

# RCEP THINK TANK NETWORK



## NEWSLETTER

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### **Resolutely Advance RCEP with Free Trade as the Main Theme**

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At present, against the backdrop of the U.S. challenging the global free trade order with its "tariff stick," there are three crucial assessments:

**First, free trade is a vital driver for stimulating market vitality and fostering economic growth.** According to a WTO report, joining the WTO led to an average 140% increase in trade among members and raised economic growth rates by 1.5 percentage points.

**Second, free trade based on open markets and inclusive rules is RCEP's greatest strength.** By 2035, RCEP is expected to boost ASEAN's GDP growth rate by 4.47 percentage points, with the Philippines, Cambodia, Thailand, Vietnam, and others seeing increases of over 6 percentage points.

**Third, high-level RCEP free trade process must be resolutely advanced.** With U.S.-led economic globalization reaching its "demise" and regional economic integration becoming the mainstream, steadfastly advancing RCEP with free trade at its core serves as a key lever to promote regional economic integration and counter the U.S. trade war.

#### **I. Jointly Building the Largest, Most Equitable, and Most Dynamic Free Trade Area**

**RCEP is the world's largest, most equitable, and most dynamic free trade area.** First, as the largest free trade area in the world, RCEP accounts for one-third of the

world's total economic output, trade volume, population, and foreign investment. Its trade and investment rules adopt a "greatest common denominator" approach acceptable to all member states, ensuring high standards of trade and investment liberalization while accommodating differences in economic development levels. Second, the RCEP region is the most economically dynamic in the world. From 2010 to 2023, the average annual GDP growth rate of RCEP members reached 4.5%, outpacing the global average by 1.7 percentage points, with their share of global GDP rising from 25% to 31%. The RCEP not only leverages the strengths of traditional developed economies within the region but also optimizes resource allocation of less-developed countries, thereby unlocking the economic potential of its members. Third, through open and inclusive trade and investment liberalization and facilitation, RCEP further integrates China and ASEAN—two of the most dynamic and growth-potential-rich markets—stimulating the vitality of the RCEP's unified mega-market.

**2. RCEP with free trade as the main theme serves as a key driver of regional economic growth.** The direct impetus for regional economic cooperation stems from differences in factor endowments and optimized resource allocation. From 2016 to 2023, the total trade-to-GDP ratio of ASEAN nations increased from 84% to 93%. This demonstrates that maintaining a stable free trade order is decisive for the growth of ASEAN and RCEP economies. Between 2021 and 2023, the share of intermediate goods trade within the RCEP region rose from 64.5% to 66% of total trade within the region. This indicates deeper integration of regional production and supply chains, providing solid support for stable economic growth across the bloc. According to IMF projections, from 2023 to 2029, the RCEP region's GDP will expand by \$10.9 trillion, contributing over 40% of global economic growth.

### **3. RCEP serves as a critical lever for member states to advance free trade amid global transformations**

From the Biden administration's Indo-Pacific Economic Framework that lacks tariff concessions and market access provisions to the Trump administration's "America First" approach and "reciprocal tariffs" implemented at others' expense, both represent protectionist and exclusionary policies prioritizing domestic interests. This shift stems from fundamental changes in U.S. industrial structure driving realignment of economic interests. Realistically, regardless of which party occupies the White House, while tactics may differ, none can reverse these structural transformations underway in America. Consequently, what it brings to the region is fragmentation rather than cooperation, uncertainty instead of opportunity.

In 2023, RCEP members' exports to the U.S. accounted for merely 15% of total exports, while exports to the RCEP region exceeded 40%. As the US comes out to reject economic globalization and free trade and making its market increasingly inaccessible, it becomes imperative to make good use of RCEP's unified big market. Resolutely advancing free trade through RCEP not only fuels members' own growth,

but more crucially establishes a collective bulwark against U.S. trade war while pioneering regional and global free trade progress.

## **II. RCEP Is Well-Positioned to Become a Key Driver of Global Free Trade**

**1. Signing the China-ASEAN Free Trade Agreement 3.0.** China-ASEAN relations represent the most successful and dynamic model of regional cooperation in the Asia-Pacific. Both sides have made significant achievements in trade and investment, production and supply chain coordination, and infrastructure connectivity. In 2023, ASEAN's exports to China accounted for 15.8% of its total exports—1 percentage point higher than its exports to the U.S.—solidifying China's position as ASEAN's largest export market. Since RCEP's entry into force, the share of intermediate goods trade between China and ASEAN has risen further to 67%, while China's FDI stock in ASEAN has grown at an average annual rate of nearly 12%. In the first quarter of this year, China-ASEAN trade reached ¥1.71 trillion, up 7.1% year-on-year, increasing its share of China's total foreign trade from 15.9% at the end of 2024 to 16.6%. Notably, manufactured goods accounted for 90.1% of bilateral trade, most of which were intermediate products.

The growing complementarity between China and ASEAN economies remains a major trend. For instance, trade in services between China and ASEAN represents only about 6% of total trade. The China-ASEAN FTA 3.0, for the first time, includes high-standard chapters on the digital economy, green economy, and supply chain connectivity that are the most advanced in any of their respective trade agreements, injecting new momentum into China-ASEAN free trade. Additionally, ASEAN has been China's largest agricultural trade partner for eight consecutive years since 2017. In the first quarter of this year, China's agricultural imports from ASEAN grew 13.8% to ¥52.65 billion. Moving forward, leveraging the China-ASEAN FTA 3.0's superior trade facilitation and SPS measures compared to RCEP, the two sides will build integrated supply chains focusing on processing, insurance, packaging, and logistics. Blockchain technology will be deployed for end-to-end supply chain traceability, enhancing transparency and efficiency in agricultural trade.

**2. Achieving major breakthroughs in China-Japan-Korea FTA negotiations.** China, Japan, and South Korea collectively account for over 80% of RCEP's total economic output and manufacturing value-added, and more than 70% of its trade, making them pivotal drivers of RCEP's advancement. The Joint Media Statement of the Thirteenth Economic and Trade Ministers' Meeting emphasized that “keep discussions for speeding up negotiations for a Trilateral FTA” and “encourage the RCEP Joint Committee to finalise the Terms of Reference of the Accession Working Group (AWG) for new membership to the RCEP as soon as possible.” To achieve major breakthroughs in regional free trade at an "RCEP+" level, it is imperative to expedite progress in the CJK FTA negotiations, particularly in trade in services, institutional openness, and industrial chain cooperation.

In practice, advancing mutual market openness, especially in services, among China, Japan, and South Korea under the RCEP framework is crucial. OECD data reveals that South Korea's Services Trade Restrictiveness Index (STRI) are 80% higher than the OECD average, while Japan's STRI is roughly double that of major developed economies like the US, UK, Germany, and France. Preliminary estimates suggest that doubling the level of service trade among the three nations to approach or match the global average as a share of GDP could unlock at least \$1.4 trillion in new market opportunities, exceeding the current total value of RCEP members' goods exports to the US. By advancing free trade within the RCEP framework, deeper economic cooperation among China, Japan, and South Korea will not only strengthen their own integration but also catalyze growth across ASEAN economies.

**3. China's orderly expansion of voluntary and unilateral opening-up will provide key momentum for high-level RCEP free trade.** It is estimated that by 2035, China's producer services sector is projected to grow from its current 30% of GDP to 50-60%, while the share of service-based consumption expenditure in total consumer spending is expected to rise from 46.1% to around 60%. Meanwhile, the share of trade in services in China's total foreign trade is likely to increase from 14.6% today to over 20%. This transformation will unleash massive domestic demand potential, generating substantial import and investment opportunities. Coupled with China's policy of orderly expanding voluntary and unilateral opening-up, this shift will create an expansive export market and investment space for RCEP members, especially ASEAN. From now until 2030, China's cumulative imports from developing countries (including ASEAN) are anticipated to exceed \$8 trillion, positioning China to replace the U.S. as the region's new consumption hub.

**4. Upholding ASEAN's Centrality in RCEP.** It is essential to effectively leverage ASEAN's pivotal role as the center of RCEP: first, by utilizing the dividends of free trade to maintain ASEAN's position as the world's fastest-growing economic region; second, by enabling ASEAN to play its role in leading regional free trade; third, by allowing ASEAN to exert significant influence within the RCEP-centered regional free trade framework. This requires adhering to the principle of "open regionalism" and fully reflecting this principle in the ongoing efforts to expand RCEP membership and enhance its role in global free trade.

From the broader perspective of promoting regional free trade, accelerating membership expansion is particularly crucial. For instance, 70% of Hong Kong's investment and trade activities occur within the RCEP region. Hong Kong's accession to RCEP would not only boost trade but also drive comprehensive development, including in the financial sector. Similarly, if Chile successfully joins RCEP, it would mark RCEP's transformation from a regional arrangement to a cross-regional one.

Recently, Malaysian Prime Minister Anwar Ibrahim announced that a trilateral summit involving China, ASEAN, and the Gulf Cooperation Council (GCC) will be held by the end of May this year to discuss economic and trade cooperation. Looking

ahead, promoting collaboration between RCEP and GCC, as well as advancing economic and trade cooperation with the Shanghai Cooperation Organization (SCO), will be important. Under these new circumstances, through the joint efforts of all parties, RCEP is poised to evolve into a cross-regional free trade arrangement and become a key driver of both global and regional free trade.

### **III. Jointly Building RCEP to a Higher-Level**

#### **1. Forming an important driving force for RCEP free trade through higher-level market opening-up.**

— **Accelerate the implementation of RCEP's “zero tariffs”.** With the joint efforts of RCEP members, amplifying the policy effects of “tariff concessions” should be a key measure to counter Trump's “reciprocal tariffs”. For example, based on existing commitments, the transition period for “zero tariffs” on critical raw materials and key components should be shortened as much as possible. Efforts should be made to facilitate the shift from “country-specific tariff concessions” to “unified tariff concessions” among key supply chain nations such as China, Japan, South Korea, and Indonesia, further reducing the costs for businesses to utilize the agreement.

— **Unleash the policy effects of “Cumulation of Rules of Origin” to promote diversified layouts of regional industrial and supply chains:** From a developmental perspective, it is necessary to coordinate and expedite the review of relevant provisions in RCEP's chapter on rules of origin, advancing the transition from “partial cumulation” to “full cumulation”. This will enable enterprises to flexibly adjust their industrial and supply chain layouts based on the resource endowments and market advantages of each member. Simultaneously, joint efforts should be made to simplify origin certification procedures, gradually achieving customs clearance management based on shared regional customs information and mutual trust.

— **Build a high-level network for services and investment liberalization:** Since RCEP's implementation, the average Services Trade Restrictiveness Index (STRI) of RCEP members has decreased from 0.299 in 2021 to 0.276 in 2024, yet it remains significantly higher than the global average of 0.19. It is recommended to promote the transition from “positive lists” to “negative lists” for services trade among RCEP members and further optimize the regional investment environment. While invigorating manufacturing-related services, emphasis should be placed on expanding market openness in modern service sectors such as telecommunications, finance, education, healthcare, and legal services.

**2. Expanding new space for free trade under RCEP.** In recent years, Asia's share of global digital services trade exports has been rising annually, reaching 27.37% in 2023. In 2024, the total digital trade in Southeast Asia reached 263 billion, a 15% increase year-on-year. It is estimated that by 2030, facilitated by Digital Economy

Framework Agreement (DEFA), the size of ASEAN's digital economy will exceed \$1 trillion.

To adapt to future trends, under the framework of RCEP's e-commerce rules, efforts should be made to jointly establish cross-border “Digital Free Trade Zones” and “Digital Economy Cooperation Parks”, facilitating the smooth flow of data, digital technologies, and digital services, and collectively developing a regional digital economy market. At the same time, collaboration should be deepened to refine RCEP's e-commerce rules, standardize regulations on the digital economy and data localization, and actively participate in shaping international digital trade rules while continuously improving the regional digital services trade environment.

**3. Improving RCEP's Governance Mechanisms.** It is recommended to further define the functions of the RCEP Support Unit (RSU); promote the monitoring and coordinating of RCEP's operations, analyzing regional trade developments, and facilitating the implementation of the agreement and related cooperative projects; and establish a dedicated RCEP Dispute Settlement Committee to create a more efficient and transparent dispute resolution mechanism, ensuring that member states can resolve trade disputes swiftly and fairly. To meet RCEP's developmental needs, establish an RCEP Secretariat at an appropriate time. As RCEP's governance system matures, it should be positioned as the primary platform for regional economies to conduct trade consultations and policy coordination.