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Asia’s infrastructure, trade costs and regional co-operation.
Comments

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

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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
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