

Take5

for business

RCEP: regional trade opportunities for Malaysia

Malaysia is a signatory to the Regional Comprehensive Economic Partnership (RCEP), a trade agreement between the 10 members of ASEAN, Mainland China, Japan, South Korea, Australia and New Zealand. The RCEP, an ASEAN-driven initiative, marks the amalgamation of existing free-trade agreements (FTAs) between ASEAN and partner countries. The main objective of the RCEP is to establish a modern, comprehensive, high-quality and mutually beneficial economic partnership to facilitate the expansion of regional trade and investment and contribute to global economic growth and development.

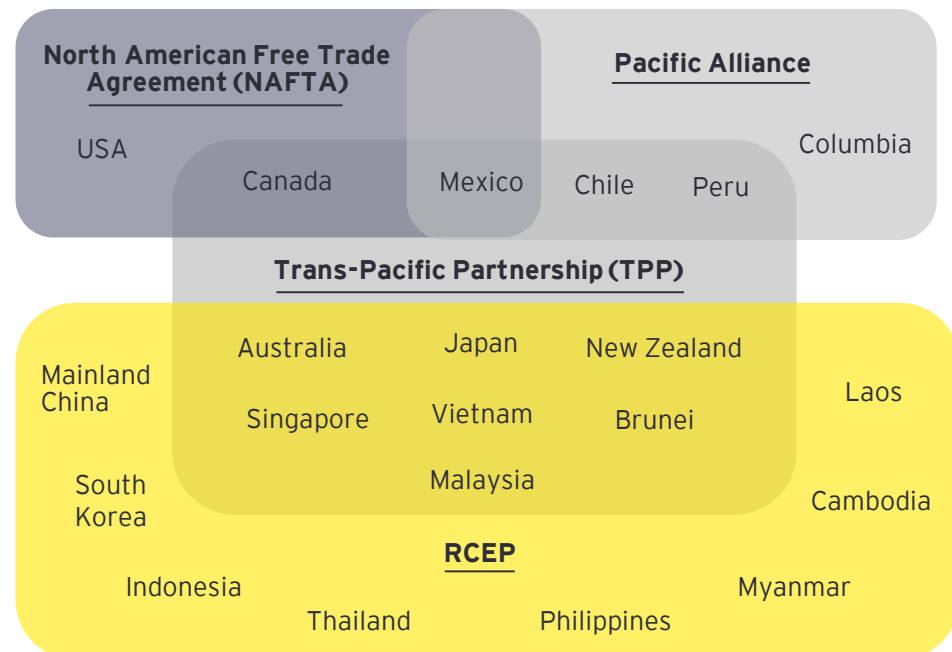
The RCEP aims to economically integrate the 15 countries in Asia and Oceania. It involves broader and deeper engagement between member countries with significant improvements over existing ASEAN FTAs and Comprehensive Economic Partnership Agreements.

The scope of RCEP consultation covers:

- ▶ Elimination or reduction of import duties
- ▶ Investment promotion, facilitation, protection and liberalization
- ▶ Protection of intellectual property (IP) rights, facilitation of e-commerce
- ▶ Economic and technical cooperation
- ▶ Legal and institutional issues

Overview of RCEP and other trade agreements

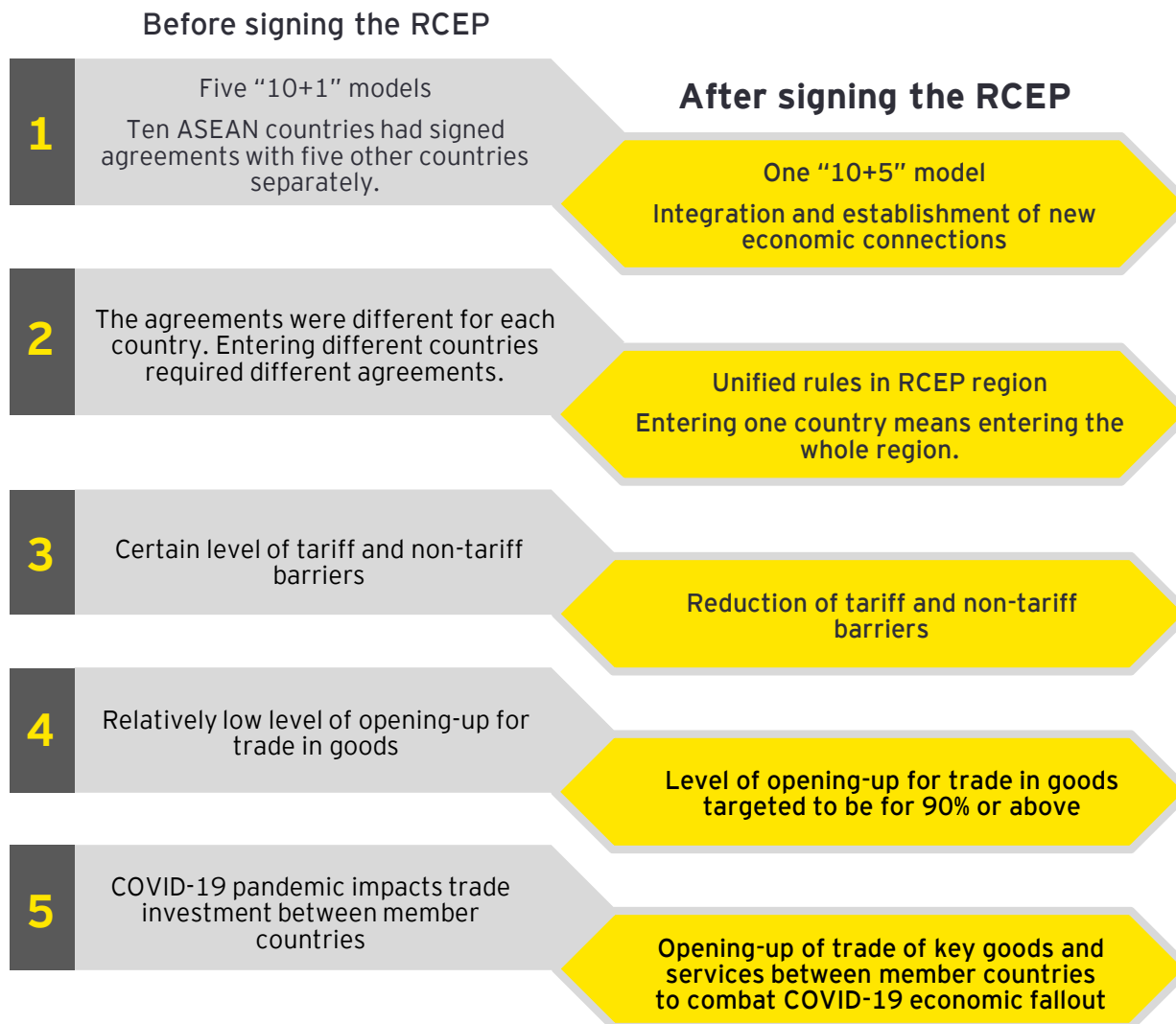
RCEP, signed on 15 November 2020, is among the key regional FTAs in discussion. As is, RCEP is the only FTA to include Mainland China, Japan and South Korea.



Source: EY research, media releases

What are the benefits of RCEP?

The RCEP aims to establish a unified rule system for member countries to accelerate the flow of goods, technology, services and capital for regional trade.



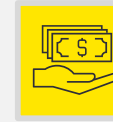
Did you know?

Malaysia's access to a wider RCEP market presents significant trading and investment opportunities.



World's largest free-trade bloc

RCEP members comprise nearly one-third of the world's population and account for almost 30% of global gross domestic product.



Regional trade facilitation

90% of import tariffs will be progressively phased out between members. Common rules and provisions will be set up to better facilitate the movement of goods, funds and people across the region.



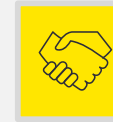
Access to China market and investors

The RCEP allows Chinese companies to invest in regional markets and likewise, for RCEP members to access the Chinese market.



North Asian investment interest

The RCEP may further drive North Asian investment into ASEAN - from 2015-2019, Mainland China, Japan and South Korea registered some of the largest FDIs into ASEAN.



Wider regional opportunities for SMEs

The RCEP contains provisions targeted towards small and medium enterprises (SMEs), providing a more level playing field for Malaysian SMEs and facilitating their access to the larger, regional market.

What is the impact of RCEP to business?

Key impact to businesses and member countries from customs and trade perspectives:

Impact	Explanation
Reduction in tariffs	It is anticipated that RCEP may remove up to 90%-93% of the tariff barriers, with the exception of tariffs on agricultural products.
Common Rules of Origin (RoO)	<ul style="list-style-type: none"> ▶ A salient and unique feature under RCEP is the creation of a non-tariff barrier via a common RoO. Currently, businesses in the region have to deal with multiple sets of RoO to enjoy preferential tariff concessions under various ASEAN Plus One FTAs. ▶ Under a common RoO, a unique certificate of origin, which has harmonized information and local content standards, is issued. This facilitates efficient supply-chain management and at the same time reduces trading transaction costs, particularly when shipping the same products between members.
Content accumulation	As content accumulation can be performed between the 15 member countries, manufacturers can source inputs which are cost competitive and effective within the region.
Expediting the clearance of goods	Under RCEP, member countries are required to adopt or maintain customs procedures that expedite the clearance of goods via pre-arrival processing of information, single submission via electronic means, minimizing documentation and releasing of goods within six hours.
Mutual recognition amongst Authorized Operators (AOs)	Each member country to negotiate mutual recognition of its respective AO schemes to enhance trade facilitation measures between member countries

When will the RCEP Agreement come into force?

The RCEP Agreement will enter into force 60 days after the date on which at least six ASEAN signatory countries and three non-ASEAN signatory countries have completed the ratification. The RCEP Agreement is anticipated to come into force in 2022.

What does the RCEP Agreement cover?

20 chapters (including 17 annexes) covering:

- ▶ Trade in goods
- ▶ Trade in services
- ▶ Investment
- ▶ Temporary movement of natural persons
- ▶ Rules of origin
- ▶ Customs procedures and trade facilitation
- ▶ Trade remedies
- ▶ IP competition
- ▶ Small and medium enterprises

54 schedules of commitments covering:

- ▶ Tariff commitments
- ▶ Specific commitments for services
- ▶ Reservations and non-conforming measures for services and investments
- ▶ Specific commitments on temporary movements of natural persons

Areas to consider

The RCEP serves as a pivotal tool to accelerate access into regional markets and mitigate interruptions to supply chains. Businesses should commence necessary preparations to leverage RCEP benefits, including the following five areas of the Agreement:

1 Reduction of tariff barriers

Businesses should analyze whether their exports and imports can benefit from duty elimination or reduction under the RCEP. This includes the evaluation of tariff differences.

2 Flexible rules of origin

Businesses should focus on the specific application of RoO and the management of origin information.

3 Optimizing supply and value chains

- ▶ Businesses that have established an industrial network or have conducted trade within the RCEP region should:
 - ▶ Analyze existing industrial supply and value chains based on preferential tariffs and RoO
 - ▶ Make full use of trade facilitation opportunities to optimize industrial value chain
- ▶ Businesses that have yet to establish an industrial network within the RCEP region should begin to leverage the benefits of the Agreement.

4 Protection of intellectual property

The RCEP Agreement pays more attention to issues related to intellectual property. Businesses should strengthen their risk assessment and management towards international trade activities to mitigate compliance risks.

5 Domestic measures for RCEP implementation

After the formal signing of the RCEP Agreement, member countries will begin the domestic approval process and gradually introduce detailed measures for the implementation of the Agreement. Enterprises should pay close attention to updated announcements.

How does the RCEP benefit Malaysia?

Malaysia is expected to benefit from higher investments and trade with RCEP member countries. RCEP:

- ▶ Enhances Malaysia's open trade position with RCEP members, through increased market integration, reduced trade barriers and better trade facilitation
- ▶ Draws foreign investments into Malaysia, increasing commercial opportunities and partnerships
- ▶ Provides Malaysian service providers such as e-commerce players with wider market access to RCEP member markets (in terms of cross-border supply and establishing commercial presence)
- ▶ Provides opportunities to foreign and domestic companies to position Malaysia as their regional hub for global economic activities
- ▶ Reduces time and costs associated with exportation of products to RCEP members through a common RoO
- ▶ Promotes information exchange and transparency measures to facilitate business and investments for Malaysian SMEs within the region. This includes economic and technical cooperation.

Beneficiary sectors include:

- ▶ Export sector: electrical and electronics (E&E), food and agribusiness
- ▶ Digital economy, e.g. e-commerce and services
- ▶ SMEs and micro-enterprises

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