

ECONOMY | THE OUTLOOK

Why Trump's Scorn for Pacific Trade Pact May Have Been Hasty

While the 12-nation pact drew fire during the election, it would have fulfilled some U.S. trade goals



President Donald Trump signed an executive order withdrawing the U.S. from the Trans-Pacific Partnership on Jan. 23, 2017. PHOTO: RON SACHS/PRESS POOL

By Bob Davis

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WASHINGTON—On his first workday in the Oval Office, President Trump killed the Trans-Pacific Partnership. He will probably spend the rest of his term trying to revive parts of it.

The TPP was a 12-nation trade pact among Pacific Rim countries negotiated under President Barack Obama that became a punching bag in the presidential election. It was opposed by Mr. Trump, who called it “a horrible deal,” and his opponent, Hillary Clinton.

But the pact plowed new ground favorable to U.S. interests, going well beyond the tariff and subsidy cuts found in traditional trade deals.

TPP would have given a boost to e-commerce by limiting restrictions on data flows and prohibiting any of the participating countries from requiring computer servers be located domestically—where information is easier to censor or control. It also would have required state-owned enterprises to operate like commercial companies rather than political tools of the state. Intellectual property protection would have been strengthened and restrictions to competition in services reduced.

To TPP, or Not to TPP

The U.S. trade position is shifting with key Trans-Pacific Partnership nations.

U.S. trade balance



What the U.S. stood to gain from the TPP

- ◆ Opening of service sectors
- ◆ Restrictions on foreign state-owned enterprise subsidies
- ◆ Prohibition on 'data localization,' which pushes technology out of U.S.
- ◆ Protections for trade secrets
- ◆ Higher labor standards in low-wage countries
- ◆ Environmental issues subject to dispute settlement panels

Sources: Commerce Department (balance); 'Trans-Pacific Partnership: An Assessment,' Cathleen Cimino-Isaacs and Jeffrey Schott (checklist)

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These are all longstanding goals of the U.S., which is a leader in technology and finance and wants to beat back efforts to constrain U.S. cross-border dominance. As with all trade deals, TPP had critics on the left, who argued labor provisions would be weakly enforced, and on the right, who complained patent protection for pharmaceuticals should have been stronger. Critics across the political spectrum say TPP's investment protections would have encouraged U.S. companies to set up factories overseas at

the expense of U.S. jobs.

Still, it would also have helped the new administration accomplish some of its major trade goals. First, because it included Canada and Mexico, it was in effect a backdoor renegotiation of the North American Free Trade Agreement, something the Trump administration is demanding. Second, although it didn't include China, it would have cemented relations with other Asian nations and given the U.S. a stronger hand in dealing with Beijing.

“Why reinvent the wheel when you can take an agreement and try to improve upon it,” said Jeffrey Schott, a trade economist at the free-trade Peterson Institute for International Economics.

Some Trump trade officials are starting to come to the same conclusion. “We should learn from, and build on earlier negotiated trade agreements,” said U.S. Trade Representative nominee Robert Lighthizer in mid-March confirmation proceedings. “In a renegotiation of Nafta, we should consider incorporating those provisions (in TPP) as well as improving areas where we may be able to go beyond TPP.”

Two weeks later, the administration sent to Capitol Hill Nafta negotiating objectives which echoed TPP provisions on intellectual property, digital trade and services trade, state-owned enterprises and labor and environmental standards. The changes proposed were surprisingly mild, compared with Mr Trump's campaign rhetoric. Congress had already mandated those TPP-style objectives in 2015 when it approved so-called fast-track legislation which the White House would need to pass any new trade deal.

Mexico and Canada already agreed to TPP provisions, said Josh Bolten, president of the Business Roundtable, a lobbying group of CEOs. If negotiations were largely confined to those measures “it may be a pretty fast and successful negotiation.”

On China, TPP also played an important role. The trade pact was a symbol of the U.S. commitment to the region and offered Asian nations an alternative to depending solely on China. Beijing wasn't a member of TPP, but U.S. negotiators were pushing TPP provisions on state-owned enterprises and digital commerce, among others, as global norms, which Beijing would be expected to eventually adopt.

President Trump says he favors bilateral deals because he believes the U.S. can use its economic power to press smaller nations to make concessions. In multilateral deals, he argues, U.S. leverage is more diffuse.

But the opposite is often true. Multilateral deals can help countries make concessions. Malaysia feared the political cost domestically of making concessions to the U.S. so it couldn't conclude a free-trade pact during the Bush administration, say negotiators. But Malaysia was able to sign on to TPP, and agree to lower tariffs on autos and other goods, because it could portray the deal as one involving other Southeast Asian nations.

Japan agreed to reduce its tariffs on beef and leave U.S. automotive tariffs intact for 25 years, among other concessions, because it was able to look across the group and add up all the concessions the others had made that would help Japanese industry.

Japanese Finance Minister Taro Aso warned last month that in a more limited bilateral deal, Japan will be "less generous" to the U.S. Mr. Lighthizer said that the U.S. "intends to maintain its leadership in the region," including by negotiating bilateral agreements. Since then, Mr. Trump has publicly courted Chinese President Xi Jinping and the two countries recently announced a trade deal to end fights over beef, credit cards and natural gas.

But a U.S. International Trade Commission report last year offered a different route. It said multilateral deals that focus on specific industries or issues—zero tariffs on steel or information technology, for instance—have had much bigger economic payoff than bilateral deals. In the same way, a multilateral deal on aspects of TPP—intellectual property, state-owned enterprises, data exchange—could recover some of the gains that were lost when TPP was killed.

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