Insight

What Critics Get Wrong on TPP

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The Weekly Standard recently published an evaluation of the Trans-Pacific Partnership (TPP) emblematic of those who have concerns. The critique questions the benefits of TPP in light of the International Trade Commission (ITC)'s official economic impact report. Unfortunately, TPP critics do not acknowledge that the comprehensive benefits of international trade overwhelmingly outweigh the costs of inevitable labor market shifts.

Assuming that TPP enters into force in 2017, ITC found that after 15 years annual U.S. income would increase by $57.3 billion and annual GDP by $42.7 billion. This translates into a 0.23 percent boost in real income and a 0.15 percent boost in real GDP. These findings were used to argue that the growth generated by TPP would be trivial, but this is simply not the case.

The ITC report mainly focused on calculating the easily-quantifiable economic benefits of TPP, such as tariff elimination and the reduction of barriers to services trade. While ITC modeled the benefits of more TPP provisions than it has for previous agreements, including increased foreign direct investment and some aspects of digital trade, the report failed to quantify several key advantages of the deal. These include the benefits of strengthening intellectual property protections and limiting the influence of government subsidized state-owned enterprises. Also, ITC did not consider the economic gains of increased U.S. specialization and productivity. While the report did calculate that the real wage rate would increase an average of .19 percent due to rising demand for workers, it did not estimate any rise in wages produced from increased productivity. A more comprehensive assessment from the Peterson Institute of International Economics (PIIE) found that TPP would generate an additional $131 billion annually for the U.S., more than twice that projected by ITC.

The piece argues that the benefits of TPP would not be significant enough to outweigh the price paid by hard-hit sectors of the economy. This references the common claim that international trade leads to job losses and declining U.S. production in industries most sensitive to imports, like manufacturing. However, reports from both ITC and PIIE project that TPP would create U.S. jobs. The ITC report projects a net gain of 128,000 U.S. jobs, while PIIE estimates suggest that TPP would generate 796,000 jobs directly supported by exports and increase labor market shifts by less than 0.1 percent. Additionally, manufacturing output has been steadily rising even while the number of manufacturing jobs has declined. This signals that decreased demand for manufacturing workers is likely a response to productivity gains and not to international trade.

Finally, the piece questions TPP's ability to cement U.S. global leadership. Critics suggest that a trade deal would not be sufficient to counter the impact of belligerent actors in China. However, by establishing American values as the new norm in the Asia-Pacific, TPP provides an opportunity for the U.S. to preempt China's growing influence.

Critics further argue that the investor-state dispute settlement (ISDS) provisions of TPP threaten American sovereignty. ISDS enables private companies to sue state governments over discrimination, seizure of private property, or other wrongful acts. Stelzer shows particular concern that ISDS arbitration procedures take place outside of the U.S. court system. However, his claim that this gives foreign companies a greater likelihood of success against the U.S. is unfounded. Over the past 25 years the U.S. entered 50 agreements containing ISDS provisions. During that time, the U.S. has only faced 17 ISDS cases and has yet to lose once.

TPP is a beneficial agreement with the potential to advance U.S. standing overseas. The potential economic gains are not insignificant, and neither are the implications for American leadership. Critics of TPP who believe its costs are greater than its benefits are not fully acknowledging its benefits.