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## Beyond Liberalization of Trade in Goods: Alternative Strategies for Regional Trade and Investment Facilitation

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Alternative Strategies for Regional Trade  
and Investment Facilitation

*Ponciano S. Intal Jr. and Christopher Findlay*

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# **Beyond Liberalisation of Trade in Goods: Alternative Strategies for Regional Trade and Investment Facilitation**

*Ponciano S. Intal, Jr.  
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## **Trade liberalisation: unfinished business**

One of the more important international trade policy developments in the world economy during the past decade has been the significant reduction of tariffs on trade in goods. Trade liberalisation was more pronounced among the developing countries, especially in East Asia. For example, the average tariff rate of Thailand declined from 40.8 percent in 1988 to 17 percent in 1996. Similarly, China's and Philippines' tariff rates decreased from 40.3 percent and 27.9 percent respectively in 1988 to 23 percent and 15.6 percent respectively in 1996. Among APEC's developed economy members, Australia made the largest tariff cut from 15.6 percent in 1988 to 6.1 percent in 1996. The unweighted average of tariff rates for the whole APEC region decreased from 15.4 percent in 1988 to 9.1 percent in 1996 (Pangestu, Findlay, Intal and Parker, 1996). The significant decline in tariffs in recent years stems largely from unilateral trade liberalisation measures.

Tariffs can be expected to decline in the future because of the implementation of Uruguay Round commitments, further unilateral trade liberalisation measures and trade liberalisation and tariff reduction programs under regional trading arrangements. For APEC member economies, the Bogor Declaration sets out the goal of free and open trade and investment in years 2010 and 2020 for developed and developing economy members respectively. The initial submissions of the individual action plans of the APEC member economies indicate tariff reduction programs that are on track toward a possible zero tariff target under the

Bogor goal of free trade. (APEC member economies have not clearly defined the operational meaning of the Bogor goal of free and open trade and investment in the region). Most noteworthy are the more aggressive tariff reduction programs of Chile, China, Indonesia and the Philippines.

Drawing from the APEC framework of "open regionalism", the Bogor goal of free trade is defined in nondiscriminatory MFN terms. This contrasts with the European Union or other free trade areas or customs unions, where tariffs are imposed on trade with non-members.

Despite the significant progress made by the member economies, trade liberalisation in goods in the APEC region is not finished: there remain significant challenges before the Bogor goal is attained. For example, there are substantial tariff peaks especially in industries like automotive and textiles/garments. The tariff peaks tend to be concentrated in either vulnerable or "pet or targeted" industries, reflecting the dynamic of political economy considerations in both trade and industrial policies of APEC member economies. Agriculture will pose a special problem because the historical experience is that agricultural protection increases with the industrialisation of economies. Moreover, the Northeast Asian experience indicates that where economic growth and structural change is particularly fast the demand for agricultural protection intensifies. Perhaps more than in any other sector, agricultural trade liberalisation would test severely the APEC members resolve to undertake trade liberalisation.

East Asian economies may still be able to maintain sufficient momentum from coordinated unilateral action to attract greater attention from and commitment by the United States (Elek, 1996). The prospects for a nondiscriminatory free trade regime including the United States are greater, however, if the European Union is also positively engaged in the process. The importance of this connection suggests the value of a new round of multilateral trade liberalisation program under the WTO.

The Bogor goal of free and open trade and investment provides a continuing reference point to constantly goad APEC member economies to

push further the liberalisation of trade in goods. Nevertheless, because APEC emphasises concerted but voluntary liberalisation process, each member economy would undertake liberalisation efforts only if it views that the benefits of liberalisation to itself are greater than the costs of such liberalisation. It is likely that as tariffs come closer and closer to zero, the benefits from further tariff reduction would decline significantly while the benefits from addressing other trade and investment barriers become more salient. Thus the importance of trade and investment facilitation measures increases. Indeed, it is likely that completing the unfinished agenda of liberalisation of trade in goods would require that attention should increasingly focus on going beyond liberalisation of trade in goods and into strengthening trade and investment facilitation measures. As we argue below, an extension of the scope of APEC into these areas could help deal with some of the tariff peaks and resistant sectors.

### **Trade and Investment Facilitation as a Complement to Trade Liberalisation**

International trade and investment can be significantly hampered by high cost of doing business, thereby hindering economic integration. For example, the "Costs of Non-Europe" Project (Cecchini, 1988, p.8) has pointed out the cost of red tape and delays in customs procedures for intra-European Community trade amount to about 2 percent of total transborder sales. Also, the respondents of the survey of 11,000 business as part of the "Costs of Non-Europe" project ranked divergences in technical regulations and standards within the EC as the second most important market barrier (after administrative barriers) that they faced. Similarly, differing government regulations primarily for prudential purposes as well as divergent fiscal regimes especially with respect to indirect taxes contributed to the segmentation of the European Community during the 1980s, contrary to the meaning of a common market. Reducing these

barriers effectively increases economic integration in the European Community, with the expected beneficial effects as follows (Cecchini, 1988, p.73):

- \* substantial reduction in costs,
- \* improved efficiency within firms,
- \* new patterns of competition between industries, and
- \* increased innovation.

Cecchini's team estimates that the benefits of increased market integration occasioned by the reduction of the various barriers to trade and investment in the EC would amount to about 5.3 percent of EC's gross domestic product

There is no comparable project in APEC. Hence, there are no estimates of the costs of barriers like customs procedures and divergences of technical regulations and standards in the region. Nevertheless, businessmen in the APEC have emphasised the problems of customs procedures and divergent standards and regulations as important barriers to intra APEC trade and investment (PBF, 1994).

Indications of the likely benefits from both trade liberalisation and trade and investment facilitation in APEC is provided by a recent study of Petri (1997). Petri incorporated microeconomic distinctions between foreign direct investment and domestic activities in terms of both demand and production characteristics into a computable general equilibrium model. He used his model to simulate APEC trade liberalisation with or without significant reductions in barriers to foreign direct investment. His initial estimates suggest that APEC gains from trade liberalisation without reducing investment barriers would be two-fifths less than the APEC gains from trade liberalisation and significant reduction in barriers to foreign direct investment. His results indicate that the major beneficiaries of trade and investment liberalisation are the NIEs, China and ASEAN 4 countries (Indonesia, Malaysia, Philippines, Thailand) because of their comparatively high initial trade barriers and their greater trade orientation.

The major loser would be the non-APEC world as FDI is redirected to APEC economies in view of the comparatively more congenial environment for foreign direct investments. Petri's paper shows that "...endogenous FDI tends to make policy more competitive; regions do not merely forego gains by not liberalizing, but can also lose by failing to keep up with liberalizing neighbors." (Petri, 1997, p.29).

The positive role of foreign direct investment in the process of economic restructuring arising from trade liberalisation is probably best exemplified by the recent experience of the successful ASEAN economies. In all of them FDI hastened and smoothed the adjustment towards greater export orientation. Thus, for example, the rise of the electronics export industry in the region is virtually the creation of multinational corporations. Foreign direct investments also played an important role in the development and export growth of even the more traditional industries like textiles and garments in Indonesia and Thailand. Clearly, without the infusion of capital and technology of foreign investors, the industrial adjustment toward a more open economy that trade liberalisation induces would have been more contentious as experienced in the Philippines during the 1980s and early 1990s.

Trade and investment facilitation enhances the benefits from trade liberalisation. For example, commercial presence of the provider in the country where the services are demanded is often a requirement for international transactions. Hence investment liberalisation and facilitation contributes to the liberalisation, and development, of the services sector. At the same time, it is now widely recognised that an efficient, competitive and innovative services sector, especially in the financial and transport subsectors has far a reaching positive impact on the whole economy, including the international competitiveness of a country's industrial sector. Thus complementary action to trade liberalisation via investment liberalisation or other facilitation measures can ease the adjustment of firms responding to trade liberalisation and thereby reduce the resistance

to liberalisation in all forms.

In sum, trade and investment facilitation is a valuable complement to trade liberalisation.. The challenge is to strengthen trade and investment facilitation measures as the trade liberalisation process continues. This is especially important for the APEC economies as they move towards the Bogor goal of free and open trade and investment.

### **Three Elements of a Framework Toward Strengthening Trade and Investment Facilitation**

Three elements help shape the framework that can be applied in strengthening trade and facilitation in the region and the world. The first element is to seek the complementarity of regional and multilateral initiatives. That is, regional facilitation and cooperation efforts are to be made consistent with, or build up from, or grow into, multilateral initiatives or disciplines. In this case, regional initiatives can be "multilateral plus" just as subregional initiatives can be "regional plus". By deepening and broadening the cooperation efforts on trade and investment facilitation as the membership of the "cooperation or integration club" narrows, the world is afforded alternative experiments and approaches that lead to further improvements, deepening or refinement of the multilateral disciplines. It is apparent that the complementarity of the regional and multilateral initiatives is strengthened if the regional initiatives are not inward looking or restrictive (i.e. raising barriers) to non-members but rather are conducive to expanding the number of subscribing or participating economies.

Snape (1996) stresses the importance of the membership rule as a test of openness of regional arrangements which apply to "deeper" forms of integration. He notes that regional arrangements may cover new measures not now covered by the GATT. Those parts of the agreements may not be inconsistent with GATT principles even if only sub-groups of



the signatories to the regional agreement take action of this type. But this is the case, he argues, as long as the other signatories to the regional agreement can join on the similar terms (p. 52). Snape argues that there is a precedent for this principle in the General Agreement on Trade in Services, Article VII of which applies to recognition of education achievements or other standards. It says that

“a Member may recognise the education or experience obtained, requirements met, or licenses or certifications granted in a particular country (through) harmonization or otherwise...A Member which is party so (such) an agreement shall afford adequate opportunity for other interested Members to negotiate their accession to such an agreement or arrangement (and a) Member shall not accord recognition in a manner which would constitute a means of discrimination between countries in the application of its standards or criteria .Recognition should be based on multilaterally agree criteria..”

Snape goes on to argue that it might be easier to extend these types of harmonisation arrangements on a piecemeal basis. This is because harmonisation leads to greater export opportunities at the same time as a greater chance of import penetration within the same industry. In other areas of liberalisation, there is greater resistance from the industry which fears more rapid import penetration and in that case a multi-sectoral approach is more valuable as a way of mobilising countervailing political support for liberalisation.

Snape does express some concern however about industry specific approaches to harmonisation. Other experience of such arrangements he argues runs a greater risk of regulatory capture by producer interests in that sector who might seek to use the standards adopted to protect themselves against competition from the rest of the world. Snape observes however that openness to new members of this harmonisation arrangement is also a safeguard against this happening

The second element of the framework is an "integrated approach" to trade and investment liberalisation and facilitation. Specifically, agreements on certain regional or multilateral disciplines may require a greater emphasis on cooperative efforts on building institutional capacities of member economies, especially developing economies, in implementing the spirit of the trade and investment facilitation or liberalisation agreements. For example, harmonization of standards and mutual recognition of certifications necessitate that participating economies have the laboratories and other facilities as well as appropriate skills to undertake credible certifications. This means that trade and investment facilitation initiatives would have to be interwoven with economic and technical cooperation initiatives among the participating economies. The same "integrated approach" can be invoked for trade liberalisation initiatives, especially for contentious sectors: in this case, liberalisation initiatives can be packaged with facilitation initiatives and economic and technical cooperation initiatives in order that the liberalisation efforts can be more ambitious in terms of pace and scope.<sup>1</sup> The element of "integrated approach" is consistent with the analysis on the "new regionalism" by de Melo, Panagariya and Rodrick (1992) that "...the most important potential dynamic benefit for developing regional integration schemes comes from economic cooperation in areas where significant externalities and public goods (education, research and development, infrastructure and environment) exist" (p.185).

Another element of the framework is the bias towards evolutionary change which builds confidence in the face of wide differences in levels of development and institutional capacities of countries. An example is the initiative of adopting nonbinding principles which in the future could be shaped into binding commitments, perhaps after an interim application of the principles in a well defined and narrow set of (agreed upon) sectors or

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<sup>1</sup> This idea was broached by Mr. Edsel Custodio, head of the Philippine delegation, during the first APEC Senior Officials Meeting for 1997 in Victoria, British Columbia.

activities. The issue is that the gradualism which is sometimes implied by evolutionary change can become an excuse for no action. It need not be a recipe for delay if there are agreed goals in terms of a target date. Its effect is instead to offer some flexibility in the trajectory by which members meet their commitments.

The three elements above underpin the details of the discussion on a number areas of trade and investment facilitation in the rest of the paper below.

## **Facilitating Cross Border Investment Flows**

The sterling growth performance of a number of APEC member economies during the past decade owes much to the sharp rise in the investment rate in these economies. Although the surge in investment has come from both domestic and foreign sources, foreign direct investment played a significant catalytic role in the investment surge in these economies especially in the ASEAN countries and China. Foreign direct investment has brought funds, technology, market linkage and organisational knowhow to the host economies. It is expected that foreign investment will continue to play an important toward maintaining the robust growth momentum in the region, especially in the developing APEC member economies. The World Bank, for example, estimates that the developing economies in the region needs about US\$1.5 trillion during the next decade just for infrastructure facilities to sustain their robust economic growth. In addition, of course, are the investment requirements for direct production activities.

The challenge of promoting cross border investment flows hangs heaviest on the developing member economies because they are, by definition, capital deficient economies. At the same time, it is in the developing economies that the benefits from investment liberalisation and facilitation are likely to be largest because they tend to have the more

distorted and inefficient investment regimes.

The survey of investment impediments in the APEC economies undertaken by the Pacific Economic Cooperation Council (PECC) distinguishes between investment four types of impediments to investment flows. These are:

1. administrative procedures
2. operational restrictions
3. incentives
4. market access and other standards of treatment.

The last of these includes rules on

- rights of establishment by foreign firms,
- whether once established foreign firms are treated in the same way as local firms - such as local content rules or export requirements (the latter is sometimes summarised under the label of national treatment although it seems simpler to include both market access and conditions of operation under that category) and
- the equal treatment of investors from all home economies (the mfn principle).

Adding the issues of incentives to this list could create a group of issues to be dealt with under the heading of liberalisation.

Administrative impediments include lack of transparency, perhaps exaggerated by the large number of governments involved at each level (even if there is a constant probability of rejection at each level of government and even if this risk is low, the overall risk of rejection rises rapidly with the number of levels of government involved). Another source of lack of transparency might be the use of a positive list approach to policy making rather than a negative list. Dealing with these matters could be summarised under the heading of facilitation, although they too could be classed as matters of national treatment (assuming the administrative processes are applied on an mfn basis).

The PECC report indicates that the developing member economies

tend to have greater foreign equity restrictions, more areas restricted to foreign investment, more performance requirements and less transparent rules and regulations (PECC, 1995a, Table 6.5). In the past decade or so, it has been the developing economy members which have increasingly opened up to foreign investment. The substantial increase in the level of investment flows into the developing member economies during the period indicates that foreign investors respond well to improvements in investment regimes.

There has been significant investment unilateral liberalisation and facilitation efforts of many member economies in recent years. The competition between them to attract foreign capital flows is a powerful force for reform. Unattractive regimes are more likely to be quickly revealed when aggregate dfi flows are growing rapidly. The costs of an inefficient investment policy regime are much more apparent, and made so much more rapidly, than are those of an inefficient trade policy regime.

Despite these pressures from the market place, there remains much scope for further improvement in the investment regime through a package of investment liberalisation, facilitation and technical cooperation. There is also a qualification to argument that market forces (reflected in dfi volumes, for instance) will signal the differences between efficient and inefficient regimes since inefficient investment policies can be offset by incentives or import protection. The PECC Impediments report reviews some reasons this investment policy reform might be done more effectively in a cooperative way rather than via unilateral action. Some of the arguments are that

- international rules lock in unilateral reforms and make reversals more difficult
- simultaneous action makes it easier to sell reform at home, and to mobilise sectors interested in outward investment to counteract pressure to retain restrictions in sensitive sectors
- rules limit the extent to which governments can compete, and can all

end up losing, in the investment incentives “game”

- rent seeking behaviour by “policy shopping” investors, and the scope for bureaucratic discretion, is diminished by uniform rules.

Some more specific issues in the APEC process include the following.

First and foremost is the need to define clearly and refine the concept of an open investment regime that is enshrined in the Bogor Declaration. A clear target shapes the action program that needs to be undertaken in the interim to achieve the Bogor goal by the years 2010 and 2020 for the developed and developing member economies in the APEC. The PECC’s categorisation is a starting point in this search for a definition.

One operational example of a clear target for the APEC is also suggested by the case of the European Union; that is, virtually free flow of capital within the region. However, the EU aims for a virtually integrated market within but with barriers to investment from the outside. APEC, in contrast, is a looser form of economic integration than the EU without the particular political objectives that underpinned the economic integration program in the European Community. One way of characterising the challenge for APEC is to say it has to define how far to deviate from the EU model, for example, in terms of the right of establishment, while maintaining its adoption of the nondiscriminatory MFN principle. In the process, APEC would decide which impediment to investment flows need to be eliminated or modified over a specific time frame

The APEC Nonbinding Investment Principles endorsed by the APEC Ministers in 1994 is a solid and substantial building block for an APEC collective action plan towards an open investment regime. The principles have contributed to confidence building and consultation among the APEC members toward further reform in their investment policies and regulatory practices. The Principles, however, include contentious issues that were deliberately weakly formulated or altogether omitted (Bora and

Graham, 1996) in order to bring on board all the APEC members which have widely varying investment regimes. Thus, the second important area for improvement in the investment policy regime in the region is the further refinement, definition and strengthening of the Non-binding Principles. There is scope for improvement in the following ways:

- \* set the target limit to exceptions to and exclusions from the right of establishment
- \* agree on limits to the coverage and form of subsidies and incentives
- \* agree on a target of complete repatriation and convertibility of investments by a certain date
- agree to end performance requirements by a certain date
- \* include a standstill and roll back provision

These refinements and improvements would likely put more teeth to the Non-binding Principles and improve the predictability and transparency of the investment policy regime in the region. Because the APEC Non-binding Principles include a strong statement for a nondiscriminatory MFN provision, the APEC principles would also be a possible prototype for a multilateral agreement under the World Trade Organization. (WTO).

Subregional arrangements like the NAFTA, CER and ASEAN can provide the mechanism for proactive programmes for deepening and broadening further the investment liberalisation and facilitation process through more ambitious time schedules for the implementation of investment liberalisation measures, deeper economic integration objectives, and closer technical cooperation in institution capacity building on investment promotion and regulation. The success of such proactive programmes at the subregional level makes it easier to encourage all members of regional arrangements to sign on to a stronger set of Investment Principles.

The papers by the ASEAN Working Group on Investment Cooperation and Promotion and by the ASEAN heads of investment

agencies on realising an ASEAN Investment Area (AIA) are instructive of possible mode of strengthening the investment and facilitation process in the APEC region (ASEAN Secretariat, 1996). These include:

- \* The AIA aims at enhancing ASEAN's attractiveness as an investment area from both ASEAN and non-ASEAN investors by ensuring a more liberal and transparent investment regime.
- \* All industries of the economy, with limited exceptions, would be open to foreign investment. The exceptions, to be kept to a minimum, are for reasons of national security, protection of public morals and the protection of articles of artistic, historic and archaeological value.

Following the mode of liberalisation in the ASEAN Free Trade Area (AFTA), economic activities are categorised into fast track, normal track, temporary exclusion list and general exception list. Within each list, investment impediments will be progressively phased out according to varying timetables. Fast track activities are areas where investment liberalisation and facilitation programmes are accelerated compared to normal track activities. General exception list are areas that will not be included in the ASEAN Investment Area.

Formulate a Framework Agreement on the ASEAN Investment Area which stipulates, among others, the start and completion dates for the realisation of the AIA as well as the indication of activities and industries that will be liberalised in which specific time frame according to the respective tracks and lists.

The APEC Business Advisory Council (ABAC) proposes a similar but less comprehensive approach to investment liberalisation and facilitation than the proposed ASEAN approach of categorising activities into tracks and lists. Specifically, ABAC proposes the identification of demonstration projects called APEC Voluntary Investment Projects (AVIP) which are accorded strong investment protection in terms especially of national treatment, MFN treatment, access to domestic markets and resources, capital mobility, mobility of senior management,



elimination of performance requirements, freedom from expropriation and adherence to international arbitration (ABAC, 1996, pp. 16-18). These are standards above and beyond those in the Non-Binding Principles. As demonstration projects, the AVIPs, it is argued, would show the benefits to the host economies from strong investment protection through positive investment response and lower financing costs. However the AVIP strategy has been strongly criticised by Bora and Graham (1997). They argue that its effect is to add another layer of discrimination into the policy mix, since it permits governments to discriminate not only among investors but also among projects. A preferable strategy would be to find a path for strengthening the application of the Principles across all projects without deviating along the way into further discrimination.

The current APEC Non binding Investment Principles have been criticised for being weak and nonbinding (see e.g., Lloyd, 1996; Messing, 1996). It is apparent however that enforceable legal investment codes enshrining liberalised investment rules at the regional level is an ultimate goal. The approach could either be through a progressive process of refinement, clarification and ever widening bindings on the various elements of the APEC investment principles. A complementary approach is through the possible accession of more and more of the APEC member economies into the OECD. This means that they will be subject to the legally binding Codes of Liberalisation of Capital Movements and of Current Invisible Operations and will have to sign on to the 1976 Declaration and Decisions on International Investment and Multinational Enterprises that include the National Treatment Instrument. The Codes and National Treatment Instrument are underpinned by two fundamental principles; i.e. right of establishment and national treatment (Houde, 1995). This is a feasible route. Among the APEC developing economy members, Mexico and Korea are already members of OECD while Malaysia, Thailand, Singapore, the Philippines and Chile are OECD's "dynamic partners" and therefore are future candidates for OECD

membership. (Indonesia should have been an OECD "dynamic partner" also but for the strong objection for political-diplomatic reason related to the East Timor issue.

Joint investment facilitation and technical cooperation activities contribute to improving the policy and institutional environment for investment liberalisation. Among the facilitation initiatives being undertaken or proposed include the holding of continuing dialogues and symposia with the business sector on investment issues, establishment of "one stop" investment shops based on the best regional practice, continuing exchange on innovations on investment facilitation and regulatory reform such as the build-operate-transfer models, joint publication of "investment guides", and regular monitoring of the progress on investment liberalisation, facilitation and technical cooperation. (See e.g., ABAC 1996; APEC 1996; Pangestu, et al. 1996)

## **Customs Procedures and Rules of Origin**

### *Customs procedures*

Paperwork, administrative transactions and delays in customs procedures contribute to significant cost of doing business internationally. The "Cost of NonEurope" Project conducted one of the most detailed estimation of the direct and indirect cost of customs procedures. The direct cost included the internal administrative costs of exporting and importing firms, external costs of exporters and importers associated with customs clearance (e.g., customs agents), costs of delays in terms of inventory and transport costs, and the cost of government personnel and material needed to man customs posts and associated services. The indirect cost arise from lesser competition on the domestic economy from foreign suppliers in view of the customs impediments. The estimates of the direct costs indicate that direct administrative costs account for about

1.5 percent of total Intra-European Community trade during the latter 1980s while the grand total of direct customs-related costs (i.e. administrative expenses, delays and costs of government personnel and material) reached about 1.9 percent of total intra-EC trade. (See Emerson, et al. 1988; Cecchini 1988.

It is likely that the costs of customs procedures are higher in the developing countries because of the tariffs, nontariff barriers and other rules and regulations in addition to general inefficiency of customs agencies in these countries. One estimate by de Rivera in the Asia Computer Weekly suggest that the cost of paperwork amount to 7 percent of the value of a product; another estimate by Price and Waterhouse/J. Cunanan suggests US \$110 as the average cost of processing export documents (EDC, n.d.). The APEC Business Advisory Council highlighted what it takes to complete an average international trade transaction at present: i.e. 27-30 different parties, 40 documents, 200 data elements (30 of which are repeated at least 30 times) and re-keying of 60-70 percent of the data at least once (ABAC, 1996, p.13). It is not surprising therefore that the APEC businessmen have emphasised the importance of streamlining customs procedures as an important trade facilitation measure on which APEC member economies should focus. Recognising the importance of reducing the cost of customs procedures, the APEC member economies intend to "...move to a paperless system, and to operate simplified, harmonised, efficient and transparent customs rules and procedures throughout the region" (APEC 1996 Vol. 1, p.17). The specific courses of action as agreed upon in the Manila Action Plan for APEC include the following:

- \* harmonise tariff nomenclature up to at least the 6-digit level by adopting the 1996 version of the WCO harmonised system;
- \* by 1998, accession to or simplification on the basis of the Kyoto Convention on simplification and harmonization of customs procedures,

- \* by 2000, adoption of the WTO Agreement on Customs Valuation principles
- \* by 1999, implement the UN/EDIFACT to automate customs clearance system
- \* by 1998, publish information on administrative guidelines, procedures and rulings in addition to customs laws and regulations. Related to this is the ongoing program of providing database on tariffs and later on nontariff barriers to the public through the Internet, and other information media.
- \* by 2000, introduce clear appeal provisions.

Technology and skills play an important role in the implementation of the streamlined, transparent, paperless customs procedures. Specifically, it relies on electronic data interchange that allows direct computer to computer exchange of standard documents among the exporters/importers, banks, customs, government agencies and brokers/forwarders. Extensive use of electronic data interchange demands simplification of procedures in the relevant government agencies and customs, improves administrative efficiencies resulting faster processing, enhances transparency of operations, allows better planning for production schedules and export shipments and deliveries of firms, allows access to relevant information from concerned government agencies and the customs, reduces clerical errors and the cost of messenger/courier services, and other costs like delays.

An intensive use of EDI necessitates acquiring or updating skills in the relevant government agencies, especially in the developing countries. Technical cooperation arrangements on skills development would help in hastening the implementation of the streamlined customs procedures. Of course, minimisation of licensing requirements from, as well as simplification of procedures in, government regulatory agencies would be needed to really benefit from the streamlining of customs procedures through an extensive use of electronic data interchange. Thus,

simplification of customs procedures also needs the parallel efforts at minimising nontariff barriers.

### *Rules of origin*

Related to customs procedures is the issue of rules of origin in preferential trading arrangements. The APEC region has a number of subregional free trade arrangements including NAFTA, ANZERTA, ASEAN, and Mercosur. Taking into consideration the various rules of origin governing regional, preferential and nonpreferential trading arrangements among the APEC members, Stephenson (1996) estimates that there are nearly 60 different sets of rules of origin when adjustment is made for the members of the same groupings. This is a complex web of rules of origin, with the attendant potentially high administrative and economic costs on the region's firms and economies. Administrative costs bear on both the firms and the government. There are no estimates of the administrative costs of rules of origin in the APEC. However, drawing from the median estimate of the cost of customs and paperwork for European Free Trade Area (EFTA) firms in their trade with the European Community in the 1980s, which is 3 percent of the value of finished products, Stephenson (1996) estimates that the cost of administering the rules of origin in preferential trading arrangements in the APEC could be about US\$70 billion in 1995.

It may be noted that precisely because of the high transactions cost of meeting the requirements for a preferential tariff, a large percentage of export firms do not use the preferential tariffs. In the case of EFTA exporters, about 25 percent did not use the tariff preferences with the European Community (Stephenson, 1996. p.9, footnote 9). The historical experience in the ASEAN during the 1980s and early 1990s indicates an extremely low avilment rate of the ASEAN Preferential Trade Arrangement suggesting that the benefits from the ASEAN PTA were not

commensurate to the high administrative costs of meeting the rules of origin requirements.

The efficiency costs of restrictive rules of origin can also be significant and, perhaps more important, insidious. This is because restrictive rules of origin can become a means for industrial policy concerns, thereby becoming an instrument for industrial protection. For EFTA, the total administrative and efficiency costs of restrictive rules of origin ranged between 3 percent and 5 percent of the total value of the traded products (Stephenson, 1996, p.9).

Given the potentially high cost of rules of origin, the challenge is in simplifying the rule of origin requirement either by narrowing the category required for the transformation under the "change of heading requirement" or a lower regional content requirement under the "value added approach, or fewer stages needed to qualify as an originating product under the "specific process" approach. An even simpler rule is that where the difference between the preferential tariff and the nonpreferential MFN tariff is small (say, 2 percentage points), the preferential rules of origin are waived in favour of the nonpreferential rules of origin (Stephenson, 1996). This significantly reduces the administrative and efficiency costs of rules of origin because WTO members including the APEC member economies are in the process of harmonising nonpreferential rules of origin under the WTO and the WCO.

It is likely that the problem related to preferential rules of origin are transitory. As the MFN rates decline because of unilateral liberalisation as well as WTO -linked tariff reductions, the benefit and value of the preferential tariff privilege under a preferential trade arrangement erodes progressively. In the process, preferential trade declines in importance and in the end possibly erodes away. Then the administrative and efficiency costs of restrictive rules of origin would die away.

## **Technical Regulations, Standards and Conformance**

The experience of the European Community shows that despite the elimination of tariffs, a bewildering array of standards and technical regulations can contribute to a segmentation of the common market and to the cost of international trading. Where such standards or technical regulations are primarily national standards and are rather idiosyncratic (e.g., Italian pasta, German beer purity law), they force firms to aim for national markets rather than international or regional markets, which for industries with potential for economies of scale result in higher price to consumers. The Cecchini team has shown that standards and technical regulations have a pervasive impact on many of the manufacturing sectors in Europe that they surveyed; in addition, survey respondents among the European businessmen picked standards and technical regulations as among the more important barriers to a unified market especially in the more technology-intensive industries. (See Cecchini, 1988; Emerson, et al., 1988.)

APEC businessmen and governments have also acknowledged the role of technical regulations and standards as a potential market barrier to greater economic interchange and integration in the region. ABAC has proposed the alignment of each member economy's standards in priority sectors with international standards by 1998, the adoption of mutual recognition agreements in the priority areas by 1998 and the establishment of an internationally recognised Testing Authority (ABAC, 1996, p.13). The collective action plan of the APEC member economies on standards and conformance is broadly similar to the recommendations of the APEC businessmen; i.e., alignment of national with international standards, mutual recognition in the voluntary and regulated sectors, technical infrastructure development and transparency of activity (Boxall, 1996). The approach used by the APEC follows the "new approach" used by the European Union, rather than the EU's "old approach" (which emphasised

excessive harmonization) ( see Pelkmans, 1989)

The decision of APEC to align national standards with international standards instead of creating APEC standards is noteworthy because it indicates the outward orientation of the APEC member economies and the consistency with the open regionalism framework of APEC. Thus, standards are not being used as a potential trade barrier between APEC economies and the rest of the world. The alignment of national standards with international standards is also worth noting in that it marks the "maturation" of international standardisation bodies because these bodies, primarily the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC) were established principally to bring together and harmonise existing national standards whereas today they are increasingly used as basis for regional and national standards (Quinn, 1996).

Standards cannot likely be uniform internationally because of unique circumstances of each country requiring country-specific standards for safety, health, etc. reasons. For example, countries which sit on the earth's earthquake belt will likely different standards for construction materials and building codes than countries far from the earthquake belt. Precisely because of this country-specificity of standards and technical regulations in certain areas, standards and regulations can potentially be used for industrial protection purposes. Nevertheless, the WTO TBT and SPSS Agreements provide a good countercheck to the potential abuse of standards and technical regulations for industrial protection.

Mutual recognition arrangements are an important component of the standards and conformance strategy in order to prevent the high cost of multiple testing which would effectively exact a heavy burden on exporters. However, MRAs can be implemented only if there is a credible technical infrastructure for conformity assessment. Conformity assessment consists of inspection and laboratory testing and calibration, product certification, and quality management systems certification. The



building blocks of the technical infrastructure consist of national standards for physical measurement, accredited calibration laboratories, a network of accredited testing laboratories, documentary standards, and legal metrology (Boxall, 1996). Thus, ultimately, implementing the action plan for standards and conformance in APEC involves investing in the development of the technical infrastructure and a demand for human skills for conformity assessment. It is apparent that the challenge is greatest for the developing countries because of their inadequate technical infrastructure and relatively scarce skilled labour. Technical cooperation in the area of standards and conformance can partly address the problems facing the developing countries. Given the limited resources of the developing countries, the proposal of the ABAC for focusing standards and conformance activities and investments in APEC to priority sectors is sensible.

## **Conclusion**

We have argued for the complementarity of regional trade and investment facilitation and the liberalisation of trade in goods. The gains from the latter will be greater and meet with less resistance in the presence of the former. And the liberalisation of trade in goods, including a commitment to avoid backsliding on commitments to free trade, focuses attention on other barriers to international commerce, especially those which might otherwise constrain the adjustment strategies of the business sector as it responds to reform.

Within the APEC region we have argued for the application of a number of principles in the facilitation program. These include the importance of maintaining its consistency with multilateral initiatives, and the value of an integrated approach to liberalisation, facilitation and economic and technical cooperation. A third principle is the advantage of choosing a well defined target but permitting flexibility in the choice of

path of reaching that target, also subject to the understanding that comparable efforts are required if there is to be substantial overall progress. The extra gains from cooperative action over unilateral action were also noted.

We then illustrated the application of these ideas to investment liberalisation and facilitation, to reform of customs systems, to changing rules of origin and to standard setting. A theme of these remarks has been the importance of adopting procedures which avoid discriminatory outcomes. This can be achieved in a number of ways. In some cases, it involves aligning APEC initiatives with global rules, systems or standards. In others it involves the application of a membership rule which permits newcomers to join on the same terms as establishment members of the “liberalisation and facilitation club”.

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