

Електронне наукове фахове видання "Ефективна економіка" включено до переліку наукових фахових видань України з питань економіки (Наказ Міністерства освіти і науки України від 29.12.2014 № 1528)

**Ефективна  
ЕКОНОМІКА**

Дніпропетровський державний  
аграрно-економічний університет



№ 7, 2015 [Назад](#) [Головна](#)

UDC 339.56

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## ENABLING TRADE INDEX OF UKRAINE: REALITIES AND PROSPECTS

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### ІНДЕКС ЗАЛУЧЕННЯ УКРАЇНИ У СВІТОВУ ТОРГІВЛЮ: РЕАЛІЇ ТА ПЕРСПЕКТИВИ

*The article reviews the essence of enabling trade index (ETI), its components (market access, border administration, infrastructure and operating environment) and methods of obtaining them. Comprehensive nature evaluation of the degree of involvement of the countries in the implementation of export-import operations was underlined. The importance of determining the actual position of Ukraine in the foreign trade and prospects of its changes in terms of the internationalization of production and capital and expansion of transnationalization was substantiated. The dynamics of enabling trade index of Ukraine for the 2008-2014 was analyzed with the detailed elaboration of indicators. The instability of the index and groups of indicators were defined. Factors that positively and negatively influence on export and import operations in Ukraine and determine the competitive position of the country as a whole were identified. The measures to improve the position of Ukraine were proposed. Threats and the possible consequences of their manifestation were identified.*

*У статті розглянуто сутність індексу залучення у світову торгівлю (ЕТІ), його компоненти (доступ на ринок, прикордонна адміністрація, інфраструктура і операційне середовище) та методика їх отримання. Підкреслено комплексний характер оцінки ступеня залучення країн у здійснення експортно-імпорتنних операцій. Обґрунтована важливість визначення реальних позицій України у світовій торгівлі та перспектив їх змін в умовах інтернаціоналізації виробництва і капіталу, розширення масштабів транснаціоналізації. Проаналізовано динаміку індексу залучення України у світову торгівлю за 2008-2014 рр. з деталізацією індикаторів. Визначено нестабільність значення індексу і груп індикаторів. Виявлено фактори, які позитивно та негативно впливають на здійснення експортно-імпорتنних операцій в Україні та визначають конкурентні позиції країни у цілому. Запропоновано заходи щодо поліпшення позицій України, виявлено загрози та можливі наслідки їх прояву.*

**Keywords:** *enabling trade index, subindexes, foreign trade, import, export, customs services index, transport infrastructure.*

**Ключові слова:** *індекс залучення у торгівлю, субіндекси, зовнішня торгівля, імпорту, експорт, індекс митних послуг, транспортна інфраструктура.*

**Problem statement.** In the current conditions of globalization the entry of countries into the world economy is an objective trend. In this connection it is important to understand the place that Ukraine occupies, as well as the degree of involvement into the world trade, realities and prospects of this process.

**Analysis of recent research and publications.** Today there are a number of well-known indexes for evaluation of the country's position in various fields on a worldwide scale including Global Competitiveness Index, Global Innovation Index, Enabling Trade Index, Index of Economic Freedom, Logistics Performance Index, Doing Business Index, Investment Attractiveness Index, Human Development Index and many others. All of them provide an opportunity to see the position of Ukraine in the world ranking of countries.

In the conditions of the internationalization of production and capital, expansion of transnationalization the interdependence and complementarity of national systems is enhanced. As a result the determination of actual positions of Ukraine in the foreign trade and prospects of their changes is relevant.

**Main goal of our research** is the theoretical overview of enabling trade index and its practical application in the case of Ukraine, analysis of the factors which positively and negatively influence on export and import operations in Ukraine and determine the competitive position of the country.

**Statement of main material.** As was noted by authors of The Global Enabling Trade Report 2014, this index "provides a reminder of the fundamental attributes that govern a nation's ability to benefit from trade. Since its introduction in 2008 it has become a widely used reference, forming part of the toolbox of many countries in their efforts to benefit from trade and helping companies with their investment decisions" [1].

The researchers explain their work as follows: "our experience from working with business and governments to foster change is that trade in goods has indeed become intricately intertwined with crossborder investment, trade in services and the international movement of workers" [1].

As it is known in December 2013, the 159 members of the World Trade Organisation (WTO) adopted the so-called "Bali Package" during the Ninth WTO Ministerial Conference.

"The culmination of nine years of negotiations, the package contains a series of measures to streamline trade, allow developing countries more options for providing food security, boost least-developed countries' trade and help development more generally. The adoption of the package has instilled new momentum into the troubled multilateral trading system (MTS), at a time when international governance in general continues to struggle" [1].

As part of the Bali Package, WTO members adopted the Trade Facilitation Agreement, which contains provisions for faster and more efficient customs procedures through effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It also contains provisions for technical assistance and capacity building.

The measures include not only those related to market access, such as tariffs and nontariff barriers, but also those that facilitate trade at the more practical level, with more efficient border administration, better infrastructure and telecommunications and improved regulatory and security regimes that secure property rights and reduce transactions costs [1].

The importance and the need to calculate the Enabling Trade Index, researchers explain to that "since 2008, throughout the Great Recession and in its aftermath, trade has contributed to averting a deeper crisis, as countries around the world have resisted protectionism. Today, as the world is grappling with economic uncertainty, geopolitical upheaval, social tensions and humanitarian crises, trade remains a vector of peace, development, prosperity and opportunity" [1].

The Global Enabling Trade Report (GETR) series has been published by the World Economic Forum since 2008, initially on an annual basis, and biennially since 2010. From the beginning, the assessment has been based on the Enabling Trade Index (ETI). The index was developed within the context of the World Economic Forum's Enabling Trade program.

It should be noted participation in the development of the index of such leading world organizations and companies like A.P. Møller Maersk, AB Volvo, Agility, Brightstar Corp., Deutsche Post DHL, DNB ASA, Emirates Group, International Container Terminal Services Inc., Royal Vopak, Stena AB, Swiss International Airlines Ltd, Transnet SOC Ltd, UPS and Volkswagen AG.

The ETI assesses the extent to which economies have in place institutions, policies, infrastructures and services facilitating the free flow of goods over borders and to their destination. This set of trade-enabling factors are organized in four main categories (or subindexes): market access, border administration, infrastructure and operating environment. Thus, as noted by the authors of the Global Enabling Trade Report 2014 "the scope of the ETI is much broader than trade facilitation as conceived by most international organizations" [1].

The ETI is a compilation of individual indicators into a single index, on the basis of the underlying ETI framework. It should be noted that the framework has evolved since its inception.

This evolution has been driven by the availability of new indicators, feedback collected over the years, and evidence from theoretical and empirical literature. The framework was revamped in 2009 based on the feedback received. The methodology remained essentially unchanged in the two subsequent editions (2010 and 2012). For the 2014 edition it was introduced a number of innovations and methodological changes to further improve the soundness of the framework and increase its relevance as a policy tool. As a result of this modernization effort, the results are not strictly comparable over time. While the four subindexes have been maintained, the number of pillars has been reduced from nine to seven. It was added a number of indicators, thus allowing for a more granular analysis, and excluded several, mostly within the operating environment subindex, that were not directly linked to enabling trade.

As already mentioned above the ETI framework captures the various dimensions of enabling trade, breaking them into four overall issue areas, called subindexes [1]:

A. Market access. This subindex measures the extent and complexity of a country's tariff regime, as well as tariff barriers faced and preferences enjoyed by a country's exporters in foreign markets.

B. Border administration. This subindex assesses the quality, transparency and efficiency of border administration of a country.

C. Infrastructure. This subindex assesses the availability and quality of transport infrastructure of a country, associated services, and communication infrastructure, necessary to facilitate the movement of goods within the country and across the border.

D. Operating environment. This subindex measures the quality of key institutional factors impacting the business of importers and exporters active in a country.

These four areas are in turn subdivided into components, called pillars, that capture more specific aspects within their respective broad issue areas. Each of them is composed of a number of indicators.

Pillar scores are computed as the arithmetic mean of the composing individual indicators, which are first transformed on a common scale ranging from 1 to 7, with 7 indicating the best possible outcome. Subindex scores correspond to the arithmetic means of the respective comprising pillars. Consequently, subindex and overall scores always range from 1 to 7.

There are 56 indicators that used in the ETI. They are sourced from various organizations, several of which provided guidance and support in designing the ETI framework, creating new indicators or providing privileged or advanced access to their proprietary datasets. The International Trade Centre, the Global Express Association, the World Bank, the World Trade Organization and UNCTAD are among the constant partners of this project.

Furthermore 23 indicators, accounting for 36% of the ETI score, are derived from the World Economic Forum's Executive Opinion Survey (EOS). The Forum has conducted the EOS annually for over 30 years, making it one of the longest-running and most extensive global surveys on the business environment. This fact raises the credibility to the content of information.

It should also be noted that during the 2008-2014 gradually the number of countries (economies), in which were carried out studies, was increased - from 118 in 2008 to 125 in 2010, 132 in 2012 and 138 in 2014 [1, 2, 3, 4].

Not unexpectedly, advanced economies are better at enabling trade than developing countries like Ukraine. However, analysis of the position of a particular country in the global ranking in the context of involvement in world trade is quite helpful and creates an information base to make the well-thought-out management decisions.

Table 1 shows the dynamics of Enabling Trade Index of Ukraine during 2008-2014. As we can see, the best value of index was in 2008. In 2010 there was a significant deterioration of Ukraine's position in the ranking of 125 countries of the world. In the period from 2010 to 2014, we are seeing a slight fluctuation of the index. In 2012, the index showed a further negative growth, and in 2014 was a marginal improvement of the positions.

**Table 1**  
**The change of Enabling Trade Index of Ukraine in 2008-2014\***

Years	Overall ETI	Absolute deviation
2008	68	-
2010	81	+13
2012	86	+5
2014	83	-3

*Notation:*

\* Drafted by author and based on the [1, 2, 3, 4]

Table 2 presents detailed information on each group of indicators that determine ETI. It is expedient to consider in detail the contribution of each of them.

As we can see from Table 2, the majority of groups of indicators (in particular efficiency of customs administration, efficiency of import-export procedures, transparency of border administration, availability and use of information and communication technologies, regulatory environment) showed a negative trend of growth of values. At the same time such indicators as efficiency of customs administration and regulatory environment had the largest values of negative character.

**Table 2**  
**Dynamics of Enabling Trade Index of Ukraine in 2008-2014\***

№	Name of indicator	2008	2010	2012	2014
1.	Domestic and foreign market access	39	30	26	38
2.	Efficiency of customs administration	108	110	126	ND**
3.	Efficiency of import-export procedures	92	98	107	ND**
4.	Transparency of border administration	81	102	123	100
5.	Availability and quality of transport infrastructure	67	69	61	55
6.	Availability and quality of transport services	66	93	83	61
7.	Availability and use of information and communication technologies (ICTs)	48	55	61	70
8.	Regulatory environment	114	117	125	ND**
9.	Physical security	82	64	86	68

*Notation:*

\* Drafted by author and based on the [1, 2, 3, 4]

\*\* ND - no data

The values of other groups of indicators such as domestic and foreign market access, physical security were unstable. Should also be noted the improvement since 2012 of such groups of indicators as availability and quality of transport infrastructure, availability and quality of transport services.

Estimation of the factors influencing the foreign trade in each country is essential. For this purpose the one part of Enabling Trade Index study is a special survey.

For this purpose the one part of the study of Enabling Trade Index is a special survey of factors which have an impact on foreign trade.

Analysis showed that in 2011 three factors were named as the most problematic for export in Ukraine - access to trade finance (15.2%), identifying potential markets and buyers (15.2%) and difficulties in meeting quality/quantity requirements of buyers (12%).

In 2013 the priority of two mentioned factors didn't changed. But their significance has changed: access to trade finance was increased to 16%, identifying potential markets and buyers was reduced to 13.6%. At the same time inappropriate production technology and skills has become more important. The value of this factor made up 13.7%. Such factor as difficulties in meeting quality/quantity requirements of buyers was reduced to 7.5%.

TOP-3 most problematic factors for importing during the analyzed period has not changed. But their importance has changed a bit. The influence of burdensome import procedures has risen from 20.1% to 22%, tariffs and non-tariff barriers – from 21.7% to 21.9%, corruption at the border – from 19.1 to 20.2%.

The significance of such the least influential factor for importing as inappropriate telecommunications infrastructure does not changed in 2013 as compared with 2011 (4.7%).

Analysis of the contents of the Enabling Trade Index in the 2008-2014 years showed that the number of indicators which determine competitive advantages of Ukraine has changed during the study period. So from 2008 to 2010 their number has increased from 7 to 14. One of the reasons for this growth is the change in the form of presentation of the indicators and their great detailed elaboration.

In 2012, experienced a decline of indicators up to 8 positions. In 2014, again there was an increase their number to 11.

Detailed analysis of the indicators of the Enabling Trade Index in the 2008-2014 years showed stable positions of four parameters during the given period. These parameters are tariff rate, paved roads, quality of railroad infrastructure, mobile phone subscriptions/100 populations. Since the 2010, a strong point has been recognized such indicator as tariff dispersion (standard deviation). In the period from 2010 to 2012 in the number of strong points was noted margin of preference in destination.

Since 2012 such indicator as openness to multilateral trade rules has been added in the list of the strengths of Ukraine. In 2014, for the first time since 2008, Liner Shipping Connectivity Index and business costs of terrorism were named the competitive advantages of the country.

All other indicators of Enabling Trade Index which determine competitive advantages of Ukraine during the 2008-2014 years demonstrated fluctuation of their positions.

Detailed analysis of the contents of the Enabling Trade Index during the 2008-2014 years showed the presence of a significantly larger number of indicators that determine weaknesses of Ukraine. During the study period 16 indicators showed a permanent presence in the country profile. Most of them are concentrated in such Pillar of 2014 year as Efficiency and transparency of border administration. These are such indicators as Customs services index, efficiency of the clearance process, number of days to import, number of documents to import, cost to import (US\$ per container), irregular payments in exports and imports.

Let's consider the contents of these indicators.

It is noteworthy that Customs services index has a complex structure and based on 17 survey questions taken from the Global Express Association (GEA) Customs Capabilities Reports, which evaluate the quality and comprehensiveness of services offered by customs and related agencies. The services included [1]:

- clearance of shipments via electronic data interchange;
- separation of physical release of goods from fiscal control;
- full-time (24 hours/7 days a week) automated processing;
- customs working hours adapted to commercial needs;
- fee for services conducted during normal service hours;
- inspection and release of goods arriving by air by the operator's facility;
- automated risk assessment as primary basis for physical examination of shipments;
- multiple inspections (inspections by agencies other than customs) and the promptness of those inspections;
- exemptions from full customs formalities for shipments of minimal value;
- exemptions from duties and taxes for shipments of minimal value;
- clearance of shipments by a third party;
- appeal of customs decisions to a higher level or an independent tribunal;
- use of reference prices or arbitrary uplifts to invoice values.

Such indicator as efficiency of the clearance process "assesses the effectiveness and efficiency of the clearance process by customs and other border control agencies in the eight major trading partners of each country" [1].

Number of days to import is the "number of days necessary to comply with all procedures required to import goods. The time calculation for a procedure starts from the moment it is initiated and runs until it is completed. If a procedure can be accelerated for an additional cost, the fastest legal procedure is chosen. It is assumed that neither the exporter nor the importer wastes time and that each commits to completing each remaining procedure without delay. Procedures that can be completed in parallel are measured as simultaneous. The waiting time between procedures - for example, during unloading of the cargo - is included in the measure" [1].

Such indicator as number of documents to import takes into account "all documents required to import the goods that are recorded. It is assumed that the contract has already been agreed upon and signed by both parties. Documents include bank documents, customs declaration and clearance documents, port filing documents, import licenses and other official documents exchanged between the concerned parties. Documents filed simultaneously are considered different documents but with the same time frame for completion" [1].

Cost to import "measures the fees levied on a 20-foot container in U.S. dollars. All the fees associated with completing the procedures to import the goods are included. These include costs for documents, administrative fees for customs clearance and technical control, terminal handling charges and inland transport. The cost measure does not include tariffs or trade taxes. Only official costs are recorded" [1].

Irregular payments in exports and imports are "undocumented extra payments or bribes connected with imports and exports" [1].

It is also necessary to allocate such indicators with constant negative assessments during the 2008-2014 years as quality of air transport infrastructure (Indicator derived from the World Economic Forum's Executive Opinion Survey), quality of port infrastructure, quality of roads, ease and affordability of shipment, logistics competence, timeliness of shipments in reaching destination, postal services efficiency, fixed broadband Internet subscriptions/100 pop., ease of hiring foreign labour, business impact of rules on foreign direct investment.

These indicators should be the object of attention of state authorities and the subject of programs of development of transport infrastructure and the customs service of Ukraine.

**Conclusions of the research and recommendations for further research in this area.** Thus the analysis of Enabling Trade Index and its components as well as factors affecting the export-export operations showed the presence of significant problems which negatively affect implementation of foreign trade. Should also be noted the lack of a consistent, balanced state policy of the Ukrainian leadership which would yield positive results.

In our opinion such events of 2014-2015 years as the pre-default state of the economy, crisis of the political system, the military events in the east of the country significantly will worsen the situation in Ukraine and its place in the ranking of Global Enabling Trade. As the result it will lead to an exacerbation of manifestations of factors for exports and imports, will change the structure of foreign trade operations and reduce their volumes.

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Стаття надійшла до редакції 13.07.2015 р.



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