

**Policy Analysis Focus 24-6**  
**Economic Impact of Japan's EPAs under Negotiation<sup>1</sup>**

**October 2024**

**Kenichi Kawasaki**

**Professor, GRIPS Alliance, National Graduate Institute for Policy Studies (GRIPS)**

**I. Introduction**

In September 2024, Japan's Ministry of Foreign Affairs stated<sup>2</sup> that 20 Japanese trade agreements, including economic partnership agreements (EPAs), had entered into force, and that Japan has been negotiating a China-Japan-Korea (CJK) EPA and EPAs with Bangladesh, Colombia and Turkey, and expects to re-start EPA negotiations with the Gulf Cooperation Councils (GCC).<sup>3</sup>

This article investigates quantitatively (by means of simulation studies using a computable general equilibrium (CGE) model of global trade<sup>4</sup>) the economic impact of the removal of tariffs imposed on or by new trade partners with whom Japan has been negotiating EPAs, and considers the relative significance of the economic impact of those EPAs.

**II. Progress of EPAs**

Japan has implemented its Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and its Regional Comprehensive Economic Partnership (RCEP) Agreement in the Asia-Pacific economy, and an EPA with the European Union (EU), and has made progress in mega EPA initiatives. According to calculations based on the GTAP database employed in this article, the ratio of trade with partners with which Japan is said to have implemented EPAs and a trade agreement<sup>5</sup> in

---

<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> <https://www.mofa.go.jp/mofaj/gaiko/fta/index.html> (in Japanese)

<sup>3</sup> Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates (UAE).

<sup>4</sup> The Global Trade Analysis Project (GTAP) 7 model (based on GTAP 11b Data Base), solved using RunGTAP software, incorporating dynamic effects of capital accumulation. One purpose of this article is to demonstrate the possibility of simulations with a small standard model, using a convenient software. GTAP database is aggregated for 10 regions by 10 sectors.

<sup>5</sup> Australia, New Zealand, China, Korea, Mongolia, the Association of Southeast Asian Nations

Table 1 Trade share and real GDP impact

(%)

	Trade share in Japan		Real GDP	
	Exports	Imports	Japan	Trade partner
Bangladesh	0.2	0.2	0.006	0.070
Colombia	0.2	0.1	0.006	0.192
Turkey	0.5	0.2	0.004	0.071
GCC	2.4	8.3	0.025	0.013
China	25.4	22.6	0.477	0.123
ASEAN	13.5	14.8	0.062	0.142
US	18.1	14.4	0.071	0.023
EU	8.9	11.3	0.123	0.048

Source: Author's calculations and simulations based on GTAP Data Base 11b, 2017, GTAP.

Japan's trade markets has reached 83.5% in exports of goods and services and 80.9% in imports.<sup>6</sup>

That said, the Japan-US Trade Agreement and RCEP have not been recognized as regional trade agreements (RTAs) by the World Trade Organization (WTO) RTA database. Tariff reductions under those agreements would have been limited, achieving unsatisfactory coverage. Excluding China, Korea and the US, with whom Japan has not implemented any other EPAs, the above ratios declined substantially, to 32.5% in exports and 40.1% in imports. It is suggested here that the implementation of EPAs that meet global standards has been delayed in Japan.

On the other hand, the ratio of trade with new trade partners with which Japan has been negotiating EPAs (excluding China and Korea) in Japan's trade markets has not been large, as is shown in Table 1. That ratio for Bangladesh, Colombia and Turkey has not been much more than one hundredth of the ratios for China and the US. GCC countries have been significant crude oil import resources for Japan, but the total export ratio for the six countries has not been much more than one tenth of that for China and the US.

Meanwhile, several economies have achieved higher trade ratios than the negotiating partners discussed above. Chinese Taipei has a 5.5% share of Japan's exports and 2.8% of imports. Brazil, Russia and South Africa (along with China and India referred to as BRICS) have a share of 0.3% to 0.8% in exports and 0.6% to 1.6% in imports.

---

(ASEAN), India, Canada, the United States (US), Mexico, Chile, Peru, EU, the United Kingdom (UK) and Switzerland.

<sup>6</sup> Negotiations toward EPAs with Korea and Canada have been suspended but Korea has been a member of RCEP and Canada has been a member of CPTPP.

### III. Impact of tariff removals

The real GDP impact of the removal of bilateral tariffs between Japan and several trade partners is shown in Table 1. Tariff data used here is mechanically based on 2017 data, and the impact of its levels before the above mentioned mega EPAs entered into force is studied. That said, bilateral EPAs prior to RCEP have reduced tariffs with the ASEAN countries. Meanwhile, tariff rates in the US and the EU have been lower than those in China, and the impact of their reductions in the US and the EU would be smaller than that of those in China.

The relative significance of the real GDP impact on Japan of the removal of tariffs between Japan and several countries would generally reflect the trade ratios with those countries in Japan's trade markets. It is estimated that the impact on Japan of the removal of tariffs with Bangladesh, Colombia and Turkey would be around one hundredth, and the impact of tariff removals with GCC would be around one tenth, of the impact of tariff removals with China. On the other hand, the magnitudes of real GDP increase due to removals in the above three countries would be larger than that in Japan due to their smaller economic sizes relative to Japan. In particular, the relative benefits of removals for Colombia's economy would be suggested to be larger than those for China and ASEAN, and for the US and the EU as well.

The economic impact of tariff removals would be a concern at the sector levels as well as at the macro level. It is theoretically to be expected that agriculture and food production would expand in physically large economies; textiles and apparel production would expand in labor intensive economies; and motor vehicle production would expand in capital and technology intensive economies. That said, the actual economic impact would be dependent on the magnitudes of tariff removals as well as on trade structures reflecting the comparative advantages of the economy. Quantitative (model simulation) studies of the economic impact would be valuable.

Impact of tariff removals on production by sector is shown in Table 2.

- Agriculture and food production are estimated to decrease in Japan and increase in trade partners in all the cases studied here. That said, the adverse impact on Japan would be limited by the EPAs under negotiation here. It would be noted that agriculture and food production would decrease more as a result of tariff removals with the US, for which the real GDP increase would be smaller, than as a result of tariff removals with China, where the real GDP increase would be larger.
- Textiles and apparel production in Japan are suggested to either increase or decrease in both the case of removal of tariffs with EPA partners under negotiations discussed

Table 2 Impact on production by sector

	Agriculture and food		Textiles and apparel		Motor vehicles & parts	
	Japan	Partner	Japan	Partner	Japan	Partner
Bangladesh	-0.01	0.04	0.71	0.71	0.09	-12.54
Colombia	-0.01	0.12	-0.05	0.16	0.28	-4.88
Turkey	-0.01	0.08	-0.06	0.25	0.10	0.15
GCC	-0.01	0.06	0.15	0.05	0.72	-1.15
China	-0.53	0.21	-1.72	1.05	4.09	-1.33
ASEAN	-0.43	0.46	0.43	0.27	1.39	-1.95
US	-2.39	1.31	0.89	-0.07	1.85	-0.38
EU	-1.14	0.65	-1.11	1.37	3.11	-0.84

Source: Author's simulations.

here and the case of tariff removals with major economies. Textiles and apparel production is estimated to decrease as a result of tariff removals with China but not necessarily decrease due to the removal of tariffs with ASEAN and Bangladesh. On the other hand, it is generally estimated to increase in trade partners other than the US.

- Motor vehicle and parts production are estimated to increase in Japan in all cases studied here, and the impact of tariff removals with China and the EU would be larger than that with others. On the other hand, motor vehicle and parts production is generally estimated to decrease in trade partners, and the rates of decrease would be significant in Bangladesh and Colombia. That said, the ratio of motor vehicle production to domestic production has been tiny (less than 1%) in those two countries, and adverse effects on domestic production would be limited to around 0.02%.

#### IV. Concluding remarks

The economic impact of removals of tariffs between Japan and partners in EPAs under negotiation (with the exception of the CJK EPA) would be limited compared with the economic impact of the removal of tariffs between Japan and partners in mega EPAs. On the other hand, WTO has not recognized RCEP and the Japan-US Trade Agreement as RTAs, and there is still room for further tariff reductions. It would be worthwhile to consider Japan's priorities in EPA negotiations from the perspective of the relative significance of the economic impact.