Economic Impacts of ASEAN's Future Economic Integration through FTAs

Wannaphong Durongkaveroj[1]

Abstract

This study examines the possible choices of the Association of Southeast Asian Nations (ASEAN) towards trade liberalization with other countries through reviewing the current trade policies in both national and regional prospects, and to estimate the impact on GDP of current and future ASEAN's trade agreements using Computable General Equilibrium (CGE) model. It is found that the ASEAN is likely to expand its economic bargaining power integrating in the regional and bilateral levels with four possible paths including the EU, Regional Comprehensive Economic Partnership (RCEP), Turkey, and Pakistan which the last two countries are negotiating the bilateral Free Trade Agreements (FTAs) with many countries in the ASEAN. Trade barriers, tariff and non-tariff issues, are likely to be eliminated gradually while many attractive foreign direct investment policies will be more active among all ten countries.

Additionally, the results from CGE model suggested that there is a mutual but unequal trade gain from the bilateral trade agreements under many possible scenarios. As expected, signing FTAs with the existing ASEAN's partners as Regional Comprehensive Economic Partnership (RCEP) is able to

[1] Department of Development Economics, Faculty of Economics, Ramkhamhaeng University, E-mail: Wannaphongd@gmail.com

deliver the highest economic impact to the ASEAN members compared to other choices. Moreover, a removal of only tariff can generate tiny positive impact to negotiating countries. Thus, the next challenge is a reduction of non-tariff measures, for example, trade regulations and quotas, between ASEAN countries and its trading partners.

Keywords: ASEAN / FTA / Computable General Equilibrium model

บทคัดย่อ

        การศึกษาครั้งนี้มีวัตถุประสงค์เพื่อศึกษาทางเลือกที่เป็นไปได้ของอาเซียนใน การเปิดเสรีทางการค้ากับประเทศอื่นโดยการสังเคราะห์เอกสารทางด้านนโยบายใน ระดับชาติและระดับภูมิภาค และประเมินผลกระทบต่อผลิตภัณฑ์มวลรวม ภายในประเทศของความตกลงการค้าเสรีของอาเซียนในปัจจุบันและอนาคตโดยใช้ แบบจำลองดุลยภาพทั่วไป ผลการศึกษาพบว่า ประชาคมเศรษฐกิจอาเซียนมีแนวโน้มที่ จะขยายอำนาจต่อรองทางเศรษฐกิจโดยใช้การรวมกลุ่มทางเศรษฐกิจระดับภูมิภาคและ ระดับทวิภาคี ประกอบด้วย 4 กลยุทธ์ ประกอบด้วย การทำความตกลงการค้าเสรีกับ สหภาพยุโรป ความตกลงหุ้นส่วนทางเศรษฐกิจระดับภูมิภาค ตุรกี และปากีสถาน โดย สองประเทศหลังกำลังเจรจาความตกลงการค้าเสรีแบบทวิภาคีกับหลายประเทศใน อาเซียน อุปสรรคทางการค้าที่เป็นภาษีและมิใช่ภาษีมีแนวโน้มถูกกำจัดอย่างค่อยเป็น ค่อยไป ขณะที่นโยบายส่งเสริมการลงทุนจากต่างชาติถูกใช้มากขึ้นในแต่ละประเทศ สมาชิกประชาคมเศรษฐกิจอาเซียน

        นอกจากนั้น ผลจากแบบจำลองดุลยภาพทั่วไปพบว่า ทุกประเทศในประชาคม เศรษฐกิจอาเซียนได้รับประโยชน์ทางเศรษฐกิจจากการจัดทำความตกลงการค้าเสรีทั้ง 4 แบบเหมือนกันแต่ขนาดของประโยชน์ไม่เท่ากัน การจัดทำความตกลงทางการค้าภายใต้ กรอบความตกลงหุ้นส่วนทางเศรษฐกิจระดับภูมิภาคให้ประโยชน์แก่ประเทศสมาชิกสูง

ที่สุดเมื่อเทียบกับทางเลือกอื่น ทั้งนี้ การขจัดอุปสรรคทางการค้าที่เป็นภาษีเพียงอย่าง
เดียวให้ผลประโยชน์เชิงบวกเพียงเล็กน้อยเท่านั้น ดังนั้น ความท้าทายในอนาคตคือการ
ลดอุปสรรคทางการค้าที่มิใช่ภาษี เช่น กฎระเบียบทางการค้า การจำกัดปริมาณนำเข้า
ระหว่างประเทศสมาชิกประชาคมเศรษฐกิจอาเซียนกับประเทศคู่ค้า

คำสำคัญ: อาเซียน / การค้าเสรี / แบบจำลองดุลยภาพทั่วไป

Introduction

   With the purpose of extending a social, economic and political
boundary of the nation, the combination of at least two countries occurs in
name of an economic integration. Since 1967, the Association of Southeast
Asian Nations (ASEAN) has been playing a vital role in the global economic
motivator as political and economic group of ten Southeast Asian countries. The
relationship among members is fully strengthened through an active trade bloc
in name of the ASEAN Free Trade Area (AFTA) after the last entrance of
Cambodia in 1999 and completely establishing in 2002 with the main target of
boosting intraregional trade through a removal of trade barriers (Yarbrough &
Yarbrough, 2006). For the basic information of ASEAN, total area of this region
is around 4.44 million km^2 where total population is about 625 millions - roughly
accounted for 9 percent of world population (ASEAN Secretariat, 2014).
However, in terms of economic performance and human development, a huge
difference in the level of development across the members is remarkable as
shown in table 1.

Table 1 Gross domestic product and human development index of the ASEAN members

| Country	GDP (Billion US$) (2014)	HDI (2014)	Difference in Ranking (HDI-GDP)
Brunei	17.26	0.85	+6
Cambodia	16.71	0.58	+1
Indonesia	888.54	0.68	-4
Lao PDR	11.77	0.57	+1
Malaysia	326.93	0.77	0
Myanmar	64.33	0.52	-3
Philippines	284.58	0.66	-1
Singapore	307.87	0.90	3
Thailand	373.80	0.72	-2
Vietnam	186.20	0.64	1

Source World Bank (2015) and United Nations Development Programme (2014)

According to table 1, Indonesia is the largest economy in ASEAN, followed by Thailand and Malaysia. However, it is indicated that here is a large gap in economic performance as GDP of Singapore is larger than Myanmar around five times. Besides GDP, human development index (HDI) gives a broader picture to regional development. As expected, Singapore is a very high human development nation ranking the 9th of the world, chased by Brunei and Malaysia. However, Myanmar is classified as low human development country because its HDI value is just around 0.52 ranking the 150th of the world nearby other countries in Africa including Rwanda, Angola, and Cameroon.

Looking in more details about the ranking, the difference between the ranking of GDP and HDI is one of the alternative tools to consider the problem of "Growth without Development" which is the situation of high economic

performance with low level of living standard among citizens (Todaro & Smith, 2009). For demonstration, Brunei is ranked the 8th of ASEAN for GDP but it is ranked the impressive 2nd by HDI. Thus, Brunei is ranked in the better place measured by this indicator indicating that people, in general, are highly developed referring to a good condition of income, health, and education. However, the situation is reversed for many countries, especially Indonesia. As mentioned early about the largest nation in terms of GDP, the quality of life among the Indonesian is unlikely to be expressed to that index. The wealth of nation may not be well distributed to all quintiles; thus, the value of the human-centered index is absolutely low and ranked the 108th as medium human development country. Thus, the issue related to different level of development and the inclusive growth should be seriously concerned for ASEAN.

For the policies aimed at supporting economic growth, it is clearly realized that major economies in this region deploy the export-led growth policies because their export value is an important proportion of their GDP. The share of export as GDP for each country from 2000 to 2013 is shown in figure 1.
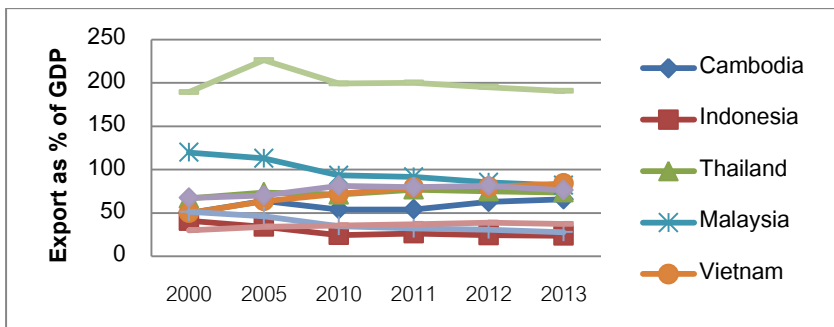
Source World Bank (2015)

Figure 1 Export of goods and services as percentage of GDP from 2000-2013

According to figure 1, the share of export to GDP has increased overtime in Cambodia, Thailand, Vietnam, Laos, Singapore, and Brunei. However, there is a reverse trend in Indonesia, Malaysia, and Philippines while there is no official data for Myanmar. Now there are six countries in ASEAN in which the value of export is accounted for more than 50 percent of its GDP including Singapore, Vietnam, Malaysia, Brunei, Thailand, and Cambodia. Theirs share of export are 191, 84, 82, 76, 74, and 66 percent of their GDP, respectively. As the export is an important factor to help generate economic growth, the policies for boosting this factor should be deliberately concerned. An economic integration is widely accepted as the tool to encourage trade among its partners.

In terms of AFTA, the Common Effective Preferential Tariff (CEPT) agreement which imposes all members to reduce the tariff barriers among goods to 0-5 percent is implemented together. Also, the agreement has detailed about an elimination of non-tariff barriers (NTB) since 2002. However, there will be a sensitive list requiring a longer time to reduce an import tax to above interval (0-5 percent) for some countries until 2017. Besides the deeper trade liberalization among members in name of ASEAN Economic Community (AEC) which will come into force by 2015, the ASEAN, as a group, signs and negotiates many bilateral and regional trade agreements with many countries, for example, Australia, New Zealand, and India and also negotiates with China, Hong Kong, South Korea, and the EU (ASEAN Secretariat, 2015). In addition to trade agreements, there are many co-operations between the ASEAN and other countries, for example, ASEAN+3 (10 members of ASEAN and Japan, South Korea, and China), ASEAN+6 (ASEAN+3 and Australia, New Zealand, and

India). In 2012, there is a joint declaration on the launch of negotiation for the regional comprehensive economic partnership (RCEP) referred ASEAN+6. The scope of RCEP is expected to cover not only goods and services but also investment, intellectual property, economic and technological cooperation, competition, e-commerce, and legal terms. In June 2016, a thirteenth round of RCEP negotiations is held in Auckland, New Zealand. It is revealed that all RCEP countries have already submitted their initial offers for trade in goods and services, as well as the initial lists of investment's reservations (New Zealand Foreign Affairs and Trade, 2016).

In addition to RCEP, the EU is the important trading partner of ASEAN because the EU is ASEAN's third largest trading partner after China and Japan, accounting for around 15 percent of ASEAN trade. Also, the EU is the significant source of Foreign Direct Investment (FDI) of ASEAN. The FTA between ASEAN and the EU are launched in 2007 with seven ASEAN member countries. However, both sides agreed to pause the negotiations in 2009. However, in 2015, there is a good sign for revisiting FTA talks as the EU has adopted a joint communication calling for boosting trade relations and working towards region-to-region FTA. Now, EU is still eager to start the negotiate FTA with some countries as it has already concluded but not signed the bilateral FTA with Singapore and Vietnam. Thus, there is still a new breath for ASEAN to reiterate FTA with the EU (ASEAN Secretariat, 2016; European Commission, 2016).

Additionally, there are many countries in the ASEAN signing bilateral FTA with some specific countries. For Turkey, Malaysia has already signed FTA with it while Vietnam and Singapore are in the process of negotiation. For

Pakistan, Malaysia also signed FTA with it while Indonesia has the preferential trade agreement (PTA) with this country. Moreover, Thailand has already started the negotiating process with Pakistan in 2015 and it is expected to start negotiate with Turkey after finishing a joint feasibility study. Thus, in the near future, FTA between the ASEAN and both countries is possible.

Normally, there are always two incentives for the combination of nations including economic and political interest. FTA, theoretically, is the situation that there is an elimination or abolishment of trade barriers among partners while each nation is able to maintain its own policies to other countries (Yarbrough & Yarbrough, 2006; Appleyard, Field, & Cobb, 2010). In general, the overall impact (Producer and consumer) of FTA or other kinds of economic integration is difficult to judge. Due to the special tariff rate, FTA can lead to trade diversion which refers to the situation that the value of trade with nonmembers declines but trade with its partners dramatically increases. Another case is realized to be trade creation which refers to the presence of specialization and economy of scale after removing trade barriers. If trade creation is larger than trade diversion, overall impact to economy will increase, vice versa. Additionally, the difference of tariff-included price of products between partner and nonmember plays a vital role in the formation of trade agreement. There will be, according to the basic concept of price and demand, no trade creation if a removal of tariff cannot make the non-tariff price of partner country lower than tariff-included price of nonmember. Thus, a study on price among commodities among trading partners is necessary to assess the impact of economic integration.

There are many research papers estimating an economic impact of FTA in the Asia region using a Computable General Equilibrium (CGE) model. Nakajima (2002) stated that there is a positive impact of FTA between Japan and South Korea. Kiyota and Stern (2007) explored the impact of FTA between Korea and the U.S. and found the positive effects on both economies - Korea's GDP Korea is increased by 1.26 percent ($9.28 billion) while the U.S.'s GDP is increased by 0.14 percent ($25.12 billion). In terms of ASEAN, Ando and Urata (2008) studied the effects of trade liberalization among ASEAN+3 and found that this agreement yields a positive effect to regional economies. Additionally, Kitwiwattanachai, Nelson and Reed (2009) analyzed the impact of East Asia Free Trade and concluded the positively desirable outcome of that FTA to member economy as a whole. Nevertheless, Ariyasajjakorn, Gander, Ratanakomut and Reynolds (2009) revealed the ambitious results under various FTA strategies - in terms of GDP, South Korea and Vietnam is likely to be the most successful countries under ASEAN+3 while India, Taipei, and Hong Kong seem to receive the negative impact under this scenario. Besides an elimination of only tariff, non-tariff barriers is studied by Fugazza and Maur (2006) and Hayakawa & Chang (2008) which found that the removal of NTBs yielded the great positive effect to GDP to all countries. With an updated data, Itakura (2013) studied the impact of RCEP through CGE model and found the different but positive impact on real GDP for the majority of ASEAN members from a reduction of tariff and non-tariff barriers with is correspondent tothe studies of Kawai and Wignaraja (2007), Lee and Itakura (2012), and Li and Whalley (2012).

Purposes of the Study

The objectives of this study are to estimate an economic impact of FTA between the ASEAN and its existing partners (RCEP), the EU, Turkey, and Pakistan, and to suggest the strategies to maximize the benefit of trade liberalization in terms of economic dimension.

Research Methodology

General CGE model consists of a form of commands written by simultaneous equations. The core data includes demand and supply, factor market (labor, land, capital, natural resources), saving and investment, tax, and trade. Each equation in the main model presents agent's behaviors (Consumer, producer, owner of production factor, government, and rest of the world). In simple model, strong assumptions of Neoclassic economics are held. The market is perfectly competitive where price is the main tool help equilibrate demand and supply. Investment is assumed to be a function of saving. Firm seeks the maximum profit with lowest cost and given technology while consumer would like to receive the highest satisfaction (Lofgren, Harris, & Robinson, 2002; Hosoe, Gasawa, & Hashimoto, 2010; Burfisher, 2011).

For the data as an input to every CGE model, Social Accounting Matrix (SAM) which depicts the monetary flow of income and expenditure among all agents in the economy is required. If SAM is not well updated, the impact of an imposed policy will yields the over/underestimated outcome. In this study, a static CGE model is implemented using the 2007 SAM. All economic sectors are aggregated to three main sectors including agriculture, manufacture, and services. This study focuses on an economic impact of FTA

between the ASEAN and the existing FTA partners (RCEP), the EU, Turkey, and Pakistan. The full scenario is shown in table 2.

Table 2 Scenarios of this study

Scenario	Details
I	FTA between the ASEAN and the AFPs as RCEP
II	FTA between the ASEAN and the EU (EU 28)
III	FTA between the ASEAN and Turkey
IV	FTA between the ASEAN and Pakistan

According to table 2, there are four scenarios in this study including (1) FTA between the ASEAN and the ASEAN FTA partners (RCEP), (2) FTA between the ASEAN and the EU (EU28), (3) FTA between the ASEAN and Turkey, and (4) FTA between the ASEAN and Pakistan. Each scenario has two sub-scenarios which refer to FTA strategies including (1) an elimination (Removal) of all tariffs levied in all commodities (Tariff lines), and (2) an elimination of all tariffs in all commodities and a reduction of NTBs through 10 percent increase in trade facilitation in all commodities. A reduction in tariff will lead to a lower price of imported commodities from trading partners which increase the demand for the imports. An increase in demand from foreign will encourage the production and employment in the exported nation. Moreover, a decrease in NTBs will facilitate commodities' flow between two countries which effectively support the trade volume. For further assumption, reciprocal strategy is applied indicating that both trading partners use the same policies towards trade liberalization. The results are displayed in the percentage change in price, quantity, and value of GDP. The change in value of GDP is stemmed from the combined effects between price

and quantity GDP. This study will show the effects on GDP only because the other economic variables, for example, export, investment, and employment, are affected in the same direction of GDP.

The disadvantages of this model is its database which is not updated to the latest year. However, the core model is mainly dependent on the economic structure. Thus, this study is assumed that the economic structures nowadays are not dramatically different from 2007.

Findings

The economic impact of scenario 1 is shown in table 3

Table 3 Impact of FTA between the ASEAN and the AFPs as RCEP

Countries	Sub-scenario 1			Sub-scenario 2		
	PGDP	QGDP	VGDP	PGDP	QGDP	VGDP
Cambodia	-0.1422	0.2914	0.1492	0.8482	2.4320	3.2802
Indonesia	1.8218	0.1281	1.9498	4.2414	1.1657	5.4071
Laos	-0.6025	0.2117	-0.3908	-0.6059	1.0313	0.4253
Malaysia	0.4428	0.3235	0.7663	3.0790	3.5659	6.6449
Philippines	0.1175	0.0619	0.1795	7.0029	1.9753	8.9782
Singapore	0.4830	0.0106	0.4936	2.2944	2.1651	4.4595
Thailand	0.8232	0.3056	1.1288	3.9890	2.7834	6.7724
Vietnam	1.7712	2.0578	3.8290	6.5365	7.8666	14.4031
ROSEA	2.0243	0.0790	2.1033	5.9819	1.3137	7.2956
AVERAGE	0.7488	0.3855	1.1343	3.7075	2.6999	6.4074

Source Author

Notes (1) sub-scenario 1 is an elimination (Removal) of all tariffs levied in all commodities (Tariff lines) and sub-scenario 2 is an elimination of all tariffs in all commodities and a reduction of NTBs through 10 percent increase in trade facilitation in all commodities (2) PGDP is the price of GDP, QGDP is the quantity of GDP, and VGDP is the value of GDP (3) ROSEA is the rest of Southeast Asia.

According to table 3, the quantity of GDP in all countries is positively affected from this scenario which is correspondent to the idea of export-led growth policies. Under sub-scenario 1, almost all ASEAN countries experience a positive impact on the price of GDP except Cambodia and Laos. For the value of GDP, the impact on Vietnamese economy is outstanding as, in the long run, its GDP can be expanded by 3.8290 percent from this trade pact. Additionally, Indonesia and Thailand gain the 1.9498 and 1.1288 percent increased in the value of GDP, respectively. A huge negative impact on price GDP causes Laos to be the only country experiencing a negative impact in terms of GDP. For regional performance, on average, the value of regional GDP will increase by 1.1343 percent. Under sub-scenario 2, every country receives an expansion in price, quantity, and value of GDP. Vietnam is still the most-gained nation due to an expected 14.4031 percent increased in the value of GDP, followed by Philippines, Thailand, and Malaysia. Importantly, an increase in trade facility helps boosting the economy of Philippines and Malaysia which means that the major trade barrier faced by this country is NTB which is employed by the members of RCEP. In this case, Laos starts enjoying the positive impact from this economic integration. On average, the value of GDP in this region can be grew by 6.4074 percent.

The economic impact of scenario 2 is shown in table 4

Table 4 Impact of FTA between the ASEAN and the EU (EU 28)

Countries	Sub-scenario 1			Sub-scenario 2		
	PGDP	QGDP	VGDP	PGDP	QGDP	VGDP
Cambodia	0.1670	0.0024	0.1693	2.9746	0.6114	3.5860
Indonesia	0.7074	0.0213	0.7288	1.8523	0.2838	2.1362
Laos	1.0261	0.0197	1.0458	3.6245	0.2414	3.8659
Malaysia	0.4337	0.0335	0.4672	1.6199	1.0894	2.7093
Philippines	0.5079	0.0045	0.5124	1.7530	0.3997	2.1527
Singapore	0.5762	0.0124	0.5886	1.6632	0.9858	2.6489
Thailand	0.7129	0.1734	0.8863	2.3363	0.7745	3.1108
Vietnam	1.9741	0.3947	2.3687	5.4670	1.8014	7.2684
ROSEA	0.4737	0.0120	0.4858	0.8650	0.2097	1.0747
AVERAGE	0.7310	0.0749	0.8059	2.4618	0.7108	3.1725

Source Author

Notes (1) sub-scenario 1 is an elimination (Removal) of all tariffs levied in all commodities (Tariff lines) and sub-scenario 2 is an elimination of all tariffs in all commodities and a reduction of NTBs through 10 percent increase in trade facilitation in all commodities (2) PGDP is the price of GDP, QGDP is the quantity of GDP, and VGDP is the value of GDP 3) ROSEA is the rest of Southeast Asia.

According to table 4, all ASEAN members experience the positive impact from the FTA between ASEAN and the EU. Under sub-scenario 1, the most enjoyable nation from this trade bloc is Vietnam as a 2.3687 percent increased in the value of GDP, followed by Laos and Thailand. For regional outcome, price, quantity, and value of GDP are expanded by 0.7310, 0.0749, and 0.8059 percent, respectively. Under sub-scenario 2, the value of Vietnamese economy is escalating by 7.2684 percent from a elimination of tariff and non-tariff barriers, followed by Laos and Cambodia. Thus, the current economic relationship of both countries with the EU is constrained by non-tariff measure. On

average, the value of GDP is expanded by 3.1725 percent which is caused by a

huge increase of the price of GDP.

The economic impact of scenario 3 is shown in table 5

Table 5 Impact of FTA between the ASEAN and Turkey

Countries	Sub-scenario 1			Sub-scenario 2		
	PGDP	QGDP	VGDP	PGDP	QGDP	VGDP
Cambodia	-0.0125	0.0016	-0.0109	0.0064	0.0110	0.0174
Indonesia	0.0546	0.0019	0.0565	0.1538	0.0107	0.1646
Laos	-0.0075	-0.0001	-0.0076	0.0064	0.0003	0.0067
Malaysia	0.0199	0.0409	0.0608	0.0832	0.0587	0.1420
Philippines	0.0038	0.0001	0.0040	0.0203	0.0044	0.0247
Singapore	0.0038	0.0002	0.0040	0.0168	0.0068	0.0235
Thailand	0.0311	0.0024	0.0336	0.1196	0.0117	0.1313
Vietnam	0.0480	0.0252	0.0732	0.1425	0.0554	0.1979
ROSEA	0.0039	0.0007	0.0046	0.0205	0.0026	0.0231
AVERAGE	0.0161	0.0081	0.0242	0.0633	0.0180	0.0812

Source Author

Notes (1) sub-scenario 1 is an elimination (Removal) of all tariffs levied in all commodities (Tariff lines) and sub-scenario 2 is an elimination of all tariffs in all commodities and a reduction of NTBs through 10 percent increase in trade facilitation in all commodities (2) PGDP is the price of GDP, QGDP is the quantity of GDP, and VGDP is the value of GDP (3) ROSEA is the rest of Southeast Asia.

According to table 5, doing an FTA with Turkey leads to a less beneficial result, in terms of GDP, to ASEAN members. Under sub-scenario 1, the economy of Vietnam, Malaysia, and Indonesia is increased by 0.0732, 0.0608, and 0.0565 percent. Malaysia enjoys the highest increase in the quantity of GDP as there is the current bilateral trade agreement between Malaysia and Turkey. However, Cambodia and Laos receive the negative

impact from this integration where the major culprit is the price of GDP. Under sub-scenario 2, every nation in ASEAN gains an economic expansion from this strategies. Vietnam is likely to gain the highest increase in the value of GDP, followed by Indonesia and Malaysia. For regional performance, the value of GDP can be hiked by 0.0812 percent in the long run due to a decrease in both tariff and non-tariff barrier.

The economic impact of scenario 4 is shown in table 6

Table 6 Impact of FTA between the ASEAN and Pakistan

Countries	Sub-scenario 1			Sub-scenario 2		
	PGDP	QGDP	VGDP	PGDP	QGDP	VGDP
Cambodia	-0.0102	-0.0018	-0.0119	0.0114	0.0280	0.0393
Indonesia	0.0862	0.0017	0.0879	0.1326	0.0051	0.1377
Laos	-0.0096	-0.0001	-0.0097	-0.0098	0.0003	-0.0095
Malaysia	0.0919	0.0094	0.1013	0.1395	0.0194	0.1588
Philippines	0.0126	0.0014	0.0140	0.0183	0.0062	0.0245
Singapore	0.0439	0.0007	0.0446	0.0823	0.0034	0.0857
Thailand	0.0990	0.0074	0.1064	0.1471	0.0141	0.1611
Vietnam	0.0307	0.0133	0.0440	0.0549	0.0306	0.0856
ROSEA	0.0344	-0.0013	0.0331	0.0816	0.0002	0.0818
AVERAGE	0.0421	0.0034	0.0455	0.0731	0.0119	0.0850

Source Author

Notes (1) sub-scenario 1 is an elimination (Removal) of all tariffs levied in all commodities (Tariff lines) and sub-scenario 2 is an elimination of all tariffs in all commodities and a reduction of NTBs through 10 percent increase in trade facilitation in all commodities (2) PGDP is the price of GDP, QGDP is the quantity of GDP, and VGDP is the value of GDP (3) ROSEA is the rest of Southeast Asia.

According to table 6, the FTA between ASEAN and Pakistan yields the different results. Under sub-scenario 1, the most gained nation from this

economic combination is Thailand as its value of GDP is increased by 0.1064 percent in the long run, followed by Malaysia and Indonesia. Nevertheless, Cambodia and Laos receive the negative impact from this trade pact as their price, quantity, and value of GDP are declined. Under sub-scenario 2, a decrease in both tariff and non-tariff barrier still provides the positive impact to most ASEAN members except Laos. On average, regional value of GDP is escalating by 0.0850 percent, higher than sub-scenario 1 around 2 times.

Conclusion and Discussion

This paper attempts to estimate the impact of the popular tool among the developing countries aimed at boosting their economic growth through an international trade, namely FTA. The effect of trade bloc is always challenging as it is related to the global market. The real judgment between success and failure should be elaborately considered through what happens since the agreement has came into force. However, one the most responsibility of economics lies into the ability to forecast future. Thus, the economic welfare from trade policy is the great task among all economists.

With the current trend of ASEAN, the target of regional integration is clearly direct to the EU and the six existing FTA partners as ASEAN+6 or RCEP. Additionally, the existing positive relationship with the major leading nations of ASEAN including Thailand, Indonesia, Malaysia, and Singapore, creates the path for Turkey and Pakistan to join this circle. However, one should keep in mind that an elimination of trade barrier, tariff and non-tariff, yields the mutual gain to FTA partner but those gains are not equal. The magnitude of benefit depends on the strength of value chain among FTA partners. As revealed by

this study, RCEP package is able to deliver the highly positive economic impact to the ASEAN members. The result is correspondent to the studies of Kawai and Wignaraja (2007), Ando and Urata (2008), and Fukunaga and Isono (2013). The impact on the value of ASEAN's GDP from RCEP is higher than the bilateral FTA with the EU. However, an FTA path with the EU is still preferable for all ASEAN countries which is correspondent to the studies of Boumellassa, Decreux and Fontagne (2008), The European Commission (2008) and Francois, Manchin, Norberg and Pelkmans (2009). Thus, for future economic policies towards FTA, ASEAN should focus on RCEP as it is the most worth in economic sense, followed by FTA with the EU, Pakistan, and Turkey, respectively.

Most importantly, towards the strategies of FTA, only a removal of tariff to each other is not adequate nowadays to create the great impacts to the economy, especially the ASEAN member countries. Why? Firstly, tariff is gradually declined in all countries around the world without FTA as this scheme is strongly encouraged by the World Trade Organization (WTO) - the success of Uruguay round. Secondly, the government in each nation of ASEAN, for a long time, still supports the foreign direct investment from abroad which the main promotion is a removal of tariff for the specific intermediate inputs and machines. Thus, only elimination of tariff in the present day does not create much of economic growth. The real challenge lies to a reduction of non-tariff barrier - other rules and regulations which restrict trade flow - that there is still no generalized agreement from WTO. NTB can eventually leads to the situation of no trade despite zero tariff. For future study, trade sustainability impact assessment should be conducted because it is able to consider the worthiness

of FTA in all dimensions. In addition, services sector should be more concerned through value chain analysis because this sector shares an important proportion in the economy of ASEAN.

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