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"Gains of Trade"

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ABSTRACT

The predicted economic gains of trade from the Trans-Pacific Partnership (TPP) have been calculated under assumptions such as comparative advantage and perfect competition. The primary purpose of this study is to evaluate how the economic gains from trade are affected by real world imperfect conditions such as competitive advantage, currency manipulation, and intellectual property rights. Preliminary research indicates that the predicted gains of trade are small for countries in the Western Hemisphere (below a 2 percent increase in GDP in 15 years) and will actually become smaller or negative when considering how much these three real world conditions will cost TPP governments. The concept of free trade agreements depends on the theory of comparative advantage. However, as demonstrated by past free trade agreements, competitive advantage will characterize trade in the TPP. This has caused industries in developed countries to shift toward capital intensive goods and has caused developing countries to shift toward labor intensive goods. Not only will this create a trade deficit from the perspective of the United States, but this will also create a race to the bottom which will result in negative economic repercussions for individual workers who will look to their governments for help. This trend will burden government's employment and welfare programs, and it will create further social problems. Additionally, currency manipulation is practiced by Japan, Malaysia, and Singapore. Currency manipulation will create an artificial tax on goods from countries with strong currencies, such as the United States, which will contribute to the trade deficit, race to the bottom, and unemployment problems already discussed. By not including currency manipulation regulations in the agreement, the impacts of currency manipulation has the potential to nullify the predicted gains of trade. Finally, the TPP includes several stipulations which strengthen and lengthen intellectual property rights (IP rights). IP rights are expensive for governments and act as an extremely high tax on goods. Regardless of whether IP rights increase innovation or not, IP rights still contradict the concept of free trade by preserving monopolies. In short, competitive advantage, currency manipulation, and intellectual property rights weaken the economic gains of trade and should be heavily considered during TPP discussions.