



# **South East Asia - European Union Free Trade Area An analysis using Gdyn**

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# The Simulation

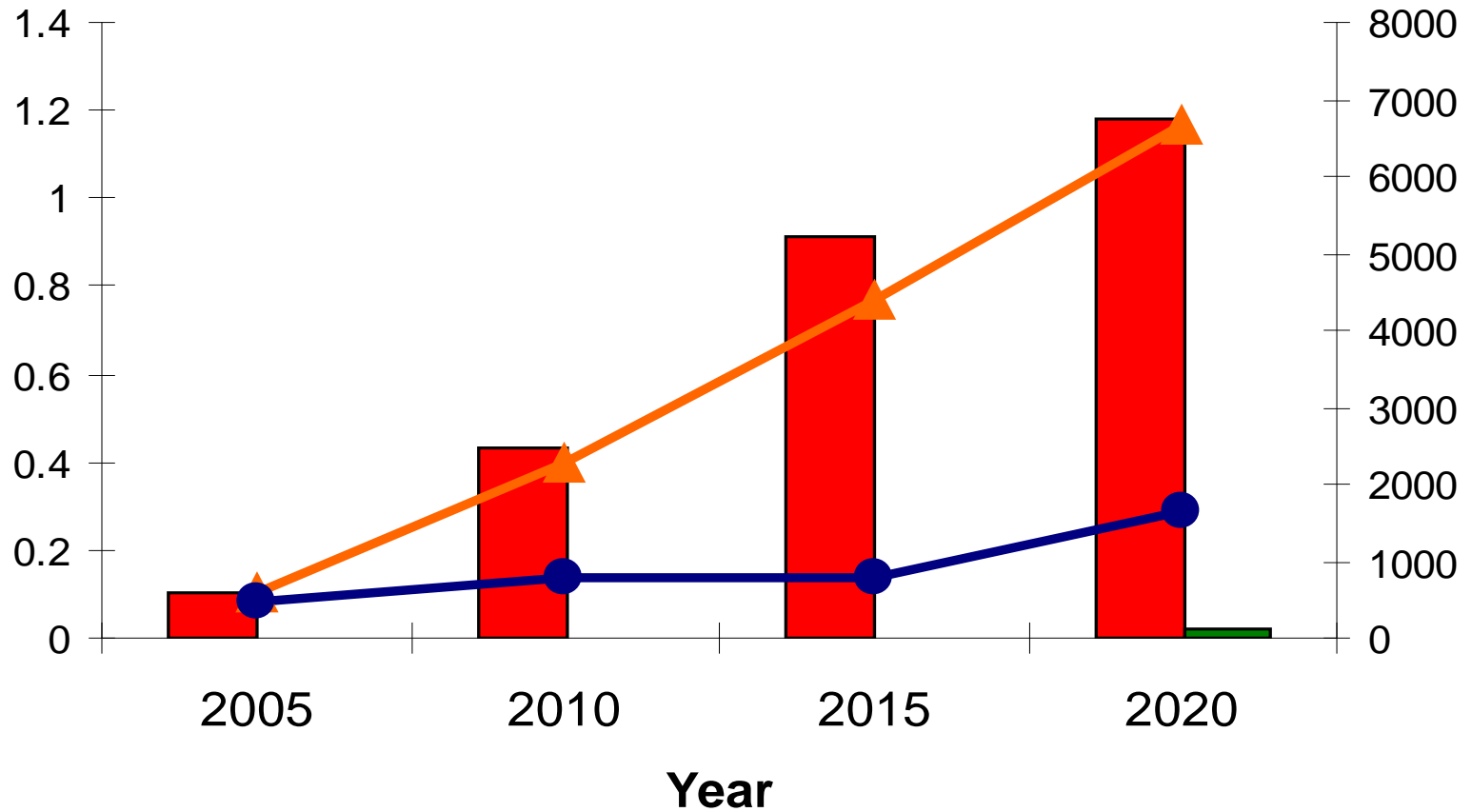
## Context

- EU – SE Asia are already important trade partners
- The EU is by far the largest investor in SE Asia countries
- Long history of cooperation
- Free trade negotiations EU -individual countries

## Policy shocks

- Elimination of import and exports taxes/subsidies across the board, in 4 steps (2005, 2010, 2015, 2020)

# GDP and Welfare changes



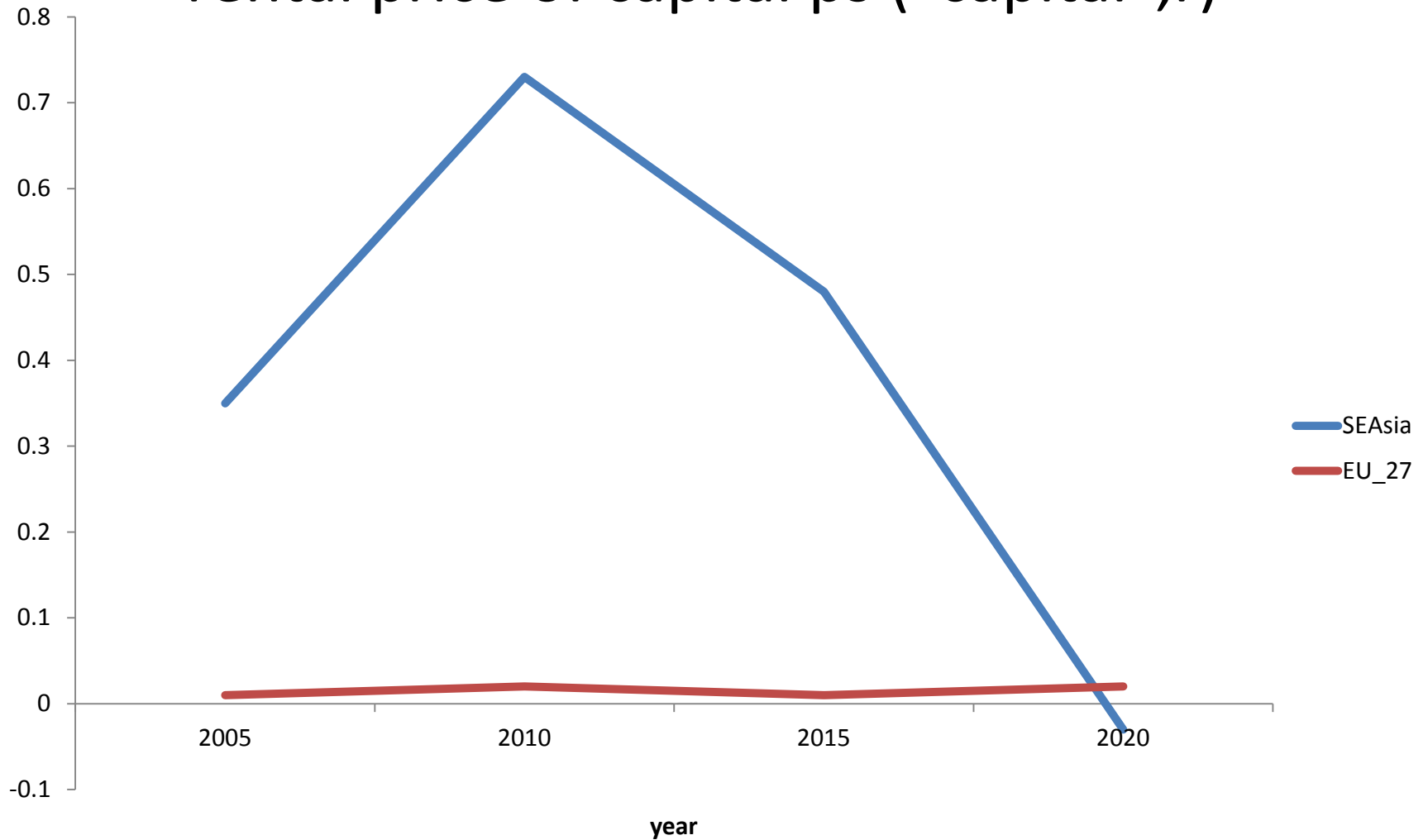
\* Cum. % change – relative to baseline

# Rental price of capital at SEAsia\*

South East Asia	2001-2005	2005-2010	2010-2015	2015-2020
qo ("capital")	0.11	0.63	1.55	2.36
qfe ("Capital", "Lghtmnfc")	2.29	6.25	11.85	16.33
qfe ("Capital", "Mnfc")	-0.37	-0.29	0.82	1.74
qfe ("Capital", "Serv")	0.07	0.47	1.06	1.75
qfe ("Capital", "Food")	0.1	0.35	1.75	3.34
qfe ("Capital", "Extract")	-0.13	-0.13	0	0.13
qo("LghtMnfc")	2.25	6.02	11.17	15.17

\* Cum. % change – relative to baseline

# rental price of capital ps ("capital",r)\*



\* Cum. % change – relative to baseline

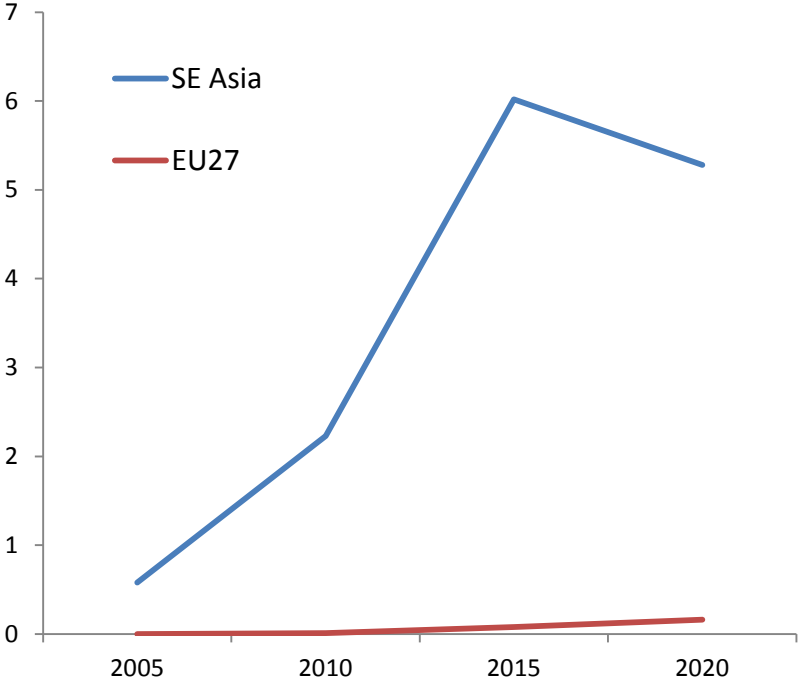
# Decompose pcgds

<i>Zero-profits condition</i>	<i>Contribution</i>
1 e1_STC	0
2 e2_STC	-0.049
3 profitslack	0

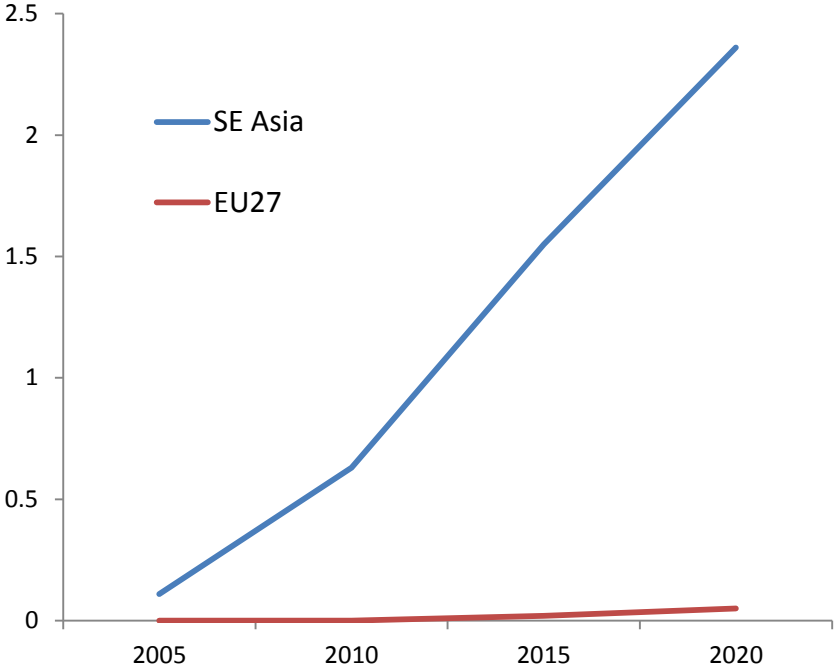
	<i>E2_STC</i>
Mnfc	0.56
Serv	0.44

	<b>FMSHR</b>	<b>pfm</b>	<b>1-FMSHR</b>	<b>pdf</b>	<i>FMSHR*pfm + (1-FMSHR)*pdf</i>
Mnfc	0.77	-0.5371	0.23	0.034129	-0.40556
Serv	0.03	0.012548	0.97	0.415063	0.404041

### Investment: qcgds

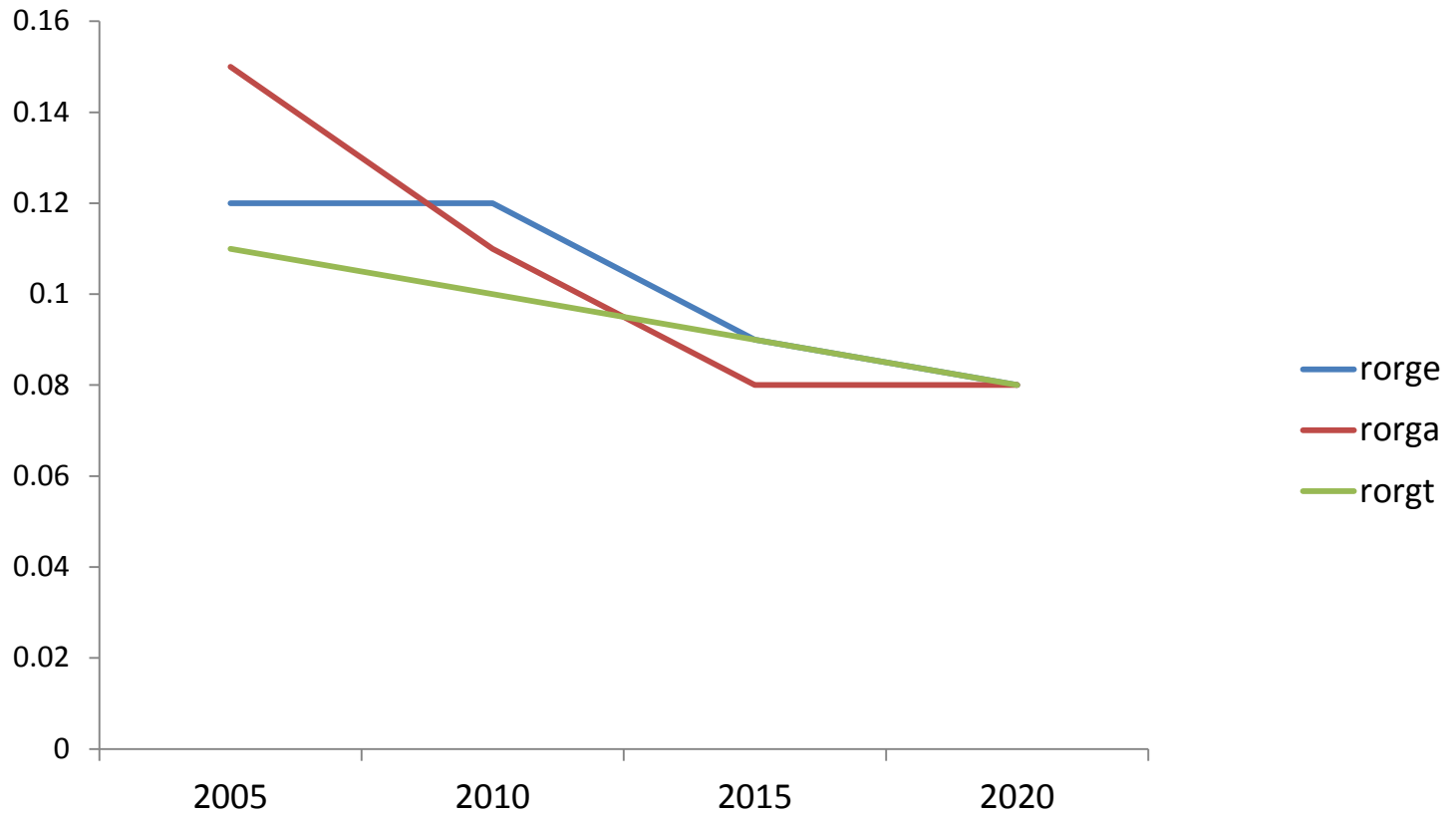


### Capital stock: qk



\* Cum. % change – relative to baseline

# Rates of return in SE Asia

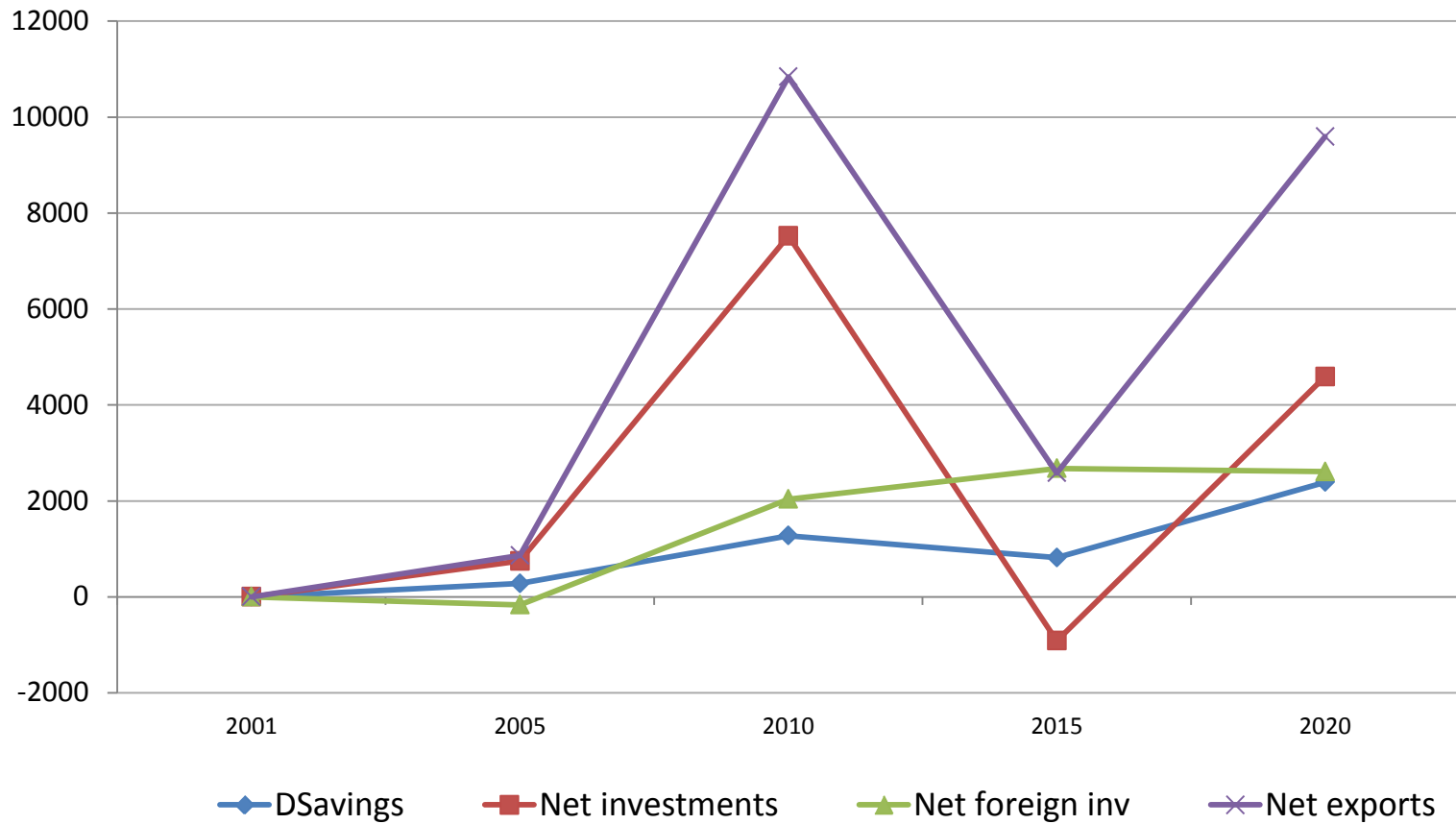


\* Cumulative % change relative to baseline



## External Balance Condition in SE Asia

$S-I-NFI = X-M$



Year on year change relative to baseline in value terms