Insight

The International Trade Commission Report on TPP

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Trade Promotion Authority (TPA), signed into law last year, outlines U.S. negotiating objectives in trade. It also allows certain trade agreements to be considered by Congress under expedited procedures. One such agreement currently under consideration is the Trans-Pacific Partnership (TPP), a deal between the U.S. and 11 Pacific-Rim nations that would create a strong U.S. presence in the Asia-Pacific region. In compliance with the rules of TPA, the U.S. International Trade Commission (ITC) released a report today assessing TPP's economic impact on the U.S.

ITC examined TPP's potential effects on overall GDP, import and export levels, and several individual sectors of the economy. The main finding was that the agreement would deliver an annual boost to U.S. income of 0.23 percent of GDP by 2032. ITC also found that TPP would increase U.S. exports by $27.2 billion, or 1 percent, and real GDP by 0.15 percent ($42.7 billion). Critics of globalization may argue that this modest gain does not justify the potential costs of TPP, such as shifts in the labor market. However, it is important to fully understand TPP's most groundbreaking provisions and how they impacted ITC's estimate.

The report seeks to quantify the economic impact of eliminating U.S. tariffs on imports from TPP countries, the effects of removing non-tariff barriers (NTBs) to trade, and TPP's impact on trade in services and investment. In the weeks to come, the approach to these issues will bear closer scrutiny. In particular, the way that ITC analyzed services, investment, and nontariff barriers is crucial, as well as the fact that the report does not address non-quantifiable strategic issues.

SERVICES

The U.S. exports more services than any other nation in the world. Examples of these services include insurance, financial services, travel, transportation, and intellectual property. 2014 service exports totaled $702 billion, or 30 percent of total U.S. exports. Because of this, the U.S. maintains a large trade surplus in services (approximately $200 billion). TPP would generate additional export growth for the U.S. by significantly reducing current NTBs that hinder service trade. For example, TPP would prevent any partner country from favoring its own suppliers or the suppliers of another partner. It would also provide the U.S. with greater market access to our trading partners by eliminating quantitative restrictions on the number of firms that can supply services in each nation. Finally, it would forbid any requirements that foreign suppliers must have a physical presence in a country in order to provide services there. Of the real income gains projected by ITC, approximately 34 percent relate to services trade.

A major type of service trade occurs through foreign direct investment (FDI). TPP reduces barriers to FDI using a negative list approach, meaning that all partners must be open to accepting FDI in all sectors unless one is specifically excluded. Both inward and outward FDI benefit the U.S. economy; foreign firms that come to the U.S. create jobs and generate spending at home, while U.S. investment abroad not only increases the global market share of U.S. firms but also helps to grow the U.S. economy. The Peterson Institute for International Economics

(PIIE) estimates that a 10 percent increase in employment at a U.S. firm's foreign affiliate generates a 4 percent increase of U.S. employment at the same firm. Reducing barriers to FDI would stimulate growth by encouraging greater investment in all TPP nations.

OTHER NON-TARIFF BARRIERS

In addition to expanding trade in services and FDI, TPP encourages growth in digital trade by preventing data localization requirements in most sectors. These burdensome requirements restrict trade and hurt consumers by mandating that firms place physical servers in the areas where they do online business. ITC notes in its report that the ban on data localization may be "one of the most important advances for trade liberalization in TPP."

TPP also includes upgrades to intellectual property rules that will give U.S. firms the confidence to freely innovate. And by limiting the influence of government subsidized state-owned enterprises (SOEs), TPP levels the playing field for U.S. firms. Finally, TPP reduces discriminatory technical barriers to trade and unscientific sanitary and phytosanitary measures, both of which create unnecessary obstacles to trade. Although the quantitative effects of these provisions were not included in ITC's analysis, their economic benefits should not be overlooked.

STRATEGIC ADVANTAGES

TPP presents a unique opportunity for the U.S. to exercise influence over the Asia-Pacific region. The deal requires all partner countries to adopt U.S. standards on intellectual property, the environment, and labor rights, all of which would be enforceable under dispute settlement. For instance, all TPP countries must establish minimum wage and hours of work laws, eliminate forced labor and child labor, and grant workers with the right to collective bargaining. TPP would also strengthen the enforcement of current multilateral environment agreements.

TPP allows the U.S. to write the rules of global trade. This ensures that trade deals are consistent with U.S. values and interests. While China currently negotiates the Regional Comprehensive Economic Partnership (RCEP), a deal between 16 countries in Southeast Asia and the Pacific Islands, TPP provides an opportunity for the U.S. to preempt this influence by China in the Asia-Pacific.

CONCLUSION

The ITC report on TPP is an important step in the process. Its bottom line is that TPP would generate economic growth, and its findings are the same order of magnitude as another well-known report from the Peterson Institute. PIIE found that TPP would produce annual income gains of $131 billion and export growth of $357 billion by 2030. This translates into an annual increase of 0.5% of GDP. The ITC report provides further evidence that TPP would have a positive impact on the U.S. economy.