MEMORANDUM

TO: AFL-CIO OFFICERS, STAFF & AFFILIATES
FROM: CELESTE DRAKE
SUBJECT: ITC TPP STUDY (POST-REPORT RELEASE UPDATE)
DATE: MAY 19, 2016

The ITC study—though flawed and overoptimistic—is shocking in its extremely low expectations for the TPP. This memo provides talking points, key findings, and an explanation of why the key findings—as damning as they are—are still overoptimistic.

Talking Points:

- Given the history of the flawed and overoptimistic model used by the ITC, this report's estimate of barely noticeable gains translates to a clear threat of significant job and wage losses for U.S. working people under the TPP.

- The ITC has a history of overestimating benefits of trade deals, including NAFTA, Korea and China's entry into the WTO. Given that history and this shockingly bad TPP report, no member of Congress can credibly argue the TPP is a jobs and growth plan.

- Even if we took the ITC's predictions at face value, which we don't, the TPP is a terrible growth strategy. We'd create more jobs faster by investing in infrastructure, including roads, railroads, ports and airports, all of which facilitate trade.

- A more realistic study by Tufts, based on real-world data instead of overoptimistic assumptions, predicted U.S. working families would lose 448,000 jobs and that 1.3% of national income would be transferred to businesses from families. That's what we expect from TPP: more corporate profits, more struggling families.

- The reality is that the TPP is a corporate welfare program that redistributes both money and power to global companies. It's simply poor judgment to support such a corporate wish list on the off chance that the predicted job losses in the energy, metals, auto, electronics, and leather sectors might not be as bad as predicted.

- The government's own ITC study admits the U.S. trade balance will get worse. What more proof do we need that the TPP is a bad deal?

- The ITC's report makes it doubtful that the TPP's supposed benefits will even be large enough to cover the costs of flying negotiators all over the world for the past five years.

- The result of five years of secret negotiations is a bad deal—and now even the ITC admits it. The best legacy USTR Mike Froman could leave us is to abandon this deal.

<u>Among the key estimates are the following:</u>

Fifteen years after implementation,

- **Real GDP in the U.S. will be only .15% higher than it otherwise would be.** As Dean Baker explains, that means the U.S. economy being the size in January 2032 that it otherwise would have been in February 2032.

- **The global U.S. trade deficit will increase by $21.7 billion.**

- **The TPP will create 174,000 full time equivalent jobs.**

- **Output in manufacturing and energy will be $10.8 billion *less* than it otherwise would be, representing a .2% reduction in employment in the sector.**

- **Passenger vehicle exports are predicted to rise (on the strength of sales to Vietnam and Japan, which is highly doubtful as explained below) though the report admits that the trade balance in vehicle exports will worsen.** In an alternate scenario estimate, noting the industry's doubts about real market opening in Japan, the ITC predicts U.S. auto exports to Japan will actually decrease compared to the baseline by $297 million and exports to the world by $84 million.

- **Auto parts output and employment will each decrease by .3%.**

- **Electronic equipment employment will decrease by .8%.** Output in the electronic industry will decrease by .8%, tied for the second largest industry decrease (leather goods being hardest hit).

- **Chemical sector employment will decrease by .3%, textile sector employment by .4% and titanium products employment by 1.3%** (particularly given that China & Russia will take advantage of weak rules of origin, according to the ITC).

- **Job losses will occur in the following sectors: forestry; coal; oil; gas; transportation, travel, tourism and logistics; machinery & equipment; leather products; certain metals & metal products; instruments & medical devices; and toys and sporting goods.**

- **The U.S. services trade balance (a supposed U.S. strength) will worsen because services imports will rise $2.2 billion more than exports,** with balances in the "transportation, logistics, travel and tourism" and "recreational and other" sectors being the two hardest hit.

- **Most of the export benefits predicted in the service sector are for sales by foreign-owned affiliates (i.e. investment) rather than for cross-border supply of services.** This means profits for U.S. global companies, but few new service sector jobs created domestically.

- **Undermining USTR's talking points, the study admits that the U.S. currently has an overall goods trade deficit with its 20 FTA partners.**

- **The U.S. trade balance in pharmaceuticals will worsen, with a $1.2 billion increase from Malaysia playing a large role.**

<u>Why the ITC Study is Flawed:</u>

The top line figure estimates a minimal increase in U.S. GDP of .15% over 15 years – far less even than the Peterson Institute study. Even if you believed it, .15% amounts to little more than rounding error. As Dean Baker of CEPR has explained, it essentially means that by January 2032, the U.S. economy will reach the size it would have otherwise reached anyway by February 2032.

This level of growth is hardly worth trading away important elements of our democracy, which is what the TPP does by doubling the number of global companies that can sue us before private tribunals to attack local, state, and federal government actions that believe may "unfairly" reduce their expected future profits.

The TPP is a terrible growth plan. The U.S. could achieve far greater growth, far faster, by investing in our own economy. Both the International Monetary Fund and Larry Summers (neither known for promoting progressive economic policies) agree that an infrastructure investment of 1% of GDP will result in an increase in GDP of almost 3% a mere four years after the investment. [1]

The ITC study's predictions of auto export growth are particularly laughable. The study notes that U.S. industry sources admit that *U.S.-headquartered manufacturers expect a larger increase in sales by U.S. companies producing in Vietnam and Thailand than in the U.S.* U.S. headquartered manufacturers sold only 19,000 units in Vietnam in 2014, only **926** of which were built in the U.S. **Vietnam is simply not a credible market for U.S. built cars.** And few in the industry expect Japan's market to open appreciably, which is why the ITC did an alternate-scenario study on the auto sector. Thus, expectations for meaningful increased exports of U.S.-built autos to TPP countries are not believable. More likely, we will lose some market share in Canada to Japan, as the study admits.

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[1] "Chapter 3: Is It Time for an Infrastructure Push? The Macroeconomic Effects of Public Investment," in World Economic Outlook, International Monetary Fund, Oct. 2014, available at: https://www.imf.org/external/pubs/ft/weo/2014/02/pdf/c3.pdf. Larry Summers, "Why public investment really is a free lunch: The IMF finds that a dollar of spending increases output by nearly $3," Larry Summers Blog, Oct. 7, 2014, available at: http://larrysummers.com/2014/10/07/why-public-investment-really-is-a-free-lunch/#sthash.5fkH0nJ6.dpuf.

These losses will add to the predicted losses in the parts sector that also represent an underestimate due to the weak ITC analysis of the flawed ROO provisions in the TPP.

Finally, the CGE model used by the ITC makes unrealistic assumptions—and is therefore not a useful predictor of real world effects of the TPP. The ITC's prior estimates of FTA impacts demonstrate its disutility. For example, in its NAFTA report, the ITC incorrectly predicted only a "minor negative impact" on auto production in the U.S. and no change in auto employment and no "appreciable" change in employment in the electronics sector. Both sectors experienced significant job losses. The ITC reports for NAFTA, Korea, and China's entry into the WTO came nowhere near predicting the trade deficits and job losses we have experienced.

Here are a few of the many reasons why the ITC's CGE model is flawed:

- **The model assumes a static employment rate and that workers who loses jobs instantaneously find new jobs at the same or better pay with no transition costs whatsoever.** Thus, its estimate of 174,000 new jobs is an artifact of predictions about increasing efficiencies in the economy as a whole, rather than any kind of real employment estimate. As the study notes, analysis of real world data by Davis Autor has found that the cost-free transition assumption simply isn't correct. Therefore, we can't believe the study's positive estimates about jobs and wages.

- **The study assumes rather than proves that higher productivity caused by the TPP will translate into higher wages—it predicts a .19% wage increase by 2032.** This is not a "finding" but an assumption that can be proved or disproved using empirical evidence. The link between productivity and wages was severed decades ago—and not just in the United States. To assume that this link will magically re-establish itself under the TPP is laughable.

- The study admits that there will be **fewer manufacturing jobs** than without the TPP, but assumes wages still rise, even in the services jobs that will replace the manufacturing jobs. This is counterfactual to our lived experience. Nor does it square with BLS figures for occupations with this the highest number of new job openings, which include bartenders, cashiers, cooks, food prep workers, janitors, and home health aides. Again, this prediction is a byproduct of the model: if you assume full employment, but know that manufacturing jobs will decrease, then those jobs have to go somewhere and wages must rise of productivity is rising.

- **The study assumes only positive effects of eliminating NTMs (non-tariff measures).** This is a flawed assumption, not based on any real analysis of the costs and benefits of its deregulatory impact. Food safety, consumer protections, OSH rules, and banking regs are obvious areas where deregulation is a net cost, not a net gain.

- **The study fails to account for currency manipulation,** which can be used to create or sustain trade advantages, and its results should be suspect on this basis.

- **The study fails to account for higher drug costs** that could result from pharmaceutical company use of ISDS to fight Medicaid and other public healthcare programs that use cost-control measures.

- **The study assumes only positive impacts of increased foreign direct investment.** It fails to address that increased investment by U.S. firms in TPP countries may directly result in job losses in the U.S. Nor does it account for the "race to the bottom effect" that occurs when countries compete for foreign investment. This effect, which drives down not only wages but also taxes and regulatory regimes, was aptly described by the Tufts Trading Down study.

- **The study does not even attempt to meaningfully account for possible losses due to increased opening of government procurement, revenue losses to governments caused by loss of manufacturing, or future regulatory chill.**