ORIGINAL ARTICLE

Analysis of the Impact of RCEP on China's Mining Market

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Abstract: RCEP (Regional Comprehensive Economic Partnership), a modern, comprehensive, high-level and mutually beneficial agreement was signed, which marks the official establishment of the free trade zone with the largest participating population, the most diverse membership structure and the greatest development potential in the world. Benefited from RCEP, the regional trade liberalization can be achieved and the rising global inflation expectations can be reached. The mining industry, especially the metal industry, may usher in a new period of development opportunities. However, potential risks still need to be paid attention to. For example, the implementation of RCEP is far less than expectations; the situation of Sino-US trade has further deteriorated; and the implementation of economic stimulus policies in Europe and the United States falls out of expectations.

Keywords: RCEP; Mining; Opportunities and Challenges

1. Introduction

According to the Chinese government website, Premier Li Keqiang said when attending the fourth leaders' meeting of "Regional Comprehensive Economic Partnership Agreement" (RCEP) on the morning of November 15, "today, the leaders of our 15 countries witnessed the signing of the Regional Comprehensive Economic Partnership Agreement (RCEP). As the free trade zone with the largest participating population, the most diverse member structure and the greatest development potential in the world. This is not just a landmark achievement of East Asia regional cooperation. It is a victory for multilateralism and free trade. It will definitely add new momentum to promote the development and prosperity of the region. And it will contribute new forces to the recovery of the world economy and bring huge opportunities and challenges to the mining market".

2. RCEP development history

RCEP (Regional Comprehensive Economic Partnership) initiated by the 10 ASEAN countries in 2012, and the six countries like China, Japan, South Korea, Australia, New Zealand and India were invited to participate ("10+6"). By reducing tariffs and non-tariff barriers, a free trade agreement with a unified market of 16 countries will be established. There are currently 15 countries that have officially signed the agreement. They are: Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar, Cambodia, Indonesia, Malaysia, Philippines, China, Japan, South Korea, Australia and New Zealand. The area covered by the agreement accounts for 30% of the global population, 27.4% of global trade, and 29.3% of global GDP. It is regarded as the world's largest free trade agreement[1].

Since 2017, the RCEP initiated from 2012 has "speeded up" its negotiation process across the board[2]. As of 2018, 16 countries have completed 7 chapters of consultations, and the completion of the negotiation tasks has increased to nearly 80%.

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On November 14, 2018, Premier Li Keqiang stated that RCEP is a regional cooperation agreement based on a higher-level free trade agreement in line with WTO rules[3] under the background of the rise of trade protectionism and unilateralism. The conclusion of this agreement will help countries in the region send a positive signal to the world.

On November 4, 2019, the third leaders' meeting of Regional Comprehensive Economic Partnership Agreement was held in Bangkok, Thailand. The meeting issued the joint statement of the third leaders' meeting of "Regional Comprehensive Economic Partnership Agreement" (RCEP)[4]. The statement said, "we have noticed that the 15 RCEP member states have concluded the textual negotiations for all 20 chapters and essentially reached all negotiations on market access issues. We instructed them to initiate the review of the legal text so that the agreement can be signed in 2020. The statement on India's issues is as follows: "India has important issues that have not yet been resolved[5]. All RCEP member states will work together to resolve these outstanding issues in a mutually satisfactory manner. India's final decision will depend on the successful resolution of these issues."

"November 15, 2020, is a milestone day destined to be recorded in history. The fourth Regional Comprehensive Economic Partnership Agreement (RCEP) has been negotiated for eight years. Finally it has been officially signed and landed[6]. This is not just a landmark achievement of East Asia regional cooperation. It is a victory for multilateralism and free trade."

Wang Shouwen, the Vice Minister of Commerce and Deputy Representative of International Trade Negotiations, introduced that according to RCEP, at least 9 of the 15 members must approve the agreement to enter into force. It must include at least 6 ASEAN member countries and at least 3 countries among China, Japan, South Korea, Australia and New Zealand. Now that the agreement has been signed, the members of RCEP will perform their own domestic legal approval procedures and make their efforts to promote the early implementation of the agreement. The leaders have instructed the ministers to expedite the domestic approval process. China will also work with all parties and strive for the RCEP agreement to benefit the businesses and people in the region as soon as possible.

3. The impact of RCEP on mineral product prices and mining company stock prices

The RCEP agreement is a modern, comprehensive, high-level and mutually beneficial agreement. It is composed of a preamble, 20 chapters (mainly including chapters on trade in goods, rules of origin, trade remedies, trade in services, investment, e-commerce, government procurement, etc.), and a table of commitments on trade in goods, trade in services, investment, and temporary movement of natural persons[7]. RCEP has achieved fruitful results in the liberalization of trade in goods. Tariff reduction among members is based on the commitment to immediately reduce tariffs to zero tariffs and to reduce tariffs to zero tariffs within ten years. The free trade zone is expected to achieve major phased construction results in a relatively short period of time. For the first time, China and Japan reached a bilateral tariff reduction arrangement, achieving a historic breakthrough. The RCEP agreement is conducive to promoting a high level of trade liberalization in the region.

After the RCEP was officially signed (November 15, 2020), the futures prices of zinc, tin, nickel, copper, lead and aluminum in London Metal Exchange have all shown an upward trend[8]. The share prices of large mining companies such as Zijin Mining, Minmetals Resources, Luoyang Molybdenum and Yanzhou Coal Mining have shown upward momentum.

RCEP covers a total of about 2.3 billion people (about 30% of the world). The total GDP exceeds US$25 trillion (about 30% of the world), which accounts for about 25% of the total global trade. It means that it will become the world's largest and most influential free trade agreement. From the perspective of the mining market, although RCEP will not have a huge impact on crude oil, natural gas and other bulk raw materials[9], its promotion to import and export of multiple energy varieties is predictable. In the future, as the details of trade talks between countries are finalized one after another, RCEP's policy dividends will be gradually released. China's mining market can be said to have more opportunities than challenges. In this context, how to cope with the subtle changes that may occur in the future of import and export is the issue faced by all countries. So it is necessary and urgent to timely carry out the transformation, upgrading, optimization and adjustment of the industrial structure[10]. It is a question worthy of consideration by all domestic mining companies.

4. The influence of RCEP on the supply-demand relationship and price trend of mineral products

4.1 RCEP promotes the rise of primary industrialized production capacity in Southeast Asia and the growth of demand for mineral products

RCEP trade liberalization may lead to further optimization of global primary industrial production capacity. The emerging growth point of demand for non-ferrous metals in bulk commodities will gradually shift to Southeast Asian countries[11]. The infrastructure construction needs of relevant countries may push industrial metals into a new round of demand boom cycle. Emerging developing countries in Southeast Asia and South Asia shall rely on their resource endowments and demographic dividend cost advantages. In the context of global industrial upgrading and gradual economic restoration, these countries will become the best area for the development of basic raw material industry at this stage.

Macroscopically, data on fixed asset investment, private investment and foreign investment in Southeast Asia and South Asia ushered in rapid growth. Demographic dividend has been reorganized and the income has relatively increased. At the micro level, the infrastructure construction of some major countries in Southeast Asia and South Asia has entered a rapid rise[12]. However, the corresponding industrial metal supply and demand are seriously out of balance. The contradictions between the urgent desire to improve the economic level and the relatively backward industries and infrastructure have become increasingly prominent. It will promote developing countries in Southeast Asia and South Asia to accelerate the construction of primary industrial production capacity and supporting facilities.

In recent years, investment in the construction and real estate industries in some Southeast Asian countries has increased rapidly. Taking Vietnam as an example, according to Wind data, the investment in the construction and real estate industries in 2019 was 1,258,810 and 1,395,494 billion VND. Compared with 2005, it has increased by 924% and 3054% respectively. In recent years, foreign direct investment in some Southeast Asian and South Asian countries has entered a fast upward path. FDI (Foreign Direct Investment) does not just represent the cross-border flow and transfer of funds. It can also mean the international transfer and diffusion of production factors such as advanced technology and scientific and efficient management models. Southeast Asian and South Asian countries including Vietnam, Myanmar and Malaysia have shown strong net FDI inflows in recent years[13]. To a certain extent, it responded positively to the rapid development and opportunities of developing countries in Southeast Asia and South Asia.

4.2 RCEP promotes trade growth and pushes metal prices higher

At the end of 2001, China joined the World Trade Organization, with the gradual increase of the voice of Chinese goods in the international market. The value of domestic merchandise exports is increasing year by year, and its share in the world continues to rise. But it can be seen that since 2012 in China. With the increase in the magnitude of the export of goods, the annual trade growth rate has fallen from a double-digit growth to a single-digit or negative growth. Among them are the reasons for the decline in China’s economic growth[14]. It is also because of the gradual deterioration of Sino-US trade conditions in recent years. The signing of the RCEP may be the beginning of a new pattern of global trade. The baton of global trade growth was gradually transferred to Southeast Asia and other countries.

The global commodity trade cycle basically coincides with the metal price fluctuation cycle. From the trend of commodity trade index and CRB metal price index since 1981, the fluctuation period and operation direction of the two are relatively consistent. Metal prices rose during 1987-1989. The global merchandise trade index also rose sharply. The same can correspond to the metal price super bull market in 2003-2008 and 2010-2012. The reason is that non-ferrous metals are especially industrial metals represented by copper. Its mine resources are mainly concentrated in South America and other countries, while its demand is spread all over the world. Therefore, countries with shortage of relevant metal resources mainly meet domestic demand through imports. The facilitation of global trade can further strengthen the free circulation of related metals. This has increased the volume of global trade[15]. Eventually, trade liberalization and facilitation made metal prices gradually rise[4].

4.3 RCEP overlaps with global inflation expectations, boosting mineral product prices to a new height

The Federal Reserve implements an “average inflation target system” to raise global long-term inflation expectations. On August 27, 2020, Fed Chairman Powell stated that the Fed has agreed to adopt an average inflation target policy, which will allow inflation to moderately exceed 2% for a certain period of time to compensate for the impact of inflation below 2%. This is the largest adjustment of the Fed’s monetary policy framework since 2012. Previously, the Fed’s relevant policy statement was committed to achieving the inflation rate near the “symmetrical 2% target”. The rebound in inflation expectations prompted the price of mineral products to hit a new high[8]. After the 2008 financial crisis, we can clearly see that there is a strong correlation between metal prices and global inflation expectations. The reason is mainly because related industrial metals are widely used in downstream sub-sectors. Therefore, metal prices also reflect global demand and economic conditions from the side. As the Fed implements the “average inflation target system”, the market has strong expectations for a further rebound in global inflation expectations in the future. It is conducive to pushing up the price of non-ferrous metals to a new height[15].

Fiscal stimulus measures such as European and American infrastructure have helped the demand for metals continue to increase. Since the COVID-19 epidemic, the European Commission has launched a comprehensive recovery plan called “The Next Generation of the European Union”. And for this purpose, a special economic recovery fund of 750 billion euros has been established. In addition, it also pluses the 1.1 lion budget for 2021-2027 formulated by the European Commission. The EU’s economic stimulus investment in the post-epidemic era will reach 1.85 trillion euros. The United States introduced unlimited quantitative easing after the epidemic. Although there are differences in the specific amount of fiscal infrastructure stimulus[8], there is a consensus on stimulating production through infrastructure construction. According to the US CNBC report, the US economy has been hit hard by the COVID-19 epidemic. After Biden intends to take office, he will spend 7.3 trillion US dollars on a stimulus package[13]. Biden’s economic stimulus package is called “Rebuilding a Better Future”. The plan is to create 10 million jobs related to renewable energy, infrastructure development, housing investment, education, economic equality, and medical care.

5. Opportunities and challenges of china’s mining industry

Benefited from factors such as regional trade liberalization brought by RCEP and rising global inflation expectations, it is expected that China’s mining industry, especially the metal industry, will usher in a new period of development opportunities. In the short term, relevant base metal inventories are low. The tight balance between supply and demand caused by low capital expenditure is expected to gradually create a supply gap in the process of increasing infrastructure construction after the epidemic. Rising prices will bring profits back up. In the long run, with the signing of RCEP, global trade conditions will continue to improve. After China’s accession to the WTO, the stimulus effect brought about by global trade and economy is expected to be gradually transmitted to Southeast Asia and other countries through RCEP to further promote the optimal allocation of global primary industrial production capacity, which is conducive to the continuous deepening of infrastructure construction in relevant countries. And it is necessary to promote the non-ferrous metal demand growth point to gradually shift to Southeast Asian countries. In addition, it shall bring new consumption growth points and continuous driving forces for industrial metals to further improve the valuation level of related mining companies.

The signing of RCEP is good news for China’s mining industry as a whole. But its potential risks still need attention. If the implementation of RCEP is far out of the expectations, the Sino-US trade situation will further deteriorate. And the implementation of economic stimulus policies in Europe and America will be also far below the expectations and will lead to recurrence of the COVID-19 epidemic. After the RCEP agreement is signed, each member will perform its own domestic legal approval procedures before the RCEP will come into effect. Countries have to go through a period of adaptation and running-in. It is estimated that import taxes between participating countries will be gradually eliminated within 10 years. And then it will improve the regional goods and services market. However, the period required for the full implementation of the RCEP agreement is too long, and there is greater uncertainty. Moreover, it is unlikely that Sino-US trade frictions will ease further, and Biden will win over allies after he succeeds as president. To sum up, Europe and America's inefficiency in implementing economic stimulus policies and the recurrence of the new crown epidemic will form a new round of strategic containment to China, which will bring huge challenges to the Chinese mining market.

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