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

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

Stefano Inama
Chief, Technical cooperation and EIF, ALDC
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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-TTP 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 RECP 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

• Hover such Tariff-cutting “quick wins” are conditional on compliance with rules of origin

Source: Crivelli & Inama (2022), ADB Brief 206
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

<table>
<thead>
<tr>
<th>Single</th>
<th>‘Hybrid’</th>
</tr>
</thead>
</table>
| • Australia
• Brunei
• Cambodia
• Laos PDR
• Malaysia
• Myanmar
• New Zealand
• Singapore
• Thailand | • 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 |

- **Differentiated**
  - • 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

<table>
<thead>
<tr>
<th>HS Description</th>
<th>RCEP</th>
<th>ATIGA</th>
<th>CP-TPP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 1 live animals</td>
<td>WO</td>
<td>WO</td>
<td>01.01 - 01.06 A change to a good of heading 01.01 through 01.06 from any other chapter.</td>
</tr>
</tbody>
</table>

• 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

### Table: Restrictiveness and Free Trade Agreement (FTA)

<table>
<thead>
<tr>
<th>Restrictiveness Code</th>
<th>ATIGA</th>
<th>RCEP</th>
<th>CPTPP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1: Least restrictive</td>
<td>3321</td>
<td>1774</td>
<td>2706</td>
</tr>
<tr>
<td>2: “Intermediate”</td>
<td>1807</td>
<td>3292</td>
<td>1386</td>
</tr>
<tr>
<td>3: Most restrictive</td>
<td>75</td>
<td>137</td>
<td>1111</td>
</tr>
</tbody>
</table>

- 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

### Table: Full Convergence and Divergence

<table>
<thead>
<tr>
<th>Number of HS Subheading</th>
<th>Full Convergence</th>
<th>RCEP and CPTPP are the same but ATIGA Diverges</th>
<th>RCEP and ATIGA are the same but CPTPP Diverges</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>769</td>
<td>719</td>
<td>1621</td>
</tr>
</tbody>
</table>
RCEP as it stands, sounds like a promise - a number of actions are needed to make it effective

<table>
<thead>
<tr>
<th>Main findings</th>
<th>Way forward</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-traditional behind the border and regulatory chapters</strong></td>
<td></td>
</tr>
<tr>
<td>• Shallow provisions in some chapters;</td>
<td>Can shallow RCEP chapters be further liberalized using the ASEAN way?</td>
</tr>
<tr>
<td>• Unpredictability of implementation of commitments</td>
<td></td>
</tr>
<tr>
<td><strong>Tariff phasing down</strong></td>
<td></td>
</tr>
<tr>
<td>Long, complex and incomplete tariff phasing down period</td>
<td>➢ Built-in agenda (<em>rendez-vous clause</em> to be activated)</td>
</tr>
<tr>
<td></td>
<td>➢ RCEP negotiators should stand ready to activate RCEP article 2.5</td>
</tr>
<tr>
<td></td>
<td>acceleration of tariff commitments and article 2.21 sectoral initiatives</td>
</tr>
<tr>
<td></td>
<td>to achieve greater and faster tariff liberalization.</td>
</tr>
<tr>
<td><strong>Rules of origin</strong></td>
<td>➢ Act under the built-in agenda to:</td>
</tr>
<tr>
<td>• Rules of origin criteria and administration</td>
<td>➢ 1) simplify proof of origin towards self certification</td>
</tr>
<tr>
<td>not more liberal than in CPTPP and ATIGA</td>
<td>➢ 2) finalize text on cumulation and other provisions</td>
</tr>
<tr>
<td>• Scope for convergence and simplification</td>
<td>➢ 3) establish a working group to achieve convergence on PSROs</td>
</tr>
<tr>
<td>• Differentiated offers adding complexity to application of</td>
<td></td>
</tr>
<tr>
<td>RCEP cumulation</td>
<td></td>
</tr>
</tbody>
</table>
Thank you very much for your attention!

A Preliminary Assessment of the Regional Comprehensive Economic Partnership
http://dx.doi.org/10.22617/BRF220009-2

An Analysis of the Product-Specific Rules of Origin of the Regional Comprehensive Economic Partnership
http://dx.doi.org/10.22617/TCS220167-2