

RIETI Special Seminar

The New Landscape of World Trade with Mega-FTAs and Japan's Strategy

Handout



Peter A. PETRI

Carl Shapiro Professor of International Finance,
the Brandeis International Business School

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Research Institute of Economy, Trade and Industry (RIETI)
<http://www.rieti.go.jp/en/index.html>

The new landscape of world trade: the TPP and other mega-regionals

Peter A. Petri
Brandeis University

Research Institute of Economy, Trade and Industry
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I. The TPP and world trade

Value of U.S. trade with countries involved in the pact, 2011, in billions*



I. The new landscape of trade

U.S. trade with Trans-Pacific Partnership countries as a share of its total trade, in billions*



*Including Japan, which has not officially joined TPP negotiations; Note: Trade data are for goods. Source: U.S. Census Bureau The Wall Street Journal 3

The mega-regional trade negotiations

77% world GDP

RCEP
26%

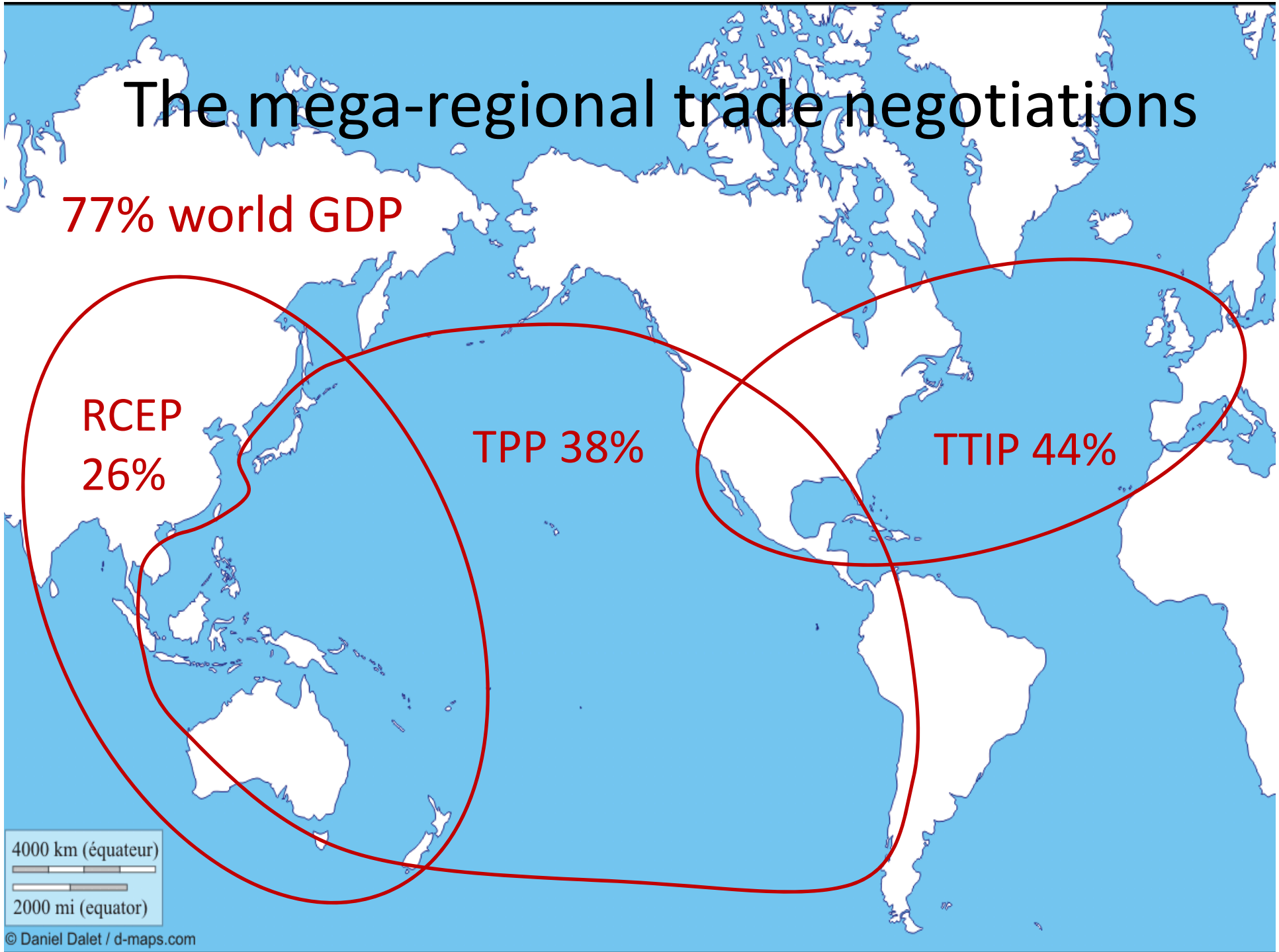
TPP 38%

TTIP 44%

4000 km (équateur)



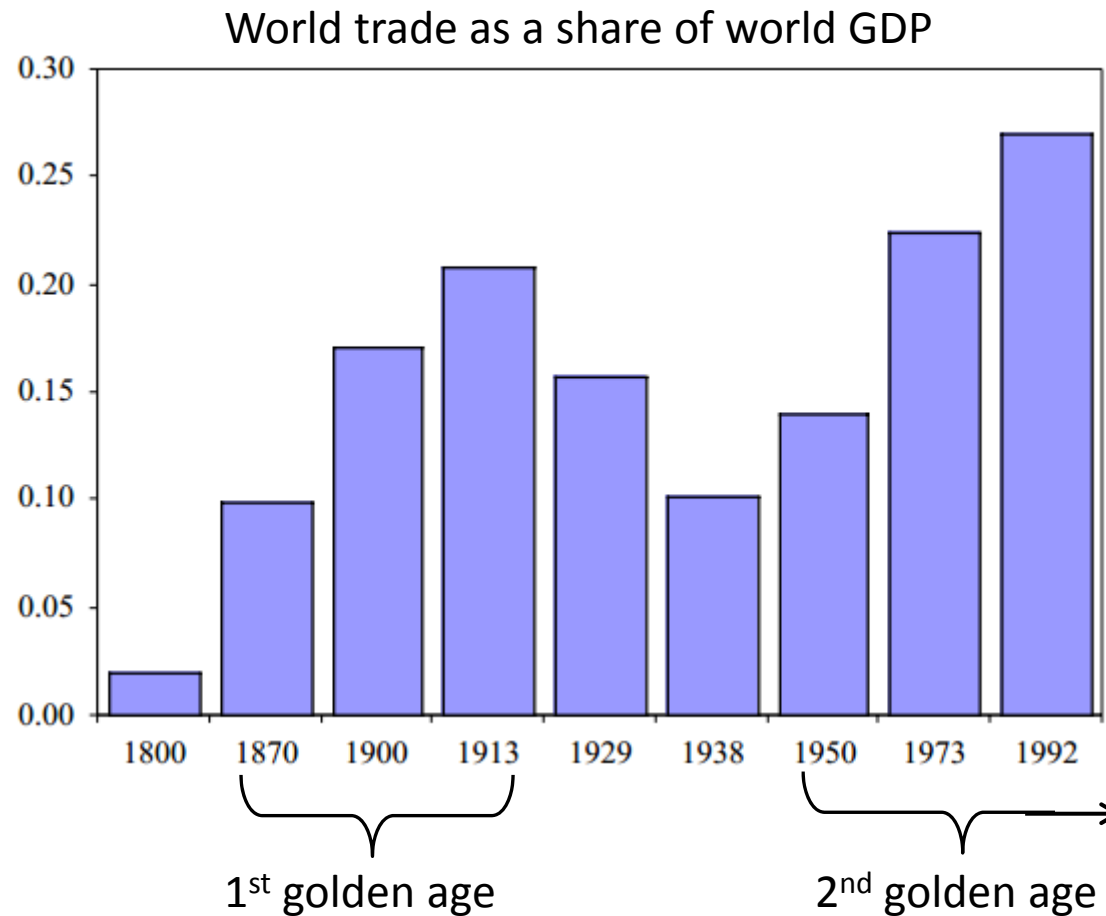
2000 mi (equator)



Why does the TPP matter?

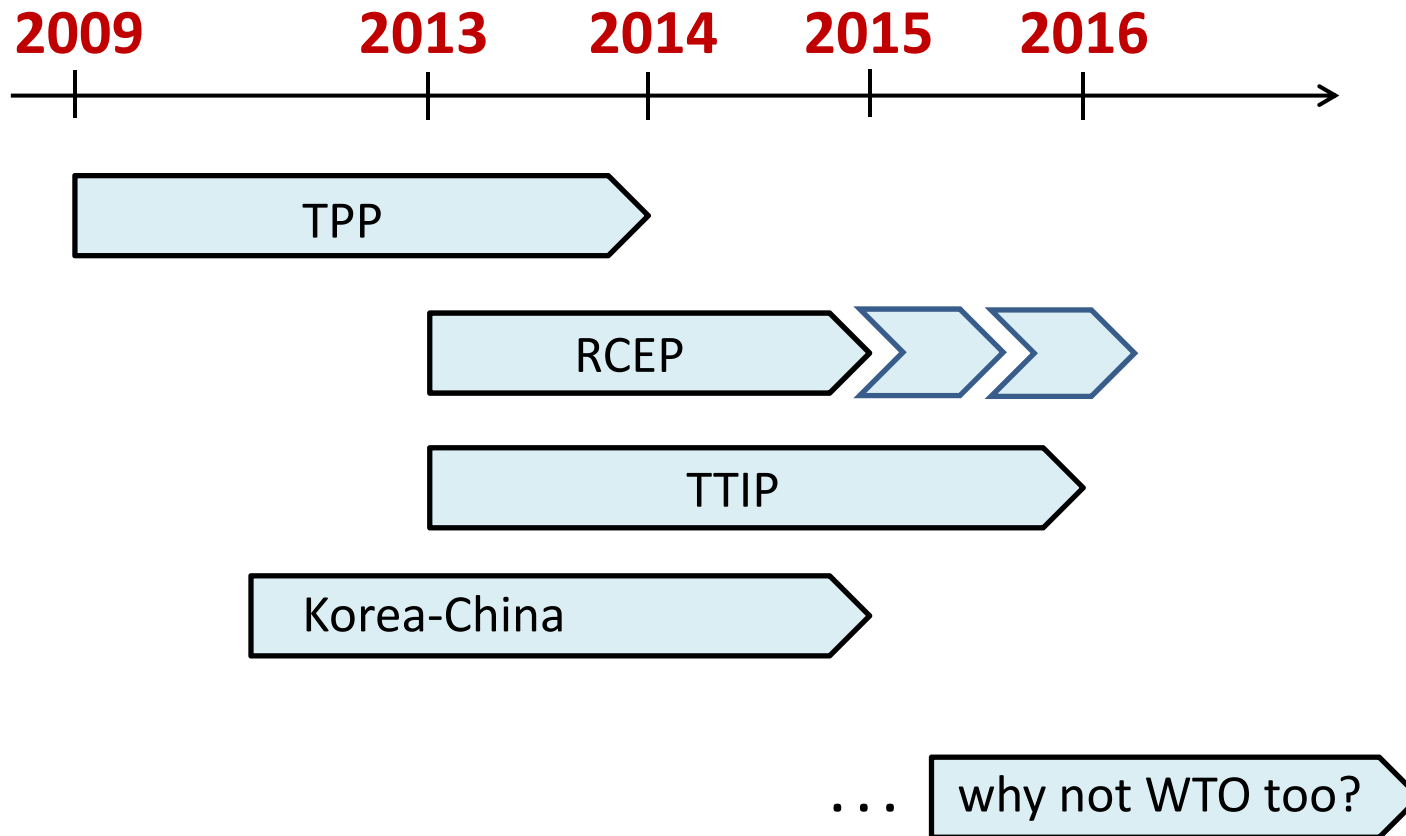
- The TPP is the most advanced of negotiations to create new rules for trade and investment
- Trade agreements are dynamic; if successful, they draw in new countries
- It will take decades to complete a new framework, but the world economy will benefit already in anticipation
- Depending on configuration, there may be big winners and losers

Trade matters



Source: Estevadeordal, Frantz and Taylor (2003)

Optimistic projections



II. The TPP negotiations

**Nothing is agreed until
everything is agreed.**

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Contest for 21st century template

- New issues
 - supply chains
 - internet
 - rise of emerging markets, esp. China
- Who will benefit?
 - advanced countries: services, IPR, investment
 - emerging countries: manufacturing, technology
- Addressing the world “behind the border”
 - regulations, product and safety standards, customs procedures, IPR, investment rules, labor, environment

Points of contention

Area	Provisions
Intellectual property	More protection, access to national health systems
Agriculture	Tariffs on sensitive products (rice, dairy, sugar)
Investment	Reduce restrictions on FDI, ISDS
Services	Improved access in many services
Government procurement	“Buy national” policies, including at local level
Rules of origin	“Yarn forward” rules that benefit garments
Electronic commerce	No taxes and restrictions on data transfer
Tariffs	Eliminate most tariffs, reduce peaks
State-owned enterprises	Level playing field for SOEs
Labor	ILO Declaration of Rights, including right to organize
Environment	International environmental treaties

Modeling the effects

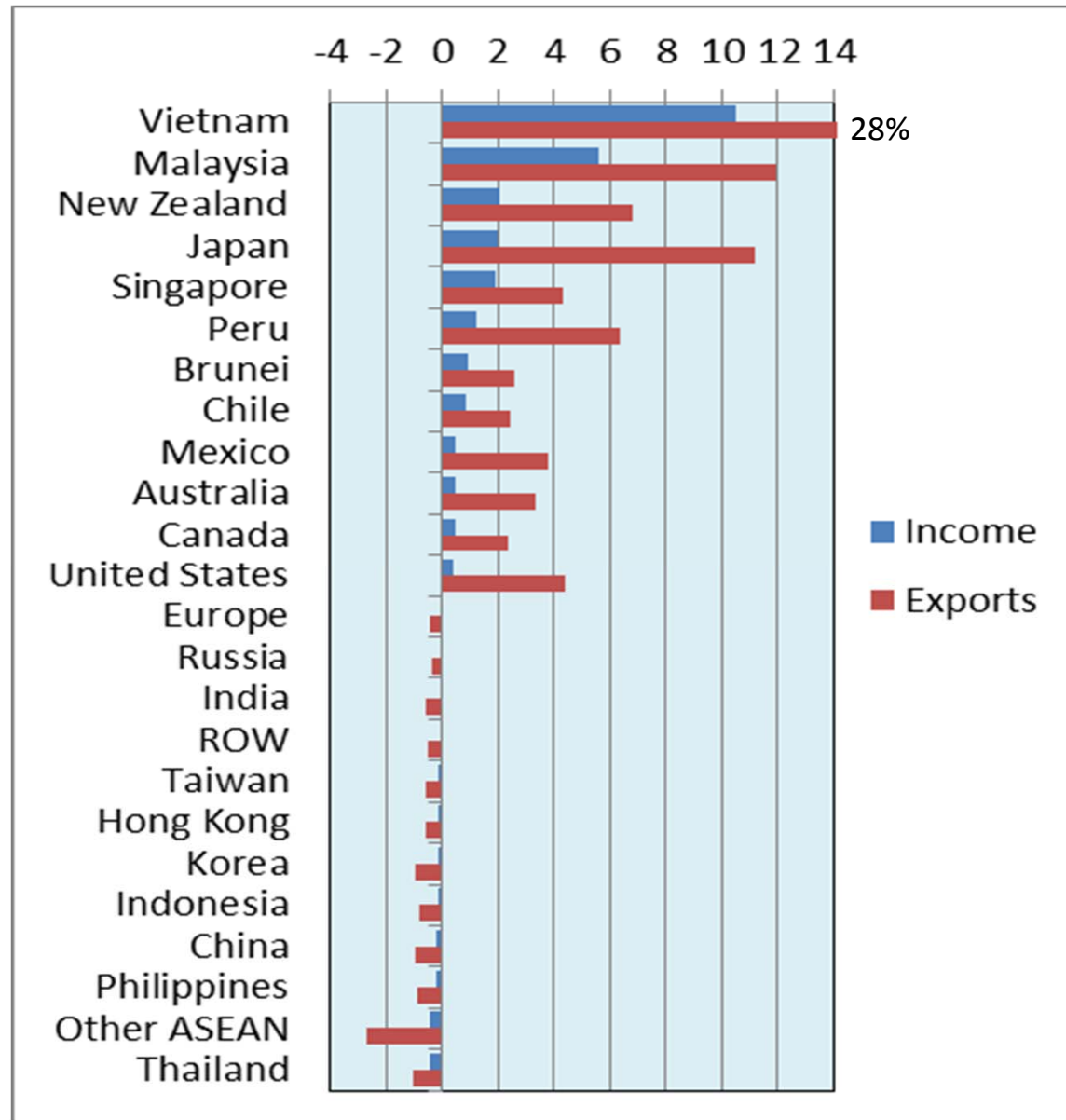
It's difficult, uncertain, and subject to error!

- Joint project with Michael Plummer, Fan Zhai
- Novel Computable General Equilibrium Model (CGE) with 24 regions, 18 sectors
- Start with 2010-2025 baseline projection
- Shock model by removing barriers (tariffs, non-tariff measures, investment barriers)

Income gains for big countries, 2025(\$b)

	Japan	United States	China	World
TPP12	105	77	-35	223
TPP16	129	108	-82	451
RCEP	96	-0	250	644
FTAAPX	228	295	700	2,280

Potential income and export effects (%)



Output changes: countries and sectors

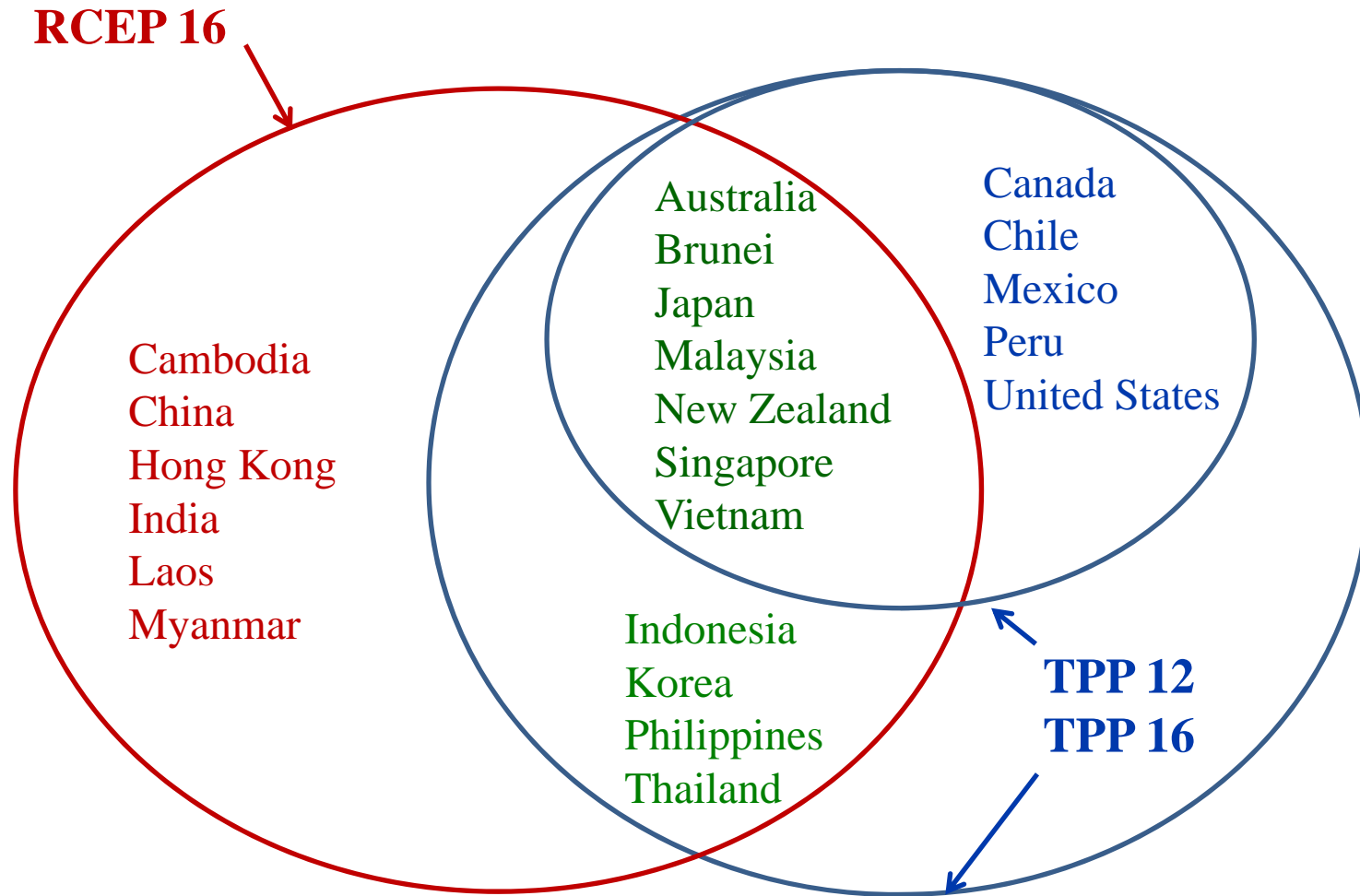
(change in value added with TPP12, %)

	Rice	Wheat	Agriculture Other	Minerals	Food, Beverages	Textiles	Apparel, Footwear	Chemicals	Metals	Electrical Equip.	Machinery	Transport Equip.	Misc Manufactures	Utilities	Construction	Trade, Transport, Comm.	Private Services	Gov't s.
Australia	3	0	2	0	2	-2	0	-2	1	-2	-3	-12	0	0	1	1	0	0
Brunei	0	0	0	1	-2	25	10	0	0	-3	0	-9	0	0	0	0	-1	0
Canada	1	0	3	0	1	-3	-10	1	1	2	1	-2	2	0	0	0	0	0
Chile	2	2	2	-1	1	5	-4	-2	1	-1	7	2	12	2	1	0	-1	0
Japan	-5	-40	-6	-2	1	12	-5	2	2	0	4	14	-1	2	2	1	0	2
Malaysia	1	0	1	-2	-2	18	42	2	4	23	23	-9	10	4	7	3	-9	4
Mexico	0	7	0	2	0	-9	-17	0	1	0	3	1	-1	0	2	1	-2	-1
New Zealand	0	-4	3	-1	4	-1	-2	-2	2	-3	4	-23	0	1	2	1	1	1
Peru	1	-5	0	2	1	1	1	6	1	-6	-7	-18	-10	1	1	2	1	0
Singapore	2	0	2	0	2	7	-2	4	0	9	3	-3	0	2	3	0	-1	2
United States	3	0	1	-1	1	-6	-12	-1	-1	2	-2	-3	-1	0	1	1	1	0
Vietnam	7	0	4	-7	-1	49	62	0	-7	18	20	-5	15	14	21	4	-10	7

Sources of economic gains

- Higher productivity
 - Inter-sectoral shifts to more productive sectors
 - Intra-sectoral shifts to more productive firms
 - Higher real wages
- More variety
 - More choice for consumers and producers
- Increased international investment
 - Fewer restrictions > better technologies/management

How the TPP might grow



And China?

Officially...

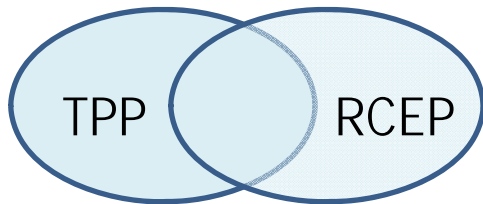
- China has become neutral toward TPP
- US interest is focused on Investment Treaty

Unofficially...

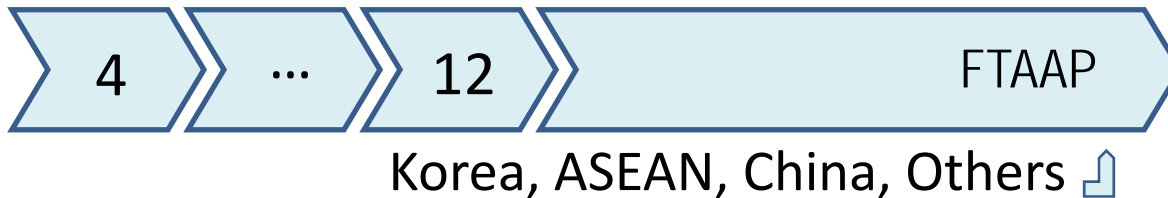
- Possibilities for very large gains—and difficult adjustments
- Framework for resolving tensions
- What would it take to make it work?

Where are we heading?

- Rival templates?



- Pathway?



- Consolidation?



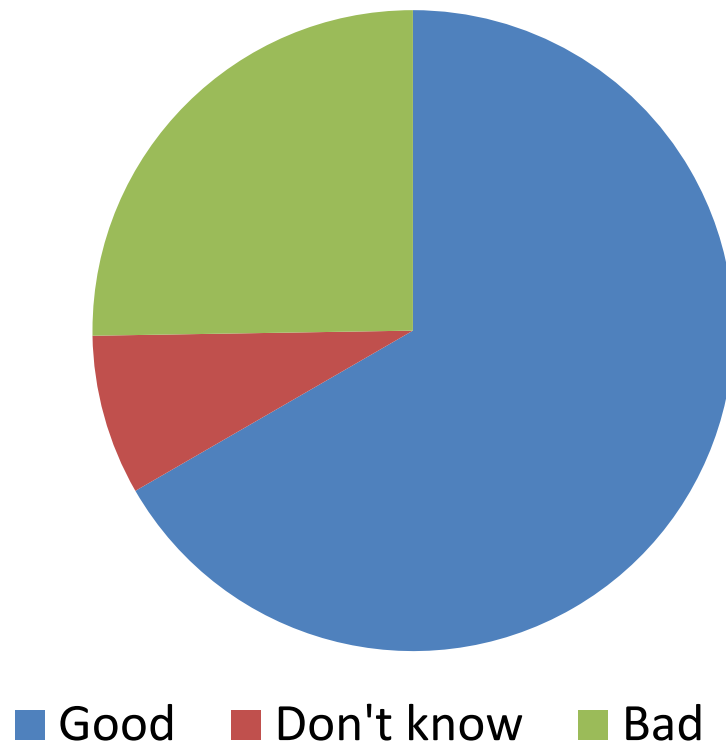
III. The politics

The status

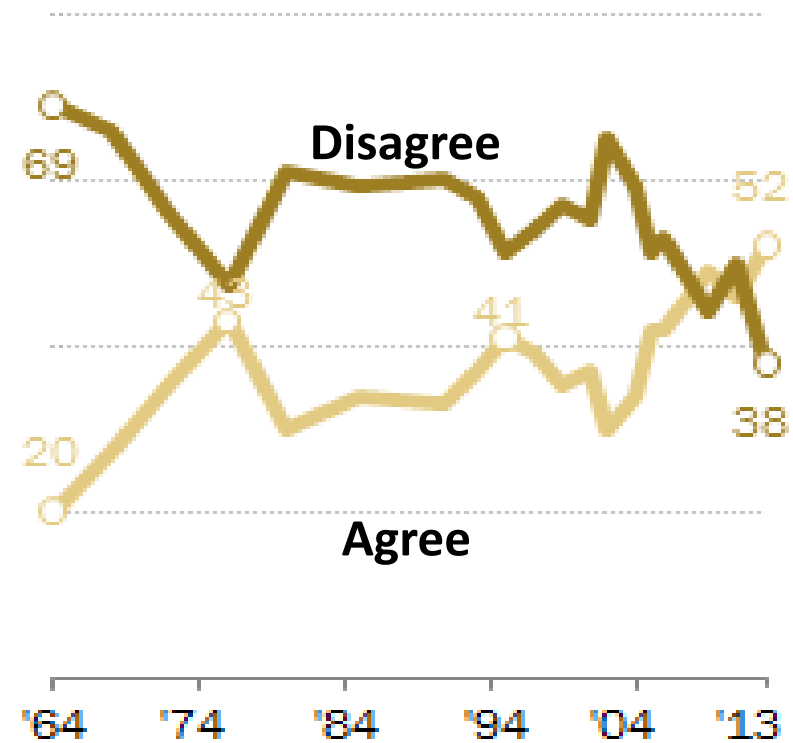
- US administration
 - President listed trade as priority in State of the Union
 - USTR pushing hard on conclusion
- Trade Promotion Authority
 - Bipartisan bill is before the Senate Finance Committee
 - Republican leadership has indicated support
 - Democratic leadership has declined support
 - Lots of activity, uncertainty...
- Timing
 - Before President's trip in April?
 - After the election in November?

US public: conflicted internationalism

Is US involvement in global economy good?

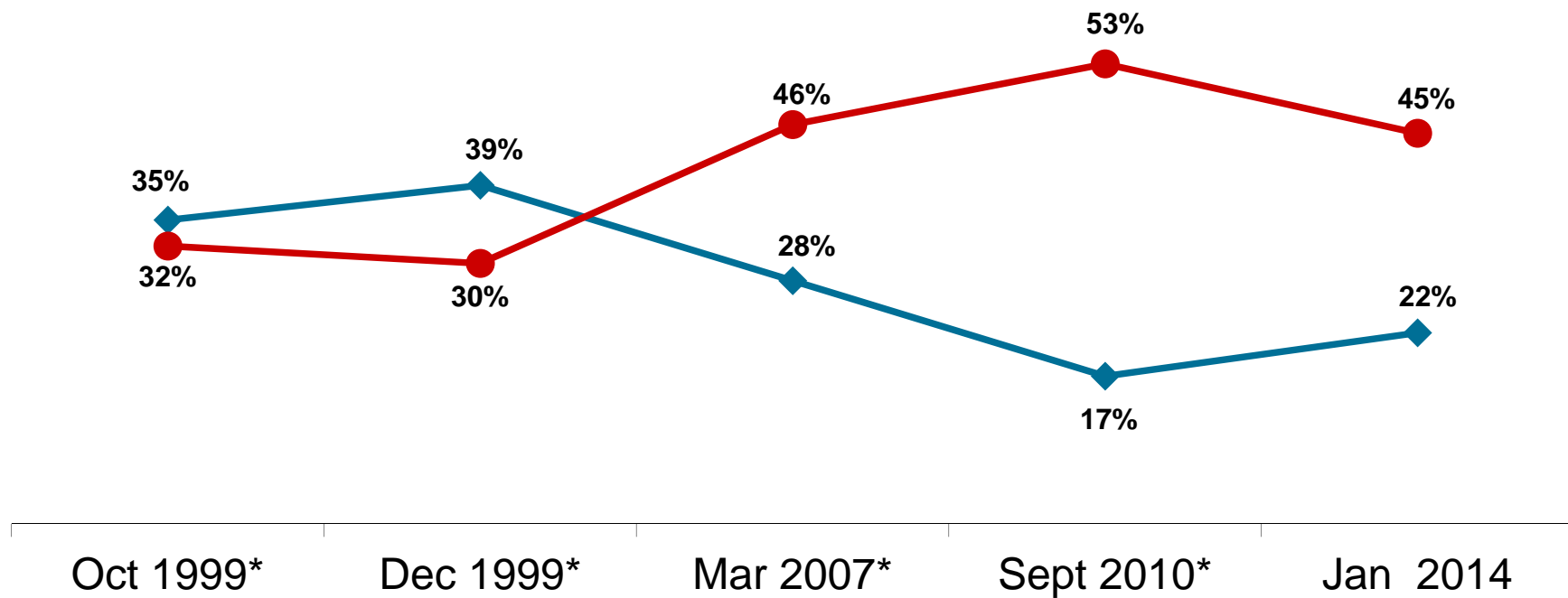


Should US just mind its own business?



Do Free Trade Agreements help?

- ◆ FTAs have helped US
- FTAs have hurt US



* Hart-McInturff for *NBC NEWS/The Wall Street Journal*

What's wrong with the TPP?

- Negative impact on jobs? **52%** vs. 30%
- Negative impact on wages? **56%** vs. 21%
- Worse environment? **48%** vs. 18%
- Unsafe food? **63%** vs. 18%
- Helps large corporations? **72%** vs. 12%
- Helps small businesses? 24% vs. **64%**

Hart Research/Chesapeake Consulting, January 2014.

What's going on?

- **Puzzles**
 - Active ideological opposition
 - Feeds into popular pessimism, anxiety, uncertainty
- **Explanation 1: Bad timing**
 - Great Recession
 - Technological trends
 - Era of large deficits
- **Explanation 2: Political dysfunction**
 - Decline of authority
 - The lobbyist – activist industry
 - Internet “echo chambers”

More information

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

Policy Analyses in International Economics 98

by Peter A. Petri , Michael G. Plummer and Fan Zhai

Peterson Institute of International Economics, November 2012

Understanding the Trans-Pacific Partnership

Policy Analyses in International Economics 99

by Jeffrey J. Schott, Barbara Kotschwar and Julia Muir

Peterson Institute of International Economics, January 2013

The Trans-Pacific Partnership: A Quest for a Twenty-first Century Trade Agreement

Edited by C. L. Lim, Deborah Kay Elms and Patrick Low

Cambridge University Press, September 2012

Australian government website on TPP:

<http://www.dfat.gov.au/fta/tpp/index.html>

US government trade barriers survey for country/sector issues:

<http://www.ustr.gov/about-us/press-office/reports-and-publications/2013/NTE-FTB>



The screenshot shows the homepage of the Asia-Pacific Trade website. The header features the title "Asia-Pacific Trade" in yellow and orange, with the subtitle "Research reports, results and data" below it. A search bar is located in the top right corner. A navigation menu includes "Home", "Publications", "Results", "Data", "Related work", and "Contact". The main content area is divided into three columns. The left column has a "Home" section with a bar chart titled "Asia-Pacific trade agreements" showing the number of regional and trans-Pacific agreements from 1980 to 2012. The middle column contains introductory text about the website's research focus and principal researchers. The right column has three sections: "New on the site" with updates on book availability and RCEP comparisons; "New on 'Related work'" with links to TPP model and expansion interests; and "Admin" with a login link. A footer box at the bottom left offers an "Overview slide Presentation" by the researchers.

Asia-Pacific Trade

Research reports, results and data

Home Publications Results Data Related work Contact

Home

Asia-Pacific trade agreements

Year	Regional	Trans-Pacific
1980	0	0
1982	0	0
1984	0	0
1986	0	0
1988	0	0
1990	0	0
1992	0	0
1994	0	0
1996	0	0
1998	0	0
2000	0	0
2002	0	0
2004	0	0
2006	0	0
2008	0	0
2010	0	0
2012	0	0

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!

Overview slide Presentation

Peter Petri, Michael Plummer and Fan Zhai

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

- Login

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