

Effects of the Japan-Korea and Japan-Korea-China FTA Estimated by a Northeast Asian Model

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1. Two Types of Proposal on New FTA in the East Asia

The Asian Crisis lets us know the importance of the regional cooperation in the East Asia Area, and in this context, we the East Asians have discussed a new proposal to build the East Asian FTA. First, this idea was proposed as the Japan-Korea FTA some years ago, and then, at the end of the last year, China proposed a larger FTA, which includes Japan, Korea, China and ASEAN countries.

Therefore, we have two choices between Japan-Korea FTA and the larger FTA including China. In this paper, we build a small multicountry econometric model which includes Japan, Korea and China, and by using it, we estimate the effects of the two types of FTA : one is the Japan-Korea FTA and the other is the Japan-Korea-China FTA.

2. Effects of the Japan-Korea Free Trade Agreement

Table 1 shows our estimation of the Japan-Korea FTA, and there are the following characteristics.

First, growth rate of export is higher than that of import in Japan, but lower in Korea. This is because of the difference between the tariff rate into Japan and into Korea. In our model, the average tariff rate into Japan is 2.7% and that into Korea is 7.5% in the starting year of this simulation test: 1990.

Table 1 Effects of the Japan-Korea FTA (deviation from the standard solution, %)

	2 nd year	4 th year	6 th year	8 th year	10 th year
Japan • GDP	0.093	0.097	0.080	0.086	0.015
consumption	0.039	0.088	0.080	0.082	0.037
investment	0.101	0.103	0.085	0.095	0.029
export	0.837	0.762	0.754	0.695	0.720
import	0.585	0.754	0.815	0.754	0.448
Korea • GDP	1.896	0.431	0.125	0.087	-0.036
consumption	1.050	0.672	0.325	0.149	0.093
investment	0.002	0.543	0.275	0.364	3.673
export	1.461	1.335	1.215	1.020	1.685
import	3.186	1.695	1.534	1.411	2.649
China • GDP	-0.200	0.076	0.212	0.265	0.971

consumption	-0.256	-0.039	0.138	0.218	0.593
investment	-0.104	-0.081	0.197	0.231	1.019
export	0.507	0.839	0.952	1.121	1.175
import	-0.550	0.208	0.601	0.907	0.433

However, regarding the GDP, Korea receives a positive effect by increasing gross consumption and investment except for in the last year. Maybe, such an increase in domestic demand is caused by the fall of the domestic price that is reduced by the fall of the price of imported goods.

Another interesting point is that the Chinese economy also receives some effects from this FTA, although China is outside of FTA. China increases its export and decreases its import. This is because of the others' increase in GDP and the relatively higher prices of the Chinese exported goods that is made by the Japan-Korea FTA. However, such increase in gross domestic demand will pull up the domestic price and then, pull down its consumption and investment. Therefore, until the 4th year, China receives negative effects on its GDP, although it would soon change to the positive.

3. Effects of the Japan-Korea-China Free Trade Agreement

The next table shows the effects of the larger FTA that would also include China, and as readers can identify, in this table, increase in the Chinese export is larger than its import. So, China's GDP grows faster than the Japan-Korea FTA's case except for in the 2nd year. It reveals China's power especially in the field of international trade. With regard to other two countries, their receiving effect is symmetrical. While Korea's economy becomes more favorable, Japan receives an negative effect.

Table 2 Effects of the Japan-Korea-China FTA (deviation from the standard solution, %)

	2 nd year	4 th year	6 th year	8 th year	10 th year
Japan • GDP	0.036	0.025	-0.017	-0.093	-0.309
consumption	-0.010	0.024	-0.004	-0.072	-0.239
investment	0.032	0.016	-0.035	-0.120	-0.369
export	1.038	1.080	1.224	1.177	1.101
import	0.906	1.249	1.557	1.710	1.967
Korea • GDP	1.939	0.514	0.262	0.125	-0.295
consumption	1.041	0.707	0.434	0.214	-0.008
investment	5.625	0.524	0.442	0.065	-0.366
export	1.993	1.920	2.097	1.694	1.233
import	3.516	2.135	1.143	2.685	1.953
China • GDP	-0.427	0.005	0.384	0.606	0.669
consumption	-0.486	-0.150	0.221	0.465	0.635
investment	-0.166	-0.360	0.302	0.248	0.798
export	2.940	4.008	4.606	6.334	5.576
import	1.260	2.940	3.878	5.990	5.142

RESUME

Dans cet article, on estime les effets du "FTA" japoно-creen et du "FTA" japoно-coreen-chinois

en utilisant le petit modele multinational economique qui enclut le Japon, la Coree et la Chine.