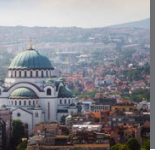
The Economist INTELLIGENCE UNIT

The Global Illicit Trade Environment Index

A report by The Economist Intelligence Unit

SERBIA, BOSNIA AND MONTENEGRO

Commissioned by TRANSNATIONAL ALLIANCE TO COMBAT ILLICIT TRADE TRACIT.ORG



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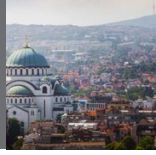

Acknowledgements

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During research for the construction of the Index and in writing this report, the EIU interviewed executives and experts from across the world. Their time and insights are greatly appreciated. They are listed below in alphabetic order by affiliation.

- **Amalija Pavić**, deputy executive director, American Chamber of Commerce, Serbia
- **Saša Ranđelović**, assistant professor, vice dean for finance and international relations, University of Belgrade
- **Ivan Matić**, senior associate, Customs Working Group, PETOŠEVIĆ Group

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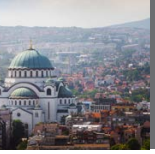

The Global Illicit Trade Environment Index is a measure of the extent to which economies enable (or inhibit) illicit trade through their policies and initiatives to combat illicit trade. The index is built around four main categories, each of which comprise a few indicators. The four categories are government policy, supply and demand, transparency and trade, and the customs environment. This report is focused on how economies in Serbia, Bosnia and Montenegro score on the index, and delves into which regional economies are taking the most action, and which ones are doing little to address this issue.

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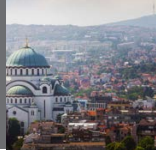

Introduction

Geography, history and political culture (characterised by high levels of corruption) combine in the economies of the former Yugoslavia (and the Balkans in general) to create a range of issues when it comes to combatting illicit trade. Serbia, for one, lies on a major trade corridor known as the Balkan route,[1] which is used by criminal groups for various activities, including human trafficking and the trafficking of drugs coming from Asia and South America. Montenegro's ports are similarly used as transit points for the unloading and reloading of illicit cargo destined for Central and Western Europe. Bosnia's porous borders with the former two economies, as well as with neighbouring Croatia, enable easy transit from Eastern Europe and the Balkans region to economies in Western Europe. This could be made worse by the adoption of a Visa Liberalisation Agreement between the European Union's (EU) Schengen zone and Kosovo (which lies in an area considered by Serbia to be vulnerable to trafficking), expected by the end of the year.[2,3]

Compounding the problem, the disintegration of Yugoslavia in the 1990s, and the accompanying conflicts, is thought to have led to an increased risk of terrorism in the region – with an increase in Islamic radicalisation and in nationals of countries and territories in the region joining the so-called Islamic State (IS) as foreign fighters in Syria and Iraq.[4] Ethnic separatist and religious extremist groups are active in some southern regions of Serbia and Kosovo, whose declaration of independence in 2008 was not recognised by Belgrade. These factors lead to increased terrorist financing and thus money laundering. Bosnia's complex and decentralised government structure[5] has also been an obstacle to reforms, and corruption is prevalent in all three economies.

This briefing paper will look at the illicit trade environment in Bosnia, Serbia and Montenegro across the four categories of the index: government policy, supply and demand, transparency and trade, and the customs environment. It will consider how these economies compare at global and regional levels, as well as looking at some of the details particular to each.

The Global Illicit Trade Environment Index is a tool not to measure the size of the problem, but to better understand underlying vulnerabilities in countries that give rise to illicit trade or fail to inhibit it. While the size of the problem in monetary terms is hard to

1 The original Balkan route through Serbia was officially closed in 2016, following a deal between the EU and Turkey to stem the flow of refugees. However, a new route has since opened, with migrants entering Bosnia from Montenegro and Serbia. See The Irish Times, April 29, 2018, https://www.irishtimes.com/news/world/europe/bosnia-struggles-to-cope-with-migrants-as-balkan-route-takes-a-new-turn-1.3478200
2 https://www.esiweb.org/pdf/White%20List%20Project%20Paper%20-%20Roadmap%20Kosovo.pdf
3 https://www.schengenvisainfo.com/kosovo-pm-visa-liberalization-by-the-end-of-the-year
4 FATF statement, 23 February 2018, https://www.knowyourcountry.com/serbia1111
5 Bosnia comprises two entities: the Federation of Bosnia and Herzegovina, and Republika Srpska. Formally part of both entities is the Brčko District, a multi-ethnic self-governing administrative unit. It has a tripartite presidency, with each member elected by their own ethnic constituency. See The Guardian, 8 October 2014, https://www.theguardian.com/news/datablog/2014/oct/08/bosnia-herzegovina-elections-the-worlds-most-complicated-system-of-government

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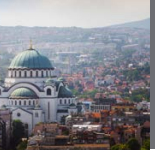

measure, it is clear the sums of illegal money involved are huge, and there is a consensus on the need to curb illicit trade. Through this study, we hope to provide insight on how economies can use the tools at their disposal to create the right environment to do so.

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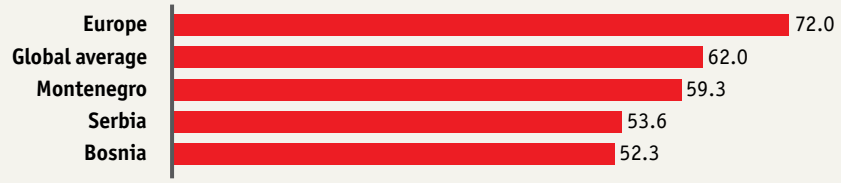
Category #1: Government policy

This category of the index measures the availability of policy and legal approaches to monitoring and preventing illicit trade. It measures the extent to which an economy has entered into 14 conventions related to illicit trade, its compliance with Financial Action Task Force (FATF) money laundering provisions, its stance on IP protection, its approach towards corruption, law enforcement techniques in an economy, the extent of interagency collaboration, and its level of cyber-security preparedness.

When it comes to government policy, all three economies score in the middle range of 50.0 to 70.0 (out of 100). Montenegro registers the best performance of the three, scoring 59.3 points (which puts it 50th in the overall rankings) ahead of Serbia with 53.6 (59th place) and Bosnia with 52.3 points in 61st place. Each of the three economies has ratified up to 12 of the 14 international illicit-trade related conventions measured by the index.[6] All have legislations in place empowering authorities to use the three special investigative techniques under the United Nations Office on Drugs and Crime (UNODC) and the United Nations Convention Against Corruption (UNCAC) guidelines: controlled deliveries, electronic or other forms of surveillance and undercover operations (though in the case of Bosnia, the regulation that covers these techniques is the Criminal Procedure Code of the Republika Srpska, illustrating the problem of the devolved government structure).

Interagency collaboration is another important aspect of the government policy category. All three countries have measures in place to ensure regular co-operation, placing them among the 56 economies in the index that receive the top score on the indicator. In Montenegro, the customs administration and the Intellectual Property Office have regular meetings, and a department of intellectual property (IP) and

Government policy scores: Serbia, Bosnia and Montenegro



6 None of the countries has ratified the Amended Council of Europe / OECD Convention on Mutual Administrative Assistance in Tax Matters and Serbia and Montenegro have not ratified the UNIDROIT Convention on Stolen or Illegally Exported Cultural Objects. Bosnia has not ratified the World Health Organization, Protocol to Eliminate Illicit Trade in Tobacco Products.

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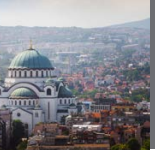

administrative procedures was created in the customs administration in 2009. These two bodies also meet with the market inspectorate (a body responsible for undertaking intellectual property rights (IPR) investigations) and the courts (The Commercial Court in Podgorica is responsible for hearing IPR related cases for legal entities and has several IPR specialised judges, while the basic civil courts in several cities are responsible for natural persons).[7] In Bosnia, the State Investigation and Protection Agency (SIPA) has cooperation with other institutions formally set out in the agency's constitution. Other arrangements that fall outside the scope of the law are covered by mutual agreements between SIPA and those institutions.

According to Amalija Pavić, deputy executive director of the American Chamber of Commerce in Serbia, Serbia has a well-structured mechanism for co-operation—the Coordination Commission for Inspections Oversight, which was established in 2015. Part of the Commission's work is directed at combatting illicit trade by tightening control over the main channels through which illicit goods flow. Yet, lack of a clear division of supervisory authority over internet-enabled illicit trade is an emerging issue, Ms Pavic says. Although the Market Inspectorate oversees the bulk of internet trade, it is unclear which body bears responsibility for the oversight of trade in regulated goods sold over the internet, such as medicines and food. Coordination between different authorities tasked with IP protection, while planned for years, has yet to materialise; recent years have even seen institutional setbacks in areas such as software piracy.[8]

In Serbia, where interagency collaboration is stronger, a Standing Coordination Group for Monitoring the Implementation of the National anti-money laundering (AML)/combatting the financing of terrorism (CFT) Strategy (SCG) was set up in 2015. It has 30 members, representing 19 state authorities, including the Customs Administration and the Criminal Police Directorate within the Ministry of the Interior. The Strategy covers the years 2015-2019. The objectives of the Strategy focus on increasing the co-ordination and co-operation between relevant national authorities, strengthening of preventive measures and repressive actions for countering money laundering (ML) and financing of terrorism (FT), as well as increasing the integrity and capacity of the competent authorities. It has a dedicated action plan for implementation, in which objectives are formulated to enforce co-operation on international level, which reflect the importance of the international aspect in criminality occurring in Serbia. Also, the Law on Organisation and Jurisdiction of State Authorities in the Fight against Organised Crime, Terrorism and Corruption, which came into effect on March 1st 2018, strengthens judiciary and police capacities in financial investigations, increases Serbia's capacity to prosecute organised crime and corruption, expands the use of task forces to target complex financial crimes, and strengthens international co-operation.[9]

7 European Commission Screening Report: Montenegro (Ch.7 – Intellectual Property Law), 2013, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/montenegro/screening_reports/screening_report_montenegro_ch07.pdf

8 The transformation of the Tax Administration, which supervised software legality for legal entities, started by shedding non-core activities including that one, while appropriate institutional substitute has never been found.

9 Measures include the establishment of connecting government officials, who are embedded within certain government bodies, and are directly responsible for liaising with other entities to enable a faster flow of information and enhanced cooperation.

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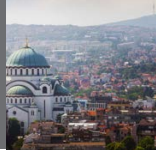

As mentioned in the introduction, Bosnia, Serbia and Montenegro all have issues with corruption, the indicator in this category that is weighted heaviest. Each receives a score of three out of five on the EIU's proprietary corruption indicator, putting them towards the bottom of the overall index. In Bosnia, almost all sectors of the economy suffer from rampant corruption and, in particular, public procurement. Bribery is also widespread in the process of importing and exporting, with customs procedures reported to be burdensome. The more burdensome an economy's customs procedures are, the more "corruption points" are created. This is one reason why, in the customs environment category, economies are rewarded for having higher levels of automation in their customs procedures. While the Criminal Code covers several forms of corruption, such as bribery, it is not effectively enforced and government officials are alleged to engage in corruption with impunity.[10]

In Serbia, too, despite strong political impetus to fight corruption, enforcement and criminal prosecutions are largely ineffective, and the economy's average EIU corruption score is more than a full point above the regional average in Europe.[11] Corruption in the customs administration in Montenegro is considered a serious problem for exporting, while corruption at neighbouring borders only constitutes a minor obstacle for importing. The country has simplified customs regulations and cross-border trading is less time consuming and half as costly as the regional average, though procedures still remain burdensome, which will be addressed in a later section of this report.[12]

In April 2018, Serbia and Montenegro held talks on jointly combatting organised crime.[13] They talked of enhancing judicial and police co-operation and sharing of experiences.[14] This was partly a result of both economies' negotiations to accede to the EU, a process that can serve as a powerful driver for increased dialogue on illicit trade, as well as broader criminal justice reforms.

10 GAN Business anti-corruption portal, Bosnia, https://www.business-anti-corruption.com/country-profiles/bosnia-herzegovina/
11 The scale of the scoring system ranges from zero, which indicates very little corruption, to four, which indicates pervasive corruption. The regional average is 1.78; Serbia's score is 3.
12 GAN Business anti-corruption portal
13 Montenegro comes 90th and Serbia 107th out of 137 economies for perception of organized crime in the World Economic Forum Global Competitiveness Report 2017-2018. Bosnia comes 111th.
14 Independent Balkan News Agency (IBNA)

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Category 2: Supply and demand

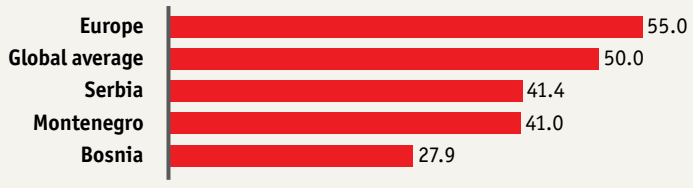
This category measures the domestic environment that encourages or discourages the supply of and demand for illicit goods, including the level corporate taxation and social security burdens, the quality of state institutions, labour market regulations, and perceptions of the extent to which organised crime imposes costs on business.

It is in the area of supply and demand that all three economies perform worst in the index. Bosnia does particularly poorly here, coming in ninth from bottom of the whole index. Montenegro is 19 places ahead in 57th, with Serbia only a place ahead at 56th.

Serbia's geographic location on the Balkan route makes it vulnerable as a transit country for smuggling and trafficking. It is estimated that the size of the "shadow economy," a term used to describe illicit economic activity such as black market transactions and undeclared work, is approximately 33.6% of the country's GDP, and is exacerbated by the widespread use of cash. According to Saša Ranđelović, assistant professor and vice dean for finance and international relations at the University of Belgrade, this is partly due to low tax morale, i.e. low satisfaction with public services, which discourages people from paying taxes that might improve those services.

Money arising from the proceeds of crime, especially those generated by drug trafficking, is generally laundered through real estate purchases, valuable moveable property and investments in securities. This is often achieved by misuse of domestic and foreign (offshore) legal persons together with multiple use of wire transfers. The Financial Action Task Force (FATF) lists Serbia as having "strategic AML deficiencies." The FATF see the region in and around Kosovo as being vulnerable to

Supply and demand scores: Serbia, Bosnia and Montenegro



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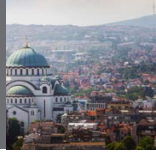

trafficking and smuggling, with the porous boundary creating an active black market for smuggled consumer goods and pirated products.[15]

Montenegro similarly suffers from the popularity of cash when it comes to trafficking. The widespread use of cash, especially for large commercial transactions, creates vulnerabilities in the detection of money laundering, as does the economy's weak financial crimes enforcement. That the economy uses the Euro, but is not a Eurozone member, means that it has no say over monetary policy, which can increase its vulnerability to money laundering.[16]

In Bosnia, which likewise has a cash-based economy, the Brčko District has been identified as a place where various fake goods are available on the open market, according to Ivan Matić, senior associate of the internal customs working group at PETOŠEVIĆ, a network of IP firms specialising in Eastern Europe. As in Serbia, the proceeds of crime are often laundered through real estate. The political environment and complex government structures mean that economic development and foreign direct investment face significant obstacles. The judicial system is weak and many key economic reforms have stalled. As a result, according to the World Bank's Ease of Doing Business Report, Bosnia is the least competitive economy in South-east Europe.

15 FATF statement, 23 February 2018, https://www.knowyourcountry.com/serbia1111
16 US Department of State Money Laundering assessment (INCSR), https://www.knowyourcountry.com/montenegro1111

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Category 3: Transparency and trade

The components of this category are quality of consignment tracking and tracing services; the adoption of Annex D of the Revised Kyoto Convention, which seeks to ensure standardised customs procedures in customs warehouses and free zones; the extent of monitoring and oversight at free trade zones (FTZs); and the extent to which governments report their efforts and share information to fight illicit trade.

Serbia comes out worst of the three economies in the trade and transparency category, and is the poorest performer in the Europe region, although Montenegro does not rank far above it. None of the three economies have acceded to any part of Annex D of the Revised Kyoto Convention,[17] although that doesn't necessarily make them unique in Europe or anywhere else, for that matter—in Europe, only Ukraine has fully acceded to the agreement without reservations and among the 84 economies in the index, only five have. Although Serbia does perform better on tracking and tracing services, ranking 53rd overall, it is behind the other two on FTZ governance, a measure of expert perception of the extent of monitoring and oversight an economy exercises over its FTZs.

Bosnia, for its part, scores better than the other two economies when it comes to international reporting of human trafficking. The indicator measures compliance with minimum standards under the Trafficking Victims Protection Act (TVPA), a law passed by the US Congress in 2000 to combat trafficking worldwide and within US borders.[18] Bosnia is reported as fully complying with the minimum standards for the elimination of trafficking, which are to prohibit and punish severe forms of human trafficking, and to make sustained efforts in eliminating severe forms of trafficking. The government has significantly reduced its use of suspended sentences and now imposes stronger sentences for convicted traffickers. It has also been proactive in identifying potential victims, registering more victims and referring them to non-governmental

Transparency and trade: Serbia, Bosnia and Montenegro

17 There are two chapters within Annex D and economies have the option of either accepting both or one or the other, with caveats.
18 https://www.state.gov/j/tip/laws/

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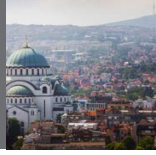

organisations (NGOs). Neither Serbia nor Montenegro fully complies with the minimum standards, though they are reported as making significant efforts to do so.

None of the economies are particularly transparent about drug trafficking or IP infringement, which are the other two sub-indicators that make up the international reporting indicator, although some are better than others. Statistics are not regularly published on government websites in Bosnia or Montenegro, though drug seizure figures are reported to the UNODC, which publishes the data along with those of other economies in its annual World Drug Report. Serbia's Narcotics Prevention and Narcotics Control Service are both making efforts to improve the centralised and standardised system for keeping records and collecting statistical data from its scope of work.[19]

This is an area where there is clear scope for improvement. While data on IP infringement and drug trafficking is not reported routinely by government authorities, individual seizures are reported in press releases (certainly by Serbia in relation to IP infringement) and, as noted above, figures are provided to UNODC for its report. Making detailed figures available directly would be a significant step in the right direction.

19 Ministry of the Interior, Department of Police. tinyurl.com/ybg8ugu4&sa=D&source=hangouts&ust=1529032390410000&usg=AFQjCNFEG_fpvmUINXk5Fq3U0XliHntd0A

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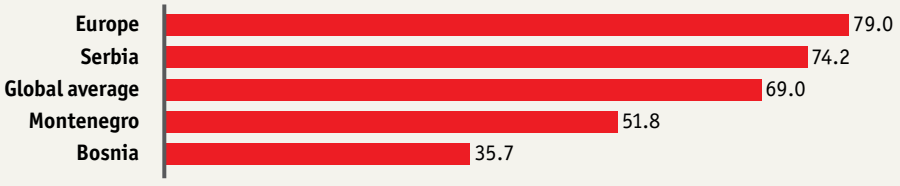
Category #4: Customs environment

This category consists of five indicators, including the percentage of shipments physically inspected by an economy's customs department, the time taken for customs clearance and inspection, the extent of automation of border procedures, the presence of authorised economic operator programmes and the presence of customs recordal systems.

Of the four categories, this is the one in which Serbia achieves its best position (48th), while Montenegro sits at 67th and Bosnia trails in at 76th. All three economies show similar results in terms of automation, receiving half the possible score on the indicator. For Bosnia, it could improve its score in our index by addressing the Organisation for Economic Co-operation and Development's (OECD) recommendations, which include the government completing the development of automated risk management procedures, promoting the availability of full-time automated processing for customs, and improving the quality of telecommunications and IT supporting the automation of border processes. For Montenegro, the recommendations are to improve the capacity of IT systems to exchange data electronically, and to promote the availability of full-time automated processing for customs. The last of these is also the main recommendation for Serbia.[20]

Authorised economic operator (AEO) programmes, another indicator in this category, give certified companies preferential customs processing provided they pass an audit that involves evaluating the integrity of their supply chains and the criminal records of their executives, as well as other criteria, which can vary by country. There is no such programme in Bosnia (although there is a legal basis for its implementation), while Montenegro has a programme under development but has not yet implemented it. Serbia has a fully operational programme compliant with ECC, through which parties mutually recognise AEO status.[21]

Customs environment: Serbia, Bosnia and Montenegro



20 OECD Trade Facilitation Indicators, Country Analysis, http://www.oecd.org/trade/facilitation/indicators.htm
21 http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/facilitation/instruments-and-tools/tools/safe-package/aeo-compendium.pdf?la=en

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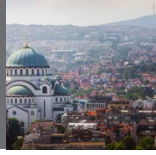

Customs recordal systems allow trademark, copyright or patent owners to register their IP with the local customs agency. The system empowers customs to interdict shipments containing goods that infringe on registered IP without specific request from the IP owner. Here, Serbia again comes out best among the three economies. According to Mr Matić, customs officials in Serbia have been handling IP matters since 2003, with an official IP department established in 2004, and are achieving strong results.[22] Both the other economies also have customs recordal systems, but they were judged to not be as effective. Bosnia, for its part, suffers from a lack of coordination between agencies, with jurisdiction over IP protection split between customs and other law enforcement agencies. In Montenegro, the problem is a shortage in both customs personnel and training.

The customs recordal systems in Serbia and Montenegro function in a similar way to that in the EU under Regulation No. 608/2013.[23] Both require detailed information on genuine goods to be provided with an application, and are valid for 12 months (with a renewal deadline 30 days before expiry in Montenegro and in Serbia). Bosnia has a different system, requiring a notarised statement by the IP holder on covering all costs, which is valid for up to two years. All three economies have simplified procedures available for detention of goods in transit, but Bosnia does not have provisions for internal market monitoring by the trade inspectorate.

In March 2018, Montenegro joined TMview, a European Union Intellectual Property Office (EUIPO) database which provides free access to data on more than 48.4 million trademarks, while Bosnia and Serbia both joined in 2015. As of May 2018, Montenegro has over 15,000 trademarks registered, with over 24,000 for Bosnia and over 52,000 for Serbia.[24]

22 http://www.carina.rs/lat/PoslovnaZajednica/Stranice/MereZaZastituPravaIntelektualneSvojine.aspx
23 https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32013R0608
24 TMview, https://www.tmdn.org/tmview/welcome

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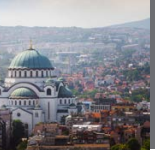

Conclusion

Clearly, there are broad areas in which all three economies could improve, and others in which they face particular challenges. One challenge that all three have in common is in tackling corruption, a problem that also plagues many economies in the Asia-Pacific, Americas, Middle East and Africa. Another common issue is their lack of transparency over drug seizures and IP infringement. The strengthening of public institutions and enforcement would help, too, as would greater inter-agency co-operation. In the case of Bosnia, to accomplish this would necessarily involve greater co-operation between the many devolved government entities that make up the country.

The geographical position of the three economies, on the doorstep of the EU (and with membership aspirations), as well as the history of violence in the region, mean that terrorism is a significant threat. This is closely associated with a wide variety of illicit trade, including arms smuggling and money laundering. Although the Balkan route to the EU was supposedly closed through an EU agreement with Turkey in 2016, leading to refugees being stranded in transit economies like Serbia, a new route has since opened up through Bosnia and there has been a sharp rise in the number of migrants coming through, which provides opportunities and cover for human traffickers.[25]

There are, however, promising signs that each of the three are stepping up their efforts to combat illicit trade. Bosnia has made significant progress in improving its AML/CFT regime and Serbia has agreed on an action plan to work with the Financial Action Task Force (FATF) and MONEYVAL (its regional equivalent) to strengthen the effectiveness of its AML/CFT regime and address any related technical deficiencies. Bosnia also does well in making significant efforts to tackle human trafficking, even if the new migration route described above has put a severe strain on its resources. The international nature of illicit trade makes international co-operation essential, and Serbia's institutional reforms, along with its recent talks with Montenegro about jointly tackling organised crime, are encouraging. It is to be hoped that all three economies (and indeed the wider world) can continue working to tackle this global problem.

25 More than 1,800 migrants entered Bosnia up to the end of April 2018, more than double the number for the whole of the previous year. A joint Bosnian and Croatian police operation that month led to the arrests of 20 suspected people traffickers. See The Irish Times, April 29, 2018, https://www.irishtimes.com/news/world/europe/bosnia-struggles-to-cope-with-migrants-as-balkan-route-takes-a-new-turn-1.3478200

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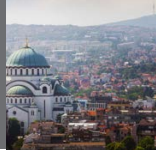

Index methodology

The Global Illicit Trade Environment Index measures the extent to which a country enables illicit trade, either through action or inaction. Based on the findings from an extensive literature, and input from a panel of illicit trade experts, we built the Index around four main categories, each with four to seven indicators. Those categories are:

- Government policy measures the extent to which countries have comprehensive laws targeting illicit trade. The category focuses on legal authority at relevant stakeholders, and considers intellectual property protection, cyber security and money laundering laws.

- Transparency and trade measures the extent to which the government makes itself publicly accountable in its efforts to combat illicit trade. The category also considers best practices in trade governance.

- Supply and demand considers the institutional and economic levers that can stem or amplify illicit trade flows.

- Customs environment measures how effectively a country's customs service manages its dual mandate of trade facilitation while preventing illicit trade.

We constructed the Index in consultation with an expert advisory panel:

- **Julio Bacio Terracino** – deputy head of division at OECD Public Sector Integrity Division, Public Governance Directorate

- **Michael Levi** – professor of criminology at Cardiff University (UK)

- **John M. Sellar** – independent anti-smuggling, fraud, and organised crime consultant

This index follows the illicit trade framework from the OECD Task Force on Countering Illicit Trade (TF-CIT).[1] According to the OECD, illicit trade refers to "trafficking and illegal trades in drugs, arms, persons, toxic waste, natural resources, counterfeit consumer goods, and wildlife." Framework examples transcend industry and geography, including illicit trade's negative impact on health, environment, human vulnerability, terrorism, and government.

Country selection

We selected 84 countries to ensure a representative sample of countries in global supply chains, with particular consideration for illicit trade flows. The selected countries

1 http://www.oecd.org/gov/risk/oecdtaskforceoncounteringillicittrade.htm

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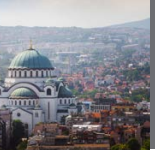

represent 95% of global GDP and 95% of trade flows. When selecting countries, we also made sure to include a balance of countries from all regions and levels of development. Regions are classified primarily based on based on the World Bank's country and lending groups for 2018.[2]

Indicators by type

The Index includes 14 quantitative indicators and six qualitative indicators. There are four broad categories of indicators:

- **EIU country scores**. Our country analysts are expert economists who regularly track the business environment and operational risk for their country of study. Analysts score countries based on answers to a set of specific questions for each topic, ensuring comparability across all 84 countries.

- **International institution scores**. We draw on existing indices or benchmarking exercises from highly reputable international sources, such as the World Bank's Logistics Performance Index and the Organization for Economic Cooperation and Development's Trade Facilitation Indicators.

- P**articipation/availability scores**. Countries receive scores for adoption of illicit trade-related international conventions and participation in trade services, such as Authorised Economic Operator ("trusted trade") programmes.

- **Survey of experts**. Ten indicators are scored based on qualitative desk-based research and interviews with in-country illicit trade experts.

Indicator normalisation

In order to compare data points across countries–as well as to construct aggregate scores for each country–the project team normalised collected data on a scale of zero to 100 using a min-max calculation. While both scores and rankings are relative assessments, scores have more absolute weight as they better capture the distribution of actual outcomes.

Other indicators were normalised as a two, three or four-point rating. For example, "4.5) Customs recordal system" was normalised so that countries without such systems scored 0, countries with partially effective systems scored 50, and countries with effective systems scored 100.

While using normalised values (that is, a score of 0–100) allows for direct comparability with other normalised indicator scores in the 2018 Global Index, we cannot directly compare performance of countries in the 2016 APAC Index and this Index. This is because (a) normalised scores change based on performance of other countries in the sample, and (b) some indicator scoring frameworks and data sources have changed.

2 https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups

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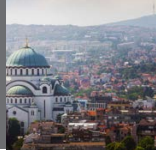

Indicators

Our research team collected data for the Index from December 2017 to February 2018. In addition to scores from The Economist Intelligence Unit, the Index uses publicly available data from international organisations, as well as qualitative analysis based on desk-based research and interviews with in-country experts.

INDICATOR	UNITS	SOURCE	DESCRIPTION	WEIGHTS[3]
1. Government policy				**35%**
1.1 Commitment to illicit trade-related treaties	# of conventions (out of 14)	Various	Extent to which a jurisdiction has entered into 14 different international conventions related to illicit trade.	12%
1.2 Compliance to FATF standards	0-10 score	Basel Institute on Governance AML Index	Extent to which a jurisdiction engages in international judicial cooperation on money laundering and other criminal issues, based on FATF assessments and Basel Institute on Governance analysis.	8%
1.3 Intellectual property protection	1-5 score	EIU Business Environment Ratings/Risk Briefing	Extent to which a high standard of comprehensive IP laws are enforced. (Note: proxy indicator used for 18 countries: Protection of intellectual property rights from EIU Risk briefing.)	12%
1.4 Corruption	1-5 score	EIU Risk Briefing	Extent of corruption among public officials.	28%
1.5 Law enforcement techniques	0-3 score	EIU custom score	The extent to which there is specific legislation empowering authorities use special investigative techniques under UNTOC and UNCAC guidelines: controlled deliveries, intercepting communications and undercover operations	14%
1.6 Interagency collaboration	0-2 score	EIU custom score	The extent to which law enforcement and customs authorities cooperate on efforts to counter illicit trade.	14%
1.7 Cybersecurity preparedness[4]	0-1 score	International Telecommunication Union	The extent to which governments are committed to cybersecurity across five main pillars: legal, technical, organisational, capacity building, and cooperation.	12%
2. Supply and demand				**20%**
2.1 Tax and social security burdens	2-10 score	EIU/US Social Security Administration	Extent of corporate tax and social security contributions of companies.	10%

3 Category weights represent that category's share of the index. Indicator weights represent that indicator's share of its category.
4 ITU does not score Hong Kong or Taiwan. Hong Kong has therefore received China's score. Taiwan has received an average of the scores for four developed East Asian economies: Hong Kong, Japan, Singapore and South Korea.

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2.2 Quality of state institutions	1-5 score	EIU Business Environment Ratings/Risk Briefing	Effectiveness of country's public institutions. (Note: proxy indicator used for 18 countries: Quality of bureaucracy from EIU Risk briefing.)	40%
2.3 Labour market regulations	1-5 score	EIU Business Environment Ratings/Risk Briefing	Our restrictiveness of labour laws rating scores countries between 1 and 5 on the degree of restrictiveness on hiring and firing, with 1 being "very high" and 5 being "very low". (Note: proxy indicator used for 18 countries: Restrictiveness of labour laws from EIU Risk briefing.)	15%
2.4 Perception of organised crime[5]	0-7 score	World Economic Forum/EIU	Perception of the extent to which organised crime (mafia-oriented racketeering, extortion) imposes costs on business.	35%
3. Transparency and trade				**20%**
3.1 Track and trace services[6]	0-5 score	World Bank LPI	Ability to track and trace consignments.	35%
3.2 Adoption of Annex D of Revised Kyoto Convention	0-4 score	World Customs Organization	Adoption of Annex D of Revised Kyoto Convention.	25%
3.3 FTZ governance	0-2 score	EIU custom score	Extent to which countries establish customs offices and authorise inspections of goods in transit in all FTZs.	25%
3.4 International reporting	0-6 score	EIU custom score	The extent to which the government reports on its efforts to counter human trafficking, IP infringement, and drug trafficking.	15%
4. Customs environment				**25%**
4.1 Percentage of shipments physically inspected[7]	% of shipments	World Bank LPI	Percentage of shipments physically inspected.	10%
4.2 Customs clearance and inspection	# of hours	World Bank Doing Business	Number of hours, on average, for customs clearance and inspection.	10%
4.3 Automation[8]	0-2 score	OECD Trade Facilitation Indicators	Assessment of electronic exchange of data, automated border procedures, and use of risk management.	32%
4.4 Authorised Economic Operator programme	0-2 score	World Customs Organisation	Assessment of operational or planned AEO programmes.	28%
4.5 Customs recordal system	0-2 score	EIU custom score	Assessment of existence and effectiveness of customs recordal systems.	20%

5 WEF does not rate five of the countries in the index: Belarus, Belize, Iraq, Libya and Myanmar. For these countries, EIU country analysts applied WEF's scoring framework to assign a custom score.
6 World Bank LPI does not score Belize for Track and Trace Services. We have assigned Belize an average of Costa Rica, Guatemala and Panama.
7 World Bank LPI does not score Armenia or Belize for physical inspection of shipments. For Armenia, we have assigned an average of CIS lower middle income economies (Georgia, Kyrgyzstan, Moldova, Ukraine, and Uzbekistan). For Belize, we have assigned an average of Costa Rica, Guatemala and Panama.
8 OECD's Trade Facilitation Indicators do not include scores for Iraq or Libya. We have assigned both countries the lowest score based on our research.

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