Economic Impact of Trans-Pacific Partnership (TPP) on Thai Economy

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About TPP

- The Trans-Pacific Partnership (TPP) has been widely regarded as the newly high quality of signed FTAs.

- The topics covered is comprehensive and far beyond market access, including investment liberalization,services liberalization, intellectual property rights (IPR), labor and environment standards, state-owned enterprises (SOEs) and government procurement.
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- The countries involved are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Vietnam, accounting for more than 40 % world GDP and trade.

- While there are 30 chapters in the TPP official texts, exceptions appear in nearly every chapter of the TPP. There are exceptions to general principle (Art. 2.4.1), exceptions to exceptions (Art 2.4.7), explicit exclusions (Art. 9.11), implicit exclusions (Annex 15-A), grandfathering (Annex 18-B), optional undertakings (Art. 25.4.1), clarifications (Art. 13.2.3), caveats (Art. 11.1), limiting rules of application (Art. 11.2.2-5), and, of course, carve-outs (Annex 17-D; Art. 16.9; Art. 9.7.6) (Menon, forthcoming).

- There are a series of "side letters" which provide a mechanism by which a series of bilateral deals can be presented to appear as if they were one comprehensive agreement (Menon, forthcoming).

- These side letters could overshadow the general rules.

Economic Impacts of TPP

- Like other countries, TPP remains controversial in Thailand.

- For TPP proponents, fears are about the negative effect on export and direct investment inflows.

- This is largely due to the fact that TPP members accounted nearly half of world trade and GDP and some are world economic superpowers and the US in particular.

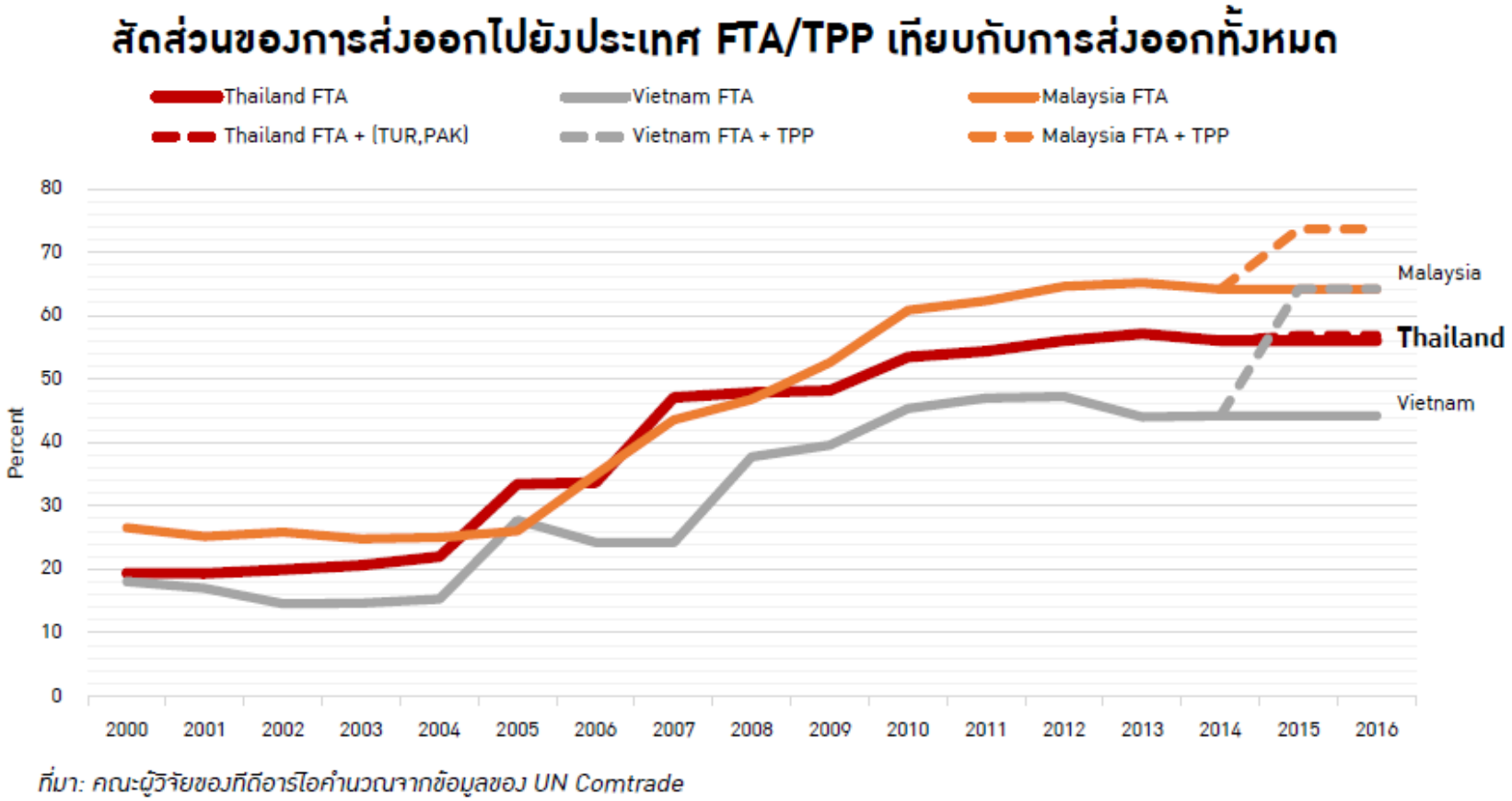
So far how the impact of TPP on Thai economy has been analyzed

- Percent of export to the TPP member countries—Fundamental flaws

- Reveal Comparative Advantage (RCA)– Identify winners and losers but narrowly focusing on trade in goods. Work quality is questionable as it is used in ad hoc manner. Sometimes, it is misleading.

- Global Trade Analysis Project (GTAP) Model (Most popular).

Percent of export to the TPP member countries



ที่มา: คณะผู้วิจัยของทีดีอาร์ไอคำนวณจากข้อมูลของ UN Comtrade

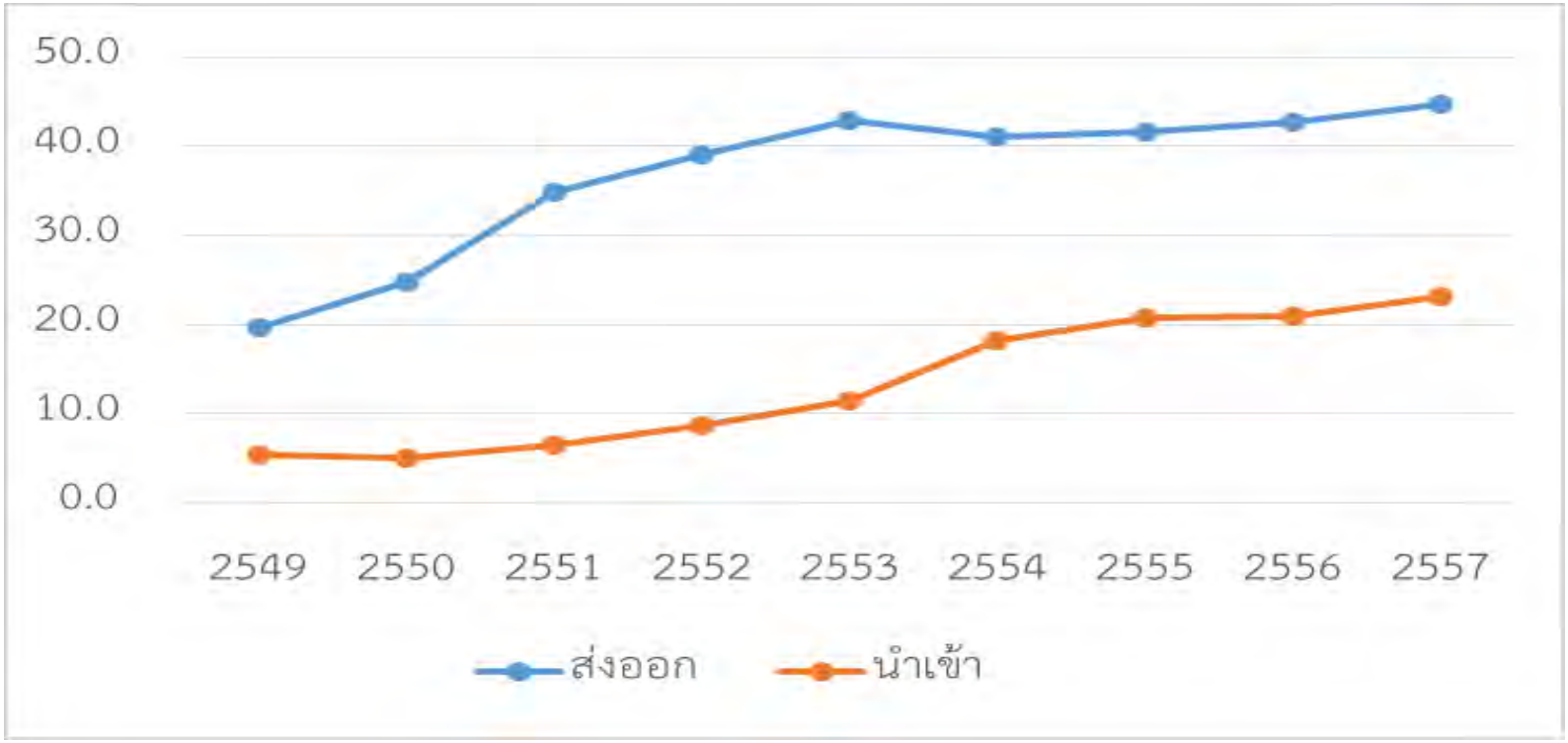
Pros and Cons : Percent of export to the TPP member countries

- The higher the per cent, the larger the impact. In a case that Thailand is not in TPP, the impact would be negative.

- Pro: Easy to communicate

- Con: It could be misleading as it is under the assumption that all export applies for FTAs. This is a restrictive assumption because no all good items experience positive tariff margin (difference between normal/MFN and FTA tariff). In addition, despite presence of positive tariff margin, some firms decide not to apply for FTA preferential schemes because of costs incurred in applying the scheme.

How Thai firms have responded to FTA preferential schemes so far.



หมายเหตุ: ร้อยละต่อการส่งออก และนำเข้ารวมตามลำดับ

ที่มา: อาชนัน เกาะไพบูลย์ อลงกรณ์ ธนศรีธัญญากุล และ พิชญ์ จงวัฒนากุล (2558), *ภาคอุตสาหกรรมไทยกับข้อตกลงเขตการค้าเสรี*, งานวิจัยเสนอต่อกองทุนส่งเสริมการวิจัย กรุงเทพฯ

Summary of US Tariffs

	ค่าเฉลี่ย	ค่าสูงสุด	ค่าต่ำสุด
อาหารทะเล	0.9	15	0
เสื้อผ้าเครื่องนุ่งห่ม	11.4	28.2	1.4
รถยนต์	7.7	25	0
ทุกรายการสินค้า	3.22	58.3	0

Annual export of these HSs (03,16, 61-62 and 87) from Thailand to US accounted for less than 1% of total export in 2014.

Reveal Comparative Advantage (RCA)

- RCA index is to assess the country's comparative advantage. It is widely used in Thailand as an indicator of export competitiveness although it is not the main purpose of the index itself (Balassa, 1965)

$$RCA_{i,Thai} = \frac{X_{i,Thai} / X_{i,World}}{X_{Total,Thai} / X_{Total,World}}$$

- $X_{i,j}$ is export value in product i from country j; Total = all goods included.

Points to be concerned in using RCA index

- Using RCA index to indicate export competitiveness must be done with care as it is designed to reflect comparative advantage. Countries having absolute advantage in all products can have comparative advantage in some products.

- When RCA index of a given product of a certain country is greater than 1, it indicates a country has comparative advantage in that product. It does not matter how much RCA index is greater than 1.

- What is the disaggregation level of RCA index calculation used? 2, 4 or 6 digit.

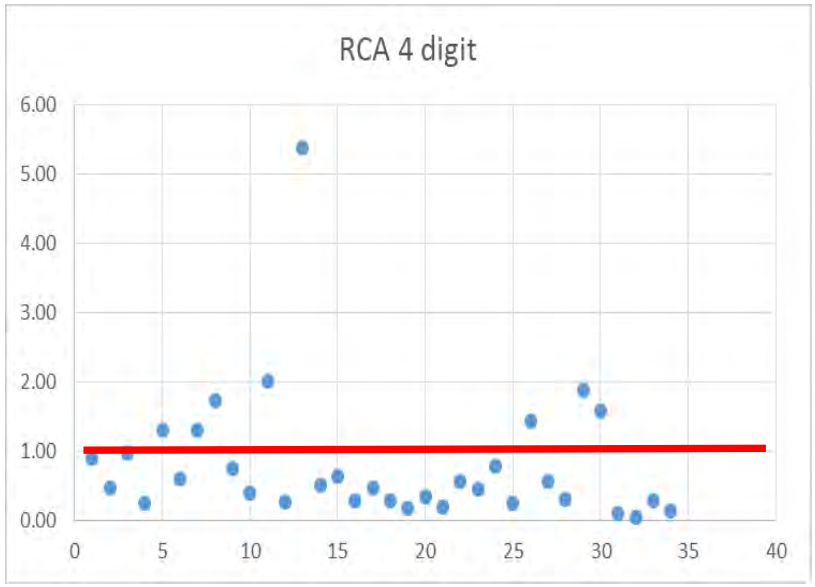
Table 1 Competitive and sensitive commodities among TPP members represented by HS-2 digits

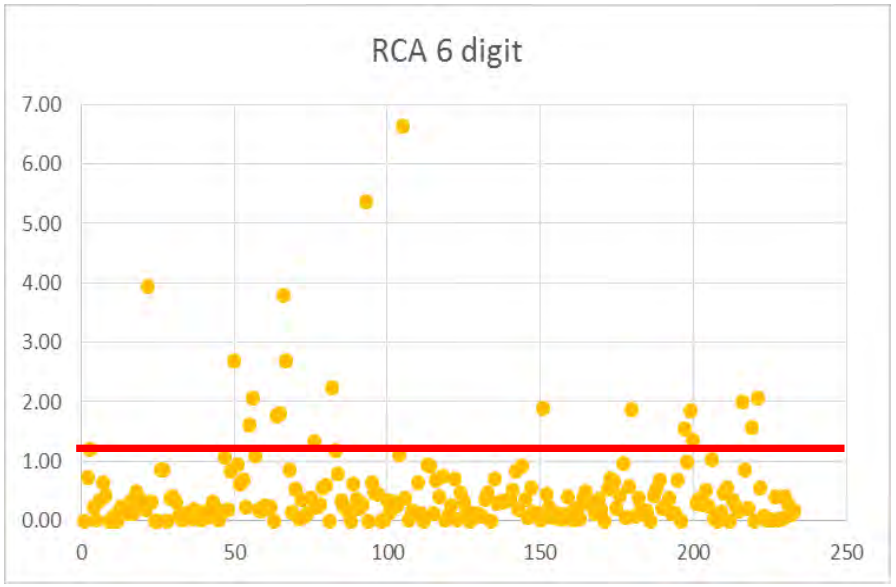
Countries	Commodities[a]	
	Competitive[b]	Sensitive[c]
Australia	26 51 78 10 02	67 53 46 14 58
Brunei	27 82 29 73 86	93 80 78 58 54
Canada	75 4731 44 01	50 52 91 66 14
Chile	74 26 47 08 03	50 43 52 67 93
Japan	37 87 89 92 72	43 66 10 04 64
Malaysia	15 80 14 78 40	45 97 10 66 93
Mexico	07 86 87 14 17	50 43 53 97 67
New Zealand	04 51 35 02 05	75 81 46 31 52
Peru	80 26 79 14 09	67 75 88 66 50
Singapore	49 80 85 33 29	26 93 31 53 43
The U.S.	88 93 97 12 47	53 50 51 66 46
Vietnam	64 09 46 62 03	75 93 86 30 02
Thailand	16 40 11 17 80	45 43 97 75 26

Source: Durongkaveroj, W., C. Roongsaprangsee, and T. Janthok, 'Competitiveness, Impacts and Possible Choices of Thailand in the Framework of TPP',

Example of RCA indices of Thai Garment (HS 61 & 62)

- RCA index of HS 61 is 0.7
- RCA index of HS 62 is 0.4





Global Trade Analysis Project (GTAP) Model

- GTAP is a kind of Computable General Equilibrium (CGE) model and popularly used to assess ex ante impact of FTAs to be signed.

- Results of GTAP model are under the assumption that a FTA in question will have instantaneous effect.

- Most of the effects of FTAs measured by simulation experiment by the GTAP model were related to tariff cuts to a large extent. It is very unlikely for any FTA that the effect simulated by GTAP model will be negative.

- The key mechanism is on the magnitude of tariff cuts and that of demand and supply elasticities. Inter-industry linkage is through Input-output Table.

- The main shortcomings of GTAP model in assessing the effect of FTA are

1. The results are sensitive to data reliability, model specifications and its underlying assumptions. For example, trade data on Singapore available to modellers refer to the country's total exports, inclusive of the substantial share of entrepot export that are not eligible for FTA preferential schemes. (Chia and Plummer 2015: 86)

2. It is under the assumption that all exports are through FTA preferential schemes (Utilization rate equals to 100%)

3. It is unlikely to capture beyond-market access issues. Certain degree of discretion involves to perform tariff equivalence.

4. There are 58 real sectors in the GTAP model due to the fact that the model by nature is global. There are many countries including in it. The more the countries covered, the less the level of sectoral disaggregation.

All in all, we must interpret the GTAP's simulation experiments with cautious.

Table 5.1 *Welfare gains of the ASEAN Economic Community, 2015*

	ASEAN Free Trade Area	ASEAN Economic Community	ASEAN Free Trade Area	ASEAN Economic Community
	US$ billion (2004 price)		Percentage of baseline GDP	
Brunei	0.2	0.5	2.6	7.0
Indonesia	1.0	27.6	0.2	6.2
Malaysia	2.7	5.7	1.4	3.0
Philippines	0.9	4.5	0.6	3.2
Singapore	2.6	15.1	1.6	9.7
Thailand	1.6	12.2	0.6	4.9
Cambodia	0.3	0.6	2.7	6.3
Laos	0.0	0.2	0.6	3.6
Myanmar	0.0	0.6	0.3	4.4
Vietnam	0.9	2.4	1.1	2.8
ASEAN total	**10.1**	**69.4**	**0.8**	**5.3**

Source: Michael G. Plummer and Siow Yue Chia (eds.), *Realizing the ASEAN Economic Community: A Comprehensive Assessment* (Singapore: Institute of Southeast Asian Studies, 2009), ch. 2.

Preliminary analysis at the sectoral level

- Focus on three sectors, processed foods, garments and vehicles.

- These products but vehicles substantially rely on the US market. They are still subject to high tariff by the US standard.

- Arguably, processed food exports could benefit from tariff cuts under TPP if Thailand is in. As its production process tends to be wholly obtained to minimize risk of contamination, it is unlikely that export would be deterred by any forms of ROOs.

- Nonetheless, ability to export crucially depends on supply side capability instead of tariff.

- Certain segments and sport wears in particular Thai garment industry would benefit if Thailand successfully joins TPP.

- While yarn-forward ROO is in place in TPP, it is unlikely to deter sport wear export from Thailand to the US. Production of sport wear export of Thailand is entirely taken place in Thailand, starting from synthetic fibre to cut and sewing. In addition, these firms are unlikely to be located in free/export processing zones. This would be different from garment manufacturers in Vietnam where yarn-forward ROO is a big hurdle to benefit preferential tariff under TPP.

- Despite presence of substantial tariff margin, Thai automotive firms are less likely to be affected (either positive or negative) by TPP.

    1. The nature of international trade of vehicle is regional-oriented. It is unlikely for firms to trade across continents.

    2. ROO related to TPP is the most restrictive among FTAs to be signed around the world. While it remains debatable that Thai-made vehicles could comply with it, there would be costs incurred substantially to get preferential access due to the complicated text.

ROO for Vehicles in TPP (Annex 3-D)

1. Regional Value Content Requirement
    1. Built-down RVC 55% or
    2. Net Cost 45%

$$\text{Built-down RVC} = \frac{\text{Value of Goods-Value of Non-origin.Mat.}}{\text{Value of Goods}} * 100 \geq 55$$

$$\text{Net Cost} = \frac{\text{Net Cost-Value of Non-origin.Mat.}}{\text{Net Cost}} * 100 \geq 45$$

Non-origin Mat. = Non-originating materials including materials of undetermined origin.
Net Cost = total cost minus sales promotion, marketing and after-sales service costs, royalties, shipping and packing costs, and non-allowable interest costs that are included in the total cost.

Special rules to certain parts listed in Table A Appendix 1 and certain production processes must be performed in exporting countries (Table B in Appendix 1).

Table A in Appendix 1	
HS Code	Description
7007.11	Toughened (tempered) safety glass
7007.21	Laminated safety glass
8707.10	Bodies (including cabs), for the motor vehicles of heading 8703
8707.90	Bodies (including cabs), for the motor vehicles of heading 8701 8702 8704 and 8705
Ex 8708.10	Bumpers (not including parts thereof)
Ex 8708.29	Body stampings and door assemblies (not including parts thereof)
Ex 8708.50	Drive-axles with differentials, whether or not provided with other transmission.

Cumulative ROO and Investment Impact

- It is very difficult to assess the effect of TPP on investment as it could occur through various channels.

- Of particular concern is the impact of cumulative rules of origin. In theory, it could alter how firms source raw materials and intermediates from non-members to members.

- In practice, network trade is far more complicated than you generally expect. Most of them are tailor-made to certain needs of their customers.

- Hence, its actual impact on investment would be at minimum. The recent investment of many car makers in Thailand provides a solid support.

Summary and Inference

- TPP proponents in Thailand worry about the negative effect on export if Thailand is not in TPP.

- What revealed here is the positive effect of TPP on Thailand using GTAP model would be grossly overestimated. Based on the analysis above, the effect would be small.

- Nonetheless, it seems clear that TPP would incur costs to Thailand through the strengthening IPR chapter. Hence, policymakers must be cautious in weighting benefit and costs of being in TPP.