

THE IMPACT OF ASEAN FREE TRADE AREA ON INTRA-ASEAN MANUFACTURING TRADE

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ABSTRACT

This study investigates the effects of ASEAN Free Trade Area (AFTA) agreement on the bilateral manufacturing trade between the 10 member countries of ASEAN and 39 of their trading partners. The period of study covers 1995 to 2014. Results obtained from panel data analysis of the gravity model with random effects show that the economic sizes, populations, relative endowments, common language and geographical factors like distance, island, landlocked and neighbour are significant determinants of the bilateral manufacturing trade for ASEAN member countries. Moreover, results obtained from the fixed effects model in this study suggests that AFTA has generated pure trade creation effects in terms of exports. On top of that, AFTA has resulted in larger magnitude of trade creation effects in imports than import diversion effects. Overall, AFTA promotes trades among ASEAN member countries through the elimination of tariff and non-tariff barriers, for bringing about pure trade creation effects in terms of exports as well as imports and also trade diversion effects in terms of imports. In sum, this study with more recent data set covering more ASEAN trading partners shows empirical evidence to justify the success of AFTA arrangement.

Keywords: ASEAN Free Trade Area (AFTA); Trade Creation; Trade Diversion; Manufacturing Trade.

1. INTRODUCTION

In January 1992, the leaders of the Association of Southeast Asian Nations (ASEAN) decided to bring their trade liberalization movements to a more privileged stage. Thus, the ASEAN Free Trade Area (AFTA) was established as a trade bloc in upholding the regional manufacturing in ASEAN. The main goal of AFTA formation is to develop ASEAN's competitive edge as the production base in the world market through the exclusion of tariffs and non-tariff barriers within ASEAN region, as well as to attract more foreign direct investments to the ASEAN member countries.

Under the Common Effective Preferential Tariff (CEPT) scheme, AFTA does not implement the common external tariff on the imported products. However, ASEAN countries might apply tariffs on the products inflowing from outside the association based on the nationwide schemes. Basically, the ASEAN members had applied a tariff rate of 0 to 5% for all products which originate from within

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