

CPTPP as a Global “Docking Station” for Free Traders?

Prospective Members and Potential Gains

By Kati Suominen

Over a decade ago, there was significant discussion among Asia-Pacific Economic Cooperation forum (APEC) members about forming the Free Trade Area of the Asia-Pacific (FTAAP). Your author too at the time participated in several APEC senior officials’ meetings as a technical expert to [assess](#) how such a mega-pact could be brought together—for example, through “docking” new members onto it, “merging” existing trade deals, or “converging” trade deals to have common provisions.

Today, the 11-country Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is emerging as such a “docking station” for countries in the Asia-Pacific and beyond—Indonesia, South Korea, the Philippines, the United Kingdom, Thailand, and Taiwan have all made official statements expressing interest in joining the CPTPP. On September 10, 2021, China [sought](#) the Australian parliament’s help to join the CPTPP. Members such as Japan have also lobbied for the Biden administration to bring the United States back into the bloc after the Trump administration abandoned an earlier iteration of the agreement, the Trans-Pacific Partnership (TPP).

The prospective members could benefit from docking in the deal in terms of:

- Joining a high-quality, modern trade deal with ground-breaking, binding rules for e-commerce in a region where e-commerce is booming;
- Gaining new market access in goods and services;
- Re-diversifying the sources of goods imports away from China; and
- Strengthening the CPTPP’s ability to act as a counterweight against China in Asia-Pacific trade and integration.

Current members would also benefit from new members, in terms of building up the coalition of countries committed to strong digital trade rules and deeper market access for goods and services in vibrant emerging markets such as Indonesia, the Philippines, and Thailand.

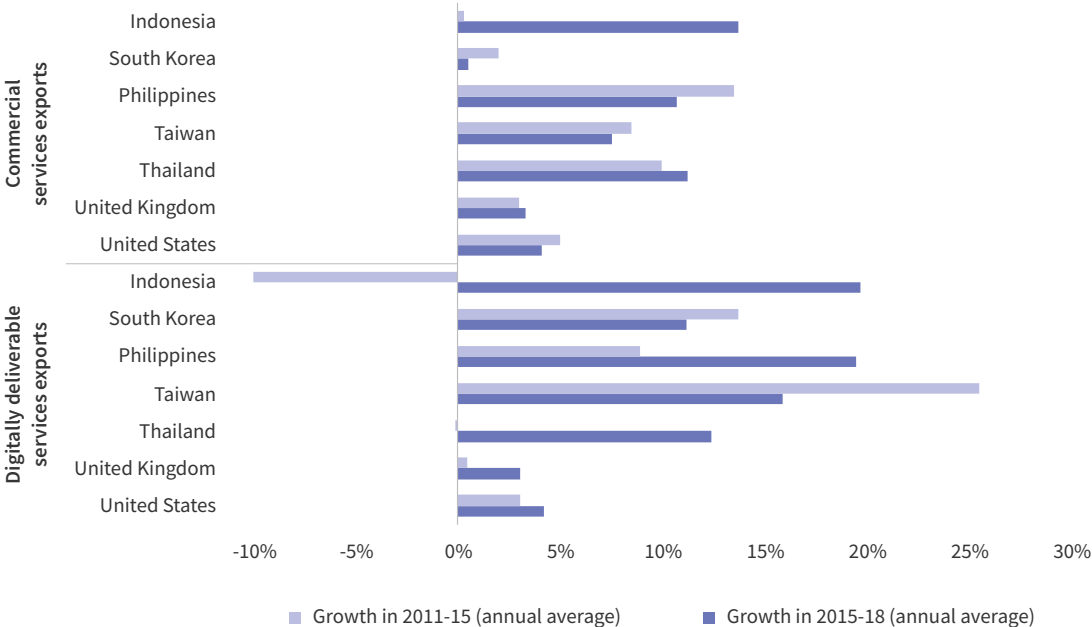
This paper assesses the state of the prospective members’ trade with CPTPP members and their potential gains from accession. Specifically, the paper reviews recent trends in services and goods trade and results from an online survey of 269 firms from two nonmember economies, the Philippines and South Korea, as well as of 530 member-country firms. There are six main patterns:

1. The CPTPP’s market for services, and especially digitally deliverable services, is an opportunity, especially for the Philippines, the United Kingdom, and the United States, which has been growing its services exports to the CPTPP.

The CPTPP liberalizes trade in services—and the comprehensive e-commerce chapter, which cements free cross-border data transfer and free trade in digital goods, is expected to boost trade, especially in digitally deliverable services, such as computing, professional, and engineering services that can be delivered online. CPTPP accessions could favor such prominent services exporters as the Philippines, the United Kingdom, and the United States, the world’s largest services exporter. The various prospective CPTPP members’ services exports have been booming, expanding by an annual average of 7 percent from 2011 to 2018; digitally deliverable services exports have grown by 10 percent in the same period (Figure 1). Indonesia, the Philippines, and Taiwan have had particularly strong growth in digitally deliverable services.

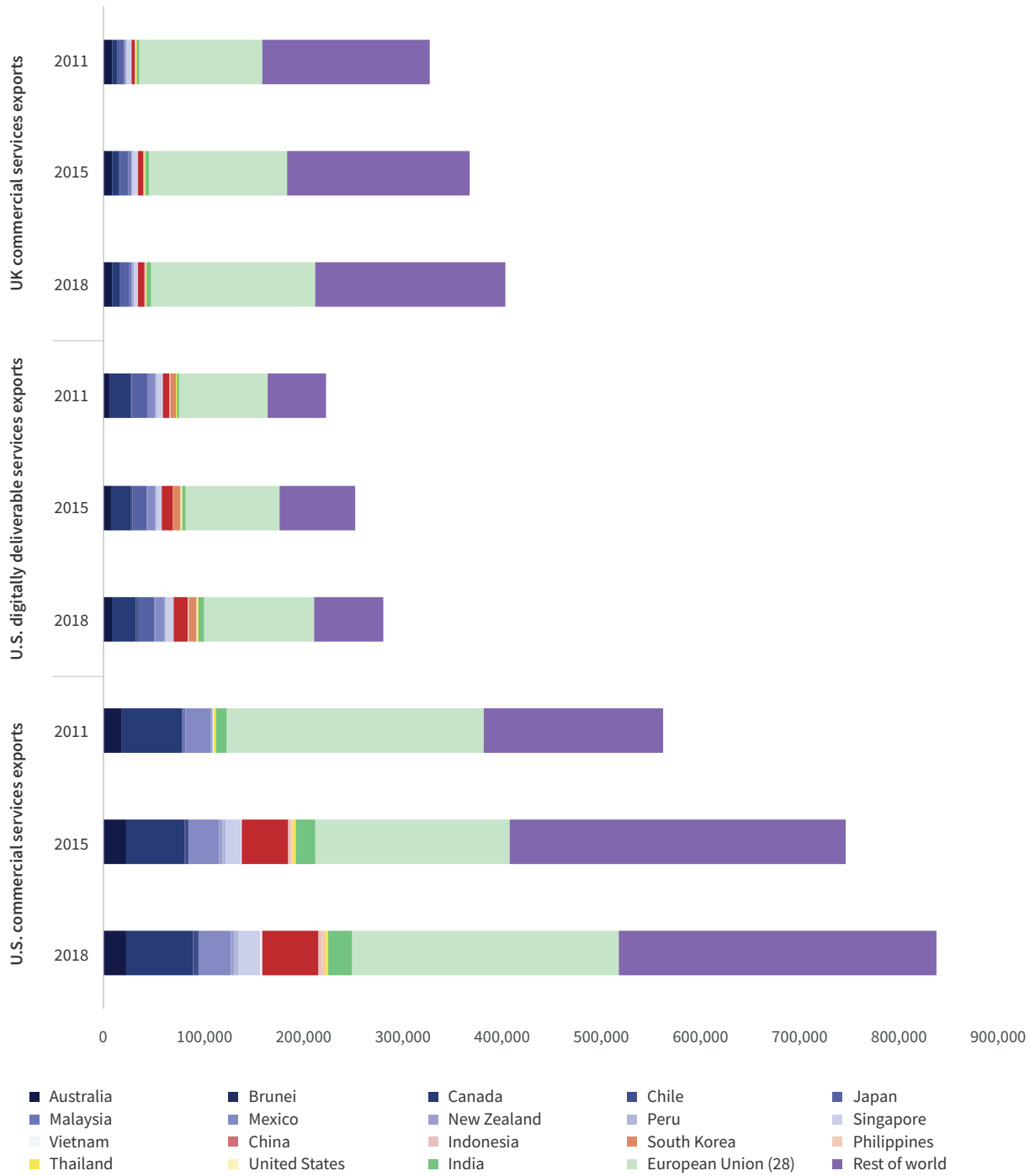
While data on the *direction* of services trade are limited, data that do exist suggest that both the United Kingdom and United States have already grown their digitally deliverable services to the CPTPP market. U.S. commercial and digitally deliverable services exports have been expanding to the CPTPP region in the past decade at the same pace as the growth of U.S. services exports to the world (Figure 2).

Figure 1: Prospective CPTPP Members’ Services and Digitally Deliverable Services Export Growth, 2011–15 and 2015–18



Source: Author’s calculations based on World Trade Organization, “WTO Data portal,” database, <https://data.wto.org/en>.

Figure 2: UK and U.S. Commercial Services and Digitally Deliverable Services Exports to the CPTPP Region and Rest of the World, 2011, 2015, 2018 (in millions of USD)



Note: CPTPP members in blue tones.

Source: Author's calculations based on World Trade Organization, "WTO Data portal," database, <https://data.wto.org/en>. Data on the United Kingdom's digitally deliverable services trade do not suffice for the analysis.

2. In goods trade, CPTPP accession could open new market access to prospective members and diversify import sources away from China.

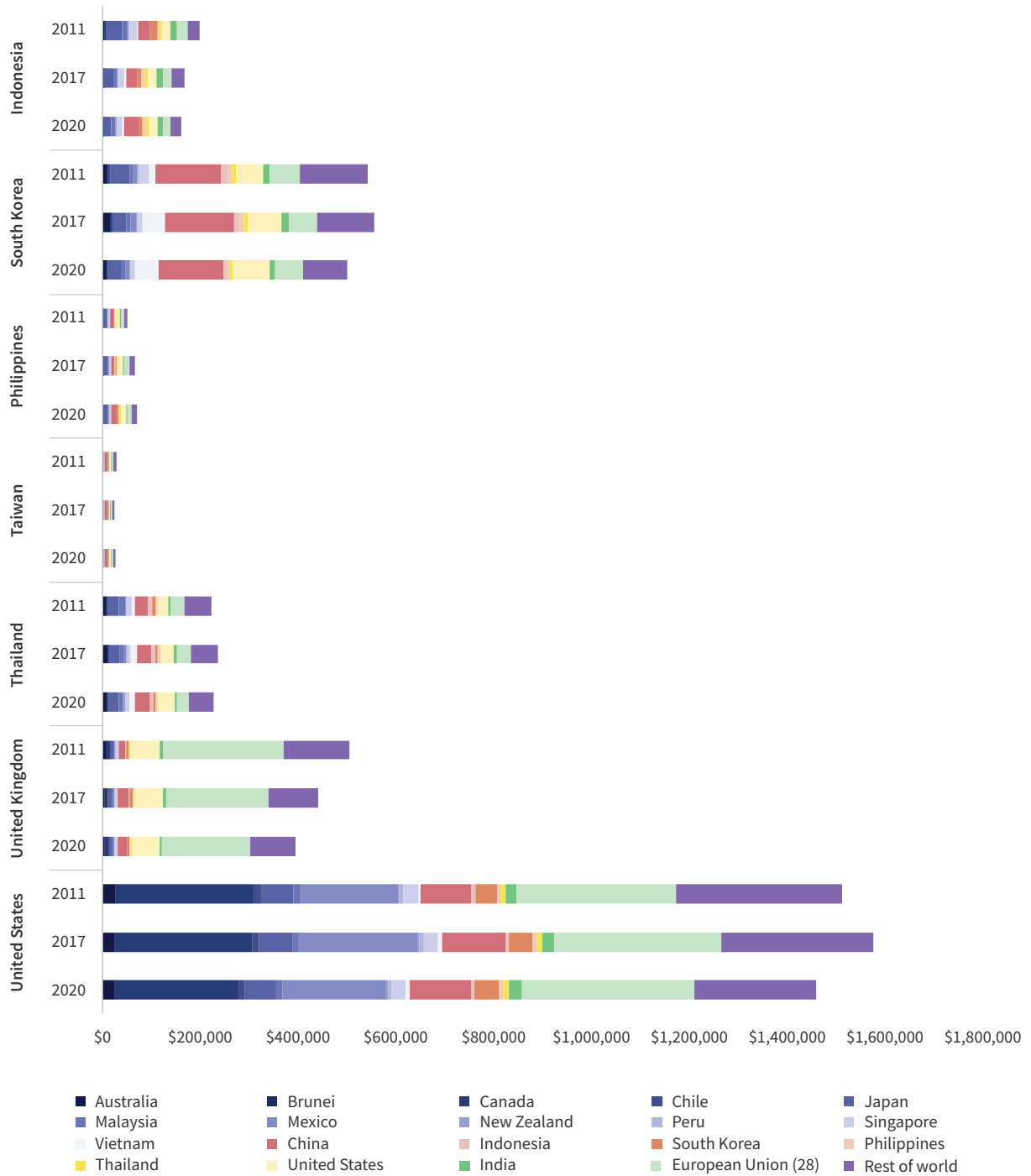
The CPTPP would also deliver merchandise trade gains. Overall, the CPTPP has declined in importance as an export market, especially for Indonesia and the Philippines, something accession might help reverse (Figures 3 and 4). A [World Bank analysis](#) of FTAAP, the closest equivalent to the expanded CPTPP in that analysis, suggests that many countries would experience additional growth in exports by 2030 from such a bloc, including 5 percent in Indonesia, 4.1 percent in Thailand, 6.4 percent in South Korea, and 11.4 percent in the Philippines. The potential gains from the recently signed 15-member Regional Comprehensive Economic Partnership (RCEP) pale in comparison.

Indeed, the CPTPP would likely benefit the nonmember emerging economies that are still in the process of building their trade agreement networks. For example, the Philippines does not have free trade deals with CPTPP members from the Americas (Canada, Chile, Mexico, and Peru), and Indonesia has only one with Chile. Both could, depending on tariff liberalization schedules, expand their exports and imports with the CPTPP, just as Vietnam has done since ratifying the deal in early 2019. In its analysis of gains from accession into the CPTPP, the Philippines [listed](#) auto parts, agricultural goods, garments, processed food, including meat alternatives, and electronics as sectors that would benefit.

In addition, Indonesia, South Korea, and the Philippines have been expanding their exports to Vietnam in recent years; this growth could be bolstered by CPTPP accessions and deeper access to the growing Vietnamese market. Growth of trade in goods would be a welcome shift from the past decade, when Indonesian exports to the CPTPP have shrunk, Thai exports to the CPTPP have flatlined, and the CPTPP has in general declined in importance for Indonesia, the Philippines, and Thailand (Figures 3 and 4).

Advanced economies would also gain—CPTPP members agreed to launch the United Kingdom’s accession process in June, and the UK government believes that, among others, its [auto manufacturers and whiskey exporters](#) would benefit. The United States is expected to grow [machinery, auto, and agricultural exports](#) upon acceding. On the import side, prospective partners could use the CPTPP to re-diversify their sources of imports that increasingly come from China (Figures 5 and 6). Indeed, except for the United States, for which imports from China declined amid Covid-19 in 2020, imports from China have been growing forcefully for all other prospective CPTPP members from 2011 to 2020. For example, Philippine imports from China increased from 10 percent in 2011 to 19 percent in 2020 of all Philippine imports, while Indonesian imports from China went from 15 percent to 24 percent and Thai imports went from 13 percent to 24 percent.

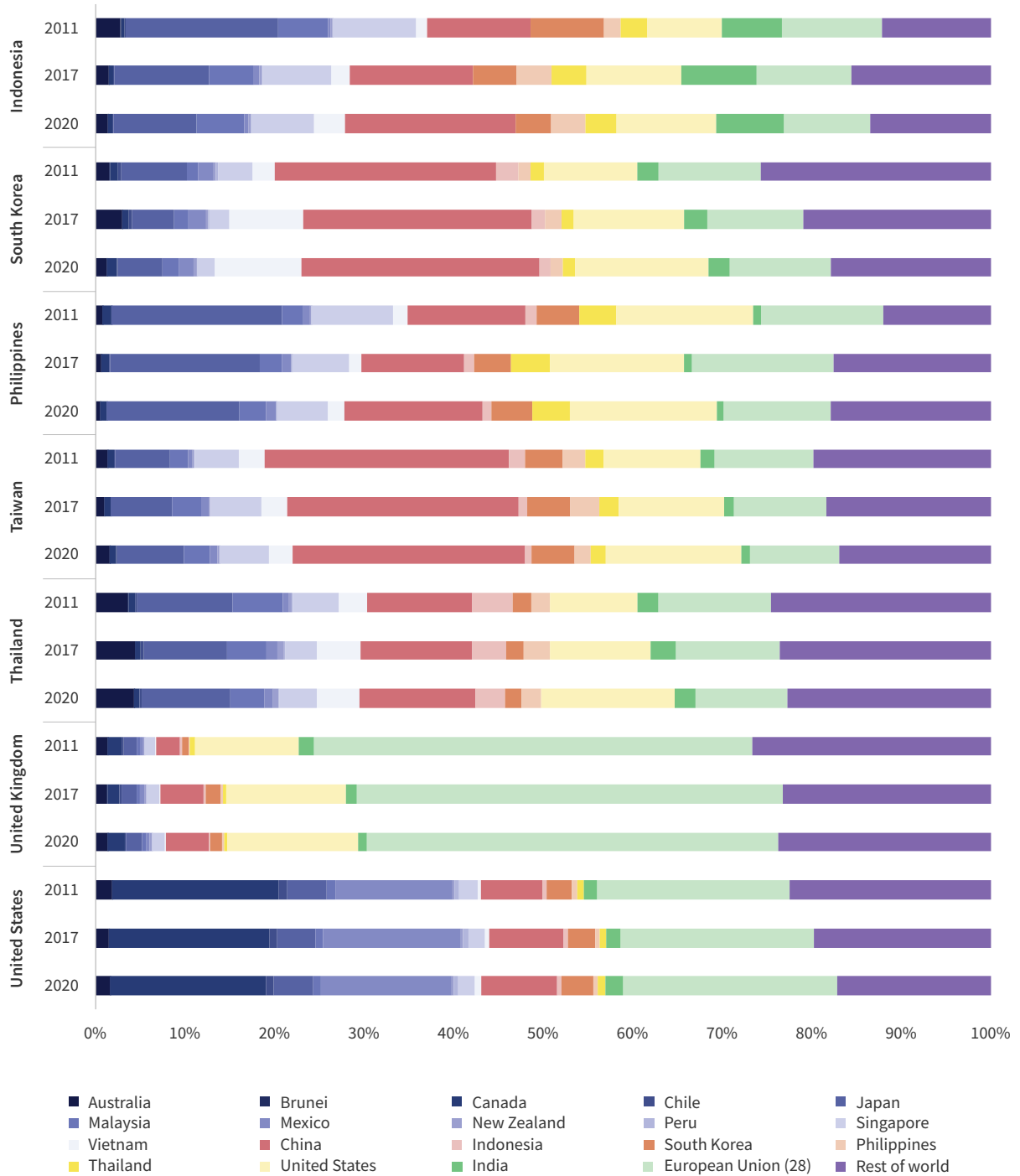
Figure 3: Prospective CPTPP Members' Goods Exports to CPTPP Members and Other Countries, 2011, 2017, 2020 (in millions of USD)



Note: CPTPP members in blue tones.

Source: Author's calculation based on International Monetary Fund, "Exports, FOB to Partner Countries," Direction of Trade Statistics, data-base <https://data.imf.org/regular.aspx?key=61013712>. The data for 2020 reflect data updated as of July 7, 2021.

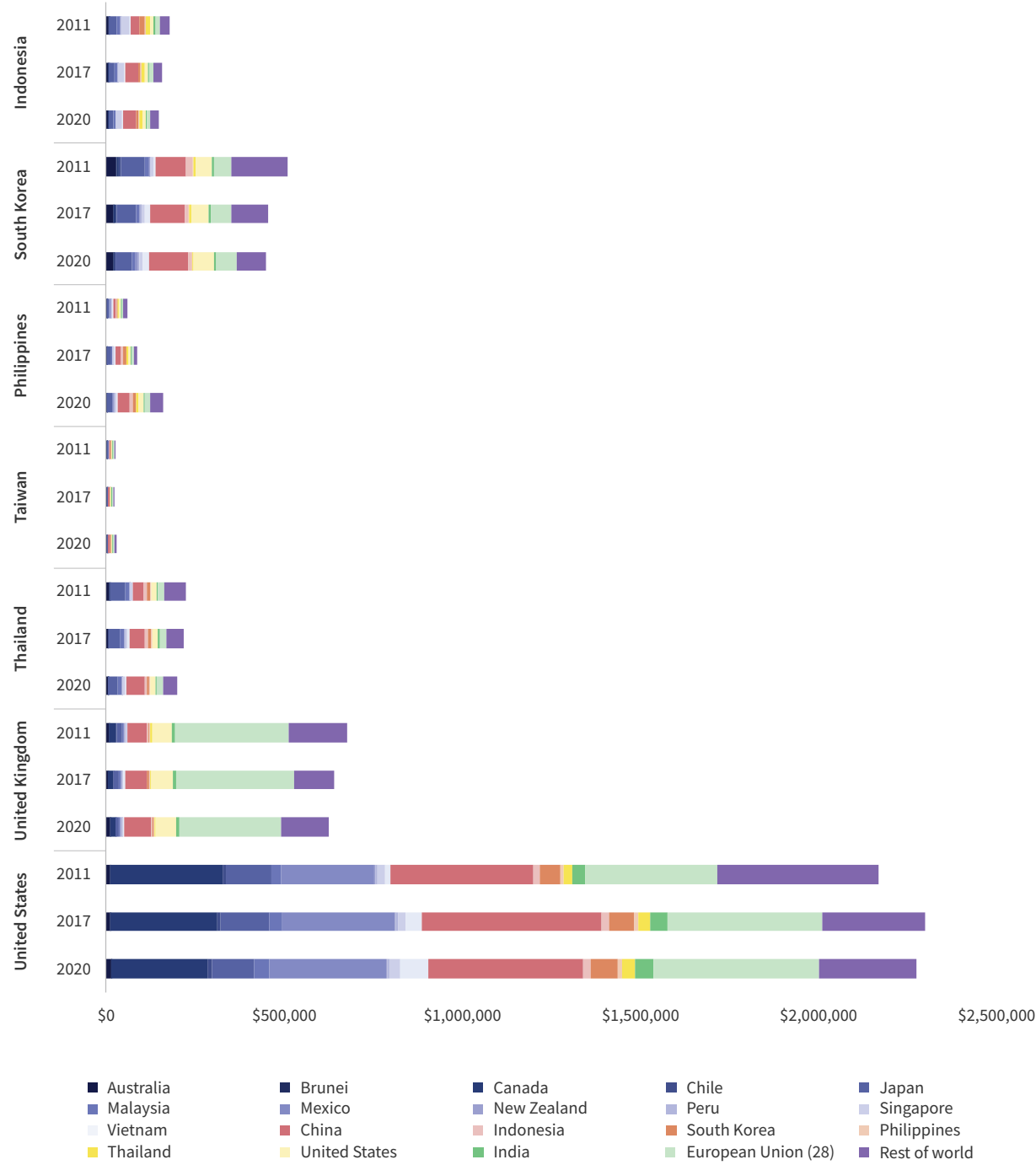
Figure 4: Prospective CPTPP Members' Export Markets in 2011, 2017, 2020 as Share of Total Exports



Note: CPTPP members in blue tones.

Source: Author's calculation based on International Monetary Fund, "Exports, FOB to Partner Countries," Direction of Trade Statistics, database, <https://data.imf.org/regular.aspx?key=61013712>. The data for 2020 reflect data updated as of July 7, 2021.

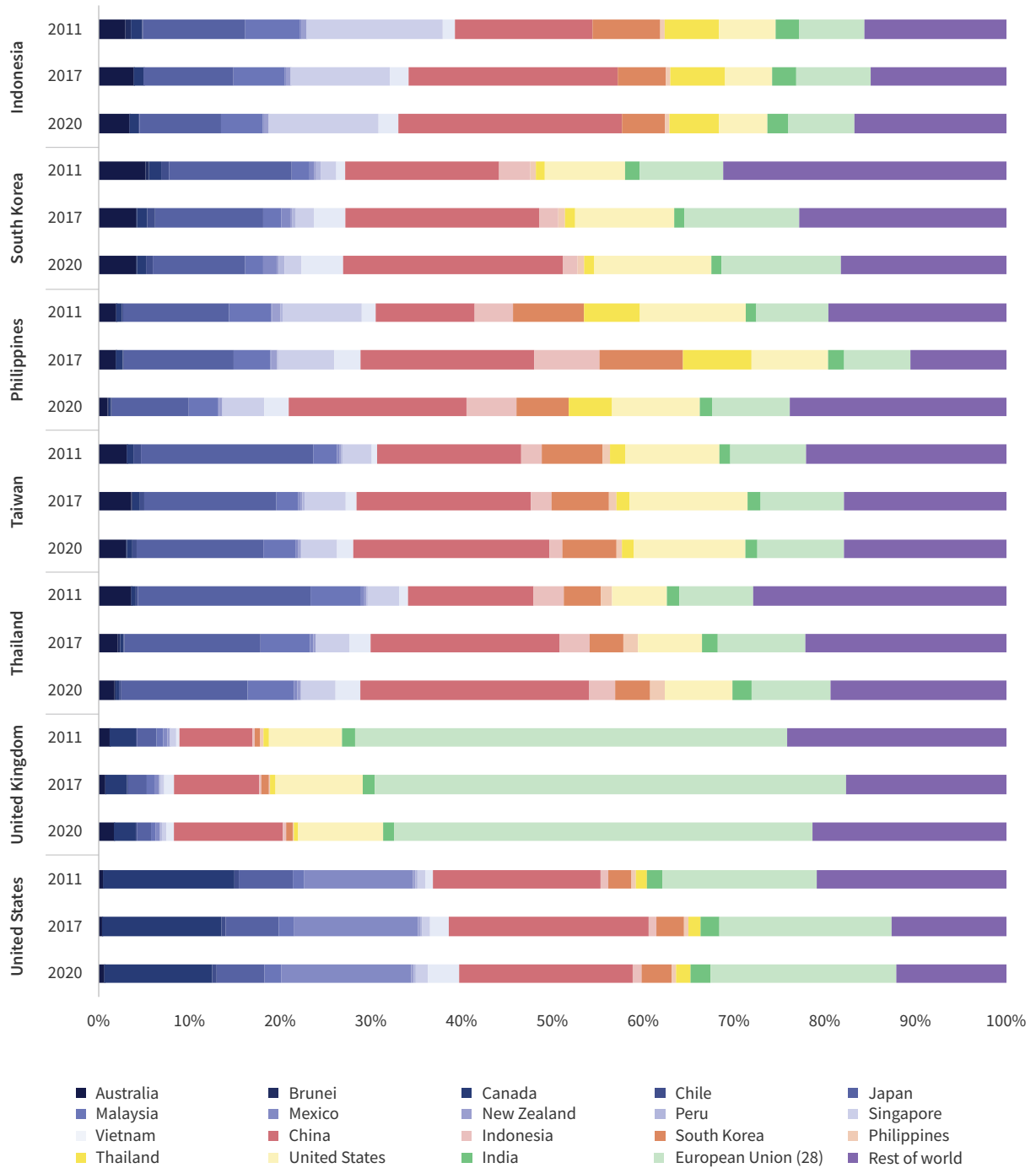
Figure 5: Prospective CPTPP Members' Goods Imports from the CPTPP Area and Other Countries, 2011, 2017, 2020 (in millions of USD)



Note: CPTPP members in blue tones.

Source: Author's calculations based on International Monetary Fund, "Exports, FOB to Partner Countries," Direction of Trade Statistics (DOTS), database, <https://data.imf.org/regular.aspx?key=61013712>. The data for 2020 reflect data updated as of July 7, 2021.

Figure 6: Prospective CPTPP Members' Import Sources in 2011, 2017, 2020 as Share of Total Imports



Note: CPTPP members in blue tones.

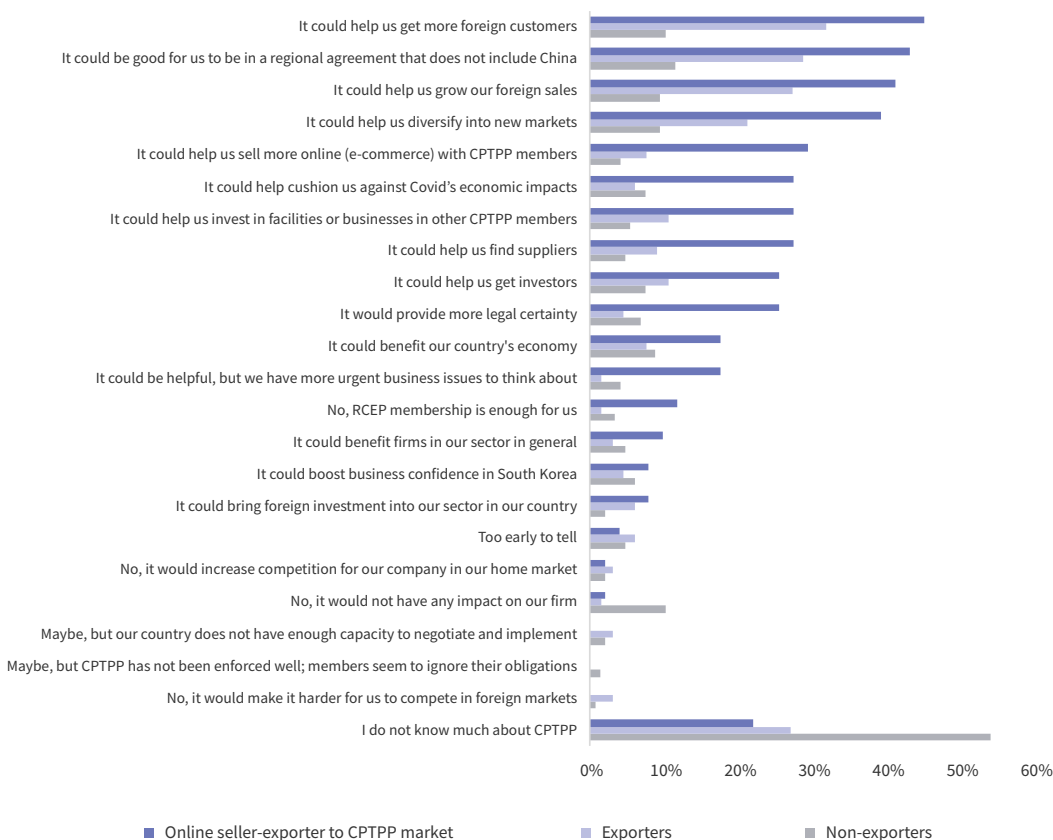
Source: Author's calculations based on International Monetary Fund, "Exports, FOB to Partner Countries," Direction of Trade Statistics (DOTS), database, <https://data.imf.org/regular.aspx?key=61013712>. The data for 2020 reflect data updated as of July 7, 2021.

3. Indeed, export-driven firms and online sellers in potential member countries see CPTPP accession as opening new e-commerce export opportunities and diversifying trade away from China.

In an illustrative survey of 269 Philippine and South Korean firms on their views about potential CPTPP accession, over 70 percent of firms that export report having heard about the CPTPP; of these, export-driven online sellers that already sell to the CPTPP market are especially enthused by CPTPP accession as a means to help secure new customers (45 percent), grow export sales (41 percent), diversify into new markets (39 percent), and sell more online (29 percent) (Figure 7). Philippine firms, in particular, believe that the agreement could also promote inbound and outbound investment (Figure 8). South Korean firms are also enthusiastic about the CPTPP—even though South Korea already has 17 free trade deals that encompass 56 countries.

A substantial set—43 percent of online seller-exporters and 29 percent of “regular” exporters—also agree that it would be beneficial for their country to enter into a trade agreement that does not include China (as opposed to the RCEP, which both South Korea and the Philippines signed recently). While non-exporters in South Korea and the Philippines often do not know about the CPTPP, both non-exporters and exporters in these countries agree that the RCEP will not suffice for satisfying their growth aspirations. These data suggest that companies in prospective member countries are hungry for new agreements with better rules than the RCEP’s non-binding e-commerce provisions.

Figure 7: Philippine and South Korean Firms’ Views about CPTPP’s Potential Benefits, by Export and Online Sales Status



Source: Survey data collected by author.

Figure 8: Philippine and South Korean Firms' Views about CPTPP's Potential Benefits, Exporters and Non-Exporters, by Country



Source: Survey data collected by author.

4. Businesses, and especially e-commerce sellers, in prospective CPTPP member countries value the CPTPP's e-commerce chapter and commitment to free cross-border data transfer.

The surveyed firms in the Philippines and South Korea—and especially small online sellers that use data intensively—regard the CPTPP's e-commerce provisions such as free data transfer, ban on server localization, promotion of consumer privacy and protection, and liberalization of services as especially beneficial for their businesses (Figure 9). Some 47 percent of online seller-exporters see the CPTPP's provisions on free data transfer across borders as “very beneficial” for their businesses; 37 percent see self-regulation among businesses to manage data as “very beneficial”; and 35 percent find the CPTPP's ban on server localization and the ability to store their data where they wish as “very beneficial,” with another 37 percent seeing this as “somewhat beneficial.” The survey also suggests that firms see the CPTPP's commitment to protect consumers' privacy and shield consumers from spam as important to the growth of their e-commerce sales.

These results likely in part reflect the interests of the Philippine services sectors, where firms are often in customer services and business process outsourcing and as such habitually handle and transmit personal data across borders. The binding data transfer rules included in the CPTPP could catalyze further investment into the Philippines in the digital services sector, enabling companies to move up the services value chain, for example, in such industries as cybersecurity, data science, healthcare information management, and animation and gaming. Strong majorities of exporters also see the CPTPP's tariff cuts as beneficial for their export aspirations.

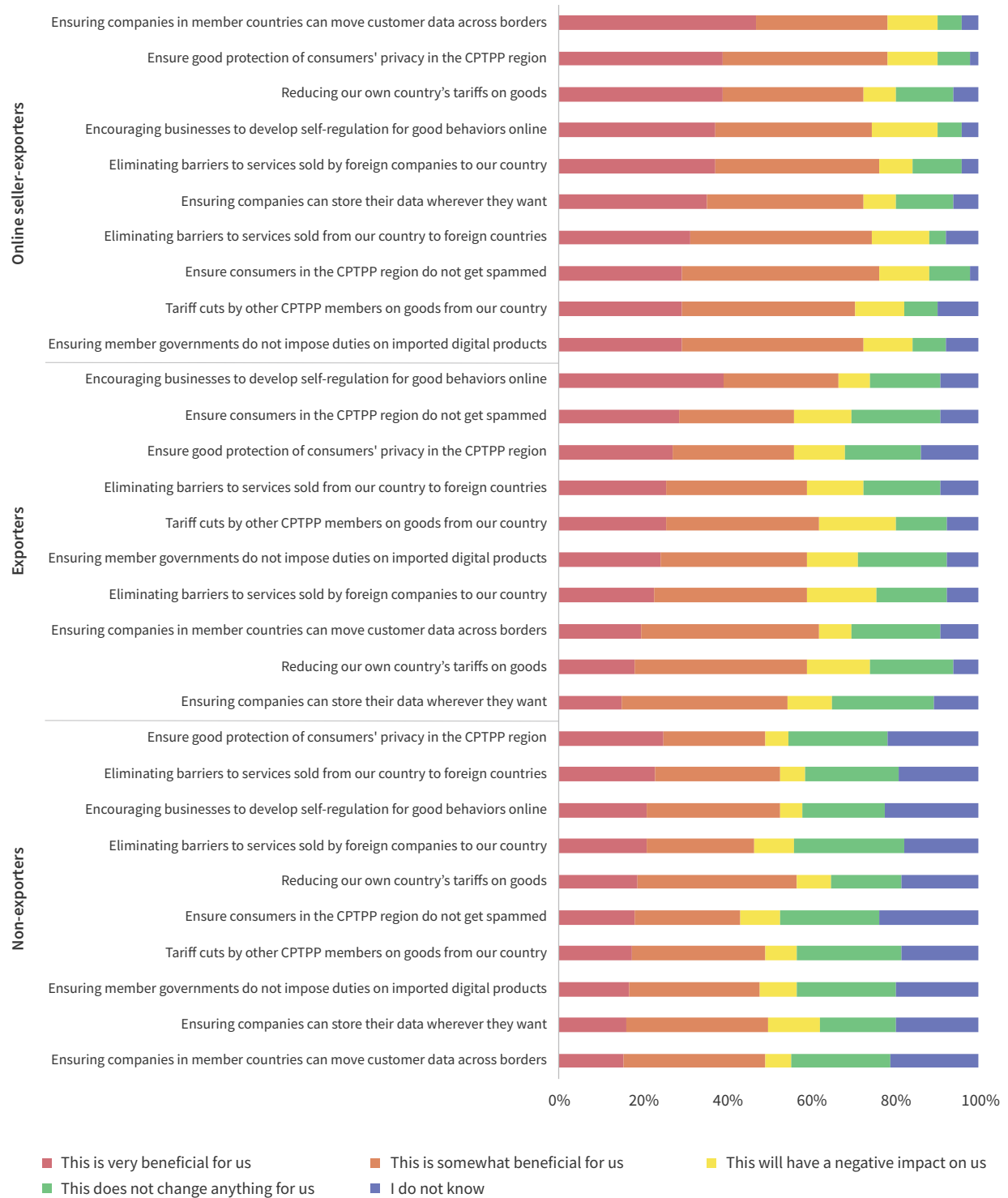
5. Firms in prospective member economies believe the CPTPP's e-commerce provisions could be enforced better and bolstered with free transfer of financial data as well as next-generation provisions such as promoting digital identities for firms, enabling interoperability among online payments, and clarifying liabilities in online behaviors.

The CPTPP was developed and finalized between 2015 and 2018. Since then, the “anatomy” of trade deals, especially digital trade rules, has evolved. For example, the 2020 Digital Economy Partnership Agreement (DEPA), among CPTPP members Chile, New Zealand, and Singapore, includes several next-generation provisions, such as promoting the interoperability of member economies' payment systems and fintechs as well as advancing artificial intelligence governance.

Prospective CPTPP members and their firms are attuned to these developments. Asked how they might want to see the CPTPP's e-commerce rules improved, the surveyed nonmember firms are keen to see DEPA rules in the CPTPP: 47 percent of online seller-exporters would want all the CPTPP region firms to access a corporate digital identity for sellers and buyers of goods and services to easily authenticate and verify each other; 37 percent of online seller-exporters would also want the CPTPP member countries to lower taxes on digital transactions; 31 percent want interoperable online payments; and a quarter are keen for standards to ensure digital platforms interoperate, including across borders, so as to preempt the rise of digital services that are “digital islands” (Figure 10). In addition, 45 percent of online seller-exporters would want for the CPTPP to address online liability, perhaps as done by the U.S.-Mexico-Canada Agreement (USMCA), which commits the parties to providing safe harbors for internet intermediaries.

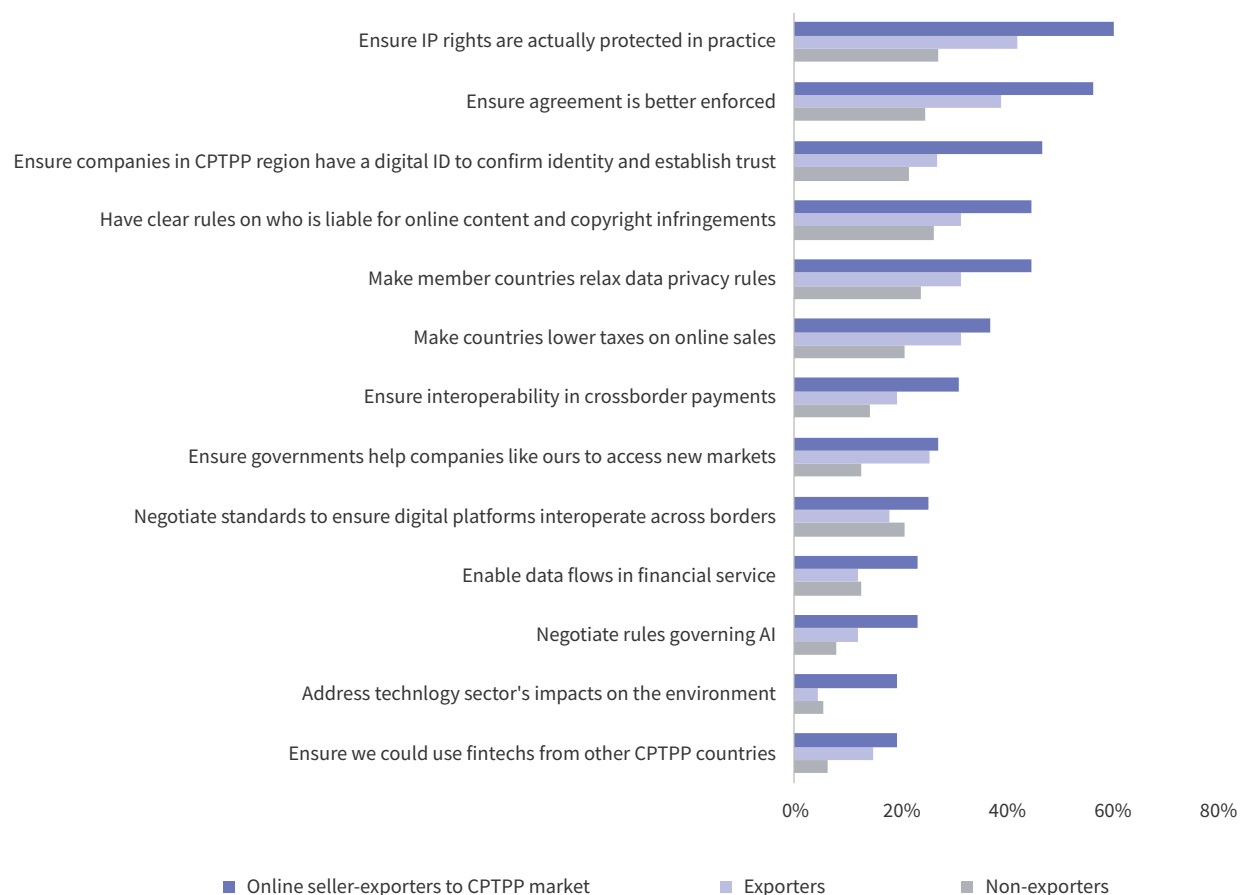
Granted, much like member-country firms, Philippine and South Korean firms would also want to ensure that the CPTPP's digital trade rules are well-enforced and that firms' intellectual property rights are protected—but they are also keen to take on the types of provisions included in DEPA.

Figure 9: Philippine and South Korean Firms' Views about the CPTPP's E-commerce and Market Access Provisions



Source: Survey data collected by author.

Figure 10: Surveyed South Korean and Philippine Firms' Views on Ways to Improve the CPTPP, by Online Sale and Exporter Status



Source: Survey data collected by author.

6. Firms in current member countries especially favor U.S. and UK accessions; the specter of China’s accession is more divisive.

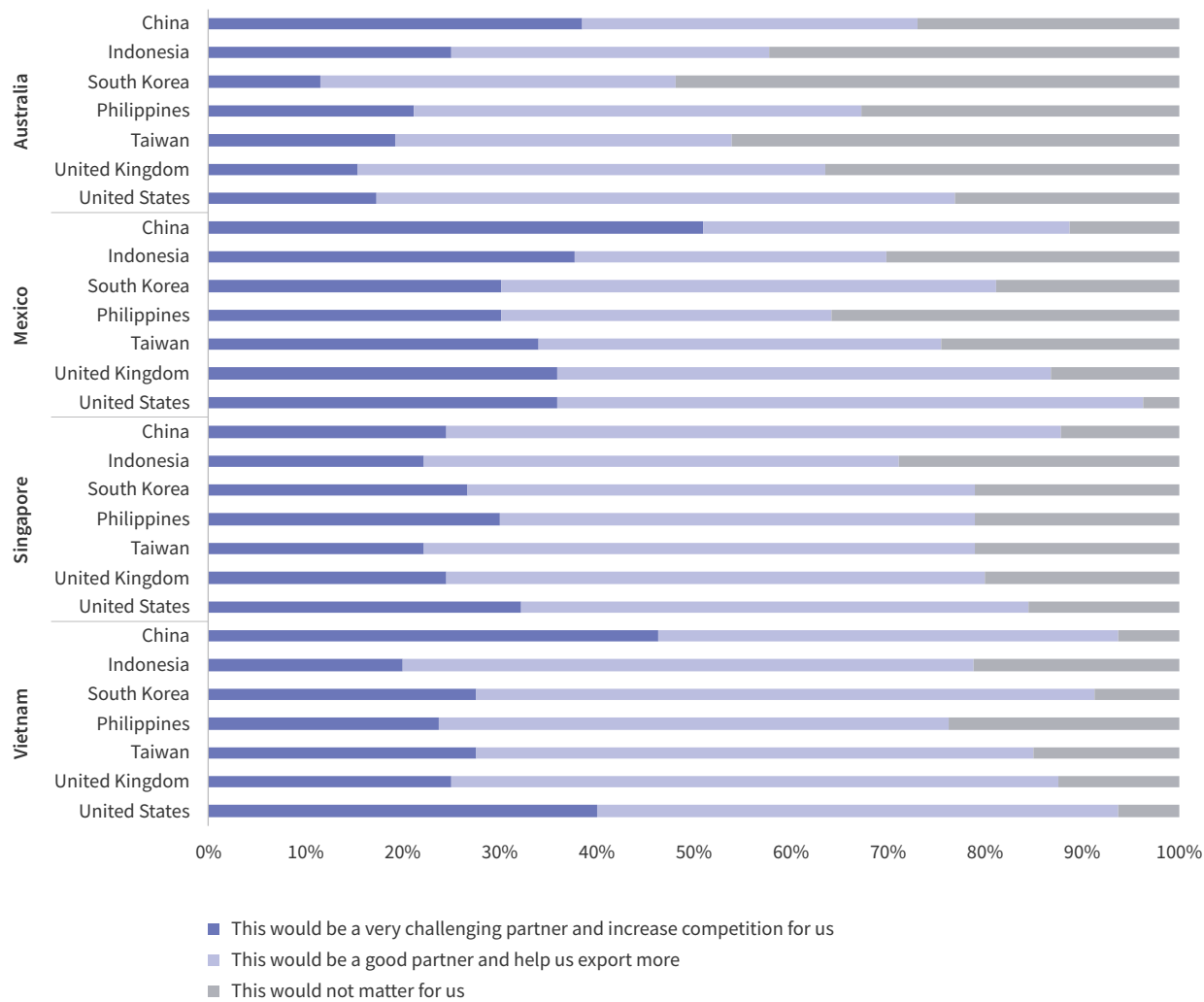
CPTPP members such as Australia, Canada, New Zealand, and Japan have openly championed UK membership in the CPTPP as a key ally and counterweight to China—Australia also already [agreed to a bilateral free trade deal](#) with the United Kingdom. Japan has been on a mission to [bring the United States back into the pact](#). Both exporters and non-exporters in the current member countries have somewhat mixed views about prospective accessions. In a survey for this paper of 530 member-country firms, especially in Australia, Mexico, and Vietnam, those that view U.S. accession favorably outnumber those that believe the United States would increase competition (Figure 11). This is a good outcome considering the unease that the Trump administration’s erratic trade policy moves and trade wars created among U.S. trading partners, and may in general reflect the deep liberalization and existing free trade agreements between the United States and the four CPTPP members, and especially the market access the United States already offers to CPTPP members (the U.S. trade-weighted applied tariff on the CPTPP members is only [0.5 percent](#)).

Vietnamese firms would also like to see South Korea and the United Kingdom accede to the CPTPP—wealthy economies that could purchase more manufactured goods from these member economies.

Mexican firms, however, appear apprehensive about China and the Philippines alike, perhaps a reflection of the similarities between these Asian nations and Mexico’s comparative advantages.

The prospect of Chinese accession is more distant but also more controversial—member country firms seem to either fear or love the idea. This may simply reflect sectoral dynamics and views by firms that compete head-on with Chinese exports. These data suggest that China might have to strike hard bargains and make compromises were it ever to formally seek to join—quite as intended by the CPTPP architects, especially the United States. A great deal of jostling will have to take place within China, where some advocate accession as a means [to lock in the CPTPP’s high standards](#), while others are lukewarm. Of course, member countries may want to champion the former camp. However, the RCEP’s nonbinding e-commerce chapter and the CPTPP’s rules on state-owned enterprises mean that China will have a hard time meeting both, making China’s accession a long shot.

Figure 11: Surveyed Exporters’ Views on “Which CPTPP Member Would Be Good to Join?” by Exporters’ Country



Source: Survey data collected by author.

Conclusion

The CPTPP is emerging as an attractive trade deal for many countries around the world. The interest in joining is motivated by several reasons, including (1) the rise of China in both CPTPP members and nonmembers' import baskets; (2) in the United Kingdom's case, by a drive to operationalize its post-Brexit "Global Britain" strategy; and (3) as the indicative survey data suggest, by interest on the part of firms in such member economies as South Korea and the Philippines in CPTPP's deep liberalization and high-quality e-commerce provisions to open new markets, set clear rules of the game for digital trade, and preempt data localization.

Against this backdrop, the CPTPP is poised to accomplish many of the things proponents initially envisioned for the FTAAP, and more. It can become the basis for a genuinely global and forward-looking digital economy agreement that builds on the CPTPP's strong and binding e-commerce chapter and grows to include good practices from other trade deals with digital trade provisions, such as the United States-Mexico-Canada Agreement and DEPA.

The decisions that the United States, the key architect of the CPTPP text and its e-commerce chapter, makes will be pivotal. With the United States on board, the CPTPP could be a powerful counterweight to China, attract further members, and significantly advance U.S. interests in a globally open and interoperable digital economy, with clear rules of the game. Traditional trade battles and opposition by import-competing lobbies should be mitigated by the fact that the U.S. market is already very open to CPTPP members—as well as the significant gains possible for the many U.S. firms that trade good and services in Asia-Pacific, the many small firms that are selling online to Asian markets, and the numerous firms moving data across borders. ■

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This report was made possible by support from Google.

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