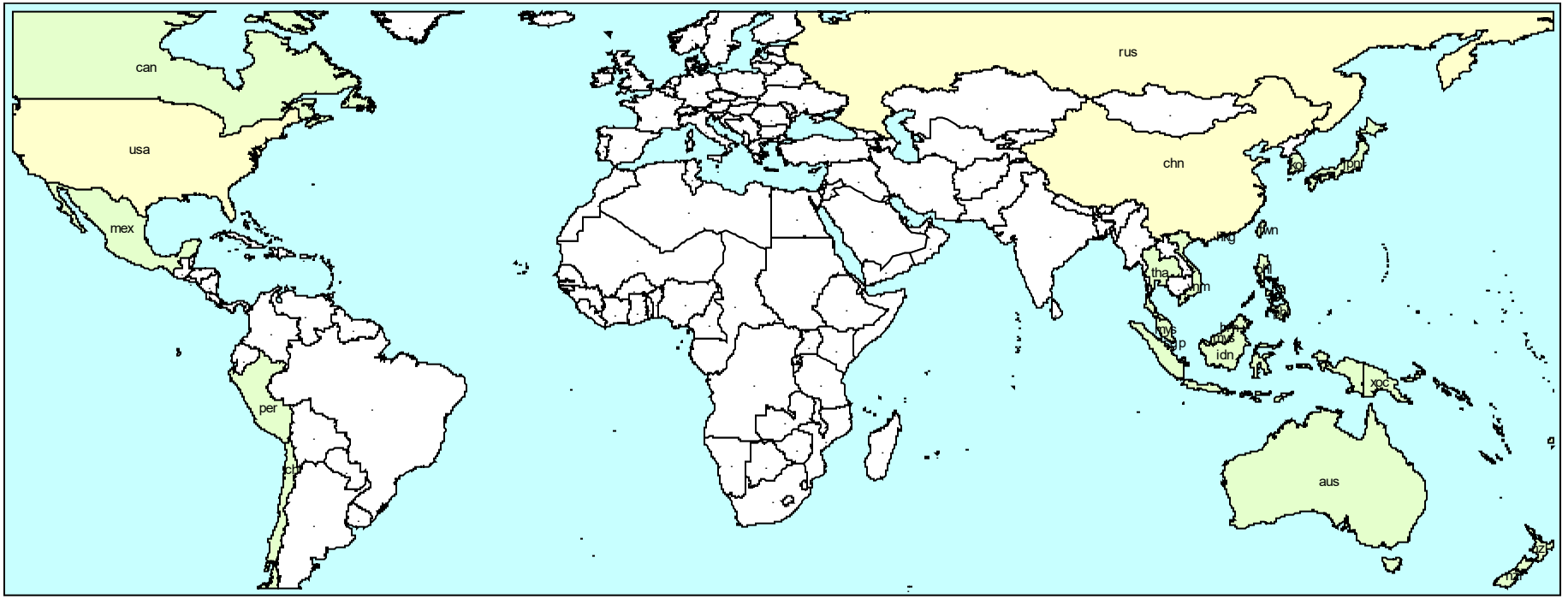
Trade Liberalization in APEC*: Tariffs and Trade Facilitation

November 2023



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Introduction

- Use the recently-developed CoPS-GTAP model to investigate the impact of trade integration in APEC*
- Dynamic CGE model features:
  - Detailed baseline calibrated to forecast of real GDP growth, energy demand, tariff reductions
  - Financial asset/liabilities module linking international financial stocks and flows with regional investment/savings and current accounts
  - Industry-specific capital; labour markets with endogenous employment in the short-run and endogenous real wages in the long-run
- Consider the impacts of trade integration in APEC* via:
  1. Tariff reductions
  2. Trade facilitation

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1. Tariff reductions

- By 2024, average import tariffs on intra-APEC* trade are low, but there exist commodities where high tariffs remain

	APEC	ALL	Fruit & Veg	Milk	Motor Vehicl	Other Manuf		APEC	ALL	Fruit & Veg	Milk	Motor Vehicl	Other Manuf
aus	1.16	1.32	0.00	0.02	5.99	0.40	sgp	0.00	0.00	0.00	0.00	0.00	0.00
nzl	0.74	0.99	0.00	0.02	3.14	2.36	tha	1.71	3.09	2.36	45.72	12.02	5.40
brn	0.01	0.06	0.00	0.00	0.00	0.02	vnm	1.85	2.57	0.57	1.37	12.98	12.84
roc	5.56	5.28	10.24	16.49	12.05	15.17	can	1.48	0.71	0.07	5.22	2.30	2.02
jpn	1.51	1.71	2.96	25.23	0.00	0.19	mex	2.60	1.01	0.45	10.72	5.80	9.29
kor	2.73	2.07	20.00	6.51	7.32	2.78	twn	2.08	1.82	15.14	4.63	14.59	1.43
idn	1.07	1.58	1.15	2.08	0.59	0.79	chl	0.33	0.27	0.32	0.55	0.08	1.17
mys	0.89	1.45	0.49	0.00	1.91	1.08	per	0.74	0.60	0.27	0.00	1.79	2.13
phl	0.94	1.64	2.56	0.17	1.92	4.10	usa	0.79	1.24				

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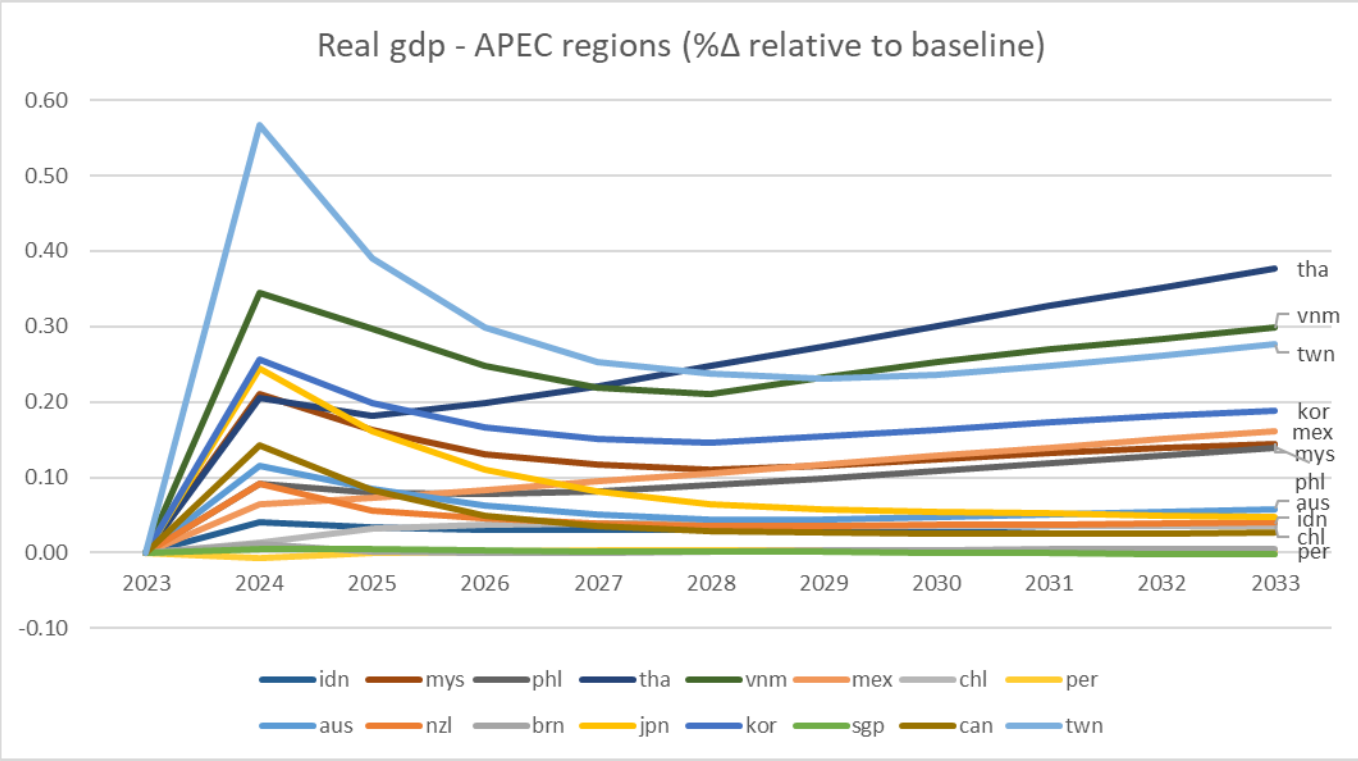
1. Tariff reductions

- Some APEC* members do better through tariff removal:
  - Thailand, Taiwan and Vietnam see real GDP gain of around 0.3%
  - Real GDP gain in Australia is between 0.05-0.1%, about US$0.9-2.3b



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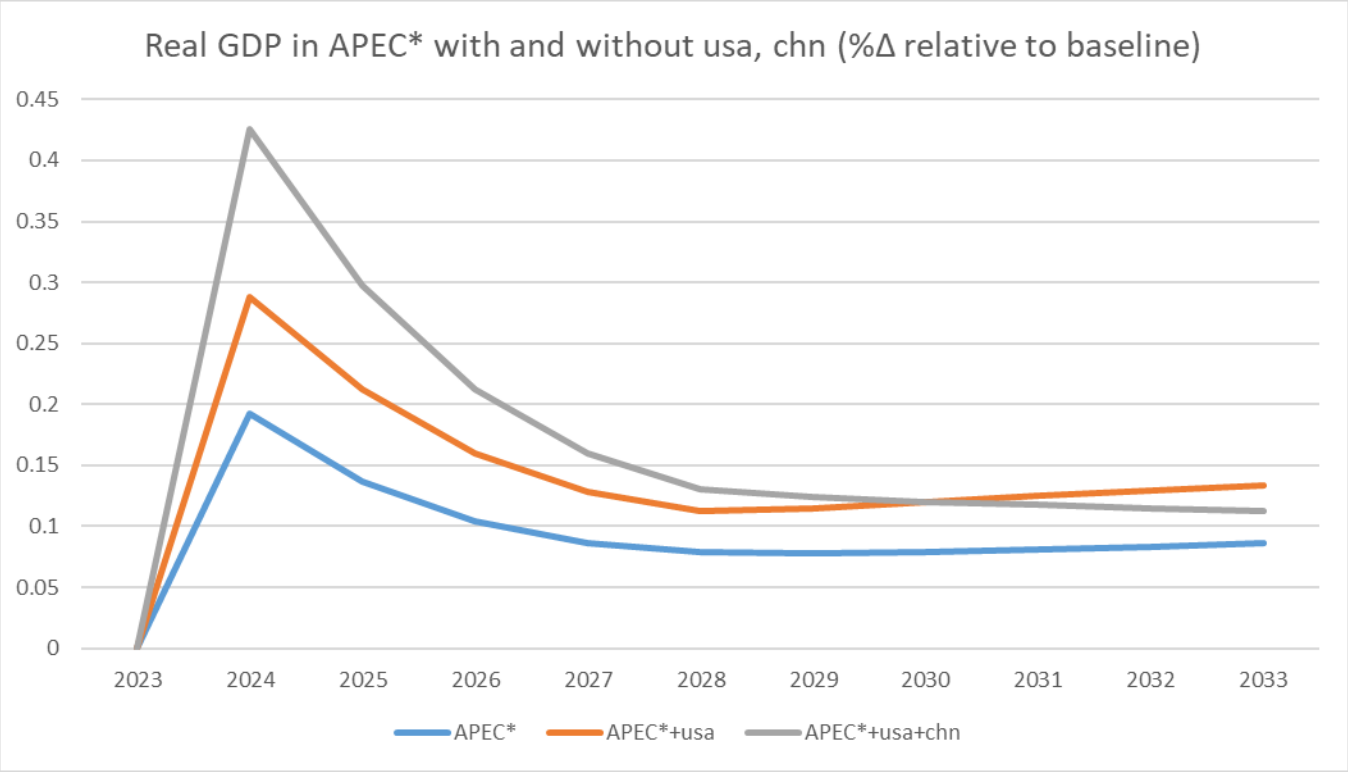
1. Tariff reductions

- Real GDP gains in APEC* between 0.08-0.19%
- If the USA and China join APEC*, real GDP gains increase, more than doubling in 2024 when tariffs are removed



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2. Trade facilitation

- Trade facilitation involves a simplification of the rules and procedures that impact trade
- Widely accepted way of modelling trade facilitation is through import-augmenting technical change
  - Iceberg Method: from the point when a traded commodity leaves the exporter and arrives at the importer, trade facilitation causes a smaller amount to "melt away"
  - Same as import-augmenting technical change shock: same amount is exported, but larger amount arrives at importer compared to before trade facilitation measures were adopted
- How can we measure the size of the technical change shock consistent with the expected impacts of trade facilitation?

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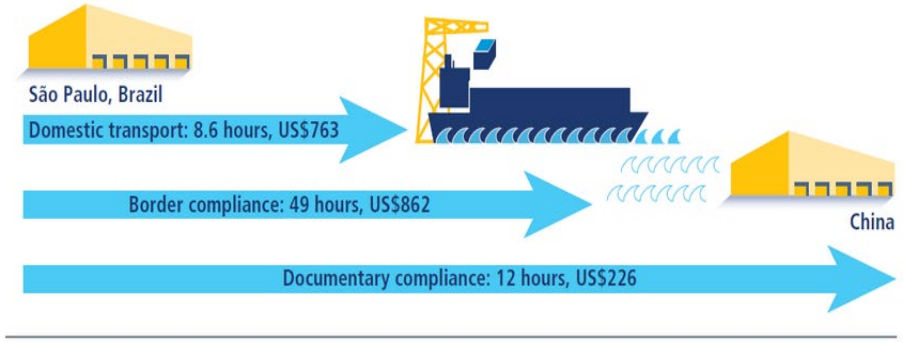
2. Trade facilitation

- To estimate the potential reduction in customs clearance times resulting from the WTO TFA, studies have used the World Bank Doing Business (DB) "Trading Across Borders" data set
- data on trading across borders are gathered through a questionnaire administered to local freight forwarders, customs brokers, port authorities and traders

Trading across Borders methodology

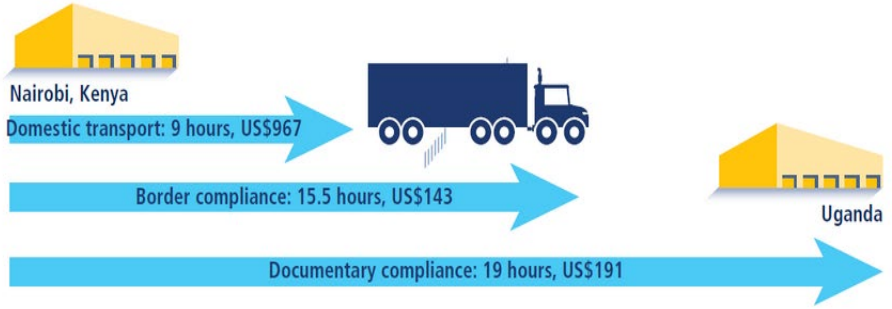
See Trading across Borders data here.

Figure 1. What makes up the time and cost to export to an overseas trading partner?



Source: Doing Business database.

Figure 2. What makes up the time and cost to export to a regional trading partner?



https://archive.doingbusiness.org/en/methodology/trading-across-borders

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2. Trade facilitation

	Time to export: Border compliance (hours)		Time to import: Border compliance (hours)			Time to export: Border compliance (hours)		Time to import: Border compliance (hours)	
	2015	2020	2015	2020		2015	2020	2015	2020
AUS	36	36	37	39	MYS	48	28	72	36
BRN	120	117	48	48	NZL	37	37	25	25
CAN	2	2	2	2	PER	48	48	72	72
CHL	60	60	54	54	PHL	42	42	72	120
IDN	63	56	99	99	PNG	42	42	72	72
JPN	23	27	40	40	SGP	12	10	35	33
KOR	13	13	6	6	THA	51	44	50	50
MEX	20	20	44	44	TWN	17	17	47	47
					VNM	60	55	64	56

https://databank.worldbank.org/source/doing-business

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2. Trade facilitation

- Adopt shocks from Walmsley and Minor (2016), "Willingness to Pay in CGE Models" – Table 4-5, p.33

Import-augmenting	OECD	High Income	Medium Income	Low Income
Primary agric	0.46	1.00	0.55	0.19
Processed agric	0.46	1.32	1.27	1.38
Mining & petrol	1.26	1.47	2.11	4.07
Light manuf	0.53	1.64	1.51	2.53
Heavy manuf	0.83	1.98	2.15	2.65
Export augmenting				
Primary agric	0.27	0.27	0.88	0.47
Processed agric	0.61	1.05	0.95	1.15
Mining & petrol	1.02	2.89	1.74	1.64
Light manuf	0.61	1.08	0.92	1.45
Heavy manuf	1.16	1.44	1.58	5.01

https://www.gtap.agecon.purdue.edu/resources/res_display.asp?RecordID=4902

- Scale shocks to reflect 2015-2020 change in hours from WB-DB

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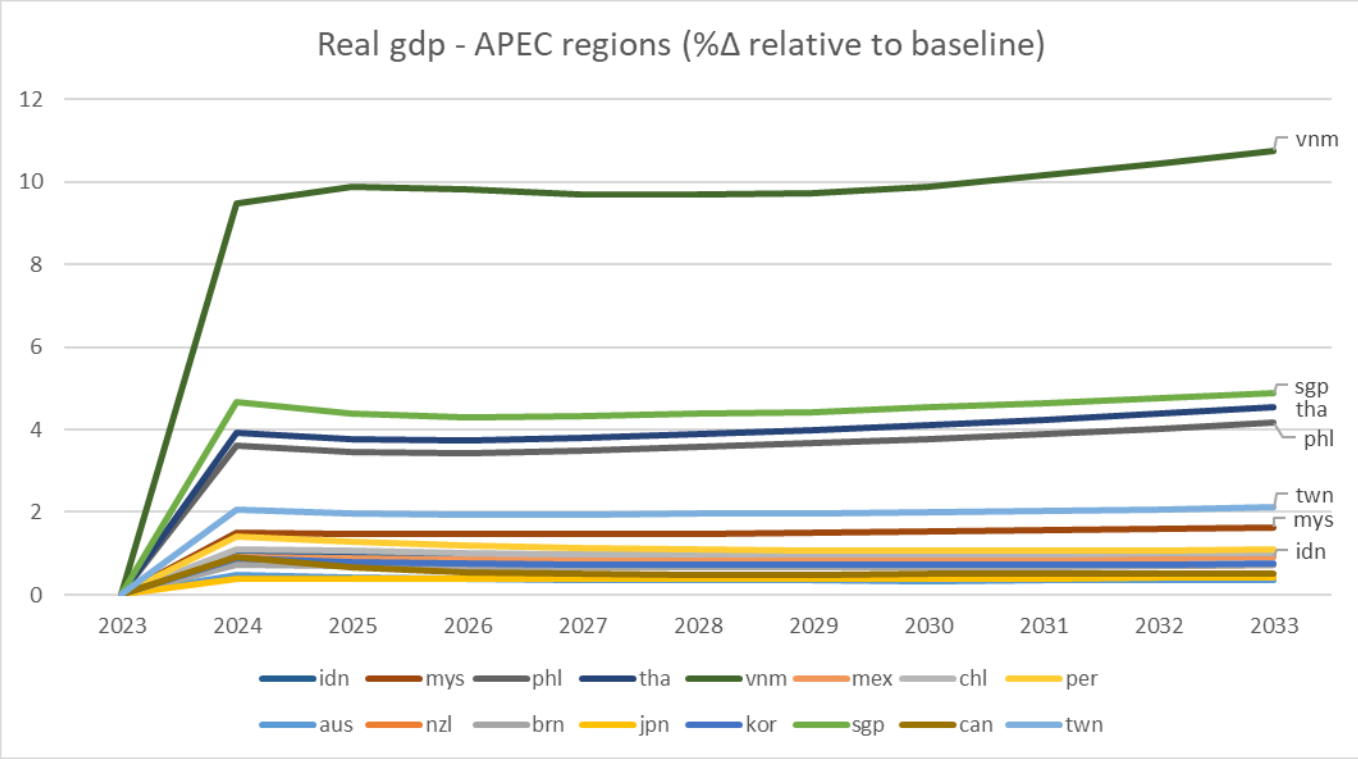
2. Trade facilitation

- Real GDP gains in APEC* are much higher than through tariff removal:
  - Average APEC* real GDP gains are 1.2-1.4%, equiv. to US$250-300b
  - Real GDP gain in Australia is 0.33%-0.45%, more than 3x tariff gains



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