

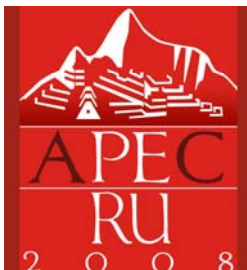


**Asia-Pacific
Economic Cooperation**

2008/ASCC/034

**Comments on paper: “Asia’s Infrastructure, Trade
Costs and Regional Co-operation”
by Douglas Brooks**

Purpose: Information
Submitted by: New Zealand



**APEC Study Centres Consortium Conference
Piura, Peru
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Comments on paper: “Asia’s Infrastructure, Trade Costs and Regional Co-operation” by Douglas Brooks

**LAEBA Fourth Annual Meeting
Lima, Peru
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Key Points(1)

- (1) Importance of production networks in expansion of intra-East Asian trade**
 - Pressure on economies to ensure attractiveness to FDI**
 - Attractiveness is greater if trade costs are lower**

Key Points(2)

2. **Size and growing importance of “non-tariff” trade costs**
 - Transport costs
 - Customs and port clearance
 - Currency exchange etc
 - **Highlighted by ad valorem equivalent approach to measuring trade costs**
- **Case for more attention to “non-tariff” trade costs is irrefutable**
 - Need to consider some implications

Key Points(3)

3. **Tariffs declining in relative importance as barriers to trade**

But
 - account for 25% of “explicit” US trade costs in 2004
(cf Anderson and van Wincoop data?)
 - Tariffs potentially reducible to zero
 - “Non-tariff” trade costs can be reduced but generally cannot be eliminated

Avoidable v. Unavoidable “Non-Tariff” Trade Costs

- For policy purposes, elimination of “avoidable” “non-tariff” trade costs is the appropriate focus for
 - Prioritisation
 - Comparison with benefits of removing tariffs
- Quantitative analysis so far seems to focus on total “non-tariff” trade costs
 - Less clarity on what are “avoidable” elements
- Need to focus also on quantifying “avoidable” elements
 - Absolute levels
 - Cross-country and cross-product differences

Reduction of “Non-Tariff” trade costs as a Policy Objective

- Non-discriminatory (in a “policy” sense)
- Often requires investment (ports, roads, airports, automated systems etc)
 - need for cost-benefit analysis
 - sequencing may be important
 - Scarcity of resources
 - Interdependence of policy initiatives
 - Competitive dimension – temptation to over-invest
 - To attract FDI, secure participation in production networks (conceptually equivalent to investment incentive issue)
- “Optimal” level of “non-tariff” trade cost reduction for each economy

Implications of world where each economy achieves “optimal” reductions in “non-tariff” trade costs (1)

- **Impact of cross-country differences in costs and costs v. benefits of reducing them**

- Distance
- Sea-transport v. land-transport (7x!)
- Inherent geographical barriers
- Scale economies e.g. in transport
- Development of “hubs”
- Cross-product differences in costs
 - Related to specialisation patterns

Implications of world where each economy achieves “optimal” reductions in “non-tariff” trade costs (2)

- **Examples**

- East Asia v. Latin America
- Landlocked economies
- Small island economies

- **Absolute v. relative improvements in welfare and competitiveness**

- Invariance of policy advice
- Implications for global distribution of income and economic activity

- **Implications for “outlier” economies**

- E.g. Winters et al. on small island micro-economies