

## HOW ECONOMIC INTEREST IMPACT ON SCM PERFORMANCE?

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### ABSTRACT

Recently the number of bilateral free trade agreements (FTAs) has surpassed multilateral or plurilateral FTAs by international and regional organizations (e.g. WTO, EU); partly due to inefficiencies in their negotiation processes. It has also been demonstrated (Butter and Mosch, 2003) that more formal (e.g. legal) and informal (e.g. norms and values) trust mechanisms between trading partners increase their trade. FTAs can be seen as one such formal trust mechanism between the signatory countries. If one achieves a trustworthy status and more formal and informal economic ties for their trading partner, it is reasonable, and to a certain extent expected, to share both benefits and risks. That is, minimize and/or prevent the partner's opportunistic behavior. This, in turn, allows lowering of both ex-ante and ex-post transaction costs (Williamson, 1985, Dyer and Chu, 2003, Kwon, Hamilton and Hong, 2011). It could thus be hypothesized that logistical performance also improves among trading partners with the appropriate trust mechanisms in place. This research will investigate the above using inferential statistical analysis of secondary data. Suitable proxies will be selected for both formal and informal trust mechanisms and economic ties to investigate their effects on the Logistics Performance Index (LPI). The LPI is reported by the World Bank and comprises six measures; viz. customs, infrastructure, international shipments, logistics competence, tracking & tracing and timeliness.

The number of bi-, multi-, and plurilateral FTAs of each country will be used as a proxy of the formal trust mechanisms, while a range of indicators (e.g. corruption index, political stability, industrial disputes and relations) will be used as proxies for informal trust mechanisms. This study focuses on how formal and economic ties and interest impacts including potential FTAs in the future on SCM performance.

**Keywords:** Free Trade Agreement, SCM performance, Logistics Performance Index Trust, Transaction Cost.