

From the CAG Team

RCEP 2.0: Why the World's Largest Trade Deal Needs a Comprehensive Upgrade

By Scarlet Xu Ni



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Is the world's largest Free Trade Agreement good enough?

This question will define the Regional Comprehensive Economic Partnership (RCEP)'s first general review in 2027. Since entering into force in 2022, the RCEP has consolidated the web of ASEAN+1 Free Trade Agreements (FTA) into a unified framework and established the first FTA linking China, Japan, and South Korea. In terms of GDP, it is the largest trade agreement in history. Yet, by ambition, it ends up falling short.

The upcoming review will determine whether RCEP 1.0 was merely a starting point or a ceiling. With one more year to prepare, members face a choice: pursue

comprehensive upgrades, or risk watching RCEP settle into irrelevance as global trade moves beyond it.

An Underperforming “Game-Changer”

The headline numbers suggest progress. Intra-RCEP trade grew 3 percent in 2024, with intra-ASEAN trade up by 7 percent and trade beyond RCEP rose by 5 percent. However, these aggregate figures mask deeper problems with how the agreement actually performs.

The problems begin with managing tariffs, which is an FTA's most basic function. Although the agreement consolidates multiple ASEAN+1 frameworks, its tariff offers are less ambitious than those it was

meant to consolidate. The fifteen members had negotiated 38 distinct tariff schedules, varying in pace and depth of liberalisation. Under current arrangements, RCEP will remove duties on 92 percent of tariff lines over twenty-five years, placing it at the lower end of ambition relative to existing ASEAN+1 agreements, even at full implementation. Compared with ASEAN+1 FTAs, RCEP's complexity and modest benefits have limited its appeal for firms, particularly where existing bilateral agreements offer more convenient options. Available data points to low utilisation: for example, Vietnam's RCEP utilisation rate in 2024 stood at 1.8 percent, compared with an average of 40.5 percent for its ASEAN+1 FTAs.

RCEP's commitments on services pale beside those of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Services trade in RCEP countries grew at an annual average of 8.3 percent from 2005–2019, well above the global average of 6.2 percent, underscoring its importance for the region. Yet, liberalisation under RCEP remains fragmented. While some members use positive lists (opening only scheduled sectors), others have employed negative lists (where all sectors remain open unless restricted). The latter, which the CPTPP uses, offers clearer rules and deeper market access. Although the RCEP members have pledged to shift to the negative-list approach, progress depends on voluntary commitments, and the lists of reservations continue to be extensive.

RCEP's services in trade liberalisation thus lags behind the standards set by competing agreements. Moreover, it has not reduced complexity for businesses as intended, with differing administrative requirements and complex market access approaches still hindering utilisation.

Additionally, the RCEP's digital provisions are inadequate for modern trade. The e-commerce chapter falls outside of the dispute settlement, limiting legal enforceability. Provisions on personal data protection largely reflect aspirational goals rather than enforceable standards, while commitments on facilitating cross-border data flows can be set aside by governments on public policy or national security grounds, often bypassing transparency requirements and review mechanisms. Notably, the upgraded AANZFTA subjects most e-commerce provisions to dispute settlement, establishing firm rules on data flows and source code disclosure while tightly circumscribing exceptions to enhance predictability. As frameworks like the UK-Singapore Digital Economy Agreement advance into developing AI governance and formulating robust digital identity systems, RCEP risks falling further behind.

These shortcomings reveal how the RCEP has been underperforming as an FTA. This is especially concerning because RCEP was intended to consolidate, not complicate, the region's "spaghetti bowl" of overlapping FTAs. Given the wide development gap among members, a modest starting point allows for flexibility

and easier integration. But standing still risks leaving RCEP as the lowest-common-denominator FTA.

Seizing the 2027 Window

The 2027 General Review offers RCEP a critical window to address its deficiencies and modernise the agreement in line with the evolving trade realities, particularly in digital economy and sustainability. With built-in review mechanisms, the "living" design of the RCEP, was precisely meant for this purpose: evolution in response to changing needs.

Recent ASEAN+1 upgrades demonstrate that meaningful reforms are achievable. The upgraded ASEAN–China FTA (ACFTA) 3.0 incorporates new chapters on the digital and green economy. The upgraded ASEAN–Australia–New Zealand Free Trade Area (AANZFTA) has further reduced tariffs, deepened services and digital trade liberalisations, placed the e-commerce chapter under dispute settlement, and introduced a standalone Trade and Sustainable Development chapter—the first of its kind in an ASEAN FTA. These agreements illustrate how members of the RCEP can negotiate ambitious upgrades in trade and economic cooperation when political will exists.

Low-hanging fruits should be the immediate focus in the 2027 review. RCEP could adopt provisions that have

already been negotiated in recent ASEAN+1 frameworks, harmonising upward to match the best existing terms without the need to negotiate from scratch. Services and digital economy commitments, where RCEP currently lags behind both the CPTPP and members' own bilateral agreements, could be further improved by incorporating standards that have already been established under the AANZFTA. Given the growing importance of sustainability for trade and development, the RCEP should draw from the upgraded AANZFTA and ACFTA by introducing environmental provisions.

There are notable areas that might require sustained work beyond the 2027 review. This includes further simplifying tariff schedules and reducing tariffs. Although such reforms demand careful negotiation, given members' diverse levels of political will and technical capacity, such efforts will further improve intra-regional trade. The RCEP Joint Committee should also strengthen coordination on effective implementation while expanding outreach to improve business awareness of the agreement. Systematic consultations with the private sector can further identify practical barriers, while targeted outreach programs can further develop effective practices under RCEP's frameworks and where improvements are needed. In parallel, accelerating the establishment of the planned permanent RCEP Secretariat would strengthen institutional capacity.

Nevertheless, challenges remain formidable. Negotiating amongst fifteen diverse economies is inherently difficult, and Timor-Leste's accession into ASEAN further complicates matters. Timor-Leste's planned entry will test RCEP's capacity to integrate least-developed countries, which require transitional arrangements and capacity-building support. Expansion of membership for RCEP could also deepen regional integration and bring about new growth opportunities. However, in the absence of CPTPP-style accession benchmarks, under which applicants must commit to the highest standard of market access, RCEP's accession negotiations require particular caution to prevent dilution of existing commitments.

Make or Break

The past three years have shown that the RCEP is necessary but insufficient. RCEP 1.0 was designed as a modest starting point, a pragmatic compromise among fifteen diverse economies. While this compromise helped to launch the agreement, it has also limited RCEP's impact. RCEP's utilisation rate has continued to remain low because businesses find existing bilateral agreements more attractive and convenient. Beyond tariffs, services trade, digital trade, and sustainability, RCEP's commitments trails behind competing frameworks in a wide array

of areas, notably non-tariff barriers, labour standards, and competition policy.

For an agreement encompassing 30 percent of global GDP and population, this represents a significant missed opportunity. Against the backdrop of a weakening multilateral trading system, intensifying US-China trade wars and fragmenting supply chains make functional regional trade frameworks increasingly valuable as stabilising, rules-based anchors. In doing so, these frameworks strengthen regional cooperation, safeguard free trade, and help members jointly manage global trade uncertainty.

There is only one year left to prepare for the next step. Members must decide whether to pursue meaningful upgrades or accept RCEP's current limitations as permanent. The agreement's future relevance depends on that choice.

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