

## Part VI

# Determining the border for trade policymaking

# Chapter VI

## GOING 'BEHIND THE BORDER'

*By Christopher Findlay*

### Introduction

Important trends in the forms of international business and in the perceptions of policy priorities are shifting the orientation of policymakers to measures, both at home and in foreign markets, that operate "behind the border". This phrase is used here to refer to a variety of domestic regulatory practices. This shift of attention is raising questions about the role of international cooperation in managing policy reform. It is argued here that international cooperation provides options for capacity-building, mechanisms for the commitment of policy reform to avoid backsliding and for capturing spillovers between economies in regulatory reform. Consideration of these options and their application highlights the value of WTO processes in particular as well as their principles. This argument also has implications for the application of preferential trade negotiations to these issues.

### A. Business and policy trends

Significant business and policy trends are leading to a redefinition of the list of priorities among policy measures relevant to international business. One of these trends is the growth of options for doing international business, particularly in the services sector. Cross-border transactions in services (which are the services transactions recorded in balance of payments data) grew as rapidly as merchandise trade (10 per cent on average during 2000-2002), then slightly lower than goods trade in the subsequent three years (15 per cent compared with 17 per cent in goods trade in 2003, 19 per cent compared with 21 per cent in 2004 and 11 per cent compared with 13 per cent in 2005).<sup>1</sup>

There are significant variations among countries in these growth rates, and in some developing countries services exports have increased rapidly (see table below). For example, Association of Southeast Asian Nations (ASEAN) members have recorded high growth rates in this form of cross-border services transactions that were close to world average rates. Trade in services in this form in India has grown much faster than in the rest of the world, and in China at slightly lower rates than the world as a whole, except for rapid growth in recent years.

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<sup>1</sup> WTO, World Trade Report, 2006, table 3.

### World trade of commercial services by region and selected countries, 2005

(Units: US\$ billion and percentage)

	Exports					Imports				
	Value	Annual percentage change				Value	Annual percentage change			
	2005	2000-2005	2003	2004	2005	2005	2000-2005	2003	2004	2005
<b>World</b>	2 415	10	15	19	11	2 361	10	14	18	11
<b>North America</b>	420	5	5	11	10	373	7	8	15	10
<b>South and Central America</b>	68	8	10	16	20	70	5		14	22
<b>Europe</b>	1 233	11	19	19	7	1 119	11	19	16	8
<b>CIS</b>	40	18	16	23	20		20	17	24	18
<b>Africa</b>		13	26	20	12	66	12	16	19	15
<b>Middle East</b>	54	11	27	14	12	80	11	19	20	11
<b>Asia</b>	543	12	10	26	19	595	10	10	25	15
Japan	107	8	8	25	12	136	3	3	22	1
China	81	22	18	34	31	85	19	19	31	19
Four East Asian Economics <sup>b</sup>	175	8	9	18	9	165	8	8	21	10
India	68	33	21	66	76	67	29	23	53	73
ASEAN (10)	104	8	2	22	10	132	9	9	21	14

Source: World Trade Organization, *World Trade Report 2006*, appendix table 2, available at [http://www.wto.org/english/news\\_e/pres06\\_e/pr437\\_e.htm#table2\\_appendix](http://www.wto.org/english/news_e/pres06_e/pr437_e.htm#table2_appendix).

<sup>a</sup> For composition of country groups see the Technical Notes of WTO, *International Trade Statistics*, 2005.

<sup>b</sup> Taiwan province of China, Hong Kong, China, Republic of Korea and Singapore.

The types of services transactions recorded in balance of payments data are not the only form in which services can be traded. Also important is the establishment of offshore operations to deal direct with consumers in their own markets.<sup>2</sup> It is difficult to isolate the value of business transactions in services in this form. In its 2004 World Investment Report, UNCTAD stressed the shift to services in world foreign direct investment (FDI) flows. The report said that in the 1970s, services projects accounted for a quarter of world FDI stock and less than half by 1990; however, by 2002 the figure had risen to 60 per cent (see figure 3 of the report). Services accounted for two-thirds of FDI inflows during 2001-2002. Services investors are mainly from developed countries, but in the 1990s the developing country share of the global FDI stock in services started to grow

<sup>2</sup> The "movement of people" or the fourth mode of supply of services is not considered here.

and by 2002 they accounted for 10 per cent of the outward stock (they host 25 per cent of the inward stock).

A recent Australian study supported the significance of FDI in services transactions. It found that transactions from offshore establishments were significantly understated in official statistics. Balance of payments statistics might only be capturing about 36 per cent of total actual services exports (Australian Bureau of Statistics, 2004, and Australian Services Roundtable, 2005). Financial and insurance services as well as other business and professional services were the key sectors involved.

UNCTAD has suggested that the shifts towards services in FDI flows are related to the growth of the service sector in developed and developing economies (associated with growth and changes in business procurement strategies), the nature of services and the value of direct contact with consumers, and the change in policy environments. Movement offshore and outsourcing are examples of these processes at work. Another factor maybe the movement offshore of manufacturing sector clients of service sector firms, or manufactured product exporters setting up complementary services business, such as “after-sales support or repairs”.

Another important trend is the decline in the importance of some policy measures affecting international business, particularly those that operate at the border. Beghin (2006), in a review of tariffs and non-tariff barriers, noted the decline in tariff rates on average and the shift in the mix of NTBs. He reported that:

- (a) In 2005, the unweighted (applied) average tariff was about 3 per cent in high-income countries and 11 per cent in developing countries, compared with levels about three times as high in 1980;<sup>3</sup>
- (b) The use of NTBs involving quantity or price controls, or financial measures, had decreased dramatically from 45 per cent of tariff lines faced by NTBs in 1990 to 15 per cent in 2004;
- (c) The use of other types of NTBs had increased from 55 per cent “of all NTBs in 1994 to 85 per cent in 2004”. Examples of such measures include technical barriers to trade.

However, these trends are not universal. Average tariff rates vary considerably between countries, both at applied and MFN levels (Drysdale and Findlay, 2006). In some sensitive sectors, traditional border barriers remain the priority issue, in agricultural trade, for example, and in textiles and clothing sectors in some economies. The traditional trade policy agenda continues to be worth attention (see, for example, Anderson, Martin and Valenzuela, 2005); at the same time, however, the focus of many international businesses is shifting “inland”.

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<sup>3</sup> Details are available from <http://siteresources.worldbank.org/INTRES/Resources/tar2005.xls>.

## B. New policy issues

The consequence of these shifts is greater interest in behind-the-border policy. For example, consider the shift in the composition of significant NTBs to technical measures. As a consequence, there is also relatively greater interest in the administrative processes that are associated with their application, such as the design and testing of standards applied to goods and services (e.g., professional services). These processes are related to domestic procedures and practices that are linked to the way that governments operate. Business people frequently complain about the application of these measures.

These trends also combine to direct greater attention to measures affecting businesses operating in other modes (for example, businesses through establishment). That focus also directs attention to regulatory practices that operate behind the border. Examples of these policy categories include registration and licensing, rules on operations, locations and forms of establishment of offshore businesses.

A related concern is the often expressed exasperation with "red tape". In 2006, the Australian Government set up a Taskforce on Reducing the Regulatory Burden on Business that produced a report on "Rethinking regulation". Issues identified included excessive coverage, overlapping regulation, variation in definitions, excessive reporting and lack of justification. Costs identified including significant costs of compliance. To this might be added the costs of uncertainty associated with the outcome of any bureaucratic process.

Some of the regulatory measures of concern to business were originally introduced to solve problems of market failure. For example, standards are used to offset the lack of consumer information and manage the recognition of professional qualifications. They can, however, become barriers to international transactions. Other processes applied for the sake of consumer protection can have similar effects. Other regulatory practices for dealing with externalities might contain a bias against foreign providers (for example, rules on motor vehicle emissions to deal with urban smog). Competition policy measures, which could also fall into this category, are discussed below.

Beghin (2006) pointed out that whether a policy measure was protectionist or not was often difficult to determine. He suggested the rule that if a policy measure was "equal to the measure that a social planner would implement for domestic purposes (i.e., all firms are domestic firms or all agents belong to a single economy), the NTB is presumably non-protectionist".

Problems could arise in these policy areas from inappropriate application of the policy measure (due to either capture or error). At one end, there is excessive regulatory activity, which adds to the costs of doing business in order to comply, restricts business development or creates barriers to entry. This could occur, for example, in the application of licensing arrangements or standards setting systems.

At the other extreme could be insufficient application of measures, such as the absence of a measure to support international business. Some concern has been voiced,

for example, about the lack of a consumer protection regime to apply to cross-border financial transactions. Similarly, the absence of an access regime in critical infrastructure sectors could inhibit competition in downstream markets.

These problems in application, either to excess or to an insufficient degree, could affect both domestic and international firms. These measures are not necessarily restricted in their incidence to discrimination against foreign suppliers. They can affect market entry generally, not just the terms of foreign market entry, and they have implications for competition in the market place. Even application that does not discriminate against foreign firms could also be rent- and cost-creating.

Significant gains might be expected from reform of these sorts of measures. Beghin (2006) pointed out that most analyses of non-tariff measures identified three effects:

- (a) A rent-creating effect for protected firms. (Beghin refers to “the domestic sector” as the recipient of the rents, but that sector could include firms owned by foreigners);
- (b) A supply curve shift due to costs of compliance. (These costs might be incurred by both domestic and foreign firms);
- (c) A demand-shift effect, when the measure enhances “demand with new information or by reducing an externality”.

Dee and others (2006) argued that “liberalization of rent-creating barriers will yield ‘triangle gains’ in producer and consumer surplus associated with improvements in allocative efficiency...but would also have redistributive effects associated with the elimination of rents to incumbents. Alternatively, liberalization of cost-escalating barriers...would be equivalent to a productivity improvement (saving in real resources), and yield ‘roughly rectangle’ gains associated with a downward shift in supply curves”. They noted that this could increase returns for the incumbent service providers as well as lower costs for users elsewhere in the economy. They observed that the aggregate welfare effect of measures that were cost-creating (for the same movement in the supply curve) would be greater than rent-creating measures, that is, the rectangle gains were likely to exceed triangle gains by a significant margin. They also noted that the differential effects on incumbent suppliers suggested the political economy of a reform programme would differ for cost-escalating measures compared to those that added to rents.

The intersectoral effects of the reforms of these measures are also significant. Consider, for example, the impact of logistics reforms on the rest of the economy – a more efficient transport sector reduces rents, lowers costs and cuts transport margins. This reduced margin is distributed between consumers, including export customers and producers. In markets where domestic prices are set by world prices, the bulk of this gain will be captured by producers (who face a close to perfectly elastic demand curve). In developing economies, these producers may be relatively poor agricultural producers.

The gains from reform of these types of measures are expected to be substantial, but capturing them is a matter of domestic policy change. It is important for domestic policy processes to respond to these issues. Another report on national regulatory reform released by the Australian Productivity Commission in February 2007 identified the productivity gains from reform in the health and education sectors. It found gains of at least 2 per cent of GDP from the reform package in these sectors.

Dee (2006) stressed the value of reform of this type to “increase the general contestability of markets”, by allowing allcomers, domestic and foreign, to enter. She said reforms should “safeguard competition not particular competitors”. She noted that reform was not easy because of the different players involved and their conflicting interests. Reform requires both an understanding of policy alternatives and a set of institutions for managing change. It is possible Dee was suggesting (drawing on a taxonomy provided by Ross Garnaut) that governments:

- (a) Are unaware of best practice;
- (b) Are aware of best practice, but face resistance to change;
- (c) Themselves do not want better practice.

Dee proposed that formal, independent and public policy reviews had a key role to play in both identifying “better practice” (which may vary by stage of development) and managing the vested interests involved, including government itself.

While the focus of change is on domestic processes, international cooperation might provide some benefit. That is, it may be worthwhile for the institutions of international cooperation to explore the scope to work behind the border. The question, then, is what can international cooperation offer in this context?

### **C. Contribution of international cooperation**

International cooperation can make contributions in three ways (the three Cs):

- (a) Supporting the policy review process by providing information on options for policy reform and suggesting paths of evolution of policy (capacity-building);
- (b) Adding to the credibility of reforms through commitments to policy change, (commitments);
- (c) Capturing spillovers between policy reform in different countries (capturing spillovers).

With regard to capacity-building, Dee (2006)<sup>4</sup> noted that regional bodies could assist the policy review process by “marshalling expertise”, and providing a forum for the exchange of experiences about conducting reviews. She argued, however, that if regional

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<sup>4</sup> The paper was written with reference to APEC.

assistance was to be helpful it should not only be involved in the identification of policy options but also in “selling them”. The latter involves direct contact with local stakeholders and, she suggested, “real follow-up” by a lead minister who would be responsible for arranging consultation processes, releasing reports and prompting coordinated responses from all ministers affected. Participation by ministers distinguishes the Dee procedure from a review that is undertaken completely externally and independently of domestic stakeholders (for example, in the OECD model).

With regard to commitments, Findlay (2006), drawing on Mattoo (2002), commented on ways in which international negotiations and subsequent commitments could support domestic reform, such as the value of commitments that are binding (including those to be applied according to a schedule at a future date). The possibility that trading partners can seek compensation if policy change is not made adds to the credibility of their original commitment. Other contributions are market access, and the contribution that success makes to (a) mobilizing export interests that consequently support a domestic reform programme, and (b) guidance in the direction of regulatory reform.

In answer to the question of what has been achieved by international negotiations, Findlay (2006) noted that GATS so far “has not proved useful...as a vehicle to advance market opening in this sector”. GATS appears to have had limited impact on regulatory cooperation. Commitments in GATS have mainly reflected existing policy settings; however, there is a lack of research either in support of its role in providing credibility to those policies or to avoid backsliding. Negotiations within GATS (either across sectors or across modes of delivery) appear to be unable to overcome the domestic political hurdles to reform. Countries acceding to WTO – and China in particular – have, however, made significant commitments to reform.

Observations by Dee and others (2006) concerning trade facilitation suggest that the political economy issues to be resolved in dealing with behind-the-border issues may not be so much to do with domestic versus foreign interests, but rather incumbent versus new entrant interests. Preferential trade agreements, it might be argued, can be used to deal with behind-the-border matters. However, Dee (2005) argued that these trade agreements tended to be limited to measures that could be liberalized on a preferential basis, and tended to target only those provisions that explicitly discriminated against foreigners. These types of provisions tend to be rent-creating rather than cost-escalating. Dee and others (2006) therefore concluded that “the gains from even the ‘new age’ trade agreements are trivial, compared with the gains from comprehensive reform of non-discriminatory impediments to competition, as part of a thorough-going programme of unilateral domestic regulatory reform”.

Capturing international spillovers is the third contribution of international cooperation. Clarke and Evenett (2003) reviewed the arguments for collective action on one type of a behind-the-border policy, i.e., competition policy. They argued that political economy considerations for collective action did not provide a case for collective action; however, they identified other arguments. They discussed these issues in the context of policy on



cartels. They suggested that an international agreement could strengthen the “positive spillovers” or knock-on effects in other jurisdictions from action in one economy, or that they could reduce the harm done by negative spillovers. They cited examples of spillovers related to the difficulties in obtaining evidence and cartel-related information.

Round and Findlay (2006) discussed other externalities related to the application of competition policy in the transport sector, where firms are involved in cross-border operations. Application of policy on mergers in one jurisdiction will affect consumers in others. What may improve welfare in one jurisdiction may reduce it in another; for example, one jurisdiction may endorse a merger on public interest grounds, but the result could be a reduction of competition and consumer losses in other markets. Clarke and Evenett (2003) considered issues associated with international cartels.

## Conclusion

Is there a case for going behind the border in various forms of international collective action related to trade and investment policy? Yes, there clearly is a case. Contributions arise from the three Cs:

- (a) The capacity to undertake and implement the recommendations of domestic policy reviews;
- (b) The option to commit to the new policies and avoid backsliding; and
- (c) Methods to capture the spillovers in policymaking in different countries.

The questions remain of how far and how often to go behind the border, and how to organize the work. How far and how often is difficult to say. The answer also depends on the weight given to the motivations above. The capacity-building motivation would lead to more extensive work compared to initiatives designed to deal with spillovers. The answer will also vary issue by issue and sector by sector. A set of criteria built in part on case study material might help. But the question is worth asking and the three Cs provide a framework for consideration, linking motivations for cooperation with the form of action.

The question is then how to organize the work of going behind the border. WTO offers significant capacity. For example, Clarke and Evenett (2003) considered the case for establishing minimum standards to deal with problems of non-enforcement of cartel policy. Such commitments might be made in WTO. However, it will also be important to consider the possibility of inappropriate enforcement of that policy. They pointed out that cooperation between national agencies would be important in securing the evidence to prosecute cross-border cartels, and that “foreign firms are aware of their legal obligations, of their procedural rights, and that they will be treated on a comparable basis as domestic firms”. They concluded by arguing that for minimum standards to be effective, “other multilateral disciplines on voluntary cooperation and core principles (transparency, non-discrimination and procedural fairness) are required”.

However, no one institution is likely to provide all the forms of international cooperation for all purposes (see Soesastro and Findlay, 2006). These contributions could be made in a variety of institutions. Each institution has different advantages, through its membership (and therefore the ability to capture policy spillovers, for example), its rules of operation and the capacity of its bureaucracy. This suggests that a portfolio approach is valuable, as is a clear view about which institute is best at which activity. APEC, as illustrated above, has strengths in the capacity-building work, and is not impeded by the ways in which it devolves responsibility for work to groups of members. For other cooperative work, a stronger secretariat may be important.<sup>5</sup> Commitments might better be made in organizations that are managing negotiating processes, WTO in particular, rather than making commitments in preferential trading arrangements, as is questioned above.

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<sup>5</sup> The debate continues on the role of the APEC Secretariat. See, for example, presentations to the APEC Study Centre Network Preliminary Conference, Melbourne, December 2006, available at <http://www.apec.org.au/event2.asp?event=40>.

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**Comment**

## HOW FAR SHOULD WE GO ‘BEHIND THE BORDERS’?

*By Evan Due*

As successive rounds of multilateral trade negotiations have eroded tariffs and quotas, “behind the border” institutional and regulatory practices have come into sharp focus. These practices – from barriers around intellectual property rights, competition, logistics and service sectors to technical barriers to trade, product, labour and environmental standards – are of major concern to international businesses embedded in regional and global production networks involving frequent cross-border transactions. As shown in this chapter, while traditional border barriers continue to be prominent in some countries in the “sensitive” sectors, there has been a perceptible and real shift to “inland” domestic policy, and regulatory and public sector constraints.

Findlay succinctly highlights significant trends such as the shift towards trade in services and related processes, the shift in the composition of non-tariff barriers (e.g., away from financial to technical and domestic regulatory barriers), and the consequent policy shifts pertaining to reforms in these areas. He also underlines the significant gains to be made from domestic reforms. On these points, there is no doubt. He then goes on to emphasize an important role for “international cooperation” in facilitating such reforms through capacity-building, bolstering commitments to change, and capturing spillovers in different countries. However, precisely what is meant by international cooperation is not fully captured, and the question as to “how far to go” (and how often), is left dangling. We should therefore go a bit further.

### **A. Balancing business and consumer interests**

There is growing evidence that policy measures at the border are of significantly less interest (and less concern) to business than those that regularly confront their various activities within borders. This is perhaps reflected in the importance that businesses place on the agreement on trade facilitation in the WTO July 2004 package. Conformity with standards and regulations, be they health and safety, environmental or commercial, is also an important domestic regulatory agenda where the interests of consumers are at play and which are unevenly represented. Confronting international businesses trying to reach consumers with services and products they desire, is the problem that different standards or specifications are often applied for the same end, resulting in huge transaction costs and uncertainty. In addition, while considerable multilateral efforts have, and are being made to encourage the adoption of internationally or mutually recognized standards, cooperation in those areas could go much further.

The political dimensions – what is seen by policymakers to be in the public interest (or worse, in their own interests) – are often not understood in the same vein, and lobbying groups have so far been weighted towards much narrower ends than the public good. In

many Asian countries, this is manifested in regulatory and administrative practices that continue to be excessive, redundant and restrictive, presenting major costs (and political risk) for international business. Much has been discussed in the literature on the costs and benefits, but less attention has, until recently, been given to the political economy of domestic reform, and to the specific institutional contexts in which the various incentives are embedded and structured.

While businesses operating in Asian countries are acutely aware of the costs they incur as a result of these barriers, they have perhaps been less organized than entrenched public sector interests or other competing domestic interests. Findlay proposes in this chapter that international cooperation might be an avenue for counteracting and reducing these barriers. While important in all the ways he mentions, the motivation and forms of such cooperation also need unpacking in order to see where international business and consumer interests intersect in policy debate. For example, chambers of commerce and other business associations as well as international non-governmental organizations (NGOs) such as the Consumer Unity Trust Society<sup>1</sup> can (and should) significantly assist international cooperation endeavours. At the same time, they and their agents might also be targets for what Findlay identifies as capacity-building, and building commitments. International agencies with particular interests in this area (e.g., ITC, UNCTAD and WTO) as well as research institutions in Asian countries are important players in building coalitions for advocacy.

Other actors are unions, consumer groups and domestic NGOs that, although often antithetical to international business interests, can be important allies in promoting policy reforms where they recognize positive spillovers. Thus, an important process of interaction between a government, the private sector, the research community and these other actors can be facilitated through public participation and by building coalitions of interest on specific points of balance.

## **B. Policy and practice**

A major “behind the border” barrier that international business articulates as one of the highest priorities in Asia is in the area of logistics and transportation (Duval, 2006). Modest improvements here can lead to exports worth billions of US dollars with significant positive spillover effects. This is especially so with landlocked countries where poor transportation infrastructure, coupled with weak institutions and poor coordination for trade facilitation (notably customs procedures), entail enormous costs and negative consequences for development. These conditions are evident in the countries of the Greater Mekong Subregion (GMS).

The huge investment outlays in the “economic corridors”, financed largely by assistance from ADB, are an attempt to build regional economic integration through improvements in transportation and logistics infrastructure. However, as studies have

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<sup>1</sup> See Consumer Unity Trust Society Institute for Regulation and Competition and its interest in promoting collective action at their research symposium in March 2007 on “Political economy constraints in regulatory regimes in developing countries”.

pointed out (Asian Development Bank Institute, 2006; ESCAP, 2006; Thailand Development Research Institute, 2007), international cooperation within Greater Mekong Subregion has been present in principle but less so in practice. Regional cooperation policies and expressions of good intent have not always permeated through to those who are tasked with implementation, resulting in confusion and continued rent-seeking behaviour.

For example, an important development in GMS market integration has been the “GMS Agreement for Facilitation of Cross-Border Transport of People and Goods” (CBTA). Although signed in 2000, a number of protocols have yet to be ratified. Implementation has been slow and many barriers continue to exist, although they are not identified or recognized by policymakers. The inexact implementation of CBTA revolves around a number of aspects, not least of which are political/institutional, and around which research and international cooperation along the lines indicated in this chapter are warranted. Studies of the economic effects of cross-border transport and logistics infrastructure in GMS demonstrate significant positive impacts for the region.

However, the lack of attention given to the institutional and public sector dimensions – the barriers to implementation that international businesses regularly confront (and pay for) – need to be better understood within their specific contexts. Corruption in public service along the logistics highway is a major concern, and research and capacity-building efforts for technical standardization (and harmonization with respect to specifications, charges etc.) would yield significant benefits. International cooperation could have an enormous impact through strong institutional arrangements embedded in agreements for facilitating trade and investment.

Another feature of increasing regional market integration has been the surge in cross-national production sharing, connected to global production networks. ASEAN and other regional groupings have placed much emphasis on promoting regional integration and supporting policies in order to encourage the building of these networks, reflecting the complementarity of trade profiles in the region. Establishments embedded in these networks have an important role, not only in addressing domestic policy reform but also in aiding their implementation, since they are on the front lines. Leading business representatives, such as Victor Fung (2005), have shown to be practical advocates for reforms and they need to be engaged. Regional cooperation involving the key establishments through subregional arrangements can be an option.

### **C. Contribution of international cooperation**

International cooperation is usually thought of in terms of governments, international agencies and international associations acting as the principal actors in addressing “behind the border” issues related to trade and investment. However, other important actors must more actively be engaged in this process, such as international businesses, NGOs and the research community. They are able to provide the principal actors with information on the true transaction costs and the incentive structures at play, and can aid in the three “Cs” – capacity-building, commitment and capture.



## **1. Capacity-building**

The importance of building capacity to design and implement domestic policy reform cannot be understated. Findlay cites studies including his own in order to demonstrate the need for this approach. However, there is a need to go further in defining the various avenues and modalities, and to go beyond what might be lumped into a TRTA model or other similar provisions of technical assistance. The case can be made for more inclusive policy reviews involving representatives from the business and research communities as well as for looking more closely at the institutions “behind the border” to see how, organizationally, they might be strengthened and restructured, in order to avoid the reproduction of incentive systems that capture rather than share the benefits of integration.

## **2. Commitments**

Commitments made in multilateral negotiations can support domestic reforms, provided the modalities exist for ensuring that there is domestic policy coherence (and not just within commerce), coordination and understanding. Some multilateral negotiations may not be able to achieve this alone, but may be assisted through bilateral and regional efforts that can be more encompassing of domestic political considerations (although this view may be questioned by Findlay). While it is clear that comprehensive reforms at the domestic level are needed, it is not certain that multilateral commitments alone will suffice, notwithstanding the important achievements made in China. Commitments made through other modalities may be important building blocks (rather than stumbling blocks) for coordinated efforts to facilitate reform, especially if coupled with capacity-building.

## **3. Capturing international spillovers**

The scope for capturing spillovers is broad, and the evidence of competition policy a good one. Context matters, as already pointed out; here, it is worth considering further how the application of policies in one jurisdiction might impinge on another, and how positive and negative spillovers can be appropriately managed. There is a need for more research in this area in order to understand better the political economic dimensions. Evidence can boost collective action by the right players so long as there is also effective coordination. Regional institutions may be best placed for this type of activity, especially where they are supported by research institutions and strong business associations.

## **Conclusion**

It is true that no one institution is capable of all things, given core competencies and comparative advantage. A “portfolio approach” is indeed valuable, especially where it can attract and capture the motivations of other key players in the policy process. Brief reference has been made to business associations and leading figures as well as NGOs and the research community. In addition, secretariats such as APEC or ASEAN might be appropriate nodal institutions at the regional level, should it be possible to build up their own institutional capacity for research, outreach and coordination.

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