REFSA
Research For Social Advancement

REFSA BRIEF
ISSUE 13 / FEBRUARY 2022

RCEP: ONE SMALL STEP, NOT A GIANT LEAP, FOR TRADE AND GROWTH IN MALAYSIA

Jaideep Singh

jaideep@refsa.org

EXECUTIVE SUMMARY

- In November 2020, the 10 ASEAN member states and five of its regional partners – Australia, China, Japan, New Zealand and South Korea – signed the Regional Comprehensive Economic Partnership (RCEP), which is the world's largest free trade agreement (FTA) by GDP.

- RCEP aims to strengthen regional integration in Asia-Pacific across trade in goods (i.e. tariff cuts), trade facilitation (i.e. reducing paperwork), investment (i.e. FDI), e-commerce, etc.

- The agreement has been described as a 'game changer' due to its potential to regionalise supply chains during the COVID-19 pandemic and ongoing US-China trade war.

- The FTA came into effect for 10 ratifying countries on January 1, 2022. Malaysia was the 12th state to ratify in mid-January 2022, meaning RCEP will be active there in mid-March 2022.

- RCEP is relevant for Malaysia because the country trades heavily with the rest of the world, especially with the RCEP countries in sectors such as electrical and electric products (E&E). By linking Malaysia to some of its biggest trading partners, RCEP could help determine the national trade and industrial development agenda.

- While it is clear Malaysia rightfully ratified the agreement in line with the regional agenda for greater integration, we should still ask to what extent RCEP will contribute to the country's trade and growth prospects.

- From a theoretical standpoint, an agreement the size of RCEP for a trade-dependent nation like Malaysia could be hugely beneficial. In fact, commentators have praised RCEP for moving the ball forward in terms of creating a more favourable regulatory environment for the regionalisation of supply chains, promoting more open trade and setting clearer regional standards. But in practice, does RCEP live up to the hype?

- In this paper, the author unpacks the key components of RCEP to establish that the agreement is mostly symbolic and consolidatory in nature. Here is a chapter-by-chapter breakdown of the key findings in contrast to the perceived benefits:

Area	Perceived benefits	Key findings
Trade in goods	(i) Provides tariff-free access to over 65% of goods in the region. (ii) Improves the intra-regional sourcing of raw materials.	(i) Gains from trade creation in Malaysia will not be substantial because tariffs are low to begin with (average applied tariff on intra-RCEP trade is 1.3%). (ii) Over 70% of intra-ASEAN trade is currently tariff-free, and only 0.35% of products in the existing ASEAN Free Trade Area are subject to import duties. Tariff cuts are modest at best.
Rules of origin (ROO)	(i) Creates a single rule book that harmonises overlapping rules in the region. Establishes formulas through which goods made using a combination of materials from RCEP and non-RCEP countries qualify for preferential access. (ii) Simplifies the process of exporting and importing goods across the region.	(i) RCEP's biggest concrete contribution, especially as the first FTA to bring China, Japan and South Korea together. Common ROO saves time and reduces exporters' paperwork. (ii) First step towards further supply chain integration in future. But this also depends on adequate infrastructure, scale economies, agglomeration effects and strategic domestic industrial policy, which are beyond RCEP's scope.
Non-tariff measures (NTMs)	(i) Promotes transparency in the application of NTMs (i.e. policies apart from tariffs, such as quotas or regulations, that reduce trade). (ii) Minimises regulatory barriers by improving access to information on exporting requirements, decreasing transaction costs and promoting conflict resolution.	(i) The recognition of transparency is a step forward. However, RCEP's provisions on NTMs mostly affirm and uphold existing WTO agreements and ASEAN FTAs to which RCEP member states are already party. (ii) The actual reduction of NTMs requires compliance and active cooperation, which RCEP does not impose.
Trade facilitation	(i) Reduces customs clearance times and minimises bureaucracy in the shipment of goods. (ii) Simplifies the process of trading.	(i) Malaysia already exceeds RCEP's benchmarks on customs clearance. RCEP's trade facilitation measures are not novel, with many initiatives having already been launched within ASEAN. (ii) Nevertheless, the proposed measures could be beneficial in terms of cross-border trade with the regional partners.

Area	Perceived benefits	Key findings
Investment	(i) Incentivises investment to spur innovation and technological upgrading. (ii) Restricts measures that get in the way of free FDI flows.	(i) RCEP's requirement that host countries treat foreign investors and domestic investors equally has already been enshrined in existing FTAs. (ii) Attracting high-quality FDI requires strategic domestic policy to encourage joint ventures and collaboration, which is beyond RCEP's scope.
Other areas	(i) Mutually beneficial agreement, calling for economic and technical cooperation across countries. (ii) First FTA in the region to discuss SMEs, helping incorporate SMEs into regional value chains.	(i) Cooperation is nonbinding, with the onus being on the more developed countries to assist. (ii) The recognition of SMEs is a step forward, but RCEP is just a starting point. Domestic policy, which RCEP does not cover, is needed to strengthen SME growth and access to export markets.

- Therefore, it is more useful to think of RCEP as a small step in the path towards more transparent and integrated trade in Asia-Pacific rather than a game changer in its own right. It functions primarily as a harmonising document that reiterates provisions already in place in ASEAN's relationship with its regional partners.

- It is likely that the incremental benefits of RCEP will only materialise in the medium to long term as regional trade itself continues to grow in the current macroeconomic and geopolitical environment. But a country like Malaysia needs to put in place the right domestic policies and strategies to capture its full benefits so that SMEs and large companies, employers and employees, MNCs and domestic firms, can reap equal dividends.

- At the end of the day, RCEP ratification — while necessary to move regional integration forward — does not on its own put Malaysia on the path towards sustained higher growth unless accompanied by changes to domestic economic and industrial policy more broadly.

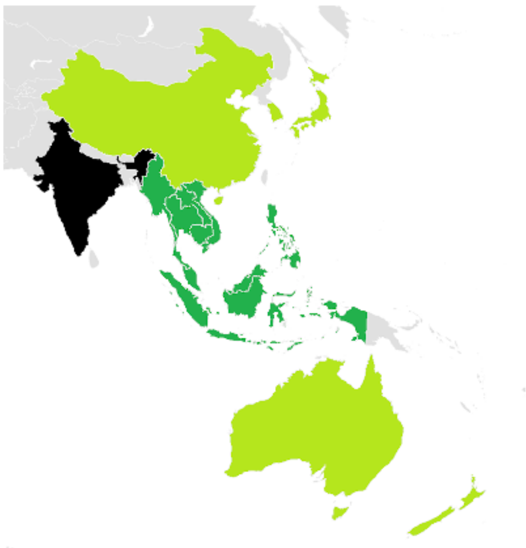
CONTENTS

INTRODUCTION

Background

In November 2020, the 10 member states of ASEAN and five of its regional partners — Australia, China, Japan, New Zealand and South Korea as in Figure 1 — signed the Regional Comprehensive Economic Partnership (RCEP). RCEP is a free trade agreement (FTA) intended to strengthen regional integration in the Asia-Pacific region through liberalisation and cooperation in the trade of goods and services as well as investment and commerce.

Figure 1: The member states of RCEP, covering ASEAN (dark green) and the partner nations (light green). India participated in initial negotiations but withdrew before the signing of the agreement



At its essence, the agreement builds upon, updates and harmonises six existing FTAs in the region involving ASEAN (henceforth the ASEAN+ FTAs) as well as the ASEAN Free Trade Area (see Figure 2).

Representing nearly 30% of global GDP and trade, RCEP is the world's largest trading bloc in economic size (see Figure 3). In part due to its scale and timing, RCEP's signing has been greeted with considerable fanfare among ASEAN leaders. Both former Prime Minister Muhyiddin Yassin of Malaysia[1] and Foreign Minister Vivian Balakrishnan of Singapore,[2] for example, have referred to RCEP as a 'game changer' due to its potential to regionalise supply chains at a time when the COVID-19 pandemic and the ongoing US-China trade war are threatening trade and investment.

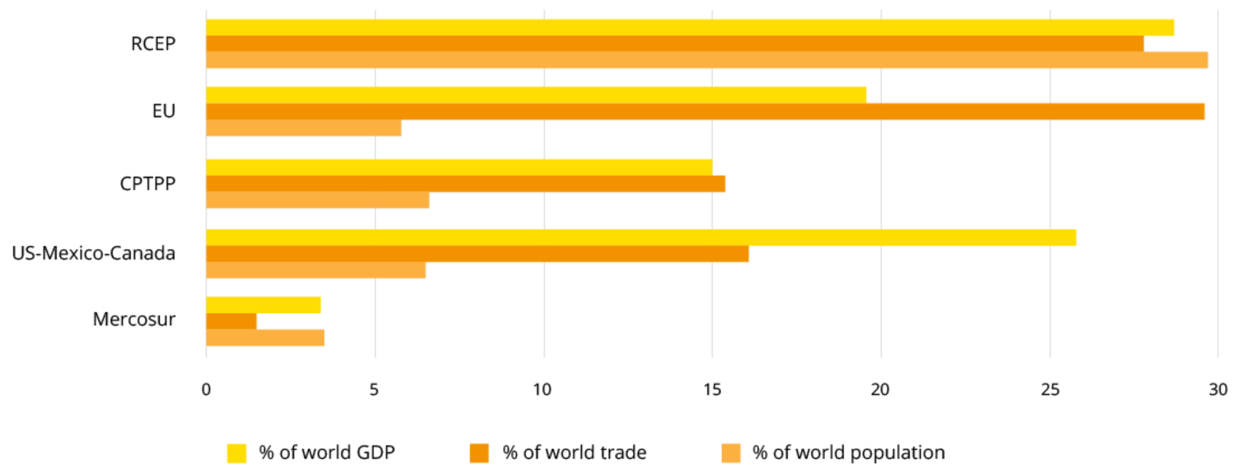
1. BERNAMA (2020)
2. Garekar (2020)

Figure 2: The ecosystem of existing FTAs involving ASEAN and its regional partners

ASEAN Free Trade Area (AFTA)
- Common Effective Preferential Tariff Scheme (CEPT, 1992)
- ASEAN Trade in Goods Agreement (ATIGA, 2010)

ASEAN+ FTAs
- ASEAN-Australia-New Zealand (AANZFTA, 2010)
- ASEAN-China (ACFTA, 2010)
- ASEAN-Hong Kong (AHKFTA, 2019)
- ASEAN-India (AIFTA, 2010)
- ASEAN-Japan (AJCEP, 2008)
- ASEAN-Korea (AKFTA, 2010)

Figure 3: Multilateral trading blocs by share of global GDP, trade and population



Source: World Bank (2021a) and European Parliament (2021)

RCEP came into force on January 1, 2022 for 10 ratifying countries out of the 15 signatories.[3] Malaysia ratified the agreement on January 17, 2022, meaning that RCEP will be active on Malaysian soil from March 18, 2022 onwards.[4] This makes Malaysia the 12th member state to implement RCEP, arriving a little late to the game relative to most of its neighbours.[5]

3. As of February 2022, RCEP is active in the following 11 countries: Australia, Brunei, Cambodia, China, Japan, Laos, New Zealand, Singapore, Thailand and Vietnam (active since Jan 1) as well as South Korea (active since Feb 1).
4. As per RCEP Art. 20.6, the agreement comes into force in a country 60 days after ratification.
5. Until mid-January 2022, Malaysia's path to ratification was a bit of a black box, with constantly shifting goalposts. In October 2021, the Ministry of International Trade and Industry (MITI) announced that ratification would happen 'by year-end' and barely a month later, the Prime Minister's Department said the government was 'hoping' to ratify RCEP by early 2022 instead. It was only on January 9, 2022 that MITI Minister Azmin Ali clarified on Twitter that the government would ratify by the end of the month.

Summary of RCEP's contents

RCEP's legal text consists of 20 chapters across four broad categories. Table 1 below summarises the agreement's contents, including the corresponding chapter number in RCEP, a brief description of the chapter in question and the subsequent section of this paper discussing the chapter in more detail where applicable.

Category	Area	Description and corresponding section of this paper
Trade in goods and services	Trade in goods (Ch. 2)	Covers tariff cuts. See Section I
	Rules of origin (Ch. 3)	Covers rules through which goods manufactured in the region may qualify for preferential access. See Section II
	Trade facilitation (Ch. 4)	Covers bureaucracy reduction in customs. See Section IV
	Non-tariff measures (Ch. 5-7, 13)	Covers provisions to reduce the prevalence of non-tariff measures, e.g. trade-limiting quotas and national standards, in the region. See Section III
	Trade in services (Ch. 8)	Covers liberalisation of services. See Section I, footnote 9
Investment	Investment (Ch. 10)	Covers measures to promote intra-RCEP investment. See Section V
Business environment	Intellectual property (Ch. 11)	Covers measures to bring intellectual property laws in the region up to international standards. See Section VI (i)
	Electronic commerce (Ch. 12)	Covers measures to promote standardised e-commerce legislation. See Section VI, footnote 67
	SMEs (Ch. 14)	Covers the recognition of SMEs. See Section VI (ii)
	Economic and technical cooperation (Ch. 15)	Covers intra-RCEP cooperation in technical assistance and capacity building. See Section VI (iii)
Other areas	General provisions (Ch. 1, 17-20)	Covers definitions, administrative matters and dispute settlement
	Temporary movement of natural persons (Ch. 9)	Covers procedures for the entry of business and related visitors into a country
	Government procurement (Ch. 16)	Covers measures to increase transparency in procurement. See Section VI, footnote 68

Source: Author's tabulations based on Baker McKenzie (2020).

Relevance to Malaysia

The hype surrounding the ratification of RCEP is not without context for Malaysia. As a small open economy, Malaysia has strong linkages to the rest of the world through trade, with the sum of exports and imports representing over 120% of GDP as of 2019.[6] Further, Malaysia trades heavily with the RCEP member states: almost 60% of Malaysian trade takes place within the RCEP region,[7] with 7 of Malaysia's top 10 export partners and 6 of its 10 largest import partners being in RCEP. In terms of the composition of traded goods, the largest product group by trade volume and value in Malaysia is machinery and electrical equipment, which includes the electrical and electric products (E&E) sector. Accounting for over 36% of the country's exports and nearly 54% of imports in 2019,[8] machinery and electrical equipment is characterised by growing regional supply and value chains through the assembly and manufacturing of components in different jurisdictions. Therefore, a trade agreement like RCEP, which links Malaysia to some of its biggest trading partners, could have considerable relevance for determining the national trade and industrial development agenda.

At this point, the question we should ask ourselves is not *whether* Malaysia should not have ratified the agreement, but *to what extent* will RCEP contribute to the country's trade and growth prospects. It has been established that from a theoretical standpoint, an agreement the size of RCEP for a trade-dependent nation like Malaysia could be hugely beneficial. But in practice, does RCEP live up to the hype?

In this paper, the author explains that while RCEP is a step forward in the pursuit of greater regional integration, the agreement is mostly symbolic and consolidatory in nature. Being neither necessary nor sufficient for growth *in isolation*, RCEP on its own does not automatically put Malaysia on the path towards sustained higher growth unless accompanied by changes to domestic economic and industrial policy more broadly. The subsequent sections break down the key chapters of the agreement (previously described in Table 1) to show that RCEP is a small step forward for much needed regional integration but does not in itself constitute a magic bullet for trade and growth.

---

7. UNCTAD (2020)
8. World Integrated Trade Solution (2021). See Appendix A for more information on Malaysia's trade statistics

UNPACKING THE KEY COMPONENTS OF RCEP AND THEIR IMPACT ON MALAYSIA

1. Trade in goods[9]

Trade liberalisation through reductions in tariffs and non-tariff barriers on imported goods is at the crux of most FTAs, and RCEP is no exception. According to the ASEAN Secretariat, RCEP will provide member states with tariff and quota-free access to over 65% of goods traded in the region.[10]

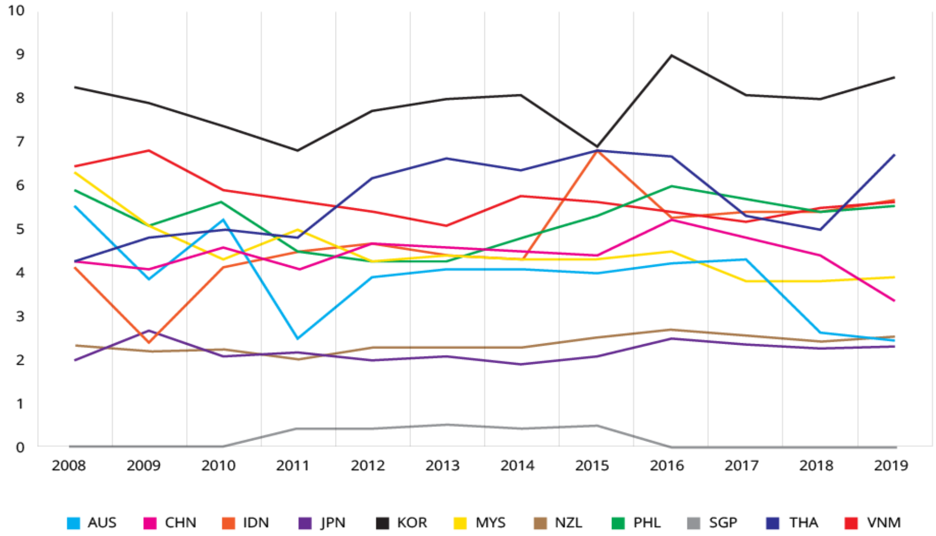
All RCEP countries have prepared tariff schedules (the full list of tariff commitments under RCEP from pre-ratification or year zero until over two decades post-ratification),[11] with most members including Malaysia adopting a common set of tariffs for all other members.[12]

This is meant to improve access to markets in the region and promote trade creation. In theory, strategic tariff cuts are supposed to be welfare enhancing: exporters gain access to a larger regional market and consumer base while domestic consumers and businesses benefit from cheaper imports. Indeed, the Malaysian Ministry of International Trade and Industry (MITI) has listed 'intra-regional sourcing of raw materials at competitive prices' as RCEP's core benefit to Malaysian industry, given the size and interconnectivity of the RCEP region.[13]

In practice, however, it is not clear that RCEP will promote much trade creation because tariffs are already low to begin with. In the context of world trade, as Figure 4 shows, average most favoured nation (MFN)[14] tariffs in the RCEP countries have been fairly low[15] since the 2010s, ranging from 0% in Singapore to 8.5% in South Korea as of 2019. Malaysian trade policy has also been sufficiently open, having overseen a decline in tariffs from 6.3% in 2008 to 3.9% in 2019.

9. RCEP covers trade in services (Chapter 8) separately from trade in goods (Chapter 2). Chapter 8's biggest provision concerns market access (Art. 8.5), which calls for the further liberalisation of services. Despite its potentially non-negligible impact, Malaysia has a lengthy list of reservations to this article, i.e. areas in which this provision does not apply. Exempted sectors include education, healthcare, shipping services, construction, most legal services, retail and cultural services. See Section V of this paper for more information on reservations. Other key provisions, namely national (Art. 8.4) and most-favoured-nation treatment (Art. 8.6), are interchangeable in principle with the overlapping provisions in investment (Chapter 10), which are also discussed in Section V. Finally, Art. 8.10 and 8.14, addressing transparency, are welcome but largely non-binding, similar to the author's comment on RCEP's non-tariff measures in Section III below.
10. ASEAN Secretariat (2020)
11. See Appendix B for a condensed list of Malaysia's tariff schedule by section.
12. Scoles (2020)
13. MITI (2020)
14. An MFN tariff, which can be a theoretical maximum (bound) or applied in a given range, is the tariff rate that a country in the WTO has committed to impose on imports from any other WTO member state (unless they are both part of a preferential trade agreement, in which case they are permitted to cut tariffs below the MFN). See here for more information.
15. The simple average MFN tariff rate in RCEP in 2019 was 4.2%, well below the global average of 7.9%.

Figure 4: Average trade-weighted applied MFN tariff rates of selected RCEP nations, 2008-2019



Source: World Trade Organization (2021). Indicator: "MFN - Trade weighted average duty (Percent)". The remaining RCEP nations are omitted due to missing data. Note that the MFN tariff rates (being the official WTO-sanctioned rate as footnote 14 suggests) shown here are likely to overstate the overall effectively applied tariff rates in practice because the former does not fully take into account preferential tariffs that the countries may have as part of their existing FTAs. Note further that this paper uses 3-digit country codes as defined by ISO.

In the context of intra-RCEP trade, in practical terms, the tariff environment is even more liberal. According to UNCTAD, the average overall effectively applied tariff on intra-RCEP trade is just 1.3%.[16] This can be attributed to the multitude of bilateral and multilateral FTAs that are already in place across the 15 signatories. As Table 2 in the next section illustrates, China, Japan and South Korea are the only countries that did not have an FTA between them before RCEP.

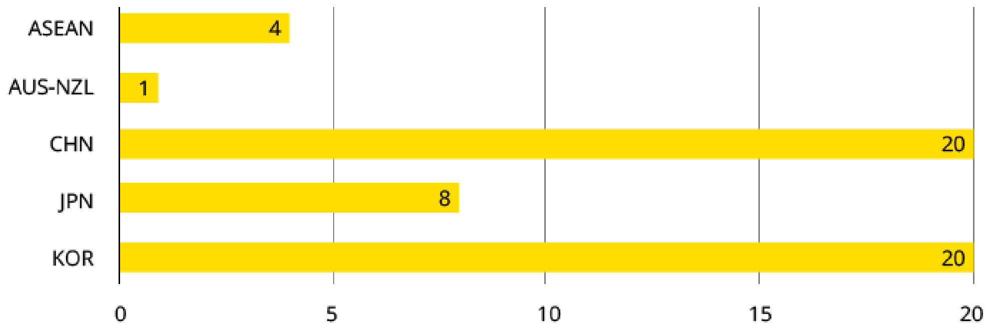
Free trade is even more of a reality for ASEAN, by virtue of its decades-long economic ties under the ACFTA and its regional partnerships under the ASEAN+ FTAs. Over 70% of intra-ASEAN trade takes place without any tariffs[17] while only 0.35% of products in the existing ASEAN Free Trade Area are subject to import duties as of the mid-2010s.[18] More specifically for Malaysia, an examination of the country's RCEP tariff schedule reveals that nearly 65% of its tariff lines (the complete list of tradable products at the national level) are currently tariff-free while less than 19% have a tariff rate exceeding 10%.[19]

Since most regional trade involving ASEAN is already free from a tariff perspective, it should not come as a surprise that the prospects for promoting trade in the association through tariff cuts alone are limited. In fact, UNCTAD analysis at an aggregate level indicates that only 4% of ASEAN's tariff lines are subject to tariff cuts under RCEP (see Figure 5) compared to 20% for China and South Korea respectively.

---

16. UNCTAD (2021a)
17. Sawada (2020)
18. Malaysia National Trade Repository (2015a)
19. Author's calculations based on ASEAN Secretariat (2019a). Excludes missing tariff lines.

Figure 5: Share of products subject to tariff cuts under RCEP by jurisdiction (%)



Source: UNCTAD (2021a)

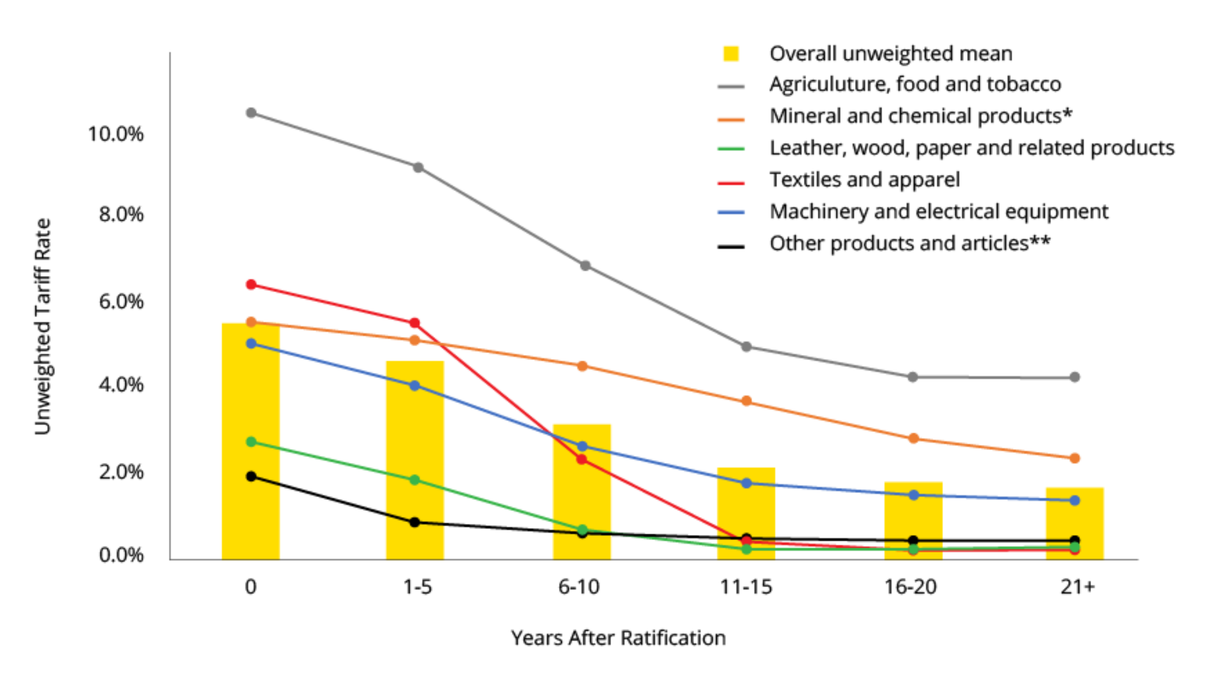
Therefore, for the ASEAN countries as a whole, RCEP simply 'codifies' existing tariff exemptions.[20] To investigate the impact of RCEP-mandated tariff cuts on Malaysia specifically, the author examines the country's tariff schedule in more detail in Box 1 below.

Box 1: This section provides additional information about the limited extent of tariff reductions covering Malaysian imports under RCEP, including calculations of unweighted and weighted tariffs for imports from the RCEP region. Readers who are not interested in the technical details may skip this section.

Figure 6 (along with the extension in Appendix B) illustrates the estimated evolution of unweighted average tariff rates on imports to Malaysia under RCEP across 6 aggregated categories of goods from the base year before ratification (year 0) to year 21 and beyond. The overall unweighted mean currently stands at 5.5%, and assuming timely ratification without any changes to tariff commitments, this is expected to fall to a five-year average of 3.2% in years 6 to 10 and 1.7% from year 21 onwards. Note that the absolute figures given are not weighted for trade volume, thereby overstating the actual applied tariff. In other words, Figure 6 simply provides a rough, preliminary picture of the likely tariff reductions on offer under RCEP. In any case, relatively speaking between year 0 and years 6-10, at this broad level, most categories see their tariffs roughly halve except the groups whose tariff reductions are the steepest ('textiles and apparel', falling by about two-thirds) and flattest ('mineral and chemical products' at one sixth and 'other products and articles' at a third).

20. Kurlantzick (2020)

Figure 6: Five-year averages of Malaysia's tariff commitments (%) under RCEP by category from pre-ratification (year 0) to 21 years and beyond post-ratification, unweighted mean



Source: Author's calculations based on ASEAN Secretariat (2019a). Note: * includes plastics and rubber products, ** covers non-metallic mineral products; pearls, precious metals and related products; base metals and associated articles; precision and other instruments; transport equipment; arms and ammunition; miscellaneous manufactured articles; works of art and special provisions. See Appendix B for a more detailed list of tariff commitments.

To obtain a more accurate picture of the tariff situation in Malaysia under RCEP, the author examines Malaysia's top 50 imported goods by value at the 4-digit product level[21] in Appendix C. These goods account for nearly 62% of all imports, and it is found that currently, about 66% of these goods have a tariff at or below 1% while 12% are subject to tariffs at or exceeding 10%. The low-tariff environment is extended to 80% of the top 50 by year 10 and 84% in year 23+. The author then calculates an overall 'quasi-weighted' tariff as follows:

21. The 4-digit product level refers to a code assigned to every tradable good in a tariff schedule. The number of digits reflects the level of specificity of the product in question. In RCEP's tariff schedules, which are based on the World Customs Organization's Harmonized System of classification, the nomenclature is as follows. The largest category is called 'section', of which there are 21 — these are broad groupings of products. Sections are divided into 'chapters', of which there are 97. Chapters are then divided into 4-digit 'headings', of which there are over 1200, and these are in turn split into 6-digit 'subheadings', of which there are over 5300. For example, section 1 is called "Live animals; animal products". The second chapter in section 1 is called "meat and edible meat offal". The first heading in Chapter 2, with the 4-digit code 0201 (corresponding to Chapter 2, Heading 1) is called "meat of bovine animals, fresh or chilled". The first subheading in this heading is for "carcasses and half-carcasses", with the 6-digit code 0201.10. See here for more information.

1. Key in the import share for each of the 50 goods (assumed to be constant across time),
2. Calculate the simple mean tariff for each good based on the RCEP tariff schedule in years 0, 10 and 23+,
3. Weight the simple mean tariff for each good by its import share,
4. For goods outside the top 50, use the unweighted means calculated in Appendix A.

Based on this methodology, the estimated overall 'quasi-weighted' tariff stands at 3.2% in year 0, falling to 1.5% in year 10 and 0.9% in year 23+. However, even this figure is likely to overestimate the initial tariff burden because it does not sufficiently weight products outside the top 50 due to capacity constraints. Note further that the import share refers to Malaysia's global imports as opposed to imports from the RCEP region alone, the latter of which could not be obtained.

As an exercise to further illustrate the discrepancy between the unweighted and weighted means, this author attempted to weight the tariffs on all products in Category 85 ("Electrical machinery and equipment and parts thereof [...]") in Appendix D. According to trade data from International Trade Centre (2020), the category made up 30.2% of Malaysia's total imports in 2020, making it the largest 2-digit category of goods by import value. In Malaysia's RCEP tariff schedule, Category 85 consists of 48 4-digit sub-categories from 8501 (concerning motors and generators) to 8548 (concerning a subset of batteries), each of which is further subdivided into 6-digit products.

Using the same methodology as in Appendix C, the overall quasi-weighted tariff for Category 85 of 1.2% in Y0, 0.6% in Y10 and 0.4% in Y23+, being significantly lower than the mean unweighted tariff of 5.3% in Y0, 3.0% in Y10 and 2.3% in Y23+ for this category (as well as "machinery and electrical equipment" values in Figure 5 and Appendix B, reflecting a broader grouping).

Due to data and capacity constraints, this exercise could not be repeated for every other category and was done at the 4-digit rather than the 6-digit product level. Therefore, this is clearly an imperfect calculation. Nevertheless, it shows that the actual applied mean tariff is much lower to begin with than Figure 6, Appendix B or even Appendix C alone would imply, reinforcing the notion that the true applied tariff reduction under RCEP is modest.

Put simply, the findings in Box 1 suggest that there is already a low tariff environment in place for the majority of imports, particularly those most demanded by Malaysian importers. Therefore, while it cannot be denied that RCEP does offer some tariff reductions, which could reduce importers' costs (also bearing in mind the benefits to Malaysia's exports that have not been considered), the overall decline in tariffs is far from comprehensive.

2. Rules of origin

Rules of origin (ROO) refer to the criteria concerning the place of origin of a tradable good in order to qualify for tariff cuts or preferential trading arrangements. The RCEP document provides a definition of originating goods (goods having originated in one or more 'Parties' or RCEP member states) as follows:[22]

a. [a good] wholly obtained or produced in a Party;

b. [a good] produced in a Party exclusively from originating materials from one or more of the Parties; or

c. [a good] produced in a Party using non-originating materials, provided the good satisfies the applicable requirements set out in (the) Product-Specific Rules.

The RCEP text also provides standardised guidelines to ascertain proof of origin, which takes the form of a Certificate of Origin (COO) from a recognised body or exporter. To address complications surrounding international production processes, the chapter establishes formulas for the calculation of regional value content (RVC),[23] subtracting the value of non-originating materials from the value of the final good such that an RVC of at least 40% satisfies ROO (see Appendix E). For example, if a South Korean importer decides to import pencils from Malaysia that are made using a combination of originating and non-originating materials, the ROO regulations will provide a clear answer as to whether the good qualifies for tariff cuts depending on the percentage of materials coming from the RCEP region. In this way, all members of RCEP are supposed to be subject to the same set of tariff rules assuming their exports fulfil the criteria for origination.

This chapter has been described as one of RCEP's main achievements, with the ADB regarding ROO as a 'key feature' of the agreement in acting as a 'single rule book'.[24] A KPMG brief adds that the chapter 'harmonises' different ROO arrangements in the area, which will facilitate trade and supply chain management through clarity.[25] On paper, the ROO is intended to cut down on bureaucracy and simplify the process of exporting and importing goods across the region, thereby promoting competitiveness and ease of doing business.

Indeed, the RCEP countries have been subject to dozens of overlapping bilateral and multilateral FTAs, potentially creating a tangled 'noodle bowl' of differing rules and regulations. As Table 2 illustrates, virtually every RCEP member has existing FTAs with every other member state, except Japan-South Korea and China-Japan.

22. RCEP, Art. 3.2
23. An alternative measure within RCEP for qualifying for ROO is a change in tariff classification, in which the processing or manufacturing of imported materials results in a change in the category of the given goods in the tariff schedule. See here for an explanation.
24. Asian Development Bank (2020)
25. KPMG (2020)

Table 2: Membership of RCEP countries in existing FTAs

	AUS	BRN	KHM	CHN	IDN	JPN	LAO	MYS	MMR	NZL	PHL	SGP	KOR	THA	VNM
AUS	■	✓	✓	✓✓	✓✓	✓✓	✓	✓✓	✓	✓✓	✓	✓✓	✓✓	✓✓	✓
BRN	✓	■	ASEAN	✓	ASEAN	✓✓	ASEAN	ASEAN	ASEAN	✓	ASEAN	ASEAN	✓	ASEAN	ASEAN
KHM	✓	ASEAN	■	✓	ASEAN	✓	ASEAN	ASEAN	ASEAN	✓	ASEAN	ASEAN	✓	ASEAN	ASEAN
CHN	✓✓	✓	✓	■	✓	✗	✓	✓	✓	✓✓	✓	✓✓	✓✓	✓✓	✓
IDN	✓✓	ASEAN	ASEAN	✓	■	✓✓	ASEAN	ASEAN	ASEAN	✓	ASEAN	ASEAN	✓	ASEAN	ASEAN
JPN	✓✓	✓✓	✓	✗	✓✓	■	✓	✓✓	✓	✓	✓✓	✓✓	✗	✓✓	✓✓
LAO	✓	ASEAN	ASEAN	✓	ASEAN	✓	■	ASEAN	ASEAN	✓	ASEAN	ASEAN	✓	ASEAN	ASEAN
MYS	✓✓	ASEAN	ASEAN	✓	ASEAN	✓✓	ASEAN	■	ASEAN	✓✓	ASEAN	ASEAN	✓	ASEAN	ASEAN
MMR	✓	ASEAN	ASEAN	✓	ASEAN	✓	ASEAN	ASEAN	■	✓	ASEAN	ASEAN	✓	ASEAN	ASEAN
NZL	✓✓	✓	✓	✓✓	✓	✓	✓	✓✓	✓	■	✓	✓✓	✓✓	✓✓	✓
PHL	✓	ASEAN	ASEAN	✓	ASEAN	✓✓	ASEAN	ASEAN	ASEAN	✓	■	ASEAN	✓	ASEAN	ASEAN
SGP	✓✓	ASEAN	ASEAN	✓✓	ASEAN	✓✓	ASEAN	ASEAN	ASEAN	✓✓	ASEAN	■	✓✓	ASEAN	ASEAN
KOR	✓✓	✓	✓	✓✓	✓	✗	✓	✓	✓	✓✓	✓	✓✓	■	✓	✓✓
THA	✓✓	ASEAN	ASEAN	✓✓	ASEAN	✓✓	ASEAN	ASEAN	ASEAN	✓✓	ASEAN	ASEAN	✓	■	ASEAN
VNM	✓	ASEAN	ASEAN	✓	ASEAN	✓✓	ASEAN	ASEAN	ASEAN	✓	ASEAN	ASEAN	✓✓	ASEAN	■

✓ indicates that the two countries are part of an existing multilateral FTA
✓✓ indicates existing bilateral and multilateral FTAs
ASEAN indicates mutual ASEAN membership
✗ indicates that the two countries do not have an existing FTA

Source: Author's tabulations based on Asia Regional Integration Center (2015)

Though there are 'substantial commonalities' across these FTAs,[26] each FTA invariably comes with its own COO. A COO acts like a passport for an imported good. Prior to RCEP, an exporter would have had to submit different COOs when exporting a particular good to different countries in the region. This was particularly onerous for trade involving any of the regional partners for two reasons. First, China, Japan and South Korea did not have any FTAs between them. Second, under each ASEAN+ FTA, an importer could not treat a good from another regional partner as originating. For example, materials from Australia, Japan, South Korea and New Zealand do not qualify for ROO under ACFTA.[27]

26. For instance, five of the six ASEAN+ FTAs (along with ATIGA) have the same RVC threshold as RCEP, i.e. 40%, the exception being AIFTA at 35%. For information on the other commonalities, see here.
27. To repeat the pencil example given above, if a Malaysian exporter of pencils used raw materials coming from China in its production process, these materials would be considered originating under ACFTA but not under the other FTAs. Using the ASEAN+ FTAs alone, the exporter would have to fill out separate COO forms to export the product to the different partner countries, as ACFTA's RVC calculation would be different to that of AKFTA or any other FTA. This creates a cost for the exporter in terms of adding to the paperwork. In addition, the tariff imposed on a South Korean importer may be higher than what a Chinese importer could be expected to pay if the product satisfies ACFTA's ROO but not AKFTA's. This creates a direct cost for the East Asian importer.

RCEP changes this by offering a platform for streamlining ROO through a standard COO called 'Form RCEP' (see Figure 7). In effect, the common ROO saves time and reduces the paperwork for exporters, which would make it easier to export goods within the region. This could help set the stage for further integration of supply chains in the future.

Figure 7: 'Form RCEP', the common COO issued to exporters under RCEP

1. Goods Consigned from (Exporter's name, address and country)	Certificate No. Form RCEP **REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT** **CERTIFICATE OF ORIGIN** Issued in .... (Country)
2. Goods Consigned to (Importer's/ Consignee's name, address, country)	
3. Producer's name, address and country (if known)	
4. Means of transport and route (if known) Departure Date: Vessel's name/Aircraft flight number, etc.: Port of Discharge:	5. For Official Use Preferential Treatment: ☐ Given ☐ Not Given (Please state reason/s) .... Signature of Authorised Signatory of the Customs Authority of the Importing Country

6. Item number	7. Marks and numbers on packages	8. Number and kind of packages; and description of goods.	9. HS Code of the goods (6 digit-level)	10. Origin Conferring Criterion	11. RCEP Country of Origin	12. Quantity (Gross weight or other measurement), and value (FOB) where RVC is applied	13. Invoice number(s) and date of invoice(s)

14. Remarks	
15. Declaration by the exporter or producer The undersigned hereby declares that the above details and statements are correct and that the goods covered in this Certificate comply with the requirements specified for these goods in the Regional Comprehensive Economic Partnership Agreement. These goods are exported to: .... (importing country) .... Place and date, and signature of authorised signatory	16. Certification On the basis of control carried out, it is hereby certified that the information herein is correct and that the goods described comply with the origin requirements specified in the Regional Comprehensive Economic Partnership Agreement. .... Place and date, signature and seal or stamp of Issuing Body
17. ☐ Back-to-back Certificate of Origin ☐ Third-party invoicing ☐ ISSUED RETROACTIVELY	

Source: Japan Customs (2021)

The strengths of RCEP's ROO have therefore been contextualised in terms of promoting the 'enhanced use' of 'regional distribution hubs' and fostering 'contemporary production and logistics processes'.[28] RCEP deserves some credit for this, as firms can now comfortably manufacture products using raw materials originating anywhere in RCEP and export them throughout the region without violating ROO. In other words, if firms are able to trade and already involved in regional production processes, RCEP's ROO can help cut costs and incentivise further regionalisation.

But MITI has hyped it up even further, stating that RCEP supply chains will be 'integrated'.[29] Following ratification, MITI Minister Azmin Ali tweeted that:

> 'With RCEP, domestic and international business activities are poised for robust revitalisation as the enhancement of international trade and inter-linkages of regional supply chains will be an impetus for sustainable economic growth.'[30]

It is important to note that while RCEP pushes the agenda for such 'revitalisation' forward, it will not happen automatically or instantaneously. Streamlined rules are only a small part of the trade picture:[31] the hoped-for integration of regional value chains is also strongly dependent on the existence of adequate hard and soft infrastructure, sufficient economies of scale, agglomeration effects and export-oriented domestic industrial policy, which the agreement alone cannot capture and ensure.

Instead, beyond the immediate reduction of bureaucracy, the benefits of a unified ROO in terms of strengthening integration will likely accrue over time. The work does not end with ratification: trade is a dynamic, evolving system. RCEP's ROO acts as a starting point towards greater regionalisation, with states then needing to take the initiative to promote regional cooperation and empower local firms to participate in trade. Provided countries *actively* and *strategically* use the ROO as an opportunity to innovate and cooperate in the intra-RCEP trading sphere, the benefits of having a single harmonised ROO could accelerate over time. There is potential for a virtuous circle of trade creation aided by ROO, which can in turn facilitate more intra-RCEP trade and regionalisation of supply chains. But all of this takes time and requires concerted effort on the part of the member states.

---

28. Asian Development Bank (2020)
29. MITI (2020)
30. Mohamed Azmin Ali (2022)
31. Empirically, for example, an ADB survey involving over 200 exporting and importing firms in ASEAN in the mid-2010s found that only 20% of the sample had considered multiple ROO to be onerous in terms of adding to business costs, suggesting there are other factors at play.

3. Non-tariff measures

Non-tariff measures (NTMs) are policies apart from tariffs that, when taking the form of non-tariff barriers, reduce trade, typically by raising the cost of importing goods in one way or another, including:[32]

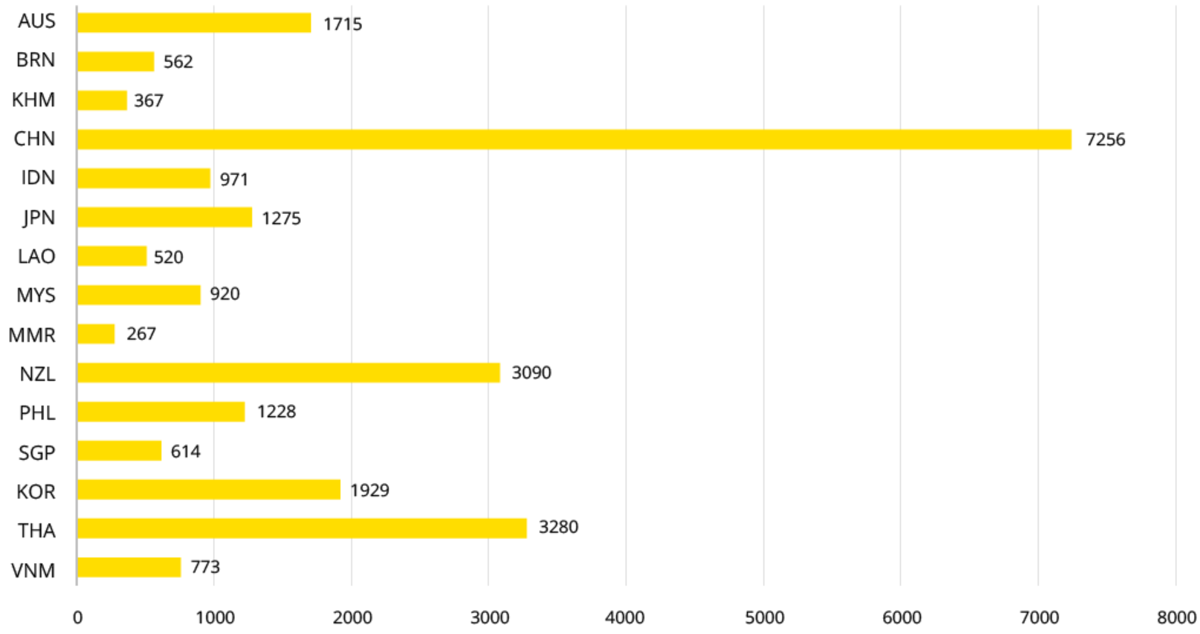
Type of NTM	Description
Contingent trade-protective measures	Antidumping, countervailing and safeguard measures to address the market effects of imports in the importing country, i.e. to reduce 'unfair' practices
Export-related measures	Export subsidies or related privileges as well as quotas and restrictions on exports to protect domestic supply
Pre-shipment inspection	Use of a third-party company to verify the details of shipment arriving from abroad to ensure customs regulations are met
Price control measures	Non-tariff charges that increase import costs, including taxes or levies
Quantity control measures	Quotas or licensing requirements that limit the volume of imports
Sanitary and phytosanitary (SPS) measures	Restrictions on imported agricultural products to protect national health and safety interests
Technical barriers to trade (TBT)	National regulations, standards, certification and testing procedures on imported products, particularly manufacturing goods

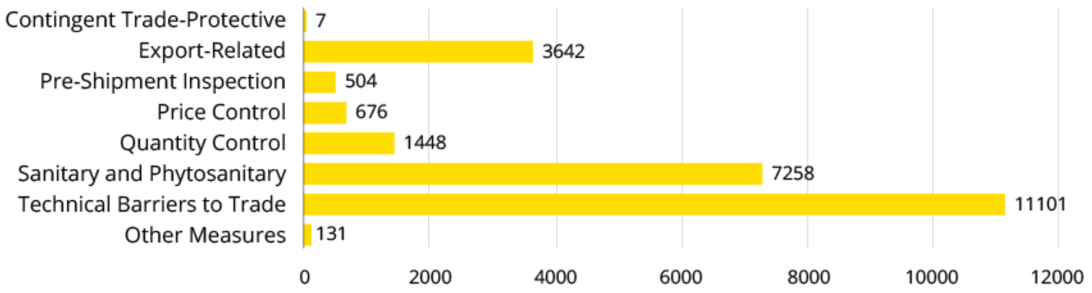
Unlike the fairly liberal tariff environment in place across most parties, especially in ASEAN, NTMs remain a notable barrier to regional trade. As it currently stands, the RCEP countries continue to make extensive use of NTMs, with the ASEAN Secretariat highlighting NTM harmonisation as 'ongoing work'.[33] In fact, the number of NTMs in the region has increased since the mid-2010s.[34] Within ASEAN, the reduction of NTMs has been cited by businesses as one of the top three priority areas for improvement to improve economic integration.[35]

As Figure 8(a) shows, there are over 24,700 operational NTMs that have been identified across RCEP in 2021, with China alone accounting for nearly 30% of these. Figure 8(b) meanwhile indicates that the lion's share at about 74% of the region's NTMs take the form of SPS and TBT measures. It would therefore appear that the existing FTAs – despite including provisions on NTMs – have not made much progress in terms of tackling NTMs in the same way that they have helped cut tariffs.

32. Malaysia National Trade Repository (2015b)
33. ASEAN Secretariat (2021)
34. ASEAN Secretariat (2019b)
35. ASEAN Secretariat (2021)

Figures 8(a) and (b): RCEP countries by number of non-tariff measures in place, 2021 (top) and prevalence of non-tariff measures in RCEP by type of measure, 2021 (bottom)





Source: UNCTAD (2021b)

RCEP addresses NTMs indirectly in Chapters 5 (SPS Measures), 6 (Standards, Technical Regulations and Conformity Assessment Procedures), 7B (Trade Remedies) and 13 (Competition).[36] For the most part, these chapters affirm and uphold existing World Trade Organization (WTO) agreements (and/or applicable ASEAN+ FTAs)[37] to which the RCEP member states are already party.

36. This section covers Chapters 5 and 6 only because these are the biggest NTMs used in the region.
37. In addition to the specific provisions listed below, member states' commitment to honour relevant WTO agreements is highlighted in Art. 18 of AJCEP and Art. 8 of AKFTA (Agreement on Trade in Goods under the Framework Agreement).

Chapter 5, for instance, rehashes the WTO SPS Agreement[38] in terms of meeting international standards for SPS equivalence, regional adaptation, risk analysis and transparency as well as having similar commitments to cooperation and consultation as AANZFTA[39] while ACFTA has incorporated risk analysis, transparency and cooperation in its provisions among others.[40] To be sure, one area in which RCEP adds value in this chapter is the explicit reference to an importing country's right to carry out audits to determine the exporting country's ability and capacity to meet the former's SPS measures, which may include halal regulations. This sub-article could further promote transparency in the application of SPS measures, as there is scope for information exchange between trading partners before the audit and for the exporting country to comment on the importing country's audit findings.[41] However, this is a niche application of SPS. It is not clear to what extent this will be carried out in practice — being contingent on countries' willingness to comply and the overall mechanism for monitoring, compliance and cooperation.

Chapter 6 meanwhile incorporates the WTO Technical Barriers to Trade (TBT) Agreement,[42] calling for adherence to the relevant standards, technical regulations, conformity assessment procedures and transparency therein. Similar to Chapter 5, references to cooperation echo corresponding provisions in AANZFTA.[43] The considerable overlap with existing agreements notwithstanding, the Asian Development Bank states in a brief that this chapter could minimise regulatory trade barriers by improving access to 'information on exporting requirements', decreasing 'transaction costs' and promoting conflict resolution.[44] Once again, however, this is not automatic, requiring effective compliance procedures on the part of the member states.

Admittedly, NTMs are difficult to eliminate because (i) these measures are not easily quantifiable unlike tariffs, (ii) member states can loosely apply NTMs, especially the prevalent SPS and TBT, as protectionist policy in the name of national health and safety[45] and (iii) the burden of proof is on the exporting country to provide evidence that their exports have been subjected to unfair NTMs within the WTO ecosystem.[46]

The challenges associated with reducing NTMs are particularly acute for ASEAN. Time and again, the failure of member states to lower their NTMs in tandem with tariff cuts has been brought up in report after report. As early as 2013, a joint publication by the Institute for Southeast Asian Studies and the Asian Development Bank highlighted that 'noncompliance' with official NTM commitments was a major stumbling block to integration.[47] More recently in 2021, an EU-

---

38. Compare RCEP, Art. 5.5-5.7 and 5.12 with SPS Agreement, Art. 4-6 and Annex B.
39. Compare RCEP, Art. 5.13-5.14 with AANZFTA, Chapter 5, Art. 8-9.
40. See Chapter 2 of the Protocol to Incorporate Technical Barriers of Trade and Sanitary and Phytosanitary Measures, ACFTA here.
41. RCEP, Art. 5.8 (2-4)
42. Compare RCEP, Art. 6.5-6.8 and 6.11 with TBT Agreement, Art. 2, 4 and 5.
43. Compare RCEP, Art. 6.10 with AANZFTA, Chapter 6, Art. 8.
44. Asian Development Bank (2020)
45. For example, a 2008 study by the International Centre for Trade and Sustainable Development estimated that for a sample of tropical and diversification exports to Australia, the following ASEAN countries were affected by Australian SPS and TBT: Cambodia (100% of exports), Malaysia (99.98%), the Philippines (99.99%), Thailand (99.4%) and Vietnam (96.91%), indicating that Australia used these measures as a form of protectionism.
46. World Trade Organization (c. 2017)
47. Austria (2013)

ASEAN Business Council survey of over 600 respondents in ASEAN found that 86% of businesses perceived the region's volume of NTMs to have either stayed the same or increased, a similar finding to previous years.[48] Even the ASEAN Secretariat itself has admitted that transparency and compliance need to be strengthened to address the issue.[49]

RCEP makes the need for transparency clear across all chapters on NTMs. Further, as with the case of ROO, it cannot be denied that the agreement helps streamline efforts in the region. But unless compliance is made a priority, RCEP's provisions alone would not go significantly further than the existing agreements in terms of changing the status quo.

4. Trade facilitation

RCEP supplements ROO and NTMs with considerations of customs and trade facilitation in a separate chapter, with the most significant provisions being as follows:[50]

Type of NTM	Description
Customs procedure	Countries' commitment to ensuring the completion of customs clearance: i. within 48 hours of the arrival of standard goods, and ii. within 6 hours for perishable goods and express consignments.
Trade facilitation	Countries' commitment to introducing at least three of the following measures: iii. low documentary and data requirements, iv. low rate of physical inspections and examinations, v. rapid release time, vi. deferred payment of duties, taxes and other fees, vii. use of comprehensive or reduced guarantees, viii. a single customs declaration for all imports or exports in a given period, and ix. goods clearance at the premises of the authorised operator or another place authorised by a customs authority.

As far as the release of goods is concerned, the World Bank's Ease of Doing Business 2020 report has determined that the average duration of customs and border clearance in Malaysia is 28 hours for exports and 36 hours for imports.[51] Thus, the provision on standard goods in RCEP is not ambitious enough: Malaysia already exceeds the recommended benchmark. As for express consignments, there is no data available on the country's current performance in this area.

48. EU-ASEAN Business Council (2021)
49. ASEAN Secretariat (2021)
50. RCEP, Art. 4.11 (2 and 6a) and 4.15 (1d) for customs procedure and Art. 4.13 (3a-g) for trade facilitation
51. World Bank (2020)

In the context of trade facilitation, within ASEAN several programmes and initiatives to facilitate trade have already been launched, including:[52]

Initiative	Description
ASEAN Self-Certification Scheme	Enables qualified exporters to self-certify the origin of their goods (related to ROO and point (iii) above)
ASEAN Trade Repository	Provides a database of information on all trade, tariff and customs-related matters in ASEAN (related to point (iii) above)
ASEAN Single Window	Enables the electronic exchange of customs documents and certificates between ASEAN member states (related to points (iii) and (vi) above)
ASEAN Solutions for Investments, Services and Trade	Provides a platform to address trade-related problems (related to all points above)
ASEAN Customs Transit System	Ensures that operators transporting goods across multiple borders go through just one customs formality (related to (iv) and (vii))

Therefore, trade facilitation – at least in ASEAN – is not a novel idea. On paper at least, ASEAN has provided multiple platforms to simplify cross-border trade. In other words, RCEP's trade facilitation guidelines are not revolutionary, and it would make sense to leverage and operationalise these ASEAN-based initiatives first. For Malaysia in particular, the country should set more ambitious goals for itself beyond what RCEP intends to achieve across the board at a lower standard. For the partner countries meanwhile, RCEP's trade facilitation measures could be a small step towards creating a friendlier trading environment, but as it stands, the previously highlighted NTMs act as a bigger trade barrier in the region.

52. MITI (2015)

5. Investment

Trade does not take place in isolation without investment, particularly foreign direct investment (FDI) by multinational corporations (MNCs). Accordingly, the agreement has a chapter dedicated to measures intended to promote intra-RCEP investment, including the following key provisions:[53]

Provision	Description
National Treatment	'Each Party shall accord to investors of another Party, and to covered investments, treatment no less favourable than that it accords, in like circumstances, to its own investors and their investments with respect to the [...] disposition of investments in its territory'
Most-Favoured-Nation Treatment	'Each Party shall accord to investors of another Party [and covered investments] treatment no less favourable than that it accords, in like circumstances, to investors of any other Party or non-Party with respect to the [...] disposition of investments in its territory'
Prohibition of Performance Requirements	No Party shall impose or enforce, as a condition for [...] disposition of an investment in its territory of an investor of any other Party, any of the following requirements: to export a given level or percentage of goods; to achieve a given level or percentage of domestic content; to purchase, use, or accord a preference to goods produced in its territory, or to purchase goods from persons in its territory; [...] to transfer a particular technology, a production process, or other proprietary knowledge to a person in its territory [...]

The first two provisions indicate that, unless otherwise stated, parties in similar circumstances have to offer the same treatment and privileges to foreign investors as they would to local investors.[54] These are largely in line with AANZFTA,[55] ACFTA,[56] AJCEP,[57] AKFTA[58] and the WTO's Agreement on Trade-Related Investment Measures.

As for the third provision, countries cannot impose certain performance requirements (PRs) on foreign investors unless otherwise stated. According to UNCTAD, a PR is defined as a *'stipulation, imposed on investors, requiring them to meet certain specified goals with respect to their operations in the host country.'*[59] Therefore, what the RCEP provision means is that the host country cannot force investors from other RCEP parties to engage in production or investment activities that give the former an advantage outside of market conditions. As stated above, RCEP bans a range

53. RCEP, Art. 10.3(1), 10.4(1) and 10.6(1) respectively. Some conditions under 'Prohibition of Performance Requirements' have been omitted for brevity.
54. Art. 8.4 and 8.6 concerning trade in services address the same sort of treatment with respect to 'services and service suppliers'.
55. AANZFTA, Chapter 11, Art. 4
56. ACFTA (Agreement on Investment of the Framework Agreement), Art. 4 and 5
57. AJCEP (First Protocol to Amend the Agreement) , Art. 51.3
58. AKFTA (Agreement on Investment under the Framework Agreement), Art. 3 and 4
59. UNCTAD (2003)

of PRs, including requirements that foreign investors export a given share of goods and that they use domestic content in their production.

The WTO (and by extension the ASEAN+ FTAs affirming WTO rules) already prohibits most of these PRs, but there is flexibility within the international trading system to implement other PRs if they fulfil public welfare demands.[60] In RCEP meanwhile, this flexibility is provided to parties through a negotiated schedule of reservations, i.e. explicit exceptions to the agreement's provisions in specific sectors across both investment and trade in services.

In addition, the chapter has articles calling for the promotion and facilitation of investment, including encouraging parties to simplify investment procedures and creating a suitable environment for investment. However, these are voluntary and vague in nature.

The World Bank has praised RCEP for creating the potential to 'attract investments that spur innovation and technological upgrading'.[61] But for Malaysia in particular, the investment chapter is incomplete in isolation and not a game changer in its own right. For one, some of the PRs that RCEP prohibits, such as compulsory technology transfer, have never been part of Malaysia's FDI policy toolbox. Further, the country has a lengthy list of reservations to which parts of the chapter – including foreign equity ownership and other PRs – do not apply. This schedule includes areas such as fisheries, legal services, batik manufacturing and petroleum refining among others as well as affirmative action more generally.[62] Therefore, the chapter does not significantly alter the status quo as far as PRs are concerned.

It is worth noting at this point that FDI is not an end in itself but a means to facilitate economic diversification and industrial deepening, which in turn serve as crucial ingredients for sustainable growth and human development. With this in mind, Malaysia needs to focus on attracting mutually beneficial, high-quality FDI that nurtures the growth of innovative domestic firms and decent employment.

Being beyond the scope of RCEP, such efforts need to come from within. There must be a concerted effort to ensure that national policy fully reaps the spillovers from MNCs and FDI to domestic firms and capacity. Such spillovers include technology transfer from MNCs to local firms and linkages between MNCs and local firms along the value chain.[63] The ultimate aim of FDI should be to engage in learning-by-doing and R&D to equip local industrial players with the necessary skills to compete internationally through trade. It is no longer enough to be content with attracting FDI just for the sake of increasing net FDI inflows.

In this regard, the country currently lacks strategic policy on how to encourage joint ventures and collaboration between MNCs and local companies to help the latter integrate into MNCs' global supply chains. There is little coordination between key public stakeholders, such as MITI,

---

60. Thrasher and Gallagher (2008)
61. World Bank (2021b)
62. RCEP, Annex 3 - Malaysia
63. Yusuf and Nabeshima (2009)

MIDA, MoF and EPU, to establish clear guidelines for the promotion of domestic start-ups to serve, complement and eventually even compete with established MNCs. Put simply, domestic companies do not get support to better integrate into the global supply chain of MNCs present in Malaysia, meaning there is inadequate transfer of technology, knowledge and know-how from MNCs to local businesses.

As a consequence, highly productive activities, such as the homegrown design of chips and integrated circuits in Penang, take place without enough government inputs or assistance. Though some former local employees of MNCs have managed to start their own firms, such as Globetronics and Pentamaster,[64] we would be seeing a lot more success stories if Malaysia had a strategic and coordinated industrial and innovation strategy. Indeed, ADB data suggest that the benefit of FTAs for Malaysia-based E&E manufacturers in particular is not likely to be high.[65] This is because they already enjoy fairly low regulatory and customs barriers, reinforcing the need to strengthen domestic policy instead.[66]

Ratifying RCEP and expecting an instant transformation of the investment ecosystem without addressing these crucial policy issues would be akin to planting seeds in concrete.

6. Other areas

RCEP also covers a number of smaller areas including e-commerce[67] and government procurement.[68] However, the agreement does not address socioeconomic matters, with no provisions on fair labour standards or environmental preservation unlike the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. With five Malaysian firms having been banned from exporting to the United States at some point since 2020 due to the suspected use of forced labour,[69] this omission was a missed opportunity to bring labour rights violations in the region to the fore.

The rest of this section discusses three additional chapters that are of interest, namely intellectual property, small and medium enterprises (SMEs) and cooperation.

---

64. Ibid
65. Arudchelvan and Wignaraja (2015)
66. As highlighted in a BCG publication, FTA-induced trade access is part of a package of supply-side policies that are useful in initial stages where industrial 'competitiveness' and 'maturity' are low. But at higher levels of development, where the focus is on strengthening value addition and the growth of industrial clusters, policymakers should focus more on 'localisation' policies, i.e. state incentives in line with FDI demands.
67. A number of RCEP's provisions in this chapter, such as the promotion of cooperation (Art. 12.4), paperless trading (Art. 12.5), online consumer protection (Art. 12.7) and transparency (Art. 12.12), are already addressed in AANZFTA (Chapter 10, Art. 3-9). Another provision, keeping e-commerce transmissions duty-free (Art. 12.11), reaffirms a WTO decision. However, there are some areas in which RCEP goes beyond AANZFTA to promote digital trade, including the acceptance of electronic signatures (Art 12.6(1)) and free cross-border electronic information transfer for business purposes (Art 12.15), albeit subject to countries' public policy and security objectives. See here for more information.
68. Government procurement is a new area relative to the ASEAN+ FTAs. However, RCEP's provisions in this chapter are still elementary, covering public access to related legislation (Art. 16.4) and the promotion of cooperation in information exchange (Art. 16.5). See Baker McKenzie (2020).
69. Ananthalakshmi (2021)

(i) Intellectual property

RCEP's intellectual property (IP) chapter calls for greater IP protection than set out in the existing ASEAN+ FTAs, with several binding provisions including countries' mandatory accession to 7 international IP treaties and the compulsory establishment of a national online database of trademark applications.[70] Though RCEP deepens countries' commitments to IP rights relative to AANZFTA and ASEAN, this chapter is more relevant to the less developed countries in ASEAN whose IP legislations do not yet align with international standards. As for Malaysia, according to a booklet by the Singapore Ministry of Trade and Industry, current Malaysian IP laws are 'generally sufficient to meet updated RCEP standards',[71] alongside those of Singapore and the 5 regional partners.[72]

(ii) SMEs

The most original chapter relative to the current ecosystem is the one on SMEs as it is not discussed in the ASEAN+ FTAs. Through this chapter, RCEP aims to ensure that parties:

> '[...] recognise that [SMEs] [...] contribute significantly to economic growth, employment, and innovation, and therefore seek to promote information sharing and cooperation in increasing the ability of [SMEs] to utilise and benefit from the opportunities created by [RCEP].'[73]

It is a step forward that RCEP recognises the gains from promoting the participation of SMEs in regional value chains, which take the form of a larger target market, higher demand and potential productivity growth through specialisation, cooperation and integration with similar suppliers in partner countries. This is particularly relevant for Malaysia, where 97% of all businesses are SMEs but only 19% of them export due to the prohibitive costs and economies of scale needed to trade.[74] But at the same time, as of the early 2010s, Malaysia has the most active global value chain trade in Southeast Asia and the 4th largest in Asia, particularly in electronics.[75] Therefore, SME growth in the region represents considerable untapped potential.

Once again, it would be naïve to assume that RCEP would automatically or quickly lead to the creation of stronger supply chains from which SMEs could benefit due to trade facilitation. It is more useful to think of the RCEP text as a starting point and merely an acknowledgement of the role of SMEs for two reasons.

First, information sharing and fostering cooperation are welcome but generally described in vague terms. The only concrete measures that RCEP highlights in this chapter are the 'establishment and maintenance of a publicly accessible information platform' and the

---

70. RCEP, Art. 11.9 and 11.22(2)
71. Indeed, Malaysia is already party to 6 of the 7 international IP treaties that RCEP countries are required to ratify and will ratify the 7th by 2027 according to RCEP, Annex 11A.
72. Ministry of Trade and Industry, Singapore (2021)
73. RCEP, Art. 14.1
74. Arudchelvan and Wignaraja (2015)
75. Ibid

designation of 'one or more contact points' within 30 days of the agreement's date of activation in a country.[76] The exact mechanisms underlying these provisions are unclear.

Second, even with information sharing and cooperation in place, the agreement is insufficient in isolation as there are critical problems inhibiting SME growth, including the inability to access credit, limited skills and low adoption of digitalisation, which need to be addressed at a domestic level.[77]

Domestically as well, from a policy standpoint, the need to align trade and industrial policy is paramount. The government would need to strategically target sectors and SMEs for value addition moving forward. In this regard, MITI must come up with a more comprehensive plan to integrate Malaysia's SMEs into the global trading system so that they can benefit more directly from an FTA like RCEP.

(iii) Cooperation

The ASEAN Secretariat markets RCEP as a 'mutually beneficial' agreement, with an entire chapter on the scope for economic and technical cooperation in trade in goods and services, investment, e-commerce, competition and other areas.[78] However, these are voluntary by virtue of their generic nature, putting the onus on the more developed partner countries to provide help. In any case, it focuses more on helping the least developed countries in RCEP that require substantial capacity building: an upper-middle income country like Malaysia would not benefit much from this sort of assistance, even if it is forthcoming. Instead, what is needed is the flexibility and freedom, as well as the will, to tie trade policy with domestic industrial policy to empower local manufacturers as previously emphasised.

---

76. RCEP, Art. 14.2 and 14.4
77. Ahmad Tajudin (2016)
78. RCEP, Art. 15.3(2)

CONCLUSION AND POLICY RECOMMENDATIONS

All in all, it is more useful to think of RCEP as the first step in the path towards more transparent and integrated trade in Asia-Pacific rather than a game changer in its own right. It functions primarily as a harmonising document that reiterates provisions already in place in ASEAN's relationship with its regional partners. Ultimately the biggest opportunity for hard trade creation will happen not in ASEAN but in China, Japan and South Korea as this is the first trade agreement that brings them together.

For the most part, RCEP addresses the *outputs* in the trading process, such as making cross-border trade more transparent and clear as well as simplifying ROO. Undoubtedly there is some benefit in encouraging parties to simplify trading processes, though RCEP positions itself more as a non-binding prototypical blueprint rather than an actionable plan in this regard. In any case, more work could be done to address the *inputs* into trade. Trade policy in this region should move beyond mere tariff cuts and into more contentious areas such as the prevalence of NTMs. As a start, RCEP tries to reiterate the importance of adhering to WTO rules on NTMs, but a more nuanced and regionally oriented strategy would go further in bridging the gap between member states in future.

Other key inputs into trade, such as the role of domestic industrial policy in promoting export-oriented manufacturing, skills development and productivity, are mostly left untouched. Relevantly, some of the praise that RCEP has received mistakenly assumes a direct linear path from ratification to realisation, failing to account for the other key variables affecting trade and industrial development, such as the institutional and macroeconomic environment, infrastructure and political stability. Thus, the agreement in isolation cannot be seen as an automatic mechanism to promote growth, let alone trade.

Where Malaysia is concerned, RCEP ratification is useful *from the perspective of opportunity cost*. The prospects for trade creation through participation are not extraordinary, but non-participation would create the threat of exclusion, particularly given that most neighbouring countries have already gone ahead and ratified the agreement. RCEP ratification sends a signal of interest in regional integration, which could be pursued further in future. At the end of the day, however, it is important to bear in mind that ratification alone will not lead to significantly improved developmental outcomes unless industrial policy keeps pace so that Malaysia can better benefit from the promise of regionalised value chains.

Moving forward, ratification is insufficient to maximise the purported gains from the agreement, unless it is accompanied by a focus on enhancing Malaysia's trading and industrial capacities. For one, there needs to be a more concerted effort to reduce bureaucracy in the clearance of exports and imports, especially at seaports. The country should also upgrade its customs clearing software, including addressing the delays surrounding the rollout of uCustoms as a one-stop system to speed up and simplify customs declaration in line with the ASEAN Single Window and RCEP's trade facilitation more broadly.

Finally, and most importantly, Malaysia's trade and industrial policy framework needs to be proactive in promoting strategic sectors and initiatives, such as Industry 4.0, in a cohesive and structured manner. There must be a concerted effort to move up the value chain, especially in terms of skills acquisition and R&D in key sectors, such as the electrical and electronic products industry. With countries like Vietnam and Indonesia catching up and enjoying a comparative advantage in labour-intensive production, Malaysia needs to establish itself in more complex export-oriented industries. In other words, the days of relying on low value-added, labour-intensive component assembly are behind us.

Sticking to the status quo and hoping that RCEP ratification would immediately improve growth and trade prospects is wishful thinking. It is only through clear decision making and the political will to promote broad-based value addition and capacity building that Malaysia can turn this small step into a giant leap in order to build back better.

REFERENCES

Ahmad Tajudin, A., 2016. "TPPA and RCEP: How will they benefit Malaysia?" Kuala Lumpur: *Astro Awani*. Available at: https://www.astroawani.com/berita-malaysia/tppa-and-rcep-how-will-they-benefit-malaysia-108012

Ananthalakshmi, A. 2021. "US bans imports from fifth Malaysian firm in 15 months over alleged forced labour". Kuala Lumpur: *The Edge Markets*. Available at: https://www.theedgemarkets.com/article/us-bans-imports-fifth-malaysian-firm-15-months-over-alleged-forced-labour

Arudchelvan, M., and Wignaraja, G., 2015. "SME Internationalization through Global Value Chains and Free Trade Agreements: Malaysian Evidence." Tokyo: *Asian Development Bank Institute*. Available at: https://www.adb.org/sites/default/files/publication/156370/adbi-wp515.pdf

ASEAN Secretariat, 2019a. Malaysia – *Schedule of Tariff Commitments*. Available at: https://rcepsec.org/wp-content/uploads/2020/11/Malaysia-Schedule-of-Tariff-Commitments.zip

ASEAN Secretariat, 2019b. *ASEAN Integration Report 2019*. Available at: https://asean.org/wp-content/uploads/2019/11/ASEAN-integration-report-2019.pdf

ASEAN Secretariat, 2020. *ASEAN hits historic milestone with signing of RCEP*. Available at: https://asean.org/asean-hits-historic-milestone-signing-rcep/

ASEAN Secretariat, 2021. *Mid-Term Review: ASEAN Economic Community Blueprint 2025*. Available at: https://asean.org/storage/2021/04/mid-term-review-report.pdf

Asian Development Bank, 2020. *Regional Comprehensive Economic Partnership: Overview and Impact*. Available at: https://www.adb.org/sites/default/files/publication/664096/adb-brief-164-regional-comprehensive-economic-partnership.pdf

Asia Regional Integration Center, 2015. *Free Trade Agreements*. Available at: https://aric.adb.org/fta-country

Austria, M. S., 2013. 'Non-Tariff Barriers: A Challenge to Achieving the ASEAN Economic Community' in Basu Das, S., Menon, J., Severino, R., and Lal Shrestha, O. (eds.) *The Asean Economic Community: A Work in Progress*. Singapore: Institute of Southeast Asian Studies, pp. 31-94.

Baker McKenzie, 2020. U*nderstanding the Regional Comprehensive Economic Partnership Agreement (RCEP)*. Available at https://www.bakermckenzie.com/-/media/files/insight/publications/2020/12/bakermckenzie_understandingrcep_dec2020.pdf?la=en

BERNAMA, 2020. "Malaysia welcomes RCEP signing, a game changer to investment flow — PM Muhyiddin". Kuala Lumpur: *BERNAMA*. Available at: https://www.pmo.gov.my/2020/11/malaysia-welcomes-rcep-signing-a-game-changer-to-investment-flow-pm-muhyiddin/

EU-Asean Business Council, 2021. *2020 EU-ASEAN Business Sentiment Survey*. Available at: https://www.eu-asean.eu/business-sentiment-survey?pgid=jt42xwmi-80d4ab6a-adab-48b6-b5cd-4c85e1d0b122

European Parliament, 2021. *Short overview of the Regional Comprehensive Economic Partnership (RCEP)*. Available at: https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/653625/EXPO_BRI(2021)653625_EN.pdf

Garekar, B., 2020. "RCEP will be game changer, says Vivian Balakrishnan, urging India to join the mega trade deal". Singapore: *The Straits Times*. Available at: https://www.straitstimes.com/singapore/rcep-will-be-a-gamechanger-says-vivian-balakrishnan-urging-india-to-join-the-mega-trade

International Trade Centre, 2020. *Trade Map: List of products imported by Malaysia*. Available at: https://www.trademap.org/Product_SelCountry_TS.aspx?nvpm=1%7c458%7c%7c%7c%7cTOTAL%7c%7c%7c4%7c1%7c1%7c1%7c2%7c1%7c1%7c1%7c1%7c1

Japan Customs, 2021. *Regional Comprehensive Economic Partnership Agreement: Certificate of Origin* [image]. Available at: https://www.customs.go.jp/roo/information/rcep/rcep_syoumeisyoyoushiki.pdf

KPMG, 2020. *Signing of Regional Comprehensive Economic Partnership: Impacts for the Asia Pacific region*. Available at: https://assets.kpmg/content/dam/kpmg/my/pdf/rcep-signing-asia-pacific-impacts-november-2020.pdf

Kurlantzick, J., 2020. "The RCEP Signing and Its Implications". New York: *Council on Foreign Relations*. Available at: https://www.cfr.org/blog/rcep-signing-and-its-implications

Malaysia National Trade Repository, 2015a. *Preferential Tariff*. Available at: http://mytraderepository.customs.gov.my/en/mfn/Pages/pt.aspx

Malaysia National Trade Repository, 2015b. *Non-Tariff Measures*. Available at: http://mytraderepository.customs.gov.my/en/ntm/Pages/ntm.aspx

Ministry of International Trade and Industry, Malaysia (MITI), 2015. *Malaysia's Free Trade Agreements – ASEAN Free Trade Area (AFTA): Trade Facilitation in ASEAN*. Available at: https://fta.miti.gov.my/index.php/pages/view/6?mid=50

MITI, 2020. *Malaysia's Free Trade Agreements – RCEP: Benefits to Malaysia*. Available at: https://fta.miti.gov.my/index.php/pages/view/rcep?mid=39

Ministry of Trade and Industry, Singapore, 2021. *Understanding the RCEP Intellectual Property Chapter: Benefits for Businesses*. Available at: https://www.mti.gov.sg/-/media/MTI/Microsites/RCEP/IP-Booklet.pdf

Mohamed Azmin Ali, 2022. [Twitter] 21 January. Available at: https://twitter.com/AzminAli/status/1484359680936022017

Sawada, Y., 2020. "Significant stepping stone". Beijing: *China Daily Global*. Available at: http://www.chinadaily.com.cn/a/202012/18/WS5fdbecb9a31024ad0ba9c821.html

Scoles, S., 2020. "15 Asia-Pacific Countries Sign World's Largest FTA; A Closer Look at RCEP's Key Outcomes and Implications". New York: *White & Case*. Available at: https://www.whitecase.com/publications/alert/15-asia-pacific-countries-sign-worlds-largest-fta-closer-look-rceps-key-outcomes

Thrasher, R. and Gallagher, K., 2008. "21st Century Trade Agreements: Implications for Development Sovereignty". *The Pardee Papers*, No. 2, Boston: The Frederick S. Pardee Center for the Study of the Longer-Range Future.

UNCTAD, 2003. *Foreign Direct Investment and Performance Requirements: New Evidence from Selected Countries*. Available at: https://unctad.org/system/files/official-document/iteiia20037_en.pdf

UNCTAD, 2020. *Key Statistics and Trends in Trade Policy 2020*. Available at: https://unctad.org/system/files/official-document/ditctab2020d3_en.pdf

UNCTAD, 2021a. *A new centre of gravity: The Regional Comprehensive Economic Partnership and its trade effects*. Available at: https://unctad.org/system/files/official-document/ditcinf2021d5_en_0.pdf

UNCTAD, 2021b. *TRAINS: Non-Tariff Measures (NTMs) based on official regulations*. Available at: https://trains.unctad.org/

World Bank, 2020. *Doing Business 2020: Malaysia*. Available at: https://www.doingbusiness.org/content/dam/doingBusiness/country/m/malaysia/MYS.pdf

World Bank, 2021a. *World Development Indicators*. Available at: https://databank.worldbank.org/source/world-development-indicators

World Bank, 2021b. *Aiming High: Navigating the next stage of Malaysia's development*. Available at: https://openknowledge.worldbank.org/bitstream/handle/10986/35095/Aiming-High-Navigating-the-Next-Stage-of-Malaysia-s-Development.pdf?sequence=5&isAllowed=y

World Customs Organization, 2017. "HS Nomenclature 2017 Section". Available at: http://www.wcoomd.org/en/topics/nomenclature/instrument-and-tools/hs-nomenclature-2017-edition/hs-nomenclature-2017-edition.aspx

World Integrated Trade Solution, 2021. *Malaysia Trade*. Available at: https://wits.worldbank.org/countrysnapshot/en/MYS

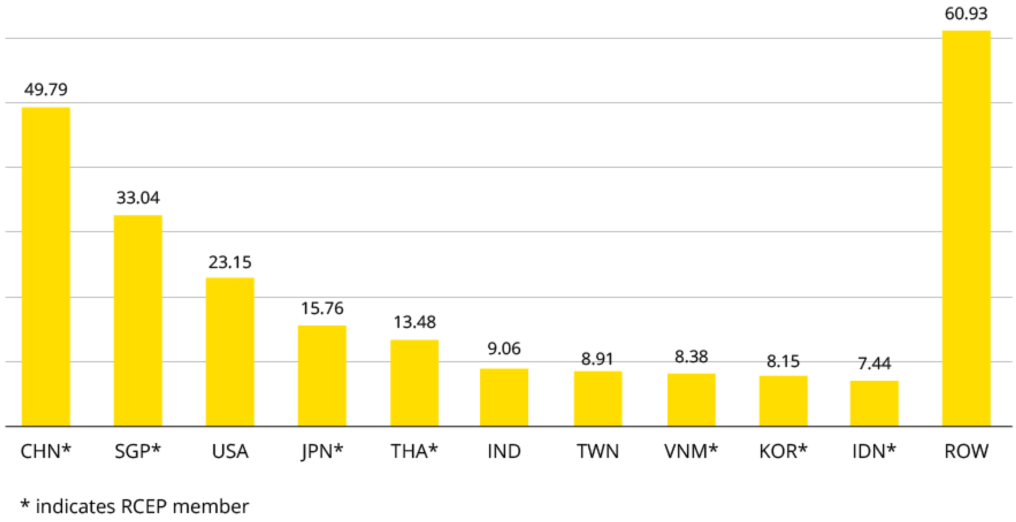
World Trade Organization, c. 2017. *Legal issues arising in WTO dispute settlement proceedings – 10.6 Burden of proof*. Available at: https://www.wto.org/english/tratop_e/dispu_e/disp_settlement_cbt_e/c10s6p1_e.htm

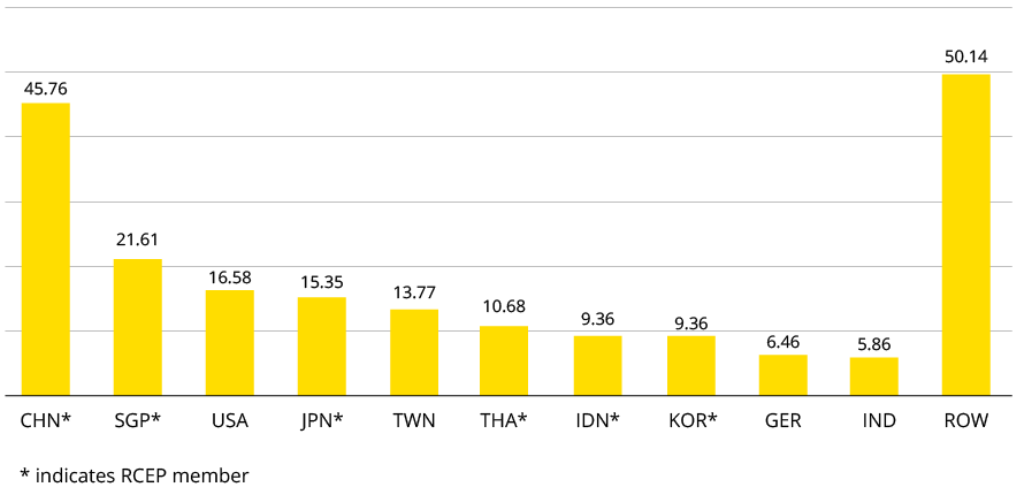
World Trade Organization, 2021. *WTO Stats*. Available at: https://stats.wto.org/

Yusuf, S. and Nabeshima, K., 2009. "Can Malaysia Escape the Middle-Income Trap?" Washington, D.C.: *World Bank*. Available at: https://openknowledge.worldbank.org/bitstream/handle/10986/4165/WPS4971.pdf

Appendix A: Malaysia's key trade statistics at a glance

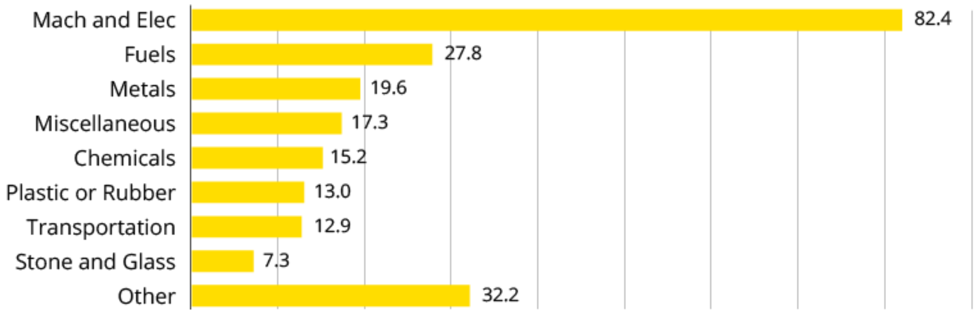
Figures A1 and A2: Malaysia's top 10 export (top) and import partners (bottom), 2019 (US$ bn)

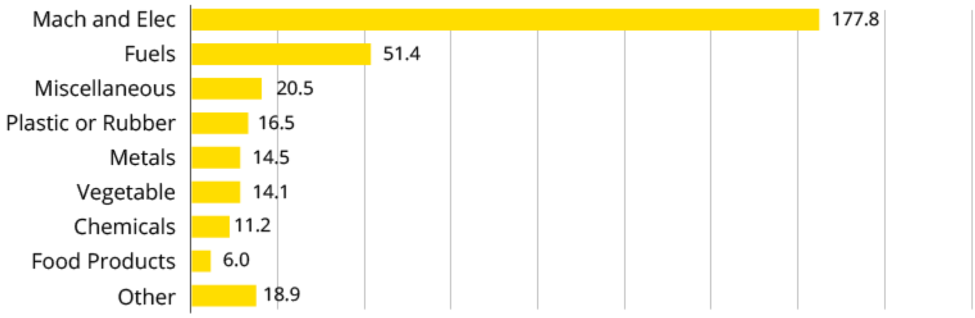




Source: World Integrated Trade Solution (2021). Note that the figure for China includes exports to Hong Kong and Macao (without which Malaysia's exports to and imports from mainland China would total $33.69 bn and $42.37 bn respectively) and excludes exports to Taiwan, which is accounted for separately under 'TWN' and classified as 'Other Asia, nes.' in the database. 'ROW' refers to the rest of the world.

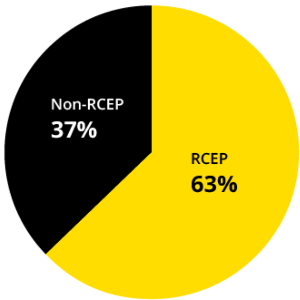
Figures A3 and A4: Malaysia's exports (top) and imports (bottom) by product group, 2019 (US$ bn)

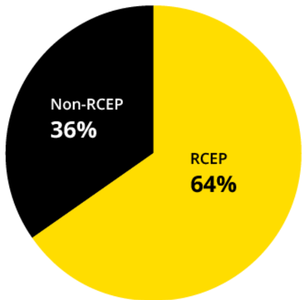




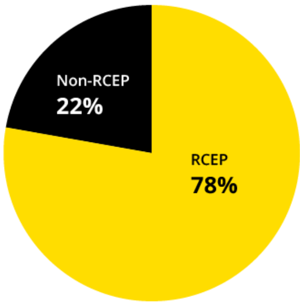
Source: World Integrated Trade Solution (2021). Note that the groups classified above are loosely defined in the WITS database and do not necessarily correspond to the categories highlighted in Appendix B.

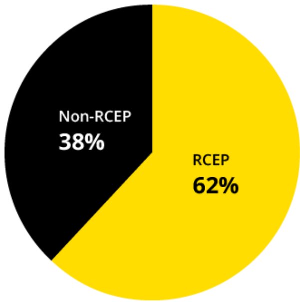
Figures A5-A6: Share of Malaysia's exports (left) and imports (right) of machinery and electronic products by region (RCEP vs non-RCEP), 2019





Figures A7-A8: Share of Malaysia's exports (left) and imports (right) of fuel by region (RCEP vs non-RCEP), 2019





Source: World Integrated Trade Solution (2021)

Appendix B: Malaysia’s tariff schedule and unweighted tariffs under RCEP

Malaysia’s tariff schedule and associated tariff rates under RCEP by group from the base rates in year 0 (Y0) to year 23 after ratification and beyond (Y23+). Cells in green indicate tariffs at 1% or lower while those in red indicate tariffs at or above 10%.

Group	Y0	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Y11	Y12	Y13	Y14	Y15	Y16	Y17	Y18	Y19	Y20	Y21	Y22	Y23+
I: Animals and animal products	0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
II: Vegetable products	2.5	1.8	1.7	1.7	1.6	1.6	1.6	1.5	1.5	1.4	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
III: Animal or vegetable fats, oils and waxes	2.6	0.8	0.8	0.7	0.6	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
IV: Prepared foodstuffs; beverages, spirits; tobacco	2.6	1.0	1.0	0.9	0.9	0.8	0.7	0.7	0.6	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
V: Mineral products	1.4	1.2	1.1	1.1	1.0	1.0	1.0	0.9	0.8	0.8	0.7	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
VI: Chemical products	2.0	1.8	1.8	1.8	1.8	1.7	1.7	1.6	1.6	1.5	1.5	1.4	1.3	1.2	1.1	1.1	1.0	1.0	0.9	0.9	0.8	0.8	0.7	0.7
VII: Plastics and rubber articles	13.4	13.1	12.9	12.8	12.6	12.3	12.0	11.7	11.3	11.0	10.7	10.2	9.8	9.3	8.8	8.4	8.0	7.7	7.3	7.0	6.6	6.3	6.0	5.7
VIII: Leather; travel goods, handbags and similar containers	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IX: Wood, cork, straw and related articles	1.4	1.2	1.1	1.0	0.9	0.8	0.7	0.6	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
X: Paper and wood pulp	10.3	8.5	7.6	6.7	5.8	4.8	3.9	3.0	2.1	1.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
XI: Textiles	6.4	6.1	5.9	5.6	5.4	5.0	4.1	3.2	2.3	1.4	0.5	0.4	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
XII: Footwear, headgear and related articles	6.3	5.4	5.1	4.8	4.5	4.1	3.8	3.4	3.0	2.7	2.3	2.3	2.2	2.1	2.1	2.0	2.0	2.0	1.9	1.9	1.9	1.9	1.9	1.9
XIII: Stone, plaster, cement, asbestos, ceramic, glass and related products	17.3	16.8	16.6	16.4	16.1	15.6	15.0	14.4	13.9	13.3	12.7	12.2	11.6	11.1	10.5	10.0	9.8	9.6	9.4	9.2	9.0	9.0	8.9	8.9
XIV: Pearls, precious metals and related articles	0.4	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
XV: Base metals and associated articles	9.3	8.6	8.2	7.9	7.5	7.1	6.7	6.2	5.8	5.3	4.9	4.8	4.7	4.6	4.5	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
XVI: Machinery, electrical equipment and related products	5.0	4.6	4.3	4.1	3.8	3.5	3.2	2.9	2.6	2.3	2.1	2.0	1.9	1.8	1.7	1.6	1.6	1.5	1.5	1.5	1.4	1.4	1.4	1.4
XVII: Vehicles, aircraft, vessels and associated equipment	17.3	17.0	17.0	16.9	16.9	15.9	14.9	13.9	13.0	12.0	11.0	10.1	9.2	8.3	7.4	6.5	6.5	6.5	6.5	6.5	6.5	6.4	6.4	6.4
XVIII: Optical, photographic, medical and musical instruments	0.8	0.5	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
XIX: Arms and ammunition	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6
XX: Miscellaneous manufactured articles	9.5	7.6	6.9	6.3	5.6	5.0	4.3	3.6	2.9	2.2	1.5	1.5	1.4	1.4	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
XXI: Works of art and special provisions	0.6	0.6	0.5	0.4	0.4	0.3	0.3	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall unweighted mean	**5.5**	**5.0**	**4.8**	**4.6**	**4.4**	**4.2**	**3.8**	**3.5**	**3.2**	**2.9**	**2.5**	**2.4**	**2.3**	**2.2**	**2.0**	**1.9**	**1.9**	**1.8**	**1.8**	**1.8**	**1.7**	**1.7**	**1.7**	**1.6**

Source: Author’s calculations of the mean unweighted rates based on the individual tariff lines in ASEAN Secretariat (2019a) and aggregated into groups as defined in World Customs Organization (2017).

Appendix C: Malaysia's biggest imports and quasi-weighted tariffs

Malaysia's 50 biggest imports at the 4-digit product level in decreasing order of total import value share in 2020 and associated RCEP tariff rates in years 0, 10 and 21+. Cells in green indicate products with tariffs at 1% or lower while those in red indicate tariffs at or above 10%.

No.	Product label	Group	Import share	Tariff Y0	Tariff Y10	Tariff Y21+
1	Electronic integrated circuits; parts thereof	XVI	17.6	0	0	0
2	Petroleum oils and oils obtained from bituminous minerals (excluding crude)	V	7.1	0.3	0.1	0
3	Petroleum oils and oils obtained from bituminous minerals, crude	V	2.4	2.5	0.9	0
4	Telephone sets, incl. telephones for cellular networks or for other wireless networks (and related items)	XVI	2.1	0	0	0
5	Diodes, transistors and similar semiconductor devices	XVI	1.7	0	0	0
6	Unwrought aluminium	XV	1.6	0	0	0
7	Printed circuits	XVI	1.3	0	0	0
8	Automatic data-processing machines and units thereof	XVI	1.3	0	0	0
9	Light-vessels, fire-floats, dredgers, floating cranes, and other related vessels	XVII	1.2	0	0	0
10	Coal; briquettes, ovoids and similar solid fuels manufactured from coal	V	1.2	0	0	0
11	Gold (including gold plated with platinum) unwrought or in semi-manufactured forms, or in powder form	XIV	1.2	0	0	0
12	Parts and accessories for tractors, motor vehicles, motor cars and the like	XVII	1.1	17.3	7.5	0
13	Polymers of ethylene, in primary forms	VII	0.9	4.4	4.0	2.0
14	Parts and accessories (other than covers, carrying cases, etc.) suitable for use with office machines	XVI	0.9	0	0	0
15	Electrical apparatus for switching, protecting or making connections to or in electrical circuits	XVI	0.9	6.5	1.2	0
16	Oscilloscopes, spectrum analysers and other instruments for measuring or checking electrical quantities	XVIII	0.8	0	0	0
17	Petroleum gas and other gaseous hydrocarbons	V	0.8	0	0	0
18	Parts of aircraft and spacecraft, not elsewhere specified (n.e.s.)	XVII	0.8	0	0	0
19	Natural rubber, balata, gutta-percha, guayule, chicle and similar natural gums, in primary forms	VII	0.8	0	0	0
20	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic uses	VI	0.8	0	0	0
21	Electrical transformers, static converters, e.g. rectifiers, and inductors; parts thereof	XVI	0.7	3.3	0.8	0.2
22	Machines and mechanical appliances having individual functions, n.e.s.	XVI	0.7	0	0	0
23	Iron ores and concentrates, incl. roasted iron pyrites	V	0.6	0	0	0
24	Parts suitable for use solely or principally with transmission, radar and reception apparatus	XVI	0.6	2.1	0.8	0
25	Chemical elements doped for use in electronics, in the form of discs, wafers or similar forms	VI	0.6	0	0	0
26	Discs, tapes, solid-state non-volatile storage devices, "smart cards" and other media for sound recording	XVI	0.6	0	0	0
27	Synthetic rubber and factice derived from oils, in primary forms or in plates, sheets or strip	VII	0.6	12.1	0	0
28	Flat-rolled products of iron/non-alloy steel, of a width >= 600 mm, hot-rolled, not clad, plated or coated	XV	0.6	20	20	20
29	Motor cars and other motor vehicles principally designed for the transport of persons	XVII	0.6	23	17.1	12.2
30	Electrical capacitors, fixed, variable or adjustable "pre-set"; parts thereof	XVI	0.5	0	0	0
31	Machines and apparatus used for the manufacture of semiconductor boules, wafers or devices, electronic integrated circuits or flat panel displays	XVI	0.5	0.6	0	0
32	Cocoa beans, whole or broken, raw or roasted	IV	0.5	0	0	0
33	Copper, refined, and copper alloys, unwrought	XV	0.5	0	0	0
34	Electric motors and generators (excluding generating sets)	XVI	0.5	1	0.5	0
35	Ferrous waste and scrap; remelting scrap ingots of iron or steel	XV	0.5	0.7	0	0
36	Insulated, incl. enamelled or anodised, wire, cable (incl. coaxial cable) and related electric conductors	XVI	0.4	19	17.8	16.8
37	Centrifuges, incl. centrifugal dryers; filtering or purifying machinery and apparatus, for liquids or gases	XVI	0.4	7.4	0.1	0
38	Turbojets, turbopropellers and other gas turbines	XVI	0.4	0	0	0
39	Instruments and appliances used in medical, surgical, dental or veterinary sciences	XVIII	0.4	0	0	0
40	Polyacetals, other polyethers and epoxide resins as well as selected polyesters, in primary forms	VII	0.4	5	0.7	0
41	Polymers of propylene or of other olefins, in primary forms	VII	0.4	2.9	2.9	1.4
42	Printing machinery used for printing by means of plates, cylinders and other printing components	XVI	0.4	0	0	0
43	Maize or corn	II	0.4	0	0	0
44	Food preparations, n.e.s.	IV	0.4	9.6	2.4	1.3
45	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like	XVI	0.4	9.9	0	0
46	Cane or beet sugar and chemically pure sucrose, in solid form	IV	0.4	0	0	0
47	Plates, sheets, film, foil and strip, of non-cellular plastics, not reinforced, laminated or supported	VII	0.4	19.1	17.9	4.2
48	Articles of plastics and articles of other materials, n.e.s.	VII	0.4	6.9	5.9	1.3
49	Other furniture and parts thereof	XX	0.4	0	0	0
50	Palm oil and its fractions, whether or not refined, but not chemically modified	III	0.4	3.75	0	0
51+	*All other products*	-	*38.3*	*5.5**	*2.5**	*1.6**
Estimated quasi-weighted tariff**				**3.2**	**1.5**	**0.9**

*For simplicity, the unweighted mean tariff from Appendix B is used to represent all 1,208 remaining products (comprising 96% of Malaysia's full tariff schedule, unweighted). The actual tariff is likely to be lower once weighted by the import share of each tariff line, but this is beyond the scope of this paper. **Assumes import shares remain constant until Y21+ and does not fully account for the granularity of tariff lines, thereby possibly overestimating the true weighted tariff in Y0.

Source: ASEAN Secretariat (2019a) and International Trade Centre (2020).

Appendix D: Unweighted and weighted tariffs for Category 85

The unweighted and semi-weighted mean tariff rates for Category 85 (chosen because it is the largest category of goods by import value) in Year 0, Year 10 and Year 23 and beyond. For brevity, product names are listed by their 4-digit codes along with their corresponding shares of the category's import value. Cells in green indicate products with unweighted tariffs at 1% or lower while those in red indicate corresponding tariffs at or above 10%.

Code	Import share (%)	Unweighted mean tariff rate			Weighted mean tariff rate		
(4-digit)	(Category 85=100%)	Y0	Y10	Y23+	Y0	Y10	Y23+
8501	1.61	1.0	0.5	0	0.016	0.008	0
8502	0.16	0	0	0	0	0	0
8503	0.10	0	0	0	0	0	0
8504	2.23	3.3	0.8	0.2	0.074	0.018	0.004
8505	0.35	0	0	0	0	0	0
8506	0.85	0	0	0	0	0	0
8507	0.73	11.7	9.9	9.1	0.085	0.072	0.066
8508	0.17	8.0	3.6	0.0	0.014	0.006	0
8509	0.09	15.0	12.3	10.0	0.013	0.011	0.009
8510	0.01	0	0	0	0	0	0
8511	0.26	2.1	0	0	0.005	0	0
8512	0.28	0	0	0	0	0	0
8513	0.03	0	0	0	0	0	0
8514	0.58	0	0	0	0	0	0
8515	0.21	0	0	0	0	0	0
8516	0.73	13.7	7.6	4.2	0.101	0.056	0.031
8517	6.83	0	0	0	0	0	0
8518	0.99	8.6	0.5	0	0.085	0.005	0
8519	0.02	2.4	0.2	0	<0.001	<0.001	0
8520	0	N/A	N/A	N/A	0	0	0
8521	0.04	0	0	0	0	0	0
8522	0.11	0	0	0	0	0	0
8523	1.94	0	0	0	0	0	0
8524	0	N/A	N/A	N/A	0	0	0
8525	0.42	0	0	0	0	0	0
8526	0.11	0	0	0	0	0	0
8527	0.11	10.8	0	0	0.011	0	0
8528	0.67	10.0	7.1	5.0	0.067	0.048	0.034
8529	1.96	2.1	0.8	0	0.041	0.016	0
8530	0.03	0	0	0	0	0	0
8531	0.48	0	0	0	0	0	0
8532	1.76	0	0	0	0	0	0
8533	0.45	0	0	0	0	0	0
8534	4.47	0	0	0	0	0	0
8535	0.27	13.5	3.2	0	0.036	0.009	0
8536	2.89	6.5	1.2	0	0.188	0.035	0
8537	0.98	11.3	4.0	0	0.111	0.039	0
8538	0.39	0	0	0	0	0	0
8539	0.14	11.3	1.0	0	0.016	0.001	0
8540	0.04	0	0	0	0	0	0
8541	5.72	0	0	0	0	0	0
8542	58.29	0	0	0	0	0	0
8543	0.66	0.6	0	0	0.004	0	0
8544	1.49	19.0	17.8	16.8	0.283	0.265	0.250
8545	0.09	0	0	0	0	0	0
8546	0.09	0	0	0	0	0	0
8547	0.07	0	0	0	0	0	0
8548	0.09	10.0	10.0	2.6	0.009	0.009	0.002
Overall		*5.3*	*2.3*	*2.0*	**1.2**	**0.6**	**0.4**

Source: Author's calculations based on ASEAN Secretariat (2019a) and International Trade Centre (2020)

Appendix E: Calculation of RCEP's RVC

The calculation of RVC in RCEP as illustrated by one of the two formulas and an example.
The 'indirect' or build-down formula for the calculation of RVC

$$\boldsymbol{RVC\ (\%)} = \frac{\boldsymbol{FOB - VNM}}{\boldsymbol{FOB}} \times 100$$

Note: FOB is the value of the good 'free on board' or at the point of shipping, i.e. the price payable to the exporter when the good is loaded onto the vessel at the exporting port, inclusive of the cost of transporting the good to the port. VNM is the value of non-originating materials. See https://www.aseanbriefing.com/news/rules-origin-criteria-aseans-ftas/ for an explanation and a comparison of RVC calculations across the different ASEAN+ FTAs. For brevity, the alternative 'direct' formula is omitted.

Example of an RVC calculation

Suppose, for the sake of illustration, that a South Korean importer wants to import 2B pencils from Malaysia. First, this product is identifiable in the RCEP tariff schedule under the code 9609 for "*Pencils (other than pencils of heading 96.08), crayons, pencil leads, pastels, drawing charcoals, writing or drawing chalks and tailors' chalks*". Second, assume that the product uses the following components given by their country of origin and value in the exporter's currency (i.e. Malaysian ringgit) per unit (defined arbitrarily here as kilogram):

Component	Country of origin	Value
1. Raw materials	Variable (see below)	640
Wood	Malaysia (RCEP, originating material)	220
Graphite	China (RCEP, originating material)	140
Paint	Germany (non-RCEP, non-originating material)	160
Ferrule	China (RCEP, originating material)	120
2. Labour cost	Always originating by definition	110
3. Overhead cost	Always originating by definition	100
4. Other cost		80
Total production cost		**930**
Profit		**105**
FOB (per kg)		**1035**

Adapted from https://fta.miti.gov.my/index.php/pages/view/84

The FOB is essentially the sum of total production cost (RM930, comprising raw materials, labour, overhead and other costs) and profit (arbitrarily set at RM105), which is equal to RM1035 per kg.
Finally, the RVC is calculated as follows:

$$\boldsymbol{RVC\ (\%)} = \frac{1035 - 160}{1035} \times 100$$
$$= 84.5$$

Given that paint is the only non-originating material in the production process, the VNM is its cost, i.e. RM160 while FOB is RM1035. Since the RVC is 84.5%, exceeding RCEP's ROO requirement of 40%, the product qualifies for preferential tariff access as set out in South Korea's list of tariff commitments under RCEP.

ABOUT REFSA

Research for Social Advancement (REFSA) is a progressive, non-profit think tank that promotes social advancement in Malaysia. Since its inception, REFSA has been at the forefront of policy discussions and debates in the important political and socio-economic issues of the nation. Today, our aspiration hasn't changed - we want to power the movement for a just, inclusive and multi-ethnic society.

REFSA BRIEF

REFSA Brief is a series of briefs and opinion pieces that aim to analyse pertinent socio-economic issues and encourage discussions in policy issues across the public, private and the third sector.

Jaideep Singh is a Researcher at REFSA.

Credit is also due to Frederik Paulus, Dr Ong Kian Ming and Lillian Wee for their comments and edits.

CREDIT

OTHER INFORMATION

Cover photo: by william william on Unsplash

REFSA
Research For Social Advancement

Level 5, Block A,
Wenworth Building,
Jalan Yew, Off Jalan Pudu,
55100 KL

(03) **9285 5808**

www.**refsa**.org

REFSA

InfoREFSA

refsa_my

refsa.org

REFSA - Research for Social Advancement