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Trade wins

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Twelve countries reach an agreement on trans-Pacific trade

The TPP now faces a hard road to passage in national legislatures

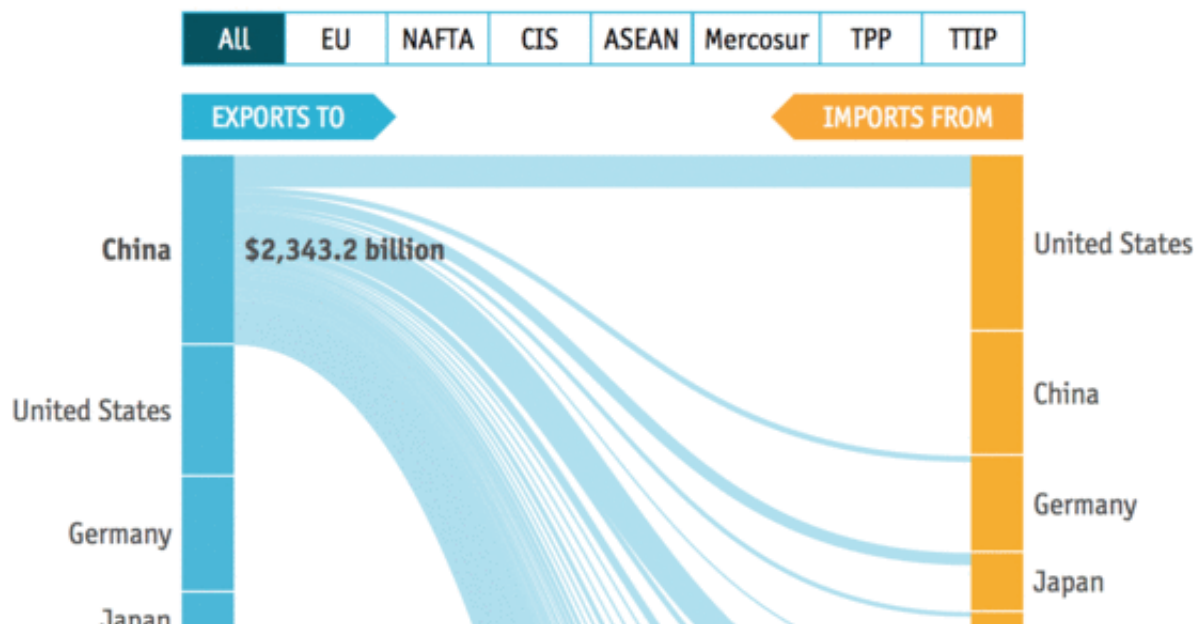
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AFTER more than five years of negotiations, representatives from 12 countries in Asia and the Americas finally struck a deal today on the Trans-Pacific Partnership, an ambitious and contentious free-trade pact. It is the biggest and deepest multilateral trade deal in years, encompassing countries that account for 40% of the world's economy. But it might prove even more important than that if it succeeds in its ambition to “define the rules of the road” for trade in Asia, as Michael Froman, America's lead negotiator, put it.



Mr Froman's office estimates that TPP will see more than 18,000 tariffs on American products reduced to zero. But tariffs, which have already been greatly reduced among TPP's members, are not the most touted bit of the treaty. More important are the minimum standards for the protection of intellectual property, workers and the environment. All parties will be compelled to follow the International Labour Organisation's basic principles on workers' rights, for example. By the same token, countries that do not live up to the deal's environmental rules can be pursued through the same dispute-settlement mechanism that will be used to adjudicate commercial grievances. There are even rules barring countries from favouring state-owned enterprises—a big step for the likes of Malaysia and Vietnam.

Trade in goods by existing and proposed regional trade blocs, 2014



Why countries are so keen to agree new trade deals

(<http://www.economist.com/blogs/graphicdetail/2015/06/global-trade-graphics>)

Two leaders will be particularly pleased to see a deal done. For Barack Obama, TPP represents the first (and possibly only) lasting evidence of his administration's "pivot" towards Asia. It shows America's continued commitment to the region, and its unwillingness to cede primacy to China. China's success in recruiting American allies as founding members of its Asian Infrastructure Investment Bank earlier this year seems to have prompted America to redouble its efforts to square TPP away.

Shinzo Abe, Japan's prime minister, sees in TPP a chance to help the "third arrow" of his plan for economic revitalisation hit its mark. Big interest groups such as Japan's farmers will no longer be quite so cosseted. Meanwhile, Mr Abe hopes that the promise of greater market access for Japanese exporters, at a time when the yen is relatively weak, will generate faster economic growth. In particular, TPP should boost trade between America and Japan—something to celebrate, since the pair are the world's biggest and third-biggest economies.

The stakes are lower for a group of other rich members—Australia, Canada, New Zealand—each of which nonetheless fought to extract concessions from America. Australia succeeded in trimming the period of protection from generic imitators that America demanded for biologic drugs from 12 years to eight; Canada preserved its quota system for various agricultural products, allowing only limited duty-free imports; New Zealand won greater access for its dairy exports.

The full implications of the deal are not yet known, however, since TPP has been negotiated under a thick blanket of secrecy. This was intended to make it easier for the signatories to offer

concessions without being pilloried at home. But it has stoked the anxieties of industry groups on both sides of the Pacific. It will be weeks before the agreement's 30 chapters are translated and published in full.

Moreover, lawmakers in the 12 participating countries must now approve the agreement. This should be straightforward in places like Japan, where the ruling party has a commanding majority. But Canada faces a knife-edge election on 19th October. One of the three main parties is campaigning against TPP, arguing that it will kill farm jobs.

The biggest row will be in America, where Congress has 90 days to review the deal before putting it to an up-or-down vote, with no amendments. Although Republicans, traditionally the party of free trade, have a majority in both houses of Congress, they are divided on TPP's merits. Donald Trump, a candidate for the Republican presidential nomination next year, has described it as "an attack on America's business". Hillary Clinton, the leading Democratic presidential contender, has also refused to endorse the deal, albeit not quite so flamboyantly.

Such opposition is ill-advised. The slowing of the Chinese economy and a tepid global recovery from the financial crisis have led to a long-term slowdown in world trade. Indeed by some measures, trade is actually declining. This is worrying because trade remains the most reliable way for poor countries to become richer. TPP would undoubtedly help spur it, especially for the poorer members of the club. Moreover, TPP's members claim that they are open to other countries joining the deal. That holds out the prospect of TPP not only freeing trade, but also of instituting a more predictable, rules-based business environment, even in places currently excluded from the deal. Its biggest failing—that it does not include China—could evaporate, if TPP's members have the courage to push on.