

**Policy Analysis Focus 18-2**  
**Economic Impact of EPAs beyond TPP11<sup>1</sup>**

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**I. Introduction**

Developments related to the imposition of additional US import tariffs and policy responses by other economies have been of great concern to global trade policy makers. It appears that protectionist measures would have a negative impact on the macro economy. The promotion of trade and investment liberalization and facilitation is essential from the perspective of the growth of world trade and economy.

So called mega Economic Partnership Agreements (EPAs) have been promoted in the Asia-Pacific economy; noteworthy among them are the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP).

This article explores the potential future economic impact of such EPAs, including the expansion of membership of TPP and the implementation of RCEP. The study consists of a simulation analysis using a Computable General Equilibrium (CGE) model of global trade based on the most recent database of world trade and economy.<sup>2</sup>

**II. The progress of economic partnerships**

In the wake of US withdrawal from TPP, in January 2018 the remaining eleven member countries (Japan, Brunei, Malaysia, Singapore, Viet Nam, Australia, New Zealand, Canada, Mexico, Chile and Peru) concluded negotiations towards the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), also known as TPP11. The CPTPP Agreement was signed in March 2018. Mexico completed domestic policy measures to enable implementation of the Agreement in June 2018, and

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<sup>1</sup> The views expressed in this article are the author's own and do not represent those of GRIPS Alliance or other organizations to which the author belongs.

<sup>2</sup> The Global Trade Analysis Project (GTAP) database beta version 10 is employed in this study. The data for Myanmar are not available among ASEAN data.

Japan and Singapore followed suit in July 2018. The Agreement will go into force once it is ratified by six countries among the eleven countries above. After ratification, more economies will be expected to join the Agreement. Several economies have already expressed their intention to participate.

Sixteen East Asian countries (the ASEAN 10 countries, Japan, China, Korea, Australia, New Zealand and India) have been negotiating RCEP. According to a Joint Media Statement,<sup>3</sup> at the sixth RCEP Intersessional Ministerial Meeting, held in October 2018, “The Ministers reaffirmed their resolve to bring negotiations to a substantial conclusion and reiterated that the completion of the Package by the year-end is an important milestone, particularly at the time of uncertainties in global trade.”

### III. The impact of expanding economic partnerships

The impact of expanding economic partnerships on the real GDP of several economies is estimated using a CGE model of global trade. The results are compared in the Table for two cases: expansion of CPTPP membership; and the implementation of RCEP.

The real total GDP of eleven CPTPP countries is estimated to increase by 1.4 per cent as a result of CPTPP (TPP11), rather smaller than its increase of 1.7 per cent resulting from TPP with the US (TPP12). That said, if Korea, Indonesia, the Philippines and Thailand were to join CPTPP (TPP15), the real total GDP of the eleven CPTPP countries is estimated to increase by 1.7 per cent, possibly equal to the impact of TPP. The total economic size of the above four countries, measured in terms of GDP, is far smaller than that of the US, but there are indications that the impact of trade liberalization and facilitation could be larger, relative to the size of the countries.

Moreover, if Colombia and the UK were to join CPTPP in addition to the above four Asian countries (TPP17), the economic impact could be larger—it is estimated to possibly exceed that of TPP. On the other hand, it is also estimated that if RCEP were implemented in addition to CPTPP (+RCEP), the real total GDP of the CPTPP countries would increase more than that resulting from TPP.

It is mechanically assumed in this study that tariffs would be 100 per cent removed in all EPAs, so as to compare the potential economic impact of those scenarios. It is also assumed that non-tariff measures (NTMs) would be reduced by 20 per cent

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<sup>3</sup> <https://asean.org/storage/2018/10/RCEP-ISSL-MM-6-JMS-FINAL.pdf>

**Table: Real GDP impact of economic partnership**

	Tariff removals					Tariff removals and NTMs reduction					(%)
	TPP12	TPP11	TPP15	TPP17	+RCEP	TPP12	TPP11	TPP15	TPP17	+RCEP	
Japan	0.4	0.2	0.5	0.5	1.3	0.8	0.6	0.9	0.9	1.9	
Brunei	0.0	0.0	0.1	0.1	0.1	1.3	1.3	1.5	1.6	1.8	
Malaysia	0.7	0.3	0.5	0.8	0.8	7.8	7.0	7.9	8.3	9.6	
Singapore	0.3	0.4	0.4	0.4	0.1	5.8	5.4	5.9	6.0	6.2	
Viet Nam	6.2	1.7	3.6	4.0	7.8	11.0	6.1	8.7	9.1	14.7	
Australia	0.4	0.5	0.8	0.9	1.1	0.8	0.9	1.2	1.3	1.7	
New Zealand	0.7	0.6	1.1	1.7	1.0	2.0	1.8	2.4	3.1	2.5	
US	0.0	0.0	-0.1	-0.1	-0.1	0.3	0.0	0.0	0.0	-0.1	
Canada	0.2	0.2	0.3	0.4	0.2	0.8	0.6	0.7	0.7	0.5	
Mexico	0.0	0.2	0.7	0.7	0.0	4.2	2.9	3.4	3.4	2.5	
Chile	0.0	0.1	0.2	0.2	-0.1	0.2	0.4	0.5	0.5	0.2	
Peru	0.0	0.0	0.1	0.1	-0.1	0.3	0.3	0.4	0.4	0.2	
Total CPTPP	0.4	0.3	0.6	0.6	0.9	1.7	1.4	1.7	1.8	2.2	
Korea	-0.1	-0.1	1.7	1.7	4.5	-0.3	-0.1	1.9	1.9	4.7	
Indonesia	-0.2	-0.1	0.7	0.8	1.1	-0.2	0.1	1.2	1.3	1.6	
Philippines	-0.2	-0.1	0.8	0.9	0.3	-0.3	0.0	5.4	5.5	5.7	
Thailand	-0.6	-0.4	2.1	3.1	2.0	-0.4	-0.2	3.6	4.6	3.6	
Colombia	-0.2	-0.1	-0.1	1.1	-0.3	-0.3	0.0	-0.1	1.9	-0.3	
UK	-0.1	0.0	-0.1	0.4	-0.2	-0.2	0.0	-0.1	0.7	-0.2	
China	-0.1	0.0	-0.1	-0.2	0.9	-0.2	-0.1	-0.2	-0.2	1.4	
Cambodia	-1.0	-0.1	-0.2	-0.4	4.0	-0.8	0.1	0.0	-0.1	9.5	
Laos	0.0	0.0	0.0	0.0	2.2	0.0	0.1	0.1	0.1	4.8	
India	-0.1	0.0	-0.1	-0.1	2.0	-0.2	0.0	-0.1	-0.2	2.6	

Source: Author's simulations

among the EPA members and by 10 per cent for non-members (50 per cent spillover effects). 100 per cent tariff removals were not agreed under TPP, and it has been pointed out that the level of agreement for RCEP could be even lower than that for TPP. An accurate picture of actual economic impact of expanding economic partnerships could be obtained with investigation based on the results of the agreements of those EPAs.

#### IV. Concluding remarks

It is estimated by economic model simulations that the economic impact of EPA membership could be larger than that for TPP, assuming that TPP membership could be expanded after the withdrawal of the US, and that RCEP could be implemented. From the perspective of the growth of world trade and economy, further progress of economic partnerships will be much more important than protectionist measures. Early agreement of these EPAs is expected, to be accompanied by increased quality and scope in the related economies.