

# Pros and Cons of Mega-FTAs and TPP for the WTO and for Korea

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# Pros and Cons of FTAs

- Preferential tariff cuts
  - Pro: trade creation
  - Cons:
    - Trade diversion
    - Rules of origin (ROOs)
    - Exemption of sensitive sectors

# Pros and Cons of FTAs

- Other aspects of actual FTAs
  - Pros:
    - Extension to trade in services
    - Harmonization of regulations
  - Cons (?):
    - Extension of IP protection
    - Trade enforcement of labor standards
    - Trade enforcement of environmental standards
    - Investor-State Dispute Settlement

# Additional Pros and Cons of Mega-FTAs

- Preferential tariff cuts
  - Pros:
    - Larger potential for trade creation
    - If ROOs cumulative, less distorting
    - Potential for adding members
  - Cons:
    - Though there are fewer outsiders, each may be harmed more by trade diversion

# Additional Pros and Cons of Mega-FTAs

- Other aspects of actual Mega-FTAs
  - Pros:
    - May contribute to broader and more uniform standards
  - Cons:
    - Their use as weapons of geopolitics

# Implications of Mega-FTAs for the WTO

- May create pressure to complete Doha Round.
- By hastening decline of weak industries, gradually reduce political forces for protection.
- Provide alternative fora for trade disputes.

# Implications of Mega-FTAs for the WTO

- WTO will continue to be important
  - For plurilateral negotiations on issues that transcend the Mega-FTAs
  - For dispute settlement
  - For limiting slide into protectionism

# Contentious Issues in the TPP

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

Most relevant for Korea



# Contentious Issues: Auto Parts

- 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 its advantage over those countries that is in the NAFTA, where it is effectively 53-55%.

# Contentious Issues: Auto Parts

- 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?
  - Japan got what it wanted
  - US got to keep tariffs for a long time
- Who Lost?
  - Mexico

# Contentious Issues: Biologics

- 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

- 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.
  - Big Pharma in US will lobby against TPP.

# Contentious Issues: Dairy

- 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

- Resolution:
  - Some expanded imports into Canada and US has been agreed
- Who Won?
  - Not clear

# Contentious Issues: Japanese Ag.

- 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.

- Resolution:
  - Japan will lower its tariff on beef from over 30% to 9%.
  - Japan will increase its quota on rice, but not lower its out-of-quota tariff.
  - Don't yet know details for other products
- Who won and lost?
  - Don't know yet



# Contentious Issues: ISDS

- 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.
  - “Includes language affirming governments’ right to regulate ‘in the public interest’ on the environment, health and other areas.”
- Who Won?
  - US companies (drugs, music, film) other than tobacco
- Who Lost?
  - Tobacco
  - Perhaps environmentalists and other advocates of government intervention

# Contentious Issues: Exchange Rates

- 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.
    - But so might US, when using monetary expansion.

# Contentious Issues: Exchange Rates

- Resolution:
  - US Treasury announced that the TPP members would “strengthen macroeconomic cooperation, including on exchange rate issues, in appropriate fora”.
- 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 in each country.
- Losers may now oppose the TPP.
- Thus support for TPP is reduced, and getting it past US Congress may be problematic.

# Implications of TPP for S. Korea

- If S. Korea does not join
  - Will suffer trade diversion in countries without Korea FTA (Japan esp.)
  - Will suffer trade diversion due to ROOs even in countries with Korea FTAs (US)
  - Will not be subject to other requirements of TPP
    - But most are already in KORUS

# Implications of TPP for S. Korea

- If S. Korea does join
  - I can't see much harm, and considerable benefit.