

Trade Facilitation as an element of competitiveness in Latin America and the Caribbean

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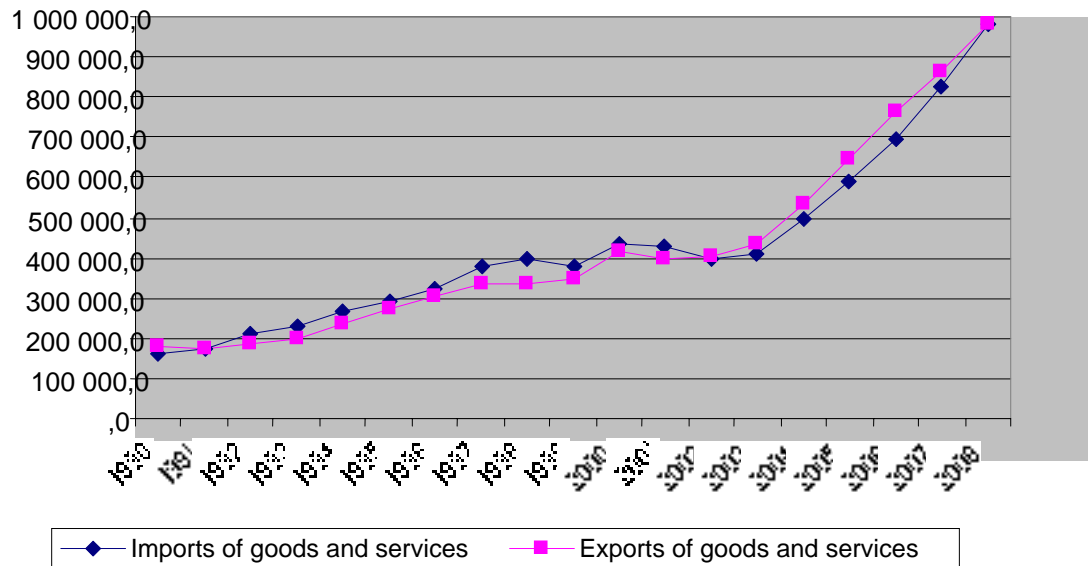
Summary

The accelerated growth of trade in Latin America has increasingly exposed regional producers to international competition. However, existing indicators suggest that the region is in a very poor position compared to its main competitors on the international market. For this reason, it is imperative that the region take measures to boost productivity and efficiency if it wants to maintain its international competitiveness. That will require more investment in infrastructure, in technology (training and facilities) and in strategies for developing logistics and transport so that the region's products can become part of international production and distribution chains. This article discusses the restrictions that exist in the region and recommends some actions for enhancing Latin America's international competitiveness.

1. In search of new patterns of productivity and efficiency

Despite the effects of the recent world economic crisis on trade, it is undeniable that Latin America's foreign trade has grown significantly since 2003 (figure 1). This growth has translated into greater exposure to international competition, particularly in view of the steady reduction in tariff protections as a result of the Uruguay Round and the proliferation of free trade agreements.

Figure 1: Foreign trade in Latin America and the Caribbean (in millions of current dollars)

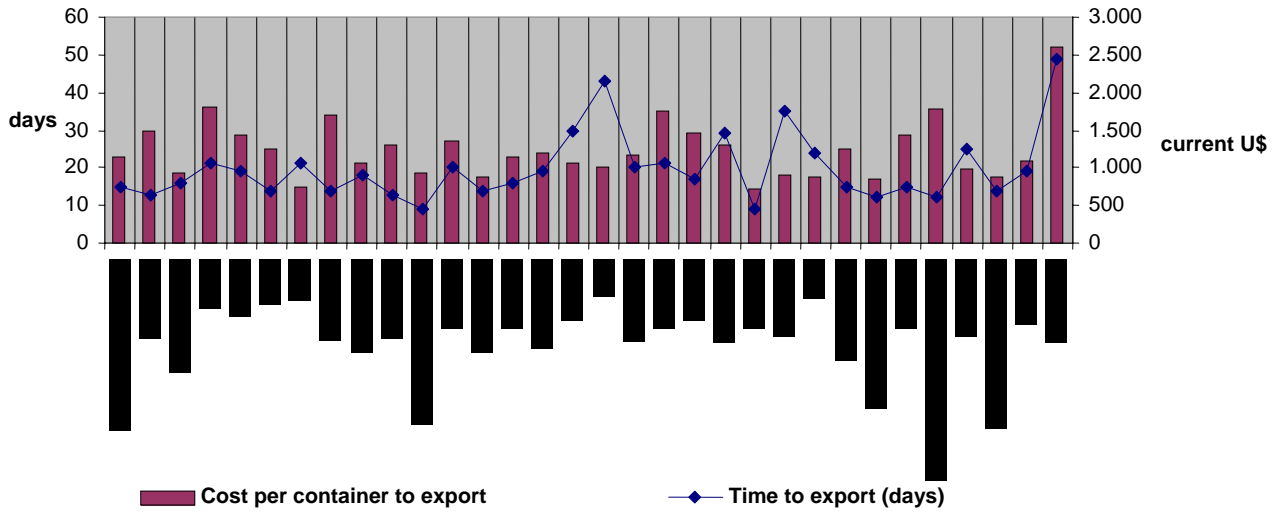


Source: ECLAC, based on official statistics.

As a result of this trend, continued growth of the region's exports requires the adoption of developed patterns of productivity and efficiency so that they can compete with countries that have been more efficient in developing export sectors that are more competitive than the region's. In this regard, the business environment that must be established for the development of foreign trade activities takes on increasing importance, especially with regard to so-called transaction costs.

Figure 2 shows the disturbing results of a World Bank study on the time required to carry out exports and the costs per container.

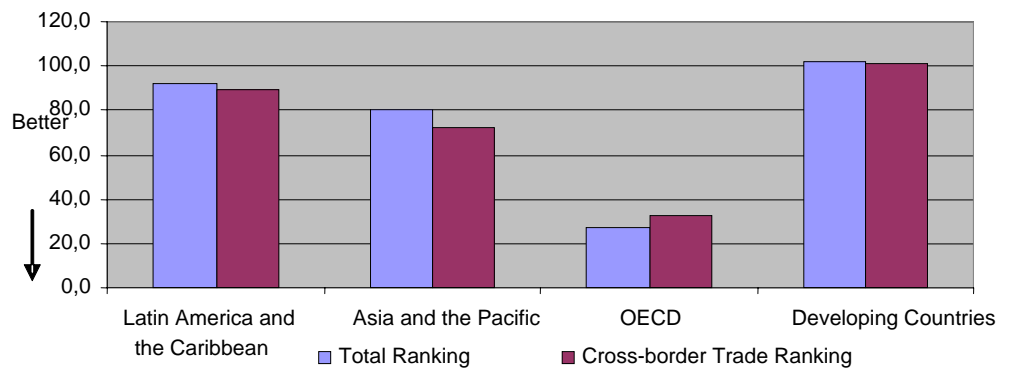
Figure 2: Export costs in Latin America and the Caribbean, 2008



World Bank; Doing Business, 2009

It should also be noted that the cost and efficiency of international trade in the countries of Latin America and the Caribbean are relatively better than the average for developing countries, but costs are well above the averages seen in countries of the Organization for Economic Cooperation and Development (OECD), and they also exceed those reported in the countries of Asia and the Pacific (see figure 3).

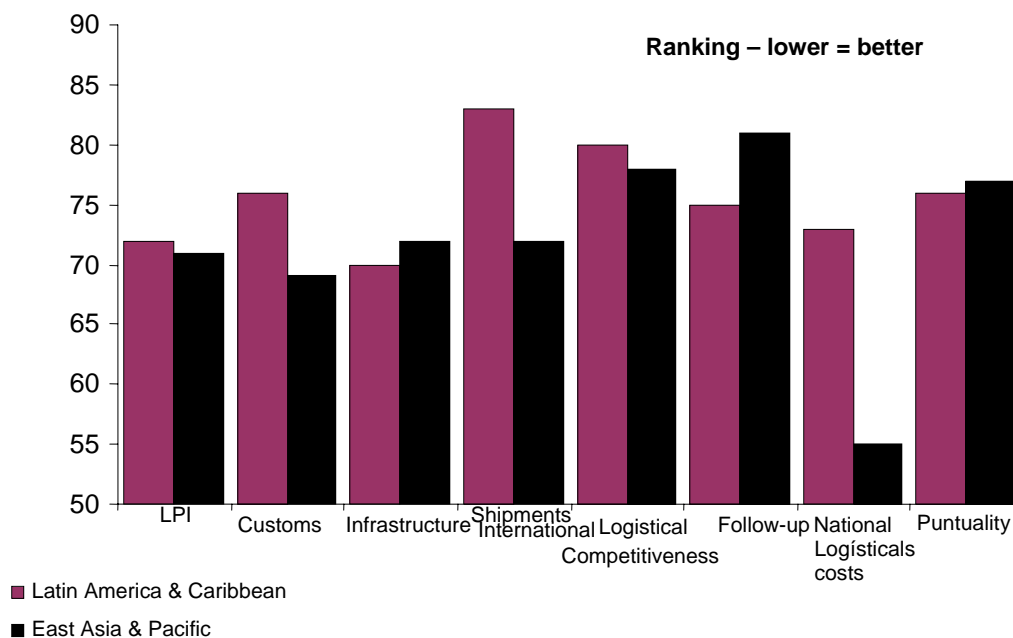
Figure 3: Trade facilitation ranking



World Bank; Doing Business, 2009

Moreover, the region is not very well prepared to face other aspects of competition in the international world of business. Figure 4 shows that in comparison to Asia and the Pacific, Latin America scores better in only three of seven categories of logistical performance indicators (plus the cumulative index), and even then by very little.

Figure 4: Comparison of Logistical Performance Index (LPI) between Asia and the Pacific and Latin America and the Caribbean



Source: World Bank, Connecting to Compete, Trade Logistics in the Global Economy, 2007.

The same is true in the area of preparedness for e-business; only economies in transition and the countries of Sub-Saharan Africa are less prepared than those of Latin America. In fact, in 2008 the region's index was lower than that obtained in 2000.

Table 1: EIU E-business preparedness index (Maximum = 10)

Region	2000	2005	2006	2007	2008
North America,	8.80	8.70	8.80	8.80	8.90
G7	8.40	8.20	8.40	8.40	8.50
Western Europe	8.10	7.80	8.10	8.00	8.20
Asia and Australasia,	6.90	6.20	6.50	6.80	7.00
Latin America,	5.90	5.10	5.20	5.60	5.70
Sub-Saharan Africa	5.00	4.90	5.10	5.50	5.40
Economies in transition,	5.50	4.60	4.90	5.00	5.10
World	7.80	7.40	7.60	7.60	7.80

Source: The Economist Intelligence Unit (EIU), 2009

This situation merely reinforces the necessity of taking steps to update and streamline the bureaucracy in the countries of the region. In addition, according to Hellqvist,¹ the need for trade facilitation in developing countries has become ever more urgent as a result of:

1. The rapid growth of trade volumes and the share of trade in GDP;
2. The accelerating pace of trade and dependency on technical rapid supply chains;
3. The expanded global emphasis on security issues, which means that countries with deficient, murky procedures will be excluded quickly;
4. The increase in trade among developing countries, whose costly procedures end up causing mutual harm.

In the case of developing countries, it is also important to consider the effects of the adjustment from three main perspectives: the institutional and infrastructure framework, employment and competition. The effects and costs of trade facilitation in each of these areas are highly dependent on the country's conditions and the type of reform undertaken. Customizing their application can minimize the negative impact of trade facilitation reforms.

In this regard, it is clear that one of the effects of trade liberalization has been that transaction costs have become more visible because of their direct impact on competitiveness. The competitiveness derived from lower transaction costs is also directly linked to the use of technological developments that affect global trade and production practices. Consequently, modern logistics have acquired characteristics related to improvements in accuracy, predictability and speed. The greatest impact of improvements in efficacy and cost cutting (particularly those related to border procedures) is seen in enhanced competitiveness at the level of national economies.

In connection with this improved competitiveness, one of the explanations for the increase in stability and stronger growth in the productivity of the United States economy in recent years is that progress has been made in managing the distribution chain through the widespread adoption of new information technologies. However, as a Wharton School study (2006) argues, "the process of getting the right product to the right place at the right time at the right price — the traditional touchstones of supply chain success — remains a challenging and often-times elusive goal." ²

¹ Hellqvist, M. (2003). Trade Facilitation from a Developing Country Perspective. SWEPRO. Stockholm, Kommerkollegium.

² Wharton School, Universia Knowledge, "Avoiding the Cost of Inefficiency: Coordination and Collaboration in Supply Chain Management,"

In this regard, the benefits of trade facilitation can be directly linked to the contribution that can be made to improved management of the distribution chain.

2. ECLAC and Trade Facilitation

The approach ECLAC has taken to trade facilitation has evolved over time from focusing primarily on formal aspects of facilitation, mainly referring to the recognition of rules of origin, to a three-pronged approach. First, the technical characteristics of facilitation, principally the dissemination of internationally accepted rules and standards, are stressed. This is followed by an emphasis on publicizing the benefits of facilitation for small and medium-sized companies. Finally, particular attention is given to matters related to the negotiation of agreements involving aspects of trade facilitation. In this regard, a United Nations Development Account project was recently completed in which these aspects of facilitation were addressed, and two seminars on the subject were held.³

Among the most significant objectives of the seminars was the promotion of the recommendations and instruments developed by the United Nations Centre for Trade Facilitation and Electronic Business (CEFACT) among the countries of the region.

Among the objectives of CEFACT is the incorporation of new actors in the development of standards and recommendations for improving international terms of trade. Technical experts from the private sector and government officials responsible for related public policies collaborate under the auspices of CEFACT.

Special attention should be given to the following key objectives of CEFACT:

1. Seeking to expand global trade by incorporating small and medium-sized companies and shifting international trade procedures towards easier and simpler models.
2. Striving to cut red tape and increase transparency. – The instruments available for achieving these objectives include not only those mentioned above but also analyses of the principal activities and of the elements involved in international transactions.

<http://www.wharton.universia.net/index.cfm?fa=viewArticle&id=1251&language=english>, published on 15 November, 2006.

³ See <http://www.cepal.org/tradefacilitation>

3. Identifying the procedural obstacles and difficulties that hamper these transactions, including unnecessary and redundant requests for information.

Furthermore, CEFACT also makes recommendations regarding best practices in trade, specifically in relation to who should receive information and how it should be done, so that then recommendations can be developed for eliminating the obstacles identified, streamlining information flows and harmonizing the remaining procedures.

One critical objective of the work carried out by CEFACT is to disseminate throughout the world patterns and standards for paperless trade, reduce cumbersome customs procedures and achieve interconnectivity among customs authorities in order to enhance efficiency and cut transaction costs.

3. Recommendations

There has been a long-standing effort to associate trade facilitation with customs modernization and, to a certain extent, with government agencies involved in border inspections.

However, as many customs authorities modernized and even developed more sophisticated mechanisms such as the single window for foreign trade, it became apparent that the desired level of export competitiveness was not being achieved. Trade facilitation then came to be defined not only as a way of eliminating red tape but also as a holistic approach to accelerating commercial transactions that also encompasses the availability of transport infrastructure and information and communication technology with a view to promoting a steady flow of cross-border trade.⁴

For this reason, today global competitiveness depends not only on eliminating bureaucratic obstacles but also on the state of the logistical system for international trade, including but not limited to export and import procedures.

⁴ See Gabriel Pérez: The Need to establish comprehensive policies for Infrastructure, Transport and Logistics. FAL Bulletin 263, July 2008

Moreover, having an integrated logistical system attracts foreign direct investment and serves as an agent of modernization for small and medium-sized enterprises (SMEs) to facilitate their internationalization.

An important point to bear in mind is that just as the existence of an integrated system provides synergistic benefits, it also needs to be implemented comprehensively if it is to have long-term effects; partial implementation will yield only short-term gains.

By the same token, the necessary integration of logistical systems and of administrative reforms makes the participation of both the public and private sectors absolutely essential. This provides a greater incentive for spreading the synergies created by this new approach.



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