

Tariff Reduction and Its Effects on the International Wine Trade: A Gravity Model Approach

Kimie Harada¹ and Shuhei Nishitaten²

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Abstract

This paper examines an extent to which import tariff reductions through bilateral free trade agreements (FTA) are attributable to an increase in wine exports to East Asian countries. Our empirical method involves estimating an augmented-version of gravity equation with a panel dataset for 1990-2016 covering 28 exporters and Asian main three importers. We find that a 1 percentage point tariff reduction leads to 0.053 % increase in annual wine exports for bottled wine and 0.082% increase for bulk wine exports. This implies that tariff reductions through FTAs have significant positive effects on wine exports than MFN tariff reductions. Non-tariff measures also have negative significant effects on wine exports for sparkling and bottled wines. The results suggest that export growth induced by only tariff reductions through FTAs could account for 1.325% of global wine export growth during 1990-2016.

Keywords; Tariff reduction, wine, international trade, non-tariff barriers, gravity equation, Poisson pseudo-maximum likelihood estimator.

JEL classification: F14, F69, L66

¹ Professor, Chuo University, 742-1 Higashinakano, Hachioji Tokyo Japan, kimieh@tamacc.chuo-u.ac.jp.

² Associate Professor, Kwansei Gakuin University, 2-1 Gakuen, Sanda 669-1337 Hyogo Japan, shuhei0828@kwansei.ac.jp.