

# **Monitoring TPSAP Implementation Progress: Indicators of Trade Liberalization and Institutional Quality**

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# Outline

- Trade Liberalization Index (TLI): results for end-2012
- Institutional Quality Index (IQI): results for end-2012
- Measuring progress in the updated TPSAP (new TLI?, refine IQI?)

# Trade Liberalization Index: Background

- TLI adopted at the 13<sup>th</sup> TPCC
- TLI based on country responses to the TPSAP questionnaires for 2009-12 in line with the TPSAP timeframe
- Index presented in the Development Effectiveness Review

# Key End-2011 and End-2012 Targets

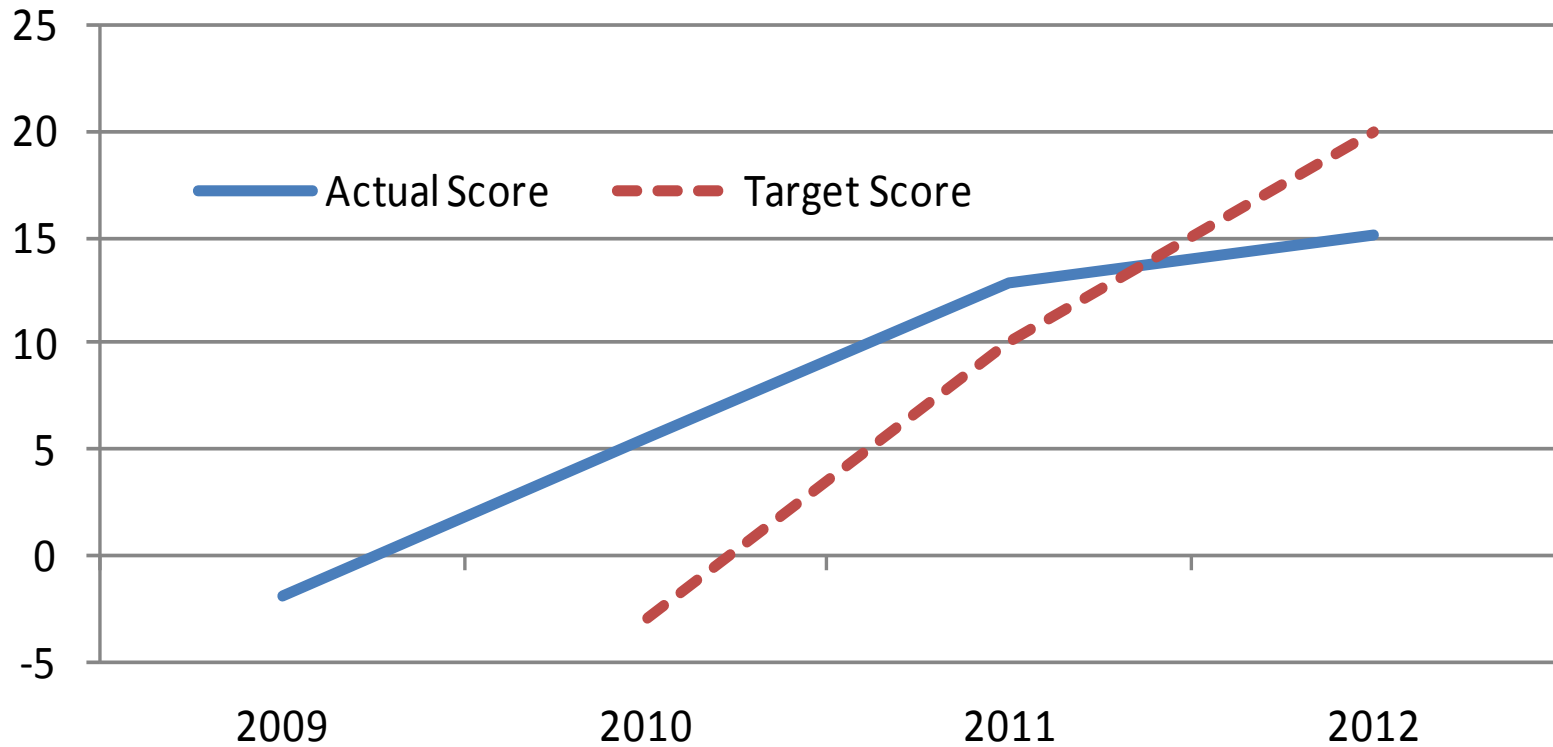
- Eliminate quantitative restrictions on exports
- Eliminate or tariffy quantitative restrictions on imports
- Equalize VAT and excise rates for imported and local goods

# Key End-2011 and End-2012 Targets

- Eliminate other duties and charges, taxes and fees applied to imports and exports
- Reduce average tariff rate (target of 10% by end-2012)

# TLI for End-2012

Trade Liberalization Index: Overall Score vs. Target 1/  
2009-2012



Reflects average score for AFG, AZE, KAZ, KGZ, UZB, and TAJ

# TLI for End-2012

## Trade Liberalization Index Country Scorecard

Score as of end-2012

AFG AZE CHN KAZ KGZ MON PAK UZB TAJ TKM

### Trade Liberalization

1. What is the number of non-zero tariff bands?	-1 points per band -1 points for each p.p. over 10; +1 point for each p.p. under 10	-13	-6	-12	-5	-5	-3	-7	-4	-3	na
2. What is the average tariff?		2	1	1	1	6	5	-4	-4	3	na
3. Have quantitative restrictions on exports been eliminated?	+4 points if yes	4	4	na	4	4	na	na	4	4	na
4. Have quantitative restrictions on imports been eliminated?	+4 points if yes	4	4	na	4	4	na	4	4	4	na
5. Are VAT and excise tax rates equalized for imported and local goods?	+4 points if yes	4	4	na	4	4	na	na	0	4	na
6. Have actual convoy costs calculations been completed?	+2 points if yes	2	2	na	2	2	na	na	2	0	na
7. Have convoy charges been removed, or reduced to actual costs?	+3 points if yes	3	3	na	3	3	na	na	3	0	na
8. Have actual "paperwork" costs calculations for road transport permits been completed?	+2 points if yes	2	2	na	2	2	na	na	2	0	na
9. Have road transport fees been reduced to actual costs?	+3 points if yes	3	3	na	3	3	na	0	3	0	na

**Total Score at end-2012 (sum of scores 1-9)**

**11 17 -11 18 23 2 -7 10 12**

Total Score at end-2011 (sum of scores 1-9)

12 13 -11 10 23 0 9 10

Total Score at end-2010

7 -5 n.a 3 15 n.a 3 10

Memo items: Total Score at end-2009

n.a -5 n.a 3 2 n.a 7 12



# Institutional Quality Index (IQI)

- Methodology approved at the 17<sup>th</sup> TPCC meeting (Wuhan)
- Input to the Development Effectiveness Review
- Results show wide variation in institutional quality
- Most CAREC countries have substantial room for improvement



# IQI: Sources of Information

## Doing Business Indicators (World Bank)

- Include a set of indicators specifically devoted to trade
- Also include other relevant indicators such as investor protection and enforcement of contracts

# IQI: Sources of Information

## Global Competitiveness Index (WEF)

- Includes a set of indicators on institutional quality (property rights, corruption, legal framework, investor protection etc)
- Country coverage: does not include AFG, TKM and UZB

# Data from four sources:

- Doing Business, Ease of Trading Across Borders (procedures, time and cost to export and import)
- Doing Business, Investor Protection index
- Doing Business, Enforcement of Contracts (procedures, time, cost in % of claim)
- WEF, Global Competitiveness Report, Pillar 1 (Institutions)

# Methodology

For each variable:

- In every year, we use the average OECD level as benchmark and set this level equal to 100
- For each country and each variable, we calculate percentage deviation from the benchmark
- We then normalize, so that 100 denotes the average OECD level

# Interpretation of the Numbers

If variable X is:

- Equal to 100: the indicator is equal to the average OECD level
- More than 100: indicator is better than the OECD level
- Less than 100: indicator is worse than the OECD level

# Calculating the Overall Index

Use weighted average of the four components:

- 50% weight: Ease of Trading Across Borders Indicator
- Remaining 50% weight: split equally between Investor Protection (16.67%), Contract Enforcement (16.67%), and WEF Institutional Index (16.67%)

# IQI: CAREC 2012

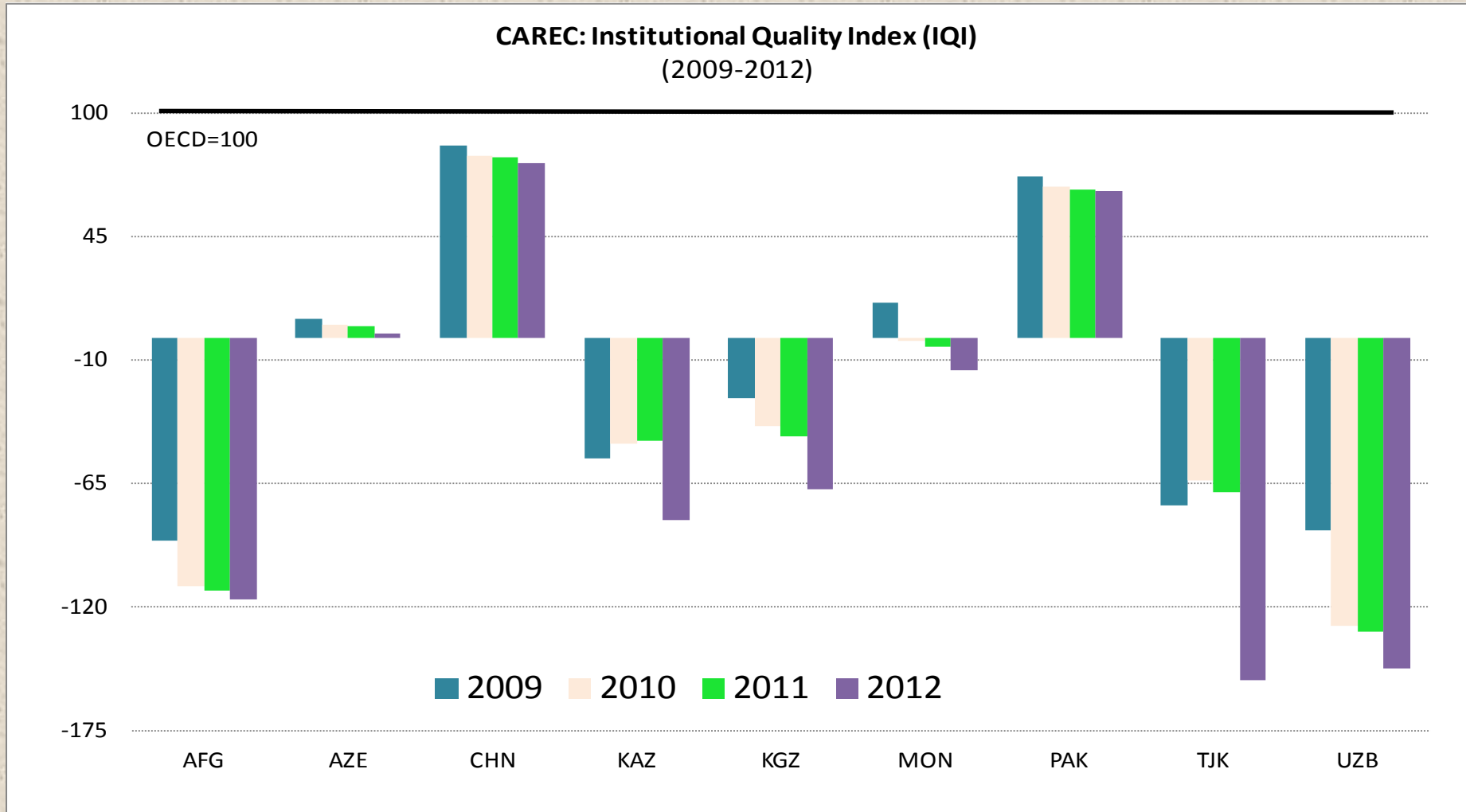
	Doing Business - Trade	Doing Business - Investor Protection	Doing Business - Enforcing Contracts	WEF - Institutional Quality	Overall Index
Afghanistan	-234	16	1	n.a.	<b>-117</b>
Azerbaijan	-98	109	112	82	<b>2</b>
China	60	82	116	87	<b>77</b>
Kazakhstan	-266	131	100	82	<b>-81</b>
Kyrgyz Republic	-229	126	95	60	<b>-68</b>
Mongolia	-120	109	95	69	<b>-14</b>
Pakistan	57	103	48	69	<b>65</b>
Tajikistan	-400	109	92	82	<b>-153</b>
Turkmenistan	n.a.	n.a.	n.a.	n.a.	<b>n.a.</b>
Uzbekistan	-336	65	106	n.a.	<b>-147</b>

# Some Observations

- On investor protection and contract enforcement, some CAREC countries outperform OECD
- However, indicators directly related to trade are lagging far behind
- Number of procedures and time needed to export and import are key negative factors that distinguish CAREC countries



# IQI: CAREC 2009-2012



# Observations (continued)

- Changing institutional environment takes time. Therefore, changes in institutional indicators are usually small year to year.
- Declining index in many countries may be an indication of improvements in the rest of the world.

# Issues for Discussion

- Some have proposed to revisit the IQI methodology for calculating the index?
- Concern about indicators chosen and weights
- Alternative indicators: LPI (WB), WEF Global Enabling Report (drawback – not all countries are covered).
- Combine TLI and IQI as one index to measure progress under the updated TPSAP

**THANK YOU**

