ASIA–PACIFIC TRADE FACILITATION REPORT 2019

HIGHLIGHTS

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Economic and Social Commission for Asia and the Pacific
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Notes:
In this publication, "$" refers to United States dollars.

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HIGHLIGHTS

Digital and Sustainable Trade Facilitation in Asia and the Pacific

Trade costs in Asia and the Pacific remain high despite having declined modestly and vary widely across subregions. The ESCAP-World Bank Trade Cost Database shows that the cost of trading goods is highest among the Pacific island developing economies, followed by the Russian Federation and Central Asia, and South Asian economies. Both Central Asia and the Pacific have, however, made progress in reducing trade costs with East and Southeast Asia. East Asia shows the lowest trade costs in the region, followed by the Association of Southeast Asian Nations (ASEAN) middle-income members.

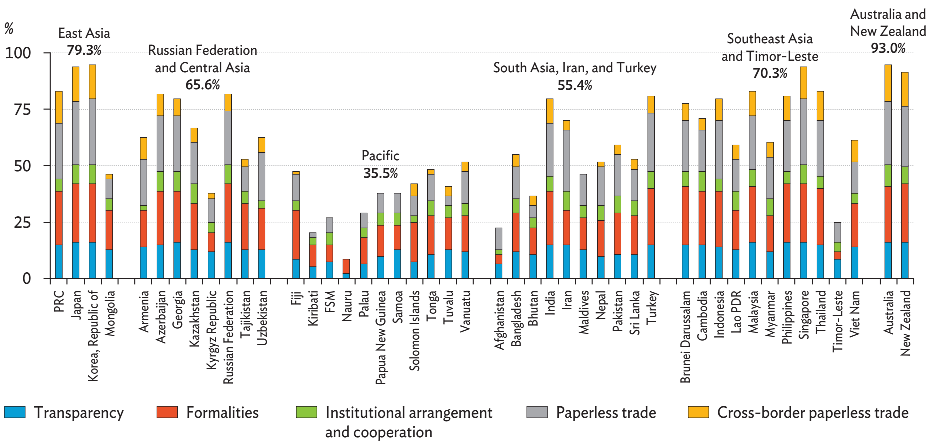
The 2019 Global Survey on Digital and Sustainable Trade Facilitation (formerly the Global Survey on Trade Facilitation and Paperless Trade Implementation) shows significant progress toward streamlining trade procedures in the region.

- The average implementation rate of trade facilitation measures in Asia and the Pacific jumped by 10 percentage points between 2017 and 2019, to nearly 60%. The Russian Federation and Central Asian countries made the most progress, as implementation rates increased by more than 13% to 65.6% in 2019. The Pacific islands made the least progress.
- Implementation in 2019 varies by subregional group. After Australia and New Zealand, the highest average rate is found in East Asia (79.3%), followed by Southeast Asia and Timor-Leste (70.3%), the Russian Federation and Central Asia (65.6%), and South Asia, Iran, and Turkey (55.4%). The Pacific lags at 35.5%.
- Implementation also varies across groups of measures. Transparency measures, along with many of the general trade facilitation measures featured in the World Trade Organization Trade Facilitation Agreement (WTO TFA) are well implemented across the region, averaging implementation rates close to 80%.

In contrast, cross-border paperless trade measures such as electronic exchange of certificates of origin or of sanitary or phytosanitary certificates have been initiated in less than 40% of the economies of the region, often only on a pilot basis.

- Measures targeted at agricultural trade facilitation have a regional average implementation rate of nearly 50%. However, low average implementation rates for small and medium-sized enterprises (SMEs, 36%) and women-owned firms (23%) show that very few countries have customized trade facilitation measures. Trade finance facilitation measures, such as the provision of trade finance through electronic single window systems, are found to have been considered by only a few countries, and rarely implemented.

Overall Implementation of Trade Facilitation Measures in 46 Countries of Asia and the Pacific, 2019



FSM = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.

Notes: The Survey includes 53 trade facilitation measures, including many of the World Trade Organization Trade Facilitation Agreement (WTO TFA) measures related to enhancing "transparency," "formalities," and "institutional cooperation and arrangement" for trade facilitation, but also WTO TFA+ "paperless trade" and "cross-border paperless trade" measures related to the regional United Nations treaty on cross-border paperless trade facilitation adopted by United Nations Economic and Social Commission for Asia and the Pacific members in 2016. Sustainable trade facilitation measures aimed at facilitating trade in agriculture, as well as participation of small and medium-sized enterprises and women in trade are also included. In 2019, a new group of measures on "trade finance facilitation" was also pilot-tested. There were 46 countries in Asia and the Pacific included in the survey.

Source: ESCAP. 2019a. Digital and Sustainable Trade Facilitation Implementation in Asia and the Pacific: 2019 Update. *Trade Insights* No. 28. Bangkok.

A simulation analysis demonstrates that implementation of trade facilitation measures that emphasizes trade digitalization, combined with improved maritime connectivity and access to credit issues, can reduce trade costs significantly. Simulated implementation was tested for different packages of trade facilitation measures. Implementation of binding and non-binding WTO TFA measures reduces trade costs, on average, by 5% under a partial implementation scenario, and by 9% under the more ambitious full implementation scenario. Under a WTO TFA+ scenario where digital trade facilitation measures not specifically included in the WTO TFA are implemented, the average trade cost across countries declines by more than 16%. The simulations also show the importance of broader trade facilitation measures in reducing trade costs, including those aimed at improving maritime connectivity and access to finance.

While continuous implementation of TFA-related measures is important, economies in Asia and the Pacific need to move gradually toward digital trade facilitation. The 2019 Survey confirms that most countries in the region are engaged in implementing measures to improve transparency, enhance interagency coordination and cooperation, and streamline the fees and formalities associated with trade. However, implementation of bilateral and/or subregional paperless trade systems remains mostly at the pilot stage. The Framework Agreement on Facilitation of Cross-Border Paperless Trade in Asia and the Pacific, a United Nations treaty developed by more than 25 countries at different stages of development, provides the inclusive and flexible intergovernmental platform needed to accelerate progress, while leaving no one behind.

Economies of the region should adopt more holistic and inclusive trade facilitation strategies, encompassing measures to facilitate logistics and finance processes, and catering to the needs of groups and sectors with special needs. The 2019 Survey results highlighted the lack of trade facilitation programs and measures specifically targeted at SMEs and women-owned firms and, to a lesser extent, for the food and agriculture sector, all of which are key to sustainable and inclusive economic development in the region.

Theme Chapter: Bridging Trade Finance Gaps through Technology

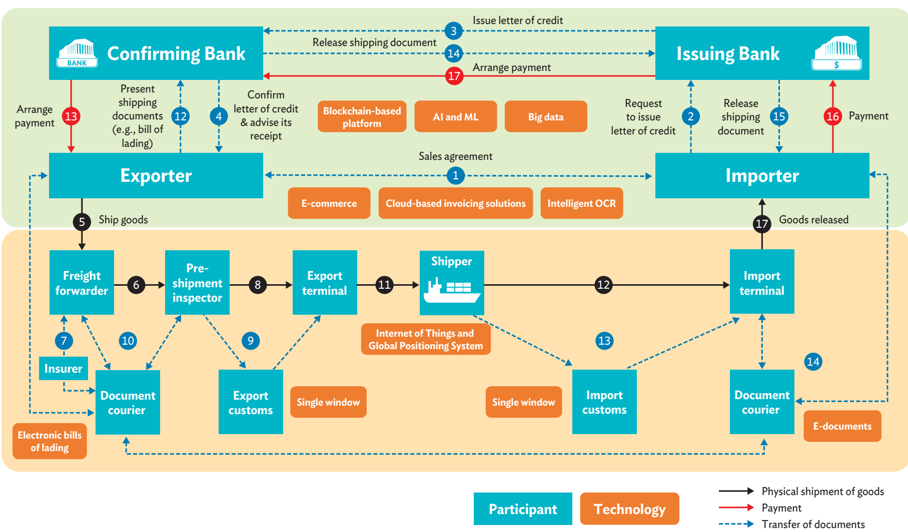
Trade finance supports international trade and more inclusive growth. International trade and policy reforms to lower barriers to trade are widely known to benefit inclusive growth. Access to trade finance allows businesses to fund operating costs and deal with various risks, whether commercial, exchange rate, transportation, or political. These risks are addressed through different instruments such as letters of credit, bank guarantees, and export credit insurance. While advanced economies typically have financial systems that provide widespread access to funding, developing economies find access to finance far more difficult—particularly for SMEs.

Unmet demand for trade finance is persistently large. An indicative measure of rejected trade finance applications shows a gap of about $1.4 trillion–$1.6 trillion, or around 8%–10% of world merchandise trade. Around half of global trade finance proposals originate from Asia and the Pacific, while 40% of rejected applications come from the region. SMEs are most affected as they tend to have higher rejection rates than larger firms. Banks have higher transaction and information costs when dealing with smaller companies, including anti-money-laundering/know-your-customer requirements and the low credit ratings of issuing banks and importers. High costs also make it unprofitable for small businesses to use trade finance instruments such as letters of credit.

There are three main challenges in providing trade finance. First, the continued use of paper means that documentary transactions in trade finance are prone to costly delays and errors. Letters of credit, for instance, may involve examination and validation of 10 to 20 documents involving more than 20 parties in information exchange and transmission. Second, financial institutions are required to conduct significant due diligence, which raises the cost of supplying trade financing. Third, while banks require knowledge of their clients to mitigate information asymmetry, this may pose significant hurdles in SMEs accessing finance.

Digitalization and automation may help address some long-standing issues in trade finance, such as high transaction processing costs and costly know-your-customer procedures. SMEs are usually burdened by high interest rates and collateral requirements, while banks are discouraged by the high cost of regulatory compliance. Technologies can help cut costs and facilitate transactions by eliminating manual documentation, and enable accumulated digital information on SME profiles for lenders to assess risk. E-commerce platforms and cloud-based invoicing, for example, allow direct transactions among smaller firms with reduced costs. Blockchain technology and artificial intelligence can facilitate due diligence and payments for SMEs that have difficulty in accessing bank credit.

Trade Flows and Technologies



AI = artificial intelligence, ML = machine learning, OCR = optical character recognition.

Sources: Asian Development Bank based on ADB. 2018b. *Embracing the E-commerce Revolution in Asia and the Pacific.* Manila. https://www.adb.org/sites/default/files/publication/430401/embracing-e-commerce-revolution.pdf; International Chamber of Commerce (ICC). 2014. *2014 ICC Trade Register Report Summary.* Paris: International Chamber of Commerce. https://cdn.iccwbo.org/content/uploads/sites/3/2016/05/ICC-Trade-Register-Report-2014-summary.pdf; ICC. 2018. *ICC Global Survey 2018: Securing future growth.* Paris: International Chamber of Commerce. https://iccwbo.org/publication/global-survey-2018-securing-future-growth/; and Simmons and Simmons. 2015. *Structures & Solutions in Trade Finance.* http://www.elexica.com/en/resources/microsite/structures-solutions-in-trade-finance.

Such technologies utilize big data and alternate credit information that can enable more efficient know-your-customer compliance and due diligence. These technologies offer solutions that substantially improve efficiencies at various stages of international trade and therefore draw more SMEs into the system.

Despite its rapid expansion, digitalization and fintech in trade finance still need to overcome major challenges. Digitalization is far from complete; and implementation costs are one of its biggest issues. Blockchain technology is not entirely free of the risks related to transparency, cybersecurity, and operations, and can pose regulatory challenges. Fragmented digitalization can also create problems with digital implementation, making it difficult to be compatible and interoperable with other parties' systems.

Policy Considerations

Given the persistent, large unmet demand for trade finance, policy initiatives can promote and incentivize private-sector participation in trade finance. This suggests greater public involvement, such as through export credit agencies (ECAs), is desirable. National ECAs may be able to support work that the private market finds unprofitable or excessively risky. The 2008/09 global financial crisis showed the private market could not assure adequate liquidity—and the work of ECAs along with international financial institutions significantly contributed to revitalizing global trade. Multilateral development banks can also contribute by providing guarantees and export credit. Government collaboration with private companies and with governments is critical to help spread technology adoption and enable cross-border trade financing.

Governments and international institutions should develop digital infrastructure, harmonized standards, and regulations to encourage widespread technology adoption. Developing a thriving fintech industry requires information and communication technology infrastructure and regulation. International coordination should focus on the interoperability of various systems to promote widespread technology adoption in the medium to long term.

Three international initiatives can help create the basic infrastructure: (i) the Digital Standards for Trade initiative works to develop digital standards of the trade ecosystem and create a scorecard to benchmark industries toward digitalization; (ii) the Global Legal Entity Identifier system issues unique identifiers for large and small firms at low cost and helps to improve transparency on anti-money-laundering and know-your-customer concerns; and (iii) model laws on electronic transferable records, as well as electronic commerce and signatures, have been created under the United Nations system to help countries implement legislation for digital trade in a concerted fashion.

Improved awareness of trade finance products, reinforced by government support programs, can help SMEs tap trade finance. Directly engaging with SMEs and industry associations is critical to help develop export capability and enable exporters to develop more effective strategies that acknowledge the full cost of entering new markets. Another main area of focus should be on building more database on trade finance. The lack of a centralized database on trade finance necessitates initiatives to continue monitoring how much trade finance is provided, so that gaps can be identified and closed.

Asia–Pacific Trade Facilitation Report 2019
Highlights

Trade facilitation initiatives can make an important contribution to economic growth and poverty reduction by lowering trade costs and increasing trade flows. This report reviews trade facilitation progress in Asia and the Pacific, including recent trends in paperless trade and transit facilitation and the impact of trade facilitation initiatives on trade costs. It also features a special chapter on how trade finance gaps—especially prevalent for small and medium-sized enterprises—can be bridged by technology, and the supporting policies and actions required to make this happen.

About the United Nations Economic and Social Commission for Asia and the Pacific

ESCAP is the regional development arm of the United Nations and serves as the main economic and social development center for the United Nations in Asia and the Pacific. Its mandate is to foster cooperation between its 53 members and 9 associate members. ESCAP provides the strategic link between global and country-level programs and issues. It supports governments of countries in the region in consolidating regional positions and advocates regional approaches to meeting the region's unique socioeconomic challenges in a globalizing world. The ESCAP headquarters is in Bangkok, Thailand.

About the Asian Development Bank

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members—49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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