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Infrastructure for Regional Co-operation

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# Infrastructure for Regional Co-operation

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# Regional co-operation

- ‘New Regionalism’
- Preferential trade and investment agreements
- Aim to strengthen structural reform and aid international competitiveness
- Stimulate ‘inclusive growth’

# ADB Mechanisms

- Formal agreements (FTAs)
- Monetary co-operation (currency swaps, exchange rate co-ordination)
- Regional public goods ( health and environmental protection)
- Co-operation in infrastructure (projects and processes)

# How can infrastructure help?

- Infrastructure and growth
- ‘Hard’ infrastructure – ports, roads, power plants etc
- ‘Soft’ infrastructure – laws, regulations, social networks, governance
- Econometric evidence both hard infrastructure and institutions positively correlated with growth

# Infrastructure and trade

- Trade cost – ‘all costs of getting a good to final user other than marginal cost of producing the good itself’
- Cross-border trade costs
- Barriers trade – ‘non-policy induced protection’
- Lower return to exportables, but raise it for import substitutes

# Trade cost and infrastructure

- Transport cost (ports, roads, rail, air links)
- Freight insurance (insurance regulation)
- Custom delays (harmonization of procedures)
- Unofficial payments (governance reform)
- Time in transit (ports, roads, rail, air links)

# Trade cost and infrastructure

- Information search (Investment climate)
- Management of supply chain (Investment climate, telecoms, power)
- Excess inventories (ports, roads, rail, air links, customs procedures)
- Currency changes (financial sector regulation)

# Effective Rate of Protection

- Impact on value added due to
- Policy protection (tariffs and quotas)
- Trade cost protection through transport costs
- Trade cost protection through other trade costs
- Trade cost protection may now outweigh policy protection (eg 74% versus 5% for developed countries)

# Are barriers significant for Asia?

- Strong growth of intra-regional trade
- But hypothesis that trade cost still pose a significant barrier
- Earlier studies on tariff reform suggest that trade responds strongly to reductions in policy-induced protection
- ‘Trade intensity’ within region well above 1.0 but once allowance is made for distance a significant number (40%) of bilateral trade flows less than expected (Ng and Yeats 2003)

# Are barriers significant for Asia?

- Gravity models usually find a proxy for trade cost is a significant factor in explaining trade flows
- Whilst nominal tariffs may not be
- Likely to reduce incentive to invest in regional infrastructure projects – investment climate surveys
- Potentially rich empirical field