ASIAN TRADE CENTRE

POLICY BRIEF

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RCEP: Goods Rules that Work for Smaller Firms in Asia

Small and medium sized enterprises (SMEs) make up to 97 percent of firms inside the 16 countries of the Regional Comprehensive Economic Partnership. The final trade agreement should be especially helpful for smaller firms that often struggle to understand and effectively use existing trade deals.

For goods manufacturers, RCEP should include the following provisions to allow the greatest range of companies to use the agreement:

1. Tariff cuts must be ambitious and include product categories that are actually traded among parties. Tariff cuts should include 90% of tariff lines, tariff elimination as much as possible, and comprehensive coverage in terms of both tariff lines and value of trade.

Members must agree to comprehensive tariff reductions with reasonable timelines—nearly all cuts within ten years. The final goal should be to cut to zero as much as possible for all members. Many cuts should start on entry into force.

RCEP members should focus on granting the same tariff concessions to all RCEP members. Otherwise, the agreement will be very difficult for smaller firms to use.

Agricultural products must be included for tariff reductions. Agriculture is sensitive in nearly every country. But excluding most tariff lines from tariff cuts entirely will also reduce the prospects for economic development in the future. Particularly important may be the inclusion of tariff lines for processed food items, as these may be growth areas for many RCEP countries and farming communities.

Tariffs should be eliminated whenever possible. Many officials will argue that low tariffs are not problematic for companies. In a world of global value chains and distributed production, however, low tariffs should be eliminated. For complex items that cross borders multiple times, the final embedded tariff "hidden" in the product can be substantial. Developing countries are often hit particularly hard by how even low tariffs compound or build up over each transfer of goods across borders during assembly and development.

2. Rules of Origin must be consistent across all 16 members and be helpful for companies—ROOs should generally allow firms to choose *either* regional value content (RVC) and change in tariff heading (CTC or CTH). RCEP should include multiple calculation methods wherever possible and not include multiple methods that must be met simultaneously.

ASEAN usually prefers to use RVC rules in trade agreements. For some products, RVC works well. But for many companies, especially smaller firms, RVC is very difficult and cumbersome to use.

For example, from the perspective of a firm, unless the RVC is clearly well in excess of the RVC threshold, using RVC can be uncertain. If the exchange rates shift, a company can be quickly at risk of falling below the overall

threshold. RVC requires substantial information to be collected by the company and to be turned over to government officials. Some of this information is difficult or impossible to obtain from suppliers.

For textiles, ROO must be cut and sew. For chemicals, process rules are important. In short, ROO rules must allow firms multiple calculation methods with the overall goals of encouraging firms to source production within RCEP member countries.

If a company's suppliers change sourcing patterns—ordering a part from a different location, for example—the firm can quickly be out of compliance with RVC and not realize it. The current fines and penalties for non-compliance with ROOs can be substantial.

Hence, RCEP officials should include multiple calculation methods for ROOs whenever possible in the agreement. ROOs must include full cumulation across all 16 parties and be consistent. ROOs should **never** include multiple methods that must be met simultaneously.

3. RCEP must allow full cumulation in ROOs.

For smaller firms, the biggest benefit from using RCEP will come from the ability to cumulate inputs from across all RCEP member parties.

Full cumulation is the critical element that sets RCEP apart from existing trade agreements for goods in the region.

4. One Certificate of Origin for RCEP

The certificate of origin (CO) paperwork for RCEP must be one document for all 16 members, simplified, and made user-friendly. It should be made available as much as possible online. Electronic signatures will help enable CO forms to be recognized across all members without the additional need for hard copies.

5. Remanufactured goods should be clearly included.

Remanufacturing is increasingly important—especially as companies focus on sustainability and keeping products out of landfills. However, many RCEP members have ambiguous rules on remanufactured goods. These products are often classified as scrap, used, or even new items.

RCEP therefore presents an opportunity to more clearly define remanufactured goods and give firms a space to improve prospects for the future.

6. RCEP needs to address the issue of returns.

Smaller firms are increasingly active in e-commerce. One of the obstacles to growing their businesses is difficulty handling returned items. As one example, returned packages often result in the payment of a second tariff when there was no drawback for the product during export. Customs officials in RCEP member jurisdictions handle returned items differently, making it challenging for smaller firms to operate easily across the region.

RCEP has an opportunity to address this issue in a comprehensive way across 16 key markets in Asia.