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Session: Secure Trade – The Impact of Terrorism

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## **Trade and Security**

Purpose: Information

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## Trade Security and the need for a Trade Recovery Program

The traditional concept of security in trade arising from such acts like piracy, fraud, and pilfering has been drastically altered by the events of September 11 and the subsequent confessions by Al-Qaeda's military operational commander Khalid Sheikh Mohammed that he had contemplated plans for a series of other attacks such as on US military vessels and oil tankers in Singapore, the Straits of Hormuz and the Strait of Gibraltar<sup>1</sup>. Clearly, terrorist attacks are aimed to gain international publicity and inflict maximum economic disruptions to bring their message across. Hence the long international supply chains and interdependence among economies and businesses that globalisation has created are an obvious target. The threat of an oil tanker hijacked by terrorists or a dirty bomb smuggled in to attack a vital supply chain facility has invariably been highlighted as possible nightmare scenarios by security agencies. Apart from the damage to the physical assets, the ensuing disruption and economic loss are enormous.

Two simulation studies carried out by the consultancy firm Booz Allen Hamilton in 2002 and in 2006 on the impact of trade disruption to USA as well as APEC economies due to a closure of US ports indicted that the total economic loss would be in the region of billions of US dollars<sup>2</sup>. The focus has therefore now shifted from "threat to trade" to "threat from trade"<sup>3</sup>.

Economic disruptions could be caused by other events such as arising from natural and environment disasters like tsunami, Hurricane Katrina, radioactive contamination as well as from potential or actual conflicts between countries. For instance, during the summer of 2002, rumours about a possible nuclear attack on Indian cities had caused panic among Indian IT companies which quickly set up disaster recovery centres (generally known as business continuity centres) in other foreign cities that are located well beyond the range of Pakistani missiles. Although the disruptive effects of these events say to a mega port and its facilities are similar, the extent and character of terrorist attacks would be far less calculable when say compared to natural or environmental disasters, as well as those arising from conflicts between states, and therefore require constant vigilance as well a surveillance system in place to prevent such terrorist acts targeting the global trading and supply chains from occurring.

### **National Programs**

To protect their supply chains, some government and industry organisations have in fact initiated and been implementing their own programs, namely the Canadian Customs' Partners in Protection, New Zealand's Secured Export Partnership, and The Technology Asset Protection program started by an association of security professionals and related business partners. The better known programs are those run by the US Government eg: 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

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<sup>1</sup> The Straits Times, Friday March 16, 2007, page 1.

<sup>2</sup> The 2002 and 2006 studies estimated that the economic loss from a 12-day shutdown of Los Angeles and Longbeach would be US\$58 billion, and that the total export disruption for APEC economies would be US\$154 billion.

<sup>3</sup> Report by the UN Economic and Social Commission for Asia and the Pacific E/ESCAP/CMG(3/I)/3 dated 17 August 2006 : "Trade Facilitation and the New Security Environment: Issues for Developing and Least Developed Countries in the Asian and Pacific Region".

Customs Organisation (WCO) and the 'Specifications for security management systems for the supply chain' of the ISO.

The Singapore government has also announced the establishment of its own national supply chain security program called Secure Trade Partnership (STP), which sets out security guidelines and goals which the players in each different nodes of the supply chain, such as suppliers, manufacturers, 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 program is drawn up based on a risk and vulnerability assessment approach and will be promulgated for voluntary adoption by all companies based in Singapore involved in supply chain activities as well as Singapore companies with overseas operations.

Broadly, these programs seek to provide:

- (i) cargo security which centres on safeguarding content security through various measures such as authorized exporter schemes, secure the box, advanced electronic cargo data information for better risk assessment and systems for the scanning of boxes, and
- (ii) 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 that economies 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.

But economies are not likely to be able to effect an immediate resumption to the international trading system and flow of goods and commerce entirely on their own. Unlike catastrophes caused by natural calamities, it can be expected that for disruptions caused by deliberate terrorist attacks, the elements of trust and fear will be of key concerns. Therefore, what is needed is for economies, including both the public and private sector, to work together to develop plausible means to help restart the flow of trade and restore the international trading system.

### **Trade Recovery Program**

The APEC leaders at their meeting in Busan, Korea in November 2005, and in Hanoi, Vietnam, in 2006, 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 Program (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 in ensuring protection of the whole 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 program should help to minimise time that trade is disrupted, and to contain the system impact.

### **Key Concerns**

The key concern, especially among the developing economies, is the issue of costs, as 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 study of the Economic and Social Commission for Asia and the Pacific (E/ESCAP/CMG(3/1)/3 17 August 2006) 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.”

This UN study has also recommended that it is important to find a way of providing some financing mechanisms to mitigate the burden and high cost of acquiring cutting-edge technology, of modernising physical infrastructure and of investing in programmes to train personnel. For example, it refers to the “Aid-for-Trade” initiative adopted at the Sixth WTO Ministerial Conference in Hong Kong, China, in December 2005 as one potential source for such funds.

Compliance with trade security programs and requirements will increase business costs. The challenge facing manufacturers and businesses is how to convert the new demands into opportunities to create value for the company. J Michael Barrett in his article “Securing Global Transportation Networks (World Trade, 1 Feb 2007, Volume 20, Issue 2) has highlighted this dilemma as follows:

“...the security and business continuity challenges facing today's firms require fresh thinking about how to identify and implement security improvement solutions in a manner consistent with the core business imperative of creating value from all actions and activities. In other words, firms need to find ways to implement security-relevant practices and procedures that also create value, be that value in the form of labour savings, such as when certain automated technologies replace manual processes, or enhanced brand recognition, such as through championing the adoption of new end-to-end value Chain security practices. The bottom line is that in business security matters and it should be managed to create value.”

## **Benefits to Firms**

A survey study 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:

- 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 the benefits “clearly demonstrate that in addition to lower risk and higher security, investments in supply chain security can provide significant business value to organisations by helping them to improve international operations, strengthen relationship with their customers and increase their profitability.” In other words, 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.

## **Conclusion**

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 programs and getting involved in trade recovery program with their major trading partners. Being left out from the process would mean loss of export competitiveness if not loss of trade itself. There is therefore urgency in establishing national preventive security programs as well as trade recovery programs.

The urgent task is to set up these programs as soon as possible so as to build up quickly trust and confidence to enable mutual acceptance and recognition of the standards, procedures and practices of the participating trading partners that could encourage rapid restoration of trade post-incident. Terrorists do not wait to strike until such preventive security programs are in place.

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# Trade Security and Trade Recovery

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## ■ Threat to Trade

- ▶ Piracy
- ▶ Fraud
- ▶ Pilfering

## ■ Threat from Trade

- Illicit carriage of
  - ▶ WMD
  - ▶ Explosives
  - ▶ Radioactive materials

2

- Terrorists aim for
  - ▶ Publicity
  - ▶ Maximum economic disruptions
  
- International supply chains are obvious targets

3

- Examples of some preventive programmes
  - ▶ Container Security Initiative (CSI)
  - ▶ Customs-Trade Partnership Against Terrorism (C-TPAT)
  - ▶ WCO Framework of Standards to Secure and Facilitate Global Trade

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- Programmes designed to provide

- ▶ Cargo security  
ie content
- ▶ Supply chain security  
ie process of moving the cargo  
such as IMO's ISPS Code

5

- Despite preventive security measures,  
need for trade recovery programme

- ▶ to avoid last minute improvisation of rules
- ▶ to minimise time that trade is disrupted
- ▶ to contain the system impact

6

- Key concern is cost ie

- ▶ to modernize physical infrastructure, acquire modern technology and equipment, train personnel
- ▶ to individual companies

7

- Cost of being left out of the global supply chain is even higher

- FDI and trade may be diverted to other countries with security measures

8

- Collateral benefits to individual companies

- ▶ higher supply chain visibility
- ▶ improved supply chain efficiency
- ▶ better customer satisfaction
- ▶ improved inventory management
- ▶ reduced cycle time and shipping time
- ▶ cost reduction arising from such collateral benefits

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- Terrorists do not wait!

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