NTMs reductions in TPP countries

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Overview of CP-TPP

• What is CP-TPP?

  • The CP-TPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) is a proposed trade agreement between eleven Pacific Rim countries concerning a variety of matters of economic policy.

  • Member countries: Brunei, Chile, New Zealand, Singapore, Australia, Canada, Japan, Malaysia, Mexico, Peru, and Vietnam.

  • This agreement was reached on 30 December 2018 after 8 years of negotiations.

  • Among other things, the CP-TPP seeks to lower trade barriers such as tariffs and non-tariff measures (NTMs).

- Estimate TPP (Previous version of CP-TPP, includes the United State) will increase annual incomes in the United State by 0.5 percent of GDP
- For non-TPP members, most of their real incomes will decrease because the higher trade barriers around the world
Petri and Plummer (2017) “Going It Alone in the Asia-Pacific: Regional Trade Agreements Without the United States”

- Without the United State in TPP, remaining members in TPP could generate benefits to members, albeit with gains only about one-third as large as those expected from the 12-member TPP
- For the United States the implications are more negative. The United States would forego the benefits of participating deeply in the integration of a very dynamic region
- High-quality agreements lead to substantially larger gains than less rigorous ones. For example, the CP-TPP agreement could produce more gains than RCEP, even though the CP-TPP economies have only one-third the GDP of the RCEP region
  - CP-TPP has more tariff and NTMs reduction than RCEP

Literature Review (2)
Reductions of NTMs, what are the differences between front-loading versus gradual changes?

- Front-loading leads to higher results overall (higher exports, higher GDP, among others) versus a gradual implementation of NTMs. Changes in NTMs take time, so front-loading will lead to over estimating the impact of a reduction in NTMs.
Motivation

• TPP countries: 11 countries that border the Pacific Ocean signed up to the TPP in Feb 2016 – roughly 40% of the world economic output and about 800 million in population (almost double the population of the EU’s single market).
  • Does not include the USA nor China

• TPP agreed to reduction in both the tariffs and the non-tariff barriers to trade
  • Slashing tariffs and fostering trade to boost growth

• NTMs reduction
  • The attention has shifted partially to non-tariff measures due to the emergence of the deep free trade agreements
# Trade in 2018 between TPP countries

<table>
<thead>
<tr>
<th></th>
<th>aus</th>
<th>brn</th>
<th>can</th>
<th>chl</th>
<th>jpn</th>
<th>mex</th>
<th>mys</th>
<th>nzl</th>
<th>per</th>
<th>sgp</th>
<th>vnm</th>
<th>Perc. exports TPP</th>
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<td>3210</td>
<td>245</td>
<td>159</td>
<td>2931</td>
<td>0</td>
<td>19%</td>
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**Perc. imports TPP**

|        | 22%  | 31%  | 9%   | 12%  | 15%  | 9%   | 28%  | 33%  | 13%  | 20%  | 17% |

New Zealand and Brunei export the largest share to other TPP countries, followed by Australia, Malaysia, Singapore, Vietnam, Chile, and Peru (about 20%). Canada, Mexico, and Japan export the smallest share to TPP.
Reductions in NTMs applied

• Following Petri, Plummer and Zhai (2011)
  • Non-tariff barriers are represented by tariff equivalents
  • Represent barriers that were applied to all trade partners prior to agreement
  • We assume elimination of 56.3% of NTBs in case of goods and 37.5% in the case of services
Model and Data

• **Aggregation**
  • 15 regions (11 TPP countries, USA, CHINA, EU 27 and ROW)
  • 18 commodities
  • 5 activities

• **Period:**
  • 15 years (with schedule of tariff reductions overtime and/or NTMs starting in 2019)

• **The baseline database used includes the NTMs (AlterTax) and tariffs**
Shocks

• Include both tariff reductions and NTM reduction.

• Scenario 1: Tariff reductions + one-time NTM reduction shocks (front loading)

• Scenario 2: Tariff reductions + gradual NTM reduction shocks (over 10 years)
Results Overview

- Global results
- An example of TPP countries: Malaysia
- An example of non-TPP countries: China
<table>
<thead>
<tr>
<th>NTMS</th>
<th>1 AUS</th>
<th>3 JPN</th>
<th>4 BRN</th>
<th>5 MYS</th>
<th>6 SGP</th>
<th>7 VNM</th>
<th>9 CAN</th>
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<th>12 NZL</th>
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Global Results: Exports (cumulative)
Global Results: ROR and Global Capital Goods, Y-O-Y

ROR: upper two line (yellow and blue)
Global capital goods: lower two lines
TPP Country: Malaysia Exports, Y-O-Y
TPP Country: Capital Investment, Malaysia, Y-O-Y
TPP Country: Malaysia ROR, Y-O-Y
TPP Country: Malaysia Capital Price, Y-O-Y
TPP Country: Malaysia Unskilled labor Price, Y-O-Y
Non-TPP: China GDP, Y-O-Y
Non-TPP: China Exports
Non-TPP: China Imports, Y-O-Y
Conclusion

- The GDP growth in TPP countries is larger in one-time NTM reduction than the scenario with gradual NTM reduction in the first year (2019), especially in Malaysia.
- The cumulative effect converges eventually.
- Global exports increase and global ROR jumps initially.
- What drives labor price increase?
- China’s GDP and export growth initially decrease, but not go down deeper in the long run.