



**MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY**

# **Malaysia and the Regional Comprehensive Economic Partnership**

**8 AUGUST 2022**

**BY:**

**ASEAN ECONOMIC INTEGRATION DIVISION**

# ASEAN+1 FTAs



	AFTA	ASEAN-China FTA	ASEAN-Korea FTA	ASEAN-Japan CEP	ASEAN-India FTA	ASEAN-Australia-New Zealand FTA
Entry into force	1993	2005	2007	2008	2010	2010
Market size (million)	617	1,939	647	726	1,814	625
Econ size (US\$ trillion)	1.9	7.7	2.9	7.3	3.4	3.2
Coverage	Goods Services Investment	Goods Services Investment	Goods Services Investment	Goods (services & investment in bilateral EPAs)	Goods	Goods Services Investment, etc.
Duty phase out date (A6+DP/CLMV)	2010/ 2015 (2018)	2012 2018	2012 2018 (V) 2020 (CLM)	10-15 years from EIF 2026 (CLM)	2017 2020 (P) 2022 (CLMV)	2020 2022 (V) 2025 (ICLMV)
ROO	40% or CTH PSRs	40% Limited PSRs	40% or CTH PSRs	40% or CTH PSRs	35%+CTSH	40% or CTH PSRs
Total trade (US\$, billion)	519.8	751.8	618.4	726.4	575.2	582.6

# RCEP Agreement



- RCEP was successfully signed on 15 November 2020 during the 4th RCEP Summit 2020.
- Made up of **14,367 pages** covering **20 chapters** and market access schedules covering trade in goods, trade in services and investment.
- Available online at <https://rcepsec.org/legal-text/> or <https://fta.miti.gov.my/index.php/pages/view/60?mid=39>

# Parties of the Agreement



- Consists of 15 Countries

## ASEAN Countries

1. Brunei
2. Cambodia
3. Indonesia
4. Lao P.D.R
5. Malaysia
6. Myanmar
7. The Philippines
8. Singapore
9. Thailand
10. Vietnam

## ASEAN FTA Partners

1. Australia
2. P.R. China
3. Japan
4. New Zealand
5. South Korea

# RCEP Agreement – Key Features



# Scope



RCEP legal text consists of 20 Chapters:

Category	Chapter	Topic
Initial Provisions	1	Initial provisions and general definitions
Trade in Goods	2	Trade in goods
	3	Rules of origin
	4	Customs procedure and trade facilitation
	5	Sanitary and phytosanitary measures
	6	Standards, technical regulations and conformity assessment procedures
	7	Trade remedies
Trade in Services	8	Trade in services
Movement of Persons	9	Temporary movement of natural persons
Investment	10	Investment
Business Environment	11	Intellectual property
	12	Electronic commerce
	13	Competition
	14	Small and medium enterprises
	15	Economic and technical cooperation
	16	Government procurement
General Provisions & Dispute Settlement	17	General provisions and exceptions
	18	Institutional provisions
	19	Dispute settlement
	20	Final provisions

# Excluded Elements



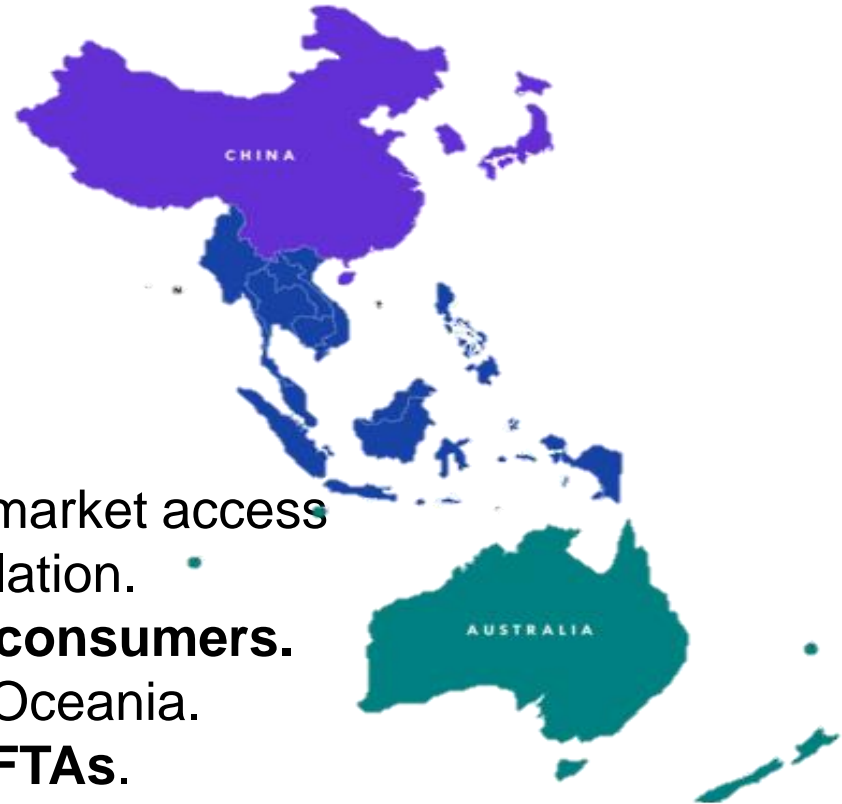
- Market access and dispute settlement mechanism for **Government Procurement**
- **Grants / Subsidies / Incentives** by Government.
- Disciplines / Provisions on **Export Duties**

# Entry Into Force (EIF)



- EIF: 60 days after a Signatory Country completes its domestic procedures and subsequently submits instrument of ratification (IOR) to ASEAN Secretariat.
- **1 January 2022**: EIF for **11 parties** – Australia, Brunei, Cambodia, China, Japan, Korea, Laos, New Zealand, Singapore, Thailand and Vietnam.
- **Malaysia** starts on **18 March 2022** (IOR was submitted on 17 January 2022).
- RCEP is built using ASEAN's own model agreements:
  - including the ASEAN+1 agreements
  - Many of the commitments look similar to ASEAN

# RCEP: Snapshot



- **World's Largest Trade Pact** – market access to almost one-third world's population.
- **Biggest set of producers and consumers.**
- **Growing economies** in Asia & Oceania.
- Connected through **ASEAN +1 FTAs.**
- **Top economies** in the world (China, Japan, Australia, South Korea, Indonesia, Thailand and Malaysia).
- Collective ASEAN is the **5<sup>th</sup> largest economy** in the world.

# Macroeconomic Impact to Malaysia



- The Working Paper “East Asia’s New Trade Blocs” published by Peterson Institute for International Economics in June 2020 – ***“RCEP will contribute positively to Malaysia’s economic development”***
- Once RCEP has entered into force, Malaysia’s GDP is estimated to increase by **RM16 billion per year** (or about 1.1% of nominal GDP) for the next 10 years.
- MATRADE: total exports to **RCEP markets** could increase by **RM21 billion per year**. The stronger integration in regional production network will further boost overall trade activity.

# Macroeconomic Impact to Malaysia – cont.



- **Job Creation:** an estimate of 32,000 jobs will be created annually or 320,000 for the next 10 years.
  - based on the trend in yearly employment growth in 2016-2019 using data from the **Department of Statistics Malaysia**; where **employment will increase by 0.2% when GDP grows by 0.6%**.
  - In particular, jobs will increase mainly in the manufacturing and services sectors, especially in trade-oriented sectors.
- **Foreign Direct Investment (FDI):** an estimated annual increase of **0.7%** (or **RM4.9 billion per year in net**) in FDI inflows.
  - The estimated increase in FDI inflows was derived based on International Investment Position data on Direct Investment in Malaysia for the period 2016-2019.

# Macroeconomic Impact to Malaysia – cont.



- **UNCTAD (15 December 2021):** Within ASEAN, Malaysia is expected to be the largest beneficiary of the RCEP agreement in terms of gains in exports, with a projected US\$200 million increase annually.
  - will result from **tariff elimination** and **reduction for merchandise goods**, including the **facilitation of export and import of goods** among the RCEP countries.
  - service providers including **e-commerce** will be able to enjoy **greater market access** in terms of cross border supply and establishing commercial presence.

# Key Benefits and Challenges



- **Origin of RCEP:** five existing ASEAN+1 trade deals
- **Big challenges** getting to finish line:
  - various interests: liberal vs. protective measures
  - no agreements existed between Dialogue Partners
- **Tariff reductions** can be complicated:
  - Not all drop to become duty-free, many with long timelines
  - Bigger issue: complexity, 37 separate tariff schedules

# Key Benefits and Challenges



- **Rules of origin (ROO)** very helpful:
  - One ROO for each tariff line applicable to all member countries
- **Better trade facilitation**: faster, easier processing of goods at Customs
- **RCEP Proof of Origin** i.e. certificate of origin (COO) or declaration of origin (DOO) document are needed – to claim for preferential tariff treatment

# Opportunities



RCEP provides an opportunity for **Malaysian companies** by:

- offering market access to nearly a third of the world's population;
- intra-regional sourcing of raw materials at competitive prices;
- integrating supply chain within the RCEP region;
- promoting greater transparency, information sharing, trade facilitation, economic cooperation, standardisation of rules relating to e-commerce; and
- providing certainty in protection of intellectual property rights.



# RCEP TRADE IN GOODS (TIG)



# Trade In Goods (TIG) Chapter



- Contains key elements that govern the implementation of goods-related commitments to achieve a high level of trade liberalisation among the Parties. These include:
  - **granting national treatment** to the goods of the other Parties;
  - **reduction or elimination** of customs duties;
  - duty-free **temporary admission** of goods;
  - **reaffirmation of commitments** in the WTO Ministerial Decision on Export Competition,
  - **elimination of scheduled export subsidy entitlements for agricultural goods.**
- Sets out **rules for determining the applicable tariff treatment** in cases of **different tariff preferences applied** by a Party.

# Trade In Goods (TIG) – cont.



- Contains provisions on non-tariff measures that complements tariff liberalisation outcomes. These include:
  - general elimination of quantitative restrictions,
  - greater transparency on the application of non-tariff measures,
  - administration of import licensing procedures, and
  - the application of fees and formalities connected with importation and exportation.
- Sets out a process for Parties to conduct technical consultations on non-tariff measures that adversely affect trade between them and also provides for the possibility of future work to be undertaken on sector-specific initiatives to facilitate greater trade.

# Preferential Tariff

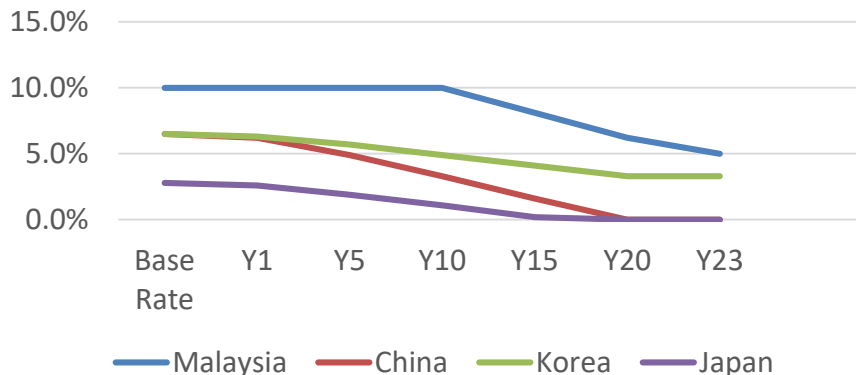


- Reduction or elimination of customs duties imposed by each Party on originating goods by **approximately 92%** over a period of **20 years**.
- **Tariff Schedule:**
  - may start at lower rates given that they are already reduced pursuant to existing trade agreements; and
  - may start at higher rates due to (i) the complexity of supply chain within RCEP that involves many Parties; and (ii) non-existing trade agreements between Parties i.e. China & Japan, Japan & Korea, etc.



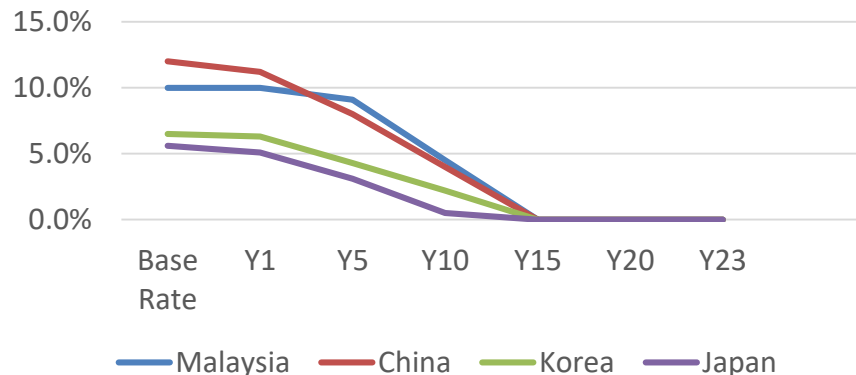
# RCEP Tariffs on Chapter 39 Plastics and articles thereof.

HS 39.01 & 39.02



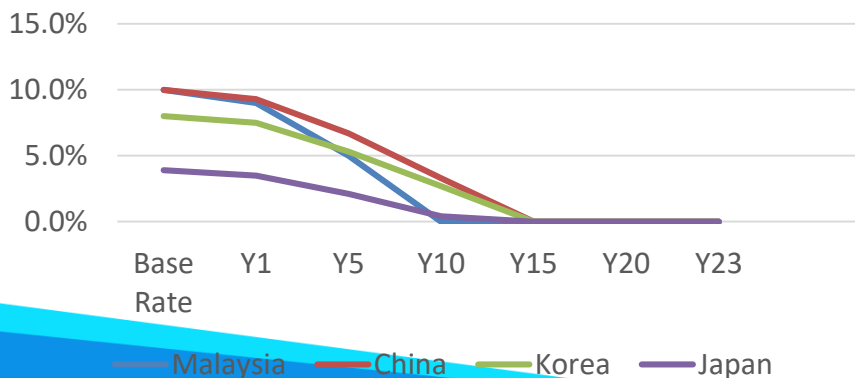
ROO PSR: CTH or RVC40

HS 39.03 & 39.04



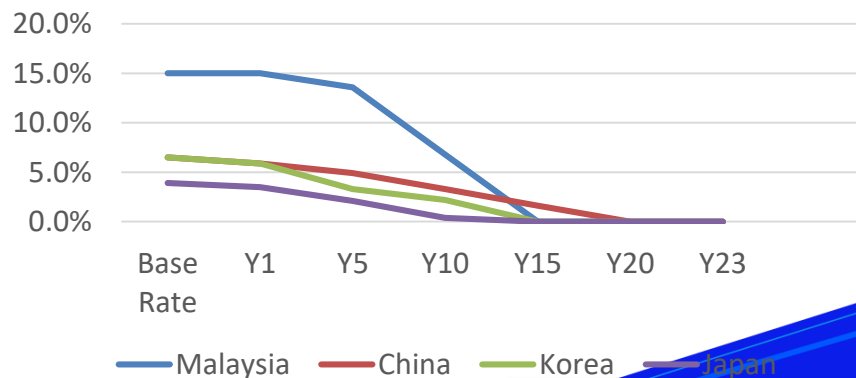
ROO PSR: CTH or RVC40

HS 39.05; 39.06 & 39.09



ROO PSR: CTH or RVC40

HS 39.07

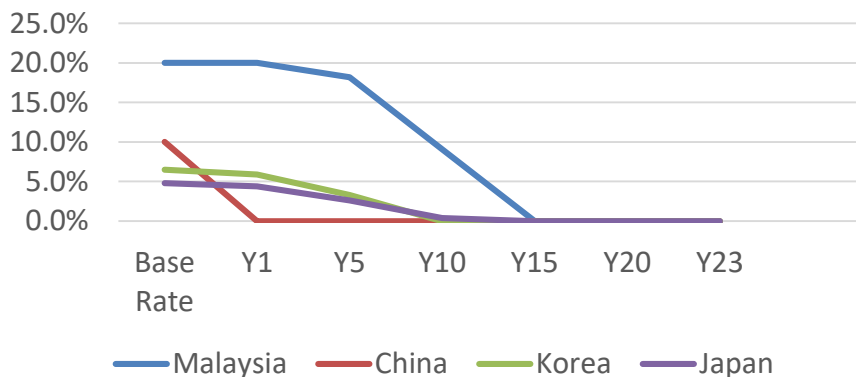


ROO PSR: CTH or RVC40



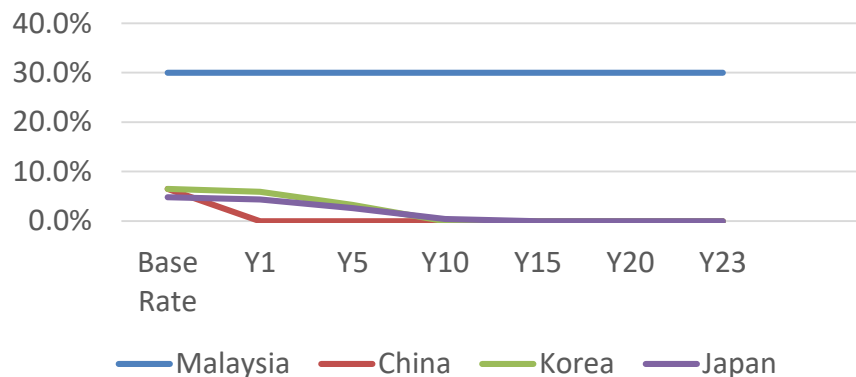
# RCEP Tariffs on Chapter 39 Plastics and articles thereof.

HS 39.13 & 39.22



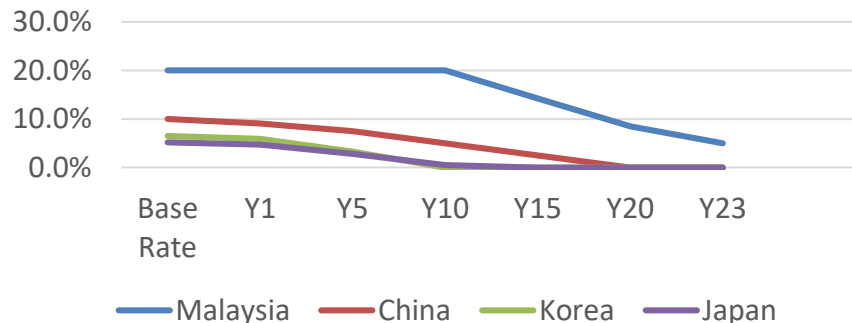
ROO PSR: CTH or RVC40

HS 39.15



ROO PSR: CTH

HS 39.16; 39.17; 39.18; 39.19; 39.20; 39.21; 39.23; 39.24; 39.25 & 39.26



ROO PSR: CTH or RVC40

# Claim for Preferential Tariff



- The RCEP TIG chapter provides:
  - (i) Legal text on provisions covered by TIG;
  - (ii) General Headnotes;
  - (iii) Individual Headnotes for each Party (15 in total);
  - (iv) Schedule of Tariff Commitments for each Party (15 in total); and
  - (v) Appendix on Tariff Differentials (7 in total) – Indonesia, Philippines, Thailand, Viet Nam, China, Japan and Korea.

# Claim for Preferential Tariff – cont.



- In order for a product to be **eligible** for preferential tariff treatment offered by the TIG chapter, the product shall also be compliant with requirements set-forth by other chapters namely:
  - Chapter 3** – Rules of Origin (ROO);
  - Chapter 5** – Sanitary and Phytosanitary Measures (SPS);
  - Chapter 6** – Standards, Technical Regulations, and Conformity Assessment Procedures (STRACAP);  
and
  - Chapter 7** – Trade Remedies (TR).



# RCEP RULES OF ORIGIN (ROO)



# RCEP ROO: Introduction



- Determines which goods are originating under the RCEP Agreement – therefore, eligible for preferential tariff treatment (**birth certificate**).
- Provides the list of minimal operations and processes considered insufficient to confer originating status on goods using non-originating materials.
- **General Principle**: all goods must comply with the requirement set-forth by the RCEP ROO in order to confer RCEP origin status and enjoy the preferential treatment under the RCEP.

# RCEP ROO: Introduction



- **ROO Chapter (Chapter 3) constitutes of 2 Sections, 35 Articles and 2 Annexes:**
  - Section A: Rules of Origin (15 Articles)
  - Section B: Operational Certification Procedures (20 Articles)
  - Annex 3A: Product Specific Rules
  - Annex 3B: Minimum Information Requirements
- **Additional Documents:**
  - RCEP Certificate of Origin (CO Form RCEP)
  - Implementing Guidelines

# RCEP ROO: Introduction



- Articles on **Originating Goods** and **Wholly Obtained or Produced Goods** as well as the Annex on **Product Specific Rules (PSR)** set out the requirements for **5,205 tariff lines** at six digit level to determine originating status of goods.

# RCEP ROO: What's New?



- In general, RCEP ROO is derived and improvised from the existing ASEAN+1 FTAs. However, some **new elements** are introduced in the RCEP ROO to cater interests of RCEP Parties namely:
  - **Article 3.16: Proof of Origin** – a mixed-mode of origin presentation either via Certificate of Origin (COO) and Declaration of Origin (DOO).
  - **Article 3.21: Approved Exporter** – taken from ASEAN-wide Self-Certification (AWSC) under the ATIGA whereby only exporters approved by the Issuing Authority of the respective RCEP Party can use DOO.
  - **Annex 3B: Minimum Information Requirements** – the improvised version of Minimal Data Requirements in ASEAN+1 FTAs comprising both COO and DOO.



## RCEP ROO: *Accumulation or Cumulation*

- Referring to a system that allows originating products of RCEP Parties to be further processed or added to products originating in an RCEP Party.
- Constituted in **Article 3.4.**



**Inputs / Raw Materials**



**Semi-finished /  
Finished Goods**



## RCEP ROO:

### *Product Specific Rules (PSR)*

- A set of rules or requirements to be complied by a product in order to confer origin status of a Party.
- Purposes:
  - To encourage sourcing and use of inputs / raw materials from Parties of the Agreement;
  - To sustain and spur growth of supply chain among the Parties of the Agreement; and
  - To ensure only Parties of the Agreement gain benefits from the Agreement.
- Constituted by **Annex 3A** which comprises all **5,205 lines** under **21 Sections** and **97 Chapters**.



## RCEP (ROO): *PSR – cont.*

- Depending on products, applicable PSR comprises the following:
  - **Wholly-obtained or produced (WO);**
  - **RVC40** of which the products are required to have at least 40% of value-add undertaken in a Party;
  - **Change in Tariff Classification (CTC)** which is indicated by the change in HS code of inputs / raw materials vs. final products; and
  - **Chemical Reaction (CR)** rule which is applicable for certain chemical and chemical products under Chapter 27-39.



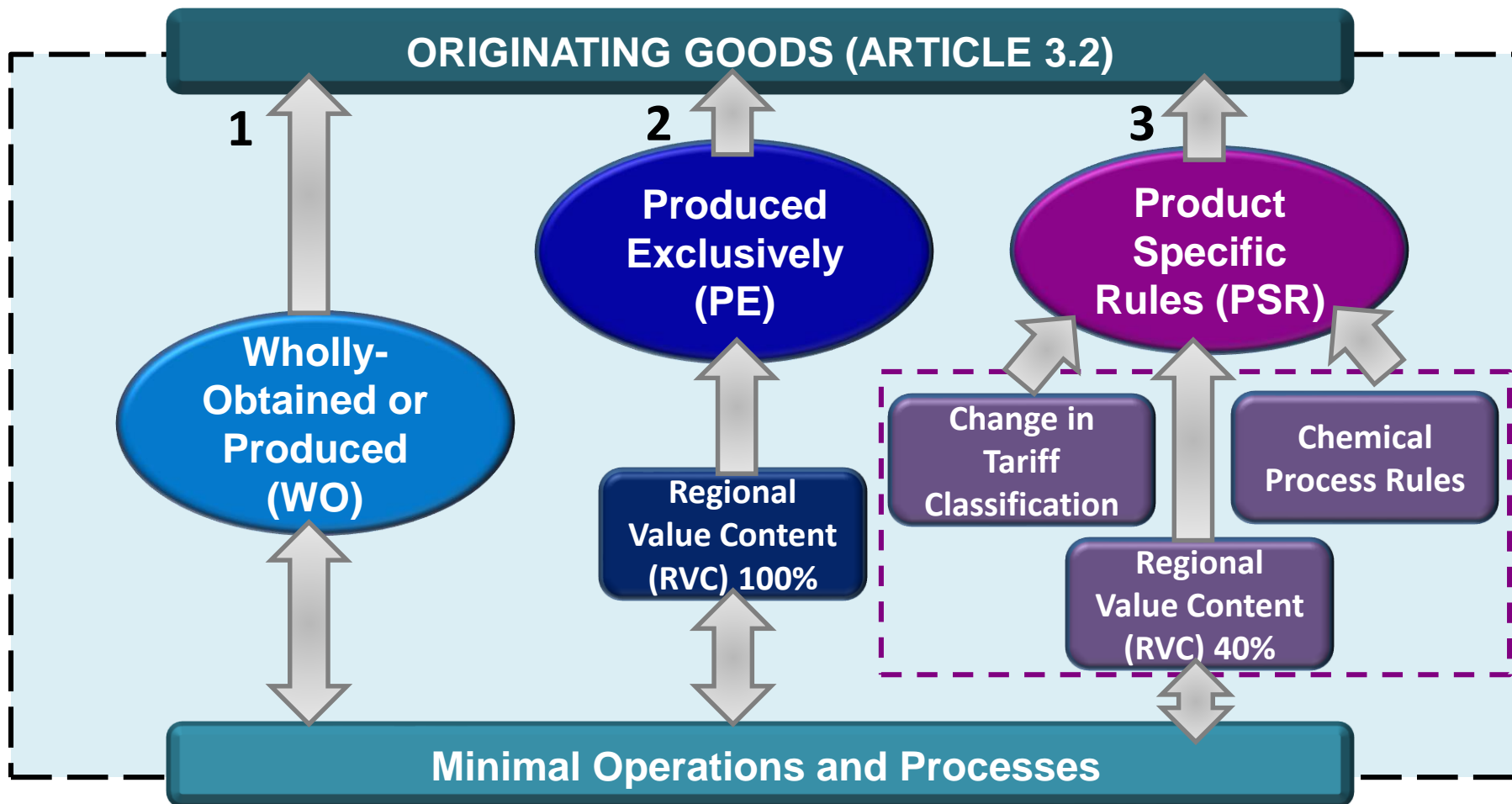
# RCEP Rules of Origin (ROO)

## *PSR – cont.*

- In Harmonised System (HS) 2012 format. Transposition from HS 2012 into HS 2017 and from HS 2017 into HS 2022 will be conducted at a later stage after Entry Into Force (EIF).
- As all lines are covered by PSR, there is no General Rule in RCEP ROO.
- Can be a “**single rule**” such as “WO”, “CC” or “CC except Chapter 10”; or “**co-equal rule**” such as “RVC40 or CTSH”, “RVC40 or CTH or CR”.



# RCEP (ROO): *Originating Goods*





## RCEP (ROO): *Wholly-Obtained or Produced (WO)*

- Referring to a good that is **100% obtained or produced** within an exporting Party as provided by **Article 3.3**.
- It is imposed on **natural resources, agriculture products, animals, minerals and waste / scrap**.
- **Example:**



The meat is **wholly  
obtained or produced in  
Malaysia**



## RCEP (ROO): *Regional Value Content (RVC)*

- Constituted in **Article 3.5**.
- Defines the degree of transformation of a product undertaken by a Party.

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

RVC = Regional Value Content

FOB = Free On-Board Value

VNM = Value of Non-Originating Materials

The **higher VNM**, the **lower RVC**

# RCEP ROO: RVC – Example



$$\begin{aligned}
 RVC &= \frac{FOB - VNM}{FOB} \times 100\% \\
 &= \frac{9.80 - 2.80}{9.80} \times 100\% = 71.4\%
 \end{aligned}$$

## RCEP ROO: *Produced Exclusively (PE)*

- Referring to a good that is **100% obtained or produced** within an exporting Party by using inputs or raw materials from one or more Parties.
- Constituted in **Article 3.3.**





## RCEP ROO:

### ***PSR – Change in Tariff Classification (CTC)***

- A good is classified by a **specific tariff nomenclature (tariff line)** in a **6-digit format**.
- **CTC rule**, once defined, is clear, unambiguous and easy for traders to learn (straightforward).
- Occurs at 3 levels:
  - Chapter level (Change in Tariff Chapter – CC): **2 digit HS**;
  - Heading level (Change in Tariff Heading – CTH): **4 digit HS**;  
and
  - Subheading level (Change in Tariff Subheading – CTSH): **6 digit HS**.

# RCEP ROO: *PSR – CTC – cont.*

- Example of Change in Chapter (CC):



**0102.21**



**0401.10**

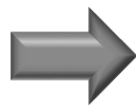
The milk (Chapter 04) complies with **CC** as it is derived from cow (Chapter 01)

# RCEP ROO: PSR – CTC – cont.

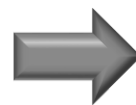
- Example of Change in Tariff Heading (CTH):



**2709.00**



**2712.10**



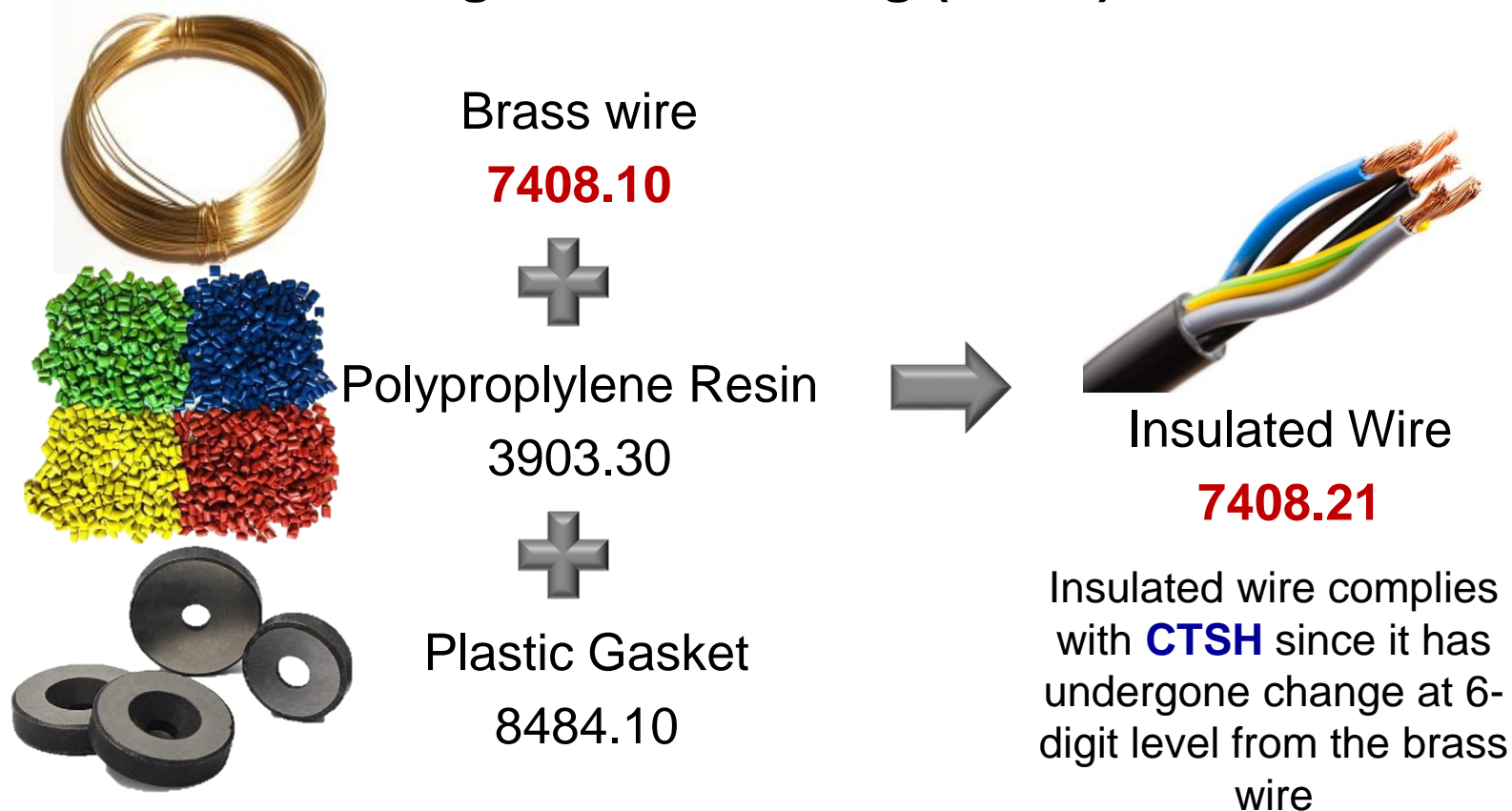
**3304.99**

Raw petroleum jelly  
(Tariff Heading 2712)  
complies with **CTH** as  
it is derived from  
petroleum crude oil  
(Tariff Heading 2709)

Processed petroleum  
jelly (Tariff Heading 3304)  
complies with **CTH** as it  
is derived from Raw  
petroleum jelly (Tariff  
Heading 2712)

# RCEP ROO: PSR – CTC – cont.

- Example of Change in Subheading (CTSH):





## RCEP ROO:

### ***PSR – Chemical Reaction (CR)***

- Similar concept to AANZFTA – chemical process and plastic production rules (CPPR) are introduced as an alternate rule for PSRs.
- Applicable to a total of 78 tariff lines under Chapter 29 and 38.
- Of 9 CPPR identified, only 1 CPPR is accepted by RCEP Parties:

Chemical Reaction	✓	Change in Particle Size	✗
Distillation	✗	Standard Materials	✗
Purification	✗	Isomer Separation	✗
Direct Blending	✗	Compounding Rule	✗
Mixtures and Blends	✗		



## RCEP ROO: *PSR – Chemical Reaction (CR)*

### Chapter 3, Annex 3A (Product Specific Rules):

- **CR** means the chemical reaction rule. Any good that is a product of a chemical reaction shall be considered to be an originating good if the chemical reaction occurred in a Party.
- A “chemical reaction” is a process, including a biochemical process, which results in a molecule with a new structure by breaking intramolecular bonds and by forming new intramolecular bonds, or by altering the spatial arrangement of atoms in a molecule.
- The following are not considered to be chemical reactions for the purposes of this definition:
  - i. dissolving in water or other solvents;
  - ii. the elimination of solvents including solvent water; or
  - iii. the addition or elimination of water of crystallisation.



# RCEP ROO: *PSR – Chemical Reaction (CR)*

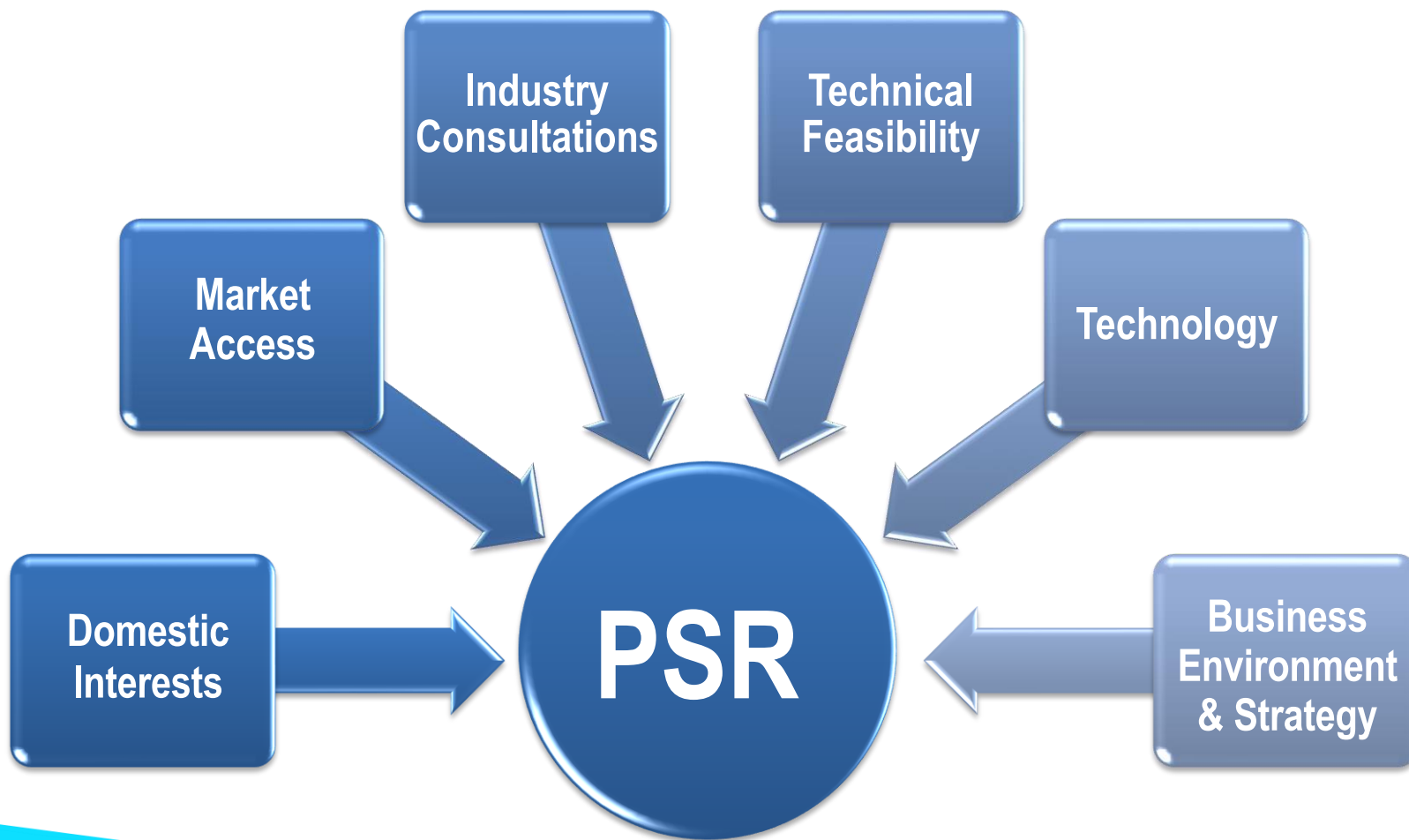
29			CHAPTER 29: ORGANIC CHEMICALS	
	29.01		Acyclic hydrocarbons	CTH, RVC40, or CR
	29.02		Cyclic hydrocarbons	CTH, RVC40, or CR

## Why CTH, RVC40 or CR?

- i. Imported inputs / raw materials are allowed provided that it complies with Minimal Operations and Processes (Article 3.6).
- ii. **CTH** – acyclic hydrocarbons (29.01) can be derived / produced from cyclic hydrocarbons (29.02) or vice-versa.
- iii. **RVC40** – non-originating inputs shall not exceed 60% of total FOB price.
- iv. **Chemical Reaction (CR)** – both 29.01 and 29.02 can be derived / produced by conducting chemical reaction on benzene, toluene and xylene.



# RCEP ROO: *How PSRs Are Determined?*





## RCEP ROO: *De Minimis*

- Constituted in **Article 3.7** of **Chapter 3**.
- Layman's term: **“tolerance”** or **“minimal amount”** that can be disregarded.
- Applicable to goods that cannot comply with the requirement of Change in Tariff Classification (CTC) as provided by Annex 3A (PSR).
- Such goods may be deemed **“originating”** provided that:
  - i. for a good classified in Chapters 01 through 97 of the HS Code, the value of non-originating materials that have been used in the production of the good and did not undergo the applicable CTC does not exceed 10% of the FOB value of that good; or



## RCEP ROO: *De Minimis – cont.*

- ii. for a good classified in Chapters 50 through 63 of the HS Code, the weight of all non-originating materials used in its production that did not undergo the required CTC does not exceed **10%** of the total weight of the good.

## RCEP ROO: *De Minimis* – cont.

### Example 1:

### *PSR for silk yarn (5006): CTH ex. 5004 or 5005*

5004 – silk yarn (other than silk spun from silk waste), not put up for retail sale

5005 – silk spun from silk waste, not put up for retail sale



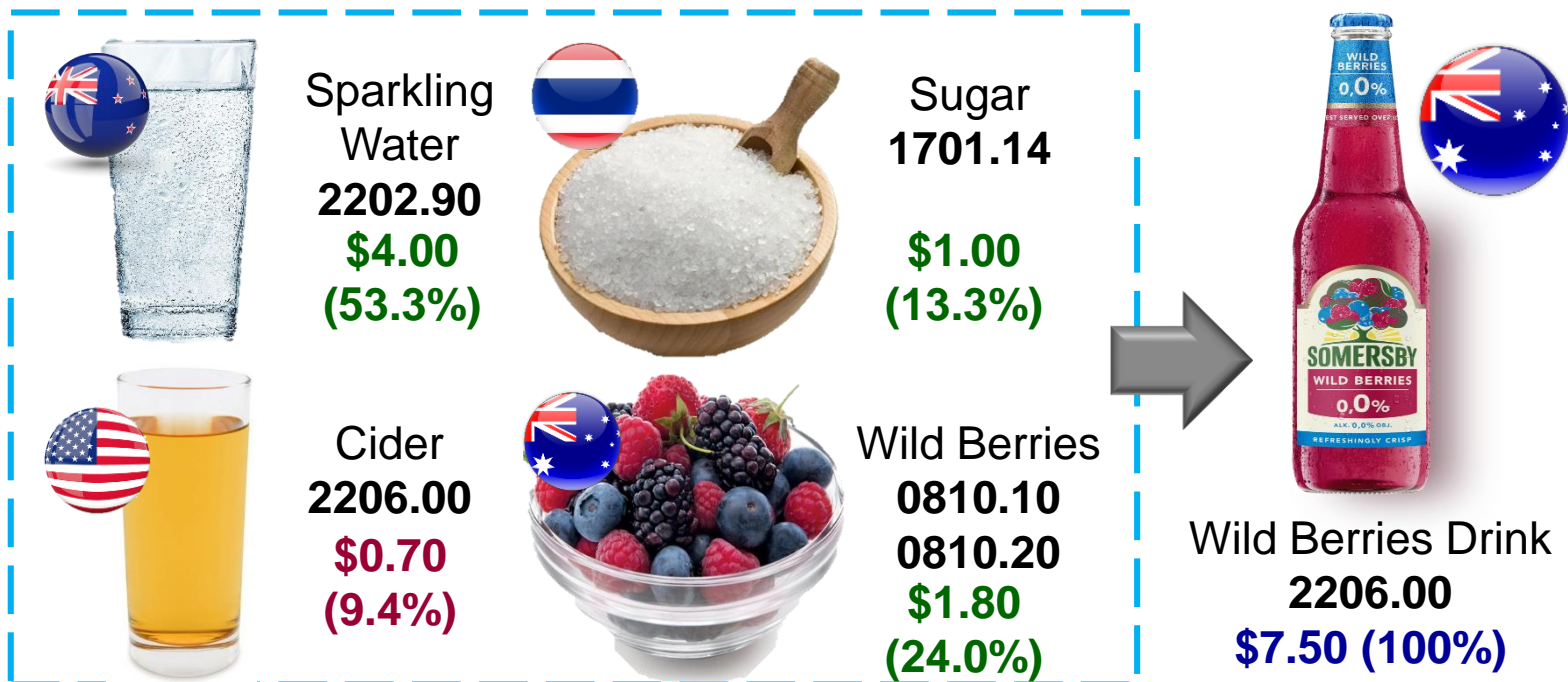
The silk yarn is NOT entitled for Malaysia origin. De Minimis rule is applicable if the silk yarn waste (from Brazil) does not exceed 10% of total product weight.



# RCEP ROO: De Minimis – cont.

## Example 2:

*PSR for mixtures of fermented beverages and non-alcoholic beverages (2206.00): CTH*



Wild berries drink is entitled for Australia origin. De Minimis rule is applicable as the cider (from USA) does not exceed 10% of total FOB price.



## RCEP ROO: *Tariff Differentials*

- Constituted in **Article 2.6** of **Chapter 2 (Trade In Goods)**.
- Applicable to certain goods which are produced using imported inputs / raw materials from other RCEP Countries.
- Imposing Countries: Indonesia, Philippines, Thailand, Viet Nam, China, Japan and Korea.
- Notwithstanding PSRs (RVC or CTC rules), the Exporting Country is required to add **20%** value during the production of the good. Otherwise, the good cannot confer origin status of the Exporting Country.



## RCEP ROO: *Tariff Differentials – cont.*

- In case of the good is unable to confer the origin of the exporting country, its origin will be “RCEP Country of Origin” or the country with highest value-added.
  - a) the highest rate of customs duty that the importing Party applies to the same originating good from any of the Parties contributing originating materials used in the production of such good, provided that the importer is able to prove such a claim; or
  - b) the highest rate of customs duty that the importing Party applies to the same originating good from any of the Parties.



# Considerations:

Notwithstanding the TIG chapter, other factors such as **ROO**, **supply chain** and **business strategies** have **direct connection** and **exponential effects** to market access and preferential tariff treatment.

Where are my materials sourced from?

Do I have any processes carried out outside of the exporting country?

Where are my current and future customers?

How are the goods transported from the exporting country to the importing country?

Do I have a current or future plan to set up a distribution hub and carry out back-to-back certification?

Can I meet the ROO?

What is the current and future tariff rate for my product?

Is there any opportunity to further optimize my supply chain?



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