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Regional Supply Chains Consolidated by RCEP Provisions

Joint research by HKTDC Research and ACCA

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The RCEP agreement will greatly enhance the supply chain relationships and production efficiency of its members, accelerating the economic integration in the Asia-Pacific region. The trade in goods provision means that signatories will introduce tariff concessions and provide free market access. Some members like Australia, New Zealand and Singapore have committed to adopt a single unified tariff reduction schedule for imports from all members, while others like China, South Korea and Indonesia will adopt country-specific schedules with separate tariff reduction timetables for imports originating from different members. In sum, import tariffs on more than 90% of all the goods will be eliminated in 20 years in the region. Coupled with the removal of non-tariff barriers upon implementation of RCEP agreement, intra-regional trade costs and product prices will be significantly reduced. The more transparent and stable policy environment will create new stimulus to trade and investment among the RCEP signatories.

RCEP Supply Chains Strengthened by Trade in Goods Provisions

1. Import tariffs on more than 90% of all the goods will be eliminated in 20 years, with the majority reduced to 0% immediately or within 10 years upon the implementation of the RCEP agreement.
2. Tariff preferences easily enjoyed by most of the intra-regional trade via application of uniform rules of origin among 15 members.
3. Trade facilitation via implementation of streamlined customs procedures, inspection and quarantine.
4. Removal of non-tariff trade barriers with adoption of generally accepted technical standards. [1]

Consolidation of regional advantages

Many member states already have free trade agreements (FTAs) in place. For instance, trade among the 10 ASEAN members has been liberalised, while trade between China and ASEAN is subject to preferential tariff treatment pursuant to CAFTA. Nonetheless, such arrangements have many limitations, so that goods produced in one country with inputs from others may still be subject to import tariffs within the free trade area. For example, products exported to China with key inputs sourced from non-CAFTA locations like Japan or South Korea but final production in an ASEAN country may not be able to claim preferential tariff treatment of the CAFTA if non-CAFTA inputs are above a certain threshold. This has disrupted supply chains in the region, even though Asia has already evolved into a prime site for global production.

With the arrival of RCEP, inputs from the 15 member states will be treated equally for determination of origin, making it easier for the corresponding outputs to enjoy preferential tariff. This will strengthen the relationships of existing supply chains across the different free trade areas and production locations. Although the long-awaited FTA arrangements among China, Japan and South Korea have still to be completed, the RCEP is particularly beneficial for members looking to integrate the supply chain advantages of Northeast Asia with the production of other RCEP countries. Raw materials and intermediate products produced in RCEP locations will be able to move freely between upstream and downstream participants in the supply chain without trade barriers. Low-cost manufacturers in ASEAN will be able to use high value-added inputs such as semiconductor items and chemicals originating from Japan or South Korea, and their outputs can be further processed by more comprehensive manufacturing in China. Companies will be able use the comparative advantages of different production bases to meet sales orders in the region and beyond.

More accommodating rules of origin

An important note is that the RCEP rules of origin are more accommodating, making it easier for the businesses to claim tariff preferences. Currently, ASEAN members have FTAs, or the so-called “ASEAN+1” arrangements, with five other RCEP members, i.e. China, Japan, South Korea, Australia and New Zealand, though not all the non-ASEAN members have FTA arrangements with one another. With the RCEP agreement, all 15 member countries agree to adopt one single set of rules of origin with regional value content (RVC) of no less than 40%, which is on par with most of the existing FTAs among the RCEP's members. Companies trading with multiple RCEP countries will only need to comply with one set of RCEP rules and procedures. Businesses will have greater choice and flexibility in fulfilling origin requirements, simplifying customs clearance procedures.

The cumulation rule of the RCEP agreement provides that goods and materials originated from other members and used in a given member as materials in the production of new materials or finished goods are considered as originating in the given member where working or processing has taken place. Trading of the corresponding outputs, including finished goods and materials, within the RCEP will enjoy tariff-free treatment. This will solve existing gridlocks between different FTAs. As a result, businesses will be able to fully utilise the resources and production advantages of different members in the region.

The RCEP rules have also introduced certain provisions that are either on par with or better than those of the ASEAN+1 arrangement, making it easier for goods to comply with the origin rules. Taking the RVC as an example, RCEP allows its calculation by using either the indirect/build-down formula or the direct/build-up formula, with indirect materials treated as originating items, thus creating more flexibility for businesses to meet the 40% RVC requirements. Overall, businesses will find it easier to have their products meet RCEP origin requirements for preferential treatment.

Selected RCEP Rules of Origin

Cumulation

Goods and materials which comply with the origin requirements of "originating goods", and which are used in another Party as materials in the production of another good or material, shall be considered as originating in the Party where working or processing of the finished good or material has taken place.

Calculation of Regional Value Content (RVC)

The RVC of a good (specified in Annex 3A of RCEP) shall be calculated by using either of the (a) Indirect/Build-Down Formula or (b) Direct/Build-Up Formula:

a. RVC = (FOB – VNM) / FOB * 100% ; or
b. RVC = (VOM + direct labour + direct overhead + profit + other cost) / FOB x 100%

where: FOB = free-on-board value of the good

VOM = value of originating materials/parts/produce acquired or self-produced, and used in the production of the good

VNM = value of non-originating materials used in the production of the good

Indirect Materials

An indirect material shall be treated as an originating material without regard to where it is produced.

Materials Used in Production

If a non-originating material undergoes further production such that it satisfies relevant origin requirements, the material shall be treated as originating when determining the originating status of the subsequently produced good, regardless of whether that material was produced by the producer of the good.

A conducive trading environment

A number of operational provisions and more consistency in customs procedures will help those doing business in the RCEP region. Some of the operational features include the introduction of a declaration system for proof of origin of goods by approved exporters, and the application of back-to-back principles for proof of origin. These will facilitate the application of preferential treatment for trade in goods, while greatly improving the exporters' flexibility in formulating their sales strategies and logistics arrangements for distribution in the region.

- Declaration of Origin

  In addition to a certificate of origin issued by a conventional issuing body, RCEP also recognises declaration of origin by an approved exporter as proof of origin for claiming preferential tariffs treatment [2].

- Back-to-Back Proof of Origin

  An issuing body, approved exporter, or exporter of an intermediate Party may issue a back-to-back proof of origin, given that among others the consignment which is to be re-exported does not undergo any further processing in the intermediate Party, except for repacking or logistics activities or any other operations necessary to preserve a good in good condition or to transport a good to the importing Party.

RCEP has improved the procedural requirements for verification of origin, and details the obligations of importers, exporters and certificate issuing bodies. The agreement also stipulates provisions concerning certain customs procedures and trade facilitation measures, including those dealing with pre-shipment inspection, pre-arrival processing for importation of goods, advance rulings on matters like tariff classification and origin of goods, simplified customs procedures for the efficient release of goods, application of information technology to support customs operations, as well as additional trade facilitation measures related to import, export or transit procedures to authorised operators who meet the specified criteria of the agreement. These aim to ensure predictability, consistency, and transparency in the application of customs laws and regulations of each Party, and to promote efficient administration of customs procedures in the region, thereby facilitating trade among the Parties through a strengthened environment for global and regional supply chains.

Supply chains aided by cross-border investment and e-commerce arrangement

The strengthened regional supply chains will be further boosted by RCEP provisions for trade in services and simplified investment. As the agreement will remove tariffs on over 90% of goods, producers are expected to invest directly across borders to optimise their regional production and sourcing arrangements and enhance their regional services capabilities in areas like distribution and logistics. With the RCEP provisions for trade in services at least 65% of the service sectors will be fully open to foreign investment and greater foreign shareholdings will be allowed. Members will generally take on a "negative-list" approach whereby unless exceptions have been specified [3], they will grant the same market access to foreign service providers as to nationals.[4] While the actual impact will depend very much on how the measures are implemented at the business level, the provisions to ensure market access without discrimination will reduce business risks for foreign investors. This improved access will cover not only the more eye-catching sectors like financial, telecommunications and professional services, but also those related to production and supply chains such as distribution and freight transport services.

The RCEP agreement will greatly enhance the supply chain relationships and production efficiency of its members. (shutterstock.com)

Likewise, the investment provisions based on the principles of national treatment and most-favoured-nation treatment ensure that foreign investment in any given member territory will receive fair and equitable treatment with full protection and security, in accordance with the minimum standard of treatment of aliens under international law. For production-related investment, requirement of specific performance is prohibited [5], such as:

- to export a given level or percentage of goods
- to achieve a given level or percentage of domestic content
- to purchase, use, or accord a preference to goods produced in its territory, or to purchase goods from persons in its territory
- to relate the volume or value of imports to the volume or value of exports or to the amount of foreign exchange inflows associated with investments of that investor
- to restrict sales of goods in its territory that such investments produce by relating such sales to the volume or value of its exports or foreign exchange earnings
- to transfer a particular technology, a production process, or other proprietary knowledge to a person in its territory

The RCEP also strengthens the protection of intellectual property rights, which are increasingly important to the sustainability of supply chain development. Members are obliged to ratify or accede to a number of prevailing multilateral agreements such as the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works and the Madrid Agreement Concerning the International Registration of Marks. The interests of holders of patents and industrial design rights will be well protected, and trademark protection will also extend from visually perceptible signs to non-traditional marks such as sounds.

The RCEP agreement seeks to promote e-commerce among members, and to foster regional co-operation to assist small and medium enterprises to overcome obstacles in the way of digitalisation. It provides for electronic authentication and electronic signatures to facilitate trade, and sets up protocols for online consumer protection, online personal information protection, cyber security, and cross-border transfer of information by electronic means. The intention is to create a conducive environment for electronic commerce in the region. The measures will facilitate the signing of online contracts, the authorisation of electronic payments, conclusion of online transactions with enhanced protection and guarantees, potentially creating greater access to the RCEP market. Coupled with the rules of origin provision that importing Party may not require a proof of origin for claiming preferential tariff treatment if the customs value of the importation does not exceed US$200 [6], the e-commerce provisions will create additional leeway for small order trade, including crossborder e-commerce retail business in the region.

This article forms part of a joint study conducted by HKTDC Research and ACCA : “Tapping the RCEP Opportunities: Hong Kong to Maximise GBA’s Unique Edge as a Business Platform”

[1] The RCEP agreement provides that, among others, the signatories agree to ensure that standards, technical regulations, and conformity assessment procedures do not create unnecessary obstacles to trade, and to enhance the implementation of the WTO Technical Barriers to Trade (TBT) Agreement.

[2] This is subject to the requirements that Australia, Brunei, China, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand and Vietnam shall implement the provision no later than 10 years after their respective dates of entry into force of the RCEP Agreement, whilst Cambodia, Laos and Myanmar no later than 20 years after their respective dates of entry into force of the RCEP Agreement.

[3] Exceptions are specified in the “Schedules of Reservations and Non-Conforming Measures for Services and Investment”.

[4] Cambodia, China, Laos, Myanmar, New Zealand, the Philippines, Thailand and Vietnam have also maintained “Schedules of Specific Commitments for Services” or the so-called “positive lists” at the same time.

[5] The prohibition is subject to exceptions specified in the “Schedules of Reservations and Non-Conforming Measures for Services and Investment”

[6] This is subject to the condition that the importation does not form part of a series of importations carried out or planned for the purpose of evading compliance with the importing Party’s laws and regulations governing claims for preferential tariff treatment.

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