

A summary of the views, evaluations, cost-benefit analyses of FTAs in the Asia-Pacific

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Summary

All relevant political parties and organizations in each country support the expansion of trade and FTAs with each other. Economists and politicians agree that due to the stalled WTO Doha Round, bilateral and regional trade agreements are a somewhat acceptable alternative. Due to Australia's preexisting FTA with the United States, it has little gain from TPP's current arrangement. Publicly, Australian politicians have iterated support for TPP and some believe that it may be the most important trade deal for the country at this time. However, those who support this opinion ignore the fact that Australia has greater levels of trade with China than the United States. Consequently, an FTA with China would yield a substantially greater benefit to Australia than the ratification of TPP with its current partners.

On the other hand, New Zealand already has an FTA with China and views that an FTA with the United States would be beneficial for the country's exporters. They hope that the United States would cease protectionism of its dairy industry, allowing New Zealand companies increased market access. However, considering how the United States has continued to protect its farmers when it signed the United States-Australia FTA, it is this report's author's opinion that it is unlikely that they will reverse this policy. Dissenting voices of the TPP in New Zealand tend to have an anti-trade ideology rather than an anti-TPP perspective. Consequently, their arguments against TPP address SPS and sovereignty issues in New Zealand. Moreover, similar to Australian trade patterns, China has supplanted the United States as one of New Zealand's primary trading partners. As a result, there may be greater economic benefit for New Zealand by having closer ties to China. However, as previously mentioned, New Zealand already has an FTA with China and integration with East Asia is already occurring.

In the United States, all interested partners hope that TPP will have an arrangement that will allow greater environmental and labor protection than previous agreements. No relevant party is presently against TPP as it is still in negotiations and thus its details have not been disclosed publicly. There have not been any studies that this author is aware of that specifically addresses the cost-benefit of TPP to the United States. However, the gains from several arrangements of an FTA of the Asia-Pacific or ASEAN with the United States have been estimated.

A brief summary of the opinions of the TPP & FTAs in Australia, New Zealand, and the United States

Australia

Summary

Australia has little to benefit or lose from the TPP but generally view it as an alternative to the stalled Doha negotiations. This is primarily due to Australia having existing FTAs with all present TPP participants except Peru. Consequently, there are very few views and opinions regarding the proposed agreement. In regards to Peru, exports to Peru in were only A\$84 million while imports were at A\$180 million in 2009 representing less than 0.0% and 0.1% of Australian trade, respectively (Department of Foreign Affairs and Trade 2010). As such, they are more concerned with achieving an FTA with China or Japan than the TPP.

TPP Member Countries Bilateral FTA Status with Australia	TPP Member Countries and Bilateral FTA Status with New Zealand
Brunei <input checked="" type="checkbox"/>	Brunei <input checked="" type="checkbox"/>
Chile <input checked="" type="checkbox"/>	Chile <input checked="" type="checkbox"/>
New Zealand <input checked="" type="checkbox"/>	Australia <input checked="" type="checkbox"/>
Singapore <input checked="" type="checkbox"/>	Singapore <input checked="" type="checkbox"/>
Malaysia <input checked="" type="checkbox"/>	Malaysia <input checked="" type="checkbox"/>
Peru <input type="checkbox"/>	Peru <input type="checkbox"/>
United States <input checked="" type="checkbox"/>	United States <input type="checkbox"/>
Vietnam <input checked="" type="checkbox"/>	Vietnam <input checked="" type="checkbox"/>
<input type="checkbox"/> - No FTA <input checked="" type="checkbox"/> - FTA with ASEAN <input checked="" type="checkbox"/> - Bilateral FTA	
Source: Australian Department Foreign Affairs and Trade	

Australian Labor Party

The Australian Labor Party is pro-free trade and hopes to actively promote and expand free trade agreements (Crean 2010). Moreover, they believe that the TPP is the highest priority regional trade agreement for Australia (2011).

From this report's author point of view, the belief that TPP is the highest priority means that it supersedes the China-Australia FTA. Therefore, the Australian Labor Party may be seen as pro-Western.

The Coalition

The Coalition represents the center-right parties of Australia- the Liberal Party of Australia, the Liberal National Party of Queensland, the National Party of Australia and the Country Liberal Party. As a group, they are open to free trade, but they each have individual biases. According to the National Party of Australia, for example, they support export subsidies under its Export Market Development Scheme (2010). The Coalition's election platform stated its highest priority is continuation of the Doha negotiations but admit that bilateral agreements may be quicker and that TPP is a stepping stone for a regional trade agreement (Loughnane 2010).

The National Farmers' Federation

The NFF supports multilateral liberalization through the Doha round, but agrees that it may be impractical. Consequently, they believe that the TPP is a suitable alternative (Heffernan 2010).

Academics

Mulgan (2011) believes that a TPP with Japan is unlikely to occur considering the recent three-prong disaster. As a result of these events, he believes that the Japanese agricultural will have little desire to increase its liberalization process and thus, Australia has little to gain or lose in a TPP. Armstrong believes that a quick FTA is detrimental "...a quick agreement with exemptions and exclusions without an inclusive framework will mean accession for future members will have to be negotiated separately with each member. That is a laborious and counterproductive process which will likely build layer upon layer of exclusions, exemptions and protection. It will leave power of veto for economic, political and whatever reasons with individual original signatories" (2011). Quiggin believes that the Australia-US FTA had little benefit to Australia despite its promises. He cites a survey by the Australian Industry Group to report that most Australian exporters believed that the AUSFTA had low to no effect on their exports. Moreover, he believes that there is a widening trade debt between the US and Australia as a result of the agreement.

Philippa Dee argues that the present Australian-US free trade agreement heavily favors the United States (2005) because it allows the US to maintain protectionism while Australia promises not to discriminate against the US. Moreover, she believes that it will lead to greater trade diversion and that initial estimates of its welfare gains are overestimated. Consequently, she believes the lack of concessions to the United States may harm Australia's relations with China because it establishes a bad precedence for future Australian negotiations.

New Zealand

Summary

Generally, views in New Zealand are that TPP and trade are overwhelmingly a good except for a few academics who question trade's impacts on New Zealand's sovereignty. However, these views seem to be anti-trade rather than anti-TPP as they do not adequately address why an FTA with the United States would have a greater impact than that of China, a recently signed FTA by New Zealand.

Federated Farmers of New Zealand

The Federated Farmers of New Zealand believe that agriculture should be the center of NZ's trade economy and doesn't fear large agribusinesses like Fonterra. Rather, they view Fonterra as being NZ's Nokia (McKenzie, 2009). Moreover, they view the fear that US dairy farmers have to be unfounded considering how small of a percentage of world milk production NZ represents (2010).

Fonterra

Fonterra is New Zealand's largest dairy producer and strongly supports the establishment of the TPP. As the US is NZ second largest export partner Fonterra believes that it will lead to greater economic and export growth.

The National Party and Labour Party

The National and Labour Party are the two primary political parties in NZ and may be considered center-right and center-left. Both parties support expansion of free trade agreements. However, in a recent press release the Labour Party's Maryan Street has denounced leaked provisions on intellectual property rights. They believe that it would result in increase costs of medicines, and branded goods (Street, 2011).

The Green Party

The Green Party of New Zealand is a left-wing political party that tends to have a general anti-trade stance. They believe that TPP will lead to a land US firms and individuals seizing New Zealand's land (Norman, 2010). Moreover, they believe that the benefits of regional trade agreements as a whole have been overestimated (Norman, 2010b).

The New Zealand Ministry of Foreign Affairs and Trade

They note that an FTA with the United States has been the top trade policy of NZ for many years and that the TPP serves as a path to that goal. As the original P4 agreement is considered "state-of-the-art" where new countries may opt in, they believe that it is an excellent forum by which to establish a regional trade network.

The United States-New Zealand Council

The United States-New Zealand Council view TPP to be beneficial for bilateral relations as well as the economy. They cite a joint report between the New Zealand Institute of International Affairs (NZIIA) and the Center for Strategic and International Studies (CSIS) where seminar participants were encouraged to speak candidly on the issues. In sum, they support a TPP and hopes that negotiations will lead to a TPP with strong rules and enforcement. They note that while the United States and New Zealand have historically had good bilateral ties due to shared values and culture, recent trades in regional integration has resulted in both countries having a decline in trade with each other. Moreover, bilateral investment has increased between both parties: in 2002 US investment in New Zealand grew

from \$4.6 billion to \$8.9 billion in 2009 while New Zealand investment in the US grew from \$690 million to \$4.7 billion over the same period. In particular, they note that as Asian economies continue to grow there remains significant export opportunities for the dairy and meat markets where NZ has a competitive advantage.

NZ Institute of Economic Research Inc (NZIER)

NZIER is one of NZ top non-government research institute and consulting firms. They have a positive view of TPP and hopes that it can be concluded quickly. They believe that NZ consumers will enjoy greater manufactured goods and producers will have greater market access in the United States. Moreover, they think that an FTA would be beneficial to the US by leading to higher value added products, increase yields in area with strong local demand, make US farmers better place to adopt modern farming techniques, help US farmers become more internationally competitive (Ballingall 2011).

Academics

Kelsey's book "No Ordinary Deal" highlights the opinion of several authors who are against TPP. Gould believes that unfettered free market capitalism may undermine New Zealand's economy. Moreover, he believes that some domestic government agencies like Pharmac could be targeted as being monopolistic and against the free market. The crux of his argument is essentially anti-free trade. David Adamson opposes increased integration of New Zealand's trade agreements because he believes that it may undermine national sovereignty in determining SPS and taint the country's food production chain (2010).

United States

Office of the United States Trade Representative

As TPP has not gone into effect, all US government organizations defer to the USTR. The United States is interested in joining TPP as it believes trade, especially with Asia, is central to increase job growth and the US economy. Accordingly, the US seeks to create a regulatory framework that matches that of the US to make US businesses operate "seamlessly" (USTR 2011a) with appropriate sanitation regulations (2011b). They cite a study that reports that a trade agreement would increase the US real income by 1.2% and that workers in export oriented industries are paid higher than other industries (2009).¹

Congressional Research Services

Fergusson and Vaughn note that concluding a TPP would involve negotiating FTAs with Vietnam, Brunei, Malaysia, and New Zealand. Consequently, these negotiations would involve "tough talks" over US agricultural sectors (2010). In particular, they note that the US dairy and beef industries have issues with the competitive practices of New Zealand's producers. Moreover, they believe that TPP could serve as a template for future trade agreements.

Jackson (2010) notes that there are three ways to assess the impact of a free trade agreement: gravity, general equilibrium, and partial equilibrium models. He writes that the general

¹ They do not disclose which study that provided this information. However, searching for key words, it may be the following document: Brown, D, Kiyota, K., and Stern, R. (2008) "Computational Analysis of the Menu of U.S.-Japan Trade Policies" Research Seminar in International Economics. Discussion Paper No. 611. <http://www.fordschool.umich.edu/rsie/workingpapers/Papers601-625/r611.pdf>

In this study, they use a CGE to model to assess impacts of various trade agreements.

equilibrium models (CGE) do not capture adjustment costs that arise from liberalization. Consequently, these models tend to overestimate the benefits of a trade agreement. Furthermore, these models cannot predict the effect of service industry liberalization. Therefore, he writes that it is difficult to determine the long run impacts of trade liberalization.

National Farmers Union

NFU hopes that TPP would be an improvement from previous trade agreements. “NFU supports fair trade and understands the importance of international trade for the rural economy. NFU also supports the Trade Reform, Accountability, Development and Employment (TRADE) Act sponsored by Congressman Michael Michaud, as it would require equivalent environmental, labor and food safety standards in all new trade pacts. Trade agreements must benefit domestic producers, resulting in the U.S. becoming a net exporter of food.” (NFU, 2010).

American Farm Bureau Federation

AFBF believe that the gains for farmers from TPP appear minimal unless more countries were to join. In particular, they are interested in expansion to China, Indonesia, Japan, Malaysia, the Philippines and Taiwan. Moreover, they hope that TPP is an all-inclusive agreement, resolve issues of NTB and SPS, and renegotiation of previous FTAs. (AFBF 2009)

Public Citizen

Public Citizen hopes that TPP could be an improvement from NAFTA. However, they note that TPP offers little to the US in export opportunities because the US already has FTAs with many of the countries involved in TPP (MacArthur & Wallach 2010). It is hard to make estimates on the agreement because negotiations are not complete. They are concerned on several aspects of TPP including: will TPP supersede previous FTAs, labor standards, how can the US modify TPP because TPP (by designed) allows countries to join, foreign investor protection, extrajudicial challenges to US environmental and health laws, intellectual property, food safety, and financial deregulation. Furthermore, they believe that because the TPP began negotiations under the Bush administration, it is inherently flawed and should restart under the TRADE act guidelines.

Peterson Institute of International Economics

PIIE developed a computable general equilibrium model to determine the effects of various TPP arrangements. Scollay and Gilbert contend that countries that do not sign FTAs will be worse off than the countries that do, thus forcing “blocs” to begin forming (2001). Furthermore, they note that although there will be gains from FTAs, the relative size of the welfare gains for the US could be minor. In their simulations, once either the US or Japan is included in regional trade agreements, the welfare gains for other countries become mixed.

AFL-CIO

The AFL-CIO (2010) make several suggestions in order to create a “successful” trade agreement. First of all, they believe that the Obama administration should review trade agreements before negotiations of TPP in order to make a coherent national economic policy as well as learning and improving from previous trade agreement experience. Moreover, AFL-CIO are concerned whether or not TPP would supersede previous US trade agreements in terms of investment, labor standards, etc. In addition to that, AFL-CIO are wants provisions to allow for adjustment, modification, and ratifications standards. Furthermore,

they believe that the current labor provisions in P-4 are too weak to suffice and there should be an establishment of a super-national institute to oversee labor standards in member countries. Moreover, the rules and requirements for labor standards and disputes must be enforceable as the current provisions in NAFTA are too weak or cumbersome.

Academics

Aggrawal (2007), using a political economic approach, believes that prospect of an Asia-Pacific FTA is unlikely and that APEC’s role should be to foster bilateral FTAs. He believes that US’s interest in seeking liberalization only in areas that it is competitive gives considerable power and influence to agricultural, steel, and textiles to determine trade policy. Moreover, he notes that public opinion to free trades has become increasingly negative because of the perspective that free trade has increased the US trade deficit in manufacturing with countries like China. Consequently, he writes any free trade area with “China will effectively be dead on arrival in Congress...” (p. 38). Scollay (2005) believes that an APEC-wide FTAAP (or TPP) would incentivize other countries to liberalize, especially India and those in South Asia. Moreover, he believes that such an agreement should be designed to any economy willing to accept its terms (p 25). Moreover, he cites a CGE estimate that a TPP-like agreement will yield a net welfare gain of 1.18 billion dollars to the United States. However, he notes that many simulations on the US most likely underestimate the welfare gains for the US because they have limited treatments for US services. Petri (2008) echoes Aggrawal’s sentiment regarding how regional agreements are pressuring non-participants to liberalize. Furthermore, he notes that the increase in production networks located in East Asia has enhanced the strengths of regional agreements. He believes that bilateral agreements are reaching a “tipping point” that will eventually lead to a return to multilateral agreements due to diminished returns to FTAs. Kawai and Wignarjara (2010) write that one weakness of TPP is that it neglects ASEAN as a hub for East Asian integration (p. 187).

Park et al (2010) use a static CGE model known as the Global Trade Analysis Project (GTAP) model and a capital accumulation CGE model. Their analysis reviews 19 economies and 15 sectors. To analyze the service industry they “guesstimate” the relative restrictions for each economy. Their estimates for the effects of TPP using the static model is a .67% increase in real GDP and a 61.7 billion dollar increase in welfare. Using the capital accumulation model they estimate the United States would receive a 1.04% increase in GDP and a 87.7 billion dollar increase in welfare.

Summary table of American views

Organization	Pro	Con
USTR	Increased trade expansion and job growth	
Congressional Research Service	Increased trade expansion and job growth	
Farmers’ Union	Potential for increase trade opportunities	Must be designed to support America’s farmers
American Farm Bureau	Trade is important	Needs more parties to make it beneficial for US farmers

Organization	Pro	Con
Public Citizen	Opportunity to correct past errors in trade agreements	<p>Closed negotiations with a lack of transparency or details of negotiations</p> <p>TPP needs to restart as it is inherently flawed because it was started by the Bush administration</p> <p>May lead to a continue decline of US labor standards</p>
Peterson Institute	The more countries that join TPP, the more gains there could be to US producers	
AFL-CIO	US could use its market leverage to get a fair deal	<p>Agreement needs to have several provisions that protect labor in both America and the trading countries</p> <p>Current standards in US trade agreements do not protect labor in each country enough</p>
Academics	<p>Decline of bilateral FTAs and an increase of multilateral FTAS are a natural occurrence.</p> <p>Very little concern on the effects to the environment</p> <p>Low concern on the effects of labor laws.</p>	<p>Political economic factors are extremely relevant</p> <p>Not likely to pass due to unpopularity of free trade agreements by both Democrats and Republicans</p> <p>Problems will persist in the agricultural sector</p> <p>TPP may neglect the hub and spoke model</p>

Concluding Remarks

In general, most literature on TPP is based on political economic arguments. Due to the fact that TPP has not been finalized, nor have many of the provisions been disclosed to the public (a common complaint by stakeholders in America) there have been relatively few economic

analyses. Most stakeholders (farmers, labor unions, etc) hope that TPP will be an improvement of recent FTAs negotiated under the Bush administration and will contain provisions that will not negatively impact them. However, both the Farmers Union and the American Bureau of Farmers presently do not believe the current participatory countries will be beneficial to them.

A survey of the cost-benefit studies of FTAs from the viewpoint of ASEAN

Summary

Cost-benefit analyses of the Trans-Pacific Partnership (TPP) have not been published because it is still under negotiations. Consequently, this paper reviews literature pertaining to an Asia-Pacific FTA including ASEAN+3, +6, FTAAP, etc. However, it does not survey various bilateral agreements that have been signed or are in effect. Therefore, many of these estimates do not include the United States as a trading partner so the estimates may not be comparable to the TPP.

Evaluation

Asian Development Bank

Kawai and Wignaraja (2007) estimate substantial income gains for ASEAN+3 and ASEAN+6 arrangements with a 2017 baseline year. They estimate that the gains from a ASEAN+3 scenario are \$285 billion while the world loss to non-members is only \$25 billion. In particular, the Northeast Asian economies are estimated to benefit in the ASEAN+3 and ASEAN+6 scenarios \$166 billion and \$172 billion, respectively. See Appendix I for a more detailed summary.

Francois and Wignaraja (2008) estimate three scenarios 1) ASEAN+3, 2) ASEAN+3+India, and 3) ASEAN+3+South Asia. In (1) they estimate that Japan, Korea, China, and Malaysia gain substantially at \$74.8 billion, 49.4 billion, 41.5 billion, and \$10.4 billion, respectively. There are also negative implications for Australia, New Zealand and Taipei (-0.4%, -0.3% and -2.0% of GDP, respectively). In (2) Japan, Korea and China see a gain of \$7.2 billion from scenario 1) while the Southeast Asian economies see a gain of \$5.2 billion. India gains \$17.2 billion while South Asian countries experience minor negative effects. In (3), the South Asian countries like Sri Lanka, Bangladesh, Nepal experience substantial welfare gains. See the Appendix II for a detailed breakdown of each countries welfare gain in each scenario.

Hamanaka (2010) believes that there is no force for consolidating the various ASEAN-China/Japan/Korea agreements because it would be difficult to even decide which agreements should be consolidated. Moreover, ASEAN+1 agreements give ASEAN a greater bargaining leverage than if it were ASEAN+2, etc. Hamanaka also notes that even the process of consolidation may be difficult because consolidating partners may not want to have an agreement made among them. In regards to the TPP, the advantage for Japan to join the TPP is to level the playing field in the United States between itself and Korea because of the recent Korea-US FTA.

Estrada et al (2011) conclude that the larger the FTA, the greater the gains from the FTA. In their estimates they determine that an ASEAN+3 arrangement yields the greatest benefits, in particular for Japan where they estimate that they could achieve nearly 10 billion dollars in economic gains due to an ASEAN+3 agreement. However, for the static CGE model

simulations, they find that China demonstrably losses when compared to other scenarios. They estimated the following:

ASEAN-PRC FTA						
	Static CGE model			Capital Accumulation CGE model		
	GDP (%)	Welfare (%)	Welfare US\$ millions	GDP (%)	Welfare (%)	Welfare US\$ millions
ASEAN	0.65	0.31	2,104	1.34	1.09	7,444
PRC	0.57	0.13	1,942	0.90	0.46	6,981
Japan	-0.15	-0.03	-1,092	-0.16	-0.05	-1,807
South Korea	-0.29	-0.12	-688	-0.30	-0.20	-1,200
ASEAN-Japan FTA						
	Static CGE model			Capital Accumulation CGE model		
	GDP (%)	Welfare (%)	Welfare US\$ millions	GDP (%)	Welfare (%)	Welfare US\$ millions
ASEAN	-0.13	0.19	1,317	0.87	1.33	9,091
Japan	0.65	0.1	3,824	0.69	0.17	6,705
PRC	-0.19	-0.06	-966	-0.21	-0.09	-1,471
South Korea	-0.2	-0.07	-447	-0.25	-0.13	-747
ASEAN-Korea FTA						
	Static CGE model			Capital Accumulation CGE model		
	GDP (%)	Welfare (%)	Welfare US\$ million)	GDP (%)	Welfare (%)	Welfare US\$ millions
ASEAN	0.16	0.15	993	0.49	0.53	3,616
South Korea	1.4	0.44	2,606	1.90	0.97	5,775
PRC	-0.11	-0.05	-716	-0.12	0.00	-1,021
Japan	-0.07	-0.01	-471	-0.06	-0.01	-409

ASEAN+3 FTA						
	Static CGE model			Capital Accumulation CGE model		
	GDP (%)	Welfare (%)	Welfare US\$ millions	GDP (%)	Welfare (%)	Welfare US\$ millions
ASEAN	0.15	0.44	3,010	1.83	2.36	16,179
PRC	0.53	0.04	674	1.30	0.81	12,260
Japan	1.51	0.25	9,850	1.54	0.40	15,844
South Korea	2.76	0.91	5,442	4.31	2.54	15,157

Source: Estrada et al (2011)

Government Affiliates

Kawasaki (2010) of the Economic Social Research Institute in Japan estimates that the average real GDP gains from an APEC FTA would be 1.9 percent due to trade liberalization and an additional 0.4 percent due to facilitation. His study also finds that domestic inputs in importing countries will begin to be used more efficiently. Moreover, his study shows that trade liberalization results in factor allocation to the industries where a country has a competitive advantage.

Real GDP gains from a FTAAP			
unit: Percentage	Liberalization	Facilitation	Total
Japan	0.9	0.2	1.1
China	6.5	1	7.5
Korea	7.5	1	8.5
Hong Kong	2.8	1	3.8
Chinese Taipei	7.3	1.5	8.7
Singapore	2.8	1.9	4.7
Indonesia	3.7	0.7	4.4
Malaysia	12.6	1.9	14.5
the Philippines	6.8	2.3	9.1
Thailand	25.1	1.9	27
Vietnam	37.3	2.8	40.1

Real GDP gains from a FTAAP			
Lao	2	0.2	2.1
Cambodia	3.6	0.5	4.1
Myanmar	1.5	0.3	1.8
India	-0.3	0.1	-0.2
Australia	2.4	0.6	3
New Zealand	3.4	1.1	4.5
USA	0.3	0.2	0.5
Canada	0.6	0.4	1.1
Mexico	4.5	0.7	5.2
Chile	1.5	0.6	2
Peru	1.9	0.3	2.2
Russia	4.9	0.4	5.3
EU	0.2	0	0.2
APEC	1.9	0.4	2.3
Source: Kawasaki (2010)			

Academics

Hayakawa and Chang (2008) assess several different arrangements of Asian free trade agreements with reductions of both tariffs and non-tariff barriers. A list of the commodities modeled is in the Appendix III. They incorporate cultural similarity and the border effect between countries. They are particularly interested in Japan, Korea, China, Indonesia, Malaysia, the Philippines, Singapore, Thailand, USA, EU, and the rest of the world. They conclude that border barriers significantly impede trade, wage inequality between countries impact the level of imports, They have two simulations: 1) the complete removal of tariffs; 2) impact of an entire elimination of policy barriers.

	Simulation	<u>Scenario 1</u>		<u>Scenario 2</u>	
		Simulation	Change, %	Simulation	Change, %
Indonesia	\$142,373	\$142,018	-0.25	\$145,564	2.24
Malaysia	\$87,626	\$88,002	0.43	\$88,775	1.31

Philippines	\$71,428	\$71,508	0.11	\$71,533	0.15
Singapore	\$83,972	\$83,972	0.00	\$84,860	1.06
Thailand	\$109,340	\$109,593	0.23	\$117,816	7.75
China	\$1,147,816	\$1,148,092	0.02	\$1,160,058	1.07
Korea	\$429,880	\$431,497	0.38	\$446,128	3.78
Japan	\$4,262,353	\$4,263,720	0.03	\$4,182,347	-1.88
USA	\$10,068,241	\$10,068,253	0.00	\$10,082,543	0.14
EU	\$7,914,260	\$7,914,279	0.00	\$7,930,033	0.20
ROW	\$6,702,469	\$6,702,442	0.00	\$6,715,751	0.20

Source: Hayakawa and Chang (2008)

Note: Simulation amounts are in millions of US dollars

Ando and Urata (2006) focus on 9 regions as a potential East Asia FTA: Japan, China, Korea, and ASEAN members. They examine the eight combinations: 1) FTA among ASEAN, 2) FTA among ASEAN and China, 3) FTA among ASEAN and Japan, 4) FTA among ASEAN and Korea, 5) FTA among ASEAN, China and Japan, 6) FTA among ASEAN, China, and Korea, 7) FTA among ASEAN, Japan, and Korea, and 8) FTA among ASEAN+3 (including Hong Kong). They define trade liberalization as the elimination of import tariffs and export subsidies and incorporate capital accumulation as a change in investment levels that is linked to a change in capital stock. Thus, they do simulations for 1) trade liberalization, 2) trade liberalization and capital accumulation, and 3) trade liberalization, capital accumulation and various facilitations and coordination. Like other researchers they determine that ASEAN+3 is the most beneficial arrangement for each individual member country except Hong Kong when considering scenario 3).

Effects of ASEAN+3 in East Asia on real GDP						
ASEAN+3	Scenario 1		Scenario 2		Scenario 3	
	Millions USD	Percent	Millions USD	Percent	Millions USD	Percent
Japan	\$6,584	0.01	\$11,054	0.19	\$15,013	0.31
China	\$800	0.13	\$11,306	1.41	\$14,483	1.73
Korea	\$5,973	1.11	\$14,508	4.19	\$17,122	4.91
Indonesia	\$668	0.07	\$3,614	2.52	\$4,663	3.22

Effects of ASEAN+3 in East Asia on real GDP						
Malaysia	\$1,448	0.38	\$3,395	4.08	\$4,900	5.64
Philippines	\$156	0.22	\$1,611	3.13	\$2,707	5.06
Singapore	\$1,729	0.05	\$3,250	2.92	\$4,805	5.17
Thailand	\$2,828	0.68	\$12,354	13.13	\$14,420	15.37
Vietnam	\$279	0.72	\$4,119	5.29	\$4,976	5.05
ASEAN total	\$7,107	0.36	\$28,423	5.07	\$36,471	6.39
ASEAN+3	\$20,463	0.14	\$65,291	1.17	\$83,090	1.48

Source: Ando and Urata (2006)

A complete summary of their results as well as a summary of previous studies for can be found in the Appendix IV.

Itakura and Lee (2011) analyze five scenarios: 1) EU-Korea FTA and EU-ASEAN FTA over the period 2013-2015, ASEAN+3 FTA over the period 2016-2020, and FTAAP over the period 2021-2025; 2) EU-Korea FTA and EU-ASEAN FTA over the period 2013-2015, and ASEAN+3 FTA over the period 2016-2025; 3) EU-Korea FTA and EU-ASEAN FTA over the period 2013-2015, and EU+ASEAN+3 FTA over the period 2016-2025; 4) ASEAN+3 FTA over the period 2013-2020, and FTAAP over the period 2021-2025; 5) FTAAP over the period 2013-2025. Finally, they had a sixth scenario that measures global trade liberalization. They estimate that Japan would benefit the most in global trade liberalization with a 1.13% increase in its welfare. These results contradict the results from Estrada et al who measured ASEAN+3 and reported a potential gain of 1.54% of a net benefit to Japan. A detailed breakdown of their results can be found in Appendix V.

Methodology

Kawai and Wignaraja (2007) use a static CGE analysis to assess the impact of various FTA arrangements. They use a Global Trade Analysis Project (GTAP) CGE model to predict various welfare gains. They consider 5 scenarios: ASEAN+China, ASEAN+Korea, ASEAN+Japan, ASEAN+3, ASEAN+6.² Although CGEs are a good indication of welfare benefits, they note that rules of origin and non-tariff barriers may serve as a greater deterrent to trade.

Francois and Wignaraja (2008) use a static CGE model with 30+ regions and sectors (see Appendix II). They assume free trade in tariff reductions & services, and a 2.5% reduction in the cost of trade.

Estrada et al use static and dynamic CGE models based on the GTAP database. Their dynamic model includes capital accumulation to capture its effects.

² ASEAN+3 includes Japan, Korea, and China. ASEAN+6 includes Japan, Korea, China, Australia, New Zealand and India.

Economies	Sectors
ASEAN (9): Cambodia, Indonesia, the Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam	Agriculture/fishing/forestry Beverage and food products Textile and apparel
China (PRC)	Chemical products
Japan	Metal and steel products Vehicle and other transport equipments
Korea, Rep of	Electronic products
EU (27)	Machinery
NAFTA	Other manufactures
ROW	Services

Hamanaka takes a political economic approach to discussing the various arrangements and thus, does not have a quantitative analysis.

Hayakawa and Chang (2008) use an OLS and GTAP CGE-model to analyze the effects of agricultural trade liberalization. They use a CES- utility function, dummy variables for language and whether or the country was a colony, the producer function based on the wage rate with GDP per capita as a proxy. Trade costs were assumed to be tariffs, transportation costs, distance, and policy impediments. They estimated the NTBs ad valorem equivalent in their GTAP model.

Ando and Urata utilize the GTAP model using the more recent GTAP 6 database that corresponds to the global economy in the year 2001. This database has 87 regions and 57 sectors but they aggregate these regions to 15.

Kawasaki (2010) uses the GTAP database aggregated into 27 areas where 19 are allocated to APEC economies. Industries and commodities are in groups of 15. A breakdown of these regions and commodities may be found in the Appendix V.

Itakura and Lee (2011) use a dynamic GTAP model per Ianchovichina and McDougall (2001) with a 2030 baseline year. They include capital mobility between sectors and countries in order to more accurately model long-term real world effects. They use the GTAP version 7 database (2004) and aggregate the database to 11 regions and 26 sectors: Japan, China, Korea, Taiwan, ASEAN-5, the rest of ASEAN, Australia/New Zealand, North America, the rest of the FTAAP (Chile, Peru and Russia), EU-27, and the rest of the world. Their sectors comprise of rice, other grains, sugar, other crops, livestock, fossil fuels, natural resources, meats, dairy products, other food products, textiles, apparel, wood and paper, petroleum products, chemical products, metal, machinery, electronic equipment, motor vehicles, other transport equip., other manufactures, construction and utilities, trade and transport, financial services, other private services and government services.

Estimates

FTA with China

In a China-Australia joint study commissioned by the Australian government, Mai et al (2005) simulate 3 aspects of a China-Australia FTA if they were to begin in 2006: 1) removal of border protection on merchandise trade, 2) investment liberalization, and 3) removal of barriers to service trade. The aggregate effect of the three policy changes result in an estimated GDP increase of US\$18 billion and US\$64 billion for Australia and China. With the removal of only border protection (tariffs and quotas) they estimate that Australia's real GDP increases by about \$1 billion relative to the baseline scenario while China's increases by \$1.6 billion. There is also an increase in imports from China of nearly 7% or \$2 billion for Australia and 15% or \$3 billion in imports to China. They determine that major sources of growth occur from increased capital, productivity improvements, and reallocation between industries. With investment liberalization they estimate that the volume of Australian investment in China increases by 8% above the baseline or about \$200 million. For Chinese investment to Australia they estimate a 7% increase or about \$200 billion as well. They also estimate that China's agriculture employment would decline from 331 million in 1997 to 180 by 2015.

2006 Full Liberalization effect on macroeconomic indicators and aggregate sectors from 2015 baseline		
	Australia	China
Real GDP (%)	0.37	0.39
Real Consumption	0.5	0.3
Export Volume	0.9	0.5
Import Volume	1.5	0.4
Capital Stock	0.4	0.3
Real Wage	0.8	0.4
Australia-to-China investment	16.7	-
China-to-Australia Investment	-	11.4
Agriculture output	1.3	0.2
Mining output	0.5	0.4
Manufacturing output	0.5	0.5
Service output	0.5	0.4

Source: Mai et al (2005)

Siriwardana and Yang (2007) estimate complete tariff reductions with China. They determine that Australia could yield a net benefit of \$2.1 billion for Australia and \$1.25 billion for China. The level of significantly greater gains from an FTA with China compared to an FTA with US is a result of the higher trade level.

Country	Equivalent Variation (US\$ millions)
Australia	2118.33
USA	-818.5
ASEAN	-271.79
China	1254.08
Japan	-566.99
Korea	-109.69
Taiwan	-101.01
EU	-775.65
ROW	-871.78
Source: Siriwardana and Yang (2007)	

FTA with the United States

In 2005, Siriwardana estimated the effects of a Australian bilateral FTAs with the United States, Singapore, and Thailand. He examines the elimination of bilateral tariffs in a GTAP model. He estimates that an FTA with the US will result in a \$574.3 million and \$1081.9 million welfare gain for Australia and the United States, respectively. In a later study Siriwardana (2006) tests two scenarios: 1) trade liberalization excluding sugar and dairy and 2) full liberalization. Under the first scenario he estimates a welfare gain of \$308.6 million for Australia and \$1.2 billion for the United States. In the second scenario, he estimates a welfare gain of \$436.89 million for Australia and \$1258 billion for the United States.

Methodology

Mai et al (2005) use a multi-country, multi-sector CGE model called the Monash-Multi-Country (MMC) model. For their baseline model they assume rapid growth in Chinese real GDP at a rate twice that of Australia's real GDP, growth in trade volume in excess of real GDP growth, continued shifts from manufacturing to services in Australia and a declining shares of agriculture and mining in Chinese real GDP. They based their estimates on the GTAP database. They assume that long-run national employment factors are determined by demographic factors and thus will not be effected by an FTA. The advantage of the MMC is that it allows for dynamic relationships like capital accumulation. MMC makes two

predictions: 1) a baseline without any policy changes; 2) policy changes. They use three stages: first, an existing comparative-static model of a single country transformed into a multi-country model by adding spatial-dimensions. Then, behavioral and accounting equations are added. In the third stage, they add capital supply equations and distinguish capital from different sources.

In Siriwardana (2006) and (2007), he carries out a multi-country GTAP model of the Johansen type. He bases modeling of each region in GTAP on the ORANI model of the Australian economy. He uses GTAP version 6 and allow for Leontief technology and CES functions. On the demand side, each region has a single household that receives all income. Details on the commodities chosen and aggregation may be found in Appendix -. In Siriwardana and Yang (2007) they use the same methodology.

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