

Trade and the Institutional Environment: CAREC Countries in the International Context

Background Study for Discussion at 12th
TPCC Meeting

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OUTLINE

I. The Global Crisis

II. Institutions and Trade – the International Experience

III. Quality of Institutions in CAREC Countries

IV. Main Directions for CAREC Policy

I. THE GLOBAL CRISIS

- Signs of recovery by early 2010, but risks remain of double-dip.
- Unlike earlier global recessions, most developing countries (DCs) less affected than advanced economies (AEs) - especially Asia, not recession; just slowdown.
- Trade also recovering – rapidly in DCs; uncertainty in AEs.
- DC markets will play much bigger role in future: CAREC must seek competitiveness in these markets.

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

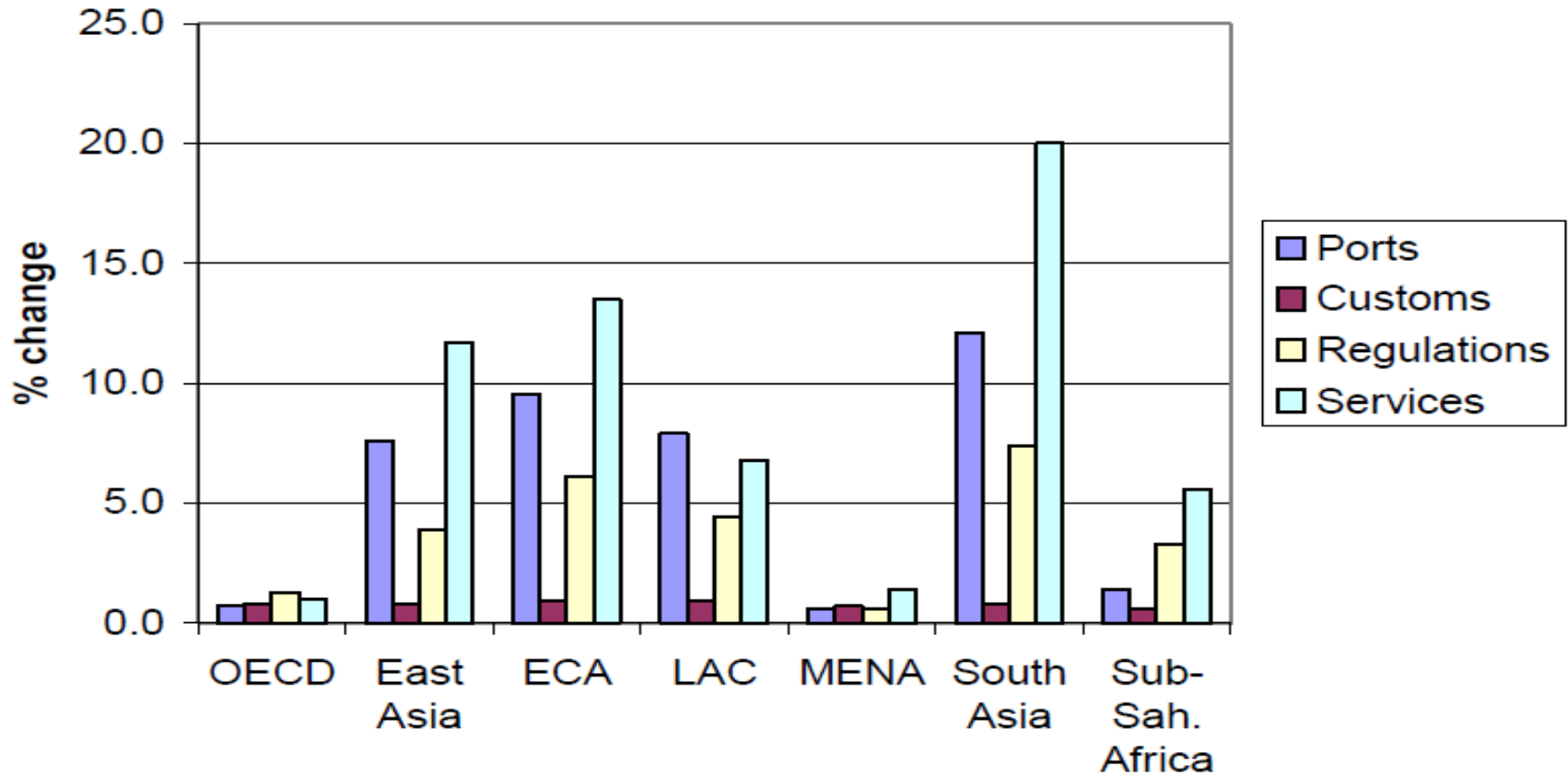
II. TRADE AND INSTITUTIONS: DEFINITION OF KEY TERMS

- Trade Facilitation (TF) defined in the narrow sense used within CAREC: at-the-border procedures and any direct infrastructure of border-points, excluding the hard infrastructure like transport.
- Institutional Environment (IE) defined as all the other behind-the-border elements affecting the business environment: e.g. opening business, licensing, investor protection, contract enforcement, etc.

II. TRADE AND INSTITUTIONS: INTERNATIONAL EXPERIENCE (1)

- Institutions and trade facilitation at least as important as traditional trade restrictions
 - Estimates show improving institutional quality halfway to world average increases trade by 10-20% in different regions. (See Fig. 5)
- Nevertheless, traditional restrictions still high (NTM's, MAXTAR) liberalization gives significant trade expansion.
- Asian countries: large variation in the quality of both institutional environment and trade facilitation, hence the effects vary considerably for different countries.
- East Asian exporters, incl. PRC, achieved best rankings globally on IE and TF measures; others, including Central Asian, high levels of institutional impediments.

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



III. QUALITY OF INSTITUTIONS

CAREC COUNTRIES

- Notwithstanding some imprecision of measurements for institutions, they have become well known and frequently relied upon by foreign investors. The Annual Doing Business News Releases and list of “Top 10 Reformers” are particularly popular.
- CAREC countries have improved institutional quality (Fig. 4)
 - Many designated by World Bank among the top 10 performers in some years.
- Despite progress, CAREC countries still ranked only in middle of DC range for Ease of Doing Business and Logistics Performance, and lower on Governance Indicators. (Tab. 2)

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

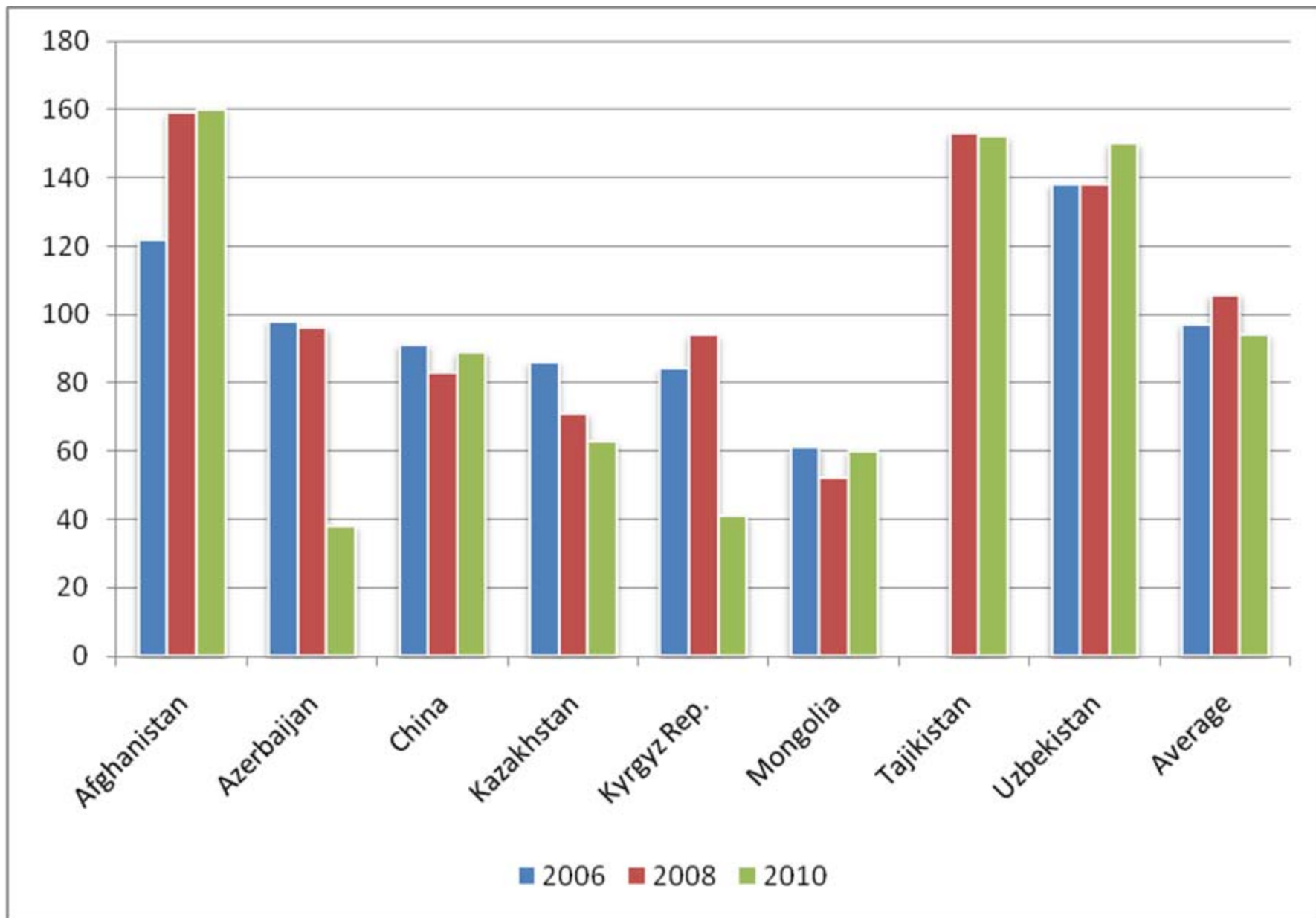


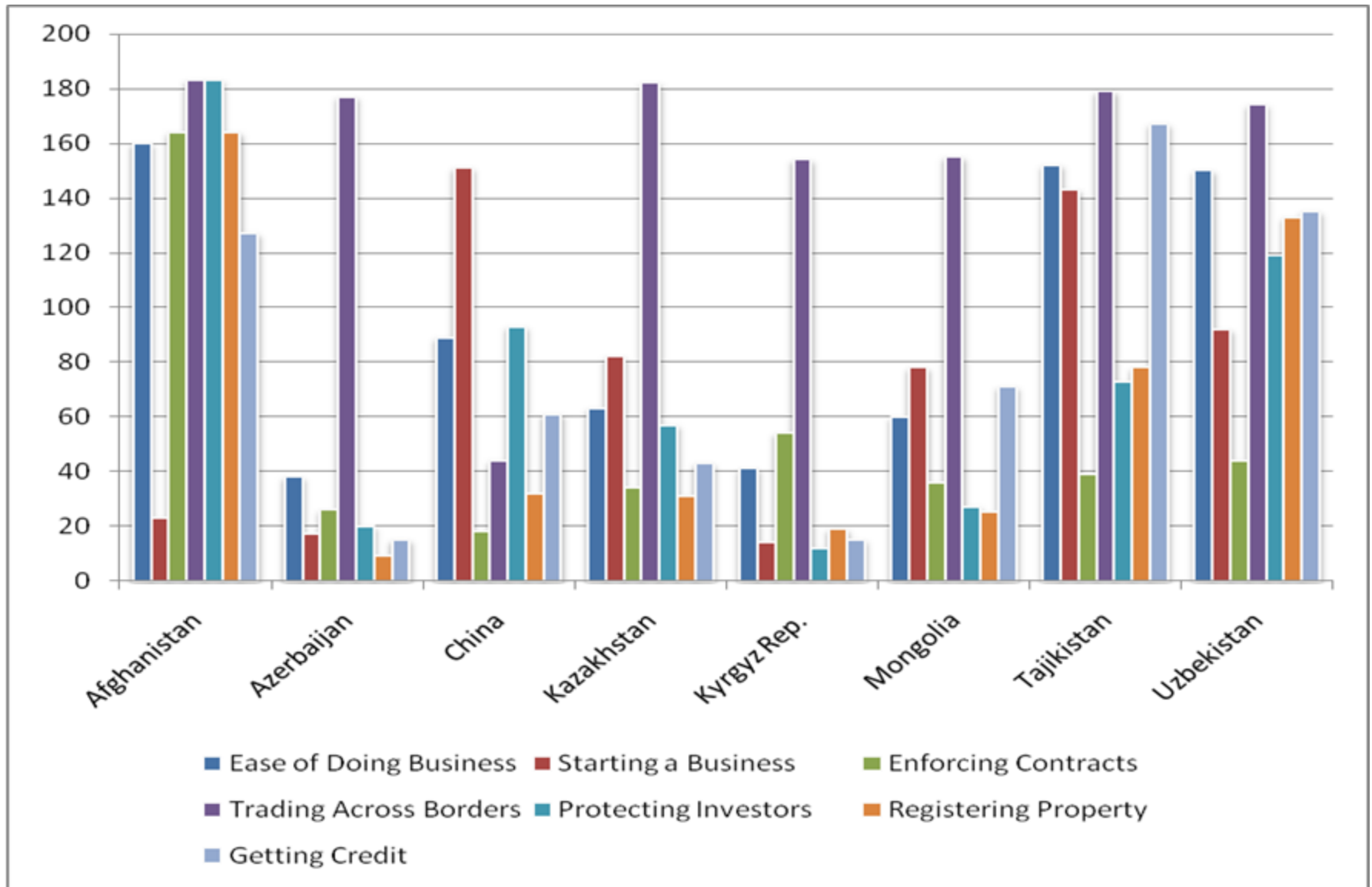
Table 2: Overview Of Institutional Indicators Latest Years: CAREC And Comparators

	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
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

IV. MAIN DIRECTIONS FOR CAREC POLICY ON IE AND TF

- Estimates: Asia could increase exports by nearly 30 percent by improving IE to OECD levels. The effect for CAREC countries likely larger, as indicators are lower.
- Indicators on Trading Across Borders are especially lagging in CAREC countries - with the exception of PRC (Fig. 3).
 - This suggests focus of APIIQ should be on such elements. Other elements, such as protecting investors and getting credit, are also weak in some countries. Thus, the list of priorities for each country should include some measures in these other dimensions.
- Particularly problematic in CAREC countries (PRC excepted) is the long time required for documents preparation (Fig. 3A in paper). 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. Analysis points very specifically to what might be done to improve the situation.

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



IV. SUMMARY

- Recent global studies on trade point to institutional barriers as a major constraint.
- Overview of institutional and trade facilitation conditions in CAREC show considerable opportunities for improvement and hence encouragement of trade expansion.