

Global Economic Prospects



HIGHLIGHTS from CHAPTER 4 POTENTIAL IMPLICATIONS OF THE TRANS-PACIFIC PARTNERSHIP¹ *Global Economic Prospects January 2016*

Key Points

- *On October 4, 2015, 12 Pacific Rim countries concluded negotiations on the Trans-Pacific Partnership trade agreement. If ratified, the agreement could raise member country GDP by an average of 1.1 percent by 2030, and increase trade by 11 percent over the same period.*
- *To the extent that the agreement has positive spillovers to non-members, detrimental effects—through trade diversion and preference erosion—could be limited.*
- *The global significance of the agreement depends on whether it gains broader international traction. Some of the provisions of the TPP may require deep reforms and a difficult adjustment process. These could affect aggregate gains if fully implemented.*

Regional and mega-regional trade agreements. TPP is a mega regional trade agreement (RTA). Out of 266 existing RTAs, the EU Single Market—now covering 28 members—and NAFTA are by far the largest RTAs in terms of GDP and trade (Figures 1A, 1B). Together, their member countries account for 50 percent of global GDP and 37 percent of global trade. The TPP is comparable in scale: its member countries account for 40 percent of global GDP and 20 percent of global trade. Much (42 percent) of TPP member country trade is with other TPP member countries, similar to trade among NAFTA members.

Overall member country impact. Model simulations suggest that the TPP will raise member country GDP by an average of 1.1 percent by 2030, with a range of 0.4-10 percent (Figures 1C, 1D). The benefits are likely to materialize slowly but should accelerate toward the end of the projection period. The slow start results from the gradual implementation of the agreement and the lag required for benefits to materialize. The benefits of the TPP mostly derive from reductions in non-tariff-based measures (e.g., streamlining of administrative procedures) and regulatory measures that benefit services.

Individual member country impact. The largest gains in GDP are expected in smaller, more open member economies, such as Malaysia and Vietnam (8 percent and 10 percent by 2030, respectively). Exporters in these countries would benefit from lower tariff and non-tariff barriers in large export markets, while other firms stand to gain from stronger positions in regional supply chains through deeper integration. Consumers are likely to enjoy lower prices and greater variety of products and services. For NAFTA countries, all of which are TPP members, the TPP's benefits will be more modest—on the order of 0.6 percent of GDP. This reflects already low existing barriers to their trade (which is mostly among NAFTA members). For Mexico, benefits are further reduced as tariff cuts give

¹ This analysis was prepared by Csilla Lakatos, Maryla Maliszewska, Franziska Ohnsorge, Peter Petri, and Michael Plummer. It partly draws from a background paper by Petri and Plummer (forthcoming).

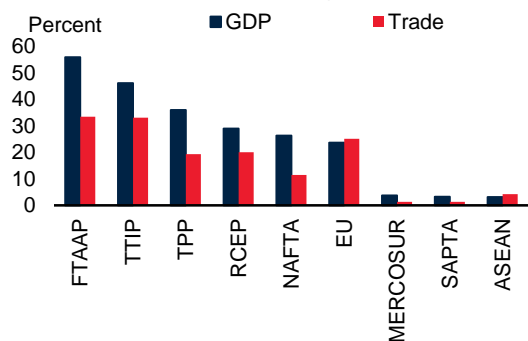
other TPP members greater access to U.S. market.

Non-member impact. Although TPP export markets are important to many non-members, the agreement may have a limited impact on their economies: only the Republic of Korea, Thailand, and some other Asian countries are expected to see GDP declines exceeding 0.3 percent by 2030. Some sectors will be impacted more strongly, especially those where non-member countries have a strong comparative advantage. Exporters of apparel, textiles, and footwear, for example, could face greater competition from Malaysia and Vietnam in TPP markets. But almost half of TPP trade is already among members, and the TPP’s focus on streamlining procedures and harmonizing standards and regulations may also benefit non-members.

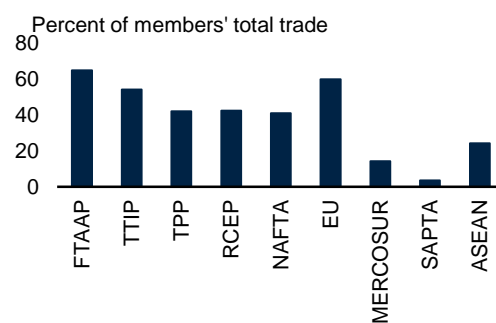
Figure 1: TPP: Size, Trade Flows, and Macroeconomic Impact

TPP member countries account for 40 percent of global GDP and 20 percent of global trade. Malaysia and Vietnam would be among the TPP member countries benefiting most. As a result of shrinking market access and greater competition in export markets, GDP in Korea and Thailand could be set back. Non-member countries like Russia could benefit from greater predictability and transparency of measures in export markets.

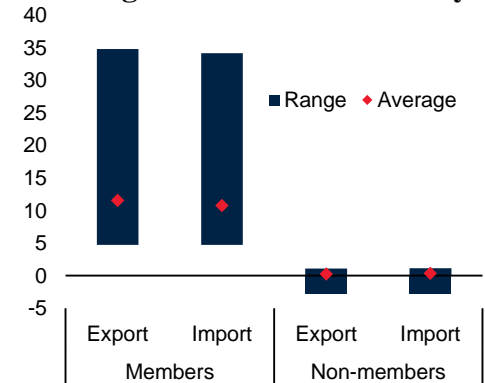
A. Major RTAs share of global GDP and trade



B. Intra-RTA trade



C. Change in trade due to TPP by 2030



D. Change in GDP due to TPP by 2030



(Download chart data to Excel)

Sources: World Trade Organization’s Regional Trade Agreement database; World Development Indicators; World Bank January 2016 Global Economic Prospects.

A. B. SAPTA = South Asian Preferential Trading Arrangement; ASEAN = Association of South East Asian Nations Free Trade Area; EU = European Union; NAFTA = North American Free Trade Agreement; RCEP = Regional Comprehensive Economic Partnership; FTAAP = Free Trade Area of the Asia-Pacific; TPP = Trans-Pacific Partnership; TTIP = Transatlantic Trade and Investment Partnership.

