The Relative Significance of RTAs

9 January 2014
Consulting Fellow, RIETI
Kenichi Kawasaki
Overview
Relative significance of RTAs

• TPP and RCEP will be complements each other rather than the competitor of the other toward the establishment of FTAAP.

• Trade diversion effects will deteriorate the economic welfare of the non-member economies of RTAs.

• The impacts of NTMs reductions will be significant in comparison with those of tariff removals, in particular, in the EU and the US.

• China will generate the largest income gains of the APEC economies as a whole from FTAAP followed by Russia and the US.

• The ASEAN countries and others will primarily be benefitted from their own policy measures.
# Income gains from RTAs: Summary

<table>
<thead>
<tr>
<th>Per cent of GDP</th>
<th>TPP</th>
<th>RCEP</th>
<th>FTAAP</th>
<th>EU-CJK</th>
<th>TTIP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Impacts of tariff removals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>0.8</td>
<td>1.7</td>
<td>2.1</td>
<td>1.5</td>
<td>-0.1</td>
</tr>
<tr>
<td>China</td>
<td>-0.3</td>
<td>1.8</td>
<td>4.1</td>
<td>2.7</td>
<td>-0.1</td>
</tr>
<tr>
<td>Korea</td>
<td>-0.2</td>
<td>5.6</td>
<td>6.3</td>
<td>4.9</td>
<td>-0.1</td>
</tr>
<tr>
<td>US</td>
<td>0.1</td>
<td>-0.2</td>
<td>0.8</td>
<td>-0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>EU</td>
<td>-0.1</td>
<td>-0.2</td>
<td>-0.8</td>
<td>0.6</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Impacts of tariff removals and NTMs reductions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>1.6</td>
<td>2.8</td>
<td>3.2</td>
<td>2.3</td>
<td>-0.2</td>
</tr>
<tr>
<td>China</td>
<td>-0.4</td>
<td>3.4</td>
<td>6.0</td>
<td>3.9</td>
<td>-0.3</td>
</tr>
<tr>
<td>Korea</td>
<td>-0.6</td>
<td>6.4</td>
<td>7.1</td>
<td>5.9</td>
<td>-0.2</td>
</tr>
<tr>
<td>US</td>
<td>0.8</td>
<td>0.0</td>
<td>1.7</td>
<td>-0.2</td>
<td>0.4</td>
</tr>
<tr>
<td>EU</td>
<td>-0.1</td>
<td>0.0</td>
<td>-0.6</td>
<td>2.7</td>
<td>2.0</td>
</tr>
</tbody>
</table>

*Source: Author’s simulations*
I. TPP, RCEP and FTAAP
Regional integration in Asia-Pacific

Negotiations for the Regional Comprehensive Economic Partnership (RCEP) have been launched in 2013. The members of 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 in RCEP from growing and wider Asian markets. Complementary benefits in FTAAP from TPP and RCEP.

<table>
<thead>
<tr>
<th>Japan’s income gains from the Asia-Pacific EPAs</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariff removals</td>
<td>0.0</td>
</tr>
<tr>
<td>Tariff removals and NTMs reductions</td>
<td>0.5</td>
</tr>
<tr>
<td>TPP12</td>
<td>1.0</td>
</tr>
<tr>
<td>RCEP</td>
<td>2.5</td>
</tr>
<tr>
<td>FTAAP</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Impacts of TPP and RCEP: China

Income loss from TPP due to trade diversion effects.
Large income gains from RCEP.
Further income gains from FTAAP.

China’s income gains from the Asia-Pacific EPAs

% of GDP

<table>
<thead>
<tr>
<th></th>
<th>Tariff removals</th>
<th>Tariff removals and NTMs reductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>TPP12</td>
<td>-1.0</td>
<td>0.0</td>
</tr>
<tr>
<td>RCEP</td>
<td>2.0</td>
<td>3.0</td>
</tr>
<tr>
<td>FTAAP</td>
<td>6.0</td>
<td>6.0</td>
</tr>
</tbody>
</table>

Impacts of TPP and RCEP: Korea

Income loss from TPP due to trade diversion effects. Large enough income gains from RCEP. A bit more income gains from FTAAP.

Korea’s income gains from the Asia-Pacific EPAs

Impacts of TPP and RCEP: US

Dominant income gains by NTMs reductions from TPP. Income loss from RCEP due to trade diversion effects. Much larger economic benefits from FTAAP than TPP.

US’ income gains from the Asia-Pacific EPAs

Impacts of TPP and RCEP: EU

Possible benefits from spill-over effects of NTMs reductions. However, income losses from FTAAP will be sizable compared with expected gains from EU-CJK FTA and TTIP.

<table>
<thead>
<tr>
<th>EU’s income losses from the Asia-Pacific EPAs</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariff removals</td>
<td>0.0</td>
</tr>
<tr>
<td>Tariff removals and NTMs reductions</td>
<td>-0.6</td>
</tr>
</tbody>
</table>

Key economies of TPP

The US, Mexico and Malaysia will drive income gains from TPP. Japan’s contribution by tariff removals will relatively be large. Singapore will still contribute by NTMs reductions.

Contributions to income gains from TPP

Key economies of RCEP

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

Contributions to income gains from RCEP

Key economies of FTAAP

China will drive income gains from FTAAP. This position will be followed by Russia and the US.

**Contributions to income gains from FTAAP**

- **Tariff removals**
- **Tariff removals and NTMs reductions**

Japan’s source of economic benefits

Japan’s own initiatives will be significant in TPP. China’s contribution will be major in RCEP. Russia’s contribution will be larger than the US in FTAAP.

Contributions to Japan’s income gains by economies

China’s source of economic benefits

Own initiatives will be primal source of benefits. India’s contribution will be sizable in RCEP. On the other hand, the contribution of the US and Russia will be larger in FTAAP.

Contributions to China’s income gains by economies

Korea’s source of economic benefits

Own initiatives will be significant source of benefits. Meanwhile, China’s contribution will be larger in RCEP. India and Russia will also contribute.

Contributions to Korea’s income gains by economies

US’ source of economic benefits

Income gains from Japanese tariff removals will be major in TPP. Meanwhile, contribution of own NTMs reductions will be significant. On the other hand, Chinese contributions will be larger in FTAAP.

Contributions to US’ income gains by economies

Significance of domestic reforms in FTAAP

The ASEAN countries and others will primarily be benefitted from their own policy measures rather than those by trade partners in Asia-Pacific.

![Contributions to income gains from FTAAP by own policies](chart)

II. EU-CJK RTA
Impacts of EU-CJK RTA

Korea and China will gain relatively more than the EU and Japan. China and Korea will significantly be benefitted from tariff removals. Meanwhile, the EU will largely be benefitted from NTMs reductions.

Income gains from EU-CJK RTA

% of GDP

![Chart showing income gains from EU-CJK RTA for EU, China, Japan, and Korea.]

Tariff removals
Tariff removals and NTMs reductions

Sources: Author’s simulations
Key economies of EU-CJK RTA

The EU and then China will generate major income gains. The EU’s contribution by NTMs reductions will be larger. Meanwhile, China’s contribution by tariff removals will be significant.

Contributions to income gains from EU-CJK RTA

<table>
<thead>
<tr>
<th></th>
<th>USD bil.</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td></td>
</tr>
<tr>
<td>Korea</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Author’s simulations
Source of economic benefits
China’s contribution including that of tariff removals will be major. The EU will dominantly be benefitted from own NTMs reductions. Japan and Korea will also be largely benefitted by own measures.

Contributions to income gains by economies

Sources: Author’s simulations
III. TTIP
Impacts of TTIP

The US and the EU will gain from partners’ tariff removals each other. Meanwhile, both two economies, in particular, the EU will significantly be benefited from own NTMs reductions.

Contributions to income gains from TTIP

Source: Author’s simulations
Analytical Framework
Impacts of trade liberalization

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

Income

- Without trade liberalization
- With trade liberalization

Source: Author