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July 6, 2016

TPP: Estimates of Economic Effects

Background

The Trans-Pacific Partnership (TPP) is a proposed free trade agreement (FTA) among the United States and 11 Asia-Pacific countries that would reduce and eliminate tariff and nontariff barriers on goods, services, and agriculture, establish trade rules and disciplines that expand on commitments at the World Trade Organization (WTO), and address new "21st century" issues, such as digital trade and state-owned enterprises. It has both economic and foreign policy implications for the United States, and raises potential strategic issues regarding U.S. trade policy and broader U.S. engagement in the Asia-Pacific region.

The TPP is termed by its participants a comprehensive and high-standard agreement. In considering the TPP, Congress likely will examine various economic studies to assess the impact of the agreement on the economy. The results of these studies vary depending on the model and the assumptions that are used to generate the results. The U.S. International Trade Commission (ITC) is tasked with providing the official U.S. Government estimate of the economic effects of the agreement.

By eliminating and lowering tariffs, the TPP is expected to impact the external market conditions under which TPP nations trade and lower the prices of traded goods among the parties. In turn, lower prices can affect trade patterns by increasing the amount of trade that occurs (trade creation) and by shifting trade toward countries that are party to the agreement (trade diversion). As a result, the TPP may alter the level of trade among the participants and the mix of goods and services that are traded. Estimating the employment effects from a trade agreement, however, is challenging due to the difficulties involved in disentangling the effects of trade and trade agreements from other factors that affect the U.S. economy, among other things.

What are the Anticipated Economic Effects?

Most economists argue that liberalized trade and investment create both economic costs and benefits, but that the long-run net effect on the economy as a whole is positive. They contend that: (1) the economy operates more efficiently due to increased competition through international trade; (2) consumers benefit by having a wider variety of goods and services at varying levels of quality and price than would be possible without international trade; and (3) trade may have a long-term positive dynamic effect on production and employment. In addition, trade agreements could have significant economic effects on trade and commercial relations over the long run, particularly for developing and emerging economies.

Economists recognize that some workers and producers in the economy may experience a disproportionate share of the short-term adjustment costs that are associated with shifts in resources stemming from greater international competition. Although the attendant adjustment costs for businesses and labor are difficult to measure, some estimates indicate that they potentially are significant over the short-run and can entail dislocations for some segments of the labor force, for some companies, and for some communities.

How Are Economic Effects Estimated?

Economists and others use various economic models and approaches to estimate the magnitude of changes in U.S. economic activity and employment associated with a trade agreement. Both proponents and opponents of trade agreements cite results of these studies to support their respective positions. These models, however, differ in the estimates they produce, reflecting different assumptions and differences in the structures of the models themselves. While all the various models and approaches have strengths and weaknesses, although not always in equal proportion, they vary in the degree to which they reflect economic reality, and they are highly sensitive to the assumptions that are used.

International Trade Commission (ITC) Study

The ITC provides the official U.S. Government estimate of the impact of proposed trade agreements on the U.S. economy. The ITC uses an economic model known as the Global Trade Atlas Project (GTAP), located at Purdue University, to estimate changes in trade (exports and imports) that arise from changes in tariff rates and tariff rate quotas. This model is a long-run microeconomic model that has been widely used and tested. Such trade models are limited in how accurately they can reflect certain aspects of complex FTAs and require a number of assumptions.

In May 2016, the ITC released a comprehensive assessment of the economic impact of the TPP. In developing its estimates, the ITC made assumptions about the evolution of the world economy without the TPP in five-year steps to 2047, and it incorporated projections from various sources about labor availability, growth rates for population, and gross domestic product (GDP). The model also includes potential trade policy changes that would be expected to occur in the absence of TPP. The ITC modified the standard GTAP model to include the 12 TPP countries, various regions, and 56 industry sectors. Similar to previous studies of FTAs, the ITC analysis of the TPP estimated the effects of liberalizing tariffs and certain nontariff barriers (NTBs) and assumed that nations will take full advantage of increases in agricultural tariff rate quotas.

The ITC estimated that by 2032, U.S. annual real income would be $57.3 billion (0.23%) higher than the baseline projections, real GDP would be $42.7 billion (0.15 %)

higher, and employment would be 0.07% higher (128,000 full-time equivalents) with TPP, as indicated in Table 1.

Table 1. ITC Estimated TPP Economy-Wide Effects

(Changes relative to baseline projections: 2032 and 2047)

	2032		2047	
	Billion$	Percent	Billion$	Percent
Real Income	$57.3	0.23%	$82.5	0.28%
Real GDP	$42.7	0.15%	$67.0	0.18%
Employment (full time equivalents, thousands)	128.2	0.07%	174.3	0.09%
Capital stock	$171.5	0.18%	$343.5	0.24%

Source: ITC Study, p. 70.

The ITC also estimated that by 2032, annual U.S. exports and U.S. imports with TPP partners would be $57.2 billion (1.0 %) and $47.5 billion (1.1 %) higher, respectively, relative to baseline projections, as indicated in Table 2. Of this amount, annual exports and imports with new FTA partners under TPP are projected to increase by $34.6 billion and $23.4 billion, respectively, by 2032. Overall, annual U.S. exports to the world are projected to increase by $27.2 billion and imports are projected to increase by $48.9 billion by 2032 under TPP.

Table 2. ITC Estimated TPP Effects on U.S. Trade

(Changes relative to baseline in 2032)

	Exports		Imports	
	Billion$	Percent	Billion$	Percent
Trade with TPP partners	$57.2	5.6%	$47.5	3.5%
TPP New FTA partners	$34.6	18.7%	$23.4	10.4%
TPP Existing FTA	$22.6	2.7%	$24.2	2.1%
Trade with the world	$27.2	1.0%	$48.9	1.1%

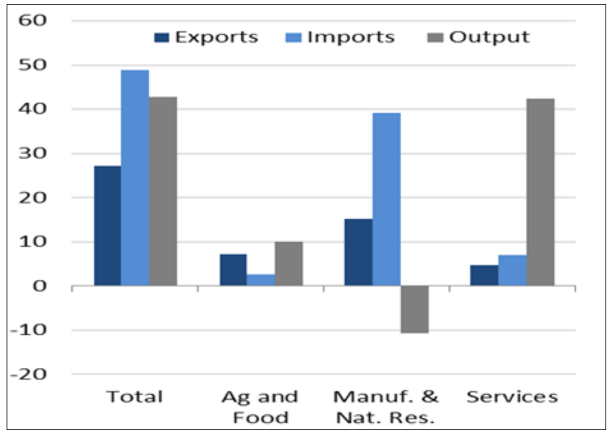
Source: ITC Study, p. 71.

The ITC estimated that TPP would have little effect on cross-border flows of direct investment, but the agreement would increase U.S. services output by $42.3 billion (0.1% increase) under TPP relative to the 2032 baseline. Global U.S. exports of services were estimated to be $4.8 billion higher by 2032, while exports to TPP countries were $16.6 billion (10.8%) higher, and exports of services to non-TPP countries $11.8 billion (1.9%) lower. Global U.S. imports of services were estimated to be $7.0 billion (1.2%) higher by 2032 with most of the increase coming from non-TPP countries.

According to the ITC, both U.S. agriculture and services sectors are projected to benefit as a result of the TPP, as indicated in Figure 1. The ITC study estimated that U.S. gains in output and employment would be driven by changes in the agriculture and food sector, while output and employment in the manufacturing, natural resources and energy sectors would fall slightly as resources would be shifted from these sectors to other sectors in the economy.

Figure 1. ITC Estimated Impact of TPP by Sector, 2032

(billions $ relative to baseline)



Source: ITC study.

Other Estimates

Estimates by other organizations range from broadly greater gains than that estimated by the ITC, or much greater losses in jobs. A study by Peter Petri and Michael G. Plummer for the Peterson Institute for International Economics estimates that the TPP would increase annual U.S. GDP by $131 billion by 2030 due to larger estimates of increases in services exports and increased foreign investment and trade. The World Bank projected that by 2030, the TPP would increase member country GDP on average by 1.1%, ranging from over 8% for Vietnam to 0.5% for the United States. Using a non-standard model, a study published by Tufts University Global Development and Environment Institute estimated that TPP would reduce jobs among the TPP countries by 771,000, with the largest losses occurring in the United States, reduce employment in Europe by 879,000, and among non-TPP developing countries by 4.5 million.

More Information

For more information see CRS Report R44489, *The Trans-Pacific Partnership (TPP): Key Provisions and Issues for Congress*, coordinated by Ian F. Fergusson and Brock R. Williams; CRS Report R44546, *The Economic Effects of Trade: Overview and Policy Challenges*, by James K. Jackson; and CRS In Focus IF10161, *International Trade Agreements and Job Estimates*, by James K. Jackson

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