

# Economic Impact of the Expansion of the CPTPP

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## Abstract

- RTAs have progressed in the Asia-Pacific economies. That said, Japan, the United States and China should promote these in effect, including the renegotiation of the US-Japan Trade Agreement and the RCEP.
- The WTO has played a large role in tariff reductions and RTAs have contributed in a complementary manner.
- The US, China and India would enjoy macroeconomic benefits by joining the CPTPP. The US and China would gain larger trade creation benefits by joining the CPTPP together than joining individually.
- That said, if the US joined the CPTPP, a few CPTPP members would lose out due to trade diversion effects. That adverse impact would be larger if the US and China joined together. Meanwhile, if India joined the CPTPP, trade diversion effects would be generated in some CPTPP members, and that adverse impact would be enlarged with the US and China joining. On the other hand, if China joined the CPTPP without the US, CPTPP members would enjoy macroeconomic benefits across the economies and those magnitudes would be larger than those if the US joined.
- The levels of the ad valorem equivalents (AVEs) of non-tariff measures (NTMs) are estimated to be slightly higher than those of tariff rates. The economic impact of those reductions would depend on their actionability and spillover effects to third parties.

## Progress of RTAs

Efforts for trade and investment liberalization and facilitation have been made by regional trade agreements (RTAs) including bilateral and multilateral free trade agreements (FTAs) and economic partnership agreements (EPAs), alongside maintaining a multilateral free trade system under the World Trade Organization (WTO).

The number of RTAs entering into force in the world has increased since around 1993, when the Uruguay Round negotiations were concluded under the General Agreement on Tariffs and Trade (GATT), and peaked in the 2000s, according to the WTO Regional Trade Agreements Database.<sup>1</sup> In total, 366 RTAs have entered into force by the end of 2023, an exceptionally significant number of which were recorded in 2021 mainly due to those individual implementations by the United Kingdom, which left the European Union.

In the Asia-Pacific economies, the United States withdrew from the Trans-Pacific Partnership (TPP), but the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) entered into force at the end of December 2018 with the remaining 11 member economies. The Regional Comprehensive Economic Partnership (RCEP) Agreement entered into force at the beginning of January 2022 with 15 economies, though India eventually did not join it.

That said, the numbers of RTAs implemented in the Asia-Pacific

vary by economy. Chile has implemented the largest number of 31 RTAs, according to the WTO RTA Database, followed by Singapore (27), Mexico (23), South Korea (22), Peru (21), Australia (19) and India (19). On the other hand, several economies including Papua New Guinea; Hong Kong, China; and Chinese Taipei, as well as Cambodia, Laos and Myanmar, have not reached 10 agreements. Japan (18), China (16) and the US (14) are ranked around the average in the Asia-Pacific economies.

The average trade ratios of the Asia-Pacific Economic Cooperation (APEC) economies with RTA partners in APEC are around 60% (see Kawasaki, 2023). The US (64% for exports and 48% for imports), China (40% for exports and 55% for imports) and particularly Japan (24% for exports and 35% for imports) are pointed out as having lower ratios than other economies. The US-Japan Trade Agreement (USJTA) and the RCEP are not recognized as RTAs in the WTO RTA Database. Japan, the US and China should promote effective RTAs, including the renegotiation of those agreements.

As for the geographical structure of RTAs implemented, intracontinental RTAs have been implemented within both East Asia and America, where trade relations are close, but intercontinental RTAs between East Asia and America are fewer than those intracontinental RTAs.

## Tariff Reductions

WTO members actually apply “applied tariffs” with an upper limit at “bound tariffs.” Bound tariffs are negotiated among contracting parties and are binding under the WTO Agreement. The applied tariff rates that are lower than the bound tariff rates are required to be applied to all WTO members according to the most favored nation (MFN) principle. That MFN rate is an applied rate in practice. The simple averages of bound rates are from around 3% to 5% in Japan, the US and the EU, but around 10% in Australia and Singapore, where applied rates are lower, and also in China according to WTO Stats.<sup>2</sup> It is not exceptional for the rate to exceed 20% in developing economies including India (50%). MFN rates are much lower than bound rates and the trade weight averages of those rates are further lower than their simple averages. The weighted average MFN rates were 3.2% in China and 11.4% in India, which were significantly lower than their bound rates in 2022.

Moreover, applying preferential tariffs to the members of free trade area is allowed as an exceptional MFN treatment under GATT as far as that covers “substantially all the trade”. The World Bank has published<sup>3</sup> effectively applied tariff rates incorporating those preferential tariffs, and indicates that the average tariff rates in the world are lower in terms of those effectively applied rates than for MFN rates.

Weighted average MFN rates in the world have substantially declined from 1990 (21.7%) to 2020 (6.8%) and effectively applied rates have also declined from 14.1% to 3.9% during the same period. It is seen that tariff reductions during that time were largely made on an MFN basis and that the WTO played a significant role, and the contributions of the reductions in preferential tariffs by RTAs and others were limited and played a complementary role.

All tariffs are not necessarily removed entirely by tariff reductions under RTAs and these would be implemented over a few decades in a progressive manner rather than immediately once agreements have entered into force. The International Trade Centre (ITC) has developed data on these tariff reduction schedules over time through existing EPAs.<sup>4</sup>

The APEC economies have aimed to liberalize trade by 2020, according to the Bogor Declaration. The average tariff rate of the APEC economies imposed on imports from APEC members declined from 7.9% in 1995 to 1.7% in 2017 (see Kawasaki, 2023), which is calculated based on the database provided by the Global Trade Analysis Project (GTAP). Moreover, it is also shown that average tariff rates based on the ITC data above will decline to 1.2% sometime in the future when tariff reductions would fully be implemented under all EPAs entered into force by 2020, including the CPTPP, USJTA and the US-Mexico-Canada Agreement (USMCA),

alongside the RCEP. That said, the Bogor Goal has not yet fully been achieved and further continuous efforts for tariff reductions would be required.

## US Joining the CPTPP

The agreement of the UK, which has left the EU, to join the CPTPP entered into force in December 2024, after the CPTPP entered into force in December 2018. Meanwhile, China, Chinese Taipei, Indonesia, Costa Rica, Ecuador, Uruguay and Ukraine have applied to join the CPTPP.

Reviewing the economic impact of the CPTPP, I compare the economic impact of tariff removals when the US and/or China join the CPTPP, having the UK as the 12th member,<sup>5</sup> with reference to the impact of tariff reductions under the actual CPTPP (see Kawasaki, 2023). The ITC data based on the actual agreements of the CPTPP and EPAs are employed for tariff reduction data. In the compared cases of the US and/or China joining the CPTPP, tariff reductions implemented after the CPTPP entered into force are incorporated in the baseline including those under the USJTA and USMCA. The impact of other policy measures including the reductions of NTMs, the liberalization of services and investment are not considered.

The impacts of the above four cases on the real GDP of each economy are shown in *Chart 1*. US real GDP is shown to slightly decrease if not joining the CPTPP but to increase by 0.3% if joining. Meanwhile, if the US joined the CPTPP, real GDP is shown to increase as much as that under the CPTPP in Japan and Malaysia, and much larger than that under the CPTPP for Vietnam. On the other hand, real GDP is shown to decrease in several CPTPP members including Australia, Singapore, Mexico, Chile, and Peru. This adverse impact would be attributed to trade diversion effects. Trade with the US of CPTPP members (Canada in addition to the above) that have already implemented FTAs/EPAs with the US would not increase so much, but trade with the US would be replaced by new trade between the US and the other CPTPP members that have not implemented FTAs/EPAs with it. Meanwhile, the real GDP of China is shown to decrease more than if it was under the CPTPP.

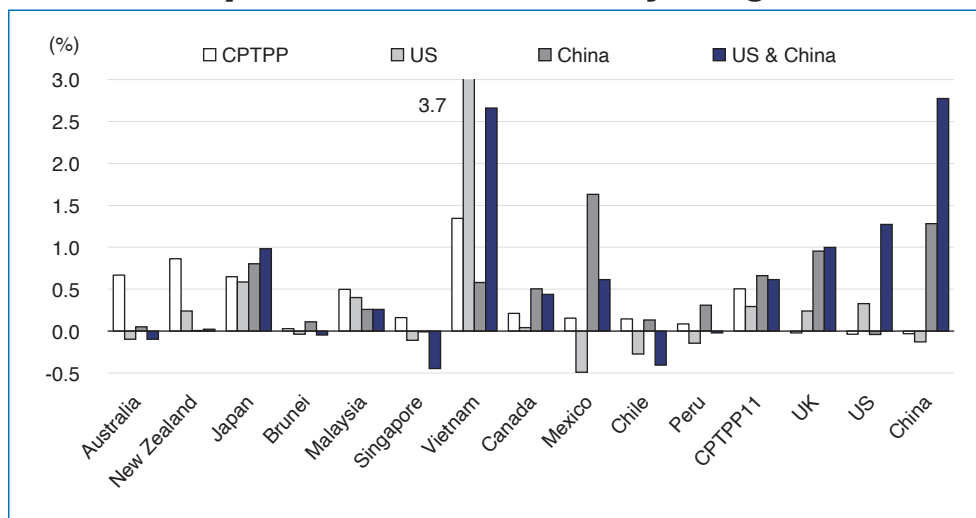
In the meantime, another movement toward protectionism has been seen in the US. That would not create but destroy jobs, as discussed in Box 1.

## China Joining the CPTPP

Meanwhile, China’s real GDP is shown to decrease under the CPTPP alongside the US, but increase by 1.3% if joining the CPTPP, which would exceed the impact of the US joining the CPTPP on the US (0.3%) as discussed above. The real GDP of the 11 CPTPP

CHART 1

## Real GDP impact of US and/or China joining the CPTPP



Source: Based on Kawasaki, Kenichi (2023)

### Box 1: Economic impact of US tariff hikes

Former US President Donald Trump, who was elected again as president in November 2024, has proposed introducing a 10% “universal baseline tariff” on US imports (uniform) and a 60% tariff on imports from China (China). The economic impact of such US tariff hikes on the US, China and other economies in the world (as investigated in Kawasaki, 2024d) are shown in the following [Table 1](#).

If the US uniformly hiked tariffs by 10%, US imports from the world are shown to decrease by 10.0% resulting in decreases in worldwide imports by 2.3%. If the US additionally hiked import tariffs from China by 60%, US imports from China would decrease by 92.4% but it would result in smaller decreases in US imports from the world (13.0%) and in world imports (2.6%). The trade balance in goods and services is shown to improve in the US by \$30.3 to \$33.7 billion but deteriorate mainly in China by \$10.8 to \$17.9 billion. On the other hand, real GDP is shown to decrease in the US (by 1.7% to 3.2%) as well as in Canada and Mexico. China’s real GDP is shown to decrease (by 1.4%) if the US additionally hiked import tariffs from China. In contrast, other economies would not necessarily be adversely affected to a large extent.

members would generally increase and the total real GDP in the 11 members as a whole is shown to increase by around two times that if the US joined the CPTPP. That said, US real GDP is shown to decrease as much as that under the CPTPP.

The impact of the US and China joining the CPTPP together would not be the simple sum of the above two impacts of the US and China individually joining the CPTPP. US real GDP is shown to increase by 1.3% and China’s real GDP is shown to increase by 2.8%. This would be far larger than the above cases resulting from significant trade creation effects between the US and China.

On the other hand, the trade diversion effects on the 11 CPTPP members would be larger. Their real GDPs are shown to increase less than the simple sum of the two impacts, even turning to a decrease or decreasing more. The real GDP impact on the 11 CPTPP economies in total would not exceed that under China solely joining the CPTPP. It is suggested that the third parties to the US and China, except Japan, would enjoy larger benefits from the US and China decoupling and either the US or China joining the CPTPP than that from the US and China coupling and both joining.

The relative significance of the impact of the US and/or China joining the CPTPP is shown to vary among CPTPP members comparing the impacts of the above cases. The priority of policy scenarios would be affected among CPTPP members by the variation in the economic impact.

Another scenario of further RTAs for China would include a China, Japan and South Korea (CJK) FTA and remaining tariff removals under the RCEP. But this economic impact may be smaller than that

TABLE 1

## Impact of US tariff hikes

	Trade Balance (billion USD)		Real GDP (%)			Trade Balance (billion USD)		Real GDP (%)	
	Uniform	China	Uniform	China		Uniform	China	Uniform	China
Australia	-1.0	-1.2	-0.2	-0.1	China	-10.8	-17.9	0.1	-1.4
Japan	-0.3	-0.3	0.0	0.5	South Korea	-0.6	0.9	0.1	0.6
ASEAN	-2.0	-0.9	0.1	1.5	India	-0.8	-2.1	0.2	0.6
US	30.3	33.7	-1.7	-3.2	Canada	2.4	0.3	-1.4	-0.8
Mexico	-2.4	0.2	-4.8	-0.7	EU	-4.1	-0.5	0.1	0.3
UK	1.0	-0.8	0.0	0.2	Russia	-3.0	-2.9	0.1	0.4
World	–	–	-0.5	-0.9					

Source: Based on Kawasaki, Kenichi (2024d)

under China joining the CPTPP as discussed in Box 2.

## India Joining the CPTPP

### Box 2: Economic impact of a CJK FTA

FTA negotiations among Japan, China and South Korea were launched in 2012. The leaders of the three economies agreed at the Trilateral Summit in May 2024 to “keep discussions for speeding up negotiations” toward a CJK FTA. The possible economic impact of tariff removals under a CJK FTA is compared with the impact of three alternative scenarios: remaining tariff removals among the 15 RCEP member economies (RCEP+), China and South Korea joining the CPTPP, and remaining tariff removals among the APEC economies (FTAAP) (see Kawasaki, 2024c) as is shown in the following [Table 2](#).

All three economies are shown to enjoy real GDP gains from a CJK FTA, but the magnitude would be larger under RCEP+ tariff removals. On the other hand, if China and South Korea joined the CPTPP together, they would enjoy larger real GDP gains than the above two scenarios, but Japan would enjoy less. Meanwhile, the relative significance of those benefits compared with the overall FTAAP scenario would vary among the three economies. China’s real GDP gains under the CPTPP scenario would account for around 30% of that under the FTAAP scenario, while Japan’s gains would account for around 50%, and South Korea’s gains would account for around 80%.

India has withdrawn from RCEP negotiations, but its real GDP is shown to increase by 2.8% (Kawasaki, 2024b)<sup>9</sup> if it joined the RCEP and removed remaining tariffs with the 15 RCEP economies. Real GDP is also shown to increase in China (0.3%) and New Zealand (0.1%), which have not implemented RTAs with India. But real GDP would decrease in Japan, Singapore and others and an increase in real GDP of the 15 RCEP economies in total is shown to be limited to 0.2%. Meanwhile, real GDP would decrease in American economies and the real GDP of the 11 CPTPP members in total is shown to decrease, though slightly.

Moreover, the real GDP impact of India joining the CPTPP, following the UK, is shown in [Chart 2](#) under four scenarios based on joining 1) before the US and China, 2) after the US, 3) after China, and 4) after both the US and China. Tariff reductions under the Australia-India Economic Cooperation and Trade Agreement (ECTA) that entered into force in December 2022 are incorporated in tariff data of the baseline updated here based on the ITC data discussed earlier. India has implemented RTAs with CPTPP members except New Zealand, Canada, Mexico and Peru but not with the US and China.

If India joined the CPTPP, its real GDP is shown to increase by 1.6%, but this is smaller than if it joined RCEP (2.8%). But if the US joined the CPTPP (2.9%) or China joined (3.5%), as well as both the

TABLE 2

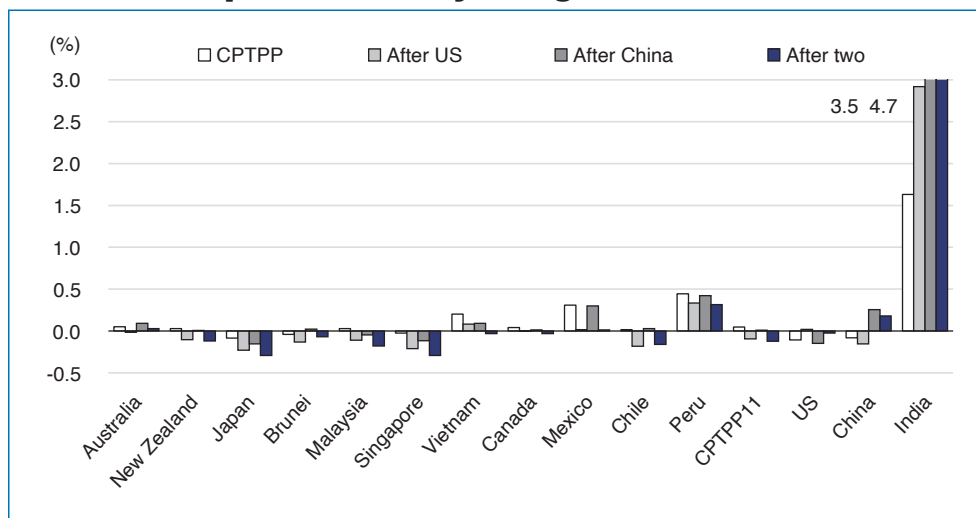
## Real GDP impact of a CJK FTA

	CJK	RCEP+CPTPP	FTAAP		CJK	RCEP+CPTPP	FTAAP
China	0.38	0.52	0.76	RCEP	0.42	0.63	0.66
Japan	1.06	1.33	1.00	CPTPP11	0.38	0.54	0.79
South Korea	0.76	0.87	0.92	APEC	0.18	0.28	0.35
			1.15				1.76

Source: Based on Kawasaki, Kenichi (2024c)

CHART 2

## Real GDP impact of India joining the CPTPP



Source: Based on Kawasaki, Kenichi (2024b)

US and China joined (4.7%), the impact of India joining the CPTPP is shown to be larger than if joining the RCEP.

On the other hand, the macroeconomic impact of India joining the CPTPP on its members, the US and China is shown to be far smaller than that on India in the four cases here. An adverse impact is suggested due to trade diversion effects discussed above. Japan and Singapore are shown to lose real GDP in all the cases. If India joined the CPTPP, real GDP would decrease in Brunei as well. Meanwhile, if India joined after the US, real GDP would decrease in many CPTPP members except Vietnam, Mexico and Peru, and the total real GDP in the 11 economies would turn to a decrease. In contrast, if India joined after China, real GDP is shown to increase in many members except Japan, Malaysia and Singapore, and the total of real GDP in the 11 economies would not necessarily decrease. If India joined after both the US and China, the total of real GDP in the 11 economies is shown to decrease.

### Impact by Sector

The impact of trade liberalization, which changes the structure of economies, would be larger at the sector level than at the macro level. Winners and losers would be generated by industry. The expansion of production is theoretically expected according to the comparative advantage of each economy. Production would expand in primary industries including agriculture, forestry and fisheries in those economies where land and natural resources are rich, in labor intensive textiles and apparel and light manufacturing in developed

economies, and also in technology and capital intensive manufacturing including motor vehicles in developed economies. But the actual economic impact would be affected by the magnitudes of tariff reductions by economy and industry. It is useful to quantitatively study that impact using economic model simulations. The impact on production in agriculture, forestry and fisheries, textiles and apparel, and motor vehicles, are summarized as follows (Kawasaki, 2023).

**Agriculture, forestry and fisheries:** Production increases in Australia, New Zealand and Canada under the CPTPP, and in the US if it joined the CPTPP, as well as in China if it joined, but decreases in Japan under the CPTPP and if the US joined but not necessarily if China joined.

**Textiles and apparel:** Production increases in Brunei, Malaysia and particularly in Vietnam significantly if the US joined the CPTPP but largely decreases in Canada, Mexico and the US if both the US and China joined.

**Motor vehicles:** Production increases in Japan in all cases, in the UK significantly if China joined the CPTPP, and in the US if both the US and China joined, but decreases in Australia, New Zealand and Singapore under the CPTPP.

These impacts on Japan, the US and China are re-summarized as follows across the industries.

**Japan:** Production increases in motor vehicles. Production in textiles and apparel increases under the US joining the CPTPP but decrease under China joining. Production in agriculture, forestry and fisheries decreases under the US joining but not

necessarily under China joining.

**US:** Production increases in agriculture, forestry and fisheries if joining the CPTPP and in motor vehicles if both the US and China joined, but decreases in textiles and apparel if joining the CPTPP, more so under China joining, and even more if both the US and China joined.

**China:** Production increases particularly in textiles and apparel if joining the CPTPP but decreases in motor vehicles. That impact would be enhanced by the US also joining.

Meanwhile, if India joined the CPTPP, its production in all of agriculture, forestry and fisheries, textiles and apparel, and motor vehicles would increase (see Kawasaki, 2024b) regardless of whether the US and/or China joined. But the impact on production in the other economies is found to be mixed. Agriculture, forestry and fisheries production is shown to increase in Australia and Canada but decrease in China, particularly under India joining the CPTPP after the US. Textiles and apparel production is shown to decrease in the ASEAN economies, the US, and in China, except if India joined after China. Motor vehicle production is shown to increase in Mexico but decrease largely in the US as well as Japan and Canada, and in China under India joining without China.

### AVEs of NTMs

The TPP/CPTPP and other pacts are expected to build up the standards of global trade by reducing NTMs and liberalizing services and investment. They have not been limited to traditional tariff reductions and are said to be suitable for the 21st century. The TPP Agreement consists of 30 chapters and is expected to address new issues regarding electronic commerce, the role of state owned enterprise (SOE), and other issues.

NTMs are defined by the United Nations Conference on Trade and Development (UNCTAD) as “policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded or prices or both” in UNCTAD (2010). This definition appears neutral to the direction of the impact on trade and economy distinguished from non-tariff barriers (NTBs), which are subset of NTMs. Many NTMs would be justified from the perspectives of health, safety, and the environment rather than being economically restrictive to protect trade.

The international standard classifications of NTMs are shown in UNCTAD (2019). Eight international organizations<sup>7</sup> as well as the governmental organizations of the US and the European Commission (EC) have participated in their standardization work. Technical and non-technical measures mainly on imports are classified under 16 chapters. 19,556 sanitary and phytosanitary (SPS) measures and

16,645 technical barriers of trade (TBT) in total share around 70% of NTMs (50,511) according to UNCTAD and the World Bank (2018).

UNCTAD and the World Bank have collected NTM data for trade in goods based on the above classification and estimated AVEs of NTMs. These AVEs have been updated and adjusted consistent with the data of the Global Trade Analysis Project (GTAP) to be incorporated in the GTAP 11 Satellite Data.

The world average of the AVE rates of NTMs is shown to be 2.7%,<sup>8</sup> which is slightly higher than the average tariff rate (2.3%) in the same reference year 2017 (see Kawasaki, 2024a). They are shown to be higher in agriculture, forestry and fisheries (7.1%) and processed foods (5.6%) but lower in textiles and apparel (1.4%), in which tariff rates are higher (5.9%). They are also higher in economies like Russia (5.5%) and China (4.8%) but lower in the EU (1.0%).

Moreover, the various differences and features of the AVE rates of NTMs are pointed out by economy and by sector. In Japan, they are shown to be high in motor vehicles (11.1%), in which tariffs are zero. In the US, they are around twice the world average in electronics products (5.0%). In China, they are more than twice the world average in mining (3.2%) and chemical products (5.1%).

### Economic Impact of NTM Reductions

There are a few key elements for studying the economic impact of NTM reductions. The first is the *actionability* of NTM reductions. It would not be possible to remove all NTMs as discussed above. Meanwhile, the magnitudes of NTM reductions under FTAs/EPAs would be determined by the actual ratios of NTM reductions agreed by negotiations based on the levels of NTMs prior to their reductions. Quantitative studies would be required according to the articles of agreements.

The second is the degrees of *spillover effects* of NTM reductions. Many NTMs would be related to domestic policy initiatives, and they could not be changed at the border with the FTAs/EPAs members as if they were preferential tariff reductions. Those NTM reductions would be applied universally to third parties which are not FTAs/EPAs members as something like that on an MFN basis. Kawasaki (2024a) studies the sensitivity of the degrees of the spillover effects of NTM reductions in the four cases of the US and/or China joining the CPTPP above assuming the actionability of NTM reductions at 50%.

The magnitude of the impact of NTM reductions under the CPTPP is pointed out to be affected by the degrees of spillover effects to a large extent. An increase in the total real GDP of the 11 CPTPP members is shown to range from 0.5% under no spillovers to 2.1% under full spillovers, which is around four times. The relative significance of spillover effects is indicated to vary among the

economies. Australia's real GDP is shown to increase around two times under full spillovers (1.3%) compared with that under no spillovers (0.6%). Japan's real GDP is shown to increase more than five times under full spillovers (2.8%) compared with that under no spillovers (0.5%). The differences in the relative sizes of non-member economies as trade partners among CPTPP members would be reflected there.

These variations are also pointed out under the US and/or China joining the CPTPP. It is suggested that the relative significance of spillover effects would be smaller according to the expansion of the CPTPP. If both the US and China joined the CPTPP, the real GDP of the 11 CPTPP members in total is shown to increase by 2.7% with full spillovers, which is no longer much larger than that without any spillovers (2.3%).

On the other hand, possible small "free rider" gains of NTM reductions resulting from spillover effects to non-members of the CPTPP is found. Real GDP is shown to increase in the US (0.1%) and China (0.3%) under full spillover of the CPTPP. Real GDP is also shown to increase in the US under the US joining the CPTPP (from 0.7% to 1.8%) as well as in China under China joining (from 1.7% to 4.0%). It is suggested that participation in the CPTPP would be key to enjoying the benefits of NTM reductions under the CPTPP.

## Notes

1. <https://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>
2. <https://stats.wto.org/>
3. World Integrated Trade Solution (WITS), World Bank. <https://wits.worldbank.org/>
4. Market Access Map, ITC. <https://www.macmap.org/>
5. The UK has implemented RTAs with all CPTPP members except Brunei and Malaysia. The UK's real GDP is shown to increase by 0.05% by tariff removals with the above two economies under the UK joining the CPTPP, which results in an increase in real GDP of CPTPP members in total by 0.01% (see Kawasaki, 2023).
6. An earlier estimate on the impact of RCEP tariff reduction is discussed in Kawasaki (2021). It is noted that RCEP economies have implemented RTAs except between Japan and China, and Japan and South Korea, before the RCEP entered into force. China, Japan and South Korea would enjoy larger real GDP increases than the other 12 RCEP economies due to large trade creation effects among the three economies. But it must also be noted that the RCEP has not yet agreed on full tariff removals among the member economies. ASEAN economies in total are shown to lose under RCEP tariff reductions but in turn to gain under remaining tariff removals among RCEP economies.
7. Food and Agriculture Organization of the United Nations (FAO), International Monetary Fund (IMF), ITC, Organisation for Economic Development and Co-operation (OECD), UNCTAD, United Nations Industrial Development Organization (UNIDO), World Bank, WTO.
8. UNCTAD data covers that of 49 major importing economies from 96 exporting partner economies, counting the EU as one economy. Data for the other economies are set as zero and the average value for the world as a whole would be biased downside to some extent.

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