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TAPPING THE RCEP OPPORTUNITIES: HONG KONG TO MAXIMISE GBA'S UNIQUE EDGE AS A BUSINESS PLATFORM

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- Creating and delivering value to our customers
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TAPPING THE RCEP OPPORTUNITIES: HONG KONG TO MAXIMISE GBA'S UNIQUE EDGE AS A BUSINESS PLATFORM

The Regional Comprehensive Economic Partnership (RCEP) agreement is expected to bring huge benefits not only to traders, but also to many service providers throughout the Guangdong-Hong Kong-Macao Greater Bay Area (GBA). A large-scale trade agreement inked by 15 Asia-Pacific nations, the RCEP is seen as an essential means for supply chains to gear up for production in the region. While looking for new markets and committing to expand their overseas manufacturing bases, many companies within the region are facing the challenge of harnessing the recovery-led momentum in order to secure sustainable development as a way of moving forward in the post-pandemic era. In line with the above, this report examines the challenges and opportunities businesses face from the greater integration of the region's economies, while also exploring the measures that should be taken to fully capitalise on the new production/sourcing advantages and market niches emerging from the provisions of the RCEP agreement.

Contents

1. Executive Summary

The Regional Comprehensive Economic Partnership (RCEP) agreement signed in November 2020 is set to create the largest free trade bloc in the world. The 15 signatories to the agreement, including China, 10 ASEAN member states, South Korea, Japan, Australia and New Zealand, are home to almost a third of all the people in the world and almost a third of the global economy.

The RCEP agreement is widely expected to enhance economic integration among the members with measures to facilitate trade, eliminate tariffs, minimise non-tariff barriers, promote e-commerce and increase market access. This will provide a fresh impetus not only to the trade of the signatories, but also to the global economy which has been hard hit by the Covid-19 pandemic. Among the most immediate beneficiaries of the RCEP will be companies in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), which have been actively taking advantage of the further integration of Asian economies and regional supply chains.

This report explores how the RCEP agreement will transform the industrial landscape in the region, as measures to support trade and investment help production to grow. Indeed, industrial production in Asia has more than tripled in the last 20 years, lifting the region's share of the global total from a little more than a third to about half. But the rapid growth has also created challenges. While companies in the GBA are more integrated into the RCEP region than ever before, there are concerns about rising production costs in mainland China and amongst certain ASEAN members. One option to deal with the challenges is for concerned businesses to optimise their supply chains from a regional perspective, and to take advantage of the growing consumer markets of RCEP members. The RCEP agreement should facilitate this process, while making it easier for RCEP companies to set up a presence on the mainland and tap into China's giant domestic market.

At the same time, the links between China and Southeast Asia should grow increasingly close as the RCEP improves relationships and encourages production efficiencies among the 15 members. This will be a result of the multiple measures in the RCEP agreement to simplify trade, including eliminating import tariffs on most goods over the next 20 years, creating uniform and more accommodating rules of origin for members, streamlining customs procedures and removing non-tariff barriers. As the subsequent sections in this report show, all these changes should create a more conducive environment for trade and services in the region. Cross-border investment and e-commerce arrangements, coupled with enhanced protection of intellectual property rights, will also help strengthen business co-operation in the region.

Further opportunities may be found in the greater economic integration that the RCEP aims to create for its 15 members. In 2020 alone, total imports and exports from the 15 RCEP members added up to more than US$10 trillion, about 70% of all trade in and out of all of Asia and Oceania. Supply chains in the region are becoming much more mature and market opportunities are growing, and intra-regional trade among the members is surging. This is thanks to the increasing division of labour among different industrial sectors, and the frequent intra-regional traffic of production inputs is evidence of the close supply chain relationship between upstream and downstream enterprises in different production sites. Such a supply chain relationship will strengthen further as most raw materials and intermediate products will be able to move freely without trade barriers under the RCEP.

The changes to trade rules, supply chains, tariffs and regional co-operation are sure to impact companies in the region, and they will adopt different strategies to tap into these new opportunities. Companies from the GBA in sectors including manufacturing, consumer goods, professional and financial services and more are developing and implementing new approaches to help them leverage the opportunities embedded in the RCEP. These GBA companies can not only benefit from the RCEP but should be able to use the agreement to turbo-charge their efforts to go global. Hong Kong, an important transportation hub for trade in the region, and a premium business platform to handle outbound investment from the mainland, including those to ASEAN and other RCEP members, will be key to such expansion.

Despite the benefits brought about by the RCEP, several challenges to businesses remain. Whether relocating production/sourcing activities, or planning their marketing in the region, limited knowledge of the different local markets, business practices, cultures, laws and regulations can all create hurdles. To compound the problems, the RCEP agreement itself is a technical document that can be difficult to understand. For the elimination of the tariffs, for instance, individual companies may find it difficult at the outset to understand whether their goods will qualify for preferential terms. Professional advice and due diligence will be necessary for companies who wish to fully capitalise on the RCEP opportunities. Hong Kong is considered by GBA companies as their first stop for help as they seek to "go out" and develop international business, given the city's strengths in the provision of financial, legal, accounting, and other professional services.

We hope this report helps companies, particularly those in the GBA, understand the implications, opportunities and challenges that make the RCEP such an important regional agreement.

RCEP WILL PROVIDE A FRESH IMPETUS NOT ONLY TO THE TRADE OF THE SIGNATORIES, BUT ALSO TO THE GLOBAL ECONOMY WHICH HAS BEEN HARD HIT BY THE COVID-19 PANDEMIC.

2. Introduction: Free Trade Opportunities in the Post-pandemic Era

The signing of the RCEP agreement, witnessed by the leaders of participating countries China, 10 ASEAN member states, South Korea, Japan, Australia and New Zealand via video link on 15 November 2020, marked the creation of the largest free trade bloc in the world in terms of economic power and population.

Its huge market potential has attracted the immediate interest of global business. The signatories to the RCEP agreement represent 2.2 billion people, almost 30% of world population. Their combined GDPs total US$ 26.2 trillion or some 30% of the global economy, and they account for nearly 28% of global trade[1]. The enhanced market access to the 15 signatory states made possible by the agreement will create vast market opportunities for businesses in the region and beyond.

This is particularly significant at a time when lockdowns caused by the Covid-19 continue to disrupt global markets and supply chains. Yet effective pandemic prevention and control work in some countries and regions, such as China and certain ASEAN members, has resulted in a gradual recovery of many economic activities, so that industrial production is increasingly robust and demand from the consumer market is growing. Foreign direct investment (FDI) flows to developing countries in Asia, which accounted for more than half of global inward and outward FDI flows, continued to increase in 2020 despite global FDI contraction, according to a recent report released by the United Nations Conference on Trade and Development (UNCTAD). UNCTAD also pointed out that FDI prospects for Asia will remain resilient in 2021, as the Asian region could be further strengthened by the signing of the RCEP agreement[2].

Many companies are reviewing their development strategies to address the revived demand in Asia and beyond. Business operations worldwide have pursued digitalisation at an unprecedented pace to deal with the devastating effects of the pandemic. Digital platforms and cross-border e-commerce activities have become more prominent than ever. As supply chains especially in Asia gear up for production, companies are challenged to ride the momentum of recovery and reposition themselves digitally to revive business, to achieve sustainable development and move towards a post-pandemic era.

In the circumstances, the RCEP is expected to further the advancement and integration of regional supply chains, as well as encourage the specialisation of production. Asia has already developed the world's largest co-operative manufacturing base, boosted by transfers from the West to low-cost Asian locations in the last few decades. Integration will be enhanced by RCEP provisions like tariff elimination on most finished products, intermediate goods and raw materials, easier customs procedures, promotion of e-commerce, protection of intellectual property rights and simplified cross-border investment. The agreement, which should be implemented by as soon as January 2022[3], will have far-reaching impacts on supply chains and production relationships in the region. Hong Kong, as a city in the GBA, will be an important business hub to help enterprises in the region handle their production, trading and related investment businesses. Further integration of supply chains will elicit more business opportunities for consultants and service providers in the city.

1. (i) 2019 figures; (ii) Source: Joint Leaders' Statement on the Regional Comprehensive Economic Partnership (RCEP), 15 November 2020
2. "World Investment Report 2021: Investing in Sustainable Recovery", UNCTAD
3. China's Ministry of Commerce revealed on 22 March 2021 that all member states of the RCEP had stated they would approve the RCEP agreement before end-2021 in order to take it into effect on 1 January 2022. According to the RCEP provisions, the Agreement will enter into force for those signatory States that have deposited their instrument of ratification, acceptance, or approval, 60 days after the date on which at least six signatory States which are Member States of ASEAN and three signatory States other than Member States of ASEAN have deposited their instrument of ratification, acceptance, or approval with the Secretary-General of ASEAN, who has been designated as the Depositary for the RCEP Agreement. Singapore and China in April 2021, and Japan in June 2021, reportedly had deposited their instruments of ratification with the Secretary-General of ASEAN.

THE SIGNING OF THE RCEP AGREEMENT, WITNESSED BY THE LEADERS OF PARTICIPATING COUNTRIES, MARKED THE CREATION OF THE LARGEST FREE TRADE BLOC IN THE WORLD.

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The RCEP at a glance

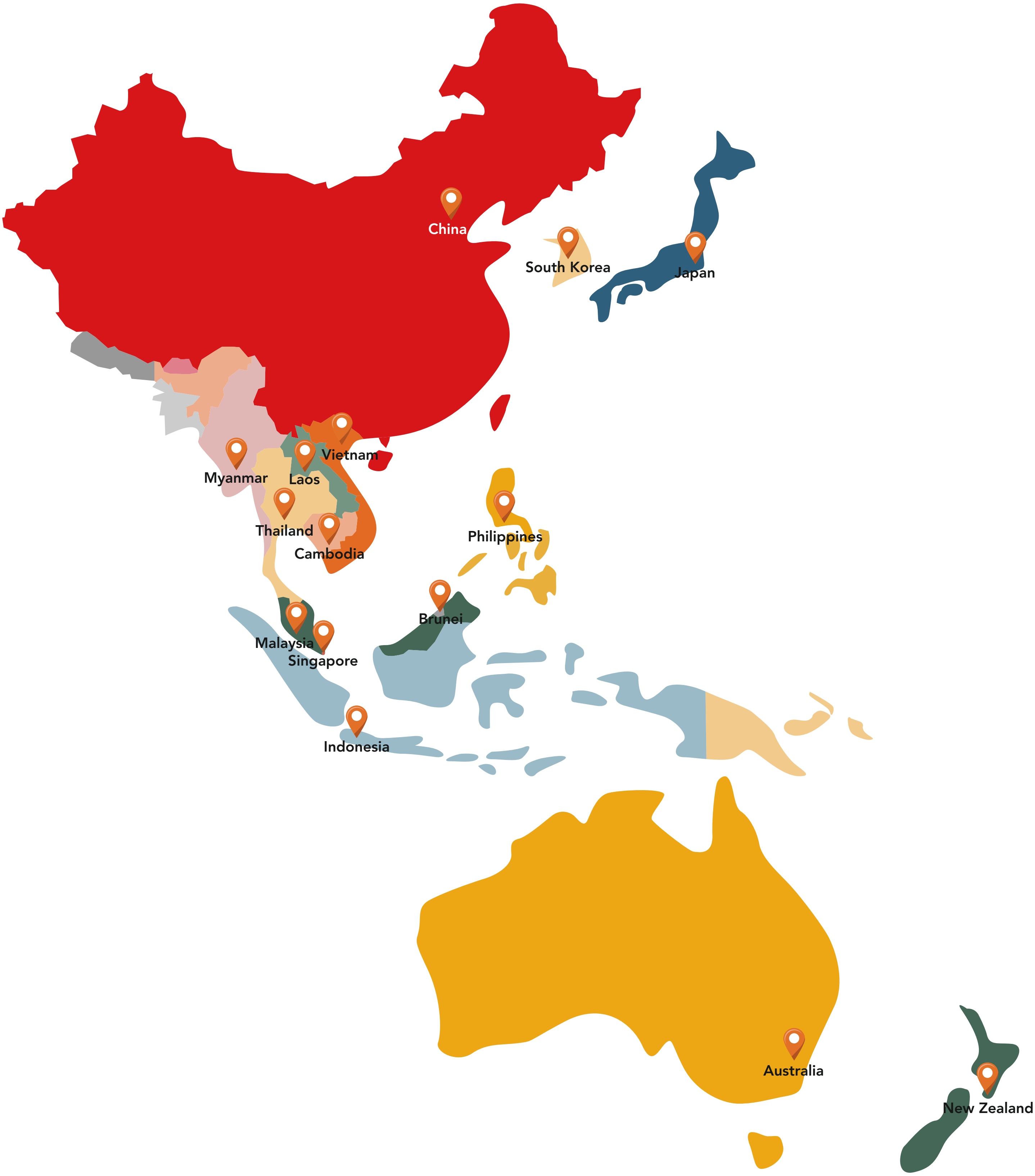
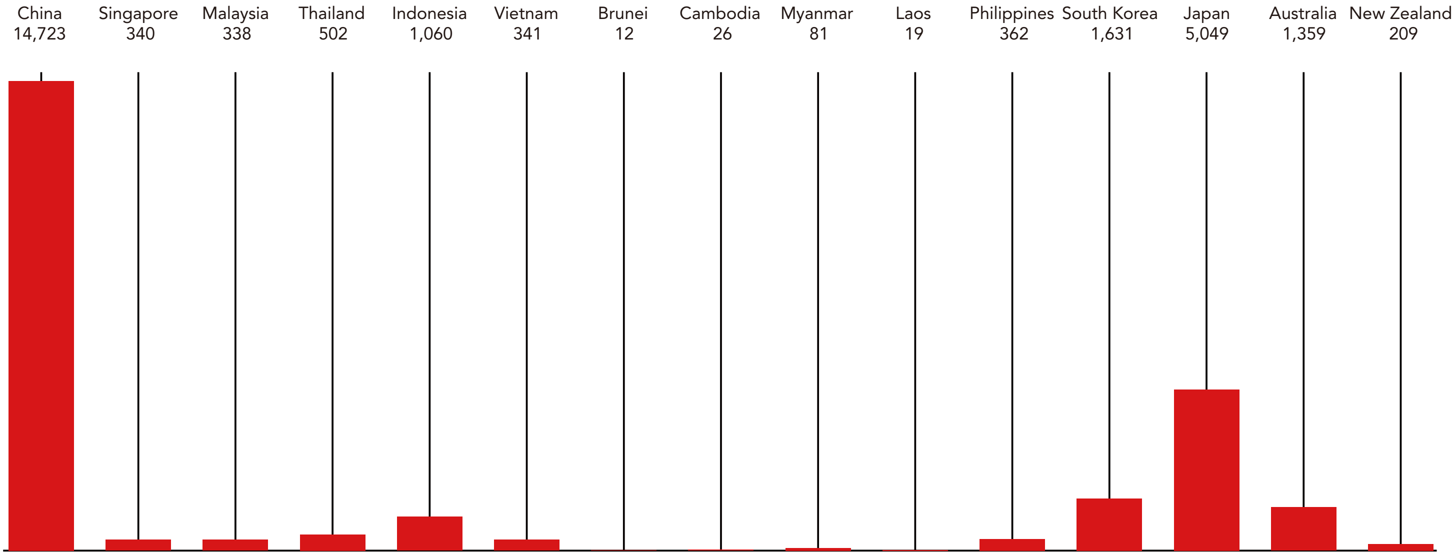
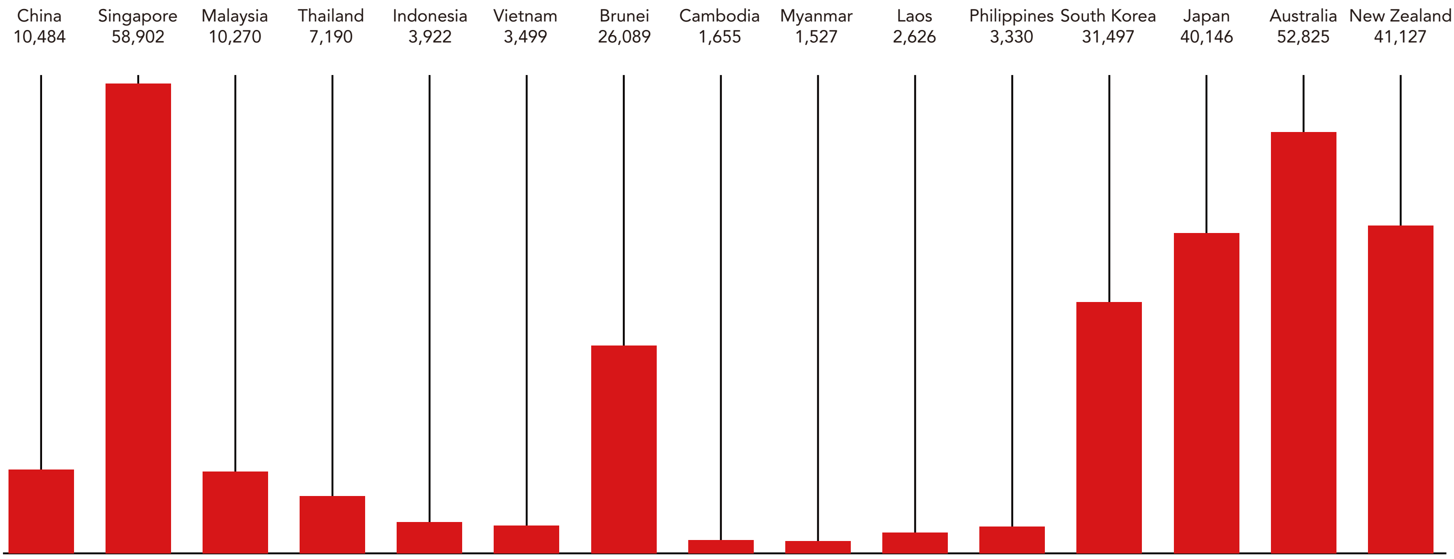


FIGURE: GDP of RCEP countries in 2020 (in USD billion)



Source: International Monetary Fund

FIGURE: Per capita GDP of RCEP countries in 2020 (USD)



Source: International Monetary Fund

3. RCEP: Asia as the Global Manufacturing Centre

The industrial landscape in Asia will be transformed by the implementation of the RCEP agreement. Measures to support trade and investment under the RCEP will provide an impetus to Asian production.

3.1 Realignment of global production

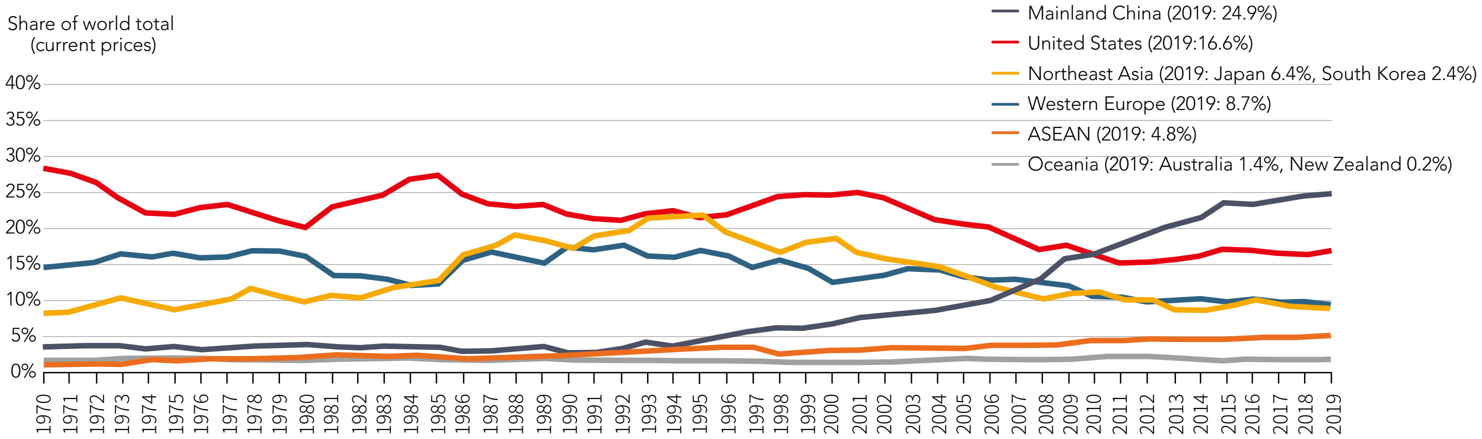
The industrial landscape in Asia will be transformed by the implementation of the RCEP agreement. Measures to support trade and investment under the RCEP will provide an impetus to Asian production, which has benefited from the earlier large-scale relocation of production and sourcing activities from many developed countries since the 1990s. In fact, industrial activities have soared across Asia since the beginning of this century, especially in China which has emerged as a manufacturing powerhouse. Many Asian companies are now export-oriented, and this has fuelled the expansion of international trade in Asia. Typically, manufacturers in lower-cost production sites in China and Southeast Asia import machinery, equipment, key parts and components from the US, Europe, and Japan, while China's production with higher value-added and higher technology contents also need the supports of imported raw materials and intermediate goods, a significant portion of these produced in Asia by foreign investors or local enterprises. Such interdependency not only promotes trade between China and the rest of Asia, but also advances the overall industrial development in the region.

China has been progressively opening up to the outside world since its accession to the World Trade Organisation (WTO) in 2001. It has encouraged the relocation of production and sourcing activities from developed countries on a massive scale, especially to its coastal cities and provinces. At the same time, many emerging countries in Asia have further liberalised their economies, using their low costs to attract foreign investment to propel growth and development. Changes such as the elimination of textiles and clothing import quotas by WTO members[4], and the introduction of zero tariffs for information technology products under the Information Technology Agreement[5], have facilitated the further transformation of global industrial production in the last couple of decades.

Latest statistics from the United Nations show that Asia's industrial value added rose markedly from US$2.7 trillion in 2000 to US$9.4 trillion in 2019, at an average annual nominal growth of 6.7%. During this period, Asia's share of world industrial value-added climbed from 35.9% to 50.9%, in contrast to a decline in the US and Western Europe. In particular, China's share rocketed from 6.4% to 24.9%, while the share of ASEAN also rose from 2.8% to 4.8%. Japan's share declined as the country's industrial activities were relocated to lower-cost production sites in Asia and beyond. From the RCEP perspective, the 15 members had a combined share of 40.2% by 2019, up from 29.4% in 2000. Further liberalisation under the RCEP is set to further such development in the next decade.

4. Under the Agreement on Textiles and Clothing (ATC), WTO members terminated quota limits on all textiles and clothing imports starting from 1 January 2005.
5. The Information Technology Agreement (ITA) was reached by the WTO in December 1996 whereby the signatories pledged to grant zero tariff concession to information technology products covered in the agreement. Then the ITA agreement further expanded the coverage of products entitled to zero tariffs, with the majority of tariffs eliminated within three years beginning in 2016.

FIGURE: Global Industrial Value Added



Source: National Accounts Database, United Nations Statistics Division

Outbound development of mainland enterprises has boosted industrial activities in other low-cost Asian regions, leading to an ever-closer supply chain relationship.

3.2 Growing interdependency amid changing investment environment

However, Asian industrial companies have been facing increasing pressures due to the fast-changing global investment environment. Rising production costs in mainland China, including the Pearl River Delta (PRD), have impacted on production and sourcing. These changes have been happening gradually over the years. The so-called "demographic dividend" offered by a large population has dissipated, and labour shortages have become a pervasive problem in coastal regions of the mainland. Rapid urbanisation and industrial development have aggravated the already limited supply of land, causing industrial costs to rise. Enterprises on the mainland have adapted to counter these pressures. Many businesses located in Guangdong province or the GBA have relocated part of their production and sourcing to other low-cost sites in Asia, while their business operations in the PRD and other parts of the mainland have been upgraded or automated to enhance competitiveness.

According to a recent survey conducted by the HKTDC on mainland enterprises in the GBA, rising labour and production costs, along with weak markets and inadequate orders, were their top two concerns. To tackle these challenges, the majority polled (76% of the enterprises) said they would consider "going out" or expanding overseas in the next one to three years. The most attractive overseas destinations were in Southeast Asia including the 10 ASEAN nations, according to 66% of the respondents.[6]

Such outbound development of mainland enterprises has boosted industrial activities in other low-cost Asian regions, leading to an ever-closer supply chain relationship between mainland China and the rest of Asia, especially the ASEAN countries. This supply-chain network has been further supported by the establishment of the China-ASEAN Free Trade Area (CAFTA) since 2010. An increasing number of local, Hong

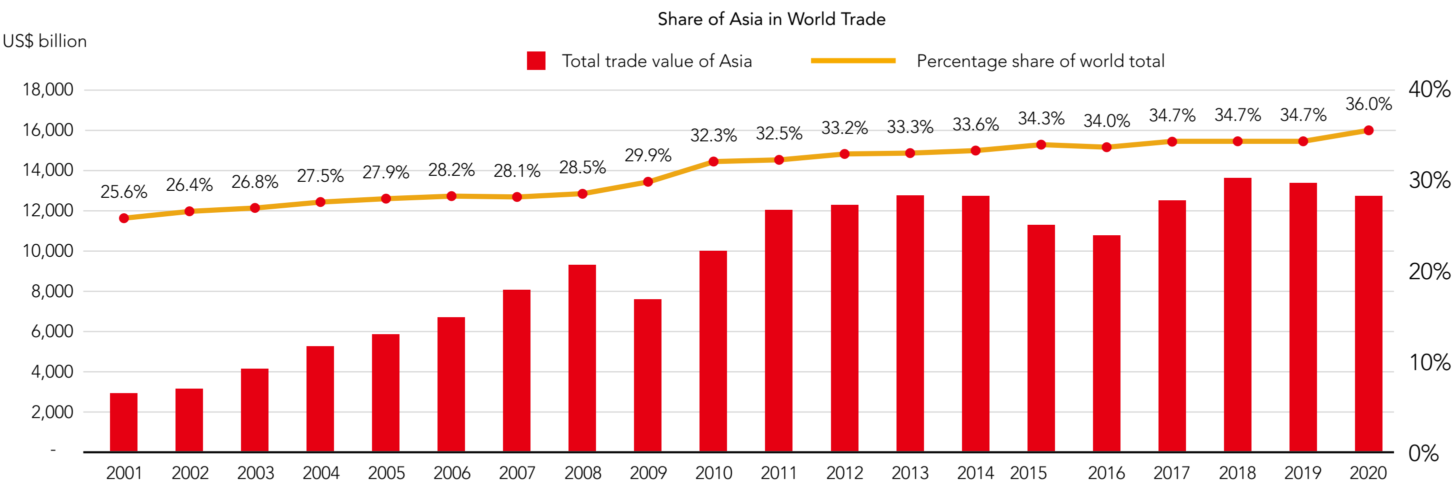
6. The survey and related research were undertaken by HKTDC Research with the support of the Department of Commerce of Guangdong Province of China in the second half of 2019 (prior to the Covid-19 pandemic), at the time when China's foreign trade was affected by the China-US trade dispute and other uncertainties. For details, please see: Hong Kong as the Major Service Platform for Greater Bay Area Enterprises to 'Go Out': 2019 GBA Survey Results

Moreover, the relocation activities have created an expanded market and wider sourcing options for industrial enterprises in the region.

Kong and foreign enterprises on the mainland China have accelerated their establishment of Asian production and sourcing networks in ASEAN countries. They are relocating to overcome not only rising production costs but also trade barriers, such as anti-dumping and countervailing measures imposed by the US and the EU against products originating from the mainland. The distributed production and closer trade relations between upstream and downstream suppliers have contributed to a steady growth in bilateral trade between the mainland China and ASEAN in particular. This has resulted that since 2020, ASEAN has overtaken the EU to become the mainland's largest trading partner and biggest source of imported goods.

Moreover, the relocation activities have created an expanded market and wider sourcing options for industrial enterprises in the region, including the mainland and Hong Kong enterprises located in the GBA. Many enterprises ship large quantities of industrial materials from the PRD and other mainland regions to Southeast Asia to support local production there. Some mainland and foreign enterprises in the PRD have even relocated part of their activities to these low-cost regions to improve their production and sourcing capabilities. The end-products produced or sourced in Southeast Asia are typically sold on to the more developed countries, while industrial materials, parts and components are shipped back to the PRD and other mainland sites to support higher-end production activities. As a result, the division of labour has become more well-defined across Asia, and trading relationships between upstream and downstream suppliers has become more mature. This has fuelled the specialisation and trade expansion of most Asian countries and driven intra-Asia trade among the economies in the region. Asia's total trade climbed from US$3.2 trillion to US$12.7 trillion during 2001-2020, representing an average nominal growth of 7.5% annually. The Asian share of world trade increased from 25.6% to 36.0% in the period, indicating the growing importance of Asian production and supply chains in the global market.

FIGURE: Share of Asia in World Trade



Source: World Trade Orgnisation

Asian economies have seen increasing Chinese funding amid the country's "going-out" policies, including direct investment in production and sourcing in Southeast Asia.

3.3 Asian co-operation aided by China's further opening-up

China's recent liberalisation measures have also impacted the Asian supply chain network. Asian economies have seen increasing Chinese funding amid the country's "going-out" policies, including direct investment in production and sourcing in Southeast Asia. According to the latest available figures from the UNCTAD, mainland China was the world's largest source of FDI in 2020, with FDI outflows amounting to US$133 billion. This was followed by Luxembourg, Japan, Hong Kong and the US.[7] Hong Kong, in the meantime, is a key destination for outward FDI of the mainland China. In 2019, 66.1% of the mainland's FDI passed through Hong Kong. At the end of 2019, Hong Kong was the destination for 58.0% of the mainland's cumulative outward FDI[8]. These mainland funds mostly use Hong Kong's business platform as a springboard to invest in Asia and other overseas regions.

Such remarkable performance was made possible by China's substantial relaxation of its outbound investment management procedures. Platforms were also built to help businesses "go out" and transform and upgrade themselves with foreign partners. This can be traced back to the resolution[9] passed by the Third Plenary Session of the 18th CPC Central Committee at the end of 2013. The resolution proposed that in order to meet the needs of economic globalisation, China should continue opening up both internally and externally and combine the strategies of "going out" to invest overseas with "bringing in" the advantages of foreign partners to achieve the effective allocation of international and domestic resources. Subsequently, China's National Development and Reform Commission (NDRC) issued the "Administrative Measures for the Approval and Record Filing of Outbound Investment Projects", which greatly narrowed the scope of investment requiring the approval of the departments concerned. Starting from May 2014, general outbound investment projects with an investment of less than US$1 billion only require filing for the record. At the end of the same year, the NDRC further announced the scrapping of approval for general outbound investment projects with an investment of more than US$1 billion (except for projects involving sensitive countries, regions and sectors).[10] Since then, record filing has replaced approval for all general outbound projects, and now mainland companies have a free hand to formulate their own production and sourcing investment strategies in Asia and beyond.

On the other hand, Asian and other foreign investors can establish manufacturing or sales facilities in China much more easily since the implementation of the new "Foreign Investment Law" on 1 January 2020. The new law grants foreign investors national treatment with administration through a reduced negative list. With the Covid-19 pandemic still looming over the

7. "World Investment Report 2021: Investing in Sustainable Recovery", UNCTAD
8. Source: Ministry of Commerce of the People's Republic of China
9. China's 18th CPC Central Committee adopted at its Third Plenary Session on 12 November 2013 the "Decision of the CPC Central Committee on Major Issues Concerning Comprehensively Deepening Reforms".
10. China's NDRC Order No. 20: "Decision of NDRC on Amending the Relevant Clauses of the Administrative Measures for the Approval and Record-Filing of Outbound Investment Projects and Administrative Measures for the Approval and Record-Filing of Foreign Investment Projects". (27 December 2014)

On the other hand, Asian and other foreign investors can establish manufacturing or sales facilities in China much more easily since the implementation of the new "Foreign Investment Law" on 1 January 2020.

global economy, China is leaning towards capitalising on the strengths of its sizable domestic market to create a new growth model, based on the complementary relationship between the domestic and international markets, during its 14th Five-Year Plan covering 2021 to 2025[11]. It is hoped that a new development pattern will gradually be created whereby domestic and foreign markets can boost each other – the so-called "dual circulation" strategy. By making better use of international and domestic resources, China aims to achieve a stronger and more sustainable development. Consequently, many enterprises with production activities elsewhere in Asia are now switching their attention from overseas markets to the mainland. They are trying to use quality products made or procured in the Asian region to tap into China's vast market for both consumer goods and industrial products. Together with the RCEP, this will strengthen the supply chain relationship between China and other Asian economies, and further integrate industrial developments in the region over the next few decades.

11. On 11 March 2021, the Fourth Session of the 13th National People's Congress of the People's Republic of China passed a resolution to adopt "The Outline of the 14th Five-Year Plan (2021-2025) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035".

4. Regional Supply Chains Consolidated by RCEP Provisions

The more transparent and stable policy environment will create new stimulus to trade and investment among the RCEP signatories.

The RCEP agreement will greatly enhance the supply chain relationships and production efficiency of its members, accelerating the economic integration in the Asia-Pacific region.

The trade in goods provision means that signatories will introduce tariff concessions and provide free market access. Some members like Australia, New Zealand and Singapore have committed to adopt a single unified tariff reduction schedule for imports from all members, while others like China, South Korea and Indonesia will adopt country-specific schedules with separate tariff reduction timetables for imports originating from different members. In sum, import tariffs on more than 90% of all the goods will be eliminated in 20 years in the region. Coupled with the removal of non-tariff barriers upon implementation of RCEP agreement, intra-regional trade costs and product prices will be significantly reduced. The more transparent and stable policy environment will create new stimulus to trade and investment among the RCEP signatories.

RCEP Supply Chains Strengthened by Trade in Goods Provisions

1) Import tariffs on more than 90% of all the goods will be eliminated in 20 years, with the majority reduced to 0% immediately or within 10 years upon the implementation of the RCEP agreement.

2) Tariff preferences easily enjoyed by most of the intra-regional trade via application of uniform rules of origin among 15 members.

3) Trade facilitation via implementation of streamlined customs procedures, inspection and quarantine.

4) Removal of non-tariff trade barriers with adoption of generally accepted technical standards.[12]

12. The RCEP agreement provides that, among others, the signatories agree to ensure that standards, technical regulations, and conformity assessment procedures do not create unnecessary obstacles to trade, and to enhance the implementation of the WTO Technical Barriers to Trade (TBT) Agreement.

With the arrival of RCEP, inputs from the 15 member states will be treated equally for determination of origin, making it easier for the corresponding outputs to enjoy preferential tariff.

4.1 Consolidation of regional advantages

Many member states already have free trade agreements (FTAs) in place. For instance, trade among the 10 ASEAN members has been liberalised, while trade between China and ASEAN is subject to preferential tariff treatment pursuant to CAFTA. Nonetheless, such arrangements have many limitations, so that goods produced in one country with inputs from others may still be subject to import tariffs within the free trade area. For example, products exported to China with key inputs sourced from non-CAFTA locations like Japan or South Korea but final production in an ASEAN country may not be able to claim preferential tariff treatment of the CAFTA if non-CAFTA inputs are above a certain threshold. This has disrupted supply chains in the region, even though Asia has already evolved into a prime site for global production.

With the arrival of RCEP, inputs from the 15 member states will be treated equally for determination of origin, making it easier for the corresponding outputs to enjoy preferential tariff. This will strengthen the relationships of existing supply chains across the different free trade areas and production locations. Although the long-awaited FTA arrangements among China, Japan and South Korea have still to be completed, the RCEP is particularly beneficial for members looking to integrate the supply chain advantages of Northeast Asia with the production of other RCEP countries. Raw materials and intermediate products produced in RCEP locations will be able to move freely between upstream and downstream participants in the supply chain without trade barriers. Low-cost manufacturers in ASEAN will be able to use high value-added inputs such as semiconductor items and chemicals originating from Japan or South Korea, and their outputs can be further processed by more comprehensive manufacturing in China. Companies will be able use the comparative advantages of different production bases to meet sales orders in the region and beyond.

An important note is that the RCEP rules of origin are more accommodating, making it easier for the businesses to claim tariff preferences.

4.2 More accommodating rules of origin

An important note is that the RCEP rules of origin are more accommodating, making it easier for the businesses to claim tariff preferences. Currently, ASEAN members have FTAs, or the so-called "ASEAN+1" arrangements, with five other RCEP members, i.e. China, Japan, South Korea, Australia and New Zealand, though not all the non-ASEAN members have FTA arrangements with one another. With the RCEP agreement, all 15 member countries agree to adopt one single set of rules of origin with regional value content (RVC) of no less than 40%, which is on par with most of the existing FTAs among the RCEP's members. Companies trading with multiple RCEP countries will only need to comply with one set of RCEP rules and procedures. Businesses will have greater choice and flexibility in fulfilling origin requirements, simplifying customs clearance procedures.

The cumulation rule of the RCEP agreement provides that goods and materials originated from other members and used in a given member as materials in the production of new materials or finished goods are considered as originating in the given member where working or processing has taken place. Trading of the corresponding outputs, including finished goods and materials, within the RCEP will enjoy tariff-free treatment. This will solve existing gridlocks between different FTAs. As a result, businesses will be able to fully utilise the resources and production advantages of different members in the region.

The RCEP rules have also introduced certain provisions that are either on par with or better than those of the ASEAN+1 arrangement, making it easier for goods to comply with the origin rules. Taking the RVC as an example, RCEP allows its calculation by using either the indirect/build-down formula or the direct/build-up formula, with indirect materials treated as originating items, thus creating more flexibility for businesses to meet the 40% RVC requirements. Overall, businesses will find it easier to have their products meet RCEP origin requirements for preferential treatment.

Selected RCEP Rules of Origin

Cumulation

Goods and materials which comply with the origin requirements of "originating goods", and which are used in another Party as materials in the production of another good or material, shall be considered as originating in the Party where working or processing of the finished good or material has taken place.

Calculation of Regional Value Content (RVC)

The RVC of a good (specified in Annex 3A of RCEP) shall be calculated by using either of the (a) Indirect/Build-Down Formula or (b) Direct/Build-Up Formula:

(a) RVC = (FOB – VNM) / FOB * 100% ; or

(b) RVC = (VOM + direct labour + direct overhead + profit + other cost) / FOB x 100%

where: FOB = free-on-board value of the good

VOM = value of originating materials/parts/produce acquired or self-produced, and used in the production of the good

VNM = value of non-originating materials used in the production of the good

Indirect Materials

An indirect material shall be treated as an originating material without regard to where it is produced.

Materials Used in Production

If a non-originating material undergoes further production such that it satisfies relevant origin requirements, the material shall be treated as originating when determining the originating status of the subsequently produced good, regardless of whether that material was produced by the producer of the good.

A number of operational provisions and more consistency in customs procedures will help those doing business in the RCEP region.

4.3 A conducive trading environment

A number of operational provisions and more consistency in customs procedures will help those doing business in the RCEP region. Some of the operational features include the introduction of a declaration system for proof of origin of goods by approved exporters, and the application of back-to-back principles for proof of origin. These will facilitate the application of preferential treatment for trade in goods, while greatly improving the exporters' flexibility in formulating their sales strategies and logistics arrangements for distribution in the region.

Declaration of Origin

In addition to a certificate of origin issued by a conventional issuing body, RCEP also recognises declaration of origin by an approved exporter as proof of origin for claiming preferential tariffs treatment[13].

Back-to-Back Proof of Origin

An issuing body, approved exporter, or exporter of an intermediate Party may issue a back-to-back proof of origin, given that among others the consignment which is to be re-exported does not undergo any further processing in the intermediate Party, except for repacking or logistics activities or any other operations necessary to preserve a good in good condition or to transport a good to the importing Party.

RCEP has improved the procedural requirements for verification of origin, and details the obligations of importers, exporters and certificate issuing bodies. The agreement also stipulates provisions concerning certain customs procedures and trade facilitation measures, including those dealing with pre-shipment inspection, pre-arrival processing for importation of goods, advance rulings on matters like tariff classification and origin of goods, simplified customs procedures for the efficient release of goods, application of information technology to support customs operations, as well as additional trade facilitation measures related to import, export or transit procedures to authorised operators who meet the specified criteria of the agreement. These aim to ensure predictability, consistency, and transparency in the application of customs laws and regulations of each Party, and to promote efficient administration of customs procedures in the region, thereby facilitating trade among the Parties through a strengthened environment for global and regional supply chains.

13. This is subject to the requirements that Australia, Brunei, China, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand and Vietnam shall implement the provision no later than 10 years after their respective dates of entry into force of the RCEP Agreement, whilst Cambodia, Laos and Myanmar no later than 20 years after their respective dates of entry into force of the RCEP Agreement.

This improved access will cover not only the more eye-catching sectors like financial, telecommunications and professional services, but also those related to production and supply chains such as distribution and freight transport services.

4.4 Supply chains aided by cross-border investment and e-commerce arrangement

The strengthened regional supply chains will be further boosted by RCEP provisions for trade in services and simplified investment. As the agreement will remove tariffs on over 90% of goods, producers are expected to invest directly across borders to optimise their regional production and sourcing arrangements and enhance their regional services capabilities in areas like distribution and logistics. With the RCEP provisions for trade in services at least 65% of the service sectors will be fully open to foreign investment and greater foreign shareholdings will be allowed. Members will generally take on a "negative-list" approach whereby unless exceptions have been specified[14], they will grant the same market access to foreign service providers as to nationals.[15] While the actual impact will depend very much on how the measures are implemented at the business level, the provisions to ensure market access without discrimination will reduce business risks for foreign investors. This improved access will cover not only the more eye-catching sectors like financial, telecommunications and professional services, but also those related to production and supply chains such as distribution and freight transport services.

Likewise, the investment provisions based on the principles of national treatment and most-favoured-nation treatment ensure that foreign investment in any given member territory will receive fair and equitable treatment with full protection and security, in accordance with the minimum standard of treatment of aliens under international law. For production-related investment, requirement of specific performance is prohibited[16], such as:

- 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 relate the volume or value of imports to the volume or value of exports or to the amount of foreign exchange inflows associated with investments of that investor
- to restrict sales of goods in its territory that such investments produce by relating such sales to the volume or value of its exports or foreign exchange earnings
- to transfer a particular technology, a production process, or other proprietary knowledge to a person in its territory

The RCEP also strengthens the protection of intellectual property rights, which are increasingly important to the sustainability of supply chain development. Members

14. Exceptions are specified in the "Schedules of Reservations and Non-Conforming Measures for Services and Investment".
15. Cambodia, China, Laos, Myanmar, New Zealand, the Philippines, Thailand and Vietnam have also maintained "Schedules of Specific Commitments for Services" or the so-called "positive lists" at the same time.
16. The prohibition is subject to exceptions specified in the "Schedules of Reservations and Non-Conforming Measures for Services and Investment".

The RCEP agreement seeks to promote e-commerce among members, and to foster regional co-operation to assist small and medium enterprises to overcome obstacles in the way of digitalisation.

are obliged to ratify or accede to a number of prevailing multilateral agreements such as the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works and the Madrid Agreement Concerning the International Registration of Marks. The interests of holders of patents and industrial design rights will be well protected, and trademark protection will also extend from visually perceptible signs to non-traditional marks such as sounds.

The RCEP agreement seeks to promote e-commerce among members, and to foster regional co-operation to assist small and medium enterprises to overcome obstacles in the way of digitalisation. It provides for electronic authentication and electronic signatures to facilitate trade, and sets up protocols for online consumer protection, online personal information protection, cyber security, and cross-border transfer of information by electronic means. The intention is to create a conducive environment for electronic commerce in the region. The measures will facilitate the signing of online contracts, the authorisation of electronic payments, conclusion of online transactions with enhanced protection and guarantees, potentially creating greater access to the RCEP market. Coupled with the rules of origin provision that importing Party may not require a proof of origin for claiming preferential tariff treatment if the customs value of the importation does not exceed US$200[17], the e-commerce provisions will create additional leeway for small order trade, including cross-border e-commerce retail business in the region.

THE E-COMMERCE PROVISIONS WILL CREATE ADDITIONAL LEEWAY FOR SMALL ORDER TRADE, INCLUDING CROSS-BORDER E-COMMERCE RETAIL BUSINESS IN THE REGION.

17. This is subject to the condition that the importation does not form part of a series of importations carried out or planned for the purpose of evading compliance with the importing Party's laws and regulations governing claims for preferential tariff treatment.

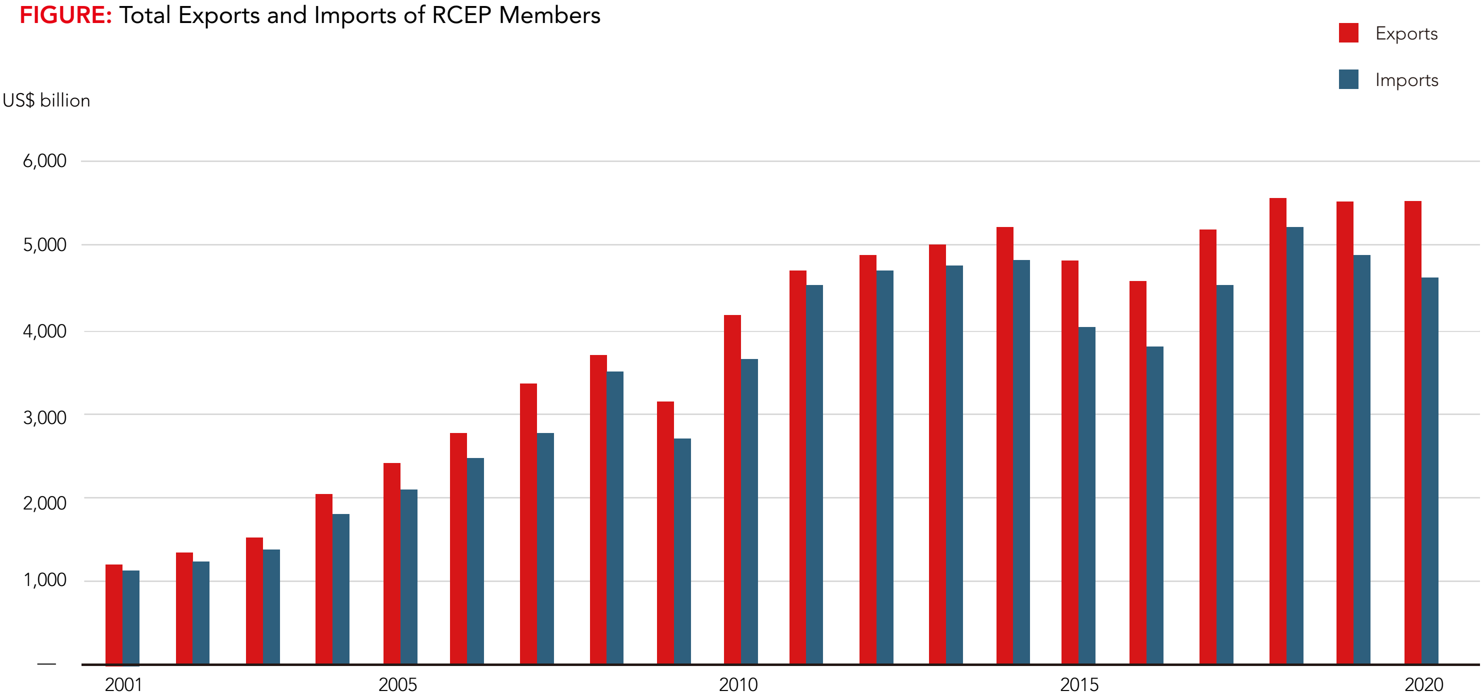
5. Amplification of Regional Economic Co-operation

When the RCEP agreement is implemented by January 2022 at the earliest, the trading activities of these major players are expected to grow further.

The RCEP facilitation measures are set to boost regional trade and economic co-operation among the 15 members, who are already the major traders in Asia and Oceania.

Their total exports and imports in 2020 amounted to some US$5.5 trillion and US$4.7 trillion respectively, constituting about 70% of the combined trading activities of the two regions[18]. Coupled with a few regional traders outside the RCEP, such as the major re-export hub in the region, Hong Kong, as well as India and Taiwan, they together accounted for over 85% of the total trade of the two regions. When the RCEP agreement is implemented by January 2022 at the earliest, the trading activities of these major players are expected to grow further.

FIGURE: Total Exports and Imports of RCEP Members



Remark: Myanmar and Laos data not available during the period 2001-2009.

Source: International Trade Centre (joint agency of the WTO and the UN)

18. In 2020, total trade of Hong Kong, India and Taiwan respectively accounted for 7.5%, 4.9% and 4.4% of the combined trade value of Asia and Oceania.

The trading activities of most Asian countries have been growing rapidly for the last two decades, thanks to the booming export-oriented production.

The trading activities of most Asian countries have been growing rapidly for the last two decades, thanks to the booming export-oriented production. Not surprisingly, mainland China is the largest exporter as well as the largest import destination among the RCEP members. It accounts for 47% of RCEP exports and 44% of RCEP imports in 2020, both up from 21% in 2001, the year when the mainland joined the WTO. Despite mainland China's remarkable performance, it is noteworthy that ASEAN's percentage share declined only marginally (both ASEAN exports and imports, particularly those of Singapore, Thailand, Malaysia, Indonesia and Vietnam, increased strongly in value terms during the period), as global relocation of production and sourcing activities also benefited production sites in ASEAN.

South Korea also fared better, as the country maintained its high value-added electronics and automotive production, which has facilitated the country's export and import of a wide array of intermediate goods and industrial inputs. As for Japan, however, relocation of production to lower-cost regions reduced its share of exports significantly from 32% to 12% in the period. Its share of imports likewise declined from 30% to 14% from 2001 to 2020. Australia's exports have been boosted by the solid demand for raw materials and primary products on the back of the surge in global production. New Zealand's share of regional trade has been dwarfed by the faster trade expansion of other members, although it has also shown steady growth over the period.

THE RCEP WILL LIKELY HAVE AN IMPORTANT IMPACT ON THE ASIA-PACIFIC REGION. IT WILL ENHANCE ECONOMIC INTEGRATION, PROMOTE FREE TRADE AND FACILITATE ECONOMIC GROWTH.[19]

19. PwC report "RCEP: What it means for international trade" Nov 2020

FIGURE: Exports of RCEP Members

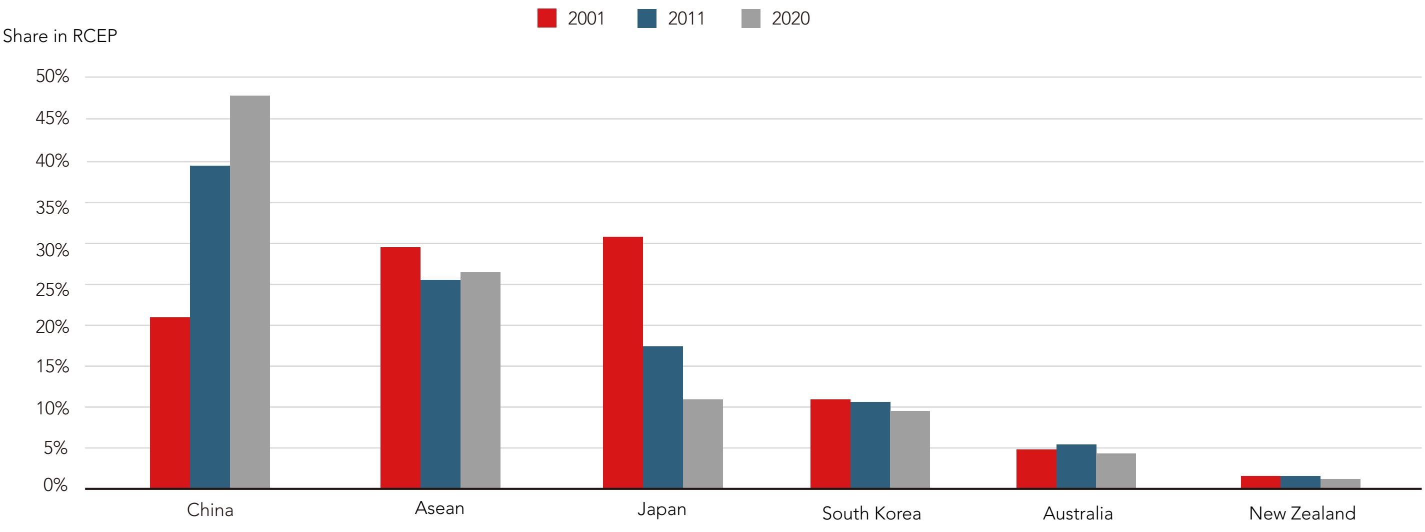
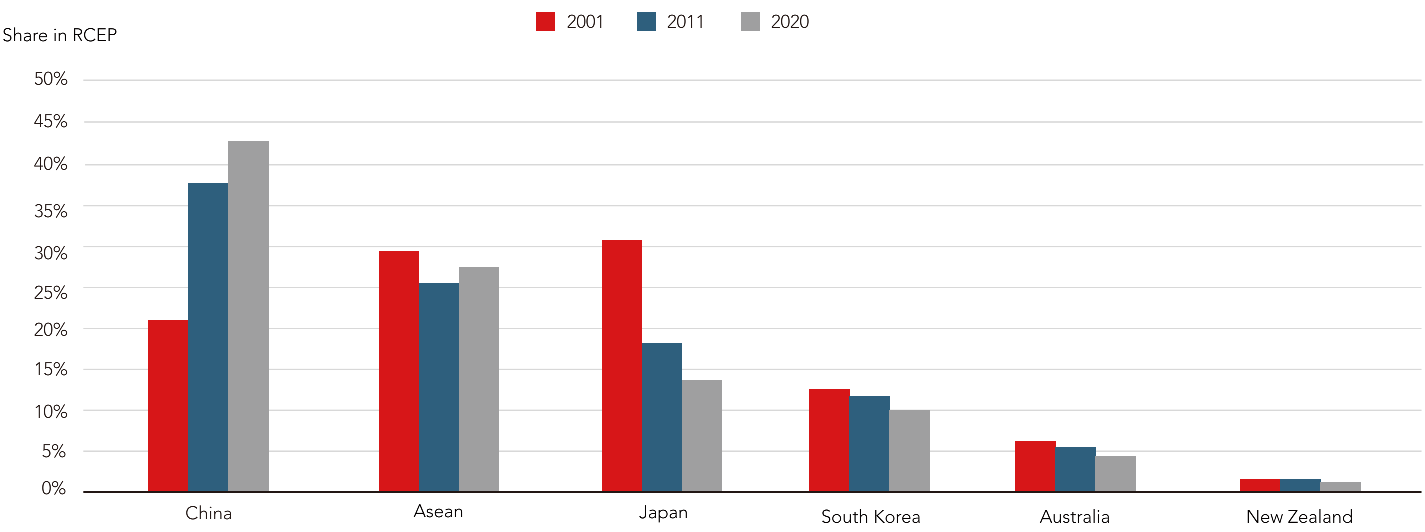


FIGURE: Imports of RCEP Members



Remark: Myanmar and Laos data not available during the period 2001-2009.

Source: International Trade Centre (joint agency of the WTO and the UN)

With the removal of trade barriers, the RCEP arrangements will stimulate trade among the members further.

5.1 Surging intra-regional trade

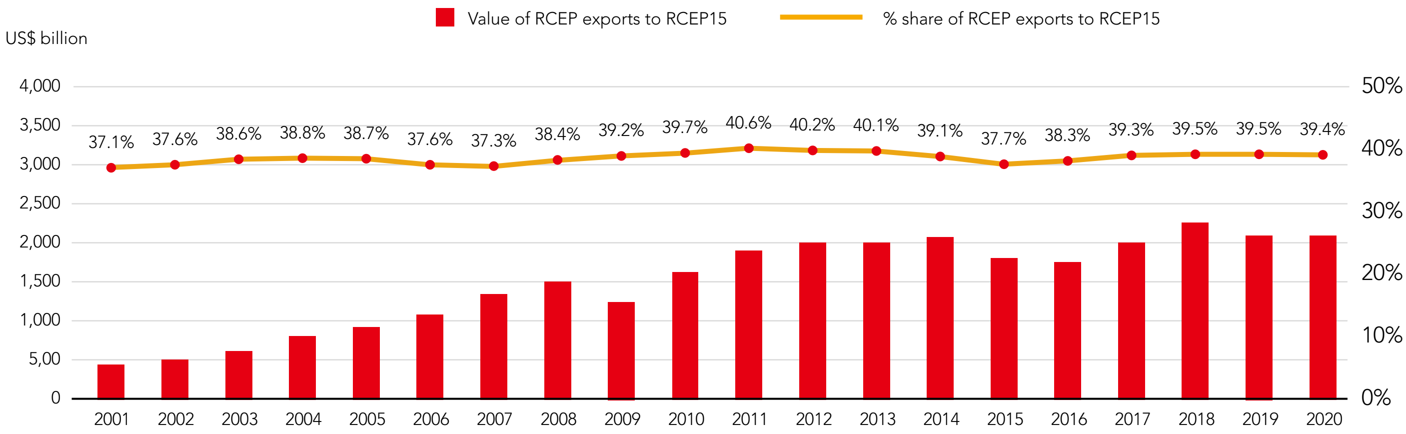
With the removal of trade barriers, the RCEP arrangements will stimulate trade among the members further. This is because trade expansion of the RCEP members in the last two decades is featured by the growing intra-regional trade in Asia. Not only because of the booming export-oriented production, but also thanks to the fact that division of labour in the industrial sectors have become more well-defined in Asia, local companies and foreign-funded enterprises as a result are striving to strengthen their businesses from a regional perspective. Such development will be aided further by the RCEP provisions in the medium term. Given RCEP's trade and corresponding investment facilitation measures, businesses in the region will be encouraged to join hands with their partners along their respective supply chains to invest and expand their production capacities in different locations, and at the same time, re-align their sourcing networks across Asia and beyond. Within the vast free trade area, they can optimise their business strategies and capitalise on local advantages to reduce production costs, while enhancing operational efficiency to meet their long-term development goals. Undoubtedly, the need for enterprises to transfer large quantities of industrial materials and semi-finished manufactures to and from different production bases has already led to the rapid growth of intra-regional trade in Asia. With the implementation of the RCEP arrangements, the intra-regional relationship among the members will be strengthened further.

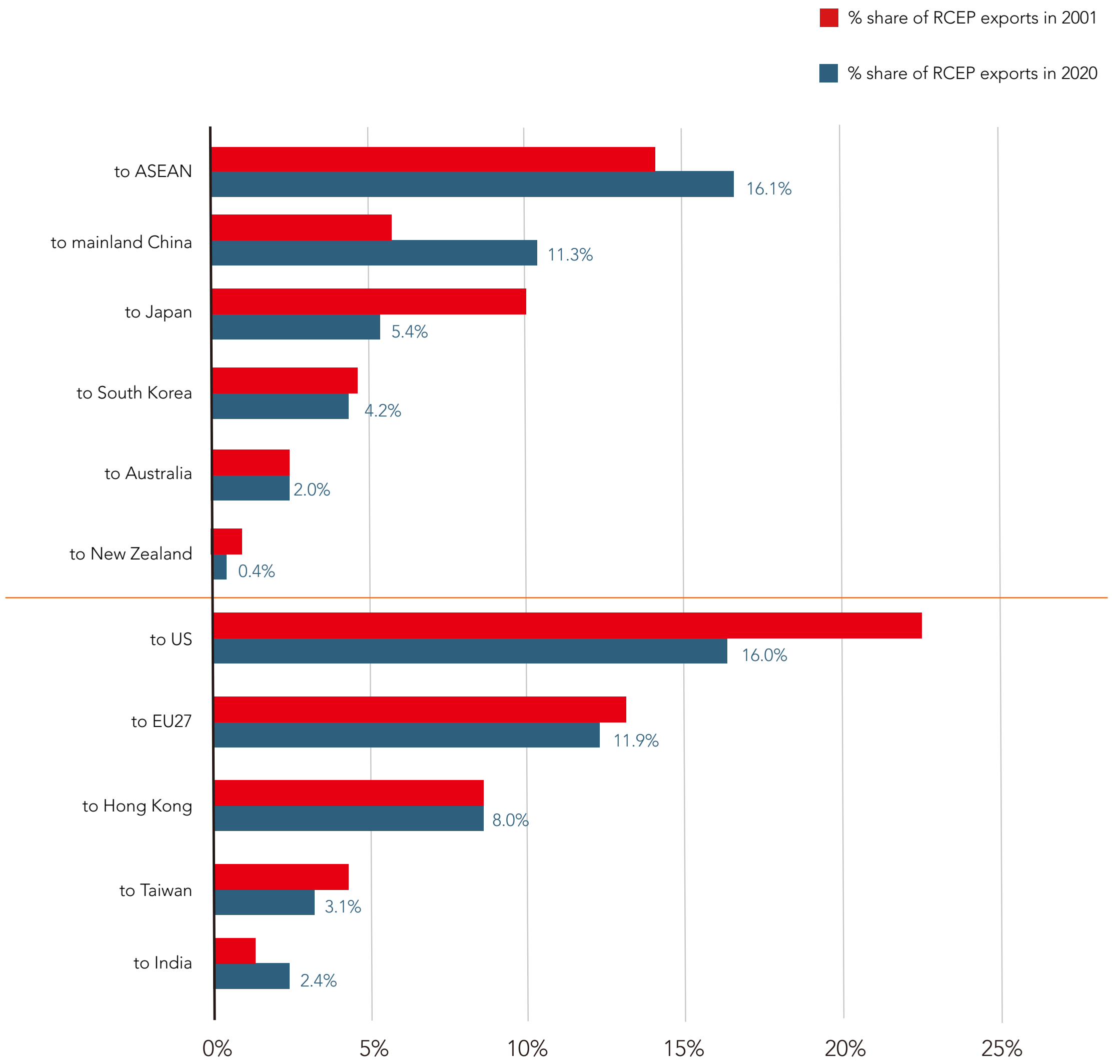
Almost 40% of the goods exported from different RCEP members in 2020, amounting to US$2,165 billion, were destined for "export markets" of the members themselves, up from the level of 37.1% in 2001 (US$474 billion). Not surprisingly, the ASEAN bloc and the mainland China are the most important destinations for such intra-regional exports, absorbing 16.1% and 11.3% of RCEP's total exports respectively in 2020, up from 14.4% and 5.5% in 2001. This is in contrast to Japan, whose share shrank from 10.1% to 5.4% in the same period.

RCEP exports to the US and EU markets increased in value over the period, but their shares declined steadily to 16.0% and 11.9% respectively by 2020. This is because the supply chain relationship between upstream and downstream enterprises in many industrial sectors in Asia has become increasingly close. The rapid expansion of intra-regional trade has led to a contraction in the share of RCEP's exports to the US, EU and other end-user markets outside the region. Share of RCEP exports to Hong Kong's re-export hub has remained stable, but the share of exports to Taiwan has declined slightly. This is in contrast to the increase in the share of exports to India, where manufacturing production with a hefty reliance on imported materials has been growing in recent years.

From the perspective of import sourcing, the interdependence of regional supply chains is even more obvious. Over half of the imports by RCEP members in 2020 (US$2,420 billion) were sourced from "RCEP suppliers", up from the 45.8% level in 2001 (US$526 billion). The ASEAN bloc and mainland China are again the major sources of such intra-regional imports. In particular, the mainland China has become the largest source, and its share increased markedly from 9.3% in 2001 to 16.9% of import sources in 2020. ASEAN was the second largest source of imports for RCEP members, with its share edging up from 15.6% to 16.4% in the period. Japan's share shrank to 7.1% in 2020, while South Korea's share edged up to 6.5%. The US share of the import sources declined markedly from 15.2% to 8.2% during 2001-2020, due mainly to the massive relocation of the country's production to Asia and other low-cost regions. In contrast, the EU's share declined only marginally to 11.0% in 2020, as the trade bloc has maintained its supplies of industrial goods like machinery and equipment to RCEP members in the last two decades.

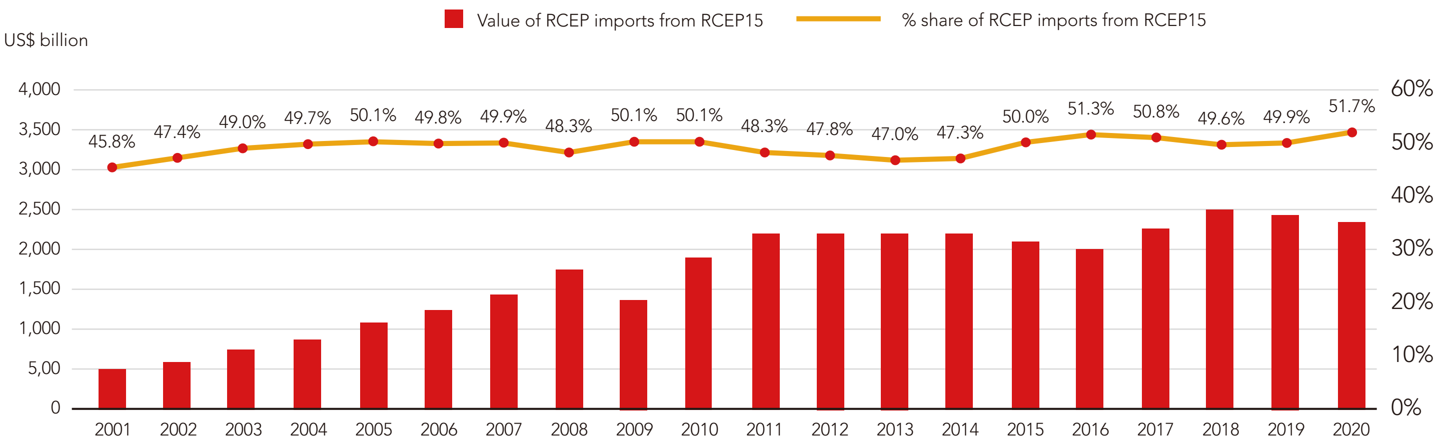
FIGURE: Major Markets of RCEP Exports

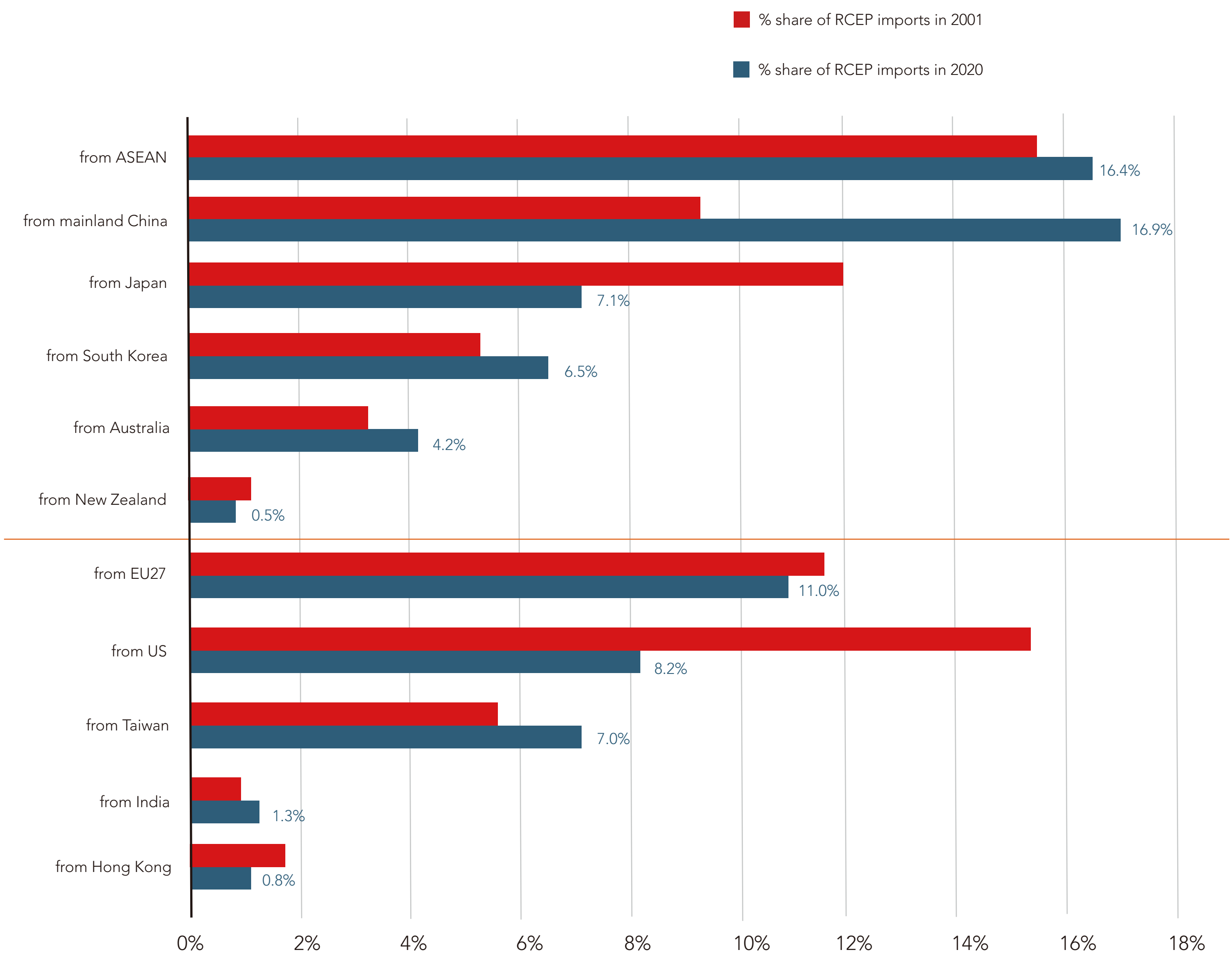




Remark: Myanmar and Laos data not available for the period 2001-2009.
Only the figures of the current 27 EU members is included, and the UK figure is not included.
Source: International Trade Centre (joint agency of the WTO and the UN)

FIGURE: Major Sources of RCEP Imports





Remark: Myanmar and Laos data not available for the period 2001-2009.

Only the figures of the current 27 EU members is included, and the UK figure is not included.

Source: International Trade Centre (joint agency of the WTO and the UN)

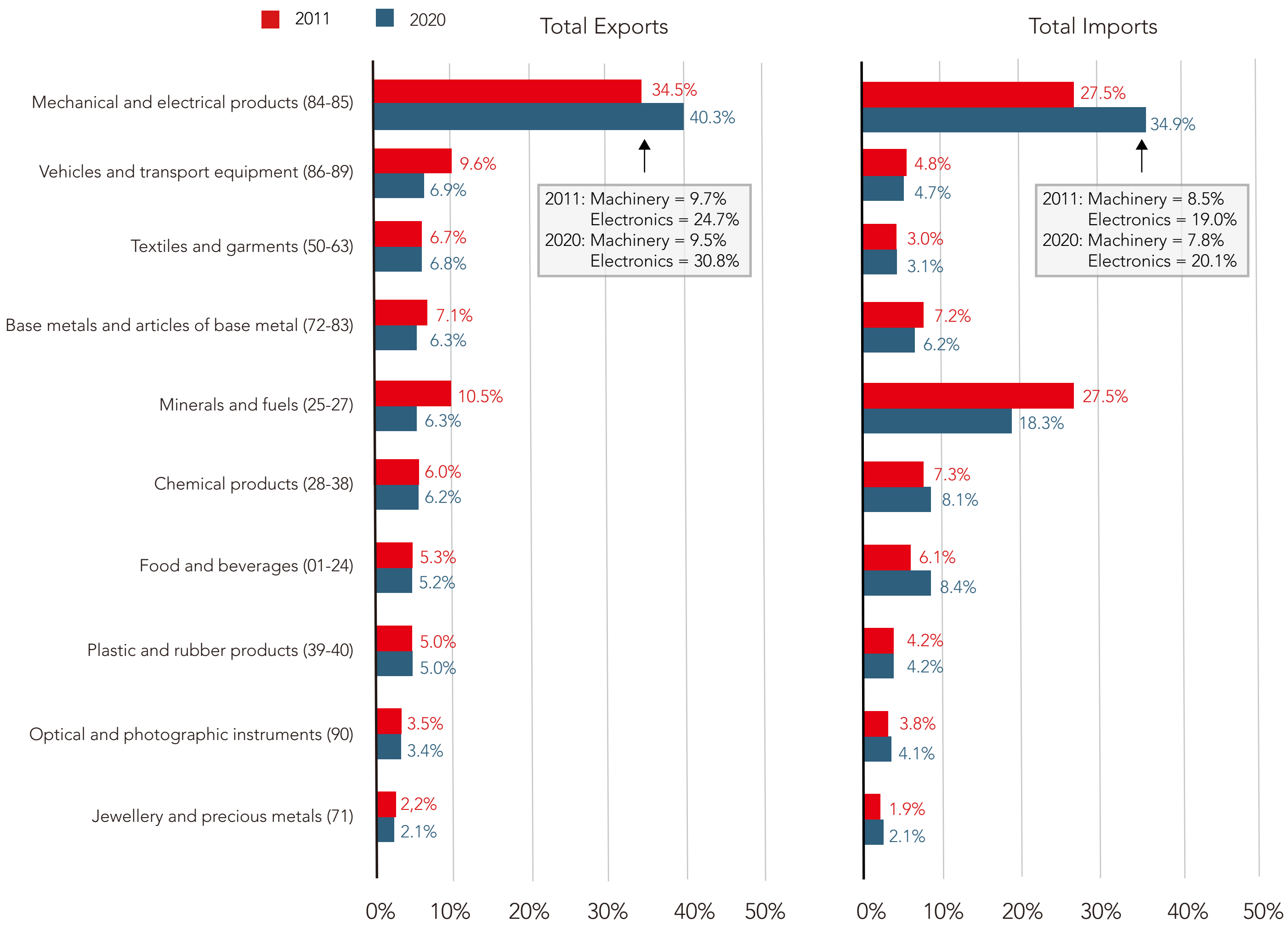
5.2 Maturity of regional supply chains

The mainland and other advanced RCEP economies such as Japan, South Korea, Singapore and Australia, have already built up mature industrial production systems. Although some ASEAN economies only have relatively basic industrial foundations, most of them enjoy the comparative advantages of ample labour supply and low production costs. The lower-cost ASEAN members are suitable for more labour-intensive production. Some of the ASEAN economies can also manufacture industrial products that require more demanding inputs of technology and capital.

The industrial bases across Asia have re-aligned to use their comparative advantages to engage in different upstream and downstream manufacturing operations, while strengthening their business co-operation with foreign trading partners in the region. The rapid expansion of intra-regional trade is a reflection of the increasingly close supply-chain relationships built up among various production bases in Asia.

Capitalising on regional trade, upstream and downstream enterprises along the supply chains have started to specialise in their operations for division of labour. A wide range of raw materials, parts and components, and intermediate goods are thus produced, while certain materials and key parts and components are imported from abroad for the final assembly of various finished goods in Asia. These are then mostly exported to markets of consumer goods and end-products in the EU, US and elsewhere in the globe. Asia will continue to remain the global centre for production and sourcing after the implementation of the RCEP agreement. Exports from RCEP members to other markets will grow, and this in turn will stimulate the development of sustainable supply chains among the members, fuelling the further expansion of intra-regional trade as a result.

FIGURE: RCEP's Major Trading Product Categories



Remark: The figures in parentheses are HS commodity codes.

Source: International Trade Centre (joint agency of the WTO and the UN)

More than half of the products traded by RCEP members are primary and intermediate goods.

Mechanical and electrical products are the largest trading categories of RCEP members, accounting for 40.3% of their combined exports and 34.9% of combined imports in 2020. These include numerous mechanical, electrical and electronic parts and components for production use, as well as finished products for consumer markets. Other major trading items in 2020 included vehicles and transport equipment, and a wide range of raw materials, intermediate goods and other industrial items like minerals and fuels, textiles, base metals and chemicals. Finished goods such as garments and electrical appliances, as well as food and beverages and consumer products like jewellery, accounted for a smaller portion of the RCEP trade. These trading activities have the following characteristics:

- More than half of the products traded by RCEP members are primary and intermediate goods, including raw materials, parts and components for industrial use.
- Primary and industrial goods produced by RCEP members are largely supplied to production bases in the region, which drives the intra-regional trade among members.
- Exports of electrical/electronic end-products, garments and other consumer goods by members are largely targeted at consumer markets outside Asia, including those in the EU and US.

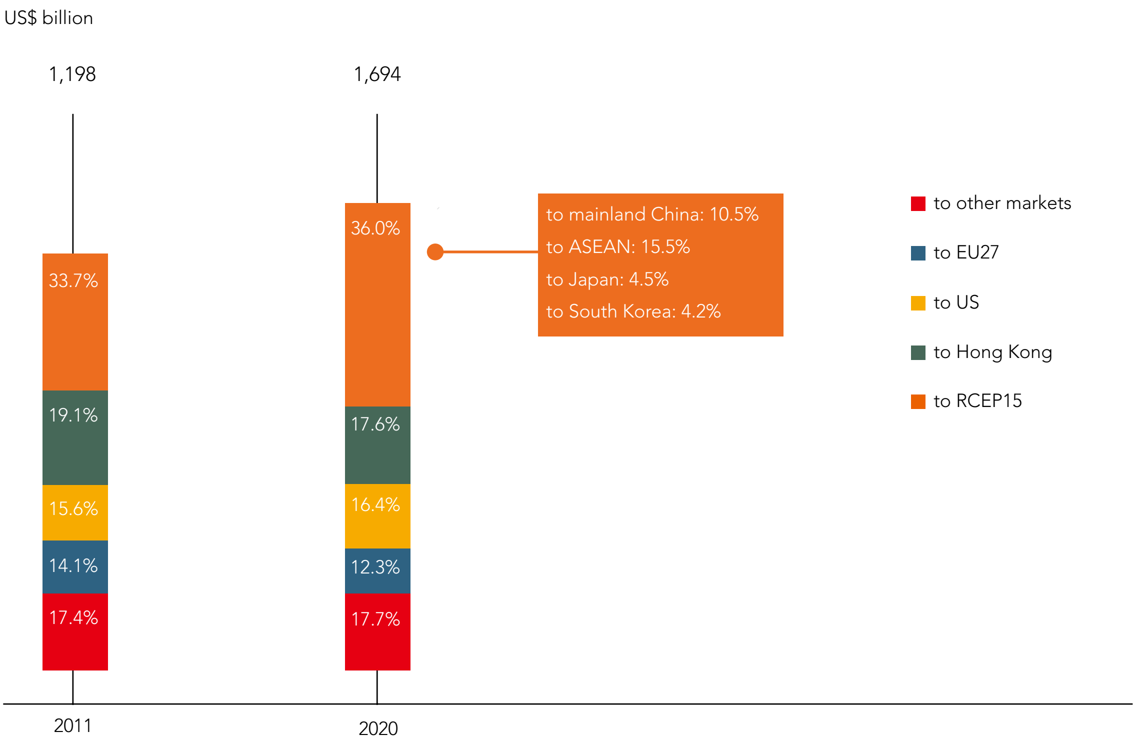
5.3 Booming industrial market opportunities

As regional supply chains mature, production materials will move more frequently between sites on the back of a barrier-free environment. Industrial inputs, especially raw materials and intermediate goods, will be traded more frequently to match the production needs of the supply chains.

Notably, electronics (including certain electrical items) is the biggest single product category of most Asian countries and the RCEP members, accounting for 29.1% of the RCEP trade in 2020 (30.8% of exports and 27.1% of imports by RCEP)[20]. From 2011 to 2020, the value of electronics exports from RCEP members jumped from US$1,198 billion to US$1,694 billion, with an average nominal growth of 3.9% annually. The mainland China, which is by far the largest electronics manufacturer worldwide, was responsible for 53.8% of RCEP's electronics exports in 2020. Advanced RCEP economies such as Japan, South Korea and the ASEAN country Singapore are important global sources of high-end semiconductors and other key parts and components (6.2%, 10.2% and 8.5%, respectively). ASEAN member Vietnam has more recently become an important exporter of certain electronics (9.7%), thanks to the rapid expansion of assembly line production of mobile phones and related equipment by foreign investors in the country.

The lion's share (36.0%) of such electronics exports goes back to the RCEP members themselves, with ASEAN countries and the mainland China being the two major destinations in 2020. Hong Kong, the major distribution hub in the region, received 17.6% of these electronics exports. This is in line with the fact that electronics is also the major export sector for Hong Kong, amounting to about two-thirds of the city's exports, with the majority being parts and components for assembly production in the manufacturing sites in the region. Other important destinations include the US and the EU, which absorbed 16.4% and 12.3% of RCEP electronics exports respectively in 2020.

FIGURE: Major Destinations of RCEP's Electronics Exports



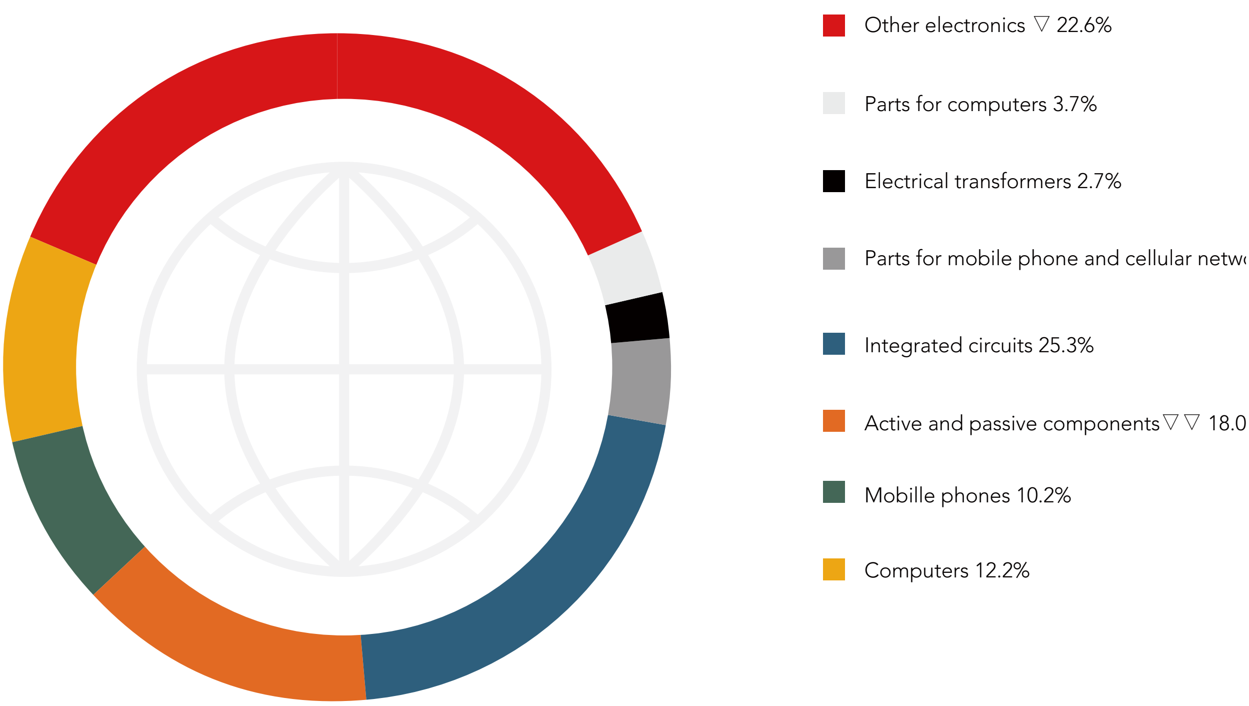
Remark: The trade figures of electronic products (including certain electrical items) are estimates.
Only the figures of the current 27 EU members is included, and the UK figure is not included.
Source: International trade Centre (joint agency of the WTO and the UN)

20. The trade figures of electronic products (including certain electrical items) are estimates.

As regional supply chains mature, production materials will move more frequently between sites on the back of a barrier-free environment.

Interestingly, RCEP electronics exports include a huge selection of electronic parts and components and semi-finished goods. In particular, integrated circuits from advanced economies like Japan and South Korea are the most frequently traded items, accounting for 25.3% of such electronics exports in 2020. Other major export categories in 2020 included a wide range of active and passive components (18.0%, integrated circuits not included), parts for mobile phone and cellular networks (5.3%), parts for computers (3.7%) and electrical transformers (2.7%). All these parts, components and other intermediate goods accounted for about 55% of total RCEP electronics exports, and largely go to other RCEP members themselves for further processing and/or assembly production. Other export items include a wide range of finished products such as mobile phones, computers, audio-visual entertainment products and other consumer electronics. Such finished products are mainly targeted at consumer markets in overseas countries like the US and the EU member states, which absorbed the majority of the finished electronics products exported by the RCEP.

FIGURE: Major Categories of RCEP's Electronics Exports



▽ Due to the classification of HS system, this category includes certain consumer electronic, electrical appliances, semi-finished goods/parts and components as well as some electrical equipment.
▽▽ Integrated circuits are included.
Remark: 2020 figures estimated by HKTDC Research.
Source: International Trade Centre (joint agency of the WTO and the UN)

6. Expert Opinions: Implications for Regional Supply Chains and Professional Services

Goods manufacturers and service providers from the GBA can expand their supply chains or tap into new markets to take advantage of the provisions of the RCEP. The agreement makes it possible for companies to tap into pools of lower-cost labour while also accessing rapidly growing consumer markets.

A wide range of GBA companies are doing just that thanks to a range of trade facilitation measures included in the RCEP. GBA companies that provided input for this report suggested that the opportunities are plentiful but careful planning is called for.

For example, jewellery retailer Chow Tai Fook is expanding its retail network into more RCEP member countries but is carefully looking for local partners to expand its network. White goods manufacturer Haier Group, in turn, has set up manufacturing locations in at least four RCEP countries. In turn, the Hong Kong Electronics Industry Association says combining the opportunities that exist in the GBA with those that the RCEP offers is a recipe for growth for its members. Companies in other sectors, like apparel supplier Crystal International Group Limited or software as a service (SaaS) provider Helios are also working to leverage the RCEP agreement to expand regionally and globally.

As with companies in other sectors, professional services providers are positioning themselves to benefit from provisions in the RCEP agreement that can facilitate trade and economic integration. For companies in this sector, there are significant opportunities that can arise from greater links between the GBA and RCEP countries.

Intertrust group, which provides trust, corporate and fund administration services, believes RCEP creates "spillover effects" that should benefit professional services providers. RSM Hong Kong, which provides audit, tax and consulting services, believes Hong Kong service providers will remain super-connectors linking mainland China companies with the rest of the world. In turn, ACCA Hong Kong believe the region offers full access to a talent pool with the necessary technical, digital and soft skills to help grow business and manage the risks that can emerge from tapping into the many opportunities that RCEP can generate.

> THROUGH THE FORMATION OF STRONGER VALUE CHAINS ACROSS THE REGION, RCEP WILL ALSO ENCOURAGE COMPANIES TO SHIFT FOCUS TOWARDS ASIA AND TO INTRA-REGIONAL TRADE.[21]

21. PwC report "RCEP: What it means for international trade" Nov 2020

6.1 RCEP boosts flow of talent, brings operational and trade benefits

Interview with Hamilton Cheng, Executive Director, Finance and Information at Chow Tai Fook

Chow Tai Fook is a leading jewellery retailer based in Hong Kong. As of 31 March 2021, it has already expanded to 10 out of the 15 countries in the Regional Comprehensive Economic Partnership (RCEP) free trade area. Given both its success in mainland China, in particular, and the opportunities the RCEP represents in terms of minimising tariff impacts and allowing access to new sources of labour, Hamilton Cheng, Chow Tai Fook's Executive Director, Finance and Information, says the group now plans to expand the retail network into the remaining countries.

RCEP countries represent a variety of opportunities for Chow Tai Fook. Indonesia has a large ethnic young generation population and shows strong consumption growth. With regard to production, Thailand has a trade agreement with the US that lowers tariffs on its exports, making it an attractive place for industrial investment. Vietnam likewise has a booming manufacturing and processing industry.

The Hong Kong jeweller also sees labour force attractions in each of these countries. With mainland China shifting to a knowledge-based economy, it has become more difficult to recruit skilled low-cost labour there.

"The jewellery-making sector requires highly-skilled labour to produce exquisite jewellery. It cannot be replaced by automation anytime soon," Cheng says.

The RCEP is expected to boost the flow of skilled labour and management talent within the region to help companies overcome this hurdle.

"We can bring our expertise and know-how to RCEP countries to the betterment of the jewellery industry," Cheng says.

With their thriving processing industries and lower labour costs, Vietnam and Indonesia could both be ideal locations for Chow Tai Fook to set up manufacturing and processing bases in. Singapore and Malaysia could also serve as regional service hubs for the jeweller. These combinations could result in more flexible and efficient human resources management, ultimately lowering costs.

Tariffs are another major concern. Cheng says profit margins for jewellers are not high, in part because of the high cost of raw materials. When the US imposed tariffs on China-made products, jewellers such as Chow Tai Fook had to deal with significantly higher costs.

Flexible measures created by the RCEP could allow Chow Tai Fook to shift some manufacturing and processing work to other ASEAN countries, allowing the company to tap into trade benefits from trade deals ASEAN countries may have in place, particularly with the US.

An agreement on tariffs under the RCEP itself could also boost cross-border e-commerce, Cheng adds.

Replicating China's success in other RCEP countries

The Group now has around 4,452 stores across Mainland China. Chow Tai Fook has implemented their two-pronged strategy and developed a franchise business model to help it penetrate the mainland Chinese market.

Encouraged by this success, the Group will further expand in other RCEP countries, where it has so far set up 20 stores.

"Under the franchise business model, we find local partners who have the local market know-how and access to manage the franchisees," Cheng explains.

In mainland China, the Group's regional partners can handle business development and expansion in Tier III or Tier IV cities. They help formulate strategies to identify strategic locations, raise brand awareness and train franchisees.

Replicating this business model in other RCEP countries could be challenging, though. Cheng points out that Chow Tai Fook will need support in three areas.

The first is local market know-how. Cheng says the Group would like to identify long-term partners that understand local market landscapes, culture and ecosystems. They are collaborating with local partners who share the same vision and able to strive together and drive prosperous developments.

"Secondly, we will also need support on tax, legal and corporate matters from local professional service providers when we operate overseas," Cheng says.

He adds: "Third is financial and banking services, how local financial institutions will understand our operation needs and facilitate us with customised financial services while complying with relevant laws and the necessary regulatory requirements."

> **FLEXIBLE MEASURES CREATED BY THE RCEP COULD ALLOW THE COMPANY TO TAP INTO TRADE BENEFITS FROM TRADE DEALS ASEAN COUNTRIES MAY HAVE IN PLACE.**

6.2 RCEP promotes economic, industry and supply chain integration

Interview with Sun Lei, Deputy General Manager of the Finance Shared Service Centre at Haier Group

The Regional Comprehensive Economic Partnership (RCEP) agreement will play an important role in promoting regional economic integration. That's the view of Sun Lei, Deputy General Manager of the Finance Shared Service Centre at Haier Group, who believes that strong economic growth momentum in South-east Asia is creating opportunities for Chinese companies that are actively expanding overseas.

Sun said, "There will be more opportunities in trading goods and services, as well as investment," Sun said. "The agreement will strongly stimulate the export and trade of home appliances. Trade liberalisation and preferential tariffs for goods that are enabled by the agreement will facilitate trade."

Haier Group, which manufactures home appliances, started out in Qingdao, China. It set up its first overseas factory in the Indonesian capital Jakarta, before expanding to Malaysia, Thailand, Vietnam and more locations in Indonesia. In 2011, the company entered Japan and New Zealand through mergers and acquisitions. Haier has been deepening its presence in RCEP countries for years.

The group has long considered South-east Asia an important market for home appliances. The region is home to more than 600 million people, and although it has a relatively low urbanisation rate, rapid economic growth is driving demand for home appliances. Sun predicted that the market will contribute significantly to Haier's financial performance, saying: "From 2018 to 2023, the compound growth rates of retail sales of major appliances and small home appliances in South-east Asia are expected to reach 8.4% and 7.9% respectively, which is significantly higher than the average level in China and the world."

Currently, total trade between China and RCEP members accounts for about one-third of China's total foreign trade. Anticipating increased trade between China and RCEP members, Sun believes that Chinese home appliances manufacturers will be in a favourable position to grab a larger share of RCEP markets. Outlining the steps that Chinese manufacturers will take, Sun said: "We will pay attention to the new rules regarding trade, e-commerce, procurement, and the Internet of things under the RCEP agreement."

Going global

Sun believes the RCEP agreement will help further integrate the home appliances industry and supply chains, a development which is aligned with Haier's strategy for overseas expansion. The group has long followed the principle of manufacturing and marketing locally under the name of a local brand that it has created.

Over the years, Haier has acquired companies in various countries, such as Japan's AQUA, New Zealand's Fisher & Paykel, Italy's Casarte and GE Appliances in the US, merging its own brand with theirs. But this strategy comes with a challenge – the need to merge distinctive cultures. To meet this, Haier developed a new organisational model that connects employees with users' needs.

Instead of answering to someone further up, every employee answers to users directly. Project teams that cater to their needs are formed from members of many different divisions. It's an organisational model that creates value by giving employees freedom, and it is one that Haier has exported to the new companies it has created to achieve success when expanding overseas.

Sun says political stability, tax policies and financing services in foreign countries are key factors to consider when looking to expand overseas. The group also considers how to localise design, manufacturing, marketing and management.

Describing the process that Haier embarks upon when looking to expand, Sun said: "While we rely on third-parties to understand and implement tax, audit and accounting policies, we also do our part internally to update our knowledge of the local policies, optimise our enterprise resource planning for overseas offices, provide multilingual financial support and adopt advanced technologies to work more efficiently."

Although Hong Kong is quite distant from the group's headquarters in Qingdao, the city plays an important part in its expansion. In 2017, Haier successfully raised HK$800 million in debt financing through Hong Kong's capital market to support its expansion plans.

Referring to the role Hong Kong can play in facilitating the process of Chinese companies going global, Sun said: "Hong Kong can fully utilise its function as a capital market. With its status as an international financial centre with ample capital supply, the city has a sound market infrastructure that lays a solid foundation for financing. Corporate listing approval cycles are short and efficient, the issuing structure and listing conditions are flexible and diverse, and refinancing is convenient with financing channels."

HONG KONG CAN FULLY UTILISE ITS FUNCTION AS A CAPITAL MARKET. THE CITY HAS A SOUND MARKET INFRASTRUCTURE THAT LAYS A SOLID FOUNDATION FOR FINANCING. ”

6.3 GBA and RCEP represent extended supply chain and market for electronics industry

Interview with Basil Wai, CEO of the Hong Kong Electronics Industry Association

Supply chain management is the biggest challenge for electronics makers, says Basil Wai, CEO of the Hong Kong Electronics Industry Association (HKEIA). Initiatives such as the Greater Bay Area (GBA) and agreements like the Regional Comprehensive Economic Partnership (RCEP), can help members of organisations such as the HKEIA expand both their market and the reach of their supply chain.

"The electronics industry relies on many regions for its supply chain, from electronic components manufacturing, assembling, techniques, to product exports and sales. It's a big supply chain network," says Wai.

The recent Covid-19 pandemic has demonstrated how supply chains can be disrupted. While some industries have managed to stay afloat, Wai believes it is crucial to have a bigger market to diversify risks in the long term. This is particularly true given the abrupt changes in the US and EU markets.

"We've seen members going to Vietnam, Thailand, Malaysia and Indonesia," Wai says. "Most go to Vietnam to set up factories, and to Indonesia for its market and big population."

The additional 301 tariffs imposed on goods made in China by the US have also prompted manufacturers to relocate to South-east Asia. Many Hong Kong businesses have set up branches in ASEAN countries as a result.

Wai noted that RCEP has a more balanced composition than other regional partnerships, since it includes developed economies such as Australia and New Zealand. The former, in particular, is a market that the HKEIA members are eyeing on account of its sizeable Chinese population and the listing opportunities its stock market offers.

Hong Kong as a multilingual hub for professional services

Given the relatively small market in Hong Kong, Wai says: "We know that the GBA and RCEP countries are our markets. We just need to figure out what role Hong Kong can play."

One potential role is to provide professional services related to intellectual property. Industry stakeholders can collaborate more with professional services providers such as lawyers or accountants to access professional insights. International law firms, for example, have set up offices in Hong Kong to serve businesses looking to expand and operate overseas.

"The advice we look for is from professionals of that jurisdiction," Wai says. To cite a few examples, he says it is not unusual to find that American lawyers have counselled the HKEIA members on tariffs and Vietnamese lawyers have relocated to Hong Kong to serve clients who are interested in doing business in the South-east Asian countries.

"Having a place where you can communicate easily is a great advantage of Hong Kong," Wai says. Most Hong Kong professionals are proficient in three languages – Cantonese, Mandarin and English – and this can help businesses communicate with parties in different jurisdictions.

More collaboration creates synergy

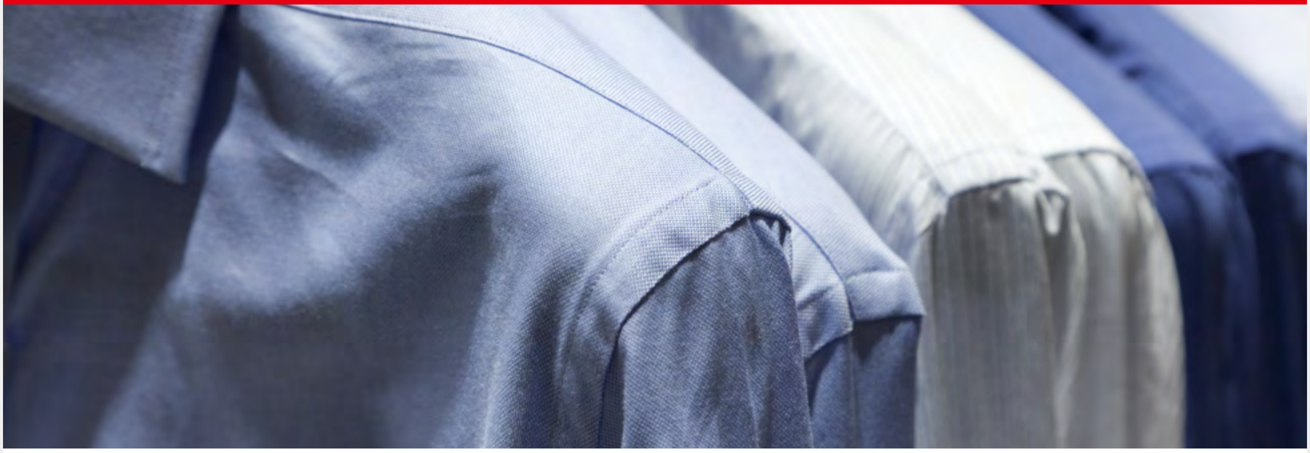
As the trend towards re-industrialisation continues, Hong Kong is becoming a centre where industry players can engage in small batch production, R&D, information technology, product registration, patent applications, quality testing, financial services and professional counselling. These are all areas that require integrity and reputation.

In the long run, as mainland Chinese manufacturers expand to ASEAN countries, Wai advises Hong Kong players to collaborate more with their mainland partners using the GBA advantages, and to use the professional services offered in the city to exploit RCEP opportunities.

"Leveraging advantages from both sides to further develop the industry is the way to create long-term benefits," he says.

RCEP HAS A MORE BALANCED COMPOSITION THAN OTHER REGIONAL PARTNERSHIPS, SINCE IT INCLUDES DEVELOPED ECONOMIES SUCH AS AUSTRALIA AND NEW ZEALAND. ”

6.4 GBA manufacturers can find opportunities in ASEAN countries through RCEP



Interview with Andy Li, CFO of Crystal International Group Limited

For traditional manufacturers such as Crystal International Group Limited, a Hong Kong-based apparel supplier that serves global brands, new opportunities are now shifting from mainland China to Southeast Asia. Under the Regional Comprehensive Economic Partnership (RCEP), lower labour costs in Association of Southeast Asian Nations (ASEAN) countries and the potential for a unified tariff regime among member states could benefit apparel manufacturers.

"Over the past 10 years, we've seen manufacturing moving from the Greater Bay Area to other Asian countries," says Andy Li, CFO of Crystal. "We set up factories in Dongguan and Zhongshan and even, at one point, had tens of thousands of workers in mainland China, but we've moved to Southeast Asia for expansion because of the rising costs on the mainland."

The varying political and cultural factors in ASEAN countries can at times be concerning, Li acknowledges. Myanmar lacks political stability, Thailand does not have in place a comprehensive supply chain for large-scale garment production, and Indonesia's anti-Chinese past remains a concern to some investors, Li explains.

After making attempts to tap into different ASEAN countries, Crystal identified Vietnam as an important base and has hired more than 40,000 employees there.

"What we see in Vietnam is political stability, good infrastructure and better development compared to other ASEAN countries," Li explains. "Sharing a similar background, Vietnam is like mainland China 15 years ago, which Hong Kong players are familiar with. The country is improving its infrastructure in logistics, power supply and highways, which gives it a competitive edge over the others." This has led more companies from different industries to move to Vietnam.

Crystal International Group also has operations in Bangladesh and Cambodia.

Li says that while the group benefits from lower labour costs and a plentiful supply of workers in these countries, their lack of management talent poses as a challenge.

Another consideration for apparel manufacturers when choosing a new country to operate in is tariffs. Under RCEP, there are hopes for lower tariff rates to encourage the flow of goods and factory relocations.

“Tariff agreements will represent opportunities for us,” Li says. “As the RCEP is a regional agreement, we can expect a unified tariff rate among member states.”

The RCEP comes at a time when the apparel industry is facing its own challenges, including shortages of talent, more consolidated supply chains, fewer market opportunities for small players and rising production costs.

“We are among the biggest apparel exporters, but we also face challenges,” Li says. “Smaller players would find it harder to expand to ASEAN countries. A bridge is lacking to help players find more business opportunities.”

Hong Kong as a service exporter

For RCEP clients, Hong Kong is known for its professional services, something which ASEAN countries are weak in.

“Hong Kong no longer exports traditional goods,” Li says. “Now Hong Kong exports its services.”

In a pragmatic sense, Li says Hong Kong service providers need to first capitalise on the city’s links with other locations in the Greater Bay Area (GBA) before setting their sights on ASEAN countries. Having done business in mainland China for years, Li has seen how in the past businesses in Guangdong tended to seek services from providers in Shanghai rather than Hong Kong. Now, however, Hong Kong service providers have an opportunity to strengthen ties with the mainland in the context of the GBA.

Li also warns that the idea of “expanding overseas” will remain just an idea unless real efforts are made to understand the new markets involved. “For service providers, being cheaper won't help you gain business because knowledge of the local market and regulations is more important.”

He adds: “You cannot just expand to ASEAN countries on a whim. What’s more important is what opportunities Hong Kong can bring. To effectively export Hong Kong’s services, professionals must have local knowledge and qualifications to serve clients. Obviously, Hong Kong is using its regional business hub advantages to meet customer needs by integrating various services from different sources around the globe. But the government also needs to help service providers create further demand by overcoming the barriers about mutual recognition of professional standards across borders.”

Another competitive edge unique to Hong Kong is its active financial market, particularly with capital coming from mainland China, Li says.

“Even if Hong Kong service providers do not expand overseas, business opportunities will still come to your door.”

6.5 RCEP helps Chinese tech players expand in the Asia-Pacific region

Interview with Nick Zhang, CEO of Helios

An important player in the e-finance sector, Helios employs a software as a service (SaaS) model to digitalise travel expenses processing for businesses. With operations in China and Japan, the Shanghai-based company is now looking towards ASEAN countries for new opportunities.

The trend towards digitalisation in Asia is helping fintech players such as Helios access opportunities created by the Regional Comprehensive Economic Partnership (RCEP) agreement. Helios can provide businesses with a digital platform to process business travel expenses, from spending to reimbursement, cost control and accounting.

"Our products and services are applicable to many businesses in RCEP countries, as companies always need spending management," says Nick Zhang, CEO of Helios. "It's just that we need to study the financial and tax policies of different countries to adjust our products and services."

The RCEP agreement is expected to reduce tariffs on trade in goods, while strengthening data protection to encourage the development of the digital economy. Zhang expects Helios to benefit from these liberalisation measures, as businesses in the region are increasingly looking for third-party professional service support to set up legal entities in new markets or to engage in cross-border M&A deals and investments.

Companies in China, which is a tech giant in the region, can take advantage of the RCEP to export technology to their less tech-savvy neighbours.

"China has the most advanced software technology, such as artificial intelligence (AI) applications, among the 15 RCEP countries," Zhang says, adding that mainland Chinese tech start-ups are developing new mobile applications that can challenge the status quo.

"Our technology leads give us the confidence to expand into RCEP countries, whose businesses are expected to show strong growth after the pandemic," he says.

Localisation strategy for RCEP markets

Japan was the first overseas market that Helios set its sights on. Many of the country's offices are still paper-based and inefficient, which creates opportunities for fintech start-ups like Helios.

"The enormous cultural difference made Japan the most difficult market for us," Zhang says, referring to Helios' entry there in 2019. "It was very difficult to build trust."

To overcome cultural barriers, Helios adopted a localisation strategy that has proved successful so far. It found a local partner and recruited staff in Japan. This helped the company build trust among its clients, leverage the partner's market influence and gain knowledge of the local market to improve products and enhance user experience. Helios also conducted a comprehensive research of the target market prior to its expansion.

Understanding the local regulatory landscape is crucial for fintech start-ups that launch products and services in new markets. Data privacy and protection, for example, have become matters of national security. Many fintech start-ups need professional services and consultation when navigating new markets.

"For accounting and auditing, we worked with EY, who advised us on data compliance for different countries," Zhang says. "If you neglect compliance with data security, you cannot enter these markets."

Helios has been consolidating its presence in mainland China for five years and in Japan for two years.

"We want to leverage our experience in these two markets to replicate our strategy in RCEP countries such as Vietnam, Singapore, Malaysia and Indonesia," Zhang says.

Hong Kong remains a hot IPO venue

As for Hong Kong's role in Helios' expansion plans, Zhang says the city's active and mature capital market is particularly interesting. Hong Kong also serves as a connector for Helios to source overseas investors.

"We've been considering Hong Kong," the CEO explains. "The Hong Kong stock market understands SaaS just as international investors in Hong Kong are familiar with SaaS, unlike mainland investors who regard SaaS players as traditional software developers.

"The Hong Kong listing regime is also very open, so the Hong Kong capital market has been one of the important targets for us."

Hong Kong can also facilitate access to professional services for fintech start-ups and this access makes it easier to expand overseas.

"Professional organisations such as ACCA and the HKTDC can link us with local accounting and auditing firms as well as other service providers," Zhang says. "We still want to replicate our strategy for Japan to find local partners for in-depth collaboration."

6.6 RCEP boosts trade between China and ASEAN countries

Interview with Benny Wu, Audit Director at Carlsberg China

The Regional Comprehensive Economic Partnership (RCEP) agreement should extend supply chains and boost trade in the region, according to Benny Wu, Audit Director at Carlsberg China. Having worked in Cambodia for over two years, he believes countries within the Association of South-east Asian Nations (ASEAN) represent an important future growth engine. However, he also warned of the challenges associated with these untapped markets.

During his time in Cambodia, Wu observed that ASEAN countries source supplies within ASEAN first. Cambodia, a country lacking in industrial infrastructure and raw materials, mostly imports from Vietnam, Thailand, Malaysia and Singapore, but not so much from China or Japan. Even though China and Japan can offer more and better goods, both countries find it difficult to tap into ASEAN markets due to high tariffs.

Currently, companies can receive tariff exemptions if they can prove raw materials are imported for use in exported products. Otherwise, tariffs can be very high for raw materials imported for local manufacturing and sale. Imported high-end beers such as Japan's Asahi have a high price tag in Cambodia due to tariffs, but manufacturing locally is not really an option either.

Breweries in particular are tied to logistics constraints. To address these issues, industry players tend to undertake brand collaborations rather than focus on exports. Pointing out that the RCEP agreement may reverse this trend, Wu said: "There will be benefits for sure in the future. Although the amount and length of the tariff exemptions remains to be seen, Chinese goods that are competitive in price and quality will have advantages in ASEAN countries once the 15-30 percent tariffs are exempted or lowered."

Predicting that industrial goods from China will be particularly popular in ASEAN countries, where the degree of industrialisation varies greatly, Wu said: "If the prices are around the same, market participants will look for quality more. There will be more choices for sourcing."

Growth engine

Wu is not alone in expecting ASEAN countries to emerge as the next growth point for Chinese companies. Drawing on his observations in Cambodia, he said: "Its population and rapid economic growth will make it an important market for companies in their global expansion plan. In the long term, there will be more imports and exports."

The recent increase in Chinese agricultural imports from Cambodia shows that trading activities and demands are rising between China and the South-east Asian country. Chinese companies are seeing more trading opportunities thanks to the strong demand at home.

Wu talked up the potential of ASEAN markets, particularly Laos, Vietnam and Cambodia, saying: "We see more opportunities in ASEAN countries. Its population is growing rapidly. The purchasing power there is still low but it's on the rise. It's grown a lot during the past few years. We cannot underestimate the purchasing power and the market in Cambodia."

Market knowledge

This view may surprise many. Cambodia is largely seen as a developing country with low purchasing power. Explaining his reasoning, Wu said: "The purchasing power in a foreign country could be completely different from that in China. Beer, for example, is consumed a lot more in Cambodia than in China. Other products may have a different story. You may find your product is not competitive at all in a new market."

Wu pointed out that the key to finding success in a new market is to learn about it and craft a clear plan from day one, saying: "You first need to conduct thorough research to learn a lot about that market before going there for business. There must be a clear plan on how to integrate foreign leadership and local experience and how to train local talent."

He advised that there are several factors to look out for when navigating business opportunities in ASEAN countries. These include labour efficiency, political and economic stability, government efficiency, the regulatory environment, banking services and financing opportunities.

Using a mix of foreign and local talent is also essential from the outset, but companies need to start thinking about how they can speed up localisation, in order to leverage the local team's knowledge of the local regulatory environment and culture.

WE SEE MORE OPPORTUNITIES IN ASEAN COUNTRIES. ITS POPULATION IS GROWING RAPIDLY. THE PURCHASING POWER THERE IS ON THE RISE. IT'S GROWN A LOT DURING THE PAST FEW YEARS.

6.7 Service providers benefit from RCEP

Interview with Donald Tsang, Executive Director and Head of Corporate Service of Greater China at Intertrust

With their keen understanding of emerging markets and high-quality business offerings, Hong Kong services providers are well-positioned to help businesses tap into the Regional Comprehensive Economic Partnership (RCEP) and implement expansion plans.

Donald Tsang is Executive Director and Head of Corporate Services of Greater China at Intertrust Group, a company that provides trust, corporate and fund administration services. He believes RCEP creates spillover effects that benefit not only manufacturers but also the service providers associated with them. Tsang said: "Businesses in Hong Kong first think of market expansion when talking about RCEP, but I think it's more about the expansion of the supply chain as a whole. For instance, we have clients that focus on inspection and quality control for manufacturers. Having expanded beyond the Greater Bay Area (GBA), they have already established a presence in many RCEP countries."

Intertrust Group's clients cover a wide range of industries. Tsang says that tech start-ups are keen to prioritise expansion plans to RCEP countries, rather than the mature markets such as Japan, Australia or New Zealand that funds tend to tap into first.

The Covid-19 pandemic has also had relatively little impact on service providers, which have continued to expand actively to overseas markets. Tsang believes that RCEP will encourage further expansion.

Opportunities in the GBA

By serving clients who are keen to expand and operate internationally, Tsang has seen first-hand how the development of the GBA has opened doors for foreign businesses looking to tap into opportunities in China. These companies have typically set up offices directly in mainland Chinese cities within the GBA or expanded into the mainland from Hong Kong.

Companies in certain industries, such as recruitment, have found it easier to enter the Chinese market thanks to a relaxation of entry rules. In one instance, Tsang's team helped a UK-based international recruitment firm open directly in Shenzhen, relocate its senior staff to the southern Chinese city and facilitate the visa application process.

Tsang adds that individual income tax incentives in the GBA have proven attractive to finance professionals. Financial institutions, too, have become more willing to operate in China as costs have come down.

Hong Kong service providers as 'super-connector'

Intertrust Group works with clients to implement their expansion into the GBA, or out into RCEP countries - exemplifying how Hong Kong service providers can act as a gateway to and from China. Tsang points out that the advent of the RCEP agreement means that Hong Kong service providers can continue to act as a 'super-connector', and adds that because their South-east Asian counterparts are less established, Hong Kong players enjoy a competitive edge in services provision across the Asia-Pacific region as a whole.

Explaining that Hong Kong players can act as a single contact point, helping their clients establish a presence and operate in different places at the same time, Tsang said: "Hong Kong service providers can act as a central point of contact to help clients expand into different countries simultaneously, with a consistent approach. We act as a regional co-ordinator to translate the clients' ideas and requirements for expansion into actions.

"This is high-value work, because we need to understand not just the clients' needs but also the local regulations and ways of doing business. We provide high-level feedback for clients to assist their decision-making. There needs to be someone who understands Western values and emerging markets' requirements. We're basically bridging the gap between the two."

Tsang believes that Hong Kong players have the regional exposure, network, capability and scale to act as super-connectors. By being able to understand local regulations while achieving business objectives under existing regulatory frameworks, Hong Kong service providers provide the flexibility that is critical to success in emerging markets.

Tsang says that one approach for regional expansion is to find local partners to support on legal and administrative matters. This is the approach most often adopted for expansion into countries within the Association of South-east Asian Nations (ASEAN).

Intertrust Group identifies reliable local partners through due diligence to help clients expand in emerging markets. It also sets clear service level agreements with local partners to uphold the quality of their service and improve the experience for clients.

Tsang asserts that it is this pac kage of qualities that gives firms like his company the edge, saying: "The professional services industry in Hong Kong is competitive, which translates into high-quality services by global standards. Our high standards help us identify trusted partners more easily, which guarantees service quality for our clients."

6.8 RCEP facilitates access to both enlarged sales markets and lower-cost resources for GBA businesses

Interview with Caesar Wong, Managing Director of China Business Services at RSM Hong Kong

The members of the Regional Comprehensive Economic Partnership (RCEP) represent promising sales and resources markets for businesses for the Greater Bay Area (GBA), including Hong Kong. That's the view of Caesar Wong, Managing Director of China Business Services at RSM Hong Kong.

As a global professional provider of audit, tax and consulting services, RSM has significant exposure to the characteristics of the different markets in the region. Pointing out that RCEP countries have consumers with significant purchasing power, while at the same time making up a significant part of modern supply chains, Wong said: "RCEP provides diversity in supply and demand and a wider range of costs and sales markets. Businesses can grasp these opportunities to enhance their competitiveness."

One feature of RCEP is how it can act as a bridge between developing and developed economies. The new framework allows companies, including those in Hong Kong and the rest of the GBA, to tap into the supply chain and demand in those markets through the RCEP framework. Businesses from developed economies, restricted by high costs at home, can set up manufacturing bases in Association of South-east Asian Nations (ASEAN) countries that are within the RCEP framework and sell in local markets.

Tariffs are another consideration. Businesses can benefit from lower or zero tariff levels when moving raw materials and semi-finished goods among RCEP countries for processing or to ship to their destination target markets. This essentially extends the scope of existing free trade agreements (FTAs) to more jurisdictions in the Asia-Pacific region and further afield.

Wong explained that the growth in the economies of developing RCEP members should lead to opportunities for service providers, saying: "The tertiary sector relies on the primary and secondary industries to be successful together. For example, developing agricultural products involves R&D, equipment and capital. Companies also need finance professionals to help make financing plans, tax experts to advise on cost-efficient investment and operational structures, and accounting experts in different types of audit reports to facilitate corporate plans."

Leveraging from China's footsteps

As an experienced international tax expert who has worked with clients and government authorities in Hong Kong and mainland China for three decades, Wong has seen first-hand how mainland China has evolved away from being simply an export processing hub into the largest "global factory" in the world. He predicts many of the ASEAN countries can leverage China's precious footsteps and invaluable experience to achieve economic success faster than China in the past.

That should eventually help them develop their international service industries locally. As income levels rise and workers accumulate expertise, ASEAN countries will in theory move up the value chain and build stronger tertiary sectors. Noting that this process will benefit these developing countries, Wong said: "The point is to manufacture in a cost-effective manner for general consumers to purchase at affordable prices. It does not aim to exploit others' resources, but to help them develop and grow with increasing purchasing power and living standards."

Hong Kong service providers remain super-connectors

While helping overseas corporations to invest and operate in mainland China, Hong Kong service providers have also helped mainland Chinese businesses connect with the world for the past 40 years. Many of them have developed into reputable and popular multinational enterprises, and some of them have been listed on the stock exchanges in Hong Kong, mainland China and overseas. Wong believes they can use that experience to do the same for businesses that can leverage RCEP.

Over the years, Hong Kong has helped many overseas investors find local partners in mainland China for manufacturing or other industries while serving as a project manager, creating a three-way business partner. He noted that now Asian companies are engaged in a similar process, saying: "Our clients were mostly from the overseas in the past. In the recent decade, we have seen more Asian investors, especially from mainland China, with brands such as Geely, Haier, Huawei, Mengniu and Xiaomi. China has transformed from an original equipment manufacturer to a brand owner with R&D and unique intellectual properties, while South-east Asia is enhancing their processing and manufacturing."

Hong Kong's role, he believes, will remain similar. Service providers like RSM will continue to act as a professional intermediary, helping businesses conduct location studies, seek business partners in a new market, plan for financing, review draft contracts, support regulatory compliance. As a well-established and popular super-connector with international standards, Hong Kong has the reach in and knowledge of every promising market in RCEP.

The international city has been a gateway for businesses entering mainland China. Now, Wong strongly believes, Hong Kong will take on and deliver similar role for businesses looking to expand into RCEP region, especially ASEAN countries. Successful companies may also return to Hong Kong for listings to grow their business further.

Explaining why Hong Kong is well placed to play this role, Wong said: "Hong Kong has built up reliable and internationally excellent financial and transportation centres over the decades. Such continuous development is also supported by experienced international professionals based in Hong Kong." Hong Kong also benefits from its unique connection with China. Mainland Chinese clients naturally prefer working with Hong Kong service providers who have international professional qualifications, can speak multi-languages and are familiarised with China businesses' cultures and management policies, and Wong remarked that Hong Kong service providers should use this comparative advantage, saying: "We can leverage China's continuing opening-up policies to enhance our competitiveness. The important thing is to make good use of our solid experience in helping China transform from a manufacturing hub to a high-end exporter over the past 40 years when we serve investors to the RCEP markets. Hong Kong has participated uniquely in this journey."

6.9 ACCA Hong Kong: RCEP opens doors to new opportunities for GBA professionals

Interview with Jane Cheng, Head of ACCA Hong Kong

As an international financial hub within the Greater Bay Area (GBA), Hong Kong can act as a springboard for finance and accounting professionals in the region to expand their services regionally and internationally. Foreign companies entering China and Chinese companies expanding abroad, particularly into markets covered within the remit of the Regional Comprehensive Economic Partnership (RCEP) agreement, all need access to the sort of world-class financial and professional services that are plentiful in Hong Kong.

Jane Cheng, head of ACCA Hong Kong, explained that the agreement will be good for business, saying: "The RCEP offers ample opportunities for professional services and business. Talent development and acquisitions are the key to success."

ACCA members can use Hong Kong to maximise the unique business edge of the GBA and tap into the many opportunities that RCEP represents. Cheng noted that there are already plenty of examples of this happening in practice. Describing how her organisation is already helping professionals, Cheng said: "At ACCA, we have created practical resources to support our small and medium-sized practices (SMPs) community in the transformational journey that is a crucial part of the sustainable recovery of the small business sector in this fast-changing era.

Global initiatives

"Global initiatives include Practice Connect – an online hub with insights and innovative tools to help small practitioners stay relevant and meet evolving demands – and The Practice Room, a virtual platform that connects SMPs all over the world so they can share industry insights regularly. These enable members to take advantages of ACCA's unparalleled professional community and possibilities to stimulate discussion and drive innovation and sustainable development."

Championing ACCA's role in the development of the professional services industry, Cheng said: "ACCA is uniquely positioned to promote the role of small and medium-sized enterprises (SMEs) and SMPs in the global economy, meet their needs, facilitate the sharing of ideas and best practices, and power up digital transformation efforts.

"We have introduced ACCA SMP100 as a series of practical workshops and sharing sessions, including cross-market discussions with like-minded practitioners from the Asia Pacific region, to help enhance work efficiency and support business transformation. Connectivity is key to make sure companies can access ACCA's support in the region."

ACCA members are recognised by Chinese government agencies as high-end financial talents with great professionalism. An ACCA qualification is often used as a criterion for promotion to senior management and a whole range of career opportunities.

Talent development

Cheng believes that developing talent is essential for tapping opportunities in RCEP markets. She says that one of ACCA's key attributes is its ability to train and develop new talent to fulfil the demands of the fast-growing economy, and upskill / reskill the existing talent pool in response to the changing environment.

Various modules within the ACCA qualification, such as the Ethics and Professional Skills Module and the continuing professional development offerings, all help strengthen these efforts. ACCA also produces webinars and seminars along with research insights to help its members stay up to date.

Underlining the thinking behind the provision of these services, Cheng said: "Our professional insights help members think ahead, understand the latest developments in the profession, and grasp emerging opportunities wherever they may be."

Because the understanding created in this way goes far beyond the GBA to other RCEP markets and further afield, it can help overcome a key challenge for businesses looking to leverage the GBA's unique edge to expand out to RCEP markets. This challenge is one embedded in the often limited understanding of the culture, policy, regulatory environment, tax structures and other issues that companies have to address when they expand abroad.

ACCA's maxim is that it is people that can overcome such a challenge in order to make expansion and growth a success. Cheng explained how businesses translate this maxim from words into action, saying: "Companies should ensure they have access to a talent pool with the necessary technical, digital and soft skills to help grow their business and manage the risks that can emerge from tapping into the many opportunities that RCEP can generate."

ACCA IS UNIQUELY POSITIONED TO PROMOTE THE ROLE OF SMES AND SMPS, MEET THEIR NEEDS, FACILITATE THE SHARING OF IDEAS AND BEST PRACTICES, AND POWER UP DIGITAL TRANSFORMATION EFFORTS.

7. Concluding Remarks

A lack of in-house understanding can exacerbate issues created by weak talent or underdeveloped infrastructure in the region targeted for expansion.

7.1 Brace for challenges

The RCEP agreement offers a wide range of tools to tap into the opportunities offered by its 15 member countries and the synergies that can be found between their markets and the growth of the GBA. However, even as companies look to benefit from these synergies and opportunities, challenges remain. One immediate problem is the limited local knowledge among companies looking to expand into new markets. Insufficient understanding of local politics, culture, legal and regulatory regimes can present many hurdles. These challenges are exacerbated by the reality that many of RCEP's emerging markets are less transparent than might be expected, making it difficult to ensure projects comply with local requirements. The lack of transparency can also make it difficult to assess the medium and long-term benefits and risks of any investments.

To further complicate matters, the RCEP agreement is a technical document that can be difficult to understand. Taking tariff concessions as an example, members promise to eliminate import tariffs on most goods traded in the region, but this may take as long as 20 years to complete. Some members will adopt a single tariff reduction schedule for imports from all members, while others will put forward country-specific schedules with separate reduction timetables for the different members. Traders and companies will therefore need to consider the RCEP offers carefully if they want to capitalise on the tariff preferences appropriately. A lack of in-house understanding can exacerbate issues created by weak talent or underdeveloped infrastructure in the region targeted for expansion. Expert input and advice will help them understand the benefits that the agreement can provide while minimising the business risks.

THE RCEP AGREEMENT OFFERS A WIDE RANGE OF TOOLS TO TAP INTO THE OPPORTUNITIES OFFERED BY ITS 15 MEMBER COUNTRIES AND THE SYNERGIES THAT CAN BE FOUND BETWEEN THEIR MARKETS AND THE GROWTH OF THE GBA.

Hong Kong is an important trading hub for the 15 RCEP members as well as between mainland China and the rest of the world.

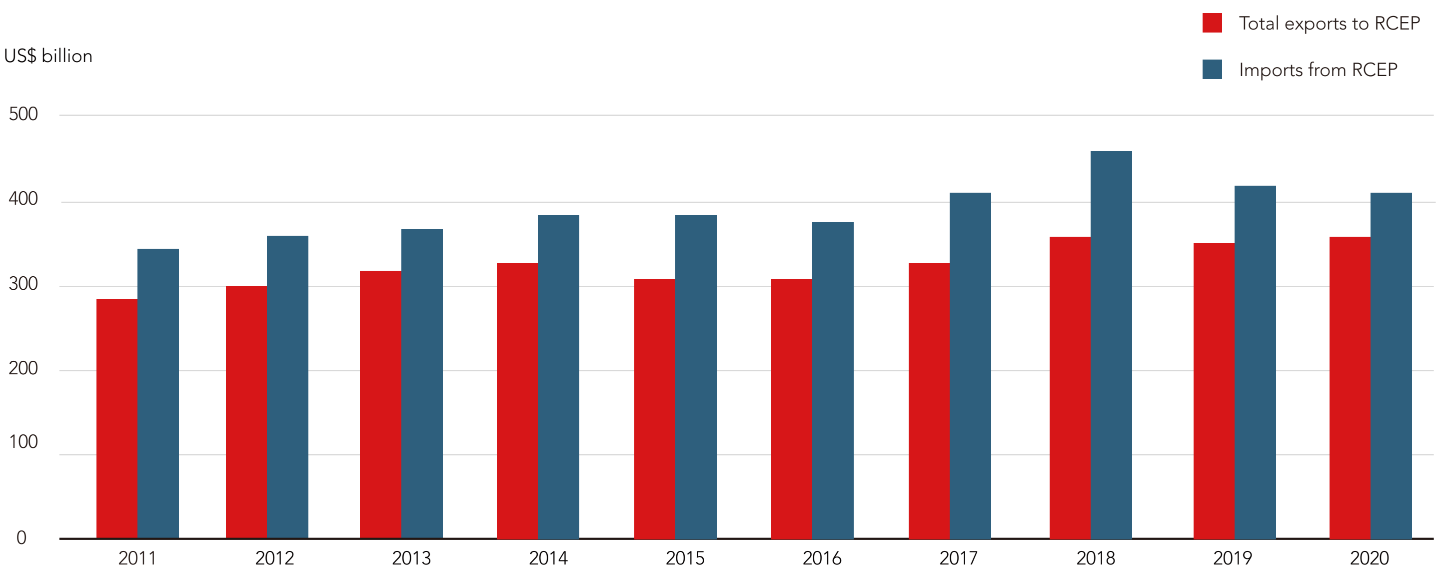
7.2 Capitalising on RCEP opportunities via the Hong Kong platform

For Hong Kong, there are significant opportunities in promoting the development of RCEP and the success of the agreement. Hong Kong is an important trading hub for the 15 RCEP members as well as between mainland China and the rest of the world. This is particularly true for companies in the GBA that can use Hong Kong as a super-connector to go global.

Hong Kong as an important trading hub in the region

A strengthened supply chain relationship between RCEP members not only helps their external trade but also benefits Hong Kong as a key trading hub. Although Hong Kong is not a RCEP member at the moment, it will continue to play a defining role in promoting RCEP trade, in particular the intra-regional trade between mainland China and other RCEP members. Hong Kong exported US$359.6 billion worth of products to the RCEP in 2020, which accounted for 71% of the city's total exports, while some 75% of its imports (US$408.1 billion) also came from the RCEP. The exports to the RCEP are largely re-exports (98.9% of total exports in 2020), and the products mainly originate from RCEP members. The mainland and ASEAN are the two major sources of these exports, accounting for 43.6% and 12.0% of the origins of Hong Kong's exports to the RCEP respectively in 2020. Hong Kong will continue to be an important trading platform for promoting the intra-regional trade of RCEP members with its huge commercial network, comprehensive transportation infrastructure and efficient logistics services.

FIGURE: Hong Kong's Trade with RCEP



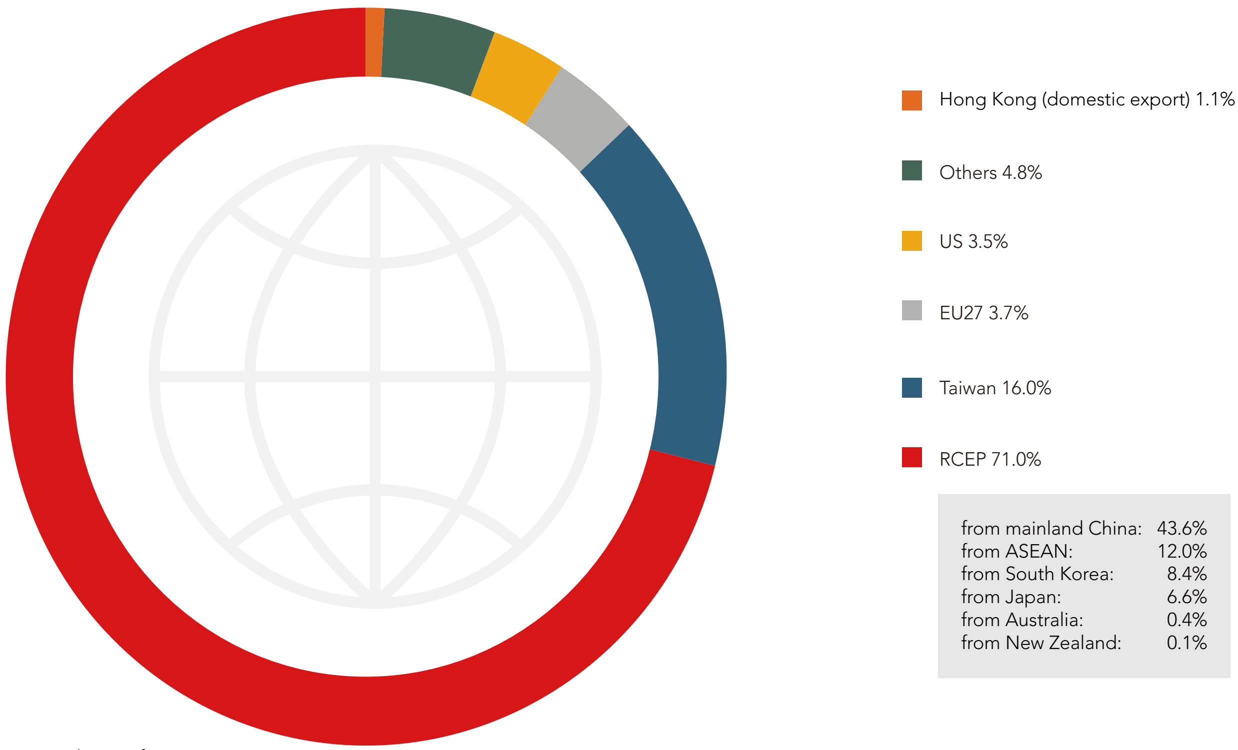
Source: Census and Statistics Department, Hong Kong SAR Government

More and more companies in the region and beyond are seeking to take advantage of the emerging opportunities brought about by the RCEP agreement.

Many of the Hong Kong exports to production bases in the mainland and ASEAN countries are industrial products such as machinery and electronic parts and components for manufacturing and assembly processes. This is because Hong Kong is not only an international trading hub in Asia, but also an important window for the mainland to import industrial inputs and export manufactured products. With the further integration of the supply chains of RCEP members, Hong Kong can expect to handle more intra-regional trade between the members, especially trade in electronic products and other industrial items.

HONG KONG CAN EXPECT TO HANDLE MORE INTRA-REGIONAL TRADE.

FIGURE: Origin of Hong Kong's Exports to RCEP



Remark: 2020 figures.
Only the figures of the current 27 EU members is included, and the UK figure is not included.
Source: Census and Statistics Departmemt, Hong Kong SAR Government

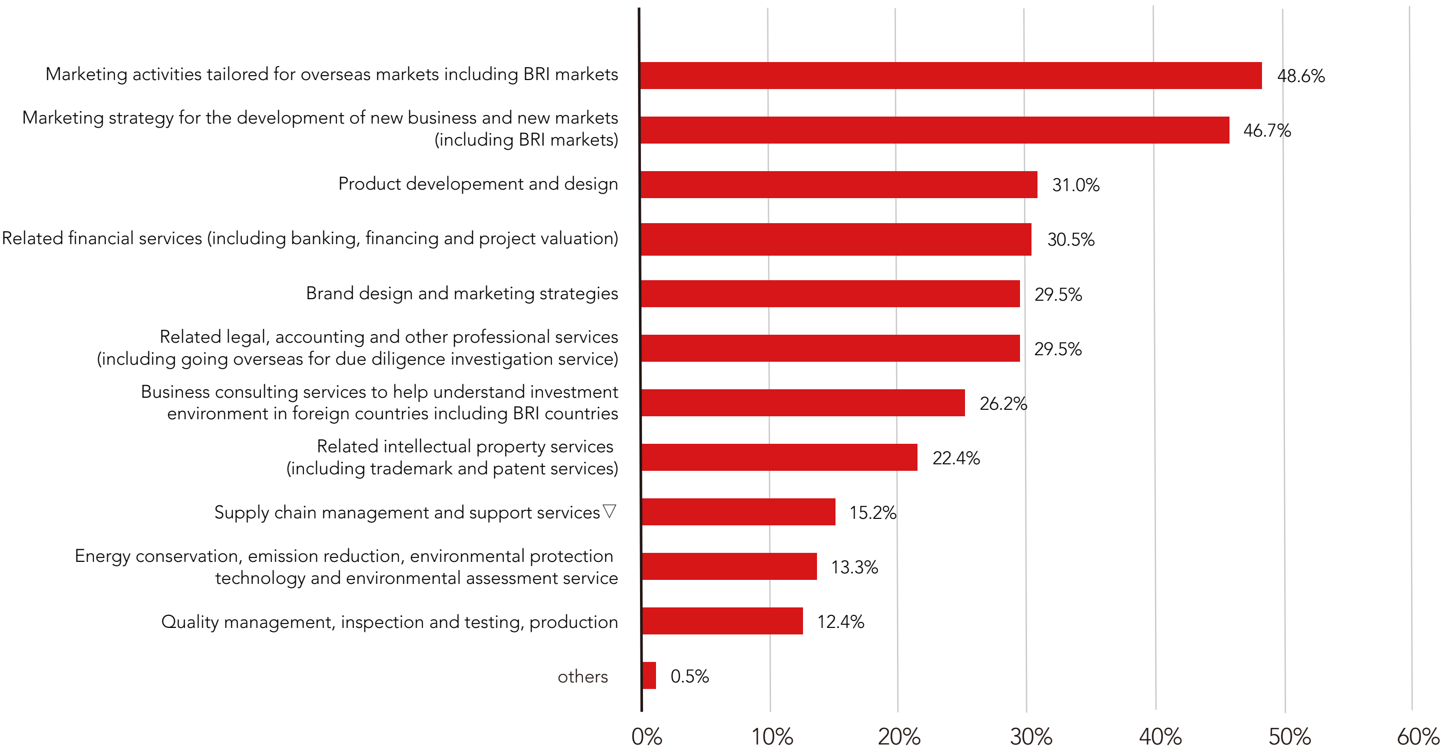
GBA turbo-charges Hong Kong to facilitate enterprises "going global" in RCEP region

On the other hand, more and more companies in the region and beyond are seeking to take advantage of the emerging opportunities brought about by the RCEP agreement. On the mainland, although China-US trade friction and the Covid-19 pandemic have continued to bring uncertainty to the global economy, many companies in the GBA continue to "go global", hoping to enter new markets and to develop international businesses in order to diversify business risks. They also bring in external partners and resources to optimise their business portfolio and sustainable development capabilities. The implementation of the RCEP agreement will become a new driving force for such mainland enterprises to go global.

However, in order to develop their international business, most mainland companies need extensive professional service support. According to a survey conducted by the HKTDC on mainland enterprises in the GBA (as described in section 3 above), almost all companies that were interested in "going out" said that they needed several professional services. Among them, 49% were interested in joining marketing activities tailored for overseas and Belt and Road Initiative (BRI) markets, while 47% were looking to marketing strategies for developing new business and new markets. Other professional services needed included product development and design (31%), banking, financing and project valuation (30%), brand design and marketing strategies (30%), and related legal and accounting services (30%).

The 15 RCEP participating countries are not only very different in their economic and population structures, but also in their labour markets, wage levels, stages of economic development, investment policies and incentives. There are substantial differences in the actual production environment and conditions among individual countries and regions. These include, for example, plant locations, conditions of the local supply chains, the standards of logistics facilities and services in peripheral areas, the efficiency of inland and international transportation, environmental requirements, the skilled and unskilled labour supply, local skills and management training, etc. All these issues will affect the capability and competitiveness of a company's global strategy.

FIGURE: Professional Services of Most Interest or Most Sought-After for Tapping Overseas Opportunities



▽ including sourcing inventory, cold-chain logistics and related financing services
n = 210 (multiple answers allowed)
Source: HKTDC survey

In order to develop their international business, most mainland companies need extensive professional service support.

Investment planning, location selection and due diligence

When carrying out investment planning and selecting a location, an investor must properly evaluate the country, region and policies to ensure that the development of the overseas business will align with the local medium to long term development plan. This will minimise any hidden risks such as the investment project is not in line with the government incentives, or that policy incentives and other support have to be negotiated with the local government. There is therefore a need to seek professional services support.

Hong Kong's service providers are familiar with the legal and investment regimes of advanced countries and can also use their international networks to carry out effective risk assessments for mainland enterprises seeking to invest in emerging markets or RCEP member countries. They can also offer strategic recommendations on the feasibility of an investment project and conduct surveys on key issues such as the environmental policies and tax incentives of an investment location. This can help investors control risks and ensure the sustainable development of a project after an investment has been made.

Financial services

Hong Kong is one the world's major international financial centres, and funds are available from various sources and a wide range of financing products. As such, Hong Kong is in a position to match and accommodate funds and meet the insurance needs of different maturation, exchange rates and asset risks.

Furthermore, Hong Kong's services platform can offer different investment options to mainland enterprises, including the use of private-equity investment funds.

Legal, accounting and other professional services

Hong Kong's advantages as a business platform in the Asia Pacific include a sound legal system, free flow of capital and information, and a full complement of professional services in law, accounting, etc. When investing in RCEP countries, mainland enterprises can make use of Hong Kong's professional project evaluation and sustainability assessment services to bring in external funds to finance their overseas investment projects and other business ventures. They can also set up a regional office in Hong Kong and capitalise on Hong Kong's efficient business environment to co-ordinate investment projects on the mainland or in ASEAN and RCEP countries to enhance overall operational efficiency.

Local partner searching and matching

As a way to diversify risks, mainland investors can use Hong Kong's international network to identify offshore partners to carry out equity joint investment and other joint-stock co-operations. Mainland enterprises can also use their investment partners' strengths to overcome their own limitations. By generating synergy between their partner's and their own knowledge and expertise, they can expand the business scope of their RCEP investments. The experienced industry and market specialists based in Hong Kong, using data and insights from their long-standing experience in helping enterprises go global, have established matching services to help enterprises identify and screen potential business partners in the RCEP region.

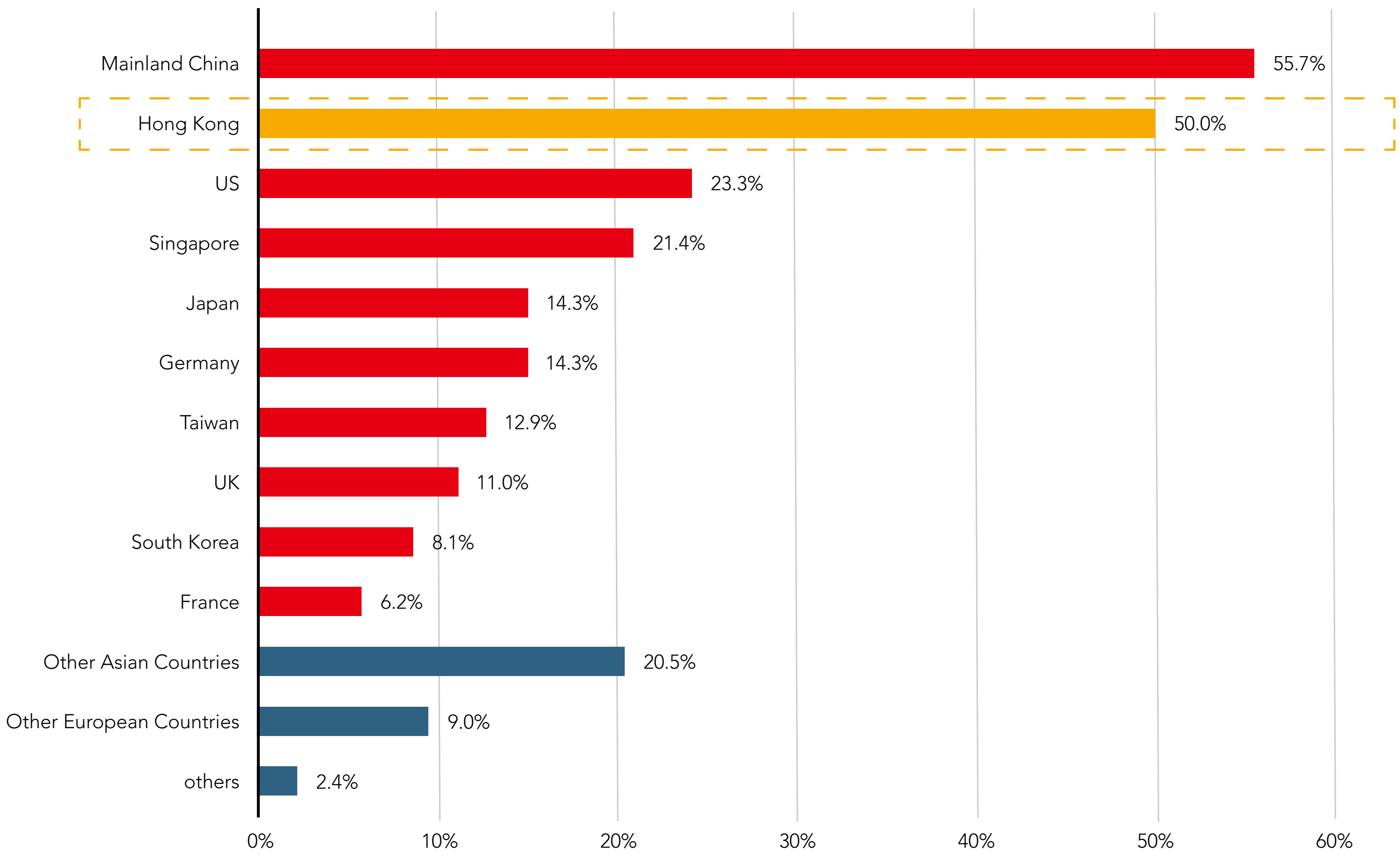
Not surprisingly, Hong Kong, as the global accountancy hub in the Asia Pacific area, was ranked top.

Hong Kong innovative products and services tailored to the specific needs of GBA enterprises

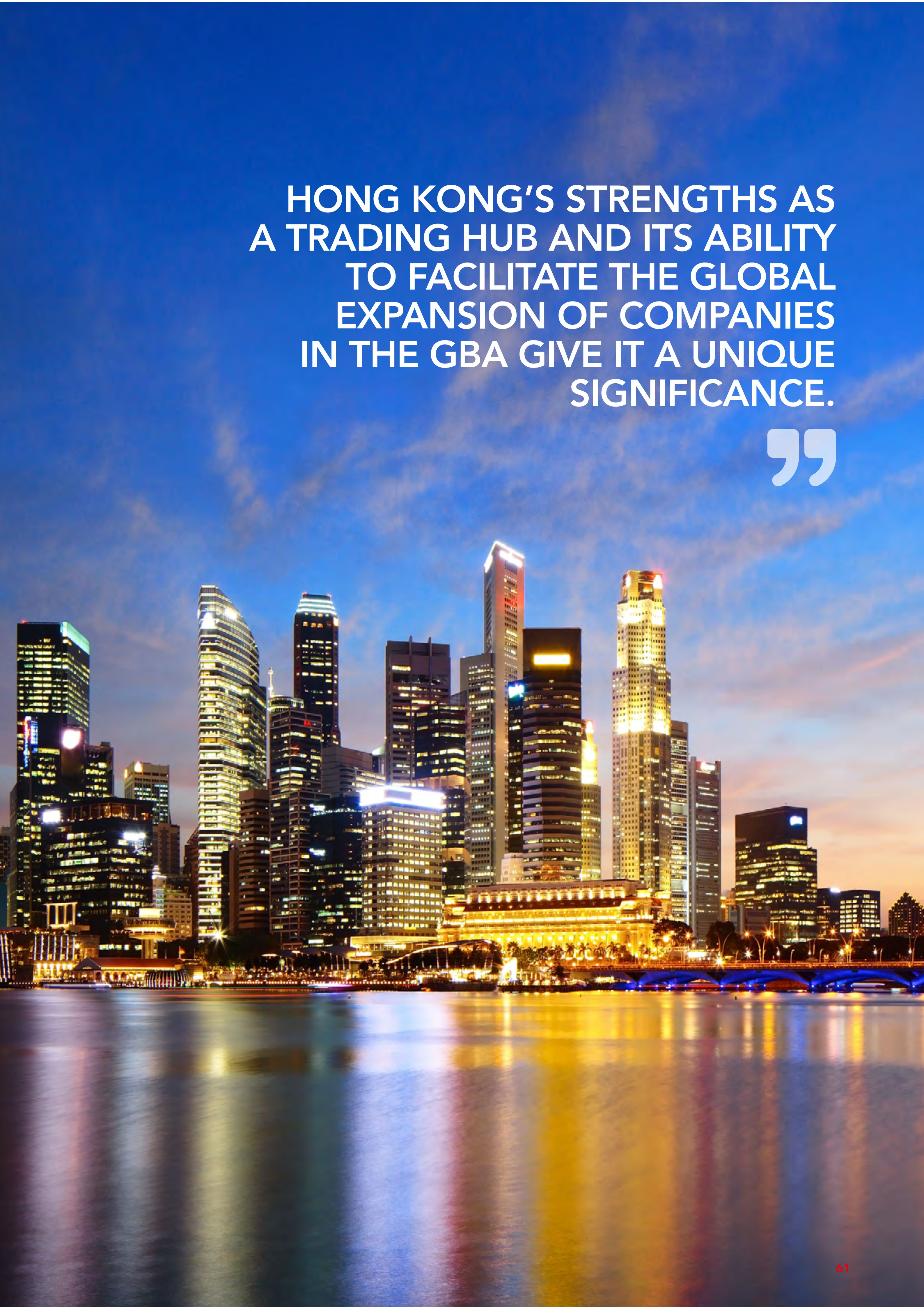
When looking for professional services, 56% of the surveyed GBA enterprises said they would first try to source them locally. Enterprises would also seek support outside the mainland. In this regard, Hong Kong was the preferred destination for the largest number of enterprises, taking up 50% of the surveyed enterprises considering "going out". Other preferred destinations included the US (23%), Singapore (21%) and Japan (14%).

In May 2021, ACCA produced the report "Market Demand for Professional Accountancy Services in the Asia-Pacific FY 2021-2024". The findings of the study were drawn from a survey of 841 senior executives and professionals. Not surprisingly, Hong Kong, as the global accountancy hub in the Asia Pacific area, was ranked top. The report suggested that the major criteria for selecting accountancy services were cost and ease of doing business; quality of public service and competence level; excellent accounting, tax, and financial services infrastructure; health, safety, and public security; and high mobility of international capital.

FIGURE: All Enterprises Considering 'Going Out'



n=210 (Multiple answers allowed)
Source: HKTDC survey



HONG KONG'S STRENGTHS AS A TRADING HUB AND ITS ABILITY TO FACILITATE THE GLOBAL EXPANSION OF COMPANIES IN THE GBA GIVE IT A UNIQUE SIGNIFICANCE.

As the RCEP brings new development to businesses in the region, Hong Kong will become an even more important service platform to help enterprises in the GBA seize these emerging opportunities.

Hong Kong's strengths as a trading hub and its ability to facilitate the global expansion of companies in the GBA give it a unique significance, particularly within the context of the RCEP agreement. The deep pool of professional expertise that exists in Hong Kong can facilitate investment planning, the selection of appropriate locations for expansion and due diligence. Hong Kong is also home to the financial, legal, accounting and other professional services that are necessary for companies to tap into the RCEP. There are also few better places to search for and match with local partners.

With the necessary infrastructure and talent pool, Hong Kong is a well-regarded financial centre and is home to many of the world's major financial institutions. The city is China's first modern and diversified free trade port and international financial centre. It not only ranks highly globally in its overall competitiveness and business environment but has also long played a key role in the Greater Bay Area's development.

The Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area, promulgated in February 2019, has already set out the principles for GBA development, driven by innovation, co-ordinated development, opening up, co-operation and adherence to "one country, two systems". The GBA is positioned to leverage the advantages of Hong Kong and Macao as free and open economies and of Guangdong as the pioneer of reform and opening up. There are measures to support Guangdong, Hong Kong and Macao in strengthening co-operation to jointly participate in the BRI. GBA enterprises are encouraged to collaborate in "going out", and to lead the co-operation in international production. The GBA, along with other coastal provinces and cities, has long been a bridgehead in the mainland's development of foreign trade and economic co-operation. The GBA is also in close proximity to BRI markets, such as ASEAN. As the RCEP brings new development to businesses in the region, Hong Kong will become an even more important service platform to help enterprises in the GBA seize these emerging opportunities.

TAPPING THE RCEP OPPORTUNITIES: HONG KONG TO MAXIMISE GBA'S UNIQUE EDGE AS A BUSINESS PLATFORM