TRADE AND INSTITUTIONAL ENVIRONMENT: THE INTERNATIONAL EXPERIENCE AND POSITION OF CAREC COUNTRIES

A Background Analytical Study for Discussion

12th TPCC Meeting
April 15, 2010
Manila, Philippines

Prepared by:

Oleh Havrylyshyn
Consultant
o.havrylyshyn@utoronto.ca

Contents Page

I. INTRODUCTION

In November 2008, the Seventh Ministerial Conference of CAREC in Baku endorsed the Trade Policy Strategic Action Plan (TPSAP) and its concrete policy actions. The TPSAP emphasized three goals of CAREC on trade policy: increasing trade openness, achieving WTO accession, and building capacity on trade issues. The action plan included capacity-building activities aimed at improving the general institutional environment to support intraregional and international trade. Participants in the Tenth Trade Policy Coordinating Committee (TPCC) meeting, held in Ulaanbaatar in May 2009, consequently agreed to include in the future work program the preparation of a paper on trade and the institutional environment, which would attempt to identify the key institutional impediments to trade in CAREC countries. Delegates envisioned that the paper's findings would form the basis for an agreement among CAREC countries on the required policy actions to improve the institutional environment. Clearly, such a set of actions will then further contribute to the first goal of increased trade openness, complementing the existing action plan on tariff and non-tariff measures (NTMs).

A proposed outline of such a paper was reviewed and discussed by delegates at the Eleventh TPCC meeting in October 2009. The delegates suggested a number of modifications and endorsed the proposal to have a draft paper prepared for discussion at the Twelfth TPCC meeting in April 2010. The first discussion draft for that meeting is presented in two parts:[1]

- a background analytical study reviewing the state of knowledge about institutions and trade globally, and including some evidence for CAREC countries
- a preliminary illustrative draft of an action plan for improving institutions in CAREC countries

The central motivating feature for preparing a paper on institutions and consequent action proposals was the recognition (now well-established among international trade experts and policy makers) that inadequacies of the institutional market environment of a country and of trade facilitating conditions have become increasingly important determinants of open trade. In fact, as described in Section III of this background study, there has been very good—albeit incomplete—progress on reducing the traditional impediments of tariffs and non-tariff measures, but many developing countries continue to lag on improving the quality of the institutional environment and trade facilitating measures. There is today a broad consensus in the development community that all of these institutions strongly affect the process of international trading and of doing business in general, and have in many developing countries become a critical constraint to further expansion of trade. The first objective of the background study is to review the analytical work of recent years which has led to such a consensus. This will give a benchmark for assessing the evidence on institutional quality in CAREC countries which,

[1] The structure is modified slightly from that shown in the Outline to reflect some of the key findings, and the difficulties of having delegations designating potential priority actions without the broader context here provided.

together with inputs from delegates on the institutional priorities in their countries, will form the basis of the Action Plan for Improving Institutional Quality (APIIQ).

But first, since the concept and terminology on institutions is not solidly established among analysts, it will be useful here to stipulate some definitions to be used in the paper. In many analytical studies “trade facilitation” is used in a very broad sense to cover any elements which may have an impact on trade: (1) the “hard” infrastructure such as roads, ports, airports etc.; (2) the “soft” infrastructure directly related to trade at the border, such as customs clearance and crossing rights; (3) “soft infrastructure” behind the border, such as trade financing, marketing expertise, communications capacity; and (4) many behind the border institutions which affect the business climate and directly or indirectly may have an impact on trade. The latter include procedures for opening a business; general licensing procedures, including those for importing and exporting; extent of corruption; property rights protection for investors; and enforcement of contracts. In the background study as well as the Action Plan two categories will be distinguished:

- Trade Facilitation will be used here not in the broader sense of the analytical literature, but in the narrow sense used within CAREC to delineate the areas of action for the countries, that is to say at-the-border procedures and any direct infrastructure of border-points-but not the hard infrastructure of transport.
- Institutional Environment will be used here to include all the other behind-the-border elements affecting the business environment.

It is to be noted that making the above distinction is not in fact essential for the final purpose of designing an action plan on institutions, but it will be helpful in the review of the many different studies estimating the impact of “trade facilitation” and “institutions “ on trade.

This background study is structured as follows: Section II reviews the most recent developments of the global crisis and potential consequences for future prospects for developing country exports, addressing the worry that after the crisis, advanced economies will import much less from developing countries. Section III summarizes the recent consensus on how institutional quality affects trade. Going from the general to the specific, the paper reviews first the main findings on a global level, and then selected studies focused on Asia. Section IV focuses on the situation in CAREC countries. Section IV also provides a statistical analysis of some key indicators of the institutional environment and trade facilitation for CAREC countries compared to their main global competitors.

II. THE GLOBAL CRISIS AND DEVELOPING COUNTRY EXPORTS

Starting in 2008, the global economy suffered a severe downturn compared by many to the Great Depression of the 1930s. It is beyond the scope of this paper to cover the various debates on the causes of the crisis, which are thought to include: U.S. consumer excesses fed by financial imprudence; “mercantilist” build-up of huge surplus reserves by many developing country exporters; the continued pressure of rapidly growing manufacturing exports from emerging markets as they develop and attempt to absorb surplus rural labor into new manufacturing activities; and many other explanations. Here, the *main question asked is how the crisis has affected prospects for continued expansion of developing country exports.*[2] This is of direct relevance to the work of the TPCC in general, given the primary aim of expanding trade. If the global prospects for exports have changed, we need to consider whether the actions under TPCC remain the right ones, and whether they are sufficient. It is argued below that the crisis will result in a more competitive trading environment, necessitating enhancement of trade policy measures-including extending the TPSAP efforts to improvements of institutional quality.

Many observers feared that the depth and uniqueness of this global crisis—in particular the very large macroeconomic imbalance between advanced economies with large current account deficits and dynamic exporters with large surpluses—would require such a sharp correction that imports by advanced economies from developing countries could not continue expanding as rapidly as in previous decades. In particular, it was feared that prospects for newcomers would be closed off. This led many observers to suggest that emerging markets needed to turn to domestic demand stimulus, for example:

> It is well-known that market economies go through busts and booms but the severity of the present crisis has put the export-led development model under stress. With rapid declines in exports, and hence GDP in 2008, trade started to lose favor. This has led to discussions in international policy circles on reducing dependence on trade and focusing instead on stimulating domestic demand. However, the choice is not black and white.[3]

In what follows, two issues are considered:

- What are the latest indications on the severity of the crisis and its effects?
- Is there reason to fear developing country exports cannot continue to grow?

Hopeful signs of early recovery, but many uncertainties remain

The most up-to-date assessments and statistics seem to point to a less severe recession than many feared. Table 1 shows some GDP and export growth rates from the IMF's World Economic Outlook (WEO) Update of January 2010. In 2009, output fell sharply and trade even more so, but the severity was far greater in advanced economies and in those of Central and Eastern Europe, while developing economies experienced just a slowdown of growth and a much smaller decline in exports.

---

[2] This section draws heavily on the IMF WEO Update (January 2010), the UNESCAP (2009) Asia-Pacific Trade and Investment Report (2009), and World Bank Global Economic Prospects (2010).

[3] UNESCAP (2009), p.44.

Table 1: Main Global Indicators and Projections

	GDP Growth				Export Growth			
	2008	2009	2010	2011	2008	2009	2010	2011
World	3.00	-0.80	3.90	4.30	2.80	-12.30	5.80	6.30
Advanced	0.50	-3.20	2.10	2.40	1.80	-12.30	5.90	5.60
Emerging	6.10	2.10	6.00	6.30	4.40	-11.70	5.40	7.80
C&E.Europe	3.10	-4.30	2.00	3.70	0.24	-0.08	0.22	0.12
Asia	7.90	6.50	8.40	8.40				
CAREC	7.80	3.90	5.80	6.50				
Afghanistan	14.20	3.35	22.54	8.64	0.41	0.01	0.16	0.10
Azerbaijan	10.80	9.30	2.68	0.58	0.43	-0.29	0.27	0.03
PR China	9.01	8.50	9.03	9.73	0.18	-0.26	0.14	0.16
Kazakhstan	3.20	1.17	2.40	4.20	0.47	-0.37	0.24	0.10
Kyrgyz Rep.	8.40	2.30	4.61	5.25	0.35	-0.11	0.09	0.13
Mongolia	8.86	0.50	3.00	6.10	0.24	-0.08	0.22	0.12
Tajikistan	7.90	3.50	5.00	5.00	0.13	-0.13	-0.03	0.10
Uzbekistan	9.00	8.15	8.00	7.00	0.42	-0.04	0.08	0.07

Source: IMF WEO Jan/2010. 2008 & 2009 values are actual; 2010 & 2011 are IMF projections. CAREC average is not calculated given preliminary nature of these projections.

This is particularly true of Asia, including the CAREC countries. The IMF's projections for 2010 and 2011 give cause for optimism: advanced economies are projected to grow by 2.1 percent and 2.4 percent respectively; developing economies at 6.0 percent and 6.3 percent, with Asia projected to grow even faster. As a consequence, world trade is also expected to pick up strongly—but not yet enough to compensate for the sharp decline of 2009. The Asian pattern is broadly echoed in CAREC countries, where the GDP continued to grow but at lower rates, and the growth rates are expected to increase again in 2010.

Nevertheless, all forecasters remain very cautious and emphasize that "there are still significant risks [related to] a premature exit from supportive policies impaired financial systems [and] worsening budgetary situations."[4] In other words "great uncertainty continues to surround future prospects"[5] and it would be premature to conclude a solid recovery is underway.

If there is not a reversal, or "double-dip" as happened in the thirties, this recession may not be as severe as feared. Reinhart and Rogoff (2009) summarize past recessions with two principal observations:

---

[4] IMF (2010).

[5] World Bank (2010) Global Economic Prospects p.16. The World Bank projects a similar pattern as the IMF, but somewhat lower rates for GDP growth.

- financial recessions lasted 5–6 years while “normal” ones only about one year;
- in past recessions developing countries suffered much greater GDP declines than advanced economies.

So far this recession seems closer to a relatively short “normal” recession. Any “uniqueness” of the current downturn is in the second characteristic: in this recession developing countries have suffered much less of a downturn, even for exports. This last point is in fact a positive for developing countries rather than the negative consequences feared—though again caution is suggested as it is still too early to be sure.

But can the export dynamism of the past four decades continue?

The early signs of recovery, if it is sustained, are of course good news, but it is still possible that the post-recovery corrections of macroeconomic imbalances will restrict future export opportunities, especially for the low-income countries, which have been slower to integrate into global markets.[6] Cline (2008) argued even before the crisis that correcting such imbalances will mean a substantial reduction in the capacity of the large-deficit countries like US and UK to continue absorbing the imports from developing countries. For US and UK, the share of consumption of manufactured goods coming from such imports rose from about 6 percent in 1998 to 11 percent in 2006, and it was only somewhat lower for other advanced economies. This raises fears of import restrictions—at least for some of the products where the import penetration ratio is at much higher levels, often 20, 30, and over 50 percent. But even if that does not happen, the fact that the US needs to reduce its unsustainable external deficit (over 6 percent of GDP) would by itself slow these imports. This has come to be called the new “export pessimism”, in reference to an analogous concern in the early eighties after the first wave of “East Asian Tigers” experienced an export boom.

But Cline concludes that, while the rates of export expansion might slow, they could continue for several reasons. Protectionist measures in the advanced economies have so far been quite limited;[7] many countries have a much stronger position than the US; and the leading exporters, as did the Asian Tigers earlier, are moving up the scale to more sophisticated products, leaving considerable room for new exporters. Havrylyshyn (2010) updates and confirms these views, and adds further that opportunities for developing countries to trade with each other are today far greater than they had ever been. Whereas such trade comprised one-fifth or less of exports in 1988, by 2008 this was between one third (for low-income countries) and one half (for upper-middle-income countries). The importance of trade among developing countries is also emphasized in UNESCAP (2009), which points out that Asian intra-regional trade is by now at

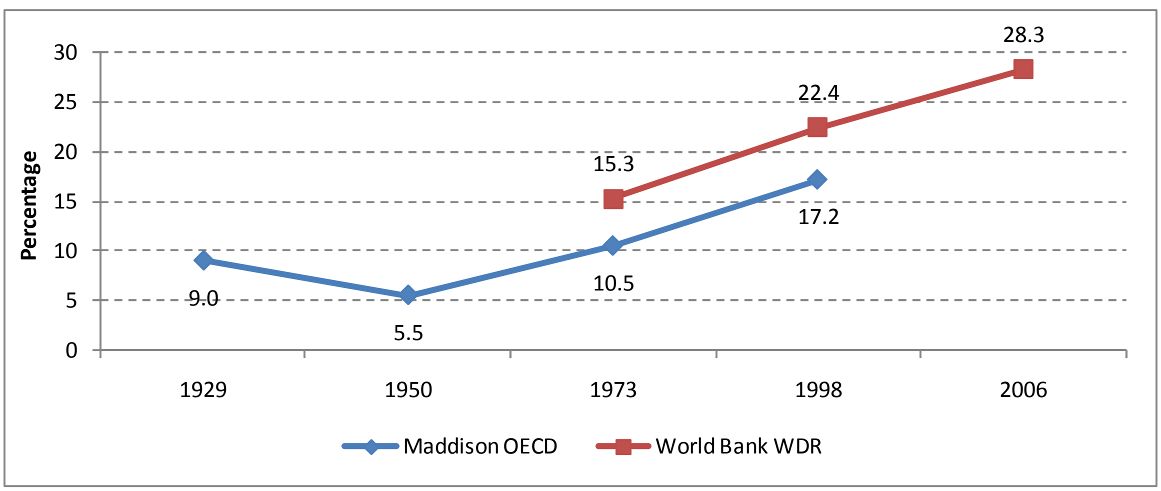
[6] This part of the paper summarizes the main conclusion of a World Bank draft paper: Havrylyshyn (2010) "Does the Global Crisis mean The End of Export-led Strategy?"

[7] Bown (2010) notes that the total of such measures around the world affects about 0.5percent of world trade; many are raised as possibilities but not applied. He also observes that the surge of “new” actions peaked in mid-2009 and the number has been falling.

least one half of exports. The implication for CAREC countries is that it is not only advanced economy markets that need to be targeted, but also other emerging markets where the competitive edge of labor costs is much sharper.

Thus, globally export prospects may be somewhat weaker than in the past 2–3 decades, but remain very strong. Some slowdown is not surprising if one observes in Figure 1 the picture of the fifty year upward trend in globalization. The global export-to-GDP ratio had reached a historical low of 5.5 percent after the Great Depression and World War II, then began to recover, surpassing the post World War I high by 1973. In the aforementioned "export pessimism" discussions of the eighties, it was generally expected that this ratio could not go much higher, but it did so quite dramatically, doubling in the next three decades. The sharp fall in trade in 2009 of course means that the ratio fell somewhat. If it recovers even partially, as projected in Table 1, and Organization for Economic Cooperation and Development (OECD) economies with good external position continue to absorb more imports, and in addition developing country markets themselves grow rapidly and also absorb more imports from each other, this would create considerable room for export expansion by all developing countries.

Figure 1: World Exports to GDP, 1929–2006
(In percent, unless otherwise indicated)



Sources: Maddison (2001), Table F–5 merchandise exports only. World Bank WDR Table 4.8 includes services.

As for the correction of macroeconomic imbalances, much of it may already be in process, with the latest indications showing the People's Republic of China's surplus reduced from about 11 percent to about 6 percent of GDP, and the US deficit cut from 6 percent to around 3 percent of GDP—a level many consider sustainable. Finally, it should be noted that the public perception in advanced economies of being "saturated" by goods from the rest of the world is much exaggerated by a few products like apparel, footwear, and electrical/electronic goods where the import-penetration ratios are 40–50 percent and more. But the overall penetration for manufactures in the seven largest OECD countries was far lower in 2008 at 9.7 percent.[8]

In summary, the preliminary evidence suggests that, on the one hand, this has indeed been an unusually severe recession—especially in the advanced economies, with consequent sharp declines in their potential for imports from developing countries. On the other hand, there are also strong indications that if the recovery is not reversed, the rebound in trade volumes will be broadly similar to the rebounds observed in the past. However, once trade rebounds in a year or two, growth of imports by advanced economies may be less than in the past, limited to GDP growth plus a more modest continuation of increases in import penetration. But overall, the growth of exports from developing countries will likely be greater than the growth of advanced economy markets, as trade among developing countries, already large, continues to expand.

Implications of Global Crisis for CAREC countries and the TPCC agenda

While early signs of recovery are comforting and suggest that excessive pessimism about global prospects was not justified, the risks of continued global problems remain. At a minimum, the adjustments needed in the advanced economies will most likely result in somewhat lower future growth and somewhat lower absorption of imports from developing countries. At the same time, growth in developing countries themselves now shows some de-linking from advance markets. For individual CAREC countries, this means that their competitive edge must be enough to penetrate the new opportunities in rapidly growing developing countries. In this new environment, export strategies need to be even more refined, and include consideration of more than the traditional instruments of liberalizing tariffs and non-tariff measures, but also look at the increasingly constraining effects of institutions at the border and behind the border.

III. How Institutions Affect Trade: The International Experience

A. A Summary of the New Consensus on Institutions

Sections III.b and III.c discuss in detail the results of the most recent analytical studies on how institutional quality affects trade. While some differences of view on relative importance of types of institutions emerge, there is a very wide consensus that can be summarized as follows:

- Institutional environment and trade facilitation conditions have an increasingly important effect on trade expansion, as traditional trade restrictions—tariffs and non-tariff measures—have generally declined considerably around the globe. This means that country policies must attempt to improve the quality of institutions affecting trade both directly and indirectly.

[8] Havrylyshyn (2010), Table 1.

- The magnitude of trade expansion effects from such improvements varies, but the consensus is that it can be very large, and often at least as large as the effect of continued tariff and non-tariff measures reduction.
- While institutional impediments have become more important, traditional restrictions are still high enough that further reduction of protection (especially non-tariff-measures and maximum tariff rates) will yield significant trade expansion.
- For Asian countries, the effects are also large, but there is a large variation in the quality of both institutional environment and trade facilitation, hence the effects vary considerably for different countries.
- Within Asia, the East Asian dynamic exporters, including the People's Republic of China, have achieved the best rankings globally on the institutional environment (IE) and trade facilitation (TF) measures, while others, including Central Asian countries, still have high levels of institutional impediments.

B. Global Evidence on the Role of Institutions

It has become increasingly easier to analyze the role of institutions in promoting trade, investment and growth, as many organizations now provide data sets measuring institutional quality (Box 1). This section summarizes some of the main ideas, ongoing debates, and empirical evidence. It first looks at the determinants of growth, then at the studies relating trade openness to institutions at a general level. The reliability of the institutional indices is discussed in Box 2.

Recent literature on determinants of growth

An extensive recent review of growth and poverty reduction experiences is the Spence Report (2008) commissioned by the World Bank. The report recognizes that globalization can have negative consequences, that it requires complementary policies ensuring macroeconomic stability and effective institutions of governance, and that inward-oriented policies can occasionally and temporarily succeed. Nevertheless, the Spence Report is very clear in its principal conclusion that the historically unheard of "growth of 7 percent per year sustained over 25 years (was made) possible only because the world economy is now more open and integrated,"[9] confirming the broad consensus in the development community that trade liberalization, outward orientation, and generally market-friendly policies are more effective in promoting growth than inward oriented and government-directed efforts.

[9] This is echoed in the speech of World Bank President Robert Zoellick at the 2009 Meetings of the World Bank Group: "Globalization has helped to sustain high economic growth in many countries and lifted hundreds of millions out of poverty."

Box 1: Description of Data Sets on Institutional Quality

A large number of international organizations provide measures of institutional quality, broadly summarized in the form of indices, rankings, or global trend values. The World Bank has created three such data sets dealing with governance matters, the ease of doing business, and trade logistics performance. While the focus of these three independent projects is different, the aim is the same: to provide tools for individuals as well as governments to *identify the challenges and opportunities* present in the various areas examined. The indicators are also meant to serve as a benchmark for international comparison to aid countries in the formulation of relevant policy.

The Governance Matters project, providing measures of *Worldwide Governance Indicators* (WGI) started in 1966, the first of the three data sets. The original goal of this initiative was to inform, initiate debate, facilitate research, and raise awareness regarding governance matters. The data set presents aggregate and individual *governance indicators* for 212 countries and territories and is one of the most complete cross country data compilations on issues relating to governance. The quantitative measurements reflect the views of various stakeholders ranging from households to area experts from NGOs. The indicators focus on six broad aspects of governance: 1) Voice and Accountability, 2) Political Stability and Absence of Violence/Terrorism, 3) Government Effectiveness, 4) Regulatory Quality, 5) Rule of Law, and 6) Control of Corruption. The individual components of the six indicators along with the aggregate measurements are offered as text, data, or interactive databases at www.govindicators.org.

The newest dataset, *Connecting to Compete,* was published for the second time in 2010. It is built around the Logistics Performance Index (LPI), a multifaceted evaluation of domestic logistics related to trading, in effect an estimate of the TF concept defined in this paper. It is based on 5,000 evaluations of nearly 1,000 logistics professionals. Apart from the overall country-specific LPI ranks and scores intended to assist policy making on trading logistics, the measurements serve as an international benchmark tool. The Report provides six individual indicators for more detailed analysis: 1) Customs, 2) Infrastructure, 3) International shipments, 4) Logistics quality and competence, 5) Tracking and tracing, and 6) Timeliness. The data set comprising the various indicators, along with analysis, is available in a report format which is published every two years. Along with the report, interactive databases and quantitative data are readily available at go.worldbank.org/ 88X6PU5GV0.

The academic literature on which this consensus is based goes back many years, starting with numerous case studies under the auspices of the OECD, NBER, and the World Bank, covering postwar experience from 1950 to 1980. The case studies consistently found that even after taking into account many country-specific factors, more open trade creates and sustains higher growth. This school of thought is labeled the ***integrationist view***. In the 1990s econometric analysis in cross-country studies updated and confirmed the earlier conclusions, though two new elements were added. First, as Sachs and Warner (1995) emphasized, while openness was a key factor, growth was more difficult for countries that were landlocked, or those with extreme tropical conditions. This has been called the ***geographical view.***[10] They and others who addressed geographical conditions did not deny the importance of openness, only noting that its impact may be diminished under these geographical conditions, and additional measures to overcome this impediment may be required. The applicability to the issue of improved transportation—a central element of the CAREC program—is evident.

[10] Sachs and Warner themselves used the term “immutable initial conditions”

The second new element was the role of institutions, starting with the pioneering analysis of Douglas North (1990) on the long-term evolution of institutions in the process of industrialization, in particular in Europe and the Americas. His concepts were later confirmed in cross-country econometric tests by Hall and Jones (1999) and developed in rigorous theoretical form by Acemoglu and Robinson (2008). On this theoretical platform many econometric cross-country studies have been done, using a variety of definitions of openness and outward-orientation, country samples, time periods, and different measures of institutions. This variation of methodology has shown the robustness of the consensus conclusion: that institutions are statistically significant in explaining growth performance.[11] This new consensus can be labeled the ***institutionalism view,*** whose central tenet is that openness is a necessary condition for successful export and growth performance, but it may be constrained by geographical conditions or by poor institutional development.

While most analysts consider quality of institutions as a factor explaining growth *in addition* to openness and geography effects, some [e.g., Rodrik, Subramanian and Trebbi (2004)] propose a more radical interpretation: that *institutions rule,* that is they are *the* dominant determinant of growth and that neither geography nor openness makes a large difference. As a logical academic proposition this dominance seems far-fetched, and is not found in most other studies. Bhattacharya, Dowrick and Gowley (2009) question the econometric validity of dominance. They accept that institutions are critical as a long-term factor,[12] and the Rodrik et al model explaining differences in levels of per capita income across countries solely by institutions may be correct as a historical story. But the issue facing developing countries is short- and medium-term growth, and the policies to best promote it. Bhattacharya et al argue that for this one should use growth rates over the medium term, long enough to capture effects of liberal trade and policies, as well as some effect of institutional change. Their econometric results confirm that institutions matter, but do not dominate the traditional policies of stability, liberality of markets, and global openness -- all of which also matter.

This may seem like just a scholastic debate, but it is important for policy because Rodrik et al make a strong recommendation: to promote growth, developing countries should focus more on institutions, and—given the earlier concerns about reduced export prospects after the global crisis—these institutions should be focused not necessarily on more openness and exports, but on improving industrial policy measures and relying more on internal development. This is a radical departure from the recent globalization consensus. The major practical counterargument is that such policies work best where institutions are strong, but in such countries industrial policy is not

[11] Some of the key studies were Dollar 1992; Sachs and Warner 1995, Edwards 1992, Frankel and Romer 1999, Dollar and Kraay 2004, and Rodrik, Subramanian and Trebbi 2004. Havrylyshyn and van Rooden (2002) show this for transition economies.

[12] Indeed, starting with North, most writings on institutions repeatedly underline the long-term nature of these effects.

needed. That is to say, there is circularity in the Rodrik argument. The issue is important and will continue to be debated—but its details are well beyond the scope of the present paper.[13]

The role of institutions in promoting greater trade openness

"Countries can derive large gains from the trading system by engaging in reforms often referred to as trade facilitation." So begins an article by Daniel Ikenson which summarizes recent literature on institutional impediments to trade.[14] Like much of the literature, he uses the term "trade facilitation" very broadly to include not only the logistics of trading, but also the institutional environment components of behind-the-border measures such as licensing, contract, resolution procedures, rule-of-law, etc. He sums up the consensus of numerous empirical estimates as follows:

- as traditional at-the-border restrictions have been considerably reduced in many countries, the importance of institutional environment and trade facilitation has increased;
- in some cases, improvements of institutional environment or trade facilitation can yield trade benefits roughly equal to those of further liberalization;
- nevertheless, traditional restrictions are still high enough that further reduction (especially reduction of non-tariff measures and maximum tariffs) will yield significant trade expansion.

Consider the details of some selected studies. Wilson, Mann and Otsuki (2004) used a global gravity model of trade flows in 75 countries at all levels of development to estimate the effect of improving four institutional measures (port efficiency, customs environment, regulatory environment, and service sector infrastructure) half of the way to the OECD average.[15] The effect on trade of developing countries is substantial. South Asia export gains are highest at 40.3 percent, and the Europe and Central Asia region is next at 30 percent.

François and Manchin (2007)[16] estimated the relative importance of tariffs, an index of infrastructure or trade facilitation, and indices of institutional environment, concluding that "variation in infrastructure is strongly linked to export [performance]", and that "all alternative institutional variables have important positive impact on both the values of exports and the probability of exporting." These conclusions are confirmed in Hoekman and Nicita (2008) who

[13] Cline (2008), the Spence Report (2008) provide more detail, and Havrylyshyn (2010) reviews the main arguments pro and con.

[14] Ikenson (2008), p.1.

[15] Note that the first of these measures is clearly within the narrow definition of hard trade facilitation; the second may contain some institutional environment dimensions, the third and fourth are largely of the institutional environment type.

[16] They use a cross-country and time-series pooling technique in the period 1988–2002 for over 100 countries, giving a panel of 284,000 observations.

find for example that “a 10 percent reduction in the costs associated with exporting (*as measured by the World Bank’s Logistics Performance Index also used later in this paper)* would increase exports by about 4.8 percent.”

Two other important conclusions of Hoekmann and Nicita are worth noting. First, they caution that reducing traditional restrictions further should not be forgotten in the enthusiasm for institutions and logistics, since their econometric estimates show that the effect of these is still as large as that of improved institutional conditions. Thus, a 10 percent reduction in effective tariff restrictiveness increases trade volumes by nearly 2 percent; reduced non-tariff measures add another 2 percent; a 10 percent improvement in cost of trading gives about the same result; and a 10 percent improvement in the Logistics Performance Index leads to an increase of nearly 5 percent. Second, they caution that such empirical results are only “suggestive [and] further work is needed to ‘unpack’ these findings.” An illustration of some studies that have attempted to find which institutional measures have the most impact is given below.

Two interesting studies emphasize the interaction between institutions and liberalization policies. Jansen and Nordas (2004) in global sample conclude that “the marginal impact of a reduction in tariffs on openness is larger the better the institutional quality; in other words institutions have both a direct [and an indirect] impact”. Baliomane-Lutz and Ndikumana (2007), analyzing growth in 39 African countries over the period 1975–2001, conclude that institutional quality interacts with trade openness in a U-curve pattern: “at low levels of openness, the joint effect of institutions and growth is negative. As trade openness reaches higher levels, better institutions appear to enhance the growth effects of openness.”

A growing number of studies investigate the effect of institutional impediments in narrower groups of countries or regions. Section III.c will review those that have looked at Asia. Some studies for other regions are briefly noted here: Hoekmann and Djankov (1997) for Central Europe; Hoekmann and Zarrouk (2000) for Arab countries and Meon and Sekkat for the Maghreb region; Baliamone-Lutz and Ndikumana (2007), Njinkeu, Wilson and Fosso (2008), Fofack (2009) for Africa; Havrylyshyn (2009) for Black Sea countries. In general, they come to conclusions analogous to those of the global studies, with some regional specificity; for example, the Africa studies find that the effects of traditional liberalization and institutions are jointly reinforcing.

Understanding how institutions affect trade

There is a very strong consensus that good institutions are an important determinant of economic performance, whether through their effects on trade, investment, or directly on growth. Only a few select studies from the vast empirical literature demonstrating this have been noted above. There may be continuing debate on just how important they are relative to traditional policies, but there is no disagreement that they do matter and that policy makers must pay attention to the institutional improvement. There is a concern, however, that, since the empirical studies use only broad measures of institutions, they can show convincingly *what* the effect of good institutions is, but they cannot yet tell policy makers *how to improve* these institutions. In the words of the Spence Report: “we do not know in detail how these institutions can be engineered.” As Hoekmann and Nicita noted, much work needs to be done to “unpack” these various effects: which institutions are most important? What actions can be taken in different countries to improve institutions? Answering these questions requires a two-pronged approach.

On the academic front, more detailed studies are underway using the detailed breakdown of institutions into components. One such example is Berkowiz, Moenius and Pistor (2005) that unpacks the many layers of national and international law relating to contract enforcement, including a thorough case-study of Indonesia. An important and very practical finding is that signing of the 1958 New York Convention of the UN on recognition of foreign arbitral awards can be a signal of strong institutional commitment if domestic courts simply recognize foreign arbitration. Meon and Sekkat (2006) attempt to differentiate the relative importance among the World Bank’s Governance Indicators, finding for example that strong rule of law and low corruption are more important influences on trade than the regulatory framework.

Box 2. How Reliable are Institutional Indicators?

The increasing availability of quantitative measures for the quality of institutions (Box 1) is a very positive development in helping to design concrete actions. But these indicators do not have the same objective quality as many other economic statistics like output, exports, or inflation. It is true that the latter are always subject to measurement error, but they all have a natural metric. Quality of judicial institutions concerning contract enforcement cannot be measured naturally- the existence of laws is not a good measure as in the end it is the effectiveness, fairness and speed of implementation that matters. The architects of institutional indicators have therefore largely relied on subjective measures of what users of institutions or unbiased observers perceive to be the effectiveness of the institutions. But this naturally raises the question of the accuracy and reliability of such subjective measures.

The problem has been explicitly addressed by analysts, and here two such studies are summarized. Hallward-Driemeier and Alterido (2009) use the vast data set of the World Bank’s Enterprise Surveys database, with 79,000 firms in 105 countries giving subjective perceptions on 17 dimensions of business impediments (e.g., licensing procedures), but also providing objective measures on the conditions and performance of the firms (e.g., actual costs for dealing with licensing procedures). The authors find that “subjective rankings are [statistically] significantly correlated with objective measures.” As an illustrative example they note that “firms that complain [more] about electricity are doing so because they are experiencing more outages.” The paper provides a valuable review of the underlying conceptual problem and many references to other similar efforts to test the reliability of subjective indicators.

An analogous exercise is presented in the recent World Bank report which gives estimates of the Logistics Performance Index (LPI) (<u>Connecting to Compete: 2010: Trade Logistics in the Global Economy</u>). The report compares the LPI with other indicators. The correlation coefficient with the World Economic Forum’s “Global Enabling Trade Index” is 0.85. Components of the LPI that deal with border procedures are correlated with analogous ones from the World Bank’s Doing Business dataset, and correlation of export and import time measures is about 0.50 - somewhat lower than for the broader overall measure, but still highly significant.

The above conclusions do not mean that in a particular country for a particular measure-especially the detailed sub-components of broad indicators- the possibility of error is eliminated. It is therefore doubly important to consider each country case as specifically and as “close-to-the-ground” as possible.

This may be a surprising result, and it may not be confirmed by other studies—but the important point here is that academics have started to make the efforts at the "unpacking" of institutional effects. The possibilities have increased considerably, as more and more detailed and concrete indicators are made available in the various data sets (Box 1). For this paper, one of the most relevant data sets is the Doing Business Report , which includes such measures as the number of days required to obtain an export or import license, as well as the World Bank's Logistics Performance Indicators data set showing such details as the number of agencies that must approve a customs clearance. The second aspect of the practical implementation problem is the need to be country-specific. Part of the broad consensus is that for institutions "one size does not fit all". Indeed, it is in this spirit that in the final version of the paper, a key input towards designing specific actions will be the country authorities' own identification of priorities for institutional improvements.

C. Institutions and Trade: The Asian Experience

The experience of Asia regarding the role of institutions in trade has also been subject of many new studies in the past few years. These have included analytical papers by academics and researchers of international organizations. In particular, extensive work has been done under the aegis of the ADB Institute and UNESCAP-ARTNeT. [17] In addition, several recent reports of the ADB and UNESCAP have not only summarized the main findings of such studies, but have also gone far towards elaborating practical policy actions aimed at improving the institutional environment and reducing impediments to trade. Only the most recent and comprehensive among these studies are reviewed here.

Analytical studies estimating effect on trade of institutional environment and trade facilitation conditions

Brooks (2008) provides a succinct overview of the institutional environment and trade facilitation conditions in Asia, and points to a similar consensus of findings that these are important for trade. Consider some of the specific studies showing this.

Duval and Utoktham (2009) apply a gravity model methodology analogous to that used in many of the global studies cited earlier, but focus on Asian countries and very helpfully "unpack" the institutional environment and trade facilitation components into sub-categories based on the Doing Business dataset.[18] Their econometric results confirm the general finding that, when traditional trade restrictions are already relatively low (which is the case for most of the Asia region), improving institutions and trading logistics can have a much greater impact than further lowering of restrictions. With the exception of the People's Republic of China, Hong Kong and the Republic of Korea, the rest of Asia has institutional environment values significantly worse

---

[17] Asia-Pacific Research and Training Network on Trade. Information on the network, reports, bulletins and all working papers are available online at www.artnetontrade.org.

[18] Some studies focus largely on shipment and transport cost, e.g., De (2007).

than those of the OECD. Consequently Duval and Utoktham find that “simplifying domestic contract enforcement procedures in Asia to the OECD average may increase exports by up to 27 percent,” a strikingly high value. The greater detail on institutional environment measures allows a calculation suggestive of relative priorities: the three sub-categories of particular importance to trade are found to be (i) getting credit, (ii) protecting investors, and (iii) enforcing contracts.

The above results are found using a different approach with firm-level data: Li and Wilson (2009) estimate the probability of exporting under different conditions, including institutional environment and trade facilitation indicators. They find that “for Asia improvement in trade facilitation indicators tends to increase the probability that firms will become exporters.” There are three more specific results pointing to feasible priority actions worth noting. First, Li and Wilson conclude that improving customs efficiency by e.g., reducing by half “days to export,” increases probability of exporting by 7.5 to 12 percent. Second, for any of the institutional environment or trade facilitation categories, increasing predictability of the policy measures has larger impact than even transport improvements.[19] And third, they note that for SMEs the policy uncertainty can be more of an impediment to exports than logistical costs.[20]

Studies and reports describing the state of institutional environment and trade facilitation in Asia and recommendations for amelioration

Many reports that are readily available discuss in considerable detail the current institutional indicators in Asia compared to other regions. There are also a number of ongoing activities by ADB, UN and other International Financial Institutions addressing the goal of improving such conditions. Only the most relevant ones will be noted here. Their details can provide extremely helpful guidance for the concrete action proposals on institutional environment.

The fuller complex of national and regional activities addressing the issue of institutional improvement in Asia is the subject of two very recent reports of considerable value to the institutional environment direction of the TPCC: UNESCAP (2009) Asia-Pacific Trade and Investment Report; and the joint report of ADB and UNESCAP (2009) Designing and Implementing Trade Facilitation in Asia and the Pacific. As the titles suggest, the first of these contains much more detail on the developments of trade, investment and policy recommendations on achieving an effective recovery from the current crisis. As part of the forward-looking policy analysis it contains a substantial section focused on trade facilitation. The second report is entirely devoted to that purpose and covers a wide range of practical policy matters: descriptions of many current trade facilitation programs in the region and in individual countries; efforts to identify priority areas; conceptual discussions and debates on how to

---

[19] Li and Wilson are able to assess this effect because they use firm-level survey data from the World Bank’s Enterprise Surveys, which includes such “perceptions “information. They also report on the perceived importance of telecommunications infrastructure as having a large impact. Unfortunately, their data set includes only two CAREC countries, China and Mongolia.

[20] Pasadilla (2009) in a study on the general performance of SMEs in Central Asia confirms this result.

establish a framework for trade facilitation policy; concrete recommendations on improving logistics and institutions; guidance on international cooperative programs and assistance related to trade facilitation.

The conceptual and policy orientation in both of these reports is strongly based on the extensive literature summarized in this paper, and is thus consistent with the spirit of the thesis that trade promotion requires increased attention to institutional quality. There is therefore no need to delve into the detailed information and discussion they contain. Nevertheless, in the process of implementation of the concrete actions for CAREC countries, the very rich contents of these two reports will serve for guidance and support.

More specifically for CAREC countries is the parallel work of the Customs Cooperation Committee, detailed in the 2009 ADB Report CAREC Transport and Trade Facilitation.

IV. Institutional Impediments to Trade in CAREC Countries

A. Relative Position of CAREC Countries

Some of the studies on Asia discussed above have analyzed the differences in institutional environment and trade facilitation in sub-regions. While CAREC countries are not shown as a group, both UNESCAP (2009) and Duval and Utoktham (2009) conclude that “landlocked countries” (which includes all CAREC countries except the People's Republic of China) do least well in the rankings, whether the indicator used is trading-across-borders, number of documents required, time for document preparation, or the general logistics performance indicator. Duval and Utoktham note that this group has been “unable to improve their trading-across-borders performance.”

Institutional Indicators for CAREC and comparators

As noted in Box 1, institutional and logistics indicators are available at three levels of detail. Table 2 provides the broad overview for CAREC and a comparison with other regions using the first level of generality from three data sets: The World Bank’s Doing Business Reports; the World Bank’s Logistics Performance ranking; and the World Bank Governance Indicators. The comparator regions chosen are the dynamic East Asian exporters, and East Europe and CIS excluding Central Asia.[21] These comparator groups have been chosen because they have demonstrated strong export performance in recent decades. Furthermore, as most of the CAREC countries are transition economies, it is of interest to compare to other transition economies. As to the choice of indicators at the broad level, the reasoning is that the behind the border institutional environment is best captured in the ease of doing business indicator, while the governance indicators are intended primarily to capture the most direct physical and non-physical impediments to trade.

[21] The country coverage can be seen in the Appendix Tables with values for individual countries.

A minor presentational clarification is needed: the institutional datasets use different scaling of the indices, hence the rank ordering for the ease of doing business and Logistics Performance Indicator mean higher is worse, while the governance indicators are calculated as a percentage of the top country, hence higher is better. It would be simple enough to do an arithmetic conversion so all indicators would measure "better" with higher value or vice versa, but this would then cause confusion should the reader wish to consult the original reports—which are incidentally easily accessible and very user-friendly. The values shown here are therefore the same values as in the original datasets.

Table 2: Overview of Institutional Indicators Latest Years: CAREC And Comparators

	Ease of Doing Business Rank	LPI Rank 2010	Regulatory Quality*	Rule of Law*	Control of Corruption*
Dynamic East Asian	**52**	**33**	**60**	**57**	**51**
C. Europe & CIS (ex. Central Asia)	**68**	**70**	**63**	**52**	**52**
CAREC	**106**	**96**	**30**	**19**	**16**
Afghanistan	160	143	4	0	1
Azerbaijan	96	89	43	25	14
PR China	83	27	46	45	41
Kazakhstan	71	62	40	24	16
Kyrgyz Republic	94	91	42	8	13
Mongolia	52	141	43	35	32
Tajikistan	153	131	16	12	14
Uzbekistan	138	114	6	10	11

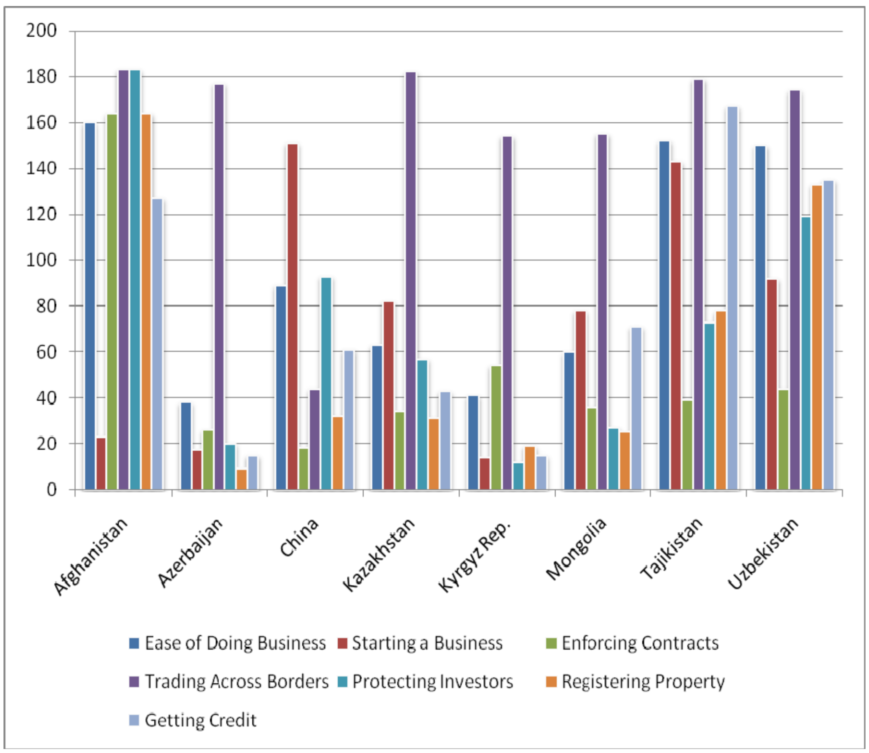
Source: Latest available values from World Bank reports: Doing Business 2010, Connecting to Compete 2010, and World Governance Indicators 2009. N.B. *Percentile Rank.

For the Ease of Doing Business and Logistics Performance Indicators in 2009, CAREC countries ranked at about the middle of the range for all countries (94 of 183).[22] This is a reasonable performance. However, three qualifications are needed. First, if the most dynamic exporters of recent years are considered as the examples to emulate, CAREC position begins to look weaker. Second, there is considerable variation within CAREC, with some countries having rank values of 150 or higher, and others comparable to the most dynamic competitors, about 70 and lower. And third, the governance indicators show that CAREC is well below the middle of the range—in fact, no individual country reaches the 50th percentile on any of the three indicators.

[22] For comparison the regional averages were: OECD-30; Central and East Europe - 68**;** East Asia and the Pacific - 83; Middle East and North Africa - 92; Latin America - 95; South Asia - 118; Sub-Saharan Africa - 139.

The Ease of Doing Business data comprise several categories allowing separation of elements that have indirect effect on trade from those that have the direct impact—the latter captured in the Trading Across Borders components. Figure 2 shows the latest rankings for six such categories in each CAREC country. The first observation is that there is considerable variation among the categories, except perhaps in Afghanistan. Some countries score well on impediments to starting a business, but much worse on Trading Across Borders; other countries score well on enforcing contracts but more poorly on protecting investors. This variability underlines an earlier point: that recommendations should be tailored to specific country situations. The second observation is that Trading Across Borders scores are generally much worse than for other categories, except in the People's Republic of China. That People's Republic of China has one of the best export performance records is no doubt related to its strong Trading Across Borders ranking. But more relevant to this paper is the guidance this gives for focusing on the third-level indicators under the Trading Across Borders category.

Figure 3. Selected Components of Doing Business Indicator: CAREC Countries, 2010



Source: World Bank Ease of Doing Business 2010

Table 3 gives details on some of the specific and more concrete impediments to trading across borders reported in Doing Business 2010. If the People's Republic of China is taken as a benchmark, it would appear that the big difference is in the time to export or import, and to a lesser extent in the number of documents needed. Days to enforce contracts and number of procedures in the People's Republic of China and other CAREC countries appear very similar. However, if one looks at a further level of detail (Figure 3), including a breakdown for export time, it becomes clear that documents preparation is a serious impediment in most CAREC countries.

Figure 3.A, expanding on the “export time “component of Table 3, reproduces Figure 4.3 from the ADB-UNESCAP (2009) study on trade facilitation. It makes it clear that the other CAREC countries’ disadvantage relative to the People's Republic of China is partly related to being landlocked and thus needing more transport time for the ports and terminal handling, and for the inland transport handling. But it is equally clear that a large part of the total difference is attributable to time for documents preparation and customs clearance procedures. Thus, reducing the number of documents may not be enough if their complexity and turn-around time is not also reduced.[23] In general, it would appear that in CAREC countries there remains a problem with documents preparation.

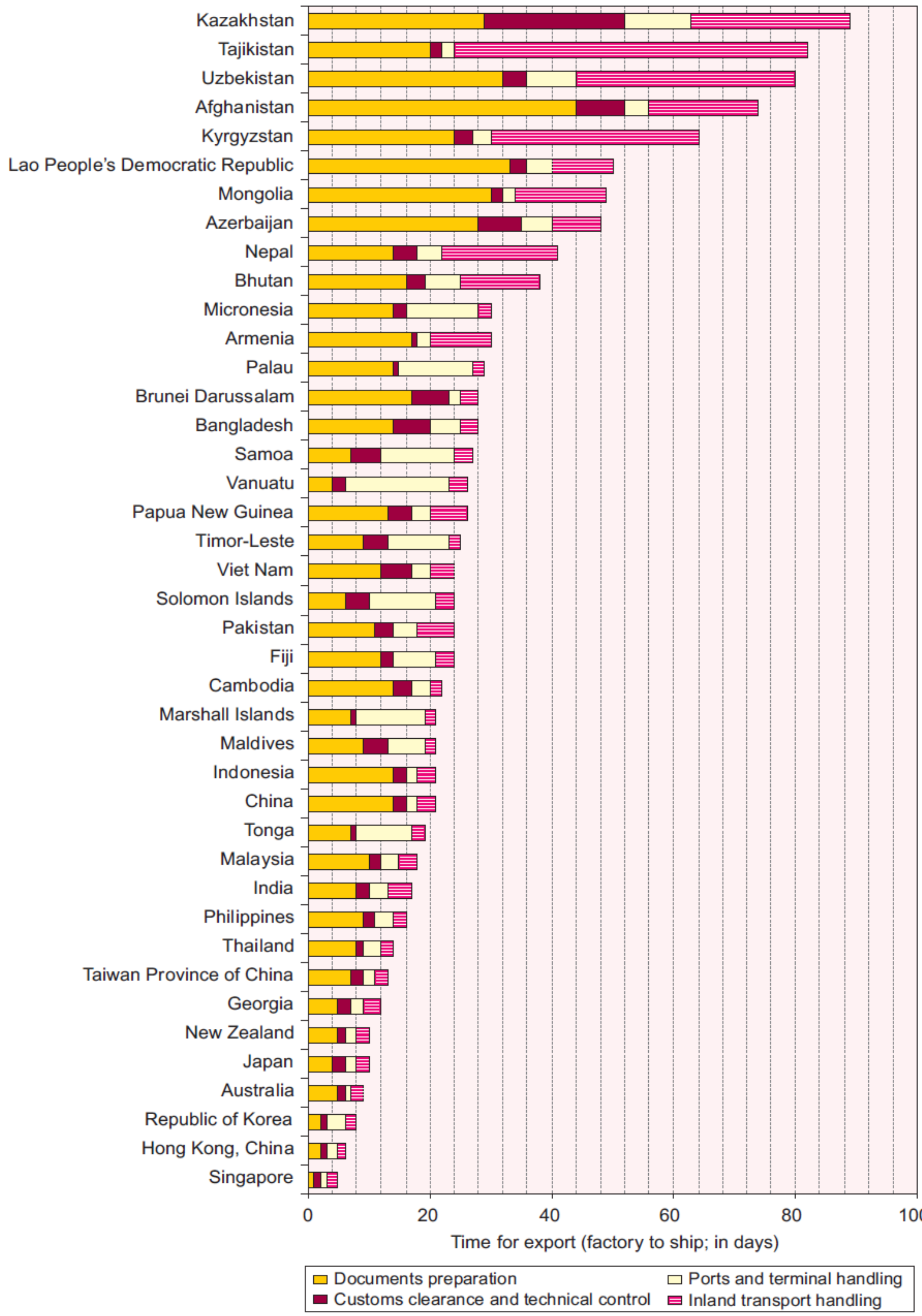
Table 3. Trading Across Boarders and Enforcement of Contracts: CAREC Countries

	Trading Across Borders				Enforcing Contracts	
	Documents to Export	**Documents to Import**	**Time to Export**	**Time to Import**	**Number of Procedures**	**Days to Enforce Contract**
Afghanistan	12	11	74	77	47	1642
Azerbaijan	9	14	46	50	39	237
PR China	7	5	21	24	34	406
Kazakhstan	11	13	89	76	38	390
Kyrgyz Rep.	7	7	63	72	39	260
Mongolia	8	8	46	47	32	314
Tajikistan	10	10	82	83	34	430
Uzbekistan	7	11	71	92	42	195

Source: World Bank Ease of Doing Business 2010

[23] This has often been found in earlier experience of simplification of export-import procedures. It can be even more bedeviling, as sometimes even after formal rules are established on the maximum time for approving documents, officials undermine this by returning documents as “incomplete ”

Figure 3A. Components of Export Time



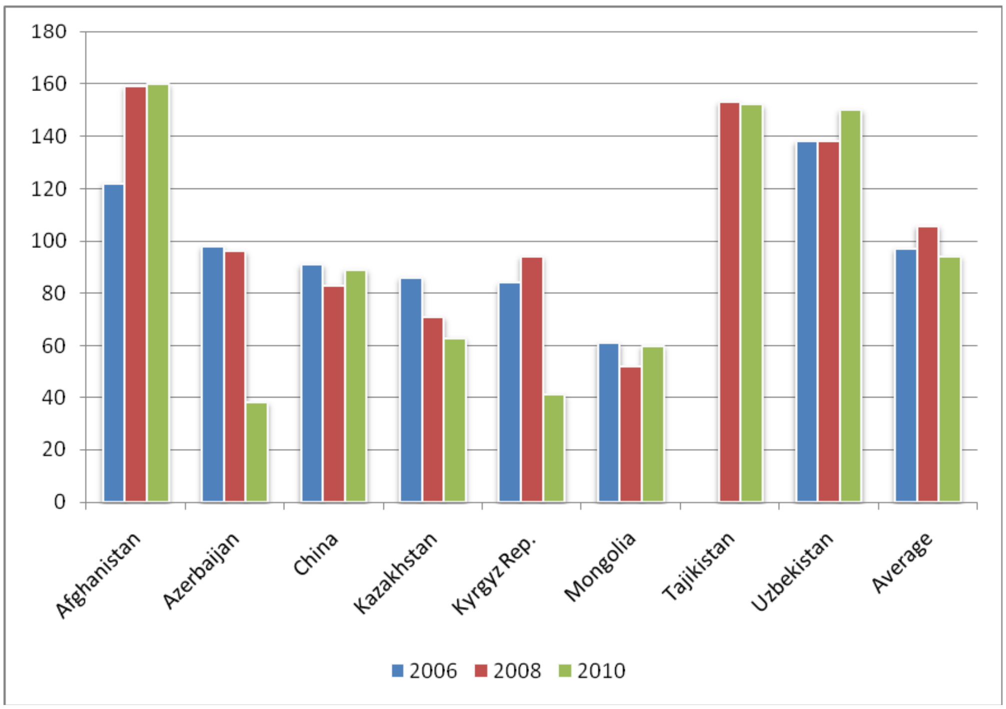
Source: UNESCAP Asia-Pacific Trade and Investment Report 2009.

Overall, the data comparison above confirms the conclusion reached by many of the studies on Asia that there remains a lot of room for catching up on institutional quality, and in particular for reducing impediments that affect trading across borders. In fact, country authorities have recognized this, and in recent years considerable improvements have been made in all of these indicators.

Recent improvements in institutional environment indicators in CAREC countries

In most CAREC countries, the Ease of Doing Business indicator has improved since 2006, only modestly in some cases but substantially in Azerbaijan, Kazakhstan and the Kyrgyz Republic (Figure 4). But even those countries for which the index remained high made many selective improvements in the individual components (the six areas of Figure 3).

Figure 4. Overall Index for Ease of doing Business CAREC Countries, 2006–10



Source: World Bank Ease of Doing Business 2010

In Afghanistan, a significant improvement was achieved in ease of getting credit (the ranking improved from 177 to 127), and the already good ranking on Starting a Business improved slightly. Azerbaijan undertook reforms which markedly improved its ranking in starting a business (the rank improved from 64 to 17), getting credit (from 26 to 15) and more modestly in enforcing contracts (from 30 to 26). The People's Republic of China implemented measures to make getting credit easier (rank improved from 84 to 61).

In Kazakhstan, steady improvement is visible, especially on the registering property ranking (72 to 31). Kyrgyz Republic undertook a wide set of actions in starting a business (49 to 14), getting credit (68 to 15), investor protection (33 to 12), and more modestly in Trading Across

Borders (177 to 154). Mongolia saw some small ups and downs in several components but importantly achieved progress in Trading Across Borders (168 to 155).

In Figure 4, Tajikistan and Uzbekistan appear to perform poorly on the Ease of Doing Business indicators.[24] In fact, however, both took positive measures in some areas. For Tajikistan, starting a business conditions were ameliorated somewhat (rank changed from 161 to 143), as well as getting credit (167 to 135) and investor protection. Uzbekistan made strong improvements in getting credit (rank changed from 170 to 135), and some modest progress for enforcing contracts (48 to 44).

As a sign of significance of these improvements, Azerbaijan, People's Republic of China, Kyrgyz Republic, and Tajikistan were included by the World Bank Doing Business Reports in the list of top 10 reformers at some point in the last 3 years.

Unfortunately, progress with the institutional impediments to trade has not been as strong. With the exception of moderate improvements for Kyrgyz Republic (rank changing from 177 to 154) and Mongolia (168 to 155), the CAREC countries have not made much progress on the Trading Across Borders category—though the People's Republic of China was already in a very strong position. This echoes the evidence of Figure 3 above, suggesting that considerable possibilities exist for ameliorating the conditions for trading.

At the same time the trade facilitation dimensions of trading—Logistics Performance Indicators in Table 4—have undergone substantial improvements, as seen in the considerably better 2010 rankings of the Logistics Performance Indicators for all countries, and very substantially for Kazakhstan, Kyrgyz Republic and Uzbekistan. The World Bank (2010) report "Connecting to Compete" designated the People's Republic of China, Uzbekistan and Kyrgyz Republic among the top 10 performers within their income group. If there can be such progress in these areas, it gives hope for the possibility of similar dynamics for the institutional impediments under the Trading Across Borders category.

The many recent improvements are of course highly commendable, though some caution about their sustainability is needed. Experience even for the most advanced transition countries shows that governance and institutional improvements are very fragile, especially in their implementation. Gersl (2006) points out that, even for the Czech Republic and other new EU members, while formal criteria of institutional achievements are very high and meet easily EU expectations for new members, the informal implementation is still problematic. The possibility of falling back slightly is indeed suggested in the occasional deterioration in some institutional environment rankings shown in preceding tables.

[24] Given the low precision of the index and the fact that it is a relative measure (if a country X makes no change while others improve, Ease of Doing Business deteriorates for X) a small rise in the rank should not be taken as significant.

Is it possible to estimate trade effects of improvements in institutional environment in CAREC countries?

In Section III.b some estimates were cited for the potential trade-expansion effects of improved institutional environment and logistics. Analogous estimates for CAREC countries do not appear to be available, and redoing such extensive numerical exercises is far beyond the scope of the present paper. But while quantitative estimates are not available, a qualitative indication of the magnitude of such effects can be inferred. Wilson et al (2004) showed that for the Europe and Central Asia region, moving halfway towards the world average for institutional environment and trade facilitation would increase exports by 30 percent.

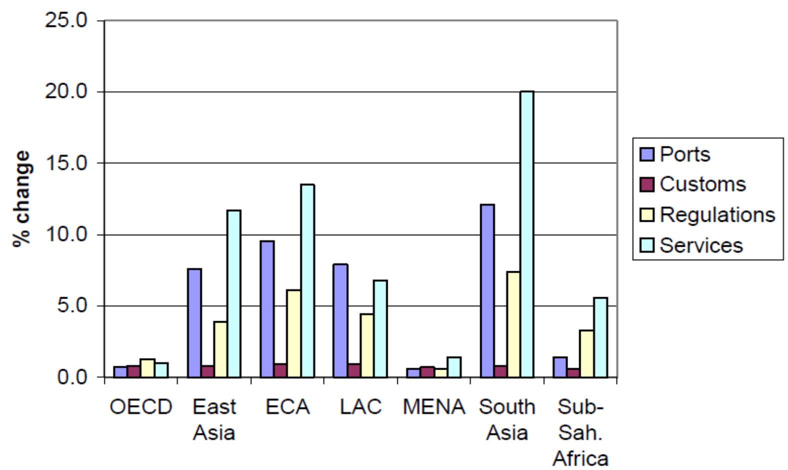
Table 4. Trading Across Borders and Logistics Performance Index: CAREC Countries, 2008–10

	Trading Across Borders		LPI	
	2008	2010	2008	2010
Afghanistan	174	183	151	143
Azerbaijan	173	177	111	89
PR China	42	44	30	27
Kazakhstan	178	182	134	62
Kyrgyz Rep.	177	154	103	91
Mongolia	168	155	137	141
Tajikistan	176	179	147	131
Uzbekistan	165	174	130	68

Source: World Bank Ease of Doing Business, World Bank Connecting to Compete

Their results are reproduced in Figure 5. Since, as demonstrated above, the values for institutional measures in CAREC countries are generally much less favorable than those in Eastern Europe, the export effect is likely to be even larger. Similar orders of magnitude (27 percent) were estimated by Duval and Utoktham (2009) for Asia, and again, the gains in CAREC would be perhaps even larger. Analogously, Hoekman and Nicita (2008) estimated for all developing countries that a 10 percent improvement on doing business indicators (that is, institutional environment conditions) yields an increase in exports of about 2 percent, and the same improvement in Logistics Performance Indicators increases exports by as much as 5 percent. Since CAREC scores on institutions are less favorable, the same 10 percent change is likely to yield even greater export expansion.

Figure 5: Export Growth from Improvement in Institutional Environment and Trade Facilitation Half Way to World Average



Source: Wilson, Mann, Otsuki (2004) Figure 7

It is useful at this point to recall another conclusion of Hoekman and Nicita (2008): that for most developing countries, a 10 percent reduction in tariff restrictions and in non-tariff measures would each yield about 2 percent increase in exports (4 percent in total). With CAREC countries' tariff and non-tariff measures protection being near the developing country average, it follows that there is still considerable room for gains from continuing reduction of the traditional impediments to trade.

V. Implications for CAREC Countries' Policies

The specific analysis of institutional environment and trade facilitation in CAREC countries allows some refinement of the earlier broad policy implications in Section III.a drawn from the global analysis.

- *In recent years, CAREC countries have undertaken measures to improve institutional quality, with a resulting improvement in many of the indicators. A few countries have seen significant improvements in several dimensions of doing business rankings, and have even been designated by the World Bank as among the top 10 performers in some years. Others may not have moved forward as much, but all have improved on some of the dimensions.*
- *Despite this progress, in 2009 CAREC countries still ranked at about the middle of the range of developing countries on the Ease of Doing Business and Logistics Performance Indicators. The People's Republic of China scored much better, however, especially for elements directly related to trade. The Governance Indicators reveal an even weaker relative position.*

- *Notwithstanding some imprecision of the still-evolving measurements for institutions, their availability has become well known and frequently relied upon by foreign investors and traders to help make decisions about expanding their activities to new countries. The Annual Doing Business news releases and list of "Top 10 Reformers" are particularly popular.*
- *Empirical estimates show that Asia could increase exports by nearly 30 percent by improving institutional quality to OECD levels. The effect for CAREC countries is likely to be even larger, since these indicators, with the exception of the People's Republic of China, are not as favorable as those for Asia as a whole.*
- *Within the broad category "Ease of Doing Business", indicators on Trading Across Borders are especially lagging in CAREC countries—again with the exception of the People's Republic of China. This suggests that the focus of the APIIQ efforts for many countries should be on such elements. Other elements, such as protecting investors and getting credit, are weak in some countries. Thus, the list of priorities for each country should probably include some measures in these other dimensions.*
- *Among the concrete impediments to trading that studies identify as particularly problematic in CAREC countries (People's Republic of China excepted) is the long time required for documents preparation. In some countries this is due to the large number of documents required, in others to the number of agencies that must approve such documents. Clearly, such analysis points very specifically to what might be done to improve the situation.*

References

Acemoglu, D., and J.Robinson (2008). "The Role of Institutions in Growth and Development" Working Paper No.10, The Commission on Growth and Development

ADB-CAREC (2009*) CAREC Transport and Trade Facilitation: Partnership for Prosperity*.Manila: The Asian Development Bank, Publication No. ARM174208

ADB-UNESCAP (2009). "Designing and Implementing Trade Facilitation in Asia and Pacific", Manila: The Asian Development Bank

Baliamoune-Lutz, M., and L.Ndikumana (2007). "The Growth Effects of Openness to Trade and the Role of Institutions: New Evidence from African Countries", draft paper, mbaliamo@unf.edu

Berkowiz, Daniel, Johannes Moenius and Katharina Pistor (2005). "Legal Institutions and International Trade Flows", *Michigan Journal of International Law*, Vol.26:00, .p. 1–36

Bhattacharyya, S., S.Dowrick, and H.Golley (2009). "Institutions and Trade: Competitors or Complements in Economic Development?" *The Economic Record*, vol.85, no.270, p.318–330

Bown, Chad, (2010). "Antidumping Safeguards and Protectionism During the Crisis"; blog posting, February, 18: www.voxeu.org

Broadman. M. (2005). *From Disintegration to Reintegration: Eastern Europe and the Former Soviet Union in International Trade* Washington D.C: The World Bank

Brooks, Douglas H. (2008). "Linking Asia's Trade, Logistics, and Infrastructure", *Asian Development Bank Institute,* Working Paper No.128

Cline W. (2008). "Exports of Manufactures Economic Growth: The Fallacy of Composition Revisited" Working Paper No. 36, The Commission on Growth and Development.

De, Prabir (2007). "Impact of Trade Costs on Trade: Empirical Evidence from Asian Countries", *Asia-Pacific Research and Training Network on Trade,* Working Paper Series, No.27

De, Prabir, Abdur R. Khan and Sachin Chaturvedi (2008). "Transit and Trade in Eastern South Asia: A Review of the Transit Regime and Performance of Strategic Border-Crossings", *Asia-Pacific Research and Training Network on Trade,* Working paper Series, No.56, www.artnetontrade.org

Dollar, David (1992). "Outward-Oriented Developing Countries Really Do Grow More Rapidly: Evidence from 95 LDCs, 1976–85", *Economic Development and Cultural Change,* April, 523–544

Dollar, D. and A. Kraay (2004). "Trade, growth and Poverty" *The Economic Journal vol.114 (493), pp.22–49*

Duval, Yann and Chorthip Utoktham (2009). "Behind the Border Trade Facilitation in Asia-Pacific: Cost of Trade, Credit Information, Contract Enforcement and Regulatory Coherence", Working paper Series, No.67, Asia-Pacific Research and Training Network on Trade. www.artnetontrade.org

Fofack, H. (2009). "Determinants of Globalization and Growth prospects from Sub-Saharan African Countries" World Bank Policy Research Working Paper No. WPS 5019

François, Joseph and Miriam Manchin (2007). "Institutional Quality, Infrastructure, and the Propensity to Export" World Bank Policy Research Working Paper No.4152

Frankel, J. and D.Romer (1999). "Does Trade Cause growth?" *American Economic Review* June 1999, 89 (3) pp. 379–399

Gani, Azmat and Bitman C. Prasad (2006). "Institutional Quality and Trade in Pacific Island Countries", Asia-*Pacific Research and Training Network on Trade,* Working Paper Series, No.20 www.artnetontrade.org

Gersl, Adam (2006). "Development of formal and informal Institutions in the Czech Republic and other new EU Member States before the EU entry: Did EU pressure have Impact?". Charles University in Prague, Institute of Economic Studies Working Paper 4/2006 – http://ies.fsv.cuni.cz

Hall R.E., and C.I. Jones (1999). " Why Do Some Countries Produce So Much More per Worker Than Others?" *The Quarterly Journal of Economics* 114(1) pp.83–116

Hallward-Driemeier, Mary and Reyes Alterido (2009). "Comparing Apples with… Apples: How to Make (More) Sense of Subjective Rankings of Constraints to Business", The World Bank Policy Research Working Paper WPS5054.

Havrylyshyn,Oleh, and R.van Rooden (2003). "Institutions Matter in Transition, But So Do Policies" Comparative Economic Studies vol.45 (1) pp.2–24

Havrylyshyn, Oleh, (2009). "Trade Promotion Policies in the Black Sea Region" paper for World Bank Institute Conference Black Sea Regional Integration and Growth," Athens, Feb. 23–24

Havrylyshyn, Oleh, (2010). "Does the Global Crisis Mean the End of Export-Led Open-Economy Strategies"? Draft paper prepared for World Bank PREMTRD, Feb.8, 2010

Hoekman,B. and S. Djankov (1997). "Determinants of the Export Structure of Countries in Central and Eastern Europe" The World Bank Economic Review, vol.11.No.3, pp.471–87

Hoekman , B. and J. Zarrouk (2000), eds. Catching Up with the Competition: Trade Opportunities and Challenges for Arab Countries, Ann Arbor: The University of Michigan Press

Hoekman, Bernard, and Alessandro Nicita (2008). “Trade Policy, Trade Costs , and Developing Country Trade” World Bank Policy Research Working Paper 4797, Dec. 2008

Ikenson, Daniel (2008). “While Doha Sleeps: Securing Economic growth through Trade Facilitation.” Washington: Cato Institute, Trade Policy Analysis Paper No.37.

IMF, (2010). World Economic Outlook Update, (Jan.26, 2010).

Jansen, Marion, and Hildegunn Kyvik Nordas (2004). “Institutions, Trade Policy and Trade Flows”, World Trade Organization, Staff Working Paper ERSD-2004.

Kaufmann, Daniel, Aart Kraay and Massimo Mastruzzi (2007). “Governance Matters VI: Aggregate and Individual Governance Indicators 1996–2006” World Bank Policy Research Working Paper 4280

Li,Yue and John S. Wilson (2009). “Trade Facilitation and Expanding the Benefits of Trade: Evidence from Firm Level Data”, Working paper Series, No.71, Asia-Pacific Research and Training Network on Trade, www.artnetontrade.org

Meon. P-G, and Kh. Sekkat , (2006). “Institutional Quality and Trade: Which Institutions ? Which Trade?”, Working Paper, No.06–06.RS, DULBEA, Université Libre de Bruxelles.

Maddison . A. (2001). *The World Economy: A Millennial Perspective.* Paris: OECD Development Centre.

Njinkeu, Dominique, John S. Wilson and Bruno Fosso (2008). “Expanding Trade with Africa: The Impact of Trade Facilitation”, Policy Research Working Paper, WPS4790.

North,D.C. (1990). *Institutions, Institutional Change and Economic Performance.* New York: Cambridge University Press.

Reinhart,C. and K.Rogoff (2009). “The Aftermath of the Financial Crisis” Mimeo Harvard University (htpp://www.economics.harvard.edu/files/faculty/51_Aftermath.pdf)

Rodrik, D, A. Subramanian,and F.Trebbi (2004). “Institutions Rule: The Primacy of Institutions over Geography and Integration in Economics Development,” *Journal of Economic Growth,* vol.9,#2, pp.131–165

Pasadilla , Gloria (2009), “Financila Crisis, Trade Finance, and SME’s: The Case of Central Asia” ABD Institute draft paper: June 20, 2009.

Sachs, J. and A. Warner (1995). “Economic reform and the Process of Global Integration” *Brookings Papers on Economic Activity*, 1995:1. pp.1–118

Spence Report (2008). The Commission on Growth and Development ,*The Growth Report. Strategies for Sustained Growth and Inclusive Development.* Washington D.C.: The International bank for Reconstruction and Development

UNESCAP (2009). Asia-Pacific Trade and Investments Report: "*Trade-led Recovery and Beyond*", UN, New York and Bangkok, UN Publication No. E.09.IIF.19

Wilson, John, Catherine Mann, and Tsunehiro Otsuki (2004)." Assessing the Potential Benefit of Trade Facilitation: A Global Perspective" World Bank Policy research Working Paper 3224.

World Bank (2010). Connecting to Complete 2010: Trade Logistics in the Global Economy. Washington: The World Bank

World Bank (2010). *Global Economic Prospects*: *Crisis, Finance ,and Growth.* Washington : The World Bank, Jan.21, 2010

World Bank, (various years) .*Doing Business Report.* Washington: The World Bank.

World Bank, (various years). *World Development Indicators,* Washington: The World Bank.

World Bank, (various years). *World Governance Indicators,* Washington: The World Bank.

Zoellick, R. (2009). "The World Bank Group Beyond the Crisis" Speech to The Annual Meetings of The World Bank Group, Istanbul, Oct. 6 2009 .

Appendix: Institutional Indicators for Comparator Countries

Dynamic East Asian Exporters

	Ease of Doing Business Rank	LPI Rank 2010	Regulatory Quality*	Rule of Law*	Control of Corruption*
Hong Kong	4	13	100	91	94
Indonesia	123	75	45	29	31
Malaysia	24	29	10	20	6
Philippines	133	44	60	65	63
Singapore	1	2	52	40	26
S. Korea	30	23	100	94	100
Taipei,China	50	20	82	74	73
Thailand	15	35	60	54	43
Vietnam	91	53	32	42	25

Eastern Europe and CIS

	Ease of Doing Business Rank	LPI Rank 2010	Regulatory Quality*	Rule of Law*	Control of Corruption*
Albania	136	119	57	33	39
Armenia	39	111	62	43	35
Belarus	110	N/A	10	17	24
Bosnia	105	87	49	44	46
Bulgaria	46	63	73	51	52
Croatia	97	74	67	55	62
Czech Rep.	56	26	82	77	67
Estonia	17	43	92	85	79
Georgia	18	93	69	44	51
Hungary	45	52	88	76	73
Kosovo	N/A	N/A	54	30	30
Latvia	22	37	81	71	65
Lithuania	26	45	85	68	63
Macedonia	75	73	59	46	55
Moldova	92	104	48	41	31
Montenegro	81	121	52	53	48
Poland	74	30	74	65	68
Romania	48	59	68	54	57
Russia	106	94	31	20	16
Serbia	86	83	47	41	53
Slovak Rep.	32	38	85	67	69
Slovenia	55	57	75	82	80
Turkey	57	39	59	56	60
Ukraine	139	102	39	31	28