

Bayley, Anthony

**Working Paper**

## Policies to enhance trade facilitation in South Asia and Southeast Asia

ADB Working Paper, No. 489

**Provided in Cooperation with:**

Asian Development Bank Institute (ADBI), Tokyo

*Suggested Citation:* Bayley, Anthony (2014) : Policies to enhance trade facilitation in South Asia and Southeast Asia, ADB Working Paper, No. 489, Asian Development Bank Institute (ADBI), Tokyo

This Version is available at:

<https://hdl.handle.net/10419/115306>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*



**ADB Working Paper Series**

**Policies to Enhance Trade Facilitation  
in South Asia and Southeast Asia**

---

Anthony Bayley

No. 489  
July 2014

**Asian Development Bank Institute**

Anthony Bayley is a consultant at the Asian Development Bank, Manila.

The views expressed in this paper are the views of the author and do not necessarily reflect the views or policies of ADBI, ADB, its Board of Directors, or the governments they represent. ADBI does not guarantee the accuracy of the data included in this paper and accepts no responsibility for any consequences of their use. Terminology used may not necessarily be consistent with ADB official terms.

Working papers are subject to formal revision and correction before they are finalized and considered published.

The Working Paper series is a continuation of the formerly named Discussion Paper series; the numbering of the papers continued without interruption or change. ADBI's working papers reflect initial ideas on a topic and are posted online for discussion. ADBI encourages readers to post their comments on the main page for each working paper (given in the citation below). Some working papers may develop into other forms of publication.

Suggested citation:

Bayley, A. 2014. Policies to Enhance Trade Facilitation in South Asia and Southeast Asia. ADBI Working Paper 489. Tokyo: Asian Development Bank Institute. Available: <http://www.adbi.org/working-paper/2014/07/09/6354.trade.facilitation.south.southeast.asia/>

Please contact the author for information about this paper.

Email: [napierconsultants@spamcop.net](mailto:napierconsultants@spamcop.net)

**Abstract**

This paper discusses trade facilitation in the context of enhancing trading links between South and Southeast Asia, in a manner understandable to the non-specialist. Presently, these two Asian regions tend to trade preferentially with distant markets. One of the reasons cited for the limited trade between themselves is that trade facilitation with trade partners in developed countries is more user-friendly and stable. This suggests that enhancing trade facilitation within the two regions could promote intra- and inter-regional trade. The paper identifies the scope of trade facilitation and profiles the current overall situation in the two regions. It highlights the key issues and constraints, often referred to as non-trade barriers, in terms of both “soft” and “hard” infrastructure, and highlights ongoing initiatives designed to promote change, especially through the application of new approaches and procedures. Lastly, the paper concludes by discussing the key regional trade facilitation issues and proposing recommendations to eliminate the non-trade barriers that are adversely impacting on trade within and between the regions.

**JEL Classification:** F15, F13

This paper was produced as part of the ADB–ADBI flagship project on “Connecting South Asia and Southeast Asia.”

## Contents

1.	Introduction.....	3
2.	Scope of Trade Facilitation .....	4
3.	Overview of Trade Facilitation in South and Southeast Asia .....	5
4.	Issues and Bottlenecks.....	8
5.	Regional Initiatives Designed to Address the Issues.....	21
6.	Conclusions .....	27
7.	Recommendations.....	30
	References .....	32

## 1. INTRODUCTION

Awareness of the importance of trade facilitation has increased dramatically over the last decade in both South and Southeast Asia. National governments and the major international funding institutions (IFIs), such as the Asian Development Bank (ADB), have become increasingly active in formulating initiatives to help eliminate many of the non-tariff barriers (NTBs) related to the physical movement of trade. In particular, the finalization of the Trade Facilitation Agreement (TFA) at the Bali Ministerial Conference held in December 2013 has focused attention on resolving many of these issues. Indeed, the development of trade facilitation in general has grown to unprecedented popularity. To some extent, this reflects a clearer understanding of the interrelation between trade growth and trade facilitation. It has been suggested that expansion in trade due to enhanced trade facilitation could lead to increases in per capita gross domestic product (GDP) in Asia and the Pacific economies by about 2.5%.<sup>1</sup> Similarly, it has been calculated that decreasing direct and indirect trade transaction costs by 1% can result in an average of 0.25%–0.4% increase in GDP.<sup>2</sup> Hence, it is evident that improvements in trade facilitation can potentially generate more trade and thus raise national welfare. Consequently, both institutions and governments have focused on trade facilitation as one possible approach to help raise GDP levels, especially in developing countries, with a view to poverty alleviation.

The economies of South and Southeast Asia have tended to grow independently of each other, and in most cases international trade has concentrated on distant markets, rather than on neighboring countries or subregions. Among the many reasons for this is that the main demand for export products comes generally from developed countries, export products are often homogeneous, and neighboring countries are competitors rather than customers whose import demand is not for the type of products exported by close neighbors.<sup>3</sup> While major exporting countries like India, Malaysia, Singapore, Thailand, and Viet Nam trade with each other and with other countries in South and Southeast Asia, the volume represents a minor percentage of their overall trading activities.

Trade is not necessarily dictated by distance between centers of production and demand. All things being equal, traders in both South and Southeast Asia are more attracted to trading with distant markets such as North America, Japan, and Europe, which are often seen as relatively stable and generate “hard” currency, than in trading with neighbors where the risks are perceived as being higher. Despite the recent problems in these developed markets, conditions are now improving and as they pull out of recession they are still seen as the key centers of demand in the short-to-medium term. Ongoing developments in the maritime sector with ever larger vessels, and the formation of major consortiums suggest that long distance transport will remain relatively stable in the foreseeable future, thus bringing these distant centers of demand to within easy reach of the region’s exporters. While the progress achieved in the People’s Republic of China (PRC), India, and Indonesia has led to a growing “middle class” with greater spending power, much of this resultant increase in demand is expected to be satisfied by national production and remote outside sources, rather than by imports from immediate neighbors. The policy in many Asian countries has been to attempt to stimulate domestic demand, particularly to satisfy the needs of this new “wealth generation,” in order to offset potential short-to-medium term reductions in export demand. Initial evidence suggests that domestic demand is not rising at a sufficient rate to cover the reduced export demand. This wealth creation is fuelling import growth, which is being

---

<sup>1</sup> Dollar and Kraay (2001); Duval and Utoktham (2009).

<sup>2</sup> Organisation for Economic Co-operation and Development (OECD) (2009).

<sup>3</sup> See Bhattacharya, Kawai, and Nag (2012) for more elaborate discussion.

satisfied by trade from outside rather than from within the region. Import demand in countries in South Asia in particular continued to expand in 2012–2013 despite declines in exports, thus in many cases increasing their balance of payments deficits.

In essence, the growth of the South and Southeast Asia economies predicted for future years is expected to generate trade demand on the global markets as a whole, rather than merely within the South Asia Subregional Economic Cooperation (SASEC) or the Greater Mekong Subregion (GMS) in isolation. Enhanced physical connectivity, including the development of links with and through Myanmar will not generate significant intra-regional trade *per se*. Instead, trade will have to be “fought for” and therefore proactive measures that “facilitate” the movement of trade in the South and Southeast Asian countries will be critical to ensure that export goods are competitive and that import transaction costs are minimized. While trade may remain focused on distant markets, there is a latent demand for trade within and between the subregions that could be realized within a more progressive trade facilitation environment. The development of physical connectivity between the regions will need to be supported by corresponding improvements in trade facilitation in order to realize the goal of greater intra-regional trade.

This paper provides a profile of the trade facilitation environment in South and Southeast Asia, highlighting the key related issues and constraints, and indicating the existing and potential developments needed to resolve the present NTBs. The initial section clarifies the scope of trade facilitation in the context of this study, and is followed by an overview of the situation in both subregions. The specific key issues and bottlenecks (e.g., NTBs) are described, together with current regional initiatives designed to address them. Finally, a list of key conclusions is presented with recommendations on strategies that will potentially enhance trade facilitation and generally promote trade between the two subregions.

## 2. SCOPE OF TRADE FACILITATION

One of the difficulties in addressing trade facilitation has been its nebulous definition, and to date no common interpretation has been used institutionally. While trade facilitation is simply about making trading easier, the various international organizations have developed their own individual interpretations. The Economic Commission for Europe (ECE) defines it as “to simplify the process and minimize transaction costs in international trade, while maintaining effective levels of government control.”<sup>4</sup> The World Trade Organization (WTO) states it is “the simplification and harmonization of international trade procedures” and the World Customs Organization (WCO) sees it as the “avoidance of unnecessary trade restrictiveness”. The Organisation for Economic Co-operation and Development (OECD) defines it as “the simplification and standardization of procedures and associated information flows required to move goods from seller to buyer and to pass payments in the opposite direction.” The Asia-Pacific Economic Cooperation (APEC) says it is “the simplification and rationalization of customs and other administrative procedures which delay and increase the cost of moving goods across international borders.” The common theme in all of these definitions is the simplification and rationalization or harmonization of procedures. Some organizations, such as the ECE, make a link with the need to balance facilitation with appropriate control measures.

The International Chamber of Commerce (ICC) defines trade facilitation as “improvements in the efficiency of the processes associated with trading in goods across national borders” and therefore, like APEC, places more emphasis on transactions at the physical borders. In 2009, ADB and the United Nations Economic Social Commission for Asia and the Pacific (UNESCAP) suggested “trade facilitation is defined to include policies and processes which reduce the cost, time and uncertainty associated with engaging in international trade, but

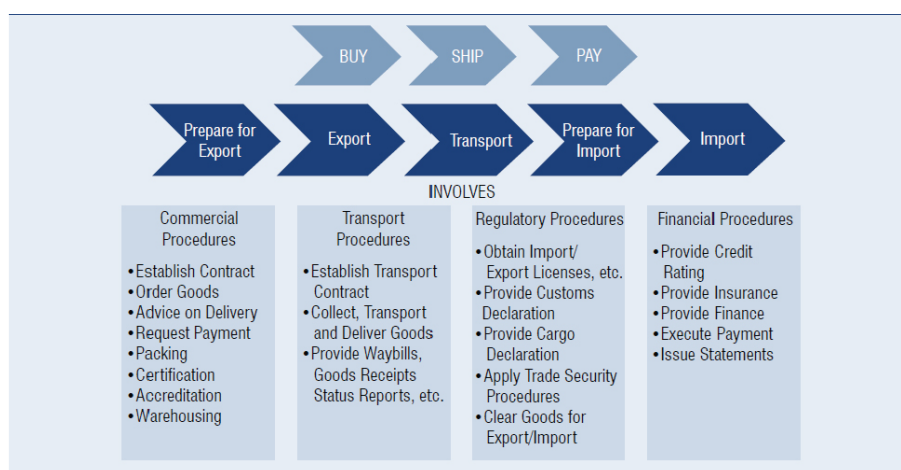
---

<sup>4</sup> ECE (2002).

excludes traditional trade instruments such as tariffs, import quotas, and other non-tariff barriers.” This definition places emphasis on the facilitation of trading processes in general, rather than on those specifically incurred at the borders. More importantly, it links directly with service standards used in transport and logistics—the complex blend of cost, speed, and reliability.

Changes in international trade logistics, whereby the service package can cover the total movement from export source through to importer’s warehouse or even to the point of sale, suggests that trade facilitation is more than merely its border transaction function. Although problems with trade facilitation often manifest themselves most visibly in the form of physical delays at borders, the basis for those constraints often relate to behind-border issues. The United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) model, referred to as the Buy-Ship-Pay model (Figure 1), describes a total transaction approach to trade facilitation in line with modern trade logistics, with a wide range of activities coming under the umbrella of trade facilitation. In practice, existing donor facilitation programs usually focus more toward the activities in the center—transport and regulatory procedures—particularly the latter.

**Figure 1: Buy-Ship-Pay Model**



Source: United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) (2008).

In this publication, trade facilitation is considered to be the resolution of the various processes that currently adversely impact on the free flow of international trade in the various countries in South and Southeast Asia, excluding trade policy matters. As indicated, these constraints tend to manifest most clearly at the borders between countries, e.g., at road borders, rail borders, seaports, and airports. While customs activity has the most visible impact on increasing the time and cost of trade moving through borders, this can often mask the adverse effect of other agencies and operators in raising border transaction costs. Most trade between South and Southeast Asia will continue to move by sea. Hence, “port facilitation” covering all the processes between the ship’s arrival and the goods leaving the port—and vice versa in the case of exports—should be encompassed within the scope of trade facilitation. Similarly, the means of transport across land borders, often referred to as transport facilitation, should similarly be included.

### 3. OVERVIEW OF TRADE FACILITATION IN SOUTH AND SOUTHEAST ASIA

In examining trade facilitation in the South and Southeast Asian regions, it is important to recognize the economic and overall development differences between the subregions, as well as the significant differences within the respective subregions. A key issue to remember is that most trade facilitation procedures and processes are governed by national, not

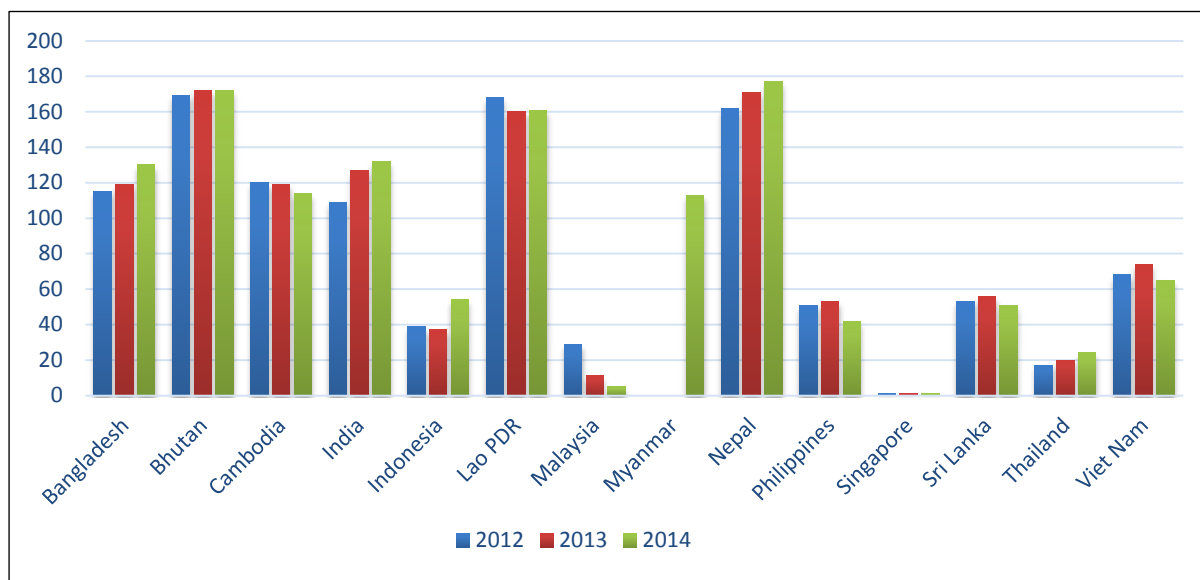


international, legislation. Thus, the various border “control” agencies are mandated by the various national acts, regulations, or instructions issued by the respective ministries. The net result is that trade facilitation constraints are not necessarily standardized.

International organizations and conventions represent the standards to which these agencies should ideally aspire to in terms of establishing “benchmarks,” but compliance with such standards is dependent on national policies. Consequently, while there may be similar constraints among the member countries, their relative impacts could differ significantly. Differences in trade facilitation environments present significant problems for donor agencies developing regional and even subregional initiatives because of this lack of commonality.

Variations in trade facilitation environments in South and Southeast Asia are shown in the World Bank’s Doing Business survey, which is often used as an international benchmark for the relative performance of economies by providing quantitative indicators across 189 economies over time. The survey covers a spectrum of aspects including starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, enforcing contracts, and resolving insolvency, as well as a “trading across borders” section. The 2012–2014 rankings for this “trading across borders” section, which is relevant to trade facilitation, are shown in Figure 2.

**Figure 2: World Bank Doing Business: “Trading Across Borders” Rankings 2012–2014**



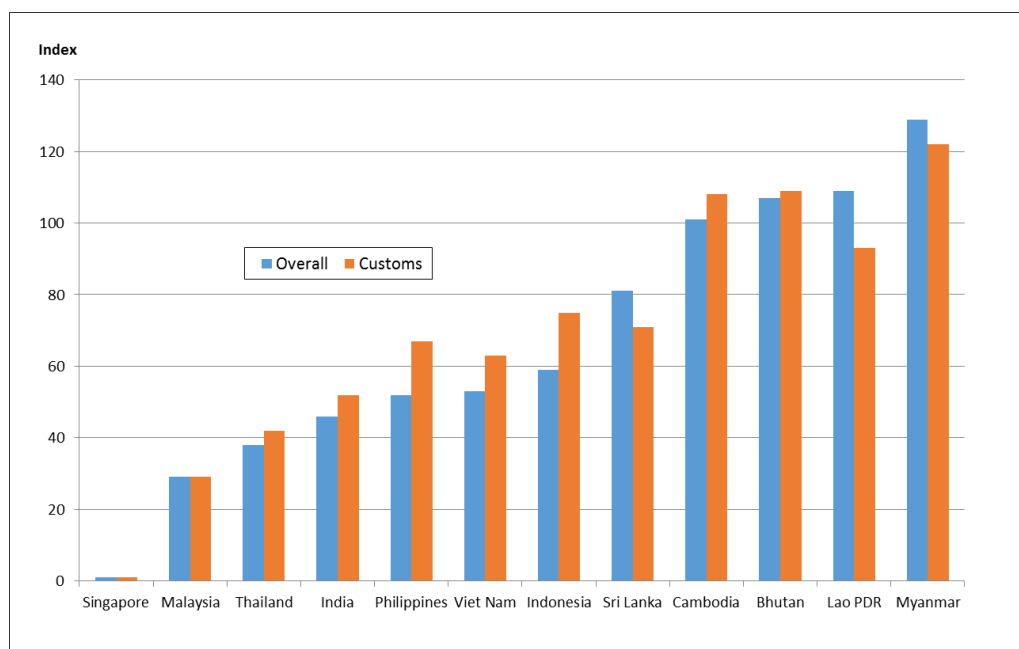
Lao PDR = Lao People’s Democratic Republic.

Source: World Bank Doing Business (2012, 2013, 2014).

The ranking of each economy is perhaps less important than the overall trend they suggest in terms of consistency of results. Firstly, they show quantum differences between the more advanced and less advanced countries in the two regions. Secondly, they suggest that in the geographic center—Singapore, Malaysia, and Thailand—trade facilitation is better and with fewer constraints, which, based on rankings in previous years, indicates a relatively stable pattern of excellence. However, as one extends either east or west from this central north–south core, the much lower rankings suggest the trade facilitation environment becomes appreciably more problematical. The three most advanced countries at the center of the region, which also have some of the best-rated customs organizations, appear to have the best trade facilitation environment. Thirdly, the survey suggests that to the east and west the constraints in both the GMS and SASEC subregions are potentially equal. Fourthly, the rankings suggest that improvements are slow to materialize and in some countries the situation may becoming worse rather than better.

The World Bank also publishes a Logistics Performance Index (LPI) that measures how efficiently trade is being moved. It is based on a worldwide survey of operators (global freight forwarders and express carriers) in 155 economies and provides feedback on the logistics “friendliness” of the economies in which they operate and with whom they trade (Figure 3).<sup>5</sup>

**Figure 3: World Bank Logistics Performance Index 2012**



Lao PDR = Lao People's Democratic Republic.

Source: World Bank Doing Business (2012).

Trade between the two regions is expected to remain predominantly by sea, but with an increase in intra-regional trade by surface transport, provided the infrastructure can be significantly enhanced (Arnold 2009).<sup>6</sup> However, trade facilitation is generally non-modal specific, where the processes and procedures applied by the relevant agencies are common to each mode. For instance, while airports often have some expedited processes, and ports have special port procedures, the customs and other governmental agency practices are virtually identical. Similarly, procedures apply generally to all import or export movement, almost irrespective of country of origin or destination. Despite some variations in the case of bilateral trade between neighboring countries, particularly involving free trade agreements (FTA), most documentary and physical compliance checks are broadly similar. Therefore, trade facilitation in most countries should be considered in relation to overall trade, rather than to or from another region in isolation.

With the exception of the landlocked countries of Bhutan, Lao PDR, and Nepal, all other countries in the region are highly dependent on maritime trade through their ports; their trade facilitation environments are highly orientated toward seaports as opposed to land borders. In most cases automated customs processing commenced at the airports and seaports and only much later spread to the key land borders. Once again, it is perhaps noteworthy that the three highest ranked countries have the best performing seaports. Consequently, it will be important to examine trade facilitation in the overall context irrespective of mode, rather than focusing on specific transport corridors, such as that between India and Thailand that will potentially act as the key surface link between the two regions.

<sup>5</sup> Bangladesh is not included in the survey.

<sup>6</sup> With this in mind, ADB is updating and enhancing the Bay of Bengal Initiative for Multi-Sectoral, Technical and Economic Cooperation (BIMSTEC) Transport Infrastructure and Logistics Study (BIMSTEC 2013).

## 4. ISSUES AND BOTTLENECKS

Identifying specific issues in South and Southeast Asia, consisting of up to 15 countries, each with their individual trade facilitation environments, is difficult. Consequently, the focus is on identification of a number of key issues present in most of the countries. In practice, these constraints or NTBs are most prevalent in those countries with the lower rankings shown in Figures 2 and 3. While the high number of NTBs highlighted below reflects the complexity of the issues and the number of countries involved, it should not be interpreted as indicating that problems abound. While there is general recognition that both regions have ongoing trade facilitation issues, this situation should not denigrate the gradual improvements in trade facilitation being achieved in many of the countries. These issues merely indicate that further progress is needed to keep pace with changes in an increasingly competitive global trade environment, whose standards are being set by countries such as Singapore and Malaysia.

As indicated, many of these trade facilitation constraints are common throughout both regions, but their specific impact may vary nationally due to differences in legislation, the presence of bilateral or free trade agreements, and the types of product being traded. The main constraints are concentrated around import and transit traffic, where the “control” aspects are most prevalent. With the removal of duties and other charges, the processing of exports should become increasingly an administrative exercise, thus rarely incurring delays, with relatively low transaction costs. The importance of the issues discussed below varies from country to country, and are not in any specific order based on their adverse impact on regional connectivity, or their priority in being resolved. It is also recognized that given the large number of countries and their different trade facilitation environments, it is only possible to highlight a small number of the key issues.

### *Excessive Documentation*

Documentation is predominantly required by the customs, immigration, quarantine, and security (CIQS) organizations for clearance and processing purposes. Importers and exporters have to provide predefined documentation to confirm the shipment complies with appropriate import, export, or transit regulations. It is generally recognized that customs acts as the lead agency at the border for the processing of freight traffic, but at most borders there are at least four to five other public service agencies also present with a clearance role requiring the production of documentation.

There have been some improvements in both regions, generally, in relation to excessive documentation, particularly in terms of standardization and harmonization of their formats, mainly driven by the automation process within the customs environment. Most automated customs systems are based on variants of the Single Administrative Document (SAD), which was the standardized customs declaration developed in the European Union (EU). However, this standardization has not been adopted by agencies covering other areas such as sanitary, phytosanitary, veterinary, and standards certification, where there is still a high reliance on individual national certification systems. The degree of standardization of documentation or certificates is significantly lower outside of the non-customs environment.

However, various ADB studies have identified that the core problem is the overall volume of documentation required to achieve clearance, rather than its particular format; the more documents required, the longer clearance takes and the higher the border transaction costs.<sup>7</sup> Delays often appear to depend more on the size of the document “pack” than on the actual processing times at the frontiers. Interviews with clearing and forwarding (C&F) agents reveal that collecting of all the necessary paperwork at one physical location to lodge a clearance entry is the greatest obstacle.

---

<sup>7</sup> ADB (2002).

Table 1 shows the number of separate document types required in different South and Southeast Asian countries to undertake import or export clearance and the time taken for an overall transaction, based on World Bank data. This indicates there is a correlation between the numbers of documents required and the time taken for a transaction. The more advanced countries “in the center” (Singapore, Malaysia, and Thailand) of the two regions generally require less documents than those countries to the east and west.

**Table 1: Number of Documents and Time Taken for Export and Import Transactions**

Economy	Documents for export (no.)	Time to export (days)	Documents for import (no.)	Time to import (days)
Singapore	4	5	4	4
Malaysia	5	11	6	8
Thailand	5	14	5	13
Indonesia	4	17	7	23
Sri Lanka	6	20	6	19
Viet Nam	6	21	8	21
Bangladesh	6	25	8	34
Philippines	7	15	8	14
India	9	16	11	20
Cambodia	9	22	10	26
Myanmar	9	25	9	27
Bhutan	9	38	12	38
Lao PDR	10	26	10	26
Nepal	11	41	11	38

Lao PDR = Lao People's Democratic Republic.

Source: World Bank (2013).

The table also suggests that while the larger “export economies” have fewer documentary requirements, this is not necessarily the same for imports. The problems of landlocked countries tend to be over-emphasized due to the additional documentary requirements to cover the transit movement between the port of entry or exit and their territory. Nevertheless, it is interesting to note that in most cases the documentary requirements in these cases are still greater than for landlocked countries in Africa.

In the context of trade connectivity between the two regions this data helps to explain why countries may be more interested in exporting to distant countries with low documentary requirements and transaction times than to neighboring countries. Furthermore, it clearly reveals the extra documentation and time for transit movement to the landlocked countries. This raises a particular concern for longer distance transit movements between the two regions using surface transport, e.g., from India to Thailand transiting through Myanmar.

Unfortunately, the issue is more complicated. A number of copies are required along with the originals when the declaration is lodged with the authorities. Many countries require six to seven copies of the customs declaration and three to four copies of each of the other documents. In most cases, the automation process has not appreciably reduced the number of forms and copies required. In a recent audit on the India–Bangladesh border, an import entry from India into Bangladesh required 55 separate forms and copies to be submitted, though 20–30 is more common.<sup>8</sup> Clearly, to make intra-regional trade more attractive there is an urgent need to find ways to reduce documentation and rely more on electronic processing and filing.

#### *Inadequate Implementation of Modern Customs Procedures*

The pressure on customs to facilitate trade has increased in recent years, whereby the traditional authoritarian control approach is gradually giving way to the need to keep trade flowing through the frontiers. Additional issues such as reduced staffing levels relative to the

<sup>8</sup> Commonwealth Secretariat (2012).

increase in consignments to be processed mean that innovative approaches are required to meet the challenges. The World Customs Organization's (WCO) Revised Kyoto Convention (RKC) represents an international development "roadmap" for customs modernization and international best practice by providing a series of time-based recommendations covering a wide spectrum of customs activities designed to enhance overall performance. The RKC is specifically focused on promoting the trade facilitation role of customs in a global environment. In Southeast Asia, only Malaysia, the Philippines, and Viet Nam; and in South Asia, Bangladesh, India, and Sri Lanka are signatories, with Bangladesh submitting its instrument of accession as recently as September 2012. ADB, through budget support loans, is assisting Bhutan and Nepal to undertake the necessary actions, legal and otherwise, to lodge their applications. Surprisingly, perhaps, Singapore and Thailand are not signatories, though both follow the recommendations contained within the RKC.

Key recommendations within the RKC include the introduction of modern customs approaches such as risk management, audit-based controls, and advanced rulings. These techniques are specifically designed to facilitate the movement of traffic passing through the frontiers by significantly reducing inspection and examination levels. The inspection or examination process tends to be the most time-consuming activity in border clearance, and is a prime source of delays at many frontiers. The current approach by customs authorities in many of these countries to enforce compliance is still based on a combination of both physical and documentary control mechanisms that potentially conflict with the trade facilitation role of a modern customs organization. The concepts promoted by the RKC to reduce the levels of examination involve such interventions being based on exception rather than by routine, as is currently the case in many of the GMS and SASEC countries. Customs throughout the subregion are familiar with these advanced concepts, with many international institutions and the WCO having provided specialist training in such disciplines and arranged overseas tours to demonstrate their application. Unfortunately, the results of this capacity building have scarcely been implemented due to legal constraints at the national level.

#### *Limitations to the Application of Information and Communication Technology*

The use of information and communication technology (ICT) systems in the trade facilitation environment is most pronounced in relation to customs operations, and this is an area where international agencies like ADB and the World Bank have provided invaluable assistance to some of the less developed countries. Customs declarations are now generally submitted across both regions in electronic format. Unfortunately, the implementation of ICT within the customs environment has, in many cases, widened the gap between the most advanced and least developed countries in the region. This situation has evolved partly as a result of differences in both the application and funding of ICT, and partly due to ICT expertise being available within particular customs organizations.

The first issue is that some of the countries have introduced bespoke or "off-the-shelf" ICT systems in such a way that they act solely as a transaction recording system, a database of submitted declarations rather than an actual processing system. Disappointingly, a common complaint by C&F agents and traders in South Asia and parts of Southeast Asia is that the introduction of ICT by customs has not resulted in any significant enhancement of clearance timeframes or a reduction of documentation. Another constraint has been the manner in which the software has been introduced. In some cases the development process has been to automate the existing manual processes, in effect using the existing system as the design "base," rather setting the goal on a fully automated paperless system. This type of approach leads to the development of a short-term transaction-recording goal, and not the enhanced processing promulgated by the RKC.

The result in many of the countries in both regions is that automated and manual systems are being operated in parallel. The clearance is still undertaken as before, using mainly manual processes with approval stamping and signatures by various officers, but with these manual actions additionally being recorded within the IT system. This duplication of

processing is still relatively common. Ironically, some stakeholders have suggested that automation has actually increased the workload of both agents and individual customs officers with no clear “payback” for the major investment, instead of making for faster processing with less manpower as anticipated.

Another common problem occurs when customs have either purchased or developed only part of the ICT system, with only the basic modules in operation. In this case, there is a comprehensive ICT system, but its capabilities are constrained because only the transaction recording modules are used. Major systems, such as the Automated Systems for Customs Data (ASYCUDA), have the capacity to undertake many customs operational processing functions prescribed under the RKC, but in Bangladesh, Cambodia, Lao PDR, Nepal, the Philippines, and Sri Lanka where the system is operating, in many cases these specialized processing modules have not been fully activated or even installed.<sup>9</sup>

In many of the countries in the region, customs now provide service centers where C&F agents can enter and lodge their declarations electronically. This is seen as progress as, previously, experienced customs officers spent time typing in entries rather than being engaged in clearance activities. However, these service centers, which are usually contracted out to the private sector or companies linked to customs, often result in workload “peaking.” Agents sometimes have to wait for access to computers; there is high demand in the early morning and initially customs are often without entries to process until the agents can complete the entries. In the countries with more developed systems, such as Singapore, Thailand, and Malaysia, clearing agents submit their entries electronically from their own offices on a 24-hour basis using Direct Trader Input (DTI) connectivity, which links them directly to the customs information technology (IT) system. This has the effect of providing customs with a more even workflow and avoids congestion in the service centers. Many of the GMS and SASEC countries still rely on service centers, partly because their customs ICT systems are not web based, and partly because there are a multitude of small C&F agents who do not want to invest in ICT.<sup>10</sup> Conversely, in the more advanced countries with faster clearance times, the use of DTI is widespread and in some cases mandatory.

The significant growth in the application of customs ICT systems in both regions has rarely been matched by parallel levels of automation in the other organizations involved in trade facilitation. There are various possible reasons. Firstly, the requirements in each country differ and there is no “off-the-shelf” system like ASYCUDA that can easily be introduced. Secondly, the automation process is probably too low in complexity to justify loans from international donors. Thirdly, these other organizations may not be seen as having the same priority as customs, which generates substantial funds to central government, whereas these other agencies often generate only small recoveries to individual ministries or departments. This suggests that development of comprehensive “single window” systems discussed later will be more difficult in the less developed countries.

Countries with high rankings such as Singapore, Malaysia, and Thailand have the most advanced ICT systems, thus there is a correlation between ICT development and good levels of trade facilitation. While the reverse is not true, that those countries with poor rankings have the poorest ICT application, it is clear that good facilitation will be difficult to achieve without ICT systems that process, as well as record, shipments. In the more advanced countries the technical skills within the customs ICT departments enable staff to manage and develop their systems, whereas in the less developed countries the IT departments tend to be small and fully occupied merely with maintaining their systems.

A concern in some of the countries is the appointment and retention of trained IT personnel. The various border agencies often come under civil service pay scales, which are well below

---

<sup>9</sup> Automated Systems for Customs Data developed by the United Nations Conference on Trade and Development (UNCTAD). <http://unctad.org/en/Pages/DTL/TTL/ASYCUDA-Programme.aspx>

<sup>10</sup> ASYCUDA ++ is DOS-based, whereas the newer ASYCUDA World is web-based.

those being offered within the private sector. Some countries, like Bangladesh for example, find it increasingly difficult to attract IT specialists to work within customs given these limitations. Moreover, with the growth in web-based applications, existing personnel become more “marketable” to the private sector and leave. In some of the landlocked countries like Bhutan and Nepal, it is also becoming increasingly difficult to find IT specialists, as they either work in the private sector or have moved to other countries.

### *Single Window*

Linked in with the development of ICT systems is the concept of national and regional “single windows.” Single window is “a facility that allows parties involved in trade and transport to lodge standardized information and documents with a single entry point to fulfill all import, export, and transit-related regulatory requirements. If information is electronic, then individual data elements should only be submitted once. The main value proposition for having a single window for a country or economy is to increase efficiency for traders, through time and cost savings, in their dealings with government authorities to obtain clearance and permit(s) for moving cargo across national or economic borders. In the traditional pre-single-window environment, traders would have had to deal with multiple government agencies at multiple locations to obtain the necessary papers, permits, and clearances to complete their import or export processes.

The development of a regional single window by 2015, as promoted by the Association of Southeast Asian Nations (ASEAN), is dependent on all the member countries having national single windows (NSWs) that can be interfaced with a regional window. As in other cases, the central countries of Singapore, Malaysia, and Thailand are leading the way with NSWs already having been established, while further east, NSWs are still in the planning phase with the 2015 target becoming increasingly unachievable, and 2018 appearing like a more realistic implementation date. To the west, only India is currently engaged in developing a NSW, and this is limited at this stage to linking customs with only one other agency. Thus, it can be seen that the goal of NSW tends to replicate the overall ICT situation, whereby those customs authorities with a more advanced application of automated systems are moving even further ahead by developing NSWs, leaving the less developed customs behind at the planning stage.

### *Lack of Transparency and Unclear Import–Export Requirements*

Modern customs operations—and to a major extent trade facilitation—is about “informed compliance.” Under this concept, traders who “comply” with the appropriate legislation and regulations on a regular basis should be entitled to a facilitated service, usually in the form of expedited clearances. In order to be compliant, it is essential to be aware of the import, export, and transit requirements. Previous studies on trade facilitation have highlighted the governance issues arising from a lack of transparency, but this problem often arises from inadequate publication of clear import–export requirements.<sup>11</sup>

Non-compliance can either be deliberate, as in the case of “smuggling,” or accidental, whereby a genuine error has been made because the rules were either not clear or were misinterpreted. The latter cases are by far the most common, especially in an environment of large numbers of one-off importers or small traders, as well as many small C&F agents with limited experience. While the most familiar documentation problems are simple typing errors during the entering of data or in the transposition process, there are many instances of the submission of incorrect supporting documents or the lack of them. The latter occurs principally because the relevant party has failed to comprehend what was required.

There appears to be an indirect relationship between access to trading requirements and levels of ICT usage. Those countries with complex single window operations provide easier public access to their trading requirements, while countries with low ICT or where ICT is

---

<sup>11</sup> ADB (2002).

used solely as a transaction database, the requirements are often more difficult to access. Access to regulations applying to imports relating to the non-customs border organizations have often been cited as a problem; many of these organizations do not have their own websites and have low ICT accessibility in general. Donors have recognized a lack of trade portals in many of the countries in both regions. Both ADB and the World Bank are currently helping to establish such portals in both the GMS and SASEC subregions.

### *Legislative Constraints*

Customs legislation normally consists of primary and secondary legislation. Primary legislation principally sets out the role and responsibilities of customs, and the overarching principles in relation to how they undertake these functions. This is most often in the form of a customs act or customs code and usually has to be approved by parliament. Secondary legislation addresses the details of how the primary legislation is actually applied and consists principally of regulations and instructions. These are normally written and approved by customs or their governing ministry. Developed countries generally minimize the amount of primary legislation to incorporating principles, thus leaving the implementation aspects to the regulations. This approach means the primary legislation is more concise and static, being changed only occasionally. The main advantage of this approach is the flexibility to make changes to regulations by customs themselves in response to operational needs without having to constantly revert to parliament.

In many developing countries in both South and Southeast Asia the primary legislation is much more comprehensive incorporating additional detail, including secondary legislative coverage. While on the one hand this means parliament has more control over implementation of activities generating revenue for the national budget, on the other hand the price of this centralized control is less flexibility to make even minor changes because of the need for parliamentary approval. Legislators normally wait until there are a significant number of changes required before drafting and proposing a submission to parliament. Introduction of modern customs practices is not only inhibited by the absence of supporting legislation, but under the existing legislation many of these new RKC concepts are often not permitted in the first place. The timeframe for introducing new or amended primary legislation via parliament is considered to be approximately 3–5 years (ADB 2011).

### *Compliance with National Technical Standards*

One of the challenges facing the international trading system in general is the diverse conformity assessment practices and the persistent use of individual standards and approaches in different countries. Conformity assessment is the internationally recognized procedure for demonstrating that specified requirements relating to a product, process, system, person, or body are fulfilled, thus determining compliance. Activities include testing, inspection, certification, and accreditation. Mutual recognition of accreditation and certification activities facilitates access to international markets. This provides the technical underpinning of international trade by promoting cross-border stakeholder confidence and the acceptance of accredited test data and certified results. It is made possible through a network of mutual recognition arrangements (MRAs) among international accreditation bodies. Unfortunately, the incidence of MRA between countries within both regions is not high.

The root cause of problems relating to technical standards in both regions is that the technical regulations, standards, and conformity assessment procedures vary between countries. Having different standards, procedures, and regulations presents difficulties for producers and exporters alike, which is then compounded by the lack of a harmonized approach to using the correct standard and conformity assessment procedure to ensure compliance. There are also wide differences in the levels of development and implementation of the national quality infrastructure, systems, and technical capabilities. These result in the need for constant product re-testing and re-certification. A recent survey by the South Asian Association for Regional Cooperation (SAARC) Committee of Experts



showed that sanitary and phytosanitary technical barriers are the most frequent NTBs, as far as the SAARC countries are concerned. Indications are that in the GMS region similar issues are commonplace for certain products such as rice and other food products.<sup>12</sup> To date, the initiatives of the donor agencies have concentrated on customs, and only very recently have some being directed into this area.

A constant theme is demands for more testing equipment at the borders in the form of “mini-laboratories,” whereby approvals can be undertaken at the frontier and relevant certificates issued. However, at most borders there are no staff with the appropriate technical qualifications to undertake such complex testing. Site visits to borders where such facilities have been developed often indicate they are underused, poorly maintained, and lacking even basic testing materials or that the chemicals used are beyond their use-by date.<sup>13</sup> The need is perhaps to place such testing facilities in more accessible locations, rather than at the borders, which are often remote locations where access to trained personnel is severely limited.

### *Border Infrastructure*

Poor border infrastructure is often cited as an important NTB. This manifests itself in long queues at borders and resultant delays in transit. Where these problems arise they partly relate to the nature of the location or poor designs. Many border crossings are congested because they are located in border towns, which either existed originally or have grown due to the cross-border trading activity communities developing around the border link. Many of the SASEC and GMS road borders are congested, arising mainly from a mixture of large volumes of pedestrian, non-motorized transport, and motorcycles as well as freight traffic. Between some GMS countries, such as Thailand–Cambodia and Viet Nam–Cambodia, the borders are also blocked by the construction of hotels and casinos, while in SASEC constraints often arise from roadside retailing activities such as occurs between India and Bangladesh.

In recognition of this adverse situation, a number of countries are responding positively. The Indian Government is investing in the development of large integrated check posts (ICPs) at its main land borders with Bangladesh, Bhutan, Myanmar, Nepal, and Pakistan to resolve this issue by moving the existing border operations outside the border towns and creating large border terminals connected by bypasses. Pedestrian traffic will continue to use the existing urban crossings, whereas vehicular traffic will predominantly be diverted to the new facilities. Thailand is adopting a similar strategy by separating freight and passenger traffic, with freight bypassing the border towns to connect with new border terminals being constructed at the borders with Myanmar and Cambodia.

Another issue is that many borders have been poorly designed. Modern design techniques recognize the border security zone as essentially a processing area, thus using an architectural approach referred to as “form follows function.” Under this concept, the processing and ergonomics (functions) are mapped and the form (infrastructure) is then developed according to these processes. This ensures that the layout is optimally focused on operational needs. However, at many borders in both regions “form” rather than “function” has become dominant, with image being seen as paramount. The result is that these facilities are often more difficult to operate, materials flow is sub-optimal, and thus processing is slower and sometimes more convoluted with users having to leave their vehicles to “find” where they have to submit documentation. The optimal materials flow is a direct line between the entrance and the exit, but this is often blocked by impressive administrative buildings in preference to a processing infrastructure.<sup>14</sup> In some cases, such as the ICPs and at the Thai borders, the new border infrastructure is sometimes becoming

---

<sup>12</sup> ADB (2012).

<sup>13</sup> ADB (2002).

<sup>14</sup> ADB (2012).

so large that manning and effective “control” are becoming potential issues for the relevant border authorities.

In developed countries congestion is alleviated by the presence of inland clearance depots (ICDs), at which the final clearance takes place “inland” from the border, and the border crossing acts only as a “check point”. This speeds up the processing appreciably, as it means that only the driver and vehicle, but not the cargo, are checked at the border. In both South and Southeast Asia the use of ICDs is limited. In countries like Bangladesh, India, and Thailand the ICDs are mainly connected by rail with their seaports. This is because the state railways have become “custodians of the cargo” in transit between the port and the ICD, and rail transit is seen as more secure than road transport. While there is pressure to speed up the processing by the removal of cargo from the border to an inland point, the response in both regions has been to position an ICD, land port, or dry port close to, or even within, the border crossing. The main reason for this approach is the absence of effective inland transit agreements, which means that all road traffic has to be cleared at or adjacent to the border. In most countries the road carrier needs to carry documentation when he leaves the border areas to deliver his load showing that the goods have been cleared.

Despite the issues identified above, the primary cause of delayed freight movements through land borders is the physical processing, rather than border infrastructure. Poor infrastructure merely compounds the situation and makes the problems more visible. Despite the investment in new facilities in recent years, the average transit times for freight vehicles at borders have in many cases changed only marginally. For example, the transit times through the Indian–Bangladesh, India–Nepal, and Myanmar–Thailand borders examined in 2013 are almost identical to those from audits undertaken in 2007 and 2010 even with the new facilities. Where lower transit times have been achieved this is usually due to improvements in the road infrastructure on routes to and from the border, rather than to the actual border infrastructure.

#### *Port Facilitation*

Although ports are indeed borders, trade facilitation-related “border delays” are often masked within the overall port activities. When cargo is languishing in a container yard, delays are not as visible as when it is on a truck at a land border. The fact is that the greatest trade facilitation constraints or delays often occur at ports, yet this remains less of a priority to resolve. Donor agencies, such as ADB and the World Bank, have concentrated their assistance on enhancement of trade through the land borders, generally with the goal of promoting intra-regional trade, with only the occasional port facilitation initiative. Trade facilitation infrastructure initiatives under both GMS and SASEC initiatives focus almost exclusively on border infrastructure and border processing and access, with only one port related project.<sup>15</sup> Given that, in future, the majority of trade between South and Southeast Asia will move by sea, irrespective of land links established between the two regions, increased focus on port facilitation seems necessary.

Most of the advanced ports in the world have port community systems. These are similar to the single window system in that all the various members of the port community, including customs, can link into a common system with processing, tracking, and tracing mechanisms. While most of the major Southeast Asian ports have such systems, many of the South Asian ports do not or else their capabilities are only rudimentary. The result is that users have to interface separately with all the different parties involved in a port clearance, including the port authority, shipping agents, and transporters, as well as with the standard government agencies. Previous port studies have highlighted that interfacing with port authorities in relation to payment of wharfage, storage, and handling charges often results in additional delays and the need to produce yet more documentation.<sup>16</sup> It is no coincidence that the

---

<sup>15</sup> ADB (2004).

<sup>16</sup> Scott Wilson Kirkpatrick (2006).

major ports with such systems, such as Singapore, Port Klang, Tanjung Pelepas, Laem Chabang, and Colombo have among the lowest port dwell times. ADB has been assisting in developing such systems at Chittagong.

#### *Delays in Transit Traffic to Landlocked Countries*

The landlocked countries, in particular Bhutan and the Lao PDR require the largest number of documents and the longest transaction times (Table 1). It is generally accepted that surveys are based on global trade activity rather than bilateral trade, and as such often overemphasize the disadvantages of landlocked countries that have much higher percentages of bilateral trade with neighbors. For instance, Bhutan and Nepal mainly trade with India, while the Lao PDR prefers Thailand, and thus only a small proportion of their goods, often classified as “third country trade,” are subject to the international logistics chains with their high documentary requirements. Nonetheless, it is clear that while neither region has simple transit mechanisms, the responsibility for this situation does not solely lie with the transit country. At Kolkata, for example, documents have to be lodged with Nepalese or Bhutanese authorities in Kolkata, as well as with the Indian authorities. Problems obtaining the required data from the landlocked countries to enable presentation of the necessary documentation at the port have been cited as a common problem. In effect, such traffic is subject to a “double clearance” routine.

If international land routes are to be developed, such as between India and Thailand through Myanmar, some form of long distance transit system will need to be developed in areas where the development of simple effective transit systems have so far been elusive. It is evident that some countries in both regions do not regard transit traffic as a priority, perceiving it as more of a benefit to others rather than to themselves. This may make it more difficult to agree on multi-country transit arrangements. Suggestions to extend the international road transport (TIR) system used in Europe, Central Asia, and the Middle East demonstrate a lack of understanding of a system that is essentially European, operating under conditions that would not be achievable in the Asian environment. Nonetheless, some form of transit arrangement using the “pillars” on which TIR is based might be a potential solution.

#### *Transport Facilitation*

Transit systems as discussed above basically relate to the movement of uncleared cargo between the port–border in one country to an inland point of clearance in the same country or through to another country, or across the territory of one country to and from a third country—i.e., it relates to the movement of the cargo. Transport facilitation relates to the means of undertaking bilateral or transit movements and is concerned with the vehicle rather than with its contents. In both South and Southeast Asia the international transport industry is relatively small because few vehicles from one country can transit the border and ply the roads of another country, even of their neighbors. It is rare to see automobiles with foreign registration plates in any of the countries in the two regions, except close to the borders where special conditions may apply. In relation to freight vehicles, India allows Nepalese and Bhutanese trucks on their roads, and vice versa, provided they are carrying international traffic. Foreign trucks are not permitted in Bangladesh or Myanmar. In the GMS, freight vehicles can travel longer distances on neighboring countries’ roads, but usually only if they have a permit negotiated under the Cross-Border Transit Agreements (CBTA), which have been sponsored by ADB. Vehicles from Viet Nam and Thailand may transit into both the Lao PDR and Cambodia, and vice versa. However, in practice, most road freight traffic still tends to be transshipped at or near the border areas.

A feature of trade in both regions is the major traffic imbalances with the smaller countries. For example, India is a much greater exporter than importer vis-à-vis Bangladesh, Bhutan, and Nepal. Similarly, Thailand and Viet Nam export more to Cambodia and the Lao PDR than they import. This relationship will always favor the transporters in the major export countries because the routing control of the major shipments lies with the exporters who

predominantly use their national carriers. Where through-transport is allowed, such as between India–Bhutan and India–Nepal, Indian carriers tend to dominate the transport. Similarly, between Thailand–Lao PDR and Thailand–Cambodia, Thai transporters dominate international through-movements where allowed. The same holds true for traffic from Viet Nam to Cambodia and to the Lao PDR with Viet Nam transporters dominating.

Negotiation of through-transport arrangements have proved difficult within regions, let alone between regions. The main problem appears to be one of trust, related to the competence of drivers and their vehicles, particularly as through-transport remains uncommon. However, there is also the problem of dominance in the international transport sector from carriers from major countries like India and Thailand. This leads to pressure from the national road transport sectors in the smaller countries to take protective measures. Transshipment at the border may cost more, but national transporters can obtain at least some income from this approach, whereas with through-transport they stand to get nothing. Given this situation there is an understandable reticence to open up the market to even bilateral traffic rights. This is similar to the situation in Europe where permits were initially used to restrict the access of “foreign” transport, and in the US to restrict access by Mexican trucks. The problems with rapid implementation of the CBTA amply demonstrate the difficulty in opening up the market.<sup>17</sup> This potentially represents a significant NTB for long distance road transport between the two regions, particularly as foreign vehicles are not allowed through Myanmar.

### *Governance Issues*

In numerous studies and projects within the Asian region “corruption” or “rent seeking” has been cited as a major problem at land borders, seaports, and even airports. While corruption during border operations has become widespread, there exists significant variation in accounts of both its incidence and size throughout the region, varying from minimal to endemic. However, governance problems within the various border agencies are often considered to be symptomatic of the general “corruption” levels within the economy as a whole, rather than isolated to the border clearance activities. Transparency International is the world's leading non-governmental anti-corruption organization and publishes an annual Corruption Perceptions Index. The index for 2010 is shown below in Table 2, together with the two preceding years.

It is important to appreciate that this is only a perception index, reflecting the views of the business community in the various economies and therefore is not fact-based. Collecting data on corruption is notoriously difficult as parties do not wish to be identified due to possible repercussions. Nonetheless, it provides some possible comparison between economies on governance issues. It is a concern that out of the 180 economies in the index, 36 Asian economies, or almost two-thirds of all Asian economies, are in the bottom half of the listed rankings and almost one-third are among the worst 20% of all economies covered. The scoring system also suggests that the difference between the best and worst is still increasing, and that perceptions on levels of corruption have not improved significantly in many economies in recent years. The economies with the lowest rankings are usually the least developed economies. In many cases these economies have the highest documentation requirements and the most complex import or export clearance routines.

Corruption is most commonly cited within customs, but can equally apply to other border organizations, even though opportunities for such illicit practices may be fewer. In general, there are two main forms of governance fraud: coercive and collusive. Coercive fraud is where payments are made to individual officers for services to which the stakeholder is either entitled to for free, where an individual is forced to pay for a service that does not take place. The coercive element is by far the most common, consisting of money paid in order to allow the transaction to proceed, usually in the form of “speed” payments such as those paid

---

<sup>17</sup> ADB (2012b).

to expedite processing of documents and signatures to achieve a faster clearance. However, it may also include the issuing of non-essential certificates, avoiding examination and inspection routines or fees collected for using the examination facilities when no examination has actually taken place. Generally, coercive fraud tends to consist of relatively small amounts that are paid in cash to individuals. In some economies this is perceived as an accepted element of the clearance routines.

**Table 2: Corruption Perceptions Index 2010 (Asian Economies Only)**

2010 Ranking	2009 Ranking	2008 Ranking	Economy	CPI 2010 Score	CPI 2009 score	CPI 2008 Score
1	6	5	Singapore	9.30	9.20	9.20
13	14	16	Hong Kong, China	8.40	8.20	8.10
17	22	28	Japan	7.80	7.70	7.30
33	49	45	Taipei, China	5.80	5.60	5.70
36	45	36	Bhutan	5.70	5.00	5.20
38	39	40	Brunei Darussalam	5.50	5.50	0.00
39	42	41	Republic of Korea	5.40	5.50	5.60
56	56	61	Malaysia	4.40	4.50	5.10
62	89	102	Samoa	4.10	4.50	4.40
68	75	80	Georgia	3.80	4.10	3.90
78	75	70	People's Republic of China	3.50	3.60	3.60
78	89	115	Thailand	3.50	3.40	3.50
87	99	96	India	3.30	3.40	3.40
91	97	92	Kiribati	3.20	2.80	3.10
91	79	72	Sri Lanka	3.20	3.20	3.20
705	89	109	Kazakhstan	2.90	2.70	2.20
105	99	85	Moldova	2.90	3.30	2.90
110	N/A	N/A	Indonesia	2.80	2.80	2.60
116	130	126	Mongolia	2.70	2.70	3.00
116	120	109	Viet Nam	2.70	2.70	2.70
123	126	126	Armenia	2.60	2.70	2.90
134	139	147	Azerbaijan	2.40	2.30	1.90
134	130	126	Bangladesh	2.40	2.40	2.10
134	146	158	Philippines	2.40	2.40	2.30
143	146	141	Pakistan	2.30	2.40	2.50
146	130	126	Iran	2.20	1.80	2.30
146	154	138	Nepal	2.20	2.30	2.70
154	158	151	Cambodia	2.10	2.00	1.80
154	154	151	Lao People's Democratic Republic	2.10	2.00	2.00
154	158	151	Russian Federation	2.10	2.20	2.10
154	162	171	Tajikistan	2.10	2.00	2.00
164	162	158	Kyrgyz Republic	2.00	1.90	1.80
172	174	166	Turkmenistan	1.60	1.80	1.80
172	176	178	Uzbekistan	1.60	1.70	1.80
176	178	178	Afghanistan	1.40	1.30	1.50
176	180	180	Myanmar	1.40	1.40	1.30

Source: Transparency International.

The second form, collusive fraud, arises when an individual officer or office “colludes” with the importer or his agent to defraud the government of legitimate duties and taxes. The most common form is reclassification of a product so that the duty rate is lowered, or waived, for example by declaring it as a government or nongovernment organization (NGO) import. In general, this type of fraud, though less common, is a bigger problem: the potential amount of lost revenue can be more significant and the possible benefits to individuals greater. It is also more difficult to address, as it often involves more senior officials. Localized cross-border trade, which is common across many parts of Asia, is particularly susceptible to this type of fraud.

The major concern is that there is widespread acceptance of such illicit practices in some economies, whereby it has reached a stage that such activities are considered to be the rule rather than the exception. Hence, there appears to be limited action taken in many countries to address governance and integrity issues, despite corruption being seen by the public as the primary reason for their negative image of the border authorities. In some economies, such as Indonesia and the Philippines, some external assistance has helped address such issues, but essentially any effective remedial action needs to be internally led.

However, it is important to balance this adverse perception in the public sector with the private sector, as represented by importers, exporters, and their agents. For an illicit transaction to take place, it requires two parties. In collusive fraud the importer is a direct partner in the illicit transaction. While coercive fraud is difficult to avoid at many borders in order to provide the customer with the optimum service level, anecdotal evidence suggests C&F agents can generate profits from this adverse situation. Since the end-customer expects such payments to be made, and as there are no invoices to record the amounts paid, agents can easily charge clients a surplus. Interviews indicate that agents are in some cases generating significant amounts of undeclared revenue from this practice. Hence, there may be limited pressure for change from some stakeholders who can benefit directly from this lack of transparency.

From a trade facilitation perspective, it is recognized that governance and corruption is a particularly difficult issue to address, partly because it is a symptom of the business environment of a particular economy. A few economies have had some success with well-publicized campaigns to address border-related irregularities, but these are rare and difficult to enforce, particularly over a long time frame. Low pay to government officials who are often working under difficult conditions is probably the most common cause of corruption. This helps to explain the higher incidence of governance problems in less developed countries where pay scales in the public sector are generally low. Indeed, in these economies the potential to earn supplementary payments is sometimes an incentive to attract staff.

Given that it is difficult to address corruption “head on”, the most effective approach is to make it more difficult by reducing the opportunities for it to occur. This may be achieved by adopting strategies that minimize the direct interface between clearance officials and the importer or his agent, and the numbers of forms to be checked or approved. Unsurprisingly, economies with the least number of documentation requirements and greatest use of ICT systems ranked highest in Table 1 also tend to have the lowest levels of illicit activities in their border clearances. This suggests that trade facilitation initiatives aimed at reducing documentation and development of ICT systems from transaction recording to automated processing might be most effective at addressing poor governance in the border environment. Increased automation can reduce manning and allow officers to be paid more without increasing overall costs. In general, developed countries pay their officers higher wages. Combined with a higher risk of discovery, this can result in reduced temptation for complicity in illicit practices, leading to lower governance risks.

#### *Lack of Effective Consultation Mechanisms*

Several previous studies have highlighted the absence of effective consultation mechanisms, both at the inter-institutional and stakeholder levels. With regard to institutional

cooperation, customs in the SASEC and GMS countries meet regularly as members of the World Customs Organization (WCO), in addition to their participation in initiatives promoted by the IFIs and regional organizations such as ASEAN, SAARC, and UNESCAP. However, such meetings generally tend to be high level and therefore contain a “political” dimension; rarely do they involve discussion of issues related to bilateral enhancement of trade facilitation between their respective subregional countries. At the border level the customs and immigration authorities meet their counterparts relatively frequently to discuss operational problems, often on an ad-hoc basis. However, their authorization to adjust procedures is limited. To address the gap between these high- and low-level meetings, a common solution promoted by the various IFIs has been to establish regional customs cooperation committees (CCCs) to focus on common regional aspects.

While the overall concept of forming customs cooperation committees is actively supported by both the WCO and the IFIs, its application is more problematical. The first key issue is identification of a practical program for the CCC that effectively bridges the gap between the high-level and border operational functions, such that the CCC generates visible outputs. Existing CCCs focus predominantly on confirming external capacity building training initiatives and presenting national situation reports, rather than enhancing cooperation between the individual members. The second issue is that with the plethora of regional initiatives, as well as the WCO, the smaller countries have increasing problems in making the necessary senior personnel available to attend all the various meetings.

Effective consultation between trade facilitation stakeholders, consisting of the border agencies and C&F agents, forwarders, and transporters, is also lacking in many of the countries. Unlike more developed countries, the border agencies in most parts of the GMS and SASEC subregion are still predominantly orientated toward “control” and revenue collection functions, as opposed to trade facilitation. Therefore, the need to converse with the private sector may not be seen as particularly important. As the private sector is operating in a “commercial” environment and attempting to minimize transaction costs, businesses often have a strained relationship with the border agencies, particularly customs. The result is a limited degree of trust between the public and private parties that would enable the formation of an effective cooperation mechanism to the mutual benefit of both parties.

Where trade facilitation committees (TFCs) have been formed they have often been established with good intentions, such as to offer a forum whereby the two parties (public–private) can mutually discuss issues. Unfortunately, constraints on both sides often compromise this objective. On the one hand, customs feels that it is perceived by the private sector as a “complaints mechanism”; on the other hand the private sector tends to raise issues affecting them as individual operators, rather than issues in the interests of the overall membership. The net result is that these committees, which are designed to promote inclusivity in trade facilitation reform, gradually meet less often and the representation quality diminishes. Many trade and transport facilitation committees (TTFCs) in developing countries have been formed with the help of IFIs, only to later become inactive as particular technical assistance (TA) projects come to an end.

The key common feature in both the CCC and the TFCs is that both the sustainability and the attendance of senior personnel appears dependent on the organization being perceived as relevant and able to demonstrate positive results from its activities. If the organization becomes merely a “talking shop,” all inputs and no outputs, then the quality of the attendees falls and interest in the mechanism rapidly fails. In those countries where successful consultation mechanisms are effective, there are quality attendees, a practical agenda, and meetings are not frequent unless there is an urgent issue to be resolved. TFCs can be particularly important as a public–private consultation forum in the development of NSWs, where the active involvement of the trade and transport sector is particularly important.

### *Value of Time in Trade Facilitation*

One of the “drivers” of enhanced trade facilitation is the often-cited expectation that it will reduce transaction costs by allowing faster transits, particularly through the borders. This is largely based on the concept of “time costs money,” which is predominantly a developed country philosophy. This concept is often used in feasibility studies related to the development of road and border infrastructure. Unfortunately, the reality in both regions is that such time-saving may not necessarily be reflected in lower costs.

In relation to inland transport costs, a good example is that of road traffic from Kolkata to Nepal. Once the goods are cleared for transit, the forwarder applies for transport, a truck is appointed by the local cooperative, and the goods are loaded, normally all within the same day. However, instead of the load moving directly to Nepal, the driver will often divert home for 1 or 2 nights because he or she has already been queuing for up to a week outside the port. Only when the driver has found a load does he or she proceed to Nepal. The charges to the importer are based on a fixed market price, irrespective of the time taken and the importer is usually “flexible” for up to a day as to when it arrives. Arrival 1 day earlier is fine, but the cost remains the same. The transport market in most of the countries in both regions is dominated by owner–drivers or small operators who quote on a fixed cost basis, rather than basing their charges on fixed and variable costs. The same situation also applies to shipments to Bhutan and sometimes to the Lao PDR via Thailand.

A similar conundrum occurs at the land borders. At many SASEC and GMS borders the average clearance times are 2–4 hours. Hence, a transit through the more efficient borders (through both sides) takes between half a day and a whole day.<sup>18</sup> Discussions with C&F agents indicate that their costs are predominantly based on a fixed fee with the client, irrespective of the clearance time actually taken, unless there is a problem. Thus, faster transit would not necessarily reduce border transaction costs.

There appears no strong pressure exerted by users for performance improvements, particularly at land borders. Instead, there is a broad philosophical acceptance that “that’s the time it takes” and most parties tend to operate within that “envelope.” This may explain why external pressure for enhancements has been somewhat muted, and that any changes have predominantly been driven by organizations such as customs for their own benefit, and not necessarily in response to market pressures. While the overall philosophy toward making improvements to trade facilitation to save expenditure may not be problematic throughout the region, it becomes increasingly relevant in the more developed member countries where issues such as inventory costs are higher and transport rates have a time–distance based relationship. Because both regions are developing, there should be increasing emphasis on improvements in efficiency to generate savings in the future. In the case of port facilitation, this is already the case as higher dwell times within the port raise transaction costs due to quay rental and demurrage charges.

## **5. REGIONAL INITIATIVES DESIGNED TO ADDRESS THE ISSUES**

Both the SASEC and GMS regions are undergoing dynamic changes as part of the overall global restructuring that anticipates Asia to become increasingly economically prominent in the 21st century. Such developments predict that the growing economic power blocs of India and the PRC will have a positive effect on growth in the surrounding countries in their respective regions. Projections suggest that the level of growth will differ between countries, while following a more general underlying regional growth scenario. It is also forecast that intra-regional trade growth will expand from its current low levels, as the supply–demand

---

<sup>18</sup> BIMSTEC (2008).



patterns gradually alter and countries become able to supply others within their respective regions without the current high reliance on external trade with developed countries.

The development of trade facilitation is expected to follow a similar pattern, with overall regional enhancement but significantly differing levels of progress being achieved in individual countries within each of the two regions. This has been the situation over the last decade and is not expected to change radically. The overall concept of most of the regional initiatives is to provide a framework for change on a regional basis, rather than relying on national initiatives that address only national NTBs. Unfortunately, the current scenario is that the most advanced trade facilitation countries in Southeast Asia, such as Singapore, Malaysia, and Thailand, are advancing more rapidly than their less-developed regional partners. In effect, the best are getting better and the gap between the best and many of the poorer countries is widening, mainly due to the magnitude of differences in resources, funding, and levels of automation. Many regional initiatives are programmed to provide support to help close that gap by assisting the less developed countries to improve their national trade facilitation environment.

The region has a plethora of institutions engaged to a greater or lesser extent in trade facilitation development. The major institution for Southeast Asia is ASEAN and in South Asia its counterpart is SAARC. Both are essentially political organizations whose main input to trade facilitation is the development of free trade agreements (FTAs) between their member countries and with external trading blocs. However, each has specific initiatives designed to address key aspects of trade facilitation. The highest profile initiative of ASEAN is the ASEAN Single Window (ASW) initiative, discussed above; for SAARC their initiatives on dealing with technical standards and development of mutual recognition agreements (MRAs) are paramount. Essentially, both organizations provide a cooperation framework among member states designed to implement common standards throughout their respective regions.

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) was established as an inter-regional grouping in June 1997 to promote free trade within the region, increase cross-border investment and tourism, and to promote technical cooperation. While this organization has been relatively dormant in the past, the re-integration of Myanmar into the international community following political changes means it is the only regional cooperation institution specifically linking the two regions. In recognition of this important role ADB is providing technical assistance to BIMSTEC to develop policies and strategies designed to both enhance physical connectivity and to develop the region's trade facilitation environment.

The IFIs led by ADB and the World Bank are both actively involved in trade facilitation initiatives at the national and subregional levels. The ADB trade facilitation initiatives are predominantly subregional, coming under the auspices of the GMS and SASEC programs, whereas the initiatives of the World Bank are mainly national, in response to individual countries' requests for assistance. In general, the trade facilitation efforts of both organizations have historically focused mainly on customs reform and modernization, though they have also covered transport facilitation, development of trade portals, as well as other aspects of trade facilitation. To date, ADB has adopted different strategies for each region, its focus in the GMS being mainly on transport facilitation, and within SASEC on customs modernization.

The following section highlights the objectives of a selection of the key initiatives and identifies some of the problems being encountered in their implementation. It is generally recognized that enhancement of trade facilitation is a slow and difficult process, predominantly due to a combination of regional latent internal resistance to change and problems in altering the legislation to support the initiatives. In some cases there is also an element of inertia to change at a national level, against which these regional initiatives are designed to provide momentum by means of providing a development framework that

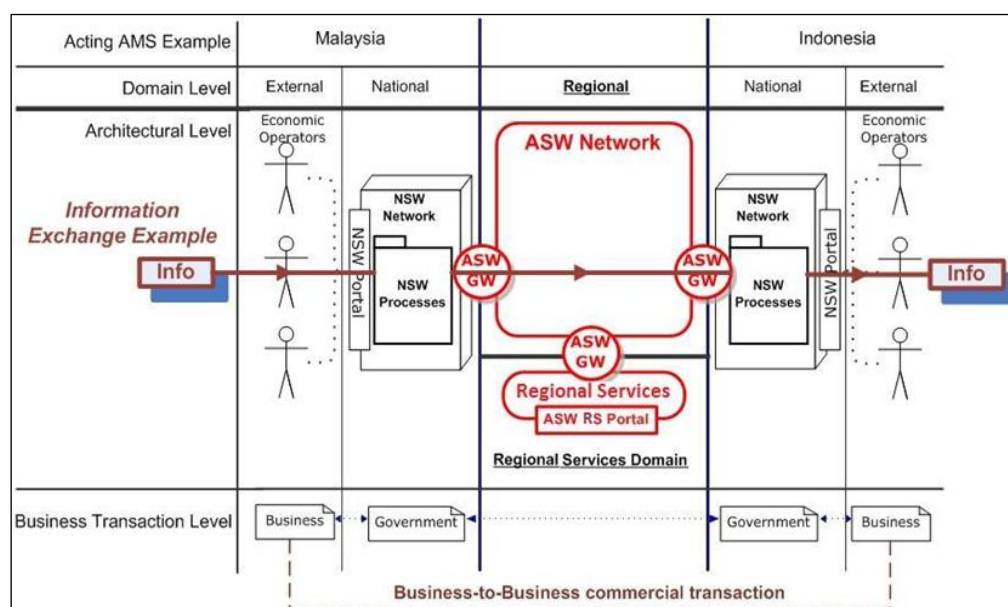
generates an element of commitment by member states to common regional goals. Achieving these regional targets is often more difficult than national goals. Therefore, many of these initiatives are long term, and designed to help the less developed countries, thus raising the standards of the region as a whole. The objective in many cases is to stimulate intra-regional trade by the elimination of nationally-derived NTB, as a route to improving the trade facilitation environment in general, irrespective of trade between particular regional partner countries.

*Association of Southeast Asian Nations Single Window*

The ASEAN Single Window (ASW) is a flagship regional initiative designed to connect and integrate the NSWs of member states in Southeast Asia. The objective is to expedite cargo clearance within the context of increased economic integration within ASEAN. Its implementation should ensure compatibility of NSWs with international open communication standards, while also making certain that each of the member states can then exchange data securely and reliably with any trading partners using international open standards. The goal of the initiative is: simpler and faster processing times leading to more transparent ways of doing business.

The initiative sets an ambitious goal and is dependent on the establishment of NSWs in each of the member states and then linking them through common protocols. Figure 4 illustrates the exchange of information through the economic operator (shipper or agent) to the border authorities in Malaysia through their NSW. This data is passed through the ASW network to the Indonesia NSW, and there is accessed by the relevant authorities and the importer and associated agent. However, the 2015 target date for full connectivity is unlikely to be achieved, with 2018 currently appearing a more realistic estimate. The core difficulty is putting all NSWs in place early enough to be able to link them into the system. Establishing NSWs in some of the less developed member states is more difficult than anticipated, which is delaying implementation.

**Figure 4: Association of Southeast Asian Nations Single Window Architectural Design**

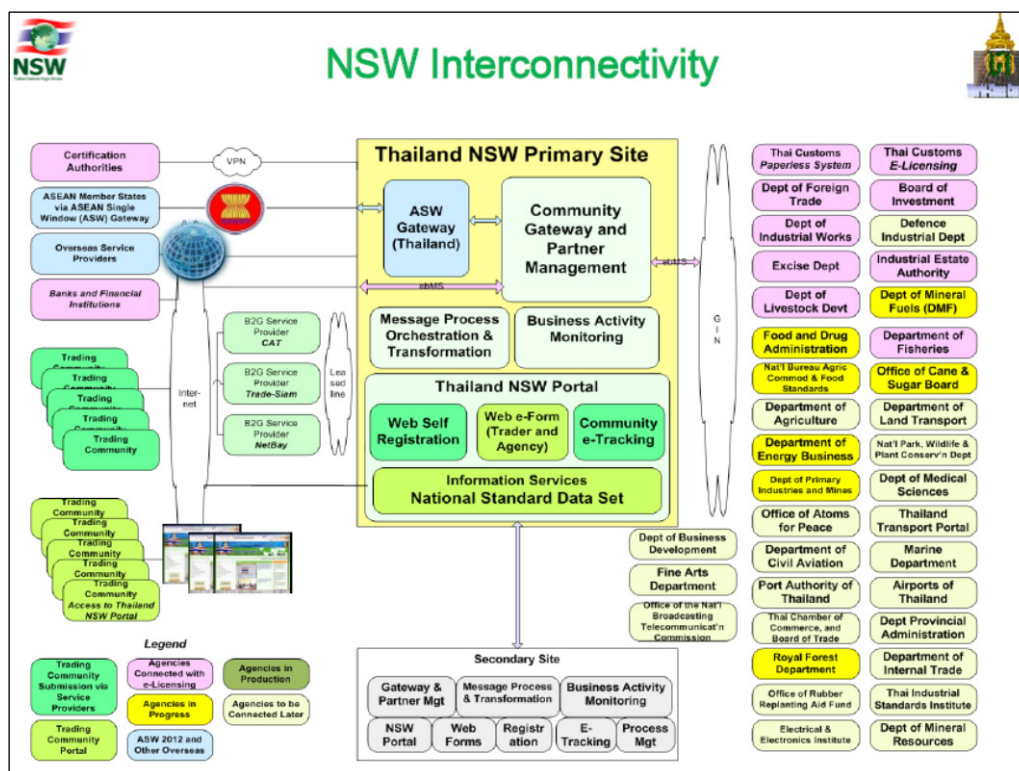


Source: ASEAN Single Window Challenges and Lessons Learned: Malaysian Customs.

Feedback from those involved in the single window, including from ASEAN, highlight major constraints in the development of NSW as being institutional rather than technical. Development requires a strong lead agency, including change leaders and change agents, to coordinate and consult with the relevant parties. It also requires high-level government support to gain the necessary level of commitment from the various agencies being linked into the system. The key to successful development appears to be carefully phased

planning, proactive consultation with all parties including the private sector, and avoidance of using technology to drive the initiative. Figure 5 shows the architecture of the Thai NSW, and clearly demonstrates both the complexity of such systems and the high number of participants required to establish an effective single window.

**Figure 5: Thailand National Single Window**



Source: Royal Thai Customs.

However, the significance of the ASW initiative may not lie in achieving its ultimate goal of a linked regional system. Its primary benefits may be realized in the development of NSWs as part of the process toward an ASW, particularly in the countries to the east of the central Thailand–Malaysia–Singapore corridor. The ASEAN initiative provides the development framework and is driving those countries currently without a NSW to develop them, ideally by 2015. Achievement by the deadline is probably less important than the motivation it provides in ensuring the member countries are actively engaged in the NSW planning process and have a real level of commitment to the process. In South Asia there is no similar regionally-based equivalent under SAARC or any other party, and prioritization of NSW development is significantly less visible. Only India is actively engaged in the NSW planning process, though ADB plans to assist other SASEC countries in developing their NSW with a regional system such as ASW as the ultimate goal.

**Cross Border Transport Agreement**

The CBTA developed under the GMS program represents the major focus of ADB trade facilitation efforts in the GMS subregion in recent years. It is an accord consolidating key non-physical measures for efficient cross-border land transport into a single legal instrument. It consists of three tiers: (i) a main agreement containing the principles of the system, which is then (ii) supplemented by a set of annexes and protocols containing technical details, and finally, (iii) bilateral and trilateral memoranda of understanding (MOUs) provide detailed arrangements to implement the CBTA in a subset of GMS countries.

In addition, the CBTA includes mechanisms, which (i) enable vehicles, drivers, and goods to cross national borders through a GMS road transport permit system; (ii) avoid costly transshipment through a customs transit and temporary importation system by including a

guarantee system for goods, vehicles, and containers; (iii) reduce time spent at borders through single-window inspection, single-stop inspection, communication equipment and systems for information exchange, risk management and advance information for clearance; and (iv) increase the number of border checkpoints implementing the CBTA to maximize its network effects and promote economies of scale.

Initially, the CBTA was more of a transport facilitation instrument than a trade facilitation agreement. Indeed, one of its primary functions was to promote the development of through-road transport to eliminate the need for time-consuming and costly delays in having to transship cargoes at the border (mechanism [i] above). In general, it is subservient to specific international conventions signed by member states, such as the RKC and other CIQS conventions, as well as to national legislation. Thus, implementation of the CBTA has to take into account compliance with other agreements and international best practice.

In practice, implementation of the CBTA in the GMS has been much slower than originally expected. Its main focus has been the promotion of through-transport arrangements by means of issuing permits, in line with its core function to support international road transport operations. In this regard there has been some tangible success, such as the issuing of permits for transit through the Lao PDR and Cambodian borders with Thailand and Viet Nam. Unfortunately, indications are that many of these permits have been issued to tourist bus operators rather than to freight carriers. In general, most access agreements have been achieved on a bilateral rather than a multilateral basis. Both Myanmar and the PRC have more recently signed the CBTA and many of its Annexes, thus representing a key step forward, especially in terms of long-term connectivity between the two regions.

#### *SASEC Trade Facilitation Program*

In November 2012, the SASEC Trade Facilitation Program was initiated, supported by ADB through a budget support loan or grant of \$47.67 million—\$21 million for Bangladesh, \$11.67 million for Bhutan, and \$15 million for Nepal. The program's objective of enhancing the processing of cross-border trade is to be pursued by (i) developing modern and effective customs administrations that focus on assisting the three beneficiary countries in acceding to, and complying with, the provisions of the RKC, as well as helping them apply the WCO Framework of Standards to Secure and Facilitate Global Trade (SAFE); (ii) streamlining and making transparent regulations and procedures, which involves the development and upgrading of automated customs management systems, including the establishment of NSWs; and (iii) improving services and information for traders and investors through the development of trade portals and the establishment of trade facilitation committees in each country.

The overarching SASEC Trade Facilitation Strategic Framework (2014–2018), builds on the gradual momentum of the past 3 years to forge the significant improvements needed to facilitate, and ultimately increase, trade in the subregion and with the rest of the world. The goal for the period 2014–2018 is to increase intra-regional trade facilitation efficiency and reduce the time and cost of trade. The ultimate strategy is to elevate the practice and processes of border clearance to international standards and international best practice, including through automation. While trade facilitation is now a high priority at the national level, regional cooperation will complement national action through the sharing of information and experience, and the promotion of joint and synchronized action.

The Trade Facilitation Strategic Framework focuses on five key priority areas to address the issues in the SASEC region: (i) customs modernization and harmonization, (ii) standards and conformity assessment strengthening, (iii) cross-border facilities improvement, (iv) through-transport facilitation, and (v) institution and capacity building. The current principal focus is on customs modernization and harmonization through the implementation of the Trade Facilitation Program, which is tranche-based with specific targets that trigger additional tranches. The initial emphasis is on making all countries signatories to the RKC and modernizing their customs' IT systems. However, IT upgrading appears likely to take

longer to implement than initially planned, with potential knock-on effects for NSW development.

### *Asian Cargo Highway*

The Asian Cargo Highway concept evolved from the Japanese Finance Minister's announcement at the APEC Ministerial Conference in November 2010. It embodies a trade facilitation initiative focusing on customs modernization with the Government of Japan contributing up to \$25 million to ADB for trade facilitation in Asia from 2011 to 2015. The ultimate goal of this initiative is to create a seamless flow of goods in Asia through: (i) development of an Authorized Economic Operator (AEO) program in each country; (ii) conclusion of mutual recognition arrangements (MRA) for the AEO programs; (iii) establishment of a NSW in each country; (iv) expansion of international inter-operability between systems; and (v) other basic trade facilitation reforms that are necessary for modern customs administrations. This is essentially a customs capacity building initiative involving ADB, JICA, and the WCO under the auspices of the Japanese Customs and Tariff Bureau, specifically focused on Southeast Asia.

The Asian Cargo Highway is a rolling technical assistance program that commenced with "Trade Facilitation Support for ASEAN Economic Community Blueprint Implementation," which was approved in May 2012. Its objectives are to support the benchmarking of trade facilitation indicators, enhance and modernize border agency operations, improve the legal and regulatory framework, and strengthen trade facilitation institutions and capacities. Extra assistance has been provided specifically to Myanmar under this component.

Additional approved components include a review of the regulatory frameworks and operations in the context of the RKC, including knowledge enhancement and the development of mechanisms to increase private sector support for the improvement of trade facilitation in the GMS. Focus is also placed on capacity enhancement of sanitary and phytosanitary services (SPS).

The Asian Cargo Highway is effectively a funding mechanism enabling ADB to undertake a variety of trade facilitation initiatives within the ASEAN region, in association with JICA and the WCO. It is still too early to assess the impact of this initiative. However, in general, initiatives that focus on customs reform are considered easier to implement than others such as SPS initiatives. Previous work on CIQS has proved particularly difficult to undertake and to achieve sustainable change; the lack of a common reform goal, such as the RKC, makes progress in these areas more complicated.

### *World Customs Organization*

The World Customs Organization (WCO) has its regional base in Thailand covering both South and Southeast Asia. Its primary function is to encourage national customs organizations who are members to comply with as many of its conventions and recommendations as possible. The major focus in recent years has been persuading countries to become signatories to the RKC in order to establish a customs modernization benchmark for the whole region. While some countries in South Asia and Southeast Asia have yet to become signatories, the WCO is active in assisting qualifying countries to sign by undertaking gap analysis and identifying legislative changes required to become signatories.

There is an increased emphasis on implementation of the SAFE Framework as a mechanism to expedite the movement of traffic from AEOs. An AEO is a customs-approved company and therefore suitable for "green channel" clearances. The SAFE Framework is closely allied to the concept of risk management and post auditing, which forms part of the recommendations of the RKC. The objective is to enable traffic for these companies to move rapidly through the frontiers without delays in inspection and examination checks.

The main function of WCO activities in the development of regional trade facilitation is setting international standards through their conventions and programs, and capacity

building, particularly though the development and application of training programs. In some cases this is facilitated and funded by ADB. Given that many regional initiatives are focused on raising the standards of the least advanced countries, structured capacity building programs are seen as critical to their implementation.

## 6. CONCLUSIONS

With two areas as diverse as South and Southeast Asia it is difficult to provide conclusions applicable to all countries that specifically relate to enhancing connectivity between the two regions. Nevertheless, it is evident that land links between the two regions, other than bilateral trade, are unlikely to be able to handle appreciable levels of trade in the short to medium term. Distance, the state of the infrastructure, and lack of heavy transport capacity combine to make the land route between the two regions commercially unattractive at present. However, such a link is seen as strategically important with potential in the longer term. Therefore, as trade facilitation enhancement takes significant time from planning to implementation, early action is recommended. The 15 conclusions identified below provide an indication of the primary issues in assessing trade facilitation in the context of connectivity between the two regions:

- i. Connectivity between South and Southeast Asia is currently not constrained by adverse trade facilitation environments in either region. The low level of international trade between and within each of the regions is predominantly due to other trading factors, such as similarity in export products, and emphasis on trading with distant markets perceived as being more remunerative. While trade within and between the two regions is expected to grow appreciably, this will principally be determined by changes in supply–demand patterns. Nonetheless, improvements in trade facilitation would make trading both easier and more stable, with potentially lower transaction costs, and should enable the realization of any trade between the regions that is currently latent due to the current NTBs. The case for overall enhancement of the trade facilitation environment in support of economic growth in both regions is compelling.
- ii. Development of trade facilitation is essentially a national issue, rather than a regional one. In general, the national trade facilitation procedures are relatively common and do not discriminate between the origin or destination of the cargo being processed. While there may be minor variations due to the application of bilateral or regional FTAs, the processes, procedures, and NTBs are common to trade in general. For example, the automated customs system deals with all customs entries irrespective of mode or partner trading country. This suggests it may be difficult to isolate particular trade facilitation measures that will specifically enhance trade between South and Southeast Asia, the main exceptions being specific development of border infrastructure and the promotion of bilateral or multilateral transport agreements.
- iii. NTBs are predominantly due to constraints within a particular country, and therefore their resolution needs to be nationally focused. Given the major variations in the national trade facilitation environments within both regions, in practice, less developed countries have a higher incidence of NTBs than developed countries. This clearly amplifies the need for nationally-based assistance, though possibly within a regional framework. The objective would be to raise the standards in the less developed countries to narrow the gap between them and the more developed countries.
- iv. It will become increasingly important to take a holistic view of trade facilitation development. Automation has been the major driver for change over the last decade and the development of national, and even regional, single windows in both regions is foreseen as the most important development over the next few years. However,

while such automation has simplified customs and improved performance, in many cases users cite that they still have to amass the same supporting documentation and perform the same routines. The overall profile remains one of crowded customs offices with agents carrying piles of papers from one processing window to another. Hence, reliance on a single strategy of IT development will need to be augmented by other measures.

- v. Potentially the most constraining NTB is the amount of paperwork required to undertake clearance. C&F agents in South Asia in particular cite the major problem as not being the time taken for customs to process and clear a shipment, but the time to collect and copy all the necessary documents to support an electronic declaration. Despite automation, document packages in many countries remain largely unchanged. Automation and paperless system does not appear to be synonymous and there is a danger that the NSW will not achieve the reductions in paperwork, which is one of its publicized goals. More emphasis may be needed on rationalization and reduction in documentation as a specific issue, rather than an inherent reliance that increased automation will ensure progress towards paperless operations.
- vi. Regional initiatives can be a useful mechanism to motivate change. While implementation of improvements in trade facilitation measures may be primarily nationally-based, a regional dimension as “part of a team or family” within a structured regional framework is considered beneficial. For the less advanced countries, assistance, experience, and advice can be provided by more advanced regional partners toward achieving the common goal of enhanced regional trade facilitation. This is a key objective of initiatives involving the formation of CCCs or their subgroups.
- vii. In initiating change there may be a need for a more comprehensive understanding of “why things are the way they are”, rather than relying on pushing the “end goal” of compliance with international agreements or best practice. Both regions consist of diverse countries with their own individual conditions and circumstances, and it is critical to take this into consideration when promoting change. Examples include concerns regarding through-transport and the potential predominance of other countries’ carriers when attempting to negotiate cross-border transport agreements, shortages of IT personnel in the less developed states when developing sophisticated IT solutions, and the current lack of transparency in the Myanmar trade facilitation environment after years of isolation in the face of radical new processing techniques. Such issues are legitimate national concerns, and strategies will need to be adopted that adequately reflect these types of situations, rather than merely promote the “end goal.”
- viii. Trade facilitation efforts supported by the IFIs should be more multimodal, as opposed to being mostly focused on road transport borders. The overall promotion of transport and economic corridors may have led to an over emphasis on the land corridors, rather than activities at the termini. While road borders are particularly important for bilateral trade and in the landlocked countries, maritime transport is the critical mode inter-connecting the two regions, as well as with the rest of the world, now and in the future. The trade facilitation interface between maritime transport and the national hinterland encompasses more than customs clearance, involving a multiplicity of agencies. Even as customs performance improves, it is clear that other NTBs will gradually emerge. This indicates that port facilitation should become a more integral element in trade facilitation initiatives.
- ix. The development of NSWs is critical in both regions. It is no coincidence that the most advanced trade facilitation environments are in those countries with already developed NSWs. The main barriers to development of NSWs tend to be institutional rather than technical. In the less developed countries, IFIs like ADB and the World

Bank can play a key independent facilitating role in bringing the various parties together and providing technical advice where appropriate. They can also assist in introducing automation to other border agencies where current utilization of IT is negligible.

- x. Development of through-transport may be particularly difficult and should not be underestimated. In addition to the resistance to change, there is understandable opposition by the smaller countries to opening up their road network to foreign transport, and a feeling they will be dominated particularly where trade imbalances exist. In South Asia, the CBTA may not be the appropriate mechanism to link India with Bangladesh, or India and Bangladesh with Myanmar, however some elements of the CBTA such as annual permits may be useful tools. The use of new technologies, such as global positioning systems and electronic seals, as well as improvements in border processing and transshipment performance, may result in reduced time and costs. This could be comparable to improvements from CBTA and other transit arrangements implemented successfully.
- xi. Legal assessments should perhaps be an integral element in development initiatives. Both regions have a history of capacity building, training in advanced techniques, and development of automated systems, whose implementation is then thwarted by existing legislation. Enhancing the trade facilitation environment will inevitably require adjustments in legislation with appreciable lapse times expected between submission of drafts and parliamentary approval. Hence, the legal aspects need to be addressed at the “front end” of initiatives for the results of the capacity building initiatives to be implemented when the external support program is completed.
- xii. While it is important to establish modernization benchmarks, such as all countries signing the RKC or the SAFE Framework, compliance is more important than a signature. The RKC contains a series of recommended practices that signatories are supposed to implement within given time frames. However, there is no legal recourse if countries fail to comply and while over 90 countries are signatories to the RKC, there is significant variation in levels of application. Merely signing the RKC does not mean the relevant customs organization is compliant; it indicates a level of commitment to change, but does not guarantee that change has or will take place. Therefore, there is a need for monitoring to ensure that initiatives whose goals are focused on signing up to international agreements actually result in improvements in service performance. This could be accomplished with techniques such as time-release studies and border performance indices.
- xiii. The importance of border infrastructure for trade facilitation may be overstated. In both regions the dwell times at the land borders predominantly depend on processes and procedures, rather than any lack of physical infrastructure. Better infrastructure in terms of larger border processing zones often merely moves the point of congestion from outside the zone to inside. In both regions the main cause of border congestion is the inability of the clearance process to cope with demand. Additional processing interfaces will only be effective if additional resources are made available to man and operate those extra interfaces.
- xiv. In both regions there is a potential dichotomy between the approach to the development of border infrastructure and the introduction of advanced clearance processing. The modern concept of advanced customs operations strives to minimize processing at the frontier in favor of moving the goods “inland”, or closer to the end-user for clearance. The development of ICDs and dry ports, as well as techniques such as post-auditing, means that borders would increasingly become merely check points as opposed to clearance points. However, in both regions the border-crossing infrastructure is growing rapidly, in some cases driven by CBTA compliance, in



others—like India—by the adoption of standard designs such as the ICPs. Thus, major constructions inherently suggest that border clearances are here to stay.

- xv. Transit is likely to become an increasingly important issue in connecting the two regions, both for inland and international transit. On the one hand it will be critical to move shipments from the frontier, be it a port or land border, to an “inland” point for clearance. This is to eliminate congestion at the frontier, to move cargo through countries to serve landlocked nations, or ultimately to undertake multi-country journeys such as from Thailand to India. In some countries, but not in others, there are inland transit arrangements, and where arrangements do exist they are often suboptimal in expediting transits. For either region to be able to cope with the predicted growth, it will be essential to develop mechanisms to facilitate the movement of uncleared cargo away from the immediate border interface.

## 7. RECOMMENDATIONS

The recommendations are predominantly based on enhancement of trade facilitation in general, rather than specific connectivity between the two target regions. As indicated in the conclusions above, trade facilitation tends to be independent of mode, or origin and destination. Consequently, there is a demand to improve the trade facilitation environment in general, and probably more urgently in the less developed countries where NTBs are more prevalent. Eleven recommendations flow from the above analysis:

- i. Trade facilitation initiatives (other than infrastructure development) should be nationally or regionally based, rather than corridor based. Except for transport facilitation, it is unlikely that countries will adopt special procedures for a specific route or on a corridor basis, particularly since in most cases legislation does not allow for such exceptions. The concept of “piloting” on a corridor basis is considered unrealistic, and potentially distorting.
- ii. Trade facilitation should encompass both port and transport facilitation, as both can often also represent NTBs. The majority of trade between the two regions will continue to be by sea, rather than between immediate neighbors. Therefore, ensuring ease of movement between surface and maritime interfaces should generate savings in transactions costs, as well as improve performance.
- iii. In the short term, the issue of excessive documentation is a priority in the less developed countries. Reliance on increased automation and a NSW will not necessarily resolve this critical issue, and it should be treated as a separate aspect. Where business process analysis has been undertaken, as in parts of South Asia, there is a need to translate the data collected into practical recommendations on how to physically reduce the documentation requirements.
- iv. There is a need to consider development of a regional NSW initiative, similar to the ASW, but also covering the South Asian region (or possibly SASEC alone). This could occur through BIMSTEC, or through a combined SASEC–GMS dialogue platform. The objective is less to provide direct IT interconnectivity than to provide a framework under which all the countries are actively engaged in the planning and development process of NSWs. In some cases external assistance will be needed to facilitate the planning activities.
- v. In relation to development of through-transport agreements, it is considered that while CBTA has been partially successful in Southeast Asia, it may not necessarily be the optimal concept for developing through-transport in South Asia, or between the two regions. A more logical approach would be to seek the application of bilateral arrangements, which later may evolve into a multilateral agreement. It should also focus on transport-related issues, rather than diversifying into customs and border

infrastructure issues.

- vi. In order to pursue the goal of through-land transport between the regions specific assistance may be required for Myanmar, whose trade facilitation environment is not currently compatible with its trading partners to the east or west.
- vii. In trade facilitation programs in both regions due consideration should be given to potential legal aspects. Proposals for changes in procedures and capacity-building initiatives in the past have been compromised by the inability to later implement change due to legal constraints.
- viii. When requests are made for the funding of new border infrastructure, a critical assessment of the functionality of the border crossing and its design should be undertaken. Current methodologies potentially lead to excessive expenditure on border facilities without any tangible benefits to users.
- ix. There is a need for development of more effective internal transit systems to reduce congestion at the frontiers and to be able to provide surface transport linkages between the two regions.
- x. It is recommended that there be a gradual transfer of emphasis from customs reforms towards addressing more of the non-customs issues, such as sanitary, quarantine, phytosanitary, veterinary, and trading standards. This will require identification of a few key components to address, rather than attempting a blanket approach. This might even include the development of regionally-based testing facilities to support national laboratories, such as that being proposed at Siliguri to cover the SASEC countries.
- xi. There needs to be a clearly-phased program for trade facilitation efforts to connect the two regions based on a combination of national or subregional developments, but within an inter-subregional connectivity framework. Currently, trade facilitation developments are diverse in both regions and there is a case to be made for providing an element of synergy between initiatives.

The recent WTO Trade Facilitation Agreement agreed in Bali in December 2013 reflects the importance of trade facilitation in its key role of promoting global trade. Unfortunately, while such agreements tend to be non-binding, nevertheless they provide a general focus on many of the issues discussed above, and generate a collective emphasis on resolving such issues. Many developed countries and IFIs have already responded by promising support to the less developed countries in assisting them to comply with the tenet of the agreement. It may be that the agreement is less relevant to the connectivity between South and Southeast Asia in that both regions have some countries whose trade facilitation environments are already advanced and others where relevant initiatives are underway. The agreement does, however, provide a context for these developments within a global framework.

## REFERENCES

- ADB. 2002. *Technical Assistance 6132: Private Sector Cooperation in the SASEC Sub Region*. Project No. 36520-012. Manila.
- . 2004. *Technical Assistance 4136: Chittagong Port Trade Facilitation*. Project No. 36105-92. Manila.
- . 2011. *Technical Assistance 7557: Promoting Regional Infrastructure Development 2011*. Manila.
- . 2012. *Technical Assistance for Trade Facilitation: Improved Sanitary and Phytosanitary Handling in Greater Mekong Subregion*. Project No. 43120-25. Manila.
- ADB and UNESCAP. 2009. *Designing and Implementing Trade Facilitation in Asia and the Pacific*. Manila.
- Arnold, J. 2009. The Role of Transport, Infrastructure, Logistics and Trade Facilitation in Asian Trade. In J. Francois, R. Pradumna, and G. Wignaraja, eds. *Pan-Asian Integration: Linking East and Southeast Asia*. London: Palgrave Macmillan.
- Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). 2008. *BIMSTEC Transport Infrastructure and Logistics Study (BTILS)*. ADB: Manila.
- . 2013. *BIMSTEC Transport Infrastructure and Logistics Study Updating and Enhancement*. ADB: Manila.
- Bhattacharya, B., M. Kawai, and R. Nag. 2012. *Infrastructure for Asian Connectivity*. Cheltenham, UK and Northampton, MA: Edward Elgar Publishing.
- Commonwealth Secretariat. 2012. “Benchmark Studies on Trade Facilitation Systems and Process” Presentation at Colombo Trade Facilitation conference. London.
- Dollar, D., and A. Kraay. 2001. *Trade, Growth and Poverty*. Washington, DC: World Bank.
- Duval, Y., and C. Utoktham. 2009. Behind the Border Trade Facilitation in Asia-Pacific: Cost of Trade, Credit Information, Contract Enforcement and Regulatory Coherence. Asia-Pacific Research and Training Network on Trade (ARTNeT) Working Paper Series. No. 6709. Bangkok: ARTNeT.
- Economic Commission for Europe (ECE). 2002. *Trade Facilitation: The Challenges for Growth and Development*. New York: United Nations.
- Kirkpatrick, S. W. 2006. *EU-Maritime Project*. Brussels: European Commission.
- Organisation for Economic Cooperation and Development (OECD). 2009. *OECD Annual Report 2009*. Paris: OECD.
- Royal Thai Customs. National Single Window. The Customs Department. <http://www.customs.go.th>
- World Bank and International Finance Corporation. 2013. *Doing Business 2013: Smarter Regulations for SMEs*. Washington, DC: World Bank.
- . 2013. *Doing Business 2012: Doing Business in a More Transparent World*. Washington, DC: World Bank.
- . 2014. *Doing Business 2014: Understanding Regulations for Small and Medium Enterprises*. Washington, DC: World Bank.