DIGITAL TRADE TRANSFORMATION IN LATIN AMERICA AND THE CARIBBEAN

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Tuesday, February 5, 2019

WORLD TRADE ORGANIZATION
Geneva, Switzerland
The IDB and the trade agenda

- Strategic partner for LAC countries, providing technical and financial support to trade projects and initiatives at the national and regional levels.
- Trade, regional and global integration of markets, and innovation through new technologies are priorities for the IDB.
- Cross-collaboration and support among sectoral departments and technological areas to provide technologically-enabled products, services, and solutions.
Digital Transformation and Readiness in LAC
Worldwide digital transformation

• By 2020, an estimated 1 million new devices coming online each hour.

• Technology is changing the marketplace, workplace, government and all areas of human endeavor.

• This Fourth Industrial Revolution means new technologies incorporated into everyday activities of people, companies, and governments.

• Opportunities in terms of productivity and efficiency, but also challenges and disruptions – digital readiness is necessary to successfully navigate these issues.
Not all countries are equally prepared...

Global digital readiness scores

DigiLAC: Broadband Development Index

- State of broadband in 26 IDB borrowing member countries, plus 38 reference countries.

...major disparities and asymmetries with respect to digital readiness

Digital readiness scores

<table>
<thead>
<tr>
<th>Component</th>
<th>Indicators</th>
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</thead>
<tbody>
<tr>
<td>Technology adoption</td>
<td>Mobile device penetration, internet usage, cloud services</td>
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<tr>
<td>Start-up environment</td>
<td>Strength of legal rights, time to start a business, venture capital availability</td>
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<tr>
<td>Human capital</td>
<td>Quality of STEM, literacy rate, years of school, population age 0-14</td>
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<tr>
<td>Technology infrastructure</td>
<td>Fixed telephone &amp; fixed broadband subscriptions, secure internet servers, networking services</td>
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<tr>
<td>Business &amp; gov’t investment</td>
<td>FDI, high-technology exports, government success in IT promotion</td>
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<tr>
<td>Ease of doing business</td>
<td>Doing Business Index, rule of law, Logistics Performance Index, time it takes to obtain electricity</td>
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<tr>
<td>Basic needs</td>
<td>Life expectancy, mortality rate age &lt; 5, improved sanitation facilities, access to electricity</td>
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The IDB supports national agendas to foster digital transformation in LAC

- Developing specialized human capital and improving digital literacy.
- Governance and institutions (digital transformation of firms and sectors; development of digital ecosystems).
- Regulatory reforms to adapt to the digital economy and digitally-enabled business models.
- Investing in broadband infrastructure (and connectivity more broadly).

Digital Transformation for Trade and Investment Promotion
Trade is being digitally transformed

- Wider variety of goods at lower cost (both for consumers and businesses including access to cheaper / high-quality inputs).
- Services as trade and as part of the value added to manufactured products.
- Trade in goods, services trade, and FDI are increasingly interrelated, thanks to this digital transformation.
- Streamlined and secure trade procedures and traceability in logistics (firms) and export/import controls (Governments).
- Greater opportunities for SMEs to internationalize due to lower initial capital costs, resulting in increased export diversification.

Source: Suominen with ConnectAmericas and Asociación Latinoamericana de Internet (2017) “Accelerating Digital Trade in Latin America and the Caribbean: Executive Summary” (IDB adaptation).
IDB Operational work
(2 pillars)

Using technology to reduce trade costs

Digital transformation of trade institutions
How governments interact with traders and with each other

New digitally-based business models
How businesses, investors, and consumers interact with one another
Digital transformation of trade institutions

- **Electronic foreign trade single windows**: in Costa Rica, 22% growth in number of buyers and 44% growth in export per buyer.

- **Authorized economic operator** programs and their mutual recognition: study finds that AEO-certified firms increased exports by 1.8-2.8%.

- **Coordinated border management**: at the Peñas Blancas border crossing, the average total border crossing time expected to be reduced by 80% on the Costa Rican side and by 70% on the Nicaraguan side.

- **All have digital dimensions**: Single window and regional interoperability (cloud computing); AEO (blockchain); CBM (IoT) and risk management (AI).
New digitally-based business models

• Information and search costs hinder trade (imperfect information, border effects, & distance).

• Purely informational online B2B platforms reduce information frictions by facilitating access to relevant knowledge and contacts, as well as matchmaking among firms.

• This is reflected in research using firm-level data from a pure B2B non-transactional online platform, ConnectAmericas.

• Separate research shows that more generally, the e-commerce platform provides tools (services, logistics, and framework of rules) for small businesses to project themselves internationally.

Source: Carballo, Rodriguez Chatruc, Salamanca Malagón and Volpe Martincus (forthcoming) “Information and Exports: Firm-Level Evidence from an Online Business Platform”
Vision for the future (1): integration of platforms and interoperability

Digital transformation of trade institutions

• Trade documents digitization to eliminate repetitive data entry and streamline processes
• One-stop shop for regulatory approvals
• Connectivity among customs and other competent agencies

New digitally-based business models

• Connectivity with transport carriers, port operators & freight forwarders
• Trade finance
• Supply-chain visibility
• Application development interface for 3rd party providers.

• Cloud-based B2G and B2B electronic data sharing, for example, Singapore’s NTP
Vision for the future (2): Integration of regional digital markets

• Seek regional regulatory coherence and market scale to reduce transaction costs.
• Update policy & regulatory frameworks. Harmonization.
• Ensure secure and fluid online payments.
• Stimulate trade finance through digital platforms.
• Promote PPPs to leverage technology for e-commerce export promotion.
• Strengthen infrastructure and enabling environment for digitally-enabled trade.

Challenges

• **Regulatory Frameworks**
  - Cross-border barriers to telecom
  - Customs & border regulation & procedures not aligned to the digital economy
  - e-commerce geo-blocking
  - Data localization requirements
  - Spectrum management
  - Consumer law and data protection regimes
  - Weaknesses in IPR laws

• **Deficient logistics and lack of connectivity**
  - Transport and technological infrastructure

• **Skills for the digital economy**

• **SME capacity & financing**
Conclusions

• The digital world has changed completely the way everyone does business.

• LAC has to tackle this digital agenda to promote trade and development more generally

• Integration of digital platforms and markets

• Digital transformation is blurring traditional areas of focus:
  ▪ Goods/services/investment are interrelated;
  ▪ Export promotion/investment attraction/innovation are no longer separate issues;
  ▪ B2C and G2G are interconnected.
Thank You!