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

- Without trade liberalization
- With trade liberalization

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.

<table>
<thead>
<tr>
<th>Japan’s income gains from the Asia-Pacific EPAs</th>
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<tbody>
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<td>% of GDP</td>
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**Tariff removals**

**Tariff removals and NTMs reductions**

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.

<table>
<thead>
<tr>
<th>% of GDP</th>
<th>Tariff removals</th>
<th>Tariff removals and NTMs reductions</th>
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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.

<table>
<thead>
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<th>China’s income gains from the Asia-Pacific EPAs</th>
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<tr>
<td>% of GDP</td>
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<tr>
<td>Tariff removals</td>
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<tr>
<td>Tariff removals and NTMs reductions</td>
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</tbody>
</table>

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.

**EU’s income losses from the Asia-Pacific EPAs**

<table>
<thead>
<tr>
<th></th>
<th>Tariff removals</th>
<th>Tariff removals and NTMs reductions</th>
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<tbody>
<tr>
<td>TPP12</td>
<td>-0.2</td>
<td>-0.4</td>
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<tr>
<td>RCEP</td>
<td>-0.2</td>
<td>-0.4</td>
</tr>
<tr>
<td>FTAAP</td>
<td>-0.8</td>
<td>-0.8</td>
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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.

Contributions to income the income gains of TPP

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.

Contributions to the income gains of RCEP

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

Contributions to the income gains of FTAAP

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.

Contributions to income gains from TPP by own policies

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.

Contributions to income gains from RCEP by own policies

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.

Contributions to income gains from FTAAP by own policies

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

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.

Contributions to US’ income gains by economies

[Diagram showing contributions to US' income gains by Japan, Mexico, Russia, US, and China for TPP, RCEP, and FTAAP with tariff and NTMs variations.]

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.

Contributions to China’s income gains by economies

(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.

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>Consumption</th>
<th>Investment</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>1.0</td>
<td>0.5</td>
<td>0.5</td>
<td>-0.5</td>
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Sources: Cabinet Secretariat, 15 March 2013