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With Trade Commission TPP Review Due Next Week, New Study Shows Past Pacts' Actual Outcomes Were Opposite of Agency's Rosy Projections

Administration Expected to Tout Imminent USITC Study in New Push for TPP Passage Despite Agency's Systematic Failure to Accurately Assess NAFTA, China and Korea Pacts

WASHINGTON, D.C. – The reliability or usefulness of an imminent government assessment of the Trans-Pacific Partnership (TPP) was called into question by a [study](#) released today that shows that past U.S. International Trade Commission (USITC) projections of trade agreements' benefits were systematically contradicted by the pacts' actual outcomes.

The new study reviews USITC trade balance, job and economic sector projections in the statutorily required reports for the three most economically significant trade pacts prior to the TPP and finds the government study on each pact proved dramatically inaccurate – not only in degree, but in direction.

“Past government studies have systematically projected positive outcomes that were contradicted by the actual results, which is why members of Congress requested, without success, that the agency alter its approach to assessing the TPP,” said Lori Wallach, director of Public Citizen’s Global Trade Watch.

The USITC predicted improved trade balances, gains for specific sectors and more benefits from the 1993 North American Free Trade Agreement (NAFTA) and 2007 U.S.-Korea Free Trade Agreement (FTA) in reports on those pacts. The agency projected only a small deficit increase from China’s 1999 World Trade Organization (WTO) entry deal and the granting to China of Permanent Normal Trade Relations status.

Instead, the U.S. trade deficits with the trade partners increased dramatically and, as detailed in [the text of the new study](#), manufacturing industries from autos to steel and farm sectors such as beef that were projected to “win” saw major losses. A government program to help Americans who lose jobs to trade certified 845,000 NAFTA jobs losses alone and econometric studies concluded that millions of jobs were lost from the China deal, in contrast to gains projected by the USITC reports.

NAFTA: U.S.-Mexico Trade		
1993 - Baseline	USITC Projection	2015 - Actual
\$2.6 billion goods surplus (services data not available)	\$10.6 billion goods and services surplus	\$57 billion goods and services deficit
China-WTO: U.S.-China Trade in Goods and Services		
2000 - Baseline	USITC Projection	2015 - Actual
\$113 billion deficit	\$120 billion deficit	\$340 billion deficit
U.S.-Korea FTA: Trade in Goods		
2011 - Baseline	USITC Projection	2015 - Actual
\$15.6 billion deficit	\$10.6 billion deficit	\$28.5 billion deficit

The new report also reviews how the USITC’s use of a computable general equilibrium (CGE) model leads to projections entirely unrelated to actual outcomes by simply assuming away the very results that have often occurred under past pacts: long-term job loss, trade deficit increases and currency devaluations.

Under the model, the USITC collects information on current exports, imports, gross domestic product (GDP), tariff rates, investment flows and more. It creates equations to calculate how trade flows would change if a pact’s terms were fully implemented. The model looks to an endpoint, not the process of getting there. It does not consider whether there may be increases in trade deficits along the way, or whether other nations may not fully implement or enforce a pact’s terms. Rather it projects a final outcome assuming full implementation. Running this simulation generates data on potential changes in exports and imports. By design, it assumes the trade balance does not change and that employment levels remain consistent – that workers who lose jobs simply obtain new jobs in other sectors where wages are presumed to increase.

A growing body of academic criticism of the CGE model employed by the USITC has focused on the numerous assumptions researchers make, including what economic factors are included and excluded, and what included factors are assumed to remain constant. For instance, implicit in the assumption that the trade balance does not change is the assumption of flexible exchange rates. But in reality, currency manipulation is a significant problem among some of the TPP countries. The U.S. Department of Treasury just recently included TPP nation Japan on its new Monitoring List in its semi-annual report on “Foreign Exchange Policies of Major Trading Partners of the United States.”

The assumptions baked into the model can contribute to gaps between projections about import and export levels and actual outcomes. Also, given that the results of the trade flow simulations are then used to project broader outcomes (such as on U.S. economic growth), assumptions piled on assumption can cause results that are incorrect, not only in degree, but in direction.

Different assumptions can result in diametrically opposed outcomes, as demonstrated by the recent Peterson Institute for International Economics and Tufts University studies on the TPP.

The Peterson Institute used a CGE model with assumptions similar to those employed by the USITC in past studies and found the TPP would result in a modest increase in U.S. GDP, but not impact overall U.S. employment. Using an economic model that allows for the possibility of less than full employment and rising income inequality, called the United Nations Global Policy Model, Tufts University economists concluded that the TPP would reduce U.S. growth rates and lead to 448,000 American jobs lost.

The Tufts findings spotlight just how drastically the assumptions baked into a model affect the outcomes; the Tufts economists actually employed the Peterson Institute trade flow simulation data. They plugged the Peterson findings on import and export levels at full TPP implementation derived from one set of unrealistic assumptions into a model that applies more realistic assumptions about how trade flow changes affect growth and employment – and got the opposite results on growth and jobs.

Finally, the output of any model also is greatly affected by the data put into it. Issues to watch for in this regard for the USITC’s TPP study include:

- How will the USITC TPP study treat “non-tariff barriers” (NTB)? What an international bank may consider an NTB may be what a policymaker or consumer considers an important safeguard to avoid costly financial crises. But recent trade pact projection studies have included guesstimates of gains resulting from the elimination of NTBs.
- Will the USITC TPP study consider how TPP investment rules could affect decisions about where to invest in production and whether the TPP will alter foreign direct investment trends?
- How will the USITC TPP study assess intellectual property provisions, given that longer monopolies may increase some U.S. firms’ profitability but also may cost governments and consumers more for medicines and access to information?

Under the Fast Track authority passed last year, the USITC is required to release a report projecting the economic effects of the TPP no later than May 18, 2016.

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