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Methologies for RTA/FTA Feasibility Studies

Submitted by: Robert Scollay, APEC Study Centre, University of Auckland and PECC Trade Forum

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Methodologies for RTA/FTA Feasibility Studies

Robert Scollay
APEC Study Centre,
University of Auckland
and
PECC Trade Forum

Motivations

- Develop RTA/FTA Strategy
  - identify priority partners
    - market opportunities
    - defensive interests
- Responding to/initiating proposals
  - bilateral
  - plurilateral

Resource Issues

- In-house or outsource?
  - Assess in-house capacity
    - number of staff
    - expertise
    - experience
    - time availability
  - Assess external research providers
    - staff, resources and expertise
    - experience, track record
    - ability to address country-specific issues

Data Requirements

- National
  - trade data
  - tariff schedules
  - common level of disaggregation
  - spreadsheet format
- Internationally comparable (e.g. Comtrade)
  - allowing analysis of national and foreign trade data on same basis
- Partner
  - tariff schedules
  - reconciliation of discrepancies in national datasets

Research Techniques Trade and Economic Indicators (1)

- Revealed Comparative Advantage
- Export Indicators
  - major export categories
  - export specialisation
  - export similarity
  - export complementarity
- Trade intensity
  - exports, imports
- Intra-industry trade index
- GDP and Growth Rates
- Economic characteristics
- Trends over time important

Research Techniques Trade and Economic Indicators (2)

- Questions to be answered using trade indicators
  - potential for mutually beneficial inter-industry trade
  - potential for intra-industry trade
  - identify unfulfilled potential
  - identify largest, most dynamic markets
  - identify most dynamic export products
  - trends in relative competitiveness

Research Techniques
Modelling

- Backward-looking (ex post)
  - gravity models
  - other econometric techniques
- Forward-looking (ex ante)
  - computable general equilibrium (CGE)

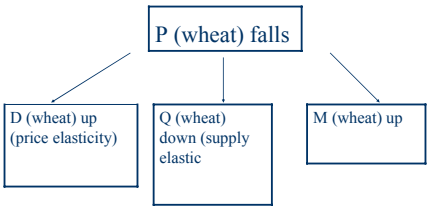
(ex post analysis can assist ex ante analysis)

Research Techniques
Partial Equilibrium (PE) v. General Equilibrium (GE)

- Partial Equilibrium
  - focus on one sector at a time
  - ignore interactions between markets
  - advantages: simple, transparent, intuitive
  - useful if "knock-on" effects likely to be small
- General Equilibrium
  - Takes account of linkages between markets
    - Product
      - complements and substitutes
      - inputs and outputs
    - Factor
      - land, labour, capital
    - Domestic and foreign

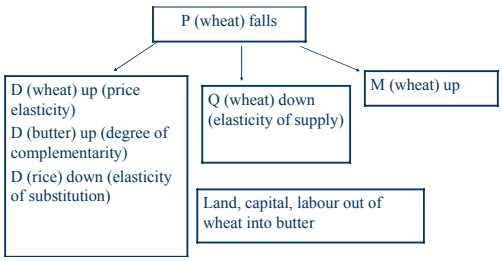
Research Techniques
Partial Equilibrium (PE) v. General Equilibrium (GE)

PE example: removal of tariff on wheat



Research Techniques
Partial Equilibrium (PE) v. General Equilibrium (GE)

GE example: removal of tariff on wheat



Research Techniques
CGE in Trade Policy Analysis (1)

- Model based on detailed input-output tables
  - production relationships between sectors
  - factor inputs
  - import and export flows by sector
  - computers used to process massive amounts of data
- Standard demand and supply functions
- Trade barriers
- GTAP the most widely used version of CGE
  - 57 commodity group, 87 countries/regions
    - Usually reduced to manageable numbers
    - Heavy emphasis on agricultural sectors
  - global database, 2001 base year
  - standard modelling framework

Research Techniques
CGE in Trade Policy Analysis (2)

- RTAs/FTA Simulations
  - Set trade barriers to zero between partners
  - Re-run the model to produce estimates of
    - changes in economic welfare (is the economy better or worse off, and by how much? Changes caused by changes in efficiency or terms of trade?)
    - changes in production by sector
    - changes in imports and exports by sector and by partner
  - Ideal for
    - comparing likely effects of different possible RTA/FTAs
    - comparing different scenarios (e.g. agriculture included/excluded, other agreements initiated simultaneously
  - Can be problematic as prediction of effects of a single RTA/FTA
    - wide range of possible assumptions and adjustments can affect the results

Research Techniques
CGE in Trade Policy Analysis (3)

- Basic approach
  - comparative static (compares "before" and "after")
    - no provision for investment, productivity effects
  - competitive markets ("perfect competition")
  - fully employed resources
- Possible Enhancements
  - dynamic setting
    - allows for investment and productivity effects
  - imperfect competition
  - adjust elasticities
  - more disaggregated treatment of labour markets
  - adjust baseline for subsequent changes

Research Techniques
CGE in Trade Policy Analysis (4)

- Some Limitations
  - drawbacks of basic approach
    - numbers often embarrassingly small
    - lacks time dimension
  - enhancements/adjustments can produce larger numbers but validity becomes difficult to assess
  - inadequate treatment of services
    - usually modelled as single sector
    - no detailed information on trade barriers
  - lack of connection to financial markets

Evaluating a Proposed RTA/FTA (1)

- Initial Analysis
  - know economy of partner
  - know and understand bilateral trade data
  - understand scope of potential preferences/concessions
    - requires analysis of tariff schedules
  - possible use of CGE analysis
    - identify location (sectors) of main production and trade effects
    - assess potential effects of expected partner demands (e.g. exclusion of agriculture)

Research Techniques
CGE in Trade Policy Analysis (2)

- Consultative Phase
  - Government agencies
    - revenue, customs, standards, and other regulatory issues, links to domestic policy (e.g. agriculture, industry)
  - Private Sector (import-competing and exporting firms, industry associations, chambers of commerce)
    - Major competitive threats to domestic industry
      - economic and social implications
    - Obstacles to export expansion
      - e.g. SPS, TBT, customs issues, transportation and other infrastructure problems etc
  - Rules of origin
    - Crucial to liberalising effect
    - Analyse implications of rules in partner's existing RTAs/FTA, other FTAs
      - Private and public sector consultations
      - Importance of developing expertise

Special Issues Relating to Services

- Data Problems
- Rationale for Liberalisation
  - entry of foreign providers improves efficiency via increased competition and technology transfer
  - choose sectors for liberalisation accordingly
- Nature of Trade Barriers
  - liberalisation involves commitment to regulations consistent with market access and national treatment
  - importance of
    - 'right' regulatory framework as basis for commitment
    - identifying limitations needed to support 'right' framework and preserve necessary "policy space"
  - Implies need for
    - Inventory of existing regulatory measures
    - Regulatory reform as prerequisite for liberalisation in some sectors

Management Issues in Feasibility Studies

- Key Steps
  - organise roundtable of officials
  - identify and manage stakeholder participation
  - secure authority
  - determine management structure and resources
    - in-house v. outsourcing a key decision
  - ensure terms of reference are clear
  - set timelines
  - provide for monitoring/review at each "milestone" in the timeline
  - consider outputs as possible inputs to negotiations
    - Eg domestic sensitivities, export impediments, revenue implications