

The TPP

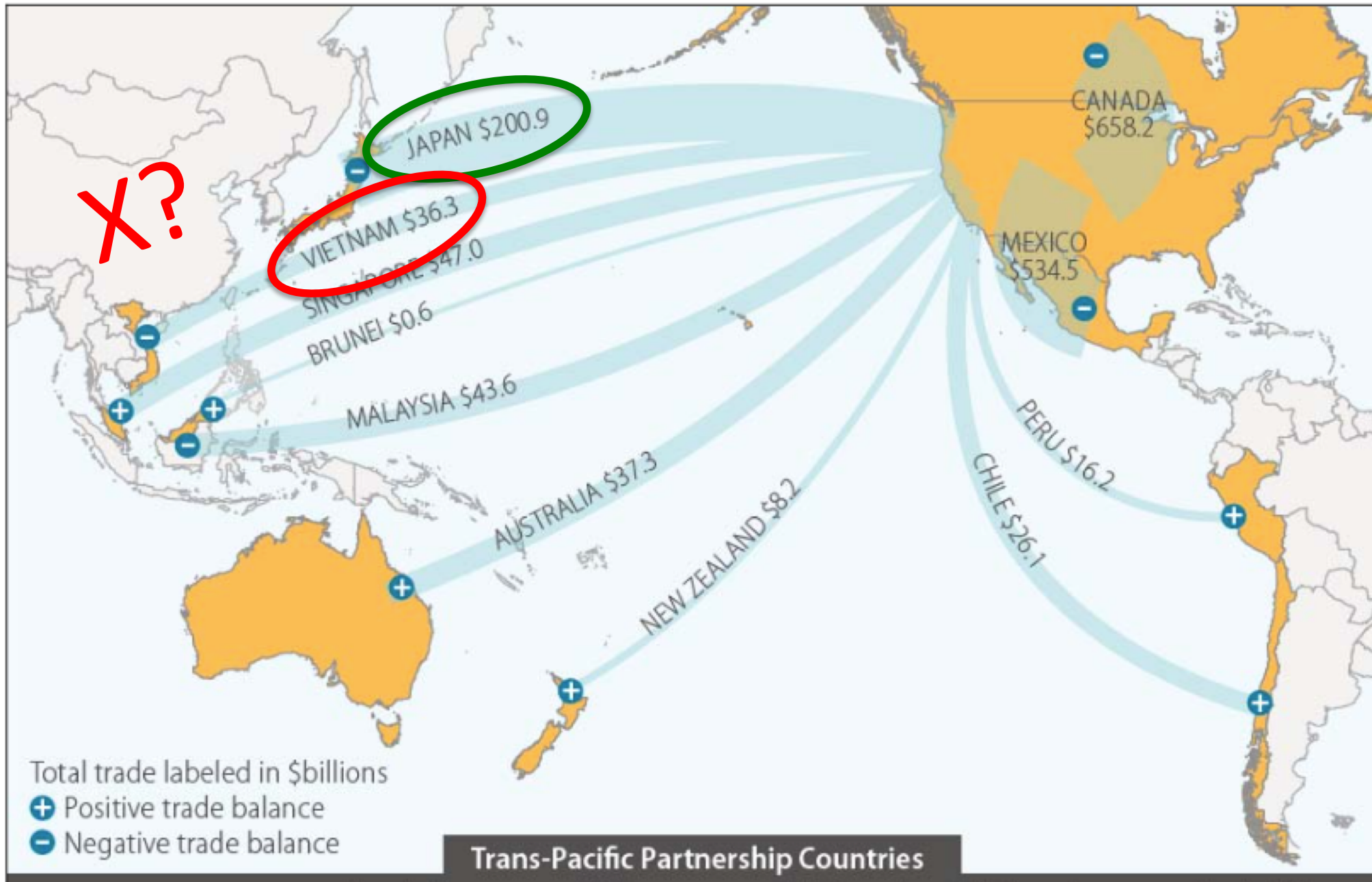
A Tough Political Proposition

(aka the Trans-Pacific Partnership)

Alan V. Deardorff

Ford School Tuesday Lunch
October 4, 2016

Figure 1. Trans-Pacific Partnership Countries



What Is the TPP?

- Main Features of TPP (only a few of 30 chapters):
 - Trade in goods: Reduce/remove tariffs & NTBs
 - Trade in services: Reduce/remove barriers
 - Digital trade: Facilitate data flows and E-commerce
 - Investment: Investor/State Dispute Resolution
 - Intellectual property: Expanded patents, etc.
 - Labor: Enforcement of standards
 - Environment: Enforcement of standards
 - State-owned firms: Competitive neutrality
 - Currency manipulation? (No, but side agreement)

Oddities of the TPP

- Tariffs
 - Cars and trucks: US tariffs removed
 - Cars: 2.5%, removal phased in over 25 years.
 - Trucks: 25%, removal phased in over 30 Years.
 - Schedules and rates differ by exporting country



EIF: Entry In Force
(duty-free from start)

B5: Eliminated in 5 annual
stages, duty-free in year 5

B10: Eliminated in 10 annual
stages, duty-free in year 10

US21: No higher than Peru FTA

US13: Base rate until
2022; duty-free in 2022

Bovine Meat
Cuts (i.e., Beef)

Base Rate	Australia	Brunei			Japan
4%	EIF	EIF	EIF	EIF	EIF
10%	EIF	EIF	EIF	EIF	B5
4.4 cents/kg	EIF	EIF	EIF	EIF	B5
4%	EIF	EIF			B10
10%	EIF	EIF	EIF	EIF	B10
4.4 cents/kg	EIF	EIF	EIF	EIF	B10
26.40%	US13	EIF	EIF	EIF	TRQ: CSQ- US21

Oddities of the TPP

- ISDS: Investor/State Dispute Resolution
 - Controversial
 - Gives foreign companies rights that domestic companies lack
 - Solution: Does not apply to tobacco industry
 - (Implication: Tobacco companies won't support TPP)

Oddities of the TPP

- Biologic Drugs
 - (advanced medicines made from living organisms)
 - The issue: Time period of permitted data exclusivity
 - US wanted 12 years of protection, as contained in the Obama Care.
 - Australia and others wanted much shorter protection, 5 or 6 years.
 - Compromise: US keeps 12-years; others will not. 5 years protection will be an increase.
 - (Implication: Drug companies may not support TPP)

Oddities of the TPP

- Japanese Agriculture:
 - Japan will lower its tariff on beef from over 38.5% to 9% over 16 years
 - Rice (no cut in tariff): New duty-free quota of 50,000 tons, rising to 75,000 tons in year 13

Oddities of the TPP

- Exchange Rates
 - US wanted TPP to address currency undervaluation (which makes exports cheaper)
 - Resolution: Side Agreement on Exchange Rates:
 - Commitment to avoid manipulation
 - Transparency and Reporting
 - Group to meet at least annually to discuss macroeconomic and exchange rate issues
 - No enforcement mechanism

Should TPP be Approved?

- Is it a good agreement?
 - Much of it is good
 - Reduces trade barriers
 - Harmonizes rules on health, safety, etc.
 - Broadens Rules of Origin
 - Some parts are bad (ISDR, IP)
 - But not as bad as I feared

Should TPP be Approved?

- Is it a good agreement?
 - Will it hurt workers?
 - Some yes, just as NAFTA did
 - Provisions for labor standards are present but weak
 - Answer is not to reject TPP, but to accompany it with
 - Better Trade Adjustment Assistance
 - Wage Insurance
 - (And not just for workers dislocated by trade)

Should TPP be Approved?

- Would rejection of TPP be bad?
 - Yes, hugely!
 - It will signal US withdrawal from the liberal trading system
 - It will tell TPP members that we are not on their side
 - It will encourage China to move ahead with its own trading block:
 - RCEP: Regional Comprehensive Economic Partnership (16 Asian countries)

Will TPP be Approved?

- Maybe not:
 - TPP
 - Has not yet been ratified by any country
 - US
 - Will not consider in Congress until after November election, if then
 - TPP is opposed by Trump, Clinton, and much of the electorate
 - If TPP is voted down by US, it will die