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Regional Integration Behind the Border –
Applying a value chain approach

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Regional Integration Behind the Border – Applying a Value Chain Approach

Presentation by Grant D. Aldonas
Connecting People to Markets Matters

• Raising productivity key to economic growth, development, and rising standard of living
• Productivity growth explains 50% of U.S. GDP growth
Connecting People to Markets Matters

- Raising productivity requires opportunity to specialize, which requires the freedom to engage in exchange
Connecting People to Markets Matters

• Freedom to engage in exchange requires a connection to markets – locally, nationally and globally
Regional Integration Helps

• New market opportunities create further opportunities for specialization, higher productivity, and climbing the value chain
Regional Integration Helps

- Access to new markets encourages acquisition of new technologies and business processes; upgrading of skills
Regional Integration Helps

- Wider market access creates opportunities to take advantage of scale
Gateways to Global Markets

• Globalization cuts cost of participating in world markets
Gateways to Global Markets

- Permits organization of production on a global basis and allows global sourcing

Composition of World Trade, 2003

- Intermediaries 53%
- Finished Goods 47%
Gateways to Global Markets

- Operating a global supply chain has become a competitive necessity
Gateways to Global Markets

- Global value chains account for rising percentage of trade

North American Intrafirm Trade as a Percent of Total Manufacturing Trade

<table>
<thead>
<tr>
<th>Year</th>
<th>Mexico</th>
<th>Canada</th>
<th>United States</th>
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<tr>
<td>1988-1991</td>
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Redefining Market Access

- Access no longer purely a question of lowering traditional trade barriers in principal export markets
Redefining Market Access

• Rise of global supply chains presents challenge of meeting buyer’s standards in terms of quality, consistency, and time to market
Redefining Market Access

- Regional integration strategy should facilitate connection to global supply chains that shape global markets today.
Redefining Market Access

• Highlights importance of both regional integration and a strategy for the region’s place in the global economy
Redefining Market Access

• Advantage to first-movers on a bilateral or regional basis
Applying a Value Chain Approach to Integration

• Adopting the tools of global business to analyze competitive strengths and weaknesses
Applying a Value Chain Approach to Integration

• Basic tool involves mapping supply/value chain that links producers to local, national and global markets, both as producers and as consumers
Applying a Value Chain Approach to Integration

• Involves drawing a map of physical and institutional geography
Applying a Value Chain Approach to Integration

- Mapping supply chain that provides inputs to local producers due to impact on costs
Applying a Value Chain Approach to Aid for Trade

- Mapping individual steps in producing goods for target market and obstacles encountered
Applying a Value Chain Approach to Integration

• Measuring obstacles in terms of time to market
Regional Integration
Behind the Border

- Value chain map identifies barriers that prevent people from connecting to markets
Regional Integration
Behind the Border

• Examining where internal institutional reforms and improvements in physical infrastructure would facilitate integration and access to global markets
Regional Integration
Behind the Border

• Measuring obstacles in terms of common measure (e.g., time to market; impact on cost) helps identify priorities for action
Regional Integration Behind the Border

• Creates a basis for combining regional integration with development goals
• Identifies where reforms or investment in infrastructure would have greatest impact
Case Study: Peru’s Perishable Agriculture Products

- Already a well-developed sector
- Success with products like asparagus offers example of how producers overcame obstacles to market access/how government facilitated market access
Case Study: Peru’s Perishable Agriculture Products

Outbound Value Chain

Producers and processors

- Agro-exporters
  - 300 participants

- Bottling, freezing, lids, labels for processed foods
- Processing, classification and packing
  - 4 participants + some integrated producers

Other exporters and traders
- 4 participants

Logistics operators
- 122 participants

Ports and airports

Importer and distributor at destination
- End consumer
- Cold chain
  - 14 participants
Case Study: Peru’s Perishable Agriculture Products

• Areas for improvement – Time to import (25 days)/export (24 days); cost (over US$800 per container)

• Each day lost represents a loss of 1% in export trade generally (3-6% loss in the case of perishables)
Peru’s Perishables – High Impact Interventions

- Eliminating barriers to exports (trade negotiations/cooperation on trade facilitation)
Peru’s Perishables – High Impact Interventions

• Upgrading producer’s skills/adopting business models that allow producers to take advantage of scale
Peru’s Perishables – High Impact Interventions

• Institutional improvements (i.e. reducing number of documents; steps in process)

Table 1: The Enabling Trade Index 2008

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<th>Country/Economy</th>
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Peru’s Perishables – High Impact Interventions

- Physical infrastructure at ports for handling perishables/improvements in customs processing