TRADE PROMOTION POLICIES
IN THE BLACK SEA REGION

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To the people of Homer’s time, the Pontus Euxinus was a second ocean and was known as The Pontus just as Homer was known as The poet...the Pontus was first called Aexinos (inhospitable) until Greek settlement and commerce when it became the Pontus Euxinus (hospitable.)

Strabo, Geografica, circa 7 B.C.

1 INTRODUCTION

1.1. As the quotation from the Greek geographer Strabo suggests, the naturally violent and “inhospitable” Black Sea (Pontos Axeinos) was after the 6th c. B.C. made “hospitable (Pontos Euxeinos) through the extensive commerce of antiquity among the peoples and city states of the Black Sea region (BSR). Subsequent history has seen many cycles of more closed and more open commercial relations, and while since 1990 there has been a new opening and expansion of relations, most indicators suggests the full potential of trade and foreign investment are far from being attained. The purpose of this paper is two-fold: first to summarize recent trends in trade and related policy, and second to propose for discussion a number of policy choices for promoting further expansion of trade and commercial relations, resulting in greater integration within the region as well as globally.

1.2. The paper is structured as follows. Section II briefly alludes to the period of antiquity, not for the direct lessons it gives for today, but for the spirit of openness it reveals. Section III provides an overview of the key economic characteristics of BSR countries, focusing especially on trade trends. Section IV describes the status of trade policy and other trade costs-defined more broadly than just measures affecting trade at the border, but also those behind the border such as the institutional environment for doing business, as well as the trade facilitation environment. Section V draws from the preceding analysis the main policy choices BSR countries should consider to promote trade.
2 TRADE IN ANTIQUITY: THE “FAROS” FOR TODAY?

2.1. How much trading and “foreign investment” took place in the BSR in antiquity may not be measurable in the modern statistical sense, but plenty of evidence points to it being considerable and long-standing. The Geographica of Strabo refers to even earlier writings (Pindar 5th c. BC), while a recent archeological find of a shipwreck dates trade to the 6th c. BC ship, and importantly suggests the cargo was fresh water fish from areas well north of the Crimean coast. That such trade was extensive and reached far into the hinterlands of the Black Sea is also evidenced by relevant finds not only on the west coast but in northern reaches of Ukraine, southwest Russia, and the Caucasus. In the works of archeological historians “long-distance trade has been proposed as the critical element in fostering the emergence of early states and other polities.”

2.2. Since the early periods and throughout history, commercial relations in the region have gone through many cycles of decline and revival, generally related to conflicts among states or empires and subsequent periods of stability achieved by the dominance of one side over another. After the Greek-dominated period declined, Pax Romana re-established the importance of these trade routes and extended the network to the west, to be followed by a decline after the fall of the Roman Empire, a narrower revival focused on North-South routes by the Viking traders who established Kyivan Rus, yet another fall-off until the Ottoman empire, and so on. The most recent revival since the post-communist transition is, thankfully, very different in nature from these historical cycles, being largely free of imperial dominance and military conflict but based rather on voluntary and co-operative interactions among interested sovereign states. Nevertheless, one should not forget that in the periods of calm, such trade not only flourished but was actively promoted by the rulers and elites of the relevant polities. Wars and conflicts were not intended to impose barriers to such trade—paradoxically to expand such trade, though the conqueror hoped to obtain the greatest benefits. In the historical and archaeological evidence there is little indication of overtly protectionist activities, and considerable evidence of easing or “facilitating” commerce. If lessons are to be drawn from history they show two things: any activity which impedes trade is likely to lead to its reduction to the cost of all concerned; when states instead take measures to ease trade, it thrives to the benefit of all. The 21st c. in the Black Sea Region shows all indications of countries wanting to implement both these lessons of history—avoid conflicts and other barriers to trade, and actively ease and facilitate trade among states and globally. This history should, like the beacon of a lighthouse (faros, feneri, mayak), show both where to go—and where not to go.

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1 Hiebert (2001) discusses one of the joint archaeological projects in Black Sea waters seeking to establish trade interactions of black sea cultures in antiquity. The find off the Bulgarian coast in 2003 is described in www.turks/us
2 Gidden, Pevny, and Romey (1997) identify the numerous inland locations of such finds, and show a map of the many trade routes which criss-cross the Black Sea and tributaries.
3 Hiebert op.cit. p.11. The project referenced aims to document the pattern of trade as well (p.14).
4 The history of the post-Greek and medieval periods is succinctly described in Gidden, Pevny and Romey (1997), while the modern period since late 18th c. is outlined briefly in King (2008)
3 OVERVIEW OF BLACK SEA ECONOMIES AND TRADE

3.1. No formal definition of the Black Sea Region exists, though for issues of trade integration it includes at a minimum countries sharing the coastline. But given inland transport and hence trade connections, it often encompasses a wider group reflected, for example, in the wider membership of the Organization of the Black Sea Economic Cooperation (BSEC) and the Black Sea Trade And Development Bank (BSTDB). Analysis in this paper generally covers the nine countries shown in Table 1, though some references to a wider BSR include Greece, a very important partner in the region. The BSR numbers over 300 million population, about two-thirds the size of the EU (with which it overlaps), and while its relative economic size is less because of lower per capita income, it is still large at about $3.5 Trillion in PPP terms, one-fifth of the EU. The three largest economies (Russia, Turkey, Ukraine) dominate comprising about 85% of GDP, two medium-sized ones (Bulgaria, Romania) another 9-10%, with the small ones accounting for only 4-5%. The overall size of the region is substantial by any measure, and its diverse size-structure is not very different from that of the EU. There is also wide diversity of development levels, with the lowest PPP per capita income about $3,000 and the highest over $10,000 (Greece being much higher at $30,000). The share of agriculture in GDP ranges about 20% (Armenia, Moldova) to low single digits in some.

3.2. Yet another mark of diversity is the large weight of energy in Azerbaijan and Russia, compared to a share of manufacturing in merchandise exports over 50% for most other countries (Col. 5), though for some these exports include a large share of resource and energy dependent goods (Ukraine, Armenia). There is an important difference in the commodity structure by destination: the manufacturing share to EU is much higher; and intra-CIS trade still exhibits “legacy structures from the Soviet period” (Astrov-Havlik) including for example transport equipment from Georgia and Ukraine. Finally it is notable that with exception of the two energy exporters, services account for a significant share of export value, from about 20-25% in Bulgaria, Romania, Turkey and Ukraine, to 30-35% in the others.

3.3. This great diversity in the region is, likely a positive attribute when considering future prospects for global and regional integration as it facilitates growth in both traditional factor-endowment type of comparative advantage, and in specialized production of manufactured lines within international supply networks, or intra-industry-trade. This has already been happening, especially in the transition economies which underwent a deep and extended recession in the nineties, but since 2000 have experienced economic growth much higher than Western Europe, and even higher than in the booming new member states of the EU (NMS): respectively 6+, 1.4%, 4.4%. Trade grew even more rapidly (Table 1) export levels at least doubling in all countries from 2000-2007 hence the transition economies became much more open quickly reaching Trade/GDP ratios much higher than the middle-income average of 50% in (WDI 2008, p.323), with some countries over 100%.

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5 The BSEC and other regional organizations or policy programs of the EU, are beyond the scope of this paper, but it should be recognized they may be very relevant for future trade integration activities.
6 Calculated from World Bank World Development Indicators 2008. This source is also used for many other comparisons in the paper. As the region is not rigorously defined only approximate figures are presented.
7 Kaminski and Ng (2006) show how Turkey’s trade has evolved within producer-driven networks which allow global division of labor based on production-fragmentation.
8 Astrov and Havlik (2008); also BSTDB Annual Report 2007
9 WDI Table 6.1; Broadman (2005) analyses in depth the trend of opening up in transition process
3.4. With the new opening and global integration significant change occurred in the direction of trade and its commodity structure. In the socialist period trade outside the bloc was as little as 5-10% for USSR republics—excepting Russia at about 20% due to energy. Since 1990 there has been a large outward orientation to global markets especially EU, though energy imports from Russia remain substantial. The shifts predicted by gravity models appears nearly complete in the NMS, but not in the CIS, with EU exports reaching respectively 60-75%, and at least 25% to 40% in the others.  

3.5. Changes in commodity composition reflecting global comparative advantage also appear to be far more advanced in the NMS, less so in South East Europe (Bulgaria, Romania) and least of all farther east (Ukraine, Russia, and other BSR countries). The already high manufactured exports share in 1990 for the NMS (over 50%) has increased much further while in the CIS countries, as noted above natural resources and goods with high resource content are still very important even for countries that are not resource rich. Another indicator of their slower climb to higher rungs of the comparative advantage ladder is the Intra-Industry Trade Index (IIT), which for the NMS reaches 60-75%, comparable to advanced countries and exceeding some East Asian Tigers (55-60%), but in the CIS it is far lower in the range 35-40%, with Turkey slightly above, about 45% This country ordering is also reflected in the IIT ratios for trade among BSR countries: Bulgaria and Romania 55%, Turkey 45%, Russia 35%, Ukraine and others 15-20%.

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10 The conclusions and indicative numbers about direction of trade in this paragraph and the shift in commodity patterns in the next are based on the overview by Havrylyshyn (2008), but also reflects a wide consensus in the transition literature.

11 UNDP (2007) provides an extensive analysis of BSR intra-trade including potential expansion. Note IIT of more industrialized countries like Greece, Turkey, Ukraine, are higher in trade outside the region than inside.
TABLE 1. KEY TRADE DATA: BLACK SEA COUNTRIES

<table>
<thead>
<tr>
<th>Country</th>
<th>TOT.Export Growth p.a.2000-06</th>
<th>Exports to BS Sm.</th>
<th>BS Export Share</th>
<th>BS Import Share</th>
<th>Share of Manufactures in BS Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>24.5</td>
<td>187</td>
<td>19.3</td>
<td>33.1</td>
<td>9.9</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>34.3</td>
<td>1,142</td>
<td>17.9 (49.4)</td>
<td>37.8</td>
<td>2.4</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>21.6</td>
<td>2,820</td>
<td>18.7</td>
<td>15.3</td>
<td>37.7</td>
</tr>
<tr>
<td>Georgia</td>
<td>23.1</td>
<td>492</td>
<td>53.9</td>
<td>49.9</td>
<td>20.3</td>
</tr>
<tr>
<td>Moldova</td>
<td>14.7</td>
<td>520</td>
<td>51.0</td>
<td>50.2</td>
<td>39.1</td>
</tr>
<tr>
<td>Romania</td>
<td>21.2</td>
<td>4,844</td>
<td>15.0</td>
<td>15.0</td>
<td>56.0</td>
</tr>
<tr>
<td>Russia</td>
<td>23.0</td>
<td>28,105</td>
<td>9.3 (12.0)</td>
<td>9.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Turkey</td>
<td>18.5</td>
<td>5,514</td>
<td>6.5</td>
<td>10.0</td>
<td>57.7</td>
</tr>
<tr>
<td>Ukraine</td>
<td>20.4</td>
<td>19,781</td>
<td>40.1</td>
<td>31.6</td>
<td>24.5</td>
</tr>
</tbody>
</table>

Source: UN Comtrade and WTI

Notes: Col. 1 is global exports, annual average for period 2000-2006; Col.2 is $ value, millions, of exports in latest year to other BSR countries as in Table; Col.3 is % share of exports to BSR-for Azerbaijan and Russia the second value in brackets is the share of non-fuel exports only; Col.4 is the % share of imports from BSR; and Col.5: share of manufactures in total merchandise exports calculated form WTI/TAAG

3.6. In reaction to the opening up foreign direct investment (FDI) also increased sharply reaching annual GDP shares of 5% to 10% or more. This is far higher than the 3.5% in all upper middle income countries, nevertheless potential FDI remains high for BSR since flows in the nineties were quite low. Indicative of the potential are the cumulative per capita FDI in the NMS which by 2006 reached an average of $3,600 with 3 countries $5,000 and more. For the BSR, only Bulgaria and Romania are close with $3,850 and $2,070 respectively, while the others are much lower at $500-1,000. The fact that FDI/GDP ratio is lower in Greece and Turkey (1.8% and 5.0%) reflects not only larger size but also the longer time period over which these economies have been cumulating FDI- though many indications suggest there continues to be large potential for FDI in these cases too.

12 For 2006 WDI tab.6.1 shows for Bulgaria, Georgia, Moldova, Romania respective values of 16%, 14%, 7%, 9%.
14 UNDP pp.17-19 explains this.
3.7. On the trade among BSR countries, a prior caution is warranted. The efforts of BSR countries to cooperate on issues of trade and integration do not and should not have the narrow aim of expanding intra-regional trade, for that will best come of itself as part of continued opening of these economies to global trade and expanding trade with their naturally dominant partner, the EU. This will occur under various arrangements ranging from preferences, to free-trade, to membership. In a word, BSR cooperation is not intended for establishing a regional trading bloc, but is a wide-ranging forum for cooperation on any policies and actions of governments that may promote open trade in general.

3.8. Nevertheless, it is useful to review data on shares of BSR intra-trade. Table 1 Col.3 shows for seven of nine countries a high export share between about 20% and 50%. It is, not surprisingly, much lower for Turkey whose exports have for long been oriented to the EU and elsewhere. For the energy exporters Azerbaijan and Russia it is also much lower given the far greater demand of the EU. But note that this share is considerably higher for their non-fuel exports, especially in Azerbaijan at 49.4%. In general the share of imports coming from the BSR in each country is much the same as that for exports, though the trade balance is often negative, that is imports (dominated by fuels) exceed exports. The mirror image to this is Russia’s positive balance; uniquely, Ukraine is nearly balanced. One should not overlook the importance of Greece as a BSR partner: about 15% of its exports and about 12% of imports—though the latter is only 5% for non-fuels. In the wider BSR definition the intra-trade is consequently somewhat lower, the BSTDB (200&) estimating this at 16.2% in 2006, an increase from 13.0% in 1999.

3.9. An important but very difficult question to answer concerns potential BSR intra-trade. In principle this can be estimated using models such as gravity, factor endowment, or trade elasticity simulations for reduction of trade barriers and costs. But the various assumptions about data accuracy, policy changes, and developments for global trade of each country, make this a very difficult exercise. A UNDP (2007) study used a model combining gravity and individual product revealed comparative advantage to make such estimates, concluding there is a very large potential. While current exports of BSR countries to each other are estimated in this study at $58 bill. (about 14% of world exports), the model simulates potential exports of BSR to BSR of $218b. Even netted out for imports the value is still very high at about $96 b., about doubling current intra-trade.

3.10. Many problems with such an approach exist and are in fact recognized by the authors of the study, but two are worth noting. First, estimation of potential intra-trade at much disaggregated product level has the usual risks of trying to identify future comparative advantage winners. The second, lack of a parallel estimation of what happens to global trade of these countries is critical because any increase in BSR intra-trade can only occur under the general context of trade expansion policies. Nevertheless, this estimate serves as a possible outer-bound for the potential intra-trade and clearly points to the large opportunities.

3.11. In summary, the state of the BSR economies reveals an extremely vibrant region with high GDP growth and even higher trade expansion and opening up. These are middle to upper middle income economies with considerable unutilized capacity that has only recently recovered, to a large part stimulated by increasing but still incomplete opening up and globalization. There has been significant intra-trade integration since the transition began as well. It merits attention that while the BSR countries are not the largest potential markets for each other when compared to the opportunities in the EU and elsewhere, the trade among them is already quite substantial and can easily be expanded.
4 GOVERNMENT POLICIES AFFECTING TRADE

4.1. Traditional trade policies (TP) have focused on border measures such as tariffs, quantitative restrictions, or conversely positive incentives. Most recent literature emphasizes that there are other equally important government measures affecting trade; one econometric study shows “that administrative and regulatory policies are at least as important as trade policies in impeding trade.” Two types of effects are emphasized: behind-the-border “Institutional Environment” (IE), sometimes broadly defined as the ease of doing business; and trade facilitation actions (TF) which lower the cost of doing trade, including a wide range of actions from improving infrastructure, to simplifying administrative procedures, to developing trade-related services for marketing, financing and so on. In this section summary indicators for each of TP, IE and TF in Black Sea countries are presented (Table 2) and discussed, setting the stage for deriving recommendations on government actions to promote further trade and regional integration.

Status of Trade Policies At-the-Border

4.2. The first two columns of Table 2 show latest values of the simple average applied tariff, and the World Bank’s World Trade Indicators (WTI) ranking of each BSR country for the Tariff Trade restrictiveness Index (TTRI) which at present ranks about 125 countries—though tariff data and other relevant indicators are given for an additional100 countries and territories. As a benchmark considers that for EU countries the tariff is 5.2 and TTRI is 21. Overall both indicators show tariff levels and their restrictiveness in BSR are not unusually high, with minor exception of Azerbaijan and Russia, not yet WTO members. But even their values are similar to many middle income developing countries, and of course are likely to have lower levels in the near future with WTO membership.

4.3. But this relatively positive picture should not obscure the possibilities for trade expansion through reduction of tariffs: of seven non-EU members four have tariffs above the EU level, and most still have considerable tariff dispersion. In Table 2, countries with agricultural tariffs 25% above the average are shown with one asterisk (*), 50% above two (**). Bold and underlined values for Armenia and Georgia represent the wide dispersion, the coefficient of variation being greater than the average tariff, due to high maxima over 500% and agricultural tariffs much above average. In sum, BSR countries with very low tariffs nevertheless have considerable room for reducing the few very high rates and even more so agricultural items. Those with somewhat higher averages have even more flexibility for reducing their overall trade restrictiveness.

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15 Regression coefficients of a gravity model in Hoekman and Nicita (2008), pp.14-16, show tariff reduction of 10% increase trade volume 2%, NTM’s have a similar effect, but greater impact comes from improved business institutions and trade facilitation: a 10% improvement in scores increase trade by nearly 5%.
16 World Bank Press Release no. 2008/377WBI, June 17, 2008, describes this project and provides links to the data bank.
17 The WTI data do not rank these two countries for lack of some data on non-tariff measures.
### TABLE 2. POLICIES AFFECTING TRADE OF BLACK SEA COUNTRIES

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>3.0 **</td>
<td>n.a</td>
<td>44</td>
<td>132</td>
<td>40.5+</td>
<td>30.0-</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>9.2*</td>
<td>58</td>
<td>33</td>
<td>111</td>
<td>23.3 - -</td>
<td>11.1 - -</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>5.2**</td>
<td>21</td>
<td>45</td>
<td>55</td>
<td>51.4+</td>
<td>53.1+</td>
</tr>
<tr>
<td>Georgia</td>
<td>1.4**</td>
<td>n.a</td>
<td>15</td>
<td>n.a.</td>
<td>42.9+</td>
<td>48.3+</td>
</tr>
<tr>
<td>Moldova</td>
<td>5.2**</td>
<td>12</td>
<td>103</td>
<td>106</td>
<td>29.5 - -</td>
<td>29.5-</td>
</tr>
<tr>
<td>Romania</td>
<td>5.2**</td>
<td>72</td>
<td>120</td>
<td>99</td>
<td>50.5 - -</td>
<td>55.6 -</td>
</tr>
<tr>
<td>Russia</td>
<td>11.1*</td>
<td>21</td>
<td>47</td>
<td>51</td>
<td>16.7 - -</td>
<td>16.4 - -</td>
</tr>
<tr>
<td>Turkey</td>
<td>10.1**</td>
<td>4</td>
<td>59</td>
<td>34</td>
<td>53.3 -</td>
<td>59.4 -</td>
</tr>
<tr>
<td>Ukraine</td>
<td>6.9**</td>
<td>46</td>
<td>145</td>
<td>73</td>
<td>27.6</td>
<td>26.6 -</td>
</tr>
</tbody>
</table>

**Sources:** Col.1,2,3,4: World Bank, *World Trade Indicators* (*WTI*). Col.5,6: World Bank *World Governance Indicators* (*WGI*). Col.1: simple average MFN applied tariff for all goods.Col.2 Rank of 125 countries for the extent of tariff related trade restrictiveness, as compiled in *WTI* N.B.: Bold and underline signify high dispersion of tariffs, coefficient of variation exceeds average tariff; * signifies agricultural tariffs 25% above average and ** agricultural 50% above. Col.2: IE= Institutional Environment ranking, based on the index of the ease of doing business, given in the World Bank *Doing Business Report 2009*. Col.4: LPI= Logistics Performance Index reflecting the facility of doing trade-the number shown is the country ranking established in the *WTI* data base. Col.5, 6: percentile ranking among countries for the estimated degree of effectiveness of rule of law and control of corruption respectively, given by the World Bank *World Governance Indicators*. A higher number means better ranking. One + signifies percentile is above the average for comparable income group, but within the margin of error of rankings. Two ++ signifies above average and above margin of error, that is statistically significant. Similarly for one - or two -- below the comparator average.

4.4. Even beyond this, all countries are likely to have the possibility of reducing NTM’s. *WTI* gives NTM frequency ratios for only four countries, hence the table does not show separate values. But for those four, only one is low at 5%, the others range from 18% to 39%. Hoekman and Nicita (2008) estimated that for most developing countries the NTM tariff equivalent was 2-3 times that of tariffs; for the Europe and Central Asia region (which includes the BSR) this was respectively 10.1% and 4.5%. There is no reason to believe the BSR situation is very different, hence the conclusion of Hoekman and Nicita (2008) applies: “NTM’s are the major source of barriers to trade, but tariffs also remain important.”

**Status of Institutional Environment for Doing Business**

4.5. The status of behind-the-border effects on promoting trade is more mixed; only two countries have very strong rankings cleanly in the top quartile of the 178 country sample (Georgia 15, Azerbaijan 33). These are very recent improvements, which are of course highly commendable, though some caution about their sustainability is in order. Thus, experience even for the most advanced transition countries shows, governance improvements can be fragile.

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18 Hoekman and Nicita (2008), p.11.
especially in their implementation. Four countries are in the second quartile (rankings 44-59), while three are much lower in the IE rankings at 103 to 145; for Moldova and Ukraine this contrasts sharply with their very low tariff averages. To the extent the recent econometric findings discussed above have lessons, the IE values for BSR do point in the direction of achieving strong gains in trade expansion through improvements in behind-the-border conditions for doing business. Furthermore, it is well known in the literature that the attractiveness of a country for FDI inflows has far more to do with such doing business conditions than with any special tax or other privileges.

4.6. Given the importance of IE, it is useful to deepen the analysis somewhat using the World Bank Governance Indicators which focus more narrowly on various dimensions of institutions. Col. 5 gives values for the percentile ranking on the rule of law, and Col.6 for the control of corruption, relative to the WGI sample. Most countries are below the 50th percentile or at best only slightly above it, again a striking difference from their global rankings on TP indicators. For about half of the countries, the percentile rankings are particularly low at 30% or less.

4.7. A further indication that BSR countries do not rank nearly as well on governance institutions comes from comparing each country to its income level group. To save space, Table 2 shows this with plus or minus signs signifying either above, significantly above, below, or significantly below the comparator income group. For the eighteen observations, none are significantly above the comparable income average, only five are slightly above, six are slightly below and six significantly below. Clearly considerable flexibility exists for improving the institutional conditions promoting trade and attracting FDI.

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19 Azerbaijan had been much higher at 96 in the 2007 rankings. The caution is inspired by Gersl (2006) who points out that even for Czech Republic and other new EU members, while formal criteria of institutional achievements are very high and meet easily EU expectations for new members, the informal implementation of, for example, speed and effectiveness of commercial adjudication, is still problematic. This is not to question the huge recent achievements in Azerbaijan, Georgia and elsewhere, but only to caution that continued vigilance is needed to assure irreversible implementation of these changes.

20 The WGI project covers 212 countries and territories and is described fully in Kaufmann, Kraay and Mastruzzi (2007). Note that the indicator for Regulatory Quality show somewhat higher percentile values - as is the case in many countries. In keeping with the caution emphasized by Gersl (2006) for the NMS, it is more useful to emphasize the indicators for rule of law and corruption, which may better capture implementation.
Considerable Opportunities Provided for Trade Facilitation Measures

4.8. There is no standard definition of what Trade Facilitation should include, but the general consensus is clear that this covers a wide range of physical, bureaucratic-administrative and market institutional conditions related to international trade. Col. 4 in Table 2 gives the WTI for the Logistics Performance Index (LPI) based on as many as 18 separate measures such as quality of infrastructure, costs of shipping a container, efficiency of customs and border procedures, number of documents and days to export/import, IT quality, and so on. In the sample of 150, BSR countries—rather modestly, only Turkey coming in the first quartile (rank 34), Bulgaria and Romania the second quartile, with the others considerably higher.21

4.9. That there exists much more opportunity for improvements on TF than in TP is made clear by these LPI values. Some TF measures can be low-cost and quickly put in place—administrative easing in particular. But most others will inevitably take considerable time and cost—transport and port infrastructure doubtless the most—hence it is important for policy makers to be comfortable that the benefit of facilitating trade will be substantial. While no quantitative studies for the BSR countries have yet been done, there are many for broader groups of countries or other regions like Africa or APEC countries. An article reviewing the many TF studies concludes unequivocally that “trade facilitation reforms could do more to increase global trade flows than further reductions in tariff rates.” 22 This is in line with the econometric evidence of the relative importance of TF cited in Hoekman and Nicita, and is additionally confirmed in another recent econometric study by François and Manchin (2006) who conclude “variation in infrastructure … is strongly linked to export [performance].”

4.10. One of the most comprehensive studies gives estimates of the trade expansion potential for TF that may illustrate the opportunities for the BSR. Wilson, Mann and Otsuki (2004), use a global gravity of trade flows in 75 countries to estimate the effect of improving half way to the group average four TF measures—port efficiency, customs environment, regulatory environment, and service sector infrastructure. The effect on exports and imports for OECD countries is unsurprisingly very low (1-2% increase), but for developing countries much higher: South Asia export gains are highest at 40.3% and the Europe Central Asia (ECA) region next at 30%. The WTI data allow one to calculate the average LPI rank for ECA countries at 87, which is slightly higher than the average for BSR countries in Table 2. Taken at face value this suggests that the TF status in BSR is slightly worse or no better than the average for ECA, which logically implies that an improvement in LPI halfway to the average (as in the above study) could yield as much export gain as 30% or more. That is certainly a very large potential gain that merits close attention by policy makers in these countries.

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21 Incomplete data precludes a WTI ranking, but some of the component values are available—days and documents to import/export, shipping cost, internet usage etc.—some are similar to Moldova, some to Armenia, suggesting a ranking at best about 100. Given the infrastructural and other conditions of a low-income country this would not be surprising.

22 Ikenson (2008), p.1. Interestingly, Ikenson also shows that the LPI is very closely correlated to the corruption index compiled by Transparency International, confirming the view here that both on IE and TF the countries of the region do not rank nearly as well as they do on traditional TP indicators.
5 THE MAIN POLICY CHOICES

5.1. Overall the degree of restrictiveness by traditional trade policy measure is not as high in BSR countries as in many emerging economies. Nevertheless it is clear that considerable room still exists for reducing this. Furthermore the status of behind the border institutional environment and of trade facilitating conditions provides even more possibilities for government actions to promote trade and continue the positive integration trends observed recently. Ideally, each country individually and all BSR in cooperation should establish some order of priority of actions based on a balance between the benefits that action gives and the ease or difficulty of taking the action. This balance will not be the same for each country and will require some discussion to establish. But some broad lines of where such a balance may lie can be tentatively derived from the preceding analysis.

5.2. The first priority for all countries would seem to be the continued pursuit of integration into global and regional trade arrangements. There is no doubt the most important driver of recent trade dynamism has been the opening to global markets. For Azerbaijan and Russia WTO membership is first on the list, but actions on other measures should go forward in the meantime. The naturally dominant presence of the EU as a market and a formal interlocutor makes it the first priority for others. Turkey’s ongoing process of accession, Ukraine’s negotiations on “deep” free trade, other partnership programs for Armenia, Georgia and Moldova, and so on. Expanded formal relations with the EU are a vehicle not only for trade policy liberalization, but –of relevance even for members Bulgaria and Romania- provide-help in many ways to make improvements in the institutional environment and trade facilitation. Financing relevant projects is not the least important of these ways.

5.3. Though further trade liberalization may not generate more long term benefit than institutional improvements, it is quicker and perhaps easier. For BSR countries, NTM’s high tariff maxima, and still high agricultural tariffs are clearly the targets for action. Given the enormous liberalization since 1990 and the clear benefits it has brought it should not be difficult to make the case that reductions in the existing high barriers can be absorbed by the economy. This area of action is wide open for all but EU members.

5.4. In all countries improvements in rule of law, corruption control and other institutional dimensions are already on government agendas as they have great importance for promoting sustainable and balanced economic growth. The large benefits they generate through efficiency-improving trade expansion should be added to the internal discussion on institutions, helping accelerate such efforts. The evidence on the very large benefits of IE improvements does not suggest that there are some especially more relevant for trade, which makes easier the task of government agencies responsible for trade to add their arguments at the table.

5.5. Most trade facilitation measures require considerable time and cost to implement, especially where new physical infrastructure is in order. But with BSR trade restrictions already at or below the averages for comparator countries, and the well-known inheritance of deteriorated infrastructure, limited historical experience of international trading, there is surely a very large potential agenda of actions to begin early. For infrastructure projects including roads, port facilities, electronic customs-entry support, there is a vast arrays of international financial, and technical support in many IFIs including the WORLD Bank and UNDP. As for trade itself, the EU may be dominant with programs like TRACECA, PETRA, and the umbrella vehicle of the EU Black Sea Synergy Strategy, already involved through the BSEC since the Kyiv meeting.
Feb. 2008. Closer to home and more directly is the BSEC itself and the associated financing arm BSTDB which already supports many trade and pre-export financing facilities. The TF dimension provides many valuable opportunities for future BSR cooperation.

5.6. Infrastructure may be costly and long-term, but procedural/administrative simplification can be fairly quick and low-cost: one-stop clearance at borders, simplified documentation, pre-clearance for frequent shippers etc. are among the possible actions that deserve immediate attention. The literature mentioned in the paper provides a lot of detailed global experience on these sorts of actions.

5.7. In sum, there are a large number of actions that can be taken individual countries and cooperatively in the region which will promote the most effective integration. The alternatives need to be discussed, weighed, and prioritized, because some are easier and quicker to implement, some have bigger benefits but take longer—but that is an argument for starting sooner rather than later.

23 The role these global and regional institutions play is beyond the scope of this paper, but it must be recognized that in IE and TF this role will be extremely important.
REFERENCES


