

**ECONOMIST
IMPACT**

The Illicit Trade Environment Index

A report by Economist Impact



Contents

3	About the report
4	Illicit Trade Environment Index
5	Fake goods, real impacts
7	The anatomy of illicit trade
7	Governance
11	Surveillance and enforcement: patchwork of defences
13	Customs and border management: the frontlines against illicit trade
16	Economic management and regulatory environment: the socio-economic currents of illicit trade
19	Conclusion
20	References
21	Appendix I: Methodology

About the report

The Illicit Trade Environment Index, developed by Economist Impact, assesses the ability of 87 countries to combat illicit trade, offering a resource for governments, businesses and NGOs seeking to strengthen enforcement and regulation. Rather than measuring the scale of illegal activity, the index evaluates countries on governance, transparency, customs and enforcement, and economic and social conditions—factors that determine their capacity to disrupt illicit markets. This briefing paper combines the index’s findings with research, expert interviews and case studies to highlight trends, challenges and policy responses.

The research underpinning the index and briefing paper has benefited from insights shared in a panel discussion and a series of interviews with trade experts, including:

- **Alan Arcand**, chief economist, Canadian Manufacturers and Exporters
- **John Bescec**, chair, Customs and Trade Facilitation Commission, International Chamber of Commerce
- **Tom Cardamone**, president and chief executive officer, Global Financial Integrity
- **Laura Dawson**, executive director, Future Borders Coalition
- **James Lenaghan**, chief executive officer, Global Customs Compliance Ltd

- **David Luna**, co-director, Anti-Illicit Trade Institute, The Terrorism, Transnational Crime and Corruption Center
- **Gabrielle Marceau**, senior counsellor, World Trade Organization
- **Anton Moiseienko**, senior lecturer, Australian National University
- **Piotr Stryszowski**, senior economist, Manager Task Force on Countering Illicit Trade, OECD
- **Louise Taylor**, director, Global Initiative against Transnational Organized Crime

Our thanks and gratitude go to these individuals for their time and insights.

The index and programme were constructed by an Economist Impact project team including:

- **Elizabeth Mackie**, project director
- **Oliver Sawbridge**, project manager
- **Harsheen Sethi**, research analyst
- **Eddie Milev**, research analyst
- **John Ferguson**, research adviser

Mary Hayes, Aayushi Idda Sharma and Shreyansh Jain helped with the research for the Illicit Trade Environment Index. The model was constructed by William Shallcross.

Illicit Trade Environment Index

Few activities harm economies as profoundly as illicit trade. It undermines legitimate businesses, siphons revenue from governments and inflates the need for policing and regulation. The toll is not just economic. Illicit trade fuels organised crime, erodes societies and, in some instances, kills people. But stopping criminals that traffic everything from drugs and counterfeit goods to humans is notoriously difficult. Illegal traders constantly adapt, exploiting weak laws, corrupt officials and porous global trade routes. Enforcement efforts often fall short while heavy-handed surveillance and regulation can unintentionally stifle legitimate commerce.

The environment in which illicit trade takes place is what makes the difference. Strong institutions can help reduce corruption. Rigorous regulations, supported by proper enforcement, close gaps that criminals would otherwise exploit. Effective international cooperation strengthens borders and disrupts criminal networks across them. Sound economic and welfare policies reduce the lure of illegal profits. However, none of these measures works in isolation. It is only through their combined force that efforts and capacity to tackle illicit trade translate into beneficial real-world outcomes.

The need for a comprehensive preventive environment has grown more urgent as the challenges posed by illegal activities evolve. Since 2015, when the Illicit Trade Environment Index (ITEI) was first devised, the trade landscape—both licit and illicit— has shifted. The covid-19 pandemic disrupted global supply chains, opening fresh avenues for illicit traders who exploited fears and shortages to sell more counterfeit medical products.¹ Another shift comes from advancements in technology, such as in cryptocurrencies, and the growth of e-commerce, which have provided illicit traders with mightier tools for evasion and new marketplaces for exploitation. Geopolitical conflicts add to the challenge; they have strained international cooperation,



allowing illicit activities to flourish in the gaps, and have propelled illegal trade against international sanctions.

Amid these shifts, the aim of the Illicit Trade Environment Index becomes ever more pertinent: to attain a clearer understanding of the practices and factors that help to counter illicit trade, so that governments, private actors and NGOs alike can better focus their efforts and resources. Notably, however, the index focuses on a country's capacity to tackle illicit trade, rather than measuring the level of illegal activity within its borders. This distinction is important. Even countries with strong institutional frameworks may struggle to curb illicit trade. Structural vulnerabilities, such as proximity to trafficking routes and entrenched criminal networks matter, as do human factors, such as corruption.

Fake goods, real impacts

In isolation, illicit trade is an economic crime. By skirting regulations and avoiding taxes, illicit traders undercut honest competition and cripple legitimate businesses, leading to job losses and economic instability. Governments, in turn, lose crucial revenue needed to fund public services and widening budget deficits, hampering development in the poorest regions.

Estimating the economic cost of illicit trade is a difficult task. By their nature, illegal activities operate in the shadows and those seeking to expose illicit trade rely on different

methodologies and assumptions, resulting in a wide range of approximations. The World Trade Organisation (WTO) estimates that in 2019, overall illicit trade amounted to US\$535bn, or roughly 2.8% of total world trade, with governments losing around US\$87bn in tariff revenue.² A broader analysis by The International Chamber of Commerce (ICC) revised the global annual losses to US\$4.2trn, equating to around 5% of global GDP, or roughly US\$8m every minute.³ In turn, the Transnational Alliance to Combat Illicit Trade sets the lower boundary of its estimation of total global losses at US\$1.3trn whilst projecting potential losses up to US\$3.6trn, a figure which, if true, would outstrip the world's current annual total in agricultural trade.⁴ Despite the difficulties in agreeing a more accurate estimate, it is nevertheless obvious that the cost of illicit trade on global development is heavy.

Developing countries bear the brunt of the cost. The International Monetary Fund (IMF) estimates that over the years, clandestine economic activity accounted for between 28 and 35% of GDP across South Asian countries.⁵ Governments in the region lose millions in tax revenues annually. A study by Global Financial Integrity estimates that Indonesia lost an average of about \$18 billion a year to trade misinvoicing and other illicit outflows between 2004 and 2013, accounting for roughly 8% of exports in 2013.^{6,7} These lost funds could have been channelled into infrastructure, education and healthcare but instead perpetuate a cycle of poverty and underdevelopment. Unsurprisingly, then, illicit trade does not exist in isolation; the economic harm it imposes comes with alarming knock-on effects.

Beyond its economic toll, illicit trade exploits the most vulnerable in society. Traffickers often exploit poverty and lack of legitimate opportunities, luring individuals with promises of employment. While some gain an income in the short term, the broader economics of illicit trade perpetuate inequality. Specific

“Overall illicit trade amounted to US\$535bn, or roughly 2.8% of total world trade, with governments losing around US\$87bn in tariff revenue.”

economic research reveals that wealth amassed by criminal networks seldom benefits local communities; instead, it fosters environments where bribery and corruption become normalised, eroding trust in public institutions.⁸ Citizens may feel powerless, further entrenching the cycle of illegality.

Public health efforts, too, suffer gravely from illicit trade. Counterfeit medicines, unregulated medical devices and contaminated food pose severe health risks. The World Health Organization estimates that in low- and middle-income countries, one in ten medical products is substandard or falsified, leading to treatment failures, drug resistance and, in many cases, loss of life.⁹ The issue, for instance, of counterfeit drugs against malaria looms large in Southeast Asia. In one survey of the region, 53% of the antimalarial samples tested were found to contain incorrect levels of the key active pharmaceutical ingredient, artemisinin; this presents a significant hindrance to malaria control efforts and a serious risk of the parasite developing resistance to current drugs.¹⁰ The covid-19 pandemic exacerbated other risks, as

counterfeit medical supplies flooded the market. Interpol seized more than US\$14m of fake covid-related products during the pandemic and arrested 121 people in an operation involving authorities from 90 countries.¹¹

Human trafficking is another grim facet of illicit trade. The International Labour Organization estimates that 28 million people are trapped in forced labour globally, with Asia and the Pacific accounting for roughly half of the global total (15.1 million).¹² In the Mekong region, migrant smuggling to Thailand alone generates annual illicit revenues between US\$132m and US\$196m, according to the United Nations Office on Drugs and Crime (UNODC).¹³

The ills of illicit trade are especially felt in regions of conflict where the illegal operators exacerbate instability not only by providing funding for armed groups and criminal networks, but very often through being the source of arms themselves.¹⁴ The “Golden Triangle,” where the borders of Thailand, Laos and Myanmar meet, stands out as a region where the illicit trade in drugs and weapons fuels conflicts and



undermines state authority. The UNODC reports that methamphetamine production in the area has reached alarming levels, with authorities in Myanmar seizing 23.4 imperial tons of crystal methamphetamine in 2022, a significant increase of 10 tons from the year before.¹⁵

The anatomy of illicit trade

Illicit trade is a complex crime that exploits shortcomings in governance, inconsistent enforcement, porous border control and economic policies that fall woefully short. Tackling it requires more than chasing smugglers and raiding warehouses. It demands a systematic understanding of the conditions that allow illicit markets to thrive. This necessity for more comprehensive understanding engendered the Illicit Trade Environment Index. By assessing the institutional, economic and enforcement frameworks that underpin efforts against illicit trade, the index sheds light on the vulnerabilities that criminals exploit while at the same time revealing a paradox. Some countries with seemingly robust frameworks still struggle with high levels of illicit activity, whilst others with weaker systems fare better on the ground. This disparity underscores the complexity of tackling illegal commerce.

Governance

Illicit trade flourishes where governance falters. That is why the ITEI assesses the integrity and effectiveness of domestic institutions,

their ability to cooperate—domestically, internationally, and with the private sector—and the impact of corruption. Where governance is ineffective—or absent—gaps emerge that criminal networks exploit. Conversely, well-functioning institutions and legal systems, coupled with international cooperation, make illicit activity riskier and costlier. They also bolster trust in the rule of law, reducing the chances that citizens will resort to illegal markets for employment, goods or services.

Corruption is a key driver of illicit trade, with spillover effects on other factors that enable criminal commerce, such as weak law enforcement and regulatory loopholes. When officials can be bribed and regulations are easily circumvented, illicit traders operate unchecked. Corrupt naval officers in Tanzania enable ivory smuggling; Pemex, the state-owned Mexico oil and gas company, staff tap pipelines for fuel theft; and Brazilian inspectors take bribes to certify tainted meat exports.¹⁶ Aware of such realities, ITEI places considerable weight on corruption, drawing on measures that capture both the systemic risks it poses to governance and the broader societal perceptions of its prevalence.¹⁷ Yet, the wider effects of corruption can only be made tangible to an extent. Even measures in which countries do well on paper will be hobbled by graft in practice, preventing governance frameworks from translating into real-life outcomes. (see Box 1)

“When officials can be bribed and regulations are easily circumvented, illicit traders operate unchecked.”

Wasted capacity: How corruption undermines governance efforts.

The Illicit Trade Environment Index ranks countries on their ability to prevent, detect and respond to illicit trade, considering factors from legal frameworks and international cooperation to border management mechanisms. However, an important human element – corruption – can hobble any capacity, making it underutilised or entirely idle. In other words, no matter how many treaties are signed, how sophisticated border management systems become, or how well-trained the enforcement personnel are – the full force of these resources never comes to bear if graft and nepotism hollow them out from within. Put simply, corruption can lead to “wasted capacity”.

Consider the Dominican Republic. It achieved a noteworthy 79.59 (out of a maximum of 100) in International commitments, cooperation and compliance and a perfect 100 in both Public-private partnerships and Free zone governance. This means that, on paper, at least, the Dominican Republic aligns with key treaties designed to prevent illicit trade, has a strong regulatory environment in areas prone to smuggling and has the capacity to engage with legitimate businesses. Yet the Dominican Republic’s corruption score of just 42.5 stalls these high-level capacities before they can become effective barriers to illicit trade.

Reality on the ground is indicative of the disparity corruption helps create between on-paper commitments and outcomes. The Transnational Alliance to Combat Illicit Trade estimates that the Dominican Republic loses roughly three billion Dominican pesos, or about US\$147m, annually to illicit trade.¹⁸ Bribery and favouritism, the Alliance reports, are key enablers of traffickers having an easy passage through the country’s customs, law enforcement and judiciary. It becomes clear: the Dominican Republic’s “capacity” remains nominal with corruption among the main culprits eroding this.

Libya’s governance profile demonstrates how the collapse of central authority creates conditions for illicit trade to flourish. According to the ITEI’s governance rankings, the country performs poorly: a corruption score of 0, a rule of law score that is the lowest among 87 assessed nations (14), and an institutional effectiveness rating of 0—a score shared with Algeria, Iraq and the Kyrgyz Republic, among others. These figures depict a state lacking effective barriers to criminal networks. Instead of enforcing oversight and upholding standards, Libya’s governance has splintered into patronage systems dominated by armed groups and political elites. Consequently, efforts to build capacity—whether through drafting treaties, improving cooperation,

or ensuring impartial justice—fail to deliver meaningful results. This governance vacuum is most evident in places like Kufra, an important hub for cross-border trade with Sudan and Chad. Smuggling dominates the city’s local economy, including human trafficking, which has become deeply entrenched since 2011. Illicit traders have control over lucrative desert routes and border crossings, with militias taxing cross-border trade and even funding municipal operations in the absence of national government support.¹⁹ The case is clear: Illicit trade not only exploits and thrives in the institutional void but exacerbates it in a self-perpetuating cycle where corruption fuels smuggling and trafficking, which in turn reinforce corruption.

FTZs?

The significance of governance capacity looms large when it comes to free trade zones (FTZs). The ITEI, which does not consider real-life outcomes, awards over 70% of all 87 countries considered a perfect score of 100 for “Free zone governance”, reflecting the common presence of regulations and policies intended to oversee such zones. In practice, however, FTZs are far from well-regulated. Tom Cardamone, chief executive of Global Financial Integrity, a research group focused on illicit finance, explains that “many [FTZs] operate as opaque entities within sovereign states where inspections are practically non-existent,” despite officials often having the legal authority to carry them out. Although FTZs are intended to boost exports, they often become conduits for money laundering and illicit goods. A study by the OECD provides the evidence: it finds that setting up an additional free-trade zone in a country led on average to a 5.9% rise in counterfeit exports from that country.²⁰

A major concern with FTZs is the rampant practice of trade-based money laundering, where criminal proceeds are disguised through trade. Anton Moiseienko, a senior lecturer in law and a former researcher on FTZs at RUSI, a think tank, argues that relaxed customs controls make FTZs particularly vulnerable to criminals manipulating invoices, mislabelling cargo and obscuring beneficial ownership through front companies. “The focus on trade facilitation in free trade zones,” he says, “makes it harder for authorities to detect illicit trade and financial

crime.” One challenge in addressing illicit trade is ships flying ‘flags of convenience’, which masks the ownership of entire cargo vessels, says Tom Cardamone. According to him, vessels flagged by open registries such as Panama and Liberia—jurisdictions with minimal regulatory oversight—are frequently implicated in risky behavior such as going dark for extended periods or operating near sanctioned countries.

Countries with not-fit-for-purpose FTZs often export the risks to their trading partners, highlighting the necessity of international cooperation. As John Bescec, chair of the Customs and Trade Facilitation Commission of the ICC, points out: “What you’re saying to a country receiving goods from your free zone is, ‘We don’t really know what’s coming in or going out, but hey, it’s good for our economy.’” “It’s a serious danger,” he adds.

Reform of FTZs is desperately needed. That local authorities have the right to inspect these zones (as the ITEI assesses) is a prerequisite, but James Lenaghan, chief executive of Global Customs Compliance, a consultancy specialising in trade regulations, argues for “mandatory customs inspections.” Mr Bescec supports this, noting that “with a stronger oversight role [of authorities],” the risks are “significantly reduced.” Research by Mr Moiseienko and his former colleagues at RUSI underscores the value of adopting international standards, such as the OECD’s Code of Conduct for Clean Free Trade Zones, which includes requirements such as the establishment of centralised registries for goods and businesses operating in FTZs and independent audits to detect vulnerabilities.^{21,22} Other measures to make FTZs less crime-prevalent include implementing secure IT systems to track the flow of goods, conducting due diligence checks on FTZ tenants to identify links to illicit trade and training staff to identify suspicious activity.²³

“What you’re saying to a country receiving goods from your free zone is, ‘We don’t really know what’s coming in or going out, but hey, it’s good for our economy’. It’s a serious danger.”

John Bescec, chair, Customs and Trade Facilitation Commission, International Chamber of Commerce

100 points, 0 trust

Morocco, with a score of 63.1 in Governance and cooperation and 100 in Free zone governance, seems well-positioned to manage its FTZs effectively. On that basis, the recently-announced expansion of the country's Tangier Free Zone, a gateway to Europe set up to boost trade and industrial growth, is meant to be positive news.²⁴

However, beneath Morocco's seemingly robust laws and regulations lies a troubling reality. The limited research done on the Tangier Free Zone reveals that goods frequently "disappear" through phantom shipments, cash smuggling flourishes due to weak oversight of money laundering and terrorism financing, and no credible authority monitors the zone's activities.²⁵ While licensing processes are transparent, they are not rigorous enough to deter criminal abuse.²⁶

There have been some attempts to reform Morocco's FTZs, including unconventional ones. For example, during the covid-19 pandemic, the Moroccan government did not rush to reopen borders, aiming to "drown" informal trade between residents of northern Morocco and certain Spanish enclaves.²⁷ Yet without stronger enforcement and better data collection, Morocco's zones remain fertile ground for illicit practices. The 100-point score in free-zone governance, unfortunately, only reflects Morocco's potential to regulate criminal activity—not its current reality.



Pledges and partners

Recognising the international nature of illicit trade, the ITEI assesses countries on their commitment to international cooperation. It evaluates factors like adherence to international treaties and participation in collaborative efforts to combat illicit trade. South Africa, for instance, scores a strong 93.8 in treaty commitment, reflecting, at least, an intent for international engagement; in contrast, Algeria and Cambodia each score 68.8, indicating gaps in governance, even in principle. Yet signing treaties does not guarantee comprehensive implementation and enforcement, even if they are robust. Many countries with high treaty adherence lack the necessary infrastructure, resources or political will to bring about on-the-ground results. The ITEI addresses this discrepancy by assessing not just treaty commitments but also actual cooperation in trade facilitation and law enforcement (see next section). Countries like Israel, which scores 62.6 in treaty commitment but only 32.4 in international trade facilitation cooperation, illustrate the disparity between intention and action.

Another avenue for collaboration is domestic: between the government and legitimate businesses most affected by illicit trade. The ITEI includes a measure for public-private partnerships (PPPs) to assess how effectively authorities collaborate with industry—a key aspect of bridging the gap between illicit-trade environment and outcomes. Mr Cardamone of Global Financial Integrity argues that aligning the interests of governments and legitimate producers who are keen to protect their market share from counterfeiters can spark innovations; he suggests a global beneficial ownership registry for commercial ship owners and operators as well as using blockchain technology in ports so customs departments can exchange

valuation data quickly and securely. In turn, Mr Bescec emphasises that without private-sector involvement, customs audits become akin to “shooting in the zoo”—authorities end up expending resources indiscriminately, often targeting the wrong shipments while real threats slip by. High-scoring countries in PPP measures, such as Denmark and Austria, show that when customs officials harness private-sector data and know-how, they can better identify suspicious patterns and focus enforcement where it matters most. The Danish Forum Against IT-related Financial Crime, for example, was specifically set up to tackle illicit trade, and is led by a steering committee including the Danish National Police and private stakeholders, such as Danske Bank and Nordea.²⁸ In this sense, partnerships with informed and incentivised private stakeholders can transform ‘environment’ scores into genuine operational impact.

Surveillance and enforcement: patchwork of defences

Where surveillance is lacking, illicit trade becomes little more than guesswork. Where law enforcement is weak, efforts to combat illicit trade become futile. Countries must not only expose illicit trade better—but also strike at its perpetrators with determination and precision. ITEI analysis of how countries fare in both surveillance and enforcement reveals uneven global capabilities and missed opportunities.

Sharp tools, blunt results

Combating illicit trade depends on effective law enforcement. In Mr Lenaghan’s words, “A country can have many rules—but without enforcement, they’re pointless.” To account for this, the ITEI examines whether authorities are empowered to use special investigative techniques, such as controlled derivatives and undercover operations, and to what extent they require prosecutorial approval. The results reveal stark contrasts.

South Africa stands tall with a perfect law-enforcement score of 100, reflecting an arsenal of investigative techniques that authorities can

“A country can have many rules—but without enforcement, they’re pointless.”

James Lenaghan, chief executive officer, Global Customs Compliance Ltd

wield. Yet, these tools have not always translated into outcomes. Consider tobacco: in 2022, illicit cigarettes captured an estimated 58% of South Africa’s market, costing the government R15 bn (around \$US400m) in excise revenue and R3 bn (around \$US80m) in VAT.²⁹ This underscores a broader truth: even strong enforcement provisions are no guarantee of success. Unsurprisingly, corruption hamstringing the efforts of the best-equipped enforcement agencies. As one expert explains, “When customs officers are poorly paid and face job insecurity due to political cycles, the temptation to accept bribes becomes overwhelming.” Corruption, rooted in state dysfunction and low living standards, pushes officials into collusion with criminals and compounds the challenge of combating illicit trade. It turns law-enforcement provisions into hollow advantages.

However, lacking prospects for enforcement is even worse than weak enforcement. Some countries, such as India and Sri Lanka, score just 16.7 on the ITEI’s measure of law-enforcement techniques. Here, authorities often lack the basics—adequate funding, equipment and training—needed to disrupt criminal supply chains. Such widespread deficiencies, where authorities cannot use any special investigative techniques, offer an easy route for illicit traders

and the reality on the ground—evident in countries such as Cambodia—reflects this.³⁰

Illicit trade truly thrives on the seams between jurisdictions. While most countries score 66.7 in the ITEI’s measure of international cooperation on law enforcement, this average masks a lack of depth. In most cases, treaties are signed and meetings are held but practical collaboration lags. Consider countries like Israel, scoring 100 in law enforcement techniques but only 66.7 in international cooperation on enforcement; the gap signifies that even with the right tools, isolated efforts limit reach.

One click ahead of the law

The issue of insufficient international collaboration is magnified by the increase in smuggling online, a space where governments have less capacity to catch illicit traders.³¹ Criminals can set up, shut down and re-establish digital operations so quickly that enforcement agencies struggle to keep pace. Adding to the difficulty, online marketplaces and encrypted communication tools enable anonymity, making it harder to trace illegal activity back to its source. Without international collaboration—including rapid intelligence sharing and innovations such as verification marks for websites—online illicit marketplaces will continue to outpace each state’s best efforts.

Policy by flashlight

One prerequisite for collaboration is monitoring and reporting. Without robust data on illicit activities, policymakers—both at home and across borders—are navigating without a compass. Countries like Canada and Finland set a high standard. With scores above 70 in information availability and international reporting measures, they signal a commitment to data transparency and evidence-based policymaking. Canada, for example, publishes frequent monthly data on drug seizures through its Border Services Agency, detailing everything from cocaine to cannabis interceptions. It also consistently releases annual overviews of counterfeit goods and other contraband



confiscated at the border, offering a level of granularity and timeliness rare at a global level. Such transparency ensures that interventions are not shots in the dark but guided by a clear understanding of illicit flows and market distortions. Conversely, countries with weaker monitoring infrastructures struggle to track illicit activity, leaving policymakers blind to the scale and nature of the threat. Without credible data, even the most determined states cannot direct their resources effectively, resulting in subpar responses rather than strategic deterrence.

In certain contexts, empowered citizens can help with monitoring and surveillance too. Awareness campaigns can help diminish demand for counterfeit and smuggled goods, turning lack of consumption into ammunition against illicit traders. The ITEI recognised that countries like Malaysia and the Philippines score a full 100 in awareness-raising efforts. In Malaysia, the government runs multilingual human trafficking awareness campaigns through national media, and partners with the private sector in initiatives like the National Anti-Scam Campaign. NGOs such as WWF-Malaysia and TRAFFIC contribute by researching illegal wildlife trade routes, examining deficiencies in laws, and educating consumers on the dangers of buying wildlife-based products.³² Yet, Mr Bescec of the ICC highlights that public behaviour, even shaped by ample awareness-raising campaigns, often hinges on price rather than doing the right thing, especially in lower-income markets where counterfeit goods provide an affordable alternative. He welcomes, however, efforts for transparency through practices, such as labelling for originality.

Bravery backed by bureaucracy

Sometimes illicit activities can only be tackled from within. Protecting whistleblowers, who can perform this function, is not just ethical but also strategic. The ITEI's whistleblower protection indicator evaluates whether a country not only legislates safeguards but also provides viable reporting mechanisms and has evidence of successful interventions. Western countries tend to do well in this regard. The US Securities

and Exchange Commission Whistleblower Program and the EU's Whistleblower Protection Directive demonstrate how structured frameworks encourage early detection and disruption of illicit networks. A solid whistleblower environment transforms silence into actionable leads, enabling authorities to uncover and dismantle operations that otherwise remain hidden in complex supply chains or complicit corners of bureaucracy. Where protections are absent or limited, would-be whistleblowers stay quiet, and crucial information never reaches law enforcement.

Customs and border management: the frontlines against illicit trade

Customs and border agencies are critical in intercepting illicit goods and facilitating legitimate trade. Effective border management requires balancing enforcement with the efficient movement of goods: overly strict measures can disrupt trade and deter businesses, while weak controls allow smuggling to flourish, threatening economic stability and public safety. The ITEI takes this into account when assessing customs performance and safeguarding measures, highlighting countries that are well-prepared to tackle illicit trade and those that face challenges. Countries like Turkey and India score highly overall, having ratified the OECD Trade Facilitation Agreement and using non-invasive technology to inspect goods arriving at the border by land, rail, air or sea (both nations receive 100 on these measures). However, these scores, as is often the case, do not directly translate to successful outcomes. Counterfeit exports from Turkey, for example, more than tripled between 2019 and 2020, reaching nearly 134 million euros, and representing the leading source of fake clothing and accessories seized at EU borders.³³ Due to high fuel taxes and Turkey's proximity to oil-producing countries, illicit petroleum is an increasing concern, with one major seizure in 2019 consisting of 1.5 million litres of illegal biodiesel.³⁴ The share of illicit tobacco in Turkey exceeded an estimated 20% in 2021, corresponding to nearly 30 billion illegal

cigarettes, which has cost the country over TRY 30 billion (around 839 million USD) in tax revenue.³⁵

Despite the focus being on the goods that enter a country, all borders and customs controls remain a two-way street. Mr Lenaghan identifies “one of the biggest issues with illicit trade is the lack of oversight on exports.” “Most customs systems,” he adds, “focus heavily on what’s coming into the country and not what’s leaving.” This imbalance allows illicit goods to exit countries with minimal scrutiny, feeding global black markets and exacerbating the challenges of receiving countries. The principle that the first line of defence should be in the country of export is crucial but often neglected.

Effective customs and border management requires strong political commitment and adequate funding to maintain operational integrity and build capacity. As Mr Bescec points out, capacity-building efforts are undermined without genuine political will and financial support: “It’s hard for customs officers to operate with the integrity needed to curb illicit trade.” Scores from the ITEI show how corruption and customs effectiveness, while independent indicators, reinforce each other in practice (see figure x1). Countries with low corruption scores, such as Finland (93.5), exhibit far higher customs effectiveness (74.8), as shown in Figure 1. In contrast, countries like

Cambodia, with one of the lowest corruption scores (11), face significant challenges in customs operations, reflected in their customs effectiveness score of just 31.5. These indicators are often correlated with levels of economic development, whereby poorer countries are often vulnerable to the cyclical issues of corruption in border management.

But investment in infrastructure and human resources without a significant international component will not be sufficient. Aligning practices, sharing intelligence, and investing in international training programs can strengthen the ability of customs agencies to tackle the transnational challenges of illicit trade.

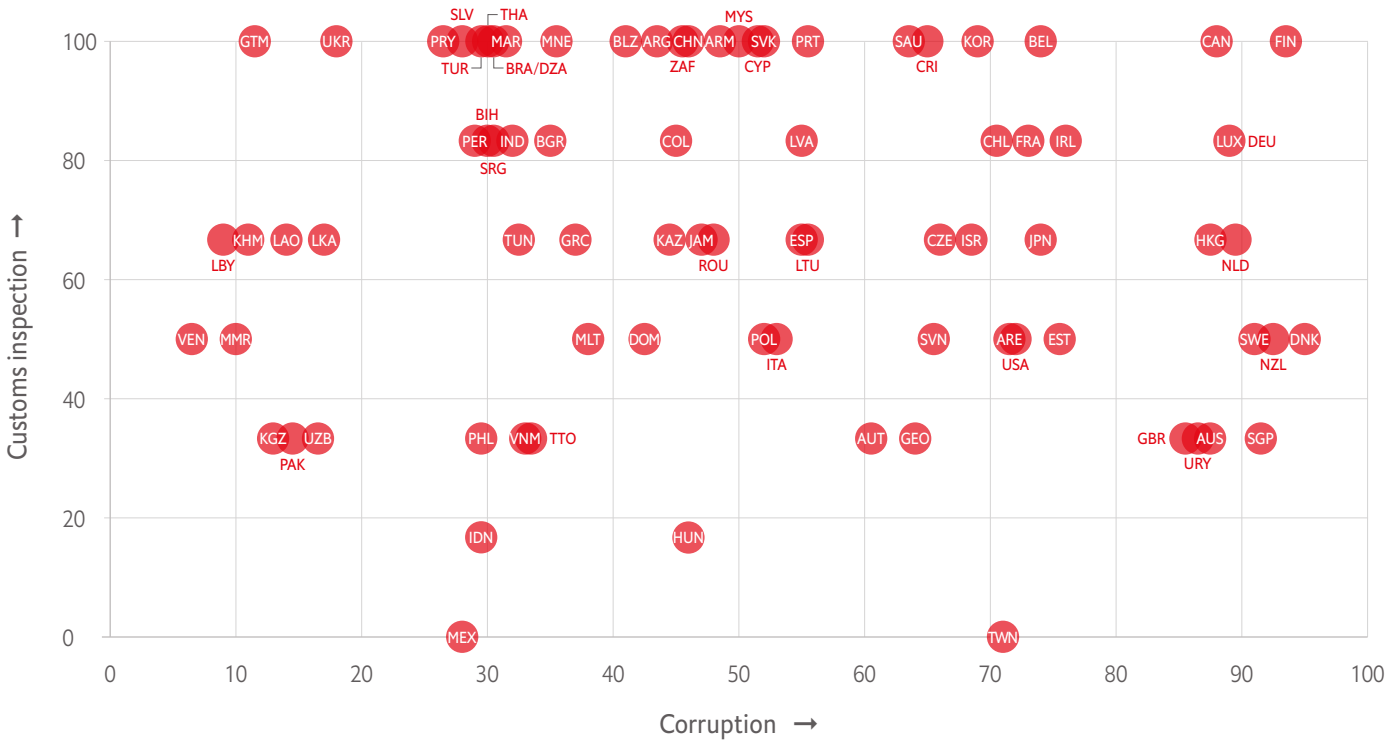
One meaningful way to embolden customs efficiency and effectiveness is through the implementation of technology. The ITEI highlights the importance of automation and digitalisation, with Singapore achieving a perfect score of 100 for this measure. This can largely be attributed to Singapore’s Next Generation National Trade Platform, which integrates logistics and trade finance ecosystems, utilising data analytics and artificial intelligence for improved risk management.³⁶ The use of such systems not only speeds up legitimate trade but also enhances the detection of illicit activities through predictive analytics and anomaly detection that put customs agencies one step ahead of potential illicit traders.



“One of the biggest issues with illicit trade is the lack of oversight on exports. Most customs systems, focus heavily on what’s coming into the country and not what’s leaving.”

James Lenaghan, chief executive officer,
Global Customs Compliance Ltd

Figure 1: Corruption vs customs inspection



Source: Economist Impact

As with most tools, however, technology alone is not sufficient. “Technology can be an enabler, especially blockchain, and AI can help increase transparency,” says Mr Bescec, “but without building trust and cooperation between customs and private businesses, it’s very hard to make substantial progress.” In Mr Bescec’s view, this is an opportunity for effective PPPs. “Governments and customs want access to data – but they are not always able to drive the intelligence out of that data,” he argues. “There’s a lot to be done in partnership with private companies who have the skills and technology to analyse the data better.”

In turn, apt use of data and non-invasive screening technology is indispensable for targeted surveillance and risk-based inspections. Mr Bescec points out, for example, that “Criminals know customs officers can’t take too long inspecting time-sensitive perishable goods like bananas, so they use these shipments to hide illicit products.” Equipped with the right

data, customs officials can identify anomalies – such as greater frequency or increased weight or volume – in the patterns of shipments and probe only suspicious freight, streamlining processes for trusted traders.

This is the logic, at least in theory, behind Authorised Economic Operator programmes (AEO). They certify compliant businesses, streamlining their interactions with customs, allowing authorities to retain focus on higher risks. The ITEI shows widespread adoption of AEOs, with most countries scoring 100. However, challenges exist in the implementation of these programmes. “Considering AEO programmes, mutual recognition agreements are essential,” says Mr Bescec, adding that often, customs agencies are overly suspicious even of trusted traders. “If there was greater partnership with legitimate traders, there would be more of an opportunity, more resources on their end to focus on illegitimate trade,” he adds.

Economic management and regulatory environment: the socio-economic currents of illicit trade

Illicit trade thrives not just on weak enforcement but also on poor economic policies and social conditions that create fertile ground for illegal activities. The ITEI highlights how economic regulation, innovation, social protections and the digital landscape influence the prevalence of illicit trade.

Of trifling concerns

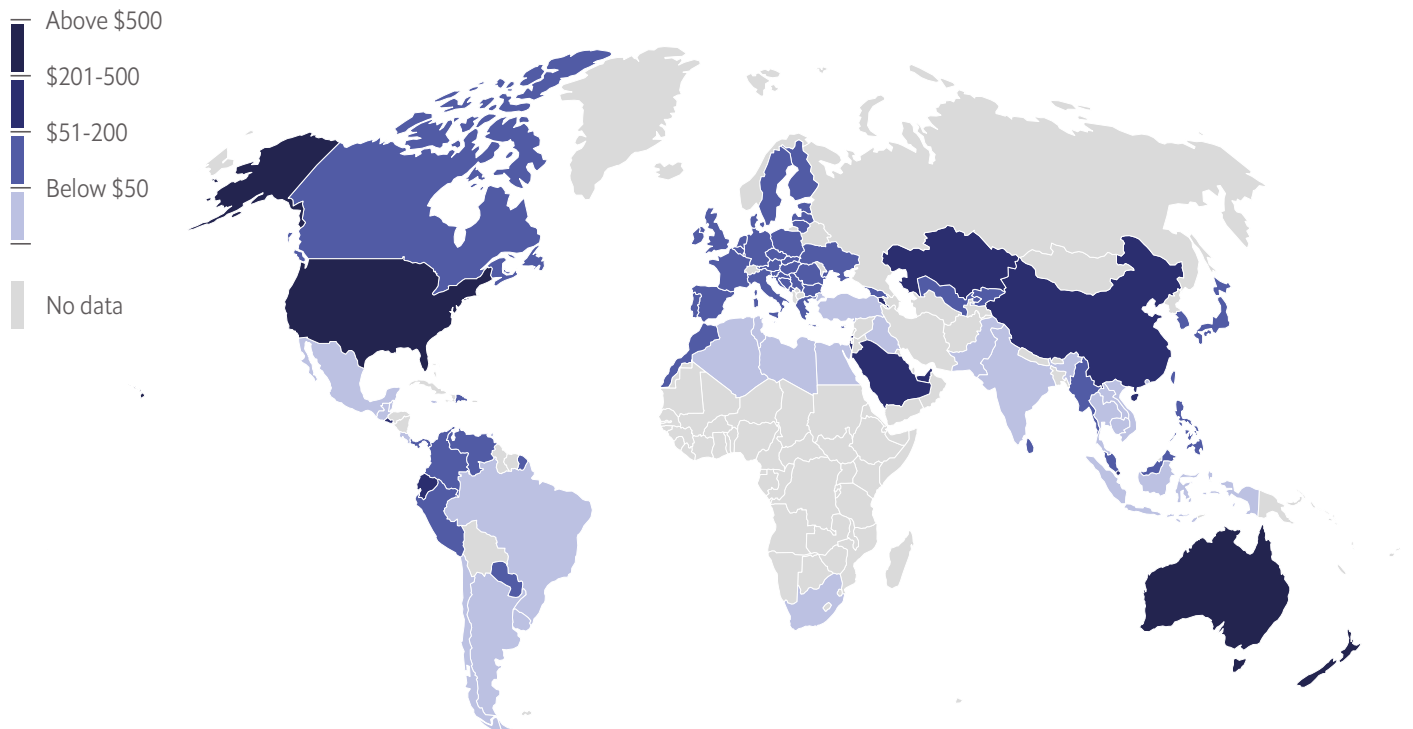
Well-intended economic policy can, on occasion, quickly become an opportunity for illicit traders. This is the case with de minimis thresholds—the value below which goods can be imported duty-free in a country. The issue, Mr Lenaghan explains, is that traders can easily break shipments into smaller parcels to exploit higher thresholds.

The ITEI shows varying approaches to de minimis policies across countries. Those like Egypt, Hong Kong and India are scored highly for not having de minimis allowances; Indonesia and Pakistan’s thresholds, which are less than US\$50, secure them scores of 100.

Certain markets, including the European and American, which increased their de minimis thresholds to cope with the surge in e-commerce demand during covid-19, are looking to crack down on de minimis loopholes by replacing it with value added tax (VAT) or imposing tariffs on top of it.^{37,38}

Yet, Mr Lenaghan suggests that there is still a lot of debate on how this will impact free trade. The challenge is to strike a balance: maintaining trade facilitation benefits while preventing opportunistic fragmentation of shipments that slip under the radar.

Fig 2: De minimis threshold for different countries around the world



Source: Economist Impact

Where does the buck stop?

The impact of economic policy on illicit trade extends to other areas of taxation. International tax transparency regimes, for instance, influence how easily illicit actors can conceal profits, while so-called “sin taxes” (on products like alcohol and tobacco) can, if set too high, inadvertently facilitate black markets. Similarly, poorly structured price controls can distort legitimate supply chains, creating incentives for counterfeiters to fill gaps in the market.

An ironic paradox resides in the use of taxation to shift consumption behaviour where this incentivises the purchase of cheaper, unregulated goods from shadow markets.

In the Philippines, where the sin tax score in the ITEI is 50 out of a possible 100, high tobacco taxes have led to a significant illicit cigarette market. A 2023 study found that nearly 17% of all cigarettes consumed in the country were illicit, costing the government approximately PHP30bn (US\$540m) annually in lost tax revenue.³⁹ This demonstrates how excessive taxation, without strong enforcement mechanisms, can push consumers toward black markets rather than reducing consumption.

Furthermore, a 2024 study on sin tax goods purchases shows that 63% of sin taxes are paid by end-consumers who are older, less educated, and lower income, underlining the disproportionate impact of the taxes on economically vulnerable persons.⁴⁰

As frequently noted, one of the thornier challenges in countering illicit trade is corruption. Approaching the issue as a socio-economic issue helps to reduce its pervasiveness. Mr Lenaghan observes that corruption within customs is often driven by “systemic issues such as low pay and organisational inefficiencies.” “Social realities make border agents vulnerable to bribery,” he adds. It is also socio-economic realities that, at lower levels of criminal structures, propel participation in illicit trade activities. Mr Cardamone argues that “The economic vulnerability of individuals, particularly in regions like Southeast Asia, means they participate in illicit trade simply to survive.” A similar logic operates on the opposite side of the equation: it is economic factors that may propel consumers to prefer counterfeit goods over pricier legitimate products.

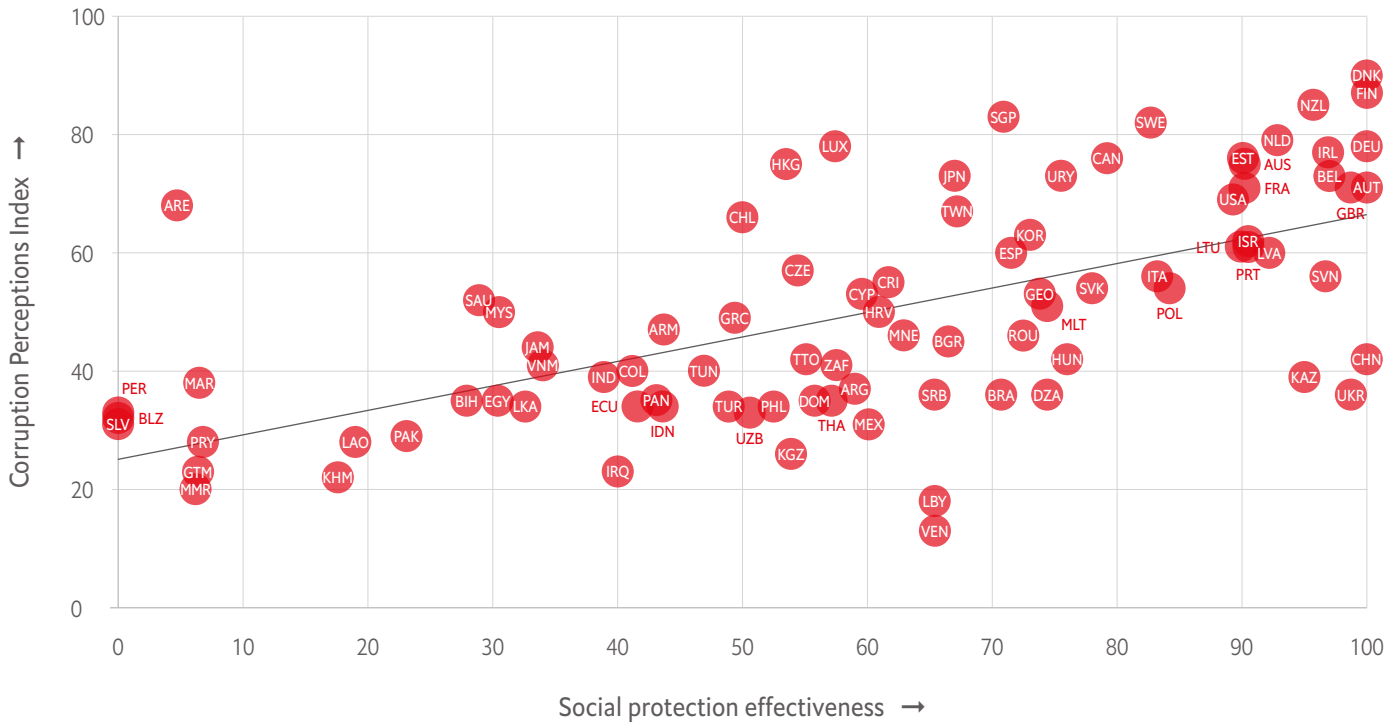
Social security plays an important role in reducing vulnerability. The ITEI examines all nine welfare provisions, including health protection, sickness and unemployment benefits, old-age pensions, and disability and family benefits. It finds a strong link between corruption and the relative effectiveness of social protections. Corruption tends to be lower, and opportunities for illicit activities more limited, where robust social protections and labour laws shield workers from hardship.

“Social realities make border agents vulnerable to bribery,” he adds. It is also socio-economic realities that, at lower levels of criminal structures, propel participation in illicit trade activities.”

James Lenaghan, chief executive officer,
Global Customs Compliance Ltd



Fig 3: With great social security, comes lower corruption



Source: Economist Impact

Electronic verification for a digital future

The rise of e-commerce has transformed the landscape of illicit trade. To capture how countries are responding and highlight areas where progress is pending, the ITEI evaluates digital services legislation, e-commerce safeguards, technology-enabled authorities and cybersecurity preparedness.

Many countries lack comprehensive digital services laws addressing illicit trade. The ITEI reflects this gap, with most nations scoring low in this area. Mr Bescec points out that “the Customs and Trade Facilitation Commission [of the ICC] has been advocating for better

digital frameworks to deal with illicit trade online. “Without clear legislation,” he adds, “online platforms remain vulnerable.” Promising examples of such regulation exist. Take the European Union’s Digital Services Act. It imposes responsibilities on platforms to remove illegal content and for the platforms themselves to monitor for prohibited goods and fraudulent listings.

By 2025, the cost of online payment fraud – one of the many ways in which illicit goods and services are traded — alone will amount to US\$206bn, identifying remote physical goods as the leading cause.⁴¹ Sourcing these remote and often illicit goods online can be relatively straightforward with large areas of the digital environment unregulated by governments and companies alike. One of the key enablers remains the dark web and encrypted social media platforms like Telegram, which have played a crucial role in furthering organised

“Without clear legislation, online platforms remain vulnerable.”

John Bescec, chair, Customs and Trade Facilitation Commission, International Chamber of Commerce

crime and terrorism activities, from illegally trading firearms, explosives and ammunition to non-consensually creating and distributing intimate imagery.^{42,43}

Still, the ITEI shows that strong digital governance is not yet the norm. Many countries score below 50 in metrics related to the online environment, highlighting a pervasive policy vacuum. Effective frameworks might include the establishment of trusted online certification systems – mirroring “trusted trader” schemes in the physical world – and clear requirements for platforms to verify sellers and products.

Cyberthreats compound these challenges. Weak cybersecurity measures allow hackers and criminal groups to manipulate data, hijack logistics information, and launder illicit profits digitally. Countries that score above 80 in cybersecurity preparedness, such as Denmark and Germany, are better positioned to detect and neutralise malicious cyber-operations linked to illicit trade. By contrast, those with lower scores struggle to secure their digital borders, leaving e-commerce channels and critical infrastructure (e.g. energy grids and financial institutions) exposed.

Conclusion

Illicit trade thrives in the gaps: weak governance, economic vulnerability and inconsistent enforcement lay the grounds for criminal activity. The Illicit Trade Environment Index highlights both the factors that curb illicit trade and those that enable it, exposing the complexity of tackling the problem. A central finding is the disconnect between institutional frameworks and real-world outcomes. Many countries have strong regulations, participate in international

treaties and invest in advanced technologies. Yet corruption—as well as economic pressures and weak enforcement, both of which are facilitated by corruption and, in turn, fuel it—often render these efforts ineffective.

This underscores the need for a more integrated approach. Strengthening legal frameworks is necessary but insufficient; enforcement capacity must match the sophistication of illicit networks. International cooperation remains critical, particularly in areas such as border security, financial transparency and digital governance, where criminals increasingly exploit regulatory blind spots. Governments that prioritise domestic reform but fail to engage in cross-border collaboration risk merely displacing illicit trade rather than disrupting it.

Economic policies, too, must be calibrated carefully. High taxes and strict regulations can backfire if they push consumers towards black markets. The expansion of e-commerce and cryptocurrencies presents fresh challenges, requiring policymakers to rethink oversight mechanisms while preserving the benefits of digital trade. Meanwhile, any campaign against illicit trade must also account for its social roots. Poverty, weak social protections and limited opportunities for legitimate employment drive people into illicit markets. Tackling these socio-economic vulnerabilities is as important as enhancing law enforcement.

The ITEI is not merely a ranking of countries' capacities but a tool for identifying where interventions will be most effective. Countries that score well on paper but struggle in practice must address corruption and institutional weaknesses before they can expect meaningful progress. Those with limited resources but strong enforcement mechanisms can serve as models of efficiency. The real challenge lies in translating insights into action. With illicit trade evolving alongside technology, the policy responses of today will determine whether governments can gain the upper hand—or whether criminals will continue to stay one step ahead.

“Illicit trade thrives in the gaps: weak governance, economic vulnerability and inconsistent enforcement lay the grounds for criminal activity.”

References

- ¹ <https://www.iddo.org/news/book-chapter-highlights-issues-poor-quality-medical-products-during-global-pandemic>
- ² https://www.wto.org/english/res_e/booksp_e/tackling-illicit-trade_e.pdf
- ³ <https://www.theparliamentmagazine.eu/partner/article/shedding-light-on-the-shadow-of-illicit-trade-24070>
- ⁴ https://unctad.org/system/files/non-official-document/DITC2022_Contribution_ITF_TRACIT_en.pdf
- ⁵ <https://www.imf.org/en/Publications/WP/Issues/2018/01/25/Shadow-Economies-Around-the-World-What-Did-We-Learn-Over-the-Last-20-Years-45583>
- ⁶ <https://gfintegrity.org/report/illicit-financial-flows-from-developing-countries-2004-2013/>
- ⁷ <https://www.macrotrends.net/global-metrics/countries/IDN/indonesia/exports>
- ⁸ <https://link.springer.com/article/10.1007/s10657-023-09764-x>
- ⁹ <https://iris.who.int/bitstream/handle/10665/331690/9789241513432-eng.pdf?sequence=1#page=11.00>
- ¹⁰ <https://www.who.int/publications/i/item/9789241513432>
- ¹¹ <https://www.interpol.int/en/News-and-Events/News/2020/Global-operation-sees-a-rise-in-fake-medical-products-related-to-COVID-19>
- ¹² https://www.ilo.org/sites/default/files/wcmsp5/groups/public/%40ed_norm/%40ipecc/documents/publication/wcms_854795.pdf
- ¹³ https://www.unodc.org/roseap/uploads/archive/documents/Publications/2019/SEA_TOCTA_2019_web.pdf#page=27.31
- ¹⁴ https://www.oecd-ilibrary.org/sites/f31fd13a-en/1/2/3/index.html?itemId=/content/publication/f31fd13a-en&csp_=45ea2f6dbba37a8582877ea7f4605ecf&itemIGO=oecd&itemContentType=book
- ¹⁵ https://www.unodc.org/roseap/uploads/documents/Publications/2023/Synthetic_Drugs_in_East_and_Southeast_Asia_2023.pdf
- ¹⁶ https://www.tracit.org/uploads/1/0/2/2/102238034/tracit_moneytalks.pdf
- ¹⁷ The ITEI draws on the Economist Intelligence Unit's operational risk briefings, which often focus on risks to businesses, and the Corruption Perceptions Index, which reflects broader societal views on corruption.
- ¹⁸ https://www.tracit.org/uploads/1/0/2/2/102238034/tracit_report_on_dominican_republic_v191124.pdf
- ¹⁹ <https://www.chathamhouse.org/2023/02/stability-what-cost-smuggling-driven-development-libyan-city-kufra>
- ²⁰ The 2018 study is based on data between 2011 and 2013. https://euipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/observatory/documents/reports/Trade_in_Counterfeit_Goods_and_Free_Trade_Zones/Trade_in_Counterfeit_Goods_and_Free_Trade_Zones_en.pdf
- ²¹ https://static.rusi.org/20201012_ftzs_web_2.pdf?t
- ²² <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0454>
- ²³ https://www.wcoomd.org/en/topics/facilitation/instrument-and-tools/frameworks-of-standards/safe_package.aspx
- ²⁴ <https://www.morocoworldnews.com/2024/09/365143/moroccan-government-approves-expansion-of-tangier-automotive-city-in-free-zone>
- ²⁵ https://static.rusi.org/20201012_ftzs_web_2.pdf?t
- ²⁶ <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Mer-morocco-2019.html#:~:text=MENAFATF%20Morocco%20Mutual%20Evaluation%20Report%20%2D%202019&text=The%20assessment%20is%20a%20comprehensive,and%20endorsed%20by%20the%20FATF.>
- ²⁷ <https://www.morocoworldnews.com/2020/04/300414/el-espanol-morocco-exploits-covid-19-to-cut-off-ceuta-melilla>
- ²⁸ Danish National Police. "IT-related economic crime". [<https://www.ft.dk/samling/20231/almindel/reu/spm/729/svar/2034990/2845532.pdf>] Accessed 6 September 2024.
- ²⁹ <https://southafrica.tobaccocontroldata.org/en/home/illicit-trade/#:~:text=In%202022%2C%20illicit%20trade%20accounted%20for%2058%25%20of%20the%20market.&text=Most%20illicit%20cigarettes%20in%20South%20Africa%20are%20produced%20domestically.&text=South%20Africa%20lost%20R15%20billion,illicit%20cigarette%20trade%20in%202022.>
- ³⁰ https://ocindex.net/assets/downloads/2023/english/ocindex_profile_cambodia_2023.pdf
- ³¹ <https://www.oecd-ilibrary.org/docserver/74c81154-en.pdf?expires=1728040597&id=id&accname=guest&checksum=0D0CE28D9322C354442E505D4E57F501#page=66.15>
- ³² U.S. Department of State. "2023 Trafficking in Persons Report: Malaysia". <https://www.state.gov/reports/2023-trafficking-in-persons-report/malaysia/#:~:text=The%20government%20continued%20its%20efforts,raise%20awareness%20in%20multiple%20languages>
- ³³ https://www.tracit.org/uploads/1/0/2/2/102238034/tracit_inflation_and_illicittrade_turkiye_hr.pdf
- ³⁴ https://www.tracit.org/uploads/1/0/2/2/102238034/tracit_inflation_and_illicittrade_turkiye_hr.pdf
- ³⁵ https://www.tracit.org/uploads/1/0/2/2/102238034/tracit_inflation_and_illicittrade_turkiye_hr.pdf
- ³⁶ [https://www.customs.gov.sg/businesses/national-single-window/networked-trade-platform/#:~:text=The%20Networked%20Trade%20Platform%20\(NTP,Customs%20authorities%20and%20other%20regulators.](https://www.customs.gov.sg/businesses/national-single-window/networked-trade-platform/#:~:text=The%20Networked%20Trade%20Platform%20(NTP,Customs%20authorities%20and%20other%20regulators.)
- ³⁷ <https://www.whitehouse.gov/briefing-room/statements-releases/2024/09/13/fact-sheet-biden-harris-administration-announces-new-actions-to-protect-american-consumers-workers-and-businesses-by-cracking-down-on-de-minimis-shipments-with-unsafe-unfairly-traded-products/>
- ³⁸ <https://www.dhl.com/discover/en-global/logistics-advice/import-export-advice/prepare-your-business-for-vat-de-minimis-removal>
- ³⁹ https://www.tracit.org/uploads/1/0/2/2/102238034/tracit_illicit_trade_in_the_philippines_final_oct2023_hr.pdf
- ⁴⁰ <https://direct.mit.edu/rest/article-abstract/106/6/1719/112425/Who-Pays-Sin-Taxes-Understanding-the-Overlapping>
- ⁴¹ <https://www.juniperresearch.com/press/online-payment-fraud-losses-to-exceed-206-billion/>
- ⁴² https://www.rand.org/pubs/research_reports/RR2091.html
- ⁴³ <https://journals.sagepub.com/doi/pdf/10.1177/2056305120984453>

Appendix I: Methodology

Countries included in the 2025 iteration

The 2025 iteration of the Illicit Trade Environment Index (ITEI) includes 87 countries and territories. They are: Algeria, Argentina, Armenia, Australia, Austria, Belgium, Belize, Bosnia and Herzegovina, Brazil, Bulgaria, Cambodia, Canada, Chile, China, Colombia, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Dominican Republic, Ecuador, Egypt, El Salvador, Estonia, Finland, France, Georgia, Germany, Greece, Guatemala, Hong Kong, Hungary, India, Indonesia, Iraq, Ireland, Israel, Italy, Jamaica, Japan, Kazakhstan, Korea, Rep., Kyrgyz Republic, Laos, Latvia, Libya, Lithuania, Luxembourg, Malaysia, Malta, Mexico, Montenegro, Morocco, Myanmar, Netherlands, New Zealand, Pakistan, Panama, Paraguay, Peru, Philippines, Poland, Portugal, Romania, Saudi Arabia, Serbia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Taiwan, Thailand, Trinidad and Tobago, Tunisia, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States, Uruguay, Uzbekistan, Venezuela and Vietnam.

General methodology

Economist Impact customised scoring

All qualitative indicators in the ITEI are based on Economist Impact customised scoring through desk-based research. Customised scoring is conducted by country-specific researchers who possess relevant language skills, an understanding of the country context and expertise in the subject matter.

Scoring of qualitative indicators

Most qualitative indicators were scored on a one, two or three-point rating (including 0.5 for certain indicators). A few qualitative indicators used a scoring system, whereby countries received individual points for specific provisions defined by each indicator. The scoring systems for each qualitative indicator are included below.

Score scaling (both qualitative and quantitative indicators)

For the purposes of the ITEI, all ratings of both qualitative and quantitative indicators were then adjusted to a scale from 0 to 100, where 100 represents the best performance and 0 the worst.

Economist Intelligence Unit data

The ITEI uses data from the Economist Intelligence Unit (EIU) across a number of indicators. In each case, the ITEI uses the latest available data at the time of data collection for the current iteration of the index (July 2024). EIU country analysts are expert economists who regularly track the business environment and operational risk for their country of study. Analysts score countries based on answers to a set of specific questions for each topic, ensuring comparability across all countries considered.

Publicly available information

The ITEI only considers information that is publicly available at the time of research to inform its justification for country performance.

References

Please note that in many cases, especially when a country has received a score of 0 on a certain indicator, the references provided in relation to this score in the ITEI workbook would indicate the sources that have been advised to justify the said score (even when, for example, data is not available).

Weighting of the ITEI

In developing the ITEI, specific weights were assigned to each category of the index and its corresponding sub-categories and indicators, to reflect their relative impact on countries' broader illicit trade environment.

The four main categories of the ITEI—Governance and Cooperation, Surveillance and Enforcement, Customs and Border Management, and Economic Management and Regulatory Environment—are weighted at 20%, 30%, 25%, and 25%, respectively. These weights were determined based on the relevance and influence of each category on the overall illicit trade environment, based on both Economist Impact analysis and external expert feedback.

Each main category is further broken down into sub-categories that contribute to the categories' overall score. These sub-categories, in turn, are composed of specific indicators that measure the various aspects of the illicit trade environment within each sub-category. The following table includes the weights of each category, sub-category and indicator of the ITEI:

Category/Sub-category/Indicator	Weight
1) GOVERNANCE AND COOPERATION	25%
1.1) INTERNATIONAL COMMITMENTS, COOPERATION AND COMPLIANCE	20.00%
1.1.1) Commitment to illicit-trade-related treaties	40.00%
1.1.2) Countering ML/TF	60.00%
1.2) DOMESTIC INSTITUTION INTEGRITY AND PERFORMANCE	50.00%
1.2.1) Corruption	10.00%
1.2.1a) Corruption, EIU Operational Risk	50.00%
1.2.1b) Corruption Perceptions Index	50.00%
1.2.2) Business friendliness	10.00%
1.2.3) Rule of law	15.00%
1.2.4) Political stability risk	10.00%
1.2.5) Institutional effectiveness	15.00%
1.2.6) Criminal markets	15.00%
1.3) DOMESTIC AND INTERNATIONAL COOPERATION	30.00%
1.3.1) Public private partnerships (PPPs)	30.00%
1.3.2) Domestic interagency collaboration	25.00%
1.3.3) International trade facilitation cooperation	20.00%
1.3.4) Free zone governance	25.00%

2) SURVEILLANCE AND ENFORCEMENT	25%
2.1) LAW ENFORCEMENT AND ANTI-CORRUPTION TECHNIQUES	25%
2.1.1) Law enforcement techniques	60.00%
2.1.2) International cooperation on law enforcement and investigation	40.00%
2.2) MONITORING AND REPORTING	35.00%
2.2.1) International reporting	60.00%
2.2.1a) International reporting: human trafficking	16.67%
2.2.1b) International reporting: drug trafficking	16.67%
2.2.1c) International reporting: illicit tobacco, smoke-free products and alcohol	16.67%
2.2.1d) International reporting: intellectual property	8.33%
2.2.1e) International reporting: counterfeit goods	8.33%
2.2.1f) International reporting: firearms trafficking	16.67%
2.2.1g) International reporting: illicit trade in natural resources (i.e., wildlife and natural resources)	16.67%
2.2.2) Information availability	40.00%
2.3) AWARENESS AND PUBLIC ENGAGEMENT	30.00%
2.3.1) Awareness-raising and civil society engagement on illicit trade	60.00%
2.3.2) Whistleblower protection and reporting mechanisms	40.00%
3) CUSTOMS AND BORDER MANAGEMENT	25%
3.1) CUSTOMS PERFORMANCE AND SAFEGUARDING	55.56%
3.1.1) Customs inspection	20.00%
3.1.2) Simplification of customs procedures	20.00%
3.1.3) Customs recordal system	15.00%
3.1.4) Authorised economic operator programme	10.00%
3.1.5) Customs disputes	15.00%
3.1.6) Ratification of the trade facilitation agreement	20.00%
3.2) DIGITALISATION AND AUTOMATION	44.44%
3.2.1) Automation	35.00%
3.2.2) Adoption of a single trade window	35.00%
3.2.3) Advance electronic information	30.00%

4) ECONOMIC MANAGEMENT AND REGULATORY ENVIRONMENT	25%
4.1) TAXATION	40.00%
4.1.1) Clear and stable tax regime	30.00%
4.1.2) International tax transparency	15.00%
4.1.3) Sin tax	30.00%
4.1.4) De minimis threshold	25.00%
4.2) INNOVATION AND SOCIAL SECURITY ENVIRONMENT	25.00%
4.2.1) Social protection effectiveness	20.00%
4.2.2) Labour market regulations	25.00%
4.2.3) Price controls	35.00%
4.2.4) Regulatory sandboxes	20.00%
4.3) ONLINE ENVIRONMENT	35.00%
4.3.1) Digital services legislation or agreement contains provisions targeting anti-illicit trade	40.00%
4.3.3) Technology-enabled illicit trade authority	30.00%
4.3.4) Cyber security preparedness	30.00%

Methodology of individual indicators

1. Governance and cooperation

1.1 International commitments, cooperation and compliance

1.1.1 Commitment to illicit-trade-related treaties

A qualitative indicator based on Economist Impact customised scoring on a scale of 0-16, with a point awarded for each of the following treaties that has been ratified and 0.5 points for each treaty ratified with reservations:

- UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances
- Optional Protocol on the Sale of Children, Child Prostitution and Child Pornography
- Protocol to Prevent, Suppress and Punish Trafficking in Persons
- Protocol Against the Illicit Manufacturing and Trafficking of Firearms
- Arms Trade Treaty
- WHO Protocol to Eliminate Illicit Trade in Tobacco Products
- Convention on Prohibiting and Preventing Illicit Import, Export and Transfer of Cultural Property
- UNIDROIT Convention on Stolen or Illegally Exported Cultural Objects
- Convention on International Trade in Endangered Species of Wild Fauna and Flora
- Basel Convention on Hazardous Wastes and Their Disposal
- Amended OECD Convention on Mutual Administrative Assistance in Tax Matters
- UN Convention against Corruption (2003)
- UN Convention for the Suppression of the Financing of Terrorism (1999)
- UN Convention against Transnational Organized Crime (2000)
- Paris Convention (IP protection and repression of unfair competition)
- OECD Convention on Combating Bribery (1999)

1.1.2 Countering ML/TF

A quantitative indicator that measures efforts in countering Money Laundering (ML) and Terrorist Financing (TF). It is primarily derived from the Basel AML Index (2023 Public edition). The Basel AML Index provides a holistic assessment of a country's risk level regarding ML/TF, where risk is defined as a jurisdiction's vulnerability to ML/TF and its capacity to counter these threats. It is important to note that this index is not intended to measure the actual amount of ML/TF activity in a given jurisdiction but rather the jurisdiction's susceptibility and its countering capacities. The 2023 Public edition of the Basel AML Index lacks data for Argentina, Belize, Bosnia and Herzegovina, Brazil, El Salvador, Montenegro, India, Iraq, and Libya, as it only includes jurisdictions with sufficient data to calculate a reliable ML/TF risk score. To address this data unavailability, we employed a linear regression model to estimate the Basel AML scores for these countries using the Corruption Perceptions Index (2023 edition) by Transparency International. This approach leverages the strong correlation between corruption and money laundering risks to provide a reliable estimation.

Additionally, to enhance the robustness of the indicator, 10% of the final score is derived from the Anti-Money Laundering sub-indicator of the Global Organized Crime Index (2023 dataset) conducted by the Global Initiative against Transnational Organized Crime (GI-TOC). This sub-indicator provides an additional layer of analysis by evaluating the effectiveness of anti-money laundering measures in the context of broader organised crime activities. Note that due to the Global Organized Crime Index not providing disaggregated data for Hong Kong and Taiwan, the score thereof is entirely based on the score by the Basel AML Index.

For the purposes of the ITEI, the combined data from these sources is adjusted to a scale from 0 to 100, where 100 represents the best performance and 0 the worst.

1.2 Domestic institution integrity and performance

1.2.1 Corruption

1.2.1a Corruption, EIU operational risk

A quantitative indicator derived from Economist Intelligence Unit (EIU) Operational Risk data in the Government Effectiveness section. The EIU's methodology evaluates the pervasiveness of corruption among public officials. The EIU's scoring system for 'Corruption' ranges from 1 to 4, where 4 indicates the highest risk and 1 indicates the lowest risk. For the purposes of the ITEI, these scores are adjusted to a scale from 0 to 100, where 100 represents the best performance and 0 the worst.

1.2.1b Corruption Perceptions Index

A quantitative indicator derived from Transparency International's Corruption Perceptions Index (CPI). The CPI measures perceived levels of public sector corruption, as assessed by experts and business executives. The index scores countries on a scale from 0 to 100, where 100 indicates the lowest level of perceived corruption and 0 the highest. For the purposes of the ITEI, these scores are used directly, where higher values represent better performance.

1.2.2 Business friendliness

A quantitative indicator derived from EIU Operational Risk data in the Government Effectiveness section that assesses both Excessive Bureaucracy/Red-Tape and Policy Formulation. The EIU's scoring system for 'Government Effectiveness' ranges from 0 to 4, where 4 indicates the highest risk and 0 indicates the lowest risk. For the purposes of the ITEI, these scores are then adjusted to a scale from 0 to 100, where 100 represents the best performance and 0 the worst.

1.2.3 Rule of law

A quantitative indicator derived from a combination of data from the World Justice Project (WJP) Rule of Law Index 2023 and World Bank World Governance Indicators (WGI), specifically the Rule of Law component (2023 Update). The WJP data focuses on specific aspects most relevant to the rule of law, including limitations on government powers by the legislature, judiciary and independent auditing; sanctioning of government officials for misconduct; non-governmental checks on government powers; enforcement and impartial application of government regulations; and accessibility, timeliness and fairness of both civil and criminal justice systems, among others. The World Bank's Rule of Law indicator provides a broader measure of the extent to which agents have confidence in and abide by the rules of society, reflecting perceptions of the quality of contract enforcement, property rights, the police and the courts; it uses data from a series of sources, including the EIU, World Economic Forum Global Competitiveness Report, Gallup World Poll and the Institutional Profiles Database.

WJP scores range from 0 to 1, where 0 indicates poor performance and 1 indicates strong performance. The World Bank's Rule of Law indicator is scored between -2.5 and 2.5, where -2.5 indicates weak performance and 2.5 indicates strong performance. For this indicator, we have averaged the relevant scores from the WJP and World Bank to create a composite measure of the rule of law. For the purposes of the ITEI, the combined scores are then adjusted to a scale from 0 to 100, where 100 represents the best performance and 0 the worst.

It should be noted that while the World Bank provides data for all countries, the WJP does not have data for Armenia, Lao PDR, Iraq, Israel, Libya, Saudi Arabia and Taiwan. In these cases, the indicator is based solely on the World Bank's Rule of Law score.

1.2.4 Political stability risk

A quantitative indicator derived from EIU Operational Risk data in the Political Stability Risk section. The EIU considers five different sub-aspects of political stability, including: Excessive Authority, International Tensions, Opposition Stance, Orderly Transfers, and Social Unrest. The EIU's scoring system for 'Political Stability Risk' ranges from 0 to 100, where 100 indicates the highest risk (most unstable) and 0 indicates the lowest risk (most stable). For the purposes of the ITEI, these scores are then adjusted (more specifically, inverted) to a scale from 0 to 100, where 100 represents most stable and 0 most unstable.

1.2.5 Institutional effectiveness

A quantitative indicator derived from EIU Operational Risk data in the Political Stability Risk Score section focusing on the Quality of Bureaucracy. The EIU's scoring system for 'Institutional Effectiveness' ranges from 1 to 4, where 4 indicates the highest risk and 0 indicates the lowest risk. For the purposes of the ITEI, these scores are then adjusted to a scale from 0 to 100, where 100 represents the best performance and 0 the worst.

1.2.6 Criminal Markets

A quantitative indicator that measures the prevalence and impact of criminal markets. It is primarily derived from GI-TOC's Global Organized Crime Index, which scores between 0 and 10, where 0 indicates low criminality and 10 indicates high criminality, reflecting the presence and intensity of various criminal markets within a country.

For most countries, the data is directly sourced from the 2023 Global Organized Crime Index Dataset. However, due to data unavailability for Hong Kong and Taiwan, we used a multiple linear regression model to estimate the criminal market scores for Hong Kong and Taiwan. It is based on three proxy indicators that are relevant to criminal markets and have granular data availability across geographies. These proxies, all sourced from the EIU, include Integrity of Accounting Practices, Median Household Income (measured in US\$ at constant prices) and Urban Population (expressed as a percentage of the total population). This process ensures that Indicator 1.2.6 provides a consistent and comparable measure across all geographies.

For the purposes of the ITEI, the combined data, including the estimated value for Hong Kong, is adjusted to a scale from 0 to 100, where 100 represents the lowest level of criminality and 0 the highest level of criminality.

1.3 Domestic and international cooperation

1.3.1 Public private partnerships (PPPs)

A qualitative indicator that measures the existence and effectiveness of public-private partnerships in combating illicit trade. It is based on Economist Impact customised scoring a scale of 0-3, with a point awarded for the presence of each of the following elements:

- Partnerships between the country's border service and/or law enforcement agencies and businesses.
- The involvement of private stakeholders in policymaking discussions around illicit trade.
- Mechanisms allowing for consistent exchanges of information on illicit trade between the public and private sectors.

1.3.2 Domestic interagency collaboration

A quantitative indicator derived from the OECD's Trade Facilitation Indicators (2022 edition), using the 'Internal Border Agency Cooperation' sub-indicator. This indicator assesses the institutional frameworks, mechanisms and IT systems that facilitate effective cooperation between various domestic border agencies. The key policy measures evaluated include the existence of institutionalised mechanisms for inter-agency coordination, regular meetings to develop strategies and oversee the implementation of cooperation, and the harmonisation of data requirements and documentary controls. Additionally, it considers the use of interconnected or shared computer systems with real-time data availability, coordination of inspections with shared results, delegation of control at the national level, coordinated risk management mechanisms, implementation of Authorised Operators programmes, and shared use of infrastructure and equipment.

For Iraq, Libya and Taiwan, where no direct data is available, we have estimated scores by averaging the performance of countries with which these geographies have relevant Free Trade Agreements (FTAs), assuming that these agreements likely cover similar aspects of the OECD's Trade Facilitation Indicators, thereby providing a reasonable proxy for their domestic interagency collaboration.

The OECD's Trade Facilitation Indicators assign values from 0 to 2 (with decimals) for each indicator, where 2 designates the best performance that can be achieved. For the purposes of the ITEI, these scores are then adjusted to a scale from 0 to 100, where 100 represents the best performance and 0 the worst.

1.3.3 International trade facilitation co-operation

A quantitative indicator derived from the OECD's Trade Facilitation Indicators (2022 edition), using the 'External Border Agency Co-operation' sub-indicator. This indicator assesses the institutional frameworks, mechanisms and IT systems that facilitate effective cooperation between various border agencies with neighbouring economies and other trading partners. The key policy measures evaluated include the alignment of working days and hours, procedures and formalities; cross-border coordination and harmonisation of data requirements and documentary controls; and cross-border coordination and harmonisation of different computer systems. Additionally, it considers risk management cooperation, systematic sharing of control results, the development and sharing of common facilities, joint controls, Mutual Recognition Agreements/ Arrangements on Authorised Operators, exchange of staff and training programmes, and governance and impartiality.

For Iraq, Libya and Taiwan, where no direct data is available, we have estimated scores by averaging the performance of countries with which these geographies have relevant FTAs, assuming that these agreements likely cover similar aspects of the OECD's Trade Facilitation Indicators, thereby providing a reasonable proxy for their international trade facilitation cooperation.

The OECD's Trade Facilitation Indicators assign values from 0 to 2 (with decimals) for each indicator, where 2 designates the best performance that can be achieved. For the purposes of the ITEI, these scores are then adjusted to a scale from 0 to 100, where 100 represents the best performance and 0 the worst.

1.3.4 Free zone governance

A qualitative indicator that measures the governance of free zones. It is based on Economist Impact customised scoring on a scale of 0-2, with the following scoring criteria:

2 = There is a customs office in each free zone and local authorities (customs officials and law enforcement agencies) have the legal authority to inspect goods in transit within the country.

1 = There is a customs office in each free zone but local authorities do not have the legal authority to inspect goods in transit within the country OR foreign authorities formally/ informally operate in these zones.

0 = There is no customs office and local authorities have no legal authority to inspect goods in transit within the country.

*For countries that do not operate free zones, a score of 2 was awarded.

2. Surveillance and Enforcement

2.1 Law enforcement and anti-corruption techniques

2.1.1 Law enforcement techniques

A qualitative indicator that measures the use of law enforcement techniques in combating illicit trade, including: A. controlled deliveries; B. intercepting communications; C. undercover operations; D. digital forensics and online investigation; E. accessing financial flows. It is based on Economist Impact customised scoring on a scale of 0-6, with the scoring criteria divided into two components:

Investigative techniques (0-4 points):

4 = Authorities are legally empowered to use all five special investigative techniques.

3 = Authorities are legally empowered to use four of the special investigative techniques.

- 2 = Authorities are legally empowered to use three of the special investigative techniques.
 - 1 = Authorities are legally empowered to use one or two of the special investigative techniques.
 - 0 = Authorities are not legally empowered to use any of the special investigative techniques.
- Prosecutorial permission (0-2 points):
- 2 = Authorities can execute all investigative techniques without needing prosecutorial permission.
 - 1 = Authorities need prosecutorial permission for some of the investigative techniques.
 - 0 = Authorities need prosecutorial permission for all of the investigative techniques.
- 2.1.2 International cooperation on law enforcement and investigation

A qualitative indicator based on Economist Impact customised scoring on a scale of 0-3, with the following scoring criteria:

- 3 = The country has established mechanisms to participate in joint enforcement and investigation efforts with international counterparts and conducts these on an annual basis or at regular intervals.
- 2 = The country has established mechanisms to participate in joint enforcement and investigation efforts with international counterparts.
- 1 = The country has participated in joint enforcement and investigation efforts but has no established mechanism for international cooperation.
- 0 = The country does not participate in joint enforcement and investigation efforts.

2.2 Monitoring and reporting

2.2.1a International reporting: human trafficking

A qualitative indicator based on Economist Impact customised scoring using the US State Department Trafficking in Persons (TIP) Report, with the following scoring criteria on a scale of 0-2 (including 0.5):

- 2 = Tier 1 countries in the 2023 TIP report.
- 1 = Tier 2 countries in the 2023 TIP report.
- 0.5 = Tier 2 Watch List countries in the 2023 TIP report.
- 0 = Tier 3 and Special Case countries in the 2023 TIP report.

2.2.1b International reporting: drug trafficking

A qualitative indicator based on Economist Impact customised scoring on a scale of 0-2 (including 0.5), with the following scoring criteria:

- 2 = The government publishes data on drug seizures at defined intervals.
- 1 = The government publishes data on drug seizures on an irregular basis.
- 0.5 = A non-governmental outlet publishes data on drug seizures.
- 0 = No data on drug seizures is published in the country.

2.2.1c International reporting: illicit tobacco, smoke-free products and alcohol

A qualitative indicator based on Economist Impact customised scoring on a scale of 0-3 (including 0.5), with the following scoring criteria:

- 3 = The government regularly publishes detailed data on all three goods (tobacco, smoke-free products and alcohol) trade.
- 2 = The government regularly publishes detailed data on two of the three goods.
- 1 = The government publishes data on two or more goods irregularly or partially.
- 0.5 = A non-governmental outlet publishes data on two or more goods irregularly or partially.
- 0 = No data on tobacco, smoke-free products or alcohol seizures are published in the country.

2.2.1d International reporting: intellectual property

A qualitative indicator that measures international reporting on trade-related IP infringement. It is based on Economist Impact customised scoring on a scale of 0-2 (including 0.5), with the following scoring criteria:

- 2 = The government publishes data on trade-related IP infringement at defined intervals.
- 1 = The government publishes data on trade-related IP infringement on an irregular basis.
- 0.5 = A non-governmental outlet publishes data on trade-related IP infringement.
- 0 = No data on trade-related IP infringement are published in the country.

2.2.1e International reporting: counterfeit goods

A qualitative indicator based on Economist Impact customised on a scale of 0-2 (including 0.5), with the following scoring criteria:

- 2 = The government publishes comprehensive data on counterfeit goods at defined intervals.
- 1 = The government publishes data on counterfeit goods irregularly or partially.
- 0.5 = A non-governmental outlet publishes data on counterfeit goods.
- 0 = No data on counterfeit goods are published in the country.

Note: Indicators 2.2.1d International Reporting: Intellectual property and 2.2.1e International Reporting: Counterfeit goods may contain overlapping reporting for certain countries. However, the ITEI has preserved these indicators separately to allow for fair scoring of countries that report differently on intellectual property and counterfeit goods, ensuring that countries are accurately evaluated based on their specific international reporting practices. Nonetheless, the weights of these indicators have been adjusted to prevent inflated (or double) scores for countries that have the same provisions for both indicators.

2.2.1f International reporting: firearms trafficking

A qualitative indicator based on Economist Impact customised on a scale of 0-2 (including 0.5), with the following scoring criteria:

- 2 = The government publishes detailed data on firearms trafficking at defined intervals.
- 1 = The government publishes data on firearms trafficking irregularly or partially.
- 0.5 = A non-governmental outlet publishes data on firearms trafficking.
- 0 = There is no data on firearms trafficking in the country.

2.2.1g International reporting: illicit trade in natural resources (i.e., wildlife and natural resources)

A qualitative indicator based on Economist Impact customised scoring on a scale of 0-2, (including 0.5), with the following scoring criteria:

- 2 = The government publishes detailed data on illicit trade in many types of natural resources (e.g., wildlife, timber, minerals and plants) at defined intervals.
- 1 = The government publishes detailed data on illicit trade in one or two types of natural resources at regular intervals OR publishes data on illicit trade in many types of natural resources but at irregular intervals.
- 0.5 = A non-governmental outlet publishes data on illicit trade in natural resources.
- 0 = The country does not publish data on illicit trade in natural resources.

2.2.2 Information availability

A quantitative indicator derived from the OECD's Trade Facilitation Indicators (2022 edition), using the 'Information Availability' sub-indicator. This OECD indicator assesses the transparency and predictability of customs and trade-related regulations and information. The key policy measures evaluated include the publication of customs and trade-related regulations on easily accessible and user-friendly web pages, the availability of import and export procedures and documentation for downloading, and the provision of online feedback mechanisms. Additionally, it considers the publication of duties rates, the availability and responsiveness of enquiry points, the publication of procedures in advance, and the availability of agreements, procedural rules for appeal, judicial decisions on customs matters, decisions and examples of customs classification and necessary information on advance rulings. Furthermore, it evaluates whether applicable legislation is published on the internet and if interactive pages and user manuals for professional users and companies are available online.

For Iraq, Libya and Taiwan, where no direct data is available, we have estimated scores by averaging the performance of countries with which these geographies have relevant FTAs, assuming that these agreements likely cover similar aspects of the OECD's Trade Facilitation Indicators, thereby providing a reasonable proxy for their performance in information availability.

The OECD's Trade Facilitation Indicators assign values from 0 to 2 (with decimals) for each indicator, where 2 designates the best performance that can be achieved. For the purposes of the ITEI, these scores are then adjusted to a scale from 0 to 100, where 100 represents the best performance and 0 the worst.

2.3 Awareness and public engagement

2.3.1 Awareness-raising and civil society engagement on illicit trade

A qualitative indicator based on Economist Impact customised scoring on a scale of 0-2, with the following scoring criteria:

- 2 = The country conducts wide-reaching awareness-raising campaigns for consumers and civil society organisations (may include collaboration with producers) AND there is evidence of NGOs, business chambers and other third-party entities that conduct initiatives focused on countering illicit trade.
- 1 = The country conducts wide-reaching awareness-raising campaigns for consumers and civil society organisations (may include collaboration with producers) OR there is evidence of NGOs, business chambers and other third-party entities that conduct initiatives focused on countering illicit trade.
- 0 = There is no evidence of awareness-raising campaigns in the country.

2.3.2 Whistleblower protection and reporting mechanisms

A qualitative indicator based on Economist Impact customised scoring on a scale of 0-3, with the following scoring criteria:

- 3 = The country has legal protections and reporting mechanisms for whistleblowers, with evidence of active use and successful interventions (e.g., The EU's Whistleblower Protection Directive, the US Securities and Exchange Commission Whistleblower Programme) AND reporting is for both public and private sectors.
- 2 = The country has legal protections and reporting mechanisms for whistleblowers, with evidence of active use and successful interventions (e.g., The EU's Whistleblower Protection

Directive, the US Securities and Exchange Commission Whistleblower Programme) BUT reporting is for either the public or the private sector.

1 = The country has legal protections and reporting mechanisms for whistleblowers, with no evidence of use or effectiveness OR reporting is limited to either public or private sectors.

0 = The country does not have legal protections or reporting mechanisms for whistleblowers.

3. Customs and Border Management

3.1 Customs performance and safeguarding

3.1.1 Customs inspection

A qualitative indicator that measures the use of customs inspection technologies. It is based on Economist Impact customised scoring on a scale of 0-6, with a point awarded for the presence of each of the following technologies:

- x-ray and/or gamma ray-based screening technologies used for road
- x-ray and/or gamma ray-based screening technologies used for train
- x-ray and/or gamma ray-based screening technologies used for air
- x-ray and/or gamma ray-based screening technologies used for sea
- technologies for field analysis of samples used for road, train, air and/or sea cargo
- trace detection technologies used for road, train, air, and/or sea cargo.

*Countries that do not have road, train or sea borders have received a mark for these criteria.

3.1.2 Simplification of customs procedures

A quantitative indicator derived from OECD Trade Facilitation Indicators (2022 edition), using the 'Documents' sub-indicator. This indicator assesses the harmonisation and simplification of trade-related documents in accordance with international standards. The key policy measures evaluated include the acceptance of copies of documents, compliance with international standards, the number of documents required, the periodic review of documentation requirements and the time needed to prepare documents.

For Iraq, Libya and Taiwan, where no direct data is available, we have estimated scores by averaging the performance of countries with which these geographies have relevant FTAs, assuming that these agreements likely cover similar aspects of the OECD's Trade Facilitation Indicators, thereby providing a reasonable proxy for their performance in simplifying customs procedures.

The OECD's Trade Facilitation Indicators assign values from 0 to 2 (with decimals) for each indicator, where 2 designates the best performance that can be achieved. For the purposes of the ITEI, these scores are then adjusted to a scale from 0 to 100, where 100 represents the best performance and 0 the worst.

3.1.3 Customs recordal system

A qualitative indicator that measures the existence and effectiveness of a customs recordal system. It is based on Economist Impact customised scoring on a scale of 0-2, with the following scoring criteria:

2 = A customs recordal system exists and is effective.

1 = A customs recordal system exists but is largely ineffective.

0 = A customs recordal system does not exist.

3.1.4 Authorised Economic Operator programme

A qualitative indicator that measures the existence and scope of an Authorised Economic Operator (AEO) programme. It is based on Economist Impact customised scoring on a scale of 0-3, with the following scoring criteria:

- 3 = Country-wide programmes exist.
- 2 = Business-specific programmes exist.
- 1 = A programme is planned to be launched.
- 0 = No programme exists.

3.1.5 Customs disputes

A quantitative indicator that measures the management of customs disputes. It is derived from OECD Trade Facilitation Indicators (2022 edition), using the 'Appeal Procedures' sub-indicator. This indicator assesses the possibility and modalities available to appeal administrative decisions made by border agencies. The key policy measures evaluated include the public availability of information on procedural rules for appeal, the availability of higher-level administrative and/or judicial appeal procedures for customs decisions, and the timeliness of the appeal mechanism—both in terms of the time available for lodging an appeal and the avoidance of undue delays. Additionally, it considers the availability of information on the motives behind the administration's decisions and the average percentage of appeals.

For Iraq, Libya and Taiwan, where no direct data is available, we have estimated scores by averaging the performance of countries with which these geographies have relevant FTAs, assuming that these agreements likely cover similar aspects of the OECD's Trade Facilitation Indicators, thereby providing a reasonable proxy for their performance in managing customs disputes.

The OECD's Trade Facilitation Indicators assign values from 0 to 2 (with decimals) for each indicator, where 2 designates the best performance that can be achieved. For the purposes of the ITEI, these scores are then adjusted to a scale from 0 to 100, where 100 represents the best performance and 0 the worst.

3.1.6 Ratification of the trade facilitation agreement (TFA)

A quantitative indicator derived from World Trade Organization (WTO) data. It identifies whether a country has ratified the TFA, with the scoring system being a binary. For the purposes of the ITEI, these scores are adjusted to a scale from 0 to 100, where 100 represents a country that has ratified the TFA and 0 one that has not.

3.2 Digitalisation and automation

3.2.1 Automation

A quantitative indicator that measures automation in customs procedures. It is derived from OECD Trade Facilitation Indicators (2022 edition), using the 'Automation' sub-indicator. This indicator assesses the extent to which electronic systems are used in customs processes, including the electronic exchange of data and the use of automated risk management. The key policy measures evaluated include the percentage of import and export declarations cleared electronically, the percentage of procedures allowing for electronic processing and support for pre-arrival processing through the possibility of lodging documents in advance in electronic format. Additionally, it considers the availability of electronic payment of duties, taxes, fees and charges integrated with automated declaration and cargo processing systems, the operation of

risk management in an automated environment, and the capacity of IT systems to accept and exchange data electronically. Further measures include the availability of automated processing systems that allow for the conditional release of goods, the implementation of digital certificates and signatures, and the availability of full-time automated processing for customs declarations.

For Iraq, Libya and Taiwan, where no direct data is available, we have estimated scores by averaging the performance of countries with which these geographies have relevant FTAs, assuming that these agreements likely cover similar aspects of the OECD's Trade Facilitation Indicators, thereby providing a reasonable proxy for their performance in automation.

The OECD's Trade Facilitation Indicators assign values from 0 to 2 (with decimals) for each indicator, where 2 designates the best performance that can be achieved.

For the purposes of the ITEI, these scores are then adjusted to a scale from 0 to 100, where 100 represents the best performance and 0 the worst.

3.2.2 Adoption of a single trade window

A qualitative indicator based on Economist Impact customised scoring on a scale of 0-2, with the following scoring criteria:

- 2 = Country has developed and is using a single trade window.
- 1 = Country is in the process of developing a single trade window.
- 0 = Country does not use a single trade window.

3.2.3 Advance electronic information

A quantitative indicator that measures the implementation of advance electronic information systems. It is derived from World Customs Organization (WCO) data. More specifically, this indicator assesses whether a country allows its customs administration to operate advance automatic information systems through the ratification of Annex D of the Kyoto Convention.

The scoring system is as follows: 2 points if the country has fully ratified Annex D of the Revised Kyoto Convention, 1 point if the country has partially ratified Annex D, and 0 points if the country has not ratified Annex D. For the purposes of the ITEI, these scores are adjusted to a scale from 0 to 100, where 100 represents the best performance and 0 the worst.

4. Economic Management and Regulatory Environment

4.1 Taxation

4.1.1 Clear and stable tax regime

A quantitative indicator that measures the clarity and stability of a tax regime. It is an average of various metrics derived from EIU data: Stable Regime, Retroactive Taxation, and Level of Corporate Tax from the EIU's Operational Risk data and Tax Complexity and Consistency and Fairness of the Tax System from the EIU's Business Environment Rankings.

For the Operational Risk indicators, EIU scores range from 0 to 4, where 0 indicates stability and predictability and 4 indicates instability and unpredictability. Business Environment indicators are scored from 1 and 5, with 1 representing very complicated or very low fairness and 5 representing very simple or very high fairness. For the purposes of the ITEI, these scores are adjusted to a scale from 0 to 100, where 100 represents the best performance and 0 the worst.

It is important to note that the EIU does not provide scores for Armenia, Cambodia, Iraq, Kyrgyz Republic, Belize, Bosnia and Herzegovina, Brazil, Bulgaria, China, Georgia, Greece, Guatemala, Jamaica, Lithuania, Luxembourg, Malta, Montenegro, Panama, Trinidad and Tobago, Uruguay, Uzbekistan under the Business Environment Rankings. In these cases, we have only taken the average of the EIU's Operational Risk indicators.

4.1.2 International tax transparency

A quantitative indicator derived from the OECD's Tax co-operation indicators, which provide detailed country profiles for both Exchange of Information on Request (EOIR) and Automatic Exchange of Information (AEOI).

The scoring system for this indicator has several components. For EOIR, the OECD rates countries in two rounds of review with classifications such as "largely compliant", "compliant", "partially compliant" and "non-compliant." We assign 3 points for "largely compliant", 2 points for "compliant", 1 point for "partially compliant" and 0 points for "non-compliant", "not reviewed", "not scheduled" or "-". Only the higher score from these two rounds of review is considered to avoid double counting. Additionally, the OECD provides the status of the Mutual Administrative Assistance Convention, classified as "in force", "signed", "requested to join" or "no/-", for which we assign 3 points, 2 points, 1 point and 0 points, respectively.

For AEOI, we assign scores based on countries' Common Reporting Standard Multilateral Competent Authority Agreement (CRS MCAA) status; 2 points for "yes," 1 point for "not applicable," and 0 points for "no." Similarly, the OECD's review of the AEOI legal frameworks is classified as "in place", "in place but needs improvement" or "not yet reviewed", for which we assign 2 points, 1 point and 0 points, respectively. The initial review of AEOI effectiveness in practice is classified as "on track", "partially compliant" or "non-compliant/not yet reviewed" and we assign 2 points, 1 point, and 0 points accordingly.

The overall score for each country is calculated by summing the points from these components, with a maximum possible score of 12 points, reflecting the highest level of international tax transparency. For the purposes of the ITEI, these scores are adjusted to a scale from 0 to 100, where 100 represents the best performance and 0 the worst.

4.1.3 Sin tax

A qualitative indicator that measures the level of 'sin' taxes imposed on products such as alcohol, tobacco and other goods considered harmful. It is based on Economist Impact customised scoring on a scale of 0-4, with the following scoring criteria:

- 4 = Very high 'sin' taxes, above 66.5%.
- 3 = High 'sin' taxes, between 49.9-66.4%.
- 2 = Moderate 'sin' taxes, between 33.3-49.8%.
- 1 = Low 'sin' taxes, between 16.7-33.2%.
- 0 = No to very low 'sin' taxes, below 16.6%.

4.1.4 De minimis threshold

A qualitative indicator that measures the de minimis threshold for customs duties on imported goods. It is based on Economist Impact customised scoring on a scale of 0-3, with the following scoring criteria:

- 3 = Countries with a de minimis threshold of less than US\$50.
- 2 = Countries with a de minimis threshold between US\$51-200.
- 1 = Countries with a de minimis threshold between US\$201-500.
- 0 = Countries with a de minimis threshold greater than US\$500.

4.2 Innovation and social security environment

4.2.1 Social protection effectiveness

A quantitative indicator derived from International Labour Organization (ILO) data. This indicator assesses the proportion of the population covered by social protection floors or systems, across various contingencies including: the population covered by at least one social protection benefit; persons above retirement age receiving a pension; persons with severe disabilities collecting disability social protection benefits; unemployed individuals receiving unemployment benefits; mothers with newborns receiving maternity benefits; employed individuals covered in the event of work injury; children or households receiving child/family cash benefits; poor persons covered by social protection systems; and vulnerable persons covered by social assistance.

The ILO provides these coverage values on a scale from 0 to 100, where 100 represents full coverage and the best performance. This aligns with the ITEI's usual scoring system, where 100 represents the best performance and 0 the worst.

For most countries, the latest available data at the time of data collection (July 2024) has been used to reflect the current state of social protection coverage. However, in cases where the latest data is not a meaningful percentage (i.e. 0), we have taken the data from the preceding year. This adjustment applies to Sri Lanka, Libya, Indonesia and Armenia, and is methodological choice aimed to ensure a more accurate representation of social protection effectiveness in these countries.

4.2.2 Labour market regulations

A quantitative indicator that measures Labour Laws. It is derived from EIU Operational Risk data in the Labour Market Risk section focusing on Labour Laws. The EIU's methodology assesses how restrictive labour laws are expected to be over a two-year outlook period. The EIU's scoring system for 'Labour Laws' ranges from 0 to 4, where 4 indicates a higher risk (more restrictive) and 0 indicates a lower risk (less restrictive). For the purposes of the ITEI, these scores are adjusted to a scale from 0 to 100, where 100 represents the least restrictive and 0 the most restrictive.

4.2.3 Price controls

A quantitative indicator derived from EIU Operational Risk data in the Legal & Regulatory Risk Score section focusing on Price Controls. The EIU's methodology for assessing 'Price Controls' evaluates whether price controls are currently in place and the risk that these controls might be extended during a crisis. The EIU's scoring system for 'Price Controls' ranges from 0 to 4, where 4 indicates the highest risk (most restrictive price controls) and 0 indicates the lowest risk (no or minimal price controls). For the purposes of the ITEI, these scores are adjusted to a scale from 0 to 100, where 100 represents no or minimal price controls and 0 the most restrictive price controls.

4.2.4 Regulatory sandboxes

A qualitative indicator that measures the presence and scope of regulatory sandbox systems. It is based on Economist Impact customised scoring on a scale of 0-2, with the following scoring criteria:

- 2 = Regulatory sandbox system is in place for two or more sectors.
- 1 = Regulatory sandbox system is in place for one sector.
- 0 = No regulatory sandbox system in place.

4.3 Online environment

4.3.1 Digital services legislation or agreement containing provisions targeting anti-illicit trade

A qualitative indicator that measures the inclusion of anti-illicit trade provisions in digital services legislation or agreements. It is based on Economist Impact customised scoring on a scale of 0-3, with the following scoring criteria:

- 3 = The country has comprehensive digital services legislation (includes robust anti-illicit trade provisions, such as measures for monitoring, reporting and taking action against the sale of illegal goods and services online).
- 2 = The country has digital services legislation with limited provisions targeting anti-illicit trade.
- 1 = The country has digital services legislation, but no specific provisions targeting anti-illicit trade.
- 0 = The country does not have digital services legislation.

4.3.2 Technology-enabled illicit trade authority

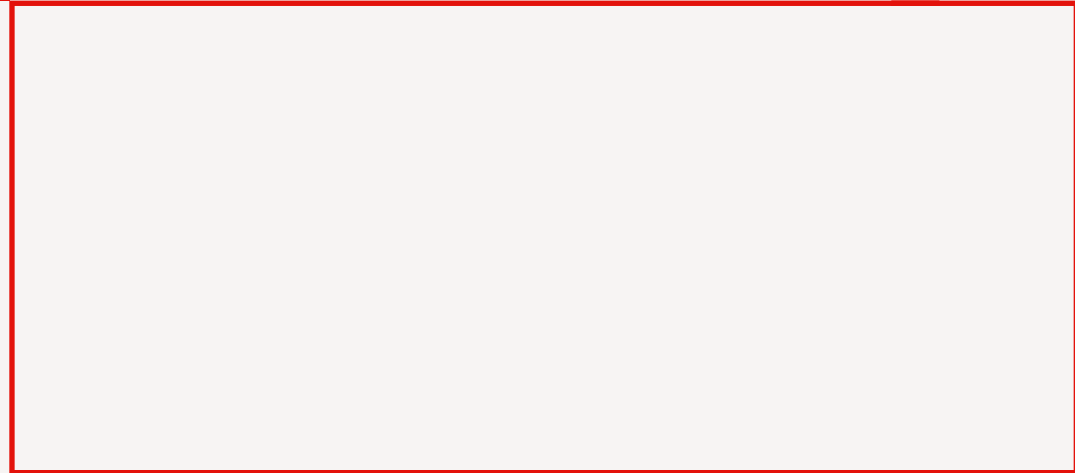
A qualitative indicator that measures the presence of a dedicated authority to monitor and combat technology-enabled illicit trade. It is based on Economist Impact customised scoring on a scale of 0-3, with the following scoring criteria:

- 3 = The country has a dedicated agency or department at the national level exclusively tasked with monitoring and combating illicit trade online.
- 2 = The country has teams within various government departments responsible for monitoring illicit trade online, but no standalone body.
- 1 = The government has a prevention plan addressing illicit trade, but no dedicated team or body for online monitoring.
- 0 = The country has no dedicated resources for monitoring illicit trade online.

4.3.3 Cyber security preparedness

A quantitative indicator derived from EIU Operational Risk data in the Infrastructure Risk Score section focusing on Cyber Security Preparedness. The EIU's methodology for assessing 'Cyber Security Preparedness' evaluates the risk that a country is not adequately prepared to withstand cyber attacks. The EIU's scoring system for 'Cyber Security Preparedness' ranges from 0 to 4, where 4 indicates the highest risk (least prepared) and 0 indicates the lowest risk (most prepared). For the purposes of the ITEI, these scores are adjusted to a scale from 0 to 100, where 100 represents the most prepared and 0 the least prepared.

While every effort has been taken to verify the accuracy of this information, Economist Impact cannot accept any responsibility or liability for reliance by any person on this report or any of the information, opinions or conclusions set out in this report. The findings and views expressed in the report do not necessarily reflect the views of the sponsor.



LONDON

The Adelphi
1-11 John Adam Street
London WC2N 6HT
United Kingdom
Tel: (44) 20 7830 7000
Email: london@economist.com

GENEVA

Rue de l'Athénée 32
1206 Geneva
Switzerland
Tel: (41) 22 566 2470
Fax: (41) 22 346 93 47
Email: geneva@economist.com

SÃO PAULO

Rua Joaquim Floriano,
1052, Conjunto 81
Itaim Bibi, São Paulo - SP
04534-004
Brasil
Tel: +5511 3073-1186
Email: americas@economist.com

NEW YORK

900 Third Avenue
16th floor
New York, NY 10022
United States
Tel: (1.212) 554 0600
Fax: (1.212) 586 1181/2
Email: americas@economist.com

DUBAI

Office 1301a
Aurora Tower
Dubai Media City
Dubai
Tel: (971) 4 433 4202
Fax: (971) 4 438 0224
Email: dubai@economist.com

SYDNEY

Level 14, Unit #138,
5 Martin Place
Sydney
Australia

HONG KONG

1301
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
Email: asia@economist.com

SINGAPORE

8 Cross Street
#23-01 Manulife Tower
Singapore
048424
Tel: (65) 6534 5177
Fax: (65) 6534 5077
Email: asia@economist.com

GURUGRAM

Skootr Spaces, Unit No. 1
12th Floor, Tower B, Building No. 9
DLF Cyber City, Phase - III
Gurugram - 122002
Haryana
India
Tel: (91) 124 6409 300
Tel: (61) 2 8551 0023