

Chapter 3

Assessing Trade Friendliness of Logistics Services in ASEAN

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EXECUTIVE SUMMARY

Free trade agreements have been employed, either unilaterally or as a bloc, as an instrument to overcome the inefficiencies in trade brought about by the prevailing barriers and regulatory measures. During their 10th Summit, the leaders of ASEAN agreed to integrate their priority sectors with a vision to developing an ASEAN economic community whereby there would be a free flow of goods, services, investment and a freer flow of capital, equitable economic development, and reduced poverty and socio-economic disparities. This market would have no price discrimination for commodities and against foreign goods, services, capital, and labor. The aim of this chapter is to assess the current state of the cross-border trade in logistics services among ASEAN. The extent of the ease of cross-border trade is measured in terms of trade friendliness. The trade friendliness is a measure of the openness of ASEAN towards conducting free cross-border trade.

DOI: 10.4018/978-1-4666-0065-2.ch003

1. INTRODUCTION

According to Wilson et al. (2003, p. 369), trade openness or friendliness addresses “*the logistics of moving goods through ports or more efficiently moving customs documentation associated with cross-border trade*”. We will use the terms openness and friendliness interchangeably given the current climate to move and measure trade between nations in as liberal and as simplified as possible. In a broader sense, trade friendliness includes the transparency and professionalism of the customs and regulatory environments, as well as the harmonization of trade standards, and the conformance to international or regional regulations. In other words, trade friendliness is a measure of free trade between two or more nations. Trade friendliness is inhibited when nations attempt to protect their markets by imposing quotas and tariffs. Trade friendliness is also inhibited when nations implement policies that discriminate between indigenous firms and foreign firms. Other factors that inhibit trade friendliness include the higher transportation costs and increased administrative costs associated with, for example, product and distribution approval in offshore markets. However, a number of countries are realizing the inefficiencies (particularly in terms of the cost and time incurred) that are brought about by the lack of trade friendliness. Therefore, a number of countries have committed to multi-lateral or bilateral trade agreements to remove the barriers to free trade. A case in point is that of the European Union where the member nations have come together to collectively develop a free trade zone. In short, trade friendliness is akin to the commercial characteristic of being open and willing to be accommodating where trade flows are concerned.

The formation of a free trade zone entails the removal of tariff and non-tariff barriers as well as several measures adopted at the country level that leads to inefficiencies in free trade between two countries (Lloyd & Smith, 2004). These barriers may exist in different sectors both manufacturing (e.g., electronics, apparel) and services (e.g., logistics, banking). To improve trade friendliness, these sectors need to be individually addressed. In the case of logistics services, free trade is inhibited mainly due to the regulatory and non-regulatory barriers that exist across the nations at the borders and not so much due to tariff and non-tariff barriers (CIES, 2006).

Following the example of the European Union, ASEAN is also attempting to form such a free trade zone¹. The decision to develop a free trade zone in ASEAN was taken unanimously by the leaders of member nations during the 10th ASEAN summit. The logistics sector was added later in the 37th ASEAN economic ministers meeting in Vientiane, Lao PDR in September 2005. The objective of free trade among ASEAN is to develop an ASEAN economic community by 2015 whereby

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