CHAPTER 2

How Preferential are RCEP Tariffs?

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This study discusses the extent to which the tariffs provided in the Regional Comprehensive Economic Partnership (RCEP) are preferential. RCEP does not necessarily adopt a common concession rule in tariffs, and the speed and depth of tariff reduction/elimination also differ by country. We show that RCEP tariffs become the best choice in trading some specific products with some specific countries in some specific years. Furthermore, there are some specific cases where the use of RCEP tariffs becomes beneficial even if RCEP tariffs are not lower. Therefore, we demonstrate that RCEP tariffs are beneficial in specific types of supply chains. In short, this study aims to enhance our comprehensive understanding of how preferential RCEP tariffs are compared with other types of available tariffs.

Introduction

The Regional Comprehensive Economic Partnership (RCEP) entered into force on 1 January 2022. It was signed amongst 15 countries on 15 November 2020, including the Association of Southeast Asian Nations (ASEAN) and the five ASEAN free trade agreement partners (Australia, China, Japan, New Zealand, and the Republic of Korea (hereafter, Korea)). The RCEP agreement eliminates or reduces tariff rates amongst the member countries and is, therefore, expected to boost intra-regional trade. In particular, RCEP is the first regional trade agreement (RTA) between China and Japan and between Japan and Korea. Although India is unfortunately not included in the agreement, several RTA networks in Asia have finally been integrated into one RTA.

In this study, we discuss the extent to which the tariffs provided in RCEP are preferential. RCEP does not necessarily adopt a common concession rule in tariffs. Some countries set different preferential tariffs against member countries. The speed and depth of tariff reduction/elimination also differ by country. For example, the length ranges from 20 to 36 years. We investigate under what situations (in terms of products, country pairs, and years) the utilisation of RCEP tariffs becomes the best choice amongst all available tariff regimes. To do that, we first compare the RCEP tariffs with the lowest available tariffs in each year. The latter tariffs include not only the most favoured nation (MFN) rates but also other existing RTA tariff rates. Namely, we examine whether RCEP tariffs are lower than any other kinds of tariffs.

Furthermore, there are some specific cases where the use of RCEP tariffs becomes beneficial even if RCEP tariffs are not lower. Such cases arise especially when we consider trade amongst more than two member countries. Thus, we also discuss under what situations the use of RCEP tariffs could become the best choice even when they are not lower than the other kinds of tariffs. Here, which member countries are involved in supply chains plays a key role. In sum, this study aims to enhance our comprehensive understanding of how preferential RCEP tariffs are compared with other types of available tariffs.

The Bilateral Trade Case

In this section, we show how preferential RCEP tariffs are in bilateral trade. Namely, we investigate whether RCEP tariffs are lower than any other kinds of tariffs when exporting to a member country. After explaining our methodology in this comparison, we present various figures and tables showing the performance of RCEP tariffs. Last, we also point out some issues relating to rules of origin (RoO).

Methodology

We compare RCEP tariffs with the lowest available tariffs. However, there are some challenging issues in this comparison. In order to explain those issues, it is helpful to introduce our data on tariffs. We obtain the RCEP tariffs from the RCEP legal text. We assume that RCEP will enter into force amongst all member countries in 2022. Thus, the first year in the legal text indicates 2022.[1] The data sources for the other kinds of tariffs (e.g. MFN tariffs) are the World Integrated Trade Solution (WITS) and the Tariff Analysis Online (TAO), both of which are managed by the World Trade Organization. These data sources provide tariff rates at a tariff-line level (e.g. the harmonised system (HS) eight-, nine-, or ten-digit level) in each country. Due to the fact that MFN tariffs are zero for most products in Brunei Darussalam and Singapore, we do not study these two countries.

When comparing tariffs across years, we need to be careful of consistency in the HS version, which is revised every five years. The recent versions include those set in 2012 and 2017. The HS codes are not convertible at the tariff-line level across HS versions. By using the converter table provided by the United Nations,[2] they can be converted at the HS six-digit level. The aim of this section is to compare the RCEP tariffs with the lowest available tariffs in each year. The legal text of RCEP presents the RCEP tariffs in the HS 2012 version. On the other hand, as the HS 2017 version has been used since 2017, the tariff-line level HS codes are not convertible between the versions in the RCEP legal text and the recent tariff tables.

One easy solution is to compare the RCEP tariffs with the lowest available tariffs in 2016. Since the latter tariffs are also reported in the HS 2012 version, we can compare these two kinds of tariffs at the tariff-line level, i.e. without taking any aggregation. However, the comparison with tariffs in 2016 results in overestimating the magnitude of the RCEP

[1] Note that RCEP tariffs are reduced on 1 April in Japan, Indonesia, and the Philippines. Thus, for these countries, the second year of RCEP starts from 1 April 2022. However, we follow the calendar year for simplicity, so that the second year is assumed to start in all member countries from 1 January 2023.

[2] https://unstats.un.org/unsd/trade/classifications/correspondence-tables.asp

preference margin. For example, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) entered into force in December 2018. The CPTPP is a 'deep' RTA and eliminates tariffs for almost all products amongst member countries. It includes six RCEP countries, i.e. Australia, Brunei, Japan, Malaysia, New Zealand, and Viet Nam. Thus, the use of tariff rates in 2016 means that we do not take CPTPP tariffs into account. Similarly, at the end of 2015, RTAs entered into force amongst some RCEP members (i.e. the China–Korea RTA, Korea–New Zealand RTA, Korea–Viet Nam RTA, and Australia–China RTA). Tariff rates in 2016 reflect the tariff reduction based on these RTAs only in the early phase. In short, the use of tariffs in 2016 overestimates the magnitude of the RCEP preference.

Based on the above concerns, we take the following approach in our comparison. The RCEP tariffs are determined by comparing RCEP tariffs in each year (t_{year}^{RCEP}) with the lowest available rate in 2016 (t_{2016}^{Lowest}) at the tariff-line level. The former rate changes over time based on the schedule set in the legal text. We use the lower tariffs between these two kinds of tariffs as the RCEP tariffs. Then, we take a simple average of the tariff-line level RCEP tariffs at the six-digit level. As a result, we have RCEP tariffs at an HS six-digit level in the HS 2012 version. The reason for comparing with the tariffs in 2016 is that RCEP tariffs may not be available depending on the product and year. If we take a simple average only amongst tariff-line codes where RCEP tariffs are available, the average rate will be underestimated. To avoid this bias, we take into account the lowest available rate in 2016 for the codes where RCEP tariffs are not available.

Table 2.1 Average MFN Tariffs in 2019 by Industry (%)

Region	AUS	BRN	CHN	IDN	JPN	KHM	KOR	LAO	MMR	MYS	NZL	PHL	THA	VNM
Live Animals	0.0	0.0	9.3	5.3	8.4	12.5	20.0	10.1	7.8	2.1	0.7	10.4	15.4	12.6
Vegetable products	0.7	0.0	13.4	5.3	6.1	8.4	95.8	12.8	8.7	2.2	1.0	9.9	19.7	14.9
Animal/vegetable fast and oils	1.8	0.0	13.6	4.3	3.5	7.0	7.7	10.0	3.8	2.7	1.1	8.7	24.4	16.5
Food products	2.6	0.0	10.1	23.6	14.8	21.8	28.2	12.2	15.1	4.1	2.6	11.4	23.3	30.3
Mineral products	0.4	0.0	3.6	3.2	0.7	8.0	3.8	5.2	2.9	1.5	0.4	1.8	1.8	6.9
Chemical products	1.4	0.1	5.6	5.0	1.8	7.5	7.4	6.8	3.7	2.0	0.7	3.2	2.8	3.0
Plastics and rubber	4.4	0.0	9.0	9.3	2.1	8.9	6.6	9.2	3.5	13.1	3.1	7.9	7.0	9.0
Leather products	3.4	0.0	9.7	8.6	10.9	12.8	7.7	16.4	7.7	0.3	2.5	7.4	10.6	12.8
Wood products	3.3	3.4	2.9	5.1	3.2	11.8	6.0	23.1	11.4	5.4	2.3	6.9	6.2	7.4
Paper products	3.7	0.0	4.2	4.5	0.0	6.7	0.0	6.0	2.8	10.5	0.0	5.5	3.5	12.5
Textiles	4.1	0.4	7.0	15.3	6.5	8.3	9.6	9.3	11.5	6.2	4.2	10.9	12.3	12.6
Footwear	2.5	2.8	8.2	16.4	14.6	14.8	10.1	11.9	6.7	5.1	5.7	9.7	21.1	22.3
Plastic or glass products	3.4	0.0	10.5	9.2	1.2	10.9	7.8	5.9	4.1	17.8	2.5	7.2	10.1	20.2
Precision metals	1.1	0.0	6.4	7.3	1.5	2.6	5.4	5.0	11.8	0.5	1.2	5.2	4.0	11.8
Base Metal	3.5	0.0	5.8	9.4	0.8	8.2	4.2	6.3	4.1	9.0	2.6	5.5	6.1	8.0
Machinery	2.5	0.1	6.1	5.6	0.0	13.7	4.7	7.3	4.2	4.8	2.6	2.5	4.8	6.4
Transport equipment	3.6	0.0	11.4	26.3	0.1	19.9	5.9	7.6	13.1	21.5	3.9	20.1	49.2	33.8
Precision machinery	0.8	0.6	6.2	5.6	0.2	14.8	4.1	6.7	5.6	0.5	0.9	1.8	3.1	4.5
Miscellaneous	3.2	1.2	6.0	10.0	2.2	15.8	4.9	14.7	8.3	10.4	3.6	8.0	13.7	16.2

Source: Author's compilation using WITS and TAO.

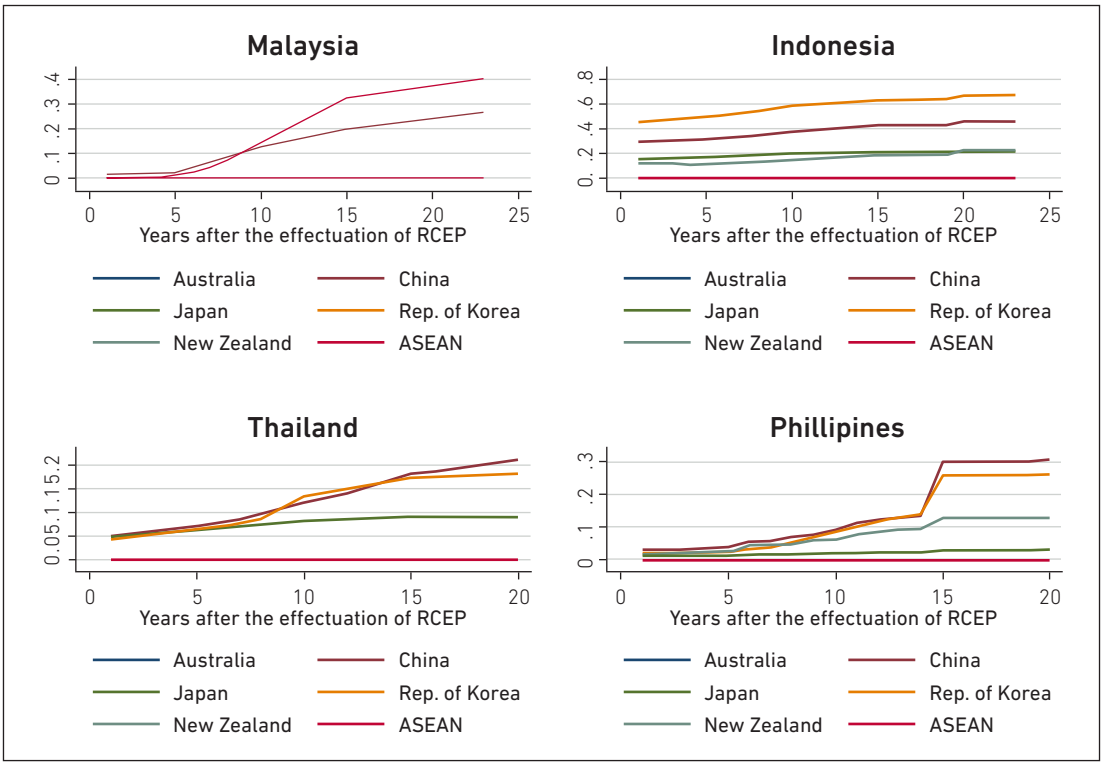
We compute the lowest tariff rates in each year after RCEP enters into force as follows. First, we identify the lowest available tariff rates in 2019 at the tariff-line level, which are reported in the HS 2017 version. For reference, Table 2.1 reports the average MFN tariffs in 2019 by industry. We do not take into account a generalised scheme of preferences (GSP) here because GSP regimes are slightly different from RTA regimes (e.g. less restrictive RoO). Due to the data availability, we use the lowest tariff rates in 2018 for Korea and those in 2020 for Thailand. In addition, we use the tariff information in both 2019 and 2020 for Myanmar due to the incomplete coverage of the ASEAN Trade-in-Goods Agreement tariffs in the WITS data for 2019. Also, those in 2014 are used for Malaysia because 2014 is the latest year when RTA tariff rates are reported for Malaysia in our data sources. Nevertheless, since tariff rates in 2014 are a bit outdated, we also take into account the MFN tariffs in Malaysia in 2020. Namely, for Malaysia, we identify the lower tariff rates between the lowest available rate in 2014 and MFN rates in 2020.[3]

Furthermore, we take into account the future tariffs, i.e. tariffs scheduled in existing RTAs. Specifically, we include the China–Korea RTA tariff rates in China and Korea; tariff rates in all RTAs in Japan; CPTPP tariff rates in Australia, Malaysia, New Zealand, and Viet Nam; ASEAN–Australia–New Zealand RTA tariff rates in Indonesia, Cambodia, the Lao PDR, Myanmar, Thailand, and Viet Nam; and ASEAN–Japan RTA tariff rates in Cambodia, the Lao PDR, and Myanmar. We assume that the CPTPP will enter into force in Malaysia in 2022. We compare the lowest available rates in 2019 with the future RTA tariffs at the HS six-digit level, not the tariff-line level, because the scheduled tariffs in some RTAs are reported in the HS 2012 version or an older version. Finally, we have two kinds of tariffs (i.e. RCEP tariffs and the lowest tariffs amongst all tariff regimes excluding RCEP) at the HS six-digit level, which are compared below. If RCEP tariffs are higher than the lowest tariffs, we replace the RCEP tariffs with those lowest tariffs. Thus, no HS six-digit codes have RCEP tariffs higher than the lowest tariffs.

[3] This identification is conducted at the HS six-digit level.

Comparison

Figure 2.1(a) Average RCEP Margin in ASEAN Forerunners (%)



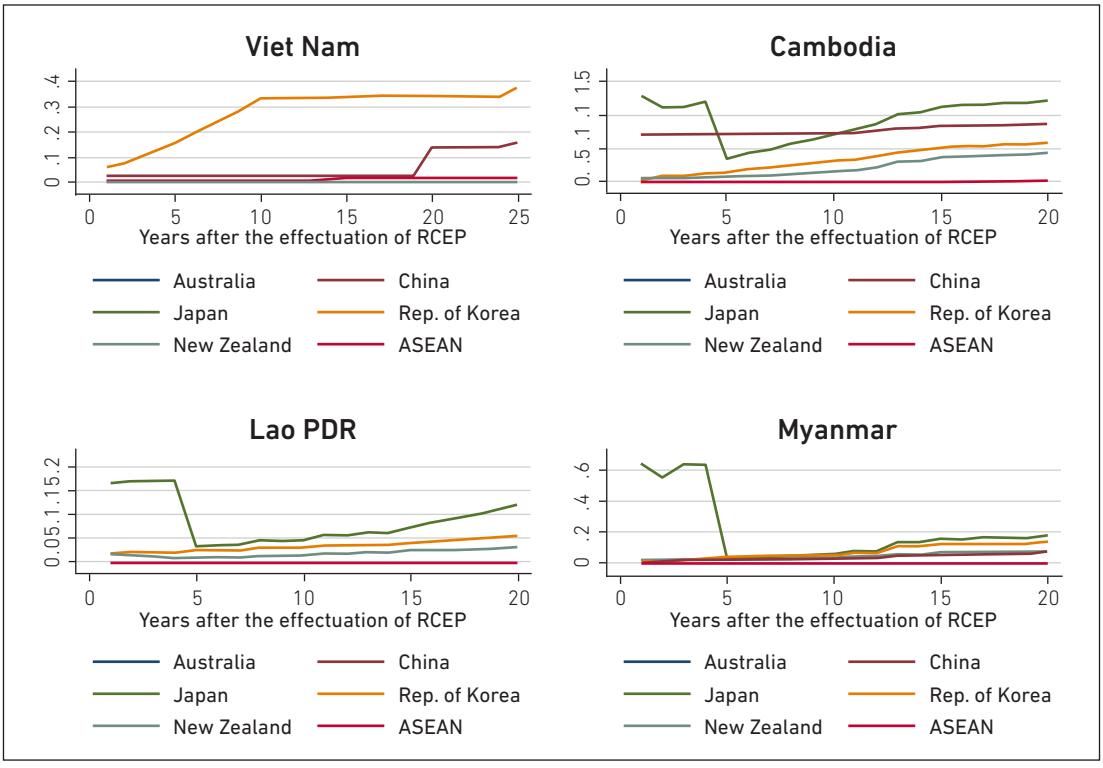
ASEAN = Association of Southeast Asian Nations, RCEP = Regional Comprehensive Economic Partnership.

Source: Author's compilation.

We compare the RTA tariffs with the existing lowest tariffs. We begin with the comparison at the country-year level. To do this, we first take the difference between the two kinds of tariffs (i.e. the lowest tariffs minus the RCEP tariffs) at the HS six-digit level. As mentioned in the last part of the previous subsection, the RCEP tariffs cannot be higher than the lowest tariffs. Thus, by definition, this difference takes a non-negative value. We call this difference the 'RCEP margin'. Then, we take a simple average of this difference by country pairs and years. As mentioned before, we set 2022 as the first year of RCEP.

The time-series changes in the average RCEP margin are depicted in Figure 2.1. Figure 2.1(a) shows the results in the four ASEAN Member States (AMS) of Malaysia, Indonesia, Thailand, and the Philippines. Since each AMS applies the same tariff rate against all AMS, we do not differentiate AMS as exporters. The RCEP margin is almost zero amongst AMS because tariff elimination amongst AMS was already completed by 2018 under the ASEAN Trade in Goods Agreement (ATIGA). Against non-ASEAN countries, the margin rises over time. However, as indicated in the size of the vertical axis, the magnitude of the margin is trivial. At most, it is around 0.6%. The relatively large margin in the final year can be found when importing from China and Korea or when Indonesia imports from non-AMS.

Figure 2.1(b) Average RCEP Margin in CLMV Countries (%)



ASEAN = Association of Southeast Asian Nations, CLMV = Cambodia, Lao PDR, Myanmar, and Viet Nam, RCEP = Regional Comprehensive Economic Partnership.

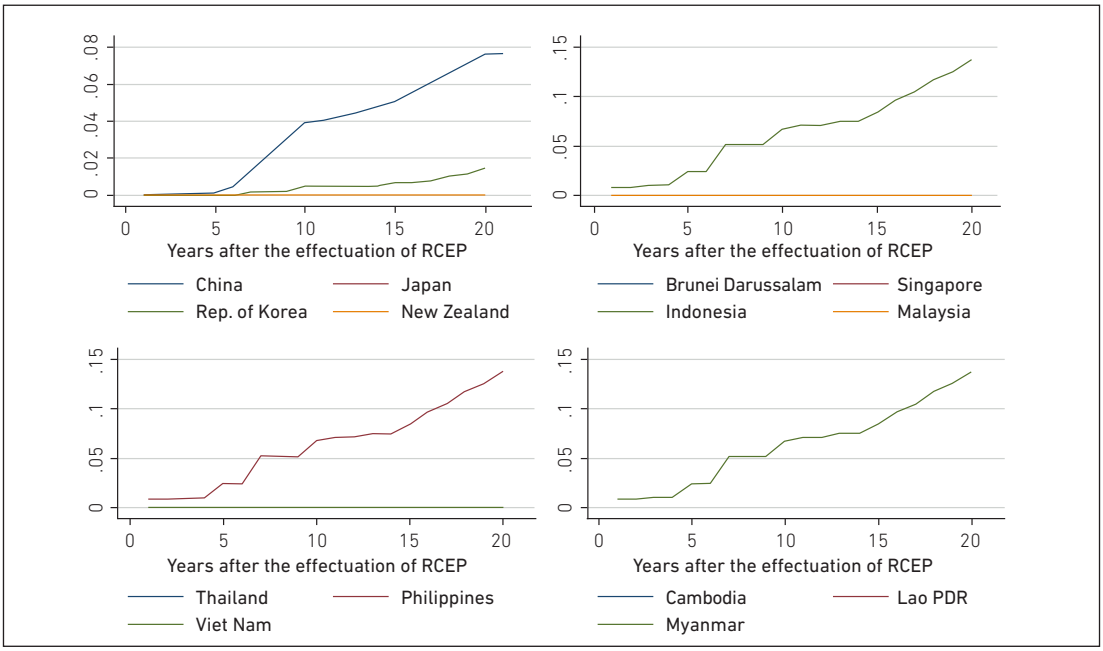
Source: Author's compilation.

Figure 2.1(b) reports the results in the other four AMS, the so-called 'CLMV countries' (Viet Nam, Cambodia, Lao PDR, and Myanmar). There are two noteworthy points. First, compared with Figure 2.1(a), the magnitude of the margin becomes large, especially in Cambodia and the Lao PDR against Japan, with a margin of around 1%. This result is because the liberalisation level under the ASEAN–Japan RTA in these countries was low. Second, due to the tariff elimination/reduction in the final year of the ASEAN–Japan RTA, the RCEP margin decreases in the fifth year of RCEP in Cambodia, the Lao PDR, and Myanmar. The relatively large margin in Viet Nam for Korea is partly because we do not take into account the future tariffs set in the Korea–Viet Nam RTA. We only include Korea–Viet Nam RTA tariffs as of 2018/2019.

We next move to the results in 'plus-one' countries. Figure 2.1(c) shows those in Australia. An increasing magnitude can be found except for Japan, New Zealand, Singapore, Malaysia, and Viet Nam, which are CPTPP member countries. However, the magnitude of the margin is rather small. The results for China are depicted in Figure 2.1(d). Since RCEP is the first RTA between China and Japan, we can see the large and growing magnitude of the margin against Japan. In the final year, it reaches around 6%. The margins for the other countries are trivial. A similar trend can be found for Japan's tariffs against China, as shown in Figure 2.1(e). Since RCEP is the first RTA with Korea for Japan, the margin is also large and growing against Korea. In the final year, the margins against China and Korea become around 2%. Figure 2.1(f) reports the results in Korea. Again, the margin for Japan is large and growing up to around 6%. Another key finding in Korea is that the margins even for the other countries are large compared with those in the other plus-one countries, indicating that Korea reduces tariffs by RCEP beyond the levels set by existing RTAs. Last, the results in New Zealand are presented in Figure 2.1(g). Although some countries have a growing trend, the magnitude is trivial.[4] At most, it is around 0.2%.

[4] The relatively large margin for Korea is partly because we do not take into account the future tariffs set in the Korea–New Zealand RTA. We only include Korea–New Zealand RTA tariffs as of 2018.

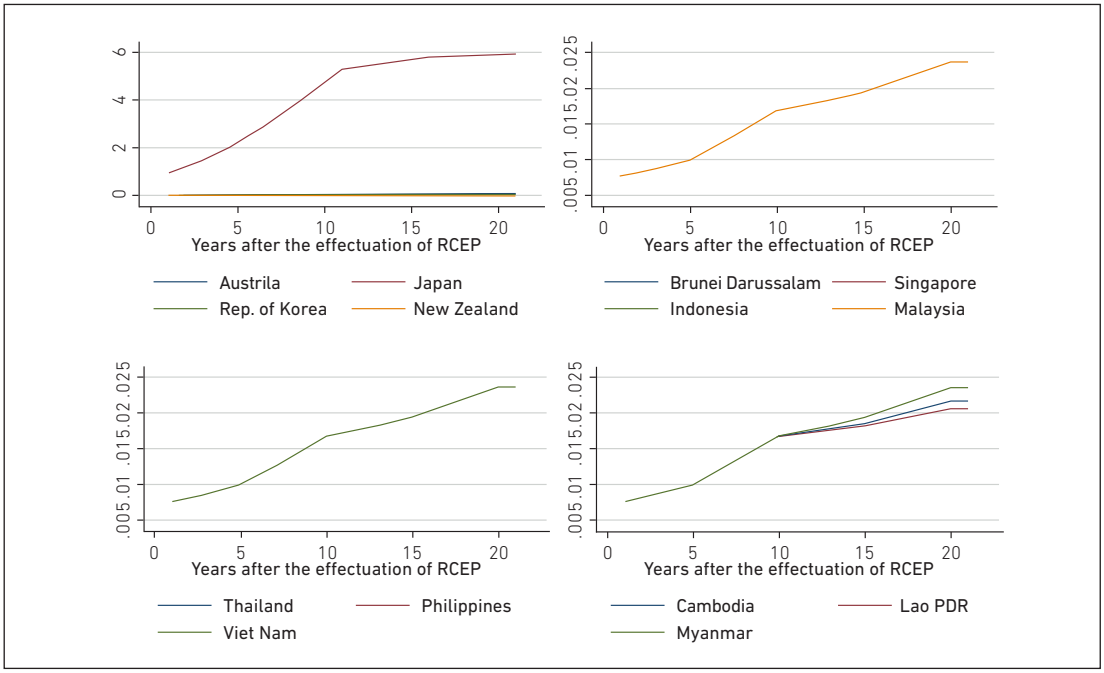
Figure 2.1(c) Average RCEP Margin in Australia (%)



RCEP = Regional Comprehensive Economic Partnership.

Source: Author's compilation.

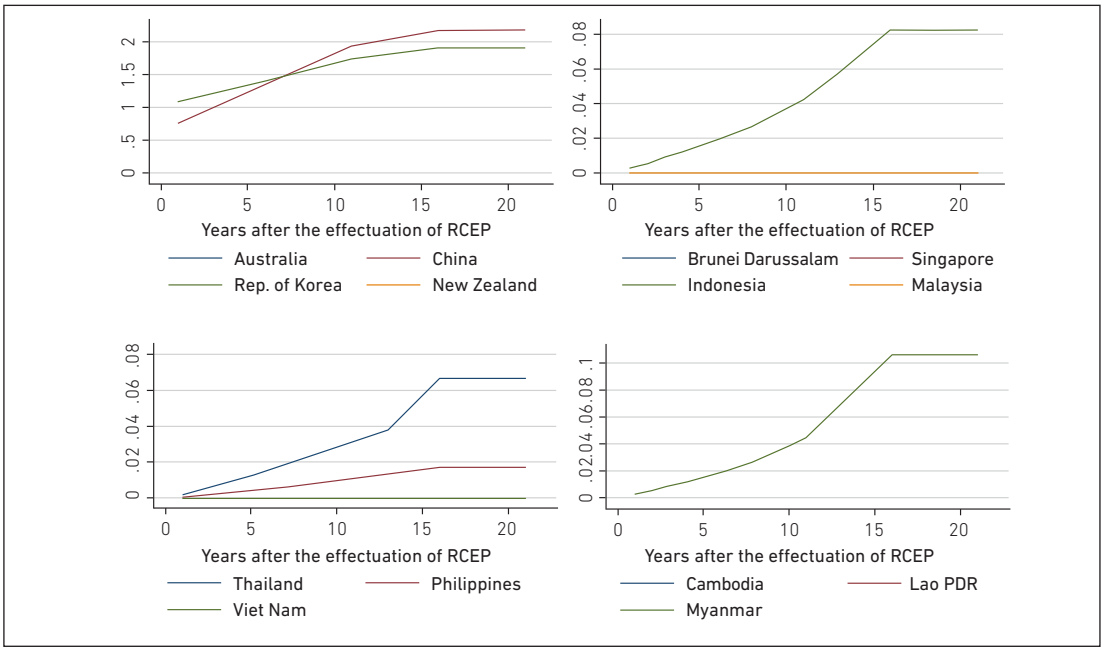
Figure 2.1(d) Average RCEP Margin in China (%)



RCEP = Regional Comprehensive Economic Partnership.

Source: Author's compilation.

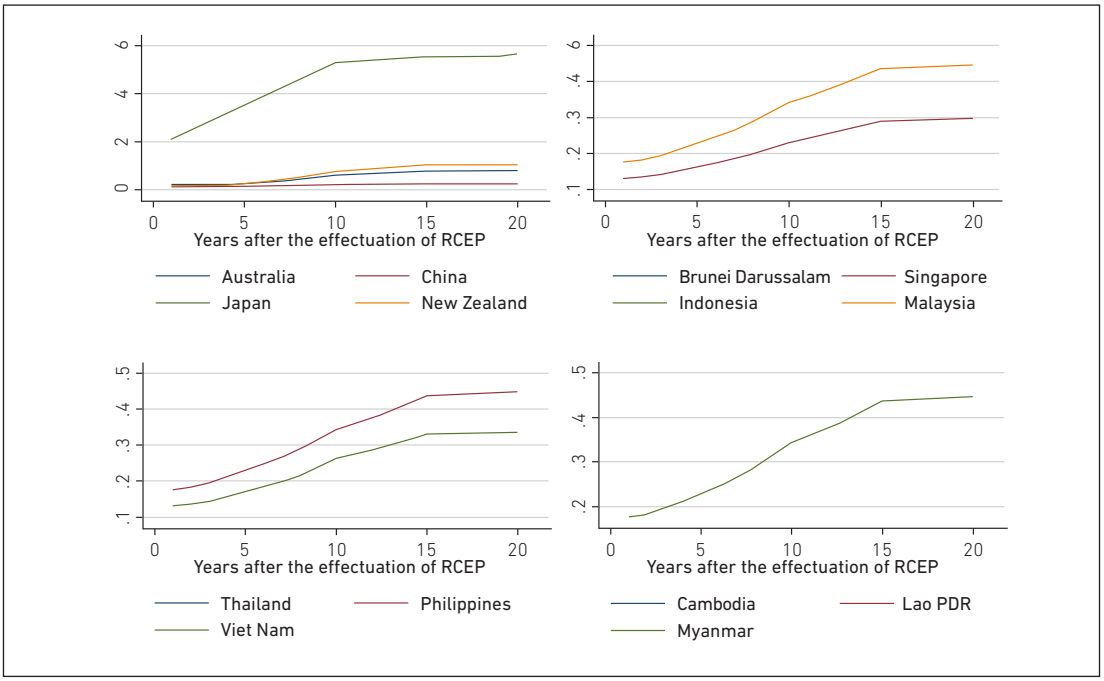
Figure 2.1(e) Average RCEP Margin in Australia (%)



RCEP = Regional Comprehensive Economic Partnership.

Source: Author's compilation.

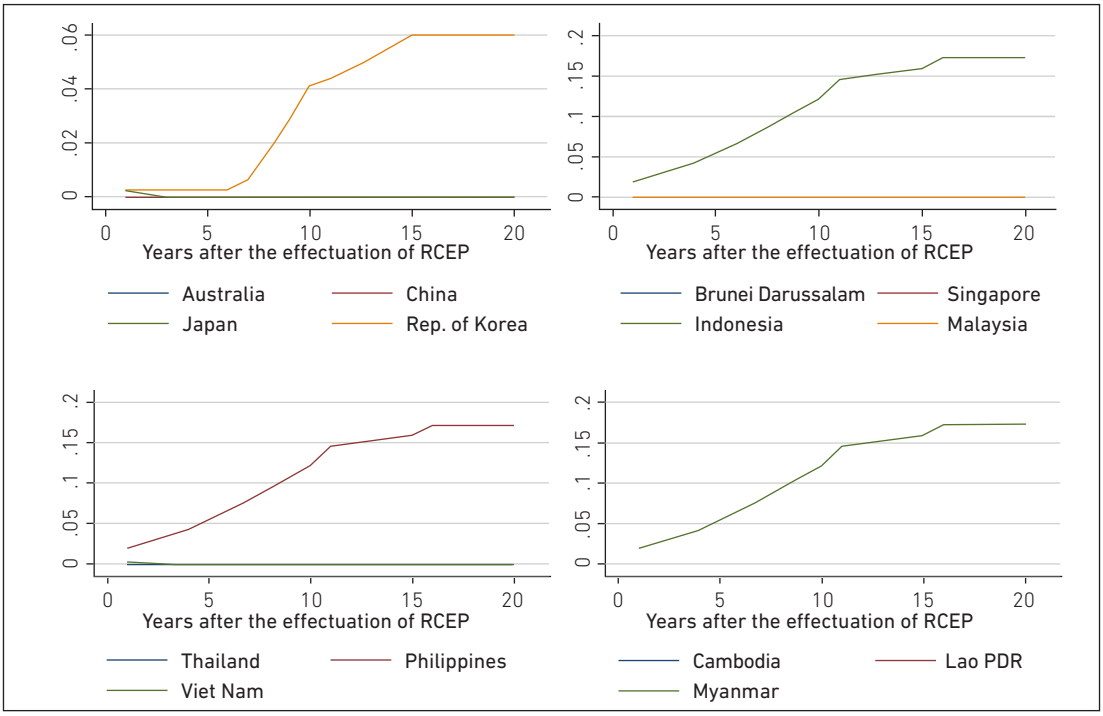
Figure 2.1(f) Average RCEP Margin in the Republic of Korea (%)



RCEP = Regional Comprehensive Economic Partnership.

Source: Author's compilation.

Figure 2.1(g) Average RCEP Margin in New Zealand (%)



RCEP = Regional Comprehensive Economic Partnership.

Source: Author's compilation.

Next, we examine the product-level margin of RCEP. The average margins presented in Figures 1(a)–(g) may mask the existence of some products with a large margin. In Table 2.2, we count the number of HS six-digit codes according to the magnitude of the RCEP margin in the final year of RCEP. Table 2.2(a) shows the results in plus-one countries. In Australia and New Zealand, no products have a margin greater than 10%. In these two countries, products with relatively large margins can be found against ASEAN countries with which they have neither bilateral RTAs nor the CPTPP (i.e. Indonesia, Cambodia, the Lao PDR, Myanmar, and the Philippines). Many products have large margins for Japan's imports from China and Korea, China's imports from Japan, and Korea's imports from Japan. In addition, the relatively large number of products have a margin greater than 10% for Korea's imports from other countries.

Table 2.2(b) reports the results in the four forerunner AMS, whilst Table 2.2(c) shows the results in the CLMV countries. Overall, there are few products with positive margins for the intra-ASEAN flow due to the existing RTAs. These figures for the intra-ASEAN flow play a good role in illustrating some shortcomings in our computation. For example, although Malaysia should not have any products with a positive RCEP margin against other AMS, the table indicates that one product has a positive margin against non-CPTPP AMS. This inconsistency is because of our treatment of non-ad valorem tariffs, which are replaced with missing values. Similarly, the Philippines does not present an additional tariff reduction against other AMS. The positive number in the table is because the number of tariff-line codes is different between HS 2012 and HS 2017.[5] This difference affects the magnitude of tariffs when we take a simple average at the HS six-digit level.[6] Another source is the rise in MFN tariffs in our dataset,[7] which results in a positive RCEP margin if the concerned product is excluded from tariff reduction in both ATIGA and RCEP. This case can be observed at least in Myanmar and Viet Nam. In short, the numbers presented in the tables are not necessarily 100% correct.

[5] Remember that we input tariffs from around 2016 for products where RCEP tariffs are not available and that the base tariffs compared with the RCEP tariffs are those from around 2019.

[6] For example, the simple average amongst 1%, 1%, and 4% is 2%, whilst that amongst 1% and 4% is 2.5%.

[7] We are not sure how accurate the tariff information in our data (i.e. WITS or TAO) is.

Table 2.2(a) Number of Products by RCEP Margin in the Final Year: Plus-one Countries

Importer	Range	AUS	BRN	CHN	IDN	JPN	KHM	KOR	LAO	MMR	MYS	NZL	PHL	SGP	THA	VNM
AUS	0<m≤3	0	0	0	36	0	36	15	36	36	0	0	36	0	0	0
	3<m≤10	0	0	0	127	0	127	14	127	127	0	0	127	0	0	0
CHN	0<m≤3	57	18	0	18	411	18	95	17	17	18	1	18	18	18	18
	3<m≤10	33	20	0	20	3341	18	27	17	20	20	0	20	20	20	20
	m>10	6	0	0	0	449	0	7	0	0	0	0	0	0	0	0
JPN	0<m≤3	0	0	512	47	0	65	504	65	65	1	1	14	1	1	0
	3<m≤10	0	0	1486	60	0	76	1408	76	76	0	0	6	0	0	0
	m>10	0	0	145	4	0	4	92	4	4	0	0	3	0	0	0
KOR	0<m≤3	170	117	117	117	382	117	0	117	117	117	243	117	55	55	61
	3<m≤10	214	124	97	124	2953	124	0	124	124	124	287	124	41	41	44
	m>10	91	43	72	43	385	43	0	43	43	43	132	43	29	29	39
NZL	0<m≤3	0	0	0	118	0	118	110	118	118	0	0	118	0	0	0
	3<m≤10	0	0	0	86	0	86	54	86	86	0	0	86	0	0	0

Source: Author's compilation.

Table 2.2(b) Number of Products by RCEP Margin in the Final Year: ASEAN Forerunners

Importer	Range	AUS	BRN	CHN	IDN	JPN	KHM	KOR	LAO	MMR	MYS	NZL	PHL	SGP	THA	VNM
IDN	0<m≤3	80	0	45	0	115	0	124	0	0	0	81	0	0	0	0
	3<m≤10	134	0	338	0	123	0	498	0	0	0	138	0	0	0	0
	m>10	6	0	22	0	15	0	28	0	0	0	6	0	0	0	0
MYS	0<m≤3	0	0	28	1	0	1	22	1	1	0	0	1	0	1	0
	3<m≤10	0	0	97	0	0	0	85	0	0	0	0	0	0	0	0
	m>10	0	0	32	0	0	0	84	0	0	0	0	0	0	0	0
PHL	0<m≤3	25	1	48	1	24	1	60	1	1	1	25	0	1	1	1
	3<m≤10	68	0	144	0	16	0	132	0	0	0	68	0	0	0	0
	m>10	20	0	37	0	1	0	30	0	0	0	20	0	0	0	0
THA	0<m≤3	0	0	37	0	5	0	32	0	0	0	0	0	0	0	0
	3<m≤10	0	0	145	0	48	0	138	0	0	0	0	0	0	0	0
	m>10	0	0	11	0	6	0	7	0	0	0	0	0	0	0	0

Source: Author's compilation.

Table 2.2(c) Number of Products by RCEP Margin in the Final Year: CLMV Countries

Importer	Range	AUS	BRN	CHN	IDN	JPN	KHM	KOR	LAO	MMR	MYS	NZL	PHL	SGP	THA	VNM
KHM	0<m≤3	133	4	75	4	14	0	17	4	4	4	133	4	4	4	4
	3<m≤10	231	14	230	14	288	0	187	14	14	14	231	14	14	14	14
	m>10	38	0	166	0	242	0	110	0	0	0	38	0	0	0	0
LAO	0<m≤3	278	1	2	1	29	1	5	0	1	1	278	1	1	1	1
	3<m≤10	194	1	18	1	551	1	249	0	1	1	194	1	1	1	1
	m>10	0	0	1	0	75	0	27	0	0	0	0	0	0	0	0
MMR	0<m≤3	54	4	103	4	282	4	183	4	0	4	54	4	4	4	4
	3<m≤10	52	1	30	1	91	1	58	1	0	1	52	1	1	1	1
	m>10	1	0	1	0	0	0	0	0	0	0	1	0	0	0	0
VNM	0<m≤3	0	0	53	3	0	3	76	3	3	0	0	3	0	3	0
	3<m≤10	0	0	109	8	0	8	113	8	8	0	0	8	0	8	0
	m>10	0	0	4	2	0	2	57	2	2	0	0	2	0	2	0

Source: Author's compilation.

The findings for AMS' margins against plus-one countries are as follows. Amongst the four forerunner AMS, Indonesia shows a relatively large number of products with margins greater than 3%. In contrast, Malaysia shows few products with margins greater than 3%. Due to the existence of the Japan–Philippines RTA, the number of products with a positive RCEP margin is small for Philippine imports from Japan. Thailand presents no additional tariff reduction against Australia and New Zealand, both of which have bilateral and plurilateral RTAs with Thailand. Cambodia has large margins with plus-one countries for a relatively large number of products. A similar finding can be found in the Lao PDR's imports, except for those from China. In Myanmar's imports, Japan receives the largest number of products with a positive margin. Due to the existence of the CPTPP and ATIGA, Viet Nam does not present additional tariff reductions to many countries.

Last, we take an overview of the industry average of the RCEP margin in the final year. Table 2.3 reports only the cases with an average margin greater than 3%. Table 2.3(a) focuses on exports from Japan to China and Korea. When exporting to China, a relatively large margin can be found for live animals, vegetable products, leather products, and plastic or glass products. On the other hand, when exporting to Korea, vegetable products, textiles, the footwear industry, plastic or glass products, and the precision machinery industry indicate a relatively large margin. Other cases are shown in Table 2.3(b). For example, the average margin for transport equipment is 3% when exporting from China to Indonesia. Some industries appear for Japan's imports from China and Korea. Many countries enjoy a margin greater than 3% when exporting vegetable products to Korea.

Table 2.3(a) Average RCEP Margin by Section: Exporting from Japan (%)

	Importer	
	CHN	KOR
Live animals	9	6
Vegetable products	10	7
Animal/vegetable fats and oils	7	4
Food products	6	6
Mineral products	3	
Chemical products	5	5
Plastics and rubber	8	6
Leather products	10	6
Wood products		5
Textiles	6	8
Footwear	6	10

	Importer	
	CHN	KOR
Plastic or glass products	9	7
Precision metals		4
Base Metal	5	4
Machinery	5	5
Transport equipment	4	3
Precision machinery	6	7
Miscellaneous	5	6

Note: We report only sections with a final-year RCEP margin greater than 3%.

Source: Author's compilation.

Table 2.3(b) Average RCEP Margin by Section: Other Pairs (%)

Importer	Section	Exporter												
		AUS	BRN	CHN	IDN	JPN	KHM	KOR	LAO	MMR	MYS	NZL	PHL	THA
IDN	Food products							3						
IDN	Paper products			3										
IDN	Transport equipment			3										
JPN	Food products			6				3						
JPN	Leather products			6										
JPN	Textiles			6				6						
KHM	Machinery					3								
KHM	Transport equipment					5		3						
KHM	Miscellaneous			3										
KOR	Live animals											4		
KOR	Vegetable products	7	3		3		3		3	3	3	8	3	3
KOR	Food products	4										6		
LAO	Live animals					5								
LAO	Vegetable products					4								
LAO	Animal/vegetable fats/oils					7								
LAO	Food products					3								
LAO	Leather products							3						
MYS	Transport equipment							5						

Note: We report only sections with a final-year RCEP margin greater than 3%.

Source: Author's compilation.

Rules of origin

Before closing this section, we point out another possible advantage of RCEP tariffs. In general, when firms use RTA tariffs in exporting, they need to comply with rules of origin (RoO) and obtain/issue certificates of origin. RoO are set at the HS six-digit level and differ by RTA. When two RTAs present the same level of preferential tariff (e.g. 0%), exporters may prefer using the RTA tariffs that require the compliance of less restrictive RoO. In other words, even when the RCEP margin is zero, firms may still have an incentive to use RCEP tariffs if the RCEP RoO are less restrictive.

Various rules exist in RoO: change in chapter (CC), change in heading (CH), change in subheading (CS), wholly obtained (WO), regional value content (VA), and specific process (SP). For example, CC requires exported products to have different two-digit HS codes from inputs imported from non-RTA member countries, whilst such a transformation is required at the six-digit level for CS. Thus, CC potentially requires exporters to drastically adjust their production and input sources compared with CS. Some RoO require compliance with multiple rules (indicated by '&') or one of those rules (indicated by '/'). Naturally, RoO with '&' are more restrictive than those adhering to one RoO type. RoO with '/' are as restrictive or less restrictive than adhering to a particular one amongst multiple types of RoO.

Table 2.4 reports the distribution of the RoO by RTAs at the HS six-digit level, indicating the various types and combinations. To decrease the number of RoO types, we slightly simplify the original rules. For RoO combined with SP, we ignore the SP component. For example, CC&SP and CC/SP are simplified to CC. We also ignore the minor requirement. 'VA' indicates the 40% rule of regional value content. 'VA-' and 'VA+' represent less than 40% and more than 40% of regional value content, respectively. In Table 2.4, we study RoO in ATIGA, the four ASEAN+1 RTAs, and RCEP. Like other RTAs except for the ASEAN–China RTA, in RCEP, the largest number of RoO can be found in CH/VA. Also, it shows a relatively large number of the less-restrictive type of RoO, CS/VA, compared with other RTAs, except for the ASEAN–Australia–New Zealand RTA. Overall, except for the frequency of CS/VA, the distribution of RoO in RCEP looks similar to that in the ASEAN–Japan RTA.

Table 2.4 Product-specific Rules of Origin

	ATIGA	AANZ	AC	AJ	AK	RCEP
CC		297	1	1,479	5	1,100
CC&VA					2	
CC/VA	511	841	8	122	524	288
CH		203		416	11	475
CH&VA					1	
CH&VA+					14	
CH/(CS&VA-)/VA		197				
CH/VA	4,559	2,18	113	2,921	3900	2,488
CH/VA+					1	
CS				7		16
CS&VA		3				
CS/VA	129	1,037		34	73	634
CS/VA+					1	
SP		70				
VA	1	68	5,074	222	26	39
VA+					46	
VA-					3	
WO	4	308	8	3	607	164

Source: Author's compilation using the legal texts of the RTAs.

Although we do not show the details, we can find a non-negligible number of products where the RoO in RCEP are less restrictive than those in other RTAs. For example, there exist many HS six-digit codes where RoO are CH/VA in ATIGA and CS/VA in RCEP, particularly in the chemical industry, the general and electric machinery industry, and the precision machinery industry. Compared with RoO in the ASEAN–Australia–New Zealand RTA, which are known to be less strict, we can find products where RCEP sets CS/VA, whilst the ASEAN–Australia–New Zealand RTA sets stricter rules. In sum, some products have less restrictive RoO in RCEP. When exporting such products, firms may choose to use RCEP tariffs even if the preference margin of RCEP is trivial.

Finally, we also mention the availability of self-certification, which allows firms to issue certificates of origin by themselves. Since firms do not need to apply to the relevant authorities, they can minimise the time to obtain the certificates of origin. Also, they do not need to incur charges for the issuance from the authorities. RCEP allows an approved exporter system (i.e. exporters approved by the authorities can self-certify) once it comes into force. Furthermore, in Japan, self-certification by importers becomes immediately available. Also, self-certification by exporters will be introduced within a specified period of time after the agreement is implemented. There are many country pairs in the RCEP region for which the existing RTAs do not allow self-certification. Thus, some firms, especially large-sized firms that can manage the compliance of RoO well, may prefer using RCEP tariff rates to enjoy self-certification rules.

The Multilateral Trade Case

In the previous section, we discussed the extent to which RCEP tariffs become preferential when exporting to a member country. A key issue was whether RCEP tariffs are lower than the preferential tariffs in any existing RTA or not. This aspect has long been discussed and has been one of the criteria regarding the advantages of a new RTA. However, we should also shed light on the so-called cumulation provision in the case of RTAs covering more than two countries as members. As mentioned in Section 2.3, RTA tariffs can be applied when the exported products comply with the RoO. In other words, exported products must be produced using inputs or materials that originate from the exporting country. The cumulation provision allows the inputs produced in other member countries of the RTA to be regarded as those produced in the exporting country. Since RCEP covers a larger number of member countries than the ASEAN+1 RTAs, the cumulation provision in RCEP results in expanding the area of originating inputs. As a result, there are several cases where the use of RCEP tariffs becomes most beneficial when trade patterns involve at least three member countries.[8]

To demonstrate when the use of RCEP tariffs becomes beneficial, we conduct several case studies. To highlight the role of the cumulation provision, we assume that all RTAs present the same level of tariff rates and set the same product-specific RoO. It is also assumed that firms prefer existing RTAs to RCEP unless RCEP presents additional benefits because they are familiar with using the former. The first case is described as 'plus-one → AMS 1 → AMS 2'. For example, China (Plus-one) exports inputs to Thailand (AMS 1), and

[8] As mentioned in the introductory section, some countries do not adopt the common concession rule. These countries require some imported products to meet the 'tariff differentials' rule in addition to the RoO. For example, Japan specifies 100 products as those products and requires the exporting country to add at least 20% value-added. Although the number of such products is limited, this rule may become an additional cost to utilising RCEP tariffs.

Thailand produces goods using those inputs and then exports the goods to Malaysia (AMS 2). In this case, ASEAN–China RTA tariffs can be used in the two trade flows (i.e. exporting from China to Thailand and exporting from Thailand to Malaysia). Thus, RCEP tariffs will not be chosen in this type of trade flow. This case implies that the necessary condition of RCEP tariffs' superiority is to involve at least two plus-one countries in the supply chain.

Next, we consider three cases of horizontally-linked supply chains. Namely, a country producing final goods imports inputs from two countries. The second case is 'two plus-ones → AMS'. For example, Thailand imports inputs from China and Japan and sells final goods in the Thai market. In this case, importers in Thailand will choose to use ASEAN–China RTA tariffs when importing from China and use ASEAN–Japan RTA tariffs or Japan–Thailand RTA tariffs when importing from Japan. This second case involves two plus-one countries, unlike the first case. Nevertheless, RCEP tariffs do not become the best tariff regime. This case demonstrates that involving multiple plus-one countries is not a sufficient condition for RCEP to be the best regime.

The third case is 'two plus-ones → AMS 1 → plus-one 3/AMS 2'. As in the second case, Thailand imports inputs from China and Japan. In the third case, however, Thailand exports final goods to another country, either a plus-one country or another AMS. In this case, the use of RCEP tariffs (in Thailand's imports and exports) becomes the best choice. The key reason behind this choice is that the inputs imported under an RTA regime cannot be regarded as originating inputs when exporting final goods under a different RTA regime. Namely, RTA regimes cannot be mixed in a supply chain to enjoy the use of RTA tariffs in the whole chain. For example, if Thailand uses ASEAN–China RTA tariffs when importing from China, the final goods cannot comply with the RoO in any RTA when exporting to another plus-one country.[9] Also, when exporting final goods to another AMS, those goods do not meet the RoO in the ASEAN–China RTA because the materials imported from Japan are not qualified as originating inputs in the ASEAN–China RTA. It is crucially important to cover the whole supply chain with a single RTA, which is RCEP in this case. This case demonstrates that RCEP becomes beneficial if supply chains involve four RCEP member countries including at least two plus-one countries.

The fourth case looks like the third case. The difference is that the final destination, an importing country of final goods, has rather low MFN tariff rates, such as 0%. A typical example is Singapore. In this case, RCEP tariffs may not be chosen. The producers in Thailand import materials from China and Japan by using the duty-drawback regime or free economic zone regimes and then export the final goods to Singapore by using the MFN regime. The former regimes allow duty-free imports of materials if they are used to produce exported goods. Also, these regimes do not require compliance with RoO. Thus,

[9] More precisely, there might be the case where the final goods can comply with some specific

firms prefer using these regimes to RTA regimes. However, the inputs imported under these regimes cannot be regarded as originating inputs in any RTA when exporting. Thus, low MFN tariffs in the final destination play a crucial role in this case.

Next, we consider three cases of vertically-linked supply chains, which involve two plus-one countries and one AMS. The middle country imports materials from one country and exports final goods to another country. The three cases are 'plus-one 1 → AMS → plus-one 2', 'plus-one 1 → plus-one 2 → AMS', and 'AMS → plus-one 1 → Plus-one 2'. Due to the vertical involvement of two plus-one countries, ASEAN+1 RTA tariffs cannot be used in the whole supply chain. RCEP becomes the best regime in these three cases. Although the third case above indicated the importance of involving four member countries, these three cases demonstrate the superiority of the RCEP regime even amongst three member countries if they are linked vertically.

Last, we consider a slightly different case, which is 'AMS two plus-ones'. In this case, one AMS (e.g. Thailand) produces final goods and exports them to two plus-one countries (e.g. China and Japan). The AMS may use only domestic inputs or the inputs imported from other AMS. It is possible to use the respective ASEAN+1 RTAs in exporting to the plus-one countries, especially when the RoO in those ASEAN+1 RTAs are the same. However, one cumbersome requirement is that the exporters of the final goods must import inputs from other AMS under the respective ASEAN+1 RTAs. For example, the inputs imported using the ASEAN–China RTA tariffs must be used to produce the final goods only for China. Those inputs cannot be taken as originating inputs in the RoO of the ASEAN–Japan RTA when exporting to Japan. If it is costly or cumbersome to import materials using multiple RTA regimes depending on the export destination, exporters of final goods may import them using the RCEP tariffs and then export to both plus-one countries using the RCEP tariffs.

We have discussed the types of supply chains where the use of RCEP tariffs becomes the best choice. One of them is the supply chain where four countries including at least two plus-one countries are involved. One example is where firms in Thailand import machinery parts from China and Japan, produce finished machinery products, and export them to other AMS. Another type is where two plus-one countries are vertically linked in supply chains. One example is that firms in Viet Nam import fabrics from China, produce apparel products, and export to Japan. In these types of supply chains, firms may make use of RCEP tariffs even if RCEP does not present lower tariff rates than other available RTAs.

RoO in other RTAs. Suppose the export of final goods to Korea. When the RoO for those goods in the ASEAN–Korea RTA is the change-in-tariff classification, exporting firms can comply with the RoO if the exported final goods are different from the inputs imported from China at the required tariff classification level. Similarly, if those inputs occupy a trivial share in the value-added in the final goods, exporting firms can comply with regional value content rules in exporting to Korea. Our discussion in this section rules out such special cases to shed light on the role of the cumulation provision.

Concluding Remarks

In this study, we discussed the extent to which RCEP tariffs are preferential compared with other types of available tariffs. We showed that their use becomes the best choice for trading some specific products with some specific countries in some specific years. We also demonstrated that the use of RCEP tariffs is beneficial in specific types of supply chains. Although we assumed that RCEP tariffs will become available in all member countries from 2022, they have not been ratified in a few countries as of July 2021. Therefore, the cases where the use of RCEP tariffs is beneficial differ by year. This difference creates unnecessary complexity in the choice of the best tariff regime by firms. RCEP should also be ratified immediately in the rest of the member countries.