Under the Radar
international regulatory cooperation in ASEAN and New Zealand

Abstract
International regulatory cooperation (IRC) refers to a diverse range of ways government regulators from different countries work together on developing and enforcing regulations. It has grown rapidly over the last 40 years, but it is little understood because much of it occurs beneath the radar. New research shows that ASEAN countries, along with the New Zealand government, are deeply imbedded in a complex web of international regulatory cooperation arrangements and agreements.

Among ASEAN countries these groupings are predominately multilateral, bilateral and regional. In New Zealand, bilateral agreements with Australia predominate. Much of this cooperation occurs outside formal free trade agreements and the World Trade Organization’s Technical Barriers to Trade regime. Instead, regulators often work directly with their foreign counterparts through informal networks.

The economic and technological drivers of the growth in international regulatory cooperation will persist in the post-Covid-19 era, providing continued impetus. For example, the need to manage international spillovers will increase the need for cooperation on regulatory policy design and enforcement and other regulatory practices to ensure that domestic regimes remain effective.

The experience of Covid-19 has underlined the value of cooperative activities between states, such as information gathering and exchange. Dealing effectively with three of the principal issues currently confronting public policymakers – pandemics, climate change and effective governance of the digital environment – requires extensive international cooperation.

Keywords international regulatory cooperation, regulatory harmonisation, mutual recognition agreements, networks

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Interconnected government through international regulatory cooperation in ASEAN+1

Growing international cooperation on regulation

The last 40 years have seen rapid growth in international cooperation as governments increasingly work together. Cooperation among regulators is of long standing: regulators have been working across jurisdictional boundaries for well over a century. The International Telecommunication Union was established, as the International Telegraph Union, in 1865, just 21 years after Samuel Morse transmitted the first electronic message and before the first patents for telephones were filed. What is new is the extent and intensity of this cooperation.

While treaty-level agreements are formally recorded by governments, a lot of the ‘below the radar’ activity through international networks of regulators is not. Figure 1 draws on the OECD data set to show that, while international regulatory cooperation is not new, IRC networks have grown rapidly in recent decades. Europe dominates the regional networks, with 40 bodies operating in the EU. ‘Asia’, ‘Asian’ and ‘Asia Pacific’ appear in the name of just ten regional networks in the OECD data set.

This growth has led to the proposition that what is emerging in international relations is a new style of global governance (see Slaughter, 2004). Rather than traditional intergovernmental, state-to-state relationships mediated through formal treaties, international organisations and foreign affairs ministries, regulatory cooperation often occurs under the radar in more informal networks. What is striking about these ‘trans-governmental’ network arrangements is that they are less visible than more traditional intergovernmental relationships or supranational agreements. Anne-Marie Slaughter has suggested that regulators are becoming the ‘new diplomats’, ‘on the front lines of issues that were once the exclusive preserve of domestic policy, but that now cannot be resolved by national authorities alone’ (ibid., p.63).

Regulation, used here in the broad sense of the verb ‘to regulate’, means the use of legal instruments – primary laws, secondary rules, tertiary guidance and codes – to give effect to a government policy intervention. This article focuses on cooperation between central government regulators. In addition, international cooperation also occurs with subnational government bodies, private standard setters (such as GSI and ISO) and private self-regulators.

Countries in East Asia have a history of actively engaging in international regulatory cooperation of various types. A new publication (Gill, 2020a) reports key findings from case studies, interviews, and a survey of key decision makers and opinion leaders in ASEAN member states, as well as New Zealand. IRC in New Zealand is discussed in Gill (2020b), so this article focuses on regulatory cooperation in ASEAN.

Diverse range of forms

IRC is a little like art: people know it when they see it, but it is hard to define its boundaries. It can range from unilateral recognition by adoption of another country’s regulatory settings or standards, at one end of the spectrum, through to harmonisation of policies or practices at the other. As shown in Figure 2, in between is a range of forms: some are relatively soft and informal trans-government engagements, such as communities of practice. APEC hosts a range of informal forums where regulators exchange information. Others are more structured, formal intergovernmental agreements, such as mutual recognition agreements covering standards and conformity assessments or mutual recognition of rules. The ASEAN mutual
recognition agreements for professional services are an example of the latter. IRC also goes beyond intergovernmental to supranational agreements, although these are rare outside the EU.

IRC can take a bewildering variety of forms depending on the following elements:

- ‘why’ – the imperative for IRC;
- ‘who’ – the number of actors; groupings can be bilateral, subregional/regional, pluri-lateral or multilateral;
- ‘what’ – the areas on which the cooperation focuses: regulatory policies (making rules), regulatory practices (interpreting, applying and enforcing rules) or regulatory organisational management (supporting the administration of rules);
- ‘how’ – how intensive the cooperation is: informal networks of national regulators, mutual recognition agreements and formal regulatory partnerships, among others; and
- ‘which’ – the structure of the legal form or other mechanism adopted.

Why undertake international regulatory cooperation?
The growth of international regulatory cooperation is a product of a range of factors. There are the economic pressures to reduce the barriers to trade. Drivers here include the growth in global supply chains, increased globalisation and the rise of multinational corporations. There are also technological developments, such as digitisation and the emergence of the internet. Many of the issues currently confronting regulators in this sphere are transnational, so regulatory cooperation is important. In addition, there are geopolitical imperatives: for example, the development of regional blocks, such as the ASEAN Economic Community.

In general, the drivers can be subsumed under three headings: mutual economic benefits through liberalised trade and investment; strengthening the ability of states to deliver regulation effectively; and geopolitical and strategic imperatives.

Mutual economic gains
Much of the literature on international regulatory cooperation focuses on the economic gains from improved coherence through reduced non-tariff barriers. Regulatory diversity has been a growing policy concern, as tariffs have come down to near zero in the ASEAN region for many areas of trade, and multilateral liberalisation has stalled. In ASEAN countries there is discussion of improving regulatory coherence by removing unintended and unnecessary barriers to trade, thus facilitating international trade and investment and participation in global supply chains. Mutual recognition agreements between Customs authorities are a type of IRC that facilitates trade and enhances global supply chain security (Williams and Maralani, 2019).

The costs of trade barriers created by regulatory diversity arise because of specification costs (compliance), conformity costs (the cost of demonstrating conformity) and information costs. This line of reasoning leads to a simple trade-off between trade costs and domestic policy preferences for bespoke regulatory regimes, as illustrated in Figure 3: if trade costs are small but domestic preferences for a certain regulatory regime are very strong, it is not worthwhile to undertake costly IRC processes; however, if trade barrier costs are high relative to the benefits of a regulatory regime unique to that country, the optimal outcome may be a significant reduction of regulatory divergence.

However, the characterisation of international regulatory cooperation as an economic trade-off between ´trade barrier costs´ and ´regulatory divergence´ is too narrow for the diversity of IRC arrangements and agreements.

Strengthening regulatory effectiveness
There are other logics at play for IRC beyond the economic logic of reducing non-tariff barriers. Somewhat paradoxically, one of the major drivers of regulatory cooperation is strengthening the ability of states to deliver regulation effectively. The apparent paradox arises because, as discussed below, perception that sovereignty was being eroded was one of the main challenges to introducing and expanding IRC.

There are a range of circumstances where increasing regulatory effectiveness encourages countries to participate in IRC. These include: increasing the reach of regulation across borders, which manages international spillovers; and improving regulatory capability and cost effectiveness as regulators share resources and expertise.

Regulatory spillovers arise because many of the issues currently confronting regulators are transnational. Competition law provides an example of regulatory spillovers. There has been a large increase in the number of countries with a domestic competition law since the 1960s. Without competition law, there is no need for
regulatory cooperation. However, with a competition law regime in place cooperation is needed to manage spillovers between jurisdictions. A range of transgovernmental, intergovernmental and a few supranational agreements emerged as a result (Petrie, 2016). The New Zealand Commerce Commission is involved in international regulatory cooperation at multiple levels: bilateral with Australia and selected Pacific states; regionally with APEC; pluri-lateral with the OECD; and multilateral through the World Trade Organization and the International Competition Network.

Concerns about regulatory capability are particularly important for smaller and less developed countries, where regulatory agencies often struggle to achieve minimum critical mass. These challenges are particularly acute when the regulatory regime has unique features, as there is less ability to access other countries’ expertise and experience. By contrast, convergence on an international standard generally lowers the costs of operating a regime for both regulators and businesses.

**Strategic and geopolitical dimensions**

Finally, international regulatory cooperation inevitably involves strategic and geopolitical considerations. The Closer Economic Relations agreement between New Zealand and Australia and ASEAN both have their origins in part in security concerns. Foreign policy objectives of international regulatory cooperation include geopolitical gains, soft power through regulatory export, development assistance through technical cooperation, and obtaining ‘a seat at the table’. One example of regulatory cooperation is the New Zealand-Government-to-Government arrangements or agreements in apparently compatible with them.

What does international regulatory cooperation focus on?

IRC is narrowly focused on specific areas of common interest – the ‘sweet spot’ of mutual gain. A win–win situation can involve aspects of regulatory policy or regulatory practices, such as enforcement. The development of IRC is highly path-dependent, with quite different arrangements or agreements in apparently similar sectors.

Australia and New Zealand cooperation on trans-Tasman competition law provides an interesting example. In this case, the cooperation focused on investigations of and remedies for mergers and cartels. There is limited cooperation in other areas, such as restrictive trade practices between the two competition authorities, despite similar policy settings, as the spillovers between jurisdictions are smaller and the other gains from cooperation less.

How intensively do countries work together?

Countries often work together through networks, as informal, regulator-to-regulator communities of practice are preferred over formal supranational or government-to-government agreements. Over time these arrangements might become more formal, as trust and engagement increase within the network.

The survey used in the research published in Gill (2020a) explored the perceived frequency that different forms of international cooperation include geopolitical gains, soft power through regulatory export, development assistance through technical cooperation, and obtaining ‘a seat at the table’. One example of regulatory cooperation is the New Zealand-Government-to-Government arrangements or agreements in apparently compatible with them.
regulatory cooperation can take. Respondents were asked, for each type of regulatory cooperation, whether there were ‘none (that I know of)’, ‘one or two’, ‘few (between 3 and 5)’ or ‘many (more than 5)’. Figure 4 ranks the types of from high to low based on the number of respondents from ASEAN countries who selected ‘many’, and contrasts that with New Zealand respondents.

The results for New Zealand and ASEAN countries on the relative frequency of different types of regulatory cooperation were relatively similar. The most common were:

- regulatory dialogues and exchange of information with another country or region (e.g. the ASEAN and APEC regions);
- policy coordination with partner country on a specific area or sector regulation;
- adoption of international standards developed by international public and private standard-setting bodies (e.g. the International Maritime Organization, or the International Organization for Standardization);
- mutual recognition agreements with other countries on conformity.

The less frequent forms used in both ASEAN countries and New Zealand included:

- joint institutions, or an institution established by two or more countries;
- formal regulatory cooperation partnerships with another country (or region) which stop short of harmonisation;
- mutual recognition of the regulatory outcomes from applying rules.

Which type of international regulatory cooperation is used?

Form follows function. As international regulatory cooperation is diverse, and flexibility is important, practitioners take a ‘horses for courses’ approach to choosing structures, as different approaches are required in different situations. The type of IRC adopted depends on the sector in question, the partners involved and the perception of what works best. The survey research showed that there was high willingness to consider all potential types of regulatory cooperation, especially dialogues, trans-governmental networks, adoption of international standards and mutual recognition agreements. Support was still present, but lower, for the unilateral adoption of policy or harmonisation through a supranational body.

What is the future for international regulatory cooperation in ASEAN?

We turn from discussing the regulatory cooperation that is in place within ASEAN+1 to the possible future of IRC in the region. No discussion of IRC would be complete without exploring the impact of Covid-19. There were a number of common themes that emerged from the survey responses and the workshop discussions about how regulatory cooperation might play out in East Asia. As the research was completed before the outbreak of Covid-19, we first discuss the likely trends, before exploring how the pandemic might change the outlook.

Long-term drivers

The growth of international regulatory cooperation since World War Two has been driven by the combined impact of globalisation, technological change and geopolitical developments. Looking ahead, beyond the Covid-19 pandemic, for the next decade many of these drivers will continue to operate. These include: economic drivers (growth in global supply chains, growth in multinational corporations, pressure for business to reduce technical barriers to trade); and technology drivers (the Fourth Industrial Revolution, driven by the combination of digitisation, artificial intelligence, cloud technology, big data analytics and high-speed mobile technology).

Geopolitical tensions

On the geopolitical side, there is significant potential for discontinuity, with the slowdown in the growth of world trade, lack of progress on further multilateral liberalisation, ongoing strategic competition between the United States and China, and US disengagement from its traditional leadership role on international economic issues. The erosion of public support for globalisation in developed countries will also be a factor. As a result, there will be fewer top-down multilateral agreements that provide for widening and deepening regulatory cooperation. Instead, the impetus for IRC may be more bottom-up development of shared regulatory

| Table 1: Examples of international regulatory cooperation in ASEAN countries |
|-----------------------------------------------|-------------------------------------------------|
| Type of mechanism | Illustrative examples |
| Harmonisation via supranational bodies | Basel Committee on Banking Supervision International Accounting Standards Board |
| Specific negotiated agreements (treaties and conventions) | ASEAN Trade in Goods Agreement ASEAN Framework Agreement on services |
| Regulatory partnership between countries | ASEAN Consultative Committee on Standards and Quality |
| Intergovernmental organisations | International Civil Aviation Organization |
| Regional agreements with regulatory provisions | ASEAN Comprehensive Investment Agreement |
| Mutual recognition agreements | ASEAN mutual recognition arrangements for professional services |
| Transgovernmental networks | Chiang Mai Initiative Multilateralization agreement |
| Formal requirements to consider international regulatory cooperation when developing regulations | Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) |
| Recognition of international standards | Philippines adopting ISO 9001 standard and applying to government offices and their systems |
| Soft law | ASEAN Economic Community Blueprint 2025 |
| Dialogue or informal exchange of information | APEC ASEAN Business Advisory Council |

Source: Gill, 2020a, p.4
approaches and standards, with regulators as the ‘new diplomats’ (Slaughter 2004).

In East Asia there are a number of overlapping regional trade and regulatory initiatives that might help drive the future of IRC in the region, including:

• the ASEAN Economic Community (AEC) Blueprint 2025;
• regulatory provisions in the free trade agreements between ASEAN and six countries in the region (Korea, Japan, China, India, New Zealand and Australia);
• APEC’s Agenda on Structural Reform, which includes a number of ASEAN countries (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam);
• the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which currently involves 11 countries in the Asia-Pacific region, including Brunei, Malaysia, New Zealand, Singapore and Vietnam;
• the Regional Comprehensive Economic Partnership (RCEP), which includes ten members of ASEAN plus five of the six countries in the region which ASEAN has free trade agreements.

In the longer term, the objective of the proposed Free Trade Area of the Asia-Pacific (FTAAP) is to link Pacific Rim economies, from China to Chile to the United States, with the aim of harmonising the ‘noodle bowl’ of regional and bilateral free trade agreements that had proliferated following the collapse of the Doha Round of the World Trade Organization talks in 2006. But, given the slow progress on RCEP and economic rivalry between the US and China, the prospects for FTAAP appear dim. US/China tensions will inevitably spill over into engagement between second-tier nations, making collective agreements harder to achieve in regional forums like ASEAN and APEC.

The AEC Blueprint 2025 provides a focus for good regulatory practice and IRC efforts in region. CER and the vision of a single economic market between New Zealand and Australia have driven a lot of the trans-Tasman initiatives. Similarly, the ambition of the AEC Blueprint should be a strong driver of regulatory cooperation in the region.

**Discontinuity alongside continuity**
Other trends will persist, providing continued impetus for regulatory cooperation. The technological developments associated with the Fourth Industrial Revolution will continue, and these drivers don’t respect country borders. The need to manage international spillovers will increase the need for cooperation on regulatory policy design, and enforcement and other regulatory practices, to ensure that domestic regimes remain effective. Cooperation is more likely to develop in newer ‘greenfields’ areas such as emerging technology, as starting with a clean slate is much easier, both technically and politically, than cooperation in ‘brownfields’ areas, where different countries’ regulatory policy regimes and practices are more entrenched.

In addition, the slowdown in the growth of world trade, and of economic growth in East Asia, may increase the pressure for growth-enhancing structural policies, including greater interoperability of regulatory policies and practices.

**Flexible, pragmatic response**
In the absence of progress in multilateral forums, there is scope for more emphasis on pluri-lateral and regional groupings, such as the ASEAN Economic Community, APEC and the CPTPP. International regulatory cooperation provides a pragmatic, flexible approach which can be pursued selectively through the use of more informal mechanisms.

A number of examples of pluri-lateral ‘coalitions of the willing’ in the international trade sphere point to what could be achieved in the regulatory space. One recent example is the Digital Economy Partnership Agreement. This is a partnership between New Zealand, Chile and Singapore to take advantage of opportunities from digital trade. In addition, we can point to the Singapore–New Zealand-inspired agreement on trade in general medical supplies and equipment.

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**Box 1 Future of international regulatory cooperation in East Asia**

<table>
<thead>
<tr>
<th>Why undertake IRC?</th>
<th>To gain economic benefits, improve regulatory effectiveness, and achieve geopolitical imperatives such as the AEC Blueprint 2025 for ASEAN countries.</th>
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</thead>
<tbody>
<tr>
<td>With whom will countries cooperate?</td>
<td>There will be fewer multilateral and more regional and pluri-lateral groupings, the latter built on coalitions of the willing.</td>
</tr>
<tr>
<td>How intensively will countries cooperate?</td>
<td>Full regulatory integration will be the rare exception to the rule. Instead, cooperation will start at the less intensive end of the spectrum, and intensity will grow over time, stopping short of regulatory integration.</td>
</tr>
<tr>
<td>What will they cooperate on?</td>
<td>IRC will occur across the spectrum of regulatory policy and practices and, to a lesser extent, regulatory governance. It will expand based on selective, case-by-case, organic evolution rather than a big push. Cooperation will be more likely to develop in newer ‘greenfield’ areas, such as those associated with the Fourth Industrial Revolution, than in ‘brownfield’ areas with more entrenched regulatory regimes.</td>
</tr>
<tr>
<td>Which structures will they use?</td>
<td>There will be growing emphasis on more informal, below-the-radar cooperation mechanisms, such as trans-governmental networks. New supranational groupings and formal trade agreements will have a limited role in shaping IRC beyond Technical Barriers to Trade and SPS (sanitary and phytosanitary) measures. However, IRC will remain important in this space, where cooperation can occur as part of the wider regulatory agenda.</td>
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Source: Gill, 2020a, p.45
which has been joined by several other economies, and the interim arrangement on a temporary replacement for the WTO Appellate Body, in which New Zealand is one of 17 participating members.

Sovereignty
There is an old international negotiator’s aphorism that ‘the people who cause the most trouble in making a deal are not the other countries but those on your own side’. The importance of the domestic political atmosphere came up repeatedly in the research on IRC in ASEAN (Gill, 2020a). A complex weave of factors influences whether regulation generally, and regulatory cooperation in particular, is adopted. While strengthening the ability of states to deliver regulation effectively is one of the major drivers of cooperation, managing the perception that sovereignty was being eroded was one of the main challenges. Perceptions that regulatory cooperation poses a threat to sovereignty risk becoming an all-purpose tool to derail IRC proposals. In the face of the loss of favour for globalisation generally and freer movement of people in particular, willingness to adopt formal regulatory cooperation will dissipate. This line of argument emphasises the likely importance of diverse ‘bottom-up’ routes to further deeper regulatory cooperation in the future.

The research participants developed some speculative propositions about how international regulatory cooperation may play out in the future in East Asia. In Box 1 these are organised under the five key questions, ‘why’, ‘who’, ‘how’, ‘what’ and ‘which’.

The future for international regulatory cooperation in ASEAN post-Covid
Looking ahead, it is important to bear in mind the old Danish proverb, ‘It is difficult to make predictions, especially about the future.’ In the case of the research discussed in this article, the Covid-19 pandemic occurred just as the documentation of the research findings was being completed. With the world currently still in the middle of the pandemic, and with great uncertainty around when or indeed if a vaccine will be developed, it is difficult to confidently speculate in any detail on the impact on the world economic outlook generally, let alone IRC in particular.

That said, it is easy to overestimate the impact of major events. While the Covid-19 pandemic may accentuate some of the trends under way, it does not appear that Covid has fundamentally changed the drivers of IRC.

There is still an important role for regulatory cooperation even in a post-Covid world where cross-border movement of people and international trade in goods and services may be more restricted. IRC can, of course, help to create an environment that supports cross-border trade and investment. But, more importantly, as the pandemic has dramatically demonstrated, there are few regulatory regimes where there isn’t a potential for factors outside domestic territorial borders to have a significant local impact. Some regulatory effectiveness issues require more concerted action. So, another significant driver is the use of international cooperation to support the effectiveness of regulation to achieve domestic policy objectives.

The experience of Covid-19 is underlining the value of cooperative activities like standardisation and information gathering and exchange, even if at times it has been by their absence. Dealing effectively with three of the principal issues currently confronting public policymakers – pandemics, climate change, and effective governance of the digital environment – requires extensive international cooperation.

Implications for New Zealand
The prospects of further trade liberalisation through top-down multilateral initiatives appear dim for the foreseeable future. This suggests that further gains from greater economic integration are going to come from more bottom-up, ‘technical’ regional initiatives focused on greater regulatory interoperability. Greater regional economic integration within ASEAN from greater regulatory coherence provides opportunities for trade creation with limited risk of trade diversion.

Except for the movement of people, Covid-19 is unlikely to materially affect the drivers of greater international regulatory cooperation, and, indeed, its importance has been highlighted. In a world characterised by increased international trade uncertainty and geopolitical tensions, regulators will be the ‘new diplomats’, with an increasingly important role to play.

References
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