Economy wide impact of TPP: New Challenges to China

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October 4, 2015, saw the announcement of the conclusion of the negotiations on Trans-Pacific Partnership (TPP) Agreement by the Ministers of the twelve TPP countries â€“ Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, and Vietnam. The objective of this ambitious and comprehensive agreement is to promote economic growth; support the creation and retention of jobs; enhance innovation, productivity and competitiveness; raise living standards; reduce poverty in the member countries; and to promote transparency, good governance, and enhanced labour and environmental protections. The conclusion of this agreement is envisioned as an important step towards the membersâ€™ ultimate goal of open trade and regional integration across the region.
The TPP is no doubt the largest regional trade accord in history, and if approved, it will set new terms for the nearly $28 trillion in trade and business investment between the parties to the deal, but the point to note is that it does not include China, world's largest merchandise trader, which had a combined exports and imports worth of US $ 4,303 billion in 2014 (WTO). So the obvious question that arises is- What does TPP mean for China?
Until about three years ago, China routinely denounced the TPP, holding that it was one of the many efforts to contain China. However, China has in recent years dropped this blanket opposition, and taken a more nuanced â€œwait and seeâ€• attitude. Thus, currently, China is not ready to meet the demanding requirements of the TPP agreement but possibly might join the group in a few years from now.
Against this backdrop, the present paper seeks to analyse the impact of this TPP agreement on the various trade and other economic variables- income, employment, wages, welfare etc of China. The study resorts to an applied general equilibrium (AGE) analysis for this purpose. It uses the Global Trade Analysis Project (GTAP) and does a number of simulations through GTAP data by calibrating various trade integration scenarios between the twelve TTP countries and studies the impact of the agreement on China. The simulations broadly include the following scenario where:

â€¢ Existing tariffs on goods between member countries are reduced first to 50 per cent and then eliminated completely.

â€¢ Scenario where the goods traded extensively as inputs between the members are allowed added tariff reduction and the sectors using these inputs experience input augmenting technical change. This simulation aims to capture the impact of developing production and supply chain within the TPP region.

â€¢ Reduction of trade costs such as customs fees, port handling charges, and informal payments and the cost of time in trade between the member countries. These costs are incorporated in the CGE modelling framework of GTAP as tariff equivalents.

The preliminary results indicate that Chinaâ€™s trade with the World, particularly exports will suffer post the implementation of the TPP agreement. Some of the sectors which are likely to be hit majorly are leather, motor vehicles, processed food, iron and steel etc. The TPP would also result in welfare loss to China on account of all of loss of allocative efficiency, endowment and deterioration of terms of trade. Of these, worsening of terms of trade explains the largest part of welfare loss for the country.