

# The Trans-Pacific Partnership and Asia-Pacific Integration

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Seoul, Korea ▪ 11 October 2012

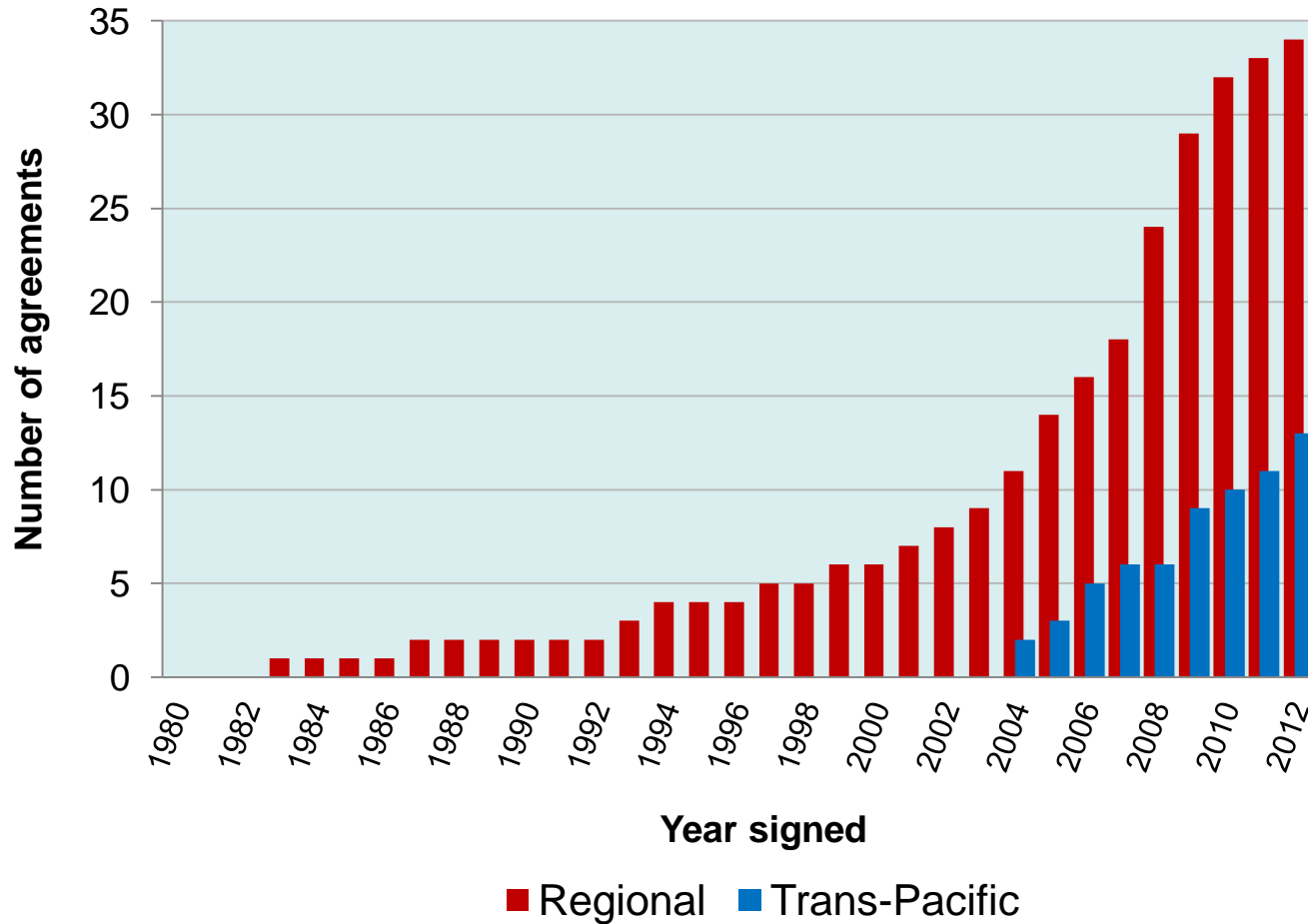
## Bottom line

- **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: 21<sup>st</sup> century system
  - Address all barriers, sectors
  - Support cooperation on SMEs, development
- High stakes
  - Benefits ~\$2 trillion/year
  - Signal that world cooperation is alive

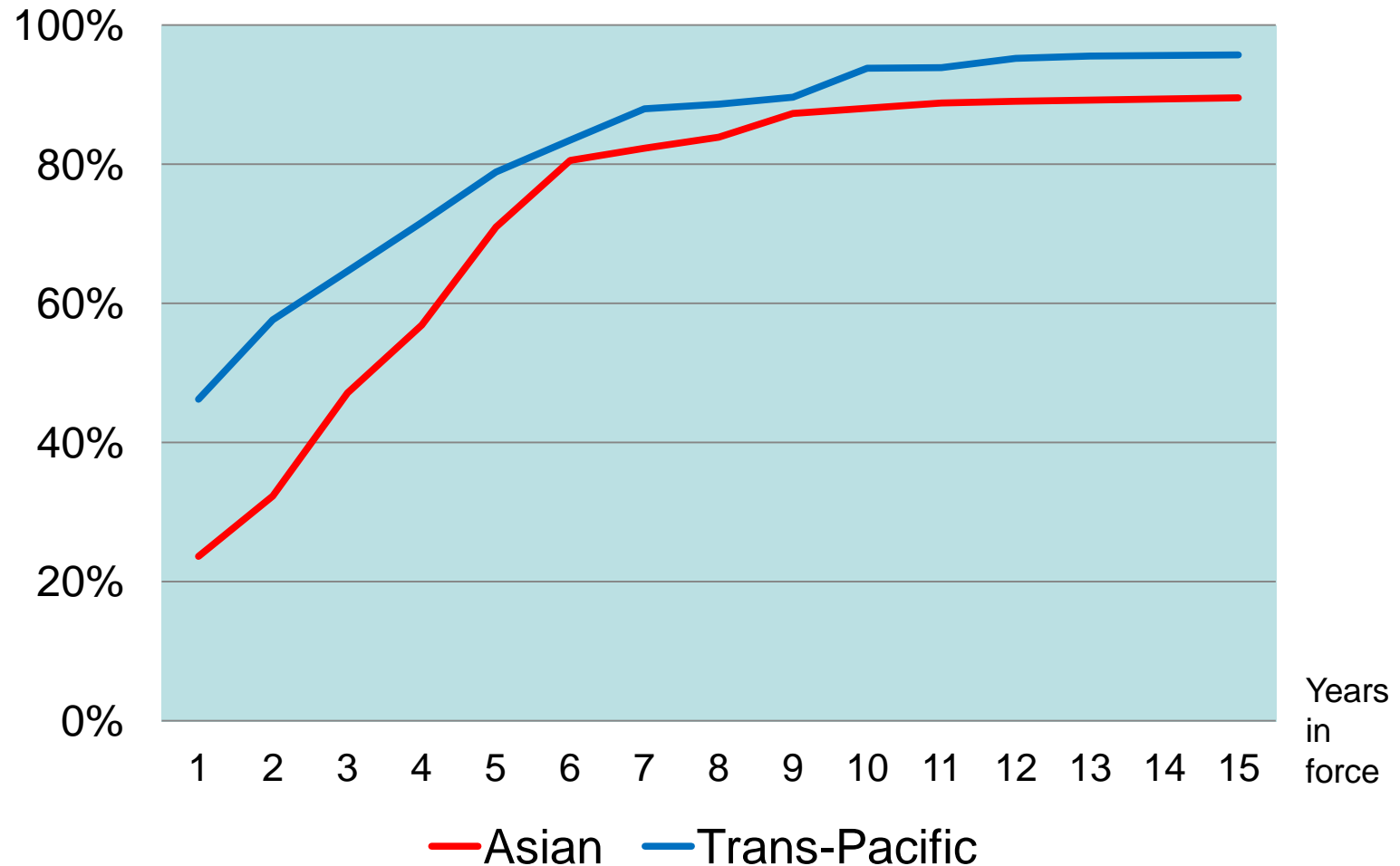
# Asia-Pacific trade agreements



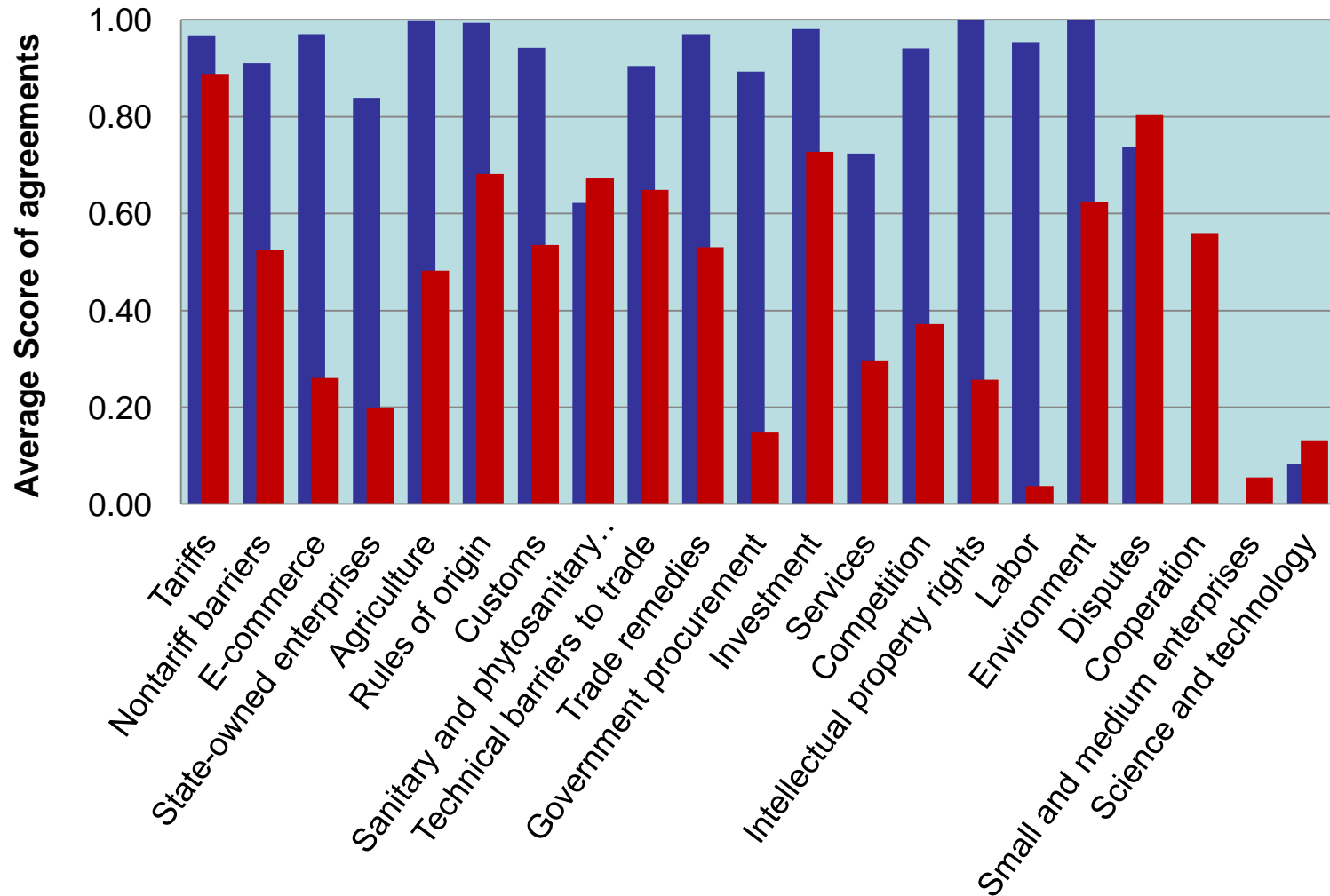
Note: Among APEC members. Authors' estimate.

# 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](http://www.asiapacifictrade.org)

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

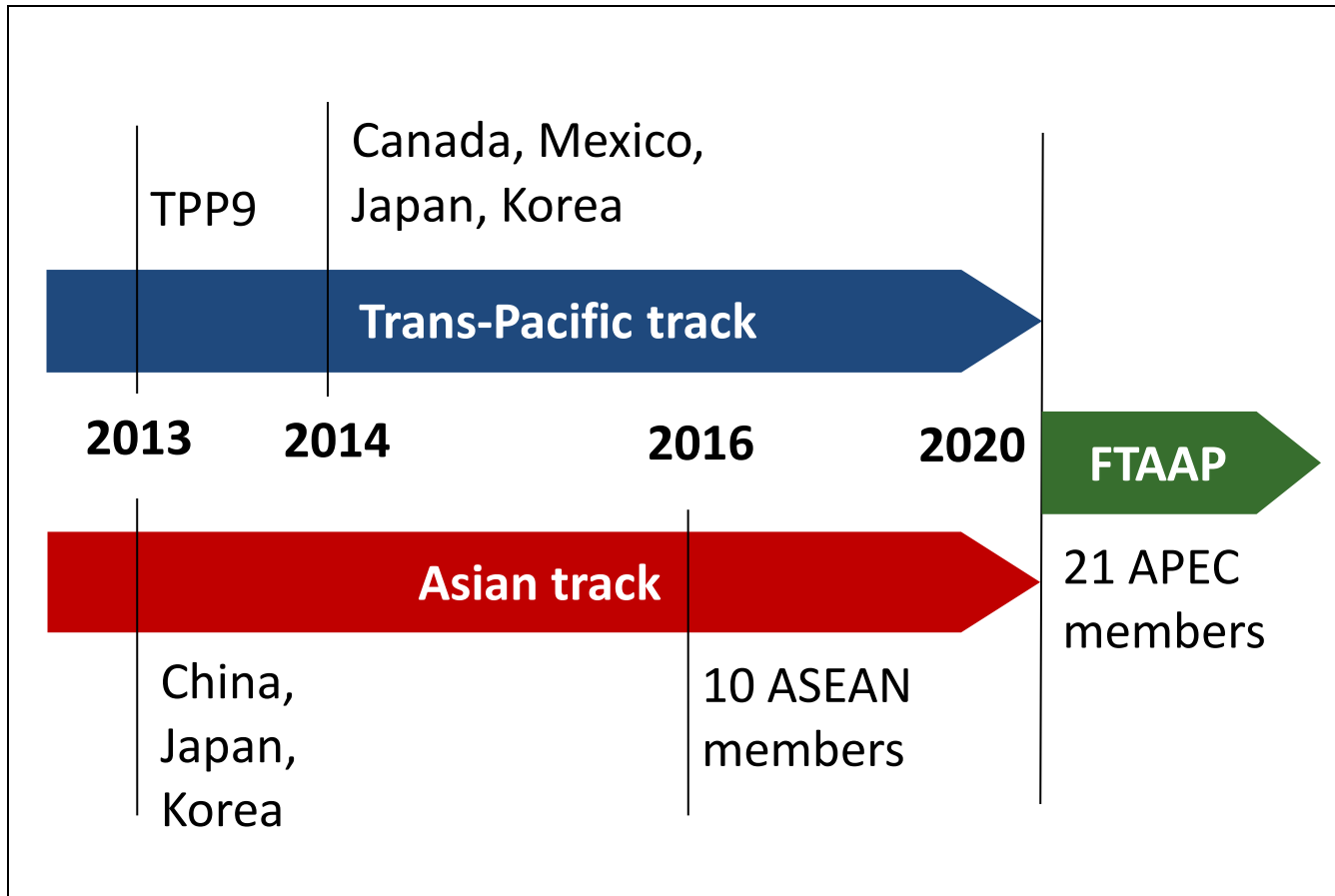
# Concerns with past studies

- **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

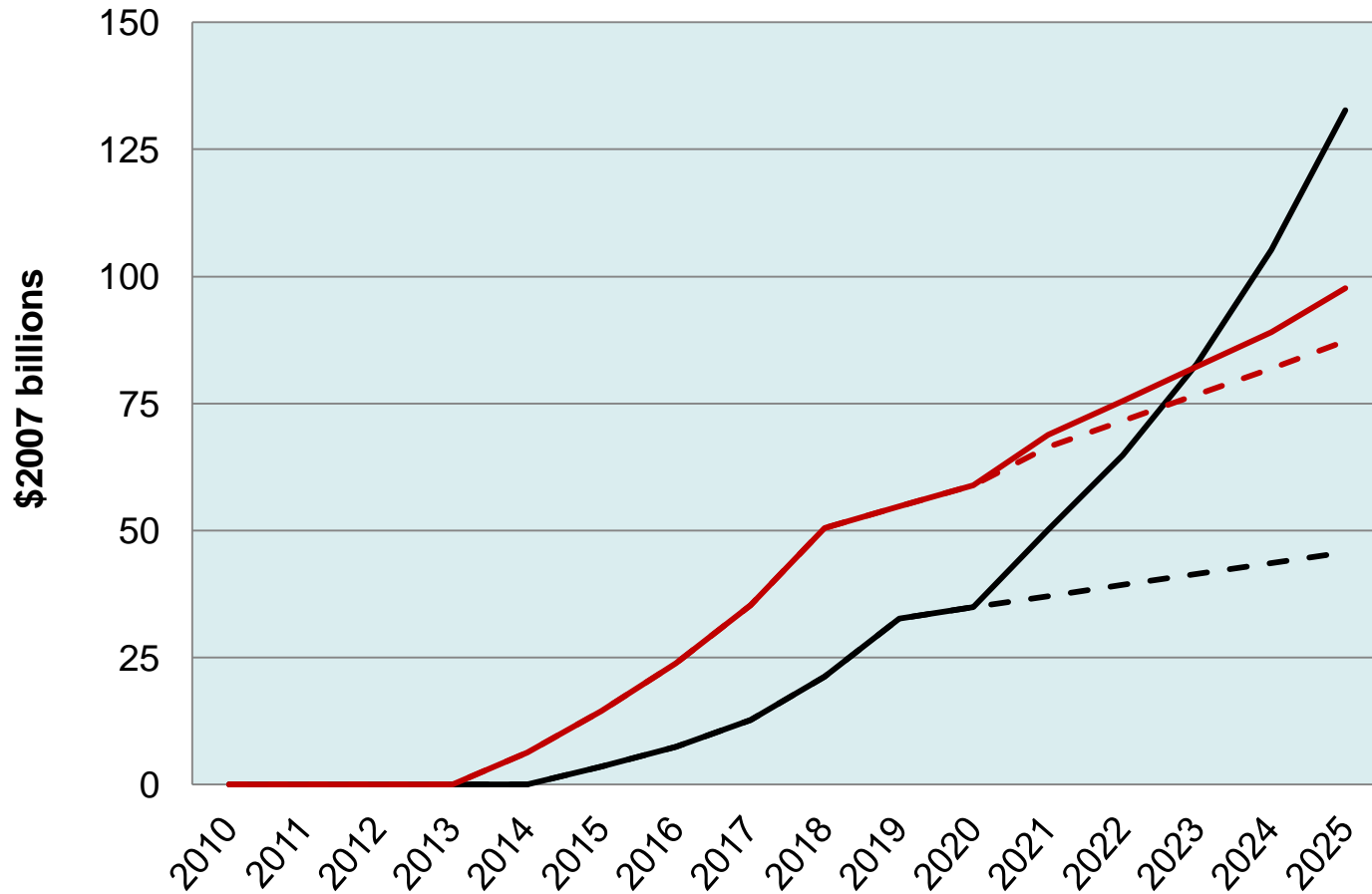


# Results

	GDP	Income change (\$bill.)			Change from baseline (%)		
	2025	TPP	Asian track	FTAAP	TPP	Asian 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

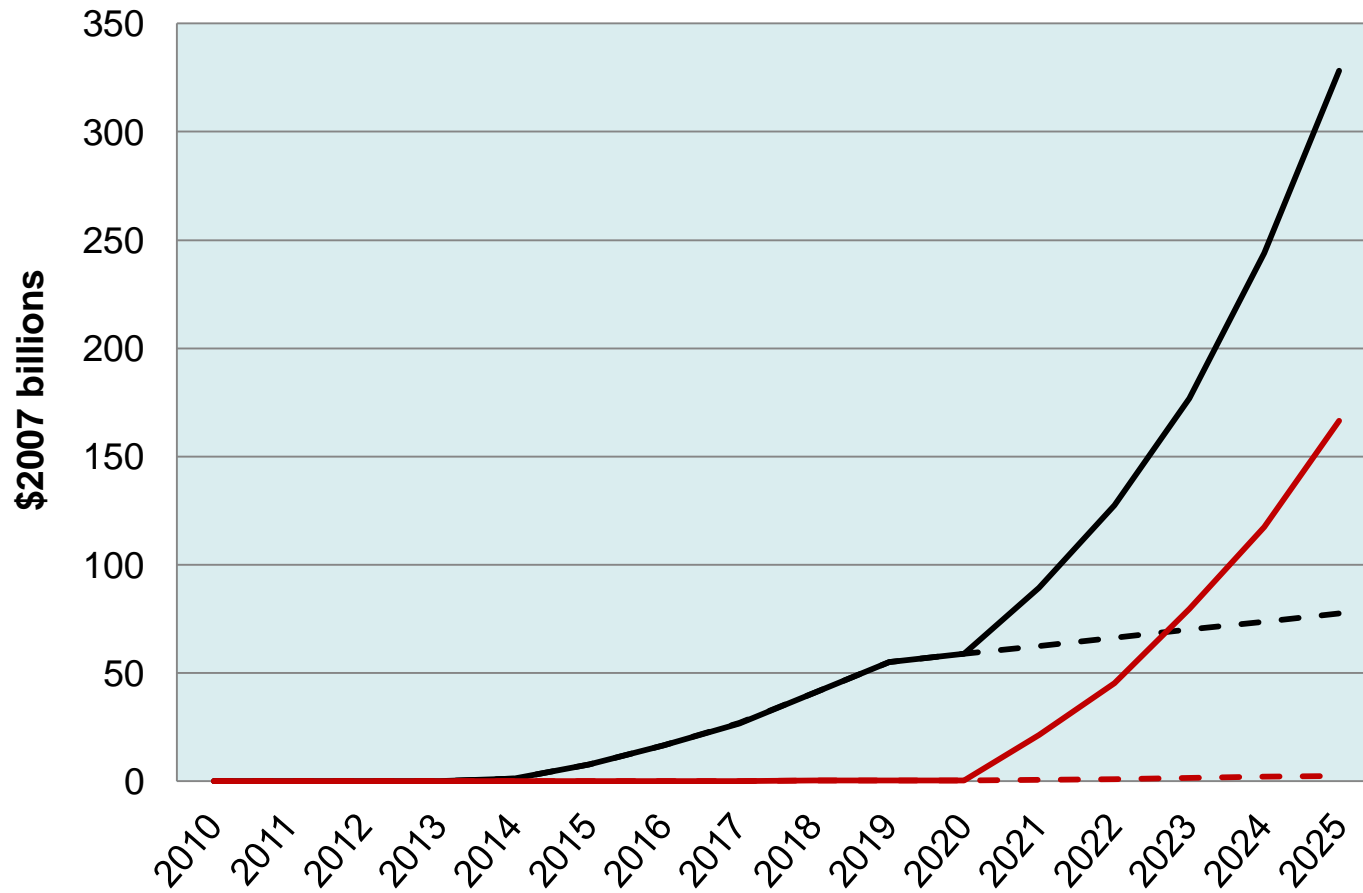
# Korean income

(\$billion)



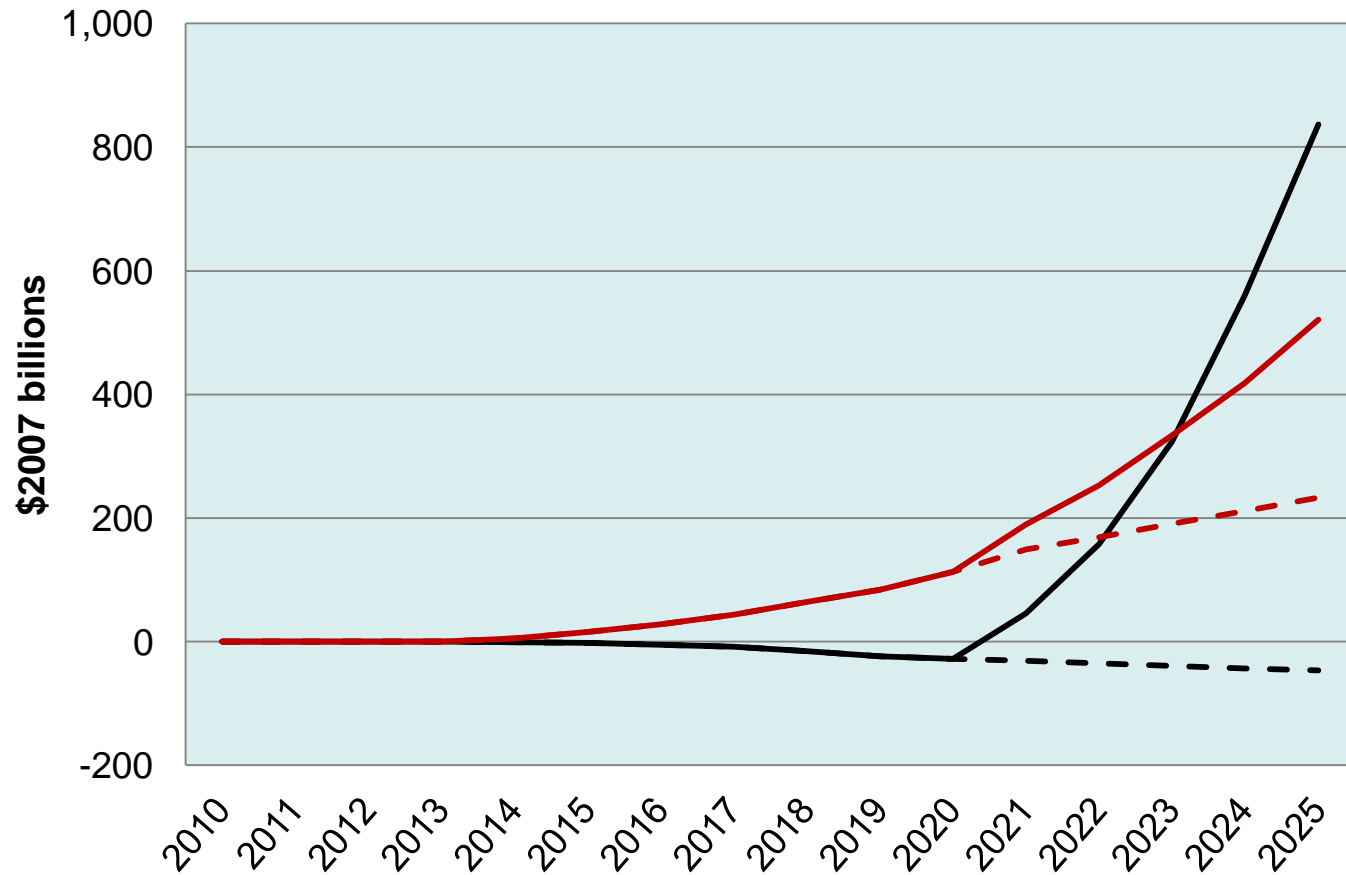
# US income

(\$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?

<b>Korea</b>	<b>China</b>	<b>US</b>
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

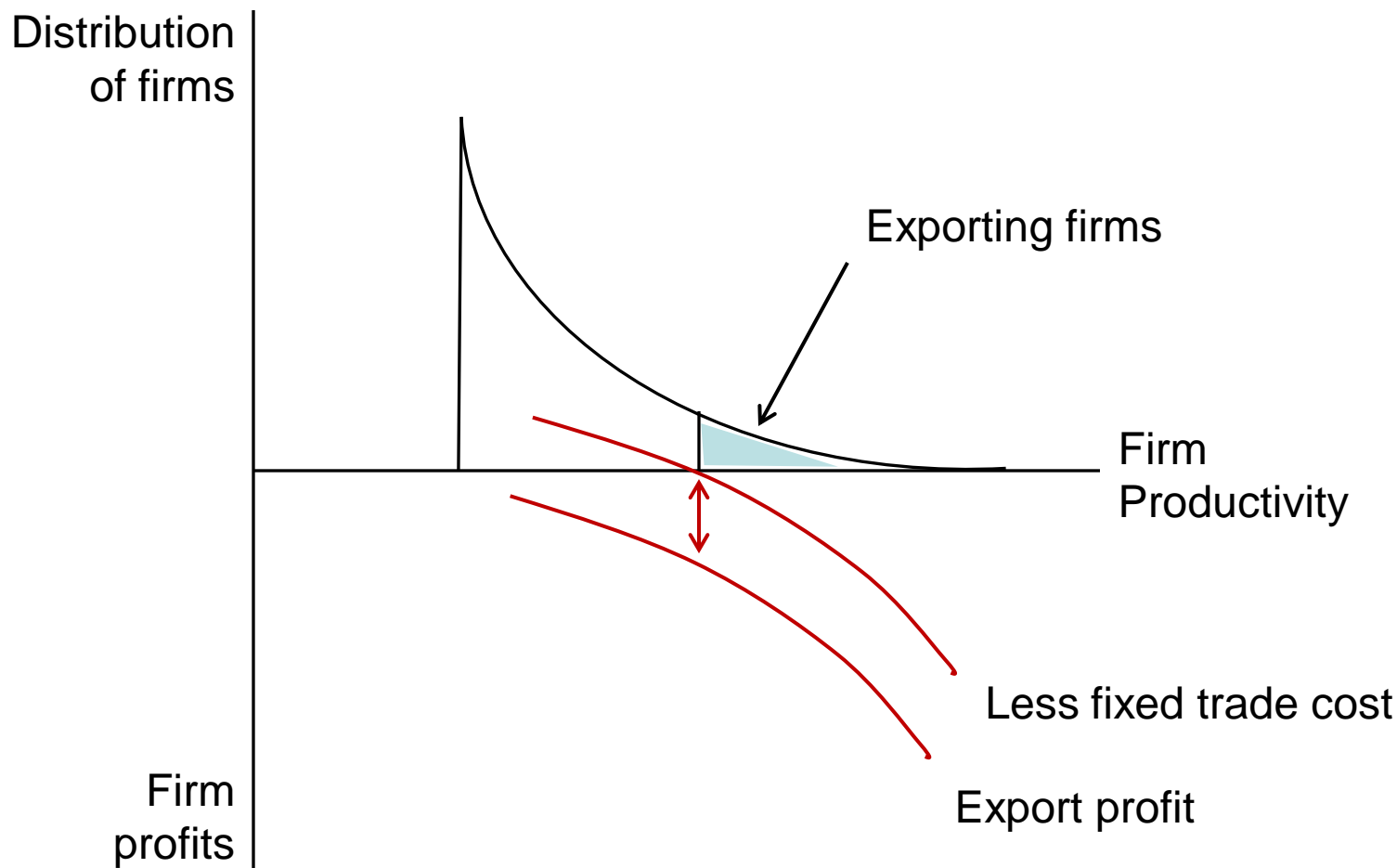
- China and US are among few *without* access to both
- China and US need to consolidate

# 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:

$$\begin{array}{ccccc} R & = & P & * & S \\ \text{Reduction} & & \text{Policy} & & \text{Score} \\ \text{in barriers} & & \text{effects} & & \text{matrix} \\ & & \text{matrix} & & \end{array}$$

- Use largest change if >1 agreement applies

# Sample of agreement scores

(composite scores of three measures 0 – 1)

Agreement	Year	TBT	Gov. procure- ment	Invest- ment	Labor	Coope- ration
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.