

The Relative Significance of RTAs

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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

Per cent of GDP

	TPP	RCEP	FTAAP	EU-CJK	TTIP
Impacts of tariff removals					
Japan	0.8	1.7	2.1	1.5	-0.1
China	-0.3	1.8	4.1	2.7	-0.1
Korea	-0.2	5.6	6.3	4.9	-0.1
US	0.1	-0.2	0.8	-0.2	0.2
EU	-0.1	-0.2	-0.8	0.6	0.1

Impacts of tariff removals and NTMs reductions

	TPP	RCEP	FTAAP	EU-CJK	TTIP
Japan	1.6	2.8	3.2	2.3	-0.2
China	-0.4	3.4	6.0	3.9	-0.3
Korea	-0.6	6.4	7.1	5.9	-0.2
US	0.8	0.0	1.7	-0.2	0.4
EU	-0.1	0.0	-0.6	2.7	2.0

Source: Author's simulations

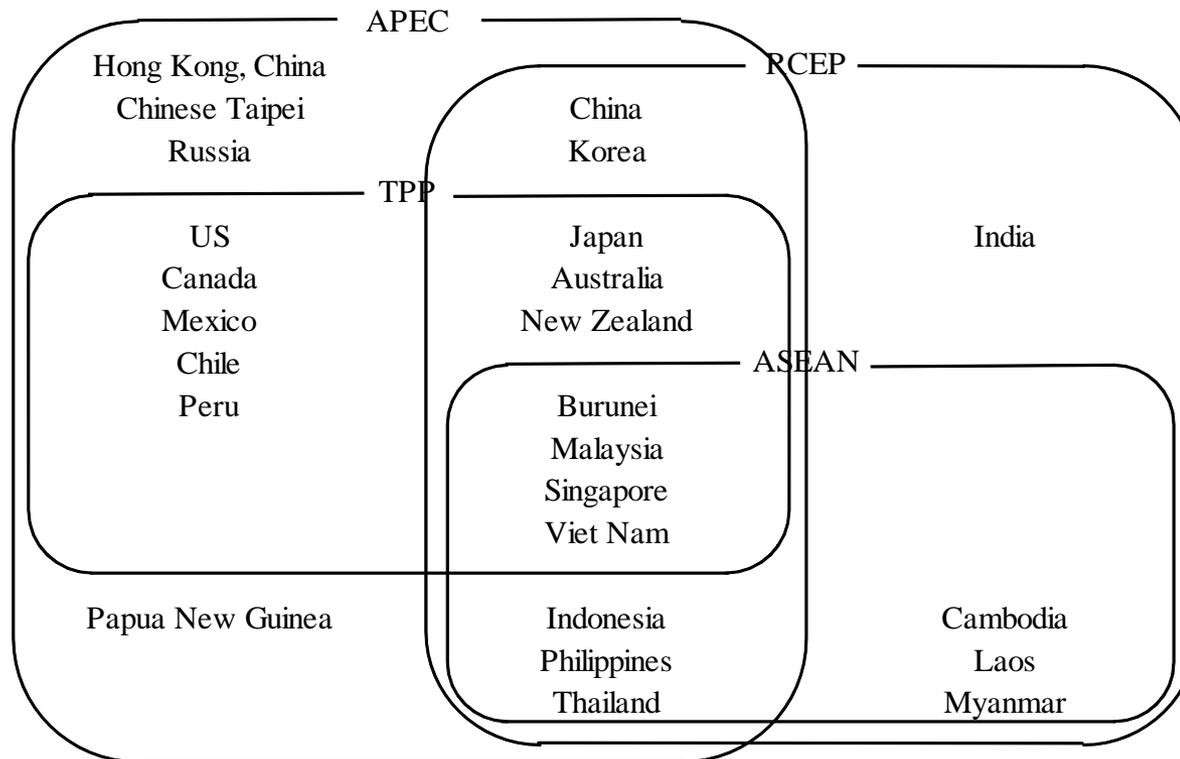
I. TPP, RCEP and FTAAP

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.

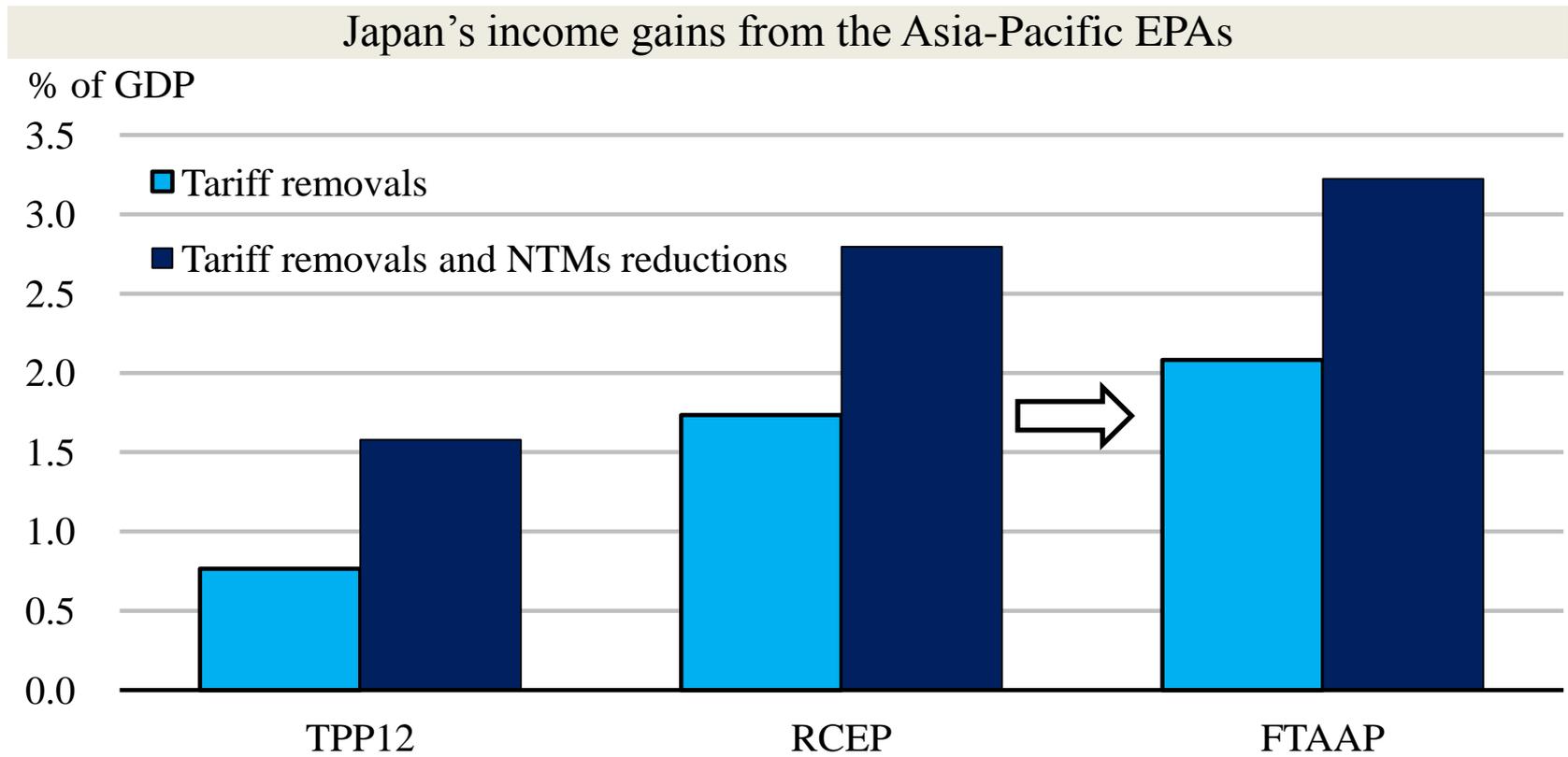
Framework of EPAs in Asia-Pacific



Source: Author

Impacts of TPP and RCEP: Japan

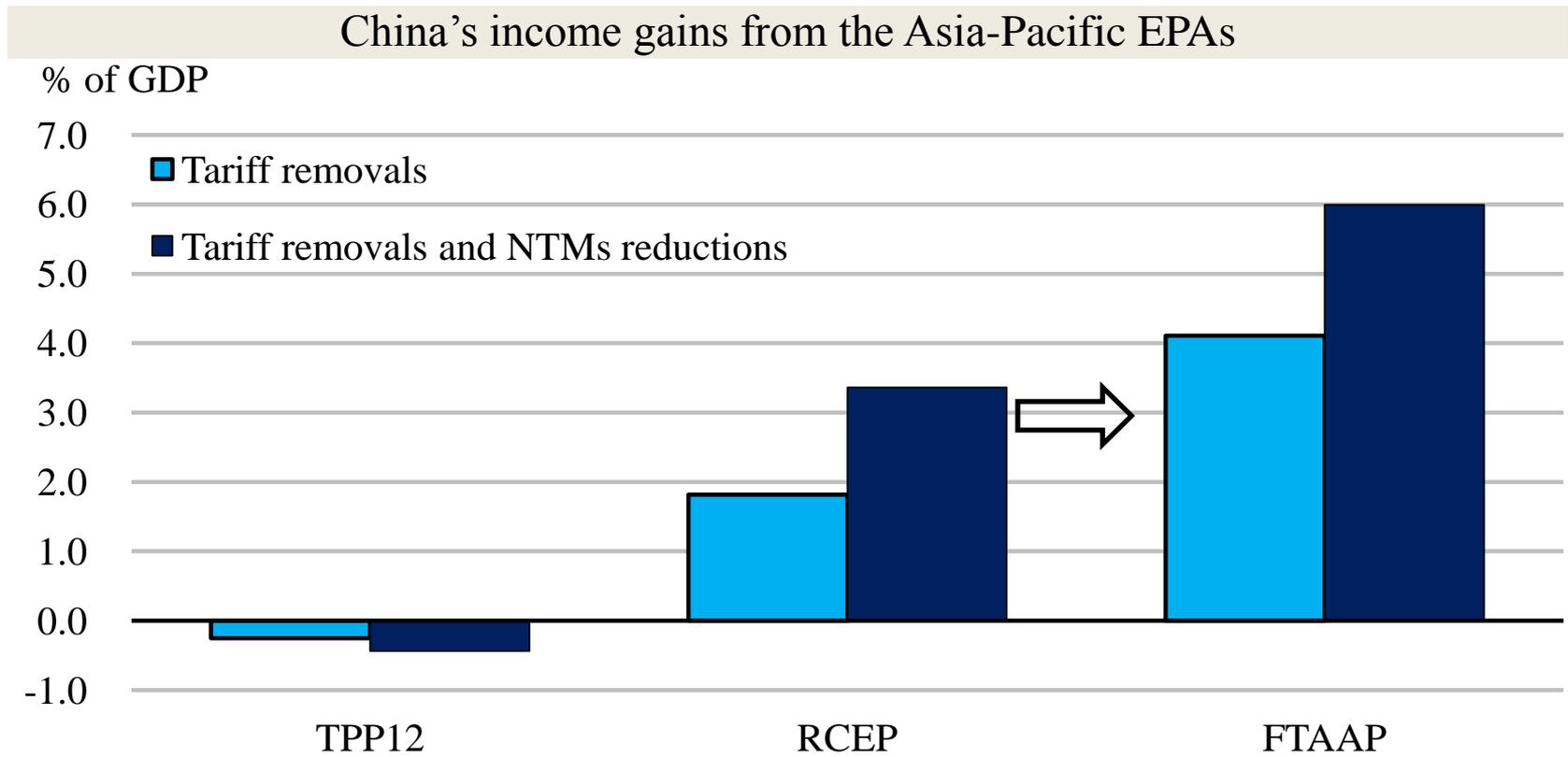
Higher levels of achievement in TPP including NTMs reductions.
Larger gains in RCEP from growing and wider Asian markets.
Complementary benefits in FTAAP from TPP and RCEP.



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

Impacts of TPP and RCEP: China

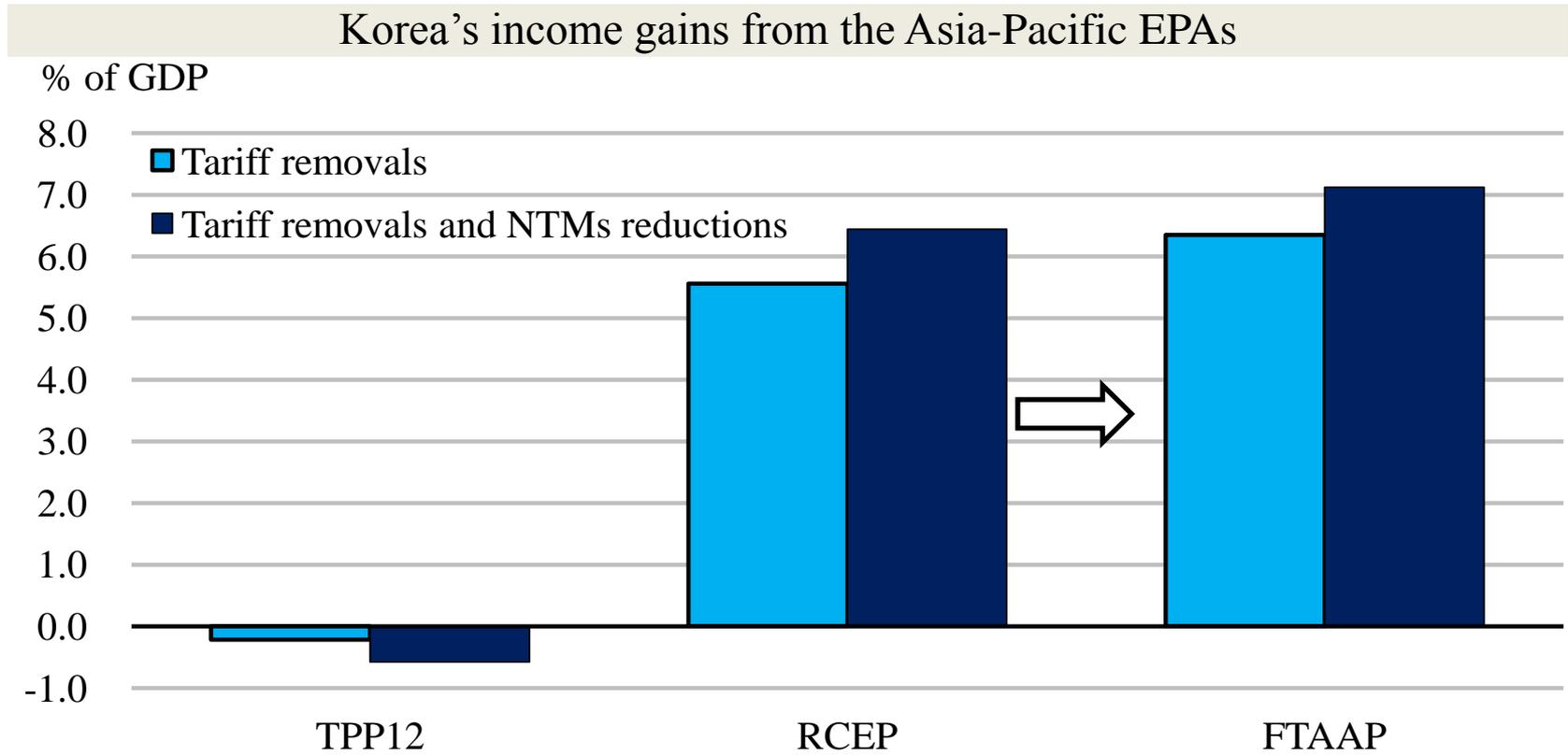
Income loss from TPP due to trade diversion effects.
Large income gains from RCEP.
Further income gains from FTAAP.



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

Impacts of TPP and RCEP: Korea

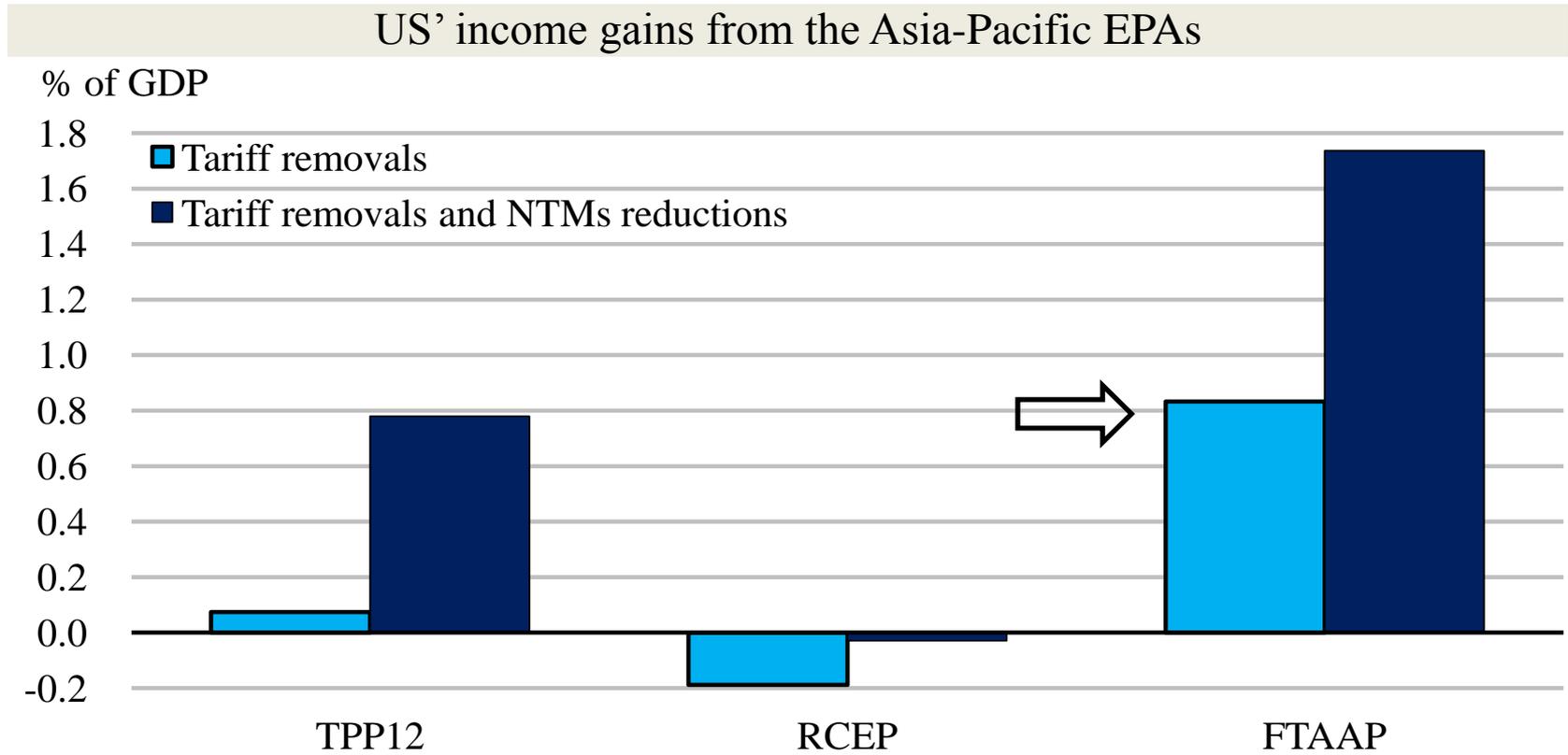
Income loss from TPP due to trade diversion effects.
Large enough income gains from RCEP.
A bit more income gains from FTAAP.



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

Impacts of TPP and RCEP: US

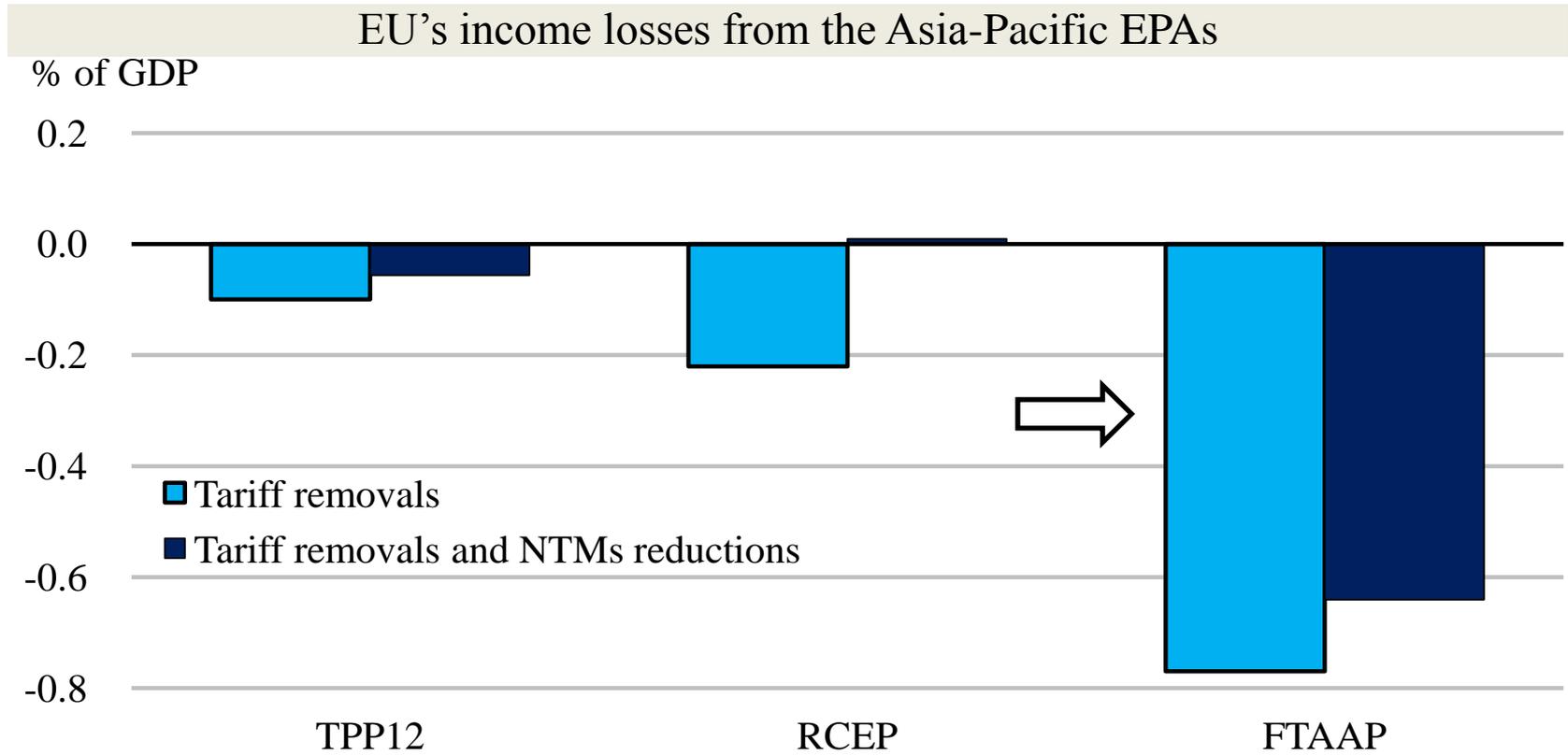
Dominant income gains by NTMs reductions from TPP.
Income loss from RCEP due to trade diversion effects
Much larger economic benefits from FTAAP than TPP.



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

Impacts of TPP and RCEP: EU

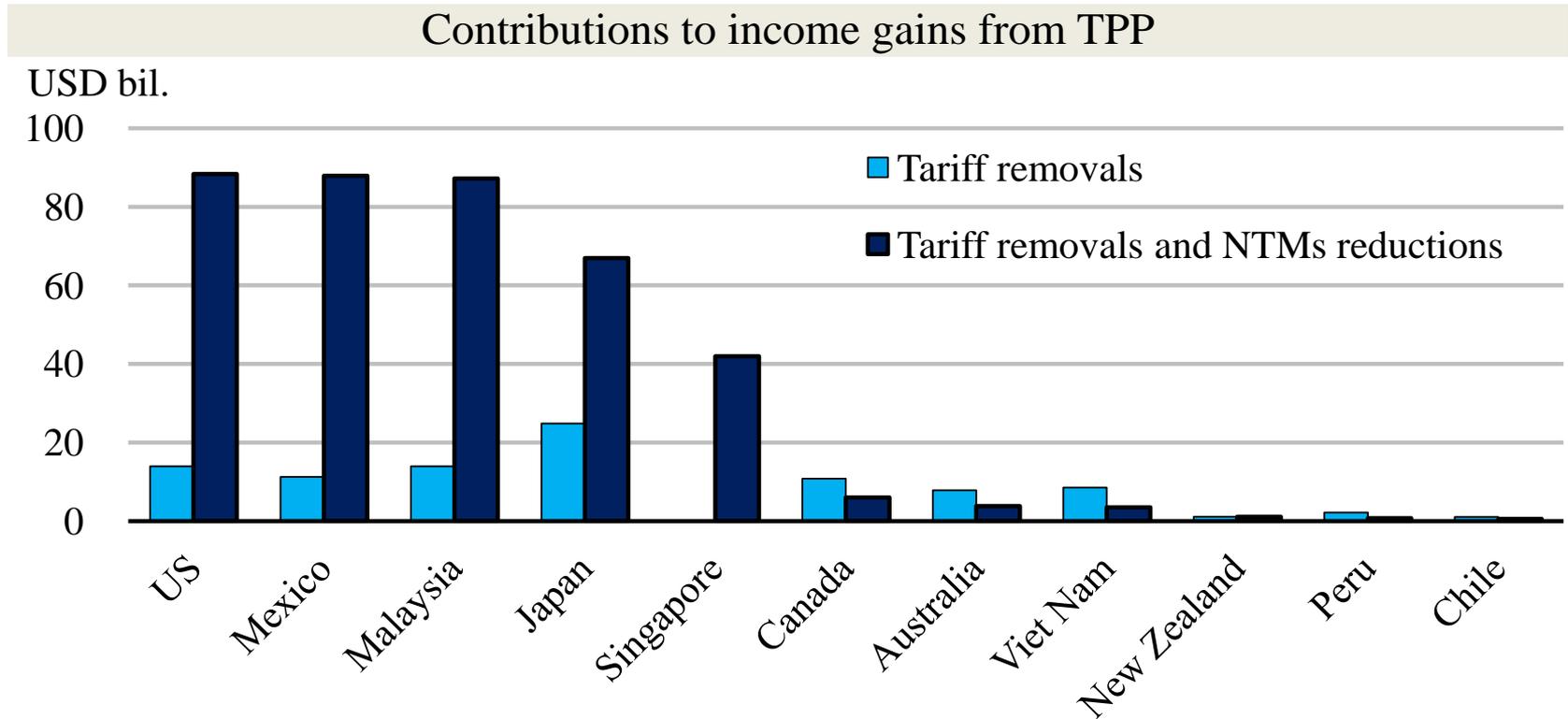
Possible benefits from spill-over effects of NTMs reductions.
However, income losses from FTAAP will be sizable compared with expected gains from EU-CJK FTA and TTIP.



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

Key economies of TPP

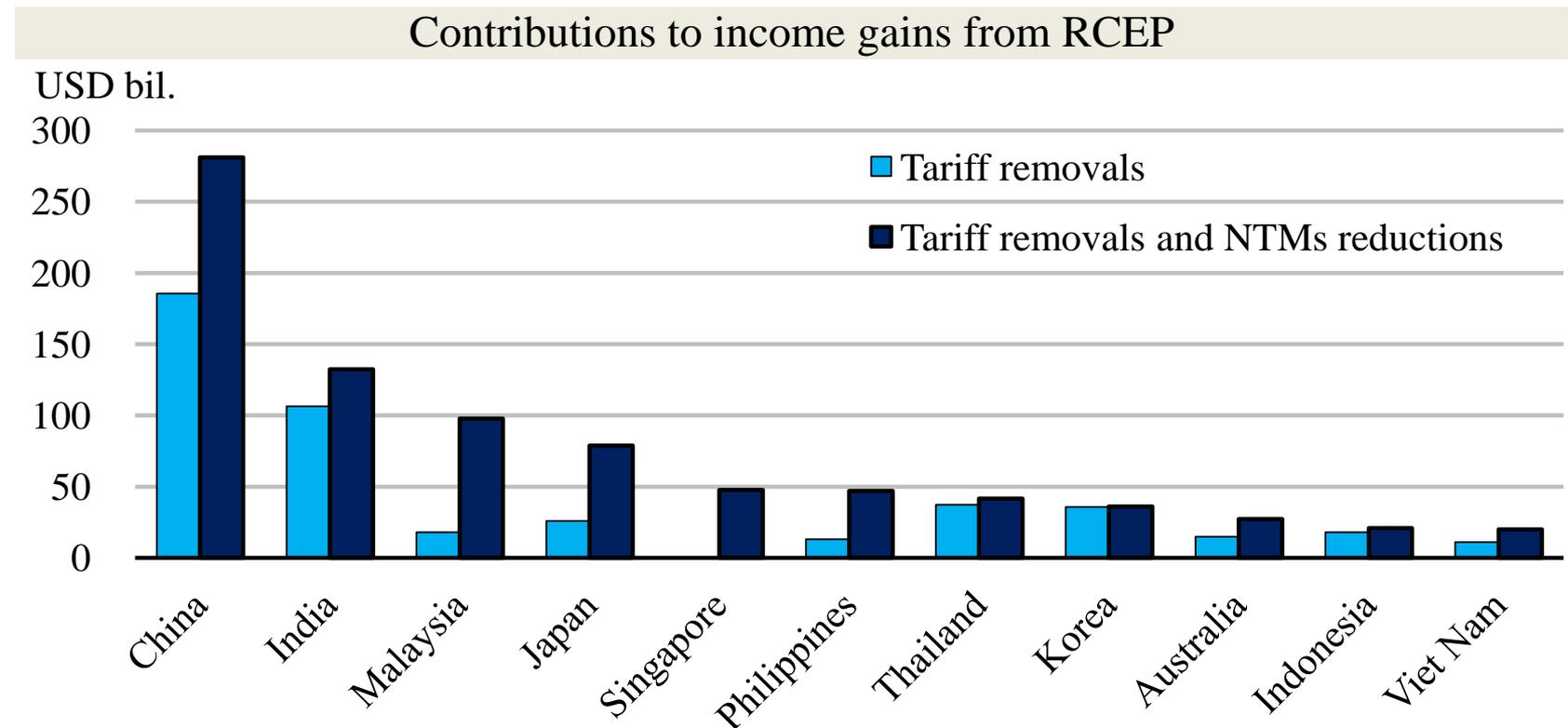
The US, Mexico and Malaysia will drive Income gains from TPP. Japan's contribution by tariff removals will relatively be large. Singapore will still contribute by NTMs reductions.



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

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.

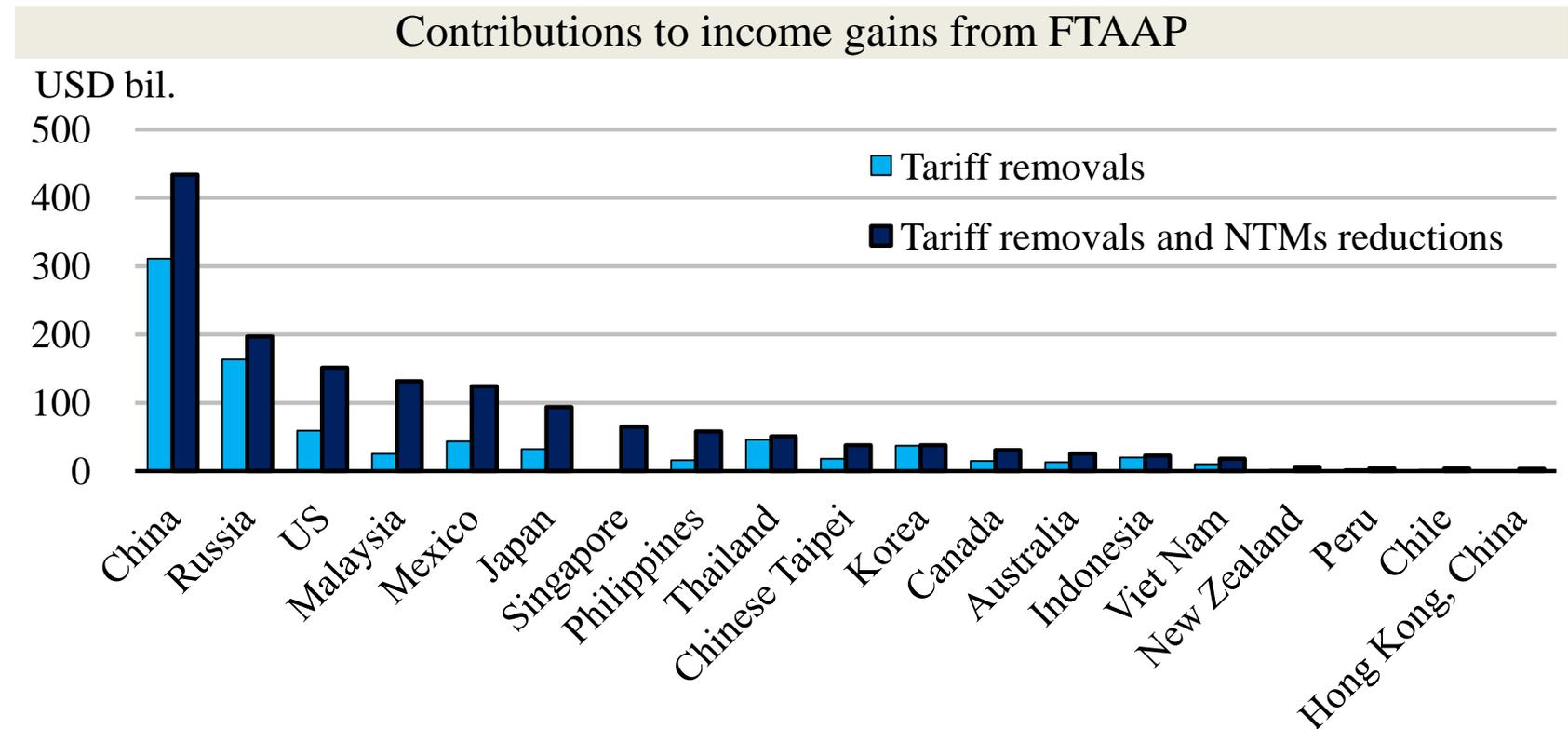


Sources: Kawasaki (2013), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper, forthcoming

Key economies of FTAAP

China will drive income gains from FTAAP.

This position will be followed by Russia and the US.



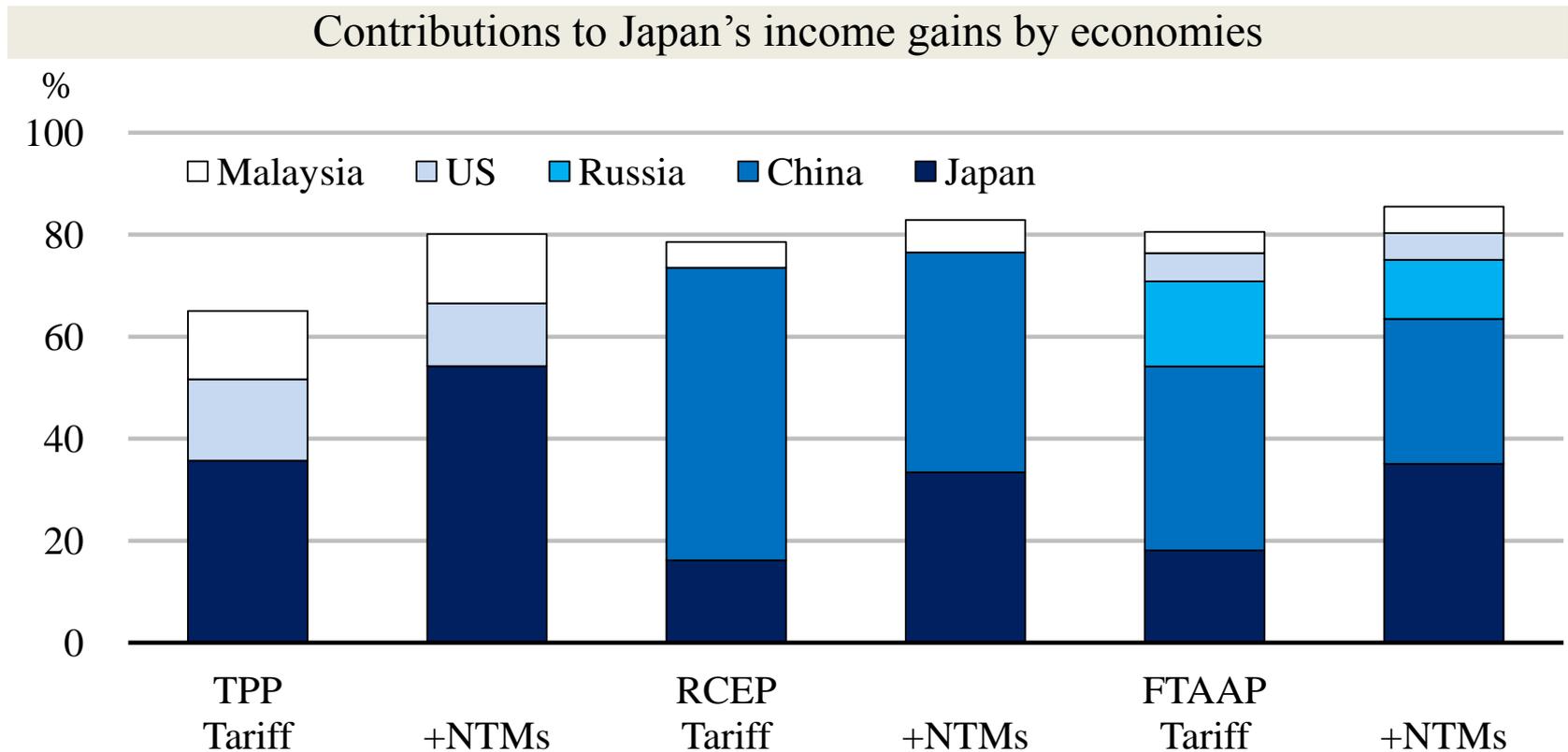
Sources: Kawasaki (2013), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper, forthcoming

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.

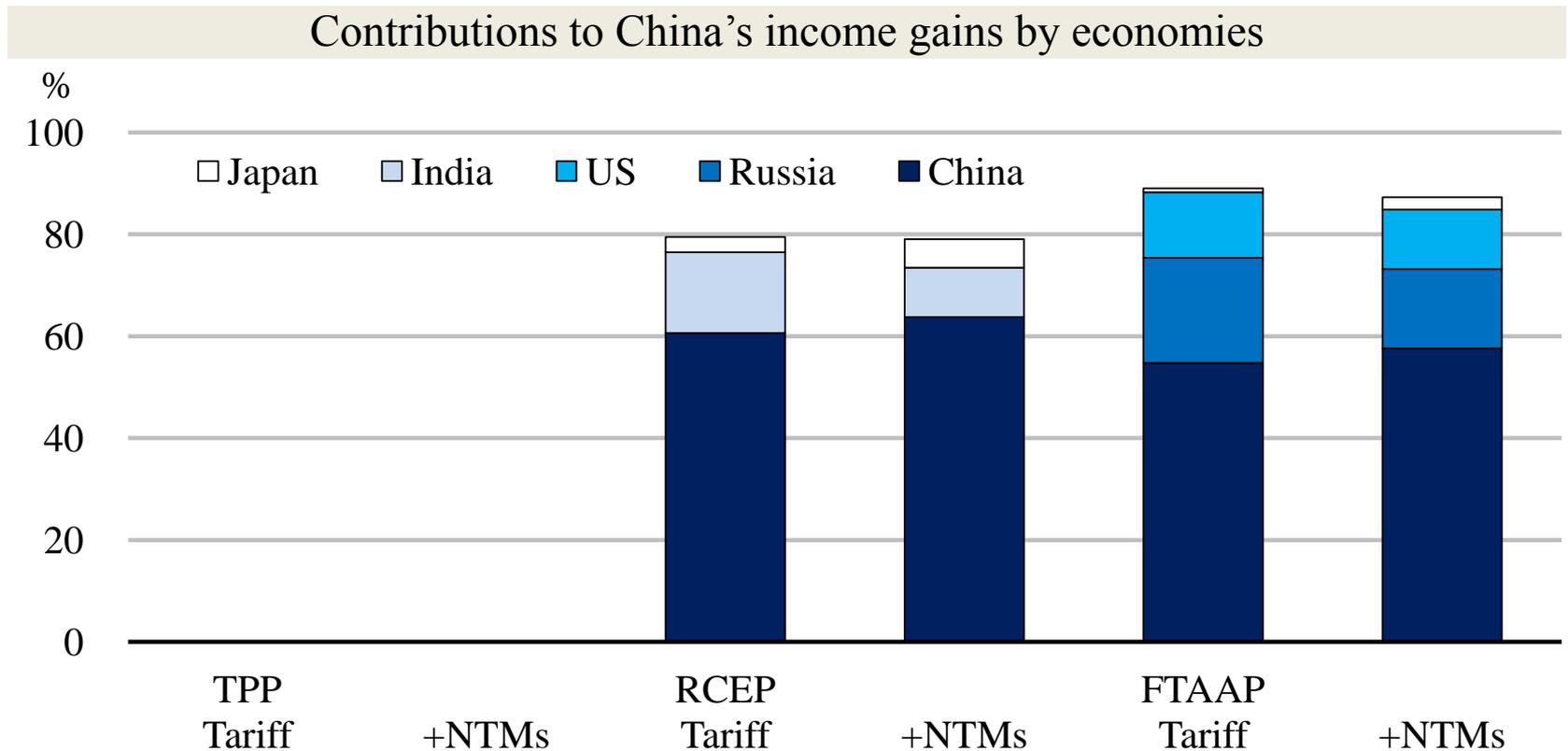


Sources: Kawasaki (2013), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper, forthcoming

China's source of economic benefits

Own initiatives will be primal source of benefits.

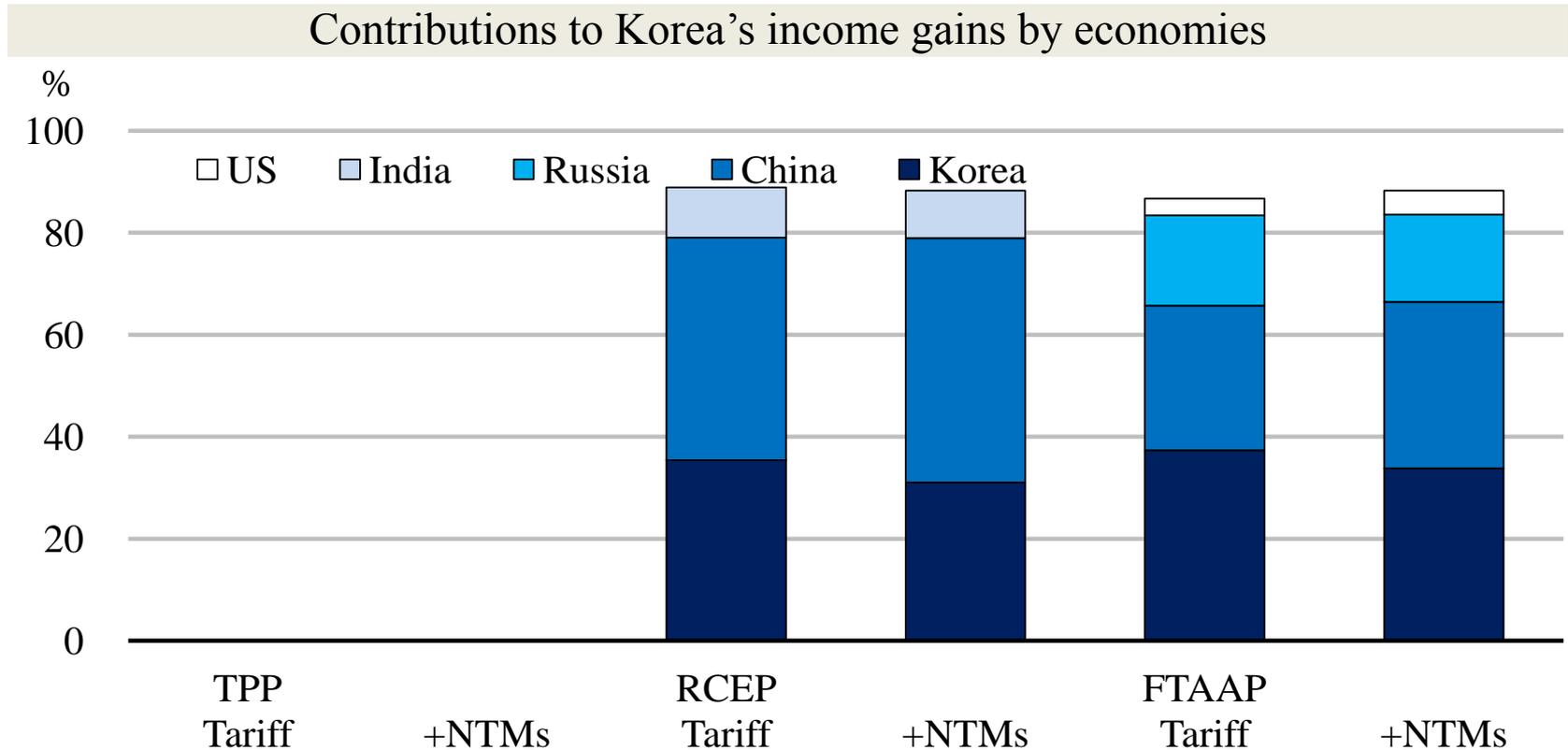
India's contribution will be sizable in RCEP. On the other hand, the contribution of the US and Russia will be larger in FTAAP.



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

Korea's source of economic benefits

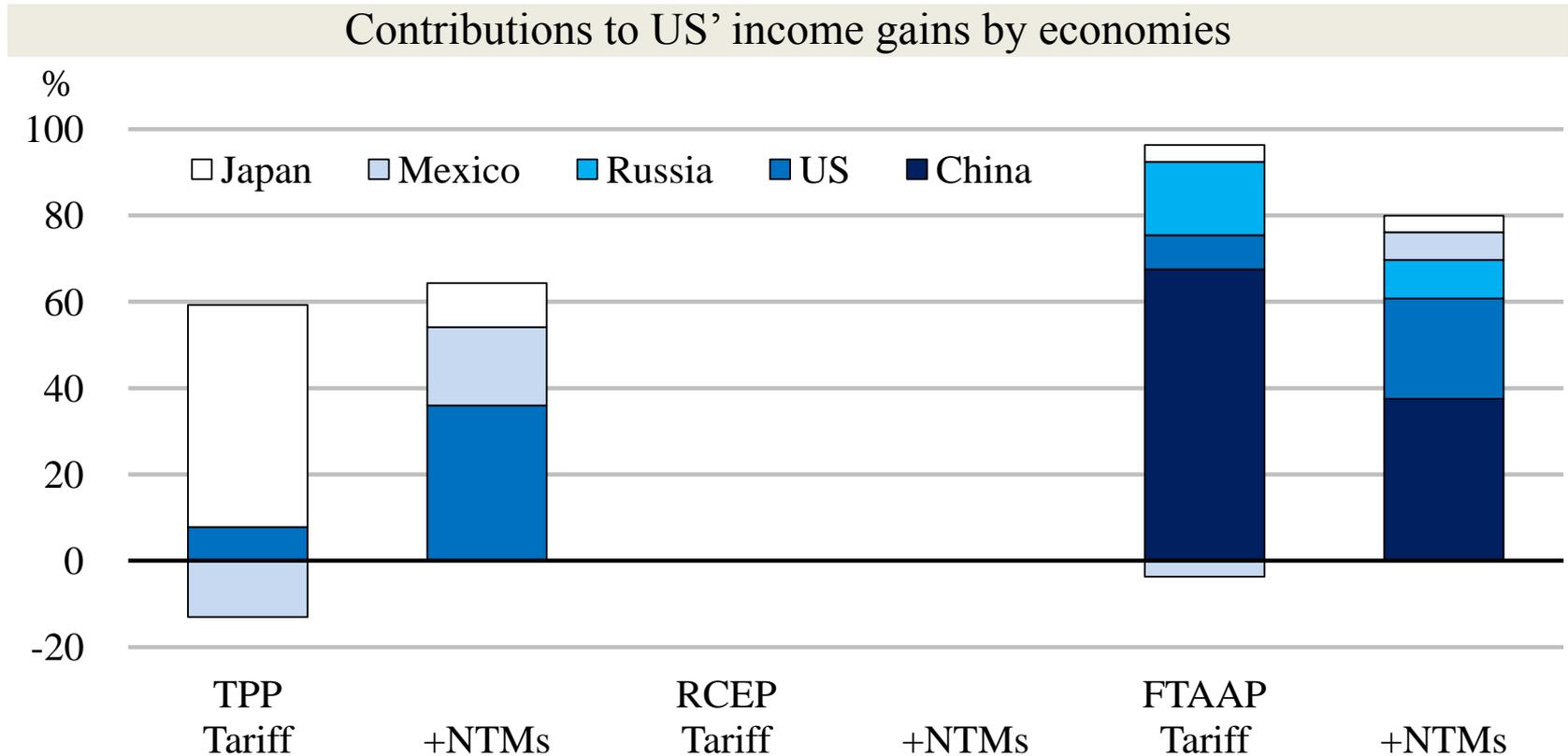
Own initiatives will be significant source of benefits.
 Meanwhile, China's contribution will be larger in RCEP.
 India and Russia will also contribute.



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

US' source of economic benefits

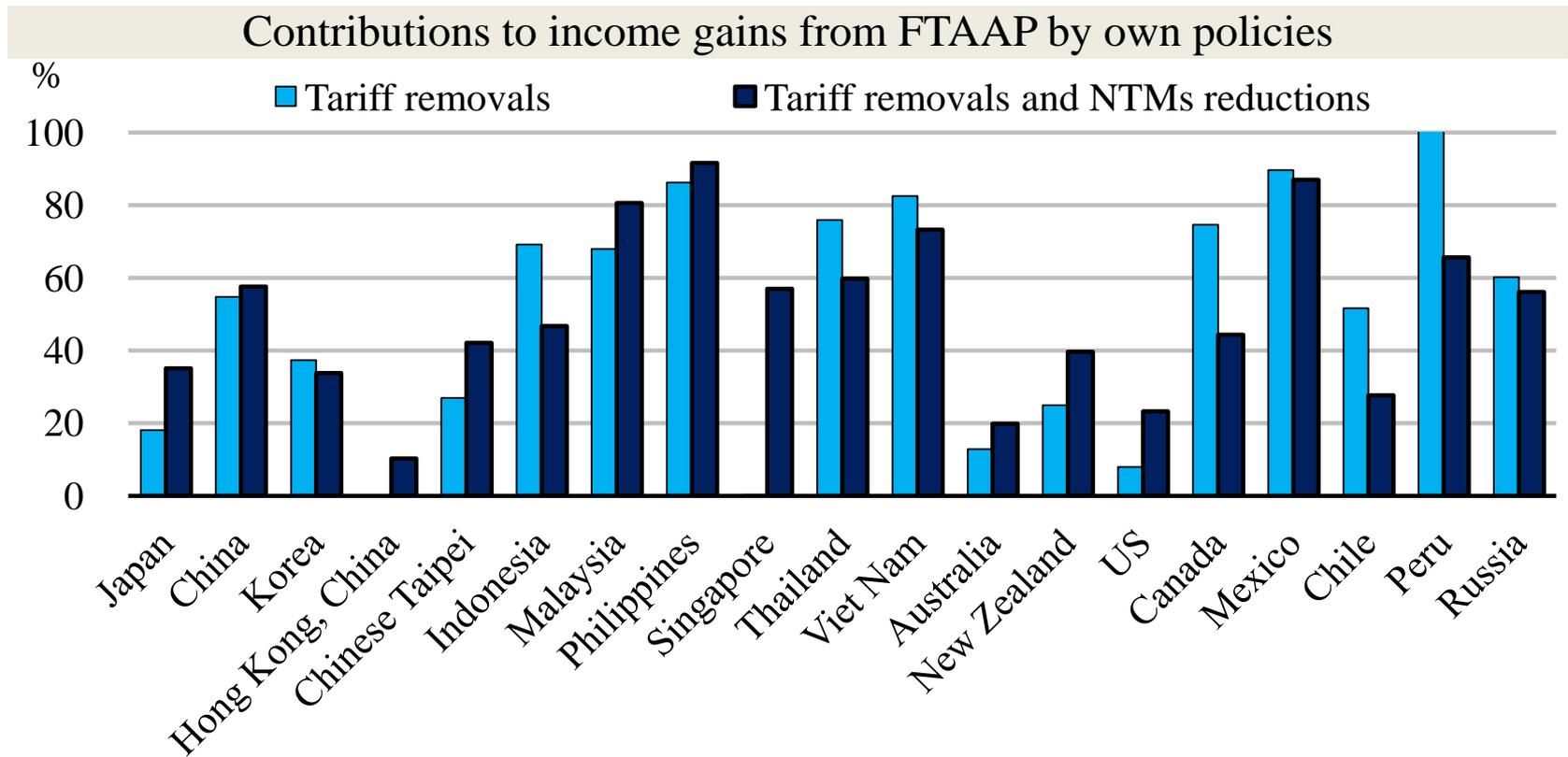
Income gains from Japanese tariff removals will be major in TPP. Meanwhile, contribution of own NTMs reductions will be significant. On the other hand, Chinese contributions will be larger in FTAAP.



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

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.

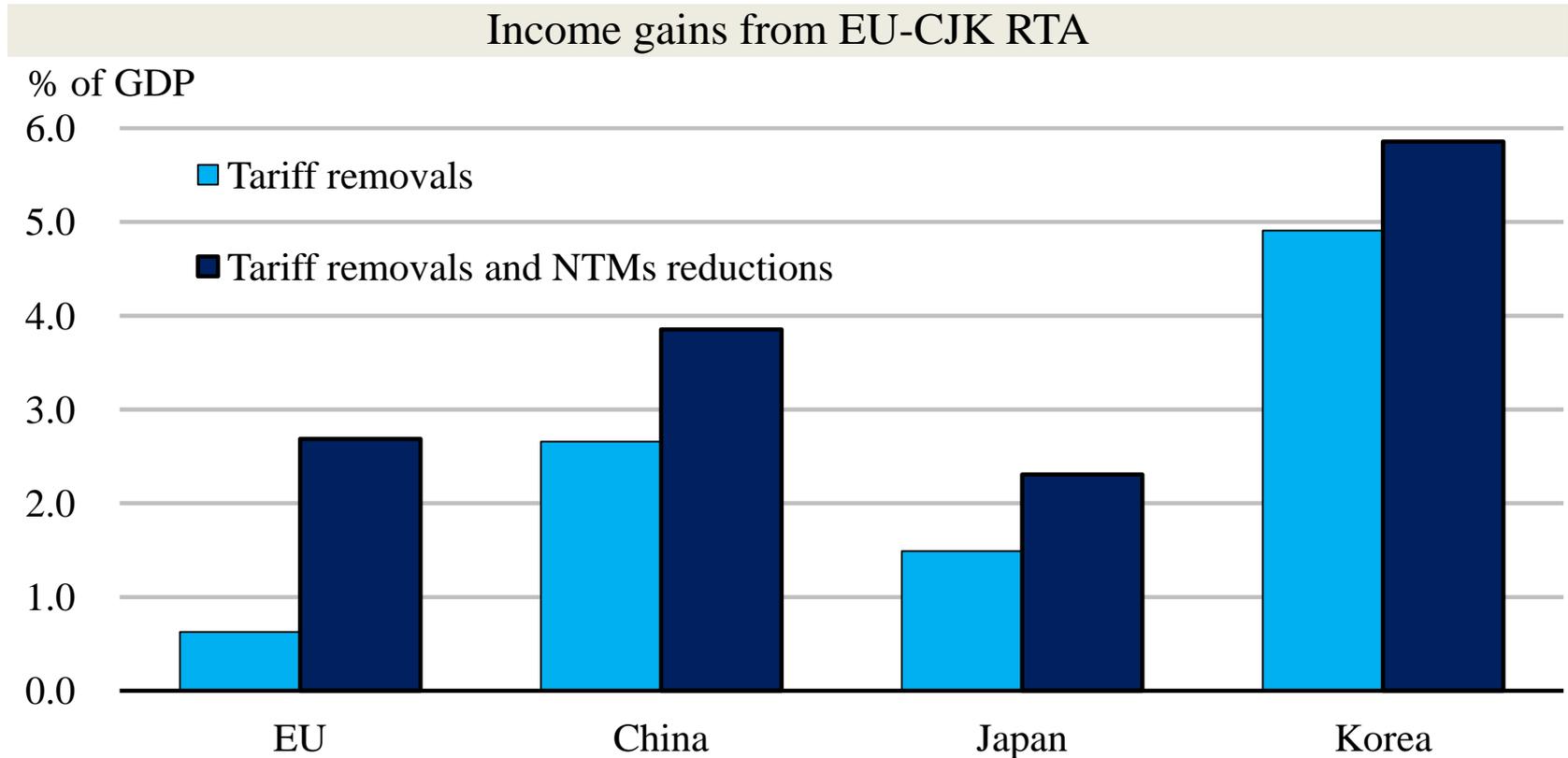


Sources: Kawasaki (2013), "The Relative Significance of EPAs in Asia-Pacific", RIETI Discussion Paper, forthcoming

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.



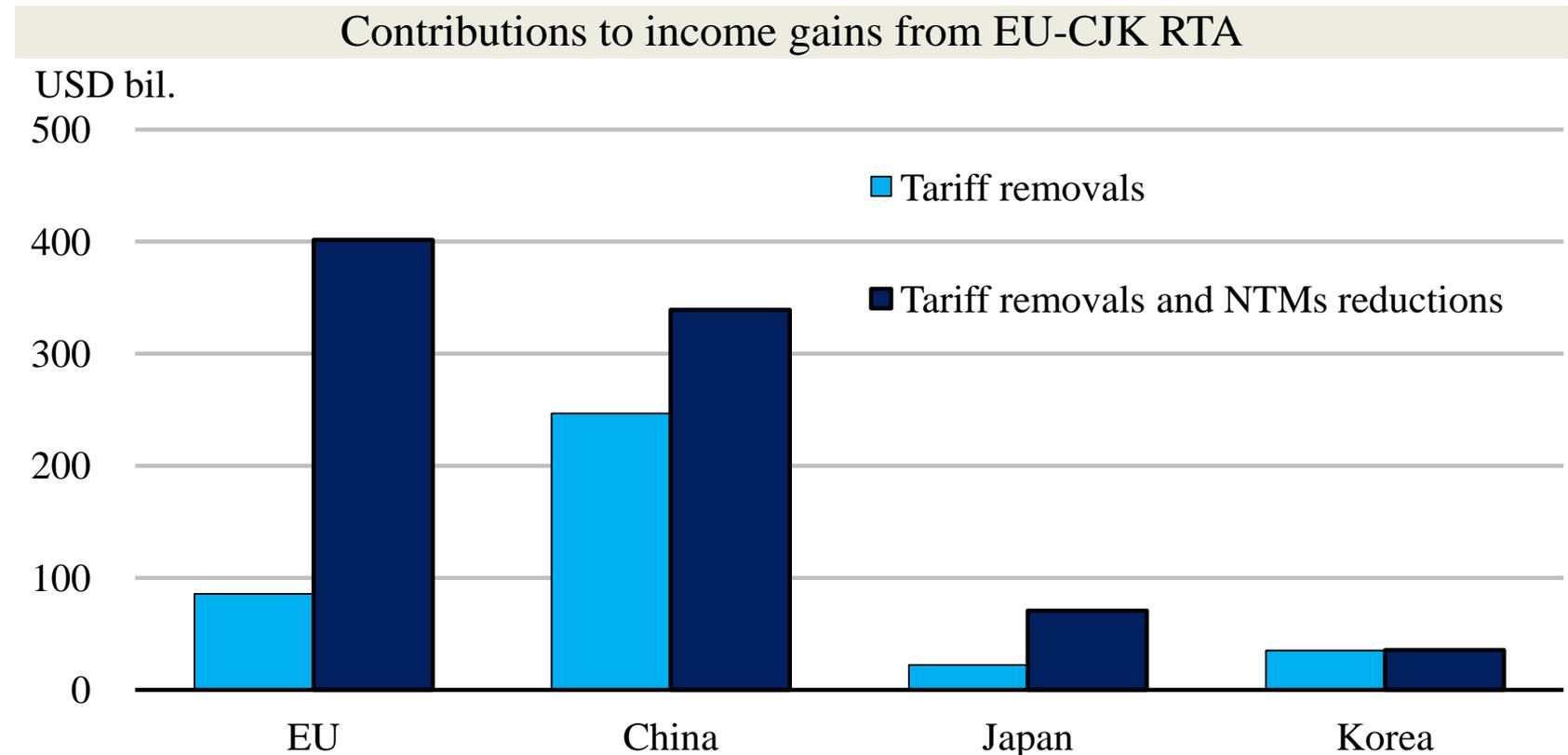
Sources: Author's simulations

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.

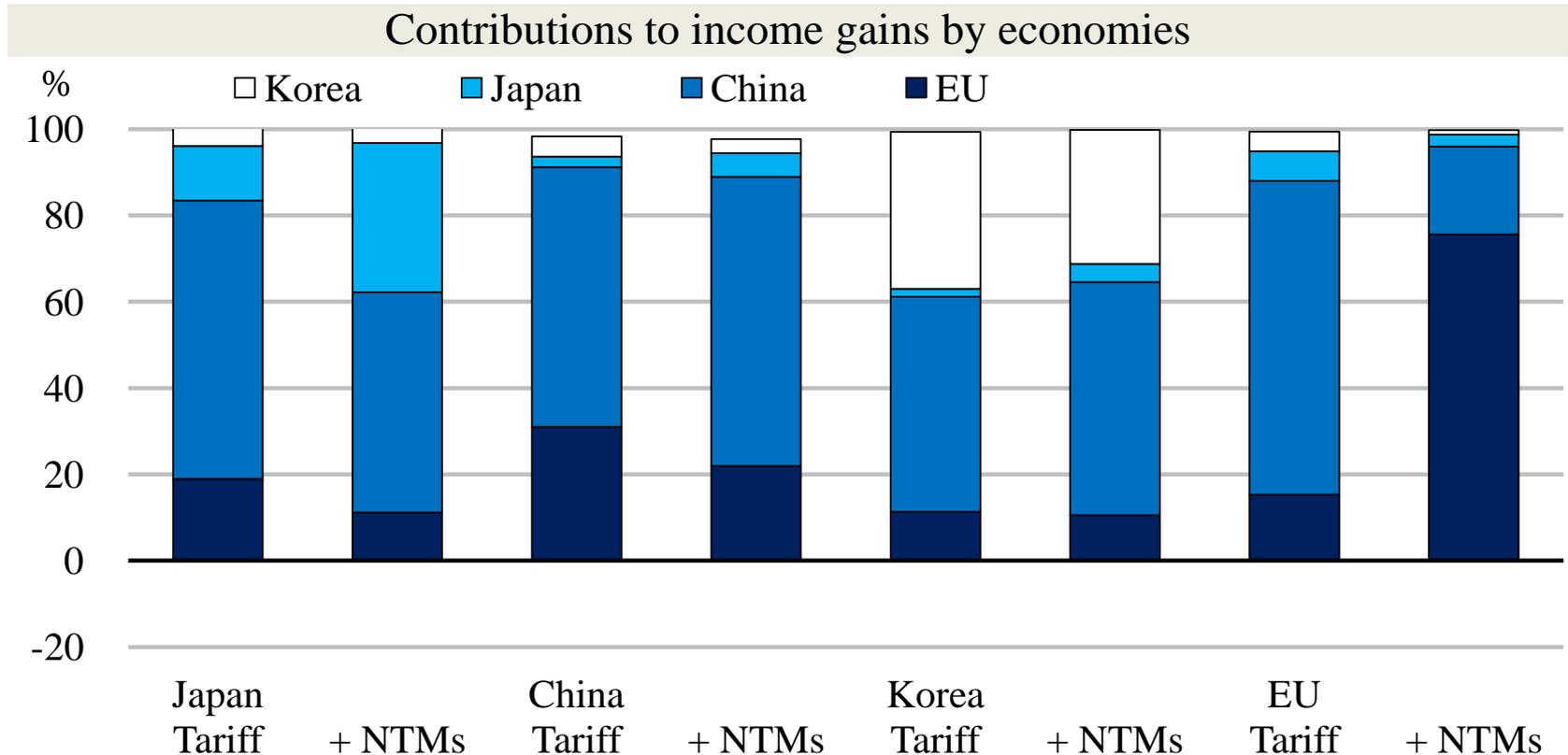
Meanwhile, China's contribution by tariff removals will be significant.



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.

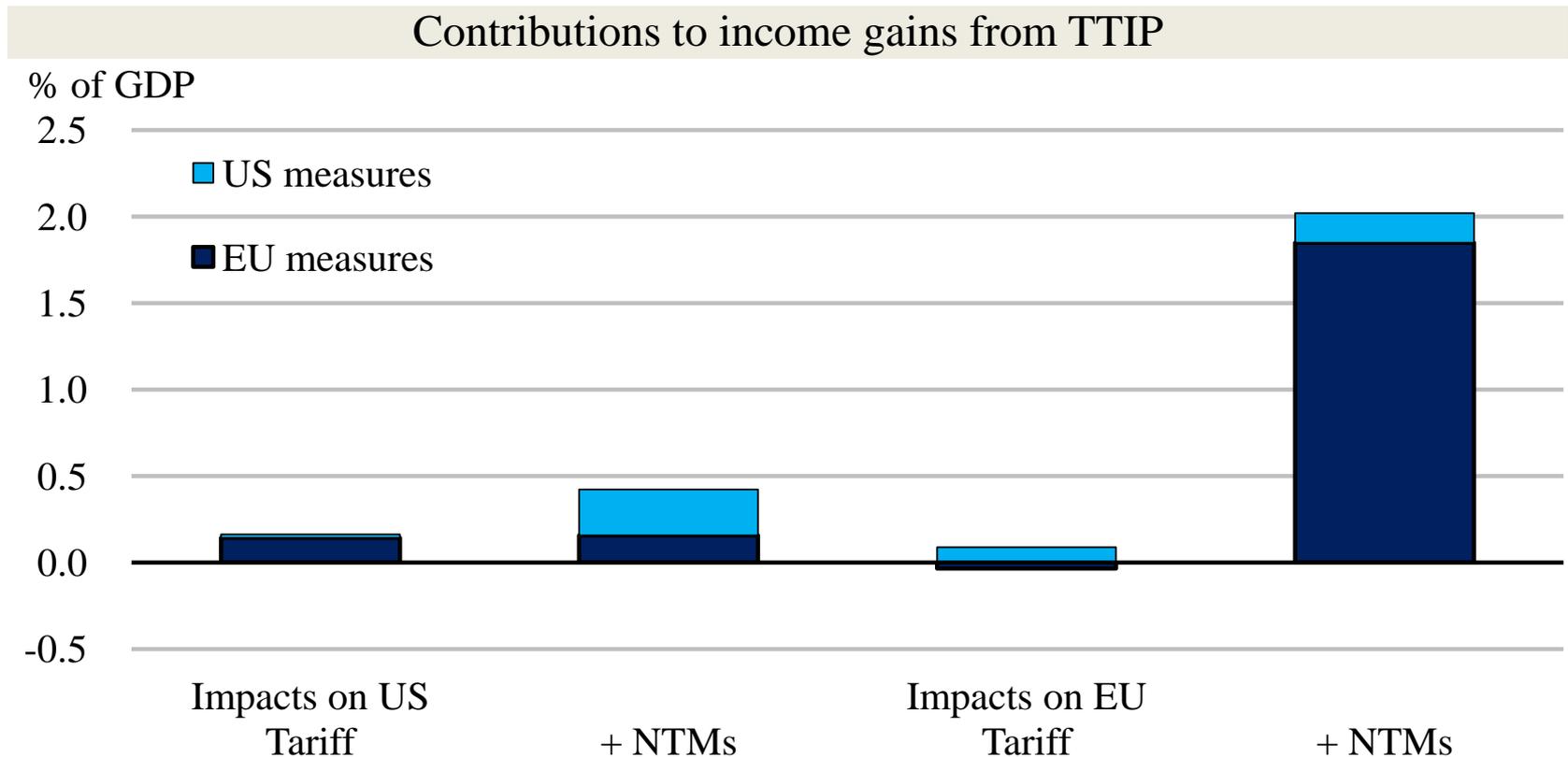


Sources: Author's simulations

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.



Sources: Author's simulations

(Reference)
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

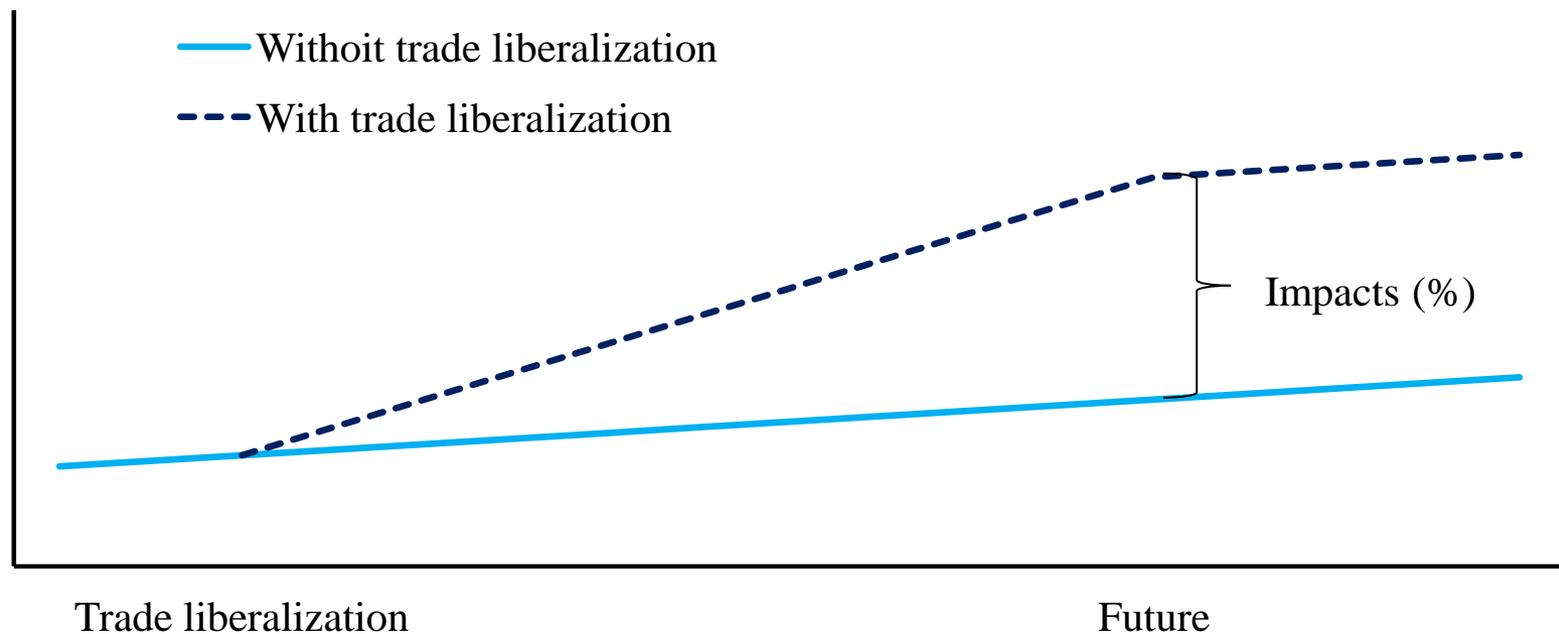
- Data
 - GTAP Data Base version 8.1 (benchmark year 2007)
 - Updated baseline in 2010 based on IMF
- Model
 - Perfect competition (CRTS: constant return to scale)
 - Armington assumption (imperfect substitutes of goods)
 - Fixed total amount of labor
 - International capital movements (expected rate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



Source: Author