

RCEP THINK TANK NETWORK



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RCEP: Shaping the New Future for Asia's Economy

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As the free trade agreement (FTA) in the world that covers the largest population, has the largest economic and trade value, and the greatest differences in the development levels of its members, the successful signing and formal implementation of the RCEP are the outcome of the exploration and efforts of Asian economic integration, as well as the new achievement of global multilateralism and free trade. Since the formal implementation of the RCEP, its effects and dividends in aspects such as trade, investment, and regional value chains have been gradually unleashed. This not only injects vitality into the economic growth of RCEP economies but also serves as an important driving force for combating trade protectionism and promoting regional economic integration.

At present, economic globalization is facing challenges, and the evolution of profound changes unseen in a century is accelerating. The uncertainties faced by global economic growth have significantly increased. In the coming years, as the challenges posed by the reversal of economic globalization may further intensify, the implementation of the RCEP enters a critical phase. It is imperative for all parties to urgently overcome these challenges and strengthen collective efforts. Guided by the principles of upholding free trade and fostering regional and multilateral economic and trade cooperation, it is essential to accelerate the high-level implementation of RCEP, thereby shaping a new future for Asia's economy.

I. RCEP: Demonstrating the Determination and Ability of Open Cooperation

1. RCEP: A Major Achievement of the Exploration and Efforts of Regional Economic Integration

As a free trade agreement that was completely led and established by economies

within the Asian region, RCEP focuses on promoting common development as an important tenet. In terms of setting the economic and trade rules, it has adopted the “greatest common ground” approach acceptable to all members, which not only ensures a relatively high standard of trade and investment liberalization but also takes into account the differences in various economies’ level of economic development. Thus, the birth of RCEP demonstrates the determination and ability of Asian economies to firmly promote regional economic openness and cooperation, and has become an important achievement in the resolute advancement of free trade.

2. RCEP: Integrating Economic and Trade Cooperation Mechanisms in Asia

(1) Integrating existing regional free trade agreements

RCEP integrates the existing 27 free trade agreements and 44 investment agreements in the region, and for the first time, incorporates major economies such as China, Japan, and the Republic of Korea into a unified arrangement of market rules.

(2) Promoting the liberalization of trade in services and investment

RCEP has achieved significant breakthroughs in the opening-up of trade in services and investment. At the same time, RCEP has formulated specific appendices for fields such as financial services, telecommunications services and professional services.

(3) Promoting the formation of a more resilient industrial and supply chain network

The implementation of RCEP will promote the synergy of advantageous industries among members, gradually reduce the dependence of Asian economies on extra-regional markets, which will address deep-seated structural contradictions in the region such as resource and financial misallocation, and enhance the resilience of regional economic development.

3. RCEP: Injecting Certainty into the Turbulent Global Economic and Trade Landscape

(1) An important lever for safeguarding global free trade

Facing uncertainties, regional free trade mechanisms represented by RCEP have become the main driving force and institutional channel for economic globalization.

(2) Propelling global economic growth

The IMF predicts that, from 2023 to 2029, the GDP of the RCEP region will increase by USD10.9 trillion, 43% higher than the increase in the GDP of the United States during the same period and 1.6 times that of the European Union. During the same period, China and ASEAN will contribute 84% to the economic growth of the RCEP region and more than 30% to global economic growth.

(3) An important platform for shaping the Asian economic and trade governance system

Since the official entry into force of the RCEP, three RCEP Ministers' Meetings have been held, and certain consensus has been reached on major issues such as promoting regional trade liberalization, facilitating market entities' utilisation of the agreement, and strengthening policy coordination.

II. RCEP: An Important Force Promoting Regional Economic Integration

1. Emerging Trade Creation Effects

(1) Promoting growth in intra-regional trade

In 2022, the total trade value within the RCEP region grew by approximately 8.8%, and the intra-regional trade value for all 15 members increased significantly, with 10 members achieving double-digit growth. In 2024, global trade increased by 3.3% year-on-year, and the total trade within the RCEP region rebounded by approximately 3%. Laos, Myanmar, Cambodia, and Indonesia saw the fastest growth rates. Compared to 2021, their intra-regional trade volumes in 2024 increased by 72.4%, 40.4%, 26.0%, and 19.2%, respectively.

(2) There is room for improvement in intra-regional trade share

In 2021, the share of intra-regional trade for RCEP economies reached 48.8%, and further dropped to 47.9% in 2023. Australia and New Zealand have the highest intra-RCEP trade share, reaching 59.1% in 2023. The intra-regional trade share of ASEAN has also remained at a relatively high level of 56%-57%. China's trade with RCEP members accounts for about 30% of China's global trade.

2. Promoting Growth in Intermediate Goods Trade within the Region

(1) Trade in intermediate goods within the region grows rapidly

The proportion of intermediate goods trade in the total trade within the RCEP region rose from 64.5% in 2021 to about 66% in 2023. In 2022, the intra-regional trade in intermediate goods for all RCEP members saw year-on-year growth, with Viet Nam experiencing the fastest growth rate at 32.9%. China is the largest importer and exporter of intermediate goods within the RCEP region, intermediate goods trade between China and ASEAN accounts for 64.4% of the total bilateral trade. As of 2024, China's total intra-regional intermediate goods trade has increased by 4.4% compared to the level before RCEP's implementation in 2021, with exports showing particularly significant growth at 22.0%.

(2) Trade of major products within the region grows rapidly

Mineral fuels, lubricants and related materials are the products with the largest growth in trade within the RCEP region. Its trade value in 2022 increased by 54.41% compared with 2021, and in 2023, its trade value increased by 36.20% compared with 2021. The intra-regional trade in food and live animals has significantly recovered,

with the trade value increasing by 10.06% in 2022 and 9.76% in 2023 compared with 2021. Machinery and transport equipment are the products with the largest market share in the RCEP region, accounting for more than 40% of the trade within the RCEP region. Although the market share, slightly dropped to about 39% in 2022 and 2023, it is still the main product supporting and maintaining the RCEP regional production network.

3. Promoting the Rapid Development of Service Trade of RCEP Members

(1) RCEP members' trade in service shows a rapid growth trend

From 2011 to 2023, the total import value of service trade in the RCEP region increased from USD870 billion to over USD1.5 trillion, an increase of 79% with an average annual growth of 4.6%. The total export value of service trade increased from USD760 billion to over USD1.3 trillion, an increase of about 76% with an average annual growth of 4.5%.

(2) Trade in services of RCEP members has achieved rapid development

Driven by RCEP's service liberalization measures, the service trade of developing countries such as Laos, Cambodia, Viet Nam and Indonesia witnessed a significant growth in 2022 and maintained the high growth in 2023. For example, the total export value of Laos' service trade increased by 224.80% year-on-year in 2022 and by 226.86% in 2023. Cambodia continued to increase by 39.16% in 2023. Viet Nam and Indonesia was 18.80% and 27.52% respectively.

4. RCEP Promotes the Relatively Rapid Growth of Foreign Direct Investment

(1) RCEP region takes up over 30% of foreign direct investment flows in the world

In 2023, foreign direct investment (FDI) inflows attracted by the RCEP region dropped to USD459.6 billion, accounting for 35% of the global total, and FDI outflows dropped to approximately USD464 billion, accounting for 30% of the global total.

(2) Attracting FDI inflows at a relatively rapid pace

ASEAN is the largest recipient of FDI among RCEP members, and the proportion of its FDI inflows in the RCEP region has exceeded 40% for many years, reaching 49% in 2023. ASEAN FDI inflows rose from about USD208.9 billion in 2021 to USD223.5 billion in 2022 and continuing to rise to over USD226.3 billion in 2023, reaching an all-time high. The amount of FDI inflows attracted by China rose from USD138.3 billion in 2018 to USD189.1 billion in 2022.

(3) Outbound FDI have been making steady progress

Japan has long been the largest outbound FDI investor in the RCEP region, with its outward FDI accounting for nearly 40% of the region's total, China accounts for about

30%, and ASEAN accounts for about 15%. In 2023, Japan's outbound FDI rebounded to USD184.0 billion, while China was USD147.9 billion. China's non-financial outbound FDI to other RCEP members reached USD18.06 billion, a year-on-year increase of 26%.

5. Promoting the Integration of Regional Industrial and Value Chains

(1) Promoting the development of regional value chains

In 2023, the Global Value Chain (GVC) trade dropped to USD1.32 trillion, but still increased by 4.6% compared with 2021. ASEAN is the economy that has the largest GVC trade within the RCEP region. In 2023, the GVC participation of ASEAN's intra-regional trade reached USD470 billion, accounting for about 37%. China's intra-regional GVC trade reached USD341 billion, accounting for about 27%.

(2) The global value chain participation rate has been steadily increasing

The overall GVC participation rate in the RCEP region rose from 46.7% in 2021 to 49.4% in 2022 and 48.1% in 2023. The GVC participation rate of China's RCEP regional trade has been rising from 40.9% in 2021 to 43.7% in 2023. The GVC participation rate of Japan's intraregional trade rose from 43.7% in 2021 to 49.7% in 2022. That of the Republic of Korea's intra-regional trade has increased year by year from 54.2% in 2021 to 58.6% and 60.1%.

(3) The complementarity of RCEP members in the global value chain improves

About 70% of Australia's intra-regional GVC trade consists of forward participation, putting it at the upstream. More than 70% of the intra-regional GVC trade of ASEAN countries consists of backward participation. The forward and backward participation of China and Japan are generally balanced, reflecting the completeness and diversity of the industrial chain of the two countries as the centers of regional production network.

III. RCEP: Key Challenges in Comprehensive Implementation

1. An Endogenous and Unified Market Within the RCEP Region Is Yet to Be Formed

(1) The RCEP region still relies on the US and European markets as major export destinations

Asia has historically relied on European and American markets as the main export destinations, lacking the center of endogenous consumption. Today, RCEP economies largely exhibit export-oriented characteristics. Taking consumer goods as an example, from 2021 to 2023, the United States took in over 16% of the total consumer goods exports from the RCEP economies, while China maintained a share of around 9.25%.

(2) ASEAN's trade deficit with China persists

From 2014 to 2024, bilateral trade between China and ASEAN increased by approximately 104%, while ASEAN's trade deficit with China nearly tripled, rising by almost 200%.

2. The Utilization Rate of RCEP Remains Low

(1) Utilisation rate of RCEP rules of origin in trade between China, Japan, and the Republic of Korea is relatively high

In 2022, the total value of imports from China and the Republic of Korea that benefited from RCEP preferential tariffs reached approximately USD 30 billion, accounting for around 96% of Japan's total preferential imports under RCEP. By 2023, the RCEP rules of origin utilisation rate for Japanese enterprises when importing from China and the Republic of Korea increased to 76% and 68%, respectively. The Republic of Korea's RCEP utilisation rate for exports to Japan was 68.1%, while imports from Japan was 37.0%. The utilisation rate of RCEP rules by Chinese enterprises was 4.21% for exports and 1.46% for imports.

(2) Utilisation rate of RCEP rules of origin among ASEAN members is relatively low

In 2023, Viet Nam's export utilization rate under the RCEP was only 1.26%, still far below its average FTA export utilization rate of 37.4%. Thailand and Malaysia reported export utilization rates at 2.7% and 0.07% respectively. The reason behind the low overall utilization of the RCEP is that ASEAN has already signed bilateral or multilateral FTAs with all RCEP partners, so the additional tariff concessions provided by the RCEP are limited, and enterprises are more inclined to continue using the existing arrangements.

3. Regulatory Standard of RCEP Provisions Requires Improvement

(1) Tariff reduction coverage is relatively limited and the phasing-down period is relatively long

RCEP's coverage remains relatively low at approximately 90%. Except for Singapore, the zero-tariff ratios of other RCEP members are all lower than those of CPTPP members. In addition, RCEP's tariff phasing-down period is excessively long, with most major tariff reduction commitments scheduled for 21 to 36 years, whereas CPTPP's transition period ranges from 4 to 21 years. RCEP adopts a country-specific tariff reduction approach, with 37 separate tariff concession schedules, which significantly increases the cost and complexity of RCEP utilisation for enterprises.

(2) The level of openness in trade in services and investment needs to be improved

Compared with RCEP, CPTPP members adopt a more streamlined negative list approach. For example, Japan's List B under RCEP contains 24 non-conforming measures, which is 9 more than the 15 measures listed under CPTPP. These additional

measures increase restrictions in areas such as the movement of natural persons, audiovisual services, transport services, and telemarketing services.

(3) The regulatory standards of RCEP on emerging issues need to be enhanced

RCEP's provisions on digital trade and data privacy protection remain relatively basic, with most clauses being principle-based rather than detailed implementation guidelines.

4. RCEP's Implementation Mechanism Need to be Improved

(1) The RCEP Secretariat and governance and implementation mechanisms are to be strengthened

Currently, the RCEP Support Unit has been set up to serve the function of RCEP secretariat, which remains a transitional arrangement. It is essential to formally establish an RCEP Secretariat to create a stable policy coordination and communication platform for the comprehensive implementation of RCEP.

(2) Low binding force of RCEP provisions

Among RCEP's 701 binding obligations, 170 obligations are encouragement-based, accounting for 19.52% of the total. Some chapters lack consistency in wording and coherence across chapters, and certain provisions are not well-aligned with WTO rules.

(3) Dispute settlement mechanism of RCEP needs to be improved

There is no dedicated institution or personnel for supervision and management. Moreover, the scope of applicability for RCEP's dispute settlement mechanism is highly limited, with key areas such as investment facilitation, subsidies, and government procurement explicitly excluded from its coverage.

IV. RCEP: Jointly Building the High-Level Largest Free Trade Area

1. Establishing a regional platform for open cooperation with ASEAN centrality

(1) Leveraging RCEP to strengthen ASEAN as a growth center

At the 2023 ASEAN Summit, the vision of developing ASEAN into a "Growth Center" was explicitly proposed. Over the next 3 to 5 years, accelerating the high-level implementation of RCEP, further highlighting ASEAN centrality, and fully utilising its comparative advantages within the larger regional market will help overcome the constraints of relatively small market size.

(2) Advancing high-level implementation of RCEP in the ASEAN Way

The "ASEAN Way", characterized by cooperation and consultation, will become even more prominent in advancing regional economic integration. Facing challenges such

as clause upgrades and dispute coordination, it is essential to uphold the “ASEAN Way” by emphasizing flexibility, negotiability, and cooperation, facilitating higher-level implementation of RCEP and accelerating the integration of the broader Asian regional market.

2. China’s Orderly Expansion of Voluntary and Unilateral Opening-Up to Advance the High-Level Implementation of RCEP

(1) China has become a pragmatic promoter of regional free trade

In 2024, service consumption accounted for 46.11% of total consumption in China. This proportion is expected to exceed 50% by 2030, significantly increasing demand for service supply from other Asian economies. China’s proactive expansion of imports from the RCEP region will provide significant momentum for regional development within RCEP.

(2) China’s unilateral opening-up of its big market of 1.4 billion-people to ASEAN

China’s promotion of full coverage of zero tariffs on imported consumer goods from ASEAN, expanded service imports, and will promote balanced trade between China and ASEAN. Promote the opening of intermediate goods markets, mutual recognition of standards and certificates, and optimal allocation of labor to support deeper integration of industrial chains.

(3) Promoting China’s unilateral opening-up of services trade and investment to ASEAN

Develop and implement a more streamlined negative list for foreign investment access for ASEAN, expand market access, and explore conditional sectoral openings. Strengthened financial cooperation will include local currency payment and settlement mechanisms, and the establishment of the “Currency Bridge” to enhance the regional financial safety net.

3. Promoting the Upgrading of RCEP and Improving the Governance System of RCEP

(1) Accelerating the implementation of existing RCEP provisions

Immediate steps should be taken to improve RCEP rules of origin, achieve a full negative list in services trade, compress the transition period, and move toward unified tariff reduction schedules to improve the agreement’s ease of use.

(2) Aligning with high-standard international trade rules to expand RCEP’s covered issues

Benchmarking CPTPP and DEPA, RCEP should gradually expand to cover areas such as government procurement, e-commerce, green development, state-owned enterprises, and regulatory coherence to develop higher-standard regional trade rules.

(3) Accelerating the establishment and optimization of the RCEP governance mechanism

Efforts should be made to establish the RCEP Secretariat, enhance capacity building, accelerate membership expansion, and formulate a 10-year development blueprint and roadmap to lay the governance foundation for the world's largest free trade area.

4. Advancing Free Trade in the Asia-Pacific with RCEP as a Key Driver

(1) Promoting the synergistic development of RCEP and China-ASEAN Free Trade Area (CAFTA) 3.0

In the coming years, RCEP and CAFTA 3.0 should coordinate rules in emerging sectors such as the digital economy and green industries to enhance spillover effects.

(2) Achieving major breakthroughs in China-Japan-ROK free trade progress through high-level RCEP implementation

Based on RCEP, China, Japan, and the Republic of Korea should conclude higher-standard agreements in trade liberalization, service market connectivity, and rule alignment, and explore the “RCEP+” framework.

(3) Leveraging the RCEP platform to empower the advancement of APEC agenda

RCEP should strengthen alignment with CPTPP and DEPA to support the realization of APEC's “Putrajaya Vision 2040” and progress toward a high-standard Free Trade Area of the Asia-Pacific (FTAAP).

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