



THE OHIO STATE UNIVERSITY

**“The Trans-Pacific Trade Partnership:
What might it mean for US agriculture?”**

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- **Trans-Pacific Trade Partnership (TPP), signed October 5, 2015 – largest regional free trade agreement (FTA) struck in past 20 years**
- **After 7 years of negotiations, 12 countries agreed to form TPP, although still requires ratification**
- **Member countries: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and US**
- **TPP currently accounts for 40% of world GDP, 11% of population and 27% of world trade**



2014 Trade Flows between US and TPP Members (\$billion)





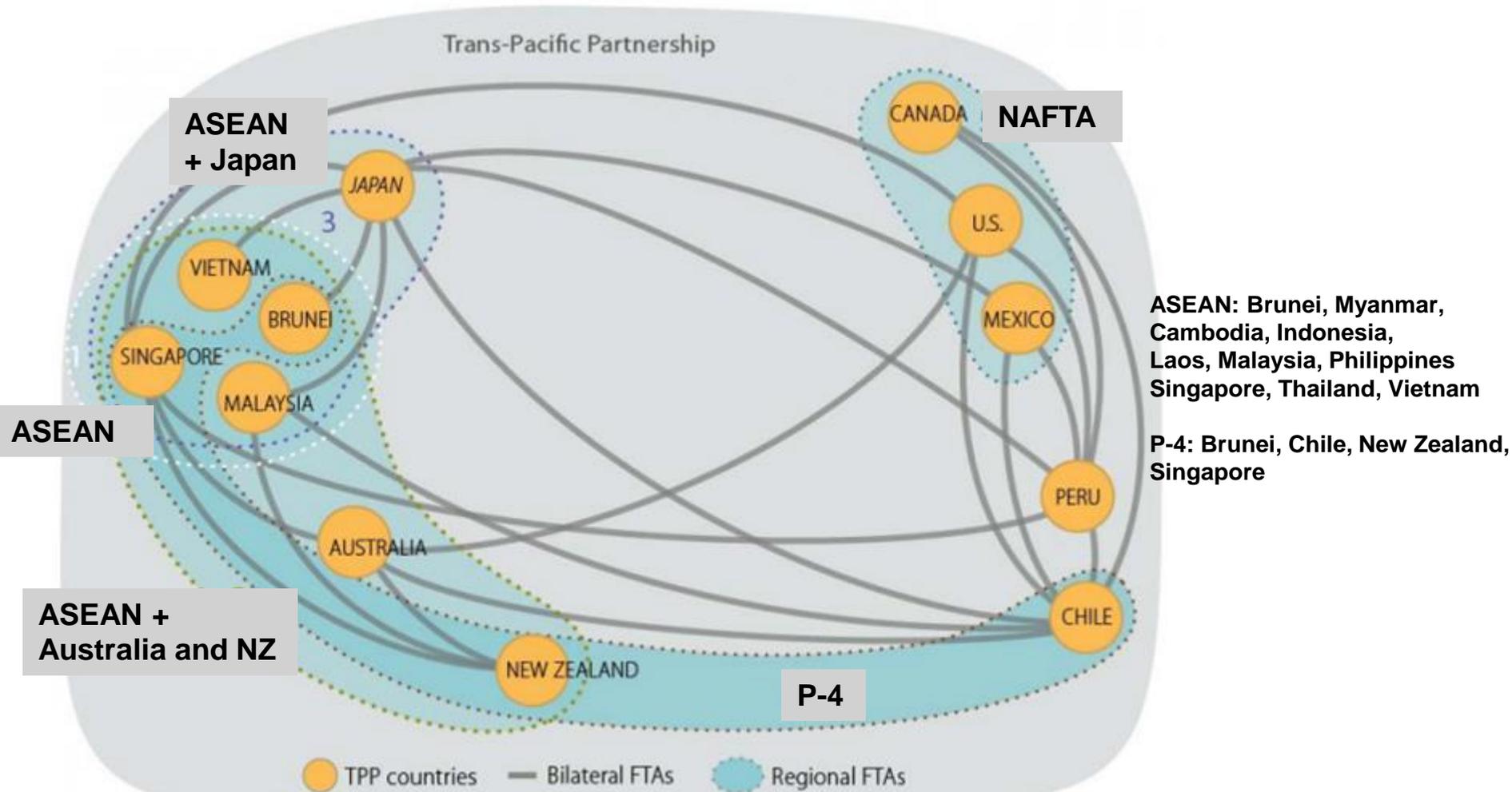
- **TPP has emerged amidst uncertainty about global trading system and future role of WTO**
- **At same time, wave of bilateral and regional FTAs has affected Asia-Pacific region – 39 in existence with others in negotiation**
- **Shift from multilateral to regional trade liberalization driven by: (i) multi-polar world economy; (ii) more complex linkages; (iii) many orthodox trade barriers eliminated**
- **Further liberalization requires incremental steps among close partners to simplify negotiations**



- **Argued TPP serves several goals:**
 - **Integration spanning Asia-Pacific likely to deliver greater benefits than narrower agreement**
 - **Covers services, investment, competition and regulatory coherence, i.e., *deep integration***
 - **Provides model for consolidating existing FTAs – i.e., way out of Asia-Pacific *noodle bowl***
 - **US will get preferential access to Asian markets currently affected by existing FTAs involving China, Japan and ASEAN member countries**



Existing FTAs among TPP Countries





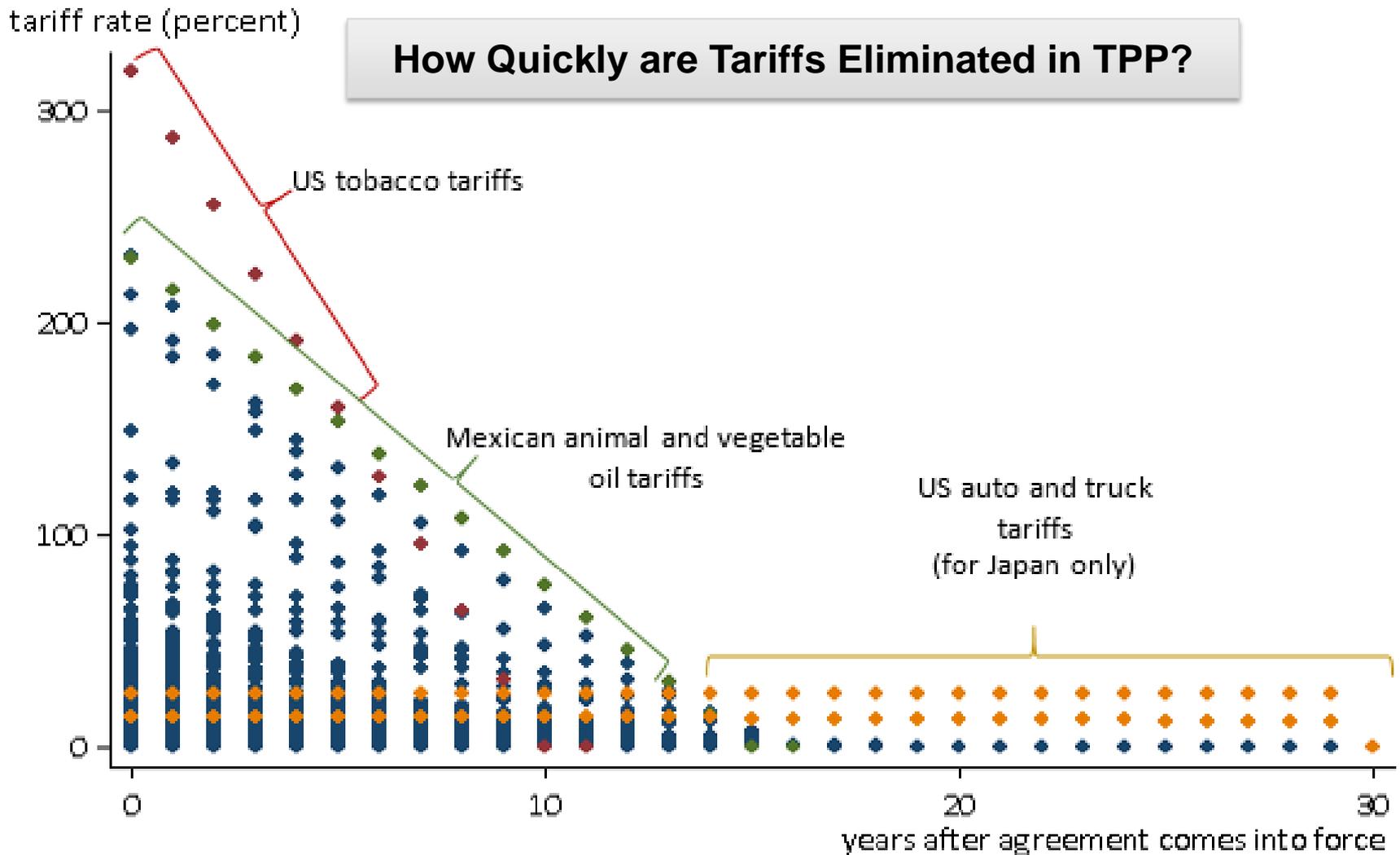
- **By 2025, economic benefits expected from TPP*:**
 - **Global GDP will increase by \$225 billion**
 - **US and Japanese GDP will increase 0.4% and 2% respectively, i.e., by \$77 and \$105 billion**
 - **Vietnamese and Malaysian GDP will increase 10% and 5.6% respectively, i.e., by \$36 and \$24 billion**
- **Income gains reflect benefits from increased trade as well as cross-border investment flows (FDI)**
- **Large part of US gains likely to come from FDI, especially in service sector**



- **Petri et al. (2012) forecast US exports of services will increase by \$68 billion by 2025, accounting for 69% of increased TPP exports of services**
- **US service firms efficient, and high regulatory barriers to service exports and FDI will be reduced**
- **Expectation that there will be modest *shifts* in jobs due to TPP, about 2-6 workers per 10,000 in US workforce of 161-65 million**
- **Even without TPP, job shifts will occur as labor productivity growth outpaces demand, i.e., technological change more important than trade**



- **TPP will reduce more than 18,000 tariffs, including many agricultural products**
- **Expected to add an additional \$222 billion to world trade by 2025 (Peterson Institute, 2015)**
- **Not all tariffs eliminated immediately, but virtually all converge to zero by year 16 of agreement**
- **Notable exception is US automobile sector:**
 - **6 members face zero tariffs immediately, 4 members after 10 years of agreement**
 - **Import tariffs on Japanese trucks will remain at 25% until year 30 of agreement**



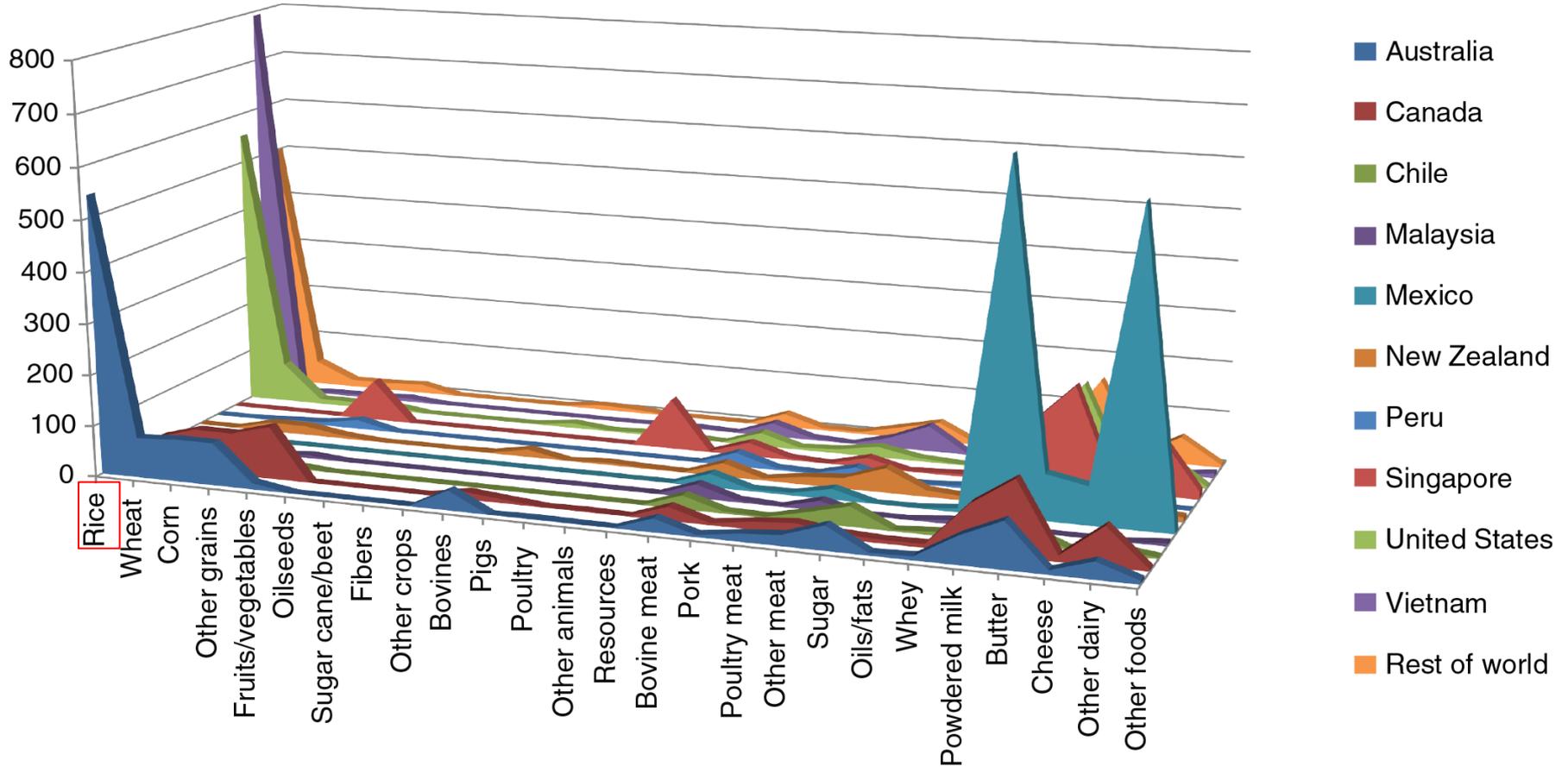


- **Agricultural products in TPP subject to higher average tariffs than manufactures: 5.2% vs. 2%**
- **But varies by country and agricultural product:**
 - **US tariffs average 3.6% vs. 23% for Japan**
 - **Mexican tariffs against TPP members average 30.7% vs. 1% against US**
 - **Under its tariff-rate quota (TRQ), Canada's over-quota tariff on dairy imports is 200-250%**
 - **Japanese tariffs on grains exceed 200% - driven mostly by its protection of rice sector**



Japan's Tariff Structure

Tariff rate (percent)



Source: USDA, Economic Research Service, Trans-Pacific Partnership model.



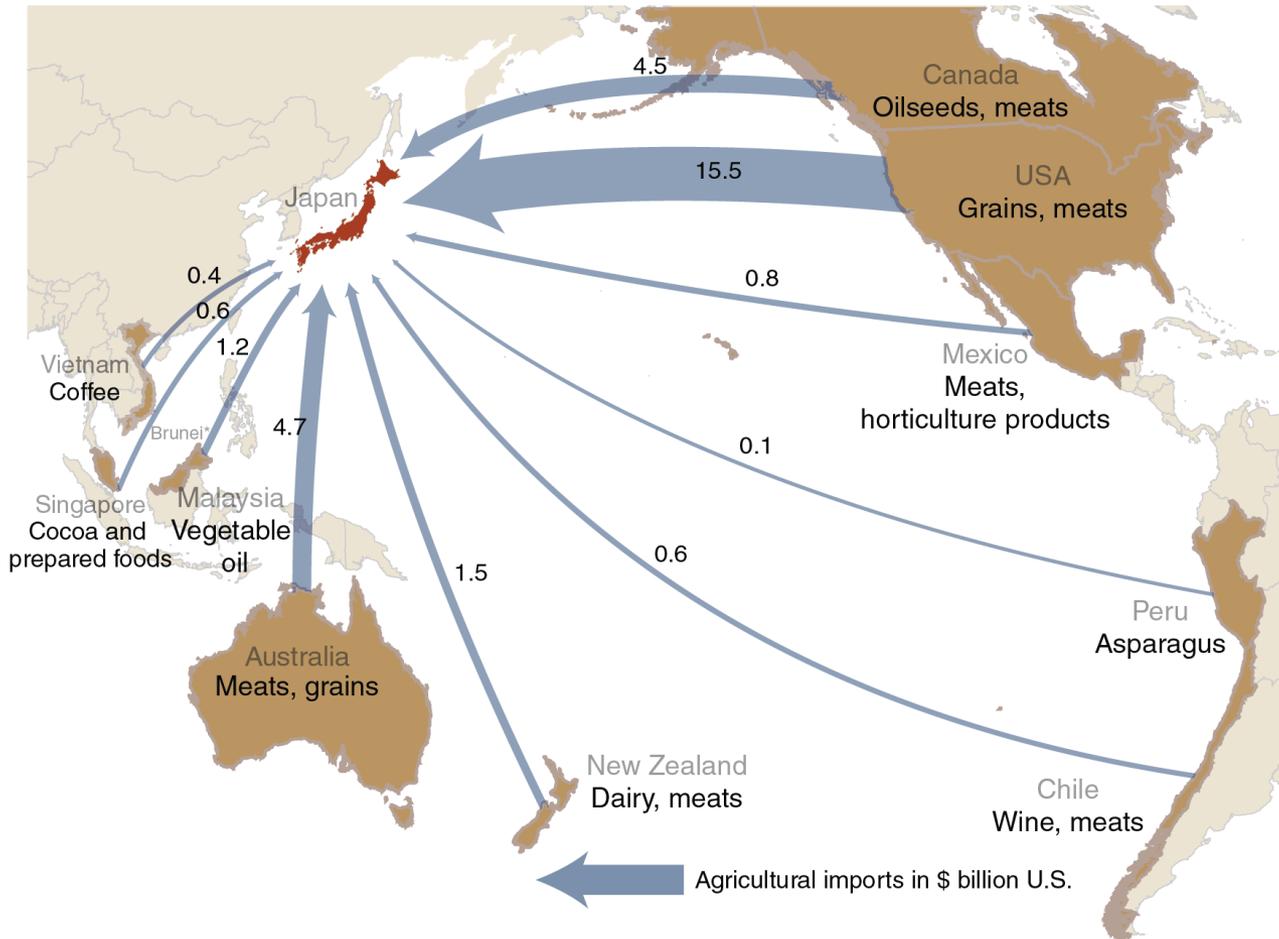
- **Existing FTAs already pushing down tariffs, but by 2025 TPP expected to provide extra boost to trade*:**
 - **6% increase in TPP agricultural trade of \$8.5 billion**
 - **US agricultural exports to TPP will increase by \$2.8 billion – a 33% increase in export market share**
 - **Australia, New Zealand and Canada will expand export market shares by 30.5, 12.2 and 11.8% respectively**
 - **Japan will account for 68% increase in agricultural imports, compared to 10% by both US and Canada**
 - **Beef and dairy products will account for 25% and 19% respectively of increase in value of TPP trade**



- **US will benefit from increased market access to countries where it has no FTA, notably Japan**
- **50% of US agricultural exports to Japan will face zero tariffs once TPP is implemented**
- **Preferential access will be given under TRQs for rice, wheat and barley imported by Japan**
- **With Japan being its 5th largest export market, opening up its agricultural sector has been a long-held objective of US trade policy**



Japan's imports from TPP countries, average values, 2011-13



*Imports too small to show on map.
 TPP = Trans-Pacific Partnership.
 Source: USDA, Economic Research Service using Government of Japan trade data.



- **Beef:** Japan will reduce tariff on fresh, chilled and frozen beef from 38.5 to 9% in 16 years
- **Dairy:** Japanese cheese tariffs ranging up to 40% will be eliminated in 16 years
- **Wheat:** Japan will reduce its mark-up on imported wheat under WTO TRQ by 45% over 9 years, and will establish new country-specific quota (CSQ) for US of 114,000 tons
- **Rice:** Japan will establish new duty-free CSQ for US rice, quota set at 50,000 tons growing to 70,000 in 13 years



- **Overall, US agricultural sector expected to be big winner from tariff cuts under TPP, with Japan accounting for large share of trade gains**
- **TPP will also promote application of risk and science-based SPS measures**
- **However - compared to TTIP negotiations, not much movement expected on reduction in non-tariff barriers (NTBs) to agricultural trade in TPP**
- **Also, no substantial commitment in TPP to reducing level of domestic agricultural support**