

## Chapter 3

# Asia-Europe Cooperation on Trade Facilitation

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# Asia–Europe Cooperation on Trade Facilitation

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RASHESH SHRESTHA

## Introduction

Trade is an important aspect of the linkages between the countries of Asia and Europe. The total merchandise trade between the two regions reached US\$1.5 trillion in 2018, accounting for half of the world's merchandise trade.<sup>1</sup> Although Germany and China alone account for a significant portion of the inter-regional trade, many countries are linked to this trade flow through international production networks centred in the two hubs.

Over the past 25 years, there has been a significant shift in the international trading system. Although tariffs have fallen to historically low levels, avoidable trade costs arise during the process of transporting goods from the origin to the destination. These costs are related to compliance with trade-related rules, regulations, and procedures, which cause delays and give rise to time and monetary costs. While many rules and regulations serve legitimate interests, they could be designed and implemented in a way that minimises the cost of compliance for traders. It is estimated that the benefits from reductions in non-tariff trade costs exceed further reductions in tariffs.

Trade facilitation entails domestic reforms to border procedures as well as behind-the-border procedures (Persson, 2008), touching upon improvements in port infrastructure, customs administration, services infrastructure, and domestic regulatory environment. By improving the efficiency of different components that make up international trade processes, trade facilitation can help minimise trade costs and encourage greater trade flows, and can also be a source of competitive advantage amidst changing environments.

Even though steps towards trade facilitation must be taken by each country on its own, there are many areas of cooperation between Asia–Europe Meeting (ASEM) countries. The benefits of individual action are greater if trade partners make concerted efforts to improve their trade environment simultaneously. Likewise, the impetus for accelerated reforms can come from regional and global agreements. With the benefits of more seamless trade in mind, the World Trade Organization (WTO) completed negotiations on trade facilitation and officially added a Trade Facilitation Agreement (TFA) into its founding document in 2013 to oblige member countries to embark on trade facilitation.

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<sup>1</sup> <https://www.weforum.org/agenda/2019/05/ways-asia-and-europe-together-connected/>

Effective and rapid implementation of this agreement by all countries remains a major challenge. Nonetheless, the specific and actionable measures identified in the WTO–TFA are conducive to the coordination (both domestic and international) and measurement of progress.

A number of indicators related to the status of trade facilitation in various countries show that ASEM countries in Europe have a greater rate of implementation of trade facilitation measures compared to their Asian counterparts. Gross domestic product (GDP) per capita is a strong predictor of the rate of implementation of trade facilitation measures. Some low-income countries in the Association of Southeast Asian Nations (ASEAN) have accelerated reforms, encouraged by the ASEAN regional agreements. The ASEAN Economic Community (AEC) Blueprint envisions seamless trade facilitation within the region, and policymakers have set ambitious targets for trade cost reductions. One benefit of existing ASEAN initiatives is that ASEAN Member States (AMS) have been quite ahead of other comparable countries in their status of trade facilitation initiatives. UNESCAP and ADB (2019: 9), in their report on the status of trade facilitation in the region, note that ‘the ASEAN regional integration processes appear to have played a significant and positive role in trade facilitation implementation’.

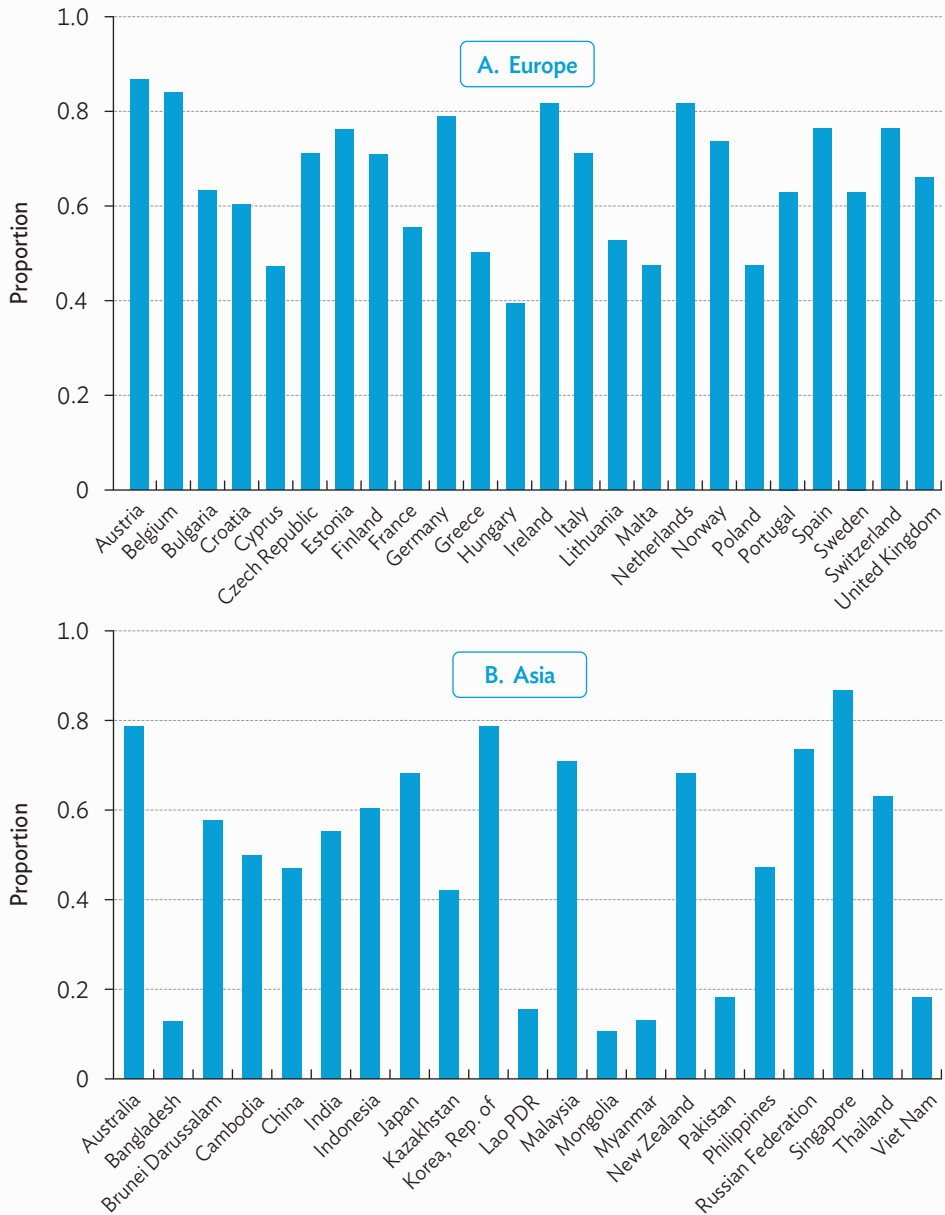
ASEM leaders have ‘reaffirmed strong support for preserving and strengthening the rules-based multilateral trading system centred on the World Trade Organization’ and ‘underlined the importance of implementing and enforcing obligations under the WTO by its members, including the ongoing work to implement its Trade Facilitation Agreement.’<sup>2</sup> The ASEM process can help accelerate the implementation of trade facilitation agreements by coordinating strategy, sharing knowledge, providing technical support to one another, and prioritising trade facilitation in bilateral agreements.

## Trade Facilitation in Asia and Europe

The WTO–TFA comprises 12 broad measures/provisions for ‘expediting the movement, release and clearance of goods, including goods in transit, plus customs cooperation’. The measures are: (1) publication and availability of information; (2) opportunity to comment, information before entry into force and consultations; (3) advance rulings; (4) procedures for appeal or review; (5) other measures to enhance impartiality, non-discrimination, and transparency; (6) disciplines on fees and charges imposed on or in connection with importation and exportation and penalties; (7) release and clearance of goods; (8) border agency cooperation; (9) movement of goods intended for import under customs control; (10) formalities connected with importation, exportation, and transit; (11) freedom of transit; and (12) customs cooperation. These measures relate to concrete policies that need to be implemented by each country, and thus allow the measurement and monitoring of progress.

<sup>2</sup> ASEM Chair’s Statement. <https://cdn.aseminfoboard.org/documents/ASEM12-Chairs-Statement.pdf> (accessed 26 June 2020).

**Figure 1: Proportion of Trade Facilitation Measures Fully Implemented in 2019 amongst Selected ASEM Countries**



ASEM = Asia-Europe Meeting.

Note: Only countries for which data are available in the UNTF survey are included.

Source: Author's calculation from UNTF Survey.

Following the agreement, the status of trade facilitation is being assessed through the United National Trade Facilitation (UNTF) survey, which was conducted in 2015, 2017, and 2019. The UNTF survey comprises 52 questions that broadly match the elements of WTO–TFA measures. Each measure is assessed as fully implemented, partially implemented, pilot stage, not implemented, or not applicable. The assessment is done by experts and verified by countries. While the quality of the trade facilitation measures is not assessed, the UNTF survey nonetheless provides a snapshot of where each country is with respect to trade facilitation and thus provides data for broad comparisons.

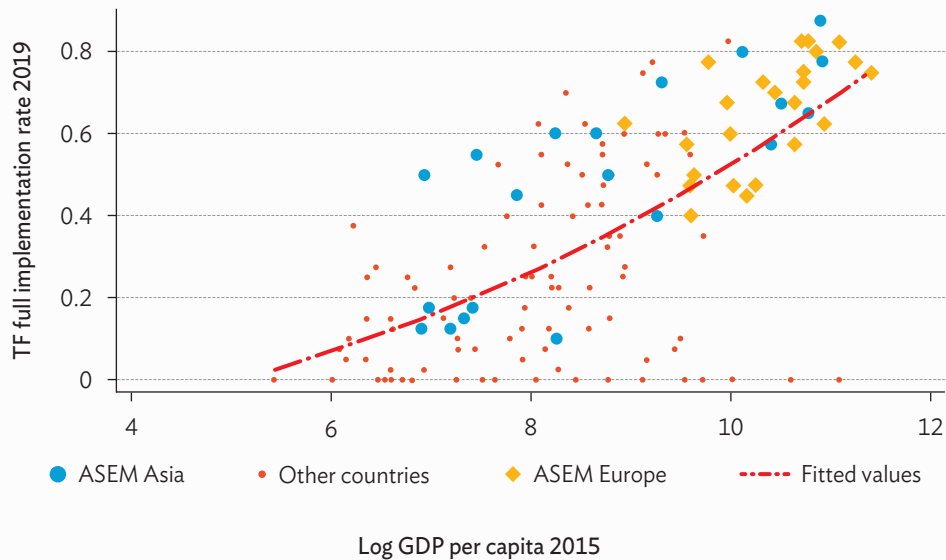
According to the UNTF survey results, the European economies are much further ahead of Asians economies in implementing trade facilitation measures. Eight out of 21 countries in Asia had implemented over 60% of the measures, while 17 out of 24 countries in Europe had that level of implementation. The more developed Asian countries (Australia, the Republic of Korea [hereafter, Korea], Malaysia, New Zealand, the Russian Federation, and Singapore) have led the way, whereas developing economies (Bangladesh, the Lao PDR, Mongolia, Myanmar, Pakistan, and Viet Nam) have a lot of catching up to do. The variation in the implementation rates is greater in Asia than in Europe.

Figure 2, shows the positions of countries across two dimensions: rate of full implementation of trade facilitation (vertical axis) and GDP per capita in 2015 (expressed in logarithms). Positions of ASEM countries from Asia, from Europe, and for non-ASEM countries are highlighted separately. A strong positive relationship between implementation rate and economic position is notable – more developed countries understandably have greater rates of implementation. One intervening factor in this case is the importance of trade on countries' economic performance, which is usually positive except for natural resource dependent countries. In this regard, most European ASEM countries are positioned to the top-right of the graph with high GDP per capita and high rates of implementation.

The positions of ASEM Asian countries is also noteworthy. First, they are positioned well above the 'fitted values' line, which marks the average relationship between trade facilitation implementation rate and GDP per capita across all countries for which data are available. This tells us that ASEM Asian countries overperform in terms of trade facilitation relative to their level of GDP per capita. The cluster of ASEM Asian countries in the bottom-left of Figure 2 are developed countries that are close to the expected level of implementation. Cooperation between Asia and Europe can focus on accelerating reforms in this set of countries.

Looking at the gaps in implementation by specific measures, we find that Europe leads Asia in transit facilitation (UNTF measures 36 to 38, see Appendix for description of measures), which is quite understandable given the single market within European Union and the presence of many island nations in Asia. However, we also observe several

**Figure 2: Relationship between Full Implementation Rate in 2019 and GDP per Capita in 2015**



ASEM = Asia–Europe Meeting, GDP = gross domestic product, TF = trade facilitation.

Source: Author's calculations using data from UNTF Survey and World Bank World Development Indicators.

measures that are applicable to most countries where the gap is still wide. On measure 32, 'government agencies delegating controls to customs authority', over three in four European ASEM Partners have implemented it, while only one in four Asian ASEM Partners has implemented it. Likewise, while all European ASEM Partners in the sample have provisions of authorised economic operators, just over half the countries in Asia have implemented it. Other major gaps appear in the use of risk management and the use of electronic documentation (such as the submission of customs declarations).

Certain measures pertaining to cross-border electronic transactions have low implementation in both Asia and Europe, and thus offer the greatest opportunity for cooperation. Only Belgium, New Zealand, and the United Kingdom had fully implemented the electronic exchange of certificates of origin, while only the United Kingdom had fully implemented the electronic exchange of sanitary and phyto-sanitary certificates. For the certificates of origin, nine Asian countries have partial implementation, and six countries are in the planning stage.

## Trade Costs in Asia and Europe

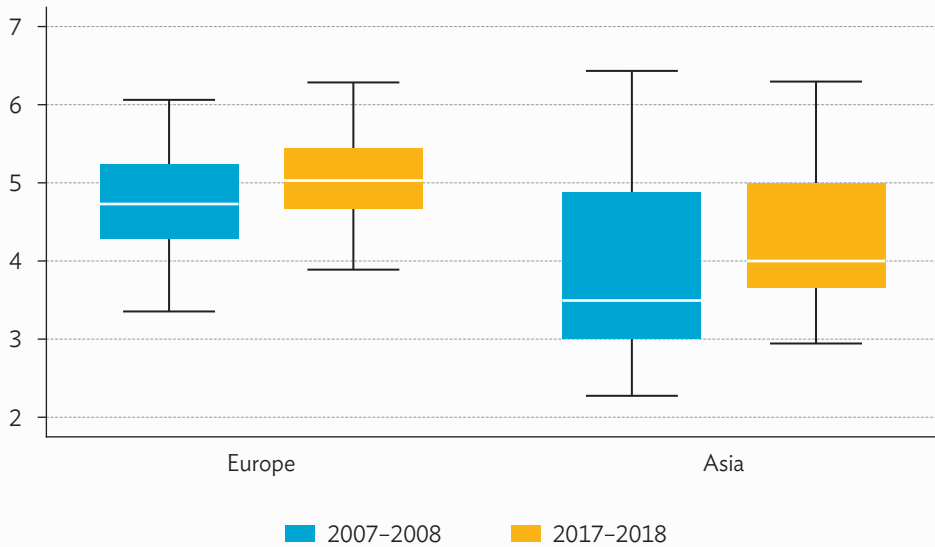
The differences in the implementation of trade facilitation are borne out in indicators of trade costs. Since the objective of trade facilitation is to reduce trade costs, we can examine the available measures of trade costs to gauge the level of trade facilitation. Trade costs, in turn, predict the level of trade flows and thus economic integration between countries: countries with lower trade costs trade more than countries with higher trade costs between them, although the relationship is not causal (Persson, 2008). There are many available indicators of trade costs, including the bilateral trade cost measure of UNESCAP, documentary and import/export compliance time assessed by the World Bank's Trading Across Borders indicators, and ratings provided by the World Economic Forum's (WEF) Global Competitiveness Report.

The European Union (EU) is generally considered the most integrated country bloc in the world. The latest trade cost data from the UNESCAP–World Bank Trade Cost Database show that the overall cost of trading goods amongst the three largest EU economies is equivalent to a 42% average tariff on the value of goods traded. In contrast, the middle-income ASEAN members were estimated to have trade costs equivalent to a 76% average tariff.

The WEF's Global Competitiveness Indicators regularly collect data on aspects of countries' performance that are affected by trade facilitation. The WEF indicators are based on a survey of perceptions of private firms. Figure 3 shows the average score of the burden of customs procedures, with higher scores indicating better performance. Both Asia and Europe ASEM countries improved their performance between 2007 and 2017, as reflected in the improvement in the median score (indicated by the white line). However, the median score for Asia is lower than that for Europe, indicating that border procedures in many Asian ASEM Partners are considered to be relatively more burdensome.

## Regional Trade Agreements and Trade Facilitation

Bilateral and regional trade agreements can be instrumental in lowering barriers to trade by taking up issues beyond tariff reductions to include agreements on facilitation. In particular, trade agreements between partners at different stages of implementation can provide the necessary push for reforms in lagging nations. The improvements in the trade environment that emerge out of these regional agreements would benefit all ASEM countries. Beverelli et al. (2014) noted that trade facilitation initiatives such as transparency and formalities should be non-discriminatory and therefore benefit all trading partners equally.

**Figure 3: WEF Scores of Burden of Customs Procedures (1–7)**

WEF = World Economic Forum.

Note: White lines represent the median of the respective distribution. Only 18 ASEM countries from Asia and 24 from Europe, for which data are available, are included.

Source: Author's calculation from World Economic Forum Global Competitiveness Report.

Some others, such as regulatory harmonisation and transit facilitation may only be offered within the context of regional trade agreements and thus discriminate against non-members (Maur, 2011). The latter ones are still beneficial more broadly because the international production networks that are usually formed within Asia and Europe benefit from these intra-regional agreements, and spillover broadly when Asia and Europe are connected through hubs like China and Germany.

The EU's bilateral agreements have usually included agreements on a broader set of trade facilitation issues. Recently, European Union and Viet Nam signed a trade agreement and an investment protection agreement on 30 June 2019, which includes agreement to reduce regulatory barriers and overlapping red tape by, for example, the increased use of international standards in its regulations.<sup>3</sup>

<sup>3</sup> [https://trade.ec.europa.eu/doclib/docs/2018/october/tradoc\\_157444.pdf](https://trade.ec.europa.eu/doclib/docs/2018/october/tradoc_157444.pdf)



While there are wide-ranging agreements within European countries and Asian countries, the linkages established between Asia and Europe through economic partnership agreements is few and far between. The agreements that connect Asia and Europe include the EU–Korea Free Trade Agreement; the EU–Vietnam Free Trade Agreement; the European Free Trade Association (EFTA) (which includes Norway and Switzerland) and Korea; the EFTA–Singapore; and bilateral agreements between Switzerland and China, Switzerland and Japan, and Switzerland and Singapore.<sup>4</sup> A new trade agreement between the EU and Japan and the EU and Singapore came into force in 2019. The agreement with Japan includes a provision for regulatory cooperation in terms of the adoption of international standards and the setting-up of a joint Regulatory Cooperation Committee as a way to reduce non-tariff trade costs.<sup>5</sup> As of the time of writing, the EU has also launched negotiations for trade agreements with Australia and New Zealand separately. As developed countries, these are already quite advanced in trade facilitation.

## Trade Facilitation in ASEAN

The 10 members of ASEAN have also committed to accelerated reforms on trade facilitation. The AEC Blueprint 2015 envisions seamless trade in the region with the active facilitation of international trade by its 10 member countries. To this end, it specifies measures that can be implemented by countries unilaterally and through coordination with one another. These trade facilitation measures – the majority of which appear in both the AEC Blueprint and the WTO–TFA – broadly relate to transparency (e.g. the publication of information on a dedicated website called the national trade repository), the facilitation of customs procedures (e.g. self-certification, authorised economic operator programmes), paperless trade (e.g. national single window), and transit facilitation. Implementation of these trade facilitation measures is expected to boost inter-regional trade.

In 2017, the ASEAN Economic Ministers set the goal of lowering trade costs in ASEAN by 10%. With tariffs already near zero, most of these reductions would need to come from reductions in trade transaction costs – the cost of moving goods across borders that is associated with compliance with regulatory barriers. There is evidence that such costs are still quite high in the region, and concerted efforts are needed to achieve this goal. For many AMS, trade facilitation is a top policy focus, oftentimes linked to improving the Ease of Doing Business ranking. For a few AMS, large trade facilitation improvements will be central to trade, investment, and economic performance in future.

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<sup>4</sup> [https://publications.jrc.ec.europa.eu/repository/bitstream/JRC112998/asem-report\\_online.pdf](https://publications.jrc.ec.europa.eu/repository/bitstream/JRC112998/asem-report_online.pdf)

<sup>5</sup> [https://trade.ec.europa.eu/doclib/docs/2017/july/tradoc\\_155720.pdf](https://trade.ec.europa.eu/doclib/docs/2017/july/tradoc_155720.pdf)

ERIA, in collaboration with the ASEAN Trade Facilitation Joint Consultative Committee, has been conducting an ASEAN-wide study to understand the trade facilitation environment in the region. A baseline study was done in 2018, with a follow-up study being planned for 2020. The objective of the study is to provide recommendations for reducing intra-ASEAN trade transaction costs by taking stock of the various trade facilitation initiatives adopted by individual AMS. Thus, the study results shed light on the areas where further cooperation on trade facilitation can help to reduce trade transactions costs in the sub-region.

The ASEAN experience provides some insights into the areas of international cooperation for trade facilitation. The first one is knowledge sharing, where AMS can learn from one another's initiatives. AMS that are at different stages of economic development and trade facilitation are working together to achieve seamless trade in the region. The region is a microcosm of the world, with the world's top performer in trade facilitation, Singapore, alongside emerging countries like Cambodia, the Lao PDR, and Myanmar. Trade dependent AMS have been working towards seamless trade facilitation for a long time. Singapore's national single window started in the late 1980s and was continuously upgraded. Thailand's Customs 4.0 and Malaysia's uCustoms offer many new and innovative trade facilitation features. These countries have in place facilitative measures, such as advanced rulings, pre-arrival processing, and authorised economic operators. A number of cases of good practices in AMS are worth emulating by other AMS. The ASEAN process can help countries learn from one another.

The second example of cooperation can be found in the development of ASEAN-specific measures of trade transactions costs, which was an essential step towards measuring the success of the common goal of reducing trade transaction costs. ERIA's proposal to use release times at the border as a suitable way of measuring trade transaction costs was accepted by the AMS. As part of this effort, the AMS conducted a Time Release Study (TRS) during 2018–2019 to assess the bottlenecks in their border procedures for importing and exporting. While each country conducted the TRS according to methodology recommended by the World Customs Organization, the countries agreed to a minimum scope of the TRS so that consistent information could be produced. To the author's knowledge, this is a first instance where countries collaborated in the process of identifying bottlenecks in their respective procedures and could be the first step towards even further collaboration in trade facilitation.

Third, ASEAN's effort towards cross-border paperless trade in the form of the ASEAN Single Window (ASW) is noteworthy. One may recall that based on the UNTF data, this is one area where trade implementation is lacking in both Europe and Asia. In ASEAN, the National Single Window and the ASW have been the flagship initiatives on trade facilitation since the mid-2000s. While each member country will develop its paperless trading system in the form of the NSW, the ASW will facilitate cross-border paperless trade by enabling the exchange of trade documents.

The extent of implementation towards paperless trade varies tremendously. For developing ASEAN countries, a greater focus and investment in improving the NSWs deserve top policy priority. Investment in ICT infrastructure and the capacity building of officials to use electronic systems is necessary to unleash the full potential of the NSWs. But Thailand, Viet Nam, Indonesia, Malaysia, and Singapore, which already have advanced NSWs, have been participating in the ASW pilot project for the electronic exchange of the document required for the ASEAN preferential tariff treatment (ASEAN Trade in Goods Agreement Form D) to facilitate cross-border paperless trade.

## Areas of Cooperation

The degree to which trade facilitation is amenable to international cooperation is an important question. After all, trade facilitation is about assessing the bottlenecks in existing trade-related procedures and mitigating or reforming those that are excessively burdensome without compromising legitimate objectives of regulation. Some of the border procedures are quite technical (e.g. risk management) and thus require good training and capacity development of administrators. Ultimately, agreeing upon and adhering to international best practices would maximise the efficiency of border procedures.

As with ASEAN, where AMS have tried to leverage each other's strengths by embarking on an ambitious economic integration goal to create an ASEAN Economic Community, there is scope for knowledge sharing, the coordination of efforts, and specific agreements on trade facilitation in trade deals amongst ASEM countries. For lagging countries, high-quality trade facilitation will require both physical infrastructure and capacity building, which can be supported by more experienced trade facilitators. Organising/supporting workshops, seminars, or training courses on complicated trade facilitation elements like integrated risk management could help emerging countries accelerate their performance.

In light of digital technology, cross-border paperless trade facilitation could be instrumental in improving connectivity among ASEM countries. Even for more advanced countries, cross-border trade facilitation remains the next frontier in trade facilitation. For smooth paperless trade, there is a need for technical and legal harmonisation to ensure interoperability, capacity building, collaboration, and intergovernmental coordination. There is some progress in this regard. Many Asian countries have adopted a Framework Agreement on Cross-Border Paperless Trade Facilitation, which envisions the electronic exchange of trade-related data and documents across national trade systems. The ASEM process can foster closer cooperation on the Single Window.

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**Appendix: List of trade facilitation measures assessed by the UNTF Survey**

1. National Trade Facilitation Committee or similar body
2. Publication of existing import–export regulations on the internet
3. Stakeholders' consultation on new draft regulations (prior to their finalisation)
4. Advance publication/notification of new trade-related regulations before their implementation
5. Advance ruling on tariff classification and origin of imported goods
6. Risk management
7. Pre-arrival processing
8. Post-clearance audits
9. Independent appeal mechanism
10. Separation of Release from final determination of customs duties, taxes, fees, and charges
11. Establishment and publication of average release times
12. Trade facilitation measures for authorised operators
13. Expedited shipments
14. Acceptance of copies of original supporting documents required for import, export or transit formalities
15. Automated Customs System
16. Internet connection available to Customs and other trade control agencies
17. Electronic Single Window System
18. Electronic submission of Customs declarations
19. Electronic application and issuance of import and export permit
20. Electronic Submission of Sea Cargo Manifests
21. Electronic Submission of Air Cargo Manifests
22. Electronic application and issuance of Preferential Certificate of Origin
23. E-Payment of Customs Duties and Fees
24. Electronic Application for Customs Refunds
25. Laws and regulations for electronic transactions
26. Recognised certification authority
27. Electronic exchange of Customs Declaration
28. Electronic exchange of Certificate of Origin
29. Electronic exchange of Sanitary and Phyto-Sanitary Certificate
30. Paperless collection of payment from a documentary letter of credit
31. National legislative framework and/or institutional arrangements for border agencies cooperation
32. Government agencies delegating controls to Customs authorities
33. Alignment of working days and hours with neighbouring countries at border crossings
34. Alignment of formalities and procedures with neighbouring countries at border crossings
35. Transit facilitation agreement(s)
36. Customs Authorities limit the physical inspections of transit goods and use risk assessment
37. Supporting pre-arrival processing for transit facilitation
38. Cooperation between agencies of countries involved in transit