

Dynamics of free trade agreements in East Asian Countries

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Abstract submitted for the Intermediate Input-Output Meeting on Managing the Environment will be held on 9-11 July, 2008, at the Universidad Pablo de Olavide, Seville, Spain.

Abstract

Regional integration has differed enormously across the world in ways that affect trade patterns. The less constructed and market driven form of integration can be called as "regionalization".

Since the 1990s, Preferential Trade Agreements of all kinds (from Free Trade to Custom Union, and Regional Community, from bilateral to regional) have been spreading all over the world. Almost every country is a member of at least one agreement. Many agreements - at least the most important ones- are organised on a continental basis such as Europe, America, Africa or, more recently, Asia. These regionalisation trends have revived the research on their economic rationale and on their compatibility with multilateral agreements. East and south East Asia has followed a regional strategy based on most favoured nation (MFN) liberalization, but without any formal cooperation agreements throughout most of the periods. The Asia Pacific Economic Cooperation Agreement embodies the principles of a non discriminatory non preferential approach to trade liberalization. This trajectory is closer to regionalization than regionalism.

The expansion of the economies of east and south east Asia over the last 15-20 years have heralded one of the most dramatic periods of economic growth and development the world has experienced. East and south East Asia's increasing trade and investment linkages are due in part to unilateral reforms, which started earlier than in other regions, and the fragmentation and relocation of production processes that has arisen since the mid-1980s. East and south East Asia's regional liberalisation strategy led to lower average tariff rates than most of the other regions throughout the period. In addition, the periods of relocation of production processes coincided with periods of increased foreign direct investment into the countries of relocation. East and south East Asian net inflows of FDI as a percent of GDP are higher than any region from the mid 1980s until the late 1990s. Even without the support of the formal regional trade agreements, countries in east and south East Asia achieved lowered barriers to intra regional trade, increased trade both within the region and with world markets, diversification of production and trade, increased foreign direct investment and growth.

The Asian movement toward regionalisation –known as ASEAN-10+3, +4 or +6 - is relatively new but it may become of major importance as it concerns Japan, Korea and China. The regional economic integration within ASEAN+3 and their possible impact on environment in 2020 using GTAP model are the subject of this article.

The ASEAN Economic Community is to be a single market and production base. It aims to create a stable, prosperous and highly competitive ASEAN economic region by the year 2020, with free movement of goods and services, freer movements of capital, equitable economic development, and reduced poverty and socio-economic disparities.

Towards this direction the objective of the present study is to estimate the detailed economic and environmental impacts of trade liberalization in six East Asian countries (*Japan, Korea, China, Indonesia, Thailand, and Vietnam*) by the year 2020.

A GTAP version 6.2 is used for modeling exercise.

This version of the model includes 57 commodities (sectors) and 87 countries (regions). The 57 industrial sectors in the model provide a broad disaggregation of the industrial sectors in each country and region. The 87 countries were aggregated into 14 regions with an emphasis on the countries in the East Asian region. This aggregation includes 9 individual countries in East Asia (Japan, Korea, China, Indonesia, Thailand, Vietnam, Malaysia, Philippines, and Singapore), and 5 other regions include rest of south East Asia as 'other ASEAN', NAFTA, rest of OECD, ROW1 (which includes South Asian countries and Hong Kong), ROW2 (combines the rest of the countries in the world). All 14 regions

by 57 industrial sectors are included in the model that will be used to address the study objective.

A recursive up-dating procedure has been used to forecast the model to three time periods; 2010, 2015, and 2020. The macroeconomic variables used to up-date the model are population, GDP, skilled and unskilled labour, and capital. A number of trade liberalisation scenarios on the basis of regional cluster and weightage of tariff have been exercised in each period to address the economic integration. The liberalization of trade through tariff reductions influenced the share and direction of trade of the countries in the agreement. The share of important export items will rise for most of the countries under agreement and it will shift away from the rest of the world towards the ASEAN region. On the whole, the analysis of this result clearly shows that ASEAN+3 agreements compared to other regional cluster will be more beneficial in terms of GDP growth and thus the welfare for all of the participating countries in the year 2020. The GHG indicator in the model explains that the tariff reduction strategy is not environment friendly for the developed countries like Japan and Korea. On the other hand, among developing countries Thailand would benefit by trade liberalization which is growth inducing and pollution reducing.