The Cost of Delaying the TPP

The U.S. continues to delay congressional approval of the Trans-Pacific Partnership Agreement (TPP), leading many to surmise that the odds of a vote this fall are dwindling.

In an attempt to garner additional support for the passage of the TPP during the lame duck period, Michael Froman, the United States Trade Representative (USTR), warned against the cost of delaying congressional approval of the TPP saying that other countries would not wait indefinitely for the United States to ratify the agreement. Although New Zealand and Japan have made progress in their respective parliamentary debates on the issue, uncertainty still exists in the U.S. as to whether a congressional vote on TPP would take place this fall.

To help reluctant lawmakers make up their mind, the USTR is promoting a study by the Council of Economic Advisers on the risks to employment and businesses if Congress fails to act on the TPP. The study identifies the Regional Comprehensive Economic Partnership (RCEP) led by China as the primary beneficiary of a failure to implement the TPP.

The Chinese led negotiation is an illustrative example of the challenges that U.S. businesses would face if RCEP takes effect instead of the TPP. In particular, it examines the Japanese market and compares the tariffs that U.S. and Chinese firms would face under RCEP, showing that Chinese firms would enjoy meaningful tariff cuts that would improve their competitive position relative to U.S. firms.

"If the TPP did not pass, the United States would not only forego substantial economic gains, but would also face trade diversion and enjoy less market access compared with other countries such as China. The RCEP will provide its member countries with improved access to the markets of seven countries that are members of the TPP, putting U.S. exporters at a disadvantage and threatening the billions of dollars of exports the U.S. currently sells in the region, in addition to squandering the new export opportunities that the TPP would provide," the USTR stated.

About 45% of current U.S. goods exports go to TPP countries, more than $225 billion in U.S. exports – roughly 10% of total U.S. exports – go to the seven countries that are in the TPP, but would also be in the RCEP in the event that the TPP is not passed and the RCEP goes forward.

In just Japan alone – the second biggest market outside of the U.S. in the TPP – the study finds the following if the RCEP is implemented and the TPP is not:

1. China likely would see substantial tariff cuts when selling to Japan, with typical reductions of over 5 percentage points where tariffs are cut and many tariffs cut by more than 10 percentage points. The average tariff on goods covered by the RCEP would likely be less than half the average rate faced by the same goods if exported from the U.S.

2. Thirty-five industries in the United States which sell a combined $5.3 billion in exports to Japan per year would see an erosion of their market access to Japan relative to Chinese firms due to tariff cuts under the RCEP. These U.S. industries include 162,000 business establishments and employ nearly 5 million workers nationwide.

3. Seventy-eight U.S. industries that each export over $1 billion a year in goods to TPP partners and employ nearly 12 million workers in 360,000 business establishments nationwide would fail to see improved market access if the TPP is not passed. Furthermore, the rules of the road in Asia formed in the absence of the TPP could substantially disadvantage U.S. firms and workers in these industries.

4. The lost opportunities to increase growth and productivity in the U.S. economy are substantial if the TPP is not passed. This would also prevent the United States from helping to shape trade in Asia to adhere to high standards and U.S. values.

This is an illustration of some of the many consequences of not passing the TPP, the USTR says, adding that provisions in the TPP to level the playing field, including on rules for labor, the environment, and state-owned enterprises would not go into effect, nor would the Joint Declaration by TPP countries to address currency manipulation and competitive devaluation that is contingent on the TPP.

Geneva Watch is published by Dairy Farmers of Canada, Chicken Farmers of Canada, Egg Farmers of Canada, Turkey Farmers of Canada and Canadian Hatching Egg Producers to report on the various events occurring in Geneva, particularly on the WTO negotiations on agriculture.

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