The Economist INTELLIGENCE UNIT

The Global Illicit Trade Environment Index

A report by The Economist Intelligence Unit

Commissioned by TRANSNATIONAL ALLIANCE TO COMBAT ILLICIT TRADE TRACIT.ORG

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Acknowledgements

The Global Illicit Trade Environment Index is based on a similar index that was devised and constructed in 2016 by Chris Clague. The 2018 update and expansion was managed by Trisha Suresh, Michael Frank, with assistance from Chris Clague. Siddharth Ponder and Chris Clague wrote this report, focusing on the Asia-Pacific results, and Scott Aloysius provided research support. It was edited by Amanda Simms.

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

- **Deborah Elms,** founder and executive director, Asian Trade Centre
- **Steven Galster**, founder and executive director, Freeland Foundation
- **Ali Salman**, director of research, Institute for Democracy and Economic Affairs
- **Etienne Sanz de Acedo**, CEO, International Trademark Association
- **Seth Hays**, chief representative—Asia-Pacific, International Trademark Association
- **Jeremy Douglas**, regional representative for South-east Asia and the Pacific, UN Office on Drugs and Crime

We take sole responsibility for the construction of the index and the findings of this report.

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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 the Asia-Pacific region 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

Economies around the world are facing the blight of illicit trade, but perhaps nowhere more so than in Asia-Pacific. The region, long a source of supply for illicit goods—be it counterfeits, drugs, or trafficking in humans or illicit wildlife—is now emerging as a major source of demand, compounding the problem significantly. And although not much hard data are available, it is quite clear that "due to rising affluence in Asia and other major consuming economies, illicit trade volumes have gone up," says Steven Galster, founder and executive director of the Freeland Foundation, an Asia-based non-governmental organisation (NGO) focused on environmental conservation and human rights, who cited the trade in endangered species, specifically.

As a result, wildlife species are disappearing at alarming rates; pirated and mislabelled products are traded freely across borders and sold openly within them, with varied rates of concern and control on the part of governments; narcotics-related incidents[1 2] frequently make headlines of regional newspapers; human trafficking is becoming even more common, abated and masked at the same time by various refugee crises in South-east Asia; illegal logging remains a threat to deforestation throughout the region,[3] spurring corruption and lining the pockets of criminals with piles of cash; and illegal arms sales are rampant.[4 5]

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

Given Asia's geographic, economic and political diversity, it should come as no surprise that its economies have had varying degrees of success in—and varying attitudes towards—combating illicit trade. As the region continues to grow, and as it moves towards deeper economic and trade integration via various trade agreements and related initiatives, such as the Association of South-East Asian Nations (ASEAN) Economic Community (AEC), there will be an attendant need for it to implement stricter policies on illicit trade. Its record so far is not encouraging.

1 The Straits Times. *Myanmar makes record drug bust with 30 million meth pills*. January 18th 2018. Available online at: https://www.straitstimes.com/asia/se-asia/myanmar-makes-record-drug-bust-with-30-million-meth-pills
2 Reuters. *Thailand makes one of its 'largest ever' crystal methamphetamine busts*. April 3rd 2018. Available online at: https://in.reuters.com/article/thailand-drugs/thailand-makes-one-of-its-largest-ever-crystal-methamphetamine-busts-idINKCN1HA0OH
3 Brookings. *The Jagged Edge: Illegal Logging in Southeast Asia*. April 13th 2013. Available online at: https://www.brookings.edu/articles/the-jagged-edge-illegal-logging-in-southeast-asia
4 Al Jazeera. *Smuggling of China-made weapons in focus*. February 4th 2014. Available online at: https://www.aljazeera.com/news/asia-pacific/2014/02/smuggling-china-made-weapons-focus-20142463722679830.html
5 The Jakarta Post. *ASEAN to prioritize eradication of illegal arms trade*. Available online at: http://www.thejakartapost.com/news/2015/10/22/asean-prioritize-eradication-illegal-arms-trade.html

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There have, however, been some positive developments in recent years, says Jeremy Douglas, regional representative of the UN Office on Drugs and Crime (UNODC) for South-east Asia and the Pacific. Mr Douglas notes that there has been "increasing political interest" in addressing illicit trade and [we are seeing] a couple of key ASEAN member states prioritising action on border management and scanning illicit flows of all kinds. Nevertheless, he does caution that political interest "hasn't translated into practical change yet".

To measure how nations are addressing the issue of illicit trade, the Transnational Alliance to Combat Illicit Trade (TRACIT) has commissioned the Economist Intelligence Unit to produce the Global Illicit Trade Environment Index. The global index expands upon an Asia-specific version, originally created by The Economist Intelligence Unit in 2016 to score 17 economies in Asia on the extent to which they enabled or prevented illicit trade. The Asian index generated much-needed attention on the issue of illicit trade within the region. Building upon the success of the Asia index, the global index now includes 84 economies, providing a global perspective and new insights on the social and economic impacts of illicit trade.

This briefing paper focuses on the 21 economies in the Asia-Pacific covered by the index. For an explanation of how the global illicit index differs from the 2016 index, please consult the methodology in the appendix.

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Overall results

It is important to note that the Global Illicit Trade Environment Index does not score a country's performance or effectiveness in combating illicit trade. Rather, the index evaluates 84 economies on their structural capability to protect against illicit trade. It is focused on the laws, regulations, systems and effectiveness of governance that contribute to the political and regulatory environment that indicates a country's potential to combat illicit trade of different kinds.

New Zealand, with a score of 82.3 (out of 100), is the overall top-ranked economy in Asia-Pacific in terms of creating a comprehensive environment for preventing illicit trade. Globally, New Zealand follows closely on the heels of top-ranked Finland (85.6), the UK (85.1) and the US (82.5)—a clear indication that it has been very successful in creating the right policy settings to prevent illicit trade, even compared with its global peers. Nonetheless, an impressive score of 82.3 indicates that even the highest ranked economies still have the room to make further improvements in creating the right environment.

In Asia, New Zealand is followed closely by Australia (81.0), Hong Kong (78.4) and Japan (78.2). The second tier, in rank order, consists of South Korea, Singapore, Taiwan, China and Malaysia, with scores of between 60.0 and 76.0. They are followed in order by Thailand, India, Kazakhstan, Armenia,[6] the Philippines, Vietnam, Indonesia and Pakistan (scores between 40.0 and 60.0). Rounding off the list are four economies with scores below 40.0: Kyrgyzstan, Cambodia, Laos and Myanmar.

New Zealand fares well across all categories and therefore serves as an excellent model in the region. Notably, New Zealand is the top-ranked economy in the world (with a score of 90.3) in the category "supply and demand", which measures the domestic environment that discourages or encourages supply and demand for illicit goods—largely due to its strong scores on the strength and effectiveness of its state institutions. New Zealand also does very well on government policy because of its strengths in fighting corruption, law enforcement techniques and interagency co-operation. New Zealand ranks 11th worldwide and 2nd in Asia on its customs environment, due to high scores in automation, having an Authorized Economic Operator (AEO) programme, and customs recordal, respectively. There is potential for New Zealand to perform even better should it improve its ranking in the transparency and trade category, such as by improving track and trace services and intellectual property (IP) reporting.

The other five Asian economies that have an overall score of more than 70.0 on the index are

6 For the purposes of the index, the World's Bank geographic designations were used. Given that, and in light of the global expansion of the index, in this edition, the Asia-Pacific region includes a number of new economies from the 2016 edition, including Armenia, Kazakhstan and Kyrgyzstan.

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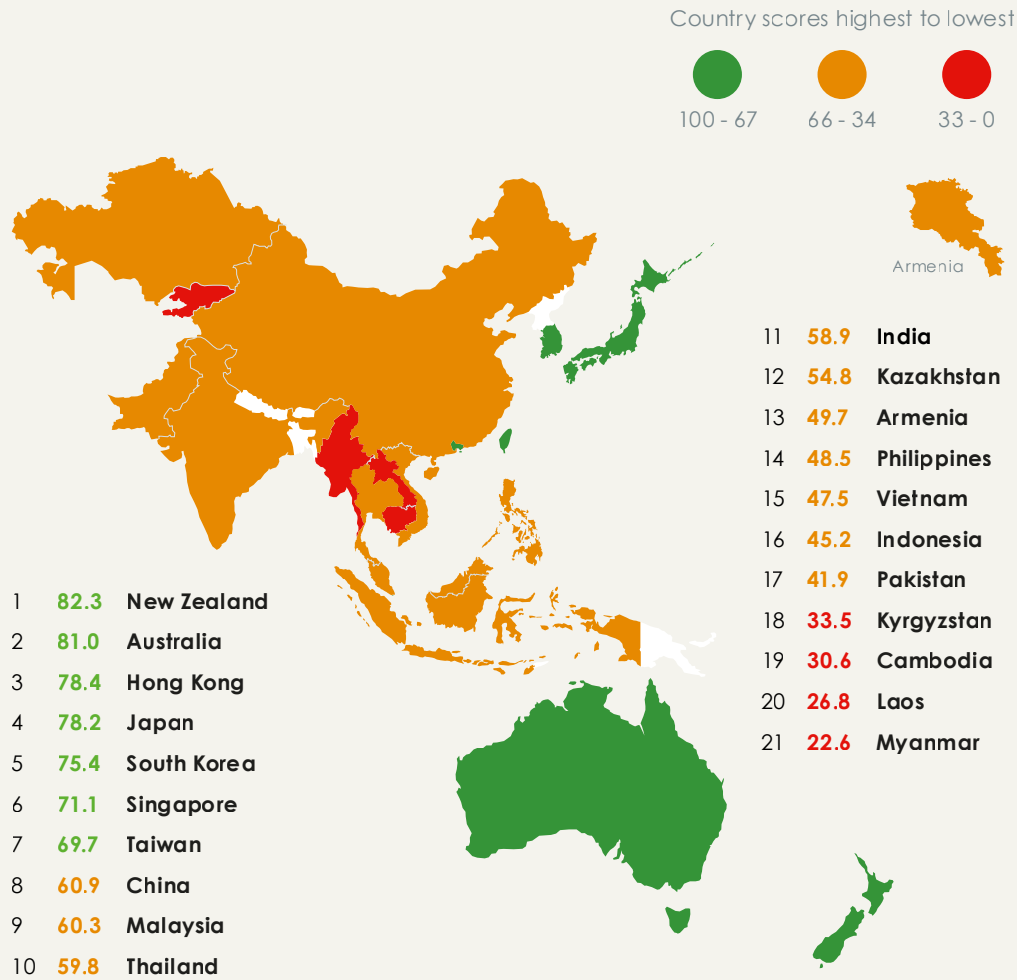
all developed economies, and, as with the Asia-focused Illicit Trade Environment Index of 2016, there is a broad but direct correlation between the level of development and overall scores and rankings in the index.

The two most populous Asian economies land in the middle of the rankings, with China doing marginally better than India. China is ranked 8th in Asia and 44th globally—although the country remains a source of many illicit goods given the scale of its economy, its efforts to combat illicit trade are not usually appreciated. Its ranking, however, illustrates that it is doing better in this area than is commonly acknowledged. India, on the other hand, punches well above its weight—it

Overall results: Asia



1	82.3	New Zealand
2	81.0	Australia
3	78.4	Hong Kong
4	78.2	Japan
5	75.4	South Korea
6	71.1	Singapore
7	69.7	Taiwan
8	60.9	China
9	60.3	Malaysia
10	59.8	Thailand
11	58.9	India
12	54.8	Kazakhstan
13	49.7	Armenia
14	48.5	Philippines
15	47.5	Vietnam
16	45.2	Indonesia
17	41.9	Pakistan
18	33.5	Kyrgyzstan
19	30.6	Cambodia
20	26.8	Laos
21	22.6	Myanmar

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is ranked 11th in Asia and 49th globally, despite having among the lowest per-head incomes of all 84 economies in the index.

At the bottom of the list are the South-east Asian economies of Myanmar, Laos and Cambodia, with their rankings suffering from low scores relating to the capacity, skill, institutional and resource constraints these economies face in addressing illicit trade.

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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.

The Asia-Pacific region's average score is 54.0, significantly lower than Europe (72.0), which is the best-performing region. Australia tops the category in Asia-Pacific with a score of 90.7 and is followed closely by its neighbour New Zealand (88.9).

Australia does well in all the indicators in this category owing to strong policies that facilitate the monitoring and prevention of trade across all kinds of illicit goods. Its efforts in this area are illustrated by its recent initiatives to address the illicit trade in tobacco products, for instance, which was estimated to have cost the government A$1.91bn (US$1.5bn) in lost excise revenue in 2017 alone.[7] In May 2018, for example, the Australian government announced that it would introduce measures to deal with the illegal tobacco market. To do this, it is setting up a multi-agency Illicit Tobacco Taskforce, which will have members from law enforcement, border security agencies and the Australian tax authorities.[8] The key function of this taskforce is going to be to dismantle illicit supply chains in tobacco. This will be accompanied with larger penalties and a comprehensive legal regulatory package.

India and China rank in the middle for this category, occupying the 9th and 11th positions, respectively, in the region and 51st and 58th globally. Small, developing economies, such as Cambodia and Myanmar, are among the worst performers, both in the region and in the global index.

Myanmar, although ranked second from the bottom of the Asia-Pacific region, has nonetheless begun taking policy steps, however nascent, to tackle certain forms of illicit trade. In early 2018, for example, it announced a new National Drug Control Policy in co-operation with the UNODC aimed at reducing the production, trafficking and use of illicit substances.[9] Among other things, the new policy focuses on greater interagency collaboration, and better law enforcement, two of the indicators included in the government policy category. The policy was

7 https://finance.nine.com.au/2018/05/02/13/58/illicit-tobacco-costs-australian-government-2-billion-a-year
8 https://www.smh.com.au/politics/federal/government-butt-squad-to-chase-billions-in-criminal-tobacco-fraud-20180505-p4zdiv.html
9 UN Office on Drugs and Crime. *New national drug policy announced for Myanmar.* Available online at: https://www.unodc.org/southeastasiaandpacific/en/myanmar/2018/02/new-national-drug-control-policy/story.html

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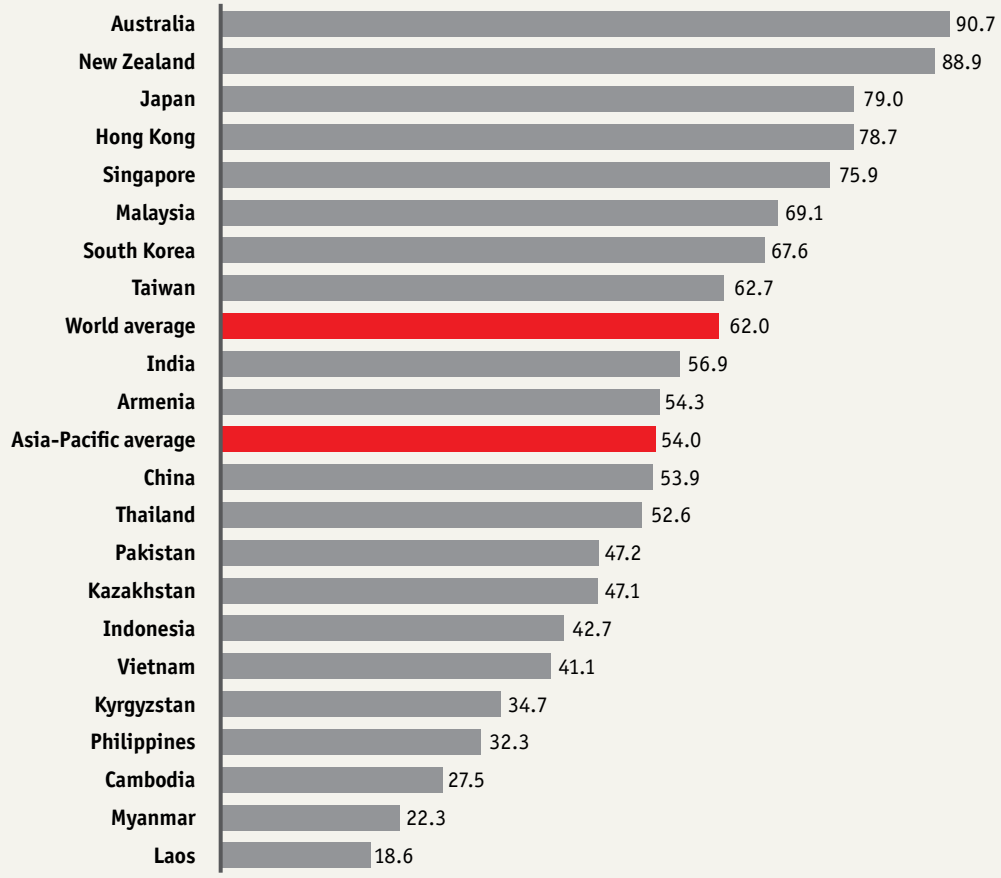
Government policy: Asia results



formed after extensive consultations between the government, NGOs, academics and other civil society stakeholders.

Most law enforcement agencies in this region were designed and set up to deal with local, community-based crimes and not to deal with transnational crime. "A lot of the police forces or law enforcement agencies in this region work on different functions. The challenge is that a lot of them were not designed or set up to deal with transnational crime and transnational movement. They were designed and set up to deal with things on a much more national level. And so they don't have good connections with their neighbours across the border," says Mr Douglas. As a result, they don't have the means or training to deal with sophisticated, transnational syndicates.

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Some countries don't even have good connections between enforcement agencies within their borders and in those cases when they do, the benefits of collaboration can be diminished by the existence of corruption, resulting in information leaking to targets of investigations and raids. Take Malaysia, for example. It receives the highest score on the interagency collaboration indicator, which measures the extent to which customs agencies and law enforcement have entered into formal agreements to collaborate. On the corruption indicator, which is based on an EIU scoring system, it receives a two out of five (five being the most corrupt), placing it somewhere towards the front end of the middle-ranked countries. Yet the combination of the two, says Ali Salman, director of research at the Institute for Democracy and Economic Affairs, a think tank, can lead to "sub-optimal" outcomes. "When you have customs responsible for contraband and the Ministry of Domestic Trade and Consumerism responsible for checking counterfeits," Mr Salman says, "between the process of information gathering and raids, information can get leaked."

Corruption is common thread connecting many of the economies in Asia—and, indeed, many of the economies in the index—and is widely acknowledged to be one of the main enablers of illicit trade. The region fares poorly in this respect, doing better than only the Middle East and Africa region. Australia, New Zealand and Singapore rank as the least corrupt. At the other end of the spectrum, however, are economies such as the Philippines, Laos and Cambodia, which receive the lowest possible ratings here.

The good news is that all Asia-Pacific economies in the index are parties to the UN Convention against Corruption, which suggests at least an intention to abide by its strictures. Mr Douglas says "some states are implementing [the agreement] well and some states are not." For illicit trade, fighting corruption in customs is obviously very important, but implementation is a cause for concern. "Still," he says, "at least they have ratified it and there's now a discussion taking place about corruption among front-line border officials and how to counteract it."

IP protection is another indicator in the government policy category, and the index measures the standards of each country's IP laws. Asia again does poorly, with an average score of 40.0. Europe (66.0) and the Americas (51.0) have higher scores, while the Middle East and Africa region fares worse, with a score of 30.0. China, perhaps the most talked about economy when it comes to the proliferation of counterfeiting and trademark infringement, actually performs better than might be expected, ranking 6th in the region and 31st in the global index. Similar to the findings in 2016, our expert interviews suggest that China continues to make progress on the issue. India, on the other hand, is ranked last in this category along with neighbouring Pakistan, and Laos and Myanmar.

Measures to protect IP are an important aspect of a country's ability to fight illicit trade and its

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negative impacts on the economy. Counterfeits and other IP-infringing goods can have a damaging impact on local economies and jobs, as well as public health and safety, says Etienne Sanz de Acedo, CEO of the International Trademark Association (INTA). Fake medicines, for instance, can contain the wrong composition or toxic substances that can be harmful and sometimes even fatal to people who ingest them. According to the WHO, counterfeit medicines account for 10% of medicines available globally; in some parts of Asia, Africa and Latin America estimates are that they could comprise as much as 30% of the market.[10] Similarly, in the fake automotive parts trade, Asia is suspected to be the single-largest producing region.[11] In the absence of sufficient and effective enforcement of IP rights, this less apparent form of illicit trade can compromise the safety of vehicles and thus threaten the safety of drivers, passengers and pedestrians.

Singapore and Australia hold the top scores in this category, based on their success in maintaining tough IP standards within their borders. Prospects for better scores in the region look promising, given steps being taken in other Asian economies. "We see that many jurisdictions in Asia are increasingly taking anti-counterfeiting very seriously," says Seth Hays, chief representative, Asia-Pacific at INTA.

Indonesia and Thailand, both tied for 11th in the region and 55th globally, have made progress in this area, having recently acceded to the Madrid Protocol. Elsewhere in ASEAN, a new Penal Code has come into effect in Vietnam, which has introduced several measures intended to strengthen IP enforcement, including a clear financial threshold of "commercial scale" infringement, clearer provisions on the crime of manufacturing and trading in counterfeit goods, and corporate criminal liability for IP infringement.[12]

10 Interpol website. The dangers of counterfeit medical products. Available online at: https://www.interpol.int/Crime-areas/Pharmaceutical-crime/The-dangers
11 OECD. The Economic Impact of Counterfeiting and Piracy. Available online at: https://www.oecd.org/sti/38707619.pdf
12 Tilleke & Gibbins. *IP Impact of Vietnam's New Penal Code*. Available online at: https://www.tilleke.com/resources/ip-impact-vietnams-new-penal-code

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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 of 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.

As a region, Asia, with a score of 54.0, does almost as well as Europe (55.0) and significantly better than the Middle East and Africa (44.0), and the Americas (42.0). This is largely due to economies such as New Zealand, Singapore and Hong Kong, which are ranked 1st, 2nd and 4th in the global index, respectively. These three Asian economies largely do well across all of the category's constituent indicators.

Myanmar occupies the last spot in the region, with a score of 18.4, and is only fourth from the bottom of the global index. Thailand, which, according to INTA, has made some headway since it launched an anti-counterfeit campaign in 2016 to raise awareness around IP protection, ranks 9th in Asia with a score of 56.3.

As already noted, Asia has long been a supplier of illegal products to the rest of the world. However, the region's rapidly growing prosperity and affluence is driving demand for illicit products of all types. The trade in wildlife and human trafficking are particularly noteworthy. In Thailand alone, the UNODC estimates that over half a million migrants are smuggled, both to work in the sex trade and for slavery.[13] Illicit wildlife trade also thrives in the region. For example, rhino poaching has escalated in recent years and is being driven by the demand for rhino horn in Asian economies, particularly Vietnam. It is also used in traditional Chinese medicine, and more and more commonly it is used as a status symbol to indicate personal success and wealth.

The Chinese government, for its part, is attempting to reduce the demand for endangered species, but despite its efforts, the country's history of consuming these products is so entrenched that "it's a race for time there…[and] there is very little money and action going into enforcements, and demand reduction efforts are not going to work without the backing and full participation of the state", says Mr Galster of Freeland Foundation. Moreover, Mr Galster says that there are other economies that present problems; Vietnam has long been a major source of demand for these products, as have other economies in the region, including Malaysia, Cambodia, Thailand and Laos.

The effectiveness of state institutions is critical to combating illicit trade. If an economy's

13 UN Office on Drugs and Crime. Transnational Organized Crime in East Asia and the Pacific. Available online at: https://www.unodc.org/documents/data-and-analysis/Studies/TOCTA_EAP_web.pdf

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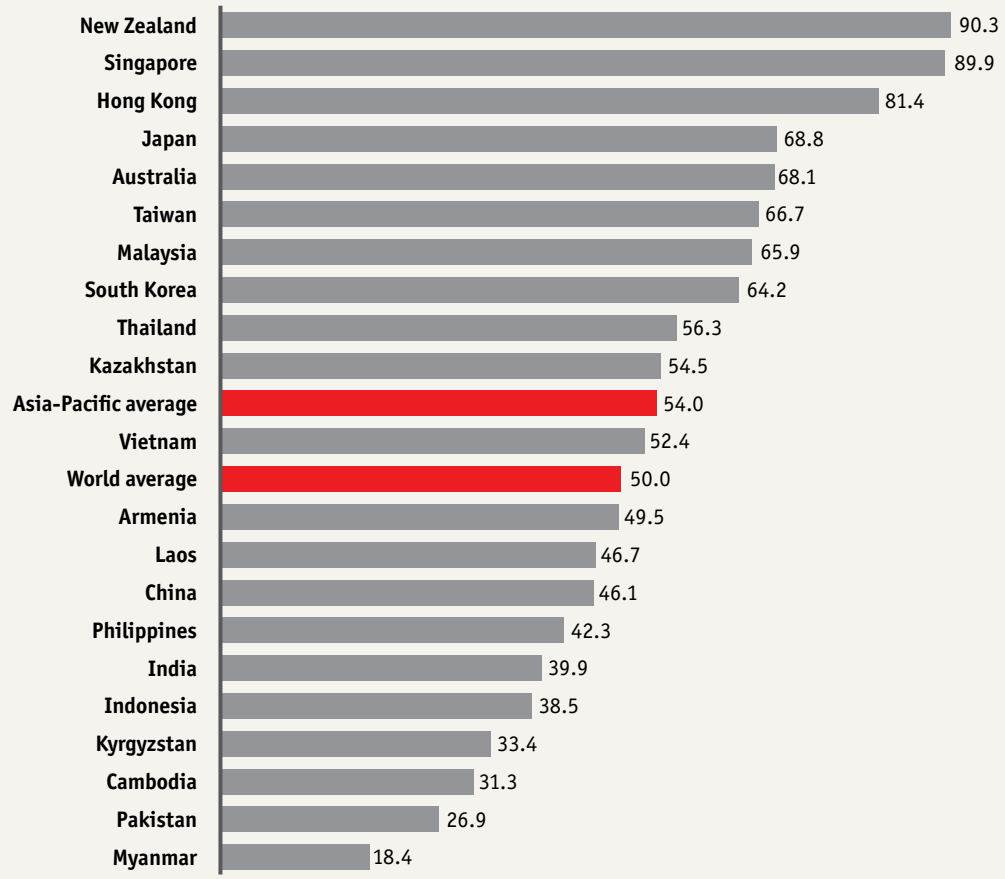
Supply and demand: Asia results



government, ministries and law enforcement agencies are weak, it will be hard pressed to defend against the supply and demand of illicit products. In this area,[14] Asia does better than the Middle East and Africa, and the Americas as a whole. It still has a long way to go, however, and there are large disparities within the region. On the one hand, the index shows that Singapore and New Zealand have very effective government institutions. On the other hand, economies such as Cambodia and Myanmar demonstrate the weakest institutional qualities and thus have the lowest scores.

Although Singapore has a very high GDP and a very small border to protect, at the other end of the spectrum is a country like Laos, which has an extensive and porous border to protect and "incredibly low capacity, very poor policies and few resources", says Mr Douglas. In order to curb

14 The scores for this indicator are derived from the EIU Business Environment Rankings

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the cross-border flows of illicit goods, the poorer economies need all the help they can get to put in place at least basic mechanisms at borders. At the moment, there are technological gaps, policy caps and human capacity gaps that are playing out in places such as Laos, Cambodia and Myanmar, and the gaps close as you move up the GDP ladder.

According to Mr Douglas, organised criminal groups "essentially take advantage of these disparities and migrate their operations to economies in which they can do business more freely—which are basically jurisdictions that are weaker—to move their businesses forward."

From a demand perspective, education can play a part in reduction. It is particularly important for the younger generation to know that every time they are purchasing a counterfeit or a pirated item "there might be a risk to their health and safety; it's going to have an impact on legitimate businesses and companies; it's going to have an impact on jobs within the country; and it's going to have an impact on the ability of the country to collect taxes to be able to invest that money into more social welfare," explains Mr de Acedo. While all of this may well be true, the lure of a bargain is often difficult to resist, and consumers in Asia are no exception.

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Category 3: Transparency and trade

This category measures a country's transparency as regards illicit trade and the degree to which it exercises governance over its free trade zones (FTZs) and transhipments. Indicators include: 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.

Transparency is important because greater information-sharing can benefit agencies and officials and help economies combat illicit trade. Sharing information is critical for a variety of reasons—one is that individual agencies often operate in silos and along strict bureaucratic lines and information-sharing, but it is necessary to combine knowledge both among domestic agencies and across borders; and, second, it is crucial to help government agencies—who don't often have sufficient resources to do all the fact-finding on their own—to connect the dots and see the big picture, allowing for more informed policy and enforcement actions to be taken.

The problem is exacerbated because transnational criminal organisations are often not faced with the same constraints—they have the resources and they also co-operate a lot more, through information-sharing. As a result, greater transparency and co-operation are particularly important in Asia. This includes co-operation and information-sharing, not only with peers across borders, but also domestically with other government agencies, industry associations and businesses.

In this category, the Asia-Pacific is doing substantially better than other regions, save for Europe. Hong Kong ranks first among the Asia-Pacific economies in this category with a score of 80.3, mainly on the strength of how open it is with information on its efforts to counter human trafficking, IP infringement and drug trafficking. It is followed closely by economies such as Japan and Australia. Hong Kong Customs collaborates strongly at an international level and works closely with the private sector. It meets with brand owners to respond to their complaints—this includes explaining the challenges they face in restricting illicit trade, and ways to co-operate with the private sector and devise solutions.[15] Additionally, Hong Kong Customs has taken steps to strengthen surveillance and investigation of IP-infringing goods, including using technology such as 3D printing to print actual 3D samples of genuine products to compare against potential counterfeits.

15 Mayer Brown. *Intellectual Property Rights Study: Hong Kong.* Available online at: https://www.mayerbrown.com/files/Publication/ad9119f2-8e48-40c4-8a56-ebdc266e50b5/Presentation/PublicationAttachment/8980251c-90fc-4d89-9535-03031d2a9308/IPR_StudyReport.pdf

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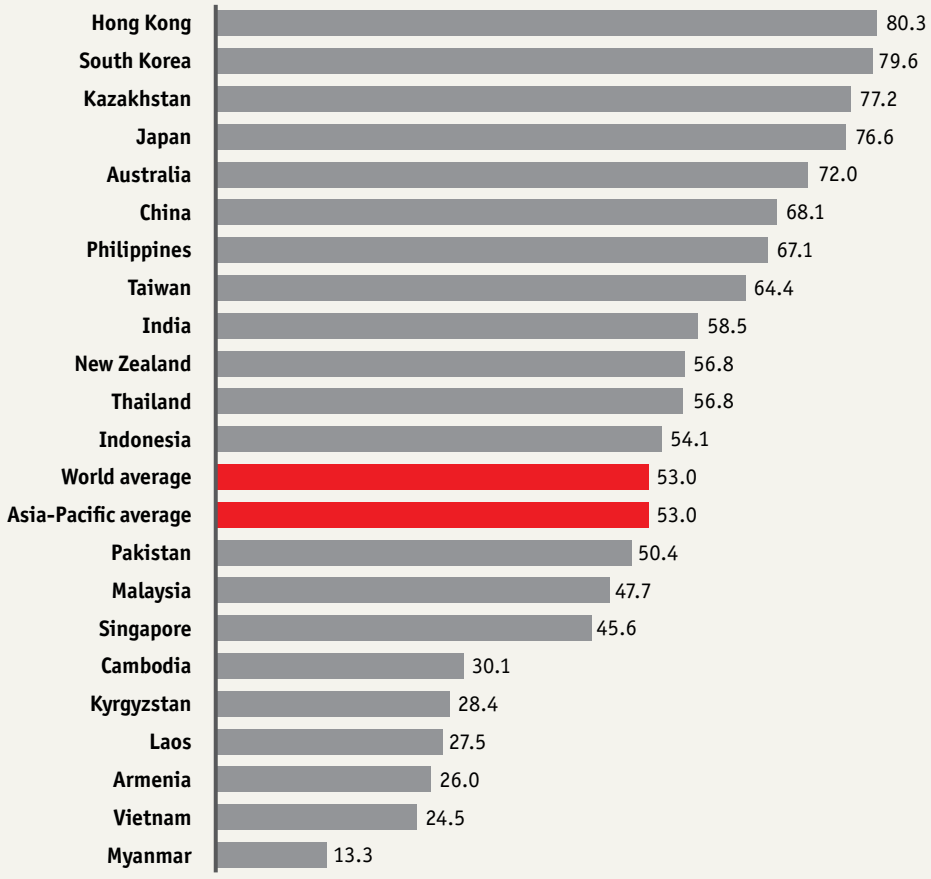
Transparency and trade: Asia results



Singapore, however, continues to remain a study in contrasts, ranking 15th of the 21 economies in the region for this category. Although it tops the region's rankings in terms of its ability to track and trace consignments, and reporting on human trafficking and wildlife trade, it scores poorly when it comes to the governance of its FTZs and it is one of the eight economies in Asia that has not adopted Annex D of the Revised Kyoto Convention.

The track and trace services indicator reflects the ability of economies to track and trace consignments, which can make the trade in illicit goods more difficult. While Singapore tops this indicator with a score of 87.4, Japan (86.7), Hong Kong (86.6), Australia (80.7), South Korea (77.3) and China (73.2) are doing well in this area too.

The poor governance of FTZs is a major cause of concern in a number of Asian economies,

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including Singapore, Vietnam, Myanmar and Laos, all of which receive the lowest score on the FTZ governance indicator. This indicator uses expert perception to score how well or poorly economies monitor and oversee FTZs, particularly as insufficient oversight is a major enabler of illicit trade in all economies with FTZs. The scores are based on whether or not there is a customs office in each FTZ and whether local customs officials and law enforcement agencies have the legal authority to inspect goods that transit in the country. This is an important aspect in combating illicit trade given the high volume of goods that pass through these FTZs.

Deborah Elms, the founder and executive director of the Asian Trade Centre, emphasises that there's a "careful balance" that needs to be found with regard to FTZs. "The point of FTZs is to facilitate trade," says Ms Elms, "so the more you crackdown on trade coming in and out of the zone to inspect for illicit goods, the slower the movement of goods in and out of the zone is, and the more you undermine the point of the zone". This is particularly true of transhipment hubs such as Singapore, which earn significant direct revenue in the form of median fees for handling each container in transit. The other side of the equation is monitoring and enforcement; many economies in the region, and the global index, are shown to struggle here.

Insufficient oversight is a major enabler of illicit trade everywhere, but is particularly pernicious in those economies with one or more FTZs, which is typical of most economies in Asia-Pacific. Mr de Acedo of INTA argues that, in this regard, it is very important to tackle the issue of goods-in-transit and make sure that FTZs in the region comply with IP regulations. "One should never forget that a free-trade zone is still within the boundaries of a given country and is therefore subject to the laws of these countries," he adds.

Stronger IP reporting by governments can help, of course, as seen in economies such as Hong Kong, Japan, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand, the governments of which regularly publish data on trade-related IP infringement. However, key Asian economies such as China, India and Indonesia do not publish any data on trade-related IP infringement, making it difficult to assess the extent of the problem, which is assumed to be substantial in the case of these three economies. Reporting not only assists in information-sharing, which is important for identifying the problem, but also to developing solutions, such as the creation of a common strategy on border management. This could prove particularly effective in regional blocs such as ASEAN.

Mr Douglas of UNODC says that a bloc like ASEAN, which has an overall average score of just 46.0 compared with the global average of 60.0, "needs to have common mechanisms at land borders, in ports and at airports that allow for quick cross-border communication between authorities that can be seamless and allow for quick information-sharing".

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Category 4: Customs environment

This category measures how effectively a country's customs service manages its dual mandate to facilitate licit trade while also preventing illicit trade. It consists of five indicators: percentage of shipments physically inspected; 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.

Given the importance of trade to Asian economies, and the continued emphasis on free-trade agreements in the region, such as the signed-but-not-ratified Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership, which is still under negotiation, a country's customs environment has an important role to play in countering the flow of illicit trade, especially as the sheer size of trade in other (legal) goods is set to increase.

Singapore ranks 11th in Asia in this category with a score of 69.8. There may not be much crime locally in Singapore, and it does well across all global crime- and corruption-related rankings, but internationally, it is an enabler of illicit trade through its ambivalence towards what is passing through its FTZs. Singapore ranks poorly mainly because it does not have a customs recordal system that IP owners can use for enforcement at borders.[16] This system allows trademark, copyright or patent owners to register their IPs with customs agencies and empowers these agencies to interdict shipments containing goods that infringe on registered IP of their own accord. Similarly, Malaysia, Indonesia, Laos and Cambodia lack customs recordal systems. Some economies in the region, like Vietnam, Thailand, Pakistan, Myanmar and Hong Kong, do have such systems, but they are largely ineffective according to analysis done for the index. Indonesia, however, appears to be making progress on the matter. There, legislation was recently implemented to assist IP owners to enforce their trademarks and copyright, and to control imported and exported goods that may be infringing on IP rights. The new regulation provides IP-owners with valid Indonesian registrations with the option to apply for customs recordal to the Directorate-General of Customs and Excise.[17]

Many of the less developed economies in the region have a poor customs environment as a result of a number of factors, including a paucity of resources, lack of proper training and widespread corruption. Corruption, an indicator in the government policy category, has implications across all different aspects of the index, including customs. The linkages between

16 In the 2016 Illicit Trade Environment Index, customs recordal was included in a category of the index on intellectual property. In the 2018 index, the IP indicator has been folded into a new category, "government policy", and the customs recordal indicator is now in the "customs environment" category.
17 Tilleke & Gibbins. *Indonesia: First-Ever Law on Customs Recordation and Seizures of IP-Infringing Goods Now Effective*. Available online at: https://www.tilleke.com/resources/indonesia-first-ever-law-customs-recordation-and-seizures-ip-infringing-goods-now-effectiv

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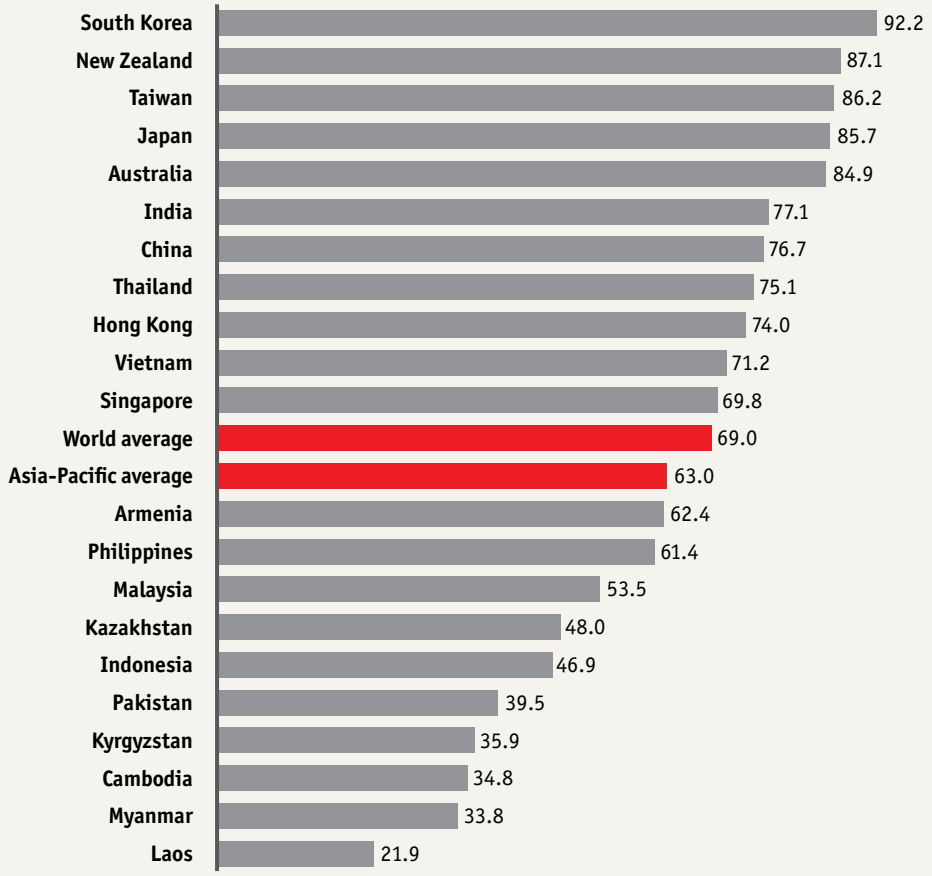
Customs environment: Asia results



corruption and a poor customs environment are a significant challenge to overcome. As Mr Douglas says: "The volumes of money being generated through illicit trade of different kinds, be it in counterfeits, drugs, timber or wildlife, is in the tens of billions of dollars. At the same time, you have very, very low-paid frontline border officers that, in some cases, are making just about US$100 a month." This makes them very susceptible to bribery, he says. Moreover, these economies have very weak systems in place in terms of anti-corruption, lacking, for instance, whistle-blower hotlines or whistle-blower protection systems.

The paucity of resources is another big issue, particularly as it has direct implications on customs departments' ability to inspect a greater number of shipments, and also it can determine the extent of automation being used

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in customs clearance procedures. Automation is also an important determinant of the time taken for customs clearance. Although Singapore and South Korea are doing very well in terms of automating customs procedures, poorer economies such as Cambodia, Laos and Myanmar are having a harder time doing so.

One example of the importance of being able to check a larger number of shipments comes from Mr Galster, who says that the overwhelming share of illicit wildlife products, for example, is moved through official channels. "It's not fly-by-night, dark alley or midnight crossings through unofficial border checkpoints. This is done on ships and planes and cars that are moving right through normal channels and they are concealing the illicit goods in different ways." The traffickers rely on the fact that customs and other inspection agencies just don't have the time or the means to check everything. "We're getting information about pangolin scales being shipped as fish scales, or ivory being put into boxes marked as telecommunication equipment," he adds. And in case anything is inspected, the back-up is to bribe officials.

Another indicator in this category is the presence or absence of an Authorised Economic Operator Programme. This programme of the World Customs Organisation (WCO) recognises manufacturers, importers, exporters, intermediaries, ports, operators, airports, distributors and warehouses, among others, that comply with WCO or equivalent supply-chain security standards. The certified companies receive preferential customs processing, and this helps facilitate trade.

In Asia, the only economies that don't have an AEO programme and don't currently have plans to launch one either, are Pakistan, Myanmar and Laos. The presence of an AEO programme can lead to the formation of a more transparent and secure trading environment and help combat illicit trade, especially if provisions such as IP rights protection are included, for instance, and through the implementation of minimum safety standards.

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Conclusion

As a region, Asia needs to do much more to tackle illicit trade, but this will require a greater degree of investment, training, education, transparency and co-operation.

Although there is a clear correlation between levels of economic development and success in creating the right environment to combat illicit trade in Asia, as there is elsewhere, the index illustrates that even economies with relatively limited means can help foster a better environment through partnerships and collaboration.

In this regard, growing economic integration in Asia through initiatives such as the AEC and the continued proliferation of free-trade agreements can play an important role in fostering greater collaboration and partnership in combating illicit trade, in terms of joint initiatives to address the menace, as well as through greater trust and transparency, which can lead to more comprehensive information-sharing.

That said, greater integration can also come with the challenge of more porous borders, and the need to walk the fine line between facilitating trade while ensuring at the same time that such facilitation does not become an enabler for illicit trade through a lack of vigilance. Economies in the region want to secure their borders, but they also want to facilitate trade such that goods can move seamlessly across economies. This calls for the need for common systems in place to protect these borders and to encourage cross-border communication between states.

But to do all of this, there needs to be a push to bring together different stakeholders, because as Mr Douglas points out, illicit trade is not just an economic issue, it is also a security issue.

Things have improved in many economies in Asia, but not nearly enough. As the region seeks to become more prosperous, it needs to change the narrative on illicit trade.

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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.

- **Participation/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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Companies and relevant organisations have helped us develop this work by sponsoring our research and collaboration with the EIU.

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