# The Trans-Pacific Trade Partnership: What might it mean for US agriculture?

## 2015-2016 Agricultural Policy and Outlook Conference Series

**Ian Sheldon, Andersons Professor of International Trade**

*sheldon.1@osu.edu*

The Trans-Pacific Trade Partnership (TPP) agreement, signed in early-October, is the largest regional free trade agreement (FTA) struck in the past two decades. After seven years of negotiations, 12 countries agreed to the terms of TPP. While each member country now needs to ratify the agreement for it to be put into effect, TPP could significantly boost export market potential for American farmers, as well as other sectors of the U.S. economy. The partnership includes 12 countries which account for approximately 40 percent of the world's economy, and 27 percent of world trade: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the U.S. TPP is anticipated to reduce more than 18,000 tariffs, including many agricultural trade barriers.

While full details of TPP have only recently been made public, substantial economic growth is expected under this FTA. The Peterson Institute for International Economics estimates that under TPP, $225 billion will be added to global GDP by 2025, including $77 billion to U.S. GDP. The Institute forecasts that U.S. manufacturing exports will grow by about 4.5 percent by 2025 due to TPP. There will also be a big impact on some of the emerging economies included in TPP. For example, Vietnam is anticipated to receive a 10.5 percent increase in GDP. Vietnam, a low labor cost economy, is expected to expand as a manufacturing hub in industries such as textiles, especially as China is not a member of TPP.

Agricultural products traded between TPP members are currently subject to higher tariffs on average than manufactured products, although bilateral protection varies considerably by country. For example, average agricultural tariffs are 3.6 percent at the U.S. border compared to 23 percent at the Japanese border. Agricultural tariffs also vary based on whether trading partners are members of an existing FTA, and also by product. For example, Mexico's average agricultural tariff against TPP members is 30.7 percent, compared to 1 percent on agricultural imports from the U.S. In the case of specific agricultural products, Canada's average tariff on U.S. dairy products is 110 percent, even though Canada and the U.S. are both members of NAFTA, while Japanese import duties on cereals exceed 200 percent, largely due to the level of protection afforded to its rice sector.

The U.S. Department of Agriculture's Economic Research Service (ERS) estimates that TPP will result in a 6.6 percent increase in agricultural trade by 2025. This increase will account for an additional $8.5 billion in the agricultural marketplace, assuming the complete elimination of existing agricultural tariffs by 2025. TPP will increase U.S. market access to several countries where it currently has no FTA, notably Japan, where 50 percent of U.S. agricultural exports will face zero tariffs once TPP is implemented. In the case of other agricultural products, preferential access will be given under new tariff-rate quotas, where specified levels of imports will be subject to low tariffs, including dairy products imported by Canada, and rice, wheat and barley imported by Japan. With Japan being its fifth largest agricultural export market, reduction in their agricultural tariffs has been a long-held objective of U.S. trade policy, and one not addressed as yet in the WTO. With increased market access, ERS anticipates that TPP will result in a 33 percent overall increase in U.S. agricultural exports and a 10 percent increase in imports by 2025. Overall, the U.S. agricultural sector is expected to be a big winner from implementation of TPP, exports to Japan accounting for a large share of these trade gains.