

# TPP Assessment Study: Work in Progress

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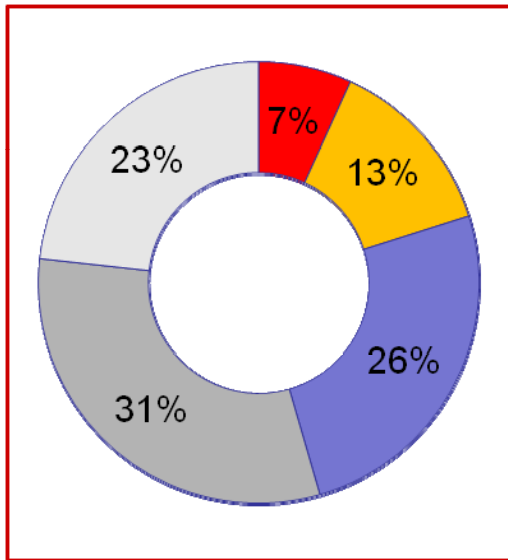
# I. Context of the study\*

- Shift of economic gravity to Asia
- Proliferation of regional and bilateral agreements with limited participation by the United States
- Compelling logic of TPP
  - Addresses changing global economic environment
  - Provides new model for US economic partnerships
  - Potentially covers majority of US trade

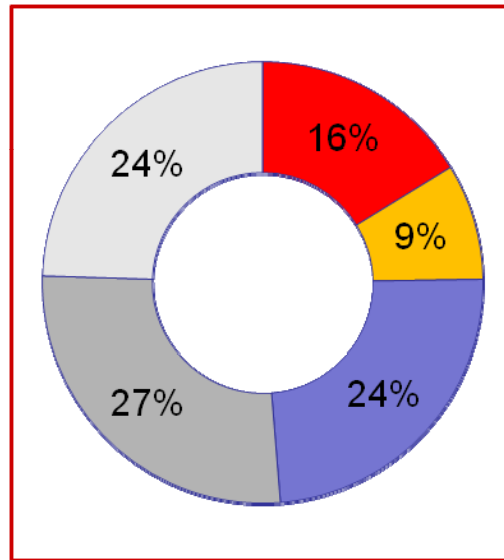
\* These slides report on work in progress. The study is scheduled to be completed in spring 2011.

# Asia rises: world output (GDP market prices)

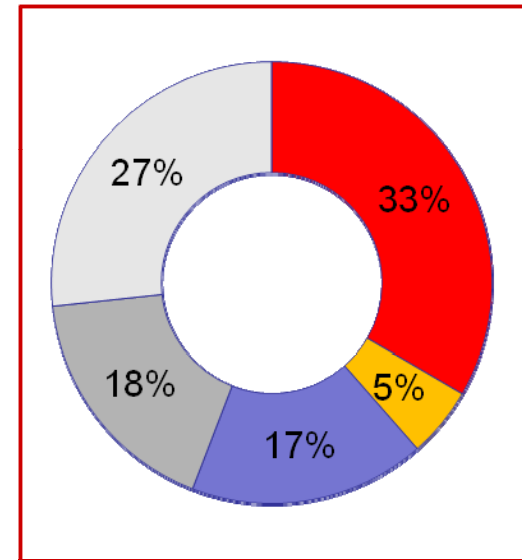
1990



2010



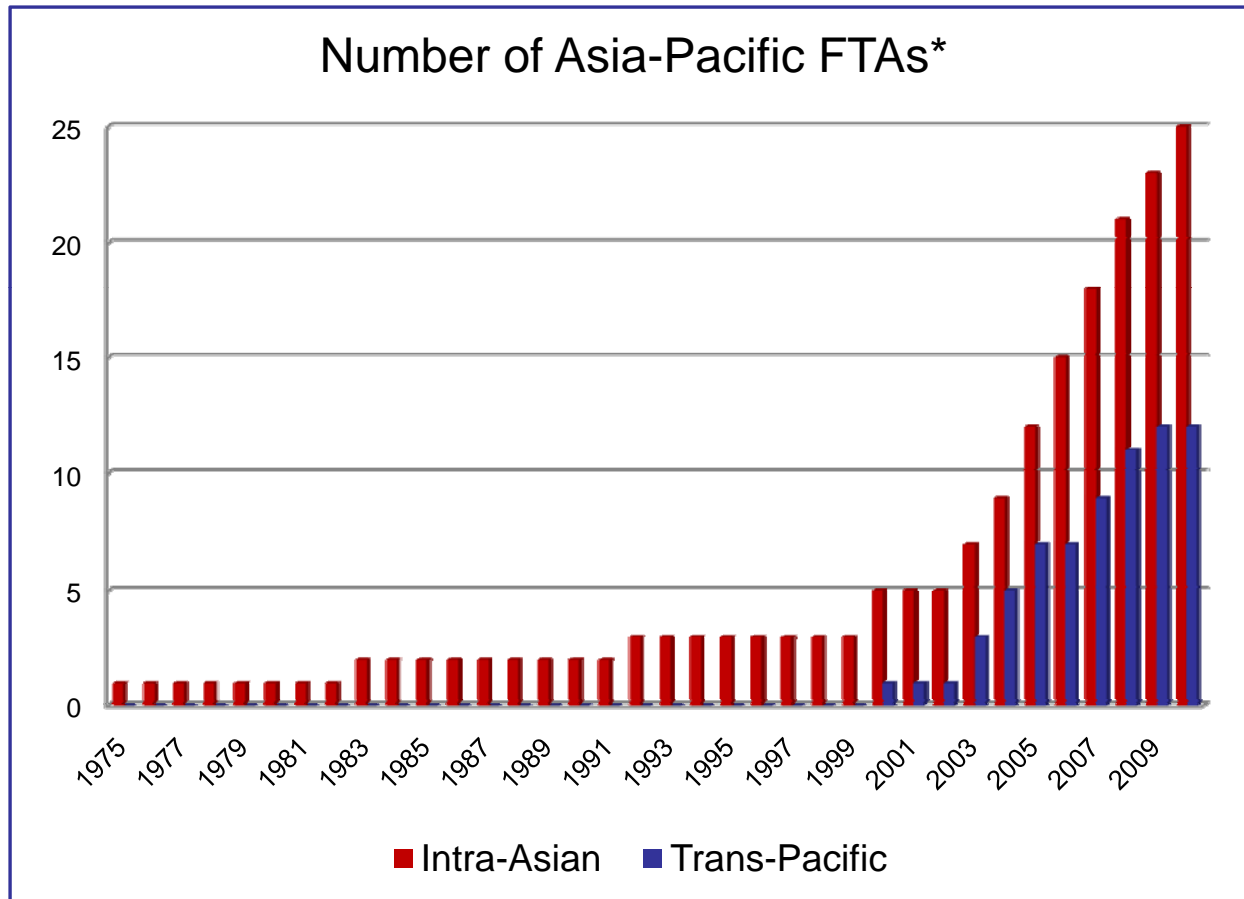
2030



Key: 1. Emerging Asia 2. Japan 3. US 4. EU 5. ROW

Source: Petri 2010.

# Asia-Pacific trade agreements



\* Among APEC members. ESCAP database, July, 20 2010.

# Asia-Pacific FTAs

## Asian track

- ASEAN (1992)
- ASEAN - China (2004), Korea (2006), Japan (2008), Australia-New Zealand (2009)
- 20 bilaterals among Asian APEC economies (Annex A)
- Official China-Japan-Korea study underway
- EAFTA (ASEAN+3) and CEPEA (ASEAN+6) analysis underway in parallel working groups

## Trans-Pacific track

- Trans-Pacific Strategic Economic Partnership (2005)
- 11 bilaterals among APEC economies on different sides of Pacific (Annex B)
- Trans-Pacific Partnership expansion negotiations underway
- FTAAP proposed in APEC; work underway on pathways

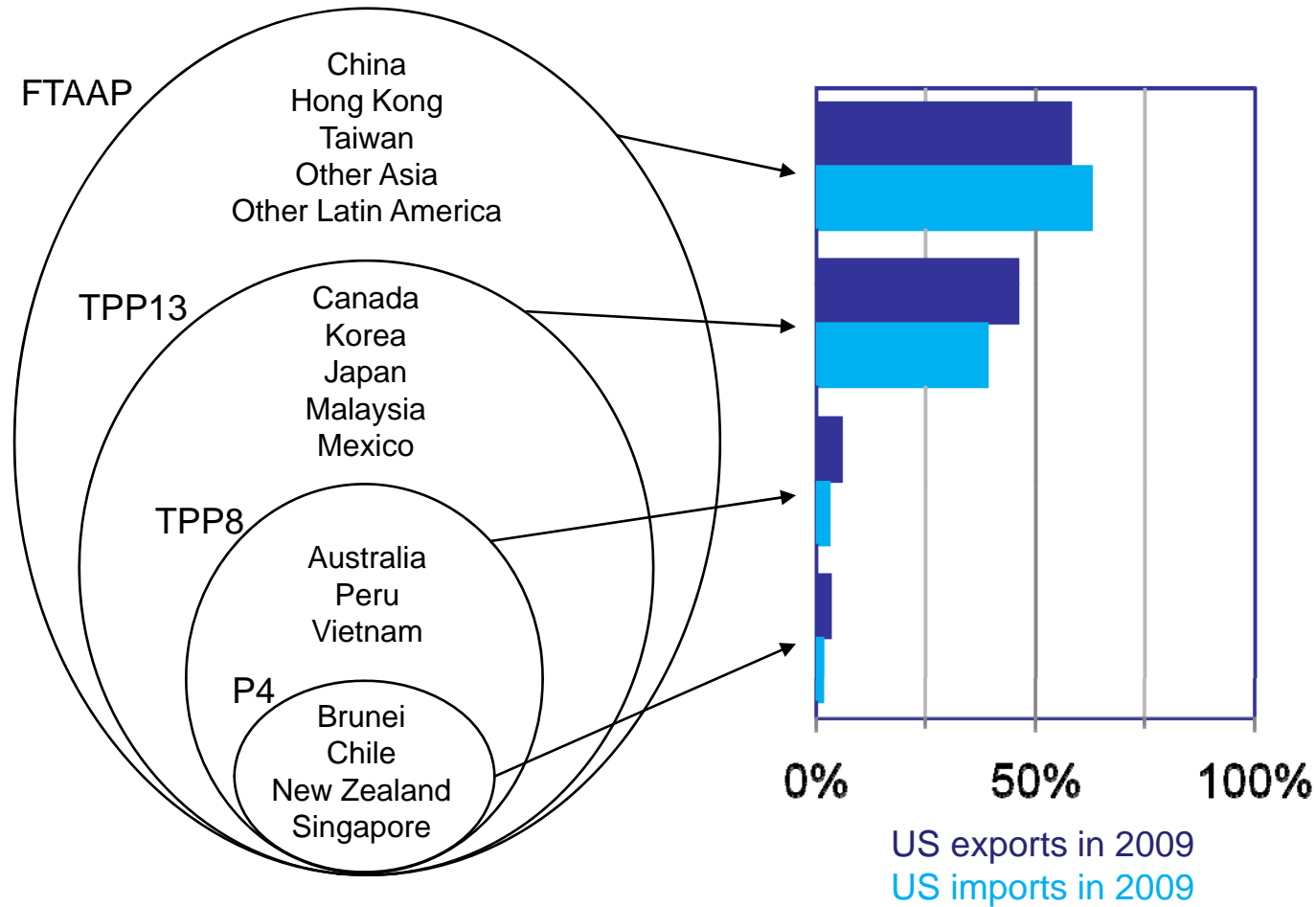
# Why TPP?

- **Contribution to global trade architecture**
  - DDA negotiations remain stalled
  - Asia-only initiatives could “draw lines” down the Pacific
  - New approaches are needed for deeper integration
- **US politics**
  - Absence of “fast track” authority
  - Good agreements might attract bipartisan support
  - Scalable, forward-looking approach offers best prospects
- **Macro context**
  - Global economic gravity is shifting toward Asia
  - Still need engines for sustained recovery
  - US National Export Initiative

# What kind of TPP?

- **Innovative**
  - Forward looking: technology, information, investment, services, facilitation
  - Dynamic: stimulates expansion into FTAAP
- **Attractive to US**
  - Supports investment, services, technology
  - Addresses jobs and environment
  - Transparent, private-sector driven
- **Attractive to partners**
  - Supports development
  - Pragmatic and flexible
- **Tensions**
  - Is the point a “gold standard” or “21<sup>st</sup> Century”?
  - How much room for phased liberalization?
  - What does “comprehensive” mean?

# U.S. trade with potential TPPs (prior to Malaysian announcement)



Source: USITC trade database, July 2, 2010.



## II. Design of the study

- Explores dynamic path of agreements
- Estimates implications for economies joining at different points on the dynamic path
- Incorporates broad economic effects, including tariff elimination, service liberalization, trade facilitation, and investment

# Game-theoretic approach

1. Baseline scenario: Asian economies continue to implement an “Asian track” of trade agreements.
2. Alternative scenario: the US and other economies implement a dynamic “trans-Pacific track” of agreements, including the TPP.
3. The TPP expands from 8\* members in 2011 to 13 members in 2015 and to 21 members (the FTAAP) in 2020.
4. Each potential member faces an “accession incentive” defined as the welfare difference between joining the TPP and not joining it (while other economies do\*\*).
5. Estimated accession incentives are examined to see whether they are consistent with assumptions made about the time path of country accessions.
6. Sectoral effects are analyzed to assess specific incentives, adjustment impacts, and vulnerable industries.

\* Prior to Malaysia’s joining the negotiations.

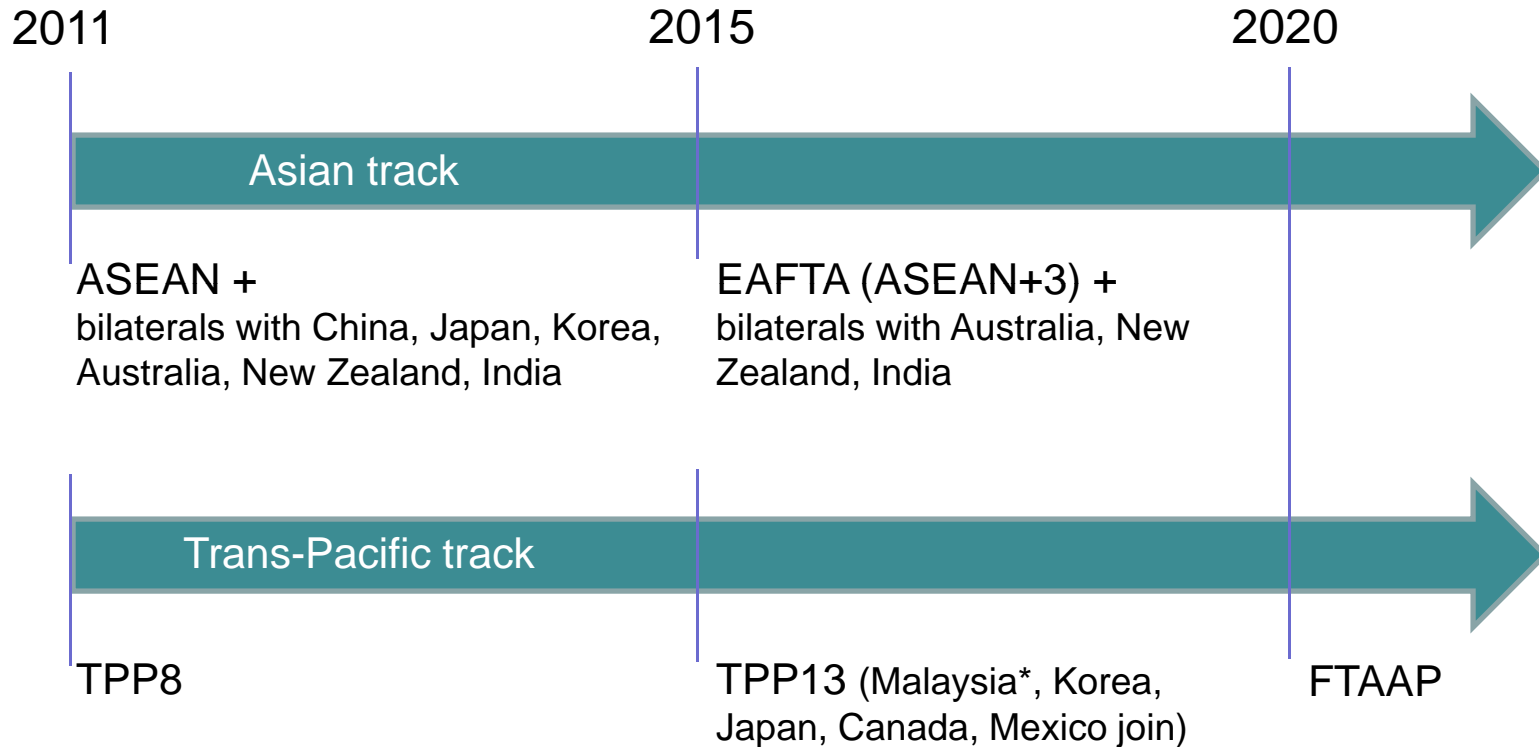
\*\* The usual approach is to measure benefits relative to a “no-agreement” baseline.

# Model structure, data

Structure	<ul style="list-style-type: none"><li>• Multi-country, multi-sector general equilibrium model of the world economy.</li><li>• Monopolistic competition with heterogeneous firms. The model generates significant productivity gains in addition to welfare triangles.</li><li>• The evolution of economies over time is simulated with annual solutions, allowing for the analysis of changes in investment paths.</li></ul>
Data	GTAP 2004 database updated with IMF and other growth projections and additional protection data
Tariffs	GTAP tariff data
NTBs	Tariff equivalents from World Bank estimates
Services	Tariff equivalents from PIIE estimates
Investment	To be introduced exogenously as additions to capital stock and improvements in productivity. Investment effects will be based on gravity model studies.

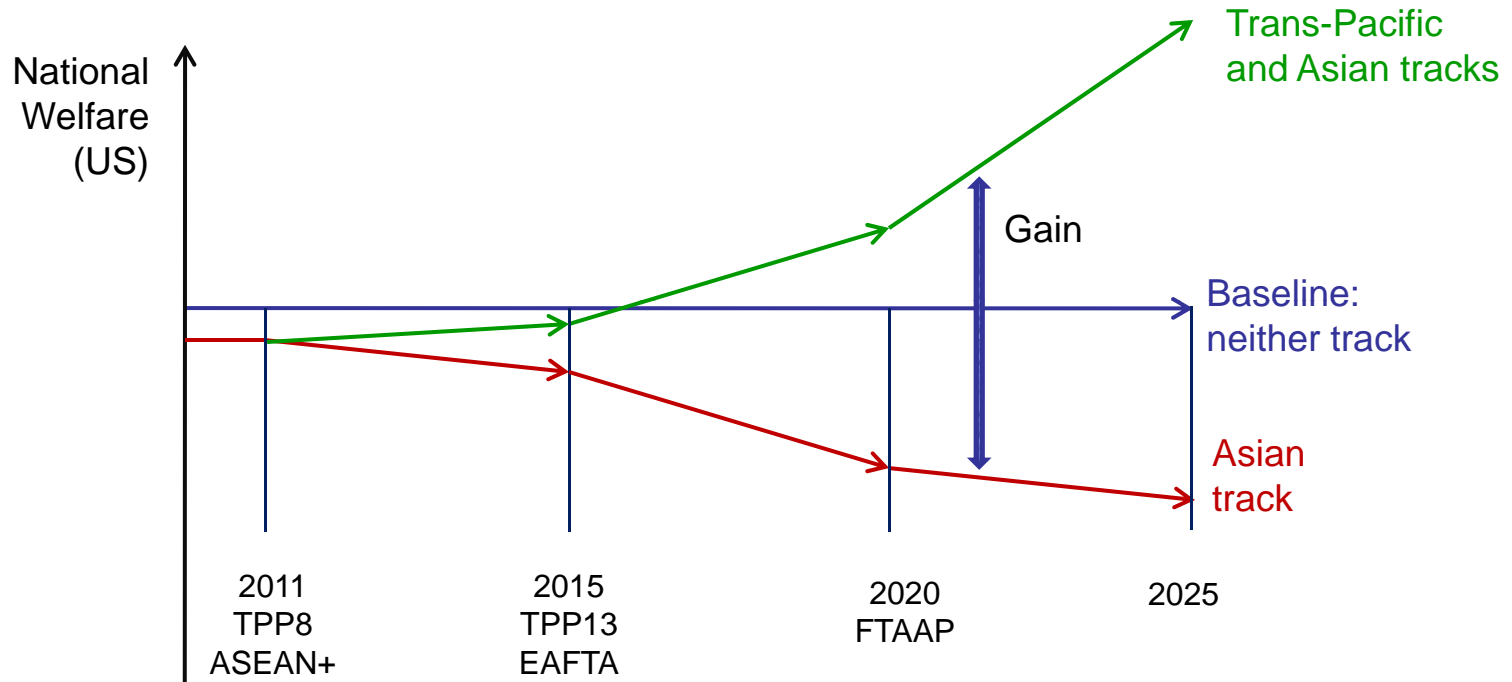
**References.** Fan Zhai, "Preferential Trade Agreements in Asia: Alternative Scenarios of 'Hub and Spoke'". Asian Development Bank, 2006; Fan Zhai, "Armington meets Melitz: introducing firm heterogeneity in a global model of trade," *Journal of Economic Integration*, 2008; Zakariah Rashid, Fan Zhai, Peter A. Petri, Michael G. Plummer and Chia Siow Yue, "Regional Market for Goods, Services and Skilled Labor," in Michael G. Plummer and Chia Siow Yue, eds. *Realizing the ASEAN Economic Community*, ISEAS, 2009.

# Dynamic scenarios



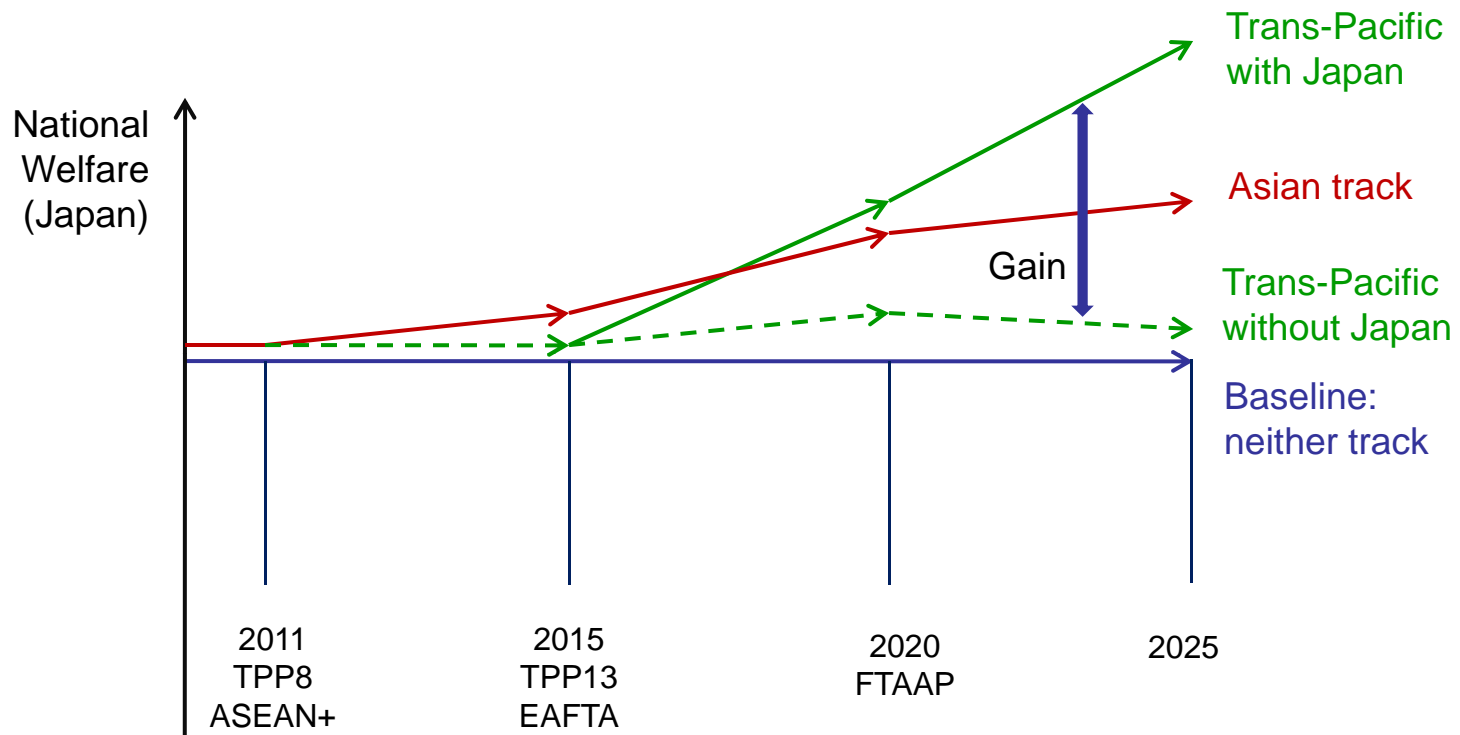
\* Malaysia's participation in the first round negotiations will be introduced in future revisions.

# US incentive



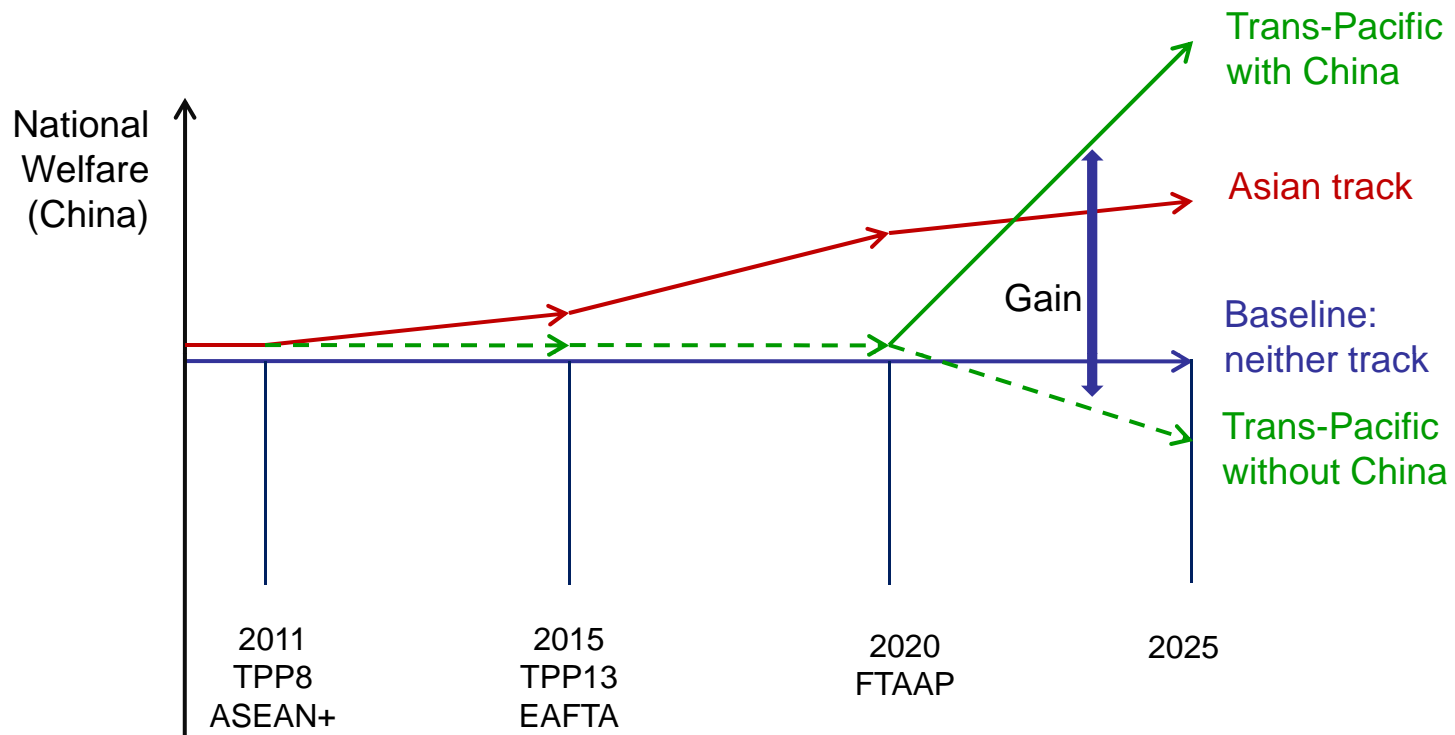
The US is assumed to join in 2011. We expect slight gains as the TPP is formed and substantial gains as additional economies join and the FTAAP is established.

# Japan incentive



Japan is assumed to join in 2015. We expect slight losses as the TPP is formed and substantial gains once Japan joins and the FTAAP is established.

# China incentive



China is assumed to join in 2020. We expect rising losses as the TPP is formed and expanded and substantial gains (perhaps greater than for any other economy) as China joins and the FTAAP is established.

### III. Preliminary results

1. The Trans-Pacific track generates substantial benefits for North and South American economies and solid incremental gains for Asian economies over the Asian track
2. On the trans-Pacific track, US benefits reach 1½ % of GDP
3. Small, open economies (e.g. Vietnam) gain most in percentage terms
4. Dynamics matter: moving from TPP8 to TPP13 roughly quintuples the gains, and moving from TPP13 to FTAAP further doubles the gains
5. US export and output gains are concentrated in services and agriculture rather than manufacturing
6. Even Asian liberalization alone will generate benefits for the US, albeit on a small scale, due to terms of trade gains that result from Asian productivity improvements
7. Trade in some agricultural products could rise dramatically under 100% liberalization, hence political feasibility might require some exceptions
8. Increases in IP protection and foreign direct investment (not yet modeled) could yield significant additional benefits



# Annexes

- A. Intra-Asian agreements
- B. Trans-Pacific agreements
- C1 Region classification (full)
- C2 Region classification (exploratory)
- D. Sector classification (exploratory)
- E. FTA implementation (preliminary assumptions)

## A. Intra-Asian\* agreements

Name	Economies	Signed	Model**
APTA (Bangkok)	Philippines, Korea, Thailand	1975	-
ANZCERTA	Australia, New Zealand	1983	2010
ASEAN	ASEAN	1992	½ 2010 & ½ 2015
-	New Zealand, Singapore	2000	2010
-	Japan, Singapore	2002	2010
-	China, Hong Kong	2003	2010
-	Australia, Singapore	2003	2010
-	Australia, Thailand	2004	2010
ACFTA	ASEAN, China	2004	2010
-	Japan, Malaysia	2005	2010
-	Korea, Singapore	2005	2010
-	New Zealand, Thailand	2005	2010
-	Japan, Philippines	2006	2015
AKFTA	ASEAN, Korea	2006	2015
PTA-D-8	Indonesia, Malaysia	2006	2015
JBEPa	Japan, Brunei	2007	2015
JTEPA	Japan, Thailand	2007	2015
RIJEPA	Japan, Indonesia	2007	2015
-	China, Singapore	2008	2015
-	New Zealand, China	2008	2015
AJCEPA	ASEAN, Japan	2008	2015
-	Malaysia, New Zealand	2009	2015
AANZFTA	ASEAN, Australia, New Zealand	2009	2015
-	New Zealand, Hong Kong	2010	2015
EFCA	China, Taiwan	2010	2015

\* Among APEC members. Source: ESCAP database, July 20, 2010.

\*\* Full implementation date; if >2010 then phased in over previous 5 years.

## B. Trans-Pacific\* agreements

Name	Economies	Signed	Model**
BTA	United States, Vietnam	2000	-
-	Korea, Chile	2003	2010
-	United States, Singapore	2003	2010
AUSFTA	Australia, United States	2004	2010
-	Japan, Mexico	2004	2010
-	China, Chile	2005	2010
TRANS-PACIFIC SEP	Brunei, Singapore, New Zealand, Chile	2005	2010
-	Japan, Chile	2007	2015
KORUS	Korea, United States	2007	2015
-	Australia, Chile	2008	2015
-	Singapore, Peru	2008	2015
-	China, Peru	2009	2015

\* Among APEC members. Source: ESCAP database, July 20, 2010.

\*\* Full implementation date; if this date is after 2010, then the agreement is assumed to be phased in over the previous 5 years.

# C1. Region classification (full)

	P4	TPP8	TPP13	FTAAP	ASEAN+	EAFTA+
1 Australia		•	•	•	0	0
2 Brunei	•	•	•	•	•	•
3 Canada			•	•	•	•
4 Chile	•	•	•	•	•	•
5 China				•	0	•
6 Chinese Taipei				•		
7 Hong Kong, China				•	0	•
8 India					0	0
9 Indonesia				•	•	•
10 Japan			•	•	0	•
11 Korea			•	•	0	•
12 Malaysia			•	•	•	•
13 Mexico			•	•		
14 New Zealand	•	•	•	•	0	0
15 Peru		•	•	•		
16 Philippines				•	•	•
17 Singapore	•	•	•	•	•	•
18 Thailand				•	•	•
19 United States		•	•	•		
20 Vietnam		•	•	•	•	•
21 Other ASEAN*				•	•	•
22 Russia				•		
23 European Union						
24 Rest of the World						

- \* Cambodia, Lao, Myanmar.
- Member of FTA group.
- o Bilateral agreement with FTA group.

## C2. Region classification (exploratory)

	P4	TPP8	TPP13	FTAAP	ASEAN+	EAFTA+
1 Australia		•	•	•	0	0
2 Brunei	•	•	•	•	•	•
3 Canada			•	•	•	•
4 Chile	•	•	•	•	•	•
5 China*				•	0	•
6 Chinese Taipei				•		
7 Japan			•	•	0	•
8 Korea			•	•	0	•
9 Malaysia			•	•	•	•
10 Mexico			•	•		
11 New Zealand	•	•	•	•	0	0
12 Peru		•	•	•		
13 Singapore	•	•	•	•	•	•
14 United States		•	•	•		
15 Vietnam		•	•	•	•	•
16 Other ASEAN**				•	•	•
17 Russia				•		
18 Rest of the World						

\* PRC, Hong Kong.

\*\* Cambodia, Indonesia, Lao, Myanmar, Philippines, Thailand.

- Member of FTA group.
- o Bilateral agreement with FTA group.

## D. Sector classification (exploratory)

	Sector	Model code	Codes included
1	Paddy rice	pdcr	pdcr
2	Wheat	wht	wht
3	Other agriculture	othag	gro, ocr, lvstk
4	Natural resources	natres	onr, mining
5	Textiles and apparel	texapp	text, apprl
6	Chemicals	chm	chm
7	Metals	Met	met
8	Electrical machinery	Elec	elec
9	Machinery	mach	machine, vehicles
10	Other manufacturing	othmfg	othmfg, food, wod
11	Utilities	Utilt	utilt
12	Construction	cns	cns
13	Trade, transport, comm.	ttc	trade, trsp, cmn
14	Private services	service	fin, isu, prv
15	Government services	govmnt	govmnt

## E. FTA implementation (preliminary assumptions)

- FTAs are phased in linearly over 5 years after signing
- Final bilateral protection in an FTA is reduced by:
  - 90% of initial tariffs and 2/3 of initial NTBs and service barriers in “comprehensive” FTAs (ANZCERTA, all Trans-Pacific track FTAs, ASEAN)
  - 80% of initial tariffs and 1/3 of initial NTBs and service barriers in other FTAs
- Trade covered by multiple FTAs is subject to lowest of potential bilateral protection levels