Trans-Pacific Strategic Economic Partnership

TPP is

- a trade agreement among twelve countries around the Pacific-rim region.
- 12 countries are:
  - Brunei, Chile, New Zealand, and Singapore (signed in 2005);
  - Australia, Canada, Japan, Malaysia, Mexico, Peru, the U. S., and Vietnam (joined the discussion in 2008 or later)
  - These countries' economies account for 40% of global GDP, and one-third of world trade
  - Japan's and U.S. GDP together accounts for 91% of the countries' GDP
- The 12 countries signed the agreement on Feb. 4, 2016
- The agreement is awaiting for ratification to enter into force – the deadline is Feb. 4, 2018

TPP does

- Promote free trade
  - -- by cutting tariffs
  - -- by reducing non-tariff barriers
  - -- by standardize regulations on products
- Promote environmental protection
- Protect human rights
- Protect intellectual property rights
- Improve better accessibility to pharmaceuticals products for developing countries
- Promote anti-corruption measures

Background: Why TPP? – Rise in regional FTAs

Deadlock in Doha "Round" (2001 -)

- Europe and Japan – protectionist over agri. Products
- U.S. – free trade promoter and protectionist
- Generally, developing countries want developed countries to open their markets for agri. Products
- Developed countries want developing countries to lower tariffs on manufactured goods

GATT Negotiating Rounds

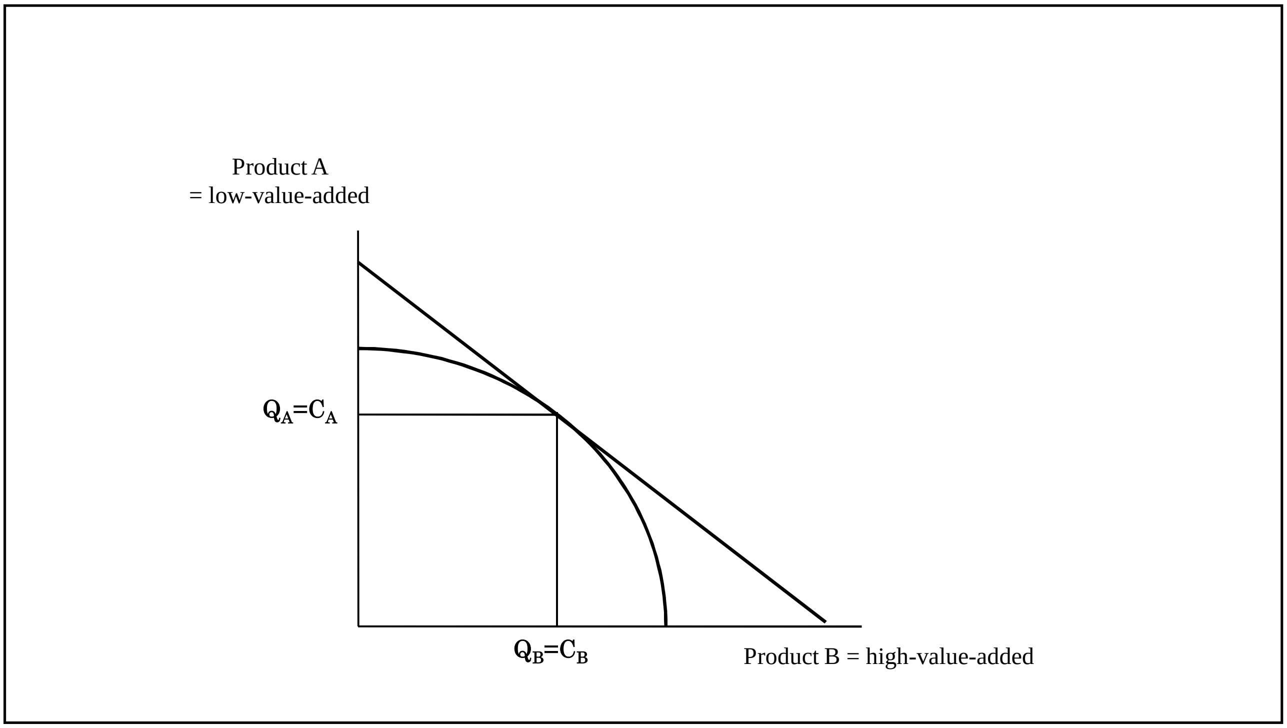
Round	Dates	Participants	Avg. Tariff Cut
Geneva	1947	23	35%
Annecy	1949	13	NA
Torquay	1950 – 1951	38	25%
Geneva	1956	26	NA
Dillon	1960 – 1962	45	NA
Kennedy	1964 – 1967	62	35%
Tokyo	1973 – 1979	99	33%
Uruguay	1986 – 1994	117	36%

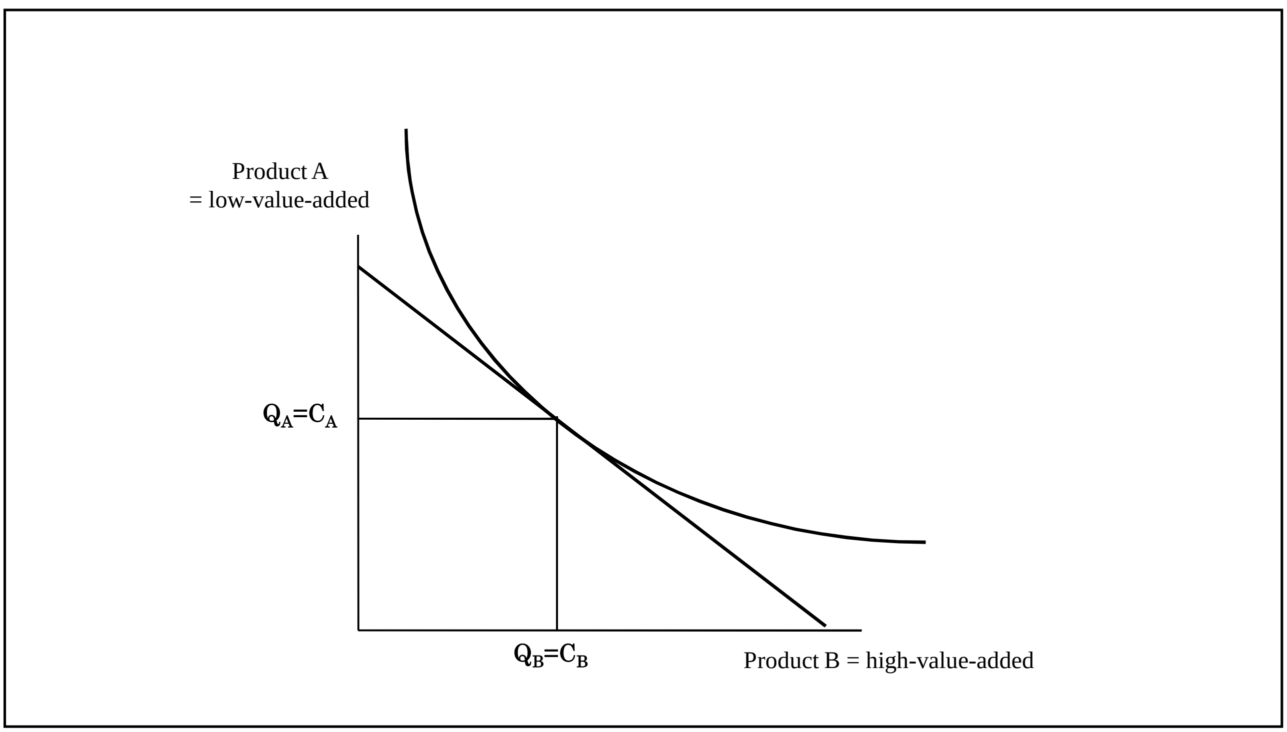
Let us study some economics first

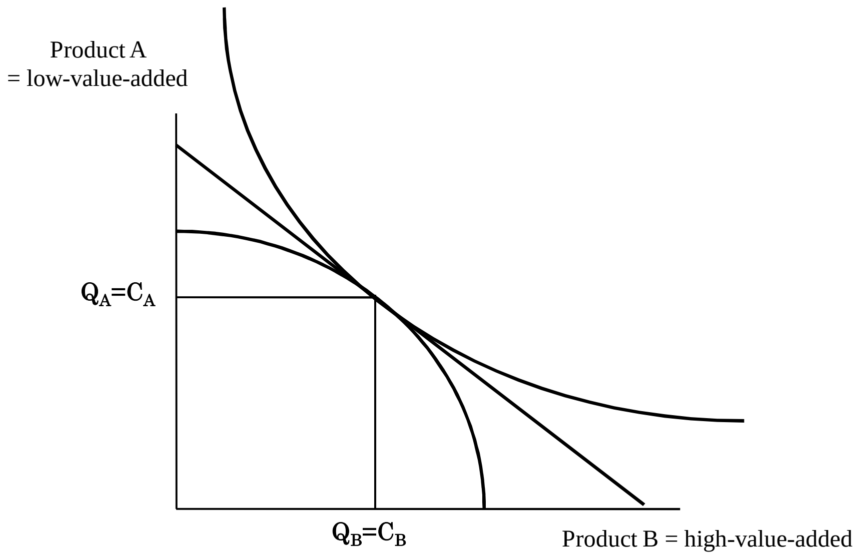
The Problem of Trade Warfare

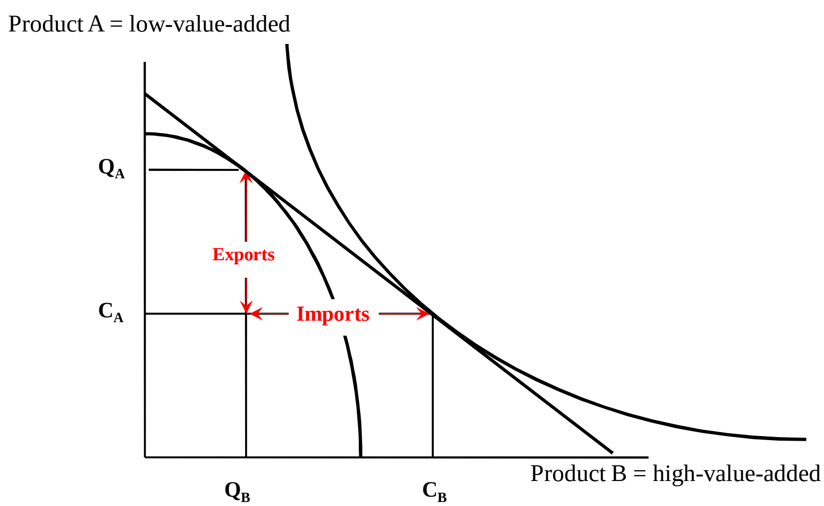
U.S. \ Japan	Free trade	Protection
Free trade	10 \ 10	–10 \ 20
Protection	20 \ –10	–5 \ –5

Some sort of coordination could lead both countries to be better off = Free trade agreement


Product A
= low-value-added
$Q_A=C_A$
$Q_B=C_B$
Product B = high-value-added


Product A
= low-value-added
$Q_A=C_A$
$Q_B=C_B$
Product B = high-value-added


Product A
= low-value-added
QA=CA
QB=CB
Product B = high-value-added


Product A = low-value-added
QA
Exports
CA
Imports
QB
CB
Product B = high-value-added

Merits and Demerits of TPP

Merits

- Exporting industries and firms would be better off
- Consumers can face a wider variety of goods for cheaper prices
- Foreign goods penetration can increase the extent of competition in the market. That can lead to better technology, better corporate governance, and more overall efficiency in the system
- Standardization of products can make life easier

Merits and Demerits of TPP

Demerits

- Foreign competition can harm domestic industries and firms
  → On net, freer trade can lead to job loss (esp. U.S., Japan)
- Consumers may have to experience income loss
- Foreign goods penetration may make foreign firms overly powerful
- Product standardization may happen while consumers being neglected
- Sovereignty issue

Clash of Interest

Automobile

- Japan demanded the U.S. to remove tariffs on Japanese automobiles

→ The 2.5% tariff on Japanese automobiles will phase out over 25 years.

→ 80% of tariffs on auto parts will be removed immediately after the agreement gets in effect

- Local content rule: Japan 40% vs. Canada, Mexico 70%

→ Agreed on 55%

Clash of Interest

Agricultural products

- U.S. demanded Japan to remove tariffs and other restrictions on Japanese agricultural markets

→Japan conceded on tariff reductions in rice, wheat, beef, chicken, pork, fish, and dairy products

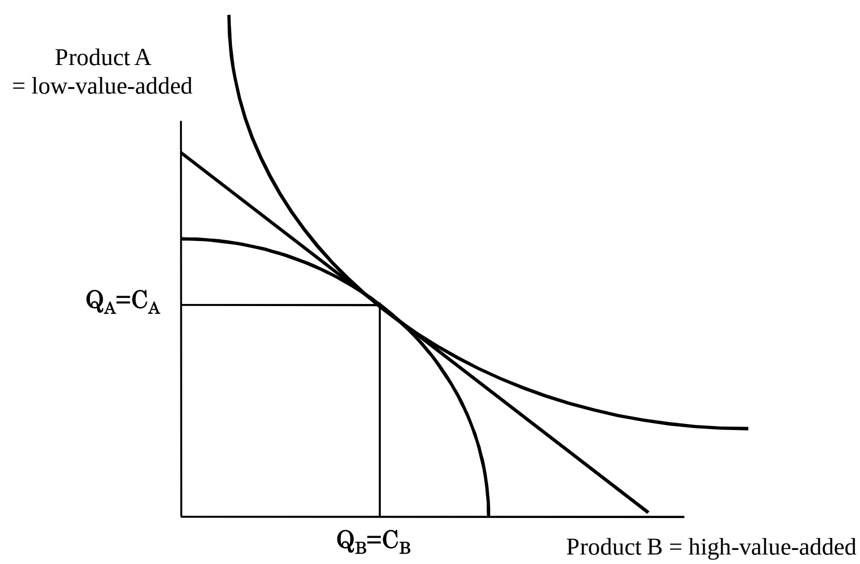
Pharmaceutical products

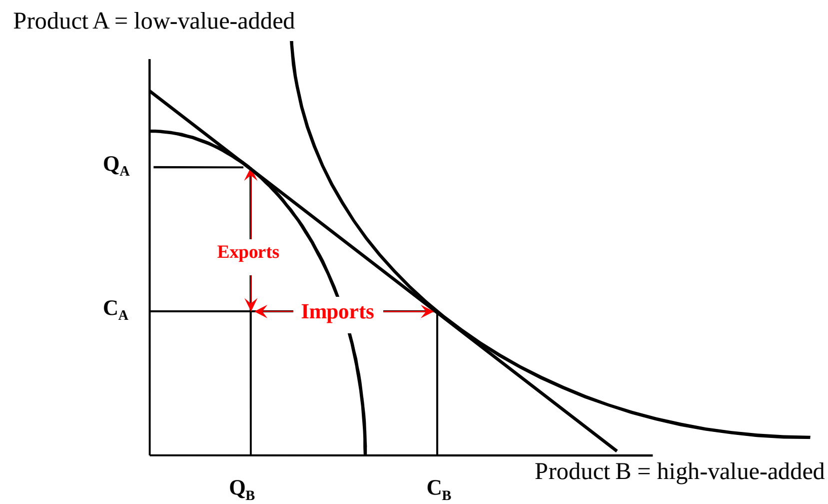
- U.S. demanded a long term of protection for the intellectual property rights (i.e., the data) pertaining to pharmaceutical products. U.S. demanded 12 years while Australia and EMEs demanded 5 years

→ Eight years for data protection or five years with three years of ban on the sale of concerned products

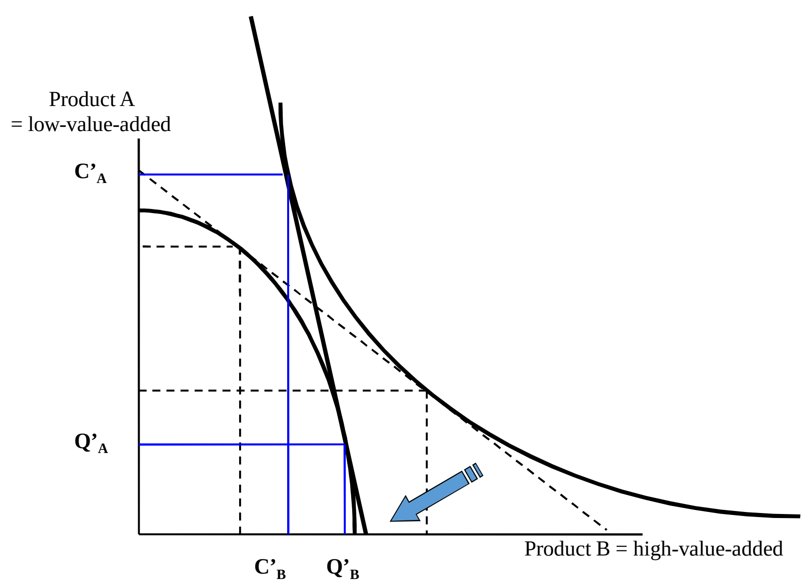
Now, it is unclear whether the U.S. ratifies TPP

- The other 11 countries are watching whether the U.S. will ratify
- Japan is in a parliament session to discuss ratification. It may ratify next week, but the opposition party is arguing why Japan should ratify while the U.S. doesn't seem to ratify it

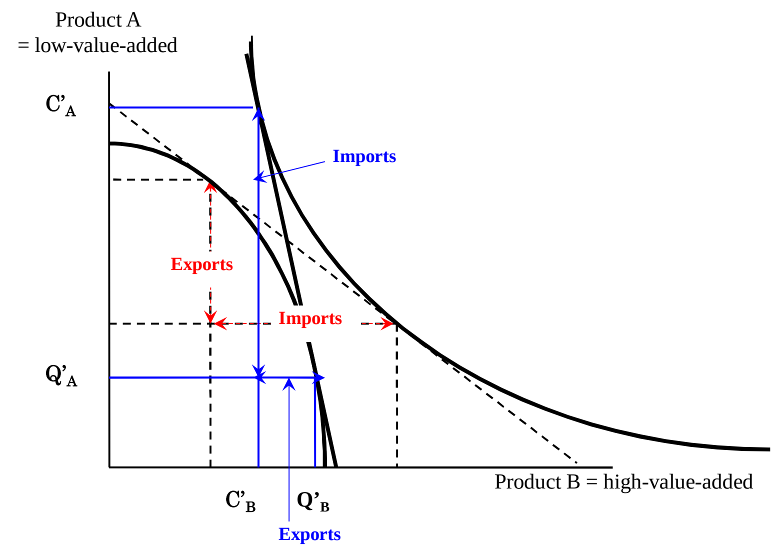


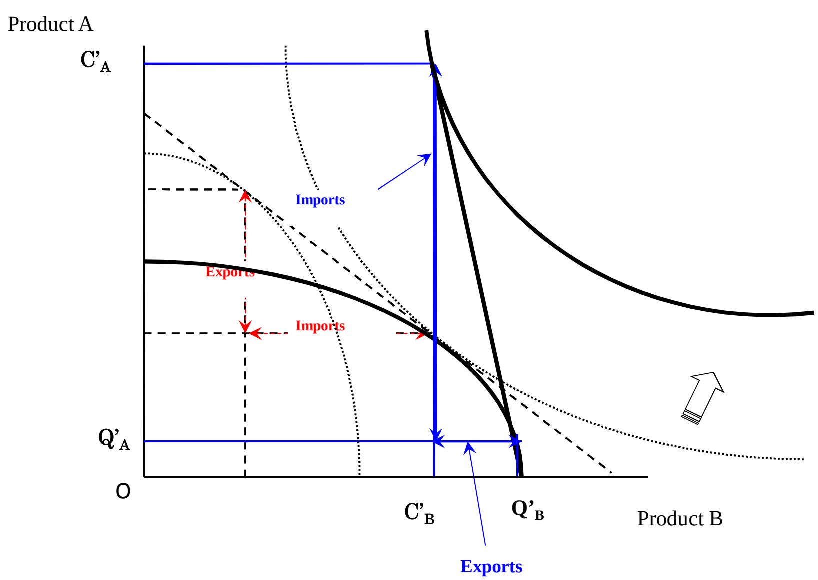


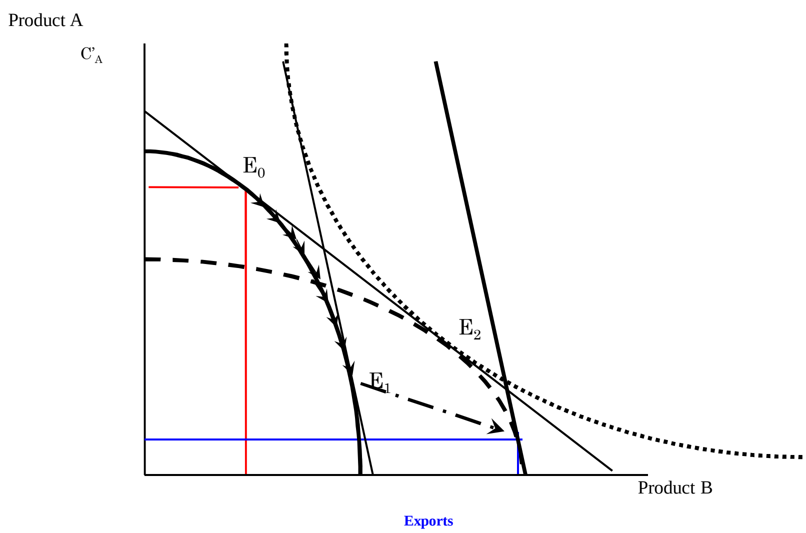
Product A = low-value-added
Q_A
Exports
C_A
Imports
Q_B
C_B
Product B = high-value-added



Product A
= low-value-added
C'_A
Q'_A
C'_B
Q'_B
Product B = high-value-added


Product A
= low-value-added
C'A
Imports
Exports
Imports
Q'A
Product B = high-value-added
C'B
Q'B
Exports


Product A
C'A
Imports
Exports
Imports
Q'A
O
C'B
Q'B
Product B
Exports



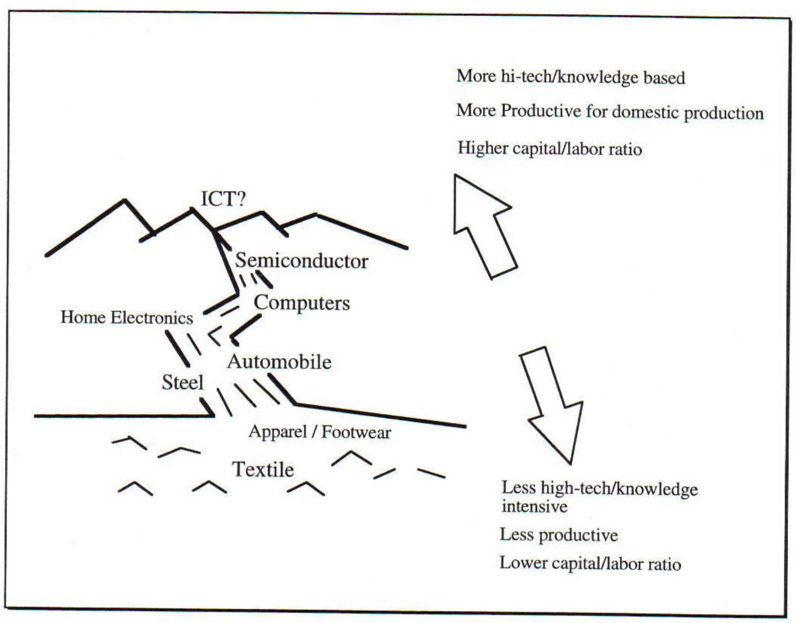
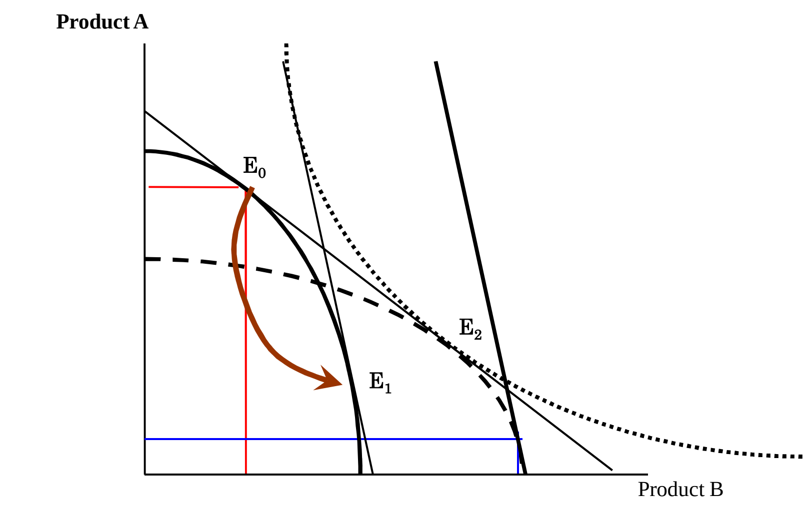
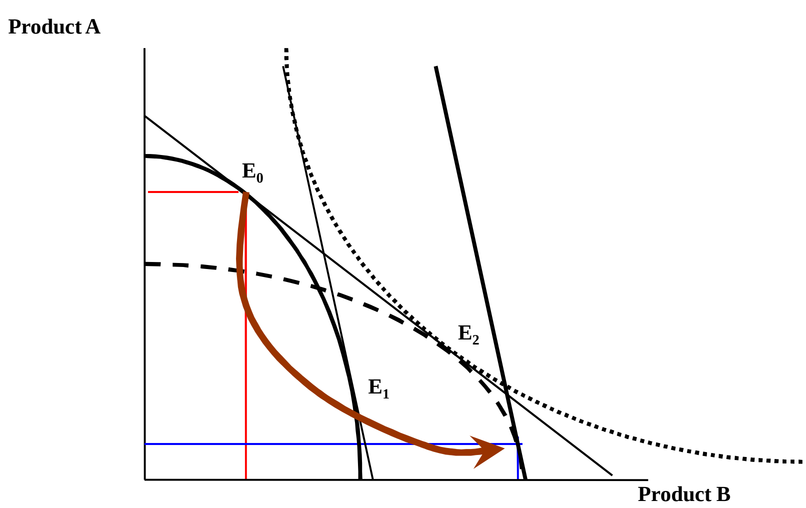
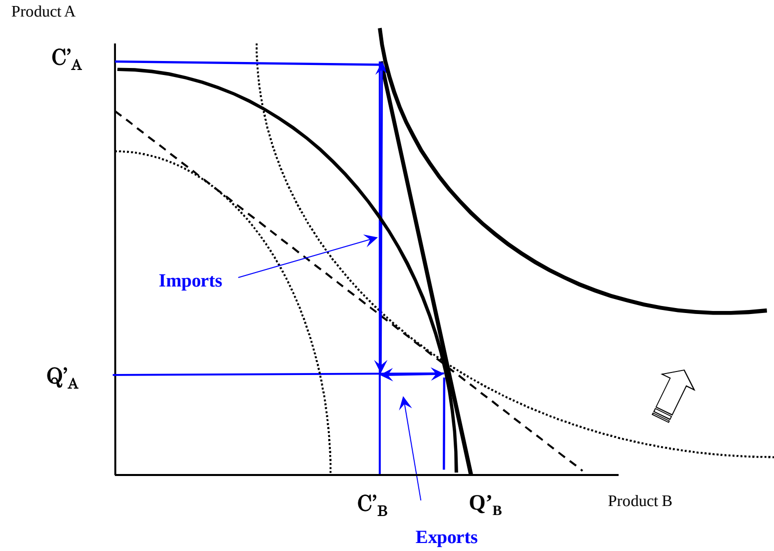


Figure 1 - Lifecycle of Leading Industry


Product A
E$_0$
E$_2$
E$_1$
Product B


Product A
E$_0$
E$_2$
E$_1$
Product B

What if this economy keeps growing?



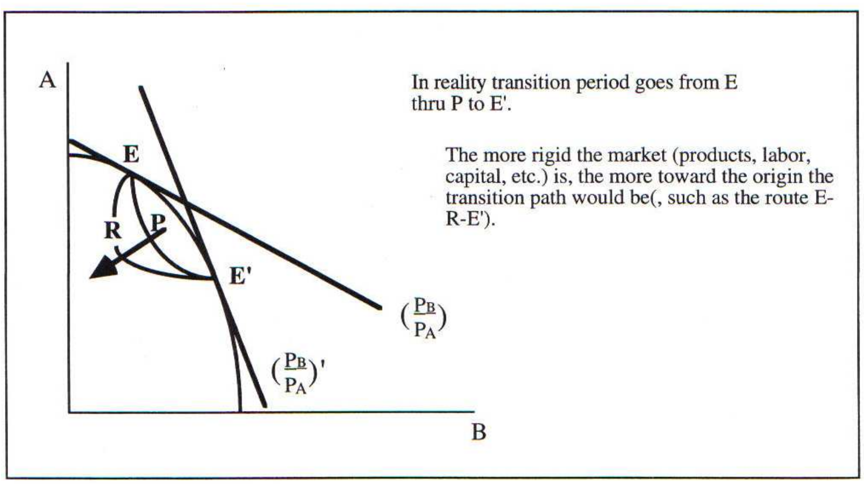


Figure 5 - Effect of Rigidity

Remedies for recession due to rigidities

- Unemployment benefits
- Job retraining / education
- Trade measures
  - Anti-dumping duties
  - Safe guard (Trade Act Section 201)
  - Section 301
  - Countervailing duties

Problems

- What are the economic factors and what are the political factors?
- Protectionist policies, trade war
- Remedies for recession due to rigidities become rigidities!
- When do industries/firms "graduate"?

→ Economists usually conclude that the main reason for job loss not so much due to globalization as to lack of technology