

**Title:** Is the “ASEAN+3 FTA” good for Japan?

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**Abstract:**

The Joint Statement on East Asia Cooperation (1999) and the Joint Declaration of the ASEAN-Japan Summit (2002) suggested the possibility of creating the “ASEAN+3 Free Trade Area” that will include the ASEAN-member countries plus the Republic of Korea, the People's Republic of China and Japan. This paper models the welfare effects of eliminating tariff barriers in the presence of conditions specific to East Asian agriculture. We start from the two-factor model of Spilimbergo and Stein (1995), which explains trade by both product variety and comparative advantage, and extend it to allow the mobility of factors of production between the agricultural sector and the final production sector and to capture the reduced elasticity of substitution between the production factors under the land constrain. The model explicitly incorporates the ad-valorem tariff protection and subsidizing of the agricultural sector. Both features are present in the Japanese agriculture and related to the large differential between the domestic and world prices of key agricultural products. The results of modeling and numerical simulations suggest that Japan may have welfare loss and the ASEAN countries welfare gains if participate in the recently proposed “ASEAN+3 FTA”.

**Keywords:** Free Trade Agreements, East Asian Economic Cooperation, Agricultural Trade