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

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Bottom line

- **The TPP is important**: Asian and Trans-Pacific trade negotiations are positive-sum games with gains ranging up to $2 trillion.

- **Positive dynamics**: TPP and RCEP tracks are likely to encourage competitive liberalization and eventual consolidation.

- **Valuable timing**: the tracks offer a much-needed signal that the international community will support cross-border trade and investment.
Why the TPP is important

• The world trading system is in doldrums
  – No significant global agreement since 1994
  – Wide range of new issues such as internet, value chains
  – Many bilateral agreements have been concluded with no framework for uniting them

• The Asia-Pacific is right place for new initiatives
  – World’s most dynamic region
  – 2/3 world trade, $1.6 trillion of which is Trans-Pacific

• Needed: 21st century system
  – Address all barriers, sectors, wide range of economies
  – Support cooperation on SMEs, development
The “noodle bowl” of Asia-Pacific agreements

Note: Among APEC members. Authors’ estimate.
How do templates differ (1)?

Tariff reduction (%MFN rate)

- **Asian**
- **Trans-Pacific**

Years in force
How do templates differ (2)?

Source: scores of provisions from FTA database.
The difficult agenda of the TPP

• 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)
Our assessment framework

• Structure
  – 18-sector, 24-region CGE model
  – Begin with baseline growth projection, 2010-25
  – Analyze 47 existing and 10 new agreements
  – Include wide range of modeling and data innovations

• Reference

• Data, results, continuing analysis reported on:
  [www.asiapacifictrade.org](http://www.asiapacifictrade.org)
Concerns with past studies

• Underestimates of consequences of major initiatives such as NAFTA (Kehoe 2008)
• Omission of key effects such as productivity gains and FDI increases
• Overstatement of liberalization effects when studies are poorly defined (Productivity Commission 2011)

… we attempt to address all of these.
Melitz model accounts for heterogeneous firms; high productivity firms export.
How modeling innovations affect results

• Some innovations increase trade and welfare results
  – High productivity firms grow, low productivity firms exit
  – More varieties become available

• Other innovations reduce trade and welfare results
  – Existing agreements taken into account, only incremental benefits are counted
  – Barriers are only partially removed
  – Preferences are 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

• Use largest \( R \) if multiple agreements apply
Sample of agreement scores
(composite scores of three measures 0 – 1)

<table>
<thead>
<tr>
<th>Agreement</th>
<th>Year</th>
<th>TBT</th>
<th>Gov. procurement</th>
<th>Investment</th>
<th>Labor</th>
<th>Cooperation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN-China</td>
<td>2005</td>
<td>0.49</td>
<td>0.00</td>
<td>0.35</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>P4</td>
<td>2006</td>
<td>0.87</td>
<td>0.85</td>
<td>0.48</td>
<td>0.61</td>
<td>1.00</td>
</tr>
<tr>
<td>ASEAN-Korea</td>
<td>2007</td>
<td>0.57</td>
<td>0.04</td>
<td>0.56</td>
<td>0.00</td>
<td>0.56</td>
</tr>
<tr>
<td>Korea-US</td>
<td>2012</td>
<td>0.85</td>
<td>0.81</td>
<td>1.00</td>
<td>0.92</td>
<td>0.00</td>
</tr>
</tbody>
</table>

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

Trans-Pacific track

2013 TPP9
2014 + Canada, Mexico, Japan, Korea
2016 Trans-Pacific track
2020 FTAAP

Asian track
China, Japan, Korea
2016 + ASEAN members
2020 21 APEC members
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 involve extending tracks to FTAAP
• Using the TPP (rather than Asian) template in the FTAAP nearly doubles gains
• Gains are largest for small, developing economies like Vietnam
• Trade effects are largest for manufacturing on the Asian track and services on the TPP track
## Selected results

<table>
<thead>
<tr>
<th></th>
<th>GDP ($bill) 2025</th>
<th>Income change ($bill.)</th>
<th>Change from baseline (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>TPP</td>
<td>Asian track</td>
</tr>
<tr>
<td>United States</td>
<td>20,273</td>
<td>78</td>
<td>3</td>
</tr>
<tr>
<td>China</td>
<td>17,249</td>
<td>-47</td>
<td>233</td>
</tr>
<tr>
<td>Vietnam</td>
<td>340</td>
<td>46</td>
<td>14</td>
</tr>
<tr>
<td>APEC</td>
<td>58,951</td>
<td>314</td>
<td>504</td>
</tr>
<tr>
<td>WORLD</td>
<td>103,223</td>
<td>295</td>
<td>500</td>
</tr>
</tbody>
</table>
Chinese income
($billion)
Vietnamese income
($billion)

$2007 billions

 TPP>FTAAP  TPP  Asia>FTAAP  Asia


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## Changes from baseline (world)
(percent)

<table>
<thead>
<tr>
<th></th>
<th>TPP</th>
<th>Asian track</th>
<th>FTAAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>0.3</td>
<td>0.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Primary goods trade</td>
<td>-0.1</td>
<td>0.8</td>
<td>2.8</td>
</tr>
<tr>
<td>Manufactures trade</td>
<td>1.5</td>
<td>3.7</td>
<td>11.5</td>
</tr>
<tr>
<td>Services trade</td>
<td>2.7</td>
<td>3.2</td>
<td>17.7</td>
</tr>
<tr>
<td>Foreign Direct Investment</td>
<td>0.6</td>
<td>0.5</td>
<td>2.2</td>
</tr>
</tbody>
</table>
What explains long term gains?

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>China</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outward FDI</td>
<td>Market access for exports</td>
<td>Stronger position in supply chains</td>
<td></td>
</tr>
<tr>
<td>Market access for service exports</td>
<td>Inward FDI</td>
<td>Imports of manufactures</td>
<td></td>
</tr>
<tr>
<td>Imports of manufactures</td>
<td>Imports of services</td>
<td>Inward FDI</td>
<td></td>
</tr>
</tbody>
</table>
An optimistic scenario

• **First stage.** The TPP and Asian (RCEP) tracks are concluded—hopefully sometime in 2015. They will generate gains, encourage liberalization, and most likely attract other countries.

• **Second stage.** Many smaller economies in the Asia-Pacific will eventually want to join both tracks, leading to subsequent enlargements.

• **Third stage.** China and the United States will have great incentives to consolidate the tracks by joining a single, high quality agreement such as the TPP, or by forming a new FTAAP along those lines.
What should policy makers do?

• **Be comprehensive** and define rules for 21st century
• **Restrain** complexity to make potential expansion to many countries possible (e.g. aim for rules that can become global)
• **Intensify dialogue** on FTAAP preparing the way for the convergence of the TPP and Asian tracks; minimize potential inconsistencies between them
• **Pursue third track** of China-US cooperation consistent with eventual consolidation (such as the current investment treaty negotiations)