

# Trade and Investment



## Non-Tariff Measures in ASEAN



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*Edited by Lili Yan Ing, Santiago Fernandez de Cordoba, and Olivier Cadot*

While tariffs have been reduced, the number of non-tariff measures (NTMs) continues to increase, and is often blamed as one source of the lack of integration in ASEAN. Unlike tariffs which could be reduced to the zero level, it is hard to see a world without NTMs as these can play a role of check and balance in the quality of goods. A country with a relatively higher number of NTMs does not mean it is more protectionist than others. A country with more NTM coverage does not mean it will have a relatively lower trade compared to the others. However, not all NTMs are benign; some NTMs could complicate business but not achieve the main goals. To improve the trade environment and make NTMs work for the common good, ASEAN should break from the 'trade negotiation' approach and strive instead for regional transparency, further cooperation in conformity assessment procedures, and dynamic disciplines. This report provides the most comprehensive data and descriptive analyses on NTMs in the 10 ASEAN countries based on the recently developed 2015 ASEAN-ERIA-UNCTAD database. This is ASEAN's initiative, as it takes the lead to improve transparency of its trade regulations.

## Facilitating ASEAN Trade in Goods

ERIA Discussion Paper 2016-20

*By Lili Yan Ing and Olivier Cadot*

ASEAN has been successful in phasing out intra-regional tariffs. Yet, its trade facilitation is not only about reducing cross-border transaction costs but also focusing on rules of origin (RoOs), transparency of non-tariff measures (NTMs), and NTM streamlining. The RoOs in the ASEAN Trade in Goods Agreement (ATIGA) have a relatively simple structure, of which about 40% consists of RVC-40 or CTH. In spite of their apparent simplicity, ATIGA's RoOs seem to have substantial trade-inhibiting effects, with recent research putting their ad valorem equivalent at 3.4%. In the case of NTMs, the costs imposed by NTMs on businesses are of three sorts: enforcement, sourcing, and process adaptation. The most important thing lies in the transparency of NTMs which rests on (i) accurate data and (ii) open dissemination and dynamic disciplines. The underlying notion is that NTM streamlining should not be viewed as a trade negotiation issue because NTMs are not pure trade policy instruments. Thus, this paper proposes to take it back to the country level and promote the creation of an economic council mandated to review and improve key business-relevant regulations.

## FDI, Services Liberalisation, and Logistics Development in Cambodia

ERIA Discussion Paper 2016-39

*By Vannarith Chheang*

This paper reviews Cambodia's economic development based on flows of foreign direct investment and services sector liberalisation. It uses Cambodia's logistics industry as a case study. Services sector liberalisation in Cambodia has been mainly driven by its commitments under the World Trade Organization framework and the ASEAN Framework Agreement on Services. Logistics is one key contributor to economic growth and competitiveness. To improve the logistics sector, Cambodia should develop a comprehensive master plan and national council on logistics to overcome the main issues and challenges such as corruption and informal payments, lack of institutional capacity and coordination, low-quality transport infrastructure, weak urban-rural and cross-border transport networks, limited participation of the private sector, lack of skilled human resources, and low public and private investments. Promoting healthy competition in logistics and removing the impediments to investment are vital to improving the quality and coverage of logistics services.

## Impact of Free Trade Agreement Utilisation on Import Prices

ERIA Discussion Paper 2016-24

*By Kazunobu Hayakawa, Nuttawut Laksanapanyakul, Hiroshi Mukunoki, and Shujiro Urata*

The paper examines the impact of the use of free trade agreements (FTAs) on import prices. This analysis employs establishment-level import data with information on tariff schemes, i.e. the FTA and most-favoured-nation schemes used for importing. Unlike previous studies in this literature, the paper estimates the effects of FTA utilisation on prices by controlling for the differences in importing firms' characteristics. The main findings are as follows: (i) the effect of FTA use is overestimated when the importing firm-related fixed effects are not controlled; (ii) the average effect of the tariff reduction induced by FTA utilisation is a 3.6%–6.7% rise in import prices; (iii) in general, no price rise results from the costs of compliance with the rules of origin; and (iv) in the case of FTA use, several other factors affect import prices.

## International Investment Agreements and Investor–State Disputes: A Review and Evaluation for Indonesia

ERIA Discussion Paper 2016-30

*By Stephen L. Magiera*

Foreign investors can lodge a complaint against a host country for alleged treaty violations under the Investor–State Dispute Settlement (ISDS) provisions of bilateral investment treaties (BITs). The complaints are arbitrated internationally outside the host country's domestic court, sometimes involving claims exceeding US\$1 billion, and giving rise to significant financial risk of international arbitration for host countries. Because of this, Indonesia has recently cancelled many of its BITs. But at the same time, it has agreed to ISDS under the ASEAN Comprehensive Investment Agreement and ASEAN's five agreements with dialogue partners. Furthermore, President Joko Widodo has expressed strong interest in joining the Trans-Pacific Partnership (TPP), which contains provisions for ISDS. ASEAN's Regional Comprehensive Economic Partnership will also provide for ISDS. This paper reviews the status of Indonesia's international obligations with respect to ISDS, evaluates some of the benefits and costs of ISDS, and reviews the extent to which Indonesia would be undertaking new ISDS obligations under the TPP. The paper concludes with how Indonesia can reduce the risk of international arbitration through domestic regulatory reforms.

## **Optimal Trade Policy and Production Location**

ERIA Discussion Paper 2016-25

*By Ayako Obashi*

This paper studies the role of trade policies in a theoretical framework considering the firm's global production operation subject to trade costs. The production location potentially depends on a combination of trade costs, inclusive of trade barriers, imposed at different stages of the production process. Meanwhile, the trade policy decision of a government alters trade costs, and thereby affects the firm's location decision on whether to offshore the production base or whether to source domestically or import from abroad. A government might care about the impact of its trade policy choice on the locations of the firm's global production activities to better exploit its market power over world prices with trade policy intervention. The paper features the assembly-relocation effect and the production-chain effect to explain incentives behind the Nash trade policy intervention with cross-border unbundling of production processes

## **Shipping inside the Box: Containerization and Trade**

ERIA Discussion Paper 2016-37

*By A. Kerem Coşar and Banu Demir*

This paper quantifies the effect of container technology on transport costs and trade by estimating the modal choice between containerization and break-bulk shipping using micro-level trade data. The model is motivated by new facts that relate container usage to shipment, destination, and firm characteristics. Container transport has a higher first-mile cost and a lower distance elasticity, making it cost effective in longer distances. At the median distance across all country pairs, the box decreases variable shipping costs between 16% and 22%. The box explains a significant amount of the global trade increase since its inception: a quantitative exercise suggests that Turkish and U.S. maritime exports would have been about two-thirds of what they are today in the absence of containers.

## **The Trade Effects of Border Controls: Evidence from the European Schengen Agreement**

ERIA Discussion Paper 2016-36

*By Gabriel Felbermayr, Jasmin Gröschl, and Thomas Steinwachs*

The Schengen Agreement is an important milestone in the European integration process. The purpose is to facilitate the flow of goods, services, and persons across intra-European borders. How successful is it in achieving this goal? This paper applies an econometric gravity analysis to bilateral trade. Unlike earlier analysis, the paper acknowledges that Schengen treats different country pairs differently, depending on their relative geographical location. Moreover, other elements of European integration, such as membership in the customs union and the single market or the currency union, are carefully controlled and countries' trade among themselves are factored in. Schengen has boosted trade by about 2.81% on average, on top of the European Union's (EU) trade effects (equivalent to a drop in tariffs between 0.46 and 1.02 percentage points). Trade creation effects for services are stronger than for goods, but estimates feature larger parameter uncertainty. Peripheral countries benefit more than central ones. Other aspects of EU integration matter much more for trade than Schengen.

## **Transparency in Non-tariff Measures: An International Comparison**

ERIA Discussion Paper 2016-23

*By Lili Yan Ing, Olivier Cadot, and Janine Walz*

The paper constructs an index of transparency in non-tariff measures (NTMs) based on (i) notifications to the World Trade Organization under the agreements on sanitary and phytosanitary measures and on technical barriers to trade, (ii) the existence of a trade portal giving ready access to trade-relevant regulations, (iii) the existence of NTM data collected under the Multi-Agency Support Team classification, and (iv) the results of an experiment conducted between 2015 and 2016 where specific regulations concerning the import of a particular product on behalf of a private company were obtained. The resulting country ranking shows that OECD (Organisation for Economic Co-operation and Development) countries are, by and large, the most transparent. It also shows that ASEAN Member States score well compared to other developing countries.

## **ASEAN as an FDI Attractor: How Do Multinationals Look at ASEAN?**

ERIA Policy Brief 2016-04

By Masahito Ambashi

This policy brief presents an overview of the ASEAN economy in terms of its economic relationship with multinationals, particularly Japanese companies that have long invested in this region. ASEAN has been an attractor of foreign direct investment (FDI). Business interest in ASEAN has increased again recently due to the (i) relatively low wage of ASEAN compared to China, (ii) establishment of the ASEAN Economic Community (AEC), (iii) economic partnership network with a core of ASEAN countries, (iv) large-scale market covered by ASEAN, and (v) rise of CLMV countries (Cambodia, Lao PDR, Myanmar, and Viet Nam). In these trends, ASEAN has established a reciprocal economic relationship with other countries and regions. To develop its economy, ASEAN Member States are expected to further advance the AEC at a high level. Hence, ASEAN must address challenges such as deepening further economic integration and narrowing development gaps in the region. Most importantly, ASEAN still needs to increase the attractiveness of its 'whole region' as an essential and integral part of global value chains to draw further FDI.

## **Implications of Mega Free Trade Agreements for Asian Regional Integration and RCEP Negotiation**

ERIA Policy Brief 2016-03

*By Fukunari Kimura and Lurong Chen*

As mega free trade agreements (FTAs) reshape the rules of global governance, ASEAN Member States should urgently take proper actions in response to the changing world economic order. On one hand, they should closely observe the progress of negotiations and follow up the issues that are under discussion in mega FTAs. On the other hand, they have to accelerate the pace in concluding the negotiations of the Regional Comprehensive Economic Partnership.

## **TPP, IPR Protection, and Their Implications for Emerging Asian Economies**

ERIA Policy Brief 2016-02

*By Fukunari Kimura, Lurong Chen, Maura Ada Iliuteanu, Shimpei Yamamoto, and Masahito Ambashi*

As the global economy is increasingly organised within global value chains, disciplining and enforcing intellectual property rights (IPR) in a coherent manner internationally has become a critical issue in the 21st century trade system. The Trans-Pacific Partnership (TPP) agreement flags America's achievement in setting new standards on international IPR enforcement under a plurilateral framework that involves countries from Asia-Pacific. Yet such standards run the risk of becoming the new norm at the international level. Reaching agreement on the text of the TPP signals the heightened commitment of emerging Asian economies to IPR enforcement. Policymakers may want to consider some factors such as efficient IPR protection domestically, increased public awareness, active participation in global IPR rule-making, as well as education and training of human capital.