

# Risk Management and Postentry Audit: Tools to Facilitate Trade

**D**eveloping customs control practices based on risk management is a key objective of the Central Asia Regional Economic Cooperation (CAREC) Trade Facilitation Program. With the rapid rise in the volume of trade and the limited resources of customs administrations, the traditional method of inspecting every consignment upon arrival at customs borders has become a barrier to trade.

Risk management offers a solution, enabling customs administrations to move from an approach that targets consignments to an audit-based control. An important part of this process is planning and conducting post-clearance audit activities over a defined period, usually 12 months.

To discuss these concepts, a Seminar on Risk Management and Postentry Audit was held in Shenzhen, People's Republic of China (PRC) on 7–10 June. This brought together customs officials from CAREC member countries, including customs deputy heads from Azerbaijan, PRC, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.

Aside from technical presentations and country experiences on risk management and post-clearance audit, field visits were conducted in Shenzhen's key customs points. The field visits demonstrated how automation and risk management enabled the Shenzhen Customs to clear each container truck in a few seconds and allow up to 98% of goods to pass through border crossings without physical examination. Participants also addressed issues related to data exchange and application of information and communication technology (ICT) to automate customs processes. The Uzbekistan Customs presented an ICT proposal for data exchange among member countries and a draft agreement to provide the legal basis for its adoption and pilot testing.

The discussions focused on the key conditions and initial steps to be taken to implement risk management.

**Promotion of informed compliance.** Introducing risk management-based customs control reflects a fundamental change in the role of government. Customs administrations are adopting a role as

facilitators of compliance with customs laws and regulations by traders and brokers. A change in the corporate culture of customs administrations from a “control mind-set” to “compliance facilitation” or “informed compliance” is essential for introducing risk management. Informed compliance can be promoted by combining audit; training; and communications with traders, their representatives, and other government agencies.

**Management leadership.** Implementing risk management involves not only cultural but also organizational changes such as creation of divisions in charge of intelligence, risk management, and compliance functions and investment in ICT infrastructure. These would not happen without the support and leadership of management.

**Structured approach for data review.** Risk management involves systematic collection and analysis of customs data and intelligence information to distinguish high-risk from low-risk cargos. A structured approach to data review is essential for timely assessment of data and regular update of risk profiles.

**Regional cooperation is another key.** Regional cooperation is crucial to effectively manage region-specific risks. Since most member countries are landlocked and rely on each other for transit trade, the member countries need to establish the legal basis and set up a mechanism for information exchange and manage risks related to transit movement. In this regard, the Agreements on Mutual Administrative Assistance was emphasized along with accession to the World Customs Organization Johannesburg Convention.



**RISK MANAGEMENT** Luohu Customs in Shenzhen. **KNOWLEDGE SHARING** (inset) Participants listen to the discussion on risk management mechanisms in Shenzhen

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# Kazakhstan and Uzbekistan Initiatives: Promoting Regional Cooperation and Integration

**N**ew initiatives have been raised to promote regional cooperation and integration in Central Asia. Uzbekistan President Islam Karimov suggested establishing a Central Asian Common Market (CACM). Kazakhstan President Nursultan Nazarbayev recommended creating a Union of Central Asian States (UCAS).

The Uzbekistan Government prepared a draft concept for the CACM that involves three stages: (i) setting up an effective free trade zone, requiring 3–4 years, during which countries in the region are considered to have acceded to the World Trade Organization; (ii) establishing a Central Asian customs union in about 5 years; and (iii) creating a common market to provide legal, economic, and institutional conditions for free movement of capital and labor, and fair competition, which will require 5–7 years after the completion of the second stage.

The draft concept on CACM was adopted by the heads of four Central Asian states—Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan—during the Central Asia Cooperation Organization Summit held in Dushanbe, Tajikistan on 18 October 2004.

The Government of Uzbekistan formulated a proposal on this initiative, which included (i) developing a common modality for creating a favorable investment climate; (ii) accelerating social and economic development of each member country; (iii) optimizing and rationalizing the utilization of natural resources; (iv) addressing problems that hinder trade and economic cooperation in the region; (v) implementing priority infrastructure projects; and (vi) involving Afghanistan gradually in the integration process in the region.

To develop the mechanisms for the CACM proposal, an intergovernmental working group was established, consisting of representatives of the above mentioned four Central Asia countries. It convened its first meeting on 24 February 2005 in Tashkent, Uzbekistan.

The initiative of creating the UCAS, as proposed by the Kazakhstan President, was first articulated at the joint session of Parliament Chambers on 18 February 2005 in Astana and at the enlarged board session of the Foreign Ministry of Kazakhstan on 7 June. The UCAS aims to achieve (i) gradual integration and coordination of actions in implementing economic reforms; (ii) formation of a free commerce zone, a

customs union, a common market of services and goods, capital, and manpower, and a common currency; (iii) stability and progress in the region; and (iv) economic, and politico-military independence.

The Government of Kazakhstan plans to undertake preparations on this initiative. A draft concept for the proposal is currently being developed based on the European Union model, and will be submitted to other governments in Central Asia for consideration.

As these developments gain ground, further progress in regional cooperation and integration in Central Asia is expected to be achieved. This could help reduce barriers to trade and investment, enhance connectivity, and accelerate economic growth of the region as a whole. ■

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Steps to implement risk management system. Risk management should start with identifying “baseline compliance” of traders and industries to determine the level of noncompliance that will be the target of a risk management system. Understanding the nature of noncompliance will determine the needed measures. If noncompliance relates to a lack of knowledge about newly introduced customs laws and regulations, the solution should more likely be training and effective communications with traders, rather than the imposition of penalties. On the other hand, incentives should be

provided to traders with good compliance such as less government intervention and fast-track clearance. Monitoring and reviewing compliance should also be regularly conducted since these provide key performance indicators.

Next steps for the CAREC Program. A major task will be training and disseminating risk management practices to customs officers in CAREC member countries, particularly those working at key customs border-crossing points. Focusing on in-country training and developing a guide on compliance management could be included in the Asian Development Bank’s future activities. ■

## Regional Events, July–December 2005

- CAREC Members Electricity Regulators Forum Meeting, 4–6 July, Beijing, PRC
- Seminar on Trade Facilitation and One-Stop Service, 27–29 July, Bangkok, Thailand
- 4<sup>th</sup> Meeting of Heads of Customs Administrations, 7–9 September, Ulaanbaatar, Mongolia
- 4<sup>th</sup> Transport Sector Coordinating Committee Meeting, 12–13 October, Bishkek, Kyrgyz Republic
- 3<sup>rd</sup> Trade Policy Coordinating Committee Meeting, 13 October, Bishkek, Kyrgyz Republic
- Preparatory Senior Officials’ Meeting on CAREC, 14 October, Bishkek, Kyrgyz Republic
- Forum on Regional Transit Development, October, Shanghai, PRC
- Regional Business Roundtable for Central and South Asia: Preparatory Meeting, 3–4 November, Bishkek, Kyrgyz Republic
- 4<sup>th</sup> Ministerial Conference on CAREC, 5–6 November, Bishkek, Kyrgyz Republic