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### Facilitating intraregional trade

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### Note by the secretariat

#### *Summary*

In order to capture or create new trade opportunities, it is essential for firms to be able to move goods more efficiently from factory floors to the warehouses of foreign buyers. As the potential for economic growth shifts from developed countries to developing economies in the Asian and Pacific region, increasing attention is being paid to the role of intraregional trade. However, the cost of trade between Asian countries is often higher than that between non-Asian countries. In this regard, there is much diversity in trade facilitation performance in countries and subregions of Asia and the Pacific. For example, on average it takes three times longer to complete trade procedures in developing countries in the region than in developed ones.

Simple measures aimed at increasing transparency could go a long way towards facilitating trade and such measures require only modest resources. More advanced trade facilitation measures, such as single-window and paperless trading systems, are also being adopted by many countries in the region to facilitate trade. Some countries are also realizing added benefits through bilateral and regional cooperation on trade facilitation and increasingly include trade facilitation provisions as part of regional trade agreements. Transit facilitation is generally not covered specifically in regional trade agreements, although it is an essential component in intraregional trade. Beyond trade and customs procedures, a key to reducing trade costs is the improvement of trade logistics services, especially liner shipping services.

The present document furnishes an overview of ESCAP activities on trade facilitation and outlines a number of specific recommendations for the consideration of the Committee.

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## I. Introduction

1. As import tariffs have decreased significantly over the past two decades, the importance of non-tariff measures aimed at further reducing international transaction costs has become more apparent. Even when excluding international shipping and other non-tariff costs, the expenses associated with completing documentary and other import and export procedures can account for up to 15 per cent of the value of the traded goods.<sup>1</sup> Thus, in order to capture or create new trade opportunities, it is essential for firms to be able to move goods more efficiently from factory floors to the warehouses of foreign buyers. As the potential for economic growth shifts away from developed countries to economies in the Asian and Pacific region, it becomes increasingly important to pay urgent attention to intraregional trade facilitation.

2. Comprehensive trade cost estimates produced by ESCAP take into account all additional costs involved in conducting a transaction across borders rather than within borders. As will be discussed in more detail in a chapter in the forthcoming *Asia-Pacific Trade and Investment Report 2011*, these estimates reveal that many countries in the region have made progress in reducing costs over the past decade. However, the estimates also show that, in many cases, nearly half the reduction in costs may be attributed to tariff cuts. However, it is non-tariff trade costs that account for at least 90 per cent of overall trade costs. Therefore, if countries in the region are to make further progress, they will need to pay increased attention to addressing non-tariff barriers, including those arising from unnecessarily cumbersome trade and transit procedures and inadequate logistics services.

## II. Intraregional trade costs and facilitation performance

3. Intraregional trade facilitation performance varies greatly among Asian subregions. On one hand, the Association of Southeast Asian Nations (ASEAN) has achieved high levels of international trade efficiency in terms of tariff-equivalent, non-tariff trade costs in its largest middle-income

<sup>1</sup> Asian Development Bank and Economic and Social Commission for Asia and the Pacific, *Designing and Implementing Trade Facilitation in Asia and the Pacific* (Manila, ADB, 2009). Available from: [www.unescap.org/tid/publication/adbesapbook.asp](http://www.unescap.org/tid/publication/adbesapbook.asp).

members, namely Indonesia, Malaysia, the Philippines and Thailand, that is, only 49 per cent, which is on par with the costs prevalent in developed country groupings, such as the members of the North American Free Trade Area (NAFTA) and the European Union. On the other hand, intraregional trade costs in South, North and Central Asia are more than double those of ASEAN countries. Non-tariff trade costs in East and North-East Asia, as shown in table 1, are also high, but mainly because of the high costs faced by landlocked Mongolia. Indeed, non-tariff trade costs between China, Japan and the Republic of Korea are among the lowest in the world, averaging only 39 per cent, which is remarkable given the absence of free trade agreements (FTAs) between these countries during the period considered.

Table 1  
Non-tariff intra- and extraregional trade costs in Asia, 2007

Reporter/partner	ASEAN-4	East and North-East Asia	North and Central Asia	SAARC-4	Australia-New Zealand	EU-5	NAFTA
ASEAN-4	<b>49</b>	132	259	117	85	105	101
East and North-East Asia	132	<b>105</b>	193	201	143	127	109
North and Central Asia	259	193	<b>148</b>	258	313	161	244
SAARC-4	117	201	258	<b>113</b>	145	124	137
Australia-New Zealand	85	143	313	145	<b>61</b>	122	122
EU-5	105	127	161	124	122	<b>59</b>	104
NAFTA	101	109	244	137	122	104	<b>50</b>

Source: ESCAP Trade Cost Database.

Note: Trade costs are expressed as percentages of the value of goods and may be interpreted as tariff-equivalents. ASEAN-4: Indonesia, Malaysia, Philippines and Thailand; EU-5: France, Germany, Italy, Spain and United Kingdom of Great Britain and Northern Ireland; SAARC-4: Bangladesh, India, Pakistan and Sri Lanka; NAFTA: Canada, Mexico and United States of America.

4. Comprehensive intraregional trade costs are usually expected to be lower than interregional trade costs due to the geographic proximity between countries of the same region, as well as similarities in languages and culture. Table 1 shows that this holds true within Asian subregions, although barely so in the case of South Asia. The trade costs associated with intraregional trade in the South Asian Association for Regional Cooperation (SAARC) are only 4 per cent lower than those between SAARC and ASEAN countries. This is explained by the lack of transit facilitation between South Asian countries.

5. The cost of trade between Asian countries in different subregions is much higher than trade between Asian countries and non-Asian countries or subregions. For example, the non-tariff costs of trade between ASEAN and SAARC countries are nearly 15 per cent higher than the costs of trade between ASEAN and NAFTA countries. Similarly, the costs of trade between North and Central Asia and South Asia are 60 per cent higher than the costs between North and Central Asia and the European Union. On a more positive note, between 2003 and 2007 all subregions of Asia made progress in reducing non-tariff trade costs with at least one other subregion. South Asia has made significant improvements in both intra- and extraregional trade costs, in particular with North and Central Asia and NAFTA.

6. The time it takes to complete all trade procedures involved in moving goods from factory to ship deck at the nearest seaport – or vice

versa – in Asia-Pacific developing economies decreased on average by about 16 per cent between 2005 and 2010. South-East Asia made the most progress, cutting its average time to complete trade procedures to only 19 days on average. Cambodia and Thailand cut that time by over 40 per cent during the same period. India and Pakistan achieved improvements of a similar magnitude, although trade procedures in South and South-West Asia still take 50 per cent more time to complete than in South-East Asia (30 days). No significant progress was made in the Pacific. North and Central Asia, consisting mostly of landlocked countries, made some small improvements, but the time taken to clear the procedures necessary to move goods from most countries to a seaport remains lengthy (52 days on average). Overall, it still takes three times longer to complete trade procedures in developing economies than in the developed countries in the region (Australia, Japan and New Zealand), suggesting that there is considerable room for improvement.

7. The direct cost of completing trade procedures to move goods from factory to seaport increased marginally in most Asia-Pacific economies between 2005 and 2010, ranging from \$633 per container in South-East Asia to almost \$2,200 in North and Central Asia. This situation may be attributed partially to higher labour costs, a rising demand for logistics and transport services as trade volumes increase and fluctuations in exchange rates in some cases. Average costs increased the most in South and South-West Asia: by 16.6 per cent in the period 2005-2010. In North and Central Asia, the costs of completing trade procedures increased by an average of 9 per cent. In most countries in the region, import procedures still cost more than export procedures, arguably because of the regulatory controls applied on imports. However, as of 2010, import time has become equal to or shorter than export time in many countries, including Kazakhstan, Malaysia, Solomon Islands and Sri Lanka, implying that they have taken steps to enhance border clearance procedures.

### **III. Making progress in trade facilitation**

8. Trade facilitation measures are wide ranging in complexity and resource requirements. To be effective, they need to take into account the level of infrastructure and the quality of the business regulatory environment. Simple measures aimed at increasing transparency can go a long way towards facilitating trade and require only limited resources, such as the timely publication of trade regulations and procedures. While there is scope to further improve the implementation of transparency measures, the private sector in many countries has acknowledged progress in this regard, thanks in part to increased institutionalization of consultations between the public and private sectors on addressing trade bottlenecks.

9. At the national level, many countries are now engaged in implementing more advanced trade facilitation measures, often taking advantage of modern information and communications technologies. One such measure involves the development of risk management systems for the inspection and clearance of goods, which enable customs and other trade control agencies to limit the physical inspection of goods to shipments identified as high risk. Physical inspection typically more than doubles the clearance time for goods, for example, from 1.55 to 3.36 days on average for East Asia and the Pacific.<sup>2</sup> Implementation of a risk management system

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<sup>2</sup> World Bank, *Logistics Performance Index 2010* (Washington, D.C., World Bank, 2010). Available from: <http://go.worldbank.org/88X6PU5GV0>.

can significantly reduce the number of shipments that need to be inspected. For example, in China, less than 9 per cent of shipments are now physically inspected, as opposed to 100 per cent in some of the countries that have yet to adopt this measure.

10. Many countries have also undertaken the development of national electronic single windows, or systems that enable the electronic exchange of trade data and documents between traders, customs authorities and other government agencies and stakeholders. Most countries already have electronic data interchange systems and allow electronic submission of at least some of the required data and documents. Often, the long-term goal is to implement a single-window facility that would enable traders not only to submit, online and at one time, all data and information needed by the relevant government agencies but also to pay duties and receive relevant authorization and clearance online, as well as to interact with logistics service providers and other private sector stakeholders. The Republic of Korea, Singapore and Hong Kong, China, are global leaders in establishing national single-window facilities, which have increased their connectivity by cutting the time and cost of trade procedures behind and at their borders. It is worth noting that, in all cases, implementation of such measures required strong political will, as well as the establishment – or pre-existence – of a strong interagency public-private institutional mechanism through which trade facilitation issues could be regularly and openly discussed.

11. While it is now widely acknowledged that trade facilitation begins at home, countries have long recognized the fact that additional benefits could be reaped through bilateral and regional cooperation on trade facilitation. The full benefits of single windows and other electronic trade data exchange systems cannot be achieved until the authorities in the partner country can accept the electronic data and documents in a national single window. However, little progress has been made in the development of an appropriate international legal framework for the cross-border electronic exchange of trade data and documents; the pioneering ASEAN Single Window initiative has struggled to establish the necessary legal basis.

12. Most preferential trade agreements and economic partnership agreements among countries in the region now include provisions for trade facilitation. The latest ASEAN Agreement on Trade in Goods (ATIGA), which came into force in 2010, devotes an entire chapter to trade facilitation. The third round of negotiations on the Asia-Pacific Trade Agreement (APTA) resulted in signatory States adopting in 2009 the Framework Agreement on Trade Facilitation in APTA Participating States. A comparative ESCAP study of recent FTAs found that all such agreements commit signatories to increasing transparency through, among other things, an obligation to publish laws and regulations affecting trade. Such agreements also recognize the importance of using international standards for trade facilitation. Other increasingly common measures involve the automation/use of information and communications technologies, risk management, advance rulings and single windows.

13. Trade facilitation provisions in most agreements are generally “best effort” in nature, making it difficult to assess the extent to which they have been implemented. Short of making trade facilitation measures unconditional, advancing trade facilitation as part of a regional trade agreement may be done best by establishing a strong institutional mechanism through which procedural issues would be identified and addressed after the agreement comes into force, as specified in ATIGA for example.

14. Generally, transit facilitation measures are not specifically covered in trade agreements, although they are essential to intraregional trade facilitation. While separate bilateral and regional transit agreements are often in place among developing countries in the region, the extent to which they are implemented, as well as their consistency with existing multilateral trade commitments, such as Article V of the General Agreement on Tariffs and Trade, is not always clear. There are very significant barriers to transit trade in South and Central Asia. South-East Asia, by contrast, has made more progress in facilitating transit trade through a mix of bilateral, subregional and regional agreements and initiatives. However, reports from logistics operators noting that the comprehensive Greater Mekong Subregional Cross-border Transport Agreement is still not fully operational, even though it was signed over half a decade ago, indicate how difficult it is to facilitate cross-border trade and transit. Aside from political will, a major issue impeding the implementation of effective transit systems is the lack of collaboration between trade, transport or customs authorities and the limited involvement of local (at the border) public and private stakeholders in the early stages of negotiations.

15. While it is crucial to streamline regulatory procedures and other import and export processes at home in order to maintain or improve competitiveness, a long-term holistic trade facilitation strategy necessarily should address gaps in trade and logistics infrastructure and services. Such gaps have indeed been found to contribute to at least a quarter of the variation in non-tariff trade costs across countries in the region. The importance of sea liner shipping services in lowering trade costs highlights the inherent disadvantage faced by many landlocked countries trying to benefit from global trade. Facilitating the movement of goods to and from international seaports in neighbouring countries is therefore likely to remain the main trade facilitation priority for these countries.

#### **IV. ESCAP activities in trade facilitation**

16. ESCAP has a long-standing programme on trade facilitation which has focused on the promotion of international standards for trade facilitation, such as those developed by the United Nations Centre for Trade Facilitation and Electronic Business and the World Customs Organization, and the building of capacity in low-income, least developed and landlocked economies in the region. The secretariat has been assisting member States in tackling inefficiencies and bottlenecks in international trade by: (a) building capacity among trade facilitation practitioners; (b) developing trade facilitation implementation methodologies and tools; (c) undertaking analytical and advocacy work; and (d) fostering a regional community of knowledge and best practices for trade facilitation.

17. The United Nations Network of Experts for Paperless Trade in Asia and the Pacific (UNNExT), which was established in 2009 by ESCAP and the Economic Commission for Europe, is the main modality through which ESCAP delivers its trade facilitation programme. As a community of knowledge and practice for experts from developing countries and transition economies in Asia and the Pacific, UNNExT is aimed at empowering such experts to implement single-window and paperless trade. Through this network, the regional expert community develops tools to facilitate the implementation of paperless trade and delivers training workshops and advisory services in collaboration with ESCAP.

Box

**Selected achievements of UNNExT and the way forward\***

The United Nations Network of Experts for Paperless Trade in Asia and the Pacific (UNNExT) emerged in 2010 as an effective mechanism for regional cooperation and capacity-building in trade facilitation. A number of functions have been carried out through the network: the development of relevant tools and implementation guides; the extension of capacity-building and knowledge-sharing opportunities; the conduct of regional advisory services; and the undertaking of research and analysis on strengthening regional connectivity.

Concrete results have been achieved in other areas also. For example, the *Business Process Analysis Guide to Simplify Trade Procedures*,<sup>a</sup> which was prepared under the auspices of UNNExT and disseminated in print and electronic forms, as well as via national and regional level training programmes, was used for diagnosing procedural bottlenecks for key export and import products in nine countries in the region. Training and study programmes conducted in Cambodia with ESCAP support, for example, used the guide to help design the country's rice export policy initiative. The guide is now being used for developing that country's export strategy for cashew nuts and cassava.

The ESCAP trade facilitation programme and UNNExT activities also contributed to the development and implementation of a single-window master plan for Mongolia. That effort involved a multi-agency group of UNNExT experts and private sector stakeholders guided by ESCAP. Following the plan's endorsement by the Government of Mongolia, donors furnished full funding in April 2011 for its implementation.

Currently a number of practical guides are being finalized under UNNExT: on the subjects of data harmonization; master planning single windows; and addressing legal issues for paperless trade. Together, they will form a complete suite of capacity-building materials to be used in forthcoming national and regional training programmes. Several advisory groups have been created to support future activities of the network, and consideration is being given to focusing work on transit and agricultural trade facilitation, based on recommendations made at the Asia-Pacific Trade Facilitation Forum 2010, which was held in Kuala Lumpur in October 2010.

\* For more information, see [www.unescap.org/tid/unnext](http://www.unescap.org/tid/unnext).

<sup>a</sup> United Nations publication, Sales No. E.09.II.F.21. Available from: [www.unescap.org/tid/publication/tipub2558.pdf](http://www.unescap.org/tid/publication/tipub2558.pdf).

18. The Asia-Pacific Trade Facilitation Forum is another key modality in the efforts of ESCAP to transfer knowledge and experience on trade facilitation. The forum is now held annually in cooperation with the Asian Development Bank and other partners. The first forum was held in November 2009. It has since become the main regional forum for knowledge-sharing and policy dialogue on trade facilitation issues. In 2010, some 320 officials and trade facilitation stakeholders benefited from ESCAP trade facilitation capacity-building activities, a number of whom were from 13 of the least developed and landlocked developing countries.

## V. Issues for consideration by the Committee

19. A number of recommendations have been put forward by the secretariat to further advance intraregional trade facilitation; they can be summarized as follows:

- (a) Establish or strengthen national institutional mechanisms for addressing trade facilitation issues;
- (b) Initiate or accelerate plans to establish national electronic single windows;

(c) Develop a regional agreement on electronic exchange of trade data and documents;

(d) Systematically and specifically seek to facilitate transit as part of trade agreements and trade facilitation efforts;

(e) Create an Asia-Pacific coordination mechanism, bringing together regional organizations active in trade facilitation, to promote intraregional trade facilitation in general and transit facilitation in particular;

(f) As part of a more integrated approach to trade facilitation, consider policies aimed at increasing competition among logistics service providers.

20. The Committee may wish to deliberate on the issues and recommendations contained in the present document, in particular with regard to the role of ESCAP in their implementation. The Committee may also wish to deliberate on how the best use can be made of UNNExT in pursuing trade facilitation measures in developing countries in the region.

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