



# Trade Facilitation and Better Connectivity for an Inclusive Asia and Pacific

*Highlights*



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6 ADB Avenue, Mandaluyong City, 1550 Metro Manila, Philippines  
Tel +63 2 632 4444; Fax +63 2 636 2444  
[www.adb.org](http://www.adb.org)

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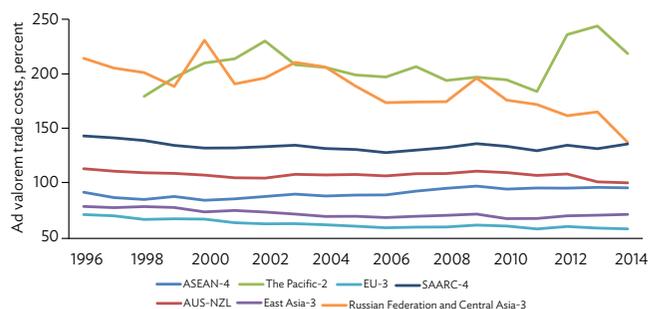
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1. In this publication, “\$” refers to US dollars.
2. All photos are from ADB.
3. Full report is available at <http://aric.adb.org/aeir>
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# Trade Facilitation and Better Connectivity for an Inclusive Asia and Pacific

**T**rade facilitation has emerged as a key instrument for further reducing trade costs. While tariff rates have come down substantially across Asia and the Pacific, non-tariff barriers remain significant. Trade facilitation improves trade efficiency and lowers transaction costs. With the decline of tariffs over the last two decades, the real impediments to trade are non-tariff and technical barriers. Trade facilitation also offers more practical solutions for stimulating trade and economic growth amid the fallout from the Trans-Pacific Partnership trade agreement.

**Figure 1: Trade Costs of Asia and Pacific Subregions with Large Developed Economies**



ASEAN-4 = Indonesia, Malaysia, Philippines, Thailand. AUS-NZL = Australia and New Zealand. East Asia-3 = People's Republic of China, Japan, the Republic of Korea; EU-3 = Germany, France, United Kingdom. Pacific-2 = Fiji and Papua New Guinea. Central Asia = Georgia, Kazakhstan, Kyrgyz Republic. SAARC-4 = Bangladesh, India, Pakistan, Sri Lanka.

Note: Trade costs shown are tariff equivalents, calculated as trade-weighted average trade costs of countries in each subregion with the three largest developed economies (Germany, Japan, and the United States).

Source: ESCAP. 2017.

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

## Trade Costs

**Trade costs have fallen in Asia and the Pacific since 1996, but still vary widely across subregions.** East Asia has the lowest trade costs in the region, continuing a downward trend. Trade costs in the Russian Federation and Central Asia remain high but have declined dramatically and steadily over the past decade, putting them nearly at par with those of the South Asian economies. The Pacific has the highest, but their trend is clearly downward (Figure 1).

## Implementation of Trade Facilitation and Paperless Trade Measures

**The 2017 global survey on trade facilitation and paperless trade implementation reveals improvement across Asia and the Pacific.** The survey covers 47 trade facilitation measures divided into seven groups—(i) general trade facilitation measures including transparency; formalities, and institutional arrangement and cooperation; (ii) paperless trade; (iii) cross-border paperless trade; (iv) transit facilitation; (v) trade facilitation for small and medium-sized enterprises (SMEs); (vi) agricultural trade facilitation; and (vii) women in trade facilitation.<sup>1</sup> Key findings include the following:

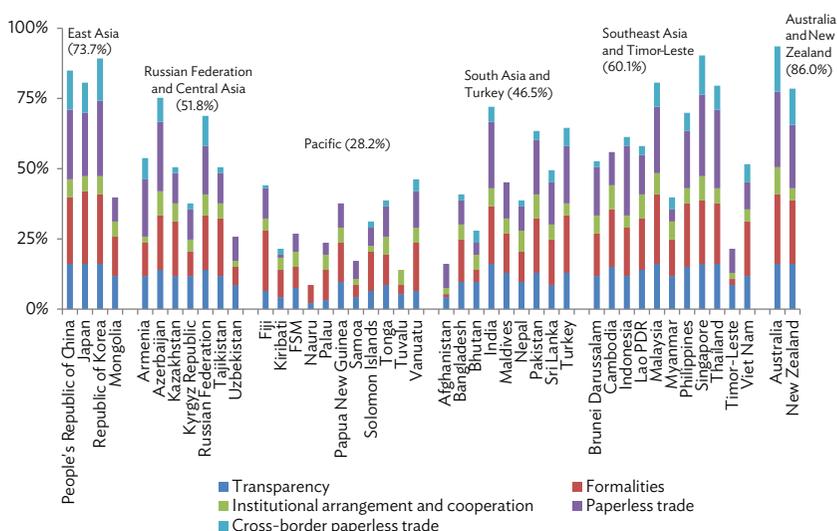
- The average implementation rate on (i) general trade facilitation; (ii) paperless trade; and (iii) cross-border paperless trade improved to 50.4% in 2017 from 46.5% in 2015 for Asia and the Pacific.
- The implementation rates vary widely across subregions and within each subregional group. Apart from Australia and New Zealand, average implementation is highest in East Asia (73.7%), followed by Southeast Asia and Timor-Leste (60.1%), the Russian Federation and Central Asia (51.8%), and South Asia and Turkey (46.5%). The Pacific lags at 28.2% (Figure 2).

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<sup>1</sup> The first global survey was conducted in 2015 to assess the implementation status of trade facilitation worldwide. The second global survey in 2017, draws on the final list of provisions under the World Trade Organization Trade Facilitation Agreement (WTO TFA) and the text of the regional United Nations treaty on cross-border paperless trade facilitation. Each trade facilitation measure is rated either “fully implemented,” “partially implemented,” “on a pilot basis,” or “not implemented” with scores of 3, 2, 1, or 0. Further information of the survey is available at <https://unnex.unescap.org/content/global-survey-trade-facilitation-and-paperless-trade-implementation-2017>

- The region’s implementation rates on (i) general trade facilitation and (iv) transit facilitation—mostly covered by the World Trade Organization’s Trade Facilitation Agreement (WTO TFA)—are relatively high, at 50%–70%. However, areas such as (iii) cross-border paperless trade remain low, reflecting the early stage of development in the area.
- Average implementation rates in (v) trade facilitation for SMEs and (vii) women in trade facilitation, are low at 39% and 23%, respectively, suggesting a need for further support in these areas.

**Figure 2: Overall Implementation of Trade Facilitation Measures in Asia and the Pacific**



Lao PDR = Lao People’s Democratic Republic; FSM = Federated States of Micronesia.  
 Source: United Nations Regional Commissions. 2017.

### Subregional Cooperation Initiatives and Trade Facilitation in Asia and the Pacific

**Across Asia and the Pacific, various subregional economic cooperation programs have helped advance economic development in the areas of trade and investment, infrastructure, financial integration, and regional public goods.** As a key component of these subregional programs, trade facilitation has reduced processing time, trade costs, and travel time, fostering integration into global production networks and creating more jobs.

- **The Central Asia Regional Economic Cooperation (CAREC):** Trade facilitation has two major components: (i) customs cooperation on reforms and modernization, and (ii) integrated trade facilitation by establishing a regional mechanism. The average time needed to clear a border-crossing along CAREC transport corridors—by rail and road—was reduced by an hour in 2015 from 2014. Travel time by rail dropped by 16% (5.2 hours), and average train speed rose 20%.
- **The Greater Mekong Subregion (GMS):** Infrastructure and economic corridors are its main strategic pillars, along with facilitation of cross-border movement and market integration. Projects pursued under the GMS program have yielded positive results. At key border crossings, new infrastructure and greater border efficiency cut travel time between Bavet (Cambodia) and Moc Bai (Viet Nam) in half—from about 10 hours in 1999 to 5 hours in 2013. Cross-border trade increased from \$10 million in 1999 to \$708 million in 2013.
- **The South Asia Subregional Economic Cooperation (SASEC):** Trade Facilitation Strategic Framework 2014–2018 covers national and subregional projects in five priority areas: (i) customs modernization and harmonization; (ii) standards and conformity assessments focusing on sanitary and phytosanitary (SPS) measures; (iii) improving cross-border facilities; (iv) transport facilitation; and (v) institutional capacity building. The program promotes the establishment of a national monitoring mechanism intended to identify bottlenecks in the implementation of trade facilitation measures. As a first step, baseline studies have been conducted in Bangladesh, Bhutan, and Nepal in 2016–2017.
- **Pacific Approach 2016–2020:** In the Pacific, improving connectivity is a key pillar of the Pacific Approach 2016–2020 and country partnership strategies for Fiji, Papua New Guinea, and Timor-Leste of the Asian Development Bank (ADB). ADB has been one of the leading supporters of investments that improve transport connectivity through shipping, aviation, and road transport.

## Assessing Impacts of Trade Facilitation

**Implementing the WTO TFA measures could reduce trade costs by up to 9% of total trade costs under full implementation, or an annual saving of \$219 billion for Asia and the Pacific.** However, gains from the full implementation of the WTO TFA may be relatively small for developing countries where trade costs have been already reduced substantially through simplifying, harmonizing, and automating trade procedures at the national and subregional levels. Further reductions in trade costs in these

economies need to come from beyond the conventional trade facilitation measures; for example, developing legal and technical frameworks to support cross-border paperless trade.

**An analysis shows that a 10% reduction in time at the importers' border leads to an increase in intra-CAREC trade by 2%–3%.** This amounts to an increase in intraregional trade of \$1.4 billion. Empirical evidence points to the importance of the time taken at the importers' border for facilitating bilateral trade among the CAREC countries, compared to the time taken at the exporters' border. Much of the time and cost of road activities at the CAREC border crossing points are spent during customs clearing and waiting or queuing, compared to other activities at the crossing points. Efforts to further improve trade procedures need to target time taken during customs clearing and waiting and queuing at importer border crossing points.

## Challenges and the Way Forward

**The implementation of trade facilitation measures is more challenging by its complex nature than implementing physical infrastructure projects.** For example, the impact of delays is greatest on routes crossing multiple borders. But the measures that reduce delays are complex and difficult to implement due to multiple layers of authority and governance across borders. A key challenge is thus to adopt a more integrated approach to transport and trade facilitation that improves efficiency alongside new physical infrastructure.

**Institutional coordination is essential for successful trade facilitation.** Commitment and consistency are required—for all stakeholders on policies, systems, and institutions. Improving the business climate and governance is also a critical condition to maximize trade facilitation results.

**Going forward, digitalization offers great potential to enhance trade facilitation implementation and further reduce trade costs in Asia and the Pacific.**

Trade facilitation implementation follows a step-by-step process: (1) setting up the institutional arrangement, (2) ensuring more transparent trade processes, (3) designing and implementing simpler and more efficient trade formalities, (4) developing paperless trade systems, and (5) achieving cross-border paperless trade.

The United Nations treaty, the “Framework Agreement on Facilitation of Cross-Border Paperless Trade in Asia and the Pacific”, which complements the WTO TFA by facilitating paperless trade, can provide a unique opportunity for participating countries to boost trade and investment competitiveness and support the growth of their digital economies. The treaty aims to enable the electronic exchange of trade-related data and documents across borders.



## **Trade Facilitation and Better Connectivity for an Inclusive Asia and Pacific**

### *Highlights*

Trade facilitation increases trade flows, lowers trade cost, and ultimately contributes to sustainable and inclusive growth. This publication, jointly prepared by the Asian Development Bank and the United Nations Economic and Social Commission for Asia and the Pacific, reviews the state of play of trade facilitation and paperless trade in Asia and the Pacific. It investigates the evolution of trade costs in the region, examines trade facilitation and paperless trade implementation, and highlights the key initiatives and efforts in Central Asia, the Greater Mekong Subregion, South Asia, and the Pacific. It includes impact assessments of trade facilitation implementation and corridor performance on reducing trade costs and increasing trade.

### **About the Asian Development Bank**

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to a large share of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

### **About the United Nations Economic and Social Commission for Asia and the Pacific**

ESCAP is the regional development arm of the United Nations and serves as the main economic and social development center for the United Nations in Asia and the Pacific. Its mandate is to foster cooperation between its 53 members and 9 associate members. ESCAP provides the strategic link between global and country-level programs and issues. It supports governments of countries in the region in consolidating regional positions and advocates regional approaches to meeting the region's unique socioeconomic challenges in a globalizing world. The ESCAP office is in Bangkok, Thailand.

