Revised Summary of position for inclusion in the appendix to the Commission's report.

Statement of Robert E. Scott, Economic Policy Institute

January 13, 2016

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 others—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. This has important implications for how the Commission should evaluate the likely impact of the TPP. Key conclusions of this analysis are:

- Currency manipulation could nullify the benefits of the TPP. The Commission should develop a range of estimates of the costs and benefits of the TPP under different levels of currency manipulation.

- 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 used by the Commission staff 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. Therefore, Commission staff should carefully evaluate the winners and losers from the TPP. 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.