WHY THE TRADE DEAL MATTERS

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Although the mid-summer round of negotiations on the Trans-Pacific Partnership (TPP) ended without an agreement, Secretary of State John Kerry and leaders in other participating countries have expressed confidence that the trade deal will be concluded by year end. The trade deal is the largest in history and covers 40% of the world economy. Participating countries include the United States, Canada, Mexico, Chile, Peru, Japan, Australia, New Zealand, Brunei, Malaysia, Singapore and Vietnam.[1]

Many issues need to be resolved before the deal is signed by all participants. In the United States, proponents claim the TPP could boost economic growth and support the creation of high-quality American jobs through exports to the Pacific Rim, a region with some of the world's fastest-growing and most robust economies. Critics, on the other hand, contend that the TPP will shift more manufacturing and service sector jobs overseas to low-wage countries; threaten existing labor, environmental, health, food safety and financial laws; and only boost the profits of large international companies and Wall Street.

It's clear that a lot is at stake with the TPP. Asia-Pacific countries are a large and growing market for U.S. services, manufactured goods and agricultural products. In 2014, the United States sold more than $700 billion in goods to TPP countries, representing 44% of total U.S. goods exports.[2] While some U.S. industries will benefit from the TPP, others will not. Textiles, footwear, sugar and dairy industries currently enjoy trade protections that would be reduced by the TPP.[3]

Although the United States has bilateral trade deals with many Asia-Pacific countries, the TPP would eliminate obstacles to trade, such as work-around laws that discourage U.S. exports. For example, member countries would be prohibited from enacting laws requiring foreign businesses to locate their computer servers in that country, as well as laws limiting e-commerce. This is an area of major concern to U.S. firms in finance, data processing, engineering and other service industries.

CHALLENGING ISSUES TO RESOLVE

Trade policy watchers note several issues that will need resolution before the TPP can be signed:

- ***Pharmaceuticals*** — Development of a new drug typically takes 10–15 years and costs $1.2 billion on average.[4] Patents provide exclusivity and price protection that enable the pharmaceutical company to recoup its investment. In the United States, patent protection generally lasts 12 years. At issue is whether cheaper, generic drugs can enter the market in a shorter period of time, such as in five to eight years. Australia is pushing for a shorter time frame, but six of the 10 largest pharmaceutical companies are headquartered in the United States, making this a key issue for negotiations.

- ***Dairy*** — With the support of Australia, New Zealand is seeking to increase its dairy exports to new markets. Dairy exports represent 25% of New Zealand's total exports and 7% of its overall economy. Canada's government is strongly supportive of its dairy farmers and faces a major election this fall, which certainly will play into its stance in TPP negotiations.[5]
- ***Automobiles*** — Both Japan and the United States have protected their domestic auto industries from foreign competition through indirect costs and import tariffs. Across the board in industrialized countries, the automotive industry enjoys a high level of protection. The TPP could signal a game-changing shift for this sector.
- ***Dispute resolution*** — The TPP creates a special process that allows corporations to challenge any national laws and regulations that could adversely affect their expected future profits.[6]

The process would involve arbitration hearings before the United Nations and World Bank tribunals, bypassing sovereign judicial processes. Critics claim that this would undermine national sovereignty, but proponents say the process could aid those whose property rights are attacked by nations involved in the deal.

LEVELING THE PLAYING FIELD

In aggregate, the United States only poses an average tariff of 1.4% on foreign goods, less than half the average tariff imposed by the other nations in the deal.[7] TPP nations currently pose stiff tariffs and export barriers on U.S. goods and services, and passage of the TPP would phase out these barriers for more than 11,000 categories of such goods and services.[8] Critics fear further outsourcing of U.S. manufacturing and service jobs to TPP countries and threats to legal protections, but the hope is that passage of the TPP will improve U.S. competitiveness and help develop new markets in the Asia-Pacific region.

To discuss these topics in more detail, please contact your PNC Relationship Manager.

1 "Overview of the Trans-Pacific Partnership," United States Trade Representative website at: http://ustr.gov/tpp/overview-of-the-TPP

2 "What's Actually in Obama's Secret Trade Deal?", POLITICO: The Agenda, available at: http://www.politico.com/agenda/story/2015/06/the-overlooked-burden-of-overseas-tariffs-000059

3 Ibid.

4 "These 5 Facts Explain the Obstacles to the Trans-Pacific Partnership," *Time*, August 7, 2015. Available at: http://time.com/3980075/these-5-facts-explain-the-obstacles-to-the-trans-pacific-partnership/

5 Ibid.

6 "Negotiations Stall on the Biggest Trade Deal Ever, the TPP," CNN, August 1, 2015. Available at: http://www.cnn.com/2015/08/01/politics/tpp-negotiations-snagged-trade-deal/

7 "What's Actually in Obama's Secret Trade Deal?", POLITICO: The Agenda.

8 Ibid.

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