Impacts of trade liberalization on Chinese economy with Belt and Road initiative

Abstract

China has been continuously implementing the open-door policy for past 15 years ever since it joined the World Trade Organization, which escalated international trade and demand for shipping. Compared with the other major importing countries in the world, China's importing tariff is relatively low. Under the Belt and Road initiatives, more Free Trade Agreements to be concluded and more Free Trade Zones to be established, it is expected that the effective import tariff rate may continue to decrease in the future. This study analyses the impact of further reduction in Chinese import tariff rate on major economic indicators using a computable general equilibrium (CGE) model and based on the Chinese macro-economic data of 2012. The model results show that, with a balanced international payment, such a reduction can increase GDP, resident consumption, both imports and exports, and reduce GDP price, trade surplus, and government revenue. The results ease the concern that further import tariff reduction may harm the domestic production. Rather, it points out that there are still rooms to improve national economy and increase the consumer utility by trade liberation.