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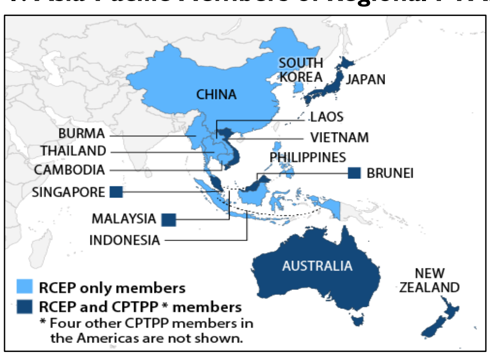
Regional Comprehensive Economic Partnership (RCEP)

The Regional Comprehensive Economic Partnership (RCEP) is a trade agreement, signed in late 2020 after eight years of talks, among the ten members of the Association of Southeast Asian Nations (ASEAN)—Brunei, Burma (Myanmar), Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam, and five ASEAN free trade agreement (FTA) partners—Australia, China, Japan, New Zealand, and South Korea. RCEP is to enter into force 60 days after ratification by six ASEAN and three non-ASEAN countries. Members aim for entry into force in early 2022; to date, China, Japan, Singapore, and Thailand have ratified the deal.

RCEP follows the recent entry into force of "mega-regional" trade deals, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP or TPP-11), which includes seven RCEP members and four countries in the Americas (**Figure 1**). Although overall RCEP has less extensive commitments than other recent trade agreements (e.g., CPTPP or the U.S.-Mexico-Canada Agreement), many analysts view RCEP as an achievement for the multilateral trading system, which faces myriad challenges. The collective economic weight of its membership gives RCEP the potential to deepen some trade patterns and supply chains in Asia through lower trade costs and streamlined rules. Congress may consider how RCEP affects U.S. commercial and strategic interests, and if it affects the relevance of the United States in shaping trade rules and economic integration in Asia and globally.

Figure 1. Asia-Pacific Members of Regional FTAs



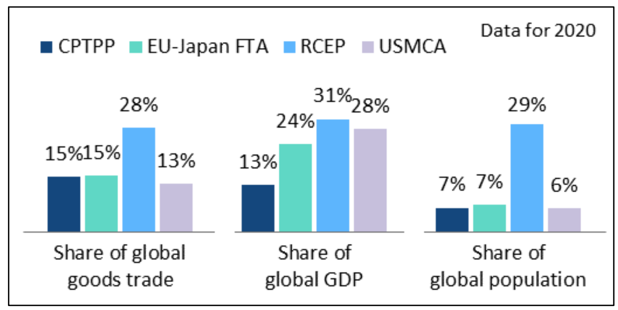
Source: Created by CRS.

History and Scope

RCEP negotiations began in 2012 as an ASEAN initiative with the stated goal of harmonizing and building on existing "ASEAN+1" FTAs with regional partners. While RCEP was conceived by ASEAN, which has long sought to create a common trading and manufacturing base, China actively shaped the negotiations and views RCEP as a "victory of multilateralism and free trade." It marks the first trade deal among some participating economies with China. It is an important first for Japan with both China and South Korea, despite a now-stalled attempt at trilateral trade talks.

RCEP is the world's largest regional trade agreement by several metrics (**Figure 2**). Its envisioned economic footprint was even larger before India withdrew in 2019 over various concerns, including reportedly competition with China. RCEP accession procedures are not restricted by geography, and offer an expedited process for India.

Figure 2. Economic Indicators of Major Trade Deals



Source: CRS with data from World Bank and WTO.
Notes: CPTPP and RCEP include 7 overlapping members; EU-Japan trade does not include intra-EU trade.

RCEP's 20 chapters cover trade in goods and services, investment, government procurement, standards and technical regulations, intellectual property rights (IPR), e-commerce, and other issues. Several chapters are new to ASEAN FTAs. RCEP is considered a "living agreement," with a built-in agenda for further talks in various areas.

RCEP has a complex **tariff schedule**. The parties agree to reduce or eliminate tariffs by approximately 92% over 20 years, with eliminated tariffs/quotas covering over 65% of goods traded. There are sizable carveouts in certain sectors, such as agriculture in the case of Japan. Due to existing FTAs, tariff reductions are not necessarily substantial for all of the parties. In **services**, while seven members agreed to a "negative list" approach that restricts only those sectors listed explicitly, eight members (including China) negotiated to keep a "positive list" approach that only liberalizes the sectors they list in the agreement—these countries committed to transition to a negative list within six years. Some estimates suggest that at least 65% of services sectors will be fully open, with advanced market access in professional, financial, telecommunications, computer, and logistics services. These and other provisions go beyond some other ASEAN FTAs, such as **investment protections** prohibiting more extensive performance requirements than previous commitments (e.g., technology transfer as a condition of market access). RCEP does not include investor-state dispute settlement (ISDS), though parties commit to review its inclusion within five years.

In **e-commerce**, members commit not to impose customs duties on electronic transmissions. General obligations to prevent data localization requirements or cross-border data transfers are subject to broad exceptions for national security and public policy reasons. The e-commerce chapter, like some others, is not subject to general dispute settlement. RCEP parties, particularly least developed countries (Burma, Cambodia, Laos) and ASEAN members negotiated **"special and differential treatment"** that largely offers transitional periods for various commitments (e.g., related to e-commerce, trade facilitation, and IPR).

RCEP in Context

U.S. withdrawal in 2017 from the TPP negotiations it had been spearheading, as well as increasing U.S.-China trade tensions, renewed interest among many RCEP countries to form a regional trade agreement as a potential alternative vehicle for developing more open and stable regional trade links. Talks progressed slowly, largely due to the disparate levels of economic development and priorities among members. Some analyses characterize the scope of RCEP rules and commitments as relatively shallow, and lacking on nontariff issues. Others emphasize significant progress compared to previous ASEAN deals, and potential impacts beyond trade concessions. Many experts view RCEP as deepening regional integration, while serving as a "stepping stone" for members to join higher-standard FTAs.

Many businesses operating in the region view RCEP's most significant component to be common **rules of origin**, which govern how much of a product must be produced within the region to qualify for tariff benefits. This simplified regime could facilitate the deepening of regional supply chains by reducing tariffs on semi-finished goods and inputs across RCEP members. For context, on average, more than a third of all RCEP exports are to other RCEP parties.

Main channels of RCEP's expected impact include some reorientation of global linkages toward stronger connections in East Asia, and helping offset U.S.-China trade frictions. A Peterson Institute study estimated RCEP could add up to $500 billion in world trade by 2030, with sizable benefits for China, Japan, and South Korea and export growth concentrated in electronics, electrical equipment and autos.

Comparisons to CPTPP

Congress may have interest in understanding how RCEP compares to the CPTPP agreement, given the major U.S. trading partners involved in both and the U.S. original role in negotiating TPP commitments. CPTPP is effectively the original TPP text with a limited number of changes, such as the suspension of certain provisions on investment and IPR by the remaining 11 members after U.S. withdrawal. Most analysts agree that RCEP generally has less extensive commitments than CPTPP, though they both seek to reduce trade barriers and establish rules—one comparative analysis finds 30% of RCEP's text duplicates CPTPP provisions. In terms of market access, CPTPP will eliminate tariffs on a greater number of tariff lines (99%) and reduce barriers to services trade for more sectors. This is in part due to CPTPP's uniform negative list approach, compared to RCEP's hybrid approach. There are also differences in rulemaking, with RCEP not covering some CPTPP issues that had been advanced by U.S. efforts (e.g., state-owned enterprises, labor and environmental standards), and covering other issues, but with less extensive (e.g., IPR) or enforceable (e.g., investment, digital trade) commitments.

Implications for U.S. Trade Policy

Regional and Global Rules. Some Members of Congress saw TPP as a U.S. opportunity to shape trade rules and potentially influence some of China's economic practices of concern, such as the role of state-owned enterprises and IP protections. In this view, RCEP may limit U.S. economic influence by having allowed China to reach an agreement without these TPP disciplines. Reflecting on RCEP, President Biden said that the United States must "set the rules of the road instead of having China and others dictate outcomes." China remains one of the top beneficiaries of RCEP's estimated benefits. Chinese firms, in part due to pressure from U.S. tariffs, have reportedly begun shifting manufacturing to ASEAN countries while maintaining sourcing networks in China, a trend that could accelerate under RCEP. At the same time, some countries aim to use RCEP to diversify supply chains from China.

Commercial Interests and Trade Negotiating Strategy. RCEP could shift regional trade in ways that affect U.S. economic interests and reduce U.S. commercial activity if members shift trade to U.S. competitors, and supply chains reorient to capitalize on RCEP tariff reductions and rules of origin. Further, new trade rules in Asia that may not reflect U.S. negotiating priorities, such as in digital trade, could disadvantage U.S. competitiveness; though this may be offset by existing U.S. FTAs with some RCEP partners. At the same time, U.S. firms with manufacturing in the region may concentrate some operations further if RCEP rules of origin lower input costs, and benefit from reduced nontariff barriers. In response to the potential that RCEP (and CPTPP) could disadvantage the United States, some Members have urged the Administration to develop a U.S. trade strategy for the region, pressing options such as CPTPP participation, resuming second-stage trade talks with Japan, and pursuing a sectoral agreement on digital trade that is reportedly under consideration. The expiration of Trade Promotion Authority (TPA), in which Congress sets U.S. trade negotiating objectives and procedures, may factor into U.S. approaches in the region.

Strategic Interests. Congress may also have interest in monitoring and responding to RCEP's geopolitical implications. Many Asian policymakers argue that U.S. engagement with the region has been largely security-related, and that the United States has not enunciated a coherent economic strategy since withdrawing from TPP. In this view, the U.S. absence from RCEP and CPTPP has limited its ability to pursue other goals, in part because the U.S. has fewer tools to motivate countries to adopt a more U.S.-friendly foreign policy outlook. Further, countries that are part of RCEP may have increased their broader influence in the region; such influence may further shift should other countries, such as the United Kingdom or India seek to join. Some observers maintain past trade deals in general have had a limited impact on security-related dynamics. Many also argue that RCEP's conclusion validated ASEAN's diplomatic approach of seeking consensus with its disparate partners. ASEAN officials have long argued that the group exerts influence as a neutral convener of more powerful countries, and that ASEAN-centric diplomacy can achieve results by "multilateralizing" issues, as in RCEP, thereby making them less contentious.

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