Comparative Study of the FDI effect of the Regional Comparative Economic Partnership on Members

Abstract

Facing the risk of increased protectionism and anti-globalization sentiments, China and its partners under the Regional Comprehensive Economic Partnership (RCEP) still keep a strong will to complete the Free Trade Agreement (FTA). This paper compares the potential effects of the RCEP on Foreign Direct Investment (FDI) among different members. We adopt a firm heterogeneity Computational General Equilibrium (CGE) model to simulate the FDI changes in a long period. The model has 7 regions, including China, ASEAN, Japan, Korea, India, ANZ (Australia and New Zealand) and ROW (Rest of World), and 3 sectors. The database is based on GTAP 9.0, with 2011 as the base year. To study the FDI effect, we add two FDI databases to the GTAP data, a FDI flow database and a foreign affiliate sales database. Because the available FDI data that are compatible with the GTAP database is based on the year of 2007, we updated the FDI data to 2011. The data update is one contribution of this paper. Another contribution is to reveal the long-term effect of the RCEP. This paper simulates the effect of the RCEP in a period of 2020-2045. Simulation results show that the RCEP has a positive FDI effect on members in general. China and ASEAN will attract more FDI due to the development of East Asian value chain. India will receive more FDI from Japan and Korea. Japan, Korea, Australia and New Zealand will also experience FDI increase, but less significant than the other members. The FDI effect emerges immediately after the establishment of the RCEP, and grows stronger along with the implementation of the free trade agreement. The FDI effects fade gradually after the completion of all liberalization arrangements under the RCEP.

Keywords: RCEP, FDI, CGE model