The Potential Economic Impact of the Trans-Pacific Partnership: Relationship Between Free Trade Agreements and GDP Growth Rates

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Background

The Trans-Pacific Partnership (TPP) was the foundation of the Obama administration's strategic pivot to capitalize in Asia.

The goal of the Trans-Pacific Partnership was first and foremost an opportunity for the U.S. to increase its economic growth. There are five key features of this trade agreement:

- *Free market access; eliminating or reducing tariff and non-tariff barriers.*
- *Enabling the development of production and supply chains to allow for seamless trade.*
- *Addressing developing challenges; state-owned enterprises within the global economy and the growing digital economy.*
- *Ensuring economies and businesses of all shapes and sizes could benefit, making it more inclusive and guaranteeing maximum opportunities for all parties.*
- *It would become a platform for regional economic integration and would encourage other countries in the Asian- Pacific region to join the agreement in time.*

Following the withdrawal from the TPP by the Trump administration prior to implementation, the U.S. never got the opportunity to reap the benefits the TPP could have provided. The remaining countries went on to renegotiate a new trade policy without the United States. The Comprehensive Progressive Agreement for Trans-Pacific Partnership (CPTPP) became the new agreement for the remaining 11 countries and went into effect March 8th, 2018, and remains in effect.

Purpose

Hypothesis: If the United States would have remained in the Trans- Pacific Partnership, then the U.S.'s economy would have been strengthened.

Study Description

The study will examine the potential economic impact of the TPP on GDP (IV) by comparing the United States real GDP with the real GDP of Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) members from 2018 to 2022(DV).

IV – The Independent Variable is the implementation of the TPP

DV – The real GDP is operationalized by the monetary value of all finished goods and services made within a country

This is a study in which real GDP growth rate percentages will be compared to two comparison groups: the relative baseline of real GDP growth rate percentages from CPTPP members in 2018 will be compared to the growth rate percentages in 2022, and the relative baseline of real GDP growth rate percentage from the United States in 2018 will be compared to growth rate percentage in 2022. This study is intended to assess the relationship between economic growth rate and participation in this free trade agreement. The goal is to determine if CPTPP participants have experienced greater real GDP growth rates than the U.S. within the 4-year time frame. Drawing comparisons between growth rates will highlight the effectiveness/ineffectiveness of the free trade agreement.

TABLE 1

CPTPP MEMBERS	RELATIVE BASELINE REAL GDP % (2018)	REAL GDP GROWTH RATE % (2022)
AUSTRALIA		
BRUNEI		
CANADA		
CHILE		
JAPAN		
MALAYSIA		
MEXICO		
NEW ZEALAND		
PERU		
SINGAPORE		
VIETNAM		

TABLE 2

NON CPTPP MEMBERS	RELATIVE BASELINE REAL GDP %(2018)	REAL GDP GROWTH RATE %(2022)
UNITED STATES		

Methodology

Primary data will be collected using a computable general equilibrium (CGE) model, working at the microeconomic level that I will be creating. Modifications will be made to the model to incorporate only the 12 countries I will be assessing. In order to acquire access to the most up to date data, I will be applying for a United States Federal Reserve FOIA. To limit confounding factors that could impact growth percentages, adjustments will be implemented in the model that will incorporate various changes in trade and tariff rates. Data will be gathered through secondary source data such as the International Monetary Fund(IMF) and the World Bank to make these adjustments. These secondary sources will allow data to be standardized across the 12 countries for the purpose of comparison.

**Due to the huge economic impacts of COVID-19, data will not be accounted for during the 2019 fiscal year for this study to minimize outliers in data.*

Feasibility, Limitations, & Benefits

Due to the complexity of global economies, many confounding factors contribute to the overall growth rate of an economy. Factors include but are not limited to;

- *Government spending*
- *Population*
- *Type of economy*
- *Available resources*
- *Inflation*

Four years is a relatively short time to study the effects of a trade agreement which often takes several years to reach their full effect. Overall, the data gathered from this study will determine if the original TPP agreement would've helped or hurt the United States economy. If the data provide substantial evidence of economic growth, this study will help U.S. policymakers decide if negotiating a future free trade agreement could benefit the United States. If not, this study will also provide support for previous U.S. officials who pulled out of the initial deal. This study will provide essential information to U.S. policymakers about the effects of free trade agreements on real GDP growth.