



HOW AN FTA LIKE TPP CAN TRANSFORM A GLOBAL VALUE CHAIN THE KETCHUP EXAMPLE

Much has been discussed about how Free Trade Agreements (FTAs) can give rise to global value chains (GVC) with more opportunities for countries to join international production networks. However, not all FTAs can make significant impacts on GVCs. How exactly this might happen is still questionable for most people. This policy brief will use the hypothetical example of ketchup to show how an FTA like TPP can transform a GVC and its implications.

THE SHIFT OF GVC AS A RESULT OF TPP

When TPP comes into force, the tariff rates imposed on TPP-made ketchup imported to 12 TPP countries will reduce to zero immediately or within a scheduled period. This creates enormous advantages for TPP-made ketchup to have better market access at lower cost, which at the same time means more challenges for non-TPP ketchup trying to export to TPP markets.

Charts 1 and 2 show how the TPP might shift a ketchup supply chain. Ketchup made in Thailand will be subject to a tariff of 21.3% when imported to Japan (Chart 1). However, under the TPP, tariffs on ketchup made in Singapore using the same inputs as Thailand-made ketchup will be reduced to zero (within 11 years) when exported to Japan (Chart 2). This suggests potential relocations of ketchup factories from Thailand to Singapore because there is now an obvious benefit to such a change.

MORE MARKET ACCESS AT LOWER COST

The TPP will open up new new market access for qualifying companies. With 90% tariff lines to be reduced or eliminated, TPP-made products will either have more new markets or export opportunities into existing markets at lower tariffs.

These potential benefits are substantial even for “non-tariff¹” country like Singapore. As can be seen in chart 3, with TPP coming into force, Singapore-made ketchup can now be imported to three markets outside ASEAN² and still enjoy zero tariffs. One of these markets is Canada, one of the top global importers of ketchup,³ where tariff on ketchup will drop to zero from 12.5% on the first day of the TPP implementation.

Note, however, that not every product from a TPP market will automatically be granted the benefits of the agreement. Goods have to meet the “rules of origin” (ROOs) to gain access to lower tariff rates. In the TPP, the ROOs can change for each product and most involve a tariff shift. This is different from the way that most ASEAN agreements calculate ROOs. It will mean that companies need to think carefully about their supply chains to use the TPP.

¹ Most products imported to Singapore already receive zero tariffs.

² ASEAN tariff rate for ketchup is 0%.

³ <http://atlas.media.mit.edu/en/profile/hs92/210320/>



Chart 1: Pre-TPP GVC

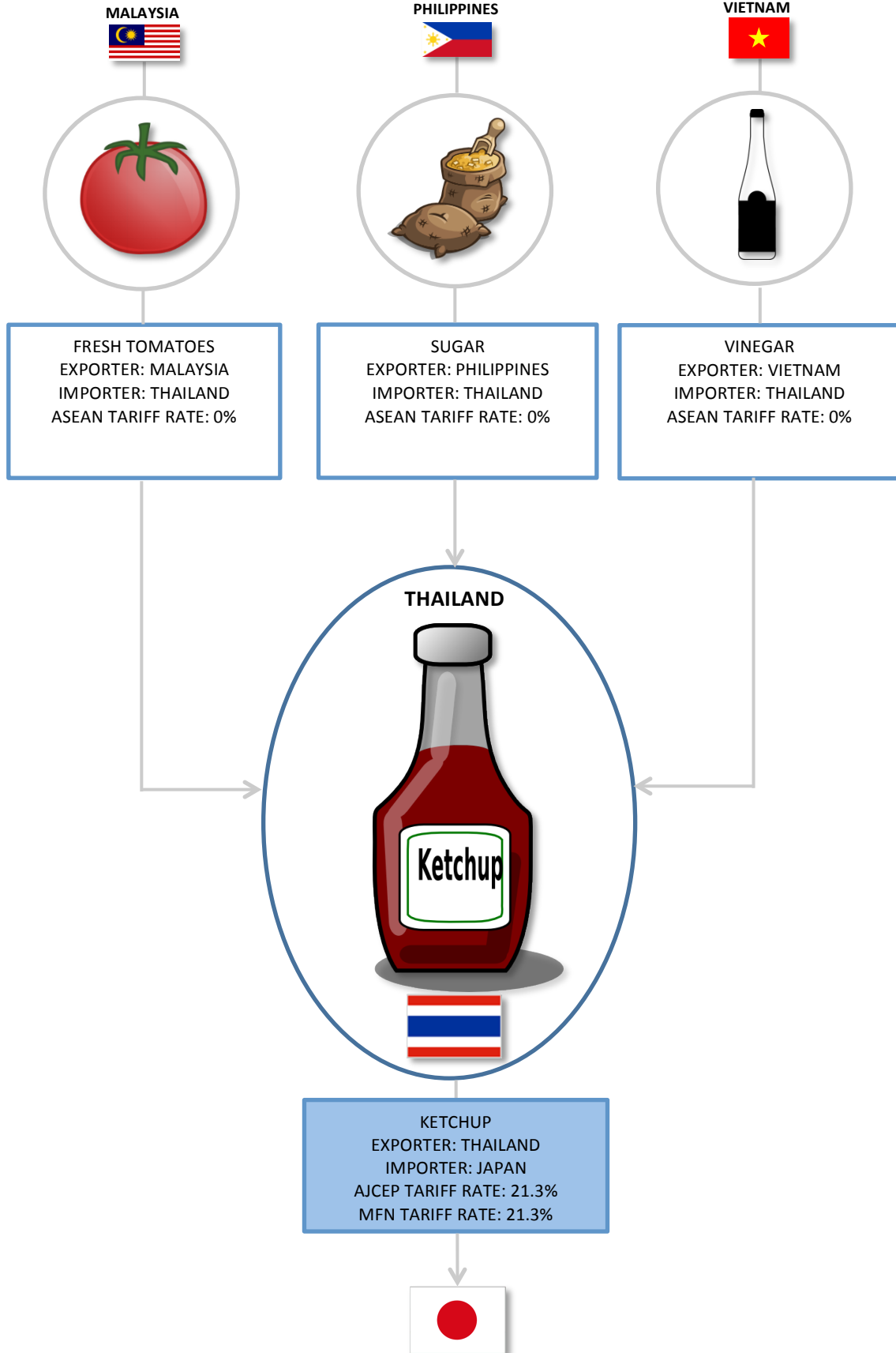




Chart 2: The shift of ketchup GVC Post-TPP

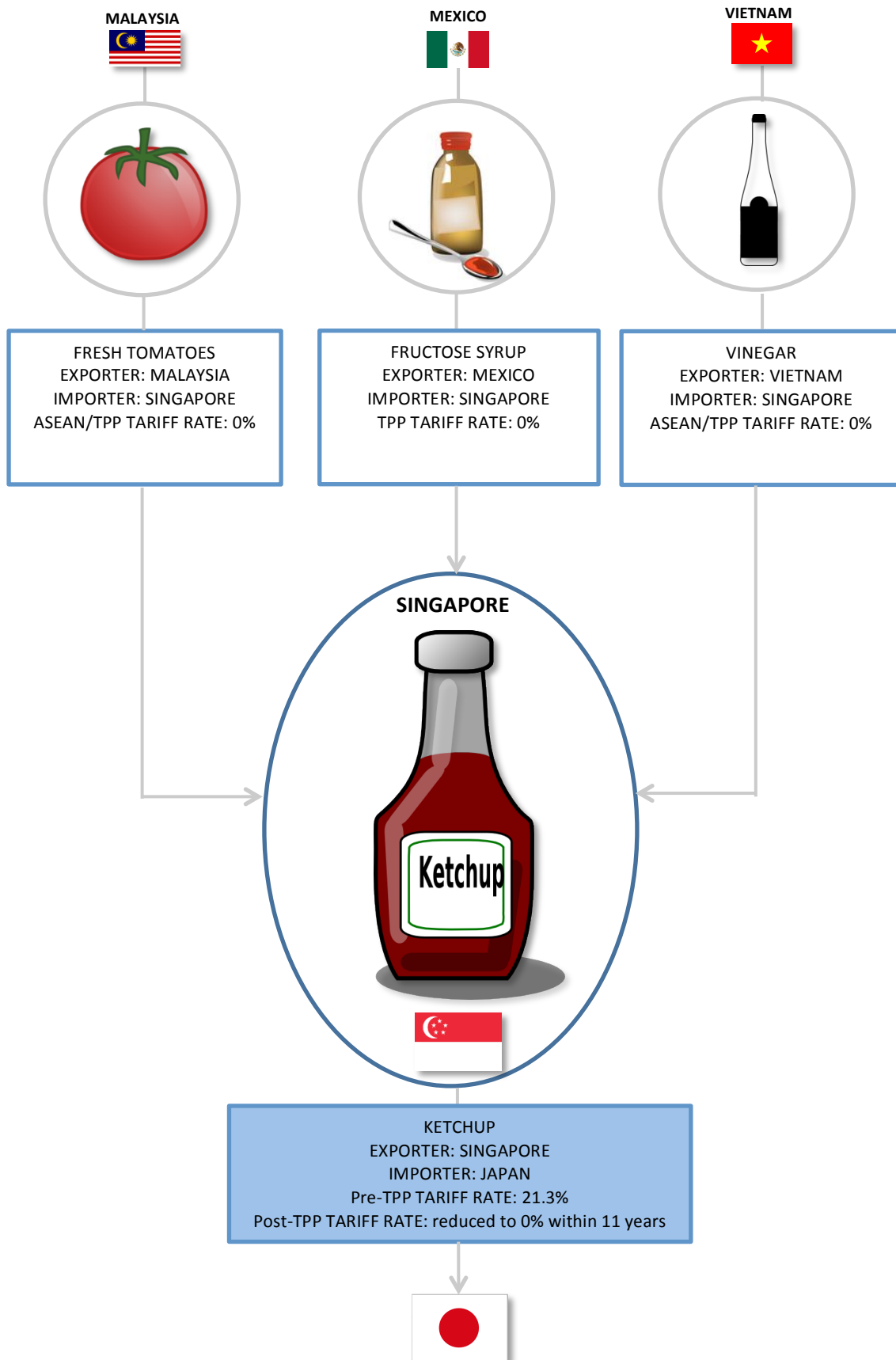
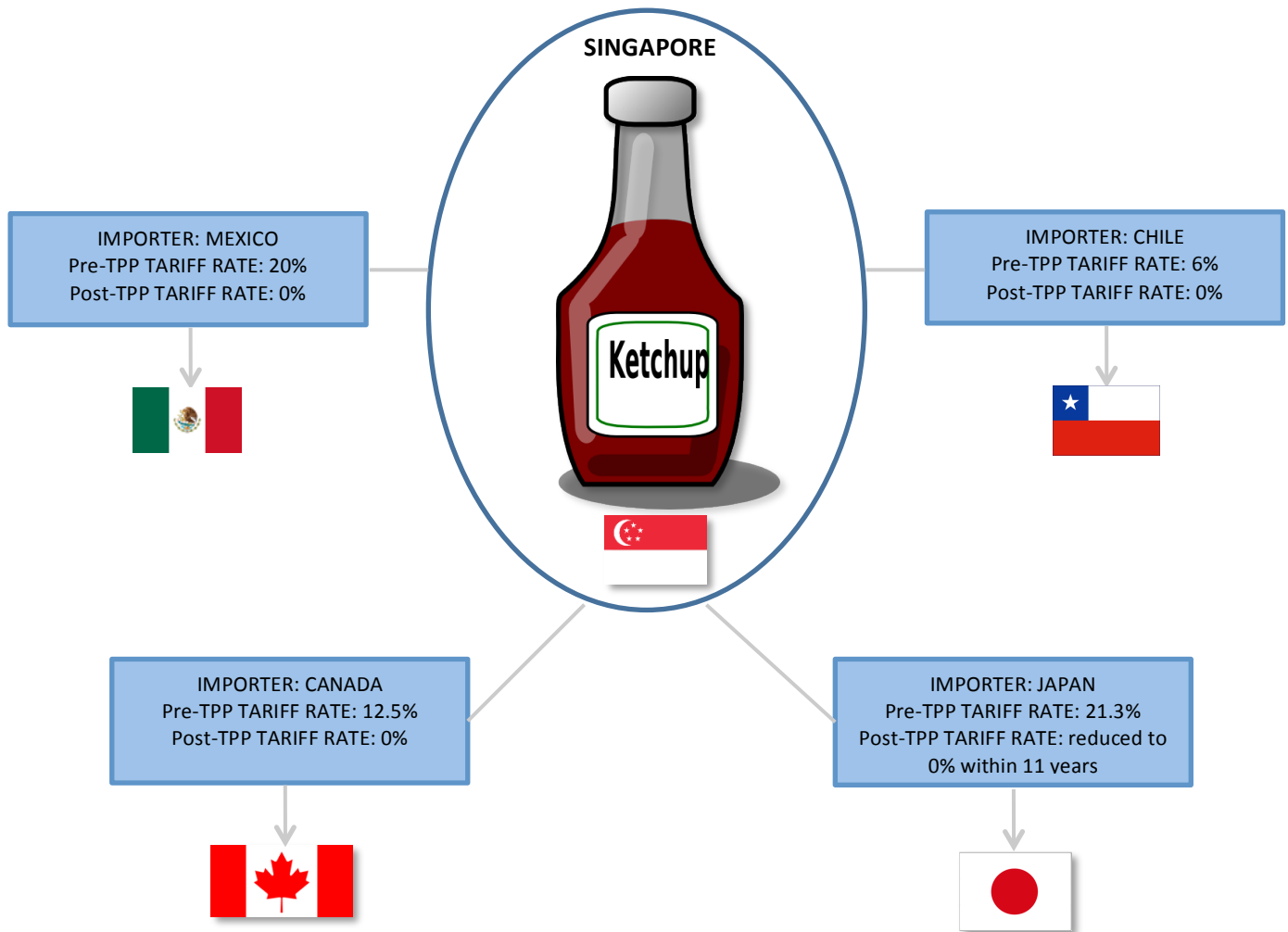




Chart 3: Greater market access outside the region for Singapore-made ketchup



IMPLICATIONS FOR FUTURE FTAs OR NEGOTIATING FTAs

The new benefits for Singapore in the ketchup example are in fact “shifted” from Thailand as supply chains adjust. This implies that the status quo is unlikely to remain the same when new FTAs like TPP – with great impact on GVCs and that do not include all countries – come into force. This leaves countries that are not included in mega-FTAs to think about what they can do to deal with these unwanted changes in order to stay competitive. One possible way is to participate in the next rounds of these existing FTAs or in new FTAs which are still under negotiation like RCEP.

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