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THE IMPACTS OF ASEAN FREE TRADE AGREEMENT ON VIETNAM'S RICE SECTOR

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Abstract

This study employs the standard static GTAP general equilibrium (CGE) model and the GTAP V8 database in order to evaluate the impacts of the ASEAN Free Trade Agreement (AFTA) on regional production, consumption, trade, and prices for agricultural and processed foods. Emphasis is placed on the impacts on rice production and trade among ASEAN members. There are four main findings:

- Firstly, AFTA leads to a small increase in Vietnam's rice production and exports when intra-ASEAN rice tariffs are reduced to agreed 2015 levels. However, Vietnam's rice production and exports would increase much more if ASEAN partners would further reduce their rice tariffs to zero (complete trade liberalization).
- Secondly, the results of this research support complete trade liberalization from an economic perspective because it enhances economic welfare gains for the newer ASEAN members, especially Vietnam. Vietnamese and Thai rice farmers' incomes are likely to improve following complete trade liberalization. For the other ASEAN members, especially the Philippines and Malaysia, the major benefits from complete trade liberalization include an increase in rice consumption, with its positive implications for household food security. In addition, complete trade liberalization will result in better resource allocation and increases in production of goods that exhibit comparative advantage in these two countries.
- Thirdly, this study draws further attention to a trade-off between food security in rice and rice self-sufficiency. Complete trade liberalisation leads to decreased prices of rice and some other foods paid by private households, thus enabling them to increase consumption of these goods. However, the decreased rice price and production leads to decreased rice self-sufficiency in the Philippines and Malaysia.
- Lastly, the finding of this study supports the trade creation effects of both AFTA, and complete trade liberalization among ASEAN members, which mainly involve trade in rice, other food and agricultural goods. This trade creation outweighs trade diversion in some manufacturing sectors.

In brief, the key findings of this study suggest that deeper regional trade liberalisation through complete rice trade liberalization would greatly increase Vietnam's gains from AFTA and support previous findings that rice trade liberalization can contribute to improving rice farmers' incomes, thus reducing poverty in Vietnam. The results of this study could also assist policy makers in ASEAN member countries to better evaluate the pros and cons of further opening their rice markets in the future.

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Acronyms

ASEAN: Association of Southeast Asian Nations

BULOG: Badan Urusan Logistik

CEPT: Common Effective Preferential Tariff Scheme

CU: Custom union members

RTA: Regional trade agreement

STE: State-trading enterprise

TOT: Term of trade

URAA: Uruguay Round Agreement Agenda