

Utilization of the Regional Comprehensive Economic Partnership (RCEP) and its Determinants

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- A crucial reason for the Regional Comprehensive Economic Partnership's (RCEP) low utilization rate is that it has not provided the lowest preferential tariffs for most products since entering into force.
- Another reason is that firms continue to use existing FTAs rather than the RCEP, despite the fact that both regimes provide duty-free access.
- Advanced rules, such as cumulation or self-certification, have not significantly expanded the RCEP's utilization.

The RCEP agreement entered into force on January 1, 2022. As IDE Policy Briefs No. 178, 181, 192, and 194 have demonstrated, the RCEP's utilization rate is rather low. The reasons for this are investigated in this Policy Brief.

Pro-RCEP Elements

Except for the pairings of Japan–China and Japan–South Korea, other free trade agreements (FTAs) already existed among RCEP member states before the partnership was signed. At least five elements encourage the utilization of the RCEP. First, the RCEP is likely to be chosen if it provides lower preferential tariffs than existing FTAs. Table 1 reports the number of items for which each FTA presents strictly lower tariffs than the other FTAs in exporting from Japan to Thailand, the Philippines, and Vietnam:

Table 1. Number of Items with Strictly Lower Preferential Tariffs: Exports from Japan in 2023/2024

	Thailand	Philippines	Vietnam
AJCEP	4	222	65
CPTPP			1,127
Bilateral	317	498	36
RCEP	197	61	0

Source: Authors' compilation.

On exports to Thailand, the RCEP sets lower tariffs on 197

items compared with the AJCEP and the JTEPA. Similarly, 61 items have the lowest tariffs under the RCEP when exported to the Philippines. By contrast, due to the CPTPP, no items have the lowest tariffs under the RCEP when exported to Vietnam.

The second element that encourages the RCEP's use is product-specific rules (PSRs) of origin, which are less restrictive. As shown in Policy Brief No. 141, the distribution of PSRs in the RCEP is similar to that under the AJCEP. However, in the RCEP, there are many items for which "change-in-heading (CH) or regional value content (RVC)" is replaced with a less restrictive PSR (i.e., "change-in-subheading (CS) or RVC").

The third element is the use of cumulation rules. If supply chains include at least two non-ASEAN countries in addition to ASEAN countries, then PSRs may be complied if firms enjoy cumulation under the RCEP.

The fourth element is the utilization of back-to-back certificates of origin (COs). For example, the RCEP would be chosen if items are stored in a warehouse in Singapore and exported to at least two non-ASEAN countries in addition to ASEAN countries, depending on the order.

The fifth and final element is the availability of an approved exporter or self-certification system, which may reduce exporters' burden in obtaining COs. The five elements play key roles in encouraging the utilization of the RCEP.

The RCEP's Utilization

Next, this section provides a brief overview of the RCEP's

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utilization. We compute the share of imports using RCEP tariffs from among the total imports of items eligible for RCEP tariffs in Japan, South Korea, the Philippines, and Thailand. The figures are taken from January to October 2024 in the Philippines and for the whole of 2023 in the other countries. The data are obtained from each country's customs. As reported in Table 2, the RCEP is less used in all pairings except for Japan–China and Japan–South Korea, where the RCEP is the only FTA, and also in a limited number of pairings.

Table 2. Share of RCEP Imports (%)

	Japan	Korea	Philippines	Thailand
Australia	0.2	0.0	0.0	0
Brunei	0	0	19	0
China	76	4	2	1
Indonesia	9	1	0.5	0
Japan		22	0.1	1
Cambodia	0.9	0.4	0	0
Korea	68		0.3	4
Laos	5	0.3	0	0
Myanmar	0	0	0	0
Malaysia	3	0.2	0.1	0.0
New Zealand	4	0.3	0	0
Philippines	0.8	0.0		0
Singapore	0.4	4	0.0	0.0
Thailand	6	13	0.0	
Vietnam	15	0.3	0.0	0.0

Source: Authors' compilation.

Determinants of the Choice of FTA

We use econometric analyses to uncover the reasons for the low utilization of the RCEP. Using import data from Japan, Thailand, and the Philippines, we obtain four major findings. First, FTAs with lower tariffs are chosen; however, the tariff elasticity of FTA choice is low in exports from Japan or under the RCEP. Second, FTAs with less restrictive PSRs are chosen. Such PSRs include coequal rules rather than combined rules and CS rather than CC. Third, the RCEP's utilization is higher in upstream products. Since the trade of upstream products suggests international production networks, this finding may indicate the use of cumulation rules. Fourth, region-wide FTAs like the RCEP are likely to be chosen for items with greater reexports from Singapore or Malaysia, which may suggest the use of back-to-back COs. Notably, however, the third and fourth findings have small quantitative impacts.

We also investigate the use of a self-certification system under the RCEP for Japan's imports. The share of RCEP imports when this system is used among all RCEP imports exceeds 50%

only for imports from Australia and Singapore. For imports from other countries, it is relatively low.

In sum, we find that FTAs are chosen based on the aforementioned elements, consistent with theoretical expectations. The main reasons for the low utilization of the RCEP are summarized as follows: (i) The RCEP has not provided the lowest preferential tariffs for most products since entering into force a few years ago; and (ii) firms continue to use existing FTAs rather than the RCEP when both regimes provide duty-free access. In addition, we find that the third, fourth, and fifth pro-RCEP elements do not quantitatively contribute to increasing the RCEP's utilization rate.

Items for Which the RCEP Should be Used

In this section, we highlight the items for which the RCEP should be used for exporting from Japan to Thailand as well as the Philippines. We focus on items for which RCEP tariffs are strictly lower than those under other FTA tariffs, but where the RCEP is not used much. The RCEP should be used if PSRs are less restrictive under the RCEP than under other FTAs. HS eight-digit items that meet these conditions include 11 items for Thailand (fish filets, HS 0304) and one for the Philippines (inorganic chemicals, HS 28151100). The RCEP should also be chosen for items where PSRs under the RCEP are as restrictive as those under the other FTAs. These include 124 items for Thailand (e.g., HS 8409 and 8708) and 26 items for the Philippines (e.g., HS 2501, 2809, and 3824).

Conclusion

We have found that the crucial reasons for the low utilization of the RCEP are issues that time will solve as well as firms being accustomed to existing FTAs. Therefore, the most valuable policy action that can be taken is to provide information that encourages firms to choose the RCEP when it would provide the best conditions, such as the lowest preferential tariffs.

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