Trans-Pacific: Partnership or Jousting Contest?

Keith Rankin, 6 August 2015

The perpetually nearly-finished TPP negotiations perpetuate once again. Cars and cows are the problem, we are told.

The TPP is often said to be a free-trade negotiation between the principal western-oriented Pacific-rim economies, South Korea excepted. It's not. Nor is it a fair-trade or a balanced-trade negotiation. Rather, it's simply a multilateral trade-off, based on mercantilist principles.

In proper economics – Economics 101 – the benefit of an exchange is what you get; the cost is what you give up. Thus, for New Zealand, imported cars are a benefit of trade, and dairy products are a cost of trade. Overall the trade is good for us, because we value the cars more highly than the foreign car sellers do, and we value the dairy products (for our own consumption) less than the rest of the world does for their consumption.

Mercantilist economics, on the other hand, is all about production. Ultimately it's about making money. So, from a mercantilist point-of-view, exports are the benefit of trade and imports are the cost. We may call such mercantilism 'real-economik', an economic analogue of 'realpolitik'. It reflects how just about everyone else, other than economists, think about the international economy. And, most economists are employed by real-economists; so these economists tend to supress their professional insight in order to facilitate their careers. Further real-economics makes a certain amount of sense in real-world conditions. In the idealised world of Economics 101, competition is principally between buyers competing for scarce goods and services. In the real-economy, competition is between sellers competing for scarce buyers.

Thus, in the TTP negotiations, agreeing to more imports is a concession. The aim of each negotiating country is to get the most profit for its producers (especially its exporters), not the most welfare for its consumers. The TTP is like a rugby scrum or jousting contest, with each 'boofhead' participant competing vigorously to make gains by forcing concessions from the others.

The talks have stalled in part because New Zealand's negotiators cannot get an export deal that will compensate for the import concessions made to, for example, American pharmaceutical exporters.

What these partner countries should be doing is negotiating a balanced-trade deal. Rather than trying to undermine the sovereignty of Canada (by forcing tariff concessions on its dairy industry), New Zealand negotiators should be pointing to this country's 40-year-old current account deficit. New Zealand has spent more than it is earned in every year since 1973. That means that, for decades, other countries have earned more than they have spent. In the TPP, such countries are Brunei, Singapore, Malaysia and Japan.

New Zealand should be encouraging these countries to work less and to import more. They are wealthy countries, and should be persuaded to live as if they were wealthy countries. Better than shipping exports and getting nothing back in return for a portion of them. At least Japan is starting to go down this balanced trade route, spending a portion (albeit a very small portion) of the trade credits that it has accumulated with the rest of the world.

New Zealand should be offering to import less so that Malaysians and Japanese can import more. They have the 'money in the bank' to spend on imports. New Zealand does not.

The growth of world trade has little to do with so-called 'trade-freedom'. (Indeed the gains from free-trade, even under textbook conditions, while real are actually rather small.) Rather, trade growth is principally a leveraged result of world productivity growth. (By 'leveraged', I mean that when world incomes grow by say 20 percent, world trade may grow by around 40 percent.) Further, excessively unbalanced growth leads to financial crises – such as the Great Depression, the Global Financial Crisis, and the Euro Crisis – which in turn lead to leveraged shrinkage of world trade.

The best way to boost world trade is to promote balanced trade between nations. Multilateral trade is simply complex barter; ie barter involving three or more parties. Under balanced trade, in any given period of about ten years, no country should have a trade surplus or a trade deficit. Surpluses and deficits between any two countries should always be balanced by deficits and surpluses between other pairs of countries. For example, while New Zealand currently has trade that is approximately balanced, it has big trade deficits with Europe and substantial trade surpluses with Asia.

The Trans-Pacific Partnership 'Agreement', if it comes about, will be a result of competitive argy-bargy between the export interests of the different participating countries. When export competitiveness becomes the goal, concessions and cost-cutting create an environment of low wages and low taxes; high wages and taxes too, like foreign tariffs, are seen as antithetical to export growth. This promotion of exports above all else is mercantilist real-economik thinking. We can all do much better than trying to arm-wrestle foreign countries into taking more of our respective countries' exports.
