

# The economics of TPP

## Costs, benefits, risks

John Ballingall  
Presentation for Sustainability Week  
5 April 2016

# Key themes

1. TPP is about **more than just tariffs**. If you don't like TPP, what's your credible alternative for lifting trade, investment and competitiveness and jobs?
2. Modelling the **benefits** of TPP is devilishly tricky, but you need a sensible economic framework for doing so.
3. If you think the government's \$2.7 billion benefits estimate is 'wrong', what's your estimate? And what's your counterfactual?
4. There are **costs** from TPP; and some increased **risks** around the investor-state provisions.
5. But it's hard to see how the expected costs could outweigh the expected benefits: **TPP is a good deal for New Zealand** overall.

# Why TPP matters: the big picture



Jerry never lost sight of the big pitcher.

*“In short, the direct benefits to us from the TPP stem from the boost it will give Kiwi firms in terms of medium- to long-term competitiveness and enhanced participation in regional production networks in the Asia-Pacific region.*

*But more widely, New Zealand firms and consumers will benefit from the impetus this deal gives to trade liberalisation on a global level.*

*An enormously complicated deal was pulled and pushed into being. It shows what can be done to promote regional and global economic integration if the political will is strong enough and sufficiently long-sighted.”*

John Ballingall: TPP's legacy goes beyond tariffs

[http://www.nzherald.co.nz/business/news/article.cfm?c\\_id=3&objectid=11526067](http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11526067)

# “These benefits are modest”

Coates, Oram, Bertram and Hazledine (2016, p.4)

Expert paper #5  
THE ECONOMICS OF THE TPPA

Barry Coates, Rod Oram, Dr Geoff Bertram and Professor  
Tim Hazledine

Key Points: modelling the benefits of the TPPA; key issues for  
agriculture and trade rules; implications for value chains, the  
economic implications of regulatory restraints; a flawed model  
for the 21st Century agreement.

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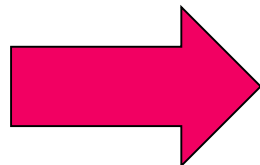
\$2.7 billion is “modest”?

Compared to what?

What is the credible alternative or Plan B?

# Estimating the benefits of TPP

- Agree with Coates et al that estimating tariff savings is not a sensible way of looking at the gains from TPP
- But that's *not* what Computable General Equilibrium (CGE) modelling – used to estimate the \$2.7 billion of benefits to NZ from TPP – does
- Gains from trade come from:
  - Efficiency gains: resources moving to areas of comparative advantage
  - Kiwi exports competing better for market share
  - Faster market growth lifting demand for Kiwi exports
  - Potential terms of trade improvements



**Need a CGE model of global trade that includes these factors**

# Economic modelling should create debate; but can't provide all the answers

If you put your head above the parapets...



## A Dynamic Computable General Equilibrium (CGE) Analysis of the Trans-Pacific Partnership Agreement: Potential Impacts on the New Zealand Economy

Prepared For:  
New Zealand Ministry of  
Foreign Affairs & Trade (MFAT)  
Date: September 28, 2015

By:  
Anna Strutt<sup>1</sup>,  
Peter Minor<sup>2</sup>, and  
Allan Rae<sup>3</sup>

*“...details results from a large-scale modelling effort designed to improve understanding of **some** potential impacts on New Zealand of entering into a TPP agreement”*

*Strutt et al, 2015, p. 1*

*“Other factors that are not considered will also influence the impact of any TPP agreement on New Zealand and a number of potentially important issues lie outside the scope of this report. As such, this report is **not intended to be a cost-benefit analysis of the TPP**”*

*Strutt et al, 2015, p. 2*

# The right tool for the job: economic models need to be fit for purpose



- No credible study has shown that TPP would be bad for New Zealand
- Using the Tufts University Global Policy Model for analysing TPP is like using a sledgehammer to wash your car

# Good questions to ask about costs

- Won't it erode our sovereignty?
  - All international treaties do – that's the point; but we can withdraw at any stage; there are multiple safeguards and exceptions to allow regulatory space
- Won't our laws be dictated by US corporations?
  - No, but there is a risk of 'chilling' that is hard to quantify
- How much will the copyright changes cost us?
  - ~\$55 million over 20 years
- Will medicines become more expensive?
  - ~\$2 million per year
- **Will these costs outweigh the expected benefits?**



# Risks of an investor-state dispute

- Expected cost of ISDS =

Prob (investor takes a claim)

Low as long as non-discriminatory, good regulatory processes followed

X

Prob (investor wins claim)

94 claims (25%) to end 2014 awarded in favour of investor; another 101 (28%) settled before arbitration\*

X

\$ value of proportion of claim for damages awarded

Averages 3% of claim amount\*

\* NZIER (2015). ISDS and sovereignty: The use of investor-state dispute settlement mechanisms in trade agreements and their impact on national sovereignty. NZIER report to Export New Zealand. September 2015

# Key takeaways

1. We didn't get all we wanted from TPP
2. But it's still a very good deal overall; and what's the credible alternative?
3. Not being part of it is “unthinkable”
4. No credible piece of modelling has shown that TPP would make NZ worse off; most studies show we would benefit significantly
5. There will be costs, but they will be small compared to the benefits, and compared to the cost of being ‘outside the tent’

