
Introduction

Since the conclusion of the Uruguay Round of multilateral trade negotiations in 1994, the development of new international trade rules has shifted from global to bilateral and regional agreements. Bilateral agreements greatly outnumber regional ones, but there is now intense interest in the latter, especially in the Asia-Pacific region. The Trans-Pacific Partnership (TPP), now in negotiation,¹ could become the first significant regional agreement in the Asia-Pacific since the North American Free Trade Agreement (NAFTA) was concluded in 1992. Another “Asian track” of regional initiatives is also in negotiation in Northeast and Southeast Asia. This study provides a quantitative assessment of the benefits and prospects of the two tracks.

The history of large regional initiatives in the Asia-Pacific is not encouraging. An effort to position the Asia-Pacific Economic Cooperation (APEC) forum as a venue for binding agreements ended with the failure of the Early Voluntary Sectoral Liberalization initiative in 1998. Proposals for a Free Trade Area of the Asia-Pacific (FTAAP) were endorsed by APEC leaders in 2009 and 2010 but have gained little traction. Negotiations to create a possible Regional Comprehensive Economic Partnership (RCEP), consisting of 16 Asian and Australasian economies, will likely be launched in November 2012 but will no doubt face many challenges once substantive discussions begin. These initiatives have been hampered by the complexity of the region’s history, the sensitivities of diverse partners, and contentious domestic politics.

1. The TPP negotiations have 11 official members at this writing: Australia, Brunei Darussalam, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. Canada and Mexico joined in 2012. Japan has expressed interest, but its participation is still unclear.

The stalemate in global negotiations, however, has increased the urgency of regional efforts. As the center of gravity of world trade shifts toward the Asia-Pacific, this region has an especially large stake in the rules of the international trading system. Against this challenging background, the TPP negotiators are now attempting to fashion a cutting-edge “21st century agreement” (USTR 2011a). The 11 TPP countries account for 36 percent of world trade as an exporter, importer, or both. The negotiations are ambitious in terms of issues and range of members. If successful, they could establish new, high-quality rules for the leading sectors of both emerging-market and advanced economies, keep the “bicycle” of global trade liberalization upright,² and yield an innovative model for consolidating existing trade agreements.³

An assessment of the Trans-Pacific and Asian tracks of trade agreements has to account for two novel features of the current negotiations. First, both tracks envision enlargements and are therefore essentially multistep games. Indeed, the value of the early negotiations depends more on the template that they establish for future trading relationships than on direct gains. Thus, this study pays close attention to how the tracks might evolve and affect each other. Second, the tracks involve sophisticated, multifaceted economic relationships that span emerging-market and advanced economies. They cover many issues, including so-called new issues such as services, investment, intellectual property, and logistics. We apply new tools of trade theory and assemble new databases to analyze these dimensions in greater depth than was possible in earlier work.

Our results confirm the importance of the TPP and Asian agreements. Of course one cannot account for the full implications of such ambitious initiatives (see box 1.1), but to the extent that they can be measured they appear to be large—indeed, larger than those expected from a successful conclusion of the Doha Development Agenda. Moreover, a comprehensive, high-quality template, such as proposed for the TPP, could roughly double the ultimate gains from regional integration. Strategic interactions between the TPP and Asian tracks also appear to be constructive: Progress on each track is likely to generate incentives for enlargement and for progress on the other track. While the economies effectively driving the tracks—China and the United States—will compete in the early stages, they will face increasing incentives over time to consolidate the tracks into a regionwide agreement. Taken individually and together, the tracks constitute a large, dynamic, positive-sum project.

The study is organized as follows. Chapter 2 reviews the origins of the TPP and the objectives of the United States and other economies. Chapter 3 describes the model, data, and the methodology used to evaluate the TPP and

2. As argued by C. Fred Bergsten and William R. Cline (1983, 59–98), liberal trade regimes are inherently unstable and require new initiatives to stay open.

3. The full consolidation of existing agreements within the TPP is not likely to be completed in the initial agreement, but importantly TPP negotiators are committed to establishing common rules of origin and full cumulation of inputs originating within the region.

Box 1.1 What benefits are measured?

The immodest goal of major trade agreements is to change the structures of economies and international economic relationships. Such fundamental changes involve gradual, large, and long processes, shaped in part by feedbacks between economics and politics. Thus, any assessment of the consequences of such agreements, especially before their terms are decided, must begin by recognizing the inherent limitations of the exercise.

This study uses what we believe to be the most advanced analytical framework and empirical information available at this time, but much work remains on both the modeling and data fronts. As the text explains, our model incorporates features that should mitigate problems associated with prior approaches, but it has not yet been tested in ex post evaluations. The model also uses extensive new information but cannot resolve uncertainties about what provisions negotiators will build into future agreements. These uncertainties are reflected in the results: Numerous options are presented, and sensitivity analysis suggests that changes in key assumptions could easily make estimated benefits one-third smaller or larger.

Economic integration may have large additional benefits that are not adequately captured by microeconomic models. Angus Maddison's (2001) path-breaking historical studies show that globalization played a central role in waves of world economic growth in the past. Technology may be the ultimate root of economic progress, but integrated markets dramatically enhance its utilization and pace of development. Maddison finds that rapid globalization helps to explain the acceleration of world economic growth in 1870–1913 and again since World War II, both periods of substantial trade and investment liberalization. He and others also attribute much of the blame for the disastrous results of the interwar period to the collapse of the international economic order. If the trade agreements analyzed in this study can help to sustain rapid globalization, their benefits could be far greater than our computations suggest.

An important limitation—or perhaps strength—of this study is that it focuses on economic results and not domestic or international politics. It does so to keep the results transparent and evidence-based. But there is little doubt that political factors will shape trade policy and economic results will affect politics. These two-way interactions could lead to deeper Asia-Pacific integration and political cooperation at best or to new barriers and political conflict at worst. We argue that the TPP and Asian tracks represent a strongly positive-sum game and will reward the “right” political choices. But we recognize that this alone will not ensure support for the tracks or political will to direct them toward consolidation.

Asian tracks. Chapter 4 analyzes the emerging “contest of templates” between the two tracks. Chapter 5 applies a dynamic, strategic perspective to explore how the tracks are likely to evolve. Chapter 6 presents the results from national viewpoints, analyzing how countries might position themselves in the negotiations, and chapter 7 concludes.

