

# Policy Brief

## Trade Facilitation in the ASEAN Economic Community

1. Trade facilitation: how to measure it?
2. Business views on trade facilitation
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4. CIF/FOB ratios
5. Concluding remarks

By Christopher Findlay

*Trade facilitation refers to the reduction of costs in the trading system. Significant cost reductions are possible, but policy reform and international cooperation are required to capture those gains. ASEAN has a key role to play in that work.*

*Suggestions for the ASEAN scorecard are to reinforce or add commitments to, and then monitor the implementation of (a) National Single Windows as a prerequisite to the ASEAN Single Window, (b) a web-based databank of trade regulations that is regularly updated, (c) streamlined and harmonized procedures, starting with the Customs declaration (or 'SAD') form, and (d) mutually recognized technical standards. In terms of performance measures it is recommended to (1) have ASEAN customs authorities report regularly and in a comparable manner on clearance time through customs, (2) maintain and report updates of a logistics restrictiveness index for all countries in each year which has been developed in this project, and (3) recalculate adjusted cif/fob ratios as measures of trade costs, using the methodology developed in this project.*

### 1. Trade facilitation: how to measure it?

The WTO definition of trade facilitation is "the simplification and harmonisation of international trade procedures" where trade procedures are the "activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade."<sup>1</sup>

There are different ways of measuring performance in trade facilitation.

One examines the costs of trade. High-income countries' trade costs amount on average to a 170% ad valorem barrier to trade, according to one estimate, and tariffs and non-tariff barriers account for less than a fifth of the at-the-border trade costs. This dramatic figure is,

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however, based on a broad definition of trade costs, that is, all costs of getting a good to the final user apart from the marginal cost of producing the good itself (Anderson and Wincoop, 2004).

An alternative approach, reported in a number of the World Bank studies, breaks down trade costs into various components and estimates their impact on trade volumes. These studies find that port efficiency has the largest positive effect on trade flows, regulatory barriers deter trade, and customs environment and e-business usage are statistically significant but less important.<sup>2</sup>

Direct measurement of trade costs requires detailed microeconomic evidence. A number of attempts have been made to standardize the results of such studies, for example: (1) border crossing surveys can be framed by the WCO's time-release methodology, but they cannot capture behind-the-border trade costs, (2) the ESCAP Time/Cost-Distance Methodology has been applied to several transport corridors in Asia,<sup>3</sup> and (3) JETRO has prepared an "ASEAN Logistics Map" including surveys of various transport routes, and suggestions for resolving bottlenecks (JETRO, 2009).

These detailed studies are useful because, if done properly, they provide firmly based evidence of the time and financial costs of trade. They cannot, however, provide across-the-border information on the level of and changes in trade costs.

At the aggregate level an operational and economically meaningful approach to studying variations in trade costs is to examine

the gap between free-on-board (fob) values when a good reaches the port of exit in the exporting country and import values which include cost, insurance and freight (cif). Discussed below is a new and more specific application of this methodology to ASEAN.

## **2. Business views on trade facilitation<sup>4</sup>**

Recent business surveys find that border procedures continue to be pervasive and critically affect both goods and services businesses across ASEAN. The procedures themselves are numerous and must be reduced or rationalized or streamlined, a need that has been enunciated for years now, and acted upon only slowly. The ASEAN Single Window program illustrates this difficulty, since National Single Windows still need to be realized in all member countries.<sup>5</sup> The completion of the National Single Window program is a priority.

Aside from the procedures per se, the manner of implementation has transformed certain procedures into formidable barriers, in particular those that allow wide discretion in application. Traders who gain from unofficial payments favor this environment. Some customs personnel benefit privately from the arrangement, but the net welfare loss to the community is expected to be significant.

An efficient information system that enables counterchecking of documents and a credible audit system to enforce accountability is part of the solution. Content and

time can be monitored through such a system, so that valuation and classification errors can be traced, while lengthy procedures examined to establish source of delays. Risks can also be managed and selectivity carried out by machine instead of manual alerts, and goods released automatically after payment with support from a database and information system.

Transaction times require further study to pinpoint the exact causes and suggest remedies. Since time stamps are usually recorded for each procedure at Customs, these times can be monitored regularly and used as targets for procedural improvement.

Poor information on border procedures has been cited by business as a constraint. Information available through the internet, updated as required and with feedback from users, is a response to this problem. The lack of transparency and absence of accountability reinforce each other. While these solutions are not surprising, they require a strong political will from governments involved.

Recommended for the scorecard is therefore a focus on customs services, in particular, the following four points; (a) complete the implementation of the National Single Windows as a prerequisite to the ASEAN Single Window, (b) set up a web-based databank of trade regulations that is regularly updated, (c) streamline and harmonize procedures starting with the Customs declaration (or 'SAD') form, and

(d) mutually recognize technical standards.

A simple numerical measure but summary indicator of performance that should also continue to be monitored is the clearance time through customs. Generally these data are only available through special surveys but it is recommended here that ASEAN customs authorities collect and report these data themselves (most automated systems already include time stamps for each step that only need to be processed).

### **3. Logistics sector policy<sup>6</sup>**

Logistics has been defined as "the part of the supply chain process that plans, implements, and controls the efficient, effective flow and storage of goods, services, and related information from the point of origin to the point of consumption in order to meet consumers' requirements" (De Souza, *et al*, 2007). Efficient delivery of logistics services is the ability to move goods expeditiously, reliably and at low cost. A competitive and efficient logistics sector is vital for all economies and is an imperative component of trade. In the logistics industry, time is money. The costs of delays are high and ultimately passed on to the consumers. Government restrictions imposed on logistics services providers (LSPs) can adversely affect the price, reliability and quality of these services, and are considered restrictions to trade. It is the time as much as the cost of complying with all the rules and regulations that matters.

Logistics features in various ASEAN scorecards for integration, for example, but not with sufficient detail to help develop an operational implementation method. Past studies have explored the regulatory performance within specific logistics sub-sectors such as maritime and aviation but for the first time in this project, a measure of the regulatory index of the entire logistics sector has been developed.

The logistics sector restrictiveness index developed in this project groups the types of restrictions under six primary headings: customs, investment, movement of people, and sector-specific restrictions for maritime, aviation, and road transport. The full list of restriction categories is available in the background papers.

Results are shown in Figure 1. Index values range from zero to one, and higher scores show higher levels of restriction. 'Domestic' measures apply to all entrants while the foreign index value is the sum of measures applying to all entrants plus additional conditions applying to foreign suppliers.

Large differences exist in the regulatory environment for logistics of the ASEAN+6 economies. Many of these economies are open to trade in logistics services, while others are relatively restrictive. The average score for the domestic index is 0.29 and for the foreign index it is 0.41. Vietnam, Laos, India and the Philippines have relatively high scores on the domestic index (over 30% above the mean) and as do Indonesia, the Philippines, China, and Malaysia

on the foreign index. Generally the degree of restrictiveness falls as per capita income rises, but even at lower levels of income there is a range of values of the scores.

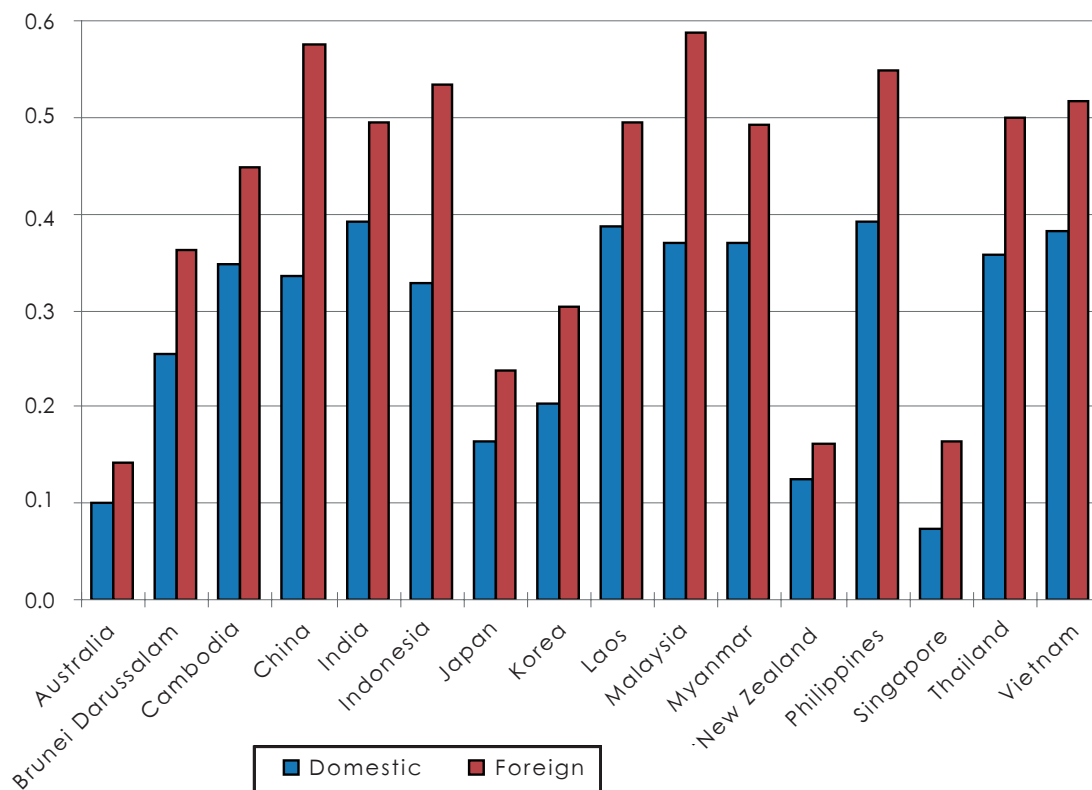
Relatively high levels of the index values are also associated with varying levels of performance, according to the World Bank's Logistics Performance Index (LPI), especially in the low range of LPI values (which may reflect the presence of other constraints, such as features of the local infrastructure). But once the LPI scores reach a mid range value, then a negative relationship between the LPI and the restrictiveness index is observed. Less restrictive regimes, in other words, are associated with better assessments of performance.<sup>7</sup>

Indicators of logistics performance are available and are also worth monitoring (such as the World Bank's LPI). However, the underlying determinant of that performance according to this study is the policy environment. The ASEAN scorecard refers to 'a conducive policy environment' and for this reason it is recommended to use the restrictiveness index developed in this project as a template for monitoring the change in, as well as benchmarking, logistics sector policy in ASEAN.

#### **4. CIF/FOB ratios<sup>8</sup>**

The project developed two measures of 'trade costs' based on cif/fob ratios. The first version, the unadjusted Index, is based on the raw Australian cif/fob import data.<sup>9</sup>

**Figure 1. Logistics restrictiveness index**



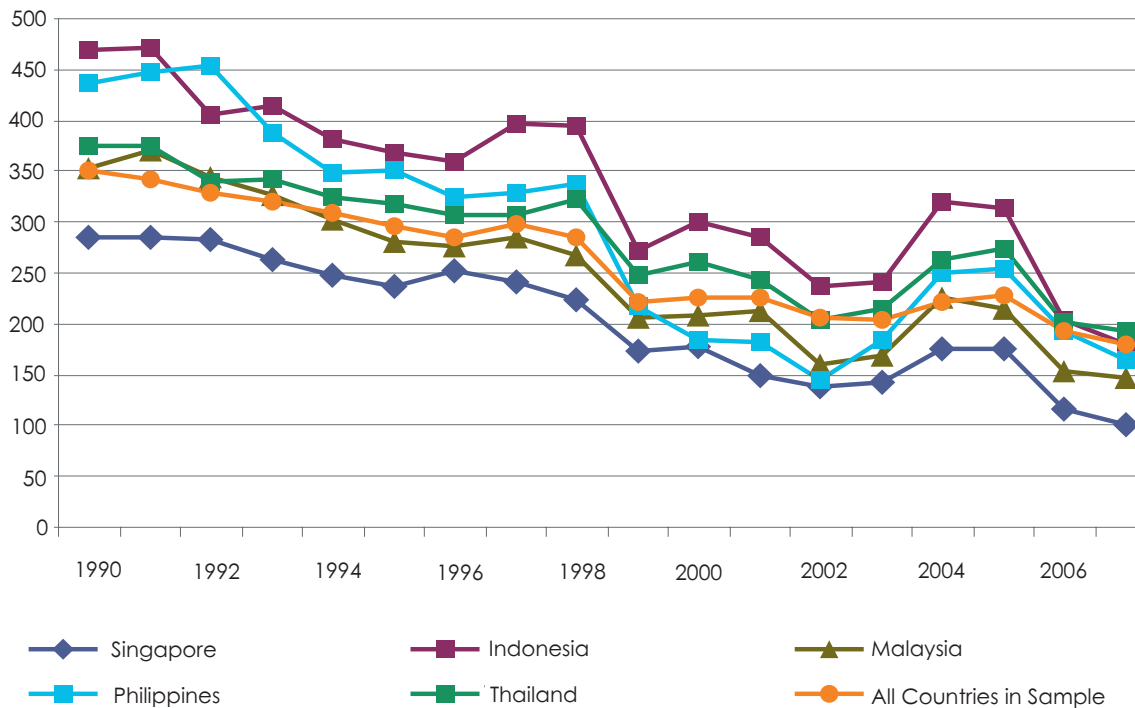
The values of this index from 1990-2007 indicate a falling trend of trade costs in ASEAN countries. The pattern is clearest for the five original ASEAN members and for Vietnam. For the four smaller trading nations, the index is more volatile and less valuable.

Some determinants of trade costs, such as distance, are constant for each country over time, but the research shows that commodity effects are also significant, so there should be some control for the extent to which the index may be reflecting changes in a country's trade costs due to commodity composition rather than trade facilitation measures. The adjusted index, therefore, controls for

commodity composition. Figure 2 shows results for a sample of ASEAN countries.

The index has limitations. It cannot match all definitions of trade facilitation, and it cannot provide evidence on specific elements of trade facilitation. The cif-fob measure does not include some behind-the-border reductions in trade costs, and it includes elements of reduced transport costs that may not be included in some definitions of trade facilitation. The greatest shortcoming of the index is that, by focussing only on dollar values of trade costs, it does not capture trade costs in the form of time. But it does provide a single soundly based indicator of each country's trade costs in each

**Figure 2. Adjusted cif/fob ratio (Singapore 2007 = 100)**



year that can be easily updated. It is recommended here that a process be established for doing so.

### 5. Concluding remarks

A key driver of reform is transparency not only of policy process itself but also of performance. In this project, the research team examined the scope of trade facilitation, taking a wider view than the WTO, and on that basis has recommended a series of policy and performance measures. The policy measures relate to the implementation of a series of policy changes. The performance measures are concerned with the operations of the processes of cross borders, the costs incurred in the trading system, and the environment in which services critical to trade facilitation are provided. Trade facilitation is a priority

interest among business communities, and the ASEAN Economic Community has a key role to play in the design of programs to support and monitor the facilitation of trade. The data collections proposed here are valuable candidates for the ASEAN scorecard for that reason.

<sup>1</sup> For more on the WTO work on trade facilitation, see [http://www.wto.org/english/tratop\\_e/tradfa\\_e/tradfa\\_e.htm](http://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm).

<sup>2</sup> For further information, see John Wilson, *et al.* (2003).

<sup>3</sup> More information is available at <http://www.unescap.org/tdw/index.asp? MenuName=RouteStudiesWelcome>.

<sup>4</sup> This section is based on material in De Dios (2009). Respondents for the Business Survey consisted of companies from nine priority goods and five priority services sectors that engage in import transactions within ASEAN. Respondents for the Logistics Survey were logistics services providers (shippers and freight forwarders), regulatory bodies, and logistics trade associations across ASEAN countries. These surveys were completed as part of the AADCP-REPSF Project No. 06/001: An Investigation into the Measures Affecting the Integration of ASEAN's Priority Sectors (Phase 2), namely, (1) the Region-wide Business Survey (06/0013e) by

Rowena Owen, PT ACNielsen Indonesia, and (2) the Case of Logistics (06/001d) by Robert de Souza, Mark Goh, Sumeet Gupta, and Luo Lei.

<sup>5</sup> Singapore has completed the implementation of its National Single Window (NSW). Malaysia, the Philippines, Indonesia, Thailand and Brunei are expected to complete the NSW in 2009. Other ASEAN members are expected to complete by 2012. Pilot projects are underway to test the connections between National Single Windows. See, for example, *MITI Weekly Bulletin*, Vol.30, 30 January 2009, Ministry of International Trade and Industry (MITI), Malaysia.

<sup>6</sup> This section, including Figure 1, is based on Hollweg and Wong (2009).

<sup>7</sup> For more about the LPI, see [www.worldbank.org/lpi](http://www.worldbank.org/lpi).

<sup>8</sup> This section, including Figure 2, is based on Sourdin and Pomfret (2009).

<sup>9</sup> Australian data are readily available, and cif/fob measures are an impartial guide to the trade costs of each bilateral trading partner. Data based on Australian trade provide good benchmark for ASEAN because Australia is a large trading partner whose cities are roughly equidistant from most ASEAN ports of export.

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### **Acknowledgement**

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