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RCEP increases the need for trade automation

WHITE PAPER

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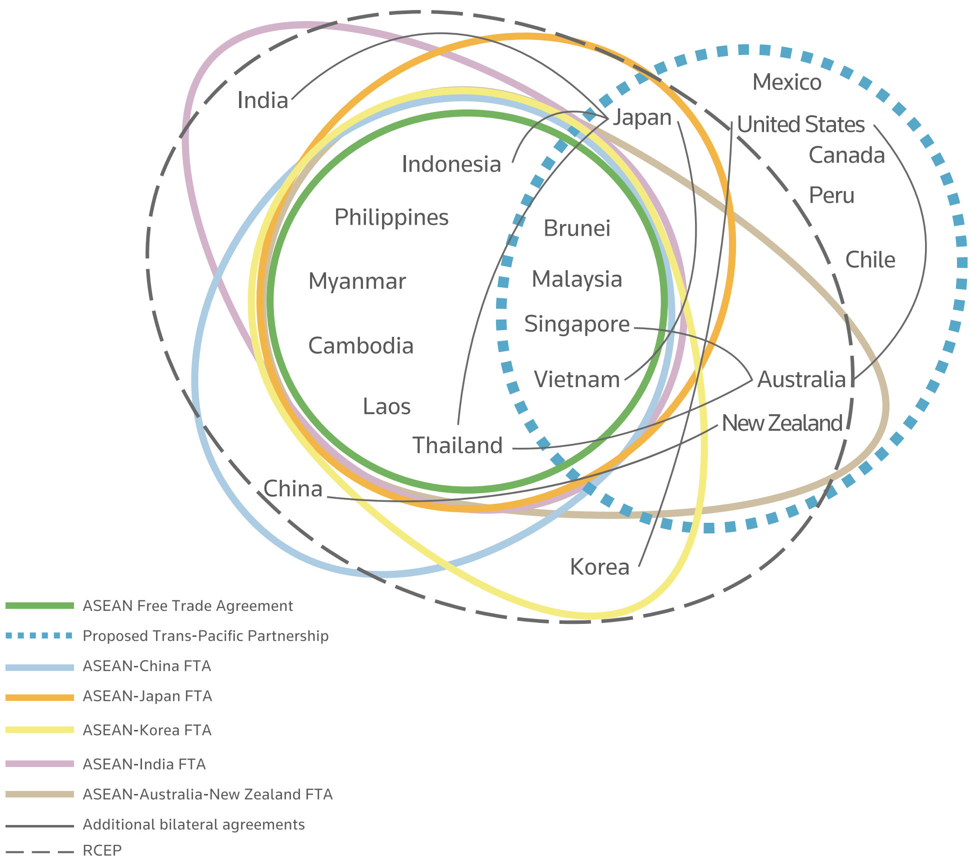
The Regional Comprehensive Economic Partnership (RCEP) promises to reduce tariffs and make it easier for companies to grow across the region. At the same time, it adds another layer of rules to an already complex trade environment. Trade automation is the best way for companies to reduce complexity and generate competitive advantages through RCEP.

RCEP will cover about 45% of the world's population and approximately 30% of global GDP, linking major countries such as China, Japan and India that have not previously shared free trade agreements. However, these positive developments come with complications.

With 16 countries at the negotiating table and thousands of different tariff lines under discussion, RCEP will result in an even thicker rule book for Asian supply chains and traders. RCEP regulations, duty rates and origin rules come into play in addition to many pre-existing bilateral and regional trade deals — all of which will remain in effect after RCEP is applied. With different rules of origin and duty rates for every agreement, no wonder experts refer to Asia's trade agreements as a "noodle bowl."

RCEP and other noodles in the bowl



"Multiply this by thousands of products and hundreds of country combinations, and a manual approach to analyzing free trade opportunities could take years," said Hoon Sung, the head of free trade agreements at Thomson Reuters. "This can be a daunting task without automation as four or more agreements may touch a certain pair of export-import destinations."

In some cases, with certain products on specific trade routes, RCEP rules will offer an advantage over pre-existing rules. In other cases the opposite will be true. Automated trade processing is the best way for companies to sort through potential opportunities.

* https://en.oxforddictionaries.com/definition/big_data

"Getting the right information will be challenging especially during the implementation phase as the 16 countries cut tariffs in different schedules across different products each year. These shifting timelines alone will require automation to ensure that firms are able to capture the benefits of the agreement," said Dr. Deborah Elms, executive director of the Asian Trade Centre.

"The key challenge for companies trying to use RCEP is that not all products are going to be included for tariff reductions. Many of the non-tariff barriers will remain in place, including issues related to product standards or testing and customs clearance. Services liberalization will not happen overnight."

Automation for big and small

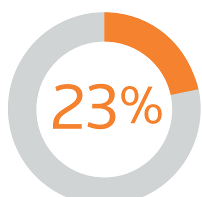
South Korea is the regional leader in adopting trade automation with local companies embracing new technology faster than those in other Asian markets. This can be attributed to strict enforcement of trade rules and a large and active network of free-trade agreements. Japan is another notable example with many companies recently adopting solutions to have greater confidence in their global compliance. Elsewhere in Asia, technology adoption rates are also on the rise although they lag behind these market leaders.

With most of RCEP's duty reductions to take place in manufacturing, manufacturers face greater challenges to qualify products as originating under FTA regulations than companies in other sectors such as agriculture or natural resources.

Rules on the origin of manufactured goods can be extremely complex, and manually keeping track of relevant data can be challenging. Thus, the manufacturing sector has strong justification for automation given the increased complexity with low utilization and new opportunities created by a mega, multi-country agreement like RCEP, in addition to existing bilateral free-trade agreements.

"RCEP should be beneficial to many firms that struggle with compliance issues as it helps sort out the noodle bowl effect of following overlapping and inconsistent trade agreement rules. For example, under the agreement, products shipped between RCEP members should have only one rule of origin and companies should be able to turn to just one source of information in tariffs into all 16 member markets." said Dr. Elms.

FTA Utilization



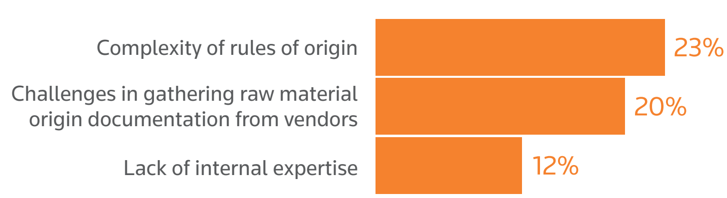
of respondents fully utilize FTAs

Just as RCEP benefits will accrue for companies large and small, technology can greatly improve trade efficiency for companies of all sizes too. While large companies with many products have more complications to deal with, small companies may struggle to find the resources to navigate the FTA environment without technological assistance.

"Even small companies in high-duty categories can benefit from automation and should consider technology as a way to ensure that they are optimizing their FTA utilization and keeping compliant records," said Hoon Sung.

FTA challenges

What are the biggest challenges in using FTAs for import/export?



Leveraging FTAs Efficiently

Negotiators are hoping to have an RCEP agreement in place by the end of 2017, but the implementation timetable is still uncertain. However, companies should start preparing for it now.

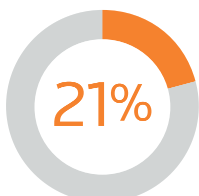
Ensuring that your product portfolio is ready for RCEP will put you in an excellent position once the agreement comes into force. Most importantly, start working with your suppliers to secure their origin claims as this can be a lengthy process.

"Cleaning up internal data and tying to an automated FTA system to identify potential savings will be critical," said Hoon Sung.

You should also contact trade automation solution providers for ideas on how to best move your company towards a more efficient trading future. Once your own company's trade processing is up to date and in order, the new RCEP rules can simply be overlaid on existing data and systems, giving you the edge in Asia's competitive trading environment.

Source of Graphs: 2016 Global Trade Management Survey, Thomson Reuters and KPMG International
Download the full report here

Trade Automation



utilize a global trade management system

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