Potential Economic Effects of RCEP on the Philippines

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Objective

- To assess the potential economic effects of Regional Comprehensive Economic Partnership (RCEP) on the Philippines

Background

- RCEP
  - November 2012 – initial launch of negotiations
  - Countries - 10 ASEAN countries + 6 others (Australia, New Zealand, China, Japan, S. Korea, India)
  - RCEP recognizes ASEAN's centrality
- Items in the negotiation
  - Elimination of tariff and non-tariff barriers on goods and services
  - Facilitation of investment flows
  - Technical cooperation
  - Protection of intellectual property rights
  - Promotion of competition
  - Establishment of dispute settlement mechanism
- No agreements in 2017; but talks will continue in 2018

Background

- ASEAN
  - ASEAN Trade in Goods Agreement (ATIGA) in 2010 – created the ASEAN Economic Community (AEC) at the end of 2015
  - AEC agreed ATIGA Tariff rates
- Philippine Second Offer List in RCEP:
  - Entry into Force (EIF) – elimination of trade barriers upon ratification
  - Gradual reduction in 10 years of trade barriers in some sectors
  - Some sectors (sensitive products) are excluded from reduction in trade barriers

RCEP GDP and Population

	2013 Population million	2013 GDP US$ billion*
ASEAN		
Brunei	0.4	16.1
Cambodia	15.0	15.2
Indonesia	248.8	868.3
Lao	6.7	10.6
Malaysia	29.9	312.4
Myanmar	61.6	80.7
Philippines	97.4	272.1
Singapore	5.4	297.9
Thailand	66.8	416.1
Vietnam	89.7	171.2
"+6"		
Australia	23.1	1,468.5
New Zealand	4.5	185.8
Japan	127.3	4,898.1
S. Korea	50.2	1,304.6
China	1,360.7	9,181.2
India	1,228.8	1,798.6
Total (ASEAN + 6)	3,416.4	21,297.5

Source: ADB Economic Indicators

*Local currency converted to US$ using ave. forex;
2012 for Myanmar

Philippine Trading Partners

	Exports, 2010-2013				Imports, 2010-2013	
	Average,	Average			Average,	Average
Countries	US $mil.	Share,%		Countries	US $mil.	Share,%
Japan	9,507	18.5		USA	6,558	11.0
USA	7,474	14.5		European Union	6,363	10.6
European Union	6,363	12.4		China	6,357	10.6
China	6,178	12.0		Japan	6,229	10.4
Singapore	5,120	9.9		Singapore	4,680	7.8
Hong Kong	4,308	8.4		Taiwan	4,405	7.4
South Korea	2,622	5.1		South Korea	4,395	7.3
Thailand	2,018	3.9		Thailand	3,544	5.9
Taiwan	1,872	3.6		Indonesia	2,558	4.3
Malaysia	1,203	2.3		Malaysia	2,487	4.2
Indonesia	680	1.3		Hong Kong	1,436	2.4
Canada	451	0.9		Australia	1,058	1.8
Australia	485	0.9		Canada	451	0.8
New Zealand	44	0.1		New Zealand	466	0.8
Others	3,147	6.1		Others	8,863	14.8
Total	51,470	100.0		Total	59,847	100.0
% of GDP	22.9			% of GDP	26.6	
Phil. exports to RCEP, %		**54.0**		Phil. imports from RCEP, %		**53.1**
Source: Bangko Sentral ng Pilipinas						

Net FDI to the Philippines

	Total 2009-2013	Percent Distribution
Total	4,462	100.0
United States	1,073	24.0
Japan	1,823	40.9
European Union 25	-1,286	-28.8
ASEAN /1/	3	0.1
ANIEs /2/	1,375	30.8
South Korea	49	1.1
Hong Kong	1,292	29.0
Taiwan	34	0.8
Others	1,473	33.0

/1/ Association of South East Asian Nations

/2/ Asian Newly Industrializing Economies

Source: Bangk Sentral ng Pilipinas

Tariffs in ATIGA, %

	Philippines	Thailand	Malaysia	Vietnam	Indonesia	Other ASEAN
Rice	35.0	0.0	20.0	5.0	0.0	1.7
Wheat & oth. cereals	0.3	0.0	0.0	0.0	0.0	0.0
Sugar	5.0	0.0	0.0	1.1	2.1	0.0
Milk	0.0	0.0	0.0	4.7	0.0	3.1
Oils fats	0.0	0.2	0.0	0.6	0.0	2.0
Meat	0.5	0.0	0.0	4.1	0.0	0.0
Animal products	0.3	0.0	0.0	0.4	0.0	0.9
Vegetables & fruits	0.0	0.1	0.4	2.6	0.0	3.2
Fishing	0.0	0.0	0.0	0.0	0.0	0.3
Other agriculture	0.0	0.0	0.1	0.4	0.0	0.5
All other food	0.0	0.0	0.0	1.7	0.0	3.3
Mining	0.0	0.0	0.5	2.8	21.3	0.7
Textile	0.0	0.0	0.0	1.5	0.0	0.0
Wearing apparel	0.0	0.0	0.0	0.3	0.0	0.3
Leather	0.0	0.0	0.0	2.5	0.0	0.6
Petroleum & chem.	0.0	0.0	0.0	2.9	0.0	3.2
Iron and steel	0.0	0.0	0.0	0.7	0.0	0.1
Metal	0.0	0.0	0.0	2.0	0.0	0.3
Transport equip.	0.0	0.0	0.0	8.7	0.0	0.1
Machinery & equip.	0.0	0.0	0.0	0.6	0.0	0.0
Electronic equip.	0.0	0.0	0.0	0.4	0.0	0.0
All other manuf.	0.0	0.0	0.0	2.2	0.0	0.4

Tariffs in RCEP (%)

	Phil.	Indonesia	Malaysia	Sing.	Thai	Vietnam	O. ASEAN	Australia	N. Zealand	China	Japan	S .Korea	India
Rice	35.3	4.9	24.6	0.0	22.8	8.7	2.7	0.0	0.0	3.6	94.4	3.6	25.5
Wheat & oth cereals	3.2	2.6	0.0	0.0	3.8	6.9	1.0	0.0	0.0	1.7	18.4	166.5	10.6
Sugar	5.5	4.6	0.1	0.0	7.1	6.2	3.3	1.3	2.1	12.2	13.6	20.6	29.5
Milk	2.3	4.2	0.3	0.0	12.0	4.8	4.2	0.8	2.4	9.8	25.3	35.3	25.0
Oils fats	2.9	3.0	0.3	0.0	15.2	2.4	1.6	0.6	0.3	5.9	0.8	92.2	38.4
Meat	10.4	3.3	2.0	0.0	25.8	8.4	13.9	1.2	1.4	9.5	15.2	20.7	18.7
Animal products	2.0	3.1	0.8	0.0	3.2	1.7	3.1	0.8	0.0	5.9	4.4	8.2	11.6
Vegetables & fruits	6.6	4.9	0.9	0.0	6.3	5.7	3.8	0.4	0.0	8.1	4.3	57.1	21.5
Fishing	5.3	4.0	0.4	0.0	5.1	7.7	2.0	0.0	0.6	7.8	4.5	7.6	18.8
Other agriculture	2.5	2.2	3.7	0.0	1.6	1.8	2.0	0.7	0.6	1.9	1.6	4.0	20.1
All other food	2.2	2.8	3.6	0.0	1.7	4.6	3.4	1.8	1.0	2.6	0.2	1.5	4.6
Mining	5.3	13.0	22.9	5.3	5.1	8.7	6.4	1.2	1.8	6.0	7.5	25.6	45.9
Textile	4.5	6.8	5.1	0.0	5.2	6.2	3.5	3.1	2.4	5.5	3.4	3.6	11.1
Wearing apparel	8.4	11.3	0.2	0.0	16.4	8.7	4.7	4.1	6.9	15.3	4.4	5.1	12.2
Leather	5.7	3.2	0.2	0.0	7.1	5.2	4.3	2.6	3.9	6.3	8.9	4.2	8.7
Petroleum & chem.	2.5	3.9	2.0	0.0	2.5	3.4	3.4	0.8	0.7	3.7	0.7	3.9	8.3
Iron and steel	1.7	2.7	3.0	0.0	1.0	0.9	1.2	1.7	1.3	1.5	0.4	0.6	6.2
Metal	5.0	6.3	3.7	0.0	6.7	5.5	3.2	3.9	2.2	4.6	0.7	2.5	9.0
Transport equip.	8.7	7.3	5.9	0.0	10.7	13.7	6.6	12.5	2.8	7.4	0.0	2.1	9.7
Machinery & equip.	1.4	4.2	1.9	0.0	3.0	2.0	6.7	2.2	2.4	3.1	0.0	2.0	6.4
Electronic equip.	0.7	2.1	0.2	0.0	1.7	0.8	5.4	0.6	0.7	1.6	0.0	1.5	4.0
All other manuf.	3.2	2.8	1.9	0.0	1.5	3.8	3.7	1.5	0.9	1.8	0.8	1.8	7.8

Ad Valorem Equivalent of NTMs in RCEP (%) (Kee, et al 2009)

	Phil.	Indonesia	Malaysia	Sing.	Thai.	O. ASEAN	Australia	N.Zealand	China	Japan	S Korea	India
Rice	49.0	41.9	29.3	89.5	76.2	19.5	55.4	54.1	62.6	89.9	0.0	62.7
Wheat & oth cereals	24.7	13.4	22.6	21.2	23.4	19.9	11.0	17.7	1.1	22.5	0.0	4.0
Sugar	65.7	3.6	84.7	51.2	87.7	26.8	30.3	44.3	10.1	34.0	0.0	26.9
Milk	75.1	41.5	69.4	83.4	40.1	1.0	53.2	48.4	2.9	60.3	0.0	41.5
Oils fats	36.3	29.6	40.8	39.7	34.3	6.0	47.3	27.4	16.1	29.2	0.0	32.9
Meat	40.4	43.8	50.8	41.1	41.5	6.3	62.4	40.6	1.0	39.9	0.0	38.6
Animal products	38.0	29.2	37.8	29.8	30.3	7.1	23.7	16.6	5.6	27.4	0.0	27.6
Vegetables & fruits	34.9	32.3	42.2	55.2	35.1	16.4	39.5	37.2	0.0	39.9	0.0	20.3
Fishing	29.9	37.0	29.7	31.5	23.1	7.9	32.1	25.7	0.0	27.7	0.0	22.7
Other agriculture	33.9	14.7	24.2	27.9	10.0	5.1	11.7	16.0	0.4	6.1	0.0	4.8
All other food	39.9	19.7	38.6	35.9	0.0	4.3	19.6	0.8	21.6	11.4	1.2	23.1
Mining	37.2	17.3	39.9	43.1	28.9	5.7	37.0	29.4	8.1	30.6	0.0	25.9
Textile	27.7	0.0	35.2	45.3	0.0	0.0	0.0	1.1	9.5	20.7	0.0	13.6
Wearing apparel	36.0	0.0	37.8	41.5	0.0	0.0	1.8	6.7	0.4	0.6	0.0	22.9
Leather	35.5	0.0	49.5	54.6	3.1	0.0	0.4	19.9	2.8	0.0	0.0	25.7
Petroleum & chem.	41.9	16.9	25.1	37.2	1.5	6.2	18.4	7.4	29.1	5.6	0.0	34.7
Iron and steel	36.8	1.3	21.4	29.2	0.0	0.0	0.0	0.0	16.3	0.2	0.0	3.1
Metal	40.3	0.2	29.8	34.4	0.0	0.0	0.0	1.0	1.0	2.4	0.0	22.9
Transport equip.	31.0	0.0	27.3	23.6	0.0	3.4	1.8	2.1	14.9	6.4	0.0	15.4
Machinery & equip.	45.8	1.1	31.5	32.0	1.4	0.7	8.6	27.2	6.2	5.5	0.0	9.4
Electronic equip.	32.9	0.0	24.7	34.4	0.0	2.1	23.7	29.3	7.5	18.2	0.0	17.2
All other manuf.	47.6	0.2	31.0	42.2	0.3	4.1	0.1	4.5	5.2	2.9	0.0	17.0

Simulation

- Tariffs
  - ATIGA tariffs
  - Applied tariffs calculated from GTAP for countries outside ASEAN
- NTMs
  - Kee, H. L., A. Nicita and M. Olarreaga (2009)
  - NTMs specified in CGE
    - Export tax – restricts exporters to ship products (1/3 of NTM values)
    - Surcharge to import tariffs – additional tariffs (1/3 of NTM values)
    - Production inefficiency – additional cost to comply with NTMs (1/3 of NTM values)
- Reduction in trade barriers, 8 years
  - Gradual reduction in tariffs from 2017 levels to 0 in 2024 (except rice)
  - 25 % gradual reduction in NTMs from 2017 to 2024 (except rice)

Global CGE

- 18 countries/regions
- 27 Commodities/Sectors
- 4 factor inputs: labor (skilled and unskilled), capital and land/natural resources
- GTAP 10 database

Effects on Exports in 2024

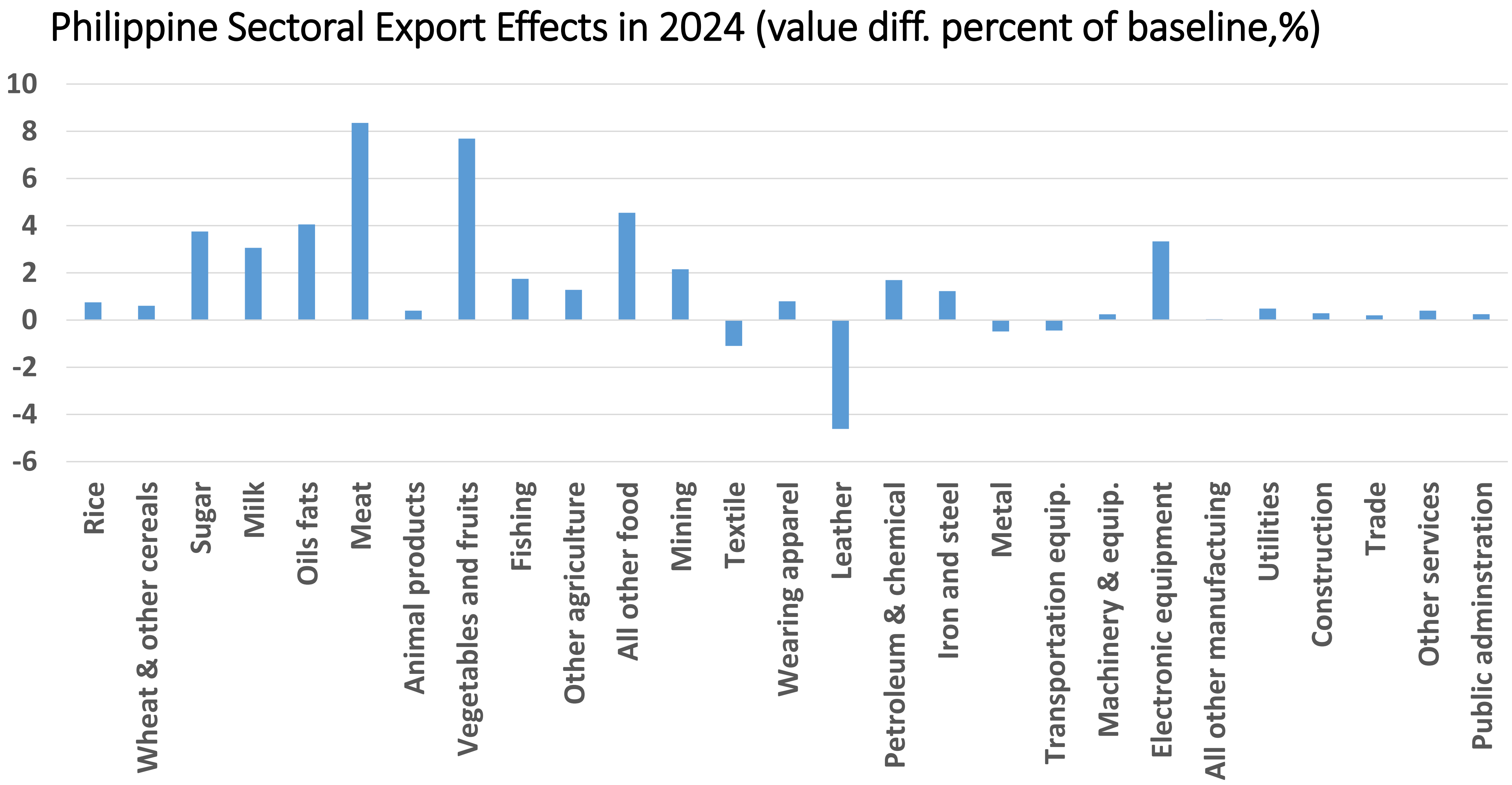
	Value difference (SIM-Baseline) (US$ million)			Value difference as percent of baseline (%)		
	Total	Agr/Food	Non-Agr/Food	Total	Agr/Food	Non-Agr/Food
Philippines	214	38	176	1.82	5.82	1.59
Indonesia	1,347	1,125	222	4.32	25.79	0.83
Malaysia	740	659	81	1.86	23.48	0.22
Singapore	460	34	425	1.16	15.47	1.08
Thailand	643	115	528	1.83	4.30	1.63
Viet Nam	961	172	789	3.93	10.77	3.45
Other ASEAN	43	2	41	0.97	0.60	1.00
Australia	1,472	847	625	3.96	14.68	1.99
New Zealand	249	227	22	3.68	6.49	0.68
China	8,172	747	7,425	2.31	18.53	2.12
Japan	5,214	27	5,187	5.14	6.78	5.14
Korea	4,245	55	4,191	5.03	20.95	4.98
India	2,473	606	1,867	3.84	14.33	3.11
NAFTA	-431	-139	-292	-0.12	-0.54	-0.09
EU28	-1,061	28	-1,088	-0.13	0.07	-0.14
Latin America	-178	-127	-51	-0.18	-0.58	-0.06
Africa	-191	-6	-184	-0.20	-0.08	-0.21
Rest of world	-1,238	-124	-1,114	-0.28	-0.92	-0.26

Welfare Effects in 2024

	EV	EV/GDP
	US$ million	(%)
Philippines	**281**	**0.66**
Indonesia	**630**	**0.47**
Malaysia	**725**	**1.42**
Singapore	**383**	**0.91**
Thailand	**325**	**0.59**
Viet Nam	**422**	**1.45**
Other ASEAN	**57**	**0.89**
Australia	**860**	**0.44**
New Zealand	**95**	**0.35**
China	**2,175**	**0.14**
Japan	**2,098**	**0.40**
Korea	**2,457**	**1.31**
India	**2,602**	**0.75**

Philippine Sectoral Export Effects in 2024

Sectors	Baseline (US$mil)	Value Diff. (SIM-baseline) (US$mil)	Value Diff./ Baseline (%)	Sectors	Baseline (US$mil)	Value Diff. (SIM-baseline) (US$mil)	Value Diff./ Baseline (%)
Rice	7.2	0.05	0.75	Leather	61.6	-2.84	-4.61
Wheat & oth. cereals	1.1	0.01	0.61	Petroleum & chem.	542.7	9.19	1.69
Sugar	15.1	0.57	3.75	Iron and steel	487.6	5.99	1.23
Milk	4.6	0.14	3.06	Metal	77.2	-0.37	-0.48
Oils fats	177.9	7.21	4.05	Transport equip.	351.1	-1.56	-0.44
Meat	10.0	0.83	8.36	Machinery & equip.	2,463.5	6.05	0.25
Animal products	1.8	0.01	0.40	Electronic equip.	3,531.8	117.74	3.33
Vegetables & fruits	363.7	27.97	7.69	All other manuf.	353.9	0.12	0.04
Fishing	50.5	0.88	1.75	Utilities	2.0	0.01	0.49
Other agriculture	20.4	0.26	1.28	Construction	26.5	0.08	0.29
All other food	376.1	17.10	4.55	Trade	112.0	0.22	0.20
Mining	741.7	15.97	2.15	Other services	1,470.4	5.83	0.40
Textile	46.0	-0.50	-1.09	Public admin.	101.1	0.25	0.25
Wearing apparel	329.5	2.62	0.79				



Philippine Sectoral Export Effects in 2024 (value diff. percent of baseline,%)
10
8
6
4
2
0
-2
-4
-6
Rice
Wheat & other cereals
Sugar
Milk
Oils fats
Meat
Animal products
Vegetables and fruits
Fishing
Other agriculture
All other food
Mining
Textile
Wearing apparel
Leather
Petroleum & chemical
Iron and steel
Metal
Transportation equip.
Machinery & equip.
Electronic equipment
All other manufactuing
Utilities
Construction
Trade
Other services
Public adminstration

Effects on Philippine Commodity and Factor Prices in 2024

	2024
Inflation	**-0.793**
Factor prices (less inflation):	
Skilled labor	**1.069**
Unskilled labor	**0.917**
Returns to capital	**1.335**
Returns to land	**0.704**

Philippine Poverty Microsimulation

- Microsimulation:
  - Results from global CGE – for the Philippines, changes in:
    - Factor prices
    - Consumer/commodity prices
    - Sectoral employment
  - Philippine 2015 Family Income and Expenditure Survey

Effects on Philippine Poverty and Distribution (using 2024 changes in commodity and factor prices and sectoral employment)

		SIM	
			Difference
	2015 Base	Level	from base
GINI Coefficient	0.452972	0.452938	-0.00003
Poverty Index:			
P0	21.503	20.998	-0.506
P1	5.578	5.394	-0.184
P2	2.080	1.999	-0.081
P0 - poverty incidence			
P1- poverty gap			
P2- poverty severity			

Insights

- Improvements in the flow of agri/food trade within RCEP is potentially higher than the flow of non-agri/food
- The Philippines will potentially benefit from RCEP agreements, considering key members of RCEP are also its major trading partners
- The Philippines will benefit from improvements in higher agri/food trade flows within RCEP, as well as in electronics exports
- RCEP is welfare-improving as well as poverty-reducing in the Philippines