Executive Summary
Logistics as a Driver for Competitiveness in Latin America and the Caribbean
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Motivation: Logistics is becoming a critical element of competitiveness and economic performance both in itself and within the context of increasing globalization. Most Latin American and Caribbean (LAC) countries are focusing on export-led growth strategies. For such strategies to succeed, a key component is an effective and efficient logistics framework that addresses the full spectrum — upstream, midstream and downstream — of the value and production chain, to reduce distribution and processing costs. A logistics framework includes hardware, which is the physical infrastructure needed to move goods effectively, and software, which is the associated services and processes needed to move and trade goods effectively. In this report, logistics costs refers to the costs involved in the process of moving goods from the factory to the point where the product leaves the country (port, airport, border crossing). These costs include transport costs; licenses, permits, and customs processing; inventory, warehousing, spoilage, or losses in transit; insurance; port, airport, or cross border processes; financing costs; and administrative costs.

While in recent years most LAC countries have realized the relevance of logistics and have taken some measures to improve this element of their markets, the region still lags behind in developing an effective logistics framework. This report illustrates the relevance and impact of logistics for competitiveness in LAC and provides a framework, priorities, interventions, and solutions to address the issues.

Status and Impact of Logistics in Latin America and Caribbean: In LAC, logistics costs are excessively high, ranging from 18 to 35 percent of product value — and even higher for small and medium-sized enterprises (SMEs) at about 45 percent — compared to benchmarks of around 8 per cent of product value in Organisation for Economic Co-operation and Development (OECD) countries. Losses/spoilage rates in LAC are about 25 percent of output and very close to 50 percent for perishables. Inventories in LAC are two to three times those in the United States, which has a tremendous impact on costs and competitiveness. Average quality of the road network is low for most LAC countries. The use of multimodality and third party operators is still in its early stages in LAC countries. The impact of logistics costs on competitiveness, productivity, trade, integration, food prices, inequality, and poverty is significant. Logistics costs represent a greater barrier to trade than import tariffs and make up a larger part of the delivered cost of food products, increasing food prices and thus with a large impact on poverty. Delays in custom clearance increase transport costs between 4 and 12 percent. Lack of cold chain services accounts for 10 percent of logistic costs. Poor connectivity of LAC ports increase shipping rates. Centralization of export/import services and facilities in most LAC countries, also increases logistic cost significantly

Benefits: The impact of improving the logistics system can be quite significant. A ten percentage point reduction of logistic costs, can boost product output by more than 10% and increase employment by more than 7%. Bringing below-average members costs halfway up to the global average in terms of border measures, such as port efficiency and customs environment, and inside-the-border measures, such as service sector infrastructure and regulatory environment, would result in a total of US$377 billion in additional trade flows of both imports and exports. This would represent an increase of 10 percent from current levels. Improving access to markets for rural producers through rehabilitation of rural roads would improve their earnings by 40 percent. Improving cold chain facilities through a

network of silos would increase earnings of agricultural producers by 35 percent. If trade transaction times for developing economies were reduces to OECD average levels, global trade would increase by 12 percent or equivalent to US$1.8 trillion.

Moving Forward: For LAC firms to be competitive, particularly exporting companies, it is crucial that they carefully consider a variety of logistics-related factors when developing their businesses. First, firms must identify their clients and break down the costs that will be incurred along the product's distribution cycle. There are costs associated with processing documentation (permits, certificates of quality and origin, bills of lading, and/or meeting phyto-sanitary measures), managing inventories, packaging and consolidating the product, customs procedures, insurance, financing, and ocean and road transport, among others. These costs are highly dependent on the type of product to be exported. High-value perishable goods, for example, have to be transported in refrigerated containers and call for expedited delivery using trucks or, if available, using multimodal operators that streamline transport operations.

The development of national logistics strategies should look at both the supply side and the demand side. On the supply side, policymakers should look at the components of the current logistics system, the existing institutions and regulations, and ongoing projects in the area. On the demand side, current freight flow patterns must be identified, logistics performance evaluated, and value chain analyses conducted to identify potential areas of improvement through an identification of logistics bottlenecks. Based on analysis of both supply and demand, a national logistics strategy should be developed based on the country's needs and an agenda and monitoring and evaluation scheme can be pushed forward to fulfill key priorities.

There are three areas where actions to reduce logistic costs, transport infrastructure and services, business logistics, and trade facilitation. Transport infrastructure and services, for example, consists of internal flows (e.g., roads, trucking industry, railways, inland navigation, and cabotage), transfer nodes (e.g., ports, airports, and border crossings), external flows (e.g., shipping, air transport, and international trucking), and interface and coordination (e.g., multimodalism and intermodal coordination), which are each then divided into different components. The operationalization of these typical components, in turn, depends on the interaction between infrastructure, regulations, private sector development, and public sector processes.

Improvement need to be focused on customs reform and inspection procedures, port and airports efficiency, multimodal framework and operators, inland road quality and strategic corridors, access to essential facilities, logistic terminals, extensive use of e-services, the development of the cold chain, improve packaging, agile and user friendly licensing and permits adjudication, special economic zones, decentralization of exports/imports related services. If properly addressed, the impact in reducing logistic costs can be quite significantly, with the subsequent positive effect on growth, employment and poverty.