

Mega-regionalism and Developing Countries

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*Presentation to Lee Kuan Yew School of Public
Policy, National University of Singapore,
16 November, 2016*

Introductory Comments

- This presentation is based on a project undertaken with Peter Petri for the World Bank, *Global Economic Prospects*
- It includes both qualitative and quantitative analysis of the implications of mega-regionalism
- I would like to split the presentation into three parts:
 - I will begin with context and introduce the TPP
 - I will overview the results of the effects of the TPP from our model, which was built together with Fan Zhai starting in 2009
 - Finally, I will explore implications for Asia-Pacific Cooperation in light of the recent US elections.

Takeaways

- Mega-regional trade agreements (MRTAs) have emerged as a potential force for global economic integration.
- The TPP--the first MRTA of the 21st Century--addresses many traditional and hitherto-neglected impediments to trade and updates rules governing trade.
- We find that on the whole the TPP should be very favorable to developing member-economies:
 - Global welfare gains of \$0.5 trillion, trade gains of \$1 trillion
 - Percent gains are largest for less developed members
 - Modest negative effects on non-members such as China, Taiwan
- Importance of capacity building, active government policies to maximize gains in developing economies
- The fate of the TPP and deepening A-P Cooperation in light of the new Trump Administration is unclear. Still, the strong economic and strategic case for promoting integration remains. But it could be a long four years.

Trade is Good for Growth and Development

- Empirical work over the past two decades confirms that trade has a positive effect on growth and development:
 - Trade leads to growth; trade-induced growth leads to improved employment
 - Particularly relevant to developing economies with unemployment/underemployment and/or large informal sector
 - Trade has important productivity spillovers via exports, imports and links to FDI
 - Trade reduces poverty (Winters, et. al, 2004) but beware context!
 - Production networks driving trade in Asia have great potential to plug LICs into the regional and global markets, help SMEs, and reduce poverty as well
 - Macro environment and other policies that create greater stability and improve the lot of the poor need to be prioritized.
 - Still, importance of active government policies to facilitate adjustment



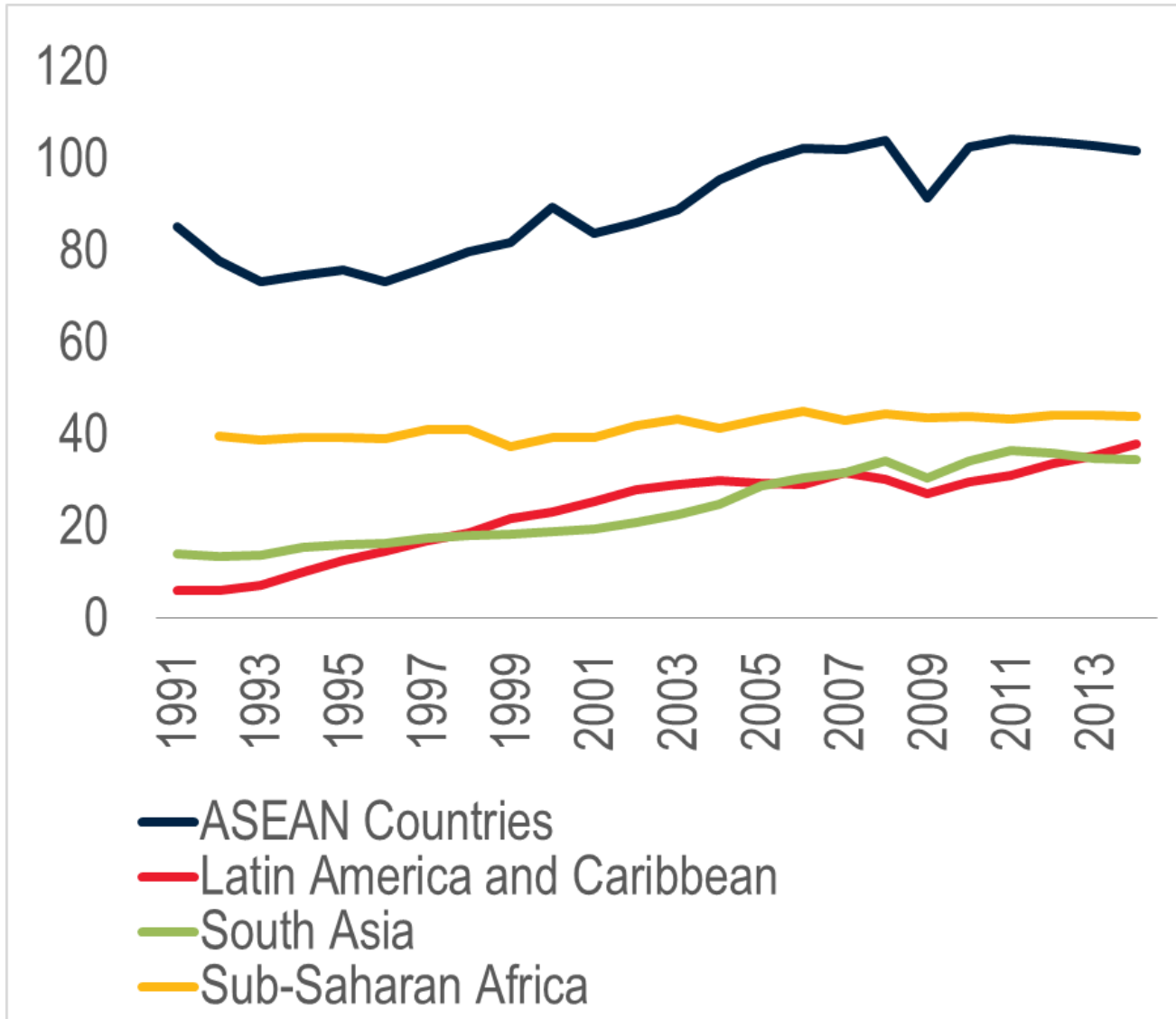
Why megaregionals?

- Doha challenges, strategy and politics --> RTAs
- Spaghetti-bowl consequences --> MRTAs
- Traditional RTA concerns are exaggerated
 - Empirical evidence suggests trade creation over trade diversion
 - Despite RTA trend, global trade and FDI are expanding
- RTAs improve over time
 - Effective RTAs typically grow
 - Competitive liberalization drives RTAs to improve
 - Diversion costs of RTAs stimulate MFN liberalization
- We define MRTAs to be RTAs that have a systemic, global impact
- These are in the A-P (TPP, RCEP, FTAAP), but also TTIP (but as between OECD, we exclude in this talk)

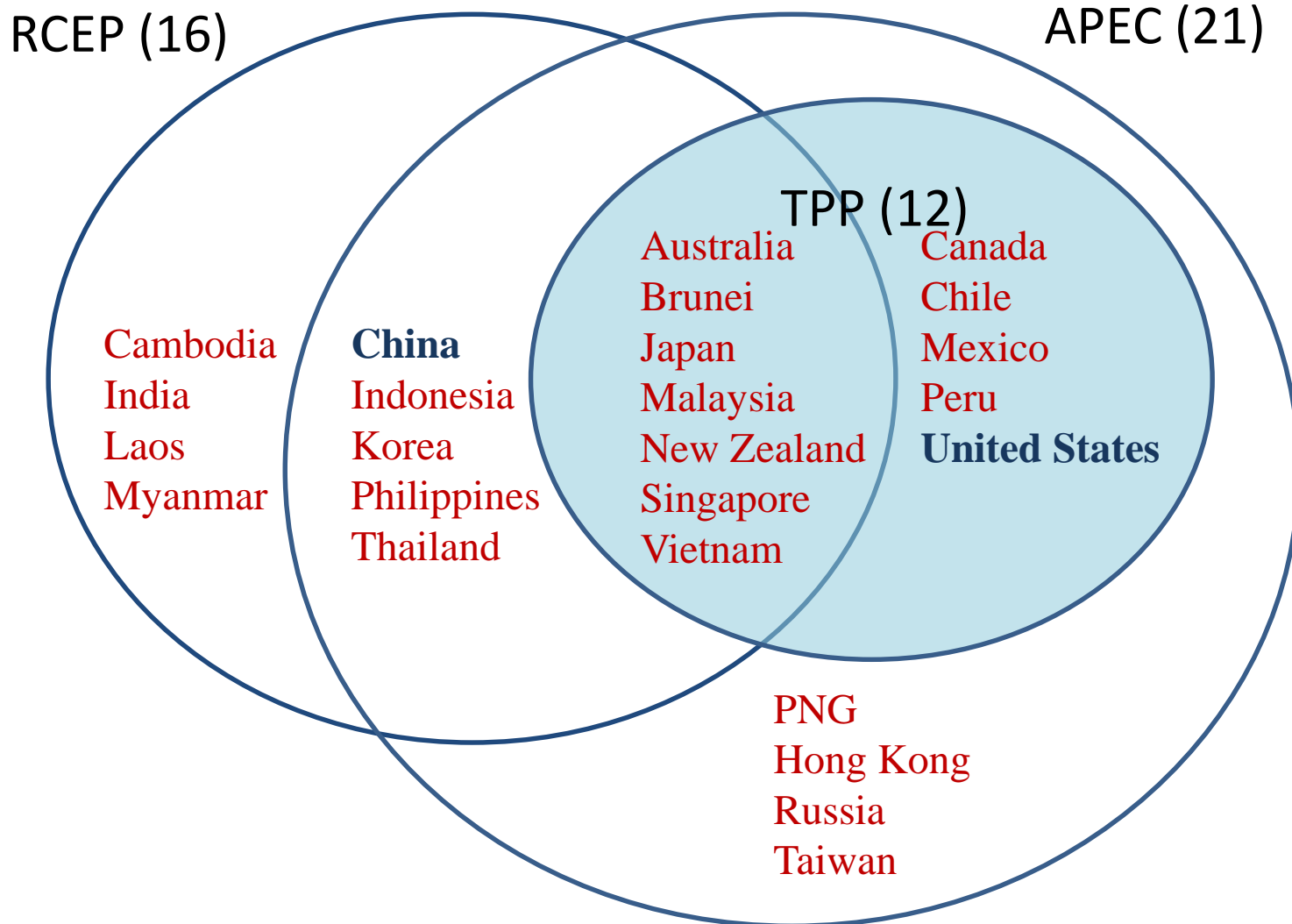
Regional agreements



Trade Shares in GDP



Megaregionals in the Asia Pacific



How did past FTAs affect trade?

Authors	Increase in Intra-trade	Dataset	Special features
World Bank <i>GEP 2005</i> (2005)	120%	17 research studies	Meta-analysis, mostly naïve models
Cippolina & Salvatici <i>REStat</i> (2010)	84%	1460 estimates	Meta-analysis, cross-section and individual RTA studies
Head & Mayer <i>Handbook</i> (2014)	43% - 80%	108 – 257 estimates	Meta-analysis, naïve and structural models
Baier et al. <i>CESifo WP</i> (2016)	70%	1965-2010, every 5 years	Panel, general equilibrium, endogenous, two margins
Egger et al. <i>Am Ec J</i> (2016)	215% - 255%	CEPII 2005	General equilibrium, PPML, endogenous PTA
Limão <i>Handbook</i> (2016)	82%	5-year panel 1965-2010	General equilibrium, dynamic, endogenous PTA

The TPP

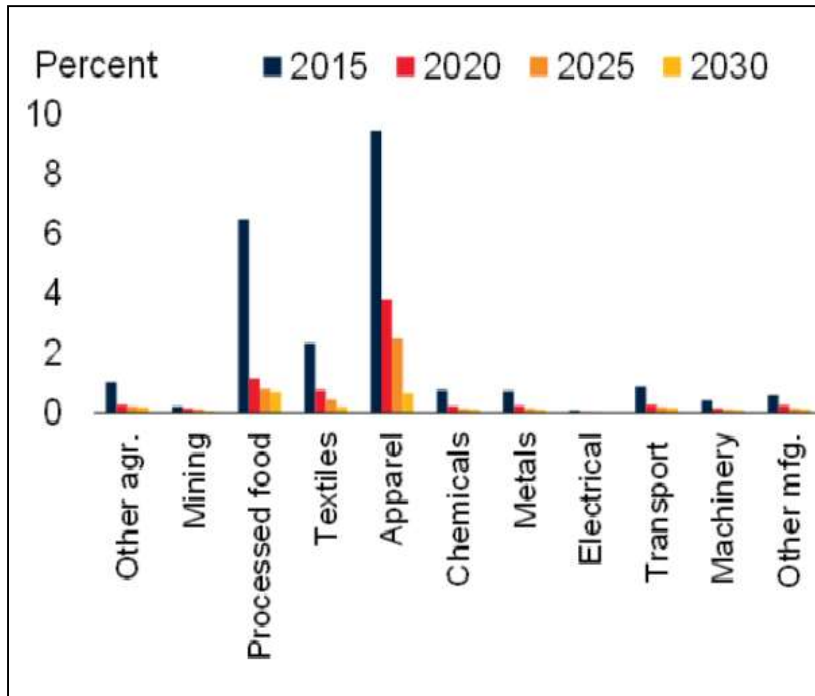
- 75% of nonzero tariffs zeroed immediately, 99% eventually
- ROO allow cumulation, more flexible than in past US FTAs
- Services and investment commitments on negative list basis; improvements over GATS
- Mechanisms to minimize trade impact of SPS, TBT
- Government procurement rules for 7 members not in WTO GPA
- Rules for the digital economy
 - Access to networks
 - No tariffs on digital products
 - Free data transfer, no data localization requirements (except finance)
- IP protection
 - Copyrights: 70 years beyond life of author
 - Criminal penalties for violations on commercial scale
 - Data exclusivity for biologics (5 years rather than 12 as in US)
 - Patent extension for approval delays
- New chapters
 - Trade facilitation (48 hour clearance, express delivery)
 - State-owned enterprises
 - Regulatory coherence (transparency, access), SMEs
- Binding labor and environmental commitments

The modeling approach

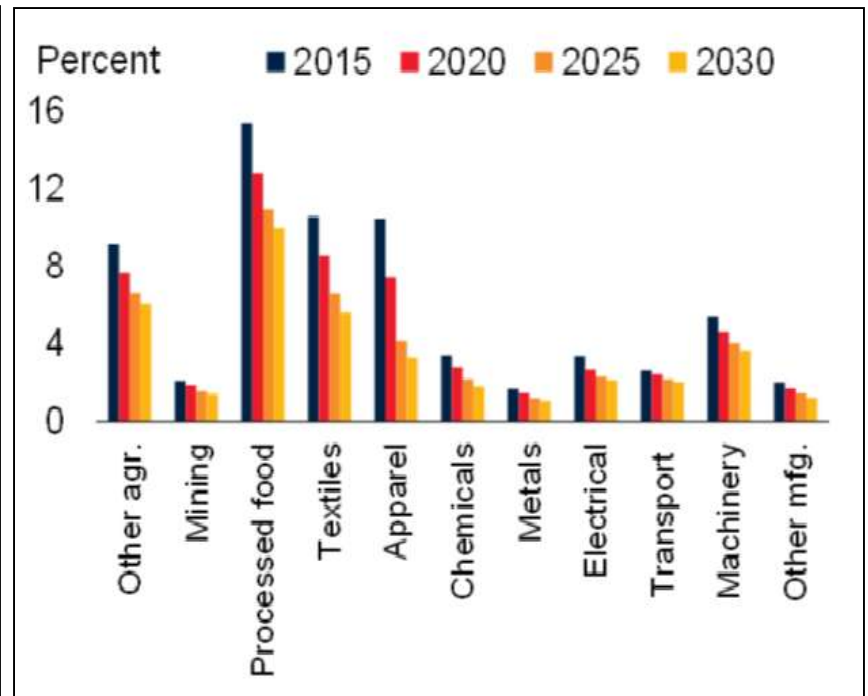
- Standard foundations
 - GTAP 9 data, LINKAGE model, 19 sectors/29 regions
- Modern trade theory
 - Heterogeneous firms, monopolistic competition in sectors generates productivity increases, variety benefits
- Extensive tariff, NTB, trade agreement detail
 - Benefits incremental to prior agreements
 - NTBs from Kee et. al (goods), CEPII (services)
 - Allowance for non-actionable barriers
 - ROO effects, ROO-related costs
 - Trade agreement provisions are scored for effectiveness
 - Actionable barriers reduced in proportion to agreement scores
 - 20% of barrier reductions are non-preferential (“spillovers”)
- Side model for FDI barriers, effects

Projected declines in goods barriers

Tariffs



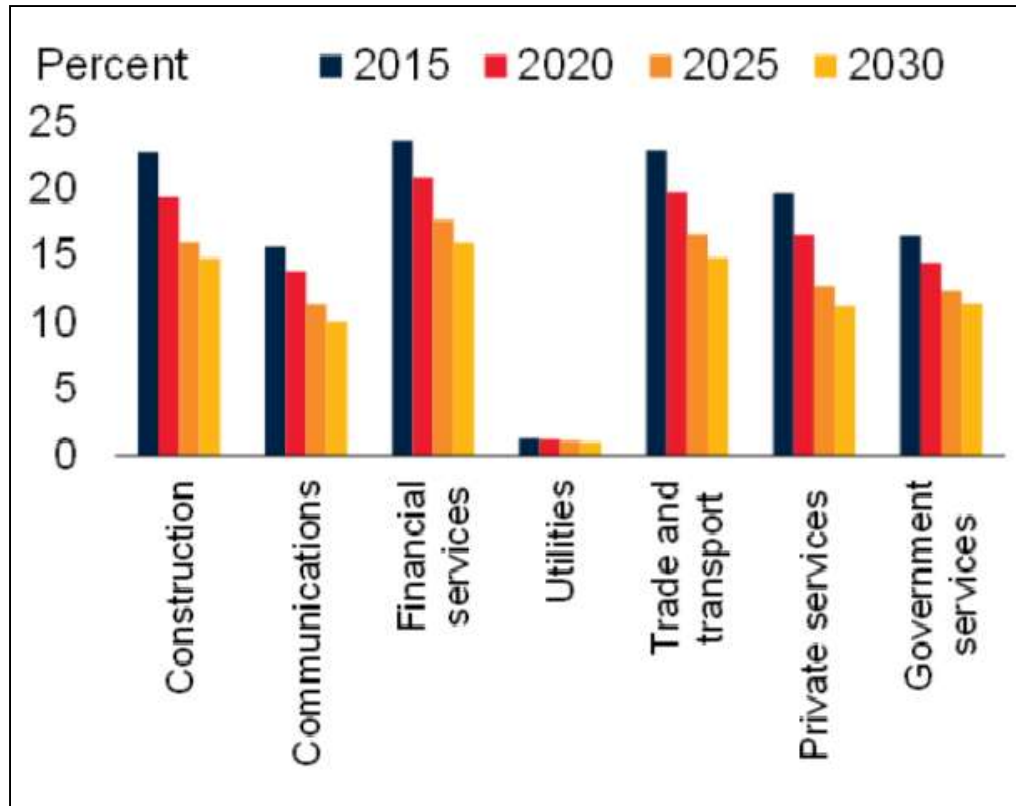
Non-tariff barriers



World Bank GEP 2016

Projected declines in services barriers

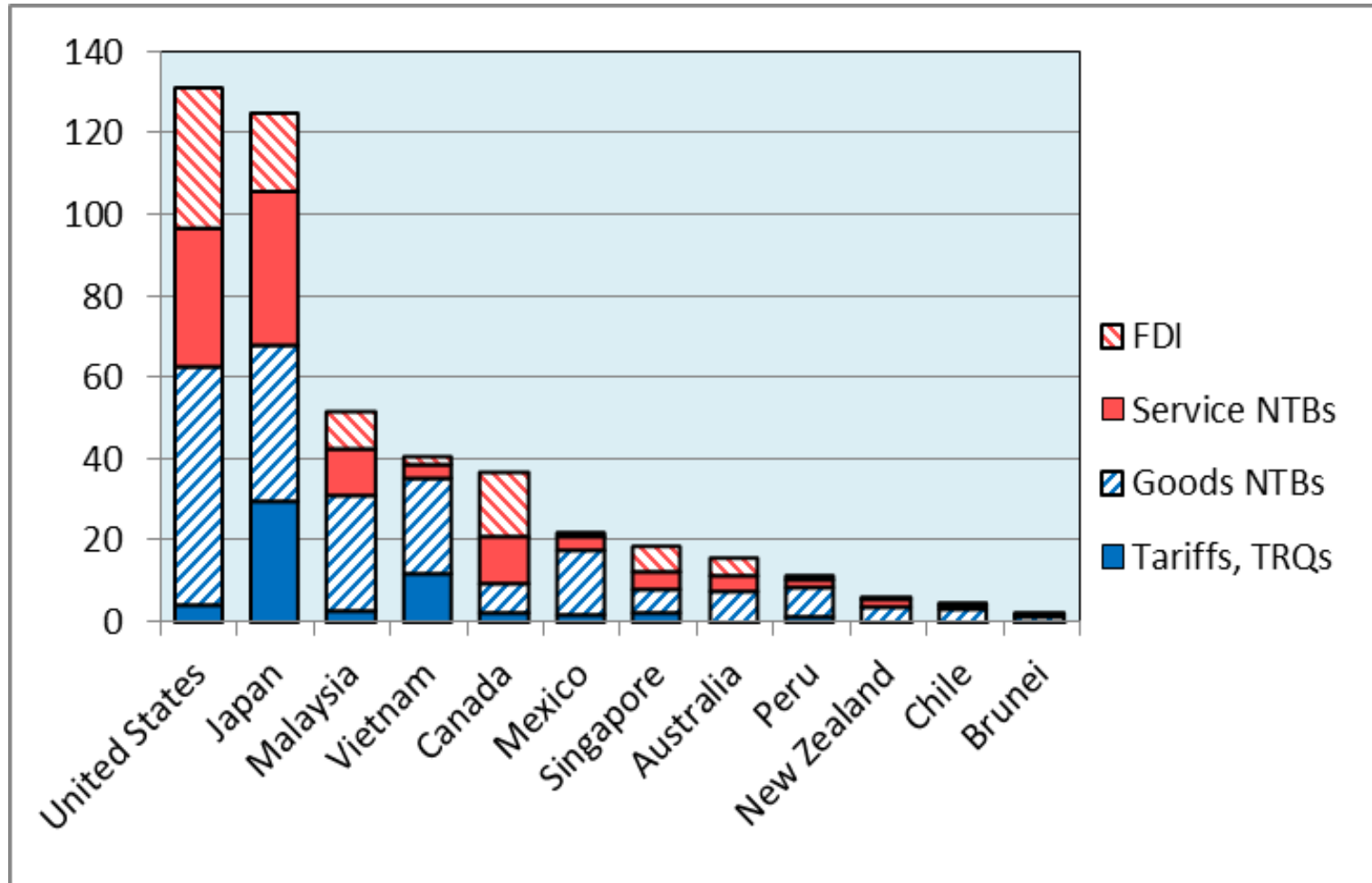
Non-tariff barriers



World Bank GEP 2016

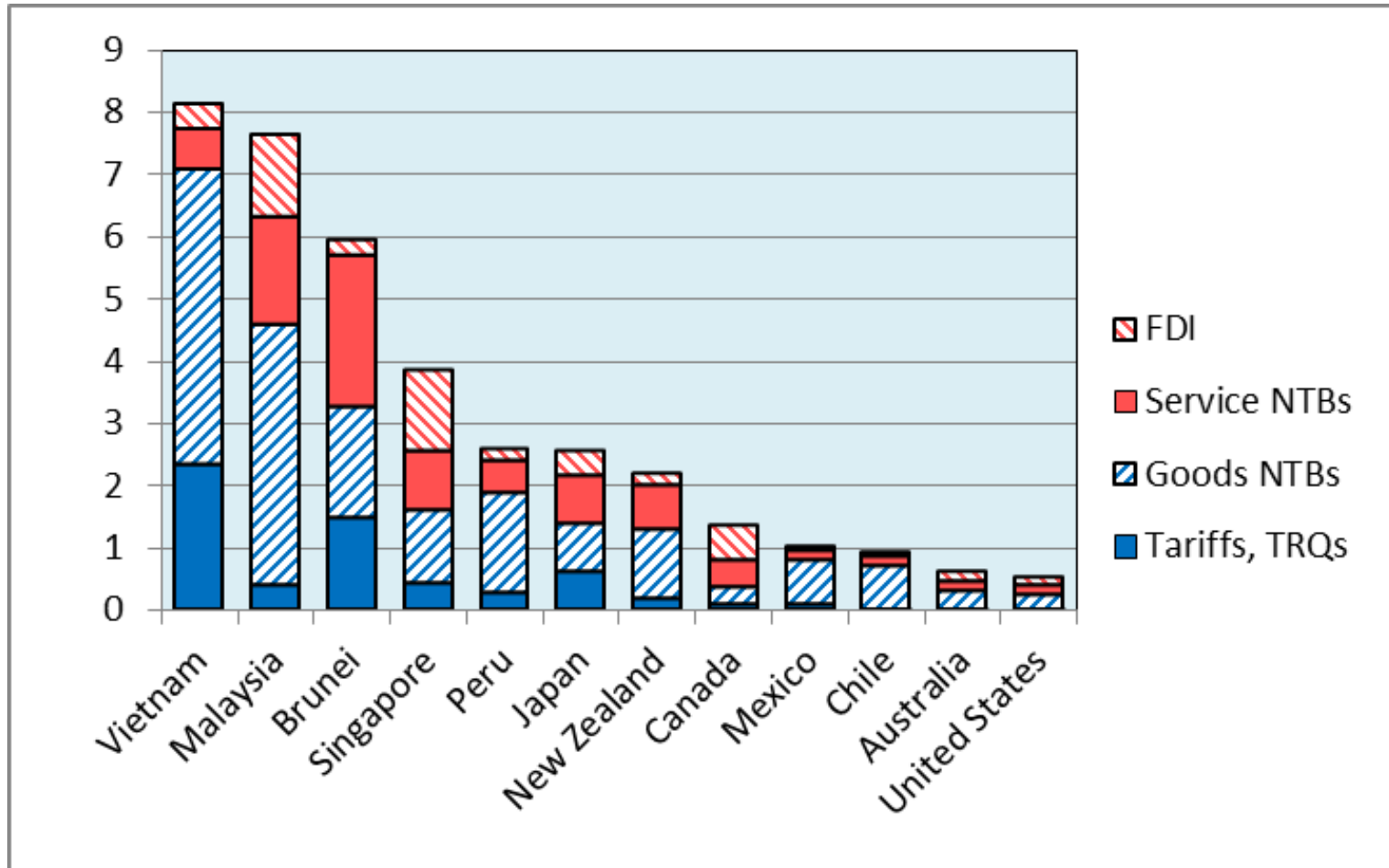
Winners: members

\$billions in 2030



Winners by percentage gains

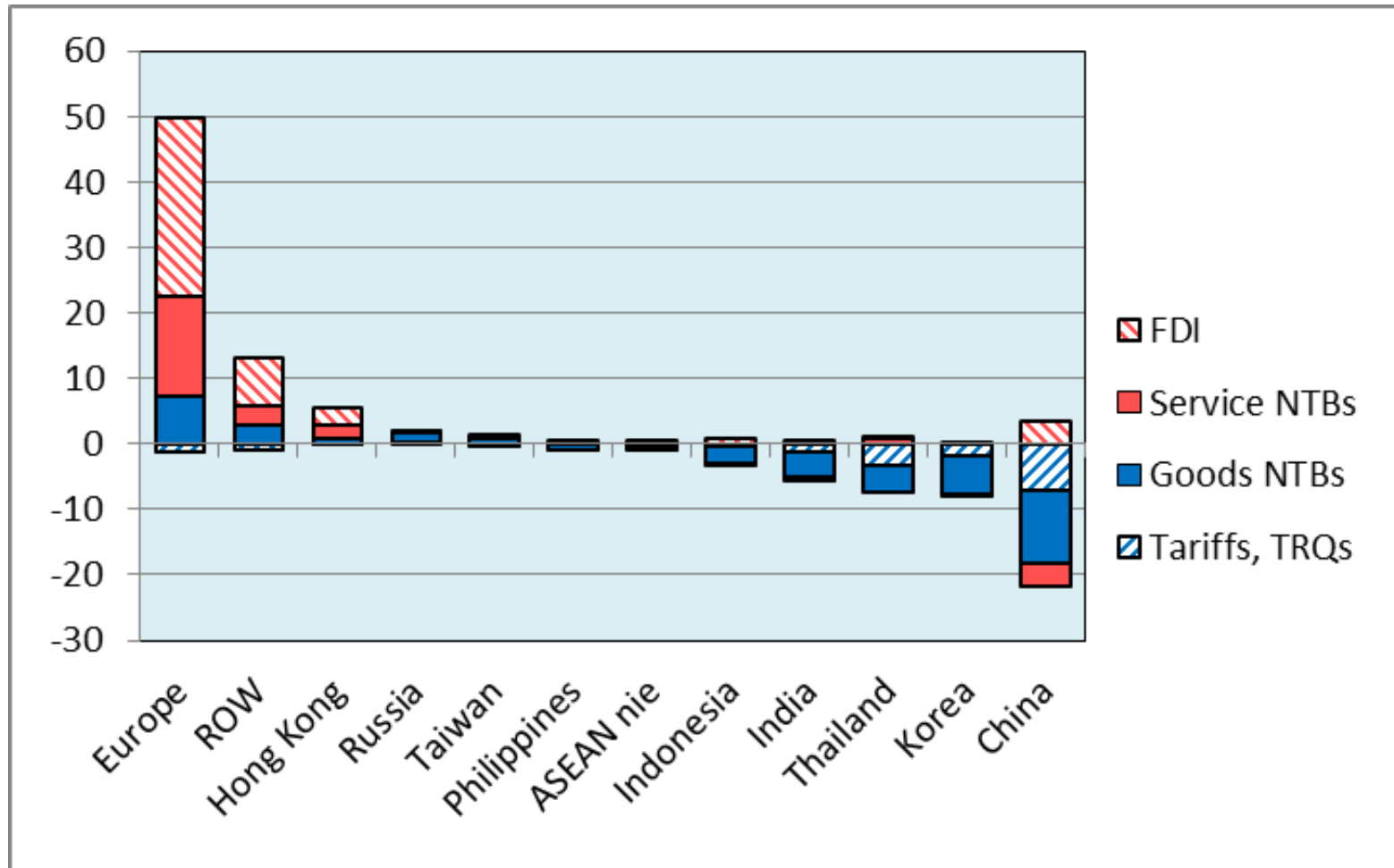
Percent of GDP in 2030



Authors

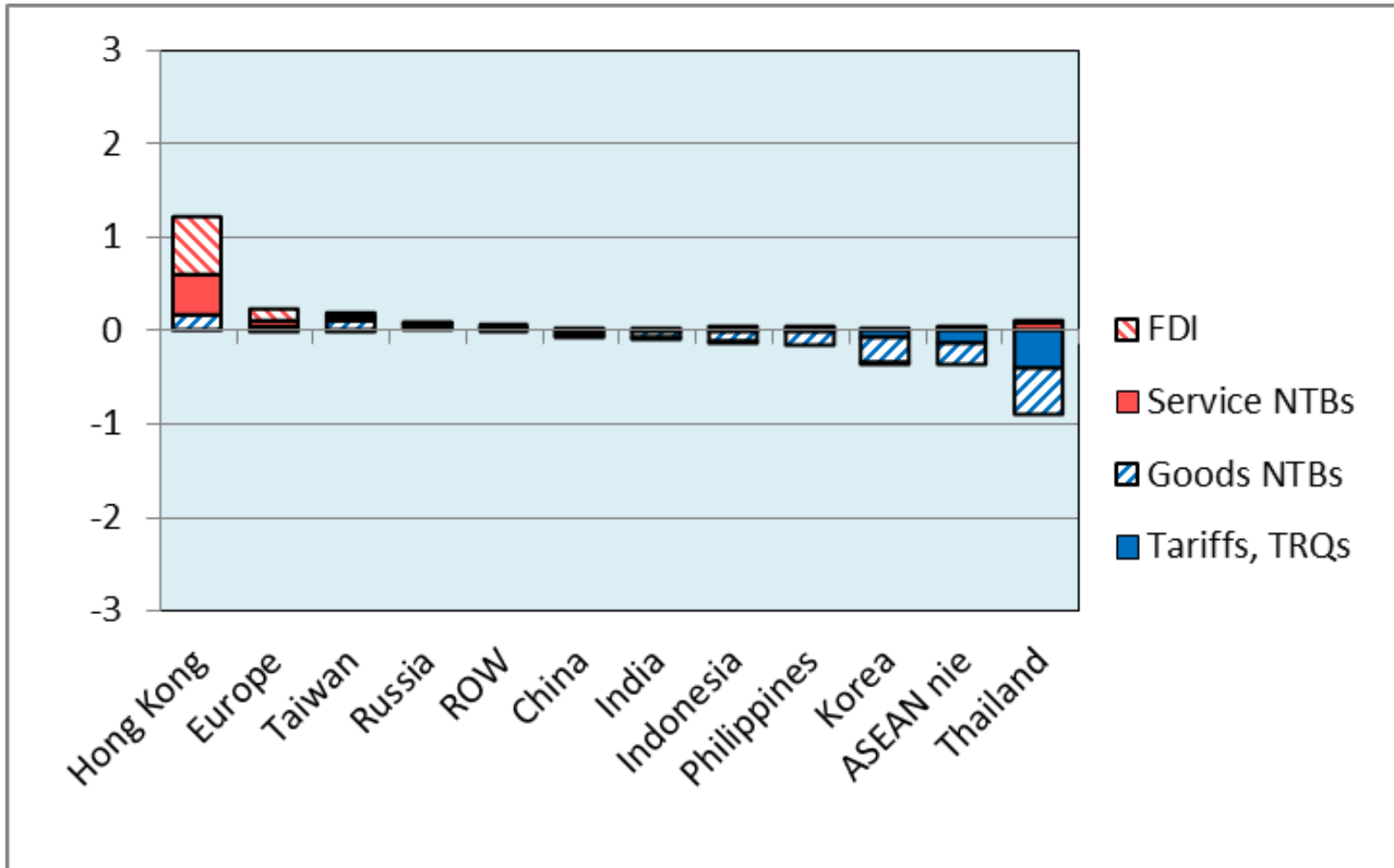
Winners/losers: non-members

\$billions in 2030



Winners/losers by percentage gains

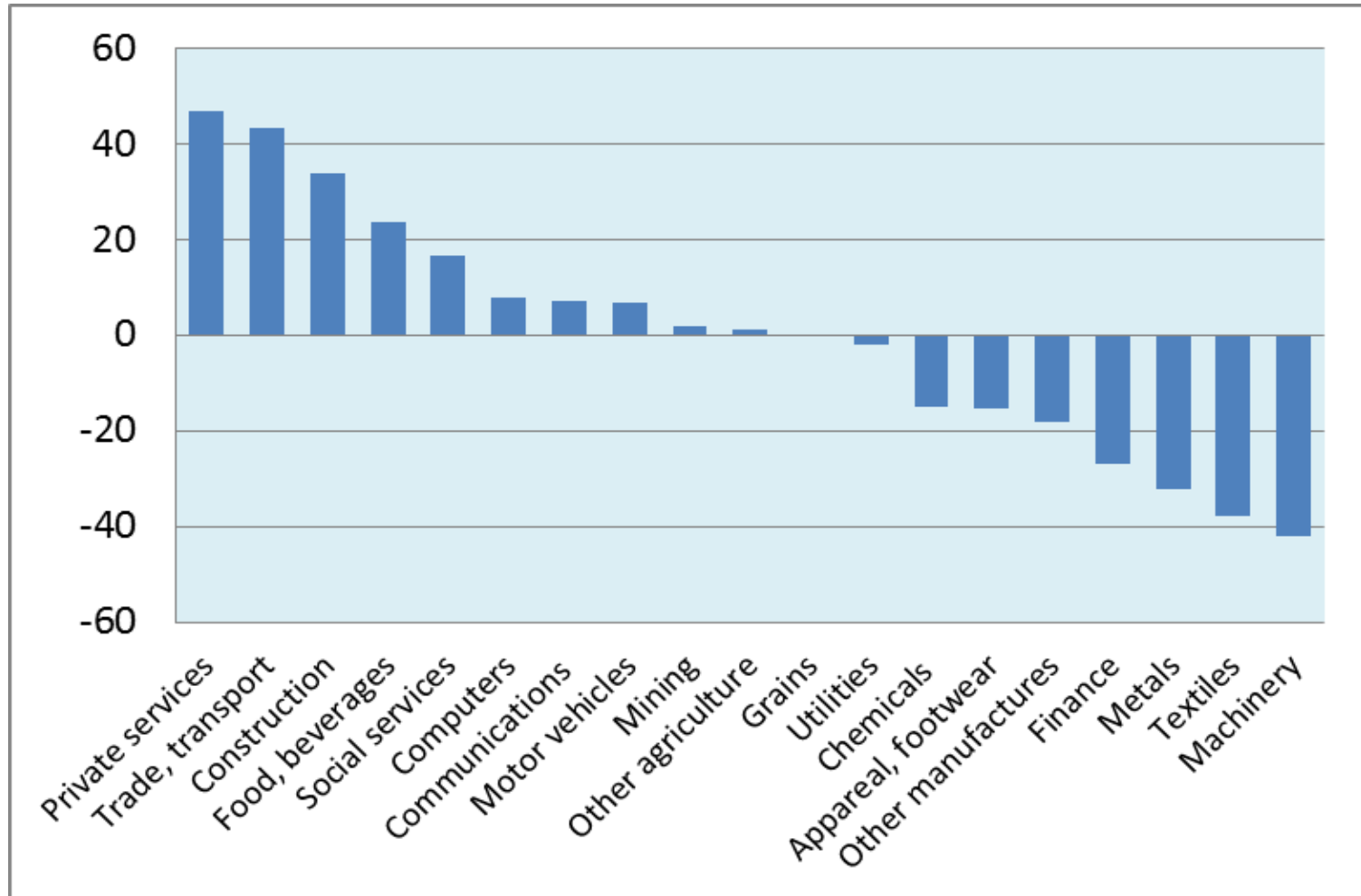
Percent of GDP in 2030



Authors

Winners/losers: US industries

employment (000)



Authors

Winners/losers: factors

% change in 2030

	Skilled wages	Unskilled wages	Capital returns
United States	0.6	0.4	0.4
Japan	2.6	3.6	1.8
Canada	0.6	0.4	0.7
Vietnam	11.8	13.9	9.3
Malaysia	3.0	7.7	6.1
Peru	0.7	0.7	0.7

Authors

The bottom line

- The TPP is significant and beneficial
 - Welfare gains of \$0.5 trillion, trade gains of \$1 trillion
 - Percent gains are largest for less developed members
 - Modest negative effects on non-members
- To maximize development impact:
 - Emphasize capacity building for members
 - Increase liberalization of ROO
 - Increase liberalization of developing country products
 - Expand and converge on multilateral framework

US Leadership in the Asia-Pacific (1): The Potential

- TPP has been cast as a means to «compete with» or even «isolate» China.
- This is not the case: TPP, like RCEP, is part of process leading to the FTAAP, decided at APEC Yokohama meetings to start in 2020.
- In Beijing in 2014, major study launched on FTAAP, to be completed after this year.
- US, China only get direct big gains from megaregionalism when they join with each other in the FTAAP: We estimate (2014) that each gain more than three-fold participation in TPP and RCEP, respectively.
- The FTAAP would have the potential to reform global governance at a time of slow trade and lack of liberalization momentum at WTO.
- Just as diversity in the TPP makes it easier to embrace diversity in FTAAP (e.g., SOEs), greater diversity in FTAAP will make it easier to write rules at the global level.
- Problem: is there the political will to get there?

US Leadership in the Asia-Pacific (2): The Trump Reality?

- If President Trump is anything like Candidate Trump, he will try to discard the TPP and will likely have major conflicts with China.
- His program, often labeled «populist», has decried loss of manufacturing jobs and has blamed it on China, from currency manipulation to unfair trading practices. He claims that the TPP allows China to «come in the back door,» an odd claim as it will lose the most from TPP.
- He has even called climate change a «hoax», contrived by China to hurt US competitiveness.
- He has proposed a 45% tariff on Chinese imports; in addition to lambasting the TPP, he wants to tear up NAFTA, and has threatened to pull out of the WTO.
- In short, he is not pro-trade and certainly anti-China, suggesting that, despite great opportunities, the next 4 years will likely be filled with more conflict than cooperation.
- Of course, Pres. Trump may be different than Candidate Trump; the Congress is now all Republican, and the Republicans have tended to be pro-trade in the past.
- Throw in the importance of strategic interests, perhaps progress will be made after all. But sadly that's not where the smart betting will be.



Asia-Pacific Trade

Research reports, results and data



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Publications

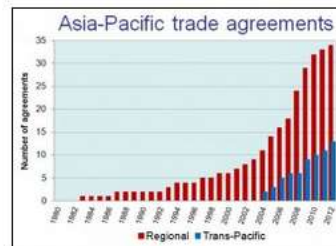
Results

Data

Related work

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Home



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.

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