

# Chapter 17

## Future Research

**Hadi Soesastro**

Centre for Strategic and International Studies

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## Chapter 17

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*Hadi Soesastro*

As identified in Chapter 1, the immediate projects urgently needed include the following: further analysis on the interaction between de facto and de jure economic integration; post-evaluation of integration initiatives (e.g., text and implementation of FTAs); assessment of actual liberalization levels (e.g., scorecards for services); assessment of economic institutions and the necessity for convergence or harmonization (e.g., competition policy); and designing the architecture of economic integration (e.g., inputs for the ASEAN Economic Community and beyond). Followings are some of the details of the future research projects for the Economic Research Institute for ASEAN and East Asia (ERIA).

#### **1. Assessing the structure and content of existing and emerging FTAs**

As we have discussed in this report, the pattern of regional FTAs is not optimal at present and is beginning to impose business costs that are detrimental to competitiveness in regional production networks (Chapters 4, 15, and 16). The summary recommends that a more consistent approach is adopted within ASEAN and the region and that a common template be used for trade agreements. Developing such a template requires a research, as well as policy, input.

A method similar to the index methodology, described in the ERIA joint research projects on services liberalization (NZIER, 2008; and ANU 2008), has recently been applied to assessing the liberalizing content of bilateral FTAs. It requires a careful reading of a large number of agreements and building a database that scores the important elements of each. This forms the basis for indexes for each agreement and can also be used for empirical analysis of the real effects of the agreements on trade and

investment flows.

The use of indexes enables a judgment about whether agreements are GATS plus. That same methodology allows a more objective way to compare agreements, showing whether some agreements have more liberalizing content than others. The research also identifies which elements of FTAs matter most in promoting trade between the partners. This is an important step in designing a template of best practice for FTAs and it is extremely important that this evidence-based approach is used. In the absence of evidence, it is likely that templates will be designed on the basis of what is most convenient for negotiators or what is politically expedient. The risk is that if a template with limited economic benefits is imposed it will be ignored by trade policy makers and will not be implemented and proliferation of inconsistent FTAs will continue. Furthermore the research identifies which elements of FTAs have no significant impact on outcomes. These elements do not need to be completely harmonized across countries since their effect is minimal. Thus the research will identify those elements that do need to be imposed on all members but also those where local choices can be allowed with little impact.

In evaluating the structure and content of FTAs, post evaluation of existing FTAs based on large sample surveys can provide a useful information base. As revealed in our analyses, the utilization ratio of existing FTAs has not been very impressive. Identifying the reasons behind this can be the first step to optimize the existing policy framework toward economic integration in East Asia.

## **2. Defining priorities for services sector liberalisation**

Efforts to liberalize services should be concentrated on the most costly barriers in the most restricted sectors (where the gains are greatest). These costly barriers should be the focus of both unilateral reforms and trade negotiations for mutual or multilateral liberalization. Present approaches to reform tend to concentrate either on sectors that are considered easiest to liberalize or on those brought up in the request and offer process of trade negotiations. These are unlikely to be the economically most beneficial sectors nor the measures that need to be tackled first.

Research methods exist to identify a more economically beneficial set of priorities. Data collection for this research requires local knowledge of actual restrictions in place and an analytical effort to establish the costs of different measures. A considerable database has already been created but further research, using local research knowledge, is needed to refine the data. The analytical work can then use this comprehensive and reliable data to establish *which* barriers in *which* sectors are most costly.

The research can produce indexes of restrictiveness of different types of barriers in different sectors in different countries. The research also gives estimates of the aggregate (general equilibrium) cost of the barriers and the benefit (in terms of % of GDP) of removing them. As an important policy aid, the data can also generate “scorecards” showing which restrictions are in place, where progress has been made and where future progress is required. These scorecards come naturally from the templates used to compile the data on restrictions. They are therefore much less arbitrary than many alternative proposals for scorecards. Some system of scorecards will be needed to enable monitoring progress towards the strategic schedule of the ASEAN Economic Community (AEC) Blueprint and this research would provide state-of-the-art methods. These methods should also be introduced at the earliest possible date into the ASEAN Secretariat’s plans for a Services Stocktake so that the data collected for that initiative will be in a format that gives the maximum possible usability for other policy purposes. It is important that there is consultation at an early stage with researchers familiar with the best practice methods for doing such a stocktake. ERIA and its network of research institutes in the region could be a useful structure for compiling the additional information needed to carry out this task.

### **3. Developing and maintaining the scorecard of trade facilitation for ASEAN**

ERIA could maintain and refine the statistical indicators and scorecards for the ASEAN Secretariat to monitor and report on progress towards trade facilitation in the region.

By combining the priorities of the AEC Blueprint and the information relating to each country in two World Bank data sources relating to trade, we have developed a scorecard for measuring trade facilitation in ASEAN.

The objectives of this research are (1) to refine the scorecards and statistical indicators of trade facilitation; (2) to provide annual updates to the scorecards and use these to monitor and compare the progress towards trade facilitation over time; and (3) to emphasise the importance of trade facilitation by comparing the scorecard results with economic outcomes such as trade revenue and economic growth.

Annual updates can be made by incorporating updates to the same and new information sources. Statistical analysis can be employed to analyse the relationship between the scorecard results and economic outcomes.

The initial calculation of the scorecard shows that in 2007 Singapore is the best performer among ASEAN countries in terms of trade facilitation while the Philippines, Lao PDR and Myanmar have substantial room for improvement (Chapter 5). The scorecard will motivate some politicians to seek improvements in and integration of logistics and customs services within ASEAN by indicating which countries have made improvements towards trade facilitation overtime. Over time, it will also provide a check on the rate of progress being made by each ASEAN country. It will also assist policy makers and bureaucrats determine where to devote limited resources to improve trade facilitation.

#### **4. Policy measures to enhance ASEAN's participation in production networks**

ASEAN's intention to enhance its participation in "global supply networks" is very much consistent with the strategic framework developed in our project (Chapter 1). By incorporating the findings of other ERIA research projects<sup>1</sup>, a set of practical policy measures to achieve this objective can be elaborated within a comprehensive and unified framework to pursue deepening economic integration and narrowing development gaps at the same time.

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<sup>1</sup> Kumar (2008), Ariff (2008), Lim (2008), and Sotharith (2008).

Our study on intra-regional trade in East Asia revealed that parts and components transactions led the expansion and intensification of the intra-regional trade, which was different from other regions such as NAFTA and EU (Chapter 2). As the next step, we need to identify the reasons why such trade have been boosted more in East Asia compared to other regions. This issue should be analyzed with careful reference to the findings on the intra-regional FDI flows in East Asia (Chapters 13).

## **5. Research into the benefits and costs of reform**

Another role for ERIA would be to provide the research to establish the benefits and costs of reform and identify their distribution.

While there are typically many who will benefit from trade facilitation reform there are also, in some cases, a few who will suffer significantly because a monopoly rent or source of income they previously enjoyed is taken away. The losers are often employees in the very same public entities which need to develop and implement the reforms. For example, reducing the amount of paper work clearly threatens those whose job it is to create and manage it.

Research into the costs and benefits of reform would include the following specific components of research with ASEAN economies:

- a gravity model study to assess the impact of the costs and time of border procedures on trade flows;
- case studies of the likely level of leakage of trade revenue;
- case studies of the impact of border costs and delays on the investment decisions of potential foreign direct investors; and
- case studies monitoring the outcomes of trade facilitation reforms to see if there are lessons to be learned by other ASEAN economies.

The results from research into the costs and benefits of reform would be expected to produce measures of quantifiable potential gains for the economy. It would provide the quality information needed for policy makers and politicians to take action towards reform and identify the distribution of the costs and benefits to different groups in society during and after the reform.

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