IN FOCUS

Investment Insights into Current Events

DiMeo Schneider & Associates, L.L.C.

Trade Policy and Market Impact

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TPP

The new Administration has signed an executive order to withdraw from the Trans-Pacific Partnership (TPP), a trade agreement between the U.S. and 11 Pacific Rim countries that has not yet been ratified. If enacted, TPP would become the largest trade deal in history, representing approximately 800 million people and accounting for nearly 40% of the global economy. The intention of TPP is to deepen economic ties and boost growth by setting common standards and cutting barriers such as tariffs. However, the new Administration claims TPP will hurt U.S. workers and businesses, citing the potential for large losses in the manufacturing industry as other countries can often manufacture goods more cheaply.

NAFTA

Renegotiating the North American Free Trade Agreement (NAFTA) is also a top priority of the new Administration. Enacted in 1994, NAFTA is a three-country pact between Canada, Mexico and the U.S. intended to eliminate tariffs and reduce barriers to trade. The new Administration intends to seek new standards for American workers in areas such as labor and environmental protections, particularly in Mexico. They are also likely to push for an end to Mexico's 16% value-added tax (VAT) which some claim acts as a tax on U.S. exports and may encourage U.S. manufacturers to offshore jobs to Mexico. The U.S. is by far the largest trading partner with both Canada and Mexico, and accounts for approximately 75% and 80% of each country's exports, respectively.[1,2] Meanwhile, U.S. exports to Canada and Mexico are approximately 19% and 16%, respectively, of U.S. trade.[3]

CHINA

The new Administration has pledged to address what they perceive as China's unfair trade practices including its currency policies, and is expected to take a hard stance on Chinese theft of U.S. intellectual property and the country's huge industry of counterfeit goods. The global trade in counterfeit products is estimated to be approximately $500 billion in size with roughly two-thirds of fake goods originating in China according to the Organization for Economic Cooperation and Development (OECD) and the EU's Intellectual Property Office. The U.S. trade deficit with China, the country's largest trading partner, was $367 billion in 2015, which represents nearly half of the total U.S. trade deficit of $762 billion. Exports to China were $116 billion compared to a new record high of $483 billion in imports according to the U.S. Census Bureau.

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[1] Export Development Canada
[2] Trading Economics
[3] U.S. Census Bureau on Foreign Trade

Key Issues	Trade Proposals, Agreements & Partners	Insights & Perspectives
Labor	• **TPP** - Requires countries adopt minimum wages, hours of work and occupational safety regulations but does not specify how a country should set minimum wages or standards • **NAFTA** - The trade agreement is accompanied by an unenforceable side deal on labor standards. Mexico is believed to engage in substandard labor practices • **China** - Believed to engage in substandard labor practices	• Expect stringent and enforceable rules that raise labor standards in Mexico with the NAFTA renegotiations • This could lead to increased manufacturing costs in Mexico
Environment	• **TPP -** Includes more comprehensive and enforceable rules than prior agreements. However, companies may still be able to sue countries that enact environmental protection laws such as limiting fossil fuel extraction or carbon emissions if it interferes with their business through the investor-state dispute settlement (ISDS) provision • **NAFTA** - The trade agreement is accompanied by an unenforceable side deal on environmental regulations. Companies can sue countries that enact environmental protection regulations if it interferes with their business • **China** - Low environmental, health and product safety standards	• Expect strict and enforceable rules that raise environmental protections in Mexico with the NAFTA renegotiations • Provision allowing companies to sue governments for passing laws that hinder profits will likely be scrutinized in NAFTA discussions
Intellectual Property	• **TPP** - Includes more comprehensive protection of copyright, trademark and patents of U.S. corporations than previous agreements. However, there are several controversial provisions such as the length of patent protections for drug makers that could translate to higher prices and potentially deny global access to lifesaving drugs • **NAFTA -** Was the first international trade agreement to establish minimum standards for the protection of intellectual property • **China -** Is believed to be a major perpetrator of U.S. company intellectual property protected legally by trademarks, copyrights and patents, but difficult to police cross-border	• The new Administration has vowed to hold China liable for intellectual property violations • Expect complaints before the WTO for forced technology transfer to Chinese competitors as a condition for U.S. entry into the Chinese market, a violation of WTO rules
Unfair Trade Practices	• **TPP** - Includes more comprehensive actions to rein in unfair trade practices. However, the omission of meaningful and enforceable currency manipulation language could signal to member countries if they continue to engage in this unfair trade practice they can do so without fear of consequences • **NAFTA** - Mexico's 16% value-added tax (VAT) is thought to act as a tax on U.S. exports and may encourage U.S. manufacturers to offshore jobs to Mexico • **China** - Widely believed to manipulate currency and engage in the practice of illegal export subsidies which are prohibited under WTO rules that encourage Chinese companies to boost exports while levying penalties to limit the purchase of foreign goods	• The new Administration has proposed levying punitive tariffs on imports from Mexico and China • Protectionist policies such as these could potentially reduce the flow of cheap goods into the U.S. and lead to higher inflation

DiMeo Schneider & Associates, L.L.C. continues to believe that maintaining a diversified portfolio and following a disciplined rebalancing plan will help enable investors to weather volatility in such uncertain times. We believe that our role as advisors becomes even more significant during volatile and unpredictable times and stand ready to listen and provide straightforward advice. For further information and assistance, please contact any of the professionals at DiMeo Schneider & Associates, L.L.C.

About the Author:

Jacqueline Rondini, CFP®, *Senior Research Analyst*
Jackie performs research and operational due diligence on core investment managers. She is a team member of the Core Investment Strategy Group. Jackie also participates in the firm's Outsource Chief Investment Officer (OCIO) practice for financial institutions. In 2012, Jackie was a contributing author to Nonprofit Asset Management (John Wiley & Sons) and in 2005, she co-authored *The Practical Guide to Managing Nonprofit Assets* (John Wiley & Sons). She received a Bachelor of Business Administration (BBA) from Iowa State University and is a Certified Financial Planner (CFP®) from the College for Financial Planning. Jackie is a former member of the Board of Trustees for The Chicago Academy for the Arts, an independent college preparatory school dedicated to the performing arts. In her free time, Jackie can be found testing her luck at her favorite vacation destination, Las Vegas.