The economic effects of a GPA plus agreement: The impact of BRICS

Public procurement is becoming increasingly important in trade negotiations at the bilateral level reflected in free trade agreements (FTAs) and at the plurilateral level under the aegis of the World Trade Organisation (WTO). These developments are driven by the economic importance of the government procurement markets and by their large potential as so far international commitments have been of limited scope and coverage. In terms of economic importance worldwide, the size of government procurement accounts for a double digit share of GDP in most developed economies. In the EU alone, government procurement of goods, services and works reached nearly €2 trillion or 13.4 % of EU GDP in 2016 (Eurostat 2017).

Looking from a trade policy perspective, the potential of committing public procurement markets is becoming increasingly important in an environment where tariff duties are globally at low level and efforts in reducing non-tariff barriers in goods and services trade haven't been particularly successful. In this respect recent research shows that in the two past decades standalone public procurement provisions feature much more prominently in bilateral free trade agreements than before the year 2000. Also at the multilateral level there has been a break-through: in April 2014, joint liberalisation efforts led to the signature of the revised Government Procurement Agreement (GPA). The revised agreement includes additional commitments in terms of government entities as well as new services and public procurement activities. Currently, there are 45 WTO members parties of the GPA.

In spite of these recent developments and the size and importance of international public procurement markets there is generally a lack of economic analysis of the impact stemming from public procurement markets liberalisation. From an empirical point of view the economic literature by Shingal (2015), Kutlina-Dimitrova and Lakatos (2014), Rickard and Kono (2014), Brülhart and Trionfetti (2004) and (2001) Trionfetti (2000) etc. provide factual evidence for the presence of 'home bias' in government procurement or focus on the identification of possible determinants of cross-border public procurement expenditures.

There are however to the knowledge of the author only two papers which assess the effects from liberalising public procurement markets in a general equilibrium framework. The paper by Kutlina-Dimitrova (2017) assesses the economic impact from deepening the GPA agreement by removing obstacles to procurement flows among GPA parties and extending the depth of the commitments. The paper shows that there are economically meaningful gains from engaging in further liberalisation among GPA members. Dixon et al (2017) assesses the impact of scraping Buy-American provisions on the US economy. The authors focus on the indirect channel by assuming that local preferences affect primarily the input choice decisions of suppliers to the US government. The results of this analysis show that the US would reap sizable benefits if it were to eliminate buy-local requirement in public tenders.

The above reviewed papers deliver valuable insights into the possible effects from further liberalisation in international public procurement. Building on these works, the current paper addresses the question about the impact from extending the membership of the GPA. Currently, major economies such as China, India, Brazil, Russia and South Africa are not parties of the Agreement. So far there has not been any economic assessment on the economic impact of these countries entering the GPA. This paper aims to fill-in this gap. For this purpose the paper uses the public procurement database and modelling extension developed

by the GTAP centre. The newly created database is a multi-region input-output table which covers all GTAP regions and allows for identification of the sourcing of imports per agent i.e. the government, private households and firms hence enabling an assessment of bilateral elimination of domestic preference. Furthermore, for the first time the database offers a split of investment uses in public and private. The modelling extension follows the database extension and introduces a modelling approach whose main notion is that 'home-biased' government procurement policies can be modelled through a subsidy accruing to domestic producers and a concurrent tax levied on imports. The exact match in terms of revenue flows ensures that there are no tax revenues gains/losses from a change in domestic preference margins. This is a novel trade cost modelling approach complementing the widely used technological development shocks which are less appropriate for simulating the impact stemming from a reduction in domestic preferences in public procurement markets.

The scenario design and the shock inputs will be based on the assumption that the import penetration of the government sector would approach the import penetration of the current GPA parties. The logic behind this assumption is that the GPA accession of the BRICS countries will naturally lead to an increase in the foreign penetration of the government sector which at the margin will reach the current status-quo in GPA countries.

The paper will report the impact of the BRICS accession to the GPA in terms of national welfare, total and bilateral trade.