

**Policy Analysis Focus 20-2**  
**Progress and Economic Impact of Trade Agreements<sup>1</sup>**

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**I. Introduction**

During the recent Abe administration, the longest-serving administration in Japan, running from December 2012 to September 2020, significant progress was made in negotiating and implementing major trade agreements, including economic partnership agreements (EPAs).

Among those agreements, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) went into force in December 2018, followed by the Japan-United States (US) Trade Agreement in January 2020. The Japan-European Union (EU) EPA also went into force, in February 2019. Meanwhile, the Regional Comprehensive Economic Partnership (RCEP) is expected to be finalized before the end of 2020.

This article reviews the progress of trade agreements and assesses the economic impact of recent agreements by examining updated estimates using a Computable General Equilibrium (CGE) model of global trade.

**II. Progress of Trade Agreements**

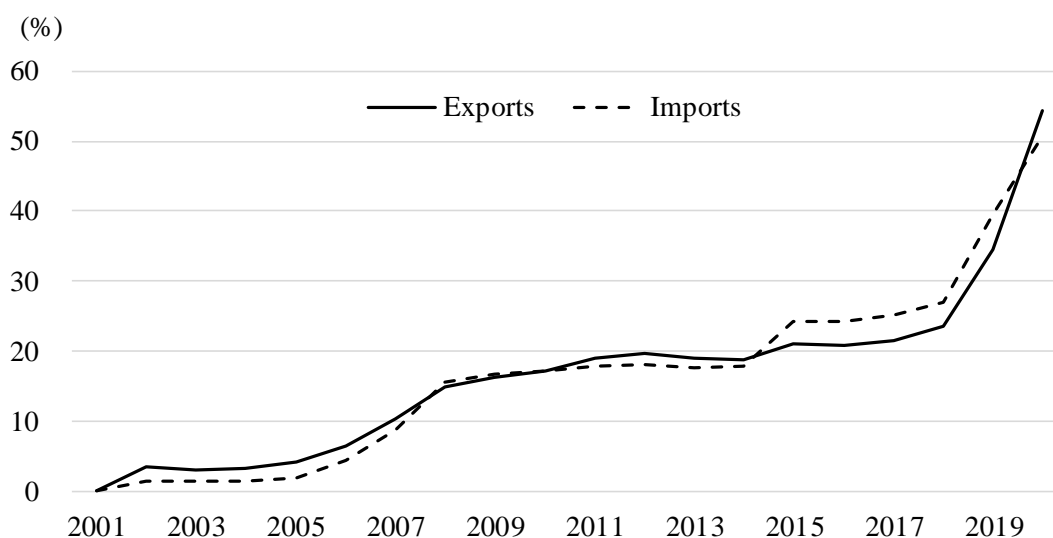
Japan has so far implemented 17 EPAs, <sup>2</sup> starting with the Japan-Singapore EPA in 2002. In the period 2002–2010, the partners in those agreements were for the most part countries of Association of South-East Asian Nations (ASEAN). Other countries include Mexico in 2005, Chile in 2007 and Switzerland in 2009, followed by India (2011), Peru (2012), Australia (2015) and Mongolia (2016).

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<sup>1</sup> 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.

<sup>2</sup> This figure does not include the Japan-US Trade Agreement.

**Chart 1 Trade agreement partners' share of Japan's exports and imports**



Source: Based on "Trade Statistics," Ministry of Finance.

Negotiations towards major trade agreements accelerated in 2013. Japan joined negotiations for the Trans-Pacific Partnership (TPP), which included the US. The same year saw the launch of negotiations on RCEP and the China-Japan-Korea Free Trade Agreement (FTA) in East Asia, and of the Japan-EU EPA. The US later withdrew from TPP, but the remaining eleven countries negotiated and successfully concluded CPTPP, as discussed above. Meanwhile, as the United Kingdom (UK) worked through the process of leaving the EU, in September 2020 Japan and the UK agreed a bilateral EPA in principle.

Trends in the share of Japan's exports to and imports from its trade agreement partners in total exports and imports are shown in Chart 1. These overall figures have been rising for some time; when the Japan-US Trade Agreement was implemented in 2020 following the Japan-EU EPA in 2019, those figures jumped to around 50 per cent. Japan's exports to and imports from the EU including the UK accounted for 11.6 per cent and 12.4 per cent of Japan's world exports and imports in 2019, respectively. Meanwhile, Japan's exports to and imports from the US were 19.8 per cent and 11.0 per cent of national totals.

Moreover, these ratios are expected to reach around 80 per cent once RCEP is concluded and implemented. Among its RCEP negotiant partners, only China and Korea have yet to implement any bilateral or multinational trade agreements<sup>3</sup> with Japan. China

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<sup>3</sup> Three other bilateral combinations of RCEP countries for which there are not yet any bilateral and multilateral trade agreements are India and Australia, India and China, and India and New

**Table 1 Real GDP impact of trade agreements**

|                          |       |       |       | (%)   |
|--------------------------|-------|-------|-------|-------|
|                          | Japan | US    | EU    | China |
| CPTPP                    | 0.10  | -0.01 | -0.01 | -0.02 |
| Japan-US Trade Agreement | 0.21  | 0.03  | -0.02 | -0.01 |
| Japan-EU EPA             | 0.28  | -0.01 | 0.07  | -0.02 |
| Japan-UK EPA             | 0.04  | -0.00 | -0.01 | -0.00 |
| RCEP                     | 1.35  | -0.03 | -0.09 | 0.31  |
| FTAAP                    | 0.36  | 0.25  | -0.34 | 0.88  |

Source: Author's simulations.

occupied a 19.1 per cent share of Japan's export market in 2019, and 23.5 per cent of Japan's imports. Korea occupied a 6.6 per cent share of Japan's export market, and 4.1 per cent of its imports. It is expected that Japan will soon have implemented trade agreements with trade partners contributing the majority of its world trade.

### III. Economic Impact of Trade Agreements

The updated estimates of the real GDP impact of tariff reductions according to concluded and potential major trade agreements are presented in Table 1. The estimates were conducted using the version 10 (the latest) database of Global Trade Analysis Project (GTAP), in which the benchmark year is 2014, with GDP levels updated to 2020 figures from the International Monetary Fund's (IMF) *World Economic Outlook Database April 2020*. Tariff data reflecting the implementation of trade agreements is derived from the International Trade Centre (ITC) *Market Access Map*. In the base scenario, it is assumed that the tariff reductions stipulated in existing trade agreements before CPTPP among the Asia-Pacific Economic Cooperation (APEC) economies will be fully implemented, though some may not be completed until sometime beyond 2020.

Japan's real GDP is estimated to increase by 0.104 per cent as a result of the tariff reductions resulting from possible implementation of CPTPP by the eleven member countries. As of September 2020, CPTPP had been implemented by seven countries (Australia, Canada, Japan, Mexico, New Zealand, Singapore, Viet Nam), with implementation by the other four countries (Brunei, Chile, Malaysia, Peru) still pending. That said, it is estimated that Japan's real GDP gain from tariff reductions by the seven implementing CPTPP countries (0.098 per cent) would not be much smaller than the gain from the total reductions by all eleven CPTPP countries.

Estimates indicate that implementation of the Japan-US Trade Agreement would

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Zealand.

increase Japan's real GDP by 0.21 per cent, about double the estimated GDP increase resulting from tariff reductions under CPTPP, assuming the same magnitude of tariff reductions under TPP. Excluding the possible impact of US tariff reductions on auto imports from Japan, Japan's real GDP gain is estimated to be slightly smaller (0.17 per cent). It should be noted that Japan's total real GDP gains from tariff reductions under CPTPP and the Japan-US Trade Agreement would be larger than that from TPP (0.26 per cent). On the other hand, total real US GDP gains resulting from tariff reductions under CPTPP and the Japan-US Trade Agreement are estimated to be smaller than those under TPP (0.04 per cent).

Meanwhile, Japan's real GDP is estimated to increase by 0.28 per cent due to tariff reductions resulting from the Japan-EU EPA with 27 EU countries not including the UK. That increase would be complemented by the gain from the Japan-UK EPA, 0.04 per cent. The total economic impact of tariff reductions under the Japan-EU EPA with 27 EU countries and under the Japan-UK EPA would be equivalent to that under the Japan-EU EPA with 28 EU countries (including the UK).

Moreover, assuming that the RCEP countries would reduce tariffs to the same levels that they have applied to RCEP partners under existing trade agreements, Japan's real GDP is estimated to increase by 1.35 per cent due to RCEP tariff reductions. It is suggested that additional trade creation effects experienced by Japan as a result of potential tariff reductions with China may be much larger than the effect of tariff reductions with the US and the EU. That said, the actual economic impact would be dependent on the extent of tariff reductions under the RCEP agreement.

It is expected that the membership of the CPTPP could expand with the participation of more APEC economies and others. Japan's possible real GDP gain from remaining tariff reductions<sup>4</sup> under the Free Trade Area of the Asia-Pacific (FTAAP) is estimated to be 0.36 per cent, in which case, after the conclusion and implementation of RCEP, Japan's remaining real GDP gain from FTAAP tariff reductions would be limited. In contrast, it is suggested that possible real GDP gains from remaining tariff reductions by the US and China may be relatively larger than gains under TPP and RCEP.

#### IV. Concluding remarks

It is expected that Japan could implement trade agreements with the majority of

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<sup>4</sup> It should be noted that tariffs would not necessarily be fully eliminated under existing trade agreements.

its larger trade partners in the near future. In addition to the reduction of remaining tariffs, further efforts could be made to improve the quality of those agreements through reduction of non-tariff measures (NTMs) and liberalization of services and investment. On the other hand, it is suggested that the US and China may enjoy relatively larger remaining benefits from future trade agreements. Progress towards comprehensive and balanced trade agreements would merit watching.