

ABSTRACT

International trade allows countries to export goods that are produced using abundant local resources and import goods which processes require scarce local resources. These activities have played an important role and have had a positive impact on the economies of many countries. Increasing the flow of goods across countries can be done through free trade area (FTA) by eliminating or reducing import tariffs for member countries. The ASEAN-Korea FTA is one of ASEAN's agreements to improve welfare through progressive trade liberalization in order to strengthen and advance trade, investment, and the economy between members.

This study intends to analyze the impact of the free trade agreement between ASEAN and South Korea in the AKFTA scheme. The trade gravity model is expanded with three dummy variables to determine whether trade creation and trade diversion occur in the formation of the FTA. Regression of static panel data based on the OLS was used to analyze the effect of AKFTA on the import exports of member countries focusing on trade creation and trade diversion. The Chow Test and the Hausman Test state that fixed effect is the best model. PPML regression is also applied to address the problems of heteroskedasticity and zero trade flow. The results of the research analysis found that the implementation of AKFTA did not present a trade creation effect but instead caused trade diversion on exports with nonmembers. The AKFTA has a negative and significant influence on the flow of intraregional trade while resulting in export trade diversion because it makes member countries prefer to export part of their production to fellow members by diverting / reducing exports to nonmember countries. The estimation results also state that GDP has a positive and significant effect on exports in accordance with the theory of the trade gravity model.

Keywords: AKFTA, ASEAN, South Korea, Trade Creation, Trade Diversion, Gravity Model