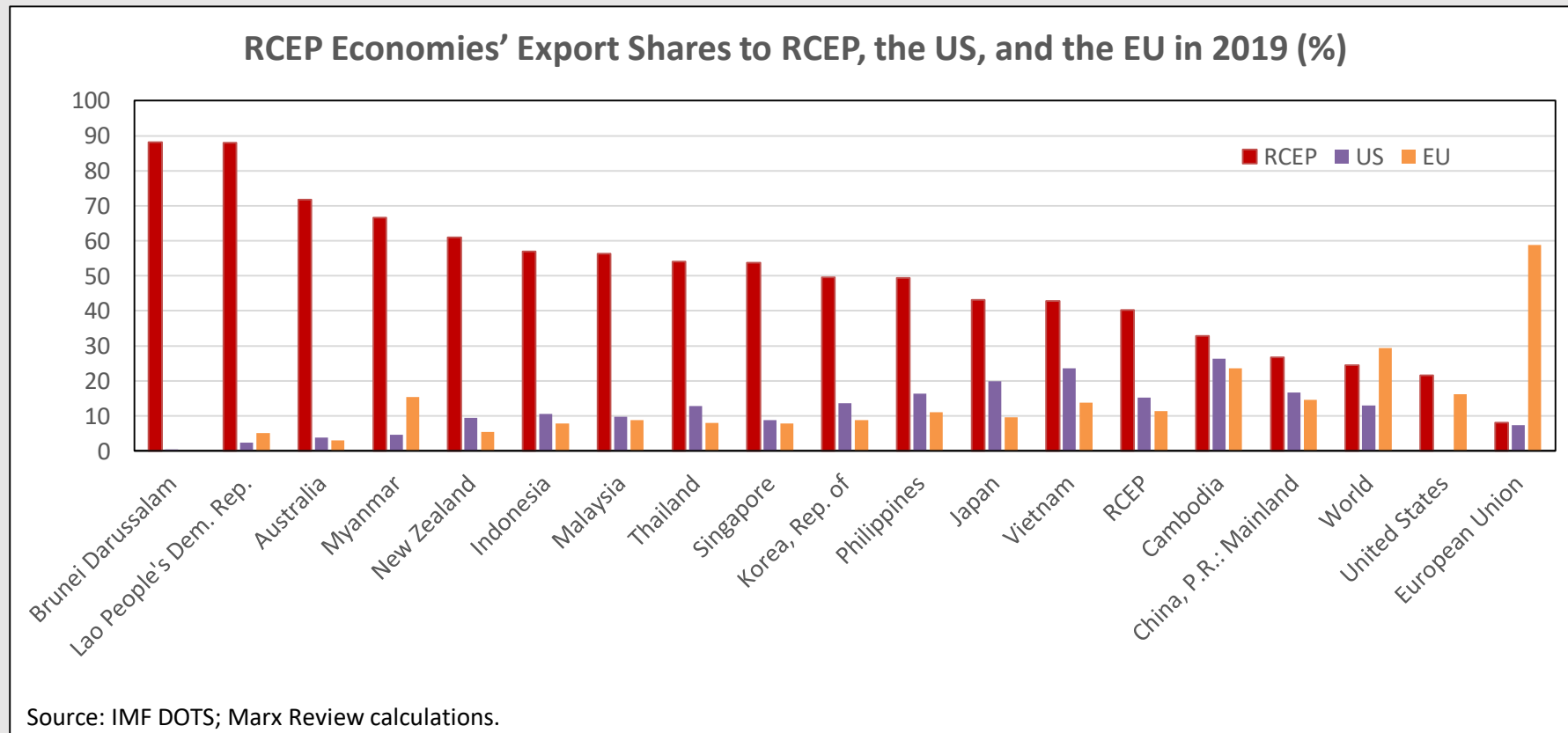
- Among the 3942 HS-6-digit products imported for industrial purposes
 - There are 3330 (85%) products where RCEP economies' exports share $\geq 10\%$
 - There are 827 (21%) products where RCEP economies' exports share $\geq 50\%$
 - There are only 104 (3%) where RCEP economies' exports share $\leq 1\%$



3 Close Economic Linkages of RCEP Economies through Merchandise Trade

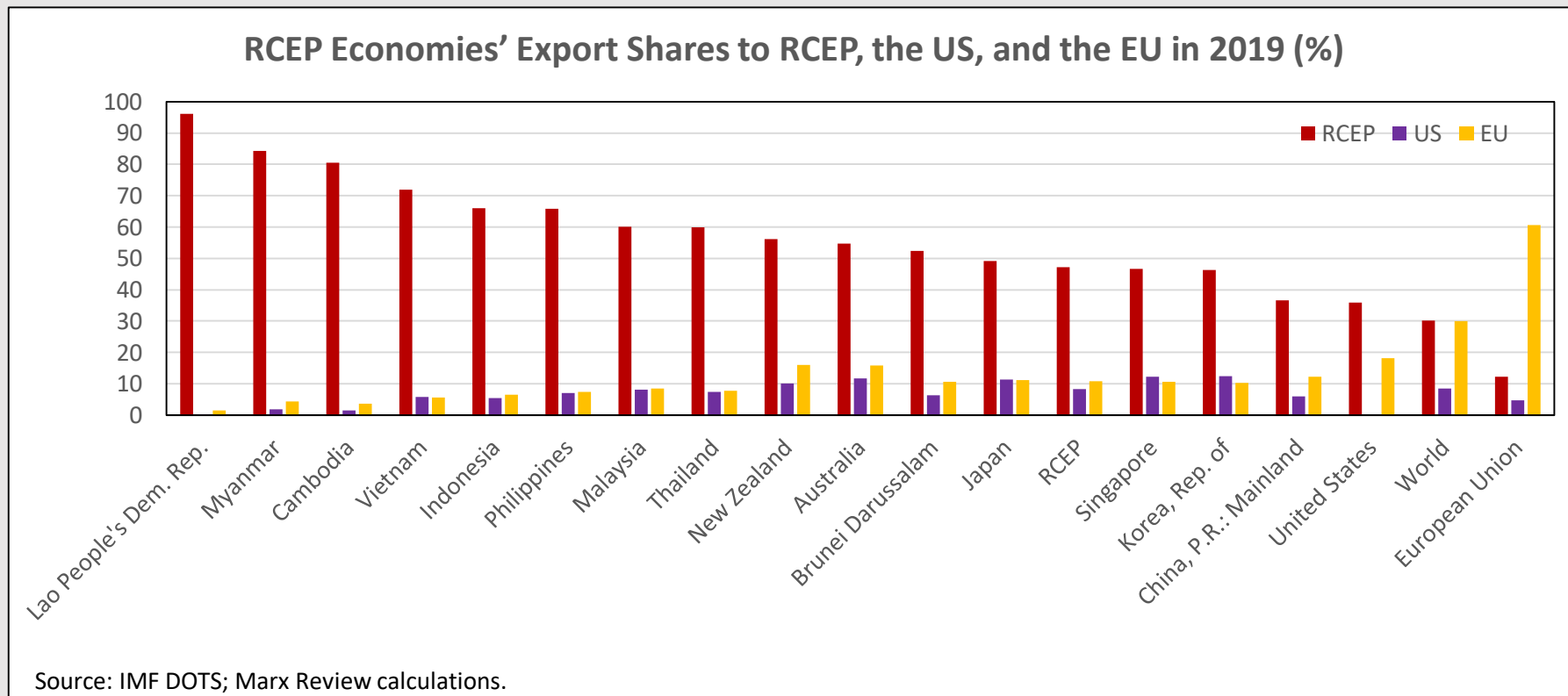
Close ties of RCEP economies with each other

- **RCEP economies represent a group of closely linked economies.**
 - 40% of RCEP economies' exports are shipped to with other RCEP economies.
 - 9 RCEP economies exports more than half of their goods to other RCEP economies.
 - China's export is least RCEP-oriented among all RCEP economies.



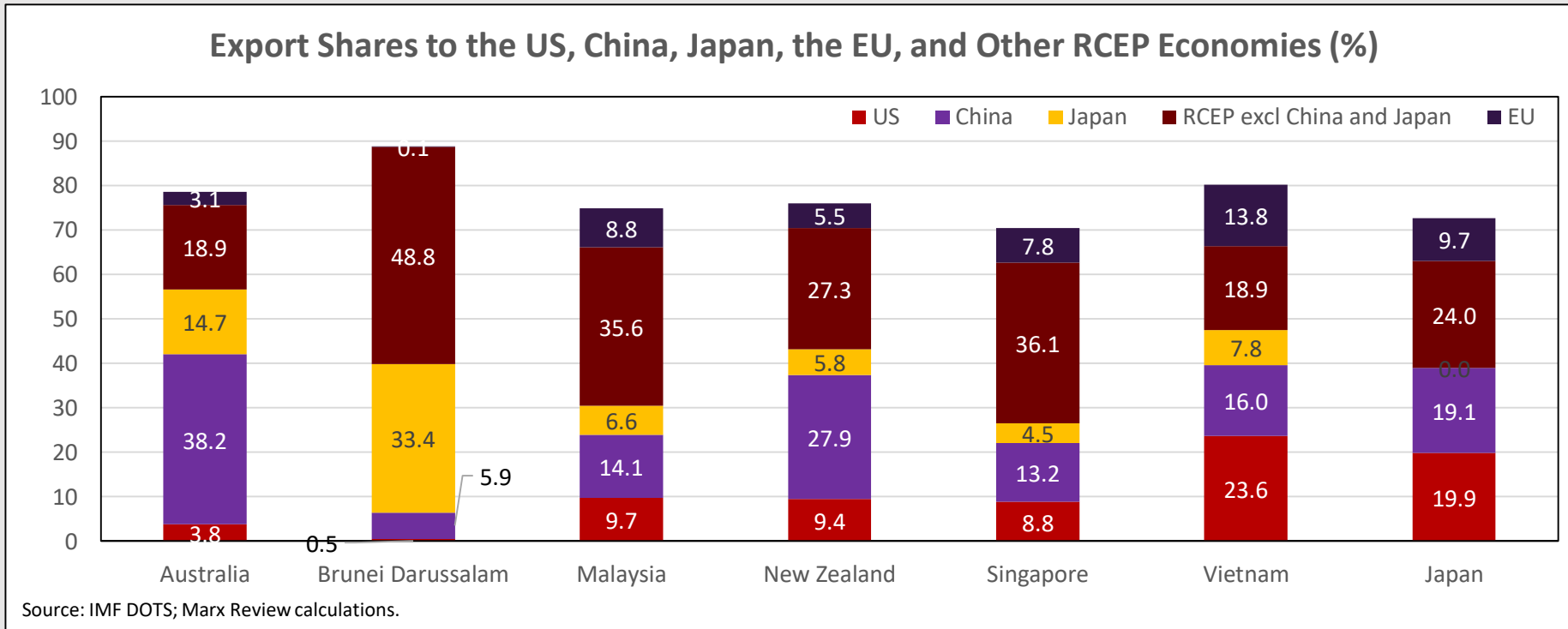
Close ties of RCEP economies with each other

- **RCEP economies represent a group of closely linked economies.**
 - 47% of RCEP economies' imports are shipped to with other RCEP economies.
 - 11 RCEP economies import more than half of their goods from other RCEP economies.
 - China's import is least RCEP-oriented among all RCEP economies.



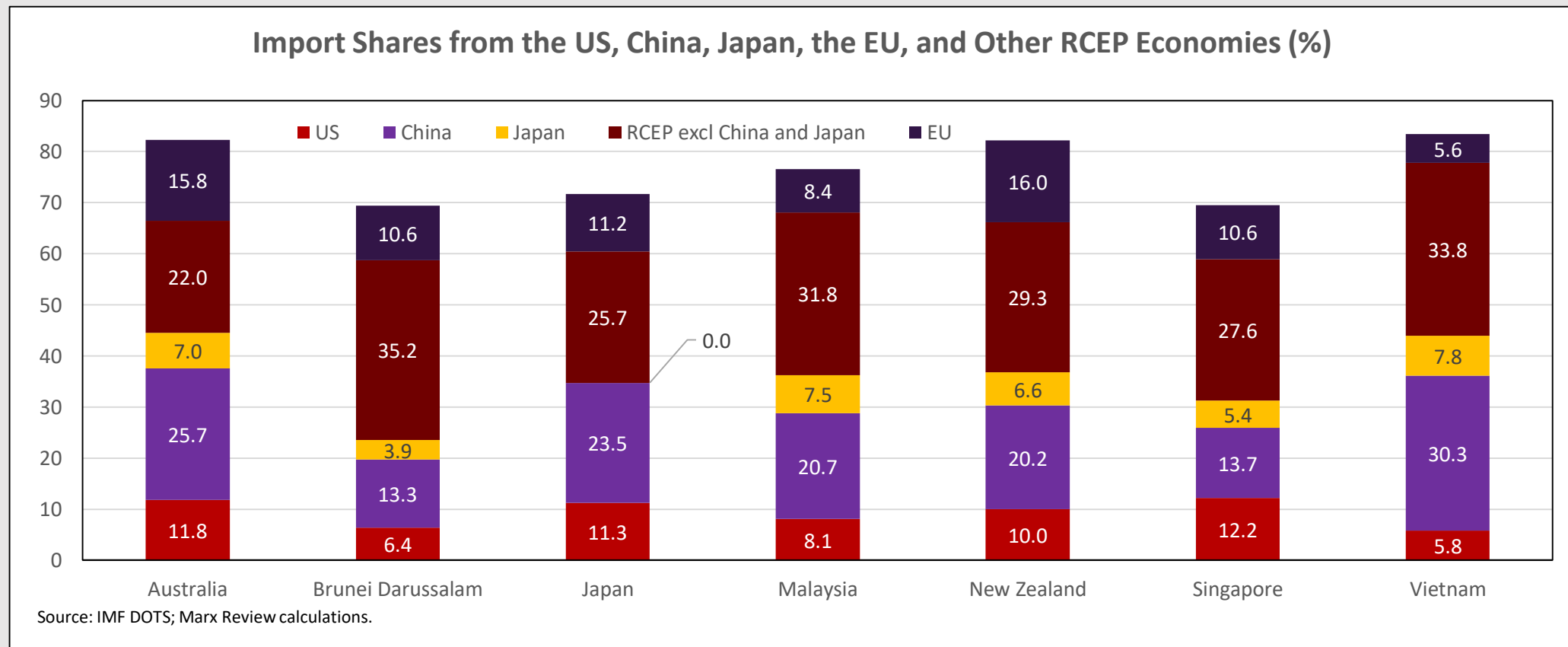
RCEP and TPP (CPTPP): The Importance of China and the US

- **There are 7 overlapping economies between RCEP and CPTPP**
 - Australia, Malaysia, New Zealand, and Singapore export more to China than the US.
 - Vietnam and Japan exports more to the US than China.
 - Brunei exports more to Japan compared to China.
 - For most of them, FTA without China is already incomplete, let alone a CPTPP without the US.



RCEP and TPP (CPTPP): The Importance of China and the US

- As for imports,
 - China serves as a larger origin than the US and Japan combined, except for Singapore



Thanks!