# TPP Agreement and its Implication on Pakistan Economy- A CGE Approach

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The Trans-Pacific Partnership (TPP) is one of the recently negotiated multilateral free trade agreement which aims to establish a free-trade agreement between the 12 economies that lie on both sides of the Pacific. The agreement was signed in 2005 among four economies (Brunei, Chile, New Zealand and Singapore) and came into force in 2006. In 2008, five other economies (Australia, Malaysia, Peru, United States and Vietnam) started negotiation to join the TPP negotiation. The proposed Trans-Pacific Partnership negotiation was further extended, and currently, it includes 12 member economies including Japan. However, the formation and implementation of this proposed partnership is a valid threat to other Asian economies particularly for India, China, and Pakistan. They are excluded from this ongoing trade negotiation. Many scholars have cast doubt on the US participation with the TPP, who argue that the most logical objective of the TPP is to contain and counter the rise and power of China in the Asia-Pacific region.

On the other hand, Pakistan will likely to suffer from this agreement due to trade diversion of textile and apparels in favor of the TPP members under the â€˜yarn forward ruleâ€™ according to which, it is obligatory for the TPP member economies to import all the components of manufactured products from other TPP member economies. However, the import of these components particularly the raw material for textiles and apparel from other economies and the traditional suppliers like Pakistan and India will face full duties, and so the implementation of the TPP will adversely affect the global supply chain of textile and apparels. This study evaluates the likely impacts of the Trans-Pacific Partnership (TPP) on the regional trade flows and other macroeconomic aggregates of Pakistan. The study uses the latest version of GTAP (version 9) with the aggregation of regions and commodity sectors into 20 regions and 45 sectors. The current study is based on two alternative experiments. The first experiment considers TPP without Pakistan. The second experiment includes the extended simulation with the assumption that Pakistan is part of the Trans-Pacific Partnership.

The preliminary results reveal a net loss of Pakistan in terms of real investment and imports under the first experiment (TPP without Pakistan) while gaining under the second experiment. On the other hand, an increase in exports is noticed under both the experiments. However, the increase in real exports is higher under the second experiment (TPP with Pakistan) which is 3395 million US dollars (11%) as compared to the first experiment (TPP without Pakistan) which is 369 million US dollars (1.19 %), indicating that Pakistanâ€™s participation in the Trans-Pacific Partnership will boost trade flows. On the other hand, Pakistan faces a reduction in real GDP (47 million US $) under the first simulation and increase (314 US million $) under the second simulation. Pakistan also gains regarding terms of trade (0.78) in case of first exercise. Most of other member economies of TPP gain in terms of GDP, exports, imports and industrial outputs under both the scenarios. However, meaningful improvement is observed under the second simulation (TPP with Pakistan) over the first simulation, indicating that Pakistanâ€™s proposed entry into TPP will yield region â€“wide gains.

This study suggests that the government of Pakistan should negotiate with the TPP members to participate in the TPP agreement.