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TITLE: TRADE LIBERALIZATION AND THE ENVIRONMENT- A CASE STUDY OF INDONESIA

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ABSTRACT:

In recent years, there has been a growing interest in the environmental impacts of trade liberalization given the rising environmental awareness of the public in general. Unfortunately, existing studies have yet to arrive at a consensus in this area. This paper provides further discourse in this area with a case study of Indonesia and its participation in free trade agreements with Japan (IJEPA) and ASEAN (AFTA). A static global CGE model known as GTAP is used to project the world economy at 2022 with and without the tariff reforms agreed under the agreements. Five different scenarios were exercised to analyze the effect of Indonesia's trade liberalization policies on the economy and the environment of Indonesia. To assess the environmental impacts six different indicators (BOD, COD, SS, CO₂, CH₄, and NO_x) are used. The study suggests that Indonesia will grow rapidly during the period considered and at the same time will see large deterioration in its environment. Indonesia's participation in these trade agreements, however, appears to only have a marginal positive effect on the composition of Indonesia's output but it did result in a noticeable increase in trade flows. There are also signs that trade diversions have occurred due to the tariff reforms. Overall, AFTA has a greater impact on the Indonesian economy compared to the IJEPA. Following these, impact of the trade liberalizations on the environment is marginal. Generally, air pollution emissions increased while water pollution decreased following the tariff reforms. In conclusion, the study suggests that Indonesia's participation in the AFTA and IJEPA agreements are not likely to bring drastic changes to her economic and environmental performance. It would appear that more substantive trade liberalizations are needed before major changes will be observed.