

# RCEP: High hopes, disappointing start

By Xu Ni and Banh Thi Hang

ON AUG 2, Hong Kong's chief executive John Lee announced that Laos, Cambodia and Vietnam had pledged their support for Hong Kong's bid for "early accession" to the Regional Comprehensive Economic Partnership (RCEP). As Hong Kong, along with other regional players, flock to join what has been dubbed a "game-changer" for regional trade, uncertainty lingers over whether RCEP can truly live up to the growing expectations.

RCEP was expected to revolutionise trade across the Asia-Pacific, promising to unify a fragmented landscape of trade agreements into the largest trade bloc in history. Representing 30 per cent of the world's population and global GDP, the trade pact aimed to simplify and enhance regional trade dynamics.

Before RCEP, Asean had established a complex network of "Asean+1" free trade agreements (FTA) with the other RCEP members. RCEP, led by Asean, consolidates this intricate net of agreements and fills the gap in bilateral FTAs between Japan and the two other significant economies in North-east Asia, China and South Korea. With more applicants lining up, RCEP's potential is unprecedented.

## A subpar launch

However, RCEP's initial performance has been underwhelming, possibly due to its pandemic-era launch and rising geopolitical tensions. A study by the Asia Competitiveness Institute revealed that RCEP's impact in its first two years has been modest, with intra-RCEP trade growth fluctuating.

After a 24 per cent surge in 2021, trade growth slowed to 10 per cent in 2022, and contracted by 3 per cent in 2023, reflecting ongoing challenges for the bloc.

A similar trend is observed with RCEP's exports to the rest of the world (ROW), which peaked with 24 per cent growth between 2020 and 2021, slowed to 8 per cent in 2022, and then contracted by 9 per cent in 2023.

In contrast, while intra-RCEP import growth experienced fluctuations, RCEP's imports from ROW consistently increased during the same period, maintaining a stable growth rate between 11 and 27 per cent. This steady growth in imports from ROW



Hong Kong is among the regional players flocking to join RCEP, which has been dubbed a "game-changer" for regional trade. PHOTO: REUTERS

underscores the ongoing significance of RCEP's trade relationships with major economies outside the bloc, even as intra-RCEP trade has struggled to gain momentum.

The anticipated role of RCEP in fostering deeper integration among China, Japan, and South Korea has also been limited, raising doubts about the agreement's effectiveness in strengthening regional trade ties.

Despite expectations for significant gains for these three economic powerhouses, their proportion of trade within RCEP has been declining. For example, China's trade with Japan and South Korea as a share of its total trade with RCEP members fell from about 33 per cent in 2020 to 28 per cent in 2023, suggesting that the potential benefits of RCEP for these key players have not yet been fully realised.

Beyond external factors, RCEP's less favourable tariff regime, even at full implementation, is another notable contributor

to the bloc's underperformance. Although RCEP will eventually eliminate tariffs on nearly 92 per cent of traded products among its members, this falls short compared with the existing FTAs among members of the bloc.

For instance, the Asean Trade in Goods Agreement achieved a 98.6 per cent zero-tariff rate in 2019, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) aims to remove tariffs on 99 per cent of tariff lines over time. Moreover, RCEP's 38 unique tariff schedules, each with its own timeline, add complexity to the tariff structure. Consequently, full tariff reductions will take over two decades to complete.

RCEP's much-anticipated promise to streamline rules of origin (ROO) has fallen short too, offering little added value over existing Asean+1 FTAs. ROO are crucial as they define a product's origin and ultimately determine its eligibility for preferential tariffs. With complex ROO, the costs

of administering and complying with ROO may offset the benefits of tariff reductions, lowering the FTA's utilisation rate.

While RCEP was expected to simplify complicated ROO under Asean+1 FTAs, it still does not surpass the leniency of the Asean-Australia-New Zealand FTA. A report by the Asia Development Bank indicated that RCEP failed to set a new standard for ROO or operational certification procedures.

Additionally, RCEP is often criticised as a "less ambitious" and "lower quality" trade agreement compared to the more rigorous CPTPP. Criticisms are largely centred on RCEP's lack of stringent provisions on state-owned enterprises and emerging trade issues such as labour and environmental protections.

Although RCEP prioritises traditional trade areas such as market access for goods and services, it does not adequately address the growing significance of digital trade. While RCEP includes provisions for

free cross-border data flows, loopholes in the regulations permit exceptions for certain public policy reasons, undermining their effectiveness.

As the world's largest trade bloc, RCEP missed a critical opportunity to push for deeper liberalisation and establish itself as a transformative "Asian" FTA with a broader international impact.

## Shaping the path forward

The shortcomings of RCEP could be addressed through its "living nature", which allows for reviews every five years after the agreement takes effect. This key institutional feature provides an opportunity for members to improve the deal over time.

Immediate areas of focus should include further tariff cuts to harmonise reductions across RCEP and other Asean+1 FTAs, thereby streamlining trade rules and minimising administrative hurdles for businesses.

Additionally, rules governing digital trade and commitments on state-owned enterprise reform, labour standards and environmental protections need attention.

Moving forward, RCEP's ability to evolve is underscored by the recent establishment of an RCEP Support Unit and ongoing discussions on implementation matters, including feedback from businesses. Unlike the CPTPP, RCEP's support structure includes a secretariat that could play a key role in monitoring and enhancing the agreement.

Proposed mechanisms for businesses to report issues and provide feedback could ensure transparency and compliance. By effectively leveraging the review processes, RCEP members have the chance to secure further tariff concessions and deepen commitments, thereby unlocking the agreement's full potential to boost intra-regional trade.

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