

## **CHAPTER 1**

### ***THE NEED FOR REGIONAL ARRANGEMENTS ON PAPERLESS TRADE IN ASIA AND THE PACIFIC***

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#### **A. The need to facilitate paperless trade and transit**

Before examining the need for regional arrangements on paperless trade, it is worthwhile looking briefly at the need for paperless trade per se. As the United Nations Economic Commission for Europe (UNECE) (2006) has pointed out, billions of paper documents are used in international trade by traders and administrations. This is happening despite phenomenal advances in information and communications technology (ICT). The arguments supporting a changeover from paper documents to paperless trade are now well-known. These are documented in various publications such as the UNECE (2006) paper on paperless trade referred to above and in the Country Briefs on the Single Window prepared by United Nations Network of Experts for Paperless Trade in Asia and the Pacific (UNNExT), which are discussed in greater detail in chapter 2. The main arguments can be summarized as:

- (a) The cost involved in international trade can be reduced, significantly saving billions of dollars;
- (b) There will be increased revenue for both the private sector and Governments;
- (c) Security, transparency and efficiency in supply chains will increase;
- (d) Electronic information will be easier to process and more reliable;
- (e) Delays in border clearance will be reduced;
- (f) Changeover to paperless trade will invariably be accompanied by the re-engineering of existing complicated procedures resulting in simplification, greater transparency and accountability, contributing to the cause of good governance;
- (g) Reductions in cost and simplification of procedures will help small and medium-sized enterprises to become more competitive, as savings from paperless trade are the highest for smaller shipments and perishable goods;

- (h) Electronic information is more amenable to automatic risk analysis, which will help in preventing fraud and non-compliance, and thus give rise to more revenue;
- (i) Paperless trade will help in modernizing administrations and result in better utilization of available manpower;
- (j) Trade will benefit from reductions in repeated data entries, errors and delays;
- (k) Private enterprises will be able to develop and use automatic tracking systems to ensure secure and timely delivery of goods;
- (l) Paperless trade can significantly cut down bureaucratic delays and accompanying corruption;
- (m) Landlocked countries in particular will benefit from paperless trade as electronic information can be received and processed in advance of the arrival of goods at the border, enabling faster clearance;
- (n) Administrations are frequently forced to make use of incomplete and unauthenticated data while imposing World Trade Organization (WTO) mandated trade remedy measures such as anti-dumping duties, etc. A paperless trading environment will allow the complete and transparent capture of reliable trade data, enabling administrations to take informed decisions.

The usual arguments against changeover from paper documents to paperless trade relate to the initial costs involved, the reluctance of traders to incur additional costs unless they see the benefit, resource constraints with regard to developing countries as well as small traders. These can, however, be overcome by:

- (a) Demonstrating the distinct advantages of a paperless system to all stake-holders;
- (b) National Governments taking the initiative and bearing the initial costs, particularly for small traders;
- (c) Providing international financial and technical assistance to developing countries that lack the required resources.

It is also important to plan and manage a smooth and phased transition to a new system so that it gains wider acceptance.

## **B. Challenges in furthering cross-border paperless trade**

While most countries recognize the advantages that ICT presents as well as the benefits that a paperless trading environment offers in improving competitiveness of exporters, several countries in the Asia-Pacific region face significant challenges in moving towards paperless trade. The reasons are manifold:

- (a) Computerization carried out by different countries using different systems and inter-operability of various systems can be a challenge;
- (b) The types of information and documentation required by many countries are different, which makes working out a system for a comprehensive exchange of data and documentation between countries a very challenging task;
- (c) The advantages of cross-border paperless trade may not be very obvious to traders and, hence, they may not push their Governments to implement systems for cross-border paperless trade, particularly in situations where the application of ICT is inadequate in the national context;
- (d) Inadequate national efforts to apply ICT in matters relating to customs and port clearance, often linked to fear of changes and the existence of vested interests that benefit from an opaque and non-transparent manual system;
- (e) Within national Governments, computerization by different government departments dealing with different aspects of international trade is carried out in an uncoordinated manner, thereby making the implementation of a Single Window system difficult;
- (f) Computerization at the national level without applying global standards, diminishing chances of inter-operability and cross-border exchanges;
- (g) A lack of financial resources and qualified technical personnel;
- (h) A lack of political will and leadership within the administration to opt for, and manage a change-over from the existing system to a paperless trading environment;
- (i) A lack of public-private partnerships in evolving a better trading environment using ICT.

The lack of enabling legal frameworks is also a challenge in some countries in Asia and the Pacific (ESCAP/UNECE, 2012). An overarching national legislation is often lacking for validating electronic documents, messages and transactions, and for making the same acceptable in lieu of paper documents. Changes may also be required to various existing individual laws (e.g., customs or trade laws). Legal provisions on data protection, privacy, integrity and sharing as well as on data retention/archiving are also important to the promotion of developing and using paperless trade systems. Recognition and acceptance of electronic signatures and/or certification authorities across the border may also need to be addressed as part of the effort to create an enabling environment for cross-border paperless trading.

In the course of designing and implementing a new system, it is also important that the requirements of trading should be ascertained and factored in, so that the trade accepts and benefits from the new system.

### **C. The need for regional arrangements to facilitate cross-border paperless trade**

Globalization has led to greater integration and interdependence of countries, which in turn is marked by greater trade and investment flows, fragmentation of the production process by locating different stages of production in the lowest-cost country, and greater flows of cross-border investment, and movement of people and finance. This needs a paradigm shift in the way cross-border trade transactions are carried out. A system of cross-border paperless trade will provide a seamless mechanism to aid the globalization process.

As countries are liberalizing autonomously, the traditional protection of domestic industry through tariff walls is no longer feasible. Countries and their industries have to always be on the alert to improve their competitiveness. One way of improving competitiveness is to reduce trade transaction costs. Several countries have taken significant steps domestically by using information technology, but there are not many extant regional and global initiatives to carry the process to the next logical step, i.e., to leverage information technology to promote cross-border paperless trade. A regional initiative will therefore be

very useful in a region such as Asia and the Pacific, where many countries are leaders in international trade or are major markets.

This is an era of burgeoning regional trade agreements (RTAs). According to WTO,<sup>1</sup> as of 15 January 2012 a total of 511 RTAs had been notified to WTO; of these, 319 are in force. Many more RTAs are in the pipeline. According to WTO (2011), although intra-Preferential Trade Agreement (PTA) trade accounted for only 18 per cent of world merchandise trade in 1990, it had jumped to 35 per cent of total world merchandise trade in 2008. Countries of the Asia-Pacific are members of many significant RTAs and many of them have ambitious provisions, largely on a “best endeavour” basis, to promote cross-border paperless trade. A regional arrangement can lend greater coherence and concreteness to such provisions. This is particularly relevant as a global arrangement for paperless cross-border trade appears rather ambitious at this stage since it is likely to involve huge outlays of costs and time, given the similar experience gained from the WTO Doha Round experience of negotiations on trade facilitation.

A regional arrangement will also provide a platform for extending technical assistance and capacity-building to countries in need of such aid. Developing countries lacking in resources and even small traders can be provided with adequate financial and technical support to enable a paperless trading arrangement to become inclusive.

In order to implement a cross-border paperless trade system, countries need to take certain proactive steps. A review of the various initiatives taken by different countries in the direction of paperless trade in chapter 2 indicates that:

- (a) A country participating in a cross-border paperless trading arrangement should ideally have a sound single window system as a prerequisite;
- (b) Simplification, through re-engineering, of existing complex trade procedures and documents should precede the design of such a single window system;
- (c) A paperless trading arrangement must take into account specific national/regional requirements in order to be acceptable to participating countries;

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<sup>1</sup> See WTO website at [www.wto.org/english/tratop\\_e/region\\_e/region\\_e.htm](http://www.wto.org/english/tratop_e/region_e/region_e.htm) (accessed 11 January 2013).

- (d) Such an arrangement should not only factor in administrative requirements relating to compliance and enforcement, but also the requirements of international trade relating to safe and fast delivery of goods as well as timely payment for goods;
- (e) Organizational support must be available for the implementation and maintenance of a cross-border paperless trading arrangement.

A regional trading arrangement should: (a) take into account national/regional specificities; (b) be capable of implementation in a relatively short time-frame; and (c) be able to help needy partners in the region with financial and technical support. Any regional arrangement must make use of global standards and protocols, so that it can easily become compatible with a global trading network in the future. Use of global standards and protocols will also enable regional partners to carry on paperless trade with their trading partners in other regions without having to resort to multiple protocols.

The Asian and the Pacific region includes several countries whose administrations, trading communities and political leadership seem eager to harness the advantages of ICT in order to improve their trade competitiveness – a few outstanding examples being Malaysia, the Republic of Korea, and Singapore. Several countries already have put in place very efficient single window systems and bilateral arrangements for the electronic exchange of trade data within and outside the region. Some others are considered to be ICT power-houses. As such, the Asian and the Pacific region is perhaps the best choice for putting in place a regional arrangement for paperless cross-border trade, which can later be extended to other regions.

#### **D. ESCAP Resolution 68/3**

In view of the above situation, ESCAP Resolution 68/3 adopted by member States at the sixty-eighth ESCAP Commission Session, held from 17 to 23 May 2012, on “Enabling Paperless Trade and the Cross-Border Recognition of Electronic Data and Documents for Inclusive and Sustainable Intraregional Trade Facilitation” appears to be very timely and

appropriate. For ready reference, the main part of the Resolution follows (see annex 2 for the full text of the Resolution):

*“The Economic and Social Commission for Asia and the Pacific,*

*Taking note* of the proposal of the Committee on Trade and Investment supporting a regional agreement on electronic trade data and document exchange,

1. *Invites* member States to work towards the development of regional arrangements on the facilitation of cross-border paperless trade;

2. *Encourages* all members and associate members:

(a) To support and participate in the knowledge-sharing and capacity-building activities of the United Nations Network of Experts for Paperless Trade in Asia and the Pacific, including the Asia-Pacific Trade Facilitation Forum and related activities supported by regional and international organizations active in the field of trade facilitation;

(b) To initiate or accelerate the implementation of national paperless trade systems, including national Single Windows defined in United Nations Centre for Trade Facilitation and Electronic Business recommendation No. 33 and related recommendation No. 35;

(c) To take into account, and whenever possible adopt, available international standards made by relevant United Nations bodies, such as the United Nations Centre for Trade Facilitation and Electronic Business, and the United Nations Commission on International Trade Law, and other international organizations, such as the World Customs Organization (WCO) and the International Organization for Standardization, when implementing these systems so as to facilitate their interoperability;

(d) To participate in the development of new international standards to achieve the seamless exchange and recognition of trade-related information and documents across borders among all relevant stakeholders from both the public and private sectors;

(e) To share lessons learned and the outcomes of existing bilateral and sub-regional pilot projects on the recognition and exchange of trade-related electronic data and documents with other members and associate members, and to initiate new ones;

(f) To consider entering into bilateral and sub-regional agreements on the cross-border recognition and exchange of trade-related documents as building blocks towards regional and global cross-border paperless trade.”

A detailed review of the existing systems has been attempted in the next chapter in order to extract appropriate lessons before drawing up the proposed elements of a regional arrangement in chapter 3.