

**Policy Analysis Focus 21-1**  
**Economic Impact of Further Tariff Reductions<sup>1</sup>**

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**I. Introduction**

The Regional Comprehensive Economic Partnership (RCEP) Agreement was signed in November 2020, following the entry into force of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in December 2018. This means that two major free trade pathways have been established in Asia-Pacific.

That said, the United States (US) has withdrawn from TPP, and India has left RCEP. On the other hand, the United Kingdom (UK), having left the European Union (EU), has applied to join CPTPP. Regional Economic Partnership Agreements (EPAs) would still be expected to play effective roles in global trade policy making.

The economic impact of further tariff reductions stemming from the expansion and deepening of CPTPP will be analyzed in this article using a Computable General Equilibrium (CGE) model of global trade.

**II. Development of tariff reductions**

“A free-trade area” could be accepted in which tariffs “are eliminated on substantially all the trade” for the purpose of the General Agreement on Tariffs and Trade (GATT).<sup>2</sup> The definition of “substantially all the trade” may not have been made explicit yet, but it has often been argued that EPAs would reduce tariffs by around 90 per cent or more in terms of trade values and/or the numbers of tariff lines.

However, the ratio of tariff reductions under the major EPAs would not necessarily have been that high in terms of the trade weighted average of applied tariff rates or simple tariff values, which are much more meaningful measurements of tariff

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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> See GATT Article 24.

**Table 1 Reductions of Japan's tariff values**

(JPY billion, per cent reduction ratios in parenthesis)

	TPP		CPTPP		Japan-US TA		Japan-EU EPA		RCEP	
Revenues	207	(65)	74	(53)	103	(66)	132	(91)	315.9	(57)
Agriculture	165	(64)	62	(55)	102	(78)	60	(92)	21.1	(10)
Manufacture	41	(66)	12	(43)	1	(4)	72	(90)	294.8	(87)
Payment	499.6	(100)	314.5	(99)	212.8	(82)	280.8	(100)	1,139.7	(61)
Agriculture	3.3	(97)	1.6	(100)	0.1	(50)	2.3	(96)	10.3	(61)
Manufacture	496.3	(100)	313.0	(99)	212.6	(82)	278.5	(100)	1,129.4	(61)

Sources: Based on calculations by Cabinet Secretariat, Ministry of Finance, Ministry of Agriculture, Forestry and Fisheries, and Ministry of Economy, Trade and Industry (footnote 3).

reductions from the perspective of economic impact. The development of tariff reductions in line with major EPAs in Japan is shown in Table 1, which is based on Cabinet Secretariat, Ministry of Finance, Ministry of Agriculture, Forestry and Fisheries, and Ministry of Economy, Trade and Industry calculations.<sup>3</sup>

Japan has agreed to reduce import tariffs by 91 per cent under the Japan-EU EPA (in terms of the values of tariff revenues), but to a lower extent (i.e. 53 to 66 per cent) under the other major recent EPAs shown in Table 1. It is suggested here that this ratio is not so much higher under TPP and CPTPP (which have been said to achieve an ambitious and high-standard EPA) than under the other EPAs, including RCEP.

In contrast, in addition to the Japan-EU EPA, Japan has obtained nearly 100 per cent removal of tariff payments from trade partners under TPP and CPTPP. However, as shown in Table 1, that ratio is still only 61 per cent under RCEP, and 82 per cent under the Japan-US Trade Agreement.

All in all, Japan has not yet been seen to accomplish free trade in Asia-Pacific despite the agreement of major EPAs. There would still be room for action regarding both import tariffs imposed by Japan and those imposed by Japanese trade partners, particularly the US and RCEP member countries including China and Korea.

### III. Economic impact of the expansion and deepening of CPTPP

Table 2 shows the estimated real GDP impact of tariff reductions under several

<sup>3</sup> [https://www.cas.go.jp/jp/tpp/tppinfo/2015/pdf/151224\\_tpp\\_kannzeisisan.pdf](https://www.cas.go.jp/jp/tpp/tppinfo/2015/pdf/151224_tpp_kannzeisisan.pdf)  
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**Table 2 Real GDP impact of tariff reductions**

	CPTPP	Japan-US TA	CPTPP UK joining	CPTPP remaining	Japan-US remaining	(%) TPP 100% removals
Japan	0.09	0.04	-0.01	0.09	0.24	0.39
Brunei	0.02	-0.03	0.03	0.00	-0.07	-0.13
Malaysia	0.15	-0.01	0.24	-0.01	-0.03	0.50
Singapore	0.19	-0.02	-0.01	0.05	-0.05	0.11
Viet Nam	0.98	-0.00	-0.00	-0.01	-0.06	6.08
Australia	0.07	-0.05	0.06	0.24	-0.04	0.15
New Zealand	0.44	-0.07	0.55	0.12	-0.06	0.59
US	-0.01	0.01	-0.00	-0.01	0.04	0.05
Canada	0.16	-0.01	-0.00	0.08	-0.06	0.35
Mexico	0.13	-0.02	-0.00	0.18	-0.17	-0.04
Chile	0.04	-0.02	-0.00	-0.02	-0.07	-0.18
Peru	0.00	-0.01	-0.00	-0.00	-0.02	-0.08
Ave. above	0.04	0.01	0.01	0.03	0.04	0.19
UK	-0.01	-0.01	0.13	-0.01	-0.02	-0.10

Source: Author's simulations.

policy scenarios. The estimations were performed using the standard version of a CGE model of the Global Trade Analysis Project (GTAP) (based on the version 10 GTAP database<sup>4</sup>) incorporating the dynamic effects of capital accumulation and productivity improvements. The tariff data is derived from the International Trade Centre (ITC) *Market Access Map*.

The estimations indicate that Japan's real GDP would increase by 0.09 per cent as a result of the tariff reductions under CPTPP<sup>5</sup> and by 0.04 per cent<sup>6</sup> as a result of those under the Japan-US Trade Agreement. That said, it would not necessarily increase if the UK were to join CPTPP in the future. Japan has already implemented a bilateral EPA with the UK since the UK left the EU. The adverse trade diversion effects from tariff reductions between the UK and remaining CPTPP countries<sup>7</sup> could more than offset the additional trade creation effects between Japan and the UK. On the other hand, the estimated magnitude of the real GDP increase resulting from remaining tariff reductions among

<sup>4</sup> The benchmark year of the GTAP 10 database is 2014. The GDP levels were updated to 2020, to align with *World Economic Outlook Database*, International Monetary Fund (IMF).

<sup>5</sup> It is assumed here CPTPP would eventually be implemented by all eleven member countries.

<sup>6</sup> This estimated impact is smaller than the previous one (0.21 per cent) reported in *Policy Analysis Focus 20-2*, October 2020, which assumed the same magnitude of tariff reductions under TPP. The current estimate is based on the updated tariff data provided by ITC in 2021, which does not include US tariff reductions on auto imports from Japan and others.

<sup>7</sup> Among the eleven CPTPP member countries, Brunei, Malaysia, Australia, New Zealand and Mexico had not concluded bilateral trade agreements with the UK as of 1 January 2021.

CPTPP countries (0.09 per cent) is equivalent to that under the current CPTPP. Moreover, an increase resulting from reduction of the remaining tariffs between Japan and the US (0.24 per cent) is indicated to be much larger than that under the current Japan-US Trade agreement.<sup>8</sup>

One interesting observation from the modeling exercises is that the policy scenarios studied here suggest a variety of real GDP impact in the TPP countries. Japan, Malaysia, Viet Nam, New Zealand, the US and Canada are indicated to enjoy the largest gain if 100 per cent of tariffs are removed by the twelve TPP countries including the US. Larger economic benefits could generally be expected under wider EPAs. On the other hand, Singapore, Chile and Peru are estimated to gain more under the current CPTPP and Australia and Mexico to gain more from reductions of the remaining tariffs among CPTPP countries. Meanwhile Brunei (along with the UK) is indicated to gain more from UK participation in the CPTPP. This lends support to the relative significance of trade creation and diversion effects discussed above.

#### IV. Concluding remarks

Despite the agreement of major EPAs in Asia-Pacific, in effect the ratio of tariff reductions would be limited. Further efforts could be made for the realization of free trade. The deepening of the current framework of EPAs including CPTPP through reductions of the remaining tariffs and other trade policy measures would generate larger economic benefits than the simple expansion of membership of EPAs. The relative significance of those economic impacts among policy scenarios may vary from economy to economy; those impacts deserve quantitative examination.

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<sup>8</sup> The current Japan-US Trade Agreement went into force on 1 January 2020, but as of May 2021 it had not yet been included in the World Trade Organization (WTO) Regional Trade Agreement (RTA) Database.