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)

Source: USITC (2015)
• 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 affected by existing FTAs involving China, Japan and ASEAN member countries
Existing FTAs among TPP Countries

ASEAN: Brunei, Myanmar, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, Vietnam

P-4: Brunei, Chile, New Zealand, Singapore

Source: WTO (2015)
By 2025, economic benefits expected from TPP*:

- Global GDP will increase by $225 billion
- US and Japanese GDP will increase by $77 and $105 billion respectively
- Vietnamese and Malaysian GDP will increase by $36 and $24 million respectively

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

* Source: Peterson Institute (2015)
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 1-2 workers per 10,000 in US workforce of 161-64 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.
How Quickly are Tariffs Eliminated in TPP?

Source: Peterson Institute (2015)
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
- Canada’s tariff on US dairy imports is 110%, even though both countries are in NAFTA
- Japanese tariffs on grains exceed 200% - driven mostly by its protection of rice sector
United States' tariff structure, 2025

Tariff rate (percent)

Mexico's tariff structure, 2025

Japan's tariff structure, 2025


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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

*Source: USDA/ERS (2014)
Agricultural tariff treatments under PTAs within the TPP region

Percentage of agricultural tariff lines

Note: PTA refers to preferential trade agreements; TPP refers to the Trans-Pacific Partnership. ASEAN refers to the four TPP members that are members of the Association of Southeast Asian Nations (Brunei, Malaysia, Singapore, and Vietnam).

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 tariff-rate quotas (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

- **Japan**
  - Meats, grains
  - Dairy, meats
  - Asparagus
  - Wine, meats

- **Canada**
  - Oilseeds, meats

- **USA**
  - Grains, meats

- **Mexico**
  - Meats, horticulture products

- **Peru**
  - Asparagus

- **Chile**
  - Wine, meats

- **Australia**
  - Meats, grains

- **Singapore**
  - Cocoa and prepared foods

- **Vietnam**
  - Coffee

*Imports too small to show on map.

**TPP = Trans-Pacific Partnership.**

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