

The Trans-Pacific Partnership and Asia-Pacific Integration

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Seoul, Korea ▪ 11 October 2012

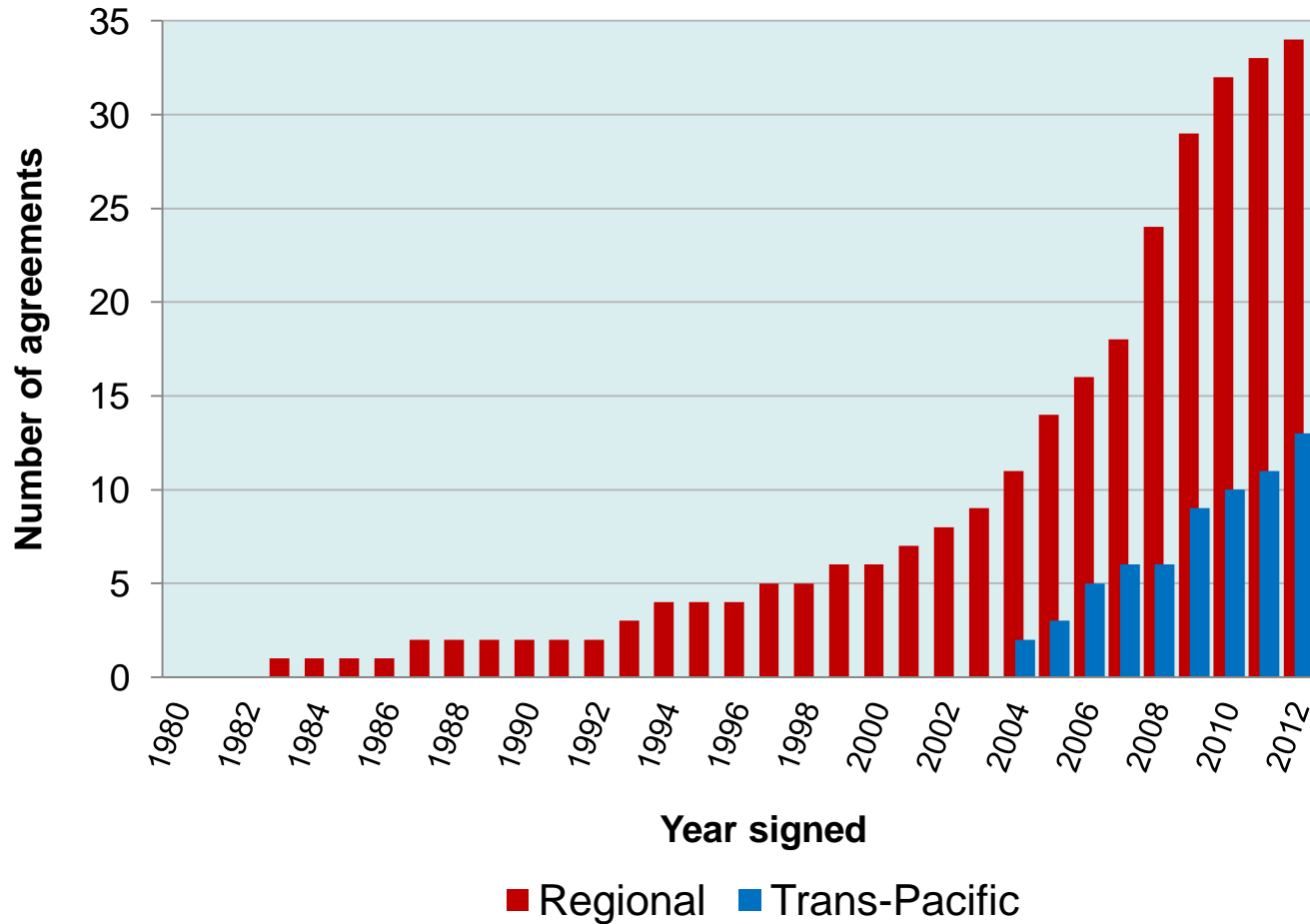
Bottom line

- **A big deal:** Asian and Trans-Pacific negotiations are a huge, positive-sum game 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”
- 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

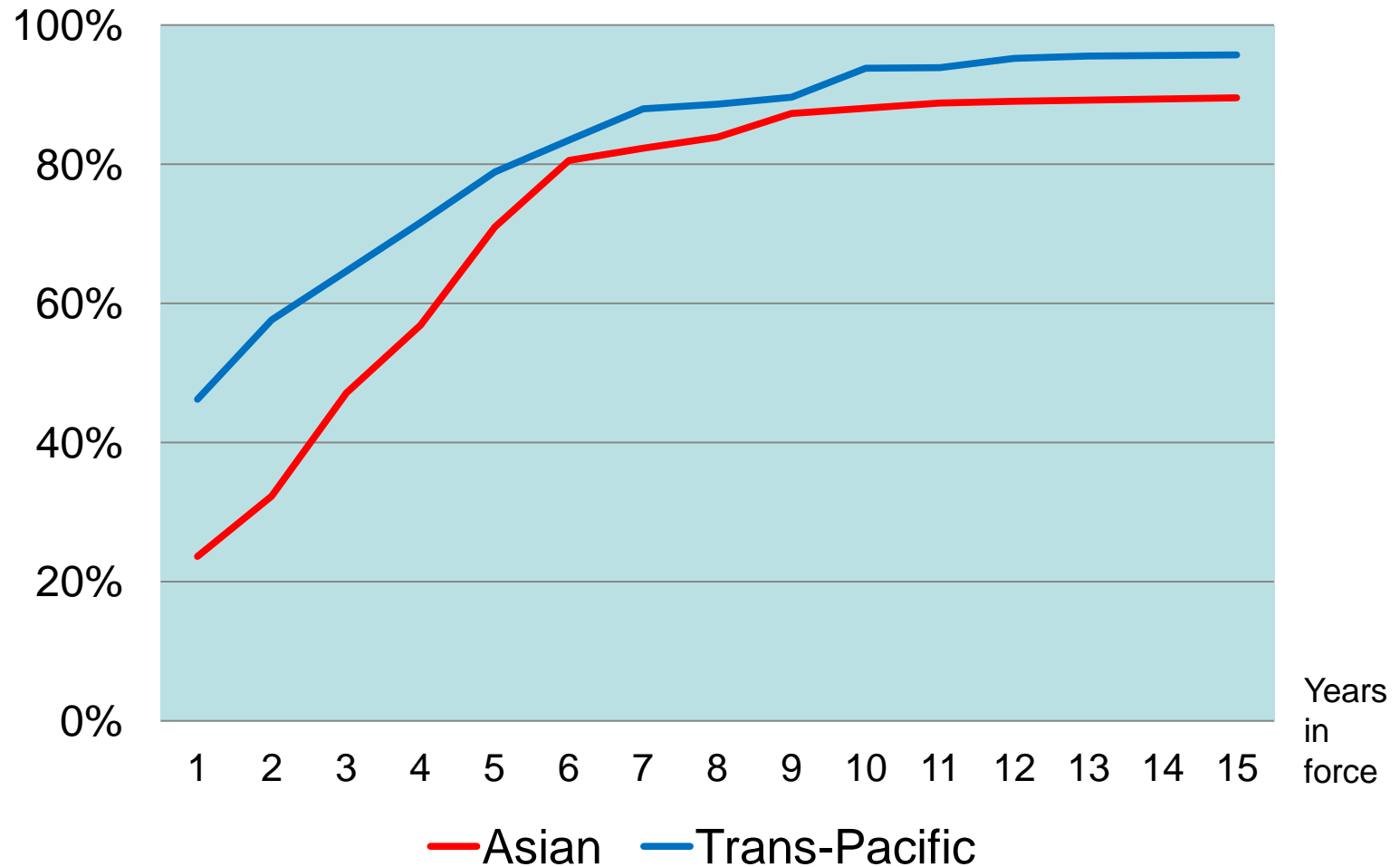
Asia-Pacific trade agreements



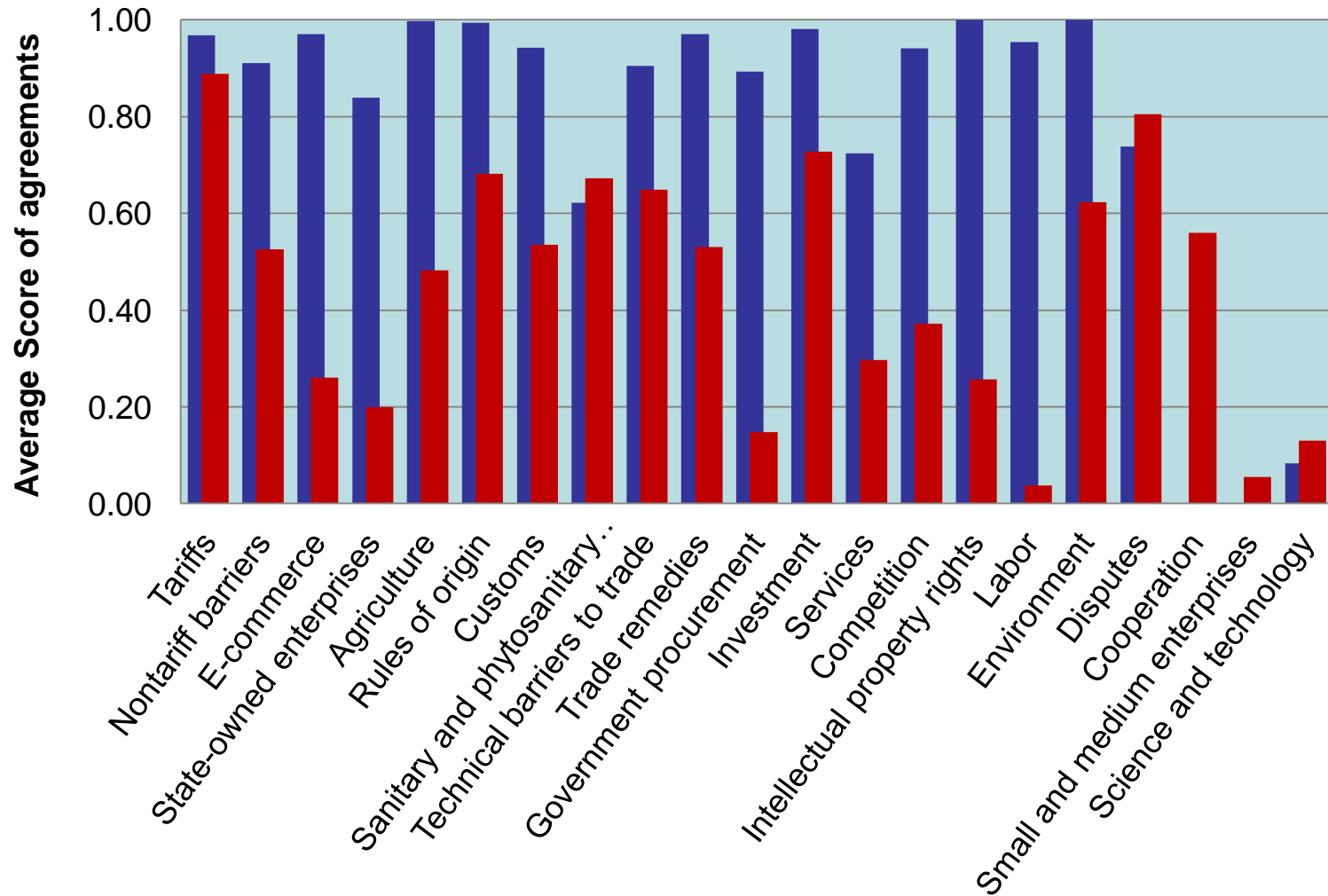
Note: Among APEC members. Authors' estimate.

How do templates differ (1)?

Tariff reduction (%MFN rate)



How do templates differ (2)?



Source: scores of provisions from FTA database.

Minefield of issues

- 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

- **Joint work** with Michael G. Plummer and Fan Zhai*
- **Not just TPP**, but Asia-Pacific integration
- Structure
 - 18-sector, 24-region CGE model
 - Begin with baseline growth projection, 2010-25
 - Analyze 47 existing and 10 new agreements
- www.asiapacifictrade.org

* Peter A. Petri, Michael G. Plummer and Fan Zhai, “The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment.” Forthcoming.

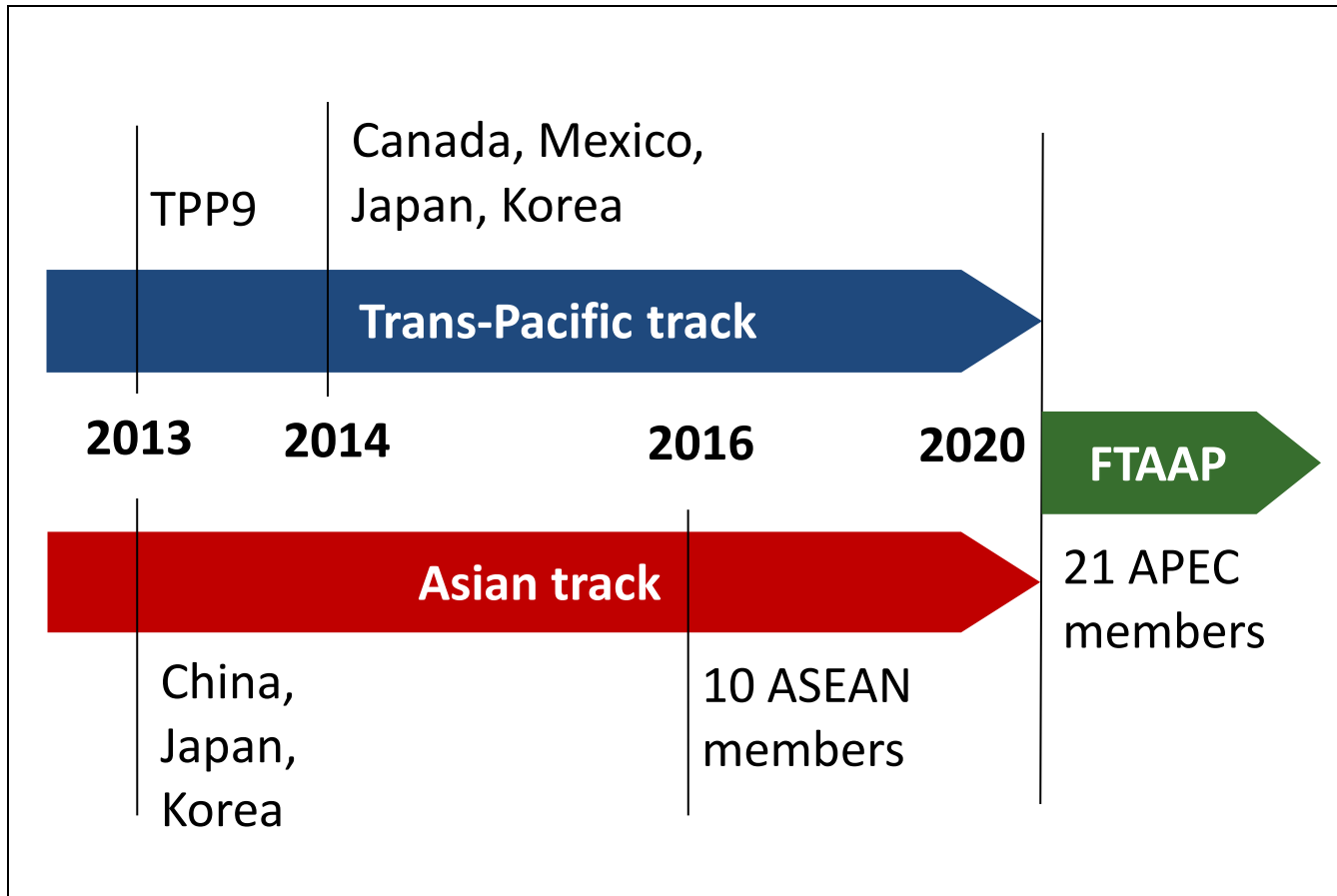
Concerns with past studies

- **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)

Modeling innovations

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

Scenarios

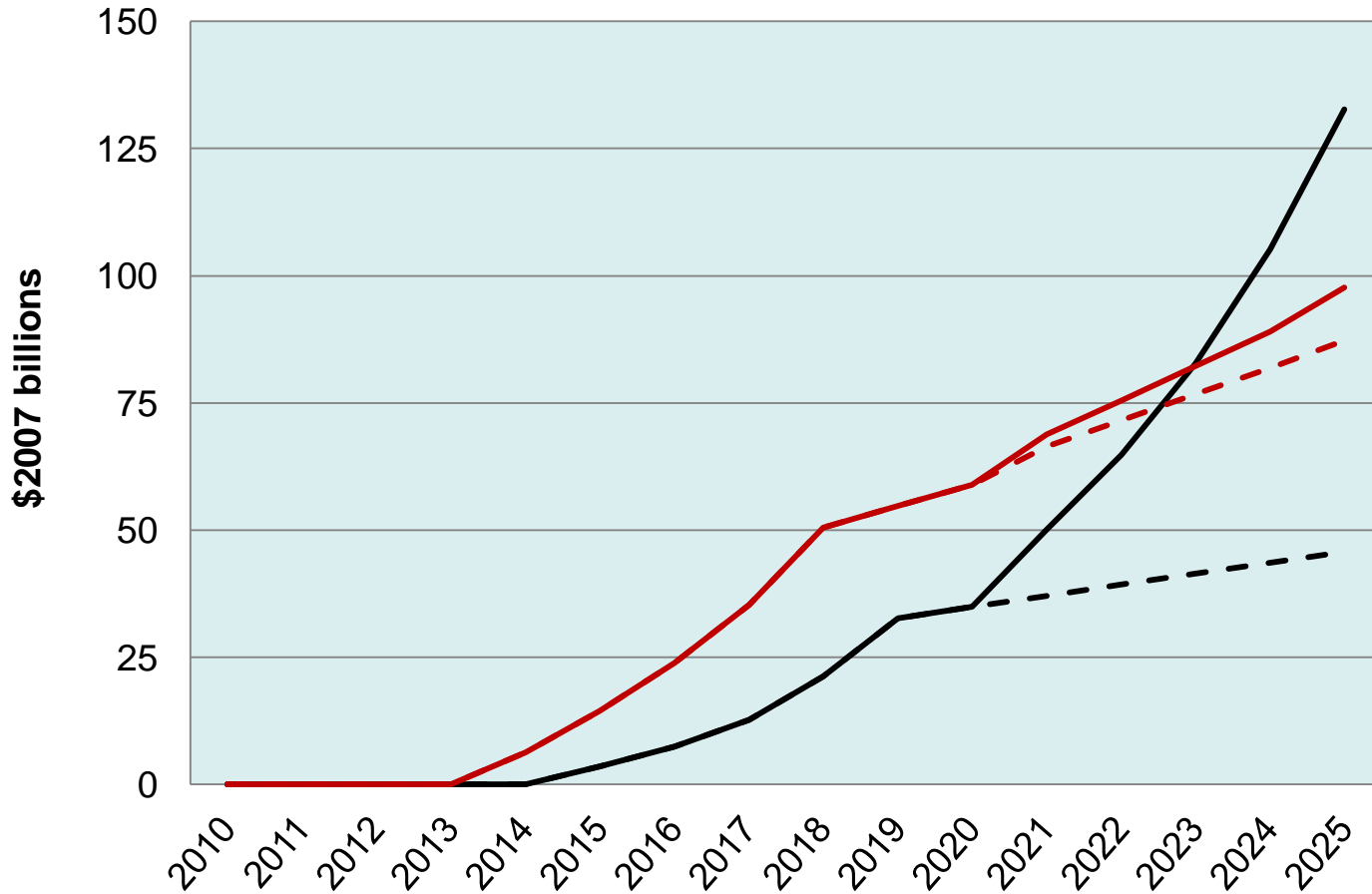


Results

| | GDP | Income change (\$bill.) | | | Change from baseline (%) | | |
|---------------|---------|-------------------------|-------|-------|--------------------------|-------|-------|
| | 2025 | Asian | | | Asian | | |
| | | TPP | track | FTAAP | TPP | track | FTAAP |
| Korea | 2,117 | 46 | 87 | 129 | 2.2 | 4.1 | 6.1 |
| China | 17,249 | -47 | 233 | 678 | -0.3 | 1.4 | 3.9 |
| United States | 20,273 | 78 | 3 | 267 | 0.4 | 0.0 | 1.3 |
| APEC | 58,951 | 314 | 504 | 2052 | 0.5 | 0.9 | 3.5 |
| WORLD | 103,223 | 295 | 500 | 1921 | 0.3 | 0.5 | 1.9 |

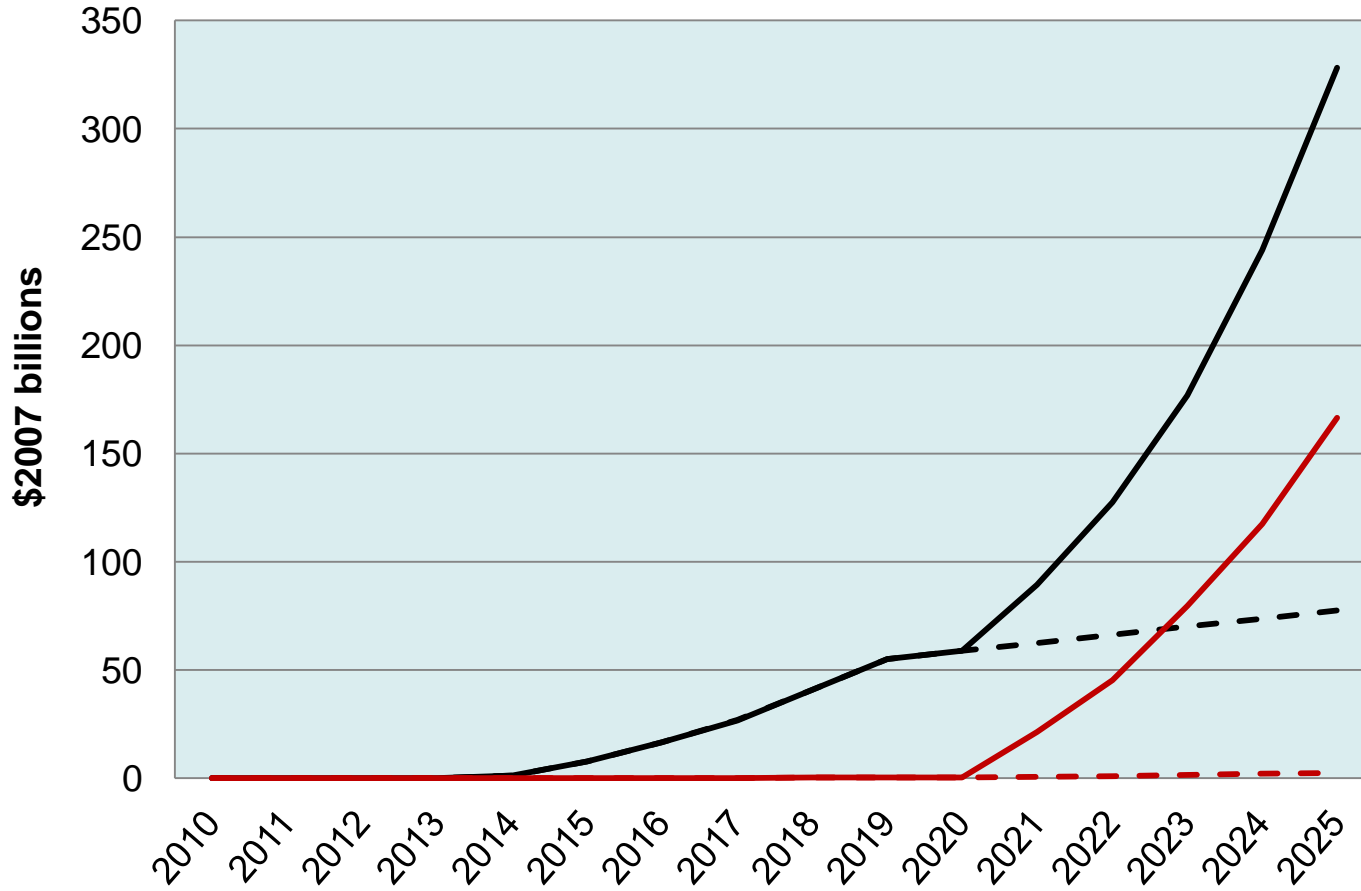
Korean income

(\$billion)



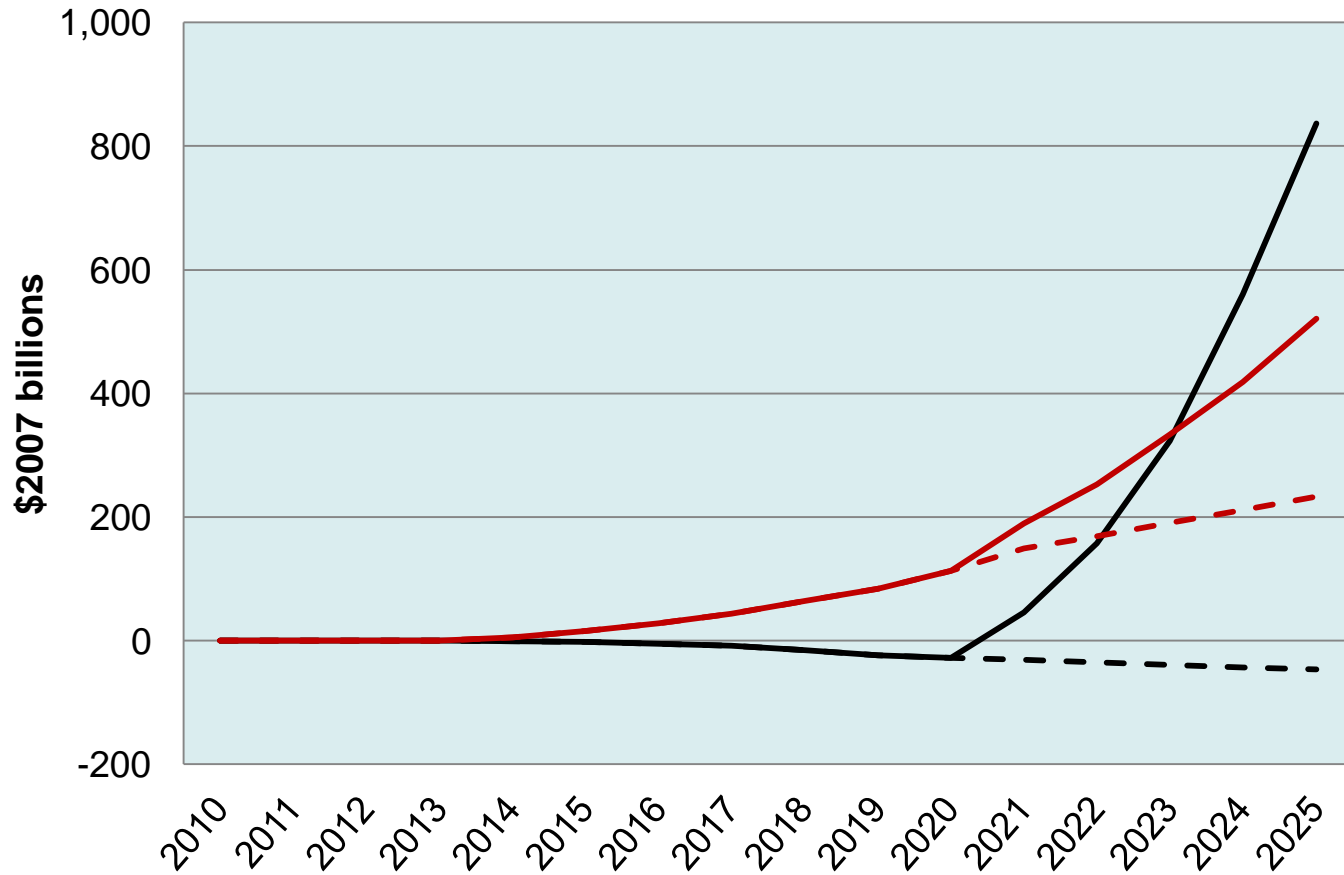
US income

(\$billion)



Chinese income

(\$billion)



Changes from baseline (world)

| | 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?

| Korea | China | US |
|---------------------------|---------------------------|-----------------------------------|
| Market access for exports | Market access for exports | Outward FDI |
| Imports of manufactures | Inward FDI | Market access for service exports |
| Inward FDI | Imports of services | Imports of manufactures |

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

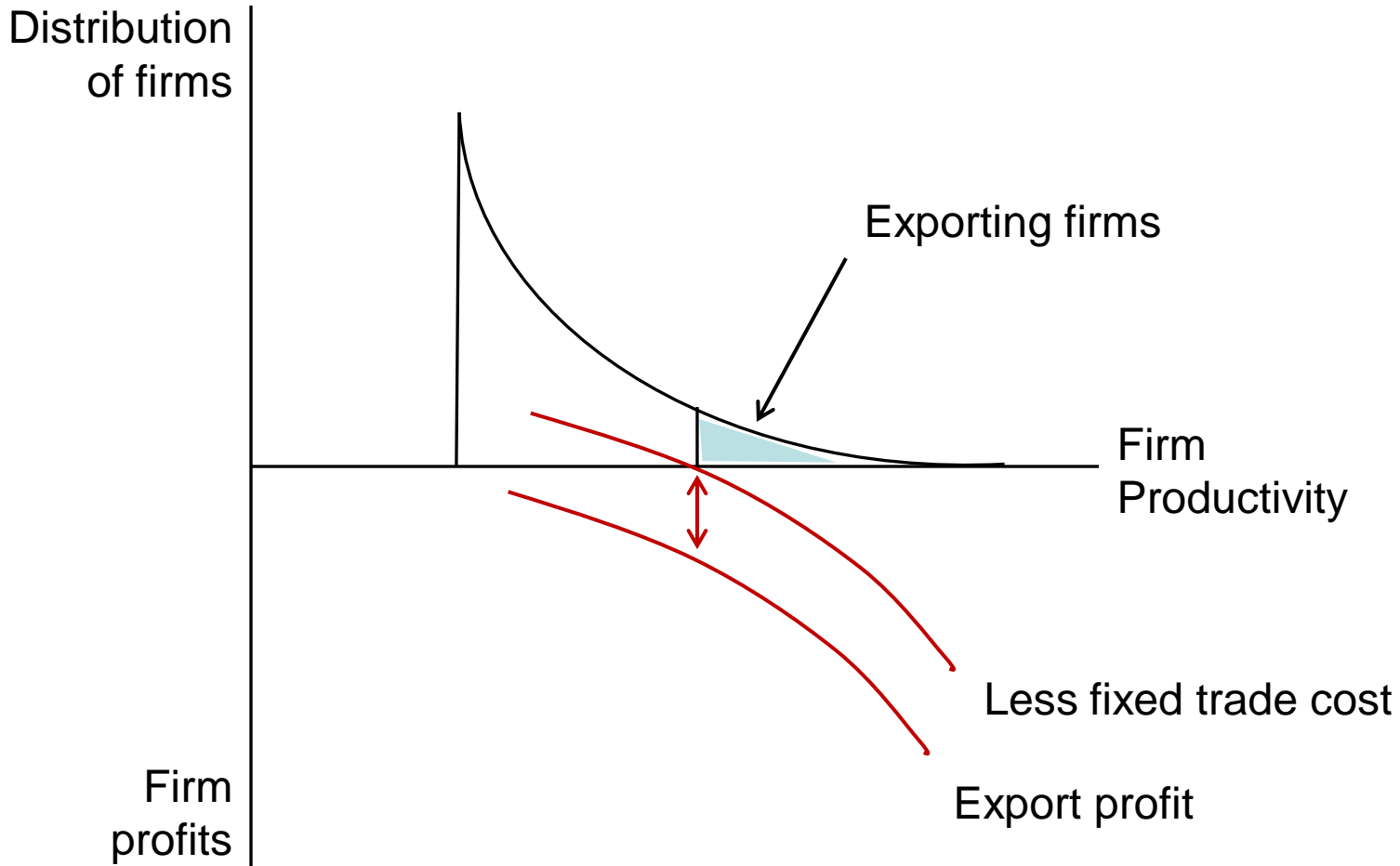
- China and US are among few *without* access to both
- China and US need to consolidate

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 (role for Korea?)
- **Pursue third track** of China-US cooperation consistent with eventual FTAAP

Extra slides on modeling details

Melitz model: high productivity firms export



Simulating agreements

- Simulations change:

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

- Calculating changes:

$$R = P * S$$

| | | | | |
|--------------------------|---|-----------------------------|---|-----------------|
| Reduction in barriers | = | Policy effects matrix | * | Score matrix |
|--------------------------|---|-----------------------------|---|-----------------|

- Use largest change if >1 agreement applies

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.