

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

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