



Combined Soft & Hard Investments to Reduce Trade Costs

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Workshop on Aid for Trade and Infrastructure: Financing the Gap
World Trade Organization, Geneva
February 16, 2015

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



TIM Preliminary Results



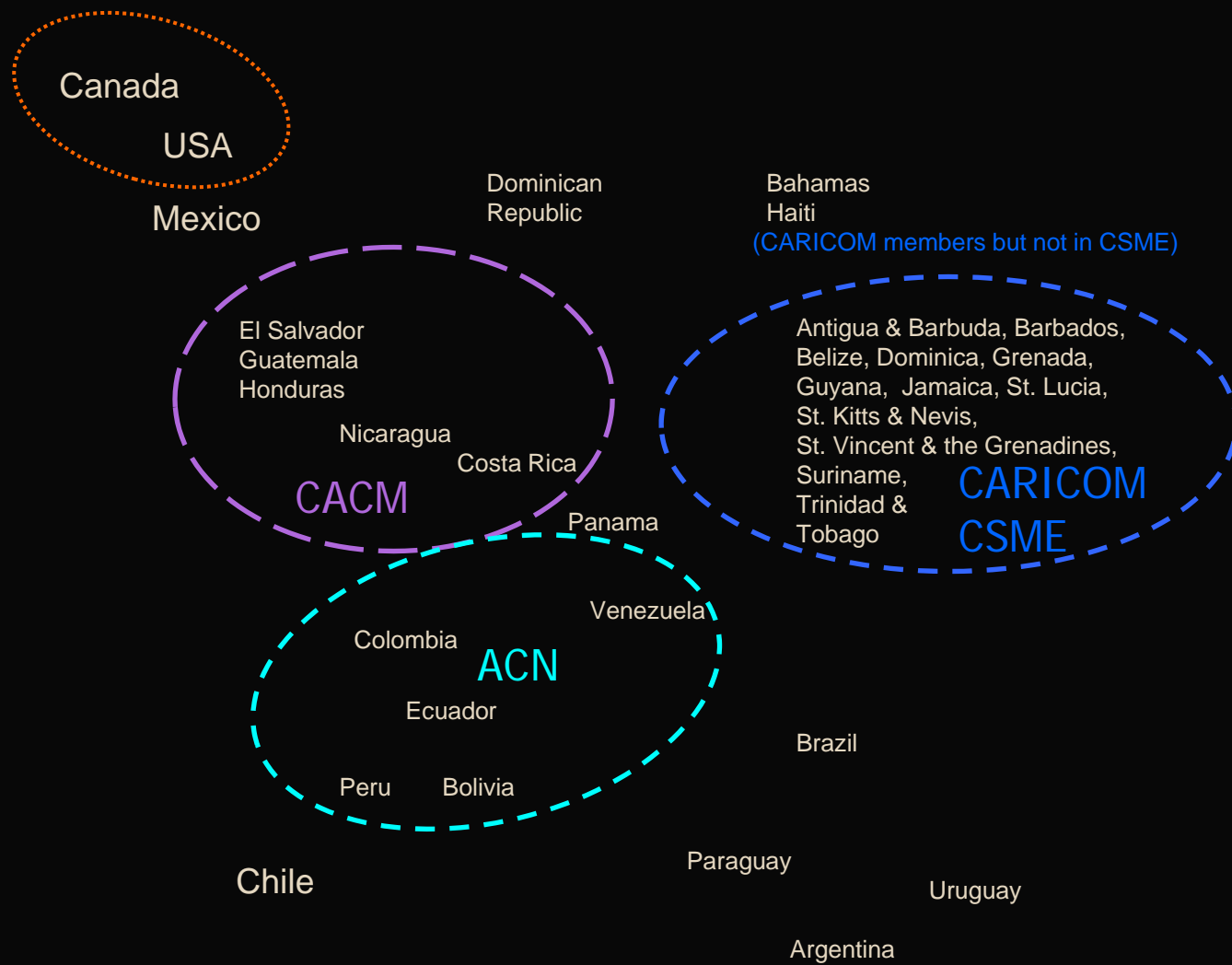
- 1 million + successfully controlled transit operations
- Customs Directors of Andean countries have requested support from IDB to install TIM



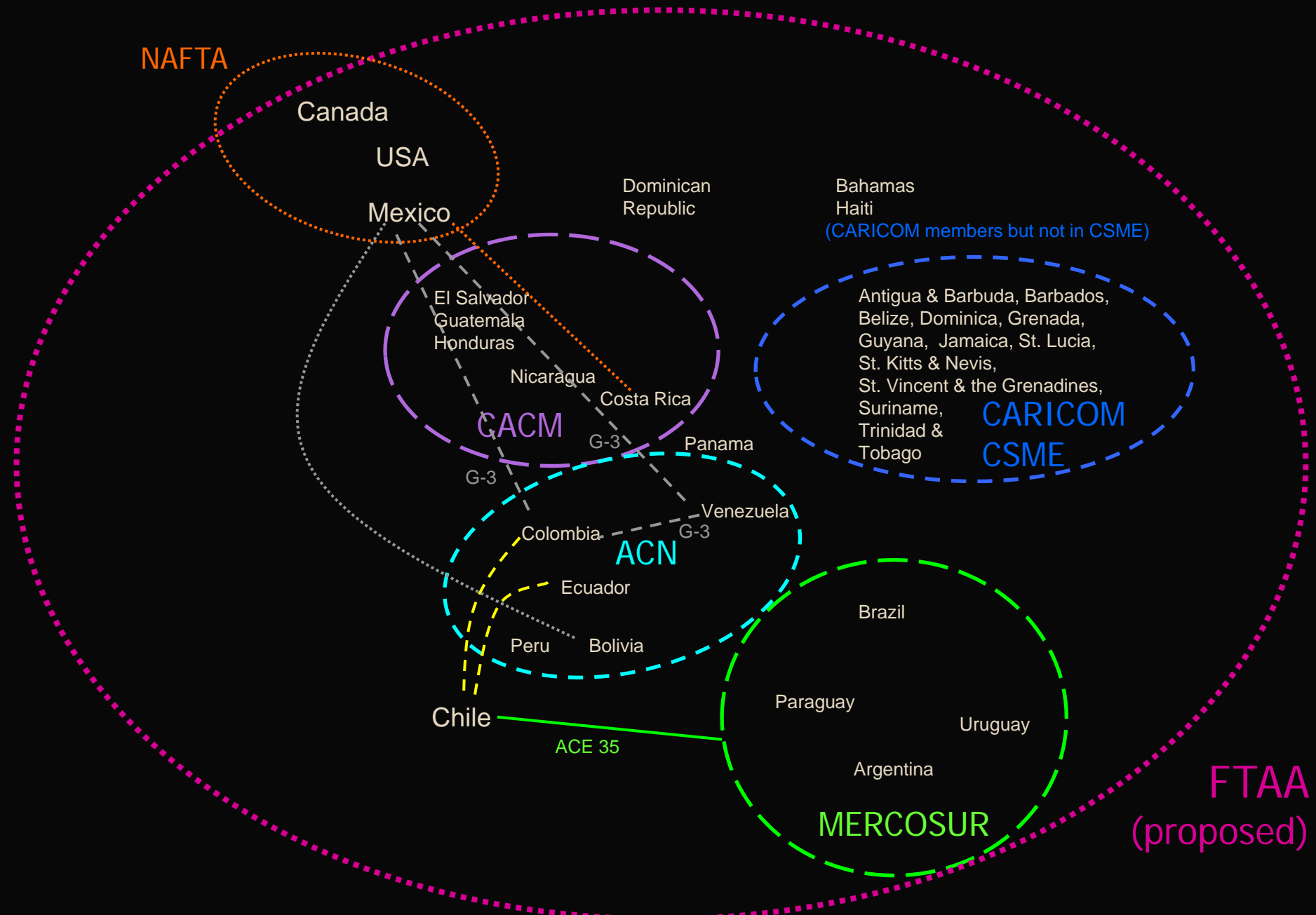
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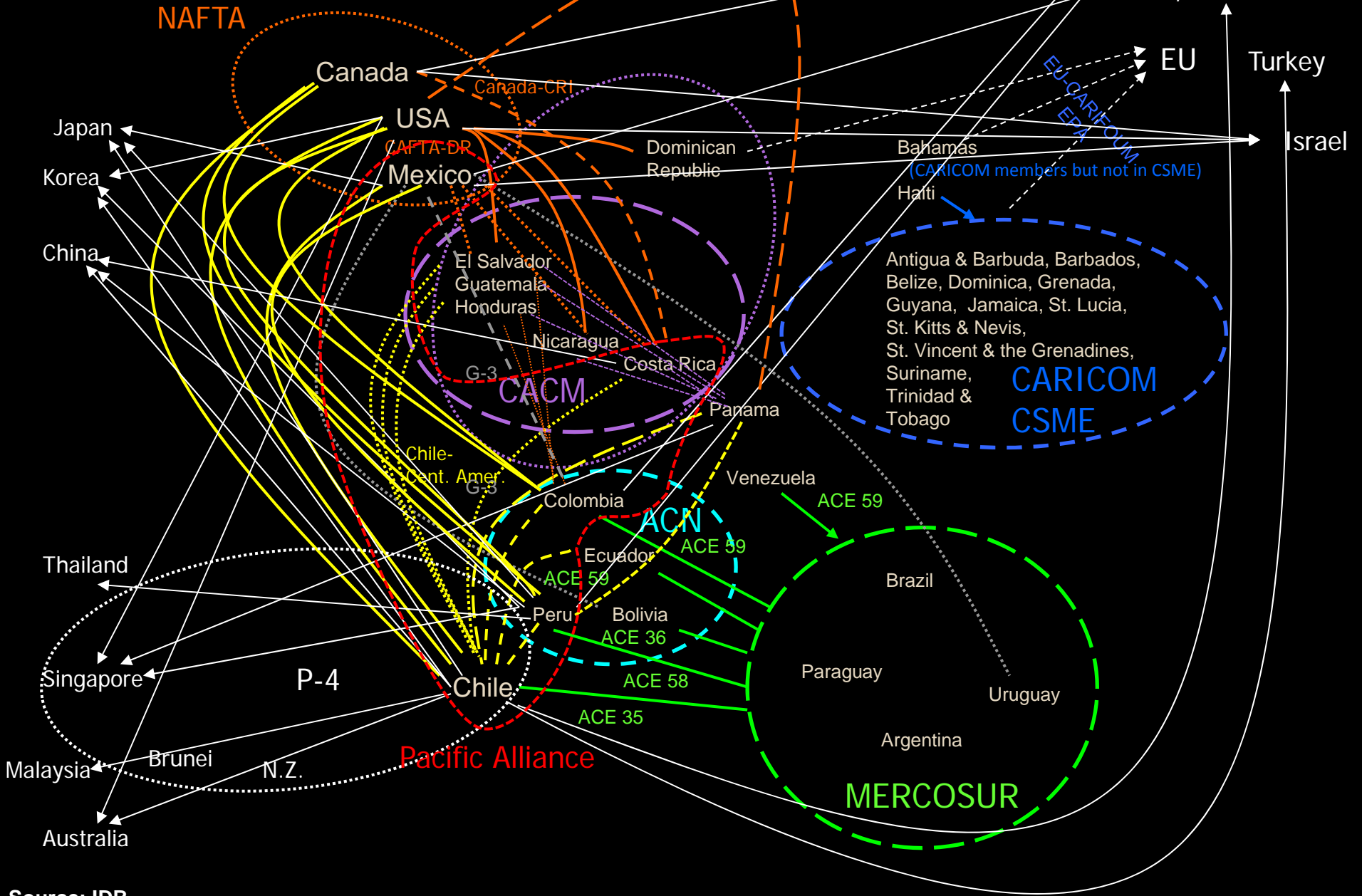
Past: Pre-1993



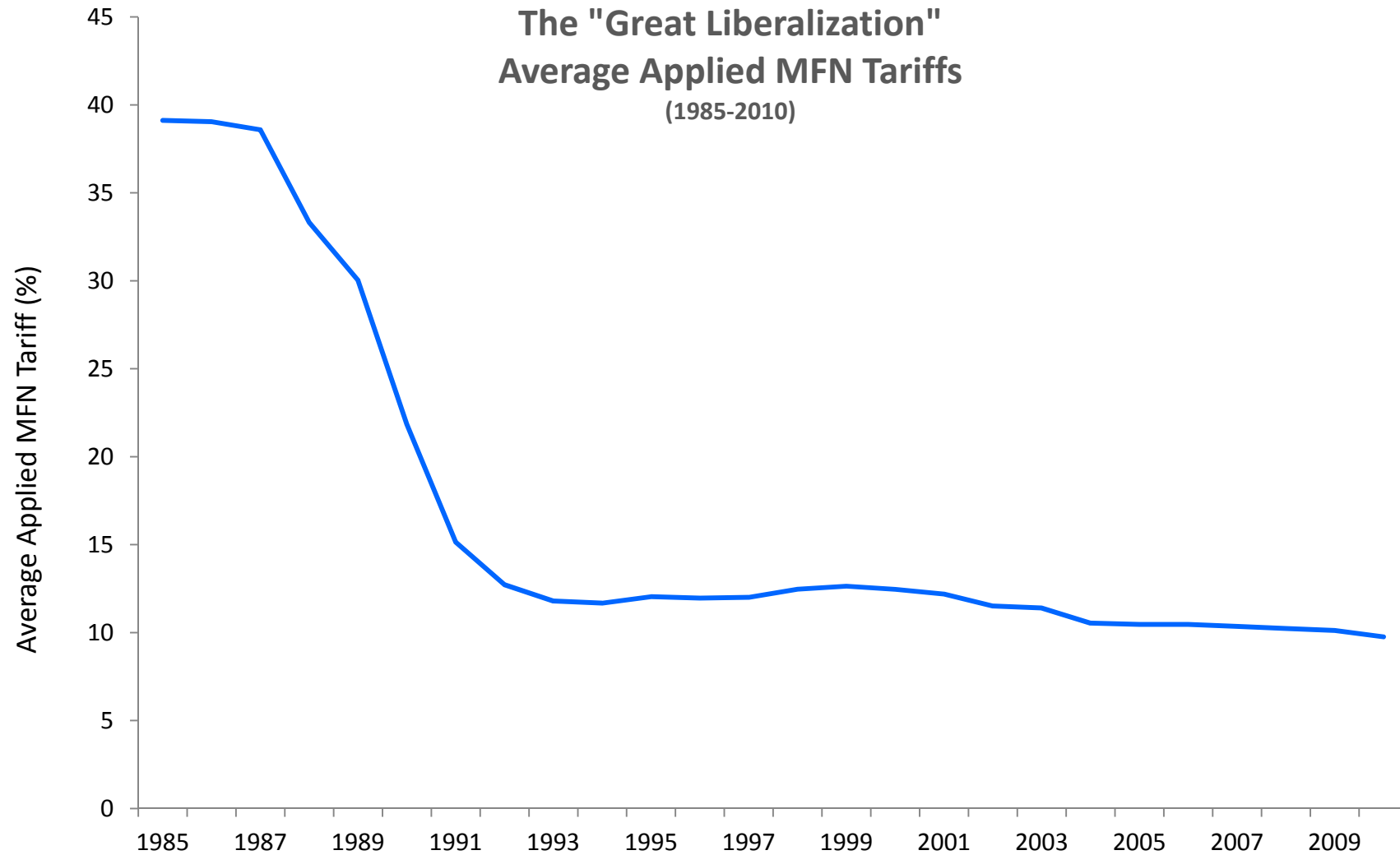
Past: c. 1996



Present: A Tight Mesh of FTAs

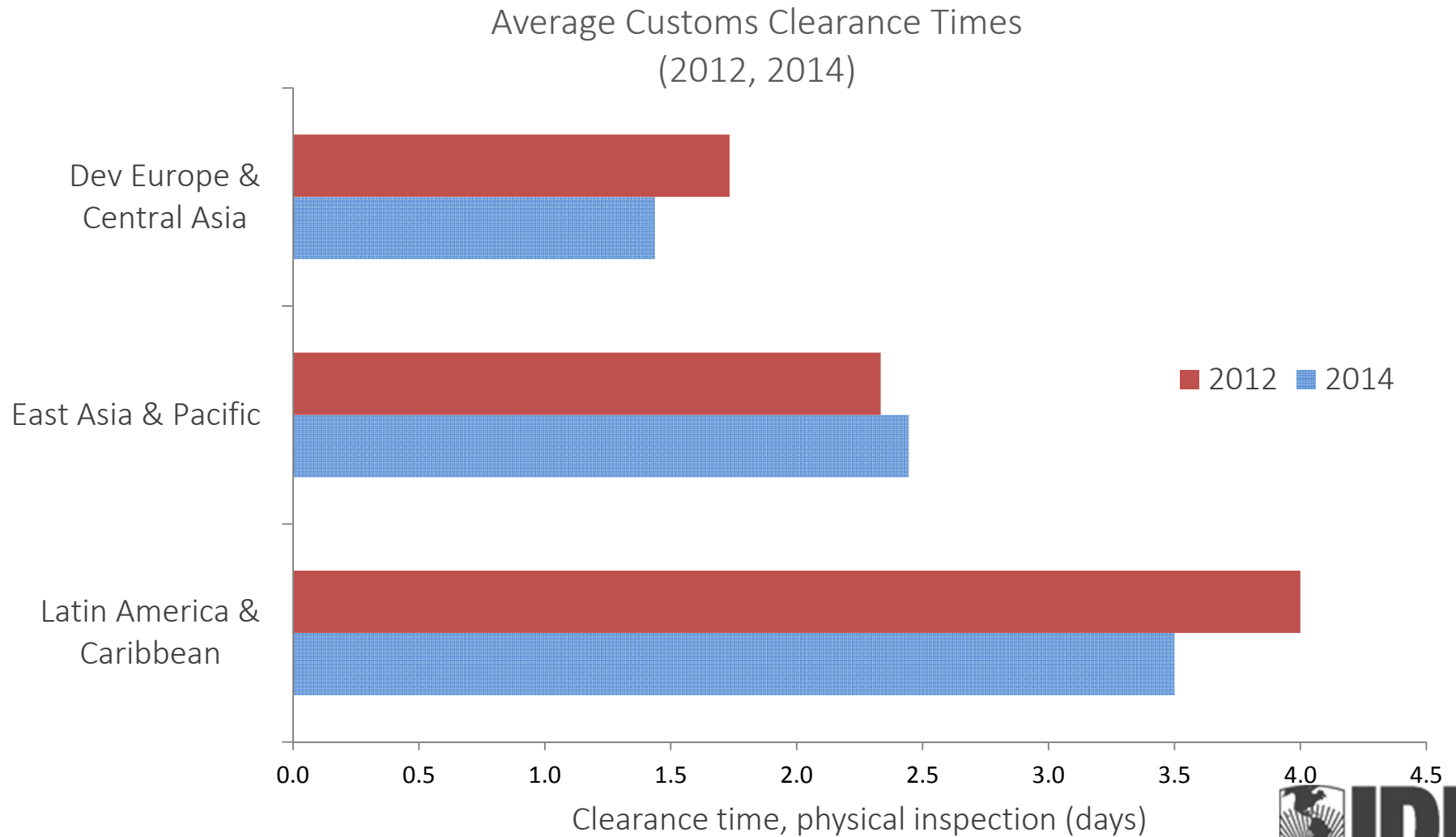


With Drastic Tariff Reductions...



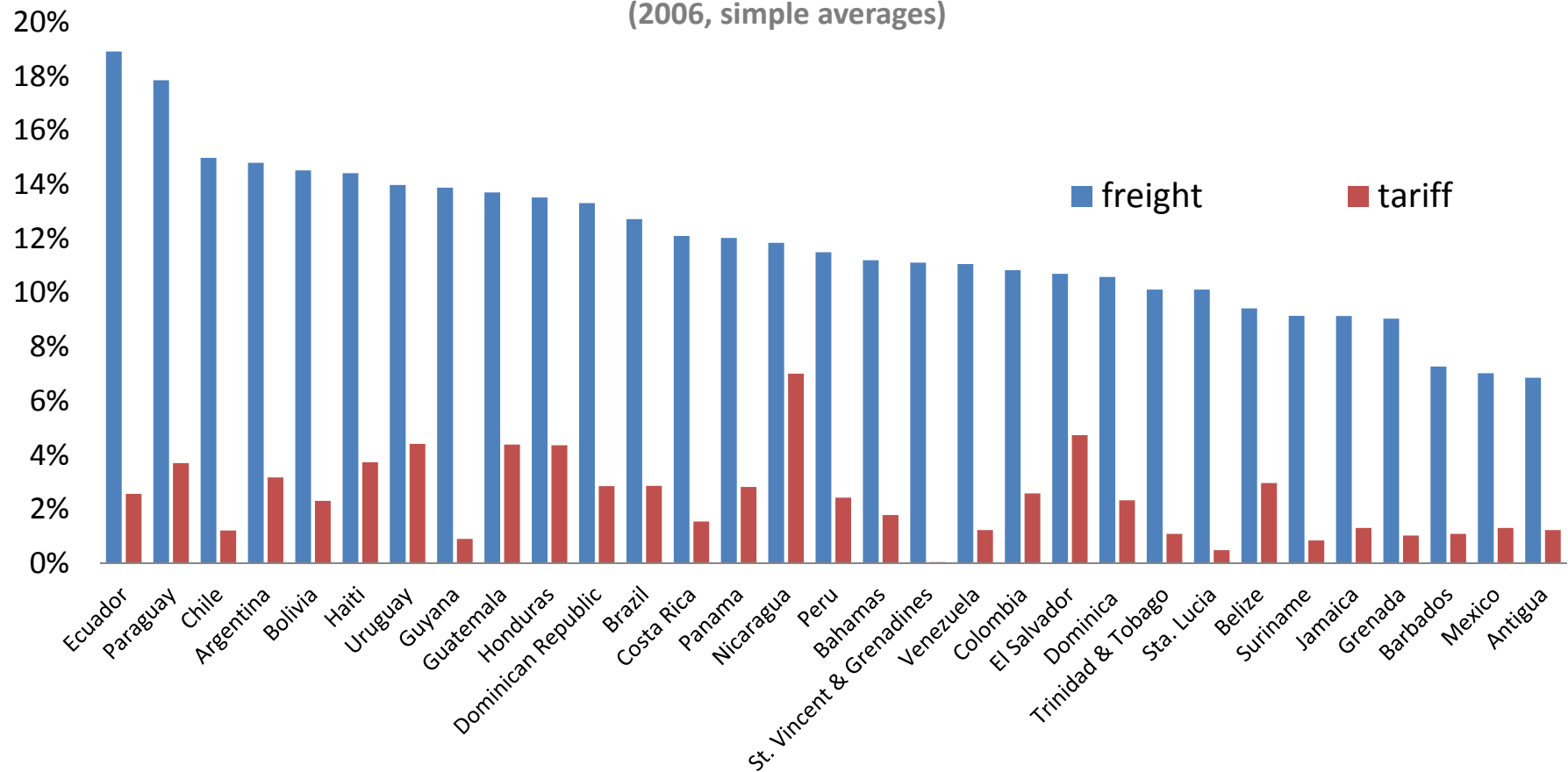
Source: INT based on INTradeBID, UNCTAD TRAINS, FTAA Hemispheric Database, and ALADI data.

... but Slow Customs Clearance



...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



...but May Be Addressed with Trade Facilitation...

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



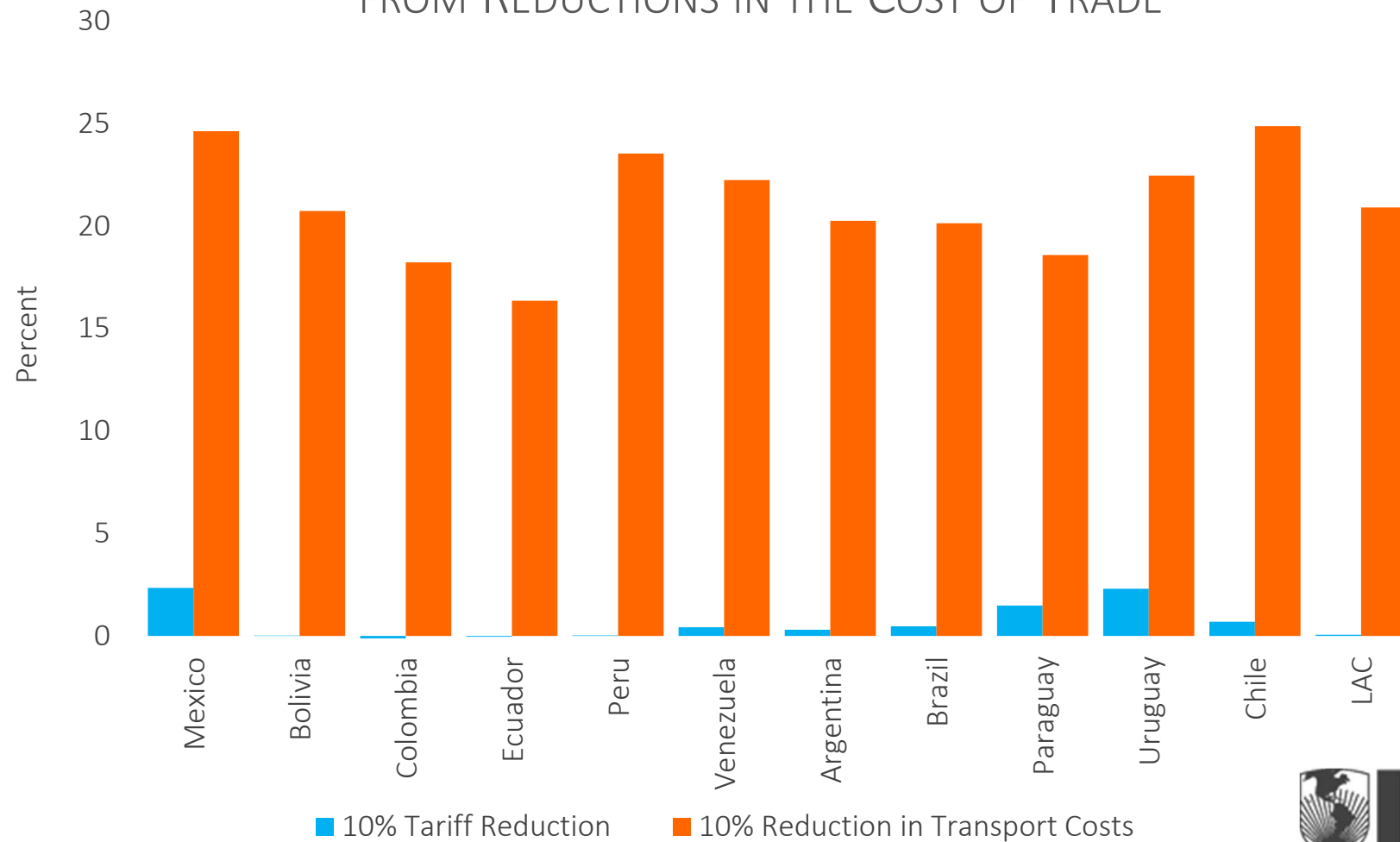
Every additional day of delay reduces trade by 1%



In the case of perishables, each additional day of delay reduces exports by 7%

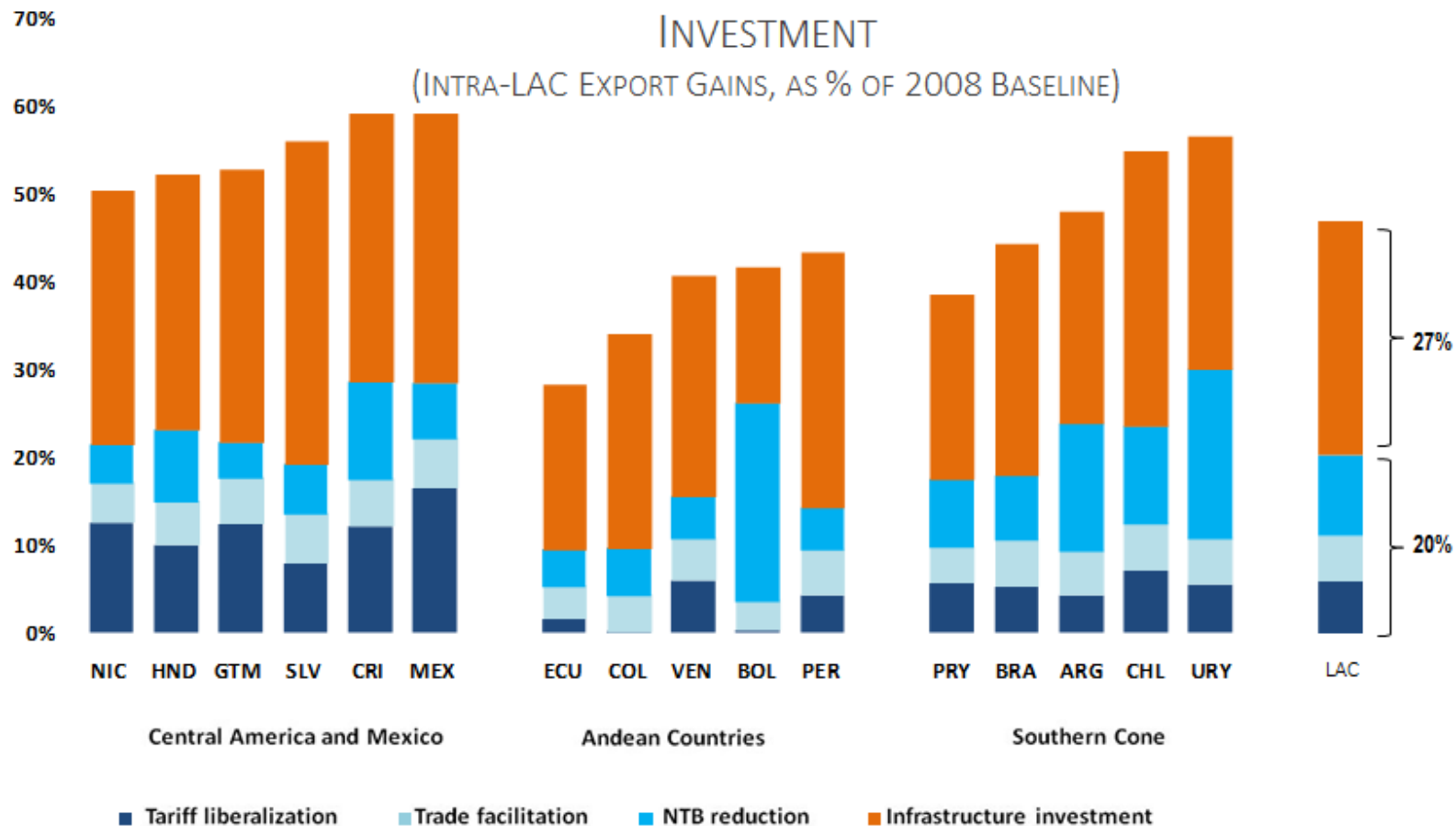
High returns from reductions in transport costs

SIMULATION OF THE PERCENTAGE INCREASE IN INTRA-REGIONAL EXPORTS FROM REDUCTIONS IN THE COST OF TRADE



High returns on a comprehensive trade integration agenda in LAC

EXPORT EFFECTS OF SOFTWARE POLICY REFORMS AND HARDWARE INVESTMENT



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**

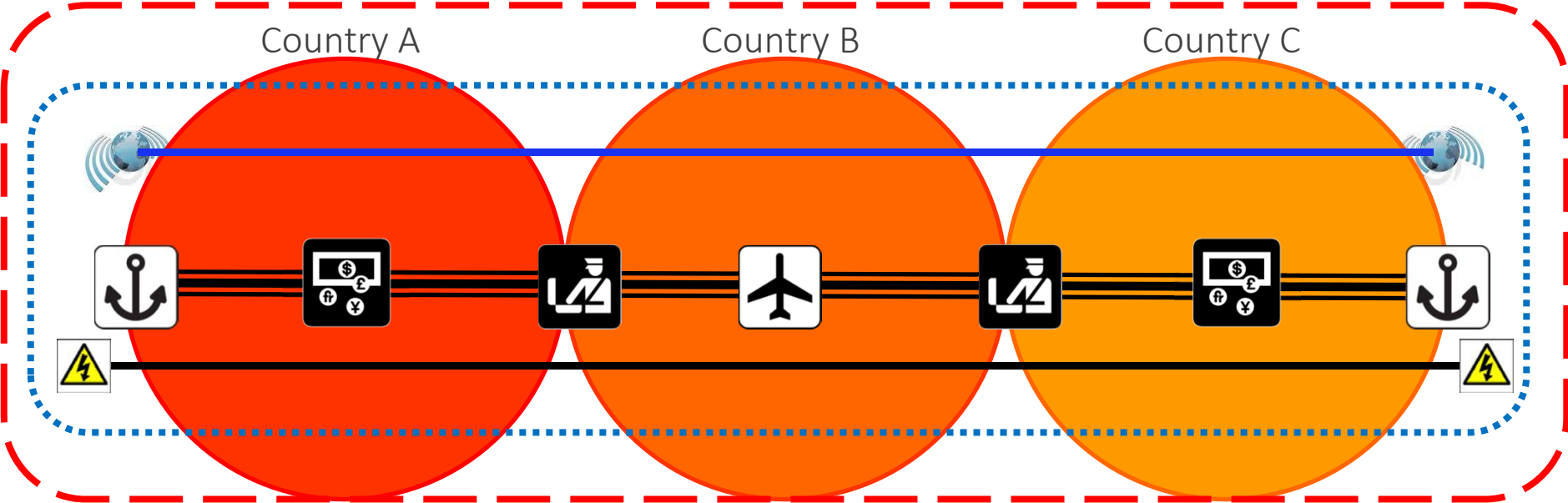


Investing in Logistics Has Great Potential

- **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



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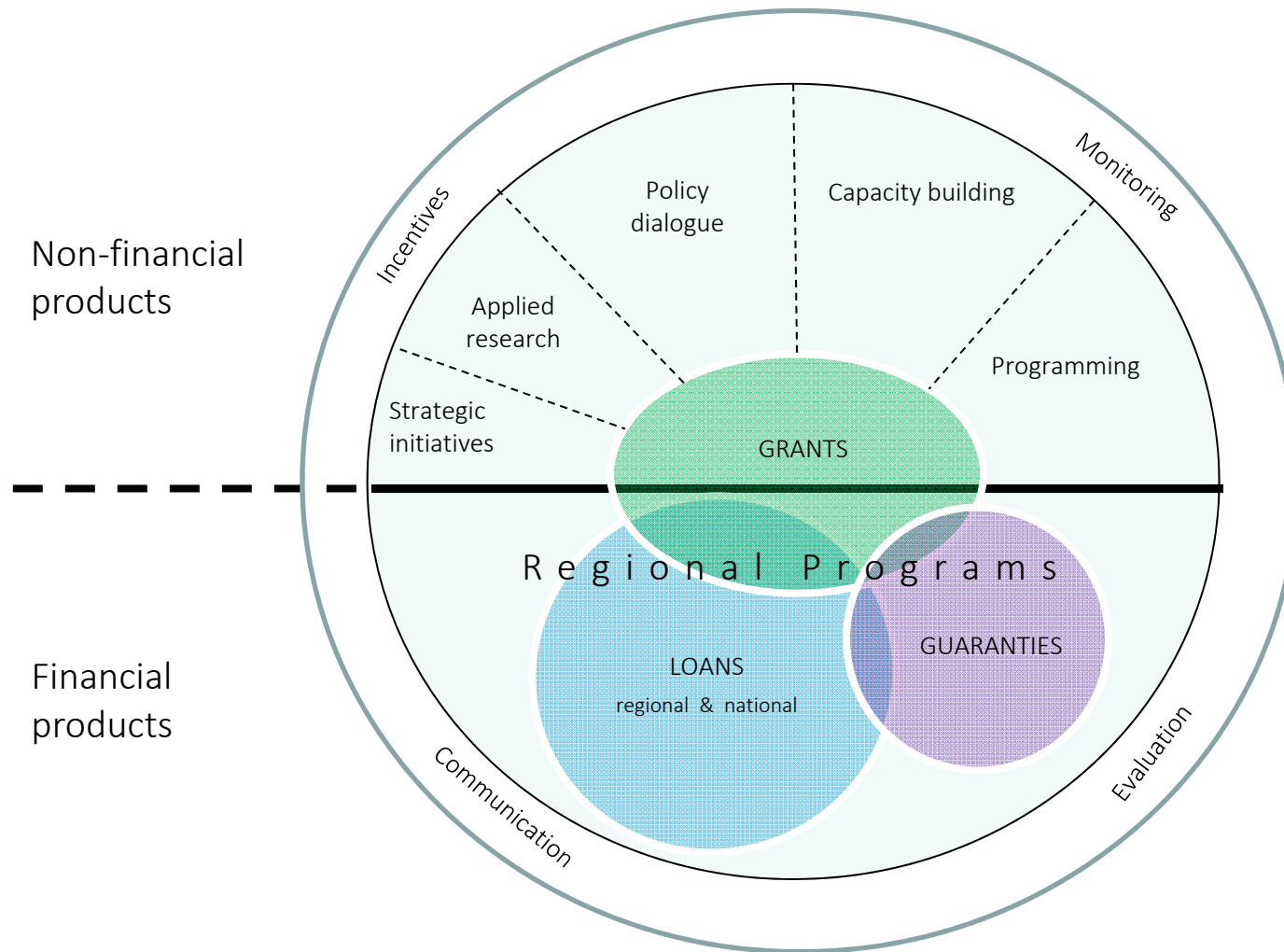
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Investing in the Hardware & the Software

- ❑ 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



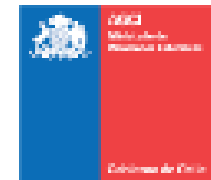
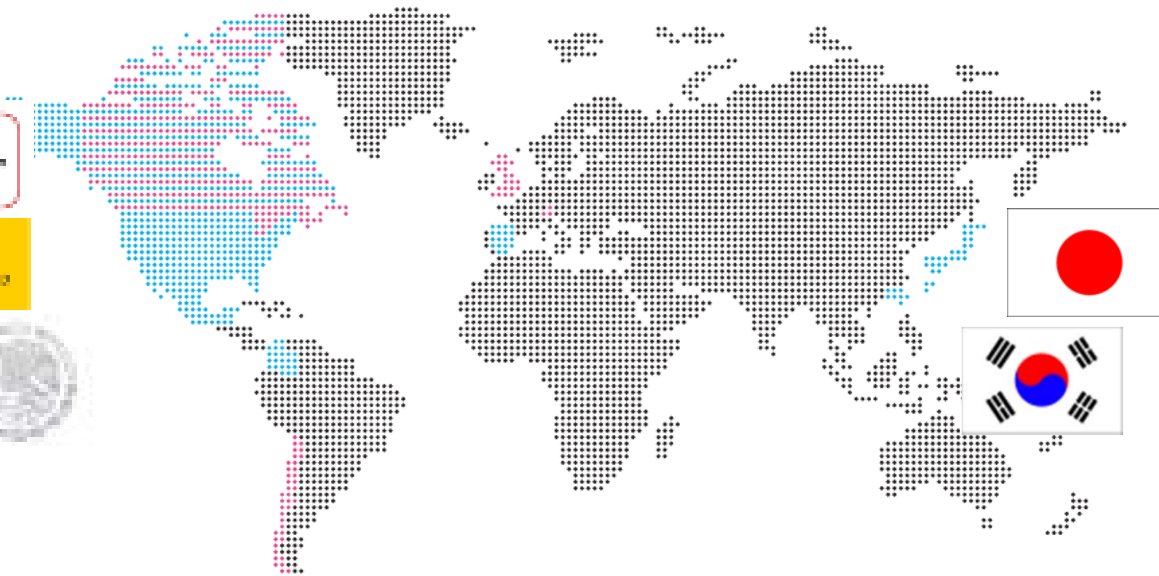
Regional Bodies



...That Can Add Great Value...

SSC & Triangular Cooperation

Canada



Aid for Trade Fund: Canada, Chile, United Kingdom, Switzerland

RIIF: Canada, Colombia, Korea, Japan, Mexico, Spain, USA

Other Partners Korea, Japan



Thank you!



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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

