

The Trans-Pacific Partnership and Asia-Pacific Integration: Brief overview

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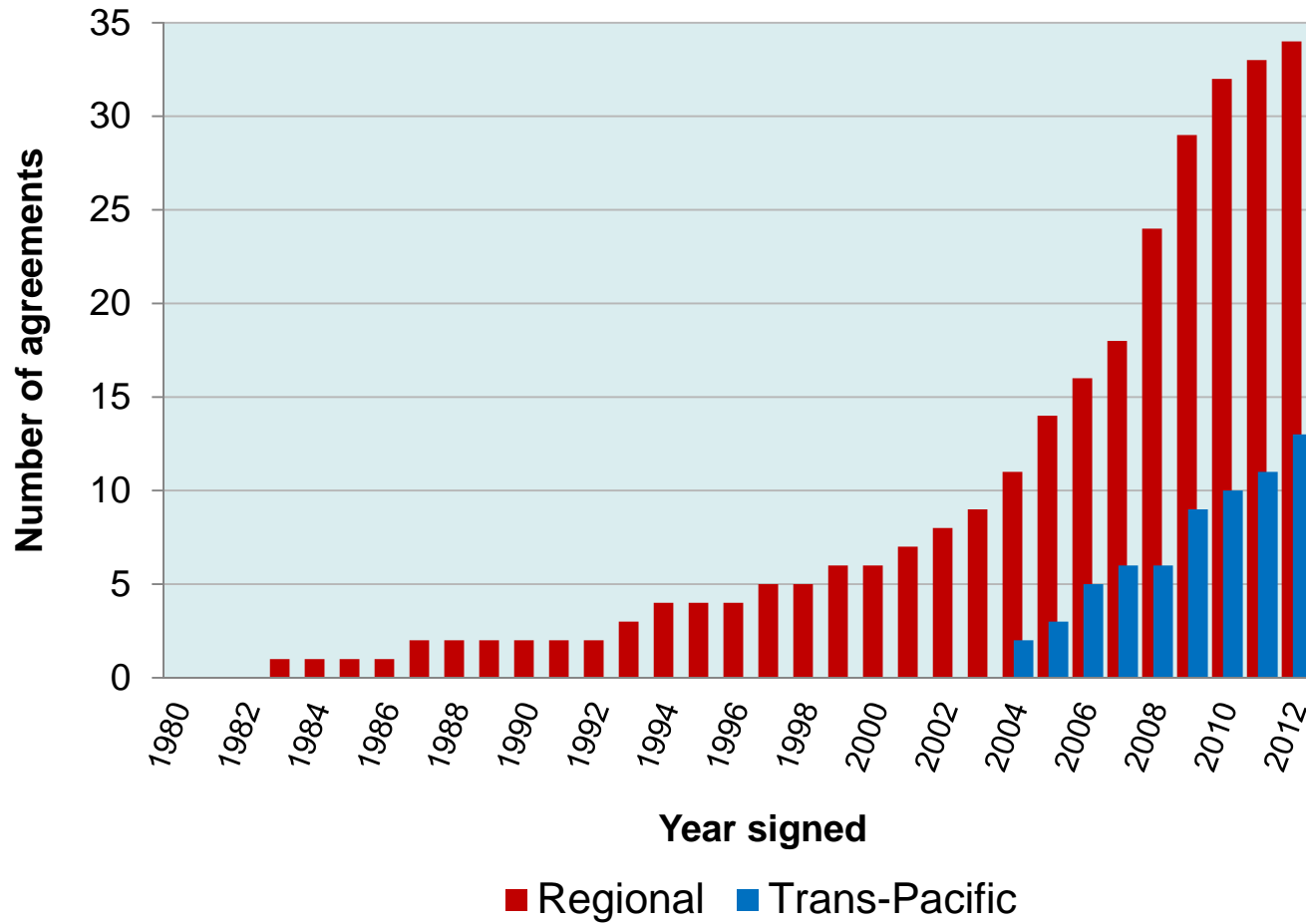
Bottom line

- **A big deal:** Asian and Trans-Pacific negotiations are huge, positive-sum games with \$2 trillion prize
- **Positive dynamics:** tracks will stimulate competitive liberalization and consolidation
- **Good timing:** much-needed signal that world trade will come back

A big deal

- World trading system is “on the rocks”
- To the rescue: the Asia-Pacific
 - World’s most dynamic region
 - 2/3 world trade, \$1.6 trillion Trans-Pacific
- Needed: 21st century system
 - Address all barriers, sectors
 - Support cooperation on SMEs, development
- High stakes
 - Benefits ~\$2 trillion/year
 - Signal that world cooperation is alive

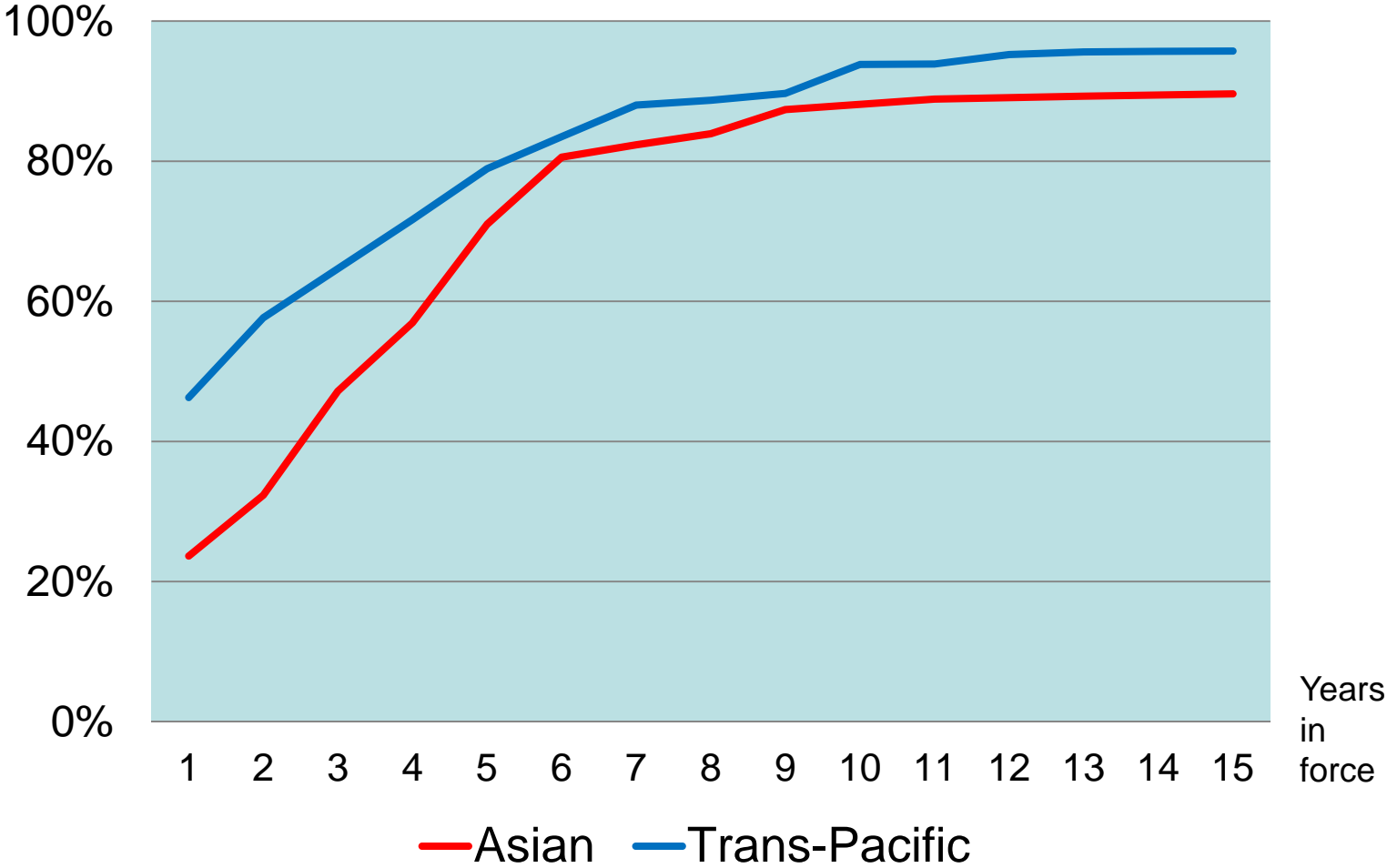
Asia-Pacific trade agreements



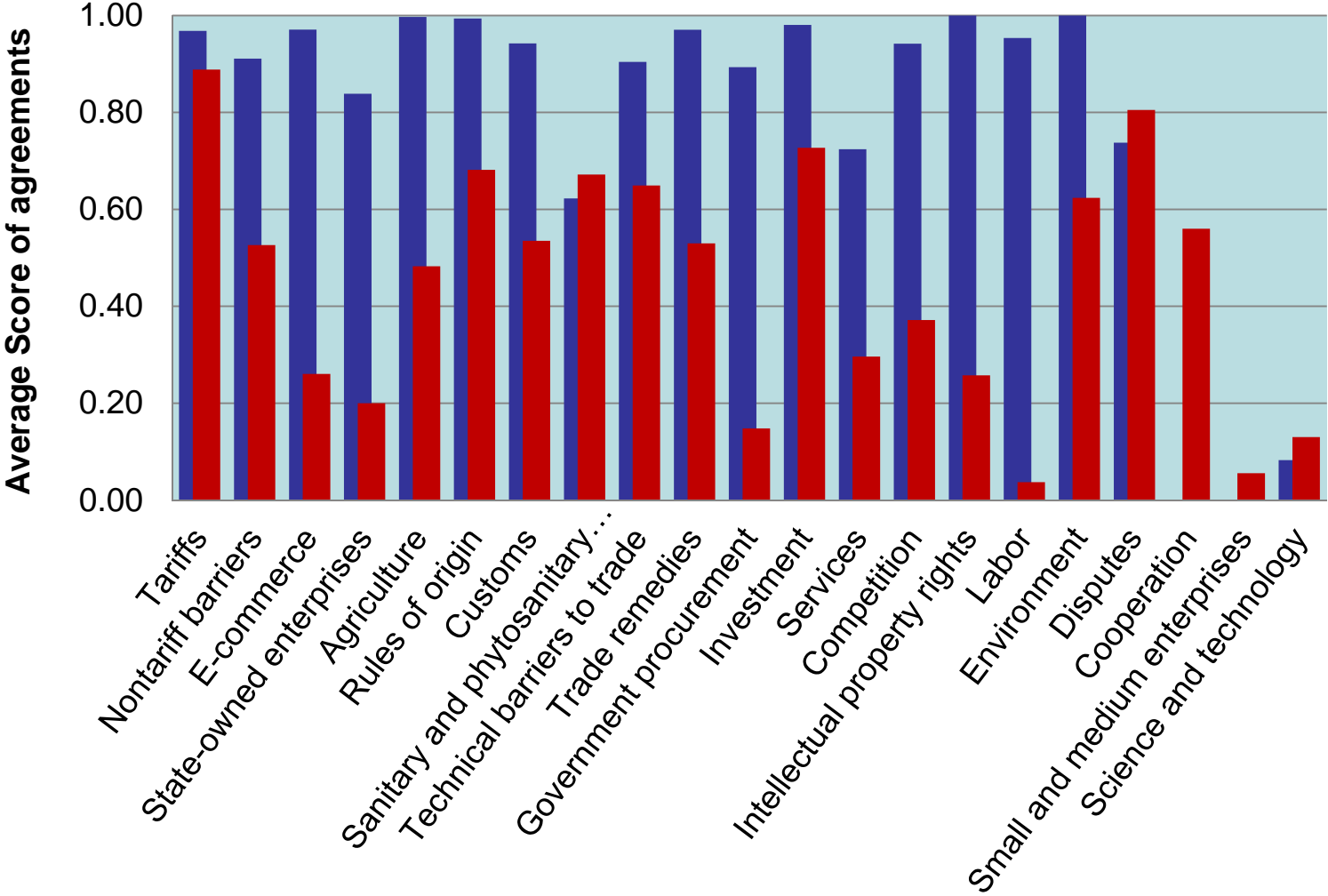
Note: Among APEC members. Authors' estimate.

How do templates differ (1)?

Tariff reduction (%MFN rate)



How do templates differ (2)?



Source: scores of provisions from FTA database.

Minefield of issues (a sample)

- Intellectual property
 - Copyright infringement (on-line)
 - Length of patents, copyright, data exclusivity
 - Government medical insurance
- Competitive neutrality of SOEs
- Services
- Investor-state dispute resolution
- Labor
- Country-specific issues
 - Rules of origin on textiles (Viet Nam)
 - Agriculture (various)

The study

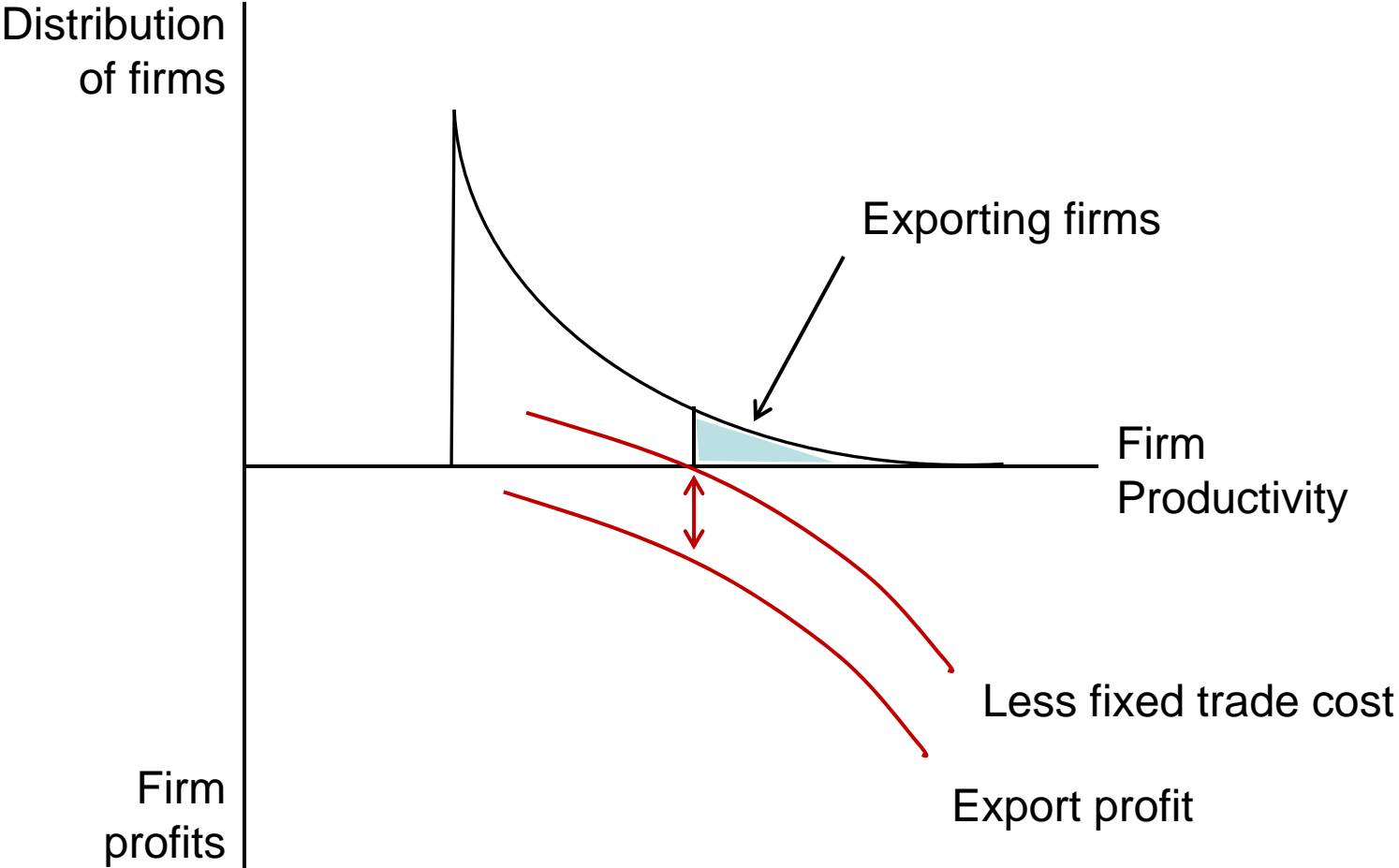
- **TPP and Asia-Pacific integration**
- **Structure**
 - 18-sector, 24-region CGE model
 - Begin with baseline growth projection, 2010-25
 - Analyze 47 existing and 10 new agreements
- **Ongoing analysis, new work reported:**
www.asiapacifictrade.org
- **Reference**

Peter A. Petri, Michael G. Plummer and Fan Zhai, “The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment.” East-West Center and Peterson Institute. Forthcoming, November 2012.

Concerns with past studies

- **Underestimates** of consequences of major initiatives (Kehoe 2008)
- **Omission of key effects** such as productivity gains and FDI increases
- **Overstatement** of liberalization effects (Productivity Commission 2011)

Melitz model: high productivity firms export



Modeling innovations

- **Innovations that imply higher trade and welfare**
 - High productivity firms grow, low productivity firms exit
 - More varieties become available
- **Innovations that imply lower trade and welfare**
 - Existing agreements taken into account
 - Barriers only partially removed
 - Preferences only partially utilized
 - ROOs raise costs

Simulating agreements

- Simulations change:
 - Tariffs
 - Utilization rates of preferences
 - NTBs (goods and services)
 - Costs associated with ROOs

- Calculating changes:

$$R = \lambda \cdot P \cdot S$$

Reduction in barriers	Maximum actionable reduction	Policy effects matrix	Score matrix
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- Use largest R if multiple agreements apply

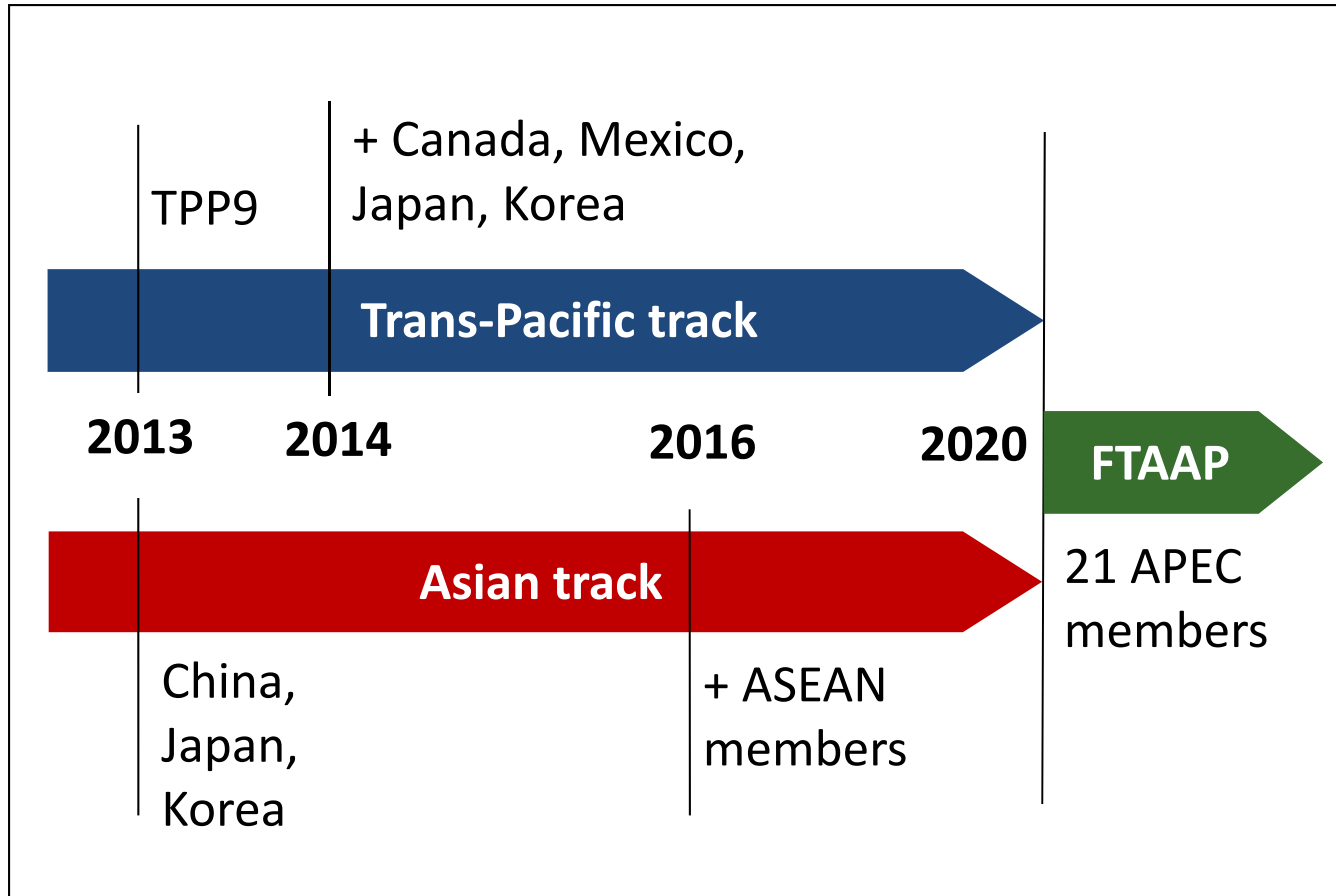
Sample of agreement scores

(composite scores of three measures 0 – 1)

Agreement	Year	TBT	Gov. procurement	Investment	Labor	Cooperation
ASEAN-China	2005	0.49	0.00	0.35	0.00	0.00
P4	2006	0.87	0.85	0.48	0.61	1.00
ASEAN-Korea	2007	0.57	0.04	0.56	0.00	0.56
Korea-US	2012	0.85	0.81	1.00	0.92	0.00

Source: FTA database. Composite score based on measures of (a) coverage of provision subtopics, (b) length of coverage, and (c) enforceability of provisions.

Scenarios



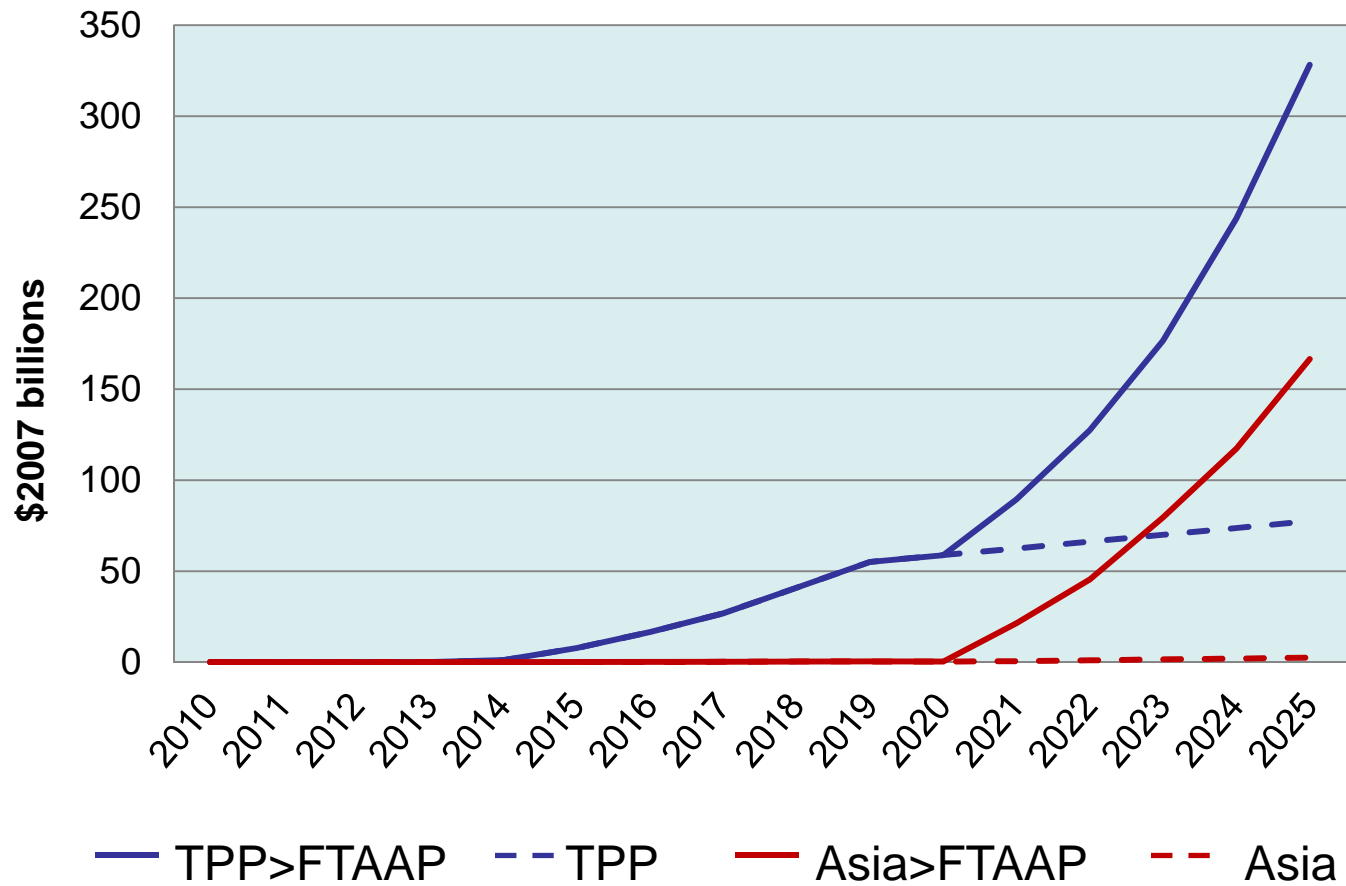
Key results

- TPP and Asian tracks generate large overall gains
- Most gains are from trade and investment creation, not diversion from other countries
- Largest gains are from extending tracks to FTAAP
- Using the TPP (rather than Asian) template in the FTAAP would nearly double gains
- Gains are largest for small economies like Vietnam
- Trade gains are largest for manufacturing on the Asian track and services on the TPP track

Results

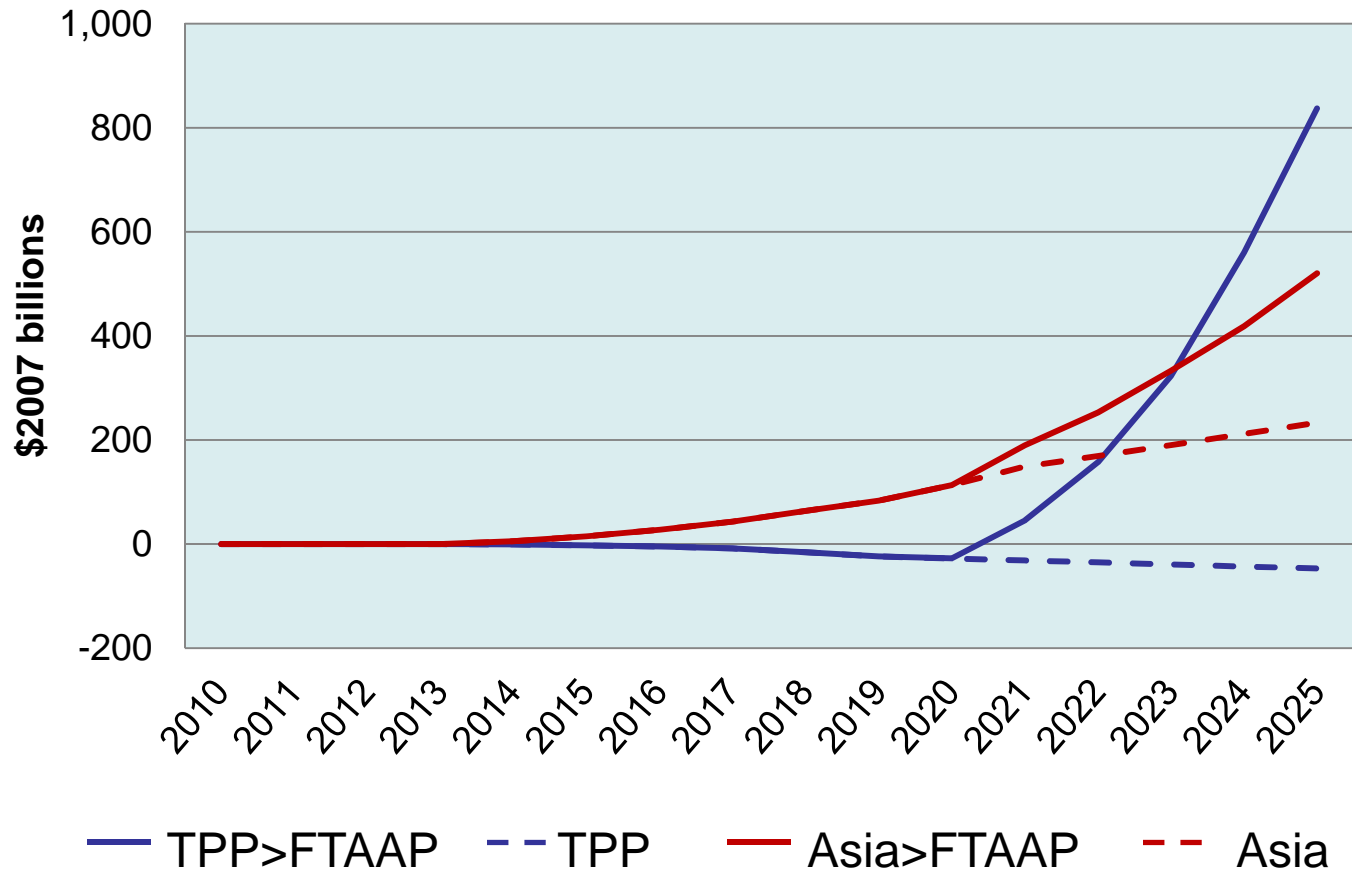
	GDP (\$bill)	Income change (\$bill.)			Change from baseline (%)		
	2025	Asian			Asian		
		TPP	track	FTAAP	TPP	track	FTAAP
United States	20,273	78	3	267	0.4	0.0	1.3
China	17,249	-47	233	678	-0.3	1.4	3.9
Vietnam	340	46	14	73	13.6	4.0	21.5
APEC	58,951	314	504	2052	0.5	0.9	3.5
WORLD	103,223	295	500	1921	0.3	0.5	1.9

US income (\$billion)



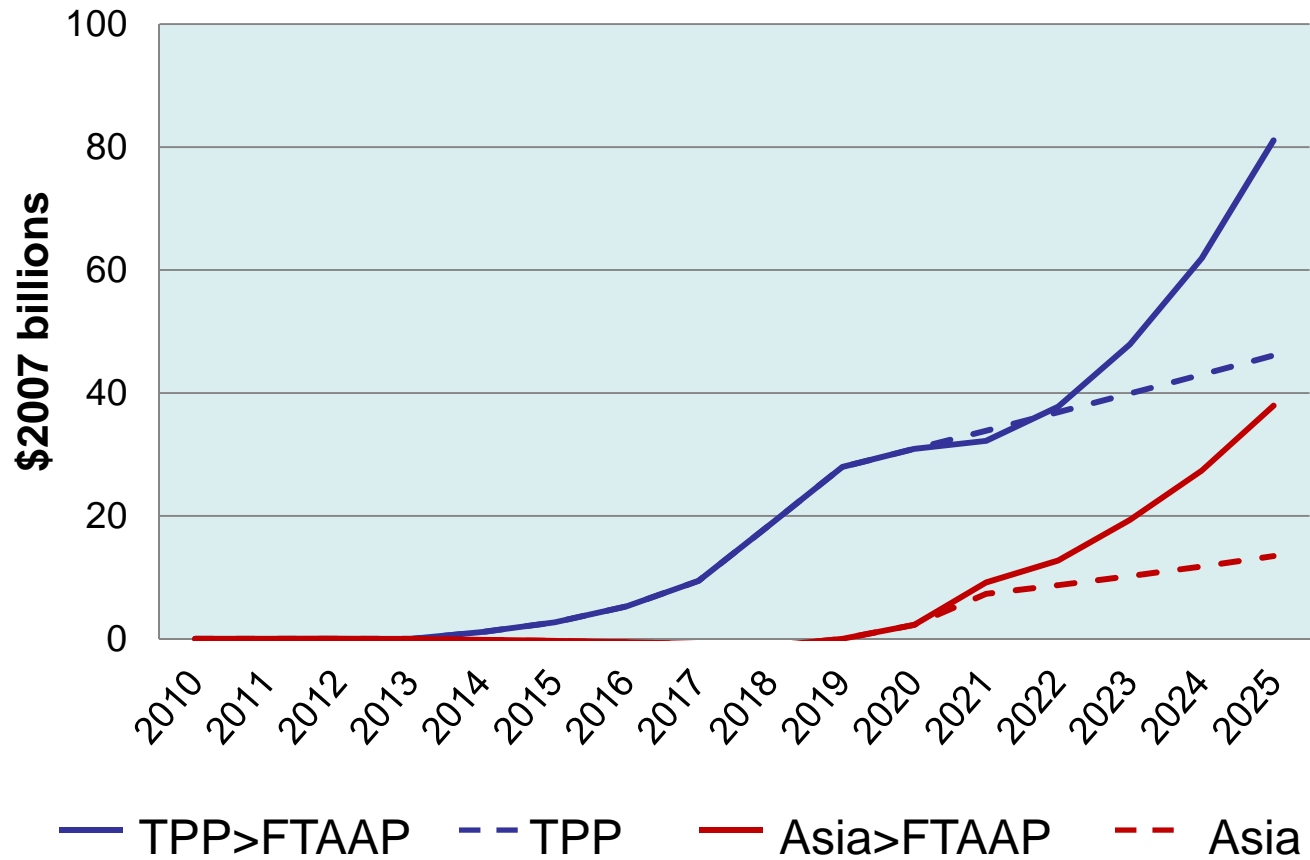
Chinese income

(\$billion)



Vietnamese income

(\$billion)



Changes from baseline (world)

(percent)

	TPP	Asian track	FTAAP
Income	0.3	0.5	1.9
Primary goods trade	-0.1	0.8	2.8
Manufactures trade	1.5	3.7	11.5
Services trade	2.7	3.2	17.7
Foreign Direct Investment	0.6	0.5	2.2

What explains long term gains?

US	China	Vietnam
Outward FDI	Market access for exports	Stronger position in supply chains
Market access for service exports	Inward FDI	Imports of manufactures
Imports of manufactures	Imports of services	Inward FDI

An optimistic scenario

2010-2015: Competition

- TPP and Asian tracks attract small economies
- Competitive liberalization drives progress

2015-2020: Enlargement

- Middle economies (Japan, Korea) join
- Deeper integration, wider leadership

2020-2025: Consolidation

- China and US are among few *without* access to both
- China and US need to consolidate

Policy implications

- “Just do it” in 2013
- **Balance** depth of agreement against potential expansion to other countries
- **Create dialogue** on convergence of TPP and Asian tracks
- **Pursue third track** of China-US cooperation consistent with eventual FTAAP