Executive Summary

SEAN DOHERTY
MARGARETA DRZENIEK HANOUZ
RONALD PHILIP
World Economic Forum

The international trade agenda has seen many shifts over the last several years. After the 2008 slump in global trade, international trade rebounded with and among emerging markets faster than in other economies, confirming the move in economic activity away from the developed world. At the same time, events such as the Japanese tsunami in 2011 highlighted the continued international fragmentation of supply chains. Increasingly, goods are produced across a number of countries within the same company or groups of companies, and countries specialize in tasks rather than products. With the Doha Development Agenda at an impasse, these developments raise the importance of practical measures that countries can take to enable trade and better participate in the global division of labor, with the ultimate aim of supporting economic growth.

Since its introduction in 2008, *The Enabling Trade Report* has become a widely used reference, forming part of the toolbox of many countries in their efforts to increase trade and helping companies with their investment decisions. The *Report* is the basis for many high-level public-private dialogues facilitated around the world each year by the World Economic Forum. These dialogues focus on practical steps that can be taken by both governments and the private sector to overcome particular trade barriers in a country or region.

The Enabling Trade Index (ETI) was developed within the context of the World Economic Forum's Supply Chain and Transportation Industry Partnership program and was first published in *The Global Enabling Trade Report 2008.* A number of Data Partners are collaborating in this effort: the Global Express Association (GEA), the International Air Transport Association (IATA), the International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD), the World Bank, the World Customs Organization (WCO), and the World Trade Organization (WTO). We have also received significant input from companies that are part of the Supply Chain and Transportation Industry Partnership, namely A.P. Möller Maersk, Agility, Brightstar, Deutsche Post DHL, DNB Nor, FedEx, the Panama Canal Authority, Stena, Swiss International Air Lines, Transnet, UPS, Volkswagen, and AB Volvo.

The ETI measures the extent to which individual economies have developed *institutions, policies, and services facilitating the free flow of goods over borders and to destination.* The structure of the Index reflects the main enablers of trade, breaking them into four overall issue areas that are captured in subindexes A, B, C, and D and nine pillars that are attributed to the subindexes as follows:

A. The *market access subindex* measures the extent to which the policy framework of the country welcomes foreign goods into the country and enables access to foreign markets for its exporters. It includes the following pillar:

   Pillar 1: Domestic and foreign market access

B. The *border administration subindex* assesses the extent to which the administration at the border facilitates the entry and exit of goods through the following pillars:

   Pillar 2: Efficiency of customs administration
   Pillar 3: Efficiency of import-export procedures
   Pillar 4: Transparency of border administration

C. The *transport and communications infrastructure subindex* takes into account whether the country has in place the transport and communications infrastructure necessary to facilitate the movement of goods within the country and across the border through the following pillars:

   Pillar 5: Availability and quality of transport infrastructure
   Pillar 6: Availability and quality of transport services
   Pillar 7: Availability and use of ICTs

D. The *business environment subindex* looks at the quality of governance as well as at the overarching regulatory and security environment impacting the business of importers and exporters active in the country through the following pillars:

   Pillar 8: Regulatory environment
   Pillar 9: Physical security

Each of these pillars is made up of a number of individual variables. The dataset includes both hard data and survey data from the World Economic Forum's Executive Opinion Survey (the Survey). The hard data were obtained from publicly available sources and international organizations active in the area of trade (for example, IATA, the ITC, ITU, UNCTAD, the UN, and the World Bank). The Survey is carried out annually by the World Economic Forum in all economies covered by our research. It captures the views of top business executives on the business environment and provides unique data on many qualitative aspects of the broader business environment, including a number of specific issues related to trade.

THE ENABLING TRADE INDEX 2012 RANKINGS

The rankings from the ETI are shown in Table 1, which compares the 2012 rankings with those from the 2010 edition.

As in previous years, the top 10 of the ETI 2012 continues to be dominated by relatively small, open economies for which trade is key to achieving efficiency because their domestic markets are small. Singapore continues to lead the way by a large, and widening, margin over second-ranked Hong Kong SAR. Both economies deliver a strong performance across all the components of the Index with open trade policies, excellent infrastructure, well-functioning border administration, and a business environment that is conducive to trade and investment. As in the previous edition, two Nordic economies—Denmark and Sweden—occupy the 3rd and 4th position, respectively, based on their strong business environments, efficient border administrations, and highly developed infrastructures. Further down in the top 10 we observe some movement as New Zealand continues its upward trend, gaining one position to reach 5th place, while Finland and the Netherlands improve to occupy the 6th and 7th position, respectively. Switzerland, Canada, and Luxembourg round up the top 10 rankings in this year's ETI.

Asia and the Pacific is host to some of the fastest-growing and largest economies worldwide. Many of the countries in the region have greatly benefited from trade and made it a central part of their growth strategy. The ETI shows a wide gap between frontrunners Singapore, Hong Kong, and New Zealand and the rest of the region. Many agree that Asia has yet to fully leverage the opportunities offered by trade; this situation is reflected in the results of the ETI. Except for those in the top 10 and Australia (17th), countries stay outside the top 20, with China at 56th position and India at a low 100th. The key challenge for both these countries is to liberalize restrictive trade policies. Thailand (57th), Indonesia (58th), and the Philippines have benefitted from trade liberalization within the Association of Southeast Asian Nations (ASEAN) and improved in the rankings this year.

A number countries within the European Union (EU) rank within the top 20 of the ETI rankings, reflecting their well-developed infrastructures, widely available transport services, and efficient border administrations. However, their trade performance is constrained by the overly restrictive common trade policy of the European Union. The United States ranks 23rd this year, continuing its downward trend—the result of a deteriorating infrastructure and a less conducive regulatory environment. The Russian Federation, at 112th place, ranks below other large emerging markets such as Brazil, India, and China. The country would benefit from a freer trade policy, more efficient border administration, and a less burdensome regulatory environment.

The average performance of the countries in Latin America and the Caribbean places most of them in the middle of the ETI rankings, with individual countries spreading across the entire ETI sample. As highlighted in past editions of the *Report,* the region's outstanding domestic and foreign market access continuous to be the main strength of many countries. However, the overall business environment remains as an area for improvement, particularly in terms of corruption and the lack of physical security, which impose high costs on exporting and importing enterprises. As in previous years, Chile is an exception in the region, leading the regional rankings at 14th place. Costa Rica, another small, open economy, comes in at a good 43rd position. The larger economies from the region perform less well, with Mexico occupying 65th place and Brazil 84th.

The Middle East and North African region maintains a high degree of diversity in terms of enabling trade, with the United Arab Emirates entering the top 20 while Algeria remains at the bottom of the rankings, at 120th. In many Gulf countries, such as Saudi Arabia at 27th, the environment is favorable to trade because trade policies are open, border administration is efficient, and infrastructure is well developed. North African economies, led by Tunisia at 44th, face a different set of challenges, with trade policies and business environments that are less conducive to trade and a need to upgrade infrastructure.

Sub-Saharan African countries enable trade to different degrees, and the trade liberalization efforts of recent decades have not been sufficient to significantly improve the trade performance of the region as a whole. Many African countries have liberalized trade and now enjoy important preferences in target markets, but major improvements in trade facilitation have not yet been achieved. As a result, it is still considerably more expensive to trade with Africa than with other regions, and, in many cases, the cost of trading is a more important obstacle to trade development than trade policies. The exception to the rule is Mauritius, at 36th place, which benefits from one of the most open trade policies globally. South Africa occupies the 63rd position, which reflects its well-developed infrastructure and efficient logistics services.

This year the *Report* introduces for each country a set of direct measurements of the factors seen as the most problematic for exporting and importing, based on a survey of business executives. These results, which are reported in the Country/Economy Profiles in Part 2 of this *Report*, show that, globally, tariff and non-tariff barriers, along with burdensome customs administration, remain the most important obstacles for importing. Exporting is hindered primarily by the difficulty of identifying markets and buyers and by insufficient access to trade finance.

EXPLORING ISSUES OF ENABLING TRADE

In addition to the Index rankings and the related analysis, the *Report* contains a number of chapter contributions that focus on issues relevant to the current trading environment. The chapters range from discussions of how the globalization of value chains impacts measurement of trade and overall trade policies to considerations of logistics investments, customs

Table 1: The Enabling Trade Index 2012 rankings and 2010 comparison

	ETI 2012		ETI 2010
Country/Economy	Rank	Score	Rank*
Singapore	1	6.14	1
Hong Kong SAR	2	5.67	2
Denmark	3	5.41	3
Sweden	4	5.39	4
New Zealand	5	5.34	6
Finland	6	5.34	12
Netherlands	7	5.32	10
Switzerland	8	5.29	5
Canada	9	5.22	8
Luxembourg	10	5.20	9
United Kingdom	11	5.18	17
Norway	12	5.17	7
Germany	13	5.13	13
Chile	14	5.12	18
Austria	15	5.12	14
Iceland	16	5.08	11
Australia	17	5.08	15
Japan	18	5.08	25
United Arab Emirates	19	5.07	16
France	20	5.03	20
Belgium	21	4.96	24
Ireland	22	4.96	21
United States	23	4.90	19
Malaysia	24	4.90	30
Oman	25	4.86	29
Estonia	26	4.85	23
Saudi Arabia	27	4.84	40
Israel	28	4.82	26
Taiwan, China	29	4.81	28
Bahrain	30	4.80	22
Spain	31	4.79	32
Qatar	32	4.74	34
Slovenia	33	4.65	35
Korea, Rep.	34	4.65	27
Portugal	35	4.63	36
Mauritius	36	4.62	33
Cyprus	37	4.61	31
Georgia	38	4.58	37
Montenegro	39	4.46	43
Uruguay	40	4.44	50
Czech Republic	41	4.42	42
Jordan	42	4.42	39
Costa Rica	43	4.41	44
Tunisia	44	4.39	38
Lithuania	45	4.39	41
Croatia	46	4.39	45
Hungary	47	4.39	49
Poland	48	4.37	58
Albania	49	4.36	59
Italy	50	4.36	51
Rwanda	51	4.35	n/a
Latvia	52	4.31	46
Peru	53	4.31	63
Botswana	54	4.31	53
Slovak Republic	55	4.29	47
China	56	4.22	48
Thailand	57	4.21	60
Indonesia	58	4.19	68
Armenia	59	4.19	52
Panama	60	4.16	61
Macedonia, FYR	61	4.13	56
Turkey	62	4.13	62
South Africa	63	4.10	72
Morocco	64	4.08	75
Mexico	65	4.08	64
Kuwait	66	4.07	65
Greece	67	4.07	55
Vietnam	68	4.02	71
Romania	69	4.02	54
El Salvador	70	3.99	57
Serbia	71	3.97	67
Philippines	72	3.96	92
Sri Lanka	73	3.95	99
Bulgaria	74	3.93	78
Namibia	75	3.92	70
Moldova	76	3.92	n/a
Guatemala	77	3.90	69
Honduras	78	3.89	66
Jamaica	79	3.89	74
Bosnia and Herzegovina	80	3.87	80
Azerbaijan	81	3.85	77
Nicaragua	82	3.83	79
Ecuador	83	3.83	89
Brazil	84	3.79	87
Malawi	85	3.79	83
Ukraine	86	3.79	81
Dominican Republic	87	3.78	73
Zambia	88	3.78	85
Colombia	89	3.78	91
Egypt	90	3.78	76
Gambia, The	91	3.74	82
Senegal	92	3.72	90
Lebanon	93	3.71	n/a
Tanzania	94	3.69	97
Bolivia	95	3.68	98
Argentina	96	3.68	95
Mozambique	97	3.65	93
Uganda	98	3.64	94
Ghana	99	3.59	96
India	100	3.55	84
Paraguay	101	3.53	103
Cambodia	102	3.52	102
Kenya	103	3.52	105
Guyana	104	3.52	109
Kazakhstan	105	3.50	88
Ethiopia	106	3.49	107
Madagascar	107	3.48	86
Syria	108	3.47	104
Bangladesh	109	3.46	113
Tajikistan	110	3.45	108
Kyrgyz Republic	111	3.45	100
Russian Federation	112	3.41	114
Lesotho	113	3.41	101
Mongolia	114	3.40	116
Benin	115	3.39	106
Pakistan	116	3.39	112
Iran, Islamic Rep.	117	3.31	n/a
Cameroon	118	3.28	115
Yemen	119	3.25	n/a
Algeria	120	3.22	119
Mali	121	3.18	111
Burkina Faso	122	3.15	110
Nigeria	123	3.13	120
Nepal	124	3.07	118
Mauritania	125	3.06	117
Côte d'Ivoire	126	3.02	123
Angola	127	3.01	n/a
Haiti	128	2.97	n/a
Zimbabwe	129	2.96	122
Venezuela	130	2.95	121
Burundi	131	2.95	125
Chad	132	2.63	124

*The 2010 rank is out of 125 countries. Seven new countries were added to the 2012 Index: Angola, Haiti, Iran, Lebanon, Moldova, Rwanda, and Yemen.

administration, the state of the merchant fleet, and a country case study of Costa Rica.

Chapter 1.2, "The Rise of Global Supply Chains: Implications for Global Trade," summarizes recent work by the Global Agenda Council (GAC) on the Global Trade System, a group of experts formed by the World Economic Forum. The GAC analyzes the consequences of the rise of global value chains that will require new approaches, such as adjustments to ways that trade flows are measured and changes in global trade rules and in the economic and trade policies of developing countries. The authors note that governments clearly need to recognize that exports are only part of the development story. It is important for policymakers to develop better measures of trade flows net of intermediate imports, and more generally to develop a better appreciation of how the national economy fits into global production chains. According to GAC members, a failure to do so could lead to inaccurate policy conclusions about the importance of bilateral trade imbalances, to significant underestimates of the cost of protection, and to a failure to appreciate the importance of bilateral or regional trading relationships. Furthermore, the existence of large and growing trade in intermediates, which is associated with foreign direct investment (FDI) and the globalization of production, greatly raises the stakes for countries to have open and predictable trade and investment regimes, including efficient logistics. The authors conclude that the rise of value chains will require the WTO to focus more strongly on pursuing plurilateral negotiations. At the same time, preferential trading agreements will need to adjust negotiation approaches toward a reduction in transaction costs, rather than erecting new barriers to trade.

In Chapter 1.3, "The Global Value Chain, the Enterprise-Based Operating Model, and Challenges to the Sovereign-Based Economic Measurement System," Gene Huang of FedEx Corporation argues that there is a mismatch between sovereign-based economic activity measurement systems and globalized operating models. A new method of measurement is needed to facilitate access to opportunity, to highlight areas of risk, and to avoid unintended policy consequences. The author notes that we tend to underestimate the level of global integration, highlighting the fact that 60 percent of global trade is in intermediate goods and intra-firm trade makes up 30 percent of world trade. Distribution systems are built around global value flows directed at the customer, so national income accounting can be only imprecise. However, accounting must follow innovation. We currently face various difficulties: trade credits are created where profits are registered, which is often different than where the trade is taking place; the impact of time is under-measured; non-equity models of foreign investment through contract manufacturing, outsourcing, and licensing are not recorded in FDI investments; massive transfers of intangible assets and knowledge are occurring without appropriate records; and measures of gross goods flow distort the picture of bilateral relationships. To conclude, the author calls for the measurement of value-added in trade statistics along with more direct measurement of cross-border linkages, knowledge infusion, and intangibles trade to better illustrate where nations have real advantages and challenges.

In Chapter 1.4, "Logistics Investment and Trade Growth: The Need for Better Analytics," Donald Ratliff and Amar Ramudhin from the Supply Chain and Logistics Institute at the Georgia Institute of Technology make the case for a new generation of trade data. Traditional data collections were designed to support customs functions and are no longer appropriate in a world of global supply chains. Trade-supporting logistics investment decisions are made by public entities, by private enterprises for public use in the sense that these decisions support services offered on the market, and for specific enterprises. In all cases, decision making could be dramatically improved through the availability of better data. Excellent data exist in proprietary systems: geographic information systems, origin and destination databases for goods, logistical properties, service schedules, and so forth. Given the billions of dollars of public and private investment and return at stake, an effort to develop new systems for data exchange and analysis would be worthwhile. The authors review trends in trade flows revealed by currently available data and their influence on investment decisions. Their work highlights in particular the growth of intra-Asia and Asia-Europe trade and the implications of that growth for investment. However, they caution against relying too heavily on trend data by illustrating the effect of the 2009 downturn on trade, and conclude that modeling scenarios with better data would improve risk management in investment for trade.

In Chapter 1.5, "Illicit Trade, Supply Chain Integrity, and Technology," Justin Picard of Advanced Track & Trace and Carlos A. Alvarenga of Accenture point out that one of the principal concerns of supply chain managers is, increasingly, supply chain integrity. For decades the complexity and opacity of global supply chains meant that undesirable activities could often be hidden or ignored. A convergence of security, consumer activism, and corporate interests, together with new technologies, is leading to greater traceability and transparency. Retailers, logistics companies, and suppliers are all held increasingly accountable for unethical practices and illegal goods in the supply chain. Incentives to infiltrate and defend supply chains are ever-present. Increasingly commoditized production means that high margins are captured through innovation, brand, and ethical business practices. Security concerns increasingly focus on securing the entire chain, as evidenced by the US National Strategy for Global Supply Chain Security, which aims to enhance "the integrity of goods as they move through the global supply chain." Beyond regulatory compliance, the private sector has an interest in demonstrating oversight of supply chains to prevent overreaction by security agencies to cases of illicit trade. Product tracking and authentication technologies need to progress faster than fraudsters and counterfeiters can catch up. There are numerous new products on the market that work with mobile technologies to provide ubiquitous digital footprinting. The authors conclude that supply chain risk management must be able to answer four questions concerning product-level supply chain integrity: Does this product come from where I think it did? Is it made the way I think it is? Did it travel the way I think it did? Is it going to do what I think it will?

In Chapter 1.6, "Business Perspectives on Obstacles to Trade: Evidence from New Survey Data," Julia Spies from the ITC analyzes how non-tariff measures (NTMs) affect trade based on the most recent enterprise-level survey data. The analysis confirms that NTMs represent obstacles to trade and therefore influence market access conditions. In countries that trade less, a higher share of firms reports burdensome NTMs than in countries that trade more. Differences between sectors are also considerable, with agricultural firms among the most seriously affected by obstructive NTMs. Evidence from the ITC's recent firm-level surveys on NTMs suggests, however, that not all firms in the same sector are affected to the same extent. Even within a sector and a country, substantial differences persist. Rather, a firm's perception of its exposure to burdensome NTMs is at least partly influenced by its particular situation. Whether a firm produces is strongly correlated with the incidence of NTMs. Furthermore, there is some evidence that the smallest and the largest firms are more affected by NTMs than medium-sized companies. The results imply that policymakers who would like to successfully reduce the incidence of NTMs should opt for approaches aimed at reducing the impact of trade obstacles that fit different firm types rather than for sector- or countrywide measures.

In Chapter 1.7, "Expansion of Customs-Business Partnerships in the 21st Century," Kunio Mikuriya of the WCO makes the case that customs authorities in both developed and developing countries are increasingly recognizing that productive interaction with business is essential for effective and efficient customs administrations, which in turn can lead to increased trade and economic development. Effective business-customs partnerships can drive improved trade security, effective enforcement, prompt clearances, lower transaction costs, and transparency and predictability of customs. The author undertakes a review of international instruments and tools related to customs-business partnerships, highlights key activities of the WCO intended to strengthen the relationship of customs with the business community, and presents several lessons learned from customs administrations. In many countries, the private sector plays an important role as a stakeholder, a partner, and a service provider, and customs is able to benefit from the private sector's involvement through consultation, collaboration, and contracting. The author highlights several successful examples of consultation mechanisms that have been institutionalized, including in the European Union and Peru. Collaboration through information-sharing and voluntary compliance can help improve trade security and customs enforcement in particular. Public-private partnerships in electronic single-window systems are increasingly prevalent. Contracting specific activities to the private sector provides customs administrations with more time and resources to focus on core activities as well as allowing customs to gain access to outside expertise. In conclusion, customs-business partnerships have expanded and evolved to a new phase, with more proactive engagement of the private sector in traditional customs work so as to share the responsibility with the public sector. The author argues that customs authorities should work with business in order to achieve their common and respective goals, introducing performance indicators to regularly monitor outputs and outcomes to serve as feedback to improve the commitment. With diligent work, the author believes there is an opportunity for the business perception of customs to be improved. This belief is reflected in improvements in business perception data, including those in the ETI.

In Chapter 1.8, "The Merchant Fleet: A Facilitator of World Trade," Hans Oust Heiberg of DNB Bank ASA analyzes the state of the world merchant fleet to explain the industry dynamics at work and to consider how shipping costs and complexity can work as potential trade barriers. The chapter opens with a brief overview of world trade and the cost of seaborne trade, before delving into an analysis of the opportunities to be found in terms of coping with three key issues: increasing fuel costs, an expected decade of environmental regulation, and fleet renewal. The author argues that continued high oil prices and requirements for cleaner fuel are expected to place an upward pressure on transportation cost. More fuel-efficient tonnage will ease this pressure somewhat over time. However, because of capital constraints and low earnings, the renewal of the fleet in any meaningful way is likely to take time. The current low earnings rates, coupled with high scrap prices, will increase demolition to new peaks. A reduction in speed will further reduce the availability of tonnage and put upward pressure on rates. A bit further out in time, tonnage availability is likely to reduce somewhat because of ships going to shipyards to be upgraded with emissions and ballast water treatment systems. Once financing is more available, tonnage renewal will accelerate. Clarity on emissions technology and improved fuel efficiency will also be catalysts for accelerated renewal, and a pattern of a two-tier merchant fleet will evolve. The author expects the actual cost of the shipping assets to be lower than it was in the last decade. Operating cost inflation is not expected to be high. Thus the cost of the ship itself is not expected to put upward pressure on the cost of transportation unless there is a shortage of tonnage. For the dry cargo business, better infrastructure around ports will reduce the cost of transportation because ships will wait less time for cargo, thus making the fleet more efficient. These factors—increased transportation costs and increased complexity—could serve as significant trade barriers in the future.

In Chapter 1.9, "Benefits of Trade Facilitation: The Case of Costa Rica," Carlos Grau Tanner of the GEA reviews how Costa Rica has benefitted from improved trade facilitation. According to the author, the case of Costa Rica supports the findings of numerous academic studies that demonstrate the benefits of trade facilitation for increased trade, and emphasizes that these benefits flow to all players. Costa Rica has successfully taken advantage of its inclusion into global value chains, and improved trade facilitation measures have significantly contributed to this outcome. Customs revenues have grown manifold; the employment situation has also improved, both in quantity and quality, as have exports. This in turn led to further increases in foreign investment. The country, its citizens, and its corporations—both domestic and international—all gained in the process. This case study also shows, however, that even in the presence of strong and well-executed policies, setbacks can occur and facilitating trade is a process that requires constant improvement and continuous policy attention. The author closes by saying that the case of Costa Rica presents a very strong, practical argument for further multilateral trade facilitation measures, such as those discussed under the aegis of the WTO.

PART 2: COUNTRY/ECONOMY PROFILES

Part 2 presents comprehensive profiles for each of the 132 economies in the sample.

CONCLUSION

By analyzing issues related to international trade and ranking economies according to the barriers to trade they have in place, *The Global Enabling Trade Report* provides key information on measures that could enable economies to further benefit from trade in a constantly renewing and rapidly changing global environment. The *Report* is intended to be a motivator for change and a foundation for dialogue, providing a yardstick of the extent to which economies have in place the factors facilitating the free flow of goods and identifying areas where improvements are most needed.