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**Submission to the UK International Trade Committee hearing on the CPTPP**

This submission comprises:

- i. A brief note on modelling the potential economic benefits from the CPTPP;
- ii. A timeline of regional economic integration in the Asia-Pacific region;
- iii. A chart of the current membership of the principal economic groupings in the Asia-Pacific and the size of individual economies.

## **Modelling the Impact of the CPTPP**

John Ravenhill

1. I should begin by noting that like many commentators, I am skeptical of the estimates of gains from modelling trade agreements that are calculated using Computable General Equilibrium (CGE) models. Such models make a variety of *assumptions* about the post-liberalization behaviour of the economy as a whole that are far from realistic, e.g., full employment of labour and capital, fixed government deficits, and that groups of consumers and producers behave in the same way (Taylor and von Armin [2007] provide an accessible survey of the problems with these models).
2. Moreover, the effects of trade agreements are often swamped by other developments. A couple of real-world examples:
  - a. The Australian trade deficit with the United States ballooned after the signature of the bilateral trade agreement between the two countries. Critics attributed this change to the trade agreement. In the two years after the agreement's implementation, however, the Australian dollar appreciated by more than 20% against its US counterpart, making Australian exports less competitive, more than offsetting any gains from the trade liberalization;
  - b. Mexico's beef exports to Japan quadrupled immediately after the signature of their bilateral trade agreement. This surge, however, was primarily a consequence of a BSE outbreak, which curtailed imports from the US. The trade agreement had provided for a very limited duty-free quota for Mexican beef exports.
3. And, liberalization in economically/politically sensitive sectors is often phased in over a substantial period. For instance, the removal of Malaysia's tariffs on automobiles will be implemented over a 12 year period if it ratifies the CPTPP agreement. In the CPTPP, three-quarters of non-zero tariff lines will be reduced to zero on ratification.

### *Estimates of the Impact of the CPTPP*

4. All the published work to date has focused on the possible impact of the TPP/CPTPP on countries in the Asia-Pacific region. The UK was not included in these studies (except in examining the impact of the agreement on a non-member, the European Union). Much of the published work has been done by Peter Petri and Michael Plummer of the Peterson Institute of International Economics in Washington, DC.

### The principal findings:

- a. The projected gains from CPTPP are around thirty percent of those projected for the original TPP (i.e., when the United States was included).
- b. If China were to join the current CPTPP (without the United States), welfare gains are projected to be around four times larger.

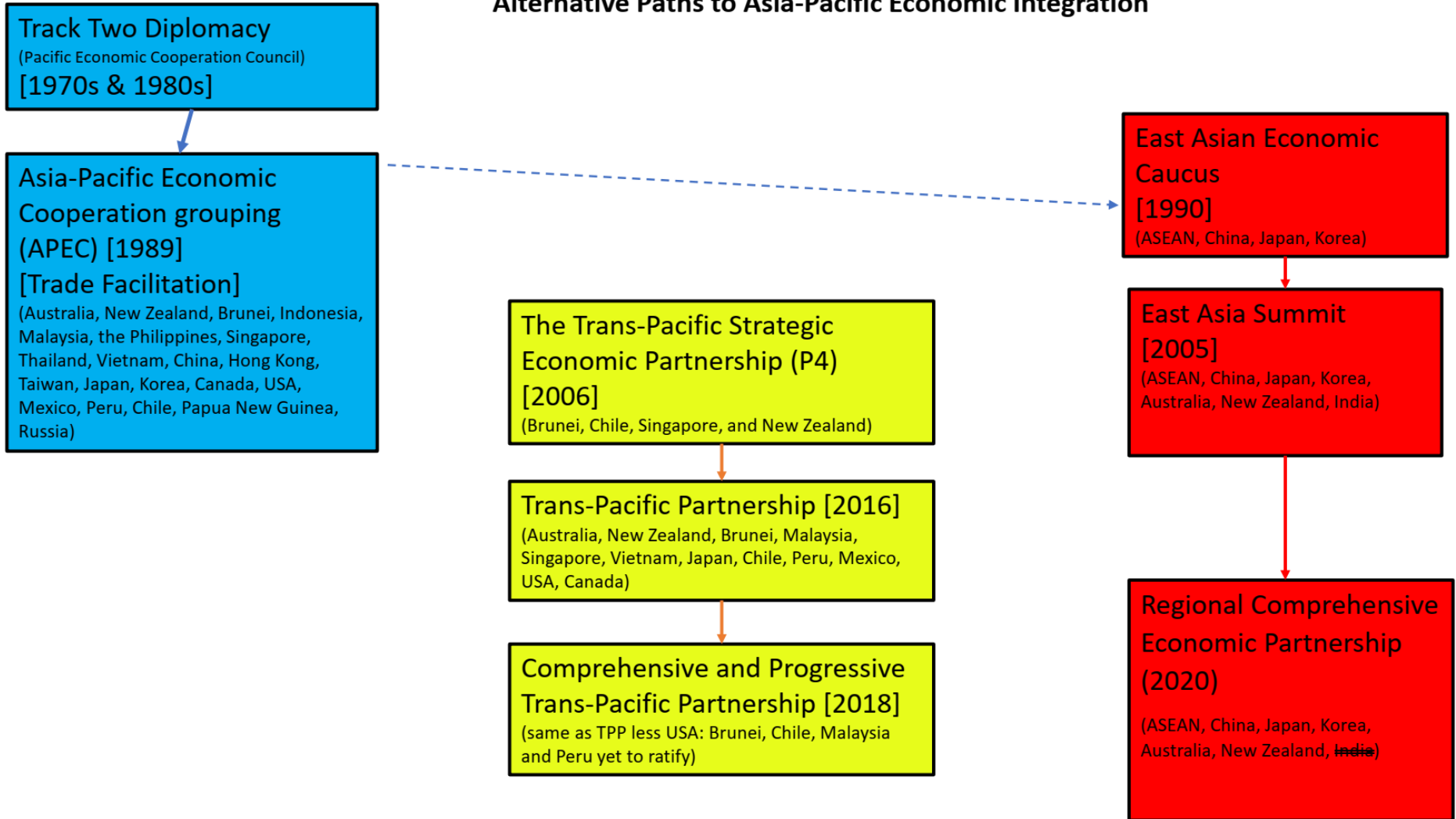
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- c. One third of the projected gains from the CPTPP as currently constituted will accrue to Japan (boosting its GDP by 0.9% by 2030).
  - d. The projected welfare gains from the Regional Comprehensive Economic Partnership (RCEP) are greater than those from the CPTPP. Even though RCEP is a “shallower” agreement, its membership is much broader.
5. While one may doubt some of the assumptions on which such modelling relies and, consequently, how accurate the projections will prove to be, it is common sense that the potential welfare gains from trade agreements will be much higher when larger economies (China and the US) are involved.
6. The CPTPP has been in effect for only two years, a period in which the global economy has been buffeted by US trade wars and the Covid pandemic. Any effects from the agreement will have been outweighed by these other factors.

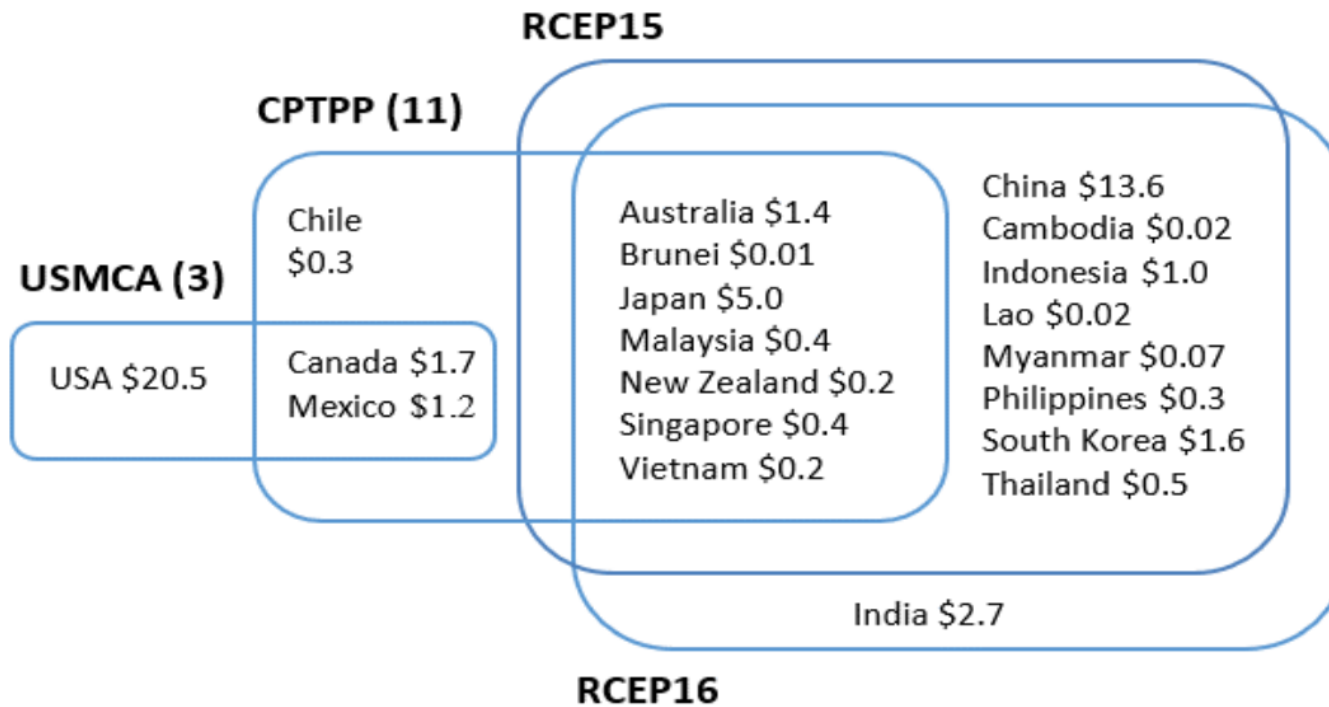
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Taylor L. and Amim R. V. (2007) 'Modelling the Impact of Trade Liberalisation: A Critique of Computable General Equilibrium Models'. Oxford: Oxfam Publishing, 2007 <[http://www.networkideas.org/wp-content/uploads/2016/10/Modelling\\_Impact.pdf](http://www.networkideas.org/wp-content/uploads/2016/10/Modelling_Impact.pdf)>

### Alternative Paths to Asia-Pacific Economic Integration



### Asia-Pacific Economic Groupings (2018 GDP in US\$ trillions)



\* India withdrew from the RCEP negotiations before the agreement was signed>>RCEP15.

\*\* Brunei, Chile, Malaysia and Peru have yet to ratify the CPTPP (Peru is missing from this chart).

Source: Petri P. A. and Plummer M. G. (2020) 'Trade War, RCEP and CPTPP: Will East Asia Decouple from the United States?'. Washington, D.C.: Peterson Institute for International Economics, 2020 <<http://asiapacifictrade.org/wp-content/uploads/2020/11/Petri-Plummer-East-Asia-complete-112820.pdf>>.