TRANSPORT, LOGISTICS AND COMPETITIVENESS IN LATIN AMERICA AND THE CARIBBEAN

Regional trade policy, whether internally or externally guided, has traditionally focussed on removing tariff and non-tariff barriers. This has long been espoused as the catalyst that would enhance regional trade and its effect on the economy. Trade facilitation however and in particular that which is related to transport costs has largely been ignored in the regional trade agenda. The last few years have seen significant and dynamic development in international trade, and with the opening up of economies to the expansion of supply chains, the thrust towards globalisation has shown itself to be transport-intensive. Nowhere has this been more evident than in the development and changes in global freight movement systems. Internationally, this change drives modifications to and changes in public policies; however, the policymaking frameworks in the region are typically lethargic, moving at a glacial pace and sometimes countercyclical to international actions. The freight logistics sector poses many challenges and presents a complex agenda that requires action and coordination across several government and private sectors. How well poised is the region therefore to capitalise on the changes in the market? Moreover, is the sector ready to evolve in the face of new norms in the shipping and logistics industry?

Transportation is recognised to be an inherently crucial component in supporting economic activities as well as providing opportunities for economic development. The provision of transport infrastructure has long been a common priority for governments, as the region has long been considered to be lacking in this area. In recent years, the Greater Caribbean has seen remarkable growth in the containerized traffic handled, driven in part by the development and expansion of port infrastructure. Within this new environment, and in anticipation of additional traffic growth resulting from the expansion of the Panama Canal, development of logistics services must now be seen as a critical endeavour. Much past analysis of shipping has been from a merely quantitative perspective, looking at how much growth has occurred in the region; however, there are qualitative aspects that merit further analysis. For most countries of the Greater Caribbean, transport costs are significantly higher than tariffs for both imports and exports, and more so for intra-regional trade. Moreover, these costs are considerably higher than those of the region’s major trading partners, leading to un-competitiveness. At the macro-level, the World Bank has estimated regional logistics costs to be

between 16% and 26% (as a percent of GDP) in comparison to the Organisation for Economic Co-operation and Development (OECD) benchmark of approximately 9%; additionally, these costs typically represent as much as 35% of product value, and even more for smaller enterprises, compared to 8% in the OECD countries and 10% in the USA. Further, delays in customs clearance throughout the region have the effect of increasing transport costs by an additional 4% to 12%. The impact of logistics costs on the wider economy through productivity, food prices, trade and poverty is therefore not an insignificant one.

Globally, the freight transport agenda has shifted towards the use of logistics and supply chain concepts in most of its processes. Governments seeking to improve on the competitiveness of their economies must necessarily increase the quality of internal logistics performance to achieve this. The recent regional emphasis has largely been placed on the provision of improved infrastructure to facilitate shipping, but careful examination reveals that there are many other areas that impact the shipping industry. This focus on port infrastructure development can be considered to be a bias, as it largely ignores the complex structure and organisation of freight flows that characterise global supply chains. While transport infrastructure remains a fundamental component of economic development strategies, the policy approach must be expanded to consider the requirement of freight distribution for the global economy. For regional strategies to succeed, the framework must address the requirements of the full spectrum of the production value chain, from upstream to downstream. This means that current expenditure on transport infrastructure capacity is likely to have limited and only incremental value within the economy if it is not supported by commensurate levels of sophistication in freight-driven transport services.

Given the region's reliance on natural resources and proximity to the world's large markets, its two key drivers of comparative advantage, policymakers should be mindful that the advantage proffered by proximity can easily be overcome if logistics in the region does not keep pace with that of its competitors. Furthermore, analysis of regional logistics chains has indicated that distance to trade plays a minor role, while efficiency, both in the ports and within the country, is the key determinant in explaining the major portion of the difference between Latin American and the Caribbean (LAC), and OECD transport costs. High transports costs are strongly associated with fragmented economies and contribute to the region's under-exploitation of inter-regional and international trade. Moreover, a combination of factors, led by the rapid transformation of the world economy, together with the fragmentation of production and the time sensitiveness of trade, has given transport costs an unprecedented strategic importance. As countries in the Greater Caribbean seek to move up the value chain, from traditional resource extraction to more sophisticated manufacturing, their logistics capabilities must be developed accordingly. Transporting the outputs of very simple extractive industries does not require advanced logistics abilities, but high-value products call for services such as freight forwarding, third-party logistics, cold storage and warehousing. Practically speaking, the more sophisticated the exports, the greater the demand imposed on logistics and transport services. For the region to therefore move beyond the export of basic agricultural and mining commodities, it must be recognised that logistics requirements will become more rather than less onerous. Manufacturing firms, particularly those integrated into the global production chains, seek not only low transport costs, but also a host of sophisticated logistical needs: short transport times, reliable delivery schedules, well-managed cold storage chains, and security. The development of basic transport infrastructure therefore does not meet the logistics needs of global manufacturing firms. Thus, the requisite regional policy change must be broad, seeking to stimulate innovation in transport services, develop new products, advance regulation using electronic services, and encourage investment in new areas.

The use of third-party logistics or 3PL, for instance, is not a well-advanced concept in the region. In most industrial countries, almost a third of logistics turnover is contracted to 3PL providers.

Traditionally, companies outsource non-core functions to logistics providers in order to gain operational efficiencies and reduce costs. With the significant increase around the world of offshore manufacturing operations during the 1990s, there has been a shift from domestic supply chains to global supply chains with international logistics needs. This has increased with the emergence of China as a low-cost manufacturing centre, and the proliferation of free trade areas. Doing business globally has become more complex and requires increased expertise, at the regional and local levels, in managing transportation and warehousing, and adhering to various governmental regulations. It is this increase in supply chain complexity that has driven many companies to engage the help of 3PLs as logistics and regulatory specialists. Further, 3PLs with expertise in international transportation management, warehousing and distribution are providing economies with access to the operational "backbone" of global trade. While there has been some limited development in 3PL services regionally, progression toward the earlier stage of second-party logistics — in which companies unify their internal transport and warehousing functions and create their own internal logistics departments — is still underway.

Integration into the global economy remains a challenge for the Greater Caribbean region, encumbered by a traditionalist approach to export along with inadequate legislative and regulatory frameworks. Despite its importance, the region has not yet placed logistics at the centre of national and corporate competitiveness policies. Improving logistics performance should be a crucial policy objective with improved customs clearance, enhanced transport infrastructure through ports, internal connections, and the availability of advanced logistics services constituting some of the key objectives for the region. The goal should look well beyond infrastructure and the ports, and focus on the development of regulatory aspects of trade and the development of local logistics competencies through partnerships with overseas investors. The approach to production, trade and transportation has evolved, and the challenge now facing the Caribbean is how to connect to global supply chains and maximise the opportunities from global trans-shipment hubs.

George Nicholson is the Director of Transport and Disaster Risk Reduction of the Association of Caribbean States. Any comments or feedback should be submitted to feedback@acs-aec.org