

Impacts of TPP on the US Economy

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Thank you Chair,

What I am going to discuss is my version of the quantitative estimates of the impacts of TPP on the US economy by economic model simulations.

(Summary)

I would like to present the summary of my views first in order not to miss key points given shorter time.

- The impacts of structural reform measures, including those of TPP and other Economic Partnership Agreements (EPAs), will be achieved over the medium-term and will contribute to sustainable growth.
- Potential US macroeconomic income gains from TPP would account for 0.8 per cent of GDP, amounting to 113 billion US dollars, the largest among the gains of the twelve TPP member countries.
- Much larger economic benefits are expected from non-tariff measures (NTMs) reductions, in particular those contained in the US own policy measures, than tariff removals.
- Actual benefits of TPP could be larger as a result of dynamic impacts including impact on endogenous labor supply and on the extensive margins of trade.
- TPP would be a step forward for Asia-Pacific wide EPAs and global trade and investment liberalization and facilitation.

(Impacts of EPAs)

According to the framework of a Computable General Equilibrium (CGE) model of global trade, tariff removals and the reductions of NTMs would expand exports and production of goods. On the other hand, an increase in imports of cheaper goods and services would induce more efficient resource allocation and contribute to real income and consumption gains. These combined effects from both overseas and domestic markets would result in increases in income, expenditures and production. Moreover, dynamic impacts through capital

formation and productivity improvements are incorporated in my study.

(CGE model estimation of impacts)

Therefore, the impacts of structural reform measures, including those of TPP will be achieved over the medium-term horizon and will contribute to sustainable growth. This is different from monetary easing, which is efficient to adjust business cycle, and fiscal expansion, which is effective to stimulate stagnant economy. The impacts of monetary and fiscal policy measures would not be sustainable once those are set back.

(Framework of CGE model simulations)

What I have estimated is the potential impacts of TPP assuming 100% tariff removals and 50% NTMs reductions in trade in goods and services. The actual impacts of TPP will be reviewed in light of the TPP agreement as discussed later.

(Macroeconomic impacts)

Estimates of the economy-wide impacts of TPP indicate that US real GDP could be boosted by 0.1 per cent by tariff removals and 0.9 per cent by tariff removals and NTMs reductions. In terms of macroeconomic income gains, potential effects would amount to 113 billion US dollars, accounting for 0.8 per cent of GDP. The impacts of tariff reductions would be limited, even assuming 100 per cent tariff removals without exemption, which was not actually agreed in the TPP negotiations. The vast majority of US income gains would derive from NTMs reductions in goods and services.

(Comparison of income gains)

Again, US potential macroeconomic income gains from TPP would account for 0.8 per cent of US GDP. This rate is smaller than estimated gains in the other TPP member countries, which range from one to two per cent in Australia, Canada, Chile, Japan and Peru to around 20 per cent in Malaysia and Viet Nam, but in terms of absolute values, US income gains, amounting to 113 billion US dollars, would be the largest among the gains of the twelve TPP member countries.

(Impacts of Asia-Pacific EPAs)

On this occasion, I would like to discuss further policy analysis.

US income gains from the Free Trade Area of the Asia-Pacific (FTAAP) are estimated to account for 1.7 per cent of GDP, double the estimated benefits from TPP. The wider the coverage of EPAs, the larger the economic benefits will be. TPP would be a step forward for

Asia-Pacific wide EPAs and for global trade and investment liberalization and facilitation and would lay a foundation for larger economic benefits.

(Source of US economic benefits)

Breaking down the source of US economic benefits, Japan's contribution to tariff removals would be large. However, it would be a half of 0.1% US income gains. Much larger 0.8% US benefits including those from NTMs reductions would be driven primarily by US own NTMs reductions.

(Significance of domestic reforms)

Meanwhile, income gains from TPP would be generated more by own tariff removals and NTMs reductions in Malaysia, Mexico and Singapore than those by trade partners. It will be essential to reform domestic markets to achieve larger economic benefits from international EPAs.

(Key TPP economies)

On the other hand, US tariff removals and NTMs reductions would generate larger income gains of TPP member economies as a whole than in any other TPP member country.

(Issues for further study)

Lastly, the actual impacts of TPP will be reviewed in light of the TPP agreement. In addition to precise evaluations of partial tariff reductions and levels of NTMs reductions, further study on dynamic economic impacts will be conducted. Estimates incorporating the effects on endogenous labor supply and the "extensive margins" of trade, i.e. exports by companies not involved in international markets before liberalization, indicate that the impacts could be much larger than estimated in earlier studies. including the current version of my model simulations.