

# Latin America and the Caribbean in South-South Trade: Trade Performance and Main Obstacles to Developing Trade

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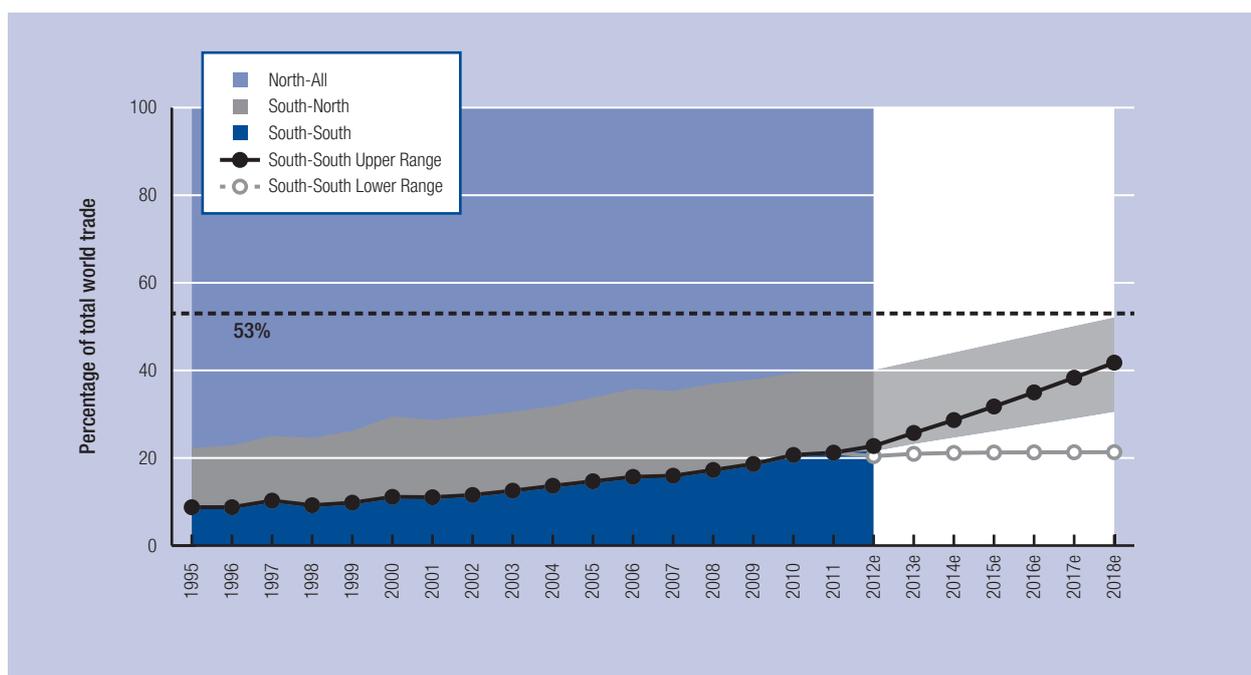
In the last three decades, the Latin America and the Caribbean (LAC) region's quest for growth and development hinged, to a great extent, on its capacity to harness the benefits of international trade. The region participated actively in multilateral trade negotiations, embarked on novel North-South trade agreements with developed countries and, more recently, witnessed a boom of South-South trade, fueled by the rise of China and other emerging economies and the related rising demand for commodities. As a result LAC trade expansion consistently exceeded GDP growth, and functioned as an effective engine of growth until the 2008-2009 global financial crisis brought this virtuous circle to an end.

The crisis is now in the past, but the future of the global economy and the world trading system has been profoundly altered by the events of the last decade. With the countries of the South still growing at a faster rate than the North,<sup>1</sup> import demand in the South has become large enough to cause a major shift in trade patterns. The South is now trading more with itself than with the North. In addition, this South-South trade is becoming more diverse and complex. Although the South still relies heavily on commodity trade, some countries have been successfully moving up the value chain and joining global and regional production networks.

The Inter-American Development Bank's (IDB) *Trade and Integration Monitor 2013* illustrates and analyzes long-term trends in the global economic and trade structure and their impact on LAC trade prospects. In 2012, while advanced economies grew at an average of only 1.2%, Developing Asia<sup>2</sup> and Sub-Saharan Africa, in contrast, posted average growth rates of 6.5% and 4.9%, respectively. In the same year, LAC grew by 3% and is expected to grow at 2.7% in 2013. As illustrated in these figures, over half of global GDP growth in 2012 occurred in the developing South.

The growth of trade flows reflects the divergence in economic performances of North and South. Exports originating in developing countries have been growing rapidly and are expected to account for over 50% of world exports within the next few years (Figure 1). In real terms, trade of advanced economies stabilized in 2011–2012 at a level below the pre-crisis peak, and began to decline in the second half of 2012 as advanced economies' growth slowed.<sup>3</sup> In contrast, trade of developing countries, particularly those in Asia, is above pre-crisis levels by a wide margin and continues to follow a positive trend. Thus, the fact that world trade has been exceeding pre-crisis levels since 2010 is solely due to the performance of developing countries. With respect to LAC, at the beginning of 2013, real imports and exports were higher than their pre-crisis peaks. However, while LAC imports have expanded at a faster pace than developing countries' trade, real exports have grown only on pace with total world trade.

Figure 1: Growth of South-South trade, 1995-2018



Source: IDB Integration and Trade Sector based on COMTRADE data and IMF WEO, April 2013 (GDP forecasts).

Note: Trade values between 2012 and 2018 are forecasts.

South-South trade has thus emerged as a main driver of LAC trade performance. The identified trends provide compelling reasons for seeking better access to developing markets in Asia as well as deepening economic integration within LAC and forging new trade ties with Africa. Exports to the South have been growing at a higher rate than exports to the North in nearly all LAC countries, and exports to partners within the region account for over half of LAC South-South trade. These exports are more diverse and more concentrated in manufacturing (nearly 60% of intra-LAC trade in 2011) than LAC exports to other regions (Figure 2). Thus, South-South trade, in particular regional trade within LAC, holds the potential to become an important avenue for export development and diversification for the countries of the region.

### ENHANCING SOUTH-SOUTH TRADE AND LAC INTEGRATION

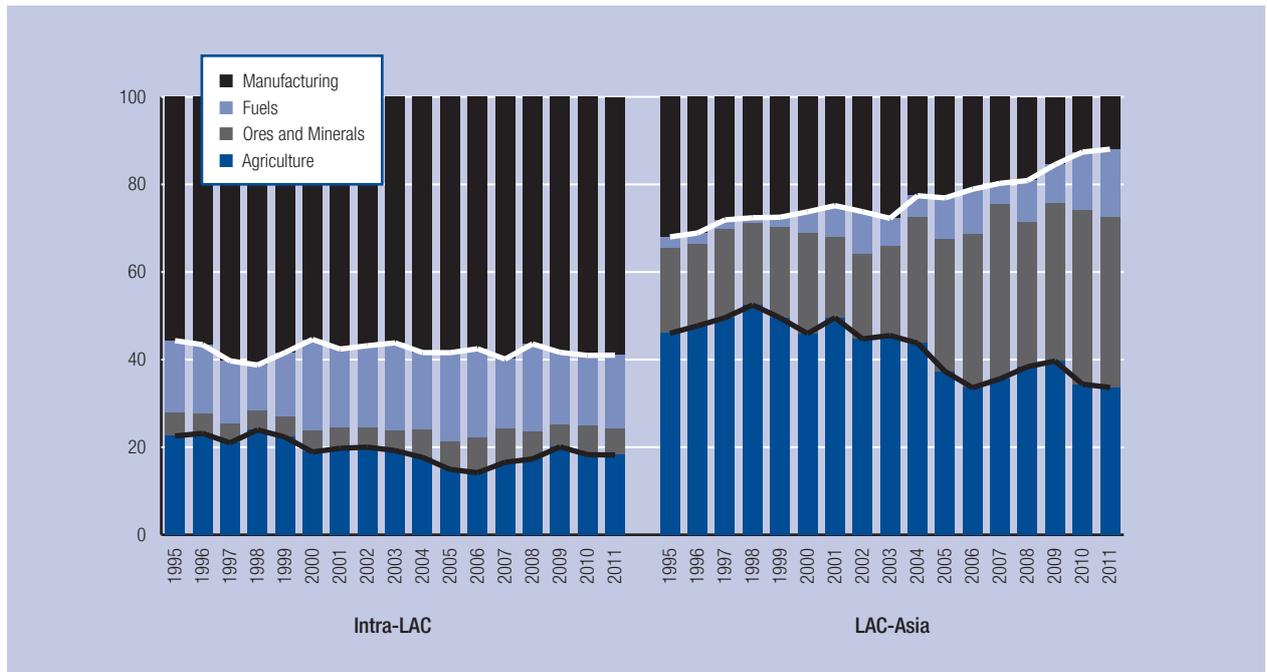
The challenge then is to promote policies that encourage companies to take advantage of the opportunities presented by these evolving trends. Southern countries face significantly higher overall export costs than do Northern countries, both in South-South and in South-North trade. The South faces higher tariffs, but these have fallen more rapidly as developing countries concluded South-South free trade agreements (Figure 3). Yet, while South-South tariffs have been falling, from over 10% on average in the 1990's to under 5% by 2010, they have been replaced by other trade restrictions that are less transparent and harder to quantify. Such restrictions

have been implemented mostly by developing countries, including countries within LAC.

Seizing the opportunities of growing South-South trade therefore requires the removal of policy barriers, which, although common to all trade, are often more prevalent in trade among developing countries. Policymakers need a full understanding of the quantitatively and qualitatively different obstacles to such trade, and need to avoid protectionist measures that limit their trade potential. Such obstacles are located both within exporting countries (e.g. high trade costs caused by inadequate infrastructure and burdensome rules and regulations), as well as among Southern countries (e.g. the imposition of tariffs and especially non-tariff measures that hurt trade interests in a non-transparent manner). Among the former, transport costs merit particular attention. Recent analysis shows that the cost of getting goods to market, both international shipment and transport within countries to the port, far exceeds the costs of most policy-related costs, such as tariffs (see Box 1).

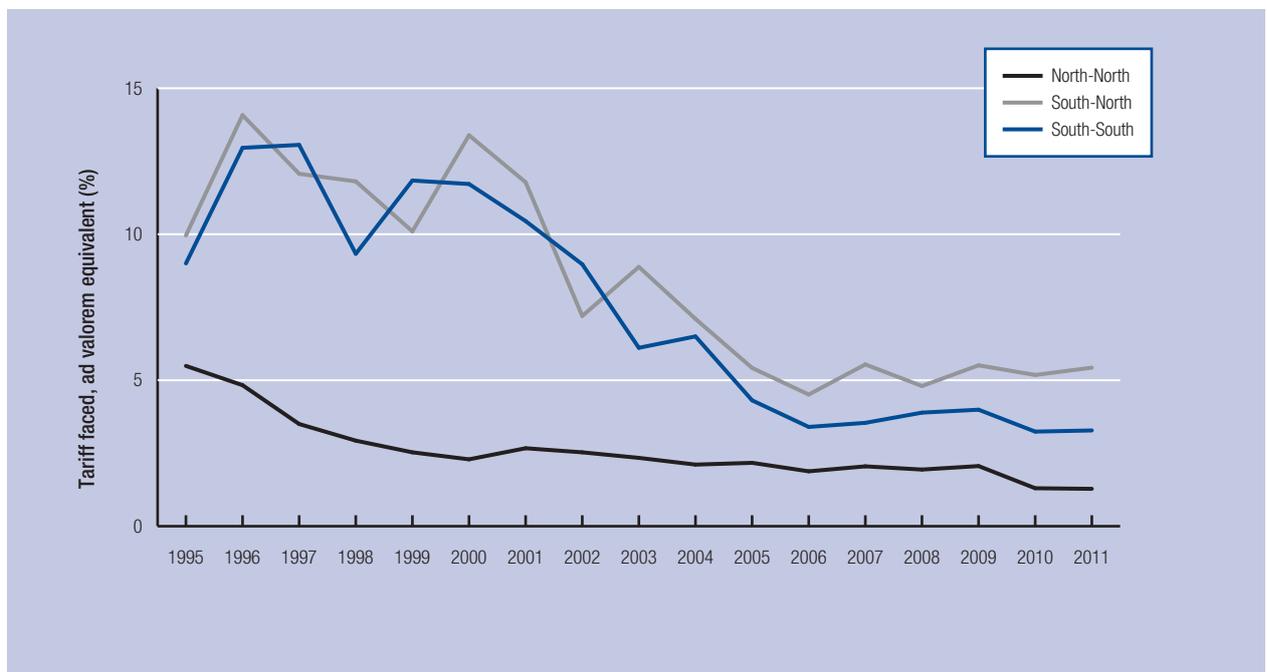
As Southern countries take a larger role in global trade, changes in the trading system are not restricted to the emergence of new big players, but also include the reorganization of production and trade among all countries. The growing presence of transnational corporations originating and operating in the South is a key trend, leading to increased South-South flows of foreign direct investment, and the greater fragmentation of production processes across countries.

Figure 2: Sector composition of LAC south-south exports: intra-LAC vs. LAC-Asia, 1995–2011



Source: IDB Integration and Trade Sector based on COMTRADE data.

Figure 3: Effective applied tariffs, including preferences, 1995–2011



Source: IDB Integration and Trade Sector based on TRAINS and INTrade data.  
 Note: Trade-weighted average of tariff faced by exports.

### Box 1: Too Far to Export

In Punta Arenas, Chile, at South America’s southern tip, beer producers wishing to sell abroad must ship their product by truck to the port of San Antonio, in the country’s central region, a distance of more than 1,800 miles. In Pucallpa, capital of Peru’s low-income department of Ucayali in the Selva region, exporters of wood products must ship their goods to the port of Callao, in Lima, over 466 miles of often unpaved roads that wind through the Andes, sometimes at elevations higher than 13,000 feet. In Mexico, exporters of powdered milk in Chiapa de Corzo, in the southern state of Chiapas, have to ship their products to ports on the Pacific Ocean and Gulf of Mexico—on average 671 miles away—and often must cross mountain passes at elevations up to 7,400 feet. Similarly, in Brazil long and costly shipments are also part of the challenge faced by soy exporters in the municipality of Sapezal in the central-west state of Mato Grosso. Most of their products are shipped through the congested port of Santos in the southeast, 1,400 miles away.

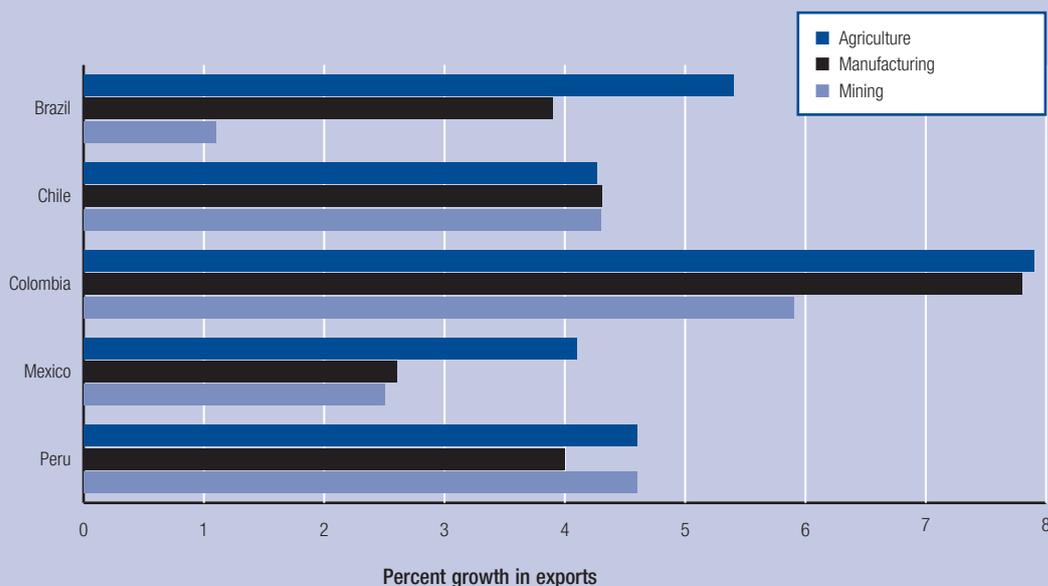
These stories might be considered extreme and anecdotal, but unfortunately they largely reflect the reality confronted by most firms located in regions far from the main urban agglomerations and ports in Latin America and the Caribbean (LAC). Firms with the resources and skills to produce goods in high demand by regional or world markets face high domestic transport costs that erode their gains, literally along the road. Or they refrain from exporting altogether.

#### Why should governments care?

Any serious analysis of the trade consequences of domestic transport costs faces formidable empirical, theoretical and policy challenges. *In Too Far to Export*,<sup>1</sup> we set out to meet these challenges by building an unprecedented database of the municipal origin and domestic shipping costs of exports for five of the largest and most representative countries in the region: Brazil, Chile, Colombia, Mexico and Peru. The data leaves no doubt about the high subnational concentration of exports—with the top ten municipalities accounting from 45% of total exports in Peru to 74% in Chile. It also suggests that these high levels of concentration are inversely correlated with domestic transport costs to export.

This inverse relationship suggests that policies tailored to these costs are likely to have a significant impact on exports, but by how much? We sought to answer this question by estimating an equation that relates municipal exports at the product level with their ad valorem transport costs to the customs of exit, while controlling for the influence of factors such as comparative advantages that might also affect exports. The results, shown in Figure 1 below, confirm the inverse relationship and point to an economically and statistically significant impact in all five countries studied. Colombia emerges as the country with the most to gain from improvements in transport infrastructure and services: a 1% reduction in ad valorem transport costs can increase exports by as much as 7.9% in agriculture, 7.8% in manufacturing, and 5.9% in mining. But even Mexico, where average impact across sectors was the lowest, would see substantial gains through improved transport, particularly in agriculture, where a 1% drop in transport costs could produce a 4% increase in exports.

Figure 1: Average impact on municipal exports by a 1% reduction in domestic transport costs, by sector



Source: IDB, 2013.

(Cont'd.)

**Box 1: Too Far to Export** (*cont'd.*)**Bringing the discussion closer to actual policies**

To move this discussion closer to the world of policymaking, we used these estimates to simulate the impact on exports of straightforward measures to lower domestic transport, some of which are already being implemented by governments in the region. In Brazil and Peru, we combined government projects to expand the transport networks with ad hoc measures to improve their quality. In Mexico, we focused on the investment projects of the country's 2007-2012 road program. In Colombia and Chile, we simulated a regional cost convergence to a benchmark defined by the municipalities with the lowest transport costs.

The overwhelming message that emerges from these exercises is that policies to minimize domestic shipping costs can be particularly powerful in reshaping the sub-national distribution of exports and spreading the gains of trade more evenly. In Peru, for instance, we estimate that building new paved roads has the most impact on the Selva and Sierra departments, which are among those that export the least. These paved roads would reduce domestic shipping costs 15-40% and increase exports 10-23%.

In Brazil, implementation of the National Logistic Plan's major railway and waterways projects and an overall improvement in road quality are estimated to benefit

disproportionally the country's remote agricultural and mining regions, particularly in the north and central-west. These investments would reduce average domestic shipping costs in these areas by 30% and would boost exports by an average of 12.5%.

In Mexico, even though the 100 strategic projects of the road program do not particularly seem to target the peripheral regions, some of these region's states, particularly in the south, appear among the greatest beneficiaries.

In Colombia, a countrywide convergence in domestic transport costs to the level enjoyed by a department such as Magdalena in the north—whose costs are among the lowest 25% in the country—would have the most impact in the remote and poorer regions. Among the most to gain are municipalities in the southeast, where exports would increase on average 10-45%.

Finally, there is Chile, where a countrywide convergence in domestic transport costs to the level of Santiago—one of the lowest in the country—would produce dramatic transport cost savings in the most remote and least export-oriented regions of up to 80% and increases in exports of up to 40%.

**Notes**

1 IDB, 2013.

To take just one measure of increasing fragmentation of production, the share of parts and components (P&C) in intra-LAC exports has remained relatively stable from 1995 to 2011, and higher than the share of P&C exports in LAC-Asia and LAC (excluding Mexico)-North trade (Figure 4). Thus, promoting intra-LAC trade is crucial for sustaining the region's participation in network trade. These changes open new opportunities, from increased South-South FDI flows to insertion into global value chains. But, again, in order to harness these possibilities, LAC policymakers and exporters need to fully grasp and address the constraints that hamper South-South trade.

Going forward, the region should be wary of the risks of excessive export concentration and be ready to adjust to new risks looming over the world economy. China, which has been the principal driver of South-South trade, may not only be slowing down from the high growth rates of the past decade. It may also be shifting its development strategy from the export-led model that favored trade with emerging economies, including the commodity exporters of the region, to one based more on internal consumption. While focusing on South-South trade is certainly a valuable strategic option for LAC, it should be regarded as an additional component of a more comprehensive trade strategy that actively pursues export diversification, both in

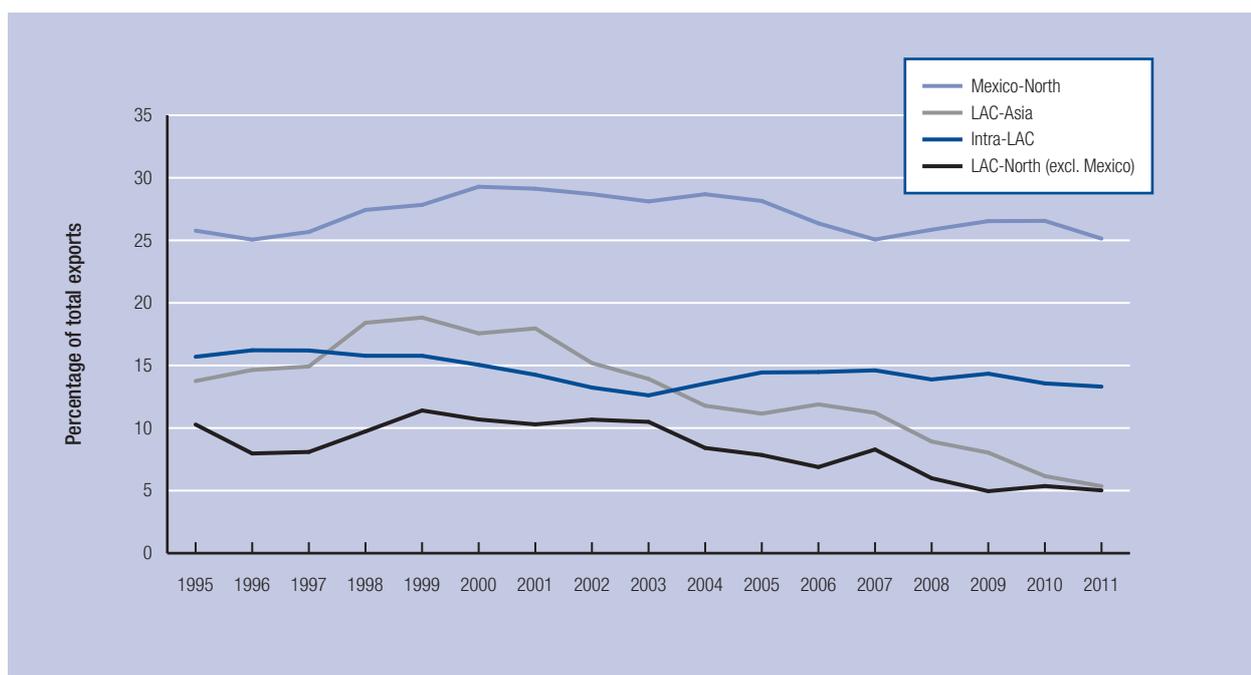
terms of products and destinations. Given the rising share of supply-chain trade in world trade, participation in globalized supply chains is an imperative and not a choice for Latin American economies. In this context, the regional integration efforts in other regions, such as the EU and ASEAN, provide interesting examples.

**MAIN OBSTACLES TO DEVELOPING TRADE IN LATIN AMERICA**

The Enabling Trade Index (ETI) presented in Chapter 1 of this report offers a tool to identify the most pressing obstacles to trade. It assesses to which extent countries have in place the attributes to enable and facilitate trade across borders. Published since 2008, the ETI has informed countries in their efforts to enable trade. It assesses 138 countries on a number of factors that are known to enable trade, such as market access, efficiency and transparency of border administration, transport infrastructure, logistics services, ICT infrastructure, as well as relevant aspects of the operating environment, including property rights and security.

Given its focus on trade facilitation, the ETI can be particularly useful to shed light on supply chain barriers to trade faced by companies in different countries. Estimates of the potential gains of improving on two of the areas captured in the index (border administration

Figure 4: Share of parts and components in LAC exports, 1995–2011



Source: IDB Integration and Trade Sector based on INTrade/DataINTAL.

and infrastructure) using gravity and computable general equilibrium (CGE) modelling show that countries in the region could gain substantially from reforms. If countries improved halfway to global best practice (Singapore), they would realize significant gains in terms of increase in exports and imports, as well as GDP (Table 1). For the LAC region without Mexico and Brazil, such reforms would result in gains around 7.5% of GDP growth.<sup>4</sup>

**Table 1: Potential gains from trade facilitation improvements in Latin American countries**

	GDP Growth, %	Export Growth, %	Import Growth, %
Mexico	4.4	11.2	26.3
Brazil	3.6	29.7	73.9
Rest of the Americas	7.5	37.9	39.1

Source: World Economic Forum, 2013.

In its 2014 edition, the ETI covers 20 countries from the Latin America and Caribbean region, which are presented in Table 2.<sup>5</sup> Overall, the ETI results show that countries in the region enable trade to very different degrees. Chile leads the way as the only Latin American economy to enter the top 10 at 8th position. Chile's strengths are to be found in its very open tariff regime (9th) and the low tariffs its exports face abroad (2nd). Yet even in Chile there is some room for improvement with respect to infrastructure and transport services, and to a lesser extent in the efficiency of border administration.

The remaining countries from the region occupy lower positions, spreading from Costa Rica at 42nd to Venezuela at 137th. The two largest economies in the region, Mexico and Brazil place 61st and 86th, respectively. In the case of Mexico, while the country benefits from fairly accessible markets at home and abroad, trade growth is constrained by high levels of crime and violence (130th) and an overall operating environment that is difficult due to red tape, a high regulatory burden and corruption. In Brazil, trade is enabled by the widespread use of ICTs and fairly widely available transport services. At the same time, domestic market access is relatively constrained (108th) and the country faces challenges with respect to transport infrastructure (102nd) as well as physical security (130th) and red tape (137th).

At the regional level, the ETI results for Latin America in comparison with the average of high-income OECD countries on the one hand and Developing Asia on the other (Figure 5) show that the region on average has achieved a high level of market access for goods to domestic and foreign markets. The LAC region's markets are more easily accessible than those in the Developing Asia region. Yet, although over the past years, many efforts have been undertaken in the region to improve domestic market access, but also to improve access to destination markets, considerable differences between countries prevail. While Brazil's (108th) and Argentina's (90th) domestic markets are among the most protected by tariffs in the ETI sample, countries

Figure 5: Latin America and the Caribbean pillar scores vs other key regions, 2014

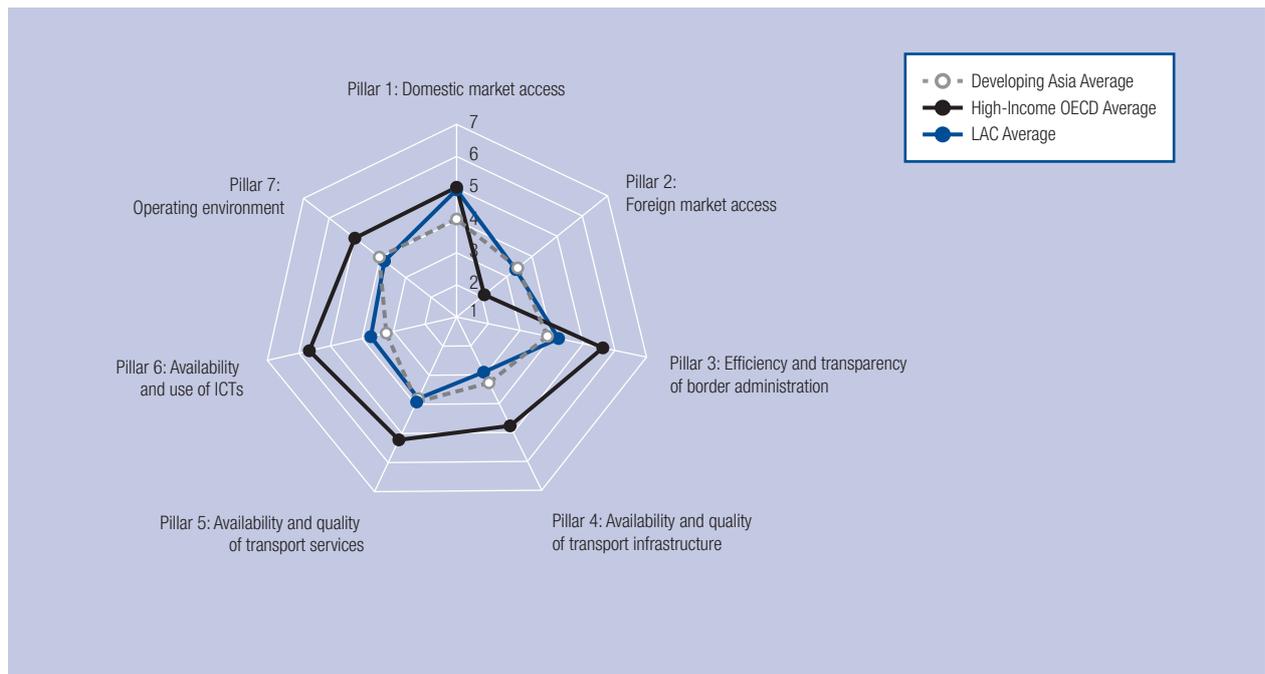
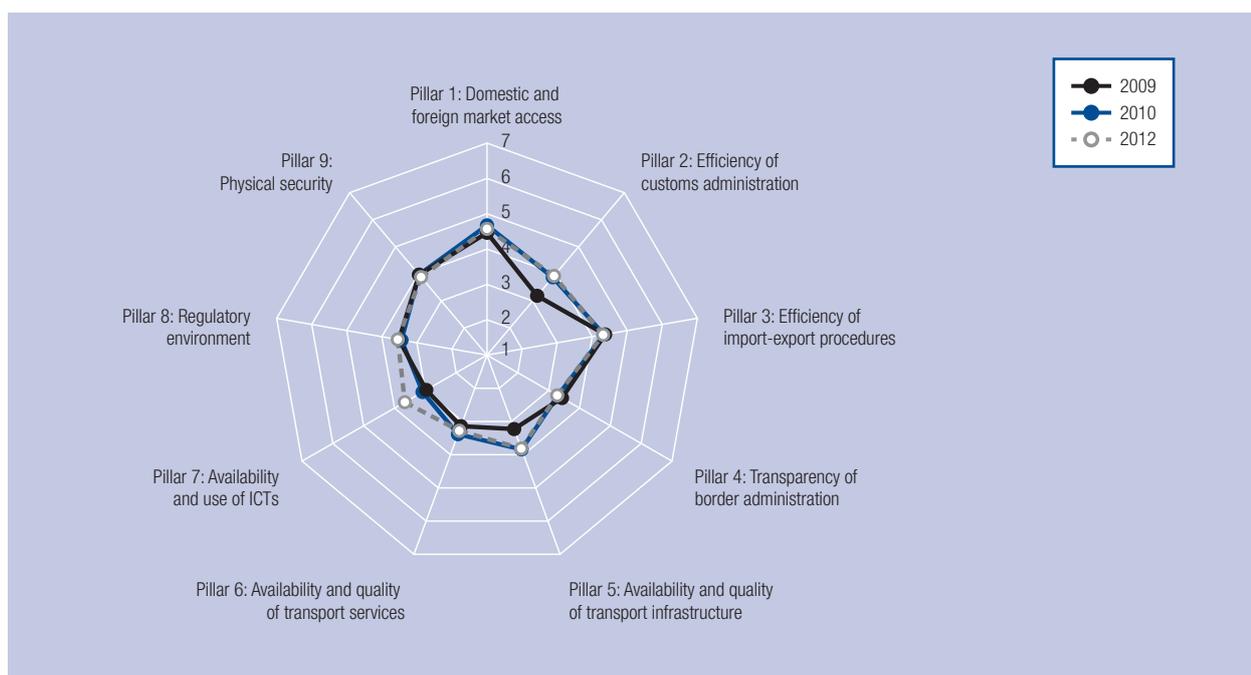


Table 2: Latin America and Caribbean economies in the Enabling Trade Index, 2014

Economy	Enabling Trade Index		Pillar 1: Index Domestic market access		Pillar 2: Foreign market access		Pillar 3: Efficiency and transparency of border administration		Pillar 4: Availability and quality of infrastructure transport		Pillar 5: Availability and quality of transport and services		Pillar 6: Availability and use of ICTs		Pillar 7: Operating environment	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Argentina	95	3.66	90	4.41	44	3.24	96	3.73	95	2.71	73	3.96	55	4.39	124	3.38
Bolivia	87	3.72	83	4.65	15	3.90	93	3.81	110	2.50	114	3.43	94	3.15	96	3.77
Brazil	86	3.77	108	4.01	77	2.38	80	4.17	102	2.65	60	4.20	48	4.72	90	3.86
Chile	8	5.13	9	5.93	2	5.08	26	5.60	63	3.53	43	4.60	36	5.02	25	5.03
Colombia	73	4.00	36	5.08	18	3.85	68	4.44	112	2.48	88	3.74	56	4.34	112	3.55
Costa Rica	42	4.39	20	5.55	16	3.89	46	4.88	117	2.44	83	3.83	62	4.20	46	4.48
Ecuador	65	4.07	35	5.09	36	3.38	64	4.54	80	3.13	71	3.97	80	3.76	88	3.89
Dominican Republic	79	3.89	78	4.74	70	2.49	63	4.55	53	3.72	85	3.80	83	3.71	110	3.63
El Salvador	71	4.04	14	5.75	21	3.75	84	4.07	75	3.28	63	4.14	69	3.98	114	3.55
Guatemala	62	4.14	8	5.96	47	3.17	61	4.57	72	3.30	70	3.99	86	3.67	94	3.78
Guyana	104	3.55	111	3.84	40	3.33	88	3.93	118	2.39	109	3.52	108	2.77	91	3.81
Haiti	125	3.11	103	4.12	22	3.72	126	3.06	135	1.94	138	2.72	133	1.91	131	3.28
Honduras	84	3.79	17	5.66	27	3.59	82	4.09	104	2.63	118	3.35	98	3.04	120	3.46
Jamaica	80	3.87	93	4.36	45	3.20	76	4.18	46	3.86	81	3.85	91	3.40	92	3.79
Mexico	61	4.15	33	5.19	29	3.55	62	4.56	58	3.64	59	4.22	73	3.81	97	3.76
Nicaragua	68	4.05	6	5.98	30	3.50	60	4.59	108	2.56	96	3.62	111	2.66	86	3.91
Panama	52	4.28	86	4.60	78	2.37	55	4.71	31	4.37	52	4.36	57	4.29	38	4.57
Paraguay	113	3.45	37	5.06	88	2.22	120	3.25	111	2.49	108	3.53	92	3.37	93	3.78
Peru	51	4.28	13	5.83	9	4.20	51	4.74	101	2.67	77	3.88	89	3.62	80	3.97
Uruguay	60	4.21	44	4.94	41	3.30	67	4.45	107	2.57	89	3.74	50	4.63	36	4.62
Venezuela	137	2.81	120	3.48	86	2.23	133	2.71	127	2.23	121	3.32	87	3.66	138	2.59
Pacific Alliance		4.39		5.51		4.17		4.84		3.08		4.11		4.20		4.08
EU 28		4.63		4.90		1.94		5.39		4.44		5.02		5.39		4.78
ASEAN		3.98		4.37		4.02		4.09		3.30		4.05		3.44		4.05
LAC Average		3.92		4.96		3.35		4.22		2.91		3.80		3.72		3.83
High income OECD Average		4.85		5.04		2.10		5.62		4.76		5.22		5.67		4.99
Developing Asia Average		3.78		4.05		3.43		3.87		3.26		3.92		3.23		4.03

Note: Costa Rica is not included in the calculations for Pacific Alliance.

Figure 6: Latin America and the Caribbean pillar scores, 2009–2012



Source: World Economic Forum 2009, 2010 and 2012.

Note: Haiti excluded for lack of data in 2009 and 2010.

such as Chile (9th), Guatemala (8th) or Nicaragua (6th) have some of the most open tariff regimes worldwide. Despite the progress achieved on liberalizing tariffs, non-tariff barriers as well as administrative obstacles remain prevalent in countries of the region and are of greater importance than tariff barriers.

The most important challenges that will have to be addressed by the countries are transparency of border administration, where LAC economies underperform the OECD average by a significant margin, as well as related factors such as the efficiency of customs administration. Moreover, the region suffers from a lack of availability and low quality of transport services and high levels of physical insecurity, which makes transporting goods across borders and through countries difficult and costly and international investment less likely. Addressing these major issues will require major, concerted efforts across a number of domains. The good news is that an over-time comparison of the index results shows that between 2009 and 2012, the region has on average improved in two areas, transport infrastructure, which despite this improvement remains a major area of challenge and in particular in terms of efficiency of border administration (see Figure 6).<sup>6</sup> Box 2 discusses the logistics-related trade barriers in more detail.

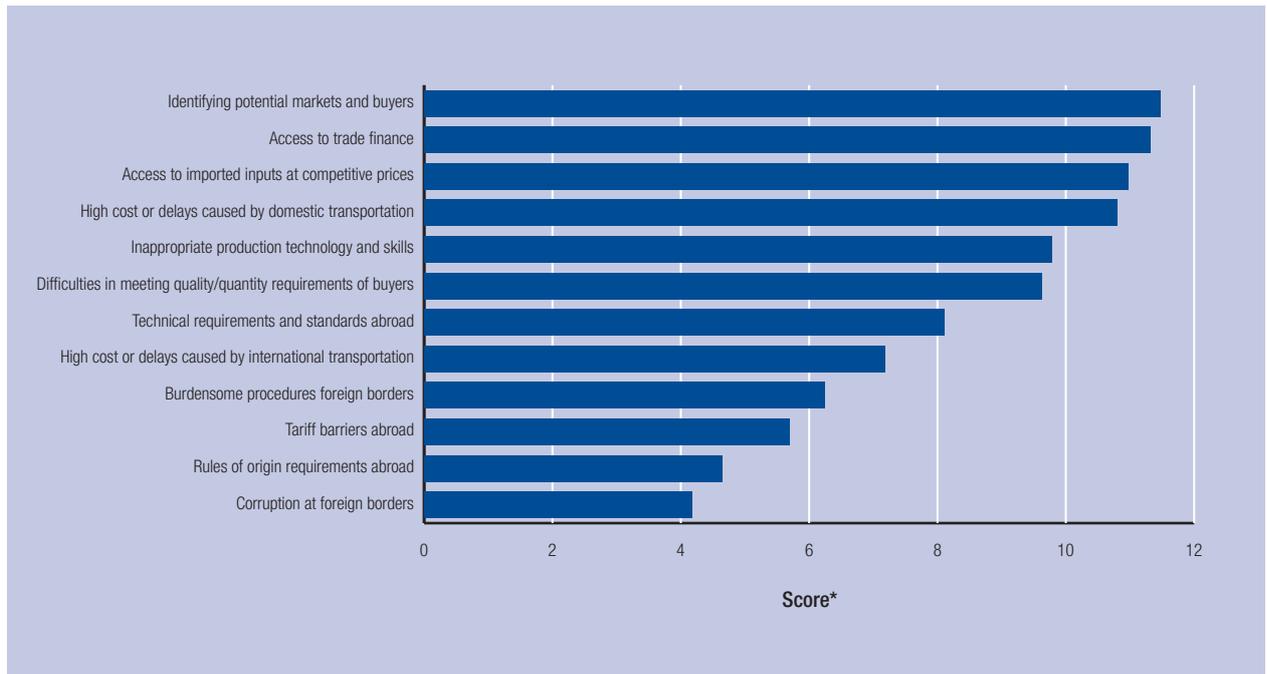
The Enabling Trade Index uses to some extent data from a survey of business executives conducted annually by the World Economic Forum.<sup>7</sup> Among many other questions, the survey asks respondents to identify the

most problematic factors for exporting and importing in their country.

The results for the LAC region show (Figure 7) that in terms of exporting, identifying potential markets and buyers was considered as the most serious obstacle, followed by access to trade finance and access to imported inputs at competitive prices. The lack of appropriate technologies and skills is also among the top concerns of businesses in the LAC region. The importance of technology and skills as well as access to imported inputs indicates that Latin American businesses are well aware of the importance of participation in the international fragmentation of production. At the same time, burdensome procedures or corruption at foreign borders or rules of origin requirements are among the least frequently mentioned factors.

On the importing end (Figure 8), burdensome administrative procedures remain the most important obstacle, followed by tariffs and corruption at the border. Telecommunications infrastructure and crime and theft are considered the least important obstacles to trade in the region. Given the growing international fragmentation of production, there is potential for Latin American exporters to benefit from participating in cross-border supply chains of multinational corporations. In this context, it has been shown that deep regional integration that focuses on a broader array of trade-related policies can have an impact on the formation of international supply chains in a region that is more than twice as high as the impact from agreements that only cut tariffs.<sup>8</sup>

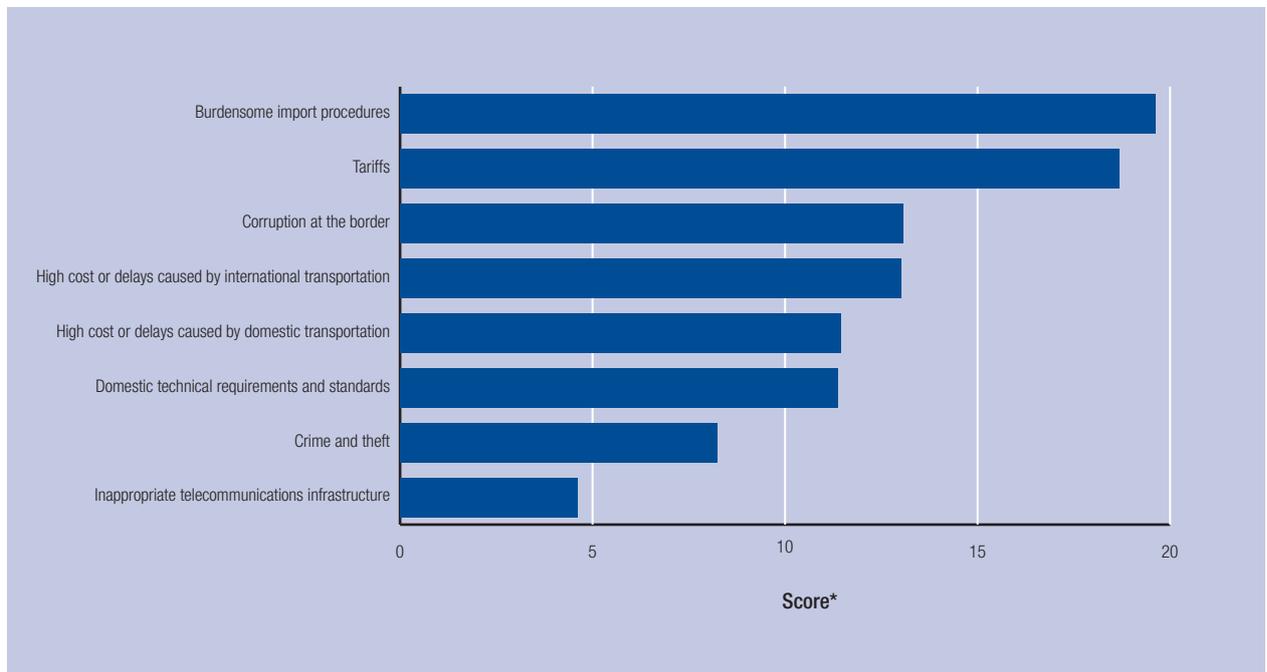
Figure 7: Most problematic factors for exporting in Latin American and the Caribbean, 2013



Source: World Economic Forum 2013b.

\*From the list of factors above, respondents were asked to select the five most problematic for trading in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

Figure 8: Most problematic factors for importing in Latin American and the Caribbean, 2013



Source: World Economic Forum 2013b.

\*From the list of factors above, respondents were asked to select the five most problematic for trading in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

### Box 2: Latin American Logistics: An LPI<sup>1</sup> Story

HARRY MOROZ, CECILIA BRICEÑO-GARMENDIA and ANASUYA RAJ (World Bank)

The story of logistics in Latin America and the Caribbean is nuanced and regional comparative assessments are inconclusive, based on the assessment through the World Bank’s Logistics Performance Index (LPI). On a scale of 1 to 5, LAC’s score on the 2014 LPI is 2.77, slightly lower than the global average of 2.9, but only 45% of the average of North America, the best-performing region.<sup>2</sup> In addition, the region is also outperformed by Europe and Central Asia, East Asia and the Pacific and the Middle East and North Africa, but scores better than South Asia and Sub-Saharan Africa (Figure 1a).

These aggregate figures mask sub-regional disparities. The countries of the Southern Cone perform best (Chile is LAC’s top performer with an LPI score of 3.26) while Caribbean countries are the worst performers, driven by the extremely poor performances of Cuba, Haiti and Guyana (Cuba is LAC’s worst performer with an LPI of 2.18).<sup>3</sup> These subregional differences have remained steady since the LPI’s inception in 2007, with Central America slightly outperforming the Andean countries for second place. Consistent with these findings, LAC’s island countries score the worst when the region’s countries are categorized by geographical type, suggesting that special attention should be paid to logistics reforms in the Caribbean, where sea-locked and small economies undermine the development of the economies of scale that are important for trade and shipping (Figure 1b).

Unpacking logistics performance at the country level, the LPI reveals that most LAC countries are *partial performers* with no countries in the region classified in the top-performing *logistics friendly* category.<sup>4</sup> There are a handful of consistent

performers, with Chile, Panama, Mexico, Argentina and El Salvador, yet most of the LAC countries show middling performance when compared to leading world performer Germany. Two thirds of LAC countries achieve about 50-60% of Germany’s top rating. The poor performance of the Caribbean as a region is clearly driven by the low LPI scores of Cuba, Haiti and Guyana (Figure 2).

One of the indicators used to assess the unrealized potential of international trade is the trade costs index (Anderson 2002, Novy 2009). The Trade Costs Index aims to capture supply-side inefficiencies by measuring the relation between the projected trade of a country based on its GDP and trade partners’ demand, against the actual trade flows observed for that country. According to this index, LAC countries, excluding Chile, can capitalize significantly on their trade potential. By addressing supply-side inefficiencies countries could improve their trade by 150-250% (Figure 3). Using the LPI as a proxy for logistics performance, it becomes evident that in LAC there is a clear relationship between logistics and trade costs: the lower the logistics performance the highest the trade costs (Figure 3). This suggests that a place to start to increase LAC international competitiveness is by improving its logistics.

Many countries in LAC have recognized the importance of logistics as a determinant for competitiveness and have made it a strategic priority of their development agendas. Since the first LPI was published in 2007, all LAC countries have improved their LPI scores (Figure 4a), although for most countries the pace of improvement was not sufficient to result in improvement in rankings. Exceptions include Jamaica,

Figure 1a: LPI aggregate scores, by region, 2014

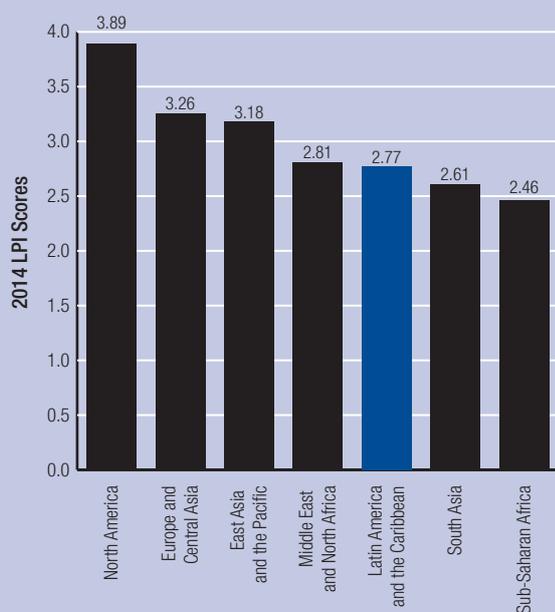
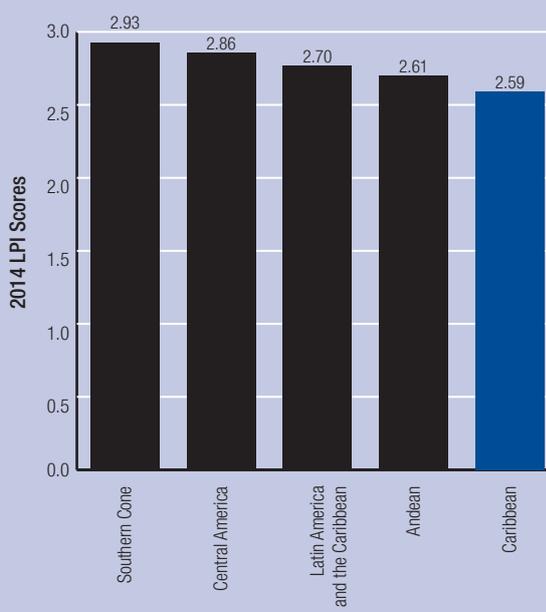


Figure 1b: LPI aggregate scores, by subregion, 2014



Source: Logistics Performance Index.

Note: Regional groups contain all countries for which data is available. Andean countries are Bolivia, Colombia, Ecuador and Peru. Caribbean countries are the Dominican Republic and Guyana. Central American countries are Costa Rica, El Salvador, Guatemala and Mexico. Southern Cone countries are Argentina, Brazil, Chile and Paraguay.

(Cont'd.)

Box 2: Latin American Logistics: An LPI Story (cont'd.)

Figure 2: LPI scores of Latin American and the Caribbean countries, 2014

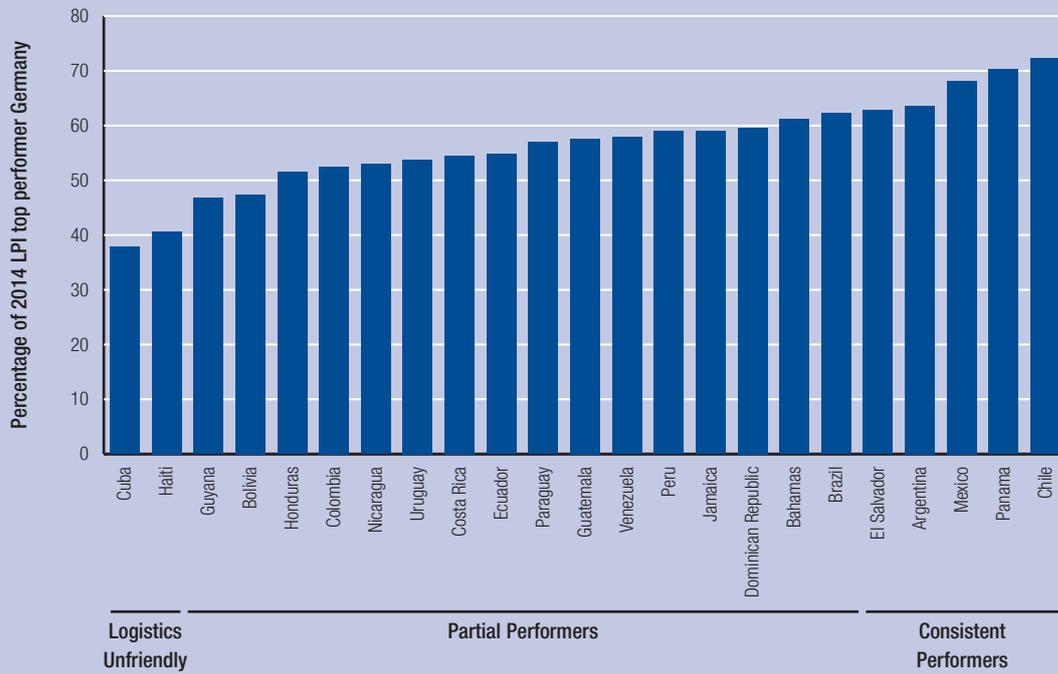
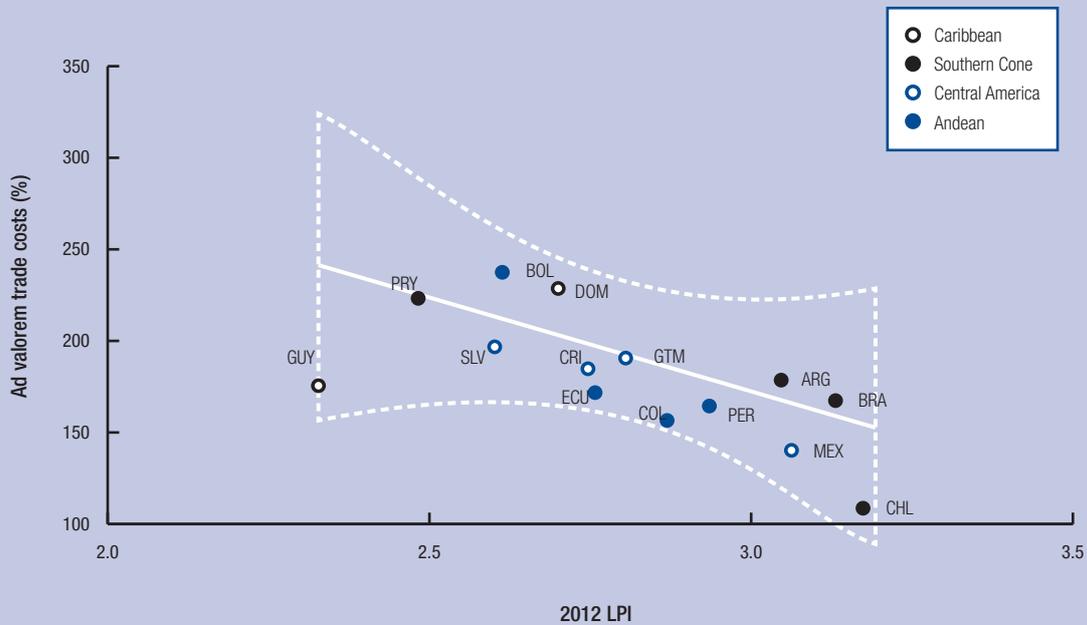


Figure 3: Trade costs and logistics performance in Latin American and the Caribbean, 2011



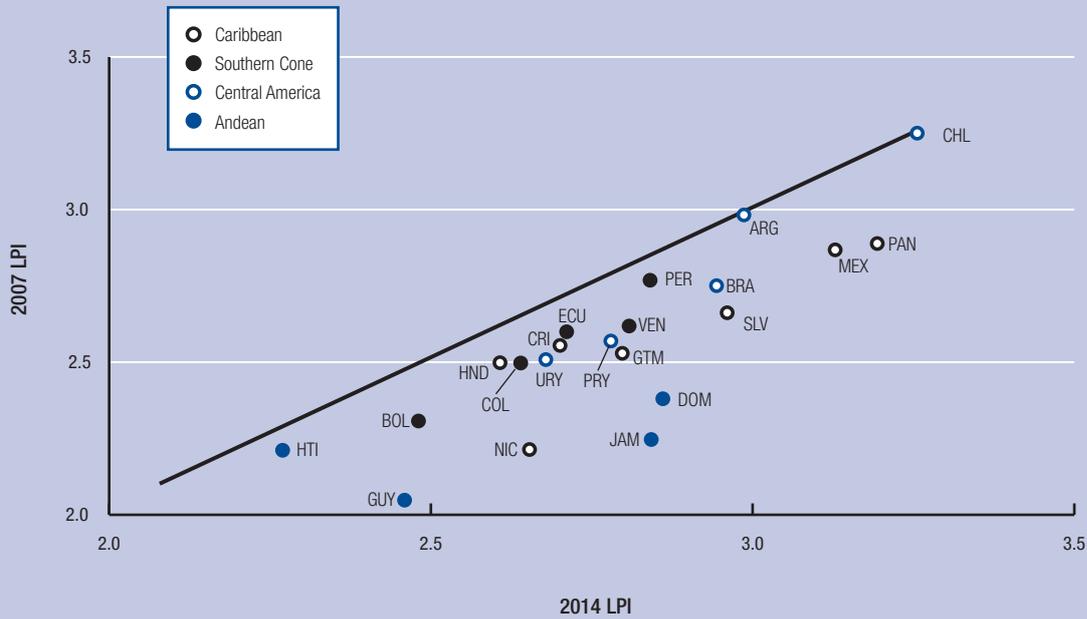
Source: Logistics Performance Index and Arvis and others, 2013.

Notes: The Bahamas, which has trade costs more than twice as high as the LAC average, is excluded from the Caribbean. Trade costs are average trade costs by country for 2011 and LPI is a country's 2012 LPI score. The white lines represent the linear fit (solid line) with 95% confidence intervals (dashed lines).

(Cont'd.)

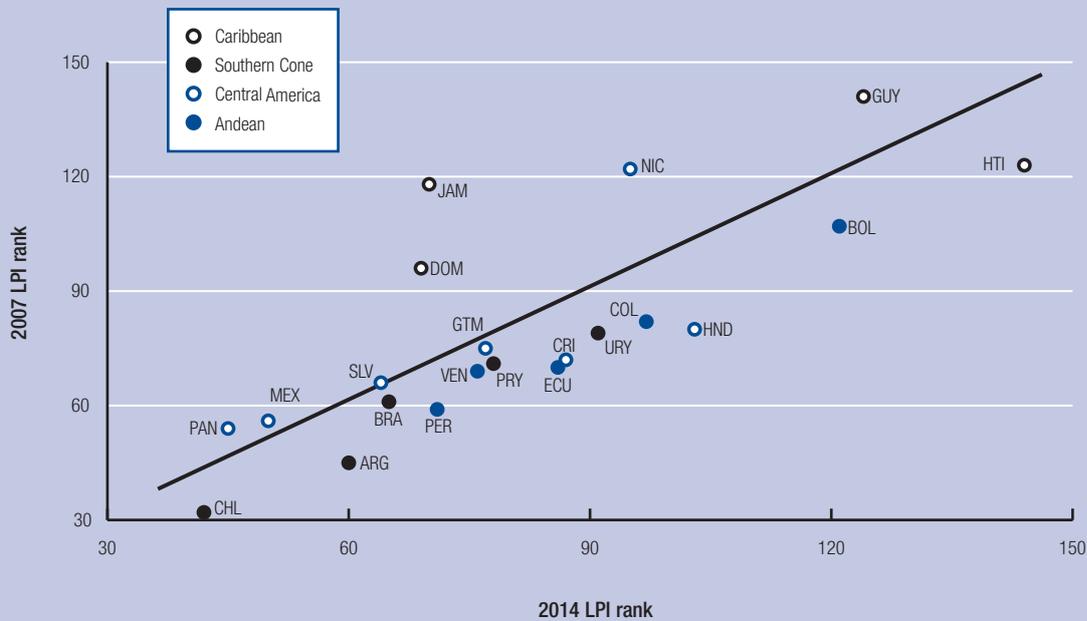
Box 2: Latin American Logistics: An LPI Story (cont'd.)

Figure 4a: LAC Logistics Performance Index over time, 2007–2014



Source: Logistics Performance Index and Arvis and others, 2013.  
Notes: Placement below the 45 degree line indicates *improvement* over time.

Figure 4b: LAC Logistics Performance Ranking over time, 2007–2014



Source: Logistics Performance Index and Arvis and others, 2013.  
Notes: Placement below the 45 degree line indicates *declining performance* over time.

(Cont'd.)

**Box 2: Latin American Logistics: An LPI Story (cont'd.)**

which has improved the most in the region, moving up 48 places in the world rankings to 70th position (out of 160), as well as Dominican Republic (27 positions), Nicaragua (27 positions) and Guyana (17 positions). In contrast, Haiti and Honduras both experienced declines in their rankings of more than 20 places (Figure 4b).

The key question in this respect is on which dimensions of logistics should the Latin American continent focus. While this question merits a closer look at each country individually, comparing aggregate values of each LPI component against the aggregate average LPI for LAC countries (reported at 2.77) can help identify bottlenecks. Physical infrastructure stands out as the most serious impediment to logistics performance, with a component score 8% worse than the average, followed by customs and border issues (6% worse). The overall LAC score for ability to track and trace consignments is the component that sticks out positively, with a component score 12% higher than the average.

The need to improve infrastructure is consistent with the findings of the second part of the LPI survey, which asks logistics professionals about the logistics environments in which they work. The percentage of respondents rating the quality of various infrastructure types as “high” or “very high” was the lowest or second-lowest in Latin America and the Caribbean across every mode and type. The situation is particularly dire for transport infrastructure: only 7% of respondents gave a “high” or “very high” rating to LAC road infrastructure and only 1% to rail infrastructure (World Bank, 2014).

**Notes**

- 1 The World Bank's Logistics Performance Index is a tool designed to assess the performance of a country's logistics services and infrastructure. The index, ranging from 1 for weak performers to 5 for the strongest performers, is based on a survey of nearly 1,000 logistics professionals worldwide about different components of the supply chains of their main overseas' markets. For more information, please refer to <http://lpi.worldbank.org/>.

- 2 Scores are standardized according to the formula:

$$100 \times \frac{(LPI - 1)}{LPI_{highest} - 1}$$

- 3 Cuba's position on the rankings may change with the \$1 billion project for the Port of Mariel renovation. This renovation would allow Mariel to handle Post-Panama ships. Using this project as a starting point, Cuba hopes to develop into a hub of regional trade in partnership with Brazil, the main financier of the project.
- 4 LPI classifies countries as (1) *logistics unfriendly* countries with severe logistics constraints (representing the bottom quintile of global LPI scores), (2) *partial performers* with LPI scores in the third and fourth quintile, consistent performers in the second-highest quintile, and (3) *logistics-friendly* countries in the top LPI quintile with high-performing logistics services and infrastructure.

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In this context, deep integration efforts in the region, such as the recent Pacific Alliance initiative (Colombia, Chile, Mexico, Peru and, more recently, Costa Rica; Panama acts as observer) can help countries promote regional, South-South trade thereby contributing to diversifying the trade performance of countries in both geographical and product terms. Box 3 discusses the challenges faced by the Pacific Alliance as identified by the ETI.

**CONCLUSION**

International trade is a key ingredient for growth and development in Latin America and the Caribbean. During the last three decades, the region has come a long way in reforming its trade regimes, and some of the benefits of the reforms have unmistakably materialized. Import and export expansion has consistently exceeded GDP growth, and international trade has functioned as an engine of growth.

However, in the aftermath of the global financial crisis the region is facing a new reality. On one hand,

trade growth is trailing GDP growth, which implies that in order to take advantage of international trade flows to promote development, the region needs to tackle a new generation of trade-enhancing policies. On the other hand, South-South trade has grown exponentially in relative terms, and securing market shares in the emerging economies, including within the intra-regional market, has become an increasing important component of any trade strategy.

In order to fully realize the growth potential of international trade the countries of the region are urged to take bold steps towards trade diversification, both in terms of products and destinations. The region should indeed be wary of the risks of excessive export concentration. While South-South trade with Asia has made a significant contribution to LAC's trade performance in the last decade, it has not helped to reduce the region's dependence on the exports of primary goods. Likewise, the intra-regional markets, in which supply chains are more prevalent and sophisticated, can play an important role in that regard.

### Box 3: The Role of Regional Integration in Developing Trade: Pacific Alliance

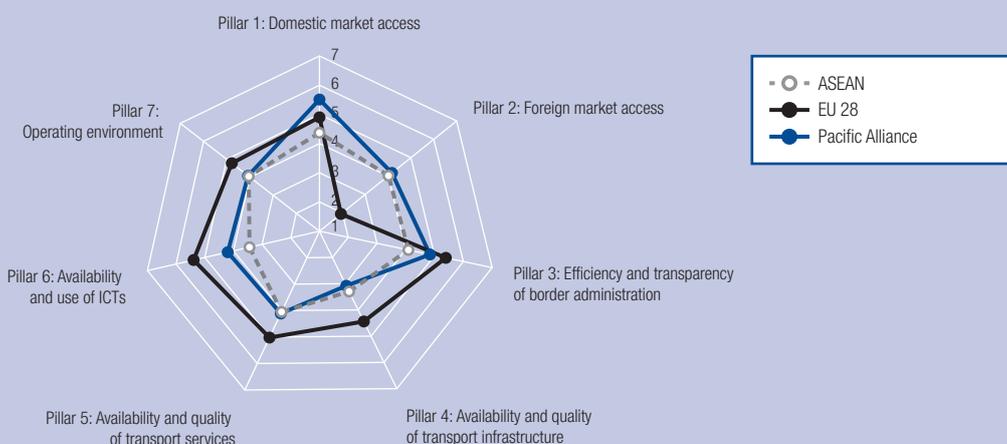
Figure 1 compares the average performance of the Pacific Alliance with that of different extra-regional reference groups: the EU 28 and ASEAN. Although the ETI cannot show how trade is enabled within the region, it gives a good indication of the main obstacles that exporters and importers are facing. It shows that, first of all, the Pacific Alliance economies, on average, benefit from a higher level of domestic and foreign market access than the other regional groupings. Countries also perform relatively well in terms of efficiency and transparency of border administration, where their institutions perform better than in ASEAN. The ETI also shows solid performance on the use of ICTs. The performance is in line with the ASEAN average on the availability and quality of transport services, and the operating environment. Finally,

major room for improvements remains with respect to the availability and quality of transport infrastructure.

The most problematic factors for exporting and importing for the Pacific Alliance show that exports are constrained by difficulties in identifying potential markets and buyers and high costs or delays caused by domestic transportation, indicating a need for further investment in transport infrastructure and the development of transport services in the region. When importing, businesses face burdensome import procedures and tariffs as well as delays caused by international transportation.

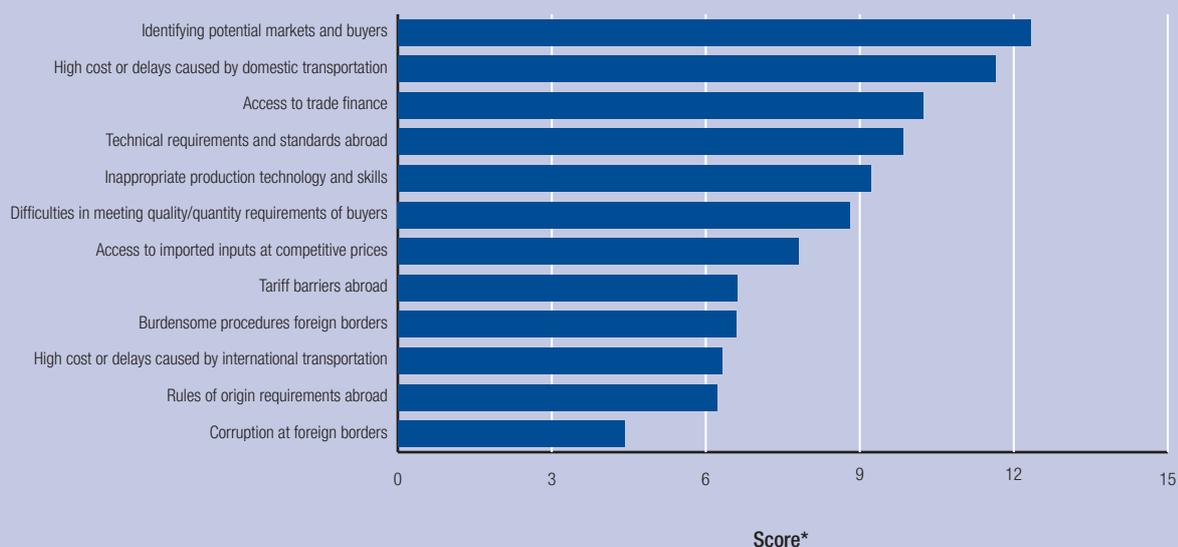
These results show that investment in infrastructure, better connectivity and more developed transport services are among the most pressing agenda points for enabling trade in the Pacific Alliance countries.

Figure 1: Comparing Pacific Alliance, EU and ASEAN pillar scores, 2014



Note: Costa Rica is not included in the calculations for Pacific Alliance.

Figure 2: Most problematic factors for exporting in the Pacific Alliance, 2013

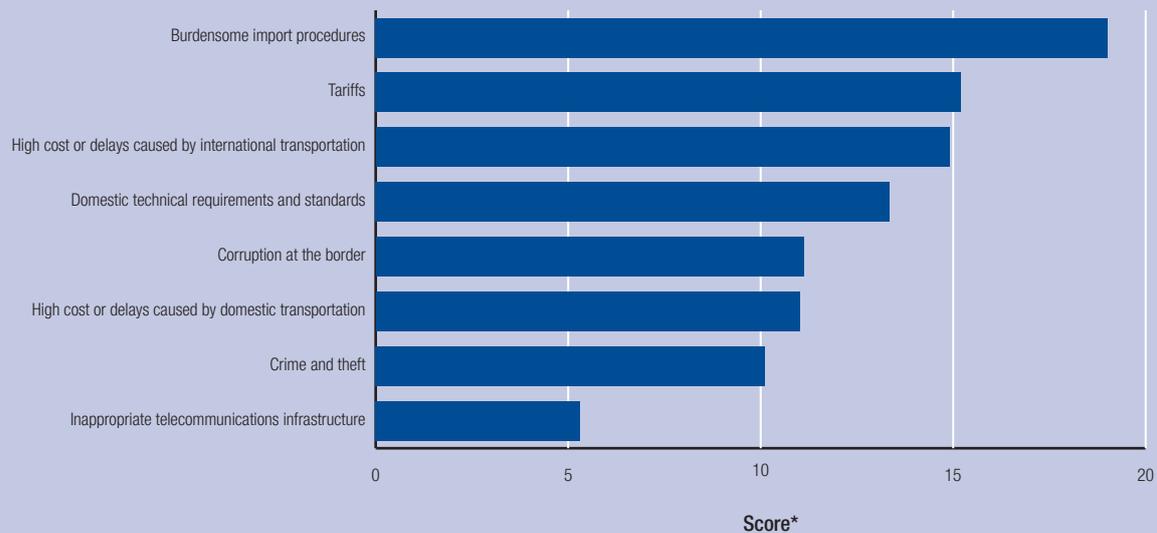


Source: World Economic Forum 2013b.

Note: Costa Rica is not included in the calculations for Pacific Alliance.

\*From the list of factors above, respondents were asked to select the five most problematic for trading in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

(Cont'd.)

**Box 3: The Role of Regional Integration in Developing Trade: Pacific Alliance (cont'd.)****Figure 3: Most problematic factors for importing in the Pacific Alliance, 2013**

Source: World Economic Forum 2013b.

Note: Costa Rica is not included in the calculations for Pacific Alliance.

\*From the list of factors above, respondents were asked to select the five most problematic for trading in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

For all these reasons new initiatives that target deep integration are in fact receiving a great deal of attention from international investors.

On the policy front the task at hand is daunting. Traditional forms of trade protection have, in fact, been curbed, and the new trade agenda needs to focus on behind-the-border regulations that operate as non-tariff barriers, on inefficiencies in trade operations due, for example, to underperforming customs and on infrastructure bottlenecks that raise trade costs and erode international competitiveness. Given its multi-dimensionality, the Enabling Trade Index can help countries identify high-level priorities and focus on those segments of the trade agenda that hold the potential to unleash the greatest benefits in relative short amounts of time.

## NOTES

- 1 The definitions of “South” and “North” are based on the UN Standard Country Classification. The North encompasses the “developed” countries, including Japan in Asia, Canada and the United States in North America, Australia and New Zealand in Oceania, and Europe. The South encompasses developing Asia (including Middle East), Latin America, and Africa.
- 2 Developing Asia refers to Asian countries that are defined as the South; thus, Japan is excluded.
- 3 Calculations based on Netherlands Bureau for Economic Policy Analysis (CPB) World Trade Monitor.
- 4 World Economic Forum 2013a. The gravity model was used to determine the trade flows that were in turn used as inputs into the CGE modelling exercise. Estimations were based on the ETI 2012.

- 5 The inclusion of countries is based on availability of key data entering the ETI.
- 6 The 2014 edition of the ETI was not included in this figure due to the change in methodology, which makes inter-temporal comparison impossible.
- 7 See Chapter 1 of this *Report* and Browne et al., 2013, for more details.
- 8 World Economic Forum, 2014.

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