

DESIGNING AND IMPLEMENTING

# TRADE FACILITATION

IN ASIA AND THE PACIFIC  
2013 UPDATE



ADB

UNITED NATIONS  
**ESCAP**  
Economic and Social Commission for Asia and the Pacific



DESIGNING AND IMPLEMENTING

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**TRADE  
FACILITATION**

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IN ASIA AND THE PACIFIC

**2013 UPDATE**



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# Preface

## The Second Edition: 2013

Since the time the first edition of *Designing and Implementing Trade Facilitation in Asia and the Pacific* was co-published by the Asian Development Bank (ADB) and the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) in 2009, noticeable trade facilitation reforms have been designed and implemented at both domestic and regional levels. Substantial progress in trade facilitation has been observed in many countries in Asia and the Pacific. At the same time, various challenges for further advancing trade facilitation still lie ahead.

The two institutions realized that the updating of the book is necessary to keep pace with latest development in trade facilitation. The revised book includes not only the updated statistical figures and data but also updated information on actual trade facilitation policies and practices. The most recent research on trade facilitation is also included.

The revisions were carried out by Shintaro Hamanaka and Aiken Rose Tafgar of ADB and Yann Duval and Tengfei Wang of ESCAP, under the general direction of Ramesh Subramaniam (Senior Director, Office of Regional Economic Integration, ADB) and Ravi Ratnayake (Director, Trade and Investment Division of ESCAP).



# Preface

Trade facilitation has emerged as an important trade policy tool in an international environment characterized by falling import tariffs and removal of quotas. Recent studies suggest that reductions in trade transactions costs through better trade facilitation measures at national and regional levels can bring significant economic benefits to economies in Asia and the Pacific. Accordingly, trade facilitation issues are increasingly a part of international and regional trade policy discussions. The global trade talks on the Doha Development Agenda include negotiations of a trade facilitation agreement, focusing on freedom of transit, fees and formalities for import and export, as well as publication and administration of trade regulations (transparency). Trade facilitation provisions are also included in a growing number of free trade agreements in Asia and the Pacific.

This reference book aims to support the implementation of trade facilitation measures in Asia and the Pacific. It attempts to bridge the gap between theory and practice in trade facilitation. It provides operational guidance on how to assess the status of trade facilitation, what measures and reforms are necessary, how to design trade facilitation initiatives, how to implement them at national and regional levels, and which organizations can help. The book intends to provide material for training on regional trade policy and help shape future trade facilitation measures in Asia and the Pacific. We hope that policy makers and practitioners in the region will widely use this reference book.

This publication on trade facilitation is the outcome of a collaborative effort between the Asian Development Bank (ADB) and the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). It was prepared by a team of staff and consultants from the two institutions under the general direction of Srinivasa Madhur (Senior Director, Office of Regional Economic Integration, ADB) and Ravi Ratnayake (Director, Trade and Investment Division of ESCAP). Ganeshan Wignaraja of ADB and Rene Bastiaans of ESCAP were the focal points for the memorandum of understanding for the joint project.

The project team was led by Shintaro Hamanaka of ADB and Shamika Sirimanne of ESCAP (Chief, Trade Facilitation Section, ESCAP) and included Cuong Minh Nguyen and Cynthia Petalcorin of ADB; Yann Duval and Maria Misovicova of ESCAP; and Richard Pomfret (principal consultant), Ben Shepherd (consultant), Maxence Orthlieb (consultant), and Shanta De Silva (consultant). Excellent research assistance was provided by Rommanee Suriyaarunroj of ESCAP.

Valuable contributions were received from ADB colleagues including Jayant Menon, Ganeshan Wignaraja, Dorothea Lazaro, and Aiken Rose Tafgar as well as from Bin Peng and Wei Liu of ESCAP. Many others from ADB provided insights, particularly Akm Mahfuzuddin Ahmed, Douglas Brooks, Ronnie Butiong, Lingling Ding,

Denis Hew, Juthathip Jongwanich, Haruya Koide, Myo Thant, Ying Qian, Teruo Ujiie, and Hung Nguyen.

Useful inputs were also provided by Markus Pikart and Serguei Kouzmine of the United Nations Economic Commission for Europe; Kanya Satyani of the ASEAN Secretariat; Prabir De of the Research on Information System for Developing Countries, New Delhi, India; and Guillermo Parayno Jr., former Commissioner of the Philippine Bureau of Customs.

This reference book was first published in 2009 and was updated in 2013. The main contributors for the update include Shintaro Hamanaka and Aiken Rose Tafgar of ADB and Yann Duval and Tengfei Wang of ESCAP.

# Abbreviations

AEDS.....	automated export documentation system
AEO.....	authorized economic operator
APEC.....	Asia-Pacific Economic Cooperation
APLAC.....	Asia Pacific Laboratory Accreditation Cooperation
ASEAN .....	Association of Southeast Asian Nations
BDA.....	Border Development Authority
BIMP-EAGA .....	Brunei Darussalam-Indonesia-Malaysia-The Philippines East ASEAN Growth Area
BPA .....	Business Process Analysis
CAB.....	conformity assessment board
CAC.....	Codex Alimentarius Commission
CAREC .....	Central Asia Regional Economic Cooperation
CBTA.....	cross-border transit agreement
CIF .....	cost, insurance, and freight
CIQS .....	customs-immigration-quarantine-security
CTC.....	Comprehensive Trade Cost
DMC.....	developing member country
EBRD .....	European Bank for Reconstruction and Development
E-cert .....	Electronic certification
e-CO.....	electronic certificate of origin
e-IPS .....	electronic import permit system
EPZ .....	economic processing zones
ESCAP.....	United Nations Economic and Social Commission for Asia and the Pacific
EU .....	European Union
FIATA .....	Fédération Internationale des Associations de Transitaires et Assimilés (International Federation of Freight Forwarders Associations)
FAO .....	Food and Agriculture Organization of the United Nations
FDI.....	foreign direct investment
FOB.....	free-on-board
GATS .....	General Agreement on Trade in Services
GATT.....	General Agreement on Tariffs and Trade
GCR .....	Global Competitiveness Report
GDP.....	gross domestic product
GETR .....	Global Enabling Trade Report
GMS .....	Greater Mekong Subregion
GTAP .....	Global Trade Analysis Project
IATA .....	International Air Transport Association
ICAO .....	International Civil Aviation Organization
ICD.....	inland/internal container depot
ICT .....	information and communication technology
IDB.....	Islamic Development Bank
IEC.....	International Electrotechnical Commission

ILAC.....	International Laboratory Accreditation Cooperation
IMF.....	International Monetary Fund
IMO.....	International Maritime Organization
IMO-FAL.....	Convention on Facilitation of International Maritime Traffic
IMT-GT.....	Indonesia-Malaysia-Thailand Growth Triangle
ISO.....	International Organization for Standardization
IT.....	information technology
KITA.....	Korea International Trade Association
KPI.....	key performance indicators
Lao PDR.....	Lao People's Democratic Republic
LNE.....	Laboratoire National de Métrologie et d'Essais
LPI.....	Logistics Performance Index
LS/TA.....	lending support and technical assistance
MOI.....	Ministry of Infrastructure
MFN.....	most favored nation
MRA.....	mutual recognition arrangement
NSB.....	national standards body
NTFB.....	national trade facilitation body
NTFC.....	national trade facilitation committee
NTTFC.....	National Trade and Transport Facilitation Committee, Pakistan
OECD.....	Organisation for Economic Co-operation and Development
PACCS.....	Pakistan Customs Computerized System
PEZA.....	Philippine Economic Zone Authority
PNG.....	Papua New Guinea
RIBM.....	regional integrated border management
ROO.....	rule of origin
RRP.....	rules, regulations, and procedures
RTFCCP.....	Regional Trade Facilitation and Customs Cooperation Program
SAD.....	single administrative document
SAFE Framework.....	Framework of Standards to Secure and Facilitate Global Trade
SEZ.....	special economic zone
SIRIM.....	Standards and Industrial Research Institute of Malaysia
SMEs.....	small and medium-sized enterprises
SNS.....	Singapore Network Services
SPS.....	sanitary and phytosanitary
STDB.....	Singapore Trade Development Board
TA.....	technical assistance
TBT.....	Technical Barriers to Trade
TIR.....	Transports Internationaux Routiers
TTFSE.....	Trade and Transport Facilitation in Southeast Europe
UML.....	Unified Modeling Language
UN/CEFACT.....	United Nations Centre for Trade Facilitation and Electronic Business
UNCTAD.....	United Nations Conference on Trade and Development
UNDP.....	United Nations Development Programme
UNECE.....	United Nations Economic Commission for Europe
UNNEXT.....	United Nations Network of Experts for Paperless Trade
UNLK.....	United Nations Layout Key for Trade Documents
UNTDDED.....	United Nations Trade Data Elements Directory
WCO.....	World Customs Organization
WDI.....	World Development Indicators
WHO.....	World Health Organization
WTO.....	World Trade Organization

## ■ PART I

# An Overview of Trade Facilitation

**T**rade facilitation is increasingly recognized as the key to unlocking further gains from international trade. Tariffs are no longer the main obstacle to trade following their substantial reductions over the last 60 years. Since the 1970s, major nontariff barriers to trade, such as import quotas or voluntary export restraint agreements, have also diminished in significance.

Yet, there remain significant costs to international trade. Trade facilitation covers these remaining trade costs associated with unnecessarily complex customs and at-the-border procedures, or with inefficient transit arrangements. Chapter 1 examines the conceptual issues surrounding definitions of trade facilitation, introduces the potential benefits from trade facilitation, and provides an overview of what trade facilitation covers in this reference book. Chapter 2 examines the status of trade facilitation in Asia and the Pacific, focusing mainly on trade transaction time and costs across countries as overall indicators of trade facilitation performance. The chapter highlights the significant gap in regional trade facilitation performance, acknowledging the need for more detailed assessments and monitoring progress at the national level.



## ■ CHAPTER 1

# Conceptualization of Trade Facilitation

Procedures, regulations, and related documentation for international trade arise in response to the need of governments and trade operators to monitor and control the movement of goods, delivery of services, and related financial flows. This is necessary to ensure compliance with each country's particular requirements (e.g., health requirements), to collect tariff revenues, and to observe regulations such as (i) preventing the cross-border movement of illegal drugs, arms, protected species, hazardous waste, and other controlled products; (ii) ensuring national security; and (iii) collecting relevant information for statistical purposes.

However, trade procedures and documentation can sometimes be major impediments to trade. Even in some of the most trade-friendly countries in Asia, exporting a commodity such as rice may involve 15 different parties, 24 documents, and about 700 data elements. No less than 22 days may be necessary for the exporter to comply with various procedures and have the shipment ready for export at the nearest seaport. Overall, the direct and indirect costs associated with such procedures are estimated to represent 7%–10% of the value of global trade. These may be much higher in some of the developing countries in Asia and the Pacific. In fact, a North American automotive exporter has reported that the internal cost of preparing separate and distinct customs paperwork for exports to various countries in Asia and the Pacific sometimes exceeded the actual duties paid for export.<sup>1</sup>

The main objective of trade facilitation is to simplify the process and minimize transaction costs in international trade, while maintaining effective levels of government control.<sup>2</sup> This chapter first presents various definitions of trade facilitation and adopts a definition of trade facilitation for this reference book. It then discusses the benefits and costs of trade facilitation and concludes with an overview of the trade facilitation areas covered in this reference book.

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<sup>1</sup> United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). 2001 and 2002.

<sup>2</sup> Economic Commission for Europe (ECE). 2002.

### Box 1.1: Various Definitions of Trade Facilitation

**World Trade Organization (WTO):** The simplification and harmonization of international trade procedures, where trade procedures are the activities, practices, and formalities involved in collecting, presenting, communicating, and processing data and other information required for the movement of goods in international trade.

**World Customs Organization (WCO):** The avoidance of unnecessary trade restrictiveness. This can be achieved by applying modern techniques and technologies, while improving the quality of controls in an internationally harmonized manner.

**United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT):** The simplification, standardization, and harmonization of procedures and associated information flows required to move goods from seller to buyer and to make payments.

**International Chamber of Commerce (ICC):** Improve the efficiency of the processes associated with trading in goods across national borders.

**Organisation for Economic Co-operation and Development (OECD):** The simplification and standardization of procedures and associated information flows required to move goods internationally from seller to buyer and to pass payments in the other direction.

**Asia-Pacific Economic Cooperation (APEC):** The simplification and rationalization of customs and other administrative procedures that delay or increase the cost of moving goods across international borders.

## Definitions of Trade Facilitation

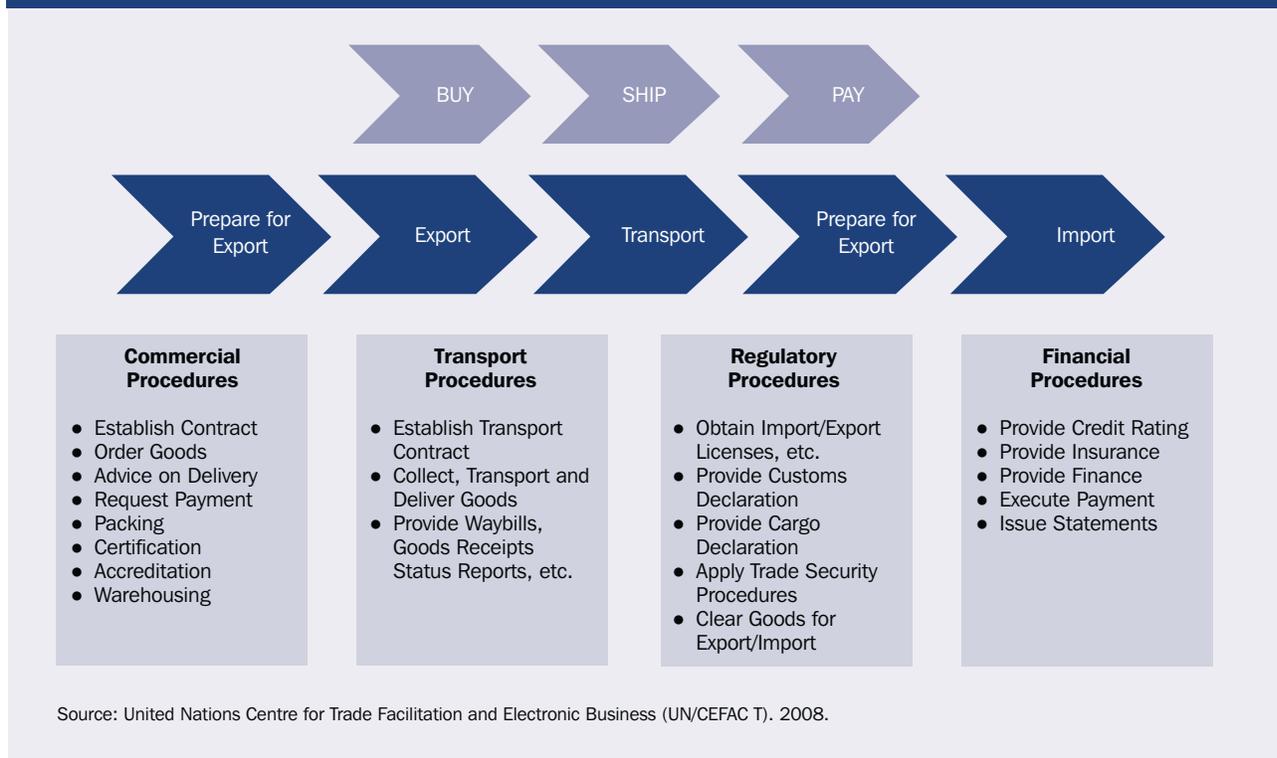
There is no universal definition of trade facilitation. But since it focuses on the transparent and efficient implementation of trade rules and regulations, it is often referred to as the “plumbing of international trade.” In its narrowest sense, trade facilitation may be defined as the systematic rationalization of customs procedures and documents. In a broader sense, it covers all the measures that affect the movement of goods between buyers and sellers, along the entire international supply chain. Questions of what to include in behind-the-border trade costs are especially controversial. A distinction is often made between costs of domestic trade and the extra costs of international trade, although the difference may be hard to identify in practice.

International agencies and regional initiatives have adopted various definitions of trade facilitation, emphasizing its different aspects (Box 1.1). These different definitions, however, all emphasize the need for coordination at the border (e.g., between customs, quarantine, and other agencies, often referred to as “integrated border management”) and coordination between the border countries’ exit and entry posts.

The narrowest definitions limit trade facilitation to customs and other border operations such as, in practice, at-the-border measures. For example, the WCO’s definition of trade facilitation is associated with its mission, which is to enhance the efficiency and effectiveness of customs administration by harmonizing and simplifying customs procedures.<sup>3</sup> The definition by APEC also focuses on at-the-border processes and procedures. These cover facilitation measures related to

<sup>3</sup> WCO. 1998.

Figure 1.1: Buy-Ship-Pay Model



preparation of customs and trade documents, customs clearance procedures, border control, and release of goods. The WTO definition essentially refers to administrative processes at the border, which are the focus of trade negotiations in the WTO (Dee, Findlay, and Pomfret, 2008).

The definitions used by the UN/CEFACT and OECD reflect a broader approach to trade facilitation, covering international trade procedures and associated information flows, and payment along the entire supply chain. These include some behind-the-border measures such as product standards and conformity assessment measures, business facilitation, e-commerce, trade finance, and logistics services.

In the UN/CEFACT definition, “procedures” are the activities, practices, and formalities required for the movement of goods in international trade. Information flows include both data and documents. This view of trade facilitation encompasses both cross-border and other processes involved in international trade. The rationale and scope of this definition was derived from the UN/CEFACT buy-ship-pay model (Figure 1.1), which lays down three main processes in international trade transactions. “Buy” refers to activities such as identifying a potential trading partner, establishing a business contract, and placing an order. “Ship” is the most complex, with five main activities: (i) preparing for export, (ii) export, (iii) transport, (iv) preparing for import, and (v) import itself. “Pay” represents the payment activity from buyer to seller. The various processes involved in trade transaction may be grouped into commercial, transport, regulatory, and financial procedures. The Buy-Ship-Pay Model suggests the application of a total transaction approach, which not only results in optimized regulatory procedures and government control but also in improved business processes.

This reference book attempts to strike a balance between the narrow and the broad definitions of trade facilitation. In this book, trade facilitation is defined to include policies and processes that reduce the cost, time, and uncertainty associated with engaging in international trade but excludes traditional trade instruments such as tariffs, import quotas, and other similar nontariff barriers. Regardless of how one defines trade facilitation, what differentiates it from other trade issues is its focus on efficient and predictable processes, including (i) increasing transparency and predictability of trade rules; (ii) reducing risk and uncertainty in trade; (iii) effectively implementing trade-related laws and regulations; and (iv) efficiently moving goods and associated services and information across borders. The detailed coverage of this reference book is explained in the last section of this chapter.

## Benefits of Trade Facilitation

The benefits of trade facilitation can be evaluated in terms of its effect on trade transaction costs. Estimates of such costs vary significantly, and it is useful to distinguish between direct and indirect costs. Direct costs include the cost of preparing documentation, and complying with various customs and other regulations. These may also include the cost of moving goods from factory to port, handling costs at the port, finance and insurance, and international transport costs. Indirect costs include the opportunity costs associated with time and delays in moving the goods from the buyer to the seller. These have been estimated to account for about 80% of total trade transaction costs.

Table 1.1 provides an overview of cost estimates based on the existing literature, ranging from less than 1% to about 15% of traded goods value.<sup>4</sup> Most of these estimates, particularly at the lower end of the range, are for developed countries; trade transaction costs faced by firms in most developing economies in Asia and the Pacific can be expected to be significantly larger.

It will remain difficult to get precise quantitative estimates of trade transaction costs because they vary significantly across products, modes of transport, transport routes, and even types of traders.<sup>5</sup> Further, indirect costs cannot be precisely measured, and hence its significance. For instance, estimates typically do not take into account missed business opportunities due to unpredictability in delivery times and costs of crossing borders.

Reduction in trade transaction costs, which is one of the expected benefits of trade facilitation measures, does not fully capture the potential benefits associated with trade facilitation. Trade facilitation is also expected to reduce uncertainties in trade transactions and a more inclusive participation of the private sector in international trade. Trade facilitation can bring significant benefits to both government and traders as shown in Table 1.2.

In the medium to long term, trade facilitation may contribute to the following benefits:

- (i) *Improved trade competitiveness.* The WTO, with its rules-based approach to trade policy, has created a fair playing field. Tariff rates have been

<sup>4</sup> The estimates are not directly comparable as the methods and time periods used in the studies vary widely.

<sup>5</sup> OECD, 2009.

**Table 1.1: Selected Studies on Estimates of Trade Transaction Costs**

Study	Country/Region	Import/Export	Trade Transaction Cost		Note
			Scope	Cost <sup>a</sup>	
US National Council on International Trade Development (NCITD), 1971	USA	Average import and export costs	Documentation; finance and insurance carrier; forwarder and/or broker	7.5	Based on business survey
Swedish Trade Procedures Council (SWEPRO), 1985	Sweden	Average import and export costs	Documentation costs	4.0	Estimated figures based on information from customs and business
Ernst and Whinney, 1987 a, 1987 b	Intra European Community	Import and export costs combined	Customs compliance costs	1.5	
EC, 1989	Intra-EC	Import and export costs combined	Documentation costs	3.5–15.0	Methodology not clearly specified
United Nations Conference on Trade and Development (UNCTAD), 1994	World		Costs of finance; customs; business information; transport and telecommunications (direct and indirect costs)	7.0–10.0	Uses US National Council on International Trade Development (1971), Intra-European Community (1998), and other information sources.
Ministry of Economy, Trade and Industry, 1998	Japan	Import costs only	Costs of complying with border procedures	0.5–2.4	Based on a survey of Japanese manufacturing and trade companies
Haralambides and Londoño-Kent, 2002	Between USA and Mexico	Import and export costs combined	1) Cost for handling, inspection, etc. 2) Costs from time delay	1) 0.6–2.1 2) 0.1–4.0	Costs of time delay calculated based on Hummels (2001)
Japan External Trade Organization, 2002	Japan	Import costs only	Costs for import and port-related procedures	0.5–1.2	Derived by Organisation for Economic Co-operation and Development Secretariat (2003)
Anderson and Van Wincoop, 2004b	Industrialized countries	Import and export costs combined	1) Information cost barriers 2) Transit costs (time value of goods)	1) 6.0 2) 9.0	According to author, extremely rough estimates based on direct observation and inferred costs

Note:

<sup>a</sup> Trade transaction costs are reported as percentage of traded goods' value.

<sup>b</sup> Other border-related trade barriers estimates include policy barriers (tariff and nontariff barriers [8%], language barrier (7%), currency barrier (14%), and security barrier (3%).

Source: Extended and modified from Organisation for Economic Co-operation and Development, 2003.

**Table 1.2: Trade Facilitation Benefits Governments and Traders**

Benefit to Government	Benefit to Trader
<ul style="list-style-type: none"> <li>● Increased effectiveness of control methods</li> <li>● More efficient deployment of resources</li> <li>● Correct revenue yields</li> <li>● Improved trader compliance</li> <li>● Encouragement of foreign investment</li> <li>● Accelerated economic development</li> </ul>	<ul style="list-style-type: none"> <li>● Lower costs and reduced delays</li> <li>● Faster customs clearance and release through predictable official intervention</li> <li>● Simpler commercial framework for doing both domestic and international trade</li> <li>● Enhanced competitiveness</li> </ul>

Source: Economic Commission for Europe (ECE), 2002.

reduced and many traditional nontariff barriers have been dismantled. Emerging economies cannot rely on further tariff concessions alone to further develop their exports. They have to be competitive to export. Thus, existing products must be improved, new products must be developed, and new markets must be found.

A national policy on trade facilitation is a key factor in the development of export competitiveness. Inefficient trade-related procedures and processes can delay the delivery of products to overseas markets. Such inefficiencies can affect the ability of manufacturers and exporters to meet the “just-in-time” needs of their overseas customers, and prevent them from taking part in the growing number of regional and global production networks.

It is estimated that intraregional trade could increase by over \$250 billion (or about 21%), assuming that trade facilitation reforms in port and customs efficiency, domestic regulations, and the e-business environment can bring countries in Asia and the Pacific with below-average performance closer to the regional average.<sup>6</sup> More recent analysis suggests that reducing direct export costs in Asia to OECD levels (a 14% reduction on the average across the region) could increase Asian exports by 11%–14%.<sup>7</sup> Similarly, bringing the importer transparency of APEC economies closer to the regional average could lead to a 7.5% (\$148 billion) increase in intraregional trade.<sup>8</sup>

- (ii) *Increased foreign direct investment (FDI).* A significant share of FDI in developing economies is in production facilities whose products are exported to other countries rather than supplied in the domestic market. Many of these production facilities need to source some of their inputs from overseas. As a result, foreign direct investors will pay attention to a country’s ease and cost effectiveness of importing and exporting goods and services before making an investment decision. A country that has committed itself to facilitating trade will tend to secure more FDIs and become more integrated into regional and global production networks.
- (iii) *Increased participation of SMEs in international trade.* Most small and medium-sized enterprises (SMEs)—often acknowledged as a major growth engine in both emerging and developed economies—lack experience in international trade. SMEs that attempt to get involved in direct imports

<sup>6</sup> Wilson, Mann, and Otsuki 2003.

<sup>7</sup> Duval and Utoktham. 2009.

<sup>8</sup> Helble, Shepherd, and Wilson. 2007; Abe and Wilson. 2008.

or exports are often discouraged by complex and nontransparent trade procedures. Streamlining and simplifying trade procedures can facilitate SME participation in international trade.

The efficiency brought about by the computerization and automation of trade procedures, and the growing availability of information technology (IT) services, will be particularly beneficial to exporting SMEs, and will increase SMEs' propensity to export.<sup>9</sup>

- (iv) *Improved economic growth prospects.* Overall, an efficient trading environment will translate into more reliable services and lower production costs. Given an inclusive development policy framework and appropriate income distribution policies, the resulting increase in trade, investment, and economic activity will ensure a better standard of living for all. Based on recent analysis, an expansion in trade due to trade facilitation alone can be expected to increase per capita GDP in Asia and the Pacific countries by about 2.5%.<sup>10</sup> Overall, potential income gain from trade facilitation over the medium term is estimated at 2%–3% of the value of goods traded (UNCTAD 1994 and APEC 1999).

## Cost of Implementing Trade Facilitation Measures

Some developing countries may view costs associated with implementing trade facilitation measures as prohibitive, but evidence suggests otherwise. The introduction and implementation of trade facilitation measures do entail start-up costs for government agencies; however, these reforms eventually reduce government expenditures by enhancing transaction efficiency and transparency, eliminating duplicative functions, and allowing a more economical and efficient use of administrative resources. In practice, some of the initial costs are also transferred to traders through charges for services provided.

Overall, savings from implementing trade facilitation measures such as those being negotiated under the WTO are expected to far outweigh any setup and operating costs involved in implementing them.<sup>11</sup> As shown in Figure 1.2, this is particularly true for some of the more advanced and far-reaching trade facilitation measures such as electronic single window, risk management, and post-clearance audit mechanisms.

Several types of cost are involved in implementing trade facilitation reforms:

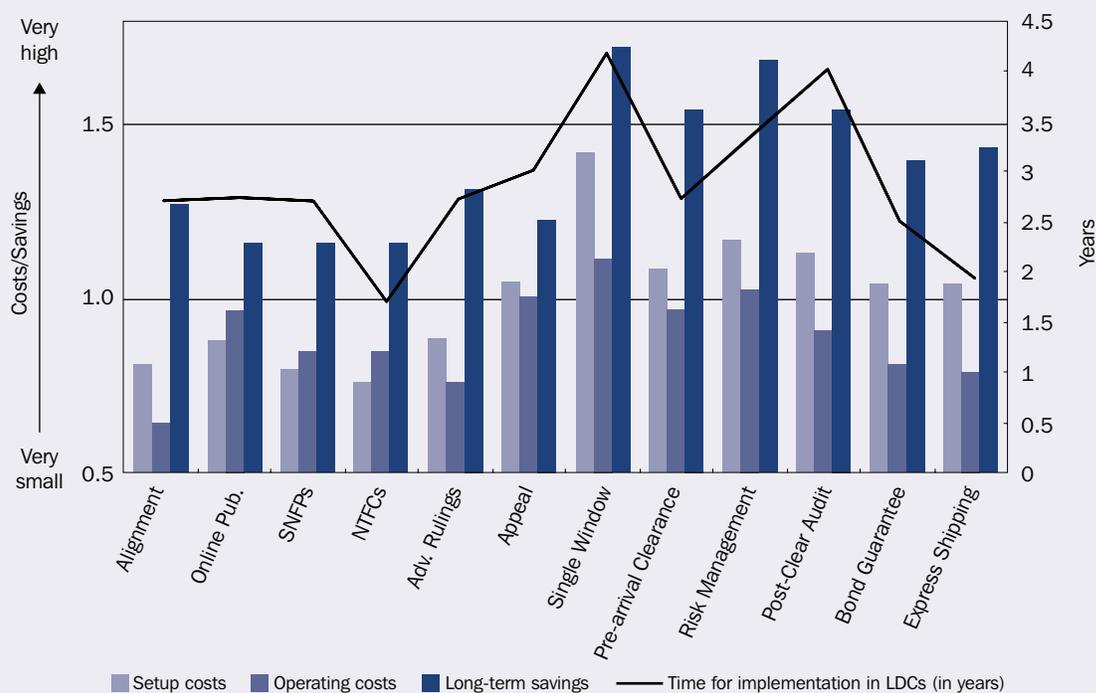
- (i) *Institutional costs.* Trade facilitation generally requires a change in the attitude of institutions involved in the facilitation process. This may sometimes have to be accompanied by the restructuring of existing institutions or the introduction of new ones. These changes may entail challenges as new mechanisms are put in place to increase information sharing and cooperation

<sup>9</sup> Yue and Wilson. 2009.

<sup>10</sup> Using estimates of the effect of trade on per capita GDP by Dollar and Kraay (2001) and trade facilitation effects on trade by Duval and Utoktham (2009). This is in line with the results of OECD (2009), which found that decreasing direct and indirect trade transaction costs by only 1% could lead to an average 0.25%–0.4% increase in GDP in non-OECD member countries in Asia and the Pacific.

<sup>11</sup> Moisé. 2004.

**Figure 1.2: Relative Cost, Benefits, and Time Needed for Implementing Selected Trade Facilitation Measures**



NTFC = national trade facilitation committee, SNFP = single national focal point.  
 Note: Alignment refers to alignment of trade documents according to the UN Layout Key.  
 Source: Duval. 2006.

among control agencies and related ministries. Implementing some trade facilitation measures may also involve the redeployment of staff to new trade support activities, as in the case of Singapore after the establishment of its electronic trade documentation single window system.<sup>12</sup> Clear understanding and careful management of the new measures will be key to minimizing the political fallout, and achieving timely and far-reaching trade facilitation reform.

- (ii) *Regulatory and legislative costs.* Some trade facilitation measures may require amendment of existing regulatory and/or legal systems or new legislation. These entail costs as laws and regulations are harmonized with those of other trade partners to incorporate best practices and address emerging issues such as the use of electronic documents and e-commerce.
- (iii) *Equipment and training costs.* Trade facilitation is often associated with the automation and computerization of trade procedures. The cost of setting up electronic data interchange systems and even internal computer networks may be expensive for some developing economies, especially when the recurring costs of maintaining and updating both hardware and software and training staff are taken into account. However, continuous advances in IT and knowledge management have made computer systems

<sup>12</sup> ESCAP. 2002.

increasingly affordable, allowing progressive investments in automated systems as funds become available. Foreign aid has been made available for developing countries in this area, particularly since the launch of the WTO trade facilitation negotiations in 2004 and the Aid for Trade initiative in December 2005 (Part III, Chapter 4).

These cost concerns should not deter countries from pursuing trade facilitation. Trade facilitation can often be significantly achieved without investing in a fully automated and computerized system. Merely simplifying rules, procedures, and regulatory processes, and investing in port and border crossing infrastructure and equipment such as container scanners, can considerably expedite control and clearance of goods at borders. As such, optimizing the use of the existing infrastructure, equipment, and human resources can yield early and significant efficiency gains.

- (iv) *Other costs.* The potential loss of customs revenue is an important concern for developing countries that derive a significant portion of government revenue from customs duties. However, trade facilitation does not generally imply such revenue losses. Trade facilitation measures are expected to increase trade flows, which may provide additional opportunities for revenue collection. In addition, while most trade facilitation measures are expected to be revenue-neutral, the adoption of some measures, such as risk management systems and post-clearance audits, have often resulted in higher revenues for customs authorities.<sup>13</sup> Revenue leakages through corruption can also be expected to fall as procedures become more transparent.

## Scope of Trade Facilitation in this Reference Book

This reference book focuses on five areas of trade facilitation: (i) publication and administration of policies related to trade issues; (ii) rules and procedures for import and export; (iii) product standards and conformance; (iv) trade-related infrastructure and services; and (v) goods in transit. These five interrelated areas are important for trade, relevant to the WTO negotiations, and crucial for most countries in Asia and the Pacific. These areas can be improved through policy interventions. The issues covered in each of these areas are explained in this section while the economics and practice in these areas will be discussed separately in Part II.

Publication issues are mainly concerned with advance rulings, availability of information, and the time period between publication and the implementation of rules. They also include allowances for consultation and comment on new or amended rules, appeal procedures, and measures to enhance impartiality and nondiscrimination. Overarching principles with regard to implementation matters are provided by the General Agreement on Tariffs and Trade (GATT) Article 10 on transparency in trade regulations. The WCO International Convention on Mutual Administrative Assistance (Johannesburg Convention) provides clear legal provisions for the international exchange of information between customs administrations.

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<sup>13</sup> World Bank. 2002.

With regard to rules and procedures, effort is devoted to streamlining trade procedures. Improving collaboration among border agencies and establishing a one-stop shop or a single window are important to expedite border-crossing. WTO Article 8 on minimizing the complexity of trade-related fees and formalities lays out principles for a rule-based system governing the release and clearance of goods. Rules on specific matters developed by the WCO include the harmonized system of commodity classification, the 1972 Custom Convention on Containers, and the ATA Convention on the temporary admission of goods.<sup>14</sup>

Arrangements governing product standards have been established through the initiatives of various international and regional organizations. During the 1979 Tokyo Round, GATT members signed the Standards Code, which laid down rules for the preparation, adoption, and application of technical regulations, and standards and conformity assessment procedures. By 1995, further improvements were stipulated in two WTO agreements: (i) the Agreement on Technical Barriers to Trade, which strengthens and clarifies the provisions of the Standards Code; and (ii) the Agreement on the Application of Sanitary and Phytosanitary Measures, which seeks to balance the need for domestic regulatory autonomy against the possibility of standards operating as an impediment to trade. In the context of trade facilitation, it is imperative that the process of assessing conformance to standards is transparent and timely, in addition to following WTO guidelines on standards.

Infrastructure, which is intrinsically linked to service provision, is a broad term that includes both hard infrastructure such as roads and railways, and soft infrastructure such as efficient administration (or regulatory framework). The interplay between infrastructure and services sectors partly defines the context in which import and export transactions take place. The effects of services sector reforms undertaken without regard to the state of the underlying infrastructure, or of infrastructure upgrades pursued without an appropriate regulatory framework, are likely to be limited. Good infrastructure and related services reduce trade costs in many ways. Good roads reduce trade costs directly by reducing transport costs to and from ports, and indirectly by reducing the need to pay dockside storage fees. Thus, good roads increase the volume of trade and reduce unit costs. Good information technology allows the development of e-commerce and the simplification of customs and other procedures through electronic access. However, most infrastructure investment is undertaken for non-trade reasons, and physical infrastructure development is not a trade facilitation measure per se. This reference book treats inefficient infrastructure as a source of trade costs, and thus an area for trade facilitation, but it selectively focuses on soft and hard infrastructure components that are most directly related to international trade (e.g., port facility efficiency and logistics).<sup>15</sup>

Goods in transit are governed by GATT Article 5 and additional rules developed under the *Transports Internationaux Routiers* (TIR) Convention. For goods in transit, it is important to ensure balance between providing fast customs clearance for legal goods and adequate protection from fraud. Agreement on transit guarantees—whereby goods are under customs control without payment of duties and taxes that are normally levied on importation or exportation—is particularly helpful to landlocked countries.

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<sup>14</sup> ATA is a combination of the initial letters of the French words “Admission Temporaire” and the English words “Temporary Admission.”

<sup>15</sup> A more in-depth analysis of infrastructure and trade in Asia can be found in Brooks and Menon (2008).

This reference book takes a relatively broad approach to trade facilitation, but does not cover all aspects of the subject. It leaves out, for instance, trade finance facilitation issues, which have come to the fore due to the global financial crisis in 2008/2009.<sup>16</sup> Impediments to trade—and their relative importance—evolve over time as new concerns arise and countries introduce measures and procedures to address them.

But these measures and procedures often appear to have little regard for their implications on trade practice, at least in the initial stage of their implementation. National responses to health concerns related to bovine spongiform encephalopathy (“mad cow disease”) and avian flu, in many countries in the region, are good examples. Renewed national and supply-chain security concerns have also had direct and indirect impacts on trade costs since the events of “9/11” in 2001, resulting in the implementation of new procedures and requirements that initially made trade facilitation in the US burdensome and unpredictable. The European Union (EU) has since proposed an approach based on mutual recognition and risk management as a more effective approach to enhancing security (Box 1.2). A flexible and pragmatic approach to trade facilitation based on effective monitoring and consultation mechanisms will therefore be needed to tackle new and evolving impediments and bottlenecks to trade.

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<sup>16</sup> ESCAP/ITC. 2004. ADB Trade Finance Facilitation Program. 2009. ADB. 2009.

## Box 1.2: Supply Chain Security and Trade Facilitation: Effects of 9/11 on Trade and Alternative Approaches

### The United States response to the 9/11 event

The terrorist attacks of 11 September 2001 had immediate and long-lasting impacts on the costs of exporting to the US. Closure of the US border was the immediate aftermath of the 9/11 incident. Visa procedures and requirements were tightened, causing time delays on trade that involved travel to the US. Airlines, maritime transport companies, and insurers introduced surcharges, which increased trade costs (OECD 2002a and 2002b).

US budgetary outlays for homeland security increased from about \$15 billion in 2000 to some \$32 billion in 2003, and are projected to more than double again in the remainder of the decade (Mirza and Verdier 2008). Some of the measures funded by this increased expenditure directly impacted trade costs. Based on meetings with shipping conglomerate managers, the OECD estimates that, since 2001, the added costs of scanning and documenting the contents of US-bound containers have amounted to \$50–\$100 per 20-foot container (OECD 2008). In the case of trading partners with which the US has a free trade agreement, fast-tracked treatment for security checks reduces some of these costs, but in a discriminatory way. It also calls for rerouting (e.g., Indonesian exporters may route through Singapore to facilitate entry at the US port), although this would involve higher trade costs compared with previous practice.

The amounts devoted to the homeland security program incur indirect and/or opportunity costs, which are difficult to assess. Money spent on x-ray machines or additional security personnel could have been spent on technical upgrading of ports and other infrastructure. Even if there were a less direct impact on trade cost of shifting government expenditure, a reallocation or increase in the government budget of this scale must have an impact on import demand.

Actions by a major trading nation such as the US can also have systemic effects. That is, regulations imposed by a major importer often become the norm, as freight forwarders avoid duplication of procedures.

### The European response to the new US trade security initiatives

The European Union (EU) contends that mutual recognition of security measures, control results, authorized trade partnership programs, and a multilayered risk-based approach are the most effective responses to cargo security, and that these can make unilateral and disproportionate measures such as mandatory container scanning irrelevant and unnecessary. In April 2005, amendments to the European Community Customs Code introduced a number of measures to tighten security around goods crossing international borders by ensuring faster and better-targeted checks. More specifically, three major changes were made:

- On 26 December 2006, a common risk management approach was introduced as an information technology-supported mechanism for setting uniform European Union risk-selection criteria for controls.
- Beginning 1 January 2008, trade facilitation measures would benefit reliable traders (Authorised Economic Operators) meeting high standards for security criteria.
- Beginning 1 July 2009, traders are required to provide customs authorities with electronic information on goods prior to importation (exportation) from (to) the EU.

Implementation of these measures will facilitate the transfer of information between national administrations, allowing economic operators to electronically input data directly into European Union systems. The Authorised Economic Operator concept will enable the EU to identify reliable traders for whom customs measures will be reduced. These measures will be accompanied by an increasingly sophisticated risk management framework, pre- and post-clearance control, audits, and authorizations.

Computerized risk management systems will allow traders to send an early warning for all consignments, enabling the authorities to target high-risk consignments and non-risk consignments to be released at a very early stage. Resources can, thus, be more efficiently used to improve security and control suspicious goods while allowing the instant release of all compliant goods upon their arrival at the customs offices.

IT = information technology.  
Source: OECD, 2002a and 2002b.

## ■ CHAPTER 2

# Trade Facilitation in Asia and the Pacific: State of Play

Asia and the Pacific is home to some of the best trade facilitation performers in the world. In Singapore and Hong Kong, China, completing export procedures takes 6 days or less, and costs less than \$650 on the average, compared to 10 days and \$1,123 in G7 countries. However, the region is also home to some of the worst performers, in which export procedures take more than 75 days on the average, and costs more than \$3,000.

This chapter provides an overview of the status of trade facilitation in Asia and the Pacific. Although major progress has been made in facilitating trade in the region, performance has been uneven both across and within subregions. Overall, the performance gap between Asia and the Pacific developing countries and developed countries remains large, suggesting considerable room for improving trade processes and procedures in the former. Since reliable information on trade facilitation remains limited, detailed and regular national assessments will have to be conducted to determine specific needs and priorities in each economy.

## Trade Facilitation Performance of Asia and the Pacific Has Improved

Table 1.3 reports the average time and cost involved in completing export and import procedures in selected countries of the region. These trade facilitation indicators capture time and cost of behind- and at-the-border trade procedures, including time and official costs related to trade document preparation, customs clearance and technical control, terminal handling, and inland transport. The cost measure does not include tariffs or trade taxes.

While progress has been made in collecting data on trade facilitation indicators, most of these data are based on national trader surveys with inherent limitations (Box 1.3). Some international comparisons can be done using trade data, focusing on the difference between the value of goods at the ports of export and import. The most reliable evidence of high and varying trade costs comes from microlevel studies such as those based on the time release study of World Customs Organization (WCO) or business process analysis (BPA) and time/cost-distance methodologies of the Economic and Social Commission for Asia and the Pacific (ESCAP). Each

Table 1.3: Time and Cost to Export and Import

	Time to Export (Days)				Time to Import (Days)				Cost to Export (\$)				Cost to Import (\$)			
	2006	2009	2012	2013	2006	2009	2012	2013	2006	2009	2012	2013	2006	2009	2012	2013
Brunei Darusslam	..	27	19	19		19	15	15		630	680	680		708	745	745
Cambodia	43	22	22	22	54	29	26	26	736	732	732	755	816	872	872	900
Indonesia	22	18	17	17	27	27	27	23	486	644	644	644	675	660	660	660
Lao PDR	55	39	33	26	65	37	33	26	1,420	1,860	1,880	2,140	1,690	2,040	2,035	2,125
Malaysia	13	13	13	11	10	10	10	8	432	450	450	435	385	450	435	420
Philippines	17	16	15	15	18	16	14	14	755	771	630	585	800	819	730	660
Singapore	5	5	5	5	4	4	4	4	416	456	456	456	367	439	439	439
Thailand	24	14	14	14	22	13	13	13	848	625	625	585	1,042	795	750	750
Viet Nam	24	24	22	21	23	23	21	21	468	533	580	610	586	606	670	600
China, People's Republic of	23	21	21	21	26	24	24	24	390	460	500	580	430	545	545	615
Hong Kong, China	13	6	5	5	17	5	5	5	425	625	575	575	425	633	565	565
Korea, Republic of	12	8	7	7	12	8	7	7	780	767	680	665	1,040	747	695	695
Mongolia	33	49	46	49	33	49	47	50	1,807	2,131	2,265	2,555	2,274	2,274	2,400	2,710
Taipei, China	12	12	12	10	12	12	12	10	747	757	655	655	747	769	720	720
Afghanistan	67	74	74	74	80	77	77	77	2,180	2,680	3,545	3,545	2,100	2,600	3,830	3,830
Armenia	34	30	13	13	37	24	18	18	1,600	1,746	1,815	1,815	1,880	2,111	2,195	2,195
Azerbaijan	43	43	38	38	48	48	38	38	3,155	3,515	3,345	3,430	2,945	3,420	3,405	3,490
Georgia	54	12	10	9	52	14	11	10	1,570	1,380	1,355	1,355	1,570	1,340	1,715	1,595
Kazakhstan	89	89	76	81	76	76	62	69	2,730	3,005	3,130	4,685	2,780	3,055	3,290	4,665
Kyrgyz Republic	64	64	63	63	75	75	72	75	2,500	3,000	3,210	4,160	2,450	3,250	3,450	4,700
Tajikistan	71	71	71	71	65	65	65	72	3,200	3,350	3,850	8,450	4,500	4,550	4,550	9,800
Uzbekistan	86	86	77	80	104	104	92	99	3,685	4,235	4,285	4,585	4,050	4,600	4,650	4,750
Bangladesh	35	28	25	25	60	35	34	34	902	905	965	1,025	1,287	1,290	1,370	1,430
Bhutan	38	38	38	38	38	38	38	38	1,150	1,210	2,230	2,230	1,780	1,840	2,505	2,330
India	27	17	16	16	41	20	20	20	864	945	1,095	1,120	1,324	1,040	1,150	1,200
Maldives	21	21	21	21	20	20	22	22	1,200	1,348	1,550	1,550	1,200	1,348	1,526	1,526
Nepal	43	41	41	41	35	35	35	38	1,600	1,764	1,960	1,975	1,725	1,900	2,095	2,095
Pakistan	31	22	21	21	39	18	18	18	996	611	660	660	317	680	705	705
Sri Lanka	25	21	21	20	26	20	19	19	647	715	715	720	639	745	745	775
Fiji	24	24	22	22	24	24	23	23	573	654	655	655	570	630	635	635
Kiribati	21	21	21	21	21	21	21	21	1,550	1,070	1,120	1,120	1,550	1,070	1,120	1,120
Marshall Islands	21	21	21	21	25	25	25	25	765	875	945	945	790	900	970	970
Micronesia, Fed. Sts. of	30	30	30	30	30	30	30	30	1,145	1,255	1,295	1,295	1,145	1,255	1,295	1,295
Palau	29	29	29	29	35	33	33	33	1,060	1,070	970	970	1,010	1,032	930	930
Papua New Guinea	23	23	23	23	29	29	29	32	784	864	864	949	928	1,008	1,008	1,130
Samoa	25	25	25	25	28	28	28	28	800	690	690	690	775	775	775	775
Solomon Islands	24	24	24	24	20	20	20	20	1,056	1,011	1,030	1,070	1,238	1,194	1,237	1,037
Timor-Leste	25	25	25	25	26	26	26	26	730	750	750	750	735	755	755	755
Tonga	21	21	22	22	27	27	26	26	545	650	775	755	620	725	775	740
Vanuatu	26	26	21	21	30	30	20	20	1,790	1,472	1,690	1,690	2,170	1,337	1,690	1,690

Continued on next page

Table 1.3 continued

	Time to Export (Days)				Time to Import (Days)				Cost to Export (\$)				Cost to Import (\$)			
	2006	2009	2012	2013	2006	2009	2012	2013	2006	2009	2012	2013	2006	2009	2012	2013
Australia	9	9	9	9	8	8	8	8	930	1,200	1,060	1,100	1,120	1,239	1,119	1,120
New Zealand	10	10	10	10	9	9	9	9	725	868	855	870	800	850	825	825
Canada	7	7	7	7	11	11	11	11	1,385	1,660	1,610	1,610	1,425	1,785	1,660	1,660
France	18	9	9	9	20	11	11	11	1,028	1,078	1,078	1,078	1,148	1,248	1,248	1,248
Germany	7	7	7	7	7	7	7	7	740	822	872	872	765	887	937	937
Italy	19	19	19	19	18	18	18	18	1,217	1,231	1,245	1,145	1,217	1,231	1,245	1,145
Japan	10	10	10	10	11	11	11	11	859	859	880	880	957	957	970	970
United Kingdom	9	9	7	7	8	8	6	6	940	1,030	950	950	1,267	1,350	1,045	1,045
United States	6	6	6	6	5	5	5	5	960	990	1,050	1,090	1,160	1,245	1,315	1,315
<b>Average</b>																
Southeast Asia Ave.	25	20	18	17	28	20	18	17	695	745	742	766	795	821	815	811
Northeast Asia Ave.	19	19	18	18	20	20	19	19	830	948	935	1,006	983	994	985	1,061
Central Asia Ave.	64	59	53	54	67	60	54	57	2,578	2,864	3,067	4,003	2,784	3,116	3,386	4,378
South Asia Ave.	31	27	26	26	37	27	27	27	1,051	1,071	1,311	1,326	1,182	1,263	1,442	1,437
Pacific Islands Ave.	24	24	24	24	27	27	26	26	982	942	980	990	1,048	971	1,017	1,007
All Economies Ave.	29	26	25	24	31	27	25	26	1,193	1,264	1,336	1,504	1,317	1,380	1,449	1,613
G7 Ave.	11	10	9	9	11	10	10	10	1,018	1,096	1,098	1,089	1,134	1,243	1,203	1,189
Oceania Ave.	10	10	10	10	9	9	9	9	828	1,034	958	985	960	1,045	972	973
Dev. Asia-Pacific Ave.	33	30	28	28	36	31	29	29	1,243	1,305	1,396	1,603	1,368	1,420	1,516	1,719
Landlocked Ave.	51	49	45	45	53	49	45	47	2,047	2,237	2,469	3,068	2,212	2,467	2,710	3,330

Source: World Bank. *Doing Business Report* 2006, 2009, 2012, and 2013.

methodology has its strengths and weaknesses, but together they can provide a snapshot of the status of trade facilitation in Asia and the Pacific.

### Progress has been made in reducing time and cost of behind- and at-the-border trade procedures

Overall, most countries showed a marked improvement in processing time between 2006 and 2013, as shown in Table 1.3. Countries in Southeast Asia reduced the time necessary to complete export procedures by 34% and in South Asia by 17%. Countries in Central Asia also reduced export time by an average of 15%. Countries that were successful in shortening processing time during the past 6 years include Georgia (by 45 days), the Lao People's Democratic Republic (by 29 days), Armenia (21 days), Cambodia (by 21 days), India (by 11 days). However, days to export in Mongolia and Afghanistan increased by 16 and 7 days, respectively during the period. Overall Asia's performance in time reduction is not far from that of G7 group of countries (18% time reduction during the period).

### Box 1.3: On Survey-Based Trade Facilitation Indicators and the Doing Business Data on Trading Across Borders

An effective way to measure trade costs is to ask trade service providers standardized questions, covering measurable and non-measurable indicators of trade costs. The quality of surveys such as the World Bank's *Doing Business* survey has improved greatly in recent years, and they now provide useful internationally comparable information on important economic indicators for a large number of countries. Well-conducted and timely surveys describe current perceptions on the indicators of interest with little lag time. The downside is that perceptions are subjective and ideas of what constitutes good practice may vary across countries. Answers to specific questions may also be distorted by a "halo effect"; if respondents think that a country has a generally good record in trade facilitation, they may respond positively to all questions, overlooking the areas where a country does poorly.

The World Bank's *Doing Business* report compiles procedural requirements for exporting and importing a standardized cargo load of goods by ocean transport. Every official procedure for exporting and importing the goods is recorded, from the contractual agreement between the two parties to the delivery of goods, along with the time and cost necessary for completion. All documents required for clearance of the goods across the borders are also recorded. For exporting goods, procedures range from packing of goods at the factory to their departure from the port of exit. For importing goods, procedures range from the vessel's arrival at the port of entry to the cargo's delivery at the factory warehouse. Payment is made through a letter of credit.

To make the data comparable across countries, several assumptions about the business and the traded goods are used, including cargos (e.g., dry cargo, 20-foot container, with content valued at \$20,000); trading firms (e.g., more than 60 employees, domestically-owned); and trading route (e.g., from most populated city to the main port). Since 2007, assumptions were refined to adjust for particularities of landlocked countries and reduce variations related to documentation involving private parties. In the case of landlocked countries, any port-related data are based on information provided by the relevant sea port country. Inland transport costs are based on the number of kilometers. The time to obtain a letter of credit refers to a first time application and any documentation between the shipper and trader is excluded. Additional information on underlying assumptions and methodology, as well as data collected from over 150 countries since 2006, is available at [www.doingbusiness.org/ExploreTopics/TradingAcrossBorders/](http://www.doingbusiness.org/ExploreTopics/TradingAcrossBorders/).

Source: World Bank. *Doing Business* Report.

Although the time necessary to complete import procedures have remained generally higher than that for export procedures, significant progress was made in cutting down days to import in all subregions, including Central Asia. The most successful countries were Georgia (by 42 days), the Lao People's Democratic Republic and (by 39 days), Cambodia (by 28 days), and India (by 21 days). Southeast Asia made the most progress among all subregions, achieving a 39% reduction in the number of days to complete import procedures. In terms of costs related to document preparation, customs clearance, technical controls, handling, and inland transport, Asia and the Pacific developing countries experienced significantly lower cost increases than G7 countries between 2006 and 2012.

#### Progress has also been made in reducing international shipping costs

The official trade costs discussed earlier do not include international transportation costs, which account for a significant share of the overall transaction costs. Progress in reducing international trade and transport costs may be assessed using international trade data, as some countries collect free-on-board

(FOB) import values<sup>17</sup> and cost, insurance, and freight (CIF) import values. The difference between CIF and FOB values may be used as an indicator of trade costs, capturing broadly defined international transport costs. A progressive reduction in the CIF to FOB price gap can be interpreted as an increase in international trade and transport efficiency, particularly if this is achieved through improved port and related international transport infrastructure and services available in the exporting country.

Figure 1.3 reports average ad valorem international transport costs (calculated as CIF–FOB/FOB) for some Asian economies' exports in 2002, 2006 and 2010 based on New Zealand import data. During this period, ad valorem trade costs had a declining trend in almost all countries, with the exception of Afghanistan, Azerbaijan and Georgia. Among the Asian countries, international trade costs vary widely from less than 5% for most of the Southeast Asian countries to over 15% for Nepal. Note, however, that trade costs based on trade statistics is not reliable if trade amount is small.

Limitations of this measure of trade cost are summarized in Box 1.4. This, notwithstanding the CIF/FOB measure, is valuable because it serves as a standard and widely accepted yardstick for cross-country comparisons. The aggregate results are consistent with those based on survey data. For example, those countries that have made progress in reducing the time necessary for trade procedures, as well as official behind- and at-the-border trade costs, have also made progress in improving their port efficiency and ability to ship goods internationally. Trade costs are lowest in Southeast and Northeast Asian countries and highest in South and Central Asian countries, but there are large variations within the subregions.

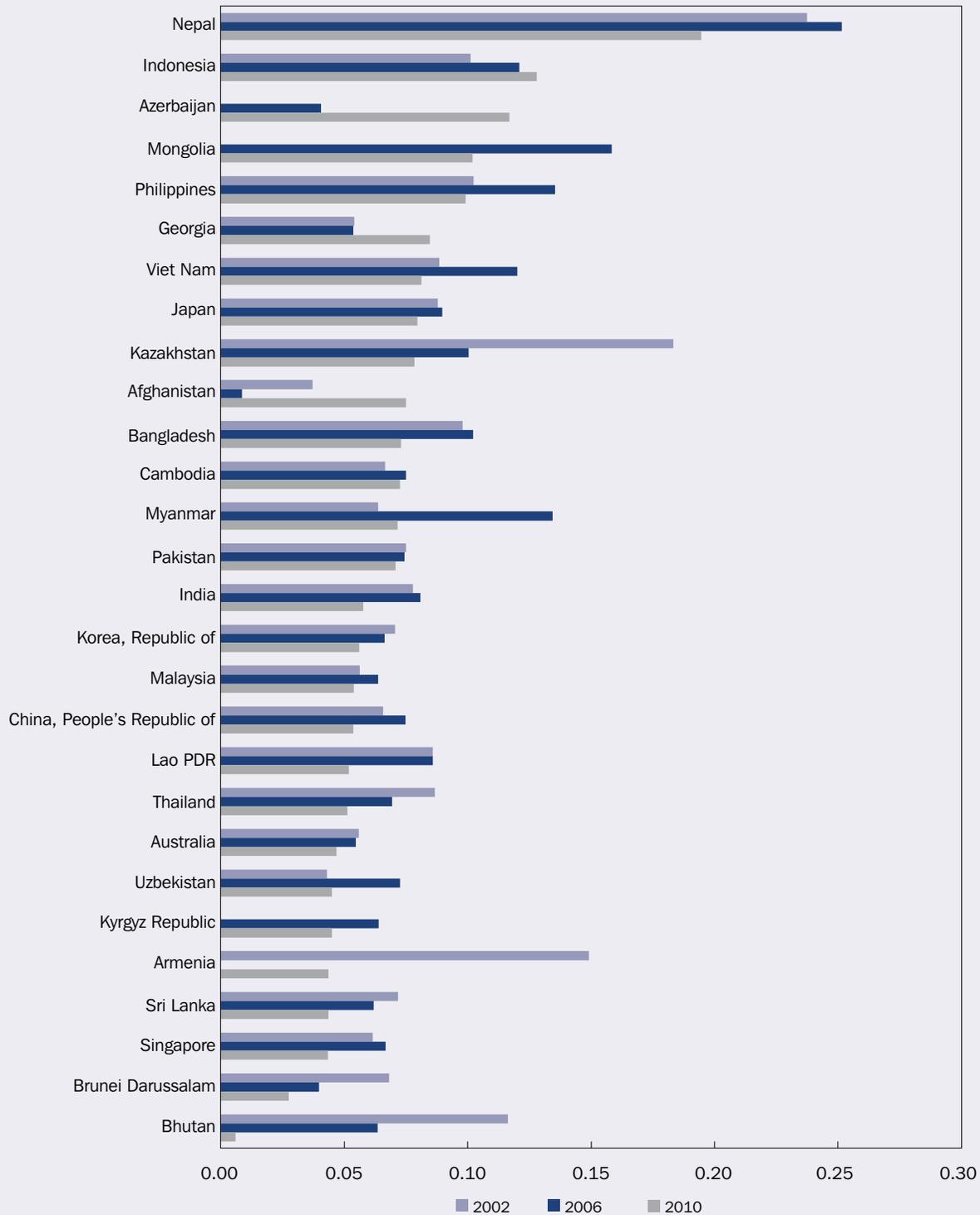
## Asia and the Pacific Regional Performance Still Lagging

While significant progress has been made, the trade facilitation performance gap between Asia and the Pacific and the world's most developed economies remains large. Figure 1.4 shows that, on the average, it takes more than three times longer to complete export procedures in developing countries in Asia and the Pacific than it does in G7 countries. As will be discussed in Part II, this huge gap is partly due to the fact that it takes twice as many documents to complete import or export procedures in Asia and the Pacific than in the G7 economies. It is worth noting that Southeast Asia outperforms Northeast Asia (excludes Japan, which is included in G7) in both time and cost to export and import. Firms in Asia and the Pacific also face trade costs that are, on the average, 17% higher than those in the G7, although the situation varies greatly across subregions and firms. In Southeast and Northeast Asia, as well as in the Pacific Islands, costs of trade procedures are reportedly lower than in G7 countries. However, it is worth noting that the data presented in Figure 1.4 include official behind- and at-the- border trade costs only. Additional trade costs in the form of illegal and informal payments are not accounted for, although they remain a serious issue in many Asia and the Pacific developing countries (Part II, Chapter 1).

Large differences between export and import costs (and time) indicate room for improving procedures. The Pacific Islands can be said to be import-friendly, as import costs exceed export costs by only 2%. In fact, for countries like Kiribati,

<sup>17</sup> FOB is the value collected when a good is at the port of exit in the exporting country.

**Figure 1.3: Ad Valorem International Transport Costs Using Cost, Insurance, and Freight and Free-on-Board Method**



Source: Hamanaka and Domingo. 2012.

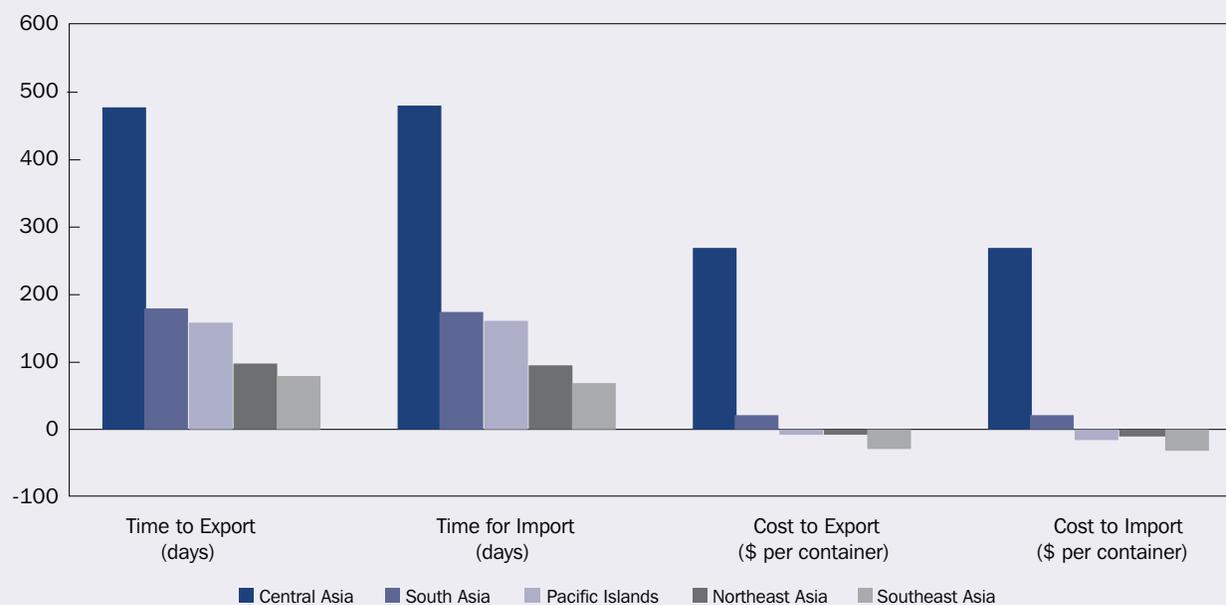
### Box 1.4: On Using CIF/FOB Trade Data to Assess Trade Costs

The cost, insurance, and freight/freight-(free-)on-board (CIF/FOB) measure is broader than narrowly defined transport costs because features such as poor port infrastructure will increase the measure. The price gap is operationally useful because some national statistical offices collect these data, and where the data are available, the gap is simple to measure.<sup>a</sup> The CIF/FOB measure is an economically meaningful measure of the wedge between the cost of producing and moving a good to the exporter's port, and the price paid by the importer upon the good's arrival in the destination country. However, it may be too narrow as a policy-relevant definition of trade costs. The CIF/FOB measure is also ill-suited for breaking down trade costs into individual elements on which trade negotiations might focus.

In addition, some of the CIF/FOB price gap is determined by geography and the commodity composition of trade (e.g., low value/weight commodities have higher ad valorem transport costs). If the CIF/FOB price gap is to be used as a policy-relevant measure, these factors need to be controlled. Econometric analysis can separate the impact of various determinants of the cross-country variation in trade costs and provide the basis for an Adjusted Index of Trade Costs, which controls for shifts in the commodity composition of trade (Pomfret and Sourdin 2009). Using CIF/FOB trade data, it is also possible to obtain trade costs for each commodity group (Hamanaka and Domingo 2012).

<sup>a</sup> The CIF and FOB data must be collected on identical trade flows. Such data set for Australia, New Zealand, the US, and some Latin American countries are described in Hummels (2007) and in Korinek and Sourdin (2008). Mirror techniques (i.e., matching FOB values reported by exporting countries to CIF values reported by importing countries) are subject to large measurement errors (Hummels and Lugovsky, 2006).

### Figure 1.4: Asia and the Pacific Trade Facilitation Performance Gap



Source: Computed from World Bank Doing Business 2013.

Vanuatu and the Federated States of Micronesia, import and export costs are similar (Figure 1.5). In contrast, the import–export cost differences are much higher in the case Central Asian countries (9%).

### **Intraregional trade facilitation seems to be particularly problematic**

According to the latest estimates available (see Table 1.4), intraregional comprehensive costs of trade in goods<sup>18</sup> have fallen in almost all regions, but these costs remain very high compared to those among European Union (EU) countries. Non-tariff comprehensive trade costs between the People’s Republic of China, the Republic of Korea and Japan (East Asia-3), amounting to a 52% tariff-equivalent, are among the lowest in the world. The largest middle-income members of the Association of Southeast Asian Nations (ASEAN), i.e. Indonesia, Malaysia, the Philippines and Thailand, or ASEAN-4, have also achieved high levels of international trade efficiency; but average trade costs among ASEAN members when its two least developed countries are included are still approximately double those among the East Asia-3 economies. Intraregional trade costs among North and Central Asian countries, at 141%, are highest in the region. While improvements have been made within many subregions in Asia, trade costs between Asian subregions are often higher than those between Asian subregions and regions outside Asia. For example, the non-tariff costs of trade between ASEAN members and members of the South Asian Association for Regional Cooperation (SAARC) are, on average, nearly double the costs of trade between ASEAN members and the United States (126% vs. 75%).

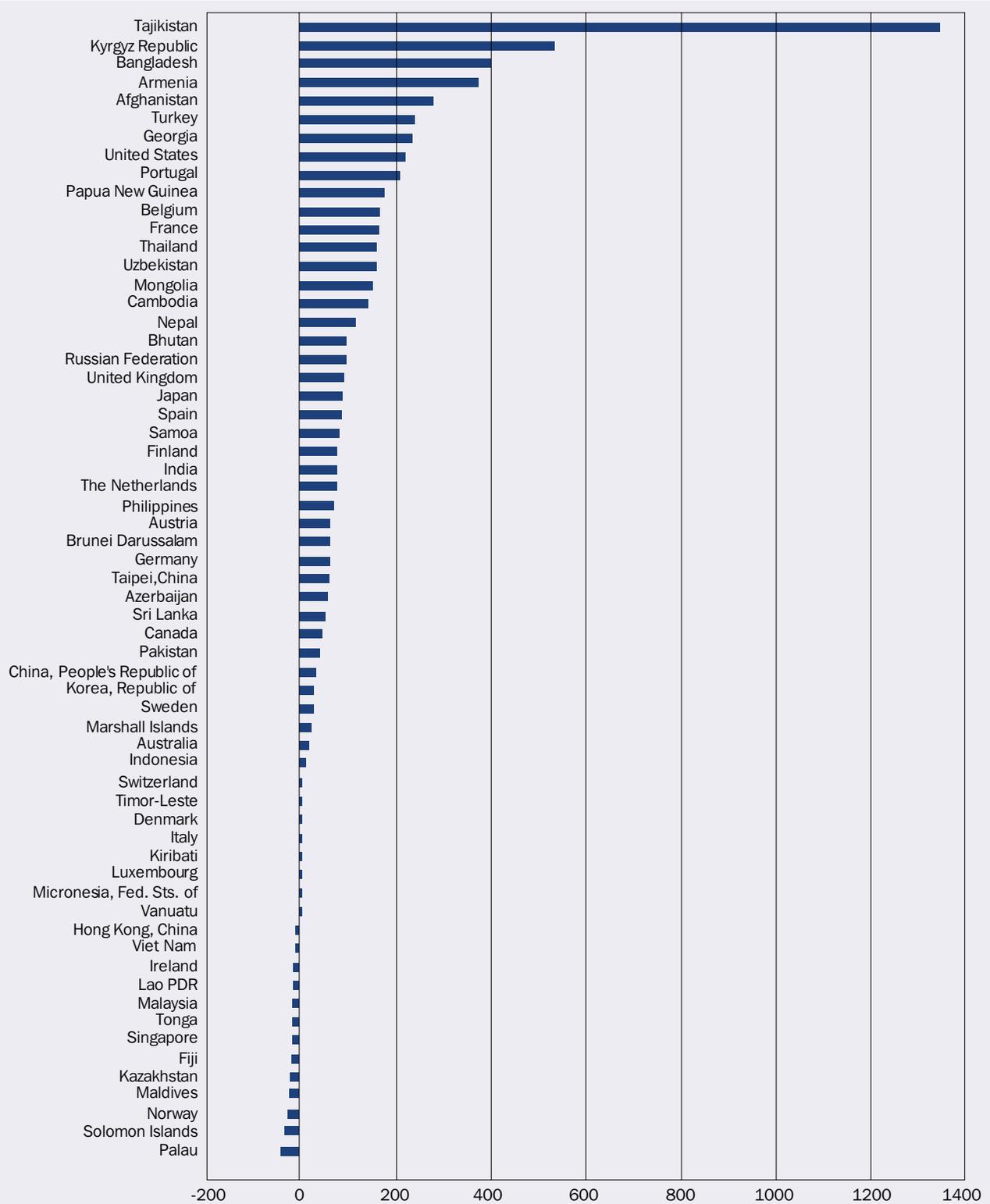
Efficient overland trade is one of the keys to facilitating intraregional trade, and achieving a more inclusive growth and regional development.<sup>19</sup> Unfortunately, national trade facilitation programs in many developing countries have often inherently focused on facilitating imports and exports from and to developed countries by sea and air, partly because of the increasing sophisticated requirements imposed by developed countries on their trading partners as part of trade security initiatives. As such, trade facilitation concerns at many land borders have remained unanswered.

Asian landlocked countries are particularly affected by the lack of intraregional trade facilitation, as their geographic characteristics make it mandatory for their goods to pass through at least one land border in another developing country before reaching a sea port. These countries, many of which are in Central Asia, have significantly higher time and monetary trade costs. Export and import costs in landlocked countries average at \$2,600 to \$3,000 per container, as opposed to only \$1,300 to \$1,500 for Asia and the Pacific developing countries as a whole. The trade facilitation performance gap between landlocked and other developing countries in the region is similar in terms of time. In landlocked countries, trade procedures involved in moving goods from the factory to the closest sea port take an average of more than 60 days, nearly twice the average for Asia and the Pacific developing

<sup>18</sup> The comprehensive trade cost measure is an objective measure based on macroeconomic data rather than perception survey data. It is a very broad aggregate measure of international trade costs including, inter alia, direct and indirect costs related to fulfilling regulatory import and export requirements as well as costs resulting from differences in currencies, languages, culture and geographical distances. Domestic and international shipping and logistics costs associated with imports and exports are also included. For details, Arvis et al. (2013), “Trade Costs in the Developing World: 1995-2010”, Policy Research Working Paper No. 6309, The World Bank; and ESCAP-World Bank Trade Cost Database at <http://www.unescap.org/tid/artnet/trade-costs.asp>,

<sup>19</sup> De, P 2009; ESCAP 2009a.

**Figure 1.5: Additional Cost of Completing Import Procedures Relative to Export Procedures in Selected Economies in Asia and the Pacific (\$/container)**



Source: Computed from World Bank Doing Business 2013.

**Table 1.4: Intra and Extra-regional Trade Costs in the Asia-Pacific Region, excluding Tariff Costs (2007-2010)**

Region	ASEAN-4	East Asia-3	North and Central Asia	SAARC-4	AUS-NZL	EU-3	USA
ASEAN-4	75% (3.1%)	78% (7.7%)	381% (7.9%)	126% (0.7%)	86% (-11.5%)	110% (6.6%)	84% (12.4%)
East Asia-3	78% (7.7%)	52% (-8.5%)	221% (-12.1%)	125% (1.9%)	80% (-14.2%)	86% (-5.6%)	63% (-1.4%)
North and Central Asia	381% (7.9%)	221% (-12.1%)	141% (0.5%)	261% (-13.1%)	296% (-14.4%)	166% (-4.9%)	191% (3.5%)
SAARC-4	126% (0.7%)	125% (1.9%)	261% (-13.1%)	105% (-0.6%)	127% (-8.1%)	115% (6.0%)	108% (8.3%)
AUS-NZL	86% (-11.5%)	80% (-14.2%)	296% (-14.4%)	127% (-8.1%)		102% (-5.9%)	90% (-4.7%)
EU-3	110% (6.6%)	86% (-5.6%)	166% (-4.9%)	115% (6.0%)	102% (-5.9%)	46% (-0.4%)	67% (1.1%)
USA	84% (12.4%)	63% (-1.4%)	191% (3.5%)	108% (8.3%)	90% (-4.7%)	67% (1.1%)	

Note: Trade costs shown may be interpreted as tariff-equivalent trade costs. Percentages in parenthesis are percentage changes in trade costs between 2000-2004 and 2007-2010.

Source: ESCAP – World Bank Trade Cost Database, Details are available at [www.unescap.org/tid/artnet/trade-costs.asp](http://www.unescap.org/tid/artnet/trade-costs.asp).

countries, and 10 times more than Singapore. It is also worrying that landlocked countries have often made only marginal progress in terms of trade time between 2006 and 2009 (only a 1% average decrease in trade time), leading to an increase in the relative trade facilitation performance gap between these countries and the rest of Asia and the Pacific during that period.

There is still a dearth of information on intraregional trade and transit facilitation for various experiences in regional and subregional approaches to trade and transit facilitation in the area of infrastructure and transit (Part II, Chapters 4 and 5). However, some subregional analyses undertaken locally by research institutions in developing countries suggest that the situation at many land border crossings is less than optimal (Box 1.5). By comparison, progress is visible in the Greater Mekong Subregion (GMS),<sup>20</sup> where countries signed a landmark cross-border transport facilitation agreement covering a number of ambitious trade facilitation measures, such as single window/single stop inspections, in 2003. The GMS experience is dealt with in Part II, Chapter 4 and Part III, Chapters 1.

### **Beyond averages, the predictability and timeliness of goods delivery need improvement**

Beyond the average direct official costs and days involved in completing trade procedures, an essential issue for global business is the ability to deliver (and receive) goods on schedule. Unfortunately, as shown in Figure 1.6, timeliness is lacking in many countries in Asia and the Pacific, at least as perceived by the global freight forwarders and express carriers participating in the World Bank Logistics Performance Index (LPI) surveys. This may be attributed to a combination of poor trade infrastructure, nontransparent and unpredictable clearance procedures, and an underdeveloped logistics services sector, highlighting the need for an integrated approach to trade facilitation.

<sup>20</sup> This subregion includes Cambodia, two provinces in Southeast PRC, the Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam.

### Box 1.5: Crossing Borders is Costly in South Asia

A large portion of South Asia's merchandise trade is carried overland and through borders such as those between India and its neighboring countries. However, there is no direct cross-border road or rail transportation in South Asia. The direct movement of goods and vehicles is prohibited, for example, between India and Bangladesh, and between Pakistan and India. At those borders, goods are required to be transshipped.

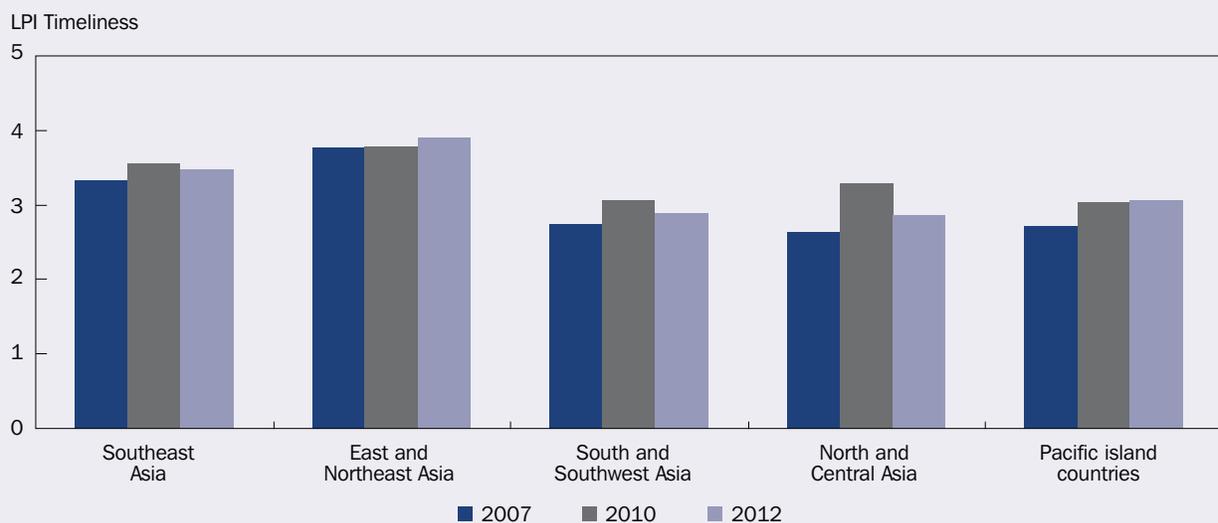
Movements through land borders across countries in South Asia continue to be unsatisfactory due to various impediments. For instance, the border delay in terms of time for India's exports to Bangladesh (Petrapole India, and Benapole, Bangladesh) was not reduced between 1998 and 2005. On the one hand, delays in terms of time at the border increased from 2.5 days in 1998 to 3.92 days in 2005. The costs of transaction at the border also increased from 10.38% in 2002 to 16.80% in 2005.

According to De and Ghosh (2008), Indian exporters to Bangladesh have to obtain about 330 signatures on 17 documents at several stages. While most of these documents are standard for international trade, the two governments have additional local requirements. The increasingly complex procedures often not only change the composition and direction of trade in South Asia, but also attract a considerable number of unemployed people who see opportunities for earning through informal channels, and turn these into full-time employment. Similar situations—albeit less dramatic—exist at most other land borders in South Asia. All these lead to a rise in transaction costs and to rent-seeking informal economies in South Asia. Ultimately, the welfare loss on account of trade transaction costs and time delays is considerable and possibly wipes out the benefits of trade liberalization in the region.

In a recent ARTNeT study, De, Khan and Chaturvedi (2008) showed that a 10% fall in transaction costs at the border had the effect of increasing a country's exports by 3%. The study indicated that e-filing of customs formalities had helped trade to grow in Eastern South Asia. The same study also showed that current transit arrangements had not played a significant role in enhancing regional trade flows, primarily in the context of Eastern South Asia. Unlike the European Union, South Asia does not have a regional transit arrangement, although limited bilateral transit arrangements exist for landlocked countries such as Afghanistan, Bhutan, and Nepal. Therefore, the cost of transportation and time delays at borders in South Asia greatly penalize trade in the same way high tariffs do.

Source: De, P. 2009.

Figure 1.6: LPI Timeliness: Perceived Likelihood of On-Schedule Delivery



Source: World Bank Logistics Performance Index. 2007, 2010, and 2012.

## Trade Facilitation Needs and Priorities Vary Across Countries

As part of its preparation for possible negotiations on trade facilitation, in 1998 the World Trade Organization (WTO) asked importers and exporters to identify the major issues that needed to be addressed. Some of the concerns raised included excessive documentation requirements;

- (i) lack of automation and insignificant use of information technology;
- (ii) lack of transparency, and unclear and unspecified import and export requirements;
- (iii) inadequate procedures, particularly the lack of audit-based controls and risk assessment techniques; and
- (iv) lack of modernization and cooperation among customs and other government agencies, which have thwarted efforts to deal effectively with increased trade flows.

More recently, exploratory surveys conducted in various Asia and the Pacific countries revealed that the needs and priorities of traders vary significantly across countries.<sup>21</sup> However, a number of common, high-priority issues emerged in almost all countries surveyed. In most countries, top priority was given to eliminating bribery and other corrupt practices by officials involved in the clearance and release of imported goods. Improving coordination between the relevant agencies, particularly on documentation requirements (e.g., through the establishment of a single window for one-time submission and collection of trade documents) was also given very high priority in all the countries. Timely, comprehensive publication and dissemination of trade rules and regulations (e.g., through the internet) was the highest priority in some countries (such as Indonesia and Nepal), while reduction and simplification of the documentation requirements for import/export was the highest priority in others (such as Bangladesh).

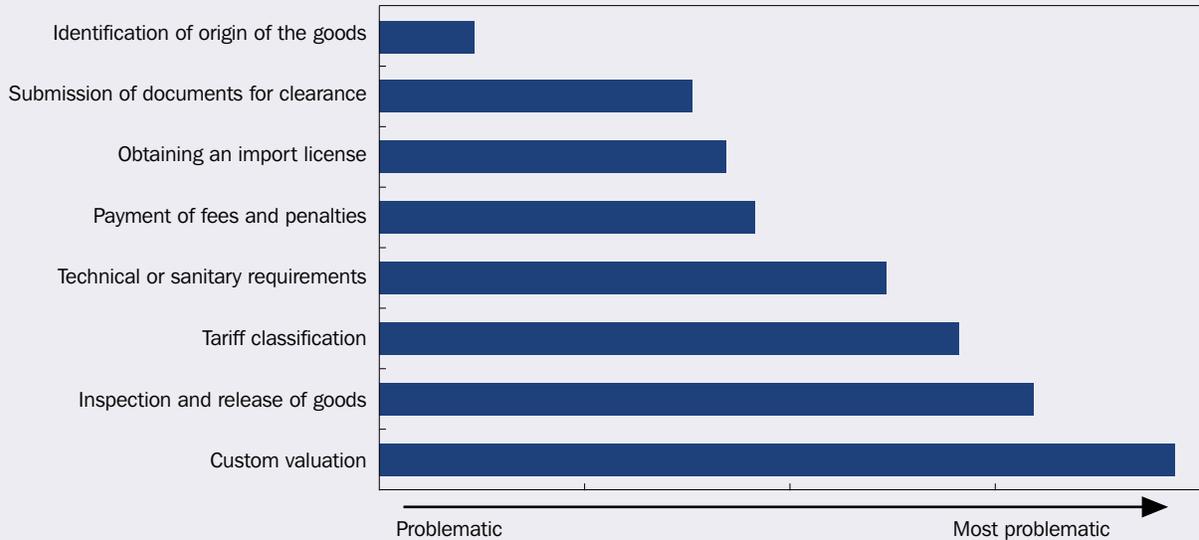
In addition to trade facilitation measures being negotiated under the WTO, customs valuation was identified as the most problematic area in the countries surveyed (Figure 1.7). Complying with technical or sanitary requirements (product standards) was also found to be highly problematic in many countries in the region. These issues will be discussed in detail in Part II.

The information provided in this overview of trade facilitation in Asia and the Pacific is by no means complete. Considerable data limitations exist, not only in terms of how the data are presented or defined, but also in terms of how they are collected. As mentioned earlier, national trader surveys can provide an incomplete or biased picture of realities on the ground. For example, while many traders are likely to point to customs and other trade control agencies as creating delays in imports or exports, the actual source of the delay may not lie with these agencies, but with the port operators or the private providers (e.g., freight forwarders or customs house agents) used by traders as intermediaries. Therefore, correctly assessing the status of trade

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<sup>21</sup> Prasad, B.C. 2007.

**Figure 1.7: Most Problematic Areas in Conducting Trade in Selected Developing Countries in Asia and the Pacific**



Note: Based on exploratory private sector surveys in Bangladesh, the PRC, Fiji, India, Indonesia, and Nepal conducted in 2005/2006.  
Source: Duval. 2008.

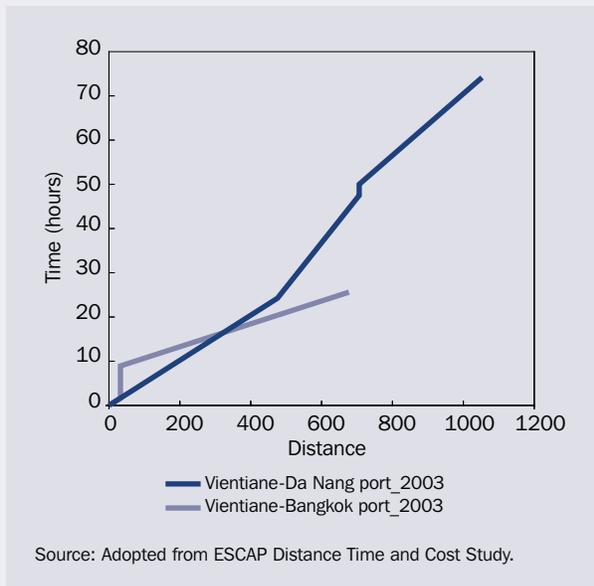
facilitation requires more detailed analyses of trade procedures and processes. Direct measurement methods, such as the WCO Time Release Study or the ESCAP time/cost– distance model (Box 1.6) and BPA methodology, which provides for detailed measurement of time and costs at various stages of the clearance or international transportation process, respectively, may be considered in this regard and will be detailed in Part II.

### Box 1.6: Time/Cost–Distance Model

The time/cost–distance methodology used by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) is based on the graphical representation of data collected with respect to the cost and time associated with the transit transport process along a particular route. The purpose of the model is to identify inefficiencies and isolate bottlenecks by analyzing cost and time along a particular route.

The methodology enables easy comparison and evaluation of competing modes of transport operating on the same route and/or comparison of alternate transit routes. It is based on the premise that the unit costs of transport may vary between modes, with the steepness of the cost/time curves reflecting the actual cost, price, or time. At border crossings, ports, and inland terminals, delays occur and freight/document handling charges and other fees are usually levied without any material progress or movement of the goods being made along the transport route.

For trade facilitation, the data gathered on time, cost, and distance along specific transport routes can help identify priority corridors. In addition, the data can help policy makers decide how to best address bottlenecks, remove constraints, and improve efficiency in these routes. They also allow import/export industries to evaluate their logistic performance.



Source: ESCAP. 2009.

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## ■ PART II

# Economics and Practices of Trade Facilitation

**P**art II focuses on five key areas of trade facilitation where improvements can be made in many countries in the region. Chapter 1 addresses the need for timely publication of trade regulations and procedures and increased transparency in the administration of trade transactions. Chapter 2 discusses simplification of trade procedures and documents using relevant international instruments. Chapter 3 discusses trade facilitation issues arising from the increasing number of product standards and related conformity assessment procedures. Chapter 4 emphasizes the importance of increasing the efficiency of trade-related infrastructure and services. Chapter 5 tackles transit trade facilitation, a priority for many landlocked developing countries and an important aspect of regional integration and inclusive development.

All chapters begin with a discussion of the regional state of play with regard to the particular area covered, based on relevant cross-country indicators and the existing economic literature. Each chapter features basic principles and good practices for trade facilitation in each area, which are grounded in existing international instruments and recommendations. Relevant principles and practices are illustrated by selected experiences and/or case studies of countries in Asia and the Pacific.



## ■ CHAPTER 1

# Publication and Administration of Trade Regulations

**P**ublication and implementation of trade regulations are critical first steps for trade facilitation. If rules are not publicly available and are not implemented efficiently, then their potential benefits are lost. Under certain circumstances, some governments may want to introduce relatively complicated trade regulations. However, whatever the rules, regulations, and standards, these should be publicized and provide the foundation for all administrative processes and decisions.

If accurate and detailed information on trade-related laws, regulations, procedures, formalities, and documentation are not publicly available, it is extremely difficult for traders, particularly the small or infrequent ones, to comply. Further, this gives the enforcing agencies room to alter procedures and requirements at will (either to facilitate or impede trade), creating opportunities for collusion between agents and traders where agents extract rent from traders, which then results in loss of public revenue.

Lack of transparent and publicly available trade-related rules are among the most critical nontariff barriers to international trade. As shown in Table 2.1, the private sector's top priorities for trade facilitation are timely and comprehensive publication of trade rules and regulations, and their effective and transparent application. The publication of rules and regulations, and administration based on the published rules, are the basis for reducing the costs associated with goods crossing international borders. This chapter discusses the state of play and the impact of effective administration on trade, followed by best practices and experiences in Asia and the Pacific.

**Table 2.1: Private Sector Priority Ranking of Selected Trade Facilitation Measures**

Trade Facilitation Measures	Ranking					
	Overall	Bangladesh	China, People's Republic of	India	Indonesia	Nepal
Elimination of bribery and other corrupt practices of officials involved in the clearance and release of imported goods	1	1	1	1	2	1
Improvement of coordination between relevant agencies, particularly on document requirement, e.g., through the establishment of a single window for one-time submission and collection of all trade documents	2	3	3	4	2	4
Timely and comprehensive publication and dissemination of trade rules and regulations (e.g., through the internet)	2	6	4	4	1	1
Computerization and automation of trade procedures, e.g., online submission and approval of customs declarations, cargo manifests, including electronic payment of fees and customs duties	4	6	5	2	5	6
Harmonization and standardization of documentation requirements based on international standards	5	4		8	8	4
Reduction and simplification of documentation requirements for import and export procedures	6	1	7	3	6	

Source: UN Economic and Social Commission for Asia and the Pacific (ESCAP). 2006a.

## Publication and Administration: State of Play

Cross-country data on the extent to which trade-related rules, regulations, and procedures are published, and how they are published, are not readily available. Information on the quality of administration of trade-related rules is also very limited although attempts have been made to collect it through private sector surveys such as the annual World Economic Forum's executive opinion survey and the World Bank's Logistics Performance Index.<sup>22</sup>

*The Global Competitiveness Report (GCR)* is one of the best sources of indicators in this area (Box 2.1). In particular, the GCR data on irregular payments on exports and imports can provide an indication of the quality of rules and the lack of publication and administration in trade policy; that is, irregular payments are more likely to be required when clear rules are not published or when administration is not consistent with the stipulated rules and regulations.<sup>23</sup> As shown in Figure 2.1, Singapore and Hong Kong, China reported very few irregular payments in exports and imports, outperforming the G7 average. Although irregular payments are an issue in most Asian countries included in the survey, some countries did make significant improvements from 2011 to 2013, particularly Kazakhstan, Armenia, Cambodia and the Philippines. Further, though general improvement in Asia and the Pacific is very minimal, G7 economies also got worse a bit.

<sup>22</sup> Information on the quality of administration is broadly related to governance. For discussion of alternative governance measures, see United Nations Development Programme (UNDP). 2005; Kaufmann and Kraay. 2008; Dixit, A. 2009.

<sup>23</sup> This indicator was available in GCR until its 2006/2007 edition. It is now reported instead in the GETR.

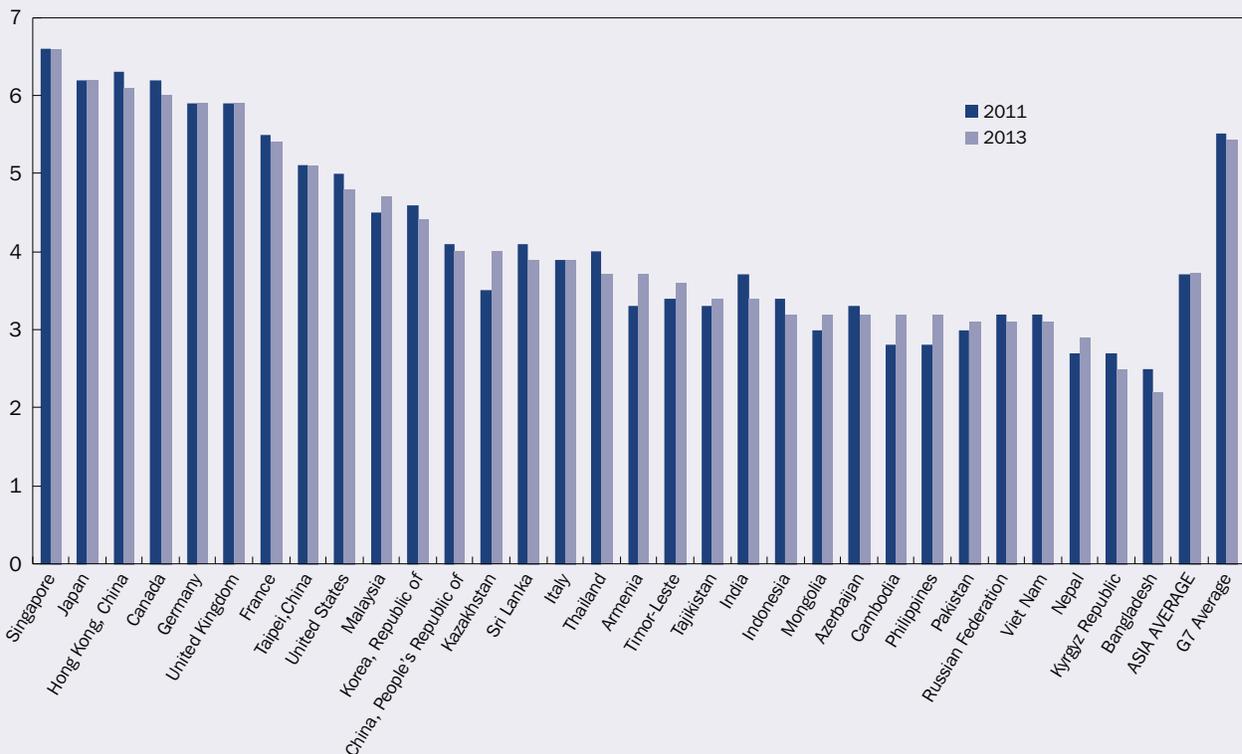
### Box 2.1: The Global Competitiveness Report

The Global Competitiveness Report (GCR) covers more than 130 economies and contains over 110 indicators, along with associated country rankings. It is prepared annually by the World Economic Forum, an independent international organization committed to improving the state of the world by engaging leaders in partnerships to shape global, regional, and industry agendas. Incorporated as a foundation in 1971 and based in Geneva, Switzerland, the World Economic Forum is nonprofit; it is tied to no political parties or national interests.

The main feature of the Global Competitiveness Report is the Global Competitiveness Index, which is computed from both publicly available statistics and the World Economic Forum’s Executive Opinion Survey, a comprehensive annual survey conducted by the World Economic Forum and its network of partners. It is designed to capture a broad range of factors that affect an economy’s business climate. The GCR has 12 pillars of competitiveness: institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market sophistication, technological readiness, market size, business sophistication, and innovation. GCR 2012/2013 features 144 economies. It contains a detailed profile for each of the economies featured in the study as well as an extensive section of data tables with global rankings covering over 100 indicators.

Source: Global Competitiveness Report 2012-2013. Available at <http://www.weforum.org/issues/global-competitiveness>.

### Figure 2.1: Irregular Payments in Exports and Imports, 2011 and 2013



Source: World Economic Forum. Global Competitiveness Report. 2011 and 2013.

### Box 2.2: The Complementarity of World Bank's Logistics Performance Index and Doing Business Indexes

For trade activities, Doing Business focuses on red tape obstacles to the movement of goods across borders, and the ease of export and import for small- and medium-sized enterprises.<sup>a</sup> The World Bank's LPI uses a broader and more comprehensive approach to supply-chain performance to measure some of the critical factors of trade logistics performance. These are the quality of infrastructure and logistics services, the security of property from theft and looting, the transparency of government procedures, macroeconomic conditions, and the underlying strength of institutions. The value-added of the LPI is that it provides a global benchmark of logistics efficiency service quality not treated specifically in Doing Business.

<sup>a</sup> The Doing Business database and indicators are discussed in Part I Chapter 1.  
Source: World Bank Logistics Performance Index.

**Table 2.2: Transparency in Trade Regulations – Perceptions from Global Logistics Operators**

	East Asia and the Pacific Average (%)	
	2007	2012
Do you receive adequate and timely information when regulations change?	41	23
Is customs clearance a transparent process?	25	26

Source: World Bank. Logistic Performance Index. 2007 and 2012.

While the GCR has significantly improved its country coverage in recent years, it has yet to cover Asian countries whose transparency in government policy making needs to be captured. For example, the GCR does not cover Afghanistan, Bhutan, the Lao People's Democratic Republic, and Myanmar.

World Bank Logistics Performance Index (LPI) also provides information on regulatory transparency and, more specifically, on the transparency in customs clearance in some countries in Asia and the Pacific (Box 2.2). The information is based on the perceptions of global freight forwarders and express carriers who were asked to respond to the following questions: "Do you receive adequate and timely information when regulations change?" and "Is customs clearance a transparent process?" (Table 2.2). LPI and GCR results are consistent with each other.

The use of information communication technology (ICT) is also critical for the publication of regulations. ICT is an effective tool to publicize regulations and make these available to concerned parties without discrimination. It can also facilitate the participation of various stakeholders in the regulatory process, allowing for efficient electronic submission of comments on existing or new regulations. Consultation and feedback of various stakeholders through the internet have the potential to increase government transparency as these provide citizens new channels of influence and reduce barriers to public participation in policy making.

The UN E-Participation Index is an indicator of administrative transparency and willingness to engage in consultations. It is a composite measure based on information from government websites, capacity for the public to engage in consultative processes electronically, and government willingness to take account of electronically submitted inputs in decision making. Countries in Asia and the Pacific are found to be at different stages of development in this area (Figure 2.2). The Republic of Korea has the highest e-participation score, having the highest percentage of internet users in the world (Part II Chapter 4). This can be explained by its government's strong emphasis on the development of a national information technology (IT) infrastructure and e-government solutions. While many Asian countries have improved their scores in e-participation during 2008 and 2012, Kazakhstan, Singapore, Japan, Mongolia, Malaysia and Brunei Darussalam have made the most progress during the period.

Overall, the various indicators provide a remarkably consistent picture of governance in the region, regardless of the specific data set or index examined. While some governments in the region, notably Singapore and New Zealand, are setting the global standard in this area, many still lag far behind. Much remains to be done to improve the publication and administration of trade regulations and procedures, given the fact that only 25% of global logistics providers operating in the region describe the customs process as transparent, and less than half indicate that they have been informed of the regulatory changes.

## Impact of Effective Publication and Efficient Administration on Trade

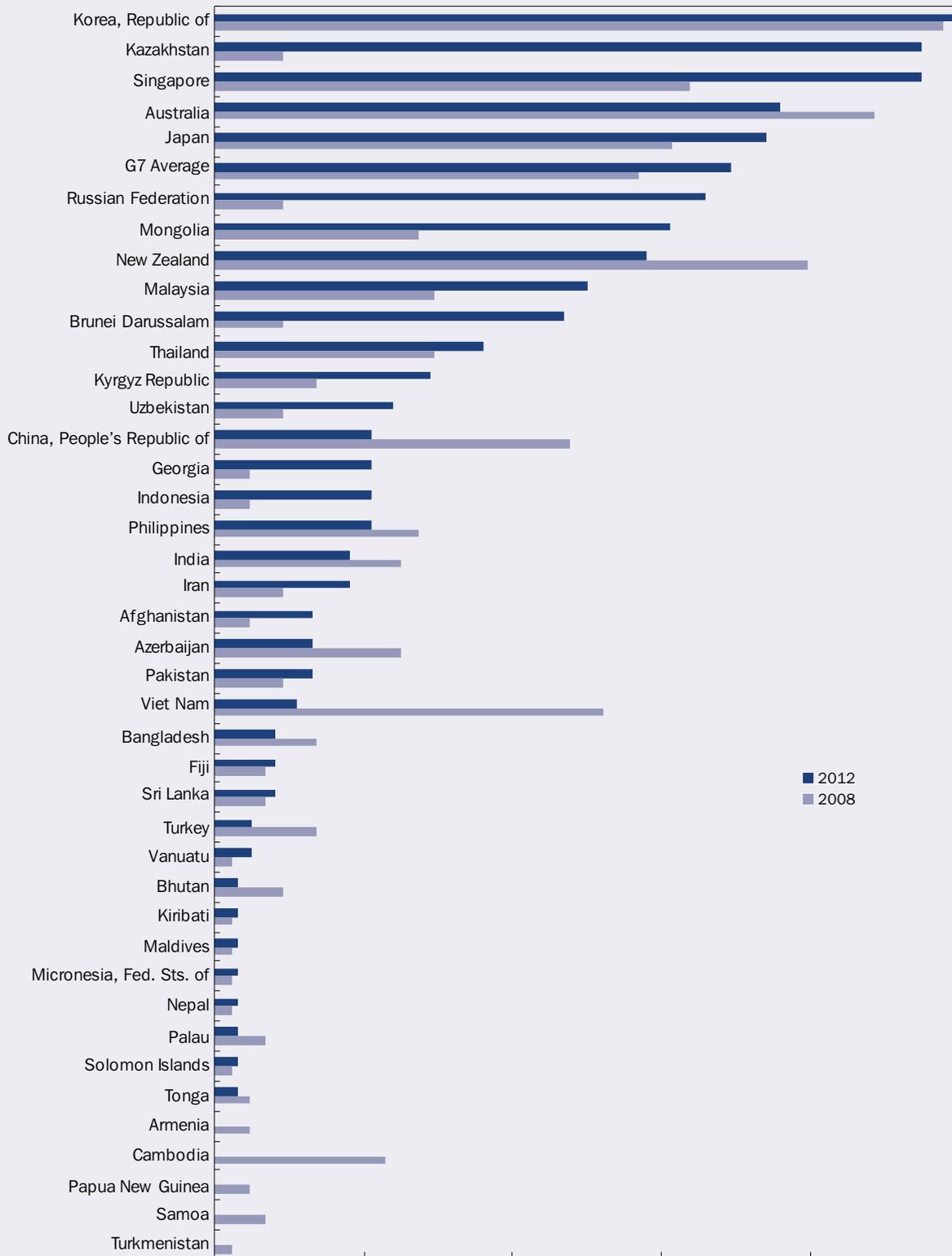
It is difficult to disentangle the impact of effective publication of trade rules and regulations from their efficient administration because of lack of data and the fact that publication is a likely precondition to efficient administration. Efficient administration of existing rules and regulations may be measured in terms of corruption, or its absence.

Abe and Wilson (2008)<sup>24</sup> attempted to quantify the benefits of reducing corruption and improving transparency to lower trade costs in Asia and the Pacific. They found substantial benefits from increasing transparency in the countries ranked below the regional average. If transparency in these countries were raised to the average in the region, then regional trade would increase by 11% and global welfare would increase by \$406 billion. Under this scenario, the gross domestic product (GDP) of the Philippines, Thailand, and Viet Nam would increase by about 20%. Although the numerical results must be treated with caution because both gravity and computable general equilibrium studies are sensitive to assumptions, the Abe and Wilson (2008) study highlights the potential magnitude of gains from improved transparency.

Corruption can be a major obstacle to trade in manufactured goods (rather than primary products), especially those characterized by value chains. Pomfret and Sourdin (2008) find that the relationship between trade costs of imports into Australia and the Transparency International Corruption Perception Index for the exporting country is weak at the aggregate level, but much stronger for air freight than for sea freight and stronger for some categories of manufactures than

<sup>24</sup> Abe and Wilson (2008) use factor analysis to construct a composite index of transparency, which they plug into a gravity model to estimate the impact of increased transparency on trade, and then use the Global Trade Analysis Project (GTAP) global general equilibrium model to calculate the consequences for GDP and welfare.

Figure 2.2: E-participation Index



Source: UN E-participation Index 2008 and 2012.

for others.<sup>25</sup> A producer located in a country whose officials can delay trade by discretionary actions is unlikely to become involved in value chains where timely delivery at competitive prices is critical. Thus, corruption could be a substantial obstacle to participation in the fastest-growing area of international trade, especially in East Asia.

To eradicate corruption, a holistic approach to trade facilitation reform is necessary. High trade costs and complicated procedures create an environment conducive to corruption and bribery. The intuition is that higher costs of official trade due to inefficient and/or ineffective regulations or decaying infrastructure can create an incentive for traders to seek quicker and cheaper access to international markets through corrupt means. Bribes may be exercised by security guards to restrict pilfering, by shipping planners who offer priority, or by clerks who stamp documents. Shepherd (2009) demonstrates that longer days to export and import appear to lead to greater prevalence of trade-related corruption. Regulatory reform, availability of information on rules and regulations, automation of trade procedures, and upgrading of infrastructure might therefore provide a second-round boost to trade through reduced corruption.

## Basic Principles and Good Practices

While information dissemination on customs procedure is an important component of trade facilitation, the scope for publication issues is not limited to customs-related rules. Any trade-related laws, regulations, procedures, and associated requirements should be published.

Various World Trade Organization (WTO) agreements have articles on publication and administration-related matters under the title of transparency. Thus, the concept of transparency is not just a principle—it is an operational mandate for all WTO agreements. General Agreement on Tariffs and Trade (GATT) Article 10 is Publication and Administration of Trade Regulations. Article 10 of the Technical Barriers to Trade (TBT) Agreement is Information About Technical Regulation, Standards and Conformity Assessment Procedures. Annex B of the Sanitary and Phytosanitary (SPS) Agreement is Transparency of SPS Regulations. Based on the stipulations in these agreements, the governing principles on transparency can be summarized as follows:

- (i) *Trade-related laws, regulations, procedures, and documents should be made publicly available and easily accessible.* As GATT Article X-1 has required, all trade-related information such as rules, regulations, procedures, and associated documents shall be published to enable governments and traders to become familiar with them (Box 2.3). This is important to allow access to accurate and timely information on trade procedures and formalities. However, GATT X-1 does not require any country to disclose confidential information. The principle of timely publication is equally important to technical regulations for product quality that may have major implications for both producers and traders (TBT Article 2.9.1).<sup>26</sup> Moreover, while it is not required by WTO, regulations that have a large impact on trade should be published not only in the national

<sup>25</sup> Pomfret and Sourdin (2008) use the cost, insurance, and freight/free-on-board (CIF/FOB) gap as the measure of trade costs and control for distance and for value/weight of commodities.

<sup>26</sup> In the case of the SPS Agreement, it is required that interested members of the WTO should be able to become acquainted with the regulations (SPS Annex B-1).

### Box 2.3: Increasing Transparency of Administration: What Should Be Published?

Hong Kong, China, Japan, Mongolia, Norway, Switzerland, and Turkey<sup>a</sup> have proposed the prompt publication of laws, regulations, judicial decisions, and administrative rulings of general application as specified in Article X of the General Agreement on Tariffs and Trade (GATT), 1994. These include the following:

- importation, exportation, or transit procedures required by government (including port, airport, and other entry point procedures and required forms and documents);
- rate of duties and taxes imposed on or in connection with importation, exportation, or transit (including applied tariff rates);
- general rule for classification of products for customs purposes as well as examples of such classifications;
- import, export, or transit requirements, restrictions, or prohibitions;
- fees and charges imposed on or in connection with importation, exportation, or transit procedures as required by government;
- penalty provisions against breaches of import, export, or transit formalities;
- appeal procedures; and
- agreements or parts thereof with any country or countries relating to importation, exportation, or transit.

While legislative texts are important for litigation and appeal and dispute settlement, practical descriptive information or excerpts have greater value in the actual conduct of trade transactions<sup>b</sup>. Information on operational implications of legislation such as outlines of border crossing formalities, opening hours of border crossings and other agency offices, and updated release and clearance times at selective border crossings are essential for traders. This type of information (available through agency-level information notes outlining major trade-related procedures under their responsibility, or as part of a trade facilitation handbook that provides descriptive practical operational information to traders) is a useful tool for transparency. In any case, relevant administrations should adopt information policies to ensure that the published information is updated and accurate.

<sup>a</sup> WTO (TN/TF/W/155/Rev.1). 2009.

<sup>b</sup> United Nations Conference on Trade and Development (UNCTAD). 2008.

language of a concerned country but also in a foreign language (e.g., English, French).<sup>27</sup> Publishing such information through the internet, a means widely accessible to the general business community, is highly encouraged. For example, Trade Portal of India, a website established and maintained by the India Trade Promotion Organization ([www.tradeportalofindia.org](http://www.tradeportalofindia.org)), contains information on customs and other border agencies' regulations, online forms for traders, tax calculator, and other useful information.

- (ii) *Enquiry points should be established to answer questions on complex trade and customs rules, regulations, and procedures.* The establishment of an enquiry point is an effective way to enhance transparency of administration, as it could serve as a useful tool to improve accessibility of trade-related information, especially to private sector traders. SPS and TBT agreements require enquiry points, meant to provide answers to all reasonable questions from interested members on sanitary and phytosanitary measures and technical regulations (SPS Annex

<sup>27</sup> Only developed members of the WTO are required to submit notification in a foreign language (English, French, or Spanish), if required by other members under SPS and TBT Agreement (SPS Annex B-8, TBT10.5).

B-3 and TBT Article 10). An example of an enquiry point is the Open Trade Gate Sweden ([www.opentradegate.se](http://www.opentradegate.se)) introduced by the Swedish government to ease exports from developing countries. It is a one-stop information center through which exporters from developing countries may inquire about general customs procedures and documents, information about the customs tariff that the Swedish importer must pay for the product, reduction of the customs tariff through a preferential agreement, certificate of origin required to benefit from such an agreement, the value-added tax (VAT) applicable for the product on the Swedish market, and product-specific requirements such as labeling and packaging.

- (iii) *Reasonable intervals between publication and implementation should be put in place.* The prompt publication of new or amended rules and regulations is crucial. GATT Article X-2 stipulates that measures shall not be enforced unless such measures have been officially published. Moreover, as the SPS agreement requires except in urgent circumstances (SPS Annex B-2), a reasonable period of time should be maintained between publication and enforcement to give traders time to get acquainted with the new rules, and time to adjust business processes to comply with those new rules and requirements. For example, in the case of moving to automated submission of trade data and information through online forms, traders have to be provided with a reasonable time to obtain the necessary ICT and training.
- (iv) *Mechanisms for prior consultation on new or amended laws and regulations with interested parties should be established.* Each government has authority to amend or introduce new trade laws and regulations, which may arise, for example, from the implementation of international commitments (e.g., trade agreements and customs conventions) or modernization of customs processes (e.g., new ICT solutions). However, a regular consultation with interested parties, notably governments and the private sector, prior to adoption of new and amended laws and regulations would minimize the negative impact of regulations, enhance trust and cooperation between government and the private sector, and, more importantly, ensure predictability and improve the quality of regulations. This is especially true in the case of technical regulations, where each government shall allow a reasonable period for the submission of comments on the technical regulation from other countries (TBT Agreement Article 2.9.4).
- (v) *An effective appeal mechanism should be put in place.* It is crucial for affected traders to have recourse to an independent appeal mechanism for review and, where appropriate, for the correction of administrative action or omission.<sup>28</sup> Efficient administrative appeal procedures can provide traders faster and cheaper means to deliver solutions than courts. Article 11 of the Customs Valuation Agreement gives traders the right of appeal to customs or an independent body while GATT X-3 provides for the establishment of an administrative or judicial body independent of enforcement agencies for prompt reviews and correction of administrative actions relating to customs matters.
- (vi) *Customs rulings should be provided in a timely manner and in advance of the relevant trade transaction upon the written request of an applicant who has provided all necessary information.* Many countries have already established an advance ruling system, which allows a trader to apply for a written ruling, generally, on how tariff classification, valuation, and origin will be applied

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<sup>28</sup> UNCTAD. 2008.

by the importing country to a specific situation when it imports. Advance rulings are supplied by customs on request, and in many cases can be legally binding so long as the trader provides complete and accurate information when requesting the ruling. This mechanism provides the trading community with greater commercial predictability and certainty, as traders can know in advance what tariff would be applied on the imported goods— or what tariff duties they will have to pay—should they proceed with the transaction. The WTO Rules of Origin Agreement already requires countries to provide advance rulings on origin, and a number of countries have proposed to extend such a requirement to other customs areas as part of the ongoing multilateral trade facilitation negotiations.<sup>29</sup>

## Experience of Economies in Asia and the Pacific

### Advance Ruling and Appeal System of Customs Valuation: The Case of Sri Lanka

Sri Lanka Customs<sup>30</sup> has recognized the importance of issuing advance rulings, particularly for classification and valuation of goods as a vital tool for facilitating the clearance of imported goods. When the Harmonized System (HS) was introduced in 1989, it established a unit in the Imports Division to provide advance rulings on classification of goods (HS codes). This is widely used by importers who are uncertain of the HS code of certain commodities. This is also used by exporters, particularly for country of origin claims. The facility enables traders to forecast their financial commitments to customs in terms of import duties and avoids delays in clearing consignments due to disputes that may arise between the authorities and the traders. Whenever a written request for an advance ruling is received by Sri Lanka Customs, it responds in writing within 2 to 3 days, with a validity period of 6 months. Customs is obliged to honor the ruling once it is given, even though customs may have been incorrect, notwithstanding that such a ruling may be disadvantageous from a customs revenue point of view.<sup>31</sup>

There have been instances when this facility was misused by certain importers.

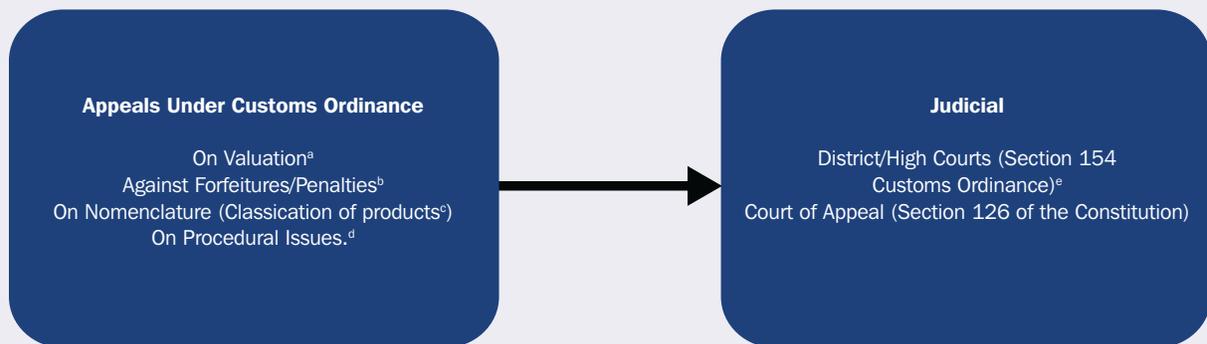
During the latter part of 2008, an importer of paints obtained an advance ruling from Sri Lanka Customs on the HS codes applicable for resin and for hardener/catalyst as two separate items that fell under sections 6 and 7 of the tariff. In November 2008, the trader imported the two items and lodged the import declaration of the two items under the two separate tariff headings as indicated in the advance ruling, which attracted lower rates of duty. Customs collected import duty accordingly. However, when the goods were subjected to physical verification prior to the release of the consignment, customs found out that the two imported items were not separate items but were, in fact, a set that needed to be classified as a final product, which attracted a higher rate of duty.

<sup>29</sup> See, for example, the proposal of Australia, Canada, Turkey, and the United States, WTO (TN/TF/W/153). 2008; Revised Kyoto Convention on Advance Rulings. 2009.

<sup>30</sup> Based on an interview between Mr. T. S. A. De Silva and Dr. Nevil Goonawardena, Director of Sri Lanka Customs, on 24 December 2008.

<sup>31</sup> On advance rulings on valuation, Sri Lanka Customs encourages importers to provide the relevant information in advance to minimize delays in clearing consignments. Even though customs accepts the declared value at the time of importation on the basis of the information provided in advance, those consignments would still be subjected to post-clearance audit that may result in a change in the customs valuation of the consignment.

Figure 2.3: Sri Lanka Customs Appeal System (2009)



<sup>a</sup> Appeal procedures incorporated in the Customs (Amendment) Act No. 2, 2003.

<sup>b</sup> To the director general of customs (Section 164).

<sup>c</sup> Appeal procedures implemented through departmental or ministerial orders.

<sup>d</sup> These could also include disputes related to duty concessions, drawbacks, temporary imports, temporary exports, carnets, etc.

<sup>e</sup> To the minister of finance/secretary to the treasury (Section 165).

Source: Author's own compilation

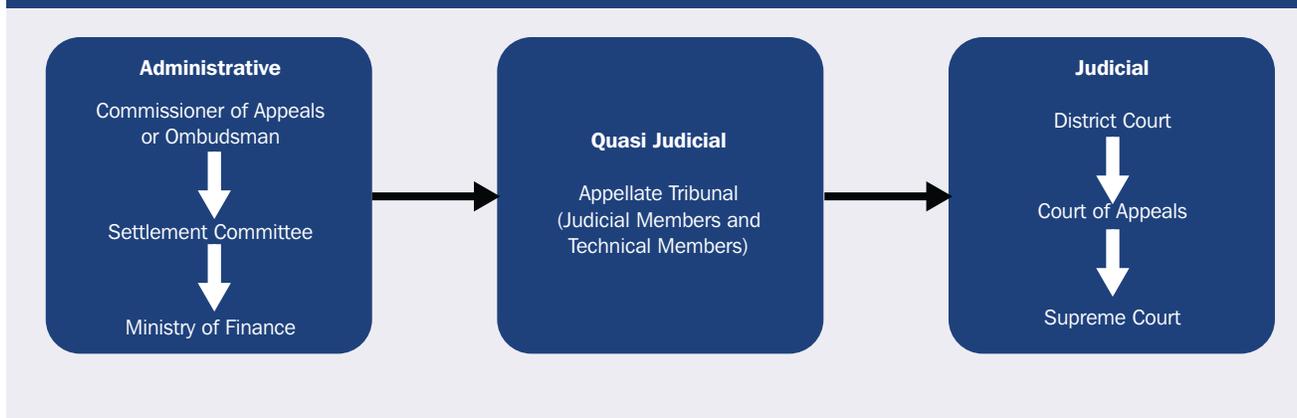
A related problem is the case where importers are uncertain of the customs value when entered into a forward contract. In such circumstances, Sri Lanka Customs provides the facility for importers to register their contracts with customs, and get a ruling on the customs value applicable for calculating the customs duty subject to post-clearance audit. There have been instances when importers, after registering their contracts with the indication that the shipments will be received on a part shipment basis, have attempted to disregard the registered contracts when the market prices dropped below the contracted prices.

While appeal procedures have been implemented through departmental or ministerial orders, or through practice, a formal appeal system was introduced in the Customs Law of Sri Lanka in 2003 (Figure 2.3).<sup>32</sup> In Sri Lanka, the majority of appeals arise from disputes over the classification or valuation of goods. In the case of appeals on classification, the Customs Nomenclature Committee provides the rulings, and if the party concerned is not satisfied with the decision, the customs administration would refer such matters to the WCO for an opinion. If an appeal arises with regard to the value of goods, the Customs Valuation Committee provides the ruling. Aggrieved parties who are not satisfied with the ruling may appeal to the judicial body. Finally, if an aggrieved party is not satisfied with the rulings of the judicial body, the matters in dispute would be referred to the WCO Technical Committee for advice.

Because of the foregoing examples, Sri Lanka Customs deemed that its appeal system was inadequate. Hence, it included customs appeal systems as one of the areas for improvement under the ADB-assisted Fiscal Management Reform Program. Under an improved appeal system such as that illustrated in Figure 2.4, the number of appeals is expected to decline.

<sup>32</sup> The Customs Ordinance of Sri Lanka is over 150 years old and the concept of "appeals" had not been included in the Customs Law of Sri Lanka until the Customs (Amendment) Act, No. 2, 2003.

Figure 2.4: Structure of the Proposed Appeal System for Sri Lanka Customs



The proposals for a new appeal system in Sri Lanka Customs have been drafted based on the revised legal provisions of the customs ordinance and current practices. These proposals included, among other things, the general guidelines for making appeals, persons entitled to make such appeals, and the procedural requirements pertaining to appeals. The proposals also envisaged creating an independent appellate tribunal that would have powers such as the right to summon witnesses and make binding rulings. These proposals, however, required further revision of the Customs Law, particularly on appeal procedures, powers of the appellate authority, and appeals to the judiciary.

### Reform of Advance Classification Ruling in Japan: Target Response Period and Object

Like other customs offices in Asia and the Pacific Japan Customs has also improved its Advance Classification Ruling System (tariff classification, the origin, and customs valuation).<sup>33</sup> Although inquiries can be in oral, written, or e-mail form, the Japan Customs encourages importers to submit written inquiries in the interest of accuracy. A written inquiry is provided in the form of a response paper which importers could attach at the time of declaration. Information in the paper, such as tariff classifications, is then reviewed upon customs examination. Japan Customs also responds to oral and e-mail inquiries through the same channels, but would not consider such a response an official reference in the customs examination.

A written response with regard to the tariff classification and origin of goods is usually available within 30 days, which is the target period set by Japan customs, while the actual average time necessary for the issuance of a response paper is as short as 15 days. A written response on customs valuation is usually made within 90 days after the submission of a written inquiry. Every year, Japan's customs administration resets within a stipulated time its target response period and response ratio. As a result, its response period and ratio have improved significantly (Table 2.3).

When importers object to a decision made by the customs office, they can file an objection, which can be made only against the written response from the customs office. An objection cannot be made against oral responses. Objections should be filed

<sup>33</sup> Japan Customs. 2009.

**Table 2.3. Japan's Response Time to Advance Ruling Requests, by Classification**

	2004	2005	2006	2007	2008	2009	2010	2011
Oral response within 1 day (%)	99.6	99.8	99.8	99.7	99.9	99.9	99.6	99.6
Written response within 30 days (%)	94.8	95.8	99.6	99.9	99.7	99.4	99.9	99.8
Average time required for written response (no. of days)	18.7	18.3	15.3	15.3	14.3	13.9	13.9	13.2

Source: Japan Customs. Available at [www.customs.go.jp/index.htm](http://www.customs.go.jp/index.htm)

within 2 months from the date of issuance or notification of the written response. The final decision is made by the customs office, usually within 30 days from the submission of the objection.

The issued response paper is valid for 3 years (the actual validity period is stipulated in the response paper) unless the situation changes due to the amendments of laws and regulations. It is void if the content of the inquired goods does not match the actual article, if the expiration date has lapsed, or if the application of laws and regulations is incorrect.

Japan Customs, in principle, makes written responses publicly available through its website without disclosing the names of inquiring parties. This is because the information provided in written responses, such as classification and customs valuation, is useful for traders other than the inquiring party. Certain written responses containing confidential information are made available after a blackout period (usually 180 days) to avoid any inconvenience their publication may cause to the concerned importers.



## ■ CHAPTER 2

# Trade Procedures and Documents

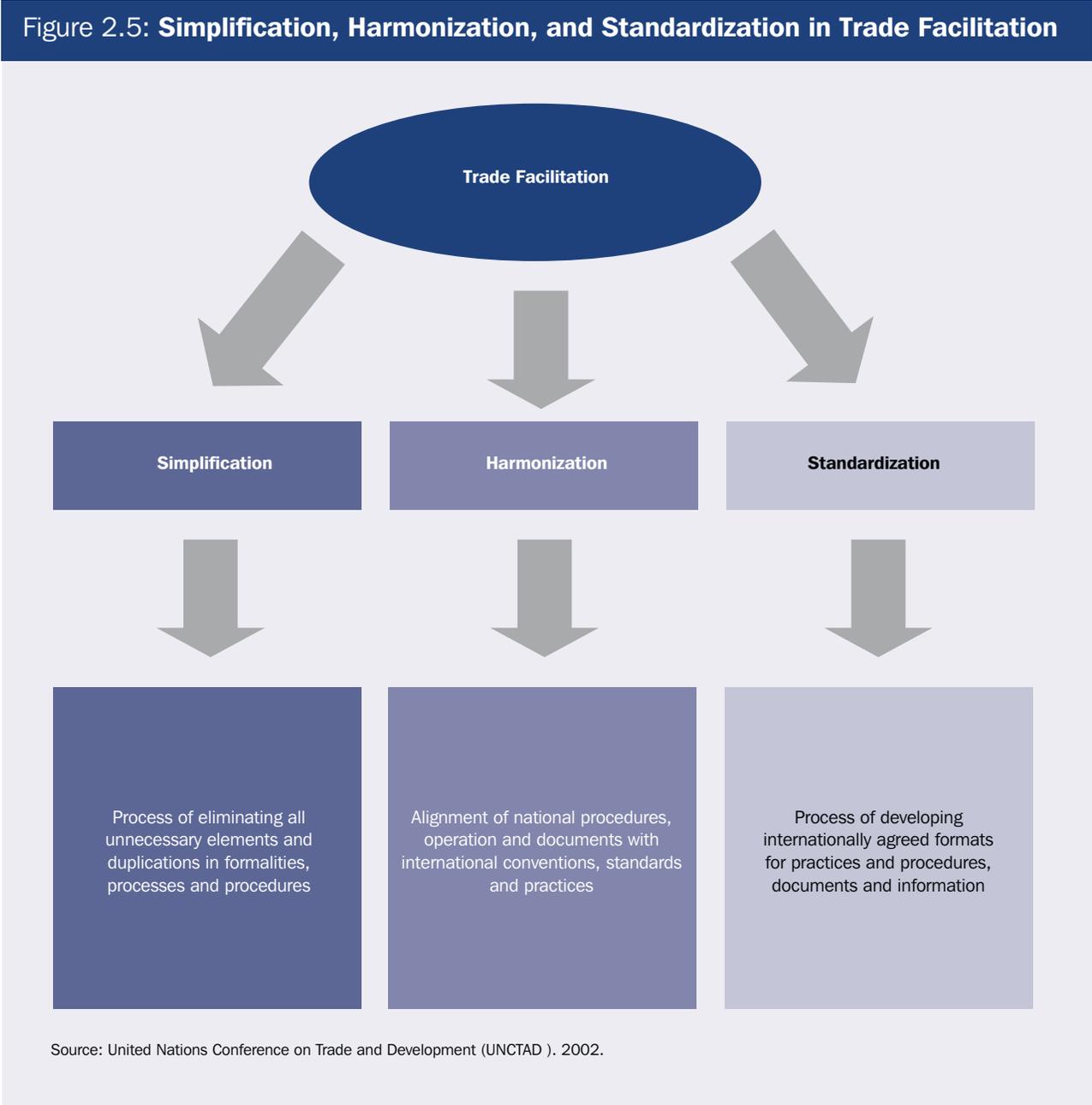
As explained in Part I, trade procedures can be categorized as commercial, transport, regulatory, and financial. Each procedure requires the exchange of information and documents between parties. Commercial procedures include the negotiation and preparation of a sales contract and a commercial invoice, which serve not only as the basis for the buyer's payment for the goods but also as a source of information for the customs, tax, and banking authorities. Transport procedures involve a contract with a transport service provider (carrier or freight forwarder) to move the agreed consignment of goods from the consignor to the consignee, and ensure that the consigned goods are duly delivered to the consignee after the necessary regulatory requirements and formalities are met. The listing and acknowledgment receipt of goods by the carrier for transport, as well as the specific delivery terms agreed to with the shipper, are contained in a bill of lading or waybill (for container trade).

Regulatory procedures are those that involve interactions with government agencies and other authorities for traders (or assigned intermediaries) to complete import and export operations in accordance with applicable laws and regulations. These procedures are intertwined with commercial and transport procedures. They may include applying for and obtaining an export license, a sanitary or phytosanitary certificate, a certificate of origin, and other relevant documents before lodging the customs export declaration. Besides customs clearance procedures, other regulatory procedures may have to be completed to allow the passage of goods and their means of transport across borders. These procedures may include (i) inspections of driver passports and visas by the border police and/or immigration officials; (ii) inspections of vehicles and drivers by transport and/or police officials to ensure compliance with national transport regulations; and (iii) agricultural, veterinary, and public health inspections carried out by officials of the relevant government agencies to ensure compliance with national quarantine and public health regulations.<sup>34</sup>

Documents and data in paper or electronic format are important, as they provide the means to exchange information associated with commercial, transport, regulatory, or financial procedures. However, trade procedures and documents should not be used to create additional protection for domestic products. Traders often face complex and myriad formalities and documents, and have to put up with repetitive requests for the same information. For example, to move a consignment across the

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<sup>34</sup> Misovicova and Azhari. 2007.



India-Bangladesh border, Indian exporters to Bangladesh have to obtain some 330 signatures on 17 documents at several stages.<sup>35</sup> As evident from the various definitions of trade facilitation discussed in Part I, to simplify, harmonize, and standardize procedures and documents is an essential step in reducing import and export time costs, and making them more predictable (Figure 2.5).

Following a review of performance in this area and its impact on trade in Asia and the Pacific, this chapter introduces guiding principles and practices aimed to lessen the burden of trade documentation and procedures. Relevant

<sup>35</sup> De and Ghosh. 2008.

international instruments and experiences of economies in Asia and the Pacific are then introduced.

## Trade Procedures and Documents: State of Play

The procedures involved in moving a 20-foot container from a factory to the deck of a ship ready for departure (i.e., for export), or vice versa, can be divided into four stages: document preparation, customs clearance and technical control, port and terminal handling, and inland transportation and handling. The time (in days) necessary to complete each stage in the case of import or export is shown in Figures 2.6 and 2.7. The data revealed that the most delays and additional costs are associated with the preparation of trade documents and inland transport and handling, except in Pacific Islands where the major bottleneck is ports and terminal handling, followed by customs clearance for imports and inland transport handling for exports. In most cases, the time to prepare documents for import is slightly longer than the time to prepare export documents. Documents preparation to import ranges from 1 day in Singapore, 2 days in Hong Kong, China, US, UK and the Republic of Korea, 3 days in Germany, Malaysia and Australia, and 5 days in Japan, Solomon Islands and New Zealand to 28 days in Mongolia, 49 days in Afghanistan, and 50 days in Uzbekistan.

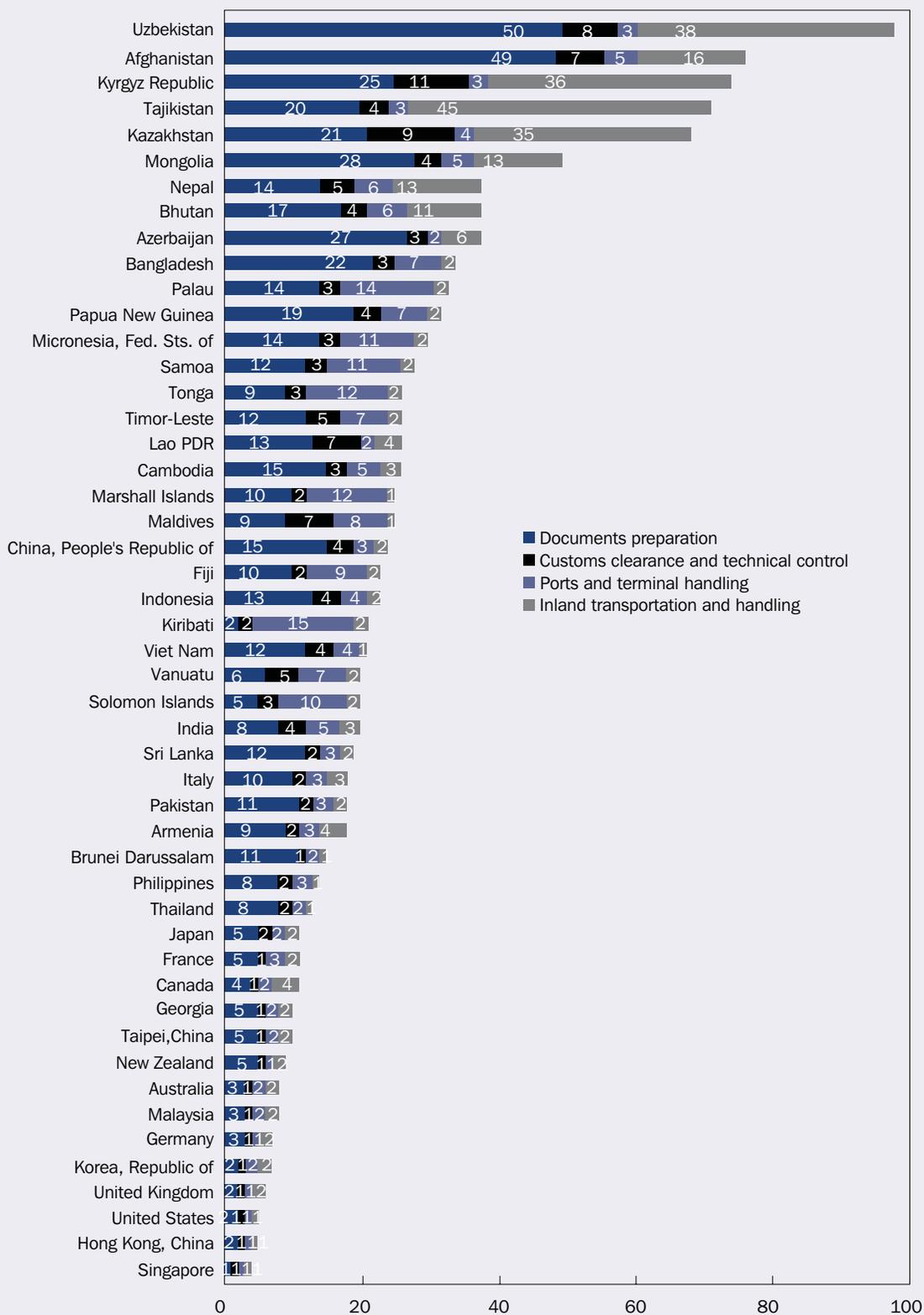
The same pattern can be seen while documents for export are being prepared. Generally, the average time spent for customs clearance and technical control is about four times less than the time necessary for document preparation. The time and costs necessary for imports and exports is highly correlated with the number of documents required. This is explained by the fact that 75% of delays are attributed to administrative obstacles such as customs and tax procedures, clearances, and cargo inspections; and only 25% to poor road and port infrastructure (Djankov et al. 2006). This is generally true for all sub regions in Asia and the Pacific except for Central Asia, which comprises eight landlocked countries where inland transport efficiency is a crucial issue.

Given the importance of document preparation in the overall import and export process, it is not surprising to find that the number of days necessary to complete trade procedures is strongly correlated with the number of documents. The number of documents required by government authorities for traders to meet regulatory requirements for imports and exports varies widely across and within the subregions of Asia and the Pacific (Figure 2.8). According to *Doing Business*,<sup>36</sup> the Republic of Korea, Hong Kong, China, Singapore, and Georgia require only three to four documents for either import or export. However, most traders in the region still face 50% more trade documentation requirements than in the G7 countries, where only about four documents are required. This is particularly true for traders in landlocked countries, where a double-digit number of trade documents need to be prepared for each trade transaction.

Many countries have reduced the required number of import and export documents since 2006, but improvements have been more pronounced in import documentation than in export documentation and in landlocked countries, Georgia and the Kyrgyz Republic. Between 2006 and 2012, the number of import documents was reduced enormously in Georgia (from 15 to 4), in Thailand (from 12 to 5), the Kyrgyz

<sup>36</sup> These estimates are only indicative, as the number of required documents can be expected to vary significantly depending on the type of goods and mode of transport. World Bank *Doing Business* 2013.

Figure 2.6: Number of Days Necessary to Complete Import Procedures



Source: World Bank *Doing Business* 2013

Figure 2.7: Number of Days Necessary to Complete Export Procedures

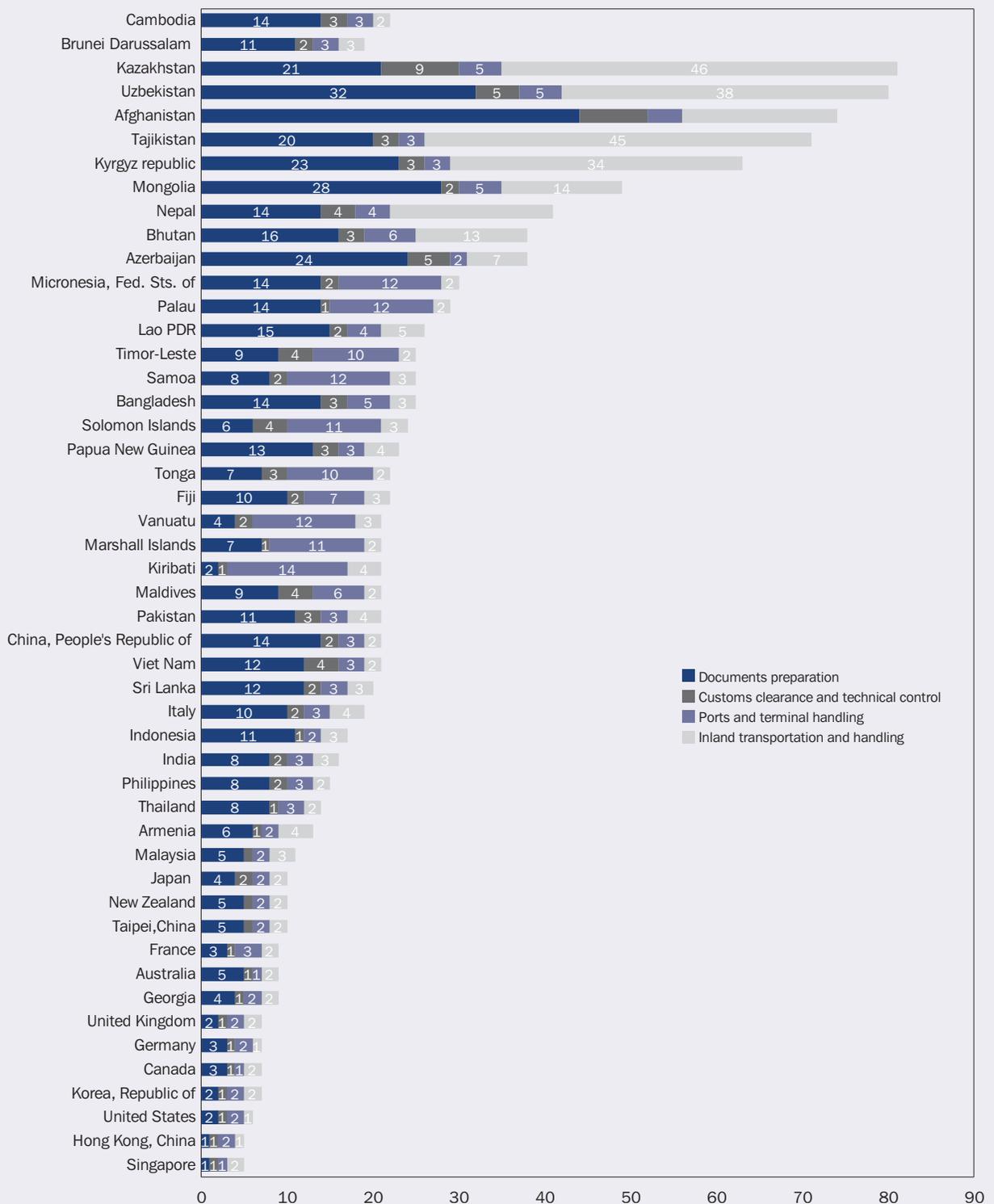
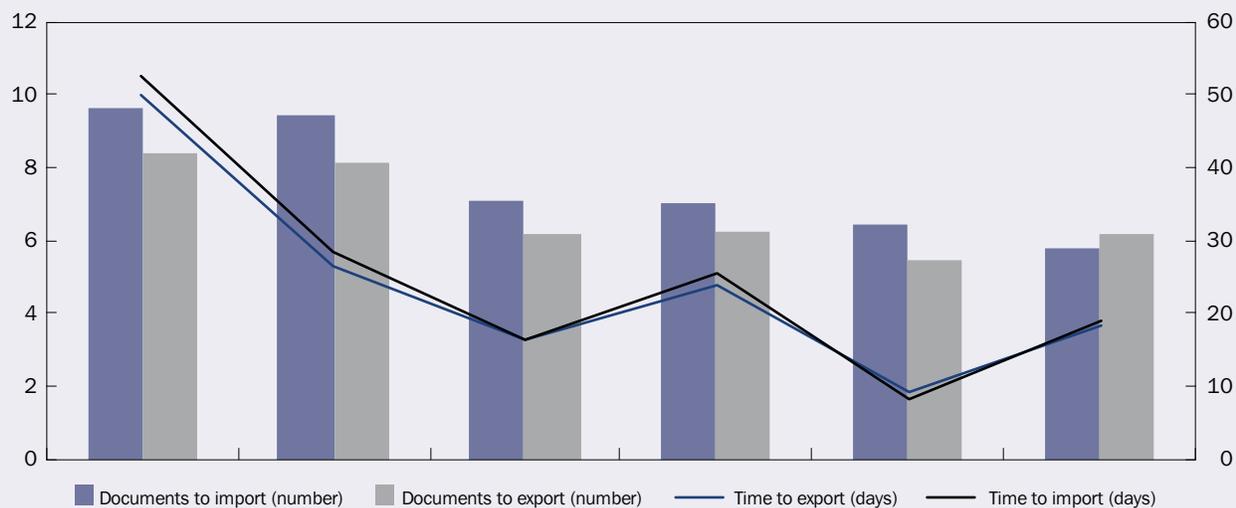
Source: World Bank *Doing Business* 2013

Figure 2.8: Documents and Time Necessary for Imports and Exports by Subregions



Source: World Bank *Doing Business* 2013.

Republic (from 16 to 10), the Lao People’s Democratic Republic (from 15 to 10), the Republic of Korea (from 8 to 3), and Hong Kong, China (from 8 to 4). For export documents, a large number of reduction is evident in the Kyrgyz Republic (from 14 to 8), Georgia (from 9 to 4), Thailand (from 9 to 5) and Hong Kong, China (from 6 to 4) during the same period.<sup>37</sup>

While most countries have reduced the required number of documents, much progress is still needed in cutting transaction costs. In particular, procedural improvements can be made to reduce the necessary number of days to import and export—a critical issue for the trade of time-sensitive goods such as perishable products (Box 2.4).

In addition to the *Doing Business* data on the time and cost of import and export procedures, and the number of related documents, other indicators that allow cross-country comparisons have been developed.<sup>38</sup> However, none of these provide an accurate situation in each country as the length of time, number of documents, and cost of procedure vary widely depending on the type of product, the route and mode of transport, and other factors.

Taking this into account, ESCAP, together with UNECE and UNNExT, have developed a business process analysis (BPA) methodology that enables the detailed mapping, costing and timing of import and export procedures for a given product or route. The methodology introduces the use of the Unified Modeling Language (UML) to describe procedures, an international standard that makes it easier to compare procedures across agencies and countries. Key outputs of such BPA analysis are

<sup>37</sup> World Bank *Doing Business*. 2013

<sup>38</sup> A number of survey-based indexes relating to customs and border control procedures exist, including a “burden of customs procedures” indicator from the goods market efficiency section of the GCR and an “efficiency of import–export procedures” indicator from the GETR (both available at [www.weforum.org](http://www.weforum.org)). The World Bank’s Logistics Performance Index (LPI) also has a Customs Efficiency index.

## Box 2.4: Cumbersome Paperwork in the Perishable Food Supply Chain

The perishable food supply chain is generally considered to be the most complex in terms of movement of goods because of its temperature-sensitive nature and the great amount of time involved in document preparation, clearance, and technical and border controls. According to SITPRO (2008), a single complete consignment transaction, from seller to buyer, can require some 150 documents with duplicate information to be entered 42 times. In 2006, SITPRO conducted research on the cost of maintaining paper-based supply chains, focusing on perishable foods. Perishable foods present a greater risk of spoilage costs that could result from missing or delayed documentation. The research revealed that

- A typical complete consignment transaction from grower to retailer requires 150 documents.
- Over the course of 1 year, 1 billion paper documents are generated.
- 30% of the data are entered more than once.
- Duplicate consignment data are keyed in at least 189 million times each year.
- Over 90% of the paper documents used are destroyed.
- The cost of document-related administration is around 11% of the supply chain value per annum.

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Source: SITPRO. 2008.

time-procedure charts that make it easy to identify specific procedural bottlenecks in the overall trade transaction process (see Box 2.5).

In an effort to measure the efficiency of border procedures based on time spent from the arrival to the release of goods, the WCO developed a Time Release Study (TRS) in 1994 based on earlier initiatives of Japan and the United States. The primary objectives of the TRS are to identify problems and bottlenecks in customs clearance procedures and provide guidance in improving the efficiency of customs administration.

Japan has been conducting a TRS every 2 to 3 years since 1991. The Japanese TRS covers about 95% of import and export declarations for air and sea cargo. The TRS results showed a remarkable reduction in average processing time for sea cargo, from 7 days in 1991 to 2.6 days in 2009 (Figure 2.9). For air cargo, Japan reduced release time from 2.2 days in 1991 to 0.6 days in 2006. In the Republic of Korea, clearance time was reduced by 72%, from 14.8 days in 1997 to 3.6 days in 2007.<sup>39</sup>

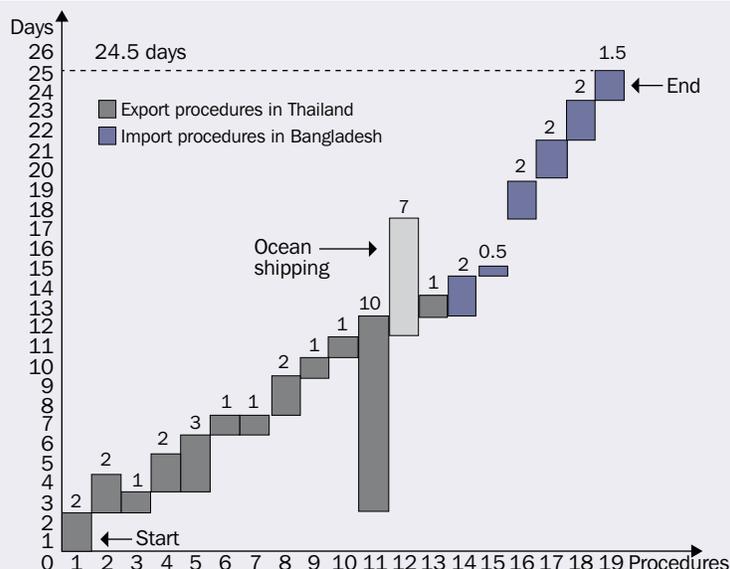
Since 2005, the Republic of Korea has been operating an independent and web-based TRS system that allows the Korean customs administration to capture comprehensive and real time information and calculate TRS results on a monthly basis.

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<sup>39</sup> Next to Japan and the Republic of Korea, another six countries in Asia and the Pacific (the PRC, Indonesia, Malaysia, the Philippines, Papua New Guinea, and Thailand) have undertaken the study either once or several times. Due to methodological differences, however, it is difficult to do an exact cross-country comparison of the TRS results.

### Box 2.5: ESCAP Business Process Analysis Initiative for Trade Facilitation

In an effort to streamline trade procedures in Asia and the Pacific, ESCAP has initiated the conduct of standardized Business Process Analyses (BPAs) of import and export procedures for specific products and trade routes in recent years, based on the United Nations Network of Experts for Paperless Trade in Asia and the Pacific (UNNEX) BPA Guide for the Simplification of Trade Procedures. The figure is one of the outputs of the BPA analyses already conducted, i.e., a time-procedure chart of the export-import process from Thailand to Bangladesh. It shows that the entire sugar trade transaction process between Thailand and Bangladesh (by sea) takes 24.5 days and that obtaining permits and preparing documents take the most time, followed by transport and handling issues.



The regular conduct of standardized cross-border BPA of trade procedures for products of common interest is recommended as a way to better measure supply-chain and trade facilitation performance among countries.

Source: ESCAP (2011), Trade Facilitation in Asia and the Pacific: An Analysis of Import and Export Processes, Trade and Investment Studies No. 71, ESCAP. United Nations. Available at: <http://www.unescap.org/tid/publication/tipub2615.asp>

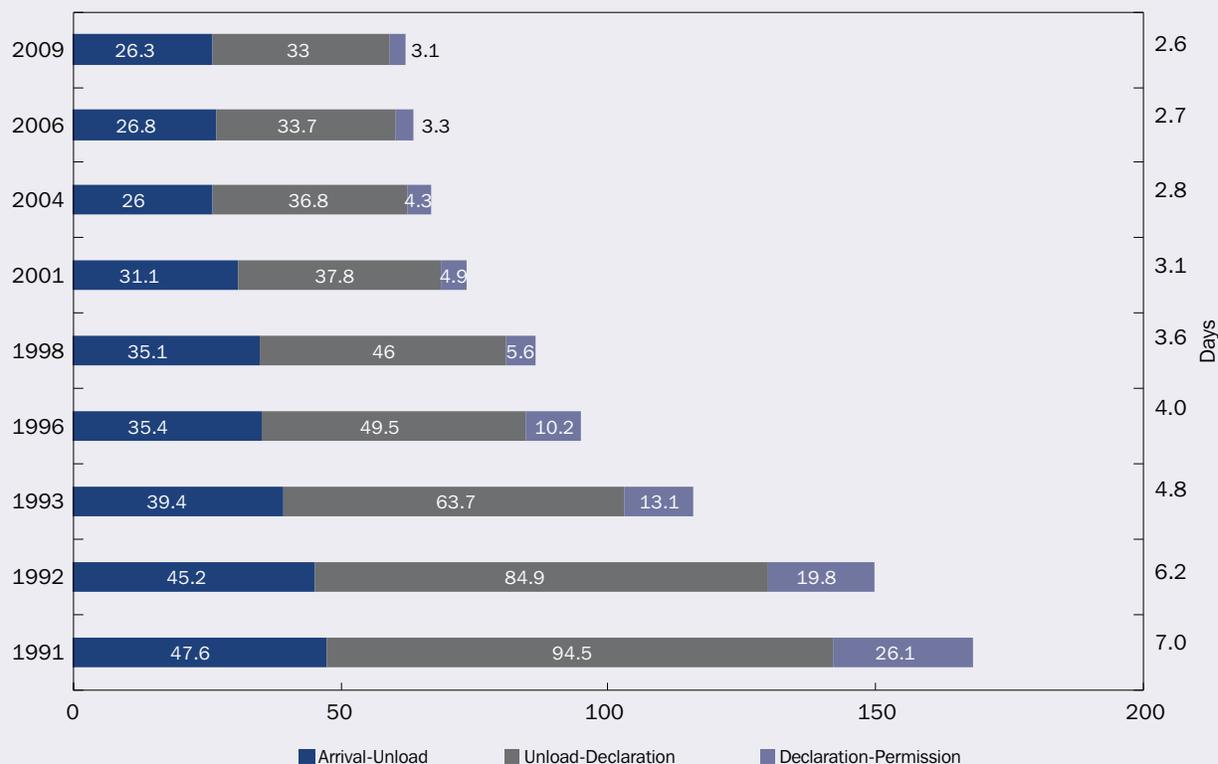
Sr. No.	Process	Days	Sr. No.	Process	Days
1	Buy	2.00	11	Process documents required by importer	10.00
2	Obtain good movement permit	2.00	12	Ocean shipping	6.00
3	Obtain goods movement permit	1.00	13	Verify accuracy/ authenticity of explored cargo	1.00
4	Obtain cargo insurance	2.00	14	Collect and endorse documents for import	2.00
5	Arrange transport	3.00	15	Provide customs declaration online	0.50
6	Provide customs declaration	1.00	16	Handling cargo at port	2.00
7	Collect empty container from yard	1.00	17	Clear goods through customs	2.00
8	Stuff container	2.00	18	Transfer goods to importer's premise	2.00
9	Clear goods through customs	1.00	19	Pay	1.50*
10	Handle container at terminal and stow on vessel	1.00	<b>Total</b>		<b>24.50*</b>

## Impact of Cumbersome Procedures on Trade

Simplifying trade procedures and documentation is important to speed up trade and increase the predictability of delivery times in the absence of countries that are highly likely to be excluded from regional and global value chains, and as uncertainty of supply and the subsequent necessity to hold inventories quickly erode any cost advantage from fragmenting production across borders.

An increasing number of research studies have found that excessive trade and customs procedures can inhibit trade, mainly by increasing the time it takes to export or import. Djankov et al. (2006) utilized the *Doing Business* detailed data based on a questionnaire that referred to a standardized export transaction, and completed

Figure 2.9: Improvement in Japan's Release Time of Sea Cargoes, 1991–2009



Note: Average release times are shown in hours.

Source: Matsumoto and Lee, 2007 and Igarashi, 2010.

in 2005 by freight-forwarding companies, port authorities, and customs officials.<sup>40</sup> Using a simple-difference gravity equation, they estimated that, on the average, a 1-day delay in product shipment reduces trade by 1%. Each day that a product is delayed prior to shipment reduces trade by at least 1%. The importance of time is even more pronounced for time-sensitive goods; using a difference-in-difference gravity equation (i.e., testing whether two similar countries' relative exports of time-sensitive goods differ from their relative exports of time-insensitive goods), Djankov, Freund, and Pham estimated that a day's delay could reduce relative export competitiveness of time-insensitive goods by 1% and time-sensitive goods by 7%.

Another study (Wilson, 2007) on trade procedures and documents, which included filing port documents, customs declarations, and commercial documents such as invoices, indicated that a 10% reduction in the time at the border of the country of import increases trade by an estimated 6.3%. A 10% reduction in the required number of signatures on import documents could increase trade by 9.9%, while a 10% reduction in the number of documents required by the importer may generate an 11% increase in trade.

<sup>40</sup> The standardized transaction is by a domestic firm with specified characteristics shipping a dry-cargo, full 20-foot container load without requiring any special safety standards.

Improving trade procedures often involves using information communication technology (ICT) to fulfill the various regulatory and documentation requirements. There is evidence that improvements in ICT and use of the internet have been associated with lower trade costs since the mid-1990s.<sup>41</sup> Shepherd and Wilson (2008) found that improvements in ICT have had a strong impact on trade in Southeast Asia, providing support for countries to accelerate the ongoing computerization and automation of trade procedures for trade facilitation.

While the aforementioned estimates are only indicative, they show that countries with cumbersome procedures are at a disadvantage. The actual cost and impact of time on trade is likely to vary significantly depending on the traded commodity, the mode of transport, the route and destination, and even the prevailing business model in a country or industry.

## Basic Principles and Good Practices

The following principles apply to authorities responsible for national regulations and administrative practices relating to the movement of goods in international trade:

- (i) *Trade procedures, data, and documents should be based on international conventions, standards, and other relevant instruments.* Countries should harmonize their procedures, data, and documentary requirements with international conventions, standards and other relevant instruments to improve transparency and predictability. The main international instruments are set out in the next section.
- (ii) *Data and documents should be kept to a minimum.* Cumbersome, repetitive and non-standardized trade documents and data required for border crossing are frequently identified by the business community as a major deterrent to entering certain markets. As such, authorities should adopt simplified documents aligned with international standards. Existing documents and data should be analyzed and reviewed to identify redundant or unnecessary documentation such as consular invoices. Using trade data and documents aligned to international standards—such that data elements common to various documents are always located in the same place on all documents and formatted in the same way<sup>42</sup>—would help make documents easier to fill out and minimize errors, address language problems, and meet the needs of computerization and automation of procedures since standardized documents are easier to migrate to electronic documents. In addition, authorities may accept copies of documents, especially when one government agency already holds the original document<sup>43</sup> as well as make commercially available information that is already available in the context of commercial transactions, such as a commercial invoice or bill of lading. The introduction of a single window facility to allow one-time submission of all relevant information to authorities and to meet regulatory requirements for imports, exports, and transit should also be pursued to the extent possible

<sup>41</sup> Freund and Weinhold. 2004; Fink, Mattoo, and Neagu. 2005.

<sup>42</sup> This could be done using an international instrument called the United Nations Layout Key for Trade Documents (UNLK). This is further discussed in the next section (International Instruments).

<sup>43</sup> The government agency holding the original document should have the right to authenticate such a copy.

## Box 2.6: What is a Single Window Facility?

A single window is a one-stop facility that allows exchange of information between traders and government to reduce the complexity, time, and costs involved in international trade. The United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) defines a single window as a facility that allows parties involved in trade and transport to lodge standardized information and documents at a single entry point to fulfill all import, export, and transit-related regulatory requirements. If information is electronic, then individual data should only be submitted once.<sup>a</sup> The features of a single window facility include

- lodging standardized information and documents at a single entry point only once,
- sharing information among government agencies,
- providing coordinated controls and inspections by various government authorities,
- allowing payment of duties and other charges, and
- providing a single source of trade-related government information.

The development of a single window facility does not presuppose the existence of or requirement for a sophisticated computerized information system. A manual single window or customs automation system (such as the Automated System for Customs Data or ASYCUDA) could be a good starting point.

Implementing a single window would simplify trade processes and procedures and promote greater transparency and predictability in international trade transactions.

Several countries in Asia and the Pacific such as Australia, Hong Kong, China, the Republic of Korea, Malaysia, Singapore, and Thailand are each fully or partly operating a single window while others are in the process of establishing such a facility. The most forthcoming initiative is the Association of Southeast Asian Nations (ASEAN) Single Window to provide an integrated environment for trade information flows among the national single windows of all 10 ASEAN member countries by 2012.

<sup>a</sup> UN/CEFACT. 2005.

(Box 2.6). Possible steps involved in simplifying and harmonizing trade documents, as well as in developing an automated trade documentation system, are outlined in Part III.

(iii) *Clearance and release procedures should be kept as simple as possible.* The following are the measures and practices that should be simplified to speed up clearance and release of goods:

- **Pre-arrival processing of documents.** The customs authority should allow traders to submit clearance data prior to arrival of the consignment. The data should be processed and analyzed without delay so that consignments can be released immediately upon arrival. When duties and other charges are not determined on or prior to arrival, a mechanism allowing for release based on the provision of a (financial) guarantee or surety to customs may also be put in place.
- **Computerization and automation of customs and other border agency procedures** for import and export, making it possible for traders to present customs declarations, and other supplementary documents electronically. Ideally, electronic payment of duties, taxes, and fees should

## Box 2.7: Benefits of the Pakistan Customs Computerized System

Under the Customs Administrative Reform, the Central Board of Revenue implemented the Pakistan Customs Computerized System (PACCS). The system was introduced in April 2005. Since then, PACCS brought numerous tangible benefits and savings to the customs authority and the trading community. These include:

- reducing the number of steps in import clearance from 26 to 1;
- reducing the customs processing time from 4 days to 10 hours (with more than 50% of consignments being cleared within 4 hours); and
- reducing the dwell time of cargo at port from 11 days to 4 days.

One year after the introduction of PACCS, the system processed about 61,000 goods declarations and cleared about 200,000 containers. The collected revenue amounted to PRs20.0 billion. In addition, the PACCS (i) introduced transparent clearance procedures for imports and exports; (ii) minimized the steps between the tax collector and traders; (iii) integrated all processes associated with imports and exports, and created strong linkages among the relevant border agencies; and (iv) established a reliable data bank for post-clearance audit.

Source: Central Board of Revenue Pakistan. [www.fbr.gov.pk/newcu/](http://www.fbr.gov.pk/newcu/)

also be made possible. The benefits of using customs automation systems to facilitate clearance procedures are enormous (Box 2.7).

- **Risk management systems** should be put in place, and authorities should systematically use them to conduct documentary and physical examination of shipments. Such systems allow the identification of the risk level associated with a particular shipment according to specific (non-discriminatory) criteria, and based on the analysis of available information. The objective is to ease the clearance and release of low-risk consignments, and to identify high-risk consignments for inspection. Such systems should be based on international standards and practices such as those of WCO (e.g., Chapter 6 of the General Annex of the Revised Kyoto Convention). Since each border agency (especially plant, food, veterinary, and quarantine agencies) operates some kind of risk management system, ideally, all border agency systems should be unified. Risk management should be applied in conjunction with an authorized traders' scheme and post-clearance audit (Box 2.8).
- **Post-clearance audit** is an international best practice by customs designed to facilitate trade by refocusing control from the border to the back end of the import clearance process. A customs authority may release the majority of consignments upon arrival with compliance verification at a later time. Such compliance verification is conducted at the importers' premises, where auditors have access to relevant company records. The post-clearance audit system allows the release of low-risk imports with minimum customs intervention at the border. It therefore facilitates the release of legitimate imports while protecting government revenue.
- **Authorized traders schemes** should be developed for highly compliant traders. These schemes provide additional facilitation measures to traders who demonstrate a high level of compliance with import and export requirements such as the possibility of periodic declarations and

## Box 2.8: Risk Management Experience of Customs Agencies in the Central Asia Regional Economic Cooperation

With the increasing volume of trade and the limited resources of customs administrations, the traditional method of inspecting every consignment upon arrival at the customs borders has become a barrier to trade. Risk management enables customs administrations to balance their control functions with trade facilitation through a selective inspection of traded goods on a scientific basis, complemented by post-entry audits. In the past, risk management has been perceived as a process utilized only by highly developed customs administrations with automated and fully computerized systems.

On the contrary, risk management program is more relevant to all customs administrations as an international best practice. The program has been embraced by all CAREC participating countries' customs administrations, which are at various stages of reforms and modernization. For example, Afghanistan established post-clearance audit units in eight regional customs houses and Kazakhstan commenced developing a selective control and risk management system. The Kyrgyz Republic developed a prototype automated risk management system and Uzbekistan approved a customs risk management system. Overall, introduction and effective implementation of a risk management program requires a change in the mindset (i.e., change management together with other enabling conditions, including the promotion of informed compliance, management leadership and support, a structured approach for data review, improvement of the intelligence function, partnership with the private sector, regional cooperation, and relevant use of information and communications technology).

Source: ADB. 2006.

reduced physical inspections or documentary requirements. The selection of authorized traders should be based on risk management techniques. Harmonization and mutual recognition of authorized traders schemes with partner countries should be pursued to the extent possible.

- **Coordination of border control procedures** should be given special attention to ensure that clearance of documents and physical control of consignment by all agencies are conducted at a single point and time. Coordination and cooperation may further include the alignment of working days and hours, development and sharing of common facilities, and development of procedures for exchange of non-confidential information.

## International Instruments

World Trade Organization (WTO) rules promote simple trade procedures. General Agreement on Tariffs and Trade (GATT) Article 8 seeks to limit the costs and complexity of the import and export processes by imposing specific legal obligations on members. It explicitly recognizes the need to reduce the number and complexity of import- and export-related fees and formalities. It also recognizes that fees and charges may be charged in connection with import and export, and that penalties may be imposed for minor breaches of customs procedures.

However, the majority of the Article 8 provisions can be considered to be “best endeavor” provisions, without explicit obligations with respect to the need to minimize the incidence and complexity of import and export formalities, or to decrease and simplify import and export documentation requirements. For this reason, ongoing trade facilitation negotiations aim to clarify this Article to make it more operational.<sup>44</sup> Certain subjects covered by Article 8 are also now regulated by

<sup>44</sup> WTO (TN/TF/W/43/). 2009.

## Box 2.9: Revised Kyoto Convention: Background and Structure

Drawn up in 1973, the World Customs Organization Kyoto Convention seeks to overcome barriers created by the diversity and complexity of customs procedures and documentation in different economies. In June 1999, the WCO adopted a revised version of the convention, known as the Revised Kyoto Convention.

The Revised Kyoto Convention comprises three parts—the body, general annex, and specific annexes. The body contains the preamble and provisions on the scope, structure, administration, accession, and amendment, all of which are obligatory. The general annex has 10 chapters, containing core principles and standards and transitional standards dealing with clearance of goods, payment of duties and taxes, customs and trade cooperation, use of risk management, and information technology (IT) application, among others. All of them are obligatory. The general annex also contains detailed guidelines on the implementation of the convention.

There are 10 specific annexes, comprised of 25 chapters covering various aspects of customs procedures and providing guidelines for implementation. They contain standards and recommended practices. Accession to specific annexes is optional, and may be accomplished after accession to body and general annex, (i.e., contracting parties may accede to only those specific annexes and chapters that are relevant to them and may notify reservations only to recommended practices in the chapters they accept).

The Convention was entered into force on 3 February 2006 and has 52 contracting parties as of 10 January 2007.

The general annex contains the standard customs procedures for wider implementation, which are mandatory for accession and totally binding for contracting countries and parties. The adoption of specific annexes is not obligatory. Specialized provisions state that contracting countries or parties may voluntarily choose to adopt all or part of the specific annex(es), and can also withdraw implementation of the same. The Convention tackles (i) effective rules for transit procedures, (ii) fees limited to the cost of services rendered, (iii) simplified procedures and limited data requirements, and (iv) publication of regulations and appeals, which are complementary with the WTO Articles related to trade facilitation.

Source: WCO The Revised Kyoto Convention. 2009.

specific WTO agreements. The agreements on preshipment inspection, sanitary and phytosanitary (SPS) measures, and technical barriers to trade impose disciplines on, among other things, certain fees and formalities imposed by members in connection with importation. The Agreement on Rules of Origin and the Agreement on Import Licensing also relate to the subject matter covered by Article 8.

The WCO Convention on Simplification and Harmonization of Customs Procedures, also known as the Revised Kyoto Convention, is one of the most important trade facilitation instruments and can provide guidance on the principles discussed earlier. It has been in force since February 2006 and provides the international standards and recommended practices for relations between customs authorities and third parties (Box 2.9).

Other WCO instruments include the following conventions, standards, and guidelines:

- (i) *WCO International Convention on the Harmonized Commodity Description and Coding System*. The WCO International Convention on the Harmonized Commodity Description and Coding System establishes a uniform system of commodity classification that serves as the basis for the customs tariffs of over 190 countries. By creating a uniform system of commodity description, the Convention helps reduce the costs related to international trade. The International Convention on Mutual Administrative Assistance in Customs

Matters recognizes that closer cooperation between customs administrations is needed, and that this cooperation can be achieved by accurately assessing duties and taxes and finding a balance between compliance and facilitation.

- (ii) *WCO Data Model*. Version 3 of the Data Model (2009) provides a whole-of-government set of data and data structures, including requirements for cross-border regulatory agencies (Customs, agriculture, environment protection, etc.) controlling export, import and transit. It provides an international standard for data harmonization and the development of common electronic messages for stable, predictable business-to-government and government-to-government data exchange.
- (iii) *Customs Convention on ATA Carnet*.<sup>45</sup> The ATA Carnet is an international customs document that permits duty-free and tax-free temporary import of goods for up to 1 year. The ATA carnet system is an example of close cooperation between business and customs. Each country in the system has a single guaranteeing body approved by the national customs authorities and the World Chambers Federation established by the International Chamber of Commerce. The national guaranteeing association is entitled to issue carnets and to authorize local chambers of commerce to deliver them on its behalf. The ATA international guarantee chain provides reciprocal guarantees, assuring customs administrations that duties and taxes due in case of misuse will be paid. The 1990 Istanbul Convention on temporary admission combined, within one international instrument, all existing conventions on temporary admission, including the ATA Convention. It provides simplified and harmonized procedures and standardized model customs documents for temporary importation of goods (including means of transport) specified in the annexes to this convention. It took effect on 27 November 1993.
- (iv) *SAFE Framework of Standards*. The Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework) establishes standards that provide supply chain security and facilitation at a global level to promote certainty and predictability. The SAFE Framework enables integrated supply chain management for all modes of transport; enhances the role, functions, and capabilities of customs to meet the challenges and opportunities of the 21st century; strengthens cooperation between customs administrations to improve their capability to detect high-risk consignments; enhances cooperation between customs and businesses; and promotes the seamless movement of goods through secure international trade supply chains.
- (v) *WCO's Immediate Release Guidelines*. The WCO's Immediate Release Guidelines supplement the principles set out in the legal text of the Revised Kyoto Convention, and provide an indicative list of data elements for the different categories of consignments detailed in Appendix 1 of the guidelines. The time necessary to release goods has increasingly become the measure by which the international trading community assesses the effectiveness of a customs administration. The WCO's Time Release Study provides guidance to customs administrations on the best way to undertake internal review. An online software to help countries to conduct TRS is available at the WCO website.

<sup>45</sup> ATA is a combination of the French and English phrases "Admission Temporaire/Temporary Admission."

The relevant UN Economic Commission for Europe (UNECE) instruments and standards that aim to simplify trade procedures include, among others, the following:

- (i) *International Convention on the Harmonization of Frontier Controls of Goods (UNECE 1982)* aims to facilitate the border crossing of goods by harmonizing and reducing formalities, as well as the number and duration of border controls. The Convention establishes border control procedures such as customs controls, medico-sanitary inspections, veterinary inspections, phytosanitary inspections, controls of compliance with technical standards, and quality controls. These procedures largely call for national cooperation and coordination of various services, as well as international cooperation between respective border services. In particular, the convention foresees joint controls of goods and documents through the provision of shared facilities, the same opening hours, and the same types of services at the same border. Finally, the Convention also promotes the one-stop shop principle for border controls.<sup>46</sup>
- (ii) *United Nations Layout Key for Trade Documents (UNLK, ISO 6422)* is an international standard for customs and trade documents. It integrates a set of international standards and codes to design an aligned series of forms while using a master document. It can also be used to design screen layouts for the visual display of electronic documents. The UNLK (Figure 2.10) can be used for the creation of international, regional, or national layout keys, which provide the basis for trade documents set at various levels: international (e.g., United Nations Conference on Trade and Development [UNCTAD] certificate of origin, WCO customs declaration, and International Federation of Freight Forwarders Associations [FIATA] forwarding instruction); regional (e.g., the single administrative document of the European Union or Form D under the Common Effective Preferential Tariff of ASEAN); national (e.g., the customs declaration in the Kyrgyz Republic or in the Lao People's Democratic Republic); and company (e.g., invoices and packing lists).
- (iii) *United Nations Trade Data Elements Directory (UNTDDED, ISO 7372)* contains the standard data elements, which can be used with any method for data interchange on paper documents, as well as with other means of data communication. It provides a nontechnical description of trade information requirements from the perspective of business or authorities. The definition is syntax-neutral and provides the basis for a later migration to electronic trade documents and automation.
- (iv) *Recommendation and Guidelines on Establishing a Single Window (UN/CEFACT Recommendation 33)* recommends establishing a facility such as a single window (Box 2.6) that allows parties involved in trade and transport to lodge standardized information and documents at a single entry point to fulfill all import, export, and transit-related regulatory requirements. If information is electronic, then individual data elements should be submitted only once. This may also provide a platform for coordinating controls among the agencies involved and payment of relevant duties, taxes, and fees.
- (v) *Recommendation on Facilitation Measures related to International Trade Procedures (UN/CEFACT Recommendation 18)* provides a comprehensive set of recommendations on international best practices and standards for the facilitation and harmonization of trade transactions, from initial commercial

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<sup>46</sup> UNECE. 1982.

**Figure 2.10: United Nations Layout Key and Its Application to the Forwarding Instruction Document of the International Federation of Freight Forwarders Associations**

LAYOUT KEY FOR TRADE DOCUMENTS					
Consignor (Exporter)		Date, Reference No. etc.			
Consignee		Type (if other than consignee) or other address			
Notify or delivery address		Country where consigned		Country of origin	
				Country of destination	
Transport details		Terms of delivery and payment			
Shipping marks: Container No.		Number and kind of packages; Goods description		Commodity No.	Gross weight
					Cube
				Net quantity	Value
		Place and date of issue; Authentication			

FIATA FORWARDING INSTRUCTIONS FFI					
3336 Consignor		Emblem of National Association		(approved by FIATA) 1498 Consignor's reference No.	
1				2	
3132 Consignee		3109 Freight Forwarder			
3		4			
3180 Notify party		3228 Country of origin		Documentary credit	
5		6		7	
Goods ready for shipment		1499 Conditions of sale			
Place				9	
Date					
8066 Mode of transport		10		Transport insurance 11	
<input type="checkbox"/> Air		<input type="checkbox"/> Road		4332 Insurance conditions	
<input type="checkbox"/> Rail		<input type="checkbox"/> Sea		Covered by us	
				Covered by consignee	
				6345 Currency and 5001 value insured	
3238 Place of destination		To be covered by you			
7102		7224 Number & 7064 type of pkg.		7002 Description of goods	
12		13		7307 Commodity code	
				6232 Gross weight	
				6048 Net net weight	
				6332 Cube	
				Value	
The goods and instructions are accepted and dealt with subject to the Trading Conditions printed overleaf.					
4378 Handling instructions (dangerous goods etc.)					
17					
Dimensions/Measurement and weight of each package					
1246 Document enclosed:		190 Document required:		4052 Terms of delivery	
		18		19	
				3110 Place and 2006 date of issue	
				20	
				4425 Authentication	
				21	

Source: UNECE. 2002.

documents to payment measures, official controls, and transportation of goods. Using complementary standards and internationally agreed-upon codes such as the following helps information exchange in a precise, unified and secure way between governments and the trading community

- International Organization for Standardization (ISO) Country Code for Representation of Names of Countries (ISO 3166);
- Numerical Representation of Dates, Time and Periods of Time (ISO 8601);
- Alphabetic Code for the Representation of Currencies (ISO 4217);
- Codes for Units of Measurement Used in International Trade (UNECE Recommendation 20); and

- Codes for Ports and Locations (UNECE Recommendation 16, also known as the UN/ LOCODE).<sup>47</sup>

As implementation and use of the abovementioned instruments in a national or regional context has been found to be very challenging for many developing countries in Asia-Pacific, ESCAP together with UNECE and experts from the United Nations Network of Experts for Paperless Trade in Asia and the Pacific (UNNExT) have developed a series of practical guides aimed at practitioners from the region. As of 2012, the series included: (1) The UNNExT Business Process Analysis Guide to Simplify Trade Procedures, (2) The UNNExT Data Harmonization and Modelling Guide for Single Window Environment, (3) The UNNExT Capacity-Building Guide on Electronic Single Window Legal Issues, (4) The UNNExT Guide for the Design of Aligned Trade Forms for Paperless Trade, and (5) The UNNExT Guide to Single Window Project Planning and Implementation. These guides, as well as upcoming ones, are available at [www.unescap.org/unnext/tools](http://www.unescap.org/unnext/tools).

## Experience of Economies in Asia and the Pacific

### Developing a National Single Window – The Case of Singapore’s TradeNet<sup>48</sup>

The TradeNet system, which has been operational since 1989, began as an electronic data interchange (EDI) system that links multiple parties involved in external trade transactions, including 35 controlling agencies,<sup>49</sup> to a single point of transaction for most trade documentation tasks, such as processing import and export permits and certificates of origin.

In 1985, Singapore experienced its first recession. Government response was the establishment of a high-powered Economic Committee to chart new strategies to improve its economic competitiveness. One recommendation was to expedite the use of information technology to improve trade competitiveness. In 1986, Hong Kong, China, a major shipping competitor, revealed that it was creating a trade-oriented EDI system (TradeLink), which further strengthened Singapore’s resolve to implement TradeNet. In 1986, to emphasize the government’s commitment to this project, Mr. Lee Hsien Loong, then Minister for Trade and Industry, announced publicly the TradeNet project to be completed within 2 years. This had the effect of speeding up the work of various committees and officials involved. It also gave the TradeNet team full authority and resources to proceed.

The Singapore Trade Development Board (STDB), now known as International Enterprise Singapore, was tasked with mobilizing a core team comprising representatives from relevant government agencies such as Customs, Port of Singapore Authority, and Civil Aviation Authority of Singapore and from the private sector to conceptualize a nationwide EDI system for traders to submit trade declarations electronically to the regulatory authorities. A TradeNet Steering Committee was created to oversee the process. Three working subcommittees, one each for sea and

<sup>47</sup> All trade facilitation standards, recommendations, and code lists of UNECE-UN/CEFACT are available at [www.unece.org/cefact/recommendations/rec\\_index.htm](http://www.unece.org/cefact/recommendations/rec_index.htm)

<sup>48</sup> Input provided by Jonathan Koh, CrimsonLogic Pte Ltd, is gratefully acknowledged. More relevant information can be found in UNNExT Brief No. 02, March 2010 entitled “Best Practice in Single Window Implementation: Case of Singapore’s TradeNet, available at <http://www.unescap.org/tid/unnext/pub/brief2.pdf>.

<sup>49</sup> Examples of controlling agencies are Arms and Explosives Branch, Central Narcotics Bureau and Agri-Food & Veterinary Authority. There are 35 controlling agencies in Singapore including Singapore Customs.

air shipping, and various government agencies were formed to specify functional requirements and propose data standards. The staff of the National Computer Board were appointed to support each subcommittee. Each subcommittee developed a profile of essential trade documentation activities, which were integrated into an “Integrated Procedures Report.” Efforts were made to reduce the 20 forms used in international trade into a single online form to serve nearly all trade documentation needs in Singapore. This single administrative document formed the core of the new computerized system.

It was also decided that the development of the TradeNet system and the provision of processing services were to be contracted to a newly set up company. By creating such company as an independent profit center, the government would not have to bear the cost of running and operating a nationwide network infrastructure and services. The beneficiaries, namely, trading companies, would pay for use of the services without incurring developmental or maintenance costs. In March 1988, Singapore Network Services Pte Ltd (SNS), now known as CrimsonLogic Pte Ltd, was created to own and operate the TradeNet system. SNS is owned by the four key agencies involved in TradeNet: STDB (55%), Port of Singapore Authority (PSA) which runs the port facilities (15%), Civil Aviation Authority of Singapore (CAAS) which runs all airport facilities (15%), and Singapore Telecoms which runs the telecommunication system (15%). SNS contracted International Business Machines (IBM) to develop the first version of the system which went live on 1 January 1989, when the first transaction on TradeNet—a shipping application—was submitted. Approval of the shipment was returned 10 minutes later.

By December 1989, TradeNet had 850 out of 2,200 possible subscribers, and handled about 45% of all trade documentation, a threefold increase from the first year target of 15%. Due to overwhelming response, STDB brought forward the date for the mandatory use of TradeNet from early 1993 to early 1991. By mid-1991, TradeNet had 1,800 subscribers, and was processing 95% of all trade documentation. Today, all trade documentation is 100% electronically submitted and processed. The number of permits applications had increased from 10,000 daily in 1987 to 30,000 in 2007, amounting to some 9 million transactions a year. The number of companies using TradeNet in the same year reached about 2,500 companies with a total 8,000 individual user accounts.

The direct capital cost of TradeNet’s development was in excess of S\$20 million in 1987. This does not include the costs that various agencies incurred in conceiving the project, developing requirements and specifications, managing contract or establishing SNS. In 1989, a company joining TradeNet had to pay a one-time connection fee of S\$750, a monthly charge of S\$30 for a dial-up port, and transaction costs of S\$0.50 per kilobyte of transmitted information (the average declaration requires 0.7 kilobytes). The company also had to acquire the necessary hardware (about S\$4,000) and applications (between S\$1,000 and S\$4,000) for the processing and transmission of the coded UN/EDIFACT data. Today, TradeNet is completely web-based. Aside from broadband charges, the user pays a one-time registration fee of S\$50 and a monthly fee of S\$20 per user. In addition, the user pays S\$2.88 for each declaration made through the system.

TradeNet streamlined trade procedures and protocols, which made the entire trading community more competitive internationally. Users found that there were significant savings accruing from filling out a single online form versus over 20 paper forms in the past. One main benefit of TradeNet was a reduced turnaround time for processing typical trade documents—from 2 to 4 days to as short as 10 minutes.

Faster turnaround made it possible to better organize shipments and improve productivity. Freight forwarders have reported savings of 25%–35% in handling trade documentation as TradeNet operates 24 hours as opposed to agencies that open only during normal office hours. Benefits also accrued to government agencies using the system. Customs moved from a system of post-approval of applications to pre-approval, such that customs duties are now prepaid through electronic means and customs receive payments faster. The system also enabled faster compilation of more accurate and complete external trade statistics since data need not be re-keyed in by the government agencies to compile the trade statistics.

Further trade-related services were continually added to the TradeNet. For example, in 1990, a module that enables traders to apply electronically for certificates of origin (CO) was added, reducing CO applications processing and approval from 2 days to half a day. Further enhancements to TradeNet initiated in 1999 reduced trade documentation processing time to 1–2 minutes. The current web-based TradeNet version 4.0 was implemented in October 2007. It comprises major enhancements, providing a simplified permit structure, with less declaration fields. TradeNet 4.0 also offers a full suite of permit processing services, including a new “import for re-export” permit for traders bringing in goods for re-export. Along with this new version, the processing and transmission fees were reduced from the S\$2.00 and S\$0.40 (per kilobyte) to S\$1.80 and S\$0.18 (unlimited), respectively, resulting in a further 12% reduction in cost per declaration relative to the previous version.

TradeNet is now a core application within Singapore TradeXchange platform, which also went live in October 2007. TradeXchange is a neutral electronic platform that facilitates the exchange of information in the trade and logistics community. It provides connectivity to commercial systems and regulatory systems in other countries. Leveraging on the connectivity and core applications of TradeXchange, a number of value-added service providers are providing various application services to the trade and logistics community in areas such as trade documentation preparation, supply chain management, logistics and freight management, trade finance and insurance. TradeXchange is the first information technology project in Singapore to be implemented as a public–private partnership, with CrimsonLogic Pte Ltd appointed by the government through a competitive tender to develop, operate, and maintain the platform.

The following critical success factors can be identified from the Singapore experience:

- (i) *Commitment at the highest level.* The then Minister of Trade and Industry provided full support to the TradeNet team. The government found it useful to set a deadline for the new system to be developed and implemented.
- (ii) *Multi-agency steering committee.* A multi-agency steering committee with private sector representation has to be organized as early as possible, with a lead agency spearheading the concept and coordinating activities of all the parties to be involved. STDB was the lead agency in Singapore’s case. The steering committee should set up a series of sub-committees comprising of representatives from both the public and private sectors to look into the following aspects: 1) simplification of documentation and procedures; 2) development of a community systems; and 3) data administration.
- (iii) *Establishment of a corporate vehicle.* A separate corporate entity, Singapore Network Services Ltd (SNS) was created with the necessary capitalization to develop and operate the system.

**Figure 2.11: Electronic Certificate of Origin in Sri Lanka Aligned to United Nations Layout Key and UNTD**

The screenshot shows a software interface for an Electronic Certificate of Origin. The window title is "The document contains the following fields". The form is divided into several sections:

- 1. Consignor / Exporter**: A large empty text area.
- 2. Ref. No.**: A text field.
- 3. Consignee**: A large empty text area.
- 4. Ref. No. (Where applicable only)**: A text field.
- 5. Country of Origin**: A dropdown menu with "LK SRI LANKA" selected.
- 6. Port of Loading and any other comments**: A large empty text area.
- 7. FOR OFFICIAL USE**: A large empty text area.

The form also includes a logo for "The Ceylon Chamber of Commerce" and contact information: "60, Navam Mawatha, Colombo 02, Sri Lanka. Tel: (0094) 11 - 2433148, 2421745-6. Fax: (0094) 11 - 2437477, 2449352, 2381012. Email: eco@chamber.lk".

At the bottom of the form, there is a table header with columns: "8. Item No", "9. Shipping Marks", "10. Package Type / Quantity", "11. Summary Description", "12. Commodity Code", and "13. Quantity & Type". A "1" is entered in the first column, and an "Add Row(s)" button is next to it. A "Del" button is also present.

Source: Ceylon Chamber of Commerce.

- (iv) *Phased implementation.* A “big bang” method is not recommended. To ensure success, it is necessary to consider a phased implementation, with a selected set of documents and goods and with a pilot group of users in the initial period.
- (v) *Establishment of document service centers.* The setting up of document service centers is critical to the acceptance and success of the new system as a large number of small and medium enterprises do not have the daily volume to justify the computer system to prepare and submit their trade documents.
- (vi) *Technical service providers.* To provide for competition, the lead agency may select a number of (the actual number will depend on the volume of daily transactions to be handled) service providers to develop software to run the system. The software developers shall sell their softwares and services to the business community based on their marketing and merit. They shall also provide the training and technical support to their customers to operate the system efficiently.

## Sri Lanka's Electronic Certificate of Origin

The Ceylon Chamber of Commerce launched an online electronic certificate of origin (e-CO) in July 2007 (Figure 2.11). This service allows more than 300 exporters to apply for a certificate of origin via the internet. Using this system, about 80 e-COs are issued each day, which represent one third of all certificates of origin issued in a day. Besides saving time and costs associated with obtaining the e-CO, it also eliminates human error and increases transparency and predictability of the issuing process. Moreover, introduction of the e-CO also provided an opportunity to simplify the previous format of the certificate of origin together with the entire application and issuance procedure. In designing the simplified e-CO, a full harmonization with the UNLK and UNTDED was conducted. The data elements were based on the UNTDED, which made them interoperable with ebXML or UN/EDIFACT. The e-CO was developed using the UN Trade Facilitation Toolkit for aligned trade forms and AdobeLiveCycle Software.<sup>50</sup>

When an e-CO is received in any computer application, the processing of data can be automated without the need for further changes in the system. Therefore, the e-COs can be generated in paper, XML, PDF, and EDI formats and be visualized using a standard internet browser or implemented in standard office software that supports electronic signatures.

When the e-CO system became fully operational, the exporters not only could apply for a certificate of origin online, but the Chamber could also return the approved e-COs back to the exporters online. This way, the chamber could process nearly 90% of the requests for certificates of origin received through the automated system. Further developments are envisaged for approved e-COs to be shared online with the banks or to the importing country's customs point of clearance.

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<sup>50</sup> The UN Toolkit was developed by the five UN regional commissions with UNECE as lead agency. The UN Toolkit is a web-based tool on UNLK and other international standards and codes that enables trade facilitators to develop aligned series of trade documents and forms. The forms may also be "write-enabled," which allows traders to complete the forms electronically and e-mail them or print them on paper.

## ■ CHAPTER 3

# Product Standards and Conformance

Product standards set out specific characteristics of a product such as size, shape, design, functions, and performance, or the way it is labeled or packaged before it is put on sale.<sup>51</sup> Standards that are imposed by government authorities and become mandatory are often referred to as technical regulations or sanitary and phytosanitary (SPS) measures, and governed by the World Trade Organization (WTO) Agreements on Technical Barriers to Trade (TBT) and on SPS Measures.

The objective of such regulations is most often to protect human safety and health. Moreover, such regulations aim to protect animal and plant life and health; the environment; and consumers against deceptive practices, such as misleading labeling. Technical regulations are also issued in some countries to ensure quality (e.g., standards on the size of certain fruits and vegetables) or to promote trade and technical harmonization (e.g., standards on telecommunications equipment to ensure compatibility).<sup>52</sup> While regulations and standards may clearly serve the public interest, it is important that they be designed to minimize any trade-restricting side effects.<sup>53</sup> Inappropriate regulations and standards, as well as inadequate conformity assessment procedures through which the application of standards is verified, can indeed result in high costs and inefficiencies for traders.

The WTO identifies four sources of costs to exporters from differing national product standards.<sup>54</sup> First, economies of scale are lost if a company must adjust its production process to comply with diverse technical requirements in individual markets. Second, compliance with technical regulations generally needs to be confirmed through testing, certification, or inspection by laboratories or certification bodies. These conformity assessment costs are usually at the exporter's expense. Third, the

<sup>51</sup> In certain cases, the way a product is produced can affect these characteristics, and it may then prove more appropriate to draft technical regulations and standards in terms of a product's process and production methods rather than its characteristics per se. For details, see [www.wto.org/english/tratop\\_e/tbt\\_e/tbt\\_info\\_e.htm](http://www.wto.org/english/tratop_e/tbt_e/tbt_info_e.htm)

<sup>52</sup> A clear distinction needs to be made between international standards that determine product quality and safety (such as TBT and SPS) and trade facilitation international standards to ease and harmonize trade procedures and information flows. A detailed explanation of the latter ones is provided in Chapter 2.

<sup>53</sup> Universal standards would serve this purpose but may be inappropriate if countries face diverse conditions and if meeting a global standard is unattainable, such as in least developed countries with limited administrative capacity.

<sup>54</sup> World Trade Organization (WTO) Technical Information on Technical barriers to trade. Accessed date 2009.

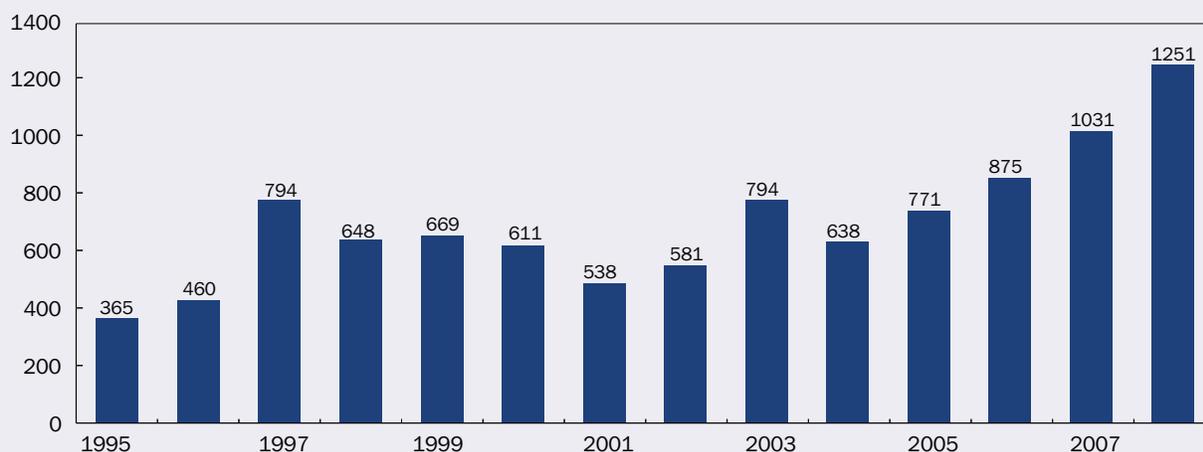
existence of technical standards generates information costs, which may include costs associated with evaluating the technical impact of foreign regulations on the production process, translating and disseminating product information, and training experts. Fourth, exporters may face additional unexpected costs if confronted with new regulations, as they often have less information and therefore less time to adjust as compared to firms in the importing country.

## Product Standards and Conformance: State of Play

The number of technical regulations has grown at a rapid pace and recent trends in the number of TBT notifications suggest that the pace is accelerating. The number of notifications in 2008 was twice as high as in the early 2000s (Figure 2.12). Since the Agreement took effect on 1 January 1995 until 31 December 2008, 10,026 notifications have been made by 106 members.

With the support of the UN Economic and Social Commission for Asia and the Pacific (ESCAP), exploratory private sector surveys were conducted in Bangladesh, the PRC, Fiji, India, Indonesia, and Nepal in 2005 and confirmed that traders in Asia and the Pacific found that technical and sanitary standards and requirements are among the most problematic trade facilitation issues.<sup>55</sup> Exporters in developing countries sometimes face the prospect of detentions of their agricultural and food shipments upon arrival in developed countries, often on the ground of insanitariness and contamination. Import restrictions imposed on the basis of noncompliance with sanitary or phytosanitary requirements are also common (Box 2.10). While detentions and import restrictions imply the necessity of improving the capacity of

Figure 2.12: Annual Number of Technical Barriers to Trade Notifications



Source: World Trade Organization 2009.

<sup>55</sup> ESCAP 2008.

### Box 2.10: Sanitary and Phytosanitary Conformance Issues and Import Restrictions on Exports from Asian Countries: Some Examples

- Import restrictions on chicken meat exports of Thailand (Athukorala and Jayasuriya, 2005). In 2002, Australian quarantine regulations required that chicken meat from Thailand be heated for 143 minutes at 70 degrees Celsius to avoid the possibility of carrying a certain disease. The heating process adversely affected the quality of the chicken, and effectively closed the Australian market for Thai chicken exports. In June 2002, Thailand provided Australia with a risk assessment report, which showed that the risk of introducing diseases to backyard flocks through cooked chicken meat was negligible.
- Import restrictions on prawns and prawn products (Jongwanich 2009). In 2001–2007, Thailand, on behalf of the Association of Southeast Asian Nations (ASEAN), urged Australia to lift its interim measures on prawns and prawn products (which required risk management measures for White Spot Syndrome and Yellow Head Virus) on the basis that the measures were not based on scientific evidence and were trade-restrictive. On 20 September 2007, Australia accepted Thailand's proposal on alternative cooking parameters and was willing to consider the same proposals from other exporters and discuss equivalent measures such as zoning and compartmentalization.
- Import restrictions on fish and fishery exports from India (Henson and Jaffee 2008). The European Union imposed border testing for frozen products, conducted inspections of India's fish processing facilities, and eventually banned India's fish and fishery exports for noncompliance with hygiene standards. The ban was lifted after the Indian government improved hygiene standards in the facilities.

Source: Athukorala and Jayasuriya. 2003; Henson and Jaffee. 2008; Jongwanich. 2009.

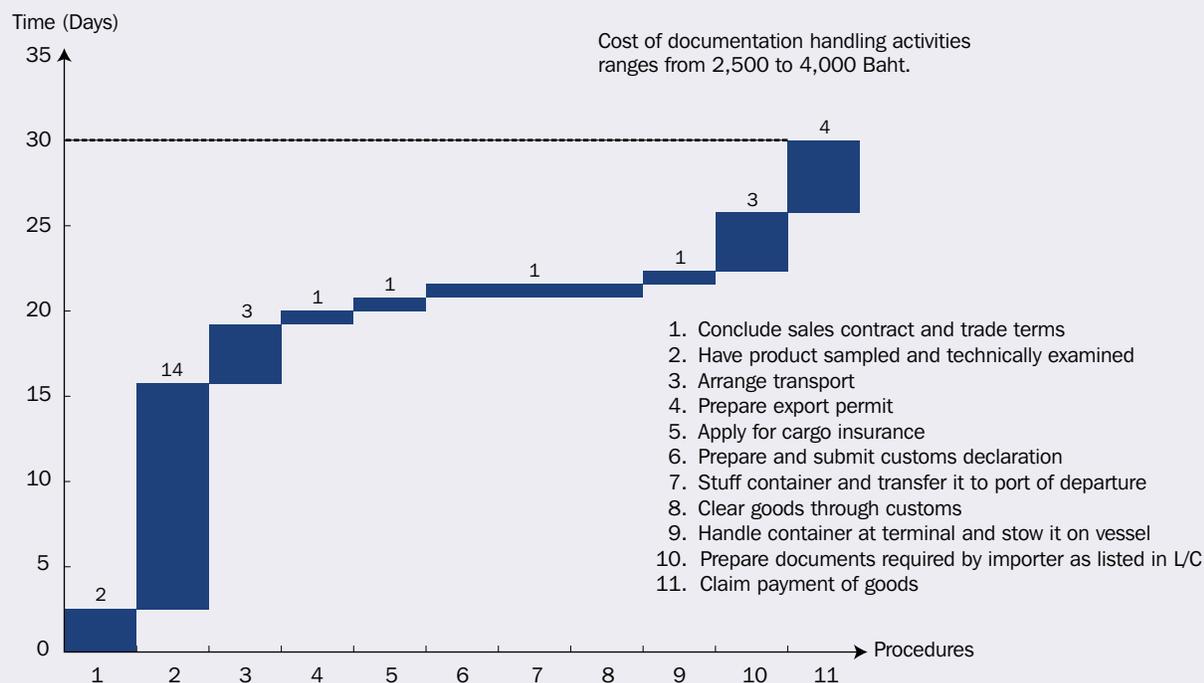
exporters from developing countries to supply products that meet standards, the appropriateness of the regulatory requirements also needs to be ensured.

While the standards themselves can be an issue, a key concern from a trade facilitation perspective is the efficiency of the conformity assessment procedures, which can add significant time to the export process. For example, Keretho (2007) found that the sampling, testing, and other procedures involved in obtaining relevant SPS certificates in Thailand account for almost half of the 30 days necessary to prepare all the documents needed for the export of frozen shrimps (Figure 2.13). More importantly, the 30-day estimate does not include additional conformity assessment procedures (e.g., inspection and testing) that may also take place once the shrimps arrive in the importing country, particularly if the authorities in the country of import are less confident in the competence, reliability, or methods of the conformity assessment service providers who delivered the initial certificate in the country of origin.

While the situation differs greatly across countries and subregions, developing countries have reported various problems in relation to conformity assessment procedures.<sup>56</sup> Developing country exporters, in particular SMEs, have sometimes found conformity assessment requirements in export markets difficult to meet due to the lack of a developed and internationally recognized quality infrastructure in their country (Box 2.11), e.g., limited physical and technical resources for national conformity assessment, and insufficient number of accredited laboratories at the national or regional level. Moreover, the developing countries cited the high costs and difficulties of obtaining foreign accreditation, establishing internationally recognized accreditation bodies, participating in international conformity assessment systems, and implementing International Organization for Standardization/International

<sup>56</sup> Second Triennial Review of the Operation And Implementation of the Agreement on TBT. 2000.

Figure 2.13: Time–Procedure Chart of Thailand’s Frozen Shrimp Exports



Source: Keretho, S. 2007.

### Box 2.11: Overview of a National Quality Infrastructure

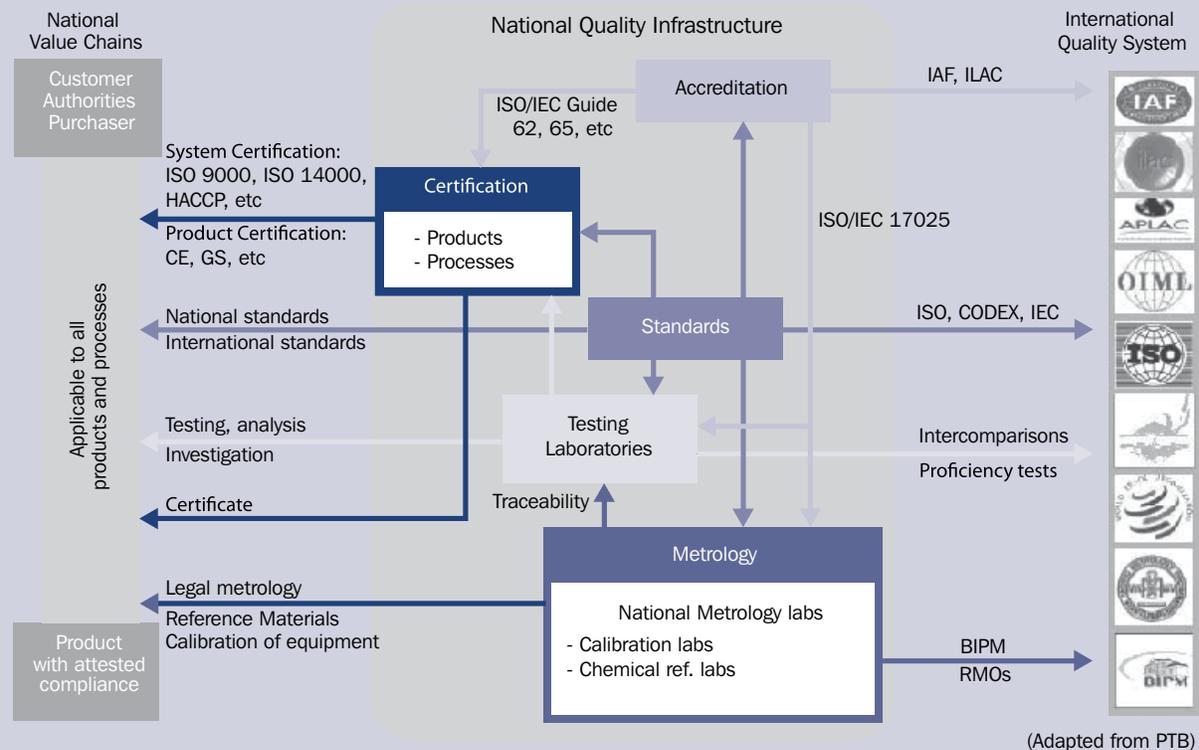
A quality infrastructure can be understood as the totality of the institutional framework (whether public or private) put in place to formulate, issue, and implement standards and the associated evidence of compliance (i.e., the relevant mix of inspection, testing, certification, metrology, and accreditation) in order to improve the suitability of products, processes, and services for their intended purposes; prevent barriers to trade; and facilitate technological cooperation.<sup>a</sup> The organizations that make up a quality infrastructure should individually or collectively provide the following output:

- **Standards, technical regulations, and SPS measures** are formal documentation containing the requirements that a product, process, or service should comply with. Standards are usually developed and published under the auspices of a national standards body (NSB) in accordance with the World Trade Organization Technical Barriers to Trade Code of Conduct and the Directives of International Electrotechnical Commission (IEC) and the International Organization for Standardization (ISO). In developing countries, NSBs are generally government or semi-government organizations with close links to other government agencies, and often responsible for developing both national standards and technical regulations. SPS measures may also be developed by the NSB in cooperation or in conjunction with the ministries of trade and industry, health, and agriculture or an SPS authority.
- **Metrology** is the technology or science of measurement. Metrology is essential to ensure the accuracy of measurements where these have an influence on the transparency of economic transactions, health, and safety, as well as to warrant the adequate functioning of measurement instruments used in industry, production, and testing. A national metrology institute is responsible for ensuring that national measurement standards are maintained at certain accuracy levels and for diffusing these standards to the industries. National metrology institutes are generally government or semi-government organizations.

<sup>a</sup> Derived from the definition of standardization in ISO/IEC Guide 2:2004.

## Box 2.11 continued

Figure B2.11: National Quality Infrastructure Set Up



- **Testing** is the determination of product characteristics against the requirements of the standard. In the past, government laboratories were responsible for providing testing services, especially to the authorities; these services are now increasingly provided by the private sector.
- **Certification** is the formal substantiation that a product, service, organization or individual meets the requirements of a standard. This has often become mainly a commercial activity even though both public and private organizations provide such services.
- **Accreditation** is the activity of providing independent attestation as to the competency of an individual or organization to provide specified services (e.g., testing and certification). Accreditation bodies are invariably government organizations and there should be only one such body in a country.

Figure B2.11 illustrates the relationships between the quality infrastructure organizations. Everything starts with standards, which contain the requirements for the product or service. Once the product has been manufactured it has to be tested by a testing laboratory. The certification organization assesses the supplier and products or service, and issues a certificate stating compliance with the standard. Through metrology the testing laboratory can ensure that its measuring equipment functions adequately. National quality infrastructure organizations participate in the international quality system to contribute or access international standards (e.g., NSBs are members of ISO), or to facilitate the recognition of their services abroad.

Electrotechnical Commission (ISO/IEC) guides on conformity assessment procedures.<sup>57</sup>

Overall, the growing number of technical regulations and standards and the significant time and costs involved in conformance, as well as the inherent complexity and long-term nature of quality infrastructure development, suggest that countries in the region will have to pay more attention to the development of product standards, conformity assessment procedures, and infrastructure in line with the principles and best practices outlined in relevant international agreements.

## Impact of Product Standards on Trade

Nontariff barriers to trade in the form of technical requirements and standards, as well as SPS measures, pose a major challenge to economists not only because of the measurement challenges<sup>58</sup> but also because of the complex effects.<sup>59</sup> Many standards are beneficial and the impact on trade is second order to the benefits in terms of improved health, safety or environmental conditions. Even the trade impact is double-edged, with transparent regulations that help promote market development internationally and domestically, while divergent standards may create an undesirable bias in favor of domestic firms.

Much of the literature in the 1990s and early 2000s was concerned with identifying technical barriers to trade in a descriptive or institutional way.<sup>60</sup> Four types of empirical approaches were used in identifying technical barriers to trade: surveys, macro-econometric analysis, partial equilibrium approaches, and computable general equilibrium models.<sup>61</sup>

One of the best known surveys on conformity assessment procedures is a 1999 survey conducted by the Organisation for Economic Co-operation and Development (OECD). This survey of 55 firms associated with the dairy products, auto equipment, and terminal telecommunications equipment industries in Germany, Japan, the UK, and the US<sup>62</sup> found that firms adopted compliance strategies when exporting, although they had difficulty in assessing in advance the costs of complying with foreign requirements. In general, the firms did not perceive the cost of different mandatory technical requirements to be large but they did report difficulties complying with non-mandatory standards. They also reported observable cost reductions due to harmonization of standards or mutual recognition agreements. Conformity assessment costs varied significantly from company to company and across industries, and time delays were acknowledged as an important cost of conformity assessment. Smaller firms reported greater reliance on external

<sup>57</sup> Third Triennial Review of the TBT Agreement. 2003.

<sup>58</sup> Deardorff and Stern (1998) characterized regulatory barriers as “one of the most difficult nontariff barriers imaginable to quantify.” Their conclusion that “the best approach is to collect information from experts in the industry itself” is an admission of defeat in assembling anything other than disaggregated case-specific data.

<sup>59</sup> For example, SPS and other standards may play a role as catalysts for the development of regulatory, institutional, and administrative capacities, and the upgrading of production technologies and supply chains, consequently creating positive externalities in the domestic market and improving competitiveness, which might be particularly evident in developing countries (See also Jongwanich 2009; Henson and Jaffee 2008).

<sup>60</sup> Henson and Wilson. 2005.

<sup>61</sup> Keith Maskus and John Wilson (in the first two chapters of their edited book) proposed this taxonomy. It is also adopted by Popper, et al., 2004

<sup>62</sup> The report *Assessment of the Costs for International Trade in Meeting Regulatory Requirements* is available at [www.oecd.org/olis/1999doc.nsf/linkto/td-tc-wp\(99\)8-final](http://www.oecd.org/olis/1999doc.nsf/linkto/td-tc-wp(99)8-final)

information sources and difficulty in spreading compliance costs over small export volumes.<sup>63</sup>

Econometric approaches typically include the number of regulations or a survey-based perception index of regulatory severity in a regression of trade volumes. This is the approach in the gravity model analysis of trade costs such as the work of Wilson et al. (2005). In general, regulatory variables appear to be less important than port efficiency variables or those related to information communication technology (ICT) infrastructure and services.

Several studies have made case-specific analyses, especially to agricultural products. Krissoff, Calvin, and Gray (1997) estimated the tariff equivalents of phytosanitary requirements of US apple exports to Japan, Mexico, and the Republic of Korea, and found them to be generally larger than the tariff rates on these products and significant barriers to trade. Other examples include studies of US dairy markets in Canada and Mexico after NAFTA by Thilmany and Barrett (1997), and of US beef imports by Paarlberg and Lee (1998).

All of these approaches have their shortcomings because regulatory barriers are heterogeneous and inherently difficult to measure. Most technical barriers to trade are product-specific and hence poorly captured in computable general equilibrium models. Moreover, they are not equally onerous, so counts of regulations do not capture the relative severity of national regulatory regimes. Surveys suffer from respondent bias, which is important given the likelihood that the costs will be more onerous for smaller firms, and that firms that are deterred from exporting at all will be omitted from surveys of companies that trade.

The econometric studies rely on survey or count data so their results are of dubious value. Partial equilibrium studies can be valuable for highlighting the impact on trade and welfare of individual technical barriers, especially those covered by the SPS Agreement. These studies highlight the potentially high costs of standards that differ in each country, especially if they are introduced in response to lobbying by domestic producers that compete with imports.

## Basic Principles and Good Practices

As mentioned earlier, two specific WTO agreements, the TBT and SPS agreements, set out the principles and rules in the areas of standards and conformance.<sup>64</sup> The TBT Agreement sets out international rules on technical regulations, voluntary standards, and conformity assessment procedures. It applies to regulations, standards, and procedures in both industrial and agricultural products except when they are SPS measures. SPS measures are regulations imposed on some agricultural products to (i) ensure food safety for both humans and animals, (ii) protect human life from plant or animal-carried diseases, and (iii) protect animals and plants from pests and diseases. Regulations adopted to meet one or more of these three objectives are expected to comply with the provisions of the SPS agreement.

<sup>63</sup> More recently, in 2004–2005, the OECD conducted additional studies on conformity assessment procedures, but the results have yet to be reported. See [www.oecd.org/document/62/0,3343,en\\_2649\\_36251006\\_1842622\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/62/0,3343,en_2649_36251006_1842622_1_1_1_1,00.html)

<sup>64</sup> The two agreements are mutually exclusive. As such, in the area of food labeling, requirements on information related to food safety (health warnings, use, dosage) fall under the SPS Agreement, but requirements for a label's position, lettering, and information on nutrient content are covered by the TBT Agreement (Pellan 2003; Agreements on SPS and TBT. 1995).

While there are differences between the TBT and SPS agreements, both attempt to strike a balance between a country's legitimate need to impose standards and a country's use of standards and procedures to limit trade (e.g., through unnecessarily stringent labeling requirements). They attempt to identify the trade-distorting aspects of standards, and compel countries to ensure that technical regulations and standards do not unnecessarily restrict international trade.

Borrowing from the TBT and SPS agreements, the following principles should be promoted and adhered to the extent possible when preparing, adopting, and applying technical regulations, standards, and SPS measures:

- (i) *Nondiscrimination.* Technical regulations should accord products imported from any country a treatment no less favorable than similar products of national origin or originating from any other country. This is in line with the general nondiscrimination principle in WTO as defined in GATT Article 1 (Most Favored Nation) and GATT Article 2 (National Treatment). In the case of the SPS measures, however, some flexibility exists to deviate from the most favored nation principle when they aim to prevent the entry of plant or animal-borne pests and disease into a country, since the level of prevalence of specific diseases and pests may vary across countries.<sup>65</sup>
- (ii) *Avoidance of unnecessary obstacles to trade.* Technical regulations should be made no more restrictive than necessary to fulfill legitimate objectives (e.g., national security requirements; protection of human, animal, and plant life or safety; or environmental protection). They should be based on the risks associated with noncompliance, which should be assessed according to information such as available scientific and technical information, and intended end uses of products. While the SPS Agreement does not prohibit countries from developing and implementing national standards that are more stringent than international standards, WTO members must, if they do not align national requirements with international requirements and standards, justify their reasons for the use of more stringent domestic standard in case it restricts trade. The SPS Agreement particularly emphasizes the need for scientific evidence to justify trade-restricting measures (Box 2.12). Moreover, in an effort to avoid unnecessary obstacles to trade, it is recommended that regulations specify

### Box 2.12: Scientific Standards in the Sanitary and Phytosanitary Agreement: The Case of Japan's Apple Restrictions

The WTO dispute settlement body's interpretation that the SPS agreement only allows standards set on the basis of scientific evidence with no leeway given to national authorities was highlighted in the case of Japan's apple restrictions, which aimed to prevent the introduction of the fire blight plant disease through imported apples from the US. The restrictions violated the SPS Agreement because of lack of scientific evidence to support such a measure. Japan defended the restrictions, saying they were provisional and precautionary, and argued that their national authorities should be given deference in their interpretation of the scientific evidence. The WTO dispute settlement body rejected this defense and found Japan's restrictions to be "clearly disproportionate to the risk." Fire blight affects plants but has no human health consequences. Thus this case dealt only with plant safety rather than the emotionally charged issue of human health safety. The case highlights the WTO's attempt to enforce the principle of scientific standards as key to upholding trade restrictions on SPS grounds, and cannot be superseded simply by claims of national autonomy.

Source: Harvard University Center for International Economic Development. 2004.

<sup>65</sup> ITC UNCTAD/WTO. 2006.

product performance requirements rather than product design or descriptive requirements.

- (iii) *Harmonization.* Technical regulations should, to the extent possible, be based on relevant international standards. Box 2.13 features international standards developed by international standard-setting organizations such as the Food and Agriculture Organization (FAO), ISO, United Nations Economic Commission for Europe, and World Health Organization (WHO). International standards may be used either by direct application or by a process of modifying an international standard to suit local conditions. Relying on international standards is an effective way to help reduce the costs faced by producers and traders. Countries should therefore participate to the extent possible in the appropriate standard-setting bodies to ensure that international standards meet their needs. The SPS Agreement also stresses that member countries should play an active role in the promotion of food safety and plant protection standards within the framework of the Codex Alimentarius Commission (CAC) and the International Office of Epizootics, subject to the limits of their resources.
  
- (iv) *Transparency.* Technical requirements should be prepared, adopted, and applied in a transparent manner. Good practices include (i) allowing a period of at least 60 days for the submission of comments on a draft standard by interested parties; (ii) promptly providing copies of the draft to interested domestic and foreign parties, and charging the same fees, apart from the real cost of delivery, to all parties; (iii) incorporating relevant comments received in the final standard and explaining, if applicable, why a standard departs from corresponding international standards; (iv) promptly publishing the standard once it has been adopted; and (v) notifying trading partners (through the WTO) and allowing sufficient time for interested parties to get acquainted with the standard before it is enforced (pre-enactment publication). Other relevant good practices can be found in the Code of Good Practices for the Preparation, Adoption and Application of Standards (Annex 3 of the TBT Agreement).<sup>66</sup> Countries also need to establish enquiry points and national notification authorities (the two may be the same body) to answer questions about regulations and to notify other countries of new regulations. Other principles and practices of transparency related to publication and administration were discussed in Chapter 1.
  
- (v) *Equivalence and mutual recognition.* Technical regulations and standards in foreign countries should be recognized as equivalent provided they fulfill or satisfy the objectives of national regulations. Whenever possible, countries should seek to mutually recognize each other's standards and regulations. Provisions on equivalence in the SPS agreement (Article 4) state that WTO members shall accept the SPS measures of other members as equivalent, even if these measures differ from their own or from those used by other countries trading in the same product, and even if the exporting country objectively demonstrates to the importing country that its measures achieve the importing country's level of SPS protection. For this purpose, reasonable access shall be given, upon request, to the importing country for inspection, testing, and other relevant procedures. Furthermore, WTO member countries shall, upon request, enter into consultations to achieve bilateral and multilateral agreements on recognition of the equivalence of specified SPS measures. Recognition of equivalence is a complicated process and therefore rarely used in practice, as countries prefer to work toward harmonization based on international

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<sup>66</sup> WTO Agreement on TBT. 1995.

## Box 2.13: Sources of International Standards

With the increasing globalization of markets, international standards (as opposed to regional or national standards) have become critical to the trading process, ensuring a level playing field for exports and guaranteeing imports meet internationally recognized levels of performance and safety. A number of bodies are involved in developing international standards in different sectors. Three such sources of standards are briefly presented below.

### International Organization for Standards

The International Organization for Standards (ISO) is the world's largest developer and publisher of international standards in various subjects and fields, including product standards. ISO has more than 17,500 international standards on a variety of subjects with some 1,100 new standards being published every year. The scope of ISO covers standardization in all fields except electrical and electronic engineering, which are the responsibility of the International Electrotechnical Commission (IEC), and telecommunications, covered by the International Telecommunication Union. The three organizations have a strong collaboration on standardization in the field of information technology.

ISO is a network of the national standards bodies of 161 countries (one member per country), with a Geneva-based central secretariat that coordinates the system. The ISO standards are voluntary and are based on international consensus among experts in the field. ISO work in developing standards is mainly carried out by experts from the industrial, technical, and business sectors, which have asked for the standards and subsequently put them to use. As a nongovernment organization, ISO has no legal authority to enforce the implementation of its standards. ISO does not regulate or legislate. However, countries may decide to adopt ISO standards (mainly those concerned with health, safety, or the environment) as regulations, for which ISO provides the technical basis.

### Codex Alimentarius Commission

The Codex Alimentarius Commission was established by the Food and Agriculture Organization (FAO) and the World Health Organization (WHO) to protect the health of consumers and ensure fair practices in food trade. The Commission first met in 1963. Codex is funded by FAO and WHO, and has 180 member governments, including the European Community as a member organization.

The Codex Alimentarius (Latin for "food code"), a collection of internationally adopted food standards, guidelines, and codes of practice, is the result of the work of the Commission and around 20 of its technical committees, bringing together scientists, technical experts, and government regulators as well as international consumer and industry organizations. Codex standards are adopted in most cases by consensus and are based on the best scientific and technical knowledge. Codex is the only international forum. The Codex Alimentarius officially covers all foods, whether processed, semi-processed, or raw, but far more attention has been given to foods that are marketed directly to consumers. In addition to standards for specific foods, the Codex Alimentarius contains general standards covering matters such as food labeling, food hygiene, food additives, and pesticide residues, as well as guidelines for the management of government import and export inspections and certification systems for foods.<sup>a</sup>

### United Nations Economic Commission for Europe

The United Nations Economic Commission for Europe (UNECE) develops global agricultural quality standards to facilitate international trade. It covers a wide spectrum of agricultural products: fresh fruit and vegetables, dry and dried produce, seed potatoes, meat, cut flowers, and eggs and egg products. The standards encourage high-quality production, improve profitability, and protect consumer interests. UNECE standards are used internationally by governments, producers, traders, importers, exporters, and international organizations.<sup>b</sup>

<sup>a</sup> Relevant information on Codex Alimentarius, including the food standards, can be found at [www.codexalimentarius.net/web/index\\_en.jsp](http://www.codexalimentarius.net/web/index_en.jsp)

<sup>b</sup> UNECE. accessed date 2009.

standards.<sup>67</sup> More progress has been made in unilateral or multilateral recognition of conformity assessment results.

## Facilitating Conformity Assessments

International Standard ISO/IEC 17000 defines conformity assessment as a “demonstration that specified requirements relating to a product, process, system, person or body are fulfilled.” Conformity assessment procedures such as testing, inspection, and certification offer assurance that products fulfill the requirements specified in regulations and standards. One of the crucial decisions for governments is whether to make conformity assessment mandatory through regulations in specific sectors, or to rely on the market to determine in a voluntary manner the conformity assessment requirements within normal transactions between buyers and sellers.

This decision should be based on (i) an assessment of the risks involved with a particular product or process; and (ii) an understanding of the impact a newly proposed regulation will have on trade and sustainable development. For low-risk products, a supplier’s declaration of conformity made by the supplier using its own testing system may be sufficient. For products that present a higher risk, third-party certification or inspection undertaken by an independent public or private service provider may be necessary. Technical and SPS regulations generally require third-party verification or certification. In this case, TBT and SPS certificates are typically required as part of the documentation necessary for customs clearance. Thus, it is important that all procedures involved in obtaining the relevant certificates be as transparent and efficient as possible.

The general principles of nondiscrimination and prevention of unnecessary barriers to trade, harmonization, and transparency for developing and adopting technical requirements and standards also apply to conformity assessment procedures. Good practices promoted under these principles include the following:

- (i) *Limit the amount of required information to what is necessary to assess conformity and determine fees.* Confidentiality of the information provided should be respected so as to protect the legitimate commercial interests of the applicant, regardless of whether the product is of domestic or foreign origin. Fees imposed for assessing the conformity of products, as well as the citing of facilities used in conformity assessment procedures, should be nondiscriminatory and consistent with the prevention of unnecessary barriers to trade.<sup>68</sup> A procedure to review complaints concerning the operation of a conformity assessment procedure should be put in place and corrective action must be imposed when a complaint is justified.
- (ii) *Complete conformity assessment procedures as expeditiously as possible.*<sup>69</sup> The standard processing period of each conformity assessment procedure should be published, and the anticipated processing period communicated to the applicant upon request. When receiving an application, the competent body should promptly examine the documentation and informs the applicant in a precise and complete manner of all deficiencies.

<sup>67</sup> WTO (G/TBT/W/173/Add.1). 2002.

<sup>68</sup> WTO Agreement on TBT. Accessed date 2009.

<sup>69</sup> In line with the nondiscrimination principle, they should be completed in a no less favorable order for products originating in the territories of other members than for like domestic products (TBT Article 5.2.1).

The competent body should transmit the results of the assessment as soon as possible in a precise and complete manner to the applicant so that corrective action may be taken if necessary. This applies even when the application has deficiencies.

The competent body should proceed as far as practicable with the conformity assessment if the applicant so requests. Upon request, the applicant should be informed of the stage of the procedure, explaining the delays, if any. In general, authorities are encouraged to develop flexible and innovative mechanisms to reduce time-to-market of goods while still meeting the mandatory conformity assessment requirements. For example, in 2001, the Philippines explained that, to ease the problems of long queues in testing laboratories, it devised arrangements such as interim recognition of test results from country of origin. In the case of Indonesian cement exported to the Philippines, if the test provided by the exporter was conducted by a laboratory that was accredited by an Asia Pacific Laboratory Accreditation Cooperation (APLAC) member, the results were recognized by the Philippines Bureau of Product Standards, and the cement shipment could be sold in the Philippine market while samples were undergoing the mandatory 28-day test in Philippine laboratories.<sup>70</sup>

- (iii) *Unilaterally accept the results of the conformity assessment procedures in other countries whenever possible.* This would contribute to reducing unnecessary barriers to trade associated with duplicative testing and certification. Unilateral recognition opens up domestic markets, promotes the establishment of fair competition, and as a result gives consumers more product choices. Recognition also helps safeguard the interests of consumers by ensuring that imported products do not cost more because of reassessment.<sup>71</sup> This practice goes one step further than the Philippines' interim recognition arrangement. However, a country adopting such practice should be satisfied; the procedures concerned offer an assurance of conformity equivalent to its own procedures.
- (iv) *Allow conformity assessment bodies located in foreign countries to participate in conformity assessment procedures.* TBT Article 5.6 suggests that foreign bodies should be allowed to provide conformity assessment services under conditions no less favorable than those accorded to domestic bodies. As pointed out by the TBT committee during various triennial reviews, such a practice should be seriously considered, as it could contribute to providing a wider choice of competent conformity assessment bodies for suppliers and regulators.<sup>72</sup> The Japanese organic agriculture regulations may be considered a best practice in this area, allowing, among other options, competent foreign conformity assessment bodies to undertake conformity assessment as long as they are accredited by the Japanese authorities (Box 2.14).

In addition, the following practices and measures are particularly important for developing countries to facilitate export:

- (i) *Follow conformity assessment guides and recommendations issued by international standardizing bodies.* The use of common procedures such as international guides, recommendations, or standards in relation to the operation of

<sup>70</sup> WTO (G/TBT/W/166). 2001.

<sup>71</sup> Second Triennial Review of the Operation and Implementation of the Agreement on Technical Barriers to Trade. 2000.

<sup>72</sup> Third Triennial Review of the Operation and Implementation of the Agreement on Technical Barriers to Trade. 2003.

### Box 2.14: Conformity Assessment Regulations on Organic Agriculture in Japan

The Japanese technical regulation on organic agriculture specifies who is able to undertake conformity assessment services in a flexible way that maximizes the supply of conformity assessment services in exporting countries while also ensuring an adequate degree of technical competence. In addition to accredited conformity assessment bodies based in Japan, three types of organizations can register to undertake certifications:

- Conformity assessment bodies located in a country that has been determined by the Japanese authority as having an equivalent system can, for a fee, obtain accreditation from the Japanese authorities. Provided they indicate the scope of their planned activities at the time of registration, these bodies can also undertake conformity assessments in third countries.
- Any recognized certifier in the country of export can certify raw agricultural products to be imported into Japan for further processing; the products will be recertified by a registered Japanese company after processing.
- Any registered company, either in Japan or in another country, can enter into a “trust contract” with companies in other countries. This is as long as the registered company is recognized by a national, regional, or international organization with established reliability, including the International Organic Accreditation Service of the International Federation of Organic Agriculture Movements, the main non-government body involved in organic agriculture standards and labeling.

Source: Rotherham. 2003.

accreditation, testing, inspection, and certification bodies (e.g., by ISO or IEC), can help achieve the required confidence among trading partners in the area of conformity assessment.<sup>73</sup> It is also recommended that developing countries participate in the preparation of guides and recommendations for conformance assessment procedures conducted by international standardizing bodies. This is because the procedures adopted by importing countries can greatly affect the ability of exporters to compete in these markets.

- (ii) *Negotiate mutual recognition agreements for conformity assessment.* Government-to-government mutual recognition agreements (MRAs) on conformity assessment procedures eliminate duplicative testing and/or certification. Moreover, MRAs bring significant benefits in terms of market access certainty, reduced costs, and faster time to market for products. While MRAs on a multilateral basis would be beneficial and trade-facilitating they are a very complex undertaking. As pointed out by Singapore during the fifth triennial review of the TBT Agreement, the success factors for MRAs are the confidence fostered in each other’s regulatory regimes and the commitment of regulators in the negotiations.<sup>74</sup> Bilateral or regional MRAs for conformity assessment such as the ASEAN MRAs (see next section) may therefore be pursued, as they may set the stage for harmonization of regulations and standards.
- (iii) *Develop an internationally accredited national accreditation system for conformity assessment bodies.* As explained in Box 2.11, a national accreditation body is an important part of a national quality infrastructure, as it has the

<sup>73</sup> The TBT Agreement requires the use of these guides except where such guides or recommendations or relevant parts are inappropriate for the members concerned for, among other things, such reasons as national security requirements; the prevention of deceptive practices; protection of human health or safety, animal or plant life or health, or the environment; fundamental climatic or other geographical factors; and fundamental technological or infrastructural problems.

<sup>74</sup> WTO (G/TBT/W/312). 2009.

### Box 2.15: Mutual Recognition Arrangement—Asia Pacific Laboratory Accreditation Cooperation

The Asia Pacific Laboratory Accreditation Cooperation (APLAC) was initiated in 1992 as a forum for laboratory accreditation bodies in Asia and the Pacific. Its primary aim is to establish, develop, and expand a mutual recognition arrangement among accreditation bodies in the region.

Signatories to the APLAC mutual recognition arrangement (MRA) now include 27 accreditation authorities in 15 Asia and the Pacific economies plus India. This MRA is based on regular peer evaluations against the international standard ISO/IEC 17011. Signatory accreditation bodies have thoroughly evaluated each others' systems of accreditation. These recognition arrangements also include mechanisms to ensure that the results of testing, calibrations and inspections, and reference materials certification are covered by the arrangement and carry the same degree of accuracy and credibility on an ongoing basis.

Mutual recognition means that each partner agrees to recognize accreditations granted by the other partners as equivalent to their own. The APLAC MRA enables testing, calibration and inspection reports, and reference material certificates from the exporting country to be accepted in the importing country. It helps avoid requirements for retesting, recalibration, reinspection, or recertification, thus saving exporters time and money.

While accreditation is increasingly being recognized by regulators worldwide as evidence of competence to carry out conformity assessments, accreditation bodies cannot compel a domestic regulator to accept endorsed reports and certificates from an overseas laboratory or inspection body accredited by an MRA partner. Although the APLAC MRA can facilitate unilateral or mutual recognition of conformity assessment procedures, the decision on regulatory acceptance remains fully with the governments involved.

Source: APLAC. 2009.

responsibility to verify the competence of conformity assessment bodies such as laboratories, which provide certificates and test results to exporters. While national accreditation systems are useful in increasing the supply and quality of conformity assessment services, they ideally need to be recognized in foreign countries such that tests and certificates issued by nationally accredited laboratories can be readily accepted by them. International Laboratory Accreditation Cooperation (ILAC), an international cooperative organization of laboratory accreditation bodies, and APLAC (Box 2.15), which is in charge of accrediting calibration, testing, and inspection facilities, were established to achieve an international one-stop testing mechanism through MRAs.

## Experience of Economies in Asia and the Pacific

### Mutual Recognition of Conformity Assessment: Association of Southeast Asian Nations Mutual Recognition Arrangement

ASEAN has a very ambitious scheme of mutual recognition regarding conformity assessment. ASEAN member countries signed a framework agreement on MRAs as early as 1998, and three sector MRAs on electrical and electronic equipment,<sup>75</sup>

<sup>75</sup> An ASEAN electrical and electronic equipment MRA was signed April 2002 and ASEAN Harmonized Electronic Equipment Regulatory Scheme was signed December 2005.

telecommunications,<sup>76</sup> and cosmetics<sup>77</sup> were signed a few years thereafter. Member countries are required to accept test reports or certifications that have been issued by a testing laboratory or a certification body of the other parties (Framework Agreement on MRA, Article 3). This reduces the burden of duplicate testing and certification requirements in all ASEAN territories. The agreement also lists the member's contact points with regard to conformity assessment policies.

Furthermore, the ASEAN MRA for electrical and electronic equipment enables the acceptance of test reports and certification of equipment produced outside ASEAN, so long as tests are conducted by a laboratory or a certification body certified by ASEAN-listed conformity assessment boards (CABs). It also allows the acceptance of test reports and/or certification for those produced outside ASEAN that are issued by a testing laboratory or a CAB-approved certification body located outside ASEAN, through arrangements between concerned member countries or between ASEAN and relevant CABs.<sup>78</sup> Thus, so long as products are tested and certified by a relevant testing laboratory or a certification body, a further conformity assessment test is no longer required upon importation into the ASEAN territory.

It should be noted that the mutual recognition of conformity assessment and of product standards are different. Cooperation on mutual recognition of product standards has not been significant compared with conformity assessment, and ASEAN has focused instead on harmonizing product standards such as those for cosmetic products.<sup>79</sup>

## Electronic Certification System for Agricultural Products in New Zealand

Electronic certification or E-cert, a webapplication used by the New Zealand Food Safety Authority, assists in providing government-to-government assurances that animal products exported from New Zealand comply with the regulatory requirements of importing countries. There are three E-cert systems:

- Animal Products E-cert used for exported animal products, excluding dairy products (e.g., meat, seafood, game, poultry, eggs, pet food, bee products, hides, wool, and skins);
- Dairy E-cert used for exported dairy products; and
- Phyto E-cert used for exported plant products. This E-cert system is owned and operated by the Biosecurity Division of the Ministry of Agriculture and Forestry.

The primary purpose of E-cert is to track the market eligibility and product status from the time of production until export (verification), and to approve and print sanitary export certificates (certification). The contents of the export certificates are supported by the verification regime, which manages or controls the advice about product compliance with importing country requirements. An approved export

<sup>76</sup> To date, MRA on telecommunication is entered into between Brunei Darussalam and Singapore, Indonesia and Singapore, and Malaysia, and Singapore.

<sup>77</sup> ASEAN Harmonized Cosmetic Regulatory Scheme was signed September 2003.

<sup>78</sup> ASEAN Harmonized Conformity Assessment Procedures for Electrical and Electronic Equipment, Appendix C, accessed date 2009.

<sup>79</sup> See Agreement on the ASEAN Harmonized Cosmetic Regulatory Scheme at [www.aseansec.org/18213.htm](http://www.aseansec.org/18213.htm)

certificate is available to the appropriate border agency of the importing country (electronically or in paper form). In Animal Products E-cert, an export certificate is supported by an extensive collection of approved electronic internal transfer documents that track the product movements within New Zealand. These are called eligibility documents or eligibility declarations. There are three groups of authorized E-cert users: New Zealand industry users (consignors and consignees), independent reviewers (inspectors and official verifiers), and importing country officials (border inspection officials).

E-cert is a mechanism to increase the robustness of the precertification verification checks, improve the efficiency of the export certification process, significantly reduce the risk of errors, and provide a means to improve the quality and range of data from which to make strategic decisions. E-cert reduces the likelihood of fraud; paper certificates can be fraudulently used and providing international agencies with the means to validate paper certificates significantly increases the likelihood that they will be detected. In addition, the full electronic approach would mean that paper certificates would not be created and the ability to create fraudulent certificates would be significantly reduced. E-cert provides the ability to rapidly respond to increasingly changing market requirements.

On a cross-border basis, the E-cert system has been operating efficiently between Australia and New Zealand.<sup>80</sup> Existing case studies of Australia and New Zealand show that adopting the E-cert system has major benefits for government agencies and the trading community. These include savings of about \$100 per transaction and enhanced security of traded food and agricultural products.<sup>81</sup> Certification data are securely and directly transferred from government to government to reduce the opportunity for fraudulent activity and to improve efficiency at ports of entry by providing prior notice of imports. The E-cert can be available on the internet within minutes of authentication by the issuing government.

Real time SPS data-sharing enables border officials to verify container contents prior to arrival in compliance with the World Customs Organization (WCO) pre-shipment notification requirements. Being internet-based, data are accessible and easily downloaded for integration into existing import management systems, and electronic certificates can be verified onscreen. The procedure to obtain E-cert in New Zealand is shown in Figure 2.14.

### **Onerous Labeling Requirements and the Technical Barriers to Trade Agreement: Case of Malaysia**

The benefits to exporters of the TBT agreement, an effective national authority, and conforming to internationally recognized standards are illustrated by the case of Malaysian condom exports.<sup>82</sup>

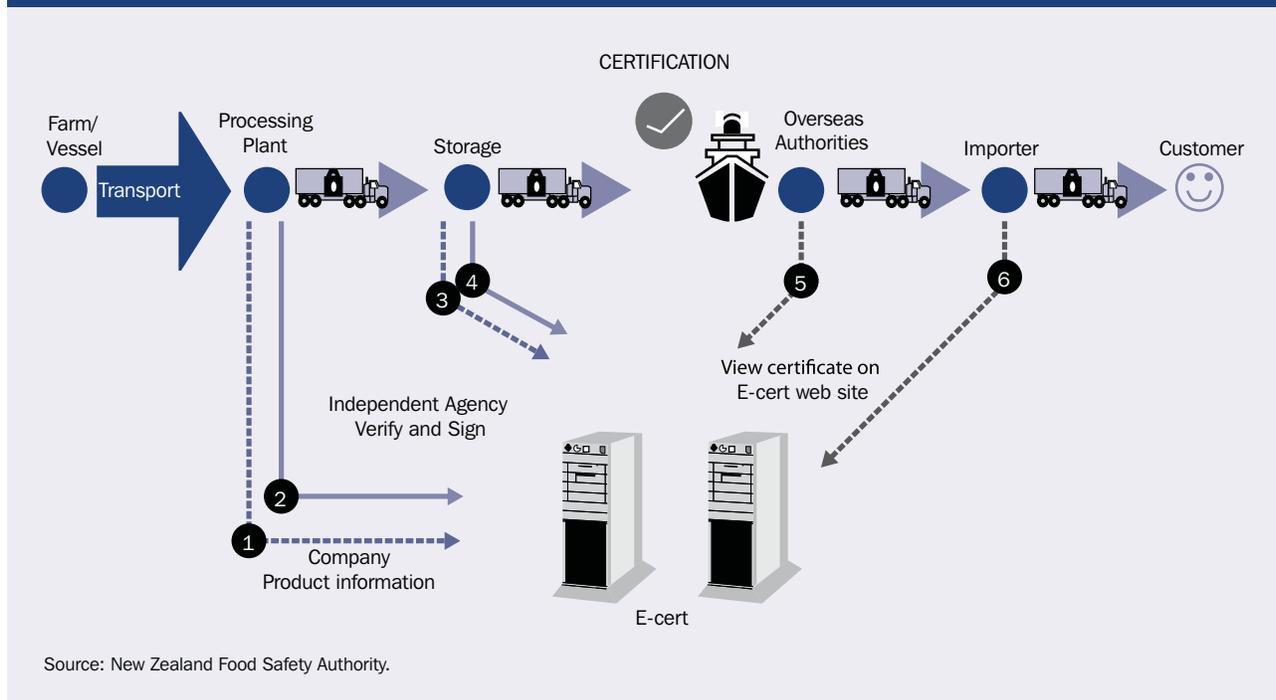
In 2003, the Ministry of Social Welfare of Colombia proposed a new requirement for the labeling of natural latex condoms, that each condom in the individual container shall bear at least the following information: manufacturer, trade name, sanitary register number, expiry date, batch number, the number of condoms contained, instructions for use of the condom, the statement that the condom is made of natural

<sup>80</sup> Australian Government's Department of Finance and Deregulation. 2008.

<sup>81</sup> Gollan, P. 2006.

<sup>82</sup> Norma Mansor, Noor Hasniah Kasim and Yong Sook Lu (2005).

**Figure 2.14: Procedure to Obtain E-certificate to Export Food Products in New Zealand**



rubber latex that can cause irritation, and instructions for the storage such as “Store the condom in a cool dry place away from direct sunlight”. The proposed regulation took effect on 15 August 2003.

Medical-Latex (DUA) SDN BHD (ML), a Malaysian condom manufacturer, called Standards and Industrial Research Institute of Malaysia (SIRIM) to express dissatisfaction with the new requirements. ML had been producing condoms for export since 1987, and is the biggest supplier in Latin America, exporting 80 million condoms a year to Colombia, Ecuador, and Venezuela. Losing ground in these markets would adversely affect MLs profitability.

In 1983, SIRIM was appointed by the Malaysian government to manage GATT/WTO enquiry and notification functions. Apart from being the focal point for TBT enquiries, SIRIM also works with other government agencies and the private sector to highlight new or amended regulations and standards issued by WTO members that would have implications for Malaysia’s domestic industry. Malaysia also set up the National Subcommittee on the TBT Agreement to examine the effective implementation of Malaysia’s rights and obligations under the TBT agreement and to coordinate the implementation issues related to the TBT with other agencies responsible for the agreement.

ML had two principal objections to the Colombian draft regulation. First, giving prominence to the warning that latex could cause irritation was in contravention of the TBT agreement since there is no scientific proof that natural rubber can cause allergies. Article 2.4 of the TBT agreement stipulates that where technical regulations are required and relevant international standards exist, members should

use them. ML insisted that “Medical-Latex meets all major international standards such as ISO 9001, EN 46001 (medical device directive), British Standards Institute and Laboratoire National de Métrologie et d’Essais (LNE). ML condoms carry quality seals from these highly reputable British and French standards organizations.”

Second, ML was concerned that in the event of the enforcement of the Colombian decree, ML’s expenses would be adversely affected. Redesign of the individual container of the condom would be necessary because the existing packet is too small to accommodate the proposed labeling. Furthermore, sales could be badly affected as the warning against allergies would be given undue prominence and create panic among the consumers.

SIRIM referred the case to the national subcommittee, which accepted the manufacturer’s points. The case was then taken to the WTO Committee on Technical Barriers to Trade, which found that Colombia’s decree breached its obligations under the TBT agreement. The important point is not only that the decree was not implemented but also that the costs to the exporter of enforcing its rights under the TBT were small due to the efficient institutional arrangements in Malaysia.

## CHAPTER 4

# Trade-Related Infrastructure and Services

This chapter considers the role that infrastructure and services play in facilitating trade. Its focus is not on infrastructure upgrades or services sector reform in general but rather on their specific potential to reduce trade costs in goods markets.<sup>83</sup> It therefore highlights ways in which policy makers can approach reforms in trade-related infrastructure and services, with a view to maximizing their positive impact on trade flows. Since this is still a potentially very broad area, this chapter deals only with those aspects of infrastructure and services that are most directly related to international trade in goods (Box 2.16).

The interplay between infrastructure and services sectors provides an important part of the context in which import and export transactions take place.<sup>84</sup> Efficient and effective reform in these areas can thus make a useful contribution to broader

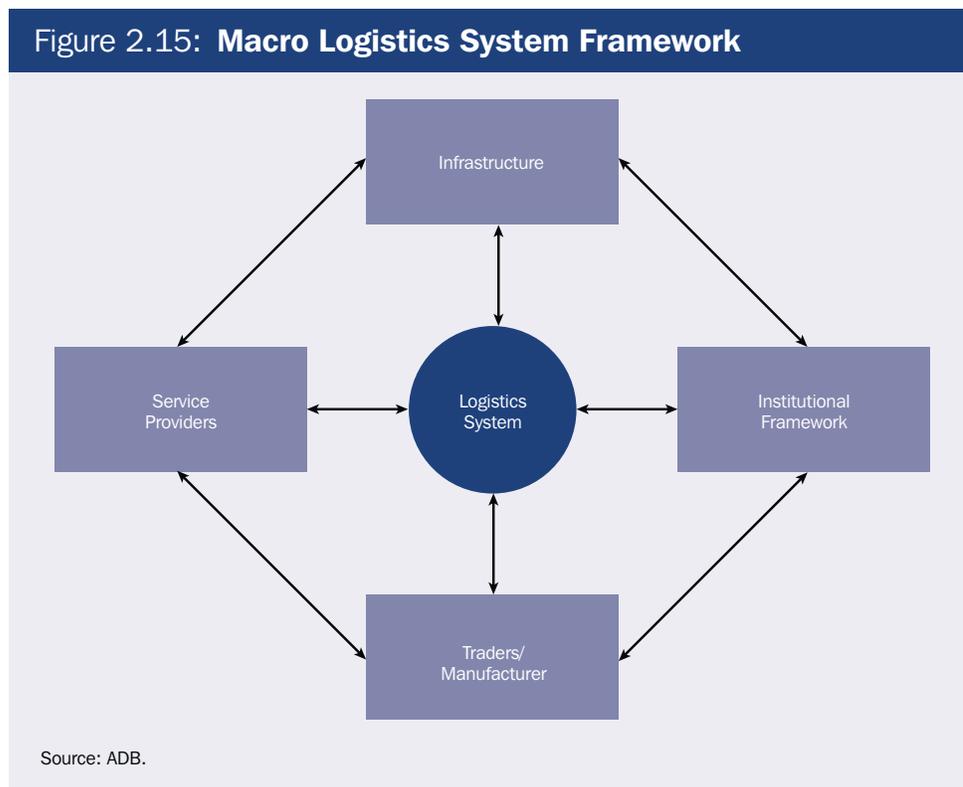
### Box 2.16: Infrastructure, Services, and Trade: Where are the Closest Links?

A number of services sectors and a number of types of infrastructure are very intimately connected to goods trade that they need to be considered as part of any comprehensive approach to trade facilitation. This chapter focuses on three sectors widely believed to have the closest links to trade:

- **Transport.** The efficiency of ports, international transport links, and internal transport networks directly influences the level of trade costs in goods markets. For example, inefficient trucking services lead to longer dockside stand time and costly inventory accumulation, as well as reducing export volumes.
- **Logistics.** Efficient freight forwarders, distributors, and other logistics service providers make it possible for importers and exporters to connect with each other at a minimum cost and with minimum delay. Logistics costs represent a significant portion of final consumer prices—around 20% in developed countries, and twice that in many landlocked developing countries.
- **Telecommunications.** The performance of telecommunications affects the transaction costs associated with trading, such as obtaining information on foreign market conditions and concluding deals with foreign buyers or sellers.

<sup>83</sup> De (2009) shows that between 2000 and 2005, a 10% rise in transport costs lowers Asia's trade by 3%–4% from what it would otherwise be.

<sup>84</sup> Wilson et al. 2005.



trade facilitation efforts. However, this is not to say that it is straightforward. While it is obvious that more efficient port facilities can help promote trade, the difficulty resides in identifying the optimal combination of physical infrastructure upgrading and regulatory reform. The effects of services sector reforms undertaken without regard to the state of the underlying infrastructure, or of infrastructure upgrades pursued without an appropriate regulatory framework, are likely to be limited, and may, in some cases, even be perverse. To make the intimate links between these two types of interventions clear, they are sometimes referred to in the literature as dealing with “hard” (physical) and “soft” (regulatory) infrastructure.

It is appropriate to consider infrastructure and services reforms together because of the close interrelationship between the two. Competition policy is one area in which this intersection is particularly important. Historically, monopoly arrangements have been pervasive in a number of the sectors that are of primary interest from a trade facilitation point of view, such as transport (air and maritime), and telecommunications. Indeed, restrictive arrangements persist to some extent even today in areas such as international liner shipping. From a trade facilitation point of view, it is important to recognize that one way to reduce trade costs in goods markets is to combine regulatory reform and infrastructure upgrading in affected sectors. As Figure 2.15 makes clear for the case of logistics, the interplay between infrastructure, regulations, service providers, and traders creates a complex situation that provides numerous challenges for policy makers. A thorough review of logistics in Australia, for instance, found that sector performance and trade in goods can be affected by factors such as access of private operators to infrastructure, cohesion of intermodal transport transfer points, and the level of competition at all points in the supply chain.<sup>85</sup>

<sup>85</sup> De Sousa, Dariel, and Findlay. 2007.

Against this background, this chapter first reviews a selection of cross-country data on trade-related infrastructure and services. It then summarizes the existing economic literature, focusing on quantitative analyses of the links between infrastructure (ports, roads, and rail) and services sectors (transport/logistics and telecommunications) on the one hand, and trade in goods on the other. The third section of the chapter presents best practice guidelines based on general principles of effective and efficient regulation, and discusses sources of sector-specific best practices. The chapter concludes with five case studies. The first reports the results of a recent quantitative analysis of the costs and benefits of transport corridors in the Greater Mekong Subregion (GMS). The case of Central Asia and Regional Economic Cooperation (CAREC) features a joint transport and trade facilitation program. The case of the Brunei Darussalam-Indonesia-Malaysia-The Philippines East ASEAN Growth Area (BIMP-EAGA) highlights the sequencing of reforms in addressing trade and connectivity issues. The case of the Pacific Islands, specifically Timor-Leste and Papua New Guinea, features the efforts of developing a potential subregional economic corridor through border management, services and infrastructure. The case of the Association of Southeast Asian Nations (ASEAN) looks at the liberalization of logistics services markets.

## Efficiency of Trade-Related Infrastructure and Services: State of Play

Starting with trade-related infrastructure, there are many data sources dealing with crucial links such as ports, roads, and air transport. The World Bank's World Development Indicators (WDI) provides statistical data on the length of national rail networks, and the length and quality (percentage paved) of road networks. The *Global Competitiveness Report* (Box 2.1) asks company executives to rate the quality of sea ports and airport facilities on a scale of 1 to 7. Other indicators can be found in the World Bank's Enterprise Survey on whether transportation is a major constraint (survey), and the percentage of shipments lost due to breakage or spoilage (direct measurement).<sup>86</sup>

The *Global Competitiveness Report* air and sea ports indicators are useful in giving an idea of broad, cross-country trends in performance, covering the state of physical infrastructure as well as some aspects of performance in maritime services and air transport. Table 2.4 reproduces these data for 2009 and 2013, covering air and sea ports in Asia and the Pacific. Performance across this group is very heterogeneous. Performance on airports is generally stronger than maritime ports. In maritime ports, Singapore is the leading performer globally. In the case of airports, Singapore is again the world leader while Mongolia has the lowest score. In general, East Asia performs quite well on both measures while parts of South and Central Asia appear to have considerably improved, bringing them in line with international best practice.

The World Bank's Logistics Performance Index (LPI) takes a broader view of the logistics sector as it provides an overall "logistics friendliness" score based on perception data (survey) and objective data (direct measurement or statistics). The LPI should be considered as an indicator of outcomes, reflecting sector performance based on underlying regulatory and physical infrastructure. Given the range of

<sup>86</sup> World Bank's Enterprise Survey, 2009.

**Table 2.4: Efficiency of Air and Sea Ports**

	Quality of Port		Quality of Air Transport	
	2009	2013	2009	2013
Armenia	2.7	3	4.2	4.7
Azerbaijan	4.2	4	5.2	5
Georgia	3.9	4.3	4.2	4.3
Kazakhstan	3.2	3.4	3.7	4.1
Kyrgyz Republic	1.8	1.5	3.1	2.9
Pakistan	3.7	4.4	4.2	4.3
Tajikistan	1.6	1.7	3.5	4.2
Bangladesh	2.6	3.3	3.4	3.5
India	3.3	4	4.7	4.7
Nepal	2.9	2.7	3.5	3.2
Sri Lanka	4.5	4.9	4.8	5
Brunei Darussalam	5	4.5	5.6	4.9
Cambodia	3.4	4.2	4.2	4.4
Indonesia	3	3.6	4.4	4.2
Malaysia	5.7	5.5	6	5.9
Philippines	3.2	3.3	4.1	3.6
Singapore	6.8	6.8	6.9	6.8
Thailand	4.4	4.6	5.8	5.7
Viet Nam	2.8	3.4	3.9	4.1
China, People's Republic of	4.3	4.4	4.4	4.5
Hong Kong, China	6.6	6.5	6.7	6.7
Japan	5.2	5.2	5.1	5.3
Korea, Republic of	5.2	5.5	5.9	5.9
Mongolia	2.4	3	2.7	3.3
Taipei, China	5.5	5.3	5.7	5.4
Timor-Leste	2.2	2.7	2.6	2.9

Source: *Global Competitiveness Report*. 2009 and 2013.

services that are included, the LPI captures important aspects of performance in sectors such as transport and distribution (Box 2.17).

As Figure 2.16 shows, there is a considerable spread in LPI scores across Asia and the Pacific. Singapore is the best performer in the world, although its score declined slightly in 2012. Hong Kong, China, Japan, Taipei, China, the Republic of Korea, the PRC, and Malaysia were among the top 10 performers in Asia and the Pacific. On the average, performance of countries in East Asia and the Pacific was very strong, as evidenced by the fact that most countries in these subregions achieved increased scores in 2012 compared with the results from the previous surveys. Many countries in South Asia achieved low scores in 2012, reflecting the challenges of geographical isolation to international trade these countries have to face.

The World Bank's WDI data set provides information on the number of telephone subscribers and internet users as an indicator of the sophistication of the telecommunications sector.<sup>87</sup> Figure 2.17 presents WDI data on the number of internet users per hundred population in Asia and the Pacific economies. Once

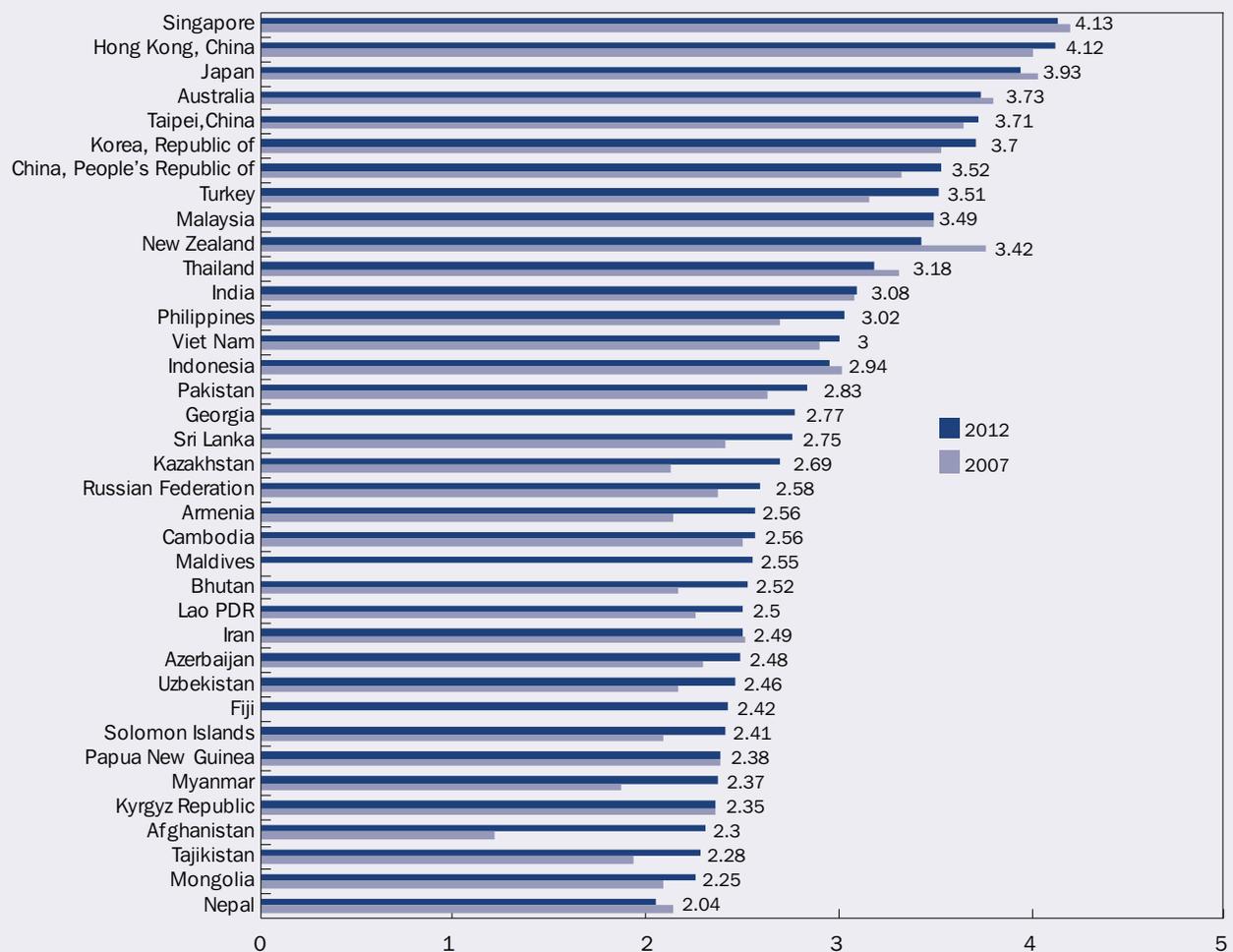
<sup>87</sup> Other data can be accessed from the World Telecommunication/ICT Indicators Database with detailed statistical data on network size and type, traffic, service quality, and some pricing information. [www.itu.int/ITU-D/ict/publications/world/world.html](http://www.itu.int/ITU-D/ict/publications/world/world.html)

### Box 2.17: What does the World Bank's Logistics Performance Index Measure?

The Logistics Performance Index (LPI) is a global benchmarking tool designed to help countries identify the challenges and opportunities they face in terms of their trade logistics performance. The LPI is based on information from a web-based questionnaire completed by more than 800 logistics professionals (freight forwarders and express carriers) worldwide. Each respondent was asked to rate performance on a numerical scale in seven logistics areas for eight countries with which they conduct business. The seven areas of performance are (i) efficiency and effectiveness of customs and border procedures, (ii) quality of transport and information technology infrastructure for logistics, (iii) ease and affordability of arranging international shipments, (iv) competence of the local logistics industry, (v) ability to track and trace international shipments, (vi) domestic logistics costs, and (vii) timeliness of shipments in reaching their destinations. The LPI website reports data on each of these dimensions individually, as well as each country's global LPI score, which reflects a weighted average of performance in all seven areas.

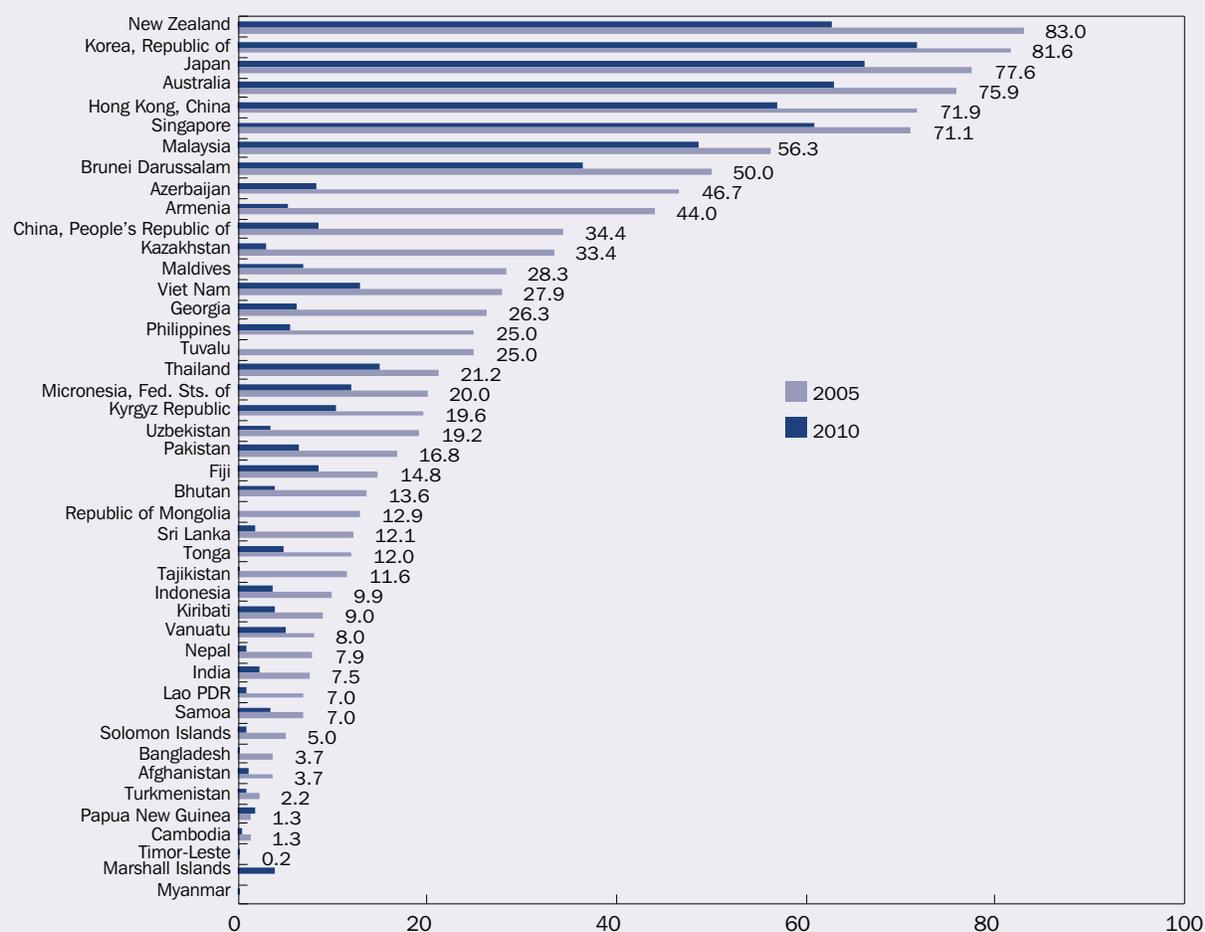
Source: World Bank. 2007.

### Figure 2.16: Logistics Performance



Source: World Bank Logistics Performance Index. 2007 and 2012.

**Figure 2.17: Internet Users per Hundred Population in Asia and the Pacific Economies**



Source: World Development Indicators. 2005 and 2010.

again, this region is notable for its heterogeneity: internet penetration rates range from some of the highest in the world (83% in New Zealand) to some of the lowest (0.7% in Myanmar and 0.21% in Timor-Leste). Despite this, all countries, except PNG, demonstrated improved performance over time in this respect.

A final set of indicators in relation to services covers policy restrictiveness with regard to the regulatory framework. These indicators are based on a mix of direct measurement (regulatory review) and expert surveys.<sup>88</sup> The Product Market Regulation of the Organisation for Economic Co-operation and Development (OECD) provides general information on the extent of government involvement in the economy, with specific data on sectors such as telecommunications and transport.<sup>89</sup>

<sup>88</sup> An ongoing World Bank project (forthcoming) will supplement these measures with details on applied market access and national treatment restrictions in various countries and sectors based on expert input from international legal and consulting firms. At this stage, the data are expected to cover 50 developing countries in the finance, telecom, retail, transport, and professional services sectors.

<sup>89</sup> OECD. [www.oecd.org/eco/pmr](http://www.oecd.org/eco/pmr)

The main dimensions of policy restrictiveness in the air sector are captured in the Air Liberalization Index produced by the World Trade Organization (WTO).<sup>90</sup>

## Impact of Efficiency in Infrastructure and Services on Trade

At its most basic, the idea that better infrastructure can boost international trade has obvious intuitive appeal—more efficient infrastructure reduces the level of trade costs facing importers and exporters, and should therefore tend to increase trade flows. A study by Limao and Venables (2001) shows that deficiencies in overall infrastructure explain a substantial portion of Africa’s relatively low levels of internal and external trade. Improving infrastructure quality from the 75th to the 25th percentile of their aggregate infrastructure index would result in a 50% increase in baseline trade. Later studies have focused on particular types of infrastructure but with similar results, e.g., a 10% increase in port efficiency is associated with a 3% increase in bilateral trade (Bloningen and Wilson 2008).<sup>91</sup> Poverty-reduction effects of basic infrastructure can also be important. An economic analysis of the Lao People’s Democratic Republic road infrastructure demonstrates that constructing new dry season-only roads has a poverty-reducing effect 17 times stronger than upgrading old dry-season-only roads to all-season roads (Menon and Warr 2008). The implication is that the provision of basic infrastructure should be based on an appropriate compromise between quality and performance, taking into account the overall effects on social welfare.

One aspect that requires closer investigation, however, is the balance of costs and benefits from infrastructure upgrading. This is because improving facilities such as ports, roads, rail links, or airports can require extensive technical skill and financial resources. The constraints in developing countries can, in some cases, be daunting. It is thus important to have as much information on both the costs and benefits of infrastructure upgrades before proceeding. Recent work examining particular types of infrastructure upgrading has generally found that even once the upfront costs are netted out, the benefits remain strongly positive.<sup>92</sup>

Inappropriate service sector regulations can create opportunities for private actors to capture economic rents or engage in anti-competitive conduct, affecting sector prices and thus trade costs in goods, as well as productivity in goods sectors (Francois and Wooton, 2001). One important empirical finding by the economists is that improving services sector performance is one way of helping less productive enterprises enter international markets.<sup>93</sup> On airline regulations, the existence of an Open Skies Agreement reduces air transport costs to the US by 9% and increases the share of imports arriving by air by 7% for US trade.<sup>94</sup> Recent work generally suggests that the provisions of bilateral air services agreements appear to have a significant impact on trade in air transport services.<sup>95</sup> Geloso-Grosso (2008) estimated that Asia-Pacific Economic Cooperation member economies could increase passenger traffic by at least 5% to 7% through incremental relaxation of current policy restrictions.

<sup>90</sup> Air services agreements are available in its QUASAR database.

<sup>91</sup> For other examples, see Buys et al. (2006) and Shepherd and Wilson (2007) on roads, Donaldson (2009) on railways, and Freund and Weinhold (2004) on internet hosts.

<sup>92</sup> Examples include Buys et al. (2006), Shepherd and Wilson (2007), and Edmonds and Fujimura (2008).

<sup>93</sup> Arnold et. al., 2006, 2007, and 2008.

<sup>94</sup> Micco and Serebrisky. 2006.

<sup>95</sup> Piermartini and Rousova. 2008; Geloso-Grosso. 2008a, and 2008b.

For maritime shipping services, competition law exemptions that have traditionally allowed price fixing and cooperative working arrangements also lead to higher shipping prices. The effects are large; removing regulatory restrictions would reduce maritime transport costs affecting US imports across all partners and sectors by over \$800 million, while eliminating anti-competitive arrangements would save an additional \$2 billion. Evidence shows that there can be undue exercise of market power in shipping services that leads to possible charging of higher rates on goods with inelastic demand.<sup>96</sup> Auxiliary maritime services such as cargo reservation, handling services, and mandatory port services also exert a significant effect on pricing in international maritime (liner) transport (Fink et al. 2002).

High-quality logistics are the lifeblood of air and maritime transport and distribution networks in exporting and importing countries, and thus logistics performance matters for international trade in goods. For example, the wide variation in logistics costs among the Middle Eastern and North African countries can greatly influence shipping costs.<sup>97</sup> One recent study suggests that improvements in logistics could increase the trade impacts of lowering remaining border barriers by a factor of two or more (Hoekman and Nicita 2008).

A competitive telecommunications sector, in particular internet services, can have significant implications for trade facilitation. Freund and Weinhold (2004) show that growth in internet connections contributed to a one percentage point increase in annual export growth over the period 1997–1999. Another study concludes that the trade impact of the internet might be as large as or larger than that of other infrastructure such as ports. Enhancing the speed and cost of internet access can increase trade by 4%, which is more than the 2.8% increase achieved by improving port efficiency.<sup>98</sup>

## Basic Principles and Good Practices

It is extremely difficult to identify generally applicable principles in an area as vast as trade-related infrastructure and services. Sector- and country-specificity are important characteristics of reform, as is the necessity to combine investments in physical and human capital with regulatory changes. Rather than set out a point-by-point shopping list of reforms, this section focuses on a few broad principles of efficient and effective regulation.<sup>99</sup> The approach suggested is therefore not one of traditional industrial policy grounded in government support for particular sectors.

<sup>96</sup> Hummels, Lugovsky and Skiba. 2007. One-sixth of importer–exporter pairs are served by a single liner service, and more than half are served by three or fewer liner services.

<sup>97</sup> Devlin and Yee. 2005; Nordas et al. 2006.

<sup>98</sup> Wilson et al. (2005) constructed a cross-country database on trade facilitation focusing on four aspects, including infrastructure development and services sector efficiency. They proxy the first dimension as the average of air and sea ports performance, and the second dimension as the average of the speed and cost of internet access and the effect of the internet on business. All data are based on executive perceptions, as measured by the World Economic Forum's GCR.

<sup>99</sup> As one source of guidance on particular aspects of reform in more specific contexts, the World Bank has produced a collection of toolkits designed to aid policy makers in undertaking regulatory and infrastructure reform in areas such as ports, roads, and telecommunications. They can be accessed at <http://rru.worldbank.org/Toolkits/>. Additional best practice guidance on regulatory issues, in particular for the services and infrastructure sectors, is available from a variety of sources. In the case of air transport, the International Civil Aviation Organization has issued Declaration of Global Principles for the Liberalization of International Air Transport that deals with sector issues such as safety and security, the tension between competitors, and cooperation between carriers. In information and communications technology, the International Telecommunications Union regularly publishes best practice guidelines covering issues such as infrastructure sharing, spectrum management, and connectivity. They can be accessed at [www.itu.int/ITU-D/treg/bestpractices.html](http://www.itu.int/ITU-D/treg/bestpractices.html)

Rather, the measures that are suggested can be seen as a kind of generalized industrial policy, in the sense of providing the institutions and regulations needed to support efficient and competitive industries. It is not about governments “picking winners,” but about allowing winners to pick themselves through competitive markets.

Since the objective is not to discuss infrastructure and services in general but instead to highlight the role they can play as trade facilitation instruments, the question posed in this section is: how can trade-related infrastructure and services be designed so as to most effectively lower the costs of doing business internationally? Although the principles set out are largely aligned with the core disciplines of the General Agreement on Trade in Services (GATS), it is important to stress that they in no way conflict with the right of individual countries to pursue socially important regulatory objectives. It is important for each country to develop its own market-friendly approach to regulation depending on its development level and local conditions. Moreover, there is obvious scope for countries to move beyond the GATS, either unilaterally or regionally. Many of the reforms discussed in this section are consistent with the WTO’s most favored nation obligation, and can thus be pursued by countries unilaterally or regionally, regardless of the progress of negotiations in Geneva.

- (i) *Transparency.* In designing and implementing improvements to physical and regulatory infrastructure, policy makers need to ensure that the process followed is transparent and inclusive. This principle covers areas such as being open to public scrutiny and debate; allowing interested private parties the opportunity to comment on proposed regulations, and participate more generally in the regulatory process; provision of independent review or appeal procedures; and publication of new regulations prior to their entry into force. In addition, governments should specify well-defined criteria against which performance of reform packages can be assessed. Performance reviews should have two dimensions: ex ante assessment to aid in the choice of policy instruments, and post-evaluation to track implementation and learn from experience on the ground. It is important that cost–benefit analyses be conducted to inform the design and implementation of upgrades to trade-related infrastructure and services sectors, and that they take full account of these sectors’ interlinkages with the wider economy.
- (ii) *Competition.* Whenever possible, regulatory objectives should be pursued using market-based mechanisms. Development of trade-related infrastructure and service sector regulatory frameworks should aim to promote, rather than restrict, competition among market actors as one way of pursuing the objective of lowering costs for importers and exporters who use their services. In the areas of infrastructure and services, this principle is particularly vital in view of the customary monopolies and other restrictive arrangements in sectors such as telecommunications, port services, and transport. Despite the difficulties policy makers can face in designing competition-based mechanisms consistent with the achievement of broader regulatory goals, recent experience in both developed and developing countries suggests that significant progress in this direction is being made. Implementation of a general competition law, and limiting exemptions as far as possible, is an important step. The GATS provides a concrete framework for advancing a number of the points mentioned earlier.<sup>100</sup> Articles 8 and 9 of GATS contain provisions designed to promote competition by limiting the abuse of monopoly power, and providing for international

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<sup>100</sup> Mattoo et al. 2007.

consultations in relation to broader anti-competitive practices. Clearly, though, the main momentum for regulatory reform in this area must come from domestic sources.

- (iii) *Nondiscrimination*. is also an important concept that can be seen as an extension of competitive principles. Treating market actors without favoring incumbents over new entrants or domestic over foreign operators helps ensure pro-competitive market conditions. Attention to entry barriers facing potential domestic and foreign entrants is crucial in maintaining competitive pressure on incumbent operators. This issue affects both the framing of regulations and the design of physical infrastructure. Issues of network connectivity and interoperability loom large in the sectors of particular interest in this chapter, mainly in transport and telecommunications. GATS firmly entrenches non-discrimination as a core regulatory principle by taking up the obligations of national treatment (no discrimination between domestic and foreign providers, Article 17), and most favored nation status (no discrimination among trading partners, Article 2).<sup>101</sup> Effective and efficient national regulations tend to follow the same approach.
- (iv) *Holistic approach*. The fourth principle is a holistic approach to effective regulation and liberalization. It is important that regulatory reform takes proper account of intersectoral linkages, and the possibility that reforms in one sector can have important effects on performance in related sectors. In terms of GATS, this means that it is important that there are no a priori exclusions in terms of modes or sectors that are potentially subject to liberalization commitments. This is especially true for regional integration schemes in services as contained in GATS Article 5.1(a). This holistic approach to regulatory reform is essential to take account of actual business needs. First, given a situation where services are supplied by a combination of various modes (cross-border, consumption abroad, commercial presence, and movement of natural persons), making commitments in all four modes to meet business needs is highly desirable and encouraged as much as possible. Second, the exclusion of a whole sector or subsector should be avoided, particularly in the area of trade-related services. In addition, regardless of the classifications used by GATS commitments, undertaking commitments in interrelated sectors can be beneficial. Logistics services is one example of this dynamic. Indeed, the WTO negotiations on logistics services have been heavily influenced by this cross-sector dimension. Of particular relevance in the present context are the WTO negotiations on logistics services. Although the trade classification currently does not classify logistics as an independent category, members appear to be comfortable treating the cluster of categories covered by logistics in a comprehensive fashion precisely because of the cross-cutting nature of these services ranging from transportation to courier deliveries. Undertaking commitments in all sectors that impact logistics contributes to the greater facilitation of logistics services. If the liberalization of one sector, along with the logistics services chain, is deficient, the whole logistics chain may not function effectively.
- (v) *Progressive liberalization and forward looking stance*. Policy makers need to identify reform priorities in the areas of trade-related infrastructure and services, and proceed step-by-step. Analysis of economy-wide costs and benefits is an important starting point for that process. Since linkages among sectors are complex, reform should be undertaken progressively and in a manner that

<sup>101</sup> While most favored nation status is a general obligation that applies unless a specific exemption is claimed (negative list), national treatment and market access commitments only apply to the extent set out by WTO members in their schedules of commitments (positive list).

is appropriate given a country's social and economic specificities. In addition, regulators should be forward looking, in the sense of not prejudging future technological developments. It is widely acknowledged that technological developments in the services area are significant, and business models frequently change depending on available technologies. It is important that liberalization and competition policies support ongoing technological developments that meet specific needs in those markets. In particular, regulators need to ensure that incumbent businesses cannot use technological specificity or lack of compatibility as a means of restricting entry and competition.

## Experience of Economies in Asia and the Pacific

The preceding discussions highlighted the complex interplays among trade-related infrastructure and services, altogether affecting trade facilitation. A central message that flows from the analyses is the importance for policy makers to take an integrated approach within the framework of a broad set of trade facilitation policies. This section provides four case studies on trade-related infrastructure the: (i) GMS; (ii) CAREC; (iii) BIMPEAGA; (iv) Pacific Islands; and one case study on services liberalization in ASEAN. The section asserts that the regional and subregional approach to the trade facilitation associated with trade-related infrastructure and services is effective and efficient because it provides income and development opportunities to member states. Specifically, it offers the following advantages:

- (i) greater benefits, accruing from economies of scale;
- (ii) a wide range of trade facilitation and infrastructure issues that can be covered;
- (iii) institutional development and strengthening that further deepens cooperation, which, in turn, is beneficial to potential negotiations with third countries and other regions and/or subregions;
- (iv) prospective narrowing of the infrastructure gaps among regions and subregions; and
- (v) potential smoothing of income disparity among member states.

Further, it is demonstrated in the case studies that while the goals of integration could be common among regions, the approaches to trade facilitation and advancements in trade-related infrastructure and services are unique to each region, depending on initial conditions, geographic characteristics and the level of development, and therefore needs.

In GMS, the approach to trade cost reduction is improving regional connectivity, first through the transport corridors program, followed by the provision of regulatory support to regional infrastructure development through the GMS cross-border transit agreement (CBTA). The transport corridors program developed transport networks throughout the subregion to increase trade volume within and outside GMS. CBTA covers customs and borders formalities, exchange of commercial traffic rights, transit regimes, infrastructure standards, and vehicle requirements for cross-border traffic. In CAREC, the approach to reducing trade cost is the consolidation of efforts in trade facilitation and transport. The CAREC Joint Transport and Trade Facilitation Strategy developed priority corridors, which were focused on improvements in trade facilitation measures, thereby creating synergistic effects on trade cost reduction.

## Box 2.18: Sequencing Reforms

As the discussion in this section has shown, regulatory reform in trade-related services sectors can cover an enormous amount of ground. This makes the issue of sequencing absolutely critical. How can a reform-minded government invest in political capital so as to maximize the benefits from reform, minimize adjustment costs, and lay the foundation for further reforms in the future? This is an extremely difficult question to answer in the abstract since the political and economic situation in each country can be very different. However, it is possible to identify a number of guiding principles from previous reform efforts:

**General institutions and policies.** Most of the reforms discussed in this section rest on the institutional bedrock of transparency and competition. Competition policy is particularly important; without vigorous enforcement of competition laws, sector liberalization can lead to the replacement of a domestic monopolist by a foreign one, with no net welfare gain for the domestic economy. Cross-cutting reforms in these areas are therefore a common first step toward implementing broader regulatory reforms.

**Identification of priority sectors.** It is unlikely that any government could undertake regulatory reform in all relevant sectors simultaneously. It is therefore important to identify sectors with particularly strong linkages to the rest of the economy. Reform in these sectors can have particularly large economic effects. Transport is an example of such a sector, since it is used as an intermediate input in almost every other sector of the economy.

**Identification of priority modes of supply.** For each priority sector, reform will have the biggest economic payoff if it is targeted at the dominant mode of supply. Since the dominant mode varies from sector to sector, governments need to be aware of the commercial realities of each individual sector.

**Adjustment mechanisms.** Although this section has highlighted the benefits of regulatory reform, governments must also be aware of the fact that it induces resource reallocations and, thus, adjustment costs for some members of the community. It is important to address these costs up front and to design mechanisms to limit their impact. Economic actors facing large adjustment costs can form a powerful lobby against regulatory reform, and may indeed make it politically difficult for the program to get moving. In such cases, it may be appropriate to consider compensatory measures.

Source: Hodge, James. 2002.

In BIMP-EAGA, the goal of breaking the vicious cycle of low trade volume—no connectivity is approached by sequencing reforms (Box 2.18). Fragmented supply chains and improvements in trade facilitation measures are first addressed, followed by the development of transport networks. This sequence of reforms is borne out of a diagnostic analysis that identifies critical constraints to integration and trade. The approach to developing the potential sub-regional economic corridor in the Pacific is building border relations with neighbors, covering border management and border infrastructure and services.

These subregional integration approaches are expected to bring interrelated benefits at the regional and national levels—lower trade costs and time, increased intraregional and international trade volume, sustained growth, and poverty reduction.

### Transport and Economic Corridors: The Case of the Greater Mekong Subregion<sup>102</sup>

Among the various aspects of trade facilitation, infrastructure arguably has the strongest potential to promote regional spillovers. Seaports and airports do not just serve the countries where they are located, but also link neighboring countries with

<sup>102</sup> ADB. 2007; Edmonds and Fujimura. 2008; Menon and Warr. 2008; Stone and Strutt. 2009.

world markets. The same is true of roads, which can act as important transit corridors within the region, in particular where landlocked countries are concerned. Regional infrastructure upgrades thus provide substantial scope for national and regional economic benefits—but at the same time pose a number of particular difficulties for policy makers. This case study investigates both aspects more closely, drawing on recent quantitative work looking at the effects of implementing economic corridor programs in the Greater Mekong Subregion, which comprises Cambodia, the Lao People’s Democratic Republic, Myanmar, Thailand, Viet Nam, and provinces of Yunnan and Guangxi in the PRC.

Since 1992, under the GMS Program, ADB has been active in assisting countries in the region promote a broad agenda of economic integration, covering trade and infrastructure aspects. In particular, ADB provides financial support for hard and soft cross-border infrastructure, promotes regular policy dialogue for trade facilitation, builds capacity building of DMCs and generates knowledge products in trade facilitation (Box 2.19 contains examples of ADB-financed economic corridors).

Progress on integrating the once heavily insulated GMS economies through reduced intra- and extra-regional trade costs has required action on a number of fronts. Such an approach is entirely consistent with the emphasis this chapter has placed on interlinkages between physical and regulatory infrastructure. One of the first steps taken in 1995 was to adopt the GMS Transport Master Plan, which identified road and other transport projects likely to have a particularly strong impact on regional connectivity, and thus flow through to lower trade costs. As a follow up, GMS economies in 2003 entered into a CBTA, designed to provide greater regulatory support to regional infrastructure development. The CBTA therefore covers areas such as customs and border formalities, exchange of commercial traffic rights, transit regimes, infrastructure standards, and vehicle requirements for cross-border traffic.

Recent empirical work suggests that on an aggregate level, the GMS economies have made substantial progress in terms of lowering trade costs and promoting economic integration. Transport cost savings range from 16% to 65% (median = 45%), and time savings from 25% to 50%.<sup>103</sup> Using a computable general equilibrium (CGE) model, it is the “soft” (regulatory) aspects of cross-border transport that have the biggest impact in addition to significant trade and economic welfare benefits from infrastructure upgrading. There is also a generally significant association between the density of cross-border roads and bilateral trade among GMS countries (Edmonds and Fujimura 2008). In some cases, these studies also find evidence that enhancement of the domestic road network can promote trade.

In the case of the Lao People’s Democratic Republic, road upgrades can have significant economic welfare benefits, including through increased trade. Menon and Warr (2008) conducted a detailed cost–benefit analysis, and found that the balance is generally positive. Interestingly, they found that provision of dry-season-only roads to areas that currently lack any road connection at all has a real gross domestic product (GDP) impact that is 6 times as large as that associated with upgrading existing dry-season roads to all-weather roads. The difference in poverty incidence is even larger; new dry season roads have a poverty-reducing effect 17 times as large as that associated with upgrades. In terms of maximizing anti-poverty effects, their cost–benefit analysis suggests that building new dry-season roads is relatively attractive.

<sup>103</sup> Stone and Strutt (2009) reviewed a variety of findings and did their own analysis using the CGE model.

## Box 2.19: Greater Mekong Subregion Economic Corridors

### GMS North–South Corridor

The GMS North–South Transport Corridor, which links the PRC and Thailand through the Lao People’s Democratic Republic, is a good example of what can be achieved. In 1997, it took 3 days for goods to move across one 270 km section of dirt track along the corridor of the Lao People’s Democratic Republic. Today that same trip takes 4 hours, with a large increase in commercial traffic. Most importantly, 2004’s per capita gross domestic product (GDP) in impoverished Luang Nantha province in the Lao People’s Democratic Republic—where the highway passes—doubled that of 2003’s GDP. The \$90 million corridor was equally funded by ADB, the PRC, and Thailand.

### Southern Economic Corridor

Financed by an ADB loan approved in 1998 with a combined amount of \$140 million (\$40 million for Cambodia and \$100 million for Viet Nam, with the governments of the two countries providing the rest of the \$197 million), the project involved the reconstruction of 105 km of Route Number 1 (from Neak Leoung, Cambodia to the border of Bayet, Viet Nam), including minor improvements to other transport sections. The Phnom Penh–Ho Chi Minh City highway represented the primary segment of the GMS Southern Economic Corridor linking Cambodia, Thailand, and Viet Nam.

The total value of trade passing through the Bavet–Moc Bai border crossing post increased by about 41% per annum between 2003 and 2006. The number of people crossing the border increased at an average annual rate of 53% during the same period, while the number of vehicles crossing the border increased at an average annual rate of 38%. Travel time from Phnom Penh to Bavet has been reduced by 30%. Along Route Number 1, there has been substantial ribbon development, including residences, buildings, and shops. At the Bavet border post, the increase in traffic from Viet Nam—both passengers and goods—has led to the establishment of commercial and leisure facilities, including several casinos and hotels that attract large numbers of tourists. An industrial park close to Bavet has opened, providing employment opportunities for the local residents. New industrial areas have also been built near the project roads.

### East–West Transport Corridor

This is the second major GMS subregional transport project, which seeks to improve the central corridor linking Da Nang in Viet Nam with Tak in Myanmar, thereby expanding the market for transit and bilateral trade among three countries—the Lao People’s Democratic Republic, Thailand, and Viet Nam. The immediate impact of infrastructure development has been dramatic. Average vehicle speeds have increased and the average travel time between Kaysone Phomvihane and Dansavanh has dropped from 10–12 hours to 4 hours, while the travel time between Dong Ha and Lao Bao was cut from 4 hours to 2 hours. On both sides, border clearance time has been reduced and is more efficient than before. Average trade value through Lao Bao has escalated and crossing trade value peaked at \$148.5 million in 2007. Industrial estates are developing in Lao Bao and Dong Ha, and more boom towns are being planned. Increased connectivity has also led to an expansion of the tourism and services sectors, which account for a major part of increased traffic between and the Lao People’s Democratic Republic and Thailand. The movement of people has increased significantly, from around 95,000 in 2000–2001 to almost 274,000 in 2007.

Source: ADB. 2009.

Given the regional context within which the GMS transport corridor programs are nested, it is important for policy makers to deal effectively with the distribution issues that arise. The Northern Economic Corridor, for instance, is built mostly on Laotian territory but primarily benefits the PRC and Thailand by providing these two relatively large economies with a better overland linkage. Regional coordination and cooperation are therefore crucial to ensure that such linkages are adequately provided, even when the costs and benefits are effectively borne by different parties. In this case, the project is largely financed on concessional terms by the governments of the PRC and Thailand. In addition, the Lao People’s Democratic Republic has the right to collect a user charge on traffic originating in either of the other two countries (Box 2.19).

The GMS transport corridors program provides a good example of the way in which transport upgrading can support a broader economic integration agenda. The lessons for policy makers can be distilled down to the following points:

- (i) Identification of transport corridor projects should be based on a rigorous ex ante assessment of relative costs and benefits, and should be subject to ex post evaluation.
- (ii) Infrastructure upgrading needs to be accompanied by ancillary measures such as regulatory reform in transport services sectors, improved logistics, and simplified border crossing procedures.
- (iii) Financial mechanisms such as transfers, loans, or user charges should be considered to smooth out uneven distributions of costs and benefits across regional economies.

### **Joint Transport and Trade Facilitation Strategy: The Case of Central Asia Regional Economic Cooperation Economies**

The CAREC Program was initiated in 1997 in order to finance infrastructure projects and improve the region's policy environment in the areas of transport, energy, trade policy and trade facilitation.<sup>104</sup>

CAREC is also an alliance of multilateral institutions including ADB, European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF), Islamic Development Bank (IDB), United Nations Development Programme (UNDP) and the World Bank (WB). ADB is the Secretariat of the CAREC Program. The transport and trade facilitation efforts of CAREC focus on trade cost and time reduction that will enhance the region's competitiveness and expand international and intraregional trade. The subsequent gains from global and regional integration sustained economic growth and improved living standards. The region's huge trade costs and time are associated with inadequate transport facilities and poor infrastructure network related to their landlocked nature—impediments that set the background for the transport and trade facilitation policy landscape of CAREC.

During the 6th Ministerial Conference on CAREC (3 November 2007), the Transport and Trade Facilitation Strategy (TTFS) was endorsed in support of CAREC's program of development through cooperation, leading to accelerated economic growth and poverty reduction.

There were separate strategies for the sectors, transport, and trade facilitation before recognizing the benefits from synergies in implementing a joint transport and trade facilitation strategy. The potential benefits from investments and technical assistance projects to improve transport infrastructure will be maximized if trade facilitation measures are also implemented to reduce time spent in crossing borders and in transit. The joint TTFS is expected to increase CAREC's competitiveness and intraregional and international trade. The strategy's 10-year Action Plan (2008–2017) takes an integrated approach, combining transport investments with trade facilitation initiatives and enhancing the three pillars of the strategy—infrastructure, management, and technology.

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<sup>104</sup> ADB. 2005.

The transport component of the TTFS aims to provide reliable, fast, seamless (between modes and across borders), competitive, safe, and environmentally friendly services. The actions in the transport component consist of the following:

- (i) establishment of competitive transport corridors across Central Asia;
- (ii) efficient facilitation of movements of people, goods, and vehicles across borders; and
- (iii) development of safe and people-friendly transport systems.

These actions later became the focus of the TTFS in the 7th Ministerial Conference on 21 November 2008. The action plan has the following three goals, which are particularly focused on the six selected CAREC corridors:

- **Goal 1** is to improve transport infrastructure facilities such as roads, rails, ports, and airports; there are 52 investment projects and 20 technical assistance (TA) projects under this.
- **Goal 2**, with 10 investment projects and 40 TA projects, focuses on trade facilitation measures such as customs reforms and modernization, effective functioning of the national transport and trade facilitation committees, regional logistics development, and private sector participation.
- **Goal 3** is a mix of transport and trade facilitation measures, covering roads, aviation, and trade facilitation projects to minimize the negative environment and social impacts during the development of CAREC corridors; replace the aging vehicle fleet with fuel-efficient and low-emissions vehicles; and facilitate movement of people across borders.

The trade facilitation component, on the other hand, is further embodied in the Regional Trade Facilitation and Customs Cooperation Program (RTFCCP), presented in the 6th and 7th Ministerial Conferences on CAREC. RTFCCP supports TTFS through its Integrated Trade Facilitation Program and Customs Cooperation initiatives, which started in 2002 during the Customs Cooperation Committee's first meeting in the PRC. Table 2.5 outlines the elements of RTFCCP and their progress.

This joint strategy in the transport and trade facilitation sectors conveys the following lessons:

- (i) Consolidated and coordinated transport and trade facilitation efforts are beneficial, particularly under certain conditions. In the case of CAREC, though trade facilitation is conceptually distinct from transport improvements, there are synergies to be gained by focusing trade facilitation efforts at the priority CAREC corridors selected under the transport strategy because most intra- and inter-regional trade flows use limited east–west and north–south routes.
- (ii) Redundancy and conflict in measures are avoided with the creation of joint national and regional committees under the Integrated Trade Facilitation Program.
- (iii) Benefits are realized from synergies and complementarities of transport and trade facilitation.

**Table 2.5: Regional Trade Facilitation and Customs Cooperation Program Progress Report, 2008–2009**

**Integrated Trade Facilitation Program**

- (i) National joint transport and trade facilitation committees and a regional joint committee
  - The terms of reference for the national committees were agreed upon in a May 2009 workshop for national committee members.
- (ii) Trade logistics development
  - Conduct of trade logistics studies in all CAREC countries.
  - Development and upgrading of logistics centers in the region.
- (iii) Corridor performance and monitoring
  - In February 2009, ADB signed memorandums of agreement with 12 partner associations to collect data, and held the CAREC Corridors Performance Measurement and Monitoring Workshop.
  - The quarterly report for April–June 2009 was submitted to the 8th Ministerial Conference.
  - ADB is initiating collaboration with other international organizations in monitoring corridor performance.
  - On June 2009, ADB and the International Road Transport Union signed a memorandum of understanding to jointly monitor road transport performance in the Central Asia Regional Economic Cooperation (CAREC ) region and beyond.
- (iv) Single window
  - Kazakhstan has adopted new technology to facilitate compliance with the World Customs Organization and World Trade Organization recommendations on the establishment of single windows.
  - Azerbaijan is adopting a single window approach, delegating all functions of relevant ministries to the state customs committee.
  - Tajikistan approved the concept for the establishment of a single window.
  - Uzbekistan created a working group to develop a concept for single window.
- (v) Trade logistics development
  - Nine studies (8 on CAREC countries and 1 regional overview) on transport and trade logistics development strategies were completed.
- (vi) Strengthening cooperation mechanisms and private sector involvement
  - The CAREC Federation of Carriers and Forwarders Associations was launched by 13 partner associations.

**Customs Cooperation**

- (i) Simplification and harmonization of customs procedures
  - Kazakhstan submitted a draft law to simplify customs procedures.
  - Uzbekistan created an interagency working group for single window.
  - Azerbaijan began implementing a single window approach.
  - The Kyrgyz Republic amended the customs code.
- (ii) Information communication technology for customs modernization and data exchange
  - Afghanistan is implementing ASYCUDA transit mode in four major transit routes.
  - Kazakhstan is upgrading its automated customs information system.
  - Uzbekistan is improving its unified automated information system for the state customs committee.
  - The Kyrgyz Republic is installing a unified automated information system and plans to introduce a single administration document.
  - Mongolia is installing a customs automated information system.
- (iii) Risk management and post-entry audit
  - Afghanistan established post-clearance audit units in eight regional customs houses.
  - Kazakhstan is developing a selective control and risk management system.
  - The Kyrgyz Republic developed a prototype automated risk management system.
  - Uzbekistan approved a customs risk management system.
- (iv) Joint customs control and one-stop services
  - A seminar on joint customs control for senior CAREC customs officials was organized.
- (v) Regional transit development
  - A protocol between the Kyrgyz Republic and Kazakhstan on Putting into Operation the Joint Technology for Using Sealed Safe Packages was signed on 9 September 2008.
- (vi) Capacity building
  - ADB examined available capacity building resources in the region and developed a framework for an integrated trade facilitation capacity building program.

Source: ADB. 2009.



infrastructure for transport and logistics providers or time-taking control measures (which may be prohibitive if the traded goods are mostly perishables). Such analyses will also highlight the benefits of identified trade facilitation measures at both micro (firms) and macro (economy) levels.

ADB's experience in support of BIMP-EAGA trade shows that one of the major challenges faced by this subregion is its underdeveloped markets and weak trade linkages to world markets. Unlike in the GMS or any land-based area where roads are a prerequisite for any trade routes, the maritime setting in BIMP-EAGA allows for a pervasive network of small- and micro-traders in small vessels, most of them unregulated. In spite of a long history of traditional and informal trading activities, formal trade among the countries in the subregion, as well as with the outside world, is still limited. Subregional production and transport networks in BIMP-EAGA are poorly organized, if available at all. Production activities are most of the time isolated or fragmented, despite the fact that countries manufacture similar products. Consequently, local businesses have a limited ability to consolidate production to achieve economies of scale or to integrate into established supply chains in importing markets. Challenges to the development of a subregional market include geographical constraints (poor connectivity of scattered islands), a weak regulatory environment, and the lack of incentives to support subregional production and transport networks.

Meanwhile, the transport network is also underdeveloped due to the low load factor of trade and its maritime geographic settings. Goods produced in the subregion usually get shipped to capitals for consolidation and export. The existing logistic arrangements are also a disadvantage to small-scale traders as they face higher operating costs, longer transit time, and limited availability of services compared to their large-scale competitors.

The BIMP-EAGA's experience in pilot transport routes indicates that low trade volume and cumbersome procedures made start-up transport services unsustainable, which, in turn, prevents formal trade flows or increases the costs of trade. This could be described as a vicious cycle of "low trade– no connectivity." Major constraints to the development of local transport networks are lack of appropriate incentive structures, facilitation measures, and relevant policies to support them as identified by local transport service providers.

In BIMP-EAGA, ADB therefore is considering broadened support for the development of a local trade network (including local supply chains and transport services) involving local small-scale businesses. These small-scale businesses can play an important role in economic growth and poverty alleviation, as they are a major source of employment creation and income. Such support aims to improve competitiveness, and therefore the commercial viability of small-scale local businesses to increase trade flows and break the "low trade–no connectivity" cycle.

*Deconstructing National Level Issues.* The discrepancy in compliance levels within each country is usually overlooked in international trade facilitation interventions. Countries may adopt international standards as national policy, but compliance is only the case in big national facilities. In less-developed areas, small facilities may be unable to comply due to resource or capacity limitations, which, in turn, constrains trade flows.

The BIMP-EAGA experience shows that compliance issues are more critical than policy issues in the subregion while it is usually easier to deal with local compliance

issues. This approach also indicates a stronger role for local governments in supporting trade facilitation reforms.

Lessons from the BIMP-EAGA case study for policy makers are as follows:

- (i) A diagnostic analysis, identifying critical constraints to trade and integration, is important for prioritization and sequencing of measures.
- (ii) In the case of BIMP-EAGA, the first step is supporting the consolidation of fragmented supply chains of similar products to achieve economies of scale and their integration into the established chains in the importing markets, followed by improvement of cumbersome and costly trade procedures. The lesson is that development of transport networks will become sustainable with appropriate improvement in the structure of local trade network and facilitation measures.
- (iii) Local government support to trade facilitation reforms is crucial to increase compliance and encourage formal trade. In the case of BIMP-EAGA, this is particularly important to existing small industries.

### **Linking Timor-Leste and Papua New Guinea with Indonesia: Potential Subregional Economic Corridors in the Pacific**

Border areas in Timor-Leste and Papua New Guinea (PNG) face common challenges of geographic isolation, small size, a limited resource base, and a lack of human resource capacity compared to their neighbor Indonesia.<sup>105</sup> Some 44% of Timor-Leste's imports originate from Indonesia, while 70%–80% of Timor Leste total trade (import plus export) is with Indonesia through sea, air, and land routes. Timor-Leste's extensive border with Indonesia offer potential for expanded trade and tourism benefits for both the countries. PNG imports spare parts for trucks, rice, water, electronics, textile, and houseware from Papua province of Indonesia. Indonesia, on the other hand, imports beef, tuna, beer, cocoa, vanilla, snack foods, and betel nuts from PNG.

Timor-Leste and Indonesia signed the Agreement on Traditional Border Crossing and Regulated Markets in 2003. Currently, Timor-Leste and Indonesia are working on the issuance of border passes (IDs) to facilitate movement of people across the border. However, the implementation of the Agreement has been challenging due to poor and inadequate border infrastructure. In the case of PNG, despite renewed effort since 2006, it is unable to open its border posts for vehicle crossings due to lack of infrastructure and institutional capacity on border management.

Weak governance structures and policies are also significant constraints to cross border linkages, as they contribute to low efficiency and productivity, failures in service provisions, and constrain private sector development. The trade, investment, and movement of goods and people across borders need improved facilitation. Hence, a framework and plan of action that will (i) develop human resources skills and institutions for providing integrated border services comprising immigration, customs, quarantine, and security (ICQS); (ii) create an enabling policy and institutional environment for cross-border trade, investment, tourism, and other forms of cooperation; and (iii) strengthen and promote domestic infrastructure

<sup>105</sup> This case study is based on an interview with Mr. Mahfuzuddin Ahmed and his mission reports for Timor-Leste and Papua New Guinea (ADB, Pacific Department)

linkages with the cross-border trade and investment, multisectoral development and public private partnership will be crucial to enhance economic linkages across the borders of Timor-Leste with its neighbor Indonesia.

In Timor-Leste, the Ministry of Tourism, Commerce and Industries (MTCI) needs capacity to improve systems and regulations for traditional border markets, and provide policy and regulatory framework for trade and tourism development. Likewise, the Ministry of Infrastructure (MOI) has prioritized its investment in the border area. Two forthcoming ADB projects in Timor-Leste to be implemented by the MOI are expected to support road networks, and related infrastructure in the border provinces. Support to MOI will be required to develop investment plans for cross-border transport and trade infrastructure, and cross-border transport and communication policies and agreement.

In the case of PNG, the Border Development Authority (BDA) needs assistance to develop a border development strategy and assess the long term investment needs to build the northern economic corridors linking PNG with Indonesia. ADB's upcoming Pilot Border Trade and Investment Development Project is expected to build border infrastructure and provide policy frameworks for investment in the Sepik Province. The proposed Regional Capacity Development Technical Assistance will strengthen the capacity of the border agencies, and create further enabling environment for trade, investment and tourism development, thereby enhance economic corridors and linkages between PNG and Indonesia, and Timor-Leste and Indonesia.

Timor-Leste and PNG have so far responded to these issues by creating bodies to specifically address issues on border infrastructure, management and services (Part III, Chapter 3, Box 3.7). ADB has also supported these countries through previous technical assistance projects,<sup>106</sup> which identified at a preliminary level a range of potential investments in institutional strengthening and capacity building that would facilitate increased cross-border trade and investment. Further, an upcoming ADB Regional TA, headed by the Pacific Department, will focus on (i) enhancing institutional capacity for border management and border services; (ii) strengthen cross-border trade and tourism links; and (iii) strengthening capacity for developing and implementing cross-border transport links.

There are existing physical, institutional and policy constraints inhibiting growth of economic corridors between Timor-Leste, PNG, and Indonesia. Assistance for building capacity to establish systems, protocols and methods to facilitate cross-border trade, investment, transport and tourism in Timor-Leste and PNG is a first step in preparing the two countries to participate in economic corridor activities with their neighbor, Indonesia.

### **Logistics Services Liberalization: The Case of the Association of Southeast Asian Nations (ASEAN)**

ASEAN economies have set themselves the ambitious goal of an integrated single market by 2015 in the form of the ASEAN Economic Community. Although logistics services are not included in the 11 priority sectors identified in the 2004 Framework Agreement for the Integration of Priority Sectors, they are singled out for special mention in Article 10. ASEAN members commit to expedite the development of

<sup>106</sup> TA No. 6379-REG: Supporting Strengthened Regional Cooperation Among Pacific Developing Member Countries and TA No. 6462-REG: Institutional Development for Enhanced Subregional Cooperation in the ASEAN Region.

integrated logistics services in the region by promoting transport facilitation, improving transport infrastructure, strengthening maritime services, and creating a policy environment conducive to private sector involvement, including through private–public partnerships.<sup>107</sup>

More recently, ASEAN’s vision has evolved to treat logistics as part of the core integration agenda in its own right. The 2007 Roadmap for the Integration of Logistics Services effectively designates logistics as an additional priority sector. Preliminary analysis underlines the importance of logistics within the region, and the need for reform. More than 30% of total export logistics costs stem from regulation, with attendant delays reducing ASEAN trade by 30%–40%. Analysis of the Vientiane, Mukdaharn, and Laem Chabang and Danang logistics corridors suggests that road transport—a combination of infrastructure and regulation—is a major issue in both cases, as are import and export formalities.

Economic analysis makes clear that a holistic approach is required to deal with many factors that affect logistics performance. The roadmap recognizes this by identifying five core principles, which can then be developed into a detailed set of actions and time frames:

- (i) progressive liberalization of transport and logistics services sectors;
- (ii) enhanced competitiveness of ASEAN logistics service providers through trade and logistics facilitation;
- (iii) expanded capability of logistics services providers in ASEAN;
- (iv) development of human capacities in logistics; and
- (v) upgraded multimodal transport infrastructure and investment.

ASEAN’s approach is notable for its ambition. It covers both physical and regulatory infrastructure. It goes further by addressing the need to invest in sector-specific human capital as well. Each of the principles set out above is used as an organizing concept for a set of specific policy goals, each of which has a designated implementing agency within ASEAN and a set timeline.

Although the roadmap contains many elements necessary to enhance the competitiveness of the transport and logistics sectors, it will be important for stakeholders to closely track the implementation of these commitments over time. Experience suggests that implementation is likely to be a complex task, intensive in international and interagency cooperation. Part of the difficulty in pursuing reform of the logistics sector stems from the dispersion of logistics services throughout different parts of the UN Central Product Classification, the most commonly used international schema for classifying services. This dispersion is mirrored at the regulatory level in the number of distinct agencies responsible for various sectors. The roadmap makes a substantial effort to draw these sectors together into a coherent view of what constitutes logistics for policy purposes. It thus includes measures directed at maritime, air, rail and road transport, storage, courier, and packaging services, in addition to the customs and border control environment through which logistics service providers must navigate. Coordination at the national level will be vital to ensure that initiatives in all of these areas work together.

<sup>107</sup> Banomyong et al. 2008; Hamanaka. 2009; Vitasa. 2007.

ASEAN's experience in enhancing the performance of the logistics sector as part of a broader regional integration agenda suggests a number of useful lessons for policy makers, including the following:

- (i) An enhanced logistics sector has the potential to significantly boost regional and international trade.
- (ii) Reform of the logistics sector needs to be broad-based, covering sector regulations, infrastructure, and the general trading environment.
- (iii) General principles should be backed up by detailed, precise commitments; attribution of responsibility to implementing agencies; and verifiable timelines.
- (iv) Coordination of actors at the national and international levels is vital to the success of reforms, given the dispersion of responsibilities and expertise across agencies.



## ■ CHAPTER 5

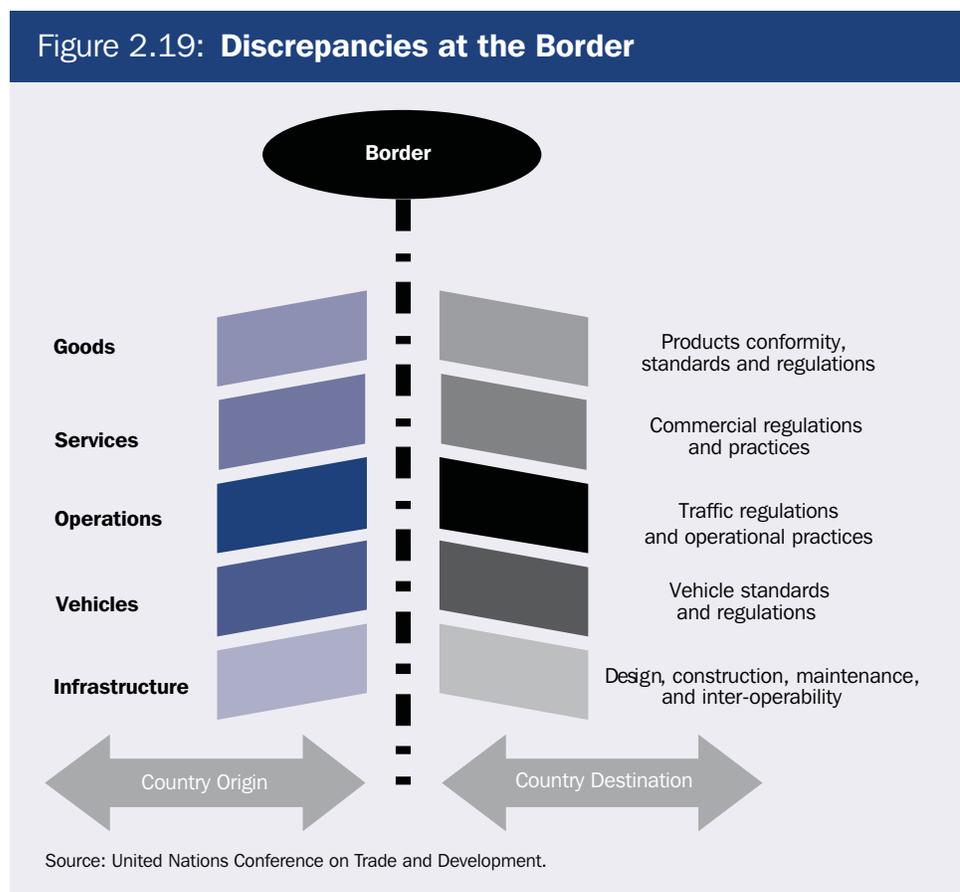
# Transit Trade

**T**ransit trade is a country's foreign trade that passes through a third country prior to reaching its final country of destination. Traffic in transit refers to the goods and means of transport passing through a third country on their way to the final country of destination.<sup>108</sup> Both the goods and the means of transport, as well as its operator, are subject to territory-specific laws and regulations, administrative requirements, commercial practices and operations, and technical standards. At the time of crossing the border between one territory and the next, the differences in the trade environment between the two create trade barriers (Figure 2.19). These barriers result in additional costs and delays that reduce the competitiveness of the delivered goods.

There are two categories of issues related to cargo in transit. One category relates to the goods themselves and the fact that customs authorities do not want to forego duties and excises in case the goods disappear while in transit (i.e., protection of customs revenues) and that concerned institutions (such as the Ministry of Interior or Ministry of Defense) do not want the cargo to harm the local population (i.e., national security). Considerations covering these issues are included in the WCO Revised Kyoto Convention, the Transport Internationaux Routiers (TIR) Convention and WTO trade facilitation measures under negotiation in the Doha Development Round. The other category relates to the modalities of the physical movement of goods through the territory (e.g., commercial transport services regulations, traffic regulations, and vehicle standards). These modalities constitute the basis for bilateral and regional transit (transport) agreements, together with customs-related provisions.

This chapter provides an overview of the state of play and importance of transit trade facilitation for landlocked countries in the region, and highlights basic principles and good practices. An introduction to bilateral and regional transit agreements and their negotiations is then featured, followed by a brief review of two regional transit agreements in the region.

<sup>108</sup> In the context of customs transit regimes, other parts of a journey such as inward transit (from a customs office of entry to an inland customs office), outward transit (from an inland customs office to a customs office of exit), and interior transit (movement of goods between the inland customs offices in the same country) can also be deemed as transit. See UNCTAD. 2009.

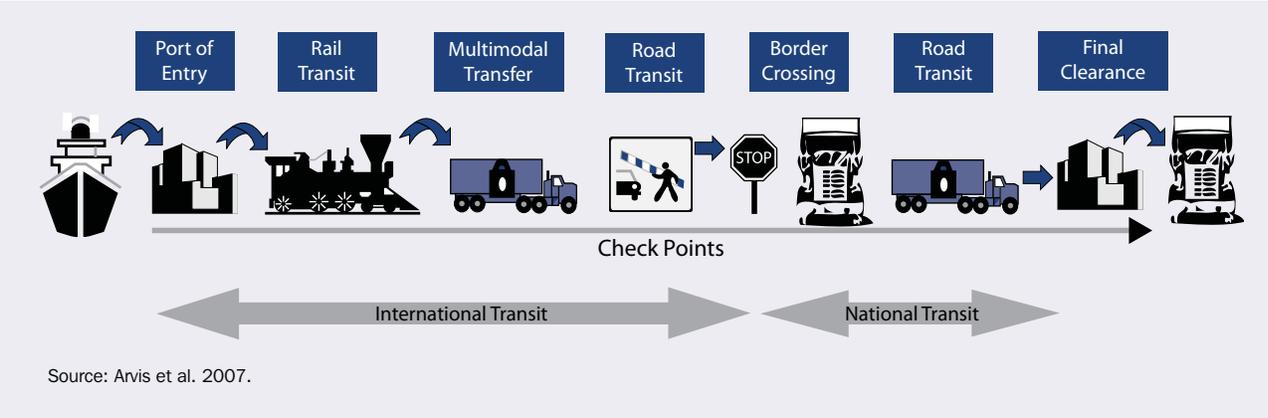


## Transit Trade Facilitation: State of Play

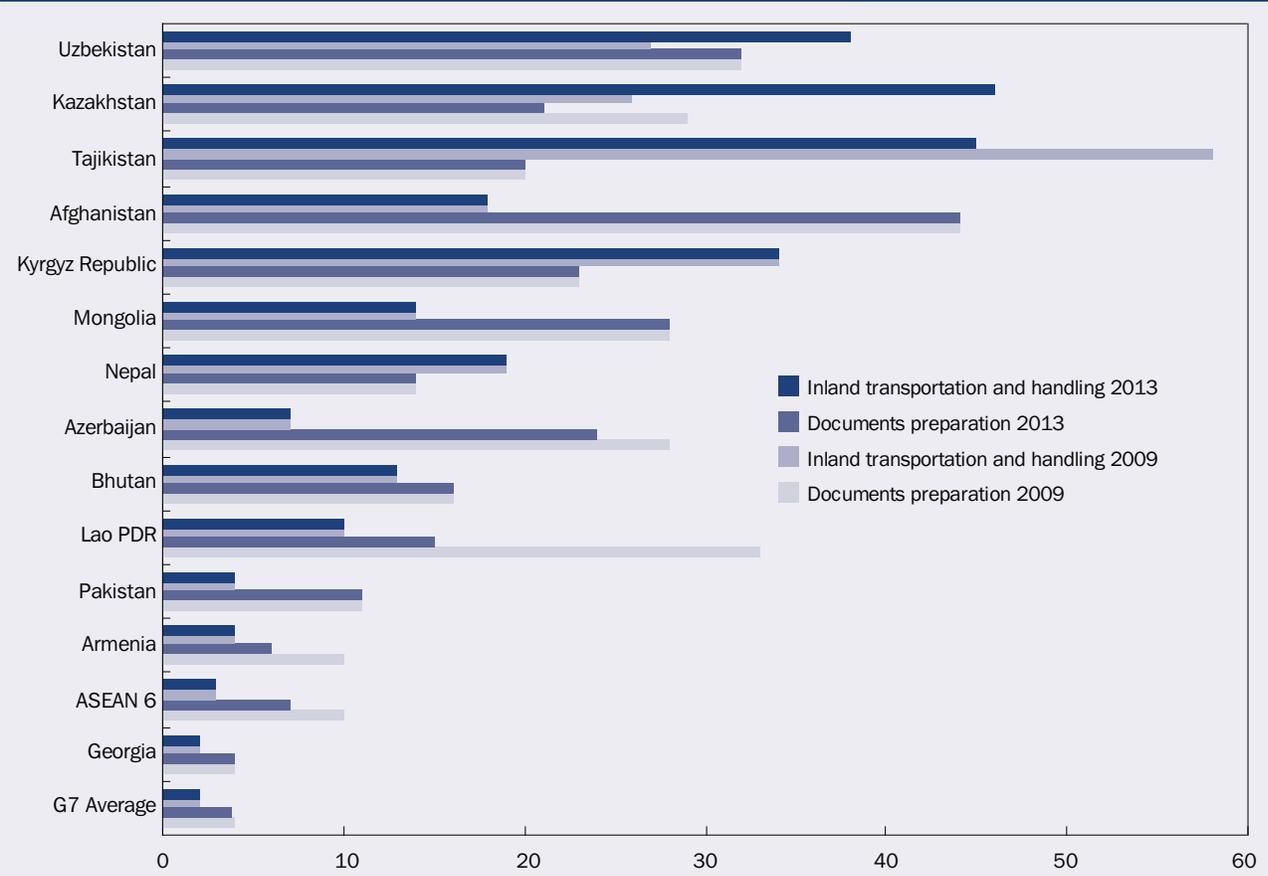
Transit operations are severe obstacles, often generating significant additional transport and administrative costs for imports and exports of landlocked developing countries (Figure 2.20). The UN Economic and Social Commission for Asia and the Pacific (ESCAP 2006b) observed that the average distance of the landlocked countries in the world to the closest seaport is 1,370 km and that some of the most remote countries are in Asia and the Pacific. For example, the distance from Kazakhstan to the closest seaport is 3,750 km, from the Kyrgyz Republic it is 3,600 km, and from Tajikistan it is 3,100 km. Increasing the efficiency of transit is a key prerequisite for the landlocked developing countries to expand their trade. Nonphysical bottlenecks, particularly cumbersome transit procedures, additionally hamper the trade competitiveness of landlocked countries.

According to the trading across borders indicators of the World Bank's *Doing Business*, landlocked developing countries suffer from time-consuming procedures and extremely high costs for both imports and exports. In 2009, the time necessary to prepare export documents in most of the Central Asian countries is 2 to 3 times longer than in other developing Asian countries, and the duration of inland transportation and handling is about 12 times longer (Figure 2.21). Inland transportation and handling for export took even longer for Kazakhstan (from 26 to 46 days) and Uzbekistan (from 27 to 38 days) in 2012 compared against 2009. Considerable improvement is only evident in Tajikistan, from 58 days in 2009 to 45

**Figure 2.20: Basic Sequence of Transit Operations for Imports**

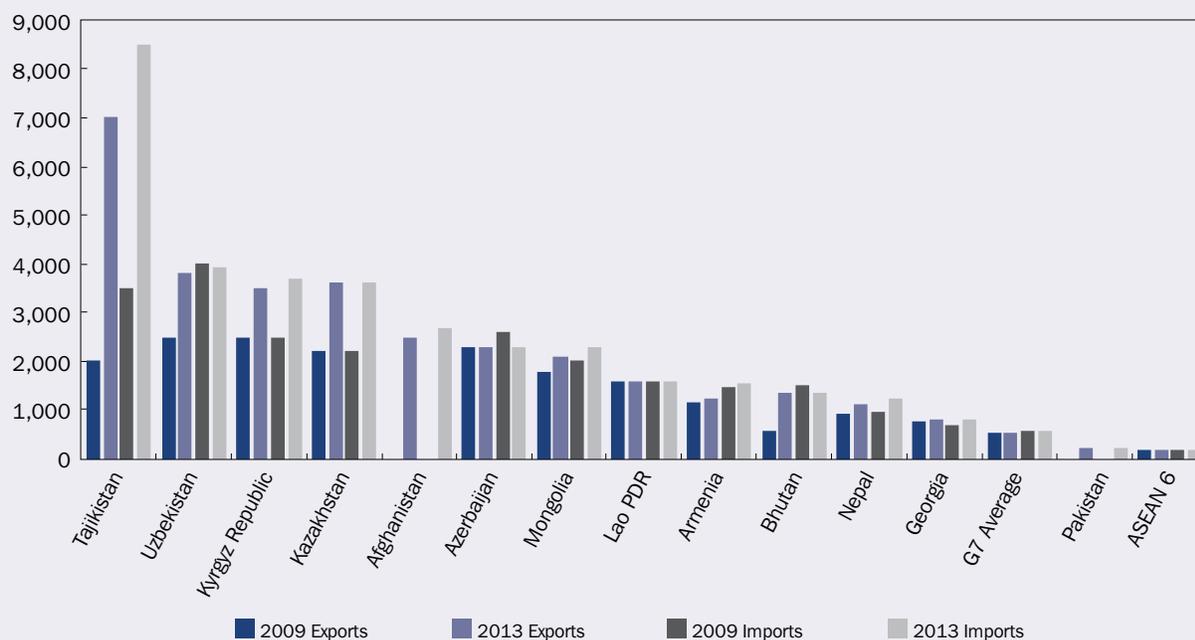


**Figure 2.21: Duration of Document Preparation and Inland Transportation and Handling for Export in Landlocked Countries Compared with Coastal Countries**



Source: World Bank *Doing Business*. 2009 and 2013.

**Figure 2.22: Export and Import Costs of Inland Transportation and Handling in Landlocked Countries Compared with the Rest of Asia**



Source: World Bank Doing Business. 2009 and 2013.

days in 2013. In terms of documents preparation, though still significantly higher than ASEAN9 and G7, there are considerable improvements observed for the Lao People's Democratic Republic (from 33 to 15 days), Kazakhstan (from 29 to 21 days) and Azerbaijan (from 28 to 24 days). In 2009, in countries such as Azerbaijan, Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan, traders need to pay more than \$2,000 for inland transportation and handling service when they export goods, about 14 times the average cost in ASEAN 6 (Figure 2.22). Except for the minimal cost reduction of import inland transportation and handling in Azerbaijan (from \$2,600 to 2,300), Uzbekistan (from \$4,000 to \$3,915) and Bhutan (from \$1,500 to \$1,350), both export and import costs of all other landlocked countries increased in 2012 and are still significantly higher than ASEAN6 and G7 averages.

Although not accounted for in the cost estimates presented in Figure 2.24, long waiting time at border crossings is a major contributor to high cost in transit transport operations. OECD (2006) observed that more than 50% of the time for moving a cargo from Almaty to Europe (through Moscow) is spent waiting at the border facilities. If this waiting time was reduced to a level of 5 hours at each border, transit time would be reduced by more than 50% (reduced to 5 days). The cooperation on transit is usually undermined by the mistrust between the public and the private sector as well as between neighboring countries. As a result, the physical inspection rates of traffic in transit in some developing countries remain very high. OECD (2006) estimated that the lack of cooperation can add 40% extra transit time, equivalent to adding 120% to the cost of transport. In addition to time costs, payments of unofficial rents are frequent and sometimes very large (Box 2.20).

## Box 2.20: Barriers to Transit Trade: The Case of the Kyrgyz Republic

The efficiency of transit depends on many factors. Apart from geographical position, institutions and infrastructure play a considerable role. ADB (2008) analyzed the transit trade barriers for the Kyrgyz transit transport through Kazakhstan, and found the following major constraints that inhibit transit trade:

- weak legal framework;
- complex and outdated border procedures and documentation;
- lack of coordination among the border agencies;
- lack of mutual recognition of customs control procedures and customs seals and stamps;
- weak private sector stakeholders such as transport and trade associations;
- inadequate transit and guarantee systems; and
- inadequate customs and transport infrastructure.

As a result of these weaknesses, the unofficial payment of the Kyrgyz Republic transit goods was found to be as high as 140% of the price of fruits, 48% for vegetables, 13% for cotton fiber and 11% for tobacco. This unnecessary expenditure pushes the delivery cost very high.

### Transport Costs for Different Cargoes

Item in Truck	Sale Price of Truckload (\$)	Kazakhstan Transport Cost (% of price)	Transport Cost That Can Be Eliminated (% of price)
Tobacco	8,686	15	11
Cotton fiber	7,767	17	13
Fruits	705	186	140
Vegetables	2,073	63	48

Source: ADB. 2008.

The quality and quantity of transport infrastructure, particularly roads and railways, have a direct impact on transport cost of goods in transit. According to the World Economic Forum's *Global Competitiveness Report 2008–2009*, the quality of overall infrastructure in developing countries such as the Republic of Korea, Malaysia, Thailand, Azerbaijan, the PRC, and Sri Lanka is above the world average while developing countries such as Mongolia, the Kyrgyz Republic, and Nepal are among the poorest in this respect. The report shows that the roads in Singapore and the Republic of Korea are among the best in the world while countries such as Mongolia, Nepal, Kazakhstan, Tajikistan, and the Kyrgyz Republic lag far behind other countries in terms of road quality. In terms of railroads, Armenia, Cambodia, and Nepal have the poorest railroad systems.<sup>109</sup> Arvis et al. (2007) found that aside from physical constraints, the main sources of costs are rent-seeking activities, governance

<sup>109</sup> Data on roads and railroads can also be found in the *World Competitiveness Yearbook* of the International Institute for Management Development, which assesses a country's land transport condition by using quantitative indicators such as the density of the road and railroad networks.

problems (Box 2.20), and the lack of implementation of effective transit systems to facilitate transit operations.

The Almaty Programme of Action, adopted during a 2003 international ministerial conference of landlocked, transit, and donor countries, aimed to address the special needs of landlocked developing countries within a new global cooperation framework between landlocked and transit countries.<sup>110</sup> Though some progress has been registered by the landlocked developing countries since the Almaty Conference, a follow-up meeting held in Ulaanbaatar on 30 and 31 August 2007 found that a large number of bottlenecks related to trade facilitation were persistent, such as<sup>111</sup>

- (i) non-transparency of trade and customs laws, regulations, and procedures, compounded by lack of institutional capacities and trained human resources;
- (ii) excessive numbers of documents required for export and import, complicated and nonstandard procedures for customs clearance and inspections, and lack of adjacent border controls;
- (iii) multiplication of scheduled and unscheduled roadblocks as well as unnecessary customs convoy requirements;
- (iv) insufficient application of information and communications technology, leading to poor or total lack of computerized customs procedures;
- (v) underdeveloped logistics services, lack of interoperability of transport systems, and absence of competition in the transit transport services sector; and
- (vi) low level of adherence to international conventions on transit transport.

These persistent trade facilitation issues not only increase time and costs but also greatly increase uncertainties in delivery times. Such uncertainties result in significant loss of business opportunities and may prevent altogether the participation of landlocked countries in global and regional production networks.

## Guiding Principles and Good Practices

Many of the principles and good practices for transit facilitation are set out in GATT/WTO Article V (Freedom of Transit) and Annex E of the WCO Revised Kyoto Convention as well as in the TIR Convention.<sup>112</sup> The ongoing multilateral negotiations on trade facilitation provide a particularly useful source of principles and good practices on facilitating transit trade, as their scope includes clarification of GATT Article V.<sup>113</sup>

<sup>110</sup> For details, see [www.un.org/special-rep/ohrrls/lldc/Almaty\\_PoA.pdf](http://www.un.org/special-rep/ohrrls/lldc/Almaty_PoA.pdf)

<sup>111</sup> Letter dated 9 October 2007 from the Permanent Representative of Mongolia to the United Nations addressed to the President of the General Assembly. [www.unohrrls.org/UserFiles/File/LLDC%20Documents/MTR/AC2\\_62\\_4%20EN.pdf](http://www.unohrrls.org/UserFiles/File/LLDC%20Documents/MTR/AC2_62_4%20EN.pdf) (accessed 8 October 2009).

<sup>112</sup> There are many other relevant international instruments relevant to transit trade and transport. For example, ESCAP members adopted a resolution (No. 48/11) on roads and rail transport modes in relation to facilitation measures, recommending adoption of the TIR Convention and seven other instruments including the Customs Convention on Containers (concluded in Geneva, Switzerland on 2 December 1972) and the International Convention on the Harmonization of Frontier Controls of Goods (concluded in Geneva on 21 October 1982). See [www.unece.org/cefact/refer/comp/recm1.htm](http://www.unece.org/cefact/refer/comp/recm1.htm) for a comprehensive set of facilitation measures relating to goods in international transit.

<sup>113</sup> WTO (TN.TF/W/43/Rev. 17). 2009.

Freedom of transit is the core principle being promoted in GATT Article V and further clarified in the ongoing negotiations. Traffic in transit should be able to travel freely through the territory of a transit country and to travel by the most convenient route. Importantly, transit goods should be exempt from customs duties and only subject to reasonable charges for transportation (such as highway tolls) and/ or reasonable transit charges commensurate with the administrative expenses entailed by the transit or with the cost of the services rendered (e.g., transit escort services).

In addition, on the basis of the general principles of nondiscrimination, all traffic in transit should be treated equally and provided the same best treatment. For example, no distinction should be made based on place of origin, departure, entry, exit, or destination of the goods in transit, even their means of transport. Transit traffic should be treated no less favorably than domestic goods with respect to all charges, regulations, and formalities, including transportation charges. Finally, in line with the general principles of transparency and avoidance of unnecessary trade restrictions, a country taking restrictive measures on transit to protect health and security—allowed under GATT Articles 20 and 21—should inform partner countries of the objective and necessity of the restrictive measure, and provide relevant information to them upon request. The principles and practices introduced in Chapter 1 on publication and administration of trade regulations also apply to transit trade. Relevant transit-related laws, regulations, procedures, and fees and charges should be published and reviewed regularly.

Given the pass-through nature of traffic in transit, the following measures should be particularly considered:

- (i) *Grant traffic in transit expedited and simplified treatment at the border.* Trade facilitation measures discussed in Chapter 2 such as the use of risk management, pre-arrival processing of transit documents and data, use of commercially available documents and data, and establishment of authorized trader schemes should be applied to traffic in transit. Specifically, physical inspection of goods in transit should be limited and adjusted to suit the assessed risk level, particularly when goods are transported in sealed vehicles or containers accompanied by credible information and documents. Quality controls regarding compliance with technical standards should also not be applied unless there is a risk of contamination. Physically separated transit lanes may be made available and a single window facility may be established.
- (ii) *Establish an effective customs guarantee system for goods in transit.*<sup>114</sup> Since the payment of duties and taxes is suspended during transit, a financial guarantee or bond may be required to safeguard the interest of the transit country until the transit goods are confirmed to have left its territory. Such guarantee should be reasonable (e.g., based on the nature and value of the shipment) and released promptly in full after the completion of the transit operation. To fully facilitate trade, the guarantees should be designed and applied on a regional or international basis. Such is the case between contracting parties to the TIR Convention (Box 2.21). This would typically involve harmonization of certain aspects of transit operations across several countries so that, for example, a uniform document or guarantee can be used for the entire transit operation. In addition, the guarantee system should be part of a customs transit regime that also contains provisions on the sealing of containers and vehicles and other security measures, such as standardized and required documentation

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<sup>114</sup> UNCTAD. 2009.

### Box 2.21: Transports Internationaux Routiers Convention

Transports Internationaux Routiers (TIR) is an international customs transit system that allows goods to transit from a country of origin to a country of destination in sealed load compartments with customs control recognition along the supply chain. The TIR system facilitates the movement of goods in international trade while effectively protecting the revenue of each country through which such goods are carried. The TIR transit system relies on five main pillars: (i) use of secure vehicles or containers approved for use by customs; (ii) an international guarantee chain to secure duties and taxes in case of irregularities; (iii) mutual recognition of customs control such that goods carried under the TIR procedure in sealed road vehicles or containers will not, as a general rule, be examined at customs offices en route;<sup>a</sup> (iv) controlled access to the system, limited to qualified authorized operators; and (v) the TIR carnet, a single harmonized manifest issued in the country of departure and serving as a control document in the countries of transit and destination.

The TIR carnet system has been devised to prevent the wasted time that occurs when long-distance vehicles are held up for customs inspection at every frontier. The idea is to provide a document upon entry to a transit country to give a solid evidence of the goods arriving in that country. When a vehicle reaches the border of a transit country, the customs officer at the point of entry only needs to examine the seals on the vehicle to ensure they have not been broken, and check the rest of the vehicle to ensure that the framework of the container, the tilt, or other external cover is intact. The vehicle is then sent on its way. At the point where it leaves the transit country, the vehicle surrenders a second copy of the carnet. When these two copies arrive at the central office they can be compared to show that the goods arrived in and later left the country, and therefore a duty is not payable. If the second copy does not arrive, duty is payable and a guarantor—the body authorized to issue carnets, usually a trade association—is required to pay the duty, and recovers it from the hauler whose staff was probably liable for the irregularity. If the country concerned is the country of destination, the goods will be liable to the import procedure for that country and duty will be collected from the appropriate person, usually the holder of the TIR carnet.

The United Nations has mandated the International Road Transport Union to manage the TIR Convention and issue TIR carnets to the national guaranteeing associations under conditions set out in a contractual commitment. Each association, in turn, issues the TIR carnets to carriers in its country in accordance with the conditions set out in the declaration of commitment signed by the carrier with the association.

The TIR Convention traces its origin to an agreement concluded by several European countries in 1949 to hasten the reconstruction of countries ravaged by World War II. The convention was formalized under the auspices of UNECE in 1959 and replaced by the current Customs Convention on the International Transport of Goods Under Cover of TIR Carnets (TIR Convention 1975). Amendments are introduced from time to time as agreed by contracting parties. The UNECE and the TIR secretariat maintain the TIR Handbook, which contains the convention agreement, succeeding revisions, and other practical information on the implementation of the TIR system.

Among recent initiatives are the worldwide application of the TIR system to include Asia and Middle East, and the computerization and adaptation of electronic data processing of the TIR system to provide faster cargo processing and security from fraudulent activities. As of 2008, there were around 66 contracting parties to the TIR system. From approximately 2.7 million TIR carnets issued in 2001, the number increased to 3.5 million in 2006 and more than 3 million in 2007.

<sup>a</sup> This does not exclude the right of customs offices to carry out spot checks in cases where they suspect irregularities, but it is understood, and even stipulated in the convention, that such checks should be exceptional.

Source: UNECE data. TIR Handbook.

and mutual recognition of customs control and authorized traders, in line with the requirements of the TIR system or other relevant bilateral, subregional, or regional transit systems.<sup>115</sup>

- (iii) *Strengthen coordination and cooperation between authorities on both sides of the border.* Cross-border cooperation may first focus on critical but relatively simple issues such as coordination of hours of operation. More ambitious forms of cooperation may then be explored, such as a mechanism to eliminate duplicate inspections through the implementation of a common procedure to meet the requirements of authorities on both sides of the border (Part III Chapter 3). However, it is worth noting that effective coordination and cooperation among domestic authorities on each side of the border is a prerequisite to cross-border cooperation. Deeper cross-border cooperation may be promoted through bilateral and regional transit agreements.

While the measures and practices outlined above are certainly important for transit facilitation, transit operations are partly complex and other measures may need to be considered to tackle the underlying reasons for delays and inefficiencies. Competition among transport operators in transit and landlocked countries may need to be encouraged as a prerequisite for developing efficient logistics services. It has been estimated that, in some cases, allowing trucks of a landlocked country to operate in a transit country and vice-versa might save 30%–40% of transit transport costs.<sup>116</sup> Although his conclusions are so far based on studies conducted in Africa, Raballand (2008) cited delays and unpredictability in ports, and bad practices from the private sector (e.g., customs brokers), as factors that would explain the higher trade costs of landlocked countries.<sup>117</sup>

## Bilateral and Regional Transit Agreements

While a number of international conventions relevant to transit trade and transport exist, including the TIR Convention, developing countries have not always found them to be applicable to their specific situation. As a result, a consensus seem to have emerged among some of the WTO members on the need to promote bilateral and regional transit arrangements, taking full account of the existing international standards and instruments. Such agreements should generally aim to provide seamless operations along a corridor while maintaining sufficient control to ensure that the transit operations neither permits fiscal fraud nor discriminates against transport operators along the chain.

The movement of goods in transit between a landlocked country and a transit country can be based on a bilateral agreement on transit trade. The purpose of such an agreement is to facilitate each other's exports and imports in transit to and from a third country. Such an agreement can be done in accordance with the Convention and Statute of Freedom of Transit signed in Barcelona, Spain on 20 April 1921. However, this approach can become problematic, especially if neighboring transit countries are not signatories to this particular convention, as they will then not be bound by the convention requirements.

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<sup>115</sup> Revised Kyoto Convention. 2009.

<sup>116</sup> UNCTAD. 2004; Arvis, Jean Francois, et al. 2007.

<sup>117</sup> Raballand, G. 2008.

While negotiating bilateral transit trade agreements, issues related to the unimpeded transit of properly sealed cargo between the landlocked country and the transit country may be specifically addressed. The designation of transit routes and border points must often be agreed upon. This could mean that all transit traffic will have to be transported on designated transit routes by designated operators through designated border points. It is not unusual to see a landlocked country and a transit country agree on a dedicated transit port that will be authorized to handle transit cargo (e.g., the port of Tianjin, the PRC for Mongolian transit cargo). However, this could become a burden in the future, especially if the dedicated transit port is not located along major maritime corridors.

Negotiation of the bilateral transit agreement may also cover transport regulations in both the landlocked country and the transit country, particularly on issues related to transit market entry, operations, vehicle loads, and applicable tariffs. Transit traffic sharing ratios between the landlocked country and the transit country may also be included, although they are dependent on the level of bargaining power of each country.

The functional components of a transit agreement may include the following elements:

- (i) facilitation of the border crossing of cargo, including the cargo customs transit regime, the sanitary and phytosanitary (SPS) and/or quarantine regime, and definition of categories of prohibited or restricted goods;
- (ii) facilitation of the crossing of containers (a temporary admission customs regime), including measures related to the professional activity of transport operators,<sup>118</sup> mutual recognition of transport operator licenses (access to the profession), and exchange of road traffic rights (market access);
- (iii) facilitation of the crossing of people engaged in transport operations (crew, drivers of commercial vehicles), including long-term multiple entry visas, health inspections, customs exemptions for personal effects, and recognition of driving licenses;
- (iv) facilitation of the crossing of commercial road vehicles, including registration, technical standards, roadworthiness certification, third-party motor vehicle liability insurance, and the customs regime for temporary vehicle importation;
- (v) infrastructure and equipment, including harmonization of road and bridge design standards and of road signs and signals;<sup>119</sup>
- (vi) coordination of border crossing infrastructure construction and equipment installation; and
- (vii) other facilitation measures related to transit including transparency (accessibility) of legislation, regulations, administrative procedures, and

<sup>118</sup> If an agreement is only concerned with transit transport, the elaboration of a uniform cargo carrier liability regime may not be a high priority. However, the situation would be different if interstate transport is also included in the scope of an agreement. A model cargo carrier liability regime is provided by the Convention on the Contract for the International Carriage of Goods by Road (the CMR Convention, Geneva, 1956).

<sup>119</sup> Another safety measure consists of compulsory rest periods for commercial vehicle drivers. The desirability of the harmonization of such measures may be considered. A model system is provided by the European Agreement Concerning the Work of Crews of Vehicles Engaged in International Road Transport signed on 1 July 1970.

documents; refraining from charging non-cost-related levies, duties, taxes, and other charges on transit operations; nondiscrimination and national treatment principles; preventing distortion of free competition; facilitation of border crossing formalities; use of a common language, measurement units, and software; resolution of border disputes; cooperation in combating customs fraud and tax evasion; and institutional arrangements (e.g., transit trade and transport coordination committee and national traffic police section).

The principles of bilateral transit agreements may be extended to regional transit transport agreements in the context of a broader economic integration type of agreement, such as a regional free trade agreement, to liberalize and facilitate trading between member countries. The objective of such an agreement on the facilitation of goods in transit should be to establish an effective, efficient, integrated, and harmonized transit transport system in the region, which will support the further integration of the region's economies and, as appropriate, the implementation of the free trade agreement.<sup>120</sup>

The adoption of a transit agreement can be structured into a four-step process that may require considerable time. The drafting of the agreement is the end result of an intensive exercise with the following steps: study, analysis, planning, and negotiation. The first step is to study the existing situation of the transit traffic along the main transport corridors to obtain a clear and complete understanding of the transit operations. The second step is to forecast future transit traffic volumes and the corresponding transport requirements, with particular attention to the needs for change, expansion, and/or improvement in the present transit transport system. The third step, planning, addresses the need for negotiators to identify and address the real issues that will have to be considered during the negotiation of the transit transport agreement. Finally, each contracting country will then be able to define its negotiating position on various issues.

In this context, it is important to establish national working groups to review the substance of these issues. The composition of the working groups is very important; it must take into consideration the issues to be addressed and be balanced with representatives from the concerned government institutions and the private sector. It is essential that these working groups include representatives of the organizations that will be involved in or affected by the implementation of measures covered under the agreement. For example, representatives of local authorities and groups at relevant border crossings may be included in the working groups—or at least thoroughly consulted (Box 2.22).

These national working groups should meet as often as required with similar working groups of the other contracting parties. These bilateral meetings would allow convergence toward the relevant issues to be included in the transit agreement negotiations. This process should result in directives from which separate protocols will be drafted. Each article or provision of the agreement should be discussed, assessed, and amended until a draft that is acceptable to all parties has been achieved. Negotiation of the separate protocols covering specific technical aspects of the main agreement could then take place.

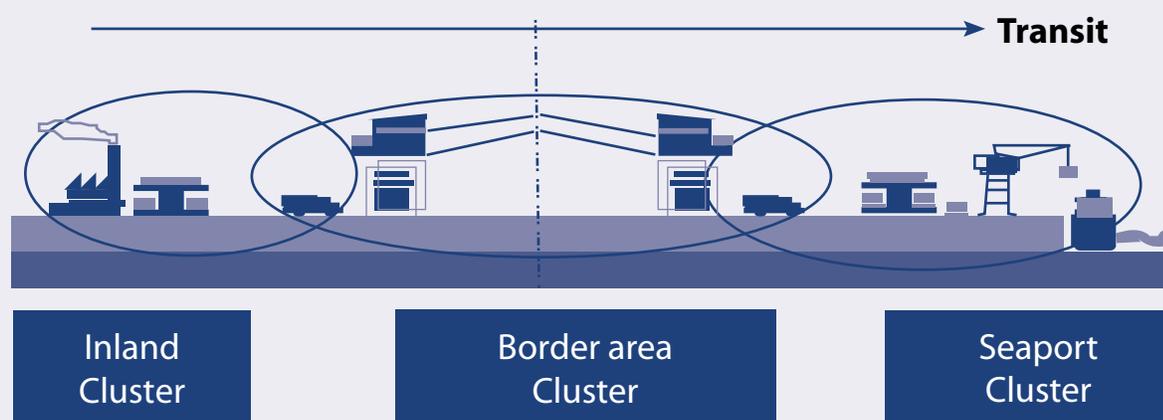
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<sup>120</sup> Other existing types of regional agreements that are designed to harmonize individual bilateral agreements among the member countries, particularly the harmonization of customs and immigration procedures.

### Box 2.22: Transit Service Production: Importance of Local Knowledge

The most recent research in the field of transit transport corridor management recognizes the value of local knowledge. As a result, the United Nations Conference on Trade and Development (UNCTAD) initiated “trade and transport facilitation clusters.” Drawing on the role of economic and business clusters that establish a link between geographic locations and economic performance, trade and transport facilitation clusters bring together those most involved in everyday trade and transit operations along a particular corridor. They include both a broad range of government agencies—such as customs, fiscal, and transport authorities—and private operators such as importers, exporters, freight forwarders, and customs brokers.

This “cluster corridor value chain” approach introduces the concept of stakeholders’ collective ownership of the transit corridor. In such a vision, the corridor is seen as a transit service production line, and all business and government participants as providers of added value to the end product (i.e., the transit service). These clusters form a network through shared information systems that allow constant monitoring of the corridor operation and the design of improvements.



Source: World Economic Forum. The Global Enabling Trade Report. 2008.

## Experience of Economies in Asia and the Pacific

This section emphasizes the importance of regional integration strategy for efficient and effective facilitation of transit trade, particularly in landlocked countries. The main reasons for high transit trade costs, such as waiting time at border crossings and uncertainties in delivery times, can be eased through regional efforts to harmonize transit operations and procedures and deepen cross-border cooperation. Lack of accession to international conventions that address transit issues led countries to resort to bilateral and/or (sub)regional agreements. This section asserts that (sub) regional cooperation is a more effective approach to transit issues than bilateral agreements for the following reasons:

- (i) wide geographic scope, and hence a wide range of transit issues to be covered;
- (ii) greater potential to maximize benefits from harmonization and consistency of transit operations and procedures throughout the (sub)region; and
- (iii) greater potential to increase trade volume, both via international and intra-(sub)regional trade. This is particularly important for landlocked countries and (sub)regions that experience geographical challenges and costly procedures in reaching out to markets outside the region.

In the absence of accession to international conventions on transit trade, (sub)regional integration, in the case of GMS, is necessary to facilitate cross-border movement of goods and people, at least in the short to medium term (see the following case study on the GMS Agreement for Facilitation of Cross-Border Transport of People and Goods). Bilateral agreements such as the India–Nepal Transit Agreement and the Kyrgyz–Kazakhstan Free Trade Agreement also have potential to improve facilitation of transit trade.

## **The Greater Mekong Subregion Agreement for Facilitation of Cross-Border Transport of People and Goods**

The Great Mekong Subregion (GMS) Agreement for Facilitation of Cross-Border Transport of People and Goods<sup>121</sup> and the annexes that are currently being negotiated is an extension of the trilateral agreement signed between the Lao People’s Democratic Republic, Thailand, and Viet Nam in 1999. This agreement, otherwise known as the GMS Agreement, has 20 annexes and protocols. With assistance from ADB, all six countries have signed all annexes and protocols. In order for these annexes to become effective, countries have to ratify them. To date, Cambodia, the PRC, the Lao People’s Democratic Republic, and Viet Nam have ratified all annexes and protocols. Thailand has ratified 11 out of 20.

The GMS Agreement is a multilateral instrument for the facilitation of cross-border transport of goods and people. Formulated under ADB technical assistance, the agreement provides a practical approach, in the short to medium term, to streamlining regulations and reducing nonphysical barriers in the GMS. It incorporates the principles of bilateral or multilateral action and flexibility to recognize procedural differences in each of the GMS countries. The GMS Agreement includes references to existing international conventions that have demonstrated their usefulness. It also takes into account, and is consistent with, similar initiatives being undertaken by ASEAN.

The GMS Agreement is a compact and comprehensive multilateral instrument, which covers in one document all the relevant aspects of cross-border transport facilitation. These include

- (i) single-stop/single window customs inspection;
- (ii) cross-border movement of people, goods, and vehicles (e.g., visas for persons engaged in transport operations);
- (iii) simplification and harmonization of border clearance formalities, procedures, and documents;
- (iv) transit traffic regimes, including exemptions from physical customs inspection, bond deposit, escort, and phytosanitary and veterinary inspection;
- (v) advance exchange of information requirements that road vehicles must meet to be eligible for cross-border traffic;
- (vi) exchange of commercial traffic rights; and

<sup>121</sup> The GMS Agreement is formally known as The Agreement between and among the Governments of the Kingdom of Cambodia, the PRC, the Lao People’s Democratic Republic, the Union of Myanmar, the Kingdom of Thailand, and the Socialist Republic of Viet Nam for Facilitation of Cross-Border Transport of Goods and People.

(vii) infrastructure, including road and bridge design standards, road signs, and signals.

The GMS Agreement applies to selected and mutually agreed-upon routes and points of entry and exit in the signatory countries.<sup>122</sup>

## The India–Nepal Transit Agreement

The bilateral framework for trade and transit is provided by the India–Nepal Treaty of Trade, Treaty of Transit, and Agreement of Cooperation to Control Unauthorized Trade.<sup>123</sup>

The *Treaty of Trade*, which is valid for 5 years, was renewed through an exchange of letters on 3 December 1996 and 5 March 2002, and automatically renewed for another 5 years in March 2007. Under the trade treaty, India provides, on a nonreciprocal basis, duty-free access to the Indian market for all Nepalese-manufactured articles barring a short negative list (cigarettes, alcohol, and cosmetics). Since March 2002, the Nepalese-manufactures are subject to the conditions that the exports meet the domestic value addition requirement of 30%, and that their Harmonized System classification is changed at the four-digit level in the course of manufacture or processing in Nepal. After the March 2002 revision, annual quotas have been prescribed for duty-free exports to India for four sensitive items: vegetable fats (100,000 tons), acrylic yarn (10,000 tons), copper products (10,000 tons), and zinc oxide (2,500 tons).

The *Treaty of Transit*, renewed every 7 years (last renewal in March 2006), provides for port facilities to Nepal at Kolkata/Haldia and specifies 15 transit routes between Kolkata/Haldia and the India–Nepal border. The international obligation is for only one transit route to the sea, but Nepal has also been offered facilities at the Mumbai Port and the Kandla Port for third-country trade. As requested by Nepal, a separate customs cell at Haldia became operational on 16 August 2004.

Nepal's traffic in transit is exempt from Indian customs duty and from all transit duties or other charges except for transportation. The treaty has considerably improved and simplified procedures for the transit of Nepalese cargo through the Indian territory.

Three inland customs depots (ICDs)— Bhairahawa, Biratnagar, and Birgunj—have been put in place to facilitate Nepal's transit trade through India as well as to facilitate border trade on the land route between India and Nepal. India has built a 5.3 km Raxaul/Birgunj broad gauge rail link for the movement of containerized traffic in transit to and from the internal container depot in Birgunj, Nepal. In addition, India has provided 22 entry/exit points along the India–Nepal border for bilateral trade and for India–Nepal transit.

India and Nepal signed a rail service agreement in May 2004 to extend cargo train service to the ICD at Birgunj, Nepal. The ICD was constructed with World Bank assistance of \$17 million while India constructed the rail tracks, which link the ICD with the Raxaul railway station in India. The ICD became operational on 16 July

<sup>122</sup> Details of the agreement are available at [www.adb.org/GMS/cross-border-transport-agreement.pdf](http://www.adb.org/GMS/cross-border-transport-agreement.pdf)

<sup>123</sup> More information can be obtained from [www.south-asia.com/Embassy-India/indneprel.htm](http://www.south-asia.com/Embassy-India/indneprel.htm)

2004. The Container Corporation of India, in a joint venture with Himalayan Terminal Private Ltd., is operating the ICD.

India also provides Nepal a rail route through Radhikapur for its trade with Bangladesh and for its overseas trade via Bangladesh, along with an additional transit route to Bangladesh through the Phulbari corridor.

The Government of India is committed to improving cross-border trade-related infrastructure. In addition to the mega-projects mentioned in the next paragraph, this endeavor includes (i) building an oil pipeline between Raxaul and Amlekhgunj through a joint venture between Indian Oil Corporation and Nepal Oil Corporation, (ii) upgrading approach highways to the border on the Indian side, (iii) upgrading and expanding the road network on the Nepalese side, and (iv) broad gauging and extending rail links to Nepal.

With a view to facilitating greater cross-border exchanges and bringing about qualitative transformation in cross-border connectivity between India and Nepal, a number of infrastructure megaprojects also form an important part of India's economic assistance portfolio to Nepal. The creation of integrated check posts at the four checkpoints on the India–Nepal border (Raxaul–Birgunj, Jogbani–Biratnagar, Bhairahwa–Sunauli, and Nepalgunj Road–Nepalgunj) is one of the most important endeavors for achieving this objective, agreed upon by the two governments. The two governments envisage world-class infrastructure at these border points for a smooth flow of people and goods across the border. In addition, the Government of India is also undertaking projects for the development of over 1,500 km of road network in Nepal's Terai region. The road network development would provide easy access between the India–Nepal border areas and Nepal's East–West Highway. A link road connecting Mahendranagar in Nepal's far west with Tanakpur in India will extend the connectivity beyond Nepal's East–West Highway into India. Similarly, a present project for cross-border rail links at five locations at the India–Nepal border (Jalpaiguri–Kakarbhitta, Jogbani–Biratnagar, Jaynagar–Bardibas, Nautanwa–Bhairahwa, and Nepalgunj Road–Nepalgunj) will significantly boost cross-border linkage and will be of immense value in promoting trade and commerce between the two countries. An intergovernmental committee on trade, headed by commerce secretaries, meets every year to consider policy, regulatory, and infrastructure issues in India–Nepal trade.

## **The Kyrgyz Republic–Kazakhstan Free Trade Agreement**

The Agreement on Free Trade between the Government of the Kyrgyz Republic and the Government of the Republic of Kazakhstan was signed in Bishkek on 22 June 1995. It includes 17 articles on issues commonly found in free trade agreements. However, this bilateral agreement includes a specific article on “freedom of transit” with the following provisions:

- (i) Observance of the principle of freedom of transit shall be the most important condition for achieving the objectives of the agreement and shall be an essential element of the process of their attachment to the system of international division of labor and cooperation.
- (ii) Each Party shall provide free transit, via its territory, of goods originating in the customs territory of the other Party or third countries and intended for the customs territory of the other Party or in a third country. Each Party shall

provide exporters, importers, or carriers who carry out such transit with means and services available and necessary for ensuring transit on terms, including financial ones, not worse than those on which the same means and services are provided to exporters, importers, and national carriers of any third State.

- (iii) Parties shall not require payment for services of warehousing, transshipping, storing, and transporting goods in the currency of any third state.

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## ■ PART III

# Guide to Implementation— Moving Forward

**P**arts I and II have described in detail the overall context, principles, and international conventions for trade facilitation, and the experiences of economies in Asia and the Pacific. Part III aims to provide the practical steps in developing and implementing an effective trade facilitation program. Chapter 1 highlights a number of principles, applicable to both national and (sub) regional levels, that may help expedite implementation and improve the effectiveness of trade facilitation reforms. It also introduces a framework for a step-by-step implementation of trade facilitation, providing a basis for the rest of Part III. Chapter 2 emphasizes the importance of assessing trade facilitation needs and priorities, and establishing its institutional structure. Chapter 3 discusses the important steps and measures involved in improving some of the key areas of trade facilitation at the national and (sub)regional levels.

Steps that may be taken to facilitate trade in key export markets are introduced in Chapter 4, followed by steps for optimizing trade facilitation technical assistance and capacity building in Chapter 5. Chapter 6 provides an overview of the various organizations that support developing countries in the area of trade facilitation. Chapter 7 highlights the need for continuous monitoring and assessment of the trade facilitation reform efforts at the national and (sub)regional levels.



## ■ CHAPTER 1

# Implementation Principles and Framework for Action

## National Trade Facilitation Programs

**T**rade facilitation begins at the national level, and requires sustained and coordinated effort of public and private stakeholders in identifying and implementing concrete measures that will result in more efficient import- and export-related processes and procedures. The following core principles in the implementation of trade facilitation measures are identified based on the national experiences of a growing number of countries implementing trade facilitation programs and strategies:

- (i) *High-level political commitment.* Most trade facilitation measures require close cooperation among stakeholders, in particular, public agencies with potentially conflicting responsibilities and objectives. As a result, a clear commitment to trade facilitation at the highest possible political level is, generally, necessary to achieve results.
- (ii) *Public and private consultation and partnership.* Trade facilitation measures aim to make it easier and cheaper for enterprises to engage in trade. It is, therefore, essential that they be consulted and (whenever possible) engaged in identifying trade facilitation issues and solutions. Given that trade facilitation reforms require a cultural shift from a trade control to a trade facilitation mindset, including the building of trust between public and private sector stakeholders, institutionalization of public– private sector collaboration is recommended.
- (iii) *Early identification of legislative requirements.* Implementation of trade facilitation measures often requires new or revised legislation. As these legislative changes typically take the longest time, they should be identified and acted upon as early as possible.
- (iv) *Identification of financial requirements and funds availability.* This should be assessed at an early stage to ensure that an envisaged trade facilitation measure and its implementation plan are realistic and practical. Public–private partnership funding options, including support from donors, should be systematically considered for resource-intensive measures.

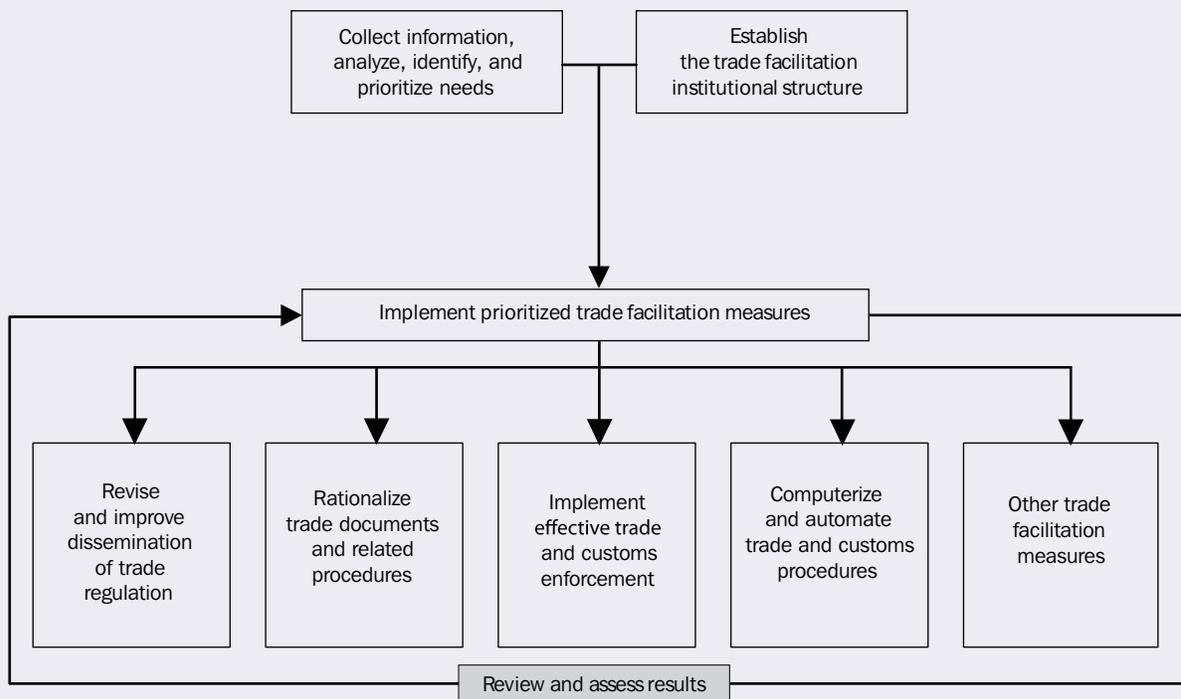
- (v) *Integrated approach.* Trade facilitation measures are closely interrelated despite often being described as stand-alone elements in recommendations or negotiations. The effectiveness of a given measure will, typically, depend on whether other measures have also been implemented. A systemic and integrated approach is therefore recommended, starting with a comprehensive analysis of trade facilitation bottlenecks, including those related to transport regulations and infrastructure.
- (vi) *Pilot and phased implementation.* Trade facilitation involves developing better procedures in areas considered crucial to national security, government revenue, and private sector development. It is, therefore, important that proposed changes be pilot-tested and implemented in phases to ensure no unintended adverse impact or system breakdown occurs. Conducting changes on an experimental basis, followed by a thorough evaluation of the resulting costs and benefits, are essential.
- (vii) *Transparency.* Sufficient information and time should be provided for affected stakeholders to learn and adapt to the new procedures as part of the trade facilitation program.
- (viii) *Built-in training and technical support.* Since trade facilitation implementation involves changes in both mindset and technology, capacity building programs should accompany procedural changes and target both the government and the private sector. Resources saved through the implementation of more efficient trade control procedures should be used to provide technical support and information services to the trading community.
- (ix) *Performance and progress monitoring.* Regular evaluation of the impact of trade facilitation measures by both government and the private sector should not be overlooked, as this will determine if the targeted results are achieved and provide justification for implementation of more ambitious measures over time.

The development of an effective national trade facilitation program or strategy should be designed in consideration of detailed inputs from the major stakeholders. They are the industry players who engage in import and export, various government agencies that promote and regulate trade, and trade-related services providers such as freight forwarders and banks. Figure 3.1, based on the Economic and Social Commission for Asia and the Pacific (ESCAP) *Trade Facilitation Framework*—a step-by-step guide to trade facilitation developed by a group of experts from Asia and the Pacific in 2004—suggests that the initial review of the trade facilitation situation may form the basis for establishing a trade facilitation institutional structure. The initial review is an opportunity to bring together and raise the awareness of major stakeholders, making it easier to establish a representative body that will drive the national trade facilitation initiatives.

The content and features of the national trade facilitation program will depend on the problems and priorities identified during the initial assessment of the status of trade facilitation. However, as illustrated in Figure 3.1 such a program will generally cover the following key areas:

- (i) *Trade and customs laws and regulations.* Trade-related laws and regulations provide a foundation for trade facilitation measures and the establishment of a transparent environment and fair playing field where traders and government agencies can operate efficiently. While trade regulations and procedures are

Figure 3.1: Step-by-Step Trade Facilitation: A Framework for Action



Source: ESCAP, 2004.

complex and they tend to change over time, it is important that detailed and up-to-date information on regulations be effectively conveyed to concerned parties.

- (ii) *Trade documentation and related procedures.* Trade documents are essential to the conduct and monitoring of trade. The rationalization of these documents and the flow of information are at the core of trade facilitation.
- (iii) *Trade and customs control and enforcement.* Trade and customs control and enforcement are necessary to prevent, for example, loss of government revenue, health risks, and security threats. Facilitating trade, in this context, will involve the development of an effective risk management system that will enable early identification and targeting of high-risk shipments for control so that non-risk shipments can be cleared more quickly.
- (iv) *Computerization and automation.* The application of information and communication technology (ICT) and development of paperless trade systems can fundamentally change the delivery of trade-related services, enabling real-time information sharing among agencies, electronic submission of documents and payments, and automated processing and clearance.

Since the overarching goal of trade facilitation is to increase the efficiency of trade, measures aimed at improving the trade-related infrastructure, services, and business regulatory environment should also be considered when setting priorities and

should be a part of an overall trade facilitation strategy. The sequencing of reforms in each area should be based on the situation of each country. For instance, some countries may already have adequate trade and customs laws and may, therefore, focus on the rationalization of documentation or the application of ICT. Others may need significant legal reforms and improvement in information dissemination mechanisms. Regardless, the various trade facilitation-related reforms should be coordinated and integrated into a comprehensive and coherent reform effort. For instance, synergies between transport facilitation initiatives, which typically focus on facilitating movement of goods along specific routes and corridors, and trade facilitation initiatives, which tend to be broader but more horizontal in nature (e.g., improvement of customs clearance procedures at the national level) are fully tapped (Part II, Chapter 4, Joint Transport and Trade Facilitation Strategy: The Case of CAREC Economies).

## Trade Facilitation in (Sub)Regions

### (Sub)regional Trade Facilitation: A Pragmatic Approach

While negotiation of far-reaching bilateral or multilateral agreements is useful, a pragmatic approach to trade facilitation at the (sub)regional level may be adopted to resolve simple issues and reap early gains. This is particularly important for trade facilitation, where a large number of stakeholders, including provincial authorities and communities at the border, are likely to be involved in implementation. Moreover, trade facilitation should be taken as a cycle whereby certain reforms can create benefits for both traders and governments, consequently producing incentives and more resources for further reforms. Allocating limited resources on a legal and far-reaching agreement may not only delay the implementation of cross-border trade facilitation but also create difficulties in the implementation if it is not flexible enough to account for the need and requirements of the relevant stakeholders.<sup>124</sup> This is especially true when a partner's institutional framework of trade facilitation is weak or nonexistent. Thus, starting with focused and targeted measures at the (sub)regional level at specific border crossings or on trade routes can be seen as a stepping stone to more comprehensive cross-border collaboration initiatives.

In this context, cross-border cooperation on trade facilitation can be considered, especially among geographically proximate or neighboring countries. Recently, (sub)-regional approaches to trade facilitation have become increasingly common in Asia because of their unique features:<sup>125</sup>

- (i) *Bottom-up and functional approach.* One way to facilitate trade is through a formal or top-down approach, which emanates from formal arrangements among countries such as free trade agreements, customs unions, common market frameworks, and trade facilitation frameworks. By contrast, (sub) regional trade facilitation is implemented through specific projects and activities without a formal arrangement. This can be observed in growth triangles; transport, logistics, and economic corridors; and integrated border management. This functional or bottom-up approach makes (sub)regional trade facilitation very focused, tangible, and pragmatic.

<sup>124</sup> As such, trading partners may examine the possibility of pilot-testing certain cross-border trade facilitation arrangements as part of the drafting and negotiation process of legal trade facilitation agreement.

<sup>125</sup> Thant et al. 1998.

- (ii) *Focus on implementation and compliance.* Trade facilitation measures applied within a (sub)region do not always entail comprehensive trade policy reforms because these reforms often take considerable time and resources, and must be addressed at the national level. Instead, the focus is usually on improving implementation and compliance with existing regulations.
- (iii) *Pilot test.* (Sub)regional trade facilitation programs allow countries to pilot-test their commitments before implementation in broader regional trade facilitation frameworks. For instance, many measures of the Association of Southeast Asian Nations (ASEAN) Single Window and ASEAN Agreement for Goods in Transit are being experimented in the Brunei Darussalam-Indonesia-Malaysia-The Philippines East ASEAN Growth Area (BIMP-EAGA) and the Indonesia-Malaysia-Thailand Growth Triangle.
- (iv) *Selective and targeted activities.* (Sub)-regional trade facilitation measures are not applied across the board but are often very selective and targeted at specified activities. Countries can choose to focus on simplifying customs procedures at the border rather than implementing a full-fledged automated customs single window program, which in many cases is not feasible in remote border provinces due to unstable sources of power and lack of reliable information technology facilities.
- (v) *Alignment of subnational trade facilitation with national and (sub)regional policies.* As many (sub)regional trade facilitation activities are implemented at the subnational level or among border provinces, subnational trade and transport initiatives can be aligned with national and (sub)regional policies and development objectives. In many cases, the integration of trade facilitation at three levels—subnational, national, and (sub)regional—has changed the geoeconomic conditions of many underdeveloped border provinces of participating countries by transforming these provinces into trade, logistics, and economic centers of the (sub)region.
- (vi) *Trade facilitation in strategic areas.* (Sub)regional trade facilitation through various measures, such as the establishment of special economic zones (SEZs) or regional transport and logistics corridors, will improve international supply chain management and production networks through the reduction of transaction costs, enhanced trade security, increased productivity, simplified documentation, harmonized customs procedures, and improved logistics services.

## Principles of trade facilitation in (sub)regions

In general, the principles of trade facilitation in (sub)regions are similar to those at the national level. In addition, (sub)regional trade facilitation programs should be consistent with international conventions and standards set out in various international agreements for trade facilitation such as the World Customs Organization (WCO) Revised Kyoto Convention and Harmonized System Convention, among others. As some countries in a (sub)region may not be signatories to international agreements on trade facilitation, it is, therefore, important to ensure that (sub)regional trade facilitation programs will form building blocks—rather than stumbling blocks—to greater trade facilitation efforts at the global level. Also, (sub)regional trade facilitation programs should have effective communication channels for exchange between (sub)regional trade facilitation programs and broader regional trade

facilitation programs, especially if there are experimental activities at the (sub) regional level. This is the case of the Greater Mekong Subregion (GMS) and BIMP-EAGA, whose members (with few exceptions) are signatories to the ASEAN trade facilitation framework.

## Types of (sub)regional trade facilitation

(Sub)regional trade facilitation broadly follows the same framework for action as outlined in Figure 3.1. However, the types and sequencing of (sub)regional trade facilitation vary greatly across (sub)regions. The remainder of this chapter describes some of the most common approaches of (sub)regional trade facilitation, which were briefly discussed in Part II.

### Regional Transport Corridors

A typical cross-border trade facilitation project may focus on a major trade route or transport corridor, identified and selected for improvement by the national trade facilitation bodies (NTFBs) of countries along that corridor. This approach is receiving a growing level of attention, particularly with the surge of cross-border trade and the need for more efficient time and costs of trade flows. Most often, transport corridors are located at the economic centers with substantial flow of traffic and goods.

The advantage of focusing on one or a few transport corridors (and corresponding border crossings) is that all countries can allocate the limited resources on trade facilitation cooperation in a particular route, potentially yielding fast and substantial trade facilitation improvements, which can be replicated in other routes and corridors. This corridor approach can also make it easier to attract financial resources to develop the needed road, rail, and/or border crossing infrastructure.

Transport corridors have two main categories:

*Formal corridors* expand the planning and investment framework of public and private players along them. In many occasions, a form of governance, or at least a forum, has been set in place. A good example is the GMS economic corridors with a formal cross-border transport agreement (CBTA) and various formal annexes and protocols signed by GMS countries (See Part II, Chapter 4, Experience of Asia and the Pacific, Transport and Economic Corridors: The Case of the Greater Mekong Subregion.)

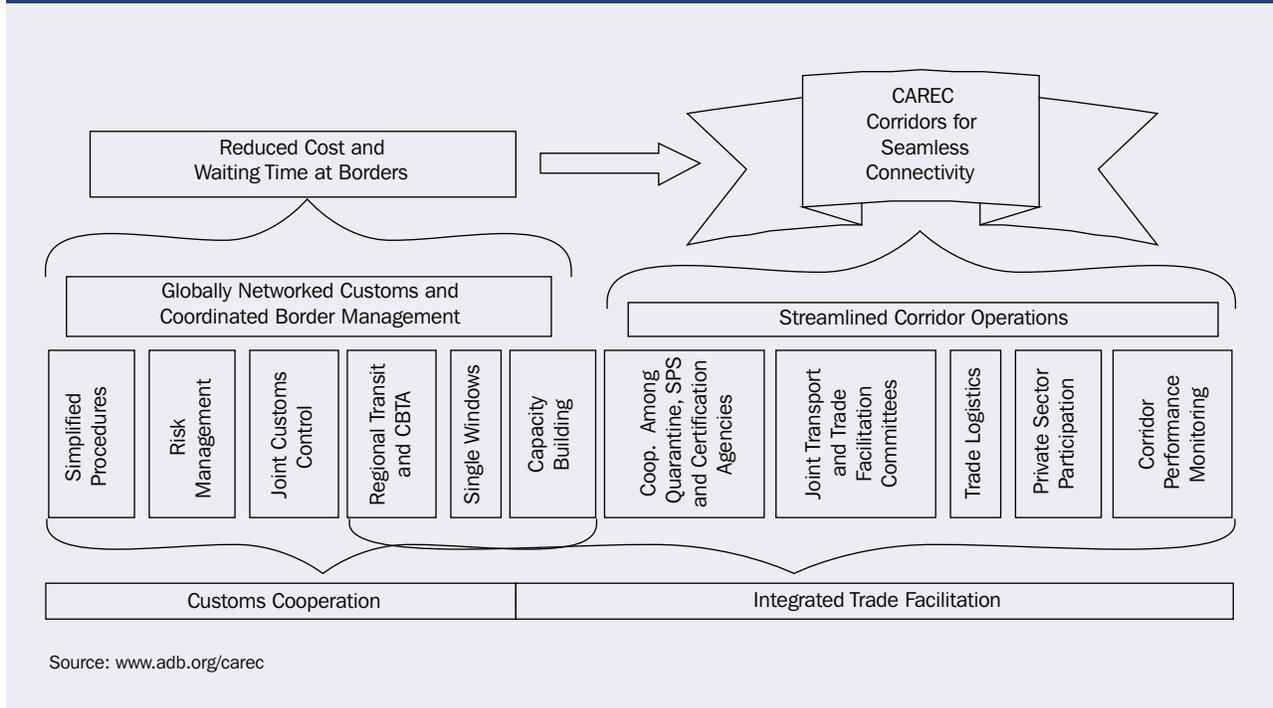
*Functional corridors* represent an existing structure of the flow of goods and traffic along the corridor infrastructure. A good example is the Central Asia Regional Economic Cooperation (CAREC) economic corridors (Figure 3.2).

Transport corridors usually combine formal and functional characteristics. Transport corridors are observable throughout the entire spectrum of geographic levels: national, regional, and international (e.g., maritime and air gateways).<sup>126</sup>

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<sup>126</sup> Rodrigue, J.P. and Slack, B. 2009.

Figure 3.2: Central Asia Regional Economic Cooperation Trade Facilitation Program



Among others, regional transport corridors can be identified based on the following criteria:<sup>127</sup>

- (i) current traffic volume;
- (ii) prospects for economic and traffic growth;
- (iii) ability to increase connectivity between regional economic and population centers;
- (iv) prospects of mitigating delays and other hindrances; and
- (v) economic and financial sustainability of infrastructure, management, and technology improvements.

Suggested elements of a framework of action of regional transport corridors for trade facilitation can include the following:

- (i) establishment of single-stop/single window customs inspection;
- (ii) facilitation of cross-border movement of persons (i.e., visas for persons engaged in transport operations);

<sup>127</sup> ADB. 2009a.

- (iii) establishment of transit traffic regimes, including exemptions from physical customs inspection, bond deposit, escort, and agriculture and veterinary inspection;
- (iv) simplification of requirements for cross-border traffic;
- (v) exchange of commercial traffic rights; and
- (vi) harmonization of standards, including those for rail, road, and bridge design; road signs; and signals.

A transport corridor can evolve into a logistic corridor, an integrated trade facilitation corridor, and finally an economic corridor. The economic corridor approach is expected to extend the benefits of improved transport links to remote, landlocked, or sealoaked countries or locations within a country. An economic corridor is not simply a connection between point A and point B. The movement of people and goods can originate and end at any intermediate point between points A and B. The impact of an economic corridor also goes beyond the main route or “line.” It extends to the areas that can be accessed, or areas whose access to major economic centers could be improved, through the connection between points A and B.

In reality, there is no clear-cut sequencing of the evolution of a trade corridor into an economic corridor. Each type of regional corridor can be stand-alone and has its own framework for trade facilitation with different elements. To facilitate trade, characteristics of different types of regional corridor can be adopted or combined, depending on the specific environments of a country or locality. Box 3.1 summarizes the key elements of each type of regional corridor and their suggested framework for action.

### **Regional Integrated Border Management**

Regional integrated border management (RIBM) refers to a cooperation among countries that aligns and integrates common border formalities. The important management function is coordination of policies between adjoining countries, whose trade can be facilitated through the adoption of international agreements such as the WCO Revised Kyoto Convention on Customs Procedures and the Harmonized System of Commodity Coding for Goods Classification and International Convention on the Harmonized Frontier Control of Goods (Geneva Convention).<sup>128</sup>

In establishing RIBM, the following factors can be considered:

- (i) Neighboring countries (or neighboring provinces across borders). This is often the central element in establishing RIBM due to the importance of transportation and communications.
- (ii) Trade, investment, and traffic flows among border countries. The establishment of RIBM should be market-led rather than a top-down policy product of countries with common borders. Without significant trade and investment flows, RIBM will be less effective and a waste of resources.

<sup>128</sup> Global Facilitation Partnership Transport and Trade. 2005.

### Box 3.1: Types of (Sub)regional Corridors and Suggested Framework

Type of Corridor	Suggested Framework for Action
Transport corridor	Cross-border transport agreement covering <ul style="list-style-type: none"> <li>(i) single-stop/single-window customs inspection;</li> <li>(ii) cross-border movement of persons (i.e., visas for persons engaged in transport operations);</li> <li>(iii) transit traffic regimes;</li> <li>(iv) exchange of commercial traffic rights; and</li> <li>(v) harmonization of standards</li> </ul>
Logistics corridor	Agreements on logistics services. <sup>a</sup> <ul style="list-style-type: none"> <li>(i) core freight logistics services,</li> <li>(ii) related freight logistics services, and</li> <li>(iii) non-core freight logistics services.</li> </ul>
Integrated trade facilitation corridor	Agreements on <ul style="list-style-type: none"> <li>(i) customs harmonization,</li> <li>(ii) inspection and quarantine (sanitary and phytosanitary [SPS] measures),</li> <li>(iii) risk management,</li> <li>(iv) post-clearance audit, and</li> <li>(v) mobility of business people.</li> </ul>
Economic corridor	Strategy or action plan that covers the following: <sup>b</sup> <ul style="list-style-type: none"> <li>(i) integrated infrastructure (multimodal transport, cross border container transport, upgrading rail and road systems, constructing missing links, rural electrification along border, regional power planning, regional power trade, building regional power grid, etc.);</li> <li>(ii) trade and transport facilitation (standard trade valuation system, third party logistics, cross-border movements, standardization of trade documents, import facilitation, single-stop customs inspections, exchange of traffic rights, multi-entry visa arrangements, etc.);</li> <li>(iii) investment (joint industrial investment promotion program, establishment of logistics centers, creation of border economic zones, etc.);</li> <li>(iv) tourism (joint tourism marketing, tourism promotion with selected themes and routes such as Buddhism and/or Muslim pilgrimage tourism, overland tours, sustainable tourism, etc.); and</li> <li>(v) private sector development (industrial parks, border trade promotion and outreach events, supply chain management of selected products, and role of private sector in power trade, telecommunication, and tourism).</li> </ul>

<sup>a</sup> United Nations Conference for Trade and Development (UNCTAD). 2005.

<sup>b</sup> ADB. 2009a.

The suggested framework for implementation for RIBM includes the following:

- (i) A single point of data submission. Submitting information to all agencies separately at the ports of entry slows border crossing and increases port of entry traffic congestion. Greater efficiency can be realized by collecting information at a single location by a single agency, which can then share that information with all relevant bodies,
- (ii) Pre-arrival clearance programs. Offering pre-arrival clearance screening to goods or people can minimize heavy traffic and lines at the ports of entry,
- (iii) Enhancement of the ability to manage traffic at ports of entry. In many border points, there are large fluctuations of flows of goods and people, depending on the season and day of the week. These fluctuations may create congestion. A dynamic response in terms of staffing, equipment, and facilities to process traffic in a flexible manner is essential.<sup>129</sup>

A simplified case of RIBM is the customs–immigration–quarantine–security (CIQS) model of BIMP-EAGA (Box 3.2).

## Special Economic Zones

In a narrow definition, the Special Economic Zone (SEZ) can be defined as a specific geographic region with economic laws that are more liberal than a country's typical economic laws. SEZs play an important role in facilitating trade. Many SEZs have characteristics of export processing zones (EPZs) or free trade zones and provide special incentives to investors, including tax exemption or reduction.<sup>130</sup>

An SEZ is considered, essentially, as a designated customs area within a domestic economy for the purposes of trade operations, duties, and tariffs. Therefore, goods supplied to the SEZ from the domestic tariff area are treated as exports, and goods brought from the SEZ to the domestic tariff area are treated as imports.<sup>131</sup>

In a broader definition by ADB, an SEZ can be part of growth triangles, which spread over well-defined, geographically proximate areas, usually covering three or more countries, where differences in factor endowments are exploited to promote external trade and investment.<sup>132</sup> Historically, developing and transition countries with more liberal trade facilitation regimes are those with more SEZs. Asia and the Pacific has 991 SEZs—the largest number. The Americas come second with 540 SEZs, followed by Central and Eastern Europe and Central Asia with 443 SEZs.<sup>133</sup>

Crucial factors that need to be considered when establishing an SEZ include the following:<sup>134</sup>

- (i) *Economic complementarities*. Economic complementarities are derived from the countries' different stages of economic development or from differences in factor

<sup>129</sup> Global Facilitation Partnership Explanatory Notes. 2005.

<sup>130</sup> Ishida, M. 2009.

<sup>131</sup> Dogra, R. 2006.

<sup>132</sup> Thant, M. et al. 1998.

<sup>133</sup> Foreign Investment Advisory Service (FIAS). 2006.

<sup>134</sup> Thant, M. et al. 1998.

### Box 3.2: Trade Facilitation and Coordinated Border Management: Key Outcomes in BIMP-EAGA's Customs, Immigration, Quarantine and Security (CIQS) Action Plan (2011-2013)

At their 6<sup>th</sup> annual meeting in May 2011, the BIMP-EAGA CIQS Task Force endorsed an action plan for 2011-2013 covering all CIQS sectors to deepen their cooperation and capacity enhancement. The Action Plan was developed following diagnosis against applicable international standard benchmarks and intensive consultations with government agencies and private sector. Major outcomes in each sector are as follows:

- **Customs**
  1. Regular dissemination of comprehensive information and training programs for trade community about Customs rules, regulations and procedures
  2. Development/Enhancement of a cargo risk management system at the entry point level
  3. Development and implementation of a trader-based post-clearance audit (PCA) system
  4. Development and implementation of an Authorized Economic Operators (AEO) scheme
- **Immigration**
  1. Capacity building for frontline immigration personnel:
    - (a) International Standards for Travel Documents
    - (b) Passenger Assessment & Imposter Recognition (Risk Profiling)
    - (c) Forgery & Counterfeiting Detection
    - (d) Human Trafficking Prevention
  2. Arrangements to minimize passport endorsements for travellers on the Entikong-Kuching-Bandar Seri Begawan-Kota Kinabalu routes (multiple border crossings).
- **Health Quarantine**
  1. Strengthening capacity for surveillance and emergency response for Public Health Emergencies of International Concern (PHEIC)
  2. Strengthening cross-border cooperation and information exchange
- **Animal Quarantine**
  1. Development and implementation of a local risk management system
  2. Development and implementation of local contingency plan for animal disease outbreak
- **Plant Quarantine**
  1. Development and implementation of a local plant risk management system
  2. Simplification, Rationalization and Harmonization of Plant Quarantine Procedures
- **Fisheries Quarantine**
  1. Development and implementation of a local risk management system
  2. Development and implementation of local contingency plan for fisheries disease outbreak
- **Port And Ship Security**
  1. Formulation and implementation of a harmonized security code for Non-Convention Vessels (NCV) or Non-Convention Sized Ships (NCSS) in facilitating trade in BIMP-EAGA
  2. Formulation and implementation of a simplified security assessment checklist and simplified Port Facility Security Plan (PFSP) for secondary ports (non-ISPS-compliant ports)
  3. Port security capacity enhancement for local port security officials to strengthen ISPS compliance.

These outcomes are to be monitored and evaluated by indicators obtained from Time Release Studies (TRS), Trader's Perception Survey and other relevant quantitative and qualitative measures by relevant agencies and private sector in the subregion.

endowments. For example, the Southern PRC and the Johor– Singapore–Riau growth triangle both have well-developed, urbanized areas and less-developed, low-income areas.

- (ii) *Political commitment.* At the regional level, political commitment should be assured by the countries involved at the very start of the establishment of the SEZ. This political commitment is important to ensure effective policy coordination in managing transnational SEZs.
- (iii) *Infrastructure development.* In the first stage of development, construction of infrastructure takes place under the concepts of “Five Opens” (water supply, power supply, roads, navigation lines, and telecommunications have to be opened) and “one leveling” (land should be prepared to allow for construction of buildings).
- (iv) *Part of international production network and value chain.* There will not be any SEZ if a country or a certain location within the country is not part of—or has the potential to become part of—an international production network or value chain. Thus, before creating an SEZ, it is important to map out the international production network and value chains in the region and identify if a country or part of the country can be integrated in these networks.
- (v) *Conducive economic laws and attractive economic incentives.* By definition, an SEZ is a geographic region with economic laws that are more liberal than a country’s typical economic laws. In the long run, countries may phase out their preferential treatments in SEZs. However, in the short and medium term, differential treatments in SEZ are still relevant to facilitate trade.

The main policy issues to be addressed when establishing an SEZ, and associated international standards, are provided in Table 3.1.

**Table 3.1: Policy Framework for Special Economic Zones**

Policy Issues	International Standards
Concept of extraterritoriality	Outside domestic customs territory Eligible for national certificates of origin Eligible to participate in national trade agreements/arrangements
Eligibility for benefits	No minimum export requirements Manufacturers and services Foreign and local firms Private developers of zones
Private zone development	Clearly defined in legislation, specific zone designation criteria Eligible for full benefits Competition from government-run zones on a level playing field
Sales to the domestic market	Liberalized (no restrictions) Provided on a blanket basis rather than case by case Treated as import into domestic market, subject to payment of import duties and taxes
Purchases from domestic market	Treated as exports from domestic market, enterprises eligible for indirect exporter benefits
Labor policies	Full consistency with labor standards of the International Labour Organization (ILO) specialized dispute settlement mechanism

Source: FIAS. 2009.

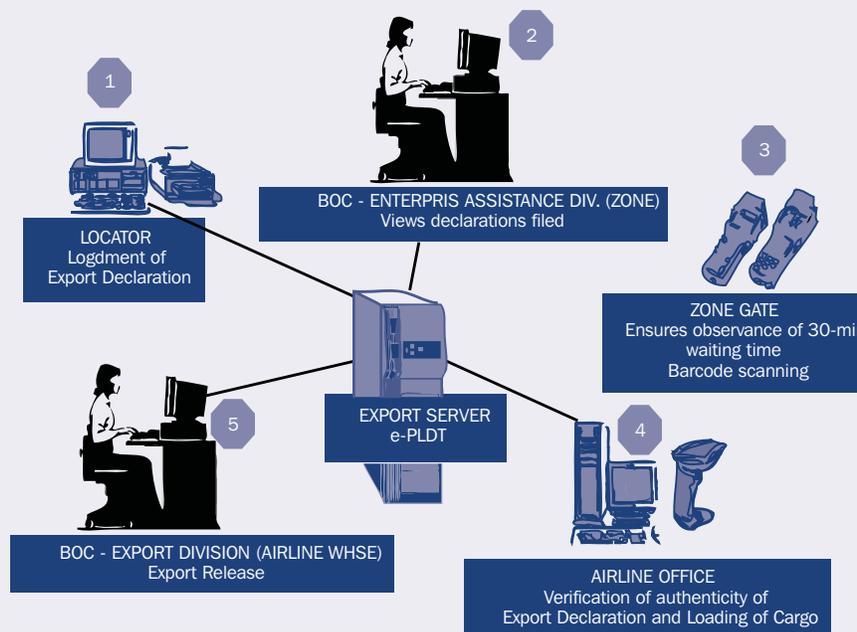
### Box 3.3: Implementing Trade Facilitation in Special Economic Zones— the Philippine Experience

During the 1990s, the Philippines adopted several outward-oriented reforms including the enactment of the Special Economic Zone Act to promote trade and investment activities in the country. Such reforms attracted a substantial amount of foreign direct investments in manufacturing, increased export activities, and linked the Philippines to global and regional production networks. By 2009, more than 1,500 registered enterprises were located in around 118 information technology centers and 64 manufacturing economic zones nationwide. Companies operating in economic zones or so-called export processing zones (EPZs) enjoy both fiscal and non-fiscal incentives such as income tax holidays, duty-free imports, and simplified import and export procedures. To provide fast, transparent, and cost-effective movement of goods brought into and taken out of the country through the economic zones, government agencies—primarily the Bureau of Customs and the Philippine Economic Zone Authority—introduced the following:

**Automated import cargo transfer system (AICTS).** Major components of the system include (i) surety bond—to serve as security for payment of taxes and duties due on import shipments eliminating the need for police transshipment services; (ii) ASYCUDA transit system—which processes and transmits information on import cargo clearing, transfer, and other related customs–Philippine Economic Zone Authority transactions; (iii) electronic broadcasting—which provides EPZ enterprises with information including status on all import cargoes attributed to them at the Bureau of Customs; and (iv) electronic import permit system—which integrates the issuance procedures of import permits in EPZs.

**Electronic import permit system (e-IPS).** To simplify the procedures and accelerate approval cycle time of the process for import shipment of EPZs, e-IPS enables EPZ locators and information technology-enabled enterprises to file applications, pay processing fees electronically, and print system-generated import permits. The implementation of e-IPS is made through value-added solution providers.

**Automated export documentation system (AEDS).** Initiated in the 1990s and implemented during the passing of the Philippine E-commerce Act of 2000, the AEDS introduced the use of a single administrative document in lieu of the existing export declarations, export tallies, boat notes, and other documents. In addition, AEDS feature electronic filing and processing of electronic documents, a system-generated barcode that will establish the authenticity of the printed document, and risk management through selective inspection at the port of loading. Compared with manual processing, AEDS has reduced clearing time by 83% and lowered the cost of business (e.g., Philippine Economic Zone Authority and customs overtime charges and filing fees) by 78%.



Source: PEZA. 2009; E-Konek Pilipinas. 2009.



## ■ CHAPTER 2

# Assessing Trade Facilitation Needs and Priorities

An initial assessment of the trade facilitation situation needs to be conducted as the basis for the development of a trade facilitation program or action plan. The assessment may best be conducted by an independent team of trade facilitation experts or analysts under the supervision of a small task force of public and private organizations involved in regulating and/or conducting trade.

The initial assessment should be as comprehensive as possible and aimed at gathering detailed information on the needs and priorities of all major stakeholders in trade facilitation, typically through a series of national surveys, interviews, and consultations. However, as a first step of and in preparation for the detailed assessment—in particular the scope and focus of the data collection instruments—it may be useful to review some of the trade facilitation–related indicators available in global databases and publications.

## Review of Globally Available Trade Facilitation Indicators

While it is important to acknowledge the limitations of the trade facilitation indicators included in global databases and benchmarking studies<sup>135</sup> these indicators can provide a general understanding of the trade facilitation ranking of a particular country among its peers. A review of available indicators can help determine the prospective scope of a national trade facilitation program and related needs assessment efforts. Finally, and most importantly, they can provide justification for a strong and high-level commitment to a trade facilitation initiative and the establishment of an initial public–private trade facilitation task force to identify detailed needs and priorities.

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<sup>135</sup> Most of the available indicators are based on global perception surveys of a relatively limited number of companies (e.g., *Global Competitiveness Report* and *World Competitiveness Yearbook*) or on information provided by a few freight forwarders for a standard shipment (e.g., *Doing Business* database). In addition, they provide only a broad overview of the trade facilitation situation and are not detailed enough to provide an accurate picture of the needs and priorities of the major stakeholders.

A growing number of indicators that allow for the benchmarking of a country in a number of trade facilitation–related areas have been developed in recent years. The main sources include:

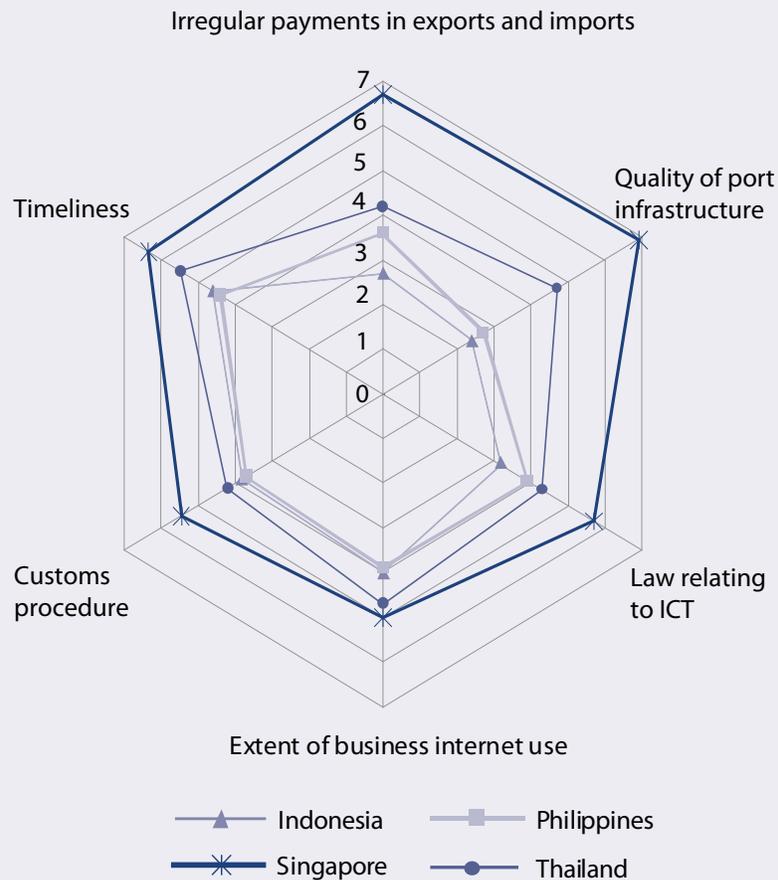
- (i) *Doing Business* (World Bank, [www .doingbusiness.org](http://www.doingbusiness.org)) provides measures of business regulations and their enforcement across 181 countries in 11 areas from start to closing of business. One area specifically focuses on trading across borders and provides information on the average number of documents, time, and cost associated with import or export of a standard container. Data from 2004 onward are available.
- (ii) *Global Competitiveness Report* and the *Global Enabling Trade Report* (World Economic Forum, [www .weforum.org](http://www.weforum.org)) contain comprehensive assessments of 134 countries with over 100 indicators in 12 pillars including detailed country-level perception data on various aspects of trade facilitation. Data from 2001 onward are available.
- (iii) *Logistics Performance Index* (World Bank, [www.worldbank.org/lpi/](http://www.worldbank.org/lpi/)), together with its underlying indicators, provides a data set to measure country performance in seven logistics performance areas: (i) efficiency of the clearance process by customs and other border agencies, (ii) quality of transport and information technology infrastructure for logistics, (iii) ease and affordability of arranging international shipments, (iv) competence of local logistics industry, (v) ability to track and trace international shipments, (vi) domestic logistics costs, and (vii) timeliness of shipments in reaching their destinations. National logistics performance can be benchmarked against 150 countries. Only data for 2006 are available.
- (iv) *Worldwide Governance Indicators* (World Bank, [www.worldbank .org/wbi/governance](http://www.worldbank .org/wbi/governance)), based on six dimensions of governance, reports aggregate and individual governance indicators for 212 countries and territories over the period 1996–2007. Four of these dimensions—government effectiveness, regulatory quality, rule of law, and control of corruption—are related to trade facilitation.
- (v) *World Competitiveness Yearbook* (International Institute for Management Development, Switzerland, [www.imd.ch](http://www.imd.ch)) measures 59 countries using 4 factors that contain 22 subfactors and 331 criteria. The factors are (i) economic performance, (ii) government efficiency, (iii) business efficiency, and (iv) infrastructure. It ranks and analyzes the ability of nations to create and maintain an environment in which enterprises can compete internationally. Data from 1989 onward are available.
- (vi) *ESCAP Trade Cost Database* (<http://www.unescap.org/tid/artnet/trade-costs.asp>) provides bilateral Comprehensive Trade Costs (CTC) between 107 economies since 1994, including agricultural CTC, manufacturing CTC, and CTC excluding tariff costs. CTC account for all additional costs involved in trading goods bilaterally relative to those involved in trading goods domestically, such as international shipping and logistics costs, tariff and non-tariff costs, and costs from differences in language, culture and currencies.

### Box 3.4: How to Use Global Trade Facilitation Indicators: Illustration and Limitations

In this example, indicators from two sources—the Global Competitiveness Report (GCR) and the World Bank Logistics Performance Index (LPI)—were assembled in a radar chart to assess and compare the performance of five Asian countries in various areas deemed to affect trade facilitation and efficiency.<sup>a</sup>

Higher scores indicate higher performance, and Singapore is used as the benchmark. The chart suggests that Indonesia may need to focus particularly on reducing irregular payments, as its performance in this area seems to lag significantly compared with the other three Southeast Asian countries considered. The Philippines may need particular attention to port infrastructure as its performance in this area appears worse than the other indicators. While Thailand is doing better than both the Philippines and Indonesia on all six dimensions, reduction of corruption, improvement of port infrastructure quality, and adoption of a more comprehensive information and communication technology (ICT) legislation seem to require continuous attention.

Irregular payments in exports and imports



<sup>a</sup> The names and definitions of the six indicators used in this example are as follows: (i) irregular payments in exports and imports (GCR)—based on business sector responses to the question, “In your industry, how commonly would you estimate that firms make undocumented extra payments or bribes connected with import and export permits?”; (ii) quality of port infrastructure (GCR)—responses to “Are port facilities and inland waterways in your country underdeveloped, or as developed as the world’s best?”; (iii) law relating to ICT (GCR)—responses to “Are laws relating to the use of information technology (electronic commerce, digital signatures, consumer protection) nonexistent or well-developed and enforced?”; (iv) extent of business internet use (GCR)—responses to “In your country, do companies use the internet extensively for buying/selling goods and services and for interacting with customers?”; (v) customs procedure (LPI)—based on freight forwarder assessment of efficiency of clearance process by customs and other border agencies; (vi) timeliness (LPI)—based on freight forwarder assessment of timeliness of shipment in reaching destination.

An example of how some of these indicators may be used is provided in Box 3.4. Checking the definition of the indicators used and the underlying data is highly recommended, as names of indicators can sometimes be misleading. For instance, in the *Doing Business* database, “time for exports” refers to the time involved in preparing documentation for and moving a container from its domestic location onto a ship at the port of departure (i.e., it does not include any international shipping time component).

## Beyond Global Benchmarking Studies: Identifying Needs and Priorities

### At the national level

A number of existing trade facilitation assessment tools may be considered and adopted by the assessment team to identify needs and priorities of stakeholders. For instance, the *Trade and Transport Facilitation Assessment: A Practical Toolkit for Country Implementation* (World Bank 2010) provides questions targeted at the following groups involved in trade facilitation: agents, forwarders, customs brokers, multimodal transport operators, exporters, importers, carriers, ports, airports, border crossing points, commercial banks, exchange control authorities, customs, pre-shipment inspection agencies, chambers of commerce, departments of trade and/or industry, and other departments. The methodology proposed in the UNNExT Business Process Analysis Guide for the Simplification of Trade Procedures (ESCAP, 2010) may also be used.

While the identification of needs and priorities should involve data gathering from all the aforementioned groups, the following information should also be obtained:

- (i) characteristics and needs of the business,
- (ii) the process used in executing a trade-related transaction,
- (iii) the amount of documentation involved in each trade transaction,
- (iv) the time and cost spent by the agents in meeting regulatory and documentation requirements, and
- (v) difficulties faced in dealing with the respective trade and customs authorities.

Surveys may be followed by focus group discussions with industry groups and associations to confirm the information from the surveys, and to explain any discrepancies in perception among the various stakeholders. Presentation and discussion of the results of the survey of private sector agents with public (regulatory) agencies should also be organized to elicit the constraints faced by these agencies.

A number of other data collection tools have been developed more recently in the context of negotiations at the World Trade Organization (WTO). While narrower in focus given the currently limited scope of the negotiations, these self-assessment tools are useful in developing a baseline against which progress can be assessed:

- **WCO Self-Assessment Check List.** The World Customs Organization (WCO) developed a questionnaire based on its Customs Capacity Building Diagnostic Framework. The questionnaire, developed in 2005, is designed to be used as a self-assessment tool on customs by WTO members.<sup>136</sup> A shorter version of this instrument was also developed by the WTO secretariat.<sup>137</sup>
- **WTO Negotiations on Trade Facilitation Self-Assessment Guide.** The World Bank, in cooperation with the WTO secretariat and others, developed a more detailed self-assessment tool in 2008 (Box 3.5).

### At the (sub)regional level

There are several ways in which trade facilitation can be assessed at the (sub)regional level. Consultations with the private sector and the use of international assessment guides, such as the WCO Time Release Study, are important to identify bottlenecks in clearance procedures and provide benchmark figures for improvement. Two main methods have been used to assess (sub)regional trade facilitation, namely, the comprehensive regional trade facilitation framework of ASEAN and the mapping exercise of the customs–immigration–quarantine–security (CIQS) model of BIMP-EAGA.

## Trade Facilitation Assessment Framework

A trade facilitation assessment framework is important for (sub)regional programs to evaluate the status of trade facilitation. Such an assessment framework can be in the form of a simple survey or study, or a more comprehensive assessment on the state of play of (sub)regional trade facilitation. The process of developing a regional trade facilitation framework may include, among others:<sup>138</sup>

- (i) developing a set of trade facilitation assessment tools,
- (ii) testing the framework through pilot projects in two member countries,
- (iii) capturing baseline data for countries participating in the pilot project,
- (iv) developing implementation guidelines of the trade facilitation framework,
- (v) capacity building for member countries to apply the framework, and
- (vi) publication.

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<sup>136</sup> WTO. 2005.

<sup>137</sup> This instrument was successfully used by a number of policy research institutions in Asia to assess trade facilitation needs and priorities; results are available in ESCAP (2006).

<sup>138</sup> ASEAN–US Technical Assistance and Training Facility, Phase II. 2009.

### Box 3.5: World Trade Organization Trade Facilitation Self-Assessments of Selected Economies in Asia and the Pacific

The self-assessment guide issued in 2008 allows for a more precise identification of technical assistance and capacity building needs in relation to most of the trade facilitation measures being discussed as part of the negotiations. A model agenda, stakeholder invitation letters, and other templates and guidelines for organizing a self-assessment trade facilitation workshop are provided in the World Trade Organization (WTO) Trade Facilitation Technical Assistance and Capacity Building.<sup>a</sup> A brief overview of self-assessments in two Asian economies follows.

#### Viet Nam, March 2008

During the initial self-assessment workshop, 76 trade facilitation measures among those under negotiations at the WTO (TN/TF/W/143/Rev.1) were considered. The overall compliance of Viet Nam with the measures as of March 2008 is summarized as follows: already compliant, 28%; partially compliant, 56%; and not compliant, 12%. A small number of measures were found not to be applicable (4%). The national team for self-assessment, composed of seven government agencies (Customs [team coordinator], Ministry of Finance, Ministry of Industry and Trade, Ministry of Foreign Affairs, Ministry of Justice, Ministry of Transportation, and Ministry of Health), the Viet Nam Chamber of Commerce and Industry, and a few enterprises, planned to continue to monitor the progress in implementation of various trade facilitation measures relevant to the WTO negotiations, as well as to facilitate information exchange between Geneva-based negotiators and capital-based regulators. Measures related to automation, or single window, risk management, post-clearance audit, and express consignments were found to be most challenging.

#### Taipei, China, April 2008

The self-assessment task force included a balanced number of public and private sector representatives. The public sector representatives were the Council for Economic Planning and Development; Ministry of Transportation and Communications; Council for Agriculture (Quarantine); Department of Health (Food Safety); Ministry of Finance (Customs, Treasury); and Ministry of Economic Affairs (Trade, Standards, Negotiating Office). The private sector was represented by the Association of Importers and Exporters, Customs Brokers Association, Airfreight Forwarders Association, Trade-Van Information Services Co.; and the International Cooperation and Development Fund. The task force found that Taipei, China was fully or partially compliant with all applicable measures among the 44 considered during the self-assessment. It also showed that the following horizontal initiatives or measures needed further work: (i) centralized legislation database, (ii) single government gazette, (iii) de minimis threshold for imports, and (iv) relief of petty duties. Apart from the continuous effort to adopt international standards and establish an electronic single window, the following information technology applications needed to be further developed: (i) container tracking system, (ii) transaction-status tracing system, (iii) web-based declaration and payment system, and (iv) mobile clearance and enforcement system.

Note: The WTO and other Annex D organizations are providing on-request assistance in conducting these assessments.

<sup>a</sup> [www.wto.org/english/tratop\\_e/tradfa\\_e/ta\\_capac\\_build\\_negoti\\_e.htm](http://www.wto.org/english/tratop_e/tradfa_e/ta_capac_build_negoti_e.htm)

Source: WTO Delegate Presentation on Results of Completed Needs Assessments. 2008.

Specific steps in developing a (sub)regional trade facilitation assessment framework are as follows:<sup>139</sup>

Step 1: Develop a draft assessment framework.

- Assess current trade facilitation regimes/measures.
- Compare the regimes/measures against international best practices and identification of other measures that need to be adopted.
- Describe the strengths and weaknesses of trade facilitation regime at both regional and national levels to enable prioritization.

<sup>139</sup> These steps were drawn from the development of the ASEAN Trade Facilitation Assessment Framework supported by United States Agency for International Development (USAID) within the ASEAN-US Technical Assistance and Training Facility, Phase II. ADB participated in a consultative meeting in July 2008 in Ha Long Bay, Viet Nam.

### Box 3.6: Association of Southeast Asian Nations Trade Facilitation Indicators

#### For Authorities

- Reduced number of trade officers involved in processing trade documents, hence allowing better deployment of resources
- Same number of enforcement officers but higher trade and cargo volume
- Rate of trade compliance
- Simplified, reduced number of steps and days in issuance of certificates of origin
- Simplified, reduced number of steps and days in issuance of licenses including sanitary and phytosanitary (SPS)
- Faster goods clearance for exports and imports
- Increased use of national and ASEAN single window in facilitating trade
- Macro indicators
- Increase in the level of trade
- Increase in number of mutual recognition agreements and their rate of utilization among ASEAN member states

#### For the Private Sector

- Reduced cost of processing trade and customs documentation
- Reduced time taken to get trade documents approved.
- Reduced number of staff needed to process and handle trade documentation and customs
- Faster cargo clearance
- Enterprises able to reduce stock inventory
- Reduced number of re-tests and re-certifications (duplication of conformity assessment) by regulators

Source: ASEAN secretariat. [www.aseansec.org](http://www.aseansec.org).

- Identify trade facilitation indicators for progress monitoring (see Box 3.6 for a sample of selected indicators)

Step 2: Conduct a consultative meeting.

- Involve relevant officials and representatives of the private sector to review the draft trade facilitation assessment framework.

Step 3: Pilot-test the trade facilitation assessment framework.

- Select countries for pilot testing.
- Use the draft framework to conduct a thorough survey in the participating countries to collect data and make field assessments of the implementation of existing trade facilitation measures.

Step 4: Finalize the trade facilitation framework.

- Conduct a consultative meeting to assess the outcome of the pilot projects and collect feedback from key stakeholders.
- Fine-tune the assessment framework.

Step 5: Develop guidelines and provide training to implement the assessment framework.

- Develop guidelines for training and implementation for officials.
- Translate the guidelines into relevant languages.
- Conduct training programs.
- Publish guidelines.

## Trade Facilitation Mapping and Gap Analysis Exercise

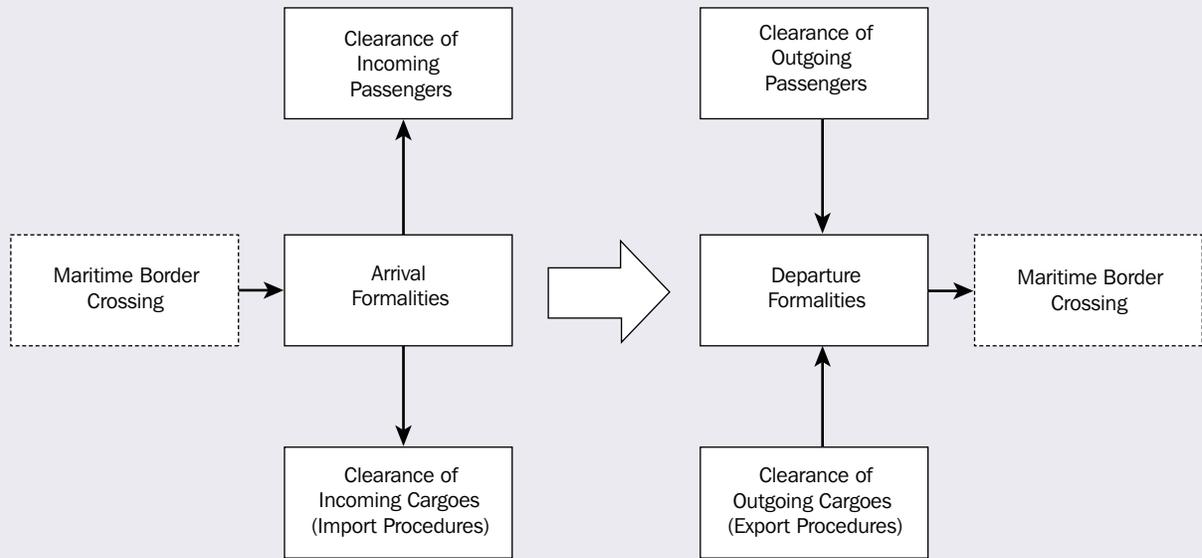
Mapping of rules, regulations, and procedures (RRPs) is an effective way to assess the existing environment at border crossing-points or along corridors. ADB and ESCAP have recently undertaken such mapping along key South Asia Subregional Economic Cooperation corridors on the basis of the UNNExT BPA Guide.<sup>140</sup> Mapping is also a major activity under ADB's technical assistance for CIQS harmonization. The CIQS mapping aims to consolidate the existing CIQS RRP in BIMP-EAGA's priority entry points. This will serve as the basis for identifying gaps and differences in the member countries' procedures and documents; facilitating formulation of solutions to address them and build consensus among member countries on the required regulatory and procedural reforms to streamline; and simplifying and harmonizing CIQS operations in accordance with international conventions, protocols, and best practices.

The mapping exercise looks into the RRP implemented by each country's CIQS authorities in the various stages of CIQS work, including enforcement of maritime programs and policies to promote security, safety, and stability in each country's territorial waters; formalities applicable to ship and vehicle arrival and departure at ports and land border checkpoints; and procedures and regulations pertaining to the clearance of incoming and outgoing passengers and cargoes. The discovery process relies on interviews with local CIQS officials and actual observation of activities in the priority ports and land border checkpoints. These are supplemented by a desk review of each country's CIQS RRP (Figure 3.3).

Moreover, to achieve more streamlined RRP among countries while moving toward agreed international standards (and therefore bridging any national gaps), a set of common benchmarks derived from such standards are compiled, against which the mapping results from each checkpoint are assessed to identify any existing discrepancies or gaps. Practical measures to improve compliance or close the gaps will then be identified and prioritized with resource assessment to formulate an action plan for trade facilitation. By doing so, the plan will be able to cater to specific circumstances in each local checkpoint while having a clear common direction toward international standards (Figure 3.4).

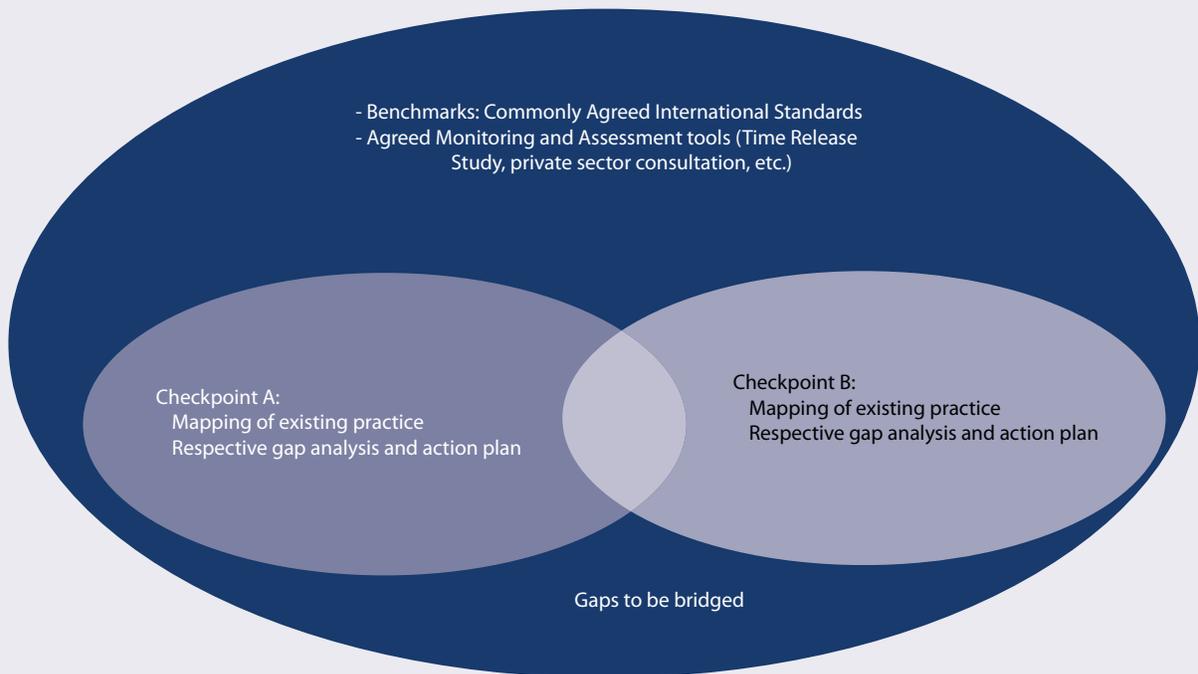
<sup>140</sup> [http://www.unescap.org/unnext/tools/business\\_process.asp](http://www.unescap.org/unnext/tools/business_process.asp)

**Figure 3.3: Framework of the Customs–Immigration–Quarantine–Security Mapping Exercise**



Source: ADB.

**Figure 3.4: Customs–Immigration–Quarantine–Security Gap Analysis Model**



Source: Author's figure.



## ■ CHAPTER 3

# Establishing the Trade Facilitation Institutional Structure

Governments hold the key to trade facilitation. They establish trade and customs laws; determine policies on trade, banking, and logistics infrastructure and services; and ultimately set the trade documentation and control procedures. At the same time, however, the government machinery is made up of a patchwork of institutions with different objectives and concerns. The ministries of finance have to attain a fiscal target in terms of import duties collected. The ministries of industries are concerned about the proliferation of cheap imports that could undermine domestic industrial developments. The customs authorities are concerned about informal trade and entry of illegal or restricted goods.

Effective collaboration and coordination among government agencies and private sector players is at the core of trade facilitation. As such, governments need to develop an appropriate institutional framework where the various stakeholders can integrate their efforts to achieve common objectives, in particular, improving the effective movement of goods and related documents and payments in and out of the country to enhance national trade competitiveness.

Following the Trade Facilitation Framework of the Economic and Social Commission for Asia and the Pacific (ESCAP), establishing such infrastructure would involve (i) designation of a lead agency for trade facilitation, (ii) establishment of a national trade facilitation body (NTFB) with balanced public–private representation.<sup>141</sup>

Establishment of an institutional structure for trade facilitation at the (sub)regional level may also be considered.

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<sup>141</sup> See also ESCAP (2011), Guidelines on Establishing and Strengthening National Coordination Mechanisms for Trade and Transport Facilitation in the ESCAP Region. Available at: <http://www.unescap.org/tid/publication/ttf-guide.pdf>

## Facilitate Intergovernmental Agency Collaboration: Designating A Lead Trade Facilitation Agency

While public agencies involved in trade have different objectives, they have to coordinate their actions before any public–private collaboration. This may be done by appointing a lead ministry or agency to handle trade facilitation matters or to act as a national focal point.

The customs authority, the ministry in charge of trade, or another relevant line ministry (transport or planning ministry) may be appointed as the lead agency. The legislative system usually vests responsibilities on trade policy to a particular ministry (e.g., ministry of trade, commerce, or economy). As trade facilitation is part of a comprehensive trade development strategy and might be viewed as a trade policy instrument to reduce regulatory and administrative barriers to trade, the role of lead agency may be undertaken by such a ministry. In many countries, (e.g., Cambodia, the PRC, India, the Kyrgyz Republic, Malaysia, Nepal, and Viet Nam), these ministries are also in charge of the trade facilitation negotiations in the World Trade Organization (WTO).

In some countries, it is the customs authority that leads individual trade facilitation initiatives (e.g., the implementation of a single window in Azerbaijan and in Association of Southeast Asian Nations (ASEAN) countries). Customs authorities are vested with the responsibility to protect the integrity of the country's border and oversee the flow of legitimate trade, while facilitating trade flows. As such, customs may be the most appropriate agency to lead trade facilitation programs focused on border-crossing and customs procedures.

The following are the factors to consider when choosing the lead agency:

- (i) the envisaged focus and scope of the trade facilitation efforts;
- (ii) the commitment of the agency to trade facilitation and competitiveness;
- (iii) the capacity (intrinsic authority and experience) of the agency to coordinate and communicate with the other agencies involved, as well as the private sector; and
- (iv) the capacity of the agency to mobilize the necessary level of political support, and dedicate adequate and sustainable financial and human resources to trade facilitation.

Regardless of the agency selected, intragovernment cooperation will succeed only if it becomes a priority of the political leadership. As such, the lead agency may report on trade facilitation matters directly to the Prime Minister's office. Box 3.7 illustrates a trade facilitation institutional structure that involves intragovernment cooperation and support from the Prime Minister's Office.

## Box 3.7: Development of Domestic and International Border Management Institutions in the Pacific

### Domestic Institutional Framework

In Timor-Leste, the Joint Ministerial Commission (JMC) is led by the Ministry of Foreign Affairs (MOFA) to work with the Indonesian counter-parts in developing common protocols and agreements. The JMC, with support from the Ministry of Security, have so far coordinated border demarcation and security issues with Indonesia. JMC consists five working groups: (i) Border Issues, (ii) Judicial Issues, (iii) Education, culture and sports, (iv) Trade, investment and finance, and (v) Transport, communication and public works. Under the Working Group (WG) on border issues, the Joint Border Committee (JBC) and the Border Liaison Committee (BLC) coordinate border issues with Indonesia through the JMC. In May 2009, the Installation Commission was created under the Prime Minister's Office of Timor-Leste to establish a Border Operations and Coordination Council (BOCC).<sup>a</sup> BOCC has both coordination and management functions for border services, border development and border management. It envisions to create an integrated border management and border service, including single-window border service. BOCC is expected to take on further facilitation roles for economic corridors activities such as cross-border transport and trade that will make the border areas as zones of peace and prosperity by connecting people, and improving the economic well-being of the people living in the border regions.

In *Papua New Guinea*, the Border Development Authority (BDA), Ministry of Commerce and Industries (MCI), Commission on Customs, Department of Immigration, and Provincial Administration of the relevant border provinces are currently responsible for improving cross-border linkages, especially with Indonesia. BDA was established in November 2008 to address the needs of six border provinces with Indonesia, particularly to develop infrastructure and facilitate foreign and local investment. BDA also supports the Ministry of Foreign Affairs on bilateral border management issues with Indonesia. BDA is expected to facilitate integrated border management services (IBS) and promote economic corridors in cooperation with the relevant agencies, following the approval of the Ten Year Development Master Plan (TYDMP) 2010–2020.

ADB, through a forthcoming Regional Technical Assistance by the Pacific Department, will support these institutional developments in Timor-Leste and PNG by enhancing institutional capacity for border management and border services; strengthening cross-border trade and tourism links; and strengthening capacity for developing and implementing cross-border transport connectivity.

### International Institutional Framework

Bilateral discussions with Indonesia, on border management and cross-border trade, tourism and transport linkages are currently held at three levels: (i) Joint Ministerial Commission (JMC) chaired by the Minister of Home Affairs of Indonesia, the Minister of Foreign Affairs (MOFA) in PNG and Timor-Leste; (ii) border liaison meetings (chaired by Governors of border provinces in each country); and (iii) border official meetings at the technical and working level with representatives of concerned agencies.

<sup>a</sup> A draft decree law on the establishment of the BOCC is awaiting approval of the Council of Ministers.

Source: Pacific Department, ADB.

## Foster Public–Private Cooperation: Establishing A National Trade Facilitation Body

After designating a lead agency for trade facilitation the next step is to establish a national trade facilitation body (institutional structure) that will bring together all the diverse parties with interest in trade facilitation and provide an effective and coherent mechanism for identifying problems and developing solutions. The NTFB should be established by the lead agency to cover the following four items.

## Terms of Reference of the National Trade Facilitation Body

Governments should establish the NTFB to:

- (i) identify issues affecting the cost and efficiency of their country's international trade,
- (ii) develop measures to reduce the cost and improve the efficiency of international trade,
- (iii) assist in the implementation of the measures,
- (iv) provide a national focal point for the collection and dissemination of information on best practices in international trade facilitation,
- (v) ensure consistency of adopted measures with national policies and international obligations, and
- (vi) participate in international efforts to improve trade facilitation and efficiency.

Some activities undertaken by the United Kingdom Trade Facilitation Body, Simplifying International Trade (SITPRO), one of the oldest and most respected NTFBs, are highlighted in Box 3.8. Model terms of reference and other document templates useful in establishing an NTFB are featured in the United Nations Conference on Trade and Development (UNCTAD) *Guidelines to Recommendations No. 4* issued in 2000. Choosing a name for the body that does not make a particular stakeholder unnecessarily more prominent than another is recommended. This is the reason many of the over 50 trade facilitation bodies in developed and developing countries do not include trade or transport in their names but often used PRO for procedures (e.g., SITPRO in the United Kingdom).

## Composition of the National Trade Facilitation Body

The NTFB should have a balanced membership from both public and private sectors and should be representative of the stakeholders involved in trade facilitation. A non-exhaustive list of organizations that should be considered for inclusion in the NTFB is provided in Table 3.2, categorized under three main trade stakeholder groups.

One important challenge is the inadequate representation of stakeholders in existing institutions. For example, the views of small and medium-sized services providers and traders may not be adequately represented in existing associations. Since one objective of trade facilitation is to make trade more inclusive, supporting the participation of small- and medium-sized enterprises (SMEs), associations, or special representatives may be important.

## Structure and Function of the National Trade Facilitation Body

To be effective, the NTFB needs to be correctly positioned within the chain of authority. It will be important for the NTFB to be provided with high-level political support, particularly at the early stages of trade facilitation when many control agencies may not see trade facilitation as a priority. Some suggest that it should

### Box 3.8: National Trade and Transport Facilitation Committee of Pakistan

The Government of Pakistan decided to constitute a standing committee named National Trade and Transport Facilitation Committee (NTTFC) under the chairmanship of Additional Secretary, Commerce. The NTTFC was established under Resolution No.1(8)/94, International Trade Organization/United Nations Conference on Trade and Development (ITO/UNCTAD) on 14 July 1998.

NTTFC is a facilitating body established to simplify the documents and procedures related to international trade of Pakistan, and harmonize these with international practices.

**The main tasks of the NTTFC are to:**

- coordinate efforts of concerned organizations in the field of facilitation of international trade and transport;
- collect and disseminate information on international trade and transport formalities, procedures, documentation, and related matters;
- pursue the simplification and alignment of trade and transport documents on the basis of the United Nations Layout Key, including documents designed for use in computer and other automated systems; and
- promote the adoption of standard trade and transport terminology and international codes for trade and transport information.

To achieve these tasks and to promote Pakistan's international trade in keeping with prevailing international standards and practices, its ministry of commerce has initiated a trade and transport facilitation project with technical assistance from UNCTAD and funding from the World Bank.

The NTTFC Secretariat is responsible for executing the work of NTTFC and plays the coordinating role between the UNCTAD and the stakeholders to achieve the objectives of the project.

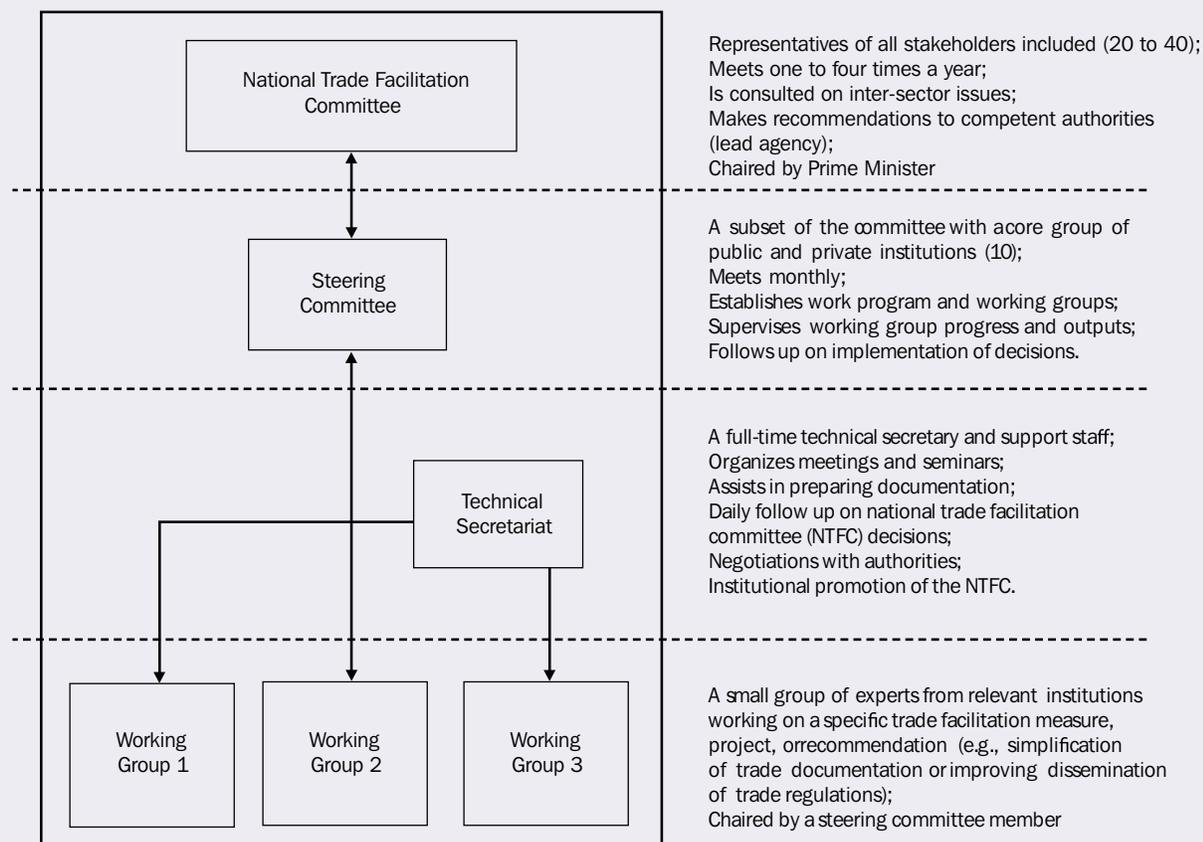
The NTTFC meets, as and when required, to review progress on project and make decisions regarding its objectives. To provide necessary guidelines to the NTTFC secretariat and the UNCTAD project team, working groups on various subjects are formed. These working groups represent the concerned stakeholders, and help in identifying the issues involved and developing a consensus on how these may be solved.

Source: NTTFC. 2001.

**Table 3.2: Achieving a Balanced Public–Private Membership in a National Trade Facilitation Body**

Government Agency	Service Provider	Trader
Ministry of Trade	National associations of carriers and freight forwarders	Chambers of commerce
Ministry of Finance/ Customs		Manufacturer associations
Ministry of Works	National associations of banking institutions	Other associations of service users (exporters, importers, etc.)
Ministry of Communications	National associations of insurance companies	
Ministry of Transport		
Other line ministries and agencies with export/import clearance authority		

Figure 3.5: Overview of a National Trade Facilitation Body



Source: NTFFC. 2006.

be chaired by the Prime Minister or by the head of the government-designated lead agency to facilitate implementation of recommendations. Others suggest that adopting a co-chair system, where one chair is a high-level government official and the other is from the private sector, can be a way to increase ownership of the NTFB by a wider range of stakeholders.

Another challenge is ensuring that the NTFB will fulfill its terms of reference in developing concrete trade facilitation solutions. UNCTAD's experience<sup>142</sup> suggests that organizing productive plenary meetings with all stakeholders is challenging and that a three-tiered structure consists of the following can be adopted:

- a national trade facilitation committee
- a steering committee, and
- working groups.

<sup>142</sup> UNCTAD. 2006; 2005; UNECE. 2000.

### Box 3.9: The Republic of Korea's National e-Trade Committee

To pursue its expanded trade facilitation initiative, the Republic of Korea established the National e-Trade Committee. The composition of the Committee is as follows:

**Chairman: Prime Minister**

**Members**

Ministers from:

Ministry of Finance and Economy

Ministry of Justice

Ministry of Government Administration and Home Affairs

Ministry of Culture and Tourism

Ministry of Commerce, Industry and Energy Ministry of Information and Communications Ministry of Construction and Transportation Ministry of Maritime Affairs

Ministry of Planning and Budget

Office of the Prime Minister

Minister for Trade (Ministry of Foreign Affairs and Trade)

Commissioner of the Korean Customs Service

From the private sector, the head of the following organizations:

Federation of Korean Industries

Korea Chamber of Commerce and Industry

Korea International Trade Association (KITA)

Korean Federation of Small and Medium Business

Korea Trade and Investment Promotion Agency

The Committee, which included both civilian and public officials at the highest levels, provided a clear idea of which elements needed to be included in the e-trade network relatively quickly. Under the leadership of the Committee, KITA established the Korea Paperless Trade Center and the Korea e-Trade Facilitation Center in 2005. In the e-Trade Facilitation Center, six working groups were organized, dealing with platform, law, finance, logistics, marketing, and global cooperation. These working groups were able to work out the details of the e-trade network, which eventually became the UtradeHub.

Source: Yang, J. 2009.

Such a structure is illustrated in Figure 3.5. While all stakeholders could be represented in the national trade facilitation committee and meet once a year, the steering committee should have a more limited membership of individuals with decision-making power and who can devote themselves to trade facilitation issues and guide the working groups. The steering committee could meet every 3 months to review the progress of the working groups, set up new ones, and approve working group outputs for implementation by the relevant agencies.

The composition and structure of the NTFB will ultimately depend on the national context. For example, in the Republic of Korea, where trade facilitation has long been a top priority, the National e-Trade Committee was formed in 2003 to facilitate the development of an advanced electronic trade facilitation system.<sup>143</sup> The composition of this committee and information on its operation are provided in Box 3.9.

<sup>143</sup> An electronic single window linking all relevant government agencies, service providers, and users and allowing them to exchange required information, clearances, and payments online.

## **National Trade Facilitation Body Secretariat and Technical Team**

The NTFB should have a knowledgeable technical team and secretariat. To increase stakeholder ownership and avoid government bureaucracy, the secretariat may be housed in a representative private sector organization willing to champion trade facilitation.

At least in the initial stages, the government should provide financial support to the secretariat. Facilitating team participation in trainings and events organized by regional and/or global bodies will ensure the team remains updated and motivated. The development of formal and informal linkages between the NTFB and regional or global trade bodies and networks should generally be supported, as this will allow the NTFB to facilitate trade processes beyond its own borders for the benefit of its national stakeholders.

## **Institutional Structure for Trade Facilitation at the (Sub)Regional Level**

While international cooperation on trade facilitation may often take place initially in the form of horizontal cooperation among agencies with the same responsibilities or functions (e.g., customs cooperation), international cooperation on the basis of a specific cross-border trade facilitation project involving multiple agencies in each country may be encouraged. This may enhance interagency cooperation at the national level and reinforce the role and position of the lead agency and the NTFB for trade facilitation.

Institutional structure for trade facilitation at the (sub)regional level varies depending on the type of trade facilitation measures. Box 3.10 gives two examples of institutional structures for trade facilitation in the Brunei Darussalam-Indonesia-Malaysia-The Philippines East ASEAN Growth Area (BIMP-EAGA) and ASEAN.

### Box 3.10: Regional Institutional Structures for Trade Facilitation

Function	Membership	Frequency of Meetings
<b>A. BIMP-EAGA's Customs, Immigration, Quarantine, and Security Task Force</b>		
<ul style="list-style-type: none"> <li>– Monitor implementation progress</li> <li>– Identify common impediments to trade facilitation and required collective solutions</li> <li>– Establish common standards for customs, immigration, quarantine, and security (CIQS)</li> <li>– Facilitate the participation of private sector</li> <li>– Mobilize resources</li> <li>– Monitor, coordinate, and report regularly to relevant (sub)regional bodies</li> </ul>	<ul style="list-style-type: none"> <li>– Representatives of National CIQS, of which one will be a lead agency for in-country coordination</li> <li>– National and/or local border management officials, e.g., CIQS as appropriate (bottom-up participation)</li> <li>– Sector representatives</li> <li>– Private sector representatives</li> </ul>	<ul style="list-style-type: none"> <li>– One or two meetings a year by the host country</li> <li>– Meetings can also be held if required to respond to emerging issues</li> </ul>
<b>B. ASEAN Trade Facilitation Joint Consultative Committee</b>		
<ul style="list-style-type: none"> <li>– Monitor implementation progress</li> <li>– Undertake annual review on implementation and effectiveness of ASEAN trade facilitation measures</li> <li>– Invite and seek assistance of other relevant ASEAN bodies as and when required</li> <li>– Prepare and submit proposed policy strategies, action plans</li> <li>– Develop ASEAN trade facilitation indicators</li> </ul>	<ul style="list-style-type: none"> <li>– Representatives of national trade facilitation committees and/or focal point of trade facilitation of each member state</li> <li>– Senior officials in charge of trade, customs, transport, standards, and conformance and sanitary and phytosanitary (SPS) measures</li> <li>– Representatives from the private sector such as freight forwarders associations, ship owners associations, port operators, customs brokers, transport operators, and other private sector associations involved in cross-border trade</li> </ul>	<ul style="list-style-type: none"> <li>– Once a year</li> <li>– Special meeting is held whenever deemed necessary by consensus of the members or upon directive by ASEAN senior economic officials</li> </ul>

ASEAN = Association of Southeast Asian Nations, BIMP-EAGA = Brunei Darussalam-Indonesia-Malaysia-The Philippines East ASEAN Growth Area.  
Source: ADB.



## ■ CHAPTER 4

# Implementing Prioritized Trade Facilitation Measures

This chapter provides an overview of some actions and steps involved in addressing the six core areas of trade facilitation.

## Revise and Improve Dissemination of Trade and Customs Laws and Regulations

All legislation or regulations that have a bearing on trade should be identified, providing a comprehensive view of the trade, legal, and regulatory frameworks. This initial survey will help determine the key laws and regulations affecting trade facilitation and their respective linkages and overlaps. The following reviews may then be conducted:

- (i) *Review the import–export laws to determine clarity, relevance, and conformity with international obligations.* The review should focus particularly on whether the key laws and regulations affecting trade facilitation have been clearly spelled out and addressed (e.g., the applicable import and export activities and the entities eligible to conduct them, the duties and obligations of the declarant lodging a trade declaration, the power and authority of the trade officers, the penalties for noncompliance matters, and the right of appeal of the declarant. Careful attention should also be attached to the secondary or subsidiary legislation indirectly related to trade, (e.g., laws and regulations governing trade finance, foreign exchange controls, transport operators, distribution rights, logistics players, and health and environmental concerns) and the scope for authorities to enact them.
- (ii) *Review the Customs Act to assess conformity with international conventions and recommendations.* Similarly, the customs act will have to be reviewed to ensure its clarity and conformity to the relevant conventions, particularly the Revised Kyoto Convention (General Annex) and the World Trade Organization (WTO) customs valuation agreement. The Act should ensure that import and export duties and valuation procedures are properly highlighted, establish national codes according to the Harmonized Commodity Description and Coding System (HS Code), and list clearly the penalties for noncompliance with customs laws. Importantly, the customs law should specify the role and powers (duties and obligations) of customs officers.

- (iii) *Review bilateral, regional, and multilateral agreements on trade, transport, and transit to determine whether existing legislation has incorporated relevant elements.* Multilateral obligations related to trade facilitation should be considered during the legislative review. Other than the Customs Valuation Agreement, the WTO agreements on import licensing, rules of origin, technical barriers to trade (TBT), and sanitary and phytosanitary (SPS) measures can be considered when revising the legislation. Bilateral and regional trade, transport, and/or transit agreements with neighboring countries should also be reviewed, as some may have implications for trade and customs laws, especially in terms of customs duties, rules of origin, and documentation requirements.<sup>144</sup> This is an increasingly important issue as countries enter into an increasing number of trade agreements with trade facilitation provisions.
- (iv) *Consolidate all trade-related regulations into a manageable number of acts and sets of regulations.* Following the aforementioned reviews of trade-related legislation, the authorities should identify legal overlaps and hence combine and restructure various rules and regulations into key legislation that would be the cornerstone of the country's trade-related legal structure. Actions should be taken to reduce the number of trade and customs laws through the enactment of enabling legislation or decrees with subsidiary regulations. Agencies in charge should assess the relevance of the legislation and repeal outdated or irrelevant provisions. In addition, legislation requiring frequent reviews should contain provisions enabling the authorities to enact rules without lengthy legislative processes.
- (v) *Seek feedback and views on revised legislations and regulations before implementation.* The lead agency, together with the national trade facilitation body (NTFB), should gather feedback from the related industry associations on the practicality of proposed revised regulations. Before introducing new regulations, the business community is informed through various channels (notices, official and online publications, seminars, and workshops) well in advance of implementation.
- (vi) *Assess traders' regulatory information and training needs.* Trade and customs regulations need to be regularly updated to accommodate changes in the domestic and international trade environment. For instance, when a preferential trade agreement is signed with one or more partner countries, certain new regulations and procedures need to be in place for the issuance of the certificates of origin that will allow traders to take advantage of the negotiated preferential tariffs. To enable compliance and realization of benefits from regulations, it is essential to inform traders of existing and new trade regulations. An initial assessment of the information and training needs of traders, as well as relevant government agencies, with regard to the understanding of the latest trade regulations should be conducted. This also includes an evaluation of the effectiveness of existing delivery modes of information, which the lead and related agencies should use as a basis for developing effective mechanisms to disseminate all available and updated trade and customs information to the business community. This could be in the form of notifications, booklets, and websites. Depending on the results of the assessment, the following actions may also be considered:

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<sup>144</sup> For example, the Association of Southeast Asian Nations (ASEAN) members are required to issue a document called Form D Certificate of Origin for goods entitled to tariff preference under the ASEAN Free Trade Agreement.

- Develop a centralized repository and dissemination system of trade regulations: As many agencies are involved to varying degrees in issuing trade regulations, a centralized system has to be developed so that the trading community can be informed timely regarding the changes in the regulatory requirements of any relevant agency. The customs authority generally takes the lead in establishing such a system but collaborative arrangements with chambers of commerce and industry can also be established to aid information dissemination and organization of training workshops.
- Establish enquiry points for trade regulation information: In addition to publishing regulations through a centralized system, the authorities can move one step forward and provide enquiry points for traders to approach when they seek information and clarification.

Useful references:

Part II, Chapter 1 of this reference book

Revised Kyoto Convention

Global Facilitation Partnership for Transportation and Trade (GFPTT .org)<sup>145</sup>

WTO and General Agreement on Tariff and Trade (GATT) Articles 8 (fees and formalities) and 10 (publication and administration of trade regulations), and related proposals submitted to the WTO Negotiating Group on Trade Facilitation (TN/TF/W/43/).

## Rationalize Trade Documents and Related Procedures

Trade documentation and customs procedures are important components of the trade facilitation system as they help identify the import and export items in terms of description, value, and ownership for both trade and control purposes. They also allow for the tracking of cargo so that importers and exporters know where their shipments are and when these will arrive at their final destination. However, while trade documents are an integral and necessary part of international trade, efforts should be made to simplify and rationalize them so that they do not become an obstacle to international trade. The following steps may be taken to rationalize trade documents:

- (i) *Classify all tradable products and identify all agencies involved in trade controls.* Traded products attract various levels of controls by different agencies. Tradable products may be classified as (i) dutiable controlled goods, (ii) dutiable non-controlled goods, (iii) non-dutiable controlled goods, and (iv) non-dutiable non-controlled goods. Classifying the goods under these categories, and further refining the classification and control agencies involved for manufactured products, sensitive security-related products, and agricultural and commodity products, will help in getting an accurate picture of the various agencies involved in trade control for different categories of goods.

<sup>145</sup> The www.GFPTT.org website, a joint initiative of the United Nations and other agencies involved in trade facilitation, provides a gateway to extensive and up-to-date trade facilitation-related information and recommendations.

- (ii) *Evaluate current procedures.* Review all existing formalities and processes involved in the clearing of goods. Such review would include all procedures and documentation involved in issuing (i) inward declarations/outward declarations, (ii) import and export licenses, certificates of origin, and other documents required by the Ministry of Commerce, the customs authority, and other controlling agencies for the clearance of goods under their respective purviews. The assessment should include a study of how industry players such as freight forwarders, air cargo carriers, and shipping agencies handle their documentation processes, leading to conclusions on how simplification of the procedures and documentation could best be implemented.<sup>146</sup>
- (iii) *Streamline trade document processing.* For each of the trade documentation processes—mainly inward declarations/outward declarations, application for import and export licenses, and application for preferential certificates of origin—the lead agency should:
- Determine the minimum information requirements;
  - Reduce the number of steps involved from the submission of the declaration or application to the receipt of the approved declaration, license, or certificate;
  - Reduce or eliminate the need for supporting documents to be submitted; and
  - Establish clear coordinating and routing mechanisms between the key receiving authority (e.g., customs) and other customs/controlling agencies (CAs) (e.g., agri-food and veterinary authorities, police authority, and other relevant authorities) when more than one CA is involved in the issuance of a document (typical in the case for ID of sensitive goods).
- (iv) *Align and simplify documents used in international trade.* Existing trade-related documents used by the Ministry of Commerce, the customs authority, other CAs, and industry players (such as shipping companies, air cargo agents, and freight forwarders) should be collected and analyzed. The documents should be aligned according to the United Nations Layout Key for Trade Documents, specifying all required data elements and fields in the aligned documents using international standards (e.g., the WCO Data Model).<sup>147</sup> The documents to be aligned include:
- Goods declaration and permit forms,
  - Certificates of origin,
  - Import and export licenses,
  - Customs declaration forms,

<sup>146</sup> This may best be done using the UNNExT Business Process Analysis Guide for the Simplification of Trade Procedures, available at: [http://www.unescap.org/unnext/tools/business\\_process.asp](http://www.unescap.org/unnext/tools/business_process.asp).

<sup>147</sup> Documents alignment and data harmonization may best be conducted on the basis of the UNNExT Guide for the Design of Aligned Trade Forms for Paperless Trade, and the UNNExT Data Harmonization and Modelling Guide for Single Window Environment, respectively. Both guides are available at: <http://www.unescap.org/unnext/tools/>.

- Certificates of inspection (used by other CAs or for specific products),
- Certificates of quality, and
- Health and phytosanitary certificates.

The lead agency should also take steps to encourage the industry players to align their documents with international standards and models. Following the alignment (standardization) of trade-related documents, the authorities will be able to easily determine which documents contain the same information and can be eliminated or combined, thereby reducing the overall number of documents.

- (v) *Introduce and gradually implement revised procedures and documents.* Before implementing new procedures and documents, there will be a need to inform all concerned government agencies and train the relevant government officers on the new procedures and documents. In addition, the authorities should also inform and educate the business community through seminars, information booklets, and other appropriate means. Phased implementation of new procedures and documentation is recommended, starting with non-dutiable non-controlled goods, followed by non-dutiable controlled goods, dutiable non-controlled goods, and lastly dutiable goods. Such an approach will provide an opportunity to review and fine-tune processes in consultation with all agencies involved before full implementation (Part II, Chapter 2).

Useful References:

UNNExT Business Process Analysis Guide to Simplify Trade Procedures, available at <http://www.unescap.org/tid/publication/tipub2558.pdf>

UNNExT Guide for the Design of Aligned Trade Forms for Paperless Trade, available at <http://www.unescap.org/tid/unnext/tools/atf-design.asp>

UNNExT Data Harmonization and Modeling Guide for Single Window Environment, available at <http://www.unescap.org/publications/detail.asp?id=1489>

## Implement Effective Trade and Customs Enforcement

Trade control is important for a country to prevent trade in prohibited and harmful goods such as drugs, unlicensed arms, fake pharmaceuticals, endangered animal species, and pirated products. In addition, authorities need to ensure that the correct customs and import duties are collected to avoid loss of government revenue. The challenge is, therefore, to facilitate trade while at the same time ensuring compliance with trade and customs regulations.

The key to solving this challenge is to put in place a risk management system to facilitate low-risk (i.e., low risk of noncompliance) trade while focusing attention and controls on trade at a higher risk of violating regulations. Advance release and duty payment systems can also be effective in facilitating trade when complemented with a post-clearance audit mechanism. The following steps may be taken to accomplish this goal:

(i) *Develop an efficient trade statistics collection system.* For risk management to work, a trade monitoring system is required. It, in turn, requires accurate trade statistics. Trade statistics are important as they show the trade patterns and flows of the country. Therefore, there has to be a reliable system to accurately collect and compile trade statistics. This may include the following steps:

- Develop the required database structure for trade statistics;
- Develop a computer system to capture the required data elements;
- Train officers processing inward declarations and outward declarations in using computers to process the data and audit raw statistics before formatting into final output format; and
- Establish a mechanism for dissemination of trade statistics to the relevant officers for use in customs management.

It is worth noting that once the inward declaration and outward declaration forms are aligned, they would display the required data element (value, volume, destination or origin, mode of transport, etc.) in a proper format and hence make data entry easier and more standardized.

(ii) *Establish channels of trade intelligence.* Besides trade statistics, the lead agency and the customs authority will also require additional trade intelligence from other sources, both locally and internationally. Trade intelligence consists of specific information pertaining to the characteristics of industries and various enterprises. Both domestic and foreign sources of information should be utilized and authorities can, therefore, consider the following:

- Establish an interagency committee comprising relevant government agencies to share intelligence on trade and customs-related issues. It will be the basis of industry and company data for the risk management system. However, given the sensitive nature of this interagency committee, it should not operate within the NTFB.
- Develop mutual administrative assistance with customs authorities in other countries aimed at exchanging customs-related intelligence, especially pre-arrival information of inbound goods. Early intelligence will assist in combating trade offenses.
- Develop collaboration with industry players such as freight forwarders, multimodal operators, air cargo carriers, and shipping representatives within the NTFB to ensure and increase trade compliance. Authorities can work with these industry associations to assist them in developing self-policing initiatives among their members. Such an approach would encourage traders to develop their own internal compliance systems to ensure proper documentation and customs payment. Incentives for traders to comply could include faster facilitation of cargo consignments, typically as part of an authorized trader or economic operator scheme (Box 3.11).

(iii) *Identify and assess areas of risk.* Once data sources are secured, the available data need to be examined to identify risk areas and develop a risk management system using the following steps:

### Box 3.11: Public–Private Partnership for Trade Facilitation and Security: Authorized Economic Operator Scheme and World Customs Organization Standards to Secure and Facilitate Trade

An Authorized Economic Operator (AEO) is defined in the World Customs Organization (WCO) Framework of Standards to Secure and Facilitate Trade (WCO SAFE) as a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national customs administration in compliance with WCO or equivalent supply chain security standards. AEOs include manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, warehouses, and distributors.

Several countries in Asia and the Pacific have implemented AEO programs (e.g., Japan, the Republic of Korea, New Zealand, and Singapore), with the objective of enhancing the security of the supply chain. AEO programs typically require provision of advance cargo information and the use of risk management mechanisms. Participation of the private sector in these programs is generally voluntary and based on a partnership between businesses and customs to ensure compliance with the agreed standards. AEOs, as trusted operators, typically benefit from faster customs clearance (“green lane”).

National customs authorities developing AEO schemes should consider complying with the WCO SAFE as this is expected to facilitate the mutual recognition of schemes among customs administrations, ultimately resulting in cross-border trade facilitation. This involves (i) meeting standards on advance cargo information requirements set in the WCO framework; (ii) being bound to use a risk management approach and agreeing to (upon request of the receiving country and using comparable risk targeting methodology) perform an outbound inspection of high-risk containers and cargo using non-intrusive customs inspection equipment such as x-ray machines and radiation detectors; and (iii) offering benefits to business that meet minimal supply chain standards and best practices.

Under the mutual recognition agreement between New Zealand and the United States (US) in 2007, traders under the New Zealand Customs Service Secure Exports Scheme can enjoy border clearance privileges if their partner in the US is a member of the Customs–Trade Partnership Against Terrorism.

Although AEO programs necessitate initial investment by both customs administrations and businesses to succeed, they are “win-win” solutions. Compliant private businesses will benefit from faster processing of goods by customs, translating into time and cost savings, while customs will benefit from greater compliance and a secure flow of legitimate cargo.

Source: WCO. 2007.

- Establish compliance needs and measures. The authorities need to determine the issues on which they wish to focus their limited resources. For example, priority may be given to documentary issues (e.g., proper tariff classification and valuation by traders); procedural issues (e.g., proper declarations and transit operations); and/or revenue issues (e.g., accurate payment and collection of duties). Available data should be used to understand the noncompliance risks in key areas and their impacts, such as in industries of strategic importance to the country and those related to important trade policy measures (such as import quotas, preferential import duties, and rules of origin) or issues (antidumping). Compliance measures and indicators should then be established based on the issues and areas deemed most important.
- Develop risk profiling and targeting. Subsequent to identifying the types of risk, the authorities will be able to develop appropriate risk indicators such as certain transport routes, categories of traders, and types of product declared. These risk indicators are the basis of various risk profiles that will help the authorities to target enforcement on specific cargo movements.

- (iv) *Encourage advance submission of documents.* Submission of trade and customs documents prior to arrival and departure should be encouraged. This will enable the authorities to preselect cargo consignments for inspection and clear others before arrival using established risk profiles. Advance submission of information on cargo is today seen as an essential measure to ensure international supply-chain security. An increasing number of developed countries are requiring that detailed information be submitted in advance of arrival.

In line with the advance submission of documents (and to encourage early submission), customs can also initiate a system where traders can pay duties in advance. In addition to establishing the procedure and document requirements for advance payment of duties and designating customs offices responsible for collection, developing such a system typically involves the development of an automatic debit payment system with selected commercial banks where traders have accounts for cashless transactions. This could be done under the NTFB in a working group on advance payment championed by customs in cooperation with representatives of the financial services sector.

- (v) *Conduct physical inspections based on assessed risks of shipments.* Assuming all the aforementioned steps have been implemented, authorities should be in a position to determine which shipments are most likely to be noncompliant based on established risk profiles, thereby reducing the need to conduct a large number of physical inspections. Following preselection of cargo for inspection based on information available from risk profiling, authorities may decide to simply conduct a summary inspection by checking marks, codes, and numbers to determine compliance, or to conduct detailed physical inspections by opening up cargo for verification. Random detailed inspections may also be conducted from time to time to verify the accuracy of the risk profiling system.
- (vi) *Implement a systematic post-clearance audit program.* Periodic proactive inspections and visits to traders, manufacturers, and freight forwarders, among others, should be institutionalized as part of the risk management process. The purposes of such visits are to verify the compliance of specific transactions and shipments based on archived documentation, review the trader's system to assess its ability to comply, determine that preferential certificates of origin issued to manufacturers are in accordance with the respective rules of origin regulations but also to acquire information and a better understanding of the operations of major importers and exporters.

The results of the post-clearance audits will be incorporated in the intelligence database and will be useful in updating risk profiles to make the overall risk management system more effective. A legal provision to institutionalize post-clearance audits should be enforced.

- (vii) *Provide training to traders and enforcement officers through a phased implementation.* Implementation of a new system of trade and customs controls such as the one described above involves careful planning and preparation. In particular, enforcement officers will have to be trained in risk management techniques and in the conduct of post-clearance audits and factory inspections. Traders will also have to be trained, particularly on how to establish and maintain their internal compliance systems and how to avoid "honest mistakes" in filling-in trade documents or in following procedures, as these mistakes can

reduce the effectiveness of the risk management system. Phased implementation of risk management and audit-based trade control systems can be considered, starting with a few strategic industries before expanding to all trade.

Useful references:

Part II, Chapter 2.

WCO SAFE Framework

WCO and ADB *Risk Management Guide* 2005.

ADB. 2006. *Risk Management: Catalyst of Customs Reforms and Modernization*.

Customs in the 21<sup>st</sup> Century, WCO (Box 3.12)

### Box 3.12: Customs in the 21st Century—Ensuring Goods Move Smoothly Across Safe Borders

The global trade landscape is rapidly evolving, and that means customs must change as well. The world has seen substantial increases in trade volumes and growing complexities as a result of deepening globalization and robust economic growth in emerging economies—particularly developing Asia. New business models and requirements—such as just-in-time deliveries, low inventory retention, and multi-modal transport—have increasingly demanded speedy customs clearance and end-to-end logistics management. Furthermore, since the 9/11 attacks and with organized crime on the rise, mounting security threats have increased concern over trade in dangerous or prohibited goods which affect public health and the environment, money laundering and revenue fraud.

Confronting these challenges, leaders of customs administrations globally recognized the need to develop a new, more effective strategy to meet the often conflicting and increasing demands of globalized trade. In 2008, the World Customs Organization (WCO)—the voice of the international customs community—adopted the *Customs in the 21st Century: Enhancing Growth and Development through Trade Facilitation and Border Security (C21)*—a strategic vision for all future customs operations. C21 is a platform for strategic thinking in the global customs community and the greater international trade environment.

The C21 strategy defines 10 building blocks for enhancing customs operations globally:

- networking customs globally through a systemized approach to information exchange to promote e-customs and mutual recognition of customs controls and Authorized Economic Operator (AEO) programs;
- coordinating border management to strengthen cooperation among all relevant border authorities;
- improving operational and organizational risk management through intelligence-driven risk management;
- promoting customs-trade partnerships that benefit all parties;
- modernizing working methods from transaction-based controls to systems-based and post-clearance controls, and from paper-based to electronic-based controls (including the Revised Kyoto Convention);
- employing new technology to aid in risk management, intelligence, and non-intrusive detection;
- introducing appropriate legislation to strengthen enforcement, provide advance information, and share information domestically and internationally;
- moving toward a knowledge-based and customer-orientated model to build a culture of professional service;
- boosting training for an effective and efficient outcomes process using measurements, political will, people, and partnerships; and finally
- fostering integrity in customs procedures—an often publically maligned yet essential conduct for trade.

## Computerize and Automate Trade Documents and Procedures

As trade flows and the need for faster clearance of goods increase, the application of information and communication technology (ICT) to trade documents and procedures becomes essential to trade facilitation. However, the success in computerizing and automating trade procedures depends on the government's own ICT development. If there is no effort to enhance and improve ICT infrastructure nationwide, then computerization and automation of trade documents and procedures may not be readily achievable. The following are actions that may be considered in applying ICT to trade documents and procedures:

- (i) *Agree on a blueprint of the electronic single window facility.* The lead agency should be given a clear mandate to develop and implement a single window facility, as development of such a system is a complex and relatively resource-intensive task compared with other trade facilitation measures. The NTFB should be fully involved in supporting the development of the single window. Starting with the system's scope and envisaged electronic facilities, it should provide one-time electronic submission of information to multiple agencies, online and/or automated clearance by the agencies linked to the system, electronic payment of duties, etc. The final blueprint of the system should be endorsed by the national trade facilitation committee to be funded by the government (Box 3.13).
- (ii) *Develop enabling legislation for the single window.* To provide the legal basis for the new system, new regulations that will empower the government agencies to set up the system for use by both the public and private sectors have to be in place. Such regulations may include the obligation of the declarant to provide complete and accurate electronic submission of data, and defining penalties for those who abuse or violate the system (e.g., falsify a declaration, steal data, or simply cause mischief). The regulations should also endorse the confidentiality of the data collected in the system, authorizing only the government-designated lead agency to use such data for the purpose of combating noncompliance.

To ensure that the system makes trade more efficient, e-commerce, e-signature, and other ICT laws will be needed. With the laws in place, electronic documents and signatures are recognized as legal documents equivalent to the paper documents used before the single window was available. Legal issues should be addressed at an early stage, as passing and implementing new laws often take more time than developing the electronic systems, which are increasingly being developed using off-the-shelf software.

- (iii) *Design a single administrative document.* One of the key features of many single windows is an electronic single administrative document. Most, if not all, trade and customs documents should be aligned according to the UN Layout Key to facilitate the development of such a single administrative document, which will incorporate into one single form all the information required by many agencies involved in trade control. After a successful agreement has been reached on the single administrative document content, an electronic version will be developed following international ICT and trade document standards so that it can be completed and submitted electronically.

### Box 3.13: Success Factors in Single Window Development and Paperless Trade

The following factors are key to the success of single window and paperless trade initiatives, according to Korea International Trade Association (KITA) Paperless Trading Center, the organization responsible for the implementation of paperless trade in the Republic of Korea:

- appropriate legal framework;
- strong leadership by the government;
- public–private cooperation, which covers not only B2B but B2G, G2G;
- enough budget;
- IT infrastructure (network, hardware, and software);
- adopting international standards and trends;
- user-friendly system (easy, simple and intuitive interface);
- adopting state-of-the-art technology, such as business process management and trusted platform of reinforced security technology, and supporting industry supply chain management (SCM) with global visibility and radio frequency identification (RFID); and
- phased implementation.

Source: KITA Korea Paperless Trading Center. 2007.

## Automate Internal Processes of Agencies

Once electronic submission of documents has been enabled and streamlined, consideration should be given to automating the processing of relevant information contained in the electronic single administrative document by each relevant agency. Each agency will conduct its own study to determine the extent to which document processing may be automated.

- (i) *Select an appropriate contractor to develop the system.* The lead agency will oversee the development of the system and select an appropriate contractor in a transparent manner using the criteria set in consultation with the national trade facilitation body. The role of the contractor may involve (i) installation of requisite hardware and software according to system requirements and development of interfaces linking traders to the lead agency, as well as linking the lead agency to other controlling agencies responsible for processing the information in the single administrative document (SAD); (ii) development of criteria for automated processing of inward declarations/outward declarations to meet requirements of each agency; and (iii) design of a built-in risk management tool based on the information processed within the system (Box 3.13).
- (ii) *Develop an electronic payment system for customs duties.* Payment of customs duties is a process closely linked to the submission and processing of documents. Therefore, efforts should be made to provide an electronic payment system that allows customs duties to be paid at the same time traders use single window

for goods declaration. Development of such a system will involve establishing a central clearinghouse with the central bank to facilitate payments between traders' banks and the customs authorities bank; setting up an electronic payment system module within the single window to link payment instructions and notifications to respective banks; and developing rules and policies relating to electronic payments.

- (iii) *Provide a comprehensive training and technical support program.* Implementation of electronic trade facilitation such as the ones mentioned above will have an important impact on the personnel in regulatory agencies as well as on the way traders conduct business. Comprehensive training programs need to be developed to train the staff of both public and private sectors on how to operate and adapt to the new systems efficiently. Such courses should be conducted regularly prior to adopting the system. Ready technical support in the form of a help desk and technical support teams must also be set up to provide immediate assistance when a user encounters problems in understanding or operating the system.

Useful References:

Part II, Chapter 2

UNECE Recommendation 33 on Establishing a Single Window

UNNExT Capacity Building Guide on Legal Issues for Electronic Single Windows. Available at: <http://www.unescap.org/unnnext/tools/>

UNNExT Single Window planning and Implementation Guide. Available at: <http://www.unescap.org/unnnext/tools/>

## **Tackle Other Behind-The-Border Issues Affecting Trade**

The trade facilitation measures discussed in the previous section form the core of a national trade facilitation strategy, focusing essentially on making trade and customs laws, regulations, documents, and procedures simpler and more efficient. However, the ultimate objective of a national trade facilitation strategy is to make the entire trade transaction process more efficient. This may involve going beyond import–export procedures and communication with trade control agencies and into, for example, domestic business regulations that affect operations of importers and exporters, as well as facilitating information exchange not only between business and government but between all actors in the supply chain, including logistics and financial services providers. Making international trade transactions more efficient may also involve going beyond the issues of procedures, regulations, and information exchange to address trade-related infrastructure issues such as transport and/or border-crossing infrastructure.

The national trade facilitation committee and steering committees may ultimately be best placed to recommend which measures should receive priority, keeping in mind that trade facilitation measures involving infrastructure upgrades may be particularly resource-intensive. Some of the areas in which the NTFB could play a

role in developing recommendations for trade facilitation are briefly discussed in the following sections.

- (i) *Trade Finance*. Trade involves flows of goods, documents, and finance. These flows are highly interdependent and facilitating one without facilitating the others will create inefficiencies. In this context, it is important that the NTFB looks at regulations and procedures that will affect firms' access to trade finance, i.e., export and import financing and related risk management instruments (such as export insurance). This was well understood by SITPRO, the UK trade facilitation body, whose early achievements include the development of two checklists aimed at improving the management of letters of credit,<sup>148</sup> a key trade finance instrument issued by banks that can considerably reduce the risks associated with an international transaction. More recently, the Republic of Korea launched an electronic service as part of its e-trade initiative allowing traders to apply—and banks to confirm—letters of credit through a standardized national online interface. This service was found to be a very popular e-trade service for small and medium-sized enterprises (SMEs).<sup>149</sup>

In many developing countries, availability of trade finance and related services remains limited because of a generally underdeveloped financial sector and the reluctance of commercial banks to provide these services—particularly to SMEs—without some form of government guarantees. Reviewing the national trade finance infrastructure (i.e., the institutions, laws, regulations and other systems related to (i) provision of capital to firms that are engaging in international trade transactions, (ii) provision of support services to manage the risk involved in these transactions, and (iii) provision of international payment mechanisms) may therefore be considered to identify relevant gaps in this area. Further information on trade finance infrastructure development, including a step-by-step approach to conducting a diagnosis of the financial sector for trade finance is available, in the Economic and Social Commission for Asia and the Pacific (ESCAP) and the International Trade Centre (2005).

ADB's Trade Finance Facilitation Program (TFFP) is the first region-wide program to help banks in developing member countries (DMCs) provide trade finance products to importers and exporters. Recently, ADB has expanded this program to \$1 billion, which could generate up to \$15 billion in much-needed trade support by the end of 2013. The TFFP helps Asian countries maintain, reestablish, and enhance trade finance lines. The TFFP provides guarantees to confirming banks and revolving credit to issuing banks located in DMCs; enhances banks' abilities to offer importers and exporters access to financial services; and works in partnership with the private sector to provide capacity, liquidity, and stability to the trade finance system.

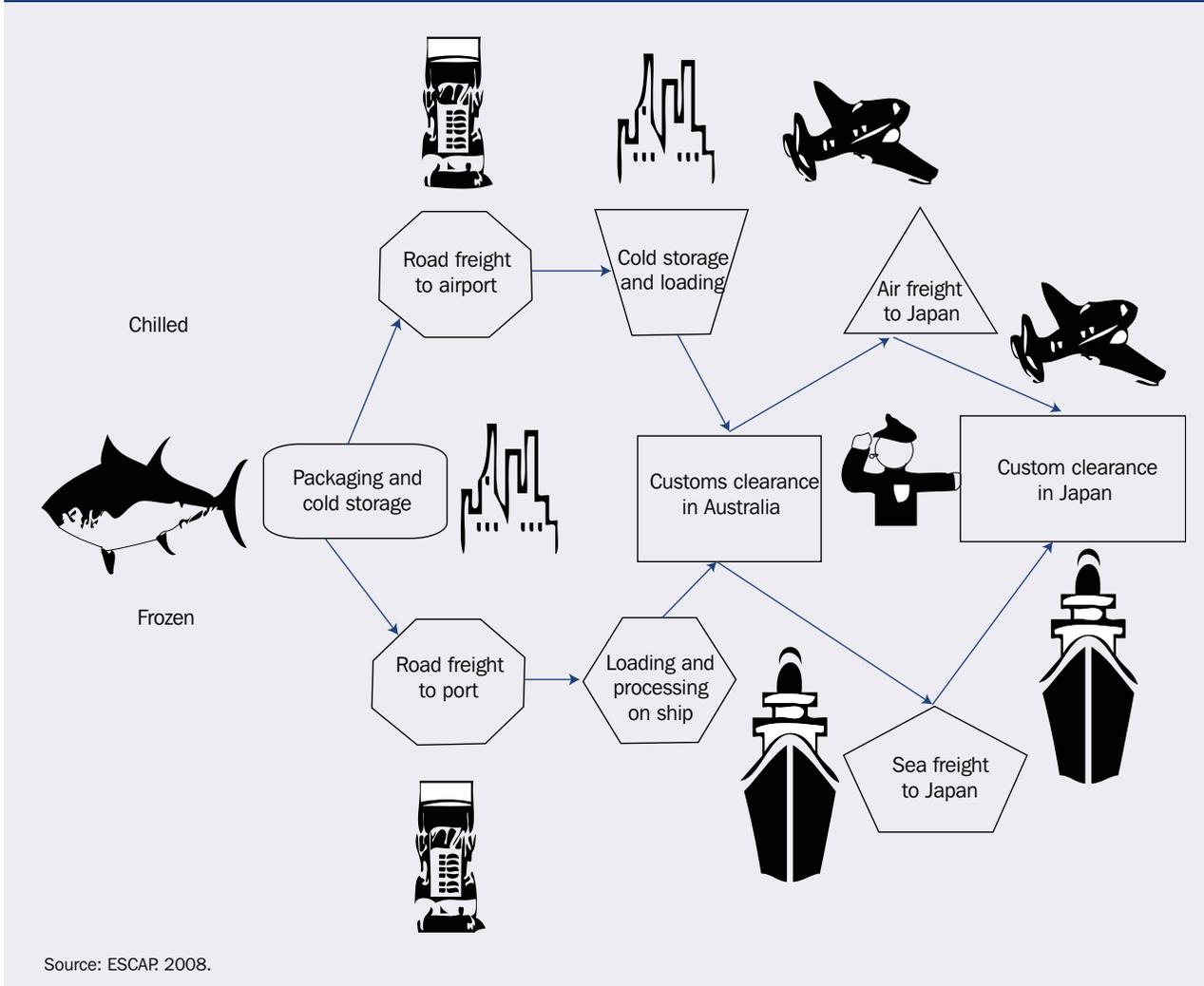
The TFFP has two main products: credit guarantees and revolving credit. Currently, 72 international banks and 60 DMC banks are participating in the program. ADB expects the number of participating DMC banks to rise to 100 by the end of 2009. More information is available at the ADB Trade Finance Facilitation Program website, [www.adb.org/Tradefinance/default.asp](http://www.adb.org/Tradefinance/default.asp).

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<sup>148</sup> The lists were first produced in 1982.

<sup>149</sup> Yang, J. 2009.

Figure 3.6 : Export of Chilled and Frozen Tuna from Australia to Japan



- (ii) *Logistics Services.* Trade facilitation involves facilitating all the processes involved in moving a product from its origin to its final destination. Processes involving border agencies and compliance with trade regulations are therefore only some of the processes and procedures that should be addressed by a trade facilitation committee, even if the scope is restricted only to behind-the-border processes on which the government may have most influence. A national government may indeed have little influence on trade-related processes occurring in other countries, except for those countries with which it has entered into a trade facilitation agreement.

As illustrated in Figure 3.6, logistics services, including transport services, storage, and warehousing services, are likely to have a great influence on whether trade is conducted efficiently. Limiting the work of the NTFB strictly to trade documents and trade control procedures may therefore be inefficient, as

trade facilitation bottlenecks may sometimes lie elsewhere along the logistics chain.<sup>150</sup>

As a starting point, the NTFB may initiate studies on the efficiency of the supply chains of products, as well as organize consultations with traders (service users) to determine whether they are satisfied with the availability and quality of logistics services available in the country. The World Bank's logistics performance indicators may be used to benchmark the country against its peers and to stimulate open discussion on the issue. Logistics service companies should then be consulted if existing industry regulations affect their ability to address logistics issues faced by traders. The government agency responsible for regulating the industry should then work together with the logistics industry in developing regulations and procedures that will enable the industry to enhance trade efficiency.

In the case of Central Asia Regional Economic Cooperation (CAREC) countries, improving the efficiency of the CAREC transport corridors will allow these landlocked countries to take full advantage of being transit countries between the surging and dynamic economies of the East and West. Substantial challenges must be surmounted and logistics measures should be improved to make CAREC countries' transport and trade sectors more efficient and cost-competitive.<sup>151</sup>

- (iii) *Business Facilitation.* Traders' cost of doing business is not only affected by border procedures but also by numerous regulations and procedures involved in doing business behind the border. In some cases, exporters and importers may believe it is more urgent to improve business regulations and procedures rather than trade-specific procedures. This is either because their governments have already streamlined trade procedures significantly, are at the advanced stage of trade facilitation (as in the cases of the Republic of Korea and Singapore<sup>152</sup>), or because the domestic business regulations do not provide an environment conducive to developing the productive capacity traders need to compete internationally.<sup>153</sup>

If behind-the-border business regulations are found to be particularly problematic, it is important that the lead trade facilitation agency be housed within a ministry whose functions are not limited to border issues (e.g., within a ministry of commerce and industry as opposed to within customs). Consultations may be organized with relevant public and private sector organizations to establish specifically which business regulations require the most urgent attention. The *Doing Business* report,<sup>154</sup> which provides a simple framework as well as indicators in 10 different areas of business regulations (including starting a business, ease of access to credit, investment regulations, etc.) can be used as a starting point for the discussions. One or more working groups, in collaboration with the agencies responsible for these regulations, may then be established to develop appropriate recommendations.

<sup>150</sup> Although still focusing specifically on trade documents, SITPRO recognizes the need to look at the whole supply chain. See, for example, SITPRO. 2008.

<sup>151</sup> ADB. 2009b.

<sup>152</sup> Singapore transformed its Trade Development Board, which spearheaded the development of TradeNet (the Singapore e-trade system) into an agency called International Enterprise (know as IE Singapore), possibly in recognition of the need to facilitate enterprise development and their internationalization as opposed to just trade.

<sup>153</sup> An increasing number of studies point to behind-the-border regulations as an important factor affecting trade. See, for example, Duval. Forthcoming.

<sup>154</sup> World Bank. *Doing Business* 2010. 2009.

### Box 3.14: Trade Facilitation Needs Assessment in Bangladesh

Bangladesh held a World Trade Organization trade facilitation self-assessment workshop in July 2008, during which 48 trade facilitation measures were considered in detail. A number of priority measures were identified during the self-assessment including establishment of enquiry points or information centers, development of a valuation database and facilities to eliminate the pre-shipment inspection system, and use of information technology for import and export clearance at all customs stations.

Interestingly, the need for physical facilities such as weighbridges, scales, container scanners, warehouses, office facilities, and testing laboratories was emphasized as a result of lack of funds. Infrastructure and lack of human resources were identified as important barriers to trade facilitation. Five of nine identified technical assistance needs were related to physical infrastructure development.

Source: WTO Delegate Presentation on Results of Completed Needs Assessments.

- (iv) *Trade-Related Infrastructure*. In some countries, the basic infrastructure necessary for trade to flourish may not be in place. The infrastructure available for regulatory agencies to conduct controls will affect trade facilitation and the effectiveness of some of the trade facilitation measures discussed earlier. For example, reducing customs clearance time may involve investment in office and ICT facilities to integrate control agencies and facilitate information sharing. Facilitating trade in products requiring SPS controls will also need sufficient availability of testing laboratories and equipment near ports and border crossings. Finally, transport infrastructure may sometimes be a key bottleneck. Port efficiency has, for example, been highlighted as an important trade facilitation factor and its improvement often involves major investment in port infrastructure. The importance of infrastructure for trade facilitation has been highlighted in 1990s. Trade facilitation is a core aspect of infrastructure lending operations undertaken by ADB and other development partners (See the discussion on GMS and CAREC in Part II). More recently, it was emphasized in Bangladesh during a self-assessment of trade facilitation needs conducted in the context of the WTO negotiations (Box 3.14).

The NTFB may initially restrict its recommendations to infrastructure issues considered essential to the rationalization of trade regulations and procedures. Working groups can be established to identify the minimum infrastructure standards that should be achieved at border crossings, and at ports of arrival and departure. In addition, important trade routes may be targeted and analyzed in several Asian countries since the detail to determine the nature of bottlenecks along them and conduct cost–benefit analyses of removing these bottlenecks.<sup>155</sup>

Should domestic transport or other infrastructure (e.g., energy) be identified as factors significantly affecting trade transaction costs and trade efficiency, the NTFB can recommend that the government take action in this area. However, given the potentially large financial requirements of such infrastructure projects and the impact they will have on the trade efficiency, on other areas (e.g., environment, safety, etc.), and the economy at large, institutional frameworks other than the one specifically established for trade facilitation will have to be considered when developing detailed recommendations for implementation.

<sup>155</sup> See, for example, WebTAG ([www.dft.gov.uk/webtag/](http://www.dft.gov.uk/webtag/)) for an up-to-date presentation of transport analysis methods.

Activities related to ADB's Aid for Trade carry forward the groundwork that has been laid in the region on trade reform, infrastructure development, capacity building, and trade facilitation. Particularly, an Asian Development Bank Institute study (2009) makes the case that Asia and the Pacific needs to invest about \$750 billion per year in infrastructure during the period 2010–2020 (\$290 billion in specific regional infrastructure projects and a total of \$8 trillion in national infrastructure). In this light, ADB is expected to continue its interventions, particularly in increased lending for trade-related infrastructure.<sup>156</sup>

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<sup>156</sup> See ADB. 2007. ADB and Asian Development Bank Institute. 2009.



## ■ CHAPTER 5

# Trade Facilitation Beyond the Border

**T**rade regulations and procedures of countries do affect the overall efficiency of international trade. Coordination and harmonization of trade and customs procedures across countries is, therefore, an important aspect of trade facilitation. The following initial steps may be considered by governments in facilitating trade beyond their borders.

## Engage Trade Partners

### Sign Relevant International Trade Facilitation Conventions

Full consideration should be given to signing and implementing relevant trade facilitation-related conventions such as the World Customs Organization (WCO) Revised Kyoto Convention, Harmonized System (HS) Convention and the Transports Internationaux Routiers (TIR), and other transport and transit conventions.<sup>157</sup> Becoming party to these conventions can help deepen cross-border collaboration as basic trade procedures and systems become more harmonized following the implementation. In addition, members of a convention or agreement are better positioned to influence its future amendments and revisions, as well as to benefit from capacity building opportunities associated with it. For example, the future World Trade Organization (WTO) agreement on trade facilitation, under negotiation since August 2004, clearly ties trade facilitation commitments by developing countries to the provision of capacity building and technical assistance. The national trade facilitation body (NTFB) can play an important role in reviewing existing conventions that can be adopted.

### Assessment of Barriers in Foreign Markets

It is important to assess technical and procedural barriers faced by traders in neighboring and major foreign markets. The assessment of trade facilitation needs and priorities of traders beyond the border is an essential first step, as this will provide information on the existing trade facilitation-related barriers and their nature. It is likely that the barriers faced will vary across sectors and industries, as

<sup>157</sup> ESCAP recommends that all countries in Asia and the Pacific adopt 10 transport or transit agreements.

well as across foreign markets, making assessments relatively complicated and time consuming. Therefore, the NTFB can select only a few neighboring and/or major foreign markets for investigation and focus on priority sectors and industries.

As many countries regularly change their regulations and procedures, results from a one-time assessment may rapidly become obsolete. One way to address this issue is to establish a channel where traders or their representatives can submit complaints and report unnecessary barriers in exporting goods to foreign markets on a regular basis, such as through an online form or a hotline. Combining structured assessments and ad hoc feedback from the trading community, the NTFB will be in a position to decide which markets and sectors face the most trade facilitation challenges.

### **Development of Specific Strategy in Each Market**

It is critical to develop a specific action plan and strategy to address trade facilitation barriers identified in each market. For each neighboring or major foreign markets where significant barriers have been identified, a working group may be established at the national level under the NTFB. The working group will develop and evaluate alternative courses of action that can be taken to address the barriers identified in the foreign market assigned to it. It will first need to confirm the existence of specific trade facilitation impediments on the foreign partners' side and evaluate their significance and potential impact. It can then review existing trade-related agreements involving foreign partners, as some of them may already include relevant rules and provisions.<sup>158</sup> If this is the case, a simple but specific request for the foreign partner to harmonize its procedures with the relevant agreement or convention may suffice.

If the problem identified concerns only one agency in the foreign country (e.g., customs), informal or semiformal channels may be explored to resolve the issue quickly, if necessary, with technical assistance of the relevant international body (e.g., the World Customs Organization). Creation of a joint working group to facilitate the exchange of information and develop joint solutions to emerging issues may also be considered as a way to deepen cooperation and ensure quick resolution of future trade facilitation issues.

If a broader formal agreement with one or more trade partners is seen as the best way forward, the working group will need to decide on the scope of the agreement and prepare a well-defined negotiating position. Although plurilateral and multilateral agreements on trade facilitation should always be preferred over bilateral trade agreements (as the proliferation of bilateral agreements increases the number of applicable rules and the possibility of conflict between rules of agreements with overlapping memberships), negotiation of bilateral or (sub)regional agreements may sometimes be warranted, particularly if a number of parties to the agreements have not adopted or endorsed all the relevant international trade, transit, transport, or customs conventions.

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<sup>158</sup> These agreements may include bilateral, regional, or multilateral trade or transit agreements.

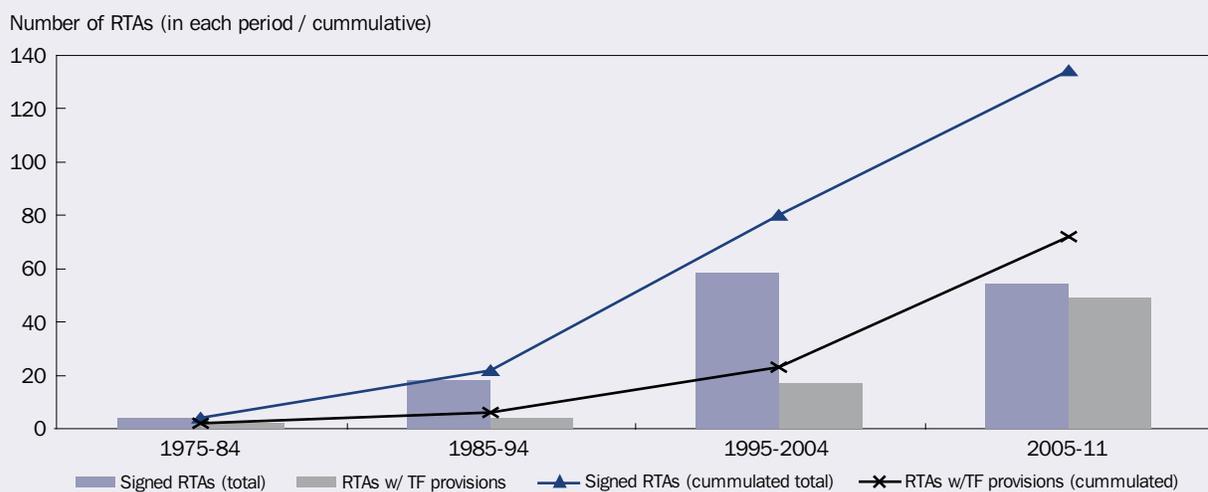
## Negotiate Trade Facilitation–Related Agreements

Trade facilitation–related agreements refer to agreements that include provisions and measures to facilitate trade. This includes transit and/or transport agreements, as well as preferential or free trade agreements (PTAs/FTAs).<sup>159</sup> Negotiation of an agreement is often a time-consuming process, requiring extensive planning and consultations at the national level and among parties to the agreement.<sup>160</sup> As such, this option should be considered mainly with key trade partners or as part of broad regional trade and economic cooperation and integration initiatives, such as the Association of Southeast Asian Nations (ASEAN) Free Trade Agreement and ASEAN Economic Community.<sup>161</sup> It is optimal to ensure that trade facilitation provisions in PTAs/FTAs are comprehensive and compatible with WTO principles such as non-discrimination.

### Coherence Across Agreements

The established trade facilitation body (i.e., the NTFB) should be given an important role. It should review various negotiating positions and convey to negotiators. Creating different institutional structures for trade facilitation negotiations taking place at various levels (bilateral or multilateral) or among different trading partners should be avoided, as this is likely to result in inefficiencies and, most importantly, incoherence between negotiated agreements. This is an important issue, given the growing number of PTAs/FTAs that include trade facilitation provisions (Figure 3.7). Box 3.15 highlights good practice trade facilitation provisions in FTAs.

**Figure 3.7: Number of Bilateral/Regional Trade Agreements with Trade Facilitation Provisions in Asia and the Pacific**



Source: ESCAP 2011.

<sup>159</sup> FTAs and PTAs are used interchangeably.

<sup>160</sup> ADB's publication, *How to Design, Negotiate and Implement a Free Trade Agreement in Asia* contains best practices in designing and negotiating trade agreements.

<sup>161</sup> In general, while any opportunity to negotiate on trade facilitation should be welcomed as part of fostering cross-border cooperation on this issue, trade facilitation provisions in a PTA should be seen as an incentive to facilitate trade, not only with parties to that agreement but with all trading partners on a nondiscriminatory basis.

## Box 3.15: Sample Features of Trade Facilitation Provisions

### Trans-Pacific Strategic Economic Partnership Agreement

**Self-certification.** Self-certification for the claiming of preferential tariffs in origin certification is adopted in the agreement without the need for a formal certificate of origin. Furthermore, the requirement of a declaration of origin is waived if the value of the consignment is below \$1,000.

**Advanced ruling.** Each member country, through its customs administration, shall provide in writing advance rulings with respect to tariff classification and origin of goods and whether a good qualifies for entry free of customs duty.

**Mutual recognition arrangement for goods.** The sanitary and phytosanitary measures (SPS) serve to facilitate trade by enhancing cooperation among the regulatory agencies on issues such as standards and technical regulations. Member countries have agreed to set out the details of agreed procedures, including the determination of equivalence, audit and verification procedures, import checks, and certification.

**Paperless trading.** The customs administrations shall provide an electronic environment that supports business transactions between trading communities.

**Express consignments.** Each member shall ensure efficient clearance of all shipments while maintaining appropriate control and customs selection. If the party's existing system does not ensure efficient clearance, it should adopt procedures to expedite express consignments to (i) provide for pre-arrival processing of information related to express consignments; (ii) permit the submission of a single document covering all goods contained in a shipment transported by the express shipment company, electronically if possible; and (iii) minimize, to the extent possible, the documentation required for the release of express consignments.

### Korea-India Comprehensive Economic Partnership Agreement

**Release of goods.** Each party shall adopt or maintain simplified customs procedures for the efficient release of goods to facilitate trade between the parties. A system under which goods in need of emergency can go through the customs procedures for 24 hours a day including holidays shall be adopted.

**Automation.** Each party shall endeavor to use information technology that expedites procedures on the release of goods; make electronic systems accessible to customs users; and use international standards, including the development of a set of common data elements and processes in accordance with World Customs Organization (WCO) Customs Data Model and related WCO recommendations and guidelines.

**Risk management.** Each party shall adopt or maintain electronic or automated risk management systems for risk analysis and targeting that enable customs authority to focus inspection activities on high-risk goods, and simplify the clearance and movement of low-risk goods.

**Transparency.** Customs laws, regulations, and general administrative procedures shall be published (including on the internet) in advance, giving interested persons the opportunity to comment prior to their adoption.

**Review and appeal.** Each party shall provide an easy access to the administrative and judicial review or appeal of the customs authority.

**Advance rulings.** The agreement expedites the issuance of written advance rulings, prior to the importation of a good into its territory, to an importer in its territory, or an exporter or a producer in the territory of the other party.

**Customs cooperation.** International best practices for trade facilitation, which may include the adoption of advanced customs procedures, shall be adopted.

Note: Chile, Brunei Darussalam, New Zealand, and Singapore are the current members of the Trans-Pacific Strategic Economic Partnership Agreement. Australia, Peru, the United States, and Viet Nam have announced their intention to join or are currently negotiating to join the agreement. Source: ADB Free Trade Agreement (FTA) database ([www.aric.adb.org](http://www.aric.adb.org)); International Enterprise Singapore ([www.fta.gov.sg](http://www.fta.gov.sg)); and Department of Commerce, India ([www.commerce.nic.in](http://www.commerce.nic.in)).

## Inclusion of Trade Facilitation Provisions in PTAs/FTAs

Aside from facilitating trade beyond the border, it can also provide a justification and incentive to accelerate sometimes politically sensitive trade facilitation reforms at the national level. It may also lead to trade facilitation support from some of the signatories to the agreement. As such, the remainder of this section focuses mainly on trade facilitation negotiations as part of FTAs, although the general principles discussed are applicable to all trade facilitation related agreements.

The trade facilitation working group (ideally, a working group under the NTFB) that develops trade facilitation provisions and advises the negotiating team on trade facilitation matters can adopt the following guidelines:

- Prioritize measures that address the trade facilitation impediments identified during the initial assessment of technical and procedural barriers faced by traders in the foreign countries covered by the agreement.
- Propose and agree to measures expected to be in compliance with existing and future multilateral agreements. Unlike tariff provisions in FTAs, trade facilitation commitments in these agreements should be set out to benefit both members and non-members to the agreement, as making preferential commitments can complicate rather than simplify trade procedures.<sup>162</sup> For example, a provision to publish online the trade regulations and customs clearance procedures may not specify, or imply, that these information should be inaccessible to non-members (Box 3.16).
- Include concrete measures based on international recommendations and standards. The text for each measure or provision may refer directly to the appropriate international instruments.
- Keep rules of origin (ROOs) as simple and transparent as possible. ROOs are an intrinsic part of every FTA and determine which products will enjoy reduced bilateral tariffs and which will not. Complex ROO can deter traders from applying for preferential tariffs and place additional burden on customs. Improving ROO administration is also critical.
- Support provisions on customs cooperation, technical assistance, and capacity building, particularly if developed countries are parties to the agreements.
- Consider the inclusion of trade facilitation measures found to be lacking at the national level, taking into account the priority accorded to them by domestic stakeholders, and their cost of implementation (Table 3.3).

A number of trade facilitation measures consistent with the ongoing WTO negotiations on trade facilitation, and which may be considered for inclusion in a PTA, are in Table 3.3. Model measures for trade facilitation in RTAs/FTAs developed by Asia-Pacific Economic Cooperation (APEC) can also provide useful guidance to trade facilitation negotiators.

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<sup>162</sup> A good example of this is rules of origins in PTAs.

### Box 3.16: Limiting Discriminatory Effects of Trade Facilitation Measures at Regional Level

While multilateral institutions such as the World Customs Organization (WCO) and the World Trade Organization (WTO) focus on the establishment of international standards and principles of trade facilitation, concrete trade facilitation measures are often implemented through regional and bilateral initiatives. In line with overarching principles of trade facilitation, it is important that procedures aimed at streamlining trade procedures at the regional level be non-discriminatory whenever possible. A dominant view on the regional efforts to facilitate trade is that they are essentially non-discriminatory, unless members adopt specific regional standards (Maur and Shepherd 2011). However, even if the ultimate objective of trade facilitation appears to be multilateral and non-discriminatory, there are some measures that give preferential trade facilitation treatment to a limited number of countries (Hamanaka et al 2010). Particular attention to this is necessary for FTAs since they inherently intend to give preferential treatment to members. As reflected in the number of recent agreements featuring separate Trade Facilitation and/or Transparency chapters (or their equivalent), trade facilitation provisions and principles are seen to have wider application aside from Customs procedures. Most agreements covering trade facilitation readily commit to increasing transparency such as committing to an obligation to publish laws and regulations affecting trade. The importance of using international standards is also recognized in most of those agreements. Other trade facilitation measures that seem to be increasingly common include Automation/Use of ICT, Risk management, Advance ruling and single window (Duval, 2011).

Preferential trade facilitation measures stipulated in agreements could lead to two types of discrimination: (i) exclusive treatment and (ii) differentiated treatment. First, if an FTA gives preferential trade facilitation treatment to partners only, then the effective treatment between FTA members and non-members differs. For example, beneficiary of regional conformity assessment initiatives can be limited. In fact, specific conformity assessment provisions can be territorial in nature and hence exclusive to FTA members. Such provisions include the national treatment in conformity assessment bodies as in the case of the US–Australia FTA, which stipulates “Each Party shall accredit, approve, license, or otherwise recognise conformity assessment bodies in the territory of the other Party on terms no less favourable than those it accords to conformity assessment bodies in its territory”. Second, differentiated trade facilitation measures happen when a country applies different preferential treatment across partners. For example, when express shipment is covered by FTAs, the prescribed level of speed is applicable to goods traded between members only and, is, thus discriminatory against non-members. In addition, this agreement can be discriminatory to different trade partners if certain requirements imposed on some partners are stringent while such requirements are less stringent on other partners. For example, the time requirement of US–Singapore FTA is six hours for imports but four hours for US–Korea FTA. Given the resources of US customs, administering different time requirements across FTAs in terms of express shipment is manageable. However, for less developed countries, it is more efficient to adhere to a single expedited amount of time to avoid maintaining several lanes—regular lanes, express lanes, super-express lanes, which would entail additional administrative costs.

Discriminatory effects of trade facilitation measures in FTAs may best be addressed *de jure*, i.e., by extending application of the measures to non-members. In fact, some trade facilitation agreements include provisions applicable to non-members. The case of the ASEAN Mutual Recognition Agreement on Electrical and Electronic Equipment (EEE) provides an extremely liberal approach. Under this agreement, conformity assessment conducted outside ASEAN is acceptable (unlike in other FTAs such as the US–Australia FTA). It says “Test Reports and/or Certificates of Conformity issued by Conformity Assessment Bodies located outside ASEAN ... may be accepted provided that ...”. Another way to overcome discriminatory effects is to provide the same treatment to all countries on the *de facto* basis, maintaining the legal preferential treatment in the agreement. This is a practical and useful solution to overcome both exclusive and differential treatments. *De facto* application to non-members is feasible since it is costly to develop two separate sets of customs procedures – 1 for members and another set for non-members to be applied. Further, the extension of preferential trade facilitation treatment to non-members can be achieved with some time lag for proper phasing and sequencing. This is especially true in the case of developing countries that initiated trade facilitation reforms through regional negotiations with a limited initial scope as a pilot project. When the main concern is limited to differentiated treatment, one effective “legal tool” to solve the problem is the introduction of automatic MFN status (so-called “non-party MFN”). With this provision, FTA partners under different FTAs are treated equally.

**Table 3.3: Proposed Trade Facilitation Model Measures: An Overview**

Trade Facilitation Principle	Trade Facilitation Model Measure <sup>a</sup>	Cost <sup>b</sup>	Priority <sup>c</sup>	GATT Article Concerned
Transparency	1. Publish trade regulations (internet publication)	low (medium-high if translation required)	1	Art. X
	2. Ensure dissemination of information relevant to trade (internet publication and notification to WTO secretariat)	low	1	Art. X
	3. Provide advance rulings in customs matters (tariff classification and customs valuation)	medium	2	Art. X
	4. Establish a mechanism to review decisions (right of appeal)	high	2	Art. X
	5. Apply trade regulations consistently and in a nondiscriminatory manner, and guarantee due process (code of conduct, right of appeal)	medium	2	Art. X
Simplification	6. Minimize/reduce fees and charges in connection with import or export	medium	1	Art. VIII
	7. Establish a "single window" or one-time submission procedure	medium-high	2	Art. VIII
	8. Implement pre-arrival examination	medium	1	Art. VIII
	9. Implement post-clearance audit	medium	2	Art. VIII
	10. Apply risk management techniques (authorized economic operators [AEOs], green lane)	low	1	Art. VIII
	11. Eliminate pre-shipment inspection and use customs brokers	low	1	Art. VIII
	12. Simplify and reduce customs procedures and documentary requirements	medium	2	Art. VIII
13. Simplify procedures for goods in transit, nondiscrimination	medium	1	Art. V	
Harmonization	14. Harmonize customs procedures, documents, and customs valuation methods	medium	1	Art. VIII
	15. Adopt international standards	low-medium	3	Art. VIII
	16. Use harmonized tariff classification	low	1	Art. VIII
	17. Align national standards with or adopt international standards	medium-high	2	Art. VIII
	18. Recognize standards of other countries	medium	3	Art. VIII
19. Recognize certification and testing facilities of other countries or international organizations	medium	3	Art. VIII	
Cooperation	20. Pre-consult new and amended rules	low	3	Art. X, Art. XXII
	21. Ensure cooperation and effective exchange of information between customs authorities	medium	2	Art. X
	22. Improve relationships between customs authorities and trading community	medium	3	-
	23. Improve mobility of businesspeople	medium-high	2	-

*Continued on next page*

Table 3.3 continued

Trade Facilitation Principle	Trade Facilitation Model Measure <sup>a</sup>	Cost <sup>b</sup>	Priority <sup>c</sup>	GATT Article Concerned
Use of modern technology	24. Use automation and automated systems for customs cargo processing	high	1	Art. VIII
	25. Use electronic communication systems	high	1	Art. VIII
Technical assistance and capacity building	26. Provide technical assistance to least developed countries	medium	1 <sup>d</sup>	
	27. Establish international training programs	medium	2	
	28. Build capacity within least developed countries	low	1	

Note: All statements regarding cost, priorities, and expected WTO outcomes are for illustrative purposes only as the cost and priorities will vary from country to country. It will be the responsibility of the NTFB working group to provide cost estimates and prioritize measures for negotiations.

<sup>a</sup> For Trade Facilitation Model Measures in detail, see ESCAP's, Trade facilitation beyond the multilateral trade negotiations: Regional practices, customs valuation and other emerging issues – A study by the Asia-Pacific Research and Training Network on Trade. 2007.

<sup>b</sup> Estimated cost for implementation assuming there is no pre-existing measure of that kind (scale: low-medium-high); see also cost estimates in Duval (2006) and Moise (2004).

<sup>c</sup> Suggested priority based on cost/effect considerations (scale: 1 to 3, 1 being the highest priority); see also priority of TF measures in Duval. 2006.

<sup>d</sup> Developing countries should request the necessary technical assistance and capacity building as early as possible.

Source: Modified from ESCA P. 2008.

## ■ CHAPTER 6

# International Assistance for Trade Facilitation

A relatively large number of international institutions offer a variety of trade facilitation assistance, ranging from seminars or workshops on selected aspects of trade facilitation to comprehensive multi-year regional projects.<sup>163</sup> A substantial amount of lending is also provided by many international and regional institutions to support trade facilitation. Indeed, lending for trade facilitation is one of the fastest-growing themes in development finance. This chapter first outlines steps in optimizing trade facilitation lending support and technical assistance (LS/TA) for institutional strengthening and capacity building. It highlights the need for countries and regions to be proactive in identifying their trade facilitation needs and to rationalize the provision of trade facilitation-related services in order to realize benefits. This is particularly important in small least developed countries and less-developed regions, where absorption capacity is very limited and institutional capacity is constrained. As such, LS/TA for institutional strengthening and capacity building may then be requested. The second part of the chapter succinctly describes the role and activities of the major trade facilitation service providers in the region.

## Optimize Trade Facilitation Assistance: Lending and Technical Assistance

- (i) *Identify trade facilitation needs.* Identification of technical assistance and capacity building needs typically follow the identification of trade facilitation needs and priorities, earlier discussed in Part III, Chapter 2. Indeed, once the trade facilitation body and/or its relevant working groups at the national and (sub)regional levels have identified the priority trade facilitation measures to be implemented, they need to assess which of the measures may be implemented using existing technical, financial, and human resources, and which require LS/TA. Such assessment is useful in itself, as it justifies reprioritization of measures, starting with those that may be implemented using existing resources. This will increase the likelihood that early gains from trade facilitation reforms are achieved, which is often essential to sustaining high-level political commitments.

<sup>163</sup> Many bilateral aid agencies also provide LS/TA for trade facilitation.

As discussed earlier, assessment of trade facilitation and related needs and priorities is essential, but is sometimes a relatively complex step given the number of stakeholders involved and their diverse interests. Deciding which measures are likely to involve LS/TA also requires an excellent knowledge of the measures, as well as the existing capacity and resources of the country where measures are to be implemented. Therefore, it may be best to rely on a neutral third party (e.g., a local research or academic institution familiar with trade policy and facilitation matters), possibly supported by one or more experts from international LS/TA organizations familiar with that country or region.

At the national and regional levels, it is important to assess trade facilitation needs to forge a close partnership between the government and the private sector, which includes service providers and traders, through policy forums or dialogues.

It is also important to focus not only on capacity building for officials, but also on the strengthening of their institutions. In many instances, the task of institutional strengthening in trade facilitation for both national and regional institutions is challenging. Improved individual capacity will be more effective if the institutional setting is changed. Thus, the LS/TA need assessment for institutional strengthening should always be considered.

- (ii) *Prepare national lending support and technical assistance plan.* Once the trade facilitation needs have been identified in each priority area, an overall LS/TA plan for institutional strengthening and capacity building may be developed, ideally, by the secretariat of the national trade facilitation body (NTFB), in cooperation with the relevant working groups and regional bodies. Preliminary consultations may also be done with experts from LS/TA organizations at this stage, in particular to develop cost estimates of the various components of the LS/TA plan. The preparation of such a detailed LS/TA plan by the NTFB will ensure that it reflects the actual needs of the country and that it is not unduly influenced by foreign donors or organizations, whose interests may differ from the interests of the country in consideration.

The plan may include a suggested timeline for the delivery of various components, particularly when these components are related to commitments made as part of multilateral or plurilateral trade agreements. Integrating the trade facilitation plan into an overall national trade capacity building plan (e.g., encompassing trade promotion, negotiations, and infrastructure) or an economic development plan may be considered, as this may facilitate its endorsement by both the highest government authorities and eventual donors and international organizations. This will also reduce the possibility of overlaps in LS/TA plans developed by various trade-related committees.

- (iii) *Prepare a regional lending support and technical assistance plan.* Regional secretariats such as the Association of Southeast Asian Nations (ASEAN), South Asian Association for Regional Cooperation, Brunei Darussalam-Indonesia-Malaysia-The Philippines East ASEAN Growth Area (BIMP-EAGA), and Pacific Plan secretariats, or regional institutions serving as de facto secretariats, such as ADB for Central Asia Regional Economic Cooperation (CAREC) and Greater Mekong Subregion (GMS), are actively supporting regional trade facilitation bodies—for example, by providing support for various senior official and ministerial meetings on trade facilitation. These secretariats have helped

member countries in developing regional LS/TA plans for trade facilitation for many years. The following are important steps in preparing a regional LS/TA plan, among others:

- **Regional LS/TA priorities and diagnostics.** LS/TA diagnostic reviews and consultations are important in assessing the state of trade facilitation in a (sub)region, the priorities of developing member countries (DMCs) in trade facilitation, and their capacity to implement and monitor the trade facilitation activities. It is therefore important to conduct consultations among the participating countries, individually or where appropriate, through a trade facilitation regional forum or meeting with participation by various stakeholders (such as the service providers, traders, and regulators).
- **Pre-LS/TA analysis and assessment.** The following are suggested in the preparation of a regional LS/TA:
  - analysis of regional and global trade trends;
  - review of the broader trade facilitation cooperation in the region;
  - financing and technical assistance assessment; and
  - country self-assessment of the trade facilitation performance.
- **Taking stock of regional LS/TA.** The main purpose of the stocktaking is to review the status of LS/TA in the region, which covers, among others:
  - Progress of the existing LS/ TA;
  - Rationale for preparing a new LS/TA;
  - Status of analytical studies or assessments on the state of trade facilitation in the region;
  - Main trade facilitation activities of international organizations;
  - Proposed process of stakeholder participation in preparing the regional LS/ TA plan; and
  - Resources needed to prepare the LS/TA plan and time-bound milestones.
- **Consultations with the participating governments.** Regional LS/ TA consultation has to be carried out at every stage—design, preparation, implementation, monitoring, and evaluation—to ensure ownership of the LS/TA plan. To increase DMC ownership of the Regional LS/TA, extensive policy dialogue and consultation at the regional level, either directly with the DMC or through existing regional trade facilitation mechanisms (e.g., working groups, committees, secretariats, and meetings) should be conducted.
- **Alignment between regional LS/TA and the country LS/TA.** The regional LS/TA planning and programming can either be separate processes or integrated with the country LS/TA planning exercise. Ideally, the regional LS/TA and the country LS/TA should be synchronized to ensure the alignment of the two processes.
- **Partnerships with international organizations providing LS/ TA.** It is important for the regional LS/TA to identify other international organizations working in the same (sub)region. Coordinating with other international organizations would help maximize synergy and avoid duplication. Joint activities, including cofinancing opportunities, if any, should be clearly identified in the regional LS/TA plan.

- (iv) *Disseminate plan to donors and international organizations and seek specific commitments.* With a well-prepared plan and a good understanding of needs and priorities on hand, the NTFB will be well-positioned to seek and obtain the LS/TA it needs. The next step is making the approved plan available to the donor and international community, seeking from each LS/TA provider specific information on which part of the plan they could implement and their proposed timeline.

The NTFB may consider convening a meeting between the donors and LS/TA providers to discuss the plan and its feasibility. If effective channels of communication between donors and LS/TA providers already exist,<sup>164</sup> they should be utilized to the extent possible. In addition, being a member of trade facilitation-related organizations such as the World Customs Organization (WCO), the International Maritime Organization (IMO), or the World Trade Organization (WTO) may greatly facilitate access to assistance.<sup>165</sup>

Most international organizations, especially those that are substantially involved in providing LS and/or TA, have long-established financial programming and planning processes and strategies for LS/TA (for details, see this chapter's section on Trade Facilitation-Related Organizations). For example, LS/TA activities are included in both ADB's country partnership strategy for each country and its regional cooperation strategy. The preparation processes of these strategies involve intensive consultations on LS/TA needs assessment at the country and regional levels, in a bottom-up and participatory manner. It is therefore critical for countries and regions to understand and synchronize their trade facilitation work with the LS/TA business process cycle of the international organizations to maximize the LS/TA for trade facilitation.

- (v) *Maintain a national and regional database of trade facilitation LS/TA projects and activities.* As commitments for implementation of activities and measures are made, it is important that they are accurately recorded and made publicly available in a timely manner once approved. This will increase the effectiveness and impact of LS/TA for trade facilitation in the country, as it ensures that trade facilitation projects build on, rather than duplicate, each other. This database should be maintained by the NTFB secretariat or the lead agency, either as a stand-alone tool or (preferably) as part of an existing LS/TA monitoring system with a larger scope.

Such a database can also be modified to monitor the implementation of various projects and the reliability of LS/TA service providers and donors over time.

The steps outlined earlier generally assume the existence of a strong NTFB and secretariat. If such an institution does not yet exist in the country, the very first LS/TA request may therefore be to provide support for establishing such an institution.<sup>166</sup>

<sup>164</sup> For example, established as part of the Enhanced Integration Framework, the United Nations Development Assistance Frameworks (UNDAF) and ADB's country partnership strategies and regional cooperation strategies and programs (RCSP).

<sup>165</sup> In particular, the trade facilitation agreement currently under negotiations at the WTO explicitly ties trade facilitation commitments.

<sup>166</sup> Large trade facilitation projects often require governments to establish such institutional mechanisms, such as a national trade and transport facilitation committee, as a first step before implementation can take place.

International organizations providing LS/TA often have well-maintained databases for LS/TA support, either through their public websites or annual reports. However, it is highly desirable to strengthen inter-institutional collaboration to have an integrated database that can be shared by the participating countries.

## International/Regional Organizations to Support Trade Facilitation

Trade facilitation can involve various levels of action. Most trade facilitation measures require national actions, while some are best implemented as regional or bilateral initiatives. The implementation of international conventions, standards, and best practices ensures that similar trade facilitation measures applied by different countries and regions have a common internationally agreed basis. International organizations, in particular, play an important role in ensuring the competitiveness of the trading environment through cooperative activities. The following section presents a brief overview of the international organizations involved in supporting different aspects of trade facilitation: (i) standard setting agencies, (ii) lending and technical assistance agencies, (iii) technical assistance agencies, and (iv) others. These headings are not mutually exclusive.

### Standard Setting Organizations

*World Trade Organization (WTO)*. The WTO is the only global organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The WTO's founding and guiding principles remain the guarantee of nondiscriminatory treatment among members (most favored nation principle) and a commitment to transparency. The WTO has established a dispute settlement mechanism to secure the implementation of agreed rules. The WTO's procedure underscores the rule of law, and makes the international trading system more secure and predictable.

The WTO has several provisions and agreements that are related to enhancing trade efficiency (Table 3.4). Although these articles and agreements are presently in force, a number of WTO members considered their implementation and enforcement inadequate due to, among others factors, their lack of clarity and commitment in terms of cooperation and coordination among WTO members. Although trade facilitation was included in the WTO negotiating agenda at the First Ministerial Conference of the WTO in Singapore in December 1996, members formally agreed to commence negotiations only on 1 August 2004, after several years of exploratory and analytical work.

Following the general council's decision, the focus of trade facilitation negotiations was narrowed down mainly to clarifying and improving relevant aspects of Articles 5, 8, and 10 of the GATT 1994 with a view to further expedite the movement, release, and clearance of goods, including goods in transit, as well as to enhance technical assistance and support for capacity building in this area. The negotiations also aim to improve effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. The modalities also state that the results of the negotiations shall take fully into account the principle of special

**Table 3.4: World Trade Organization Provisions and Agreements Related to Trade Facilitation**

Article/Agreement	Subject
GATT 1994, Article V	Traffic in transit (see Part II Chapter 5).
GATT 1994, Article VII	Valuation of imports for assessment of duties or other charges (not including internal taxes). This assessment should be based on the “actual value of the imported merchandise, or of like merchandise.”
GATT 1994, Article VIII	Disciplines for fees and formalities connected with import and export (see Part II, Chapter 2).
GATT 1994, Article IX	Marking requirements. It requires most favored nation treatment and emphasizes that the difficulties and inconvenience to the commerce and industry of exporting countries in adopting and enforcing laws relating to marks of origin should be minimized.
GATT 1994, Article X	Requiring prompt publication of all laws, regulations, judicial decisions, and administrative rulings affecting imports and exports (see Part II, Chapter 1).
Agreement on Implementation of Article VII of GATT 1994	Establishes rules for valuing imports for the assessment of ad valorem customs duties and provides for the establishment of an adequate legal and judicial framework to ensure importers’ right of appeal.
Agreement on Rules of Origin	Harmonization of non-preferential rules of origin, and ensuring that such rules do not themselves create unnecessary obstacles to trade.
Agreement on Import Licensing Procedures	Some procedural aspects of Article VIII, recognizing that import licensing procedures can have acceptable uses, but also that their inappropriate use may impede the flow of international trade.
Agreement on Preshipment Inspection	Reduces any barriers to trade that could result from the use of private agents to conduct quantity, quality, and price inspection of imports.
TBT Agreement	Rules related to technical regulations and standards, and conformity (see Part II, Chapter 3).
SPS Agreement	Rules related to application of sanitary and phytosanitary measures (see Part II, Chapter 3).
GATS and annexed schedules	Liberalization in a number of service industries that are vital for the facilitation of trade, such as transport, financing, and telecommunications (see Part II, Chapter 4).
Agreement on Trade-Related Aspects of Intellectual Property Rights	Enforcement of intellectual property rights and special requirements related to border measures.

Source: World Trade Organization (G/L/244) 1998.

and differential treatment for developing and least-developed countries. The extent and the timing of entering into commitments are linked to the implementation capacities of developing and least-developed countries.<sup>167</sup>

*World Customs Organization (WCO)*. The WCO has played a pivotal role in establishing standards and best practices for customs administration. The WCO has spearheaded attempts to harmonize and standardize customs operations through a number of international instruments and tools. The most important instrument in terms of trade facilitation is the International Convention on the Simplification and Harmonization of Customs Procedures (known as the Revised Kyoto Convention).

<sup>167</sup> See Annex D of the Decision, also called “July Package,” for details. Additional information on the negotiations, including a compilation of proposed trade facilitation measures, is available at: [www.wto.org/english/tratop\\_e/tradfa\\_e/tradfa\\_negoti\\_docs\\_e.htm](http://www.wto.org/english/tratop_e/tradfa_e/tradfa_negoti_docs_e.htm)

The Revised Kyoto Convention aims to maintain the balance between a smoother movement of legitimate cargo across the borders and ensuring trade security. It provides a comprehensive set of uniform principles for effective and predictable customs procedures, controls and enforcement.

Other WCO instruments and tools pertaining to the simplification and harmonization of customs procedures are interrelated. These include the WCO data model, the SAFE Framework of Standards to secure and facilitate global trade, the temporary admission (ATA) for imports system, the harmonized commodity description and coding system, unique consignment reference (UCR), a risk management guide, immediate release guidelines, and the Time Release Study methodology. These WCO instruments are further detailed in Chapters 2 and 3 of Part II. The WCO has been actively participating in support of the WTO negotiations on trade facilitation and in providing related technical assistance and capacity building support. Examples of WCO and WTO collaboration include the WTO Agreement on Customs Valuation and the WTO Agreement on Rules of Origin.

*United Nations Economic Commission for Europe (UNECE)*. The UNECE has a long history of developing and maintaining international conventions, standards, and tools for transport and trade facilitation, and providing capacity building support to implement them. In terms of trade facilitation, the work by UNECE and WCO is mutually complementary: the instruments developed by UNECE address a variety of at-the-border and behind-the-border measures, while the WCO's focus is on customs measures. Some WCO instruments explicitly refer to instruments developed by UNECE (and UN/CEFACT) and vice-versa; for example, the Revised Kyoto Convention (Standard 3.11, Chapter 3) recommends that the paper format of the goods declaration form conforms to the United Nations Layout Key.

In the transport area, UNECE promotes the harmonization and improvement of transport-related standards, and the simplification and harmonization of border-crossing procedures, through multilateral and regional transport conventions. In particular, two UNECE conventions provide practical solutions for addressing treatment of goods in transit—the Customs Convention on the International Transport of Goods under Cover of TIR Carnets (known as the TIR Convention) and the International Convention on the Harmonization of Frontier Controls of Goods (known as the Harmonization Convention). These conventions represent UNECE's principal multilateral instruments for facilitating border-crossing procedures. They apply to all modes of transport. Both conventions have been operating successfully for many years within and beyond the UNECE region, including some countries in Asia and the Pacific.

The need to simplify and harmonize is particularly evident in the preparation and submission of the extensive range of information and documents required by regulatory agencies. Ensuring the efficient flow of trade information between parties involved in international trade is therefore as important as providing the efficient movement of goods from buyer to seller. Together with the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT), UNECE has been developing and maintaining global standards, recommendations, and tools for the simplification and harmonization of international trade procedures and associated information flows (documents and data). These include e-business for individual transactions and for the entire international supply chain (including behind-the-border measures). Key standards and recommendations developed by UNECE–UN/CEFACT include the United Nations Layout Key (UNLK; ISO 6642); the United Nations Electronic Data Interchange for Administration, Commerce and Transport

(UN/EDIFACT—the only global standard for Electronic Data Interchange); and the *United Nations Trade Data Elements Directory* (ISO 7372). A reference for simplifying, harmonizing, and rationalizing trade procedures and practices is provided in the *Compendium of Trade Facilitation Recommendations*.

The *International Maritime Organization (IMO)* is a specialized UN agency that oversees the world maritime industry. Given that 90% of world trade by volume is transported by sea, it is important that port and shipping services become efficient. To date, 102 countries, accounting for 60% of the port states of the world, are parties to IMO conventions. The IMO has developed a comprehensive regulatory framework for shipping. Foremost among the conventions and protocols adopted to facilitate port and shipping activities is the Convention on Facilitation of International Marine Traffic (IMO-FAL). The IMO-FAL provides the highest practicable degree of standards to facilitate maritime transport by simplifying and minimizing formalities, documentary requirements, and procedures related to arrival, stay, and departure of ships at ports. With IMO-FAL, the number of declarations has been reduced to eight, six of which have been standardized by the IMO. The 2001 *IMO Compendium on Facilitation and Electronic Business* was amended to ensure alignment with UN/CEFACT, ISO, and WCO maritime standards.

The *International Air Transport Association (IATA)* and *International Civil Aviation Organization (ICAO)* work together to improve air transport services. The transport association is the prime vehicle for inter-airline cooperation in promoting safe, reliable, secure, and economical air services. The ICAO is a UN agency in charge of the development of principles and techniques of international air navigation as incorporated in its Convention on International Civil Aviation.<sup>168</sup> The ICAO has maintained an active interest in the development of trade in services, and in particular the facilitation of border-crossing procedures for international civil aviation. Both agencies have initiated the development of standards, practices, and procedures that facilitate passenger and cargo traffic. Examples include (i) the Multilateral Interline Traffic Agreements, which are the basis for the airlines' interline network by which airlines accept other airlines' tickets and airway bills on a reciprocal basis; (ii) the development of unit load devices to allow rapid, economical cargo handling; and (iii) standardized machine-readable passports. ICAO has also coordinated regional air navigation and support for airports and operational aids in countries that could not afford such services.

## Lending and Technical Assistance Organizations

*Asian Development Bank (ADB)*. ADB is a development finance institution that has been involved in facilitating trade-led growth in Asia and the Pacific since 1966. Operating through regional programs and country-specific projects under *Strategy 2020*, adopted in 2008, regional cooperation and integration will continue to be a major strategic priority of ADB. ADB provides financial, policy dialogue, knowledge, and capacity building assistance to DMCs. Trade-related infrastructure, trade finance, and trade facilitation are key functional areas of ADB operations in the region.

- (i) *Financial support for hard and soft cross-border infrastructure*. ADB's support for trade facilitation covers significant lending and non-lending operations. The key lending activities involves provision for regional trade and transport-

<sup>168</sup> Also known as the Chicago Convention, now in its 9th edition. [www.icao.int/icaoenet/dcs/7300.html](http://www.icao.int/icaoenet/dcs/7300.html)

related infrastructure programs; national trade and transport-related infrastructure programs with a significant cross-border trade facilitation dimension; and harmonization of regulations, procedures, and standards for trade facilitation, including evaluation and monitoring of trade facilitation programs. Implementing these programs entails substantial technical assistance to DMCs with the required soft infrastructure for trade facilitation. In addition, ADB's Trade Finance Facilitation Program (TFFP), which started in 2004, provides finance and guarantees through and in conjunction with international and developing member country banks to support trade transactions in developing nations.

- (ii) *Regional policy dialogues for trade facilitation.* ADB plays a major role in the regional trade facilitation policy dialogues, particularly in the Greater Mekong Subregion, the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT), BIMP-EAGA, and the Central Asia Regional Economic Cooperation (CAREC). This involves the coordination of various regional policy forums on trade facilitation, including meetings of senior officials and summit-level meetings (such as the CAREC Ministerial Conference on Central Asia Regional Economic Cooperation and BIMP-EAGA, IMT-GT, and GMS ministerial meetings and summits).
- (iii) *Capacity building of DMCs in trade facilitation.* ADB organizes institutional and training activities for DMCs. These are training and seminars on the simplification of customs procedures, single window, transit development, trade logistics development, risk management, joint customs control, and rules of origin. These programs are coordinated through the regional training centers such as the CAREC Institute for Central Asia, the Phnom Penh Plan, and the ADB Institute.
- (iv) *Knowledge on trade facilitation.* ADB provides knowledge products that are operationally focused in trade-related infrastructure, logistics, and trade facilitation. These include research on transport and integrated facilitation corridors, costs, and benefits of trade facilitation, customs modernization, and rules of origin in free trade agreements, among others.

*World Bank.* The World Bank attaches great importance to trade facilitation. It has an existing portfolio of 80 projects under implementation totaling \$4.6 billion. The World Bank's largest and rapidly increasing trade-related work is in the area of trade facilitation and competitiveness. Trade-related issues such as customs reforms, elimination of domestic monopolies in tradable goods, services reforms, and, in rare instances, trade liberalization, are part of the budget support lending.

Among a number of trade facilitation LS/TA activities, the World Bank's trade and transport facilitation audits seek to improve diagnosis and corrective trade activities by providing guidelines for carrying out the preliminary audit, reviewing the analysis, and preparing appropriate remedial action. They establish a diagnosis, as comprehensive as possible, of procedural or operational constraints to external trade and international transportation services. Fed from public and private sector assessments, these baseline diagnostics are carried out primarily in least-developed countries on a self-standing basis or as a contribution to a wider diagnostic.

Other relevant World Bank LS/TA activities in this area include (i) the Trade Facilitation Negotiation Support Program to assist developing countries and least-developed countries to play a more active role in the WTO trade facilitation negotiations, providing real-time analysis and practical advice to negotiators

in Geneva and capitals; and (ii) the International Finance Corporation's Foreign Investment Advisory Service, which includes advisory services on import/export policies and procedures (customs), as well as on investment promotion strategies and tools.<sup>169</sup>

## Technical Assistance and Capacity Building Organizations

*United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)*, the regional branch of the United Nations for Asia and the Pacific, has a longstanding technical assistance and capacity building program for trade facilitation. Its main emphasis is on the simplification, harmonization, and standardization of trade procedures and related documentary requirements in international trade, and builds on the norms and recommendations developed under the auspices of UNECE and UN/CEFACT. The primary focus is on least-developed and landlocked countries, as well as economies in transition of the UNESCAP region.<sup>170</sup>

UNESCAP provides advisory services and organizes national and regional workshops and knowledge-sharing activities on trade facilitation, often in collaboration with other organizations of the region or the UN system. While the capacity building events and activities organized in this area are very diverse, they have included activities to support establishment of national trade facilitation institutions; promote and facilitate the establishment and operation of national single windows for export and import clearance; identify the needs and priorities of the countries in the region in the context of the WTO negotiations on trade facilitation; and facilitate trade finance, particularly in economies in transition. UNESCAP, in cooperation with UNECE and the United Nations Conference for Trade and Development, launched support to the United Nations Network of Experts for Paperless Trade in Asia and the Pacific.<sup>171</sup>

*United Nations Conference for Trade and Development (UNCTAD)*. In the areas of transport and trade facilitation, UNCTAD aims to develop ad hoc and long-term institutional and individual capacity to implement trade and transport facilitation actions, including in port and shipping management. Human resource development is carried out through transport and trade facilitation workshops at national and regional levels, as well as through ad hoc participation and support to trade logistics-related courses provided by academic or partner international organizations. For example, the Port Training Program for middle managers on modern port management, jointly developed with Train For Trade, includes an eight-module course leading to a Port Management Certificate. It provides middle managers with a full understanding of modern port management. A distance learning version of the Port Management course is also available.<sup>172</sup>

UNCTAD also offers the Automated System for Customs Data (ASYCUDA) program. The main objective of the program is the modernization of customs, using information technology to speed up and simplify the clearance process of goods. The system manages the whole clearance process, from (and prior to) the arrival of the goods up to their warehousing and ultimate release after payment of duties

<sup>169</sup> For more information, see [www.worldbank.org/tradefacilitation](http://www.worldbank.org/tradefacilitation) and [www.ifc.org/fias](http://www.ifc.org/fias)

<sup>170</sup> Most countries east of Turkey and west of Australia are members of UNESCAP. See [www.unescap.org](http://www.unescap.org) for details.

<sup>171</sup> See [www.unescap.org/unnext/](http://www.unescap.org/unnext/) for details.

<sup>172</sup> For more information see [learn.unctad.org/](http://learn.unctad.org/)

and taxes. Project implementation includes a comprehensive training package that allows for the full transfer of ASYCUDA know-how and skills to national staff, thus ensuring the program can be sustained by the national administrations.<sup>173</sup>

*International Trade Centre (ITC UNCTAD/ WTO)*. ITC aims to provide technical assistance to strengthen exporters' competitiveness. As such, it takes a holistic view of the entire value chain, from procurement through production to logistics and final distribution. ITC's technical assistance includes training and advisory services on procurement, production (including product quality, packaging, and traceability to meet specific requirements in some export markets), as well as logistics and distribution optimization.

ITC also provides trade facilitation capacity building in the context of regional trade integration projects. Logistical obstacles within and across borders are addressed from the perspective of the business sector as follows: (i) strengthening the capacity of national or regional organizations to develop and implement regional supply chain and logistics; (ii) empowering these organizations to consolidate supplies from small-scale producers and ensure their participation in the supply chain; and, (iii) facilitating consultations with the public and private sectors on planning and coordinating supply chain policy systems, with a view to an enabling environment and institutional framework for SME participation.<sup>174</sup>

*United Nations Industrial Development Organization (UNIDO)*. To address the complex factors underlying successful industrial exports effectively, UNIDO has adopted a holistic approach to trade capacity building structured around three elements: developing competitive manufacturing capability; developing and promoting conformity with market requirements; and enhancing connectivity to markets.<sup>175</sup> Trade capacity building services are grouped in three clusters: competitiveness analysis and trade-related policies; quality management and enterprise upgrading; and standards, metrology, testing, and conformity.

The different services and tools can be used individually or (more often) as packages. UNIDO's technical assistance helps build national and regional export potential by focusing on (i) strengthening national capacity to undertake analysis of competitive potential at product and sub-sector levels; (ii) assisting developing countries to establish the quality and conformity assessment infrastructure required to increase exports; (iii) working in productive sectors with high export potential to upgrade product and production quality and comply with standards and regulations so that enterprises can export successfully; (iv) troubleshooting in cases where export products encounter technical barriers; and (v) advising on technical solutions to the problem.<sup>176</sup>

<sup>173</sup> For more information see [www.asycuda.org/](http://www.asycuda.org/) or contact the Asia and Pacific regional ASYCUDA office ([renaud@asyCUDA.org](mailto:renaud@asyCUDA.org)).

<sup>174</sup> For more information: [www.intracen.org/menus/countries.htm](http://www.intracen.org/menus/countries.htm)

<sup>175</sup> While UNIDO does not report technical assistance and capacity building activities under the "trade facilitation" category in its Inter-Agency Resource Guide on Trade Capacity Building (2008), its activities falls within the scope of this handbook since it includes a chapter on product standards and conformance, a key thrust of the UNIDO technical assistance program.

<sup>176</sup> Other UNIDO services, such as the promotion of investment and technology management, road mapping and foresight, cleaner production, cluster development, and export consortia complement these key trade-related technical cooperation activities. See [www.unido.org](http://www.unido.org) for details.

*Fédération Internationale des Associations de Transitaires et Assimiliés (FIATA)*. Also known as the International Federation of Freight Forwarders Associations, FIATA is a nongovernment organization that represents, promotes, and protects the interests of the freight forwarding industry. Members come from 150 countries all over the world. FIATA has consultative status with UNCTAD, United Nations Economic and Social Council (ECOSOC), and United Nations Commission on International Trade Law (UNCITRAL), and is recognized as a partner in transport matters by many government and international organizations such as the WCO, WTO, and others. The organization has worked hard in supporting WTO progress on trade facilitation to eliminate all barriers that hinder automated communication within the trade chain. FIATA also seeks to establish a National Freight Forwarders Association to support the local freight forwarders industry, especially in landlocked countries.

*International Chamber of Commerce (ICC)* comprises thousands of companies from 130 countries around the world. It is the world's global business organization, active in promoting open trade and market economy through the use of technology that is beneficial to business. Its main objectives center on serving world business by promoting trade and investment, opening markets for goods and services, and promoting the free flow of capital. ICC has been a strong advocate of the multilateral trading system. It has contributed and supported key areas of trade facilitation in customs modernization and simplification of procedures, and has provided business inputs and policy proposals on transport, e-commerce, investment, and services to the UN, WTO, and other intergovernment bodies. The ICC's International Court of Arbitration is the most trusted system of commercial arbitration in the world, having received more than 14,500 cases since its founding in 1923, and the court's membership has grown to cover 86 countries. One of the most significant contributions of ICC to trade facilitation is its Uniform Customs and Practices for Commercial Credit and related standards for exchange of trade finance and payment information.

## Regional Initiatives

*Association of Southeast Asian Nations (ASEAN)*. The ASEAN has taken a particularly proactive role in trade facilitation since 1993, when its members agreed to establish an ASEAN Free Trade Area. Since then, the ASEAN Customs Agreement (1997), the ASEAN Framework Agreement on the Facilitation of Goods in Transit (1998), the ASEAN Framework Agreement on Multimodal Transport (2005), and the implementation of the ASEAN Framework Agreement on Mutual Recognition Agreements have all further contributed to facilitating intraregional trade. As part of the strategy for ASEAN customs integration (2002), efforts have been made to implement the ASEAN Harmonized Tariff Nomenclature to standardize information parameters for customs release and clearance, and to establish the ASEAN customs declaration document, ASEAN cargo processing model, and ASEAN single window. The recent ASEAN Single Window Agreement (2005) is the most significant and far-reaching ASEAN commitment relating to trade facilitation. The decision by ASEAN economic ministers to include logistics in the priority integration sector is another milestone commitment related to trade facilitation. Regional cooperation in transport, infrastructure, standards and conformance, and information and communication technology (ICT) (e-ASEAN) also impacts on trade facilitation. While these initiatives have contributed to narrowing the range of trade costs among ASEAN members, differences in trade efficiency in the individual ASEAN countries remain wide.

*Asia-Pacific Economic Cooperation (APEC)*. The APEC forum was created in 1989 to promote open trade and economic integration. Its membership includes countries from the western Pacific, as well as from Asia and the Pacific islands.<sup>177</sup> APEC has played a significant role in promoting trade facilitation. The APEC ministers of trade endorsed a set of nonbinding principles for trade facilitation in 2001, and committed to reduce their trade costs by 5% over 5 years. In an effort to reach that goal, each APEC member prepared a trade facilitation action plan (TFAP) and reported their progress annually. By 2004, 1,300 items had been selected in individual countries' TFAPs, mainly in the subcategory of customs procedures; more than half of these had been completed and a further quarter of the measures were in progress.<sup>178</sup> A follow-up initiative aimed at reducing trade costs by another 5% (TFAP II) was launched in 2008. Although the extent to which these initiatives have led to trade facilitation remains unclear, the voluntary but systematic and collaborative approach to trade facilitation developed by APEC provides a potentially useful model for strengthening regional cooperation in this area, including by providing an inventory of trade facilitation measures and by highlighting examples of best practice.<sup>179</sup>

Many other organizations are involved in trade facilitation technical assistance and capacity building. For example, the WTO, in collaboration with the International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD), UNCTAD, World Bank, the WCO, and others, provides technical assistance to conduct national self-assessments of individual trade facilitation needs and priorities of its developing member countries.<sup>180</sup> The International Maritime Organization also provides technical assistance to developing countries to build their capacity to simplify procedures connected with the import and export of goods by sea, in line with the measures and recommended practices contained in the Facilitation of International Maritime Traffic (FAL) Convention.

At the regional level, LS/TA activities also take place under APEC (where high-income members typically provide resources for these activities to lower-income members) or ASEAN (through which developed countries have increasingly channelled their support to ASEAN members in recent years).

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<sup>177</sup> See [www.apec.org](http://www.apec.org) for details.

<sup>178</sup> Based on the Overall Quantitative Assessment in *APEC's Trade Facilitation Action Plan: A Mid-Term Assessment* (APEC Publication Number APEC#204-CT-01.12). The author of this report advises "great caution" in interpreting such data because "the quality and effectiveness of these initiatives is not clear" from the national reports.

<sup>179</sup> The principles espoused in APEC documents on trade facilitation (transparency, efficiency, simplification, nondiscrimination, procedural fairness, cooperation, and capacity building) are similar to the principles of a WTO trade facilitation regime.

<sup>180</sup> For more information see [www.wto.org/english/tratop\\_e/tradfa\\_e/tf\\_assess\\_proposal\\_e.doc](http://www.wto.org/english/tratop_e/tradfa_e/tradfa_e/tf_assess_proposal_e.doc)



## ■ CHAPTER 7

# Assessing Progress and Results

The lead agency and national trade facilitation body (NTFB) will monitor and assess the trade facilitation situation regularly to determine whether the stakeholders have benefited from the solutions and trade facilitation measures put in place.

For the private sector, the gains may be measured in terms of reduction in time and costs and improvement of predictability, such as faster turnover time for goods, lower costs, and customer satisfaction. This can result in enhanced trade competitiveness, leading to repeat orders and a higher volume of trade. Some indicators that could be used in assessing the impact on private sector include:

- (i) Cost of processing trade and customs documentation,
- (ii) Time taken to get trade documents approved,
- (iii) Number of staff needed to process and handle trade documentation and customs,
- (iv) Cargo clearance time, and
- (v) Amount of stock enterprises have to carry.

For the government, benefits would include better trade compliance, correct revenue yields, and effective deployment of resources. Relevant indicators include:

- (i) Number of trade officers involved in processing trade documents,
- (ii) Number of enforcement officers as a ratio of trade and cargo volume,
- (iii) Rate of traders' compliance with the documentation requirements,
- (iv) Accuracy in classification of trade data,
- (v) Accurate information in documents,

- (vi) Compliance with rules of origin, and
- (vii) Correct payment of duties.

The global trade facilitation benchmark indicators discussed in Chapter 2 can also be monitored to see how the country is progressing relative to its peers.

While the aforementioned indicators are useful to determine whether trade facilitation efforts have been successful overall, it is recommended to develop specific indicators for every major trade facilitation measure or solution. These performance indicators should be developed by the specialized working groups under the NTFB as an integral part of their efforts to solve a particular issue (e.g., advance payment systems or information dissemination), and performance should be measured prior to the implementation of the solution to provide a baseline. The early formulation and measurement of key performance indicators (KPI) were identified as the reasons behind the success of the trade and transport facilitation program in Southeast Europe (Box 3.17).

The lead agency, together with NTFB, should review the solutions constantly in the light of changing circumstances to determine whether the respective measurable indicators have been met. This process would involve regular and frequent dialogue and feedback from the various industry agents and related parties in determining the quality of service. This will provide further benefits to the business community in the conduct of international trade, as it will enable early detection of emerging issues and the design (or redesign) of enhanced solutions to solve them.

This guide has highlighted the importance of establishing a strong institutional interagency and public–private mechanism for trade facilitation as a basis for effective trade facilitation both behind and beyond the border. Various steps, actions, and models have been proposed to establish this mechanism and to tackle specific trade facilitation issues, including negotiation of trade facilitation–related agreements and management of trade facilitation technical assistance. While the principles underlying the recommendations are generally applicable (e.g., the need for public–private partnership on trade facilitation), it is important to recognize that the relevance and practicality (applicability) of the various steps may differ from country to country.

Many developing countries in Asia and the Pacific have already taken steps to facilitate trade, and some of the actions and institutions discussed in the guide may have been partially taken and/or established. Duplication of initiatives and institutions should be avoided as this is contrary to some of the fundamental principles of trade facilitation (i.e., simplification and transparency). Users of this guide should therefore fully consider the existing status of trade facilitation, trade-related institutions, and reform programs in their respective countries as they strive to further reinforce and refine their national trade development strategy.

At the regional level, the monitoring mechanism for trade facilitation work should adhere to the following principles:

- (i) *Use of Existing Regional Institutions.* The trade facilitation monitoring and evaluation system should be simple, cost-effective, and appropriate in the regional context. Collaboration among existing regional institutions is important to ensure effective monitoring of the implementation. Weak institutional and capacity factors are often binding constraints on the design,

### Box 3.17: Monitoring Progress: Experience from the Trade and Transport Facilitation in Southeast Europe Program

The Trade and Transport Facilitation in Southeast Europe Program (TTFSE) aimed to foster trade by promoting more efficient and less costly trade flows across the countries in Southeast Europe and providing European Union-compatible customs standards. It sought to reduce nontariff costs to trade and transport, reduce smuggling and corruption at border crossings, and strengthen and modernize customs administrations and other border control agencies. The participants in the program included Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia, Moldova, Romania, and the State Union of Serbia and Montenegro. The TTFSE consisted of the following project components: customs services procedures reform, trade facilitation development, support for integrated customs information systems, improvement of roads and border crossing facilities, and program and project implementation.

While the project-based program, which was a collaborative effort among the national governments in the region, the World Bank, and the United States and the European Union, has ended, the implementation of this trade facilitation initiative between 2000 and 2005 was particularly well documented and included the production of a trade facilitation manual and other useful documents. Of particular interest are the mechanisms instituted for monitoring the implementation and impact of the project. These mechanisms were instituted at an early stage, starting with the establishment of the following key performance indicators (KPI) monitored throughout the project:

- **KPI at Pilot Inland Terminals**
  - import clearance time (min)
  - physical examination (%)
  - trucks cleared in less than 15 mins.(%)
  - irregularities/number of examinations (%)
- **KPI at Pilot Border Crossings**
  - truck examination (%)
  - irregularities/number of examinations (%)
  - average border exit time (min)
  - average border entry time (min)
  - surveyed occurrence of corruption (%)
- **KPI of Customs Efficiency—ratios based on**
  - total number of customs staff
  - annual number of declarations
  - total customs collection (\$ million)
  - total customs salaries (\$ million)
  - total customs cost (\$ million)

In addition, annual user surveys were conducted to supplement KPI measurements. The surveys revealed that progress has been made in harmonizing procedures across border crossings. But the survey also revealed that the users perceived the long delays to be a bigger issue, suggesting that trade facilitation activities would have to be adjusted accordingly. The surveys were administered to 15 to 30 firms (covering logistics service providers and traders) using a questionnaire covering six dimensions: customs law, communication, procedures, personnel and integrity, logistics, and work methods. The complete user survey instruments and results are available in the Annex of the TTFSE (Trade and Transport Facilitation in Southeast Europe Program) Interim Report (available at [www.seerecon.org/ttfse/TTFSE-InterimReportI-Annexes.pdf](http://www.seerecon.org/ttfse/TTFSE-InterimReportI-Annexes.pdf)).

delivery, and monitoring of intended results for trade facilitation activities. Capacity development efforts are crucial to trade facilitation work and must be suitable for and commensurate with the planning, monitoring, and evaluation capacity of a specific region. This underscores the importance of assessing the capacity of DMC governments or existing regional institutions to manage trade facilitation activities and determining how to strengthen their monitoring and evaluation systems.

- (ii) *Implementation and Monitoring of Regional Trade Facilitation Work.* Governments in the region can jointly develop a detailed regional implementation and monitoring action plan to effectively monitor the trade facilitation results framework. Annual monitoring through peer review (e.g., regular regional forums) is highly desirable to support the regional trade facilitation monitoring mechanism. A regional forum that includes government regulators, service providers, and traders is recommended in this respect.

Among others, the following key indicators can be considered in monitoring trade facilitation work at the regional level:

- Harmonization of laws and regulations;
- Simplification of commercial formalities, procedures and documents; and
- Standardization of means such as modal infrastructure (including interfaces), vehicles (including unit loads and handling equipment), and information technology, among others.

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## **Designing and Implementing Trade Facilitation in Asia and the Pacific**

This book guides the implementation of trade facilitation measures and reforms in Asia and the Pacific. It attempts to bridge the gaps among policy makers, practitioners, and economists by outlining operational guidance on how to assess the status of trade facilitation, what measures and reforms are necessary, and how to implement them at the national and regional levels. The reference book also provides international, regional, and national perspectives on trade facilitation.

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