

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 countries 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

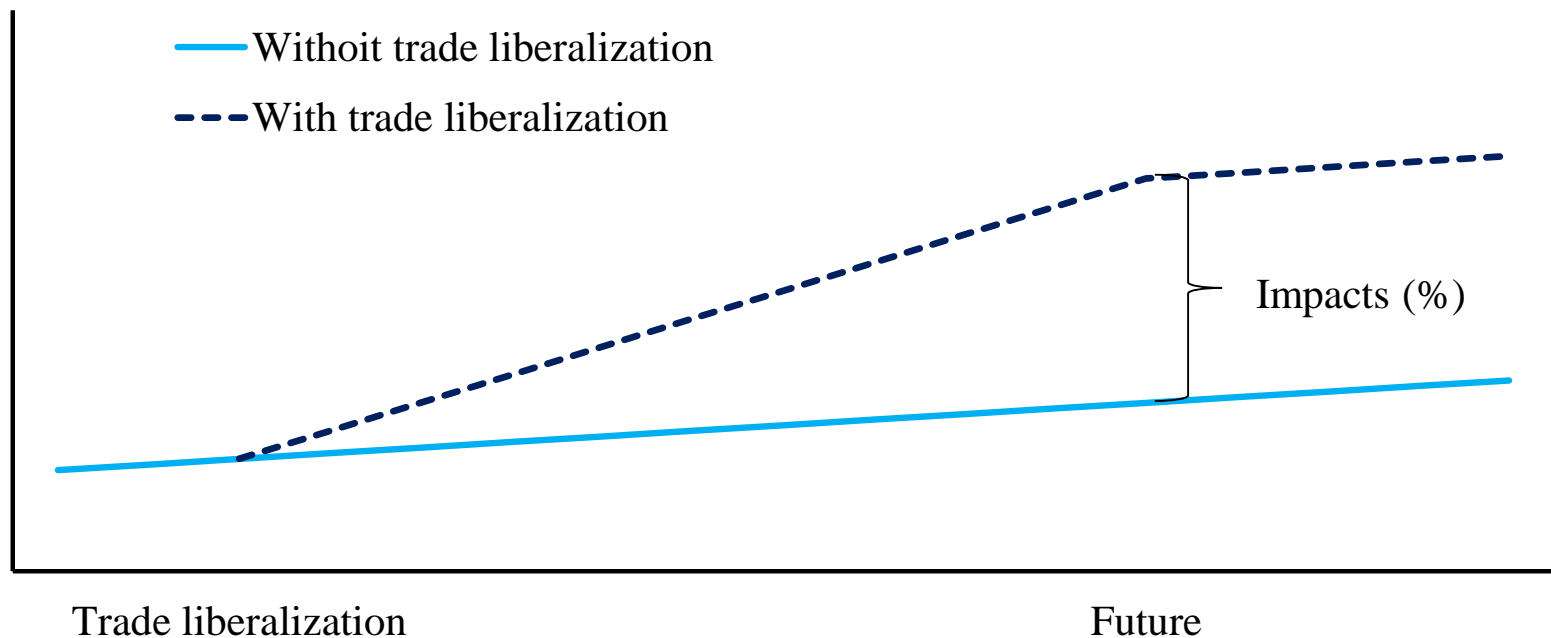
- Data
 - GTAP Data Base version 8.1 (benchmark year 2007)
 - Updated baseline in 2010 based on IMF
- Model
 - Perfect competition (CRTS: constant return to scale)
 - Armington assumption (imperfect substitutes of goods)
 - Fixed total amount of labor
 - International capital movements (expected rate 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

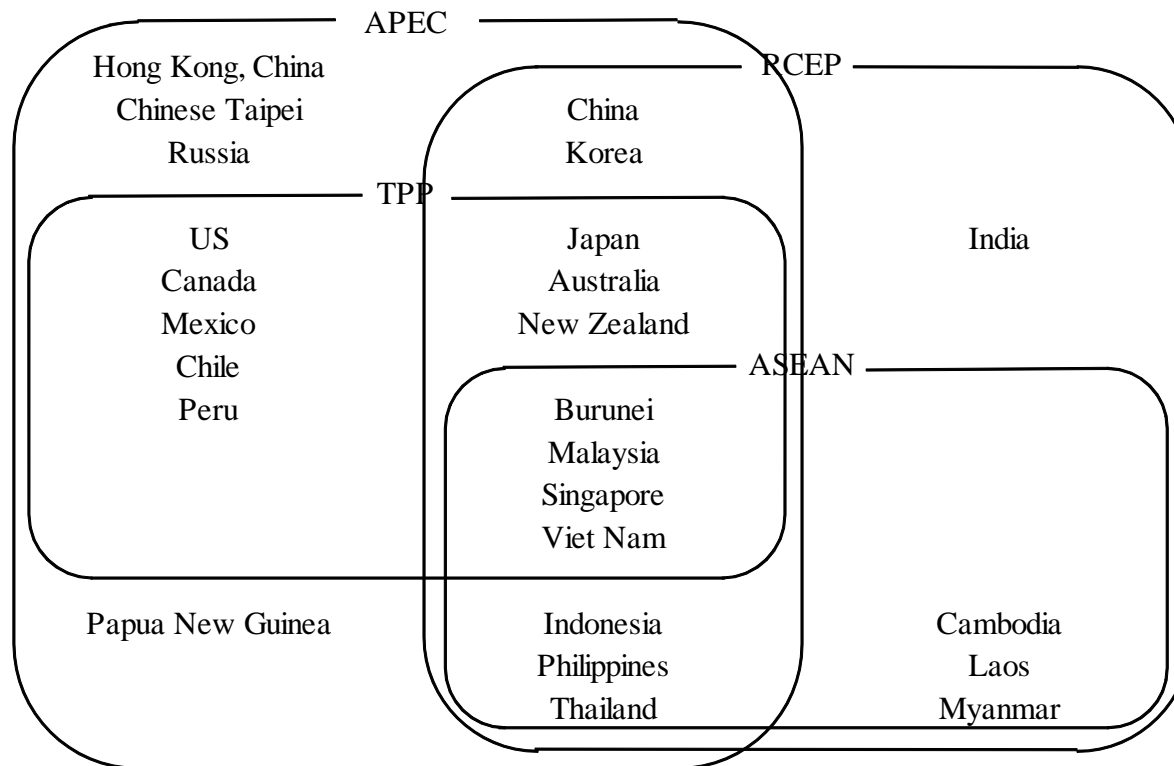
II. TPP vs RCEP

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



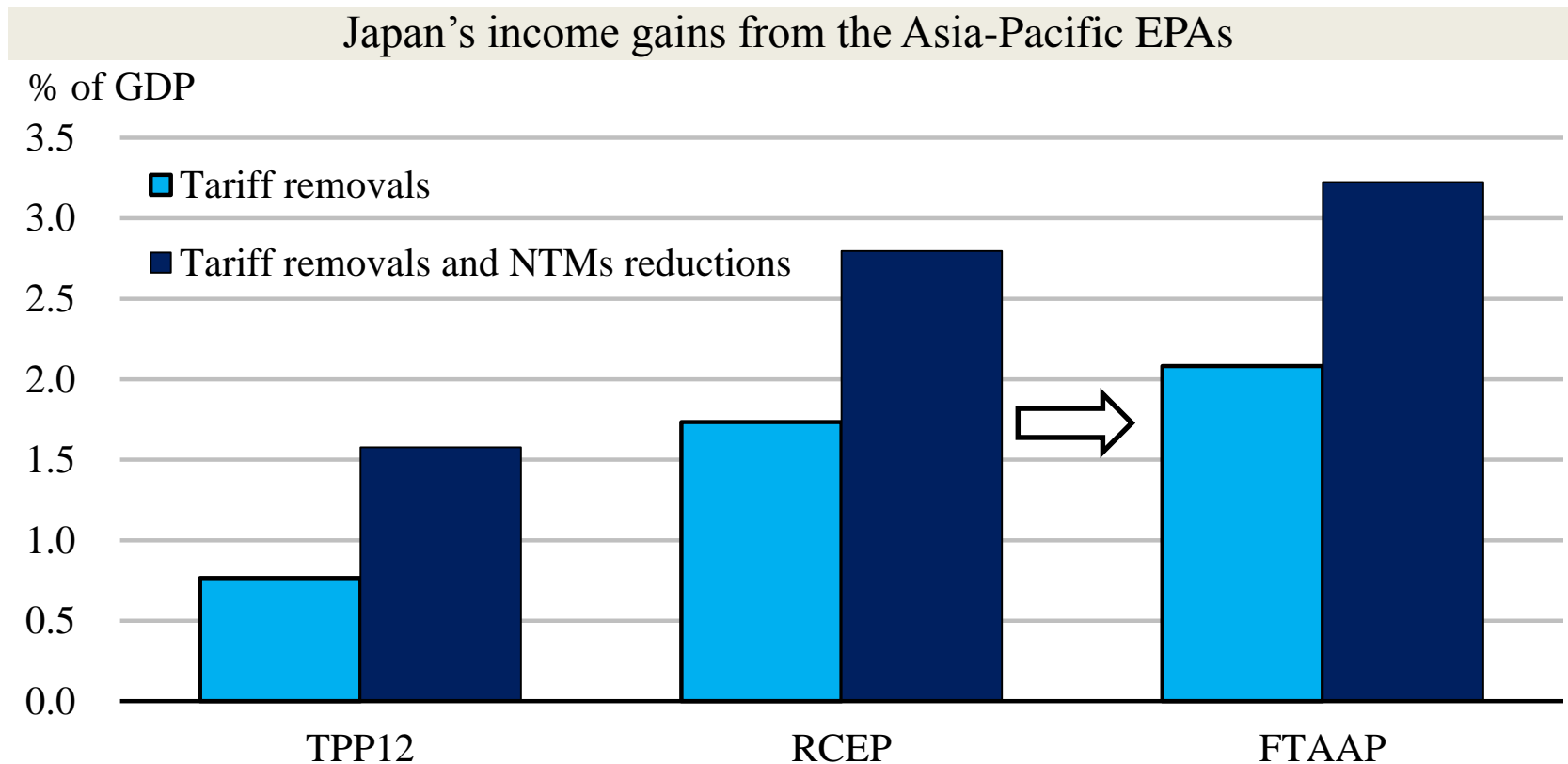
Source: Author

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.



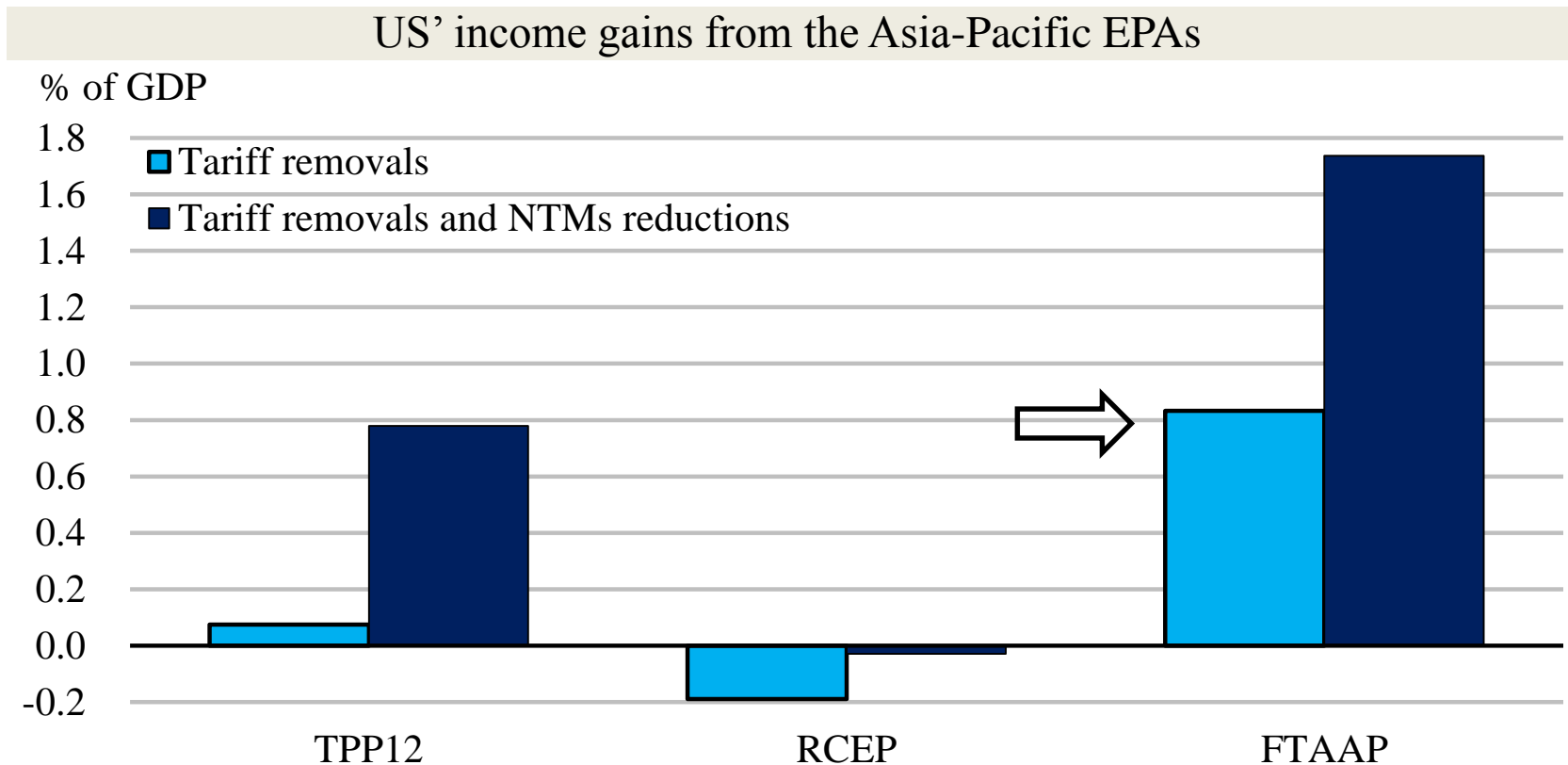
Sources: Kawasaki (2014), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper 14-E-009

Impacts of TPP and RCEP: US

Income gains from TPP mainly from NTMs reductions.

Income losses from RCEP due to trade diversion effects

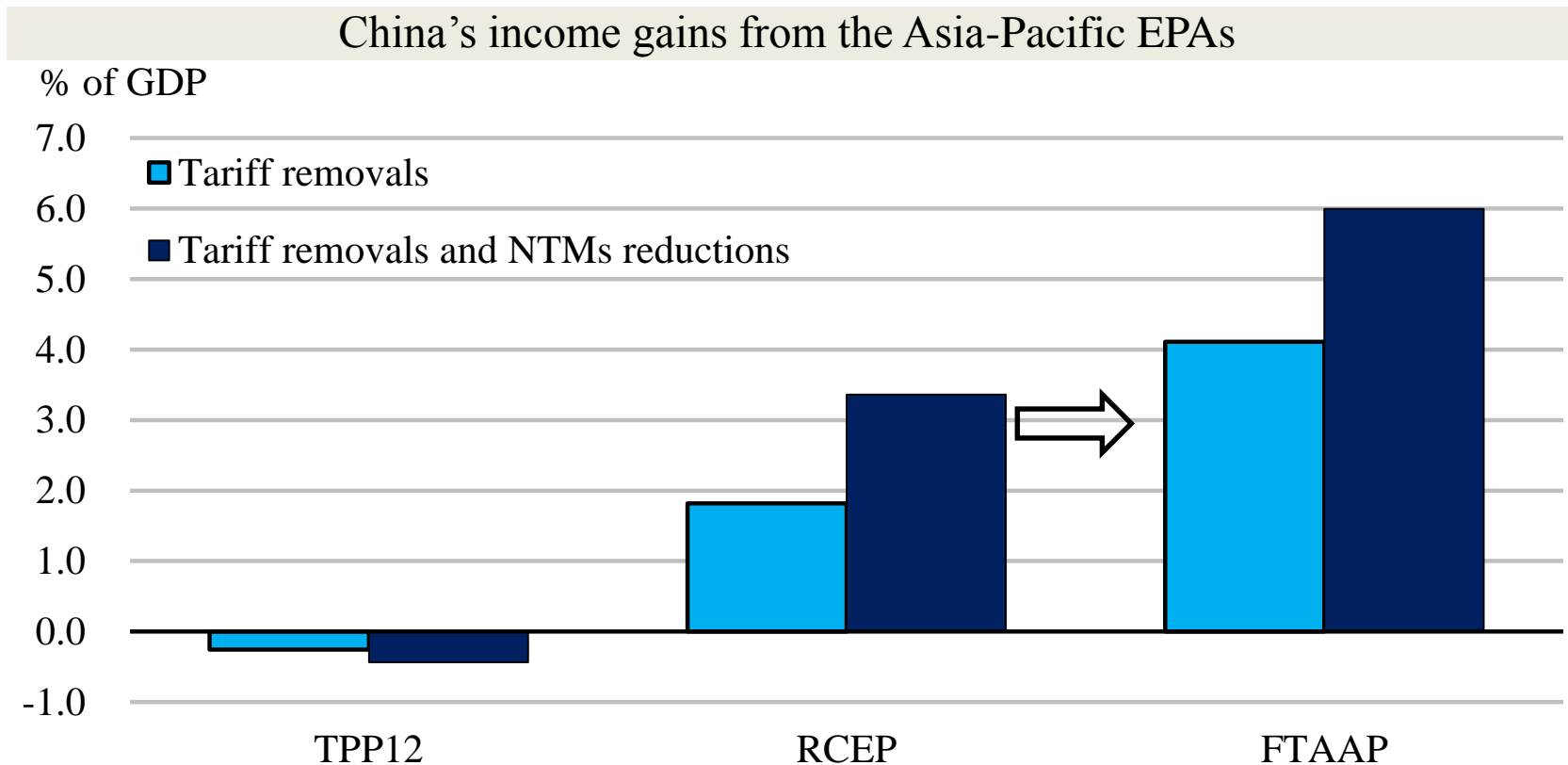
Much larger economic benefits from FTAAP than from TPP.



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

Impacts of TPP and RCEP: China

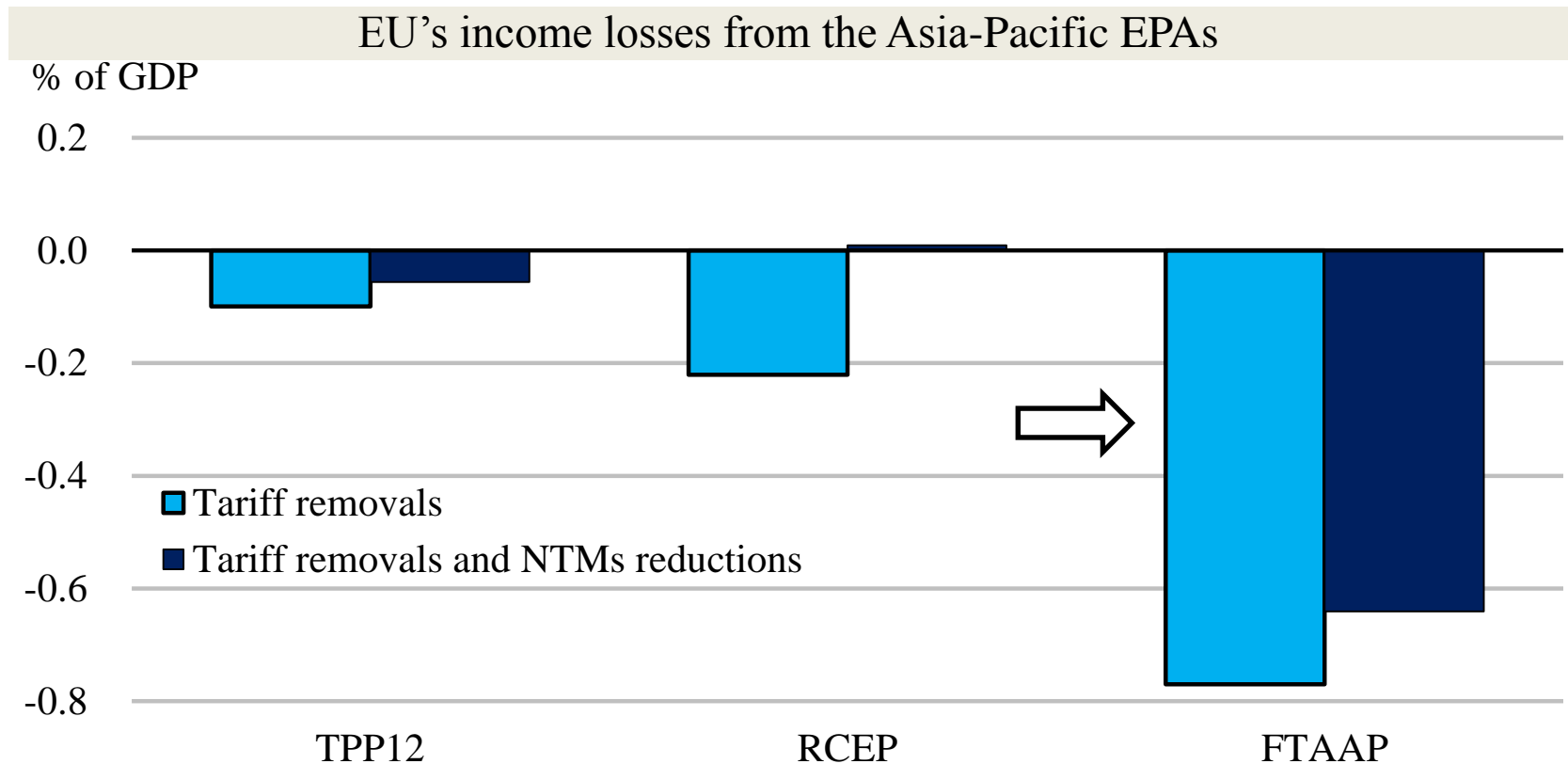
Income losses from TPP due to trade diversion effects.
Large gains from RCEP, in which tariff removals remain important.
Further income gains from FTAAP expanding the members of EPAs.



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

Impacts of TPP and RCEP: EU

May benefit from the spill-over effects of NTMs reductions.
However, income losses from FTAAP will be sizable compared with expected gains from TTIP and EU-Japan EPA.

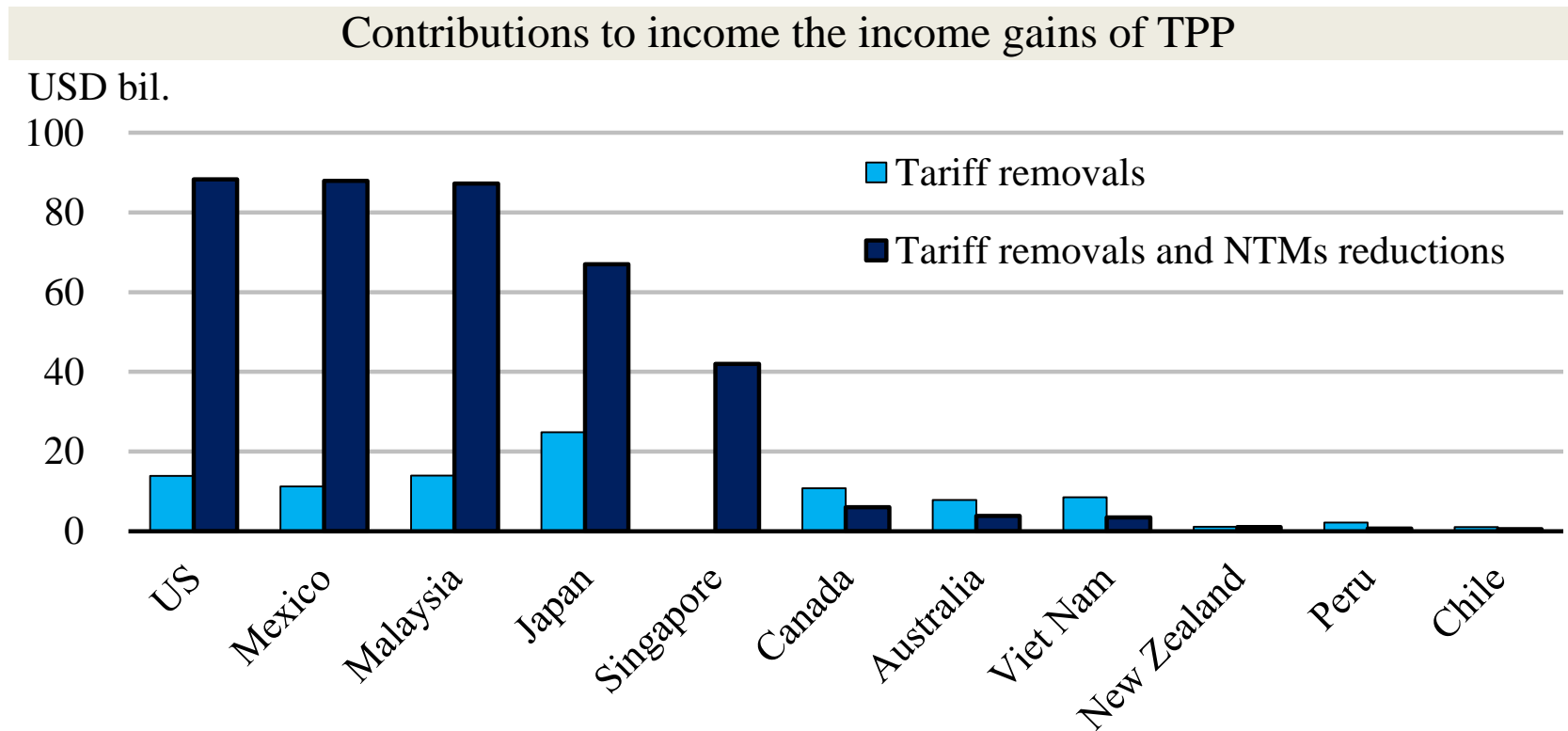


Sources: Kawasaki (2014), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper 14-E-009

III. Key Economies of the ASIA-Pacific EPAs

Key economies of TPP

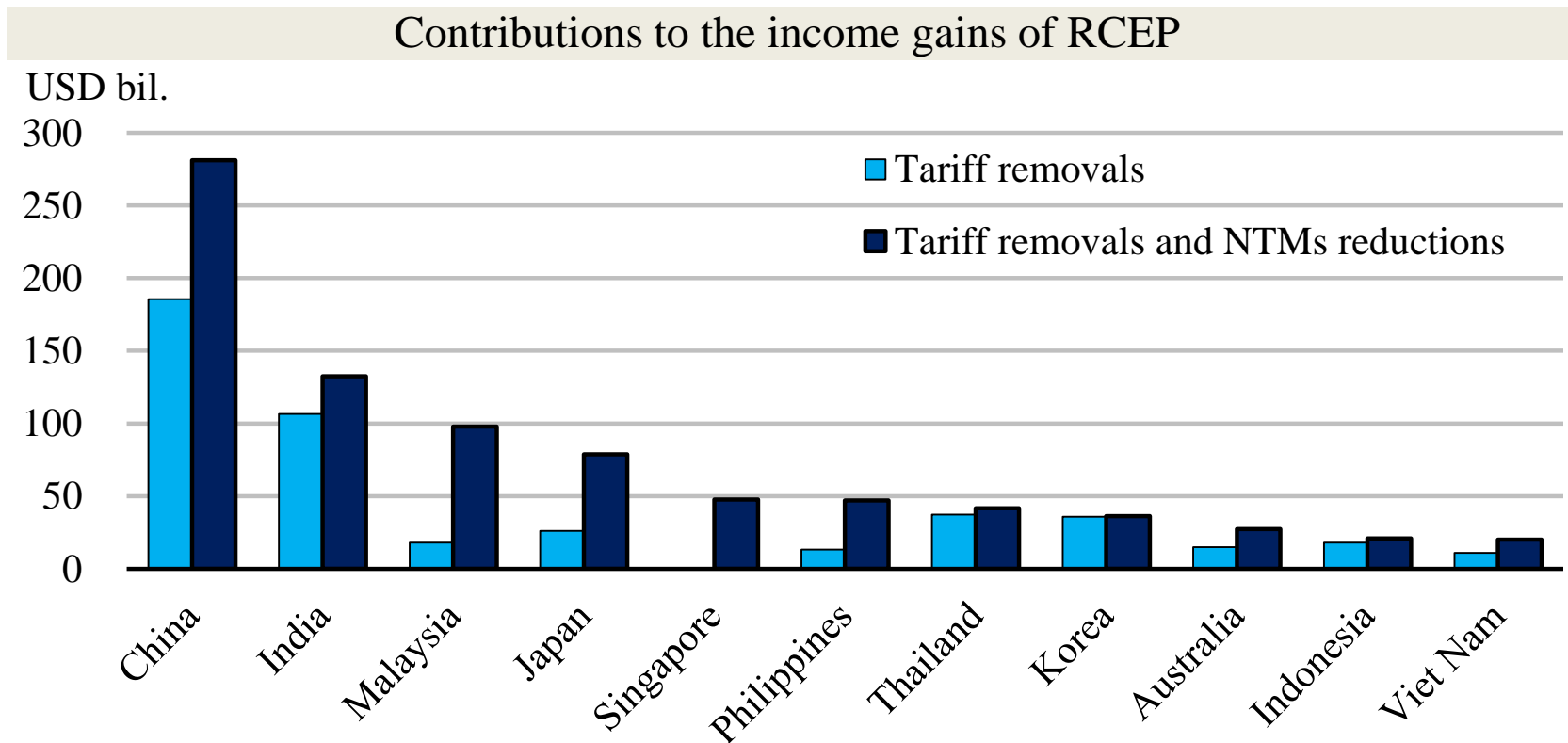
The US, Mexico and Malaysia will drive income gains from TPP. Contribution of Japanese tariff removals will relatively be large. Singapore will still significantly contribute to NTMs reductions.



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

Key economies of RCEP

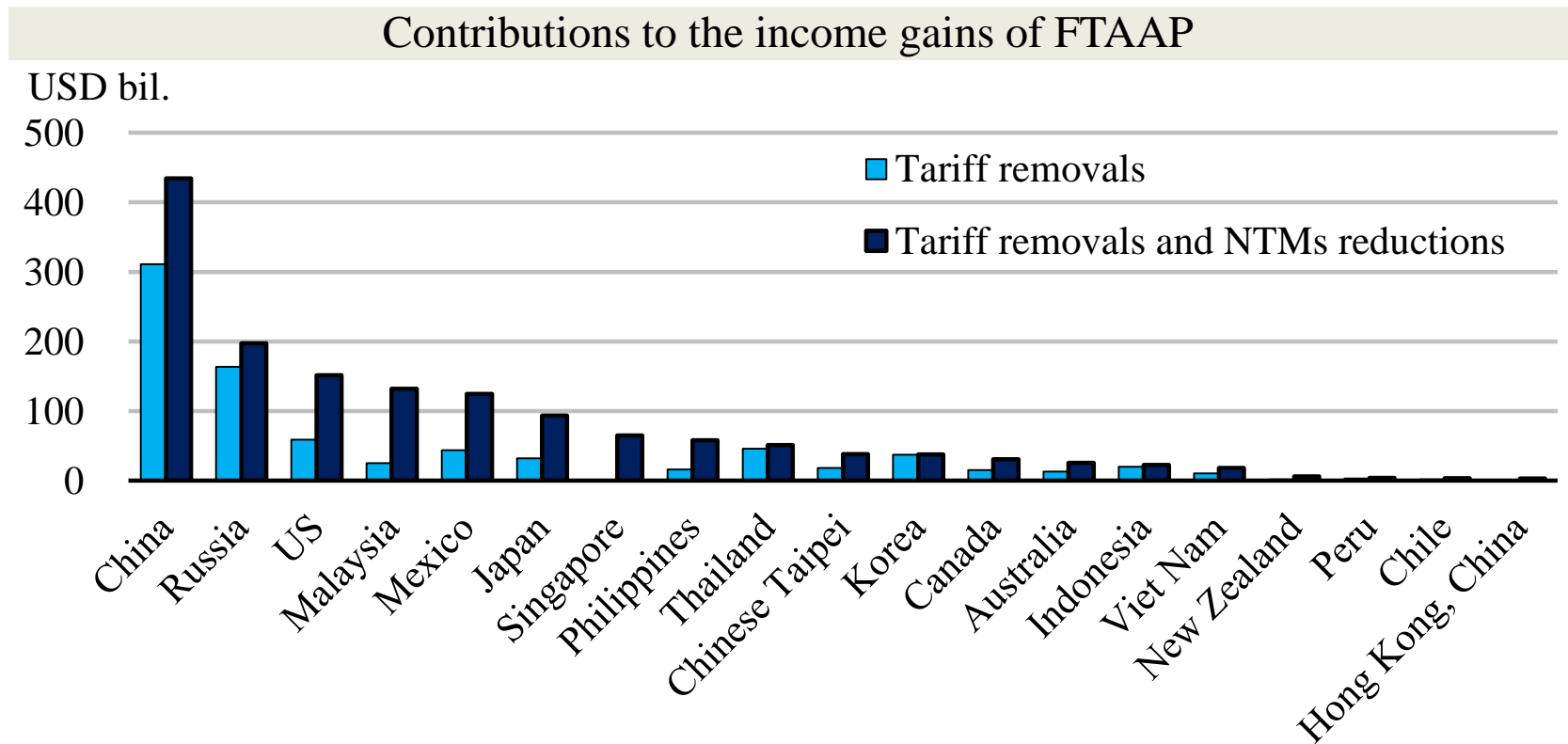
China will drive income gains from RCEP followed by India. Contribution of NTMs reductions by Malaysia, Singapore and the Philippines will be sizable.



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.

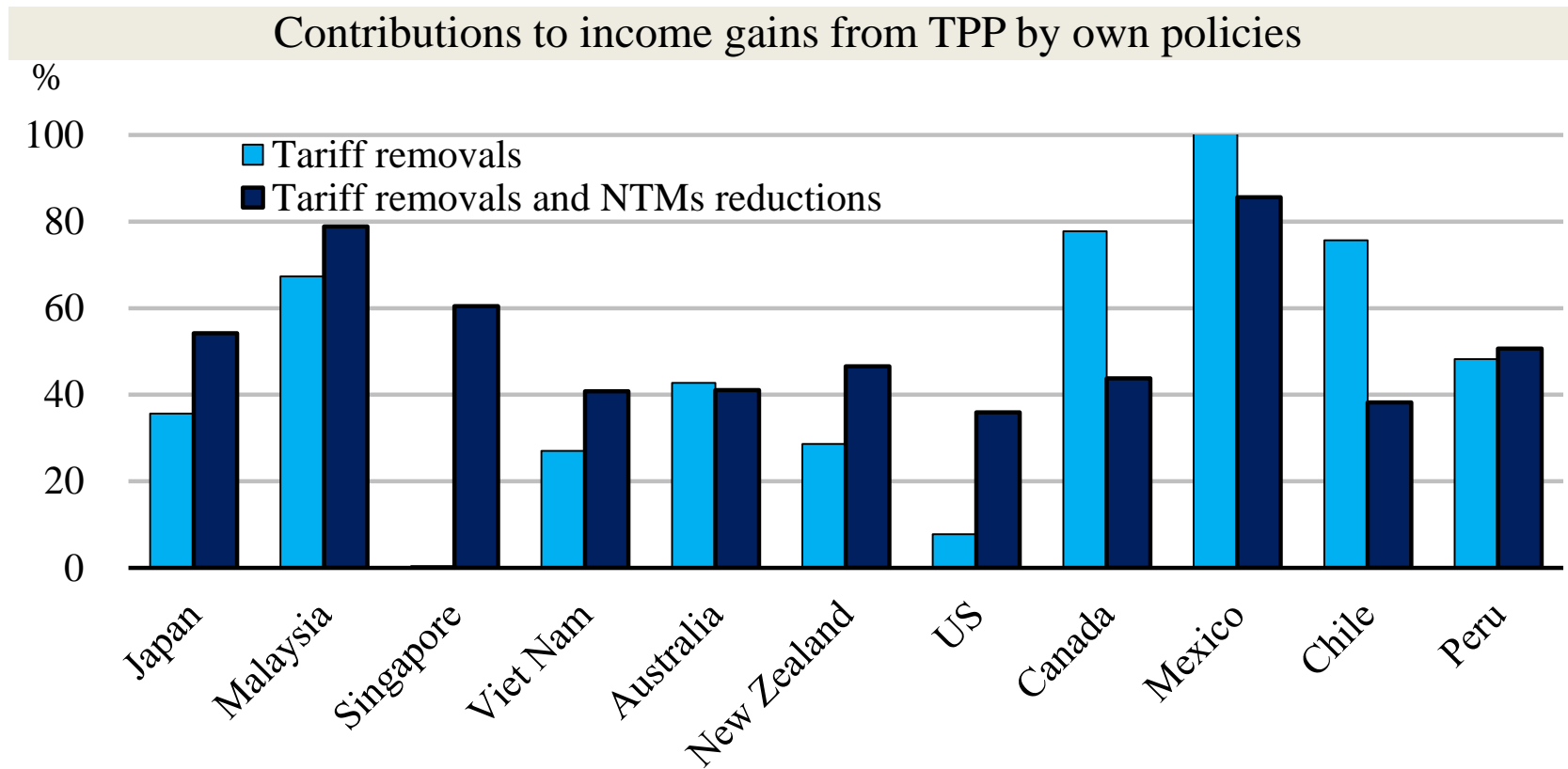


Sources: Kawasaki (2014), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper 14-E-009

IV. Significance of Domestic Reforms

Significance of domestic reforms in TPP

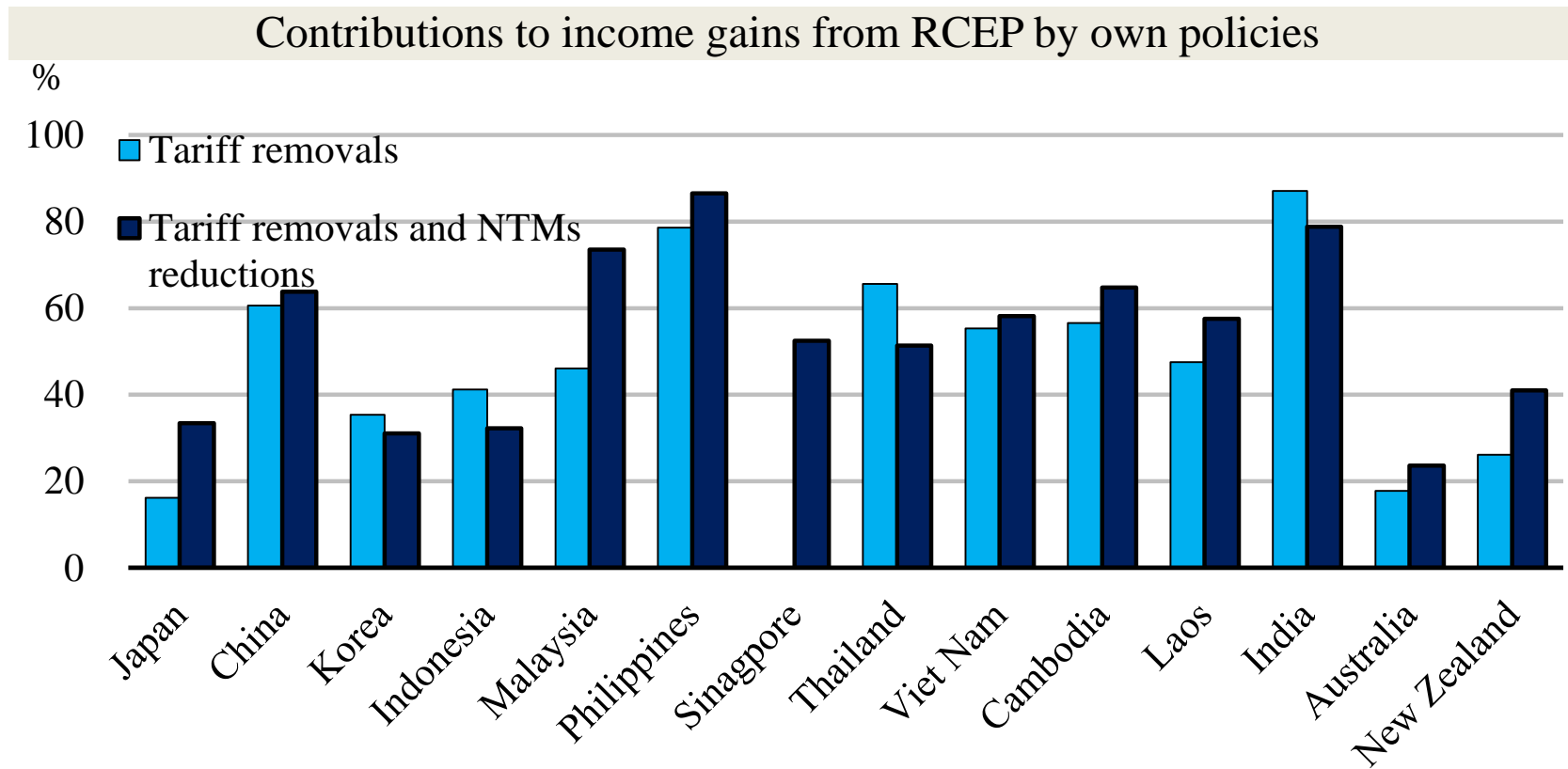
The income gains from TPP will be generated more by own tariff removals and NTMs reductions in Malaysia, Singapore and Mexico than those of trade partners.



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

Significance of domestic reforms in RCEP

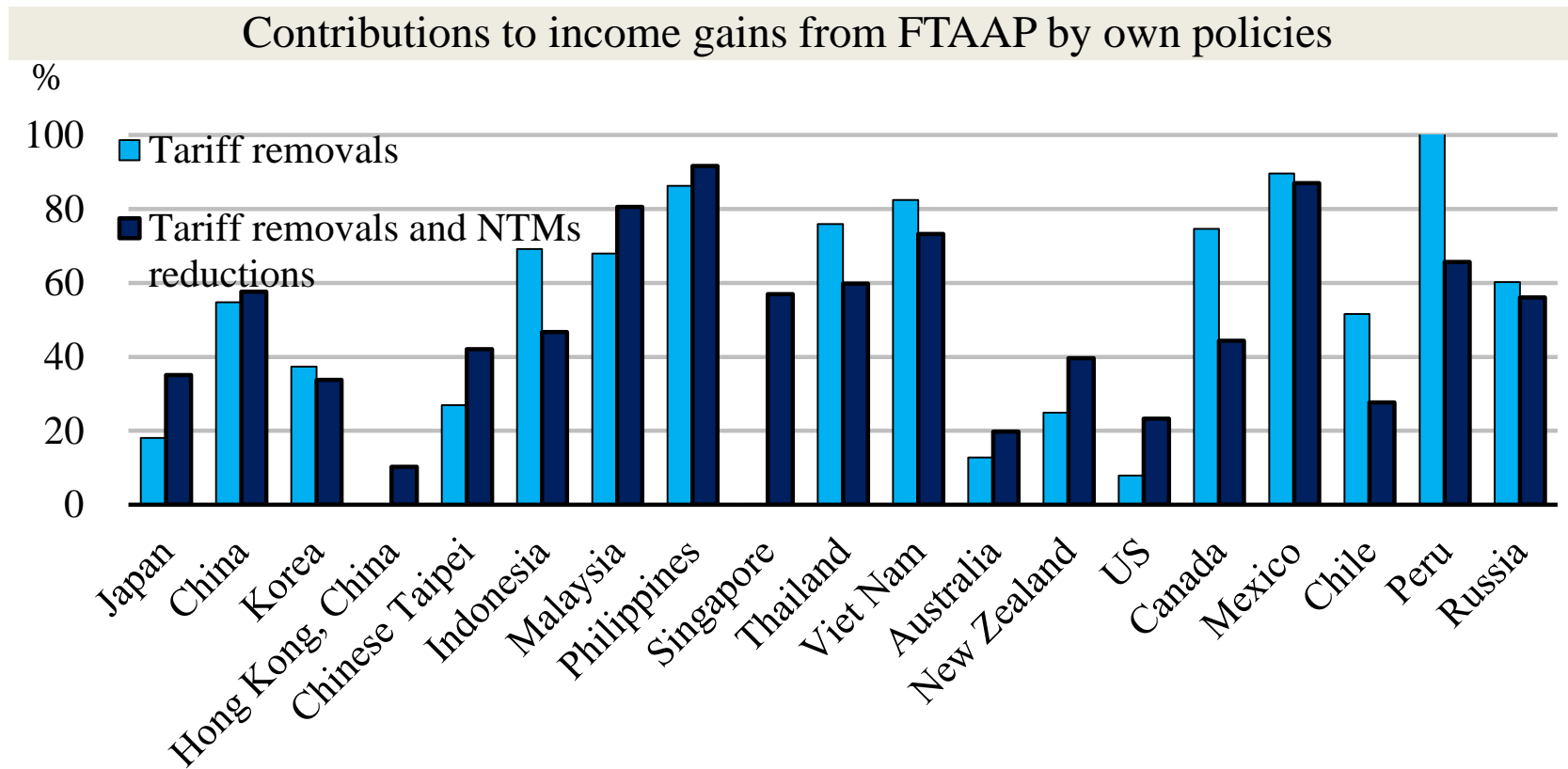
ASEAN countries, China and India will benefit more by their own tariff removals and NTMs reductions than those by trade partners in RCEP.



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



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

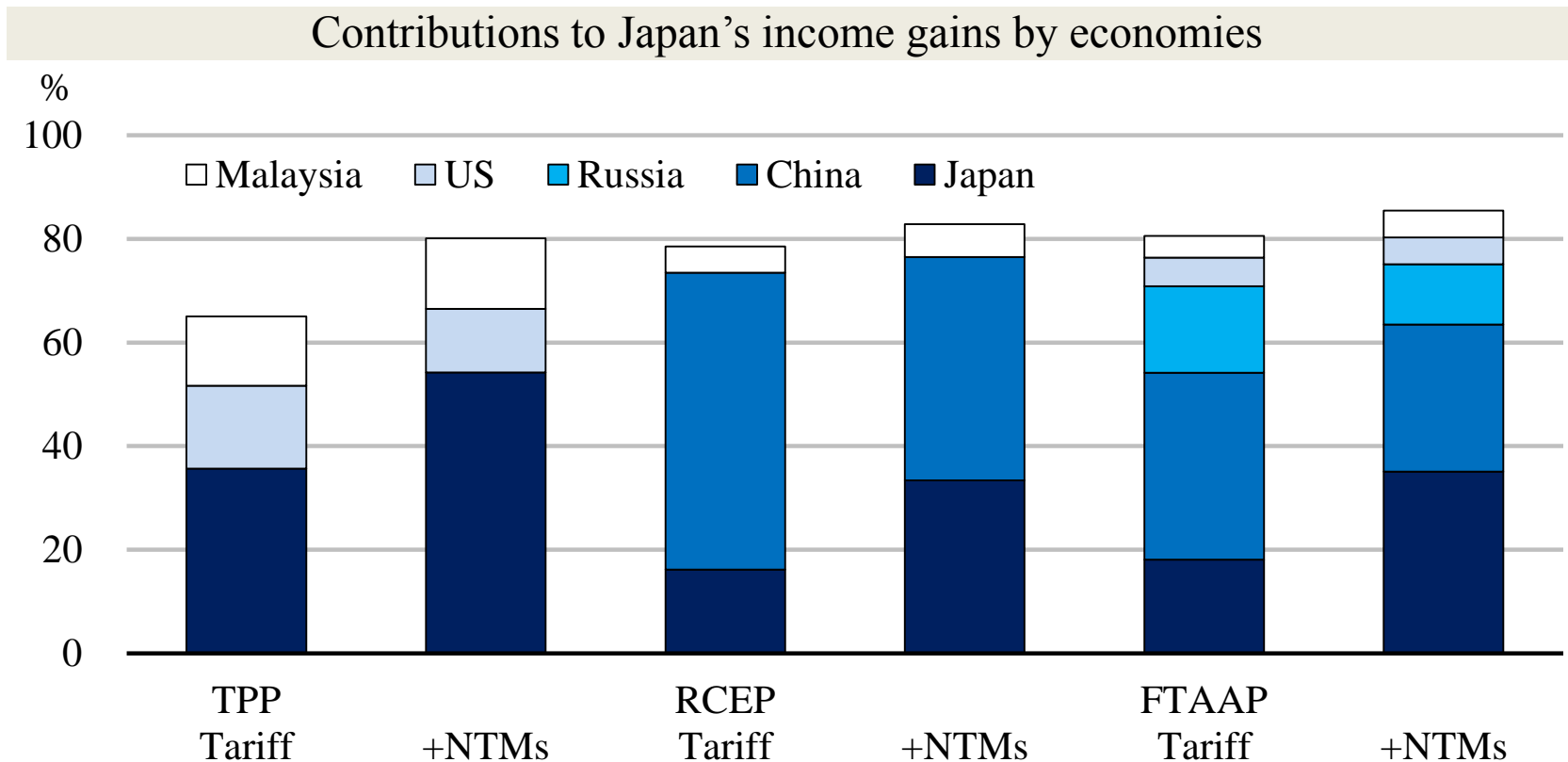
V. Source of Economic Benefits

Japan's source of economic benefits

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

China's contribution will be major in RCEP.

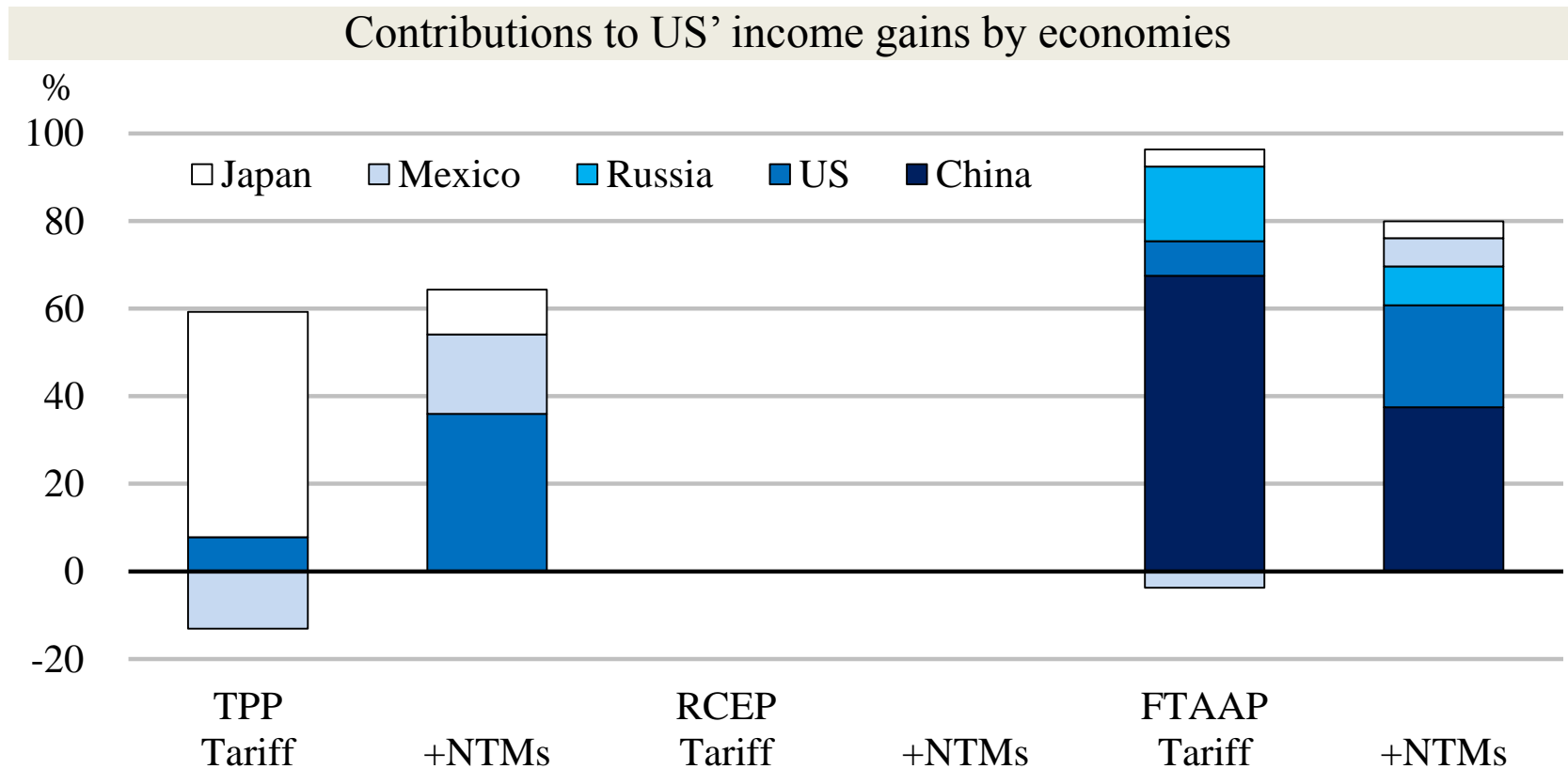
Japan's gains from FTAAP will largely be given by Japan and China.



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

US' source of economic benefits

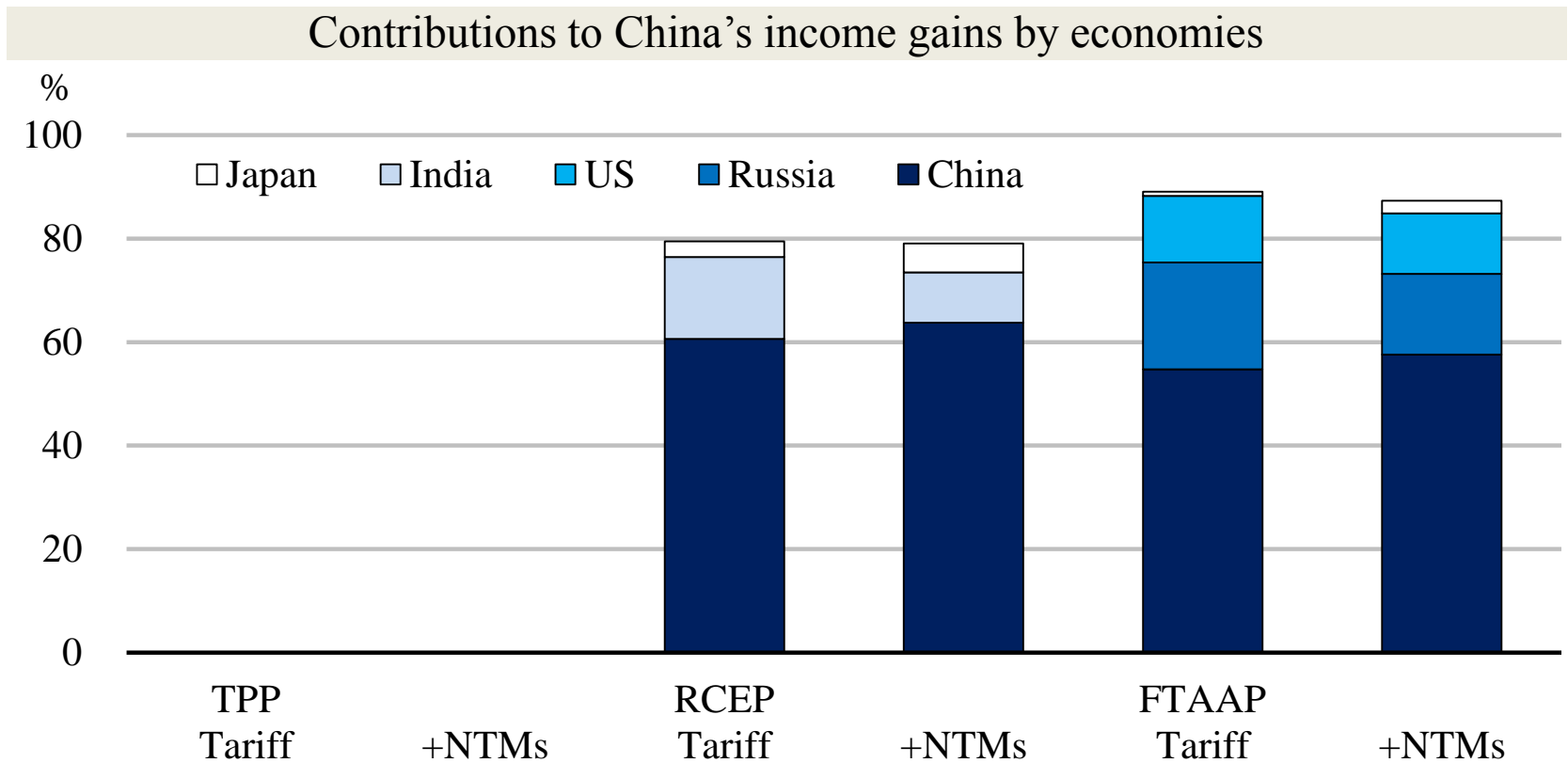
Japan's contribution to tariff removals will be large in TPP. Meanwhile, the US's own NTMs reductions will be significant. Income gains from FTAAP will firstly be influenced by China.



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

(Reference)

Japanese Government's Estimates

Summary

The Economic Impacts of TPPs

- The impacts of structural reforms measures including TPP/EPAs will be achieved over medium-term and contributing to sustainable growth
- Japan's real GDP would be boosted by 3.2 JPY trillion, accounting for 0.66% of GDP, by 100% tariff removals participating in TPP
- Those macroeconomic benefits could be much larger including the impacts of NTMs reductions and liberalization of services and investment

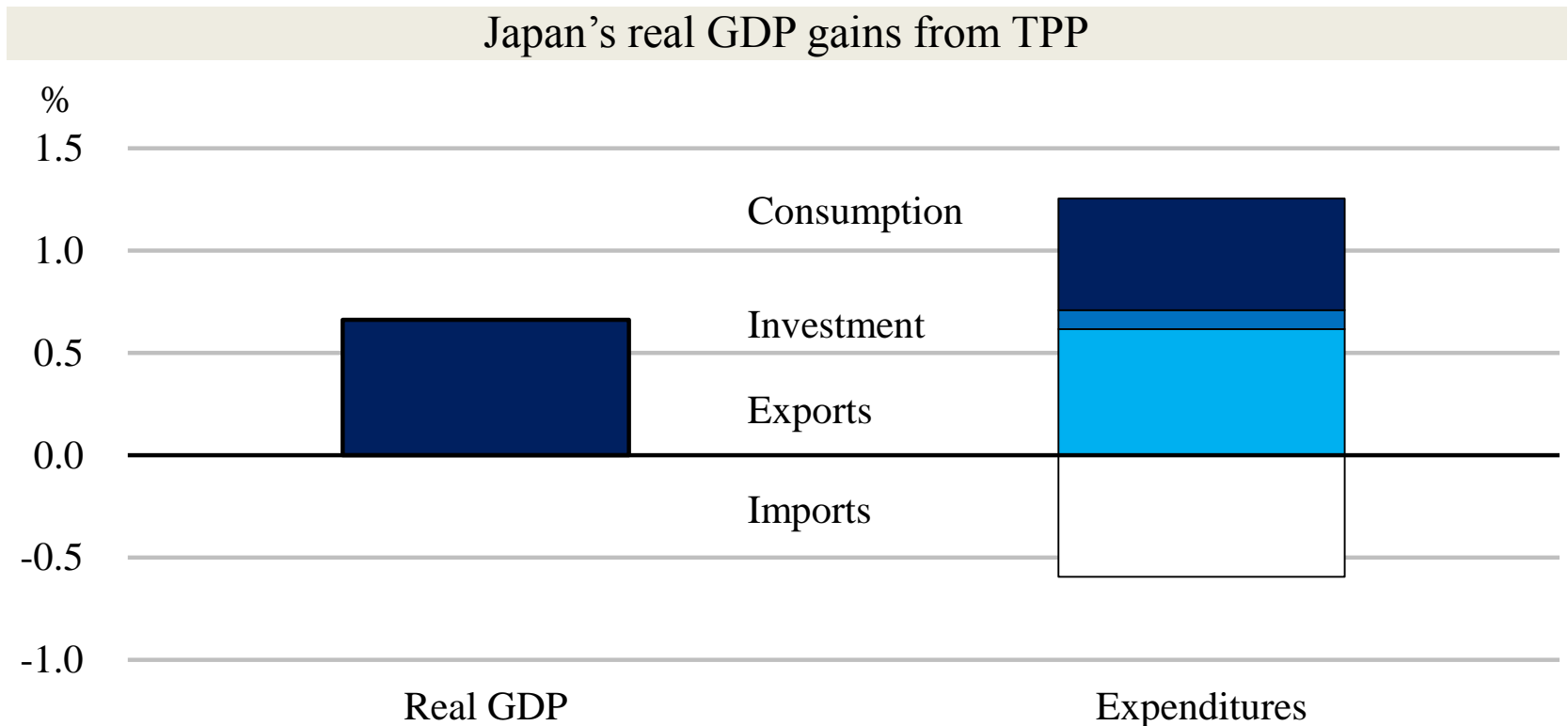
Framework

Impacts of Japan's participation in TPP11

- Policy Scenario
 - Immediate 100% tariff removals
 - Without NTMs reductions and liberalization of services/investment
 - No additional policy measures implemented
- Data
 - GTAP database version 8.0 (benchmark year 2007)
 - Updated baseline in 2010 based on IMF
- Production of agriculture, forestry and fisheries
 - Incorporating MAFF estimates declining 3.0 JPY trillion

Consumers' benefits

Trade liberalization may generate winners and losers.
Manufacturing export and agricultural import will expand.
Lower import prices and export increases will boost real consumption.



Sources: Cabinet Secretariat, 15 March 2013