

Policy Analysis Focus 24-10
Economic Impact of USJTA Renegotiation¹

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I. Introduction

The United States (US) – Japan Trade Agreement (USJTA) was negotiated and entered into force in 2020 under the first US Trump administration. That said, USJTA-specified tariff reductions have not been applied to “substantially all the trade” and USJTA has not been recognized as a regional trade agreement (RTA) by the World Trade Organization (WTO). The renegotiation of USJTA to comply with WTO rules would be a potential agenda item during the four years of the second Trump administration.

This article quantitatively investigates the economic impact of the removal of remaining tariffs between the US and Japan, specifically the impact on sensitive sectors in two economies by means of simulation studies using a computable general equilibrium (CGE) model of global trade.²

II. Remaining agenda

Tariff reductions implemented under USJTA would be limited. According to RTA tariff reduction data from Market Access Map, International Trade Centre (ITC), US tariffs on imports from Japan are calculated to be reduced by 0.2 billion US dollars,³ accounting for only 7.8% of Japan’s tariff payments in the US before USJTA entered into force, and resulting in a remaining average tariff rate of 1.4%, as is shown in Table 1. Meanwhile, Japan’s tariffs on imports from the US would be reduced by 1.9 billion USD

¹ 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.

² The Global Trade Analysis Project (GTAP) 7 model (based on GTAP 11c Data Base) is solved using GEMPACK software referred to in Horridge, Jerie, Mustakinov & Schiffmann (2018), GEMPACK Manual, ISBN 978-1-921654-34-3, incorporating dynamic effects of capital, labor and productivity following the methodology employed by Japan Cabinet Secretariat. The baseline data for GDP and population are updated to those for 2025 based on the World Economic Outlook (WEO) Database, October 2024, International Monetary Fund (IMF).

³ Tariff values are calculated here based on estimated trade values in 2025.

Table 1 Tariff reductions between the US and Japan

	US					Japan				
	Tariff reductions		Share in goods			Tariff reductions		Share in goods		
	USJTA	Remain	Tariff	Import	Output	USJTA	Remain	Tariff	Import	Output
	USD B	USD B	%	%	%	USD B	USD B	%	%	%
Rice	0.0	0.0	6.1	0.0	0.1	0.0	0.5	204.3	0.3	1.1
Wheat	0.0	0.0	0.0	0.0	0.2	0.7	0.1	7.1	1.2	0.0
Sugar	0.0	0.0	10.4	0.0	0.5	0.0	0.0	1.3	0.1	0.3
Meat	0.0	0.0	4.7	0.0	5.1	0.9	1.0	23.3	6.9	1.5
Dairy	0.0	0.0	17.9	0.0	2.2	0.1	0.0	7.8	0.5	1.1
Auto	0.0	1.0	1.9	39.6	8.6	0.0	0.0	0.0	3.0	13.8
Total	0.2	1.9	1.4	100.0	100.0	1.9	2.6	3.2	100.0	100.0

Source: Calculations based on Market Access Map and author's simulations.

(42.9% of total), much more than in the US, but the average remaining tariff rate, at 3.2%, would be higher than that in the US. The above tariff reductions are much smaller than the common understanding of WTO standard, covering around 90% of trade.

By sector, remaining US tariffs in motor vehicles account for 52.0% of total tariffs, larger than the motor vehicle sector's share of imports of goods (39.6%) and much larger than its share of domestic production (8.6%). The US has agreed to reduce tariffs on motor vehicles under the Trans-Pacific Partnership (TPP), but starting tariff reductions from the 15th year after TPP entered into force with a 2.5% passenger car tariff and a 25% truck tariff would be removed in the 30th year.⁴ The US withdrew from TPP under the first Trump administration and offered fewer tariff reductions under USJTA than under TPP.

Meanwhile, the remaining Japanese tariffs are largest in meat (37.4% of total) followed by rice (19.1%) and other agriculture, forestry and fisheries in total excluding the five agriculture and food sectors in Table 1 (19.5%), which were exempted from TPP tariff reductions, protected as "sacred" commodities in Japan,⁵ though all parties other than Japan agreed to removal or reduction of almost 100% of tariffs. That said, those five commodities account for a smaller share of imports of goods (9.1%) and domestic production (4.0%).

⁴ The US International Trade Commission (USITC) estimated in *Trans-Pacific Partnership Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors* in May 2016 that US production would increase by 0.3% in passenger vehicles and would decrease by 0.3% in auto parts and trailers, incorporating the impact of reductions in non-tariff measures (NTMs). It may be noted that the absolute magnitudes of estimated impact would vary using the model in this article.

⁵ Japan Cabinet Secretariat argues in *Economic Impact Analysis of TPP Agreement* on December 24, 2015 (in Japanese), that the volume of agriculture production would not decrease given incorporation of counter policy measures to support those sectors.

The building of a rule-based international trade policy system has been discussed in the context of the movement toward protectionism. The US and Japan would be required to renegotiate USJTA from the perspective of appropriate global trade policy making regardless of the policy of the US president. A global rule established by WTO includes most favored nation (MFN) treatment that does not allow preferential and discriminatory treatment of limited trade partners vis-à-vis other economies.

III. Impact on sensitive sectors

Japan would remove most tariffs on wheat and substantially reduce tariffs on meat under the current USJTA. Japan's production is estimated to decrease substantially, by 43.7%, in wheat followed by meat (5.5%), as is shown in Table 2, That said, Japan's domestic wheat production is small in terms of value. Decreases in wheat production would amount to 0.3 billion USD), much smaller than the 2.4 billion USD decrease in meat production. On the other hand, US production in those two sectors would increase, but by smaller magnitudes than decreases of production in those two sectors in Japan.

If all remaining tariffs between the US and Japan were removed, US production is estimated to increase the most in rice, by 21.4%, amounting to 6.8 billion USD, followed by meat. US motor vehicle production would decrease, but by 0.1%, amounting to 0.5 billion USD, far smaller than increases in rice production. On the other hand, Japan's production would change, unlike that of the US. Rice production is estimated to decrease substantially, by 30.8%, amounting to 9.7 billion USD. Meanwhile, motor vehicle production would increase by 2.6%, amounting 10.5 billion USD, which would almost be offset by decreases in rice production.

Macroeconomic impact is indicated to be limited under the current USJDA. US real GDP is estimated to increase by 0.04% under USJTA, which is far smaller than 0.11%

Table 2 Impact on production by sector

	US				Japan			
	USJTA reductions		Removal of remaining		USJTA reductions		Removal of remaining	
	USD B	%	USD B	%	USD B	%	USD B	%
Rice	0.1	0.4	6.8	21.4	-0.3	-0.8	-9.7	-30.8
Wheat	0.0	1.8	0.0	-0.1	-0.3	-43.7	0.0	1.3
Sugar	0.0	0.0	0.0	0.1	0.0	0.2	0.1	1.1
Meat	0.4	1.0	0.5	1.1	-2.4	-5.5	-2.1	-4.6
Dairy	0.1	0.4	0.0	0.1	-0.3	-1.0	0.4	1.4
Auto	0.0	0.0	-0.5	-0.1	1.3	0.3	10.5	2.6
Goods	0.1	0.0	8.0	0.2	6.9	0.2	24.1	0.9

Source: Author's simulations.

under remaining tariff removals. Also, Japan's real GDP is estimated to increase by 0.29%⁶ under USJTA, far smaller than 1.02% under remaining tariff removals.

The quantitative impact of a renegotiated USJTA would depend entirely on the extent to which the US and Japan could agree on mutual tariff reductions. If the US maintained tariffs on motor vehicles, real GDP is estimated to increase by 0.10% in the US and by 0.86% in Japan, both smaller than in the case of full removal of all remaining tariffs discussed above. Meanwhile, if Japan maintained tariffs on five sensitive commodities, real GDP would increase by 0.07% in the US and by 0.56% in Japan,⁷ smaller than the impact of US motor vehicle exemption. Protection of certain industries would have an adverse macroeconomic impact on importers alongside their trade partners.

Meanwhile, job creation would be smaller under partial tariff reductions than under full tariff removals. US employment is estimated to increase by 0.04% under exemption of motor vehicles, but by less than 0.05% under full tariff removals. Japan's employment is also estimated to increase, by 0.27% under the exemption of five sensitive sectors, which is less than the 0.49% under full tariff removals. It is clearly indicated here that protectionism could save jobs at the sector level, but economy-wide, jobs would be lost.

IV. Concluding remarks

The US and Japan could enjoy much larger benefits in economic growth and employment than under current USJTA by renegotiating USJTA and further reducing remaining tariffs. That said, in practice partial tariff reductions would be prioritized from the perspective of protecting sensitive domestic industries, though that would result in smaller macroeconomic benefits than full tariff removals. Quantitative studies using model simulations would be useful for identifying the relative significance of potential economic costs and benefits at both the macro and sector levels.

⁶ Japan Cabinet Secretariat reported in *Economic Impact Analysis of USJTA* (in Japanese) on October 29, 2019 the calculation that Japan's real GDP would increase by 0.8%, using a CGE model version similar to that used here but incorporating the expected impact of US tariff removals on the imports of motor vehicles and parts from Japan, which are not recognized in ITC data.

⁷ If Japan removed tariffs on the import of rice from the US, Japan's employment in the rice sector is estimated to decrease by 17.4% alongside a 30.9% decrease in rice production. That said, real GDP would increase by 0.02% in the US and by 0.29% in Japan.