

Pakistan's Entry into the Proposed Regional Comprehensive Economic Partnership (RCEP) - A CGE Approach

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Author: Naseeb ZADA

Co-Authors: Kakali MUKHOPADHYAY, Muhammad Aamir KHAN

Given the importance of international trade in economic development, this study evaluates the potential impacts of Pakistan's proposed entry into the Regional Comprehensive Economic Partnership (RCEP) using the global Computable General Equilibrium (CGE) model. Pakistan is not part of the proposed RCEP as it has not been invited to join this partnership. Pakistan has no FTA with ASEAN and so its trade with ASEAN is not too much significant. However, Pakistan has good trade relations with Japan, China, Korea, Malaysia and India and all of the 6 economies other than the ASEAN are direct or indirect competitors of Pakistan's exports and imports. This proposed agreement will however, facilitate trade among the member economies and so will adversely affect Pakistan's trade with its existing partner economies due to the trade diversion if Pakistan is left out of this regional block.

It is pertinent to mention that the share of RCEP countries in total exports of Pakistan is 22 percent and its share in total imports of Pakistan is 42 percent. Pakistan has also signed bilateral trade agreements with China, Malaysia and Indonesia and having intra-industry and strong product complementarities with these economies. All this means that Pakistan has significant complementarities with ASEAN + 6 and so its entry into the proposed RCEP will significantly reduce the trade costs of its potential trading partners in the region and will yield region-wide gains. Pakistan's entry into RCEP is also significant for the ASEAN region as it can reduce the distant to the Central Asian economies which is one of the main exports destined regions of RCEP exports. The recent example is the Pak-China economic corridor that will potentially reduce the regional trade costs and so its entry into the RCEP is expected to reduce the trade costs in the region. However, if Pakistan is left out of this regional partnership, Pakistan will lose market of both imports and exports in the region. This will yield high loss to Pakistan in terms of trade diversion. However, the government of Pakistan is effectively working on this issue and attempting to its level best to become part of this regional association as RCEP is open for other economies, although Pakistan has not been invited to join the RCEP.

Given this new backdrop we analyzed the potential impact of the Pakistan's entry into proposed RCEP agreement. A newly developed framework, MyGTAP (Minor and Walmsley, 2013), is used to incorporate more detailed information on Pakistan's labor and household groups into the GTAP database by using the latest available comprehensive Social Accounting Matrix (SAM) 2007-08. It allows more flexibility in the treatment of government savings and spending by removing the regional household of the standard GTAP model and replacing it with a separate government and multiple private households. The model also includes transfers between government and households and among household groups, remittances and foreign capital incomes, thus allowing assessment of policy impacts on different household groups and production factors within an economy of interest.

The study attempts two simulation exercises. The first one includes Current RCEP with business as usual implementation of proposed RCEP with full trade liberalization among the RCEP countries. The second simulation investigates the inclusion of Pakistan in the proposed RCEP.

Results obtained are sufficiently different across the two experiments associated with two alternative forms of RCEP, particularly for Pakistan. The impact of RCEP on real GDP of Pakistan is negative

under the first experiment and positive under the second experiment. However, the impact on real GDP of other RCEP member economies is positive under both the simulations with a higher increase under the second experiment as compared to the first simulation. It indicates that Pakistan's entry into RCEP is expected to yield region-wide gains. On the other hand, the impact of RCEP on real exports and imports of Pakistan is positive which reflects that Pakistan's proposed participation with RCEP will boost up regional trade flows and so region-wide gains. Pakistan's entry into RCEP is also significant for the ASEAN region as it can reduce the distance to the Central Asian economies which is one of the main exports destined regions of RCEP exports. The recent example is the Pak-China economic corridor. It will potentially reduce the regional trade costs and so its entry into the RCEP is expected to reduce the trade costs in the region. This study suggests Government policy makers to negotiate Pakistan's entry into the RCEP group with the member economies.