

SARCONNECT

ADVANCING REGIONAL INTEGRATION IN SOUTH ASIA

The Security and Trade Facilitation Nexus: International Trends and Practices

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The Emerging Paradigm of National Security

Improving levels of trade facilitation is one of the remaining challenges to enhancing connectivity and trade growth in South Asia, but border and internal security concerns are often perceived as a barrier to implementing key reforms. Security is a legitimate issue for South Asian nations. But there needs to be a balance to achieve the optimum level of security without restricting trade and damaging a nation's 'economic' security.¹ Even border management agencies employing a "100 percent" intervention policy do not have the resources to examine every package. The challenge is to focus security resources to target transactions of highest risk, using sophisticated analysis of transaction data and maintaining visibility and integrity of supply chains.

'National Security' is now seen as a broader concept that includes goals relating to national economic performance as well as physical security.² Contemporary border management strategies acknowledge this and strive to achieve both improved security and trade facilitation outcomes through comprehensive, integrated risk-based regulatory control strategies, appropriately supported by technology.

After the 9/11 attacks, several governments had to address the challenge of securing their national borders and protecting their international supply chains against terrorist threats. There is concern that poor border security risks the trafficking of weapons or drugs, entry of terrorists or their means of support, or other threats. Following the attacks, many jurisdictions emphasized more intervention and an increased regulatory burden on international trade. However, added emphasis on security need not become a barrier to international trade or render trade uncompetitive.

Based on several case studies, this note synthesizes some principles that can be adopted to govern the balance between managing security risks and facilitating trade.

The post-9/11 world resulted in new and increasingly complex security challenges to be addressed in regulating cross-border trade. However, the processes of globalization and economic integration continue to move forward, delivering improvements for all South Asian economies. Recently, the adoption of the World Trade Organization's "Trade Facilitation Agreement" (TFA) has resulted in a new range of *enforceable* trade facilitation measures regional economies have to work towards implementing.³ The TFA was not developed in isolation from security concerns. Most of its articles are based on elements of existing international conventions and agreements, particularly the World Customs Organization's "Revised Kyoto Convention" (RKC) and its Framework of Standards to Facilitate and Secure Trade" (SAFE Framework).^{4,5} It is imperative to address all

BOX 1: Cost of border security related measures

While it may seem clear that some border management policies impose additional 'frictional costs', there are also a range of direct costs related to increased border management (security) measures. The impact of the 9/11 attacks resulted in increases in insurance costs, security surcharges and higher base shipping rates. Some have estimated these costs amount to 3 percent of the value of traded goods, others, such as the OECD (2002) suggest it is significantly less. In 2003 the estimated cost of counter-terrorism measures in maritime transport alone exceeded \$2 billion (OECD, 2003).

major impediments to flows of trade in order to maximize the benefits of the TFA.

The South Asian Context

The paramount objectives of border management agencies vary from region to region, and from nation to nation. As such there is no one size fits all solution that can be applied globally. Generally, maintaining security is regarded as a more important objective of South Asian border agencies than it is in many other regions where revenue collection is paramount. This does not mean that achieving greater facilitation is not possible or desirable, but achieving balance may require greater effort.

Achieving Balance

Striking an appropriate balance between ensuring security and facilitating trade is at times seen as a trade-off. In fact, the two are complementary and could be realized through a balanced approach (Figure 1). Implementing concepts like “risk management” does not mean taking extra risks and 100 percent inspection regimes do not actually result in 100 percent inspection and in fact achieve poor outcomes for security, facilitation and revenue.⁶

In many cases, regulatory controls, including those that are security-related, are exercised at the borders or ports of trading partners.⁷ Yet, the evolution of international trade patterns, with increased globalization, means security risks are actually distributed, albeit unevenly, along a supply chain. For example:

- The tendency towards dispersed production means supply chains are getting longer and more complex, with increased reliance on goods from diverse environments and economies.
- Growing volumes of imports and exports make it impossible to inspect all goods without some form of selective inspection. In most instances only a fraction of goods

can be physically inspected without causing unacceptable delays at the border.

- Goods are increasingly manufactured and shipped with shorter lead times, allowing less time for advance notifications and inspections. Any delays in border clearance can have an immediate and costly impact on related value-chain processes.

The ideal scenario is one where security risks are managed not just at point of entry into a customs territory (the common case), but rather along the length of the supply chain. In fact, cargo is most vulnerable at packing or transshipment points.

Approaches to Balancing Security and Facilitation

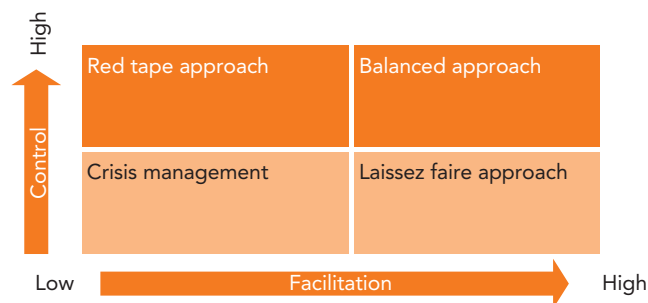
After 9/11 there have been several international and national initiatives to enhance the management of supply chains to detect and deter security threats. Many of these initiatives seek to strengthen security procedures while simplifying and facilitating improvements to customs procedures. Most have focused on the concept of “supply-chain security.”

At the international level, the World Customs Organization (WCO) has been at the forefront, while revisions were also made to the Kyoto Convention to reflect security-related issues in border management. Some of the national initiatives are based on the private sector playing an important role to improve supply-chain security, and benefitting from reduced regulatory controls. In general, private-sector involvement and broad-based training and implementation, in cooperation with government regulators, is key to facilitating and securing global trade. Examples of these initiatives are provided below.

Global Initiatives: World Customs Organization

As part of its goal to simplify and standardize customs practices among its members, the WCO supports and promotes the balance between trade facilitation and compliance/security. The organization has encouraged the standardization of procedures through the SAFE Framework, which includes the concept of the Authorized Economic Operators (AEO) as a fundamental principle of balancing security and facilitating the global supply chain. The SAFE Framework focuses on the concept of end-to-end supply-chain security and was developed in response to the demands of the evolving border-security threat. It is a set of non-binding technical standards that most WCO members have committed to implement, and aims to secure international trade without impeding it. It

FIGURE 1: Facilitation—Control Matrix



Source: Widdowson & Holloway 2011.

has two main pillars: Customs-to-customs networks and customs-to-business partnerships.

To supplement this, in 2010 the WCO developed a set of AEO guidelines, defining an AEO as:

“...a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with WCO or equivalent supply chain security standards.”⁸

A key benefit of AEO-type programs is the concept of mutual recognition, where countries accept each other's accreditation of operators, extending supply-chain visibility and resulting in greater compliance. Examples of AEO programs and mutual-recognition agreements are also published by the WCO.⁹

The RKC, which entered into force in 1974 and was revised in 2006, is a non-binding set of technical standards that most WCO members have committed to apply in order to simplify and harmonize customs procedures.

The RKC seeks to provide international commerce with the efficiency that modern trade demands. It requires model customs procedures and sets minimum standards for:

- Predictability (standard principles for processing of goods, conveyances and people moving across borders).
- Transparency (providing all information relating to customs and opening customs procedures to scrutiny).
- Legal process (preventing arbitrary or unfair actions by Customs, establishing necessary appeals procedures and regulating the handling of offenses).
- Use of information technology.
- Modern techniques (risk management, pre-arrival information, post-clearance audit).

National Initiatives: The USA

Approaches to supply-chain security have been led by the United States, which introduced a series of initiatives after 9/11, including the following:

- Importer Security Filing and Additional Carrier Requirements, the so-called 10+2 rule that requires more thorough and timely trade data prior to containerized cargo loading that is then subject to risk review and analysis.
- Container Security Initiative (CSI), which stations U.S. Customs and Border Protection (US CBP) inspectors at foreign seaports.
- Customs Trade Partnership Against Terrorism (C-TPAT), which focuses on voluntary industry participation to better secure commercial supply chains.

The initiatives are tied together under the “Secure Freight” program that links many of the elements of freight/cargo security within a comprehensive system that includes radiological and X-ray inspection.

Sweden

Swedish Customs has for several years used accreditation of economic operators as a strategy to promote compliance and facilitate international trade for compliant operators through application of sophisticated risk management. The focus has been on designing a global supply chain security system to be integrated with the existing customs system. Designated as The Stairway®, it is meant to be a customs system for improved service, quality and efficiency based on partnership between Customs and business.¹⁰

The inclusion of supply chain security requirements into a broader partnership arrangement is a logical move that overcomes the likely loss of private-sector benefits under a security-specific regime. Such an approach will enable customs authorities to continue to provide compliant enterprises with tangible methods of facilitation, while mitigating risks associated with supply-chain security and other regulatory objectives.¹¹

Regional Initiatives: the European Union

In 2008 the EU adopted Regulation 1875/2006 creating an AEO regime and made mandatory the electronic submission of pre-arrival and pre-departure information. The AEO concept was designed to ensure a more secure end-to-end supply chain. The intention was to secure the Community's borders while facilitating the movement of goods by using electronic data exchange and customs simplification. Being recognized as an AEO demonstrates compliance with national customs procedures and the implementation of robust security criteria. Individual EU member states are responsible for implementing national AEO programs in conformance with EU regulation and guidelines. Regulation 1875/2006 is in line with WCO recommendations and requires an AEO to be:

“recognised as an economic operator who has taken appropriate measures to secure his business and is thus a reliable actor in the international supply chain both from the perspective of the relevant government authorities and from the perspective of his business partners.”¹²

AEOs include manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses, and distributors. Traders also need to be aware of the unique requirements imposed by national regimes within the broader AEO concepts established by the EU.

There are four blocks of conditions and criteria to be met (as per WCO guidelines):

- Record of compliance with customs requirements.
- Adequate commercial and transport records systems.
- Financial viability.
- Applying and adherence to security and safety standards.

The EU program mandates trade compliance as a prerequisite for participation in trade security and facilitation benefits. This stance underlines the importance of private-sector participation, and the creation of comprehensive, affordable and scalable solutions.

Lessons for South Asia

SARConnect Issue 4 will examine in more detail the relevance and potential importance of some of these, and other, strategies in the context of concerns expressed by South Asian countries about the potential security fallout of improved trade facilitation. It will explore how some elements of the recommendations and global approaches examined in this issue can be adopted to improve security and facilitation outcomes in the South Asian context.

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