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SRI International

**Global Growth Through Global Competition:
Linking Commercial Policies,
Economic Performance,
and USAID Assistance**

Prepared by:

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APPENDIX 1

I. INTRODUCTION

As we approach the 21st century, the world is a different place than it was ten or fifteen years ago. As a result of recent sweeping changes, the world now has new economic, political, military, and environmental priorities which are all shaping new development initiatives.

On the political front, there has been an almost complete collapse of communism as a political system in almost every country in the world. Concurrent with the fall of communism and the end of the Cold War, there has been a growing demand for democracy, social justice, and human rights throughout the developed and developing world, as well as in former Eastern Bloc countries. Institutions and governments throughout the world are becoming increasingly democratic and pluralistic in their nature and approaches.

Environmental issues have also taken center stage with international conferences such as the Environmental Summit in Rio de Janeiro accentuating the need for global cooperation on environmental issues -- which cut across all borders.

On the economic front, government intervention and statist policies have become increasingly rejected throughout the world. These policies are now being replaced by market-oriented economic policies based on competition. This rejection has been spurred by the recognition that past economic approaches which relied heavily on state intervention, government-owned enterprises, import protection, subsidies, and price controls were fundamentally incompatible with dynamic economic growth. There now exists a strong consensus in developing and developed countries alike that sound commercial policies based on market forces lead to increased capital formation, greater efficiency, and more rapid economic growth.

Official development assistance programs are also being re-examined in light of tighter budgets and economic recessions in most of the industrialized countries, concomitant with the desire to meet the financial needs of many of the former Soviet Bloc countries so they can make the transition to market economies.

Amidst these monumental developments, there has been a convergence of thinking about economic priorities in developing, newly industrializing, and developed countries alike. Everywhere from South Yemen to South Korea, to South Los Angeles, there is a recognized need to build technical skills, enhance productivity, create more jobs, and improve standards of living. One of the common threads from all parts of the world is the need for a sound commercial and economic policy environment which maximizes competitiveness, efficiency, and the creation of productive employment.

It has always been a challenge for USAID to identify those development initiatives that offer the greatest impact. Increasingly, the consensus in the development community is that long-term, sustained economic development is best achieved by implementing appropriate policies and regulations regarding the commercial sector.

One of the greatest opportunities for USAID in this new global environment is to assist host governments to identify and implement the policies and regulations that will place their countries on a growth path. The initiative reported on here, the Commercial Policy Framework Model¹, assists USAID officials to meet this challenge and maximize their opportunities for providing compelling policy guidance by answering the following questions:

- ◆ Which economic policies and regulations place nations on a long-term, sustainable growth path, and which do not?
- ◆ How do different nations' economic policy environments rate in comparison with their competitors?
- ◆ What economic performance improvements can be expected from enhancing the enabling environment?
- ◆ How should policy reform be phased for maximum impact?

To answer these questions, the PEDS project team has pioneered an innovative research methodology, and has assembled one of the largest, most comprehensive economic policy databases to date. The database contains objective information on 62 economic policy and performance variables in 55 countries in all USAID regions.

The Commercial Policy Framework Model and database were developed to provide USAID and developing country policymakers with a new instrument for assessing current commercial policy practices, for evaluating alternative policy options, and for recommending pragmatic policy reforms. The Commercial Policy Framework project has four main objectives:

- ◆ To equip policy-makers with a comprehensive database on commercial policies in 55 countries;
- ◆ To highlight some of the most and least successful policy approaches implemented around the world;

¹ The Commercial Policy Framework Model was developed by SRI International's International Policy Center under the Private Enterprise Development Support Project (PEDS II-Project Number 940-2028.03), managed by USAID's Private Enterprise Bureau. Under the PEDS project, SRI International is a sub-contractor to Coopers & Lybrand.

- ◆ To examine the linkages between commercial policies and economic performance; and
- ◆ To provide a quick-response mechanism to country-specific situations in order to rapidly and accurately audit host country policies and prescribe appropriate actions.

To meet the first objective, a systematic collection of information on commercial policy regimes and reform experiences was undertaken. The database takes the form of a policy reform catalogue organized according to country, which includes reforms taken, implementation methods used, and results achieved. The emphasis is on benchmarking each country's policies against their competitors, highlighting successful policy mixes and failures where appropriate.

In order to fulfill the second objective, the Commercial Policy Framework Model documents specific trade, taxation, investment and related policies in various countries, along with reform processes. Based on these data, current thinking on appropriate commercial strategies was summarized, and specific alternative approaches and their advantages and disadvantages were identified. The phasing of reforms was also addressed, using concrete country examples.

To address the third objective, the model analyzes the linkage between commercial policy and economic performance. The relationship between different policy variables and various performance indicators is explored by the study team. Some of the key performance indicators examined include growth in GDP, export growth, industrial sector growth, and growth in investment (gross domestic investment).

To meet the fourth objective, PEDS provides a quick-response mechanism which can apply the model to country-specific situations. Under this component of the initiative, PEDS can undertake tailored policy audits for countries in areas such as trade policy, investment policy, and taxation. Individual country policies in eight categories can be benchmarked against a wide range of competitor countries. Based on the assessment, a tailored commercial policy reform program can be designed to improve economic performance in the country.

Taken together, the policy prescriptions that emerge from this model also serve a fifth function. They establish a new vision for development assistance: Global Growth Through Global Competition. This innovative approach builds on past policy and program successes yet incorporates a variety of new elements designed to draw world-wide and regional lessons and provide compelling proof of the benefits of and necessity of implementing policy reforms.

II. SETTING THE CONTEXT: DEVELOPMENT PERFORMANCE ACHIEVED

A. Historical Context

Over the past thirty years, individual countries and the international donor community have undertaken active efforts to accelerate economic growth in developing countries (see chart 2.1 below). These efforts have been driven by three primary motivations: (i) the humanitarian motive of increasing standards of living and economic well-being in the world's poorest nations; (ii) the foreign policy motive of supporting and reinforcing overall cultural, economic and security relations; and (iii) the economic motive of achieving mutually-reinforcing commercial gains by integrating developing countries into the world economy.

The processes driving economic development are by no means fully understood. But much can be learned by experience. History shows above all that economic policies and institutions are key building blocks. This finding is encouraging because it implies that countries which have failed to prosper can do better by improving policies and making the right institutional choices. The Commercial Policy Framework Model focusses in particular on identifying which policies promote economic development.

A central theme of this initiative is the interaction between government and the private sector. A consensus is rapidly building² in favor of a "market-friendly" approach to development. The key elements of a market-friendly approach include:

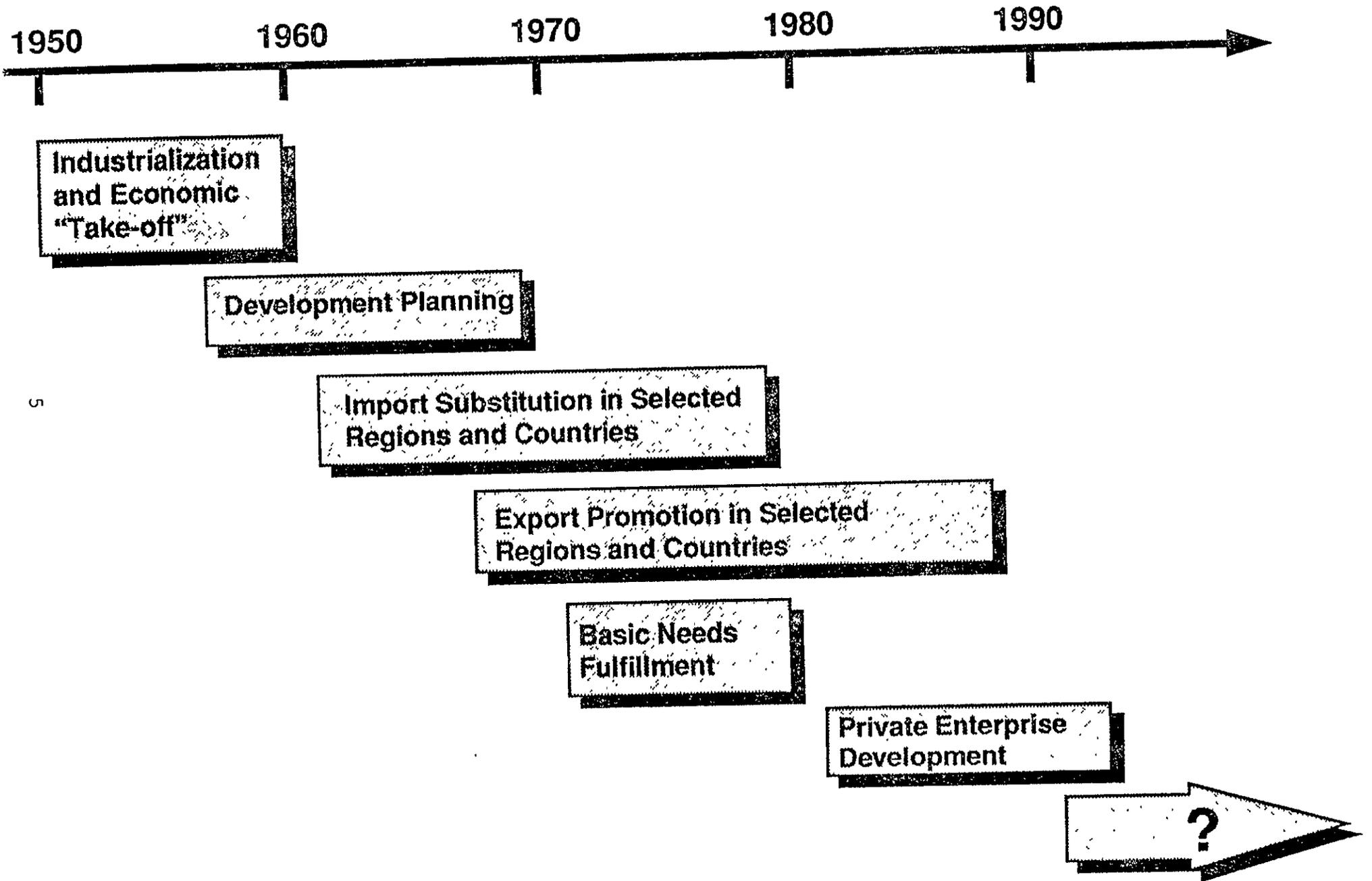
- ◆ Investing in people;
- ◆ Creating the right "enabling environment" for private enterprise;
- ◆ Integrating with the world economy; and
- ◆ Establishing a sound macroeconomic foundation.

Recent political events have helped encourage acceptance of the market-oriented principles. For example, the dramatic political and economic events in Eastern Europe and the former Soviet Union have generated unprecedented enthusiasm for introducing market-oriented reforms. Countries which previously favored import substitution strategies in Latin America and Africa now are turning increasingly towards export promotion and open-market policies to achieve higher levels of economic growth. Many countries which formerly endorsed socialist models which relied heavily on state subsidies and state-owned enterprises have now transformed their regimes towards a private market orientation. Even countries in East and Southeast Asia which have long been known for their market-oriented export strategies have taken further steps to liberalize their economies.

² See the World Development Report, 1991, p. 1, World Bank, Washington DC.

CHART 2.1

NUMEROUS DEVELOPMENT STRATEGIES HAVE BEEN USED



There is increasing consensus that competitive markets are the best way found yet for organizing the production of goods and services. Domestic and external competition provides the incentives that unleash entrepreneurship and technological progress. However, it is also recognized that markets cannot operate in a vacuum; they require the proper legal and regulatory framework that only governments can provide. This points to the need for a new initiative to focus on the commercial policy framework to unleash the internal markets.

B. The Results of Past Development Initiatives

Improving the standards of living through economic development has been an important, and sometimes daunting challenge facing many countries. This challenge has been approached with different development strategies over the past thirty years, with mixed results. Overall, the economic growth of developing countries³ has surpassed the long-term historical growth trend of industrial countries. The economic growth rate of the developing world averaged 4.8 percent over the 1965-1990 period, compared with a 3.5 percent growth rate for industrialized countries (see chart 2.2).⁴

During this time period, some of the formerly low-income countries have raised their relative economic position to the point where they are entering the ranks of the industrialized world. In particular, the growth of the four "Asian Tigers" has been striking. Taiwan, Hong Kong, Singapore and South Korea saw their per capita incomes increase by a factor of five in the twenty-five years between 1965 and 1990.

One of the most interesting features of the success of the Four Tigers is that these nations achieved rapid and sustained economic growth with few resource endowments. Most of the economic success in those countries has been attributed to the policy choices, to the institutions promoting economic development, and to the productivity of the human resource base.

What is both heartening and disturbing about the development results is that the distribution of accelerated, sustained growth has been very uneven across different regions (see chart 2.3). While nations in East and Southeast Asia have on average attained steady or accelerated growth, the Sub-Saharan and Latin American regions have experienced economic stagnation. Most important, poverty and the associated, wrenching problems of malnutrition, high infant mortality, underemployment, low life expectancies, and wasted human potential, are still far from being eradicated.

³ Income growth rate increases here are annual real growth rates in GDP.

⁴ Note: Because of higher population growth rates in developing countries, the per capita income gap between the industrial and developing nations has actually grown. Per capita income for OECD countries was 24 times that of developing countries in 1990, compared to 13 times in 1965.

CHART 2.2

ECONOMIC GROWTH RATES IN DEVELOPED AND DEVELOPING NATIONS

1965 - 1990

(average annual growth in GDP)

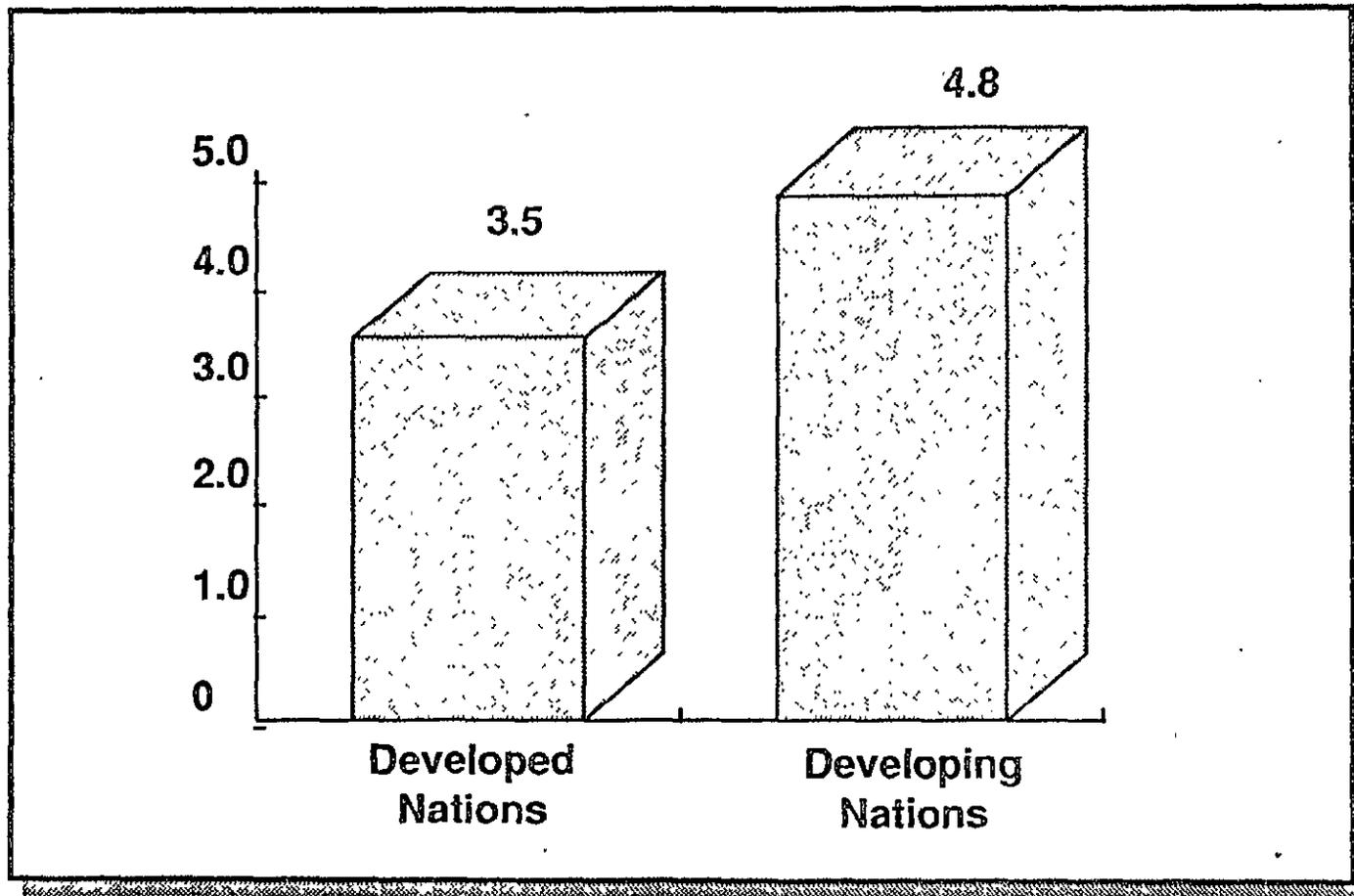
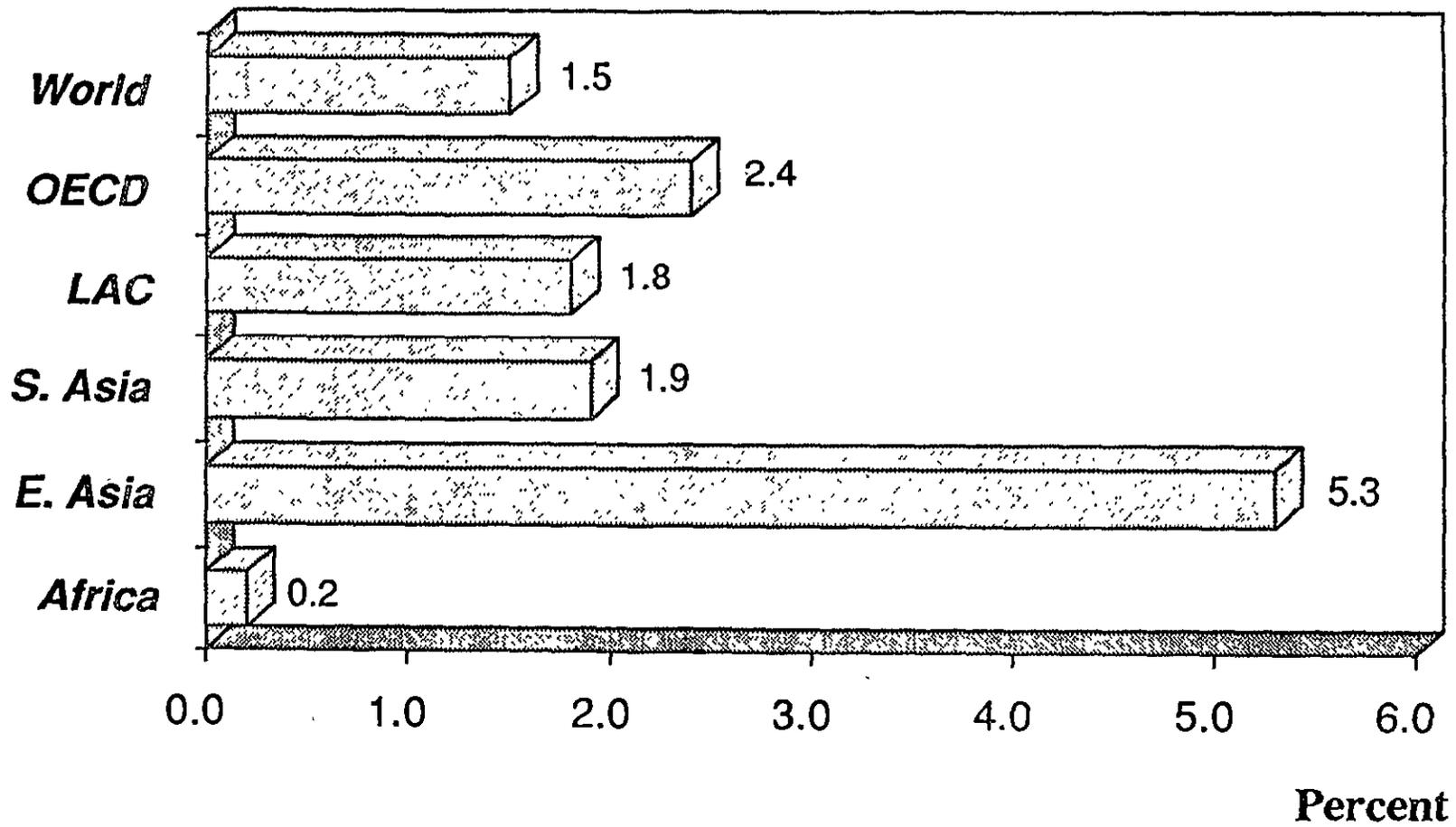


CHART 2.3

Per Capita GDP Growth 1965-90

(average annual growth in per capita GDP)

Region



Nations mirror the disparity of regions, with several individual countries achieving extraordinarily high long-term growth, while others stagnated or even declined. Charts 2.4 and 2.5 below illustrate this differentiated performance. The following chapter will examine the conditions for rapid growth and attempt to explain why some countries are growing much faster than others.

CHART 2.4

Per Capita GDP Growth 1965-90

(average annual growth in per capita GDP)

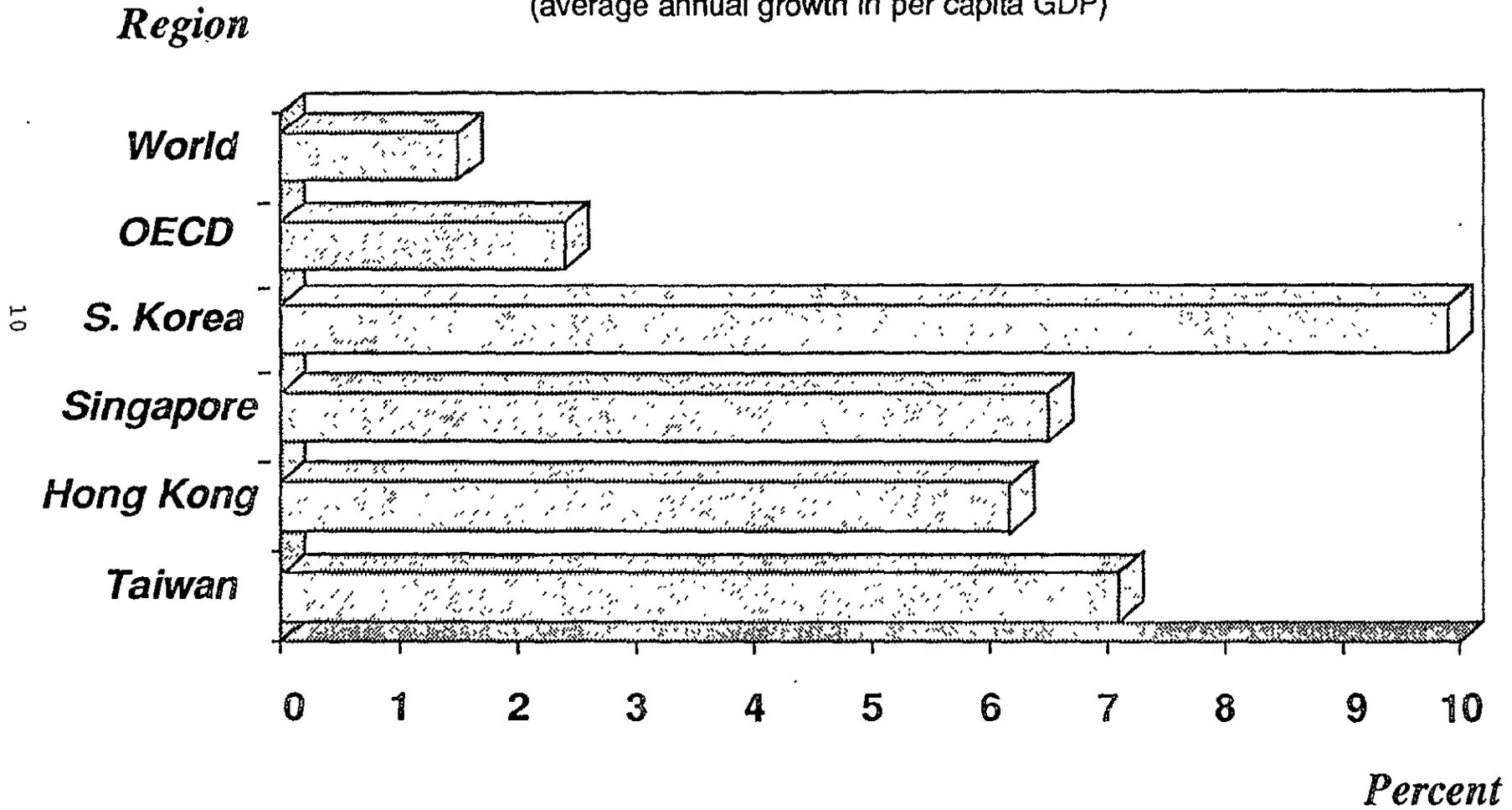
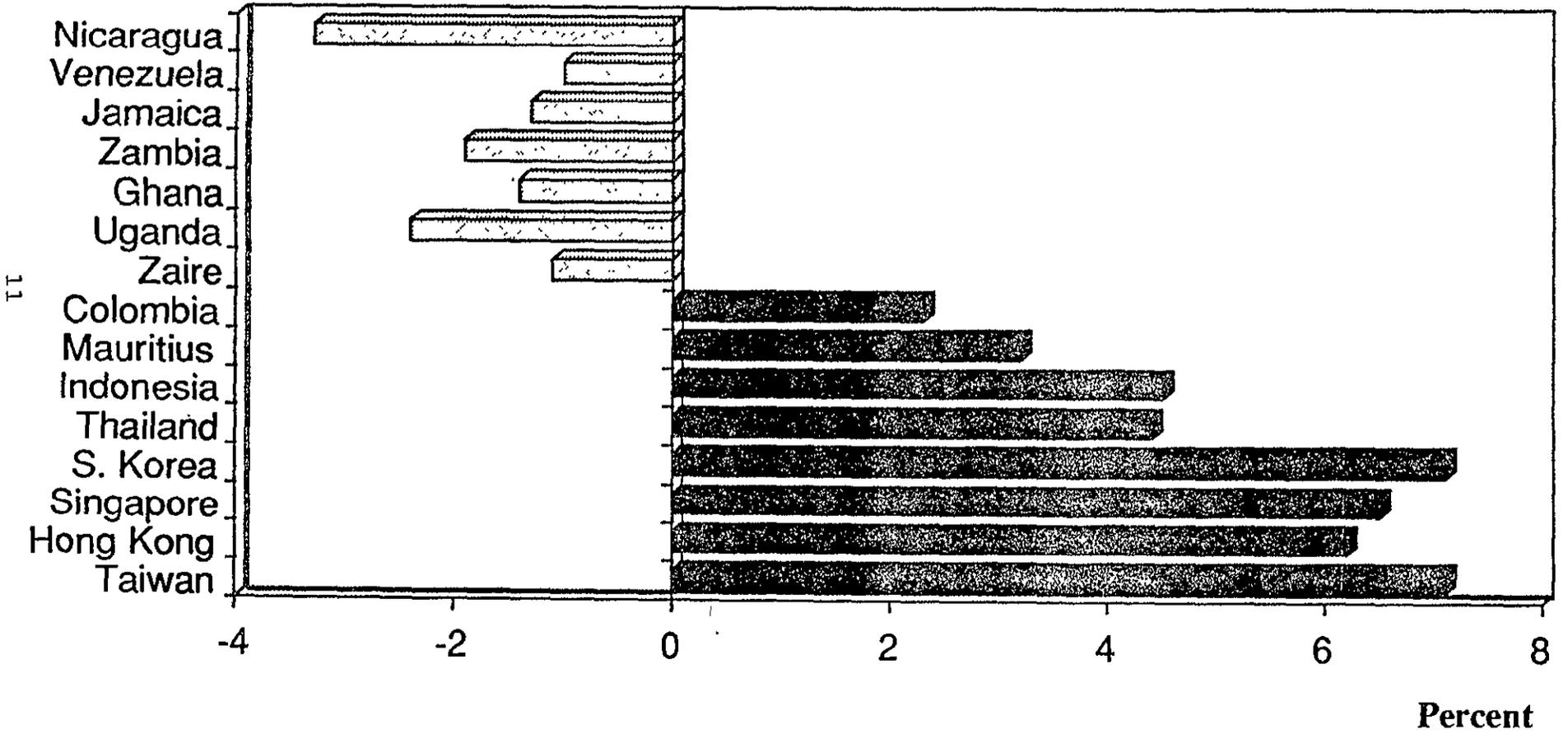


CHART 2.5

Per Capita GDP Growth 1965-90

(average annual growth in per capita GDP)

Selected
Countries



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III. CONDITIONS FOR RAPID AND SUSTAINABLE GROWTH

A. Growth Factors

Eight factors play a key role in generating rapid and sustainable economic growth (see chart 3.1). They are:

- ◆ Political stability
- ◆ Macroeconomic stability
- ◆ Resource Endowment
- ◆ Labor Resources
- ◆ Capital resources
- ◆ Infrastructure
- ◆ Technology
- ◆ Entrepreneurship

B. Political Stability

Political stability is a critical determinant of business confidence. Both domestic and foreign investors require a certain threshold of confidence in the stability of the political system. Coups, civil wars and political strife cause disruptions in productive activities, destroy infrastructure, and ultimately deter investment and lead to capital flight.

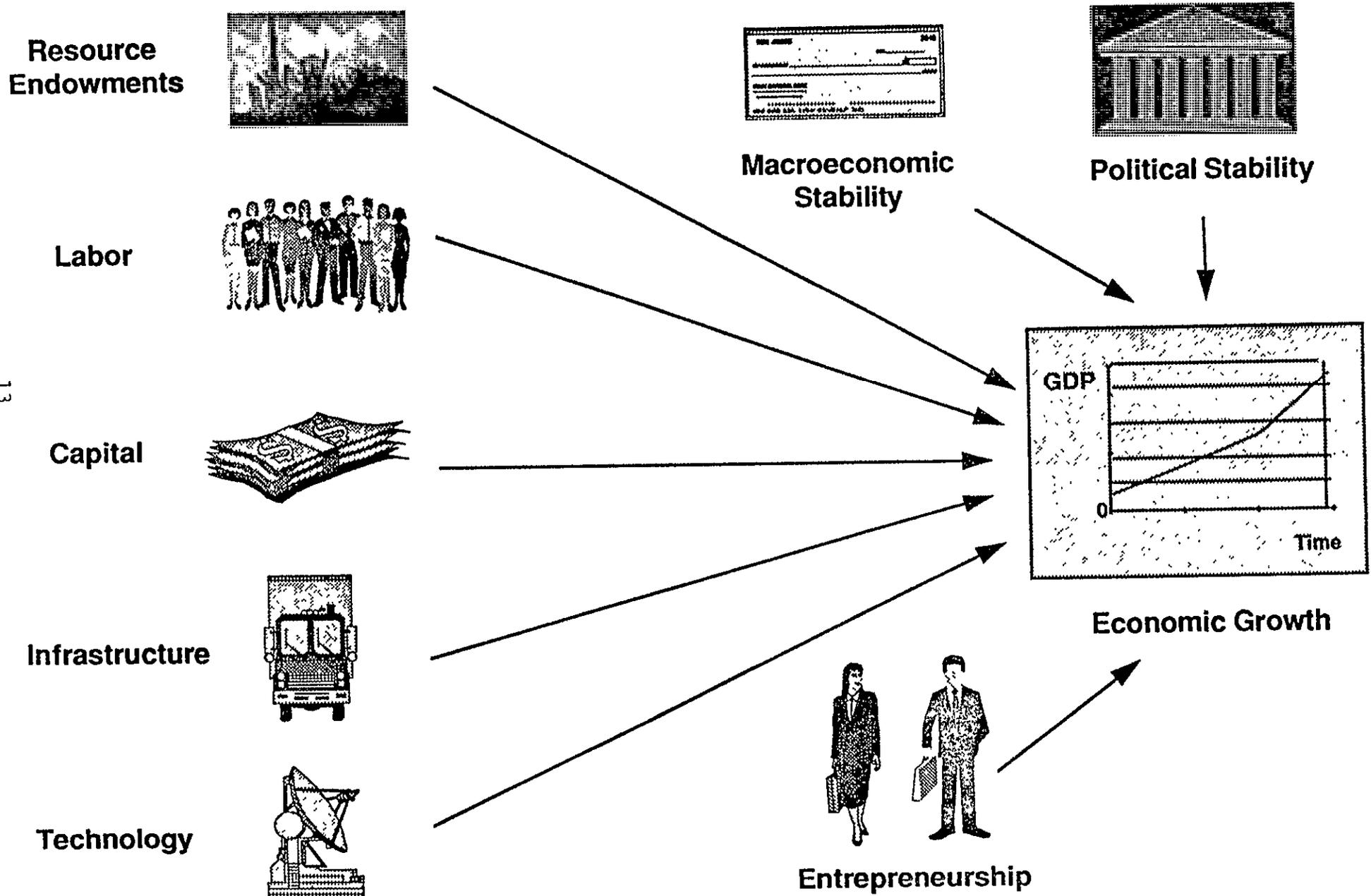
Over the past 20 years the single most important cause of famine throughout the world has been military conflicts. Regions and countries in chronic conflict such as Central America, Somalia, Ethiopia and parts of the Middle East have suffered long-term economic damage as a result of these conflicts.

C. Macroeconomic Stability

The success of any country in encouraging economic growth is dependant to a large degree on achieving stability and sustainability in several key macroeconomic variables. The macroeconomic setting is critical because it influences firm-level decisions and will ultimately determine whether most ventures are profitable or not at the micro level.

CHART 3.1

FACTORS FOR RAPID & SUSTAINABLE ECONOMIC GROWTH



Some of the key macroeconomic variables which influence investment and economic activity the most are:

- ◆ Levels of GDP growth
- ◆ Inflation
- ◆ Balance of payments
- ◆ Debt and debt-service burden
- ◆ Availability and cost of financing

D. Resource Endowments

Resource endowments, including arable land, mineral deposits, hydrocarbon resources, and other natural resources such as timber and fisheries resources can act as ready and inexpensive sources of raw materials and energy supplies. Such resources can serve as a strong foundation for industrial development. Many countries have not utilized their resources efficiently, however, and some have exploited them beyond sustainable reserve levels. Other countries with limited natural resources have prospered because their economic and institutional setting encouraged sustained entrepreneurial drive and development.

The downstream processing of raw materials can create additional value-added activities for developing countries. Many developing countries, including Malaysia and Indonesia, have initially based a large number of their industrial development activities upon the primary processing of agricultural, forestry and fisheries raw materials.

E. Labor Resources

The availability and abundance of human resources been the primary source of growth in most of the Newly Industrializing Countries (NICs). There is increasing consensus that the quality of labor as measured by education, skill levels, productivity and attitude is more important than the quantity of labor.

Wage levels and productivity are key factors, particularly in export-oriented, labor-intensive manufacturing activities. Level of skills and education are important labor ingredients for higher value-added activities.

F. Capital Resources

The development of an efficient capital market facilitates investment and is a key component of economic growth. By mobilizing savings and allocating credit, financial markets channel resources to their most efficient use. Those with excess capital will lend to others who are more willing to assume the risks of new investment, and those who are better able to assume risks will use these resources to start new enterprises, expand existing operations, finance technological innovation or increase their production efficiency.

The extent to which investors will be able to obtain financing for these projects will depend on the development of a variety of financial institutions such as commercial banks, savings and loans, credit unions, insurance companies, pension funds or stock markets. The existence of these institutions alone, however, does not guarantee an efficient allocation of capital resources, especially in a system in which financial transactions are guided more by government agencies than by market forces. Capital is often denied to small-scale farmers and micro-enterprise owners because of restrictive collateral requirements. Banks are sometimes forced to lend to inefficient parastatal enterprises which divert capital from the private sector to cover their deficits, thereby "crowding out" private investors who need capital to undertake new ventures.

Countries without well-established financial institutions to mobilize resources and finance large-scale investment are often referred to as financially "repressed", and must rely on the informal sector to provide capital. Informal sector loans may come from friends, family members or a local money lender. In most cases borrowers are charged higher real interest rates than normal, with the result that the cost of investment rises and is sometimes discouraged altogether.

G. Infrastructure

Infrastructure facilitates economic growth by providing many of the essential services necessary for the production and distribution of goods and services. Roads and bridges, transportation and communication systems, and the provision of energy and other utilities are vital to the continued expansion of business activity. An equally important, but often neglected, complement to physical infrastructure is the "soft" infrastructure which provides essential business services such as banking, accounting, legal, and other services.

H. Technology

Technological advancement contributes to the modernization of a country's economy by allowing it to increase the productivity of factors of production such as labor and capital, while lowering unit costs. Lowering costs through technological advancement is especially important in order to offset the tendency of labor costs to rise over time.

The availability of and access to technology will be determined by several variables:

- ◆ **Capacity of the research and development establishment.**
- ◆ **Amount of R&D conducted by business.** Enterprises which can devote portions of their budget to internal R&D can more quickly raise productivity and lower costs.
- ◆ **Level of government research and grants.** Government institutions which conduct independent research or sponsor private sector R&D can contribute significantly to technological progress.
- ◆ **Intellectual property laws and enforcement.** A country's compliance with international standards of intellectual property right protection as defined by the World Intellectual Property Organization can heavily influence an individual's or a company's decision to invest in R&D. Countries which either do not recognize IPR laws or do not enforce them cannot expect a high level of domestic technological innovation.

I. Entrepreneurship and Management Capabilities

Entrepreneurs serve as essential catalysts to economic growth by marshalling inputs such as raw materials, labor, and capital and directing them towards productive and profit-making ends. Although the depth and extent of managerial skills vary widely among countries due to a variety of socio-economic factors, experience does show that entrepreneurship expands rapidly in countries with the appropriate enabling environment.

IV. THE IMPORTANCE OF COMMERCIAL POLICY

A. Introduction

Chapter III's explanation of key factors which influence economic growth intentionally omitted one critically important variable that deserves closer examination -- **the commercial policy environment.**

A country's **commercial policy environment** sets the "rules of the game" -- the regulatory and policy climate in which businesses operate. "Market friendly" policies reduce distortions in the economy, allow businesses and firms to respond to market signals, and encourage investment and development. Sound commercial policies help to reduce risks to investors, increase business confidence, and allow countries to develop their true comparative advantages.

In Chapter III we presented Chart 3.1 which listed the factors which contribute to sustainable economic growth. To this diagram we now introduce the **commercial policy environment** (see Chart 4.1 below) through which all of these other factors must be filtered. As chart 4.1 indicates, commercial factors affect the business operating environment at the firm level in many ways. All factors previously discussed in Chapter III will be directly filtered through a commercial policy environment which will ultimately determine how efficiently a company will use its factor endowments in the production of goods and services.

We will now examine how commercial policies affect the business operating environment from the perspective of an individual enterprise. Chart 4.2 shows the production process beginning with the initial stage of registration and approval, moving through to the actual production using factor inputs, and ending with the distribution of the product in foreign and domestic markets. The question which now arises is, "How does commercial policy affect each stage of this cycle?" The sections which follow will attempt to demonstrate this.

B. Business Start-up

The registration and approval process is a critical hurdle for businesses and entrepreneurs since it is the initial step before a business can invest in new or expanded operations. Complicated registration requirements and a lengthy approval process delay start-up operations and discourage potential investors, especially those with neither the money nor personnel to proceed through a circuitous screening process. Smaller firms are particularly likely to be dissuaded by the investment in time and money required to proceed through demanding and uncertain registration and screening process. A simpler, more automatic process that minimizes "red tape," discretion and waiting time allows investors to quickly realize potential investment opportunities.

CHART 4.1

FACTORS FOR RAPID & SUSTAINABLE ECONOMIC GROWTH

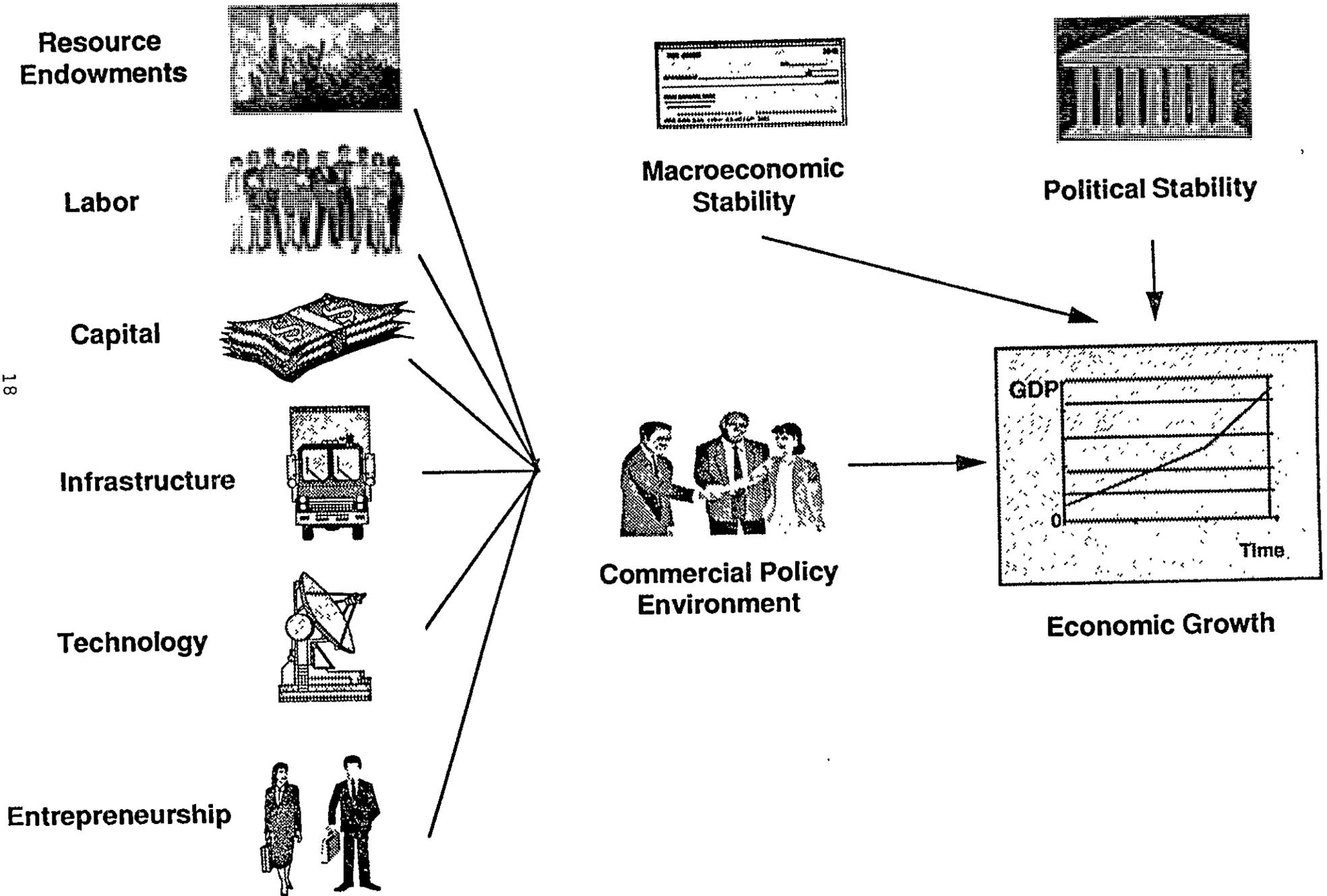
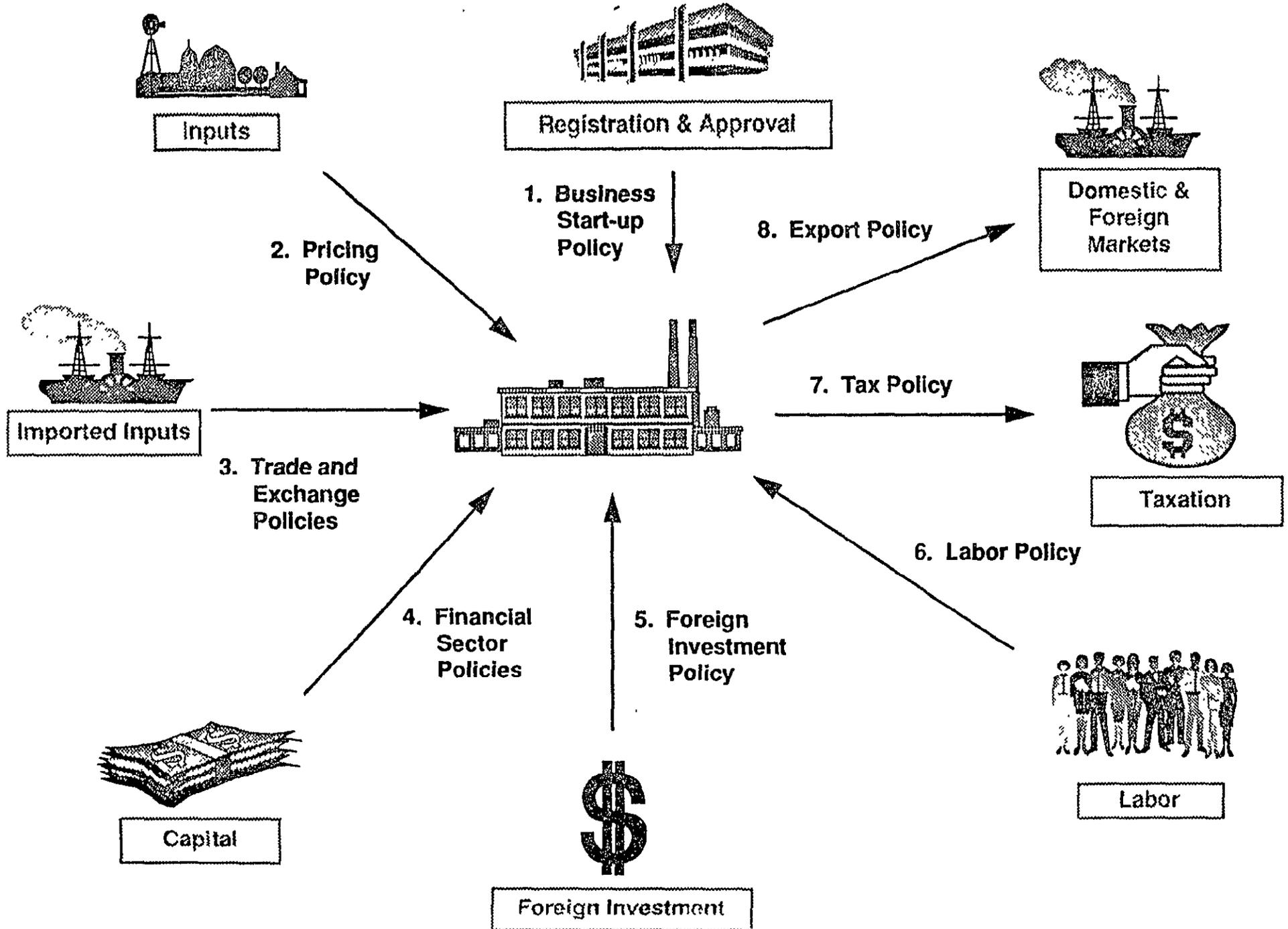


CHART 4.2

COMMERCIAL POLICY AND PRODUCTION PROCESS



Registration and approval begins with business policies governing procedures for company formation and extends to other areas such as taxation requirements, permits to purchase land and construct buildings, and licenses to use natural resources or hire labor. How quickly investors receive the necessary approvals for start-up can depend largely on a country's policy environment. The arduous process of company registration and investment approval in the Ivory Coast is highlighted in Box 4.1 below. Until recently in Kenya, final approval for investment projects took up to a year for clearance because investors were required to visit each of the government ministries overseeing the approval process and submit separate applications to each ministry. By contrast, Singapore and Hong Kong have centralized all decisionmaking for investment screening and permit approval. In those countries investors can approval for projects in as little as 24 hours.

BOX 4.1

Ivory Coast's Circuitous Approval Procedures Hinder Investment

The regulation and approval process in Ivory Coast is so complicated and time consuming that it is considered to be serious barrier to entry for new investment. According to a recent study of the country's investment climate, there are 60-70 pre-investment procedures that must be followed before investment approval can be granted, and obtaining a priority regime permit takes an average of two years. This stands in sharp contrast to the 24 hour approval time to obtain similar clearance in countries such as Hong Kong.

C. Pricing Policy: Inputs

Almost all businesses of every size, whether they produce for local or export markets, require a steady flow of inputs to keep the company running. One of the key policy instruments affecting the timely availability of inputs is pricing policy. Guaranteeing an adequate flow of raw materials to industry requires pricing policies that provide adequate incentives for suppliers. Artificially low prices that do not reflect the true value of inputs can be wasteful and costly to society, while overpriced inputs represent an excess cost to be borne by industry. (See Box 4.2).

BOX 4.2

African Input Pricing Policies Hamper Production

The effect of inappropriate pricing policies on overall production of inputs is well-documented. During the 1960's and 1970's many African governments maintained artificially low and subsidized agricultural input prices. A majority of African governments monopolized agricultural input supply and distribution during this time period.

The motives for entering this field were similar to those advanced for government involvement in foodcrop marketing; inputs were seen as vital commodities that should not be left to the care of the private sector which was regarded as exploitative and unreliable. African policymakers also perceived a need to subsidize the service, which provided further justification to them for monopolizing its distribution. Many African officials also believed that only by public distribution would inputs be made available to remote areas that private trade was assumed to neglect because of low profitability.

The performance of most African governments attempting to meet agricultural input distribution requirements was quite poor. Inputs were rarely available at the right time, at the right place, and in the right amounts when farmers needed them. Government agencies had trouble adapting bureaucratic, financial and administrative approval procedures to commercially oriented operations. Government offices usually failed to buy inputs on time because their purchases were geared to the time of release of funds from the government budget.

Purchases were further constrained by the costs to the government of subsidizing inputs. Under the budgetary constraints facing many African countries, the actual amount of inputs purchased remained far below the quantity demanded by farmers at the subsidized price. Paradoxically, the end result was that rather than supplying more farmers with inputs than under private trade conditions -- which was the purpose of the subsidy -- governments ended up serving considerably fewer.

As a result of this experience, most African countries eliminated government control of agricultural input distribution during the 1980s. Subsidies were gradually eliminated and private traders have entered into input trade. Despite the elimination of subsidies input use has actually risen in many countries. Competition has also introduced innovation. For example in Senegal, competition in fertilizer trade brought innovation and overall cost savings as the fertilizer nutrient content was matched more carefully to farmers needs, ineffective elements were removed, and transport costs were reduced through higher concentrations.

Artificially high input prices can have equally deleterious effects. In countries where parastatal enterprises control the production of raw materials and utilities, downstream industries are often required to pay monopolistic prices well above the competitive level, resulting in a production inefficiency. This dynamic was confirmed by an SRI International study of state-owned enterprises in Kenya which found that parastatal products and services are often excessively priced, and delivery times unreliable. Given the monopolistic position of many of these suppliers there is often little that private sector industry can do to avoid these excess costs and poor quality.

D. Import Policies

An important tool for eliminating the disadvantages that industrial producers in developing countries may face in competing in the world market is guaranteed free access to the imported raw materials and intermediate inputs used in industrial activities that generate value added. "Free access" in this case means that such imports are free of import and foreign exchange restrictions as well as free from tariffs and indirect taxes.

Free trade status can be achieved economy-wide as is the case in Singapore, Hong Kong and Mauritius. In these countries all producers are subject to zero taxes or duties on imported inputs and exports. Achieving free trade status by eliminating restrictions and duties on all imports is a desirable and rational objective for many developing countries.

Such an objective, while certainly a worthwhile long-term goal, is often only achieved on a gradual basis, however. This is due to a number of political and economic factors. If adopted immediately, economy-wide free trade could encourage imports to replace significant amounts of local production. Special interest opposition often prevent full and immediate removals of protection for locally-manufactured goods. In addition, immediate trade liberalization which is not fully compensated for by exchange rate adjustments can increase trade deficits.

Rather than opening their borders immediately to free trade, many developing countries establish free trade regimes for exporting while maintaining protected regimes for production in the local market during the transition period. Free trade status is often given first to exporters as first step toward the first-best solution of economy-wide free trade. (See Box 4.3 below).

BOX 4.3

Achieving Free Trade Status for Exporters

There are a number of policy instruments that can be used to ensure that exports have "free access" to inputs:

Automatic Import Licenses for raw materials, intermediate goods, and capital equipment are given to export manufacturers in Hong Kong, Singapore, Korea and Malaysia. Under these systems export manufacturers have guaranteed automatic access to imports. Exporters are automatically provided with import licenses without any discretion and with absolute minimal paperwork.

Automatic Access to Foreign Exchange. Policies are adopted in many countries allowing export manufacturers or other classes of investors automatic access to foreign exchange. Access to foreign exchange is given as a priority to exporters because they are net positive contributors to the country's foreign exchange balance to begin with. The main foreign exchange needs of export manufacturers included purchases of imported inputs, debt servicing, repatriation of capital, and remittances of dividends.

Free trade zones (FTZ) are special industrial areas located physically or administratively outside a country's customs barrier is devoted to the production of exports. Transactions in free trade zones are not subject to tariffs and therefore escape the delays and administrative costs often associated with the duty exemption or drawback systems applied to firms outside the FTZs. FTZs in Korea, Singapore, and Hong Kong were effective in the early stages of their export drives as a means of attracting foreign investors. As their outward development strategies were deepened, however, the relative importance of FTZ exports tended to decline as free trade status was gradually provided to exporters throughout the entire economy.

E. Financial Market Policies

Interest Rates

As we saw in previous sections, pricing policies are essential for guaranteeing the efficient allocation of inputs used by enterprises in the production process. Similarly, interest rates, which represent the price of financial resources in the capital market, will determine the efficient allocation of capital resources. Sound interest rate policies will: (i) provide incentives for mobilizing international and domestic capital; (ii) allocate credit to enterprises which can earn the highest economic return; and (iii) signal a stable and predictable financial system which encourages investment, savings and development.

The experiences of many developing countries suggest that positive real interest rates most often result from policies that allow interest rates to respond to changes in the business cycle, to adjust to fluctuations on the foreign exchange market, and to reflect the relative risk of investment opportunities.

Government policies that restrict interest rate movements, impose heavy reserve requirements, or limit the market allocation of credit all combine to "repress" the financial system and reduce an investor's incentive to hold assets in domestic financial institutions. Coupled with high inflation, these practices can lead to negative real interest rates⁵ which distort both investment and production decisions.

Under ideal conditions, positive real interest rates provide an incentive to hold assets in domestic financial institutions, thus creating a pool of savings which can in turn be lent to firms wishing to invest in new plant and machinery. This linkage between real interest rates, savings, and investment also affects economic growth rates. A recent study of thirty-three developing countries by the World Bank found that countries with positive real interest rates experienced higher annual GDP growth rates than those with moderately or strongly negative real interest rates.⁶

Policies that lead to negative real interest rates effectively break the linkages among savings, investment and growth. Investors find it more profitable to hold their resources in real assets such as land or to place them in financial institutions abroad. Over the long term, savings rates will drop, and so will the available pool of funds for domestic investment.

⁵ Real interest rates are defined as the difference between the nominal rate of interest and inflation.

⁶ World Bank, World Development Report 1989, p. 30. The Bank's study found that countries with positive real interest rates attained an annual GDP growth rate of 7.3% from 1965 to 1973 and 5.6% from 1974 to 1985. Countries with strongly negative real rates of interest grew at annual rates of 4.6% and 1.9% in the respective periods.

Interest rate manipulations also affect economic efficiency. Controlled interest rates create a bungled incentive structure that fails to match resources with the most productive investment opportunities. When the cost of money is not used to allocate credit to its most efficient uses, other less efficient techniques are used to guide resource use. One commonly used non-market technique to allocate capital in such cases is directed credit allocation programs. These programs tend to bias credit use towards larger, more prestigious, capital-intensive projects, or other kinds of projects that often do have the highest economic payoffs to the country.

It should be noted, however, that while negative real interest rates can be a substantial deterrent to savings and financial intermediation, excessively high interest rates can often be just as problematic. Excessively high real interest rates that exceed the marginal return to capital raise the cost of borrowing and reduce the level of private investment. Some countries have tried to soften the impact of high interest rates following financial sector liberalization by phasing in reforms and maintaining moderate interest rate controls. Chile's experience with financial sector reforms is highlighted below in Box 4.4.

BOX 4.4

Real Interest Rate Policies and Economic Growth in Chile

Prior to financial liberalization in 1974, the development of Chile's capital market had been hampered by high inflation, fiscal deficits, balance of payments crises, and government intervention. Nominal interest rates, which were kept low by government regulations, soon became negative as inflation rose, and state agencies replaced financial institutions as the primary allocators of domestic credit.

Under a financial liberalization plan initiated in 1974, the government denationalized banks, lowered reserve requirements, eliminated preferential credit schemes, and allowed all financial institutions to compete freely. At the same time, the government embarked on a fiscal austerity program that reduced inflation from 600 percent in 1974 to 40.2 percent in 1978. Chile's financial reforms allowed nominal interest rates to rise faster than inflation, resulting in positive real interest rates and higher levels of savings and investment that Chile enjoyed during the late 1970s and 1980s.

Most financial indicators suggest that Chile's liberalization coincided with a period of financial deepening and economic growth. For example, the ratio of financial assets (M2) to GNP doubled between 1975 and 1982. This financial deepening was accompanied by steady increases in investment levels and GDP growth.

Exchange Rate Policy

The exchange rate is also an essential price that will determine the cost of imports, the competitiveness of exports, and ultimately the cost and availability of capital. Methods of determining the exchange rate vary by country and are distinguished by their degree of flexibility. The most prevalent regimes are:

- ◆ Independently floating currencies, which respond directly to market forces and are characteristic of countries with developed financial markets which are fully integrated into world financial markets.
- ◆ Managed float systems, under which the central bank sets the official exchange rate and manages foreign exchange transactions on a daily basis.
- ◆ Pegged currencies systems, whereby the currency's value is tied to the value of another currency like the US dollar, to a basket of foreign currencies representing the country's major trading partners, or to a composite index like the IMF's Standard Drawing Right (SDR). Pegged currencies may be revalued after several months of being fixed at one rate (adjusted peg) or according to a preannounced schedule (crawling peg).

The choice of a particular regime over another is not so important as the necessity of maintaining an appropriately valued and stable real exchange rate. Recent studies by the World Bank have found that on average, countries with misaligned real exchange rates exhibit poorer growth performance than countries with appropriately valued ones.⁷ Undervalued currencies make imported capital excessively expensive and can restrict an enterprise's ability to import essential capital inputs. Conversely, an overvalued exchange rate can lead to capital flight by making foreign financial assets relatively more attractive than domestic ones, thus encouraging investors to place their assets abroad rather than investing them in the domestic economy.

BOX 4.5

The Choice of Exchange Rate Regimes

As stated earlier, the choice of exchange rate regime varies widely in the international financial system. A survey of IMF member countries reveals the following distribution of exchange rate regimes:

<u>Exchange Rate Regime</u>	<u>Number of Countries</u>
Independent float	27
Managed float:	22
Adjusted peg:	5
Single currency peg:	46
Composite currency peg:	40
Other arrangements:	14 ⁸

⁷ World Bank, Exchange Rate Misalignment in Developing Countries, 1988.

⁸ Includes the European Monetary System in which currencies are pegged to each other but float against other currencies.

F. Foreign Investment

Investment is widely recognized as a primary catalyst of long-term, broad-based sustainable economic growth, and guaranteeing a steady flow of investment funds depends critically on a supportive policy and regulatory environment. SRI International's experience in investment promotion has found that the most important features in attracting prospective investors, both foreign and domestic, are policy stability and clear "rules of the game." Key policy categories include:

- ◆ **Overall macroeconomic policies and conditions:** Foreign and local investors alike seek sound and stable macroeconomic policies and conditions.
- ◆ **Investment operating procedures:** Investors want clear "rules of the game", and prefer liberal and streamlined investment regulations. Investors prefer a transparent approval and regulatory process that guarantees that investments will be approved automatically, provided they meet the stated criteria.
- ◆ **Investment incentives:** Given the competitive nature of attracting investment, many countries offer financial incentives, primarily in the form of tax holidays or exemptions. Although incentives are important only at the margin, they can sometimes be the deciding factor in investors' location decisions, particularly when investors are comparing two or more otherwise similar investment sites.
- ◆ **Foreign exchange controls:** Foreign investors generally avoid countries with restrictive foreign exchange controls because they strongly constrain firms' abilities to compete in competitive world markets. Foreign exchange controls can prevent firms from obtaining foreign exchange for essential imports including spare parts.
- ◆ **Dividend remittances and capital repatriation:** Limiting a firm's ability to repatriate its capital or remit dividends and profits deters foreign investment and encourages practices like transfer pricing or licensing agreements that can often work to the disadvantage of host countries.
- ◆ **Expatriate personnel policies:** In the interest of promoting domestic employment, many countries restrict the use of expatriate personnel by foreign investors. To be viable, however, firms require experienced managers and technicians who may not be available in developing countries.

Examples of countries which have instituted "investor friendly" policies are outlined in Box 4.6 below.

BOX 4.6

Investment Promotion Policies

<u>Policy</u>	<u>Examples of Successful Implementation</u>
Sound and stable macroeconomic policies	Taiwan, Singapore Hong Kong and South Korea created sound investment climates only after having implemented stable macroeconomic policies.
Streamlined and transparent foreign investment approval procedures	Firms applying to invest in the Dominican Republic's export processing zones are guaranteed that a final decision will be made within forty-five days based on clearly stated criteria. Since 1989, the number of firms investing in the EPZ's has increased by 43 percent annually.
Competitive investment incentives	The East Asian NICs have maintained a relatively uniform package of tax holidays and duty drawback systems for export oriented foreign investment. These policies were especially important in attracting initial investors.
Limited foreign exchange controls	Mauritius instituted a country-wide Export Processing Zone which places no foreign exchange controls on foreign investors involved in non-traditional export activities.
Free capital repatriation	Tunisia's new investment code implemented in 1987 guaranteed foreign firms involved in export activities the right to repatriate all profits, dividends, and capital invested at market prices. Due to this and other investment liberalization measures, investment in non-traditional exports activities has increased sharply.
Unrestricted use of expatriate labor	Singapore, Hong Kong, and Mauritius do not restrict the use of expatriate labor, yet the skills base of local labor has grown exponentially.

G. Labor

As a primary factor of production, labor is particularly susceptible to government policies that in turn directly impact a firm's profitability and competitiveness. Government regulations that determine minimum wages, labor mobility, the hiring and firing of employees and the use of expatriate personnel, all of which are intended to protect workers, can in fact have counterproductive effects on industrial development and long-term job creation.

A government-regulated minimum wage can be among the most severe constraints. High administered wage rates discourage labor-intensive production in which many developing countries have a comparative advantage and encourage the substitution of capital for labor in industrial production. The higher the mandated wage level relative to the level that would prevail in a free market and the greater the elasticity of demand for labor, the greater the loss of employment in the short term. Over the long term, firms substitute capital-intensive methods of production for high cost labor, new investment and entry are deterred, and those seeking work migrate from rural to urban areas in search of the scarce, high-paying jobs, with consequent social problems. The net result of the high wage policy on industrial development is slower growth and fewer jobs created.

East Africa presents an interesting example of high legislated minimum wages. After independence, several East African countries (Zambia, Kenya, Uganda and Tanzania) all made conscious efforts to raise minimum wages in urban areas. During that same period (1959-1964) all of these countries actually experienced declines in nonagricultural employment. As a result they decided to abandon their high-wage minimum wage policies and turned to a market-based wage policy aimed at encouraging higher levels of employment.

Although it is impossible to precisely predict the effect of wage deregulation on employment (demand for labor) firm profitability, and industrial development, Fiji's recent experience (see below) indicates that the direction of these effects is clearly towards greater efficiency and growth.

BOX 4.7

The Impact of Fijian Wage Deregulation on Industrial Development

Fiji's recent experience with export-oriented manufacturing following wage deregulation provides a possible model for other labor markets constrained by excessive government regulation. Prior to the 1990s, Fiji's labor market exhibited above-market clearing minimum wages, little labor mobility, and sluggish investment in labor-intensive industries. As part of Fiji's structural adjustment plan during the 1980s, export-oriented factories were offered a 13 year tax holiday, duty-free access to capital goods and raw materials, and exemption from minimum wage decrees.⁹

Within three years of the implementation of these measures, more than 120 new, non-unionized, export-oriented industries were established, mostly in labor-intensive industries such as garments, leather goods, and furniture. Within three years, over 15,000 new jobs were created mainly in the tax free factories. The new factories provided employment to unskilled workers at a third of the minimum wage rate prevailing at the time, and to the surprise of Fiji's policymakers, a large segment of the labor force was willing to accept jobs at lower wages. The government later announced that it would refrain from issuing minimum decrees and would instead leave wage agreements to be negotiated among workers, trade unions and employers.

⁹ World Bank, Fiji: Incentive Policies for Growth, July, 1991.

H. Taxation

Taxation is a key policy instrument which affects government fiscal balances and business profitability. In every country there is an important balance between raising sufficient government revenues to provide adequate public services and to maintain infrastructure and providing ample incentives to the private business to invest and obtain satisfactory returns on capital.

High corporate taxes are viewed by the business community as burdensome as they result in reduction in net cash flow and the profitability of investments. High corporate taxes can act as a drag on economic growth and also can provide strong inducements for tax evasion. Corporate tax rates examined in this study ranged from a low of 15 percent in Hong Kong, Chile and Mauritius to a high of 55 percent in Ghana and Uganda. The countries with the lowest levels of corporate taxes including Hong Kong, Korea, Taiwan, Chile, and Mauritius also enjoyed high levels of private investment and high levels of economic growth. Experience in these and other countries suggests there is a strong link between tax levels and economic growth.

In addition to corporate income taxes there are a number of taxes which affect business profitability. These include, among others, import duties, sales taxes, value added taxes, payroll taxes, social security, capital gains taxes. There are a number of taxation measures such as the marginal effective rate of taxation (METR) which attempt to capture the net effect of different business taxes on business profitability. There has been a general movement in many countries throughout the world towards lower broader based taxes. This type of tax regime provides adequate incentives for longer-term economic growth, while also being low enough to reduce incentives for evasion.

I. Export Policy

In the export area, there are a number of policy pre-conditions which need to be met in order for countries to compete internationally and rapidly increase production. Experience from successful export led-growth countries has shown that exporters need a policy environment that contains the following elements:

- ◆ Maintenance of a competitive exchange rate: An exchange rate system that maintains a competitive exchange rate is the single most effective export promotion instrument.
- ◆ Access to inputs at internationally competitive prices: Meeting this condition requires liberalized trade regimes, elimination of monopolies and price controls, and the introduction of policies which encourage domestic competition.

- ◆ Access to international markets: This requires the absence or elimination of all restrictions on exporters including export taxes, export licensing, and quantitative controls.
- ◆ Access to credit and other financial services at internationally competitive rates: In general, the economy does not benefit from special below market rates of credit for exporters, but rather from policies that ensure exporters credit at internationally competitive rates adjusted for risks associated with local economic and political conditions. In many countries with tightly controlled financial markets, formal credit is unavailable at any price for non-traditional exporters. This represents a serious policy impediment to exporting.

The Box 4.8 table below provides examples of successful implementation of export policies.

BOX 4.8

Export Promotion Policies	
<u>Policy</u>	<u>Examples of Successful Implementation</u>
Maintenance of competitive exchange rates	Korea: Exports began their rapid growth after Korea devalued and instituted a flexible exchange regime in 1964. Between 1964 and 1968 real exports increased by five-fold.
Access to inputs at internationally competitive prices	Dominican Republic: Legislation enabling the creation of EPZs which all allow exporters to import inputs duty free and to operate in an essentially tax-free environment has led to a tripling of non-traditional exports.
Access to international markets	Indonesia: As part of a broad-based structural reform program to reduce the country's dependence on petroleum exports, Indonesia eliminated a panoply of export controls on agricultural products. As a result, exports of traditional crops increased sharply, particularly in the outer island regions.
Access to credit	Korea: A system of domestic letters of credit was created which allowed exporters and indirect exporters to obtain export credit on the basis of guaranteed export orders at low risk to the banks. This system encouraged banks to provide credit to exporters who previously had no access to credit.

V. COMMERCIAL POLICY RESEARCH METHODOLOGY AND FINDINGS

A. Research Goals

Given the importance of a business-friendly commercial policy environment for private sector development, it is imperative for policymakers to identify feasible policy alternatives, and to assess their effectiveness. To this end, cross-country experiences can be utilized to examine specific policy approaches and the lessons learned from their successes and failures in enhancing economic performance. Cross-country data is also useful for conducting policy benchmarking, which is an effective technique for assessing the comparative position of a country's commercial policy regime against its competitors in attracting international investment and trade.

Although comparative assessments of economic policies have been conducted in the past, in most cases the comparison is limited to a few countries and confined to a specific policy area, such as the foreign investment policy regime. In order to assess the commercial policy practices of a large number of countries across a broad range of policy areas (such as trade, investment, tax, foreign exchange, etc.), it is necessary to identify an analytical framework within which commercial policies can be examined in a systematic and objective manner.

This section will present the methodology developed by the PEDS team to identify those policy practices which are conducive to private sector development and sustained economic growth. The methodology is designed to allow cross-country comparisons of overall commercial policy regimes through summary country policy scores, which describe the degree to which commercial policies are business-friendly as well as competition-based. The methodology is applied to a comprehensive database on worldwide commercial policies.

This approach provides policymakers with concrete examples of specific policy practices that are linked to successful economic performance over the long term. This approach can also serve as a useful tool for policymakers to assess the comparative position of their country's commercial policies vis-à-vis its global or regional competitors.

B. Research Methodology

Data Collection and Classification

To examine the commercial policy environment and its relationship to economic performance, 36 policy variables and 4 economic performance indicators have been selected as the basis for international comparison. To the extent possible, quantifiable measurements of policy differences were utilized. The economic performance indicators selected are:

- ◆ Average annual real GDP growth 1980-90
- ◆ Average annual real industrial growth 1980-90
- ◆ Average annual growth rate of gross domestic investment 1980-90
- ◆ Average annual growth rate of exports 1980-90

To measure the economic policy environment, 36 policy variables have been selected. The policy variables were selected based on the following criteria:

- ◆ Their importance in forming the overall commercial policy environment;
- ◆ The availability of up-to-date information;
- ◆ The objectivity and reliability of data sources; and
- ◆ The country coverage available.

The SRI team has collected and compiled the most up-to-date information from the World Bank, International Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD), Office of the U.S. Trade Representative (USTR), U.S. Department of Labor, Center for International Settlement of Investment Dispute (CISID), foreign embassies, major accounting houses, and other SRI sources.

The policy variables analyzed were classified under nine categories:

- | | |
|------------------------------|---------------------------------|
| 1. Business start-up | 6. Domestic investment policies |
| 2. Pricing | 7. Foreign investment |
| 3. Import policies | 8. Labor |
| 4. Export policies | 9. Taxation |
| 5. Foreign exchange policies | |

The policy variables were categorized so that they could be assessed as policy groups in forming the overall commercial policy environment. Such classification can also accommodate cross-country comparison in each individual policy category. See Box 5.1 below for the variables included under each policy category.

Data Analysis

SRI designed a rating system which assigns summary policy scores to each nation. These scores describe the degree to which the commercial policy regimes are business-friendly and competition-based.

BOX 5.1

POLICY VARIABLES INCLUDED IN THE DATA SET

<u>Policy Category</u>	<u>Policy Variable</u>
Import	Mean Trade-Weighted Tariff Tariff Variance All Non-tariff Barriers
Export	Export Taxes Export Restrictions Export Income Tax Exemptions Duty Free Imports
Tax	Minimum Corporate Income Tax Rates Top Corporate Income Tax Rates Minimum Personal Income Tax Rates Top Personal Income Tax Rates Sales Taxes + Value-Added Tax Rates
Domestic Investment	Income Tax Holidays Duty Exemptions Other Incentives: Accelerated Depreciation Investment Allowance R&D Incentives
Foreign Investment	Direct Investment Restrictions Expatriate Employment Restrictions Differential Treatment between Domestic and Foreign Investment Dispute Settlement Mechanisms
Business Start-Up	Business Licensing Business Registration Approvals
Pricing & Interest	Price Controls Price System Interest Controls Credit Allocation
Foreign Exchange	Exchange Rate System Foreign Exchange Level Foreign Exchange Restrictions Profit Repatriation Restrictions Capital Repatriation Restriction
Labor	Hiring/Firing Flexibility Minimum Wage Wage Controls

Under this system, both quantitative and qualitative information is converted into a set of policy scores. For each policy variable, a numerical value -- variable score (VS) -- is assigned to a specific policy condition. For example, the variable "Mean Tariff" in the Import Policy category is assigned a VS ranging from 0 to 4, depending on the range into which the mean tariff falls:

<u>Range</u>	<u>Variable Score (VS)</u>
$0 \leq \% \leq 15$	4
$15 < \% \leq 25$	3
$25 < \% \leq 30$	2
$30 < \% \leq 40$	1
$40 < \%$	0

For variables that are not strictly quantifiable, other means of measurements are utilized. For example, duty exemptions for machineries, raw materials, and other production imported inputs are an important factor in attracting investment. The variable "Duty Exemptions" is assigned a VS of "1" if duty exemptions exist, and "0" if otherwise. The scoring system is described in detail in Appendix 1.

The scores of the policy variables within the same policy category were then summed and harmonized according to a conversion scale to yield Policy Category Scores (PCSs), which fall into a range of 1-4. This is to ensure that the scoring system will not be biased towards the policy categories in which more data and information are available. The PCSs are then given weights which reflect their relative importance in forming the overall commercial policy environment (see Appendix 1 for the weights assigned to each policy category).

The Total Score (TS) for each country was obtained by summing the weighted scores from all the policy categories. The maximum achievable Total Score for a country is 100. Total Scores can be compared across countries as a summary description of the commercial policy environment. In addition, comparisons and benchmarking can be conducted in each policy category by comparing the Policy Category Scores across all countries or groups of countries. Perhaps more importantly, the correlation between the Total Scores, Policy Category Scores, and economic performance across countries can be observed and analyzed.

It should be noted that a country which has the most competition-based commercial policy environment will not have the perfect score of 100. This is due to the fact that for certain policy variables, higher scores are assigned to countries that have adopted special incentives specifically to encourage investment or trade, such as income tax exemptions for exporters, or income tax holidays for investors. In many countries, such special incentives are often provided to investors and exporters to counteract the restrictive commercial policies in other areas. Thus, economies like Hong Kong whose *laissez faire* policy practices most closely resemble the textbook free market approach, only achieved a score of 88. The results of the data analysis are discussed in Chapter VI which follows.

VI. RESULTS AND CONCLUSIONS

A. Overall Conclusions

Overall, the commercial policy climate as well as functional policy clusters are found to be closely correlated to economic performance. The scoring results and the economic performance of the 57 nations analyzed are presented in Table 6.1. Table 6.2 displays the policy scores and the performance of the top ten and bottom ten developing countries, ranked by Total Score. The following policy inferences can be drawn from the data analysis:

- ◆ Developing countries with high Total Scores performed better in economic growth, investment growth, and especially in export growth.
- ◆ High GDP growth in developing countries is especially correlated with high Policy Category Scores (PCSs) in the import, foreign exchange, and business policy categories.
- ◆ The developing countries with rapid investment growth have high PCSs in the domestic investment and foreign direct investment policy areas.
- ◆ The developing countries which experienced negative investment growth on average have low PCSs in foreign exchange, business, pricing and interest policies.
- ◆ Developing countries which performed well in export growth have higher rates of investment, industrial and GDP growth.
- ◆ The countries that enjoyed rapid export growth have very "friendly" commercial policy environments, measured by high Total Scores.
- ◆ The countries which experienced stagnant or negative export growth scored poorly especially in foreign exchange, trade, business, and tax policies.

Chart 6.1 below demonstrates good commercial policies fundamentally improve economic performance. Over the 1980's the top ten developing country scorers achieved much higher cumulative growth than the bottom ten. GDP growth was 75 percent higher, investment stock expanded by 30 percent instead of shrinking by 12 percent, and export growth was six times as high.

Table 6.1

SELECTED COUNTRIES RANKED BY TOTAL SCORE

Region	Country	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	Total	gGDP	gEX	gIND	gINV
ASIA	Hong Kong	16	8	16	2	6	8	12	12	8	88	7.1	6.2	0	3.6
ASIA	Singapore	16	8	12	7	8	8	6	12	8	85	6.4	8.6	5.4	3.6
OECD	U.S.A.	16	6	8	4	8	8	12	16	6	84	3.4	3.3	2.9	4.4
OECD	U.K.	16	8	4	2	8	8	12	16	8	82	3.1	2.7	1.3	6.4
ASIA	Taiwan	16	6	12	8	5	8	12	8	6	81	7.7	12.1	6.1	5.7
LAC	Bolivia	16	8	12	0	8	6	12	16	2	80	-0.1	1.4	-1.7	-10.7
OECD	Germany	16	8	4	2	8	8	12	16	4	78	2.1	4.2	0.4	2.4
ASIA	S. Korea	16	8	8	8	6	8	6	12	6	78	9.7	12.8	12.2	12.5
OECD	Canada	8	8	8	5	8	8	12	16	4	77	3.4	5.9	3.2	4.9
ME	Saudi Arabia	16	6	12	6	8	7	6	8	8	77	-1.8	-9.7	-4.4	0
OECD	Australia	12	6	4	8	6	8	12	16	4	76	3.4	3.9	3.2	3
LAC	Costa Rica	12	8	12	6	6	6	9	12	4	75	3	3.1	2.9	5.2
LAC	Paraguay	16	6	12	4	7	6	6	16	2	75	2.5	10.7	-0.5	-1.4
LAC	Guatemala	12	6	12	6	6	4	6	16	6	74	0.8	-1.7	1.9	-2.1
OECD	Ireland	16	4	0	8	8	8	12	12	6	74	3.1	7.3	-4.3	-0.5
OECD	Japan	12	6	8	6	8	8	6	16	4	74	4.1	4.2	4.5	5.7
OECD	New Zealand	16	8	4	0	8	8	9	16	4	73	1.9	3.4	1.7	4.4
LAC	Jamaica	12	8	8	8	8	4	3	16	4	71	1.6	0.6	2.2	4.1
OECD	Netherlands	16	6	0	4	8	8	12	12	4	70	1.9	4.4	1.1	2.3
LAC	Uruguay	8	8	8	7	6	1	9	16	6	69	0.3	3.2	-0.2	-8.2
LAC	Chile	12	6	4	2	8	6	12	12	6	68	3.2	4.8	3.4	4.3
ASIA	Malaysia	12	8	8	7	2	4	9	12	6	68	5.2	10.3	7.1	2.9
LAC	El Salvador	12	6	8	4	8	4	6	12	6	66	0.9	-0.8	-0.6	2.2
ASIA	Thailand	8	6	12	6	8	4	6	12	4	66	7.6	13.2	9	8.7
LAC	Colombia	4	8	12	2	6	3	12	12	4	63	3.7	10.6	5.1	0.6
ASIA	Indonesia	12	4	12	6	5	4	6	12	2	63	5.5	2.8	5.6	7.1
OECD	Norway	16	2	0	0	6	8	9	12	8	61	2.9	6.8	4.8	0.6
ASIA	Philippines	4	8	12	6	6	4	9	8	4	61	0.9	2.5	-0.8	-2.5
O/ASIA	PNG	16	8	8	5	4	3	3	8	6	61	1.9	6.2	2.7	-1.7
LAC	Barbados	16	8	8	5	8	8	3	0	4	60	1.7	5.8	N/A	N/A
LAC	Trinidad/Tob	12	6	8	8	8	6	6	0	6	60	-4.7	-3.7	-5.5	-7.5
LAC	DR	4	6	8	5	4	6	12	8	6	59	2.1	1.3	2.3	4.3
AFR	Morocco	8	8	4	8	8	8	6	8	0	58	4	6.1	2.8	2.6
LAC	Mexico	12	8	8	4	4	5	3	12	1	57	1	3.4	1	-3.4
LAC	Venezuela	0	8	8	4	4	7	6	16	4	57	1	1.8	1.5	-5.4
O/EUR	Cyprus	8	6	12	6	4	3	3	12	2	56	5.76	6.6	N/A	N/A
O/EUR	Hungary	12	8	4	6	8	6	6	4	2	56	1.3	5.5	-0.5	-0.8
O/ASIA	Sri Lanka	8	4	8	2	8	4	9	4	6	53	4	6.8	4.6	0.4
O/EUR	Turkey	4	8	0	6	8	6	6	8	6	52	5.1	9.1	6.2	3.8

Table 6.1
Continued...

LAC	Argentina	8	6	12	6	4	4	9	0	2	51	0.4	1.4	-1.1
AFR	Cote D'Ivoire	12	6	8	4	8	0	3	8	2	51	0.5	2.7	0.3
AFR	Senegal	12	6	4	8	6	7	3	0	5	51	3	5.6	3.5
AFR	Ghana	8	6	4	8	4	0	6	12	0	48	3	3.8	3.3
AFR	Cameroon	12	6	0	3	8	0	6	8	0	43	2.3	-1.3	3.1
AFR	Malawi	8	8	8	5	4	1	0	8	0	42	2.9	4.3	3
LAC	Brazil	0	6	8	6	2	1	3	8	6	40	2.7	4	2.1
AFR	Kenya	8	6	4	2	8	0	3	4	5	40	4.2	1	3.9
AFR	Tanzania	0	6	4	5	4	1	8	8	2	38	2.8	-7.4	0
AFR	Zambia	0	8	8	5	8	1	3	0	2	35	0.8	-3.2	0.7
O/ASIA	Pakistan	0	6	4	4	8	0	0	8	4	34	6.3	9	7.3
AFR	Uganda	12	0	4	4	8	1	3	0	2	34	2.8	4.3	5.5
O/ASIA	China (PRC)	8	4	12	4	2	0	0	0	2	32	9.5	11	12.5
AFR	Zaire	4	8	0	4	4	1	3	4	3	31	1.8	-11	2.3
O/ASIA	India	0	6	4	8	4	0	3	0	4	29	5.3	6.5	6.6
AFR	Zimbabwe	16	2	0	2	2	6	0	0	0	28	2.9	3.1	2.4
O/ASIA	Bangladesh	0	6	4	4	8	0	0	4	0	26	3.8	7.6	4.9
ME	Egypt	0	8	4	2	2	0	3	0	2	21	5	2.1	4.3

KEY TO COLUMN HEADINGS

IM	Import Policy Score
EX	Export Policy Score
TAX	Tax Policy Score
INV	Investment Policy Score
FDI	Foreign Direct Investment Policy Score
BUS	Business Start-up Policy Score
P/I	Pricing and Interest Policy Score
FX	Foreign Exchange Policy Score
LAB	Labor Policy Score
Total	Total Score
gGDP	Average annual real GDP growth rate 1980-90 (%)
gEX	Average annual export growth rate 1980-90 (%)
gIND	Average annual real industry growth rate 1980-90 (%)
gINV	Average annual gross domestic investment growth rate 1980-90 (%)

Table 6.2

TOP TEN DEVELOPING COUNTRIES RANKED BY TOTAL SCORE

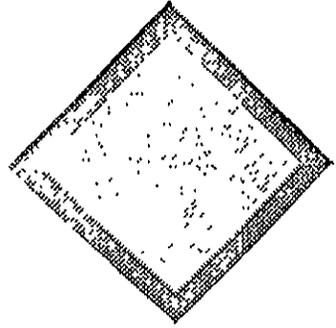
Region	Country	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	TOT	gGDP	gEX	gIND	gINV
ASIA	Hong Kong	16	8	16	2	6	8	12	12	8	88	7.1	6.2	0	3.6
ASIA	Singapore	16	8	12	7	8	8	6	12	8	85	6.4	8.6	5.4	3.6
ASIA	Taiwan	16	6	12	8	5	8	12	8	6	81	7.7	12.1	6.1	5.7
LAC	Bolivia	16	8	12	0	8	6	12	16	2	80	-0.1	1.4	-1.7	-10.7
ASIA	S. Korea	16	8	8	8	6	8	6	12	6	78	9.7	12.8	12.2	12.5
LAC	Costa Rica	12	8	12	6	6	6	9	12	4	75	3	3.1	2.9	5.2
LAC	Paraguay	16	6	12	4	7	6	6	16	2	75	2.5	10.7	-0.5	-1.4
LAC	Guatemala	12	6	12	6	6	4	6	16	6	74	0.8	-1.7	1.9	-2.1
LAC	Jamaica	12	8	8	8	8	4	3	16	4	71	1.6	0.6	2.2	4.1
LAC	Uruguay	8	8	8	7	6	1	9	16	6	69	0.3	3.2	-0.2	-8.2
	Average	14.0	7.4	11.2	5.6	6.6	5.9	8.1	13.6	5.2	77.6	3.9	5.7	2.8	1.2

BOTTOM 10 DEVELOPING COUNTRIES RANKED BY TOTAL SCORE

Region	Country	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	Total	gGDP	gEX	gIND	gINV
AFR	Cameroon	12	6	0	3	8	0	6	8	0	43	2.3	-1.3	3.1	-3.5
AFR	Malawi	8	8	8	5	4	1	0	8	0	42	2.9	4.3	3	-2.4
AFR	Kenya	8	6	4	2	8	0	3	4	5	40	4.2	1	3.9	0.6
LAC	Brazil	0	6	8	6	2	1	3	8	6	40	2.7	4	2.1	0.2
AFR	Tanzania	0	6	4	5	4	1	8	8	2	38	2.8	-7.4	0	0.3
AFR	Zambia	0	8	8	5	8	1	3	0	2	35	0.8	-3.2	0.7	-3.6
AFR	Uganda	12	0	4	4	8	1	3	0	2	34	2.8	4.3	5.5	N/A
AFR	Zaire	4	8	0	4	4	1	3	4	3	31	1.8	-11	2.3	-1.7
AFR	Zimbabwe	16	2	0	2	2	6	0	0	0	28	2.9	3.1	2.4	-0.8
O/ASIA	Bangladesh	0	6	4	4	8	0	0	4	0	26	3.8	7.6	4.9	-0.6
	Average	6.0	5.6	4.0	4.0	5.6	1.2	2.9	4.4	2.0	35.7	2.7	0.1	2.8	-1.3

See Table 6.1 for Key to Column Headings

WHAT DIFFERENCE DOES A GOOD COMMERCIAL POLICY CLIMATE MAKE?



IT FUNDAMENTALLY IMPROVES ECONOMIC PERFORMANCE

Over the 1980's the top ten developing country scorers achieved much greater cumulative growth than the bottom ten:

- ★ GDP growth was 75% higher
- ★ Cumulative investment expanded by 30% instead of shrinking 12%
- ★ Export growth was six times as high

Higher economic growth translates into improved standards of living, greater chances to reduce poverty, and increased participation in the world economy.

B. Regional Observations

A perusal of the policy scores and performance of countries in regional groupings yields the following observations (See Table 6.3 in the following pages):

- ◆ The East/Southeast Asian group and the OECD group have the highest (and almost identical) Total Scores, but the Asian group enjoyed higher GDP growth between 1980 and 1990. This is probably due to the fact that the OECD countries are mature economies, while the newly industrialized Asian countries have more room for growth, at least until they catch up with the industrialized countries.
- ◆ Compared to OECD countries, East/Southeast Asian countries scored higher (that is, were more favorable toward business) in tax and domestic investment policies, but lower in business, foreign exchange, foreign direct investment, and pricing and interest policies. It can be inferred from this observation that although open by worldwide standards, the East/Southeast Asian countries have less open commercial policy environments than the OECD countries. The East/Southeast Asian countries compensate with special tax and investment incentives in order to attract business and investment.
- ◆ Sub-Saharan Africa has very weak export and investment growth, and low policy scores, especially in tax, foreign exchange, pricing and interest policies. Although many Sub-Saharan African economies have suffered from wars, civil strife and political instability throughout the 1980s, the poor economic conditions were exacerbated by the extremely unfavorable commercial policy environment which prevailed in many countries.
- ◆ Compared to the newly industrializing East/Southeast Asian countries, LAC countries are weak in import and tax policies. The economic performances of the LAC countries are also much weaker than the East/Southeast Asian and OECD groups.
- ◆ The "Other Asia" Group, which includes China (PR), India, Pakistan, Bangladesh, Sri Lanka etc., showed very strong economic performance despite very poor policy scores.¹⁰

¹⁰ To a large extent, this group should be viewed as an aberration. They demonstrated impressive economic performance despite their poor overall commercial policy environment. In China, for example, economic growth throughout the 1980s was driven by the phenomenal growth rates in a few coastal provinces, in which commercial policies have been liberalized considerably. The national policies utilized in the SRI model are not able to capture these regional variations within countries.

Table 6.3
Country Performance by Region

SELECTED COUNTRIES IN AFRICA RANKED BY TOTAL SCORE

Region	Country	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	TOT	gGDP	gEX	gIND	gINV
AFR	Morocco	8	8	4	8	8	8	6	8	0	58	4	6.1	2.8	2.6
AFR	Cote D'Ivoire	12	6	8	4	8	0	3	8	2	51	0.5	2.7	0.3	-11.6
AFR	Senegal	12	6	4	8	6	7	3	0	5	51	3	5.6	3.5	3.9
AFR	Ghana	8	6	4	8	4	0	6	12	0	48	3	3.8	3.3	7.7
AFR	Cameroon	12	6	0	3	8	0	6	8	0	43	2.3	-1.3	3.1	-3.5
AFR	Malawi	8	8	8	5	4	1	0	8	0	42	2.9	4.3	3	-2.4
AFR	Kenya	8	6	4	2	8	0	3	4	5	40	4.2	1	3.9	0.6
AFR	Tanzania	0	6	4	5	4	1	8	8	2	38	2.8	-7.4	0	0.3
AFR	Zambia	0	8	8	5	8	1	3	0	2	35	0.8	-3.2	0.7	-3.6
AFR	Uganda	12	0	4	4	8	1	3	0	2	34	2.8	4.3	5.5	N/A
AFR	Zaire	4	8	0	4	4	1	3	4	3	31	1.8	-11	2.3	-1.7
AFR	Zimbabwe	16	2	0	2	2	6	0	0	0	28	2.9	3.1	2.4	-0.8
	Average	8.3	5.8	4.0	4.8	6.0	2.2	3.7	5.0	1.8	41.6	2.6	0.7	2.6	-0.8

SELECTED COUNTRIES IN LATIN AMERICA/CARIBBEAN RANKED BY TOTAL SCORE

Region	Country	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	TOT	gGDP	gEX	gIND	gINV
LAC	Bolivia	16	8	12	0	8	6	12	16	2	80	-0.1	1.4	-1.7	-10.7
LAC	Costa Rica	12	8	12	6	6	6	9	12	4	75	3	3.1	2.9	5.2
LAC	Paraguay	16	6	12	4	7	6	6	16	2	75	2.5	10.7	-0.5	-1.4
LAC	Guatemala	12	6	12	6	6	4	6	16	6	74	0.8	-1.7	1.9	-2.1
LAC	Jamaica	12	8	8	8	8	4	3	16	4	71	1.6	0.6	2.2	4.1
LAC	Uruguay	8	8	8	7	6	1	9	16	6	69	0.3	3.2	-0.2	-8.2
LAC	Chile	12	6	4	2	8	6	12	12	6	68	3.2	4.8	3.4	4.3
LAC	El Salvador	12	6	8	4	8	4	6	12	6	66	0.9	-0.8	-0.6	2.2
LAC	Colombia	4	8	12	2	6	3	12	12	4	63	3.7	10.6	5.1	0.6
LAC	Barbados	16	8	8	5	8	8	3	0	4	60	1.7	5.8	N/A	N/A
LAC	Trinidad/Tob	12	6	8	8	8	6	6	0	6	60	-4.7	-3.7	-5.5	-7.5
LAC	DR	4	6	8	5	4	6	12	8	6	59	2.1	1.3	2.3	4.3
LAC	Mexico	12	8	8	4	4	5	3	12	1	57	1	3.4	1	-3.4
LAC	Venezuela	0	8	8	4	4	7	6	16	4	57	1	1.8	1.5	-5.4
LAC	Argentina	8	6	12	6	4	4	9	0	2	51	0.4	1.4	-1.1	-8.3
LAC	Brazil	0	6	8	6	2	1	3	8	6	40	2.7	4	2.1	0.2
	Average	9.8	7.0	9.3	4.8	6.1	4.8	7.3	10.8	4.3	64.1	1.3	2.9	0.9	-1.7

Table 6.3
Continued...

SELECTED COUNTRIES IN EAST/SOUTHEAST ASIA RANKED BY TOTAL SCORE

Region	Country	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	TOT	gGDP	gEX	gIND	gINV
ASIA	Hong Kong	16	8	16	2	6	8	12	12	8	88	7.1	6.2	0	3.6
ASIA	Singapore	16	8	12	7	8	8	6	12	8	85	6.4	8.6	5.4	3.6
ASIA	Taiwan	16	6	12	8	5	8	12	8	6	81	7.7	12.1	6.1	5.7
ASIA	S. Korea	16	8	8	8	6	8	6	12	6	78	9.7	12.8	12.2	12.5
ASIA	Malaysia	12	8	8	7	2	4	9	12	6	68	5.2	10.3	7.1	2.9
ASIA	Thailand	8	6	12	6	8	4	6	12	4	66	7.6	13.2	9	8.7
ASIA	Indonesia	12	4	12	6	5	4	6	12	2	63	5.5	2.8	5.6	7.1
ASIA	Philippines	4	8	12	6	6	4	9	8	4	61	0.9	2.5	-0.8	-2.5
	Average	12.5	7.0	11.5	6.3	5.8	6.0	8.3	11.0	5.5	73.8	6.3	8.6	5.6	5.2

OTHER SELECTED ASIAN COUNTRIES RANKED BY TOTAL SCORE

Region	Country	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	TOT	gGDP	gEX	gIND	gINV
O/ASIA	PNG	16	8	8	5	4	3	3	8	6	61	1.9	6.2	2.7	-1.7
O/ASIA	Sri Lanka	8	4	8	2	8	4	9	4	6	53	4	6.8	4.6	0.4
O/ASIA	Pakistan	0	6	4	4	8	0	0	8	4	34	6.3	9	7.3	5.7
O/ASIA	China (PRC)	8	4	12	4	2	0	0	0	2	32	9.5	11	12.5	13.7
O/ASIA	India	0	6	4	8	4	0	3	0	4	29	5.3	6.5	6.6	5
O/ASIA	Bangladesh	0	6	4	4	8	0	0	4	0	26	3.8	7.6	4.9	-0.6
	Average	5.3	5.7	6.7	4.5	5.7	1.2	2.5	4.0	3.7	39.2	5.1	7.9	6.4	3.8

SELECTED COUNTRIES IN THE MIDDLE EAST RANKED BY TOTAL SCORE

Region	Country	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	TOT	gGDP	gEX	gIND	gINV
ME	Saudi Arabia	16	6	12	6	8	7	6	8	8	77	-1.8	-9.7	-4.4	0
ME	Egypt	0	8	4	2	2	0	3	0	2	21	5	2.1	4.3	0.2
	Average	8.0	7.0	8.0	4.0	5.0	3.5	4.5	4.0	5.0	49.0	1.6	-3.8	-0.1	0.1

Table 6.3
Continued...

SELECTED OECD COUNTRIES RANKED BY TOTAL SCORE

Region	Country	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	TOT	gGDP	gEX	gIND	gINV
OECD	U.S.A.	16	6	8	4	8	8	12	16	6	84	3.4	3.3	2.9	4.4
OECD	U.K.	16	8	4	2	8	8	12	16	8	82	3.1	2.7	1.3	6.4
OECD	Germany	16	8	4	2	8	8	12	16	4	78	2.1	4.2	0.4	2.4
OECD	Canada	8	8	8	5	8	8	12	16	4	77	3.4	5.9	3.2	4.9
OECD	Australia	12	6	4	8	6	8	12	16	4	76	3.4	3.9	3.2	3
OECD	Ireland	16	4	0	8	8	8	12	12	6	74	3.1	7.3	-4.3	-0.5
OECD	Japan	12	6	8	6	8	8	6	16	4	74	4.1	4.2	4.5	5.7
OECD	New Zealand	16	8	4	0	8	8	9	16	4	73	1.9	3.4	1.7	4.4
OECD	Netherlands	16	6	0	4	8	8	12	12	4	70	1.9	4.4	1.1	2.3
OECD	Norway	16	2	0	0	6	8	9	12	8	61	2.9	6.8	4.8	0.6
	Average	14.4	6.2	4.0	3.9	7.6	8.0	10.8	14.8	5.2	74.9	2.9	4.6	1.9	3.4

OTHER SELECTED COUNTRIES IN EUROPE RANKED BY TOTAL SCORE

Region	Country	IM	EX	TAX	INV	FDI	BUS	P/I	FX	LAB	TOT	gGDP	gEX	gIND	gINV
O/EUR	Cyprus	8	6	12	6	4	3	3	12	2	56	5.76	6.6	N/A	N/A
O/EUR	Hungary	12	8	4	6	8	6	6	4	2	56	1.3	5.5	-0.5	-0.8
O/EUR	Turkey	4	8	0	6	8	6	6	8	6	52	5.1	9.1	6.2	3.8
	Average	8.0	7.3	5.3	6.0	6.7	5.0	5.0	8.0	3.3	54.7	4.1	7.1	2.9	1.5

See Table 6.1 for Key to Column Headings

C. Global Growth Through Global Competition

The result of the data analysis provides strong evidence of the linkage between favorable commercial policy environment and economic growth. It also established a compelling case and a strong foundation for a new vision for development assistance: Global Growth Through Global Competition.

By applying the lessons learned through the use of the model presented in this report, it is possible to increase economic output through the introduction of competition-based commercial policies. Developing countries possess many resources, such as labor, natural resources, climate, many of which are underutilized due to the lack of a favorable policy climate to act as the catalyst. Cross-country experience has demonstrated that many of these resources can be unleashed and organized productively by private enterprise operating in a competitive market environment. However, the only means by which private enterprise is exposed to competitive forces is the adoption of sound commercial policies. **The linkage between economic performance and commercial policies provides clear, strong evidence of the need for competition-based policy structures.**

The development approach of "Global Growth Through Global Competition" incorporates the following elements:

1. Developing country leadership will be given a compelling perspective on "international best practices" and where their nations stand vis á vis their regional and global competitors.
2. Alternative commercial policy models will be assessed, with the benefits, costs and projected outcomes articulated to stimulate interest.
3. Collaborative action programs will be formulated, consisting of the following elements:
 - Diagnostic benchmarking
 - Public outreach/advocacy to important constituents
 - Competitor country case studies
 - Commercial policy audit
 - Commercial policy formulation and law drafting
 - Conditioned, competition-based policy reform grants
 - Institutional, training and technical assistance

The action programs will be monitored, refined, and extended or terminated over time.

This approach is different from the past in the following ways:

- ◆ It uses a global, comparative strategy rather than a country-specific approach.
- ◆ It is based on benchmarking and international best practices, which are highly effective analytical and strategy-building techniques.
- ◆ It addresses the overall commercial policy "enabling environment" for private enterprises.
- ◆ It engages high level officials from the outset, ensuring continued support and momentum.
- ◆ It is a natural extension of past USAID initiatives, allowing for synergy and collaborative efforts with existing programs.

APPENDIX 1

COMMERCIAL POLICY SCORING SYSTEM

1. IMPORT POLICIES

	POLICY VARIABLE	RANGE	SCORE
A. Mean Tariff:	(TWTMEAN)	$0 \leq \% \leq 15$	4
		$15 < \% \leq 25$	3
		$25 < \% \leq 30$	2
		$30 < \% \leq 40$	1
		$40 < \%$	0

	POLICY VARIABLE	RANGE	SCORE
B. Tariff Variance:	(TWTMAX) (TWTMIN)	$0 \leq \% \leq 5$	2
		$5 < \% \leq 10$	1
		$10 < \%$	0

	POLICY VARIABLE	RANGE	SCORE
C. Non-tariff Barriers:	(ALLNTBS)	$0 \leq \% \leq 15$	4
		$15 < \% \leq 25$	3
		$25 < \% \leq 35$	2
		$35 < \% \leq 50$	1
		$50 < \%$	0

TOTAL SCORE

()

Total Score	Raw Score	Grade
(9 - 10)	4	A
(7 - 8)	3	B
(5 - 6)	2	C
(3 - 4)	1	D
(0 - 2)	0	E
Weight for this category:		4

2. Export Policies

	POLICY VARIABLE	RANGE	SCORE
A. Export Taxes:	(XTAXES)	No	1
		Yes	0

	POLICY VARIABLE	RANGE	SCORE
B. Export Restrictions:	(XRESTR)	No	3
		Minimal	2
		Selective	1
		Extensive	0

	POLICY VARIABLE	RANGE	SCORE
C. Export Income Tax Exemption:	(XYTAXX)	Yes	1
		No	0

	POLICY VARIABLE	RANGE	SCORE
D. Duty free imports:	(DUTYFREEM)	Yes	1
		No	0

Total Score	Raw Score	Grade
(5 - 6)	4	A
(3 - 4)	3	B
(2)	2	C
(1)	1	D
(0)	0	E
Weight for this category:		2

3. Tax Policies

	POLICY VARIABLE	RANGE	SCORE
A. Minimum Corporate Income Tax Rates:	(CORPTAXL)	$0 \leq \% \leq 20$	3
		$20 < \% \leq 30$	2
		$30 < \% \leq 40$	1
		$40 < \%$	0
	POLICY VARIABLE	RANGE	SCORE
B. Top Corporate Income Tax Rates:	(CORPTAXH)	$0 \leq \% \leq 20$	3
		$20 < \% \leq 35$	2
		$35 < \% \leq 45$	1
		$45 < \%$	0
	POLICY VARIABLE	RANGE	SCORE
C. Minimum Personal Income Tax Rates:	(PYTAXL)	$0 \leq \% \leq 10$	3
		$10 < \% \leq 20$	2
		$20 < \% \leq 30$	1
		$30 < \%$	0
	POLICY VARIABLE	RANGE	SCORE
D. Top Personal Income Tax Rates:	(PYTAXH)	$0 \leq \% \leq 35$	3
		$35 < \% \leq 45$	2
		$45 < \% \leq 50$	1
		$50 < \%$	0
	POLICY VARIABLE	RANGE	SCORE
E. Sales Tax + VAT Rates	(SALESTAX + VAT)	0 %	3
		$0 < \% \leq 10$	2
		$10 < \% \leq 15$	1
		$15 < \%$	0

Total Score	Raw Score	Grade
(13 - 15)	4	A
(11 - 12)	3	B
(8 - 10)	2	C
(5 - 7)	1	D
(0 - 4)	0	E
Weight for this category:		4

4. Domestic Investment Incentives

	POLICY VARIABLE	RANGE	SCORE
A. Income Tax Holidays:	(YTAXHOL)	Yes	1
		No	0
	POLICY VARIABLE	RANGE	SCORE
B. Duty Exemptions:	(DUTYEXEMP)	Yes	1
		No	0
	POLICY VARIABLE	RANGE	SCORE
C. Other Incentives: Accelerated Depreciation, Investment Allowance, and R&D Incentives:	(ACCDEP, IALLOW, RDINCENT)	Two or more	2
		One	1
		None	0

Total Score	Raw Score	Grade
4	4	A
3	3	B
2	2	C
1	1	D
0	0	E
Weight for this category:		2

5. Foreign Investment Restrictions

	POLICY VARIABLE	RANGE	SCORE
A. FDI Restriction:	(FDIRESTR + EQUIRESTR)	Standard	2
		Moderate	1
		Restrictive	0

	POLICY VARIABLE	RANGE	SCORE
B. Expatriate Employment	(EXPATRTR)	Standard	2
		Moderate	1
		Restrictive	0

	POLICY VARIABLE	RANGE	SCORE
C. Differential Treatment:	(DIFFTREAT)	No	1
		Yes	0

	POLICY VARIABLE	RANGE	SCORE
D. Dispute Settlement:	(DISPTRMT)	ICSID	2
		ICSIDNR	1
		-	0

Total Score	Raw Score	Grade
(6 - 7)	4	A
(5)	3	B
(3 - 4)	2	C
(1 - 2)	1	D
(0)	0	E
Weight for this category:		2

6. Business Start-up Procedures

	POLICY VARIABLE	RANGE	SCORE
A.	Business licensing,	Efficient	4
	registration and approvals:	Relative Problems	2
	(LICENSING,	Onerous	0
	APPROVALS)		

Weight for this category: 2

7. Pricing and Interest Policies

	POLICY VARIABLE	RANGE	SCORE
A. Price Control:	(PRICECONT)	None	2
		Selective	1
		Extensive	0

	POLICY VARIABLE	RANGE	SCORE
B. Price System:	(PRICESYST)	Market	2
		Mixed	1
		Administered	0

	POLICY VARIABLE	RANGE	SCORE
C. Interest Control:	(INTCONTR)	No	1
		Yes	0

	POLICY VARIABLE	RANGE	SCORE
D. Credit Allocation:	(CREDITALL)	Market	2
		Mixed	1
		Administered	0

Total Score	Raw Score	Grade
(7)	4	A
(5 - 6)	3	B
(3 - 4)	2	C
(1 - 2)	1	D
(0)	0	E

Weight for this category: 3

8. Foreign Exchange Policies

	POLICY VARIABLE	RANGE	SCORE
A. Exchange rate System:	(FXSYST)	Free Float	3
		EMS	2
		Pegged to Basket of Indicators	2
		Pegged to Basket of Currencies	2
		Managed Float	1
		Pegged to US\$, FF, or SDR	0
	POLICY VARIABLE	RANGE	SCORE
B. Foreign Exchange level:	(FXLEVEL)	Market	1
		Overvalued	0
	POLICY VARIABLE	RANGE	SCORE
C. Foreign Exchange Restriction:	(FXRESTR)	None	3
		Minimal	2
		Moderate	1
		Restrictive/Prohibitive	0
	POLICY VARIABLE	RANGE	SCORE
D. Profit Repatriation Restriction:	(PROFRESTR)	None and Minimal	2
		Moderate	1
		Restrictive/Prohibitive	0
	POLICY VARIABLE	RANGE	SCORE
E. Capital Repatriation Restriction:	(CAPRESTR)	None and Minimal	2
		Moderate	1
		Restrictive/Prohibitive	0

Total Score	Raw Score	Grade
(10 - 11)	4	A
(8 - 9)	3	B
(6 - 7)	2	C
(4 - 5)	1	D
(0 - 3)	0	E
Weight for this category: 4		

9. Labor Policies

	POLICY VARIABLE	RANGE	SCORE
A. Hiring/Firing Flexibility:	(HIFIFLEX)	Flexible	2
		Moderate	1
		Inflexible	0

	POLICY VARIABLE	RANGE	SCORE
B. Minimum Wage:	(MINWAGE)	No	1
		Yes	0

	POLICY VARIABLE	RANGE	SCORE
C. Wage Controls:	(WAGECONTR)	No	1
		Yes	0

Total Score	Raw Score	Grade
4	4	A
3	3	B
2	2	C
1	1	D
0	0	E

Weight for this category: 2

10. Suggested Weighting for Policy Categories

	Score Range	Weight	Maximum Weighted Score
Import Policies	0 - 4	4	16
Export Policies	0 - 4	2	8
Tax Policies	0 - 4	4	16
Investment Incentives	0 - 4	2	8
FDI Restrictions	0 - 4	2	8
Business Start-Up Procedures	0 - 4	2	8
Pricing/Interest Policies	0 - 4	3	12
Foreign Exchange Policies	0 - 4	4	16
Labor	0 - 4	2	8
			<hr/> 100

Score Sheet

Country:

Country Score:

	Score	Raw Score	Weighted Score
Import Policies:			
Mean Tariff:			
Tariff Variance:			
Non-tariff Barr:			
Total:			4X =

	Score	Raw Score	Weighted Score
Export Policies:			
Export Taxes:			
Export Restrict:			
Exp. Income Exempt:			
Duty Free Imports:			
Total:			2X =

	Score	Raw Score	Weighted Score
Tax Policies:			
Min. Corp Rates:			
Top Corp Rates:			
Min. Personal Rates:			
Top Personal rates:			
Sales Tax + VAT:			
Total:			4X =

	Score	Raw Score	Weighted Score
Investment Incentives:			
Income Tax Hol:			
Duty Exemptions:			
Other Incentives:			
Total:			2X =

	Score	Raw Score	Weighted Score
FDI Restrictions:			
FDI Restriction:			
Expat Restrict:			
Diff. Treatment:			
Dispute Settlement:			
Total:			2X =

	Score	Raw Score	Weighted Score
Business Start-Up:			
Total:			2X =

	Score	Raw Score	Weighted Score
Pricing/Interest Policy:			
Price Control:			
Price System:			
Interest Control:			
Credit Allocation:			
Total:			3X =

	Score	Raw Score	Weighted Score
Foreign Exchange Policy:			
FX System:			
FX Level:			
FX Restriction:			
Profit Repat Restr:			
Capital Repat Restr:			
Total:			4X =

	Score	Raw Score	Weighted Score
Labor Policy:			
Hiring/Firing Flex:			
Min Wage:			
Wage Controls:			
Total:			2X =