

EXECUTIVE SUMMARY

Non-Tariff Barriers to Trade in the APEC Region: When Non-Tariff Measures Become Non-Tariff Barriers Insights from Agriculture and Accounting

This report offers a detailed analysis of the problem of “behind-the-border” non-tariff barriers (NTBs) to trade within the APEC region. It examines in detail problems of NTBs within the agricultural and accounting sectors.

Non-tariff barriers remain as real, intractable frictions to cross-border trade. Concerted efforts have been made to reduce tariffs via free-trade agreements. Suominen, at IADB, estimates that within five years 90 percent of tariff lines will be freed, and within ten years, 95 percent will be freed. However, and in spite of collaborative efforts to facilitate trade across borders, levels of cross-border commerce have not reached expected levels. Major contributing culprits are the economic-specific non-tariff measures that, because of divergence, incompatibility, inconsistency, and inefficiency in implementation, have become NTBs.

Our research included the following:

- Constructing comprehensive catalogs of agricultural trade and financial accounting policies for all APEC economies
- Conducting a comparative analysis of each economy’s policies against existing or proposed global standards (CODEX, OIE, and IPPC for Agriculture and IFRS for Financial Accounting)
- In depth interviews (in-person and telephone interviews) with 126 key executives and industry specialists in 17 APEC economies with deep knowledge of NTB problems in the agricultural or accounting sectors
- Surveying published sources for recent and relative research on non-tariff barriers to trade
- Developing two detailed case studies on Agriculture and Accounting Services

Key Findings

While some non-tariff measures (NTMs) are “born” as intentional restrictive and protectionist NTBs, most are not. Viewing the NTB problem as solely one of eliminating restrictive and protectionist NTBs potentially deflects attention and energy away from other less intractable and potentially more important NTBs. Divergent and incompatible NTMs across economies, and inefficient, inconsistent, and bureaucratic implementation at borders increase transaction costs to the point where they become NTBs to trade. Reducing or eliminating these NTBs would have major benefits to businesses.

The absence of commonly agreed upon standards for the development of NTMs has resulted in a world where “plus and different” is the norm. The consequence of every economy selectively adopting, or modifying global guidelines, and/or developing their own standards, has created a business environment with unintentional and unnecessary but substantially increased transaction costs for businesses wishing to engage in cross border commerce.

For developing economies the key NTB challenges were found be related to the gap between a rapidly growing demand for efficient border clearance and the capacity and capabilities to do so. Business reported costly delays, inconsistencies, inefficiencies, and corruption due to a lack of physical infrastructure and institutional capacity and untrained officials as being a major concern in developing economies.

In developed economies the finger was pointed at bureaucratic and legacy problems as being the major source of NTBs. Developed economies are accused of lacking a sense of urgency to change, to adopt new protocols, and/or to share and collaborate with other economies on developing region-wide standards. Special and vested interests have led to policies and procedures being retained long past their usefulness.

Important emerging issues, unless tackled early and in a collaborative way, will only serve to compound the existing NTB problem with new, and increasingly complex NTBs. Within agriculture, for example, issues around food-miles/carbon-foot print, intellectual property protection, genetically-modified foods, and food for energy subsidies, will likely lead to new NTBs. Business executives want trade officials to “get ahead of the game” and develop equitable, transparent, consistent rules and requirements for all economies.

Much can be learned from Accounting’s success in creating IFRS as a global standard. By documenting and sharing the successes, failures, and roadblocks met, general insights can be gleaned on how to develop similar global standards in other economic sectors.

Case Studies

Agriculture represents one of the most restrictive and protected economic sectors and is replete with all imaginable forms of NTBs. Deep national differences have worked against the emergence of global (or regional) standards that would enhance cross-border trade. The agricultural sector also lags all other economic sectors in terms of tariff reductions. Moving economies to adopt similar agricultural inspection, testing, and treatment standards, and basing them on science as opposed to local economic interests, would do much to facilitate trade, lower costs, and improve the quality and integrity of the world's food supply. Beyond restrictive and protectionist NTBs, our research identified unintentional yet still costly NTBs stemming from inaccessibility of required standards, and inconsistent, inefficient, and bureaucratic implementation at borders.

Accounting represents a very different case study. Differences in domestic GAAP requirements raise the costs of companies doing business in multiple economies, and as a consequence, introduce a friction to the movement of capital across borders. Costs of continually restating quarterly financial statements are real and can be quite large. In contrast to the agricultural sector, the accounting profession has moved aggressively toward the adoption of a global standard, IFRS (International Financial Reporting Standards). If universally adopted, IFRS would eliminate the need for costly restatement of financial reports, and would make financial reports across economies closely comparable. However, within APEC, the rate of adoption has been varied, and some economies are moving toward selective adoption of various provisions. The larger APEC economies tend to be more recalcitrant.

Our accounting case study is not only potentially interesting in its own right, but is also illustrative of the more general problems that APEC will encounter when attempting to develop, adopt, and implement region-wide standards in other economic sectors.

Applying Lessons Learned from Accounting for Agriculture.

In large part, the Accounting profession's success in accomplishing convergence towards IFRS as a global standard is due to:

- clearly outlined benefits (lower cost of capital, increased investor confidence, lower transactional costs) for economies and companies in an increasingly globalizing business environment
- the presence of an independent standard-setting board (IASB) overseen by geographically and professionally diverse body of trustees, transparency in the rule setting and approval process
- broad and principle based standards (IFRS) that are widely acceptable and applicable
- co-ordination and support from securities regulators and international accountancy firms across economies adopting IFRS

Generalizing from Accounting to Agriculture leads to a number of suggestions: (1) **Creation of a standards body** – a centralized body that sets universally agreed upon standards applicable to the transfer of agricultural goods and commodities; (2) **Transparency** – higher level of transparency to disclose all possible regulations, non-tariff barriers and the potential costs involved for importers and exporters in APEC economies; and (3) **Clearly outlined benefits** – commission research to elucidate the benefits resulting from eliminating non-tariff barriers to trade in the agricultural sector.

Roadblocks to adoption should be anticipated. This includes recognizing that both large and small economies lack incentives to adopt common standards. Large economies have already heavily invested in sophisticated standards, and have a large amount of institutional inertia. Small economies find that the cost of change is greater than the perceived benefit. Selective adoption and/or modification of standards is no different than having divergent standards. Implementation lags can be alleviated through better accessibility (simultaneous release in multiple languages) and improved supporting infrastructure. While it is not always possible or practical to adopt all standards at once, starting with simpler standards has a positive effect. As more economies converge, it increases the incentive for lagging economies to converge because of increasing network effects.

Implications for the APEC Region

- Focus energy and attention on unintentional and unnecessary NTBs. They are less intractable and will significantly lower transaction costs.
- Harmonization and standardization of NTMs is a must. Model measures should be created for SPS and technical requirements. RTAs and FTAs should include significant sections on agreements to standardize NTMs.
- Collaboration and sharing across economies is crucial. Conferences must be convened to facilitate the sharing of science, inspection, testing, and treatment protocols, best practices in port administration and customs clearance, and IT and software solutions.
- Ongoing education and training for all border representatives is the number one plea from businesses in APEC.