

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

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# Outline

- Trade Liberalization Index: results for end-2010
- Developing the Index of Institutional Quality

# Trade Liberalization Index: Background

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

# Key End-2010 Targets

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

# Key End-2010 Targets

- Eliminate other duties and charges, taxes and fees applied to imports and exports
- Reduce average tariff rate (target of 10% by end-2011)

# TLI for End-2010

## Trade Liberalization Index Country Scorecard

Score as of end-2010  
AFG AZE CHN KAZ KGZ MON UZB TAJ

Target Score  
2010 2011 2012

### 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	-10	-6	n.a	-5	-5	n.a	-5	-5	-5	-4	-3
2. What is the average tariff?		5	1	1	4	6	5	-4	3	-2	0	1
3. Have quantitative restrictions on exports been eliminated?	+4 points if yes	4	0	0	0	4	0	4	4	0	0	4
4. Have quantitative restrictions on imports been eliminated?	+4 points if yes	4	0	0	0	4	0	4	4	0	0	4
5. Are VAT and excise tax rates equalized for imported and local goods?	+4 points if yes	4	0	0	0	4	0	0	4	0	4	4
6. Have actual convoy costs calculations been completed?	+2 points if yes	0	0	n.a	2	0	n.a	2	0	2	2	2
7. Have convoy charges been removed, or reduced to actual costs?	+3 points if yes	0	0	0	0	0	0	0	0	0	3	3
8. Have actual "paperwork" costs calculations for road transport permits been completed?	+2 points if yes	0	0	n.a	2	2	n.a	2	0	2	2	2
9. Have road transport fees been reduced to actual costs?	+3 points if yes	0	0	0	0	0	0	0	0	0	3	3
<b>Total Score at end-2010 (sum of scores 1-9)</b>		<b>7</b>	<b>-5</b>	<b>n.a</b>	<b>3</b>	<b>15</b>	<b>n.a</b>	<b>3</b>	<b>10</b>	<b>-3</b>	<b>10</b>	<b>20</b>
<b>Memo item: Total Score at end-2009</b>		<b>n.a</b>	<b>-5</b>	<b>n.a</b>	<b>3</b>	<b>2</b>	<b>n.a</b>	<b>-7</b>	<b>-2</b>			

1/ Average tariffs of individual countries: AFG - 5%, AZE - 9%, CHN - 9%, KAZ - 6%, KGZ - 4%, MON - 5%, UZB - 14%, TAJ - 7%.

# Next Step: Index of Institutional Quality

- CAREC countries have country-specific work programs
- The need to construct the index was discussed at 13<sup>th</sup> and 14<sup>th</sup> TPCC meetings
- If approved, index to be included in Development Effectiveness Review

# Institutional Quality: Sources of Information

1. 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
  - All CAREC countries included except TKM



# Institutional Quality: Sources of Information

## 2. World Governance Indicators (World Bank)

- Indicators of general institutional quality
- Include many relevant indicators, such as control of corruption
- However, are less up to date

# Institutional Quality: Sources of Information

## 3. Global Competitiveness Index (World Economic Forum)

- 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

# Institutional Quality: Sources of Information

## 4. Other possible sources

- Indicators of exchange rate regime and over- or under-valuation of exchange rate
- Estimates are available, but impact on trade is ambiguous

# Proposed Index

Collect 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, use the average OECD level as a benchmark; set this level equal to 100
- For each country and each variable, calculate percentage deviation from the benchmark
- 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, Contract Enforcement, and WEF Institutional Index

# Results for 2011...

## Indicators of Institutional Quality, 2011

	Doing Business - Trade	Doing Business - Investor Protection	Doing Business - Enforcing Contracts	WEF - Institutional Quality	Proposed Overall Index
Afghanistan	-214	17	3	n.a.	<b>-110</b>
Azerbaijan	-83	112	114	79	<b>9</b>
China	69	83	120	89	<b>83</b>
Kazakhstan	-183	134	101	72	<b>-40</b>
Kyrgyz Republic	-168	129	96	60	<b>-36</b>
Mongolia	-70	105	96	66	<b>10</b>
Pakistan	67	105	50	70	<b>71</b>
Tajikistan	-251	95	94	81	<b>-81</b>
Turkmenistan	n.a.	n.a.	n.a.	n.a.	<b>n.a.</b>
Uzbekistan	-241	67	107	n.a.	<b>-96</b>



# ...and over time

## Proposed Overall Index

	2009	2010	2011
Afghanistan	-90	-108	-110
Azerbaijan	8	9	9
China	86	84	83
Kazakhstan	-53	-41	-40
Kyrgyz Republic	-27	-32	-36
Mongolia	15	13	10
Pakistan	72	72	71
Tajikistan	-75	-75	-81
Turkmenistan	n.a.	n.a.	n.a.
Uzbekistan	-86	-93	-96

# Some Observations

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

# Observations (continued)

- Changing institutional environment takes time. Therefore, changes in institutional indicators are usually small year to year.
- Nevertheless, index shows improvements for some CAREC countries in recent years.
- Decreasing index in some other countries is in indication of improvements in the rest of the world.

# Issues for Discussion

- Do delegates agree with the proposed methodology for calculating the index?
- Do delegates agree that the TPCC should monitor this index on a regular basis (annually)?
- Do delegates agree that this index should be submitted to the Development Effectiveness Review?