



THE TPP AND YOU



STANDARDS

SS7E9 THE STUDENT WILL EXPLAIN HOW VOLUNTARY TRADE BENEFITS BUYERS AND SELLERS IN SOUTHERN AND EASTERN ASIA.

A. EXPLAIN HOW SPECIALIZATION ENCOURAGES TRADE BETWEEN COUNTRIES.

B. COMPARE AND CONTRAST DIFFERENT TYPES OF TRADE BARRIERS, SUCH AS TARIFFS, QUOTAS, AND EMBARGOS.

C. EXPLAIN WHY INTERNATIONAL TRADE REQUIRES A SYSTEM FOR EXCHANGING CURRENCIES BETWEEN NATIONS.

ESSENTIAL QUESTIONS

- **WHAT IS “FREE TRADE”?**
- **WHAT ARE SOME OBSTACLES TO FREE TRADE?**
- **WHO ARE THE WINNERS AND LOSERS IN FREE TRADE?**
- **HOW DO TRADE AGREEMENTS IMPACT AN ECONOMY?**
- **HOW DO CURRENCY VALUES AFFECT TRADE?**



THE BASICS



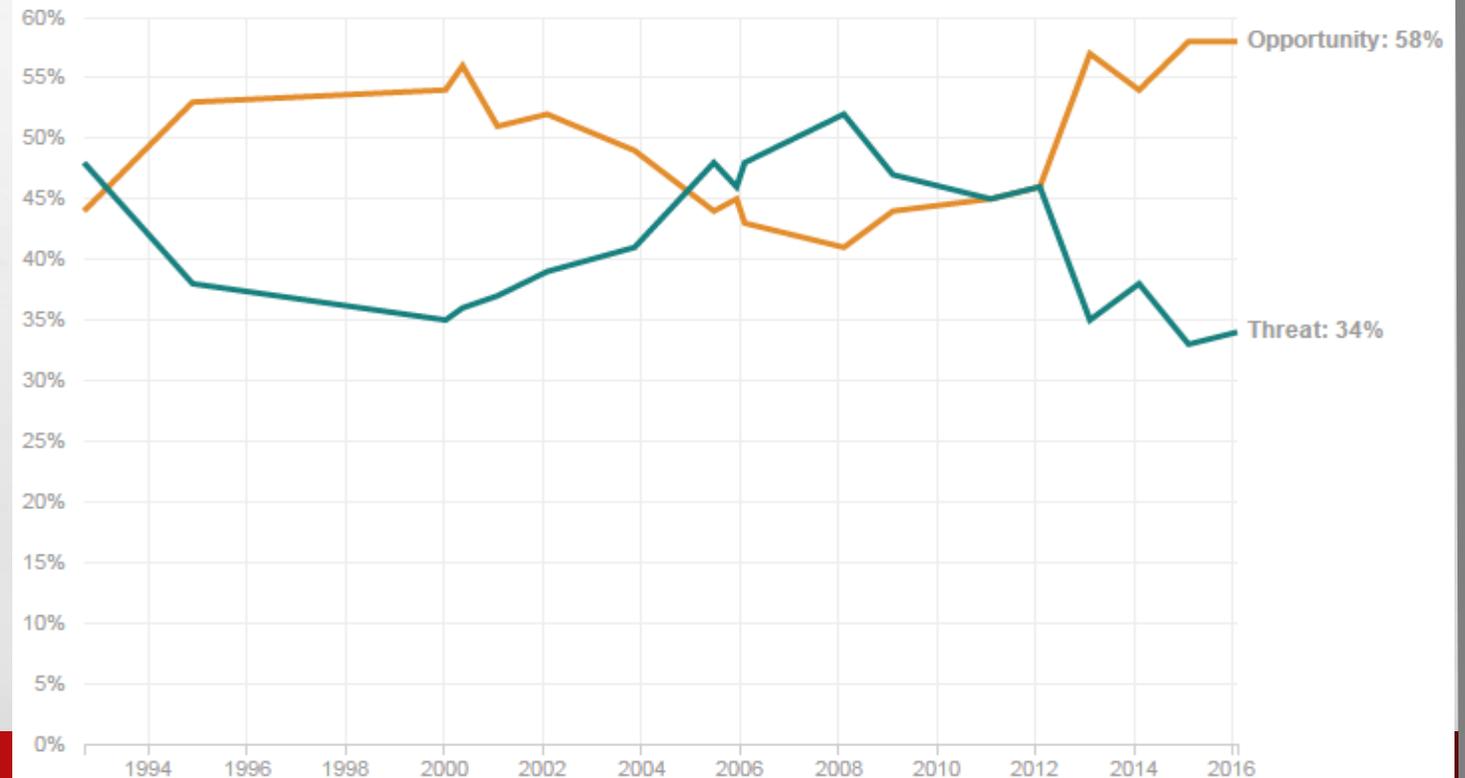
- **BEFORE WE DISCUSS THE TPP, LET'S FIND OUT WHAT WE KNOW ABOUT TRADE AND THE TERMS ASSOCIATED WITH TRADE**
- **GET OUT YOUR PHONES AND GO TO [KAHOOT.IT](https://kahoot.it)**
- **FREE TRADE AND TRADE BARRIERS**

WHAT DO AMERICANS THINK ABOUT FREE TRADE?

- **HOW DOES TRADE IMPACT US?**
 - **WE THE ECONOMY GLOBALIZATION**

In Fact, Americans Kind Of Like Trade

The share of Americans who see trade as an "opportunity for economic growth" is far greater right now than the share who see it as a threat to the economy.



Source: Gallup

Credit: Danielle Kurtzleben/NPR

BUT NOT EVERYONE SEEMS HAPPY ABOUT THE TPP



SOOOOO, WHAT IS THE TPP?

- **IT STANDS FOR TRANS PACIFIC PARTNERSHIP**
 - **IT'S A PROPOSED TRADE AGREEMENT BETWEEN THE UNITED STATES AND 11 OTHER PACIFIC RIM NATIONS**
 - **IF APPROVED IT WOULD BE THE LARGEST REGIONAL TRADE AGREEMENT IN HISTORY**

- **TRIVIA QUESTION:**

- **WHERE WERE THE TERMS OF THE AGREEMENT FINALIZED?**

- **ANSWER : ATLANTA!**



POLITICIANS (SURPRISE) ARE DIVIDED ON THE ISSUE

IT'S GREAT!

John Kasich

TPP: "Trade can make a difference in strengthening us around the world."

Trade in general: "I'm a free trader. I supported NAFTA. I believe in the [TPP]."

IT'S TERRIBLE!

Donald Trump

TPP: "It's a horrible deal."

NAFTA: "A terrible disaster."

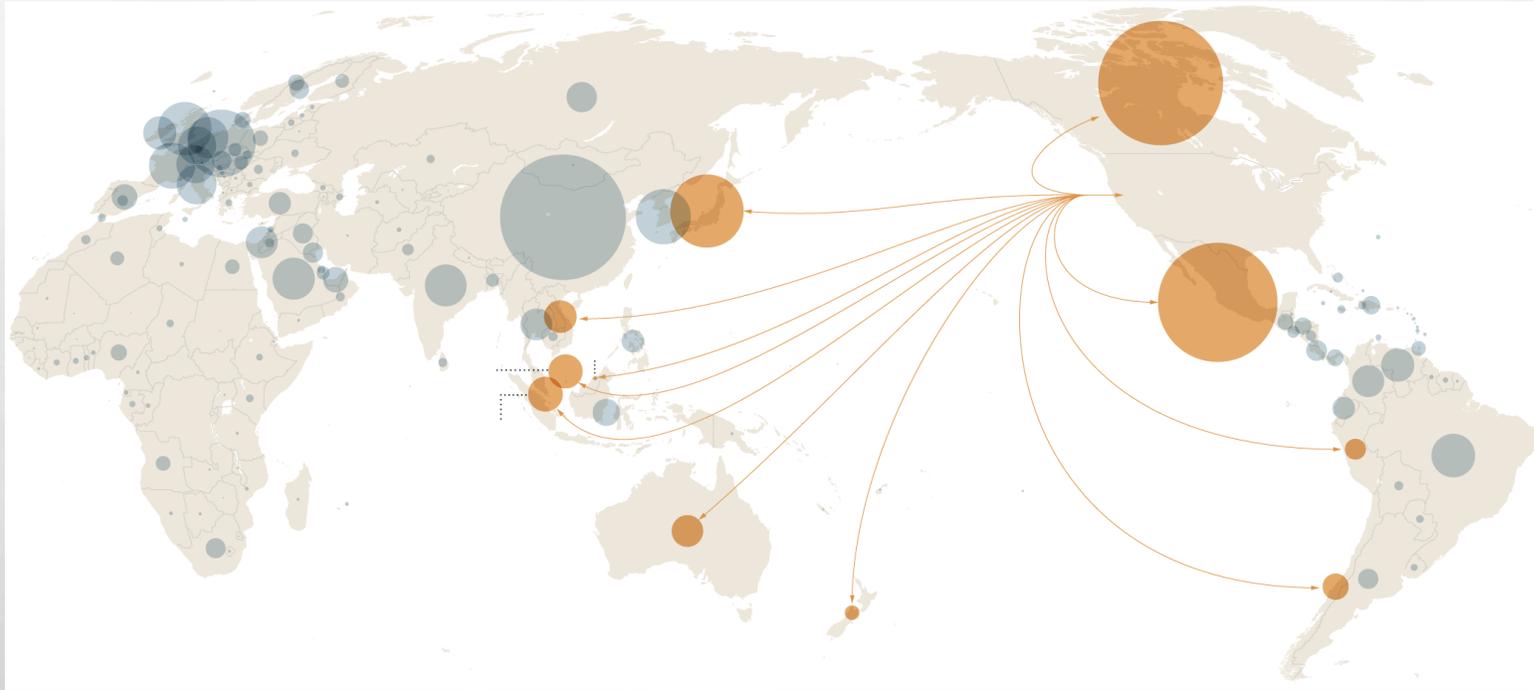
I'M NOT SURE ANYMORE!

Hillary Clinton

TPP: "I'm worried about currency manipulation. ... There are still a lot of unanswered questions."

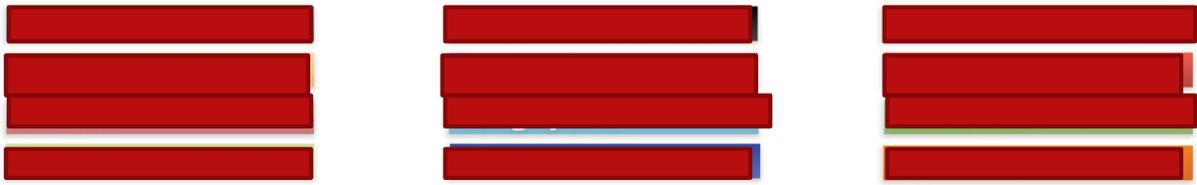
NAFTA: "I would like to renegotiate it. I think there were parts of it that did not work as hoped for."

WHAT COUNTRIES ARE INVOLVED?



SEE HOW MANY OF THE 11 COUNTRIES YOU CAN IDENTIFY FROM THIS MAP

TPP Member Nations



HOW MUCH DO WE TRADE WITH EACH COUNTRY?

COUNTRIES

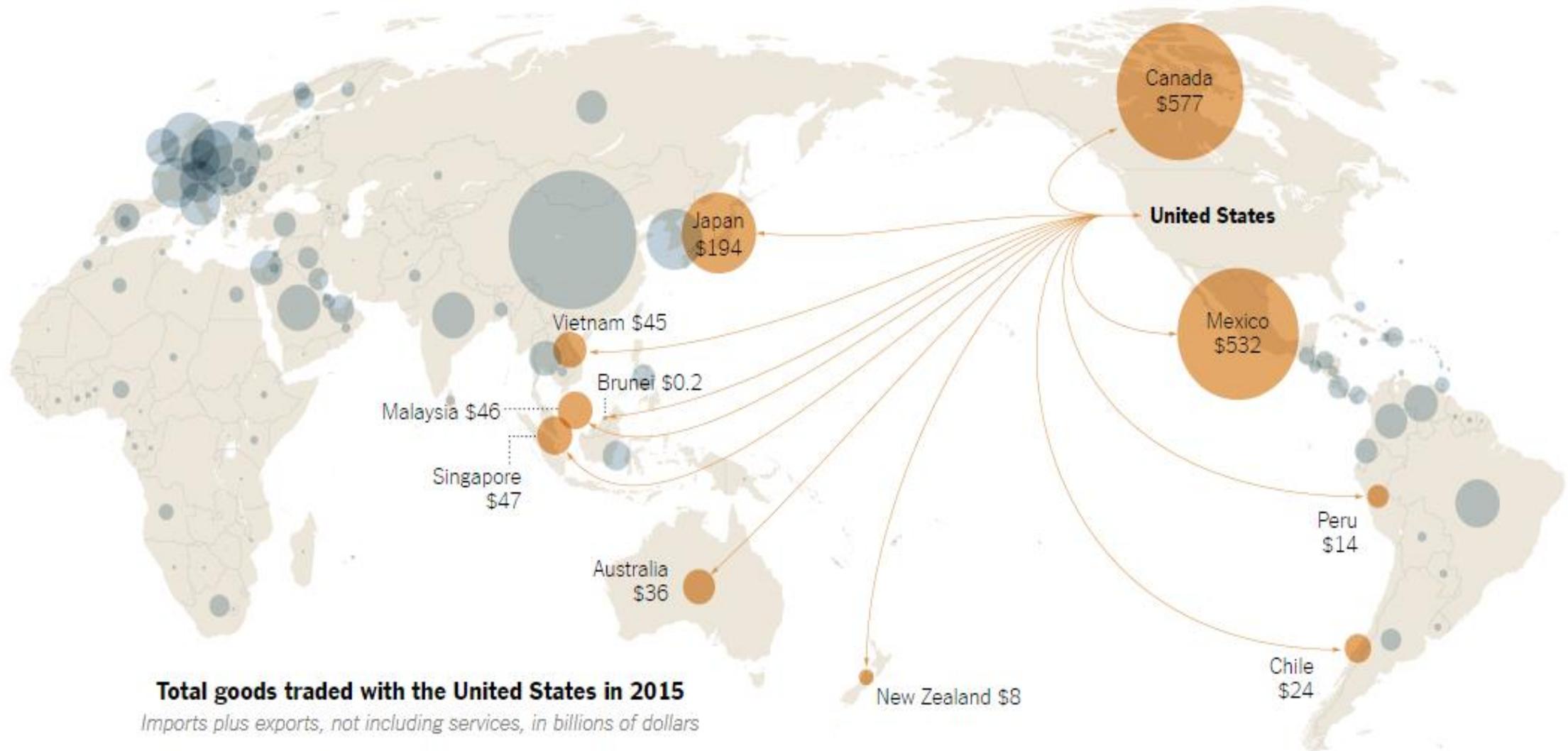
- AUSTRALIA
- BRUNEI
- CANADA
- CHILE
- JAPAN
- MALAYSIA
- MEXICO
- NEW ZEALAND
- PERU
- SINGAPORE
- VIETNAM

TOTAL \$ VALUE OF GOODS TRADED IN 2015 (IN BILLIONS)

- \$577
- \$532
- \$194
- \$47
- \$46
- \$45
- \$36
- \$24
- \$14
- \$8
- \$.2

Try and match the country with the \$ value of goods traded

Trans-Pacific Partnership Countries



DOLLAR VALUE OF EXPORTS

Trans-Pacific Partnership

A historic trade opportunity to further boost America's current \$727 billion in export goods with 11 allies abroad.



*Source: Dollar amounts represent U.S. goods exports to respective TPP countries in 2014. Data provided by U.S. Census Bureau.

GOPSenFinance

IT'S A BIG DEAL!

THE TRANS-PACIFIC PARTNERSHIP



THERE ARE
12
COUNTRIES
THAT ARE
NEGOTIATING
PARTIES OF
THE TPP

THOSE
COUNTRIES
ACCOUNT FOR

36%

OF THE
WORLD'S
GDP



Source: 2013 World Bank
Copyright Stratfor 2015 www.stratfor.com

THIS CHART SHOWS THE TOP U.S. TRADING PARTNERS IN USD. WHAT PACIFIC RIM COUNTRIES DO YOU NOTICE ARE MISSING FROM THE TPP?



Exports				Percent of Total Trade
1,578.9				100.0%
1,078.7				72.5%
300.3				16.4%
122.0				14.6%
226.2	280.5	506.6		13.2%
65.1	138.5	203.7		5.3%
47.4	114.6	162.1		4.2%
41.6				
47.4				
32.0				
44.1				
19.0				
21.9				
25.6				
42.7				
27.0	26.3	55.2		1.4%
16.5	38.7	55.2		1.4%



11	India	
12	Taiwan	
13	Netherlands	
14	Switzerland	
15	Italy	

DID WE JUST FORGET TO INVITE THEM?



- **THE TPP AS PROPOSED DOES NOT INCLUDE SOUTH KOREA OR TAIWAN, BUT THE STRUCTURE OF THE AGREEMENT IS DESIGNED TO ALLOW OTHER COUNTRIES TO JOIN AT A LATER TIME**
- **BOTH SOUTH KOREA AND TAIWAN HAVE FORMAL OR INFORMAL PLANS TO REQUEST INCLUSION IN THE TPP IN THE “NEXT ROUND” OF COUNTRIES**
- **CHINA IS STILL UNCERTAIN (AND THAT’S PUTTING IT NICELY)**

NOW THAT WE KNOW THE “WHO” LET’S FIND OUT THE “WHAT”

- WATCH THIS VIDEO CALLED: [THE TPP EXPLAINED](#)



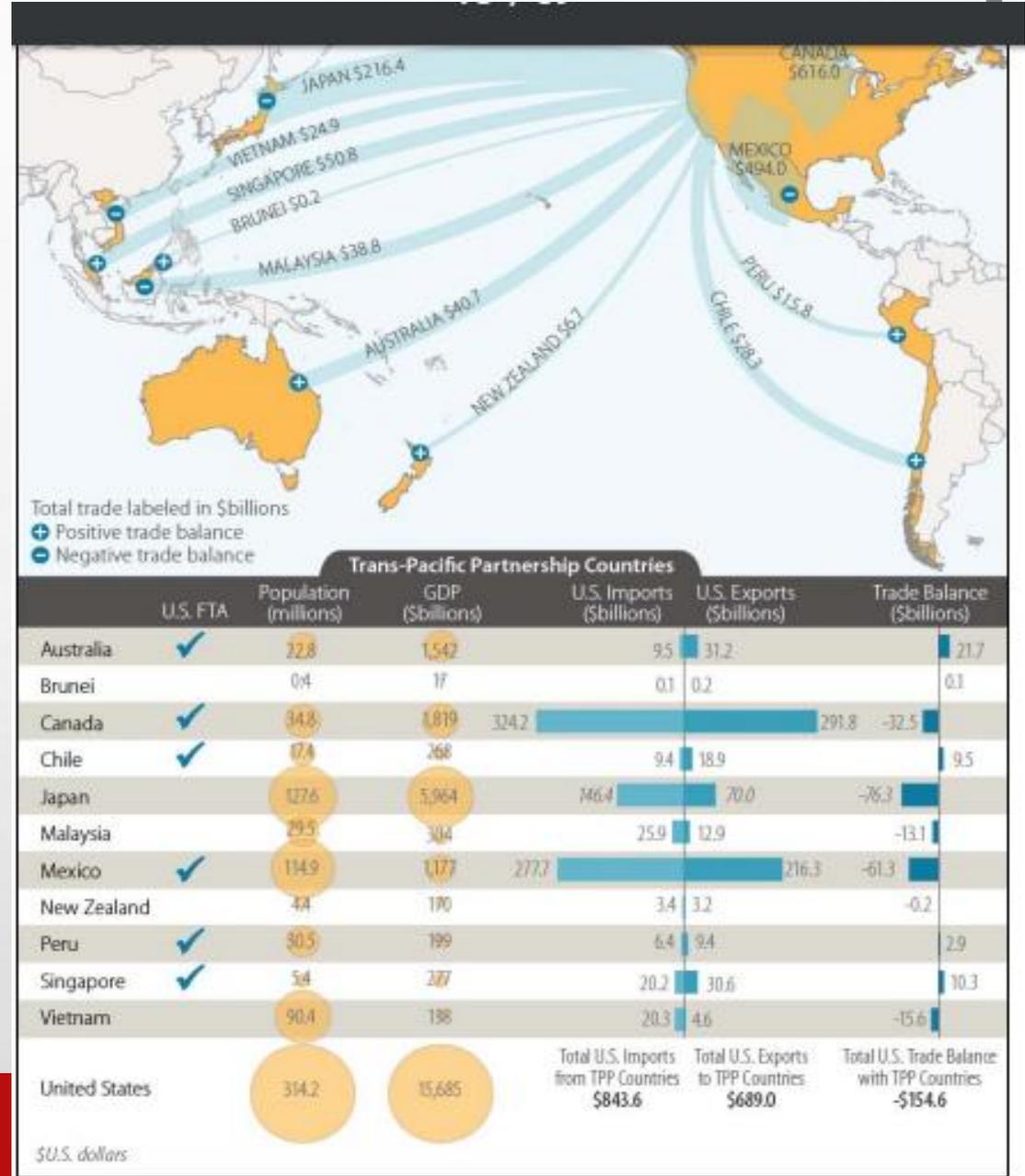
WHY WOULD THE US WANT THIS?



OFFICE of the UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT

• THE GOVERNMENT SAYS...

- LOOK AT THIS PUBLICATION FROM THE OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
- WHY DOES IT SAY WE NEED THE TPP?
- WRITE DOWN SOME OF THE ARGUMENTS YOU SEE
 - IT WILL ELIMINATE KEY TRADE BARRIERS
 - IT WILL CREATE JOBS AND RAISE WAGES
 - IT WILL PROMOTE U.S. LEADERSHIP
 - HUMAN RIGHTS
 - FAIR COMPETITION
 - IT WILL UPHOLD U.S. VALUES
 - WORKER PROTECTION
 - THE ENVIRONMENT
 - FOOD SAFETY



Source: Analysis by CRS. FTA data from the United States Trade Representative (USTR). Population and GDP data from IMF, World Economic Outlook, April 2013. Trade data from the U.S. International Trade Commission (ITC).

Note: Does not include trade in services.

AN EXAMPLE: GEORGIA

MADE IN
GEORGIA



209,071

U.S. JOBS SUPPORTED BY GOODS EXPORTS



37%

OF GOODS EXPORTED TO TPP PARTNERS



\$14.4B

IN GOODS EXPORTED TO TPP PARTNERS



TPP CUTS TAXES ON
MADE-IN-AMERICA
EXPORTS AS HIGH AS



- ↓ **70%** CARS
- ↓ **40%** POULTRY
- ↓ **34%** SODA POP
- ↓ **30%** TRACTORS
- ↓ **20%** CARPETS
- ↓ **10%** FRENCH FRIES

TRADE AGREEMENTS IN THE PAST: WHO DOES THE U.S. HAVE A TRADE AGREEMENT WITH TODAY?

Resource Center

Trade Agreements

Free Trade Agreements

[Australian FTA](#)

[Bahrain FTA](#)

[CAFTA-DR \(Dominican Republic-Central America FTA\)](#)

[Chile FTA](#)

[Colombia TPA](#)

[Israel FTA](#)

[Jordan FTA](#)

[KORUS FTA](#)

[Morocco FTA](#)

[North American Free Trade Agreement \(NAFTA\)](#)

[Oman FTA](#)

[Panama TPA](#)

[Peru TPA](#)

[Singapore FTA](#)

[Transatlantic Trade and Investment Partnership \(T-TIP\)](#)

[Trans-Pacific Partnership](#)

[Home / Trade Agreements](#)

Free Trade Agreements

The United States has free trade agreements in force with 20 countries. These are:

- [Australia](#)
- [Bahrain](#)
- [Canada](#)
- [Chile](#)
- [Colombia](#)
- [Costa Rica](#)
- [Dominican Republic](#)
- [El Salvador](#)
- [Guatemala](#)
- [Honduras](#)
- [Israel](#)
- [Jordan](#)
- [Korea](#)
- [Mexico](#)
- [Morocco](#)
- [Nicaragua](#)
- [Oman](#)
- [Panama](#)
- [Peru](#)
- [Singapore](#)

The United States has completed negotiations of a regional, Asia-Pacific trade agreement, known as the [Trans-Pacific Partnership \(TPP\) Agreement](#) and is in negotiations of the [Transatlantic Trade and Investment Partnership \(T-TIP\)](#) with the European Union, with the objective of shaping a high-standard, broad-based regional pact.

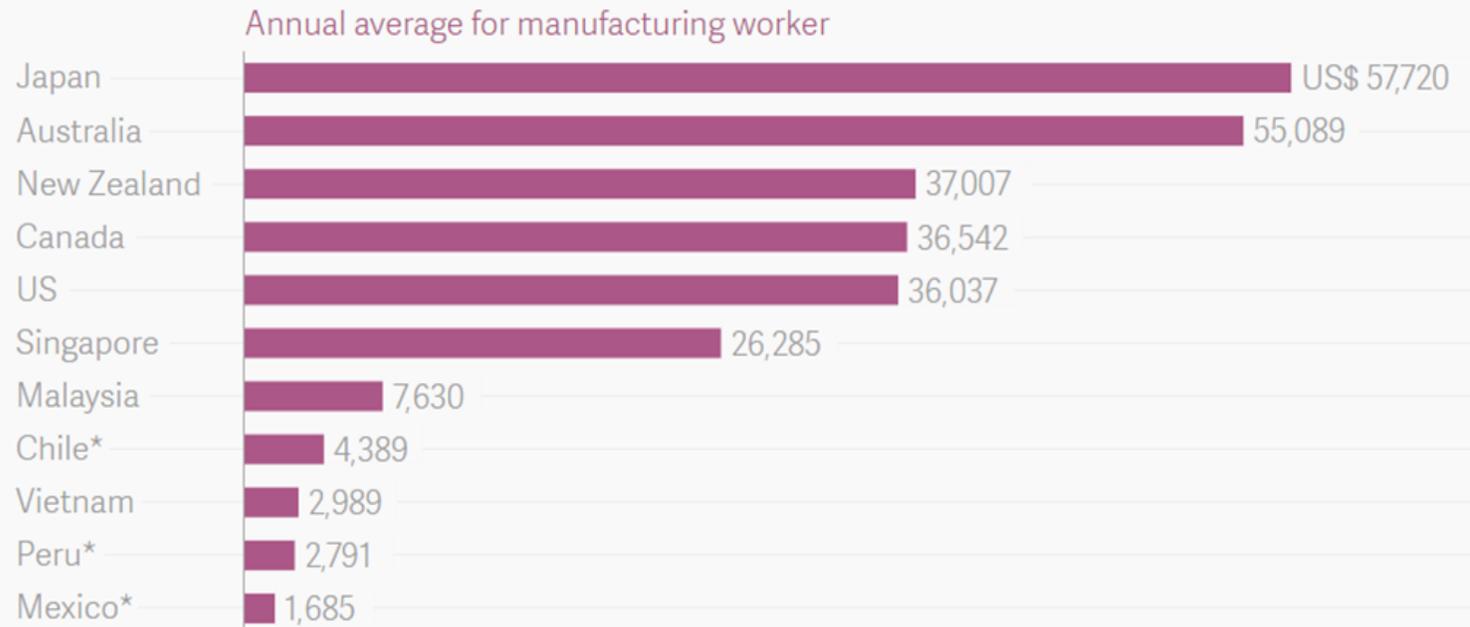
LET'S RECAP...

WHAT IS THE PURPOSE OF A TRADE AGREEMENT?

- **MOST IMPORTANTLY**
 - **REMOVE TRADE BARRIERS**
 - **CREATE JOBS**
- **WHY DO WE NEED A TRADE AGREEMENT TO DO THIS?**
- **LET'S EXAMINE A FEW RELEVANT FACTS**

AVERAGE LABOR COSTS IN TPP COUNTRIES

Manufacturing wages in TPP countries



WHY DOES THIS MATTER?

● **WHAT KIND OF GOOD CAN THIS WORKER MAKE ?**

● **T-SHIRTS?**

● **COMMERCIAL AIRLINERS?**

● **HOW ABOUT THIS WORKER?**



HOW DO WAGES, LABOR COSTS, EDUCATION, AND SKILLS AFFECT THE KINDS OF JOBS AND INDUSTRIES IN WHICH EACH COUNTRY MIGHT HAVE AN ADVANTAGE?

WHAT FORMS CAN TRADE BARRIERS TAKE?

- **LACK OF ENFORCEMENT OF TRADEMARK AND COPYRIGHT INFRINGEMENTS**

- **TARIFFS**

- **“AS JUST ONE EXAMPLE, CERTAIN U.S. AUTO PARTS CURRENTLY FACE A 27-PERCENT TARIFF ENTERING VIETNAM. MEANWHILE, COUNTRIES THAT HAVE AN FTA WITH VIETNAM, SUCH AS CHINA, THAILAND, AND INDONESIA, EXPORT THEIR AUTO PARTS TO VIETNAM TARIFF FREE. BY ELIMINATING TARIFFS U.S. AUTO PARTS COMPANIES FACE, TPP WOULD HELP BOOST AMERICA’S COMPETITIVENESS IN THE VIETNAMESE MARKET.”**
- **“TWENTY PERCENT OF U.S. FARM INCOME COMES FROM AGRICULTURAL EXPORTS AND THOSE EXPORTS SUPPORT RURAL COMMUNITIES. IN FACT, U.S. FOOD AND AGRICULTURAL EXPORTS TO THE WORLD REACHED AN ALL-TIME HIGH IN 2013 OF OVER \$148 BILLION. OF THAT TOTAL, WE EXPORTED MORE THAN \$58 BILLION TO TPP COUNTRIES – A FIGURE THAT WOULD INCREASE AS A RESULT OF TARIFF ELIMINATION UNDER TPP. AS JUST ONE EXAMPLE: U.S. POULTRY CURRENTLY FACES A 40-PERCENT TARIFF IN MALAYSIA. U.S. POULTRY WOULD BECOME MORE AFFORDABLE IN MALAYSIA UNDER A TPP AGREEMENT THAT REDUCES THESE TARIFFS TO ZERO.”**

WHAT FORMS CAN TRADE BARRIERS TAKE?

- **QUOTAS**

- **IN AUGUST 2012 MEXICO'S ECONOMIC SECRETARIAT ANNOUNCED THAT THE IMPORT QUOTA FOR EGGS FROM THE U.S., WOULD BE SET AT 211,000 METRIC TONS OF FRESH EGGS FOR HUMAN CONSUMPTION AND 24,400 METRIC TONS OF FRESH EGGS FOR INDUSTRIAL PURPOSES**

- **REGULATIONS**

- **FROM THE WORLD POST: "FOR EXAMPLE, PHARMACEUTICAL COMPANIES MAY NEED TO GO THROUGH THE APPROVAL AND TESTING PROCESS MULTIPLE TIMES, ONCE FOR EACH MARKET WHERE THEY WISH TO SELL. NATIONALITY REQUIREMENTS AND RESTRICTIONS ON INVESTING.**
- **PESTICIDE LIMITS**
- **GMO'S**
- **SEE OTHERS [HERE](#)**



IT'S NOT JUST EVERYONE ELSE!

- **PER BUSINESS INSIDER.COM HERE ARE A FEW EXAMPLES OF U.S. IMPORT TARIFFS**
 - **ASPARAGUS AND SWEET CORN -- 21.3% TARIFF**
 - **WOOL CLOTHES -- 25% TARIFF**
 - **BROOMS -- 32% TARIFF**
 - **CANNED TUNA -- 35% TARIFF**
 - **JAPANESE LEATHER -- 40% TARIFF**
 - **SNEAKERS -- 48% TARIFF**
 - **CHINESE TIRES -- 35% TARIFF**
 - **FRENCH JAM, CHOCOLATE, AND HAM -- 100% TARIFF**
 - **TOBACCO -- 350% TARIFF**
 - **LIVE FOXES -- 4.8% TARIFF**



SO HOW DOES IT WORK: A SIMULATION

- LET'S USE THE UNITED STATES AND JAPAN TO CONSTRUCT A SIMPLE MODEL OF HOW TRADE BARRIERS AND FREE TRADE AFFECT DIFFERENT GROUPS



THE U.S. AND JAPAN: ECONOMIC PARTNERS



- **U.S.-JAPAN TRADE FACTS:**

- **U.S. GOODS AND PRIVATE SERVICES TRADE WITH JAPAN TOTALED AN ESTIMATED \$290 BILLION IN 2012 (LATEST DATA AVAILABLE). EXPORTS TOTALED \$116 BILLION; IMPORTS TOTALED \$173 BILLION. THE U.S. GOODS AND SERVICES TRADE DEFICIT WITH JAPAN WAS \$57 BILLION IN 2012.**

- **EXPORTS**

- **JAPAN WAS THE UNITED STATES' 4TH LARGEST GOODS EXPORT MARKET IN 2013.**
- **U.S. GOODS EXPORTS TO JAPAN IN 2013 WERE \$65.1 BILLION. U.S. EXPORTS TO JAPAN ACCOUNTED FOR 4.1% OF OVERALL U.S. EXPORTS IN 2013.**
- **THE TOP EXPORT CATEGORIES IN 2013 WERE: OPTIC AND MEDICAL INSTRUMENTS (\$8.0 BILLION), AIRCRAFT (\$7.1 BILLION), MACHINERY (\$5.8 BILLION), ELECTRICAL MACHINERY (\$4.9 BILLION), AND MEAT (PORK AND BEEF) (\$3.3 BILLION).**
- **U.S. EXPORTS OF AGRICULTURAL PRODUCTS TO JAPAN TOTALED \$12.1 BILLION IN 2013, OUR 4TH LARGEST EXPORT MARKET. LEADING CATEGORIES INCLUDE: PORK AND PORK PRODUCTS (\$1.9 BILLION), CORN (\$1.8 BILLION), BEEF AND BEEF PRODUCTS (\$1.4 BILLION), AND WHEAT (\$1.0 BILLION).**

- **IMPORTS**

- **JAPAN WAS THE UNITED STATES' 4TH LARGEST SUPPLIER OF GOODS IMPORTS IN 2013.**
- **U.S. GOODS IMPORTS FROM JAPAN TOTALED \$138.5 BILLION IN 2013. U.S. IMPORTS FROM JAPAN ACCOUNTED FOR 6.1% OF OVERALL U.S. IMPORTS IN 2013.**
- **THE FIVE LARGEST IMPORT CATEGORIES IN 2013 WERE: VEHICLES (\$49.8 BILLION), MACHINERY (\$30.5 BILLION), ELECTRICAL MACHINERY (\$18.4 BILLION), OPTIC AND MEDICAL INSTRUMENTS (\$6.6 BILLION), AND AIRCRAFT (\$3.8 BILLION).**
- **U.S. IMPORTS OF AGRICULTURAL PRODUCTS FROM JAPAN TOTALED \$572 MILLION IN 2013. LEADING CATEGORIES INCLUDE: WINE AND BEER (\$52 MILLION), SNACK FOODS (INCLUDING CHOCOLATE) (\$47 MILLION), AND OTHER VEGETABLE OILS (\$41 MILLION).**

SIMULATION RULES

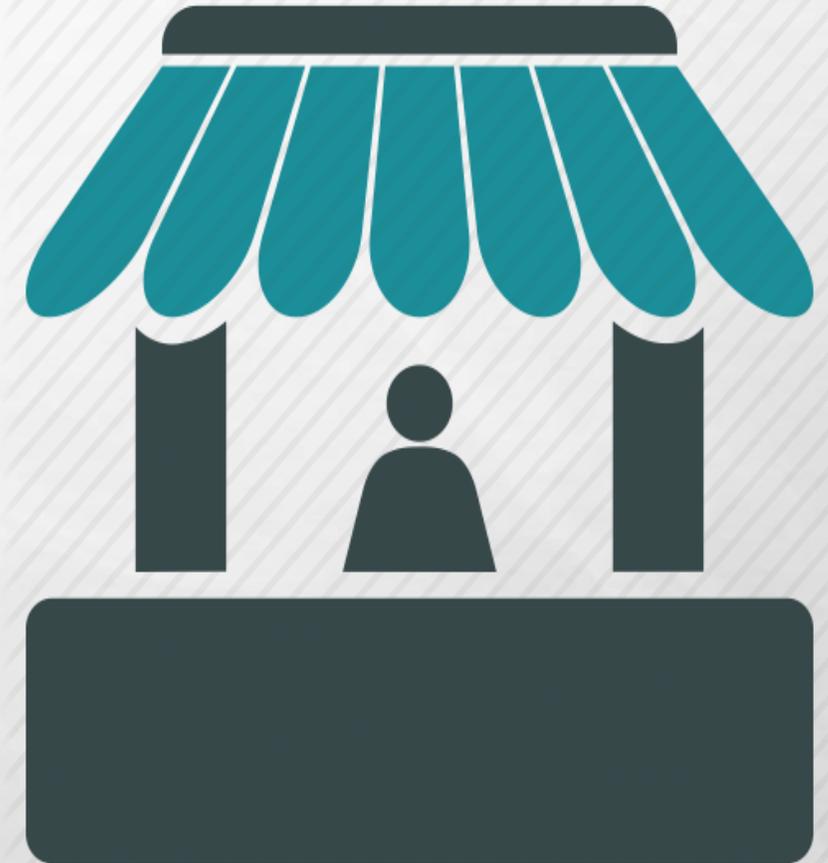


- **YOU WILL PLAY THE ROLE OF EITHER A PRODUCER (SELLER) OR CONSUMER (BUYER)**
- **THERE WILL BE TWO DIFFERENT KINDS OF PRODUCTS IN THIS MARKET: LEATHER WALLETS AND CHOCOLATE BARS.**
 - **IF YOU ARE A SELLER, YOU ARE GOING TO TRY TO SELL YOUR GOOD TO THE CONSUMERS FOR A PROFIT. YOU ARE FREE TO CHOOSE THE PRICE AT WHICH YOU SELL WITH THE GOAL OF MAKING AS MUCH MONEY AS POSSIBLE.**
 - **IF YOU ARE A BUYER, YOU ARE GOING TO TRY AND GET AS MUCH AS YOU CAN FOR YOUR MONEY. YOU ARE FREE TO BUY WHATEVER COMBINATION OF PRODUCTS YOU WOULD LIKE.**
- **THERE WILL BE TWO ROUNDS. EACH PERSON WILL HAVE A SET OF INSTRUCTIONS GIVING THEM SPECIFIC DETAILS ABOUT THEIR SITUATION AND A TALLY SHEET TO RECORD THEIR SALES OR PURCHASES.**
- **AT THE END OF EACH ROUND, EACH PERSON WILL REPORT THEIR PURCHASES AND SALES TO THE MINISTER OF TRADE (YOUR TEACHER).**
- **THERE ARE ALSO TWO GOVERNMENT OFFICIALS THAT YOU MAY NEED TO SEE AT THE END OF THE ROUNDS. BE SURE TO READ YOUR INFO SHEETS TO SEE IF YOU WILL NEED TO REPORT TO THEM AT THE END OF EACH ROUND.**

SIMULATION DE-BRIEF

PRODUCERS:

- **WERE DOMESTIC OR FOREIGN PRODUCERS MORE SUCCESSFUL IN ROUND 1?**
 - **WHY?**
 - **HOW DO WE KNOW?**
 - **WHAT FACTORS CONTRIBUTED TO THIS?**
- **WERE DOMESTIC OR FOREIGN PRODUCERS MORE SUCCESSFUL IN ROUND 1?**
 - **WHY?**
 - **HOW DO WE KNOW?**
 - **WHAT FACTORS CONTRIBUTED TO THIS?**



SIMULATION DE-BRIEF

CONSUMERS:

- **WERE CONSUMERS BETTER OR WORSE OFF IN ROUND 1?**
 - **WHY?**
 - **HOW DO WE KNOW?**
 - **WHAT FACTORS CONTRIBUTED TO THIS?**
- **WERE CONSUMERS BETTER OR WORSE OFF IN ROUND 2?**
 - **WHY?**
 - **HOW DO WE KNOW?**
 - **WHAT FACTORS CONTRIBUTED TO THIS?**



CONCLUSIONS

- **WHICH GROUP(S) IN OUR SIMULATION MIGHT ADVOCATE FOR TRADE RESTRICTIONS?**
- **WHO GROUP(S) IN OUR SIMULATION MIGHT BE AGAINST TRADE RESTRICTIONS?**



OPTIONAL ACTIVITY: HOW DOES CURRENCY MANIPULATION IMPACT TRADE?

- **SCENARIO: YOU HAVE YOUR CHOICE OF THESE TWO CARS:**



2017 Nissan Sentra

Compact car

1.5/5 - Car and Driver

MSRP: From \$16,990

MPG: Up to 29 city / 37 highway

Horsepower: 124 to 188 hp

Curb weight: 2,848 to 3,012 lbs

Engine: 1.6 L 4-cylinder, 1.8 L 4-cylinder



2017 Ford Focus

Compact car

3.5/5 - Car and Driver

Horsepower: 123 to 350 hp

MSRP: From \$16,775

MPG: Up to 30 city / 42 highway

Dimensions: 172-179' L x 72' W x 58' H

Torque: 125 to 350 lb-ft

AND YOUR DECISION IS ...

- **WHICH CAR DO YOU CHOOSE?**
 - **WHY?**
 - **WHAT WERE THE MOST IMPORTANT FACTORS TO YOU?**



BACKGROUND

- IF YOU CHOSE THE AMERICAN CAR, DOES THE AMERICAN PRODUCER WANT TO BE PAID IN DOLLARS OR YEN?
- IF YOU CHOSE THE JAPANESE CAR, WILL WE USE DOLLARS OR YEN?
- DO YOU THINK THE JAPANESE PRODUCER WANTS TO BE PAID IN DOLLARS OR YEN?
 - QUESTION: WHAT WOULD HAPPEN IF YOU TRIED TO BUY A COKE AT QUIK-TRIP USING YEN?



BACKGROUND

- **SO WHAT HAPPENS?**
- **THINK OF THE CURRENCY MARKET AS A GIANT TABLE OF CASH.**
 - **WHENEVER WE WANT TO BUY SOMETHING FROM ANOTHER COUNTRY WE MUST PAY THEM IN THEIR CURRENCY. SO RETAIL AND WHOLESALE BUYERS OF FOREIGN GOODS MUST GO TO THE FOREIGN EXCHANGE (FOREX) MARKET BEFORE THEY CAN GO TO THE FOREIGN PRODUCER.**
 - **HERE, THEY MUST EXCHANGE THEIR CURRENCY FOR SOME OF THE PRODUCER'S CURRENCY SO THEY CAN PAY FOR THE GOODS.**
 - **IN OUR ANALOGY, THEY LEAVE SOME U.S. DOLLARS ON THE TABLE AND TAKE AWAY SOME JAPANESE YEN FROM THE TABLE.**
 - **THE NUMBER OF YEN THEY CAN TAKE FROM THE TABLE COMPARED TO THE NUMBER OF DOLLARS THEY ARE LEAVING IS DETERMINED BY THE "EXCHANGE RATE"**
 - **THIS RATE CHANGES FREQUENTLY (MINUTE BY MINUTE) DEPENDING ON THE WORLD SUPPLY AND DEMAND FOR THE CURRENCY**

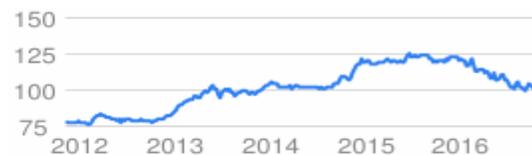


PHOTO: BLEND IMAGES/JOHN LUND

1 US Dollar equals

105.23 Japanese Yen

<input type="text" value="1"/>	US Dollar	▾
<input type="text" value="105.23"/>	Japanese Yen	▾



BACKGROUND

- **WHAT DOES A “STRONG” OR “WEAK” CURRENCY MEAN?**
- **WHICH IS BETTER?**
 - **WHY DO YOU SAY THAT?**
- **WHAT HAPPENS TO OUR ABILITY TO BUY THINGS WHEN THE DOLLAR GETS “STRONGER”?**
 - **DOES THIS AFFECT OUR ABILITY TO BUY BOTH FOREIGN AND DOMESTIC GOODS?**
 - **WHEN A PRODUCT IS PURCHASED WITH DOLLARS AND THE PRODUCER ACCEPTS DOLLARS IN PAYMENT DO EXCHANGE RATES MATTER?**
 - **WHEN A PRODUCT IS PURCHASED WITH DOLLARS AND THOSE DOLLARS BUY MORE OF THE CURRENCY THAT THE PRODUCERS WANT, DO EXCHANGE RATES MATTER?**



HEADLINE



JAPAN

Japan Wants a Weaker Yen—and Strong Banks

by [Jesper Koll](#), Head of Japan and [Jeremy Schwartz](#), Director of Research, on September 1, 2016

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WisdomTree Japan CEO Jesper Koll's Thoughts on the Upcoming BOJ Meeting

Bank of Japan (BOJ) Governor Haruhiko Kuroda wasted no time to promote a weaker yen. As soon as [Federal Reserve \(Fed\)](#) chair Janet Yellen put the Fed's resolve to raise U.S. [interest rates](#) back on the table, Kuroda went out of his way to stress that the BOJ is ready to move the other way: "There is ample space for additional [easing](#) in each of the three dimensions, we will not hesitate to implement additional policy measures to achieve our target of pushing up inflation expectations".¹ In other words, the BOJ will not be passive and simply rely on a stronger U.S. dollar (via higher U.S. rates) but intends to actively promote a weaker yen by easing Japanese [monetary policy](#).

- **WHY WOULD JAPAN WANT TO INTENTIONALLY “WEAKEN” THEIR CURRENCY??**

BACK TO OUR ORIGINAL SCENARIO

- **IMPORTANT FIGURES**

- **PRICE OF A NISSAN SENTRA IN US\$: \$16,990**
- **PRICE OF A FORD FOCUS IN US\$: \$16,775**
- **EXCHANGE RATE: 1 USD = 105 JAPANESE YEN**

- **NOW LET'S IMAGINE THE US DOLLAR GETS STRONGER AGAINST THE YEN**

- **KEY POINT: IF ONE CURRENCY GETS STRONGER THE OTHER CURRENCY HAS TO GET WEAKER**
 - **EX:**
 - **1 DOLLAR = 2 YEN IS THE SAME AS SAYING 1 YEN = ½ DOLLAR.**
 - **IF THE DOLLAR GETS "STRONGER" THEN IT WILL BUY MORE YEN. 1 DOLLAR = 3 YEN IS THE SAME AS SAYING 1 YEN = 1/3 DOLLAR. THE YEN GETS WEAKER, OR BUYS LESS DOLLARS, AS THE DOLLAR GETS STRONGER.**

- **LET'S IMAGINE THE DOLLAR STRENGTHENS BY APPROXIMATELY 20%**

- **NEW EXCHANGE RATE: 1 USD = 125 YEN**

- **WHAT HAPPENS TO PRICE OF THE CARS?**



ANSWER



- **WHAT HAPPENS TO THE PRICE OF THE AMERICAN CAR?**
 - **NOTHING! WE DON'T NEED TO WORRY ABOUT THE EXCHANGE RATE OF YEN SINCE WE CAN PAY IN DOLLARS AND AMERICAN MANUFACTURERS WILL ACCEPT DOLLARS AS PAYMENT**
- **WHAT HAPPENS TO THE PRICE OF THE JAPANESE CAR?**
 - **IT BECOMES CHEAPER! WHY??**
 - **JAPANESE MANUFACTURERS WANT THE EQUIVALENT OF THE CAR'S PRICE IN JAPANESE YEN. THE PRICE OF THE CAR IN USD WAS \$16,990. THIS MEANS AT THE OLD EXCHANGE RATE OF 1 USD = 105 YEN, JAPANESE MANUFACTURERS EXPECT TO RECEIVE 1,783,950 YEN FOR THE CAR (\$16,990 X 105).**
 - **KEY POINT!**
 - **HAS THE PRICE OF MAKING THE CAR CHANGED FOR JAPANESE MANUFACTURERS? HAVE DOMESTIC PRICES IN JAPAN CHANGED BECAUSE OF THE CHANGING EXCHANGE RATE?**
 - **NO! JAPANESE MANUFACTURERS STILL WANT TO BE PAID IN YEN AND WILL STILL ACCEPT 1,783,950 YEN FOR THE CAR.**
 - **BUT AT THE NEW EXCHANGE RATE OF 1 USD = 125 JAPANESE YEN, 1,783,950 YEN = 14,272 USD (1,783,950/125).**
 - **WHAT WILL HAPPEN TO THE PRICE OF THE TOYOTA?**

NOW WHICH CAR WOULD YOU RATHER BUY?



OLD PRICE: \$16,990

NEW PRICE: \$14,272



OLD PRICE: \$16,775

NEW PRICE: \$16,775

- **WHO “WINS” WHEN THE USD GETS STRONGER AND THE YEN GETS WEAKER?**
 - **DOMESTIC CONSUMERS OF FOREIGN GOODS**
 - **OUR DOLLAR BUYS MORE FOREIGN GOODS**
 - **FOREIGN PRODUCERS WHO WANT TO SELL THEIR PRODUCTS IN OUR MARKET**
 - **THEIR PRODUCTS GO DOWN IN PRICE WHILE DOMESTIC PRODUCTS STAY THE SAME**
- **WHO “LOSES” WHEN THE USD GETS STRONGER AND THE YEN GETS WEAKER?**
 - **DOMESTIC PRODUCERS WHO CAN'T COMPETE WITH NEW LOWER PRICES OF IMPORTED GOODS**
- **WHY MIGHT JAPAN WANT THEIR CURRENCY TO “WEAKEN” AGAINST OTHER WORLD CURRENCIES?**
 - **IT ALLOWS THEIR PRODUCTS TO BE MORE COMPETITIVE IN FOREIGN MARKETS**

SO WHAT'S THE ANSWER: IS THE TPP GOOD OR BAD?

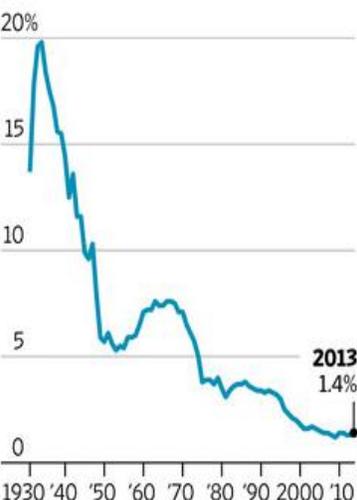
- HERE IS WHAT A WALL STREET JOURNAL ARTICLE HAD TO SAY ABOUT THE TPP



Trade Deal Tradeoffs

At a time of diminishing U.S. tariffs, the Pacific deal is expected to boost American exports for some industries while increasing competition in others. Some companies quickly applauded the pact's benefits while others noted setbacks.

U.S. duties collected as a share of total imports



*The final deal puts off the elimination of U.S. car tariffs for 25 years, so additional auto imports are likely to be less than in the original study.

Projected increases in U.S. imports and exports in selected sectors in 2025 due to the Trans-Pacific Partnership, in billions



FREE TRADE WILL ALWAYS HAVE WINNERS AND LOSERS

- WHAT DO U.S. MANUFACTURERS THINK?
- WHAT DO FOREIGN MANUFACTURERS THINK?
- WHAT SHOULD U.S. CONSUMERS THINK?

TPP Winners

- U.S. agriculture:** The deal cuts tariffs on exports of products such as poultry, soybeans and fruit and gives U.S. dairy companies greater access to Canada and Japan. The U.S. Grains Council said the deal will boost U.S. grain exports by 11%.
- Large manufacturers:** Most big, competitive U.S. manufacturers support the deal, which eliminates import taxes as high as 59% on U.S. machinery exports to TPP countries. Boeing, the biggest U.S. exporter by value, endorsed the accord.
- Tech companies:** Intel and other tech companies express cautious optimism about the deal. It eliminates import taxes as high as 35% on U.S. information and communication technology exports to TPP countries.

TPP Losers

- Big pharma:** Drug makers are disappointed because TPP appears to protect biotech drugs from lower-priced ones for at least five years plus potentially more, compared with the 12 years of intellectual property protection the U.S. gives them.
- Big tobacco:** The agreement is one of the first in the world to allow countries to prevent the tobacco industry from suing foreign governments over antismoking measures through special arbitration. Philip Morris International said it sets 'a dangerous precedent for other industries.'
- Ford:** The car maker objects to the agreement because an economic framework officials are developing alongside the deal lacks strong protections against currency manipulation in future trade deals.

Sources: U.S. International Trade Commission (duties); Peter A. Petri, Michael G. Plummer & Fan Zhai, published by the Peterson Institute for International Economics (projections)

SIMULATION INSTRUCTIONS

- 1. STUDENTS ARE ASSIGNED ROLES: DOMESTIC PRODUCER; FOREIGN PRODUCER; 1 TAX COLLECTOR; 1 REGULATOR; CONSUMERS. THE RATIO OF CONSUMERS TO PRODUCERS SHOULD BE ABOUT 2 TO 1. PRODUCERS ARE DIVIDED EQUALLY BETWEEN FOREIGN AND DOMESTIC. EACH PARTICIPANT WILL BE GIVEN A BADGE OR SIGN TO IDENTIFY THEM TO OTHERS.**
- 2. BUSINESSMAN AND CONSUMERS ARE GIVEN A TALLY SHEET; TAX COLLECTORS ARE GIVEN A COLLECTORS SHEET; REGULATORS ARE GIVEN A STAMP AND A FEE TALLY SHEET.**
- 3. THE SIMULATION CONSISTS OF TWO ROUNDS. FOR EACH ROUND EACH CONSUMER WILL BE GIVEN \$50 IN CURRENCY TO SPEND ON TWO GOODS IN ANY COMBINATION THEY PREFER. THEY WILL BE GIVEN A SHORT SET OF INSTRUCTIONS AND A TALLY SHEET TO TRACK THEIR TRANSACTIONS. THEY SHOULD TRY AND SPEND ALL OF THEIR MONEY ON SOME COMBINATION OF THE GOODS IN BOTH ROUNDS.**
- 4. IN THE FIRST ROUND PRODUCERS WILL BE TRYING TO SELL ONE OF TWO PRODUCTS. ALL BUSINESSMAN ARE GIVEN A PRODUCT SHEET WITH SIMPLE COST BREAKDOWNS OF THEIR PRODUCT PLUS A MINIMUM PROFIT TARGET. DOMESTIC PRODUCERS WILL HAVE HIGHER COSTS. FOREIGN PRODUCERS OF GOOD A WILL HAVE A GOOD THAT HAS LOWER COSTS BUT IS SUBJECT TO A TARIFF. FOREIGN PRODUCERS OF GOOD B WILL HAVE A PRODUCT THAT MUST GET STAMPED BY THE REGULATOR TO MEET SAFETY OR ENVIRONMENTAL STANDARDS.**
- 5. AT THE END OF THE ROUND, THE FOREIGN PRODUCERS OF GOOD A MUST VISIT THE TARIFF OFFICIAL, DETERMINE THE AMOUNT OF THEIR TAXES, AND PAY THEM TO THE OFFICIAL. EVERY SALE NEEDS TO BE STAMPED AND THE TARIFF OFFICIAL WILL COLLECT A TAX FOR EACH UNIT SOLD.**
- 6. AT THE END OF THE ROUND FOREIGN PRODUCERS OF GOOD B MUST GO SEE THE REGULATOR TO PAY THEIR FEES. EVERY SALE NEEDS TO BE STAMPED AND THE REGULATOR WILL COLLECT A FEE FOR EACH UNIT SOLD TO REPRESENT THE COST OF COMPLIANCE.**

SIMULATION INSTRUCTIONS CONT.

- 7. EACH PRODUCER WILL THEN TALLY THEIR OVERALL PROFIT AND DECIDE WHETHER IT WAS PROFITABLE FOR THEM TO ENTER THE MARKET. EACH CONSUMER WILL TALLY HOW MUCH THEY SPENT AND THE Q OF GOODS THEY WERE ABLE TO PURCHASE, AS WELL AS NOTING HOW MANY UNITS OF FOREIGN AND DOMESTIC GOODS THEY PURCHASED.**
- 8. ALL PRODUCERS WILL THEN REPORT THEIR TOTAL QUANTITY SOLD AND PROFITS TO THE TEACHER TO ENTER INTO THE CLASS TALLY SHEET. ALL CONSUMERS WILL REPORT THE TOTAL NUMBER OF GOODS THEY WERE ABLE TO PURCHASE AND HOW MANY UNITS OF EACH THEY PURCHASED FROM DOMESTIC AND FOREIGN PRODUCERS. THE TARIFF OFFICIAL AND REGULATOR WILL REPORT THE AMOUNT OF GOVERNMENT REVENUE RECEIVED.**
- 9. AT THE BEGINNING OF THE NEXT ROUND, THE TEACHER WILL ANNOUNCE THE END OF REGULATIONS AND TARIFFS HAVE BEEN REMOVED BY THE PASSAGE OF THE MSFTA (MIDDLE SCHOOL FREE TRADE ACT). THE TEACHER WILL THEN HAND OUT NEW INSTRUCTION SHEETS TO FOREIGN PRODUCERS ONLY. FOREIGN PRODUCERS MAY NOW DISREGARD THE PORTION OF THEIR INFO SHEET THAT REFERENCES TARIFFS OR REGULATORY FEES. CONSUMERS ARE GIVEN ANOTHER \$50 TO SPEND WITH THE SAME INSTRUCTIONS.**
- 10. THE ROUND WILL THEN PROCEED IN THE SAME MANNER AS ROUND 1 BUT BUSINESSES NO LONGER HAVE TO SEE THE TAX COLLECTOR OR REGULATOR AT THE END OF THE ROUND. FOREIGN PRODUCERS SHOULD BE ABLE TO SELL AT A CHEAPER PRICE.**
- 11. AT THE END OF THIS ROUND PRODUCERS WILL TALLY THEIR PROFIT AND CONSUMERS WILL RECORD SPENDING AND Q OF GOODS THEY WERE ABLE TO PURCHASE AS WELL AS NOTING HOW MANY UNITS OF FOREIGN AND DOMESTIC GOODS THEY PURCHASED.**
- 12. ALL PRODUCERS WILL THEN REPORT THEIR TOTAL QUANTITY SOLD AND PROFITS TO THE TEACHER TO ENTER INTO THE CLASS TALLY SHEET. ALL CONSUMERS WILL REPORT THE TOTAL NUMBER OF GOODS THEY WERE ABLE TO PURCHASE AND HOW MANY UNITS OF EACH THEY PURCHASED FROM DOMESTIC AND FOREIGN PRODUCERS. THE TARIFF OFFICIAL AND REGULATOR WILL REPORT THE AMOUNT OF GOVERNMENT REVENUE RECEIVED.**