

Chile and the CPTPP: Trade and Systemic Considerations

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Abstract: In this note, I consider the value of the CPTPP for Chile in several dimensions: first, as a conventional trade liberalization exercise aimed at securing Chile's position in the "global factory" by aligning its economic framework with the most advanced "operating system" for Globalization V2; and second, as a ticket to having a seat at the table of potentially the most important "club" shaping the rules-based framework for small open economies in the era of machine knowledge capital – Globalization V3. Prior to joining the CPTPP, Chile had free trade agreements in place with all the other original parties. Accordingly, the agreement offered little additional preferential market access for Chile while posing clear risks of some trade-diversion and preference-erosion effects. The gains were predicated on more subtle impacts in areas such as streamlining of rules of origin and thereby facilitating Chilean firms' participation in regional value chains. As the agreement has matured, the rise in the number of parties seeking to accede to the agreement extends the network effects for Chile of being a member. Moreover, as the CPTPP parties move to update the agreement – particularly its digital economy chapter – Chile has a full seat at the table. Finally, as the United States throws up trade barriers, it naturally deflects trade to flow around US barriers, which enhances the value of Chile's membership in the CPTPP (even as it incentivizes additional economies to apply for accession).

Keywords: Chile, Comprehensive and Progressive Agreement for Trans-Pacific Partnership, CPTPP, regional trade agreements, trade diversion, small open economies, global factory, digital trade, cross-border data flows, machine knowledge capital, rules-based trading system

JEL Codes: F02, F13, F14, F15, F53, O33

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1 Introduction

The original Trans-Pacific Partnership (TPP) aspired to establish the ground rules of international commerce for the 21st century, modelled on the US economic governance regime. Following the US withdrawal under the Trump administration in 2017, the remaining parties concluded the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), preserving the original text of the TPP agreed in October 2015, but suspending a number of provisions that were particular “asks” by the United States.¹

The CPTPP entered into force on 30 December 2018 between the first six countries to ratify the agreement: Australia, Canada, Japan, Mexico, New Zealand, and Singapore. Chile deposited its formal instrument of ratification for the CPTPP on 23 December 2022, after the Chilean Senate approved it on 11 October 2022, and entered into force 21 February 2023.

In terms of ex ante expectations, the CPTPP was not expected to impact materially on Chile’s trade because it had free trade agreements (FTAs) in place with all the original parties. Accordingly, the agreement offered little additional preferential market access for Chile while posing clear risks of some trade-diversion and preference-erosion effects as the CPTPP liberalized previously non-liberalized dyads with the group (e.g., Canada-Japan). The gains for Chile were predicated on impacts in areas such as streamlining of rules of origin across previously separate agreements and thereby facilitating Chilean firms’ participation in regional value chains.

There were also positive network effects which are being realized as the CPTPP attracts a growing membership, starting with the UK (already acceded) and Costa Rica (accession largely completed). There is a queue of applicants, including Argentina – and China. Accordingly, Chile’s global integration policy has been strengthened by its CPTPP membership.

More subtly, signing onto the CPTPP aligned Chile’s commercial regulatory framework with the most advanced “operating system” for Globalization V2; Chile is a rules-taker in this regard, and so it makes sense to align – this does not cost Chile. Meanwhile, as the world fragments, Chile retains a seat at the table in potentially the most important forum for advancing the regulation of the digital economy.

¹ The suspended provisions were concentrated in intellectual property and investment (in particular, limitations on the investor-state dispute settlement or ISDS mechanism) with additional provisions concerning express shipments and telecommunications dispute resolution. The intellectual property limitations covered, inter alia:

- patentable subject matter,
- patent term restoration,
- protection of undisclosed data for pharmaceutical approvals,
- extended term of protection for data used to develop biologic medicines,
- technological protection measures (TPMs) and rights management information (RMI), and
- copyright extension;

2 Limited Conventional Gains from Trade Liberalization

2.1 The Ex Ante Analysis

Since Chile had in force free trade agreements (FTAs) with all the CPTPP parties, the *ex ante* analysis of the impact of the agreement suggested no or negative impacts (Ciuriak, Xiao and Dadkhah 2017). The withdrawal of the United States actually boosted Chile's prospective gains as it avoided erosion of existing preferences in the US market, while enabling Chile to pick up market share in the Western Pacific from the United States.

Impacts of the CPTPP on Chile – Ex Ante CGE Modelling Analysis

	CPTPP Impact
Chile's exports to CPTPP parties	-0.09%
Chile's imports from CPTPP parties	0.16%
Chile's exports to the World	0.013%
Chile's imports from the World	0.004%
GDP in real terms	0.007%
Welfare (USD millions at 2017 prices)	30

Source: Ciuriak, Xiao and Dadkhah (2017)

2.2 Ex Post Gravity Model Estimates

The gravity model of trade is a workhorse tool for the analysis of international trade patterns and the impacts of many types of trade policies, in particular the impacts of an FTA. This model explains bilateral trade patterns based on the size of trading partners, the distance between them, and factors such as free trade agreements (FTAs) that reduce trade frictions. For the present discussion, I ran regressions on a large panel data set of total bilateral flows on a global basis (see Annex 1 for the details) and the results confirm priors:

- CPTPP members are substantially more open than most economies – in a global trade context, CPTPP members over the period 1988-2025 exported 29% more than average and imported 19% more than average.
- The impact of the CPTPP on intra-CPTPP trade, as captured by a dummy variable that equals 1 for dyads that are liberalized under the CPTPP, was strong and positive: intra-CPTPP trade is estimated to be 68% higher on average across all CPTPP dyads because of the agreement.
- The CPTPP did not, however, impact in a statistically significant way on Chile's bilateral trade with CPTPP partners. Chile's exports are marginally stronger and imports are marginally weaker but neither effect is statistically significant.

Table 2: CPTPP Trade Patterns and Impacts

	Impact	Statistical significance
CPTPP Members as Origin (exporters)	29%	***
CPTPP Members as Destination (importers)	19%	***
Bilateral intra-CPTPP trade	68%	***
Chile as exporter to CPTPP members	11%	
Chile as importer from CPTPP members	-28%	

Source: gravity model simulations by the author.

3 Systemic Considerations

Economic history since the industrial revolution has not been a story of gradual evolution. Rather it has been punctuated by disruptive changes that ushered in new episodes. The industrial revolution generated a system that was recognized as Globalization V1, which Baldwin (2016) described as due to the first “unbundling”,² and about which John Maynard Keynes marvelled.³

After an inter-regnum of economic volatility, depression, and war, technological change enabled a second “unbundling” – this time of the factory itself into a distributed production network – that is recognized as Globalization V2.

We are now at a break point – a “rupture” in the words of Canada’s Prime Minister Mark Carney (Ciuriak 2026a), which has put exceptional pressure on the small open economies of the world that are disproportionately dependent on international trade and thus disproportionately vulnerable to economic coercion, and disproportionately interested in preserving a rules-based system (Pinchis-Paulsen and Ciuriak 2025).

For Chile, as a small open economy, participation in the CPTPP takes on new significance with benefits arising from the agreement’s systemic significance.

3.1 The Global Factory Remains Intact

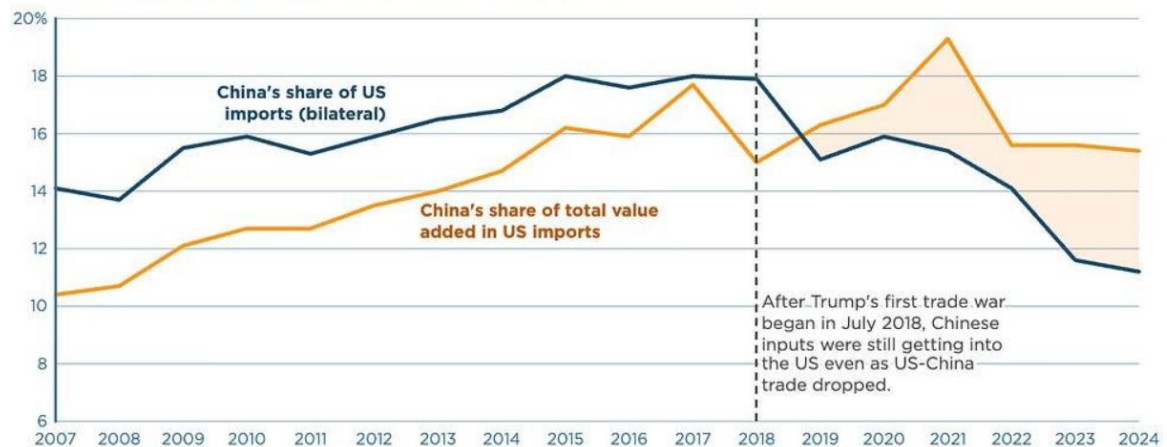
After the better part of a decade of a trade and technology war premised on globalization having gone too far (“hyper globalization”; Rodrik 2025), we are not seeing a retrenchment of trade - global trade has proved resilient. As Meyer (2026) observes: “Supply chains are not shortening; they are stretching further than ever, with average trade distances hitting record levels. The increasing trade in Asia, the Middle East and Africa outweighs the shrinkage of US trade.”

Moreover, notwithstanding the reduction of bilateral trade in final goods between the United States and China, the global factory remains largely intact. This reflects the continued deep interdependence on specialized supply chains that cannot easily be replaced or duplicated. This reality is brought out starkly in the chart below from Lovely and Wan (2026), which shows that value-added imports by the United States from China have barely budged.

² The first unbundling in Baldwin’s framework is the spatial separation of factories and consumers made possible by the plunging costs of moving goods as steamships and railroads allowed things to be profitably made far from where they were consumed.

³ In his “Economic Consequences of the Peace”, Keynes (1920) famously wrote: “What an extraordinary episode in the progress of man that age was which came to an end in August 1914! ... The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth ... he could at the same time and by the same means adventure his wealth in the natural resources and new enterprise of any quarter of the world.”

Figure 1: China's Share of US Imports, Bilateral and Value-added, 2007-2024



How can we understand this?

Globalization V2 was not about trade – it was about production. Its defining feature was not the expansion of trade flows but the emergence of the global factory: an internationally distributed production system organized through value chains that exploit extreme specialization at the firm level to access economies of scale otherwise unattainable. This “global factory” (Grunwald and Flamm 1985) was enabled by technological developments and was already in place before the Uruguay Round got started (Ciuriak 2024a).

- Containerization (starting 1956)
- Wide-body jet for intercontinental trade in high-value goods (1970)
- RFID technology (post-war period)
- IBM personal computer (1981)
 - Combined with CAD-CAM software (1981-1982) powers automation by SME manufacturers (computer-aided manufacturing)
 - Computer-aided design industrializes industrial design, driving the development of the knowledge-based economy and the rise of intangibles
 - Combined with RFID technology enables the “second unbundling” – the spatially distributed factory, which we recognize as “globalization” or “global value chains”
- Supply chain management becomes a term of art in 1982

The WTO Agreement can be thought of as the operating system (OS) for this global factory. Countries voted to join the system – tariffs were a nuisance for intermediate-goods trade and in good measure were unilaterally eliminated. Trade policy ratified Globalization V2; it did not cause it.

When the Doha Round failed, the deep and comprehensive free trade agreements (DCFTAs) took over developing the OS and, with the notable exception of the WTO Trade Facilitation Agreement (TFA), did the heavy lifting. However, this progress was on a fragmented basis – with EU-style templates, US-style templates, and East Asian versions. We can think of this as analogous to Apple’s iOS vs. Google’s Android vs. Huawei’s HarmonyOS – each does the same work but each has different API interfaces causing interoperability issues for participating firms.

Stewardship and further development of the rules-based order is now defaulting to the group of small open economies with the EU-CPTPP “bridge” as a prime example (Ciuriak 2026b). This reflects an alignment of interests, which have been recognized and are being acted upon. And the small open economies are rallying around the system rather than abandoning it – using the Multi-Party Interim Appeal Arbitration Arrangement, concluding new agreements on established templates, entering commitments not to weaponize trade, and opening new forums, of which the CPTPP–EU process is potentially the most consequential.

3.2 Upgrades to the Operating System

For the overwhelming majority of products and participants the existing framework still performs its essential function. For a small number of sectors characterized by exceptionally large prospective rents – advanced semiconductors, artificial intelligence, data, aerospace – rules fail as outcomes are being determined by power rather than law, as they always have been.

The challenge is therefore not to replace a well-functioning operating system that governs most of global trade, but to preserve it, optimize it for the small open economies that truly depend on it, and develop complementary arrangements where it does not reach.

The CPTPP has the institutional framework to drive that development. The main place where new rules are required is in the framework for the digital economy. The Track 1.5 process co-organised by the Pacific Economic Cooperation Council (PECC) member committees of Canada and Australia to provide input to the CPTPP Commission for the General Review of Chapter 14 on Electronic Commerce (e-commerce) identified 13 actionable recommendations (Ciuriak et al. 2025) that could be grouped under four general headings:

- modernizing scope and substantive rules;
- improving implementation and interoperability;
- experimentation, monitoring and stakeholder engagement to keep the agreement evergreen;
- AI, security in the digital domain, and sustainability.

The proposed revisions, which are detailed and supported in the report, would position the CPTPP as a benchmark for inclusive, sustainable, and secure digital trade. One major benefit for Chile from its CPTPP membership is a seat at the table.

3.3 The Digital Domain is the new Wild West

The most important gap for the CPTPP to fill is the gaping hole in the WTO framework on the digital economy. This goes well beyond the nuts and bolts of facilitating digital transactions. The core analytical task is to come to grips with the content of "electronic transmissions" – the undifferentiated category addressed in WTO rules and to parse it into three (Ciuriak et al. 2025):

- **Digital products that are "like" goods** – durable digital products that deliver a flow of services over time (e.g., downloaded files that can be revisited time and again), which, on

a durability-and-use criterion, should presumptively be treated under a GATT-type framework;

- **Digital products that are "like" services** – non-durable digital products that are extinguished upon consumption (e.g., streamed digital products that cannot be re-used) which, on a durability-and-use criterion, should presumptively be treated under a GATS-type framework; and
- **Data**, which is neither, and which requires its own treatment, including reflection of the value of cross-border data flows in the trade accounts and thus in estimated trade balances, and measures enabling the exercise of sovereign governance of the digital economy, including as regards how data is used.

The third element is where the money is, and where the current framework is not merely incomplete but damagingly misleading. Digital products for which payment is received are reflected in the trade and balance of payments data (even if the goods-like digital flows may be recorded as services). However, the value of cross-border data flows is not measured.

In the barter trade of free internet services for data, the flows are “zero for zero”: households “consuming” internet services pay no money for these services and the platform firms that capture the user data for monetization in other applications are recorded as receiving no benefit. Accordingly, trade and economic accounts are mis-stated worldwide – and in highly asymmetric ways:

- Exports of digital services are grossly understated in all countries – since these are provided in the world ex China largely by U.S.-domiciled platform firms, this also means that U.S. exports are under-stated and U.S. GDP is understated by an equivalent amount;
- Household consumption is understated; in importing countries, this also means that imports are understated. While GDP is not understated (because consumption of imports does not count towards GDP), the trade balance is over-stated since an important tranche of imports is not reflected.
- The balance of payments of exporters and importers is incorrectly calculated since the consideration flowing as compensation for the internet services – the user data – is not reflected as income earned – it flows into a bank, just not a money bank – rather it flows into a data bank, where it drives the market capitalization of the most valuable companies in today’s digital economy.
- By extension, the value of data does not appear in trade balances, with consequences running well beyond trade statistics, including for assessments of external positions and for the negotiating dynamics of agreements now under review.

A trade framework that cannot “see” the most valuable traded asset of an age is woefully inadequate for the trade governance needs of that age.

This has real world consequences in the context where trade deficits have become the basis for levying tariffs. The US. “reciprocal tariff” regime, which has hit Chile with a 12.5% tariff surcharge even though Chile runs a merchandise trade deficit with the United States, is entirely

motivated by the U.S. global merchandise trade deficit, however nonsensical that policy may be (Ciuriak 2025a).

One obvious policy recommendation that flows from this is for Chile to publish economic accounts that assigns value to internet services imports and to the value of data that flows out of Chile. It will improve the measurement of Chile's economic accounts and it will furnish Chile with levers in its trade negotiations.

Two further areas need to be addressed for small open economies to find traction in the modern economy in which the key productive assets are intangible and therefore untethered from local economic anchors.

First, small open economies have withered in the innovation-intensive age of data. Policies, rules and conventions designed for the industrial economy have not worked in the intangibles economy (for a discussion see Ciuriak 2025b).

Second, connected devices and digital agents are generating profound issues of national security, privacy and the integrity of democratic processes. This is the area where governance is least developed and the gap is widening the fastest (Ciuriak 2024).

4 Conclusions

Considered in terms of tariff-reduction gains from trade, as measured by conventional trade modelling using computable general equilibrium models, Chile's engagement in the trans-Pacific partnership negotiations offered little and indeed posed risks in terms of trade diversion, given that it already has FTAs in place with each of the counterparties. This outcome is broadly confirmed in ex post analysis using gravity models of trade to identify measurable bumps in trade patterns that could be attributed to the agreement, as reported in the present paper.

This, however, does not account for the full value of the agreement for Chile.

As a small, open economy that is dependent on trade and international investment, bringing the various individual FTA partners into one comprehensive agreement provided access to additional gains from trade from cumulation provision in the rules of origin that are the gatekeepers to access to preferential tariffs. While this may not have been substantially exploited by Chilean producers to date, this option remains in place as a source of future benefits. Moreover, the attraction of the CPTPP to other small open economies is creating a network effect as applicants line up to join. This conserves on scarce negotiating resources for Chile and expands the future benefits from cumulation provisions as more partners come under the over-arching framework of the CPTPP.

Further, Chile, along with other small open economies, has a profound interest in developing a digital economy framework that provides access to the growth opportunities in digital space, a fair sharing of the value of data (including recognition of the value of cross-border data flows in the trade accounts), sound governance of AI, and developing multilaterally agreed safeguards to cybersecurity needs. Importantly, the kinds of advances in digital economy rules that have been broached in the Digital Economy Partnership Agreement (DEPA) would carry far greater weight if and when incorporated into the CPTPP.

Finally, with the rupture in the global rules-based framework, the CPTPP has gained enormously in strategic value for small open economies. Navigating the rupture individually exposes them to the asymmetric power of the major economies, which have taken to unabashedly exercising their geoeconomic leverage to extract concessions. While trade coercion is self-limiting in the longer run, in the all-important medium term, the CPTPP offers a vehicle for collective action to defend the multilateral system on which small open economies depend and to counter geoeconomic pressure without generating mutual harm within their own ranks.

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Annex 1: Gravity Model Results

To analyze the impact of the CPTPP on Chile's trade, the following simple equation is used:

$$M_{ij} = \beta_0 + \beta_1 \ln GDP_j + \beta_2 \ln GDP_i + \beta_3 \ln D_j + \beta_4 CPTPP_{ij} + \varepsilon$$

where

M_{ij} denotes imports of country i from country j

D_j denotes the distance of country i from the exporter j

GDP_i denotes the importer country's GDP

GDP_j denotes the exporter country's GDP

We draw on data for bilateral trade between all countries in the UN Comtrade for the period 1988-2025. Distance data are drawn from CEPII's gravity data set. GDP data are from the IMF World Economic Outlook database. It is generally accepted that import values are more accurate than export values for goods trade since customs authorities are more diligent in documenting origin of goods for the purposes of applying tariffs and other trade policies. Accordingly, the bilateral trade flows are measured by the importing country's statistics. To estimate the gravity equation, we use the now standard pseudo Poisson maximum likelihood (PPML) estimator (following Santos Silva and Tenreiro, 2006; 2015).

Table A1: Openness Test

	GDP O	GDP D	Distance	CPTPP O	CPTPP D
Coefficient	0.83	0.83	-0.75	0.17	0.26
Std Error	0.004	0.005	0.007	0.017	0.024
Observations	454,001				
Pseudo R2	0.68				

The coefficients of interest are those on the dummy variable which identify CPTPP parties as origin (exporters) or destination (importers).

- For CPPTPP parties as exporters, the coefficient is 0.17. This is converted to a percentage impact as $\text{EXP}(0.17)-1 = 19\%$. In other words, over the period covered in the data, CPTPP members exported 19% more on average than non-CPTPP members.
- For CPPTPP parties as imports, the coefficient is 0.26. This is converted to a percentage impact as $\text{EXP}(0.26)-1 = 29\%$. In other words, over the period covered in the data, CPTPP members imported 29% more on average than non-CPTPP members.

Table A2: CPTPP Impact Test

	GDP O	GDP D	Distance	CPTPP Impact
Coefficient	0.84	0.84	-0.74	0.52
Std Error	0.004	0.005	0.006	0.051
Observations	454,001			
Pseudo R2	0.68			

The impact of the CPTPP on intra-CPTPP trade is $\text{EXP}(0.52)-1 = 68\%$.

Table A3: Impact of CPTPP on Chile's bilateral exports to CPTPP Parties

	GDP O	GDP D	Distance	CPTPP Impact
Coefficient	0.28	1.13	0.99	0.10
Std Error	0.038	0.018	0.113	0.156
Observations	2,781			
Pseudo R2	0.91			

Table A4: Impact of CPTPP on Chile's bilateral imports from CPTPP Parties

	GDP O	GDP D	Distance	CPTPP Impact
Coefficient	0.97	0.45	-0.95	-0.33
Std Error	0.020	0.049	0.046	0.168
Observations	5,220			
Pseudo R2	0.66			

The impact of the CPTPP on Chile's exports to CPTPP partners is $\text{EXP}(0.10)-1 = 11\%$.

The impact of the CPTPP on Chile's imports from CPTPP partners is $\text{EXP}(-0.33)-1 = -28\%$.

The major noteworthy feature of Chile's trade pattern is that exports increase with distance. This undoubtedly reflects the commodity nature of its exports which go where the commodity demand is and that is primarily in more distant industrialized countries. By contrast, Chile's imports follow the expected pattern of falling as supplying partner's distance increases.