

**PROPOSED PAPER ON TRADE AND THE INSTITUTIONAL ENVIRONMENT IN CAREC
COUNTRIES**

OUTLINE, EXPLANATORY NOTES, AND ISSUES FOR DISCUSSION

For Discussion at the Eleventh Trade Policy Coordinating Committee (TPCC)
Ulaanbaatar, Oct. 13, 2009

A. Outline

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B. Explanatory Notes and Issues for Discussion

I. Objectives of the Paper

- The paper will identify the key institutional problems that create the greatest impediments to trade expansion in CAREC countries, highlighting common and individual country constraints, and will recommend ways of addressing them, including through a short-term and medium-term action plan.
- Delegates at the eleventh TPCC meeting will express their views on these aims, making suggestions for changes taking into account the constraints of time and resources for the preparation of the draft paper in advance of the twelfth TPCC meeting.

II. Identifying Institutional Impediments to Trade

II.a. The Global Experience

- The intention here is to provide a succinct review of the most relevant literature on the effect of institutions upon trade.
- Some limited references were already noted in the TPSAP. This will be updated and enhanced with a focus on institutions.
- A key reference should be the World Bank’s annual Doing Business Reports, though other available studies would also be included in the review.

II.b. The Asian Experience

- The broader experience of Asia has been widely analyzed by the ADB in many studies and seminars, providing a major source for this part of the paper.¹

II.c. Available Evidence for CAREC Countries

- Statistical indices from data banks from multilateral institutions such as the World Bank Governance, Trade, and Doing Business Indicators; and the EBRD Transition Indicators. An effort will be made to utilize country studies as

¹ One excellent example –which incidentally may also provide a demonstration effect- is the 2008 ADB Report “Evaluation of the Transport and Trade Facilitation in the Greater Mekong Subregion-Time to Shift Gears.” One illustrative citation from that report is useful already at this stage: “While the stress on physical connectivity has been adequate, the related “software” comprising harmonization of regulations, procedures and standards has been slow to develop.”

available. These indicators are very detailed (the World Bank Governance Indicators have six categories based on 194 indicators) but they generally measure the result of a policy environment, and only sometimes actual policy measures in place.²

- The above statistical data may estimate for each CAREC country its relative position in a global comparison, but it does not automatically point to what are the priority impediments or the feasibility of improving the institutional environment. Such an assessment would require identification by individual country authorities of what they consider the key impediments. This input will be very critical to ensuring that the paper's analysis and recommendations for actions be relevant and in accordance with the important CAREC principle established by Ministers of "pragmatism with results."

III. The Integration Between Trade Facilitation and Trade Enhancing Institutional Improvements

- Paragraph 1 of the TPSAP underlines the need to recognize overlaps and complementarities between trade policy, institutions, and trade facilitation, which necessitates close coordination between the TPCC and the Customs Cooperation Committee.
- Recent investigation of these inter-relations has begun to provide possible demarcation lines. The term "soft infrastructure" is defined in a 2008 ADB Institute paper by Douglas Brooks as including "adequate credit and foreign exchange at reasonable rates, a reliable system of legal recourse, effective competition policy, and the capacity of human capital to process (international) exchanges."³ This is a possible definition for coverage of institutional impediments to trade in the proposed paper. The three elements noted by Brooks can be potentially measured more concretely by the multilateral institutions data banks. For example adequate credit availability is captured in Doing Business by an index of depth of credit information available and strength of legal rights. Legal recourse is captured by measures of the number of steps, time and cost of enforcing a contract.
- An even narrower definition allowing demarcation between trade facilitation and institutional impediments to trade might also be as follows: trade facilitation

² In Doing Business Indicators, for example, the category "Trade Across Borders" includes number of days to export or import; the number of documents required to export or import; estimated cost per container. Similarly for the category "Enforcing Contracts" the report measures the number of procedures, the number of days needed, and the estimated cost as percent of claim.

³ Douglas Brooks, "Linking Asia's Trade, Logistics, and Infrastructure", ADB Institute, Working Paper No.128, December, 2008. See also footnote 2 in the same spirit.

generally deals with instruments and institutions that are directly involved in the process of trade, e.g. border clearance procedures and wait-times. Institutional impediments to trade might be usefully considered as the instruments and institutions that indirectly affect the ease of trading; e.g. the reliability of legal system, transparent access to export or import credit, expertise on international marketing. As these concepts do not yet have fixed definitions in the economic literature, it may be worth discussing in detail what is most useful for the proposed paper.

IV. A Flexible Action Plan for Institutional Improvements

- As already noted, recommended actions need to be meaningful to provide results over a medium-term horizon, but they must also be feasible—based on a pragmatic recognition of individual country circumstances.
- To ensure that this principle is met, the inputs from individual countries noted under II.c. identifying their perceived key impediments and priorities will be a critical input.
- Realistically, the number of specific actions for each country should not be very large, though it is expected that “meaningful results” imply this be more than a very small handful. This is clearly another very important point for the discussion at the eleventh TPCC.

V. Procedures for Monitoring Implementation

- The bullet points under section IV apply equally here.
- The general approach adopted in the TPSAP could serve as a model, subject to discussion by delegates.
- It might be appropriate to discuss monitoring only generally at the eleventh TPCC, and develop fuller details at the twelfth TPCC.