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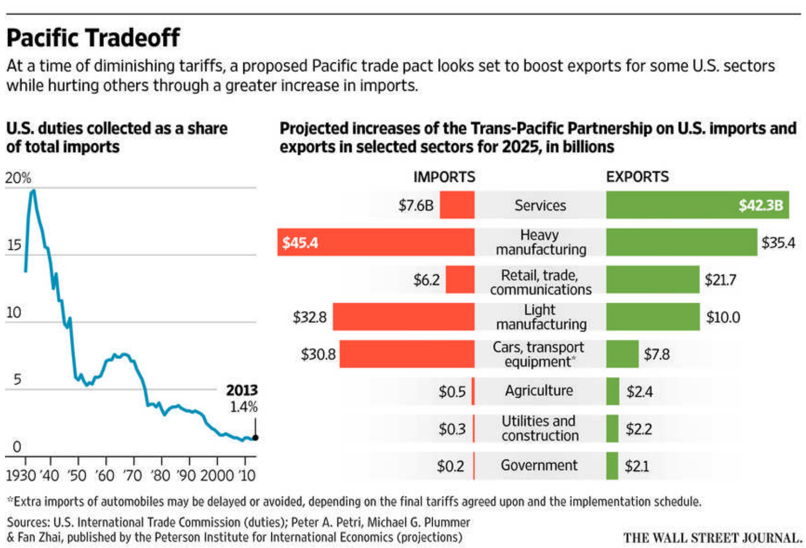
THE OUTLOOK

Pacific Trade Deal Likely to Have Narrow Reach

Most Americans wouldn't notice a big impact from the Trans-Pacific Partnership



ByWILLIAM MAULDIN

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Sweeping trade deals of the past—with Canada and Mexico in 1993, for instance, or China in 2000—presented big upsides and big risks for a broad swath of U.S. companies.

By contrast, the trade bloc President Barack Obama is trying to hammer out with 11 Pacific countries shows how much smaller both the benefits and perils of trade liberalization have become.

Complicating the pact's path, meanwhile, is a host of accompanying fights over issues like environmental regulations and drug-pricing rules.

The Trans-Pacific Partnership is likely to significantly benefit a handful of U.S. sectors, including the pharmaceuticals, film and high-technologyindustries, while doing relatively little to change the trade balance in sectors like chemicals and machinery, economists say.

"I can't make the case that this is going to make a huge difference to many people" in the U.S., said Peter Petri, professor of international finance at Brandeis University and co-author of a study on the economic benefits of the TPP. "It's going to make a small difference to virtually everybody."

In the works for almost a decade, the TPP faces challenges among negotiators but is thought to be near completion. Its fate if it does reach Congress remains unclear.

The most recent negotiations were last week in Hawaii, and the U.S. says a deal is likely in the coming months. The TPP, if completed and enacted, would likely boost the U.S. economy by about $77 billion annually by 2025, lifting overall economic output by about 0.4%, the Petri study found.

The U.S. already has trade agreements with more than half the TPP countries, among them Singapore, Australia, Peru and Chile. So Mr. Petri estimates about four-fifths of the deal's benefits in the U.S. would come outside of traditional tariff cuts, and instead from liberalizing trade in services and writing rules that promote investment and regulate many aspects of commerce.

U.S. President Barack Obama, center, speaking in November at a Beijing meeting of leaders from the Trans-Pacific Partnership. *PHOTO: AGENCE FRANCE-PRESSE/GETTY IMAGES*

By comparison, in the North American Free Trade Agreement, or Nafta, approved by Congress in 1993, the tariff cuts made up an estimated two-thirds of the deal, according to Gary Hufbauer, trade expert at the Peterson Institute for International Economics, which backs liberalizing trade.

Besides the usual haggling over tariffs on goods, there's a complicated parallel series of negotiations on commercial rules of the road ranging from drug-patent protection to national labor standards. The rules are designed to spur international trade and investment, but they're inviting criticism, making any deal harder to sell politically.

Administration officials and business groups are saying the TPP would lower traditional barriers at the border but also open up U.S.-dominated services industries, boost intellectual-property protection for Hollywood movies and Silicon Valley software, and set rules on the international free flow of data, foreign investment and the environment. A successful deal would also lower regular agricultural and food barriers in Japan and other countries, raising profits for American farmers, an increasingly small but influential part of the electorate.

Specialized U.S. products such as biologic drugs would get a bump, thanks to intellectual -property rules under negotiationthat would extend long-term patent protection to such products outside the U.S.

Technology firms would benefit from an expected ban on requiring companies to house customers' data within a specific country. "If we're going to serve the customer of Malaysia from, say, a data center in Singapore, the data has to be able to move back and forth between those two countries," said Brad Smith,Microsoft Corp. general counsel.

While the service sector that dominates the U.S. economy would benefit broadly, internationally traded servicessuch as software engineering and financial advicewould get the big boost. Manufacturing that's not on the cutting edge wouldn't be affected much by the TPP, but one weak spot might be light manufacturing, including some textile and paper-product makers, or other labor-intensive producers that aren't as competitive globally. The U.S. auto industry could also suffer, depending on the level of tariff cuts in the final deal and how long it takes to implement them, economists say. Detroit auto makers and Michigan politicians are some of the biggest critics of the TPP.

While most business groups are eager to see a deal, critics ranging from labor unions to environmental groups question its merits, considering the divisive industry rules and inevitable job losses in some areas. Economists say it might take a long time to determine if a trade deal built largely around newer corporate rules of the road will pay off in the end.

"Any time you have regulatory changes, it's much murkier in terms of potential benefits" for consumers and businesses, said Douglas Irwin, trade expert and economics professor at Dartmouth College.

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