The Trans-Pacific Partnership and Asia-Pacific Integration*

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www.asiapacifictrade.org

Trans-Pacific Partnership (TPP)

11 countries
$18 trill. GDP
25% of trade
Regional Comprehensive Economic Partnership (RCEP)

- 16 countries
- $15 trillion GDP
- 28% of trade
To a political scientist…

• The Asian and Trans-Pacific tracks look like a zero-sum game

• As the tracks compete to attract new members, they could divide the region in two

• The tracks are contributing to China-US “strategic mistrust”
… but economics tells a different story

- Despite the Doha stalemate, the tracks show that trade liberalization is alive in Asia-Pacific
- The tracks are huge, positive-sum games with gains in $2 trillion range
- The tracks are “competitive liberalization” at work—they stimulate mutual progress and could lead to consolidation
- Each track begins to clean up “noodle bowl”
Addressing this morning’s questions

- Amplify value of remaining barriers via preferential liberalization
- Widen agenda to “new” issues including services, investment, intellectual property
- Make negotiations more workable
Emerging templates

• Asian template targets comparative advantage of emerging economies: market access in manufacturing

• Trans-Pacific template targets comparative advantage of advanced economies: services, investment, intellectual property

• Each produces gains, both are needed to produce largest gains
Asian and Trans-Pacific templates (1)

Tariff reduction (%MFN)

Years in force

Asian

Trans-Pacific
Asian and Trans-Pacific templates (2)

Source: scores of provisions from FTA database.
Minefield of issues (a TPP sample)

- Intellectual property
  - Copyright infringement (on-line)
  - Length of patents, copyright, data exclusivity
  - Government medical insurance
- Competitive neutrality of SOEs
- Services (negative list)
- Investor-state dispute resolution
- Labor
- Agriculture (sugar, dairy, rice)
- Rules of origin (esp. textiles for Viet Nam)
Key results

- TPP and Asian tracks generate large gains
- The larger the area, the larger the gains (FTAAP)
- The better the template, the larger the gains (TPP template nearly doubles FTAAP gains)
- Gains are mainly from trade and investment creation
- Country gains depend on size, trade patterns, prior FTAs, initial barriers
## Income gains 2025 ($2007 bill)

<table>
<thead>
<tr>
<th>Region</th>
<th>2025</th>
<th>TPP11</th>
<th>TPP16</th>
<th>RCEP</th>
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<tbody>
<tr>
<td>United States</td>
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<td>108</td>
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China and US opposed on TPP/RCEP; aligned on FTAAP
Template effects: China
(income gains, $billion)
Trade by sector in 2025 (% gain)
### Agriculture/food exports in 2025

<table>
<thead>
<tr>
<th>Region</th>
<th>Ag/food share of total exports</th>
<th>% Change in agriculture/food</th>
<th>TPP11</th>
<th>TPP16</th>
<th>RCEP</th>
<th>FTAAP</th>
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</thead>
<tbody>
<tr>
<td>Americas</td>
<td>10.2</td>
<td>0.8</td>
<td>2.8</td>
<td>0.5</td>
<td>18.2</td>
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<tr>
<td>Asia</td>
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<td>-1.6</td>
<td>-2.0</td>
<td>17.5</td>
<td>7.8</td>
<td></td>
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<tr>
<td>Oceania</td>
<td>20.1</td>
<td>0.9</td>
<td>4.9</td>
<td>15.0</td>
<td>17.7</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>10.0</td>
<td>-0.1</td>
<td>-0.5</td>
<td>0.2</td>
<td>0.3</td>
<td></td>
</tr>
<tr>
<td>World</td>
<td>7.2</td>
<td>0.0</td>
<td>0.3</td>
<td>2.6</td>
<td>5.4</td>
<td></td>
</tr>
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Americas and Oceania gain most

Asian liberalization matters most
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
Modeling approach
Overview

• Model
  – 18-sector, 24-region CGE model

• Innovations
  – Melitz trade framework (firm-level differences in productivity in many industries)
  – Recursive, baseline growth projection: 2010-25
  – Detailed analysis of trade agreements
  – Investment effects from side-model

• Ongoing analysis, new work reported: www.asiapacifictrade.org
Effects of modeling innovations

• Innovations that raise trade and welfare estimates
  – Scale and Melitz effects increase productivity
  – More varieties become available

• Innovations that lower trade and welfare estimates
  – Existing agreements taken into account
  – Barriers only partially removed
  – Preferences only partially used
  – ROOs raise costs
Simulating agreements

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

- Calculating changes in barriers:
  \[ R = \lambda \cdot P \cdot S \]
  - 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>Coop.</th>
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</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>
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<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>
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<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.
Sources of US gains in TPP

- FDI
- Trade (extensive)
- Trade (intensive)
Additional slides
Asia-Pacific trade agreements

Note: Among APEC members. Authors’ estimate.
Concerns with past studies

• **Underestimates** of consequences of major initiatives (Kehoe 2005)

• **Omission of key effects** such as productivity gains and FDI increases

• **Overstatement** of liberalization effects (Productivity Commission 2010)
Melitz model: high productivity firms export

- Distribution of firms
- Firm Productivity
- Firm profits
- Exporting firms
- Less fixed trade cost
- Export profit
Sensitivity findings

• **Liberalization assumptions**
  Template difference changes estimates by 57%

• **Demand elasticity for varieties**
  Reducing estimates by 1/3 reduces gains by 10%

• **Production heterogeneity parameter**
  Reducing parameter by 1/3 reduces gains by 1/3

• **Role of fixed cost barriers to trade**
  Eliminating fixed cost reductions reduces gains by 41%