

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

**25th Annual Conference on Global
Economic Analysis**

**"Accelerating Economic
Transformation, Diversification
and Job Creation"**



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Thanking you
all for giving
me your
precious
time



Comprehensive Economic Partnership Agreement (CEPA) – A scenario of UK and Japan

Agreement negotiated betwixt UK and Japan based upon EU-Japan Economic Partnership Agreement (JEEPA).

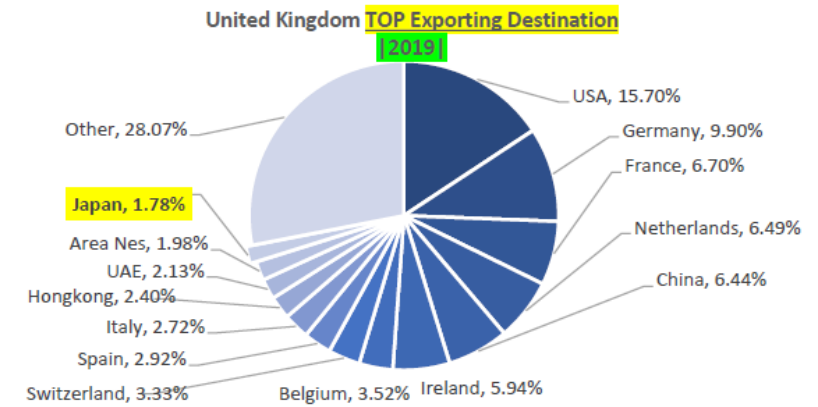
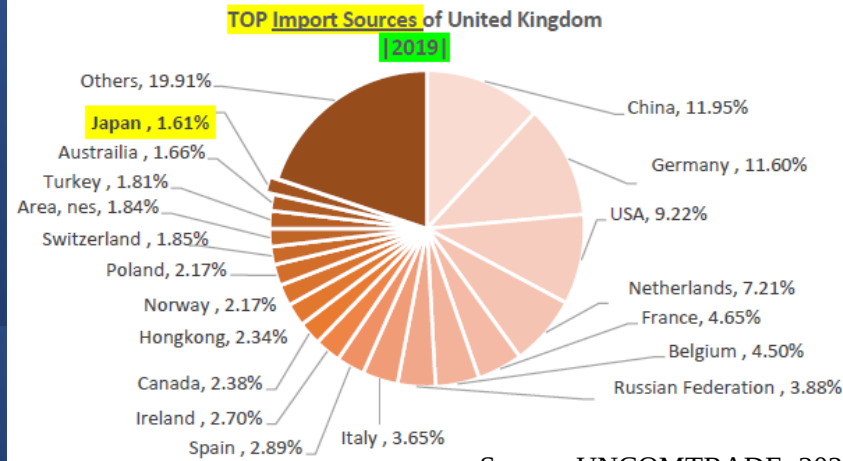
UK – Japan succeeded in negotiation and signatories on 23rd October 2020 – **Entered in January 2021**

The bilateral trade agreement will be a platform for UK joining CPTPP as Japan is the largest trading partner among the eleven countries.

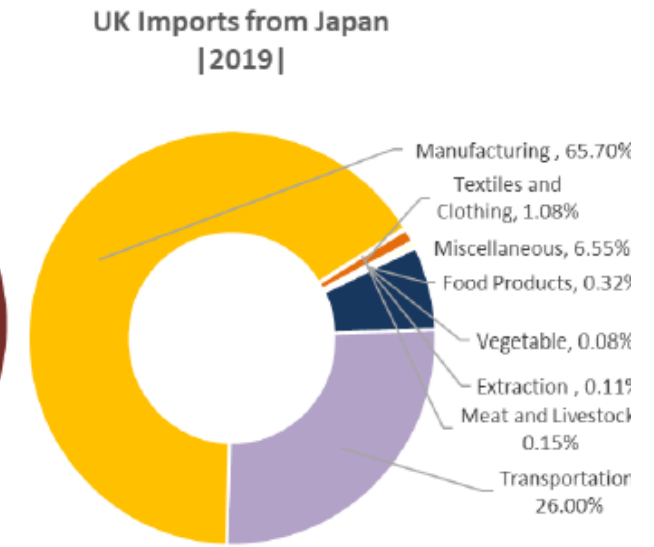
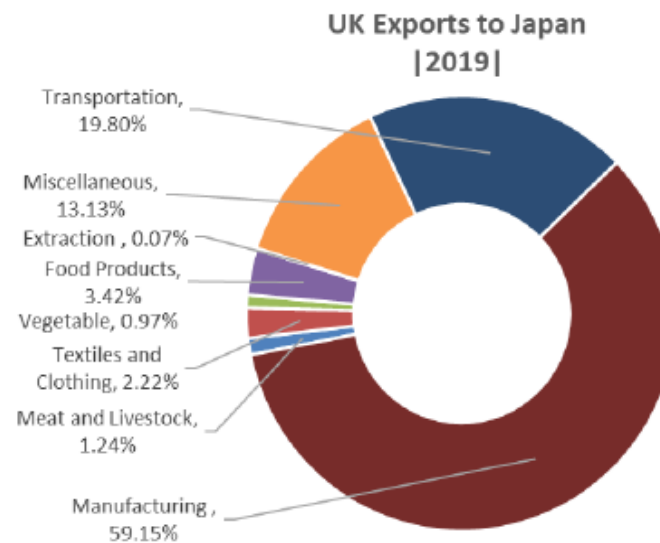


Japan as Trade Partner of UK Trading

Commodities among UK and Japan



Source: UNCOMTRADE, 2021 with Authors Illustration



Source: WITS, 2021 with Authors Illustration (Aggregation added in Appendix)



Gains to UK from CEPA

Overcoming the unprecedented economic defies from the coronavirus

Benefits

Overcome unprecedented hurdles by the COVID-19 pandemic.

Creating gains for all manufacturing regions of UK.

In long run, trade cost compressed by UK-Japan CEPA are expected to raise the UK and Japan trade (UK – Japan bilateral trade expected to escalate by 50% when compared to 2019).

Diversified linkages

Employment opportunities, real income and prices. Raising the real wage rate, boosting employment rate and expansion of supply chain.

Significance of Study



The economy wide impact of UK- Japan FTA is crucial to comprehend the consequences of free trade policy on macroeconomic indicators, sectoral productivity, regional trade with the world, factors return as well as bilateral trade volume of both countries along with the implication on other countries highly affected from the liberalized trade policy. No study has been found on UK-JAPAN liberalized trade policy by reviewing various studies between 1996 to 2021. This substantiates the necessity for analysing economic implication of UK-JAPAN free trade policy on both countries.

Evidence from Previous Studies

Using CGE modeling



Enormous growth in real economic indicators like GDP, exports & imports were obtained. Moreover, expansion in sectoral productivity and trade also took place in UK.

Iqbal et al., 2018

Gain in economic growth and household income was detected in Pakistan by implementation of trade liberalization scenarios across countries.

Khan & Khan,
2021

Both countries are highly benefited from the free trade agreements; growth in macroeconomic indicators i.e., real GDP, regional exports and imports were highlighted. Real factors of Pakistan were stated to improve by the FTA.

Khan & Ur
Rehman, 2020

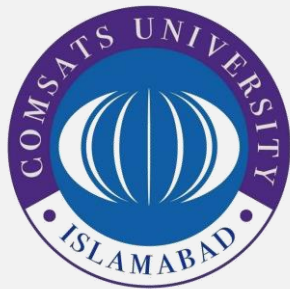
Successful inclusion of Pakistan in CPTPP would consequently reduce the gap between poor and rich along with expansion in real factor return.

Khan et al., 2018

Shaikh et al., 2012

Bilateral trade boosts the trade indicators of both countries.

METHODOLOGY



Execution of Method

General Equilibrium

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graph LR; A[General Equilibrium] --- B[Wallrasian general equilibrium attempts to explain the functioning of macroeconomy rather than collections of market phenomena.]; A --- C[CGE modelling is widely used to generate insights regarding various policies and other shocks in trade and taxation area. Additionally, it is also used in trade, major project expenditure, financial crises. Labour market and technology. Dixon & Jorgenson (2013)];
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Database used in MyGTAP (Minor and Walmsley, 2016)



MyGTAP – Extension of GTAP Model

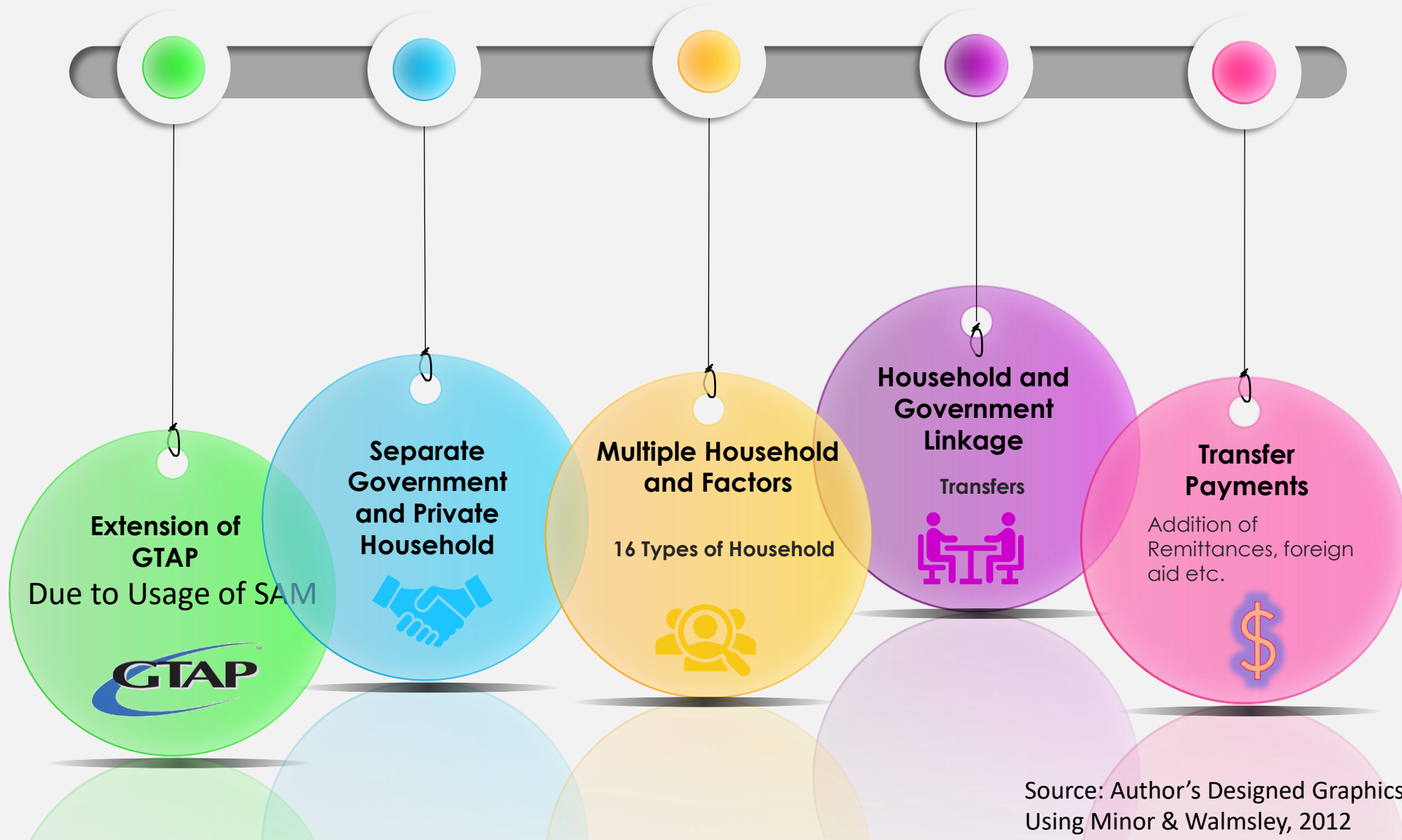
65 Sectors aggregated into 10 sectors

Multiple Household and 18 Real Factors Return

Foreign Aid and Remittances

Global Economic Trade Model

MyGTAP Model



Source: Author's Designed Graphics
Using Minor & Walmsley, 2012



Simulation in the Research

SIMULATION – I

- **UK – Japan Free Trade Policy: Elimination of Overall Bilateral Tariff on all commodities**

SIMULATION – II

- **UK – Japan Free Trade Policy with Trade Facilitation of 5%**



OUTCOME USING CGE MODELLING

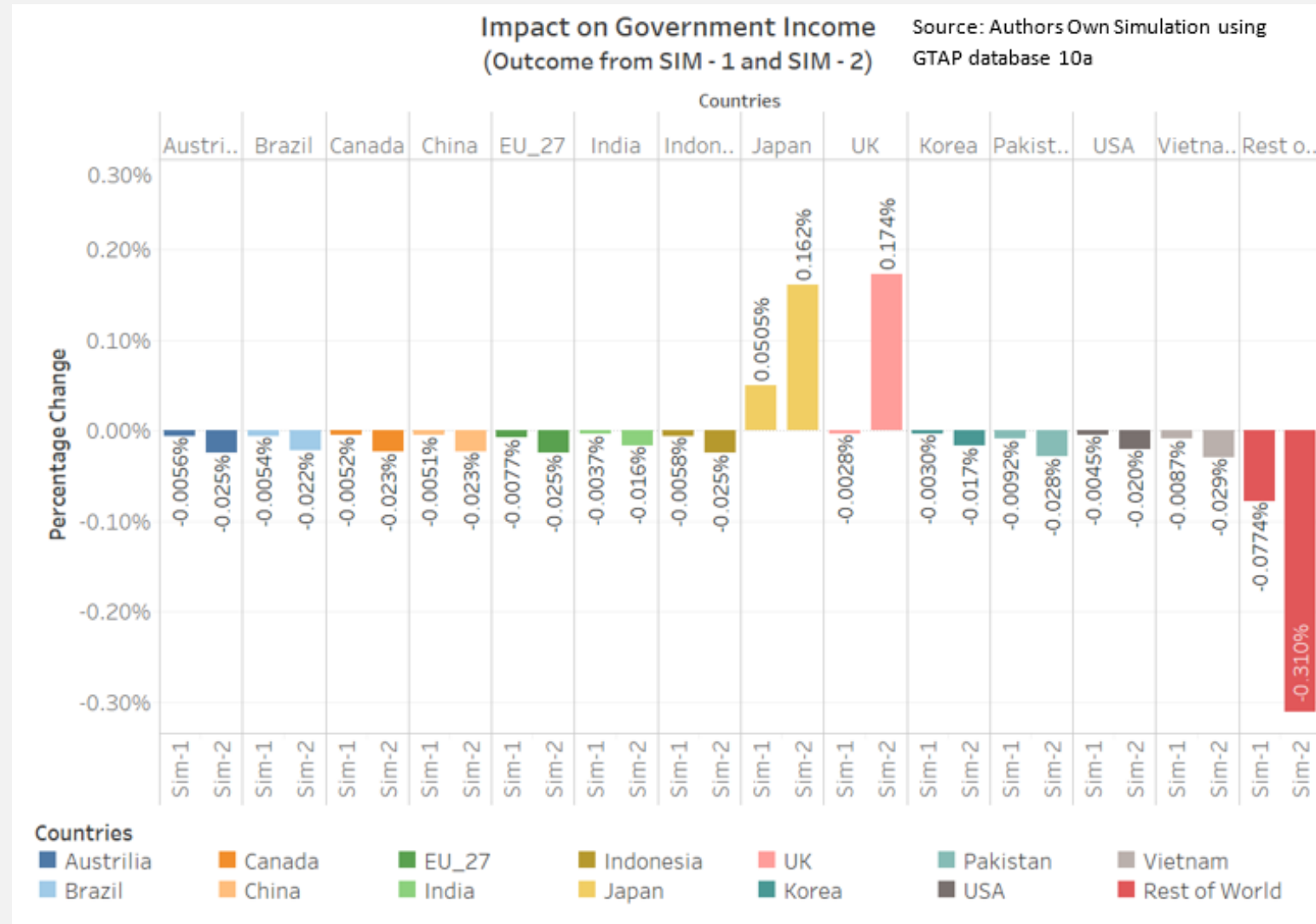


Macroeconomic Impact of CEPA on UK, Japan and non-member Countries

SIM -1 (UK – JAPAN FTA _ Elimination of Overall Bilateral Tariff)				
Countries	Real GDP	Real Exports to the World	Real Imports from World	Terms of Trade
UK	0.00% (\$130M)	0.02% (\$161.06M)	0.12% (\$983.5M)	0.0134
Japan	0.00% (\$51M)	0.02% (\$228.56M)	0.10% (\$947.81M)	0.0443
India	-0.00% (\$-0.5M)	0.00% (\$11.47M)	-0.00% (\$-20.19M)	-0.0018
Korea	-0.00% (\$-6.88M)	0.00% (\$10.75M)	-0.00% (\$-17.63M)	-0.0014
United States	-0.00% (\$-6M)	0.01% (\$136.63M)	-0.01% (\$-221.25M)	-0.0033
Brazil	-0.00% (\$-4.75M)	0.01% (\$16.66M)	-0.01% (\$-19.63M)	-0.0023
China	-0.00% (\$-58M)	0.00% (\$31.25M)	-0.01% (\$-252.75M)	-0.0047
Canada	-0.00% (\$-3.13M)	0.00% (\$23.28M)	-0.00% (\$-20.75M)	-0.0017
Indonesia	-0.00% (\$-3.5M)	0.00% (\$4.25M)	-0.01% (\$-14.92M)	-0.0040
Australia	-0.00% (\$-6.13M)	0.00% (\$13.78M)	-0.01% (\$-18.69M)	-0.0038
EU_27	-0.00% (\$-54M)	-0.00% (\$-28M)	-0.01% (\$-442M)	-0.0027
Pakistan	-0.00% (\$-1.2M)	0.00% (\$1.05M)	-0.01% (\$-3.16M)	-0.0033
Vietnam	-0.00% (\$-1.67M)	0.00% (\$4.13M)	-0.01% (\$-12.59M)	-0.0041
Rest of World	-0.00% (\$-30.15M)	0.04% (\$106.92M)	-0.06% (\$-166.21M)	-0.0358

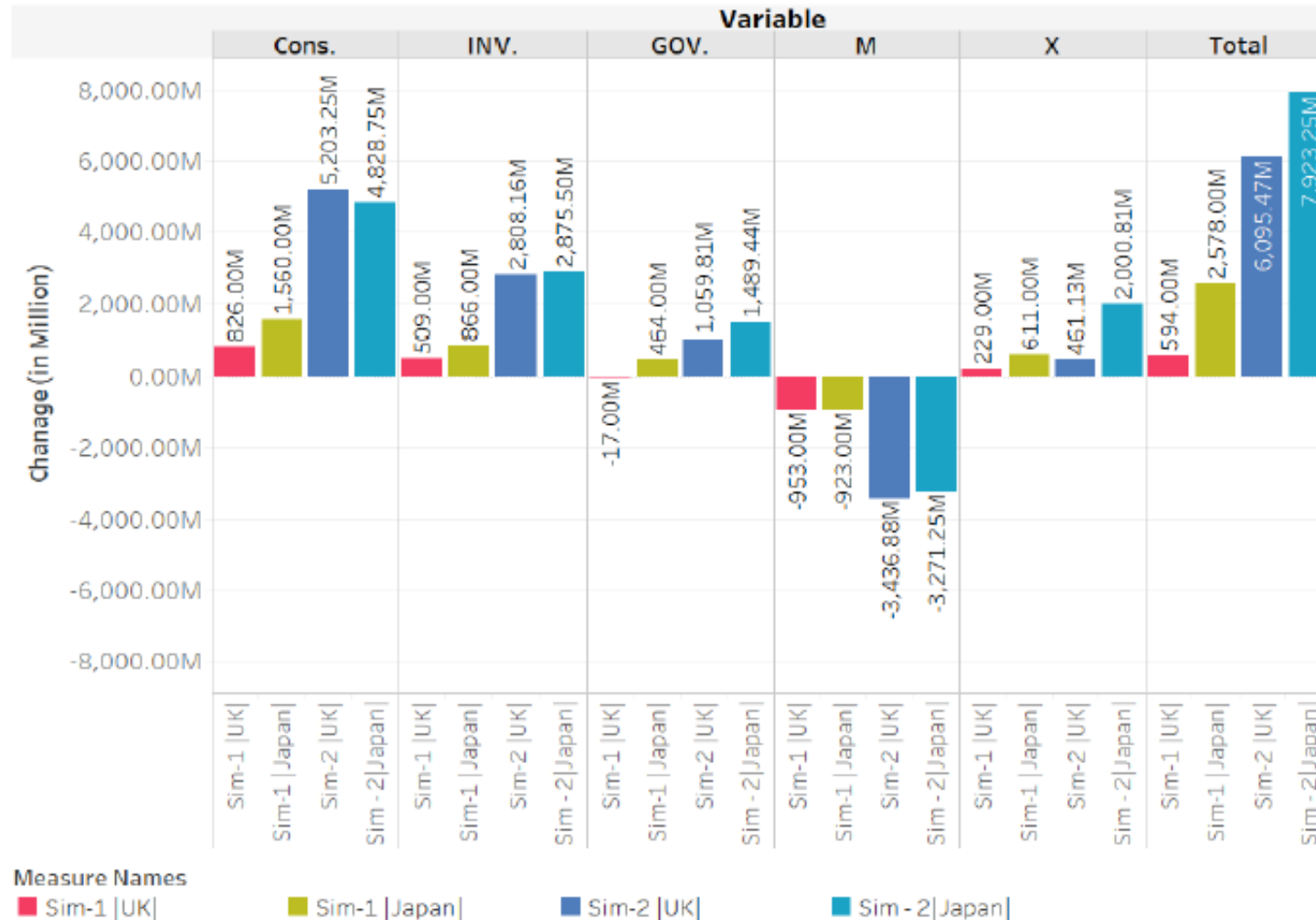
SIM – 2 (SIM – 1 PLUS Bilateral Trade Facilitation of 5%)				
Countries	Real GDP	Real Exports to the World	Real Imports from World	Terms of Trade
UK	0.05% (\$1411M)	-0.04% (\$-310.94M)	0.42% (\$3550.63M)	0.1243
Japan	0.02% (\$924.5M)	0.11% (\$968.81M)	0.36% (\$3380.56M)	0.1239
India	-0.00% (\$-5.63M)	0.01% (\$43.13M)	-0.01% (\$-68.97M)	-0.0044
Korea	-0.00% (\$-22.63M)	0.01% (\$39.69M)	-0.01% (\$-87.94M)	-0.0062
United States	-0.00% (\$-26M)	0.03% (\$512.63M)	-0.04% (\$-916.25M)	-0.0135
Brazil	-0.00% (\$-18.5M)	0.02% (\$64.34M)	-0.03% (\$-84.66M)	-0.0102
China	-0.00% (\$-214M)	0.01% (170M)	-0.04% (\$-913.88M)	-0.0161
Canada	-0.00% (\$-12.75M)	0.02% (\$89.66M)	-0.02% (\$-104.44M)	-0.0090
Indonesia	-0.00% (\$-11.06M)	0.01% (\$20.2M)	-0.03% (\$-55.03M)	-0.0142
Australia	-0.00% (\$-22.13M)	0.02% (\$51.25M)	-0.03% (\$-83.66M)	-0.0158
EU_27	-0.00% (\$-193M)	0% (\$78.5M)	-0.03% (\$-1684M)	-0.0105
Pakistan	-0.00% (\$-3.28M)	0.01% (\$4.15M)	-0.01% (\$-8.62M)	-0.0074
Vietnam	-0.00% (\$-4.63M)	0.01% (\$12.14M)	-0.02% (\$-38.86M)	-0.0121
Rest of World	-0.01% (\$-101.20M)	0.15% (\$338.64M)	-0.25% (\$-801.66M)	-0.1340

Impact on Government Income of CEPA



Implication on Components of GDP by Imposition of Simulations

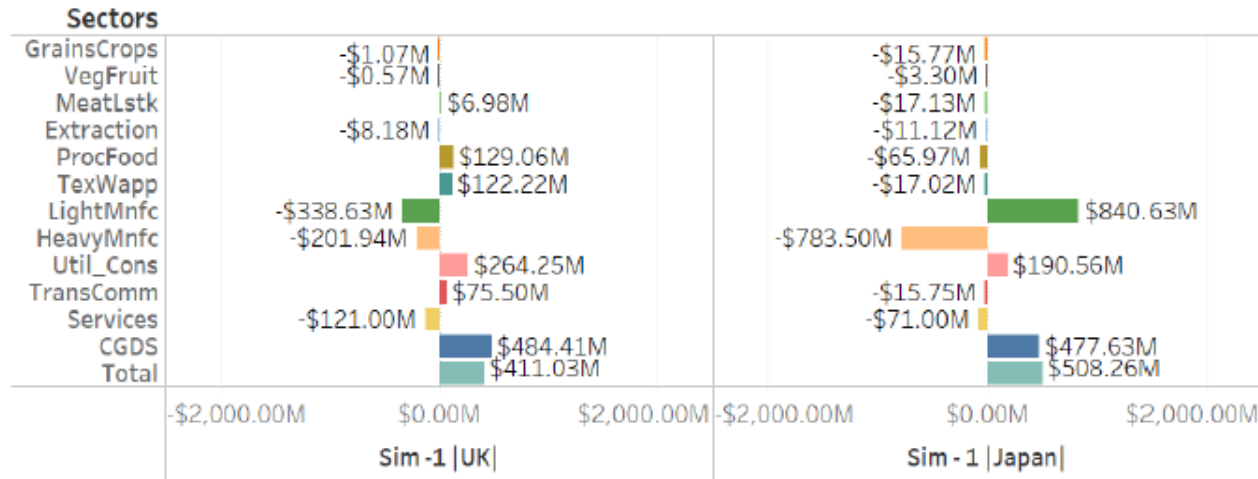
Change in Components of GDP by the Imposition of Simulations



Source: Authors Own Illustration and Simulation using GTAP database 10a

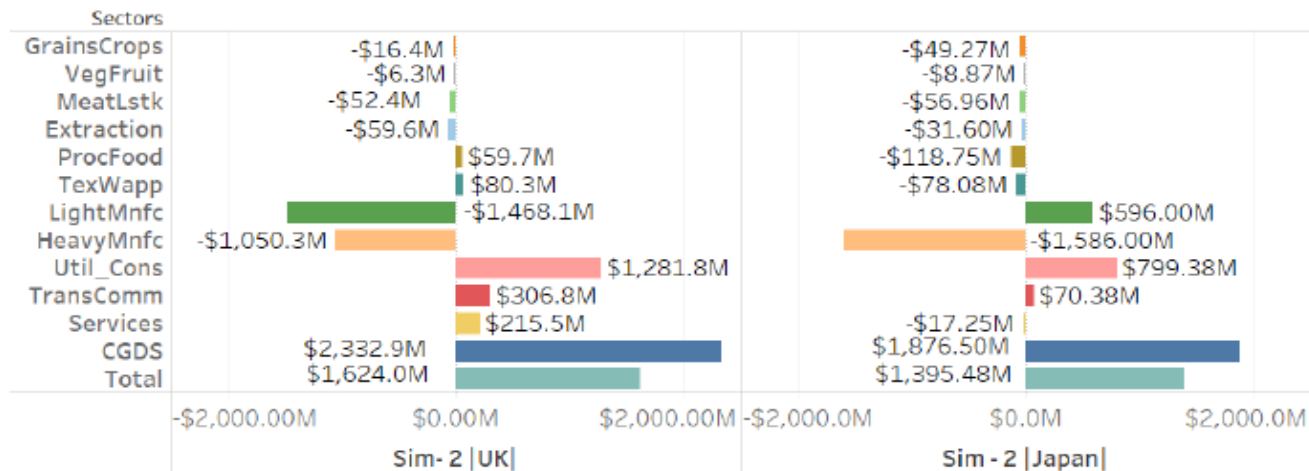
Potential Outcome of UK – Japan Bilateral FTA and Trade Facilitation

Impact of Simulation - I on Industrial Productivity of UK and Japan
(SIM - I "UK - JAPAN Bilateral Free Trade Agreement)



Source: Authors Own Illustration and Simulation

Impact of Simulation - II on Industrial Productivity of UK and Japan
SIM - II (Bilateral Trade Liberalization PLUS Facilitation)



UK – Japan FTA would boost processed food, textile and wearing apparels as well as utility consumption productivity in UK.
In case of Japan, productivity of light manufacturing, utility consumption and CGDS would also elevate.

Trade facilitation along with FTA would boost the productivity of processed food, wearing apparels, utility consumptions and CGDS. Whereas, Japan would face a productivity growth in manufacturing especially light, utility consumptions and transport and communication.

Source: Author's Calculation and illustration

Variation in Real Factors Returns of UK and Japan

Factors	SIM – 1 (Bilateral FTA)		SIM- 2 (SIM – 1 + Trade Facilitation)	
Description	UK	Japan	UK	Japan
Land	3.05%	-11.03%	-0.27%	-0.33%
Unskilled Labor	2.48%	1.60%	0.11%	0.06%
Skilled Labor	2.16%	1.36%	0.10%	0.05%
Capital	2.37%	1.28%	0.12%	0.05%
Natural Resources	-9.55%	-27.40%	-0.75%	-0.76%
Natural Resources ²	-9.55%	-27.40%	-0.75%	-0.76%
Labor - small farmer	2.48%	1.60%	0.11%	0.06%
Labor - medium+ farmer	2.48%	1.60%	0.11%	0.06%
Labor - farm worker	2.48%	1.60%	0.11%	0.06%
Labor - non-farm low skilled	2.48%	1.60%	0.11%	0.06%
Labor - non-farm high skilled	2.16%	1.36%	0.10%	0.05%
Land - large	3.05%	-11.03%	-0.27%	-0.33%
Land - medium	3.05%	-11.03%	-0.27%	-0.33%
Land - small	3.05%	-11.03%	-0.27%	-0.33%
Livestock	2.37%	1.28%	0.12%	0.05%
Capital - agriculture	2.37%	1.28%	0.12%	0.05%
Capital - formal	2.37%	1.28%	0.12%	0.05%
Capital - informal	2.37%	1.28%	0.12%	0.05%
Total	21.67%	-81.80%	-1.23%	-2.19%

Source: Author's Calculation



CONCLUSION POLICY RECOMMENDATION

Conclusion



SIM-I (UK-JAPAN FTA)



Elimination of entire bilateral tariff between UK and Japan exhibits magnificent gains in the GDP, trade balance as well as government income. However, the process and the results would be in long-run.



SIM – II (UK-Japan FTA + Trade Facilitation)

The implication of trade facilitation is gigantic at maximum aspects including the real GDP, trade values, government revenue as well as components of GDP and the productivity at sectoral levels in UK and Japan. Additionally, technological variation and growth especially growth in digital world would also elevate and escalate.

Policy Recommendation



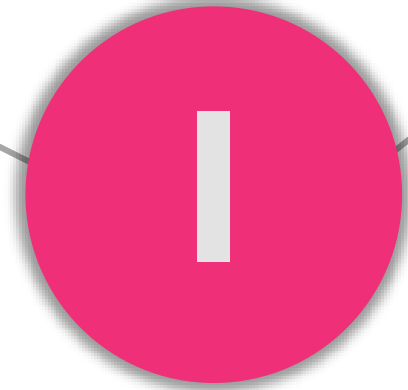
UK + JAPAN FTA+ Trade Facilitation

Implementation of trade facilitation is a win win scenarios for both countries



UK – Japan FTA

Implementation would have positive impact however, relatively lower than trade facilitation



The analysis urges that UK& Japan would be highly benefited; if both of the countries negotiate for incorporation of Free Trade Policy along with 5% Trade Facilitation. This would ease the bilateral trade between them and would have positive impact on their economy. (UK-Japan FTA+ Trade Facilitation > UK+Japan FTA)



THANK YOU FOR YOUR TIME!

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