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# The Trans-Pacific Partnership and Asia-Pacific Integration\*

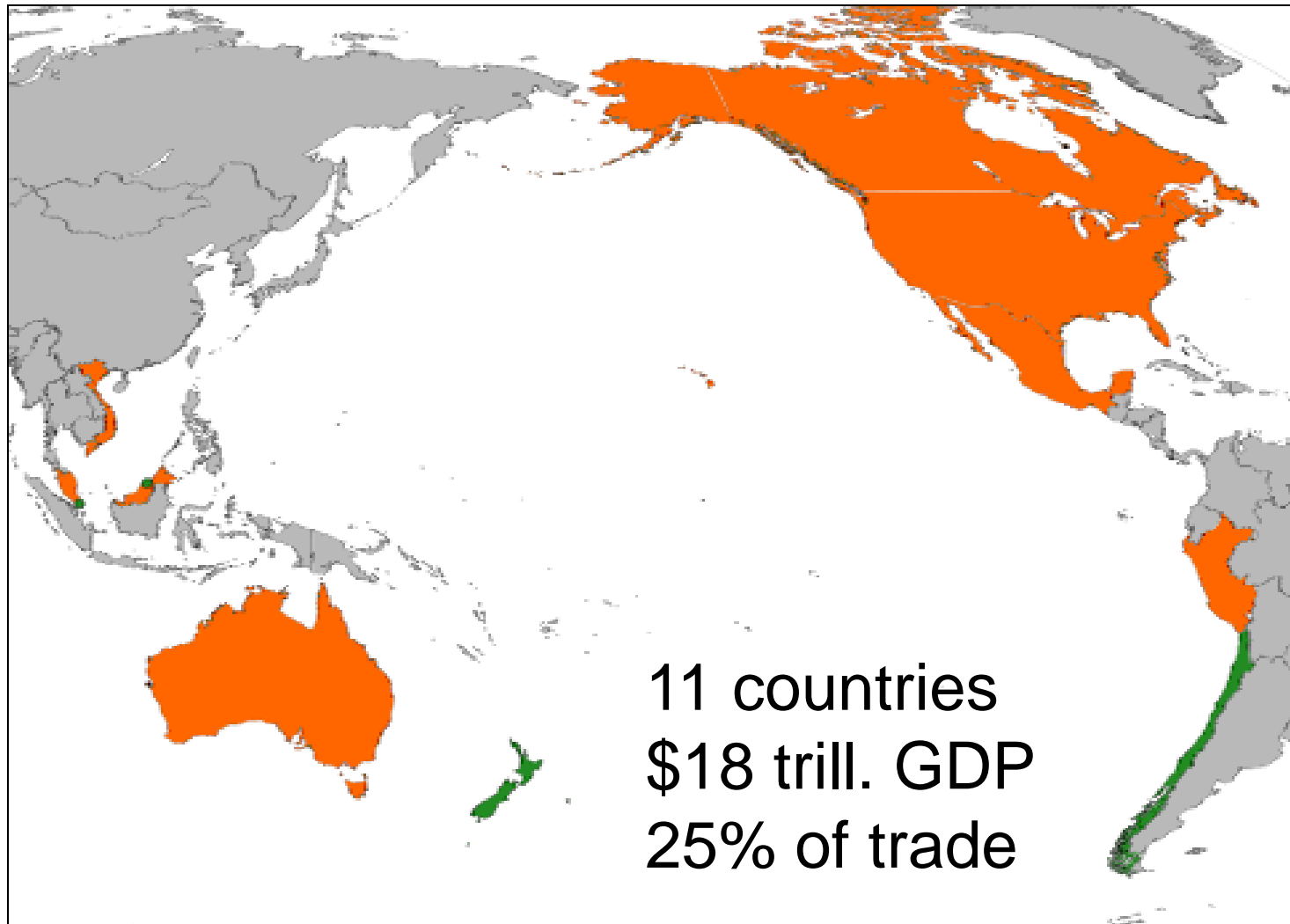
Peter A. Petri

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

[www.asiapacifictrade.org](http://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

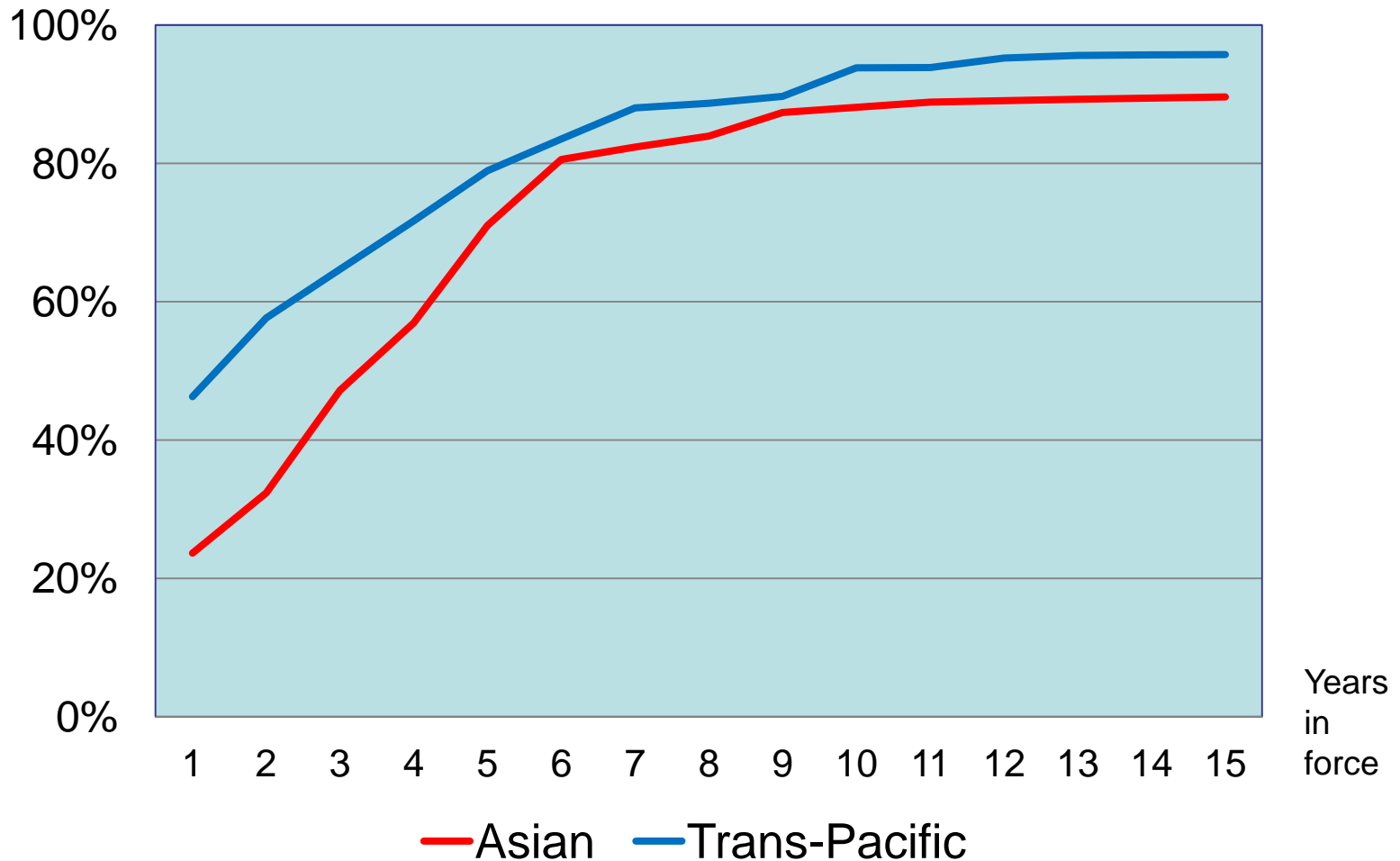
# Emerging templates

- 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

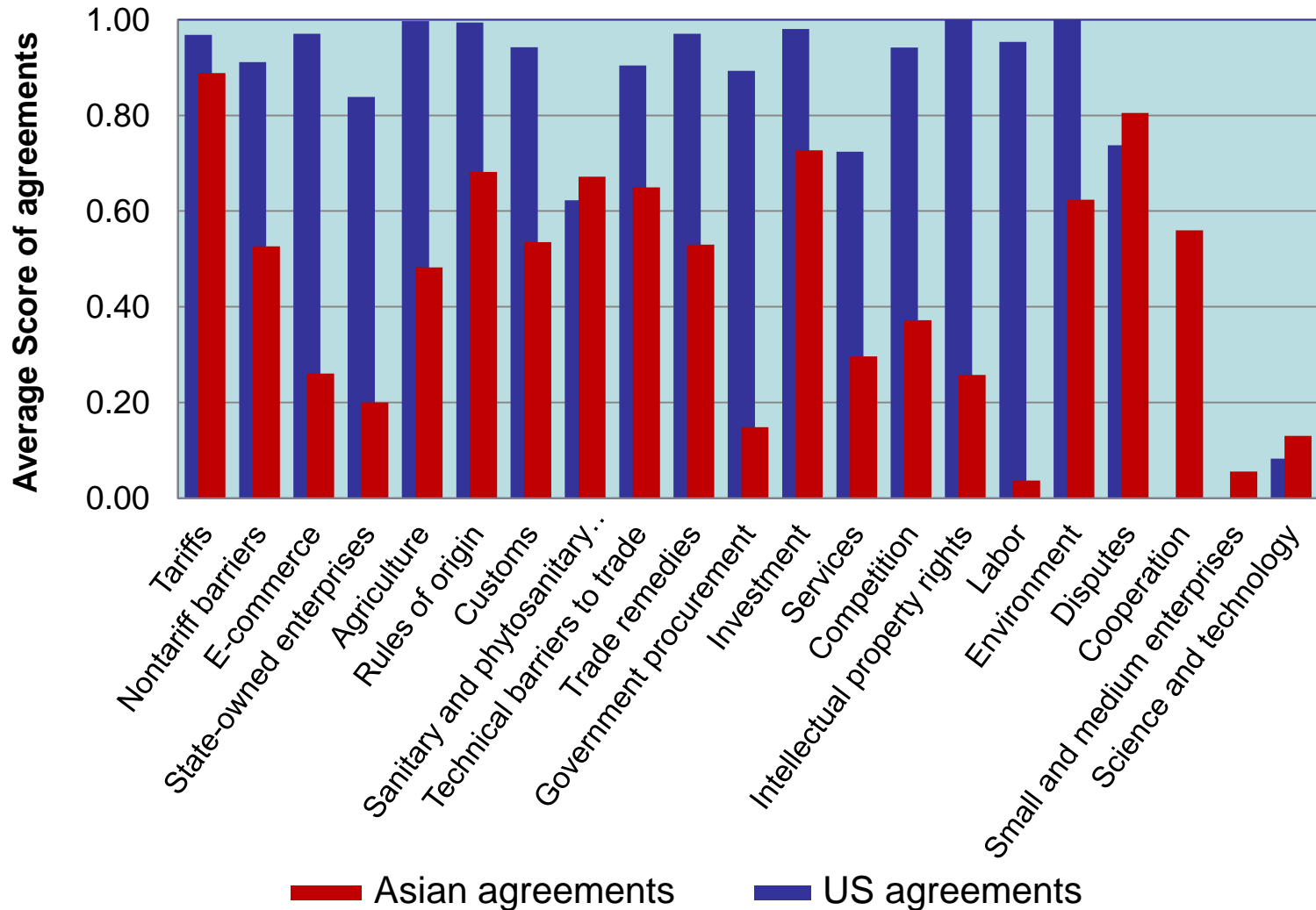


# Asian and Trans-Pacific templates (1)

Tariff reduction (%MFN)



# 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

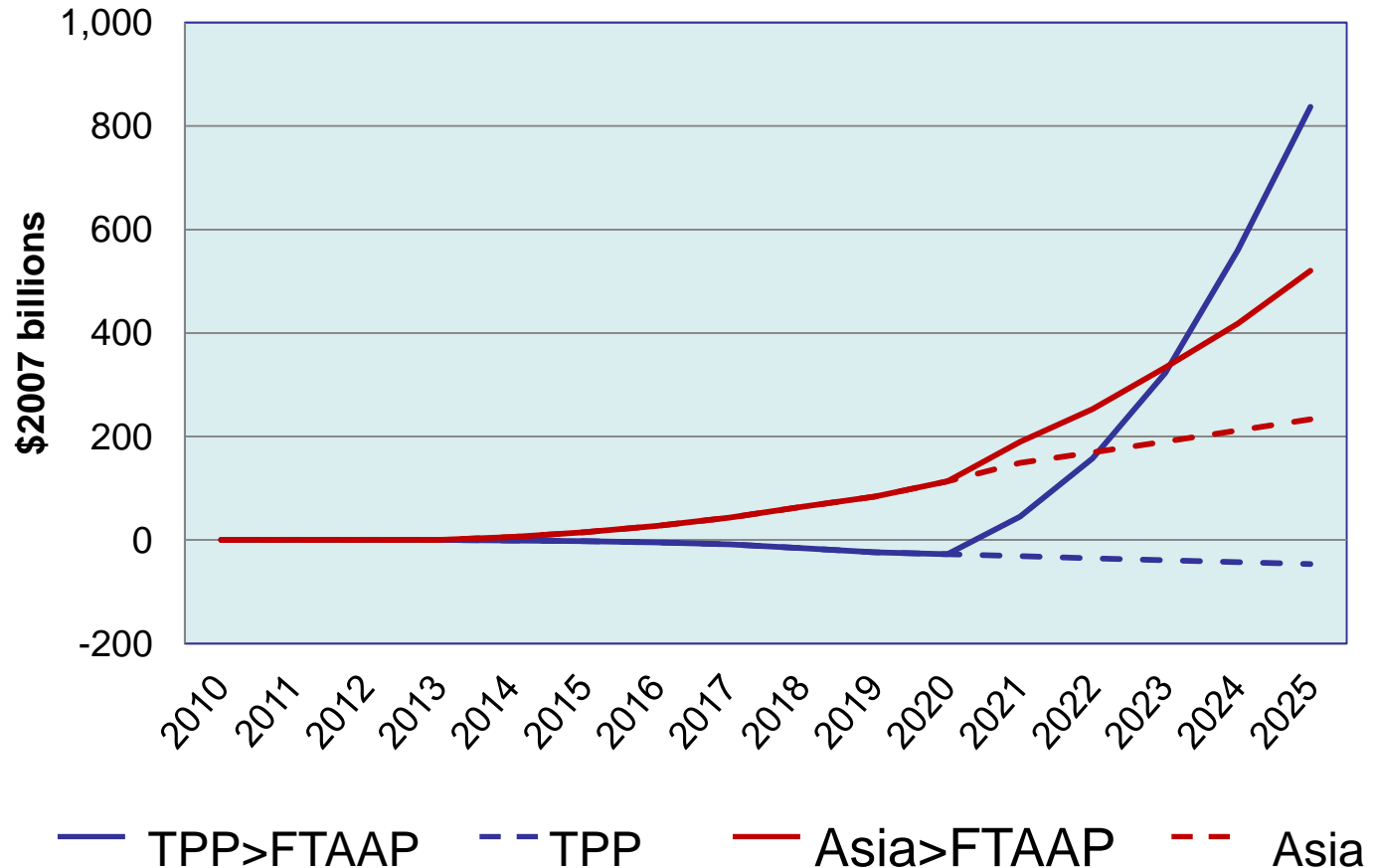
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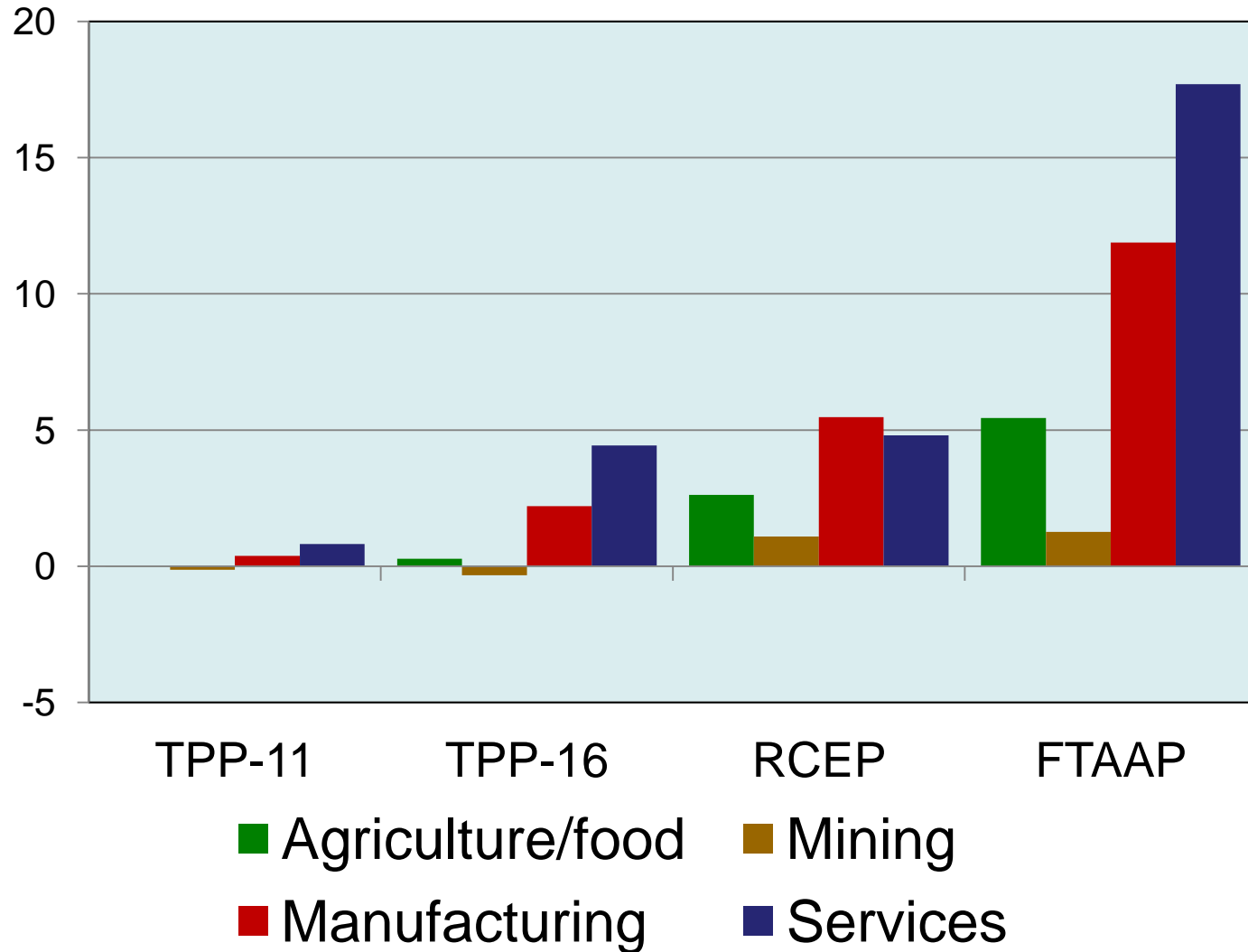
China and US  
opposed on  
TPP/RCEP;  
aligned on  
FTAAP

# 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](http://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

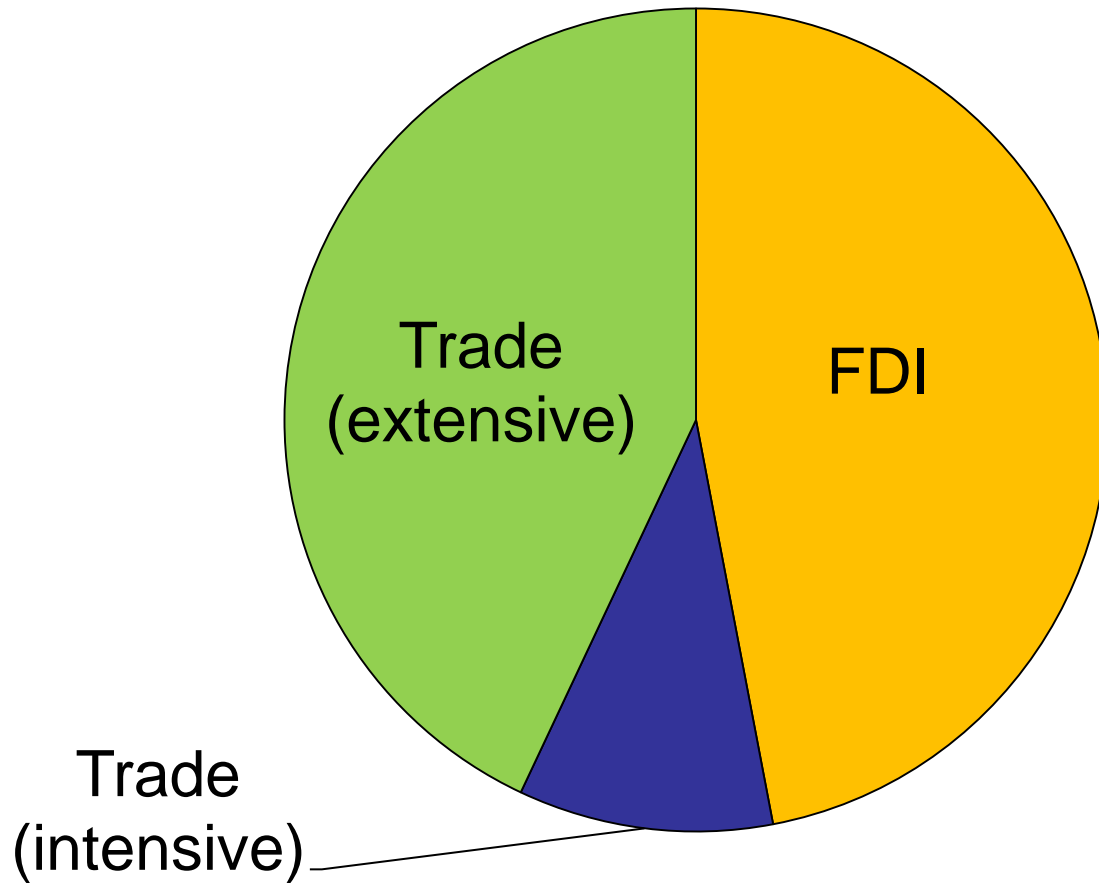
(composite scores of three measures 0 – 1)

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

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

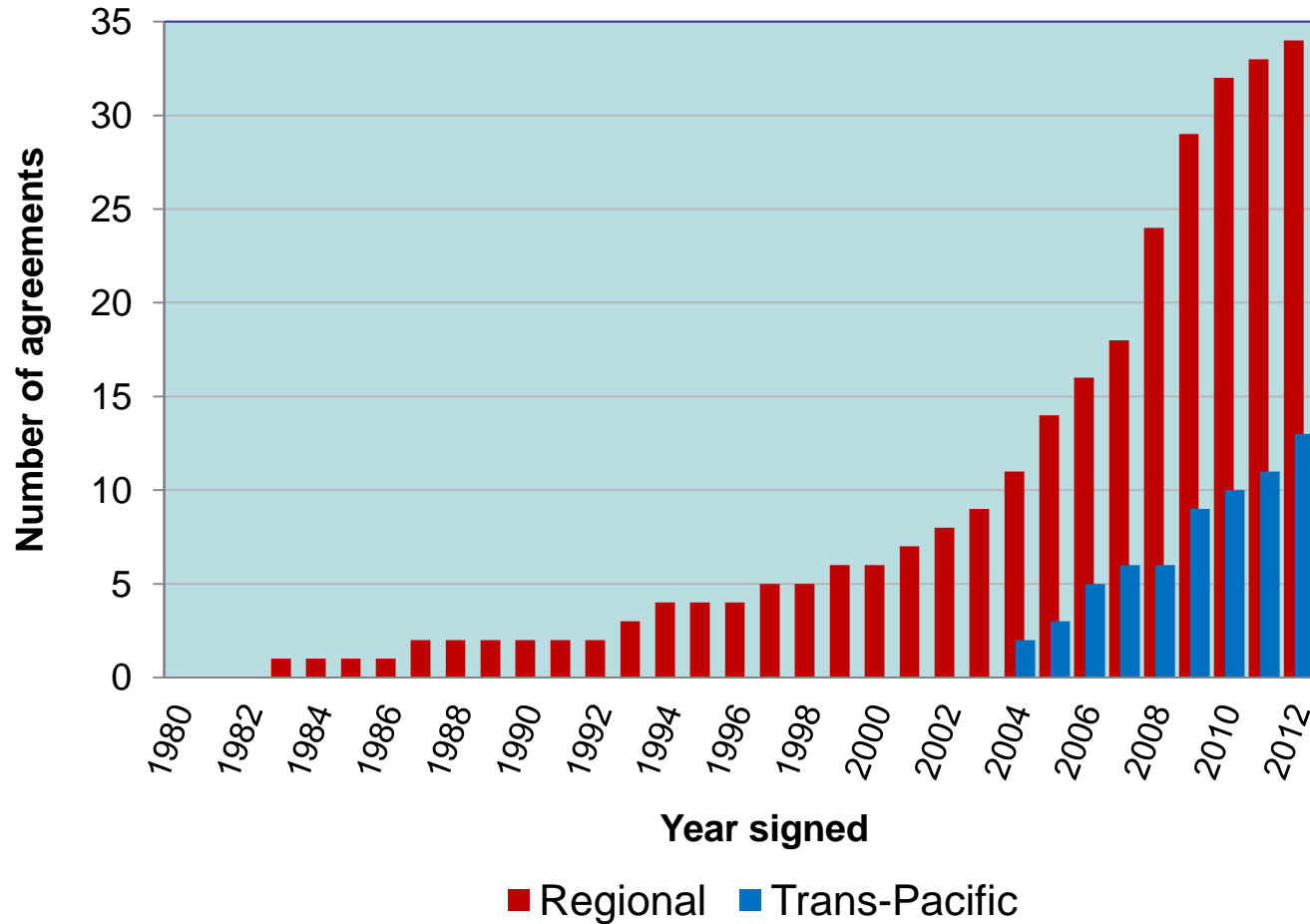


# Sources of US gains in TPP



Additional slides

# Asia-Pacific trade agreements

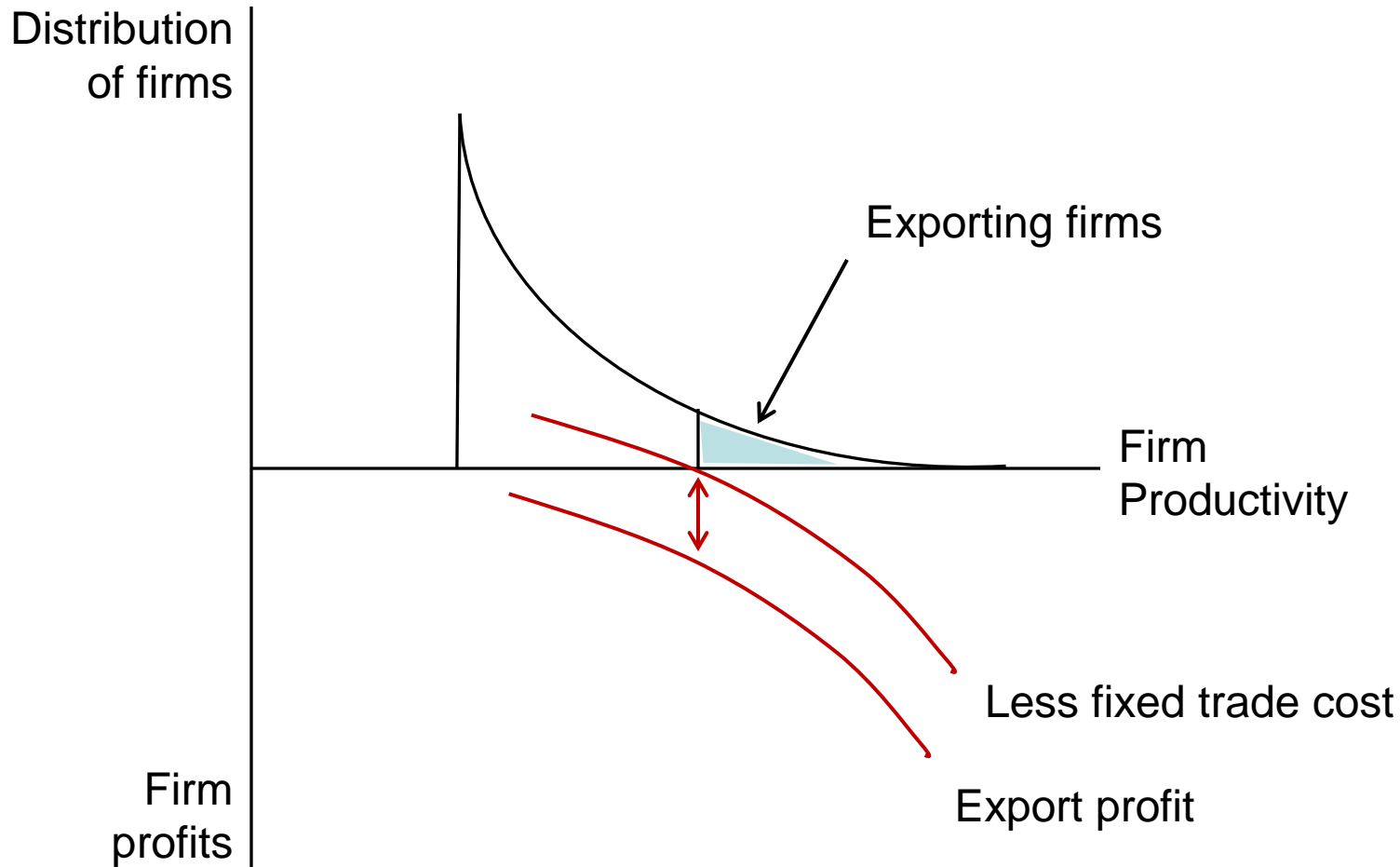


Note: Among APEC members. Authors' estimate.

# 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%