

REGIONAL TRADE FACILITATION AND CUSTOMS COOPERATION PROGRAM

Progress and Future Directions

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Abbreviations

ADB	Asian Development Bank
CCC	Customs Cooperation Committee
DMC	developing member country
ICT	information and communications technology
IMF	International Monetary Fund
PRC	People's Republic of China
RTFCCP	Regional Trade Facilitation and Customs Cooperation Program
TIR	Transport Internationaux Routiers (International Road Transport)
TRACECA	Transport Corridor Europe-Caucasus-Asia
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WCO	World Customs Organization
WTO	World Trade Organization

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This will serve as a Discussion Paper for the formulation of a medium-term work program during the Third Customs Cooperation Committee Meeting.

I. INTRODUCTION

1. To support customs reforms and modernization in ADB's developing member countries (DMCs) in the East and Central Asia Region (the Region), ADB launched a Regional Trade Facilitation and Customs Cooperation Program (RTFCCP) in 2002.

2. The RTFCCP is a three-pronged strategy for trade facilitation to help (i) modernize customs infrastructure—including customs legal and physical infrastructure, (ii) develop customs-supporting infrastructure by fostering private associations (such as brokers' associations) and their participation in trade facilitation, and (iii) support regional customs cooperation to address issues of common concern and complement country-specific support.

3. This strategy resulted in phased interventions in selected DMCs (e.g., Tajikistan and the Kyrgyz Republic) to first promote broad-based customs reforms, followed by planned support for customs physical infrastructure development to reinforce the ongoing reforms and improve the efficiency and transparency of customs services.

4. Regional customs cooperation has become a flagship program of the broad Central Asia Regional Economic Cooperation Program sponsored by ADB. Activities of the regional customs cooperation program are guided and supervised by a Customs Cooperation Committee (CCC) consisting of the heads of customs administrations of the DMCs.¹ This is intended to ensure country ownership of customs cooperation.

5. In its first meeting in August 2002 in the People's Republic of China (PRC), the CCC endorsed a seven-point Common Action Plan.² Five expert groups were created to study (i) simplification and harmonization of customs procedures (chaired by the PRC), (ii) development of border posts and facilities (chaired by Kazakhstan), (iii) development of simplified transit systems (chaired by the Kyrgyz Republic), (iv) data sharing and ICT for customs operations (chaired by Uzbekistan), and (v) risk management and post-entry audit (chaired by the PRC). Additionally, two working groups (respectively chaired by the PRC and Uzbekistan) were established to coordinate the expert groups' work and report progress to the CCC.

6. Five regional gatherings have been held: a training workshop in February 2003 in Almaty; a joint working group meeting in April 2003, also in Almaty, to develop a detailed work program and implementation arrangements for the Common Action Plan; and subsequent meetings in Issyk-Kul in August 2003, Urumqi in September 2003, and Bishkek in February 2004. The last three were particularly useful in adjusting and narrowing the scope of the work program according to shared priorities among the CCC member countries.

7. The RTFCCP has achieved visible progress and benefited greatly from cooperation with bilateral development agencies and multilateral institutions, particularly support from the World Customs Organization (WCO), the European Union through its program of Transport Corridor Europe-Caucasus-Asia (TRACECA), the Swiss Agency for Development and Cooperation, IMF, UNDP, USAID, and the World Bank.

8. This document highlights the progress of the RTFCCP since its launch in 2002, and suggests future directions for cooperation based on the experience and lessons learned.

¹ Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, People's Republic of China, Tajikistan, Turkmenistan, and Uzbekistan.

² ADB. 2002. *Board Information Paper on Regional Customs Cooperation Meeting*. Manila.

II. PROGRESS

A. Simplification and Harmonization of Customs Procedures

9. Simplification and harmonization of customs procedures is at the heart of trade facilitation. Harmonization of customs procedures in the Region is being achieved mainly through individual countries' efforts to reform customs legal frameworks (such as the Customs Code) in line with the Convention on the Simplification and Harmonization of Customs Procedures, commonly known as the Revised Kyoto Convention. The Convention serves as a blueprint for reforms and modernization of customs administrations in all the DMCs. Kazakhstan ratified the revised Customs Code in May 2003 with assistance from IMF and USAID, and the Kyrgyz Republic and Tajikistan are expected to soon finish the revision of their Customs Codes and amend customs procedures accordingly with assistance from ADB's ongoing program loans and technical assistance which are part of the RTFCCP. A detailed diagnostic study was conducted to compare the Kyrgyz's revised Customs Code with the Revised Kyoto Convention. The study could serve as an example for undertaking the same exercise in other CCC member countries.

10. Regional customs cooperation activities were held to complement individual member countries' efforts by (i) providing training on the Revised Kyoto Convention including modern customs techniques such as risk management and post-entry audit, (ii) gaining knowledge from programs sponsored by other agencies such as the European Union's TRACECA Program, and (iii) sharing of country experiences and lessons learned in individual countries' customs reforms and modernization efforts. These activities partly contributed to the member countries' effort to join the WTO and their accession to major international conventions such as the Revised Kyoto Convention.

B. Development of Border Posts and Facilities

11. The RTFCCP supported a needs assessment activity for the customs administrations of the Kyrgyz Republic and Tajikistan to help them develop strategies and investment plans for border infrastructure development. The resulting strategies will help them set their goals and priorities while the investment plans will help them identify financing requirements to (i) improve the working conditions of the border posts, (ii) rearrange border-post facilities to facilitate traffic flows and movement of people, and (iii) provide special customs equipment for anti-smuggling and prevention of drug-trafficking. The final outcomes will be shared with other CCC member countries as references for undertaking the same assessment.

12. The RTFCCP is also supporting the potential pilot-testing of a joint-border processing model initiated by the customs administrations of Kazakhstan and the Kyrgyz Republic. Joint-border processing or joint customs control is recognized as a best practice in trade facilitation. In general, it helps neighboring countries collectively economize on their border resources. Such prospect serves as impetus for the countries to streamline the procedures of their border agencies. However, joint-border processing requires a high degree of harmonization of customs legal frameworks, as well as sharing of jurisdiction on foreign territory that normally requires ratification by the legislative bodies of two bordering countries. Such requirements make this trade facilitation initiative one of the most challenging in the Common Action Plan.

13. Among the CCC member countries, the Kyrgyz Republic and Kazakhstan have picked up the challenge to spearhead this initiative. They have held several bilateral meetings to examine the possibility of undertaking pilot-testing at the border-crossing of Akzhol and Korday. Each country is currently taking action to coordinate with relevant border agencies in an effort to

simplify and streamline border procedures within its own jurisdiction as the first step toward pilot-testing. As CCC Secretariat, ADB prepared a working paper to facilitate discussions at the CCC meetings.³ The paper presents several options and legal implications for joint-border processing. The two countries held another meeting in February 2004 but did not reach an agreement on the proposed pilot-testing. While joint-border processing may not be realized in the short term due to legal constraints and difficulties as to coordinating with other border agencies or border guards, the experience gained by the two DMCs in working with other border agencies could be valuable in broadening CCC's trade facilitation initiatives in the future.

C. Development of Simplified Transit Systems

14. Because of the small-economy and land-locked nature of most CCC member countries, transit development stands out as a key initiative among the several trade facilitation initiatives endorsed by the CCC. Without effective transit systems that facilitate intra-regional trade and help move goods in and out of the Region, several member countries risk being further marginalized and unable to take advantage of the increasingly globalized economy. However, viable transit arrangements, if and when implemented, can help transform the Region into a modern "silk road" or "land-bridge" connecting East Asia with Europe.

15. Transit was a major focus of discussions in three regional meetings. In these meetings, participants analyzed the major implementation issues facing individual CCC countries' transit systems, and the international transit system under the TIR Convention.⁴ The delegates also studied the regional transit system adopted by the European Community as part of an effort to explore the possibility of introducing an alternative transit system in the Region. All these contributed to the development of a "Strategy and Action Plan for Transit Development" presented to the Senior Officials Meeting for the 2nd Ministerial Conference on 28-29 September 2003 and the 2nd CCC Meeting on 9-10 October 2003 in Tashkent.⁵ To improve the transit condition in the Region, a two-pronged strategy was proposed. The strategy would (i) address the implementation issues related to the TIR Transit System as an immediate goal, and (ii) explore the possibility of introducing a regional transit arrangement as a long-term development goal. This would promote both intra-regional and inter-regional trade. It was also suggested that a program of action be included in the strategy paper.

16. Transit issues reflect deep-seated development issues and challenges confronting CCC member countries. As a long-term development goal, transit development in the Region depends on the concerted effort of CCC member countries to provide the enabling legal and physical infrastructure for a viable regional transit system. Thus, individual member countries must do their share in customs reforms and modernization if regional efforts are to be successful.

17. The progress in reaching an agreement on transit between Kazakhstan and the Kyrgyz Republic is a positive development in support of the CCC initiative. At the meeting in Bishkek,

³ ADB. 2003. *Joint-Border Processing at Regional Border Crossings*. Background Paper for the Second CCC Meeting in Tashkent on 9-11 October 2003. Available: http://www.adb.org/Documents/Events/2003/CCC/Second_Mtg/wp_02.pdf

⁴ The most important international convention concerning transit by road is the Transport Internationalaux Routiers (International Road Transport) Agreement, or TIR Agreement, concluded in 1949. This Agreement provided a guarantee system that would cover the duties and other charges at risk on goods moving in the course of international trade. Its success led to the creation in 1959 of the Customs Convention on the International Transport of Goods, also known as the TIR Convention. The 1959 TIR Convention was subsequently revised in 1975 to reflect new technical methodologies, such as the introduction of containers in transport. Among the CCC member countries, only the PRC has not acceded to the TIR Convention.

⁵ The paper is available at http://www.adb.org/Documents/Events/2003/CCC/Second_Mtg/wp_03.pdf

member country participants underscored the importance of extending such a bilateral transit agreement to other CCC member countries as an initial step to developing an alternative transit arrangement. Particular emphasis was also given to the development of the insurance industry and bank guarantees to support the use of national vehicles for transit movement in the Region.

D. Data Sharing and ICT for Customs Operations

18. The use of information and communications technology (ICT) for data-sharing and customs modernization is recognized by ongoing discussions in the WCO and the WTO as a major component in trade facilitation. ICT helps reinforce individual countries' customs legal reforms and simplification of customs procedures, and improve the transparency and efficiency of customs services. In particular, ICT will improve governance by reducing direct interfaces between customs officers and traders (and their representatives) in customs clearance, and will further simplify customs procedures through automation. Adequate ICT infrastructure is essential for introducing modern customs practices such as risk management and post-entry audit.

19. Regional activities in this area have focused on (i) distilling country experiences and lessons-learned in customs modernization through ICT, (ii) developing general principles for using ICT for customs modernization, and (iii) assisting individual countries in their needs assessment for ICT in customs services and in the design of customs modernization strategies and investment plans.

20. Ten general principles were developed by CCC country representatives at the meeting in Issyk-Kul regarding the application of ICT for customs modernization.⁶ A key principle is that countries must *first* reform customs laws and procedures according to country circumstances and international best practices and *then* use ICT to reinforce the reform process. ICT should not be used to re-engineer poor and antiquated customs procedures in the hope that it would help solve inefficiency, corruption, and other problems.

21. Progress was also made in agreeing on (i) the scope of customs data to be exchanged among the CCC countries' customs administrations in reference to the WCO initiative on common data elements, and (ii) ICT language to be used (the Extended Message Language format was suggested).

22. Support for the preparation of ICT customs modernization strategies and investment plans are being extended to the Kyrgyz Republic and Tajikistan. Both countries are striving to develop an integrated customs information system with custom declaration processing as the core component. Development or selection of such a system is by no means a straightforward exercise as the recommendation must be cost-effective and suitable for the countries' circumstances. To help develop the strategy and investment plan, the Secretariat prepared a report to examine major systems adopted by other countries and their pros and cons.⁷ The outcomes of assessments and proposed customs modernization strategies will be widely disseminated through future CCC meetings.

⁶ Protocol of Missions in the ICT Working Group, Seminar on Trade Facilitation and Customs Modernization, 4-8 August 2003, Issyk-Kul, Kyrgyz Republic. Available: http://www.adb.org/Documents/Events/2003/CCC/Trade_Facilitation_Customs_Modernization/ICT_final_English.pdf

⁷ ADB. 2003. *Customs Information and Communications Technology*. Background Paper for the Second CCC Meeting in Tashkent on 9-11 October 2003. Available: http://www.adb.org/Documents/Events/2003/CCC/Second_Mtg/wp_04.pdf

E. Development of Risk Management and Post-Entry Audit

23. With the growing volume of international trade and passengers, the traditional method of inspecting every traveler or cargo consignment has become a hindrance and is no longer practical. Risk management offers a solution by allowing customs to focus its resources on detecting and examining “high-risk” cargos and travelers, while not impeding the movement of “low-risk” cargos and travelers. Time allocated for customs clearance can be further shortened by combining risk management with post-entry auditing, in which customs scrutinizes shipment after its entry has been cleared particularly on those identified as high-risk importers. Post-entry audit provides customs an opportunity to recover potential “lost revenues” at the borders. A combination of risk management and post-entry audit effectively balances customs’ due function of trade facilitation and controls to ensure revenue collection and protection of public interests.

24. Training was the main focus of this initiative. The following aspects of risk management were covered in the training events: risk profiling, selectivity criteria, and technical requirements for implementing a risk management system. Country assessments were also carried out in the Kyrgyz Republic and Uzbekistan to identify training, technical assistance, and equipment needed to implement an effective risk management and post-entry audit program. Lack of adequate ICT infrastructure was identified as a main constraint to the application of such practices.

F. Development of a Regional Intelligence System

25. A regional intelligence system aimed at sharing intelligence and customs data will strengthen customs enforcement against drug trafficking and illicit trade of prohibited goods. Drug trafficking and smuggling are recognized as a major regional issue. A regional intelligence system among the CCC member countries was envisaged at the 1st CCC Meeting to complement the existing regional intelligence liaison offices (RILOs) coordinated by the WCO.

26. At the Urumqi meeting, several member country delegates expressed concerns about possible duplication of functions with the WCO’s RILOs. In view of these concerns, it was proposed that the CCC initiative mainly focus on (i) strengthening individual countries’ national intelligence systems as part of the overall risk management system, and (ii) improving the CCC member countries’ participation in the RILO network through training and technical support.

G. Capacity Building for Regional Customs Organizations

27. Training was an important component in all of the regional meetings. Topics covered included (i) the Revised Kyoto Convention, (ii) the TIR Convention, (iii) the WTO Valuation System, (iv) risk management and post-entry audit, (v) various customs declaration processing systems, and (vi) the new computerized transit system adopted by the European Community. Regional training will continue to be the priority of CCC activities, complemented by in-country training to address country-specific training needs.

III. LESSONS LEARNED AND FUTURE DIRECTIONS

28. Regional customs cooperation activities have proved to be labor- and resource-intensive. Each regional activity required extensive pre-event consultation to ensure that the program and agenda reflected the shared interests of the CCC member countries. Indeed, cooperation has been a process of identifying shared priorities and narrowing the focus of cooperation activities. This suggests that regional customs cooperation target modest goals, focusing on activities with strong country ownership and demonstration effects.

29. As catalyst and Secretariat, ADB should take a phased approach, focusing its support initially on bilateral initiatives that have the strong commitment of at least two CCC member countries. ADB should also provide support in pilot-testing bilateral initiatives so that these can be introduced to other CCC member countries if proved to be successful. The recent efforts to gear support toward bilateral initiatives (such as data-sharing and transit agreements) is a step toward this direction. Regional meetings should be maintained but mainly for training and dissemination of country knowledge and experiences gained in customs modernization.

30. Commitment to customs reforms and modernization by CCC member countries is key to the success and sustainability of customs cooperation. As earlier discussed, all the proposed joint activities (such as joint border processing, data-sharing and transit development initiatives) will ultimately depend on individual countries' efforts in customs legal reform and modernization. Therefore, support for country-specific programs with strong regional perspectives is an integral part of the RTFCCP. The regional customs cooperation activities and country-specific modernization efforts must complement and reinforce each other.

31. Effective donor coordination is critical in extending concerted support and in maximizing the impact of development assistance. Several development partners in the Region give priority assistance to trade facilitation and regional customs cooperation. The coordination group established among the major multilateral institutions at the 2nd Ministerial Conference on 11-12 November 2003 in Tashkent is a vehicle to strengthen donor coordination in support of the Central Asia Regional Economic Cooperation, and customs cooperation in particular. CCC member countries can help strengthen donor coordination by sharing information and informing the Secretariat of assistance provided by all development partners.

32. The experience and lessons learned suggest future directions of the RTFCCP being guided by the following principles:



- (i) **support for regional cooperation activities with strong country ownership**, particularly bilateral initiatives that have strong commitment of at least two CCC member countries;
- (ii) **support for country-specific activities with strong regional orientation**, such as individual countries' efforts in customs reforms and modernization, and PRC's accession to the TIR Convention so that Central Asia could become a "land bridge" between East Asia and Europe through the TIR Customs Transit system;
- (iii) **support for training and knowledge sharing** to leverage international best practices and each other's experiences for accelerated reforms and minimizing policy mistakes;
- (iv) **donor coordination** through (a) the donors' coordination group for Central Asia Regional Economic Cooperation Program, and (b) CCC member countries playing an active role.

33. A medium-term work program (Attachment) reflecting the strategic priorities and guiding principles will be presented at the next CCC meeting for consultation among the member countries.