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# THE OVERLOOKED UNCERTAINTY-REDUCTION BENEFIT OF FREE TRADE AGREEMENTS DURING CRISES: EVIDENCE FROM JAPAN *\*Preliminary and incomplete.*

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## ABSTRACT

High administrative costs and low utilization rates have led some to conclude that Japanese FTAs are useless, but they may provide a critical uncertainty-reduction effect, preventing export collapse during times of crisis. This paper provides empirical evidence for this hypothesis using a difference-in-differences (DID) approach and monthly Japanese export data. We utilize the Great Recession as a natural exogenous shock for Japan which raised economic and trade policy uncertainty. We find a significant increase in Japanese export growth toward FTA countries of 17.1 log points following the 2008 financial crisis, which is robust to a range of covariates, including export finance dependence. Our finding can best be explained by firms requiring greater certainty to export, provided by FTAs, during and after the crisis. This interpretation is supported by results controlling for FTA utilization, which imply that even firms that do not experience “on-paper” benefits from FTAs still benefit from the stable environment they create. Finally, we also further verify our interpretation of the results by controlling for a more direct news-based measure of trade policy uncertainty, which closely tracks our estimated FTA premium, suggesting that our original estimate reflects the uncertainty-reduction effects of FTAs.

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