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Trans-Pacific Partnership Agreement

Currency manipulation, trade, wages, and job loss

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Summary

Currency manipulation distorts trade flows by artificially lowering the cost of U.S. imports and raising the cost of U.S. exports, and is the leading cause of stubbornly high U.S. trade deficits over the past 15 years. More than 20 countries, led by China, have, together, been spending about $1 trillion per year buying foreign assets to artificially suppress the value of their currencies. Several members of the proposed Trans-Pacific Partnership (TPP)—including Japan, Malaysia, and Singapore—are well-known currency manipulators, and other currency manipulators—including South Korea, Taiwan, and China—have expressed interest in joining the agreement.

Despite widespread calls from a majority of members of both houses of Congress, and many economists, the TPP includes no enforceable disciplines on currency manipulation. Key conclusions of this analysis are:

- Currency manipulation could nullify the benefits of the TPP.
- Purchases and holdings of foreign-exchange reserves (broadly defined) would have a direct impact on exchange rates and trade flows in the TPP.
- China, as the world's largest currency manipulator, could affect trade in the TPP in at least two ways. First, as a result of relatively weak rules of origin, the U.S. and other countries would be vulnerable to increased imports from China through the TPP. Second, currency manipulation by China could influence other TPP members to adjust or

manipulate the value of their currencies, in order to remain competitive with China, and thereby nullify some or all of the benefits of the TPP to the United States.

- Japan is also an important currency manipulator, and this manipulation is the leading cause of the U.S. trade deficit with Japan, which displaced 896,600 U.S. jobs in 2013.
- Models that have assumed full employment to evaluate the effects of the TPP and past free-trade agreements should not be used to evaluate the potential demand-shifting effects of currency manipulation on the members of the TPP.
- Even if the TPP were a true free-trade agreement it would likely be hard on noncollege-educated American workers, who make up more than two-thirds of the U.S. labor force. Growing trade with low-wage countries is one of the leading causes of the increase in U.S. income inequality. The TPP is likely to reinforce these trends.
- The TPP isn't principally about free trade—it's about providing increased protection for intellectual property rights for pharmaceutical makers, software vendors, and others, and stronger property rights for foreign investors, which encourages outsourcing, job losses, and a further decline in labor's share of national income.
- Finally, the TPP would likely result in growing trade deficits, trade-related job losses, and downward pressure on the wages of the majority of U.S. workers.

Currency manipulation could nullify the benefits of the TPP

For most of the post–World War II era, most economists assumed that that the economy was usually at full employment, and in the event of recessions, the Federal Reserve (Fed) would adjust short-term interest rates to quickly return to full employment. But this assumption is no longer valid in the wake of the Great Recession. The U.S. economy has now been stuck well below potential for more than eight years, despite extraordinary efforts of the Fed to spur recovery.

Worst yet, there is widespread evidence that the demand shortfall that has delayed a full recovery from the Great Recession could last for years to come (Krugman 2013; Summers 2014). Economic history shows that such prolonged downturns are quite possible in advanced economies: Japan has been stuck below potential output for decades, and Western Europe is experiencing a double-dip recession because it failed to boost aggregate demand. In the United States, fiscal policy has been notably contractionary since 2011, and the Fed has just raised short-term interest rates for the first time in more than a decade. The Fed's mistaken rate increase in the face of chronic demand shortfalls means that we are now going in the wrong direction on both fiscal and monetary policy. Thus, a prolonged period of policy-induced, chronic

On January 4, 2016, EPI Senior Economist and Director of Trade and Manufacturing Policy Research Rob Scott participated in "The Saga of Trans-Pacific Partnership Negotiations," a panel hosted by the International Trade & Finance Association during the Allied Social Science Associations meeting in San Francisco. The presentation that he delivered was based on this report and is available on EPI's website. This report also served as the basis of, and is nearly identical to, testimony submitted to the U.S. International Trade Commission for a public hearing beginning January 13, 2016, on investigation No. TPA-105-001, "Trans-Pacific Partnership Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors."

demand shortfall or "secular stagnation" now seems likely in the U.S. and much of the developed world. For these reasons, more sensible exchange-rate policies are needed now more than ever.

Given that the economy is *not* at full employment and that there is no automatic mechanism that can return it there quickly due to our fiscal and monetary choices, trade flows can have a powerful influence on aggregate demand. The United States has run chronic trade deficits for well over a decade. Since 2002, these deficits have been overwhelmingly driven by the conscious policy choices made by several of our major trading partners to manage the value of their currency for competitive advantage in U.S. and global markets. (Gagnon 2013; Bayoumi, Gagnon, and Saborowski 2014; Bergsten and Gagnon 2012; Krugman 2009; Scott 2014). They buy dollar-denominated assets to boost the value of the dollar and depress the value of their own currencies. This results in cheaper imports for the United States and makes U.S. exports more expensive in global markets. Ending this currency management (or currency manipulation) by our trading partners is hence a crucially important goal for macroeconomic stabilization in coming years.

Given this, a trade agreement that includes several countries that are obvious currency managers would seem like a good place to start addressing the problem. In June, 2013, 230 members of the U.S. House of Representatives signed a letter to President Obama that urged the inclusion in the TPP agreement of "currency disciplines" that would "bolster our ongoing efforts to respond to these trade-distorting policies" (Congress of the United States 2013). In September 2013, 60 Senators signed a similar letter (United States Senate 2013) calling for "strong and enforceable foreign currency manipulation disciplines" in the "TPP and all future trade agreements." Despite these clearly expressed desires on the part of majorities in both houses of Congress, enforceable currency disciplines where not included in the core of the proposed TPP agreement. While exchange-rate policies are mentioned in the preamble of the TPP, it does not include any enforceable disciplines. Finance officials from the 12 countries did agree to a side pact that included promises to avoid "unfair currency practices and refrain from competitive devaluation," and to provide a range of data on foreign-exchange holdings, but that agreement will not be subject to the TPP's enforcement mechanisms.

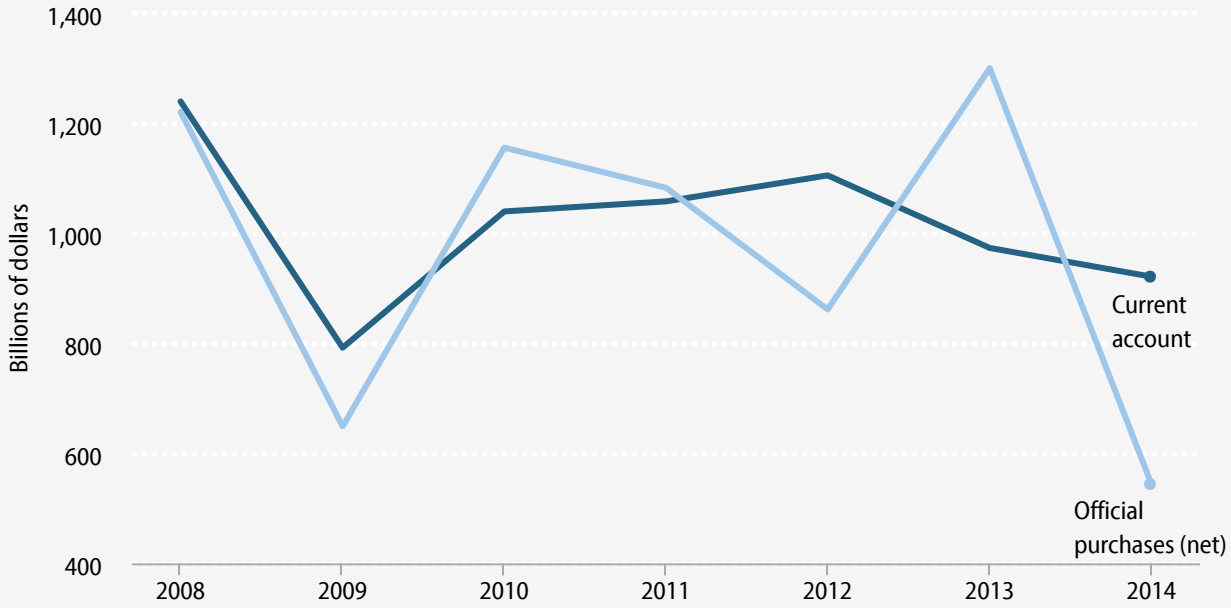
Bergsten and Gagnon (2012) estimated that currency manipulation by more than 20 countries had increased global trade (current account) surpluses of intervening countries by between $400 billion and $800 billion per year. They also estimated that the "largest loser is the United States, whose trade and current account deficits have been $200 to $500 billion per year larger as a result" (Bergsten and Gagnon 2012, 2). Bergsten and Gagnon's (2012) list of currency manipulators incudes several important members of the TPP (Japan, Malaysia, and Singapore), and several countries that have expressed interest in joining the agreement at some point (China, South Korea, and Taiwan). Eliminating this currency manipulation could create between 1.0 million and 5.8 million U.S. jobs (Bergsten and Gagnon 2012; Scott 2014). While some have argued that China and other countries are not presently manipulating their currencies, nothing in the agreement will prevent these countries from engaging in massive interventions again in the future, thereby nullifying any potential benefits of tariff and nontariff trade barrier reductions and other provisions included in the TPP.[1]

Purchases and holdings of foreign-exchange reserves (broadly defined) will have a direct impact on exchange rates and trade flows in the TPP

It is widely agreed that official purchases of foreign assets (denominated in foreign currencies) have a direct and primary influence on the level of exchange rates and on trade balances. As Joe Gagnon (2013, Figure 1) has shown there is a

FIGURE A

Change in foreign asset holdings, and current account surplus of currency manipulators, 2008–2014



Source: Author's analysis of International Monetary Fund 2015a, 2015b; Sovereign Wealth Fund Institute 2015; and Central Bank of the Republic of China 2015

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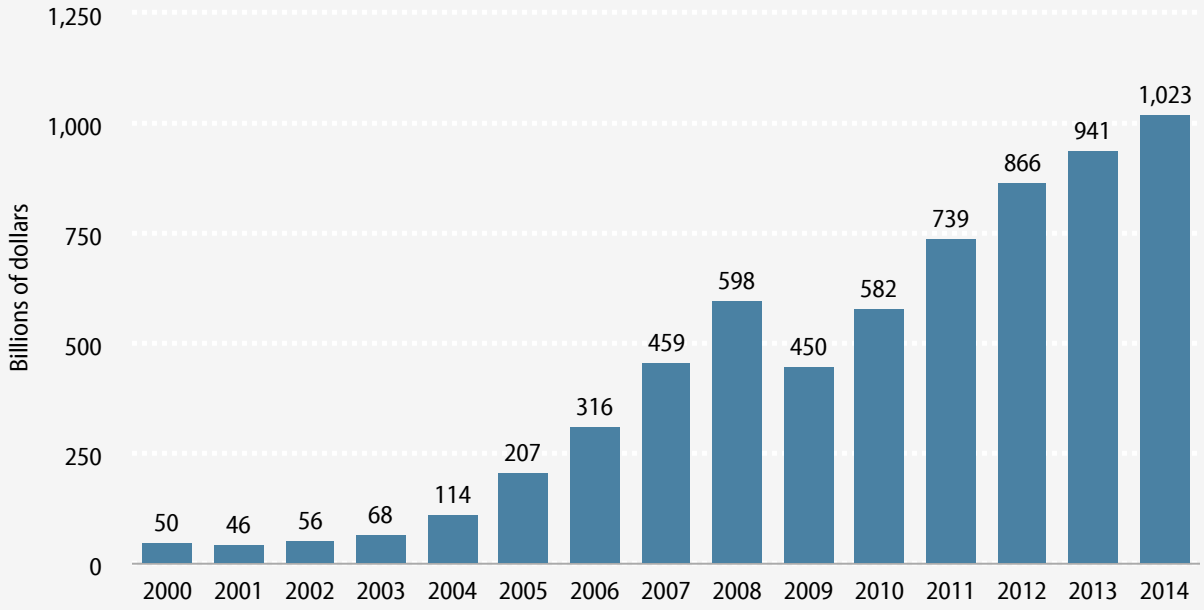
direct, nearly 1:1, relationship between accumulation of such foreign-exchange reserves and the current account balances of currency manipulators. This 1:1 relationship has persisted for 15 years, as shown in **Figure A**, which updates Gagnon's estimates through 2014. It is important to note that Gagnon's definition of official purchases includes acquisitions by sovereign wealth funds (SWFs), which are public and private agencies that invest public resources in private stock, companies, natural resources, and other assets (substantially or wholly invested in foreign assets). Bayoumi, Gagnon, and Saborowski (2014) show that both stocks and flows of foreign-exchange reserves matter, but stocks seem to matter more for wealthy countries. This is particularly important in the case of Japan (discussed below).

China is the world's largest currency manipulator

China is by far the largest holder of foreign-exchange reserves. This is obscured because China has been playing a shell game with its foreign-asset holdings, reducing the official reserves held by China's central bank, the People's Bank of China, over the past 18 months or so, while significantly increasing the value of its SWF portfolio, which reached $1.6 trillion in early 2015. But China has also taken steps to liberalize its capital accounts and begin to float its currency, the renminbi (RMB). Given the massive surplus of private savings bottled up in China, and its underdeveloped capital markets, huge amounts of domestic private capital are flooding out of the country. China can now stand aside and

FIGURE B

China balance of trade in manufactured products, 2000–2014



Source: World Trade Organization (2015)

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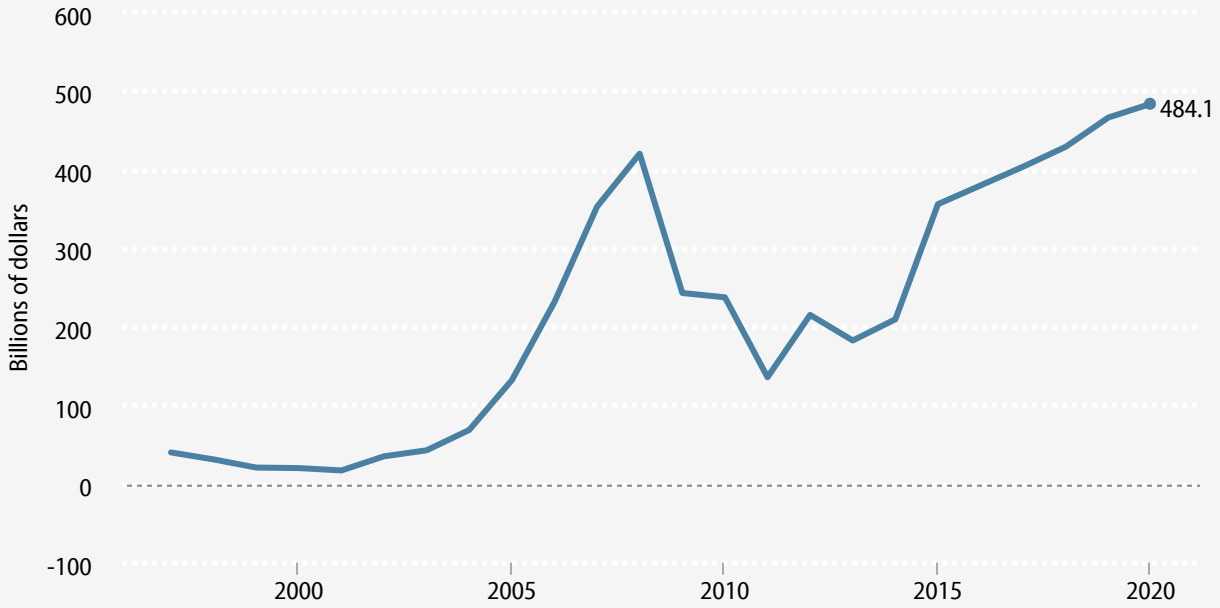
simply allow private capital to do what the state has been doing for years, buying up foreign assets and driving down the RMB. As explained by Professor Mitsuhiro Fukao (2003), the same thing happened in Japan during the 1980–85 period when Japan moved from a fixed to a flexible exchange rate and simultaneously liberalized its capital accounts. The result was a massive, secular depreciation of the yen that resulted in the mid-1980s U.S. trade crisis and led to the Plaza Accord (Scott 2015b). Wang Yongzhong of the Chinese Academy of Social Sciences has also written about these events (2009, section 3.5 pp. 28–33).

China's massive and growing global trade surplus in manufactured goods exceeded $1 trillion in 2014 (**Figure B**). China's reported surpluses on its broader goods and services trade and current account balances are still large but smaller, and do not show the recent trend growth seen in its trade in manufactured goods. Nonetheless, recent IMF forecasts project significant growth in China's global current account surplus through 2020, as shown in **Figure C**. China's massive and rapidly growing trade surplus in manufactured goods, in particular, spells huge trouble for the recovery of U.S. manufacturing, due to growing U.S. trade deficits in these labor-intensive products.

China is relevant to the discussion of the TPP for several reasons. First, the United States would be vulnerable to rapid growth of imported components from China and other nonmember states because of the relatively weak rules of origin in the proposed TPP agreement (Dayden 2015). This is particularly true for vulnerable sectors such as auto parts. To avoid tariffs under the North American Free Trade Agreement (NAFTA), 62.5 percent of a car had to be made in a

FIGURE C

China current account surplus, 1997–2020



Notes: Data after 2014 are projections

Source: EPI analysis of IMF World Economic Outlook Database

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member country, but that figure falls to 45 percent under the TPP, and for other parts the rule of origin could be as low as 35 percent. With parts often moving from one country to another in complex value chains before finally landing in the United States and other members of the TPP, it is not at all clear how these rules would be administered.

Second, currency manipulation by China and other nonmembers of the TPP could increase financial pressures on TPP countries to simultaneously lower the value of their own currencies in order to maintain competitiveness with Chinese exports. Such chain reactions occurred when China devalued its currency in August 2015 (Scott 2015a). Thus, currency manipulation by nonmembers of the TPP could have direct impacts on trade flows within the TPP, with negative consequences for trade, jobs, and wages in the United States.

For these reasons, it is important to evaluate the potential impacts of currency manipulation by a wide range of countries, including both the proposed members of the TPP and significant trading partners of the other TPP countries such as China, Indonesia, South Korea, Taiwan, and Thailand, on U.S. trade, jobs, output (GDP), and the distribution of wages and incomes.

Japan is also an important currency manipulator

Currency manipulation is the most important cause of the large and growing U.S. trade deficit with Japan. In the past two years, Japan has driven down the value of the yen primarily through large purchases of foreign assets, and also and by announcing its intention to reduce the yen's value.

The U.S.-Japan goods trade deficit reached $78.3 billion in 2013, reducing U.S. GDP by $125.3 billion or nearly 0.75 percent of actual GDP in that year. Japan's currency manipulation was the most important cause of this deficit, which displaced 896,600 U.S. jobs in 2013, with job losses in every state and nearly all U.S. congressional districts (Scott 2015c).

Purchases and holdings of foreign-exchange reserves by the Bank of Japan and of other foreign assets by Japan's Government Pension Investment Fund (GPIF) are an indispensable element of Japan's currency policy. Without its massive government holdings of foreign assets, and its continuing and periodic massive purchases of new foreign assets, the government of Japan would have been unable to prevent the yen from adjusting to levels consistent with large trade and current account surpluses.

It is important to distinguish the effects of quantitative easing (defined as central bank purchases of assets denominated in its own currency) from currency intervention (defined as government purchases of assets denominated in foreign currencies). All countries should be free to engage in quantitative easing and other elements of domestic monetary policy, subject only to their own domestic policy goals and constraints (such as excessive inflationary pressure, as perceived by domestic authorities, as well as domestic employment and wage targets). Domestic monetary policies should not be labeled as part of currency manipulation, and such policies should not be constrained by international agreements. Prudential measures are appropriate to deal with short-term economic problems.

Domestic monetary policies (e.g., raising or lowering short-run interest rates) can have short- to medium-term impacts on currency values, but those effects are usually transitory. Furthermore, differences in monetary and fiscal policies, and in business cycle timing, can cause longer term disturbances, such as the 16 percent appreciation in the real value of the broad, trade-weighted U.S. dollar that has occurred in the past 18 months. These should be addressed through international policy coordination, but those problems are separate and distinct from currency manipulation, which is the direct result of purchases and holdings of foreign-exchange reserves. The TPP and other trade agreements clearly make it harder for countries to deal with destabilizing exchange-rate movements of any kind. Capital controls would be harder to impose under NAFTA and the TPP, for example. The financial implications of these agreements, in a world of imbalanced exchange rates and trade flows, are particularly poorly thought out.

Currency manipulation, trade, and Japan

Japan has a long history of currency manipulation. Between December 2000 and May 2015 its holdings of foreign-exchange reserves nearly quadrupled, rising from $347 billion in 2000 to $1,216 billion in May 2015, an increase of $869 billion (IMF 2015a). Furthermore, the holdings of foreign assets in Japan's GPIF increased steadily in this period, reaching $308.8 billion in 2013, and are projected to increase to $480 billion or more in the near future (GPIF 2015).

Japan's real effective exchange rate index declined steadily from 131.4 in 2000 to 74.5 in 2007, a decline of 43.3 percent (International Monetary Fund 2015a).[2] During this period its current account balance, the broadest measure of Japan's

trade in goods, services, and income, increased from $130.7 billion (2.8 percent of its GDP) to $212.1 billion, or 4.9 percent of GDP (IMF 2015b). Market forces and the Great Recession combined to push the yen up to a recent peak of 109.0 in 2012, a 46.2 percent increase since 2007. The rise of the yen and the 2011 Tōhoku earthquake and tsunami combined to push up Japan's imports and suppress exports, creating a crisis in Japan's trade and current accounts. Japan's current account surplus shrank to $58.7 billion in 2012 and Japan developed its first global goods trade deficit in more than a decade, which reached $53.5 billion in that year (IMF 2015b).

Japan's trade and economic crises set the stage for the election of Prime Minister Shinzo Abe in December 2013 and subsequently gave his Liberal Democratic Party control of both houses of the Japanese Diet (parliament) in 2012 and 2013 (The Economist 2013). Abe announced a three-part plan for revitalizing Japan's economy that included a substantial increase in government spending, expansionary monetary policy, and deregulation of the Japanese economy.

Abe also stated his intentions to reduce the value of the yen shortly after his election. As noted in the *Wall Street Journal* at the time:

> Mr. Abe … called on Japan's central bank to resist what he described as moves by the U.S. and Europe to cheapen their currencies and noted that a yen level of around ¥90 to the dollar—it was at ¥84.38 in early Asian trading Monday, down from ¥84.26 late Friday—would support the profit of Japanese exporters. … "Central banks around the world are printing money, supporting their economies and increasing exports. … If it goes on like this, the yen will inevitably strengthen. It is vital to resist this," said Mr. Abe (Ito and Mallard 2012).

And resist it they did. The yen fell sharply as a direct result of Abe's currency policies. Between the third quarter of 2012 and May 2015, the dollar value of the yen declined by 37.3 percent (IMF 2015a). Japan's real effective exchange rate index declined to 76.6 by May 2015, roughly the level that prevailed in 2007 when Japan's current account reached a peak of $212.1 billion (4.9 percent of GDP).

Foundations of Japan's currency policies

There are two key elements of Japan's currency policy:

1. **Maintain and increase foreign-exchange reserves and government purchases of other foreign assets.** In 2011, prior to Abe's election, the Bank of Japan engaged in a massive, $185 billion purchase of foreign-exchange reserves. This had no immediate impact on the value of the yen, which gained slightly against the dollar between the end of 2011 and the third quarter of 2012 (IMF 2015a). However, maintaining a large stock of government-controlled foreign assets will have a strong, positive effect on Japanese trade accounts, due to portfolio balance effects. For Japan, which has a large and open private capital market, changes in the stock of foreign assets affect Japan's trade flows with a lag (Bayoumi, Gagnon, and Saborowski 2014; Scott 2015c).
2. **Increase holdings of foreign assets by Japan's Government Pension Investment Fund.** In November 2014 the GPIF announced its plan to increase target holdings of foreign stocks and bonds from 23 percent of its total $1.2 trillion dollars plus in assets in 2013 to 40 percent in the near future (Warnock and Narioka 2014). GPIF data show that the shift was already in progress in 2012 and 2013, and that actual foreign holdings exceeded even the 2013 target. Between 2012 and 2013 the GPIF increased its actual holdings of foreign assets from 21.4 percent ($244.2 billion) to 25.7 percent ($308.8 billion) (GPIF 2015). While billed as a financial diversification effort, the GPIF

announcement was also a public commitment to increase Japan's total government holdings of foreign assets, which will have long-term impacts on Japan's expected trade and current account surpluses.[3]

Purchases and holdings of foreign-exchange reserves by the Bank of Japan and of other foreign assets by the GPIF are the *sine qua non* of Japan's currency policy. Without its massive holdings of foreign assets, and its continuing and periodic massive purchases of new foreign assets, the government of Japan would have been unable to prevent the yen from adjusting to levels consistent with trade and current account balances.

Japan's current account and trade balance remained suppressed in 2013 and 2014 by several temporary factors, including the hangover from the Tōhoku earthquake and tsunami, increased demand for imports in anticipation of value-added tax increases taking effect in 2015, and the short-run impacts of the fall of the yen, which increased the cost of Japanese imports. Over the next few years the fall in the yen is expected to stimulate exports and suppress imports, resulting in growing trade and current account balances. Through the first five months of 2015, Japan's average monthly goods trade deficit has decreased by 76 percent, and the IMF (2015b) projects that Japan will achieve a global current account surplus of $124 billion (3.0 percent of GDP) in 2015.

Findings and recommendations

Models that have been used to evaluate the effects of the TPP and past free trade agreements, that have assumed full employment, should not be used to evaluate the potential demand shifting effects of currency manipulation on the members of the TPP.

Computable general equilibrium (CGE) models characterized by such instantaneous price flexibility are not well suited to the analysis of external shocks, such as currency manipulation by other trading partners. Such policies can shift aggregate demand from one trading partner to another by changing the levels of imports, exports, and the trade balance. Currency manipulation could affect demand both directly, within the TPP, if, for example Japan, Malaysia, or Singapore were to engage in large, persistent purchases of dollar-denominated assets, and indirectly, if China or another major trading partner were to increase its currency manipulation, which could affect levels of trade and demand for all TPP partners.

Even if the TPP were a true free trade agreement it would likely be hard on non-college educated American workers who make up more than two-thirds of the U.S. labor force.

The reasons why the TPP is likely to be a bad deal for the middle class are straightforward. First, even a genuine "free-trade agreement" that was passed *with no other complementary policies* would not be good for the American middle class, even if it did generate gains to total national income. Second, the TPP (like nearly all trade agreements the U.S. signs) is not a "free-trade agreement"—instead it's an executive agreement that will specify which parties *will* be protected from international competition and which will not. And the strongest and most comprehensive protections offered are those for U.S. corporate interests.

Even genuine "free trade" would likely be hard on the American middle class.

Not all but most of the countries that would be included in the TPP are poorer and more labor-abundant than the United States. Standard trade theory has a clear prediction of what happens when the United States expands trade with

such countries: total national income rises in both countries but so much income is redistributed upwards *within* the United States that most workers are made worse off. This is sometimes called "the curse of Stolper-Samuelson," after the theory that first predicted it. And there is plenty of evidence to suggest that it's not just a theory, but a pretty good explanation for (part of) the dismal performance of wages for most American workers in recent decades and the rise in inequality (Bivens 2007a, 2008, and 2013; Autor, Dorn, and Hanson 2013). And the scale of the wage-losses is much, much larger than commonly realized—it's not just those workers who lose their jobs to imports. Instead, the majority of American workers (those without a 4-year college degree) experience wage declines as a result of trade liberalization with low-wage countries. The intuition is simply that while waitresses and landscapers might not lose their jobs to imports, their wages are hurt by having to compete with trade-displaced apparel and steel workers (Bivens 2015a, 2015b).

As shown by Josh Bivens in *Everybody Wins Except for Most of Us* (2008, results updated in Bivens 2013), growing trade with China essentially puts all American workers without a college degree (roughly 100 million workers) in direct competition with workers in China (and elsewhere) making much less. He shows that trade with low-wage countries was responsible for 90 percent of the growth in the college wage premium since 1995 (the college wage premium is the percent by which wages of college graduates exceed those of otherwise equivalent high school graduates). Bivens estimates that the growth of China trade was responsible for more than half of the growth in the college wage premium in that period. To put these estimates in macroeconomic terms, in 2011, trade with low-wage countries lowered annual wages by 5.5 percent—roughly $1,800 for all full-time, full-year workers without a college degree (Bivens 2013). To provide comparable economy-wide impact estimates, assume that 100 million workers without a college degree suffered total losses of $1,800 per year, which yields a total national loss of $180 billion.[4]

Additionally, Autor, Dorn, and Hanson estimate that rising exposure to low-cost Chinese imports lowers labor force participation and reduces wages in local labor markets; in particular, they find that increased import competition has a statistically significant depressing effect on nonmanufacturing wages (Autor, Dorn, and Hanson 2013).

All of this evidence means that the burden of proof is high for those claiming that a simple trade agreement that reduces trading costs and expands imports and exports will be affirmatively good for the American middle class. What exactly will this treaty do that will turn the predictions and evidence about past global integration completely on their head?

The standard argument from those supporting trade agreements who are genuinely concerned about the middle class is that these agreements generate gains to *total* national income, and that these gains then *could* be channeled through subsequent policy maneuvers to those on the losing end.

Maybe, but the net national gains from lowering trade costs tend to be wildly overestimated (Rosnick 2015; Rodrik 2007). In short, even "free trade" tends to redistribute a lot more (about five or six times as much) income as it generates (Bivens 2007b). Given that complementary policies to *re-re*-distribute the income redistributed away from typical American workers are a necessary condition to make the middle class better off from "free trade," one is compelled to ask just what are the subsequent policy maneuvers that the current Congress will likely undertake to compensate those on the losing end? Yes, there has been some talk about beefing up Trade Adjustment Assistance (TAA), but this compensation has for decades been too small by several orders of magnitude.

Autor, Dorn, and Hanson (2013) also find that "transfer benefits payments for unemployment, disability, retirement, and healthcare also rise sharply in exposed labor markets" and that "for the oldest group (50–64), fully 84% of the

decline in [manufacturing] employment is accounted for by the rise in non-participation, relative to 71% among the prime-age group and 68% among the younger group." Thus, more than two-thirds of all workers displaced by growing competition with Chinese imports dropped out of the labor force in this study. These results are explained, in part, by the finding that "9.9% … of those who lose employment following an import shock obtain federal disability insurance benefits [Social Security Disability Insurance or SSDI benefits]." Additionally, "rising import exposure spurs a substantial increase in government transfer payments to citizens in the form of increased disability, medical, income assistance and unemployment benefits." Moreover, "these transfer payments vastly exceed the expenses of the [Trade Adjustment Assistance] TAA program, which specifically targets workers who lose employment due to import competition" (Autor, Dorn, and Hanson 2013). In Autor and Hanson (2014), the effects are totaled, and "for regions affected by Chinese imports, the estimated dollar increase in per capita SSDI payments is more than 30 times as large as the estimated dollar increases in TAA payments."

Most of the models discussed above assume that globalization simply lowers the cost of trade, and that trade flows remain roughly balanced.[5] But the TPP is likely to result in changes in the balance of trade, for a variety of reasons discussed below. It will also exacerbate the fall in labor's share of national income, which has been underway in the United States for the past fifteen years (Bivens and Mishel 2015, Figure C).

For these reasons, it is not enough to calculate jobs lost or gained by industry as a result of the TPP. It is also essential to evaluate the direct and indirect effects of changes in trade flows on wages and incomes of workers not just in directly affected manufacturing industries, but of all workers with similar skill sets. Thus, the TPP is likely to worsen the distribution of wages and income, especially for college and non-college educated workers in the United States, and to reduce labor's share in total national income.

The TPP isn't principally about free trade, it's about providing increased protection for intellectual property rights for pharmaceutical makers, software vendors and others, and stronger property rights for foreign investors, which encourages outsourcing, job loss and the decline in labor's share of national income.

As has been well-documented by now, much of what the U.S. policymaking class champions under the rubric of "free trade" is nothing of the sort (Bivens 2015). For example, the biggest winners from trade agreements have traditionally been U.S. corporations that rely on enforcing intellectual property monopolies for their profits—pharmaceutical and software companies, for example (Baker 2013). These companies have been successful in getting U.S. negotiators to make enforcing their intellectual property monopolies in our trading partners' economies the price of admission to preferential access to the U.S. market.

It is false labeling to describe trade and investment agreements with provisions like this as "free trade agreements." But worse, these provisions affirmatively make the distributional outcomes even more regressive than simple "free trade" would already make them.

Further, between these provisions and the intentional failure to include a strong provision to stop currency management undertaken by our trading partners, the TPP will likely fail to expand access to foreign markets for most U.S. exporters. Because foreign consumers will have to pay more now for U.S. exports covered by intellectual property monopolies and will hence have less income to buy other U.S. exports, and because foreign governments will remain

free to keep their own currencies artificially competitive relative to the U.S. dollar, U.S. exporters of manufactured goods are unlikely to improve their market share in trading partner economies.

TPP will likely increase trade-related job displacement.

For more than 20 years, both Democratic and Republican administrations have claimed that free-trade agreements like the Korea-U.S. Free Trade Agreement (KORUS) and the North American Free Trade Agreement would lead to growing U.S. exports and stimulate creation of goods jobs in the United States. President Clinton claimed that NAFTA would create 200,000 jobs in its first two years and a million jobs in five years (Clinton 1993). President Obama claimed that KORUS would "support 70,000 American jobs" (Thompson 2011) because the agreement would "increase exports of American goods by $10 billion to $11 billion" (The White House 2010).

Claims that trade and investment deals would support domestic job creation have proven false. Expanding exports alone is not enough to ensure that trade adds jobs to the economy. Increases in U.S. exports tend to create jobs in the United States, but increases in imports lead to job loss—by destroying existing jobs and preventing new job creation—as imports displace goods that otherwise would have been made in the United States by American workers. Thus, it is changes in trade balances—the net of exports and imports—that determine the number of jobs created or displaced by trade and investment deals like NAFTA and KORUS.

More than 5 million U.S. manufacturing jobs were lost between 1997 and 2014, and most of those job losses were due to growing trade deficits with countries that have negotiated trade and investment deals with the United States (Scott 2015d).

Between 1993 (before NAFTA took effect) and 2010, the U.S. had a small trade surplus with Mexico. By 2010, this had turned into a trade deficit totaling $97.2 billion that cost 682,900 U.S. jobs. Most trade-related job losses are in manufacturing because that sector tends to dominate goods trade, and because manufacturing supports relatively large numbers of jobs in the domestic economy (both directly and indirectly). Growing trade deficits and job displacement, especially between the United States and Mexico, were the result of a surge in outsourcing of production by U.S. and other foreign investors. The rise in outsourcing was fueled, in turn, by a surge in foreign direct investment (FDI) into Mexico, which increased by more than 150 percent in the post-NAFTA period (Scott 2012).

KORUS took effect in March 2012. Between 2011 and 2014, U.S. exports to South Korea increased by about $1 billion, but imports increased by nearly $13 billion, so the trade deficit increased by nearly $12 billion. This growing trade deficit with South Korea has cost more than 75,000 U.S. jobs (Scott 2015e).

Then there is China, until now a part of the biggest trade and investment deal of all. In 2000, President Bill Clinton claimed that the agreement then being negotiated to allow China into the World Trade Organization (WTO) would create "a win-win result for both countries." Exports to China "now support hundreds of thousands of American jobs," and these figures "can grow substantially with the new access to the Chinese market the WTO agreement creates," he said (Clinton 2000).

Between 2001, when China came into the WTO, and 2013, the U.S. trade deficit with China increased $240 billion. This increased trade deficit eliminated 3.2 million U.S. jobs. China became the third largest recipient of FDI in the

world, which fueled the growth of thousands of new manufacturing plants that generated exports to the United States and other markets (Kimball and Scott 2014).

Growing trade deficits and trade-related job losses also tend to put downward pressure on wages, especially for noncollege-educated workers because manufacturing tends to employ a larger share of such workers, and because manufacturing compensation (including both wages and benefits) is substantially higher than compensation in alternative jobs in, for example, service industries.[6]

Manufacturers were willing to invest in Mexico and China because of special protections offered in these deals for investors, including greatly expanded intellectual property rights and special, extrajudicial dispute-settlement mechanisms to protect corporate investments (via the investor-state dispute settlement mechanisms or ISDS). The TPP threatens to roll back U.S. regulations in areas such as food safety, banking, and finance regulations. These changes will be enforced through private actions under the ISDS, as well as changes in government rules.

The United States already has a large and growing trade deficit with the 11 other countries in the proposed TPP, which reached an estimated $161.3 billion in 2015, as shown in **Figure D**. The trade deficit in manufactured goods is estimated to have more than doubled to $97.6 billion in 2015.[7] In contrast, as noted above, the United States had a small trade surplus with Mexico in 1993, before NAFTA took effect. In other words, outsourcing to the TPP countries is a potentially much greater threat than it was under NAFTA with Mexico because the U.S. balance of trade with the TPP countries will be large and negative if and when the agreement goes into effect.

U.S. trade deficits with the TPP countries are likely to grow due to flaws in that agreement. Of particular concern is the role of state-owned enterprises (SOEs), which receive generous support from the public sector and are often not required to generate market rates of return. The TPP does relatively little to regulate SOEs (Garland 2015). SOEs play a prominent role in production not just in China (where they can access TPP markets though weak rules of origin), but also in Vietnam and Malaysia.

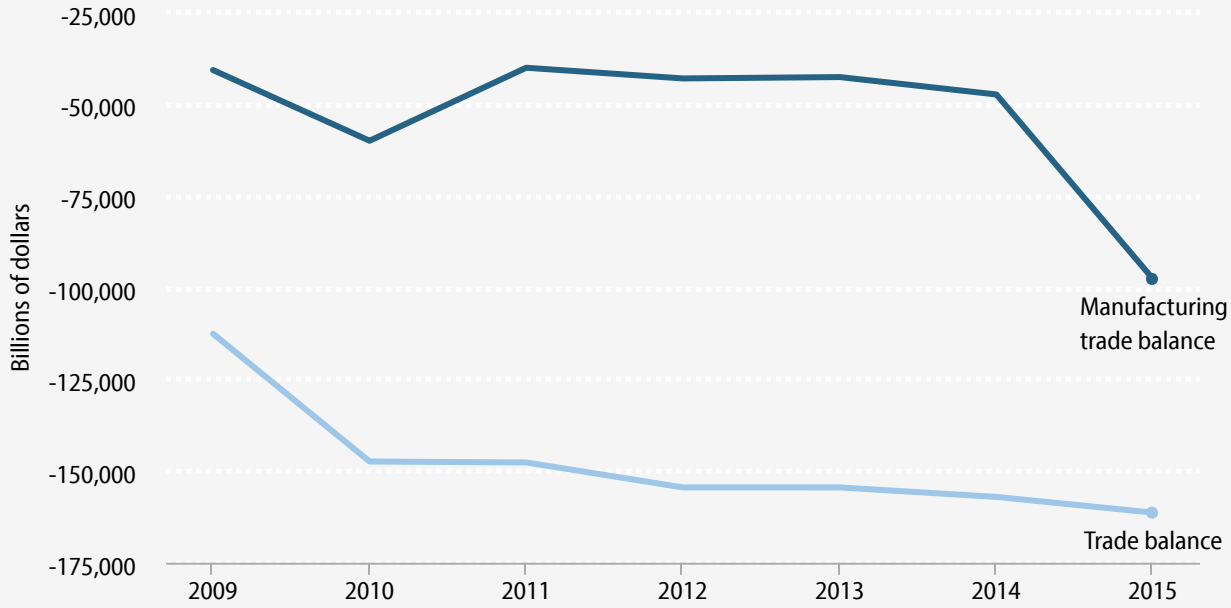
Conclusion: The TPP will likely result in growing trade deficits, trade-related job losses, and downward pressure on wages of the majority of U.S. workers

The TPP is fundamentally flawed. A number of members of the TPP are well known currency manipulators, including Japan, Malaysia, and Singapore. In addition, currency manipulation by other, major neighboring countries including China, Taiwan, and South Korea will encourage them to respond by taking steps to weaken their own currencies. For both reasons, currency manipulation is likely to nullify any benefits that may result from the TPP. In addition, even if trade balances among the TPP participants are not affected by currency manipulation or terms of the agreement, increases in the volume of trade, alone, especially between the United States and low-wage nations, will put downward pressure on the wages of most working Americans.

Furthermore, past experience has shown that U.S. trade and investment agreements including NAFTA, KORUS, and the agreement to bring China into the WTO, have resulted in a rapid growth in outsourcing, U.S. trade deficits and trade-related job displacement. The resulting loss of good paying jobs in manufacturing industries has put additional downward pressure on wages of all noncollege-educated workers.

FIGURE D

U.S. balance of goods trade with members of the TPP, 2009–2015



Source: Author's analysis of USITC (2015)

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About the author

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Endnotes

1. China continues to accumulate massive reserves in its SWFs. Based on these data, and recent changes in prices, relative productivity growth rates, and trade balances (see Figures B and C), we believe that the RMB is still substantially undervalued.

2. ULC-Based (Unit Labor Cost) Real Effective Exchange Rate Index, 2010 = 100, annual data (International Monetary Fund 2015). This is a market-value index such that an increase in the index represents growth in the value of the yen, and vice versa ("up is up," as market analysts would say). In contrast, the market price of the yen (say, for example, in yen per dollar) moves in the opposite direction from the quoted price—an increase in the market price of the currency (in yen per dollar) corresponds to a decrease in the value of the yen.

3. Some have claimed that holdings of the GPIF should not be counted as part of Japan's foreign-exchange reserves, in part because the fund is nominally privately administered, despite the fact that these are pension funds administered on behalf of the Japanese government, similar to the reserves of the U.S. social security pension fund. However, none of the reserves of the U.S. social security fund are invested in foreign currency assets.

4. The macroeconomic estimate is developed in Scott (2014).

5. Unlike the other models discussed here, Capaldo, Izurieta, and Sundaram (2016) do not assume full employment.

6. In June 2015, for example, total hourly compensation costs in manufacturing averaged $36.96 per hour, 22.6 percent more than in all service-producing industries, where compensation averaged $30.16 per hour (Bureau of Labor Statistics 2015, Table 6).

7. Author's analysis of USITC (2015).

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