

Economic Analysis

TPP: The Final Countdown

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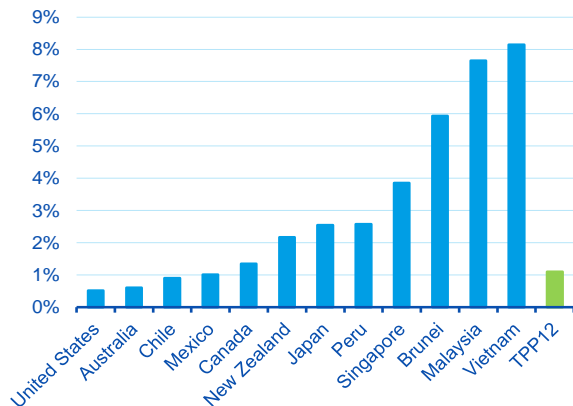
- The TPP could boost the geopolitical standing of the U.S. in the Asia-Pacific region
- The agreement is weighed down by controversial but practical provisions such as ISDS
- In order to ratify the TPP, benefits to exports and consumers must be emphasized

The Trans-Pacific Partnership (TPP) aims to facilitate trade and cut tariffs among its 12 member nations, who signed the final text of the agreement in February 2016 after years of negotiations. The 12 member nations are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the U.S., and Vietnam. In addition to these nations, 13 others have submitted letters of interest.

The right stuff

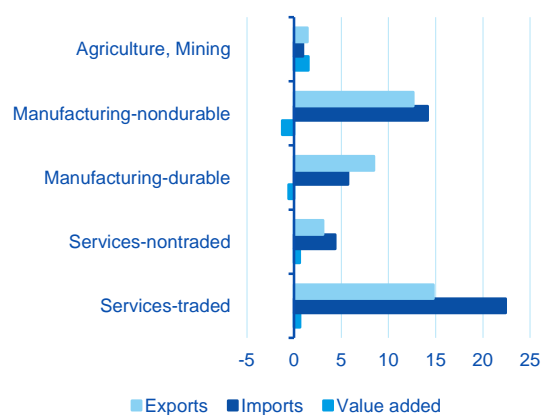
In terms of economic benefits, a study from the Peterson Institute for International Economics estimates that TPP member countries would see annual income gains of \$465 billion, while global exports would rise by over a trillion dollars by 2030, when the agreement would be fully implemented.¹ In relative terms, the poorest TPP countries will benefit the most; Vietnam tops the list with an 8.1% increase in real incomes. In absolute terms however, the U.S is expected to have the highest real income gains (\$131 billion). In the U.S., the TPP is expected to lead to an increase in real wages, but will also impose adjustment costs on some workers as they move from less to more productive industries.

Chart 1
Real Income Effects of the TPP, 2030
(% change relative to baseline)



Source: BBVA Research & Peterson Institute for International Economics

Chart 2
U.S. Trade and Output under the TPP, 2030
(% change relative to baseline)



Source: BBVA Research & Peterson Institute for International Economics

¹ Peterson Institute for International Economics. 2016. "The Economic Effects of the Trans-Pacific Partnership: New Estimates." <https://goo.gl/CvZGSt>

According to the U.S. International Trade Commission, agriculture and food would likely benefit the most among U.S. industries, primarily because of higher exports to markets like Japan and Vietnam, which currently protect their domestic agriculture sectors through high tariffs.² Meanwhile, the oil, coal, chemical, and auto industries are among those that could see slower growth with TPP implementation compared to baseline estimates without the agreement.

Moreover, the TPP boosts the geopolitical standing of the U.S. in the Asia-Pacific region. In a presentation at Rice University in September, U.S. Trade Representative Michael Froman stated that failure to implement the TPP would cede economic regional influence in the Asia-Pacific to China, going on to say, “The more China asserts itself in the region, the more our trading partners want us to get involved.” He also warned that failure to pass the TPP would lead Asia to question U.S. commitment to the region, and said that the passing of the bill would send a reassuring message to the region in a time of uncertainty.

Rock the boat

A main point of contention in the TPP and other free trade deals is the cost of adjustment and transitional unemployment for domestic workers in import-competing industries. In an effort to neutralize the effects of job displacement for these workers, Congress established Trade Adjustment Assistance (TAA) in 1962 to provide retraining assistance and facilitate the transition to high-productivity jobs. However, the TAA is often criticized for providing insufficient relief and assistance to workers looking for jobs as economically attractive as they ones they’ve lost, with some scholars describing it as a “patch” and even as “burial insurance.” Given accelerating change in technology and globalization, higher investment in creating a more comprehensive retraining program could be instrumental in minimizing adjustment costs for workers and improving the fairness of labor market outcomes.

Another sticking point in the TPP is that it expands the Investor-State Dispute Settlement (ISDS), which according to the Office of the U.S. Trade Representative (USTR) provides a “neutral, international arbitration procedure” for foreign investors instead of requiring them to seek redress in domestic courts where substantial bias can exist. In plain terms, ISDS requires that Americans doing business abroad would get similar benefits as international investors receive in U.S. soil and vice versa. In September, a dozen Democratic and Independent senators penned a letter to President Obama calling for the removal of ISDS processes from the TPP. Like many critics of ISDS, the senators referred to the system as a “corporate handout” that provides an additional channel for foreign corporations to secure permits over community objections and to exonerate themselves from human rights violations committed abroad. Meanwhile, the USTR argues that the TPP incorporates stringent protections in order to avoid potential abuses of ISDS. Regardless, it should be noted that the U.S. is already party to agreements which include ISDS with six of the TPP member nations, while the other five countries have also participated in agreements containing ISDS. Additionally, despite having a total of 50 agreements containing ISDS, the U.S. has never lost a case.

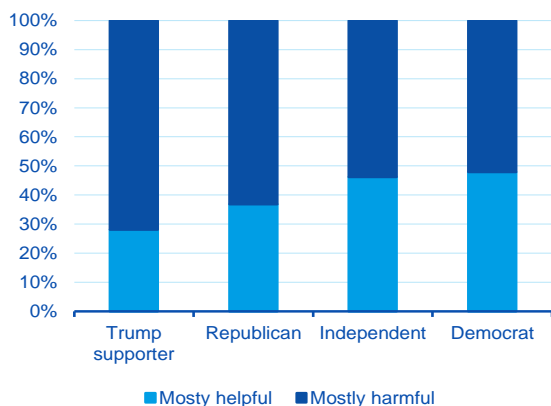
In another controversial measure, the TPP extends intellectual property (IP) protection to biologics—complex drugs created from living cells rather than from chemical compounds—for five to eight years. Many considered this protection excessive because the generic versions of biologics, called biosimilars, are more difficult to develop than other generics. In addition, the inclusion of this provision in the TPP has met some resistance among those who have argued that it is overly beneficial to the pharma industry. In the end though, this

² U.S. International Trade Commission. 2016. “Trans-Pacific Partnership Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors.” <https://goo.gl/fkJFZN>

protection is designed to help spur innovation and ensure that other countries have access to critical drugs in the case of a pandemic.

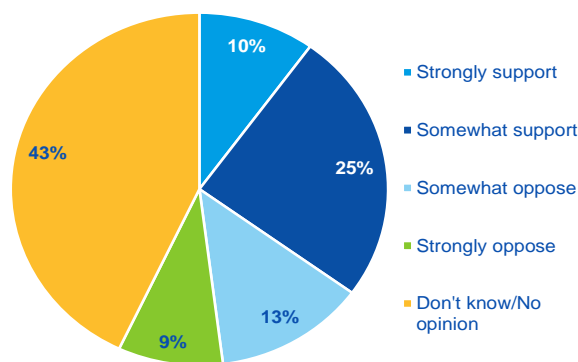
In addition, the TPP has come under fire as some of the member nations have problematic human rights records, such as Malaysia, Vietnam, and Mexico. The TPP attempts to address these concerns and advance human rights by requiring that member countries consent to enforceable standards when they sign the agreement. The member countries' access to the U.S. market is then linked to the obligation they take on under TPP. One example is the anti-human trafficking clause that Malaysia signed, which encourages specific actions to prevent trafficking, protect victims, and prosecute traffickers. In regards to enforcing labor standards, Froman said that the "TPP is the renegotiation of NAFTA" in that it finally allows for financial sanctions against countries that abuse workers.

Chart 3
Americans' Stance on Free Trade Agreements, %



Source: BBVA Research & PRRI/Brookings 2016 survey (June)³

Chart 4
Voters' Stance on TPP, %



Source: BBVA Research & Morning Consult survey (August)⁴

End of the road?

The final step towards implementation is that the TPP be ratified by the governing bodies of each of the member nations by February 2018. If each member nation has not confirmed ratification by that date, the TPP will still go into effect as long as 85% of the bloc's combined GDP ratifies it, essentially tying successful passage of the TPP to ratification in the U.S. To top that off, several member nations have indicated they may wait for the U.S. to ratify the deal before doing so themselves. At the U.N. General Assembly in September, leaders from Japan, New Zealand, and Australia, among others, confirmed their commitment to the TPP and urged the U.S. to expedite its ratification.

In the U.S. especially, ratification has encountered much difficulty as the TPP is presented to Congress in the midst of an election year and ensuing lame-duck session, making it ripe campaign fodder for both parties. In June 2015, Trade Promotion Authority (TPA) was renewed, allowing deals to be "fast-tracked"; in other words, Congress can veto them with a yes-or-no vote, but cannot amend them ([see our note on the TPA here](#)).

³ Q: Are free trade agreements mostly helpful or harmful? A: Mostly helpful because they open markets for U.S. companies and allow Americans to buy goods more cheaply OR mostly harmful because they send jobs overseas and drive down wages.

⁴ Q: Based on what you have seen, read, or heard, do you support or oppose the free trade agreement with eleven countries called the Trans-Pacific Partnership, also known as TPP?

Consensus among political analysts indicates that the likelihood of Congress bringing the agreement to a vote after the election is dim. The TPP has a very small window of opportunity during the lame-duck session, especially if Congress chooses to take the traditional approach of holding public hearings, followed by formal committee considerations and floor votes. In addition, because the recently-passed continuing resolution expires in early December, there is a strong chance that Congressional leadership will choose to prioritize budget approval in order to avoid a government shutdown.

Ratification of the TPP after the start of the new presidential administration is even more unlikely, as opposition to the TPP is one of the few policy positions that the current presidential candidates have in common. Clinton has argued that she supports a fair trade agreement in the Pacific, but that the TPP does too little to protect American jobs and workers; meanwhile, Trump has stated that he would withdraw from the TPP as it would “undermine our economy, and it will undermine our independence.” If both of the candidates are to be taken at their word, they will refuse to send the TPP to Congress in its current form, and reaching a new agreement with the TPP member nations would take years, if it all possible.

Bottom line: Bridge over troubled waters

The TPP has its drawbacks, such as the displacement of less skilled employees, but its net effect is positive, especially in regards to wage growth and improving the geopolitical standing of the U.S. in the Asia-Pacific region. Successful passage of the TPP would require that the Congressional approval process take place simultaneously with consideration of the budget and other issues, and that committee action is expedited during the lame-duck session.

Despite the views of their elected representatives, it doesn't appear that public opinion has dramatically shifted toward protectionism; rather, most voters have no opinion or aren't even aware of the TPP. U.S. Trade Representative Froman stated that trade agreements have become “the vessel into which people pour their very legitimate concerns about job security, wage stagnation, and income inequality.” In order to successfully ratify TPP, Congress must separate these concerns from the actual terms of the agreement itself and emphasize its benefits to exports and consumers.

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