The Security and Trade Facilitation Nexus: Options for South Asian Countries

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Trade Facilitation Does Not Have to Undermine Security

A previous SARConnect note (Issue 3) examined a range of international recommendations and approaches to border security. It also discussed how security concerns have prevented progress in trade and transit facilitation in South Asia. So far, trade facilitation initiatives have been unable to address these concerns. Unless viable initiatives are proposed that recognize the security risks faced by individual countries, it is unlikely that the inefficient approaches to border management will be changed to better facilitate international trade.

Despite widespread understanding that poor trade facilitation performance detracts from national competitiveness, implementing meaningful change in the culture of control that dominates border management institutions in the region is not an easy task. Yet, evidence from international border management reform programs shows that the apparently contradictory objectives of trade facilitation and border control are, in fact, two sides of the same coin, and can be accomplished through well-designed and effectively implemented reform and modernization programs.

As highlighted in the earlier SARConnect note, implementation of international conventions and treaties such as the World Trade Organization (WTO) Trade Facilitation Agreement (TFA) should not be seen as a threat to improved border security, but rather as a practical step South Asian countries could take to achieve improved levels of trade facilitation and security.1 Below are some other key strategic reforms that, based on the experience of The World Bank Group and development partners active in South Asia, are considered fundamental to achieving this outcome.

Identifying the Nature of Security Threats

Accepting that no country can conduct a 100 percent physical inspection regime capable of identifying all security risks points to the need to conduct targeting and profiling. However, before that process can begin, there should be an articulation of the exact nature of the risk and how it would manifest itself in an international trade transaction. While the contemporary focus has been on threats relating to terrorism, there are others, including environmental and societal risks.

Depending on the nature of the threat and the type of transaction and transport, the ability to profile risk and the type of potential risk-mitigation intervention will be different. If the predominant risk is economic (undervaluation, for instance), a certain set of transactional data can help profile and identify high-risk targets. In such cases, physical inspection responses would not be as effective as conducting post-transaction auditing as the main compliance strategy.2 A simplified representation of an approach to this threat/response analysis is depicted in the Table 1.

- Risk identification and assessment is an important initial step in developing and improving the security response by South Asian border management agencies.

Broadening, Deepening and Layering

These practices are the basis of contemporary supply-chain-security initiatives. They are part of an approach where border regulation starts earlier and captures data from more sources while using multiple levels and methods of verification. They require an ability to access existing electronic data throughout the supply chain to identify risk factors at an early stage.
Supply-chain security is based on the understanding that industry has an equally strong financial interest in the security and visibility of goods, and is generally better placed to recognize what is “normal” behaviour as goods move through the supply chain. Importantly for regulators, it recognises that risks attach to the entire supply chain based on the risk of the weakest node or link.

Another important element of the supply chain security approach to improving border security is the Authorized Economic Operator (AEO). This strategy goes beyond the traditional transactional approach to compliance and looks at the risks posed by cross-border transactions at an institutional level. AEO programs take advantage of private-sector resources to improve supply-chain security and consider the ability of an entity to comply along its entire supply chain. That includes processes and systems to ensure control, both for the entity’s own commercial operations and those of its partners and stakeholders. Such schemes also enable regulators to direct their resources to high-risk operators or transactions. Of particular importance to improving intra-regional connectivity and trade in South Asia is mutual recognition of AEOs among countries, allowing deeper data penetration and encouraging greater compliance by traders.

• Leveraging existing information and communication technology capacity (ICT) so regulators can access commercial transaction data earlier in the supply chain supports improved profiling and security.

### The Role of Technology

The adoption of technology to support information communication has been part of regional border management activities at a basic level for years. Most, if not all, South Asian nations have now identified a business case for developing a “single window” solution to processing cross-border transactions. However, adoption of more sophisticated technology solutions needs to be assessed more closely, particularly with regard to costs and benefits.

Scanning via an X-ray or gamma ray to identify the contents of shipments (Figure 1) is often promoted as the “magic bullet” solution to security. While this technology can be very effective in certain circumstances, international experience suggests expectations often exceed results. The most commonly publicized successes tend to relate to identification of smuggled products attracting high rates of duty – products that are most amenable to identification through scanning because of their composition.

Scanners are most useful as a source of additional data when images are interpreted by a trained analyst. However, even then, the physical composition of some shipments (including their density and mechanical complexity) and other variables can limit the effectiveness of scanning. For example, some types of goods can shield contraband from effective scanning, producing an image that cannot be easily analysed. Many administrations continue to X-ray all shipments, even when experience shows a usable image cannot be produced. In these cases physical examination might be preferable as the first option, but the scanning fees received by Customs agencies provide a strong incentive to continue unproductive practices.

Finally, effective use of this expensive technology depends on re-engineering of business processes, the physical movement of vehicles/containers and ensuring that supporting activities such as image analysis and secondary inspections are adequately resourced to maximise throughput. When improperly or inappropriately used, scanners can actually increase the time it takes to clear goods without an appreciable improvement in security.

### Technology in securing Transit

Controlling and securing transit trade is another area of particular concern for South Asian economies. While there are a number of transit agreements that seek to provide solutions to guarantee potential revenue liability, their ability...
to guarantee physical security is less certain. To overcome this, Electronic Tracking and Smart Seals technology (GPS/GPRS/RFID, for example) have become common practice in a number of regions to provide additional layers of security.  

Electronically monitoring and tracking the movement of, and interference to, transit shipments through the use of these technologies can allow customs administrations to secure many more individual transactions than they could using escorted convoys. Specific routes and time limits can also be imposed and monitored, and a physical response is only required when a breach is detected.

Practical issues concerning cost of implementation, the relocation of tracking devices, capacity of ICT networks and infrastructure, locating monitoring centres and how to deliver a physical response when necessary are all relevant considerations. As part of a multi-layered approach to supply chain-security, cargo tracking technology can, of course, prove very effective.

These examples further highlight the need for investment in training, human resources, risk analysis and re-engineering business processes to maximize effectiveness and efficiency of the technology to produce both improved trade facilitation and security outcomes.

- Modern technology can be a useful tool to improve levels of border security when used in the right circumstances and when supported by other operational reforms. However, it should not be a substitute for more fundamental rethinking of strategy and approach.

Institutional Reforms: Re-engineering Business Processes and Risk Management

Essentially, achieving border security is just another element of regulatory compliance. As such, any reforms that improve organizational performance more generally also have a positive impact on security outcomes.

By far the most commonly suggested institutional reform for border management agencies is the adoption of a risk-based regulatory compliance framework. Figure 2 shows how a strong legislative base is essential when we talk about compliance with the law. Traders with a strong compliance record (AEOs for example) are capable of self-assessing their liabilities and need minimal intervention by regulators. Where traders want to comply but are unable to, support and education (Client service) play an important role in improving their performance, allowing for their compliance to be recognised with improved facilitation. For those who deliberately seek to break the law, strong enforcement strategies act as a deterrent and impose consequences or penalties for non-compliance. In fact, risk management should be part of a comprehensive change in the operational model, consistent with the elements of the WCO Revised Kyoto Convention. This is what helps bring all the preceding elements together, allowing risk management not only to deliver improved levels of facilitation but also to manage all strategic organizational objectives, including an improvement in organizational capacity to achieve border security.

- Adoption of a contemporary risk-based regulatory compliance framework vastly improves an institution’s overall ability to ensure security while delivering improved levels of facilitation.

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Acknowledgements
The authors would like to thank, without implicating: Sanjay Kathuria, Sohaib Shahid, Manuel Henriques and Jose Eduardo Gutierrez Ossio.

Series Editor
Sanjay Kathuria, Lead Economist, Regional Integration, South Asia, World Bank

Endnotes
2. Post-transaction audits refers to the process of documentary examination and verification of data after the goods have been cleared.