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RCEP: PROPOSALS FOR TRADE IN GOODS AND RULES OF ORIGIN

Current negotiations underway in the Regional Comprehensive Economic Partnership (RCEP) among 16 countries in Asia have significant implications for companies based in the region. If officials want to create the best possible environment for large and small firms now and into the future, RCEP provides a unique platform that must be seized.

The region is increasingly connected via supply chains or value chains. These chains require a comprehensive approach that goes beyond reduction of tariffs in some sectors. Companies will only use trade agreements like RCEP if they include a range of interlocking requirements that solve multiple problems at once.

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

1. Tariff cuts must include be ambitious and include product categories that are actually traded among parties.

For example, tariff cuts for textile products must include at least 95% of all tariff lines. Textiles are an important category of manufactured goods for most RCEP negotiating countries. RCEP members occupy all aspects of the value chain for textiles and, for many countries, employment in the sector is critical.

Given the highly concentrated nature of trade between many RCEP countries, carving out or

excluding large number of tariff lines will dramatically reduce the overall benefits of the agreement at the end. If the overall number of tariff lines included slips to 90%, nearly all items actually traded between members are likely to be cut out of the final commitments.

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 start on entry into force.

If tariffs are not cut to zero, 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 allow firms to choose either regional value content (RVC) and change in tariff heading (CTC or CTH)

ASEAN usually prefers to use RVC rules in trade agreements. For some products, RVC works well. But for many companies, 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.

The certificate of origin (CO) paperwork for RCEP must be simplified, made user-friendly, and preferably available as much as possible online.

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

3. Trade facilitation is critical for firms. Customs procedures are as important for companies as tariff reductions and ROOs. RCEP should promptly and fully implement the Bali TFA agreement.

RCEP should tighten up customs procedures to ensure that, as much as possible, all 16 parties use similar procedures. Countries should ensure that customs procedures are the same at every port of entry.

Specific rule changes could include provisions to ensure that perishable goods be processed in a timely manner, advance rulings are extremely helpful for firms, and better risk assessment mechanisms should be encouraged.

RCEP’s Ecotech should be focused particularly on implementing ROO, tariff commitment changes and risk assessment with customs officials and all other associated agencies.

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