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Globalization Commentaries

First published by the *Triple Crisis Blog* (www.triplecrisis.com)
January 23, 2012

Bamboozled by the TPP: The Small Benefits and Real Costs of the Trans-Pacific Partnership Agreement

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The Obama administration has launched a "21st Century" trade negotiation with a number of pacific-rim nations referred to as the Trans-Pacific Partnership (TPP). While the full details of the proposed treaty are yet to be made public, early estimates show that the economic benefits of the agreement will be relatively small and the regulatory costs could be significantly high—especially for the emerging market and developing countries engaged in the negotiations.

The gains of the agreement may be a mere $20 billion, or just over one percent of GDP on average for the nations involved. To get those small gains nations will have to trade away the ability to use measures to prevent and mitigate financial crises, to develop a growth-based innovation system, to protect public health and the environment, and more.

That's right, according to a study by the East-West Center, at best the agreement will bring a one-time boost in GDP to participating countries of just over one percent. The accompanying table to this note shows how these gains would be distributed.

Economic benefits of the TPP

	Billions	***percent gdp***
US	4.9	0.04
Australia	0.4	0.03
Chile	0.6	0.28
New Zealand	0.3	0.21
Peru	2.4	1.36
Brunei	0.0	0.14
Malaysia	3.7	1.43
Vietnam	7.5	6.37
Singapore	0.2	0.07
Total/ave	**20**	**1.10**

Source: Petri, Peter, Michael Plummer, and Fan Zhai, (2011), "The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment, East West Center Working Paper, Hawaii.

Vietnam and Malaysia seem to stand to gain more than half the benefits of the treaty, but those two countries would likely have to bear the most in terms of regulatory cost. Both of these nations are significant low-wage assembly manufacturers that would export more goods to the US and Australia, and also import more intermediate goods for final assembly from those and other TPP nations.

These gains should also be seen as gross over-estimates as well. The models deployed by the authors have estimates not only for goods trade, but also for services trade, and for the amount of foreign direct investment flows to the region. The methods for the latter two estimates have little traction in the economics profession and are often not reported in official reports by the World Bank and others. Indeed, work by myself and others show that such models should be viewed in a very critical manner.

These over-estimated but still small benefits need to be juxtaposed with the costs. The provisions for investment and intellectual property will bring significantly high costs to these nations. What is more, the treaty will divert trade that probably should occur among others worse off.

In terms of investment, the treaty would rob the ability of parties to deploy regulations on the flow of cross-border capital flows to prevent and mitigate financial crises. Such regulations are a cornerstone of Vietnam's exchange rate and export policy. Malaysia's regulation of capital outflows in the wake of the Asian financial crisis is credited with making Malaysia among the least worse off due to that crisis. If these tools were used, the treaty's "investor-state" dispute system that allows private firms to directly sue host country governments would kick in.

The agreement will also make it harder for nations to establish the appropriate innovation policies that are necessary to diversify the economy toward higher value added goods. While nations like Brazil and China—with only commitments under the WTO and not a deal with the US—are free to learn from foreign firms and spur domestic industries, this will be much more difficult for nations under its deal with the US.

Finally, the agreement will make other area nations worse off. The treaty will distort markets in the Asian region such that Indonesia, the Philippines, Thailand, Japan, China, and South Korea would all be worse off.

Prominent trade theorist Jagdish Bhagwati has said that if TPP nations accept this deal they will truly be "bamboozled." When looking at the potential gains and the real costs it is hard to come up with a rival conclusion.