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RCEP and Investment Creation: Rules, Results and What Comes Next?

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RCEP and Investment Creation: Rules, Results and What Comes Next?

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Abstract

This paper examines whether the Regional Comprehensive Economic Partnership (RCEP) has generated investment creation, a net increase in greenfield foreign direct investment (FDI) to member economies associated with the agreement, and whether the legal design of its investment chapter helps explain observed FDI patterns. We combine two complementary sources of evidence. First, using project-level greenfield FDI data from the Orbis Cross-Border Investment database (2019-2024) and an event-study difference-in-differences design, we find that greenfield FDI inflows to RCEP destinations rose by approximately 21% relative to non-member destinations after the agreement took effect. Post-RCEP investment gains are concentrated in a subset of industries – most notably manufacturing, real estate, information, finance and insurance, and management of companies – and in a small number of destination economies, particularly Thailand, New Zealand, and Vietnam.

Second, using the World Bank's Deep Trade Agreements database, we construct comparative indices of RCEP's investment-chapter provisions and show that RCEP scores as a non-investor-centric, sovereignty-preserving agreement, with the highest Policy Space/Safeguards index and among the highest Fair and Equitable Treatment provisions scores of the agreements compared, but a materially lower Investor Rights composite (0.35) than CPTPP (0.80) or any of the pre-existing ASEAN+1 agreements, and no investor-state dispute settlement (ISDS) mechanism.

We interpret the two sets of results as complementary rather than as a formally tested causal chain: the econometric evidence indicates that RCEP is associated with a real but moderate reorientation of regional greenfield investment, and the legal comparison helps explain why an agreement of RCEP's cautious design would plausibly be expected to produce a moderate, rather than transformative, effect.

We conclude with options for strengthening RCEP's investment framework, including transparency and centralized investor support, an investment facilitation pillar, explicit sustainability commitments, and optional pathway to ISDS, that would deepen the agreement incrementally without abandoning its current, politically feasible design.

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1. Introduction

The Regional Comprehensive Economic Partnership (RCEP) is the largest regional trade agreement by economic and demographic coverage, bringing together the ten member states of the Association of Southeast Asian Nations (ASEAN) and five regional partners: China, Japan, the Republic of Korea, Australia, and New Zealand. Signed on 15 November 2020 and entering into force progressively from January 2022 (Ministry of Trade and Industry, n.d.), RCEP created a common trade and investment framework covering roughly 30% of global gross domestic product (GDP) and population (Petri & Plummer, 2020a). Its scale makes it a major development in Asia-Pacific economic integration and a potential platform for reorganizing regional trade, production, and investment patterns.

Yet RCEP's investment effects remain uncertain. Early discussion of the agreement focused mainly on tariff liberalization, rules of origin, and trade facilitation. These features may indirectly affect FDI by lowering trade costs, improving supply-chain predictability, and encouraging firms to reorganize production within the region. At the same time, RCEP has been criticized by as a relatively “shallow” agreement compared with more ambitious regional trade frameworks such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). These criticisms stem from its limited liberalization depth – around 90% of tariff lines are to be eliminated over 20 years – leaving substantial protection in agriculture and services (Petri & Plummer, 2020a). Moreover, RCEP lacks binding commitments in emerging policy areas such as labour and environmental standards, competition policy, government procurement, and digital trade. And its investment chapter is largely re-affirmative, relying on positive-list commitments and postponing the establishment of an investor-state dispute settlement (ISDS) mechanism (Thangavelu et al., 2022; Park, 2022). These features raise an important question: has RCEP created meaningful new investment among its members, or has it mainly reinforced pre-existing investment patterns?

This question is particularly important because RCEP entered into force during a period of unusual disruption in the global investment environment. Supply-chain reconfiguration, tariff uncertainty, capital-flow volatility, geopolitical tensions, and “China-plus-one” diversification strategies have all influenced firms' location decisions independently on any single trade agreement (Alfaro & Chor, 2023; Aiyar et al., 2023). In this context, RCEP could plausibly support investment creation by making regional production networks more predictable and reducing the transaction costs of cross-border business. Equally, its cautious legal architecture may limit its capacity to generate a transformative reorientation of FDI toward member economies on its own.

Existing studies have examined RCEP's expected effects on trade, output, and regional economic integration, largely through computable general equilibrium (CGE) simulation (Itakura, 2022; Petri & Plummer, 2020b), but ex post empirical evidence on RCEP's realised investment effects remains scarce. Fauzel et al. (2025) suggest that RCEP could significantly boost trade and FDI in East and Southeast Asia through market integration, improved investment climates, and more efficient supply chains. In contrast, Banh et al. (2024) argue that RCEP's tariff regime offers limited additional preference for many member states relative to

pre-existing agreements, with trade effects so far modest, and concentrated among larger, more developed economies. Whether similar patterns hold for investment, especially greenfield FDI, where firm-level location decisions may reveal whether RCEP is changing regional investment incentives, is less well understood.

This paper addresses that gap by along two complementary lines of evidence. First, using project-level greenfield FDI data from the Orbis Cross-Border Investment database for 2019-2024 and an event-study difference-in-differences (DiD) design, we estimate how greenfield investment inflows to RCEP destinations changed after the agreement's entry into force, and how this change is distributed across origin countries, industries and destination economies. Second, we complement this econometric analysis with a comparative legal review of RCEP's investment provisions, using the World Bank's Deep Trade Agreements (DTA) database to benchmark RCEP against the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the pre-existing ASEAN+1 agreements.

We find that RCEP is associated with moderate increases in greenfield FDI inflows to member destinations, approximately 21 percent relative to non-member destinations, concentrated in manufacturing, real estate, information, finance and insurance, and management of companies, and in a limited set of destination economies (Thailand, New Zealand, Vietnam). The increase is broad-based across both RCEP-origin and non-RCEP-origin investors, rather than driven by intra-bloc reallocation alone. At the same time, investment remains highly asymmetric across member states, continues to be dominated by manufacturing, and RCEP members continue to invest substantially outside the bloc, indicating that the agreement has not displaced firms' broader global investment strategies.

The comparative legal analysis helps interpret why this effect is moderate rather than transformative. RCEP's investment chapter contains standard disciplines, including national treatment, most-favoured-nation treatment, rules on expropriation, transfers and performance requirements, but structures them in ways that preserve considerable regulatory autonomy: the agreement records the highest Policy Space/Safeguards index among the agreements we compare, high precision in its Fair and Equitable Treatment (FET) clause, but a materially lower Investor Rights composite than CPTPP or any pre-existing ASEAN+1 agreement, and no binding ISDS mechanism. We treat this legal comparison as complementary evidence about the kind of agreement RCEP is, rather than as a formal test of what causes the estimated investment-creation effect: because RCEP is a single agreement, our design does not have cross-agreement variation in legal depth against which the econometric estimates can be directly attributed. We return to this distinction, and to what a more direct test would require, in Section 6.

The paper makes three contributions. First, it provides early ex post, project-level evidence on RCEP's investment effects, complementing the CGE-simulation literature with transaction-level data and a staggered-adoption identification strategy. Second, it systematically documents RCEP's investment-chapter provisions relative to CPTPP and the ASEAN+1 agreements using a transparent, replicable coding framework, extending the deep-trade-agreement literature (Laget, Roch & Varela, 2021; Osnago, Rocha & Ruta, 2017, 2019) to RCEP specifically. Third,

it identifies concrete, incremental options for upgrading RCEP's investment framework, including alignment with the WTO's recently concluded Investment Facilitation for Development Agreement, that are consistent with the agreement's existing, politically feasible design rather than requiring a wholesale renegotiation.

The remainder of the paper proceeds as follows. Section 2 sets out RCEP's institutional and legal architecture, including its investment chapter. Section 3 documents descriptive patterns in greenfield FDI to RCEP economies. Section 4 presents the event-study evidence on investment creation. Section 5 compares RCEP's investment provisions with CPTPP and the ASEAN+1 agreements. Section 6 discusses limitations and the relationship between the two halves of the analysis. Section 7 concludes with policy implications. The remainder of the paper proceeds as follows. Section 2 explains RCEP's institutional and investment framework. Section 3 presents the evidence on greenfield FDI patterns. Section 4 discusses investment creation effects after RCEP's implementation. Section 5 compares RCEP's investment provisions with those in other trade agreements and explains how its legal design helps account for the observed results. Section 6 discusses policy implications and options for upgrading RCEP's investment framework.

2. RCEP's Trade and Investment Framework

2.1. From ASEAN+1 FTAs to RCEP

RCEP did not emerge in isolation. It builds on more than two decades of ASEAN-centred economic cooperation and the earlier "ASEAN+1" free trade agreements: ASEAN-China (2002), ASEAN-Japan (2008), ASEAN-Korea (2005), ASEAN-Australia-New Zealand (2009), and ASEAN-India (2009). These agreements helped deepen trade and investment relations between ASEAN and its dialogue partners, but they also produced a fragmented regional trade architecture. Different rules of origin, tariff schedules, services commitments, and investment disciplines generated what has often been described as a "noodle bowl" problem in Asian regionalism: firms operating across the region faced overlapping, inconsistent, and administratively burdensome rules (Baldwin, 2006; Elms, 2021).

RCEP was designed partly to address this fragmentation by consolidating ASEAN's existing ASEAN+1 frameworks into a single, more coherent legal structure, with a common rule of origin, modernised customs procedures, and broader coverage of services, investment, e-commerce and intellectual property (Itakura, 2022). These features are intended to reduce transaction costs, improve predictability for firms, and support the operation of regional production networks. However, RCEP's ability to generate investment creation should not be assumed. Many tariff preferences under RCEP overlap with commitments already available through ASEAN+1 FTAs or other regional agreements. In addition, tariff elimination is phased in over long transition periods and remains incomplete in politically sensitive sectors. As a result, the agreement may reinforce existing production networks rather than fundamentally redirect investment flows. The empirical question this paper addresses is therefore whether RCEP has generated additional investment among member economies, beyond what pre-existing regional arrangements and global investment cycles would already predict.

2.2. RCEP's Legal Architecture

The RCEP agreement comprises 20 chapters, setting the standard for a new level of economic cooperation, integration and inclusion in the region. Adopted under ASEAN auspices, RCEP also reinforces ASEAN centrality in regional economic frameworks (Hsieh, 2023; Lando, 2022). Unlike more ambitious and legally demanding agreements such as CPTPP, RCEP adopts a more flexible and incremental approach to integration. This design reflects the diversity of its membership, which includes high-income economies such as Japan, Australia, New Zealand, Singapore, and the Republic of Korea, as well as developing and least-developed economies in Southeast Asia.

The agreement's legal architecture is therefore shaped by pragmatism. It seeks to create common rules across a highly diverse group of economies while preserving sufficient policy space for members at different levels of development. This approach is consistent with the broader "ASEAN way", which emphasizes flexibility, consensus-building, gradualism, and avoidance of direct confrontation in dispute resolution (Lando, 2022). The final agreement reflects typical ASEAN-style compromises resulting from complex multilateral negotiations (Permana, 2023): it establishes shared disciplines, but often does so through flexible commitments, transition periods, schedules of reservations, and built-in agendas for future work.

This cautious architecture involves a genuine trade-off. It enables a large, inclusive agreement among economies with very different regulatory systems and development levels and provides an institutional platform that can be deepened over time. But it also means RCEP does not impose the depth of obligation found in more advanced agreements, particularly on labour, environment, government procurement, digital trade and investment dispute settlement. For investment specifically, this balance between flexibility and ambition is central to interpreting the results in this paper: investment agreements can influence FDI through market access, national treatment, MFN treatment, expropriation protection, transfer guarantees, restrictions on performance requirements, transparency and dispute settlement, and RCEP includes several of these elements – but structured, as Section 5 documents in detail, to prioritise regulatory autonomy and political feasibility over deep investor-centred liberalisation.

2.3. RCEP's Investment Chapter

RCEP contains a dedicated investment chapter, Chapter 10, which aims at facilitating, promoting, and protecting foreign direct investment among member economies. The inclusion of a separate investment chapter reflects the growing role of investment disciplines in modern trade agreements. While earlier trade agreements often treated commercial presence primarily through services commitments (Gao, 2022), contemporary FTAs increasingly include investment chapters covering both protection and liberalization issues.

Chapter 10 contains many standard investment disciplines. These include provisions on scope and definitions, national treatment, most-favoured-nation treatment, treatment of investment, compensation for losses, transfers, expropriation, performance requirements, senior management and boards of directors, investment promotion, investment facilitation, and

reservations and non-conforming measures. The chapter is supplemented by annexes clarifying the parties' understanding of customary international law and expropriation. Member states also maintain schedules of reservations and non-conforming measures, which identify sectors or measures where they preserve policy limitations or exceptions.

RCEP's investment chapter therefore offers a degree of legal predictability. By setting out common disciplines and requiring members to list reservations, the agreement increases transparency regarding investment restrictions and regulatory treatment. This can reduce uncertainty for investors and may support investment creation at the margin. A central contribution of RCEP lies in its adoption of a negative-list approach for investment, marking a significant development from earlier ASEAN+ agreements. This approach can provide greater clarity than older positive-list models, in which only listed sectors are subject to liberalization commitments.

At the same time, RCEP's investment chapter remains cautious. Its protections are not designed to create a deeply liberalized investment regime. Several provisions preserve substantial host-state regulatory autonomy (Gao, 2022). For example, the definition of covered investment is tied to investments admitted in accordance with domestic laws and regulations, thereby reinforcing the role of national legal systems in determining entry conditions. The treatment standard is also framed in a way that limits expansive interpretations of investor protection. In particular, full protection and security is understood primarily as physical protection rather than a broad guarantee of regulatory stability (Gao, 2022).

The most distinctive limitation of Chapter 10 is the absence of a binding investor-state dispute settlement (ISDS) mechanism. Rather than establishing ISDS at the time of entry into force, RCEP provides for future discussions on investment dispute settlement through a work programme. This reflects political caution among members and broader regional scepticism toward investor-state arbitration. The absence of ISDS does not mean that the investment chapter is legally irrelevant, but it does reduce the enforceability of investor protections compared with agreements that provide direct investor access to arbitration. Additionally, unanimous consent requirements make near-term ISDS adoption unlikely (Riley, 2021).

RCEP's investment chapter is therefore best characterised as a cautious, sovereignty-preserving framework: it modernises and consolidates regional investment rules and improves transparency relative to the pre-existing ASEAN+1 patchwork, without fundamentally transforming the legal conditions facing foreign investors. Its design reflects a compromise between investor protection and regulatory policy space, with a stronger emphasis on incremental cooperation than deep liberalization.

2.4. Why Legal Design Matters for Investment Creation

Investment creation depends not only on market size or tariff preferences but on the credibility, predictability and usability of the investment regime itself. Agreements can affect FDI directly, by reducing legal uncertainty around non-discrimination, transfers, expropriation and performance requirements (Laget, Roch & Varela, 2021), and indirectly, through trade liberalisation and rules-of-origin harmonisation that make regional production more efficient.

However, the empirical literature on whether deeper legal commitments reliably translate into more FDI is genuinely contested rather than settled. Berger, Busse, Nunnenkamp and Roy (2013) find heterogeneous associations between treaty provisions and FDI: liberal admission provisions are positively associated with bilateral FDI, whereas stronger ISDS provisions have little discernible effect, cautioning against treating all treaty provisions as equally investment-enhancing. A large meta-analysis by Brada, Drábek and Iwasaki (2021), covering more than 2,000 estimates from 74 studies, finds that the effect of international investment agreements can be considered as negligible or zero – though effects appear more detectable for FDI originating in developed economies. On ISDS specifically, Kerner and Pelc (2022) show that the FDI-deterrent effect of exposure to investor-state disputes has weakened over time and is now concentrated in claims alleging direct expropriation.

These findings do not imply that legal design is irrelevant. The deep-trade-agreement literature that this paper's Section 5 builds on Osnago, Rocha and Ruta (2017, 2019) does find that agreement depth is associated with more vertical, production-network FDI, plausibly the channel most relevant to RCEP's manufacturing-heavy membership. Rather, they counsel caution in how strongly a paper such as this one should lean on legal-design comparisons to explain econometric results, as distinct from using them to describe what kind of agreement RCEP is and what a plausible range of effects might be. We adopt the latter, more cautious framing throughout.

3. FDI patterns in RCEP economies

This section documents patterns in FDI inflows to RCEP economies, with particular attention to changes before and after the agreement entered into force. It first describes aggregate FDI trends across RCEP relative to the world. It then examines subregional differences within the bloc, before turning to entry modes, major source economies, and the key industries attracting greenfield investment.

3.1. Aggregate and subregional FDI trends

As shown in Figure 1 - FDI inflows to RCEP by subregion and share of RCEP economies in global FDI inflows (2010-2024), investment into RCEP economies remained relatively stable between 2010 and 2020. FDI inflows began to increase in 2021 following the conclusion of RCEP negotiations. In 2022, the year the agreement entered into force for most members, total FDI inflows reached approximately USD 560 billion, the highest level recorded during the period. Although inflows declined modestly in the subsequent two years, they remained well above pre-2021 levels. RCEP economies' share of global FDI inflows has also generally trended upward, despite fluctuations associated with shocks such as the COVID-19 pandemic. The bloc's share peaked at around 40% in 2022, before falling to approximately 26% in 2024, a decline consistent with a resurgence of FDI elsewhere in the world economy rather than a deterioration in RCEP's absolute attractiveness. This suggests that, despite the post-2022 decline, RCEP members have retained a significant position in global investment flows.

For analytical purposes, this paper groups RCEP member economies into three subregional clusters based on geographic location: ASEAN (Southeast Asia), Northeast Asia (China, Japan,

and Korea), and Oceania (Australia and New Zealand). Figure 1 - FDI inflows to RCEP by subregion and share of RCEP economies in global FDI inflows (2010-2024) shows that, prior to 2022, FDI inflows into the bloc were primarily directed toward Northeast Asia and ASEAN, with Northeast Asia receiving somewhat more, reflecting the historical role of advanced East Asian economies as manufacturing and technology hubs.

Following the entry into force of RCEP in 2022, investment trends began to shift. While FDI into ASEAN economies gradually increased, inflows into Northeast Asia experienced a modest decline. This pattern is consistent with a partial reorientation of investment toward emerging Southeast Asian markets. However, it should not be read as evidence that RCEP caused the shift, since it coincides with the “China-plus-one” diversification strategies that multinational firms were already pursuing for reasons independent of RCEP (Alfaro & Chor, 2023), alongside relatively lower labour costs and expanding consumer markets in ASEAN (Fauzel et al., 2025; ASEAN Secretariat, 2024).

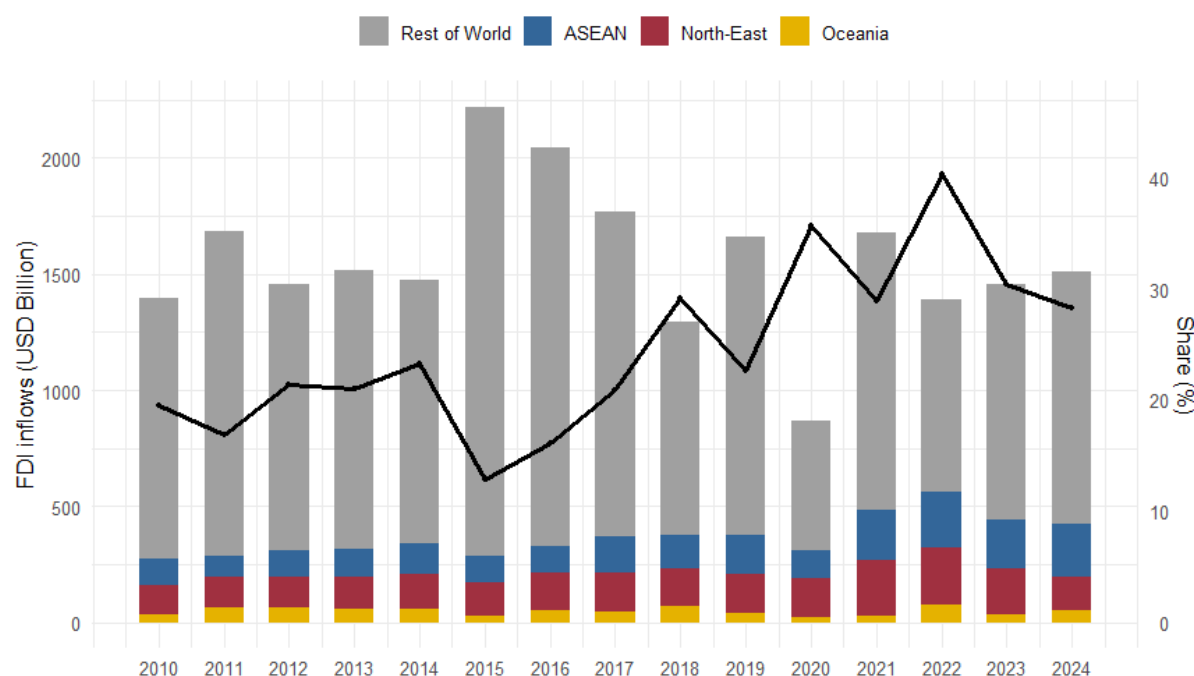


Figure 1 - FDI inflows to RCEP by subregion and share of RCEP economies in global FDI inflows (2010-2024)

(Source: Authors' estimates using UNCTAD data)

When indexing FDI inflows to their 2010 values (with 2010 set as 100%), it is notable that inflows into RCEP countries consistently remained above their 2010 levels throughout the period, whereas global FDI values dropped below 2010's value in both 2018 and 2020 (Figure 2). Both RCEP and the world experienced sharp pandemic-related contractions in 2020, but RCEP's recovery was markedly stronger: RCEP inflows reached over 200 percent of their 2010 base in 2022 – the year RCEP entered into force – and remained above 150 percent in 2024, while global inflows by 2024 had only returned to roughly their 2010 level.

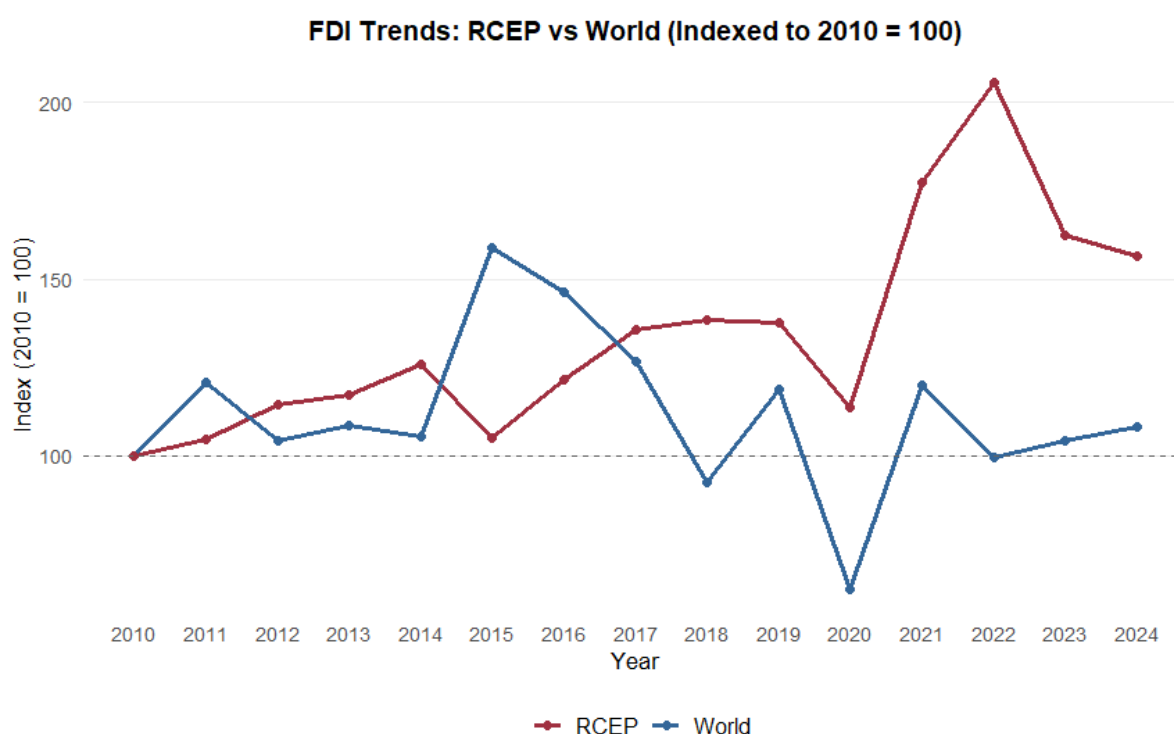


Figure 2 - FDI trends: RCEP vs World (Indexed to 2010 = 100)

(Source: Authors' estimates using UNCTAD data)

Overall, RCEP's share of global FDI has remained comparatively resilient, though the data show a modest decline in RCEP inflows after 2022 relative to the immediate post-agreement peak – a pattern at odds with the simplest expectation that RCEP would durably raise the bloc's global investment share. Plausible contributing factors include ongoing geopolitical uncertainty, lingering pandemic effects, tighter global financing conditions, and competition from non-RCEP emerging markets; distinguishing between these explanations is precisely the task the causal analysis in Section 4 is designed for.

3.2. FDI inflows across RCEP economies

The distribution of FDI inflows across RCEP economies is highly concentrated (Figure 3). China and Singapore together accounted for more than 60 percent of total bloc inflows over 2019-2024. China was the dominant destination through 2022, averaging approximately USD 220 billion annually, with Singapore close behind at USD 180 billion; the next five economies (Australia, Indonesia, Japan, Vietnam, Korea) each attracted below USD 100 billion annually, though this mid-tier group's inflows were comparatively stable.

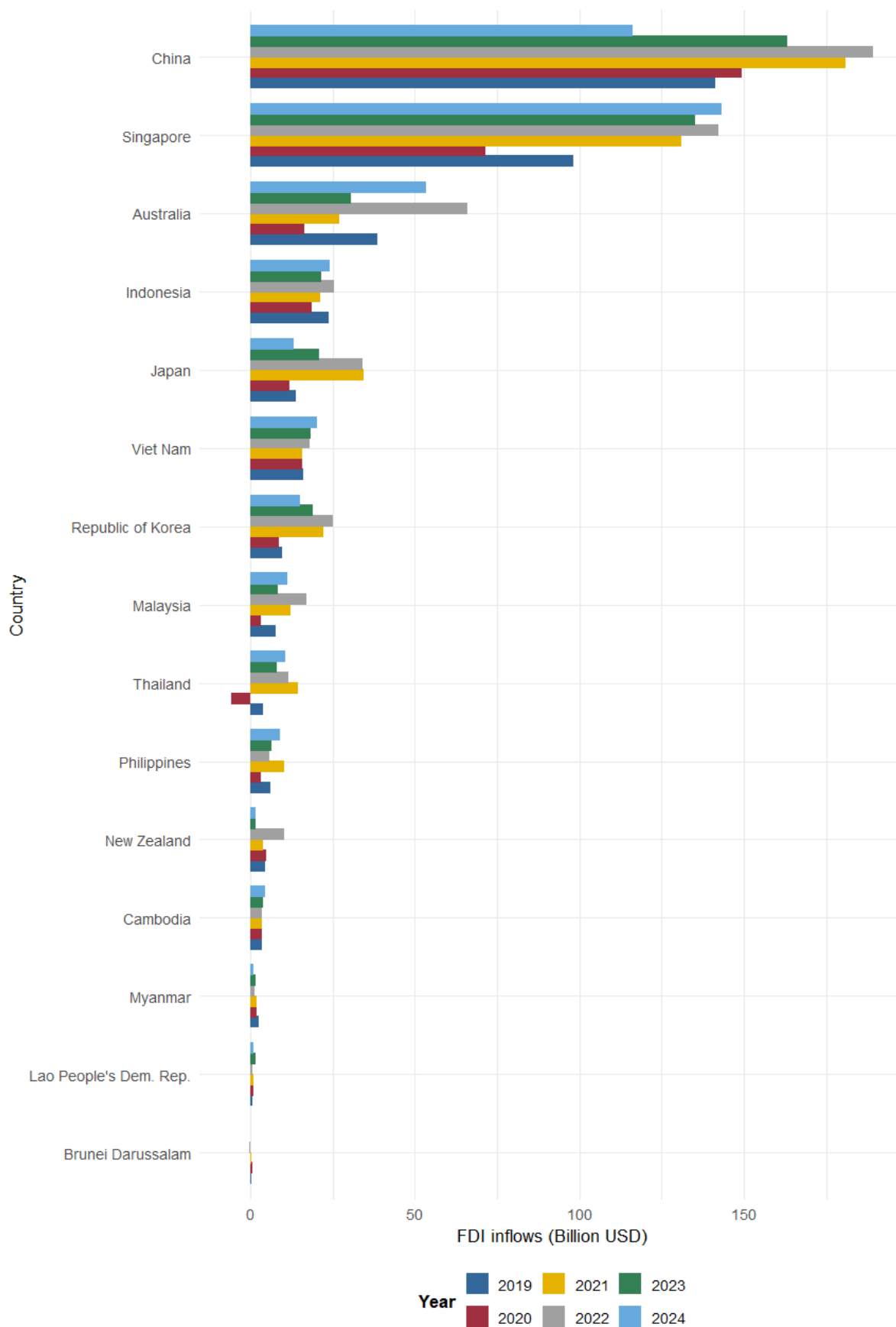


Figure 3 - FDI Inflows to RCEP economies, 2019-2024

(Source: Authors' estimates using UNCTAD data)

A shift in FDI leadership occurred toward the end of the observed period. China’s inflows peaked in 2022 at roughly 250 billion USD before contracting by nearly 20 percent through 2024. In contrast, Singapore experienced consistent year-on-year growth, culminating in an inflow value surpassing 240 billion USD in 2024, positioning it as the top FDI destination in the bloc. This reversal suggests a potential reallocation of regional investment preferences toward economies with more stable policy environments and strong service-sector resilience.

The COVID-19 pandemic had uneven impacts across member states. While most RCEP economies experienced declining FDI inflows in 2020, Thailand recorded a net negative flow of about -5 billion USD. In contrast, China and New Zealand stood out as outliers, maintaining positive inflow growth of 3.5 percent and 2.8 percent respectively.

Turning to greenfield FDI specifically (Figure 4), RCEP’s share of global greenfield inflows declined gradually from over 30 percent in 2010 to around 20 percent in 2024. The 2022 global surge in greenfield FDI – driven by post-pandemic recovery, digital and green investment, and supply-chain restructuring – was not fully matched within RCEP: the bloc’s absolute greenfield inflows continued to rise, but its global share fell below 20 percent, indicating that while RCEP remains an important investment destination, its growth did not fully match the rapid expansion in other regions. This is confirmed in Figure 5, where greenfield FDI into the RCEP bloc has recovered since 2022 but remains below the global trend.

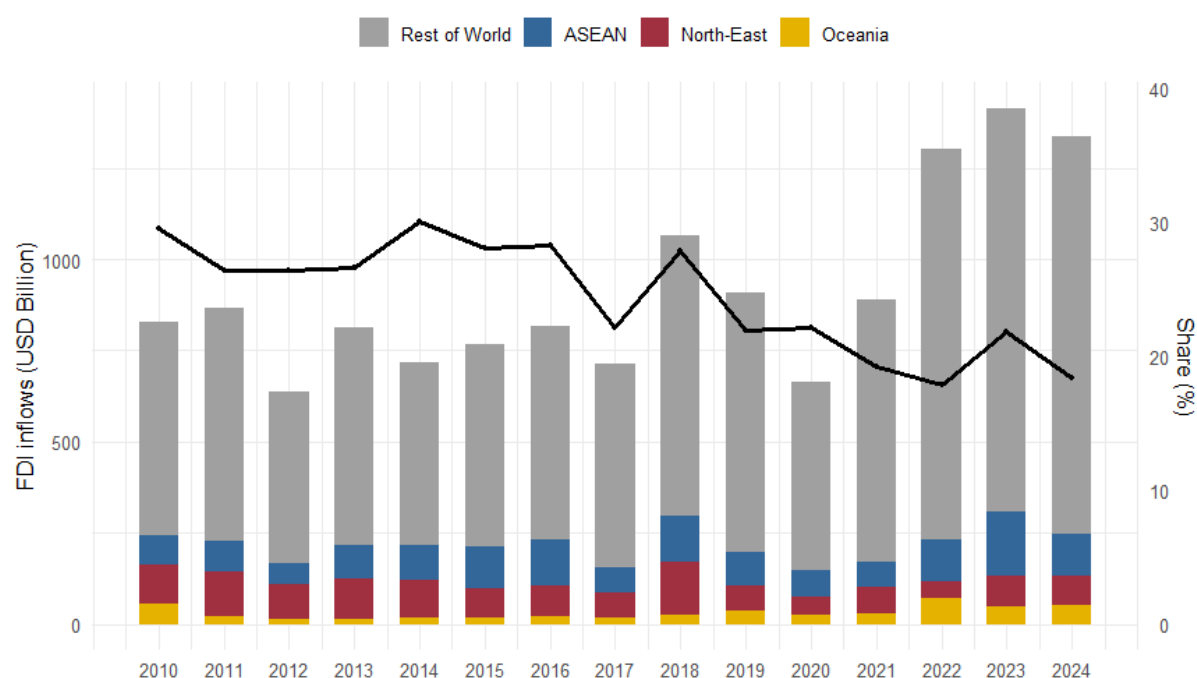


Figure 4 - Greenfield FDI inflows to RCEP by subregions and share of RCEP economies in global greenfield FDI inflows (2010-2024)

(Source: Authors’ estimates using UNCTAD data)

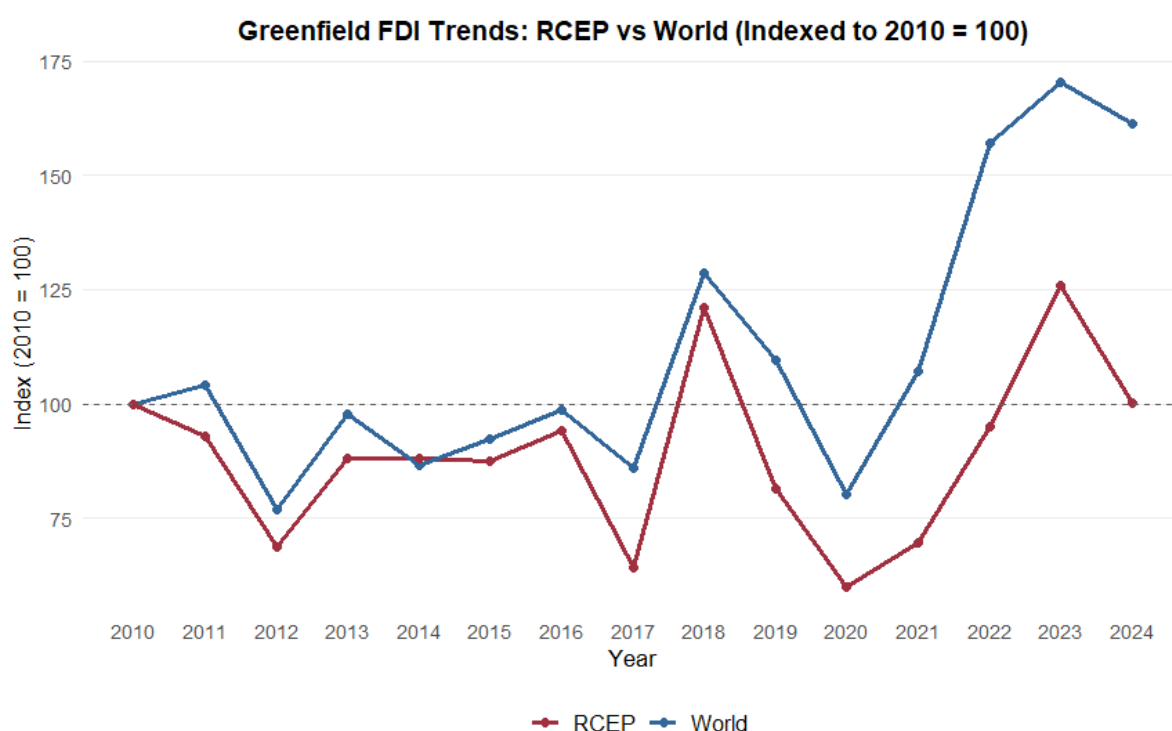


Figure 5 - Greenfield FDI trends: RCEP vs World (Indexed to 2010 = 100)

(Source: Authors' estimates using UNCTAD data)

3.3. Entry mode: greenfield vs. M&A

Greenfield investment – the establishment of entirely new operations, as distinct from cross-border mergers and acquisitions (M&A) of existing firms – constitutes the dominant entry mode into RCEP economies over 2019-2024 (Figure 6). Apart from Australia, New Zealand, and Singapore, where M&A activity accounts for over 40% of total inflows, most RCEP members rely heavily on greenfield investments. For most member states, including Vietnam, Indonesia, Malaysia, and Thailand, greenfield projects represent over 80% of total FDI inflows during this period.

This pattern is consistent with evidence that greenfield and M&A FDI respond to different location determinants – greenfield investment is more oriented toward long-run production and institutional factors and less sensitive to short-run shocks than M&A, which is more responsive to lower-cost, weaker-institution destinations and currency movements (Davies, Desbordes & Ray, 2018). Greenfield projects are also generally associated with stronger developmental spillovers than M&A in emerging markets, through infrastructure investment, skills development and technology diffusion – consistent with RCEP members' stated interest in production-network deepening and value-chain upgrading.

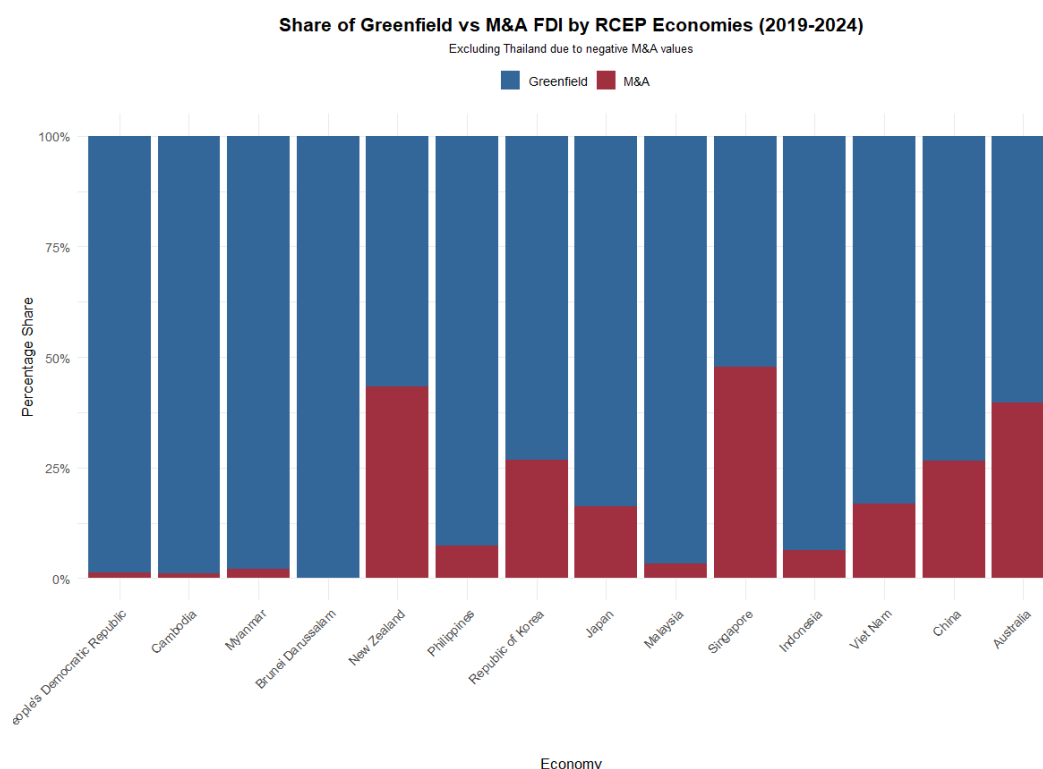


Figure 6 - Share of greenfield vs M&A FDI by RCEP economies, 2019-2024

(Source: Authors' estimates using UNCTAD data)

3.4. Greenfield FDI trends by destination

Drawing on Orbis project-level data for 2015-2024, total greenfield inflows to the bloc show a downward trend over the decade (Figure 7). Inflows were relatively high in 2015-2019, declined sharply in 2020 with the pandemic, stabilised at reduced levels in 2021, and contracted again in 2022, a decline that coincided with, but on the available evidence more plausibly reflects the lagged effects of the pandemic and tightening global financing conditions than RCEP's entry into force itself. From 2023 the series recovered but remained below pre-pandemic levels.

Over the 2015-2024 period, China was consistently the largest greenfield recipient (nearly USD 600 billion cumulatively), roughly twice Vietnam's USD 300 billion. Indonesia, Malaysia, Australia and Japan each received USD 150-200 billion cumulatively; Thailand and Singapore each around USD 150 billion; the Philippines and Korea ranked lower (Figure 8 - Greenfield FDI inflows to each RCEP member, 2015-2024).

The disparities in FDI distribution across RCEP members can be attributed to differences in market size, industrial policy orientation, and infrastructure readiness. Larger economies such as China and Indonesia benefit from extensive domestic markets, strong industrial linkages, and active investment promotion frameworks. Vietnam's strong performance reflects its integration into regional production networks, competitive labour costs, and proactive participation in bilateral and multilateral trade agreements. In contrast, smaller or less

diversified economies – such as Cambodia, Laos, and Brunei – attract limited greenfield investment due to smaller market scales, institutional constraints, and capacity gaps in supply chain participation.

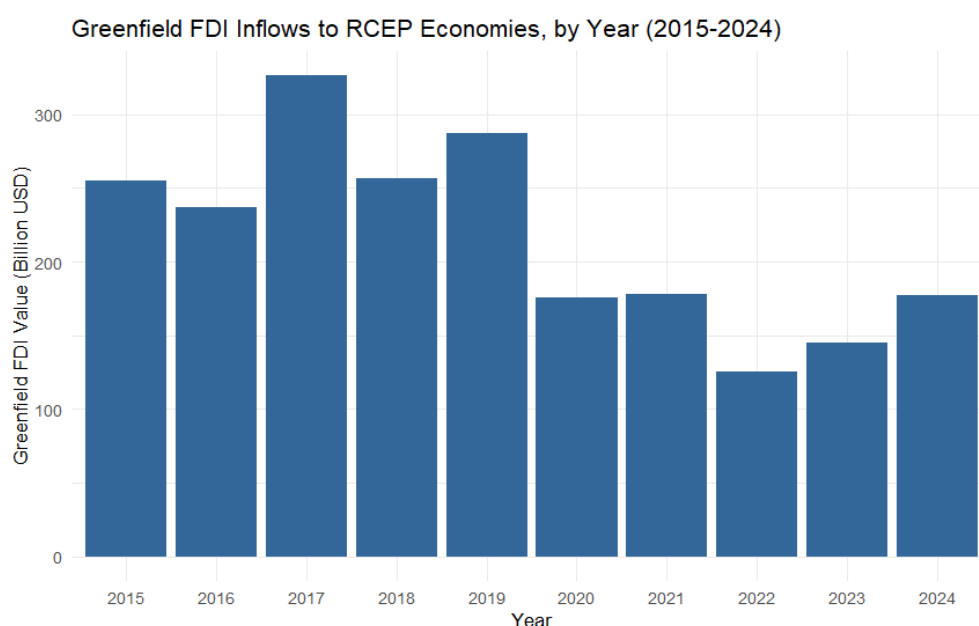


Figure 7 - Greenfield FDI inflows to RCEP economies, 2015-2024

(Source: Authors' estimates using Orbis data)

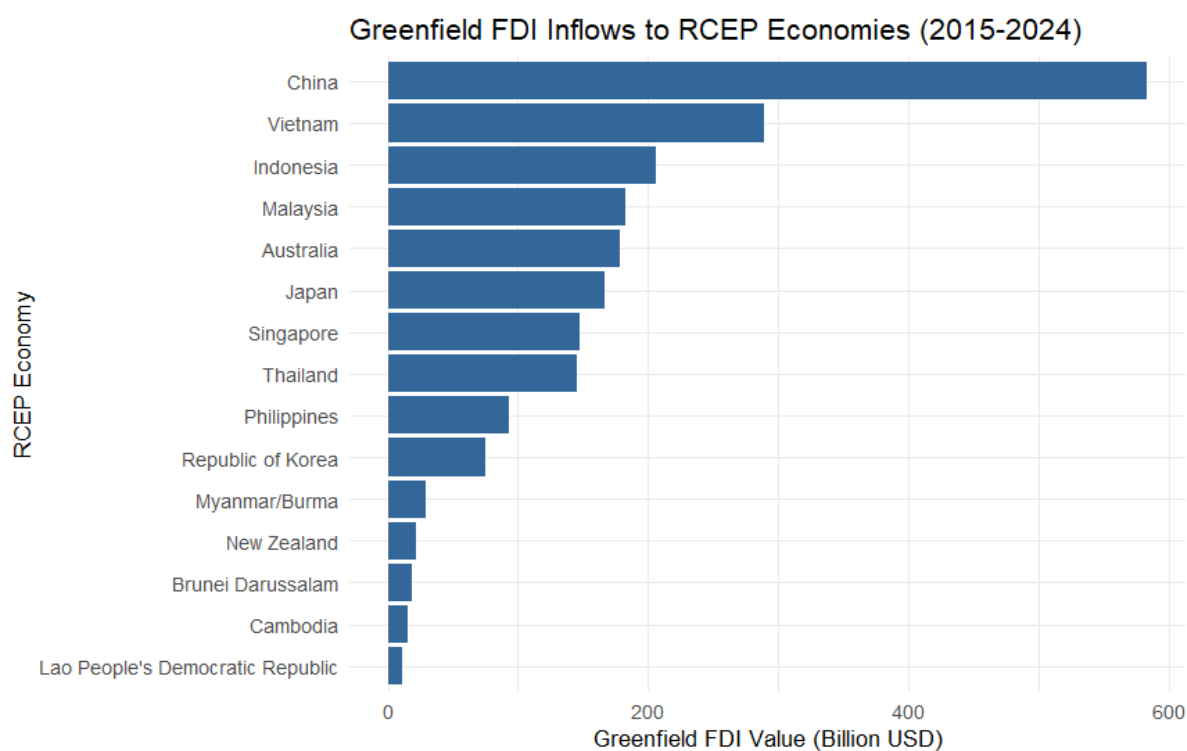


Figure 8 - Greenfield FDI inflows to each RCEP member, 2015-2024

(Source: Authors' estimates using Orbis data)

Overall, the trend underscores the uneven distribution of greenfield FDI benefits across the bloc, with more developed and industrially integrated members capturing the majority of greenfield inflows. This pattern reflects both structural and policy-driven determinants of investment attractiveness, suggesting that the full realization of RCEP's investment potential will depend on institutional convergence, logistics improvements, and policy harmonization across the bloc.

Examining the trends across individual RCEP member countries from 2019 to 2024 reveals three key observations (Figure 9 - Greenfield FDI inflows to each RCEP member, 2019-2024).

First, although China received the highest value of greenfield FDI throughout the period, its inflows declined sharply in 2022 – the year RCEP entered into force. While investment gradually recovered in subsequent years, it has not returned to pre-RCEP levels. This decline may be attributed to several factors, including heightened geopolitical tensions, stricter domestic regulations affecting foreign firms, and multinational companies accelerating their supply-chain diversification strategies.

Second, several ASEAN economies, particularly Vietnam, Malaysia, Indonesia, and Thailand, appear to have benefited from the agreement. Investment into these countries increased after RCEP became effective. This trend is consistent with the broader rise of “China+1” strategies, where firms seek to reduce overreliance on China. In addition, ongoing US-China trade tensions have encouraged multinational companies to relocate or expand production in Southeast Asia, strengthening ASEAN's position as an attractive destination for new greenfield investments.

Finally, greenfield FDI into Japan surged in 2024, reaching the highest level recorded during the period. This spike may be explained by a combination of factors: Japan's yen depreciation that made assets and investment costs more attractive for foreign investors; renewed government incentives supporting high-tech, semiconductor, and green-energy projects; and multinational companies' efforts to secure stable, advanced-economy bases for strategic industries amid global supply-chain realignments.

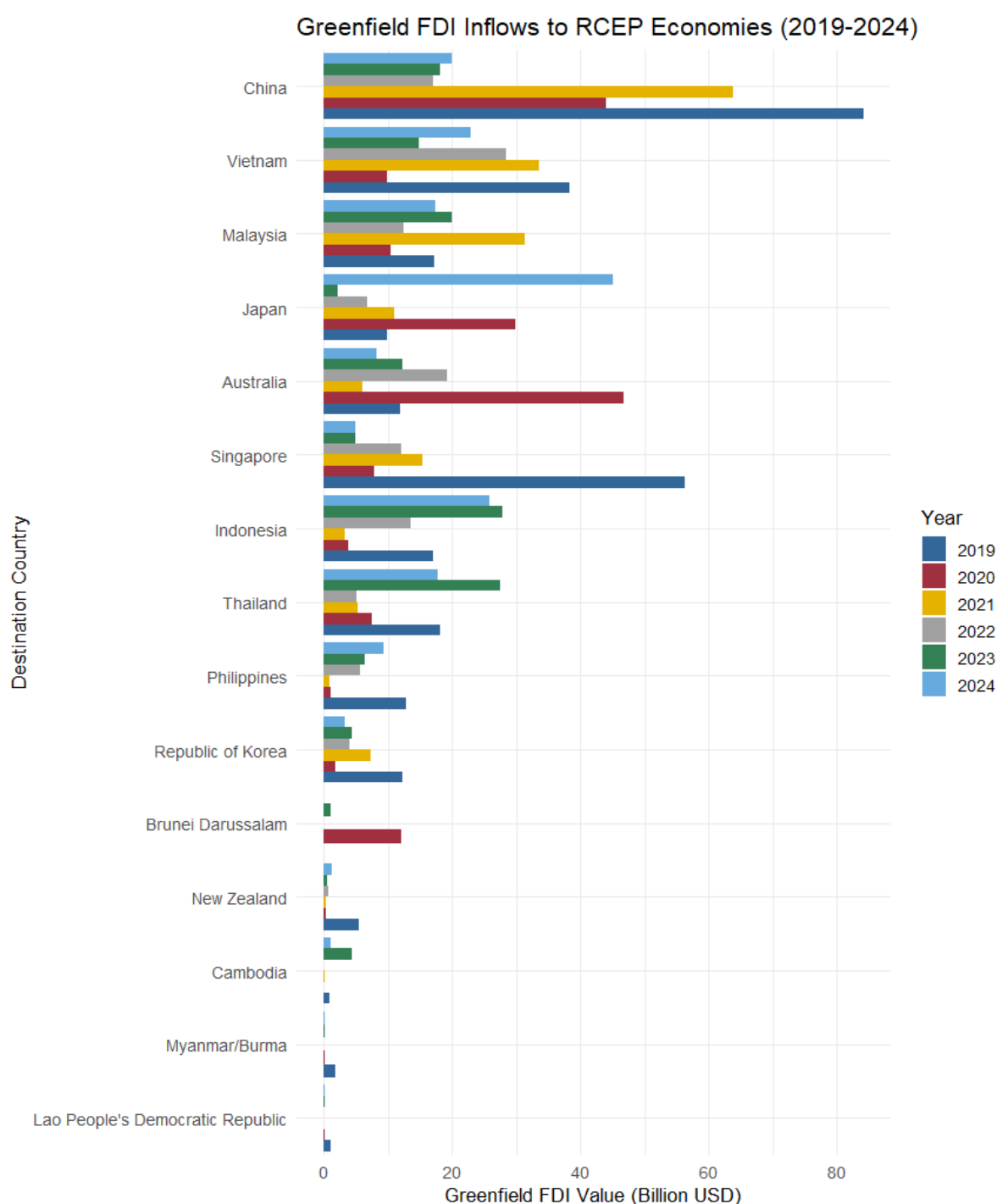


Figure 9 - Greenfield FDI inflows to each RCEP member, 2019-2024

(Source: Authors' estimates using Orbis data)

Job creation associated with greenfield FDI shows a distinct structural break (Figure 10). From 2015 to 2019, GF FDI projects were estimated to create approximately 700,000 jobs annually, reflecting strong industrial expansion and manufacturing-led investment across the region. However, a sharp contraction occurred in 2020, with job creation dropping by more than 50% to approximately 300,000 jobs per year. Despite a gradual increase in total FDI value through 2024, job creation remained relatively subdued and did not return to pre-2020 levels.

This divergence between GF FDI value and employment generation can be attributed to several interrelated factors. First, the COVID-19 pandemic accelerated automation and digital transformation, prompting investors to favour capital- and technology-intensive projects over labour-intensive production. Second, as RCEP economies, particularly in ASEAN, move up the value chain, new investments have increasingly targeted high-tech manufacturing, renewable energy, and digital infrastructure, which are less labour-intensive but more productivity-enhancing (ASEAN Secretariat, 2024). Third, rising wages in several host economies - especially China and parts of Southeast Asia – have incentivized firms to adopt automation and robotics to maintain cost competitiveness (UNCTAD, 2024).

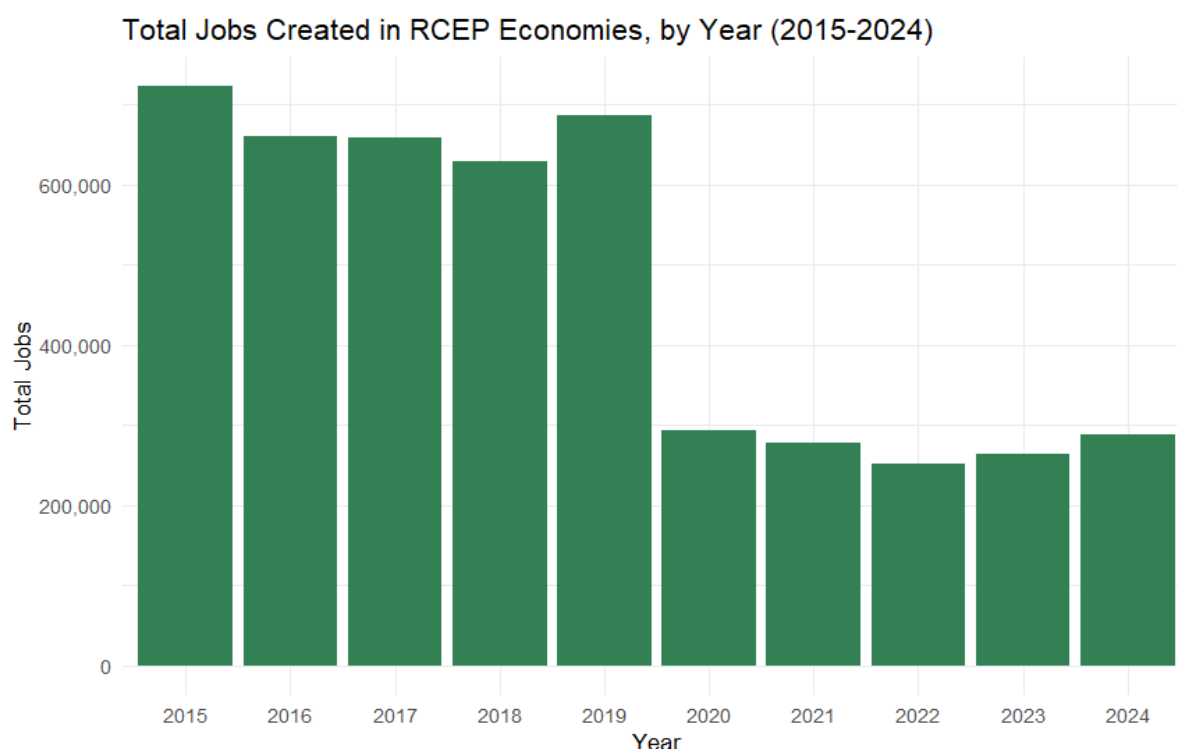


Figure 10 - Job creation from greenfield FDI inflows to RCEP, 2015-2024

(Source: Authors' estimates using Orbis data)

As shown in Figure 11 - Job creation from greenfield FDI inflows to RCEP by country, 2015-2024, China accounts for the largest number of jobs created by greenfield FDI, generating roughly three times more employment than Vietnam, which ranks second. The distribution of FDI-related employment largely mirrors investment inflows, underscoring the positive relationship between FDI and labour market outcomes. However, the nature of this relationship is evolving. While FDI continues to contribute to job creation, its qualitative impact – in terms of skills upgrading, technology transfer, and productivity gains – is becoming increasingly important for RCEP economies (The ASEAN Secretariat, 2024).

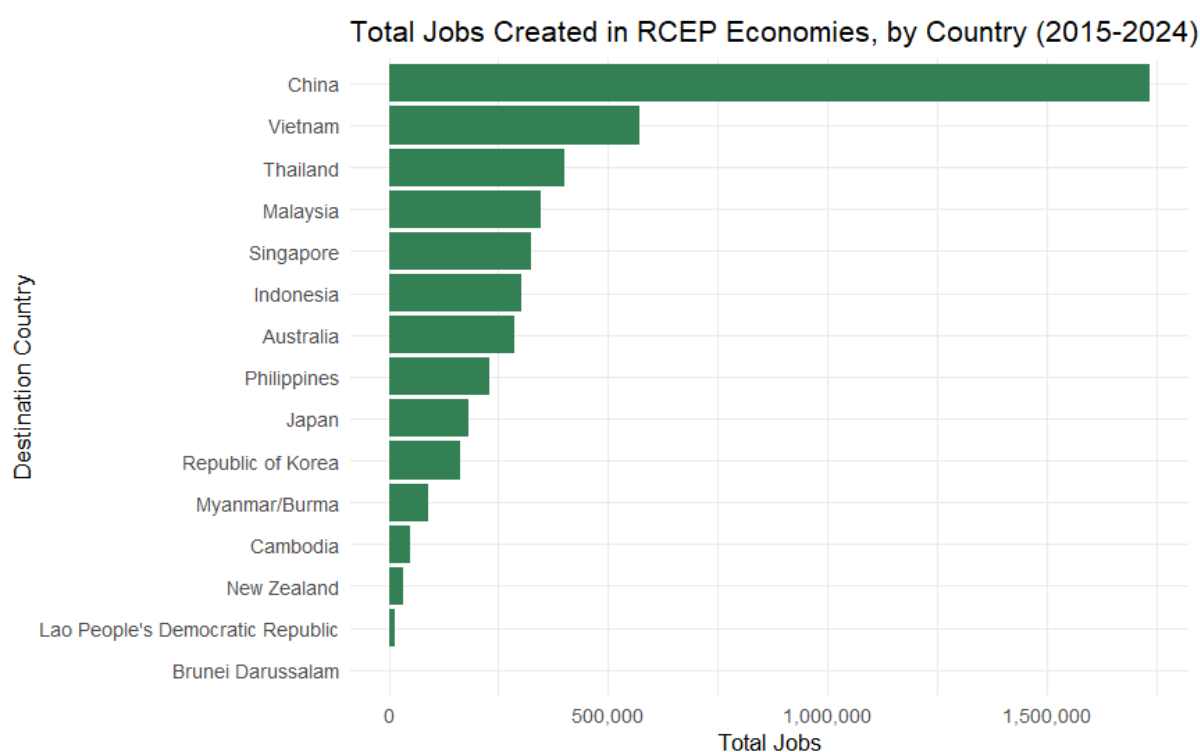


Figure 11 - Job creation from greenfield FDI inflows to RCEP by country, 2015-2024

(Source: Authors' estimates using Orbis data)

3.5. Investment motives

Following Dunning's (1998) eclectic (OLI) framework and its now-standard four-way taxonomy of FDI motives (market-, resource-, efficiency- and strategic-asset-seeking), we classify greenfield project motives recorded in Orbis into five categories: market-seeking, resource-seeking, efficiency-seeking, institutional/legal, and socio-environmental (component definitions in Appendix II).

Across the period under review, market-seeking emerges as the dominant driver of FDI into RCEP economies, reflecting investors' desire to capture the region's large and rapidly growing consumer base (see Figure 12). This aligns with UNCTAD (2024), which notes that emerging Asian markets – particularly in ASEAN – have become central to global demand expansion. Firms pursue market-seeking investment to increase market share, enhance proximity to consumers, and adapt products to local preferences. In some industries, host-market presence is also required to comply with local content rules or distribution regulations, reinforcing the attractiveness of direct investment.

Within this motive, domestic market potential accounts for approximately 60% of the explanatory factors, followed by market access (30%), business environment, and location attractiveness (see Figure 13). The dominance of market potential underscores that investors are primarily drawn to RCEP's expanding middle class, rising consumption power, and urbanization trends – particularly in economies such as China, Indonesia, and Vietnam (The ASEAN Secretariat, 2024). Market access motives often reflect firms' strategic intent to

leverage FTAs' tariff reductions and unified rules of origin to penetrate multiple regional markets efficiently.

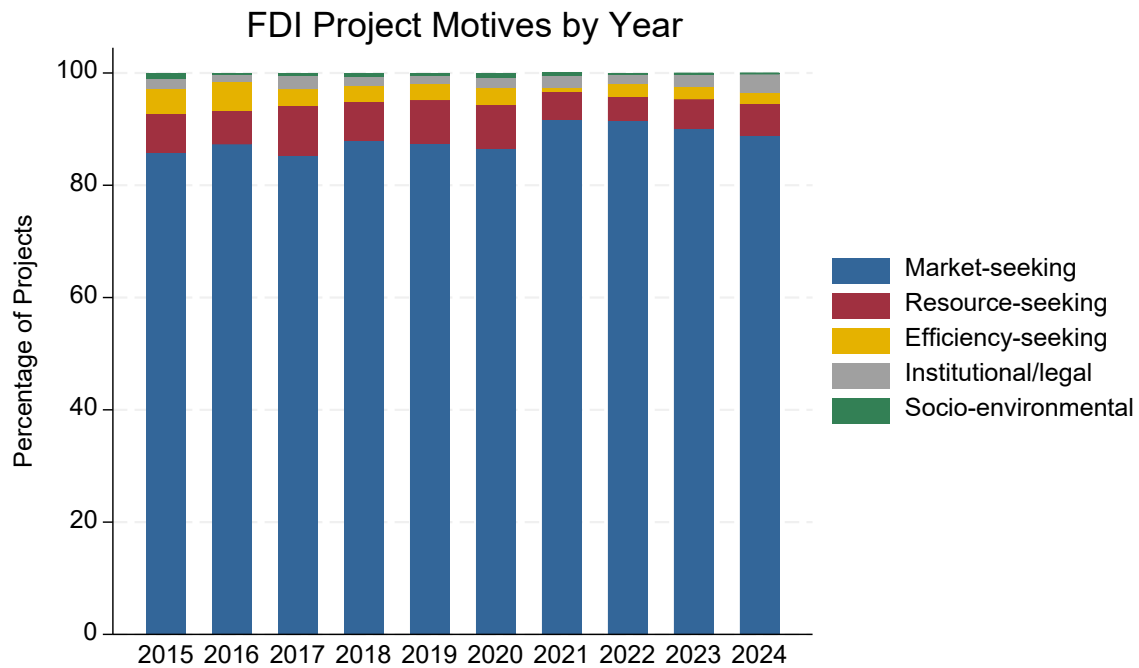


Figure 12 - FDI project motives by year, 2015-2024

(Source: Authors' estimates using Orbis data)

Market-seeking Components (2015-2024)

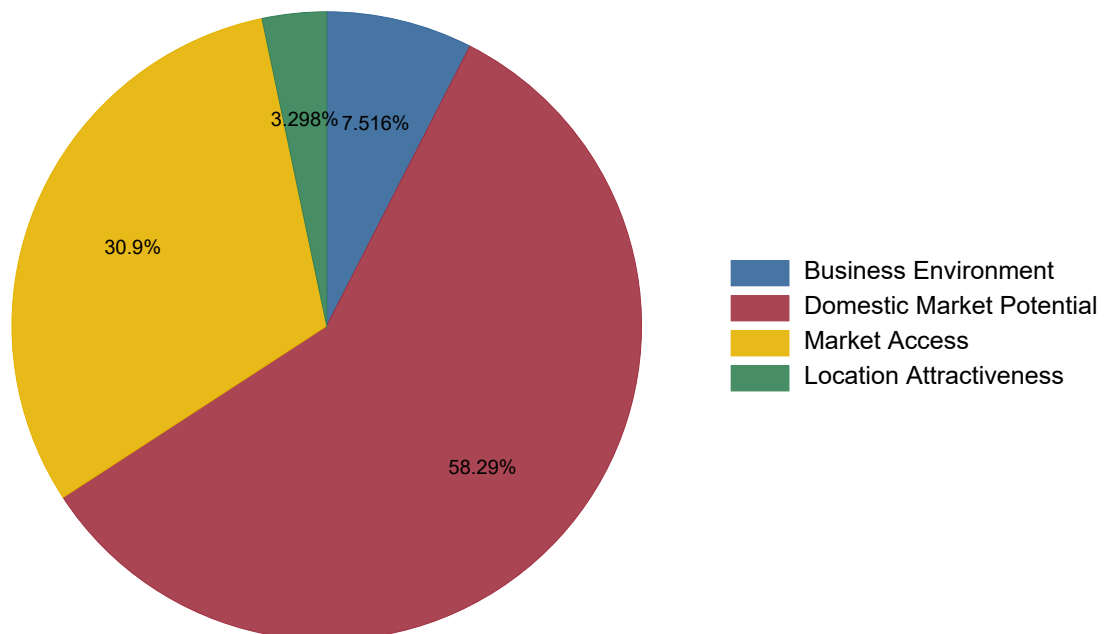


Figure 13 - Market-seeking components, 2015-2024

(Source: Authors' estimates using Orbis data)

The second most influential motive is resource-seeking, though its importance remains considerably lower than the market-seeking motive. This category encompasses skilled workforce availability, industry clustering, technology and innovation potential, natural resources, and access to finance. Among these, skilled labour availability accounts for roughly 58%, indicating that RCEP economies – especially Malaysia, Singapore, and Korea – are attractive for their technical expertise and industrial capabilities. The next major component, industry clusters (23%), highlights the role of regional production networks and supplier ecosystems, particularly in electronics and automotive manufacturing. Technology and innovation considerations (15%) are also gaining prominence as countries like China and Singapore strengthen R&D incentives and innovation ecosystems (see Figure 14).

Resource-seeking Components (2015-2024)

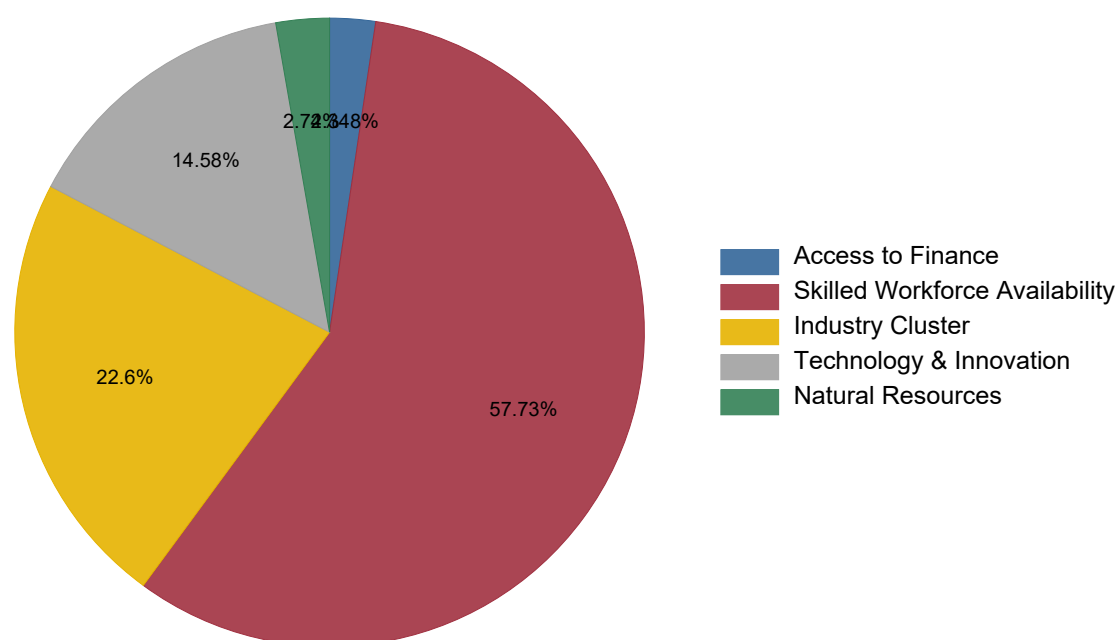


Figure 14 - Resource-seeking components, 2015-2024

(Source: Authors' estimates using Orbis data)

At the same time, efficiency-seeking and institutional/legal motives hold moderate importance, indicating that investors continue to prioritize cost reduction and regulatory predictability (see Figure 12). Socio-environmental motives remain the least significant; investors are not primarily entering RCEP countries to comply with ESG standards or sustainability regulations. However, given the growing global emphasis on ESG and sustainable supply chains, these motives may become more influential in the future.

3.6. Origins of greenfield FDI

Intra-RCEP investment accounts for a substantial share of total inflows. The intra-bloc share fluctuated over 2015-2021 (roughly half of inflows in 2015-2017, declining over 2018-2021), before recovering to around 50 percent in 2022-2024 (Figure 15) – underscoring RCEP economies' high degree of interdependence as both sources and destinations of investment.

China, Vietnam, Indonesia, Malaysia and Thailand are the main recipients of intra-RCEP investment specifically; although China receives the largest absolute volume, intra-RCEP flows account for only about 30 percent of its total greenfield investment – a smaller share than for other major recipients, where roughly half of inflows originate within the bloc (Figure 16). Australia, Japan, Singapore, Korea and New Zealand receive comparatively little intra-RCEP investment, reflecting their roles primarily as sources rather than recipients within the bloc, while continuing to attract substantial investment from outside RCEP.

This pattern suggests that while intra-RCEP investment is important, it remains unevenly distributed – concentrated among selected emerging economies – and that external investors continue to play a major role in RCEP’s FDI landscape.

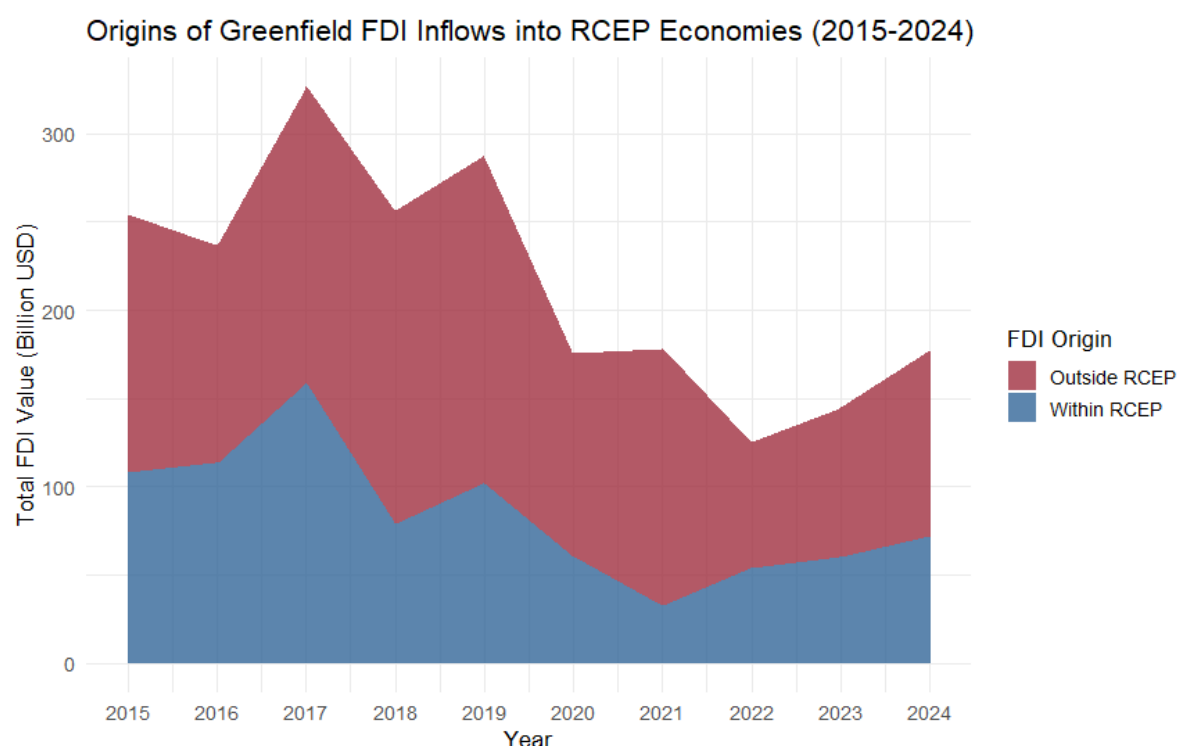


Figure 145 - Origins of greenfield FDI inflows in RCEP: within vs outside RCEP, 2015-2024

(Source: Authors’ estimates using Orbis data)

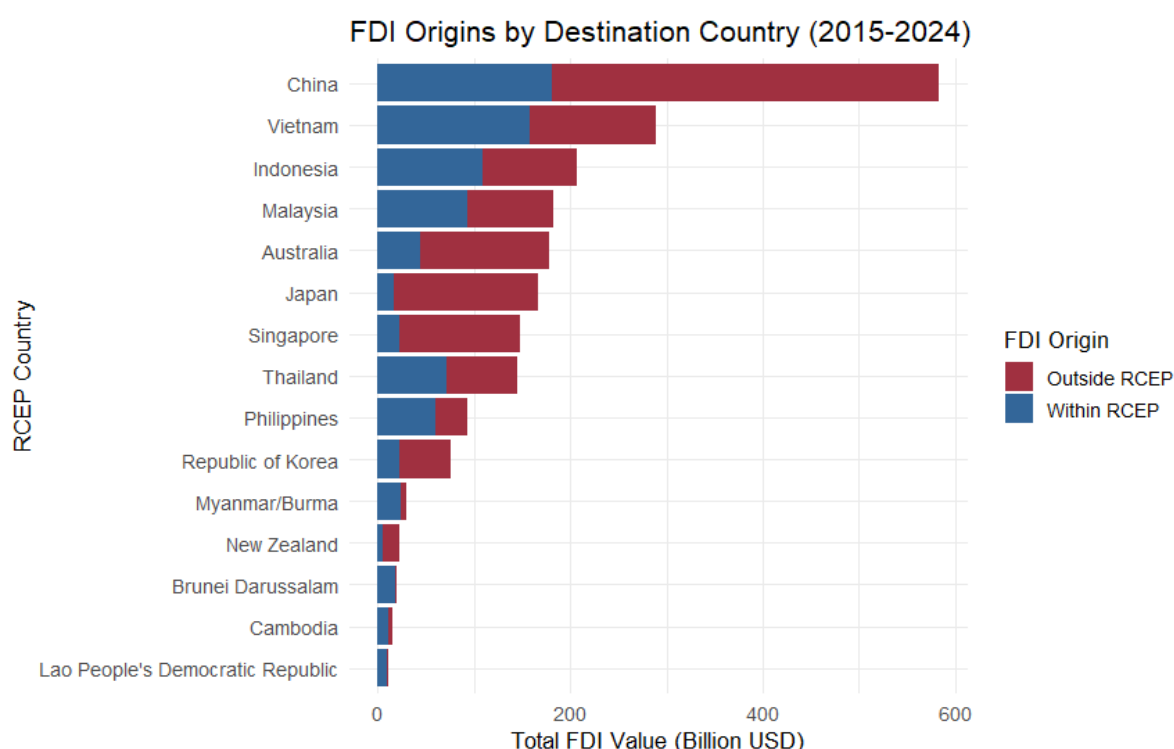


Figure 16 - Origins of greenfield FDI inflows in RCEP: within vs outside RCEP, 2015-2024

(Source: Authors' estimates using Orbis data)

Among all sources (within and outside RCEP), the United States, the European Union (EU-27), China, ASEAN, Japan, Korea, Taiwan, the United Kingdom, the Cayman Islands and Australia consistently rank among the top ten investors into RCEP (Figure 17).

US investment declined markedly after 2022, plausibly reflecting both the broader post-pandemic investment slowdown and a US shift toward nearshoring and friend-shoring strategies that increasingly favour North American and South Asian partners over East Asia (Aiyar et al., 2023). Similarly, EU-27 investment followed a comparable trend – substantial inflows before 2022 followed by a decline – reflecting European investors' heightened caution amid geopolitical tensions in the Indo-Pacific and a reorientation of capital toward domestic green and digital transition projects.

By contrast, China's investment within the bloc remained relatively stable, with a temporary drop in 2021-2022 followed by a strong rebound in 2023-2024. This recovery aligns with the country's Dual Circulation Strategy and renewed outward investment under the Belt and Road Initiative 2.0, which emphasize regional market integration and production network deepening. Meanwhile, ASEAN's intra-bloc investment fell sharply in 2020 due to pandemic-induced uncertainty and remained modest even after RCEP took effect, suggesting that liberalization benefits have yet to fully materialize for regional investors (The ASEAN Secretariat, 2024).

Notably, Taiwan emerged as a significant new investor in 2024, recording the largest greenfield investment volume into RCEP economies that year. This surge reflects the semiconductor industry's diversification efforts and supply-chain resilience strategies, with Taiwanese firms

expanding investments in Vietnam, Malaysia, and Singapore to mitigate geopolitical risks and reduce over-dependence on mainland China.

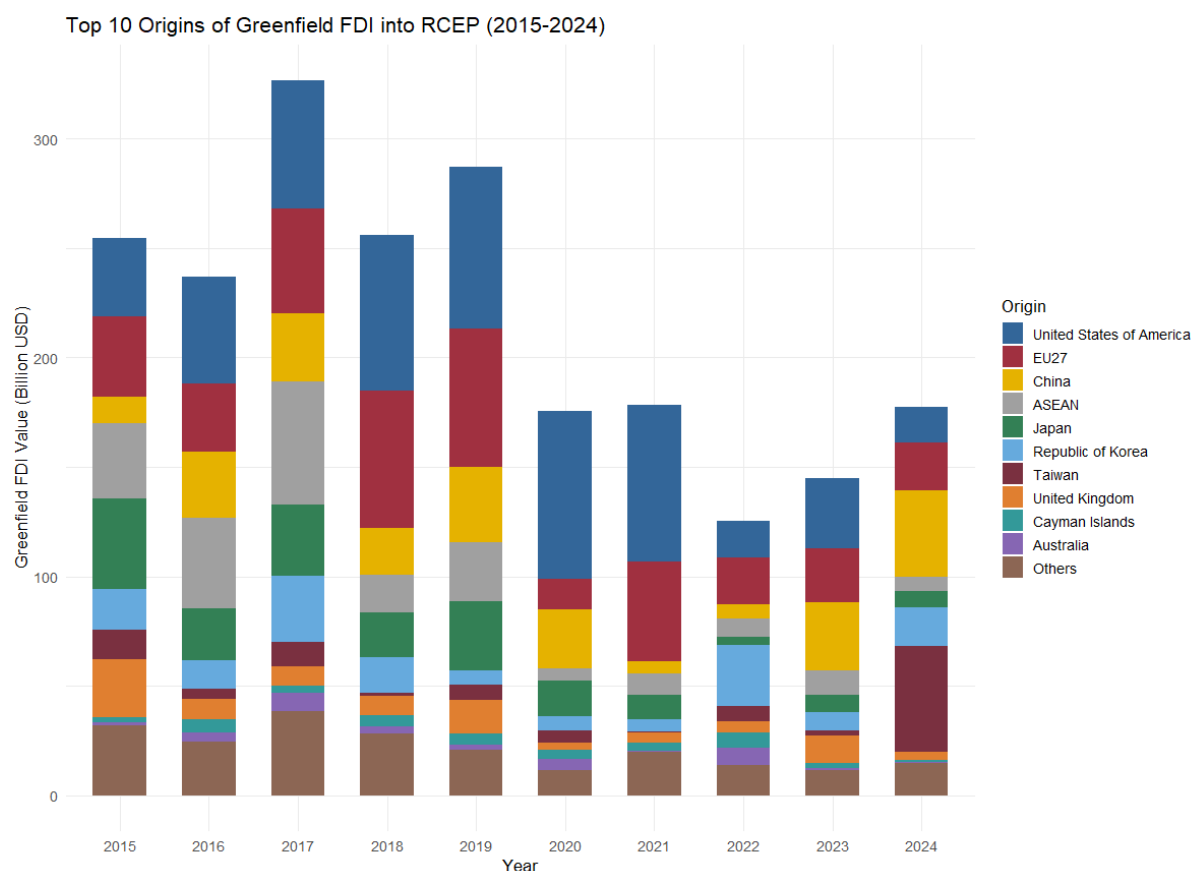


Figure 17 - Top 10 origins of greenfield FDI into RCEP, 2015-2024

(Source: Authors' estimates using Orbis data)

Restricting attention to intra-RCEP flows only, China, Japan, Korea, Thailand and Singapore are the leading investors within the bloc (Figure 18). China's intra-bloc investment rose substantially after 2022, accounting for over half of total intra-RCEP greenfield FDI in 2023-2024; Korea also expanded regional investment, particularly in manufacturing and green technology, while Japan's intra-RCEP investment declined sharply after 2022 even as its total inbound greenfield FDI (Section 3.4) surged in 2024 – indicating Japan's growing role as a net recipient rather than source of regional capital over this period.

Overall, China and Korea have emerged as the key drivers of intra-RCEP investment dynamics. Their growing dominance can be attributed to both the preferential investment terms under RCEP, which enhance market access and regulatory transparency, and the China+1 strategy, through which Chinese and Korean multinationals diversify production bases across ASEAN to mitigate trade risks (The ASEAN Secretariat, 2024).

Amid the ongoing US-China trade tensions, a notable divergence has occurred: while US investment influence in the RCEP region has diminished, China's intra-bloc investment has expanded, reinforcing its economic centrality in East and Southeast Asia. This shift underscores

how RCEP has deepened regional production interdependence, positioning China and Korea as the principal engines of investment-led integration within the bloc.

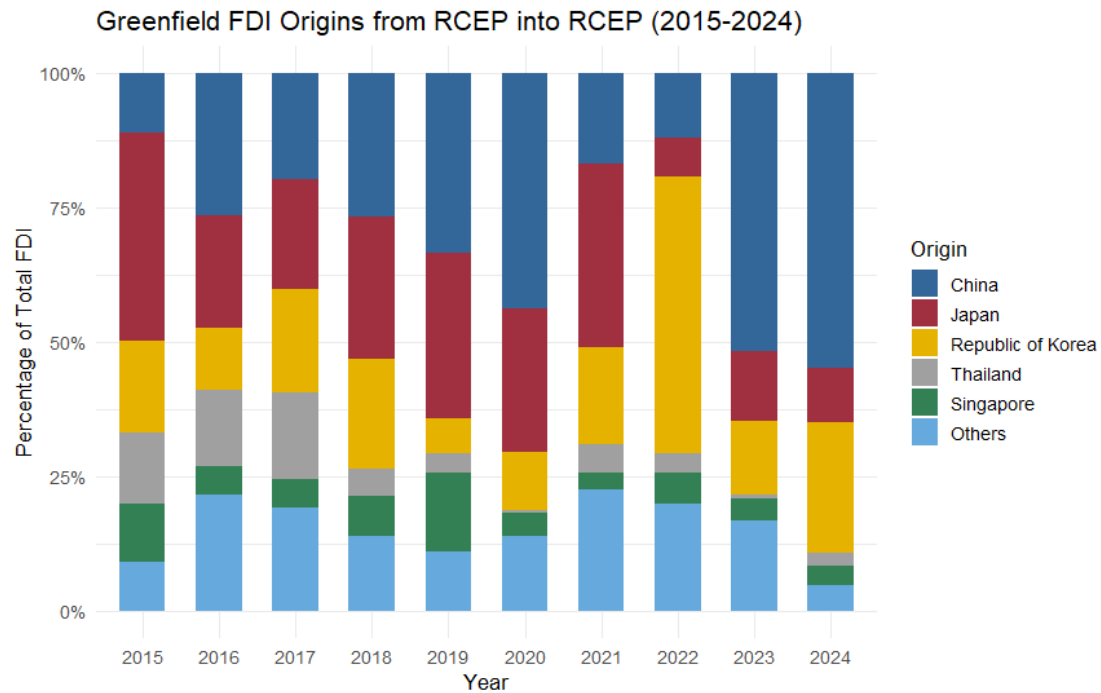


Figure 18 - Greenfield FDI origins from RCEP into RCEP, 2015-2024

(Source: Authors' estimates using Orbis data)

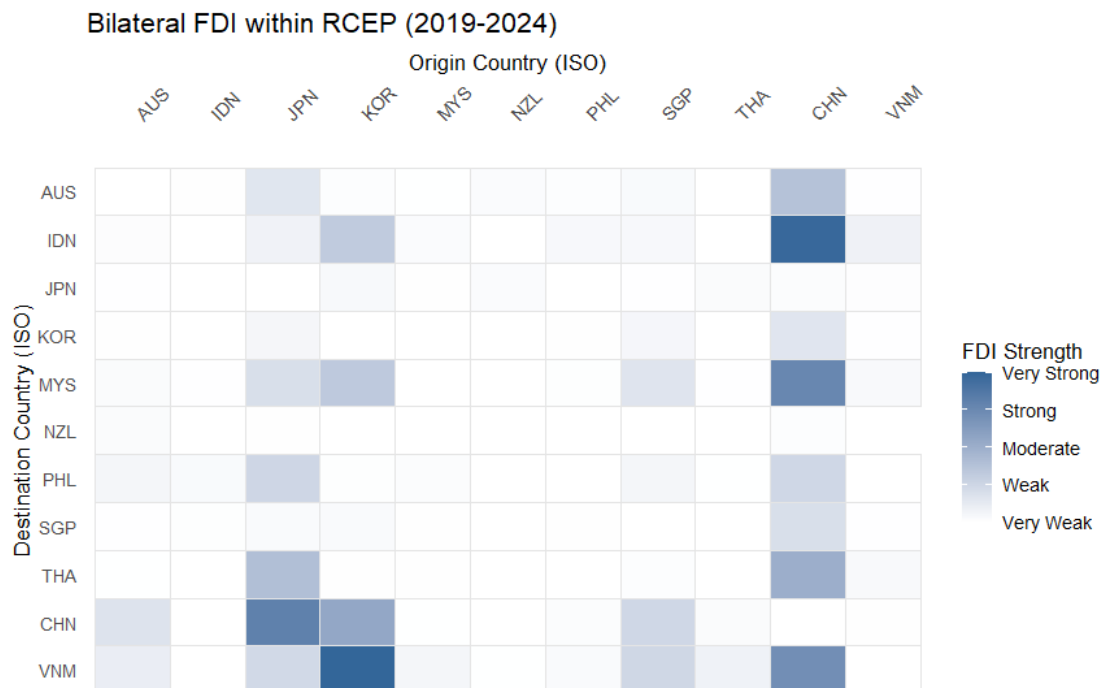


Figure 19 - Bilateral FDI within RCEP, 2019-2024

(Source: Authors' estimates using Orbis data)

Bilateral patterns confirm China’s centrality within the bloc’s investment network, particularly with Indonesia, Malaysia and Vietnam; Korea and Japan also show significant linkages, especially with China and Vietnam, reflecting deep East and Southeast Asian supply-chain integration (Figure 19). Prior to RCEP, intra-bloc investment originated primarily from Northeast Asia and ASEAN and was directed mainly toward ASEAN, with a notable share also occurring within Northeast Asia itself. Since 2022, investment flows from Northeast Asia to ASEAN have expanded further, while intra-Northeast-Asian investment has declined – consistent with a reallocation of capital toward Southeast Asia as firms respond to both RCEP’s rules-of-origin harmonisation and the broader diversification pressures discussed above (Figure 20).

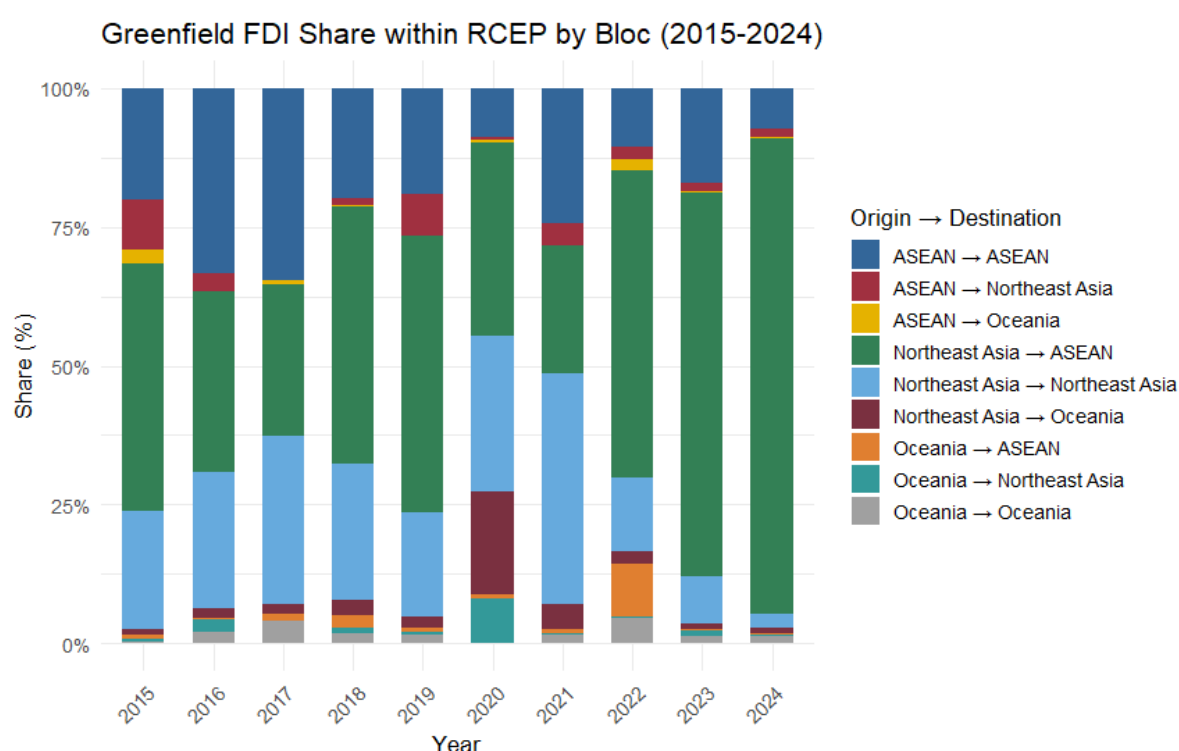


Figure 20 - Greenfield FDI share within RCEP by bloc, 2015-2024

(Source: Authors’ estimates using Orbis data)

Overall, the post-RCEP investment landscape underscores the complementary roles of different subregions within the bloc: Northeast Asia serves as the primary source of capital, technology, and industrial expertise, while ASEAN functions as the key production and assembly hub. This evolving pattern not only enhances the intra-regional interdependence of RCEP economies but also consolidates the bloc’s position as a core driver of supply-chain restructuring in the broader Asia-Pacific region.

3.7. Industry composition

Manufacturing has increasingly dominated greenfield FDI into RCEP economies, rising from just above 50 percent of total investment value in 2019 to nearly 90 percent by 2024 (Figure 21). In 2019, the top five sectors – manufacturing, information and communication, utilities,

mining and quarrying, and professional/scientific/technical services – were relatively evenly distributed; over time, manufacturing absorbed an increasing share while most non-manufacturing sectors declined, particularly mining and quarrying, utilities, and professional/scientific/technical services, plausibly reflecting decarbonisation trends, declining commodity prices, and service-sector digitalisation reducing the need for physical greenfield presence. Information and communication maintained a relatively stable share, consistent with continued growth in the region’s digital economy.

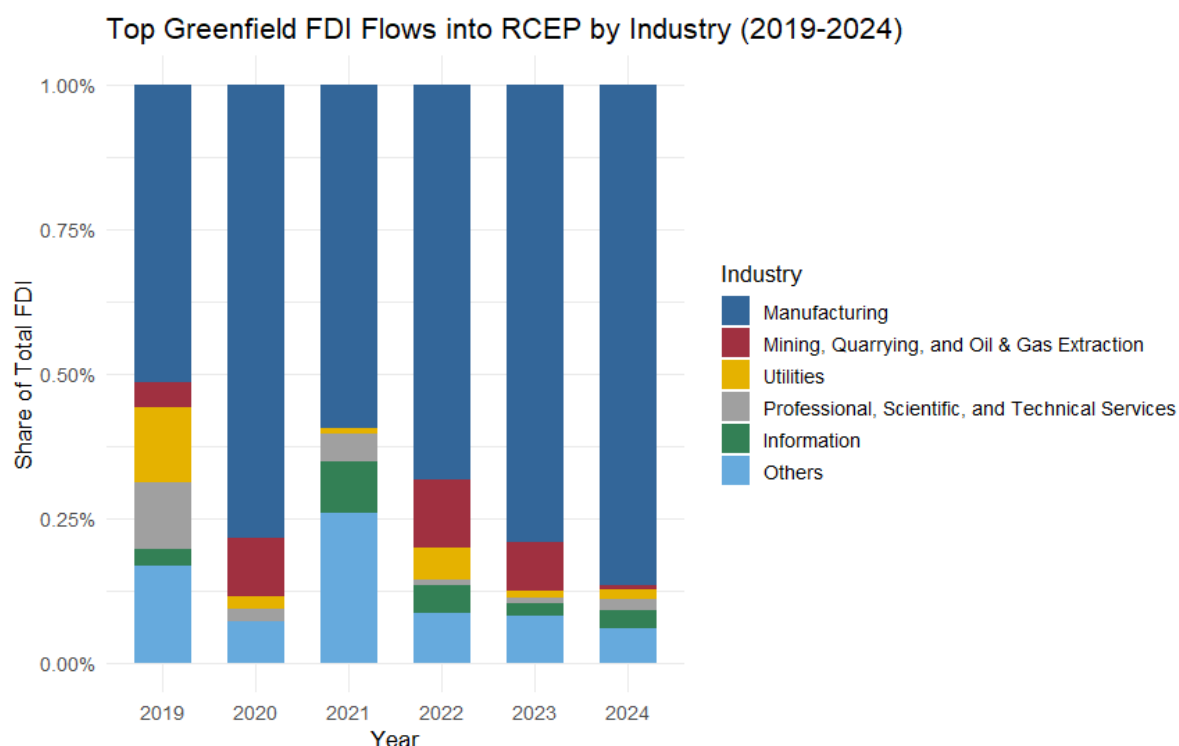


Figure 21 - Top greenfield FDI flows into RCEP by industry, 2019-2024

(Source: Authors’ estimates using Orbis data)

Grouping industries into manufacturing and non-manufacturing categories, both followed a similar trend before 2021, with a common pandemic-related dip in 2020, but diverged sharply thereafter: manufacturing investment surged after 2022 while non-manufacturing continued to decline (Figure 22). This divergence is consistent with, though not uniquely attributable to, investor response to RCEP’s tariff liberalisation and harmonised rules of origin, which favour production-based investment (particularly automotive, electronics, textiles and machinery) more directly than the comparatively limited and gradual liberalisation RCEP offers in services.

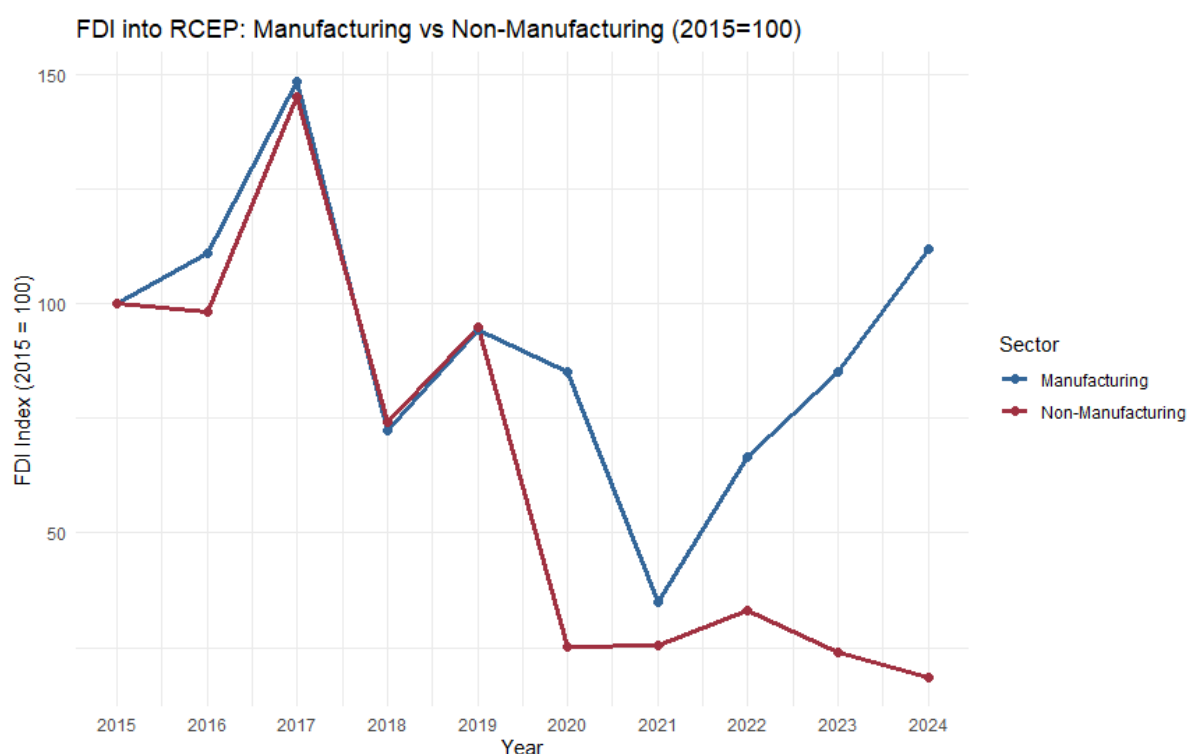


Figure 22 - FDI into RCEP: Manufacturing vs Non-manufacturing (Indexed to 2015=100)

(Source: Authors' estimates using Orbis data)

This industry mix varies substantially across members (Figure 23). Although smaller economies such as Lao PDR and Myanmar attract relatively insignificant FDI volumes overall, their inflows are more concentrated in non-manufacturing sectors – notably utilities and resource-based industries. This pattern is consistent with their comparative advantages in natural resources and lower industrial capacity, as well as infrastructure and institutional constraints that limit large-scale manufacturing investments.

Conversely, Australia, Japan, New Zealand, and Singapore attract higher proportions of non-manufacturing FDI, reflecting their advanced service sectors, high labour costs, and strong regulatory and financial environments that make them favourable destinations for finance, professional services, education, and digital infrastructure projects.

In contrast, China, Vietnam, Thailand, and Brunei Darussalam received significantly more manufacturing-oriented greenfield investments. This concentration can be attributed to their competitive production costs, strong integration into regional and global value chains, and active industrial policy measures promoting export-oriented manufacturing. In particular, Vietnam's role as a manufacturing hub for electronics and consumer goods has expanded rapidly, supported by FDI-driven relocation from China and improved participation in regional free trade networks (Asian Development Bank, 2023).

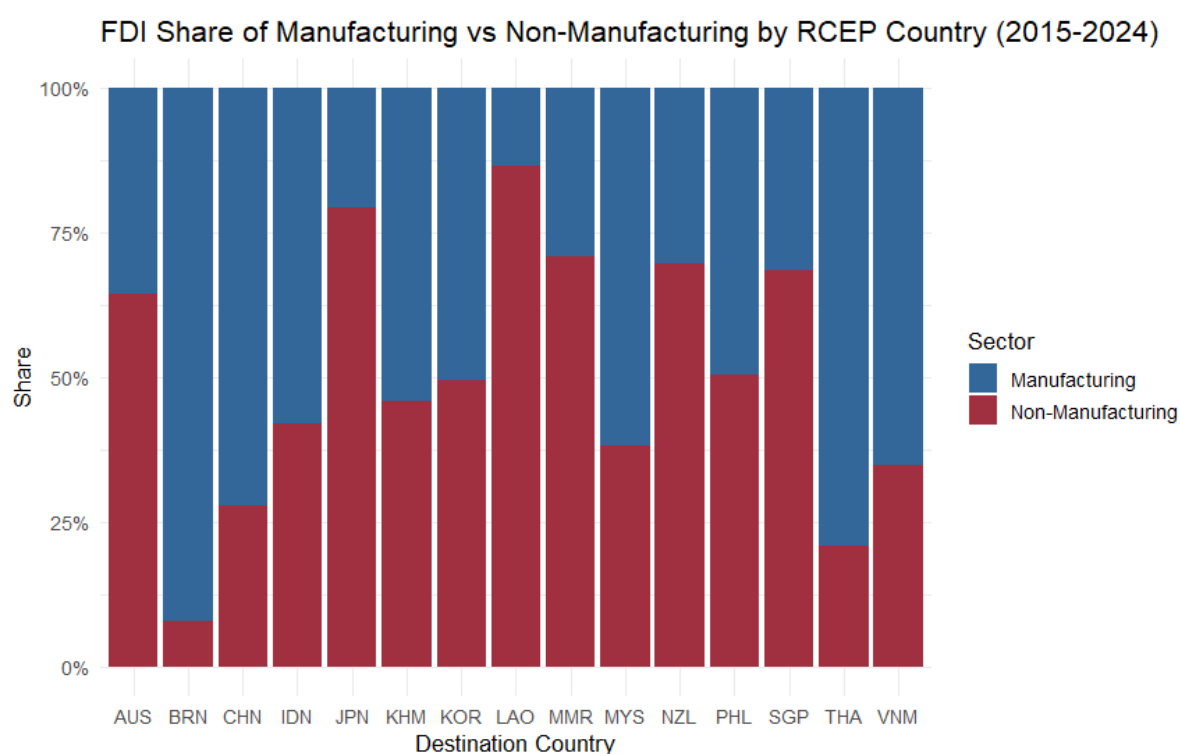


Figure 23 - Share of manufacturing vs non-manufacturing by RCEP country, 2015-2024

(Source: Authors' estimates using Orbis data)

Overall, the shifting industrial composition of greenfield FDI suggests a structural reorientation of investment within the RCEP toward manufacturing and production-linked sectors, aligning with the bloc's comparative advantages and policy priorities. While this trend enhances regional supply chain resilience and export potential, it also underscores the need for balanced growth strategies – ensuring that non-manufacturing sectors, especially services, continue to evolve to support innovation, digital transformation, and sustainable industrialization across the region.

4. Investment creation after RCEP implementation

Section 3 documented substantial momentum in greenfield FDI to RCEP economies around the time of the agreement's entry into force. This section asks whether that momentum reflects a causal effect of RCEP itself, using project-level data from the Orbis Cross-Border Investment database aggregated to bilateral origin-destination-industry (four-digit NAICS) flows. The empirical framework follows Vaid and George (2023). The sample covers all RCEP economies with variation in RCEP entry-into-force dates across destinations, reflecting the agreement's staggered implementation (Appendix I), over January 2019-December 2024.

Our sample covers all RCEP economies, with variation in RCEP entry-into-force dates across destination countries reflecting the staggered implementation of the agreement. The study period spans from January 2019 to December 2024. The final dataset used in the analysis comprises 99,727 observations, involving 212 destination economies and 171 source economies.

4.1. Empirical strategy

To assess the effect of RCEP implementation on investment creation within the bloc, we estimate the following event-study specification:

$$\ln(FDI_{ijht}) = \alpha + \sum_{s=-N}^N \beta_s \text{Period}_s \times \text{RCEP}_j + \delta_{ij} + \gamma_{iq} + \theta_{jq} + \vartheta_{hq} + \varepsilon_{ijt} \quad (1)$$

in which the logarithm of greenfield FDI inflows from origin economy i to destination economy j in industry h (at the four-digit NAICS level) during period t is regressed on a set of event-time dummies interacted with an RCEP membership indicator. Specifically, period_s represents a dummy for each period s before or after the implementation of RCEP between 2019 and 2024, while RCEP_j equals one if the destination economy j is a member of the RCEP. The coefficients β_s capture the dynamic treatment effects of RCEP implementation on FDI over time, providing an event-study profile of investment creation.

The regression includes multiple fixed effects to account for time-varying heterogeneity across different dimensions. We include origin-destination fixed effects (δ_{ij}) to control for persistent bilateral factors, origin-quarter (γ_{iq}) and destination-quarter (θ_{jq}) fixed effects to capture quarterly shocks specific to each economy, and industry-quarter fixed effects (ϑ_{hq}) to absorb industry-specific trends over time. This specification allows us to isolate the effect of RCEP implementation on bilateral FDI flows while controlling for unobserved factors that vary across origins, destinations, industries, and over time. A finding of positive and statistically significant β_s suggests that the difference in the GF FDI inflows between RCEP and non-RCEP destinations increased in the period s as compared to the pre-treatment period.

4.2. Evidence of investment creation

Figure 24 plots the estimated β_t coefficients (red dots) with 90 percent confidence intervals (blue spikes); a coefficient is statistically significant at the 10 percent level where its interval excludes zero. Pre-RCEP coefficients are mostly statistically insignificant, with only sporadic

significance in isolated periods. This pattern suggests that, prior to RCEP implementation, there were only limited and sporadic differences in greenfield FDI inflows between RCEP and non-RCEP destinations, providing weak evidence of systematic pre-trends.

This pattern changes markedly following RCEP implementation. The majority of post-implementation coefficients are positive and statistically significant, with particularly pronounced effects emerging in the third year after entry into force. These results indicate that greenfield FDI inflows to RCEP destinations increased relative to non-RCEP destinations after RCEP implementation, providing empirical evidence of investment creation associated with the agreement implementation.

We read this as a positive but bounded finding. The estimated effects cannot be fully disentangled from broader macroeconomic forces, post-pandemic recovery dynamics and shifting global geopolitical and investment strategies over exactly this period. We therefore interpret the results as evidence of moderate investment creation associated with RCEP, rather than a large or transformative reallocation of global FDI.

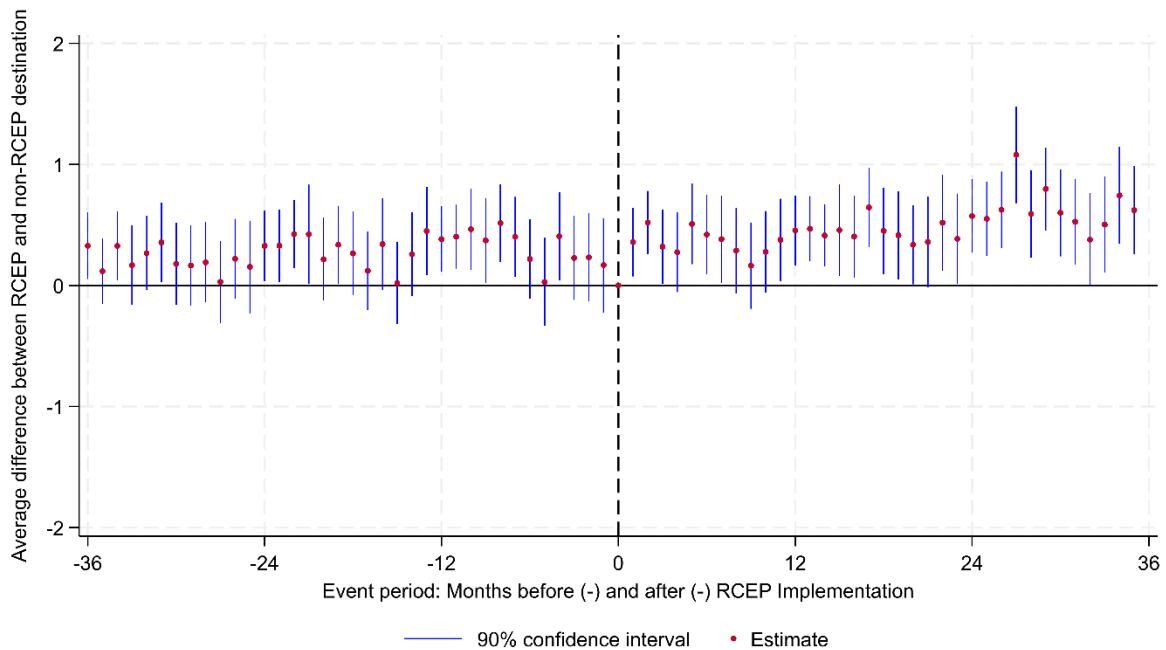


Figure 24 - Event study estimates of the RCEP effect on greenfield FDI

(Source: authors' estimates using Orbis Cross-Border Investment data. Red dots are point estimates of β_s ; blue spikes are 90% confidence intervals.)

4.3. Source of investment creation

While the baseline results indicate the presence of investment creation following RCEP's entry into force, they do not reveal whether these new investments originate primarily from within the RCEP bloc or from non-member economies. To address this question, we estimate equation (2), which includes interaction terms that differentiate post-RCEP investment originating from RCEP members and non-members.

$$\ln(FDI_{ijht}) = \alpha + \beta_{Post}D_t^{Post} + \beta_{Within}D_t^{Post}T_j^{Within} + \beta_{Outside}D_t^{Post}T_j^{Outside} + \delta_{ij} \quad (2) \\ + \gamma_{iq} + \theta_{jq} + \vartheta_{hq} + \varepsilon_{ijht}$$

where, D_t^{Post} equals one for periods after RCEP implementation, T_j^{Within} equals one if both the origin economy and the destination economy belong to the RCEP bloc, and $T_j^{Outside}$ equals one if the origin economy is a non-RCEP member while the destination economy is an RCEP member. A finding that $(\beta_{Post} + \beta_{Within}) > 0$ and $(\beta_{Post} + \beta_{Outside}) > 0$ would indicate investment creation originating from within and outside the bloc, respectively.

The results of equation (2) are reported in Table 1. We find that β_{Post} equals 0.193 and is positive and statistically significant, implying that RCEP implementation is associated with a general post-2022 increase in greenfield FDI of approximately 21 percent, holding origin-destination, origin-quarter, destination-quarter and industry-quarter effects fixed. Importantly, this post-RCEP increase is not driven by a single source group, as both the estimated coefficients on the two interaction terms are statistically insignificant.

Table 1 - Investment creation source after RCEP implementation

β_{Post}	0.193***
Treatment: RCEP origin to RCEP destination	
β_{Within}	0.004
$\beta_{Post} + \beta_{Within}$	0.197
Treatment: Non-RCEP origin to RCEP destination	
$\beta_{Outside}$	-0.022
$\beta_{Post} + \beta_{Outside}$	0.171
Fixed effects	Yes
Observations	97,727
R2	0.31

Notes: *** p<0.01. Standard errors clustered by origin-destination pair.

4.4. Industries benefiting from post-RCEP investment creation

We further extend the analysis to the sectoral level to assess whether investment creation effects differ across industries. To this end, we re-estimate the equation (2) separately for each two-digit NAICS industry in the sample. The estimated coefficients on β_{Post} and their corresponding confidence intervals are displayed in Figure 25. The results indicate that several

industries experienced economically and statistically significant increases in greenfield FDI following RCEP implementation, including management of companies, real estate, manufacturing, information, and finance and insurance. These findings corroborate the descriptive evidence of a substantial post-RCEP surge in manufacturing-related greenfield FDI in Section 3.7 and suggest that the agreement’s investment effects have been concentrated in a subset of commercially and strategically important sectors.

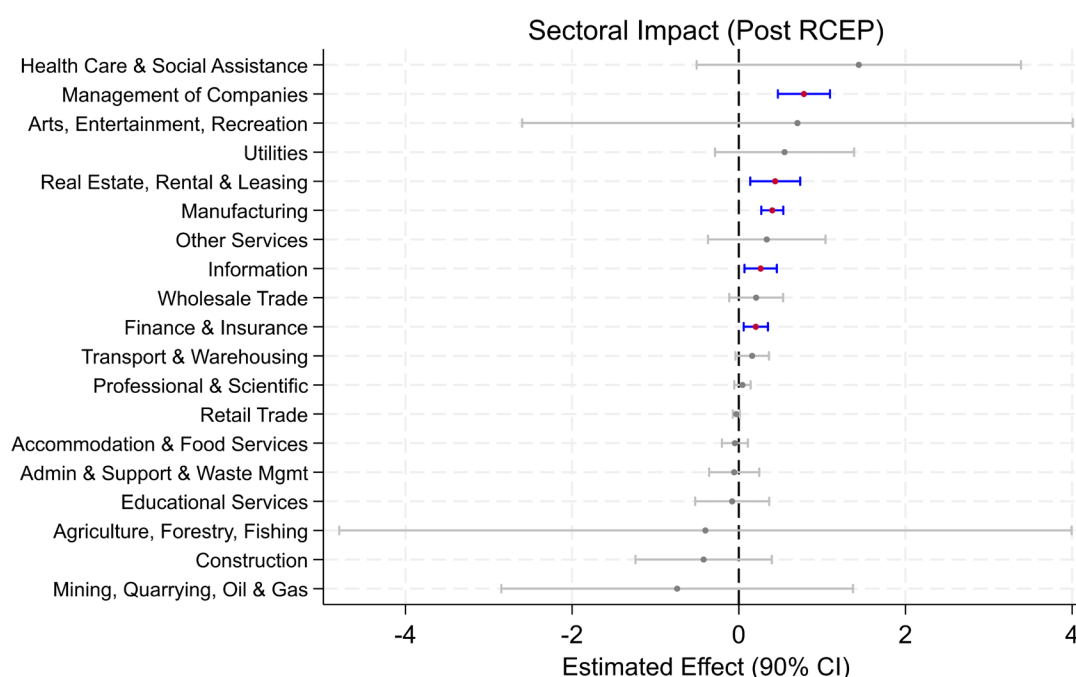


Figure 25 - Sector-level event-study estimates of the RCEP effect on greenfield FDI (post-RCEP coefficient, by two-digit NAICS industry)

(Source: authors’ estimates using Orbis data. Blue markers denote estimates statistically significant at the 90% confidence level; grey markers are not statistically significant.)

4.5. Countries benefiting from post-RCEP investment creation

We examine the country-level distribution of post-RCEP investment gains by estimating the equation (2) separately for each RCEP destination economy. The resulting coefficients are presented in Figure 26. The estimates indicate that greenfield FDI inflows to Thailand, New Zealand, and Vietnam increased significantly following RCEP implementation. These heterogeneous country-level effects suggest that the benefits of RCEP-induced investment creation have been unevenly distributed across member economies, potentially reflecting differences in domestic investment climates, industrial structures, and complementarities with regional production networks.

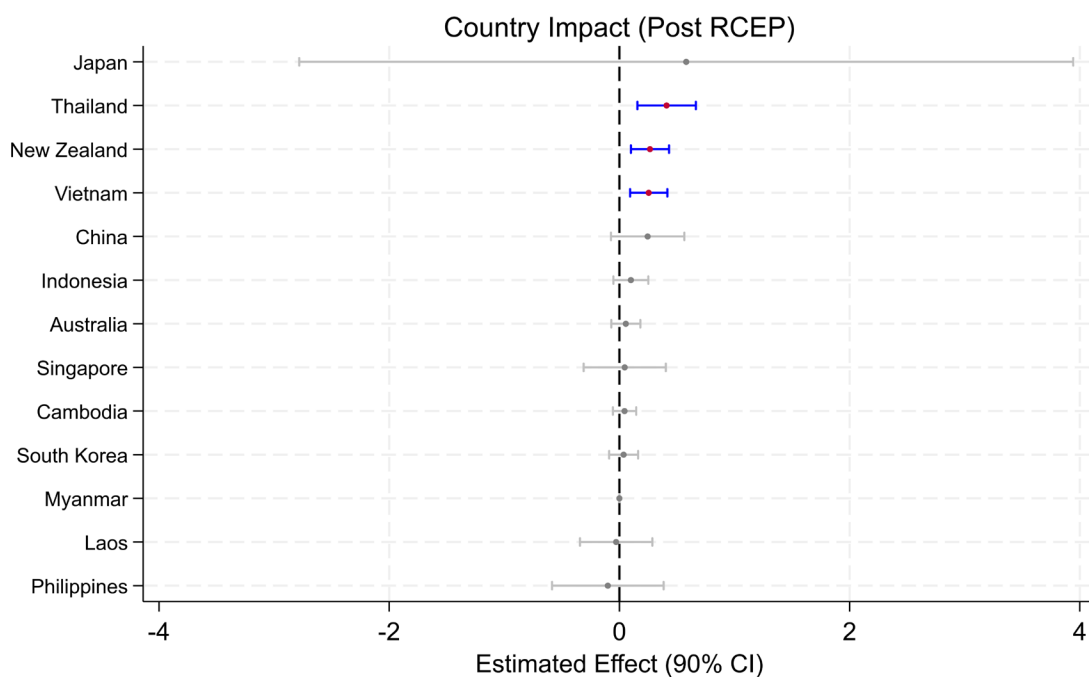


Figure 26 - Country-level event-study estimates of the RCEP effect on greenfield FDI (post-RCEP coefficient, by destination economy)

(Source: authors' estimates using Orbis data. Blue markers denote estimates statistically significant at the 90% confidence level; grey markers are not statistically significant.)

5. Comparative review of RCEP investment provisions

To understand the legal foundations that may help account for the patterns documented in Sections 3-4, this section compares RCEP's investment chapter with CPTPP and the pre-existing ASEAN+1 agreements, including ASEAN-China, ASEAN-Korea, ASEAN-India, and ASEAN-Australia-New Zealand, all of which RCEP's investment chapter formally supersedes or overlaps with for its membership.

5.1. Data and index construction

We draw on the World Bank's Deep Trade Agreements (DTA) database, which provides provision-specific binary coding (1 = present, 0 = absent) of treaty texts for more than 400 preferential trade agreements signed between 1958 and 2023 (Laget, Roch & Varela, 2021; see also Osnago, Rocha & Ruta, 2017, 2019, for closely related provision-based indices applied to vertical FDI). We focus on the 63 investment-related provisions, grouped into six policy areas: (i) scope and definitions; (ii) investment liberalisation (pre-establishment market access and national treatment); (iii) investment protection (post-establishment safeguards, including fair and equitable treatment); (iv) social and regulatory goals (environmental, labour and sustainable-development references); (v) institutional framework and transparency; and (vi) dispute settlement.

We construct seven normalised indices (each the share of relevant provisions present, 0-1, with missing values handled by averaging over non-missing components) and two composites (the detailed list is in Appendix III).

A Liberalization Index captures pre-establishment market access commitments and constraints on host-state regulation, including national treatment, MFN treatment, restrictions on performance requirements, and nationality requirements for senior management. A Protection Index measures post-establishment investor protections, including coverage of investment, MFN treatment, fair and equitable treatment, expropriation provisions, protection in situations of armed conflict, transfer of funds, umbrella clauses, and subrogation. An FET Precision Index captures the degree to which fair and equitable treatment obligations are legally qualified or clarified, including references to denial of justice, arbitrariness, customary international law, development level, and non-automatic breach clauses; this index reflects legal precision rather than the substantive strength of investor rights. A Social and Regulatory Goals Index records explicit references to regulatory autonomy and public interest objectives, including the right to regulate, environmental protection, labor standards, human rights, corporate social responsibility, sustainable development, anti-corruption measures, technical cooperation, and capacity building. A Transparency and Institutions Index measures the presence of institutional and procedural mechanisms, such as investment committees, publication requirements, prior-comment provisions, and national inquiry points. A Dispute Instruments Index captures the availability of dispute settlement mechanisms, including state-to-state arbitration, investor-state dispute settlement (ISDS), and consultation procedures. And a Policy Space (Safeguards) Index aggregates provisions limiting the scope of investor protections, including prudential exceptions, public welfare carve-outs, denial-of-benefits clauses, substantial business activity

requirements, MFN exceptions, and exclusions of portfolio investment. Higher values of this index indicate greater formal preservation of regulatory autonomy for host states.

The two composites, the Investor Rights Index (mean of Liberalization, Protection and Dispute Instruments) and the Policy Balance Index (mean of Policy Space, Social Goals and Transparency/Institutions), summarise the balance between investor-oriented commitments and host-state regulatory autonomy without collapsing distinct legal dimensions into a single number. Both composite indicators range from 0 to 1. Higher values of the Investor Rights Index indicate stronger legal protection for investors, whereas higher values of the Policy Balance Index reflect a greater emphasis on regulatory autonomy and institutional governance.

5.2. Results

Table 2 reports index values for RCEP, CPTPP and the four ASEAN+1 agreements, with darker shading indicating higher scores. RCEP records the highest Policy Space/Safeguards index among the agreements compared (0.67, tied with ASEAN-China) and the highest FET Precision score (0.80), while its Liberalization (0.50) and Protection (0.55) indices are moderate and below CPTPP (0.83 and 0.91) and several ASEAN+1 agreements. RCEP records a Social Goals score of 0, a Transparency/Institutions score of 0, and a Dispute Instruments score of 0, reflecting the absence of a standing investment committee, publication/prior-comment commitments, national inquiry points, and any dispute-settlement mechanism (state-state or investor-state) coded under this database's criteria, consistent with the qualitative discussion in Section 2.3.

Table 2 - Comparison of investment-provision indices across RCEP, CPTPP, and ASEAN+ agreements

Index	Components	RCEP	CPTPP	ASEAN- Australia-NZ	ASEAN-Korea	ASEAN-India	ASEAN-China
Liberalization	Liberalization provisions	0.5	0.83	0.5	1	0.33	0.5
Protection	Protection provisions (including FET)	0.55	0.91	0.82	1	0.82	1
FET Precision	Fair and Equitable Treatment (FET) obligations' clarity	0.8	0.6	0.6	0.6	0.6	0.4
Social Goals	Public interest related provisions	0	0.33	0.22	0.33	0.44	0.44
Transparency/Institutions	Institutional and procedural provisions	0	0	1	1	1	0.75
Dispute Instruments	Dispute settlement mechanisms	0	0.67	1	1	1	1
Policy Space/Safeguards	Preservation of regulatory autonomy	0.67	0.56	0.33	0.56	0.44	0.67
Investor Rights	Mean of Liberalization + Protection + Dispute Instruments	0.35	0.8	0.77	1	0.72	0.83
Policy Balance	Mean of Policy Space + Social + Transparency	0.22	0.3	0.52	0.63	0.63	0.62

Source: Authors' construction from the World Bank Deep Trade Agreements Database.

Plotting agreements along the Investor Rights and Policy Balance dimensions (Figure 27) shows RCEP positioned well below CPTPP and all four ASEAN+1 comparators on Investor Rights, and toward the lower end on Policy Balance as well – though the latter is driven specifically by RCEP’s zero scores on Social Goals and Transparency/Institutions rather than by weak safeguards: RCEP’s Policy Space/Safeguards index is in fact among the highest in the comparison. In other words, RCEP does not trade weak investor protection for strong normative/institutional commitments; it scores low on both investor rights and the normative/institutional components of policy balance, while relying almost entirely on safeguard-type exceptions and precise drafting (particularly around FET) to manage regulatory risk. This is consistent with Berger, Busse, Nunnenkamp and Roy’s (2013) finding that agreements’ effects on FDI depend on which specific provisions they include, not simply on an aggregate “depth” score – RCEP’s profile of high policy-space protection alongside low institutional and normative commitment is a distinctive combination that a single composite index would obscure.

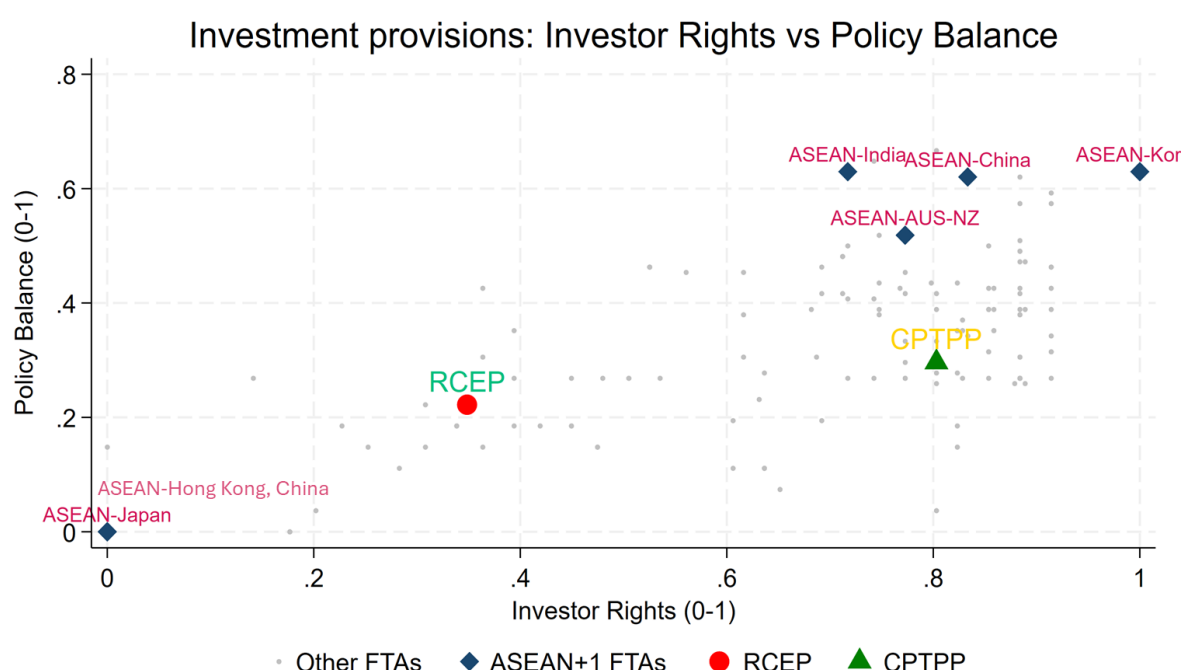


Figure 27 - Investment provision comparison: Investor rights vs. Policy balance

(Source: authors’ calculations using the World Bank Deep Trade Agreements database.)

6. Discussion: Relating the Econometrics and Legal Evidence, and Limitations

Sections 4 and 5 provide two distinct kinds of evidence: an estimated, if provisional, magnitude for RCEP's association with greenfield investment creation, and a description of RCEP's investment chapter as unusually cautious and sovereignty-preserving relative to comparator agreements. We have deliberately avoided treating the second as a formal explanation for the first. RCEP is a single agreement applied uniformly to its membership; our design has no cross-sectional variation in legal depth against which the estimated 21 percent effect can be directly attributed, so any claim that "RCEP's design explains the size of the effect" is, at this stage, a plausibility argument rather than a tested one. A design that would test this formally – applying the same event-study approach to other agreements of varying legal depth (e.g., CPTPP, the ASEAN+1 agreements individually) and testing whether the recovered investment-creation effects correlate with each agreement's DTA index scores – is a natural extension of this paper that we were not able to undertake within its current scope.

What we can say, more modestly, is that the size of effect we estimate is consistent with what the broader literature on investment-agreement depth would lead one to expect from an agreement with RCEP's profile: broad-based but bounded, positive but not transformative, and concentrated in the sectors (manufacturing, production-network-linked services) where deep trade agreements are most reliably associated with additional investment (Osnago, Rocha & Ruta, 2017, 2019), rather than uniform gains driven by strengthened investor protection per se, given the genuinely mixed evidence that investor protection alone moves FDI (Brada, Drábek & Iwasaki, 2021).

Several further limitations bear directly on how the results in Sections 4 and 5 should be read. First, the comparison group in the current specification in Section 4.1 is effectively "the rest of the world", a heterogeneous set of up to 212 destinations, rather than a matched set of plausible counterfactual destinations, which weakens (without necessarily invalidating) the parallel-trends assumption. Second, Orbis greenfield project data, while considerably more granular than UNCTAD aggregate FDI statistics, still relies on announced or completed project records rather than realised capital flows, and coverage may vary by country and over time in ways not fully documented here. Third, the DTA database's binary provision coding captures the presence of a legal commitment but not its de facto implementation, enforcement quality, or interpretation in practice – two agreements coded identically on a given provision may function very differently in practice. Therefore, we acknowledge the limitation of the paper's conclusions. It provides evidence of an association between RCEP's implementation and a moderate, broad-based but unevenly distributed increase in greenfield FDI, situated within, but not fully disentangled from, a period of substantial independent change in the global investment environment.

7. Conclusion and Policy Implications

RCEP is associated with a moderate increase in greenfield FDI to member destinations after its entry into force, without a fundamental reshaping of either the geographic sources or sectoral composition of that investment. Flows remain concentrated among a small number of major economies, gains are concentrated in a subset of industries and destinations, and RCEP members continue to invest substantially outside the agreement area. RCEP has plausibly lowered some transaction costs and improved legal predictability for regional investors, but on the evidence presented here it has not generated a strong, broad-based reorientation of investment toward intra-bloc destinations or industries.

These econometric patterns are consistent with, though not formally attributed to, the legal design documented in Section 5: RCEP is best characterised as a non-investor-centric agreement that prioritises legal caution and the preservation of state sovereignty over deep liberalisation, with comparatively limited obligations on labour, environment, corporate social responsibility, institutional governance and dispute settlement.

From a policy perspective, these findings point to several avenues for strengthening RCEP's investment framework over time without undermining its politically cautious foundation.

First and most immediately feasible: strengthen transparency and institutional mechanisms – systematic publication of investment-related regulations, centralised investor-information portals, and designated national contact points – to reduce informational barriers, particularly for small and medium-sized enterprises that lack the resources to navigate fragmented national procedures. A natural complement, requiring no renegotiation of Chapter 10 itself, is for RCEP members to draw on the WTO's Investment Facilitation for Development Agreement (concluded 2023, formally endorsed by 123 members including several RCEP members at the WTO's 13th Ministerial Conference in February 2024), which already provides an agreed multilateral template covering exactly this ground – transparency, administrative streamlining, and national focal points – while explicitly excluding market access and ISDS, and is therefore compatible with RCEP's existing sovereignty-preserving design rather than requiring the agreement to become more investor-centric to adopt it.

Second: strengthen RCEP's social and sustainability profile with more explicit references to environmental protection, anti-corruption standards, responsible business conduct and sustainable development, aligning the agreement with evolving global norms in investment governance and increasing its legitimacy amid growing political scrutiny of foreign investment. Given the genuinely mixed evidence on whether such provisions alone move investment volumes (Brada, Drábek & Iwasaki, 2021), this reform is better justified on legitimacy and risk-management grounds than as a mechanism for generating additional FDI.

Third and most politically demanding: treat investor-state dispute settlement as a long-term, optional instrument rather than a core obligation, allowing members to opt in voluntarily or bilaterally. Evidence that the FDI-deterrent effect of ISDS exposure has weakened over time and is now concentrated in direct-expropriation claims specifically (Kerner & Pelc, 2022) suggests the investment-protection case for near-term binding ISDS is weaker than it would have been a decade ago – an optional, tightly scoped pathway would let RCEP evolve gradually toward deeper legal integration without jeopardising the broad-based political support the agreement currently enjoys.

Taken together, these findings suggest RCEP functions as a platform for incremental investment cooperation rather than a deeply liberalising investment regime – a characterisation consistent with both the moderate scale of the investment-creation effect estimated in Section 4 and the cautious legal architecture documented in Section 5. Whether a more ambitious design would have produced substantially larger investment gains, and whether the specific reforms proposed here would themselves move the needle, remain open questions that the cross-agreement extension discussed in Section 6 is best placed to answer.

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Appendix I - RCEP enforcement date

RCEP members	RCEP enforcement date
Australia	1 January 2022
Brunei	
Cambodia	
China	
Japan	
Laos	
New Zealand	
Singapore	
Thailand	
Vietnam	
Republic of Korea (South Korea)	1 February 2022
Myanmar	4 March 2022
Malaysia	18 March 2022
Indonesia	2 January 2023 ³
The Philippines	2 June 2023

³ <https://rcepsec.org/joint-media-statement-of-the-2nd-rcep-ministers-meeting/>

Appendix II - Leading motives 2015-2024

Market-seeking	Resource-seeking	Efficiency-seeking	Institutional and legal motives	Socio-environmental motives
Business Environment	Access to Finance	ICT Infrastructure	Government Support	Language Availability
Domestic Market Potential	Skilled Workforce Availability	Lower Costs	Taxation	Universities or Researchers
Market Access	Industry Cluster	Real Estate Availability		
Location Attractiveness	Technology & Innovation	Transport & Utility Infrastructure		
	Natural Resources	Supply Chain		

Appendix III - Construction of Indices

Index	Provision	Description
Liberalization	prov_17	Does the agreement provide for national treatment in the establishment/acquisition phase of the investment?
	prov_18	Does the Agreement provide MFN treatment for the establishment/acquisition phase of the agreement?
	prov_20	Does the investment chapter prohibit or limit the use of performance requirements?
	prov_21	Does the investment chapter contain a provision that entitles covered investors to make appointments to senior management positions and/or members of the board of directors without regard to nationality?
	prov_22	Does the investment chapter guarantee that if another international treaty, to which the Contracting States are parties, or national legislation of the host State, provides for more favourable treatment of investors/investments, that other treaties (or national legislation) shall prevail in the relevant part over the provisions of the IIA?
	prov_24	Does the investment chapter take a negative list approach to commitments?
Protection	prov_26	Does the agreement cover the post-establishment phase of the investment?
	prov_27	Does the agreement provide MFN treatment for the post-establishment phase of the investment?
	prov_28	Does the agreement grant Fair and Equitable Treatment (FET)?
	prov_34	Does the investment chapter cover direct expropriation?
	prov_35	Does the investment chapter cover indirect expropriation?
	prov_39	Does the clause on protection in case of armed conflict or strife provide for national treatment?
	prov_40	Does the clause on protection in case of armed conflict or strife provide for MFN treatment?
	prov_41	Does the clause on protection in case of armed conflict or strife provide for compensation?
	prov_42	Does the clause on protection in case of armed conflict or strife provide for the transfer of funds?
	prov_43	Does the chapter include the so-called “umbrella” clause requiring the Parties to respect or observe any obligation assumed by it with regard to a specific investment, thereby bringing contractual and other obligations under the “umbrella” of the IIA?
	prov_44	Does the investment chapter provide for a mechanism of subrogation, such that if an insurer covers the losses suffered by an investor in the host State, it acquires the investor’s right to bring a claim and may exercise it to the same extent as, previously, the investor?
FET* Precision	prov_29	Does the FET clause expressly include a reference to a denial of justice?
	prov_30	Does the FET clause prohibit arbitrary, unreasonable or discriminatory measures?

	prov_31	Does the FET clause include an explicit clarification that the breach of another provision in the IIA or a breach of another international agreement by a contracting party will not by itself constitute a breach of the FET standard?
	prov_32	Does the FET clause provide that the finding of an FET violation must take into account the level of development of the host country?
	prov_33	Does the FET clause reference customary international law?
Social/ Regulatory Goals	prov_46	Does the investment chapter reference the "right to regulate"?
	prov_47	Does the investment chapter refer to protection of the environment?
	prov_48	Does the investment chapter refer to protection of human rights?
	prov_49	Does the investment chapter contain a reference to labor?
	prov_50	Does the investment chapter refer corporate social responsibility?
	prov_51	Does the investment chapter refer to sustainable development?
	prov_52	Does the investment chapter refer to corruption?
	prov_53	Does the investment chapter include a commitment on technical cooperation?
	prov_54	Does the investment chapter include a commitment on capacity building?
Transparency/ Institutions	prov_56	Does the investment chapter establish a committee or another type of institutional framework?
	prov_57	Does the investment chapter include commitments for prior comment?
	prov_58	Does the investment chapter include agreements to publish?
	prov_59	Does the investment chapter establish national inquiry points?
Dispute Instruments	prov_61	Does the investment chapter include a state-to-state mechanism for dispute settlement (e.g. arbitration) between the contracting parties
	prov_62	Does the investment chapter include a mechanism for the settlement of disputes between covered investors and the host State (ISDS)?
	prov_63	Does the investment chapter include a consultation mechanism?
Policy Space/ Safeguards	prov_06	Does the definition of investment exclude portfolio investment?
	prov_10	Does the definition of investor limit those of dual nationality to be exclusively a national or his or her dominant and effective nationality?
	prov_11	Does the definition limit the scope of the term "investor" or "juridical/natural persons" to entities engaging in 'substantial business activities' or similar terms such as 'real economic activity'.
	prov_12	Does the agreement contain a denial of benefits provision?
	prov_15	Does the investment chapter allow contracting parties to derogate from their treaty obligations for prudential reasons (prudential measures may be taken for, e.g.: the protection of investors, depositors, and financial market participants; the maintenance of the safety, soundness, integrity or financial responsibility of financial institutions; and/or ensuring the integrity and stability of a contracting party's financial system)?
	prov_19	Does the agreement grant exceptions to the MFN clause?

	prov_36	Does the provision on expropriation and compensation allow for a carve-out for compulsory licenses?
	prov_37	Does the provision on expropriation and compensation allow for a carve-out for subsidies?
	prov_38	Does the provision on expropriation and compensation allow for a carve-out for general regulatory measures to protect legitimate public welfare goals?