

# The TPP and the new landscape of world trade

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# The new landscape

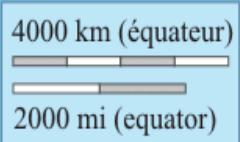
- **Game change:** 3 mega-negotiations
  - Trans-Pacific Partnership (TPP, 12 countries)
  - Regional Comprehensive Economic Partnership (RCEP 16)
  - Trans-Atlantic Trade and Investment Partnership (TTIP, 28)
- **Huge potential:** the tracks are positive-sum games with multi-trillion-dollar gains
- **Positive dynamics:** the tracks stimulate competitive liberalization and perhaps consolidation
- **Terrible public relations!**

Mega-tracks =  
77% world GDP

RCEP  
26%

TPP  
38%

TTIP  
44%



# Status

- **TPP**
  - 16<sup>th</sup> rounds completed
  - Japan to join (90 days?)
  - Negotiators aim for 2013 finish
- **RCEP**
  - Announced in November at ASEAN summit
  - First round scheduled for May 2013
  - Uncertainty about directions
- **TTIP**
  - Announced in February
  - Negotiations to begin in 2013
  - Agree on many important issues, disagree on agriculture

# Seeking a 21<sup>st</sup> century agreement

- **New issues** electronic commerce, state owned enterprises, connectivity, transparency
- **Improve rules** that limit business behind the border
- **Balanced liberalization** to address comparative advantage of emerging and advanced markets—agriculture; manufactured goods, services, investment, IPR
- **Consolidate the “noodle bowl”**

# A contest of templates

- **Asian templates** address comparative advantage of emerging markets—manufactured goods
- **Trans-Pacific/Atlantic templates** address goods and comparative advantage of advanced economies—services, investment, intellectual property
- **Both needed** for 21<sup>st</sup> century trade

# Many problems to solve!

- Services
- Investment: investor-state dispute resolution
- Intellectual property
- Government procurement
- Competitive neutrality of SOEs
- Labor
- Environment
- Agriculture (various products)
- Rules of origin (esp. textiles for Viet Nam)

# An optimistic scenario

## 2010-2015: Competition

- Negotiations compete over templates

## 2015-2020: Implementation

- Other economies join, agreements implemented

## 2020-2025: Consolidation

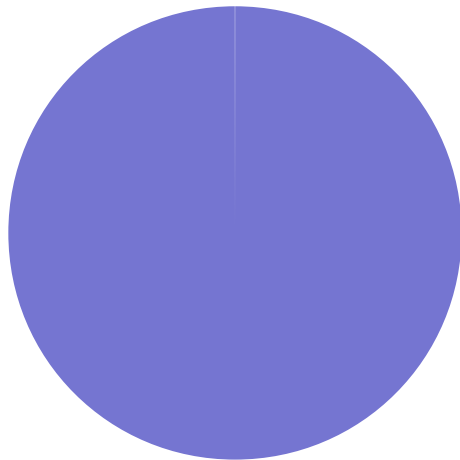
- China/US/EU still lack FTA
- Create Free Trade Area of Asia Pacific?
- Launch new negotiations in WTO?



How big are the benefits?

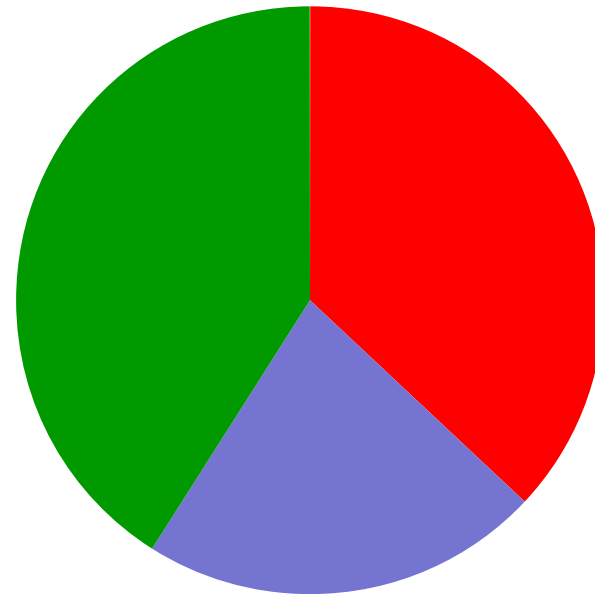
# Estimates of Japan's benefits from TPP

Government  
**0.66% GDP**



■ Tariffs

Petri/Plummer/Zhai  
**1.96% GDP**



■ FDI ■ Old trade ■ New trade

# How did estimates of NAFTA perform?

(percent increase in trade/GDP, 1988-1999)

Variable	Actual	Model
Canadian exports	53	4
Canadian imports	58	4
Mexican exports	141	51
Mexican imports	51	34
US exports	19	3
US imports	30	2

$$\text{Actual} = 23.2 + 2.43 * \text{Model}$$

Source: Kehoe (2005).

# Improved estimating approach

- Ongoing analysis by P. Petri, M. Plummer, F. Zhai  
[www.asiapacifictrade.org](http://www.asiapacifictrade.org)
- Economic model
  - Include tariff, non-tariff barriers, FDI effects
  - 47 existing trade agreements built into baseline
  - Future agreements based on historical examples
  - Novel model: firms differ in productivity

# Sources of Japan's benefits

- Increased FDI, especially services (finance, insurance, trade, transportation)
- Increased productivity, especially services
- Slight increase in manufacturing; shift toward high productivity sectors
- Slight decrease in agriculture; shift toward high productivity sectors

# TPP or RCEP?

(in 2025, \$2007 bill)

	Baseline 2025	Change from baseline		
		TPP12	TPP16	RCEP
Japan	5,338	105 ✓	129	96
Korea	2,117	-3	50	82 ✓
ASEAN	3,635	62	218 ✓	78
World	103,223	223	451	644

✓ Preference

.. but why not both?

# China and the United States

(in 2025, \$2007 bill)

	Baseline 2025	Change from baseline		
		TPP16	RCEP	FTAAP
United States	20,273	108	0	267
China	17,655	-84	297	678
World	103,223	451	644	1,922

√ Preference

.. why not FTAAP?

# Getting through the politics





From The New York Times

# Questions

- **US-China tensions:** are the tracks a zero-sum political game—are they “containing China”?
- **Race:** will the tracks compete and divide the region in two?
- **Regional politics:** do the tracks contribute to “strategic mistrust”?

# Conclusions

- **Let's do it!**
- **Balance** depth of TPP vs. future expansion to other countries
- **Pursue third track** of cooperation with China consistent with eventual FTAAP

For more information:  
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