Greater Tumen Region Trade Facilitation Study

Prepared by *Ratnakar Adhikari*
with contributions from *Sudeep Bajrachaya*
Sponsored by *UNDP China*
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Greater Tumen Initiative
Trade Facilitation Study Report

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Ratnakar Adhikari[1]

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Sudeep Bajrachaya

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This study is sponsored by UNDP China to support Greater Tumen Initiative (GTI) in analysing current situation of technical trade barriers in the Greater Tumen Region and based on the findings of the survey to provide recommendations for GTI member governments and related stakeholders. The lead author of the report is Ratnakar Adhikari with contributions from Sudeep Bajrachaya.

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Note: the survey was conducted in 2013, therefore most of the data used in this report was updated till 2012. In the recent report review by member governments, some information and data were updated up to 2014 respectively.

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List of abbreviations

ADB	Asian Development Bank
AEO	Authorized Economic Operator
APEC	Asia Pacific Economic Cooperation
AQSIQ	Administration of Quality Supervision, Inspection and Quarantine
ASEAN	Association of Southeast Asian Nations
B2C	Business to Consumer
CAIS	Customs Automated Information System
CBEZ	Cross Border Economic Zones
COMESA	Common Market for Eastern and Southern Africa
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GMS	Greater Mekong Sub-region
GTI	Greater Tumen Initiative
GTR	Greater Tumen Region
GVC	Global Value Chain
ICT	Information and Communications Technology
MFN	Most-Favoured Nation
MRA	Mutual Recognition Agreement
NEA	Northeast Asia
NEAL-NET	Northeast Asia Logistics Information Service Network
NSW	National Single Window
NTB	Non-Tariff Barrier
OECD	Organisation of Economic Co-operation and Development
OGA	Other Government Organization
TEU	Twenty-foot Equivalent Unit
TFC	Trade Facilitation Committee
ToR	Terms of Reference
TRADP	Tumen River Area Development Programme
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
WCO	World Customs Organization
WTO	World Trade Organization

1. INTRODUCTION

1.1 Background

The World Trade Organization (WTO) – the global trade regulator – defines trade facilitation as "the simplification and harmonization of international trade procedures" where trade procedures are the "activities, practices and formalities involved in collecting, presenting communicating and processing data required for the movement of goods in international trade" (WTO 1998). This narrow tailoring of definition is probably intentional because of the compromise reached between the WTO members. However, many other organizations view trade facilitation as a much broader concept encompassing issues such as transport facilitation, regulation of non-tariff measures, and even tackling corruption in trade transaction (see, for example, Grainger 2008).While the World Bank does not explicitly define trade facilitation, it prefers to have a cross-cutting approach to the issue. It has included an array of issues ranging from infrastructure investment, customs modernization and border crossing environment, streamlining of documentary requirements and information flows, automation and electronic data interchange, improved ports efficiency, logistics support and transport security to transit, and multimodal transport facilities within the ambit of its trade facilitation work (World Bank 2005).

Although the debate on trade facilitation found its rightful place in the trade lexicon only after WTO's first Ministerial Conference held in Singapore in December 1996, its origin can be traced to a much earlier period. For example, World Customs Organization (WCO) raised the issue of trade facilitation almost four decades ago when they adopted International Convention on the Simplification and Harmonization of Customs Procedures on25 September 1974, which has been revised twice since with the latest revision having been made in 2006.

While this paper discusses the details of increasing salience of trade facilitation in the present context, suffice to mention here that countries or regions that ignore trade facilitation issue do so at their own perils. This is because trade facilitation is necessary not only for reducing costs of exports – which are considered important by policy makers and private sector alike, but also imports. The reason behind this lies in the fact that imports are not only useful for expanding consumers' choices and offering them value for money but also for facilitating exports. Imports of raw materials, parts and components, machinery and above all technology are not only fundamental to enhance exports, but also to move up the value chain ladder and participate in the global production network.

Several bouts of financial and economic crises that have shaken up the global economy including the Asian financial crisis of 1997-98, global financial and economic crises of 2008-2009, and the ongoing debt crisis which has created an unprecedented impact in the Euro zone economies, are the stark reminder of the need to focus more on regional and sub-regional integration between developing countries rather than relying exclusively or predominantly on the developed countries' market. Asian countries have learned this lesson, albeit the hard way, in the aftermath of the Asian financial crisis as they focused on twin measures, namely- enhancing the size of domestic market and accelerating the pace of regional integration.

The need for scaling up trade among developing countries is further reinforced by the recent revelation of the *World Trade Report 2013*, according to which between 1980 and 2011, developing economies raised their share in world exports from 34 percent to 47 percent and their

share in world imports from 29 percent to 42 percent. The report further states that Asia as a region is playing an increasing role in world trade, with China alone having managed to increase the share of world exports from 1 percent in 1980 to 11 percent in 2011 – making it the largest single exporting country in the world. (Note: Can we refer to the Global Human Development Report 2013: The Rise of the South: Human Progress in a Diverse World as it has similar statements on the rising significance of the MICs and emerging economies?)

According to UNESCAP (2013) the six sub-regional economies of East and Northeast Asia [People's Republic of China (China hereafter), Democratic People's Republic of Korea(North Korea hereafter), Japan, Mongolia, Republic of Korea(South Korea hereafter), and Russian Federation (Russia hereafter)] account for around 30 percent of global merchandise exports and 25 percent of imports. The sub-region rests at the centre of policy and technology innovations that allowed it to leapfrog progress in economic and social development, with the Northeast Asian economies performing generally well in the first half of 2012, with estimated real GDP growth of 4.2 percent, even during the era of global economic turmoil. However, the sub-region faces enormous challenges including instability of financial markets, ageing population, environmental pollution, spread of infectious diseases like bird flu H7N1, and disaster relief, in its quest to continue progressing in terms of economic growth and social development (*ibid*). In is worth emphasizing here that in the context of growing carbon emissions resulting from increased transportation, [2] enhanced trade and investment relations with geographically contiguous countries could also contribute towards environmental sustainability.

Asia has been a latecomer in the regional integration scene, although Southeast Asian countries were the ones that made pioneering endeavour in the continent by establishing Association of Southeast Asian Nations (ASEAN) – as far as back in 1967 as a small five-nation's club and bringing it the present size. Northeast Asian countries, by contrast, are yet to make significant headways in the areas of creating a regional integration platform – not due to economic or social reasons but because of political and strategic reasons (Wirth 2012; Jhee 2008).

There exist many studies which show that actual intra-subregional trade in Northeast Asia (NEA) is much lower than its true potential. Despite close proximity to Southeast Asia, one of the most dynamic economic regions in the world, NEA is far behind other economic regions in terms of trade and development. Vindicated by high intra-regional trade costs and existing inefficiencies in the intermodal transit transports within the sub-region, NEA is possibly better integrated with the global economy than individual economies are with each other. While trade between China, Japan and South Korea have flourished due to increased participation in the global production networks, integration of Mongolia and Russia into such production networks is far from complete, thus harbouring huge potential for future growth. Additionally, strong product complementarities that exist between NEA countries further bolster the potential for intra-regional trade and development in NEA region.
Meanwhile, an uneasy relation between China and Japan, the two major economic powers of ASEAN has mooted the idea of ASEAN + 3 (China, Japan and South Korea), which is seen as sitting "in the driver's seat" of East Asian regional integration (Wirth 2012). But this should not necessarily be the case, provided that the regional initiative is pursued at a smaller scale with the potential for scaling it up in the future. Already, numerous integration initiatives have taken root in the sub-region: the formation of Trilateral Cooperative Secretariat in Seoul to address regional cooperation issues between China, Japan and South Korea, followed by signing of the Trilateral Investment Agreement to facilitate intra-regional cross-border investment in May 2012 and the

agreement between the leaders of the three economies to launch official negotiations for a trilateral Free Trade Agreement (FTA) within the year at the annual Beijing summit in 2012 are some of the milestones worth highlighting.

However, smaller initiatives such as Greater Tumen Initiative (GTI), which encompasses parts of four countries in the sub-region, namely China, Mongolia, Russia and South Korea, could be a viable complement to any sub-regional or regional initiative in East Asia.[3]Established in 1995 originally as Tumen River Area Development Programme (TRADP) with the support of United Nations Development Programme (UNDP) and renamed as such in 2005, GTI is a regional cooperation mechanism in NEA. At the Eighth Meeting of the GTI Consultative Commission held in Changchun, China, in September 2005, member Governments adopted the Changchun Agreements in which they committed to take full ownership of the initiative through increased contribution of financial and human resources. The meeting also agreed on a Strategic Action Plan 2006–2015, focusing GTI activities on four priority sectors: energy trade and investment, tourism, transportation with environment as a cross-cutting theme.[4]

1.2 Rationale and objectives

Since the focus of this report is trade facilitation, discussion on some developments related to trade facilitation within the region and the rationale underlying the study is in order. One of the goals of the Agreement on the Establishment of the TRADP (1995) – the founding document of the initiative – includes making Greater Tumen Region (GTR) attractive for international trade and business (Chang 2012a). Two major purposes of GTI Strategic Action Plan 2006-2015 (revised) within the ambit of trade and investment and cluster are - the deregulation of border crossing procedures for goods in the GTR, and the removal of bottlenecks to enhance trade in the region (*ibid*).

Some have suggested that physical transport infrastructure – hard barriers to trade – has been improving in the GTR but non-physical or institutional impediments – soft barriers – to border-crossing and behind-the-border barriers remain very high in the Greater Tumen Region (GTR thereafter). This has led to the call to identify and remove them so as to encourage free movement of goods, services, and people in the region (Ko, Lee and Yo 2011), thus placing trade facilitation at the core of the trade and investment facilitation agenda. It was probably this realization that led to the establishment of Trade Facilitation Committee (TFC) in 2010. The inaugural meeting of TFC took place in Beijing in November 2011, and the second meeting of the committee took place in Seoul in October 2012, followed by the third meeting in Ulaanbaatar in August 2013.

The objectives of the TFC are to deepen members' understanding on trade facilitation issues; enhance the transparency of trade-related policies, rules, regulations and practices; build up capacity in addressing bottlenecks that impede trade; and carry out resulted-oriented projects (GTI 2011). The inaugural meeting approved the updated terms of reference (ToR) of the TFC and a few trade facilitation projects, namely International Trade Facilitation Capacity Building Programme for NEA region, and the general approval for Trade Facilitation Study Project combined with the Trade Facilitation Handbook project (Chang 2012b).

In this context, the main objectives of this study are to identify bottlenecks for effective trade integration within the GTR and to prepare a trade facilitation strategy that contributes to improve GTR's competitiveness and trade expansion among countries in the region and with the rest of the

world. Key elements of the strategy, essentially "soft" in nature are coordinated improvements of trade-related procedures and standards, harmonized cross-border regulations and improved mechanism for public private dialogue.

1.3 Methodology

The study follows a mixed methodology based on secondary and primary information and data. Secondary information is mainly drawn from published academic documents as well as documents produced by various inter-governmental and non-governmental agencies including the Asian Development Bank (ADB), World Bank, Organisation for Economic Co-operation and Development (OECD), UNDP, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and World Economic Forum. Documents produced by GTI as well as presentations made by various experts as well as practitioners in TFC, Regional Seminars, GTI Trade Facilitation Workshop (in which the author had the opportunity of participating as well as presenting the broad contours of the trade facilitation study) have also been used extensively as secondary source of information.

Primary information is predominantly generated with the help of questionnaires, which were administered to various stakeholders within the GTR, including public sector officials, private sectors, development partners, academia and civil society organizations. Another source of primary information is face to face contact and formal as well as informal meetings with officials of the GTI Secretariat, trade and customs officials from the GTR during the Trade Facilitation Workshop held in Cheonan, South Korea from 18-20 March 2013, and interaction with public officials as well as staff of private companies at Busan on 21 and 22 March respectively.[5] In order to validate the findings of the survey, face to face interviews were conducted with customs officials in Ulanbaatar on 5 August 2013, which was followed by a focus group discussion with Mongolian government officials from various trade-related and/or trade supporting agencies, Mongolian National Chamber of Commerce and Industry as well as officials of donors and international organizations on the same day. Preliminary findings of the study was then presented at the third TFC meeting held in Ulaanbaatar on 6 August 2013 during which comments and suggestions from the participants were obtained.

Following this, interview was conducted with government officials from Russia participating at the TFC meeting. This was followed by the participation of the author at the China International Port Development Forum held at Suifenhe border city of Heilongjiang Province of China, where interviews were also conducted with private sector representatives from Russia. Finally, views and opinions were obtained from various government officials and private sector representatives at a Consultation Meeting organized by UNDP in Beijing on 9 August 2013. All the feedbacks, comments and inputs received during these processes were then incorporated to produce this report.

1.4 Organization of the study

Following this introductory part, section 2 of the study will first attempt to contextualize the discussion by highlighting trade and development issues in the NEA region in general and the GTR in particular. This section also discusses the status of regional integration and trade facilitation besides touching upon the issue of growing salience of trade facilitation. A brief description on the status of trade facilitation in the NEA region in general and the GTR in particular is also included in the section.

Section 3, which is exclusively devoted to the discussion of the survey results, will first identify the most problematic factors for import and export in the GTR. Since trade support organizations and facilities have a key role to play in trade facilitation, their assessment is conducted in the next sub-section, which will then be followed by an assessment of the dialogue and consultation mechanisms including involvement of various stakeholders, particularly the private sector on trade facilitation issues. Section 4 discusses the key policy implications based on the findings as well as most appropriate trade facilitation strategy for the GTR aimed at improving trade facilitation situation in the region so as to improve the trading prospects of the GTR. This section will also provide an indication of some projects that could contribute towards the achievement of these objectives.

2. TRADE AND DEVELOPMENT ISSUES IN NORTHEAST ASIA

2.1 Introduction

Given the need to understand the trade and development issues confronting any region or sub-region, this section provides a description of trade and development issues confronting NEA in general and the GTR in particular. It is organized as follows - Section 2.2 discusses trade pattern of countries in NEA – both in terms of trade with the outside world as well as within the region, which is followed by a discussion on the prospects of enhancing regional trade. Section 2.3 highlights the growing salience of trade facilitation at the global level, with a few examples of NEA and the GTR where possible. This is followed by a brief description of trade facilitation needs and priorities of the latter.

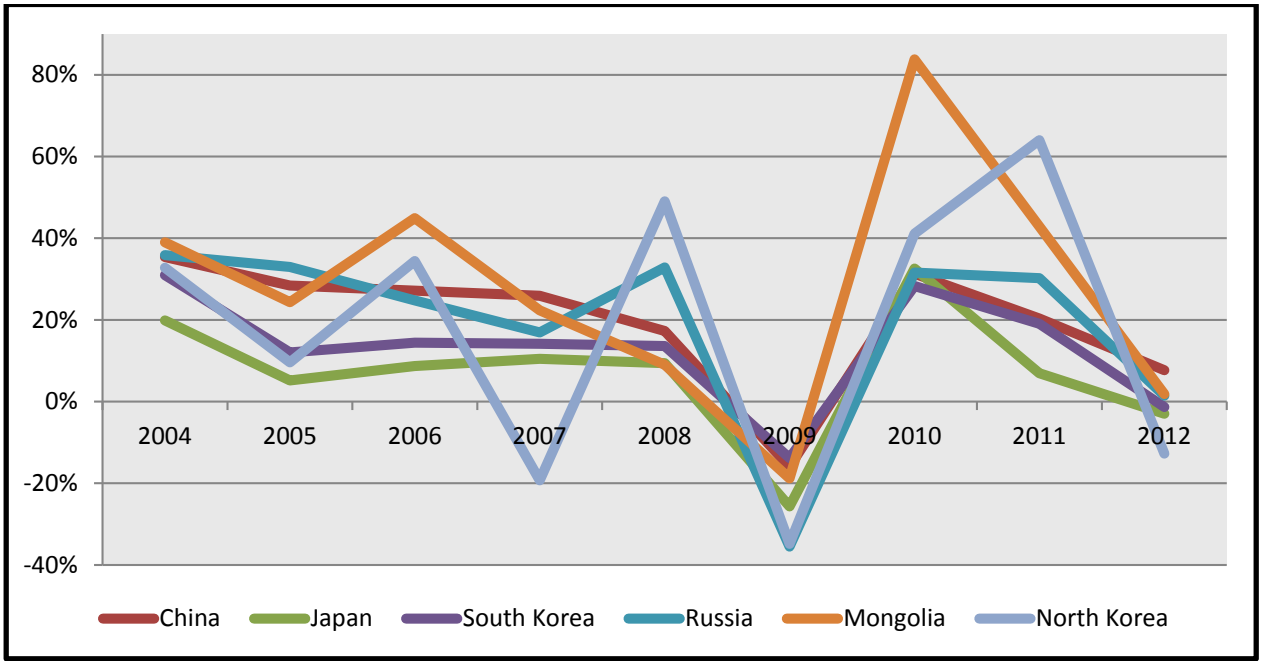
2.2 Trade within Northeast Asia

2.2.1 Situation of NEA countries in global trade

In terms of trade, NEA countries are among the major players in the world, which is due to rapid trade growth of three major countries in the region, namely, China, South Korea and Russia, despite a fall in the share of Japan in the recent past. In 2012, together they generated 21.8 percent of world exports and 19.1 percent of imports. Today, China is the world's largest exporter, followed by Japan at fourth, South Korea at seventh and Russia at eighth. As highlighted by the recently released WTO's World Trade Report, China's share in global exports surged from 1 percent in 1980 to 11 percent in 2011 (WTO 2013). In terms of imports, China, Japan, South Korea and Russia are the second, fourth, eighth and seventeenth largest importers in the world respectively.[6]

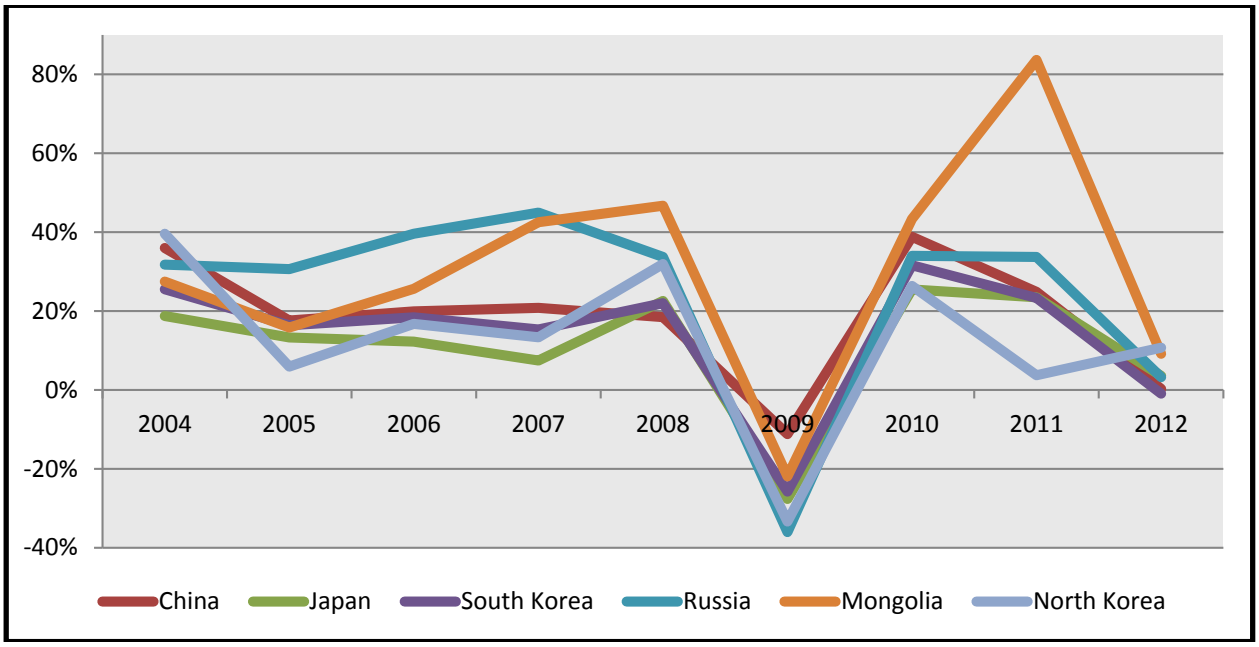
The severe impact of the global financial crisis has affected the international market as well as NEA countries, not to mention the effect of the ongoing Eurozone debt crisis. Except for 2009 and 2012, which were marked with sharp drop in both exports and imports, the annual average export and import growth for NEA countries over the last decade has been reasonably good – at 17.5 percent and 18.4 percent respectively (Chart 1 and Chart 2). Here, it is necessary to stress that due to the lack of data on Mongolia's exports and imports after 2007, mirror data were used. Thus, the huge fluctuation in Mongolia's export and import after 2007 is likely a result of data inconsistency. In 2003-2012, Mongolia's export grew at an impressive 27.7 percent (annual average), while its imports grew at a staggering 30.3 percent (annual average). Similarly, Russia's performance was also praiseworthy with its exports and imports growing at an annual average of 19.0 percent and 24.0 percent respectively in the same period; while China, the region's largest exporter and importer saw its exports and imports grow at an annual average of 19.7 percent and 18.4 percent respectively.[7]

Chart 1: Export Growth Rate



Source: Based on data from ITC Trademap.

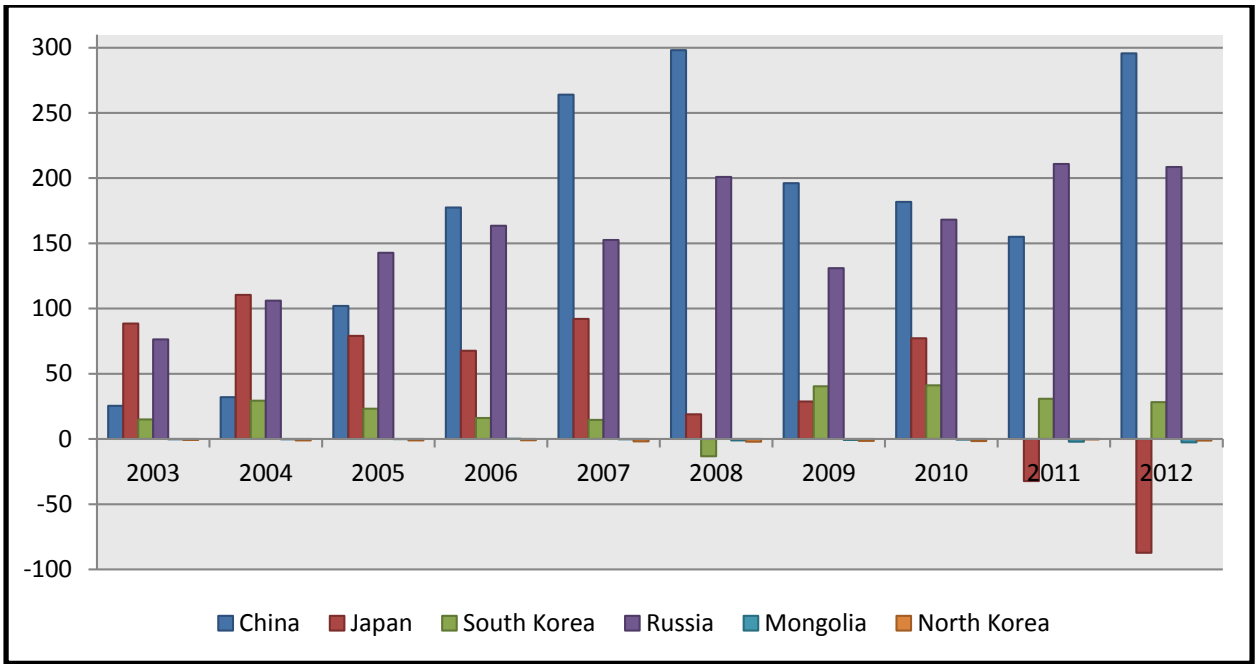
Chart 2: Import Growth Rate



Source: Based on data from ITC Trademap.

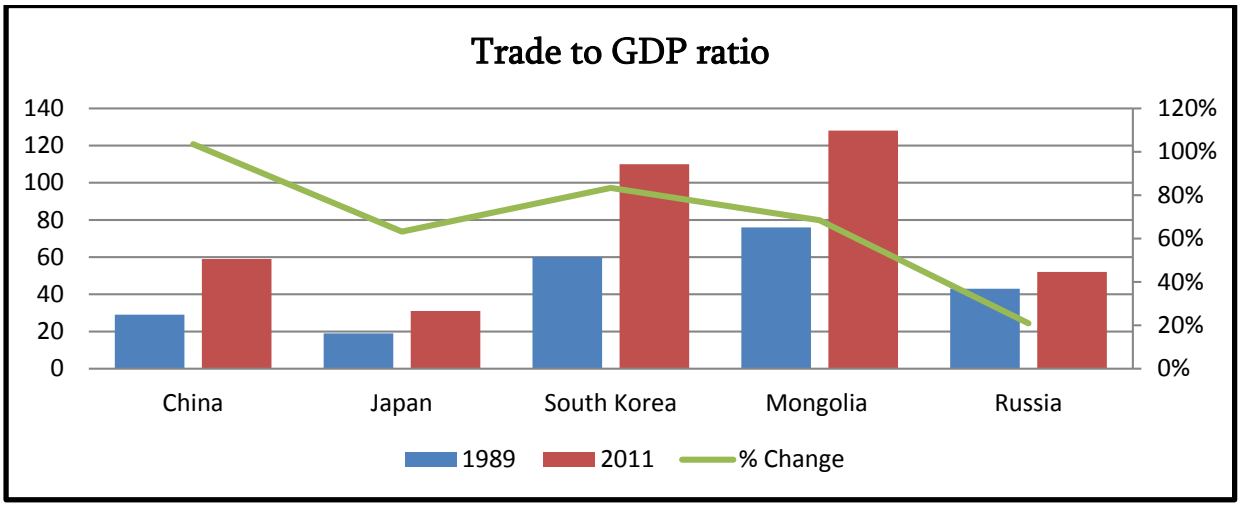
Given the rise in exports and imports of all NEA countries, it is important to look at how the trend has affected their trade balance. Chart 3 presents a bar chart representing the trade balance for all NEA countries from 2003 to 2012. Apart from Mongolia and North Korea, all other NEA countries have had a positive trade balance in the last decade. However, the contraction of the Japanese economy since 2005 has significantly decreased Japan's trade balance and the country is now a net importer. As for Mongolia and North Korea, despite rising exports the two nations have not been able to decrease net imports and were the only net importers in NEA until 2011.

Chart 3: Trade Balance (US$ billions)



Source: Based on data from ITC Trademap.

Chart 4: Trade to GDP Ration of NEA countries



Source: World Development Indicators <http://data.worldbank.org/indicator/> accessed 26 July 2013.

Despite the slowdown of the global economy and the status of national trade balance, trade continues to make significant and ever growing contribution to GDP growth in the NEA region. Chart 4 compares trade/GDP ratios of NEA countries between 1989 and 2011, the periods for which data are available for all the countries in the region expect for North Korea. While all the countries in the region have seen their ratios surge between these two periods, China and South Korea have achieved impressive growths of 103 and 83 percent respectively, while Mongolia (with 68 percent) and Japan (with 63 percent) growth in their trade to GDP ratios stand at the third and fourth position, respectively, although the growth rate in Russia has been modest. With trade to GDP ratio of 118 percent, Mongolia exhibits a characteristic feature of a small economy, which is heavily dependent on trade.

2.2.2 Intra-regional trade within the NEA region

As far as intra-regional trade in the region is concerned, it has been rising but at a slow pace and still remains far below its potential. Intra-regional exports have increased from US$245.6 billion in 2003 to US$ 748.4 billion in 2012, posting an annual average growth of 14.4 percent. Likewise, intra-regional imports have grown at an annual average rate of 13.2 percent from US$ 224.6 billion to US$ 640.5 billion 2003-2012 (Table 1). Additionally, the global economic climate and the ongoing debt crisis have certainly affected intra-regional trade as both intra-regional exports and imports have slummed in 2009 and 2012.

Table 1: Intra-regional trade in NEA

	intra-regional export (US$ million)	intra-regional export growth	intra-regional import (US$ million)	intra-regional import growth
2003	245,567	-	224,614	-
2004	321,010	30.72%	290,785	29.46%
2005	372,452	16.02%	332,195	14.24%
2006	426,237	14.44%	375,464	13.03%
2007	506,588	18.85%	423,183	12.71%
2008	592,820	17.02%	472,694	11.70%
2009	471,680	-20.43%	408,178	-13.65%
2010	634,718	34.57%	538,821	32.01%
2011	756,541	19.19%	640,353	18.84%
2012	748,419	-1.07%	640,527	0.03%

Source: Authors calculation based on data from WITS.

To better understand the status of intra-regional trade in NEA and to put it in the global context, we consider a relative measure that compares the country's intra-regional trade to its total trade. This indicator is calculated for all NEA countries and is presented in Table 2. Note that, due to the lack and inconsistency of bilateral trade data for Mongolia and North Korea after 2006, evaluation of intra-regional trade performance has been done for two different scenarios. Under the first scenario, bilateral trade between all six NEA economies is considered. But due to the problem of data availability, in the second scenario, NEA is inclusive of only four countries – China, Japan, South Korea and Russia - and the analysis is done for the time period 2003-2012.

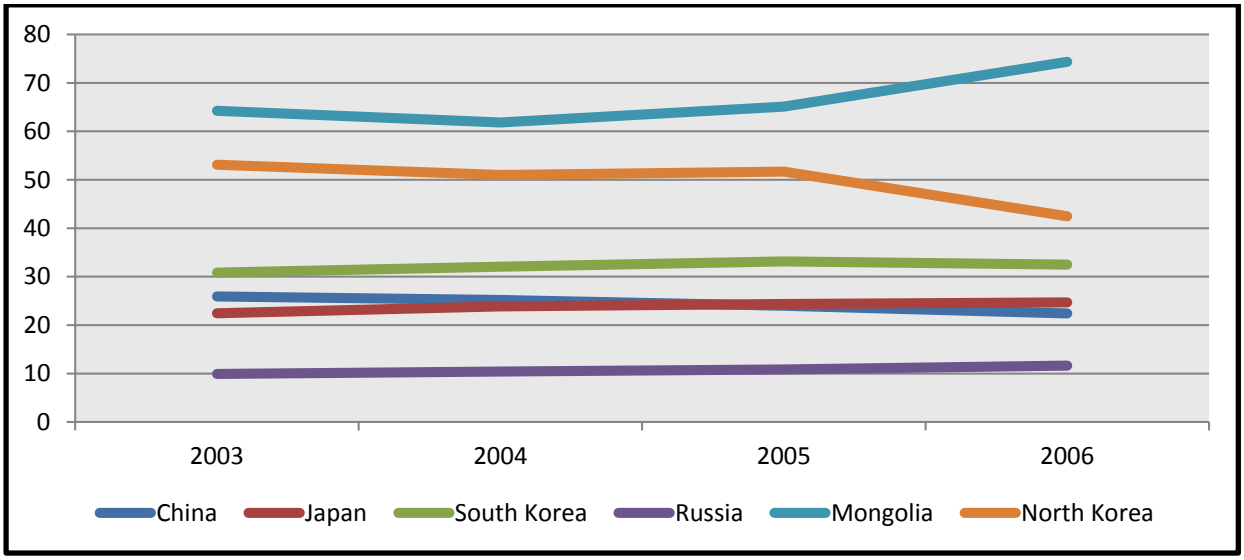
Table 2: Intra-regional trade share in world trade

	NEA			NEA excluding Mongolia and North Korea		
Country	2003	2006	2003-2006	2003	2012	2003-2012
China	25.91	22.42	24.05	25.73	18.10	20.53
Japan	22.43	24.71	23.95	22.40	27.79	26.18
South Korea	30.83	32.50	32.26	30.80	31.92	32.48
Russia	9.93	11.65	10.91	9.70	14.86	13.93
North Korea	53.09	42.48	48.81	-	-	-
Mongolia	64.23	74.36	67.51	-	-	-
Total	**24.10**	**23.60**	**24.12**	**23.94**	**21.98**	**23.20**

Source: Author's Calculation Based on data from WITS and ITC Trade map.

Under the first scenario (2003-2006), the annual average share of intra-regional trade in world trade was highest for Mongolia at 67.51 percent, followed by North Korea at 48.81 percent. Overall, the total intra-regional trade in NEA decreased slightly from 2003 to 2006, and annually averaged 24.12 percent of NEA's total world trade (Table 2).

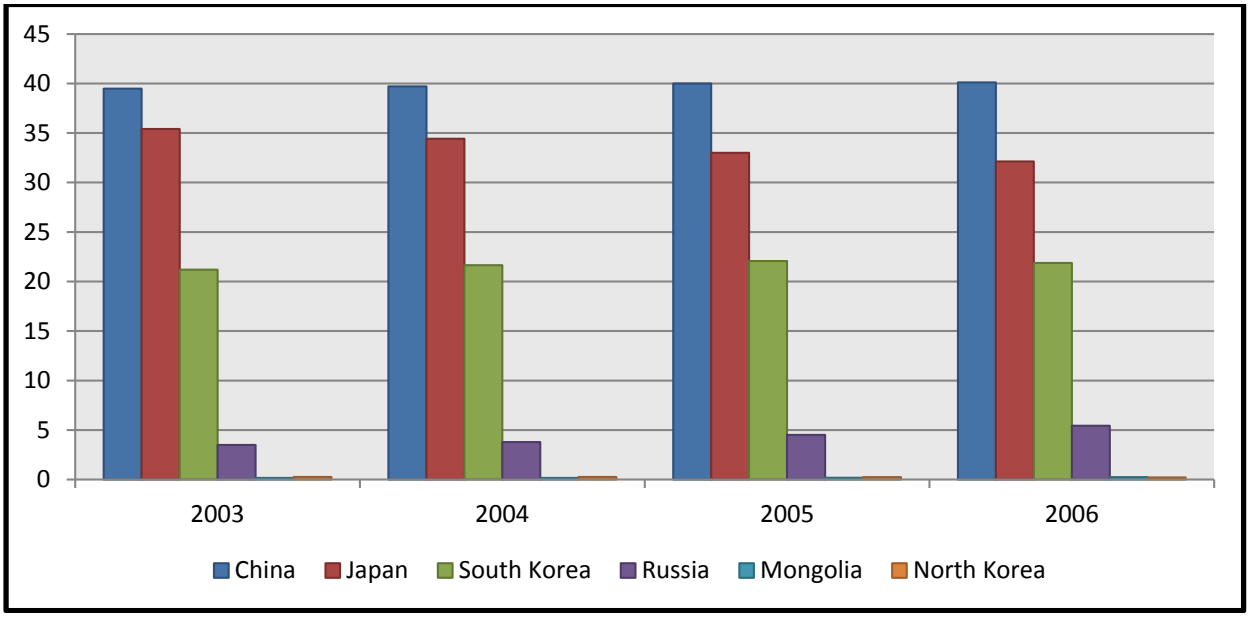
Chart 5: Percentage share of intra-regional trade in world trade



Source: Author's calculation based on data from WITS.

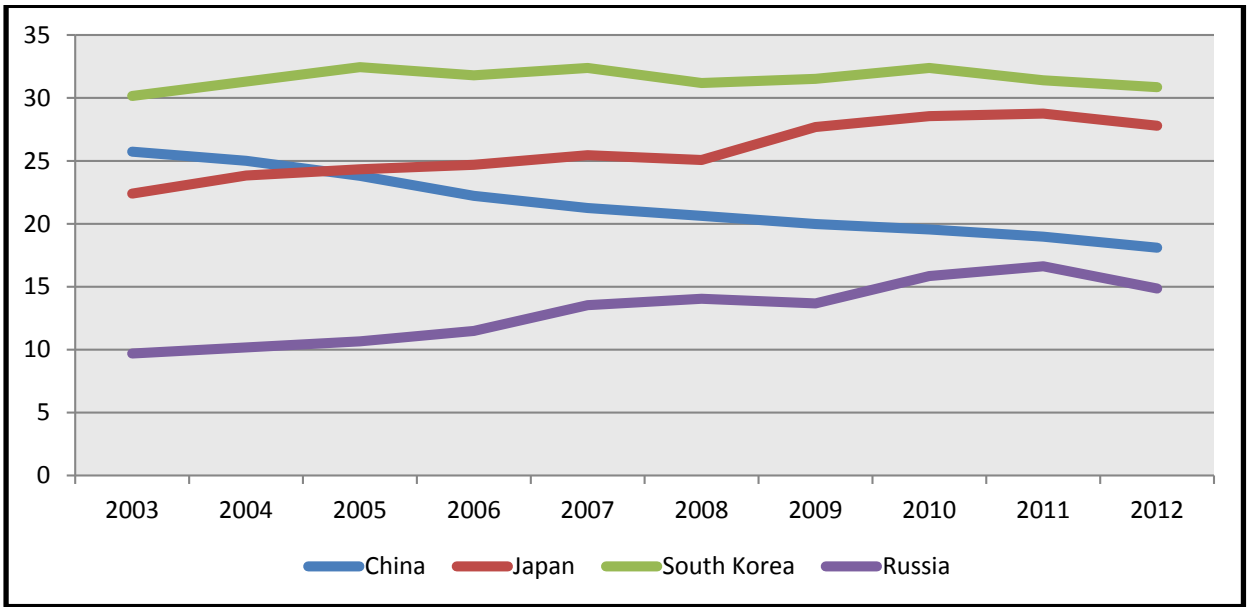
In the same period, the concentration of intra-regional trade remained near constant for all NEA countries (Chart 5). Surprisingly, though Mongolia and North Korea had the highest dependence on intra-regional trade, their individual contribution to total intra-regional trade was less than half a percent each (Chart 6). Additionally, despite the low share of intra-regional trade in China and Japan's total world trade, China and Japan were the major players in intra-regional trade in 2003-2006.

Chart 6: Country share in intra-regional trade (%)



Source: Author's calculation based on data from WITS.

Chart 7: Percentage share of intra-regional trade in world trade (NEA excluding Mongolia and North Korea)



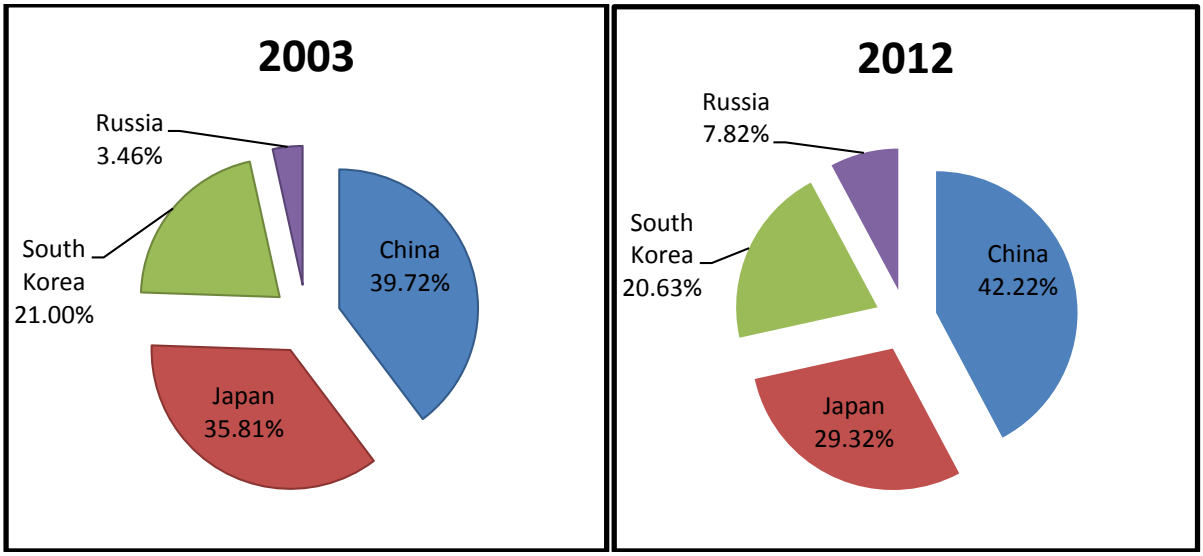
Source: Author's calculation based on data from WITS.

Under the second scenario, intra-regional trade in 2003-2012 (here NEA is defined to include China, Japan, South Korea and Russia) presents a slightly different picture (Table 2 and Chart 7). In this new scenario, South Korea and Japan have greater dependence on intra-regional trade. In the period 2003-2012, South Korea had the highest share of intra-regional trade in its world trade, followed by Japan, China and Russia. Remarkably, the share of intra-regional trade in world trade for Japan, South Korea and Russia has increased in the last decade, but the share of intra-regional trade for China has decreased from 25.73 percent to 18.10 percent. The decreasing significance of

intra-regional trade in China, and the increasing role of intra-regional trade in Japan are both clearly illustrated in Chart 7

However, it is worth noting that despite the decreasing share of intra-regional trade in China's total world trade, China is still the largest contributor to intra-regional trade (Chart 8). While its share in intra-regional trade was 39.72 percent in 2003, it has marginally increased to 42.22 percent. While Japan's share in intra-regional trade has shrunk considerably between 2003 and 2012, Russia's contribution to intra-regional trade, although nearly doubled during the review periods, remains the lowest.

Chart 8: Country share in intra-regional trade

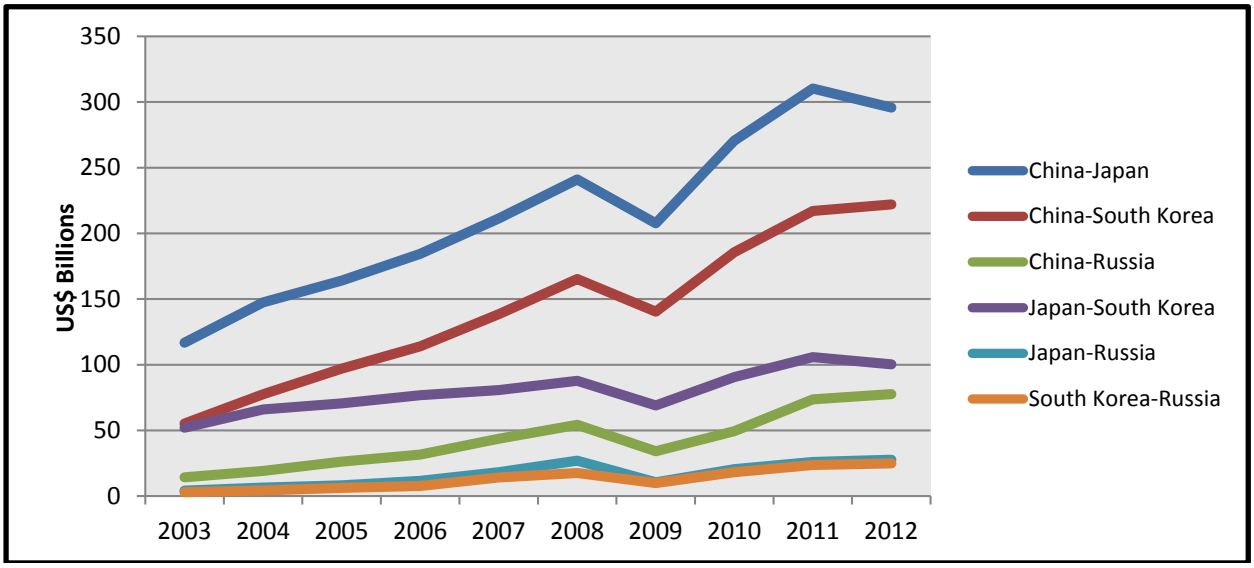


Source: Author's calculation based on data from WITS.

Additionally, the bilateral trade flows within NEA countries (China, Japan, South Korea and Russia) are presented in Chart 9 and Chart 10.[8] Apart from the dip in 2009, when exports as well as imports suffered a major setback due to global financial and economic crises; bilateral exports and imports within NEA have increased slowly over the years (Chart 9 and Chart 10). Notably, bilateral exports between China-Japan and China-South Korea have been rising steadily and have now reached US$295.9 billion and US$222billion respectively. Meanwhile, the bilateral exports between the remaining countries have been near stagnant for much of the period in 2003-2012.

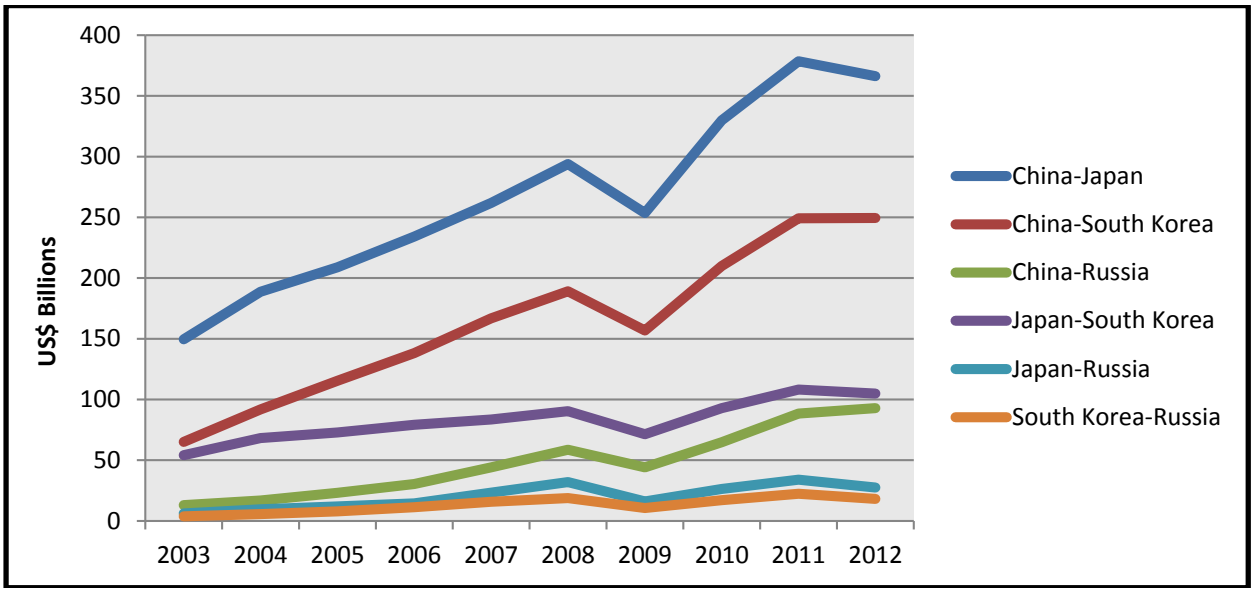
Similarly, the bilateral imports picture is almost identical to that of bilateral exports. This is expected because theoretically bilateral export is equal to bilateral import. However, due to the discrepancies in the reporting of trade data, there is often significant difference between the bilateral exports and imports. This is definitely the case here. Though the overall bilateral exports and imports have a similar trend, in 2012 China-Japan reported total bilateral exports worth US$ 295.9 billion, but in terms of bilateral imports the figure was US$ 366.3 billion. Similarly, bilateral imports between China-South Korea was US$ 249.5 billion in 2012, but the bilateral exports was only US$ 222 billion (refer to Chart 9 and Chart 10). This discrepancy calls for prudence in interpretation when dealing with bilateral trade flows. Note that import value data are known to be more reliable then export value, and is thus a better measure of bilateral trade flows.

Chart 9: Intra-regional bilateral exports



Source: Author's calculation based on data from WITS.

Chart 10: Intra-regional bilateral imports



Source: Author's calculation based on data from WITS.

2.2.3 Regional trade prospects

Various studies have shown that actual intra-sub regional trade in NEA is much lower than its actual potential. In terms of trade connectivity, the sub-region is possibly better integrated with the global economy than individual economies are with each other. For example, Mongolia, the only landlocked country in East and North-East Asia, faces particularly high trade costs. Intermodal transit transport in the sub-region suffers from long waiting time for clearances and inspections as well as repeated unloading/loading for inspections at different ports and border crossings (UNESCAP 2013). This is probably due to reasons not too different than what Davies (2000:1) suggested at the dawn of the new millennium: "owing to its remoteness from national capitals and its small multicultural population [], it has been at the margin of national developmental policies and interests. Despite proximity to one of the most dynamic parts of the

world economy, development and trade have lagged behind other parts of the national economies and behind the Asia-Pacific region".

This is despite several characteristics of the sub-region offering tremendous potential for trade and investment to flourish. According to GTI and UNESCAP (2012), participation in global production networks has greatly increased trade among China, Japan and South Korea, although linkages with Mongolia and Russia are much less developed harbouring huge potential for future growth. The potential benefits of sub-regional trade are further bolstered by the fact that NEA exhibits strong product complementarities, which is rare in many developing regional and sub-regional cooperation initiatives.

Keeping political and strategic issues, which are beyond the scope of the present study, aside, we feel that this should not necessarily be the case provided regional initiative is pursued at a smaller scale with the potential for ramping up in the future. This is not to suggest that integration initiatives have not taken root at all in the sub-region. For example, the formation of Trilateral Cooperative Secretariat in Seoul to address regional cooperation issues between China, Japan and South Korea, followed by signing of the Trilateral Investment Agreement to facilitate intra-regional cross-border investment in May 2012 and leaders of the three economies having agreed to launch official negotiations for a trilateral FTA within the year at the annual Beijing summit in 2012 are some of the milestones worth highlighting. Against this backdrop, we discuss four prominent factors that are likely to contribute towards increased volume of regional trade in the NEA region.

First, the above charts and tables pertaining to the status of intra-regional trade within NEA show that such trade has been growing, albeit at a slower pace than the otherwise rapid growth in global trade experienced by select NEA countries, most prominently China and South Korea. This seems to be happening spontaneously, i.e., without the existence of any regional integration agreement within the region, which means that the trade amongst NEA countries take place on Most-Favoured Nation (MFN) basis. Despite a relatively high level of MFN applied tariff – for example 12.1 percent in South Korea, 9.6 percent in China and 9.1 percent in Russia[9] – the trade growth that has been taken place between these countries imply that, should these countries enter into a viable FTA with a view to promoting intra-regional trade, the prospects are fairly bright.

Second, the data provided above, in particular dealing with intra-regional trade (Table 1) and accounting for bilateral trade between select pair of countries (Chart 9 and 10) shows that the rate of trade growth has been much rapid in the aftermath of the global financial and economic crisis of 2009, which resulted in decline in global trade itself. The intra-regional trade has again marginally declined in 2012 because of the slower growth of world exports – from 5.2 percent in 2011 to 2 percent in 2012[10] – and its spill-over impact on regional trade. However, one clear message that emerges is that when market demand in developed countries falters due to any crisis,[11] developing countries resort to more South–South trade, i.e., trade amongst developing countries in general and trade with their neighbours in particular. This trend is likely to hasten in days to come not least because the share of South-South trade in global trade has increased threefold between 1990 and 2011 – from 8 percent to 24 percent.[12]

Third, due to the robust growth in GDP achieved by all NEA countries expect Japan, which has resulted in increased purchasing power of consumers in these countries, there is likely to be more

demands for goods and services in these countries. While China's average growth rate of per capita GNI between 2003 and 2011 was 10.27 percent, the corresponding figure for South Korea was 3.32 percent, and 4.81 percent for Russia. While Japan's growth rate is not something worth highlighting, available data for Mongolia suggests that the corresponding figure for this mineral rich land-locked country is 6.52 percent.[13] The increased demand resulting from increased income may not have one to one relationship with intra-regional trade because consumers in these countries are free to choose goods and services from any part of the world. However, due to geographic proximity and cultural similarities, and provide right conditions are in place, it is assumed that there would be increased volume of intra-regional trade – at least equivalent to current growth rate.

Fourth, due to a discernible shift towards "slicing up the value chain", the salience of regional integration – particularly in East Asia is increasing. Although Southeast Asian countries are the forerunners in the field of utilizing regional integration as a tool for promoting assembly at the regional level with the final target markets being Europe, Japan and North America; this tendency is less pronounced in the NEA region. There could be different interpretations for this, not least because there is the proverbial "chicken or egg" dilemma. It is difficult to find whether regional integration precedes integrated value chain or vice versa. If former is true, then Southeast Asia has already made an early head start in this direction placing the region ahead of the curve. On the other hand, if the latter is true, then it would be possible for the NEA region to develop such a network.

NEA region is not only armed with skilled, educated and low-cost labour; it is also equipped with rich natural, financial and technological resources, and has easy access to the affluent Asian markets. Furthermore, there exist good trade and resource complementarities between NEA countries, which are rare in many economic regions. But how much of the existing trade potential will be realized depends on the efforts in improving regional cooperation and facilitating intra-regional trade. Although mega-initiative such as Trilateral Cooperation mechanism is afoot, smaller initiatives such as the GTI will also have a major role to play to contribute towards improved regional economic cooperation – particularly in the areas of trade and investment.

2.2.4 Participation in the global value chain

The last few decades has witnessed the rapid development of vertical production networks with a bulk of the global trade at present taking place within global value chains (GVCs). According to UNCTAD (2013), GVCs account for near 80 percent of global trade,[14]a process hastened by globalization resulting in production processes being fragmented into several stages, across numerous countries. Reduction in trade costs due to reduced tariffs as well as non-tariff barriers (NTBs), and improvements in transportation, communication and technology have fostered international production networks and increased specialization. Countries no longer have to specialize in an industry, but on specific tasks within the industry value chain.

GVCs have transformed international trade to such an extent that success in international trade depends equally on the capacity to import quality inputs and on the capacity to export. Under GVC arrangements, trade is no longer driven by just the exchange of finished products. Trade in intermediate goods is now an increasingly important part of world trade. More importantly, the expansion of GVCs provides ample opportunities for developed and developing countries to access global markets. To enable NEA countries to fully exploit the opportunities made available through

the explosion of GVCs, it is necessary to shed light on the current status of GVCs within NEA and evaluate the extent of GVC participation within the region.

At present, intermediate goods dominate world merchandise trade. Between 2003 and 2012, world exports of intermediate goods have more than doubled from around US$ 1.34 trillion to US$ 3.15 trillion, an annual average growth rate of 11.5 percent.[15] Not surprising, exports of intermediate goods is also on the rise in NEA. In 2003-2012, China increased the exports of intermediate goods at an annual average rate of 22.3 percent from US$ 64.5 billion to US$ 317.9 billion. In the same period, exports of intermediate goods increased at an annual average rate of 15.6 percent in Russia, 14.0 percent in South Korea and 9.9 percent in Japan; and reached US$ 80 billion, US$ 128.6 billion and US$ 171 billion in 2012 respectively. In the case of Mongolia, its exports of intermediate goods nearly doubled from US$ 223.7 million in 2003 to US$ 417.6 million in 2007.[16]

In 2012, exports of intermediate goods were greater than intermediate imports for Japan, South Korea and Russia (Table 3). On the other hand, China exported intermediate goods worth US$ 317.4 billion but imported US$ 329 billion worth of intermediate goods, showing high level of engagement in the global production networks. In fact, China accounted for more than 50 percent of NEA's (China, Japan, South Korea and Russia) imports of intermediate goods in 2012.

Table 3: Exports and imports of intermediate goods in 2012

Country	Intermediate exports (US$ million)	Intermediate imports (US$ million)
China	317,394	328,965
Japan	171,046	116,875
South Korea	128,641	100,603
Russia	80,046	46,818

Source: WITS.

While the growing trade in intermediate goods is indicative of the rise in intra-industry trade and vertical production networks, it does not reflect the flows of goods within global production chains. Under GVC arrangement, products are "made in the world"[17]rather than in a single country. Hence, attributing the entire commercial value of an exported product to the last link of the vertical production chain (the country that exported the product) can lead to potential bias.[18] This issue of possible double or even multi-counting of trade flows is addressed by the use of trade in value added. Trade in value added takes into account the trade between the different actors of a vertical production chain. Thus, the value added in exports is the actual domestic content of a country's export.

Table 4: Value added export ratio

Country↓	1995	2000	2005	2009
Japan	93.15%	90.09%	86.25%	85.21%
South Korea	76.29%	67.07%	62.28%	59.36%
China	88.13%	81.19%	63.61%	67.37%
Russia	89.33%	87.49%	91.82%	93.11%

Source: www.stats.oecd.org

Table 4 reports the value added export ratio i.e. the total domestic value added share of gross exports. In 1995, Japan had the highest value added export ratio at 93.15 percent, followed by Russia, China and South Korea. However, by 2009 the value added export ratio had significantly decreased in Japan, China and South Korea. This suggests an increased participation in the GVC by these three countries. Meanwhile, in the case of Russia, the total domestic value added share of gross exports has increased between 1995 and 2009; a clear indication of strong domestic production linkage.

Table 5: Basic decomposition of gross exports (US$ million)

	1995			2009		
Country↓	Gross exports	Foreign value added in content of gross exports	Domestic value added embodied in gross exports	Gross exports	Foreign value added in content of gross exports	Domestic value added embodied in gross exports
Japan	469,841	32,167	437,674	618,022	91,435	526,587
South Korea	145,730	34,549	111,182	401,162	163,039	238,123
China	141,475	16,787	124,688	1,283,964	418,981	864,984
Russia	113,597	12,118	101,479	331,375	22,845	308,530

Source: www.stats.oecd.org

An overview of NEA's gross exports to the world indicate that Japan, South Korea and China have been integrating themselves into the GVC, while on the other hand Russia has not been able to do the same (Table 5). Bilateral exports figures within NEA countries reveal that Russia has better domestic value addition in its exports to other NEA countries, compared to other countries in the region (Table 6).

While Japan, South Korea and China's domestic value added in foreign final demand as a percentage of gross exports decreased in 1995-2009, Russia managed to increase its domestic value added in foreign demand. In 2009, Russia's domestic value added in Japan's demand was a stunning 106.08 percent of gross exports, while Japan's domestic value added in Russia's demand was a whopping 112.7 percent. Such high domestic value addition in Japan-Russia bilateral exports imply that the bilateral trade between the two nations is concentrated in goods that have high domestic value addition. More importantly, this Japan-Russia bilateral trade pattern has greater positive implications for increased bilateral trade in the future.

Table 6: Domestic value added in foreign final demand as % of gross exports

	2000				2009			
Partner→ Country↓	Japan	South Korea	China	Russia	Japan	South Korea	China	Russia

Japan	-	60.7	81.0	117.9	-	50.7	57.5	112.7
South Korea	68.8	-	53.4	73.9	68.66	-	30.8	77.1
China	80.7	60.2	-	84.7	63.77	40.0	-	82.5
Russia	96.7	69.6	83.0	-	106.08	67.8	74.3	-

Source: www.stats.oecd.org

Box 1: Processing trade - A Case study of China

Given the importance of processing trade in China, Chinese exports are classified as ordinary trade, import-and-assembly trade (processing firms pay for imported inputs) and pure-assembly processing trade (processing firms do not pay for imported inputs). Using China's matched customs and balance-sheet data, Manova *et al.* (2013) developed a model that incorporates credit constraints and imperfect contractibility in companies' export decision to examine the effect of financial constraints on Chinese companies' position in global supply chains, and how this choice affects profitability.[19]

The empirical research found that profits and value added fall as exporters shift from ordinary to processing trade, and from import-and-assembly towards pure assembly trade. Also, less financially constrained firms engage in more ordinary trade relative to processing trade, and more import-and-assembly trade relative to pure assembly. The research highlights some important opportunities and well as challenges faced when pursuing deeper integration into the GVC.

Opportunities

- Global production network enables local firms to share in the gains from international trade through deeper integration into the supply chains.
- Facilitating easy access to imported material/inputs can significantly enhance export potential. Especially in developing countries, the use of foreign inputs enables manufactures to improve product quality and increase productivity, which makes them export competitive.
- Because materials imported for processing and re-exporting is exempt from import duties and does not involve marketing costs, import-and-assembly processing is less capital (finance) intensive than ordinary trade. Within processing trade, pure assembly trade demands the least amount of financial resources since it does not require payment for imported inputs. This financial flexibility provides opportunities for even the financially constrained firms to access the global market.

Challenges

- Due to the lack of adequate financial capital, firms often get locked into relatively low value added stages of the supply chain and are unable to fully exploit growth opportunities presented by the expansion of GVC. Thus, it is important to strengthen capital markets for increasing domestic value addition in exports.
- Because exports are now increasingly more dependent on imports, import liberalization and the fragmentation of supply chains across countries can further improve trade position.

2.3 Growing salience of trade facilitation

Four distinct but inter-related developments that have taken place in the realm of international trade have contributed to the increased significance of trade facilitation. First, since tariffs – historically considered as the major trade barriers – have fallen rapidly due to more than six decades of multilateral trade negotiations and of late due to regional and bilateral trade negotiations,[20] the attention in now shifting towards reducing other forms of trade costs, for which trade facilitation is being considered a viable option. This is more so in the context of the empirical finding showing that trade gains resulting from improved trade facilitation could dwarf potential benefits emanating from the successful conclusion of the Doha Round (Hoekman and Nicita 2010: 75-76) – the ongoing but elusive round of trade negotiations currently underway at the WTO.

Second, the emergence of a rapid "integration of trade" with concomitant "disintegration of production" (Feenstra 1998) with several production processes taking place in different locations to save costs and ensure quality has led to competition among countries and firms to integrate themselves into GVC. As production becomes increasingly fragmented and traded internationally, salience of cooperation among economies participating in production networks becomes paramount. The competitiveness of each country's production depends on that of the other countries in a production network, including the regional trade partners, as well as on the efficiency of the trading links among them (Brooks and Stone 2010: 23). This is because, besides quality, the competitiveness of an operation within the global production system is a combined function of price, time, and reliability. As the opportunities of differentiation in terms of price diminish, competition within the global production system increasingly depends on reliability and time (Roy and Banerjee 2010: 111-112). Thus, there is a growing realization that countries that ignore the issue of trade facilitation will do so at the cost of compromising their global competitiveness.

Third, foreign investors tend to invest in countries with lower trade transaction costs because they need to take part in the GVC more than their local counterparts. Hence, they tend to include trade facilitation indicators in their decision-making matrix while making decision on foreign direct investment (FDI). Brooks and Stone (2010: 12-13) are of the view that trade facilitation has an indirect impact on FDI inflows by lowering the cost of spreading production across several countries in order to take advantage of their comparative advantages. They further suggest that increased FDI can help further boost regional trade, adding to the direct effect of improvements in trade facilitation across borders, thereby creating a virtuous cycle of trade facilitation, trade, and investment that fosters increased trade and economic growth (*ibid.*).

Fourth, the burgeoning international and regional trade coupled with new security requirements adopted globally in the aftermath of 9/11 terrorists attack has contributed to heightened significance of trade facilitation. At the same time, given the fact at this critical juncture, even methods that used to be satisfactory need to be rethought, while problems posed by inefficient methods are made worse (OECD 2005: 2). A recent development has further heighted the significance of improved trade facilitation. In the context of the ongoing economic down turn in many parts of the developed world, customs officers are finding it extremely difficult if not impossible to meet their revenue targets due to the shrinkage in trade volume (Trapani 2012: 101). They can either become more intrusive, increase the frequency of physical inspections or they can facilitate trade and make use of proper risk management techniques to meet the targets.

However, their decision is contextual and depends on a host of other factors including their location, level of trade facilitation measures, their commitment to the cause of facilitating trade, their level of expertise as well as resources available at their disposal to make right decisions.

An inefficient border procedure with cumbersome paperwork and formalities not only disadvantages traders by raising their costs and lowering their competitiveness, but also the government, which has to forgo revenue that could be derived from efficient collection of trade taxes. Although governments and traders are portrayed as the "frontline losers," the ultimate price of these inefficient procedures must be paid by consumers and tax payers. However, it is worth noting that those who advocate "paperless" trading as a means to reduce these avoidable trade costs seem to be making some impacts with a number of countries moving in that direction.[21]

An analysis of the positive impact of trade facilitation in developing countries based on the review of empirical evidence shows that improved trade facilitation not only lowers trade costs by reducing time and brings about significant increase in volume of trade, but also allows for increases in collection efficiency and increases government revenue (Milner *et al*. 2008:15-16). It has, therefore, been suggested that the remit of trade facilitation be expanded to include supply-side issues such as transport and communication, and the provisions for trade facilitation be included in the regional integration agreements to allow countries within the arrangements to reap additional benefits (*ibid*.: 17).

The costs of delayed shipment and/or delivery of consignments are well documented. One of the pioneering works in this area shows that one day delay in the delivery of goods is equivalent of 0.8 percent additional *ad valorem* duty (Hummels 2001). Evidence based on disaggregated trade flows by Martinez-Zarzoso and Marquez Ramos (2008) indicates that lowering the number of days and documents required to conduct trade increases trade flows of differentiated goods to a higher extent. The authors found that, on average, a decrease of US$ 1 in the cost to export one Twenty-foot Equivalent Unit (TEU) container results in increase in exports of almost US$ 11,000; and a one-day reduction in the average number of days required to export a good yields an increase in exports of 0.22 percent.[22] At the same time, Djankov*et al.* (2010) found that each day's delay, which is equivalent to distancing the exporter by an equivalent of 85 kilometres, could reduce trade by 1 percentage point.

The benefits of trade facilitation are not confined to the private sector in general and small and medium enterprises in particular, which suffer disproportionately from absence of trade facilitation measures due to the limited scale of their operation. Such benefits extend to government, which gains substantially from any improvement in trade related infrastructure or processes as well as to consumers, who benefit from increased choices as well as safety. (Box 2).

Box 2: Benefits of trade facilitation

The benefits of trade facilitation accrue to all the stakeholders, including government, private sector as well as consumers. Based on a review of literature, including the one produced by the United Nations Economic Commission for Europe and some practical insights, we can summarize them as follows:

Private sector

- Cutting costs and reducing delays
- Faster customs clearance and release through predictable official intervention
- Simple commercial framework for conducting both domestic and international trade
- Enhanced competitiveness
- Enhanced participation in the global/regional value chain

Government

- Increased effectiveness of control methods
- More effective and efficient deployment of resources
- Correct revenue yields
- Improved trader compliance
- Accelerated economic development
- Encouragement of foreign investment

Consumers

- Enhanced choices in terms of variety, price and utility of goods
- Enhanced safety and reliability of the products they consume
- Improved confidence in the market

2.4 Trade facilitation in the NEA region

NEAis one of the fastest growing economic regions in the world today. Accounting for almost 25 percent of the world GDP in 2012[23], the region still has a huge potential for growth. Strategically located at the heart of Asia, the region is already a major player in world trade. But despite the close proximity to one of the most dynamic regions in the world, NEA lags far behind East Asia and other economic regions in terms of trade and development. In order to fully harness the existing economic potential of NEA, it is necessary to promote dynamic regional cooperation. Signing intra-regional trade agreements and improved trade facilitation can contribute to economic growth and sustainable development of the region.

Since its creation, GTI has served as a platform for expanding policy dialogues, and strengthening economic and technical cooperation to attain greater growth and sustainable development in NEA. On a mission to build a greater partnership for common prosperity and to make the GTR attractive for trade and investment, the GTI Secretariat has already established the TFC, which works to put in place various trade facilitation measures to increase and diversify regional trade. Moreover, at the thirteenth Consultative Commission Meeting held in October 2012, GTI members adopted the revised GTI Strategic Action Plan 2012-2015 focused at facilitating regional trade through the deregulation of border crossing procedures and the removal of bottlenecks to enhance trade in the GTR. Notably, the members have also decided to annualize the Trade Facilitation Capacity Building Program.

2.4.1 Trade facilitation status

Over the years, GTI has made headway in implementing the agreements signed by the participating governments, especially with regards to expanding policy dialogues and strengthening business-friendly environment in the region.[24] Furthermore, GTI has been able to facilitate cooperation between International Organizations and Central Governments, and has successfully disseminated best trading practices including harmonizing and simplifying cross

border transaction procedures.[25] GTI has also organized numerous capacity-building training programmes and joint projects to facilitate intra-regional trade.

Today, countries in the GTR are implementing various trade facilitation initiatives and have adopted information and communications technology (ICT) and paperless trade as trade facilitation tools.[26] In 2010, customs automated information system was launched in Mongolia under the Customs Modernization Project. Under the project, Mongolia fully automated its customs procedures and adopted international customs standards (GAMAS and CAIS).[27] Similarly, in April 2009, in order to accommodate changes in the global customs environment, South Korea implemented a full-fledged Authorized Economic Operator (AEO) programme under which companies were validated and authorized by South Korean Customs Service in accordance with authorizing criteria of Law Compliance, Internal Control System, Financial Solvency and Security Management.[28] Additionally, in 2010, China officially started the e-certification system to promote trade facilitation, prevent trade fraud, crack down on counterfeiting certificates and ensure quality of entry-exit products.[29] And in December 2010, China, Japan and South Korea signed the Memorandum of Understanding on the Cooperation Mechanism of Northeast Asia Logistics Information Service Network (NEAL-NET) and established NEAL-NET for unifying logistics information standards and sharing logistics information.[30]

Surprisingly, despite the implementation of such trade facilitation initiatives, intra-regional trade within GTR yet to reach close to its true potential. To understand the reasons for limited intra-regional trade in GTR, it is important to evaluate the status of trade facilitation within the region. While many existing research imply that trade facilitation measures have a significant impact on intra-regional trade, it is necessary to identify trade facilitation measures that effectively boost trade and those that don't. In this regard, trade cost is considered an efficient tool used for trade facilitation assessment.

Table 7: Bilateral trade costs (US$) in 2010

	Sectors	China	Japan	South Korea	Russia	Singapore	USA
China	Agriculture		169.9	156.6	133.4	136.7	105.7
	Manufacturing	N/A	61.2	49.4	92.0	107.9	68.9
	Total		63.9	52.5	95.0	111.0	69.0
Japan	Agriculture	169.9		116.3	270.1	176.5	118.3
	Manufacturing	61.2	N/A	62.2	115.9	119.0	78.0
	Total	63.9		63.3	118.9	119.6	77.0
South Korea	Agriculture	156.6	116.3		224.6	181.9	110.9
	Manufacturing	49.4	62.2	N/A	94.3	100.0	70.4
	Total	52.5	63.3		97.7	101.2	70.6
Russia	Agriculture	133.4	270.1	224.6		354.5	226.4
	Manufacturing	92.0	115.9	94.3	N/A	201.0	124.8
	Total	95.0	118.9	97.7		204.3	127.6

Source: World Bank International Trade Costs.

Note: The value of trade cost is provided in *ad valorem* equivalent form (percentage of value of goods)

Table 7 reports the bilateral trade costs between selected NEA economies. This trade facilitation indicator captures all additional costs involved in trading goods bilaterally including international shipping and logistics costs, tariff and non-tariff costs, and costs of differences in language, culture, currencies, etc. In this table, we do not only provide the trade cost figures for the NEA region but also to other trading partners – Singapore and USA with the purpose of making a valid comparison between the cost incurred for intra-regional trade and extra-regional trade. We wanted to include European Union as well, but were constrained by data availability.

According to the Table 7, in 2010, China-South Korea had the lowest trade costs equivalent to *ad valorem* tariff of 52.5 percent, while trade costs was highest for bilateral trade between Russia and Singapore at 204.3 percent. With the exception of Russia-Japan bilateral trade, trade costs were lower for bilateral trade between all GTR countries - China, Japan, South Korea and Russia, in comparison to bilateral trade between the GTR members and a selected country (Singapore or United States). Remarkably, for Russia and Japan, cost of bilateral trade with each other was far greater than with any other country under consideration, indicative of the political difference and the long-standing territorial dispute over the northern territories between the two countries, among others. Notice that trade costs associated with agriculture products are significantly higher than manufactured products for all country-pairs.

Though the trade costs measure provided in Table 7 is arguably a better measure of overall bilateral trade costs, it does not provide disaggregated information about the costs associated with trading across borders. For the identification of specific trade facilitation measures that are effective in promoting trade, and in order to make proper policy recommendations, it is necessary to quantify the costs associated with specific trading procedures like customs, handling, etc. For this purpose we will now consider another measure of trade costs, one that is associated only with trading across the border procedures included in the *Doing Business Report* of the World Bank Group.

Unlike the conventional way of measuring trade costs on the basis of simple indicators such as time and cost incurred for a) document preparation, b) customs clearance and technical control, c) port and d) terminal handling and inland transportation and handling, we try to standardize them by dividing these various components of cost incurred for export as well as import by per capital GDP of each country for 2012. We feel that these results (presented in Table 4 and 5, respectively) provide more accurate description of costs involved. In order to see how NEA countries fare vis-à-vis other countries in Asia, we compare them with three countries from Southeast Asia, namely Malaysia, Singapore and Thailand.

2.4.2 Trade facilitation needs and priorities in the GTR

As a part of the preparation for possible signing of a regional trade agreement in NEA and initiating discussions on trade facilitation issues, including several behind-the-border issues, it is necessary to identify major issues and concerns that need to be addressed in order to facilitate regional trade. The *Global Enabling Trade Report 2012: Reducing Supply Chain Barriers* -provides a list of factors seen by business executives as the most problematic for trading in their country. In the Report, the major concerned raised have been disaggregated at country level and divided into

two categories - problematic factors for exporting, and problematic factors for importing. Some of the major problematic factors for exporting from countries within the GTR included:

i) identification of potential markets and buyers;
ii) technical requirements and standards abroad;
iii) difficulties in meeting quality/quantity requirements of buyers;
iv) access to imported inputs at competitive prices; and
v) inappropriate production technology and skills.

Similarly, most problematic factors for importing into countries within the GTR included

i) tariff and non-tariff barriers;
ii) burdensome import procedures;
iii) corruption at the border;
iv) high cost or delays caused by domestic and international transportation; and
v) domestic technical requirements and standards.

Given these impediments to export and import within GTR, it is important to realize that the needs and priorities of traders vary across countries. For example, tariff and NTBs are the major problem in the rest of the NEA countries. However, few common, high priority issues other than the ones already listed above have been identified in all countries in the GTR. Close examination of trade costs data for trading across borders (Tables8 and 9) reveal that inland transportation and handling costs are excessively high in NEA. For instance, in Mongolia the inland transportation and handling export cost is equivalent to 57.17 percent of GDP per capita. Given this high share of inland transportation and handling cost in the total trade costs, it is imperative that reducing transportation and handling costs take first priority in all countries within the region.

The problems highlighted above are generic in nature and the above lists only capture the macro level picture of the country, generally representative of situation in each country. However, the focus of this study is on the GTR (i.e., specific provinces/cities within the four member countries, namely China, South Korea, Mongolia and Russia), and the problems highlighted above may not truly capture the situation on the ground. Since provinces/cities within the GTR may share more commonalities than their counterparts from the same country, it is necessary to conduct more accurate mapping and analysis of the actual situation, rather than providing a generic overview of a certain country. This is a task we have set out for ourselves in the next section in which we conduct detailed analysis of these barriers based on surveys conducted within the GTR.

Considering the difficulties faced by the private sector of the region, which is the major stakeholder of any business activity, governments in the region have already geared up to collectively tackle a number of issues, and the GTI Secretariat seems to be playing its part in this endeavour. Two such examples highlighted by Chang (2012b) are: data harmonization in trade between China and Mongolia; and development of electronic certification online verification systems between China General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) and Quarantine and Inspection Agency of South Korea. Besides these bilateral initiatives, there are a number of regional initiatives worth highlighting. They include: conducting a comprehensive visa facilitation study, cooperation agreement between the GTI Secretariat and the South Korean Customs Services for annually organizing trade facilitation

workshops, and comprehensive transport corridors study, which do not only includes country studies in the NEA region, but also a regional studies based on those national reports.[31]

Moreover, according to Chang (2012b), there is a considerable interest and demand in the GTR for the following: (i) necessity of a joint control system in the region; (ii) data simplification and harmonization; (iii) single window system; and (iv) cross-border special economic zones.

3. RESULTS FROM THE SURVEY

3.1 Introduction

In order to empirically identify the major trade facilitation challenges and their severity as well as propose reform measures that are required to be implemented within certain timeframe, the study has conducted a survey based on questionnaires. The survey lists out problematic factors for exporting and importing in the GTR; estimates the cost and time for trade activity within the GTR; assesses the performance of border management agencies, trade support organizations and trade support facilities/infrastructure; and evaluates dialogue and consultation mechanisms, as well as the involvement of non-state actors in border management within the region. The survey provides primary materials to evaluate the present status of trade facilitation in the GTR, and thus helps to generate policy implications more relevant to the economic and institutional realities facing the region.

The survey covers 4 countries in the GTR –China, South Korea, Mongolia and Russia, and designates specialized questionnaires for different parties of stakeholders, namely, private sector (e.g. companies), public sector (e.g. government officials) and other stakeholders (e.g. academia). A total of 110 stakeholders responded to the questionnaires (62 from China, 21 from South Korea, 24 from Mongolia, and 3 from Russia). Wherever limited/confusing responses were received, the study team contacted the respondent and asked for further clarification. As noted above, the information so received was further checked and verified during a series of meetings/consultations with stakeholders held in Ulaanbaatar, Mongolia; Suifenhe (bordering China and Russia) and UNDP Office in Beijing. Based on the available information, an analysis has been conducted, which are presented in the following sections.

This section is organized as follows: sub-section 3.2 discusses factors impeding export and import prospects in the GTR, sub-section 3.3 discusses issues surrounding border management, including assessment of the performance of border management agencies and reform measures required to be undertaken. In sub-section 3.4 visa regime and related formalities in the GTR countries for business visitors is discussed. Sub-section 3.5 evaluates performance of trade support organizations/ facilities/infrastructure and assesses the need for their reforms. Sub-section 3.6 focuses on dialogue and consultation mechanisms in the GTR both at the inter-agency level as well as with outside stakeholders, while sub-section 3.7 identifies, based on interaction with the stakeholders, in the region a list of other issues than those covered by the questionnaire survey. Section 3.8 concludes the findings of the analysis setting the tone for the policy implications to be drawn from the analysis.

3.2 Problematic factors for trading in the GTR.

This sub-section identifies several most problematic factors for exporting and importing, taking both prevalence and severity of each factor into consideration. Based on multiple answers provided by the respondents, top most problematic factors were selected for further discussion. Subsequently, in order to discuss the magnitude of the problems so identified, respondents were asked to rank the problems in terms of their severity – high, medium and low.

China

The most problematic factors for Chinese exporters are:

(i) supply capacity and competitiveness issue;
(ii) identifying potential markets and buyers in other countries in the GTR;
(iii) technical requirements and standards in other countries in the GTR; and
(iv) high cost or delays caused by regional transportation within the GTR.

In terms of severity, all four factors were ranked to be "medium"; but factors (ii), (iii) and (iv) were identified to be highly severe by 30 percent or more respondents. This is vindicated by the discussions with stakeholders, which confirmed that supply capacity in not a major problem for enhancing China's exports to GTR territories. They did, however, concurred with the fact that other three barriers identified above are valid in the case of China. It is equally worth nothing that these three factors are amongst the top six factors identified by the *Global Enabling Trade Report* prepared by the World Economic Forum (WEF 2012), which provides a general idea of the export-related barriers faced by China. However, during discussion with stakeholders in China, they expressed their view that supply capacity may not be major constraints for Chinese exporters, although competitiveness-related challenges exist to some extent.

As far as import-related problems are concerned, the following were the most problematic import factors identified by the respondents:

(i) burdensome import procedures;
(ii) lack of knowledge of supplier within the GTR;
(iii) tariff barriers;
(iv) high costs or delays caused by regional transportation within the GTR; and
(v) high costs and delays caused by domestic transportation.

While more than 50 percent of the respondents ranked factors (i), (iv) and (v) as "medium" in terms of severity, factors (ii) and (iii) were ranked as highly severe by more than 30 percent of the respondents. These findings were generally vindicated during the discussion with stakeholders. Although these are generally in line with the findings of WEF 2012, what is striking is the fact that lack of knowledge of supplier within the GTR does not figure anywhere in the *Global Enabling Trade Report*. This shows that the importers within the GTR are generally importing goods mostly from regions outside the GTR, pointing out to the scope for increased business dealings within the sub-region.

According to an expert participating at the consultation meeting held in Beijing, two other important problems applicable to both import and export are equally important to take note of. First, the inconsistency of working hours in different countries has caused serious problem for traders causing considerable delays. According to the expert, for example, while 24-hour clearance is expected by Chinese traders since they often have business around the clock, Russian Customs does not have a mechanism for 24-hour clearance, thus causing delays in trade between China and Russia. Additionally, cargoes carried by airline passengers to Russia partly reflect problems related to burdensome procedures and low efficiency of border management agencies. Second, lack of transparency of trade facilitation related policy and administration procedures, especially in Russia and Mongolia, are responsible not only for delaying the delivery of goods but also raising the cost of trading across the border.

South Korea

For South Korean exporters, the most problematic factors were:

(i) identifying potential markets and buyers in other countries in the GTR;
(ii) para-tariff barriers;
(iii) high cost or delays caused by regional transportation within the GTR; and
(iv) high cost or delays caused due to transit-related problems.

Majority of the respondents (60 percent or more) ranked factors (i), (ii) and (iii) as "medium" in terms of severity, but nearly 30 percent respondents rated factor (iv) as least severe. Although there was no means to triangulate their assertions since no discussion took place with South Korean stakeholders, looking at the generic barriers faced by South Korean exporters as indicated in the *Global Enabling Trade Report*, most of them look plausible because they fall within the top ten barriers identified by the Report. However, para-tariff barriers are the only barriers that have not been identified by the Report, suggesting that when South Korean exporters want to export to the GTR, they encounter para-tariff barriers as a major problem.

The most problematic factors for importing into South Korea include:

(i) high cost or delays caused by regional transportation within the GTR;
(ii) lack of knowledge of supplier within the GTR;
(iii) burdensome import procedures; and
(iv) high cost or delays caused due to transit-related problems.

Over 60 percent of respondents reported each of these factors to be significant import barriers, but a large number of them considered these factors to be "medium" in terms of severity. As in the case of export barriers, in the case of South Korea, the only way to triangulate the above findings was to look at the *Global Enabling Trade Report*, which shows that burdensome import procedures are the number one barrier and high costs or delays caused by international (which includes regional) transportation as the third major problem. However, lack of knowledge of supplier with the GTR and high cost or delays caused due to transit-related problems do not feature anywhere in the Report. This suggests that these are *sui generis* barriers facing South Korean traders trying to import from the GTR.

Mongolia

More than three-fourth of Mongolian exporters surveyed identified the following as the problematic factors for exporting from Mongolia:

(i) supply capacity and competitiveness issue;
(ii) high cost or delays caused by regional transportation within the GTR;
(iii) high cost or delays caused due to transit-related problems;
(iv) high cost or delays caused by domestic transportation; and
(v) tariff barriers.

More importantly, more than 50 percent considered factors (ii), (iii) and (iv) to be highly severe. These responses are not surprising given the land-locked status of the country. Discussions with the stakeholders from Mongolia too revealed that transport and transit are the major barriers facing this landlocked country. It is also worth noting that except for supply capacity and competitiveness issue represented by inappropriate production technology and skills, the first major barrier identified by the *Global Enabling Trade Report*, transportation issues – whether

domestic or international – feature prominently in the Report. Although transit issue is not featured in the Report, it is assumed that this issue might have been subsumed under the broader rubric of international transportation. The only barrier that has been highlighted by the Mongolian respondents that does not feature in the Report is - tariff barrier.

Some of the most problematic factors faced by Mongolian importers include:

(i) lack of knowledge of supplier within the GTR;
(ii) high cost or delays caused by regional transportation within the GTR;
(iii) high cost or delays caused by domestic transportation;
(iv) para-tariff barriers; and
(v) high cost or delays caused due to transit-related problems.

Majority of the respondents considered factors (ii) and (v) to be the highly severe. It needs to be noted, as in the case of export barriers, transport related issues feature prominently among the respondents listing as well as the Report, again with the assumption that transit issue is subsumed under the international transportation cost or delays. However, lack of knowledge of supplier within the GTR and para-tariff barriers, which may be specific to the sub-region, do not feature among the import-related barriers as identified by the Report. The fact that transport-related barriers are the major constraints to Mongolia's import from the GTR is also vindicated by a substantial majority of stakeholders contacted; some of whom were of the view that while the quality of transport infrastructure with China is improving, infrastructure required to trade extensively with Russia is inadequate. They also opined that although there is a potential for Mongolia's trade with South Korea to grow substantially, it is due to lack of adequate connectivity that the former's export to the latter is not growing.

Contributions from the government officials during the focus group discussion revealed that the "Strategic Transportation Policy 2020" prepared by the government is moving with the new vision of Mongolia "becoming the main point for connection for Northeast Asia". While this is indeed a welcome development, regular follow up from the concerned stakeholders may be necessary to ensure that this vision takes concrete shape in the future. They also emphasized the need to develop multi-modal transport linkages within the GTR along with the development of dedicated trade corridors.

Russia

Since there were only a few questionnaires collected from Russia, no percentage is assigned to the responses received from them. However, based on the responses received, the following were found to be the most problematic factors for exporting.

(i) tariff barriers, para-tariff barriers;
(ii) non-tariff barriers;
(iii) access to imported inputs and competitive prices;
(iv) difficulties in meeting quality/quantity requirements of buyers; and
(v) technical requirements and standards in other countries in the GTR

Severity of non-tariff barriers is thought to be high, while severities of tariff barriers, access to imported inputs at competitive prices, and technical requirements and standards in other countries in the GTR are considered to be moderate. Severities of para-tariff barriers and difficulties in meeting quality/quantity requirements of buyers are considered to be low.

The following are some of the most problematic factors for importing listed:

(i) tariff barriers;
(ii) para-tariff; and
(iii) non-tariff barriers and burdensome import procedures.

Severities of non-tariff barriers and burdensome import procedures are considered high, while severity of tariff barriers is thought to be moderate. Para-tariff is thought to have the lowest severity. While these were vindicated by two government officials from Russia who were interviewed in Ulaanbaatar, another problem highlighted by representatives of Russian private sector interviewed at Suifenhe International Port Trade Fair is that non-reliability of some Chinese exporters, who promise to export goods to their counterparts in Russia at a very competitive price but supply spurious goods. Another issue raised by them, which is applicable both to export and import, is the incompatibility of railways gauge between Russia on the one hand, and China and Mongolia on the other, as a result of which goods need to be transhipped at the border causing delay in delivery of goods, which raise the cost of trading with GTR territories. The severity of this problem was thought to be high not least because some goods are likely to be damaged when they are transhipped.

Summary

The section identified several problematic factors for exporting from and importing into China, South Korea, Mongolia and Russia. Though the problematic factors and their severity vary across countries, the countries are plagued by some common problematic factors. Exporters and importers in all three GTR countries incur high cost/delays due to regional transportation. This problem is not endemic to a particular country in the region. Meanwhile, South Korean and Mongolia exporters and importers also suffer from transit related problems. In particular, transportation and transit issues are a severe problem for Mongolian exporters and importers. Additionally, difficulty identifying potential markets and buyers within the GTR, and the lack of information on supplier within the GTR are a common export and import barrier faced by countries in the GTR, as are the problems relating to supply capacity and competitiveness. Finally, trade barriers, whether in the form of tariff, para-tariff and non-tariff barriers, severely impede the prospects of enhancing trade within the GTR.

3.3 Border management

Although the presence of customs department is starkly visible at the border points, a large number of other government agencies (OGAs) have presence at the borders from which goods and people move across national borders. This sub-section is an attempt to gauge the understanding of these agencies about trade facilitation issues and the time they take to complete necessary formalities. Additionally, it tries to assess the capacity of these agencies in terms of availability and quality of infrastructure, rules and procedure followed by them, quality of human resources, relative speed of their work and their risk management capacities. Finally, it tries to gauge the perception of the respondents on whether or not reform is required in certain areas to enhance their efficiency as well as cost effectiveness, and if reforms are necessary, what should be the desirable timeframe within which such reform measures must be completed.

3.3.1 Understanding of trade facilitation issues

According to the respondents from China, immigration service, security agencies, revenue and customs, marketing board and quarantine inspection service have the highest understanding of trade facilitation issues, while other agencies only have limited understanding. Due to limited responses received and the lack of data in this part, relevant analysis could not be carried out in the case of other countries, mainly South Korea.

Discussions with stakeholders in China and Mongolia revealed the fact that four agencies, which are at the forefront of border management, namely customs, quarantine, immigration and border port management are most likely to have greater understanding of trade facilitation issues. These are the agencies that are likely to take utmost care to ensure that goods and people flow across the border without hindrances, unless they are bound by some regulatory norms or are involved in some form of corrupt practices.

3.3.2 Assessment of the capacity of the border management agencies

This sub-subsection assesses the capacity of border management agencies in the following areas: infrastructure, rules and procedure, human resource, speed of work and risk management.

China

Border management agencies in China have good infrastructural capacity and high transparency of rules and procedures; but there still exists room for further improvement in human resources, speed of work and risk management. Overall, “Quarantine inspection service”, “Revenue and customs”, and “Plant health inspectorate” are among the best-performing border management agencies in China. On the other hand, there is a scope for improvement in the performance of “Archaeological agencies” in all five aspects (infrastructural capacity, transparency, human resource capacity, speed of work and risk management), while work needs to be done in improving human resources, efficiency and risk management of “Trading standard bodies” and “Immigration service”. It much be noted, however, that although archaeological agencies may not have the desired capacity and reform may be required to bring them up to the mark, they may not pose significant barriers to trade expansion in the region.

According to a government official participating in the consultation meeting held in Beijing, China Customs has implemented various measures to simplify customs procedures and promote trade facilitation. First, it has implemented AEOs system to provide convenient clearance procedures for, including guaranteed release of cargoes before customs clearance and lower inspection rate. Second, reforms regarding clearance procedures based in globally accepted principle of risk management are also implemented. Trade enterprises are divided into different groups with different risk ratings according to their risk profiles. Different management methods are implemented for different groups of enterprises. Enterprises with better record and lower risks enjoy faster clearance procedures, while enterprises trading cargoes with high risks will be inspected and verified more strictly. Third, paperless clearance procedure pilot reforms are also implemented and have received positive feedback from enterprises. Fourth, advanced declaration and declaration in batches have been implemented to improve clearance efficiency. For enterprises with higher credibility, cargo declaration can be completed in one customs territory while the inspection and release of the cargo can be carried out in another customs territory. Moreover, China Customs also provides 24-hour clearance service for importers once an appointment is made in advance.

South Korea

South Korea's border management agencies are average performers in all the evaluation aspects, indicating room for improvement. Scoring high on all five evaluation criteria, revenue and customs is the best-performing border agency. Meanwhile, health authorities, marketing board, highway agencies and archaeological agencies need further improvement in all aspects.

Mongolia

In general, the performance of the Mongolian border agencies is not up to mark and thus requires improvement. More specifically, archaeological agencies, highway agencies and quarantine inspection service need to be further strengthened in all aspects, while plant health inspectorate should work to improve transparency. Notably, better risk management should be the priority for all Mongolian border management agencies. Overall, Mongolian customs is the only border agency with an average score in all evaluation criteria.

Russia

According to the respondents, revenue and customs, immigration service, health authorities, quarantine inspection service, plant health inspectorate, food standards agency and security agencies are in operation at the border. However, it takes several days to complete revenue and customs, while several hours to complete immigration service, health related formalities and quarantine inspection service separately.

Summary

Archaeological agencies are the worst-performing boarder agencies in most countries, according to the responses received from the survey. While China should work to improve immigration service and trading standard bodies, South Korea should be more focused on improving the performance of health authorities, highway agencies and marketing board. In Mongolia, much needs to be done to improve highway agencies and quarantine inspection service, not to mention the immense work that is needed for better risk management practices in all Mongolian border agencies. In the case of Russia, delivery capacities of customs, immigration, health and quarantine inspection agencies are not up to the mark. However, agencies such as archaeological agencies, which are ranked lower in terms of performance and capacity and higher in terms of need for reform, may not pose immediate barriers to trade expansion in the region.

3.3.3 Reforms within border management agencies

This sub-subsection evaluates the current status, the need for reforms as well as the best timeframe to carry out reforms to improve various aspects of border management agencies.

China

According to the respondents, China has made much improvement in the use of ICT, pre-arrival clearance, cargo-tracking system and post clearance audit. However, measures to reduce human interface and collaborative border management can be improved further. Given the desirability for reforms, the respondents voiced that there is an urgent need to make further improvements in the use of ICT, pre-arrival clearance, cargo tracking and single window system. While discussions with stakeholders during the consultation meeting held in Beijing vindicated these points, experts were of the view that China was already in quite an advanced stage in terms of operating single window system, making advance declaration and operationalization of the system of AEOs.

Moreover, the system of e-certificate system as a tool to ensure export/import safety and fast clearance is gaining momentum in China. Currently nearly 300 officials from 41 countries are registered in the system. The system features networking verification and is connected with the system of New Zealand, Netherland and Australia to achieve data exchange and information update. As a result of this, it only takes two working days to complete the cargo clearance process using the system, significantly reducing costs incurred due to delays. The system helps to identify authenticity of certificates and thus can crack down on smuggling activities. Real-time communications of information regarding buyers and sellers can also be achieved using the system.

Currently e-certificate system is operational in the cases of certificates for export, including sanitary certificate, veterinary certificate, quality certificate, certificate of origin etc. Certificates for import require bilateral exchange from the exporting countries for verification in batches or return card. Currently the system is mainly accessed by officials from government institutions and used for addressing problems relating to counterfeit certificates and trade disputes. However, certificates issued by either government institutions or non-government organizations can be introduced into e-certificate system through data exchange.

South Korea

In South Korea, pre-arrival clearance, measures to reduce human interface and single window system outperform other functions of the border agencies; while mutual recognition agreement and collaborative border management underperform other functions. Consequently, there is a high desirability and urgency for reforms to improve mutual recognition agreement and collaborative border management. Additionally, there is also urgent need for reforms in pre-arrival clearance, post clearance audit, cargo tracking system, single window system and the use of ICT.

Mongolia

In Mongolia, significant reforms are needed to put in place mechanism for authorized economic operators, cargo-tracking system, measures to reduce human interface and single window system. Overall, improvements in all the functions of the border agencies are desired. But more importantly, the use of ICT, cargo tracking system, single window system and measures to reduce human interface are most in need of urgent reform. Discussion with stakeholders in Mongolia as well as during the focus group discussion revealed that Mongolia has not only conducted Time Release Study with the support of USAID, but also prepared draft legislation on border management, which has been submitted to the Parliament for endorsement. According to them, the passage of law will pave the way for reforms in the area of border management including introduction of single window system, better risk management and initiate the process of putting in place a system of AEOs.

Four major agencies need to be brought together to operationalize the single window system. Although department of customs had been taking the lead so far, the leadership role has now been shifted to the cabinet secretariat, which is in a better position to coordinate the activities of all the agencies. According to the official, ADB is likely to support the Government of Mongolia is setting up the single window system.

Government officials mentioned that significant efforts have been made towards customs reform including the reduction in the number of documents required when trading across borders from

nine to four, and the introduction of risk management system.[32]The government officials as well as representative of the Mongolian Chamber of Commerce emphasized the need to put in place Joint Border Management in order to speed up the boarder clearance procedure. In this context, government officials interviewed in Ulaanbaatar highlighted the significance of the joint customs control between China and Mongolia, such as the pilot programme that was successfully launched in 2009 for Erenhot (China) - Zamyn-Uud (Mongolia) ports, which was later extended to Ganqimaodu (China) – Gashunsuhaitu (Mongolia) ports in 2011. It was also mentioned that Mongolia has requested the Chinese government to extend such arrangements in other border ports as well. Moreover, they also emphasized the need for such arrangement to be either initiated or scaled up in other countries in the GTR, including at border points with Russia since Mongolia currently does not have any such arrangement with the neighbour.

Russia

Due to the limitation in number of respondent from Russia despite several attempts made in 2013, the information collected may not fully reflect the current development stage. According to Russian Federation Federal Customs Service and Ministry of Economic Development, in 2014 an active work on developing the 'single window' mechanism in the system of regulation of foreign economic relation is currently underway at the uniform customs territory of the member countries of the Customs Union of the Eurasian Economic Commission (hereinafter - ECE) in conjunction with the federal executive authorities of the Russian Federation, the Republic of Belarus and Kazakhstan. The improved mechanism will allow the participants of foreign trade just once to submit information and relevant documents using a single entry point.

According to the Federal Customs Service of the Russian Federation, progresses have been made in the following areas: the number of necessary documents to be issued for import activities was reduced from 10 to 4 and from 8 to 4 for export operations; time for preparation of documents for both import and export activities was reduced from 25 to 7 days; time of customs operations which are required for release of goods was reduced from 96 to 2 hours for import and from 72 to 2 hours for export.

Summary

Respondents in all three countries have identified that improvement in the use of ICT, cargo tracking system, single window system, collaborative border management and measures to reduce human interface is necessary to enhance the capacity of border management agencies. This suggests that better co-operations between countries in the GTR can serve to facilitate trade activities within the region. Although each country has their own priority for reforms of the border management agencies, the urgency for reform is high in Mongolian border management agencies, compared to the Chinese and South Korean agencies.

Particularly in China, use of ICT, cargo-tracking system and pre-arrival clearance can be made through technology upgrading. In South Korea, mutual recognition agreements require high cooperation across countries, while the improvement of single window system, use of ICT and cargo-tracking system in Mongolia are in need of reforms to facilitate trade activities. In case of Russia, further development of single window system is needed in joint cooperation with partners of the Eurasian Economic Union and countries in the GTR. Overall, it seems that to enhance the capabilities of border management agencies in the GTR, higher level of cooperation across borders and the use of ICT to replace human interface as well as to improve overall efficiency are indispensable

3.4 Visa regime

This sub-section investigates the visa preference across the GTR, and the costs and time spent on visa application as well as in border-crossing. For China, the information is based on questionnaires filled out by Chinese stakeholders. Due to the lack of respondents, the information available from other three countries is of limited. Hence, information gathering during focus group discussions with experts from the region is used to further investigate visa issues in the region.

In China, business visa is the most sought-after visa as more than 60 percent of Chinese respondents choose to apply for a business visa to conduct cross-border business within the GTR, while nearly a third of respondents and around 5 percent choose to apply for tourist visa and other visa (e.g. work/labour visa), respectively. Due to the high demand for business visas, high costs or delays seem to exist in the processing of business visa application. On average, it takes 32 days and costs US$279 to obtain a business visa in China, while the entire border-crossing in the GTR takes 2.2 days. Additionally, respondents reported that Russian Customs are highly time-consuming and asked for greater degree of information transparency. Follow-up interviews and consultation with travel agencies in border city show that the cost and time of visa application significantly vary in different countries. For example, a travel agency in Suifenhe city reports that while procedures to apply for a travel visa from Russia to China are quite simple, application for a travel visa to Russia takes longer and costs higher, mainly because part of the application procedure is to be completed in the Russian Consulate in Shenyang city, China. Fees incurred by the issuance of an invitation letter, which is not include in the calculation, far exceed the expense of application of business visa to certain countries, according to some respondents.

This was vindicated by the experts participating in the focus group discussion held in Ulaanbaatar, where they mentioned that obtaining visa for Russia is one of the most cumbersome and expensive. However, government representatives of Russia, who were subsequently interviewed in Ulaanbaatar refuted the claim and suggested that from 1 January 2013, South Koreans do not require any visa for business travel to the their country and Chinese business visitors do not need visa to travel to the Far East territories of Russia, although they did not have much information on visa requirement for the Mongolian business visitors to Russia.

It was also highlighted that South Korea has the least restrictive visa regime where a visa fee of US$ 30 is charged for normal visa and US$ 60 is charged for urgent visa. However, normal time required for visa processing is one month. China and Mongolia have a special visa arrangement whereby Mongolian business visitors are not required to obtain visa to travel to China, whereas in the case of Chinese business travellers visiting Mongolia, visa is necessary.

3.5 Trade support organizations and facilities

The performance of trade support organizations and facilities/infrastructure is evaluated in this sub-section. Sub-sections 3.5.1 And 3.5.2 are devoted to the assessment of trade support organization and trade support facilities/infrastructure respectively.

3.5.1 Trade support organizations

This sub-subsection evaluates efficiency, cost effectiveness, competition, necessity and urgency for reforms in various trade support organizations.

China

In general, trade support organizations in China perform reasonably well and are highly efficient but not very cost effective. Though banks and finance companies, trucking and haulage companies, shipping lines and railway companies are highly efficient than other organizations; banks and finance companies are only those organizations that can be considered cost effective. Meanwhile, logistics service providers, freight forwarders, ferry operators, insurance companies and customs brokers have relatively high potential to improve their efficiency and cost effectiveness.

Moreover, there is a reasonable degree of competition among logistics service providers, trucking and haulage companies and freight forwarders, while the railway companies face few competitors due to the industry characteristics. On the other hand, there is a considerable scope for enhancing competition in the banks and finance companies, insurance companies, trucking and haulage companies through the effective implementation of competition law. Railway companies, being natural monopolies, need a different treatment to enhance their efficiency and cost-effectiveness. One of the ways through which this could be done is by establishing and/or strengthening sectoral regulatory agency.

South Korea

Among the various trade support organizations in South Korea, airline, customs brokers and shipping lines perform relatively well in terms of both efficiency and cost effectiveness, while ferry operators, freight forwarder and insurance companies need further improvement in both areas. In general, South Korean trade support organizations receive an average performance rating. Furthermore, competition exists among airline and logistics service providers, while the ferry operators and freight forwarders do not face much competition. Additionally, the urgency for reforms is high for freight forwarders, logistics service providers and shipping lines.

Mongolia

Apart from Mongolian banks and finance companies, none of the other trade facilitating organizations are very efficient and/or cost effective, according to the respondents. The overall performance of ferry operators, logistics service providers, insurance companies, airline operators, shipping lines, railway companies, and trucking and haulage companies is well below par; and are thus in need of significant improvements to increase their efficiency and cost effectiveness.

Not surprisingly, the degree of competition is quite low in all organizations, and the lowest degree of competitions exists among shipping lines, airline, trucking and haulage companies, and insurance companies. Given their overall performance, trucking and haulage companies, insurance companies, airline and ferry operators are those in need of urgent reforms. In order to infuse competition within these agencies, effective implementation of competition law appears indispensable.

Russia

Airlines, logistics service providers, freight forwarders and customs brokers are rated as “good”, in terms of both efficiency and cost effectiveness, while shipping lines and insurance companies are rated as “average” in both respects. Banks and finance companies are rated as “poor” on both counts. Ferry operators are considered “poor” in efficiency and “good” in cost effectiveness. Trucking and haulage companies are considered “average” in efficiency and “poor” in cost

effectiveness. Railway companies are considered "good" in efficiency and "average" in cost effectiveness.

Competition amongst shipping lines, ferry operators, airlines, trucking and haulage companies and customs brokers are considered "intense", while competitions in railway companies, logistics service providers, freight forwarders, banks and finance companies and insurance companies are considered as "moderate". The respondents also indicate that market developments are required in trucking and haulage companies, logistics service providers, freight forwarders and insurance companies. Development in the areas of ferry operations, addition of new operational routes and services in railway companies, and development of financial market in banks and finance companies are also call for.

Summary

Compared with China, South Korea and Russia, the performance of Mongolia's trade support organizations are below average. However, there is a common need to improve performance in the supply chain services (e.g. logistics service provider, ferry operators, freight forwarder, and etc.) and insurance service in almost all countries. In general, there exist specific areas that are in need of reforms in each country. In China, immediate improvements should be made in banks and finance companies, insurance companies, trucking and haulage companies and railway companies. In South Korea, freight forwarders, logistics service providers and shipping lines need further reforms, while there is an urgent need to improve the overall performance of trucking and haulage companies, insurance companies, airline and ferry operators in Mongolia. Similarly, in Russia, market development is required in certain key sectors having bearing on trade logistics.

3.5.2 Trade support facilities/infrastructure

This sub-subsection evaluates trade support facilities/infrastructure in terms of efficiency, cost effectiveness, competition, necessity and urgency for reforms.

China

Among all the trade support facilities/infrastructure, seaports and railway terminals outperform other infrastructures in terms of efficiency and cost effectiveness. There is ample room for further improvement in efficiency and cost effectiveness of cargo handlers, port operators and stevedores, ferry ports and airports. On average, the degree of competition is quite low in all facilities/infrastructure, with the lowest being rail terminals and seaports. Meanwhile, cargo handlers, transit shed operators, seaports and ferry ports are in urgent need of reforms. Expert participating at the consultation meeting in Beijing did not comment much on the above mentioned issues.

South Korea

Airports outperform other facilities/infrastructure in South Korea in terms of efficiency and cost effectiveness, while ferry ports, warehouse operators and transit shed operators underperform others. Additionally, seaports, cargo handlers, and port operators and stevedores can be further improved to increase efficiency and cost effectiveness. Besides the high competition in airports, competition is moderate among other trade support facilities/infrastructure, with the least degree of competition among port operators and stevedores. Additionally, cargo handlers and warehouse operators are in immediate need of reform.

Mongolia

In Mongolia, trade support facilities/infrastructure like seaports, ports operators and stevedores, and ferry ports are among the least efficient and cost effective. It is worth noting that the degrees of competitions in these three facilities are also among the lowest. In addition, competition is low among transit shed operators. However, the need and urgency for reform is very high for seaports, ferry ports, airports and rail terminals. While the need for scaling up investment on trade support infrastructure was highlighted by Mongolian government officials, experts, private sector and other stakeholders alike, government officials have already started prioritizing them based on the demand from the industry and needs of the market, according to the participants of the focus group discussion held in Ulaanbaatar.

Russia

The related information was not available in the survey, however, additional feedbacks was received from the Federal Customs Service in a later stage. It is worth noting that the customs regulation has improved in the Eurasian Economic Union in order to simplify conditions for foreign trade in the Russian Federation. For example the Action Plan ('Roadmap') "Improvement of Customs Administration" was adopted in 2012 in order to improve business environment[33]; and the Action Plan on Improvement of the Traffic Situation in the Seaports was adopted to improve the efficiency of functioning of seaports. Should the Action Plans be implemented effectively, the customs procedures will be simplified, which will allow to avoid excessive amount of formalities, to reduce time for obtaining necessary permits and customs operations; and to reduce the time spent by cargo in a port to one or two days through implementation of a "single window" mechanism. Thus the Action Plans need to be effectively implemented at all levels of the Eurasian Economic Union.

Summary

For trade support facilitation facilities/infrastructure, different countries have their own priorities and alternatives to further facilitate trade activities. However, ferry ports, cargo handlers, and port operators and stevedores are commonly recognized by all countries as an area to be further improved and reformed.

Additionally, airports service and operations of ports can be further improved in China, while railway terminals and transit shed operators should be improved further in South Korea. For Mongolia, ports and its operations, and cargo-related services (e.g. cargo handler and warehouse operators) need serious improvements in the immediate future. For Russia, the "single window" mechanism, the integration of ports and transport infrastructure should be effectively implemented to reduce the time spent by cargo in a port.

3.6 Dialogue, consultation and engagement

Dialogue and consultation mechanism – both at the inter-agency level as well as with outside stakeholders – is a vital component of trade facilitation reform, as is the engagement of the private sector in the provision of certain services, which are essentially sub-contracted by the government agencies to them. Therefore, this sub-section tries to assess the existence as well as effectiveness of such mechanisms not only at the national and regional, but also at the sub-national/provincial level.

China

In China, the existence of public-private dialogue on trade facilitation issues is wide recognized in comparison to the inter-agency consultation on trade facilitation issue. Though both mechanisms are in immediate need for reforms, the need for reforms is greater in inter-agency consultation. In terms of coordination between agencies, Chinese customs and other government agencies are thought to be well coordinated in all the aspects: sharing of data and information; harmonization of data requirements and coding; delegation of authority; joint operational activity; and use of a single window for border clearance. However, in the immediate future, there is a strong need for further reforms in all aspects, mainly in harmonization of data.

As far as private sector's engagement is concerned, printing and publication service, and staff training have the highest engagement of the private sector. Meanwhile, more than 50 percent of respondents see the need for further reforms in areas such as supplying support staff, staff training, managing and maintaining infrastructure, building and equipment, and supply chain security. Apart from pre-shipment inspection, all remaining areas are in need of immediate reforms in order to encourage private sectors participation.

More than 60 percent of the respondents clearly recognize the existence of TFC at all levels: local, national and regional (GTR). There is an immediate preference for reforms in all three levels of TFCs, although TFCs at the local level need to be strengthened in order to solve the problems facing traders at the provincial level within the GTR.

A government official participating at the consultation meeting held in Beijing suggested that in Inner-Mongolia, the provincial level of cooperation on trade facilitation is not sufficient. She even mentioned that there is a lack of awareness about the existence of GTI as a sub-regional initiatives established, among others, to foster trade within the sub-region. A clear example of this, according to her, is Mongolian Customs, although a relatively big customs office, sadly the officials do not know about the initiative. She was also of the view that Yanbian Customs and Hunchun Customs in Jilin Province do spend a lot to promote trade facilitation, but as local government agencies, they lack communication channels and power to push the implementation of policies.

Additionally, private sector and even trading firms are not provided with motivations to further strengthen communications with firms in the region, leading to lack of communication between trading parties. Participations of local government agencies and private sector are far from sufficient to promote trade facilitation in the provincial level. She also suggests that the influence and recognition of GTI should be further enhanced in order to promote trade facilitation.

South Korea

The existence of inter-agency consultation mechanism and public-private dialogue mechanism were recognized by more than 60 percent of the respondents, and 70 percent or more voiced the need for reforms in both mechanisms. More importantly, the majority were of the view that the inter-agency consultation mechanism required immediate reforms, while the public-private dialogue mechanism needed further reforms in the medium term. Additionally, despite good coordination between customs and other government border agencies in all areas except in delegation of authority, efforts are needed to further improve coordination in all areas. More specifically, reforms are required in implementing the use of a single window for border clearance processes.

The presence of TFCs at the local and national and regional level is recognized by nearly 75 percent of the respondents, while the existence of Regional TFC is recognized by only 60 percent. Many are of the view that further reforms are required at the regional level, but the reforms at all three levels should be pursued in the medium term.

While supply chain security and staff training are areas in which extensive engagement of the private sector was noted, there is ample room to increase private sector involvement in all areas. Moreover, urgent reforms are called for to increase private sector's engagement in areas such as licensed trading of restricted goods, independent analysis and testing, and staff training; while the task of supplying support staff should be further outsourced to the private sector in the short term.

Mongolia

The existence of inter-agency consultation mechanism received far less recognition than the public-private dialogue mechanism. Nearly 100 percent of respondents agreed that there is a need for reforms in both mechanisms, and many believe that reforms should be undertaken immediately. In terms of inter-agency coordination, Mongolian customs and other border agencies move in a coordinated fashion, but can be greatly improved through further reforms in the immediate future. Notably, according to the respondents, coordination in the use of a single window for border clearance processes is not up to the mark and thus requires significant reforms as soon as possible.

The existence of TFC at the local level is recognized by only 40 percent of the respondents, while more are aware of the existing TFCs at the national and regional level. Surprisingly, despite the low recognition of the local committee, the need for reforms is near identical at all three levels and the reforms are all preferred to be undertaken in the short term.

During discussions with stakeholders, there was perceptible difference between the narratives of the government officials and the private sector with the former suggesting that they have made all out efforts to engage private sectors in the trade facilitation processes and private sector finding such measures inadequate. However, according a representative of the Mongolian Chamber of Commerce, the present government has shown both willingness to engage the private sector and has appetite to listen to their views and concerns in the key decision making process relating to trade facilitation. They include: a) involvement of Mongolian Chamber as well as logistical association in the process of drafting border management law; b) Constitution of Customs and Business Council; c) increased collaboration between logistical association and port council; and d) involvement of private sector in the construction of road infrastructure.[34]

With regards to private sector's engagement, the respondents identified supplying support staff, managing and maintaining infrastructure, building and equipment, and destination inspection as some of the tasks outsourced to the private sector. On the other hand, private sector participation is low in areas/tasks such as supply chain security, licensed trading of restricted goods, pre-shipment inspection, and independent analysis and testing. Overall, there is a greater need for reforms in these areas. More importantly, pre-shipment inspection, staff training, and independent analysis and testing require immediate reforms to increase the engagement of the private sector.

Russia

Russian customs and OGAs coordinate the following activities: sharing of data and information, harmonization of data requirements and coding, jointly operational activity. It is worth noting that according to policy making agencies, such as Federal Customs Service, the business community was involved in both preparation of suggestions for the improvement of customs regulations as well as evaluation of effectiveness of the currently implemented reforms. The business community representatives were also involved in preparation of the above mentioned Action Plans. They also, in coordination with experts of different state agencies, submitted their proposals on the drafting of provisions and clauses of the new Customs Code of the Eurasian Economic Union.

Summary

In all four GTR countries, inter-agency consultation on trade facilitation issues is well recognized, but there is a considerable improvement needed in the areas of the public-private dialogue on trade facilitation, save and expect in the case of South Korea. As far as the issue of engagement of private sector in GTI processes is concerned, the real stakeholders, i.e., private sector from the provinces that make up the GTR are found to be inadequately consulted. However, it worth mentioning the progress in coordination of public and private efforts in trade facilitation field in Russia.

In China and South Korea, there is a reasonable degree of coordination between customs and other government border agencies in activities such as the sharing of data and information, harmonization of data requirements and coding, and the use of single window for border clearance processes; while the coordination needs to be improved in the delegation of authority. Meanwhile, Mongolian customs and other border agencies are well coordinated in the delegation of authority, but do not fare well in the remaining activities and thus require immediate reforms. Given the complementarities between the four countries, all can improve the coordination of activities in their respective countries through regional collaboration and knowledge/technology transfers. As far as regional TFC is concerned, since the inter-governmental GTI mechanism, which is fairly high level and does not meet regularly, there is a need to put in place a mechanism for regular consultation at inter-governmental level at the lower level of bureaucratic hierarchy.

Different parts of border management activities have diverse degrees of private sector's engagement across countries. In China, Mongolia and South Korea, the engagement of the private sector is high in activities such as staff training and supplying support staff. Also, the private sector participation is high in managing and maintaining infrastructure, building and equipment, and supply chain security in South Korea and Mongolia. Despite considerable engagement of the private sector in such activities, private sector engagement is not up to the mark in activities such as independent analysis and testing, and licensed trading of restricted goods, mainly in China and South Korea. In Mongolia, there is minimal level of private sector engagement in supply chain security. In the case of Russia, business community is involved in both preparation of suggestions for the improvement of customs regulations as well as evaluation of effectiveness of the currently implemented reforms through different mechanisms of public-private consultations.

Reforms are required to increase private sector engagement in staff training, and independent analysis and testing in all countries within the GTR. Meanwhile, major reforms are also required in managing and maintaining infrastructure, building and equipment in China; licensed trading of restricted goods in South Korea; and pre-shipment inspection in Mongolia.

3.7 Other issues

Besides the above mentioned issues, there are a few more issues that are critical from the perspective of fostering regional economic cooperation in the NEA region in general and GTR in particular that were raised by the stakeholders. These issues are discussed below:

3.7.1 Participation in global value chain

Although there is a considerable degree of participation of NEA region in the GVC, the GTR lags behind in terms of utilizing the opportunities offered by the rapidly evolving dynamics of global production networks. On the other hand, country such as Mongolia, which suffers from limited connectivity, is mainly exporting primary goods without adding much value. It would, therefore, be in the interest of the region to explore the possibility of turning GTI into a hub for GVC by pooling capital, resources and expertise based on the comparative advantage of each country in the region.

3.7.2 Cross border economic zones

Creation of cross border economic zones (CBEZ), as have been successfully developed in the Greater Mekong Sub-region (GMS), which is essentially an extension of the border economic zones. This was another idea that was discussed during the interviews with the Mongolian government officials, as well as during the focus group discussion. It was also stated that since CBEZ allows for a freer flow of capital, people and cargo, it can play an important role in facilitating trade and investment between the country-pairs covered by the arrangement.

3.7.3 E-commerce

At the Suifenhe Port Development Forum, the issue of developing e-commerce in the NEA region in general and GTR in particular surfaced prominently. While some suggested that established "e-commerce" service provider, more notably "Alibaba", should expand to the border region such as Suifenhe, to facilitate trade between contagious border areas of various countries in the GTI, others were of the view that it has to be looked at from a much border perspective by encompassing the NEA region as a whole.

3.8 Conclusion

The three most severe barriers to trade expansion in the GTR, which cuts across most countries are: market access barriers; transportation inconvenience including cost and delays incurred due to regional transportation problems; and delays as well as increased cost of trading caused by burdensome border procedure and formalities. The fact that regional transportation cost is higher for trading within the region than outside the region as indicated in the trade cost break up provided in section 2 provided an explanation for this predicament. However, the issue that should not be ignored in the discussion on the GTR trade cooperation is that of transit and costs related thereto because of transit-related problems faced by a land-locked country in the sub-region, namely Mongolia. Another factor significantly hampering trade in the region is a lack of accessible and reliable information regarding transaction partners such as manufacturers, sellers and buyers within various countries in the GTR, although this factor is not the major barrier for all the countries in the region.

While customs, quarantine, security and immigration agencies – the frontline border agencies – generally perform well in China and South Korea, there is a considerable scope for reform of these agencies, although the pace of reform may vary depending on the country. This does not seem to

be the case in Mongolia based on the questionnaire filled out by various stakeholders. However, it is reassuring to note that the narratives of the government officials and private sector subsequently contacted – during one to one meeting as well as focus group discussion – paint a slightly better picture. This is particularly so in the context of the drafting of the law on border management, reduction in number of documents for trading across border and government commitment towards the operation of single window system as well as assigning the responsibility of coordinating this task to the cabinet secretariat. The situation in Russia is slightly different because the frontlines agencies themselves do not seem to be performing as per the expectation of the stakeholders, although the government officials subsequently interviewed refute such claims while admitting the fact that process of reform in Russia has been rather slow because there is no legislative basis for customs reform as yet.

Additionally, concerns were expressed about the need for China to focus on improving immigration service and trading standard bodies and South Korea to focus on improving and implementing reforms in health authorities, highway agencies and marketing board. In the case of Mongolia there was a call for reform of highway agencies, quarantine inspection service as well as risk management aspect of the all border agencies. Furthermore, the use of ICT, cargo tracking system, single window system, collaborative border management and measure to reduce human interface can enhance the capacity of border management agencies in all three countries. In the case of Russia, reform measures on all fronts need to start in earnest - the sooner the better.

The performance of trade support organizations in Mongolia is not comparable to its regional counterparts, and hence there is an urgent need to improve the overall performance of all these organizations, mainly trucking and haulage companies, insurance companies, airline and ferry operators. More importantly, supply chain services (e.g. logistics service provider, freight forwarder, etc.) and insurance service need to be improved in all three countries. Among the various trade support facilities/infrastructure, ferry ports, cargo handlers, and port operators and stevedores are common areas in need of improvements and reforms. Specific areas to be improved include airports and operations of ports in China; railway terminals and transit shed operators in South Korea; and transportation service, operations of ports and cargo-related services in Mongolia.

Although there are several bilateral arrangements for easing the processing of business visa, the regime as such is not considered very friendly, which may have roots in political factors that have so far impeded the prospects of sub-regional/regional cooperation in the NEA region in general and the GTR sub-region in particular. Although the visa regime for South Korea is found to be least restrictive in terms of formalities to be completed, time taken as well as cost to be incurred, Russian visa regime is found to be restrictive, expensive as well as time consuming. Russia's recent initiative to offer visa free entry to the business traveller from South Korea is indeed a laudable move and this is something the country might find worth replicating in the case of other countries in the GTR as well. This is not least because other countries might find it expedient to follow suit given that visa arrangements are mostly reciprocal in nature.

For China, Mongolia and South Korea, mechanisms for inter-agency consultation on trade facilitation issues are less recognized than mechanisms for public-private dialogue. In Russia both mechanisms for inter-agency and public-private coordination are existent.. While improvement in the delegation of authority is necessary in Chinese and South Korean border agencies to enhance coordination of activities, reforms in sharing of data and information, harmonization of

data requirements and coding, and the use of single window for border clearance processes is required in Mongolian boarder agencies. Notwithstanding these elevated discussions, what is crucially missing in all these mechanisms is the appreciation of the role of local level stakeholders, who are neither actively engaged in these processes nor are their opinions heard at the higher level, whether by default or design. Since they are the purported beneficiaries of the regional integration within GTR, their voices should be heard not only at the local level, but also at the national as well as regional level.

There is a high level of private sector's engagement in border management activities such as supplying support staff and staff training. However, reforms in the areas of staff training, and independent analysis and testing in China, South Korea and Mongolia are necessary. Specifically, major reforms are required in managing and maintaining infrastructure, building and equipment in China; licensed trading of restricted goods in South Korea; and pre-shipment inspection in Mongolia.

4. POLICY IMPLICATIONS, RECOMMENDATIONS AND PROJECT IDEAS

There are already several initiatives within GTI that are aimed at promoting and facilitating trade within the sub-region. For example, the regional transport studies conducted in the NEA region by combining together all the countries studies - is a useful initiative that would potentially have significant impact on enhancing economic cooperation in general and boosting sub-regional trade in particular. There are a number of "hard" areas of cooperation - construction of trade corridors, building of bridges, upgrading railway linkages to maintain gauge compatibility across the sub-region, building new ports and upgrading existing ones, construction of warehouses, and upgrading of customs infrastructure, among others.

However, the focus of this study has been on "soft" barriers to trade, including the removal of trade barriers, harmonization of rules, regulations, formalities and procedures, creating and strengthening mechanisms to connect traders, strengthening consultation and dialogue mechanisms, conducting studies, and organizing conferences, seminars and workshops. Therefore, policy implications, recommendations and project ideas discussed below focus predominantly, if not exclusively, on addressing such barriers. While doing so, we have not only relied on the analysis of existing literature and survey conducted in the region, but also made an attempt to draw lessons from successful initiatives (best practices) elsewhere.

In order to triangulate the findings of the survey, including some of the new issues raised such as CBEZ, GVC and e-commerce, another round of literature review was conducted. An added advantage of this approach is that it provided ideas to better appreciate the policy implications of the issues raised by the survey, as well as provided some useful insights to propose concrete recommendations.

4.1 Free Trade Agreement with the NEA Region

Given that market access barriers – whether in the form of tariff, para-tariff or non-tariff – were highlighted as a major problem by almost all the countries in the region, there is a clear case for signing a FTA amongst the GTI member countries or even amongst the NEA countries. Since that GTI is not only a sub-regional initiative, but also covers only part of various countries, there is a temptation to suggest that bilateral FTAs between different pair of countries make better sense. However, this argument overlooks several points.

First, there is a strong political interest in the unification of the NEA region, given the recognition of the contribution it can make towards regional as well as global prosperity. As emphasized by Zhang Wei, Vice Chairman, China Council for the Promotion of International and China Chamber of International Commerce, economic unification of the NEA region will contribute to global prosperity. According to him, given the strategic importance of Far-East Russia, closer cooperation of this part of Russia with the rest of NEA will promote win-win outcomes for all the countries in the region.[35] Concurring with this idea, Sun Yao, Vice Governor, Heilongjiang Provincial People's Government suggests that economic cooperation within the region is not only an imperative but also an objective towards which building blocks have already been prepared. For example, China, Japan and South Korea have already extended necessary cooperation to Russia on the economic front, which needs to be nurtured to create one of the largest economic cooperation arrangements in the world.[36]

Moreover, there is a groundswell of support amongst trade officials in the GTI to establish a FTA within the sub-region. It was not without reason that the formation of GTI-wide FTA was one of the recommendations coming out of the Second GTI Trade Facilitation Workshop held at Customs Border Control Training Centre in Cheonan, South Korea from 18-22 March 2013 organized for GTR trade officials.

Second, there are already several negotiations going on within the region to promote broader economic integration. For instance, trilateral cooperation framework signed between China, Japan and South Korea paved the way for initiating the first round of the Trilateral FTA negotiations in March 2013, which discussed, amongst others, the mechanism, scope and methods of negotiations (TCS 2013:13). The second round of negotiations for a FTA among these countries was held in Shanghai from 30 July to 2 August 2013. During this round of negotiations, trade in goods, trade in services, customs procedure and competition policies were discussed. [37] Concomitantly, Mongolia, the only country in the world that has not concluded any FTA, is negotiating an Economic Partnership Agreement with Japan,[38] and already has extremely close economic ties with China and Russia.

Additionally, although South Korea and Russia's bilateral trade agreement talks had stalled since 2008, at the Ministerial Meeting on International Economic Affairs held on 21 May 2013, South Korea's Deputy Prime Minister Oh-Seok Hyun commented on current initiatives to strengthen economic cooperation between these countries, including the possibility of recommencing negotiations for a bilateral FTA.[39] This was also confirmed during the interview with Russian officials in Ulaanbaatar. While a NEA-wide regional FTA is likely to solidify regional economic cooperation, disparate bilateral and trilateral FTA could become a "stumbling block" to this possibility by fragmenting the region into several smaller and exclusionary cooperation arrangements.

Third, as shown in section 2, trade and investment cooperation between NEA countries is already at a fairly high level, and there are prospects for enhanced cooperation provided major impediments to regional cooperation, including market access barriers are addressed.

Fourth, a regional arrangement provides a better negotiating platform for relatively smaller countries such as Mongolia, North Korea, and to some extent South Korea, than it would be possible in a series of bilateral setting. While power asymmetry is rife in any bilateral negotiations, in the regional setting, the smaller countries can collectively negotiate and the overall outcomes generally reflect the balance of gains obtained and concessions provided.

Fifth, it would be far easier to agree to regional standards for agriculture, mineral or industrial products as well as harmonization of transport formalities across the region than signing a number of mutual recognition agreements with various countries in the region. Similarly, the issue of regional transit arrangement is best handled on a regional rather than on a bilateral basis. Likewise, regional competition and investment policies can make better contribution to the achievement of regional policy objectives than signing mutual cooperation agreement or bilateral investment treaties with each country in the region.

4.2 Strengthening the mechanism for organizing regional trade fairs

Given the fact that identification of importers and exporters within the GTI sub-region is a major problem impeding trading prospects within the initiative as identified by respondents from various countries; there is a need for strengthening existing mechanisms to explore business opportunities in the region, assess opinions from clients, determine market potential, conduct research to gauge the extent of competition and identify new agents and distributors as well as potentials partners for investment. This is more so in the context of the current economic slowdown, which has increased the need to find new buyers and suppliers within the region - who are potentially cheaper and faster in meeting trading requirements than relying on a highly volatile developed countries' market for the same.

There are several such mechanisms in place and one of the best known has been the Northeast Asia Investment and Trade Expo that are being held regularly since 2005 which serves as a permanent and stable dialogue mechanism in NEA. On the sidelines of the expo, a series of economic cooperation forums are also held. Organized in Changchun, capital of northeast China's Jilin province, the trade fair attracts business persons from more than 100 countries including Japan, Russia, North Korea, South Korea and Mongolia.[40] The trade expo that is organized by China's Ministry of Commerce, National Development and Reform Commission and the Jilin Province government, is aimed at laying the groundwork for global trade, economic exchanges and cooperation. Of late, there has been a significant increase in the number of visitors as well fair organizers from Russia, including the Republic of Tatarstan, the Vologda and Penza regions, the Primorsky Territory and Russia's Far Eastern regions (Newsworld Russia 2013).

While such mechanism might have been put in place in other countries in the region as well, they do not necessarily focus on promoting trade within GTI countries. Therefore, GTI can take initiative to organize GTI-focused or at the most NEA-focused trade and investment expos on a rotational basis in various countries within the sub-region.

4.3 GTI Single Window

Discussions in the previous sections have made it amply clear that the single window system is one of the best possible measures to reduce procedural burden associated with trading across borders. While South Korea has an extensive single window system in place, China has been implementing the system of paperless trade and is in the advanced stage of moving into single window system. Meanwhile, Mongolia is mulling over the possibility and Russia is in process of implementation of this system.

It is not easy to implement single window system at the national level without unwavering high level political commitment, willingness of the stakeholders to cede some of their authorities for a greater good, sound technical expertise of the implementing organization and a solid legal basis for its implementation. However, benefits of its implementation are enormous – in the form of effective and efficient deployment of resources, better revenue yield, improved trader compliance, enhanced security, and increased integrity and transparency – all of which are extremely valued by governments. For the private sector, such a system would mean reduced costs, faster clearance of goods, predictable application and explanation of rules, efficient utilization of resources, and transparency and predictability (Lim 2012) – all of which contribute to enhancing their competitiveness in the global and regional markets. Therefore, a number of

countries in Asia, mainly Singapore, Hong Kong SAR (China), South Korea, Malaysia, Thailand and Japan have implemented the system and have reaped benefits as seen in their global standing in the Logistics Performance Index as well as Trading Across indicator of *Doing Business Report* (*ibid*).

It needs to be emphasized here that contrary to the popular beliefs, the cost of implementing single window system is not very substantial. While South Korea, which started out in 2005, spent a total of US$ 4.72 million for the three stage implementation of its single window system; Thailand, which recently completed the installation of the system invested US$ 14 million. One has to take cognizance of the fact that this one time investment and a few million more in recurrent investment is dwarfed by the streams of benefits these economies could generate from the implementation of the system.

Besides the clear benefits of implementing this system discussed above, stakeholders repeatedly highlighted the imperative of putting in place such a system in their responses to the questionnaires and their narratives during personal interview as well as focus group discussion. In addition to this, one of the recommendations made by trade officials of the GTI countries participating at the Second GTI Trade Facilitation Workshop in March 2013 was to implement a GTI-wide single window system.

While there is merit in the above suggestions, there are two approaches through which a GTI-wide single window system could be implemented – a top down approach and a bottom up one. The first approach entails making commitment for implementing the system and setting a deadline for the implementation of national level system – a practice followed by ASEAN as well as Asia Pacific Economic Cooperation (APEC).

The second approach entails providing time for the national system to emerge and gradually evolve in all the countries in the GTI sub-region where it is not yet in place, and linking them to the regional single window after gaining considerable experience in handling the national system. This is the approach taken by Southern Africa Trade Hub project sponsored by USAID, which is promoting the adoption of national single windows in Southern African developing countries, namely Botswana, Lesotho, Malawi, Namibia and Zambia (USAID 2013). In this particular initiative, there is a built-in mechanism for assisting countries in the incorporation of a regional perspective during the design of national single windows (NSWs) to facilitate future connection with neighbouring NSWs.

Because signing of the FTA amongst the GTI countries or NEA countries is a precondition for setting up of the regional single window, it is preferable to take the second approach since it might take a while before the FTA is put in place in the GTR.

4.4 Risk management

As discussed in section 2, due to rapid increase in trade – both legal and illegal, increased security threats and mounting pressure to remain competitive - risk mitigation measures which were previously considered appropriate are now no longer considered adequate. Given the fiscal squeeze and the pressure on the government, it may not always be possible to deploy addition human, financial and technological resources for efficient border management. Since the

traditional measure relied solely on physical inspection of goods and people to meet the objectives of border management, it was not only resource demanding but also time consuming.

Realization of this predicament led customs offices in most advanced countries to apply risk management principle as a tool to ensure faster clearance of goods without compromising with their core objectives. By applying risk-based selectivity (red/amber/green channel) based on risk profiles of goods/consignments, parties involved in trade transaction, and origins/destinations of goods, Customs can allocate its scarce resources to high-risk areas while increasing the efficiency of the clearance process for low-risk shipments (UNECE 2012a).

For example, enhancements made to Japan Customs' risk assessment capabilities since 1999 helped Customs keep the staffing levels nearly unchanged till 2007, while the number of import transactions increased by almost 60 percent and exports transactions increased by around 50 percent (*ibid).* Similarly, during the two decades' period between 1991 and 2010, South Korea's trade increased six times, revenue increased seven times, illegal trade increased 1.6 times, but the number customs staff marginally decreased from 4,502 to 4,462 (Lee 2013). Due to the effective implementation of risk management system, South Korea has not only been able to manage its customs system efficiently and effectively, but also facilitate trade unhindered such that today it is ranked number three in the Trading across Border component of *Doing Business Report 2013* (World Bank 2012). All this was achieved without the deployment of additional human resources.

Although the WCO identified several types of risk management tools, those that concern the GTR sub-region as identified as priority by stakeholders' interviews and further discussions with experts and stakeholders relate to: a) authorized economic operators; b) pre-arrival clearance; and c) post-clearance audit. Therefore, the following sub-subsection focuses on only these tools, without, however, undermining the significance of others.

4.4.1 Authorized economic operators

Pillar Two of the WCO Standards to secure and facilitate global trade (SAFE) Framework, which has its origins in the revised International Convention on the Simplification and Harmonization of Customs procedures (Kyoto Convention), concentrates on Customs-Business partnerships of the WCO (Polner 2010). As a part of this partnership, the SAFE Framework incorporates the concept of AEO, which are the parties involved in international trade transaction that have implemented required security measures and "Best Practices" (Fletcher 2007) to the satisfaction of the relevant Customs authorities. AEO includes a wide range of actors involved in trade-related transactions such as manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses and distributors (Polner 2010). AEOs receive benefits such as reduced risk-targeting assessments and inspections, and expedited processing of their goods by Customs in return for their security investments (Fletcher 2007) and assurance they are able to provide to the Customs authorities.

It has been noticed that while the AEO system is fully in place in South Korea and Russia, it has been initiated in China, but much needs to be done in Mongolia. Therefore, instituting mechanism for AEOs is largely a domestic agenda and not that of GTI. However, as and when AEO system is put in place and the issue of mutual recognition arises, it can become a regional agenda and is something worth pursuing by GTI. It needs to be noted here that regional trade agreement is not a precondition for the signing of mutual recognition agreement (MRA) between

two or more countries as seen from many examples of mutual recognition on AEO signed by countries around the world. However, RTA does offer a good conduit for the negotiation of a MRA as well as for the harmonization of standards within the trading arrangement (Kieck and Maur 2011).

4.4.2 Pre-arrival clearance

In yet another example of Customs-Business partnership, pre-arrival clearance procedure and pre-arrival processing involves the (electronic) submission of relevant goods and/or cargo declaration data to the relevant authorities prior to the arrival (for import) or prior to departure (for export) of goods (UNECE 2012b). This would allow authorities to conduct risk assessment and process the declaration with a view to preparing the release decision prior to the arrival of goods (*ibid.*), thus saving traders from the time delays and increased cost burden, resulting in enhanced competitiveness in the international/regional markets.

In order to implement this system, according to the WCO Guidelines, goods are divided into four different categories for which immediate release can be permitted according to simplified requirements:

i) Correspondence and documents: Items without commercial value can be released on the basis of the transport document or even an oral declaration;
ii) Low value consignments for which no duty or taxes are collected: Depending on the value limit set by country concerned, release can be granted against a simplified declaration submitted to Customs in advance;
iii) Low-value dutiable consignments: While the value limit vary, duty and tax has to be paid or deferred against a guarantee but simplified or periodic declaration may apply; and
iv) High-value consignments: Facilitated clearance will be granted, provided necessary information has been lodged with Customs in advance. Moreover, immediate release and subsequent clearance may be permitted if payment of duties and taxes is guaranteed (UNCTAD and WCO 2011).

In the context of GTI countries, while pre-arrival clearance arrangement in China and South Korea seem to be up to the mark, there is a call for further reform in these areas particular in the latter. In June 2012 and October 2014 obligatory advanced notification by economic operators to the customs authorities on goods which are to be imported into the territory of the Eurasian Economic Union by road and rail transport were introduced in June 2012 and October 2014 respectively.For goods that are handled by air is under the process of consideration; and regarding the maritime transport it is on a voluntary basis. However, this system is either not in place or not performing well in Mongolia. Since this is not a sub-regional agenda that can and should be implemented at GTI level, but rather a country-based reform measure, decision on pre-arrival clearance arrangement should be made by each country concerned. However, there is an enormous potential for bilateral cooperation in this area whereby Customs administration in China and South Korea could cooperate more with their counterparts in the Mongolia and Russia.

4.4.3 Post-clearance audit

Customs administrations rely on post-clearance (sometimes known as post-facto) audit as a tool for risk management, which entails carrying out risk audit on the premises of operators who have conducted external trading operations, and involves in-depth scrutiny of their commercial and

accounting records. This shifts some of the burden away from the traditional transaction control carried out at the border, towards those carried out in the companies' premises, thereby creating an effective mechanism of optimizing Customs controls and expediting the clearance of goods (WCO n.d).

Post-clearance audits are generally carried out for compliance verification purposes in the areas of valuation, origin, tariff classification, duty relief/drawback remission programmes, etc., but other areas may also be targeted as necessary. Depending on the profile of the auditee and its business, the audit may be conducted on a continuous, cyclical or occasional basis. This is considered an effective tool for Customs control because it provides a means for verification of the transactions relevant to Customs as reflected in the books and records of international traders with the information provided to the Customs administration (*ibid*). Since it enables Customs administrations to offer facilitation measures to the traders in the form of simplified procedures such as offering an immediate release of goods and reduced release time (UNCTAD and WCO 2008), traders tend to find it attractive.

Given the fact that the survey results discussed in section 3, have underscored the need to reform post clearance audit in Mongolia and South Korea, as opposed to China and Russia, this is more of a national agenda. However, as in the case of pre-arrival clearance discussed above, there is a potential for bilateral cooperation in this area as well.

4.5 Joint border management

Joint border management[41] for the clearance of goods and people refer to the concept of two neighbouring Customs administrations entering into an agreement to operate Customs control jointly, i.e. to coordinate export and import controls, opening hours and competences. Ideally, joint controls are conducted in juxtaposed Customs offices where physical and technical infrastructures are shared (UNECE 2012c). In the context of goods trade through land border, this helps traders avoid having to complete export formalities while exiting the country of origin and again repeat similar formalities at the time of goods entering the importing country thereby streamlining clearance process, eliminating redundancies and strengthening Customs control capabilities (*ibid*).

As we have discussed extensively in section 3, such a system was piloted in Erenhot–Zamyn-Uud along Sino-Mongolia border and was later extended to Ganqimaodu–Gashunsuhaitu border as well. Moreover, the Mongolian government has also made a request to the Chinese Government to put in place such systems at other border points. While there appears to be a desire on the part of the Mongolian government to extend kind of cooperative arrangement with Russia as well, nothing should prevent this kind of arrangement from taking place along Sino-Russian land borders as well.

However, one major precondition for this arrangement to exist is the cordial and amicable relationship between the bordering countries built on mutual trust and respect. Two other areas in which countries need to agree are the legal mechanisms for enforcement of agreed rules and a commitment to financial, territorial and technical resources, among others. Before embarking on an ambitious plan across the region, particularly between various land border points of the countries in the sub-region to establish joint border management facilities, it is advised to conduct feasibility studies. It should also be kept in mind that the approach taken by China and Mongolia

of moving in a phased manner, which allows for incorporating lessons learned and provides rooms for improvement, is probably the most desirable course to follow.

Since this is a bilateral issue, GTI may not have a major role to play in this regards except for encouraging its members to put in place such mechanism. That being said, it could potentially provide a platform for dispute settlement, should it arise in the course of implementation of such a mechanism, provided there is a consensus amongst the member countries to allow it to play the role.

4.6 Visa regime

As discussed in section 3, GTI was supposed to conduct a comprehensive visa facilitation study, with the objectives of, among others, to provide recommendations on improving and simplifying visa application and issuance process, and streamlining border-crossing requirements. Since the study report is not available in the public domain, it is not possible to analyze the policy implications of such a study. However, taking a cue from other regional economic cooperation arrangement such as APEC, the least that the GTI can do is to implement and promote GTI business travel card that would provide access to business travellers in the region to travel freely within the sub-region for a certain period, say 30 days, without having to go through the hassles associated with visa application.

Since it would take time for such a mechanism to evolve and it might only be possible in the medium term, in the interim, arrangement should be made for genuine business travel to obtain at least one year multiple entry visas for short term business visitors. As being practised in the context of APEC, such business visitors should be provided unhindered access to another country in the sub-region to identify buyers and/or suppliers, negotiate contract for sale of goods or make investment decisions, or participate in business-related conferences, seminars, workshops or trade fairs, among others.[42]

4.7 Consultation, coordination and involvement of stakeholders

Business Advisory Council within the GTI, which was established, among others, for the purpose of creating a mechanism for dialogue between the private sector of the sub-region and the official GTI channel does not seem to have fulfilled its *raison d'etre,* according to stakeholders. In order not to reinvent the wheel, attempt should be made to revive this mechanism by conducting regular meetings as well as feeding them with information and analysis.

At the national level, while inter-agency mechanism seems to be working in many countries, consultation with the private sector was found to be inadequate. At the provincial level, where the energy should be concentrated, there seems to be limited involvement of stakeholders both from the public sector and private sector. This situation should be reversed if the GTI is to emerge as a true sub-regional initiative targeting to promote economic cooperation in the sub-region in general and trade and commerce in particular. Similarly, the potential of outsourcing several trade facilitation-related activities to the private sector seems grossly underutilized in many countries within the sub-region, Russia being a glaring example. This is indeed a missed opportunity and needs to be looked into seriously.

The starting point for ensuring the engagement of the private sector in decision making processes as well as their involvement in trade facilitation work on the ground is to conduct a study on the state of public-private partnership on trade facilitation in the sub-region and propose measures to ratchet them up with the objective to increase trade within the GTR. Thus, the focus of the study should not only be at the national level but also at the level of province in the GTR. Some elements of such study could be as follows:

- Information gathering;
- Identification of research gap and added value of such research;
- Identification of cases where public private partnership on trade facilitation can be gainfully used; and
- Identification of good practices within the sub-region or outside which could provide guidance for future work.

4.8 Sharing of knowledge, expertise and resources

Countries better endowed with knowledge, expertise and resources should help other countries, which are in the lower end of trade facilitation indicators. This example is found in many other regional or sub-regional cooperation frameworks. Adhikari (2011) mentions that the European Union created a European Regional Development Fund to assist development in the relatively poorer members and late entrants – Greece, Portugal and Spain – and significant transfers were made to these countries to help them address their supply-side constraints, build credible institutions and indeed catch up with the rest of the members (*cf* Winters 1997).

Moreover, developed members in APEC provide technical assistance to less development members within APEC (APEC 2007). Similarly, South Africa Revenue Services provides direct technical assistance to its regional partners in Common Market for Eastern and Southern Africa (COMESA) (Maur 2008). Closer in the region, relatively better off countries such as China and Thailand have met the cost of the rehabilitation of North-South corridor in the Greater Mekong Sub-region, which immensely benefitted Lao PDR (ADB 2008). Although one such initiative is already underway with GTI having signed an agreement with Korea Customs Border Control Training Centre to organize annual trade facilitation workshops in the training centre of the former, this kind of cooperation can be extended more at the practical level, facilitating onsite training, and capacity building in the areas of actually facilitating trade on the ground for the officials of relatively less advanced countries. Another initiative is the assistance provided by China for the construction of joint border control points along Sino-Mongolian border as noted above.

Such cooperation initiatives would prove to be highly beneficial for the relatively less endowed countries in the GTR. For example, South Korea and China could take lead in transferring their knowledge and expertise to Mongolia and Russia on customs reforms and streamlining customs procedure.

4.9 Harnessing the potential of e-commerce

Electronic-commerce is defined broadly as “commercial transactions conducted electronically on the internet” by Oxford English Dictionary or more specifically as “a type of business model, or segment of a larger business model, that enables a firm or individual to conduct business over an

electronic network, typically the internet" by Investopedia. After the Internet revolution of the recent past, e-commerce, which is a much more sophisticated mechanism than the traditional "mail order business" for trading within as well as across borders, has grown rapidly. For the first time, business to consumer (B2C) transaction surpassed US$ 1 trillion mark in 2012, with a sales growth of 21.1 percent achieved during the year.[43]

By 2016, the Asia Pacific region will have achieved a market share of this segment of commerce to nearly 40 percent of the global sales, with three economies in the region China, India and Indonesia accounting for bulk of the growth in e-commerce. It must also be noted that in 2013, China will officially dethrone Japan from number two position in the global e-commerce by achieving a growth of 65 percent to US$ 181.62 billion taking an estimated 14 percent share of global sales.[44] Since three countries in NEA, namely China, Japan and South Korea have the largest number of digital buyers in the Asia-Pacific region, there is an enormous prospect to tap into this market for promoting trade within the NEA region in general and the GTR in particular. Taking a cue from other regional economic cooperation arrangement such as APEC, which have already removed most significant barriers to e-commerce (APEC 2007), and considering the suggestions made by speakers at the Suifenhe Port Development Forum, this seems to a sector in which the GTR could make a major headway. Another reason for emphasizing this aspect is that development of e-commerce will help built significant bottom up pressure for reform, reducing trade costs in the region through trade facilitation reforms.

This seems to be already happening in the GTR in general and particularly in China. For example, "Alibaba", founded by a Chinese entrepreneur Jack Ma and part owned by Yahoo, is the world's largest global e-commerce service providers and was originated in China. The company has a robust shopping engine and active presence in retail and payment platforms, and is involved in different mode of e-commerce catering to the needs of businesses and consumers alike (Loeb 2013). According to recent reports, Alibaba's portals handled gross sales of US$ 170 billion in 2012 – that is more than eBay and Amazon's gross sales combined.[45]

Therefore, there is a need to conduct a study on the prospects and challenges of developing this sector in the NEA region in general and the GTR in particular. Indeed, there was a demand for up-scaling e-commerce business in the NEA region in general and the GTR in particular as evident from the discussions that took place at the Suifenhe Port Development Forum. The study should, among others, discuss the problems and prospects of further developing this sector so as to benefit the manufacturers and traders from the GTR.

4.10 Development of regional/sub-regional value chain

According to a joint report prepared by OECD, UNCTAD and WTO, GVCs have become a dominant feature of world trade and investment, offering new prospects for growth, development and jobs (WTO 2013). Intermediate inputs, including raw materials, parts and components, account for over two-thirds of the goods traded worldwide. According to the report, action is needed now to implement an effective framework for strong, sustainable, balanced and inclusive growth, in which all countries could reap benefits (OECD, UNCTAD and WTO 2013). Countries that have taken advantage of the opportunities offered by the emergence of GVC have been able to achieve considerable success, while those that are yet to fully participate in this new mode of integration, are likely to be left out, as also highlighted during presentations made by several speakers at the Suifenhe Port Development Forum.

One major policy implication of this development is that those regions or sub-regions that are able to retain value addition in their member countries are likely to reap maximum benefits. Given this reality, GTI is advised to conduct a study on developing GTR as the sub-regional hub for GVC by retaining maximum value in the region thereby contributing to rapid economic growth and poverty alleviation. An additional angle that has to be looked into carefully is that if such value addition can be made at the sub-regional level based on the comparative advantage of each country in the emerging "green growth sectors", this initiative can also contribute to environmental sustainability, which is one of the major pillars underpinning GTI work. Moreover, the initiative can be gainfully linked to the creation of CBEZ discussed below.

4.11 Development of cross border economic zones

Development of CBEZ along the border areas of various country-pairs in the region as done in GMS,[46] which entails extending the frontiers of economic zones established by various countries in the border region, has gained considerable traction among officials in the GTR (see, for example, Chang 2012b). In such an arrangement, the shared objectives of participating countries are to introduce domestic capital and FDI into the CBEZs to exploit local resources, promote the development of trade and manufacturing, expand trade and job opportunities, and increase revenues of the local government and people (Yang *et al* 2011), thereby contributing to the overall economic and social development of border areas.

Based on an empirical study of China–Vietnam CBEZ, it appears that cross border economic zones can contribute to improving infrastructure, facilitating trade, attracting investments – both foreign and local – for the border areas. More importantly, it has been found that it can contribute to the development of regional and global supply chains (Anh Thu 2012). However, more research may be necessary to find conclusive evidence that such an arrangement is indeed helpful. However, strong legal basis and institutional foundation is necessary for making such an arrangement work not least because of the involvement of two sovereign nations in its operation.

In the context of the GTR, since there is a lack of information on this issue, a useful starting point is to conduct a comprehensive study covering various border areas of country-pairs to ascertain the feasibility of such an arrangement in the GTR. The study should not only conduct a cost-benefit analysis from a technical standpoint, but also political viability of the arrangement. It should also lay down the contours of legal and institutional apparatus that need to be put in place, which will help GTI policy makers to take an informed decision on the issue.

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Endnotes

[1] *This document was prepared by Ratnakar Adhikari in his personal capacity as a consultant for UNDP China when the author was working at the Chief Executive Director of South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu. It does not reflect the views of any organization he has been associated with at present or in the past. The author would like to duly acknowledge the contribution of Sudeep Bajracharya in the process of preparation of the report.*

[2] Organization for Economic Cooperation and Development (OECD) estimates that transport-sector CO2 emissions represent 23 percent (globally) and 30 percent (OECD) of overall CO2 emissions from Fossil fuel combustion. The sector accounts for approximately 15 percent of overall greenhouse gas emissions, with the global CO2 emissions from transport having grown by 45 percent between 1990 and 2007 (OECD 2010).

[3]The GTR comprises four provinces of China: Heilongjiang, Inner Mongolia, Jilin and Liaoning; Eastern port cities of the South Korea; Busan, Sokcho, Ulsan and Pohang; three provinces of Mongolia: Dornod, Khentii and Sukhbaatar; and Russia's Far East: Primorsky Territory. See Chang (2012b).

[4] See White (2010); UNDP (n.d).

[5] These include officials of Busan Main Customs, Busan Port Authority, Hanjin New Port Corporation and an Authorized Economic Operator (AEO) company called Nexen Tire.

[6]Author's calculation based on data from ITC Trademap (2012). Note that here, we only consider trade in products.

[7]Author's calculation based on data from ITC Trademap (2012).

[8]Due to the lack of data for Mongolia and North Korea, when analysis bilateral trade flows we only consider the trade between China, Japan, South Korea and Russia.

[9] Applied tariff data extracted from Trade Profiles of the countries available at the WTO website. Accessed July 27, 2013.http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=CN,JP,KR,MN,RU.

[10]WTO (2013).

[11] While it is clear the decline in global trade in 2009 was due to global financial and economic crises as noted above, "the abrupt deceleration of trade in 2012 was mainly attributable to slow growth in developed economies and recurring bouts of uncertainty over the future of the euro." See WTO (2013:18).

[12]WTO (2013: 6).

[13]Data source is World Development Indicators of the World Bank.

[14]UNCTAD (2013).

[15]Author's calculation based on data from WITS.

[16]Author's calculation based on data from WITS. Note that data for Mongolia as only available till 2007.

[17]In fact, this is a title of a WTO initiative called Made in the World Initiative (MIWI), which emphasized the need to find the right statistical bridges between the different statistical frameworks and national accounting systems to ensure that international interactions resulting from globalization are properly reflected and to facilitate cross border dialogue between national decision makers. See WTO (2011).

[18]WTO (n.d).

[19]Manova*et al.* (2013).

[20] Tariff levels have been dropping steadily, with a few exceptions, since the World War II. According to a recent estimate, world tariffs, which were at an average level of more than 20 percent in the 1930s has been reduced to less than 3 percent in 2010. See The Guardian (2013) "Trade facilitation: breaking down barriers to international commerce". Accessed July 17, 2013. http://www.guardian.co.uk/global-development/2013/apr/22/trade-facilitation-barriers-international-commerce.

[21] In the context of Asia and the pacific region, the United Nations Network of Experts for Paperless Trade in Asia and the Pacific (UNNExT) was established by the UN Economic and Social Commission for Asia and the Pacific (ESCAP) and UN Economic Commission for Europe (UNECE) in 2009. A community of knowledge and practice for experts from developing countries and transition economies from region involved in the implementation of electronic trade systems and trade facilitation, this platform aims to

support national, sub-regional and transcontinental Single Window and paperless trade initiatives. Its strives to achieves these objectives through training, knowledge sharing, and application of international standards that are developed by the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT), the World Customs Organization, and other relevant organizations. Further details are available at: http://www.unescap.org/unnext/unnext.asp (Accessed July 17, 2013)

[22]Cited in Brooks, Douglas H and Susan F. Stone (2010), 7-8.

[23]Author's calculation based on World Bank data (2012).

[24] Economic Outlook of the Northeast Asia Region (2009). Accessed July 26, 2013. http://www.nkeconwatch.com/nk-uploads/eonar1.pdf.

[25]Dohwan (2012).

[26]UNESCAP (2012).

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[31] These studies were conducted in China, Mongolia, Japan, Korea and Russia. For the consolidated regional report summary report see GTI (2013).

[32] According to information provided by Mongolian government officials during one to one discussion as well as during the FDG organized in Ulaanbaatar, 32 – 39 percent of the goods are cleared without physical inspections and efforts are underway to further reduce the percentage of goods that require physical inspection.

[33]*According to the Federal Customs Service of the Russian Federation, progresses have been made in the following areas: the number of necessary documents to be issued for import activities should be reduced from 10 to 4 and from 8 to 4 for export operations; time for preparation of documents for both import and export activities should be reduced from 25 to 7 days; time of customs operations which are required for release of goods is to be reduced from 96 to 2 hours for import and from 72 to 2 hours for export.*

[34]According to the official interviewed government signs a "concession agreement" with the private sector to construct road and pays the builder after the completion of construction.

[35]Based on speech delivered at China International Port Development Forum, 8 August 2013, Suifenhe.

[36]Based on speech delivered at China International Port Development Forum, 8 August 2013, Suifenhe.

[37]Available at: http://www.mofa.go.jp/press/release/press6e_000185.html (accessed 11 September 2013).

[38]According to the website of the Ministry of Foreign Affairs of Japan, in the latest round of negotiations held between these two countries from 2 to 5 July 2013 in Tokyo, progress has been achieved through negotiations in areas including Trade in Goods, Rules of Origin, Customs Procedures, Dispute Settlement, Investment, Competition, Government Procurement, Sanitary and Phytosanitary (SPS), Technical Barriers to Trade (TBT), and E-Commerce. Available at: http://www.mofa.go.jp/press/release/press6e_000185.html (accessed 11 September 2013).

[39]According to Swire (2013), South Korea seems poised to take advantage of the Russian Government's new "Look East Policy," intended to develop its Far East and Siberian regions and to strengthen cooperation with Asia-Pacific countries, following its entry into the World Trade Organization.

[40]Xinhua News (2012).

[41] The choice of "joint border management" as a terminology to describe this type of cooperation as opposed to "joint border control" which is used by UNECE (2012) is intentional as the former sound more "facilitating" whereas the latter sounds more of "controlling".

[42]See APEC (2007) for further details.

[43] http://www.emarketer.com/Article/Ecommerce-Sales-Topped-1-Trillion-First-Time-2012/1009649 (accessed 22 September 2013)

[44]*Ibid.*

[45] Amazon's gross trading volume last year was an estimated $95 billion and eBay gross trading volume was an estimated $75 billion. See Loeb (2013).

[46]There are several CBEZ in operation in the GMS, of which notable ones include: Hekou–Lao Cai CBEZ along China–Viet Nam border, Ruili–Muse CBEZ on China–Myanmar border, and Mohan–Moding CBEZ on China– Lao PDR border. See Yang *et al* (2011).

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UNDP China
2 Liangmahe Nanlu
Beijing 100600
China

Tel: (8610)85320800
Fax: (8610)85320900
Email: registry.cn.undp.org
Website: www.cn.undp.org

GTI Secretariat
1-1-142 Tayuan Diplomatic Compound
1 Xindong Road, Beijing 100600
China

Tel: (8610)65326871
Fax: (8610)65326465
Email: gti.secretariat@undp.org
Website: www.tumenprogramme.org