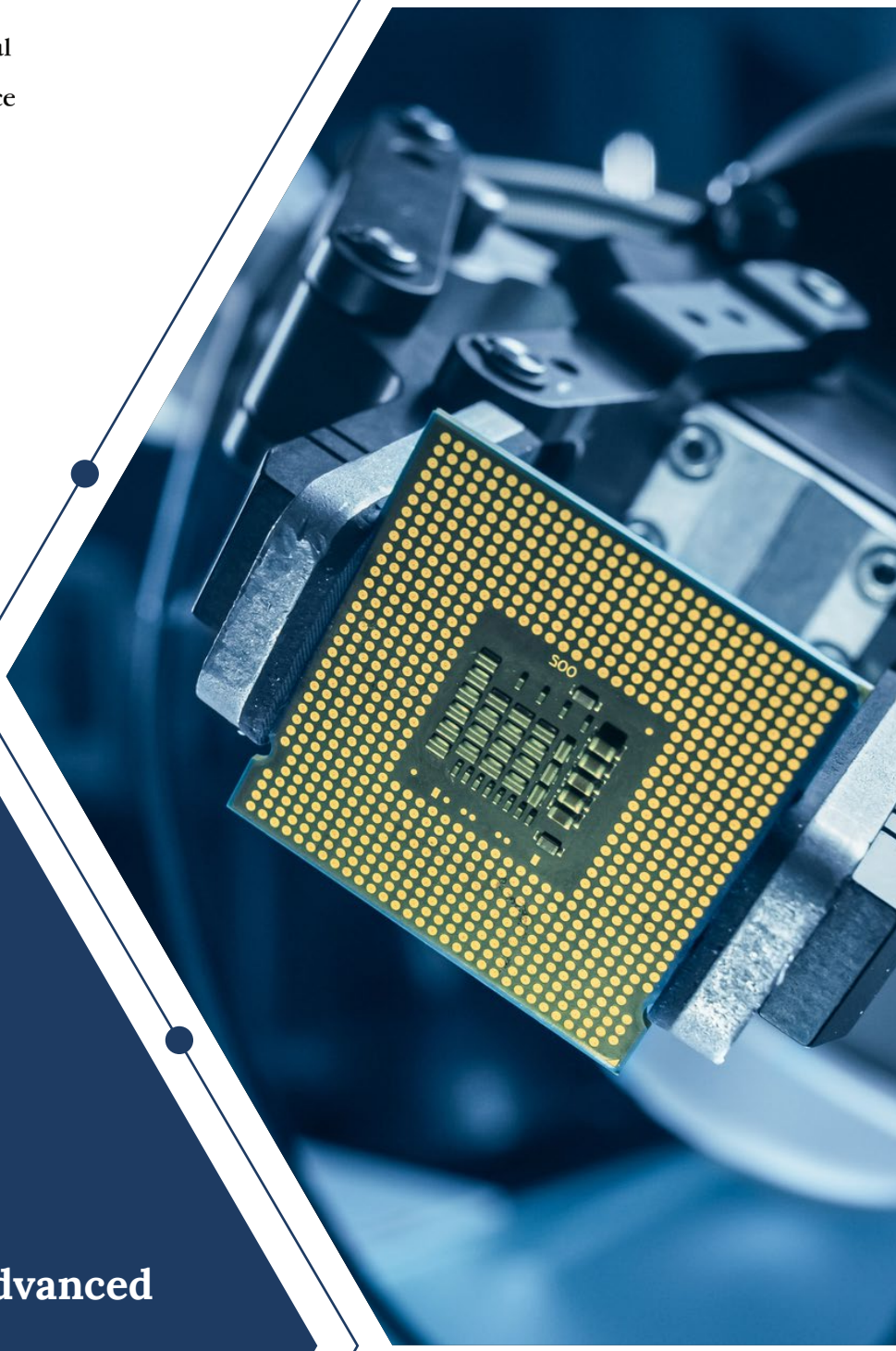
Singapore International Chamber of Commerce



RCEP Benefits for the Advanced Manufacturing Sector

December 2021

ASIAN TRADE CENTRE

Contents

RCEP Overview

The Regional Comprehensive Economic Partnership (RCEP) is an exciting new trade agreement that will link together Asian markets. Starting on January 1, 2022, with ten members (Australia, Brunei, Cambodia, China, Japan, Laos, New Zealand, Singapore, Thailand, and Vietnam), it offers a range of new benefits to firms to create products and deliver services in and across Asia.

For the 10 participating RCEP countries, their GDP amounts to USD 22.4 trillion (26.5% of world GDP) and their population size is 1.8 billion (22.6% of the world population).

TOTAL GDP (US$)

US$22,4T

TOTAL POPULATION SIZE

1.8B

● GDP (US$) ● Population Size

AUSTRALIA
US$1,331B
26M

BRUNEI
US$12B
0.4M

CAMBODIA
US$25B
17M

CHINA
US$14,723B
1,402M

JAPAN
US$4,975B
126M

LAOS
US$19B
7M

NEW ZEALAND
US$211B
5M

SINGAPORE
US$340B
6M

THAILAND
US$502B
70M

VIETNAM
US$271B
97M

While Asia and ASEAN have a variety of existing trade agreements, RCEP starts the process of unifying overlapping benefits into one comprehensive package. For firms, especially those in manufacturing, using existing trade arrangements has often been complicated by inconsistent tariff cuts, iffering rules to qualify for tariff reductions, and separate preferential certificates of origin (PCO) paperwork. These variations have driven up the costs of compliance for companies, particularly since the fines and penalties for getting details wrong can be extremely steep.

As a result, some firms have simply not used free trade agreements at all, preferring to trade directly under global rules and paying applied tariff rates at borders. Others have found a particular trade agreement that appears to work well for their firm or sector and have stopped paying attention to other options, which might be more beneficial.

RCEP will start to unify trade conditions across participating Asian members. As this booklet describes, RCEP can deliver tariff reductions, which can save companies money. As RCEP has one consistent rule of origin that applies to goods across all RCEP members, it can be much easier to design qualifying products with less need to worry about raw materials, parts and component sourcing and destination. Finally, the use of a single preferential certificate of origin (PCO) document lowers compliance costs for companies and makes it easier for firms to avoid mistakes.

For companies that are already savvy users of existing trade arrangements, including ASEAN's internal deals and the so-called ASEAN+1 agreements like ASEAN+China, the early savings from RCEP may look disappointing. Tariff cuts in RCEP can be limited with long phase-in periods. However, it is important to know RCEP benefits are likely to be improved over time. Equally worth noting is RCEP allows manufacturing firms to produce goods for more final markets using a wider array of potential sourcing destinations than most existing trade arrangements.

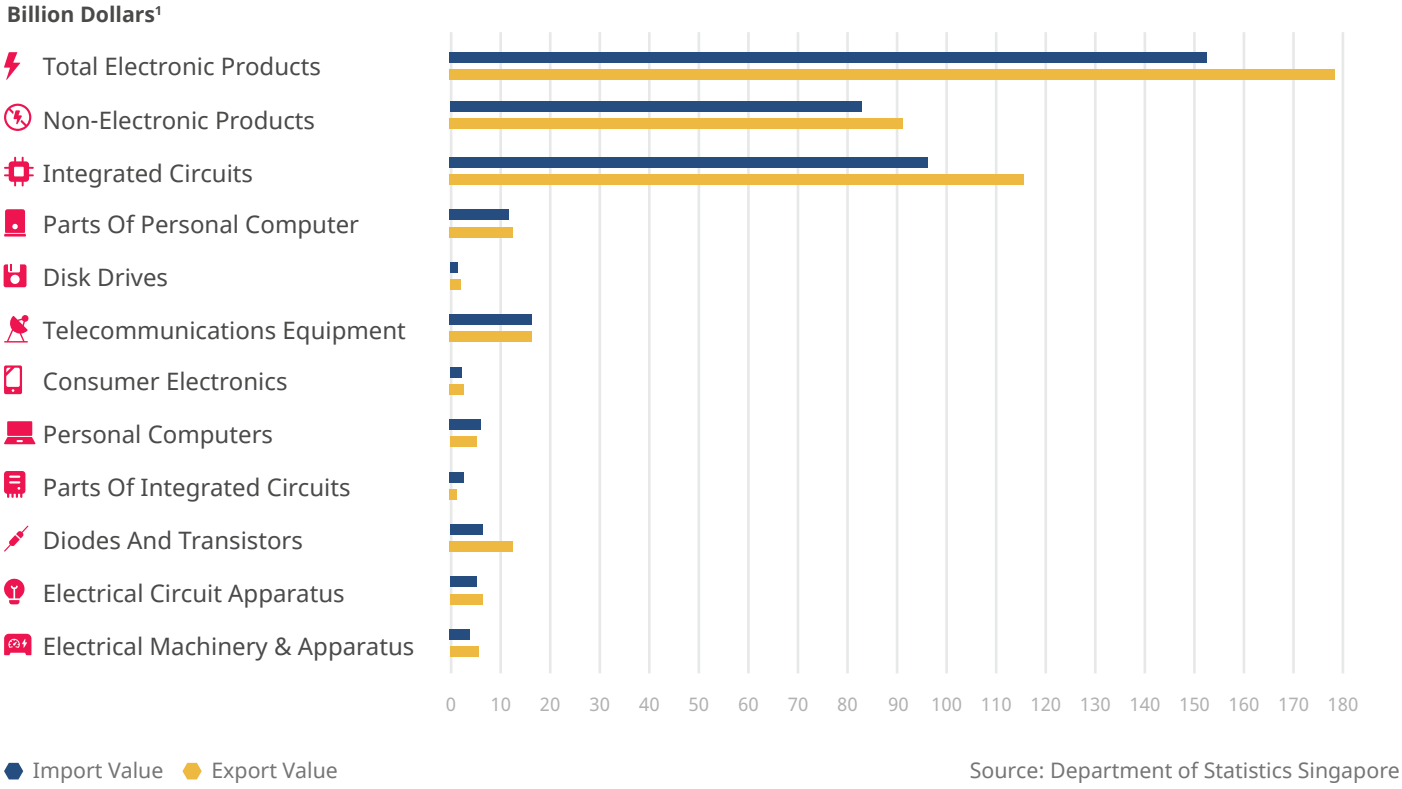
Companies that have never examined trade agreements carefully can start with RCEP, as the opening ten member countries will be following the same rulebook, with similar procedures in place for a wide array of business activities.

Singapore's Advanced Manufacturing Opportunities

RCEP was originally designed as a way to improve and streamline supply chains that cross Asia. The final agreement contains a range of useful elements to facilitate greater economic integration, even for members like Singapore that have been well connected to global manufacturing for decades. The city-state is famously duty or tariff free on nearly all imported items. RCEP helps to cement Singapore's position as a key location to provide goods and services from Asia to Asia.

Manufacturing now accounts for about 20 per cent, or around S$106 billion, of Singapore's total gross domestic product (GDP) and is--by far--the largest sector in the economy. Leading industry clusters include electronics, chemicals, aviation, biomedical sciences and precision engineering.

Singapore's Import and Export of Electronic Machinery and Equipment in 2020



[1] Source: Department of Statistics Singapore.
https://www.singstat.gov.sg/find-data/search-by-theme/industry/manufacturing/latest-data

Electronic machinery and equipment constitute one of the largest categories of Singapore's exports to the world at S$269.7 billion (including re-export) in 2020 with integrated circuits at the top of the list of products.[2] Singapore's advanced manufacturing sector is poised for continued growth to meet burgeoning demand, particularly for semiconductors and apparatus for the manufacture of semiconductors and other electronic components and parts given their extensive use for manufacture of a large range of products.

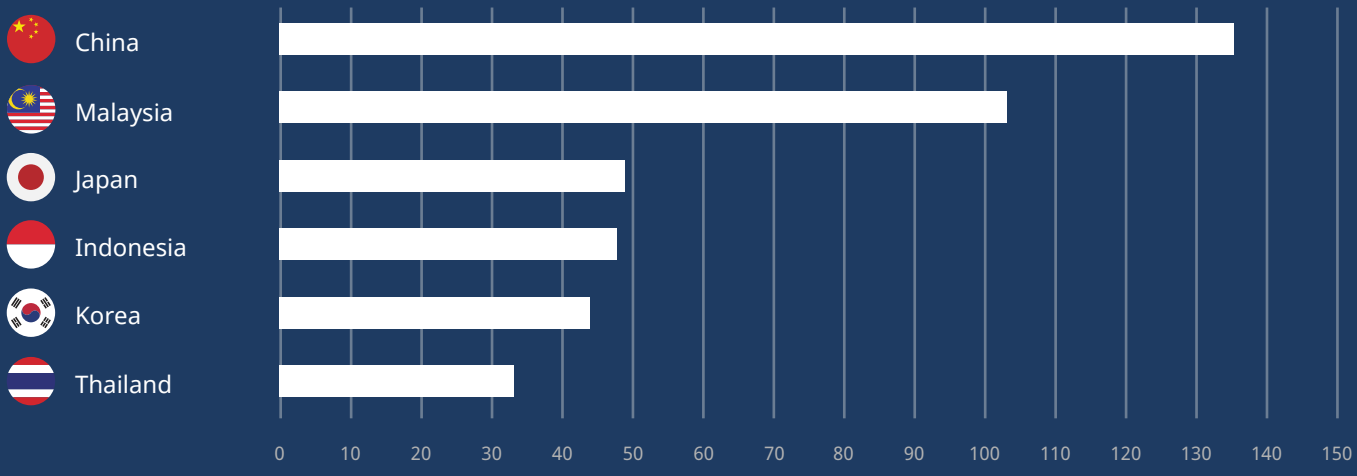
In January 2021, Singapore announced a new 10-year plan to grow Singapore's manufacturing sector by 50 per cent by 2030 and maintain its share of about 20 per cent of gross domestic product (GDP). To attract more market-leading manufacturing firms to anchor their operations locally, a three-pronged strategy was proposed, including strengthening the research ecosystem, embarking on Industry 4.0 transformation efforts (e.g. Industry 4.0 Human Capital Initiative) for local enterprises in advanced manufacturing, and grooming more talent. For Singapore's micro, small and medium sized enterprises (MSMEs), the plan means greater support in building up their capabilities and workforce, raising their productivity and scaling up their businesses.

Beyond Singapore's shores, Industry 4.0 technologies provide an opportunity for companies in Southeast Asia to improve their productivity and to help the region reassert its status as a global manufacturing hub. By leveraging on Industry 4.0 technologies, Southeast Asia has the potential to capture productivity gains worth $216 billion to $627 billion.[3] Given that export manufacturing plays a crucial role in driving Southeast Asian economies, a mega trade agreement like RCEP offers enormous potential to deepen trade and economic integration in the region. RCEP not only has the potential to increase manufacturers' competitiveness by innovating their sourcing networks, but also promote the creation of resilient supply chains.

Multiple RCEP countries are Singapore's top trading partners. Implementation of RCEP will facilitate Singapore's trade and exports within the region and create new opportunities for Singapore manufacturers to participate in new value chains and reach relatively untapped markets.

Singapore's Top RCEP Trade Partners [4]

Total trade volume in 2020



Source: Department of Statistics Singapore

[2] A substantial amount of processing and bulk breaking for re-export also took place in Singapore given its geographical importance in facilitating transhipment.

[3] Source: McKinsey&Company. https://www.mckinsey.com/~/media/mckinsey/business%20functions/operations/our%20insights/industry%204%200%20reinvigorating%20asean%20manufacturing%20for%20the%20future/industry-4-0-reinvigorating-asean-manufacturing-for-the-future.ashx

[4] Note that Malaysia and Korea are not among the first 10 countries that will be able to use RCEP on January 1, 2022. Once each completes domestic level ratification procedures, RCEP will come into force in 60 days.

To help advanced manufacturing businesses in Singapore leverage RCEP, this booklet highlights tariff and non-tariff benefits provided under RCEP and illustrates how manufacturing firms in Singapore can harness new opportunities to improve their competitiveness and increase exports.

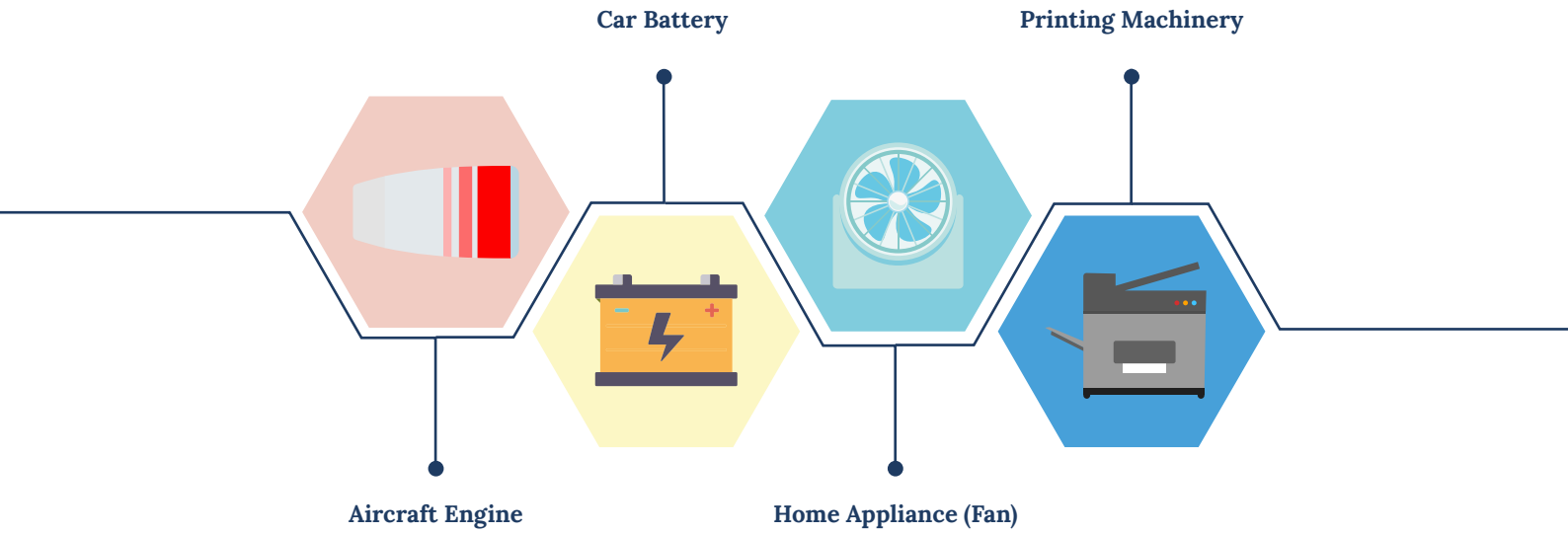
Tariff and Non-Tariff Benefits of RCEP in Goods Trade in the Manufacturing Sector

RCEP provides tariff and non-tariff benefits to goods trade in the advanced manufacturing sector. Primarily, manufacturers and importers in the region can obtain savings on imported raw materials and finished products for production and sale in RCEP countries. Furthermore, new innovations of manufacturers are also more adequately protected under RCEP with more standardized rules and guidelines on intellectual property (IP) protection.

Lower Tariffs And Improved Market Access

In the manufacture of electronic products and components, FTAs like RCEP help to reduce intra-regional tariffs on intermediate electronic products and parts. Manufacturers and exporters should find greater export opportunities as these manufactured components and finished products can be exported to other RCEP markets for their importers to obtain preferential tariffs.

RCEP importers of many manufactured products can also obtain significant tariff savings.



Do note, however, that the tariff schedules for RCEP can be complicated. Because the members already had a wide array of different agreements in place between them, such as ASEAN's own internal tariff-free market, RCEP members have schedules that can be extremely specific—providing different levels of tariff reductions to some member markets than to others. The net result for companies is a set of 37 different tariff schedules with varying degrees of reduction or elimination and schedules that can take years or even decades to reach a duty-free or no tariff state. For some products (particularly agriculture), tariffs may not be set for any reductions at all or may not be scheduled for elimination.

While RCEP is estimated to reduce tariffs on over 90% of goods traded, manufacturers and exporters should always compare the benefits of all existing FTAs to select the optimal agreement to allow their customers in FTA-covered markets to reap the most tariff savings. As with any trade agreement, RCEP can only be used to trade products between member markets. It is not possible to use, for example, the EU-Vietnam FTA to export a product from Europe to Vietnam and then use RCEP to ship the product from Vietnam without change to China.

Single Rule Of Origin (ROO)

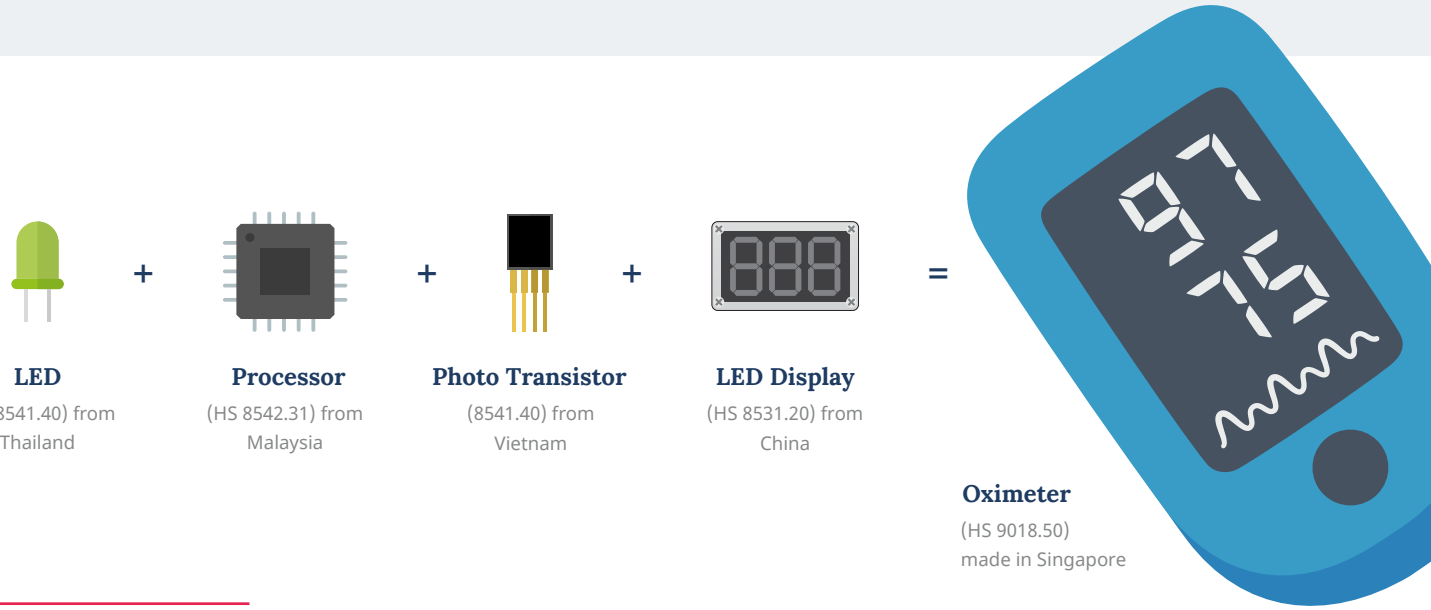
RCEP's tariff benefits can seem disappointing to companies, particularly in the early years of entry into force for the agreement. However, RCEP does offer an important new opportunity for firms moving goods around Asia and developing stronger final market demand for products in the region.

RCEP provides a single rule of origin (ROO) for production.[5] Companies that meet the requirement can ship goods without the need for complicated and potentially expensive changes to sourcing. Firms need to keep careful records for at least three years of any RCEP claims.

As the ROOs are consolidated for participating countries in RCEP, this means manufacturers can now rely on meeting a single rule for export for every tariff line to all other RCEP markets. This reduces compliance costs and the hassle of adjusting or customizing production to meet the needs of multiple rules in various FTAs. In the past, companies may have had to follow at least five separate agreements and differing ROO requirements in each including ASEAN's ATIGA, and the ASEAN+1 agreements with China, Japan, Korea and Australia/New Zealand.

Furthermore, with a significant number of important markets in the RCEP agreement, manufacturers located in an RCEP country like Singapore should find it easier to source raw materials from across RCEP countries for production to meet RCEP ROO as raw materials, parts and components produced in RCEP countries are considered "originating" and can be cumulated (that is, added together) in the calculation of regional value content (RVC).

To see how this works in practice, consider a manufacturer of oximeters based in Singapore. The firm, for instance, can source materials from across multiple RCEP countries for production to meet the 40% RVC requirement.



LED
(HS 8541.40) from Thailand

Processor
(HS 8542.31) from Malaysia

Photo Transistor
(8541.40) from Vietnam

LED Display
(HS 8531.20) from China

Oximeter
(HS 9018.50)
made in Singapore

[5] For the full list of rules and ROOs for every product and tariff line, see Chapter 3 at https://www.mfat.govt.nz/assets/Trade-agreements/RCEP/RECP-Agreement-112020/Chapter-3.pdf and the associated Annex 3A at: https://www.mfat.govt.nz/assets/Trade-agreements/RCEP/RECP-Agreement-112020/Chapter-3-Annex-3A.pdf

RCEP provides an opportunity for the oximeter firm to obtain better access at potentially lower tariff rates than before. While LEDs, processors and photo transistors could have been used by a Singaporean company to create the final product at zero tariffs within ASEAN, it may not have been possible to sell the device outside of ASEAN at the same tariff levels.

Firms might have been able to meet RVC thresholds for some of ASEAN's existing ASEAN+1 agreement partners, such as with China, to achieve tariff savings. But the Singapore company would have to be very careful about "counting" the value of the Chinese LED display towards qualification into other ASEAN agreements that do not allow Chinese content to be included in cumulation calculations. It may have been necessary, for instance, to swap Chinese LED displays for possible ASEAN-made products or Korean-made items if the final oximeter was destined for the Korean market.

Under RCEP, however, products like the oximeter can be manufactured using parts and components sourced from any RCEP participating economy and shipped without changing parts and component source countries into any RCEP member market.

While most ASEAN agreements only provide for RVC rules, RCEP does not. For many items, RCEP has multiple ways to meet ROO requirements and take advantage of lower tariffs on offer for qualifying products. For many firms, using alternative approaches like Change in Chapter (CC), Change in Tariff Headings (CTH) or Change in Tariff Subheadings (CTSH) may make it easier to use RCEP.[6] Companies can meet these types of rules, for example, without the need to carefully calculate value added across the production process, avoid giving potentially sensitive pricing information to customs officials, and allows a larger sourcing pool for raw materials, parts and components.

Streamlined Customs Procedures to Facilitate Trade

Besides tariff benefits, RCEP also reduces non-tariff barriers to trade by streamlining Customs procedures and reduces the uncertainty in clearance of goods at the customs. In addition to existing ASEAN + 1 agreements, RCEP has introduced guidelines on the issue of advance ruling and on the release of goods at Customs.

For clarity on HS classifications, or to determine whether the good meets the ROO in RCEP, importers and exporters should submit a request to the respective customs authority to obtain an advance ruling that will be valid for 3 years from the time of issuance. This helps prevent incidences of inappropriate classification of product HS codes, especially for more complex products such as machinery with multiple functions; or wrong calculations of RVC that may lead to shipments being delayed at customs or even fines and penalties for non-compliance.

FTA	Advanced Ruling obtained within	Release of Goods Guideline	Release of Express Consignment Guideline
RCEP	90 Days	Within **48 hours** of the arrival time	Within **6 hours** of the arrival time

[6] Change in Chapter (CC) rules requires the product to undergo transformation at the 2 digit Harmonized System code levels, such as from yarn to apparel, while Change in Tariff Headings (CTH) requires transformation at the 4-digit HS level, such as from polymers to paints, and Change in Tariff Subheadings (CTSH) requires transformation at the 6-digit level, such as from fresh cheese to grated cheese.

With the release of goods guidelines, RCEP importers and exporters should experience fewer shipment delays at customs.

RCEP also includes an authorized operators scheme that allows qualifying firms a range of new benefits across all RCEP members, including reduced paperwork requirements, faster clearance of goods, deferred payments or clearance at the premises of the authorized provider.

Greater Services and Investment Opportunities

Firms are often fixated on tariff reductions that come from a trade agreement as these can directly affect company bottom lines and are easy to see and measure. However, these are not the only areas of potential benefit from a trade deal. Manufacturing increasingly contains a wide array of what are often called “embedded” services, which means that 30-50% of the final value in a product could come from services and not just goods production, such as logistics, warehousing, retail, legal, or cleaning services.

Moving services across borders can be more challenging than it ought to be, particularly as many governments have complex rules around services delivery like complex licensing or qualification requirements or local content provider rules. RCEP does two helpful things for companies. First, it ensures that member governments are using a similar set of rules to manage services trade with limits on, for example, the total number of service operations or individual quotas or restrictions on the allowable types of equity requirements for operation. Second, RCEP contains a range of member-specific commitments that provide greater clarity on what sort of cross-border services are allowed or prohibited.

Manufacturing firms in Singapore frequently have investments in operations across the region. As with trade in services, sometimes investment laws, rules and provisions can be unnecessarily complicated and lead to lower levels of foreign investment than might be ideal for a company. RCEP also starts to untangle some of these restrictions, including a similar rulebook with limits on some important measures used in the past by many governments to restrict or limit investment as well as country-specific commitments to better facilitate investment.

For further details on the services and investment benefits found in RCEP, please see the SICC companion booklet on the topic.

Robust Intellectual Property (IP) Protection

Companies in advanced manufacturing often survive and grow based on the ideas or intellectual property (IP) embedded in their products. Although Asian protection and enforcement of IP rights has improved over time, inconsistent application of rules and uncertain implementation can put companies at high risk of IP theft.

RCEP has made a major step forward in protecting companies. The IP chapter in RCEP is quite revolutionary, especially for some RCEP economies. RCEP requires all participating members to commit to multilateral agreements on IP protection, enforcement, and international cooperation. This not only encourages innovation but makes IP regimes easier for manufacturers operating in the region to navigate.

As IP rules and protection are integral for manufacturers to protect their ideas, products, branding, trademarks, designs, and, ultimately, maintain their competitive edge in the global market economy, increased IP protection in RCEP provides an added assurance for manufacturers to confidently expand and set up operations in the region.

RCEP further safeguards business innovation and research through legal enforcement of IP rights. It is mandatory for RCEP members to have legislative frameworks to allow IP cases to be heard through the judicial system for both civil and criminal remedies, granting right holders the option to request authorities to take action against IP infringers.

RCEP Challenges for Manufacturing

Tariff Differentials

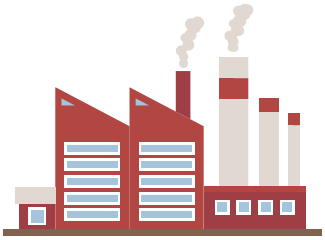
While RCEP generally contains some very useful rules of origin to assist firms in developing pan-Asian supply chains, there is one element that is less helpful for companies. RCEP contains something called "tariff differentials" that may affect firm utilization of RCEP benefits.

Free trade agreements like RCEP give benefits, like lower tariffs, better market access or improved protection for investments, only to member companies. These benefits are not intended to be given to all firms but must be restricted to participants. To do that for products like manufacturing, governments use rules of origin to ensure that goods must be either wholly produced using inputs from members or be substantially transformed from raw materials, parts and components into final goods inside member territories for shipment to other member markets.

RCEP negotiators faced a particular challenge in creating an agreement binding together a region that already has many robust supply chains and other trade agreement benefits. Governments were worried about the effects of RCEP on domestic markets, especially for some countries.

This led some RCEP governments to use a tool known as "tariff differentials" to help ensure some domestic production continues to take place, even in the wake of new market opening in RCEP. For goods manufactured in China, Indonesia, Japan, Korea, The Philippines, Thailand and Vietnam, firms need to be careful to review RCEP documents and ensure their compliance with an additional set of rules.

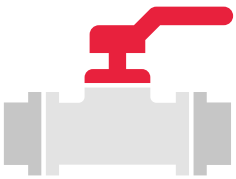
Not every product is affected, but for listed items in these markets, companies may need to factor in at least 20% of the value from the domestic market in order to qualify for the lower tariffs on offer in RCEP.



Manufacturer in Singapore

RCEP ROO satisfied and value of materials obtained from Singapore/ASEAN: ≥ 20%

Manufactured product is of Singapore/ASEAN origin and importers can obtain product tariffs provided for ASEAN



Firms operating in China, Indonesia, Japan, Korea, The Philippines, Thailand and Vietnam need to examine the RCEP *Appendices of Tariff Differentials*[7] to review which specific products are included for this tariff differential rule. Manufacturers must ensure any foreign raw materials used for production fall within the list of products and ensure local value adding in the country of manufacture hits the 20% threshold when the list of products in the Appendix are excluded.

Application of tariff differentials imply an exporter in an RCEP country such as China cannot simply ship a finished product through an ASEAN country such as Vietnam for modest processing and allow the finished product to gain Vietnam "originating status." Sufficient local processing of at least 20% of the value of the finished product must happen in Vietnam for it to be considered as "made in Vietnam" and then obtain ASEAN preferential tariffs in the importing country.

Minimal Alignment on Product Standards

RCEP does have chapters on standards for food and food products (called sanitary and phytosanitary or SPS) as well as what are typically called technical barriers to trade (TBT) but are known as standards, technical regulations and conformity assessment procedures (STRACAP) in RCEP. These chapters can be useful to companies in providing a consistent set of basic rules around product safety standards. The provisions ask members to strengthen cooperation in a range of areas like consistent use of equivalence, testing procedures, risk analysis and so forth.

However, as many of the obstacles faced by firms on the ground fit into the broad category of "standards," companies may have hoped for greater ambition in tackling some of these vexing non-tariff obstacles to trade in the region.

Companies can help RCEP improve over time by bringing specific challenges to the attention of RCEP governments. As the agreement will have a Secretariat managing the rules, there is scope for addressing market access barriers identified by businesses. It will be important for firms to work closely with governments and industry associations, like the SICC, to help bring specific issues to the negotiating table and ensure that businesses provide sufficient input to future rule developments.

[7] These can be accessed under Appendix on Tariff Differentials at: https://rcepsec.org/legal-text/

Case Studies – Leveraging RCEP Benefits for Manufacturing

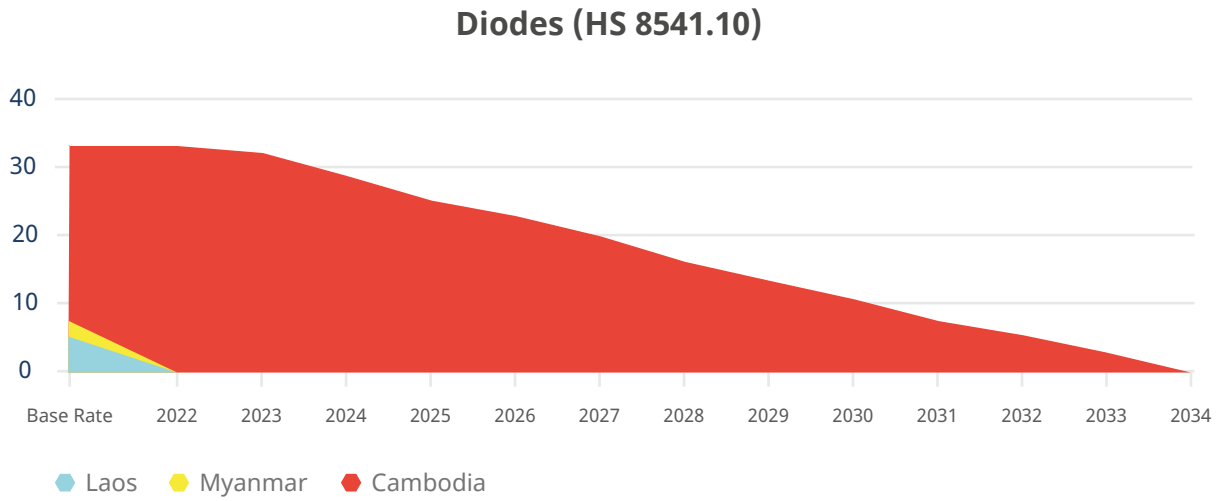
These case studies help illustrate how manufacturing firms can satisfy the requirements in RCEP to obtain preferential tariffs. It considers machinery, equipment, parts and accessories for the semiconductor, aviation industry and other industrial manufacturing activities where tariffs remain significant in RCEP countries.

The HS codes referred to in the case studies follow the RCEP tariff schedules which adopt the HS 2012 version. Businesses should note there may be discrepancies between 2012 and 2022 versions of the HS nomenclature, particularly for high tech and advanced manufacturing products.

Case Study 1: Semiconductor and Semiconductor Equipment Manufacturing

Multiple RCEP economies (China, Singapore, Malaysia, Japan, Korea, and Vietnam) are leading exporters and producers of semiconductor devices, parts and circuits. While many countries have eliminated almost all tariffs on electronic components such as semiconductors, machines and tools for manufacturing printed circuits, consumer electronics and medical devices under the Information Technology Agreement (ITA), developing countries such as Cambodia, Laos and Myanmar still impose significant tariffs on raw materials and semiconductor devices. For example, Cambodia imposed 35% tariffs on diodes and similar semiconductor devices (HS 8541.10), making it one of the countries with the highest import tariffs on semiconductor devices.

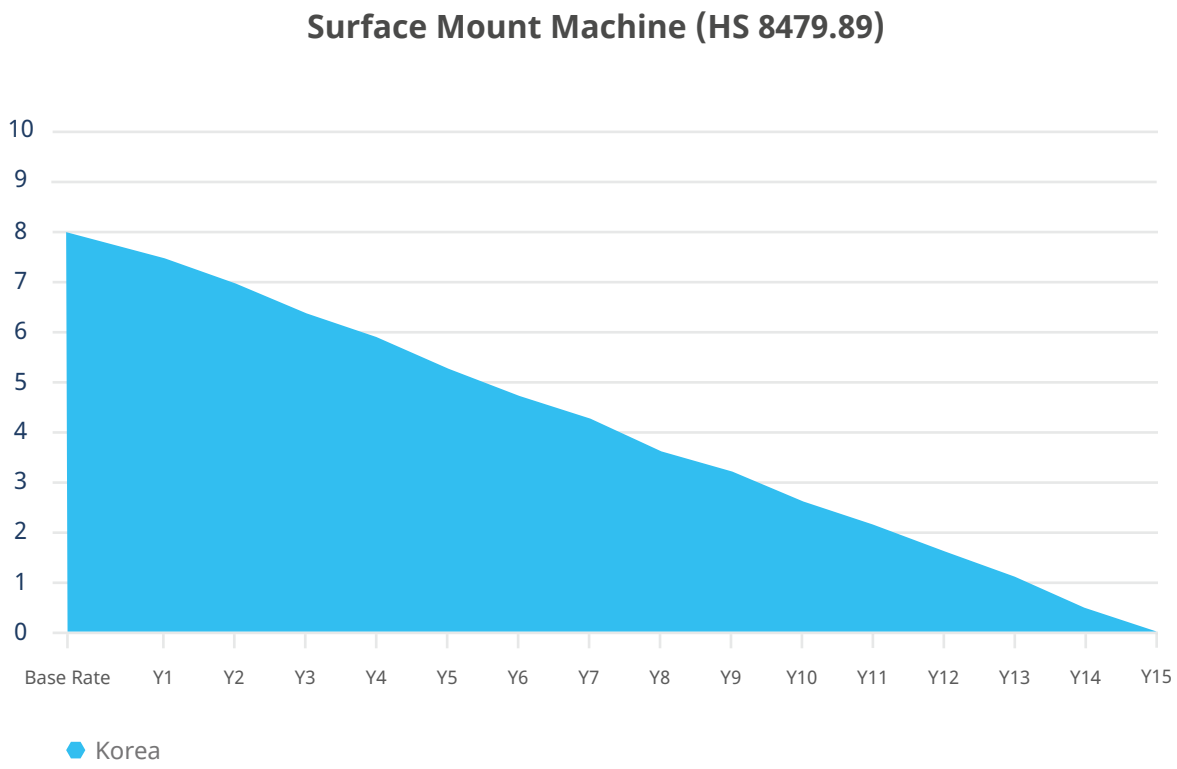
Under RCEP, tariffs on diodes are gradually removed for Cambodia under a 13-year period while tariffs fall to zero on January 1, 2022 for Laos and Myanmar.



The implementation of tariff differentials allows ASEAN manufacturers to retain competitive advantage for the manufacture of some machines and equipment used in the production of semiconductors as goods made in ASEAN may have lower tariff rates imposed. As explained in the section on tariff differentials, sufficient local processing of at least 20% of the value of the goods must also happen in the exporting country for it to be designated as the originating country of the goods and obtain the respective preferential tariffs.

This is further elaborated in the following example of a surface mount machine made in Singapore for export to Korea. The surface mount machine can be used to assemble circuits and components on printed circuit boards.

Korea's Import Tariff on Surface Mount Machine Made in ASEAN Countries



Surface mount machines made in ASEAN countries and exported to Korea will enjoy tariff reductions under RCEP where tariffs fall from 8% to 0 in year 15 of RCEP implementation for Korea. However, Korea does not provide similar tariff commitments for surface mount machines imported from China, leaving tariffs at 8% for Korean importers of Chinese made machines.

This provides an opportunity for Singaporean manufacturers to supply the product to Korea at a competitive advantage over China-based firms. Similar benefits can be found across RCEP as many members have created different tariff schedules with tariff reductions that vary by member country. In general, Singapore has better market access as part of ASEAN than many potential competitors in larger markets.

Manufacturers should take note that Korea is currently not within the first 10 RCEP members that have ratified the agreement which commences on January 1, 2022. RCEP tariff elimination schedules of Korea for its importers will only be in place once Korea has completed the ratification procedures.

Case Study 2: Meeting RCEP ROOs for Manufacture of Aviation Parts

The supply chains of aircraft are highly complex, requiring different materials and components and consisting of production processes that take place in many regions of the world. Asia is also home to many manufacturing and assembly activities to supply components and parts to the aviation sector. Notably, China, Japan and Korea are major suppliers of core aircraft structures of Airbus and Boeing; multiple ASEAN countries including Singapore are also important downstream suppliers of smaller parts and components.

Manufacturers in the aviation sector can leverage FTAs in Asia to supply components and intermediate goods that undergo further production processes. Notably, RCEP offers sourcing and export opportunities to build more flexible supply chain configurations for the aviation sector.

To qualify for RCEP preferential tariffs, manufacturers are required to meet either a change in tariff classification (CTC) rule or 40% RVC rule. The example of manufacturing pumps used in aircraft combustion engines depicted in this case study will illustrate how a manufacturer in Singapore can meet an RCEP ROO to obtain tariff benefits for its importers in other RCEP markets.

By referring to *Annex 3A: Product Specific Rules* of the RCEP legal text, the manufacturer identifies the product specific rules require the manufacturing of engine pumps for aircraft (HS 8413.30) to either meet a change in tariff classification at sub-heading (CTSH) level or achieve a regional value content (RVC) of 40%.

HS Code	Description	ROO
8413.30	Fuel, lubricating or cooling medium pumps for internal combustion piston engines	CTSH or RVC40

CTSH rule

To meet the CTSH rule, all raw materials and parts used in the manufacturing process must undergo a change in HS code at the sub-heading or 6-digit level from the manufactured product.

The table below lists the components of the pump that is manufactured in a plant in Singapore.

Raw material/parts	Country of origin	Originating status under RCEP (Yes/No)	HS Code
Valve	Singapore	Yes	8409.10
Piston	UK	No	8409.91
Bearing	Germany	No	8482.80
Cylinder Block	US	No	8409.91

The HS code for the aircraft engine pump is 8413.30, and all non-originating materials and parts (piston, bearing, cylinder block) used for production and assembly of the pump have undergone a change in HS classification at both the 4-digit level (from 8409 to 8413) and the 6-digitlevel. Therefore, the pump made in Singapore exceeds the CTSH requirement as it only requires that all parts and raw materials used to have undergone a change in HS classification at the 6-digit level.

The CTSH rule of RCEP enables the Singapore manufacturer of aircraft pumps to use raw materials and parts not made in RCEP countries (non-originating) but still qualify for preferential tariffs for export to RCEP countries. This example also shows how RCEP rules can allow non-originating raw materials, parts and components to be included in final products and still qualify for preferential tariff rates under RCEP.

In the application of CTSH rule, however, the manufacturer may not always be able to meet the HS transformation requirement. In some instances, the parts or component used in the manufacture or assembly process will have the same HS codes at the 6-digit level as the final manufactured good. In this case, the product will not have cleared the required threshold for using this rule.

There are still two other avenues that might be explored in this case. First, RCEP includes a de minimis rule that may provide sufficient buffer for companies. RCEP's de minimis allows up to **10% of the free on board (FOB)** value of the manufactured goods for non-originating material used that did not undergo the applicable change in tariff classification. As long as the manufacturer can ensure the non-originating material that does not meet the required CTC rule does not exceed the 10% value threshold, the manufactured product is considered to be RCEP originating and is eligible for preferential tariff treatment.

Second, as explored further below, a firm that does not meet the CTC or CTSH rules may still be able to qualify for originating status if the product clears the 40% RVC rule. (Do note that while many products have what are called co-equal rules to allow manufacturers to choose whatever approach allows products to qualify for RCEP benefits, not all tariff lines have more than one option available.)

RVC40 rule

If there happens to be a non-originating component or material that is not able to meet the HS code transformation requirement, and the value of the non-originating material exceeds 10% of the FOB value, the manufacturer could alternatively apply the RVC rule.

There are two methods for the calculation of RVC under RCEP.

1. **Indirect/Build-Down**
2. **Direct/Build-Up**

1. **RVC =** $\dfrac{\text{FOB Value - Value of non-originating materials x 100\%}}{\text{FOB Value}}$

2. **RVC =** $\dfrac{\text{FOB Value - Value of non-originating materials + Direct Labour + Direct Overheads + Profit + Other costs x 100\%}}{\text{FOB Value}}$

The table below provides a hypothetical breakdown of raw materials and costs for the manufacture of aircraft pumps.

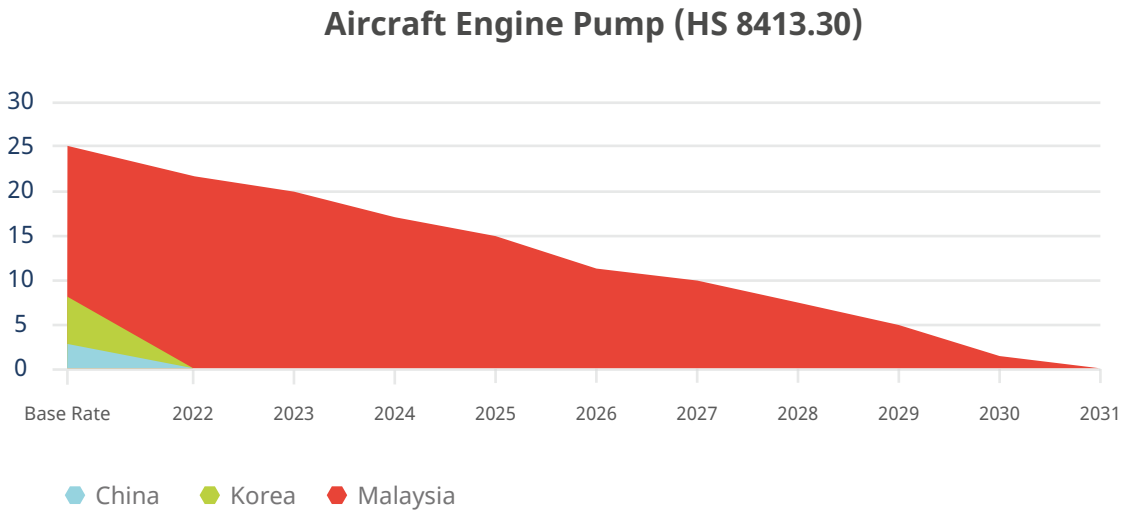
Raw material/parts	Country of origin	Originating status under RCEP (Yes/No)	Costs
Valve	Singapore	Yes	3000
Piston	UK	No	5000
Bearing	Germany	No	4000
Cylinder Block	US	No	2500
		Direct labour and overheads	1500
		Profit	4000
		Total Value	20,000

Using the build-down method:

$$\textbf{RVC of aircraft engine pump} = \frac{20{,}000 - 5000 - 4000 - 2500}{20{,}000} \times 100\%$$

$$= \mathbf{42.5\%}$$

Since the RVC for the aircraft engine pump manufactured in Singapore has met the RVC40 requirement, the product is eligible for preferential tariff treatment in importing RCEP countries.



The Singapore manufacturer of aircraft pumps could allow its importers in China, Korea and Malaysia to obtain tariff savings that range from 3-25%. For export to China and Korea, tariffs will be eliminated upon RCEP entering into force.

Manufacturers should take note, once again, that Korea is currently not within the first 10 RCEP members that have ratified the agreement that commences January 1, 2022 and the respective tariff schedules will only apply after Korea has completed the RCEP ratification procedures.

Conclusion

The entry into force of RCEP in 2022 represents a milestone achievement for the region. While Asia has a lot of supply chains and trade deals, prior to RCEP firms faced a range of obstacles to create more efficient chains, including often high tariffs and inconsistent regulations. RCEP helps to smooth out many of these challenges.

The most important aspect of RCEP is the ability to create products and supply services in Asia for Asia. This includes the creation of more robust final markets for products created in the region. Up until now, Asia has led in the movement of raw materials, parts and components for final assembly to be sent to the United States or Europe. The introduction of RCEP and the gradual elimination of specific trade barriers, coupled with a renewed emphasis on addressing a range of non-tariff obstacles to trade, should spur new sources of growth and market opportunities.

RCEP should be viewed as a new platform for future economic integration across a widely diverse region. It will improve over time, providing new benefits to companies that are paying attention and proactively provide details of pain points to RCEP governments. Companies should work directly with government, and also remain active through industry associations like SICC to be able to provide critical information about the implementation and evolution of RCEP. Trade deals like RCEP are best when businesses actively engage and collaborate with governments.