



Going Regional: Which Mega Trade Deals Should the Philippines Join?

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Going regional

- ▲ Philippines, cautious in joining regional trade agreements
 - ❑ Joined AFTA, 1992; ASEAN Economic Community 2003
 - ❑ Five ASEAN Plus 1 free trade area agreements (China, Japan, India, South Korea, and Australia and New Zealand)
 - ❑ Philippines – Japan Economic Partnership Agreement (PJEPA)
- ▲ Pressure to be more aggressive in going regional
 - ❑ Negotiating a bilateral with EU; Chinese Taipei
 - ❑ Regional Comprehensive Economic Partnership (RCEP)
 - ❑ Trans Pacific Partnership Agreement (TPP)



PTAs: 'Termites' of the WTO trading system

- ▲ Bhagwati calls PTAs so.
- ▲ However the WTO under its GATT 1994 allows PTAs.
- ▲ But the 'termites' increased in number: 70 before 1990s, 300 in 2010, and 432 in 2013... and growing.
- ▲ Most PTAs are bilaterals, free trade areas, and trade and investment agreements.
- ▲ But then came the mega trade deals in the last decade.



Mega trade deals

- ▲ Deep integration trade and investment agreements
- ▲ Major share of world trade and foreign direct investments
- ▲ Aim to improve regulatory compatibility
- ▲ Provide a rules-based framework for ironing out differences in investment and business climates



Why mega trade deals

- ▲ gain preferential access to new markets
- ▲ economic stimulus in times of tight budgets
- ▲ upgrade 'old' agreements
- ▲ achieve more ambitious agreements
- ▲ address new issues
- ▲ create potential precedents for future WTO agreements
- ▲ improve competitiveness
- ▲ keep the momentum for openness going while the WTO is stalled



Political economy of mega trade deals

- ▲ Changing views of US away from multilateralism, case of NAFTA
- ▲ Checking China's rise and the pivot to Asia policy of the Obama administration
- ▲ Developed countries demand regulatory convergence, to calibrate trade rules that facilitate more investments and trade in regional or global value chains
- ▲ WTO turning out into a forum that the developed countries find too difficult to set the trade rules they want



Two sides of mega trade deals

- ▲ Corrects the 'spaghetti bowl' effect of PTAs
- ▲ Has the potential of undermining WTO's role as a forum for negotiating and enforcing trade rules and expanding market access in the world
- ▲ Risks having trade rules by trading blocs
 - ❑ Back to 'great powers' world of the 19th century



Mega trade deals in Asia: TPP

TPP, 12



- ▲ Original members: Brunei Darussalam, Singapore, New Zealand and Chile (old name of TPP: **Trans-Pacific Strategic Economic Partnership Agreement**)
- ▲ 8 additional countries joined and the group started to be called TPP in 2008.
- ▲ United States, Australia, Peru, and Vietnam; Malaysia (2010), Mexico and Canada in 2012, and Japan (2013)



Mega trade deals in Asia: RCEP

▲ ASEAN Plus 6

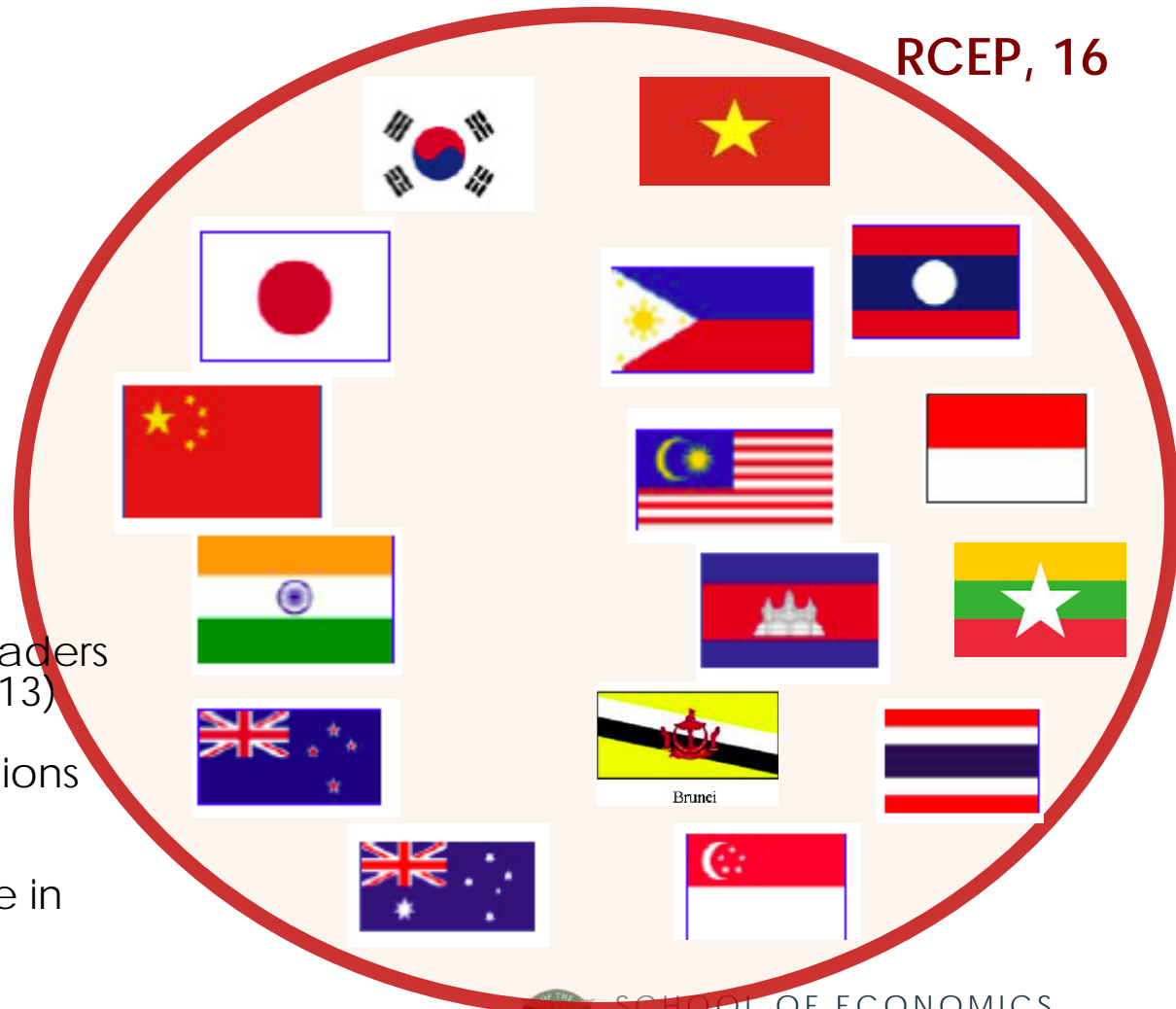
- ❑ ASEAN (10)
- ❑ China
- ❑ Japan
- ❑ India
- ❑ South Korea
- ❑ Australia
- ❑ New Zealand

▲ ASEAN led (ASEAN Leaders Meeting in Nov 12, 2013)

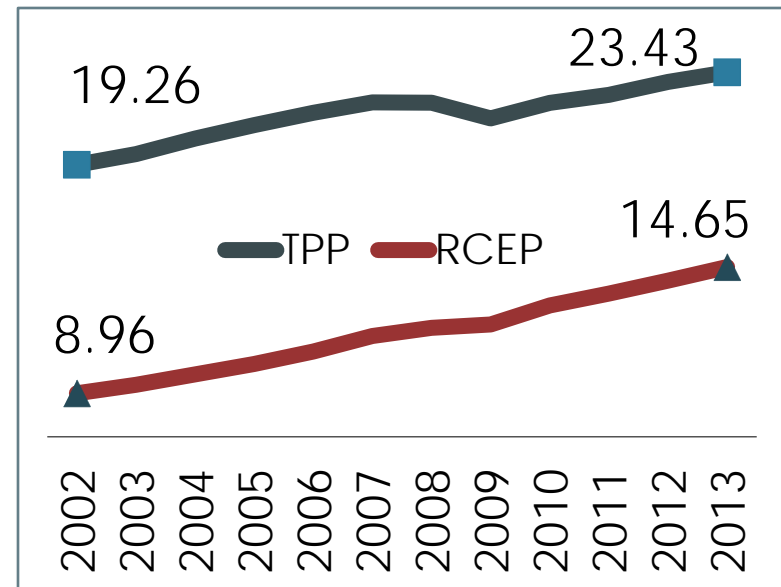
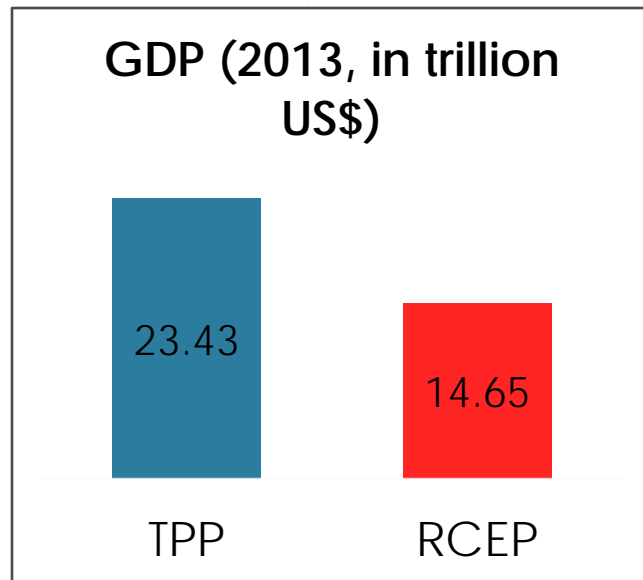
▲ First round of negotiations in Brunei in May 2013

▲ Expected to conclude in 2015

RCEP, 16



Combined GDP: TPP and RCEP

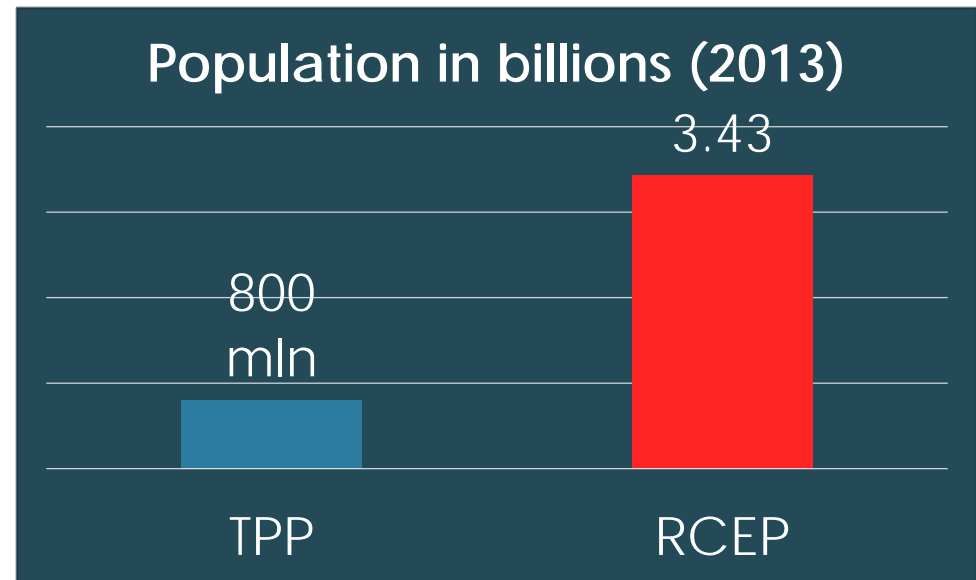


- ▲ Combined GDP of TPP members was \$23.43 trillion, or 28% of gross world product in 2013.
- ▲ RCEP's regional domestic product was \$14.65 trillion, or 17% of GWP.
- ▲ Stronger average annual economic growth of RCEP, 4.47% compared with TPP's 1.78%.



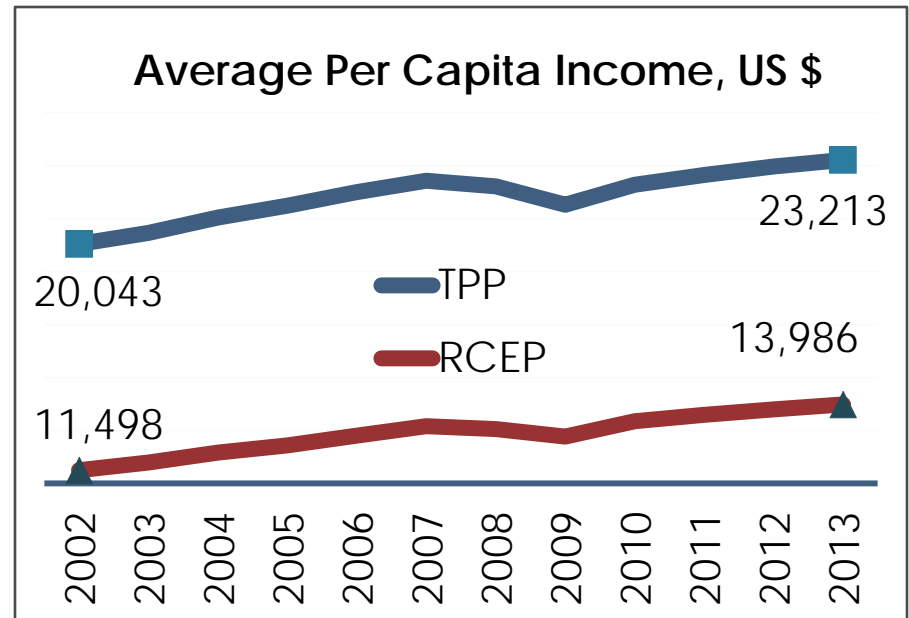
Population: RCEP and TPP

- ▲ TPP's population is 23% of RCEP's in 2013.
- ▲ In 2013, RCEP's population was 3.43 billion, or 48% of world's 7.1 billion.
- ▲ TPP's combined population is only 11% of worlds.



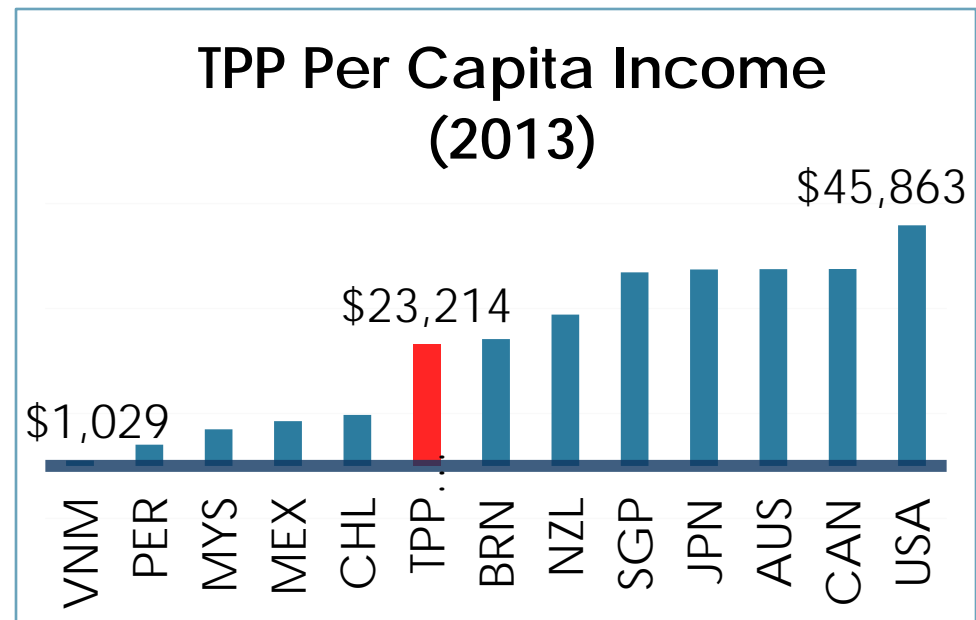
Per Capita Income: TPP and RCEP

- ▲ Per capita income of RCEP in 2013, \$13,986 or 60% of TPP's \$23,213.
- ▲ RCEP's per capita income growth is stronger, at the average annual rate of 1.78%.
- ▲ TPP's per capita income growth is 1.33%



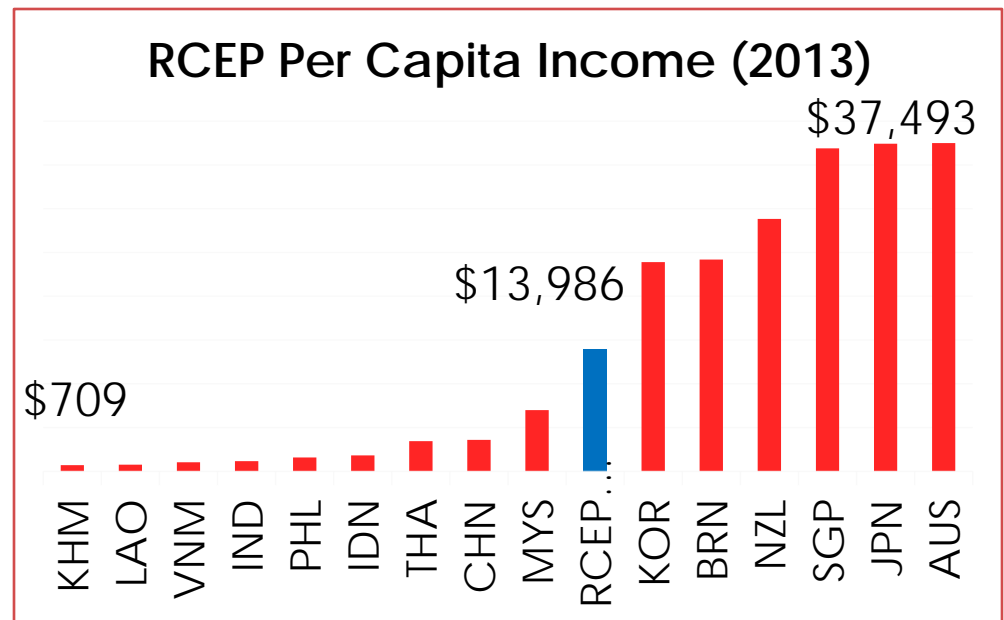
Per Capita Income of TPP Members, 2013

- ▲ The average per capita income of TPP members , \$23, 214 in 2013.
- ▲ USA has the highest, \$45, 863.
- ▲ Vietnam has the lowest income, \$ 1,029.
- ▲ 7 members or 58% have above average incomes.

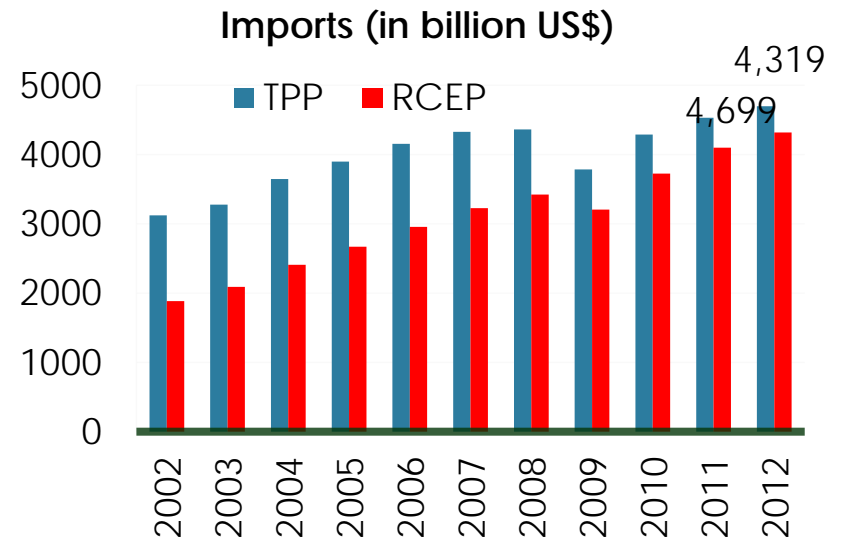
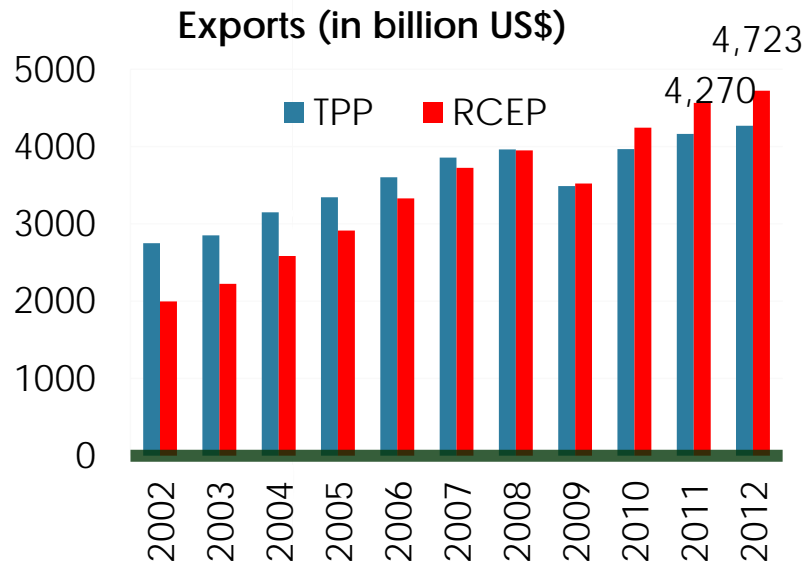


Per Capita Income of RCEP Members, 2013

- ▲ The average per capita income of RCEP members , \$13,986 in 2013.
- ▲ Australia has the highest, \$27,493.
- ▲ Cambodia has the lowest per capita income, \$709.
- ▲ 62% of members have below average incomes.



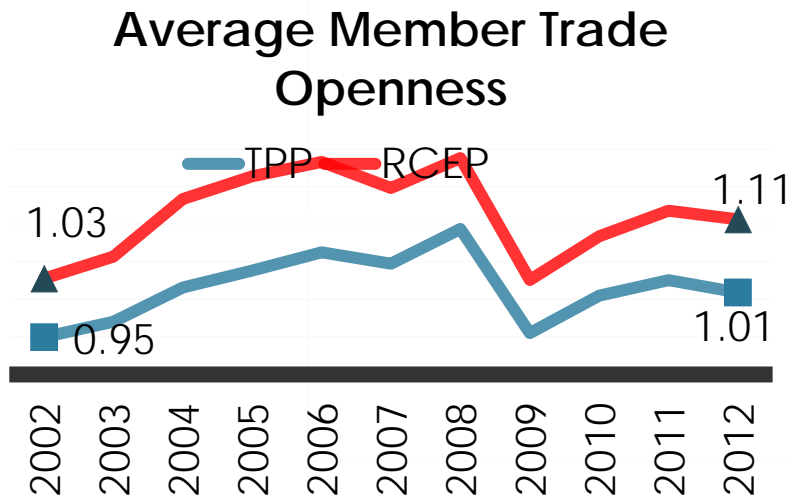
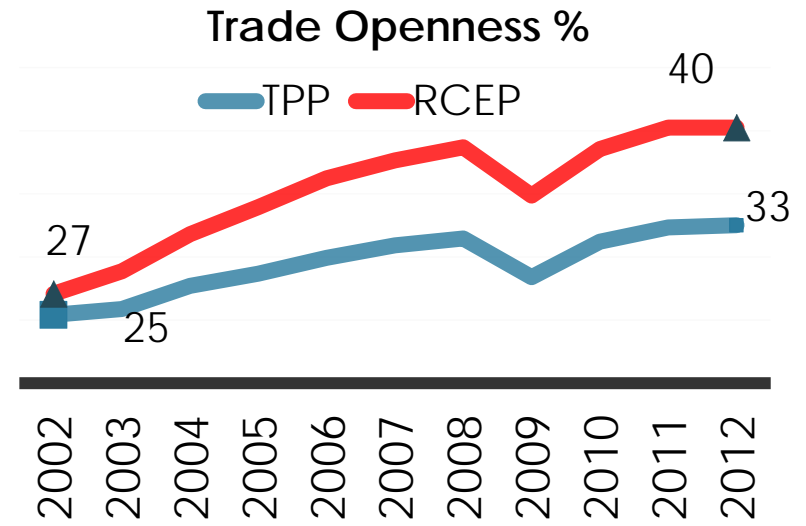
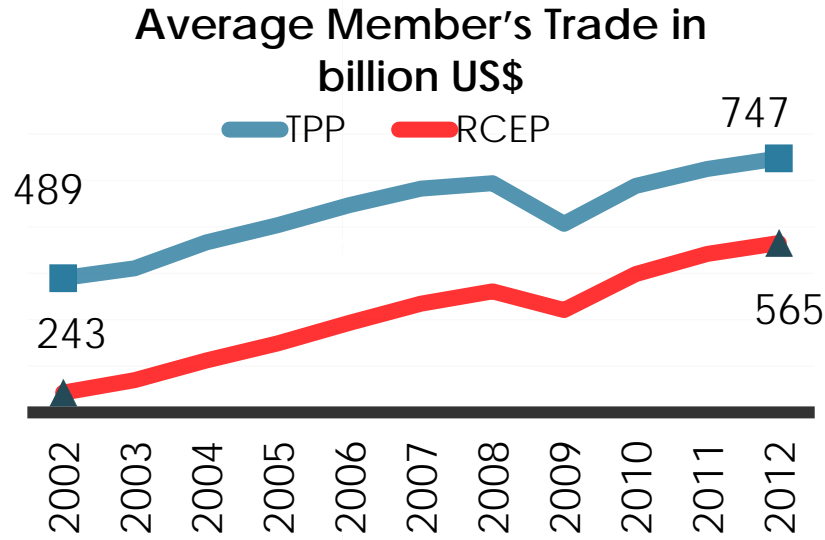
Trade Values: RCEP and TPP



- ▲ TPP has larger import values than RCEP, with gap in recent years narrowing down.
- ▲ TPP used to have larger export values, but post 2009 RCEP exceeded TPP's export values.
- ▲ In 2013,, the total export value of TPP was \$4,270 bln., or 24% of world export value., RCEP's share is 26%
- ▲ In imports, RCEP's share in global imports was 26% in 2013, compared to TPP's 26%.



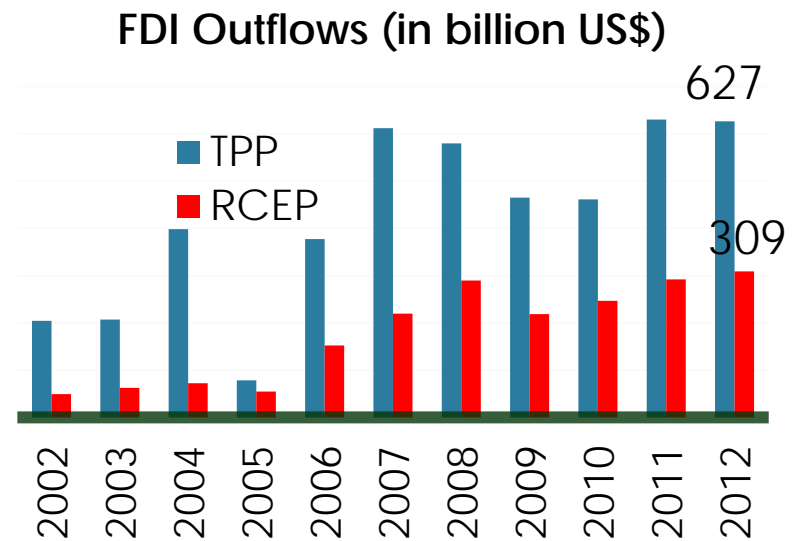
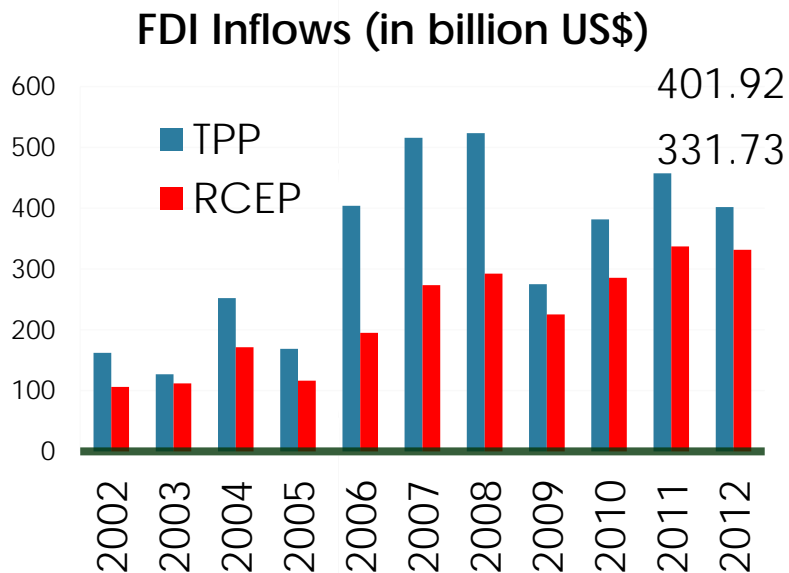
Trade Openness: RCEP and TPP



While TPP has higher average members' trade, RCEP is more trade open due to its lower level of GDP.



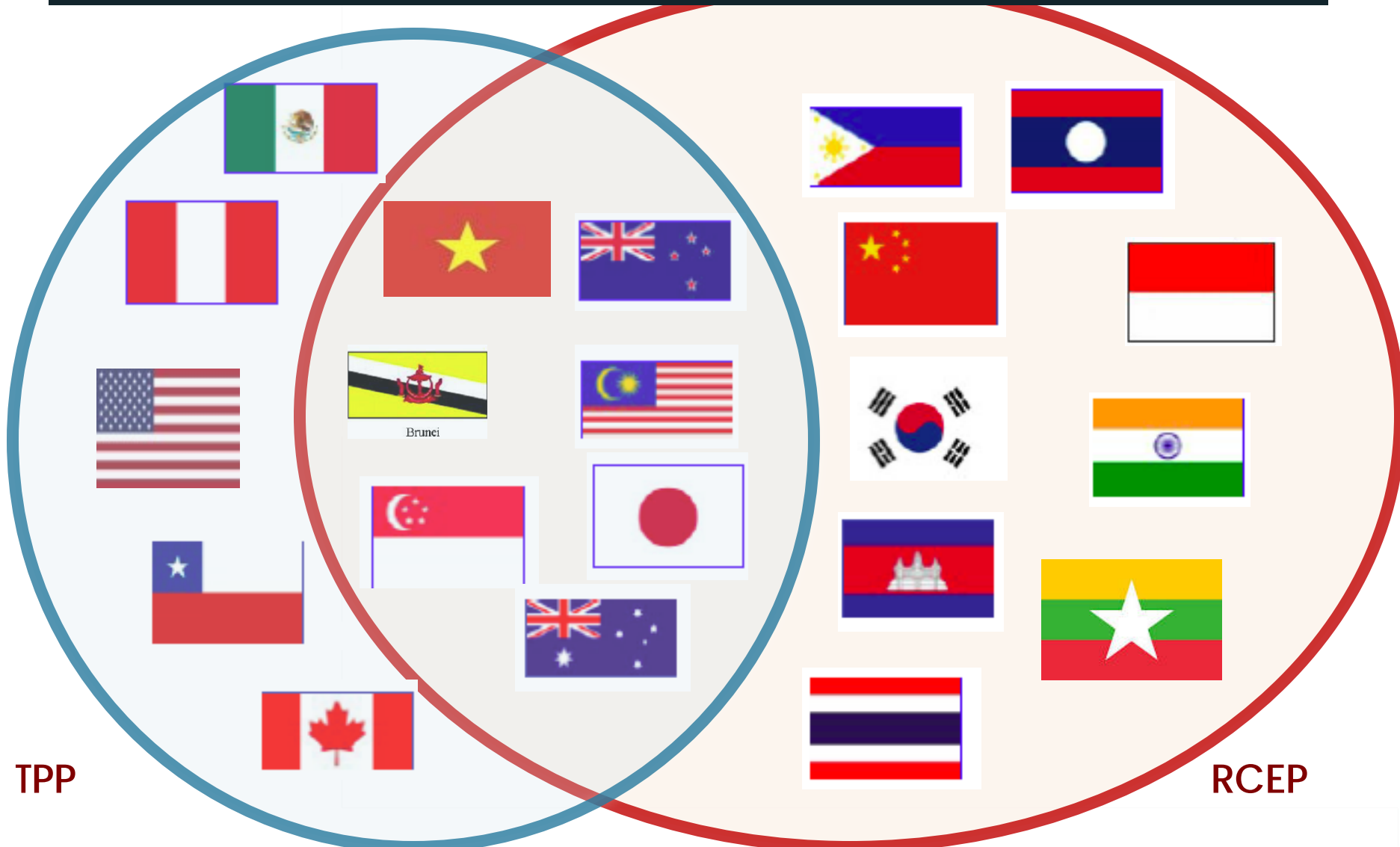
Foreign Direct Investments: RCEP and TPP



➤ TPP is the FDI placer, while RCEP is the FDI host.



Overlapping memberships in TPP and RCEP



TPP

RCEP

2nd Wave of TPP members



TPP

RCEP

What About the Philippines?

- ▲ As ASEAN, Philippines will be a contracting party with RCEP.
- ▲ US President extended US invitation for Philippines to join TPP when he visited the country in 2013.



Comparative Performance of Philippines and TPP members

	GDP per capita (US\$)	Trade as % of GDP
TPP 12	32,338	102
TPP 17	27,690	98
Philippines	4,339	65

Source of Data: World Development Indicators (WDI)



Comparative Performance of Philippines and TPP countries (2)

	Average applied tariff (%)	Days to export	Days to import	GFCF/GDP (%)
TPP 12	2.38	11.67	11.00	22.59
TPP 17	3.07	12.06	11.75	23.98
Philippines	4.77	15.00	14.00	19.38

Source of Data: World Development Indicators (WDI)



Gravity model of trade

- ▲ Model explains level of bilateral exports or imports between two trading partners
- ▲ Explanatory variables: GDP (+), population (+), distance between two countries (-), commonality of language (+), shared borders (+), landlocked state (-)
- ▲ In addition, TPP, RCEP indicators or dummy variables



Gravity model of trade (2)

- ▲ In addition, three TPP or RCEP indicator or dummy variables
 - TB1, this is 1 if both trading countries are TPP or RCEP members, 0 otherwise
 - TB2, this is 1 if exporting country is a TPP or RCEP member, 0 otherwise
 - TB3, this is 1 if importing country is a TPP or RCEP member, 0 otherwise
- ▲ 209 trading countries
- ▲ Annual data from 1948 to 2013



Gravity model of trade (3)

- ▲ Further, for overlapping memberships, a dummy variable where $TPP * RCEP = 1$ if both trading partners are members of the two trade blocs.
- ▲ A time interaction variable, which takes on the value of 1 after 1990s (representing more or less the fact that China has become integrated with the world economy).



Estimated gravity model

- All estimated coefficients are statistically significant and bear the expected signs.
- Interaction variables

flow	Coefficient	Z value
ln_gdp_origin	0.800151	1.10E+04
ln_gdp_destination	0.8043078	1.10E+04
ln_pop_origin	-0.1123566	-1291.28
ln_pop_destination	-0.0923641	-1057.61
ln_distw	-0.8802875	-7816.99
contig	0.5701085	2604.39
landlocked_origin	-0.3837612	-1217.82
landlocked_destination	-0.3180168	-1020.63
island_origin	-0.0615166	-258.12
island_destination	-0.0559791	-233.58
TPP_ij	0.0583061	97.13
TPP_i	0.5113165	1782.07
TPP_j	0.5041455	1757.38
RCEP_ij	-0.9788603	-955.13
RCEP_i	1.077841	3321.66
RCEP_j	1.032869	3164.8
TPP*RCEP_ij	1.476081	897.23
TPP*RCEP_i	-0.7651171	-1680.96
TPP*RCEP_j	-0.8807384	-1896.98
TPP_ij_*90s	0.032424	58.89
RCEP_ij_*90s	0.2560512	260.19
TPP_RCEP_i_*90s	-0.446012	-261.45

What do these coefficients mean?

		Coefficient	TPP	RCEP	TPP and RCEP	Actual Coefficient	Actual Coefficient + Interaction	Total Percent Increase of Exports
TPP Member only	United States							
Destination and Origin		0.0583061	0.0583061		A	0.0583061	0.09073	C 9.50
Origin		0.5113165	0.5113165			0.5113165	-	66.75
Destination		0.5041455	0.5041455			0.5041455	-	65.56
D-O Interaction with 90s	B	0.032424						
RCEP Member Only	Philippines							
Destination and Origin		-0.9788603		-0.9788603		-0.9788603	-0.7228091	-51.46
Origin		1.077841		1.077841		1.077841	-	193.83
Destination		1.032869		1.032869		1.032869	-	180.91
D-O Interaction with 90s		0.2560512						
TPP & RCEP	Vietnam							
Destination and Origin		1.476081	0.0583061	-0.9788603	1.47608	0.5555268	0.39799	48.88
Origin		-0.7651171	0.5113165	1.077841	71	0.8240404	-	127.97
Destination		-0.8807384	0.5041455	1.032869	84	0.6562761	-	92.76
D-O Interaction with 90s		-0.446012						

Actual coefficient+interaction = A+B

Percent increase of exports (C) = $(\exp(A+B)-1) * 100\%$



Implied change of exports of membership

		Actual Coefficient +Interaction	Total Percent Increase of Exports
TPP Member only	United States		
Destination and Origin		0.0907301	9.50
RCEP Member Only	Philippines		
Destination and Origin		-0.7228091	-51.46
TPP & RCEP	Vietnam		
Destination and Origin		0.39799	48.88

- ▲ An average non member of RCEP joining RCEP may reduce its exports 51.46%.
- ▲ An average RCEP member joining TPP may increase its exports by 48.88%.



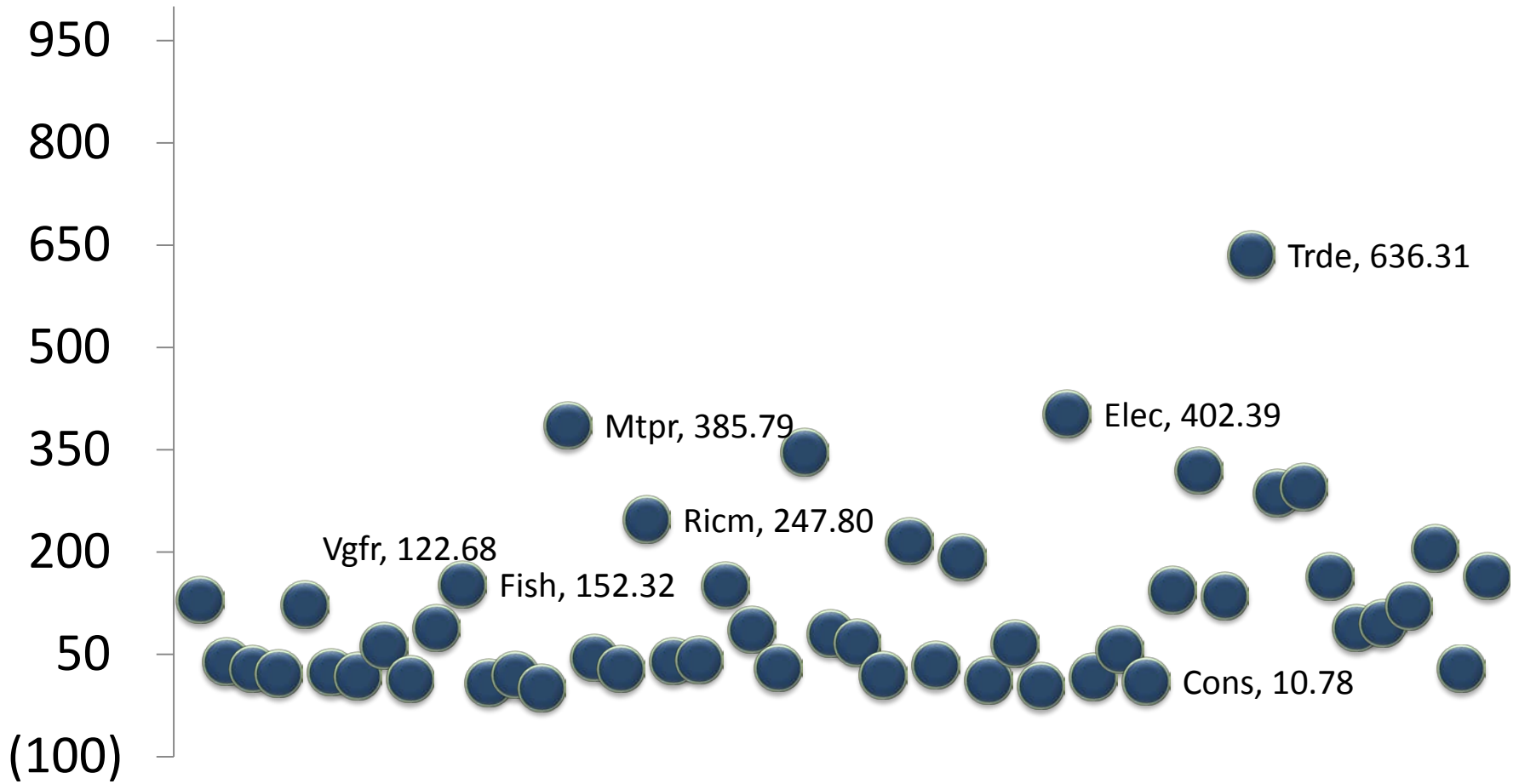
Economic Effects of TPP membership

- ▲ Used a computable general equilibrium (CGE) model of the Philippines.
- ▲ Model comprises 50 industries/sectors; three primary factor of production; 10 household income groups, government, private business enterprises
- ▲ The estimated additional exports was inputted into the model to compute their economywide impacts.
- ▲ Since Ph is already an RCEP member, what was computed is if Ph joined TPP.



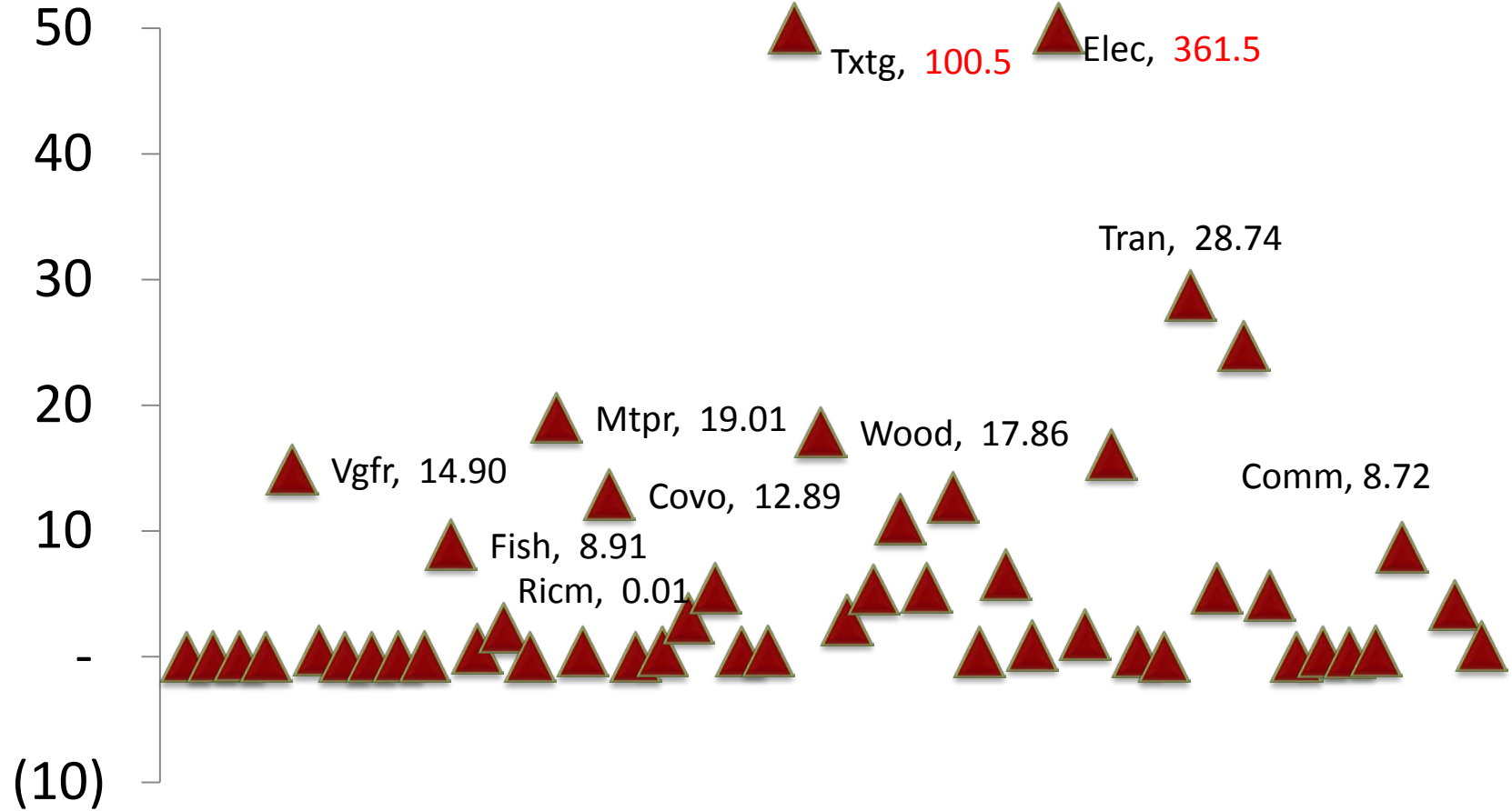
bln. pesos

Output Gains From TPP Membership



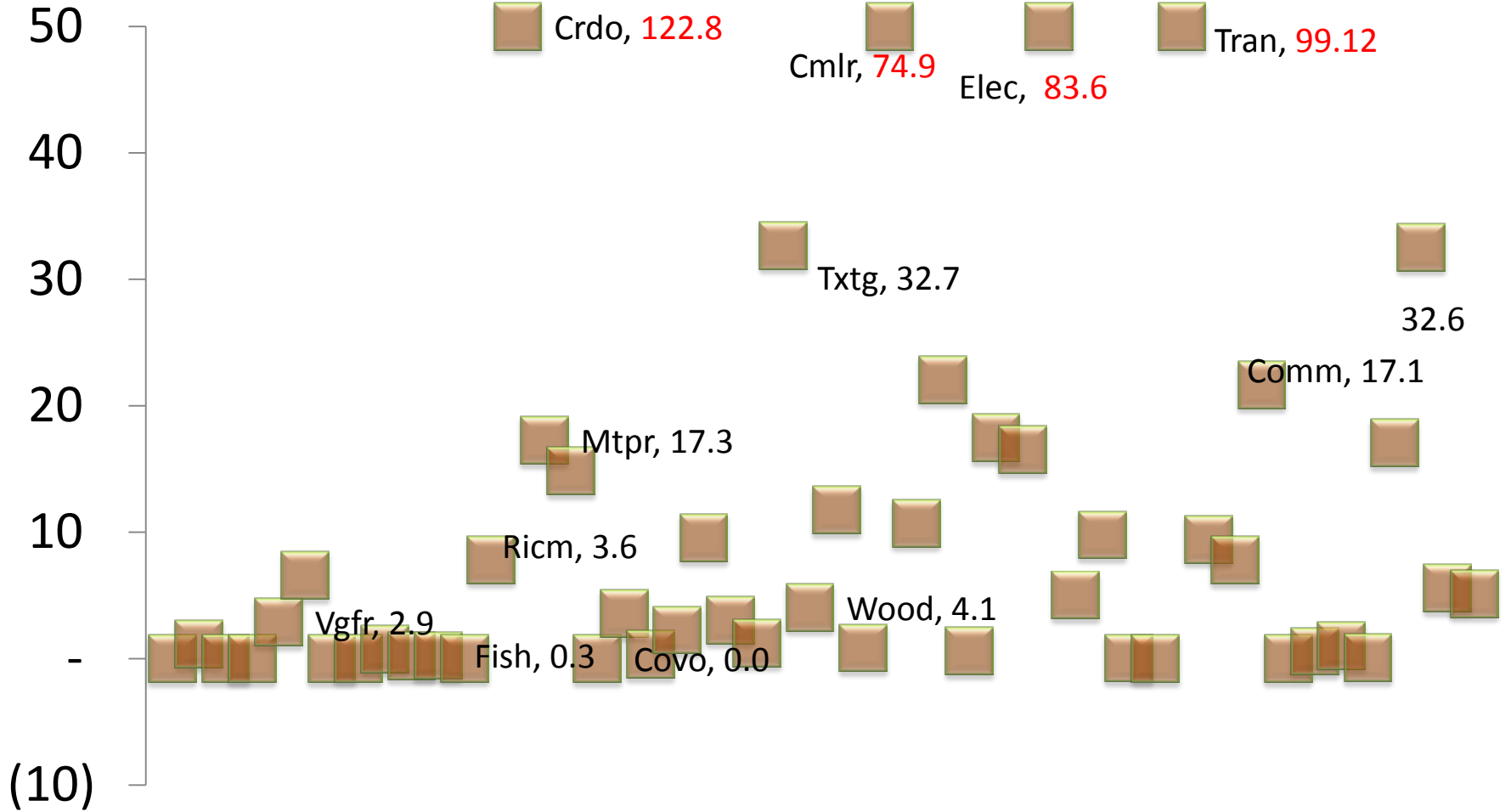
Export Gains From TPP Membership

bln. pesos



Import Gains From TPP Membership

bln. pesos



Concluding Remarks

- ▲ The Philippines is already a member of RCEP. It is in her economic favor to pursue TPP membership.
- ▲ Her exports are expected to rise by 48%.
- ▲ With it, overall economic activity rises. Real GDP rises by 61%.
- ▲ All households enjoy higher real incomes, although regressively.



TPP: gold standard for PTAs?

- ▲ Since the 1990s, about 300 preferential trade agreements (PTAs) entered into force, were signed but yet to be implemented, or are being negotiated.
- ▲ TPP is a gold standard of TPPs.
 - ❑ WTO + PTA (deeper trade liberalization)
 - ❑ WTO – PTA (goes beyond the WTO)



Features of TPP

- ▲ Comprehensive elimination of tariff and non-tariff trade barriers
- ▲ Regional agreement that supports formation of global value chains among its members
- ▲ Cross cutting trade issues
 - ❑ regulatory coherence
 - ❑ regional value chains
 - ❑ Small and medium enterprises
 - ❑ Development
- ▲ Dedicated to solving trade and investment issues arising from new technologies/products
- ▲ Living agreement



Issues Being Negotiated under TPP

1. Market access for goods
2. Rules of origin
3. Sanitary and Phyto-sanitary standards
4. Technical barriers to Trade
5. Telecommunications
6. Temporary Entry
7. Textiles and Apparel
8. Trade Remedies



Issues Being Negotiated Under TPP

9. Competition policy
10. Cooperation and Capacity Building
11. Cross-Border Services
12. Customs
13. e-Commerce
14. Environment
15. Financial Services
16. Government procurement



Issues Being Negotiated Under TPP

17. Intellectual property
18. Investment
19. Labor
20. Legal issues



AYALA-UPSE ECONOMIC FORUM

Thank you.

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