

## ■ 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

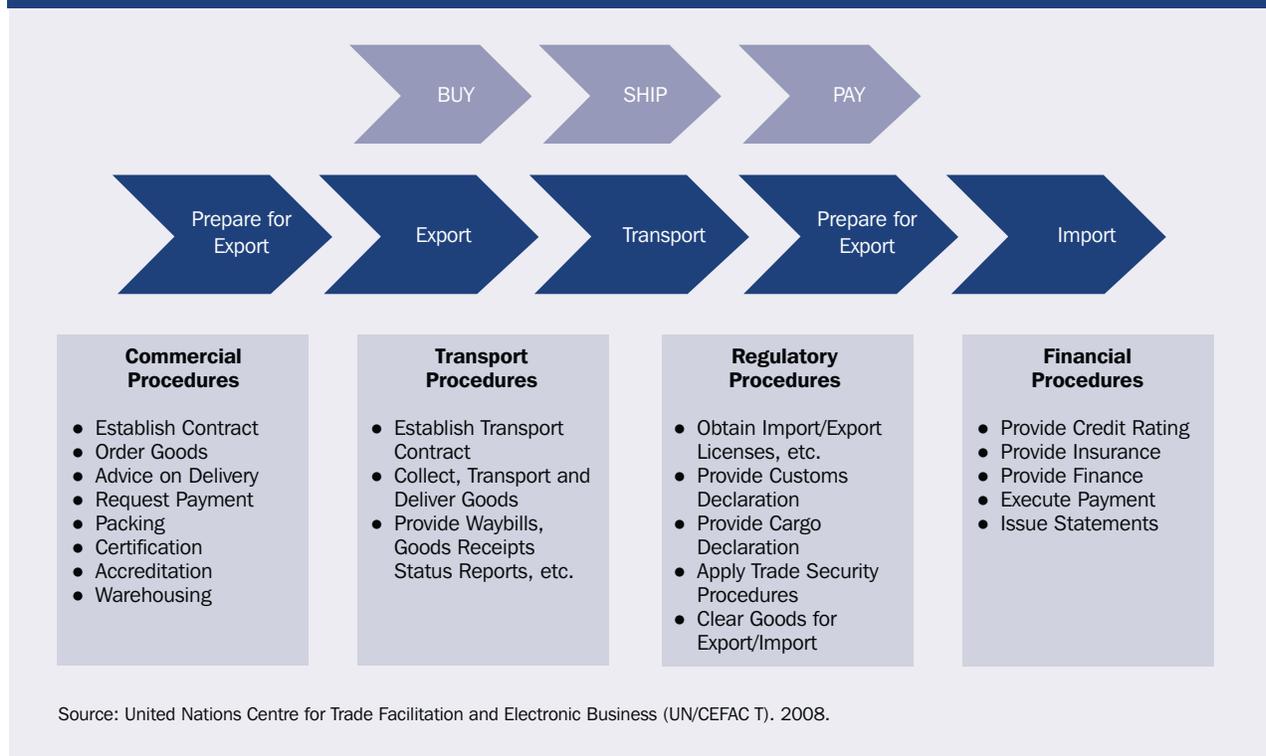
There is no universal definition of trade facilitation. But since it focuses on the transparent and efficient implementation of trade rules and regulations, it is often referred to as the “plumbing of international trade.” In its narrowest sense, trade facilitation may be defined as the systematic rationalization 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:

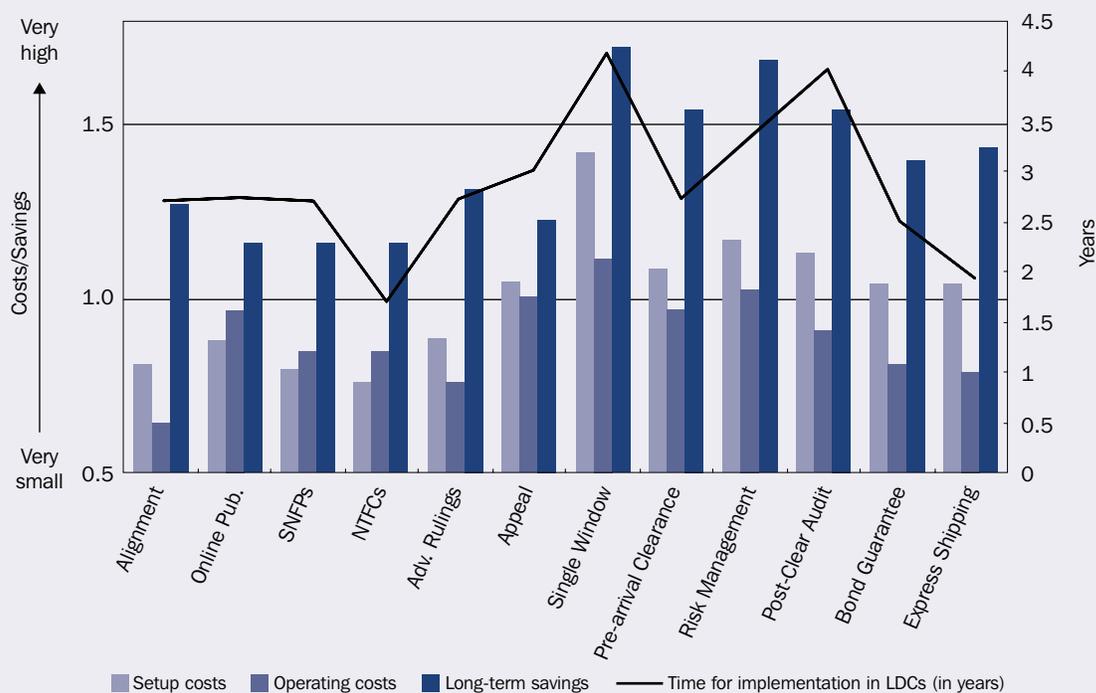
- (i) *Institutional costs.* Trade facilitation generally requires a change in the attitude of institutions involved in the facilitation process. This may sometimes have to be accompanied by the restructuring of existing institutions or the introduction of new ones. These changes may entail challenges 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.

<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.

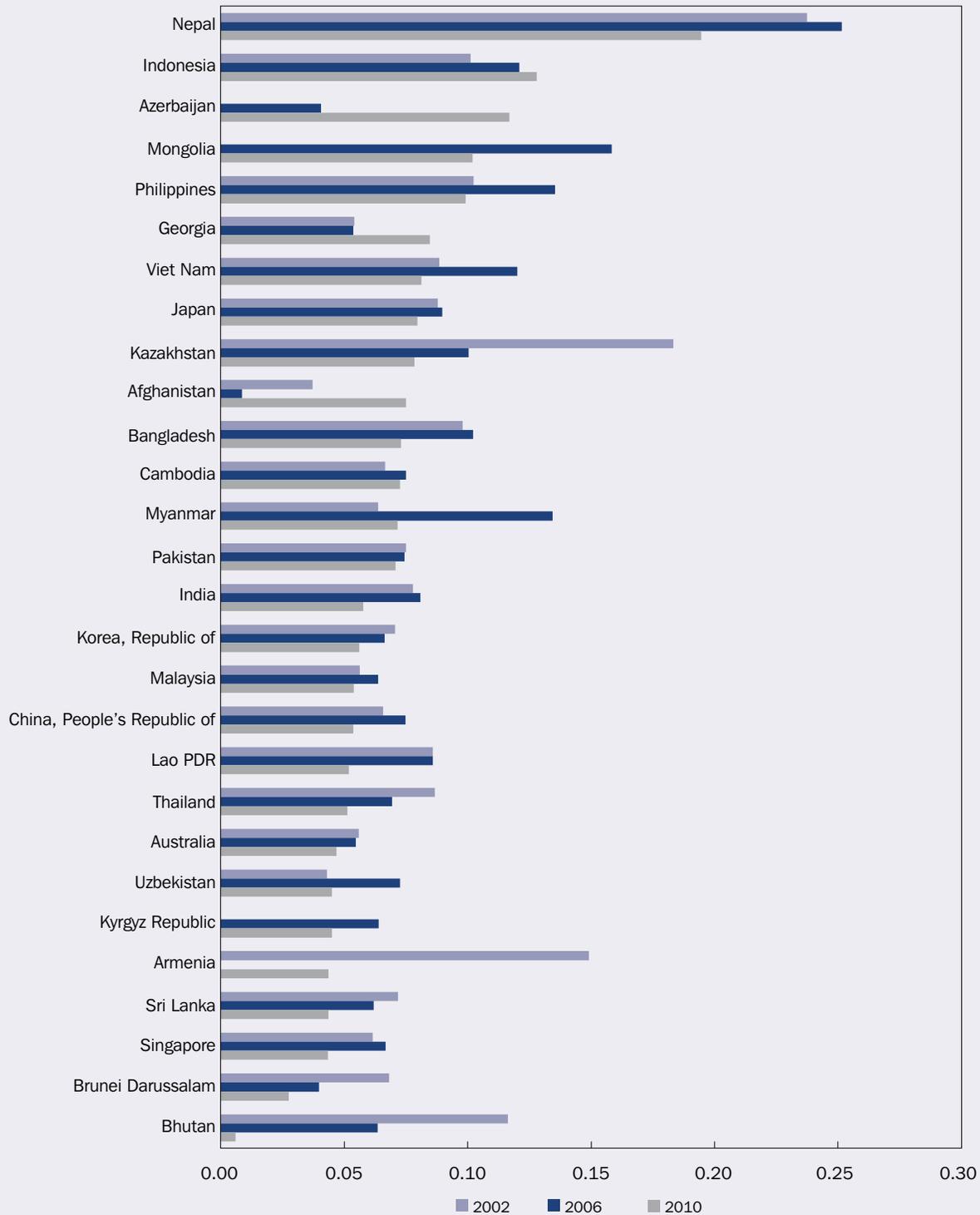
## Asia and the Pacific Regional Performance Still Lagging

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.

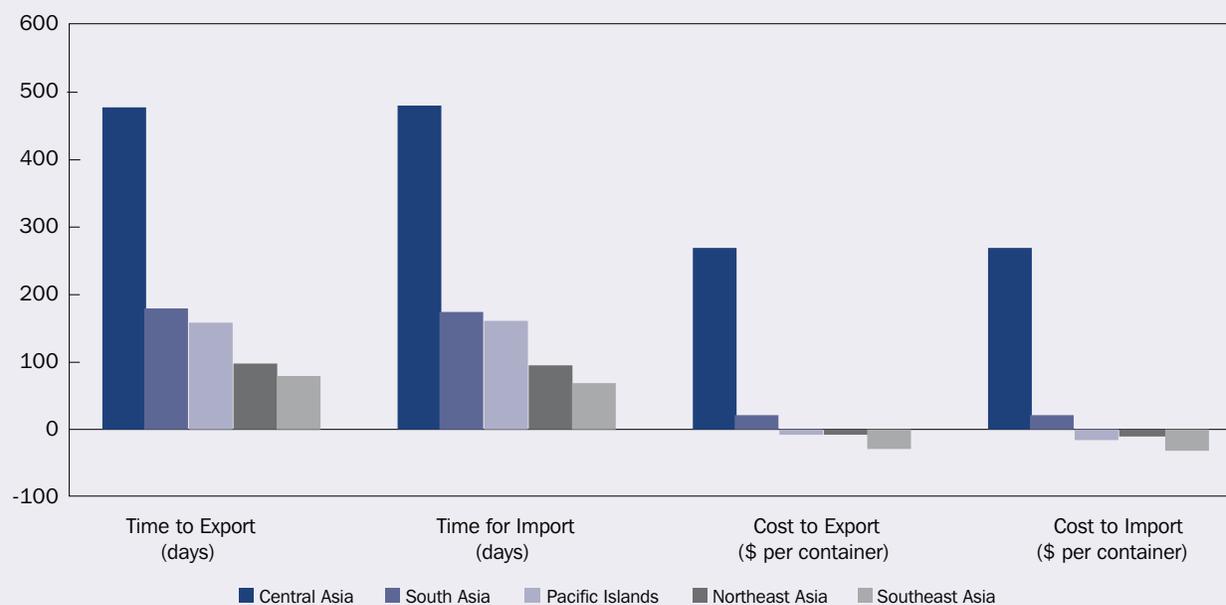
### Box 1.4: On Using CIF/FOB Trade Data to Assess Trade Costs

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%).

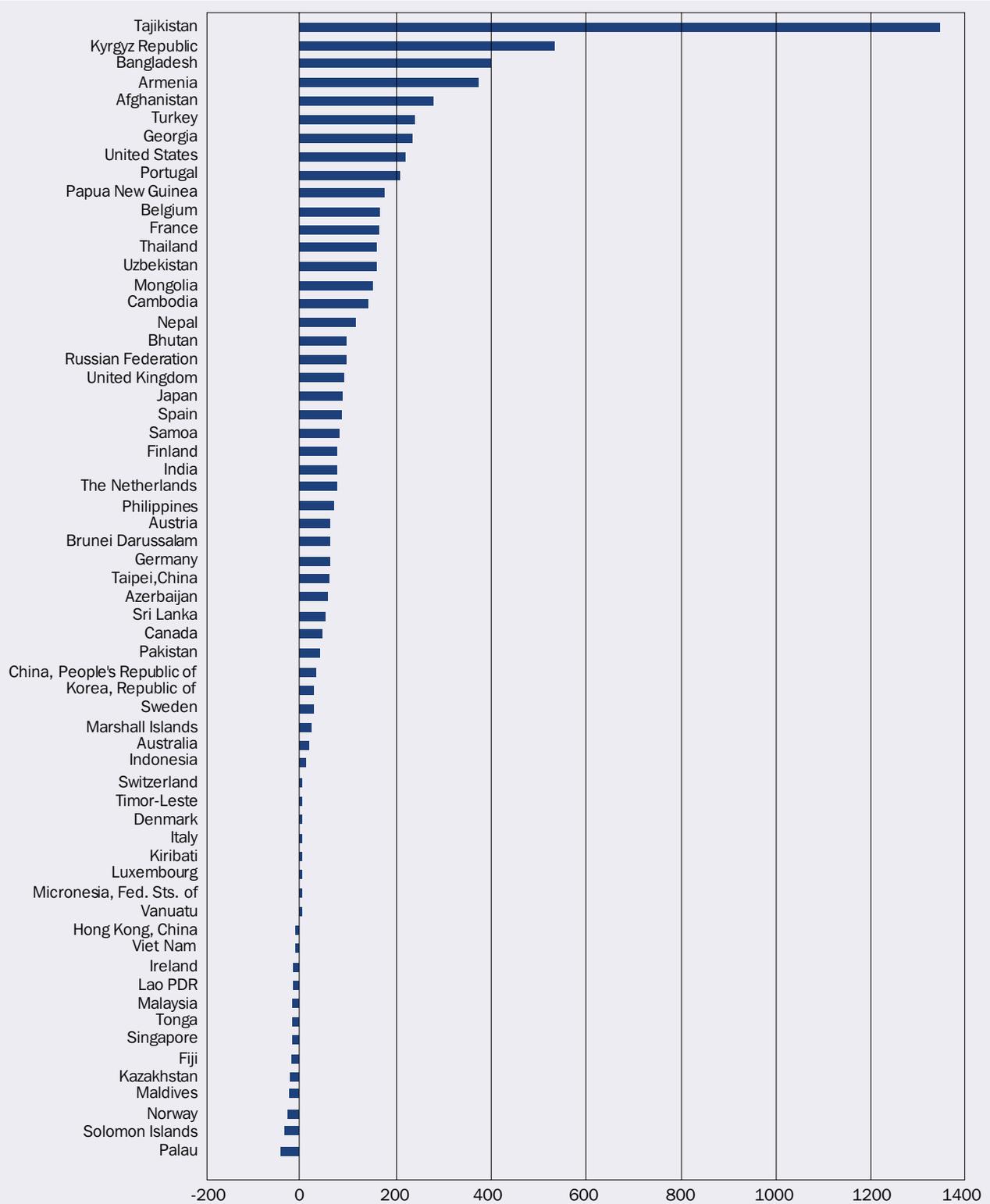
Efficient overland trade is one of the keys to facilitating intraregional trade, and achieving a more inclusive growth and regional development.<sup>19</sup> Unfortunately, national trade facilitation programs in many developing countries have often inherently focused on facilitating imports and exports 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.

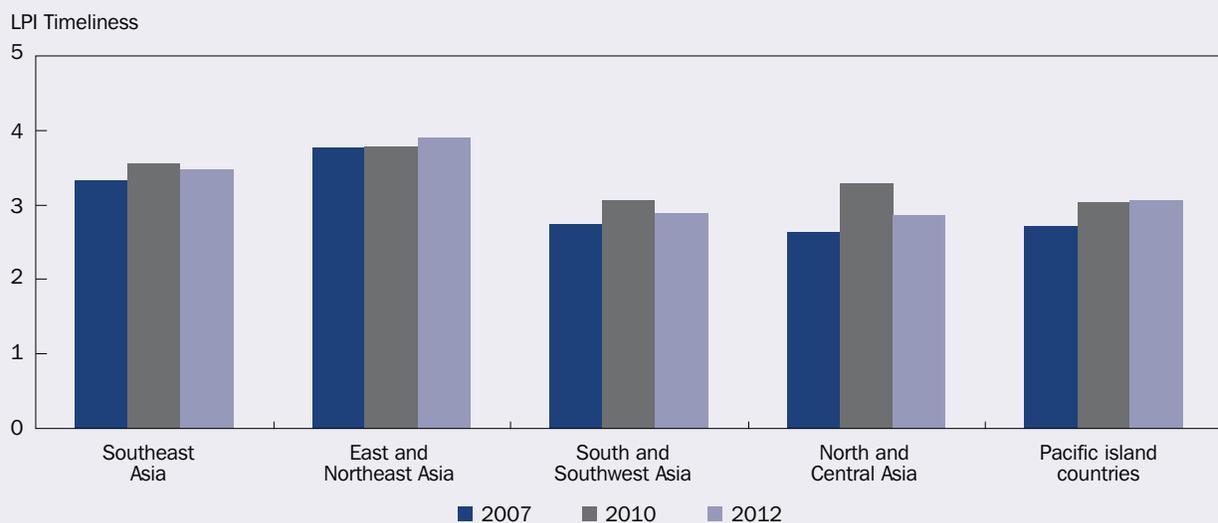
Movements through land borders across countries in South Asia continue to be unsatisfactory due to various impediments. For instance, the border delay in terms of time for India's exports to Bangladesh (Petrapole India, and Benapole, Bangladesh) was not reduced between 1998 and 2005. On the one hand, 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).

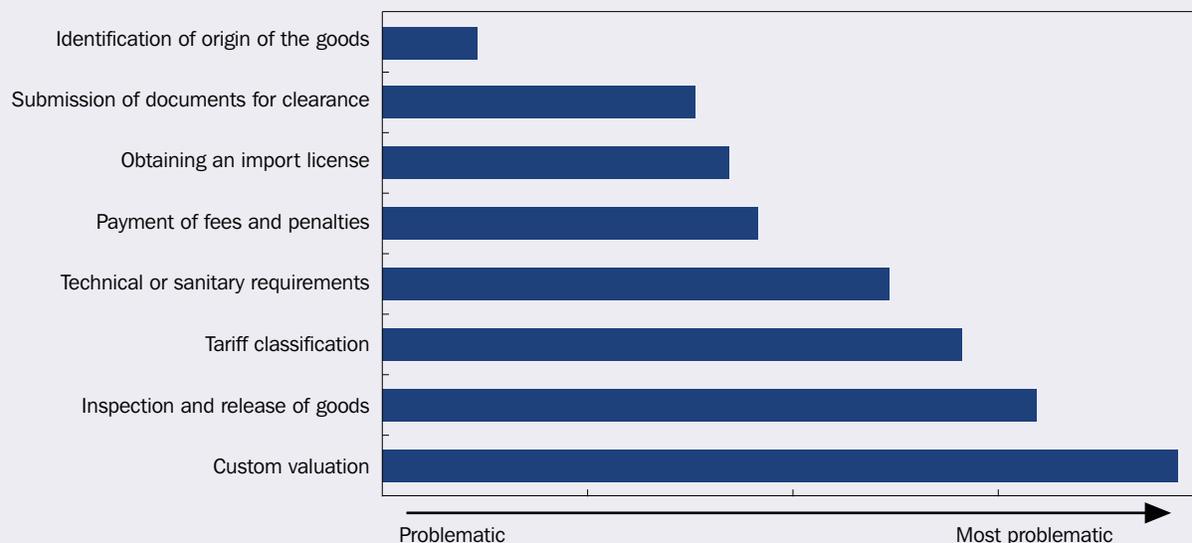
In addition to trade facilitation measures being negotiated under the WTO, customs valuation was identified as the most problematic area in the countries surveyed (Figure 1.7). Complying with technical or sanitary requirements (product standards) was also found to be highly problematic in many countries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

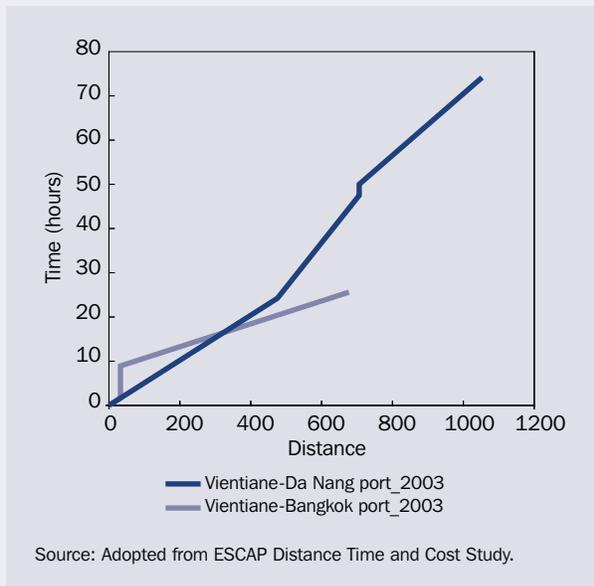
facilitation requires more detailed analyses of trade procedures and processes. Direct measurement methods, such as the WCO Time Release Study or the ESCAP time/cost– distance model (Box 1.6) and BPA methodology, which provides for detailed measurement of time and costs at various stages of the clearance 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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