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INTERNATIONAL BUSINESS | Q. AND A.

The Trans-Pacific Partnership Trade Accord Explained

By KEVIN GRANVILLE OCT. 5, 2015

The largest regional trade accord in history, the Trans-Pacific Partnership would set new terms for trade and business investment among the United States and 11 other Pacific Rim nations — a far-flung group with an annual gross domestic product of nearly $28 trillion that represents roughly 40 percent of global G.D.P. and one-third of world trade.

The agreement reached by trade ministers on Monday in Atlanta, the result of five days of round-the-clock talks, came after a dispiriting failure to reach consensus in Hawaii in late July.

The product of 10 years of negotiations, the agreement is a hallmark victory for President Obama who has pushed for a foreign-policy "pivot" to the Pacific rim. But the Trans-Pacific Partnership now takes center stage on Capitol Hill, where it remains politically divisive.

In June, Mr. Obama successfully overcame opposition from Democrats to win trade promotion authority: the power to negotiate trade deals that cannot be amended or filibustered by Congress. He must now convince Congress — his fellow Democrats, in particular — to approve the trade deal. Lawmakers have 90 days to review the pact's details.

The debate in Congress will put all the elements of the trade pact under scrutiny. It would be the final step for United States adoption of the Trans-Pacific Partnership, the most ambitious trade deal since the North American Free Trade Agreement in the 1990s.

Why Has the Pact Been So Divisive?

Supporters say it would be a boon for all the nations involved, that it would "unlock opportunities" and "address vital 21st-century issues within the global economy," and that it is written in a way to encourage more countries, possibly even China, to sign on. Passage in Congress is one of President Obama's final goals in office, but he faces stiff opposition from nearly all of his fellow Democrats.

Opponents in the United States see the pact as mostly a giveaway to business, encouraging further export of manufacturing jobs to low-wage nations while limiting competition and encouraging higher prices for pharmaceuticals and other high-value products by spreading American standards for patent protections to other countries. A provision allowing multinational corporations to challenge regulations and court rulings before special tribunals is drawing intense opposition.

Why This, Why Now?

The pact is a major component of President Obama's "pivot" to Asia. It is seen as a way to bind Pacific trading partners closer to the United States while raising a challenge to Asia's rising power, China, which has pointedly been excluded from the deal, at least for now.

It is seen as a means to address a number of festering issues that have become stumbling blocks as global trade has soared, including e-commerce, financial services and cross-border Internet communications.

There are also traditional trade issues involved. The United States is eager to establish formal trade agreements with five of the nations involved — Japan, Malaysia, Brunei, New Zealand and Vietnam — and strengthen Nafta, its current agreement with Canada and Mexico.

Moreover, as efforts at global trade deals have faltered (such as the World Trade Organization's Doha round), the Trans-Pacific Partnership is billed as an "open architecture" document written to ease adoption by additional Asian nations, and to provide a potential template to other initiatives underway, like the Transatlantic Trade and Investment Partnership.

What Are Some of the Issues Addressed by the Pact?

Tariffs and Quotas Long used to protect domestic industries from cheaper goods from overseas, tariffs on imports were once a standard, robust feature of trade policy, and generated much of the revenue for the United States Treasury in the 19th century. After the Depression and World War II, the United States led a movement toward freer trade.

Today, the United States and most developed countries have few tariffs, but some remain. The United States, for example, protects the domestic sugar market from lower-priced global suppliers and imposes tariffs on imported shoes, while Japan has steep surcharges on agricultural products including rice, beef and dairy. The pact is an effort to create a Pacific Rim free-trade zone.

Environmental, Labor and Intellectual Property Standards United States negotiators stress that the Pacific agreement seeks to level the playing field by imposing rigorous labor and environmental standards on trading partners, and supervision of intellectual property rights.

Data Flows The Pacific trade pact to address a number of issues that have arisen since previous agreements were negotiated. One is that countries agree not to block cross-border transfers of data over the Internet, and not require that servers be located in the country in order to conduct business in that country. This proposal has drawn concerns from some countries, Australia among them, that it could conflict with privacy laws and regulations against personal data stored offshore.

Services A big aim of the Pacific pact is enhancing opportunities for service industries, which account for most of the private jobs in the American economy. The United States has a competitive advantage in a range of services, including finance, engineering, software, education, legal and information technology. Although services are not subject to tariffs, nationality requirements and restrictions on investing are used by many developing countries to protect local businesses.

State-Operated Businesses United States negotiators have discussed the need to address favoritism often granted to state-owned business — those directly or indirectly owned by the government. Although Vietnam and Malaysia have many such corporations, the United States has some too (the Postal Service and Fannie Mae, for example). The final agreement may include terms that seek to insure some competitive neutrality while keeping the door open to China's future acceptance of the pact.

Why Hasn't China Been In on the Talks?

China has never expressed interest in joining the negotiations, but in the past has viewed the pact with concern, seeing a potential threat as the United States tries to tighten its relationship with Asian trading partners. But lately, as the talks have accelerated, senior Chinese officials have sounded more accepting of the potential deal, and have even hinted that they might want to participate at some point. At the same time, the deal provides China some cover as it pursues its own trade agreements in the region, such as the Silk Road initiative in Central Asia.

United States officials, while making clear that they see the pact as part of an effort to counter China's influence in the region, say they are hopeful that the pact's "open architecture" eventually prompts China to join, along with other important economic powers like South Korea.

The Shadow of Nafta, and the Debate in Washington

Nafta, signed by President Bill Clinton in 1993, helped lead to a boom in trade among the United States, Mexico and Canada. All three countries exported more goods and services to the other two, cross-border investments grew, and the United States economy has added millions of jobs since then. But of course not all those trends were attributable to Nafta, and the benefits were not equal: The United States had a small trade surplus with Mexico when the pact was signed, but that quickly became a trade deficit that has widened to more than $50 billion a year.

Critics of Nafta also point out that job growth in the United States does not account for the loss of jobs to Mexico or Canada; the A.F.L.-C.I.O. contends about 700,000 United States jobs have been lost or displaced because of Nafta.

Nafta was a significant victory for President Clinton after a difficult congressional battle, where he won support from just enough fellow Democrats to ensure passage. The votes were 234 to 200 in the House, and 61 to 38 in the Senate.

President Obama may yet win that kind of outcome. Working with Republican leadership in the House and Senate, he gained final approval for trade promotion authority, a critical step that allows the White House to present the trade package to Congress for a straight up-or-down vote, without amendments.

But the tortuous legislative process further soured relations with many fellow Democrats, as well as unions and progressive groups, who vehemently oppose the Trans-Pacific Partnership. Many Democrats said the president would have to address their concerns over labor and environmental standards and investor protections when he returns to Congress seeking approval of the trade deal.