QNB Economics
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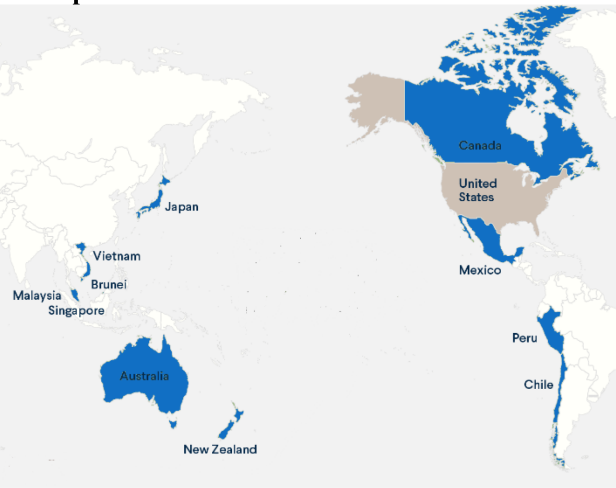
The Trans-Pacific Partnership supports continued global trade growth

Introduction: World trade has increased rapidly over the past few decades, facilitated by the negotiation and signing of numerous free trade agreements between countries. Therefore, trade agreements are important, but they often involve multiple parties, which brings with it a high level of complexity as well as the challenge of coming to a consensus through negotiations.

The Trans-Pacific Partnership (TPP) was set up with the vision to be the world's largest free trade deal, covering 40 percent of the global economy (see map). It was the centrepiece of US President Barack Obama's strategic pivot to the Asia-Pacific region. However, it was criticised during the 2016 presidential campaign and never ratified by the US Congress. Then, on his first full day in office, US President Donald Trump formally withdrew the US from the TPP in January 2017.

Map: Member countries of the TPP and CPTPP



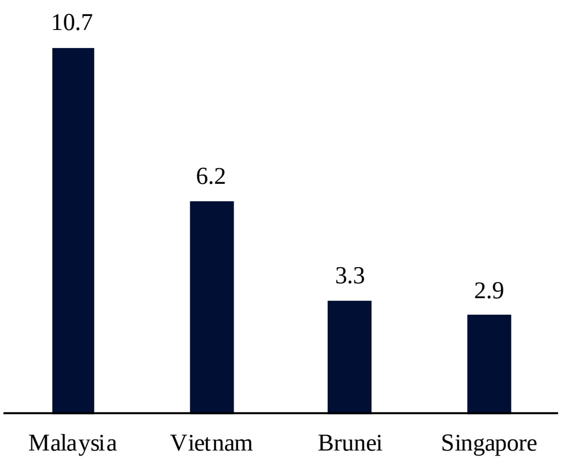
Sources: Council on Foreign Relations, QNB analysis

After the US withdrew from the TPP, the remaining eleven countries continued talks and agreed to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which was signed and entered into force in 2018.

This week, we review the benefits of the CPTPP to Asian Pacific economies. We differentiate between integrated versus less integrated economies into global markets. Furthermore, we review the benefits of countries that have already joined the CPTPP versus the ones that have not yet joined.

First, while the economic effects of the CPTPP tend to be positive across different countries, the magnitude will vary significantly in each. Economies that are more integrated in the global economy and already have extensive trade agreements with other CPTPP members will benefit less from the agreement than others. This means that those Asia-Pacific economies, such as Singapore, Brunei, New Zealand, Australia and Japan will benefit to a lesser extent than countries, such as Vietnam and Malaysia, which are less integrated in the global economy. In this sense, the latter economies stand to benefit greatly, since they are gaining more market access from the agreement. In fact, Malaysia and Vietnam are already benefiting from the CPTPP, and the World Bank expects a further boost to their exports in the coming years. Additional market access will be particularly beneficial for the wearing apparel, textile and food and beverage sectors.

Estimated boost from CPTPP on exports by 2030
(growth, %)



Sources: The World Bank, QNB analysis

Second, the CPTPP was explicitly designed to facilitate expansion to other countries. In September 2021, China applied to join the agreement, which can potentially increase the importance of the CPTPP for global trade. South Korea, Colombia, Taiwan, Thailand, Indonesia and the Philippines and the UK have also expressed interest in joining the agreement. With regards to Asia Pacific economies, it is worthwhile looking at the potential benefits that may materialize for Emerging Asia. While countries that are already members of CPTPP, e.g., Vietnam and Malaysia, others, such as Indonesia, the Philippines and Thailand are not yet members of this agreement. We see significantly higher upside potential for new members as they to date do not yet benefit from this important intra-Asian trade partnership. Those partnerships result in lower tariffs, import duties, more stable trade and investment flows and a better economic integration into the region.

Bringing both dimensions together, we therefore argue that countries who are less integrated and not yet CPTPP member countries will benefit to the highest degree from joining. On the other hand, countries who are already more integrated and existing members will benefit to a lesser extent. In practice, this means that countries such as Indonesia, the Philippines and Thailand are the largest potential winners compared to Japan, Singapore, Brunei, Taiwan, Australia and New Zealand, where the incremental value is rather marginal.

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