

# **The Relative Significance of EPAs in Asia-Pacific**

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# Overview

## The relative significance of EPAs in Asia-Pacific

- TPP and RCEP are shown to complement each other rather than be competitors toward the establishment of FTAAP.
- Trade diversion effects will deteriorate the economic welfare of the non-member economies of regional EPAs.
- Larger economic benefits are expected from NTMs reductions in addition to tariff removals.
- China will generate the largest income gains of APEC economies as a whole from FTAAP followed by Russia and then the US.
- ASEAN economies and others will primarily benefit from their own EPA policy measures.

# **I. Analytical Framework**

# Impacts of EPAs

## Theoretical expectation

- Static impacts
  - Expansion of exports and production of tradable goods
  - More efficient resource allocation
  - Real income and consumption gains
- Dynamic impacts
  - Capital formation and economic growth
  - Pro-competitive productivity improvements

# Framework of CGE model simulations

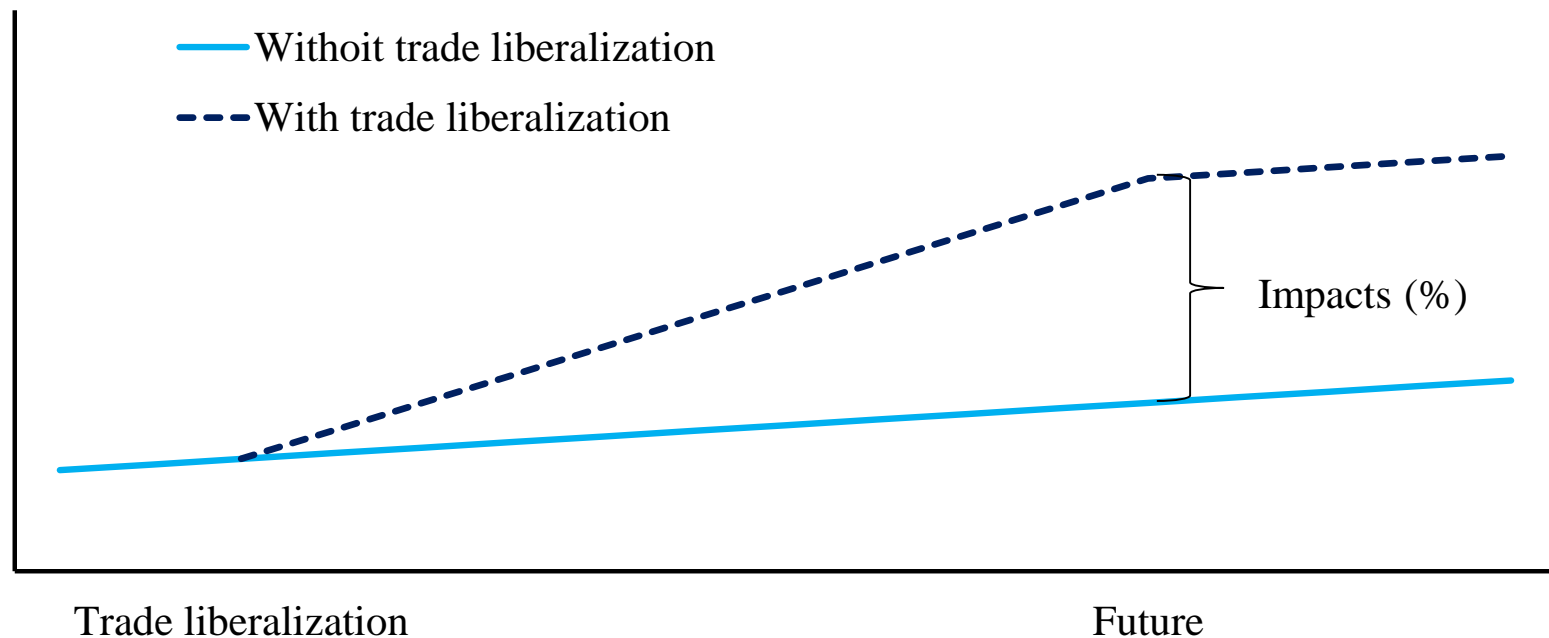
- Data
  - GTAP Data Base version 8.1 (benchmark year 2007)
  - Updated baseline in 2010 based on IMF
- Model
  - Perfect competition (CRTS: constant return to scale)
  - Armington assumption (imperfect substitutes of goods)
  - Fixed total amount of labor
  - International capital movements (expected rate of return equalized)
- Policy scenario
  - 100% tariff removals
  - 50% NTMs reductions with 50% spill-over effects

# Estimated impacts by CGE model

Estimated economic impacts of trade liberalization are compared with business as usual without liberalization at some time in the future. Those will be achieved over medium-term, after around 10 years.

## Economic impacts of trade liberalization

GDP



Source: Author

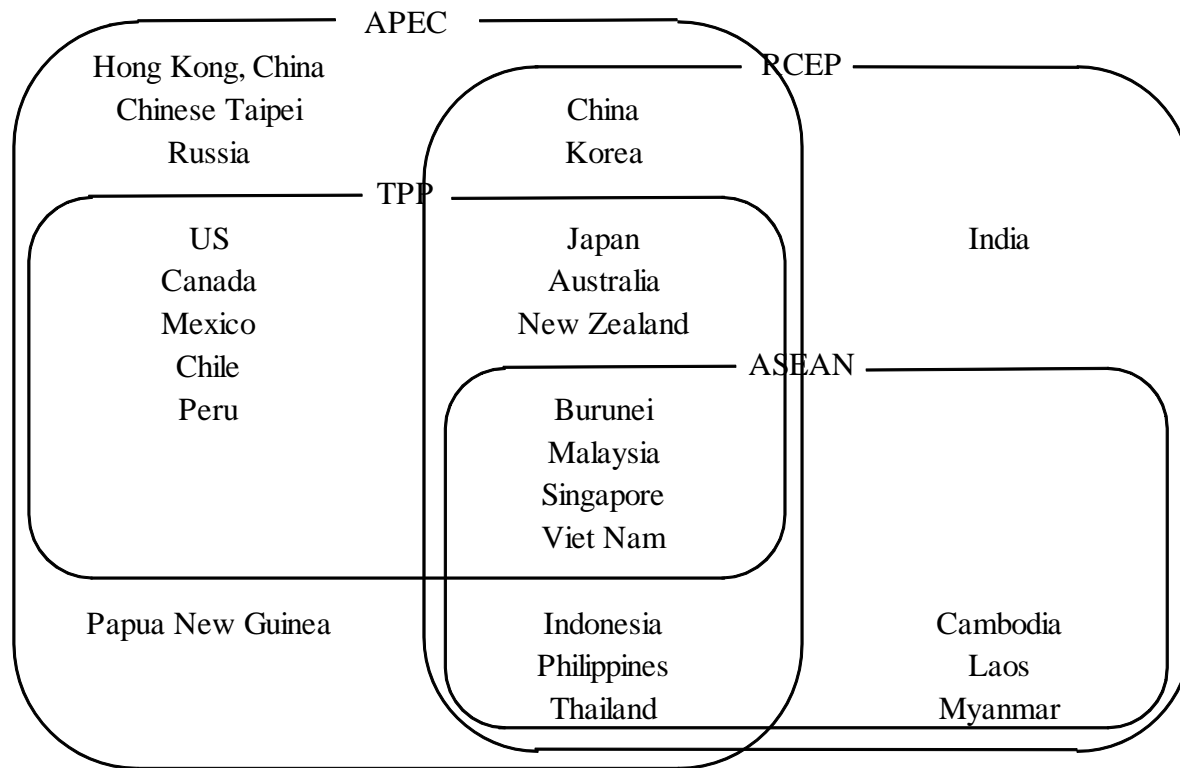
## **II. TPP vs RCEP**

# Regional integration in Asia-Pacific

Negotiations on the Regional Comprehensive Economic Partnership (RCEP) began in 2013.

The members of the Trans-Pacific Partnership (TPP) have increased.

## Framework of EPAs in Asia-Pacific

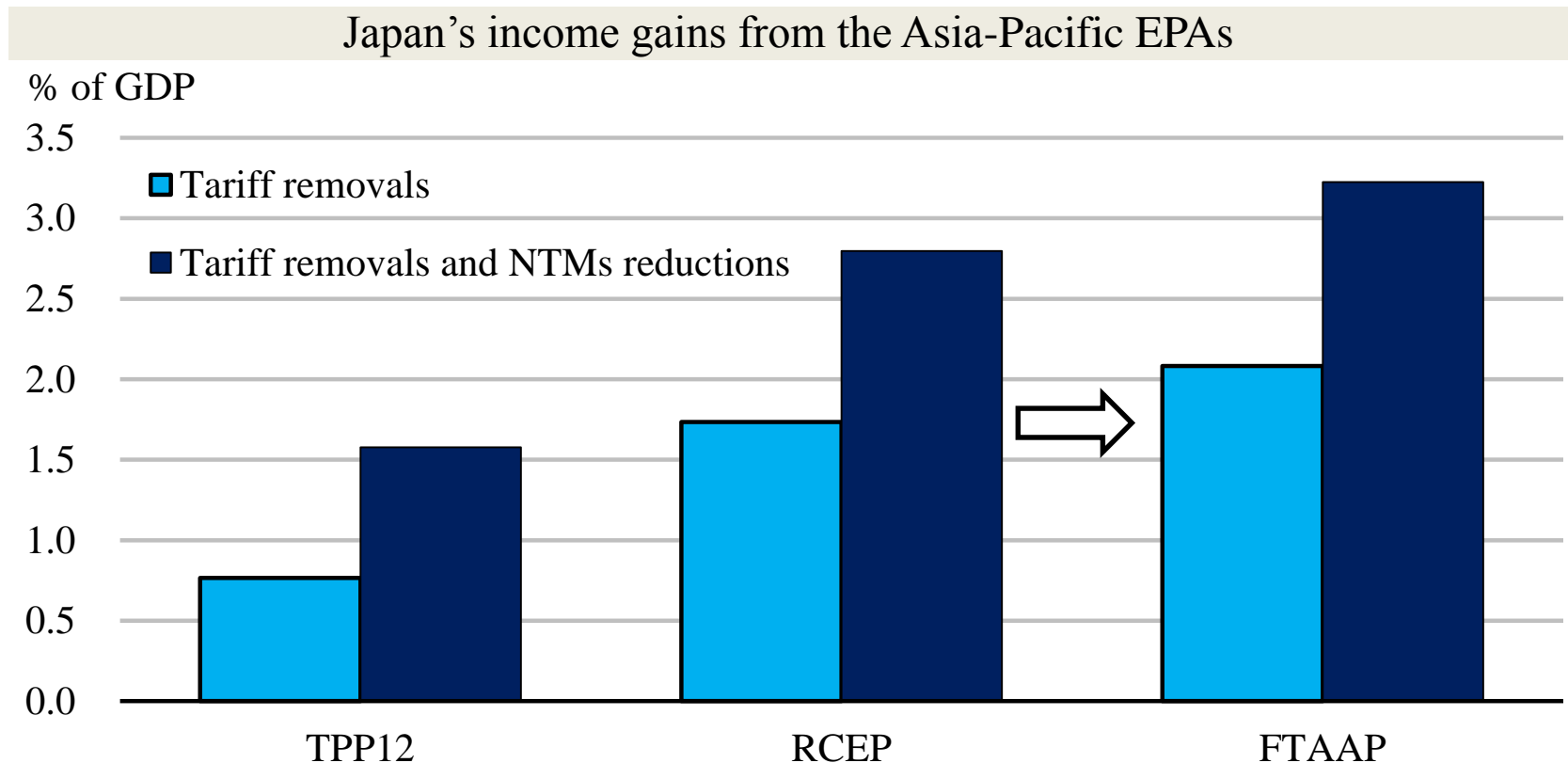


Source: Author



# Impacts of TPP and RCEP: Japan

Higher levels of achievement in TPP including NTMs reductions.  
Larger gains from RCEP by growing and large Asian markets.  
Complementary benefits from FTAAP participating in TPP and RCEP.



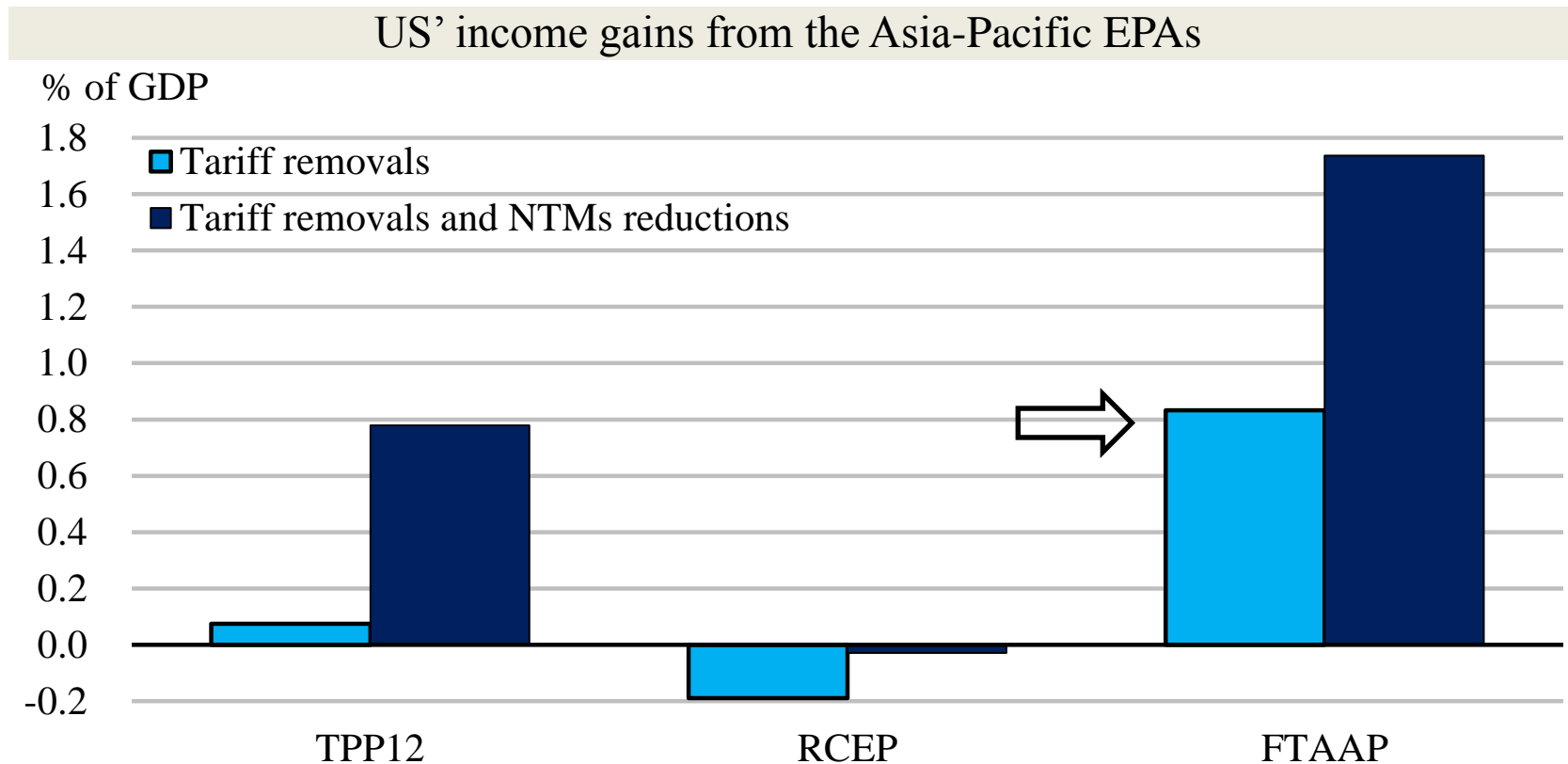
Sources: Kawasaki (2014), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper 14-E-009

# Impacts of TPP and RCEP: US

Income gains from TPP mainly from NTMs reductions.

Income losses from RCEP due to trade diversion effects

Much larger economic benefits from FTAAP than from TPP.



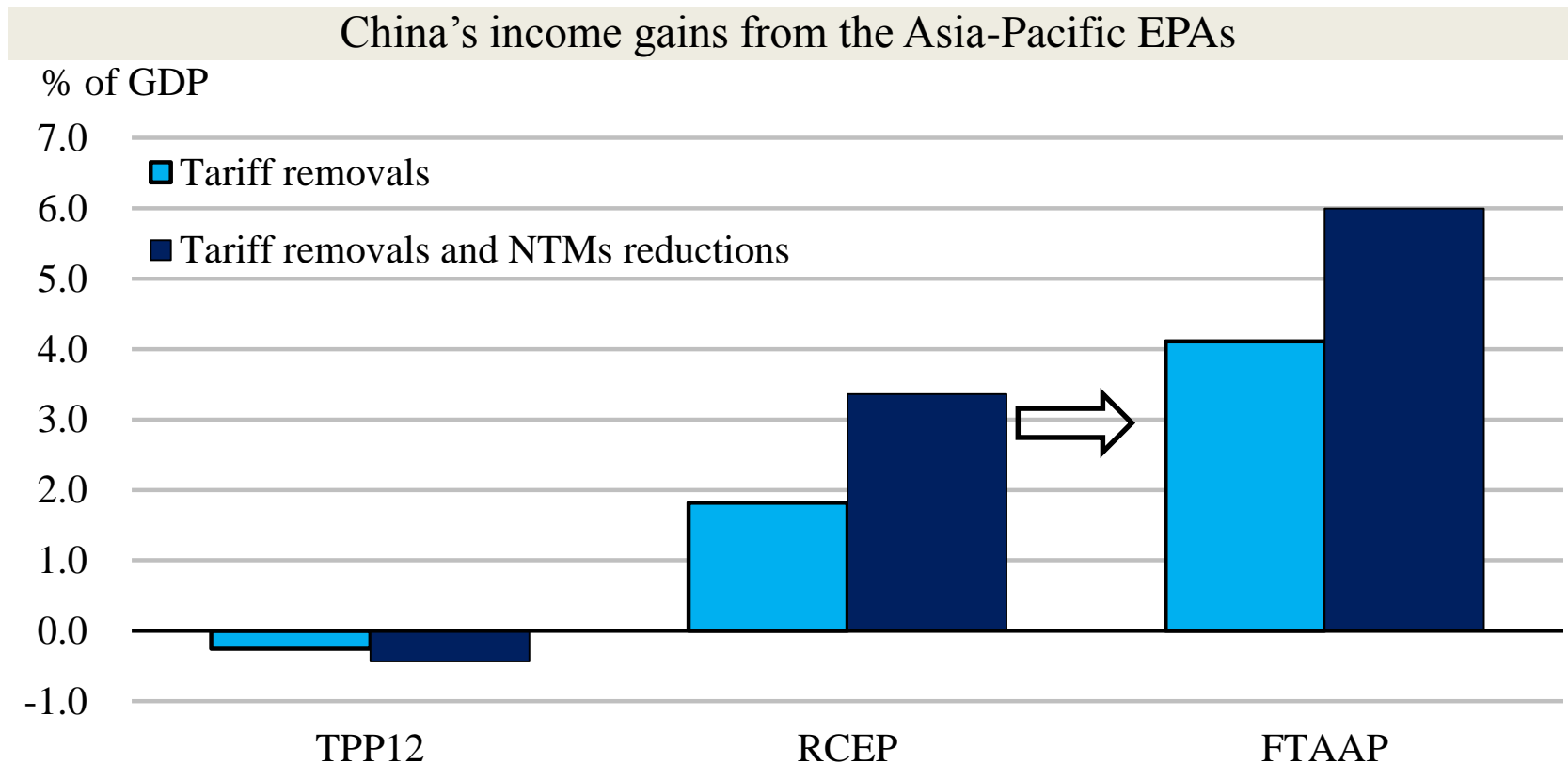
Sources: Kawasaki (2014), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper 14-E-009

# Impacts of TPP and RCEP: China

Income losses from TPP due to trade diversion effects.

Large gains from RCEP, in which tariff removals remain important.

Further income gains from FTAAP expanding the members of EPAs.



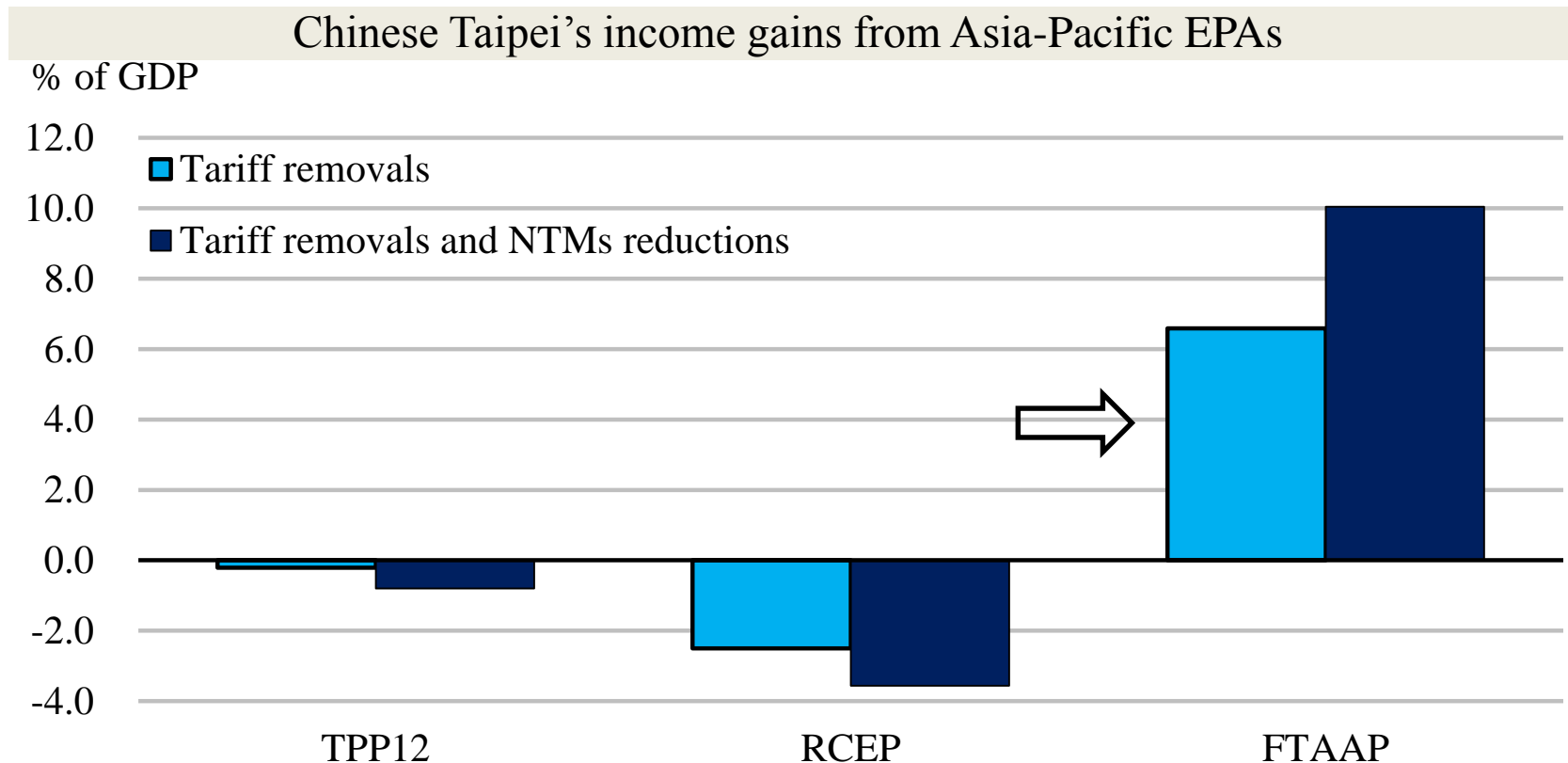
Sources: Kawasaki (2014), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper 14-E-009

# Impacts of TPP and RCEP: Chinese Taipei

Income loss from TPP due to trade diversion effects.

Much larger income loss from RCEP.

Significant economic benefits from FTAAP.

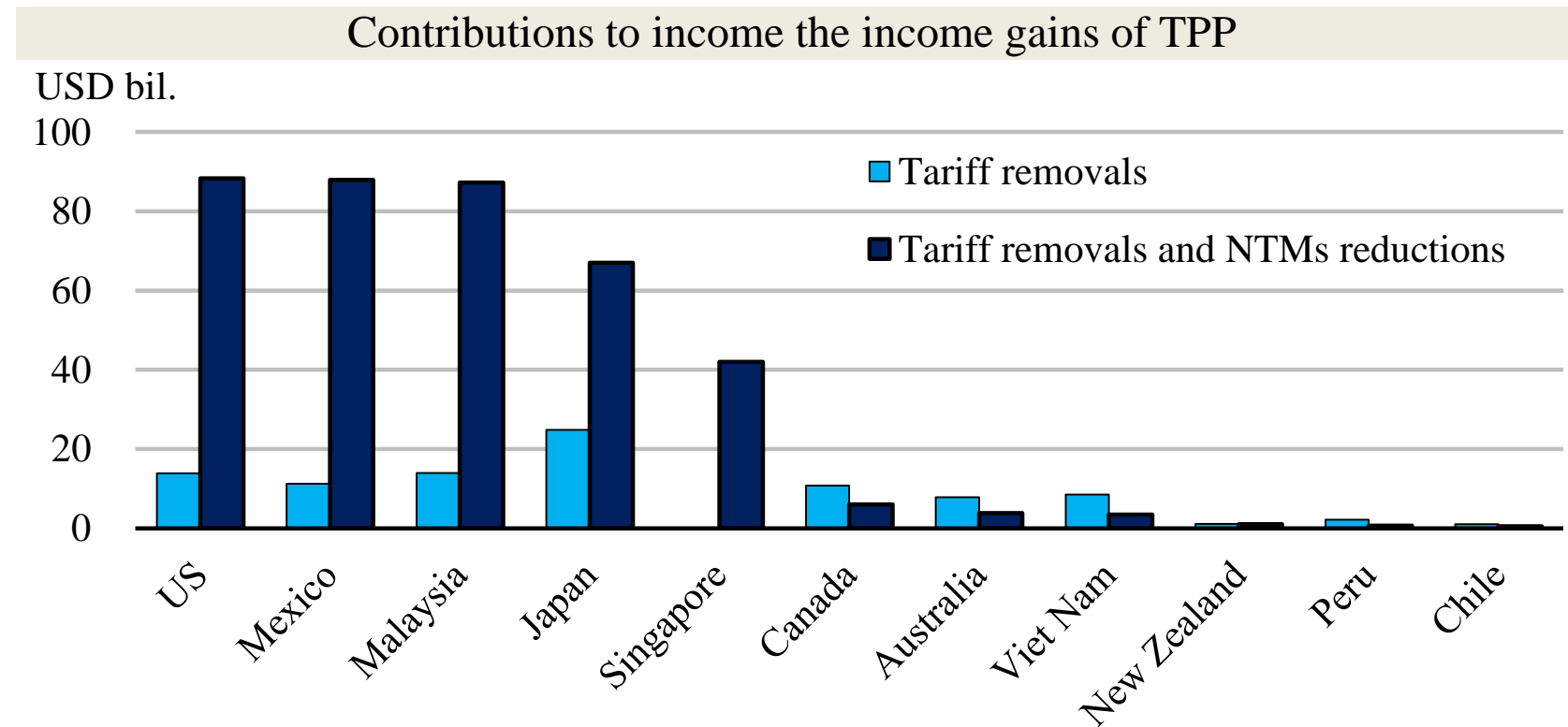


Sources: Kawasaki (2013), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper 14-E-009

### **III. Key Economies of the ASIA-Pacific EPAs**

# Key economies of TPP

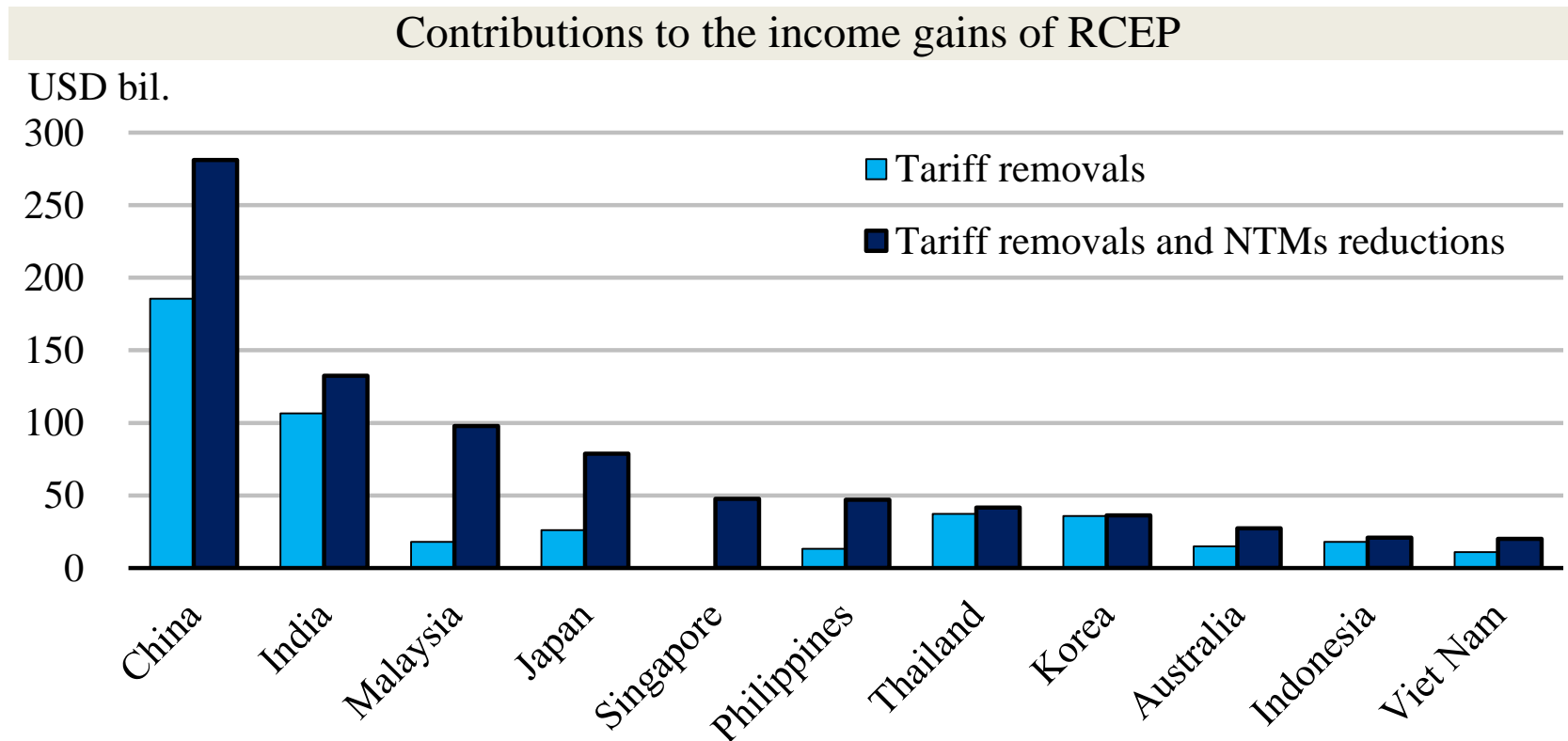
The US, Mexico and Malaysia will drive income gains from TPP. Contribution of Japanese tariff removals will relatively be large. Singapore will still significantly contribute to NTMs reductions.



Sources: Kawasaki (2014), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper 14-E-009

# Key economies of RCEP

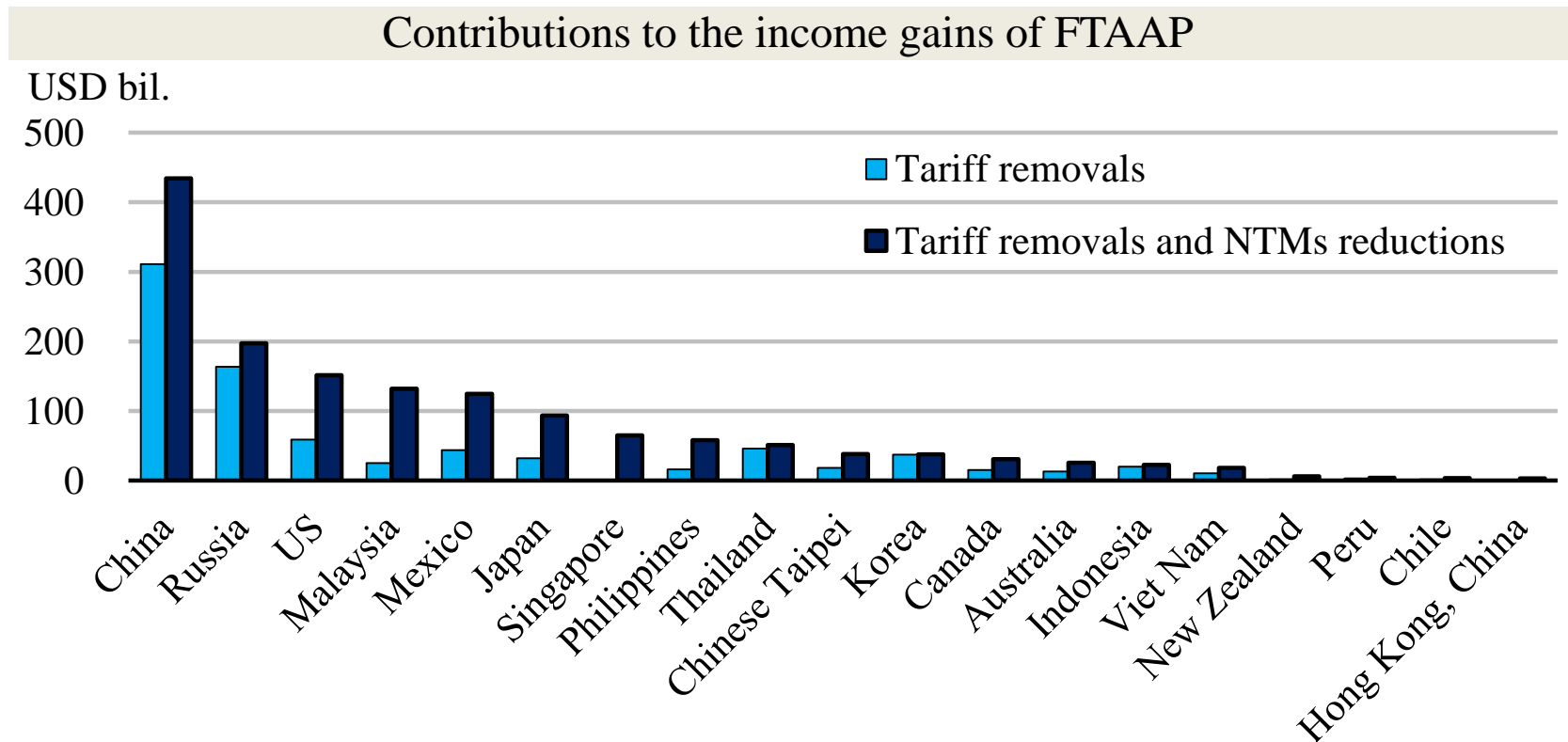
China will drive income gains from RCEP followed by India. Contribution of NTMs reductions by Malaysia, Singapore and the Philippines will be sizable.



Sources: Kawasaki (2014), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper 14-E-009

# Key economies of FTAAP

China will generate the largest income gains from FTAAP followed by Russia and then the US.



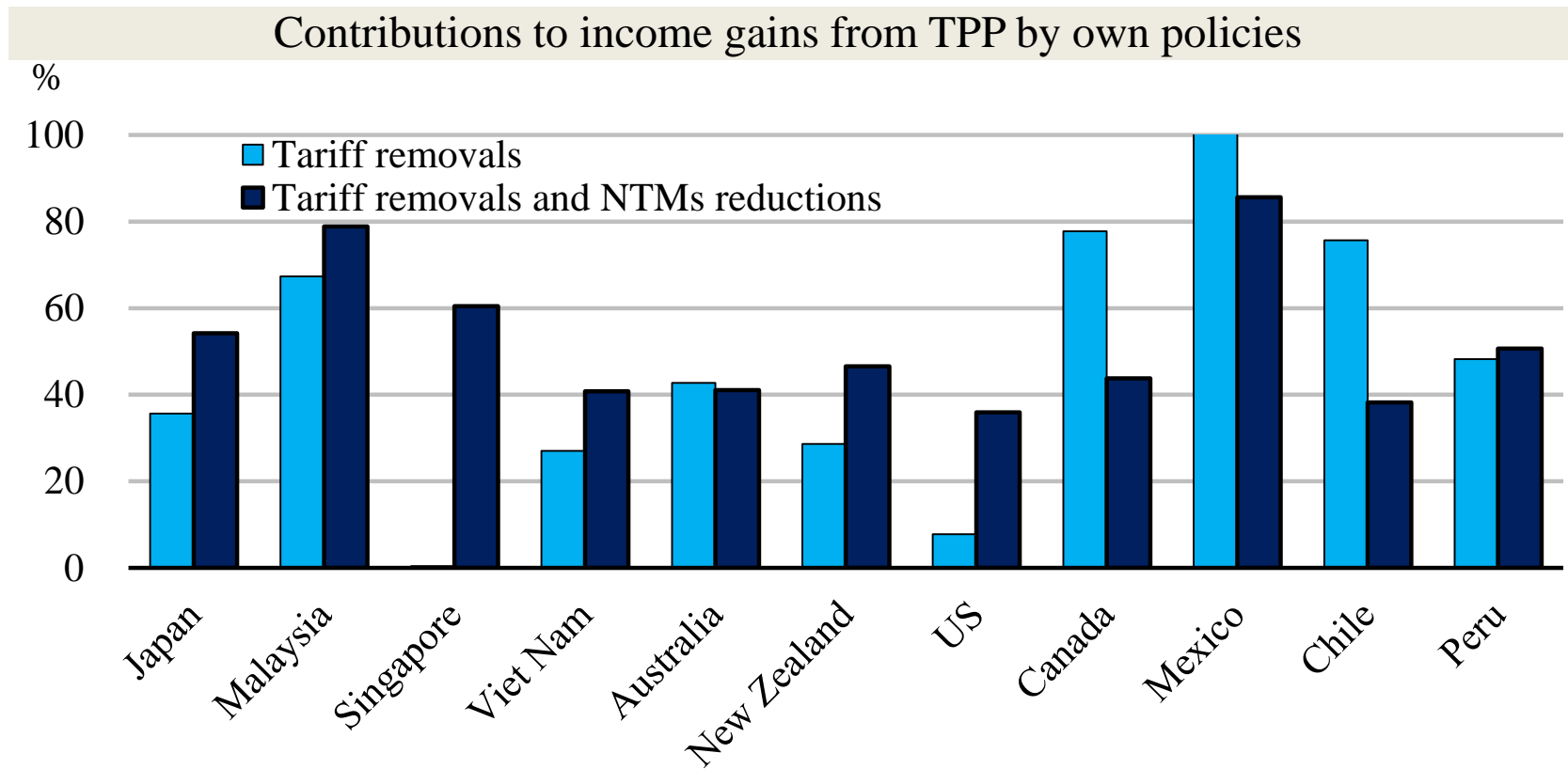
Sources: Kawasaki (2014), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper 14-E-009



## **IV. Significance of Domestic Reforms**

# Significance of domestic reforms in TPP

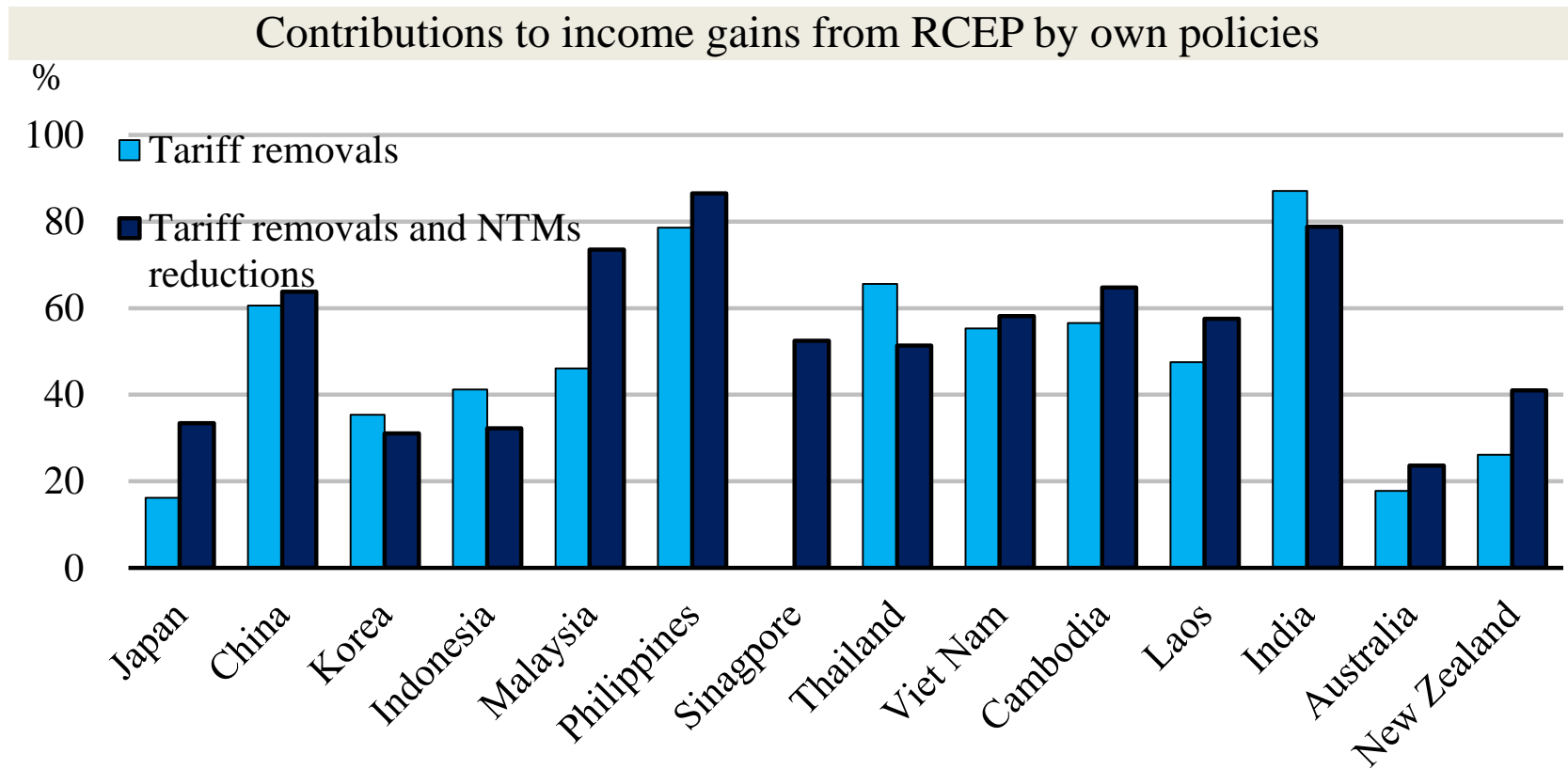
The income gains from TPP will be generated more by own tariff removals and NTMs reductions in Malaysia, Singapore and Mexico than those of trade partners.



Sources: Kawasaki (2014), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper 14-E-009

# Significance of domestic reforms in RCEP

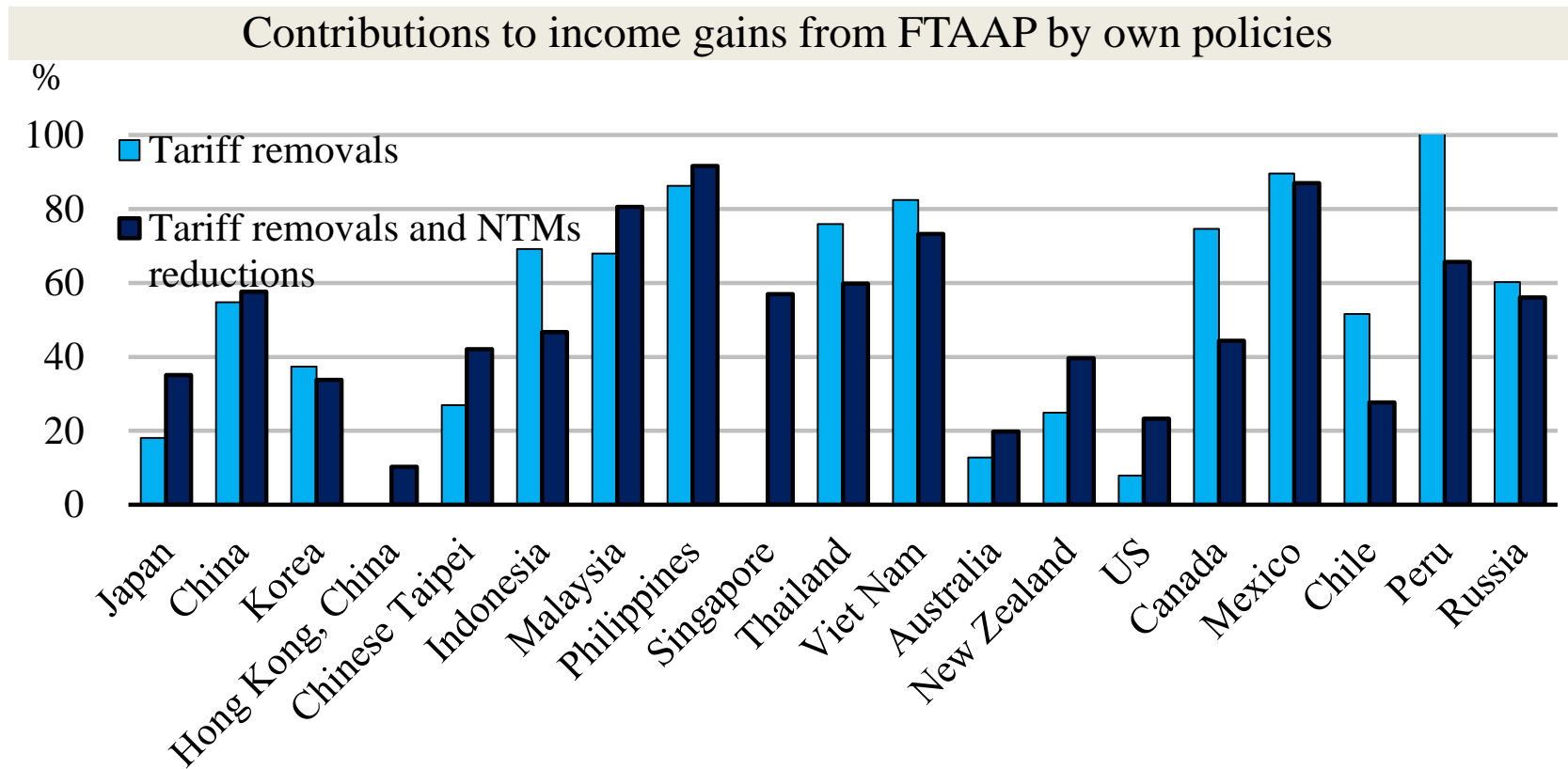
ASEAN economies, China and India will benefit more by their own tariff removals and NTMs reductions than those by trade partners in RCEP.



Sources: Kawasaki (2014), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper 14-E-009

# Significance of domestic reforms in FTAAP

In ASEAN economies and others, contributions through their own initiatives will be much larger than those by partners in FTAAP.



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## **V. Source of Economic Benefits**

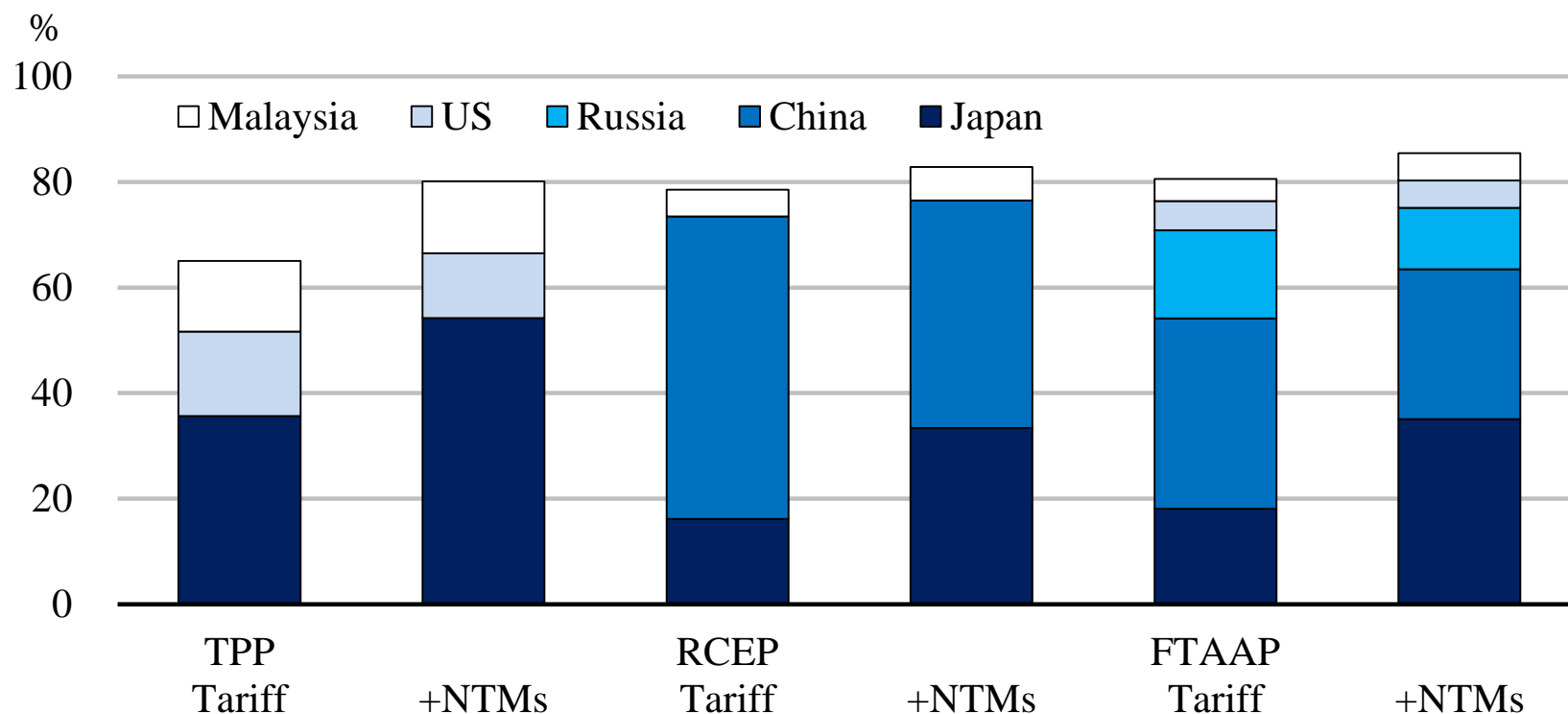
# Japan's source of economic benefits

Japan's own contribution will be relatively large in TPP.

China's contribution will be major in RCEP.

Japan's gains from FTAAP will largely be given by Japan and China.

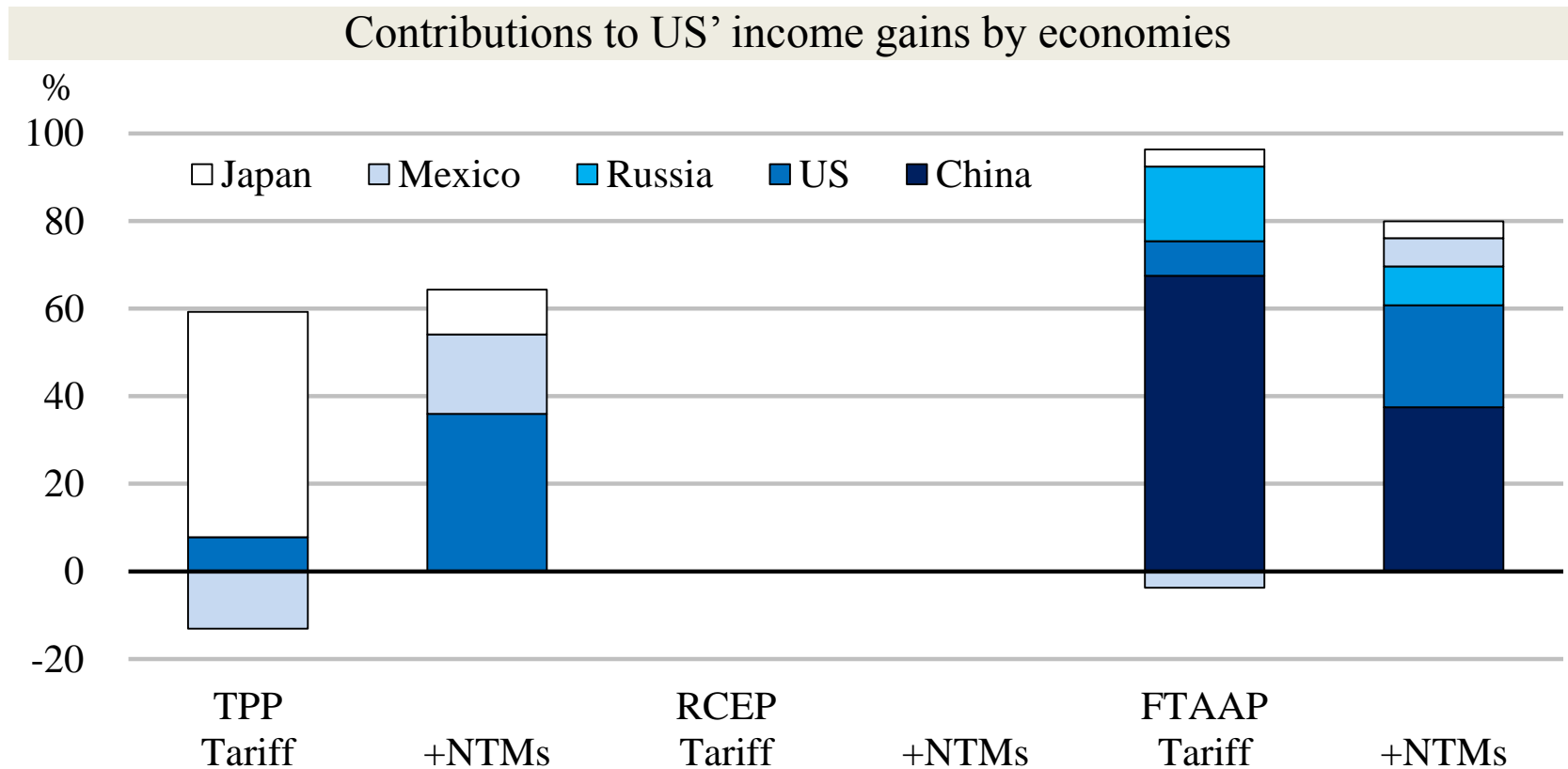
Contributions to Japan's income gains by economies



Sources: Kawasaki (2014), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper 14-E-009

# US' source of economic benefits

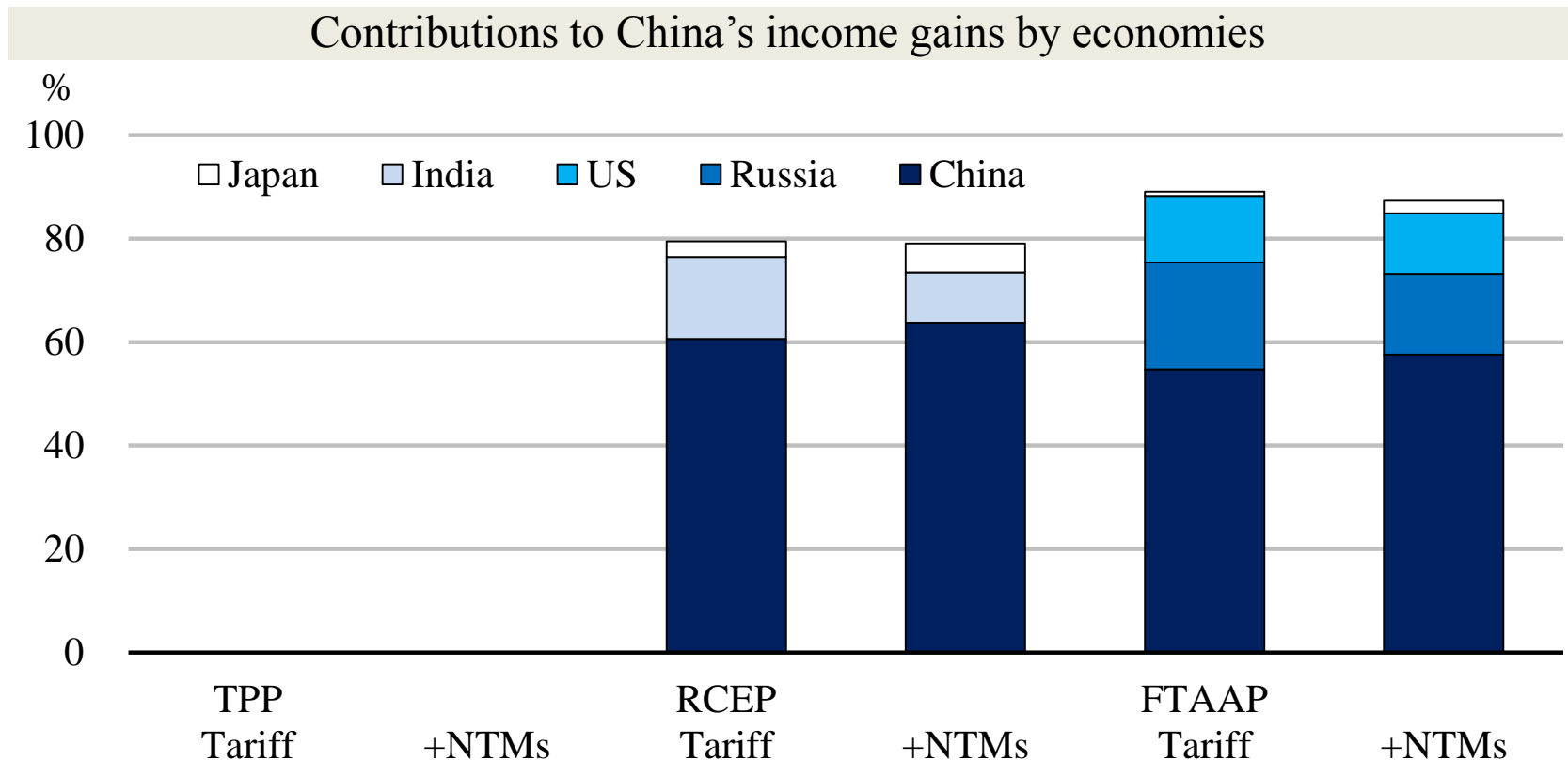
Japan's contribution to tariff removals will be large in TPP.  
Meanwhile, the US's own NTMs reductions will be significant.  
Income gains from FTAAP will firstly be influenced by China.



Sources: Kawasaki (2014), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper 14-E-009

# China's source of economic benefits

Income gains from FTAAP will primarily be driven by own measures. India's contribution in RCEP and Russia's contribution in FTAAP will be noted.



Sources: Kawasaki (2014), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper 14-E-009