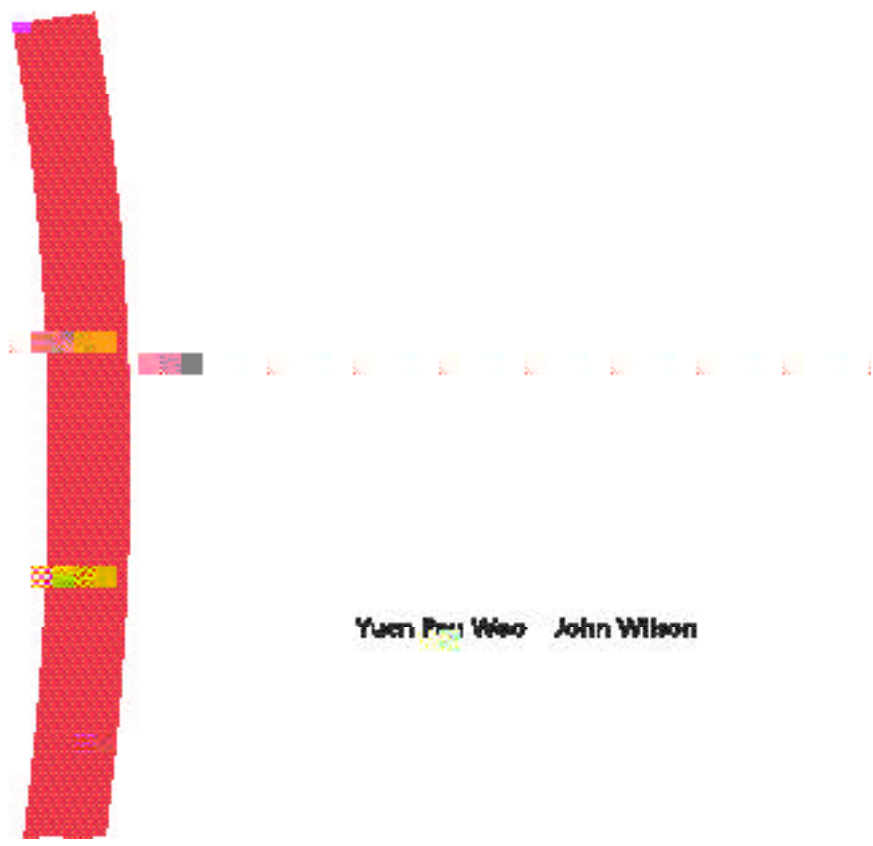


**New directions for APEC's trade facilitation agenda**



Yuen Fung Wo John Wilson

## TRADE FACILITATION: APEC'S ROAD AHEAD

APEC has entered the second decade of its existence facing challenges that are substantially different from those of the first decade. In the area of trade policy, APEC remains committed to the Bogor goal of “free and open trade and investment ” by 2010/2020, but is under increasing pressure to show tangible progress toward meeting this target. The difficulty in achieving “concerted unilateral liberalization” was demonstrated by the unsuccessful experience with “Early Voluntary Sectoral Liberalization” (EVSL) in 1996-99, and it is unlikely that there will be renewed attempts at this type of effort in the near future. The discussion in APEC has instead shifted to bilateral and regional trading agreements (RTAs), and whether these are “building blocks or stumbling blocks” for multilateral trade liberalization.<sup>1</sup>

As many as half the members have announced in the past year that they are pursuing or investigating some form of bilateral or sub-regional trading arrangement.<sup>2</sup>

Notwithstanding the political difficulties of further tariff cuts by APEC members and the shift in attention to RTAs, this paper argues that APEC as an organization has ample room to aggressively pursue the Bogor goals through its trade facilitation agenda. Trade facilitation policies are not contingent on tariff reduction in APEC as a whole or indeed on progress in the multilateral trading system.

There is no single definition of trade facilitation. The term generally refers to the simplification of procedural and administrative impediments to trade, such as customs administration, standards and technical regulations, and barriers to the mobility of business people. Trade facilitation in APEC is also known as business facilitation, or in popular jargon “cutting red tape.” Indeed the business community has long advocated that greater attention be placed on trade facilitation issues, because of the direct impact that customs delays, multiple testing requirements, and business mobility barriers have on costs to consumers.

The benefits of trade facilitation are not exclusive to the business community. Trade facilitation reform can generate significant welfare gains for the economy as a whole. The

### APEC MUTUAL RECOGNITION AGREEMENTS

The APEC Mutual Recognition Arrangement (MRA) for Conformity Assessment of Telecommunications Equipment when fully implemented will streamline trade in telecommunication products as well as cutting the costs of telecommunications devices such as telephones, fax machines, modems and radio transmitters. The purpose

APEC Economic Committee has estimated that trade facilitation measures committed to date will add 0.25% of real GDP to APEC (or about US\$ 46 billion in 1997 prices) by 2010, compared to economic gains from trade liberalization measures (tariff removal) amounting to 0.16% of real GDP (about US\$ 30 billion). Finger and Schuler (2000) point out that “trade facilitation issues...are more difficult to reform than mere tariff rates, but are probably becoming more important as tariffs fall and global supply chains come to dominate production and trade.”<sup>3</sup>

APEC can rightly claim leadership in identifying trade facilitation as a priority, going back to the formation of the organization in 1989. APEC leaders, ministers, and senior officials have consistently emphasized the importance of facilitation, as has the APEC Business Advisory Council (ABAC) and many prominent APEC commentators. Some of APEC’s accomplishments in trade facilitation include the 1997 “Blueprint for APEC

of the MRA is to reduce the need for multiple testing of products, through the mutual recognition of standards and tests in participating economies. Trade in telecommunications equipment in the region is estimated to be worth US\$ 50 billion a year and the MRA is predicted to save 5% of the cost of new product

placement, cut six months off the time to market, and reduce marketing costs for new products by up to 30%. Implementation of the MRA began in July 1999 with nine participating economies (Australia, Canada, Japan, Hong Kong, Peru, Republic of Korea, Singapore, Chinese Taipei, and USA) involved in Phase I (mutual recognition of test results).<sup>1</sup>

Customs Modernization: Working with Business for a Faster, Better Border,” the APEC Business Travel Card, and more rapid exchange of information and increased transparency in testing and certification requirements in the region. In general, however, APEC’s facilitation agenda has taken a back seat to trade liberalization, especially during the period 1996-1999 when attempts at “concerted unilateral liberalization” — epitomized by EVSL — dominated the focus of senior APEC policymakers.<sup>4</sup>

Trade facilitation has not had the same intellectual standing as liberalization, nor did it attract the same attention from top APEC policymakers because it has been seen as highly technical, painstaking, and expensive to implement. Facilitation has been seen as the “plumbing” of trade policy — essential but not attention grabbing, for either APEC leaders or the media. As a result, while acknowledged as important, trade facilitation activities within APEC have tended to take place on the margins of the organization and in a piecemeal fashion. It was only in 1999 that the APEC leaders, meeting in Auckland,

agreed to draft a set of trade facilitation “principles” to guide further work.

As part of an attempt to explore the development dimensions of trade facilitation and examine problems and prospects in APEC’s trade facilitation agenda, the Government of Canada together with the World Bank and the Asia Pacific Foundation of Canada organized a workshop in Singapore in September 2000, focusing on “new directions and the development challenge” for APEC’s trade facilitation agenda. The workshop focused on four facilitation areas — customs procedures, standards and technical regulations, labour mobility, and e-commerce.<sup>5</sup> Some of the examples referred to at the workshop, and in this paper, are not from APEC member economies. They are nevertheless relevant to many APEC members’ experiences and economic prospects.

A number of themes emerged from the workshop. These included:

The need to build on complementarities and synergies in trade facilitation across different sectors, which argues for a horizontal approach to facilitation issues within APEC;<sup>6</sup>

The importance of involving the private sector in APEC’s trade facilitation efforts. Concomitantly, APEC needs to better communicate its facilitation activities to the business community;

The developmental impact of trade facilitation and the fundamental role of technical assistance in helping less-developed economies implement facilitation measures.

## THE UNEXPLORED SYNERGIES IN TRADE FACILITATION

APEC’s work in trade facilitation consists of a number of disparate working groups and sub-fora. Each group focuses narrowly on a particular area, for example, standards and conformance, customs procedures, e-commerce, and mobility of business people. The Singapore workshop was a rare opportunity for experts to exchange views and to look for commonalities and synergies among the different trade facilitation areas.

Trade facilitation taken as a whole has the potential to be greater than the sum of its parts. For example, a study of cargo clearance times at Tanjung Perak port in Indonesia, conducted under the auspices of the World Customs Organization, shows that customs procedures are only one aspect of improving the overall efficiency of the cargo clearance process. The study found that the customs clearance process for certain shipments took an average of 6.4 minutes, compared to 159 hours and 23 minutes for other activities involved in cargo clearance. The main sources of delay included incomplete documents; red tape involved in releasing goods from godowns; documentation errors; payment hold-ups; and deliberate delays in delivery, even after the release of goods by customs officials. Another study by the Japan Customs and Tariff Bureau shows that the biggest reduction

in total elapsed time from cargo arrival to release between 1991 and 1998 was in the plane-to-warehouse and time-in-warehouse stages of the process.<sup>7</sup>

The relationship between standards/technical regulations and customs administration is also instructive. As Wilson (1995) noted in his review of APEC's standards agenda, APEC can foster private-sector leadership in standards, and this relates directly to reform in customs procedures.<sup>8</sup> Customs officials turn products failing to meet import standards away. This is a problem of non-compatible standards or the non-availability of conformity assessment. Yet, even products that meet import standards may be held up at the border due to inefficient customs administration, resulting in higher costs to producers and consumers. A trade facilitation initiative should therefore encompass the entire trade transaction cycle rather than focusing individually on, for example, standards harmonization or customs modernization alone. Meeting this objective, will be difficult as it involves a diverse set of actors, but there is limited prospect of a breakthrough in trade facilitation initiatives unless the old vertical or "stovepipe" approach to trade reform is augmented by a horizontal approach to removing the impediments to trade.

Many APEC developing economies have established cargo clearance automation as a priority. However, this has in many cases been limited to functions directly performed by customs services, leaving a range of other authorities involved in the clearance system

## THE ECONOMIC IMPACT OF TRADE LIBERALIZATION AND FACILITATION IN APEC

APEC trade liberalization and facilitation measures committed to date expand the region's annual income (GDP) by an estimated US\$ 75 billion (at 1997 prices), or 0.4% of the region's total GDP. Independently, APEC trade facilitation measures committed to date expand the region's income by an approximate US\$ 46 billion. In addition to the estimate of income gains from the trade liberalization and facilitation measures *already committed to* by APEC members, the APEC Economic Committee also estimated the potential gains from total tariff elimination and "further progress" in trade facilitation. The results suggest that total tariff elimination will add about US\$ 87 billion or 0.5% of GDP in 1997

prices. Using a crude estimate of 2-3% reduction in import costs from trade facilitation measures, the Economic Committee concluded that "full" trade facilitation would lead to income gains of around US\$ 64 billion. This result would obviously be higher if import cost savings were assumed to be higher than 3%, as some industry observers claim<sup>2</sup>. The Economic Committee also points out that even though the estimated gains from "full" trade facilitation are smaller than the gains from total tariff elimination, "trade facilitation has a large undeveloped potential for the improvement of economic efficiency and productivity."<sup>3</sup>

unable to provide the same level of service. The need for system integration extends beyond government agencies and should eventually include other players involved in trade, including: transportation companies, customs brokers, forwarders, banks, etc.

Although e-commerce is not an impediment to trade, it is a trade facilitation issue because of its vast potential to further international trade. In the customs area, an Internet-based e-commerce platform offers exciting possibilities for modernizing customs administration, supplanting the limited and outdated Electronic Data Interchange standard used in some countries. The synergies of reform between electronic commerce and standards are also clear. Open standards systems based on voluntary market-driven standards promote success in IT and telecommunications, the foundations of electronic commerce.<sup>9</sup>

Fundamentally, building an effective e-commerce infrastructure requires a commitment by government to simultaneous reforms in a number of sectors. These reforms can be synergistic and they can contribute to a trade facilitation architecture that domestic firms (including SMEs) can exploit for international trading activities. A company's adoption of e-commerce,

**EXAMPLES OF WORLD BANK  
TRADE-RELATED LENDING IN 1999**

## A BUSINESS PERSPECTIVE: REDUCING TRANSACTION COSTS

From a business perspective, trade facilitation is about reducing transaction costs in cross-border trade, without compromising the need for consumer protection, health, safety, or public security. The transaction cost approach appeals to business because it treats the trade process in its entirety rather than as discrete, self-contained elements such as customs procedures, standards and technical regulations, etc. Such a perspective attempts to identify cost savings throughout the transaction cycle, rather than looking at efficiencies in only one part of the cycle. From a public policy perspective, this way of thinking might be described as a “trade facilitation mentality” because it looks for complementarities

and ISO 9000 compliance in the implementation of Customs Excise and Preventive Services.

### **Turkey’s Industrial Technology Project**

The EU is Turkey’s major trading partner and an important source for further export growth. To access the EU market, however, Turkish exporters have to address an array

of quality standards and regulations. The Bank is providing US\$ 155 million to help Turkey bring its technological infrastructure and services in line with international standards, thus facilitating trade.

*\* See Estimated World Bank Lending Related to Product Standards – FY99 table in Appendix, page 18.*

and synergies in a variety of trade facilitation issues, rather than focusing on improving efficiencies in single areas.

There is a strong case to be made for the private sector to be closely consulted in the design of trade facilitation initiatives and for governments to adopt more of a “transaction cost” mentality in dealing with facilitation issues. Business and industry organizations have long argued that trade facilitation is an important issue and estimates of the “deadweight costs” of paperwork range from 5-15% of the landed value of all merchandise. A recent survey commissioned by the APEC Business Advisory Council (ABAC)<sup>12</sup> found that business people in the APEC region rank customs procedures as the most pressing trade impediment, followed by administrative regulations — another source of “red tape.” Tariffs, the traditional focus of “high” trade policy, was ranked third. The survey also suggests that business people know very little about what APEC is doing in the area of standards, customs, or business mobility. Even among those who

are aware of APEC's work in these areas, fewer than 20% consider APEC to be effective. Clearly, there is a need for APEC to work more closely with the business community on such issues.

The need to involve business is as much based on the value of consulting with end-users as it is to do with changing patterns of international business, where global production networks, intra-industry trade, and the use of business-to-business (B2B) e-commerce have become much more important than in the past. The ability of multinational companies to track their components and parts at any point in their global networks should translate into faster customs clearance times. There is no reason why customs administrations should not work more closely with global logistics companies and expedited delivery (courier)



strengthening governance, and increasing transparency in government administration, facilitation initiatives fundamentally build a more robust economy.

In the context of regional trade agreements, many trade facilitation initiatives can be

**E-COMMERCE CAN BRIDGE THE  
DIGITAL DIVIDE**

Nonetheless, the establishment of standards and conformity assessment infrastructure in developing economies is an important concomitant to international trade. Standards and technical regulations can constitute a barrier to trade, but the solution is clearly to expand systems based on private market forces and to continue the process of liberalization and removal of barriers.<sup>20</sup> In fiscal year 1999, the World Bank estimates that it funded projects supporting standards and related infrastructure and reform initiatives worth approximately US\$ 420 million. These projects provided assistance to developing economies in such areas as adopting international conventions of standardization, simplification of documentation, investment in standards infrastructure, and adoption of ISO 9000 and ISO 14000. There were also projects supporting access to information technology; providing packaging and quality control advice; regulatory reform; and the design of health, safety, and environmental regimes in a variety of industry sectors.

Customs modernization can be an expensive, time-consuming undertaking for developing economies. The cost of computer hardware alone is considerable. Nevertheless, there are ways of leveraging investments in telecommunications and e-commerce infrastructure as well as leapfrogging to the latest technologies.

Developed economies will continue with their drive for customs modernization. The United States, for example, is undertaking a long-awaited move toward a system in which entry information, corrections by the importer, collection of tariffs, and post-entry compliance audits are handled like an annual tax return rather than as a series of individual transactions. As part of the North American Free Trade Agreement (NAFTA), Canada, the United States and Mexico — all members of APEC — are working on customs harmonization procedures that will reduce customs-clearance burdens on shippers as well as on customs administrations. It is in the interest of both developed and developing economies to encourage the diffusion of such efficiency-enhancing systems throughout the world, and to use development cooperation as a means of transferring skills and technology to less-developed economies.

APEC is unusual in having both trade facilitation and development cooperation (or “Ecotech” — economic and technical cooperation) as stated priorities, in addition to the priority of trade liberalization. Even though the Ecotech agenda is still in its infancy and there continues to be confusion over the purpose of Ecotech, a review of Ecotech projects

#### **ECOTECH FOR CUSTOMS MODERNIZATION**

The CTI Sub-Committee on Customs Procedures (SCCP) is using Ecotech, which supports trade liberalization and facilitation, to help developing APEC members work toward their Osaka Action Agenda objectives. One project offers technical assistance on the WTO Valuation Agreement by providing APEC developing members with needs analysis;

suggests that many APEC members see Ecotech, in practice, as a *delivery mechanism* for technical assistance in the area of trade facilitation. This is a practice that should not only be encouraged, but also given credence at the highest level.

## NEW DIRECTIONS FOR THE APEC TRADE FACILITATION AGENDA

APEC's institutional style – characterized by consensus decision-making and voluntary actions on the part of members – is inimical to negotiated tariff reductions, which is one of the strengths of the WTO. Conversely, the WTO, which began exploratory work on trade facilitation at the 1996 Ministerial Meeting in Singapore, may be limited in its ability

advice on organizational structure; legislative framework; and delivery of the World Customs Organization's Customs Valuation Training Course, as well as development and delivery of other training modules. To date, 10 APEC economies have received assistance under this project, which is co-ordinated and led by Canada

and the United States, with the support of Australia and New Zealand. Adoption of the Valuation Agreement will lead to more transparent and consistent determination of the value of imported goods, thereby providing greater certainty for importers, exporters, and manufacturers on their costs related to imported finished goods and components.

to address broad trade facilitation issues within its binding rules-based framework.<sup>21</sup> Trade facilitation initiatives typically do not generate the intense horse-trading and bid-offer approaches of traditional trade negotiations. The challenges of trade facilitation have much more to do with implementation and the associated problems of expertise, financial resources, and government commitment to reform.

What then are some concrete actions that APEC can take to advance its trade facilitation agenda?

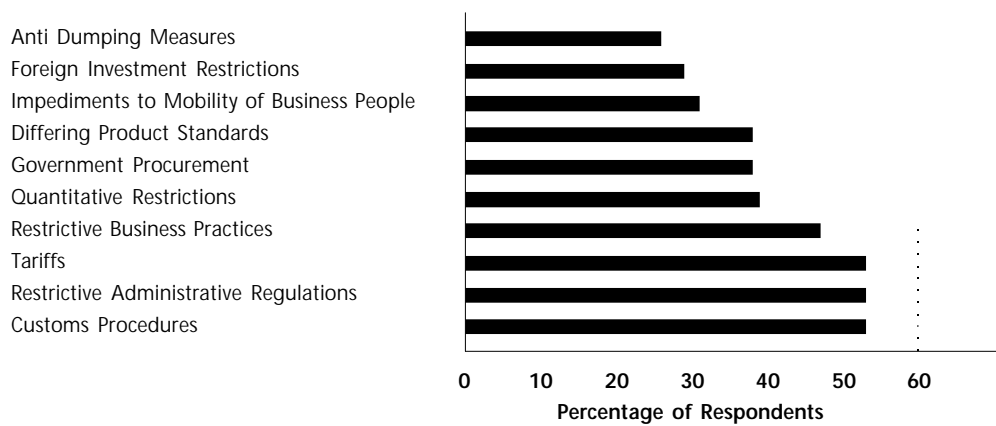
### **Establish a high-level trade facilitation focus, which includes a development perspective within APEC**

Most of APEC's facilitation activities are conducted by sub-groups of the Committee on Trade and Investment (CTI), for example services, investment, standards and conformance, customs procedures, intellectual property rights, government procurement,

market access and mobility of business people. While all of these groups perform useful work in their own right, they operate in isolation from each other and there is little opportunity to build on complementarities and synergies among the groups. A high-level focus on trade facilitation, perhaps through a stand-alone committee or sub-group, could go a long way in strengthening facilitation activities across APEC fora. For example, this committee might be charged with a) championing trade facilitation issues in APEC; b) strengthening the link between trade facilitation and Ecotech; and c) exploiting synergies among facilitation areas through research, project design, and networking activities.

It may be argued that the last thing APEC needs is another committee. Indeed, there

**FACILITATION ISSUES TOP LIST OF TRADE IMPEDIMENTS**



to their domestic mandates. However these same departments often lack an explicit mandate or budgetary resources to participate fully in international cooperation fora such as APEC, and they depend on the largesse of the foreign affairs, trade, or development

measures on economic reform in general. Research on standards and technical regulations as barriers to trade and on best practices in establishing standards infrastructure are also scarce. One good source of direct experience and best practice is the private sector. Studies from the logistics industry of customs issues provide good examples. However, there is clearly a void in public policy and academic research on facilitation issues. Research on measuring the benefits of trade facilitation would provide a stronger foundation for APEC to set clear performance targets for trade facilitation, such as the example of a 50% reduction in cross-border transaction costs by 2010. While APEC is not a research organization, raising the profile on the importance of economic analysis, especially in areas related to the costs of non-tariff barriers and investing some resources in research would be consistent with an enhanced emphasis on trade facilitation. This initiative could be coordinated by the proposed Trade Facilitation Committee or sub-group working with the Economic Committee and outside experts.

## BRUNEI AND BEYOND

As the Bogor goal of 2010 and 2020 draws closer, the world will be looking more carefully at what concrete steps APEC is taking toward its stated goal of “free and open trade and investment.” With limited scope in the near term for Most-Favoured Nation tariff cuts, the impetus for further progress will have to come from trade facilitation initiatives. As a pioneer among regional trade fora in identifying trade facilitation as a priority area, APEC has made important strides in areas such as standards and technical regulations, customs administration, and mobility of business people. These accomplishments have in turn led to a greater appreciation of the importance of trade facilitation and of the interconnectedness of diverse trade facilitation areas. The time is right for APEC to now give meaning to trade facilitation as a priority area by putting in place the institutional support for facilitation activities across all APEC fora. This is an opportunity that the APEC Leaders meeting in Brunei Darussalam should grasp, and hand over to China’s leadership beginning in 2001.

## NOTES

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# APPENDIX

<sup>1</sup> Investment in standards infrastructures, metrology, calibration, laboratory accreditation systems, testing, certification programs, and other mechanisms

<sup>2</sup> Assist firms to adopt/comply with international standards, including implementation of quality standards programs,

<sup>3</sup> Government regulatory reform projects, health, safety, environmental regimes across industry

## ACKNOWLEDGEMENTS

The Asia Pacific Foundation of Canada (APFC) is a national non-profit organization established by an Act of the Federal Parliament in 1984. As Canada's think-tank on Asia, the Foundation brings together people and knowledge to provide the most current and comprehensive research, analysis and information on Asia and on Canada's transpacific relations. It promotes dialogue and debate on economic, political, social and developmental issues to help shape effective Canadian public and private policy. It also houses the APEC Study Centre in Canada and acts as the secretariat for Canada's participation in major institutions of the Pacific Rim — the Pacific Economic Cooperation Council (PECC), the Pacific Basin Economic Council (PBEC) and the APEC Business Advisory Council (ABAC).

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Cdn \$9.95  
ISBN 0-9695327-5-X

*Cutting Through Red Tape: New Directions  
for APEC's Trade Facilitation Agenda*  
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This publication and the *Workshop on Trade Facilitation in APEC: New Directions and the Development Challenge* were made possible by generous support from the Government of Canada, the Canadian International Development Agency (CIDA), the World Bank, the APEC Secretariat, the United Kingdom's Department for International Development and the Asia Pacific Foundation of Canada. The views expressed in this publication do not necessarily reflect those of the organizations listed above.

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