

Policy Analysis Focus 22-2
Economic Impact of Trade Liberalization in the Asia-Pacific¹

September 2022

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I. Introduction

Steady progress has been made in trade liberalization toward the Free Trade Area of the Asia-Pacific (FTAAP). That said, the United States (US) has withdrawn from the Trans-Pacific Partnership (TPP), and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) went into force in December 2018 through the efforts of the remaining TPP members. Meanwhile, India has opted out of the Regional Comprehensive Economic Partnership (RCEP) Agreement, which went into force in January 2022. On the other hand, the process for the establishment of the Indo-Pacific Economic Framework for Prosperity (IPEF) was launched in May 2022 by the IPEF founding members,² including the US and India.

This article examines the economic impact of trade liberalization in the Asia-Pacific by means of economic model simulations.³ The estimated economic impact under several scenarios will be compared, and the relative significance of liberalization measures by various economies will be considered.

II. Impact of trade agreements

One notable feature of recent trade agreements is that they have not always

¹ 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.

² Australia, Brunei, Fiji, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, the US and Viet Nam.

³ A standard Computable General Equilibrium (CGE) model of the Global Trade Analysis Project (GTAP) version 6.2 is used. It is based on the GTAP Database version 10, in which the most recent benchmark year is 2014. GDP levels are updated to 2022, to align with World Economic Outlook Database, April 2022, International Monetary Fund (IMF). The dynamic effects of capital accumulation and pro-competitive productivity improvements are incorporated into the model. The model is solved by GEMPACK software referred to in Horridge, Jerie, Mustakinov & Schiffmann (2018), GEMPACK Manual, ISBN 978-1-921654-34-3.

Table 1 Real GDP impact of tariff reductions

	CPTPP	RCEP	FTAAP	IPEF	(%)
Australia	0.04	0.11	-0.02		0.03
New Zealand	0.38	0.01	0.20		0.01
China	-0.02	0.16	0.77		-0.21
Hong Kong, China	-0.01	0.03	-0.04		-0.11
Japan	0.11	1.27	0.61		0.24
Korea	-0.02	0.29	1.08		1.14
Chinese Taipei	-0.01	-0.42	3.17		-0.16
Brunei	0.00	0.03	0.03		-0.02
Indonesia	-0.03	-0.05	0.22		0.75
Malaysia	0.12	-0.15	0.84		0.74
Philippines	-0.02	-0.08	0.60		0.69
Singapore	0.19	-0.16	-0.41		-0.12
Thailand	-0.08	-0.30	3.02		2.94
Viet Nam	0.94	-0.32	3.38		5.47
Canada	0.13	0.01	0.23		-0.17
US	-0.01	-0.02	0.30		0.08
Mexico	0.12	0.03	0.99		-0.48
Chile	0.03	0.01	-0.01		-0.18
Peu	-0.00	-0.01	-0.16		-0.10
Russia	0.00	0.05	1.32		-0.12
APEC	0.01	0.14	0.60		0.08
India	-0.02	-0.05	-0.39		0.98

Source: Author's simulations.

agreed on hundred per cent tariff removals. The World Trade Organization (WTO) has argued that “the vast majority of such new plurilateral agreements have not... superseded existing bilateral agreements.”⁴ As of August 2022, the WTO Regional Trade Agreement (RTA) Database includes CPTPP and the United States-Mexico-Canada Agreement (USMCA) but not RCEP or the US-Japan Trade Agreement (USJTA).

The estimated changes in real GDP resulting from tariff removals⁵ under FTAAP are shown in Table 1.⁶ It is assumed in the reference scenario that tariff reductions by major trade agreements including CPTPP, USJTA, USMCA and RCEP will be fully implemented. The real GDP of the APEC economies is estimated to increase by an average of 0.60%, which is much larger than the increase due to tariff reductions under CPTPP (0.01%) and RCEP (0.14%).⁷ That said, the estimates suggest that a few

⁴ https://www.wto.org/english/tratop_e/region_e/region_e.htm

⁵ The tariff data are derived from Market Access Map, International Trade Centre (ITC), which is based on tariff reductions under trade agreements in force.

⁶ The GTAP database does not provide data for Papua New Guinea and hence Papua New Guinea is not included in the Asia-Pacific Economic Cooperation (APEC) section in the Table.

⁷ These estimates are slightly different from those in the earlier articles of the author due to an

economies, including Australia, New Zealand and Japan, would enjoy major economic benefits from CPTPP and/or RCEP. This difference in economic impact could be explained by the balance of the magnitudes of tariff reductions under those agreements and the remaining tariff removals, discussed below.

If tariffs among the IPEF members were removed,⁸ the real GDP of the APEC economies is estimated to increase by an average of 0.08%, which is still modest compared with that under FTAAP tariff removals. Real GDP is estimated to increase by a similar proportion under FTAAP in Korea and the Association of Southeast Asian Nations (ASEAN), but to decrease in IPEF non-members. The pillars of IPEF negotiations would be: 1) trade, 2) supply chains, 3) clean economy, and 4) fair economy,⁹ but IPEF would not necessarily include tariff reductions. The economic impact of IPEF could be different from that of tariff reductions and must be studied in light of the outcomes of IPEF negotiations.

III. Impact of tariff removals by economies

The real GDP impact of the removal by each of the five economies of tariffs on imports from the APEC economies as a whole and India is presented in Table 2. The average real GDP of the APEC economies is estimated to increase the most as a result of China's tariff removals (0.19%), followed by that of the US (0.14%). That said, it is important to note that China's real GDP is estimated to increase considerably as a result of China's tariff removals. Excluding the benefits from own tariff removals, the real GDP of the APEC economies is suggested to increase the most due to US tariff removals.

The relative significance of tariff removals by the five economies is suggested to vary among the APEC economies. China's real GDP increase as a result of US tariff removals (0.20%) is estimated to be smaller than half of that resulting from China's tariff removals (0.45%). On the contrary, the increase in US real GDP as a result of China's tariff removals (0.12%) is estimated to be not much smaller than that due to US tariff removals (0.14%). Meanwhile, the estimated increase in Japan's real GDP due to China's tariff removals (0.11%) is almost equal to that due to US tariff removals (0.14%).

Viewing Table 2 columnwise suggests another variation in the impact of tariff removals by the five economies. Real GDP is estimated to increase widely due to US

update of the baseline data.

⁸ The data for Fiji is not available in the GTAP database and hence it is not included here.

⁹ IPEF Ministerial Statements, September 9, 2022

Table 2 Real GDP impact of tariff removals by economies

	China	US	Japan	Australia	India
Australia	-0.04	0.04	-0.01	0.05	0.08
New Zealand	-0.13	0.23	-0.02	-0.01	-0.01
China	0.45	0.20	-0.00	-0.00	0.00
Hong Kong, China	0.00	-0.02	0.01	-0.00	-0.06
Japan	0.11	0.14	0.18	-0.01	-0.14
Korea	-0.11	0.11	0.01	-0.01	-0.12
Chinese Taipei	0.57	0.22	0.04	0.04	-0.01
Brunei	-0.02	0.03	-0.00	-0.00	-0.01
Indonesia	-0.10	0.10	-0.01	-0.00	0.35
Malaysia	-0.14	0.08	-0.01	-0.01	0.07
Philippines	-0.28	0.06	-0.02	-0.00	-0.07
Singapore	-0.37	0.12	0.01	-0.01	-0.12
Thailand	-0.29	-0.02	0.07	-0.03	-0.12
Viet Nam	-0.07	1.64	-0.08	-0.00	0.13
Canada	0.08	-0.03	0.03	0.00	0.08
US	0.12	0.14	0.01	-0.00	-0.00
Mexico	0.24	-0.51	0.11	0.01	-0.05
Chile	-0.06	0.06	-0.07	-0.00	0.13
Peu	-0.06	-0.02	-0.01	-0.00	0.00
Russia	-0.03	0.07	0.00	-0.00	-0.12
APEC	0.19	0.14	0.02	-0.00	-0.01
India	-0.05	-0.04	-0.00	0.04	1.83

Source: Author's simulations.

tariff removals, with the exception of a few economies including Canada, Mexico and India. On the other hand, removal of China's tariffs is estimated to result in an increase in real GDP in Japan, Chinese Taipei and North America, but in a decrease in Oceania, Korea, ASEAN, India and others. Meanwhile, sizable real GDP increases due to tariff removals by Japan, Australia and India are not estimated to occur for many economies. It is suggested that tariff removals would primarily benefit the remover in the case of those three economies.

IV. Concluding remarks

Despite the conclusion of major trade agreements in the Asia-Pacific, much remains to be done toward the realization of free trade. For the APEC economies, the economic benefits of removal of FTAAP tariffs are estimated to be far larger than of reductions of CPTPP and RCEP tariffs. Meanwhile, the relative significance of tariff removals by each economy is suggested to vary among the economies to which those tariffs are applied. Investigation of the quantitative economic impact would be worthwhile for consideration of priorities of a framework of trade liberalization.