

Abstract

Japan and the European Union negotiated and ratified an agreement about free-trade area that came into effect in January 2019. There haven't been enough data for Japan and the Czech Republic to show the actual impact yet. Gravity model is a useful tool for international trade that can be used to estimate the effect. Various types of methods are used for estimation. The main ones used here in this paper are Random effects and Poisson Pseudo Maximum Likelihood (PPML) estimator. According to PPML model, the impact of the treaty is expected to be 57.3% increase of imports. The model shows positive trade potential for Japan and the Czech Republic. Especially for Japan there is a large gap between model prediction and actual values which means a small trade creation is expected. However, the most of the increasement of bilateral trade should be originated from trade diversion.