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# TOWARD THE SHANGHAI GOAL

Implementing the APEC  
Trade Facilitation Action Plan

2002

A REPORT PREPARED FOR  
THE APEC COMMITTEE ON TRADE AND INVESTMENT





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## Implementing the APEC Trade Facilitation Action Plan

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“Among multilateral and regional fora, APEC is a pioneer in the area of trade and investment facilitation. Our business community tells us that this is the area of APEC activity of most immediate relevance to them. Lowering costs, eliminating red-tape and delay, promoting regulatory reform, developing mutual recognition arrangements on standards and conformance, and increasing predictability are clear benefits, especially to operators of small and medium-sized enterprises. . . We urge the acceleration of trade and investment facilitation through APEC’s Collective Action Plans and direct Ministers to use APEC’s economic and technical cooperation activities to build capacity, adapt procedures and incorporate new technologies”.

APEC Economic Leaders Declaration:  
Connecting the APEC Community  
Vancouver, Canada. November 25, 1997

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In August 2002, a Workshop on Implementing the APEC Trade Facilitation Principles was held in Bangkok, Thailand. The workshop was co-organized by Canada, Hong Kong, China, and Thailand. The workshop featured trade facilitation experts from member economies as well as international organizations. More than 100 participants from throughout the region attended the workshop, including a strong showing by business leaders. This booklet provides a summary of the main outcomes of the workshop and draws conclusions for future APEC work in implementing its Trade Facilitation Principles.

# 1 TRADE FACILITATION IN APEC

## Looking Back and Moving Forward

Trade Facilitation has been a critical part of APEC’s agenda since the birth of the regional forum in 1989. APEC Leaders have consistently placed emphasis on the importance of trade facilitation. For example, in the 1994 Bogor Declaration, Leaders emphasized:

*“...the importance of trade facilitation because trade liberalization efforts alone are insufficient to generate trade expansion. Efforts at facilitating trade are important if the benefits of trade are to be truly enjoyed by both business and consumers. Trade facilitation has also a pertinent role in furthering our goal of achieving the fullest liberalization within the global context”.*

Among international economic fora, APEC can rightly claim leadership in trade facilitation issues. APEC’s approach to trade facilitation is based on close cooperation between business and government and focuses on the practical aspects of reducing trade transaction costs rather than on the negotiation of trade facilitation rules. APEC recognises the importance of capacity building in trade facilitation, especially for developing member economies, and has supported initiatives in customs, standards, business mobility, and e-commerce.

APEC can also claim some important and practical accomplishments in trade facilitation. APEC’s on-going work in the Customs area; the APEC Business Travel Card scheme; APEC’s promotion of e-commerce and paperless trading; APEC’s Mutual Recognition Arrangements (MRAs) for Conformity Assessments in Telecommunications, Electrical and Electronic Equipment, and its promotion of international standards in Food, Electrical, Machinery, and Rubber products — generate real benefits for APEC businesses.

### The Shanghai Goal

In 2001, the APEC Leaders Meeting in Shanghai set a new benchmark — indeed a challenge — for undertaking future facilitation activity in APEC. The Shanghai Declaration states:

*“Leaders instruct Ministers to identify, by Ministerial Meeting in 2002, concrete actions and measures to implement the APEC Trade Facilitation Principles by 2006 in close partnership with the private sector. The objective is to realize a significant reduction in the transaction costs by endeavoring to reduce them by 5% across the APEC region over the next 5 years. Leaders also instruct Ministers to explore the possibility of setting objective criteria on trade facilitation, taking fully into account the diversity among the members as well as progress achieved in respective economies so far. Leaders also agree that assistance programmes to help build the capacity of developing economies in trade facilitation is particularly important”.*

(continued on page 6)

## APEC MEANS BUSINESS: Selected Achievements in Trade Facilitation

In 1995, the Osaka Action Agenda (OAA) outlined principles under which facilitation initiatives would be undertaken by APEC economies. Through Collective and Individual Action Plans in the “core” facilitation areas of Standards and Conformance, Customs Procedures, and Mobility of Business People; APEC economies have taken action to reduce the cost of doing business in the region. Some of APEC’s achievements in trade facilitation are:

### Customs Procedures with Business in Mind

Guided by “FACTS” (Facilitation, Accountability, Consistency, Transparency, and Simplification), APEC’s Sub-Committee on Customs Procedures (SCCP) has taken significant action to reduce transaction costs for APEC businesses.

- Through its support for the adoption of UN/EDIFACT in 11 APEC economies and its new Paperless Trading Program, SCCP’s technical assistance activities have helped customs authorities in APEC economies adopt faster clearance and inspection of goods.
- To assist members implement the WTO Valuation Agreement, the SCCP undertook technical assistance activities in five economies. This, together with helping APEC customs authorities adopt the 1996 and 2002 Harmonized System classification of goods and SCCP’s program on making Customs regulations more readily available, has resulted in greater simplification and transparency in customs clearance throughout the region.
- The SCCP is assisting APEC economies develop strategic plans and infrastructure for implementing risk management techniques in customs clearance. 16 APEC economies are participating in this program aimed at streamlining processes for goods that pose little or no threat so that resources can be used more effectively in areas of higher and unknown risks.

### Lower Cost of Trade in Electrical, Electronic, and Telecommunications Equipment

- Annual intra-APEC trade in Electrical/Electronic goods and Telecommunications equipment is in excess of US\$ 280 billion. Through APEC’s Electrical and Telecommunications Equipment MRAs, transaction costs associated with exporting products like computers, toasters, televisions, radios, power tools, phones, faxes, modems, and radio transmitters can be reduced significantly. It is estimated that the Telecommunications MRA alone will save 5% of the cost of new product development in the region, cut six months off the placement of new products in markets, and reduce marketing costs for new products by up to 30%. To date, 10 economies are participating in Phase I (Mutual Recognition of Test Reports), and five economies are participating in Phase II (Mutual Recognition of Equipment Certification) of this MRA.

### Mobility of Business People

APEC is making business travel much easier within the region. Through multiple entry visas, visa waiver arrangements, and Internet access to visa requirements, APEC economies have simplified business travel. Commencing in 1997 with only two participating economies, the APEC Business Travel Card (ABTC) scheme now has thirteen participating economies with 2000+ business people. With cards valid for three years, benefits of ABTC include fast-track entry and exit through special APEC lanes at major airports, and multiple short-term entry to participating economies without applying for visas.

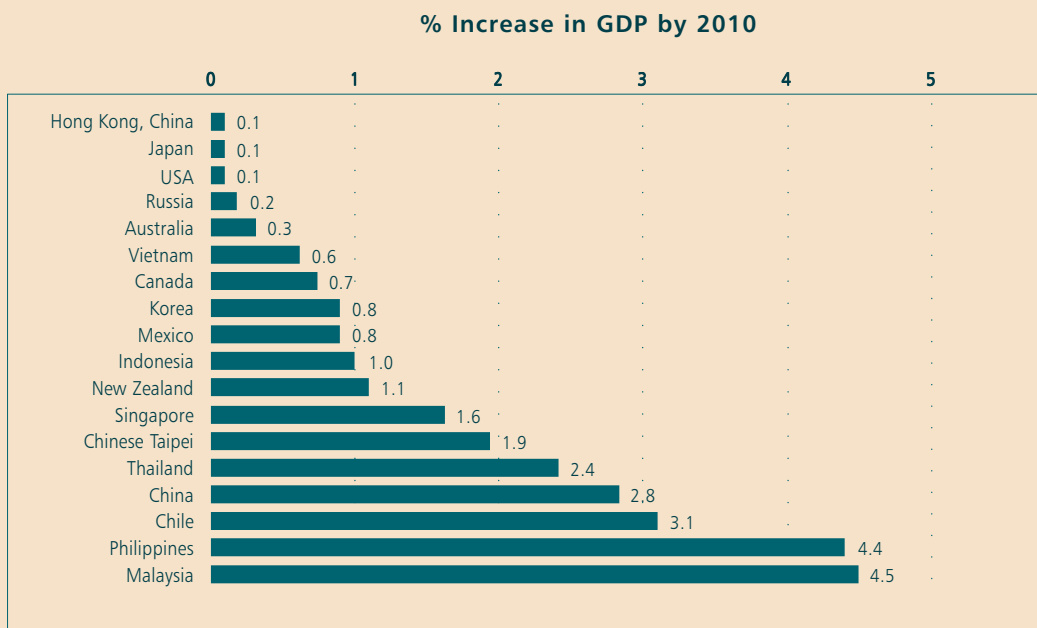
## THE ECONOMIC BENEFITS OF TRADE FACILITATION

The potential economic benefits of APEC’s work on facilitation are large. All quantitative estimates point in one direction — that intra-APEC exports and real incomes can increase substantially as a result of APEC’s work in trade facilitation.

The latest World Bank study, *The Economic Impact of Trade Facilitation Measures: A Development Perspective in the Asia Pacific* finds that by taking facilitation measures such as port logistics, standards harmonization, administrative transparency and professionalism, and e-business use in those APEC economies that are below the APEC average, and improving their performance halfway up to the APEC average, would increase intra-APEC exports by US\$ 280 billion. This represents an increase of about 10% in total intra-APEC exports.


This increased trade can result in significant income gains for APEC economies. The 1999 report of the APEC Economic Committee, *Assessing APEC Trade Liberalization and Facilitation — 1999 Update* found that APEC facilitation measures committed until then could expand the region’s income by US\$ 46 billion by 2010. 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 study also found that developing APEC economies would enjoy higher income benefits in percentage terms (see Chart 1 below).

**CHART 1: FACILITATION AND LIBERALIZATION**  
**Developing APEC Economies Show Greatest Income Gains**



Reducing transaction costs by 5% over the next 5 years will be a benchmark against which many if not *all* APEC activities in trade facilitation are evaluated. This transaction cost approach is also crucial to competitiveness in the region and has a special appeal to APEC businesses 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.”<sup>1</sup>

To meet the challenge, APEC officials have developed a *Trade Facilitation Action Plan* based on a set of nine *Trade Facilitation Principles*. These Principles provide an opportunity for APEC governments to work in close partnership with the business community. Indeed, principles such as transparency; simplification; predictability; the use of new technology, and others have direct and immediate relevance to business in the region.

Together, the Action Plan and Principles provide a comprehensive work program on trade facilitation. This work program is also unique to APEC’s institutional style — based on non-binding principles, characterized by consensus-based decision-making, and implemented voluntarily by APEC member economies. 



## 2 APEC'S TRADE FACILITATION PRINCIPLES

Any comprehensive facilitation program must be based on a set of organizing principles that guide policy-makers as they seek to reduce transaction costs for their importers and exporters. APEC's Trade Facilitation Principles provide a comprehensive framework that can be used to simplify procedural and administrative impediments to trade. Taken together, these Principles go beyond current international best practice in the facilitation area.

The idea of non-binding principles on trade facilitation was first suggested by Hong Kong, China at the Committee on Trade and Investment (CTI) Trade Policy Dialogue in August 1999. It was taken up at the 1999 APEC Ministerial Meeting, where Ministers instructed Senior Officials to further develop the proposal. An Ad Hoc Task Force on Trade Facilitation was subsequently set up in 2000, resulting in the adoption of APEC's Trade Facilitation Principles in May 2001. Appendix I describes how APEC's Trade Facilitation Principles can have a business impact.

To raise awareness of the Principles and share best practices in their implementation, a workshop was held in Bangkok, Thailand in August 2002, co-organized by Canada, Hong Kong, China, and Thailand. Business leaders and government officials discussed the relevance of APEC's Trade Facilitation Principles and how these could be implemented to the benefit of government, industry and consumers. Some examples of how they are being applied in various member economies are presented below.

### **Transparency, Communications, Consultations, and Cooperation**

These principles are at the centre of any sustainable facilitation program. Through consultation and communication with the business and trading communities, governments can ensure that APEC business becomes an integral part of developing streamlined, transparent rules and procedures.

A well-communicated and consultative process of developing rules and procedures will result in win-win situations for governments and business. Regulating agencies such as Customs win because they are confident that legitimate traders will use the new rules to conduct legitimate trade. Business wins because it is confident that customs administrations are there to facilitate the movement of goods and provide them with assistance in navigating the bureaucracy. Enhanced transparency also results in a reduction in corruption — a chronic problem that significantly increases transaction costs.

What can governments do to facilitate transparency, communications, and consultations? Providing as much information as possible on rules and procedures through

web-sites, e-notifications, etc. can greatly increase transparency; setting up customer consultation groups to collect views when new rules are being established helps to ensure that business has a say in the rule-making process — thereby ensuring that the rules themselves are sustainable.

Cooperation and transparency are especially important in a post September 11<sup>th</sup> context when security considerations may impinge upon the flow of goods and business people through international borders. In order to prevent this from happening, it will be increasingly important for APEC economies (especially customs administrations) to cooperate with each other by sharing data and intelligence and developing common procedures to ensure mutual confidence in customs integrity.

The Canada Customs Action Plan highlighted below shows how Canada has implemented these principles. In the area of cooperation between Customs Authorities, following the September 11<sup>th</sup> terrorist attacks, Canada also signed the Smart Border Declaration with the United States. The Smart Border Declaration increases cooperation between Canadian and US Customs by developing common procedures at international airports and seaports to enhance security while continuing to streamline land border trade to ensure commerce and tourism are not negatively impacted by increased security measures. This agreement also provides for the exchange of data and intelligence between US and Canadian Customs and Immigration agencies in accordance with APEC's Facilitation Principles.

## THE CANADA CUSTOMS ACTION PLAN

### Communications and Consultations in Action

Canada Customs has the joint mandate of enforcing Canadian customs laws to ensure border security while facilitating legitimate trade for the economic security of Canadians. Over the last decade, Canada has seen a massive expansion of international trade, investment, and tourism. Trade agreements such as NAFTA, Open Skies, and the Canada/U.S. Accord on our Shared Border, have created a huge North American market representing over 380 million people. More than CAD\$ 500 billion a year of cross-border trade, and more than 100 million travellers crossing Canada's borders each year. It is not surprising that this economic activity has had a direct impact on customs operations in Canada.

To respond to its mandate and the growing stress on Customs, the Canada Customs and Revenue Agency (CCRA) launched the new Customs Action Plan (CAP) in April 2000. In line with APEC principles, CAP is designed to improve trade facilitation through its focus on transparency, communication, consultation, and cooperation. In the lead-up to CAP, CCRA performed extensive consultations for nearly two years with its own staff, the trading and traveller communities, and stakeholders across the country. In addition, consultations also occurred with various federal government departments and provincial governments.

## Non-discrimination, Consistency, Predictability, and Due Process

Business hates uncertainty. Transaction costs are higher in economies where rules and procedures are discriminatory, applied in an inconsistent and unpredictable manner, and without regard to due process. The impacts go beyond simply transaction costs. Discriminatory, inconsistent, and unpredictable rules affect the sourcing of inputs for firms leading to investment and trade diversion. The administrative costs of certifying and verifying compliance with discriminatory rules not only affects firms but also increases the administrative burden of government. In the rules-of-origin area alone, for example, it is estimated that the cost of collecting, managing, and storing information needed for origin verification and administration in Europe equal about 3% of product prices.<sup>2</sup>

Together with principles like transparency, communication, and consultations; these APEC principles, if applied in good faith, will ensure that the foundations of any trade facilitation program are strong and sustainable. Indeed, many of the examples of APEC economies cited here strive to achieve results for businesses based on these two sets of principles.

Examples of steps that can be taken to implement these principles include promulgating “performance pledges” to ensure consistent and predictable service standards; developing codes of conduct that focus on impartiality and avoidance of conflict of interest; paying particular attention to salary, recruitment, and retention of customs staff; and introducing clear appeal provisions in legislation.

The plan attempts to streamline processes for low-risk travellers and trade while intensifying processes for those of higher and unknown risk. As a result of consultations with the trading and traveller communities, CAP is based on pre-approval, advance information, self-assessment, and contains a Compliance Improvement Plan that facilitates voluntary compliance while sanctioning those who do not comply.

CAP initiatives include: the Customs Self-Assessment (the quick release upon identification of driver, carrier, or importer and the streamlining of accounting using company systems); Advance Passenger Information and Expedited Passenger Processing Systems, and Administrative Monetary Penalties System (which largely replaces the use of seizure and forfeiture provisions for technical infractions).

**Source:** “Trade Facilitation and Increased Security: The Canada Customs Action Plan”. Presentation by Michael Jordan, Canada Customs and Revenue Agency. *Bangkok Workshop on Implementing the APEC Trade Facilitation Principles*. August 5-6, 2002.

### **Simplification, Practicability, and Efficiency**

A transparent and consultative process of developing rules and procedures would result in a simplified, practical, and efficient trading system that works for business. This could include such innovations as one-stop service centres to help businesses and business travellers navigate government bureaucracy, re-engineering of clearance procedures based on post audit systems, matching of good compliance with reduction in inspection frequency, mail-in and on-line business visa applications, and the use of advanced technology and automation to ensure that the clearance of goods and people takes place in the most efficient manner.

Such simplified and practical measures are especially relevant for Small and Medium-sized Enterprises (SMEs). SMEs constitute a more significant share of the business sector in developing economies than of developed economies. Trade impediments in turn typically constitute a larger share of SMEs' costs than of larger companies. Therefore, simplified and practical measures that cater specifically to the needs of SMEs have great potential in ensuring that reductions in transaction costs benefit the widest possible business sector in both developing and developed APEC economies.

### **Harmonization, Standardization, and Recognition**

Standards help to achieve multiple goals such as facilitating information exchange on products between producers and consumers, ensuring product quality, and providing public goods.<sup>3</sup>

Placing products in export markets can be prohibitively expensive for businesses because

## **SIMPLIFYING IMMIGRATION**

### **Hong Kong, China's Latest Initiatives**

Hong Kong, China's Immigration Department faced enormous pressures because of an exponential increase in the number of passenger throughput of Hong Kong over the past decade. Between 1991 and 2001, the number of travellers more than doubled from 69 million to 150 million. This occurred not only through the Hong Kong International Airport (which remains one of the busiest airports in the world) but also through land and sea traffic.

In accordance with APEC's trade facilitation principles, the Hong Kong Immigration Department has worked hard to simplify its immigration process. Through its Visa Waiver Scheme, citizens from over 170 countries can enter Hong Kong without a visa for a period of seven days to six months. This Scheme is constantly under review with the aim to further simplify the immigration process. For those travellers who do require visas, applications allow foreign citizens to apply for visas to Hong Kong directly as an additional option to applying through Chinese diplomatic and consular missions abroad.

Hong Kong Immigration has also been at the forefront of developing travel cards and passes for citizens of various APEC and non-APEC economies. These include the APEC Business Travel Card, the

of duplicate testing and certification requirements. Even if standards are equivalent and regulatory regimes similar, exporters are often required to have their products tested or certified in each economy to which they are exporting. This increases costs for manufacturers substantially. For products with a relatively short market life, like high technology IT, and telecommunications products, the additional delays associated with multiple product tests can severely impact exports.

This has significant cost implications for business. Product development costs increase because standards may not be similar in different countries. Inventory and placement costs increase because firms are not able to move products to markets efficiently. Marketing costs increase because of various technical labelling requirements.

The first step in reducing transaction costs for business is developing confidence in the certification systems of different countries. This can be accomplished through technical MRAs between national testing laboratories, inspection, certification, and accreditation bodies. This induces confidence in the next step – government-to-government MRAs that entail an obligation to recognize conformity assessments. However, like Free Trade Agreements, this approach can result in a “spaghetti bowl” of numerous bilateral and regional MRAs with discriminatory application of standards and technical requirements. Ultimately, therefore, the multilateral route of harmonizing standards provides the best possible avenue to substantially reduce transaction costs for business. However, as the Thailand case study below shows, this route is not without problems, as far as developing economies are concerned.

iPermit for residents of Chinese Taipei, schemes for mainland and overseas Chinese professionals, schemes for foreign guest workers and domestic helpers, and the HKSAR Travel Pass.

The Department has also focused on updating its computer system at immigration control points with a focus on security through Optical Character Recognition (OCR) software. It has also initiated an Automated Passenger Clearance system through the adoption of a new Smart-Card type Identity Card for regular travellers across the border with Mainland China.

The result has been shorter waiting times for travellers, expanded handling capacity at all border control points, and more efficient record keeping and information management. In 2000-01, 97.7% of the arriving passengers and 99.9% of departing passengers at the Hong Kong International Airport were cleared within 15 minutes.


**Source:** “Simplification Initiatives of Hong Kong Immigration”. Presentation by David Chiu, Immigration Department, Hong Kong, China. *Bangkok Workshop on Implementing the APEC Trade Facilitation Principles*. August 5-6, 2002.

## Modernization and the Use of New Technology

Combined with the above principles, the use of new technology to facilitate trade provides significant opportunity for transaction costs to be reduced. Here, action is not limited to governments alone. The spectrum for the use of modern technology is wide and starts with businesses themselves simplifying and computerizing existing internal workflows. By moving to simplified internal paperless transactions, businesses can achieve significant economies of scale. Every future internal transaction will occur with less paper, information management can be drastically improved, and time to market is reduced because of reduced internal processing times. All of this means that APEC businesses can better respond to their customers in a fast-paced trading environment.

The cost savings of B2B electronic commerce is also substantial and pervasive across manufacturing, industrial supplies, and services. Goldman Sachs estimates cost savings ranging from 10% in sectors such as aerospace, paper and steel, and communication bandwidth and media advertising, to more than 20% in electronic components and machining, forest products, and freight transport.<sup>4</sup>

The area of B2G and G2G electronic commerce also has substantial benefits for both governments and business. The use of Electronic Data Interchange systems for submission of cargo manifests has the potential to speed up the processing of shipments across borders for legitimate traders. When combined with sharing cargo data and manifests with authorities in other economies, clearance times can be reduced significantly for legitimate traders while at the same time ensuring customs integrity and border security.

Using modern technology for trade facilitation is not without problems. Computerizing existing workflows, while beneficial, can mean large fixed costs and staff confusion. It is, therefore, important to ensure that workflows are simplified *and* new procedures use modern technology for maximum benefit. For B2B and B2G electronic commerce, the constraints on the use of modern technologies arise from issues like interoperability between different systems in use in different economies, the legality of documentation transferred electronically, and the security of paperless trading. Finally, for B2G electronic commerce to work, it is crucial that G2G electronic commerce is fully operational. In other words, a facilitation program using modern technology needs to ensure that various government departments are fully integrated into the transaction process. 

## STANDARDIZATION FROM A DEVELOPING COUNTRY PERSPECTIVE

### The Case of Thailand

In a highly competitive trading environment, the Government of Thailand recognized the importance of voluntary international product standards in maintaining the competitiveness of Thai firms. It also recognized that the role of government is not one of controlling the standardization process but that of promoting the use of international standards by providing advice and assistance to the private sector in attaining these standards.

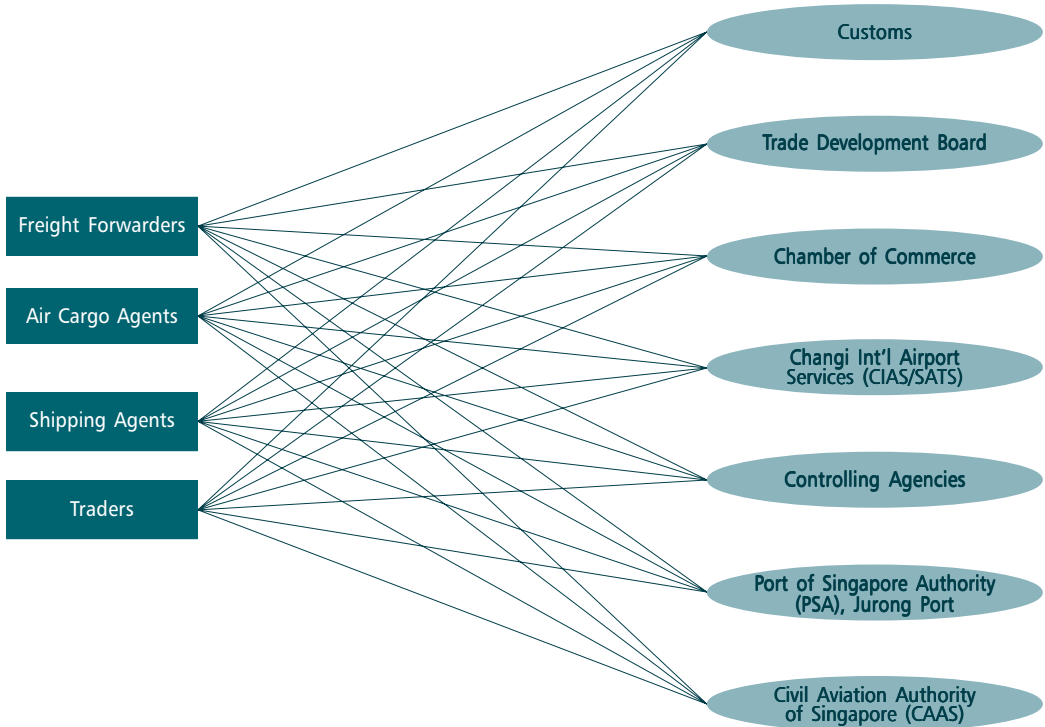
The Thai Industrial Standards Institute (TISI) has enabled Thai industry to adopt international standards through information sharing, providing Thai firms with assistance to upgrade their machinery, and improve their quality management to meet international standards. By reducing Thai-specific standards, TISI has moved substantially down the Harmonization and Standardization road. It has also promoted transparency by rapidly disseminating up-to-date information on Thai rules, regulations, and product standards.

Like many developing APEC economies, Thailand has also experienced some problems with the standardization route. International standard setting requires extensive participation by standards officials. It also requires significant infrastructure costs to implement new and old international standards. In tight budgetary environments, this can be a major constraint for developing country participation in the standard-setting and implementation process.

The constraints are not limited to budgetary and infrastructure requirements. In many ways, the international standardization process is itself dynamic and highly complex. Monitoring the technical regulations, proposed standards, and conformity assessment procedures in export markets and then conveying these effectively to Thai exporters has been a major challenge for TISI. Another has been increasing the interest of Thai businesses in the standard-setting process and getting them to participate in it.

**Source:** "Facilitating Trade by Putting the WTO/TBT Agreement in Practice". Presentation by Supachai Tepatanapong, Thai Industrial Standards Institute. *Bangkok Workshop on Implementing the APEC Trade Facilitation Principles*. August 5-6, 2002.

## BEFORE TRADENET



## SINGAPORE'S TRADENET SYSTEM

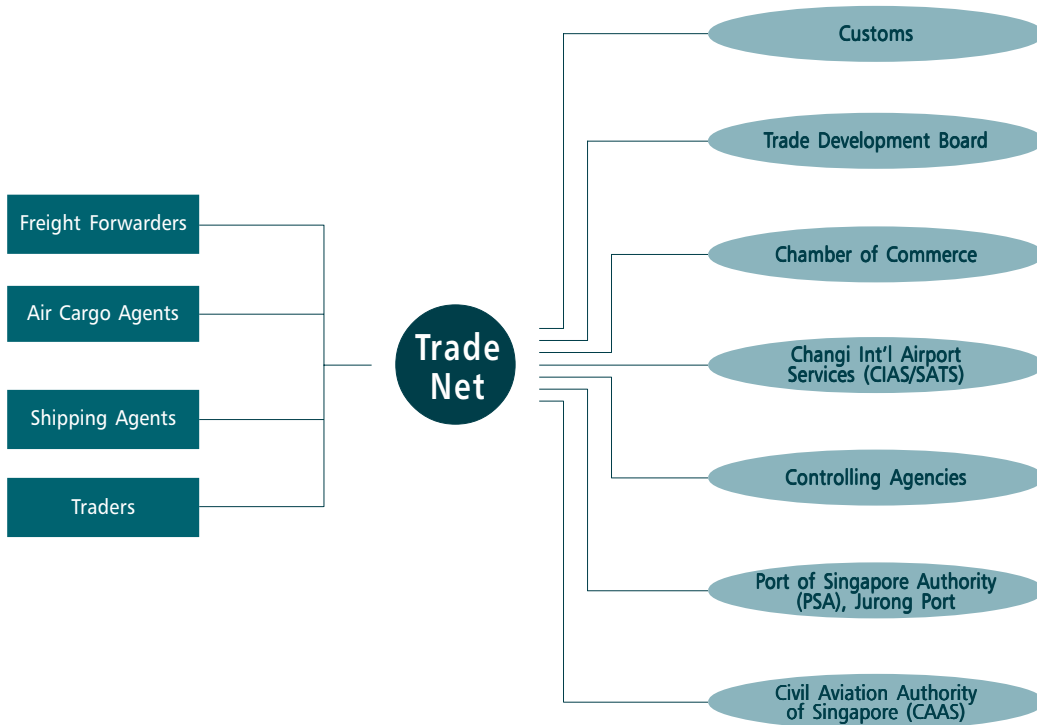
### Modern Technology at Work for Business and Government

TradeNet was the world's first nationwide electronic trade clearance system, initiated in 1989. Before its installation shipping agents, air cargo agents, traders, and freight forwarders were each required to *separately* process the necessary documentation associated with a trade shipment to 35 different government agencies and authorities. The number of separate documents involved ranged from 3 to 35 and the time it took to process these documents was anywhere between 2-7 days.

With TradeNet all necessary information and documentation is passed instantaneously from all traders and shipping agents, etc. to all government agencies and authorities concerned as one document through the use of a high volume host. Using TradeNet, importers and exporters gain access to all information, applications, and documentation necessary for trade while government departments can approve trade transactions on-line. It is estimated that TradeNet saves Singapore traders around US\$ 1 billion per year. With TradeNet, processing time, which averaged 2-7 days, was reduced to ten seconds or less.



## AFTER TRADENET



This B2G electronic commerce is fully integrated with a B2B application suite called TradePalette available to Singapore traders. TradePalette encompasses IT solutions for procurement, freight, finance, insurance, certificates of origin, and permits/licences (through TradeNet). Combined with TradeNet, TradePalette has proven to lower administration costs, reduce cost of shipment, minimize paperwork, and lower inventory costs for business. For example, purchase requisition processing expenses fell by 73% for businesses using the procurement applications of TradePalette. The overall outcome of these cost savings is business growth as a result of faster trade document processing and faster movement of goods to customers.

**Source:** "Harnessing IT for Global Trade Facilitation". Presentation by V. Mathiavanan, Crimsonlogic. *Bangkok Workshop on Implementing the APEC Trade Facilitation Principles*. August 5-6, 2002.

### 3 APEC EFFORTS IN TRADE FACILITATION

#### Capacity Building in the Development Context

A successful program of facilitating trade in any economy, developed or developing, is fundamentally based on actions of both governments *and* the business communities.

Action on trade facilitation is not limited to governments alone. In a global, highly competitive, and dynamic trade environment, businesses naturally tend to minimize their costs. Nonetheless, opportunities to reduce transaction costs can remain underutilized. Nowhere is this clearer than in the standards area where national standard-setting bodies throughout the world have a notoriously hard time engaging their business communities in adopting voluntary standards or even being interested in the functioning of standard setting at the national and international level.

Policy action entails a sustained and strategic commitment on the part of governments. It involves not only implementing *particular* measures but also commitment to wider reform in the “facilitation architecture”. For example, in the business mobility area, participating in the APEC Business Travel Card Scheme can result in improved conditions for mobility of business people into an economy. To get maximum impact, however, governments need to ensure that immigration officials are trained to process passengers quickly and courteously, that service codes are developed and followed at border crossings, and that modern technologies are used to intercept illegal movement of people so that legitimate business mobility occurs unhindered. All of this needs to occur in an environment where business people are confident in the recruitment, salary, retention and training of customs officials — that is, confidence in wider customs reforms.

#### Constraints of Developing APEC Economies in Implementing Facilitation Principles

The Bangkok workshop provided an opportunity for representatives from Peru, Thailand, and the Philippines to provide insight into the factors that affect developing APEC economies in implementing a comprehensive agenda envisaged by APEC’s Trade Facilitation Principles. These factors can be categorized broadly into three areas:

- **Political and Policy Commitment:** There is a need in developing APEC economies to ensure that whatever facilitation initiatives are undertaken, that they occur within the context of a comprehensive policy commitment by governments. Faced with severe budget constraints and multiple priorities in the most basic areas such as education and health care, it is often difficult for developing economy governments to see the role of facilitation issues as a priority item.

It is important here to note that officials from planning and finance ministries — often have the mandate to prioritize, coordinate, and fund government initiatives in all sectors. Therefore, without priority being given to wider facilitation-related reforms at the highest political and bureaucratic levels, particular facilitation initiatives of standardization bodies, immigration, or customs departments are likely to have minimal impact.

- **Donor Coordination:** Officials from developing APEC economies often work with numerous international funding agencies such as the World Bank, the Asian Development Bank, various United Nations and bilateral donor agencies, etc. Each of these Agencies have their own reporting requirements and priority areas that they would like to see funded. In instances of sector-wide programs, funding support can come from numerous donors, each with their own reporting requirements. In this context, it becomes a challenge for developing APEC economies to coordinate the activities of various donor agencies and reconcile donor priorities with their own.

- **Capacity Constraints:** Hardware and knowledge-building of officials in various trade facilitation areas is also important. The needs here are the most basic. Hardware requirements range from basic equipment needs like Optical Character Recognition hardware and software, information management systems linking immigration and security databases, internal and external IT infrastructure, and *even* faster desktop computers available to customs officials. In the knowledge-building area, representatives from developing economies highlighted such basic issues as English language training to allow customs and immigration officials to communicate better with their clients, providing on-the-ground training to customs officials on best practices in clearance procedures, and providing funding to standards officials to participate in international standard-setting meetings.

## The Role of International Organizations

All of this requires access to funding and technical assistance. Many international organizations are active in trade facilitation areas including the World Bank, the Asian Development Bank, UNCTAD, UNDP, UNESCAP, the World Customs Organisation, the OECD, and numerous bilateral donors.

The Bangkok workshop provided an opportunity for representatives from international organizations to present some of their initiatives in this area and highlight lessons learned from new approaches to capacity building in trade facilitation. Some of these lessons learned include:

- **Coordination for Trade Facilitation:** To provide technical assistance in trade facilitation, it has become increasingly important to draw on expertise that resides across the world. Long-term trade facilitation projects in developing economies are especially complex

undertakings. In the area of port logistics, for example, multiple government departments and layers of government could be involved, including Customs, Immigration, Ministries of Finance, Transportation, provincial and municipal governments, Port Authorities, Chambers of Commerce, etc. Project Financing could be provided by International Financial Institutions like the World Bank and Asian Development Bank, consulting expertise could be funded by multiple multilateral and bilateral donor agencies but resides in governments or the private sector, etc. In such a complex environment, coordination between donors and within economies becomes extremely important.

■ **Trade Facilitation linked to Development and Trade Policy:** Many representatives from international organizations made the point that Trade Facilitation issues are not properly understood by donor organizations and trade policy specialists. Within donor organizations, many do not fully appreciate the role effective customs administration can play in contributing to national development objectives. Business Mobility and Standardization issues are low on the priority list of donor agencies who tend to be focussed on various social and economic issues related to poverty alleviation. It will, therefore, be important for organizations such as APEC to raise awareness within donor agencies of the importance of facilitation for economic and private sector development in poorer economies.

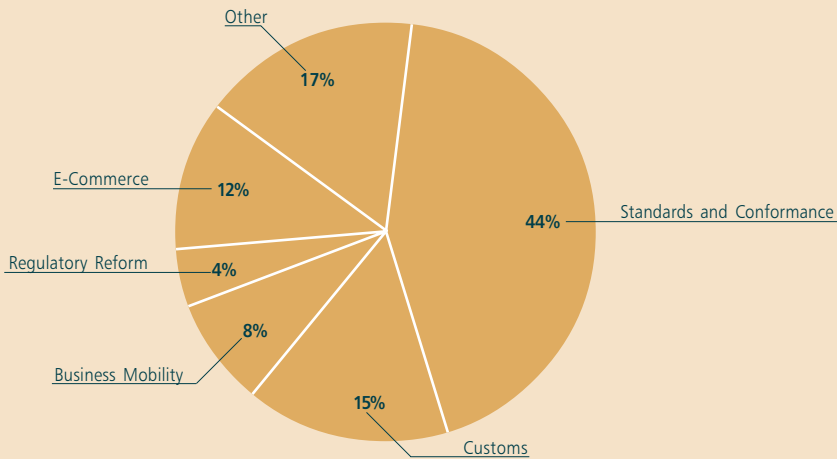
Amongst trade policy specialists, appropriate links between policy action in various areas and on-the-ground implementation are not drawn. For example, the proliferation of bilateral and regional free trade agreements and preferential schemes has resulted in a plethora of rules of origin and duty rates that create real strains on customs departments enforcing such rules. These problems are even more pronounced in the case of developing economies. Therefore, it will be important for organizations such as APEC to raise awareness of the downstream impacts of various trade policy stances on facilitation issues faced by business.

### **APEC's Efforts in Trade Facilitation Capacity Building**

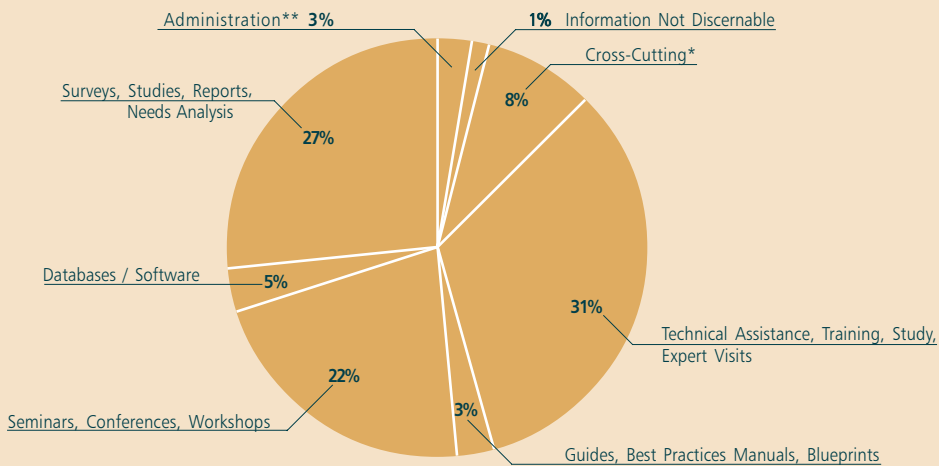
Between 1993 and 2002, spending on trade facilitation by APEC was US\$ 29.3 million for 243 projects representing 37% of total APEC project funding.<sup>5</sup> The average project size, therefore, was US\$ 121,000. In terms of distribution of funding, Figure 1 shows that Standards & Conformance activities accounted for 44% of expenditures, Customs (15%), E-commerce (12%), and Business Mobility (8%).

Figure 2 provides a summary of approaches taken by APEC in trade facilitation. The largest category was Technical Assistance, Training and Study/Experts Visits — representing 31% of APEC project activity. However, a large share of this activity was in the customs area. Excluding customs-related projects, we find that only 22% of APEC projects could

**FIGURE 1.**  
APEC TRADE FACILITATION ACITIVITY BY CATEGORY



**FIGURE 2.**  
APEC APPROACHES TO TRADE FACILITATION, NUMBER OF PROJECTS




Source: APEC Project Database

\* Cross-Cutting approaches use multiple approaches to deliver projects.

\*\* Administration refers to funding for travel of consultants or developing member participants, publication costs and other such administrative matters.

be classified as “technical assistance”.

It is clear from the above figures that, compared to other organizations, APEC’s funding for capacity building initiatives in trade facilitation is small. Unless there is a large increase in APEC’s budget, the organization simply does not have the resources to engage in large and long-term facilitation initiatives in its developing member economies. Therefore, one recommendation that follows from this analysis is that increased resources will be needed to help implement APEC’s Trade Facilitation Principles in its developing member economies (*see Chapter 4*).

At the same time, APEC’s strengths are in providing the political commitment and prestige to facilitation issues that are so important in ensuring that bureaucracies not only at the national levels but internationally move further in this area. As mentioned above, APEC’s Trade Facilitation Principles together with its Action Plan represent a comprehensive work program. Therefore, it will become important for APEC to maintain this momentum by providing resources to innovative programs and continue to provide political support to help achieve the Shanghai Goal. 

## 4 RECOMMENDATIONS FOR FUTURE APEC WORK ON TRADE FACILITATION

The Bangkok workshop provided an opportunity for APEC officials and private sector representatives to exchange ideas on moving APEC's facilitation agenda forward. A key document prepared by APEC officials is the Menu of Concrete Trade Facilitation Actions and Measures to be approved by APEC Leaders/Ministers in October, 2002 at Los Cabos.

In ensuring that these concrete actions and measures make a real difference for businesses, it will be important for APEC fora to remain focussed in areas where business transaction costs are the highest. The Shanghai goal of reducing transactions costs by 5% over 5 years can also act as an objective criterion against which APEC fora could rationalize their work programs to ensure a more direct link with practical business concerns in trade facilitation.

Recommendations at the Bangkok Workshop on how APEC can better achieve the Shanghai Goal include:

### **Urgent Need for Baseline Measures**

The Shanghai Goal is a modest one that is entirely within the reach of member economies. Even so, it will be impossible to say if the 5% target has been achieved by 2006 if there is no way of measuring changes in transaction costs. A key challenge for APEC, therefore, is the development of measurement tools for this particular challenge.

While it is unlikely that an aggregate measure of "transaction costs . . . across the APEC region" can be developed, there are a variety of thematic or sector-specific methods that can be usefully applied to the measurement of transaction costs. At the Bangkok Workshop, the Organisation for Economic Co-operation and Development (OECD) presented work done in this area ranging from inventories of business complaints to firm or transaction level surveys in particular sectors. The OECD is also co-operating in the "Template Project" which aims at measuring and comparing the regulatory costs of international trade across various sectors and countries.

Measuring transaction costs specific to one industry provides special promise for APEC. The automotive industry might be a good case study, given its highly integrated network of international production, relatively small number of producers, and the existence of an APEC forum on the automotive industry (the APEC Auto Dialogue). It can also provide a template that can be replicated for measuring transaction costs in other industries.

This kind of research would require the active participation of industry players, such as those involved in the APEC Auto Dialogue or in the APEC Chemicals Dialogue. ABAC can play a particularly useful role here by encouraging a wide range of industry groups to offer

their transaction cost estimates as baseline measures for the 5% target. For the Shanghai target to have any practical meaning, there is an urgent need to develop these baseline measures before the end of 2003.

### **IAPs Must Respond Specifically to the 5% Target**

APEC members should be challenged to identify in their IAPs specific actions that address the 5% target. These actions should respond directly to the baseline measures that are developed in the next year. This could mean a new reporting requirement in the IAP that is tailored to the trade facilitation action plan in general, and to the 5% target in particular. This reporting requirement can be assessed by an independent group of experts as part of the IAP Peer Review Process.

The advantage of taking this “across-the-board” measure is that it will provide business and policy-makers with a concrete mechanism to publicize and address the 5%/5-year question. More importantly, they can do this within the framework of their own domestic policy dynamic.

### **Need to Make Collective Action Plans Specific**

The current Menu of Concrete Trade Facilitation Actions and Measures builds on the work already underway in various APEC fora and is driven by various Collective Action Plan (CAP) goals adopted over the years. Established over the years by APEC as a mechanism to focus APEC’s work program in various areas, a CAP-driven approach ensures that facilitation issues are on the agenda of multiple APEC fora — each of which is striving to implement its own CAP-driven mandate. However, APEC’s focus on CAPs has some downside risks when it comes to achieving a specific target like the Shanghai goal.

One drawback of a CAP-driven approach is that its success is very much dependent upon the nature of the CAP goal itself. The diffuse nature of facilitation activities in APEC results in multiple CAP commitments. The vagueness of many CAP commitments results in varied approaches to implementing CAPs. Multiple fora then begin implementing these varied approaches based on vague commitments. In the end, it is hard to assess what the impact of this CAP-driven approach is on the barriers experienced by businesses and their transaction costs.

By making CAP goals specific and requiring APEC fora to show how their activities meet the 5%/5-year target would provide focus to the work within APEC. Further, for added focus and review, the Committee on Trade and Investment (CTI) could take on the role within APEC to prioritize and coordinate CAP goals and their implementation.




## Need for APEC to Participate in the Development Planning Process

In order to deal with the complexity of development cooperation, the vast majority of capacity building work undertaken in developing countries today takes place within the context of their own development plans and strategies. These instruments allow developing APEC economies not only to prioritize initiatives but also provide multilateral and bilateral donor agencies an opportunity to fund such initiatives in a coordinated manner and to influence policy-making.

Grounding APEC work in trade facilitation within wider strategies of developing APEC economies will have implications for how APEC approaches this issue in the future. First, it is clear that a one-size capacity building program based on CAP commitments or a menu of options may not fit all economies. APEC will, therefore, need to ensure that CAP commitments and Menu of Concrete Actions fit well within the priorities of developing APEC economies. Second, in addition to engaging officials at the sub-committee and working group levels, it will be important for APEC to engage officials from planning ministries — who often have the mandate to coordinate and fund facilitation initiatives in their economies. Third, there will be a need for APEC to engage more deeply with International Financial Institutions such as the World Bank and Asian Development Bank to help leverage APEC's small resources to maximum benefit. Finally, by bringing increased resources to facilitation programs, APEC can ensure that its Trade Facilitation Principles are implemented in coordination with much larger programs of other international institutions.

Engagement in development planning exercises does not require significantly different operating procedures within APEC while the potential pay-offs could be large. The CTI can engage in these planning exercises to ensure donor coordination and relevance of APEC CAP goals and activities to development strategies. One avenue could be for the CTI to hold annual consultations with officials from planning/finance ministries in developing APEC economies and multilateral/bilateral institutions to ensure that APEC efforts are coordinated with the wider development programming in these economies.

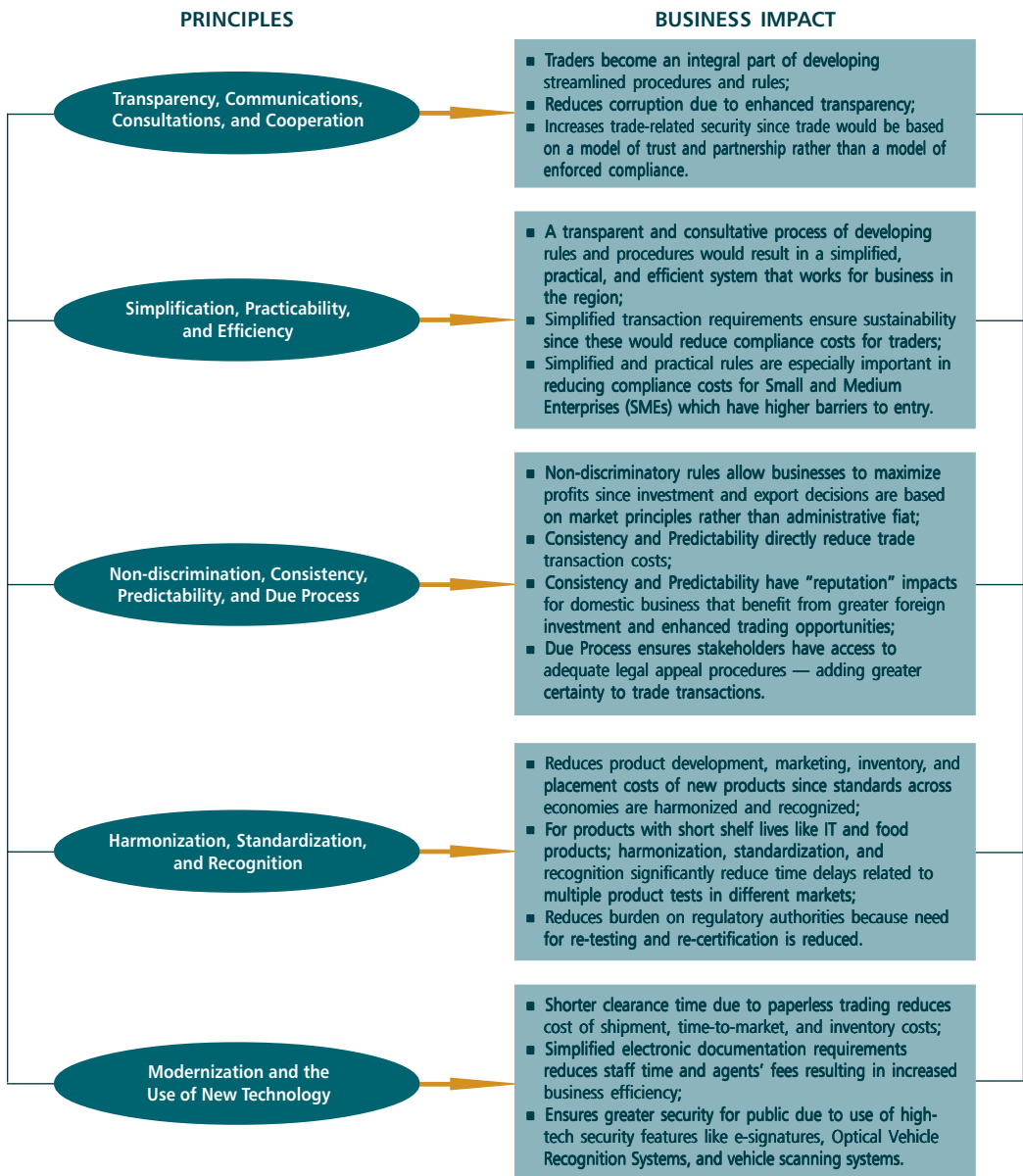
The advantages and synergies for APEC adopting these recommendations are many. By adopting industry-specific baseline measures and including the 5%/5-year goal within IAPs, APEC will create an on-going mechanism to evaluate progress toward the Shanghai Goal. A coordinating body that prioritizes APEC initiatives within the framework of development plans will ensure that APEC efforts remain focussed in specific sectors of priority to APEC economies.

Combine this with objective criteria set by APEC Economic Leaders in Shanghai, and we have an Action Plan that is strategic in its purpose, coherent in its approach, coordinated in its delivery, objective in its criteria, and based on the needs of APEC economies themselves. 

# APPENDIX I

## APEC'S TRADE FACILITATION PRINCIPLES

### A Comprehensive Framework



# APPENDIX II

## APEC'S TRADE FACILITATION ACTION PLAN

### Critical Time Path and Activities

ACTIVITY	APEC FORA/MECHANISM	TIMELINE
Development of APEC Trade Facilitation Action Plan and its Approval	<ul style="list-style-type: none"> <li>■ Senior Officials Meetings II, III</li> <li>■ Ministers Responsible for Trade</li> <li>■ APEC Economic Leaders Meeting</li> </ul>	OCTOBER, 2002
↓	↓	↓
IMPLEMENTATION	<ul style="list-style-type: none"> <li>■ Relevant APEC fora and sub-fora</li> <li>■ Collective Action Plans</li> <li>■ Individual Action Plans</li> <li>■ Pathfinder Approaches</li> <li>■ Capacity Building Initiatives</li> </ul>	2003 - 2006
↑	↑	↑
MONITORING <ul style="list-style-type: none"> <li>■ Setting Objective Criteria and Benchmarks</li> <li>■ Monitoring implementation</li> </ul>	<ul style="list-style-type: none"> <li>■ Relevant APEC fora and sub-fora</li> <li>■ Independent Monitoring based on baseline assessments and quantitative measures</li> <li>■ IAP peer reviews</li> <li>■ APEC MRTs, APEC Economic Leaders</li> </ul>	2003 - ONGOING

## NOTES

1. See Woo, Yuen Pau and Wilson, John (2000). *Cutting Through Red Tape: New Directions for APEC's Trade Facilitation Agenda*. pp. 7. Asia Pacific Foundation of Canada: Vancouver.
2. Garay, L.J. and Quintero, L.F. (1997) "Caracterización, estructura y racionalidad de las normas de origen del G3 y de la ALADI: Su relevancia en el caso de Colombia." *Inter-American Development Bank*, Division of Integration, Trade, and Hemispheric Issues: Washington, D.C.
3. See Wilson, John. (2002). "Standards, Regulation, and Trade" in *Development, Trade, and the WTO: A Handbook*. Bernard Hoekman et al. (eds.). World Bank: Washington, D.C.
4. See Mann, Catherine L. (2000). *Electronic Commerce and Trade Facilitation in APEC*. Prepared for Singapore Conference on "Trade Facilitation in the Asia Pacific: New Directions and the Development Challenge".
5. See *The Economic Impact of Trade Facilitation Measures: A Development Perspective in the Asia Pacific*. (2002). World Bank: Washington, D.C. In arriving at this figure, authors at the Asia Pacific Foundation of Canada researched APEC's Project Database—a comprehensive online database of project activities being undertaken by APEC fora. APEC's Project Database does not classify projects as "Customs" or "Standards & Conformance", etc. Therefore, APF Canada developed its own classification based on project descriptions to arrive at the overall figures.





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