



# Trans-Pacific Partnership

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# What Is the TPP?

- Trans-Pacific Partnership:  
**“21<sup>st</sup>-Century” Trade agreement among 12 countries covering 36% of the world economy**
- Agreed October 5, 2015, after first being mentioned in 2008 and negotiations since 2010.
- Now needs to be approved by all 12 countries, including US.
- Approval by US House and Senate will be contentious.
- Text released November 5, 2015.

# What Is the TPP?

- Once approved, TPP will be a “living agreement”:
  - Open to enlargement, admitting new members if they agree to its rules and negotiate market access with all members.
    - Some others already considering it: S. Korea, Indonesia, Philippines.
    - Could include China in future.
  - Rules will change as needed as circumstances and technologies evolve.

**Figure I. Trans-Pacific Partnership Countries**



### Trans-Pacific Partnership Countries

	U.S. FTA	Population (millions)	GDP (\$billions)	U.S. Imports (\$billions)	U.S. Exports (\$billions)	Trade Balance (\$billions)
Australia	✓	23.2	1,505	10.7	26.7	16.0
Brunei		0.4	16	0.0	0.6	0.5
Canada	✓	35.1	1,825	346.1	312.1	-33.9
Chile	✓	17.6	277	9.5	16.6	7.1
Japan		127.3	4,902	133.9	67.0	-67.0
Malaysia		29.6	312	30.4	13.1	-17.3
Mexico	✓	118.4	1,259	294.2	240.3	-53.8
New Zealand		4.5	181	4.0	4.3	0.3
Peru	✓	30.9	207	6.1	10.1	4.0
Singapore	✓	5.4	296	16.5	30.5	14.1
Vietnam		89.7	171	30.6	5.7	-24.9
United States		316.4	16,800	Total U.S. Imports from TPP Countries \$881.9	Total U.S. Exports to TPP Countries \$727.0	Total U.S. Trade Balance with TPP Countries -\$154.9

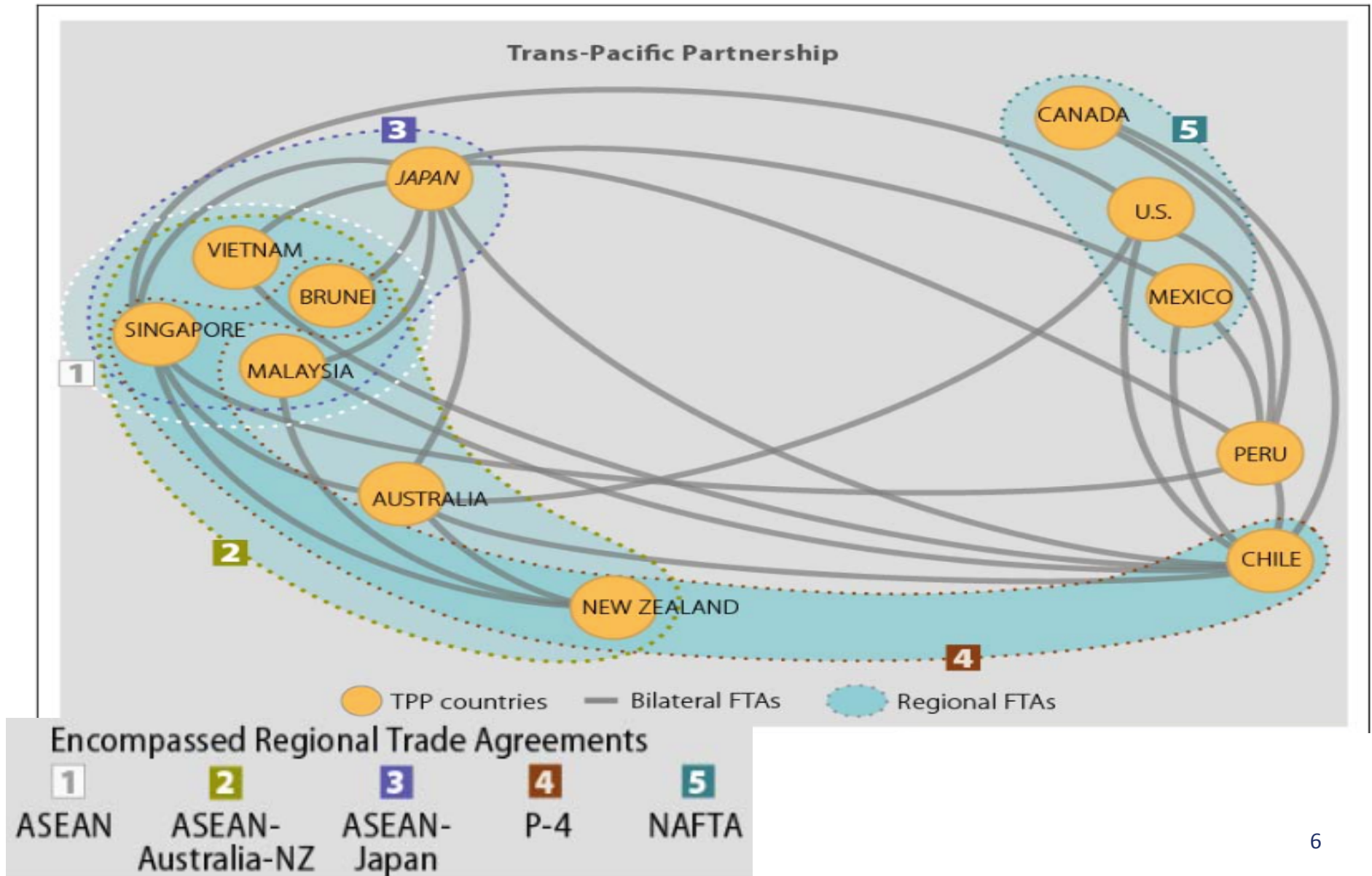
*\$U.S. dollars*

**Source:** Analysis by CRS. Population and GDP data from IMF, World Economic Outlook, April 2014. Trade data from the U.S. International Trade Commission (ITC). Total trade includes both imports and exports, but does not include services trade.

**Notes:** Trade data from 2014, GDP and population data from 2013.

# The “Spaghetti Bowl”

Figure 2. Existing FTAs among TPP 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

# Trade in Goods

- 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:
  - Main exception: Certain agriculture
  - Other policies and regulations that restrain trade to be harmonized or removed.



# Trade in Goods

- Tariffs
  - Cars and trucks: US tariffs removed
    - Cars: 2.5%, removal phased in over 25 years.
    - Trucks: 25%, removal phased in over 30 Years.
  - Schedules and rates differ by exporting country

TARIFF SCHEDULE OF THE UNITED STATES

HTS # (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
02011005	4.4%	EIF	EIF	EIF	EIF	EIF
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
Fresh or chilled retail cuts of ham, shoulders and cuts thereof, with bone in	1.4 cents/kg	EIF	EIF	EIF	EIF	EIF

EIF: Entry In Force  
(duty-free from start)

Base Rate	Australia	Brunei	Canada	Chile	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: Eliminated in 10 annual stages, duty-free in year 10		B10
10%	EIF	EIF	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 than Peru FTA

# Trade in Services

- Trade in services: Reduce/remove barriers among TPP countries
  - Remove restrictions on service providers (most restrictive in poorer countries).
  - Facilitate international movement of persons working temporarily in firms if needed for other aspects of TPP commitments.

# Digital Trade

- 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.)

# Investment

- Investment: Investor/State Dispute Resolution
  - 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

# Intellectual Property

- 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

# Labor

- 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



# Environment

- 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.

# State-Owned Enterprises

- 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

# Contentious Issues

- 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

- 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 its 12-years of protection, but others will not. 5 years protection will be an increase for some countries.

# 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 was agreed via
    - Expanding tariff-rate quotas
    - Some lowered tariffs

# 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 the advantage over those countries that it has in 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

# 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 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: 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.
  - No other weakening of ISDS

# 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.

# Contentious Issues: Exchange Rates

- 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

# 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?

- Congress has 90 days to review the details before Obama can sign.
- USITC will have up to 105 days to do a full economic review.
- 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 are unlikely during US presidential campaign.
  - May be considered in 2016 after the election.

- My focus here:
  - Trade effects on neighboring countries
  - Many of these have FTAs with each other and/or with the US
  - How will TPP enhance or undermine the benefits to them of these arrangements?

# How will TPP affect the trade of its Neighbors?

- Why this is of interest:
  - TPP is large, both geographically and economically
  - Trade has effects on neighboring countries
  - Many of these have FTAs with each other and/or with the US
  - How will TPP enhance or undermine the benefits to them of these arrangements?

## **Overlap of TPP with ASEAN and other FTAs**

- TPP overlap
  - ASEAN
    - Is and FTA itself: AFTA
    - Has FTAs with several neighbor countries
  - US
    - NAFTA (North American Free Trade Area)
    - FTAs with several other TPP and non-TPP countries

Figure 4  
Existing FTAs (f) and Economic Integration Agreements (E)  
among TPP and Asian Economies

		TPP & not Afta										TPP & Afta					Afta & not TPP					Other Asia							
		Australia	Canada	Chile	Japan	Mexico	New Zealand	Peru	United States	Brunei	Malaysia	Singapore	Vietnam	Cambodia	Indonesia	Laos	Myanmar	Philippines	Thailand	Bangladesh	China	Hong Kong	India	Macao	Nepal	Pakistan	South Korea	Sri Lanka	Taiwan
TPP & not Afta:	Australia	E				E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E
	Canada		E			E	E	E																					
	Chile	E	E	E	E	E	E	E	E	f	E										E						E		
	Japan			E	E		E	E	E	E	E	E	f	E	f	f	E	E				E							
	Mexico		E	E	E		E	E																					
	New Zealand	E	E						E	E	E	E	E	E	E	E	E	E	E	E	E	E							
	Peru		E	E	E	E		E		E											E							E	
	United States	E	E	E	E	E				E																		E	
TPP & Afta	Brunei	E	E	E	E	E			f	E	f	f	f	f	f	f	f	f	f	f	f	f					E		
	Malaysia	E	f	E	E			f	f	f	f	f	f	f	f	f	f	f	f	f	f	E			E	E			
	Singapore	E	E	E	E	E	E	E	f		f	f	f	f	f	f	f	f	f	f	E	E					E		
	Vietnam	E		E	E			f	f	f		f	f	f	f	f	f	f	f	f	f	f					E		
Afta & not TPP	Cambodia	E		f	E			f	f	f	f		f	f	f	f	f	f	f	f	f	f					E		
	Indonesia	E		E	E			f	f	f	f	f		f	f	f	f	f	f	f	f	f					E		
	Laos	E		f	E			f	f	f	f	f	f		f	f	f	f	f	f	f	f					E		
	Myanmar	E		f	E			f	f	f	f	f	f	f	f	f	f	f	f	f	f	f					E		
	Philippines	E		E	E			f	f	f	f	f	f	f	f	f	f	f	f	f	f	f					E		
	Thailand	E		E	E			f	f	f	f	f	f	f	f	f	f	f	f	f	f	f					E		
Other Asia	Bangladesh																					f	f	f			f		
	China		E		E	E		f	f	E	f	f	f	f	f	f	f	f	f	f	E	E		E	E				
	Hong Kong				E																E								
	India			E				f	E	E	f	f	f	f	f	f	f	f	f	f					f	f	E	f	
	Macao																				E								
	Nepal																				f		f		f			f	
	Pakistan									E										f	E	f		f				f	
	South Korea	E			E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E	E							
	Sri Lanka																				f		f		f				
	Taiwan																												

# Overlap of TPP with other FTAs

- Messages:
  - All these countries are heavily linked to existing FTAs:
    - Most are both FTAs and Economic Integration Agreements (EIAs) on services .

# Overlap of TPP with other FTAs

- The Message:
  - TPP should not be understood in the same way that both the original EU and NAFTA were understood, as arrangements among countries that had no other prior arrangements
  - TPP is integration between countries that are already heavily integrated with others

# Trade Effects of TTIP

- I'll focus mainly on the largest trade flows
  - Top-five partners for exports
  - Top-five partners for imports



Figure 5  
Exports Percent to Top Five Destinations  
for TPP and Asian Economies

Exports from row to column  
E=Max, e= top 2-4

	TPP & not Afta	TPP & Afta	Afta & not TPP	Other Asia	Other																									
	Australia	Canada	Chile	Japan	Mexico	New Zealand	Peru	United States	Brunei	Malaysia	Singapore	Vietnam	Cambodia	Indonesia	Laos	Myanmar	Philippines	Thailand	Bangladesh	China	Hong Kong	India	Macao	Nepal	Pakistan	South Korea	Sri Lanka	Taiwan	E.U. (27)	
TPP & not Afta:	Australia		e																E	e										e
	Canada		e	e			E												E											e
	Chile		e				e												E											e
	Japan							e											E							e	e			e
	Mexico	e					E												E											e
	New Zealand	E		e			e												E											e
	Peru		e				e												E											E
	United States		E	e	e														E											e
TPP & Afta	Brunei	e		E			e						e						E							e				
	Malaysia			e			e			e									E											e
	Singapore							E			e								E	e										e
	Vietnam			e			E												E						e					e
Afta & not TPP	Cambodia	e					E			e									E											e
	Indonesia			E			e			e									E											e
	Laos																		E											
	Myanmar									e							E		E	e	e									
	Philippines			E			e			e									E											e
	Thailand			e			e												E	e										e
Other Asia	Bangladesh	e					e												E	e										E
	China			e			e												E		e					e				E
	Hong Kong			e			e												E		e									e
	India						e			e									E											E
	Macao						e				e								E		e									e
	Nepal	e					e												E					e						e
	Pakistan						e												E											E
	South Korea			e			e												E	e										e
	Sri Lanka						e			e									E			e								E
	Taiwan						e												E	e										e

Figure 6  
Imports Percent from Top Five Sources  
for TPP and Asian Economies

Imports to row from column  
M=Max, m= top 2-4

	TPP & not Afta	TPP & Afta	Afta & not TPP	Other Asia	Other																								
	Australia	Canada	Chile	Japan	Mexico	New Zealand	Peru	United States	Brunei	Malaysia	Singapore	Vietnam	Cambodia	Indonesia	Laos	Myanmar	Philippines	Thailand	Bangladesh	China	Hong Kong	India	Macao	Nepal	Pakistan	South Korea	Sri Lanka	Taiwan	E.U. (27)
TPP & not Afta:	Australia		m				m													M									m
	Canada		m	m			M													m									m
	Chile						M													m									m
	Japan	m					m													M									m
	Mexico			m			M													m					m				m
	New Zealand	M		m			m													M									m
	Peru						M													m									m
	United States		m	m	m															M									m
TPP & Afta	Brunei		m				m		M	m																			m
	Malaysia		m				m			m										M									m
	Singapore						m			m										m							m	M	
	Vietnam		m																	M					m		m	m	
Afta & not TPP	Cambodia										m								m	M	m							m	
	Indonesia		m							m										M					m				m
	Laos																			M					m				
	Myanmar		m							m									m	M					m				
	Philippines		M				m			m										m									m
	Thailand		M				m													m									m
Other Asia	Bangladesh												m							M	m								m
	China		m				m																			m	m	M	
	Hong Kong		m				m				m									M									m
	India																			M									m
	Macao		m																	M	m								m
	Nepal												m							m		M							m
	Pakistan																			m									m
	South Korea		m				m													M									m
	Sri Lanka									m										m		M							m
	Taiwan	M					m													m					m				m

# Trade Effects of TPP

- Four main effects
  - **Trade creation:** Import from partner what was previously produced at home
  - **Trade diversion:** Import from partner what was previously imported from 3<sup>rd</sup> country
  - **Preference erosion:** Loss of a preference when a previous partner forms FTA with a 3<sup>rd</sup> country
  - **Trade reversion:** Import from new partner what had been diverted to a partner in prior FTA

# Trade Effects of Individual FTAs

- **Trade Creation:** Import from partner what you previously produced yourself
  - Beneficial to partner, which exports
  - Beneficial to importing country as a whole
  - But harmful to import-competing industry in importing country

# Trade Effects of Individual FTAs

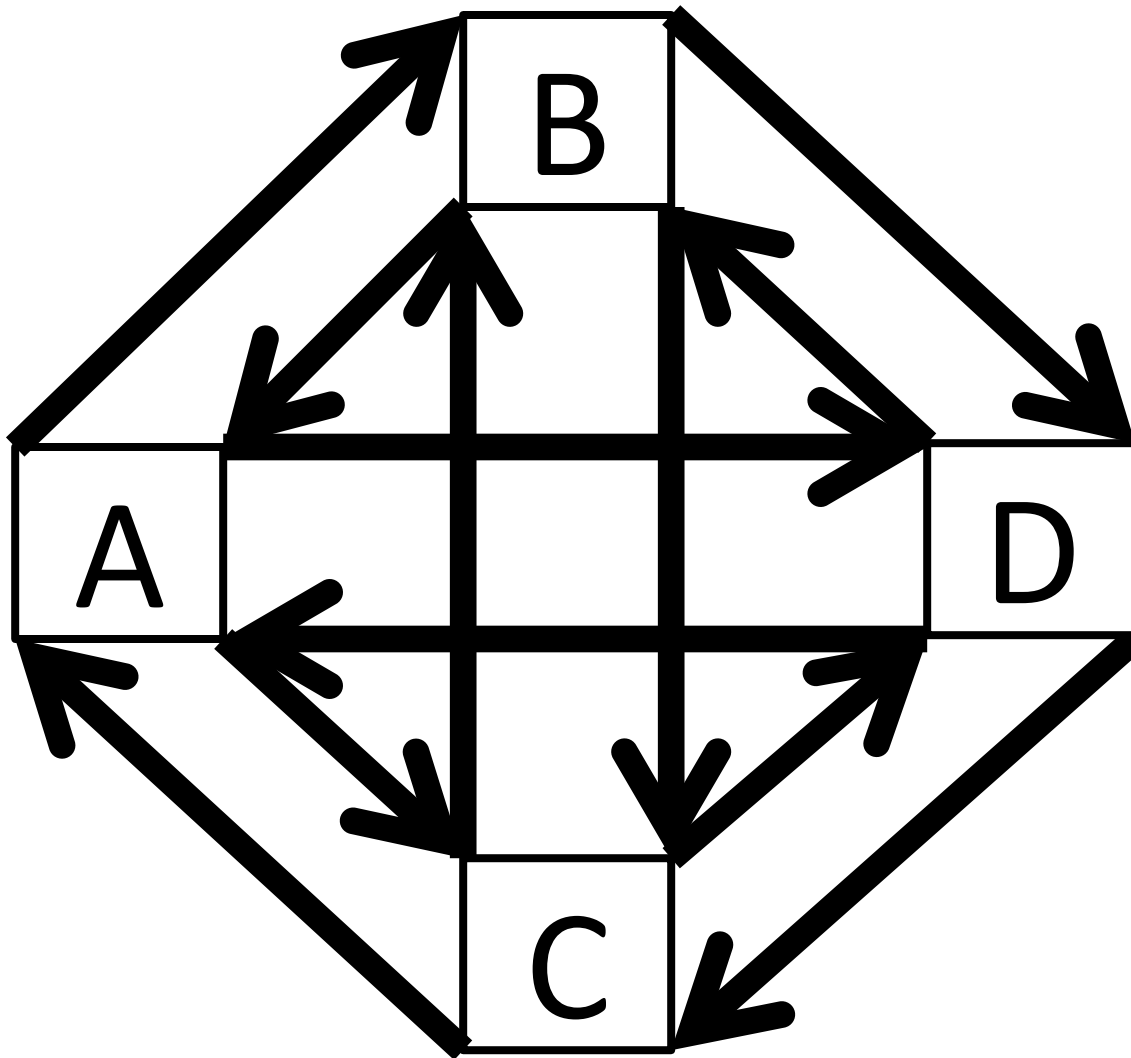
- **Trade Diversion:** Import from partner what you previously imported from an outside country
  - Harmful to outside country
  - Harmless to import-competing industry in importing country (there is none)
  - Harmful to importing country as whole, as it pays more for imports
  - Beneficial to the partner exporting country

# Trade Effects of Additional FTAs

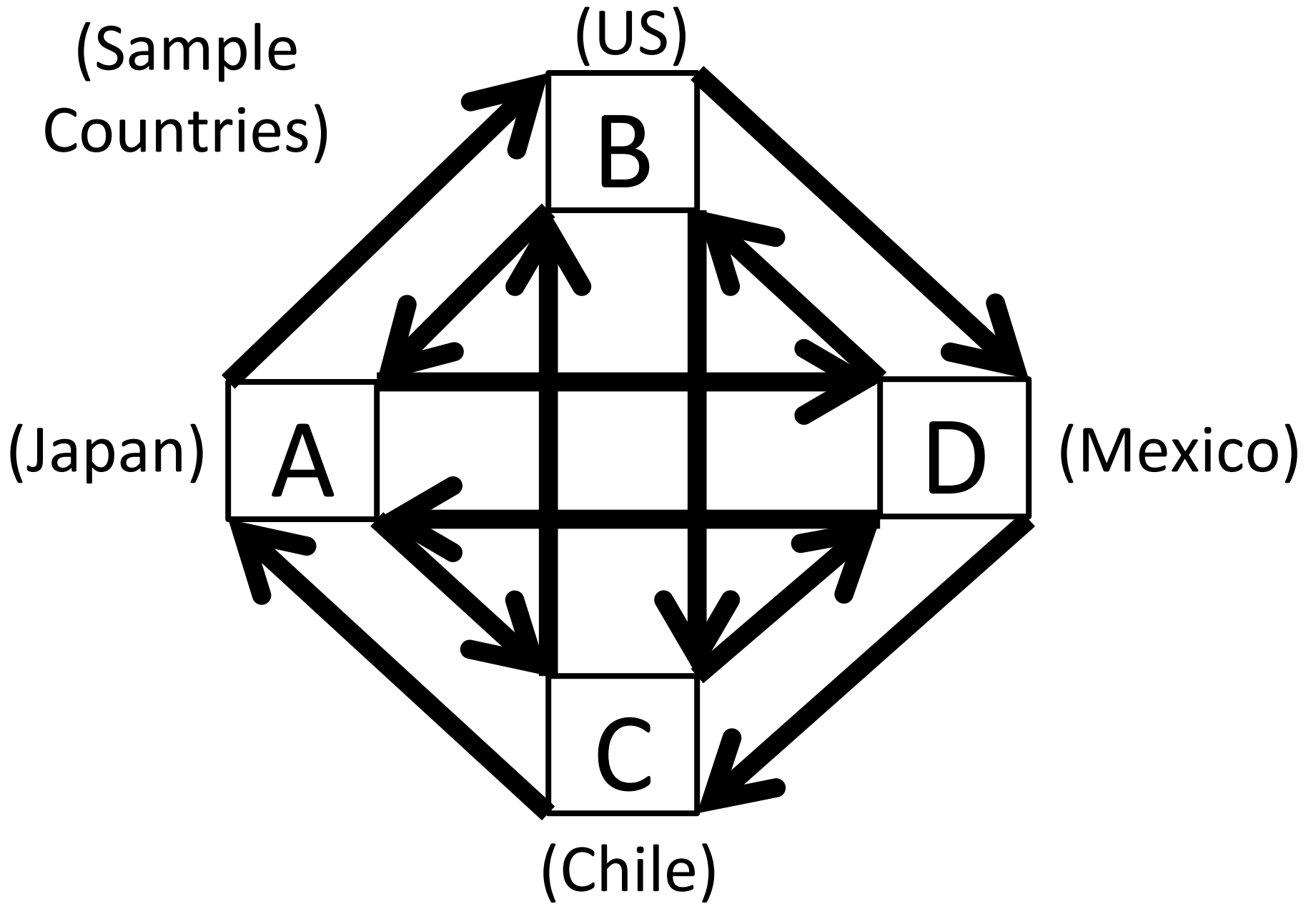
- **Preference Erosion:** Lose preference advantage to previous FTA partner when it forms FTA with your competitor
  - Harmful to you and your export industry
  - Beneficial that partner, like trade creation
  - Beneficial to competitor

# Trade Effects of Additional FTAs

- **Trade Reversion:** Undo previous trade diversion
  - Beneficial to previous outside country
  - Beneficial to importing country, like trade creation
  - Harmful to beneficiary of previous trade diversion





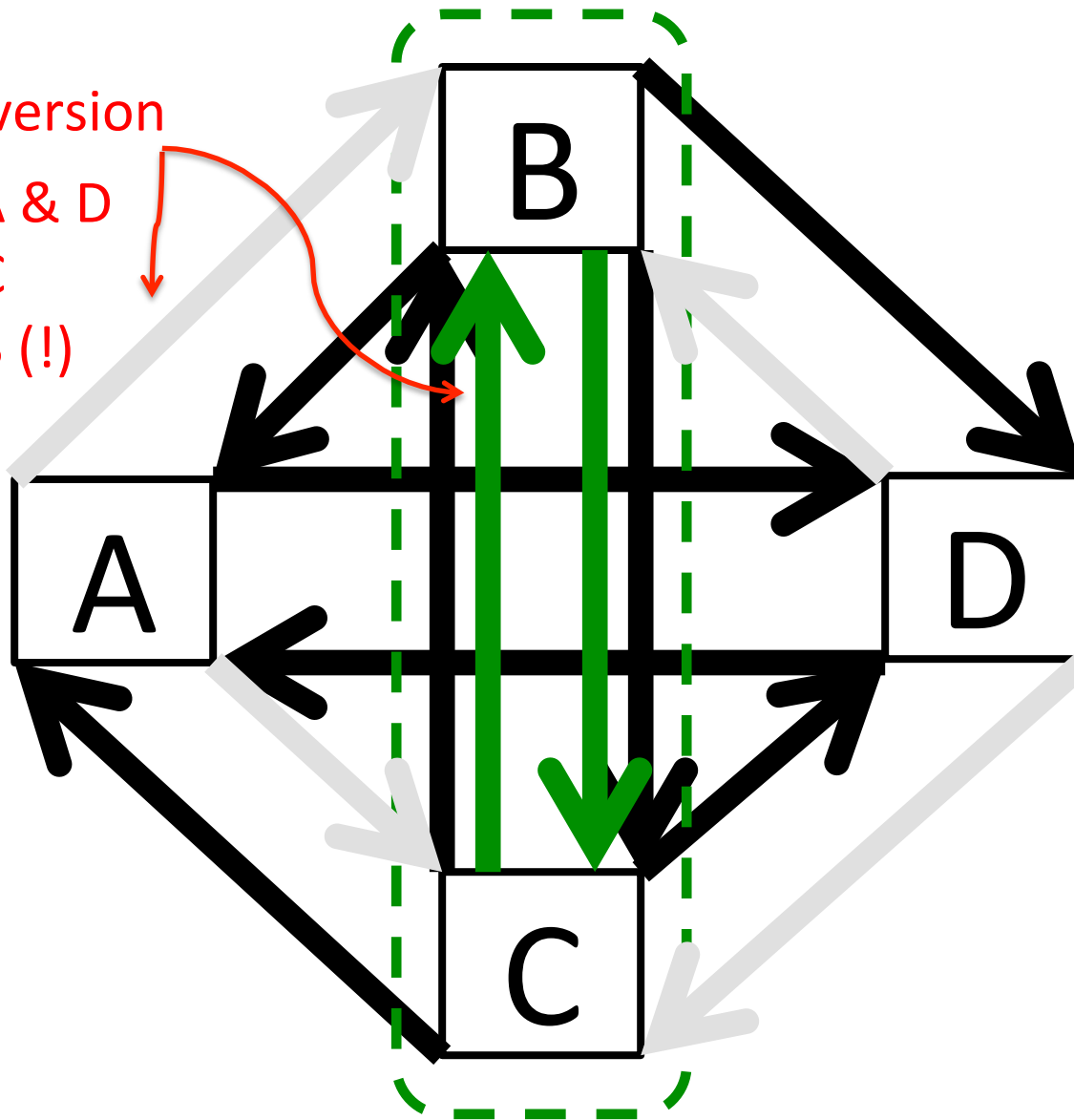


Trade Diversion

Hurts A & D

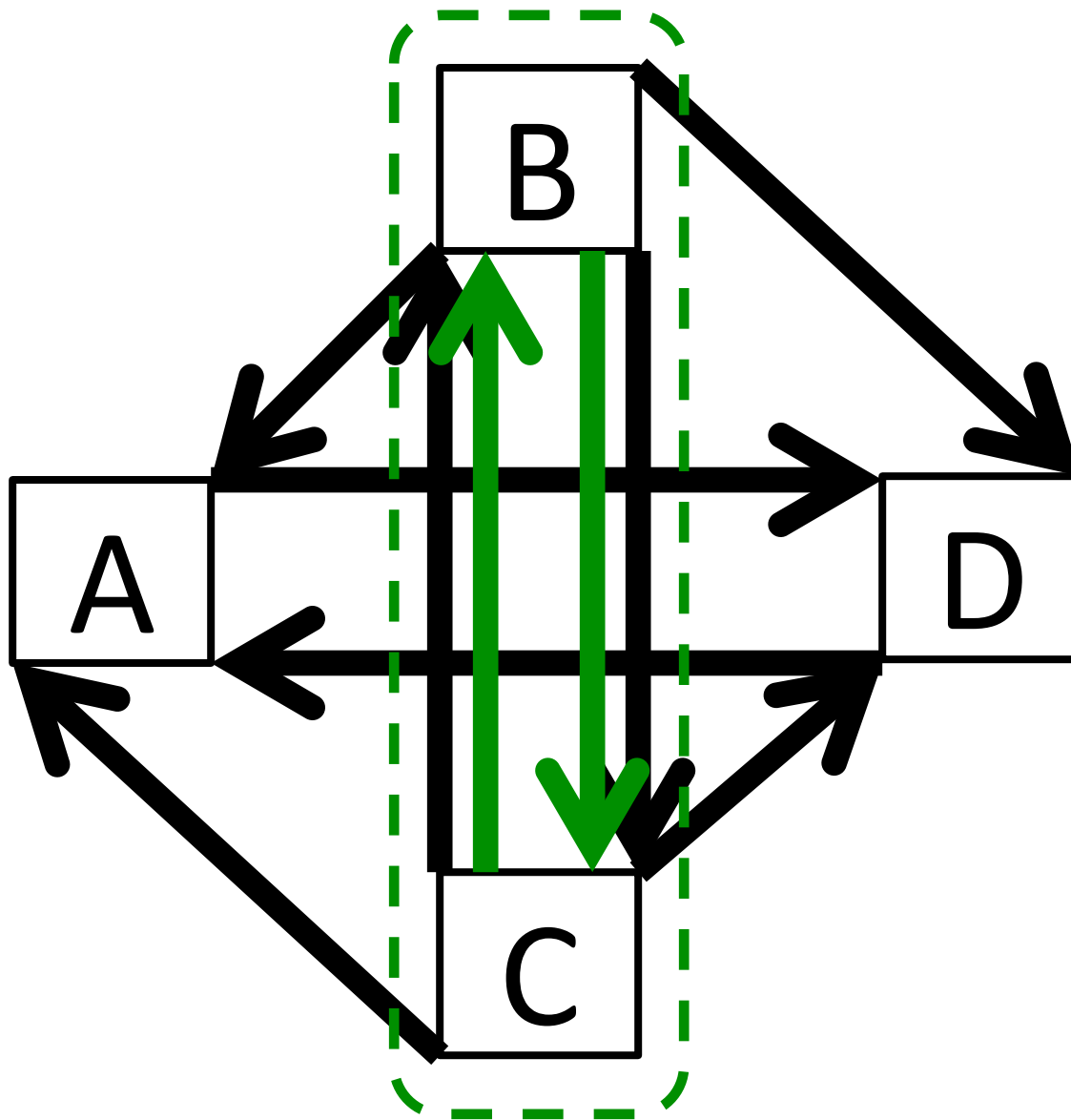
Helps C

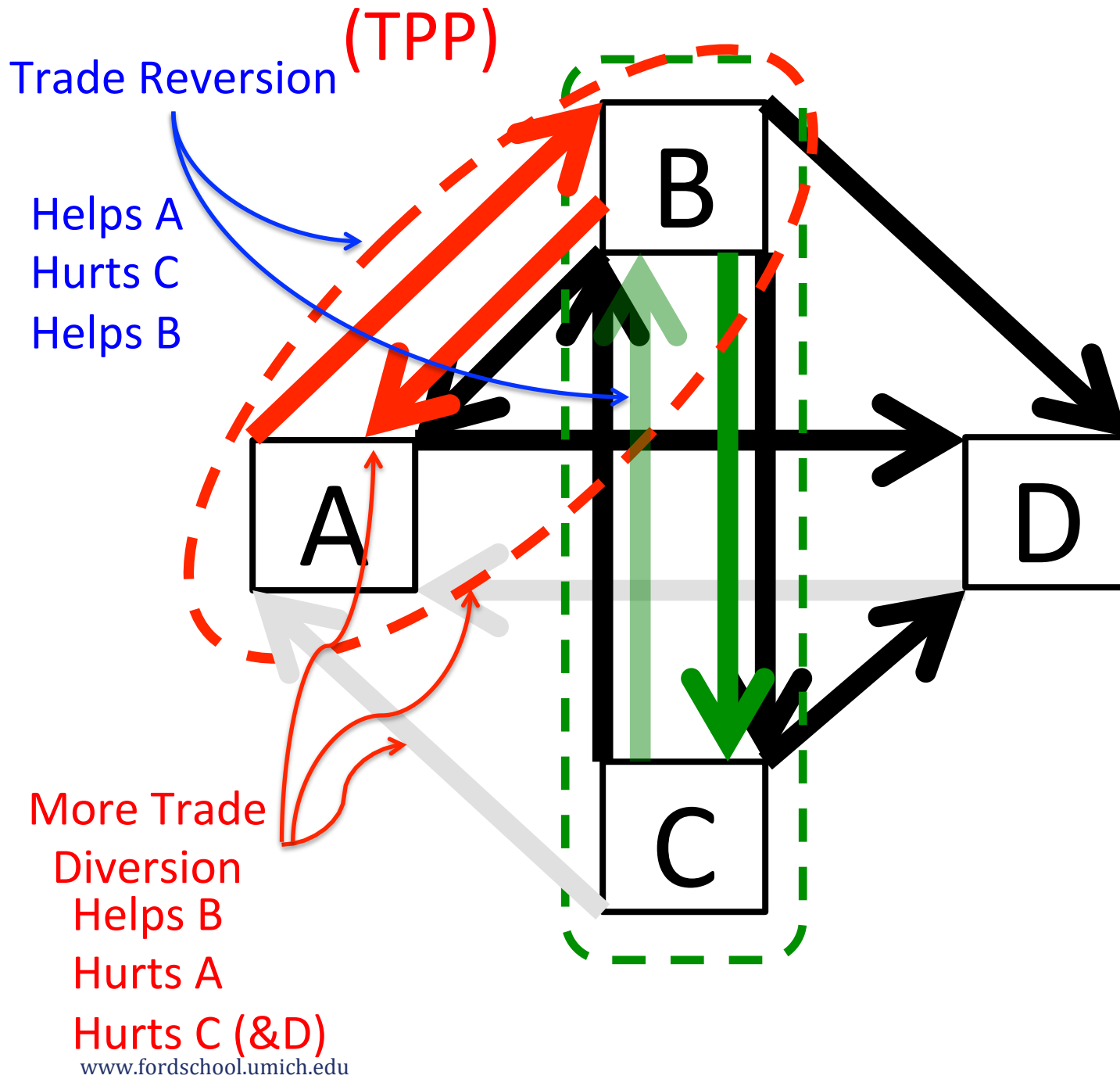
Hurts B (!)



## Trade Effects of FTAs

- Additional effect if a member already has an FTA with an outside country:
  - Trade reversion: Imports that were diverted from the new partner by the 1<sup>st</sup> FTA revert to the new partner with the 2<sup>nd</sup> FTA
  - This is a form of trade diversion
    - Harmful to the country diverted from (which had benefited from 1<sup>st</sup> FTA's trade diversion)
    - But beneficial to the importing country – it gets back to cheap imports





## Trade Effects of TPP

- In the paper I work through the trade effects on individual countries and groups of countries
- Discussion is based on the presence and absence of FTAs in Figure 4 covering the major trade flows indicated in Figures 5 & 6
- I'll do just a sample here



# • Singapore

	Australia	Canada	Chile	Japan	Mexico	New Zealand	Peru	United State	Brunei	Malaysia	Singapore	Vietnam	Cambodia	Indonesia	Laos	Myanmar	Philippines	Thailand	Bangladesh	China	Hong Kong	India	Macao	Nepal	Pakistan	South Korea	Sri Lanka	Taiwan	E.U. (27)
Exports Singapore								E			e								e	e								e	
Imports Singapore							m	m												m							m	M	
FTAs Singapore	E	E	E	E	E	E	E	E	f	f	f	f	f	f	f	f	f	f	E	E				E					

## – Biggest trade partners are

- China – not in TPP
- E.U. – not in TPP
- Malaysia – in TPP

## – Has FTAs with almost everybody

## – Has benefited from trade diversion with FTA partners, some of which will be eroded

## – Thus it may lose slightly, but will be mostly unaffected



- China

	Australia	Canada	Chile	Japan	Mexico	New Zealand	Peru	United State.	Brunei	Malaysia	Singapore	Vietnam	Cambodia	Indonesia	Laos	Myanmar	Philippines	Thailand	Bangladesh	China	Hong Kong	India	Macao	Nepal	Pakistan	South Korea	Sri Lanka	Taiwan	E.U. (27)
Exports China		e				e														e				e			F		
Imports China		m				m																		m		m	M		
FTAs China	E			E	E		f	f	E	f	f	f	f	f	f	f				E	E		E						

- Largest trade partners are
  - Japan and US, both in TPP
  - S. Korea and E.U., not in TPP
- Has many FTAs, but not with these
- Stands to lose from trade diversion