RIETI Special Seminar

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

Handout

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Research Institute of Economy, Trade and Industry (RIETI)
The new landscape of world trade: the TPP and other mega-regionals

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Brandeis University
Research Institute of Economy, Trade and Industry
February 2014
I. The TPP and world trade
I. The new landscape of trade
The mega-regional trade negotiations

77% world GDP

RCEP 26%

TPP 38%

TTIP 44%
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

World trade as a share of world GDP

Optimistic projections


TPP

RCEP

TTIP

Korea-China

... why not WTO too?
II. The TPP negotiations
Nothing is agreed until everything is agreed.

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www.miti.gov.my
Contest for 21\textsuperscript{st} 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

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

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Potential income and export effects (%)

- Vietnam: 28%
- Malaysia
- New Zealand
- Japan
- Singapore
- Peru
- Brunei
- Chile
- Mexico
- Australia
- Canada
- United States
- Europe
- Russia
- India
- ROW
- Taiwan
- Hong Kong
- Korea
- Indonesia
- China
- Philippines
- Other ASEAN
- Thailand
Output changes: countries and sectors
(change in value added with TPP12, %)

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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

TPP 12
- Australia
- Brunei
- Japan
- Malaysia
- New Zealand
- Singapore
- Vietnam

TPP 16
- Canada
- Chile
- Mexico
- Peru
- United States

RCEP 16
- Cambodia
- China
- Hong Kong
- India
- Laos
- Myanmar

Indonesia
- Korea
- Philippines
- Thailand
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?

![Diagram showing overlap between TPP and RCEP]

• Pathway?

![Diagram showing progression from 4 to 12, then FTAAP, with Korea, ASEAN, China, Others]

• Consolidation?

![Diagram showing progression from TPP, China – US, RCEP, then FTAAP]
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?
Is US involvement in global economy good?

Should US just mind its own business?

Pew Research, America’s Place in the World 2013
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:

US government trade barriers survey for country/sector issues:
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.

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