GERALD R. Ford School OF PUBLIC POLICY

UNIVERSITY OF MICHIGAN

Pro's and Con's of Trade Agreements

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For presentation to

District Export Council

November 9, 2016

www.fordschool.umich.edu

Outline

- Free Trade Agreements:
  - Their Essence
  - Their Economics
  - Their Proliferation
- FTAs in Practice: More than FTAs
  - NAFTA (North American Free Trade Agreement
  - TPP (Trans-Pacific Partnership)
  - TTIP (Trans-Atlantic Trade and Investment Partnership)

The Essence of an FTA

- Zero tariffs (import taxes) on all exports from partner countries
- Pre-FTA tariffs on outside countries
- Rules of origin to prevent trade deflection

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  - TTIP

The Economics of an FTA

- Trade creation
  - Import from partner what you previously produced yourself
- Trade diversion
  - Import from partner what you previously imported from outside

The Economics of an FTA

- Trade creation
  - Beneficial to both countries in aggregate; similar to gains from true multilateral free trade
  - Harmful to domestic producers who sell less; also similar to true free trade

The Economics of an FTA

- Trade diversion
  - Beneficial to partner country that now exports
  - Harmful to outside country that ceases exporting
  - Harmful to importing country, which imports higher-cost product
  - Does *not* harm domestic producers

The Economics of an FTA

- Rules of Origin
  - Necessary for FTA
  - Reduce the economic gains from FTA
  - May be designed to restrict trade
  - May induce costly sourcing of inputs

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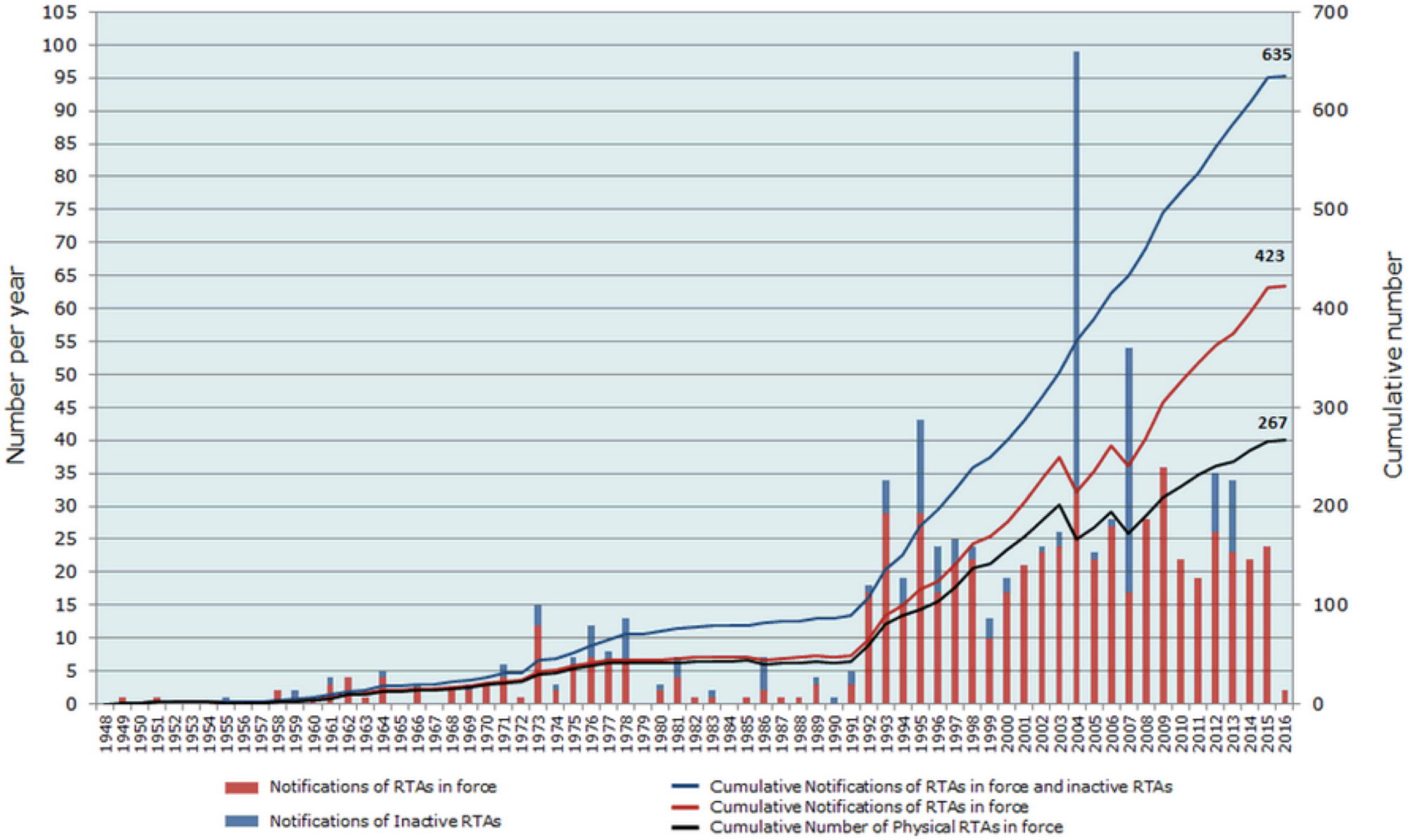
The Proliferation of FTAs

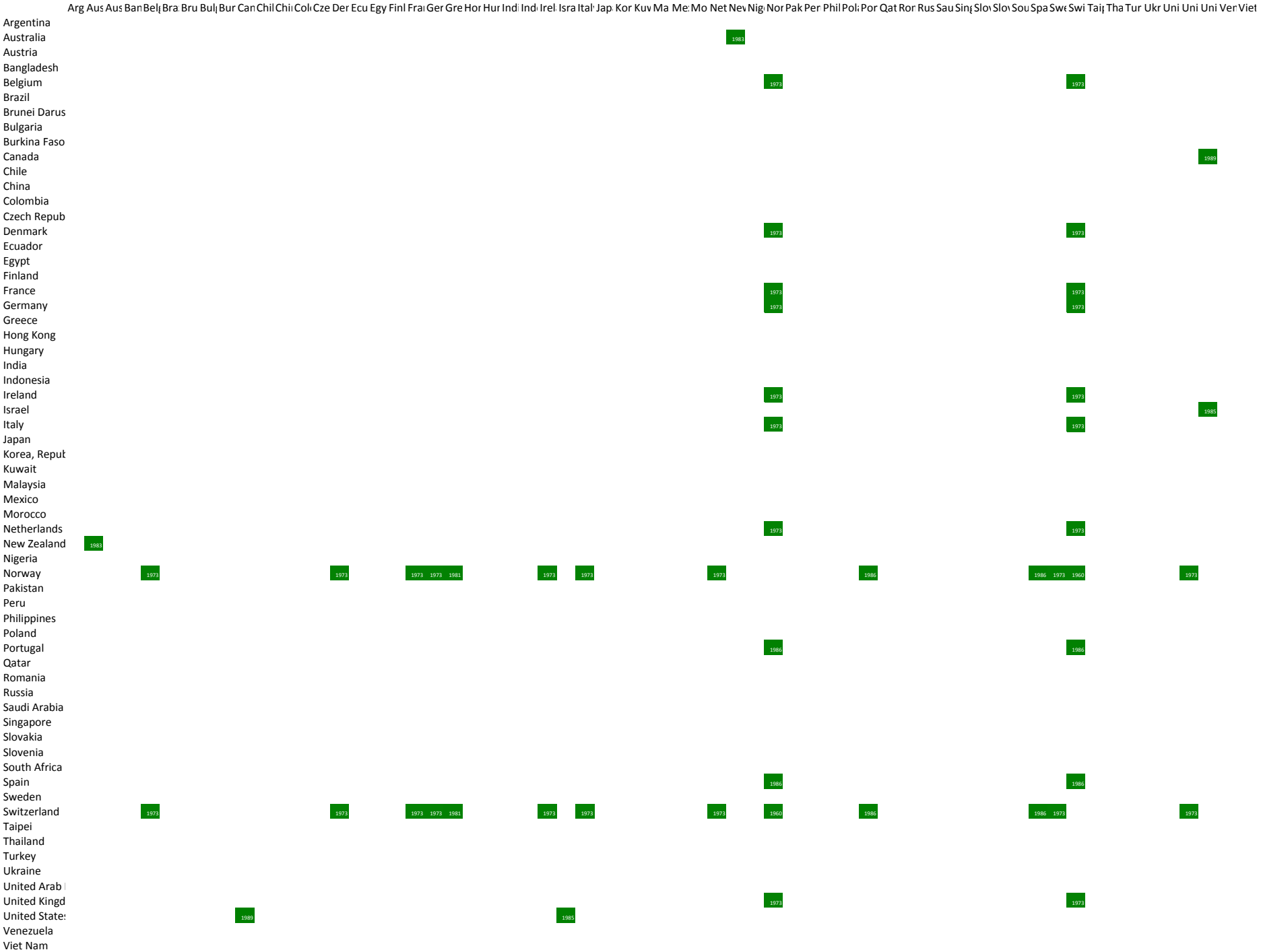
- Called "Regional Trade Agreements" by WTO
- There were very few until the 1990.
- Their numbers have grown

Evolution of Regional Trade Agreements in the world, 1948-2016



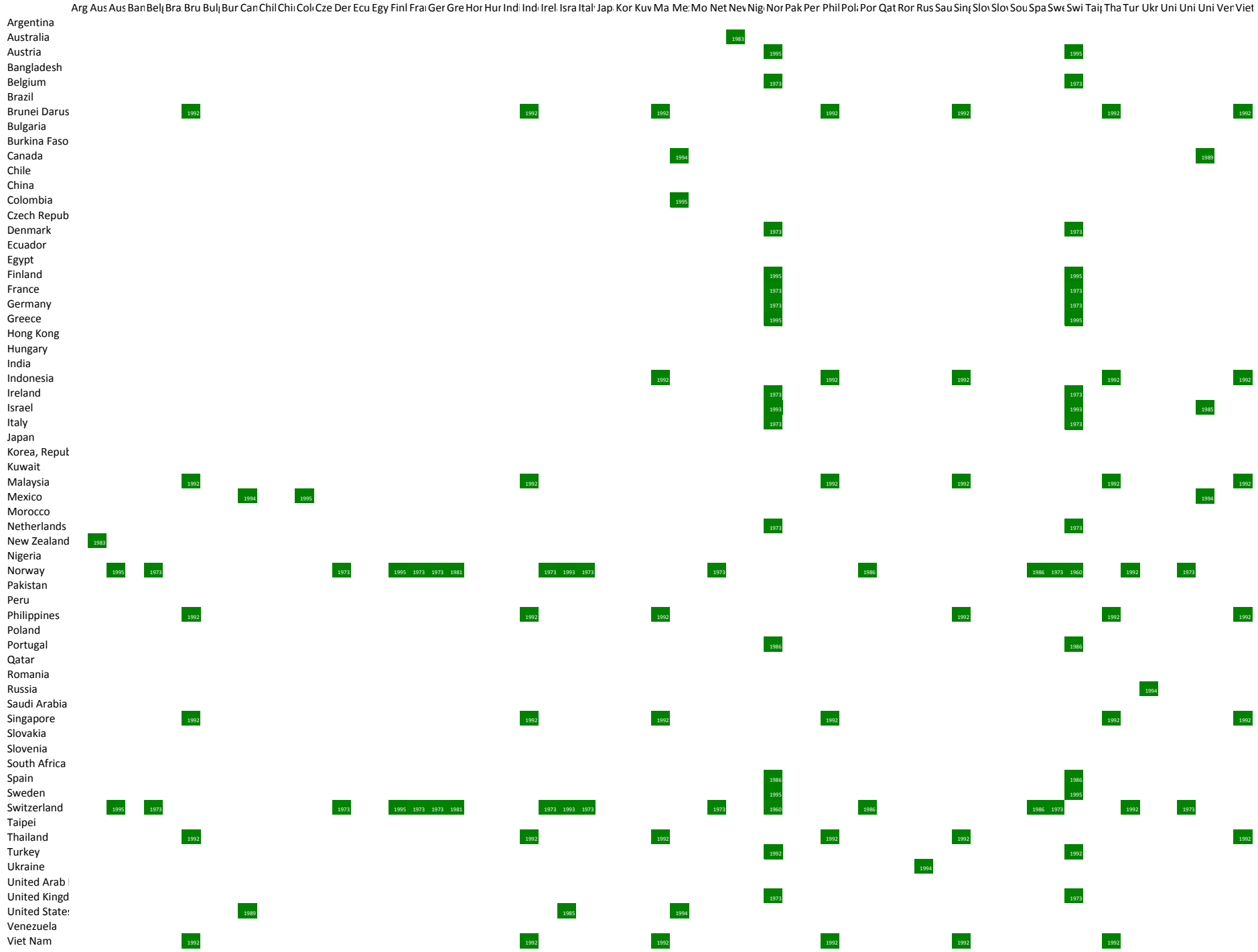
Countries connected by FTAs only, as of 1990

1%



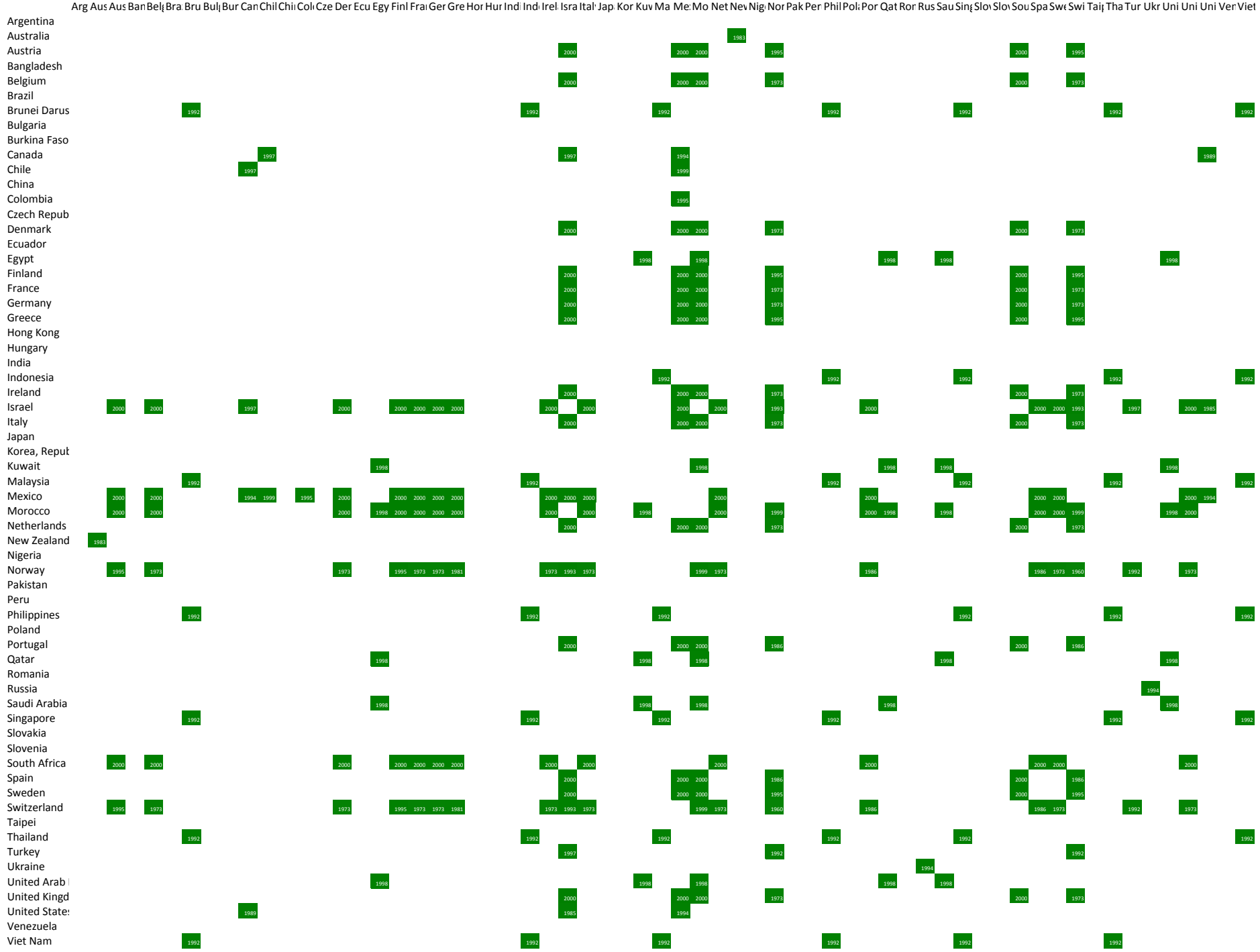
Countries connected by FTAs only, as of 1995

3%



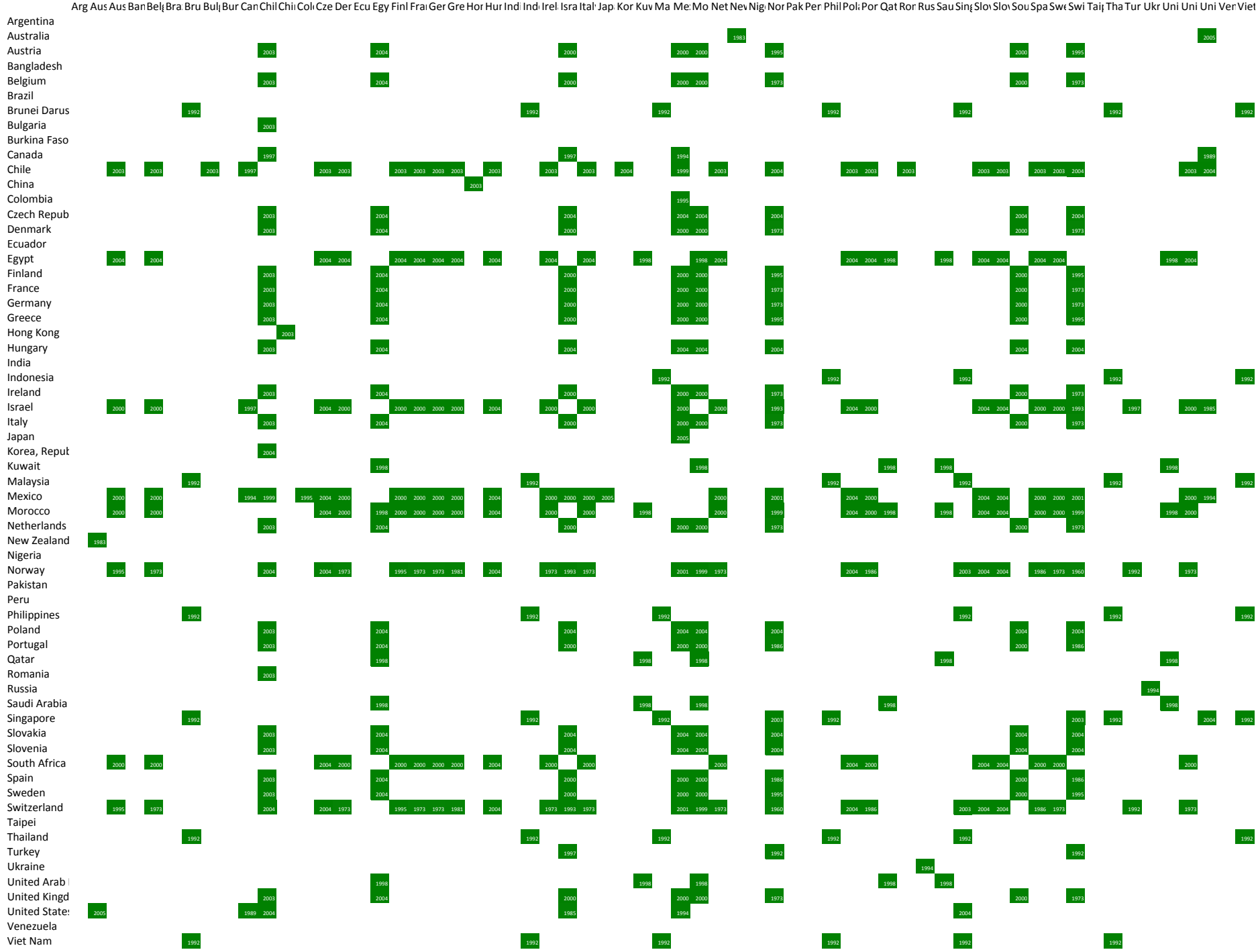
Countries connected by FTAs only, as of 2000

7%



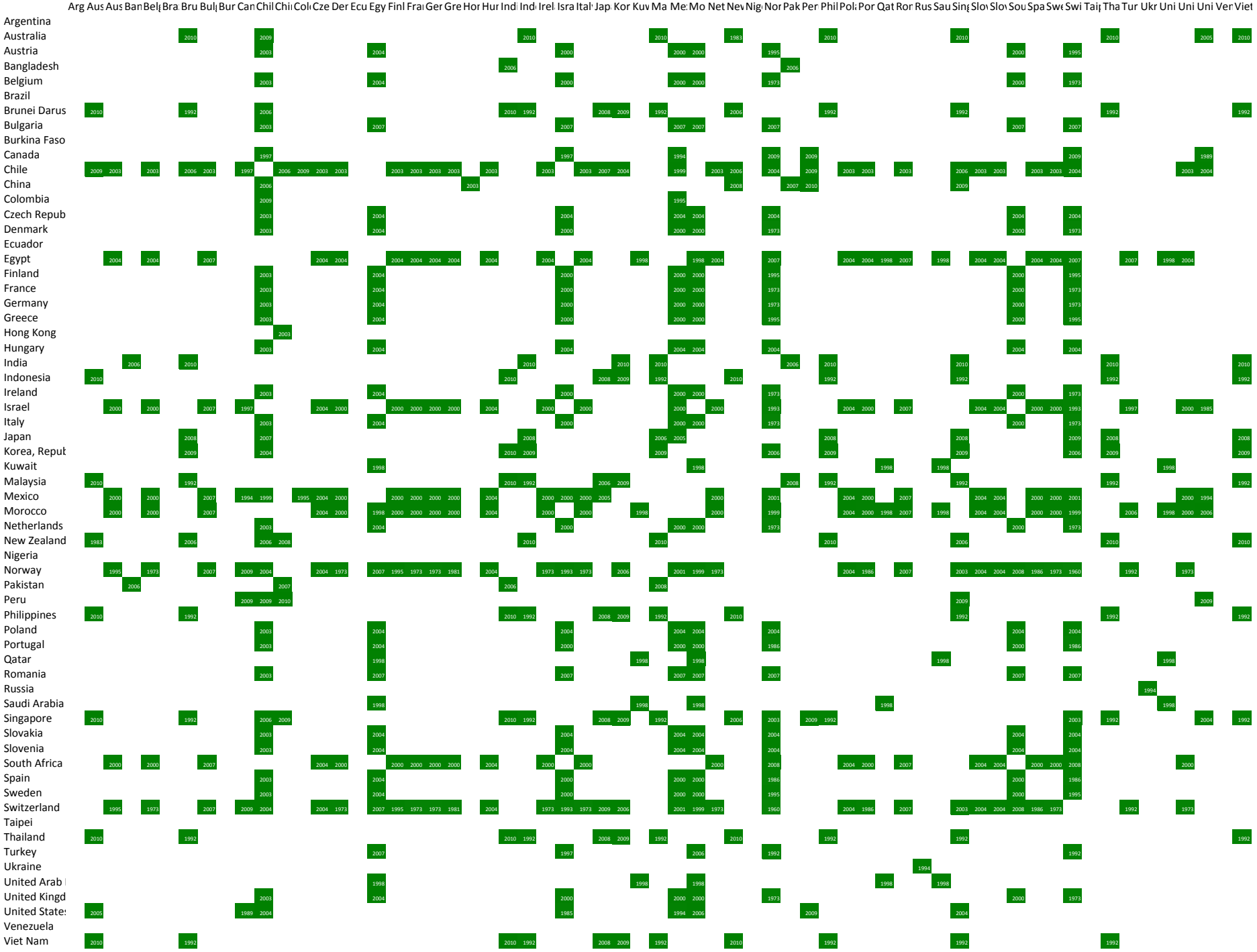
Countries connected by FTAs only, as of 2005

11%



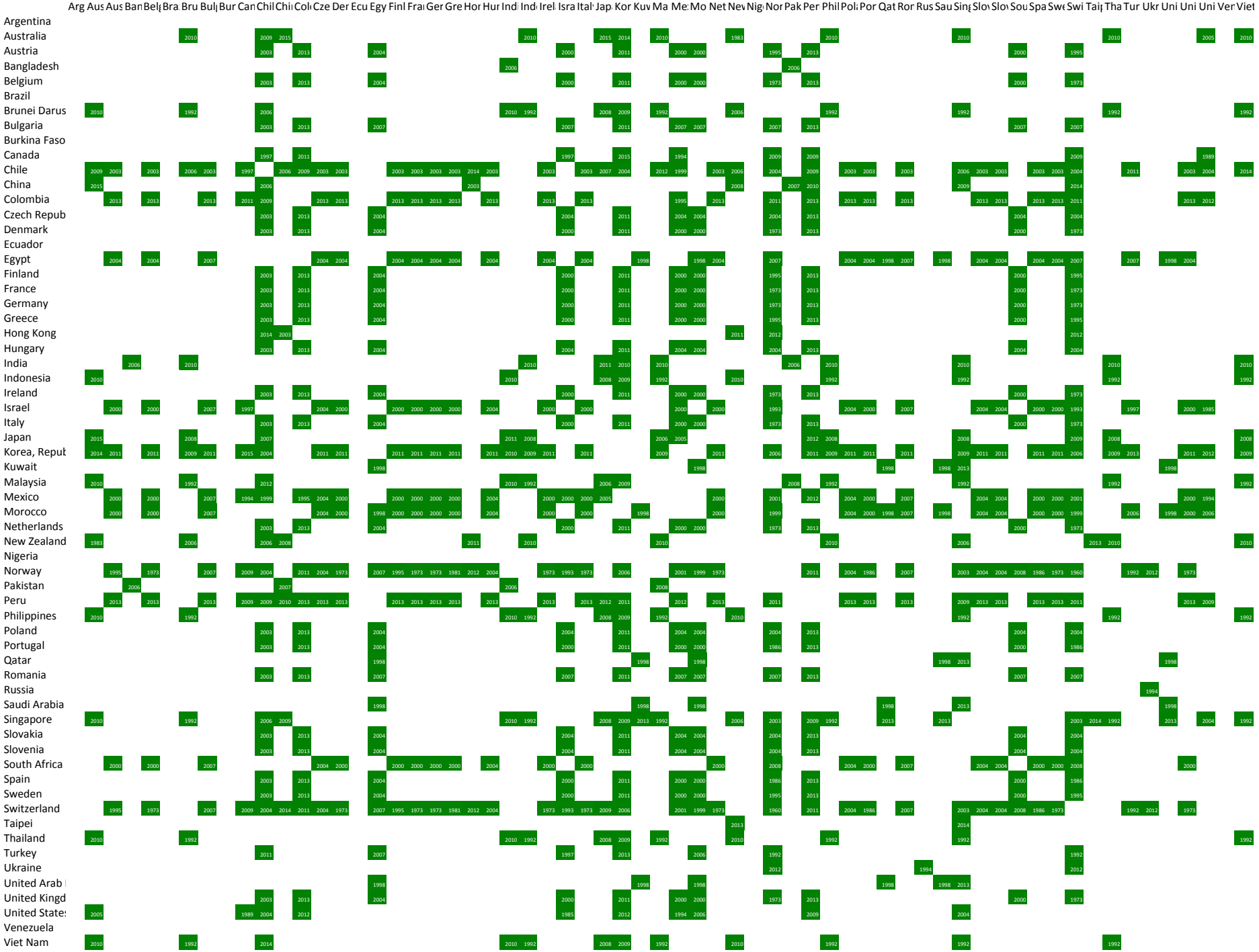
Countries connected by FTAs only, as of 2010

15%



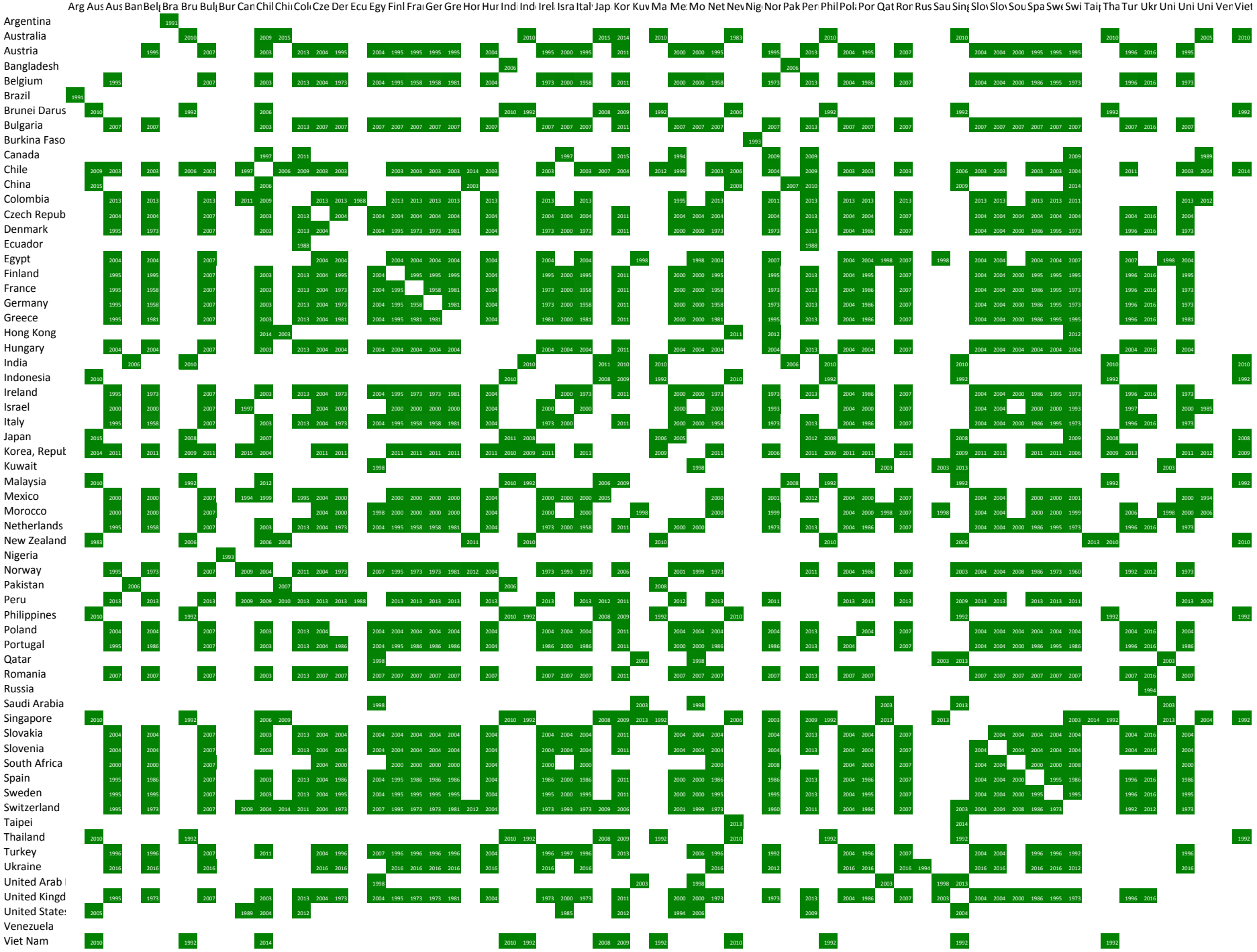
Countries connected by FTAs only, as of 2015

20%



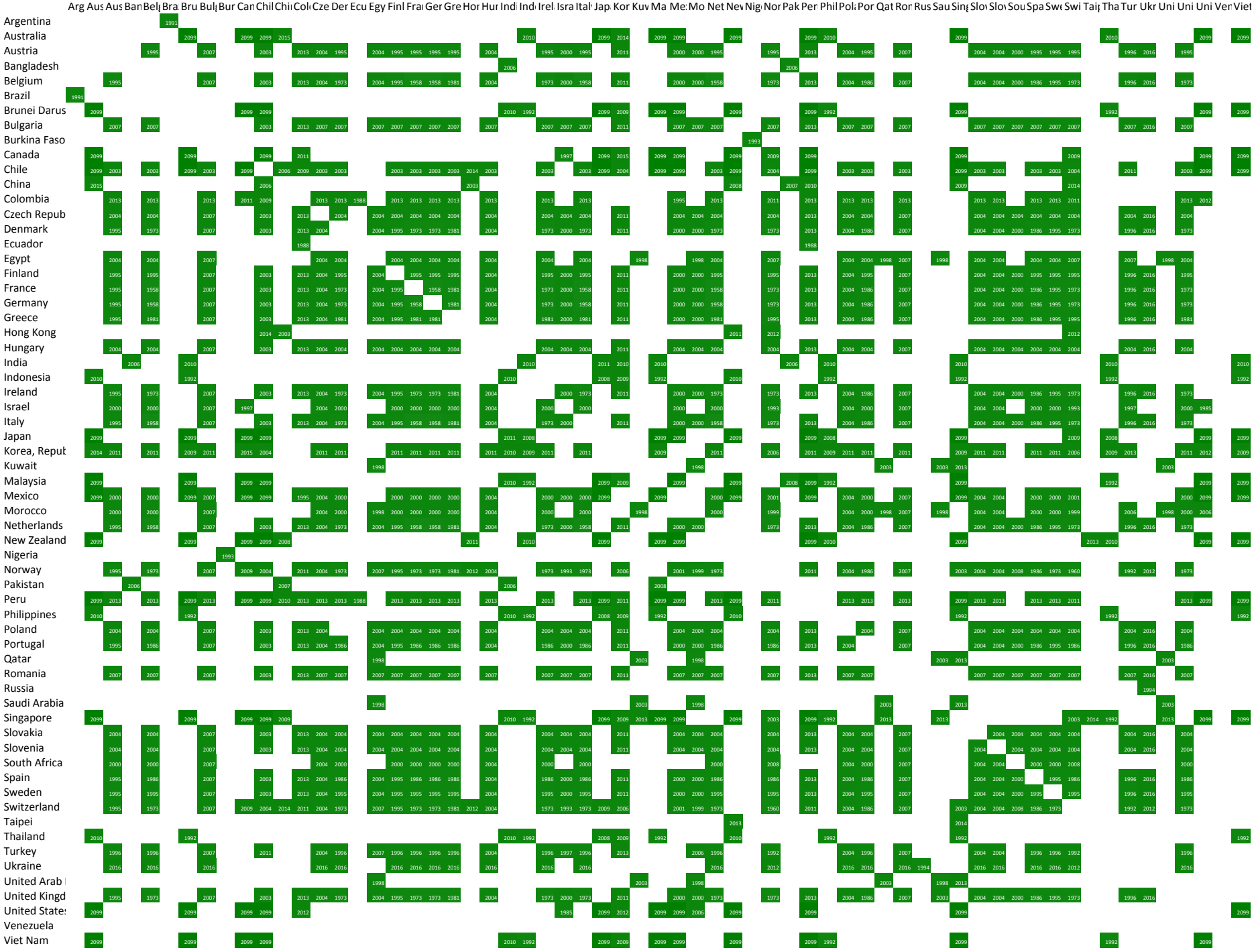
Countries connected by FTAs or CUs

33%



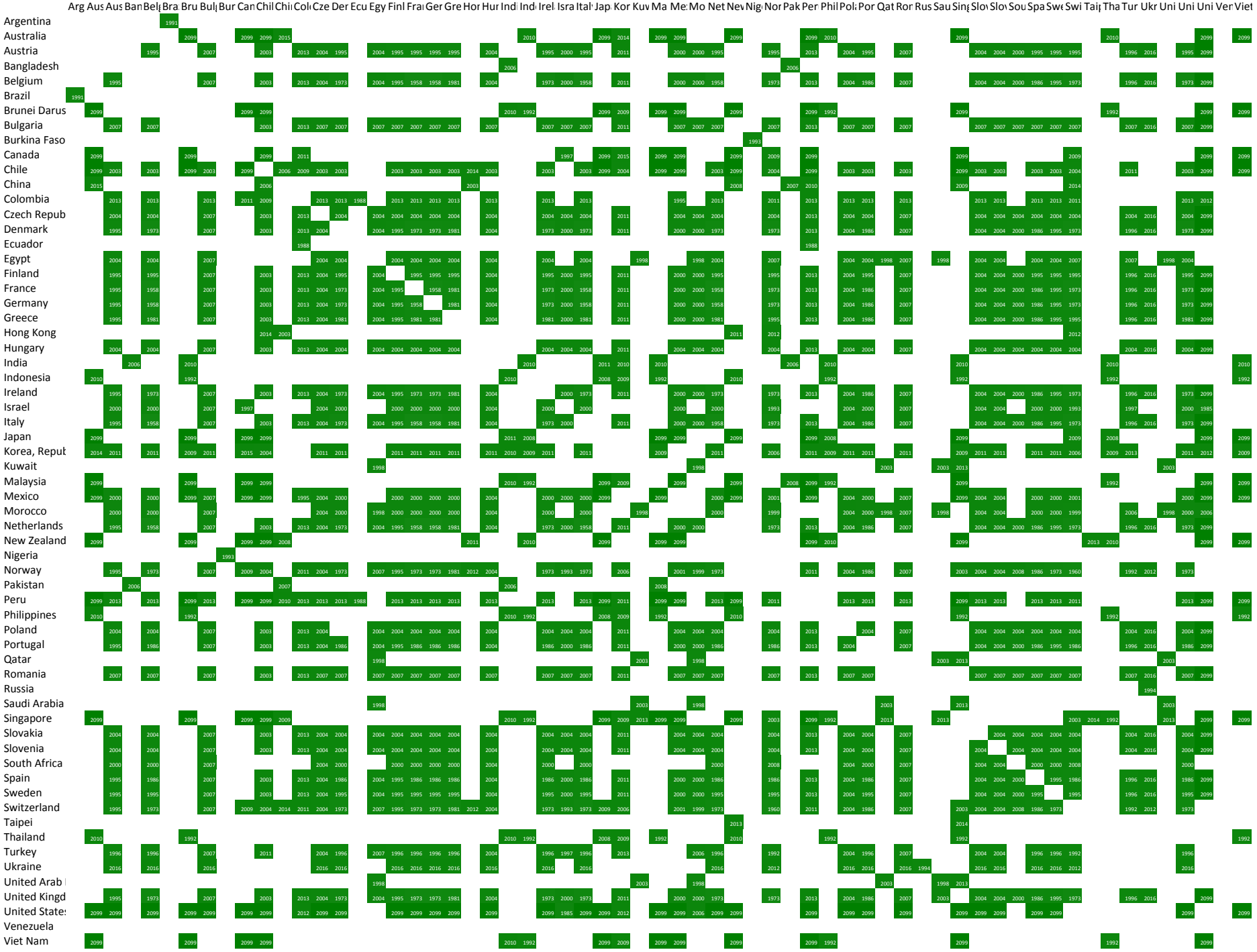
Countries connected by FTAs or CUs plus TPP

35%



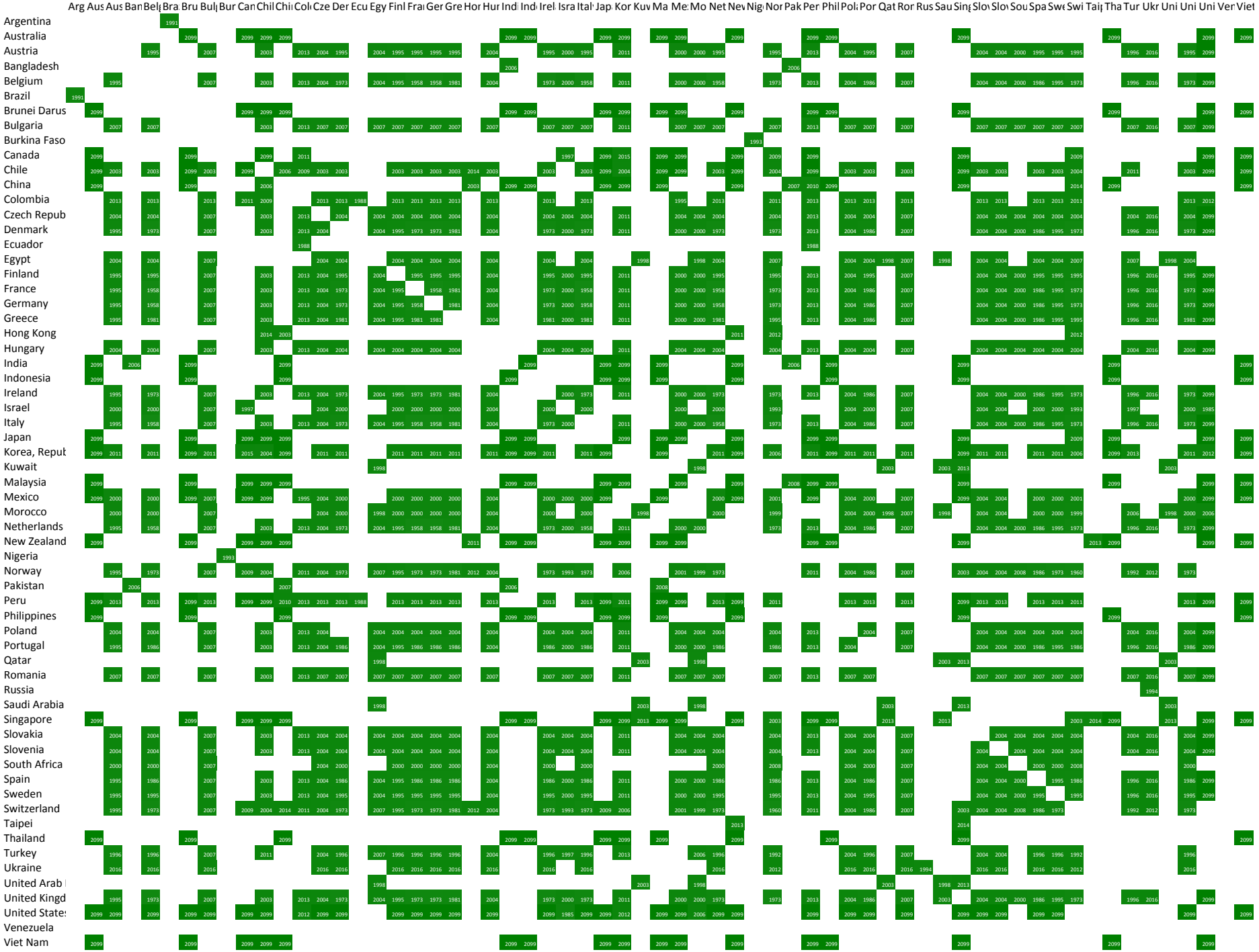
Countries connected by FTAs or CUs plus TPP or TTIP

36%



Countries connected by FTAs or CUs plus TPP, TTIP, or RCEP

36%



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FTAs in Practice: NAFTA

- NAFTA = North American Free Trade Agreement
  - A Free Trade Agreement including US, Canada, and Mexico
    - Zero tariffs on (taxes on imports from) each other
    - Pre-existing tariffs on outside countries
    - Rules of origin

NAFTA – What is it?

- Other provisions
  - Some liberalization in services
  - Foreign investment
    - ISDS in Chapter 11
  - Intellectual property rights
  - Opening of government procurement

NAFTA – What is it?

- Side Agreements
  - Labor
  - Environment

NAFTA - History

- Before NAFTA, US had
  - US-Canada Auto Pact
    - Signed 1965
    - Free trade between US and Canada in cars and car parts

NAFTA - History

- Before NAFTA, US had
  - US-Canada FTA
    - 1989
    - Prompted by
      - US frustration with multilateral negotiations
      - Canadian frustration with US AD and CVD policies

NAFTA - History

- Before NAFTA,
  - Mexico had
    - High tariffs, like most developing countries
    - Had begun to reduce them in 1980s
    - Even after reductions, Mexican tariffs were much higher than US tariffs

NAFTA - History

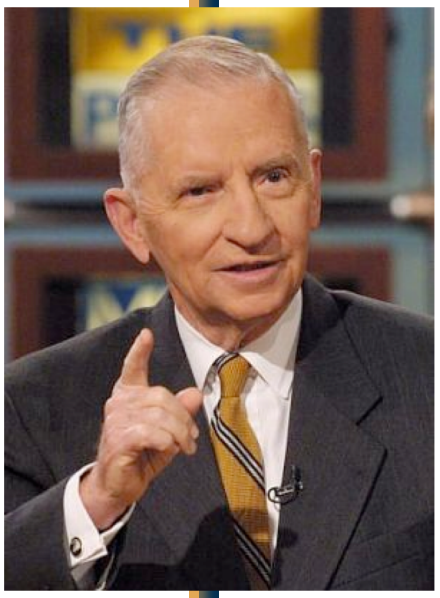
- Before NAFTA,
  - Maquiladora Arrangements with Mexico
    - Low tariffs on US imports from Mexico of goods processed there from US inputs
    - Initially restricted to border region

NAFTA - History

- NAFTA Negotiations
  - Done by Bush (Sr.) administration, 1991-2
  - Extended US-Canada FTA to include Mexico
  - Agreement was reached under Bush, but was not yet approved by Congress before 1993

NAFTA - Debate

- Those opposed (around 1992 election)
  - Labor unions (feared lost jobs and lower wages)
  - Some environmental groups (feared dirty industries)
  - Ross Perot (ran for president)
    - Feared firms would move to Mexico: "Great sucking sound"
  - Some Democrats



NAFTA - Debate

- Those in favor
  - Bush (Sr.) administration
  - Clinton (Bill) (but with reservations about labor and environment)
  - Most of the business community
  - Most economists (Not all)

NAFTA - History

- After Clinton won election
  - Clinton negotiated Side Agreements on Labor and Environment
  - NAFTA was approved (very narrowly) by Congress Nov 1993

NAFTA - History

		Totals	Democrat	Republican	Independent
AYE	234	54%	102	132	0
NO	200	46%	156	43	1
REQUIRED:	Simple Majority		source: house.gov		

- Jan 1, 1994: NAFTA took effect

NAFTA - History

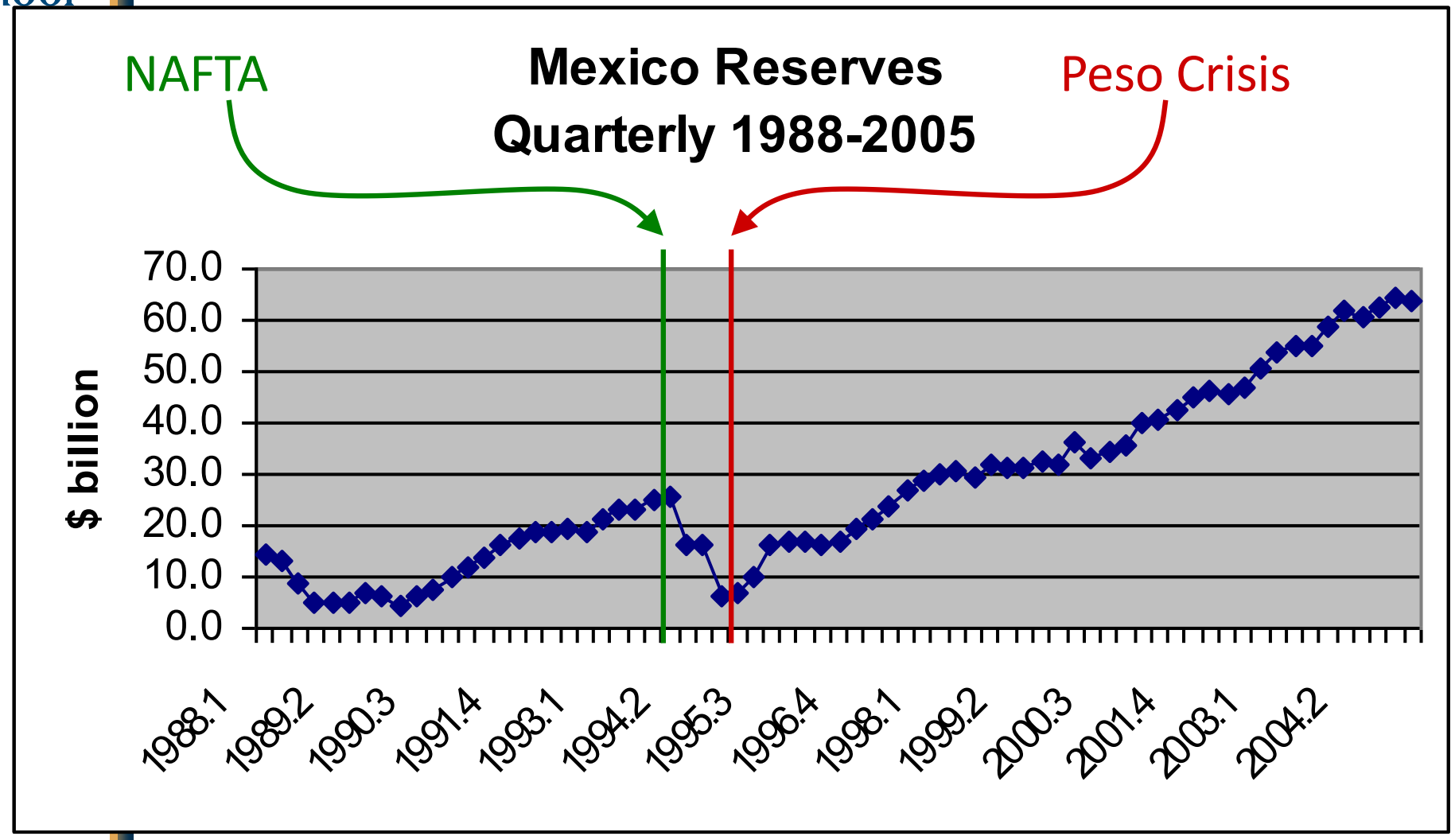
- What happened?
  - Not much, at first
  - Then, almost a year later, the "Peso Crisis"

Peso Crisis (aka "Tequila Crisis")

- Mexico's exchange rate was pegged
- Mexico resisted depreciation during 1994 due to presidential election
- Two assassinations also in 1994
- Late 1994 (after election)
  - Crisis hit
  - Peso devalued
- Devaluation had devastating effects on the Mexican economy

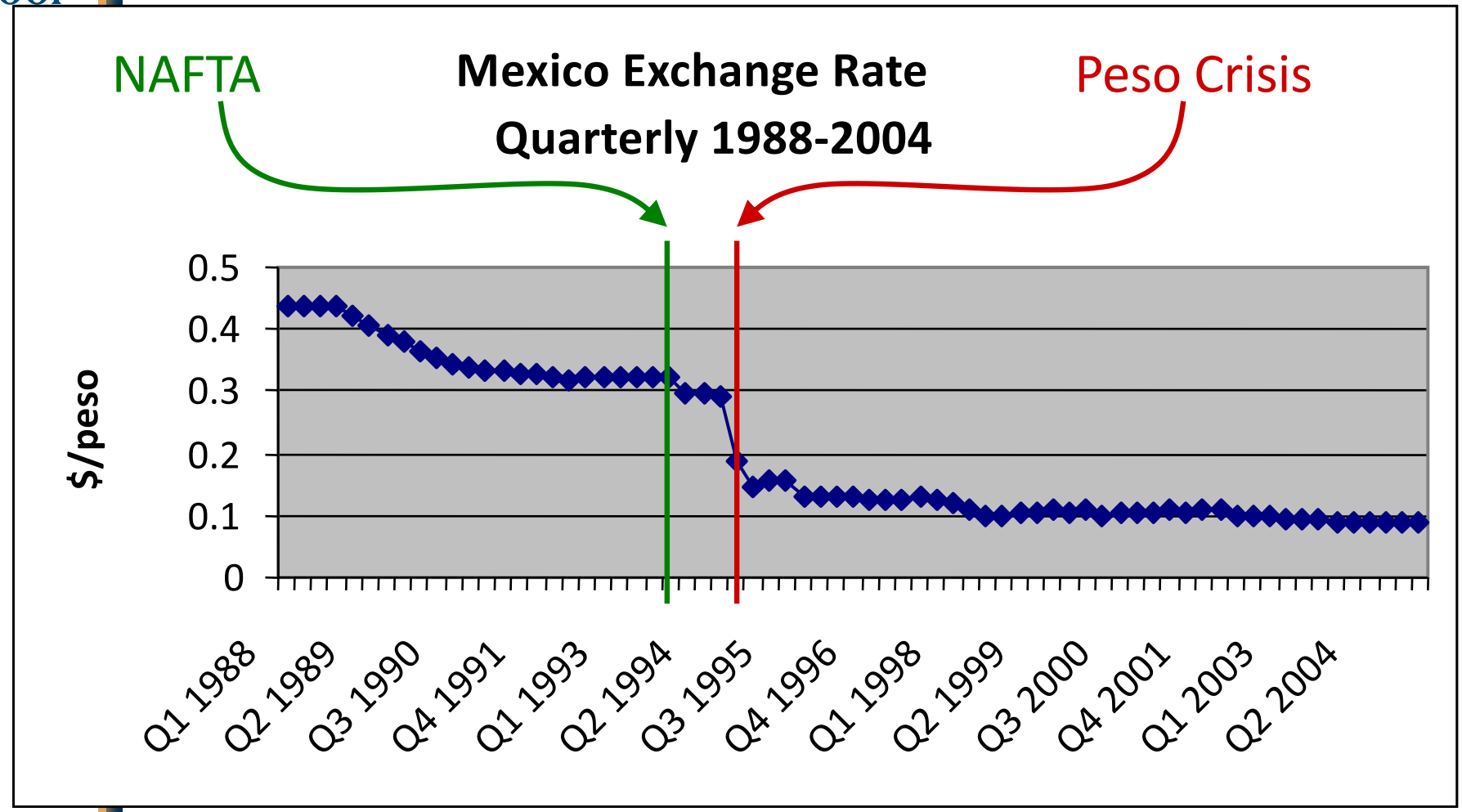
What Happened: Mexico

Reserves Fell at Once



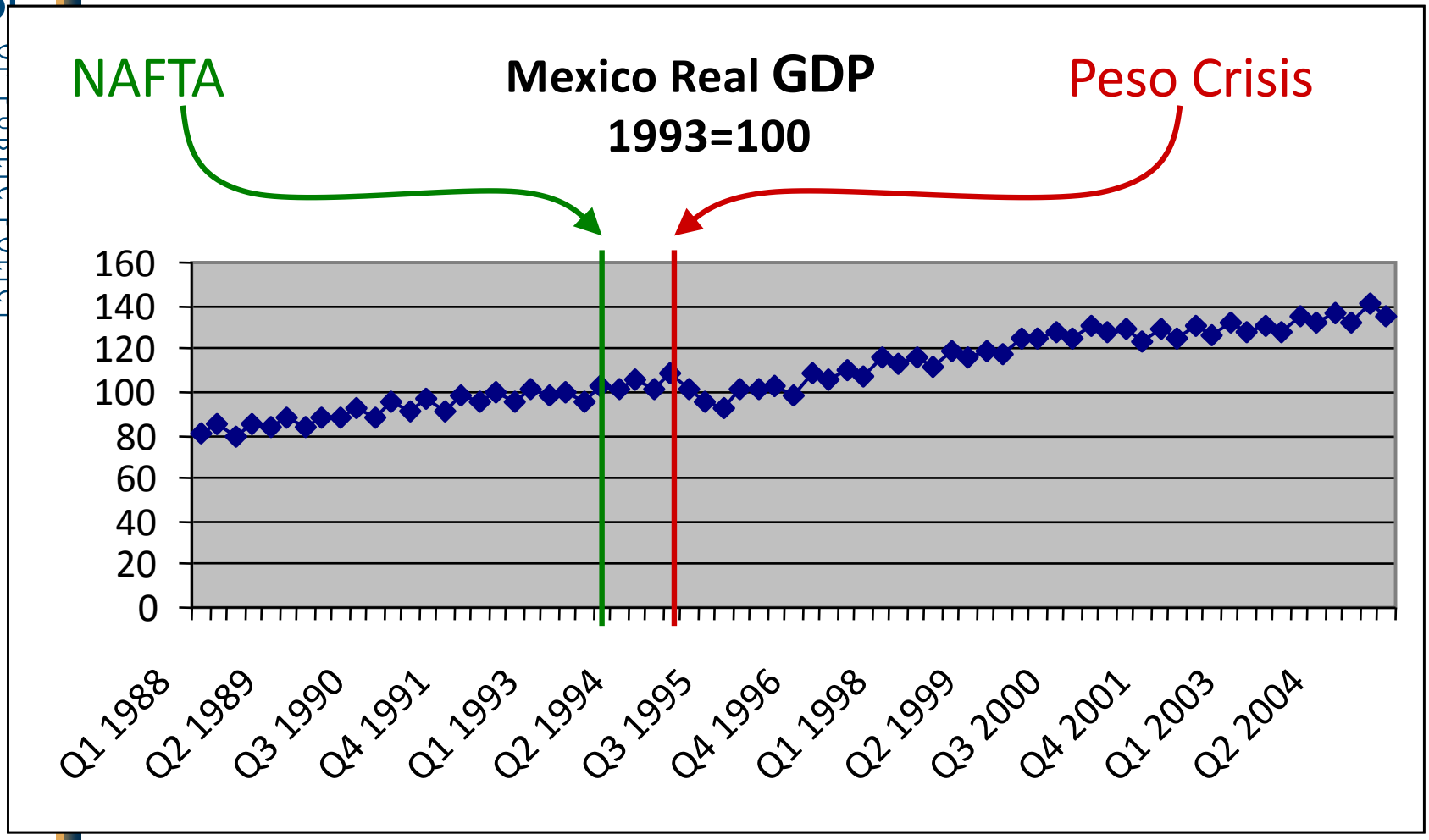
What Happened: Mexico

Peso Dropped One Year After



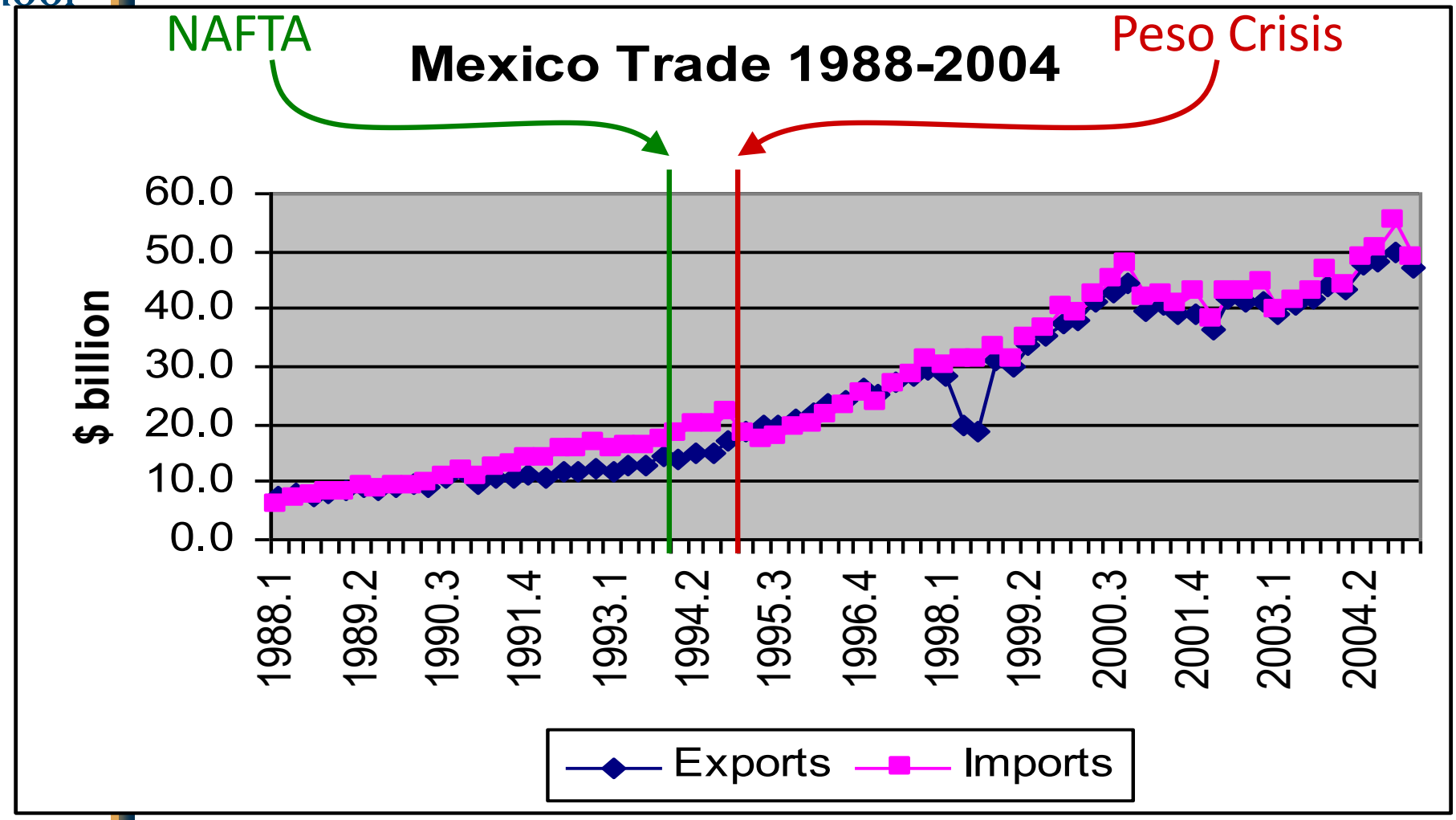
What Happened: Mexico

GDP Fell after Peso Crisis



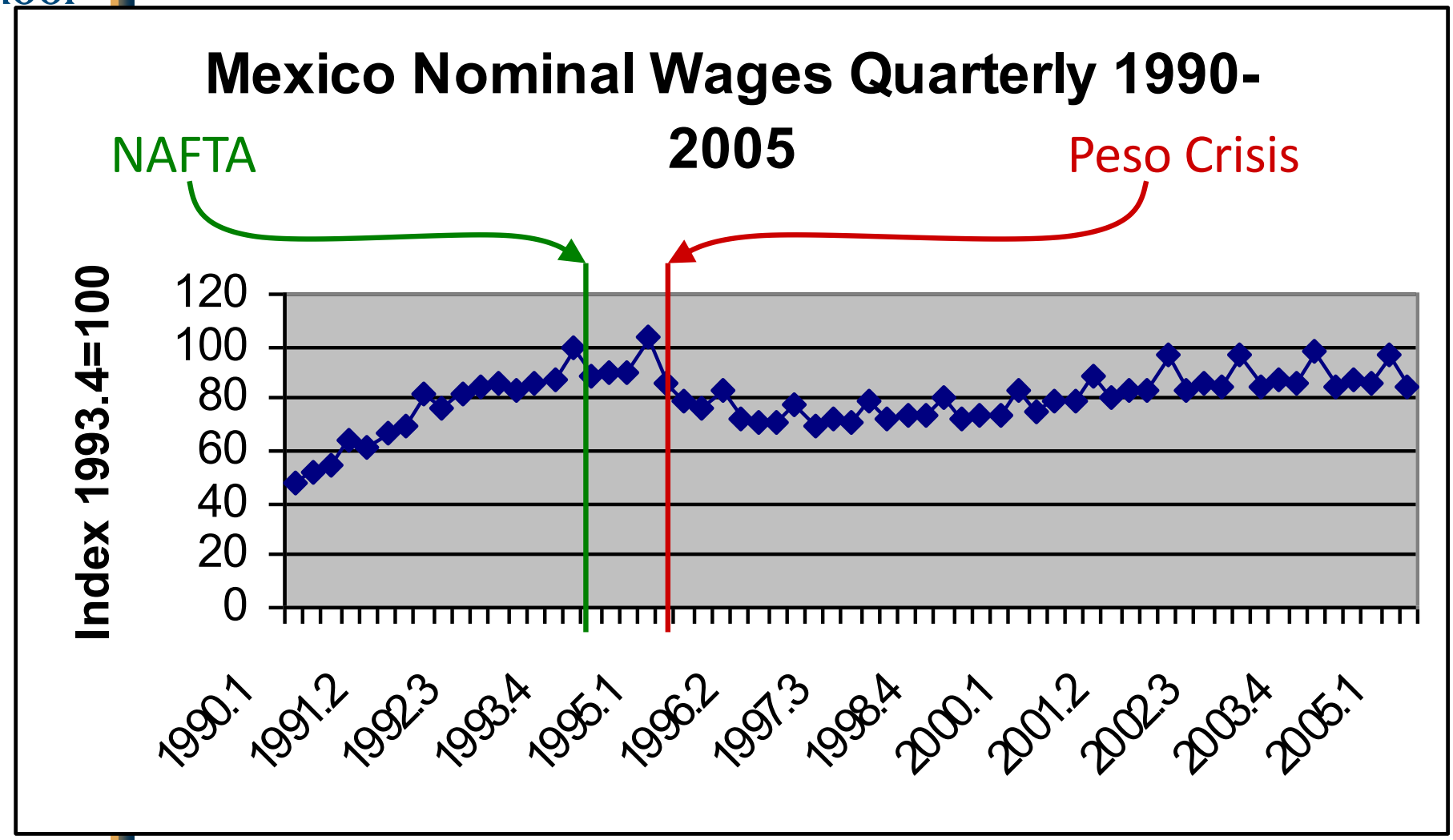
What Happened: Mexico

Imports Fell after Crisis; Exports Rose



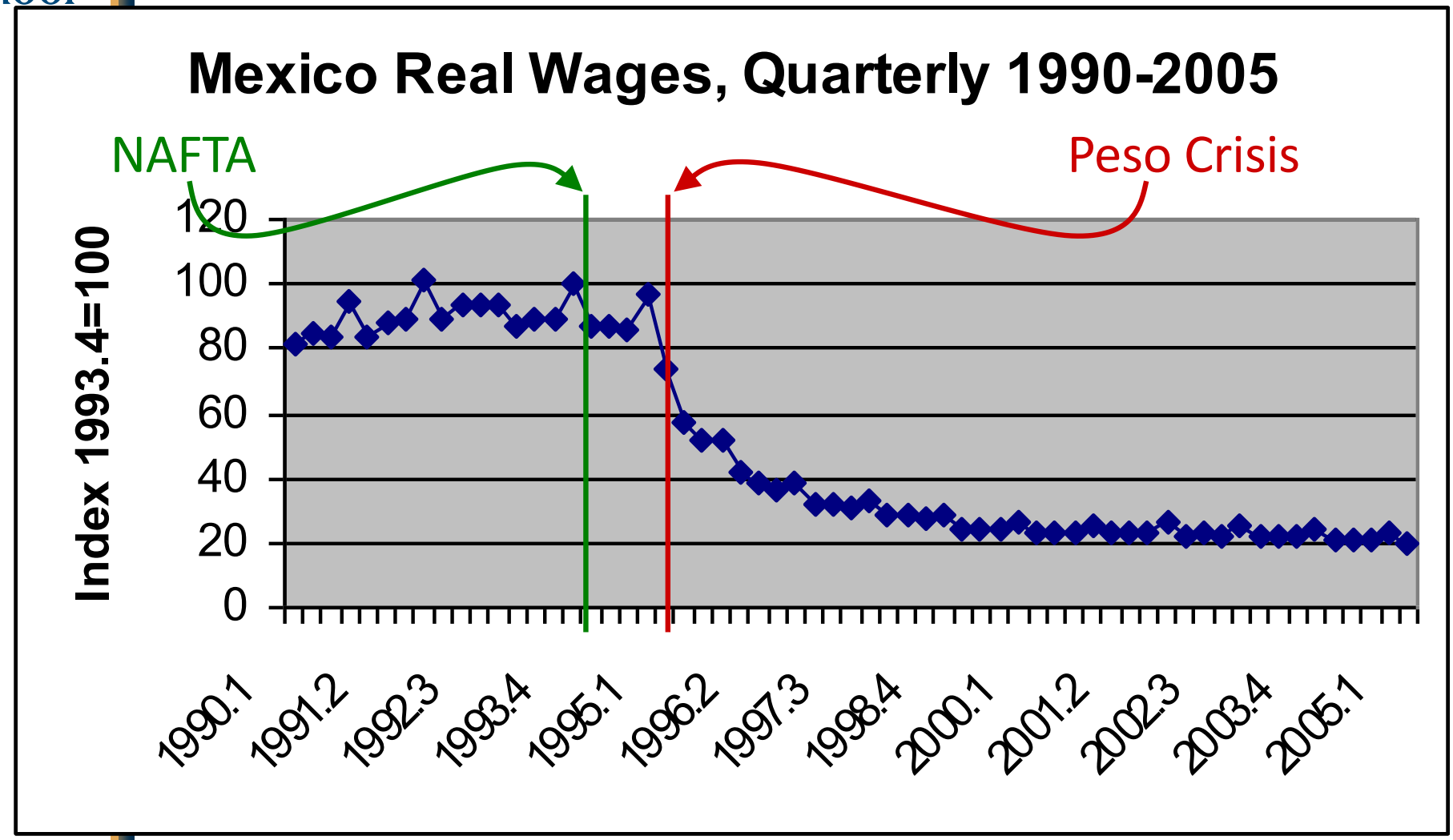
What Happened: Mexico

Wages Fell



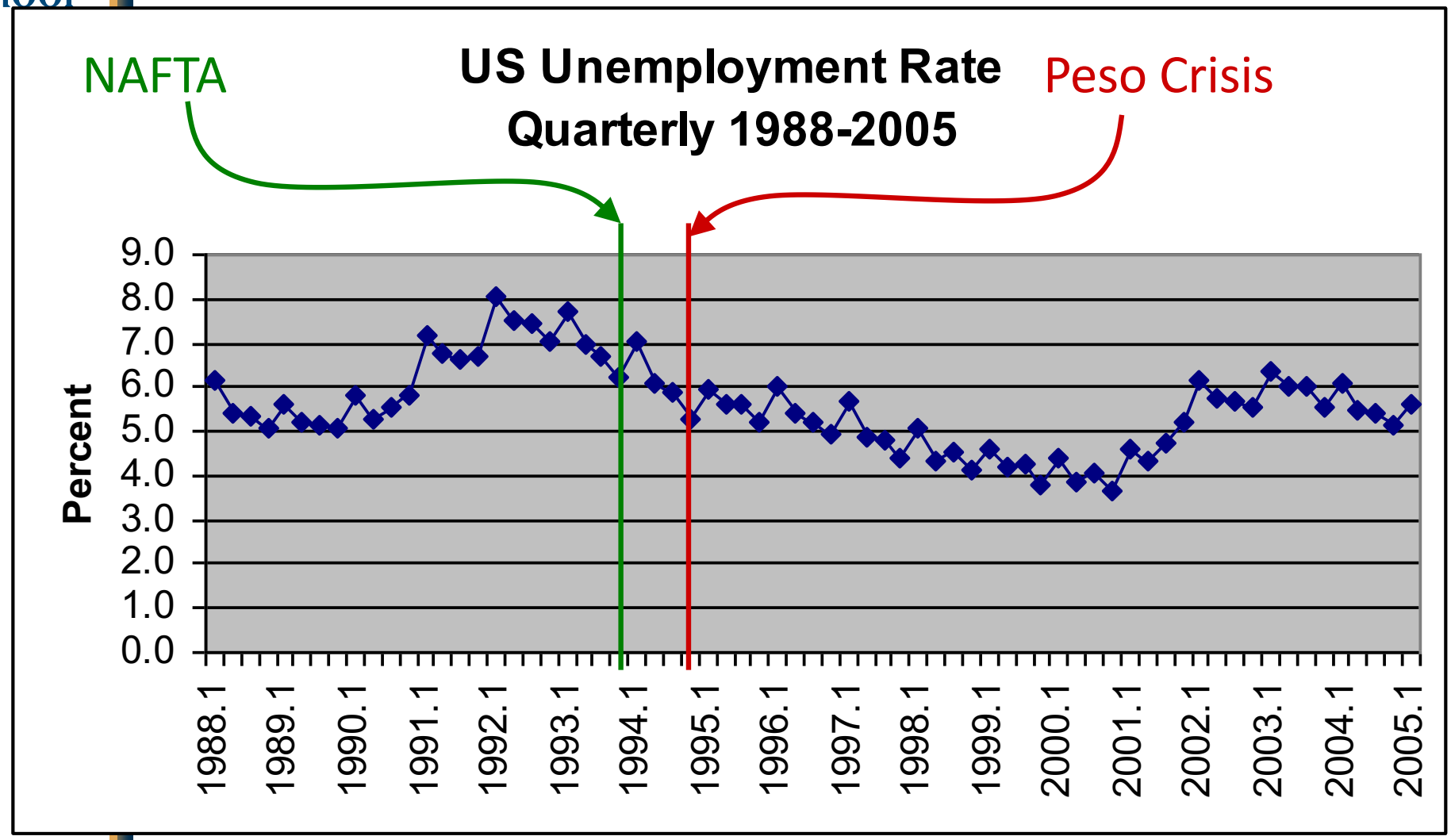
What Happened: Mexico

Real Wages Plummeted!



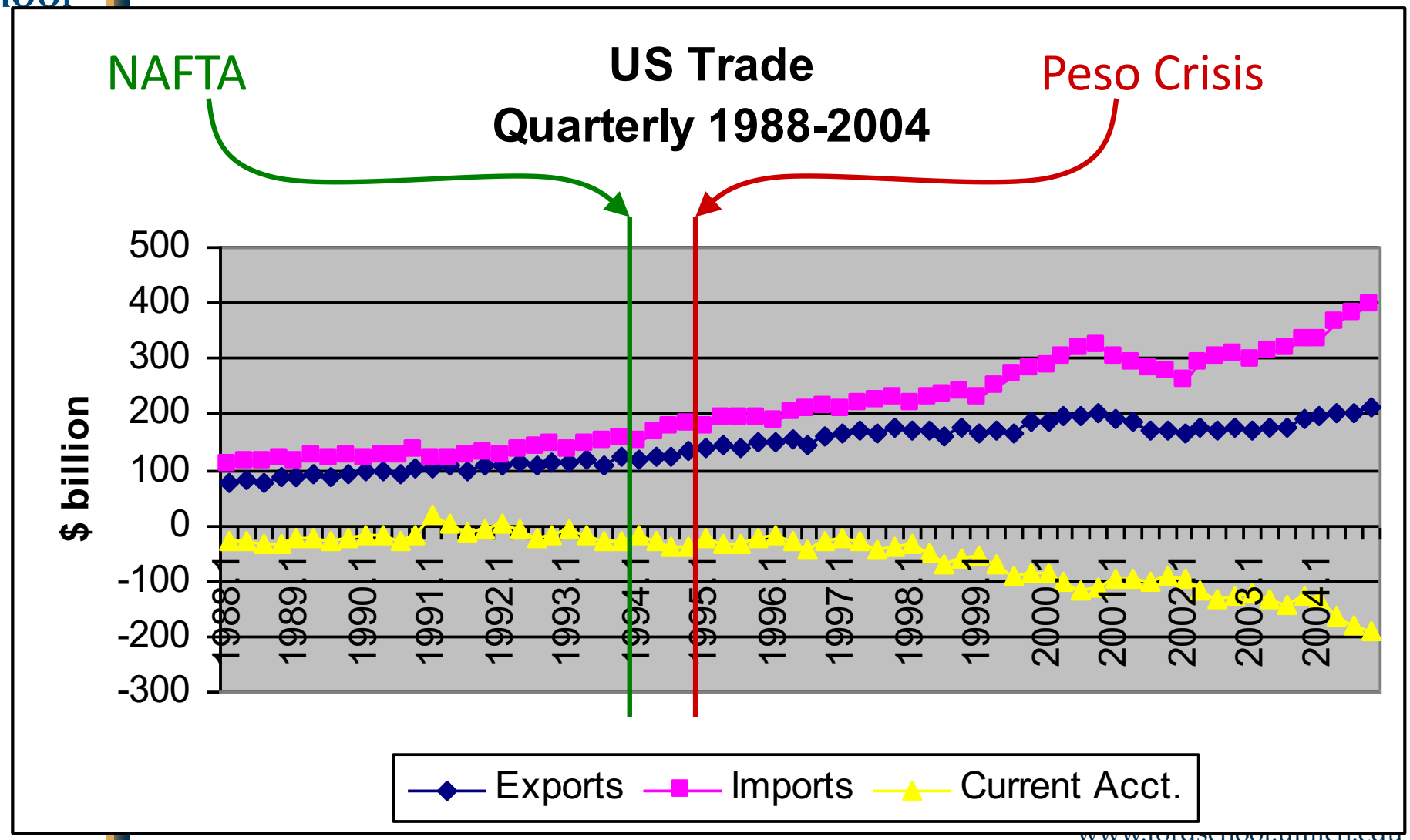
What Happened: U.S.

Unemployment: No effect (or fell)



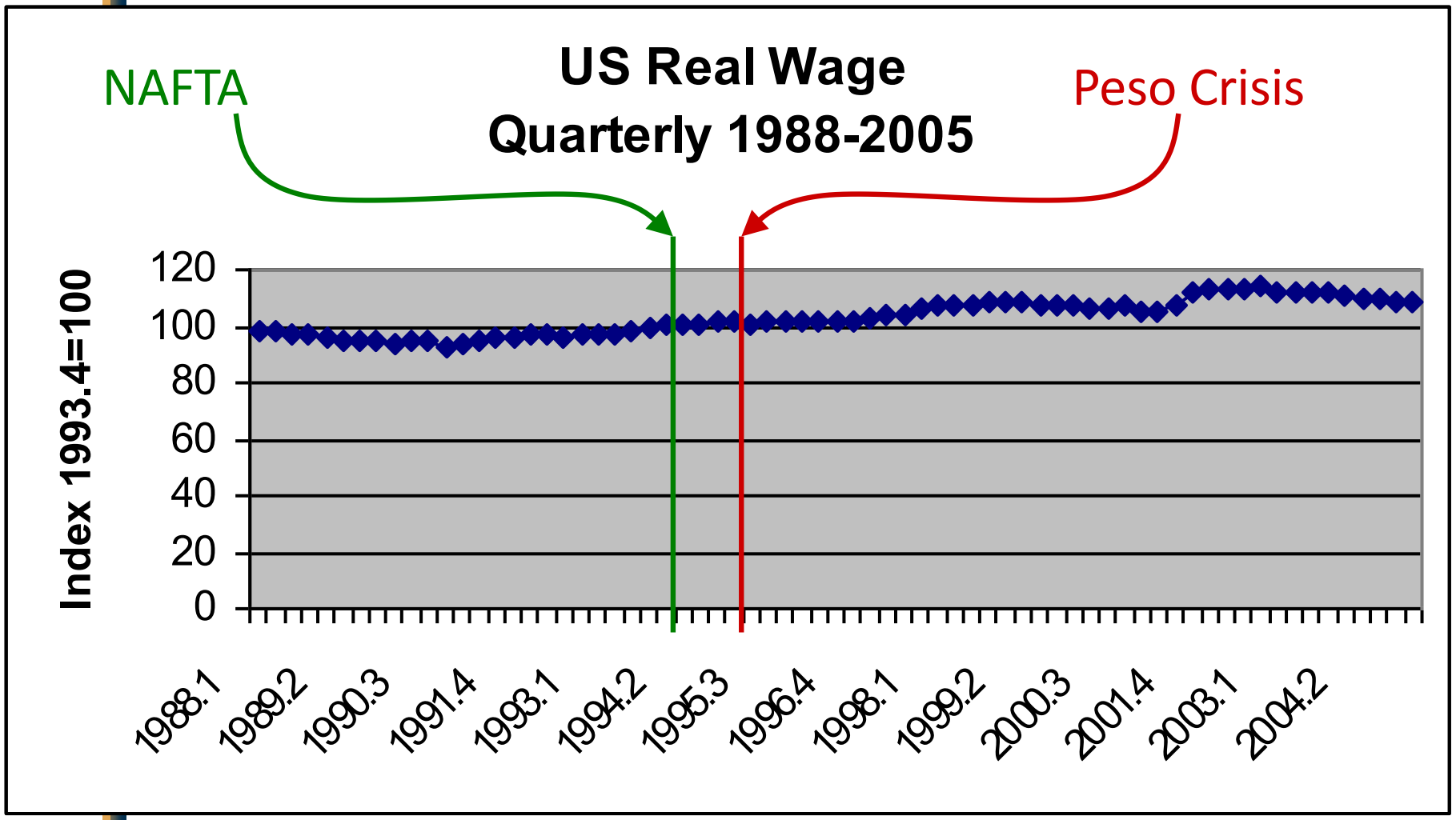
What Happened: U.S.

Trade: Continued growth



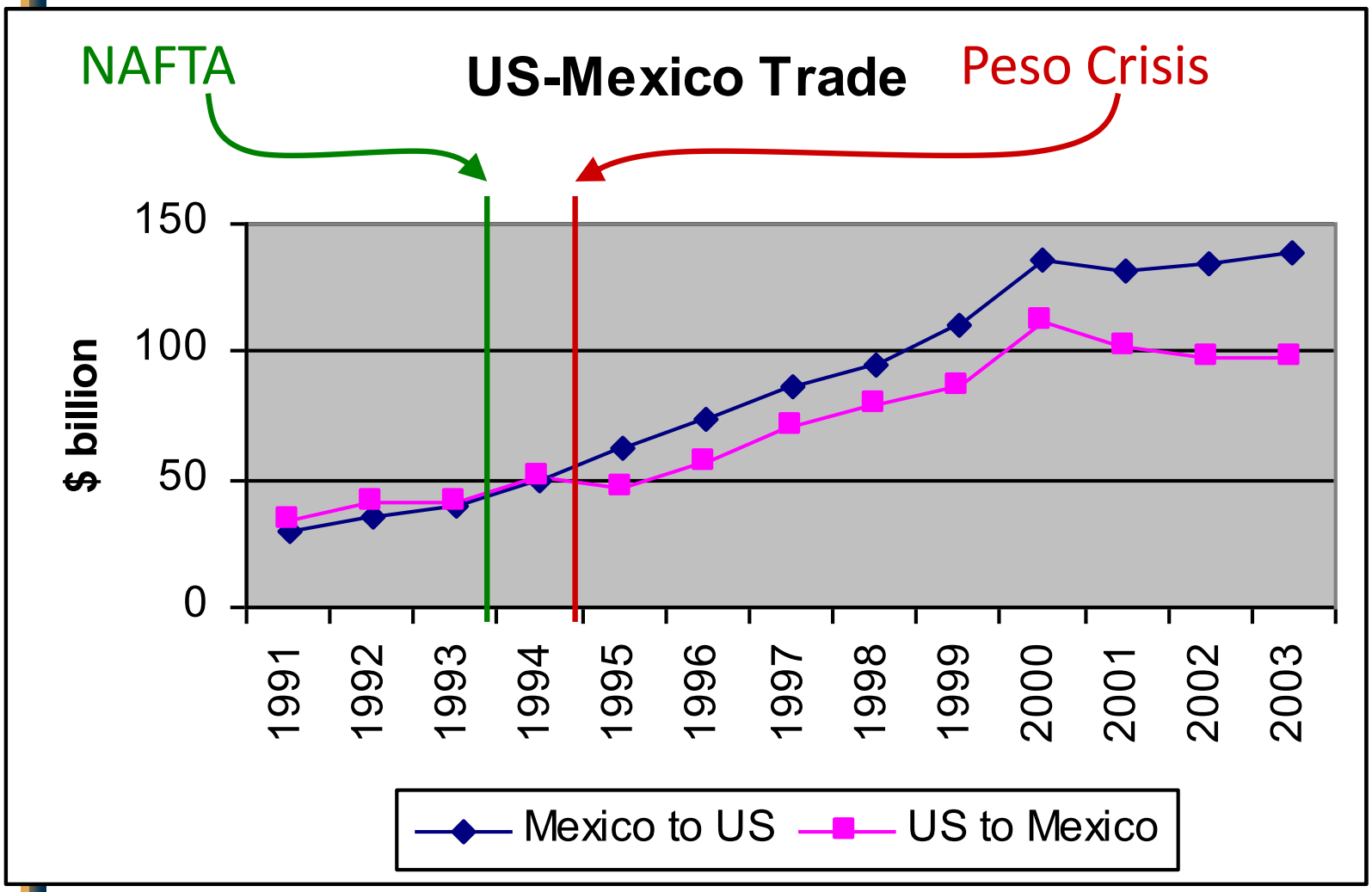
What Happened: U.S.

Real Wage: No Change



What Happened: Trade

Grew: More To US than From



What has happened since?

- US Trade
  - With NAFTA partners has continued to grow
  - Deficit grew much larger until 2008
  - But much of the imports was oil

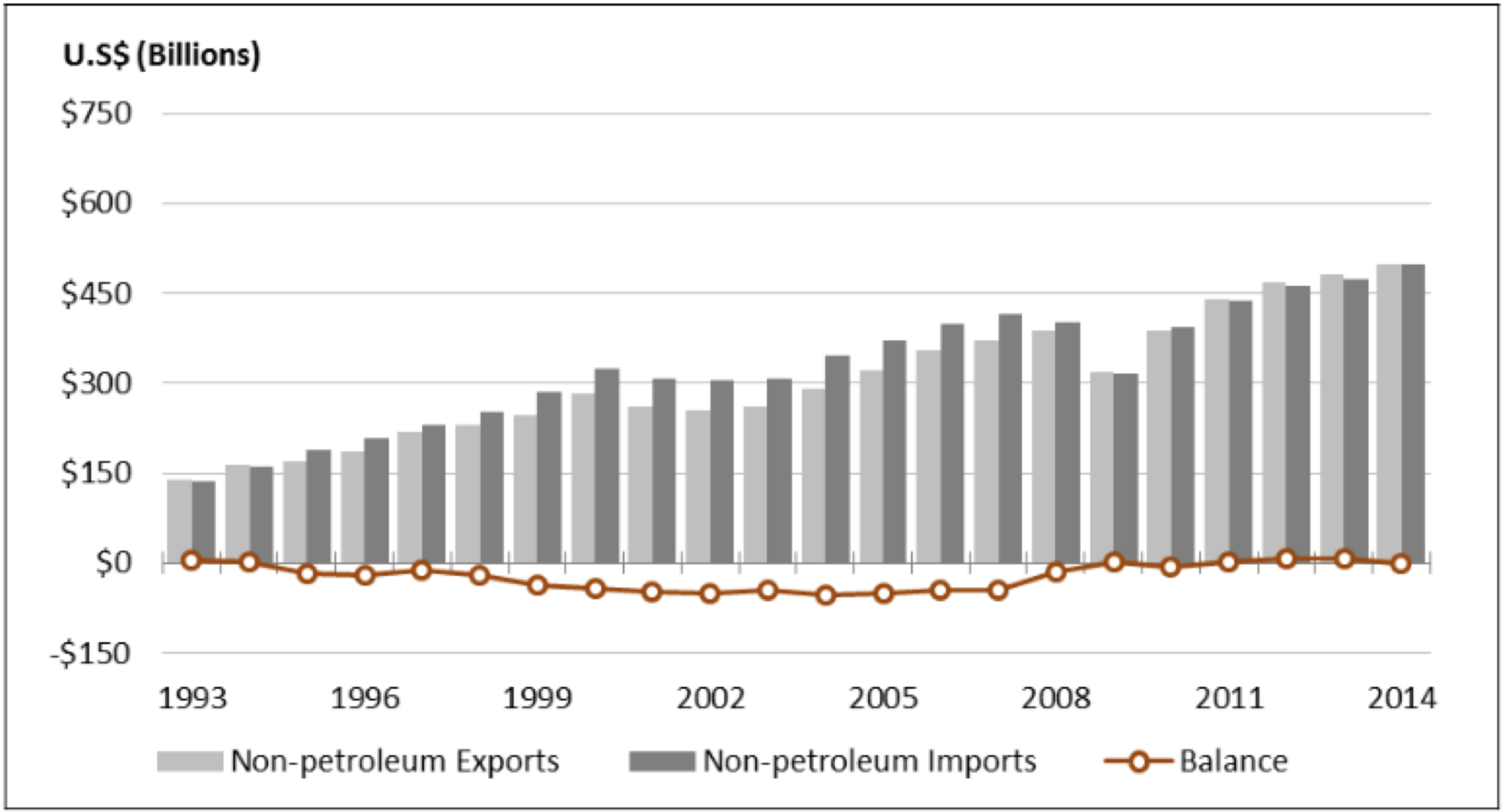
Figure 1. U.S. Merchandise Trade with NAFTA Partners: 1993-2014

(billions of nominal U.S. dollars)

Source: Congressional Research Service (2015)

Figure 2. Non-Petroleum Trade with NAFTA Partners: 1993-2014

(billions of nominal U.S. dollars)



Source: Congressional Research Service (2015)

NAFTA Analyses: Before

- Many studies examined likely effects
- Some, from both sides of the debate, used spurious analysis to support their views
  - Example: All imports from Mexico are viewed as costing jobs
  - On the positive side, advocates of NAFTA did the same with US exports, presumed to rise a lot because of Mexico's high tariffs

NAFTA Analyses: Before

Best academic studies (including our "Michigan Model") predicted

- Positive, but very small, benefit to the US
- Negligible disruption of US labor markets
- Positive, somewhat larger, benefit to Mexico
- Significant disruption in some Mexican markets

– Nobody predicted Peso Crisis

NAFTA Analyses: Before

- Reasons for small predicted effects on US
  - US MFN tariffs were already very low
  - Much trade with Mexico was already at even lower tariffs, under Maquiladora system
  - US trade with Mexico was big, but not all that big, compared to size of US economy

NAFTA Analyses: Before

- The Main Issue that Raised Concern
  - Mexican wages were only about 1/10 of US wages
  - Seemed obvious to many (e.g., Ross Perot) that employers would move to Mexico
- Answer
  - Mexican wages were low for a reason: low productivity
  - If this had not been true, jobs would already have moved, given our already low tariffs

NAFTA Analyses: After

- Krueger (2000) analyzed the data up through 1997 (thus very early) and concluded that
  - The large expansion in US-Mexico trade was probably mostly trade creating
  - It was too soon for a final verdict, but NAFTA was probably beneficial overall

NAFTA Analyses: After

- Romalis (2005)
  - Welfare effects close to zero for US, Canada, and Mexico
  - Several signs of trade diversion

NAFTA Analyses: After

- Caliendo and Parro (2015)
  - Updated earlier studies with more recent analytical tools
  - Found welfare benefits for US and Mexico but loss for Canada

Welfare effects from NAFTA's tariff reductions

	Welfare			
Country	Total	Terms of Trade	Volume of Trade	Real Wages
Mexico	1.31%	–0.41%	1.72%	1.72%
Canada	–0.06%	–0.11%	0.04%	0.32%
U.S.	0.08%	0.04%	0.04%	0.11%

Source: Caliendo and Parro (2015), Table 2

NAFTA Analyses: After

- Posen (2014)
  - "For every 100 jobs US manufacturers created in Mexican manufacturing, they added nearly 250 jobs at their larger US home operations"
  - Unemployment in US was actually lower after NAFTA than before (until the 2008 financial crisis)
  - Critics say NAFTA cost 45,000 jobs a year.
    - That may be true
    - But this is only 0.1% of normal job turnover in the US, where 4m-6m workers leave or lose jobs per month)

NAFTA Analyses: After

- Hakobyan and McLaren (2016)
  - They look for effects on local labor markets, where
    - industries
    - and/or communities
    - were vulnerable to large tariff cuts against Mexico
  - They find
    - Substantial variation across localities

TABLE 2.—TOP TEN MOST PROTECTED INDUSTRIES IN 1990

Industry Name	τ^{j}_{1990} (%)
Footwear, except Rubber and Plastic	17.0
Apparel and Accessories, except Knit	16.6
Canned, Frozen, and Preserved Fruits and Vegetables	15.9
Knitting Mills	15.7
Structural Clay Products	14.5
Yarn, Thread, and Fabric Mills	9.3
Leather Products, except Footwear	7.4
Dyeing and Finishing Textiles, except Wool and Knit Goods	7.4
Carpets and Rugs	6.9
Grain Mill Products	5.5

Adjusted for Mexico's Revealed Comparative Advantage

Industry Name	$RCA\tau^{j}_{1990}$ (%
Footwear, except Rubber and Plastic	8.8
Oil and Gas Extraction	8.3
Carpets and Rugs	7.7
Plastics, Synthetics, and Resins	7.0
Canned, Frozen, and Preserved Fruits and Vegetables	6.6
Dyeing and Finishing Textiles, except Wool and Knit Goods	6.5
Structural Clay Products	3.9
Agricultural Production, Crops	3.9
Leather Products, except Footwear	3.3
Blast Furnaces, Steelworks, Rolling and Finishing Mills	3.2

Source: Hakobyan and McLaren (2016)

TABLE 3.—MOST AND LEAST VULNERABLE CONSPUMAS, EXCLUDING AGRICULTURE

State	Counties/Cities	$loc\tau^{c}_{1990}$ (%)
	A: Top Ten Most Vulnerable Conspumas	
Georgia	Catoosa, Dade, Walker	4.74
North Carolina	Alamance, Randolph	4.41
South Carolina	Oconee, Pickens	4.24
South Carolina	Including Cherokee, Chester, Chesterfield, Clarendon	3.67
South Carolina	Anderson	3.62
North Carolina	Cabarrus, Rowan	3.54
North Carolina	Alexander, Burke, Caldwell	3.51
South Carolina	Including Abbeville, Edgefield, Fairfield	3.47
North Carolina	Cleveland, McDowell, Polk, Rutherford	3.46
Indiana	Gary	3.32
	B: Top Ten Least Vulnerable Conspumas	
D.C.	Washington	0.09
Washington	Kitsap	0.19
Virginia	Arlington	0.21
Maryland	Calvert, Charles, St. Mary's County	0.23
Montana	including Flathead, Lincoln, Missoula, Ravalli	0.27
Maryland	including College Park, Hyattsville, Prince George's	0.28
Virginia	Alexandria	0.29
Montana	Including Big Horn, Blaine, Carter, Chouteau	0.30
South Dakota	Including Aurora, Beadle, Bennett, Brule, Buffalo	0.30
Iowa	Calhoun, Hamilton, Humboldt, Pocahontas, Webster	0.30

(Consistent Public-Use Microdata Areas)

Source: Hakobyan and McLaren (2016)

NAFTA Analyses: After

- Hakobyan and McLaren (2016)
  - "The fact that both the location and the industry effects hit blue-collar workers, especially high school dropouts, but not college graduates suggests the possibility that the costs of moving or of switching industries are larger for less educated workers, so that more educated workers can adjust more easily and arbitrage wage differences away."

NAFTA Analyses: After

- Hakobyan and McLaren (2016)
  - "…even workers in a nontraded industry—waiting on tables in a diner, for example—saw a sharp reduction in wages if they were in a vulnerable location that lost its protection quickly."

NAFTA Analyses: After

- Disruption of some industries and localities
  - Was expected
  - May have been larger than expected
  - Has not been dealt with adequately by TAA
  - Nonetheless was still small
  - But provides easy ammunition for critics

NAFTA Analyses: After

- What to do?
  - Renegotiate NAFTA (Trump)?
    - Not clear what to change
    - Raising tariffs now would be much more disruptive than NAFTA ever was

NAFTA Analyses: After

- What to do?
  - Find better policies to assist workers displaced by both trade and technology
    - Wage insurance
    - Better social safety net

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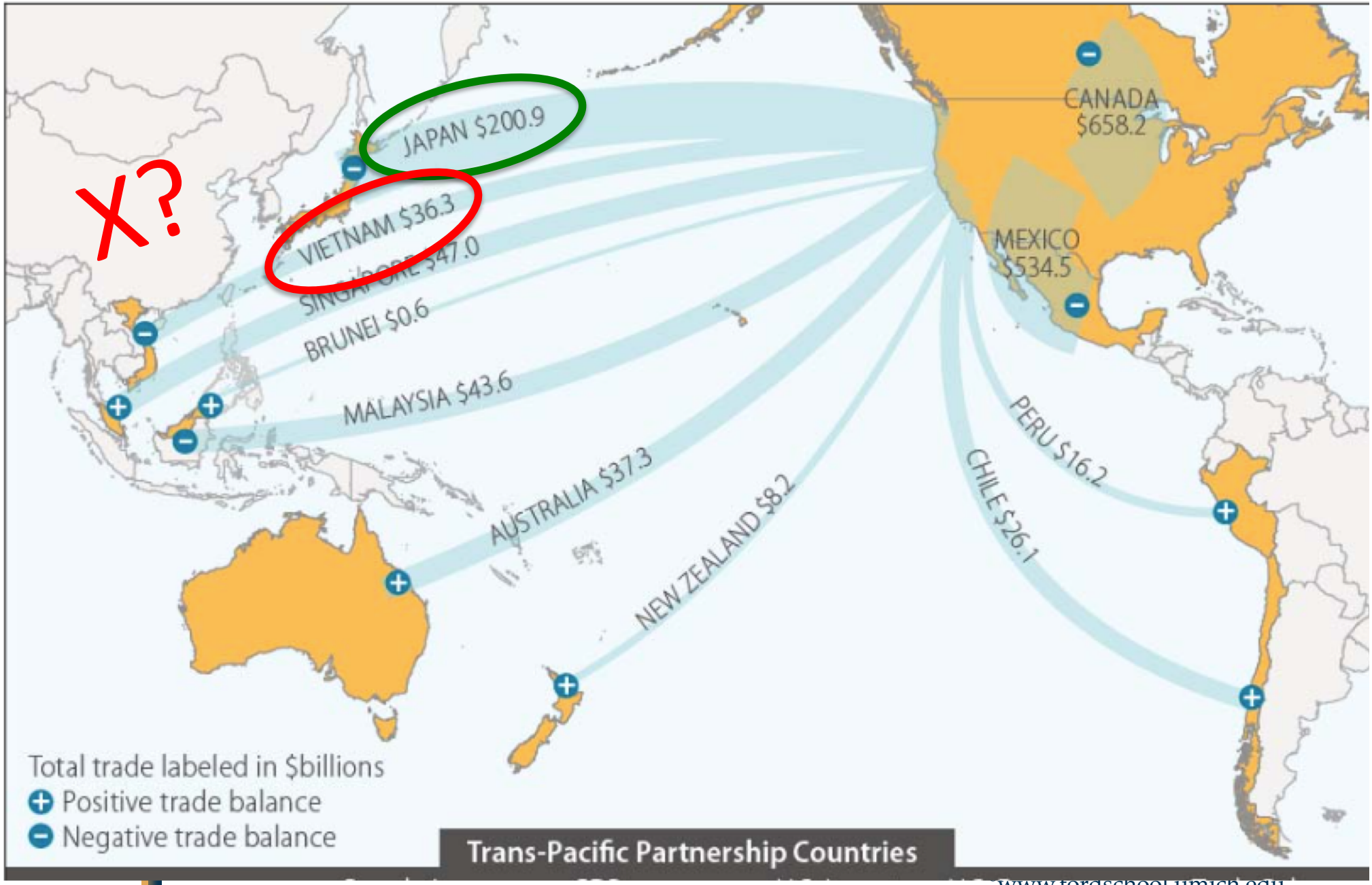
FTAs in Practice: TPP

- TPP = Trans-Pacific Partnership
  - A Free Trade Agreement including US and 11 other countries
  - Includes Japan
  - Does not include China

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)

What Is the TPP?

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- I will first look at each of these briefly:
  - What they do.
  - Who will gain and lose as a result.
- I will then mention several of the most contentious issues,
  - How they were resolved, and
  - In whose favor.

Trade in Goods

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- Trade in goods: Reduce/remove tariffs & NTBs on 11,000 products among TPP countries
  - Most US tariffs (average 3.4%) fall to zero.
  - Most tariffs faced by US exports fall to zero:
    - Brunei 2.5%
    - Japan 4.9%
    - Malaysia 6.0%
    - New Zealand 2.0%
    - Vietnam 9.5%
  - Exception: Some agriculture
  - Other policies and regulations that restrain trade will be harmonized or removed.
  - Schedules and rates differ by exporting country

HTS 8 (2010)	Description	Base Rate	Australia	Brunei	Canada	Chile	Japan	Malaysia	Mexico	New Zealand	Peru	Singapore	Vietnam
01011000	Live purebred breeding horses and asses	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01019010	Live horses other than purebred breeding horses	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01019020	Live asses other than purebred breeding asses	6.80%	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01019030	Mules and hinnies imported for immediate slaughter	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01019040	Mules and hinnies not imported for immediate slaughter	4.50%	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01021000	Live purebred bovine breeding animals	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01029020	Cows imported specially for dairy purposes	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01029040	Live bovine animals other than purebred or those imported for dairy purposes	1 cents/kg	US20	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01031000	Live purebred breeding swine	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01039100	Live swine, other than purebred breeding swine, weighing less than 50 kg each	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01039200	Live swine, other than purebred breeding swine, weighing 50 kg or more	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01041000	Live sheep	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01042000	Live goats	68 cents/head	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01051100	Live chickens weighing not over 185 g each	0.9 cents each	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01051200	Live turkeys weighing not more than over 185 g each	0.9 cents each	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01051900	Live ducks, geese and guineas, weighing not more than 185 g each	0.9 cents each	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01059400	Live Poultry;Chickens	2 cents/kg	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01059900	Live ducks, geese, turkeys and guineas, weighing over 185 g each	2 cents/kg	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01061100	Live primates	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01061200	Live whales, dolphins and porpoises (mammals of the order Cetacea); manatees and dugongs (mammals of the order Sirenia)	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01061930	Live foxes	4.80%	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01061990	Live mammals, not elsewhere specified or included	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01062000	Live reptiles (including snakes and turtles)	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01063100	Live birds of prey	1.80%	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01063200	Live psittaciforme birds (including parrots, parakeets, macaws and cockatoos)	1.80%	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01063900	Live birds, other than poultry, birds of prey or psittaciforme birds	1.80%	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
01069000	Live animals other than mammals, reptiles and birds	Free	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF
02011005	Bovine carcasses and halves, fresh or chld., descr. in gen. note 15 of the HTS	4.4 cents/kg	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF	EIF

Description	Base Rate	Australia	Brunei	Canada	Chile	Japan
Bovine meat cuts, boneless, not processed, frozen, descr in add. US note 3 to Ch. 2	4.4 cents/kg	EIF	EIF	EIF	EIF	B10
Bovine meat cuts, boneless, frozen, not descr in gen. note 15 or add. US note 3 to Ch. 2	26.40%	US13	EIF	EIF	EIF	TRQ: CSQ-US21
Carcasses and half-carcasses of swine, fresh or chilled	Free	EIF	EIF	EIF	EIF	EIF

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

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			B10
4.4 cents/kg	EIF	EIF	EIF	EIF	B10
26.40%	US13	EIF	EIF	EIF	TRQ: CSQ-US21

Bovine Meat Cuts (i.e., Beef)

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

US21: No higher that Peru FTA

Trade in Goods

Ford School of Public Policy

- Who Gains?
  - US consumers as a whole, from cheaper goods
  - US exporters (firms, workers) benefit
    - Most agriculture (grains, meat)
    - Airplanes
- Who Loses?
  - US government from lost tariff revenue (small)
  - US import competitors (firms, workers) lose
    - Autos (but not soon)
    - Some agriculture (sugar)
    - Textiles, apparel, footwear

Trade in Goods

Ford School of Public Policy

- Dairy?
  - More exports to Canada, but
  - More imports from New Zealand.
- Cars and Trucks?
  - Yes, due to imports from Japan, with inputs from China.
  - Note though: US tariffs on…
    - Cars: 2.5%, removal phased in over 25 years.
    - Trucks: 25%, removal phased in over 30 Years.

Trade in Services

Ford School of Public Policy

- Trade in services: Reduce/remove barriers among TPP countries
  - Remove restrictions on service providers (most restrictive in poorer countries).
    - Financial services (banks, insurance)
    - Professional services (legal, educational)
    - Telecommunications
    - Express delivery
    - E-commerce
  - Facilitate international movement of persons working temporarily in firms if needed for other aspects of TPP commitments.

Trade in Services

Ford School OF PUBLIC POLICY

- Who Gains?
  - US is very competitive in services, and most industries (firms, workers) will do well, as will other developed countries
  - There may be some concern about allowing more visas for temporary foreign workers.
- Who Loses?
  - Developing countries expect to lose from this competition with their service firms, although their buyers will gain.

Digital Trade

Ford School OF PUBLIC POLICY

- Digital trade: Facilitate data flows and E-commerce
  - Bars customs duties on digital products
  - Prevents blocking of cross-border data flows
  - Prohibits forced localization of data centers
  - (Some exceptions permitted.)

Digital Trade

Ford School OF PUBLIC POLICY

- Who Gains?
  - America's digital companies
  - Consumers of digital services
- Who Loses?
  - Weaker digital competitors
  - Countries concerned about privacy

Investment

- Investment:
  - Right of establishment
  - Transfer of payments out of host country
  - Investor-State Dispute Settlement (ISDS) to prevent expropriation or "indirect expropriation"
    - Allows foreign investors to seek international arbitration to settle disputes with host governments

Investment

Ford School OF PUBLIC POLICY

- Who Gains?
  - Multinational corporations
- Who Loses?
  - Governments at all levels that seek to regulate for legitimate purposes
    - But Note: TPP "reaffirms a country's right to regulate in the public interest" (including public health, safety, and environment)

Intellectual Property

Ford School OF PUBLIC POLICY

- Intellectual Property: Expanded patents, etc.
  - Expand IP protection beyond that already covered in the WTO
  - Extend copyright protection from 50 to 70 years from death of author
  - Criminal penalties for copyright violation and for theft of trade secrets
  - Extend period of data exclusivity on some types of medicines, esp. biologics

Intellectual Property

- Who Gains?
  - Owners of IP
    - Pharmaceutical firms
    - Movie and music companies
- Who Loses?
  - Consumers of IP
  - Especially patients in developing countries

Labor

Ford School OF PUBLIC POLICY

- Labor: Enforcement of labor standards
  - ILO Core Labor Standards (not enforced by ILO)
    - Freedom of association and collective bargaining
    - Elimination of compulsory or forced labor
    - Abolition of child labor
    - Elimination of discrimination
  - TPP will require countries to enforce these, plus "acceptable conditions of work"
    - Minimum wage
    - Hours of work
    - Occupational safety and health
  - Violation will be subject to TPP dispute settlement

Labor

Ford School OF PUBLIC POLICY

- Who Gains?
  - Labor unions and workers in high-income countries, as well as their employers who compete with low cost labor
- Who Loses?
  - Workers* and firms in low-wage countries of the TPP, whose costs rise and competitiveness declines.

    *But note: workers there who keep their jobs will be paid more and treated better.

Environment

Ford School OF PUBLIC POLICY

- Environment: Enforcement of standards
  - US was pushed to include:
    - Enforcement of domestic environmental laws and multilateral agreements
    - Prohibition of relaxing rules to encourage trade or investment
    - Provisions to combat: wildlife trafficking, illegal logging and fishing, fishing subsidies
    - Stakeholder participation
  - Much of this is included in TPP, together with mechanisms for enforcement.

Environment

Ford School OF PUBLIC POLICY

- Who Gains?
  - The environment and environmentalists.
  - Rich countries who would have such laws anyway.
  - The world, if this helps fight global problems
- Who Loses?
  - Those who traffic illegally.
  - Poor countries whose competitiveness may depend on weak environmental regulation.

State-Owned Enterprises

Ford School OF PUBLIC POLICY

- State-Owned Enterprises (SOEs): Achieve "competitive neutrality"
  - Addresses commercial disadvantages of private firms competing with SOEs
  - Requires transparency and reporting
  - Prohibits noncommercial assistance to SOEs that adversely impacts others

State-Owned Enterprises

- Who Gains?
  - Countries with few SOEs, and their private firms that will compete with SOEs elsewhere
- Who Loses?
  - Those who have – and want to retain & give advantages to – large numbers of SOEs
    - Examples:
      - Vietnam (40% of output), Malaysia, Singapore
      - US, with Fannie Mae and US Postal Service
    - Note: SOEs are often inherently costly, and some countries may welcome a requirement to stop supporting them

Contentious Issues

Ford School OF PUBLIC POLICY

- Several Issues threatened to derail the negotiations and were resolved only at the last minute:
  - Biologic Drugs
  - Dairy Products
  - Auto Parts
  - Japanese Agriculture: Rice, Pork and Beef
  - ISDS
  - Exchange Rates

Contentious Issues: Biologics

Ford School OF PUBLIC POLICY

- Biologic Drugs

  (advanced medicines made from living organisms)

  – The issue:
    - Time period of permitted data secrecy
  – US wanted 12 years of protection, as contained in the Affordable Care Act. Japan also favored long period of protection.
  – Australia and others wanted much shorter protection, 5 or 6 years, so as to speed the development of generics and reduce costs.

Contentious Issues: Biologics

Ford School OF PUBLIC POLICY

- Resolution:
  - "The compromise set a mandatory minimum of five years, without setting a maximum, leaving both sides to declare victory." (NYT, Oct 6, 2015)
  - US will keep it's 12-years of protection, but others will not. 5 years protection will be an increase for some countries.
- Who Won?
  - Australia and others.
  - Result: Big Pharma will lobby against TPP.

Contentious Issues: Dairy

Ford School OF PUBLIC POLICY

- Dairy Products
  - Exporters (New Zealand, U.S.) wanted reduced barriers into protected markets such as Canada and Japan
  - New Zealand also wanted increased exports into U.S.
  - Canada resisted because of its dairy support program.

Contentious Issues: Dairy

Ford School OF PUBLIC POLICY

- Resolution:
  - Some expanded imports into Canada and US was agreed via
    - Expanding tariff-rate quotas
    - Some lowered tariffs
- Who Won?
  - Not clear. Probably nobody got what they wanted.

Contentious Issues: Auto Parts

Ford School of Public Policy

- Auto Parts
  - Issues are
    - Tariffs and other barriers into both US and Japan
      - US has 25% tariff on trucks (& only 2.5% on cars)
      - Japan has non-tariff barriers
    - Rule of Origin for cars and car parts:
      - Japan wanted it low, to permit it to include inputs from non-TPP countries such as Thailand and China.
      - Mexico wanted it at least 50%, to preserve the advantage over those countries that it has in NAFTA, where it is effectively 53-55%.

Contentious Issues: Auto Parts

Ford School of Public Policy

- Resolution:
  - Long phase-outs of US tariffs: trucks 30 years, cars 25, auto parts up to 15
  - 45 percent TPP content for cars & light trucks to qualify for preference
- Who Won?
  - It appears that Japan got what it wanted
- Who Lost?
  - Mexico and perhaps US car companies

Contentious Issues: Japanese Ag.

Ford School OF PUBLIC POLICY

- Rice, Pork, and Beef
  - Japan has had a prohibitive tariff on imports of rice, protecting rice farmers who are important supporters of Japan's ruling Liberal Democratic Party.
  - US and Australia are major exporters of rice and want access into Japan
  - Pork and beef are similar to rice but less so: Japan has high tariffs, which the U.S. wants it to reduce.

Contentious Issues: Japanese Ag.

Ford School of Public Policy

- Resolution:
  - Japan will lower its tariff on beef from over 38.5% to 9% over 16 years
  - Pork tariff will fall from 4.3% to 2.2%, but will also lower minimum import price from ¥482/kg to ¥125, and later to ¥50.
  - Rice: New duty-free quota of 50,000 tons, rising to 75,000 tons in year 13

Contentious Issues: Japanese Ag.

Ford School of Public Policy

- Who won?
  - Japanese consumers of meat
  - US and other producers of meat and rice
  - Japanese rice farmers, as high tariff continues
- Who lost?
  - Japanese beef and pork farmers
  - Japanese government, which will collect less tariff revenue on both meat and rice

Contentious Issues: ISDS

Ford School OF PUBLIC POLICY

- ISDS: Investor-State Dispute Settlement
  - This gives multinational firms leverage over governments to resist policies that reduce their profits
  - Most objected-to have been actions by tobacco companies that use trade agreements to block cigarette labeling requirements

Contentious Issues: ISDS

- Resolution:
  - Cigarette companies will not have access to ISDS.
  - No other weakening of ISDS
- Who Won?
  - US companies (drugs, music, film) other than tobacco
- Who Lost?
  - Tobacco
  - Environmentalists and other advocates of government intervention

Contentious Issues: Exchange Rates

Ford School of Public Policy

- Exchange Rates
  - Many in US wanted TPP to address currency undervaluation (which makes exports cheaper)
    - Most other TPP countries opposed this, as did the Obama administration
    - Countries often accused of currency manipulation include Japan and China.

Contentious Issues: Exchange Rates

Ford School OF PUBLIC POLICY

- 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
- Who Won?
  - International economists and experts on macro/monetary policy
- Who Lost?
  - Ford Motor Co. and other vocal advocates of response to exchange rate manipulation

Contentious Issues and Their Resolutions

- In each case, there were losers and winners, usually both in each country.
- Losers may now oppose the TPP.
- Thus support for TPP is reduced, and getting it past US Congress will be problematic.

What's Next?

Ford School OF PUBLIC POLICY

- TPP must be approved by the political process in each of the 12 countries, which may be most problematic in the US.
- Congress – both houses – will have to accept or reject it by a simple majority up-or-down (no amendments) vote.
- Decisions were unlikely during US presidential campaign.
- Obama has been pushing for vote by "lame ducks"

Outline

- Free Trade Agreements:
  - Their Essence
  - Their Economics
  - Their Proliferation
- FTAs in Practice: More than FTAs
  - NAFTA
  - TPP
  - TTIP

FTAs in Practice: TTIP

- TTIP = Trans-Atlantic Trade and Investment Partnership
  - Trade agreement between US and EU
  - Still being negotiated and may not succeed

TTIP

- What TTIP Includes
  - Still unknown
  - Tariff reduction, but these are already small
  - Harmonization of rules and regulations
  - Investment dispute resolution

TTIP

- Concerns
  - That concerns for environment will be undermined
  - That corporations will get greater power over governments

Conclusion

- Free Trade Agreements
  - Have been & would be beneficial overall
  - They also include problematic features
  - And trade always, while helping overall, is costly to some