

**Testimony of Senator Sherrod Brown
Before the International Trade Commission
Investigation No. TPA-105-001, Trans-Pacific Partnership Agreement:
Likely Impact on the U.S. Economy and on Specific Industry Sectors
January 14, 2016**

Chairman Broadbent, Vice Chairman Pinkert, and Commissioners, thank you very much for allowing me to testify today. You frequently allow me to testify before you on trade cases to explain the impacts of unfair trade practices on workers, businesses, and communities in my home state of Ohio.

And in that process you play a significant role in deciding whether the industry, those families, and their communities get that relief. I really appreciate your work on behalf of American manufacturers and their employees.

Today you have an equally important job. You are tasked with analyzing the Trans-Pacific Partnership, an expansive trade agreement intended by the Administration to formalize and shape economic engagement in the Pacific Rim and beyond.

TPP includes sizeable economies such as Japan and Vietnam. And it includes the NAFTA countries, meaning it rewrites the rules of that trade agreement. By design, TPP will grow to include other countries and is considered to be the basis for future U.S. FTAs.

A good trade deal can create balanced trade that expands opportunities, increases wages, and strengthens international standards on labor, environment, and access to medicines.

Bad FTAs grow the U.S. trade deficit, exacerbate violations of international standards, and undermine American workers' leverage in the workplace. They also encourage the adoption of a business model where companies offshore production only to ship goods back into the U.S. We know this from experience.

Members of Congress and the public are undergoing their own reviews of TPP to figure out which category the agreement falls into.

We are working to understand what the agreement's short-, medium-, and long-term effects will be. And we are considering whether changes should be made to the agreement before it is voted on.

That's where you come in. Your analysis will shape conversations about the TPP's benefits and consequences.

I know you have analyzed many FTAs in the past. I have enormous respect for the work you do and the time and dedication that goes into such a massive undertaking.

But given the uniqueness of the TPP and the fact that it is the first agreement designed to expand beyond its current members, I am hopeful you will consider altering the way you model this agreement's economic impacts.

Trade, and trade agreements, have changed over the years. I believe it is time to update the economic models that are used to assess trade policy. We should be evaluating trade agreements not by outdated theories and algorithms but by the real-life impacts of trade provisions – something this Commission is familiar with.

I know the Commission has limited time – just 105 days – to complete its analysis. But fine-tuning your investigation is critical for the public and Congress to understand what the agreement will mean for American workers.

First, I urge you to use an economic model that does not assume full employment in the United States as the basis for your analysis. Even though our economy has improved considerably since the Great Recession, analysis that assumes 100% of Americans have jobs leads to fundamentally flawed conclusions.

It is an oversimplification to assume that a worker who is laid off because of the agreement can seamlessly transition from one sector to another.

More often than not, when a worker gets laid off, she doesn't find other work overnight. That worker could be out of a job – and income – for months, maybe even more than a year. She could live in a community without a diversified economy that relied on her factory, making it even harder for her to find alternative employment. She'll likely need training, which could cost money and delay her ability to get another job. All while she struggles to support her family.

I know the Commission's work cannot capture such granular level of detail about an FTA's impacts, but it should not ignore them entirely. And using an economic baseline that reflects the current economic reality is a good way to avoid that pitfall.

The Commission should also consider including analysis that illustrates TPP's impact if U.S. economic growth continues on this upward trajectory, plateaus, or reverses course.

Second, it is critical that the Commission evaluate the agreement's impact on workers and wages across numerous sectors. The president mentioned in his state of the union address last night that due to changes in the global economy, American workers are losing leverage in the workplace as companies now have the option of moving production offshore.

We see the evidence of that lost leverage most importantly in stagnating earnings. Understanding how the TPP will affect wages is critical to evaluating how it will benefit or hurt American workers.

Third, instead of providing a general assessment of the agreement's impact on GDP in one static snapshot in time, it would be more helpful if the Commission could look at growth over time.

For example:

- How will the TPP affect the auto industry's contribution to our GDP?
- How will the agreement affect manufacturing as a percentage of GDP over the next several decades?
- And what the TPP's economic impacts be in the short-term, medium-term, and long-term?

Some TPP tariffs will not be phased out for 30 years. An evaluation of the agreement's effects 30 years from now does not help Members who may have to vote on the agreement this year. Fourth, the ITC should take into consideration the current economic conditions of different sectors. The steel industry, for instance, is struggling due to a deluge of unfairly traded imports — as you know from the trade remedy petitions you've considered in recent months. There is massive global overcapacity in the steel sector, and some countries, such as Vietnam, have announced plans that will exacerbate the problem.

An assessment of TPP's impact on the steel industry is accurate and useful only if it takes into consideration the current challenges our steel mills and steel workers face.

Our auto industry featured record sales of American cars last year, but GM is also planning to export a Chinese-made Buick into the U.S. Our auto parts suppliers increasingly face Chinese competition that has forced some American companies to sell to Chinese-based owners or open up a Chinese-based production facility.

TPP will not occur in a vacuum. Your discussion and examination of TPP's benefits and consequences must take these kind of factors into account.

Fifth, I urge the Commission to consider the impacts of the agreement on different segments within a sector. For example, the TPP is likely to affect different tiers of the auto industry in different ways.

Provisions that could benefit the auto assembly companies might have significant consequences for auto part manufacturers and workers.

I heard analysis earlier this week from Harvard University Professor Mark Wu, who said that upstream auto parts suppliers are the most at risk of being supplanted by Chinese or other foreign parts suppliers as a result of the TPP.

I urge the Commission to investigate what the agreement's impact will be on Tier 1, 2, and 3 suppliers as well as the auto assemblers and their workforces.

In addition, I ask you to conduct this analysis with the acknowledgement that TPP is a living agreement. What effect will the addition of other countries to the TPP have on the auto rules of origin and what impact will that have on the U.S. auto supply chain?

One other thought for your analysis of the TPP's impact on the auto sector. In conventional economic modeling, the lowering of tariffs is seen as automatically expanding a flow of goods between countries, but in reality many other impediments may remain.

This is especially true of non-tariff barriers in Japan, where auto tariffs are zero. Just because the TPP identifies the need to remove non-tariff barriers does not mean they will disappear. I urge the Commission to determine if export opportunities will truly materialize for American auto producers considering Japan's decades of closed market policies.

Sixth, the big elephant in the TPP room is China. China is not party to the agreement, but the country is a major regional player in Asia. The Administration argues that this agreement will set the rules so that China doesn't.

Given China's influence in the region, it is critical that your analysis explores whether and how the TPP will affect trade flows between the U.S. and China and between China and the other TPP countries. Your review should also seek to determine whether China will benefit from the rules of origin for autos and other products covered by the agreement.

Only then will we be able to appropriately evaluate whether or not TPP will indeed set the rules and prevent China from doing so.

Seventh, although experts may disagree on the extent to which currency manipulation is currently a factor in our economic relationships with TPP partners and other Asian countries, everyone agrees that exchange rate manipulation has been used in the Asian region. In many cases, countries intervened in their currencies in response to China's intervention. In all cases, that currency manipulation hurt American manufacturers and their workers.

TPP does not include strong and enforceable currency disciplines, despite my efforts and the efforts of Sen. Stabenow, Sen. Portman, and many other colleagues of mine. But currency intervention remains an economic reality in the TPP region. I urge the Commission to include at least a discussion of the potential impact currency manipulation could have on the effects of the agreement.

Finally, given that we already have trade agreements with seven of our TPP partners, much of the agreement's significance is in the rules it sets beyond tariff phaseouts. These rules in TPP have economic significance for companies and workers, and your assessment should incorporate an analysis of those rules.

TPP's labor standards, for example, will now apply to Vietnam, a country that denies workers the right to collectively bargain. The same labor standards will also apply to Mexico, where insufficient labor protections and paltry wages have led U.S. companies to reduce labor costs by relocating south of the border.

In theory, adherence to these standards should increase labor costs in these countries and, therefore, affect the flow of goods and relocation of production between them. If workers share equitably in trade, it not only creates a more just economy but also helps to create middle class consumers that drive trade expansion.

Recent history, however, tells us that FTA labor provisions are rarely, if ever, enforced. Failure to uphold these labor standards has contributed to American workers' decline in leverage and wages in the global economy.

Members of Congress need to understand how current labor conditions in TPP countries and the enforcement or lack thereof of TPP's labor standards will influence business decisions – on sourcing and investment – within the TPP region and how these business decisions will affect American workers.

In sum, I'm asking the Commission to complete a comprehensive analysis of the TPP. I know you have limited time and even more limited resources. I know some of my requests today may force you to look for different economic models and different data sets. But these requests are key to evaluating how the agreement will affect all corners of the economy and all regions of the country.

A simple, macroeconomic analysis will not provide the detail or the depth needed to understand TPP's impacts on our workers and our businesses in the short-, medium-, and long-term.

A snapshot of the agreement's effects in one moment in time 30 years from now is simply not sufficient.

The TPP is already the largest trade agreement ever negotiated, and more Pacific Rim countries are expected to dock onto it in the future. That has major implications for our economy.

In addition to completing the comprehensive analysis that I have requested today, I hope you will create a living report – one that acknowledges the fact that TPP's members will grow – and that you will update it regularly to reflect that fact.

Thank you again for all your work to enforce U.S. trade laws and to shed light on the effects of U.S. trade policy. And thank you for the opportunity to share my testimony with you today.