

SOUTH ASIA SUBREGIONAL ECONOMIC COOPERATION

TRADE FACILITATION STRATEGIC FRAMEWORK

2014–2018



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TRADE FACILITATION STRATEGIC FRAMEWORK 2014–2018



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STRATEGIC FRAMEWORK FOR TRADE FACILITATION FOR THE SASEC PROGRAM 2014–2018

I. INTRODUCTION

1. The South Asia Subregional Economic Cooperation (SASEC) Program started in 2001, and comprises Bangladesh, Bhutan, India, and Nepal. SASEC was designed to be a project-based initiative at the onset, and although the take-off years were met with many challenges, it gradually gained momentum with the support of regional technical assistance from the Asian Development Bank (ADB). ADB's Regional Cooperation Strategy for South Asia, 2011–2015,¹ which was approved in December 2011, identified three priority areas for cooperation: (i) trade facilitation, (ii) transport, and (iii) energy.

2. The SASEC Trade Facilitation and Transport Working Group (TFTWG), which met in Bangkok (October 2011), Kolkata (March 2012), and Thimphu (November 2012), discussed priority activities, which included (i) a subregional trade facilitation program; (ii) cross-border road corridor and border infrastructure development; and (iii) technical assistance to support capacity building and institutional development for transport and trade facilitation. A SASEC Trade Facilitation Week was held on 25–28 March 2013 in Bangkok, Thailand, which had served as a platform among senior officials from SASEC countries, the Maldives, and Sri Lanka, as well as senior representatives of

relevant international organizations to exchange knowledge and information on (i) issues and best practices on trade and transit facilitation, (ii) primary constraints to trade facilitation, and (iii) practical measures to address these issues and constraints. On the last day of the Trade Facilitation Week, a SASEC Customs Subgroup was established to help prepare, formulate, and implement a strategy and road map for customs modernization/reforms.

II. THE IMPORTANCE OF TRADE FACILITATION

3. The priority accorded to trade facilitation reflects the countries' recognition of both its enormous challenges and potentials. South Asia is among the least integrated region in the world.² Bottlenecks in trade facilitation have been identified as the leading nontariff barriers (NTBs), which reduce intraregional trade in South Asia. SASEC countries generally rank low in the World Bank "league tables." In 2011 for instance, Bangladesh, Bhutan, and Nepal ranked in the lower half of the Doing Business Survey. They were classified as belonging to the "logistics unfriendly" countries in the Logistics Performance Index (LPI). India has been the exception.

¹ ADB. 2011. *South Asia: Regional Cooperation Strategy, 2011–2015*. Manila.

² World Bank. 2006. *South Asia: Growth and Regional Integration*. Chapter 9: Cutting Trade Costs and Improved Business Facilitation in South Asia: Estimating the Benefits of Reform. Report 37858–SAS. Poverty Reduction and Economic Management Sector Unit, South Asia Region.

4. Estimates of the impact of trade facilitation on trade flows, industry competitiveness, and overall welfare indicate that significant incremental benefits would emanate from improvements in trade facilitation. Recent modeling work for South Asia³ showed that: (i) the removal of tariffs have relatively lower impact on trade than for improvements in trade facilitation; (ii) trade facilitation reforms will have large impacts on South Asian countries' trade among themselves and the rest of the world; and (iii) lowering border costs will enhance greater outsourcing potentials for greater cost competitiveness and will impact significantly on intraregional trade such as in textiles and clothing in Bangladesh, and for the automobile and other manufacturing industries in India.

III. TRADE FACILITATION ISSUES

5. Trade facilitation in South Asia faces complex and numerous challenges. The major issues include cumbersome customs procedures, inadequate cross-border facilities, and limited and poor transport connectivity. Many of the trade facilitation issues are common across the SASEC countries, although their specific impact may differ at the national level due to differences in geography, legislative regimes, institutional capacities, and type of goods traded, among others. The main constraints tend to be concentrated in relation to the processing of import traffic where the “control” aspects are more prevalent. Key trade facilitation issues are listed below, and explained in Appendix 1.

Key Trade Facilitation Issues in SASEC

Customs:

- **Excessive documentation:** The overall volume of documentation required to obtain clearance remains to be a core problem resulting in higher transaction costs.
- **Inadequate implementation of modern customs procedures:** Customs' current approach to enforcement and compliance is still based on a combination of both physical and documentary control mechanisms that potentially conflict with modern customs organizations best practice.
- **Limited application of information and communication technology:** Despite the increase in information and communications technology (ICT) applications in customs operations, it is used primarily as a transaction recording system to generate a customs declarations database, rather than as a fully-automated processing system as envisaged under the Revised Kyoto Convention (RKC).
- **Lack of transparency on import-export requirements:** Low ICT capacity and usage, and the absence of trade portals and websites have hindered the more transparent dissemination of import, export, and transit requirements.
- **Weak compliance with World Customs Organization's Revised Kyoto Convention:** The slow implementation of modern customs procedures reflects in large part, the weak compliance with the World Customs Organization's (WCO) RKC.

Standards and Conformance:

- **Lack of compliance with technical standards:** Technical regulations, standards, and conformity assessment procedures vary between SASEC countries, compounded by the lack of a common or harmonized approach to using the correct standard and conformity assessment procedure to ensure compliance.

continued on next page

³ ADB. 2009. *Study on Intraregional Trade and Investment in South Asia. Chapter 2: The Role of Trade Facilitation in South Asian Economic Integration*. Manila. A gravity model and a Global Trade Analysis Project-based computable general equilibrium model was used to determine the effects of enhancing trade facilitation in South Asia on trade flows (by industry), regional integration, and macroeconomic performance, as well as the relative impacts of the various components of trade facilitation. The study was conducted with the support of the Australian Agency for International Development.

Box continued

Border Facilities:

- **Lack of adequate border facilities:** The logistics sector in South Asia is largely undeveloped, and generally suffers from inadequate transport infrastructure (road, rail, maritime, and air transport) and border infrastructure.

Transport Facilitation:

- **Lack of through transport arrangements:** One of the critical factors preventing SASEC from achieving its full trading potential is the absence of transport facilitation arrangements, although partial transit exists for landlocked countries such as Bhutan and Nepal.

Legislative, Regulatory, and Institutional Dimensions:

- **Need for legal and regulatory changes and reforms for trade facilitation:** SASEC countries each have unique legislative mechanisms that could affect the timing and effective implementation of trade facilitation initiatives.
- **Need for improved coordination among various stakeholders involved in trade facilitation:** Trade facilitation comprises a complex set of functions that involve multiple ministries and agencies, which makes coordination a significant challenge.

■ IV. CURRENT TRADE FACILITATION INITIATIVES

6. Trade facilitation in South Asia is currently being addressed through a number of initiatives at the national and subregional levels. Subregional initiatives pursued through the SASEC Program are supported by multilateral organizations such as the ADB, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), WCO, as well as by the Government of Japan.

7. In November 2012, the SASEC Trade Facilitation Program was initiated, supported by ADB through a budget support loan/grant of \$47.67 million—\$21 million for Bangladesh, \$11.67 million for Bhutan, and \$15 million for Nepal. The Program’s objective of enhancing the processing of cross-border trade will be pursued through three components: (i) the development of modern and effective customs administrations, which would focus on assisting

the three beneficiary countries in acceding to, and complying with, the provisions of the RKC, as well as helping them in applying WCO’s Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework); (ii) streamlined and transparent regulations and procedures, which involve the development and upgrading of automated customs management systems including the establishment of National Single Windows (NSWs); and (iii) improved services and information for traders and investors, which would involve the development of trade portals and the establishment of trade facilitation committees in each country. To complement the SASEC Trade Facilitation Program, ADB approved in August and September 2013, four technical assistance projects—one each for Bangladesh, Bhutan, and Nepal, and one regional—funded by the Japan Fund for Poverty Reduction for \$1.5 million each. The aim of these projects is to help (i) build capacity for customs reforms, (ii) carry out analytical work and provide policy advice on customs modernization, and (iii) promote customs cooperation and knowledge sharing among SASEC countries.

■ V. THE SASEC TRADE FACILITATION STRATEGY 2014–2018

A. Goals and Strategic Thrusts

8. The Trade Facilitation Strategy (the TF Strategy) for 2014–2018 builds on the gradual momentum of the past three years and harnesses the inertia of countries in forging ahead with many of the significant improvements needed to facilitate, and ultimately increase, trade in the subregion and with the rest of the world. The TF Strategy supports the mission of the SASEC Transport and TF Strategy “to promote the prosperity of the subregion by facilitating the efficient movement of trade across the borders.”

9. The goal for the trade facilitation sector for the period 2014–2018 is to increase intraregional trade through increased intraregional trade facilitation efficiency and a reduction of the time and costs to trade. The overall strategy is to elevate the practice and processes of border clearance to international standards and international best practices, including through automation. While trade facilitation is now taking a high priority at the national level, regional cooperation will further complement national action through the sharing of information and experience, and promoting joint and coordinated action.

10. The Trade Facilitation Strategic Framework will focus on five priority areas, namely: (i) customs modernization and harmonization; (ii) standards and conformity assessment strengthening; (iii) cross-border facilities improvement; (iv) through transport facilitation; and (v) institution and capacity building (Figure 1). The first priority area—customs modernization and harmonization—responds to key issues identified in the area of customs (Figure 2). The strategic thrusts to be pursued for each of these areas are given below:

Priority Area 1: Customs modernization and harmonization

- Strategic Thrust 1: Simplify and expedite border formalities to facilitate the movement for goods, vehicles, and people
- Strategic Thrust 2: Increase the application of ICT processing
- Strategic Thrust 3: Develop National Single Window system that would link all border agencies with the trading community

Priority Area 2: Standards and conformity assessment strengthening

- Strategic Thrust 4: Identify sanitary and phytosanitary (SPS)-sensitive commodities and strengthen National Conformity Assessment Boards

Priority Area 3: Cross-border facilities improvement

- Strategic Thrust 5: Establish logistics facilities and services at major trade ports to facilitate trade

Priority Area 4: Through Transport facilitation

- Strategic Thrust 6: Develop and pilot bilateral transport facilitation arrangements for through transport

Priority Area 5: Institution and capacity building

- Strategic Thrust 7: Enhance cooperation and coordination mechanisms among stakeholders in the trade facilitation environment.

11. The first two years of the TF Strategy will focus on the first priority area—customs modernization and harmonization—which

Figure 1. SASEC Trade Facilitation Strategy 2014–2018

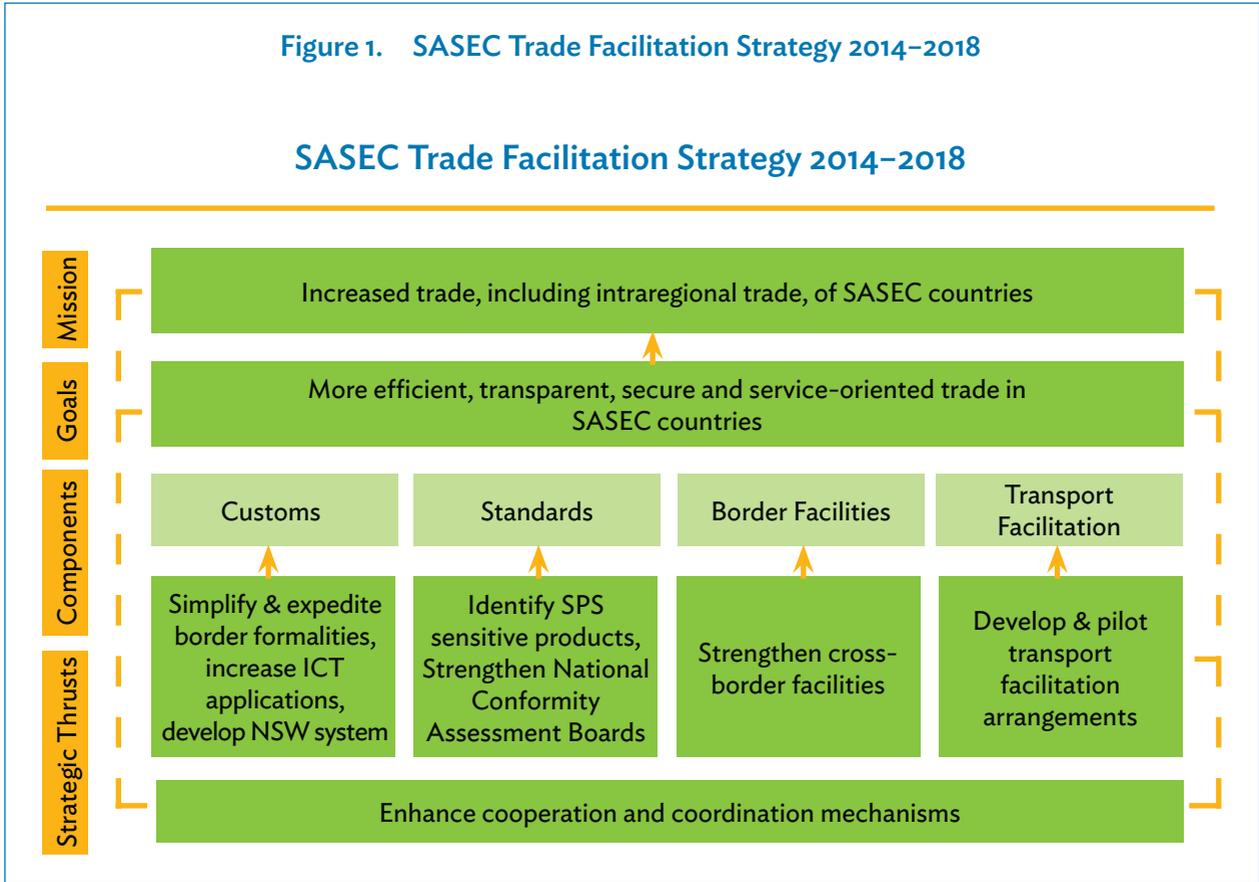
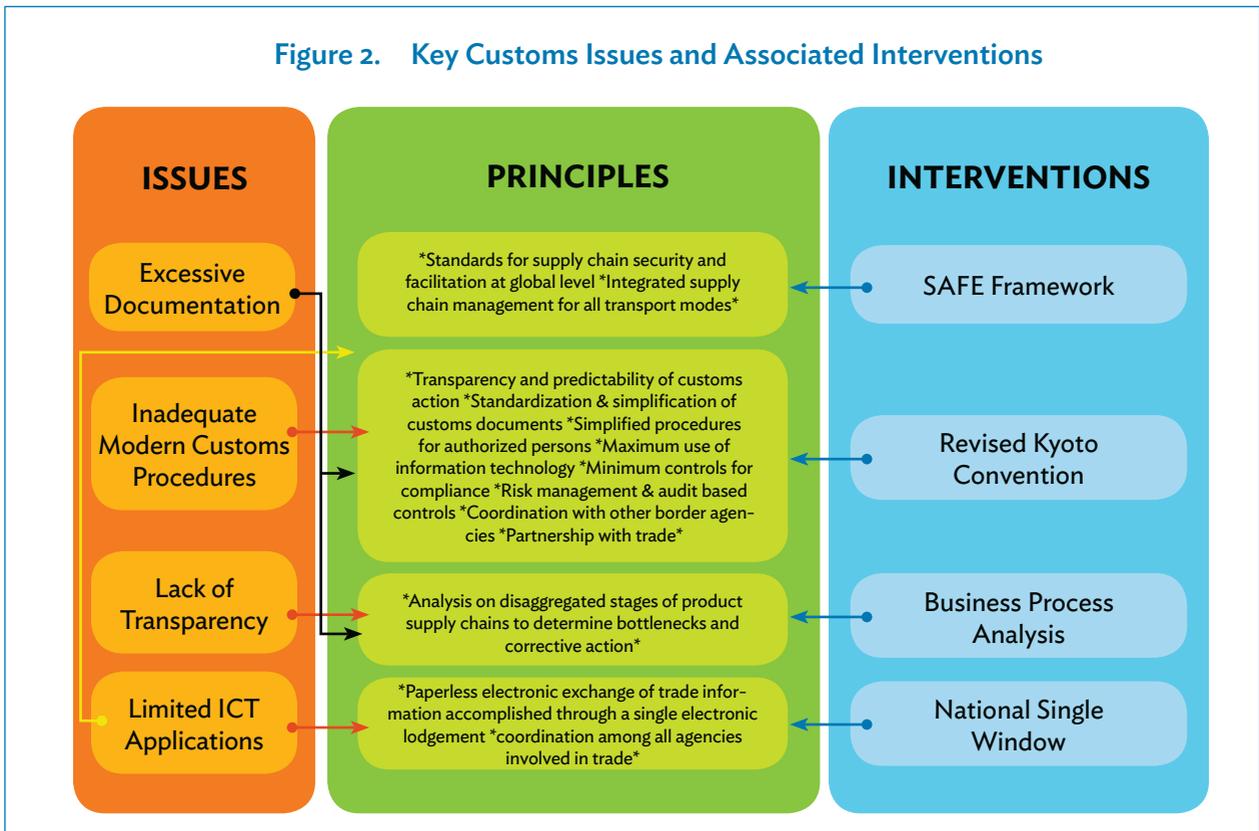


Figure 2. Key Customs Issues and Associated Interventions



has evolved from extensive diagnostic work on customs processes in the SASEC countries, as well as the fifth priority area, institution and capacity building. Similar diagnostic work in the other areas of standards and conformity, cross-border facilities, and through transport facilitation have been initiated and would serve as the basis for identifying concrete actions by the time of the Midterm Review of the TF Strategic Framework.

B. The Strategic Thrusts and Key Components

Strategic Thrust 1: Simplify and expedite border formalities

12. This thrust includes three components: (i) accede to the RKC, (ii) implement the SAFE Framework of the WCO, and (iii) reengineer business process and documentation.

(i) Accede to the RKC

13. All SASEC countries recognize the importance of the RKC as providing the international framework for the modernization of customs regimes. India and Bangladesh are contracting parties to the RKC, while Bhutan

and Nepal are preparing to accede. Although the countries are starting from different points, the shared goal is to have a common benchmark of modern customs processes that could ease the movement of bilateral and transit trade in the subregion, as well as with third countries. Accession to the Body of the Convention and the General Annex, and subsequently to the Specific Annexes will provide the first level of simplification and harmonization of customs procedures. Bhutan and Nepal are taking steps to address the legal, technical, and institutional requirements for accession.

(ii) Implement the SAFE Framework and AEO Scheme

14. SASEC countries will implement the SAFE Framework of Standards and the system of authorized economic operators (AEOs) as an early introduction of the risk management approach. The SAFE Framework and the system of AEOs are among the WCO tools to secure and facilitate global trade and promote the integrity of the supply chain and can be implemented by WCO members even before accession to the RKC. India is in the early stages of implementing the SAFE Framework and has a number of AEOs, focusing on third country trade via ports. The three other SASEC countries will take steps—

The Revised Kyoto Convention

The World Customs Organization (WCO) Council adopted the revised Kyoto Convention (RKC) in June 1999 as the blueprint for modern and efficient Customs procedures in the 21st century. Among the RKC's main principles are:

- transparency and predictability of Customs actions,
- standardization and simplification of the goods declaration and supporting documents,
- simplified procedures for authorized persons,
- maximum use of information technology,
- minimum necessary Customs control to ensure compliance with regulations,
- use of risk management and audit based controls,
- coordinated interventions with other border agencies, and
- partnership with the trade.

The RKC promotes trade facilitation and effective controls through its legal provisions that detail the application of simple, yet efficient procedures. The Revised Kyoto Convention entered into force on 3 February 2006.

The SAFE Framework

The SAFE Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework), adopted by the World Customs Organization (WCO) Council in 2005, aims to (i) establish standards that provide supply chain security and facilitation at a global level, (ii) enable integrated supply chain management for all modes of transport, (iii) strengthen cooperation between Customs administrations to improve their capability, and (iv) promote the seamless movement of goods through secure international trade supply chains.

The Framework consists of four core elements. First, the Framework harmonizes the advance electronic cargo information requirements on inbound, outbound, and transit shipments. Second, each country that joins the Framework commits to employing a consistent risk management approach to address security threats. Third, the Framework requires that at the reasonable request of the receiving nation, based upon a comparable risk targeting methodology, the sending nation's Customs administration will perform an outbound inspection of high-risk containers and cargo, preferably using nonintrusive detection equipment such as large-scale X-ray machines and radiation detectors. Fourth, the Framework defines benefits that Customs will provide to businesses that meet minimal supply chain security standards and best practices.

The system of authorized economic operators (AEOs) is an early introduction of the risk management approach under the SAFE Framework. The AEO is a party involved in the international movement of goods that has been approved by customs as complying with WCO or equivalent supply chain security standards. AEOs are entitled to minimum inspection and reduced data requirements to further expedite processing. The AEO system is designed to be implemented as national program and allows flexibility for countries to determine coverage (i.e., whether the entire supply chain or only portions of it) and orientation (i.e., whether for revenue or security). While there is no international program for the AEO, there are available templates the system could be covered by mutual recognition agreements in the case of cross-border trade.

among them legislative reviews and the design of limited pilot schemes—toward implementing these mechanisms as means to further expedite processing of border formalities even prior to their RKC accession. The SAFE Framework also offers the attraction and advantage of engaging the private sector as partners in securing the integrity of the supply chain. Gap analyses have already been conducted in three countries in January 2013 under the Trade Facilitation Program to determine the legislative and institutional requirements for implementing the two systems.

(iii) Reengineer Business Processes and Trade Documentation

15. Building on the Business Process Analysis (BPA) conducted jointly by ADB and UNESCAP in 2012, a project will conduct a business reengineering exercise on the documents presently required through the various stages

of the supply chain by way of addressing the excessive documentation issue. The BPA has provided important information on the rules of procedures and the number of documents involved at different stages of the supply chain for traded products transported along SASEC corridors, and should be able to provide inputs to the document audit process. These audits will be particularly important for the intra-SASEC importing countries of Bangladesh, Bhutan, and Nepal in terms of improving the efficiency of the import clearance process. Consultation with stakeholders on the documents to be reduced and simplified will accompany the document audits.

16. As the BPA has demonstrated its potential to generate a useful trade facilitation database, especially for planning the NSW, the scope of the BPA would be expanded to transit movements as well as shipments by air and rail.

Business Process Analysis

The Business Process Analysis (BPA) is a method that allows in-depth analysis on disaggregated stages of product supply chains to determine where the bottlenecks are in the different stages of supply chain. This will then be a basis for a more focused set of corrective actions. This is made possible by looking at the different actors, the rules and procedures, and the documents involved. The mapping of business processes is an important step to reengineer the business processes. Thus, BPA is recommended as the first step to be taken before undertaking other trade facilitation measures related to the simplification, harmonization, and automation of trade procedures and documents. The BPA complements other data sources by modeling business processes through an understanding of the attributes and relationships among those involved in the supply chain. Therefore, the BPA Study can generate a useful trade facilitation database that would support the SASEC trade facilitation framework, including the establishment of National Single Windows (NSWs).

An integrated transport and trade facilitation methodology that will link the time release survey, cost-time-distance survey, and the BPA would also be developed.

Strategic Thrust 2: Increase the application of ICT processing

(i) Upgrade to automated customs management systems

17. SASEC countries have made noteworthy progress in the automation of their customs processes and are taking further steps to upgrade and improve them.

- India has the Indian Customs EDI [Electronic Data Interchange] System (ICES) with full Direct Trader Input (DTI) capability.
- Bangladesh is using the Automated Systems for Customs Data (ASYCUDA)++ with similar DTI capability and mandatory electronic entries and has been implementing the latest version of the ASYCUDA system - ASYCUDA World.
- Bhutan is replacing its Bhutan Automated Customs Clearance System (BACCS) with the Revenue Administration Management Information System (RAMIS), which includes a customs management system component.
- Nepal is using ASYCUDA++ as a stand-alone system in a number of its border posts.

Over the medium-term, the goal is for Bangladesh, Bhutan, and Nepal to have the three upgraded ICT systems operational, together with the necessary legislation in place (i.e., allowing electronic signatures to replace manual signatures and changing the internal counter-signature protocols, using WCO data model, etc.). The next step is to expand the ICT applications nationwide and to gradually implement more of the automated processing modules to replace the manual processing content. Training programs will be implemented among the customs officials and the clearing and forwarding agents to ensure that manual processes are significantly reduced.

Strategic Thrust 3: Develop National Single Windows

(i) Plan for NSWs

18. The process of implementing the NSWs has commenced in SASEC, with the countries deliberately taking incremental steps to lay the groundwork for its eventual full implementation. India has established a pilot single window with the Quarantine and Food Standards Authority in April 2013. Bangladesh has agreed, in principle, to implement NSW and initiated legal changes to support NSW development, and Bhutan and Nepal foresee their current ICT plans as part of the NSW. Recognizing the complex processes involved in developing the NSW, SASEC countries

The National Single Window

A Single Window is a facility that allows parties involved in trade and transport to lodge standardized information and documents with a single entry point to fulfill all import, export, and transit-related regulatory requirements. If information is electronic, then individual data elements should only be submitted once.

A single window is made up from an organic mixture of the collaborative efforts of all of the parties involved in a nation's international trade activities. It uses the latest ICT techniques; and international data and messaging standards together with simplified, harmonized, and remodeled information systems for data exchange, in order to replace traditional paper-based information. It also deploys sophisticated rules and procedures for funding, governance, business and marketing models, planning, and project management, and for effective collaboration between all of the parties involved in the single window, at each of its stages.

are aware of the need to plan early and carefully, both the technical and institutional dimensions and engage all public and private stakeholders in the process. Basic planning of NSW systems, including the interface with the new ICT systems, and the required institutional framework will be conducted during 2014–2015. Identifying the ICT capacity of other border agencies and enabling them to integrate gradually into the NSW process will also be an important component of the preparatory process.

Strategic Thrust 4: Identify SPS-sensitive products and strengthen National Conformity Assessment Boards

(i) Identify SPS-sensitive products commodities

19. Key products seeking market access to SASEC destinations, and which are constrained by SPS and technical barriers to trade regimes would be identified and prioritized for purposes of upgrading quality standards and the requisite laboratory equipment and instruments. Bhutan, Bangladesh, and Nepal could focus on its exports to India and how to reduce the transaction cost of exporting there. Since conformity assessments are basically done bilaterally, the approach to addressing SPS barriers would be best undertaken on this basis. This should be followed by institution building that would include establishing the national

accrediting bodies for these items/sectors and the conformity assessment bodies.

(ii) Strengthen national conformity assessment boards through SARSO

20. In parallel with the product specific approach, the SPS environment will be enhanced through effective liaison with South Asian Regional Standards Organization (SARSO) established under the South Asian Association for Regional Cooperation (SAARC) framework. Established in 2011, SARSO formulates products standards and accommodates the active participation of local exporters. This would help strengthen national conformity assessment boards, which could lead to the development of mutual recognition agreements between SASEC countries.

Strategic Thrust 5: Improve cross-border facilities

21. Improving cross-border facilities in the SASEC countries would include enhanced access to e-commerce facilities, and more efficient cargo handling and logistics services at the ports. SASEC countries have initiated the construction of facilities at major trade points at the ports to facilitate trade. India is constructing Integrated Check Posts (ICPs) along its border with Nepal and has similar plans for its borders with Bangladesh and Bhutan. These ICPs will be

dedicated passenger and cargo terminals providing for passenger flows, cargo processing, cargo inspection sheds, warehouse and cold storage, a quarantine laboratory, and other services in a single complex. India also maintains several Land Customs Stations providing services for goods en-route. Bangladesh has identified as many as 14 land customs stations, and planned to upgrade facilities and modernize ICT infrastructure. Several land ports are also constructed with one-stop service, a number of which are under the build-operate-transfer arrangements. Nepal has constructed dry port facilities or inland container depots (ICDs) at key border points and is also planning the establishment of ICPs. Initiatives to construct more of these facilities will be pursued over the medium term.

Strategic Thrust 6: Develop and pilot bilateral transport facilitation arrangements for through transport

22. Providing transit and transshipment facilities to neighboring and other countries in proximity through all modes of transport has been a priority agenda for Bangladesh. Both Nepal and Bhutan have transit agreements with India, but there is no similar transport agreement between Bangladesh and India. Bhutan is currently working out a transit agreement with Bangladesh. There is no transport agreement between Bangladesh and India to allow vehicles in each other's territory, making the transloading of goods necessary in either side of the border.

23. SASEC countries recognize that a more comprehensive arrangement may be needed for intra-SASEC transit traffic. Technological solutions such as the Secure Cross-Border Transport Model developed by UNESCAP, are also being considered to track the location of vehicles carrying transit goods. These could be implemented on a pilot basis along SASEC corridors. Through transport arrangements based on legal agreements may be a long-term solution to address the absence of traffic rights exchange. In the meantime, in the absence of through transport arrangements, SASEC countries could develop and pilot simplified and streamlined procedures at border crossings, including efficient transshipment and trailer and container swaps to reduce the time and cost of cross-border transport of cargo at the priority border crossing points.

Strategic Thrust 7: Develop and enhance institutional and human resources capacity

(i) Establish and/or operationalize trade facilitation committees

24. Trade facilitation committees, as a vehicle for collaborative action in trade facilitation by various stakeholders, would be established and operationalized taking into account the unique circumstances of each country. Broad-based representation in these committees would be

The Secure Cross-Border Transport Model

The Secure Cross-Border Transport Model developed by UNESCAP uses technologies such as global positioning systems, cellular communication systems, geographical information systems, radio frequency identification, advanced web based software(s), electronic seals, and computer network to provide a conceptual basis for design of the system, which can be used to facilitate cross-border transport while addressing the pressing concerns of the control authorities.

The model provides standardized technical solutions to enhance confidence of control authorities on cross-border transport of goods and vehicles, and suggests necessary institutional arrangements to support the combined application of new technologies.

crucial, and should include, apart from the relevant government agencies, the chambers of commerce, the freight forwarders' associations, clearing and forwarding agents, and shipping agents' associations, among others. These mechanisms would provide a permanent framework within which agencies and other stakeholders can come together to find optimal solutions to balance control and facilitation of trade and transport. The challenge is to make these committees effective, productive, and sustainable in the long run. These would depend in turn, on their legal mandate, leadership, institutional capacities and resources at their disposal. Having a "champion" for trade facilitation would also be ideal in providing a unified strategy and direction for national trade facilitation. In addition, coordination among border agencies need to be stepped up so that they do not work in isolation from each other, but instead work as a team to deliver more efficient service.

(ii) Establish and enhance trade portals

25. To increase compliance levels with trade documentation requirements, SASEC countries would develop or improve existing trade portals as the means of making transparent, all the relevant laws and regulations. The trade portals would make available electronically, all import and export requirements and other relevant information and data to facilitate compliance by traders. With well-functioning trade portals in all SASEC countries, a SASEC subregional trade portal that is linked to a SASEC single window could be considered as a next phase.

(iii) Build capacities linked to operational changes

26. A holistic approach to trade facilitation would require the capacities of all concerned agencies to be strengthened so that they can effectively meet the demands of new systems and processes. Capacity building for border agencies would need to be linked more directly to organizational and operational changes required by the implementation of international

conventions, agreements, and systems. Their levels of ICT capacities would also need to be upgraded as part of the strategy to increase the automation processes that are essential building blocks for the implementation of integrated border management and the NSW.

27. The Trade Facilitation Strategy 2014–2018 embeds the components of the ADB-assisted SASEC Trade Facilitation Program Loan/Grant—the development of modern customs administrations, streamlined and transparent regulations and procedures, and improved services and information for traders and investors—and builds on them through complementary initiatives. For instance, to complement the Trade Facilitation Program's focus on the accession to the RKC and its attendant requirements, the TF Strategy would undertake a documentation audit as an initial step to eliminate redundancy in the documentation requirements for clearance (under Strategic Thrust 1). The TF Strategy also places emphasis on the role of other border agencies and the need to build their capacity in parallel with, and to support, the customs modernization process. Finally, while the Trade Facilitation Program is directed toward the needs of the smaller SASEC countries, the TF Strategy also addresses the challenges faced by India in its continuing efforts to upgrade and refine its trade facilitation systems and harnesses the country's wealth of experience by tapping it as a resource for knowledge sharing with other SASEC countries through the modality of South-South cooperation.

VI IMPLEMENTING THE TRADE FACILITATION STRATEGY

A. Guiding Principles

28. The implementation of the TF Strategy will be guided by six principles that have also guided the overall implementation of the SASEC Program: (i) country ownership that engages all stakeholders taking part in the trade

process, (ii) pragmatism and results-orientation, (iii) flexibility and responsiveness to the needs of member countries, (iv) open cooperation with SASEC's neighboring countries, (v) participation and involvement of the private sector, and (vi) development partnership in working toward shared goals.

- a. **Country ownership.** A commitment to country ownership and country-driven approaches will ensure the effective implementation of the TF Strategy. Building strong commitment will require all stakeholders to fully appreciate the benefits of trade facilitation measures that are essential in balancing the objectives of control, revenue-generation, and facilitation. The principle of country ownership should, therefore, be understood in the broader context of the “trading community” within the county—involving not only government, but also traders, logistics and other services providers, clearing and forwarding agents, and all other actors that play a role in trade.
- b. **Pragmatism and results orientation.** The initiatives under the TF Strategy will focus on practical and implementable initiatives that address the most pressing constraints and are achievable within a realistic timeframe. This approach will ensure that project goals are specific, measurable, attainable, relevant, and time-bound.
- c. **Flexibility and responsiveness to the needs of its member countries.** The wide diversity in the membership of SASEC necessitates a differentiated approach in the design and delivery of program and project interventions. Flexibility and responsiveness to the needs of member countries will contribute significantly to highly beneficial outcomes. Interventions may involve only a subset of SASEC countries to which the issues being addressed apply.
- d. **Open cooperation with SASEC's neighboring countries.** Trade facilitation initiatives extend beyond the institutional

boundaries of the SASEC Program and will be open to SASEC's neighboring countries to widen the impact of activities and as a means to further stimulate regional trade. Capacity building activities in particular will be extended to other countries in the South Asia region, and, possibly, Myanmar.

- e. **Participation and involvement of the private sector.** The participation and involvement of private stakeholders will be critical to the effective implementation of trade facilitation initiatives. The private sector as a source of investments and innovation should be engaged meaningfully as a partner in the provision of the requisite infrastructure and services for trade facilitation.
- f. **Partnerships with development partners.** The TF Strategy will serve as a platform for mobilizing resources, not only from the SASEC governments, but from multilateral institutions and the private sector. Recognizing several areas where programs and activities of multilateral institutions and other international organizations can overlap, coordination of financial and technical assistance in support of trade facilitation initiatives will be crucial. ADB, as SASEC Secretariat, and guided by the SASEC countries, will regularly coordinate with bilateral and multilateral agencies, that are active in supporting trade facilitation activities in the subregion.

B. Two-Track Process

29. Developing and implementing program priorities to address diverse trade facilitation issues would take place in different settings. Not only are the four SASEC countries different in terms of their progress in introducing modern trade facilitation practices, but the issues and measures to address them would have more impact or relevance to some countries than others. Two countries, India and Bangladesh, are more oriented toward facilitation of goods arriving or departing by sea, whereas Bhutan and Nepal are predominantly focused on land-

based trade, much of which is moving under bilateral trade agreements. Simplification of customs documents will have to take these two different situations into account. The customs administration in India is a large, well-funded organization; this is not the same case in Bhutan and Nepal, and to a lesser extent Bangladesh, which have more limited fiscal and human resources in comparison. The pace and level of customs automation will likely reflect these differences.

30. While the issues addressed in the TF Strategy converge broadly in a number of key areas, the measures to address them will differ in each of the four countries. The implementation of the TF Strategy will, therefore, follow a two-track process where subregional issues of common interest are discussed at the SASEC program level involving the participation of all countries, but where individual countries take action based on their unique circumstances and needs. The program-level discussions would inform national action by providing a venue for the sharing knowledge and experience, and coordinating the scope and sequence of activities.

31. The Trade Facilitation and Transport Working Group (TFTWG) will play an important role in driving subregional approaches in trade facilitation, and the requisite developments in transport infrastructure that would enable this to happen. Since not all of the relevant implementing agencies can be represented at the TFTWG, and in view of the importance of their taking ownership and accountability for specific initiatives, subgroups, such as that which has been established for Customs, are envisaged to be at the forefront of action. The establishment of a subgroup on standards and conformity assessment would be considered.

C. South-South Cooperation

32. The South-South cooperation modality will be applied to harness the knowledge and resources of India, as the most advanced country in

the subregion, in assisting other SASEC countries to implement trade facilitation initiatives. South-South cooperation offers solutions that are closer to home, relevant and grounded in reality, and, therefore, are solutions that may have a greater chance of succeeding. Such solutions can also be more affordable, and yet provide high-quality support and capacity development. South-South cooperation and peer-to-peer learning in SASEC can be relevant, effective, and efficient with good chances of success and sustainability. South-South cooperation would thus be a good complement to North-South cooperation.

■ VII INDICATIVE MEASURES

33. The indicative set of measures for pursuing the TF Strategy is listed in Appendix 2. This indicative list is intended to serve as a starting point for building consensus on achievable targets and milestones, and formulating the accompanying Work Plans in each of the five priority areas under the overall guidance of the TFTWG. The SASEC Customs Subgroup would be responsible for formulating the Work Plan to implement the Strategic Thrusts in the area of customs modernization and harmonization, as well as for coordinating and monitoring its implementation. ADB, as SASEC Secretariat, and guided by the SASEC countries, would establish the appropriate mechanisms for developing the Work Plans in other areas of the TF Strategy. The Work Plans would be reviewed and updated regularly.

34. As reflected in Appendix 2, it is envisaged that within the period covered by the TF Strategy, Bhutan and Nepal would have acceded to the Body of the Convention and the General Annex of the RKC, such that a common benchmark of the first level of customs simplification and harmonization would be in place in the SASEC subregion. Pilot schemes for SAFE Framework are also targeted to be in place, thus laying the groundwork for the full implementation of the

SAFE Framework. Reengineering of business processes and trade documentation would have been expanded to air and rail transport by 2018.

35. Customs automation is a continuing process and its effective and timely implementation would have an important bearing on longer-term initiatives such as the NSW. The Strategy's objective is to ensure that Bangladesh, Bhutan, and Nepal upgrade their existing ICT systems and expand ICT applications toward full automated processing of customs transactions by 2018.

■ VIII RESOURCE MOBILIZATION

36. The implementation of the TF Strategy will be funded from internal resources of the SASEC countries as well as from bilateral and multilateral resources. Multilateral institutions that are currently actively engaged in SASEC's trade facilitation initiatives, namely the ADB, UNESCAP, and WCO are committed to continue providing financial and technical support for the implementation of the various initiatives, as well as mobilizing other resources earmarked for regional projects, and would closely coordinate with each other. They will also help countries generate private sector interest and participation in the trade facilitation initiatives. Increased engagement with development partners would be pursued to further enhance resource mobilization for the SASEC TF Strategy in a more coordinated and effective manner.

■ IX MONITORING PROGRESS AND RESULTS

37. The results orientation of trade facilitation initiatives is important in providing the motivation and momentum to implement the necessary improvements and to clearly demonstrate to stakeholders the positive changes that are taking place. The concrete action plans to be developed to implement the strategic thrusts would need to have clear and measurable goals and a set of indicators to monitor progress and gauge outcomes. The results framework will be developed once the TF Strategy becomes operational. Baseline studies on outcome indicators will be conducted and appropriate targets determined for a consistent and regular monitoring and assessment of results.

38. A Midterm Review of the TF Strategy will be conducted in 2016 to take stock of progress made and to align activities with developments encountered in the course of implementation. The Midterm Review will also provide the opportunity to refine the Strategic Thrusts, especially in the areas of standards and conformity assessment, cross-border facilities, and transport facilitation. The strategic thrusts will be reviewed annually by the SASEC Trade Facilitation and Transport Working Group, and adjusted accordingly based on progress made, funding availability, and emergence of high priority issues in any of the five priority trade facilitation areas.

APPENDIX 1: TRADE FACILITATION ISSUES IN SASEC

A. Customs

1. **Excessive documentation.** Among the various components of trade facilitation, customs operations and administrative capacity at the borders have had high and statistically significant impacts on trade flows. Excessive documentation (including multiple copies) is required by port, customs, immigration, quarantine, and security (CIQS) organizations to confirm that a shipment complies with the national import, export, or transit regulations. In some cases, supplementary product-specific or country-specific documents are also needed. The Doing Business Survey 2011 estimates that it takes 27 days to complete trading procedures when exporting a standardized container cargo in South Asia, and for imports, 29 days. The overall volume of documentation required to obtain clearance, rather than its format, remains to be a core problem resulting in higher transaction costs with an average of eight document forms to export and nine to import, plus copies. In some cases over 50 originals and copies are required to complete a clearance.

2. **Inadequate implementation of modern customs procedures.** Modern customs procedures that feature risk management, audit-based controls, and advanced rulings—techniques designed to significantly reduce inspection and examination levels—have been slow to implement. Customs' current approach to enforcement and compliance is still based on a combination of both physical and documentary control mechanisms that potentially conflict with modern customs organizations best practice. While capacity building activities have made most Customs organizations familiar with the concept of modern customs techniques, this awareness has rarely been translated into implementation on account of legal, administrative, and capacity constraints.

3. **Limited ICT applications.** Despite the increase in information and communication technology (ICT) applications in customs

operations, it is used primarily as a transaction recording system to generate a customs declarations database, rather than as a fully automated processing system as envisaged under the Revised Kyoto Convention (RKC). The capacity of an ICT system may not be fully utilized because only the transaction recording modules are used, thus resulting in both automated and manual systems operating in parallel. As such, ICT applications by Customs has not necessarily resulted in any significant enhancement of clearance times nor reduced the number of supporting documents. Moreover, the significant growth in the application of customs ICT systems in SASEC has not been matched by parallel levels of automation in the other organizations involved in trade facilitation. While customs automation has driven the standardization and harmonization of document formats, this has not been the case for other government agencies, including those covering sanitary and phytosanitary (SPS), and veterinary and standards certification, where the degree of standardization is significantly lower.

4. **Lack of transparency on import-export requirements.** Low ICT capacity and usage, and the absence of trade portals and websites have hindered the more transparent dissemination of import, export, and transit requirements. Among the SASEC countries, only India has a trade portal; Bangladesh so far has committed to establishing a trade portal under the Ministry of Commerce's Trade Facilitation Program and Nepal has committed to establish one with donor support. This evolving situation has affected the degree of "informed compliance" by traders who would have been otherwise entitled to a facilitated service, usually in the form of expedited clearances under a modern customs administration.

5. **Weak compliance with the WCO's Revised Kyoto Convention.** The slow implementation of modern customs procedures

reflects in large part, the weak compliance with the World Customs Organization's (WCO) International Convention on Harmonization and Simplification of Customs Procedures (known as Revised Kyoto Convention or RKC)—an international development “blueprint” for modern customs administration providing a series of time-based recommendations covering a wide spectrum of customs activities. India and Bangladesh have so far acceded to the RKC, while Bhutan and Nepal are currently considering actions required to lodge their applications.

B. Standards and Conformance

6. Compliance with technical standards.

A recent survey by the South Asian Association for Regional Cooperation (SAARC) has shown that SPS measures are the most prevalent technical barriers to trade in the region. Technical regulations, standards, and conformity assessment procedures vary between SASEC countries, compounded by the lack of a common or harmonized approach to using the correct standard and conformity assessment procedure to ensure compliance. There are also wide differences in the national systems of quality assurance as well as in the technical capabilities. In the absence of mutual recognition of accreditation and certification arrangements, compliance with technical standards results in repeated testing and disputes that could be costly to the trader as well as the government.

C. Border Facilities

7. Lack of adequate border facilities.

The logistics sector in South Asia is largely undeveloped, and generally suffers from inadequate transport infrastructure (road, rail, maritime, and air transport), which results in high cost of transporting goods from production units to the final consumers. Infrastructure bottlenecks are prevalent at both land ports and sea ports. Most trade is noncontainerized, with storage

in open stacking yards at borders and trucking services are fragmented. Warehousing facilities, parking spaces, and transshipment yards are limited in proportion to the volume of cargo. While there is significant trade in agriculture, including fruits and vegetables, most borders do not maintain testing laboratories or cold storage facilities. In most cases, security clearances are done manually as automated scanning systems are not available, even at some major land ports, airports, and seaports. Transshipment is also a serious concern as policies regulating traffic movement are limited on a bilateral basis, and often constitute additional fees for moving goods from one side of the border to warehouses of the partner country.

D. Through Transport Arrangements

8. Limited Through Transport Arrangements.

One of the critical factors preventing SASEC from achieving its full trading potential is the absence of transport facilitation arrangements, although partial transit exists for landlocked countries such as Bhutan and Nepal. Likewise, the scale of international trade among the SASEC countries affects international road transport. Bangladesh, Bhutan, and Nepal import substantially more by road from India than they export in return. The inability to load in both directions results in significant levels of empty running, which then increases the costs that have to be recovered from the loaded leg of the round trip. The other effect of the imbalances is that when through-transport is permitted, the country with the most traffic will always tend to dominate. The main reason for this situation is that routing control lies in the country of origin (or for third country traffic, it is where the point of entry to the road movement commences, such as at a seaport). In addition, the dwell time of transit cargo between its arrival in a sea port (e.g., Kolkata port) and its physical transportation to a landlocked country can be significant, due to a variety of control issues relating both to the transit country and the receiving country.

E. Legislative, Regulatory, and Institutional Dimensions

9. Need for legal and regulatory reforms. Compounding the above issues are legislative, regulatory, and institutional constraints. SASEC countries each have unique legislative mechanisms that could affect the timing and effective implementation of trade facilitation initiatives. Many of the system changes envisaged for customs and other border agencies require legislation to adjust institutional mandates, confirm legal validity of certain actions (e.g., electronic signatures), and delegate or deputize certain functions (e.g., to an authorized economic operator). Some laws may need to be repealed or amended to make them consistent with international conventions (e.g., the RKC) and standards to which a country has acceded. The legislative culture is, thus, an important enabling factor for improvements in trade facilitation to happen. Equally important is the need to make

these laws transparent and user-friendly in order to improve compliance by traders.

10. Need for coordination among various stakeholders. Improving coordination among various stakeholders involved in trade facilitation is also a significant challenge. Trade facilitation comprises a complex set of functions that involve multiple ministries and agencies, including finance, immigration, commerce, customs, transport, communications, internal and external affairs as well as private stakeholders (traders, carriers and forwarders, shipping agents, banks, insurance companies, and other service providers). The absence of effective consultation mechanisms at the national level has affected the degree of stakeholder cooperation and effective implementation of various initiatives. Poor coordination among agencies operating at the border has also resulted in duplication of functions, adding to the delays caused by already cumbersome procedures.

APPENDIX 2: STRATEGIC FRAMEWORK FOR TRADE FACILITATION

FOR THE SASEC PROGRAM 2014-2018

Indicative Measures

STRATEGIC THRUSTS		MEASURES
Strategic Thrust 1: Simplify and expedite border formalities to facilitate the movement for goods, vehicles, and people		
(i)	Accede to the Revised Kyoto Convention	Establish common benchmark of the first level of simplification and harmonization of customs procedures Accession to the General Body of the Convention Accession to the Specific Annexes
	Implement the SAFE Framework and AEO Scheme	Review of legal framework for risk assessment Pilot schemes for risk assessment & post-clearance audit Full implementation of risk assessment and postclearance audit mechanism Full compliance with the SAFE Framework of Standards
(iii)	Reengineer Business Processes and Trade Documentation	Audit of documents through various stages of the supply chain building on the BPA process Review of existing trade documentation and harmonization of required documents Harmonization of documentation between sea, road, rail, and air cargo movements Implementation of integrated transport and trade facilitation methodology that will link time release survey and cost-time-distance survey with the BPA
ELEMENTS		

STRATEGIC THRUSTS					
Strategic Thrust 2: Increase the application of ICT processing					
ELEMENTS	<table border="1"> <tr> <td style="text-align: center;">(i)</td> <td> <p>Upgrade to Automated Customs Management Systems</p> </td> </tr> </table>	(i)	<p>Upgrade to Automated Customs Management Systems</p>		
(i)	<p>Upgrade to Automated Customs Management Systems</p>				
MEASURES					
<p>Review of legislation to enable ICT applications</p> <p>Operationalization of upgraded ICT systems for Bangladesh, Bhutan, and Nepal</p> <p>Expansion of ICT applications nationwide; gradual shift from manual to automated processing</p> <p>Training programs on the use of ICT equipment and software for customs officials and Customs</p>					
Strategic Thrust 3: Develop National Single Windows					
ELEMENTS	<table border="1"> <tr> <td style="text-align: center;">(i)</td> <td> <p>Technical and institutional planning for NSWs</p> </td> </tr> </table>	(i)	<p>Technical and institutional planning for NSWs</p>		
(i)	<p>Technical and institutional planning for NSWs</p>				
MEASURES					
<p>Action planning of NSW systems, including the interface with the upgraded ICT systems</p> <p>Setting up of required institutional framework</p> <p>Initial operationalization or piloting of NSWs</p> <p>Operationalization and Implementation of NSWs</p>					
Strategic Thrust 4: Identify SPS-sensitive commodities and strengthen National Conformity Assessment Boards					
ELEMENTS	<table border="1"> <tr> <td style="text-align: center;">(i)</td> <td> <p>Identify SPS-sensitive products commodities</p> </td> </tr> <tr> <td style="text-align: center;">(ii)</td> <td> <p>Strengthen national conformity assessment boards through SARSO</p> </td> </tr> </table>	(i)	<p>Identify SPS-sensitive products commodities</p>	(ii)	<p>Strengthen national conformity assessment boards through SARSO</p>
(i)	<p>Identify SPS-sensitive products commodities</p>				
(ii)	<p>Strengthen national conformity assessment boards through SARSO</p>				
MEASURES					
<p>Identification and prioritization of products seeking market access to SASEC, and which are constrained by SPS and TBT regimes</p> <p>Developing bilateral mutual recognition agreements between SASEC countries</p> <p>Upgrading of testing laboratories to qualify for accreditation and certification.</p> <p>Strengthening national conformity assessment boards</p> <p>Establishing effective liaison with SARSO</p>					

About the South Asia Subregional Economic Cooperation Program

The South Asia Subregional Economic Cooperation (SASEC) Program brings together Bangladesh, Bhutan, India, the Maldives, Nepal, and Sri Lanka in a project-based partnership to promote regional prosperity by improving cross-border connectivity, facilitating faster and less costly trade among member countries, and strengthening regional economic cooperation. Since 2001, the Asian Development Bank has invested more than \$5.6 billion through loan and grants to member countries that improve physical infrastructure, support reform processes and build capacity in the three key areas of SASEC—transport, trade facilitation, and energy. SASEC also creates knowledge platforms that promote a regular exchange of information and experience-sharing in the subregion and ensure that international best practices underpin and strengthen the planning of effective regional development initiatives. The Asian Development Bank serves as the SASEC Secretariat.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to approximately two-thirds of the world's poor: 1.6 billion people who live on less than \$2 a day, with 733 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

