

Impact of UK “Japan Comprehensive Economic Partnership Agreement (CEPA): Options for UK and Japan

Topic: IO modeling (Chair: Satoshi Inomata, Institute of Developing Economies, JETRO)

Author: Muhammad Omer Khan

Co-Authors: Muhammad Aamir KHAN

The policy of trade liberalization has been implemented by number of (developing and developed) countries in form of bilateral, multilateral agreement. It is accepted that incorporation and implementation of free trade policy consequently raise the economic growth in the engaging countries. Likewise, the imposition of free trade policy assists in elimination of external trade constrains, encourage investment and trade. UK has already signed and implemented about 38 trade agreements with 97 countries. In other words, the agreements had been signed with non- EU and EU countries. The paper as whole reveals that UK-Japan Comprehensive Economic Partnership Agreement would primarily work to replace EU-Japan Economic Partnership Agreement after Brexit. Additionally, the agreement aims to tailor mesmerizing gigantic growth in Britain’s economy which could be impossible during EU-Japan EPA. Moreover, it is considered that the agreement titled as UK-JAPAN CEPA would essentially assist in provision and inclusion in CPTPP (Comprehensive and Progressive Agreement for Transpacific Partnership). Besides the volume and growth, it is mentioned that the UK-Japan CEPA and EU-Japan EPA has a somehow identical match in ad valorem and non-ad valorem tariff.

In this circumstance, the research concentrates on implication of UK “Japan bilateral free trade agreement along with additional potential scenario of bilateral five percent trade facilitation paired with liberalized trade using computable general equilibrium (CGE) approach. It is to be mentioned here that the analysis uses GTAP dataset 10a. The potential trade facilitation scenario aids to reduce the trade cost established by NTBs. In GTAP model, the constrains and barriers are determined by ad-valorem equivalents (AVEs) and added into GTAP by AMS tool (import augmenting technical change “Armington nest). This shock works as technological shock to galvanize and arouse trade volume and economic variables by improving the trade facilitation scenario. The shock pretending 5% trade facilitation works in reducing the trade cost, trade barriers and constrains by the specific amount calculated as of AVEs. The outcome of UK-Japan CEPA and UK-Japan FTA with trade facilitation would have significant and luminous impact on both economies however, there exist disparity across some of the variables. The real GDP for both countries have a higher expectancy by implementation of UK- Japan CEPA + trade facilitation (UK grows by \$1411M while Japan elevates by \$924.5M). Similarly, the term of trade is also higher to ToT from UK “Japan CEPA. However, the real returns from factors reduced for both countries (in total) by UK “Japan CEPA + trade facilitation. Briefly, the fact behind the decrease in return is the excessive presence of factors like land and natural resources. In other words, diversion of productivity from land intensive to labour and limited land. The results reveals that if both countries step forwards to extend CEPA towards trade facilitation agreement then it would result in win-win scenario for both. Keeping the same tariff concession as proposed by the paper would result in a very luminous and bright outcome.