

# **ASIAN DEVELOPMENT BANK**

## **Transit Development: Strategy and Action Plan for Regional Cooperation in East and Central Asia**

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## **I. INTRODUCTION**

1. International trade and transit facilitation are vital for the countries of the Region because of their relatively small-economy and land-locked nature. To overcome these economic constraints, the majority of the economies are liberalizing trade policy while striving to become a “transit country” to facilitate trade of neighboring countries. Currently transit movements in the Region are inhibited by multiple domestic factors and lack of regional cooperation. Major constraints include weak legal framework, complex and outdated border procedures and documentation, lack of coordination among the border agencies, lack of mutual recognition of customs control procedures and customs seal and stamps, weak private sector stakeholders such as transport and trade associations, inadequate transit and guarantee systems, and inadequate customs and transport infrastructure. These non-physical barriers are reflected in delays at border-crossings and at final points of clearance that significantly increase overall trade and transport costs.

2. Since these transit constraints reflect deep-seated development issues and challenges confronting the economies in the Region, there is no quick-fix or easy solution for improving transit conditions and development of a regional transit system. Therefore, the search for solutions on transit must be part of a broad and integrated regional strategy for trade facilitation and customs and transport modernization, involving (i) policy, regulatory, and institution reforms, (ii) modernization of customs and transport infrastructure, and (iii) regional cooperation. Within this broad strategic framework, a regional “action plan” is proposed to improve transit conditions and explore the possibility of development of a simplified regional transit systems to address specific transit needs in the Region. The action plan consists of a combination of country-specific initiatives and regional cooperation programs. The action plan will be finalized through extensive consultation with the DMC governments and customs and transport stakeholders to ensure (i) country ownership of the regional initiatives, and (ii) strong regional orientation of the country-specific programs. The paper will serve as a tool to consult with major development partners and improve donor cooperation in technical assistance. This action plan will complement a separate strategy proposal on transport development aimed at reducing high transport costs in the Region.

## **II. TRANSIT ARRANGEMENTS: ISSUES AND CHALLENGES**

3. The current transit arrangements consist of (i) bilateral and regional agreements; (ii) national transit systems; and (iii) TIR custom transit based on the TIR Convention.

4. To foster trade and economic cooperation, the countries in the Region have entered into a large number of agreements on transit. However, these arrangements are largely ineffective, have not been implemented or have limited impact as a framework for transit. Most of these agreements tend to serve as political statements and strategic intentions, outlining general policy and strategic goals.

5. Most of the countries have also developed national transit systems that cover movements between the borders, and between borders and inland customs offices. These national transit systems are based on individual countries’ customs legal frameworks and rest on two main pillars: customs control and guarantee measures. However, these national systems are not widely used because of high costs and difficulty to secure the relevant guarantees. Therefore, they are not attractive to traders and transporters. As a result, a significant proportion

of in-country transit movements are either subject to a customs convoy or have to be cleared at borders before moving to inland customs offices.

6. The TIR Customs Transit System is the only international transit system implemented in the Region. It is predominantly used for long-distance transits relating to movements to and from the Region but is rarely used for shorter distance movements for intra-regional trade or for transits to or from PRC or Mongolia. Presently, the advantages of the TIR System for inter-regional transit are compromised by two barriers: (i) physical barriers such as lack of traffic separation schemes and inadequate border processing facilities, and (ii) non-physical barriers such as complex customs procedures at borders, lack of recognition of international procedures for TIR vehicles, and poor governance.

7. With its high costs and limited benefits for short-distance movements, the TIR System is not the optimal transit solution for intra-regional trade, and its benefits for long-distance transit has not be fully realized. **The key issue is therefore how to build a regional transit system to facilitate short-distance intra-regional trade while at same time to improve the TIR Transit System to facilitate external trade with major global markets.**

8. Development of a simplified regional transit system is a key objective of regional customs cooperation under the Customs Cooperation Committee for East and Central Asia. Key challenges for developing a regional system include (i) mutual recognition of individual countries' customs control procedures, seals and stamps; (ii) development of regional "chain" guarantees, (iii) regional agreements on standardized transit documentation, (iv) vehicle certification requirements commensurate with the regional development circumstances; and (v) accessibility in terms of who can use the system.

### III. PROPOSED STRATEGY AND ACTION PLAN

9. The proposed strategic framework and Action Plan is given in Appendix 1. Within this broad strategic framework, this paper proposes a two-pronged approach to address transit issues in the Region:

- (i) **Short-Term Goal** - Improved implementation of the TIR System as the major international transit system operative in the Region in order to make its application fully compliant with the Convention and generate the expected benefits to stakeholders using the system; and
- (ii) **Medium-Term Goal** - Assistance in the development of a new transit system essential for promotion of intra-regional trade.

10. To achieve these goals it is essential to modernize the national Customs Codes and access to relevant international conventions to promote harmonization of the customs legal frameworks. The national codes need to be compliant with the requirements of WTO and the Revised Kyoto Convention. The priorities on accession to international conventions from a transit perspective are as follows: (i) PRC accession to the TIR Convention; and (ii) the remaining CARS, Mongolia and PRC to access to the Harmonization of Frontier Controls of Goods Convention.

11. Specific action to the achievement of these goals is summarized below.

**A. TIR Enhancement Program**

- (i) Support for establishment of the task forces in each customs administrations to identify constraints in the implementation of the TIR Transit System;
- (ii) Support for national forums involving stakeholders such as international transport associations, insurance and banks, freights forwarders and customs brokers associations;
- (iii) Preparation of a specific TIR action plans to resolve the constraints and fully implement the Convention containing both national and regional components;
- (iv) Support for increased participation in international forums on TIR, particularly the UNECE Working Party 30 and IRU meetings; and
- (v) Provision of training on implementation of the TIR Convention to border personnel to improve correct enforcement of the TIR procedures.

**B. Development of a Regional Transit System**

- (i) Examination of options, institutional arrangement, and funding requirement for the establishment of a chain guarantee mechanism to support a regional transit system;
- (ii) Assessment of the potential to integrate the current national transit systems to form a regional transit system;
- (iii) Evaluation of the EU Community System and its supporting New Computerized Transit System (NCTS) as a potential basis, with adaptation, for development of a transit system for this Region;
- (iv) Proposals for the operational scope of an ICT system to support a regional transit system; and
- (v) Preparation of an implementation plan for pilot testing of the transit system covering two countries in the Region; and
- (vi) Preparation of a regional transit agreement.

## STRATEGY AND ACTION PLAN FOR CUSTOMS AND TRANSPORT MODERNIZATION

Strategic Pillar	Action Plan <sup>1</sup>	Development Partners
Policy Support and Institution Reform	<ul style="list-style-type: none"> <li>• <b>Reform of customs and transport legal framework to be compliant with WTO requirements and the Revised Kyoto Convention;</b></li> <li>• <b>Ratification of the key international conventions related to customs and transport, particularly those addressing transit;</b></li> <li>• Reform of trade policy,<sup>2</sup> including accession to WTO;</li> <li>• Governance reforms, and institutional strengthening to improve transparency and efficiency of customs services, including those at border-crossings;</li> <li>• Reform of human resource management to reduce corruption and improve professionalism of the customs service and its officers;</li> <li>• Reform of border agencies aimed at simplifying border procedures and introducing integrated border management systems;</li> <li>• <b>Promotion of private sector development to support customs, particularly the banking and insurance sectors in providing transit guarantees; and</b></li> <li>• Promotion of private associations that interface with customs, such as the national transport associations, trade and customs brokers' associations.</li> </ul>	ADB, IMF, WB, EU TACIS, USAID, SPECA, UNDP, WCO
Customs & Transport Modernization	<ul style="list-style-type: none"> <li>• Modernization of customs procedures at borders to be compliant with best international practice and relevant international conventions (e.g., TIR, Harmonization of Frontier Controls of Goods and Revised Kyoto Conventions);<sup>3</sup></li> <li>• Modernization of Border infrastructure to expedite transit movements, such as separate “fast track” lanes for vehicles using established transit systems;</li> <li>• <b>Development of a regional transit system for intra-regional movements with a supporting guarantees and ICT control mechanisms;</b></li> <li>• Implementation of modern customs practices, such as the introduction of risk management and post entry audit to expedite clearance processes;</li> <li>• Development of road and rail infrastructure along key regional transport corridors to reduce transit costs through lowering average transit times;<sup>4</sup></li> </ul>	ADB, WB, EBRD, UNDP, EU TACIS-TRACECA, IDB, IRU, WCO National Development Agencies such as USAID, DIFD, KFW, JICA)

<sup>1</sup> Measures specifically related to transit are highlighted.

<sup>2</sup> Trade policy reforms are addressed in a separate paper.

<sup>3</sup> Partially being addressed by EU TRACECA Project “Harmonization of Border Crossing Procedures” but excludes PRC and Mongolia.

<sup>4</sup> This is addressed in a separate paper.

	<ul style="list-style-type: none"> <li>• Development of harmonized system of road permits, road tax and insurance for transit movements to reduce road transit costs;<sup>5</sup></li> <li>• Development of border management ICT system to link all the relevant border agencies to reduce duplication of data collection;</li> <li>• Provision and implementation of modern automated customs clearance systems;<sup>6</sup></li> <li>• Provision of special equipments and facilities (including dog training centers) to combat smuggling, drug trafficking and cross border movement of weapons; and</li> <li>• Development of intelligence systems to support implementation of risk management mechanisms.</li> </ul>	
Regional Cooperation	<ul style="list-style-type: none"> <li>• <b>Promotion of bilateral and regional agreements on transit;</b></li> <li>• <b>Enhanced cooperation with international transit bodies, such as UNECE and IRU;</b></li> <li>• <b>Measures to enhance regional recognition and enforceability of the TIR Customs Transit System;</b></li> <li>• <b>Approval of regional transit system, particularly of a regional guarantee system and its pilot testing;</b><sup>7</sup></li> <li>• Promotion of data and intelligence-sharing between regional customs organizations to combat illicit trade;</li> <li>• Support for piloting-testing of modern customs practices, such as joint-border processing;</li> <li>• Regional training and policy forum for sharing development experience; and</li> <li>• <b>Support for national task forces and forums on transit development.</b></li> </ul>	CCC, ADB, SPECA, WCO, IRU

Note: Transit specific issues in bold.

<sup>5</sup> Partially being addressed by EU TRACECA Project “Unified Policy on Transit Fees and Tariffs” but excludes PRC and Mongolia.

<sup>6</sup> A separate paper is prepared for this CCC initiative.

<sup>7</sup> A separate paper is prepared for this CCC initiative