Combined Soft & Hard Investments to Reduce Trade Costs

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Outline

- Reducing Trade Costs Further in Central America
- The Unfinished Trade Agenda in Latin America & the Caribbean
- What is the IDB doing
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International Transit of Merchandise (TIM)

- Facilitate the border crossing of goods in transit by optimizing customs procedures, improving fiscal controls and traceability, and implementing modern risk analysis systems.
- Submit electronic TIM card at each border crossing.
- Aims to reduce time spent in border operations by 80%.
- Average speed of trucks across borders in Central America to increase from 17 to 50 Km/h.
El Amatillo: crossing times reduced from over an hour to 8 minutes

From 9 days to drive new school buses from Mexico to Nicaragua to 2 days with TIM

- 1 million + successfully controlled transit operations
- Customs Directors of Andean countries have requested support from IDB to install TIM
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- What is the IDB doing?
Past: Pre-1993

Source: IDB
Past: c. 1996

NAFTA
Canada
USA
Mexico

Dominican Republic
El Salvador
Guatemala
Honduras
Nicaragua
Costa Rica
Panama

CACM
G-3
G-3
G-3

ACN
Costa Rica
Ecuador
Peru
Bolivia

FTAA
(proposed)

Canada
Mexico
Brazil
Uruguay
Argentina

BAHamas
Haiti
(CARICOM members but not in CSME)

Antigua & Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Lucia, St. Kitts & Nevis, St. Vincent & the Grenadines, Suriname, Trinidad & Tobago

Source: IDB
Present: A Tight Mesh of FTAs

Source: IDB
With Drastic Tariff Reductions...

The "Great Liberalization"
Average Applied MFN Tariffs
(1985-2010)

Source: INT based on INTradeBID, UNCTAD TRAINS, FTAA Hemispheric Database, and ALADI data.
... but Slow Customs Clearance

Average Customs Clearance Times
(2012, 2014)

- Dev Europe & Central Asia
- East Asia & Pacific
- Latin America & Caribbean

Clearance time, physical inspection (days)

- 2012
- 2014
...Unmasking Transport & Logistics Costs...

Ad valorem freights and tariffs of exports to the US.
(2006, simple averages)

Source: IDB (2008) Unclogging the Arteries
...as a Result of...

- Insufficient capacity & quality of land transportation (road and rail)
  World average of road network 241 km/1,000 km² of surface, LAC 156 km
- Port congestion
- Insufficient intermodal connections & inappropriate modes
- High costs of inventories; need increased capacity and competition in warehousing and silage
- Bottlenecks at border crossings and customs-related inefficiencies

Huge investments are needed to address these gaps
...because of Insufficient Investment in Integration Corridors...

- Obstacles created by the low level investment in infrastructure: 2% of GDP in LAC vs. 6–10% in East Asia

- To catch up with Korea (a comparator in 1980), a representative LAC country would need to invest an average of 7% a year in the next 10 years

- Private sector investment is needed to bridge this gap, but in the past has not materialized to the extent necessary
Inefficiencies negatively impact international trade, passenger flows & competitiveness.

- High costs in border crossings raise the costs of final goods by 15%.
- Only 25% of delays are due to poor roads and ports; 75% is due to inefficient processes.
- Every additional day of delay reduces trade by 1%.
- In the case of perishables, each additional day of delay reduces exports by 7%.
High returns from reductions in transport costs

**Simulation of the Percentage Increase in Intra-regional Exports from Reductions in the Cost of Trade**

- **Percent**
- **Mexico**
- **Bolivia**
- **Colombia**
- **Ecuador**
- **Peru**
- **Venezuela**
- **Argentina**
- **Brazil**
- **Paraguay**
- **Uruguay**
- **Chile**
- **LAC**

**Legend:**
- 10% Tariff Reduction
- 10% Reduction in Transport Costs
High returns on a comprehensive trade integration agenda in LAC

Export Effects of Software Policy Reforms and Hardware Investment
(Intra-LAC Export Gains, as % of 2008 Baseline)

Source: IDB (2012) Investing in Integration
What to Do at the End of a Boom?

- After a decade of 4% growth & Poverty Reduction, LAC’s real GDP slowed to 2.7% in 2013 and 1.3% in 2014.

- Infrastructure investments were made during this period, but were not sufficient to keep up with and sustain economic growth.

- More subdued global environment presents challenges for sustaining poverty reduction as well as for making necessary investments in infrastructure.

- A need to find innovative development solutions.
Investing in Logistics Has Great Potential

- **Chile**: Number of days to prepare documents for trade halved (from 6 to 3 days for exports, and from 5 to 2.5 for imports).
  - Video: A Single Window for Chile

- **Mexico**: Reduction in response times to process foreign trade documents:
  - Time for export permits to fall from 15 days to automatic
  - Time for issuance of certificates of origin to be cut in half (from 2 days to 1 day)

- **Peru**: Reduction of response times for records by 17% in 2014
  - 260 administrative procedures incorporated
  - 15 participating agencies
  - Savings of US$70 per individual transaction
  - Over US$11 million in total savings
  - 3.2 million paper sheets spared from printing
Sustainable Integration Corridors

Hardware
- Roads
- Airports
- Ports
- Customs/Border Projects
- Electrical Interconnection
- Broadband

Software
- Trade/Investment Agreements
- Trade Facilitation/Logistics
- Trade Promotion

Source: IDB Integration Sector Strategy
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Investing in the Hardware & the Software

- Framework to reach target of 15% of Bank lending in integration by 2015.
- Simultaneous investments in software and hardware.
- Strengthening production of regional public goods.
- Compact of financial and non financial instruments.
- Grants as incentives to unlock integration interventions.
...Using Instruments as Incentives...
In Partnership with Others

Multilateral Leaders

Regional Bodies
...That Can Add Great Value...

SSC & Triangular Cooperation

Aid for Trade Fund: Canada, Chile, United Kingdom, Switzerland
RIIF: Canada, Colombia, Korea, Japan, Mexico, Spain, USA
Other Partners Korea, Japan
Thank you!

@BID_Comercio
@JoaquimTres
Activities in the Caribbean

Loans in Execution:

- **Bahamas**: Trade Sector Support Programme
- **Barbados**: Barbados Competitiveness Program
- **Trinidad and Tobago**: Global Services Offshoring Promotion Program
- **Jamaica**: Fiscal Administration Modernization Program

Capacity-Building Program on Integration. Online courses:

- 94 Caribbean specialists trained in trade policy topics
- 153 Caribbean specialists trained in trade facilitation topics

Source: IIRSA