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The Trans-Pacific Partnership and Asia-Pacific Integration*

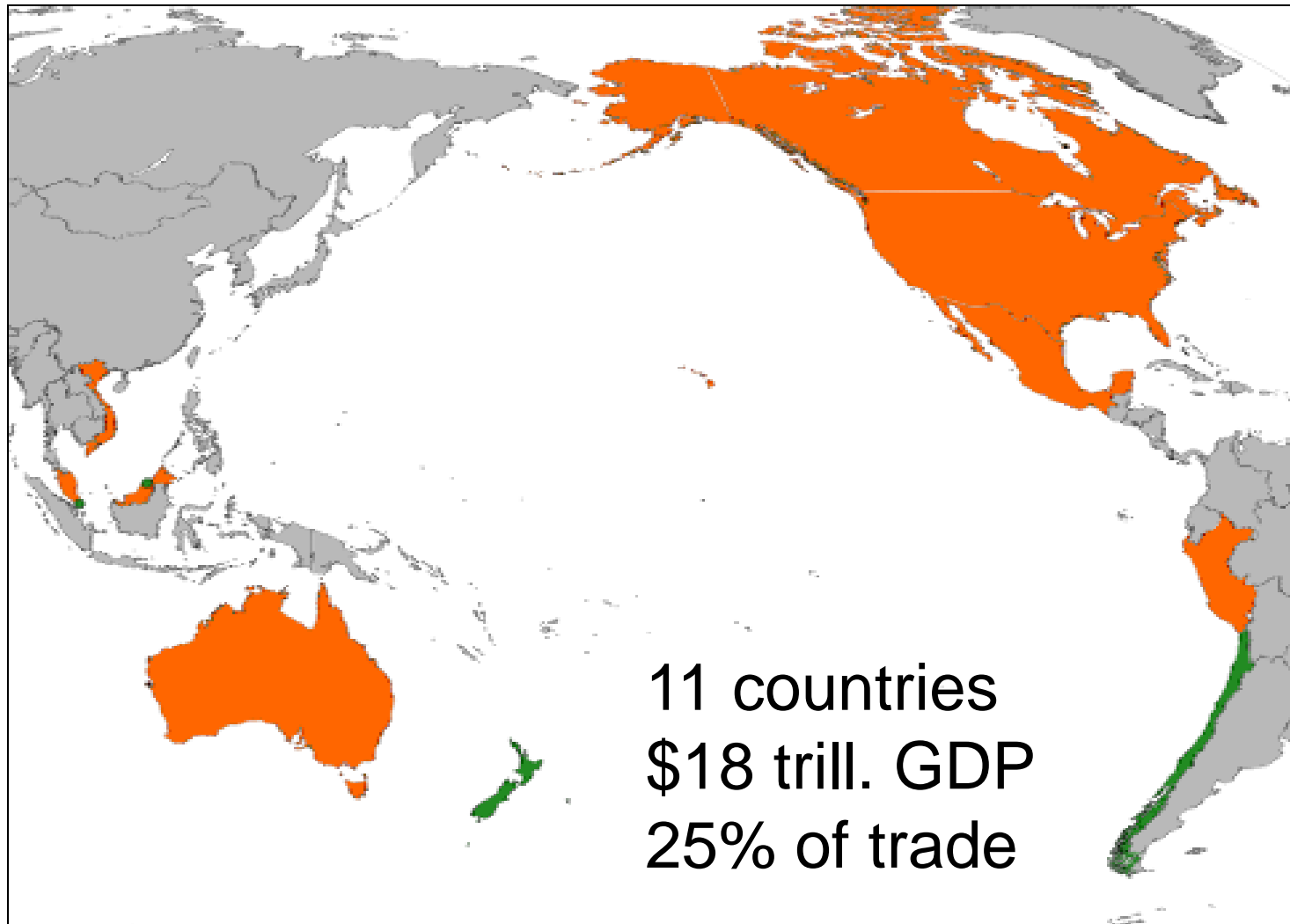
Peter A. Petri

Brandeis University, East-West Center. Peterson Institute
December 2012

www.asiapacifictrade.org

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

Trans-Pacific Partnership (TPP)



Regional Comprehensive Economic Partnership (RCEP)



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”

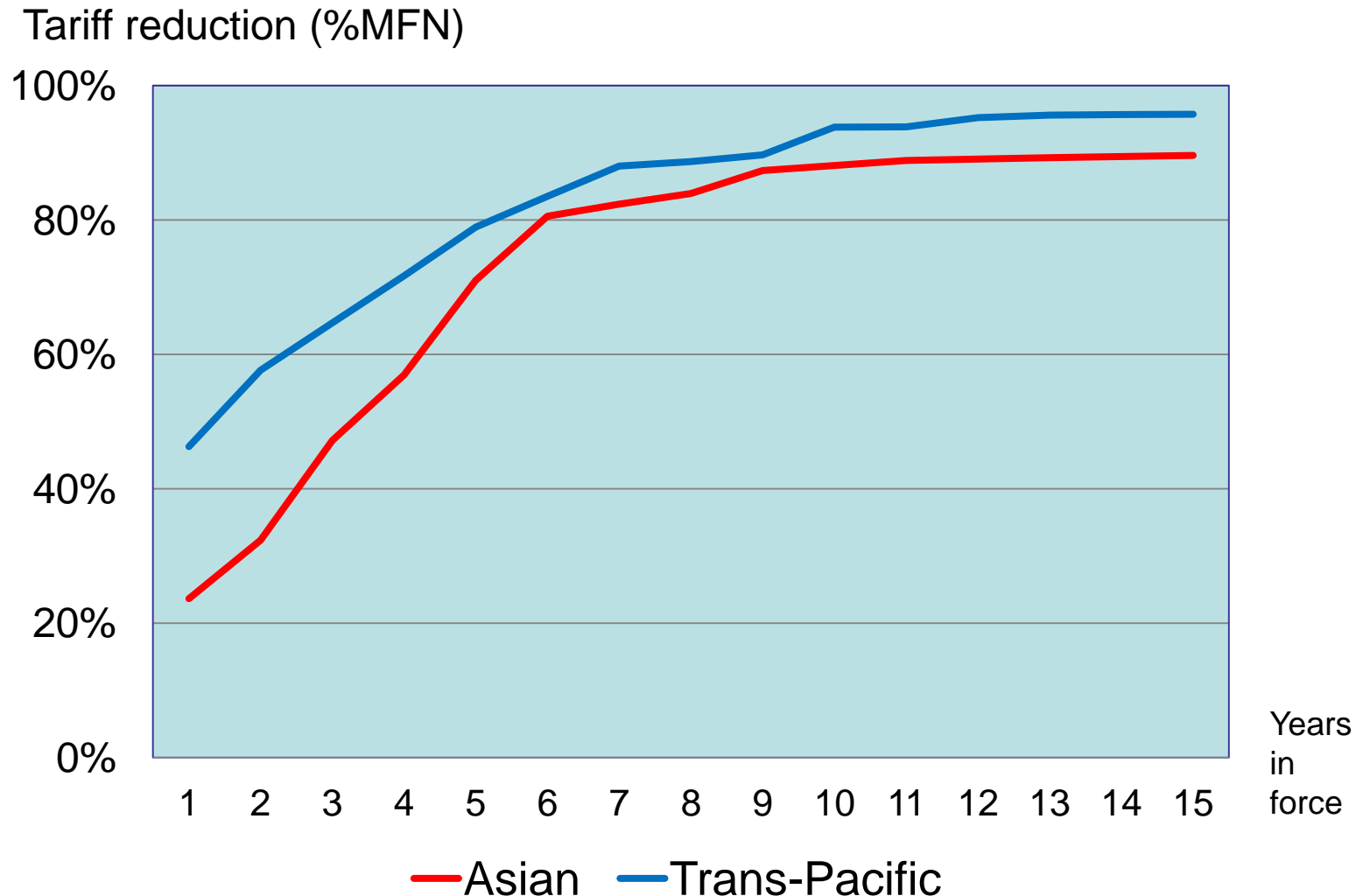
Addressing this morning's questions

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

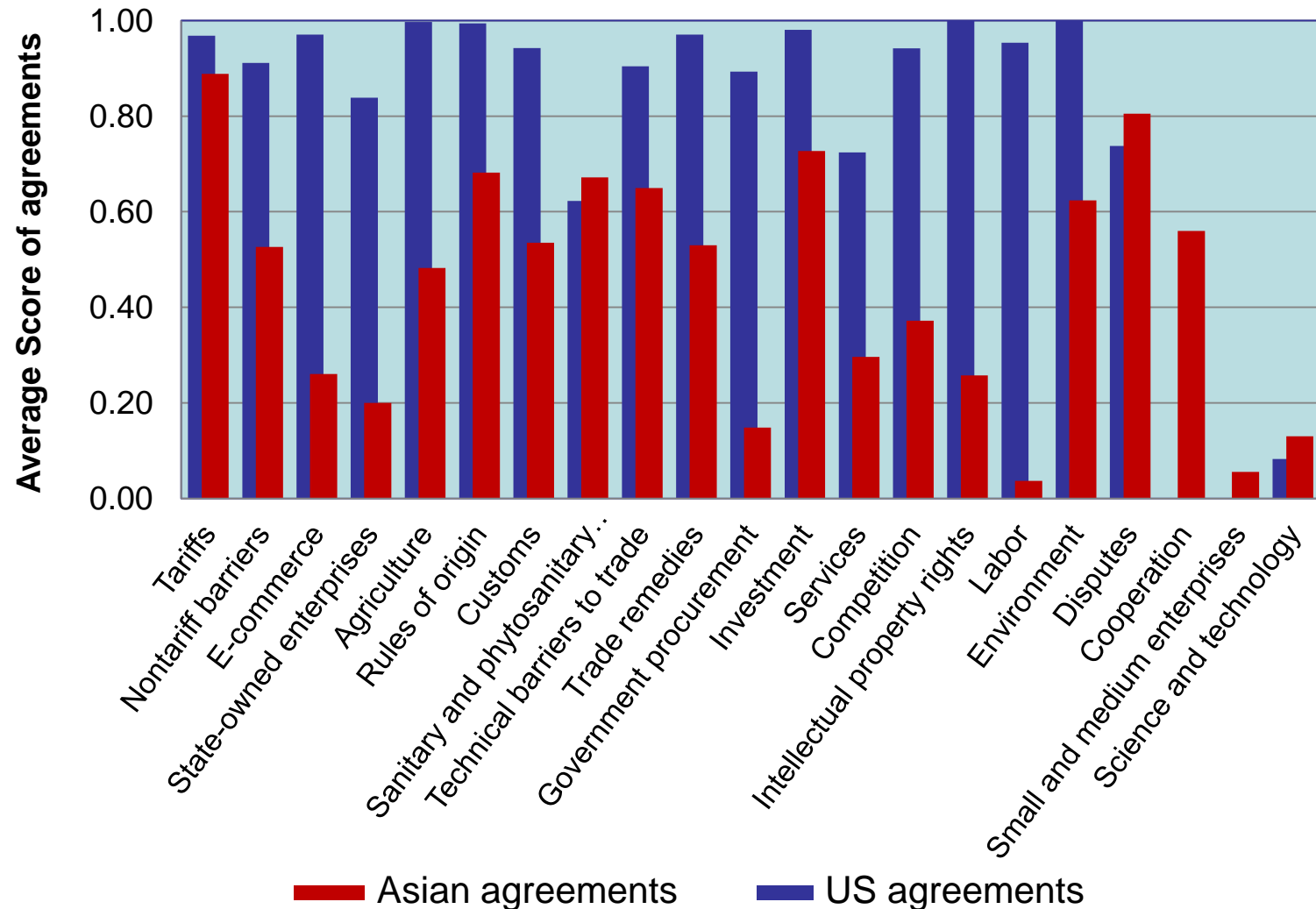
Emerging templates

- 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)



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)

	2025	TPP11	TPP16	RCEP	FTAAP
United States	20,273	24	108	0	267
China	17,655	-21	-84	297	678
Japan	5,338	-1	129	96	228
Korea	2,117	0	50	82	129
India	5,233	-1	-7	91	-30
ASEAN	3,635	50	218	76	210
Others	48,972	24	36	3	440
World	103,223	74	451	644	1,922

Japan, Korea
on the fence

ASEAN gains
from TPP

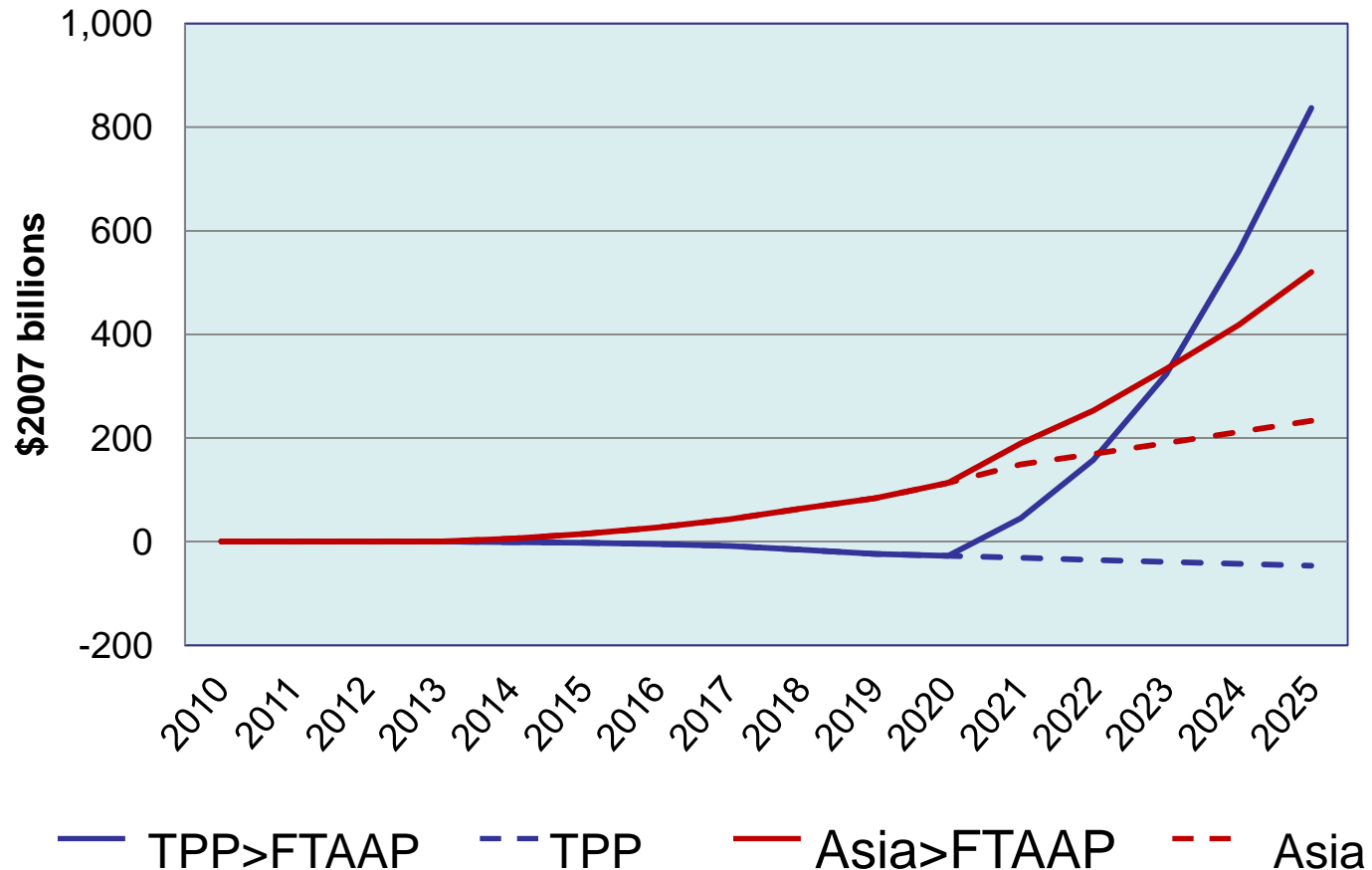
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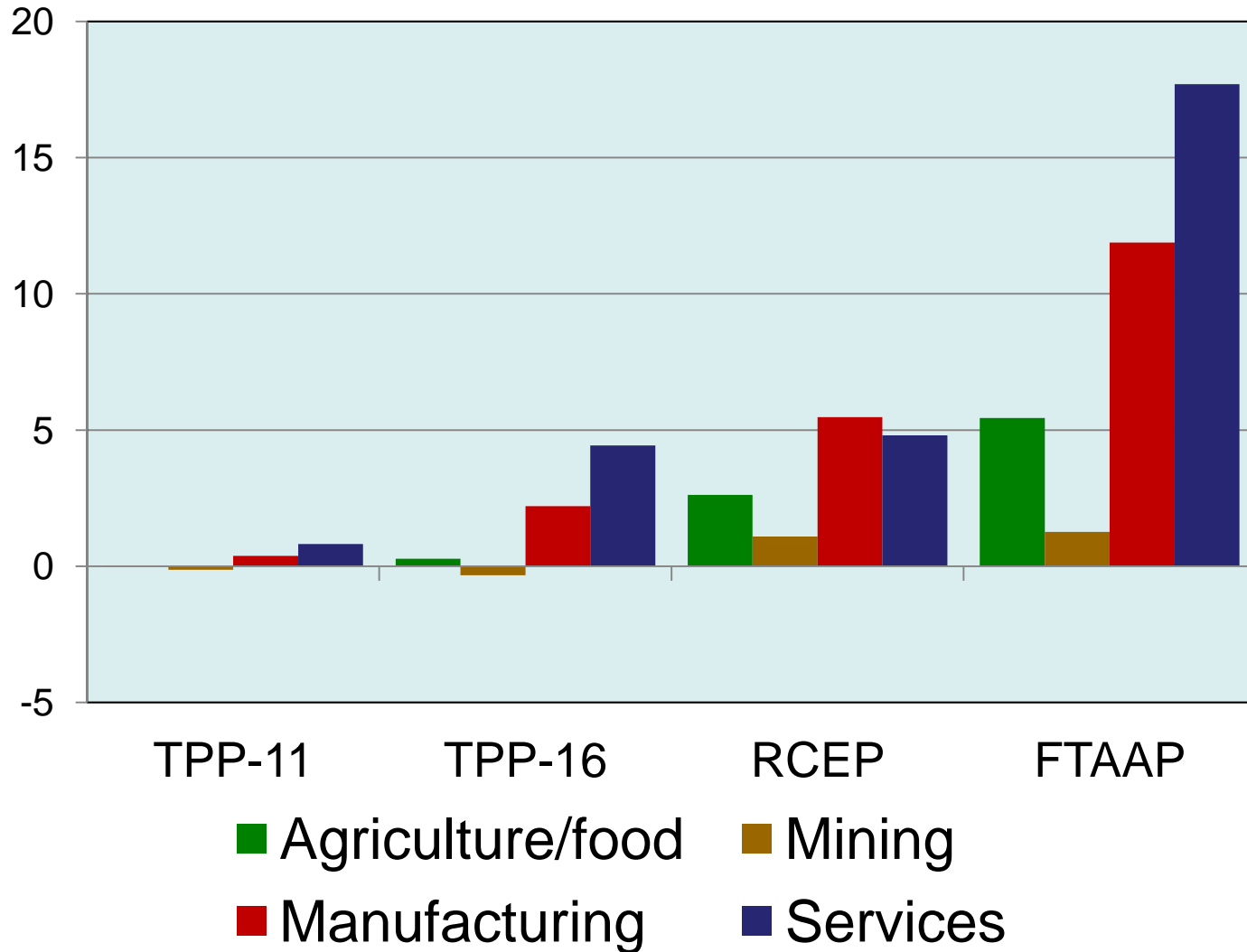
China and US
opposed on
TPP/RCEP;
aligned on
FTAAP

Template effects: China

(income gains, \$billion)



Trade by sector in 2025 (% gain)



Agriculture/food exports in 2025

	Ag/food share of total exports	% Change in agriculture/food			
		TPP11	TPP16	RCEP	FTAAP
Americas	10.2	0.8	2.8	0.5	18.2
Asia	1.9	-1.6	-2.0	17.5	7.8
Oceania	20.1	0.9	4.9	15.0	17.7
Others	10.0	-0.1	-0.5	0.2	0.3
World	7.2	0.0	0.3	2.6	5.4

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
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- Use largest R if multiple agreements apply

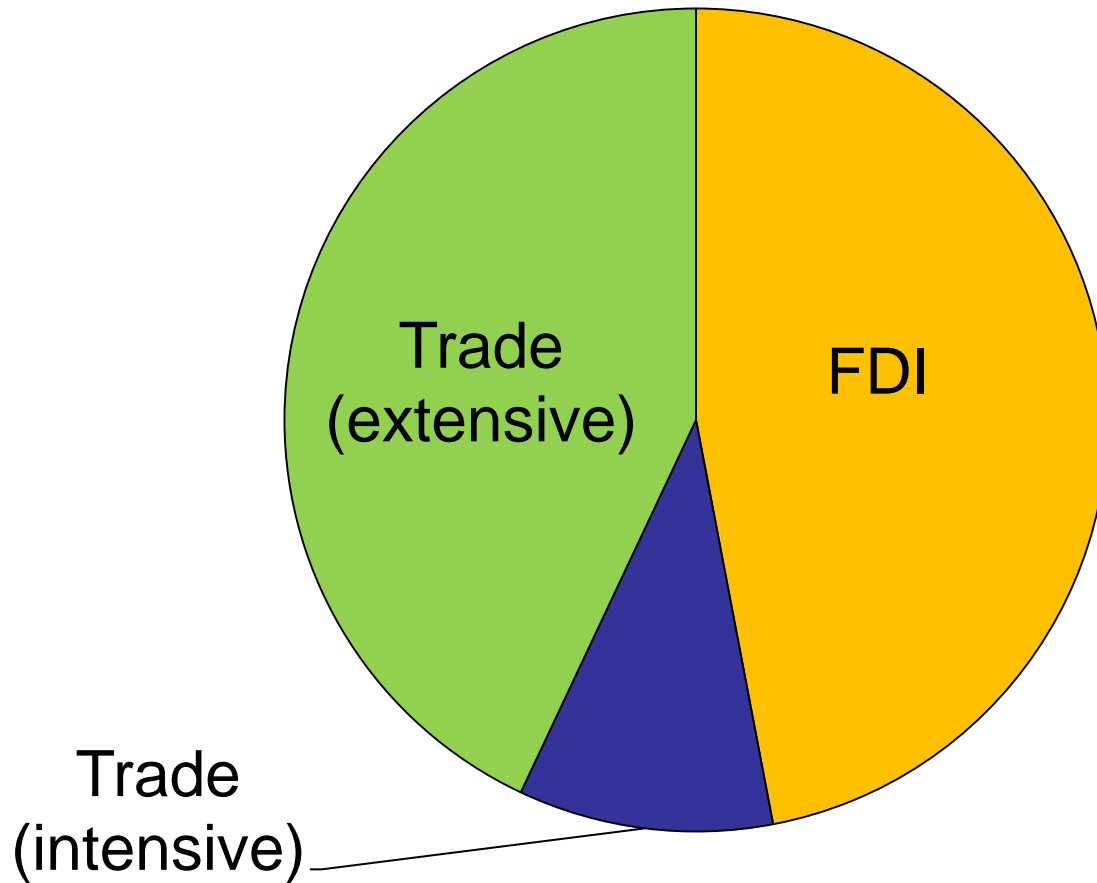
Sample of agreement scores

(composite scores of three measures 0 – 1)

Agreement	Year	TBT	Gov. 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

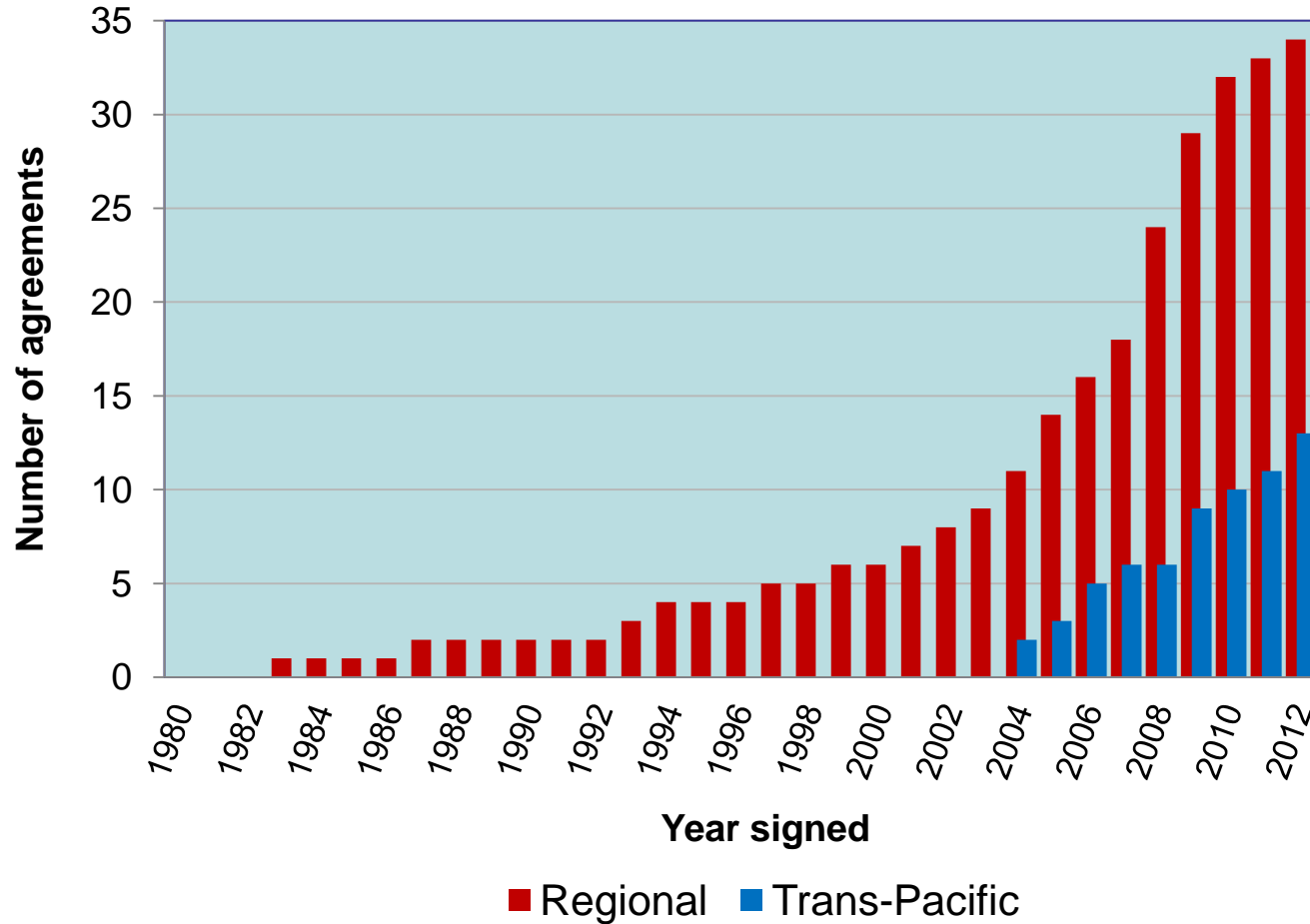
Source: FTA database. Composite score based on measures of (a) coverage of provision subtopics, (b) length of coverage, and (c) enforceability of provisions.

Sources of US gains in TPP



Additional slides

Asia-Pacific trade agreements

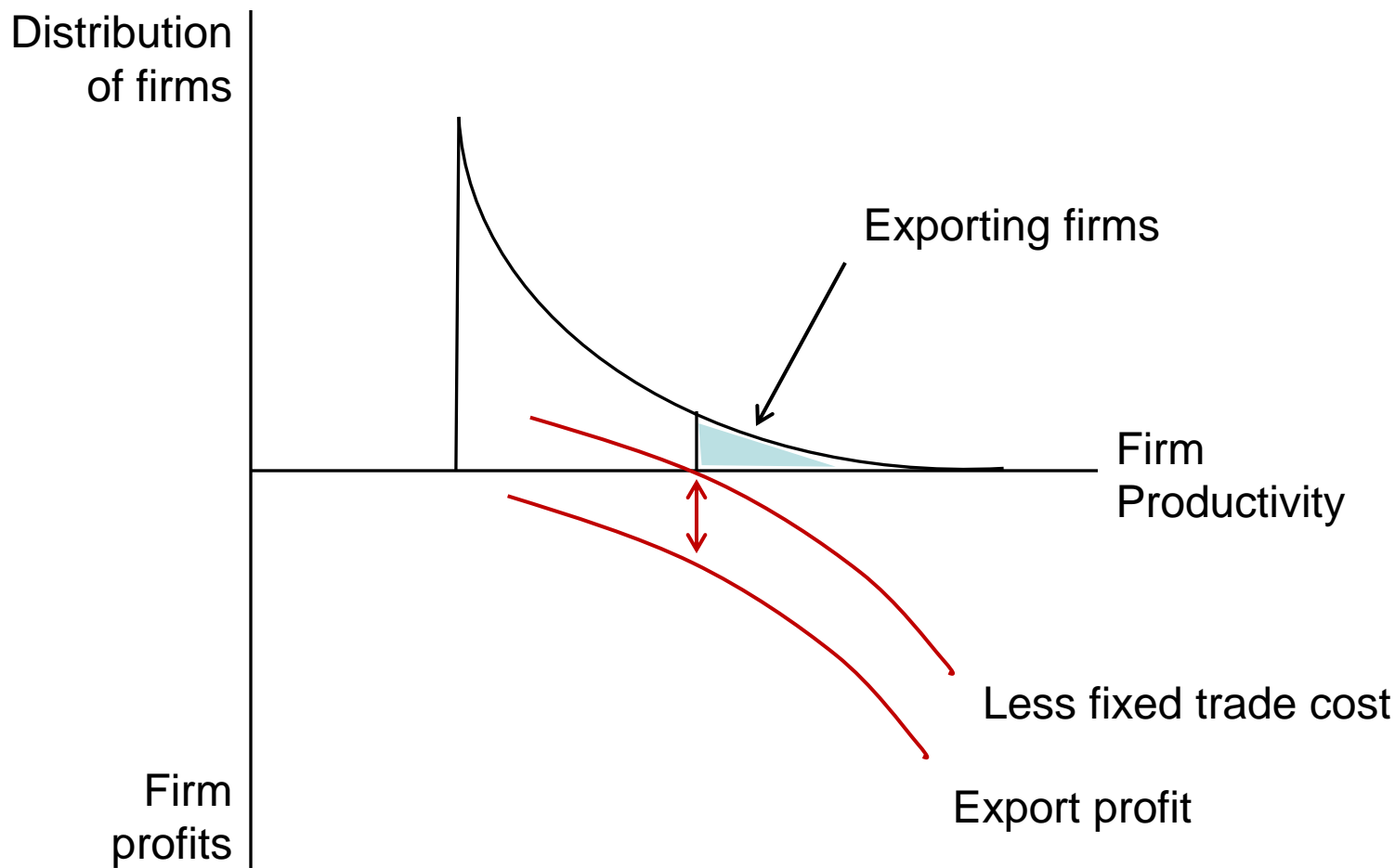


Note: Among APEC members. Authors' estimate.

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



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%