February 28, 2012

Hon. Craig Emerson, Trade Minister
Department of Foreign Affairs and Trade of Australia

H.R.H. Prince Mohamed Bolkiah, Minister
Ministry of Foreign Affairs and Trade of Brunei Darussalam

Hon. Alfredo Moreno Charme, Minister
Ministry of Foreign Affairs of Chile

Yb. Dato’ Sri Mustapa Bin Mohamed, Minister
Ministry of International Trade and Industry, Malaysia

Hon. Tim Groser, Trade Minister
Ministry of Foreign Affairs and Trade of New Zealand

Hon. Eduardo Ferreyros, Minister
Ministry of Foreign Trade and Tourism of Peru

Hon. Lim Hng Kiang, Minister
Ministry of Trade and Industry of Singapore

Amb. Ronald Kirk, Trade Representative
Office of the United States Trade Representative

Hon. Vu Huy Hoang, Minister
Ministry of Industry and Trade, Vietnam

Re: Promoting financial stability in the Trans-Pacific Partnership Agreement

Dear Trade Ministers,

We, the undersigned economists, write to you regarding the capital transfers provisions in the proposed Trans-Pacific Partnership Agreement (TPPA). We are concerned that if recent U.S. treaties are used as the model for the TPPA, the agreement will unduly limit the authority of participating parties to prevent and mitigate financial crises.

Nearly all U.S. free trade agreements (FTAs) and bilateral investment treaties (BITs) strictly limit the ability of trading partners to deploy capital controls – with no safeguards for times of crisis. A few recent U.S. trade agreements put some limits on the amount of damages foreign investors may receive as compensation for certain capital control measures. They also extend the “cooling off” period before investors may file claims in international tribunals. However, these minor reforms do not go far enough to ensure that governments have the authority to use such legitimate policy tools.

Authoritative research published by the National Bureau of Economic Research, the International Monetary Fund, and other institutions has found that limits on short-term capital flows can stem the development of dangerous asset bubbles and currency appreciations, grant nations more autonomy in monetary policy-making, and protect nations from the dangers of abrupt capital flight.
The U.S. government’s rigid opposition to capital controls does not reflect the global norm. According to an IMF report, “Most BITs and FTAs either provide temporary safeguards on capital inflows and outflows to prevent or mitigate financial crises, or defer that matter to the host country’s legislation. However, BITs and FTAs to which the United States is a party (with the exception of NAFTA) do not permit restrictions on either capital inflows or outflows.”

Indeed, other TPP countries typically allow more flexibility in their trade and investment treaties.

While capital controls and other capital management techniques are no panacea for financial instability, there is an emerging consensus that they are an important part of the macro-economic toolkit. Indeed, all G-20 leaders endorsed the following statement at the 2011 Cannes Summit:

“Capital flow management measures may constitute part of a broader approach to protect economies from shocks. In circumstances of high and volatile capital flows, capital flow management measures can complement and be employed alongside, rather than substitute for, appropriate monetary, exchange rate, foreign reserve management and prudential policies.”

Increased financial stability is in the interest of businesses, working people, and consumers in all TPPA parties. When one country falls into crisis, its trading partners lose export markets. When one country cannot control financial bubbles that drive up currency values, consumers in trading partner countries may be hurt by rising prices on imported goods. When exchange rates are unstable, long-term investors and businesses engaged in exporting or importing face uncertainty.

Thus, we recommend that the TPPA permit governments to deploy capital controls without being subject to investor lawsuits, as part of a broader menu of policy options to prevent and mitigate financial crises.

We look forward to discussing these issues further. Please direct inquiries to:

Sarah Anderson, Institute for Policy Studies, sarah@ips-dc.org
Kevin P. Gallagher, Boston University, kpg@bu.edu

Sincerely,

1. Frank Ackerman, Senior Economist, Climate Economics Group, Stockholm Environment Institute, USA
2. Alice Amsden, Professor of Development Economics, MIT, USA
3. Sarah Anderson, Global Economy Project Director, Institute for Policy Studies, USA
4. Dean Baker, Co-Director, Center for Economic and Policy Research, USA
5. Nesecan Balkan, Professor, Department of Economics, Hamilton College, USA
6. Lourdes Benería, Professor Emerita, Dept. of City and Regional Planning, Cornell University, USA
7. Jagdish Bhagwati, Professor of Economics, Columbia University, USA
8. Robert Blecker, Department Chair, Economics, American University, USA
9. Howard Botwinick, Associate Professor of Economics, SUNY Cortland, USA
10. John Cavanagh, Director, Institute for Policy Studies, USA
11. Kimberly Christensen, Professor of Economics, Sarah Lawrence College, USA
12. Jane D’Arista, Research Associate, Political Economy Research Institute, USA
13. Paul Davidson, Editor, Journal of Post Keynesian Economics, USA
14. Gerald Epstein, Professor of Economics, University of Massachusetts, Amherst, USA
15. Thomas Ferguson, Senior Fellow, Roosevelt Institute, USA
16. Kirsten Ford, PhD Candidate, University of Utah, USA
17. Kevin Gallagher, Associate Professor, Boston University and Senior Researcher, Global Development and Environment Institute, Tufts University, USA
18. Neva Goodwin, Co-Director, Global Development and Environment Institute at Tufts University, USA
19. Ilene Grabel, Professor and Co-Director, MA in Global Finance, Trade and Economic Integration, University of Denver, USA
20. Stephany Griffith-Jones, Financial Markets Director, Initiative for Policy Dialogue at Columbia University, USA
21. Jonathan Harris, Director, Theory and Education Program and Senior Research Associate, Global Development and Environment Institute at Tufts University, USA
22. Martin Hart-Landsberg, Professor of Economics, Clark University, USA
23. Ann Helwege, Professor of International Relations, Boston University, USA
24. Adam S. Hersh, Economist, Center for American Progress, USA
25. P. Sai-wing Ho, Associate Professor, University of Denver, USA
26. Olivier Jeanne, Professor of Economics, Senior Fellow, Johns Hopkins University, Peterson Institute for International Economics, USA
27. Ethan Kaplan, Assistant Professor of Economics, University of Maryland at College Park, USA
28. Emily Kawano, Executive Director, Center for Popular Economics, USA
29. Jan Kregel, Levy Economics Institute, Bard College, USA
30. Haider A. Khan, Professor of Economics, University of Denver, USA
31. Timothy Koechlin, Director of International Studies Program, Vassar College, USA
32. Anton Korinek, Professor of Economics, University of Maryland, USA
33. Arthur MacEwan, Professor of Economics Emeritus, University of Massachusetts, Boston, USA
34. Elaine McCrate, Associate Professor of Economics and Women’s Studies, University of Vermont, USA
35. John A. Miller, Professor of Economics, Wheaton College, USA
36. Tracy Mott, Associate Professor and Department Chair, Dept. of Economics, University of Denver, USA
37. Julie A. Nelson, Professor of Economics, University of Massachusetts Boston, USA
38. José Antonio Ocampo, Professor of Economics, Columbia University, USA
39. Thomas Palley, Associate, Economic Growth Program, New America Foundation, USA
40. Eva Paus, Professor, Department of Economics, Mt. Holyoke College, USA
41. Dani Rodrik, Professor of Economics, Harvard University, USA
42. Jaime Ros, Professor of Economics, University of Notre Dame, USA
43. Héctor Sáez, Analyst, Environment and Economy, USA
44. John Schmitt, Senior Economist, Center for Economic and Policy Research, USA
45. Stephanie Seguino, Professor of Economics, University of Vermont, USA
46. Heidi Shierholz, Economist, Economic Policy Institute, USA
47. Arvind Subramanian, Senior Fellow, Peterson Institute for International Economics (PIIE) and Center for Global Development (CGD), USA
48. Matías Vernengo, Associate Professor of Economics, University of Utah, USA
49. Tam Vu, Associate Professor and Chair, Department of Economics, USA
50. Thomas Weisskopf, Professor Emeritus of Economics, University of Michigan, USA
51. Timothy Wise, Director of Research and Policy Program, Global Development and Environment Institute, Tufts University, USA
52. Mark Weisbrot, Co-Director, Center for Economic and Policy Research, USA
53. Martin H. Wolfson, Associate Professor of Economics, University of Notre Dame, USA
54. L. Randall Wray, Professor of Economics, University of Missouri, Kansas City, USA
55. George Argyrous, Senior Lecturer, University of New South Wales, Australia
56. Grant Belchamber, Economist, Australian Council of Trade Unions, Australia
57. Ross Buckley, Professor of International Finance Law, University of New South Wales, Australia
58. Robert Dixon, Professor, University of Melbourne, Australia
59. Susan Engel, Professor of History & Politics, University of Wollongong, Australia
60. G. C. Harcourt, Professor Emeritus, University of New South Wales, Australia
61. Gillian Hewitson, Professor, Dept. of Political Economy, University of Sydney, Australia
62. Evan Jones, Professor, Department of Political Economy, University of Sydney, Australia
63. P.N. (Raja) Junankar, Professorial Visiting Fellow, School of Economics, University of New South Wales, Australia
64. Steve Keen, Professor of Economics and Finance, University of Western Sydney, Australia
65. John King, Professor of Economics, School of Economics and Finance, Latrobe University, Australia
66. John Langmore, Professor, School of Social and Political Sciences, University of Melbourne, Australia
67. Bruce Littleboy, Professor, School of Economics, University of Queensland, Australia
68. Bill Lucarelli, Senior Lecturer, Economics and Finance, University of Western Sydney, Australia
69. Robert E. Marks, Emeritus Professor, School of Economics, University of New South Wales, Australia
70. Margaret McKenzie, Lecturer in Economics, School of Accounting Economics and Finance, Deakin University, Australia
71. Rod O'Donnell, Professor of Economics, University of Technology Sydney, Australia
72. Colin Richardson, Adjunct Professor of Economics, Centre for International Security Studies, University of Sydney, Australia
73. Ben Spies-Butcher, Senior Lecturer, Macquarie University, Australia
74. Kannan Srinivasan, Adjunct Research Fellow, School of Political and Social Inquiry, Monash University, Australia
75. Frank Stilwell, Professor of Political Economy, University of Sydney, Australia
76. Manuel Agosin, Faculty of Economics, University of Chile, Chile
77. Alvaro Díaz, former Under Secretary of the Economy and Ambassador to Brazil, Chile
78. Luis Eduardo Escobar, Economist, Private Consultant, Chile
79. Ricardo Ffrench-Davis, Professor of Economics, National Prize Social Sciences and Economics, University of Chile, Chile
80. Guillermo Le Fort Varela, Former Executive Director to IMF, Chile
81. Patricio Leiva, Director, Latin America Institute of International Relations, Universidad Miguel de Cervantes, Chile
82. Kee-Cheok Cheong, Senior Research Fellow, Faculty of Economics and Administration, University of Malaysia, Malaysia
83. K.F. Chin, Lecturer, National University of Malaysia, Malaysia
84. Martin Khor, Executive Director, South Centre, Malaysia
85. Hwok-Aun Lee, Senior Lecturer, Faculty of Economics and Administration, University of Malaysia, Malaysia
86. Michael Mah-Hui Lim, Senior Visiting Fellow, Penang Institute, Malaysia
87. Satthiyon Nehru, Economist, Universiti Kebangsaan, Malaysia
88. Charles Santiago, Member of Parliament, Parliament of Malaysia, Malaysia
89. Peter Conway, Secretary, New Zealand Council of Trade Unions, New Zealand
90. Paul Dalziel, Professor of Economics, Lincoln University, New Zealand
91. Tim Hazledine, Professor of Economics, University of Auckland, New Zealand
92. Prue Hyman, Associate Professor of Economics and Gender/Women’s Studies, Victoria University of Wellington, New Zealand
93. Keith Rankin, Lecturer, Department of Accounting and Finance, Unitec Institute of Technology, New Zealand
94. Bill Rosenberg, Policy Director and Economist, New Zealand Council of Trade Unions, New Zealand
95. Petrus Simons, Economic Consultant, New Zealand
96. Robert H. Wade, Professor, Department of International Development, London School of Economics, New Zealand
97. Humberto Campodonico, Economist, CEO, PETROPERU, Peru
98. Oscar Dancourt, Professor of Economics, Catholic University of Peru, Peru
99. Adolfo Figueroa, Emeritus Professor, Catholic University of Peru, Peru
100. Leonith Hinojosa, Professor, Open University, Peru
101. Jürgen Schuldt Lange, Professor of Economics, Universidad del Pacífico, Peru
102. Oscar Ugarteche, Investigador titular B, Instituto de Investigaciones Económicas, Universidad Nacional Autonoma de Mexico, Peru

See, for example, Annex 10-E of the U.S.-Peru FTA and Annex 10-C of the U.S.-Chile FTA.

