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**FACILITATING TRADE AND INVESTMENT**

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*Note by the secretariat*

**SUMMARY**

The global economic crisis has put increased pressure on exporters and investors to cut costs as they strive to maintain their competitiveness. However, the time and cost of trading across borders, and in doing business in general, remain excessive in many countries of the region. Facilitating trade by streamlining, computerizing and automating procedures and implementing other measures to make trade and business processes more efficient can be an effective way for Governments in the region to sustain economic growth while contributing to inclusive development. Reducing the cost of financing trade and managing the risks involved in international trade is also important, and regional cooperation in this area may be considered. Finally, investment facilitation should focus not only on attracting new investors but also on retaining existing foreign investors to minimize cutbacks and stimulate the reinvestment of earnings.

In the present document, the secretariat also provides an overview of the ESCAP activities in the area of trade and investment facilitation and outlines a number of specific issues for the consideration of the committee.

**CONTENTS**

	<i>Page</i>
Introduction.....	2
I. TRADE AND INVESTMENT FACILITATION IN ASIA AND THE PACIFIC: ROOM FOR IMPROVEMENT .....	2
II. TRADE IS BUSINESS: THE IMPORTANCE OF BEHIND- THE-BORDER BUSINESS REGULATIONS .....	3
III. TRADE FINANCE: AN ESSENTIAL TRADE ENABLER.....	4
IV. ESCAP ACTIVITIES IN TRADE AND INVESTMENT FACILITATION .	5
V. ISSUES FOR CONSIDERATION.....	7



## Introduction

1. The global economic crisis has put enormous pressure on exporters to reduce costs in order to secure their share of a shrinking global market. Given the depressed global market, reduced capital availability, and the increasing trade dependence of the majority of countries in the Asia-Pacific region, government measures to improve investment and trade competitiveness will be key to maintaining economic momentum in the region. Trade facilitation, by eliminating unnecessarily cumbersome procedures and requirements, is essential to the exploitation of rapidly declining export opportunities. In the area of investment facilitation, countries need to pay more attention to easing the burden of the crisis on existing investors and thereby minimize cutbacks in investments.

2. In the present paper, the secretariat summarizes the trade and investment facilitation situation in Asia and the Pacific, based on information from chapter 4 of the *Asia-Pacific Trade and Investment Report 2009*.<sup>1</sup> It highlights the importance of trade facilitation and other behind-the-border regulations on trade, and the critical need to address the trade finance gap. An overview of the main ESCAP activities and initiatives related to trade facilitation is then provided, describing issues on which the Committee may wish to provide guidance.

## I. TRADE AND INVESTMENT FACILITATION IN ASIA AND THE PACIFIC: ROOM FOR IMPROVEMENT

3. Increasing the transparency and efficiency of trade procedures is at the core of trade facilitation, and many countries in the region have taken steps to improve their performance in this area.<sup>2</sup> Despite the progress that has been made, the average number of documents and the time required for import/export in many ESCAP subregions remain at least twice that prevailing among the members of the Organization for Economic Cooperation and Development, even when landlocked countries are excluded. In addition, the predictability of export and import time is a major issue in many countries of the region. Delays at border crossings, harbours and docks caused by cumbersome procedures and excessive paperwork constitute a heavy burden for traders. The hidden costs of trade are high—as much as 15 per cent of the value of goods traded in some cases.

4. National trade facilitation programmes in many developing countries have inherently focused on facilitating imports from and exports to developed countries, while trade facilitation concerns at many land borders remain unanswered. In the aftermath of the financial crisis, any renewed interest of the region with regard to increasing intraregional trade would very much depend on how effectively trade facilitation concerns are addressed.

5. The success of trade facilitation reforms depends to a large extent on following a comprehensive approach that focuses on enhancing coordination and collaboration between government agencies, and between these agencies and private sector stakeholders (traders and service providers). Unfortunately, many countries in

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<sup>1</sup> ESCAP, *Asia-Pacific Trade and Investment Report 2009* (United Nations publication, Sales No. E.09.II.F.19). Printed copies of the *Report* will be distributed at the Committee session. The *Report* will be available online at [www.unescap.org/tid/aptir.asp](http://www.unescap.org/tid/aptir.asp) as of 10 October 2009.

<sup>2</sup> See ESCAP, *An Exploration of the Need for and Cost of Selected Trade Facilitation Measures in Asia and the Pacific in the Context of the WTO Negotiations*, Studies in Trade and Investment No. 57 (United Nations publication, Sales No. E.06.II.F.28) and ESCAP, *Trade Facilitation beyond the Multilateral Trade Negotiations: Regional Practices, Customs Valuation and Other Emerging Issues* (United Nations publication, Sales No. E.08.II.F.9).

the region lack trade facilitation bodies that use such an approach to influence the simplification and harmonization of trade processes and procedures effectively.

6. In terms of the way forward, focusing on concrete improvements that can yield quick efficiency gains, such as providing clear, complete and easily accessible information on *existing* rules and procedures for import and export, could be given priority in the short term. In the medium term, the simplification, harmonization and standardization of rules and procedures could be actively pursued, using the existing trade facilitation instruments developed under the auspices of the United Nations and other relevant bodies, such as the World Customs Organization. Making use of the single-window type of facility (a one-stop facility for exchanging information between traders and government) would assist countries in reducing the complexity, time and costs involved in international trade.

7. When it comes to investment facilitation, most governments emphasize activities designed to attract new investments, while comparatively little is done to support investors in the investment process and thereafter. At times, the positive environment with regard to regulations, attitudes and assistance that has been promoted by national authorities is not reflected at the provincial or local levels. Evidence points towards a lack of coordination and dialogue among national Government agencies and provincial and local authorities, resulting in low investment realization.

8. Existing investors are an important source of foreign direct investment (FDI): in 2007, reinvested earnings accounted for 41 per cent of total FDI inflows in Indonesia, 43 per cent in Thailand, 53 per cent in Singapore and 56 per cent in Malaysia.<sup>3</sup> As the economic downturn is leading many investors to reposition and restructure themselves and their way of doing business to remain competitive, the short- to medium-term focus should combine outreach aimed at attracting new investors with comprehensive facilitation and aftercare services for existing investors.

## **II. TRADE IS BUSINESS: THE IMPORTANCE OF BEHIND-THE-BORDER BUSINESS REGULATIONS**

9. Behind-the-border business regulations affect a country's export competitiveness, and the domestic business environment may have significant impacts on trade. For example, estimates by ESCAP staff show that improving contract enforcement may ultimately increase bilateral exports by an amount 50 per cent greater than what could be expected from a 5 per cent reduction in the cost of exports.<sup>4</sup> Sharp differences exist in the level of business facilitation across subregions. While East and North-East Asia and South-East Asia perform relatively well, South and South-West Asia, the Pacific islands and, especially, North and Central Asia show low levels of business facilitation. South-East Asia and the Pacific islands are the only subregions that have improved their world standing in business facilitation over the past two years.

10. Overall, it appears that most countries in the ESCAP region, including many countries that have invested heavily in the rationalization and automation of trade procedures, may have the scope to further increase their trade competitiveness by

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<sup>3</sup> United Nations Conference on Trade and Development, *World Investment Report 2008: Transnational Corporations, and the Infrastructure Challenge* (United Nations publication, Sales No. E.08.II.D.23).

<sup>4</sup> Yann Duval and Chorthip Utoktham, "Behind-the-border trade facilitation in Asia-Pacific: cost of trade, credit information, contract enforcement and regulatory coherence", ESCAP Trade and Investment Division Staff Working Paper 02/09, April 2009, available at [www.unescap.org/tid/publication/swp209.pdf](http://www.unescap.org/tid/publication/swp209.pdf).

broadening their efforts to include non-trade specific regulations affecting domestic businesses. Such an approach may be particularly beneficial as it is likely not only to benefit existing exporters but also to make it easier for other emerging businesses, particularly small and medium-sized enterprises (SMEs), to develop and grow, and ultimately engage in international trade.

11. While performance in a specific area of trade or business facilitation affects trade competitiveness, recent empirical evidence suggests that achieving similar levels of performance across various areas is also important, in particular for the development of intraregional and South-South trade in Asia. A more integrated approach may also contribute to lowering the cost of entry into new markets and sectors of activities, leading to much-needed export diversification.

### **III. TRADE FINANCE: AN ESSENTIAL TRADE ENABLER**

12. The global economic crisis has attracted renewed attention to the issue of trade finance, as exporters in some countries struggle to secure much-needed short-term financing and protection against rising commercial risks at a time when demand for their products has fallen dramatically. Recent ESCAP research suggests that a 10 per cent decline in trade finance could lead to a drop in total trade of \$129 billion in developing Asia (3.6 per cent of their total trade).<sup>5</sup>

13. Although official statistics on trade finance are weak or non-existent in the majority of the countries in the region, information collected from various surveys of financial institutions and/or exporters recently confirmed that the prices of export credit insurance premiums and letters of credit (a trade finance instrument whereby the bank of the importer guarantees payment to the exporter or its bank upon satisfactory delivery of a shipment) have increased. While some countries in the region have attributed the more difficult access to and higher cost of trade finance to a general liquidity shortage in their economies, many have pointed to the increased risk aversion of financial institutions towards enterprises and to the higher perceived counterparty risk of banks as key factors.

14. Countries with already high risk ratings have suffered the most from the drying up of trade finance, as financial institutions looked for quick ways to reduce the overall risk of their trade finance portfolios by reducing coverage of transactions considered as high risk. While transactions with least developed countries have traditionally been associated with higher risk premiums, the current crisis has worsened the situation.

15. In response, international financial institutions and the Group of Twenty took a number of trade finance facilitation measures recently. At the regional level, the Asian Development Bank (ADB) has significantly expanded its trade finance programme. At the national level, many countries have implemented new or enhanced trade finance schemes in response to the crisis, most often focusing on providing export credit insurance and guarantees, but also providing advisory services and training to help enterprises and banks to manage their risks.

16. However, many of the smaller and less developed countries in the region have limited capacity to address national trade finance shortages on their own. Establishing or strengthening government-backed export credit insurance and guarantee institutions and/or export-import (EXIM) banks is essential, as they are

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<sup>5</sup> W. Liu and Yann Duval, "Trade finance in times of crisis and beyond", ARTNeT Alerts on Emerging Policy Challenges, No. 3, April 2009, available at [www.unescap.org/tid/artnet/pub/alert3.pdf](http://www.unescap.org/tid/artnet/pub/alert3.pdf).

often inefficient or missing in these countries.<sup>6</sup> Finally, as many of the trade finance facilitation schemes launched by regional and global development banks rely on domestic commercial banks to channel the funds to traders and SMEs, building the capacity of these institutions to efficiently channel funds to those in need is crucial.

17. Deepening cross-border cooperation by pooling resources and expertise may be an effective way to tackle current bottlenecks in trade financing. Options in this area include: (a) strengthening the regional network of export-import banks; (b) expanding membership to multilateral clearing arrangements and related international payment services to reduce trade costs—possibly based on those offered by the Asian Clearing Union;<sup>7</sup> (c) further strengthening trade finance facilitation programmes at international financial institutions; and (d) establishing a multilateral export credit insurance company and/or a new regional capital market fund for South-South trade and investment finance.

#### **IV. ESCAP ACTIVITIES IN TRADE AND INVESTMENT FACILITATION**

18. The secretariat assists member States in tackling inefficiencies and bottlenecks in international trade by: (a) building capacity among trade facilitation practitioners; (b) developing trade facilitation implementation methodologies and tools; (c) undertaking analytical and advocacy work; and (d) fostering a regional community of knowledge and best practices for trade facilitation. In delivering its work, emphasis is placed on inter-agency collaboration, including with other United Nations regional commissions, the United Nations Conference on Trade and Development, ADB and the World Trade Organization. In this context, the secretariat also actively supports the Aid-for-Trade initiative and coordinates the Aid-for-Trade-related activities of various United Nations agencies in the region.

19. The secretariat places special emphasis on assisting least developed and landlocked developing countries to improve their trade competitiveness through the implementation of trade facilitation measures. In the biennium 2008-2009, ESCAP has provided capacity-building in trade facilitation to 16 least developed and landlocked developing countries. During this period, ESCAP, together with the Economic Commission for Europe (ECE), held three subregional seminars in Central Asia—on electronic trade documents, integrated border management, and on single window facilities and data harmonization.

20. Increasing focus has been placed on trade facilitation for SMEs. In collaboration with the World Bank, the China Council for the Promotion of International Trade, and the Asia-Pacific Research and Training Network on Trade

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