

# Harmonization and Integration of Customs Cargo Processing Policies and Practices in the ASEAN Region

REPSF Project No. 04/002

Authors:

The Centre for International Economics  
Society for the Advancement of  
Technology Management in the Philippines

## Final Report

January 2006

### EXECUTIVE SUMMARY

In over two decades of regional cooperation, the ASEAN Customs has made significant contributions to the facilitation of intra-regional trade. Recently developed agreements on harmonization of tariff nomenclature, customs valuation, establishment of post-clearance audit system in all member countries, implementation of green lane for ASEAN trade, and common customs formalities for transit goods have laid the groundwork for regional customs integration. Indeed, if the current initiatives to establish the ASEAN Single Window and to achieve simplification and harmonization of customs processes under the framework of the Revised Kyoto Convention (RKC) are completed on target dates, then it may be possible to realize customs integration much ahead of the envisaged formation of ASEAN Economic Community by 2020.

Notwithstanding the achievements, ASEAN Customs is challenged by the still wide variations in cargo processing efficiency of member countries. The aim of this report is to analyze these variations, the technologies that cause them, and the institutional factors that sustain them. Specifically, the report notes on one hand, how the application of information technology (IT) in cargo processing impacts on speed, security and integrity of the transaction as demonstrated by the experiences of some member economies, and on the other hand, how institutional rigidities prevent full adoption of the technology in other members.

The review of Customs environment underscores this tension. Even as investments in modernizing the physical systems for cargo processing are not lacking, delays in passage of supporting legislation, difficulty in eliciting cooperation from other stakeholders, and backlogs in skills and integrity upgrading of customs personnel are just some of the institutional factors that may prevent an economy from taking maximum advantage of IT use in cargo processing. Other factors hindering efficiency improvements are outside the sphere of customs influence such as the structure of trade controls (tariff and nontariff barriers).

Thus, the identified sources of inefficiencies in cargo processing are an amalgam of technological and institutional constraints that include: non-integration of information and processing systems, incompatibility of software design to customs processing requirements, limited interface in information systems of different agencies involved (*e.g.*, between customs and port operators), absence of accreditation system for brokers, low remuneration of personnel, and weak control of central office over implementation of policies at the ports and borders.

The bright spot in the complex web of constraints facing many of the customs members is that all have recognized the imperatives for reform and of catching-up with the performance of others. Thus a common yardstick of performance is needed. In this report, a Cargo Processing Efficiency Index was developed to measure policy sophistication and clients' confidence. The former draws from the RKC and other international trade facilitation agreements, while the latter is to be based on business sector qualitative assessment of the efficiency and integrity of customs.

To move forward on regional customs integration, a three-part strategy for harmonization of cargo processing policies and practices is recommended. One part enumerates tasks to achieve some degree of convergence in cargo processing efficiency; another focuses on the broader demands of trade facilitation; and a third, explores other areas for regional cooperation. Some of the recommended measures to achieve convergence in processing are: developing a common trade declaration form; forging a consensus on sequencing of procedures to reduce variations; and establishing a system of information exchange on profiles of authorized persons for special processes in each member economy with the view of extending the privilege on the regional level. Forging tighter links with other regional groups involved in cargo processing such as the ASEAN Shipowners Association, ASEAN Port Authorities and the like, will enable ASEAN Customs take lead in the broader agenda of trade facilitation.