

Policy Analysis Focus 19-1
Economic Impact of EPAs between Japan and the EU¹

June 2019

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I. Introduction

The Economic Partnership Agreement (EPA) between Japan and the EU (European Union) went into force in February 2019. The Japanese and EU economies are expected to enjoy economic benefits resulting from increases in trade and investment. On the other hand, developments related to the withdrawal of the United Kingdom (UK) from the EU remain uncertain. If the UK did withdraw from the EU without a deal, the UK and its EPA partners would face the possibility of losing the economic benefits that accompanied earlier EPAs. In this article, the impact of the EPAs between Japan and the EU on individual countries will be examined by means of simulation analyses using a Computable General Equilibrium (CGE) model of global trade².

II. The economic impact of the Japan - EU EPA on individual countries

A Cabinet Secretariat analysis³ estimates that Japan's real GDP would increase by 0.99 per cent as a result of the Japan - EU EPA. An analysis by the European Commission (EC)'s Directorate-General (DG) for Trade⁴ estimates that the EU and Japanese GDPs would increase by 0.14 per cent and 0.61 per cent respectively. However, the economic impact on individual EU countries is not reported there.

As shown in Table 1, the author's estimates using an economic model indicate

¹ The views expressed in this article are the author's own and do not represent those of GRIPS Alliance or other organizations to which the author belongs.

² The Global Trade Analysis Project (GTAP) database beta version 10 is used in the calculations in this article. The CGE model is modified from the standard GTAP model incorporating dynamic aspects of trade.

³ Cabinet Secretariat (2017), "The Economic Impact Analysis of the Japan - EU EPA and others," Headquarter Office of TPP and others, Cabinet Secretariat, December 21, 2017 (in Japanese)

⁴ European Commission (2018), *The Economic Impact of the EU - Japan Economic Partnership Agreement (EPA), An analysis prepared by the European Commission's Directorate-General for Trade*, Publications Office of the European Union, June 2018

Table1: Real GDP impact of the Japan - EU EPA

	Tariffs, NTMs, service trade barriers	Logistics performance	(%)
Japan	0.392		0.355
EU	0.086		2.200
Austria	0.114		1.676
Belgium	0.199		3.428
Bulgaria	0.123		13.996
Croatia	0.034		6.636
Cyprus	0.072		7.484
Czech Republic	0.074		7.844
Denmark	0.069		1.617
Estonia	0.149		8.913
Finland	0.082		1.537
France	0.081		1.544
Germany	0.070		0.424
Greece	0.063		7.125
Hungary	0.067		9.138
Ireland	0.220		6.622
Italy	0.125		2.214
Latvia	0.106		18.561
Lithuania	0.053		16.783
Luxembourg	0.237		7.713
Malta	0.268		20.218
Netherlands	0.141		1.432
Poland	0.048		5.659
Portugal	0.068		4.016
Romania	0.053		9.812
Slovakia	0.050		16.701
Slovenia	0.022		7.406
Spain	0.049		1.379
Sweden	0.084		0.566
United Kingdom	0.063		1.142

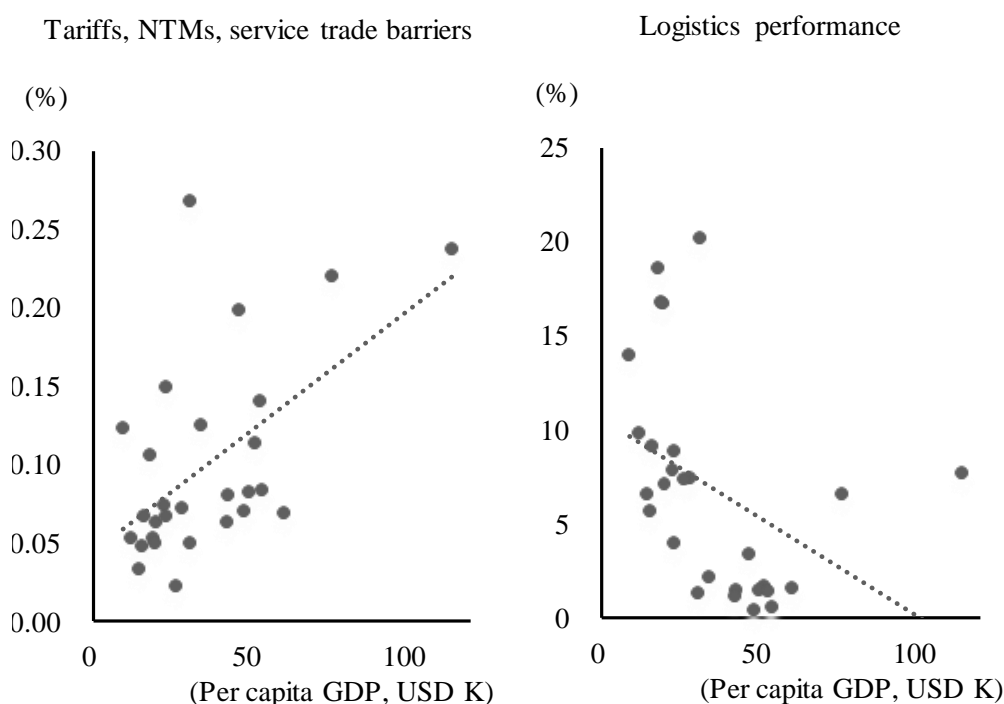
Source: Author's simulations

that the real GDP increases of the EU countries (including the UK) resulting from reductions of tariffs⁵ and non-tariff measures (NTMs), as well as service trade barriers⁶ (those scenarios are analyzed by the EC DG Trade), would vary widely among the 28 countries, ranging from a minimum of 0.022 per cent to a maximum of 0.268 per cent, reflecting differences in the trade and industry structures of those countries.

⁵ Market Access Map data of the International Trade Centre (ITC) is used here to generate the tariff reduction data for the Japan - EU EPA.

⁶ The simulation parameters for the reductions of NTMs and service trade barriers are based on those in the EC DG Trade analysis above.

Chart: Real GDP impact of the Japan - EU EPA



Sources: Per capita GDP: World Economic Outlook Database: April 2019 Edition, IMF
Real GDP impact: Author's simulations

Moreover, comparison of the economic impact on the countries with those income levels, measured by per capita GDP, suggests that the implementation of the Japan - EU EPA would not necessarily reduce the income gaps among the EU countries (see Chart). The EU has already introduced common tariffs and harmonized NTMs and service trade regulations among the countries. Trade and investment liberalization and facilitation measures implementing EPAs would not vary to a large extent.

On the other hand, the impact of lower trade costs of exports and imports through the improvement of logistics performance (this scenario is analyzed by the Cabinet Secretariat along with the impact of tariff reductions) suggests a correction of income gaps among the EU countries. Besides income gaps, World Bank's Logistics Performance Index (LPI) indicates large performance gaps among the EU countries. Larger economic benefits are expected in those countries whose performance has been inferior in the past and who thus show greater room for improvement. The reduction of the spreads in logistics performance would reduce the income spreads.

It is assumed in the calculations here that the LPI gaps between Japan and the

Table 2: Real GDP impact of tariff reductions

	27 EU Countries	UK	Japan	(%)
Japan - 28 EU EPA	0.063	0.044	0.220	
Japan - 27 EU EPA	0.068	-0.005	0.195	
Japan - UK EPA	-0.005	0.050	0.025	

Source: Author's simulations

EU countries, and Germany (whose LPI in 2018 has been the highest among Japan and the EU countries) would decrease by 20 per cent. The economic impact of that reduction could be relatively large in the EU countries compared with the impact of changes in regulations (including the reductions of tariffs, NTMs and service trade barriers). It is suggested here that improvement of the productivity of economic agents would be essential to the enjoyment of the larger economic benefits of EPAs.

III. The effects of the UK withdrawal from the EU

According to the author's calculations, shown in Table 2, the combined real GDP impact of tariff reductions under the Japan - EU EPA (which would be maintained between Japan and the 27 EU countries without the UK after the UK withdrew from the EU) and that of the bilateral EPA between Japan and the UK, would be equivalent in size to the impact of the EPA between Japan and the 28 EU countries including the UK.

It is estimated that once the UK withdraws from the EU, the UK would lose real GDP due to the trade diversion effects of the Japan - 27 EU countries EPA, but that loss would be re-gained under the Japan - UK EPA. On the other hand, it is estimated that the impact of the Japan - 27 EU countries EPA on the 27 EU countries as a whole excluding the UK would be larger than the impact of the Japan - 28 EU countries EPA, but that those additional impacts would be offset by the impact of the Japan - UK EPA. It is estimated that, from the Japanese perspective, the contribution ratio of the impact of the UK joining the Japan - EU EPA would be proportional to the relative size (in terms of GDP) of the UK economy among the EU economies.

It must be noted that the effects per se of the withdrawal of the UK from the EU are not considered in the calculations reported here. Depending on the conditions of the UK's withdrawal, much more serious effects than the economic impact of EPAs, discussed above, would be of concern.

IV. Concluding remarks

The economic impact of the Japan - EU EPA on individual EU countries would vary widely. The improvement of productivity, including logistics performance, would be essential from the perspective of reducing income gaps among the countries. It is suggested that once the UK withdraws from the EU, the Japan - UK bilateral EPA would play a role complementary to that of the Japan - EU EPA.