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Trading Down: Unemployment, Inequality and Other Risks of the Trans-Pacific Partnership Agreement

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Executive Summary

Proponents of the Trans-Pacific Partnership (TPP) agreement, the trade and investment treaty agreed to by twelve Pacific Rim nations, led by the United States, emphasize the prospect of economic benefits, with economic growth increasing due to rising trade and investment. Widely cited projections suggest modest GDP gains after ten years, varying from less than half a percentage point for the United States to 13 percent for Vietnam. However, these projections are based on unrealistic assumptions such as full employment and constant income distribution.

This GDAE Working Paper employs a more realistic model that incorporates effects on employment excluded from prior TPP modeling. We find that any benefits to economic growth are more limited, and even negative in some countries such as the United States. More importantly, we find that TPP would lead to losses in employment and increases in inequality. This is particularly true for the United States, where GDP is projected to fall slightly (-0.54 percent), employment to decline by 448,000 jobs, and inequality to increase as labor's share of income falls by 1.31 percent.

For this analysis, we use existing projections of the TPP's trade impacts and derive alternative macroeconomic projections using the United Nations Global Policy Model (GPM). This model provides more realistic projections because it allows for changes in employment and inequality, and also incorporates the impact such changes have on aggregate demand and economic growth.

In this analysis of the TPP, we find that:

- The TPP would generate *net GDP losses in the USA and Japan*. For the USA, GDP would be 0.54 percent lower than it would be without the TPP, ten years after the treaty enters into force. We also project that Japan's GDP would decrease by 0.12 percent as a consequence.
- *Economic gains* would be *negligible for other participating countries* – less than one percent over ten years for developed countries, and less than three percent for developing countries. These projections are similar to the Peterson Institute's finding that TPP gains would be small for many countries.
- The TPP would lead to *employment losses in all countries*, totaling 771,000 lost jobs. The USA would be the hardest hit, with a loss of 448,000 jobs. Participating developing economies would also suffer employment losses, as greater competitive pressures force them to limit labor incomes and increase production for export.

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- The TPP would lead to *higher inequality*, with a lower labor share of national income. We expect competitive pressures on labor incomes, combined with employment losses, to push labor shares of national income further down, redistributing income from labor to capital in all countries. In the USA, this would exacerbate a multi-decade downward trend.
- The TPP would lead to *losses in GDP and employment in non-TPP countries*. In large part, the loss in GDP (-3.77 percent) and employment (879,000) among non-TPP developed countries would be due to losses in Europe, while developing country losses in GDP (-5.24%) and employment (-4.45 million) would reflect possible losses in China and India.

Projections of TPP Effects, 2015-2025 (changes from baseline projections)			
	GDP Growth	Employment	Labor Share of GDP
Units	*%*	*Thousands*	*%*
United States	-0.54	-448	-1.31
Canada	0.28	-58	-0.86
Japan	-0.12	-74	-2.32
Australia	0.87	-39	-0.72
New Zealand	0.77	-6	-1.45
East Asia: Brunei, Malaysia, Singapore and Vietnam	2.18	-55	-0.99
Latin America: Chile and Peru	2.84	-14	-0.70
Mexico	0.98	-78	-1.14
Total TPP		**-771**	
Non-TPP, Developed economies	-3.77	-879	
Non-TPP, Developing economies	-5.24	-4,450	

Source: Authors' calculations

These projections are largely the result of two changes in TPP economies. First, production for export would partially replace production for domestic markets, with negative consequences for the economy, as exports are less labor-intensive and use more imported inputs than production for domestic markets. Second, businesses in participating countries would strive to become more competitive by cutting labor costs, thereby seeking higher short-term profits while undermining efficiency and productivity in the long-term. As a result, the TPP would negatively affect income distribution, further weakening domestic demand and significantly undercutting possible gains from trade.

These projections should help TPP signatory countries and others assess the full range of economic impacts of the agreement before ratifying it.

Read the full study: ase.tufts.edu/gdae/policy_research/tpp_simulations.html

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For a previous GPM-based analysis of the Transatlantic Trade and Investment Partnership (TTIP) See "TTIP: European Disintegration, Unemployment and Instability". 2014, *GDAE Working Paper 14-03*. Available at: http://ase.tufts.edu/gdae/policy_research/ttip_simulations.html

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