



BALANCING CHALLENGE WITH OPPORTUNITY

Assessing the Economic Impact of China's
Potential CPTPP Membership on Canada and Beyond

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EXECUTIVE SUMMARY

This report evaluates the economic impacts of China's potential accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), focusing on Canada's trade interests. Using simulations from the World Bank's SMART tool, the analysis demonstrates significant economic benefits for Canada, including a projected 15% increase in exports to China, translating to a \$6.5 billion boost in economic output. Key sectors like meat, grains, and energy would see notable growth, with Alberta positioned as a major beneficiary. Additionally, Canada would experience a 1.8% reduction in its trade deficit with China, emphasizing the strategic potential of this partnership to diversify Canada's trade relationships and reduce economic reliance on the United States. The inclusion of China is forecasted to generate substantial trade creation, improved social welfare, and minimal trade diversion impacts for Canada, highlighting the mutual advantages of China joining the CPTPP.

In light of growing geopolitical tensions, doubts about the WTO's effectiveness, and increasing fragmentation in international trade, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) emerges as a pivotal framework that promotes trade integrity and liberalization with multilateral benefits. Thanks to its high standards and modern, enforceable design, the CPTPP serves as a counterweight to the rising trends of protectionism and unilateralism in global trade.

INTRODUCTION

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) stands as one of the most ambitious and modern trade agreements in existence today. Emerging from the ashes of the Trans-Pacific Partnership (TPP) but now without its most important early architect the United States, the CPTPP not only reflects a pivot toward addressing contemporary trade challenges—such as labor, environmental standards, intellectual property, and digital trade—but also serves as a critical framework to counterbalance rising trends of trade fragmentation and protectionism.

In recent years, the question of [whether China should be invited to join the CPTPP has sparked robust policy debates](#). These discussions center on competing narratives: on one hand, skepticism persists over China's track record with international trade commitments, particularly under the WTO framework, and its use of coercive economic measures. On the other hand, proponents argue that the CPTPP's accession process and higher standards could encourage reforms and ensure greater adherence to global trade norms. As global trade continues to fragment and WTO reforms remain elusive, even imperfect adherence to a rules-based framework like the CPTPP might represent a better alternative to an unregulated status quo.

Relatedly, consideration could be given to extending an invitation to China conditional on the simultaneous commencement of CPTPP accession talks with Taipei. Such an approach could serve as a catalyst for promoting balanced participation across both sides of the Taiwan Strait while reinforcing the CPTPP's commitment to inclusivity and adherence to high standards for all potential members.

While these debates are essential, they have largely unfolded in the absence of hard data to inform policymakers. What has been missing is a clear empirical assessment of the economic implications of China's potential membership, particularly for existing members such as Canada. This gap is critical given that Canada is poised to chair the next CPTPP accession committee meeting later this month in Vancouver—a moment that offers a timely opportunity to shape the future of the agreement.

This report aims to address that void by providing a detailed, data-driven evaluation of the economic impacts of China's potential accession, with a particular focus on trade in goods. Through in-depth analysis, including simulations conducted using the World Bank's SMART tool, **the findings reveal a net benefit for existing members, with Canada and Japan among the biggest potential winners.** The results highlight the tangible economic opportunities that could arise, while also acknowledging the broader systemic and political questions that remain unresolved.

For those interested in trade policy or the broader trajectory of global trade, this report offers a foundation for further reflection. It does not seek to prescribe whether Canada or other members should endorse China's bid for membership but rather to equip policymakers with evidence to consider alongside strategic and political factors. As debates on China's accession evolve, we invite readers to engage with our findings and consider the balance of opportunities and risks this potential expansion presents.

HIGHLIGHTS FROM THE ANALYSIS

Although maintaining and expanding the CPTPP may not currently dominate the Canadian policy agenda, debates surrounding China's overcapacity in manufacturing and its expanding trade surplus with key partners make it imperative for Ottawa to **address competition and market distortions arising from China's trade practices.**

As China signals a strong interest in joining the CPTPP, **concerns persist about its ability to adhere to the agreement's stringent standards, its regulatory transparency, and its record of compliance with WTO commitments.**

These concerns, however, should be **weighed against the tangible economic benefits** for Canada, particularly given **Canada's heavy reliance on the United States for trade.** The CPTPP, with its high ambition and inclusive rules, provides Canada with a **crucial opportunity to diversify trade relations and enhance resilience.**

Trade between Canada and China has already demonstrated resilience, even [amidst high tariffs and political tensions](#). This suggests **considerable potential for growth if trade barriers are reduced**. Moreover, the **complementary economic structures of Canada and China**—with strengths in agriculture, energy, and industrial sectors—should position both nations to benefit from closer trade ties.

By focusing on quantitative data, this report seeks to provide policymakers with an empirical analysis of the practical economic impacts of China’s accession to the CPTPP. It aims to offer an **evidence-driven foundation** for evaluating the potential trade-offs and opportunities, moving beyond rhetoric to focus on measurable outcomes.

Utilizing the Software for Market Analysis and Restrictions on Trade (SMART) Simulator via The World Integrated Trade Solution (WITS) of the World Bank, the analysis reveals **substantial economic advantages for CPTPP members**, and notably Canada, if China were to join.

China’s inclusion would boost total exports from all CPTPP members to China by US\$28.9 billion, representing a 4% uptick and highlighting the strategic value of expanded market access (Table 1). Of this increase, **US\$18.7 billion constitutes new trade creation**, reducing economic inefficiencies and contributing to global trade dynamics (Table 2). **Canada, Japan, and the UK are projected to see the largest export gains to China**, with minimal trade diversion effects. **Notably, Canada is uniquely exempt from negative trade diversion**, highlighting its advantageous position within the CPTPP framework.

TOP EXPORT GAINERS FROM CHINA'S CPTPP ACCESSION



Japan
17 Billions USD
↑ 8.7%



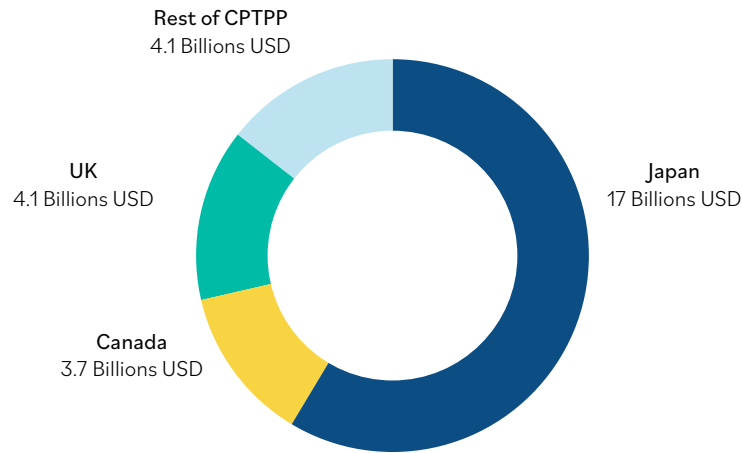
Canada
4.1 Billions USD
↑ 14.5%



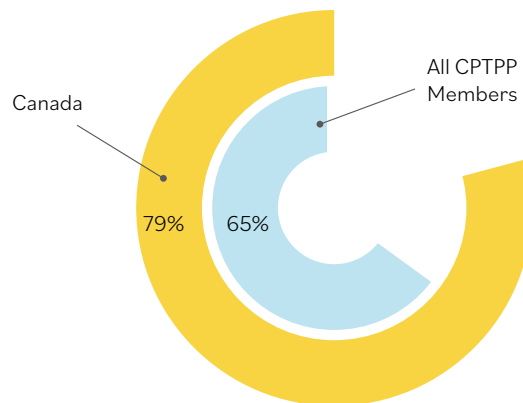
United Kingdom
3.7 Billions USD
↑ 14.7%

For Canada, simulations suggest that **exports to China would increase by 15%, representing 14.3% of the total export gains to China by all CPTPP members** (Table 1). **The incremental export increase of US\$4.1 billion** corresponds to a broader economic output increase of US\$6.5 billion, according to Statistics Canada multipliers. **Crucially, 79% of Canada's trade increase is attributable to new trade creation** (Table 2), signaling genuine market expansion rather than redistribution among existing partners.

INCREASE IN EXPORTS TO CHINA



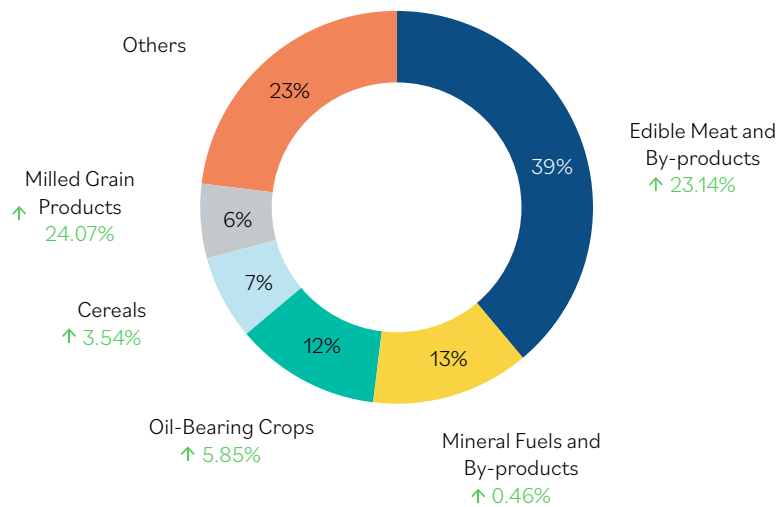
TRADE CREATIONS



Key sectors such as meat products (HS02) and grain-based products (HS11) would benefit significantly from China’s tariff removal, together accounting for 47% of Canada’s total export gains in these categories (Table 5). **Alberta, in particular, stands to gain as a major beneficiary**, with strong growth in farming and energy exports also likely. This diversification would help Alberta balance volatile oil prices, create new jobs, and attract investment.

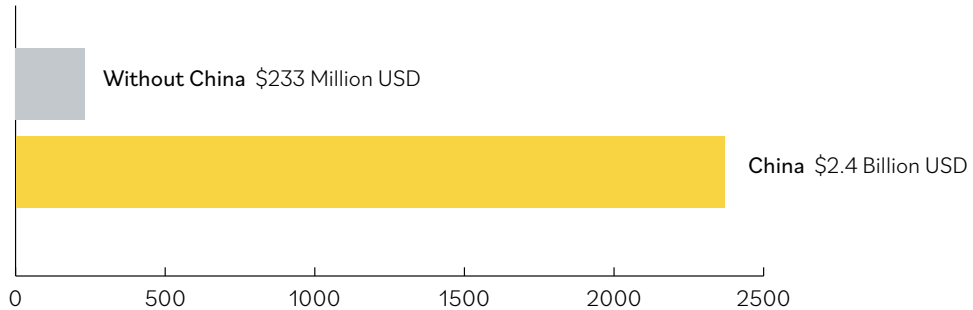
INCREASE IN CANADIAN EXPORTS TO CHINA BY PRODUCTS

100 Millions of USD

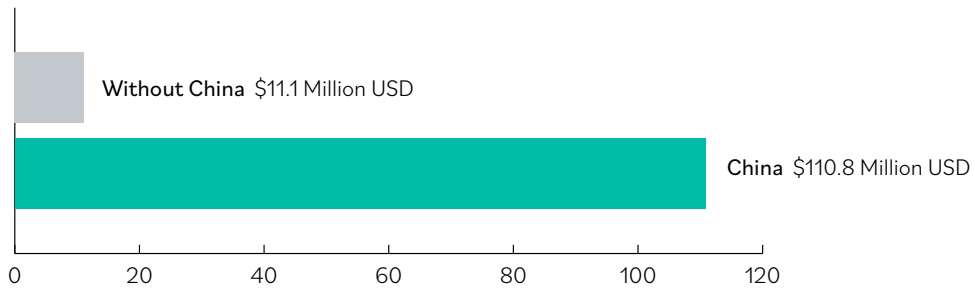


The welfare implications for Canada are equally significant. Without China in the CPTPP, the trade creation effect for Canada is modest, estimated at US\$233 million, with a total welfare impact of US\$11.1 million. However, **China’s inclusion could increase these figures tenfold, with US\$2.4 billion in trade creation and US\$110.8 million in welfare effects.** These benefits underscore the opportunities that could flow from integrating China into a structured trade framework that ensures sustainable, rules-based liberalization.

TRADE EFFECT ON CANADA



WELFARE EFFECT ON CANADA



MITIGATING RISKS THROUGH ENFORCEMENT

While the data clearly highlights economic benefits, this report also acknowledges the systemic concerns associated with China's accession.

Canada and other CPTPP members must emphasize enforceable standards to mitigate risks stemming from non-tariff measures and politically motivated trade policies. The CPTPP's robust mechanisms for transparency and dispute resolution offer the best currently available framework to address these challenges, working to ensure that economic gains are not undermined by non-compliance.

FULL DATA ANALYSIS

METHODOLOGICAL FRAMEWORK AND EMPIRICAL STRATEGY

This analysis employs a partial equilibrium approach using the Software for Market Analysis and Restrictions on Trade (SMART) simulator through the World Integrated Trade Solution (WITS) of the World Bank to quantitatively assess the direct economic implications of China’s potential accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The SMART simulation framework, developed by the World Bank, incorporates the latest available trade data at the 6-digit Harmonized System (HS) level from the UN COMTRADE database, as well as applied Most Favored Nation (MFN) rates and preferential tariffs from the WITS database. The simulation is conducted at the 6-digit HS code level and aggregated to the 2-digit HS code level, providing a precise analysis of sectoral impacts while maintaining sufficient generality for meaningful policy implications.¹

To assess the net impact of China’s potential membership, we examine a scenario where China and the 12 existing CPTPP members—including the United Kingdom (UK)—completely eliminate cross-border tariffs upon China’s accession, compared to the current status quo.²

The partial equilibrium model provides significant advantages over general equilibrium models by avoiding the overly restrictive assumption of perfect factor mobility. This is especially relevant for Canada and China, where capital and labor mobility are subject to notable constraints. Additionally, the partial equilibrium approach allows for detailed sectoral analysis at the 6-digit HS code level, a critical feature for Canada given its highly concentrated economic structure. Key sectors such as agriculture and mineral products hold disproportionate importance to the national economy, and this granular framework enables more precise and insightful evaluations of these essential industries.

¹We use SMART’s default product-specific import demand elasticities, as well as the default substitution and supply elasticities, to ensure comparability and consistency. Our results are not significantly affected by applying different parameters.

²By including the UK in the CPTPP as part of the status quo, our analysis aims to assess the impact of China’s accession based on the CPTPP’s most up-to-date status, ensuring our simulation results are as close to reality as possible.

Utilizing SMART, our analysis focuses on trade flows and decomposes the trade effects into trade creation and trade diversion effects. It also sheds light on the welfare effects in the impacted markets.

When China reduces its tariffs on CPTPP members, its imports from these members increase, while imports from non-member countries decrease. This shift occurs due to the reduced relative prices of goods from member countries compared to those from non-members. This effect reflects a redistribution of market shares among China's trading partners rather than an overall increase in total demand.³ However, the trade creation effects capture the overall increase in import consumption due to reduced consumption prices as a result of tariff elimination, allowing consumers to purchase more within the same budget. It reflects an increase in total consumption and is beneficial to both importing and exporting countries, as consumers gain access to more goods at lower prices, and exporters experience higher demand for their products.

The welfare effects analysis is conducted from the importing market perspective, measuring the overall gains to the economy from tariff elimination, which leads to a reduction in dead-weight losses and an increase in social welfare. By reducing tariffs, the importing market decreases distortions in the market, allowing for more efficient allocation of resources and improved consumer surplus. Given our primary interest in the impacts of China's potential membership on existing CPTPP members—particularly on Canada—we compare scenarios with and without China's accession to assess the net impact on Canada's welfare. It should be noted that the welfare effects analyzed do not include job market effects resulting from increased exports to China upon its accession to the CPTPP.

Due to data limitations, our analysis focuses exclusively on goods trade, excluding services trade, investment flows, and the effects of non-tariff measures. While necessary for implementing the analysis, this limitation suggests that our results likely underestimate the full economic impact of China's CPTPP accession. Services trade, which often complements and

³ The total trade diversion effects on all of China's trade partners net to zero, as they represent only a reallocation of China's market shares among its partners. The positive diversion effects for beneficiaries are offset by the negative effects on non-beneficiaries.

facilitates goods trade across all HS chapters, represents a significant potential source of additional economic benefits not captured in our current estimates. Moreover, as a static partial equilibrium model, the analytical framework confines the analysis to short- to medium-term effects and does not capture long-term dynamic adjustments in the economy, such as changes in production capacity, technological advancements, or shifts in consumer preferences.

The assumption of perfectly elastic supply is reasonable for Canada, given its relatively small share in global markets. However, it does not account for potential supply constraints faced by exporters, such as production limits or supply chain disruptions. As a result, these estimates should be considered conservative, representing a lower bound of the expected benefits in the short to medium term. It is important to note the varying impacts across major economic sectors. Future research should include a more comprehensive analysis, incorporating services trade, non-tariff measures, and long-term projections, to provide a fuller understanding of the potential economic impacts.

IMPACTS ON ALL CPTPP MEMBERS OF CHINA'S ACCESSION

Tables 1 and 2 summarize the export impacts for all CPTPP members if China were to implement zero tariffs on all 12 members upon joining the CPTPP.P.

TABLE 1: THE EFFECTS OF CHINA'S TOTAL TARIFF REMOVAL ON TOTAL EXPORT OF CPTPP MEMBERS (BILLIONS OF USD)

Exporter	Exports to China Before Tariffs Cut	Exports to China After Tariffs Cut	Change in Exports to China	% Change of Exports to China	Initial Tariffs (%)	Initial Tariffs (%)	Initial Tariffs (%)
United Kingdom	24.9	28.6	3.7	14.7%	7.0	0.5	12.7%
Canada	28.5	32.7	4.1	14.5%	6.7	0.6	14.3%
Mexico	19.0	20.7	1.7	9.1%	6.7	0.3	6.0%
Japan	195.1	212.1	17.0	8.7%	6.9	2.5	59.1%
Australia	163.1	164.5	1.4	0.9%	0.4	3.2	4.8%
Vietnam	85.3	85.7	0.4	0.5%	0.4	1.1	1.4%
Malaysia	93.7	94.1	0.4	0.5%	0.4	1.0	1.5%
Singapore	35.3	35.5	0.1	0.3%	0.3	0.5	0.4%
Peru	24.0	24.0	0.0	0.0%	0.5	0.0	0.0%
Chile	39.3	39.3	0.0	0.0%	0.5	0.0	-0.1%
Brunei	2.1	2.1	0.0	-0.2%	0.1	-0.1	0.0%
New Zealand	12.3	12.3	0.0	-0.3%	0.3	-0.1	-0.1%
Total	722.7	751.6	28.9	4.0%	2.5	0.8	100%

- In 2021, China's average applied tariff rate on CPTPP members was 2.5%, with significant variation across countries. The UK, Japan, Canada, and Mexico faced higher tariffs, while other members experienced near-zero rates.⁴
- China's accession to the CPTPP would boost total exports from the 12 members to China by \$28.86 billion, a 4% increase compared to the current situation. Notably, 65% of this growth, worth \$18.7 billion, would come from newly created trade.

⁴ The simple average tariff that China applies to the UK, Japan, Canada, and Mexico is significantly higher than that applied to other CPTPP members across all product lines, with a 1% confidence.

- The increase in trade from China’s membership would primarily benefit Japan, Canada, and the UK, which together account for 86.1% of the total export growth. Overall, 8 of the 12 members would see positive impacts, with Japan, the largest exporter to China among CPTPP members, standing out as the biggest beneficiary of this trade liberalization.
- Each 1% reduction in China’s applied tariff rate toward CPTPP members is estimated to increase CPTPP aggregate exports to China by an average of \$800 million, assuming a linear relationship between tariff rates and exports.

TABLE 2: DECOMPOSITION OF IMPACT ON CPTPP MEMBERS FROM CHINA’S ACCESSION (100 MILLIONS OF USD)

Exporter	Total Trade Effects	Trade Creation	Trade Diversion	Tariffs before China’s Cuts (%)
Japan	170.5	97.9	72.6	6.9
Canada	41.4	32.7	8.7	6.7
United Kingdom	36.7	23.7	13.0	7.0
Mexico	17.3	11.9	5.4	6.7
Australia	13.9	10.9	3.0	0.4
Vietnam	4.0	4.1	-0.1	0.4
Malaysia	4.3	3.6	0.7	0.4
Singapore	1.2	1.9	-0.7	0.3
New Zealand	-0.4	0.2	-0.7	0.3
Chile	-0.2	0.1	-0.3	0.5
Peru	0.0	0.1	-0.1	0.5
Brunei	-0.1	0.0	-0.1	0.1
All CPTPP Members	288.6	187.0	101.5	2.5

TABLE 3: TOP 20 MOST NEGATIVELY AFFECTED TRADE PARTNERS OF CHINA (MILLIONS OF USD)⁵

Partner Name	Trade Diversion	Average Tarrifs (%)
Germany	-2035.43	8.2
United States	-1623.16	8.2
Korea, Rep.	-1189.68	4.1
Taiwan, China	-902.61	7.5
Thailand	-440.74	1.0
Italy	-337.87	8.3
France	-333.62	8.5
Indonesia	-309.83	0.7
Slovak Republic	-204.29	7.1
Austria	-193.46	8.2
Russian Federation	-154.62	7.9
Spain	-139.94	8.2
Switzerland	-137.43	2.4
Sweden	-120.40	7.5
India	-108.44	7.4
Netherlands	-98.90	8.0
Brazil	-95.32	8.2
Hungary	-94.84	8.0
Saudi Arabia	-87.37	7.1

- As shown in Table 3, Germany, the United States, and the Republic of Korea are expected to be the top three trade partners most affected by diversion if China liberalizes trade upon joining the CPTPP. They are projected to experience trade diversion losses of \$2 billion, \$1.6 billion, and \$1.2 billion, respectively.

⁵ This is based on the total trade diversion effect of all CPTPP members.

DETAILED IMPACTS ON CANADA'S TRADE

Simulation results show that Canada would be among the top beneficiaries of China's accession to the CPTPP. Key projected benefits include increased exports, particularly in agriculture and energy, improved welfare, and enhanced trade security. Strengthened trade ties with China would provide Canada with greater market access while boosting economic resilience by diversifying its trade portfolio and reducing reliance on traditional partners like the United States.

- **Tariff Impact:** Table 1 shows that China applies a simple average tariff rate of 6.7% to Canada, the third highest among CPTPP members and notably above China's Most Favored Nation (MFN) average tariff rate of 5.3%.
- **Export Growth:** Canada's export increase is projected at \$4.1 billion, second only to Japan. When accounting for multiplier effects along export-related supply chains, this figure could grow significantly, reaching \$6.45 billion in total economic output for Canada.⁶
- **Export Percentage Increase:** If China adopts zero tariffs for CPTPP members, Canada's exports to China are expected to rise by 14.5%, slightly below the UK's increase of 14.7%. Additionally, Canada would account for 14.4% of the total increase in exports to China among all CPTPP members, following Japan, as shown in Table 1.
- **Trade Creation:** Table 2 highlights that Canada's export growth is primarily driven by newly created trade, which constitutes 79% of the total export increase to China, or \$4.14 billion. This trade creation ratio is well above the CPTPP member average of 65%, emphasizing Canada's stronger value creation effect.⁷
- As demonstrated in Table 4, Canada is one of the four CPTPP members that do not experience any diversion (negative exports) effects across all product lines.⁸

⁶ This calculation is based on Canada's 2021 all-industry total output multiplier published by StatsCan.

⁷ The trade creation ratio is the proportion of newly created trade to the total trade effects, which include both trade creation and trade diversion from other trade partners due to changes in tariff policy.

⁸ Here all product lines refer to HS-level 6 products and HS-level 2 Chapters, and HS-level 6 is the most detailed product level that is commonly reported across all countries.

Table 4: No. of Negatively Affected HS-level 6 Products & HS-level 2 Chapters of CPTPP Members

CPTPP Members	No. of HS-level 6 products with Negative Trade Effects	No. of HS-level 2 Chapters with Negative Trade Effects
Japan	0	0
Canada	0	0
United Kingdom	0	0
Mexico	0	0
Brunei	31	16
Peru	323	55
Chile	357	69
New Zealand	880	75
Singapore	1507	73
Malaysia	1695	78
Australia	1721	75
Vietnam	1866	76

- **Export Effects on Canada:** Table 5 outlines the detailed decomposition of export impacts on Canada at the HS-2 level if China liberalizes trade with all CPTPP members. The agricultural sector, particularly grains and meat, emerges as the biggest winner. Exports of “Meat and Edible Meat Offal (HS02)” and “Milling Industry Products (HS11)” account for 23% and 24% of Canada’s total exports in their respective chapters. This presents a significant opportunity for Canada’s prairie provinces, especially Alberta, to expand their market share in supplying China’s demand for high-quality commodities.
- **Trade Diversion Impacts:** Table 5 underscores Russia as the trade partner most significantly affected by the increase in Canada’s exports to China. Among the top 15 HS-2 level chapters where Canada experiences the highest export growth, Russia emerges as the most diverted trade partner in four categories: “Mineral Fuels (HS27),” “Oil Seeds and Fruits (HS12),” “Fish and Crustaceans (HS03),” and “Fertilizers (HS31).” The United States follows, ranking as the most diverted in three categories: “Cereals (HS10),” “Residues from the Food Industries (HS23),” and “Edible Vegetables and Roots (HS07).” This distribution underscores the varying sectoral impacts of trade diversion among China’s key trading partners.

Table 5: Canada's Top 20 Most Affected HS-level 2 Products (Millions of USD)

HS-Level2	HS Level 2 Products	Change in Exports to China	Initial Tariffs (%)	Exports to China before China Joins CPTPP	Canada's Total Exports (to the World)	Share of Change in Exports to China to Canada's Total Exports	China's Most Diverted Trade Partner	Trade Diversion of China's Most Diverted Trade Partner	Maximum of Diversion of China's Most Diverted Trade Partner by Canada ⁹
02	Meat and edible meat offal	1635.80	16.0	889.25	7476.77	21.9%	Spain	66.04	0.88
27	Mineral fuels, mineral oils and pro	523.57	4.7	4941.87	119764.50	0.4%	Russian Federation	55.31	55.31
12	Oil seeds and oleaginous fruits; mi	476.58	7.0	1951.02	8612.57	5.5%	Russian Federation	10.35	10.35
10	Cereals	291.32	6.9	1818.44	8664.99	3.4%	United States	177.20	1.65
11	Products of the milling industry; m	239.71	24.7	2.63	1047.95	22.9%	France	1.16	1.14
15	Animal or vegetable fats and oils a	193.75	13.5	999.71	5209.18	3.7%	Indonesia	150.45	24.28
29	Organic chemicals	85.90	5.8	645.69	3872.46	2.2%	Korea, Rep.	69.06	1.73
23	Food industries, residues and waste	72.92	8.6	874.01	3170.48	2.3%	United States	11.99	0.30
84	Nuclear reactors, boilers, machiner	68.69	6.1	552.01	28208.38	0.2%	Germany	508.70	1.22
62	Apparel and clothing accessories; n	56.57	6.8	179.61	643.30	8.8%	Italy	9.47	0.00
03	Fish and crustaceans, molluscs and	49.39	6.8	307.89	6202.99	0.8%	Russian Federation	5.47	5.47
31	Fertilizers	35.35	11.4	548.62	6556.40	0.5%	Russian Federation	8.79	8.79
48	Paper and paperboard; articles of p	32.54	5.4	260.91	7141.39	0.5%	Lao PDR	15.71	9.27
39	Plastics and articles thereof	31.88	7.7	219.65	16338.84	0.2%	Korea, Rep.	192.20	3.02
07	Vegetables and certain roots and tu	28.20	2.6	726.20	5135.41	0.5%	United States	0.97	0.00
85	Electrical machinery and equipment	23.57	4.9	733.15	9935.49	0.2%	Germany	172.51	1.61
87	Vehicles; other than railway or tra	21.09	8.6	133.78	43005.99	0.0%	Germany	801.45	0.06
90	Optical, photographic, cinematograp	21.04	3.6	559.72	6345.89	0.3%	Taiwan, China	184.74	0.86
21	Miscellaneous edible preparations	17.01	13.6	127.12	2289.00	0.7%	United States	18.40	0.28
Total		4139.61	13.6	28533.93	503963.60	0.8%	Germany	2035.43	154.62

⁹ Due to model limitations, we cannot determine the exact trade diversion amounts for each Chinese trade partner. Instead, we estimate maximum diversion by taking the smaller value between Canada's diversion effect and each partner country's diversion effect.

- **Overall Trade Diversion:** Table 13 shows that when focusing on HS-2 chapters where a trade partner is the most diverted, Russia ranks fourth, following Germany, the United States, and South Korea. This suggests that trade diversion from Russia is concentrated within a smaller number of chapters compared to other affected partners.

Table 6: Top 10 Most Diverted Trade Partners of China by Canada (Millions of USD)

Trade Partner	Trade Diversion by Canada	Average Tariffs Rate (%)	Exports to China before Diversion ¹⁰
United States	464.90	8.2	220,883.57
Korea, Rep.	255.61	4.2	329,683.16
Trade Partner	249.75	8.0	48,499.92
Taiwan, China	229.33	7.5	440,689.98
Germany	219.15	8.2	169,509.53
Indonesia	199.69	0.7	59,057.01
Thailand	197.10	0.9	75,343.77
Italy	178.62	8.1	35,024.02
Spain	155.24	8.1	11,954.36
Russian Federation	154.48	7.8	67,971.94

- Taking into account all chapters of the HS-2 level where China’s trade partners experience negative diversion effects corresponding to Canada’s positive gains, the United States is projected to be China’s most diverted trade partner, with trade diversion reaching up to \$465 million. South Korea and France follow, with Chinese imports diverted to Canada in excess of \$256 million and \$250 million, respectively.¹¹

¹⁰ This analysis only considers HS-level 2 chapters where China’s trade partners experience negative trade diversion effects.

¹¹ Due to model limitations, the exact amount of Chinese imports diverted from existing trade partners to Canada cannot be precisely determined. Therefore, for each HS-2 level of each trade partner, the smaller value between Canada’s trade diversion effect and the absolute value of the trade diversion for the corresponding trade partner is used as the upper bound for estimating trade diversion from that partner to Canada.

IMPACTS ON IMPORTS OF CANADA

TABLE 7: TOP 10 MOST DIVERTED TRADE PARTNERS OF CANADA (MILLIONS OF USD)

Trade Partner	Total Trade Diversion	Average Tariffs Rate (%)
United States	-519.32	2.2
Cambodia	-90.95	0.4
Bangladesh	-80.49	0.4
Italy	-68.01	0.0
India	-49.36	2.5
Germany	-37.76	0.0
Korea, Rep.	-34.56	0.0
Indonesia	-34.26	3.9
Taiwan, China	-31.00	2.7
Thailand	-25.86	3.5

- Table 7 indicates that the United States would be Canada’s top diverted trade partner if China joins the CPTPP and Canada implements zero tariffs for all 12 CPTPP members.¹² The U.S. is projected to bear trade diversion effects totaling \$519.3 million, followed by Cambodia and Bangladesh, suggesting that a significant portion of import diversion may originate from primary manufacturing sectors.

¹² 12 CPTPP members refers to 11 CPTPP members except Canada plus China.

TABLE 8: TOP 10 MOST DIVERTED TRADE PARTNERS OF CANADA BY CHINA (MILLIONS OF USD)

Trade Partner	Trade Diversion	Exports to Canada before	Average Applied Tariffs Rate (%)	Total Trade Diversion
United States	218.36	204234.11	2.2	-519.32
France	68.21	5388.69	0.0	-14.58
Spain	66.04	2811.62	0.0	-9.11
Brazil	52.21	5784.61	2.7	-3.97
Denmark	22.14	763.82	0.1	-2.38
Argentina	19.43	1972.76	2.2	-0.36
Netherlands	18.23	395.35	0.0	-5.35
Pakistan	13.87	3250.38	3.8	-16.61
Thailand	13.18	157.53	3.5	-25.86

Note: Values are the sum of all HS level 2 chapters for which the corresponding partner experiences negative trade diversion effects.

- Table 8 demonstrates that the United States is Canada’s most negatively affected trade partner as a result of China’s entry into the CPTPP, with up to US\$218 million of Canadian imports being diverted from the United States to China, accounting for 42% of the total trade diversion impacting the United States. The significant diversion effects on the United States highlight the potential benefits of China’s accession to the CPTPP for Canada’s trade diversion efforts to enhance its economic security.¹³

¹³ Due to model limitations—where results report aggregate diversion by each trade partner and product separately—the exact diversion of Canadian trade partners by China cannot be determined. Therefore, for each HS2 code, we infer the trade diversion from each Canadian partner to China as the smaller of China’s diversion effect on that product or the absolute trade diversion of that partner. The overall diversion effect for each partner is then aggregated across all HS2 products, providing an upper bound on China’s impact on Canada’s trade with each partner.

TABLE 9: IMPACTS ON CANADA’S TRADE BALANCE WITH CHINA (100 MILLIONS OF USD)

HS-Level2	HS-level 2 Description	Trade Balance with China Before China Joining CPTPP	Trade Balance with China After China Joining CPTPP	Trade Balance with China Changes upon China Joining CPTPP	% Change in Canada’s Exports to China	Share of Change in Exports to China to Canada’s Total Exports	% Change in Canada’s Import from China
02	Meat and edible meat offal	8.9	25.3	16.4	184.0%	184.0%	1.0%
27	Mineral fuels, oils and products of distillation, etc.	49.3	54.5	5.2	10.6%	10.6%	0.4%
12	Oil seed, oleagi fruits; miscell grain, seed, fruit etc.	18.4	23.2	4.8	25.8%	24.4%	1.3%
10	Cereals	18.1	21.0	2.9	16.1%	16.0%	0.0%
11	Products of the milling industry, etc.	0.0	2.3	2.4	4945.6%	9104.0%	0.1%
15	Animal/veg fats, etc.	9.8	11.8	1.9	19.4%	19.4%	16.7%
29	Organic chemicals	-1.9	-1.1	0.9	44.7%	13.3%	0.0%
23	Residues and waste from the food industries, etc.	8.3	9.0	0.7	8.4%	8.3%	6.5%
03	Fish and crustacean, mollusc and other aquatic invertebrate	0.4	0.9	0.5	133.1%	16.0%	0.3%
31	Fertilizers	5.4	5.7	0.4	6.6%	6.4%	0.0%
Total		-377.6	-370.8	6.8	1.8%	14.5%	5.2%

- Following China’s accession to the CPTPP, Canada’s exports to China are projected to rise by \$4.1 billion, while imports from China would increase by \$3.4 billion. This results in a \$675.8 million reduction, or 1.8%, in Canada’s trade deficit with China.
- Among HS-2 level chapters, Canada’s trade surpluses with China are expected to grow most significantly in “Meat and Edible Meat Offal (HS02)” (\$1.6 billion, 184%), “Mineral Fuels (HS27)” (\$524 million, 10.6%), and “Oil Seeds (HS12)” (\$475 million, 25.8%).

IMPACTS ON CANADA'S ECONOMIC WELFARE

China's accession to the CPTPP offers immediate benefits to Canada, including increased exports and strengthened economic security. Tariff reductions among CPTPP members could also minimize dead-weight loss and lower prices, enhancing Canadian consumers' purchasing power and overall economic welfare.

This analysis, benchmarked to the CPTPP's status in 2021, compares welfare effects for Canada in two scenarios: one where Canada applies zero tariffs to the other 11 CPTPP members (excluding China), and another where China is also included as a CPTPP member. The simulation results highlight significant economic welfare gains for Canada from China's inclusion in the CPTPP.

TABLE 10: MARKET ECONOMIC IMPACTS OF CHINA JOINING CPTPP ON CANADA (MILLIONS OF USD)

PANEL A: WITH CHINA IN THE CPTPP

HS-Level2	HS-level 2 Description	Total Trade Effects	Welfare Effects	Market Economic Effects ^a	Typical Consumer Surplus ^b	Total Consumer Surplus ^c
61	Articles of apparel and clothing accessories, knitted or crocheted	359.5	22.2	381.7	428.2	450.9
63	Other made up textile articles;sets;worn clothing;textile articles;rags	243.1	19.2	262.3	190.8	212.5
87	Vehicles, o/t railway or tramway rolling-stock,and parts and accessories thereof	216.2	8.7	224.8	303.2	309.1
94	Furniture; bedding, mattress, matt support, cushion, etc	212.8	8.5	221.3	259.2	264.9
62	Articles of apparel and clothing accessories, not knitted or crocheted	198.4	11.1	209.5	248.2	260.6
39	Plastics and articles thereof	126.5	4.1	130.6	76.3	77.1
40	Rubber and articles thereof	119.7	4.9	124.7	38.7	39.9
85	Electrical mchy equip parts thereof; sound recorder etc	109.7	2.8	112.6	171.9	172.4
64	Footwear, gaiters and the like; parts of such articles	81.4	3.9	85.3	99.3	102.3
73	Articles of iron or steel	77.2	3.0	80.2	83.0	83.6
Total		2369.0	110.8	2479.8	2569.3	2661.0

PANEL B: CPTPP WITHOUT CHINA

HS-Level2	HS-level 2 Description	Total Trade Effects	Welfare Effects	Market Economic Effects ^a	Typical Consumer Surplus ^b	Total Consumer Surplus ^c
87	Vehicles, o/t railway or tramway rolling-stock, and parts and accessories thereof	88.3	3.1	91.4	48.5	51.1
40	Rubber and articles thereof	50.7	2.9	53.6	11.7	12.3
15	Animal/veg fats & oils & their cleavage products; etc	14.5	0.4	15.0	2.5	2.8
85	Electrical mchy equip parts thereof; sound recorder etc	9.0	0.5	9.5	13.6	13.6
94	Furniture; bedding, mattress, matt support, cushion, etc	8.0	0.3	8.3	12.3	12.7
89	Ships, boats and floating structures	7.5	0.4	7.9	4.7	5.5
64	Footwear, gaiters and the like; parts of such articles	7.2	0.5	7.7	10.2	10.7
02	Meat and edible meat offal	5.6	0.4	6.0	2.6	2.6
61	Articles of apparel and clothing accessories, knitted or crocheted	4.8	0.5	5.4	20.3	20.8
33	Essential oils & resinoids; perf, cosmetic/toilet prep	4.1	0.2	4.2	4.8	4.9
Total		233.2	11.1	244.4	209.9	217.0

PANEL C: COMPARISON

Total	2135.8	99.6	2235.4	2359.5	2444
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^a Market economic effects represent Canada's overall economic gains as a market, encompassing both total trade effects and welfare effects. Total trade effects refer to trade increase driven by lower import prices. Welfare effects include the broader economic benefits of tariff reductions, consisting of additional tariff revenue from increased imports and the enhanced consumer surplus generated by higher import volumes.

^b Consumer surplus refers to the difference between the price consumers are willing to pay and the price they actually pay. In most general equilibrium model estimations, this measure is used to represent welfare effects.

^c Total Consumer Surplus is the sum of the typical consumer surplus and additional consumer surplus entailed by the increase in imports.

- Under the current CPTPP status quo (reflecting the 2021 framework and the inclusion of the United Kingdom), Canada's total trade creation is estimated at \$233 million, while its total net welfare gain is \$11 million. 14
- With China joining the CPTPP, Canada's total trade creation and welfare gains rise significantly to \$2.4 billion and \$111 million, respectively—10 and 9 times higher than without China's inclusion. Overall, Canada's total market economic gains increase by a factor of 10, from \$244.3 million to \$2.5 billion, compared to the status quo CPTPP. This substantial growth is notable given that imports from China account for only 14% of Canada's total, underscoring the strong multiplier effects.
- When including total consumer surplus (accounting for transferred value from government tariff revenue), China's inclusion magnifies Canada's market economic impact by over 11 times, raising the value from \$450.1 million to \$5.0 billion.
- Table 11 highlights that the majority of Canada's incremental market economic gains from China's accession to the CPTPP come from manufacturing products. Key sectors include apparel and clothing accessories (HS61, HS62), other textile articles (HS63), and furniture (HS94), which together account for 47.2% of the total market economic impact.

TABLE 11: CANADA'S TOP 10 HS-LEVEL 2 CHAPTERS WITH THE MOST ADDITIONAL MARKET ECONOMIC IMPACTS (MILLIONS OF USD)

HS-Level2	HS-level 2 Description	Total Market Economic Impacts with China Joining the CPTPP	Total Market Economic Impacts without China in the CPTPP	Additional Market Economic Impacts incl. China in the CPTPP	% Additional Market Economic Impacts incl. China in the CPTPP	Share of HS-level 2 Additional Total Market Economic Impacts
61	Articles of apparel and clothing accessories, knitted or crocheted	381.72	5.35	376.37	70.34	16.8%
63	Other made up textile articles, etc.	262.35	2.78	259.57	93.46	11.6%
94	Furniture; bedding, mattress, matt support, cushion, etc	221.27	8.35	212.92	25.50	9.5%
62	Articles of apparel and clothing accessories, not knitted or crocheted	209.53	3.73	205.80	55.18	9.2%
87	Vehicles, o/t railway or tramway rolling-stock, and parts and accessories thereof	224.84	91.38	133.46	1.46	6.0%
39	Plastics and articles thereof	130.61	3.23	127.38	39.46	5.7%
85	Electrical mchy equip parts thereof; sound recorder etc	112.55	9.47	103.08	10.88	4.6%
73	Articles of iron or steel	80.22	1.19	79.02	66.29	3.5%
64	Footwear, gaiters and the like; parts of such articles	85.30	7.71	77.60	10.07	3.5%
40	Rubber and articles thereof	124.65	53.57	71.08	1.33	3.2%
Total		2479.80	244.35	2235.44	9.15	

TABLE 12: IMPACTS OF CHINA JOINING CPTPP ON CANADA'S MARKET ECONOMIC IMPACTS DISTRIBUTION (MILLIONS OF USD)

PANEL A: CANADA'S TOP 10 HS2 CHAPTERS WITH HIGHEST MARKET ECONOMIC IMPACTS WITHOUT CHINA IN

HS-Level2	HS-level 2 Description	Total Market Economic Impacts	Share of HS-level 2
87	Vehicles, o/t railway or tramway rolling-stock, and parts and accessories thereof	91.4	37.4%
40	Rubber and articles thereof	53.6	21.9%
15	Animal/veg fats & oils & their cleavage products; etc	15.0	6.1%
85	Electrical mchy equip parts thereof; sound recorder etc	9.5	3.9%
94	Furniture; bedding, mattress, matt support, cushion, etc	8.3	3.4%
89	Ships, boats and floating structures	7.9	3.2%
64	Footwear, gaiters and the like; parts of such articles	7.7	3.2%
02	Meat and edible meat offal	6.0	2.5%
61	Articles of apparel and clothing accessories, knitted or crocheted	5.4	2.2%
33	Essential oils & resinoids; perf, cosmetic/toilet prep	4.2	1.7%
Total		244.4	

PANEL B: CANADA'S TOP 10 HS2 CHAPTERS WITH HIGHEST MARKET ECONOMIC IMPACTS IF CHINA IS IN THE CPTPP

HS-Level2	HS-level 2 Description	Total Market Economic Impacts	Share of HS-level 2
61	Articles of apparel and clothing accessories, knitted or crocheted	381.7	15.4%
63	Other made up textile articles;sets;worn clothing & worn textile articles;rags	262.3	10.6%
87	Vehicles, o/t railway or tramway rolling-stock,and parts and accessories thereof	224.8	9.1%
94	Furniture; bedding, mattress, matt support, cushion, etc	221.3	8.9%
62	Articles of apparel and clothing accessories, not knitted or crocheted	209.5	8.4%
39	Plastics and articles thereof	130.6	5.3%
40	Rubber and articles thereof	124.7	5.0%
85	Electrical mchy equip parts thereof; sound recorder etc	112.6	4.5%
64	Footwear, gaiters and the like; parts of such articles	85.3	3.4%
73	Articles of iron or steel	80.2	3.2%
Total		2479.8	

- **Reshaping Economic Impacts:** Table 12 shows that China's entry into the CPTPP will significantly reshape the structure and concentration of products benefiting from economic impacts.
- **Current Beneficiaries:** At present, the top three product categories with the highest net economic benefits are Vehicles (HS87), Rubber and Articles Thereof (HS40), and Animal Fats (HS15), with the top 10 categories collectively accounting for over 85% of total market economic effects.
- **Post-China Inclusion:** With China's inclusion, the top three categories shift to Apparel and Clothing Accessories (HS61), Other Textile Articles (HS63), and Vehicles (HS87). The share of total market economic impacts from the top 10 categories decreases to 73.9%.

CONCLUSION

This report assesses the economic impact of China joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) on Canada's trade. Using World Bank SMART tool simulations, the analysis predicts a 15% rise in Canadian exports to China, adding \$6.5 billion to economic output. Key sectors like meat, grains, and energy would thrive, with Alberta benefiting significantly. Canada's trade deficit with China would shrink by 1.8%, underscoring the potential to diversify trade and reduce reliance on the U.S. The CPTPP, with its enforceable high standards, stands as a vital framework against global protectionism, fostering trade liberalization and multilateral benefits.

While the data clearly highlights economic benefits, this report also acknowledges the systemic concerns associated with China's accession. Canada and other CPTPP members must emphasize enforceable standards to mitigate risks stemming from non-tariff measures and politically motivated trade policies. The CPTPP's robust mechanisms for transparency and dispute resolution offer the best currently available framework to address these challenges, working to ensure that economic gains are not undermined by non-compliance.

APPENDIX

TABLE 13: REAL MARKET ECONOMIC IMPACTS OF CHINA JOINING CPTPP ON CANADA (MILLIONS OF USD)

Trade Partner	Trade Diversion by Canada in Most Diverted HS Level 2 Chapters
Germany	934.33
United States	150.44
Korea, Rep.	81.72
Russian Federation	80.69
Indonesia	67.66
Spain	66.04
Taiwan, China	13.99
France	12.00
Lao PDR	11.52
Australia	11.15

Note: Trade diversion by Canada is calculated as the smaller value between Canada's trade diversion and the corresponding trade partner's trade diversion within each HS-2 level chapter. This table focuses exclusively on HS-2 level chapters where each trade partner ranks as the most diverted, highlighting the intensive margin of trade diversion .

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