

# Regional Comprehensive Economic Partnership (RCEP): Progress and Challenges

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## I. Introduction

The Regional Comprehensive Economic Partnership (RCEP) is an ongoing free trade agreement involving ASEAN member states (AMSs) and six trading partners: Australia, China, India, Japan, South Korea and New Zealand.<sup>1</sup> In the last few years, the RCEP was negotiated in parallel and recognized as a competitor to another mega trade deal, the Trans-Pacific Partnership (TPP). The ASEAN-led trade deal is now in the spotlight after President Trump's decision to withdraw the United States from the TPP.

This article examines the progress and challenges of the RCEP, then discusses the implications and prospects of the negotiation. Through this work, we can re-evaluate the economic significance of the RCEP amid growing protectionism in the Asia-Pacific region.

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<sup>1</sup> The six countries are referred to as ASEAN FTA Partners (AFPs) throughout this article.

## II. Progress of RCEP

### Background of RCEP

The current ASEAN+6 framework was originally proposed by Japan, in competition with the ASEAN+3 framework suggested by China.<sup>2</sup> Despite this disagreement between the regional frameworks proposed by China and Japan, ASEAN proposed the RCEP to assume leadership of the group and respond to the evolution of the CJK FTA and TPP.<sup>3</sup>

RCEP participating countries (RPCs) have already signed bilateral and multilateral FTAs with the member countries. Other than the ASEAN+1 FTAs,<sup>4</sup> RPCs have concluded bi-

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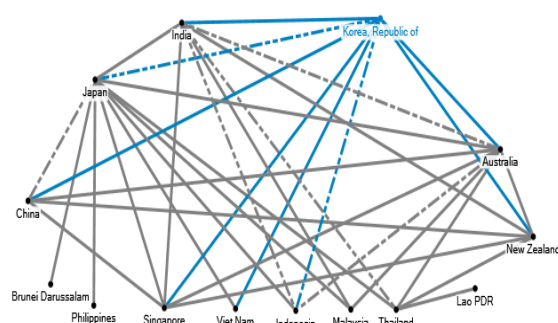
<sup>2</sup> ASEAN+3 means ASEAN and three of its trading partners, China, Japan, South Korea (CJK). Hamanaka (2014) interprets that Japan proposed including Australia and India to dilute China's influence within the region.

<sup>3</sup> It is plausible that China accepted the RCEP in order to compete with the US-led TPP even though the RCEP adopted the ASEAN+6 framework. (Hamanaka, 2014).

<sup>4</sup> These include the ASEAN and China Free Trade Agreement (ACFTA), ASEAN and Korea Free Trade Agreement (AKFTA), ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEP), ASEAN-India Free Trade Agreement (AIFTA), and the ASEAN-Australia and New Zealand Free Trade Agreement (AANZFTA).

lateral FTAs between members, such as the Korea-Vietnam FTA, India-Malaysia CECA, Japan-Indonesia Economic Partnership Agreement, and China-Thailand FTA. Figure 1 represents the bilateral FTAs concluded or under negotiation in the region.

**Figure 1. Existing FTAs within RCEP Bloc**



Note. 1) ASEAN+1 FTAs are excluded in the figure.  
2) Dotted lines represent the FTAs under negotiation.  
Source: Asia Pacific Trade and Investment Database (ESCAP)

Since RPCs have already established overlapping FTAs with member countries, the effect of trade creation from the RCEP is not expected to be large. However, the agreement can improve the efficiency of regional production networks through the harmonization of existing FTAs and trade rules such as the rules of origin (ROO). To induce economically meaningful gains from the RCEP, it needs significant improvements over the existing ASEAN+1 FTAs, as indicated in the Guiding Principles of the RCEP. If these improvements are not realized, the RCEP will become nothing more than a mere collection of the existing ASEAN+1 FTA texts.

### Guiding Principles and Objectives

RCEP negotiations cover trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, e-commerce, and other issues.

According to the Guiding Principles endorsed in August 2012, RCEP negotiations will follow eight principles: (1) consistency with the WTO; (2) significant improvements over the existing ASEAN+1 FTAs; (3) facilitation of trade and investment; (4) flexibility (e.g., special and differential treatment) to the least-developed AMSs; (5) continuation of existing FTAs; (6) open accession clause; (7) technical assistance and capacity building to the developing and least-developed countries; and (8) parallel negotiation.

A notable aspect is that the RCEP emphasizes “ASEAN centrality” and tries to achieve significant improvement over the ASEAN+1 FTAs with limited deviation. From that, it is expected that the starting point of RCEP negotiations would be the existing ASEAN+1 FTAs.

### Current Status

RCEP negotiations were launched in November 2012, and 18 rounds of negotiation have been held, along with six ministerial meetings and three intersessional meetings. Two chapters, namely “Economic and Technical Cooperation” and “Small and Medium-sized Enterprises,” have been concluded, and other chapters are still in progress with some of them nearing conclusion.<sup>5</sup>

To date, progress in the RCEP negotiations has been sluggish due to disagreement over the modality of tariff reduction on trade in goods, liberalization of services, and investment framework. In regard to trade in goods, it is known that the proportion of products committed to eliminate tariffs has not been

<sup>5</sup> Refer to “Joint Media Statement, the 3rd RCEP Intersessional Ministerial Meeting.”

finalized yet.<sup>6</sup>

While the RCEP has struggled balancing the interests of participants and missed its conclusion target twice, it still keeps its momentum moving forward, especially this year, which marks the 50th anniversary of ASEAN's founding. Leaders noted in a joint statement of the 3rd RCEP intersessional Ministerial Meeting held in May 2017 that "the substantial conclusion of the RCEP has been identified as a priority deliverable in this milestone year of ASEAN's 50th anniversary."

### III. Major Issues

#### Trade in Goods

The main issues of trade in goods are (i) coverage of tariff elimination, and (ii) adoption of common concession.

**Table 1. Tariff Elimination Coverage by Country under ASEAN+1 FTA**

	Unit: %					
	AANZFTA	ACFTA	AIFTA	AJCEP	AKFTA	Average
Brunei	99.2	98.3	85.3	97.7	99.2	95.9
Cambodia	89.1	89.9	88.4	85.7	97.1	90.0
Indonesia	93.7	92.3	48.7	91.2	91.2	83.4
Laos	91.9	97.6	80.1	86.9	90.0	89.3
Malaysia	97.4	93.4	79.8	94.1	95.5	92.0
Myanmar	88.1	94.5	76.6	85.2	92.2	87.3
Philippines	95.1	93.0	80.9	97.4	99.0	93.1
Singapore	100.0	100.0	100.0	100.0	100.0	100.0
Thailand	98.9	93.5	78.1	96.8	95.6	92.6
Vietnam	94.8	-	79.5	94.4	89.4	89.5
Australia-New Zealand	100.0					
China		94.1				
India			78.8			
Japan				91.9		
South Korea					90.5	

Note: HS2007 version, HS 6-digit base.

Source: Fukunaga and Isono (2013)

As shown in Table 1, AMSs have committed to eliminate tariffs on around 91 percent of products in the existing ASEAN+1 FTAs on average, but each member state takes a different commitment level across the FTAs. AMSs except Cambodia and Singapore allow the lowest tariff elimination rate in AIFTA, and India allows the lowest level of tariff elimination among the AFPs. It is expected to be difficult to reach the agreed parameter due to the differences in market openness among participating countries.

Also, the issue of "common concession" is known as an impediment to the RCEP negotiation. In the case of ASEAN, the products committed to eliminate tariffs in all ASEAN+1 FTAs are only 73.3% on average, making it difficult to adopt a common tariff applied to all of the participating countries.

**Table 2. Distribution of Tariff Lines by Liberalization Status**

	Unit: %		
	% of eliminated to all products	% of depends on FTA products	% of protected to all products
Brunei	84.1	15.9	0
Cambodia	64.3	35.3	0.4
Indonesia	46	52.8	1.2
Laos	68	31.6	0.4
Malaysia	76	22.9	1.1
Myanmar	66.6	31.8	1.6
Philippines	74.6	24.4	1
Singapore	100	0	0
Thailand	75.6	24.3	0.1
Vietnam	78.1	19.1	2.8
Average	73.3	25.8	0.9

Source: Fukunaga and Isono (2013)

Also, it is known that India had proposed a 3-tier approach that presents different tariff reductions by country. According to Cote and Jena (2015), India would provide a reduction

<sup>6</sup> Sanchita Basu Das (2017)

of 80 percent of tariff lines to ASEAN countries, 65 percent to Japan and South Korea, and 42.5 percent to Australia, New Zealand China, with which India does not currently have an FTA.

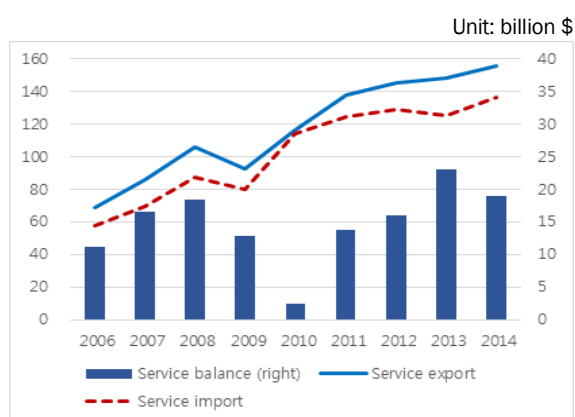
The comparative advantages of the member countries are different for each trading partner, and thus there are incentives to take different tariff schemes accordingly. However, if tariff schedules are different for each country, the increasing complexity could make it difficult to utilize the FTA. Failure to adopt a common concession would mean the implementation of multiple tariff elimination schemes by 16 parties, leading to a “noodle bowl” situation.

The common concession issue was intensely discussed at the 2nd Intersessional Ministerial Meeting held in Cebu, 2016, and is still under discussion.

### Trade in Services

India believes that there is little to be gained through the liberalization of trade in goods, but much to be gained through higher levels of commitment in trade in services.

**Figure 2. India's Service Trade against World**



Source: UN Comtrade

It is known that India would make further

commitment in goods conditional on liberalization of trade in services, for example by opening up Mode 4, movement of natural person.

### Other Issues

Investor-state dispute settlement (ISDS) has been known to be a controversial issue in the investment chapter, and data exclusivity, patent term extension are known as contentious issues in the Intellectual Property Rights (IPR) chapter.

## IV. Outlook and Implications

It is hard to balance the interests of RPCs due to the different industrial structures and levels of development among participating countries. Since the negotiations on trade in goods, trade in services, investment and other areas are being conducted in parallel, it is not easy to speed up discussion given the complexities. It seems unrealistic to expect conclusion of the RCEP by the end of this year, but it is likely that considerable progress will be made during ASEAN's 50<sup>th</sup> anniversary.

With the global trade slowdown, the importance of the RCEP to keep markets open and deepen integration is increasing. RPCs should continue their efforts to reach high-standard and economically meaningful outcomes. The agreed outcome should be able to reduce intra-regional transaction costs through simplification and harmonization of rules of origin, customs procedures and standards.

Once the RCEP is concluded in the absence of the TPP, it can affect the regional value chain. Thus, proactive strategies based on the changed GVCs must be developed. **KIEP**

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