FTA between China and East Asia

Sung Won Kang, Wei Xie
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Introduction

China is the largest trade partner for Japan; China is the largest trade partner for Korea; Japan is the 2\textsuperscript{nd} largest trade partner for China; Korea is the 3\textsuperscript{rd} largest trade partner for China; Japan is the 2\textsuperscript{nd} largest trade partner for Korea; Korea is the 2\textsuperscript{nd} largest trade partner for Japan.

The three countries has recognized the importance of FTA for their economy.
Introduction

• In 2010, the joint study committee for an FTA among China, Japan and Korea was established.
• In 2015, China and Korea has signed free trade agreement (FTA).
• ......

• Like ‘3mini example’, this presentation will assess the impact of FTA between China and east Asia (Japan and Korea) using GDyn model.
What we did (1)- New data, New Policy

• New Data : 12 Regions, 5 industries, 50 years
  • 12 Regions has China and East Asia
  • 50 years integrated to 10 periods : 5 years each
  • Data for baseline : App2_SC/1flexagg/SC2010
    • Same baseline closure and shocks with 3 mini example (more regions and more periods)
  • Data for shocks: App2_SC/2baseline/Alabor,Bmacro,Cpolicy
    • Base shocks: App2_SC/2baseline/Alabor, Bmacro (more regions and more periods)
    • Policy shocks: App2_SC/2baseline/Cpolicy

• New Policy: RTMS between China and East Asia goes to zero in 2016~30
  • Base data : base run result in 2010~2015
  • Shock occurs : 2016~20, 2021~25, 2025~2030
    • In period 2021~25, all RTMS between China and East Asia disappears
What we did (2) – New Policy Shocks

1. Create shocks: FTA import duty reduction schedule
   - HS code (12,000 items) converted into 5 industries
     - Duty reduction schedule on each HS code item is different: 0~5yr, 10yr, 15yr.
     - Industry schedule = max (# of items schedules applied)/(#items in industry)

2. Create tax data before and after FTA: RTMS goes to zero
   - Gtaxnew.har: baseline 2010-2015
   - Gtaxnew1.har: gtaxnew. har with 2016~20 shock
   - Gtaxnew2.har: gtaxnew1.har with 2021~25 shock
   - Gtaxnew3.har: gtaxnew2.har with 2026~30 shock (last)

   - Taxshk1.har=shocks.tab[shocks1.sti(gtaxnew,gtaxnew2)]
     - Taxshk2=shocks2.sti(gtaxnew2,gtaxnew1)/Tashk3=shocks3.sti(gtaxnew3,gtaxnew2)
   - Taxshks1/2/3 : applied as ashock
## RTMS: East Asia -> China (China Collects)

<table>
<thead>
<tr>
<th>RTMS</th>
<th>schedule</th>
<th>2015</th>
<th>2016-2020</th>
<th>2021-2025</th>
<th>2025-2030</th>
<th>Taxshk1</th>
<th>Taxshk2</th>
<th>Taxshk3</th>
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<tbody>
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<td>4 mnfc</td>
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<td>0</td>
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<td>0</td>
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</tbody>
</table>

- **Schedule 10**: eliminate in 10 yrs after FTA comes into effect
- **Schedule 5**: eliminate in 5 yrs after FTA comes into effect
- **Schedule 0**: eliminate immediately when FTA comes into effect
## RTMS: China -> East Asia (East Asia Collects)

<table>
<thead>
<tr>
<th></th>
<th>Schedule</th>
<th>2015</th>
<th>2016-2020</th>
<th>2021-2025</th>
<th>2025-2030</th>
<th>Taxshk1</th>
<th>Taxshk2</th>
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**Schedule 15:** eliminate in 15 yrs after FTA comes into effect  
**Schedule 0:** eliminate immediately when FTA comes into effect
# Closures and Shocks

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Result 1: Bilateral Export gains- China (cumulative difference qgdp)

Bilateral Trade only: China’s gain is from Food. (Highest Tariff)
Result 1: Bilateral Export Gains – East Asian (cumulative difference qgdp) (cont.)

Bilateral Trade only: East Asia’s gain is from Lght and food. (Highest Tariff)
Result 2: GDP (cumulative difference qgdp)

Both countries are benefited from FTA. China has larger gain.
Result 3: Rental rate, PCGDS and rorga (cumulative difference)
Discussion

• Unavailability of the tariffs elimination between China and Japan, so here assume it is the same with that between China and Korea

• The first shocks should be during 2015-2020

• Re-constructing the business as usual scenario: the start year of current model is 2001; while FTA begins from 2015. we need to update the start year data or incorporating WTO reality in the BAU scenario (such as quotas reduced or tariffs elimination)

• Finding the advantage of GDyn: With/o capital flow (non-Gdyn)
Any comments are welcome!

Special thanks to Zeynep and Dileep!
Result 2: Bilateral Export gains - China

Bilateral Trade only: China’s gain is from Food. (Highest Tariff)
Result 2: Bilateral Export Gains – East Asian

East Asia: VALEXPORT[Policy-Base]

Share of export gains

Bilateral Trade only: East Asia’s gain is from Manufacturing. (Highest Tariff)
Result 3: Trade Balance (TRADACCT)

Export and import becomes bigger at the same time: small and negative trade balance gain