

CHAPTER 4

FACILITATING TRADE AND INVESTMENT

INTRODUCTION

The global economic crisis has put enormous pressure on exporters to increase their productivity and reduce costs so as to secure their share of a shrinking global market. In an environment characterized by a depressed global market and increasing trade dependence, government measures to improve trade competitiveness will be crucial to sustain economic growth in many developing countries of the region.

Trade facilitation is an essential component of a comprehensive strategy to exploit rapidly declining export opportunities, and increase trading opportunities for domestic firms

Trade facilitation, defined here broadly as improving the efficiency of the processes associated with trading across national borders,¹ is an essential component of a comprehensive strategy to exploit rapidly declining export opportunities. Fulfilling export or import procedures in most developing economies of the region still takes at least 50% more time than it does in developed economies. Given that reducing export time by a day may increase trade by a full percentage point (Djankov and others, 2006) and that reducing behind- and at-

¹ An international trade transaction involves many processes, as it typically requires the coordinated movement of goods, money and documents and the associated interactions between an often large number of parties (e.g. banks, logistics providers, customs and other government agencies).

the-border costs of exports by 10% may increase trade in the Asia-Pacific region by up to \$286 billion (Duval and Utoktham, 2009), it is more urgent than ever for governments to find ways to reduce red-tape, i.e. to rationalize regulations and procedures that affect an enterprise's capacity to trade and conduct business efficiently across borders. In addition, emphasizing trade facilitation in the national strategy for trade competitiveness would be fully consistent with the overarching goal of inclusive development, as eliminating unnecessarily cumbersome procedures and requirements would enable more firms to benefit more directly from engaging in international trade.

Asia-Pacific economies have gained more from trade facilitation than from tariff liberalization

Although estimates vary widely, it is generally found that trade transaction costs (TTC) associated with import and export procedures (excluding tariffs) amount to 7 to 10% of the value of goods traded (Engman, 2009).² TTC estimates are generally higher for developing countries and average gains from improved trade facilitation in the Asia-Pacific region have been found so far to exceed those that might be achieved through further tariff liberalization. Importantly, inefficient trade procedures may lead to the de facto exclusion of a country from regional and global production

² Depending on the definition of trade transactions costs and the countries studied, estimates vary from 1% to 15% of transaction value.

networks and value chains, significantly affecting that country's trade and investment prospects as well as opportunities for its enterprises to climb up the value chain.

Inefficient trade procedures may lead to de facto exclusion of a country from regional and global production networks and value chains

The economic significance and development impact of trade facilitation has been increasingly acknowledged over the past decade. WTO members agreed to begin negotiations on trade facilitation in 2004, albeit on a relatively narrow set of issues. These negotiations have since progressed well – arguably better than negotiations on any other issue in the Doha Round. Trade facilitation has also been emphasized in regional and subregional fora within the region, particularly in APEC, ASEAN, PACER and the GMS, but also increasingly in SAARC and in Central Asia. Reflecting this trend, the share of PTAs in Asia and the Pacific featuring trade facilitation provisions rose from less than 20% for agreements that came into force before 2004 to 70% for agreements that came into force in or after 2004 (Duval, 2008).

Beyond issues of trade regulations and documents, there is an increasing realization that facilitating trade requires a more integrated and dynamic approach, looking at the broader and evolving needs of those engaging in international trade. The current crisis has, for example, brought the issue of trade finance facilitation to the fore as enterprises in the region not only face shrinking global demand but higher costs of trade finance as well. There is also mounting evidence that domestic business and investment procedures and regulations that affect all firms regardless of their trade orientation have a highly significant impact on international trade flows. This means that addressing these broader business and investment regulations and bottlenecks may be an effective way to further increase a country's international trade competitiveness, in particular that of SMEs, resulting in more inclusive and sustainable development.

This chapter therefore discusses the progress made by economies of the region in facilitating trade in the context of the current crisis (section A), highlighting in particular behind-the-border (BtB) trade facilitation issues (section B). The chapter also discusses the importance of trade finance (section C).

A. TRADE FACILITATION IN ASIA AND THE PACIFIC: ROOM FOR IMPROVEMENT

Increasing the transparency and efficiency of trade procedures is at the core of trade facilitation, and many countries in the region have taken steps to improve their performance in this area (ESCAP, 2006b; ESCAP, 2008).³ Countries that were particularly successful in shortening time to complete export procedures during the past five years include Cambodia (-21 days), India (-19 days), Lao People's Democratic Republic (-16 days) and Thailand (-10 days).

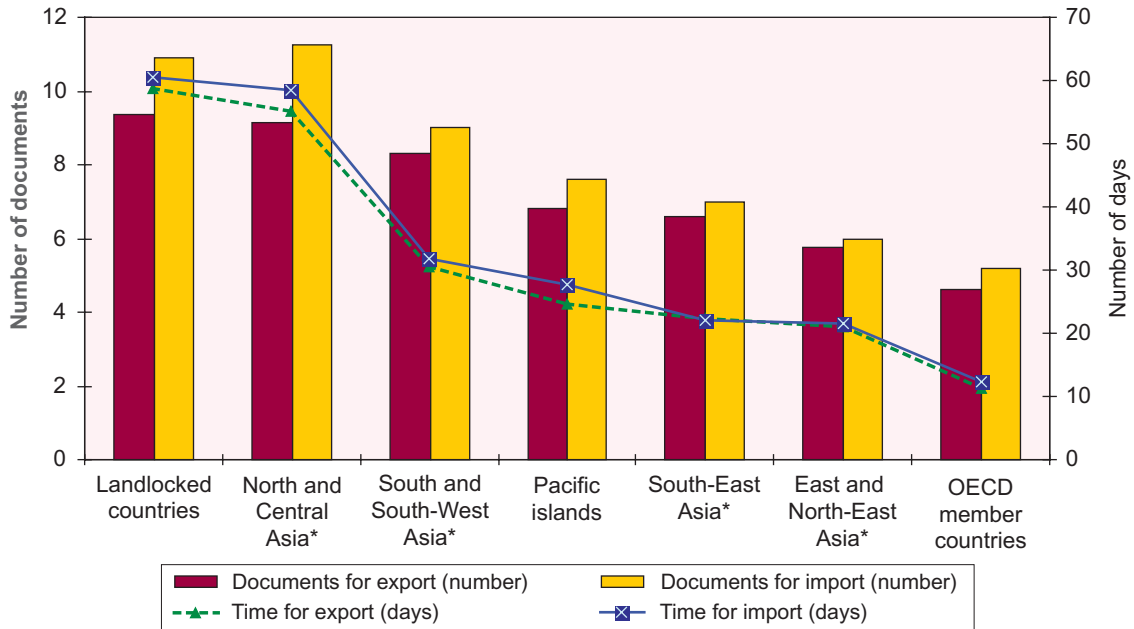
The average number of documents and time required for import/export in many subregions in Asia and the Pacific remains at least twice as high as in OECD

The most popular trade facilitation measure taken in the Asia-Pacific region in the past two years has been the introduction or improvement of electronic data interchange for submission of trade-related documents and information.⁴ In Pakistan, the percentage of goods cleared within a day increased from 4.3% to 93% after it introduced its electronic system. Another popular measure in the region has been the introduction or improvement of risk-based

³ Results of exploratory private sector surveys on trade facilitation needs and priorities conducted by ARTNeT member research institutions in Bangladesh, China, Fiji, India, Indonesia and Nepal show that traders, while acknowledging governments ongoing efforts to facilitate trade, suggest that there is scope for further improvement.

⁴ The Doing Business Report 2009 of World Bank indicated that India, Mongolia, Palau, Philippines and Thailand took this measure in 2007/08. Bangladesh also made significant advances on electronic exchange of trade-related information in 2008/09.

Figure 4.1. Trading across borders at a glance



Source: Calculated based on data from Doing Business 2009, World Bank, available at <http://www.doingbusiness.org>.

* Landlocked countries (Afghanistan, Armenia, Azerbaijan, Bhutan, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Mongolia, Nepal, Tajikistan and Uzbekistan) are excluded from subregional averages.

inspections, typically enabling economies who implemented it to reduce inspection to less than 20% of shipments, as opposed to over 50% previously on average.

Despite the progress made, however, the average number of documents and time required for import/export in many subregions remains well above the OECD average, even when landlocked countries are excluded (see figure 4.1).⁵ For example, exporting takes about 22 and 29 days in South-East and South Asia, respectively, while exporting in OECD countries typically takes less than 12 days. Moving goods from a factory to a ship ready for departure at the nearest seaport in Central Asian and landlocked countries typically takes six times as many days than in OECD, suggesting an even greater scope for improvement in these countries. Accelerating trade facilitation reforms may therefore

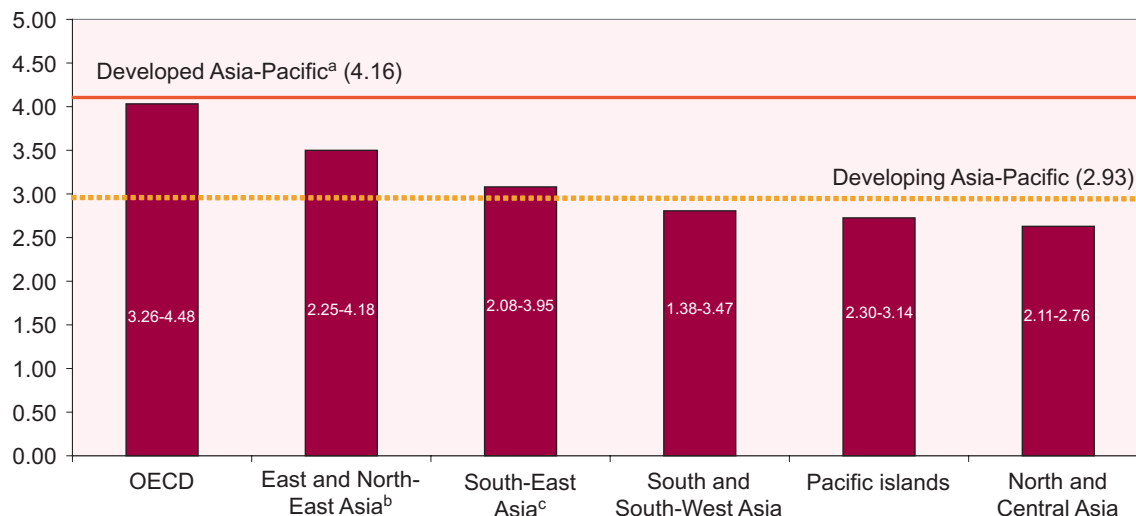
be a powerful way to enhance trade competitiveness in many subregions and mitigate the negative effects of the crisis on businesses and traders.

Predicting when a shipment will arrive at its destination remains a challenge in many countries of the region

Beyond the average number of documents and days involved in trade, an important issue for manufacturers is timeliness, meaning the likelihood that imports or exports will arrive at their destination on schedule. It is particularly important in a highly competitive environment where businesses need to deliver on time while holding minimum inventories to keep costs down. However, figure 4.2 shows timeliness is lacking in many countries of the region. This may be attributed to a combination of poor trade infrastructure, non-transparent and predictable clearance procedures, and an underdeveloped logistics service sector, highlighting the need for an integrated approach.

⁵ The indicators included in the table are directly related to domestic trade facilitation measures, i.e. the number of documents necessary for imports and exports, and the average time and cost of moving a container from factory gate to a ship ready for departure at the port of exit.

Figure 4.2. Timeliness: perceived likelihood of on-schedule delivery
(Subregional averages; 5: nearly always on schedule)



Source: Calculated based on data from the World Bank Logistic Performance Index (2007), available at <http://go.worldbank.org/88X6PU5GV0>.

Notes: ^a Developed Asia-Pacific consists of Australia, Japan and New Zealand.

^b East and North-East Asia average does not include Hong Kong, China.

^c South-East Asia average does not include Singapore.

Range of country timeliness scores in each subregion is reported on each bar.

In many countries, the preparation of documents accounts for at least half of the total number of days necessary to move goods from factory to ship

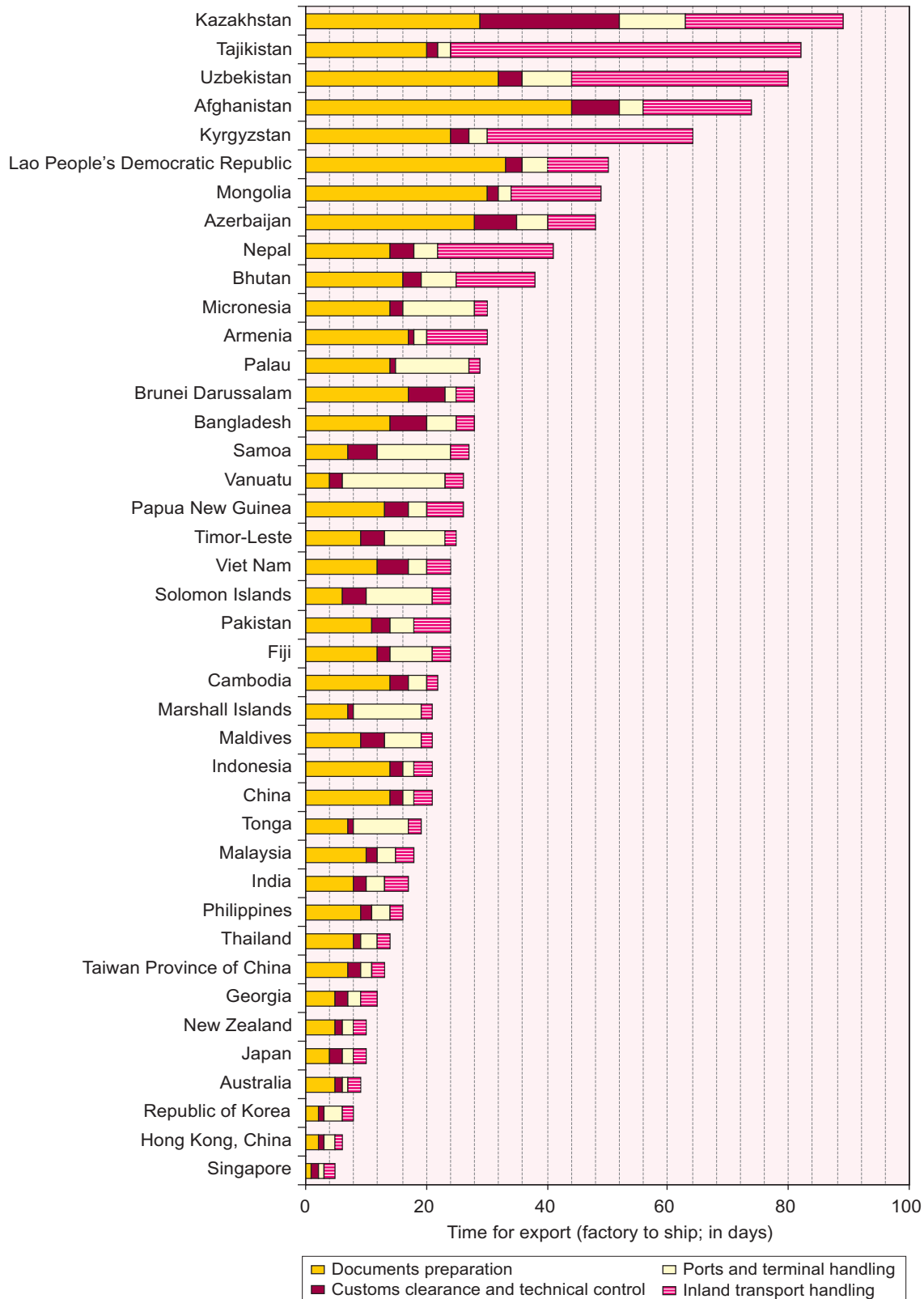
While trade facilitation has often been narrowed down to customs modernization and procedures, customs clearance and technical control at the border generally account for less than a fifth of the time needed to move goods from factory to ship (see figure 4.3). Inland transport and handling as well as port and terminal handling often account for a much larger share of export and import time and cost. What generally takes most time, however, is the preparation of documents required for imports and exports, as these involve interactions with an often large number of agencies and organizations, such as health authorities, agencies and service providers involved in ensuring conformity with product standards prevailing in the destination country, port authorities, banks and immigration services. As a result, an increasingly comprehensive approach to trade facilitation is being adopted in

many countries, focusing on enhancing coordination and collaboration not only between the government agencies involved but also between these agencies and the providers of transport, logistics, conformance assessment and financial services. For example, the Republic of Korea has now brought well over 60 governments and private sector organizations together through its electronic single window. At the subregional level, ASEAN is also working towards the establishment of an ASEAN electronic single window facility.

Even when submission of electronic documents is possible, traders are often still required to submit paper documents as well

Many countries of the region have realized the importance of computerization and automation of trade procedures, particularly in the context of the increasing number of often relatively technology-intensive requirements of supply-chain security initiatives implemented after 11 September 2001. These may require, for example, advance (electronic)

Figure 4.3. Components of export time: documents preparation is the most time consuming



Source: Data compiled from <http://www.doingbusiness.org>; accessed on 5 July 2009.

submission of cargo information to authorities in the importing country before the goods can be loaded onto a vessel at the port of departure (Donner and Kruk, 2009). However, while most countries have launched national or regional initiatives in this area, SMEs and customs service providers find that the potential benefits have often not yet been fully realized as the computerization and automation of trade processes remains very partial and fragmented (Albuero, 2009). Even when submission of electronic documents is possible, traders are often still required to submit paper documents as well.

Although technological solutions have become widely available and increasingly affordable, a number of case studies conducted by the ESCAP

secretariat and ARTNeT suggest that the time it takes to develop national single window systems – where all traders can submit the information only once at one time and place to satisfy all regulatory requirements of the many different agencies involved – has not decreased significantly over time, as progress still depends essentially on strong political leadership and effective inter-agency and public-private sector collaboration (see box 4.1). Unfortunately, many countries in the region still lack trade facilitation bodies that can effectively influence and advice on the simplification of trade procedures.⁶

⁶ A good example of such a body is the Simpler Trade Procedures Board (SITPRO) of the United Kingdom (<http://www.sitpro.org.uk>).

Box 4.1. Moving forward on trade facilitation: lessons learned from the Republic of Korea's e-Trade facilitation initiatives

The Republic of Korea has pursued e-trade since the late 1980s. The Government of the Republic of Korea initiated the “Comprehensive Trade Automation Plan” in 1989 and two years later passed the “Act on Trade Automation” to give legal basis for the use of IT in cargo clearance as well as automation of the cargo clearance process. In the same year, 1991, the Ministry of Trade and Commerce (currently Ministry of Knowledge Economy) signed an “Agreement on Trade Automation” with the Korean Customs Service (KCS).

The private sector has also played a key role. The Korea International Trade Association (KITA), a private organization composed of traders, which often acts as an intermediary between traders and the Government, funded the establishment of the Korea Trade Network (KTNET) designed to build and operate e-trade infrastructure and e-trade services. In 1991, KCS designated KTNET as a sole Trade Automation Service Provider. Being the primary e-trade infrastructure operator and service provider, KTNET has played an important part in facilitating trade in the Republic of Korea.

The introduction of IT to cargo clearance procedures in the Republic of Korea took place in stages. An EDI Customs Clearance Automation programme initiated in 1992 resulted in a 100% electronic clearance system in 1997, consisting of a value added network/electronic data interchange (VAN/EDI) which linked KCS and traders. KCS then expanded the VAN/EDI so that traders could access it through the Internet, and use it to submit paperwork to agencies other than customs. By the end of 1999, 19 government agencies and 48 organizations such as industry associations, and national institutes of plant and veterinary quarantine were interlinked in the electronic network.

The establishment of a Paperless Customs Clearance System arguably achieved by 2001. The legal framework for e-commerce was completed that year when an e-commerce and electronic signature law was passed and the external trade law was amended to define and allow e-trade, rendering paper documents mostly redundant.

A National e-Trade Facilitation Committee – a body chaired by the Prime Minister and with balanced representation from the Government and the private sector – was established in 2003, with the goal of establishing a complete e-trade system encompassing not only government-business (traders) procedures but also business-business transactions and procedures. Through four e-trade services (eTradeFrame, eCustomesFrame, eLogisFrame, and eTradeInfo), the system provides information on the status of cargo and paperwork, and allows submission of electronic paperwork.

(Continued on next page)

Box 4.1 (Continued)

However the major benefit is that these transactions are all made in real time. The paperwork would be delivered automatically to all parties which required it, and it would provide real-time assistance. KCS and KTNET continually improved the system, tying more agencies and organizations into the network, and in 2004 they launched a Single Window allowing for one-time only submission of information.

The National Assembly took a meaningful step in 2005 by passing the “e-Trade Facilitation Act”, which is a crucial law that supports paperless trading as it introduces for the first time in the world an electronic letter of credit (L/C). This second stage of e-trade facilitation culminated in the launch of “uTradeHub” in 2007, which ties not only government with traders, but other trade-related organizations and private agencies such as shippers, insurers, banks and financial institutions.

The Republic of Korea has witnessed remarkable benefits from the introduction of e-trade, such as savings in time and costs as well as strengthening national competitiveness. The implementation of an e-trade system, for example, cut export documentation processing time from days to minutes and led to an estimated \$6.4 billion annual savings in trade costs. By the end of the first stage of implementation, the Republic of Korea reported that 96% of the exports utilized electronic paperless clearance system, and that the total time for processing from the submission of a declaration to acceptance by relevant authorities had fallen from almost 3 hours to 45 minutes. Furthermore, a report from KTNET mentions that the use of EDI resulted in savings of up to 81% of the paperwork-related costs for exports and 79% for imports, totaling about 578 billion won⁷ per year.

In 2006, the Hyundai Economic Research Institute analysed the impact of e-trade in the Republic of Korea and found that e-trade and uTradeHub have saved Korean firms approximately 2.6 trillion won a year. Savings in freight storage costs accounted for 52% of the total, followed by manpower costs with 9% of the total savings. The introduction of e-trade also allowed the Korea Exchange Bank (KEB) to lower some of its fees by 50%. More than 600 KEB employees had worked on processing trade related paperwork before the introduction of e-trade; today, the bank needs less than one person per branch. Another example of the benefits is Daewoo Electronics, where single transaction time has dropped from 22 minutes to 6 minutes.

The Korea Paperless Trading Center and other observers have identified the following factors as some of the keys to the success of the e-trade initiative:

- *Strong leadership by the Government.* E-trade initiatives in the Republic of Korea were launched as part of a strong national drive to harness the potential of modern information technology in all aspects of government and business. High-level political support at the prime ministerial level ensured that all agencies worked together towards a common e-trade goal.
- *Public and private cooperation.* All relevant organizations or users involved in trade procedures were involved from an early stage. In addition, the system scope was designed to encompass not only business-to-government information exchange, but also government-to-government and business-to-business.
- *An appropriate legal framework.* In order to create an environment where innovative trading procedures can flourish, legal reform is necessary to accommodate new means of information exchange and communication.
- *Adequate budget/financial resources.* Sufficient funds must be committed to cover the initial investments. Public-private business models may be considered.
- *User-friendly interface and access.* Understanding both IT and the trade process was fundamental in developing an effective system.
- *Adoption of international standards.* They provide a ready-to-use basis for harmonizing procedures across agencies and can greatly facilitate the exchange of trade documents and information across borders.
- *Phased implementation.* It allowed users to adapt to the new system and at the same time provided room for gradual adjustments and system upgrades.

Source: ESCAP/ADB Trade Facilitation Handbook (2009, forthcoming); Junsok Yang, “Small and medium enterprises (SME) adjustments to information technology (IT) in trade facilitation: the South Korean experience”, ARTNeT Working Paper No. 61 (Bangkok, ESCAP), 2009. UN/CEFACT, *Case Studies on Implementing a Single Window*, February 2007 (ECE/TRADE/364; www.unece.org/cefact).

⁷ On 3 August 2009, \$1 equaled about 1,222 Korean won (source: <http://www.xe.com>).

The existence of an operational public-private trade facilitation institutional structure enabling the timely identification of trade facilitation issues and solutions is particularly important in the current crisis environment, where issues and priorities are likely to evolve significantly. As international trade transactions typically involve at least a dozen government agencies and private parties, the institutionalization of inter-agency and public-private consultation mechanisms for trade facilitation should be considered as a necessary step towards the development of timely and practical solutions to the changing mix of administrative, infrastructural and other problems and bottlenecks faced by companies seeking to benefit from international trade opportunities.⁸

Each country has to determine its specific trade facilitation needs and priorities, but computerization and automation of trade procedures is an important and ultimately necessary step for effective participation in global trade. Reaping the full benefits from these initiatives requires completing or integrating existing IT applications to enable one-time-only submission of information by traders to all government agencies and other parties to a transaction. Organizations such as ESCAP and UNCTAD, often in partnership with development banks and aid donors, are facilitating access to technical and financial resources for the development of such systems.⁹

In light of the economic slow-down in major developed country markets, it may be timely to revise trade regulations and procedures so as to further facilitate intraregional trade, including through land borders and with landlocked countries. Indeed, national trade facilitation programmes in many developing countries have often inherently focused on facilitating imports and exports from and to developed countries through sea and airports – in

part because of the increasingly sophisticated requirements imposed by developed countries on their trading partners as part of trade security initiatives. Meanwhile trade facilitation concerns at many land borders remain yet to be addressed.

The need to find new markets – alternatives to developed country markets – requires a renewed emphasis on intraregional and subregional trade and transit facilitation

The availability of cross-country data on trade facilitation has improved in recent years, but there is still a dearth of information on intraregional trade and transit facilitation. However, an increasing number of subregional analyses undertaken locally by developing country research institutions suggest that the situation at many land border crossings is often dismal and has sometimes even deteriorated in recent years (see box 4.2). Progress has been slow even in the Greater Mekong Subregion (GMS), 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 (ARTNeT, 2009).

The need to find new markets – alternatives to developed country markets – makes a renewed emphasis on intraregional and subregional trade facilitation necessary. Crossing borders remains unduly costly and cumbersome in many subregions in Asia and the Pacific. Speeding up the implementation of existing regional transit and trade facilitation initiatives, such as the ASEAN Framework Agreement on the Facilitation of Goods in Transit, the ASEAN Single Window initiative and the Sectoral Mutual Recognition Arrangements for selected tradable goods, should therefore be actively considered.

New initiatives may also be considered in regions and subregions where trade is least efficient, focusing on regionalizing bilateral transit agreements and actively developing collaboration among agencies on both sides of land borders.

⁸ See UN/CEFACT recommendation No. 4 on establishment of a national trade facilitation body (NTFB).

⁹ For example, ESCAP and ECE, in collaboration with UNCTAD, recently launched a United Nations Network of Experts for Paperless Trade, bringing together expertise from the Asia-Pacific region in this area. See <http://www.unescap.org/unnext/>

Box 4.2. Crossing borders is a costly affair in South Asia

A large portion of South Asia's merchandise trade is carried overland through land borders such as those between India and its neighbouring countries. However, there is no direct cross-border road or rail transportation in South Asia. For example, the direct movement of goods and vehicles is not allowed across the borders between India and Bangladesh, and between India and Pakistan. Goods have to be trans-shipped.

Obstacles to cross-border trade among South Asian countries did not improve between 1998 and 2005. In fact, they appear to have increased. Border delays for India's exports to Bangladesh increased from 2.5 days in 1998 to 3.9 days in 2005 and border transaction costs increased from 10.3% in 2002 to 16.8% in 2005.

Indian exporters to Bangladesh have to obtain up to 330 signatures on 17 documents, according to De and Ghosh (2008). Some of the required documents are standard for international trade, but the two governments have added many others of a purely local nature. The increasingly complex procedures not only affects the composition and direction of trade in South Asia, but also attracts a considerable number of unemployed people who see opportunities to earn large sums by informal means and turn these into full-time formal employment. Similar situations at most other land borders in South Asia raise transaction costs and foster rent-seeking informal economies. The considerable costs and time delays offsets, and possibly wipes out, the benefits of trade liberalization in the region.

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. As a result, trade in South Asia is heavily penalized by the impact of border delays on transport costs as well as by high tariffs.

Source: Prabir De, "Inclusive growth and trade facilitation: insights from South Asia", ARTNeT Policy Brief No. 16 (Bangkok, ESCAP), 2009.

Initiatives focusing on facilitating trade across subregions would seem to be particularly timely, keeping in mind that a pragmatic approach based on consultations with stakeholders – including border traders and communities – will be essential for achieving real progress in intraregional trade facilitation.¹⁰ As discussed in chapter 3, expanding the scope of regional preferential trade agreements to include non-discriminatory trade and transit facilitation measures may also be considered, to encourage and facilitate cross-border cooperation in this area. In particular, the challenge is to ensure that the free trade goal of these agreements is not compromised by members erecting administrative barriers (e.g. pre-shipment inspection requirements) as non-transparent alternatives to tariffs.

¹⁰ Ongoing research under the ARTNeT GMS initiative suggests that national and subregional consultation mechanisms are essential in making progress on trade facilitation at the border, as trade and transport facilitation commitments made at the national level will ultimately need to be implemented at the provincial and community levels in border areas. See <http://www.artnetontrade.org> for more details.

Needs and priorities are likely to vary significantly from country to country and from sector to sector depending on the existing regulatory systems in place and the nature of products traded. However, focusing on concrete improvements that can yield quick efficiency gains, such as providing clear, complete, and easily accessible information on *existing* rules and procedures for import and export, may be given priority in the short term. In the medium term, simplification, harmonization and standardization of the rules and procedures may then be actively pursued, using existing trade facilitation instruments developed under the auspices of the United Nations and other relevant agencies, such as the World Customs Organization (WCO). National trade finance institutions may also be strengthened or established.

As discussed in chapter 2, the beginning of formal negotiations on trade facilitation at WTO has contributed to increasing awareness among policy-makers of the importance of removing procedural and administrative bottlenecks. While the negotiations are limited in scope, a number of countries in

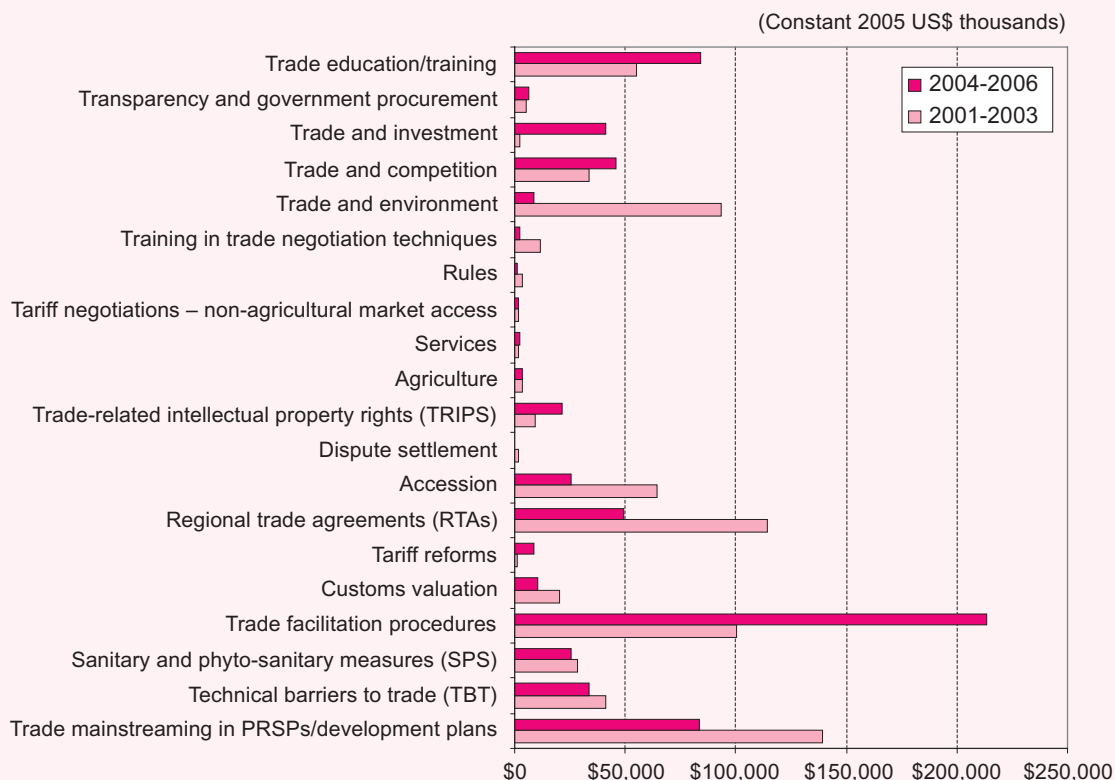
the region have conducted detailed needs and priority assessment – some of which are supported by the ESCAP secretariat – and established public-private sector trade facilitation task forces as part of the negotiation process and related technical

assistance. Bringing the negotiations in this area to a successful conclusion would provide further motivation to reform trade facilitation and encourage donors to prioritize this area for technical assistance and capacity-building (see box 4.3).

Box 4.3. Aid for trade facilitation

The Second Aid for Trade Global Review, held in Geneva in July 2009, revealed that aid for trade has grown by more than 10% year-on-year since 2006. Many recipient countries of aid for trade put trade facilitation among their top three aid for trade priorities, including Afghanistan, Armenia, Bangladesh, Cambodia, Indonesia and Viet Nam.

Aid for trade policy and regulations, Asia, 2001-2003 versus 2004-2006



As shown in the figure above, the prioritization by countries of this area is reflected in the increase in the amounts allocated to aid for trade facilitation, which more than doubled between 2001-2003 and 2004-2006. As the ongoing multilateral negotiations on trade facilitation at WTO make an explicit link between implementation of commitments and the provision of adequate technical assistance and capacity-building in this area, further increase in aid for trade facilitation may be anticipated in the coming years.

Source: WTO/OECD, *Aid for Trade at a Glance, 2009* and OECD-WTO Aft database, <http://tcdb.wto.org> (accessed April 2009).

Note: PRSPs – Poverty Reduction Strategy Papers.

B. TRADE IS BUSINESS: IMPORTANCE OF BEHIND-THE-BORDER BUSINESS REGULATIONS

There is increasing evidence that BtB policies matter for trade performance. Some of the BtB factors identified as affecting trade include poor roads and ports, poor customs performance, weakness in regulatory capacity, and limited access to finance and business services (Hoekman, 2008). Interestingly, a growing number of empirical studies (Wilson and others, 2004) confirm that BtB business (investment) regulations affect a country's export competitiveness and that the domestic business environment may have an impact on trade of a magnitude similar or greater than that of trade-specific barriers (e.g. tariffs and customs procedures) and bottlenecks (e.g. port infrastructure).¹¹

Most countries in the Asia-Pacific region have scope to increase their trade competitiveness by tackling non-trade specific regulations affecting all domestic businesses

For example, Wilson and others (2004) found that the overall regulatory environment and the quality of the service sector infrastructure each had a greater impact on trade flows than the transparency in customs procedures. The complexity of the contract enforcement process in both the country of the importer and the exporter is also found to affect bilateral trade flows and empirical estimates suggest that an improvement in contract enforcement may ultimately increase bilateral exports by an amount 50% greater than what could be expected from a 5% reduction in the cost of exports (Duval and Utoktham, 2009; Ranjan and Lee, 2007).

¹¹ The gravity model is extended to trade facilitation measures and related BtB factors. In addition to two indicators specifically affecting cross-border transactions – port efficiency and customs transparency – they considered the impact of the overall regulatory environment in each country as well as the quality of the service sector infrastructure – proxied by use of the Internet by businesses and speed and cost of Internet access.

The average “Ease of Doing Business” ranking shown in figure 4.4¹² provides an indication of how easy it is to conduct business in each Asia-Pacific subregion, including – but not limited to – the ease of trading across the border in each country. A higher average rank indicates a poorer overall business facilitation performance. Landlocked countries, which face unique geographical constraints, are not included in the subregional averages but reported as a separate group.

Improving contract enforcement may increase bilateral exports by an amount greater than what could be expected from a 5% reduction in export costs

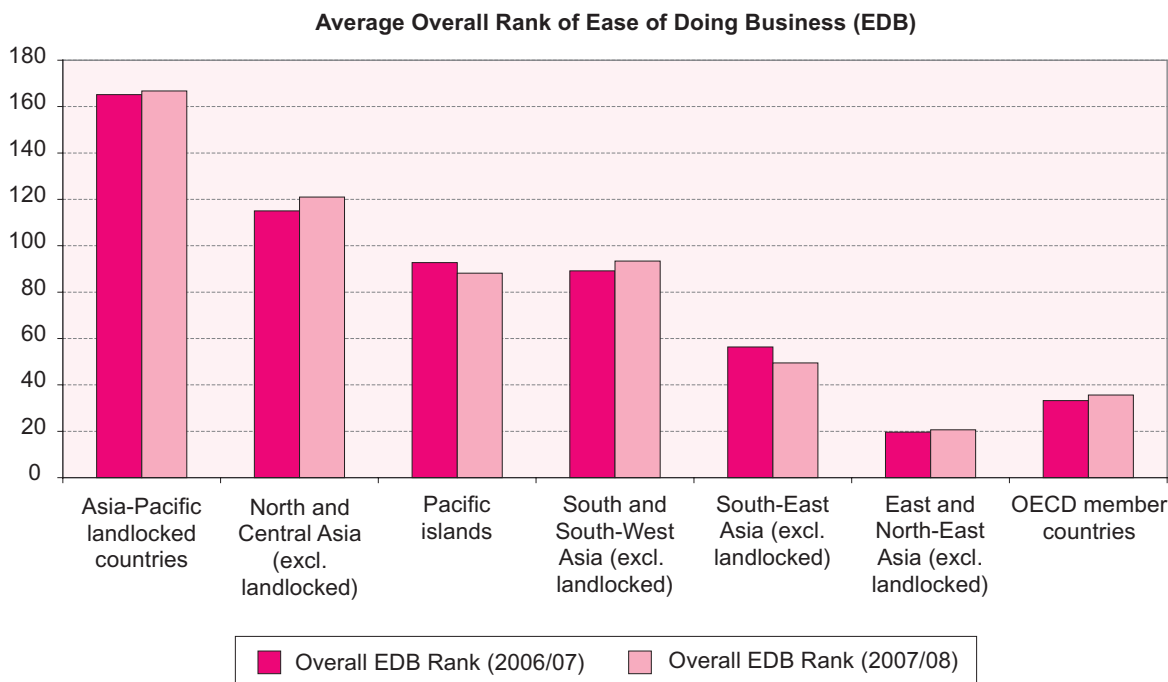
Sharp differences exist in the level of business facilitation across subregions. While East and North-East Asia and South-East Asia perform relatively well, South and South-West Asia, the Pacific islands, and especially North and Central Asia show relatively low levels of business facilitation. Landlocked countries rank most poorly, and they seem to be falling further behind with deteriorating rankings from 2006 to 2008.

South-East Asia and the Pacific islands are the only subregions which have improved their world standing in business facilitation over the past two years

South-East Asia and the Pacific islands are the only subregions which have made progress in business facilitation over the past two years, “catching up” with the OECD group, which experienced a fall in average relative performance. This does not mean that national governments in other subregions did not work towards business facilitation, however, but

¹² Details on the methodology used for data collection and its limitations are available at <http://www.doingbusiness.org>. The ten areas covered by the Doing Business database are: Starting a Business, Dealing with Construction Permits, Employing Workers, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, and Closing a Business.

Figure 4.4. Business facilitation in selected subregions of Asia and the Pacific



Source: World Bank, Doing Business Report, (<http://www.doingbusiness.org>).

Notes: (1) Overall Rank of Ease of Doing Business are derived from the simple average of the percentile ranking of both behind-the-border and trading-across-border components. (2) Economies in each category are as follows: (a) Landlocked: Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Lao People’s Democratic Republic, Afghanistan, Bhutan, Nepal, Mongolia; (b) North and Central Asia: Georgia, Russian Federation; (c) South-East Asia: Brunei Darussalam, Cambodia, Indonesia, Malaysia, Philippines, Singapore, Thailand, Timor-Leste, Viet Nam; (d) South and South-West Asia: Bangladesh, India, Islamic Republic of Iran, Maldives, Pakistan, Sri Lanka, Turkey; (e) East and North-East Asia: China; Hong Kong, China; Republic of Korea; (f) Pacific islands: Fiji, Kiribati, Marshall Islands, Micronesia, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Vanuatu.

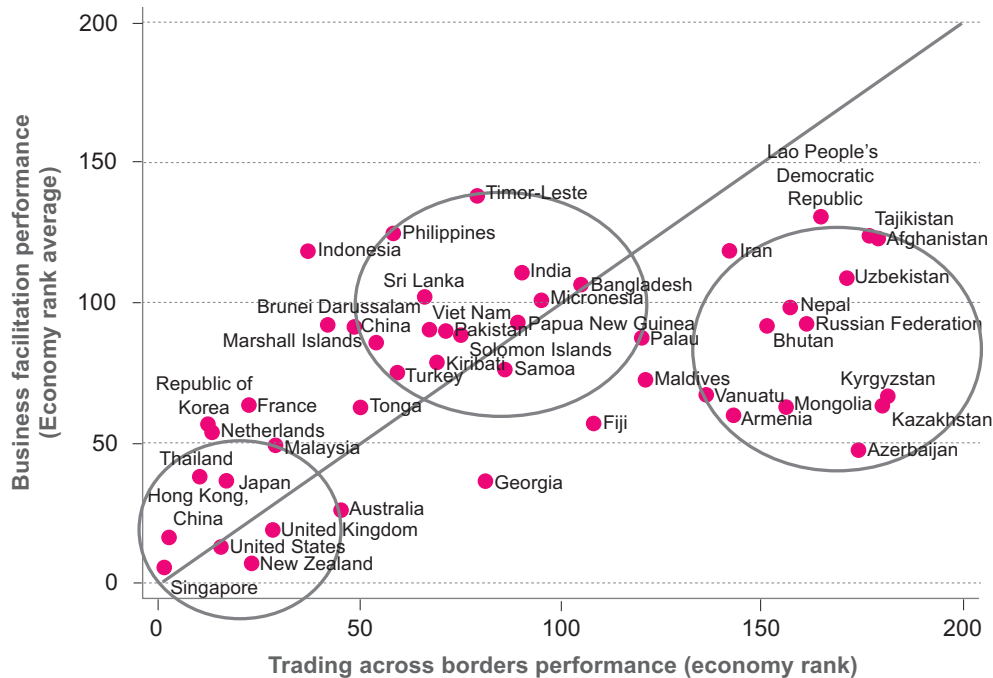
that whatever progress they may have achieved did not increase their world standing as other countries achieved relatively more progress in this area.

Overall, it appears that most countries in the Asia-Pacific region, including many countries that have invested heavily in rationalizing and automating trade procedures, may have scope to further increase their trade competitiveness by broadening their efforts to include non-trade specific regulations affecting all domestic businesses. Such an approach may be particularly beneficial as it is likely not only to benefit existing exporters but also to make it easier for other emerging businesses to develop and grow, and possibly start engaging in international trade as well.

Interestingly, as figure 4.5 shows, Asian and Pacific developing countries that do well in the area of Trading Across Borders¹³ do not necessarily do well in other business (investment) facilitation areas, and vice versa (ESCAP, 2008).¹⁴ For example, Indonesia

¹³ The Trading Across Borders performance indicator in Doing Business is calculated based on the number of documents for import and exports, the cost of export and import, and the time for import and export. A low country rank (e.g. 150) indicates poor performance.

¹⁴ A country’s Business Facilitation Performance is calculated as the average of a country’s ranking in the following nine areas covered by the Doing Business Report: Starting a Business, Dealing with Construction Permits, Employing Workers, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, and Closing a Business. A low country rank (e.g. 150) indicates poor performance.

Figure 4.5. Behind-the-border trade facilitation versus business facilitation performance

Source: Yann Duval and Chorthip Utoktham, “Behind-the-border trade facilitation in Asia-Pacific: cost of trade, credit information, contract enforcement and regulatory coherence”, ESCAP TID Staff Working Paper No. 02/09, 2009.

performs relatively well in the area of Trading Across Borders (37th of 181 countries) but much more poorly in other areas of business facilitation (119th). In contrast Nepal, which performs very poorly in the area of Trading Across Borders (157th) – to a large extent because it is landlocked – ranks significantly better in other areas of business facilitation (99th). Overall, only a weak positive correlation can be identified between trade facilitation and business (investment) facilitation performance in developing countries. The disconnect existing in developing countries between trading across borders performance and business facilitation is much less apparent in the case of developed countries, suggesting that it is indeed important to tackle trade facilitation and business facilitation in an integrated manner.

Figure 4.5 also shows how well economies perform in terms of both Trading Across Borders and other “doing business” indicators. Economies above the line do relatively better in facilitating Trading Across Borders than in other areas of business facilitation,

Trade facilitation and business facilitation need to be tackled in an integrated manner

while those below the line put relatively less emphasis – or do less well – in Trading Across Borders relative to other business facilitation measures. Three groups of countries seem to emerge from the figure: (1) developed and advanced developing countries that do well in both trading across borders and other facilitation measures, having developed a good balance between the various trade-focused and general business facilitation measures; (2) developing countries, many of them are middle-income economies, which have emphasized trading-across borders relative to more general business facilitation measures; and (3) landlocked countries and economies in transition, which have been unable to improve their trading across border performance. Overall, the figure suggests that middle-income developing countries, as they strive to catch up with the first group of developed

countries, may have to reach a better balance between Trading Across Borders facilitation measures and business facilitation.

A chain is only as strong as its weakest link. Therefore, above and beyond the competitiveness gains associated with improving a country's performance in a specific area of business facilitation, ensuring that adequate performance (rank) is achieved across all areas of business facilitation can be important. Such a country may be described as one having a more coherent and integrated approach to trade and business facilitation. A recent study conducted at ESCAP (Duval and Utoktham, 2009) showed that a country could increase its intraregional and South-South trade significantly by achieving a more homogeneous performance across all trade and business

facilitation areas. It suggests that focusing on coherence would be a way for countries – especially those which have already made some good progress in trade facilitation – to gain a competitive edge in an increasingly challenging global environment. A more integrated approach to trade facilitation and business (investment) facilitation may also contribute to lowering the cost of entry into new markets and sectors of activity, leading to much needed export diversification in times of crisis (see box 4.4).

Although there is much variation within each subregion, economies in East and South-East Asia have on average achieved a much higher level of trade and business (investment) regulatory coherence than those in South Asia and the Pacific (see figure 4.6). Singapore is the country with the

Box 4.4. Trade facilitation for export diversification

Countries that have achieved greater export diversification, either in the sense of exporting a wider range of products or exporting to a larger number of foreign markets, are arguably better positioned to weather an economic crisis. In addition, there is emerging evidence that more diversified economies tend to grow faster and have higher per capita incomes.

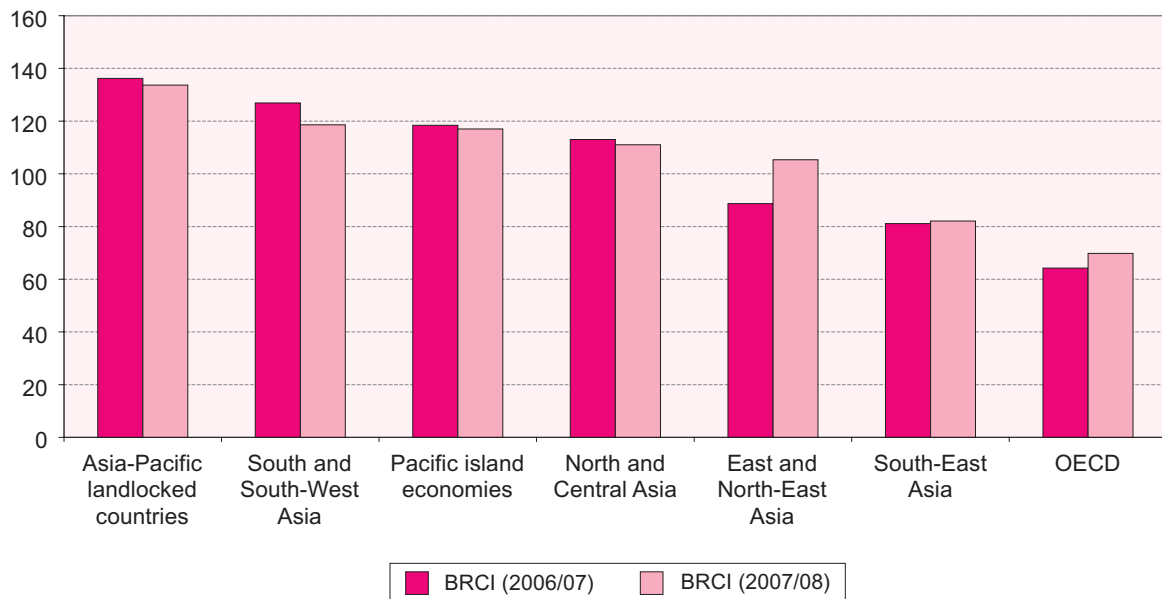
Dennis and Shepherd (2007) suggest that lower trade costs – and in particular, lower fixed costs of exporting – can do much to expand the range of products that developing countries export. The reason fixed costs are so important is that they are the primary determinants of a firm entry into particular overseas product markets. By contrast, the variable costs of trade, such as tariffs, primarily influence the quantity of goods a firm sells once it has made the decision to make a product, and enter a given market. Concretely, a 10% improvement in trade facilitation – as measured by the Doing Business dataset's cost of exporting – is associated with gains of the order of 3% to 4% in product diversity, and 5% to 6% in export market diversity.

The start-up costs businesses face before entering the domestic market (e.g. the amount an entrepreneur must deposit with a bank prior to company registration) is also found to have an effect on export diversity, as higher costs result in a smaller number of active enterprises, and thus fewer exporters and export products. While the effect is significant, a 10% reduction in domestic market entry costs is associated with only a 1% increase in export diversity.

Product standards and harmonization policies in import markets are also found to affect export diversification in low income countries, as different standards in different import markets lead to fixed costs of entry associated with products redesigned to meet the various standards.

Overall, to be effective in promoting export diversification, trade facilitation measures should pay particular attention to the fixed cost barriers to international trade. The full range of policies that affect trade costs need to be taken into account, both at- and behind-the-border, and including costs of entering a market and starting a business.

Source: Based on Ben Shepherd, "Enhancing export diversification through trade facilitation", ARTNeT Policy Brief, No. 19, May 2009. Available at: <http://www.unescap.org/tid/artnet/pub/polbrief19.pdf>.

Figure 4.6. Business regulatory coherence in selected subregions of Asia and the Pacific^a

Source: Same as for figure 4.5, excluding landlocked countries.

^a A country's Business Regulatory Coherence Index (BRCI) is based on the variance of that country's rankings in the 10 business regulatory areas considered in the Doing Business Reports, including Trading Across Borders. The average of BRCI country ranking in each subregion is shown in this figure. A lower rank denotes higher overall regulatory coherence.

most coherent trade and business environment.¹⁵ Malaysia and Thailand also stand out in Asia as countries with coherent trade and business environments, achieving a well-balanced performance in all areas of business facilitation, including trade. In contrast, the overall business regulatory coherence in China and the Republic of Korea is less impressive, as a heavy emphasis seems to have been placed on facilitating trade across borders while performance in some other areas of business (investment) facilitation has remained relatively weak.¹⁶

¹⁵ Countries that rank among the best in terms of Ease of Doing Business also tend to rank well in terms of business regulatory coherence. However, some of the worst performing countries in terms of overall Ease of Doing Business also do relatively well in terms of trade and business regulatory coherence, since they rank uniformly poor in all areas. This is particularly the case for the Lao People's Democratic Republic and Nepal.

¹⁶ This was also noted by Yang (2009) in the case of the Republic of Korea.

Overall, it is important to recognize that, while importers and exporters have to fulfil specific procedures associated with their international trade activities, they are also subject to domestic regulations and procedures faced by all businesses. In light of the growing evidence that generally applicable business and investment regulations have a highly significant impact on a country's trade competitiveness, institutions in charge of trade facilitation should ensure they are in a position to address the key procedural and information bottlenecks faced by importers/exporters. Trade policymakers may need to allocate more time and resources to building cooperation with non-trade regulatory agencies in order to identify trade-friendly solutions to regulatory and other issues not directly under their purview, including trade finance. Such an integrated approach to trade and business facilitation can be expected to further increase opportunities for domestic firms and SMEs to engage in and gain from trade.

C. TRADE FINANCE: AN ESSENTIAL TRADE ENABLER

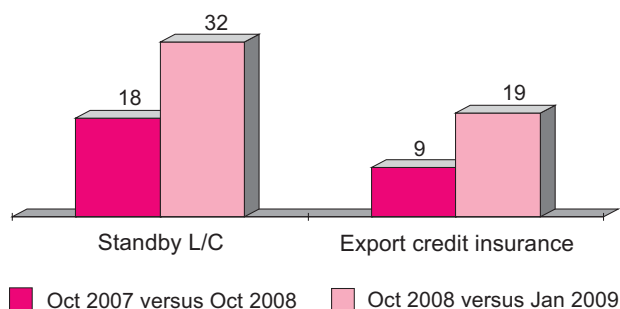
The global economic crisis has attracted renewed attention to the issue of trade finance, as exporters in some countries, particularly SMEs, struggle to secure much needed short-term financing and protection against rising commercial risks at a time when demand for their products has fallen dramatically. The higher costs and limited availability of trade finance has prompted action by international financial institutions but the threat it poses to regional economies is significant. A recent empirical analysis (Liu and Duval, 2009) suggests that a 10% decline in trade finance could lead to a drop in total trade of \$129 billion in developing Asia, representing 3.6% of their total trade.

Renewed attention to trade finance is needed as Asia-Pacific traders struggle to secure much needed short-term financing and protection against rising commercial risks

Reliable and comprehensive information on trade finance is scarce, but various surveys of financial institutions or exporters conducted at the national, global and regional levels in late 2008 and during the first half of 2009 confirm there has been an increase in the price of letters of credit – a trade finance instrument whereby the bank of the importer guarantees payment to the exporter or its bank upon satisfactory delivery of a shipment – and export credit insurance (see figure 4.7). Banks surveyed expected little improvement during the course of 2009.

Countries with high risk ratings have suffered the most from the drying up of trade finance, as financial institutions have looked for quick ways to reduce the overall risk of their trade finance portfolios by reducing coverage of transactions considered as high risk. Since “country risk” is the basis for setting minimum premium rates for transactions covered by many export credit agencies, a country’s sovereign default risk directly affects an individual exporter’s ability to get trade financing. Least developed countries such as

Figure 4.7. Rising cost of trade finance
(Average basis point increase over costs)



Source: IMF-BAFT, Trade Finance Survey (March 2009).¹⁷

Afghanistan, Lao People’s Democratic Republic, Myanmar and Nepal, are classified in the highest country risk category.¹⁸ Transactions with those countries have traditionally been associated with higher risk premiums and the current crisis makes this worse.

Some countries in the region have attributed the more difficult access and higher cost of trade finance to a general liquidity shortage in their economy, but many have pointed to the increased risk aversion of financial institutions towards enterprises and to the higher perceived counterparty risk of banks as key factors.¹⁹ Strong interventions by central banks have markedly improved the situation in many economies, but a general lack of information about trade finance has contributed to uncertainties about the solvency of counterparties in foreign markets and increased the perceived risk of trade finance products relative to other products.

Increased capital requirements have also become more important factors in the rising cost of trade finance²⁰ and there is a clear possibility that national authorities will impose even tighter controls

¹⁷ Results based on responses from 44 banks in 23 countries. Accessed on 24 July 2009 at http://baft.org/content_folders/Issues/IMFBAFTSurveyResults20090331.ppt

¹⁸ OECD, <http://www.oecd.org/dataoecd>, accessed on 25 March 2009.

¹⁹ APEC, Senior Officials’ Meeting Chair’s Office, 17 July 2009, Singapore. Accessed on 23 July 2009 at http://www.news.gov.sg/public/sgpc/en/media_releases/agencies/mti/press_release/P-20090717-2.print.html?AuthKey=

²⁰ See IMF-BAFT Survey Results (reasons for increased pricing of trade finance).

on banks' international operations (Koeppen, 2009). Indeed, cross-border financial flows have declined for the first time in 30 years. The International Chamber of Commerce (ICC) has pointed to the implementation of the Basel II charter²¹ as having particularly adverse consequences for trade lending to SMEs and counterparties in developing economies (ICC, 2009). Reviewing these regulations may therefore be needed to ensure that they do not unduly constrain the provision of trade finance, particularly to the less developed countries of the region.

Increased bank capital requirements have already raised the cost of trade finance and tighter regulations may follow

Serious concerns that constraints on the supply of trade finance as an essential trade enabler would further reduce the capacity of enterprises to trade have prompted international financial institutions and the G-20 to take a number of trade finance facilitation measures in the last quarter of 2008 and the first quarter of 2009. At the global level, the G-20 committed to ensuring availability of at least \$250 billion over the next two years to support trade finance through their export credit and investment agencies and trade finance schemes of international financial institutions, including the IFC Global Trade Liquidity Pool.²²

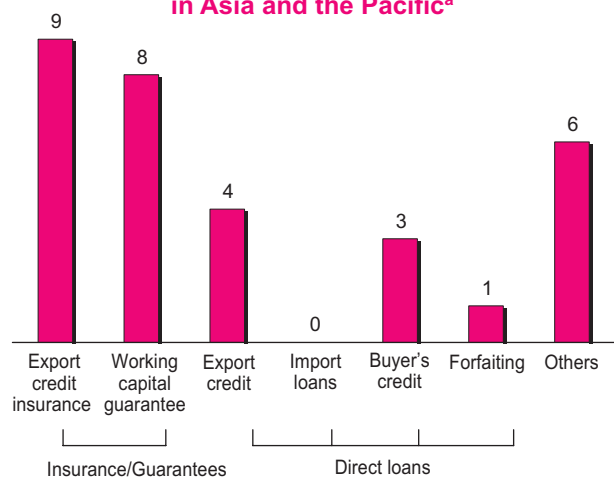
At the regional level, the Asian Development Bank has agreed to a significant expansion of its trade finance programme, which is expected to generate up to \$15 billion in support until 2013 to help counter an export slump that has been exacerbated by the lending difficulties of commercial banks. At the national level, many countries have also implemented new or enhanced trade finance

²¹ Basel II is a set of banking regulations put forth by the Basel Committee on Bank Supervision, which regulates finance and banking internationally.

²² The new IFC Global Trade Liquidity Pool which should provide up to \$50 billion in trade liquidity support over the next three years, with significant co-financing from the private sector (as part of the global effort to ensure the availability of at least \$250 billion of trade finance over the next two years).

schemes in response to the crisis, most often focusing on providing export credit insurance and guarantees to help enterprises and banks to manage their risks (figure 4.8). These global, regional and national initiatives will certainly contribute to increased availability of trade finance in the near term and it is heartening to see how quickly they have been agreed upon and implemented across the region.

Figure 4.8. New or enhanced trade finance facilitation measures implemented in Asia and the Pacific^a



Source: Survey by APEC Senior Officials' Meeting Chair's Office (17 July 2009, Singapore).

^a This figure indicates the number of APEC member economies that have taken different types of measures in response to the trade financing problem. Schemes under "Others" included equity financing, bonding and surety, SME funding schemes, rediscount of trade bills, less conservative capital adequacy ratio, documentary credit guarantees, trade finance advisory service, multi-currency trade finance, indirect exporter finance scheme, SME assistance guarantee scheme and industry restructuring guarantee fund scheme.

However, many of the smaller and less developed countries in the region have very limited capacity to address trade finance shortages on their own and may not fully benefit from global and regional schemes as they lack the required national trade finance institutions and infrastructure. Government-backed export credit insurance and guarantee institutions and/or export-import (EXIM) banks are still inefficient or missing in many developing countries of the region (Auboin and Meier-Ewert,

Many developing countries have very limited capacity to address national trade finance shortages on their own

2003).²³ These institutions can be particularly useful in times of crisis when financial markets may not be functioning efficiently and worthy borrowers find it difficult to secure financing and insurance from commercial institutions, and they can also therefore play an important role in facilitating South-South trade (see box 4.5).

²³ Cambodia is planning to conduct a feasibility study for the establishment of an export-import bank in 2009 (George McLeod, "Cambodia plans launch of export-import Bank, of establishing this kind of institution", *The Phnom Penh Post*, 27 May 2009. Accessed from <http://www.phnompenhpost.com> on 4 August 2009).

Credit rating institutions are also weak or absent in many developing countries in the region, and the current crisis has shown how important these institutions are in ensuring the proper functioning of financial markets (see box 4.6). One recent study estimates that improving the quality and availability of credit information in China and India to the average level achieved in OECD could ultimately increase their exports by 7% or more (Duval and Utoktham, 2009). Reliable information on importers' or exporters' creditworthiness is indeed essential for trade finance providers to accurately assess the risk associated with a given transaction and offer affordable trade finance products.

Establishing or strengthening national trade finance institutions should be given serious consideration, as the absence or ineffectiveness of such institutions

Box 4.5. The role of national export-import banks: the case of EXIM Thailand

The success of Thailand's economic development efforts during the second half of the 1980s had prompted many economists to believe that Thailand could extend this success by adopting an export-led growth strategy that would provide SMEs with an opportunity to participate in international trade. To support this strategy, Thailand consolidated and/or created a number of institutions specializing in foreign trade, among them the Export-Import Bank of Thailand (EXIMT).

EXIMT was established in 1993 as a 100% government-owned corporation to provide financial services to support imports, exports and foreign investment beneficial to the Thai economy. Its start-up capital of 2.5 trillion baht (\$100 million) came from the Bank of Thailand (BoT) and the Ministry of Finance and its Board of Directors comprised high-level representatives from all the trade-related ministries as well as private sector representatives.

The Bank was mandated and authorized to provide a wide array of financial services, ranging from export refinancing to export credit insurance. Packing Credit Facilities (subsidized pre-shipment and post-shipment financing facilities provided to exporters mostly through commercial banks) previously provided by BoT were transferred to the newly-formed EXIMT, which complemented this facility with a standard pre-shipment (unsubsidized) facility directed at small and new exporters. EXIMT subsequently discontinued its subsidized packing credit facility to comply with WTO rules, but also because the facility had become unnecessary due to the high level of market liquidity and falling interest rates.

An Amendment to the Export-Import Bank of Thailand Act promulgated in 1993 further broadened the mandate of EXIMT to allow it to support export-related domestic investment. As a result, the Bank added to its product portfolio a credit facility for business expansion. EXIMT's number of products and services has increased over time and become more sector-specific with a focus on SMEs. Foreign investment advisory services as well as export advisory services began to be offered in 1999. In recent years, the Bank has developed an SME Financial Service Centre offering streamlined products and services and a faster response time.

The current global crisis has prompted the Bank to further emphasize its development banking role, providing entrepreneurs with complete business solutions, ranging from loan, export credit insurance and financial advisory services, with a special focus on three sectors: (1) logistics services; (2) the energy sector, especially alternative and biomass energy sources and technology; and (3) infrastructure and public utilities.

(Continued on next page)

Box 4.5 (Continued)

As of February 2009, EXIMT was expected to receive a capital injection of 5 billion baht from the Ministry of Finance for use in providing additional export credit insurance facilities to struggling Thai exporters. Its Buyer/Bank Risk Assessment Service has also become particularly popular, as exporters were increasingly concerned of the possibility of defaults. The Bank also adopted a more pro-active role in regional and South-South trade facilitation and promotion, opening a branch in Moscow, Russian Federation, and planning to establish specialized country and industry focus desk units in Cambodia, Indonesia, Viet Nam, India and the Lao People's Democratic Republic.

After more than 15 years of operation, including during the Asian financial crisis of 1997/98, a review of EXIMT's experience indicates that:

- An EXIM bank can be effective in stimulating the development of trade finance, by introducing new products and services (such as export credit insurance) and by disseminating relevant information to potential exporters. Once an EXIM bank has good experience in evaluating SMEs export potential, the bank may use this experience to offer longer-term credits supporting business expansion.
- An EXIM bank's credit rating will typically have sovereign credit rating, because it is backed by the government. Such a rating may make it easier for the bank to access international credit markets as compared with domestic banks.
- An EXIM bank should focus on complementing the services offered by commercial banks, and provide credit to small and new exporters, including SMEs with export potential. It should also provide additional credit lines to large exporters who are unable to obtain the full credit they require from commercial banks.
- An EXIM bank can help regulate the cost of trade finance services offered by commercial banks, especially when there are few commercial banks offering international banking services.
- An EXIM bank, while not expected to finance a large share of exports and foreign investment under normal circumstances, can be an effective source of backup financing during major financial crises (EXIMT's activities doubled during the Asian crisis).
- An EXIM bank should be managed as a self-sustaining organization, with no subsidies of interest rate, but a modern and creative risk assessment and management programme to support small and new enterprises with export potential. Offering a wide array of products and services makes it easier for the bank to market its services, satisfy the needs of its clients and be profitable.

Source: <http://www.exim.go.th>; ESCAP, *Current Issues on Industry, Trade and Investment*, No. 2 (United Nations publication, Sales No. E.04.II.F.6, ST/ESCAP/2298), 2003; and interviews with EXIMT officials (April 2009).

puts traders at a relative disadvantage, particularly in times of crisis. The focus may be placed on establishing government-backed but self-sustainable organizations offering in particular risk assessment and management programmes to support and build the capacity of SMEs with export potential in this area. In addition, governments may focus on strengthening the quality and availability of credit information by supporting the development of domestic credit rating services.

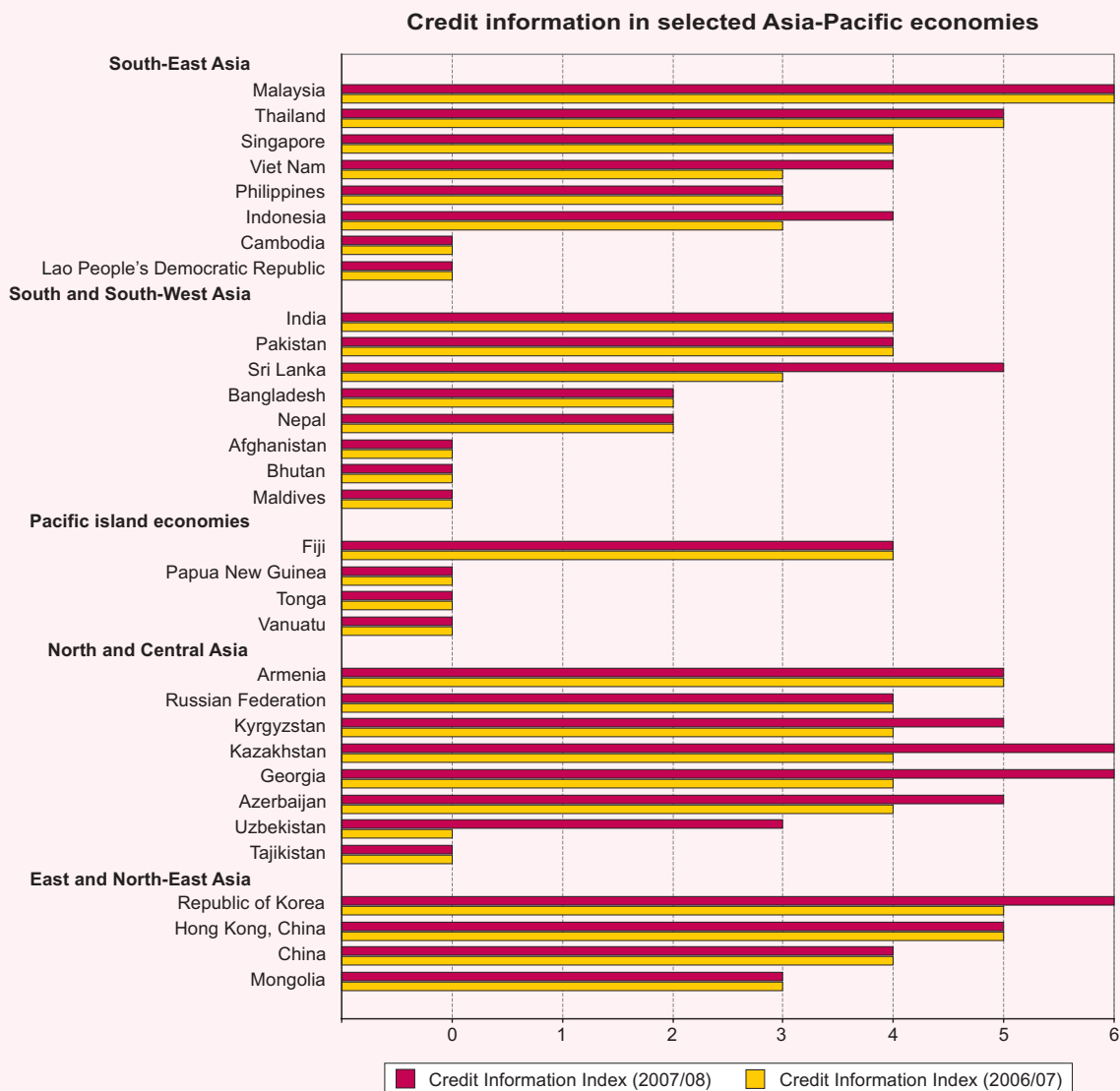
In the long term, as the bulk of trade finance is provided by commercial banks operating in the domestic market – often as part of short-term multi-purpose loans (non-trade specific working

capital) – a strong, credible and well-developed banking and insurance sector is the key to ensuring access to a full array of trade finance instruments. Good and stable macroeconomic fundamentals, prudential regulations, and a pragmatic approach to financial sector liberalization will be essential in achieving this goal. This is certainly a tall order in many developing countries – and one that goes beyond the responsibilities of ministries in charge of trade – but empirical studies have repeatedly confirmed the significant effect of financial sector regulations and development on trade. In addition, many of the trade finance facilitation schemes launched by regional and global development banks rely on domestic financial institutions to channel the

Box 4.6. Credit information availability in the Asia-Pacific region

Regulations related to getting credit are thought to be of particular importance for traders. An average international transaction – from the signature of the contract to delivery of goods and payment – takes time and short-term financing is often needed, particularly for small exporters from the region who most often sell their goods on an open account basis – i.e. payment is made after delivery of goods to buyers. Access to affordable domestic financial services is also essential for exporters conducting business in developing countries where buyers have little or no access to financing, and where risks are high.

The credit information index presented below measures the scope, accessibility and quality of credit information through either public or private bureaus in a country. The index ranges from 1 to 7, with a higher value indicating that more credit information is available to facilitate lending decisions.



As shown in the above figure, serious deficiencies in credit information are apparent in the Pacific island economies as well as in most least developed countries, regardless of the subregion. Interestingly, North and Central Asian countries, with the exception of Tajikistan and Uzbekistan, seem to be relatively well equipped in this area and credit information in that subregion improved significantly between 2006 and 2008.

funds to traders and SMEs, making it important to build the capacity of these institutions to perform this function efficiently.

Given the large gap in the availability of trade finance services between countries of the region, deepening cross-border cooperation on trade finance and pooling resources and expertise in this area may be an effective way to tackle current bottlenecks in trade financing. Options include: (1) strengthening cooperation and networking among and between export-import banks and development finance institutions; (2) expanding multilateral clearing arrangements and related international payment services – possibly based on those offered by the Asian Clearing Union;²⁴ (3) reviewing the effectiveness and possibly *further* strengthening the ADB trade finance facilitation

programme; and (4) establishing a multilateral export credit insurance company and/or a new regional capital market fund for South-South trade and investment finance.

Developing cooperation among banks and governments on the collection and sharing of credit information could also be explored as it would allow for more accurate cross-border transaction risk assessment and ultimately lower trade finance costs. Countries with established trade finance expertise and institutions may initially support the establishment of regional communities of practice on trade finance and credit rating, which would facilitate the transfer of expertise to countries in need of developing or upgrading their national trade finance infrastructure.

²⁴ The Asian Clearing Union (ACU) is the simplest form of payment arrangements whereby the members settle payments for intraregional transactions among the participating central banks on a multilateral basis. The main objectives of a clearing union are to facilitate payments among member countries for eligible transactions, thereby economizing on the use of foreign exchange reserves and transfer costs, as well as promoting trade among the participating countries. See <http://www.asianclearingunion.org/>.

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