



Computational analysis of the Free Trade Area of the Americas (FTAA)

Drusilla K. Brown^a, Kozo Kiyota^b, Robert M. Stern^{c,*}

^a *Tufts University, Medford, MA, USA*

^b *Yokohama National University, Yokohama, Japan*

^c *Department of Economics, University of Michigan, 611 Tappan Street, Ann Arbor, MI 48109-1220, USA*

Received 8 August 2004; received in revised form 7 February 2005; accepted 18 March 2005

Available online 25 April 2005

Abstract

We use the Michigan Model of World Production and Trade to assess the economic effects of the Free Trade Area of the Americas (FTAA). The model covers 18 economic sectors in each of 22 countries/regions and is based on Version 5.4 of the GTAP database for 1997, together with specially constructed estimates of services barriers and other data on sectoral employment and numbers of firms. The distinguishing feature of the model is that it incorporates some aspects of trade with imperfect competition in the manufacturing and services sectors. The modeling focus is on the effects of the bilateral removal of tariffs on agriculture and manufactures and of services barriers. The computational results indicate that the FTAA would increase the economic welfare of member countries by \$118.8 billion, with the largest increases accruing to the United States, \$67.6 billion, and to South America, \$27.6 billion. The FTAA is trade-diverting for most of the rest of the world, with a welfare reduction of \$9.3 billion. In comparison, if the FTAA countries were to adopt unilateral free trade, total member welfare would increase by \$476.8 billion and global welfare by \$812.7 billion. If multilateral free trade were adopted by all countries/regions in the global trading system, the welfare effects would be considerably larger, \$751.2 billion for the FTAA members and \$2.4 trillion globally.

© 2005 Elsevier Inc. All rights reserved.

JEL classification: F10; F13; F15

Keywords: Free trade agreements; Unilateral liberalization; Multilateral liberalization

* Corresponding author. Tel.: +1 734 764 2373; fax: +1 810 277 4102.

E-mail address: rmstern@umich.edu (R.M. Stern).

1. Introduction

This paper presents a computational analysis of the economic effects of the Free Trade Area of the Americas (FTAA) that is currently being negotiated by the 34 countries in the region. The initiative for the FTAA was first announced in December 1994 at the Summit of the Americas in Miami and is supposed to be completed in 2005. This analysis of the FTAA is based on the Michigan Model of World Production and Trade, a multi-country/multi-sectoral computable general equilibrium (CGE) model of the global trading system that has been used for over three decades to analyze the economic effects of multilateral, regional, and bilateral trade negotiations and a variety of other changes in trade and related policies.

In Section 2, we present a brief description of the main features and data of the Michigan Model. In Section 3, we summarize background information on the FTAA and U.S. FTAA negotiating proposals, together with our findings of the potential economic effects of the FTAA on economic welfare, trade, output, and employment for the United States, Canada, Chile, Mexico, and aggregates of 19 countries in Central America and the Caribbean (excluding Cuba) and 11 countries in South America (excluding Chile). In Section 4, we provide a broader perspective on the FTAA that takes into account the effects of the unilateral removal of trade barriers in the region and the effects of global free trade in which all countries/regions covered in the model are assumed to remove their existing trade barriers on a multilateral basis. Section 5 contains a summary and concluding remarks.

2. The Michigan Model of World Production and Trade

2.1. Overview of the Michigan Model

The version of the Michigan Model used in this paper covers each of 22 countries/regions and 18 economic sectors, including agriculture, manufactures, and services. The distinguishing feature of the Michigan Model is that it incorporates some aspects of trade with imperfect competition, including monopolistic competition, increasing returns to scale, and product variety. A more complete description of the formal structure and equations of the model can be found on-line at <http://www.fordschool.umich.edu/rsie/model/>.¹

2.2. Interpreting the modeling results

To help the reader interpret the results, it is useful to review the features of the model that serve to identify the various economic effects to be reflected in the different applications of the model. Although the model includes the aforementioned features of imperfect competition, it remains the case that markets respond to trade liberalization in much the same way that they would with perfect competition. That is, when tariffs or other trade barriers are reduced in a sector, domestic buyers (both final and intermediate) substitute towards imports and the domestic competing industry contracts production while foreign

¹ See also Deardorff and Stern (1990, esp. pp. 9–46), Brown and Stern (1989a, 1989b), and Brown, Kiyota, and Stern (2005a, 2005b).

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات