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Acknowledgements

The Illicit Trade Environment Index was devised and constructed by an Economist Intelligence Unit (EIU) research team led by Trisha Suresh and Chris Clague. The report was written by Chris Clague and edited by Gareth Nicholson.

During research for the construction and writing of this report, the EIU conducted an expert panel review and interviewed a number of experts on the various aspects of illicit trade. Their time and insights are greatly appreciated. The EIU takes sole responsibility for the construction of the index and the findings of the report.

Expert panel (arranged alphabetically, by institution)

- Gautum Basu, senior lecturer, Aalto University
- Henry Wheare, counsel, Hogan Lovells
- Bill Dobson, deputy director, International Chamber of Commerce, Business Action to Stop Counterfeiting and Piracy
- Michael Ellis, assistant director Sub-crime directorate, INTERPOL
- Peggy Chaudhry, associate Professor of International Business, Villanova University

Interviewees (arranged alphabetically, by institution)

- Shang-jin Wei, chief economist, Asian Development Bank
- Dirk Visser, senior shipping consultant, Dynamar B.V.
- Nick Redfearn, deputy CEO & partner, Rouse
- Yea Jen Tseng, professor, international business, Southern Taiwan University of Science and Tech
- Jeremy Douglas, regional representative, Asia, UN Office on Drugs and Crime
- Sheri Rosenow, counsellor, Trade Facilitation Agreement facility, World Trade Organization
- Name withheld by request, Singapore-based IP lawyer
Executive summary

The nature of illicit trade makes its size hard to determine. Enabled by varying combinations of corruption, incompetence and indifference, it defies all but the broadest estimates. Yet, there’s sufficient anecdotal evidence to suggest that the volume of counterfeit and mis-declared goods, drugs, weapons and other types of illicit trade moving across borders has been increasing and will continue to do so.

History has shown that illicit trade tends to follow the same routes as its licit counterpart. As the Asian region continues to integrate through agreements like the Trans-Pacific Partnership, the Regional Comprehensive Economic Partnership, and the ASEAN Economic Community, there will be opportunities for more trade of both types.

There is widespread agreement on the factors that together can create an environment where illicit trade flourishes. The Economist Intelligence Unit created the Illicit Trade Environment Index to score 17 economies in Asia on the extent to which they enable illicit trade. Economies with the best environment are those taking the most action on the issue while economies that do little score worst.

Key findings from the research are:

- Australia (85.2 out of 100) tops the overall rankings, with New Zealand (83.3) and Hong Kong (81.0) not far behind.
- Although it scores well on customs environment, Singapore (69.8) does worse than might be expected overall, mainly due to low scores in the transparency and trade category.
- The bottom half of the rankings is comprised mainly of developing economies, with Myanmar (10.8), Laos (12.9), and Cambodia (23.9) performing the worst.
- China (61.6) scores better than its reputation would suggest on the strength of improving intellectual property protection and increasing transparency.

While there have been encouraging signs that more is being done to combat illicit trade, many economies in the region—not all of them developing—clearly have more to do in this area. The Illicit Trade Environment Index and this paper are meant to stimulate discussion in these economies and elsewhere.
Introduction

For almost as long as there have been borders, and governments that seek to monitor and control the goods and people that cross those borders, there have been individuals and criminal syndicates that have profited from their ability to circumvent that control. We know this because the evidence has always been available, mainly at the point of consumption—before people carried counterfeit handbags, smoked illicit cigarettes and used synthetic methamphetamines, there were bogus spices, stolen antiquities and smuggled whiskey.¹

Yet, while its existence is well-known, the nature of the trade itself makes its size hard to determine. A number of organisations, including the Organisation for Economic Cooperation and Development (OECD) and United Nations Office on Drugs and Crime (UNODC), have made concerted efforts in recent years to quantify the extent of illicit trade. But even they acknowledge the limitations of extrapolating from self-reported seizure data from customs authorities, supplemented with other incomplete and potentially-compromised sources.² Sophisticated econometric modeling can compensate for some of these shortcomings but the end results still tend to be qualified and span a wide range of dollar or percentage values.

Despite the recognized constraints, these efforts have been made because understanding illicit trade is important. Besides posing a threat to public health, the environment, innovation and tax revenues, the trade provides funds for transnational crime networks and terrorist organisations.³ A shipment of fake goods doesn’t just take away money from a company or government – it feeds a cycle of criminality that threatens the health and security of nations across the world.

With that in mind, the Economist Intelligence Unit, sponsored by the European Chamber of Commerce in Singapore, has created the Illicit Trade Environment Index, which measures 17 economies in the Asia Pacific region on the extent to which they enable illicit trade. The index covers four policy categories: intellectual property, transparency and trade, customs environment and, finally, supply and demand. This report discusses the findings from the index, which covers ASEAN ex-Brunei,⁴ along with Japan, China, Hong Kong, Taiwan, South Korea, Australia, New Zealand and India.

Index construction: Why and how

Calculating another estimate of illicit trade, using the same data but a slightly different methodology, would do little to further discussion of the topic. This isn’t to say the absolute size of the trade is not important—it is—and we hope our study will provide some support to future efforts to quantify its size.

But as a policy matter, we feel a different but complementary approach is needed to drive discussion, one that measures the enabling environment that economies create through both action and inaction. To this end, we conducted an extensive literature review, drawing on reports and resources from academics, industry and international organisations. The preliminary results of the

³ UNODC (2013) Transnational Organized Crime in East Asia and the Pacific: A Threat Assessment
⁴ Brunei was excluded due to lack of available data.
literature review were then presented to a panel of external experts, who provided comments and feedback. After taking the panel’s input into consideration, we selected the final indicators: each indicator had to be relevant, mutually exclusive and measurable.

In practice, this meant that a number of potential indicators had to be excluded. For example, each country’s customs budget and number of customs officials employed was agreed by the expert panel to have relevance to its enabling environment for illicit trade. However, many economies do not make this information publicly available, so it could not be used. The same applied to the concept of “consumer complicity” or the extent to which a populace in a given country accepts counterfeit and pirated products. While some survey data on consumer attitudes exists, survey demographics are patchy and there are no data sets comparable across all economies covered by the Index.

Intellectual property was another problem. The literature review and expert panel revealed a number of potential indicators, including the number of convictions for IP violations over a given period and the average length of sentencing. Those presented data issues, however, and were also found to overlap with The EIU’s intellectual property protection score for each country, which takes a number of factors into consideration. We decided that the EIU score, along with a score for the existence of a customs recordal, satisfied the conditions.

For a full description of the methodology, indicators and sources, please see the methodology appendix at the end of this report.
Overall results

With a score of 85.2 out of 100, Australia tops the overall rankings for preventing illicit trade, with New Zealand (81.8) and Hong Kong (81.4) not far behind. In the second tier, in order, are Japan, Malaysia, South Korea, Singapore and Taiwan, all of which score in the 70s or high 60s. The third tier comprises China, India, Thailand, Vietnam, the Philippines and Indonesia. And at the bottom of the index are Cambodia, Laos and Myanmar, all of which register scores below 25.
It seems intuitive that a country like Australia would top the index, and be followed by its neighbour, New Zealand. Both are geographically distant from the rest of the world and for biosecurity reasons, maintain tight control over imports of wildlife and agricultural goods, a policy which has spillover effects for the broader prevention of illicit trade. However, Australia scores highly in each of the four categories, coming in either 1 or 2, while New Zealand’s overall score is held down only by poor performance in the transparency and governance category, where it ranks 11th due to a low score in use of track and trace services and a perception among stakeholders that it is uncooperative.

Hong Kong and Malaysia being in the top five might seem less intuitive. Malaysia, for its part, ranks 7 in intellectual property protection and 8 in customs environment, but outperforms in transparency and governance based on local authorities having jurisdiction over goods in transit and there being customs offices in the country’s free trade zones. Hong Kong, which interviewees and some experts argue hasn’t been receiving enough credit for the improvements it has made to its overall illicit trade environment, ranks in the top five in the region for IP protection, customs environment, and factors influencing supply and demand for illicit goods, including the tax environment and labour market regulations.

**Bottom of the class**

Not surprisingly, the region’s poorer economies—Cambodia, Laos and Myanmar—sit at the bottom of the rankings. While the bright spots are few here, Myanmar offers some hope, according to Jeremy Douglas, regional representative for the UN Office on Drugs and Crime (UNODC). “Myanmar presents the most challenges, but there’s a new government and, we hope, a new energy for change that comes with it,” he said. “One of the first priorities needs to be civilianisation of the police force and, at the same time, substantial capacity-building, since the country as a whole is not equipped to deal with transnational crime.”

One country in the bottom half of the index, albeit just, also offers hope—China. For the last two decades, China has been at the center of global illicit trade, especially counterfeit and pirated goods, but also in areas of the trade not covered directly by the Index, such as endangered species. Its rise, not coincidentally, has been concurrent with its rise to the center of global manufacturing. The more companies that moved production to China, the more opportunities there were for local firms to copy those goods. To the constant frustration of foreign investors, the Chinese government did very little to stop the practice and, at its peak, China was estimated to have accounted for three-quarters of the world’s counterfeit production. But the environment is about to change, if it isn’t changing already, says Shang-jin Wei, chief economist at the Asian Development Bank. “The time has come for China to make more effort against counterfeits and low-quality goods. Now there are domestic producers with intellectual property to protect. That, along with rising labour costs, currency appreciation, and a populace that wants higher-quality goods, means we should see further improvements in the years ahead.”
It stands to reason, however, that if illicit trade followed licit trade into China, then it’s just as likely to follow it out. With rising labour costs, legitimate manufacturers are now looking to Southeast Asia as a location for investment. Considering how welcoming the present environment is for illicit trade in economies like Vietnam, Indonesia, Myanmar, Laos and Cambodia, this could mean a solution in China creates a problem elsewhere. The extent to which this occurs will depend on more than what policies those economies implement. The economies that are responsible for demand and the economies that help to facilitate the trade will also play a pivotal role.
Protection of intellectual property (IP), the first of the index’s four main pillars, is fundamental to preventing the manufacture of and trade in counterfeit and pirated goods, which in Asia is the largest type of illicit trade by estimated value. However, it’s only in the last 20-30 years that parts of Asia have started to treat IP seriously. This is mainly a “function of development,” according to Nick Redfearn, Deputy CEO and partner at Rouse, a global IP consultancy. “As economies become wealthier, there is less acceptance of low-level criminality and more people who pay their taxes and register their businesses, as well as an increasing consumer preference for real goods.”

The category results track with that assessment, with a few notable exceptions. The economies that score the highest—Australia and New Zealand—offer (in The EIU’s view) a high standard of comprehensive IP laws that are strongly enforced and have a customs recordal for IP owners to register trademarks, patents and copyrights. Singapore’s IP laws and enforcement are deemed just as strong, but it is the only developed country in the Index that does not have a customs recordal, which lowers its score in the category. At the bottom of the Index, Laos and Myanmar present the highest risk to IP owners and, as you would expect, neither offer customs recordals.

The operative word in the index score is “enforcement.” All of the economies in the index have IP laws of varying stringency on the books. Whether and to what extent they actually pursue and punish violators of those laws is another story and involves an understanding of the broader criminal justice system. In some economies, for example, it can take up to a decade for any case, intellectual property or otherwise, to go to trial. Such a long lag time between apprehension and conviction inevitably erodes the deterrent function of punishment, be it a fine or a jail sentence.

Yet a little effort, both at and behind the border, could go a long way, says Mr Redfearn of Rouse. “Trading counterfeit and other illicit goods is an easy way to make a fast buck. A trader in Surabaya doesn’t really need to worry about being caught, let alone convicted. But if customs intercepted just a few more shipments, and some economies punished more than the zero people they are punishing now, it would at least give those traders pause.”

While the prospects for criminal justice reform are outside the scope of this paper, border measures, like having a customs recordal system, are not. Nine of the seventeen economies in the Index offer a customs recordal, which, depending on the country, allows trademark, copyright, or patent owners—

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and in some economies, all three—to register their IP with the customs agency. This, in turn, empowers customs to interdict shipments suspected of containing goods that infringe on registered IP without a specific request from the IP owner. In the absence of a recordal, customs agencies tend to act only on a specific request and even then, only if the IP owner posts a “seizure bond,” the cost of which can, in some economies, have a chilling effect on the ability of IP owners to make such requests.7

7 In simple terms, if a given country’s customs organisation suspects a shipment to contain counterfeit goods, it notifies the brand owner, which, if it chooses, can complete formal paperwork and pay the seizure bond, if one is required, in order for the shipment to be detained.
Transparency and trade

Like most other forms of illegal activity, illicit trade thrives where regulation is weak or non-existent, where there’s little to no formal oversight, and where governments fail to share information and cooperate with stakeholders from the international community and the private sector. It’s an obvious point, but as shown by the results of the transparency and trade pillar, the second pillar in the Index, it is one nevertheless only dimly understood or perhaps even ignored by a number of economies, including a few developed ones. Scores for the pillar are thus based on the availability of track and trade services, whether or not a country is a signatory to Annex D of the Revised Kyoto Convention⁸, whether local officials are perceived as being cooperative with stakeholders, and expert perceptions of the extent of monitoring and oversight of the country’s free trade zones (FTZs).

South Korea comes out on top of this category on the strength of the governance it exercises over its free trade zones and, according to a survey of regional experts, the depth of cooperation it pursues with stakeholders. Malaysia and Japan likewise receive high marks in these areas. China, which comes in fifth in the category, scores well on government cooperation and is close to the top in the use of track and trace services, a measure of the visibility and transparency of trade flows. While it still comes up short on FTZ governance, China in general was praised by respondents for the progress it has made in recent years, even if the scale of the problem means that substantial work remains for the Chinese government.

Near the bottom of the ranking in this category are two developed economies: New Zealand and Singapore. This is somewhat less of a surprise for New Zealand, which is a small, geographically-isolated market; whether or not it cooperates with stakeholders or has high use of track and trace services might not represent a pressing concern for global illicit trade.

That is not the case for Singapore. It is one of the world’s busiest ports, has long been the world’s largest transshipment hub, and is home to seven FTZs that run 24-hours a day. As such, it plays a vital role in facilitating trade within the ASEAN region and, more broadly, between Asia and Europe. Dirk Visser, senior shipping consultant with Dynamar, a shipping consultancy, says that without a full-service transshipment hub the size of Singapore, key economies in the region would be less connected to the world economy. “Ports in Indonesia and Thailand, for example, are not deep enough and so cannot be served by the size of ships operated by the main lines. So the containers need to be transshipped onto feeder ships that can berth at the smaller ports.”

Source: The Economist Intelligence Unit

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⁸ The Revised Kyoto Convention was adopted by the World Customs Organisation in 1999 and the various annexes were created to ensure standardized customs procedures. Annex D applies to customs warehouses and free zones.
There are, of course, substantial economic benefits that accrue to Singapore as a result of its position as the main entrepot in the region. Considering the size of the country, Mr Visser of Dynamar suggests that around 90% of the twenty-foot equivalent (TEU) throughput in Singapore is transshipments,” which would have worked out to just under 27.8m TEUs in 2015. Using an estimated median fee of $60 per container, that works out to $1.67bn in direct revenue. If you include a multiplier to account for the indirect economic benefits, that figure could rise to $5bn-$6.7bn.9

It’s for this reason, says one local lawyer who specializes in IP, that Singapore is less vigilant than it could be, particularly with regards to the FTZs, inside of which neither Singapore Customs nor any other government authority is a consistent presence. “Ports are a sacred cow [for the government] and they will only slow them down [to intercept] guns and bombs.” However, according to research from the OECD and International Chamber of Commerce’s Business Action to Stop Counterfeiting and Piracy (ICC BASCAP), insufficient oversight is a major enabler of illicit trade in all economies with FTZs.10 There’s no evidence suggesting Singapore is somehow an exception to this and although it ranks second in track and trade services, it is among the eight countries in the region that experts view as being uncooperative with stakeholders and along with India and New Zealand, it receives the second lowest rating for its FTZ governance. Singapore Customs, for its part, contends that it “actively cooperates” with various partners and that it can also “take ex-officio enforcement action” on consignments suspected of carrying IP infringing goods.11

For all the benefits Singapore reaps from the FTZs, and its broader role as a regional logistics hub, poor FTZ governance and the perceived lack of cooperation amounts to “an abdication of responsibility,” according to Mr Redfearn of Rouse, the global IP consultancy. “They dedicate almost nothing to the problem [of illicit trade] considering how much money they make [from the ports].”

**Smuggling via FTZs**

**THE PATHS OF ILLICIT GOODS THROUGH FTZs**

**Excise goods**
- Container of excise goods
- Import to bonded warehouse
- Bonded warehouse
- Export to FTZ warehouse
- Container misdeclared upon export

**Non-excise goods**
- Container of non-excise goods
- Import to bonded warehouse
- Bonded warehouse
- Export to FTZ warehouse
- Container misdeclared upon export

Shipments that enter FTZs are stored in a warehouse, where they can be re-packaged, re-labelled, processed, or assembled before being imported into the national territory, re-exported to the country of destination, or re-exported to another FTZ. In FTZs that are not monitored by customs or law enforcement, smugglers are free to take a variety of actions to hide or disguise illicit shipments, including mislabelling the country of origin and the packages themselves, as well as consolidating and mixing cargoes.12

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9 The Geography of Transport Systems. Jean Paul Rodrigue. New York: Routledge, 2013. https://people.hofstra.edu/geotrans/ Note: There is no consensus on the precise multiplier, only that there is one and depending on the situation, it can be significant.


11 Singapore Customs responded to a request for comment on its scores in key pillars via email.
Customs environment

The overall customs environment, separate but not altogether distinct from the specific issues of transparency and governance, is for obvious reasons critical to reducing illicit trade flows. The best customs organisations are able to manage their dual, or parallel, mandate of facilitating trade efficiently while at the same time conducting inspections in a reasonable and timely manner and reducing corruption, if not eliminating it altogether. It’s not an easy balance to strike, particularly in Asia, where there are huge disparities in capacity. “At the high end [of capacity] you have a country like Singapore and at the low-end, there’s Laos, which is basically equivalent to a Sub-Saharan country,” says Jeremy Douglas of UNODC. “There’s no consistent effort across the region and that creates gaps.”

Singapore tops the rankings in this category. It’s customs clearance and inspection times are among the best in the region, it has implemented a high-level of automation, and along with Australia and New Zealand, has the least amount of corruption, a factor that correlates strongly with illicit trade. Hong Kong, which ranks fourth, scores well on four of the five Customs environment indicators, performing poorly only on the percentage of shipments it physically inspects, an indicator that was under-weighted relative to the rest of the category on the advice of the expert panel.

As Mr Douglas and others would predict, with only a few minor exceptions, the customs environment ranking is more or less a function of wealth. The economies at the bottom of the category—Philippines, Cambodia, Myanmar and Laos—are poorer and thus face the kind of budgetary constraints that the economies at the top do not. Without outside assistance, it could be years, if not decades, before any of these economies can begin to build a sufficient customs apparatus. As the region continues to integrate, the vulnerabilities this creates could exacerbate the problem of illicit trade.

A fix may be on the horizon, however. A dispute over financial capacity was at the heart of negotiations over the Trade Facilitation Agreement (TFA), a multilateral pact aimed at reducing trade costs by streamlining the flow of trade across borders. Agreed in December 2013 but not yet implemented, the completed TFA includes an important compromise that allows developing and least-developed economies to place certain commitments into a category—Category C, to be precise—that “require assistance and support for capacity building.” According to Sheri Rosenow, counsellor, WTO Trade Facilitation Agreement Facility, the TFA could have positive spillover effects for the prevention of illicit trade: “The [TFA] contains unique and extensive provisions concerning implementation support. Consistent with these provisions, the developed economies have pledged technical assistance and

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13 While physical inspections play a part in disrupting illicit trade, the percentage of shipments inspected doesn’t capture the thoroughness with which the inspections are carried out.

14 https://www.wto.org/english/thewto_e/20y_e/wto_tradefacilitation_e.pdf
support for capacity building. Full and proper implementation of the TFA should improve border agency enforcement and control.”

Mrs Rosenow refers to two specific areas where this might occur. One is risk management. There are a number of approaches economies can take to reduce risk, but one of the most successful in recent years has been for customs to implement the World Customs Organization’s Standards to Secure and Facilitate Global Trade (WCO SAFE framework) and, in particular, the Authorized Economic Operator (AEO) program, which gives certified companies preferential customs processing. Yet, because of the resources required to follow the AEO’s nine-phase implementation process, none of the four economies at the bottom of the Index have an AEO program.

The other area is border agency cooperation, such as the sharing of information, best practices and even coordination of enforcement activities. This could prove more difficult. While criminals cooperate across borders, so far governments haven’t, at least in Asia. “There are no frameworks or tools that are shared,” says Mr Douglas of UNODC, who cited a mix of causes, including historical issues, lack of trust and complex bureaucracies where “everything requires the boss’s approval.” The TFA could help to correct this situation by forcing signatories to adhere to its conditions.

Supply and demand

Illicit trade is driven by supply and demand, albeit in a more distorted form than its licit counterpart. When a shipment of heroin or counterfeit goods is produced and then smuggled across borders, it’s only because there is a market waiting at its final destination. That market may grow or shrink, but as long as there is a market and profits to be had, efforts will be made to meet the demand.\(^\text{16}\) On both sides of the equation—the supply side and the demand—efforts can be curtailed, or at least discouraged, through a variety of policy levers, including the level of tax and social security burdens, regulation of labour markets and the quality of domestic institutions.\(^\text{17}\)

Hong Kong’s domestic policies are the most conducive to limiting the supply and demand of illicit goods. It, along with New Zealand, which comes in second in this category, both receive the highest score for the tax and social security burdens and Hong Kong is alone at number one for its labour market regulations. Singapore, Taiwan, and Australia are in the second tier of economies, followed by Japan, Malaysia and Thailand. South Korea, the lowest ranked developed economy, is dragged down by relatively high tax and social security burdens and its labour market regulations. After South Korea, the rankings more or less track with income levels, with Cambodia and Myanmar once again at the bottom.

Hong Kong’s place at the top of the rankings may seem odd to those with memories of an era when the city’s street markets were full of fakes and the authorities mostly looked the other way. That is less the case today and, in part, Hong Kong’s image as a hub of illicit trade persists because of those memories and because of its proximity to and trade relationship with China. Its domestic policies and its institutions, at least those relevant here, have improved greatly over the past two decades, but Hong Kong often doesn’t get the credit it deserves. “Hong Kong has actually become a place which consumers see as a destination for purchasing a wide selection of genuine products,” says Henry Wheare, counsel at the law firm Hogan Lovells. “This organically drives down demand for illicit products while, at the same time, a stronger enforcement regime has helped to restrict the supply of fake goods.”

For the economies at the bottom of the Index, scores are largely a function of development, but at some point, all governments need to make an effort to improve the environment that enables illicit trade. “Most people [in these economies] don’t pay taxes because they think the government is going to misappropriate or misspend their money,” says Mr Redfearn of Rouse, the IP consultancy. “They don’t register their businesses for much the same reason and it can take years for a government to earn that trust.” Mr Redfearn cites Thailand as one country that has done better in recent years and although it scores poorly in this category, China does better than it might have three or four years ago, before the anti-corruption drive began.

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\(^\text{17}\) F. Schneider, The Shadow Economy. The indicators for this category are based on findings in Dr. Schneider’s work.
Conclusion

As Asia becomes more integrated as a result of a series of existing and potential free trade agreements, like the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP), as well as the formation of the ASEAN Economic Community (AEC), the region will reach a turning point when it comes to illicit trade. Integration can help to drive economic growth and lift people out of poverty, but when it comes to matters of security and safety, it can also be destabilising because it transforms once isolated vulnerabilities, like porous borders between two economies, into vulnerabilities that are shared.

The problem in Asia so far, according to Mr Douglas, is that the two agendas—integration and security—are being kept separate. “It’s not that complicated,” he says. “We know what needs to be done.”

That isn’t to say there haven’t been encouraging signs. Recent improvements in the illicit trade environment in China, while still short of what needs to be done, at least indicate the country is moving in the right direction. And, if and when the TFA enters into force, regional—and global—cooperation should improve and the capacity constraints faced by the economies at the bottom of the Index could be relieved, leading to better risk management and smarter border controls. There are also some relatively easy fixes that could be pursued, such as improved oversight and governance of the region’s many FTZs.

Whether these positive trends continue, or if they stagnate or reverse, will influence how heavily illicit trade flows throughout the region in the years ahead. The Illicit Trade Environment Index and this paper are meant to stimulate discussion so that the trends continue.
Appendix: Index methodology

The 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 review, and input from a panel of experts from academia, business and international organizations, the Index was built around four main categories with between two and five indicators each. Those categories are:

- **Intellectual property** measures the extent to which economies not only have comprehensive IP laws but their enforcement of those laws. It also includes an illicit trade-specific indicator—whether or not a country offers a customs recordal to IP owners.

- **Transparency and trade** measures how cooperative a country is with stakeholders and the degree to which it exercises governance over its free trade zones and transshipments.

- **Customs environment** measures how effectively a country’s customs service manages its dual mandate to facilitate licit trade while also preventing illicit trade.

- **Supply and demand** measures whether the domestic policies a country has in place either discourage or encourage supply and demand for illicit goods.

**Indicators by type**

Due to a lack of available data, all indicators are scored qualitatively. There are four types of indicators.

- **EIU country scores.** These are indicators scored by EIU country analysts, either for our Business Environment Rankings or our Operational Risk Ratings. The analysts arrive at their scores based on answers to a set of specific questions for each topic. For this Index, we have used five EIU country scores: Protection of IP rights; corruption; tax and social security burdens; quality of state institutions; and labour market regulations.

- **International institution scores.** Four indicators use scores taken from existing indexes/rankings compiled by these institutions, including “Track and trace services” from the World Bank’s Logistics Performance Index and “Automation” for the Organization for Economic Cooperation and Development’s Trade Facilitation Index.

- **Participation/availability scores.** Three indicators are scored based on whether or not a country offers a particular service or has adopted an international agreement. In the cases of the customs recordal and Annex D of the Revised Kyoto Convention, these are yes/no scores, with ‘yes’ being a positive score and ‘no’ being negative. For the AEO or trusted trader indicator, economies are scored on whether the program has been implemented, is being pursued, or is not a consideration.

- **Survey of experts.** Two indicators are scored based on a survey of regional experts. Both are in the transparency and governance category (government cooperation and FTZ governance).
Indicator normalisation

In order to be able to compare data points across economies, as well as to construct aggregate scores for each country, the project team had to first make the gathered data comparable. For this index, which does not use quantitative indicators, that task was simpler than it might otherwise be. There were differences of scale, however. Some indicators were scored on a scale of 0–10, while others were scored 0–4 or yes or no. All indicators were converted to a scale of 0—100 in order to enable comparison with the other series in the index.

Indicators

A team of in-house researchers collected data for the index from September 2015 to February 2016. In addition to scores from the Economist Intelligence Unit, the index uses publicly available data from international organisations like the World Bank and the OECD, as well as the results of a survey of regional experts.

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<td><strong>Intellectual property</strong></td>
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<tr>
<td>Protection of IP rights</td>
<td>Rating</td>
<td>EIU Operational Risk Model</td>
<td>Extent to which a high standard of comprehensive IP laws are enforced</td>
</tr>
<tr>
<td>Customs recordal system</td>
<td>Yes/no</td>
<td>Baker McKenzie</td>
<td>Existence of a customs recordal system for brand owners</td>
</tr>
<tr>
<td><strong>Transparency and trade</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Track and trace services</td>
<td>Rating</td>
<td>WB Logistics Performance Index</td>
<td>The ability to track and trace consignments</td>
</tr>
<tr>
<td>Adoption of Annex D of Revised Kyoto Convention</td>
<td>Yes/no</td>
<td>World Customs Organization</td>
<td>A country’s adoption of Annex D of the Revised Kyoto Convention, a commitment to best practices in customs warehouses and FTZs</td>
</tr>
<tr>
<td>Government cooperation</td>
<td>Yes/no</td>
<td>Expert survey</td>
<td>A government's commitment to cooperate with stakeholders in the prevention of illicit trade</td>
</tr>
<tr>
<td>FTZ governance</td>
<td>Rating</td>
<td>Expert survey</td>
<td>Extent to which a customs organization and other law enforcement agencies monitor FTZs in their jurisdiction</td>
</tr>
<tr>
<td><strong>Customs environment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of shipments physically inspected</td>
<td>%</td>
<td>WB Logistics Performance Index; EIU analysis</td>
<td>Proportion of shipments physically inspected. Data is underweighted on the advice of expert panel.</td>
</tr>
<tr>
<td>Customs clearance and inspection</td>
<td># of days</td>
<td>WB/IFC Ease of Doing Business Ranking</td>
<td>Average number of days for clearance with physical inspections</td>
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<tr>
<td>Automation</td>
<td>Rating</td>
<td>OECD Trade Facilitation Index</td>
<td>Electronic exchange of data, automated border procedures, and use of risk management</td>
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<tr>
<td>Corruption</td>
<td>EIU rating</td>
<td>EIU Operational Risk Review</td>
<td>Extent of corruption among public officials</td>
</tr>
<tr>
<td>Accredited Economic Operator programme</td>
<td>Rating</td>
<td>World Customs Organisation</td>
<td>Existence of an Accredited Economic Operator programme</td>
</tr>
<tr>
<td><strong>Supply and demand</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax and social security burdens</td>
<td>EIU rating</td>
<td>EIU Business Environment Rankings</td>
<td>Extend of corporate tax and social security contributions of companies</td>
</tr>
<tr>
<td>Quality of state institutions</td>
<td>EIU rating</td>
<td>EIU Operational Risk Review</td>
<td>Effectiveness of country’s public institutions</td>
</tr>
<tr>
<td>Labour market regulations</td>
<td>EIU rating</td>
<td>EIU Business Environment Rankings</td>
<td>Degree of restrictiveness on hiring and firing</td>
</tr>
</tbody>
</table>
While every effort has been taken to verify the accuracy of this information, The Economist Intelligence Unit Ltd. cannot accept any responsibility or liability for reliance by any person on this report or any of the information, opinions or conclusions set out in this report.
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