# The Trans-Pacific shell game

By Jomo Kwame Sundaram
June 1, 2016 – *Project Syndicate*

The Trans-Pacific Partnership (TPP) trade agreement is being portrayed as a boon for all 12 of the countries involved. But opposition to the agreement may be the only issue that the remaining US presidential candidates can agree on, and Canada's trade minister has expressed serious reservations about it. Are the TPP's critics being unreasonable?

In a word, no. To be sure, the TPP might help the US to advance its goal of containing China's influence in the Asia-Pacific region, exemplified in US President Barack Obama's declaration that, "With TPP, China does not set the rules in that region; we do." But the economic case is not nearly as strong. In fact, though the TPP will bring some benefits, they will mainly accrue to large corporations and come at the expense of ordinary citizens.

In terms of gains, one US government study on the topic projected that, by 2025, the TPP would augment its member countries' GDP growth by a meager 0.1% at most. More recently, the US International Trade Commission (ITC) estimated that, by 2032, the TPP would increase America's economic growth by 0.15% ($42.7 billion) and boost incomes by 0.23% ($57.3 billion).

But TPP advocates have largely ignored these results, preferring to cite two studies by the Peterson Institute of International Economics, a well-known cheerleader for economic globalization. In 2012, the PIIE claimed that the TPP would boost total GDP in member countries by 0.4% after ten years. In January, it declared that TPP would augment total GDP by 0.5% over the next 15 years. In a World Bank study released the same month, the authors of the PIIE research projected a 1.1% average increase in GDP in TPP member countries by 2030.

Something is clearly amiss. A closer look reveals that these studies' findings concerning the TPP's purported benefits lack supporting economic theory, credible modeling, or empirical evidence. The only advantages presented that are consistent with mainstream research methodology are tariff-related trade benefits. But if the PIIE authors had used conventional methods to estimate total gains from trade, such benefits would comprise a very small share of the alleged gains from the TPP. According to the PIIE and the World Bank, about 85% of overall growth from the TPP is due to "non-trade measures" and related foreign investments.

Meanwhile, the studies ignore employment and income distribution – where some of the leading risks of trade liberalization lie. Instead, they simply assume that all countries are at full employment and have a consistent income distribution, trade balance, and fiscal position.

The ITC study, which used a slightly different model, predicts an increase in the trade deficit that would destroy 129,484 American jobs (yet, inexplicably, it estimates that the TPP would raise employment by 128,000 jobs). It also projects a net increase in exports of $25.2 billion in 2032 (in 2032 US dollars), a small fraction of the PIIE's projection of $357 billion in 2030 (in 2015 dollars).

For our study, my colleagues and I used the PIIE's own 2012 estimates of trade-related gains, despite our reservations, along with more realistic economic specifications, including for income distribution and employment. We projected downward wage pressure, which, by depressing domestic demand, would lead to lower employment and higher inequality in all country groupings. Projected job losses would total some 771,000 across the TPP countries, including 448,000 in the US alone. These losses would offset any growth benefits, with the US and Japan suffering small net income losses (-0.5% and -0.1%, respectively).

Even if the TPP is found to conflict with the national or public interest, participating countries are obliged to follow its provisions. Powerful lobbies, mainly from the US, made sure of that. And, unfortunately, that is not all they did.

Despite being portrayed as a trade deal, the TPP is not even really about trade. Many TPP countries are already among the world's most open economies, with most merchandise trade among them having already been liberalized by earlier agreements and unilateral initiatives. The main remaining trade constraints involve non-tariff barriers, such as US agricultural subsidies, which the TPP does not address.

Instead, the TPP's most important provisions strengthen, broaden, and extend intellectual property rights. That will give pharmaceutical companies much longer monopolies on patented medicines and keep cheaper options – both generics and alternatives that are deemed too similar – off the market, hurting both consumers and governments that provide subsidies.

Moreover, the TPP weakens national regulation, such as over financial services, and strengthens the rights of foreign investors, at the expense of local businesses and the public interest. Investor-state dispute settlement (ISDS) provisions allow foreign investors to pursue binding private arbitration against governments if new regulations reduce their expected future profits.

Governments that lose those lawsuits will be obliged to compensate foreign investors; but even those that win will incur high legal costs. In fact, potential ISDS compensation payments or settlements alone could far outweigh the TPP's limited economic benefits. Fear of incurring such high costs are likely to weaken governments' incentives to implement regulations that hurt foreign corporate interests, even if they serve the public good.

Finally, though the TPP's biggest impact will lie outside the trade realm, the agreement has been used to undermine multilateral trade-liberalization efforts. The most obvious victim has been the World Trade Organization's ongoing Doha Development Round negotiations, but Asia-Pacific Economic Cooperation and the ASEAN Economic Community will also suffer.

The TPP's advocates have, for years, been grossly exaggerating the deal's projected benefits, while downplaying its potentially high risks and costs, most of which will be incurred by ordinary citizens. The reality is that the TPP will have a barely perceptible impact on GDP, benefit large corporations almost exclusively, and significantly constrain the policy space governments need to accelerate economic development and protect the public interest. Some partnership that is.

*Jomo Kwame Sundaram was Assistant Secretary-General for Economic Development in the United Nations system and received the 2007 Wassily Leontief Prize for Advancing the Frontiers of Economic Thought.*