

The Trans-Pacific Partnership and Asia-Pacific Integration: a Quantitative Assessment

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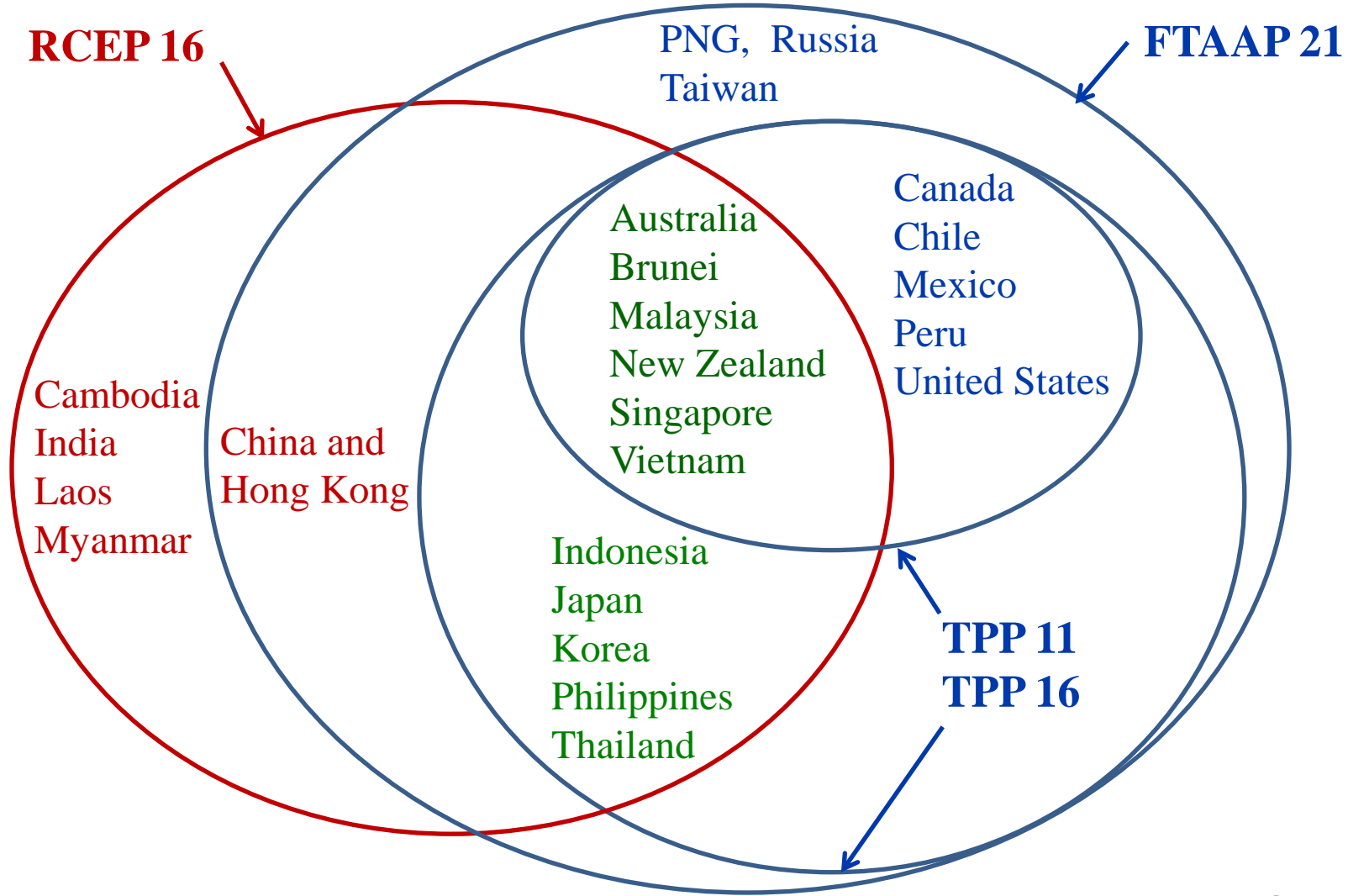
1-Brandeis University, 2-China Investment Corporation,
3-East-West Center, 4-Johns Hopkins University, 5-Peterson Institute
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Challenges of *ex ante* assessment

- Template, membership are uncertain
- Other regional trade agreements matter
- Methodological concerns
 - Underestimations of effects
 - Overestimation of liberalization
- Mega-economic effects

Asian and TPP tracks



Methodology

- **Model**
 - 18-sectors, 24-regions CGE
- **Innovations**
 - Baseline projections look ahead to 2025
 - Detailed modeling of existing and future agreements
 - Firms assumed to differ in productivity (Melitz model)
 - Modeling of investment effects (albeit side-model)
 - Some innovations increase, some reduce estimates
- **Ongoing analysis, new work reported:**
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Differences on key disciplines...

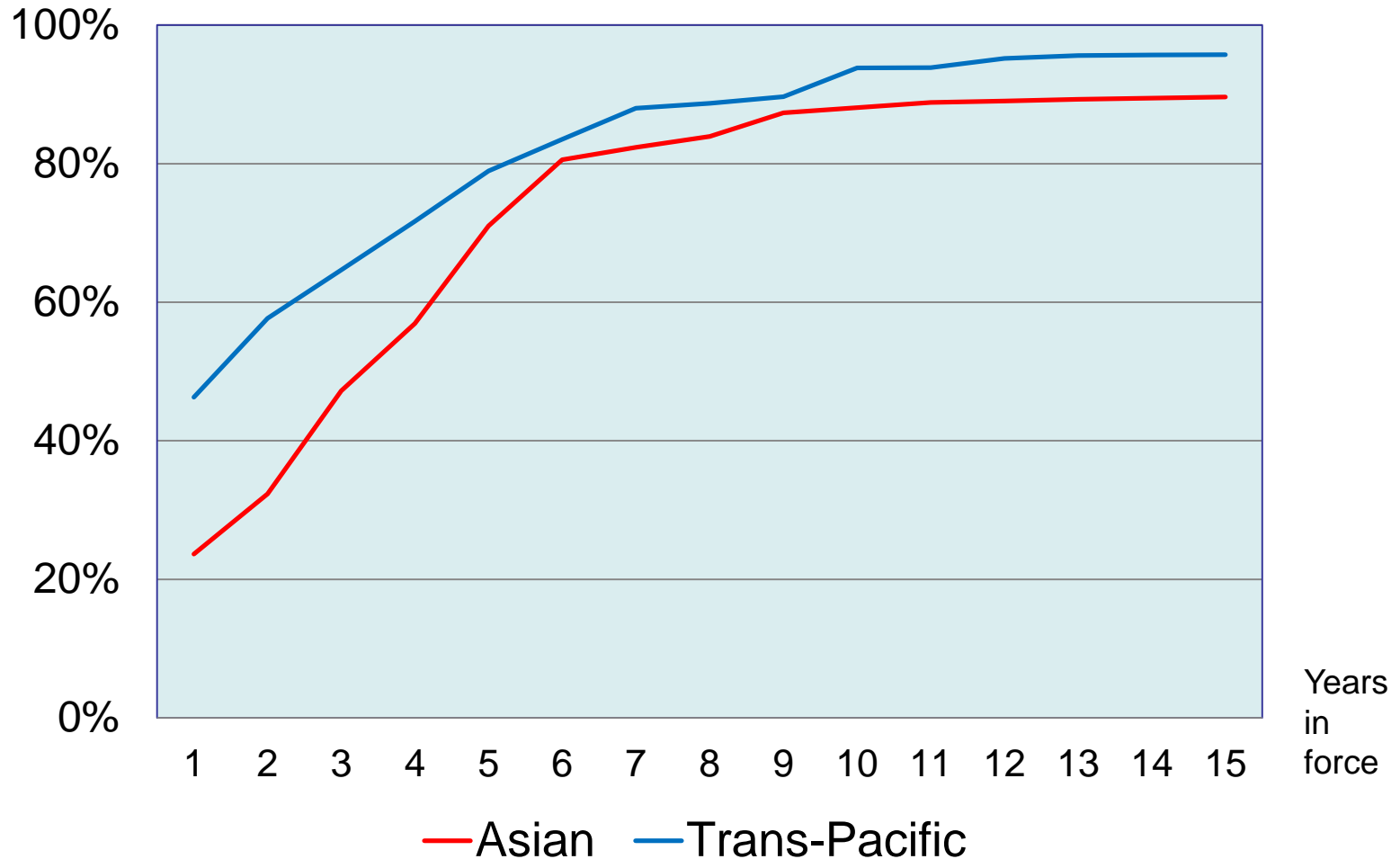
- Intellectual property
- Services
- Investment
- Competition (SOEs)
- Labor, environment
- Agriculture (sugar, dairy, rice)
- Rules of origin (esp. textiles for Viet Nam)

...suggest a contest of templates

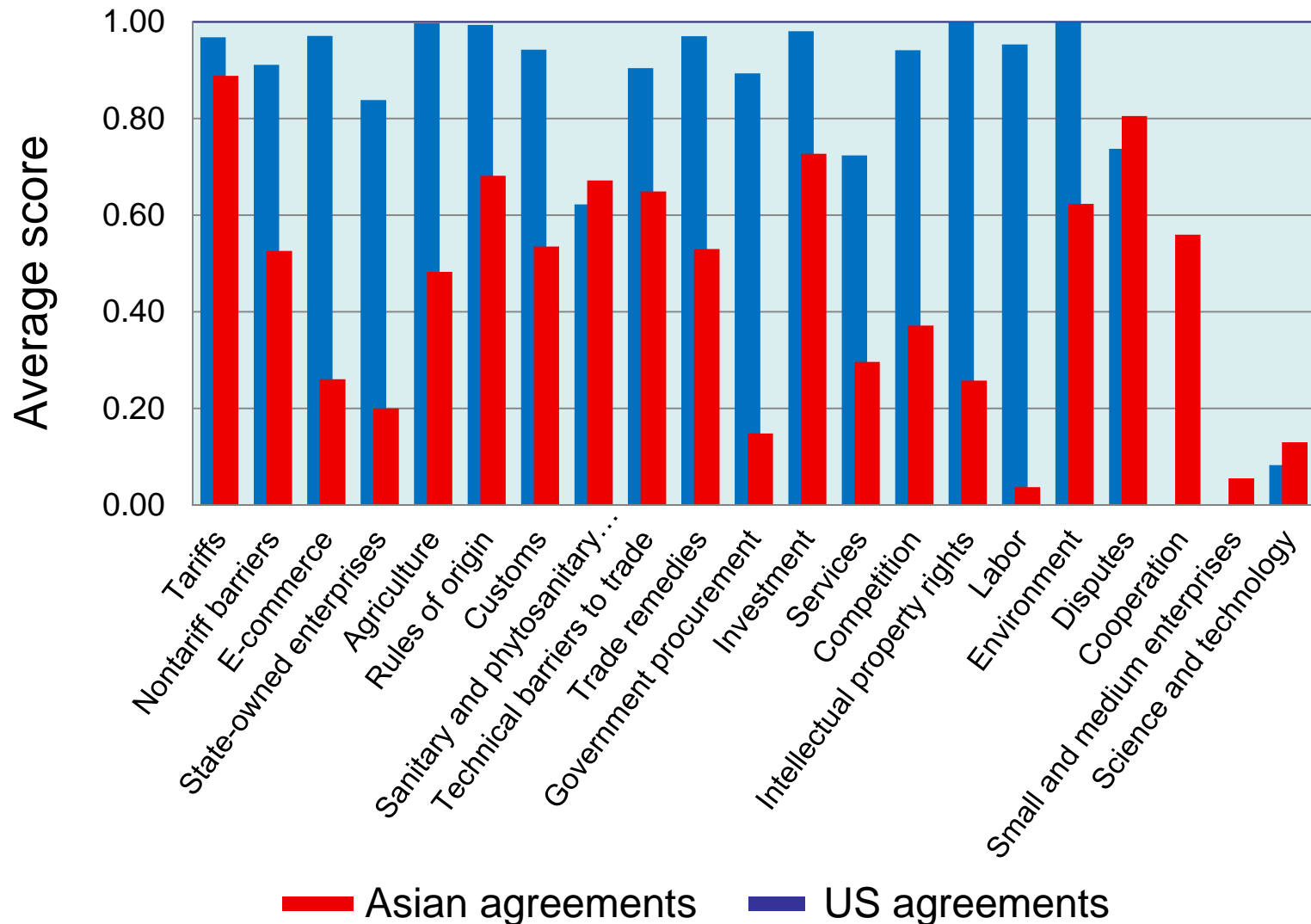
- **Asian template** will target comparative advantage of emerging economies: market access in manufacturing
- **Trans-Pacific template** will target comparative advantage of advanced economies: services, investment, intellectual property
- Each produces gains, both needed for largest gains

Asian and Trans-Pacific templates (1)

Tariff reduction (%MFN)



Asian and Trans-Pacific templates (2)

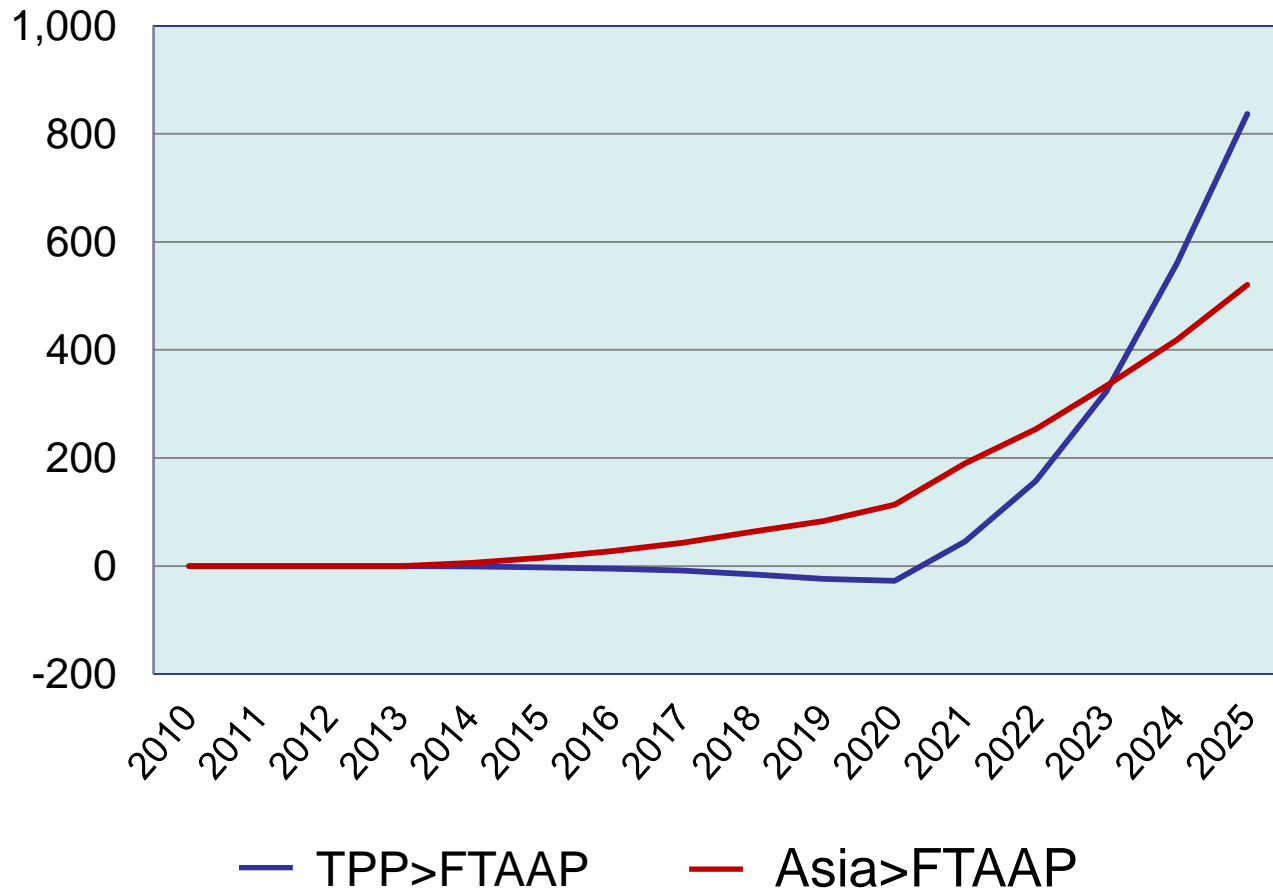


Key simulation results

- The better the template, the larger the gains
- The larger the area, the larger the gains
- Gains are mainly from trade and investment creation
- Country gains depend on trade and investment advantages, initial barriers, prior FTAs

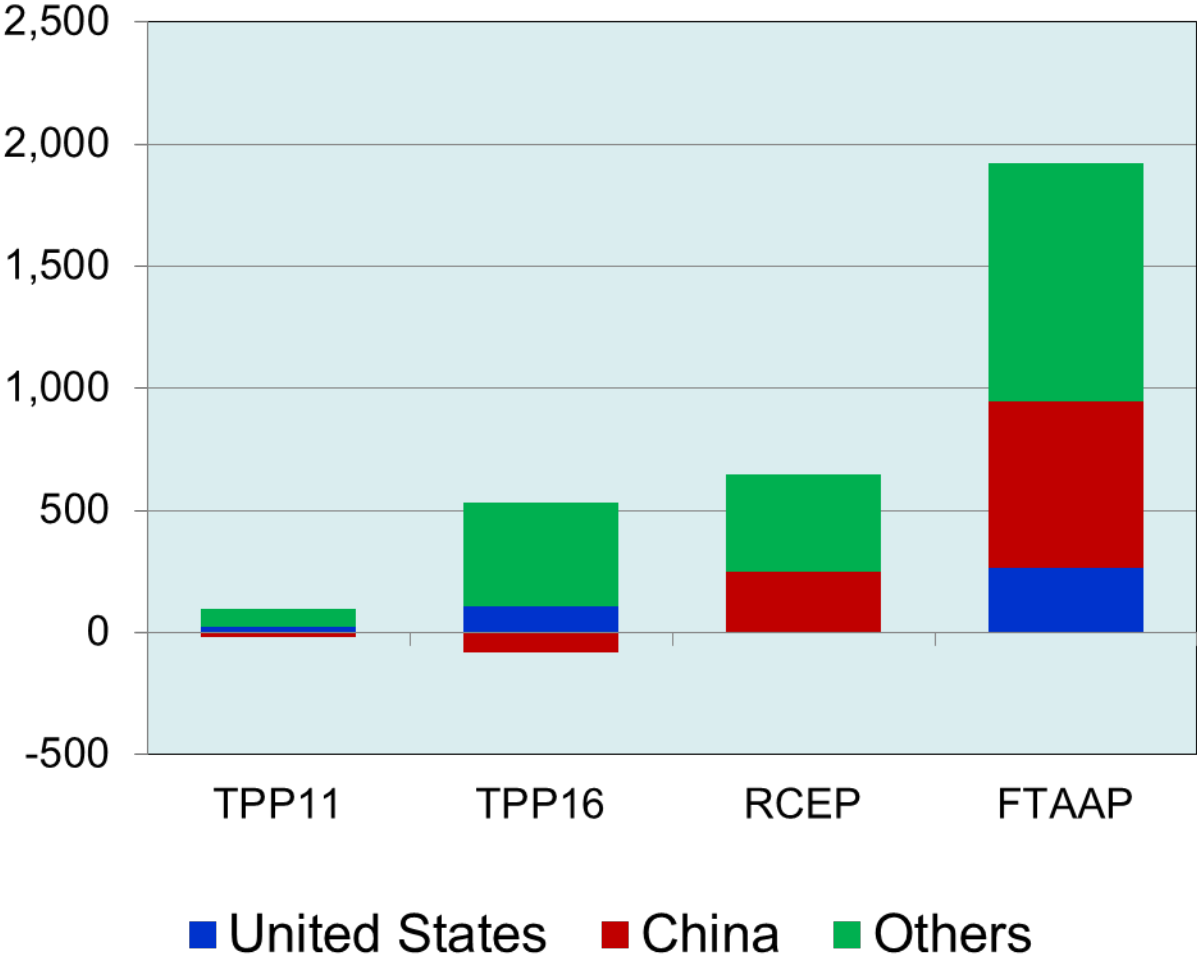
Template effects: Chinese incomes

(\$billion)

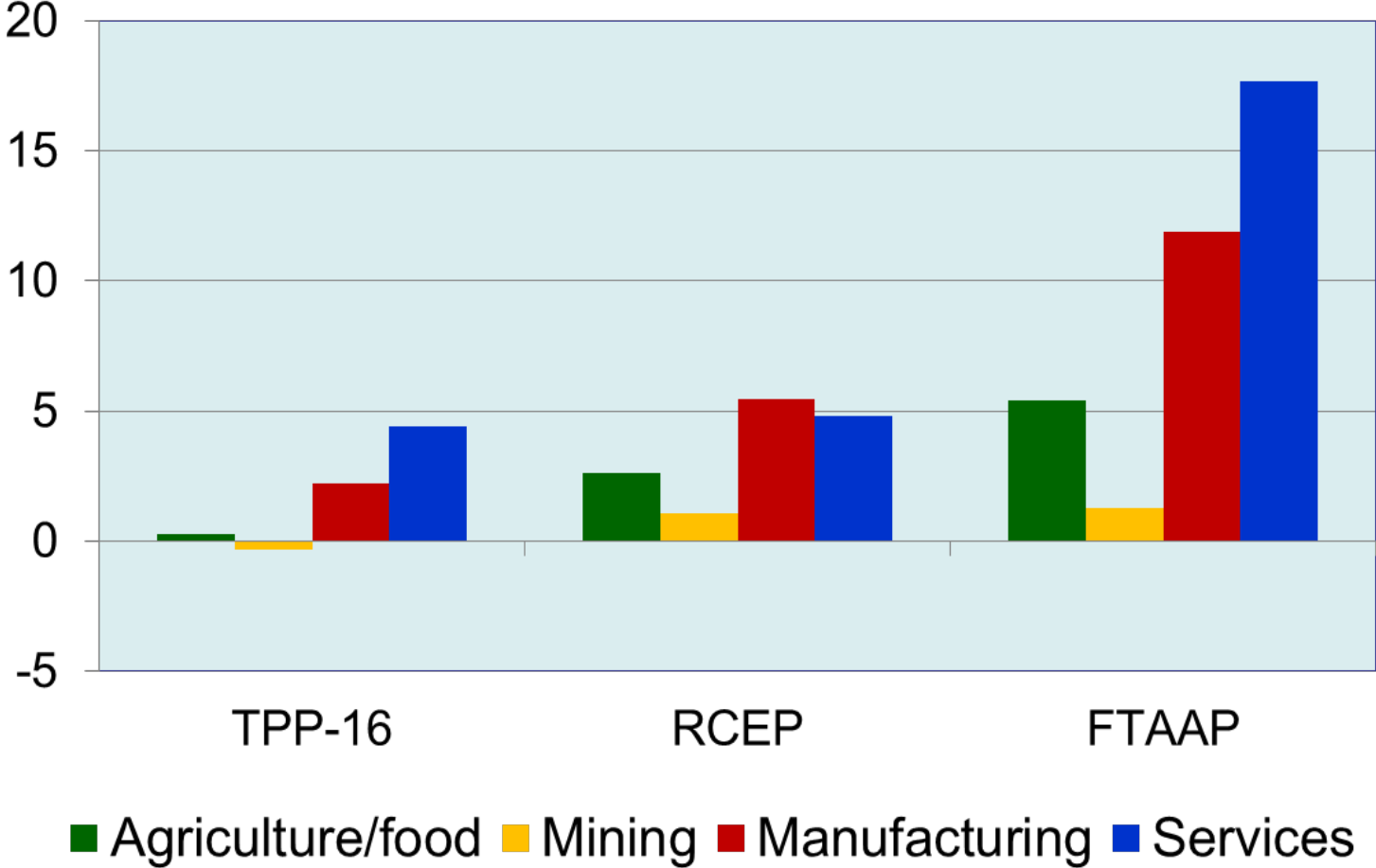


Scale effects: income gains, 2025

(\$billion)

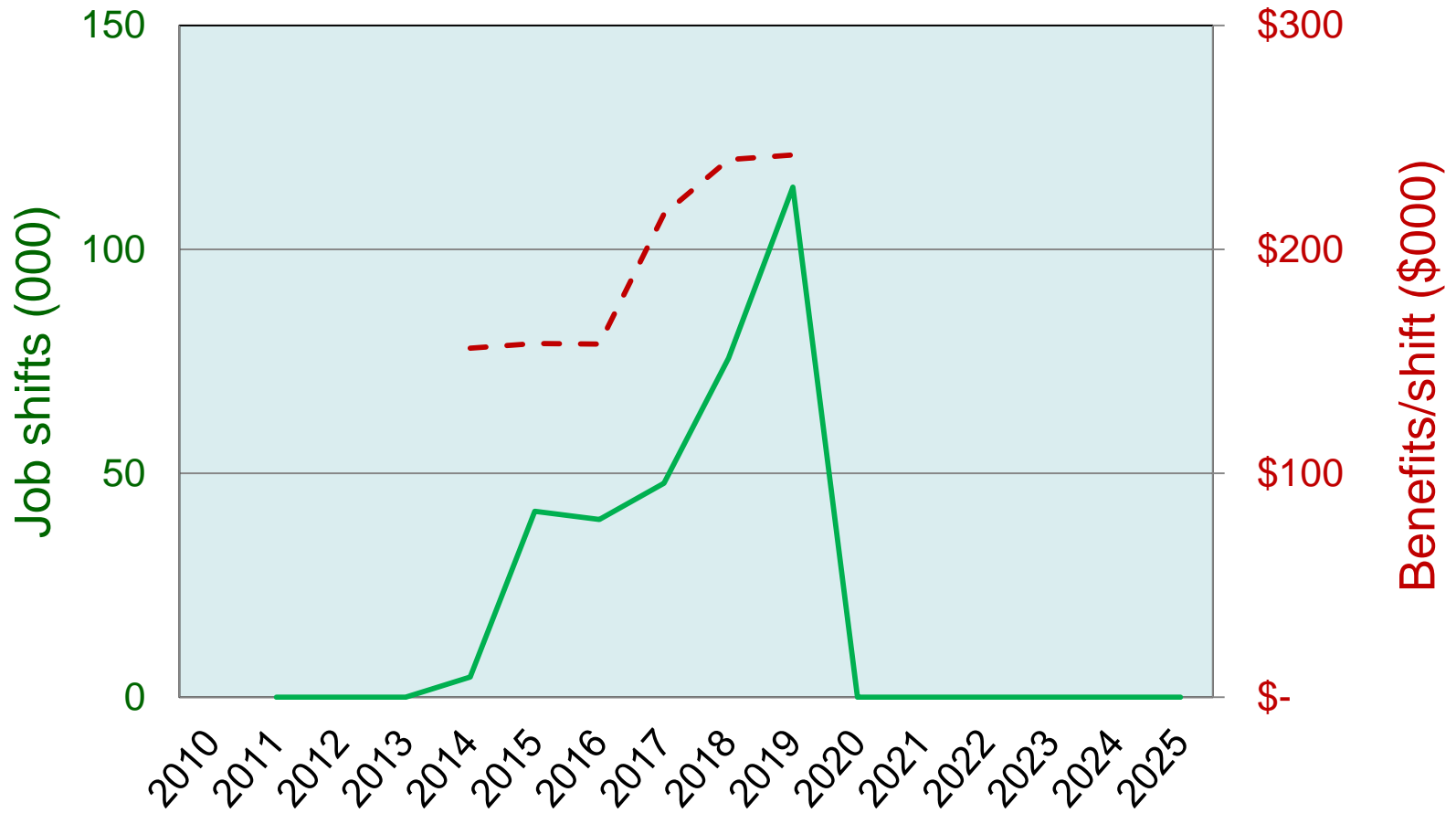


Sector effects: % trade increase, 2025



Adjustment effects: United States

(TPP track)



Country income gains, 2025

(\$billion)

	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: TPP

Korea: RCEP

ASEAN: TPP

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China and US:

- opposed on TPP/RCEP
- aligned on FTAAP

Country income gains, 2025

(% over baseline)

	2025	TPP11	TPP16	RCEP	FTAAP
United States	20,273	0.1	0.5	0.0	1.3
China	17,655	-0.1	-0.5	1.5	3.9
Japan	5,338	-0.0	2.4	1.8	4.3
Korea	2,117	-0.0	2.4	3.9	6.1
India	5,233	-0.0	-0.1	1.7	-0.6
ASEAN	3,635	0.1	6.0	2.1	5.8
Others	48,972	0.0	0.0	0.0	0.9
World	103,223	0.1	0.4	0.6	1.9

Japan: TPP

Korea: RCEP

ASEAN: TPP

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The economics of the tracks...

- The tracks are **positive-sum games** with gains ranging up to \$2 trillion
- They represent **competitive liberalization**
 - First competition
 - Then enlargement and overlapping membership
 - Finally consolidation, with China and US gaining most
- Each track begins to **clean up “noodle bowl”**

... argues for supportive policies

- “Just do it” in 2013
- **Balance** depth of agreement against expansion to other countries
- **Create dialogue** on convergence of TPP and Asian tracks
- **Pursue third track** of China-US cooperation consistent with eventual FTAAP

Asia-Pacific Trade

Research reports, results and data



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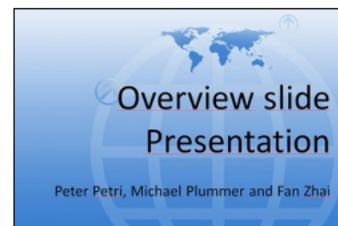
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This website provides research papers, results and data from an ongoing study of trade flows and trade agreements in the Asia-Pacific region, with particular attention to the Trans-Pacific Partnership (TPP) and intra-Asian negotiations. The principal researchers are [Peter A. Petri](#), [Michael G. Plummer](#) and Fan Zhai; Nian Lin provides research support.

The team gratefully acknowledges the support of the [East-West Center](#), the [Peterson Institute for International Economics](#), and the [Asia-Pacific Center](#) of the Brandeis International Business School. Information on this website is generated in our capacity as independent researchers and does not represent the views of any institution with which we are affiliated or that provides support.

The website is in development and questions and suggestions are appreciated!



New on the site

- * Book now available from Peterson Institute (link from "Publications")
- * New TPP-track comparisons on "Results"
- * New RCEP comparisons on "Results"
- * FTA scores added on "Data"

New on "Related work"

- The Trans-Pacific Partnership: A Model for Twenty-First-Century Trade Agreements?
- From the P4 to the TPP: Explaining Expansion Interests in the Asia-Pacific.
- The Trans-Pacific Strategic Economic Partnership Agreement.

Admin

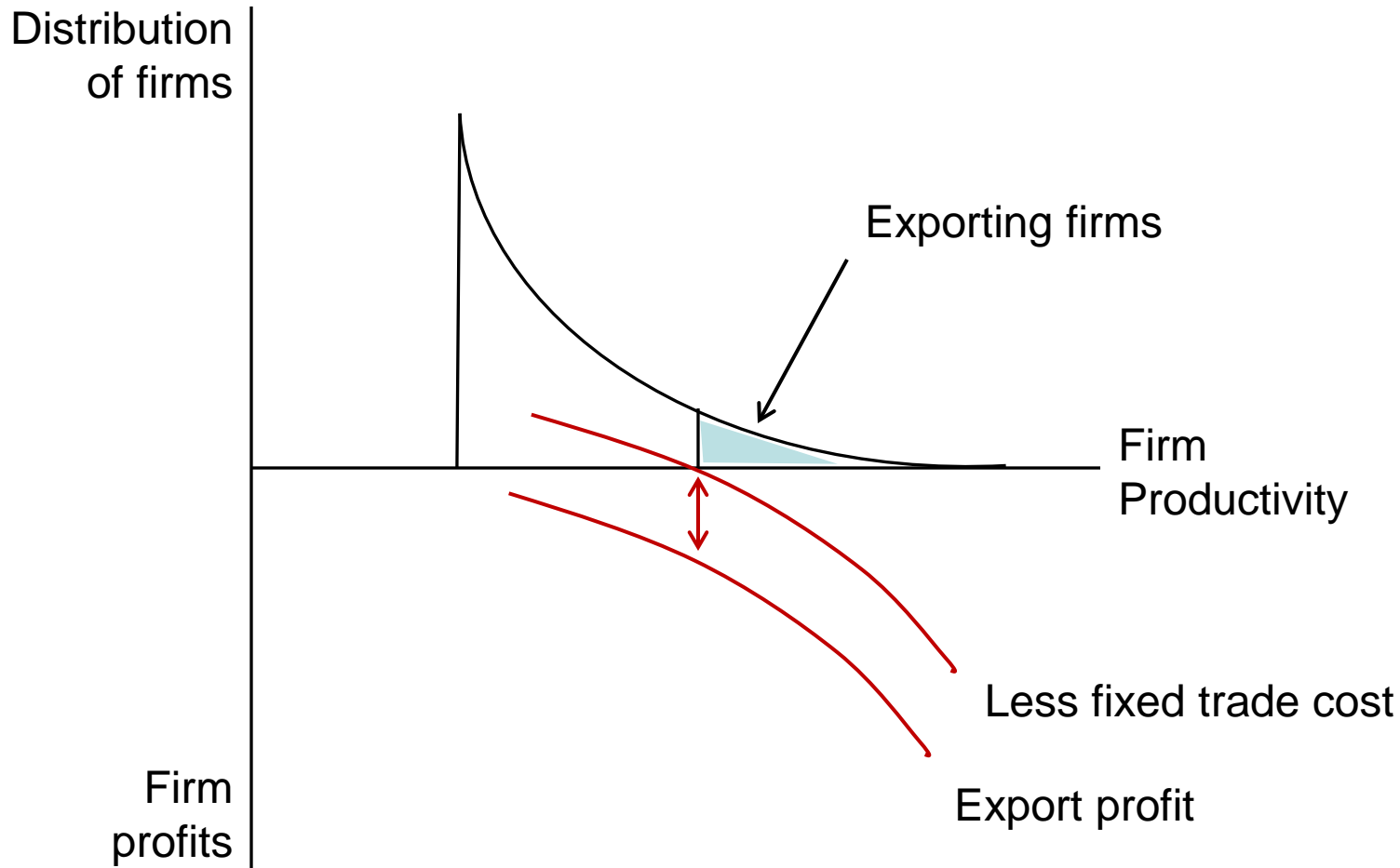
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Additional slides

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



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	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.

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%