



## **Trade Security: Why a Trade Recovery Programme is Vital**

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17 May 2007

*THE TRADITIONAL* concept of security in trade arising from such acts as piracy, fraud, and pilfering has been drastically altered by the events of September 11. Clearly, terrorist attacks are aimed at gaining international publicity and inflicting maximum economic disruptions to bring the message of the perpetrators across. Hence the long international supply chains and interdependence among economies and businesses that globalisation has created are an obvious target.

Two simulation studies by the consultancy firm Booz Allen Hamilton in 2002 and in 2006 on the impact of trade disruption to the United States and the APEC economies due to a closure of US ports indicated that the total economic loss would be in the region of billions of US dollars. The focus has therefore now shifted from "threat to trade" to "threat from trade".

### **National Programmes**

To protect their supply chains, some government and industry organisations have in fact initiated and been implementing their own programmes. Notable amongst them are the Canadian Customs' Partners in Protection, New Zealand's Secured Export Partnership, and The Technology Asset Protection programme started by an association of security professionals and related business partners. The better known programmes are those run by the US government, such as the Container Security Initiative (CSI), the Customs-Trade Partnership Against Terrorism (C-TPAT), and the Advanced Manifest Rule (AMR)/Advance Cargo Information (ACI). Similarly, the relevant international organisations have also set up their guidelines such as the Frameworks of Standards to Secure and Facilitate Global Trade developed by the World Customs Organisation (WCO) and the 'Specifications for security management systems for the supply chain' of the International Organisation for Standardisation (ISO).

The Singapore government has also announced the establishment of its own national supply chain security programme called Secure Trade Partnership (STP). This sets out security guidelines and goals which the players in each different nodes of the supply chain such as suppliers, manufacturers, and warehouse operators should seek to achieve. They include measures to enhance the security of physical assets, security of processes, personnel security and data security. The programme is drawn up based on a risk and vulnerability assessment approach, and it will be introduced for voluntary adoption by all Singapore-based companies involved in supply chain activities as well as Singapore companies with overseas operations.

Broadly, these programmes seek to deal with two aspects. The first is *cargo security* which centres on safeguarding content security through various measures such as authorized

exporter schemes, advanced electronic cargo data information for better risk assessment, and systems for the scanning of boxes. The second is *supply chain security* which focuses on the process of moving the cargo along the international supply chain and even across borders, from manufacturers to retailers and consumers. They are designed to minimise the danger of the international supply chain system being used as a means to deliver weapons of mass destruction, explosives or radioactive materials, to carry out a catastrophic attack on a particular economy or target.

However, having all preventive security measures in place addresses only part (albeit an essential part) of the problem. Assuming a catastrophic terrorist attack does successfully take place through the international supply chain, this can lead to a major disruption, and possibly a halt to trade and commerce between the economy that has been attacked, and its trading partners. International business confidence will be shaken and there could be knee-jerk reactions leading to the imposition of cumbersome measures that could further impair the flow of trade across borders. While the immediate urgency in the aftermath of a catastrophic terrorist attack of such magnitude would be to ensure that the security of the supply chain and goods and containers flowing between economies, it is also critical to recognise the detriment to the international economy if any stoppage to trade is allowed to prolong. The longer it takes for trade to resume, the greater the economic loss suffered by many economies.

### **Trade Recovery Programme**

At their meetings in Busan, Korea in November 2005, and Hanoi, Vietnam, in 2006, APEC leaders acknowledged the importance for APEC economies to collaborate with each other to enhance the security of the global supply chain to enhance trade and facilitation. A group of experts from several APEC economies is also studying how APEC could develop a Trade Recovery Programme (TRP) to restart the flow of trade as quickly as possible in such a scenario. That APEC leaders have taken the initiative was pretty obvious. APEC, with its 21 economies, accounts for 40% of global trade and more than half of the world's GDP. Within APEC, there are also key air and sea transport hubs. A major disruption to trade and commerce within APEC would have severe repercussions on the rest of the world economy. As no single individual economy can act on its own to ensure protection of the entire international supply chain, it would require shared responsibility and coordinated response among its major trading partners in facilitating a rapid resumption of trade post-incident. In short, a trade recovery programme should help to minimise the time that trade is disrupted, and help to contain the impact on the system.

### **Key Concerns**

The key concern, especially among the developing economies, is the issue of costs. This is because new measures to strengthen trade security would require sizeable costs in modernising physical infrastructure, in acquiring new technology as well as training of personnel. However a 17 August 2006 study by the Economic and Social Commission for Asia and the Pacific (ESCAP) has powerfully argued that the costs for inaction are even higher than that of prevention. It puts it succinctly thus:

“The cost for developing countries comes in two forms. On one hand is the cost of implementing the measures, on the other hand is the costs of being left out of the global supply chain because of lack of compliance with emerging multilateral security frameworks. With the global trend towards tightening security, weak compliance with trade security measures could discourage businesses from investing in a country that may otherwise be an attractive investment destinations and/or a trading partner. Such countries may find foreign direct investment (FDI) and trade diverted to third

countries due to, inter alia, higher insurance premia, or the fact that goods originating from countries with lax security measures will be subject to closer security and customs delays. In the longer term, this will undermine export competitiveness, attractiveness as a destination for new FDI, and loss of international credibility which could take decades to repair.”

### **Benefits to Firms**

Compliance with trade security requirements will obviously increase business costs. However, a survey sponsored by IBM and released by the US-based The Manufacturing Institute in July 2006 enumerated a number of significant benefits as reported by participating manufacturers. These include higher supply chain visibility; improved supply chain efficiency; better customer satisfaction; improved inventory management; reduced cycle time and shipping time; and cost reduction following the above-mentioned collateral benefits.

The study concludes that security investments should not be considered as a financial burden. On the contrary, they would give participating firms a competitive advantage over others that do not.

### **Secure trade, better trade**

Secure trade has become an important component in international trade. Governments, industries and businesses have to protect their supply chains from terrorist acts by establishing national trade security programmes and getting involved in trade recovery programme with their major trading partners. Being left out of the process would mean loss of export competitiveness if not loss of trade itself. There is therefore urgency in establishing national preventive security programmes as well as trade recovery programmes.

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