

## Asia Pacific condemned to TPP wait

**Negotiations on the Trans-Pacific Partnership (TPP) are stalling in Washington and companies in Asia and Latin America should not expect the free trade agreement to pass this year.**

The United States House of Representatives passed a version of the fast-track trade promotion authority (TPA) bill last week giving the president the power to submit trade deals – such as the forthcoming Trans-Pacific Partnership (TPP) – to a yes-no vote on Capitol Hill.

But despite the rubber stamp from the lower house, the TPA bill faces significant obstacles in the US Senate, and as result, the TPP's passage faces even greater hurdles afterwards.

The TPP is a proposed treaty involving 12 countries throughout the Asia Pacific region, including Vietnam and Malaysia in South-East Asia and Chile, Mexico and Peru in Latin America, which seeks to strip away barriers to investment and trade.

We believe Asian and Latin American companies should not anticipate passage of the TPP this year. While the TPA bill may pass in July 2015, many Republicans seem hell-bent in trying to prevent President Obama from achieving a term-defining foreign policy legacy, like the TPP.

If the TPP is not approved by early 2016, it is unlikely the agreement will pass at all. At that stage, the risks to both main US political parties will be too great to jeopardise the November 2016 presidential election at the expense of Obama's legacy.

### Domestic political opposition intensifies

Domestic political opposition to the bill in the US is growing. Critics of the TPP argue that the treaty will benefit corporations at the expense of American workers and claim that debate has been stifled because negotiations have been shrouded in secrecy. Supporters of the treaty argue that it is necessary to open new markets for American companies, and claim the TPP is vital to support the US pivot towards the Asia-Pacific region.

Should the TPP be brought to a yes-no vote, the tone of the debate and likelihood of passage would vary depending on its timing. Issues such as Vietnam and Malaysia's human rights records could hinder the treaty's passage. There are numerous amendments addressing these issues in the US House of Representatives and US Senate waiting for an opportunity to be attached to a bill.

The governments of both Vietnam and Malaysia do not have the necessary lobbying presence in Washington to guide the conversation away from these potential issues, a senior Washington source told FT Confidential.

### Shifting political situations in Asia

The political turmoil in Malaysia adds further uncertainty. The Malaysian cabinet is divided over the TPP and Malaysia's involvement has been driven by Prime Minister Najib Razak. But Mr Razak is struggling to hold onto power amid fierce public anger over alleged corruption. His most likely successor – deputy prime minister Muhyiddin Yassin – is likely to oppose the trade deal because it would require the liberalisation of public procurement procedures used by the government to implement pro-ethnic Malay *Bumiputra* policies.

Vietnam, meanwhile, is set to elect a new leadership at next year's Communist Party National Congress. If the TPP fails to pass this year, the deal's prospects will diminish as Communist Party leaders refocus on domestic power struggles. And huge challenges remain as about the implementation of labour and human rights reforms required for TPP ascension.

### **Alliance for the Pacific**

We see fewer problems in Latin America. Chile, Peru and Mexico are all member countries of four-country Pacific Alliance, a pact under which rapid progress has been made towards liberalisation over the last three years. Leaders from member countries - Chile, Colombia, Mexico and Peru – and several observer countries, who are scheduled to meet on July 1 in Paracas in Peru, have struggled to harmonise tax rules, an essential step if regional capital markets are to be unified. However, tariff barriers have been eliminated on 92% of goods traded between member countries since the formation of the alliance in 2012.