

Does afta create or divert trade

Business



The agreement can be understood as a kind of regional liberalization of trade policies that are favorable for boosting regional trade.

Further, the article focuses to find out whether if the formation of this agreement has created trade creation or trade diversion. Trade creation can be considered as a development whereas trade diversion from the nonmember nations to the member nations can not be considered as a positive development.

An important instrument for applying the trade agreement in the total region is the Common Effective Preferential Tariff scheme that requires the tariff of certain commodities to fall below zero to five percent. These commodities include capital and noncapital as well as manufactured goods. This process of liberalization and eliminating the identified commodities from taxable commodities has been phased out in for phases. This has been done in order to prevent any instantaneous impact over the respective national economies of the member countries. A gradual tariff reduction would assure that the change shall be absorbed over a period of years and thus promote trade. After fifteen years of the agreement, it can be observed that the countries have largely succeeded in achieving the goals. With the creation of the agreement, there has been a boost in the ASEAN trade. The trade with the rest of the world has also seen steady growth. Intra-ASEAN imports have increased considerably and a reduction from imports from the ROW (Rest of the world) was noted however the exports from the ASEAN countries were still directed to the ROW. Relevant studies have confirmed that AFTA has been trading creating rather than trade diverting. The agreement has helped in intensifying the economic linkages of the member countries.

With the ever-increasing demand for interdependence and increasing

<https://assignbuster.com/does-afta-create-or-divert-trade/>

international trade, I believe that such regional trade agreements help in increasing domestic and international trade. The statistics reveal that there has been an increased amount of trade within and outside the member countries. Such a mechanism with economically permeable international boundaries, help in leveraging the absolute and comparative advantage of the member countries, and thus promote trade.

Such an arrangement also makes economies of various nations interdependent upon each other and thus promotes better political relations amongst member nations. As it has always been observed that countries which are economically dependent upon each other, make genuine attempts to maintain peace, and resort to discussions to solve their differences rather than resorting to force. Thus it can also help to a great deal in promoting regional co-operation and peace but at the same time, creations of closed regional blocks need to be checked.