

ADB Conference on RCEP: A new paradigm in Asia's Trading architecture?

Trade in goods aspects of Regional Comprehensive Economic Partnership (RCEP)

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Scope of the analysis

Context:

- RCEP is widely expected to act as unifying factor among the existing multitude of FTAs, addressing challenges of the existing “noodle” bowl of FTAs in the region.
- However RCEP does not supersede existing FTAs such as ATIGA and ASEAN+1 FTA
- What is the incremental value of RCEP when compared to the CP-TPP and other agreements of the Asia-Pacific?,
- RCEP does not provide for strong disciplines in new areas and has been qualified as a “shallow” agreement.

Objective:

Shed light on the foundations of these apparently contradictory statements to conciliate expectations and draw policy recommendations

Methodology:

1. Analysis of the textual content of the main issues of the RCEP Trade in goods chapters .
2. Comparison of RCEP commitments with CPTPP and WTO (and ATIGA on RoO)
3. Identify shallow/deep nature of commitments (value added of RCEP)
4. Formulate policy recommendations for RCEP built-in agenda



Examining RCEP chapters on trade in goods – Preliminary Assessment

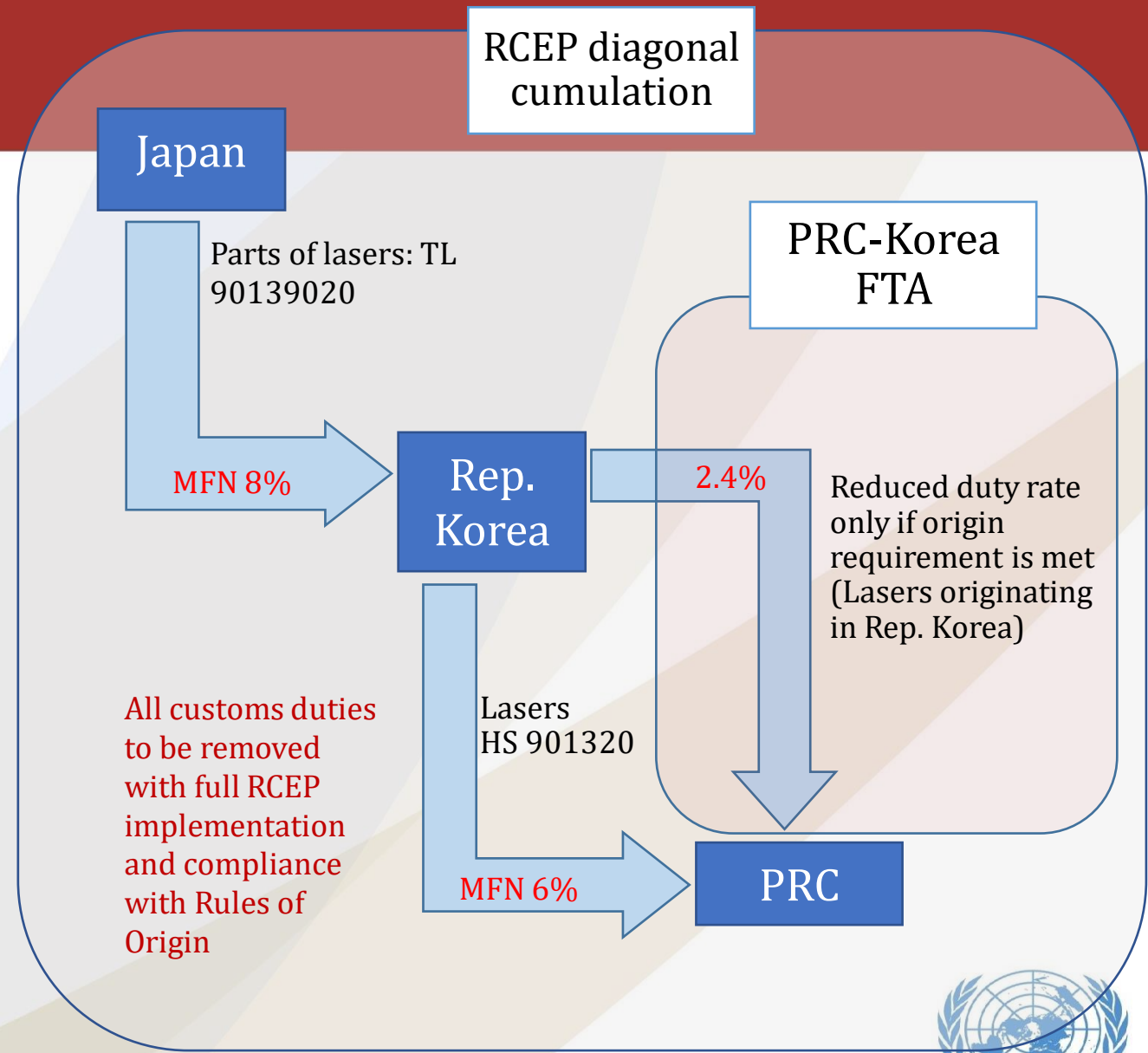
- Selected chapters on trade in goods
 - a) **Tariff and rules of origin**
 - b) Sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBTs)
 - c) Trade remedies
 - d) Customs procedures and trade facilitation
- Shallow nature confirmed
 - a) In some chapters there is no WTO-Plus content (SPS/TBT, Trade remedies) or limited (TFA)
 - b) Selected chapters do not provide for built in agenda or limited hortatory language
 - c) **Can we observe quick wins on the classic elements of a FTA ? i.e. Tariff and rules of origin?.**

What is the incremental value of RCEP for firms ?

- RCEP is competing with existing and future FTAs
- The mechanics and determinants of firms' choices
 - the coverage of products,
 - the extent of tariff reduction (preference margin)
 - MFN rates and tariff phasing down schedules
 - the ease of complying with rules of origin.
 - RoO Administrative procedures
 - Form and restrictiveness of PSROs
- All these elements are determinant for an effective utilization of the RCEP agreement.

An example of potential liberalization within RCEP

- RCEP advantage is one FTA among all RCEP countries and one set of rules of origin requirements
- RCEP diagonal cumulation may facilitate the compliance with RoO when exporting from Rep. Korea to PRC
- However such Tariff-cutting “quick wins” are conditional on compliance with rules of origin

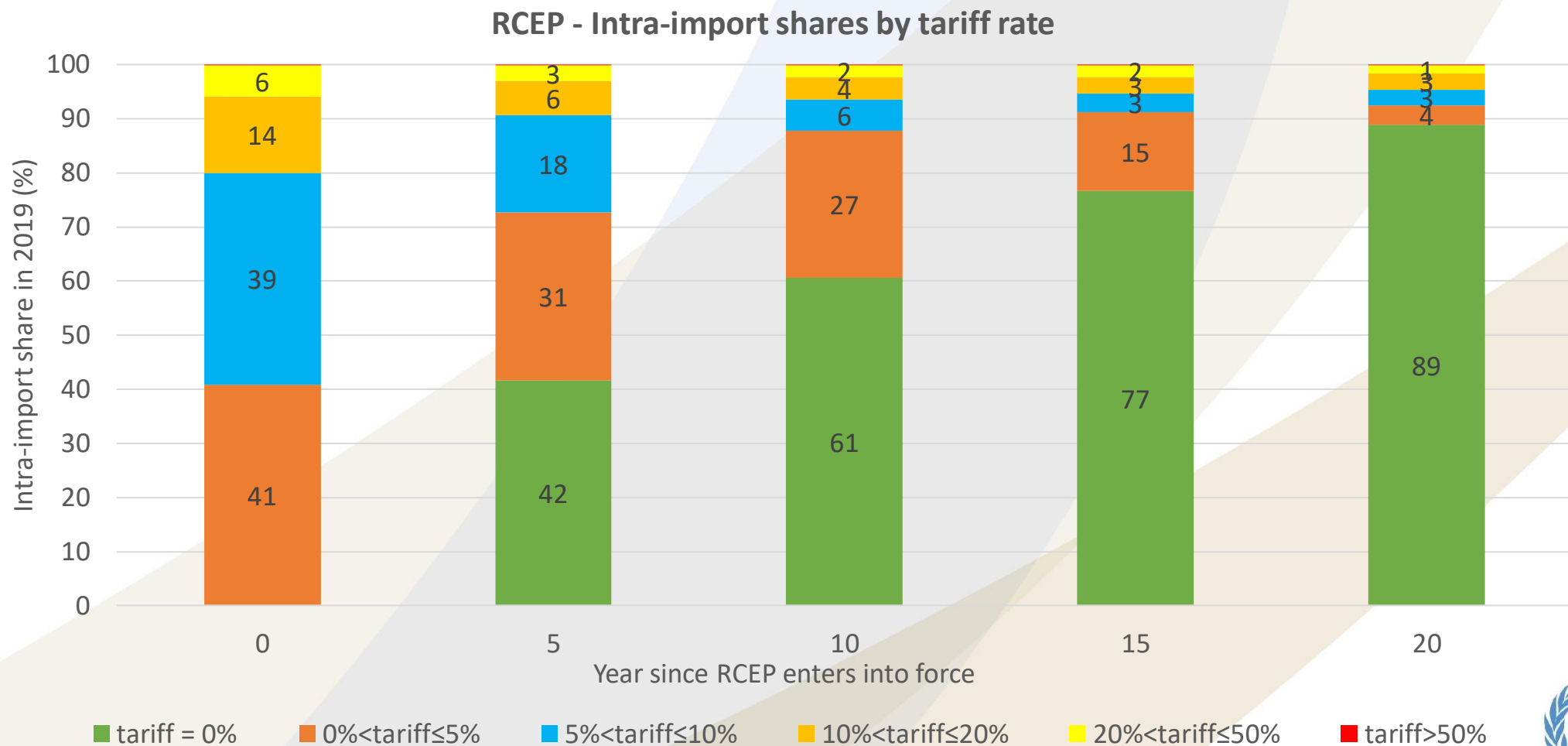


What is the Architecture of Tariff offers in RCEP?

- **CPTPP**: one single tariff offer *vis a vis* all other partners (exceptions for specific goods).
- **RCEP**: differentiated tariff schedules and phase-out of customs duties depending on the RCEP partner
 - **38 different tariff schedules**;
 - various and sometimes very long timelines of 20 years (or more).

RCEP Tariff schedules		
Single	'Hybrid'	Differentiated
<ul style="list-style-type: none">• Australia• Brunei• Cambodia• Laos PDR• Malaysia• Myanmar• New Zealand• Singapore• Thailand	<ul style="list-style-type: none">• Japan• One document with most of the tariff offers are applicable to all RCEP countries.• some specific lines include different tariff rates and reduction timelines for different Parties	<ul style="list-style-type: none">• PRC• Indonesia• Rep. Korea• Philippines• Vietnam

RCEP intra-regional import shares 2019 and RCEP tariffs phasing down over years



Notes: i) Intra-imports of RCEP countries are taken from COMTRADE data in 2019.

ii) Tariff lines with a base rate of 0% and tariff lines subject to non-ad valorem duties are excluded from total imports.

iii) Import at the national tariff line level is computed by using the share of tariff line in each HS6 category as a proxy for the proportion of trade of each tariff line within each HS6 category.



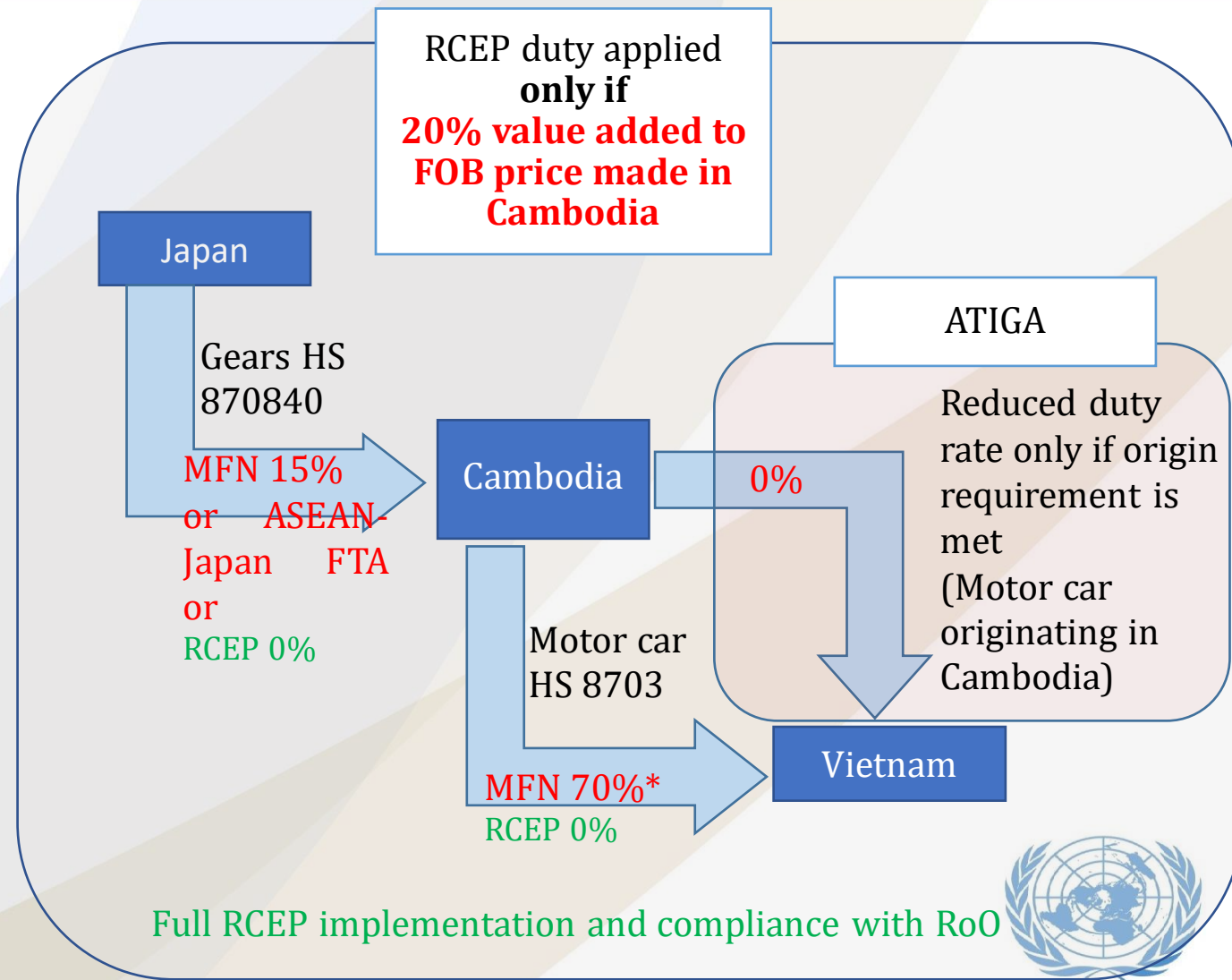
How good are RCEP RoO ?

- RCEP is a mix of ASEAN and inherited North American model from Australia, Japan, New Zealand, and Republic of Korea
- Wide geographical scope of RCEP tilt the balance in favor of RCEP as it ...
 - Provides a single set of RoO
 - Expand scope for cumulation bringing PRC into the picture
- Shortcomings to be addressed:
 - Scarce predictability (inherited features from ASEAN RoO)
 - Cumulation provisions still to be defined
 - Proof of origin
 - Tariff differentials

} → Text comparison

An Example of “conditional” cumulation under tariff differentials

- Vietnam MFN duty on cars 70%
- Japan car firm plans to invest on manufacturing plant in Cambodia to export cars to Vietnam
- If car is exported under ATIGA duty free but RVC 40% and gears of Japan not originating
- If car exported under RCEP cumulation with Japan and duty free
- However tariff differentials under RCEP requires that at least 20% of value added to the FOB price of the car created in Cambodia
- In practice, requires Cambodian labor costs and local materials to represent **20% of the FOB price** of the finished car.



→ Is this Commercially viable?



Product-Specific Rules of Origin (PSROs) Form vs. Substance (stringency) - Example

HS Description	RCEP	ATIGA	CP-TPP
Chapter 1 live animals	WO	WO	01.01 - 01.06 A change to a good of heading 01.01 through 01.06 from any other chapter.

- RCEP and ATIGA require that the products are wholly obtained
 - i.e. the live animals of chapter 1 are born and raised in RCEP or ATIGA countries respectively.
- CP-TPP first breaks down PSROs at heading level and then apply a CC substantive requirement.
- The only antecedent in the HS to live animals are embryos → same substantive requirement as in RCEP and ATIGA
- In order to be considered originating the live animals of chapter 1 must be to born and raised in a RCEP, ATIGA or CP-TPP partner.

Restrictiveness and convergence of PSROs

Restrictiveness Code	Free Trade Agreement (FTA)		
	ATIGA	RCEP	CPTPP
1: Least restrictive	3321	1774	2706
2: "Intermediate"	1807	3292	1386
3: Most restrictive	75	137	1111

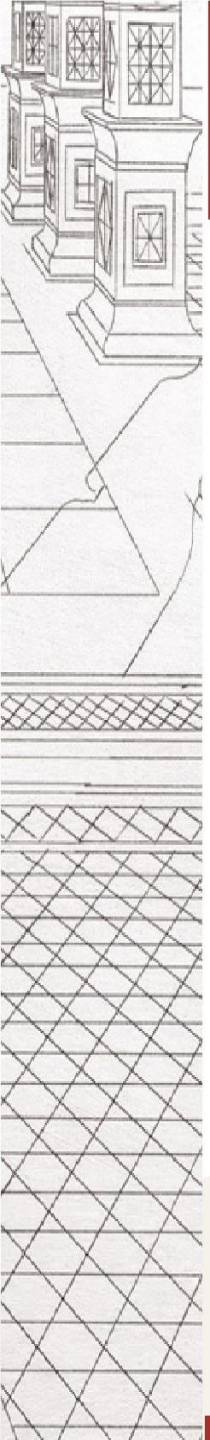
- Looking only at the stringency, there is **no evidence that RCEP is more liberal** than other agreements!
- But there might be **convergence...for 3109 subheadings** → **scope for simplification**

	Full Convergence	RCEP and CPTPP are the same but ATIGA Diverges	RCEP and ATIGA are the same but CPTPP Diverges
Number of HS Subheading	769	719	1621

RCEP as it stands, sounds like a promise

- a number of actions are needed to make it effective

Main findings	Way forward
<i>Non-traditional behind the border and regulatory chapters</i>	
<ul style="list-style-type: none"> • Shallow provisions in some chapters; • Unpredictability of implementation of commitments 	Can shallow RCEP chapters be further liberalized using the <i>ASEAN way</i> ?
<i>Tariff phasing down</i>	
Long, complex and incomplete tariff phasing down period	<ul style="list-style-type: none"> ➤ Built-in agenda (<i>rendez-vous clause</i> to be activated) ➤ RCEP negotiators should stand ready to activate RCEP article 2.5 acceleration of tariff commitments and article 2.21 sectoral initiatives to achieve greater and faster tariff liberalization.
Rules of origin	
<ul style="list-style-type: none"> • Rules of origin criteria and administration not more liberal than in CPTPP and ATIGA • Scope for convergence and simplification • Differentiated offers adding complexity to application of RCEP cumulation 	<ul style="list-style-type: none"> ➤ Act under the built-in agenda to: <ul style="list-style-type: none"> ➤ 1) simplify proof of origin towards self certification ➤ 2) finalize text on cumulation and other provisions ➤ 3) establish a working group to achieve convergence on PSROs



Thank you very much for your attention!

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KEY POINTS

- The substantial gains expected from the Regional Comprehensive Economic Partnership (RCEP) depend on the agreement's effective implementation and development of its built-in agenda in key areas.
- Trade in services, investment, e-commerce and digital trade, among other behind-the-border areas, show relatively modest commitments.
- RCEP's complex, lengthy tariff phasing down, rules of origin and related administrative procedures are expected to delay the Agreement's potential benefits and may deter firms from using RCEP's trade preferences.
- A combined agenda of implementation leveraging built-in provisions to achieve greater trade liberalization is necessary to compensate for the initial "shallow" RCEP commitments in regulatory and behind-the-border measures.
- Further intergovernmental work and strong political will are needed to unlock the potential of RCEP, overcome implementation challenges, deepen its provisions, and expand its coverage in the future.

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A Preliminary Assessment of the Regional Comprehensive Economic Partnership

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INTRODUCTION

Mega-regional trade deals require economies to forge appropriate policy responses to navigate implementation challenges and unlock potential opportunities. The Regional Comprehensive Economic Partnership (RCEP), which entered into force on 1 January 2022, is no exception.¹ Partnering 10 Southeast Asian nations with Australia, the People's Republic of China (PRC), Japan, the Republic of Korea, and New Zealand, RCEP is the most recent plurilateral initiative to foster regional cooperation and integration in Asia and the Pacific.² As a strong commitment to open, transparent, and inclusive trade and investment regimes, the agreement is expected to strengthen the region's manufacturing supply chains, raise productivity, and increase wages and employment, with world income gains estimated at \$263 billion (Park, Petri, and Plummer 2021).

At the same time, compared to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and other agreements in Asia and the Pacific, RCEP does not provide strong disciplines in new areas and has been qualified as a "shallow" agreement.

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² The 10 signatory states that have initially deposited their instruments of ratification, acceptance, or approval are Australia, Brunei Darussalam, Cambodia, the PRC, Japan, the Lao People's Democratic Republic, New Zealand, Singapore, Thailand, and Viet Nam. In the Republic of Korea, RCEP agreement enters into force on 1 February 2022. See https://www.meti.go.jp/english/press/2021/11/03_001.html and https://www.meti.go.jp/english/press/2021/12/06_002.html. See Kang et al. (2020) for an overview of the agreement and economic impact.



AN ANALYSIS OF THE PRODUCT-SPECIFIC RULES OF ORIGIN OF THE REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP

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