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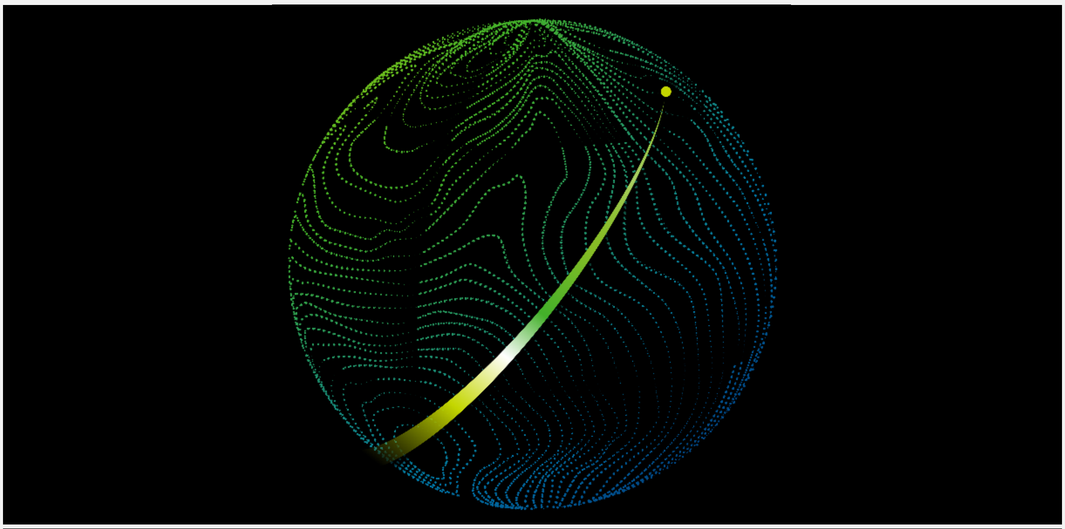

Global Trade Advisory newsflash
The Regional Comprehensive Economic Partnership to take effect on 1 January 2022

The Regional Comprehensive Economic Partnership agreement (RCEP[1]), signed on 15 November 2020, is set to take effect on 1 January 2022 after Australia and New Zealand recently completed their respective ratification processes.

Under the terms of this long-awaited trade deal, at least six Association of Southeast Asian Nations (ASEAN) countries and three non-ASEAN countries will need to ratify the agreement before it can enter into force. In addition to Australia and New Zealand, the other countries that have ratified RCEP and for whom it will take effect on 1 January 2022 are Brunei, Cambodia, Laos, Singapore, Thailand, Vietnam, China and Japan.

South Korea ratified RCEP on 2 December 2021. RCEP is expected to enter into force for South Korea in early February 2022.

Overview of RCEP

Building upon the existing free trade agreements (FTAs) and economic linkages between the member countries, the practical effect of RCEP is to combine them into a single, Asia Pacific regional, multilateral pact. This will significantly reduce the compliance costs of enterprises using FTAs and further enhance the trade creation effect brought by them.

RCEP is also the first FTA to connect China and Japan (Asia's largest and second largest economies respectively) on the one hand, and Japan and South Korea on the other, laying the foundation for deeper cooperation between the three countries in the future.

RCEP is designed to eliminate as much as 90% of the tariffs on goods traded between its signatories within 20 years of the agreement coming into effect where it promises to promote substantial increases in intra-regional trade and investment and bring vigorous business opportunities.

The majority of tariffs on goods will reduce to zero immediately or within 10 years, demonstrating each country's strong commitment to liberalization of trade in goods. Each member country will abolish tariffs on specific products imported from other RCEP members, in phases, based on their Schedules of Tariff Commitments.

More details about RCEP's coverage and highlights from a trade perspective can be found in our earlier Trade Alert issued on 8 January 2021.

[1]RCEP is a free trade agreement (FTA) between 15 member countries in the Asia Pacific region: the 10 ASEAN states (i.e., Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam), Australia, China, Japan, New Zealand, and South Korea.

Regional impact insights

ASEAN member states

Member states that have ratified

Singapore

- RCEP will complement Singapore's existing network of FTAs, expands its economic space, and boost trade and investment flows. It will further broaden and deepen Singapore's economic linkages and connectivity within the region, unlock opportunities and provide businesses with preferential access into the growing market.
- Beyond the economic value derived from RCEP, the RCEP is also a statement of all countries' strategic intent to have a shared interest in each other's prosperity and success which will bode well for the security of the region.
- As the first country to complete the RCEP ratification process, Singapore signalled its strong commitment to strengthening trade and economic linkages with its partners for the benefit of businesses and people.

Thailand

- RCEP will greatly contribute to the post-COVID-19 recovery of Thailand and lead Thailand towards resilient, inclusive, and sustainable growth for the people in the region and beyond. From 1 January 2022, a vast number of Thailand's exports will benefit from zero tariffs.
- RCEP will also help to boost Thailand's competitiveness and contribute significantly to an open, inclusive, and rules-based international trading system and the expansion of value chains.
- RCEP is a good opportunity for both multinational corporations (MNCs) and local entities alike given that RCEP is an ASEAN-centered agreement. Thailand will be able to continue being the regional destination for investors within the automotive and automotive parts sector, petrochemicals, agriculture and related products, food, tourism and the retail industries sectors.

Vietnam

- RCEP will help Vietnam access large consumer markets and is expected to benefit Vietnam's major export categories which

include IT, textiles, footwear, agriculture, automobiles, and telecommunications.
- RCEP will benefit Vietnam by facilitating supply chains in terms of imports of electronic chips and related materials from Japan and South Korea, and various other materials from China, allowing Vietnam to produce goods domestically for export to other countries and take advantage of tariff preferences provided under RCEP.
- SMEs account for 98% of all enterprises in Vietnam, contributing to 40% of the GDP. RCEP presents significant opportunities for Vietnamese SMEs to move up the value chain and participate more in the global economy.

Member states yet to ratify

Indonesia

- When RCEP is ratified by Indonesia, it will complement the Omnibus Law in achieving structural reform in Indonesia and will be important to Indonesia's ongoing multilateralism agenda and the boosting of the national economy needed in response to the COVID-19 pandemic.
- RCEP has the potential to increase Indonesia's exports to other member countries by up to 11% and investment into Indonesia by up to 22%.
- Reducing regional trade barriers is a necessary step to sustain trade, uphold competition and efficiency, and increase foreign direct investment (FDI). RCEP aligns with the government's efforts to encourage more FDI inflows to Indonesia, with non-tariff barriers continuing to be the source of many issues faced by companies in Indonesia.

Malaysia

- When RCEP is ratified by Malaysia, RCEP will enable Malaysian businesses to:
  - Gain market access to trade and investment opportunities.
  - Source raw materials more efficiently and integrate their supply chains with other RCEP markets.
  - Derive greater certainty concerning intellectual property rights.
- RCEP is expected to also promote greater transparency, information sharing, trade facilitation, economic cooperation, and coherence in e-commerce regulations.
- Ratification of RCEP will also help Malaysian businesses to recover from the impact of the COVID-19 pandemic and stabilize manufacturing activities, as well as rebuild supply chain connectivity in the region.
- As a relatively open economy that is also home to many MNC subsidiaries with export-based manufacturing facilities, Malaysia should also benefit from RCEP's facilitation of intra-regional sourcing of raw materials which will allow finished goods manufactured in Malaysia to be more competitive when exported to the other 14 member countries.

Philippines

- RCEP region trade represents 51% of the Philippines' exports, 68% of the Philippines' imports, and 58% of foreign direct investment source in 2020. Once RCEP has been ratified by the Philippines, the agreement is expected to improve the Philippines' trade balance by as much as US$51.7 million, increasing overall welfare by US$573.7 million, contributing to a 0.84% real GDP growth, and lowering poverty incidence by 4.97% in 2030.

- RCEP is expected to open up to 98.1% of tariff lines in the Philippines and will benefit particularly the semiconductor industry.
- The potential surge in imported goods is something that local companies will need to manage as a trade-off for market access into other countries, although products exempted from preferential access like rice and industrial products such as cement and auto parts will shield some of these industries from immediate impact.
- Exports to China are expected to increase with RCEP.

Australia

RCEP is anticipated to provide a range of important benefits for Australian businesses, including:

- Increased opportunities for developing and accessing regional value chains. RCEP's regional cumulation rules will facilitate the use of inputs from the most efficient and cost-effective sources within the RCEP region—for example, allowing goods made in another RCEP country from Australian inputs to benefit from RCEP tariff preferences when the goods are exported to other RCEP countries.
- A significantly reduced burden of complying with rules of origin—currently Australian businesses doing business with the other RCEP countries have ten different FTAs available, each with its own rules and procedures. Once RCEP takes effect on 1 January 2022, Australian businesses trading with multiple RCEP countries will generally only need to comply with one set of rules and procedures (save for instances where an existing FTA is more favourable).
- Expanded options for using self-declaration for proof of origin compared to the current FTAs between Australia and other RCEP countries.
- Increased levels of duty-free access—almost 90% of goods exported by Australian businesses to other RCEP countries will have immediate duty-free access under RCEP, increasing to 94% once RCEP is fully implemented. About 75% of imports from RCEP countries into Australia will have immediate duty-free access under RCEP, rising to 93 per cent at full implementation.

China

- China has completed preparations for the implementation of all 701 binding obligations involving China under RCEP. Of those obligations, 87% can be implemented immediately, and all can be fulfilled when RCEP comes into effect on 1 January 2022.
- All the necessary adjustments for implementing committed tariff reductions, the rules of origin for goods, and software system updates have been implemented by China Customs.
- China Customs has issued a set of Administrative Measures on the Origins of Imported and Exported Goods under RCEP prior to its entry into force. The Administrative Measures provide importers and exporters with detailed guidelines on the certificate of origin issuance process (issued on 23 Nov 2021) and trade facilitation, as well as the conditions, systems and rules for implementation in China. In addition, China Customs also simultaneously issued the Administrative Measures for Approved Exporters to enable credible exporters to self-declare origin under RCEP and various other bilateral trade agreements China has with other countries.
- Duty reductions in China will apply from 1 January 2022 on goods imported from other member countries for whom RCEP has entered into force.
- RCEP is the first FTA China has signed with Japan. Upon RCEP's entry into force, approximately 25% of China's imports from Japan will have tariffs reduced to zero, and 57% of China's tariff lines exported to Japan will have tariffs reduced to zero.

Japan

- Duty reductions in Japan will apply from 1 January 2022 on goods imported from other member countries for whom RCEP has entered into force.
- RCEP is the first FTA Japan has signed with China and South Korea. Under RCEP, Japan's rate of tariff elimination is 86% for items imported from China, 81% for items from South Korea, and 88% for items imported from ASEAN member countries, Australia, and New Zealand.
- Japan has introduced the self-certification scheme not only for exporters/producers (as stipulated in RCEP) but also for importers, provided that importers have sufficient information to prove their goods' originating status.

South Korea

- Except for Japan, 13 participating countries have already signed individual FTAs with South Korea. In particular, three agreements were signed with Singapore and Vietnam: RCEP, Korea-ASEAN FTA, Korea-Singapore FTA and Korea-Vietnam FTA. In this case, it is possible to select and utilize the optimal FTA with tariff benefits by comparing FTA preferential rates for each agreement.
- RCEP is the first FTA signed between South Korea and Japan. The level of tariff elimination between South Korea and Japan is 83% based on the number of items, which is relatively low compared to other FTAs. However, since RCEP allows 'cumulation' in rules of origin among the parties, the benefits can be maximized if the rule is used. For example, once RCEP enters into force, exporting companies using raw materials from Japan will no longer need to treat them as non-originating materials and can instead treat them as originating materials.

New Zealand

- Whilst New Zealand already has several FTAs in place with RCEP members, it is expected that over the first 20 years RCEP will result in New Zealand's annual GDP growing between 0.3% - 0.6% larger. This amounts to an increase of between NZ$1.5 billion and NZ$3.2 billion.
- New Zealand exporters in primary industries are expected to benefit from expectations that Customs authorities in RCEP countries will release perishable goods within six hours of arrival, helping to reduce spoilage and save money.
- New Zealand exporters will also see benefit from the elimination of tariffs on some food and manufactured goods entering Indonesia.
- RCEP will allow more market access opportunities for New Zealand, especially for services and investment into China and some ASEAN member states.
- Overall, RCEP will enable New Zealand businesses to be better connected via regional supply chains and provide more certainty to exporters in the currently uncertain global climate.

Countries' anticipated ratification timeline

ASEAN

RCEP will enter into force for each of the following countries 60 days after they have deposited their RCEP ratification documents with the RCEP depositary, the ASEAN Secretary-General.

Indonesia

- Despite the struggles with a devastating second wave of COVID-19 brought on by the Delta variant, the trade minister presented his case to ratify the RCEP trade pact on 25 August 2021. RCEP is in sight for ratification through either presidential decree or the house of representatives by January 2022, ahead of Indonesia taking on the G-20 presidency for 2022.

Malaysia

- According to the International Trade and Industry Minister, the Malaysian government is in the process of refining amending Acts to complete the RCEP ratification process. The draft amendments are expected to be tabled in Parliament at the end of 2021 / early 2022.

Philippines

- The President ratified the document for RCEP on 2 September 2021 and it is presently with the Senate for concurrence. It is expected that the ratification process will be completed by the end of 2021 / early 2022.

Recommendations and opportunities

From a trade in goods perspective, lower tariffs and reduction of non-trade barriers will stimulate the flow of goods, technologies, services and capital. Further, the implementation of unified rules of origin under RCEP will contribute towards greater flexibility for companies to source from a larger pool of suppliers and the choice of where to centralize manufacturing, resulting in more cost-efficient supply chains and more trade connectivity within the region. This will be supported by the increased trade facilitation measures within RCEP that build on the WTO Trade Facilitation Agreement commitments.

From a trade in services perspective, the commitments made by member countries to liberalise services sectors and sub-sectors will encourage more service suppliers who have seen market saturation in their home country to venture out into overseas markets, comforted by regulatory changes that will formally allow market entry into the desired areas. This will further result in greater trade connectivity and integration of businesses operating within the 15 member countries.

Similarly, increased overseas investments are likely in the relevant sectors committed for opening under the investment chapters, whether via direct equity shareholdings or joint ventures with domestic partners. Commitments around freer capital flows will also provide the assurance for companies to venture abroad into markets of the other member countries.

Deloitte’s Global Trade Advisory specialists are part of a global network of trade professionals who can provide specialized assistance to companies that would like to understand the opportunities presented by RCEP for their business. Our professionals can assist in identifying opportunities under RCEP in several ways, including:

- Deploying Global Trade Radar, a proprietary Deloitte tool, to carry out data analytics on current supply chains and trade flows to map out companies’ existing regional footprint, and to examine import/export data filed with customs authorities (i.e., export countries, import countries, product(s) traded, FTAs utilized, opportunities missed, potential compliance areas for companies and others).

- Based on results generated, identifying opportunities under RCEP and the steps required to realise them, whether structural or processes changes are required and other strategic considerations.
- Reviewing production processes, value-adding and other ancillary activities along the supply chain to determine whether goods satisfy the relevant rules of origin prescribed under RCEP, or changes to existing processes and activities are required to benefit from RCEP.
- Obtaining binding rulings from customs authorities in the relevant member countries in respect of matters such as HS classification, valuation, meeting relevant rule of origin requirements, etc., in order to obtain certainty about eligibility for preferential tariffs before RCEP takes effect.
- Carrying out other customs and trade related reviews including opportunities to benefit from other trade facilitation measures available under RCEP (e.g., certified exporter registration, AEO certification, harmonized technical standards).
- Assisting with other ancillary matters that may arise during RCEP planning, whether pertaining to tariff or non-tariff barriers, the imposition of trade remedy measures, and the use of technology to simplify increasing compliance needs such as deploying GTA Review Smart (a Deloitte proprietary web-based health check tool), Trade Compass (FTA and tariff planning finder) and Trade Classifier (an AI based HS classification solution).

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