

Dominos, Blocs and the Process of RTA Formation

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Dominos

- Baldwin 1997 suggested impact of formation of large blocs (European Union)
 - peripheral economies compelled to seek membership
 - Formation of RTAs by peripheral economies motivated by aim of eventual bloc membership
- Asia-Pacific
 - New blocs anticipated rather than already formex

Blocs in the Asia-Pacific Region

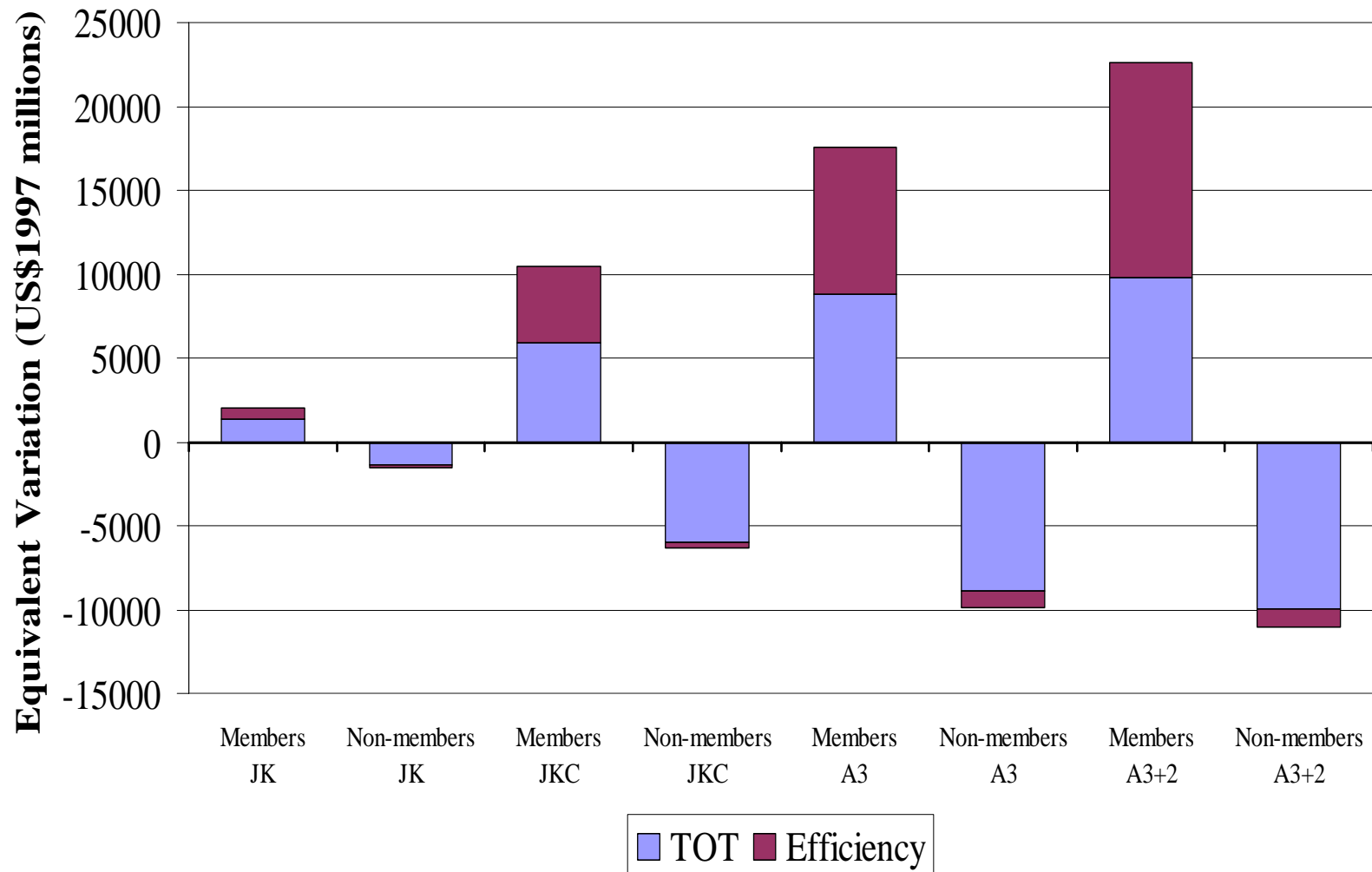
- currently NAFTA
- Previous study considered
 - Japan-Korea
 - Japan-Korea-China
 - ASEAN Plus Three
 - ASEAN Plus Three Plus CER
- Emergence of new potential blocs
 - ASEAN-China
 - ASEAN-Japan

Decomposition of welfare effects of trade liberalisation

- Allocative efficiency
 - More efficient resource allocation resulting from trade liberalisation (“gains from trade”)
- Terms of Trade
 - Gains from preferential access, favourable changes in export and import prices
 - Losses from losing preferences, unfavourable changes in export and import prices

(gains at expense of non-members)

Estimated Net Welfare Effect of RTA Formation



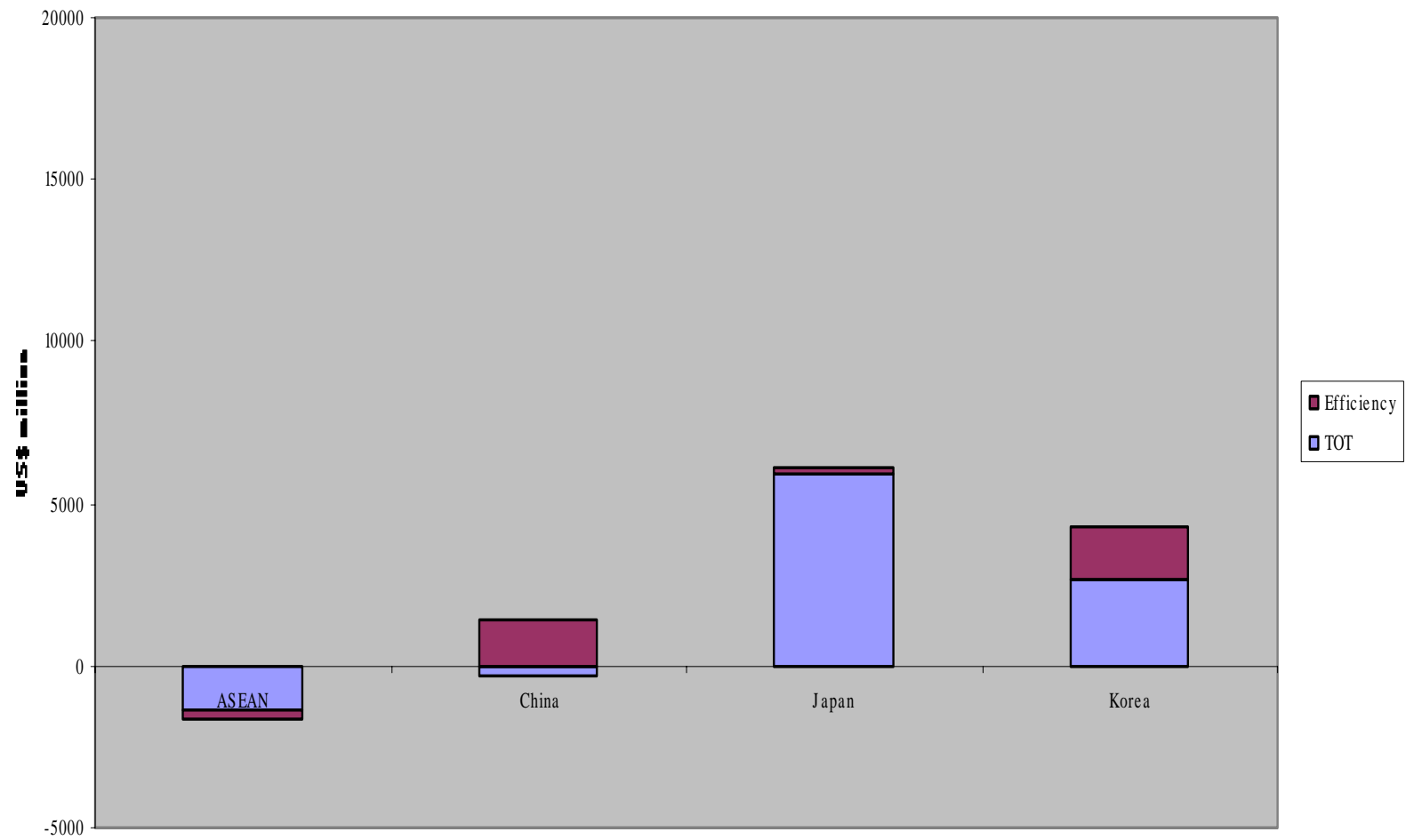
Example of Domino Effect

- **Australia and New Zealand proposals for FTA with the USA**
- **Motivations**
 - **political**
 - **economic**
 - **for both: counter effect of preferences to competitors via FTAA formation**
 - **for each: counter effect of preferences to each other**
 - **concern with effects on**
 - **Trade**
 - **investment**

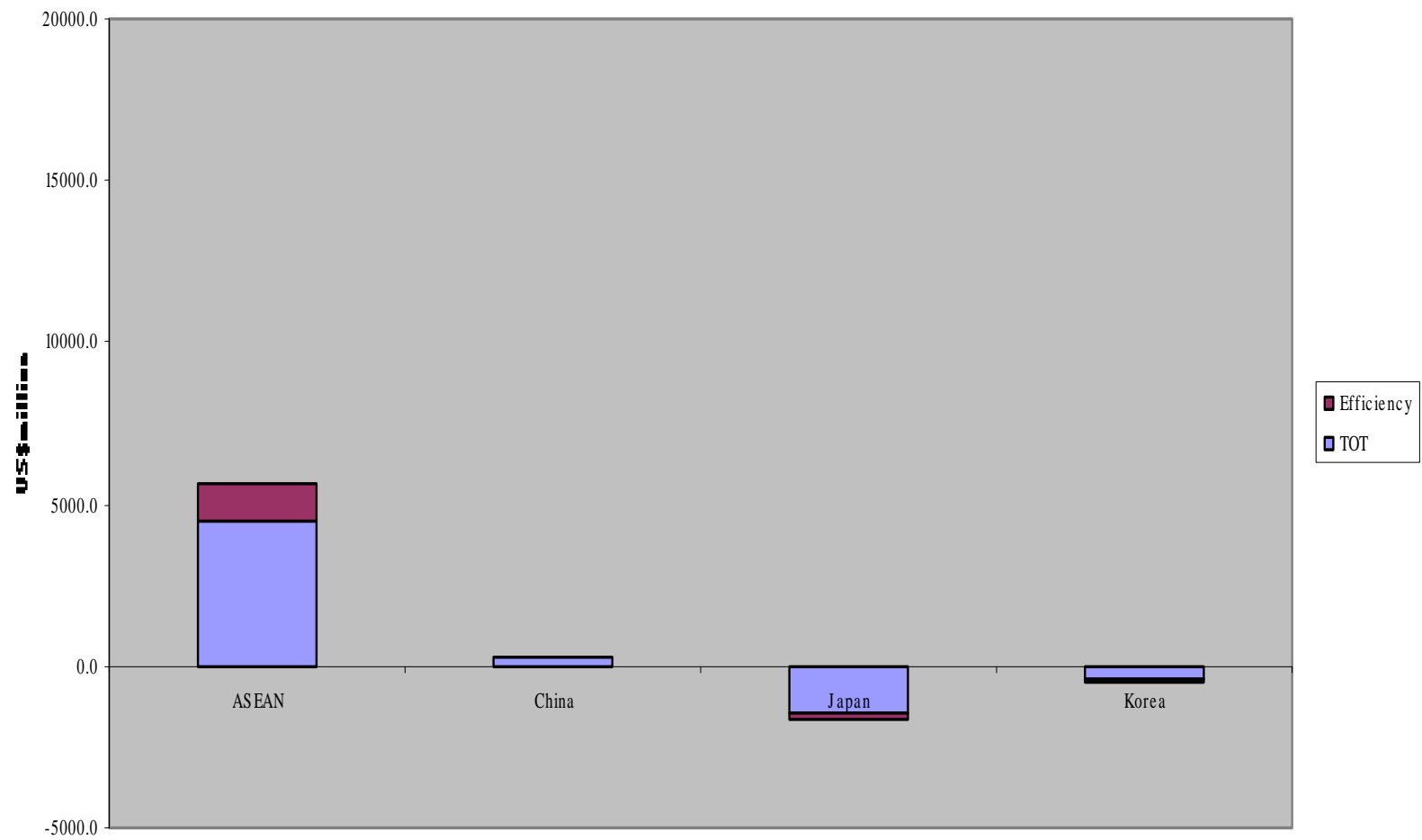
	Australia	New Zealand
Aust-US FTA	Gain	Lose
NZ-US FTA	Lose	Gain
Aust-NZ-US FTA	Gain	Gain

- Gains and losses are primarily terms of trade rather than allocative efficiency effects

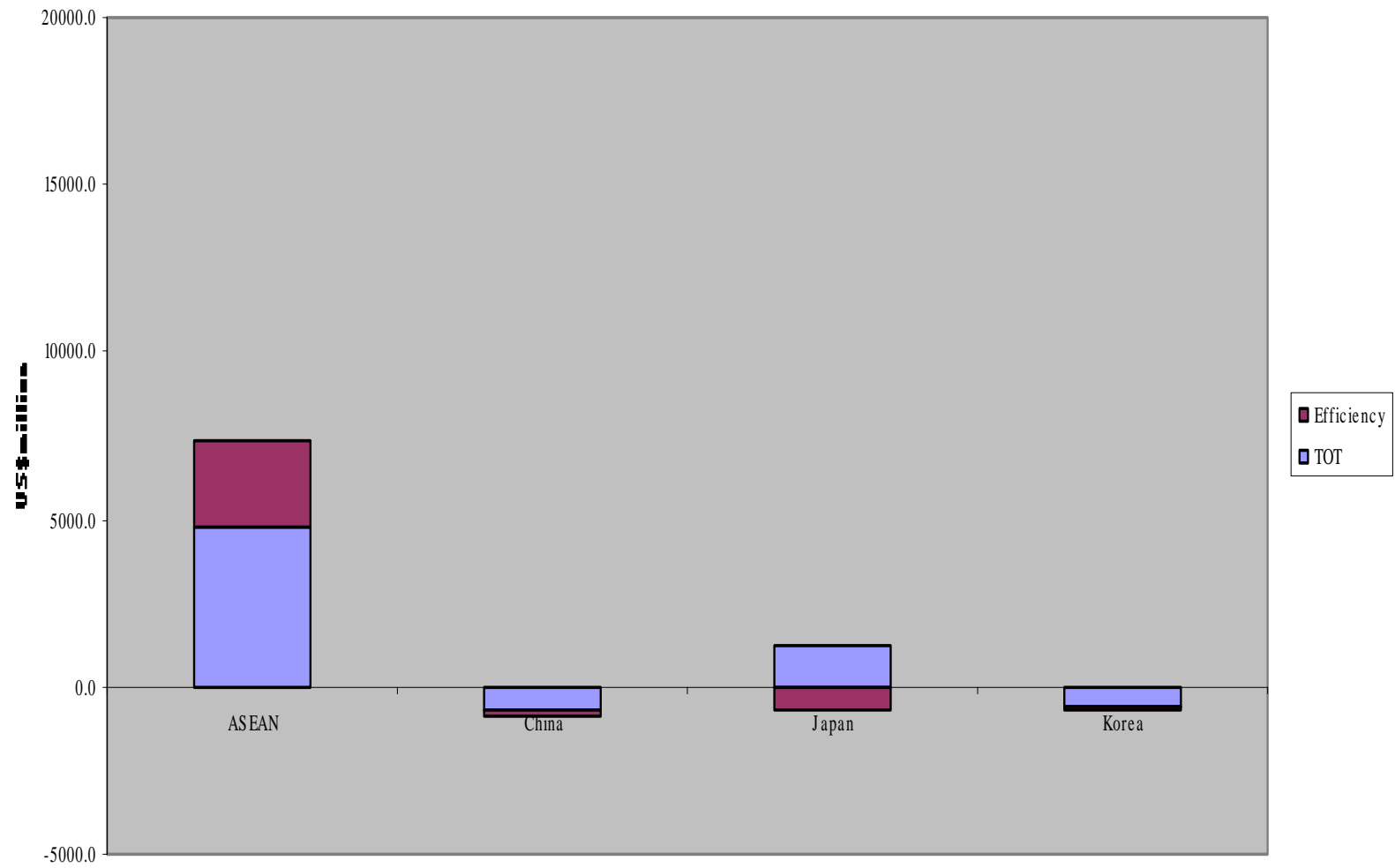
China-Japan-Korea FTA



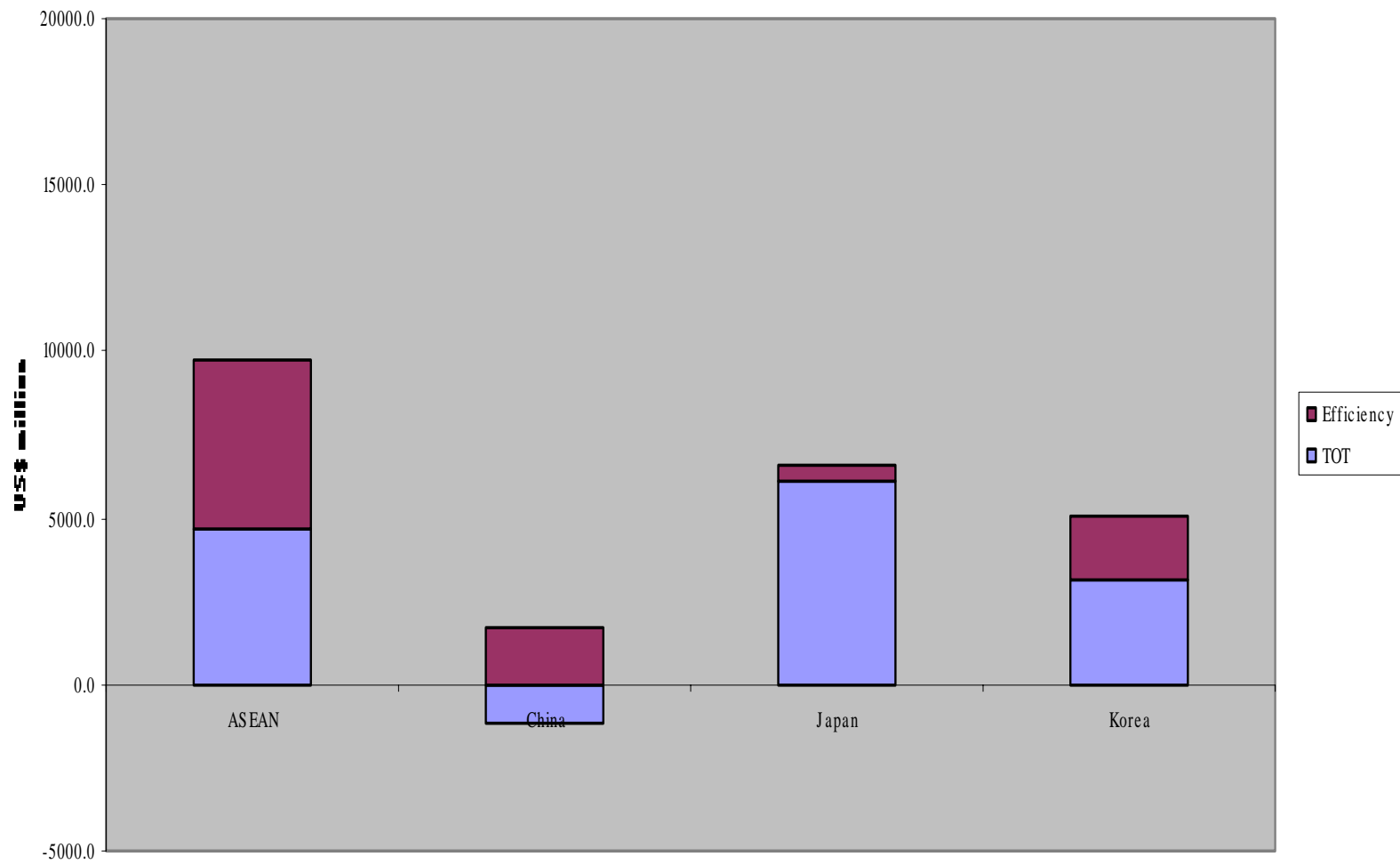
ASEAN-China FTA



ASEAN-Japan FTA



ASEAN Plus Three



ASEAN Plus Three Plus CER

