



Munich Personal RePEc Archive

## **Export competitiveness in Bolivia**

Sakho, Seynabou and Walkenhorst, Peter

World Bank

March 2008

Online at <https://mpra.ub.uni-muenchen.de/24129/>  
MPRA Paper No. 24129, posted 28 Jul 2010 09:05 UTC

# Export Competitiveness in Bolivia <sup>#</sup>

*Seynabou Sakho* \*

*Peter Walkenhorst* \*\*

March 2008

## **Abstract**

In comparison with other countries, Bolivia seems to face a gap in its capacity to take advantage of international market opportunities. Addressing the shortcomings in Bolivia's export performance is a major challenge and requires attention to the incentives that actual and potential exporters face, the efficiency of service providers in the economy, and the effectiveness of trade support institutions that help private sector firms to discover and exploit international market opportunities. These three elements of export competitiveness are discussed in turn in this paper.

## **Keywords**

Tariffs, incentives, backbone services, regional integration, trade support institutions

## **JEL Classification**

F13; F14; F15; O24

---

#) This paper serves as a background document for the preparation of the Economic and Sector Work Report on "Republic of Bolivia: Strengthening Export Competitiveness for Export Diversification and Inclusive Growth." Washington DC: The World Bank. The findings, interpretations, and conclusions expressed in this study are entirely those of the authors. They do not necessarily represent the views of the World Bank, its Executive Directors, or the countries they represent.

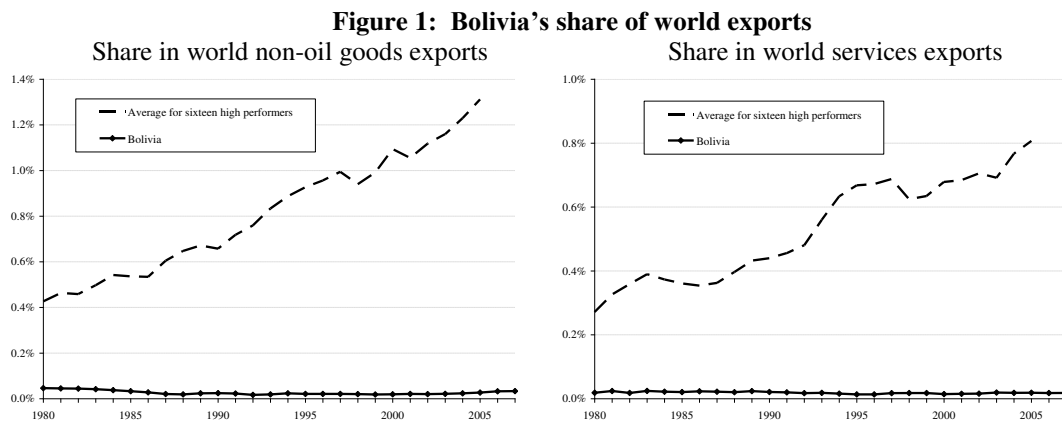
\*) Seynabou Sakho is Country Economist in the Latin America and Caribbean Region, The World Bank, Washington DC.

\*\*\*) Peter Walkenhorst is Senior Economist, International Trade Department, The World Bank, Washington DC.

## 1. BACKGROUND

Over the past 25 years, many developing countries have managed to increase the well-being of their population and reduce the incidence of poverty by taking advantage of opportunities in international markets. Some have benefitted from the discovery, exploitation, and (recent) price surge for fuel and commodities, while others have gained strongly following structural transformations in the transition from centrally planned to market-based economies. Yet, even among the non-fuel exporting, non-transition countries, there is a sizeable number of economies that have achieved sustained long-term growth. Indeed, sixteen of these countries managed to more than triple their GDP between 1980 and 2005, which corresponds to an average annual growth rate of more than 4.5 percent.<sup>1</sup>

The success of the high performers has been based on an export-oriented strategy. Such an outward-looking paradigm seems appropriate for most developing countries, given the generally limited size of the domestic market that does not make it possible to take advantage of benefits of economies of scale and competition-driven productivity gains. In a recent study, Jones and Olken (2007) find that growth take-offs are strongly associated with a large and steady expansion of international trade. In fact, the sixteen high performers pursued a strategy of export-led growth and increased their share of world non-fuel merchandise exports and world services exports each by a factor of three since 1980. (Figure 1).

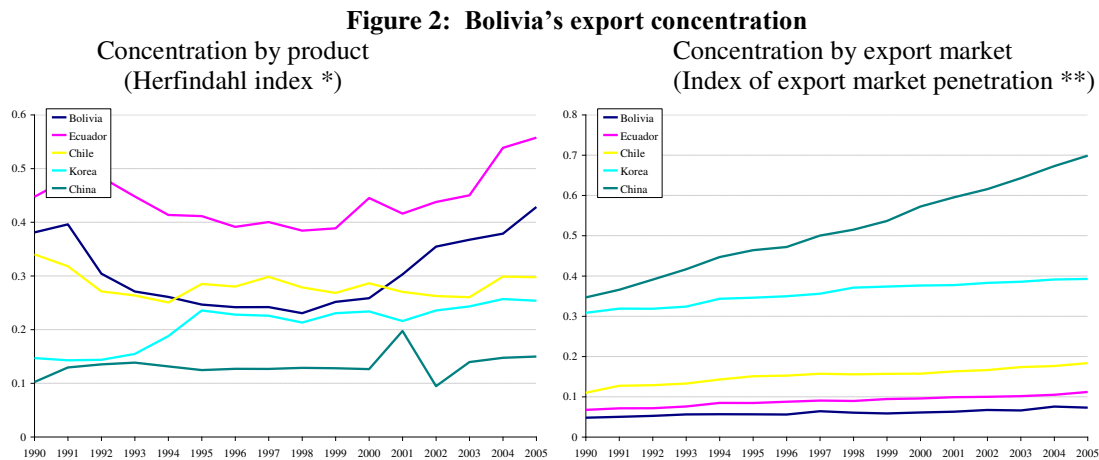


Source: World Bank staff based on UN Comtrade database and IMF Balance of Payment database.

**In contrast, Bolivia's export performance has been mediocre.** The country's share in world markets has remained largely unchanged since 1980. Moreover, Bolivia's exports are increasingly concentrated in only a few products, and reach only a few markets. Brenton and Newfarmer (2007) derive an index of export market penetration (IEMP) that measures the extent to which a country is actually exploiting its geographical market opportunities from the existing set of export products. For the given range of products that a country exports, the IEMP will be higher for countries that reach a large proportion of the number of international markets that import those products. Countries that only export to a small number of the overseas markets that import the products that the country exports will have a low value of the index. It turns out that

<sup>1</sup> The 16 high performers are the group of non-oil exporting, non-transition countries that achieved more than 4.5 per cent of average annual GDP growth since 1980—Botswana, Burkina Faso, Cambodia, Chile, China, India, Indonesia, Republic of Korea, Malaysia, Mauritius, Pakistan, Singapore, Sri Lanka, Taiwan, Thailand, and Uganda.

Bolivia exploits only a relatively small fraction of the potential markets for the country's export products (Figure 2), falling well short of comparators in Latin America and East Asia.



Note: \*) higher means more concentrated.

\*\*\*) the index is the ratio of all product/market export relationships a country has, divided by the potential number of trade relationships if the country was to export its products to all countries that import these products (higher means better market penetration).

Source: World Bank staff based on UN Comtrade database.

**This lacklustre outcome has not resulted from external factors that temporarily reduce competitiveness.** Instead, the comparison with the group of high performers, many of which have a similar exposure to terms of trade and commodity price effects as Bolivia, suggests a persistent gap in the capacity to take advantage of international market opportunities. Addressing these shortcomings in Bolivia's export performance is a major challenge and requires attention to the incentives that actual and potential exporters face, the efficiency of service providers in the economy, and the effectiveness of trade support institutions that help private sector firms to discover and exploit international market opportunities. These three elements of export competitiveness are discussed in turn in the following.

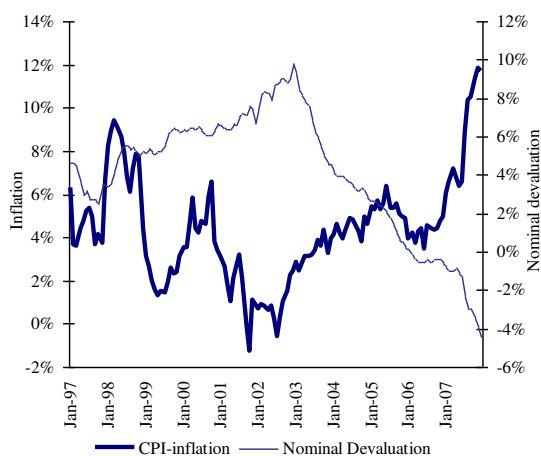
## 2. THE INCENTIVE REGIME

**Improving export performance will require movement of resources from less productive to more productive exporting firms as the latter expand the range of markets into which they sell as well as exports per market.** Also, resource mobility will facilitate the export of higher quality products, which will tend to have a somewhat different input mix than traditional or lower quality products. Finally, resources need to be flexible enough to allow the emergence of new export activities, including in non-traditional services. Hence, a key challenge for policy makers is to ensure that land, labor, capital and technology are moving to (a) sectors in which the country has a long-term capacity to compete and (b) to the most productive firms within sectors. This necessitates a clear understanding of how the macroeconomic stance, the business environment, and trade and tax policies interact to affect investment, output and trade decisions.

## Macroeconomic conditions: Inflation, Exchange Policy and Competitiveness

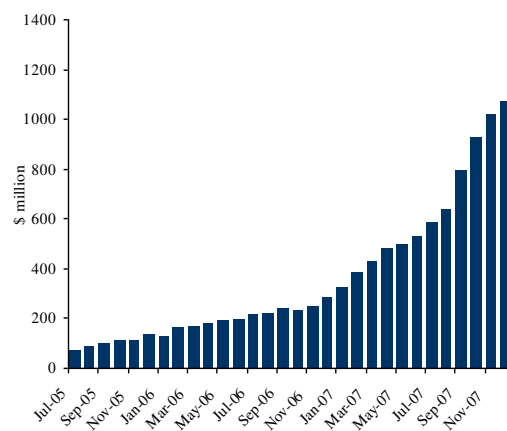
**Inflation in Bolivia increased in the year 2007 to near 12 percent due to supply shocks and increased aggregated demand, particularly in private consumption and public expenses.** After several years of relative price stability – average inflation between 2000 and 2006 was under 5 percent – 2007 inflation approached 12 percent (Figure 3). Most of the price increases are related to food and beverages, a heavy-weighted factor in the price index – near 50 percent – making inflation highly regressive. The main factors behind this upsurge are: (i) *El Niño* Southern Oscillation at the beginning of 2007; (ii) imported inflation; (iii) slow supply response, linked to low private investment; and (iv) increased aggregated demand, both from the State – related to increased gas revenues – and from the households – due to increased remittances and additional state transfers.

Figure 3: 12-month Inflation and Depreciation



Source: INE

Figure 4: Central Bank's Internal Debt



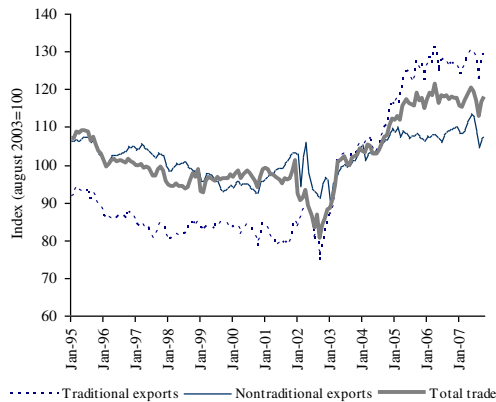
Source: BCB

**Monetary policy focused on contractive Open Market Operations (OMOs) while nominal exchange rate was modestly appreciated.** Central Bank's internal debt has significantly increased in 2007, showing an important effort to reduce liquidity through OMOs (Figure 4), in accordance with the Central Bank mandate. On the other hand, nominal exchange rate was appreciated by 4.5 percent in 2007 in an effort to reduce imported inflation, although without significant effects on the real exchange rate – if exchange rate was freely floating the appreciation should have been higher (Central Bank of Bolivia, 2008) due to hydrocarbon export revenues and remittances growth. However, the Central Bank expects that OMOs will affect inflation – and inflation anticipations – more notably in 2008 because of the lagged effects on prices of monetary policy (Orellana and Requena, 2000); additionally, the effect of appreciation may be frail because the pass-through effect is asymmetric – inflation reacts faster to depreciations than to appreciations – and has decreased over the past 20 years, in parallel with the decreasing level of inflation (Escobar and Mendieta, 2004). The Central Bank expects to attain an 8 percent of inflation in 2008 (Central Bank of Bolivia, 2008), although this expectation seems optimistic: the IMF expects a 16 percent inflation in 2008 (IMF, 2008) and *La Niña* had again triggered a large supply shock affecting the first trimester of 2008.

**Nevertheless, increased inflation and nominal appreciation are affecting competitiveness, at least for some non-traditional products.** Despite accelerating nominal appreciation and increasing inflation, multilateral real exchange rate has modestly changed in the last two years (Figure 5) because other trade partners also appreciated. The effect of nominal appreciation by

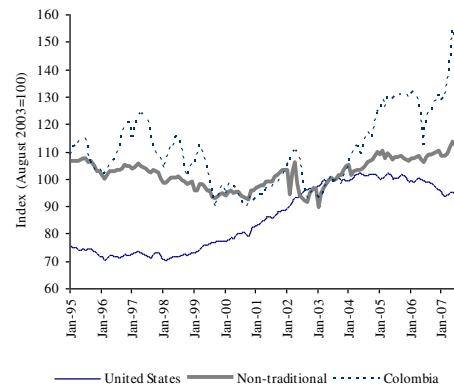
type of exports is also very similar: non traditional real exchange rates have also remained mostly stable in the last years. This outcome is more relevant to non-traditional exports because they are more elastic to real exchange rate variations than traditional ones, at least in the short term (Loza, 2000). For example, gas exports prices and volumes in the Bolivian case are defined by contractual rules. However, the stability of the real exchange rate of non-traditional exports hides the competitive loss faced by several products due to the *bilateral* real appreciations. This is the case of the United States, the most important buyer of Bolivian non traditional products. Bolivia also lost competitiveness with Peru, Panama, Mexico, Japan and Ecuador. Important non-traditional products – wood, jewelry, Brazilian nuts and coffee, among others – are hence facing significant losses of competitiveness because they are largely directed, among others, to United States or Peru. This effect is being partially counterbalanced by the real depreciation with other countries such as Colombia (Figure 6). Bolivia has also gained competitiveness in relation to Venezuela. As three quarters of soy exports are directed to Venezuela and Colombia, this product is gaining competitiveness.

**Figure 5: Multilateral Real Exchange Rate of Total Trade, and Traditional and Non-traditional Exports**



Note: Multilateral real exchange rates were estimated considering the 8 main partners in each category.  
Source: INE and BCB

**Figure 5: Multilateral Real Exchange Rate of Non-traditional Exports and Selected Bilateral Real Exchange Rates**



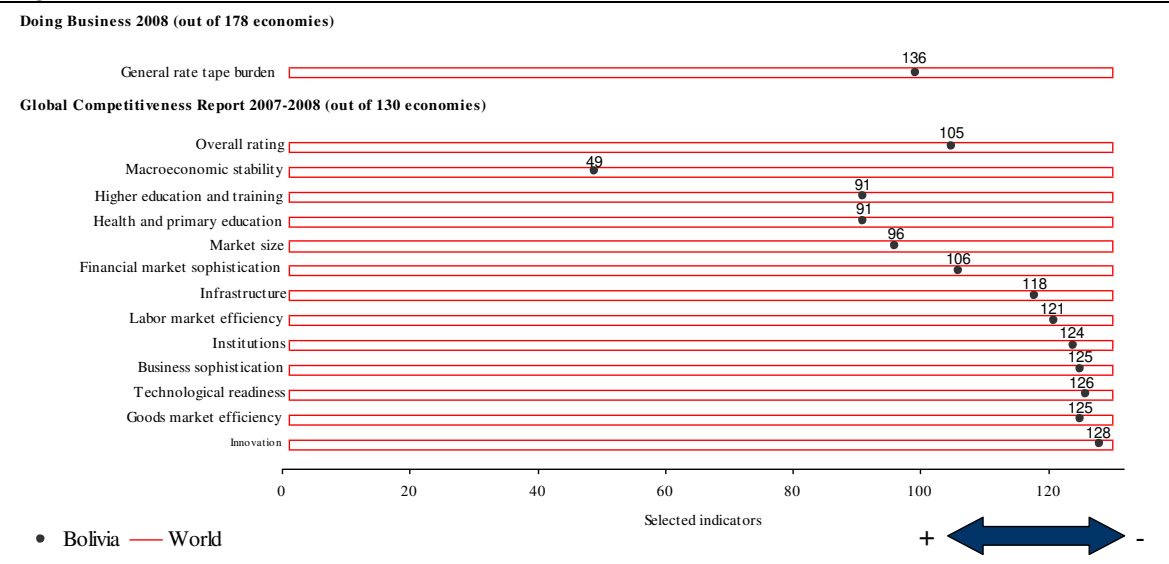
Note: Multilateral real exchange rate of non traditional exports was estimated considering the 8 main importers of Bolivia's non-traditional goods.  
Source: INE and BCB

**There are several other factors that may influence competitiveness despite current pressures to appreciate in real terms.** Monetary authorities consider that nominal appreciation can still be used as an anti inflationary tool due to real depreciation accumulated in previous years – in particular between 2003 and 2005. In this context, further nominal and real appreciation seems inevitable due to the large foreign inflows expected in the medium term and the aggregated demand growth would persist (IMF, 2007). In other words, some symptoms of Dutch Disease could become evident in the coming years. As mentioned above, this appreciation could have more intense negative effects on non-traditional exports, which are the most labor intensive. However, there are several factors linked to business environment, logistic costs, access to finance, labor and inputs and the rule of law that can have a significant influence on competitiveness fundamentals<sup>2</sup>. Bolivia could try to tackle these factors to counterbalance the still modest effect of real appreciation on exports competitiveness, because it performs poorly in most

<sup>2</sup> The World Economic Forum Report excluded the exchange rate from its measure of Global Competitiveness; competitiveness is defined as a set of institutions, policies and factors that determine the productivity level of a country.

of them (Figure 6) – this insufficient performance may help explain the inability to attract investments to the Bolivian economy, in particular to non traditional sectors.

Figure 6: Bolivia’s Business Environment Main Characteristics.



Source: Doing Business 2007 and Global Competitiveness Report 2007-2008

### The role of trade policy for export competitiveness

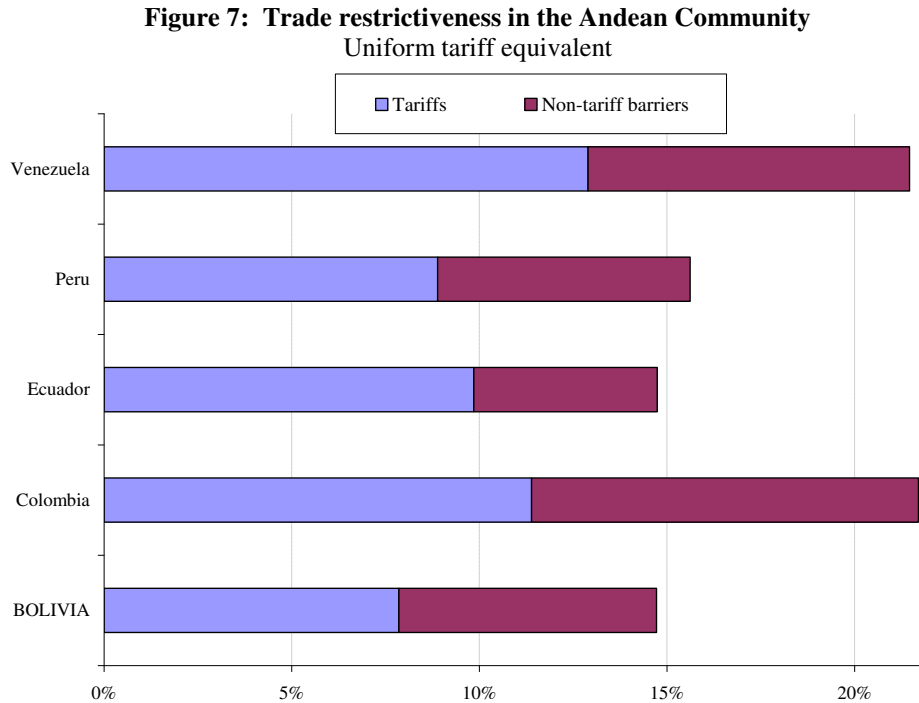
**While Bolivia is a member of the Andean Community, the country has not been applying the common external tariff that was agreed upon in 1995.** Instead, Bolivia has continued to pursue a less restrictive import regime with lower tariffs than the CET for most products, subject to Andean Community administration. Peru does not participate in the CET-mechanism at all, while Colombia, Ecuador and Venezuela apply the common tariffs.

**There have been proposals recently for Bolivia to fully adopt the CET, which would imply increasing import duties.** Some observers view higher import taxes in part as a means of protecting domestic industry from foreign competition and thus fostering productive development. Yet, such an infant industry and import substitution strategy could easily backfire, compromise international competitiveness, and reduce exports. Domestic market protection comes at a cost, notably to consumers and firms that source their inputs domestically. Also, tariff protection introduces an anti-export bias. If firms produce for the export market, they do not receive the same market price support that producers for the domestic market enjoy. Hence, producers’ decisions will be biased against selling abroad. Indeed, the higher the domestic market protection is, the stronger the anti-export bias becomes.

**Analysis of the restrictiveness of the trade regimes in Andean Community countries illustrates what is at stake.** In particular, a team of analysts in the World Bank’s Research Department has estimated an Overall Trade Restrictiveness Index (OTRI), which corresponds to the uniform tariff that if imposed on all imports from partner countries would leave overall imports unchanged. The measure also makes it possible to disaggregate total barriers to trade into tariff and non-tariff components (Kee, Nicita, and Olarreaga, 2005). The estimation is based on country-specific import demand elasticities at the detailed product level, which can result in

differing restrictiveness estimates for countries that apply the same tariff schedule, such as Colombia, Ecuador, and Venezuela.

**The findings show that Bolivia operates the least restrictive import policy in the Andean Community.** The country has both the lowest tariff restrictiveness and overall restrictiveness (Figure 7). If the restrictiveness of the Bolivian import regime were to be increased to the average of the CET-countries Colombia, Ecuador, and Venezuela, Bolivia’s import restrictiveness would rise by 3.5 percentage points, which would imply an increase in the anti-export bias of the trade regime by almost 50 percent.



Source: World Bank staff based on Kee *et al.* (2005).

**Bolivia operates a duty drawback system, which makes it possible for exporters to claim back the duty paid on inputs of exported products.** This arrangement is supposed to neutralize to some extent the effects of tariff policy for exporting firms. However, there are complaints from companies that the duty refunds are delayed, that pay-outs are partial, and that application procedures are cumbersome. Hence, the scheme seems seriously flawed. In the absence of a smoothly operating duty relief mechanism, export manufacturers have to produce at higher cost than would be the case if they had full and easy access to production inputs at world prices. Therefore, their competitiveness in export markets is impaired.

**The economic justification for relieving export producers of the payment of duties on imported inputs rests on the destination principle of taxation, under which no indirect taxes should be levied on goods that are not destined for domestic consumption.** Following this principle, there is no ground for levying import duties, for instance, on goods in international transit, or on materials and components imported for incorporation into manufactured products that are subsequently exported. The failure to relieve export producers from import duties would



effectively establish a tax on exports, increase their cost, and reduce the competitiveness of domestic manufacturers in export markets (Goorman, 2003).

**In today's highly competitive economic environment, exporters are compelled to attain a high degree of efficiency in production and to cut production and marketing costs to the minimum if they are to survive in export markets.** Therefore, it is important that policymakers and customs managers make available to the export sector duty relief systems that provide full (100 percent) relief from the duty burden on industrial inputs. It is also important for policymakers and customs managers to create the conditions for effective administration of these regimes. For customs administrators whose responsibility it is to collect import duties according to the tariff schedule, the implementation of duty relief regimes clearly establishes a problem of customs control, and mechanisms need to be established to ensure that claims for duty relief are legitimate and correctly executed.

**Another controversial trade policy measure on the agenda in Bolivia is the planned introduction of temporary export restrictions and bans for a number of staple food products, including rice, sugar, maize, vegetable oil, and meat.** Exports of these products is prohibited if the domestic market situation is judged to be in deficit. The measure intends to ensure that even the less well off parts of the population can afford a healthy and varied diet, and are shielded from global increases in food prices. It is questionable, however, whether the regulation of product markets and seller-buyer transactions is an appropriate means to achieve the distributional policy objective. More direct policy interventions, such as targeted transfer programs, have in other countries proven to be more effective with less adverse effects on the economy.

**These bans are naturally detrimental to Bolivia's desire to promote inclusive exports.** Staple food products are often produced by small and medium sized firms, and depriving these producers of access to international markets for their products is adversely affecting their ability to achieve economies of scale in operation and marketing, and to learn about the quality requirements in international markets. Moreover, depressing the domestic price level through the imposition of export restrictions will reduce the value that farmers and agro-processors attribute to their produce and, hence, their incentives to maintain the existing output and quality level.

**Also, it is unclear to what extent the restrictions will succeed in discouraging exports of agro-food products rather than just enticing producers to trade informally.** Bolivia has long land-borders that traders can relatively easily cross. More generally, export restrictions introduce costly distortions into the domestic economy and do most often fail to achieve their industrial development or distributional objectives. International experience shows that similar to import restrictions, export bans and taxes encourage inefficient production and consumption patterns and an suboptimal resource allocation (Piermartini, 2004). Moreover, there are frequently adverse distributional impacts. If the export restrictions concern primary or lightly processed commodities, as in Bolivia, it is often poor smallholders that have to bear the bulk of the economic costs as prices for their produce are depressed.

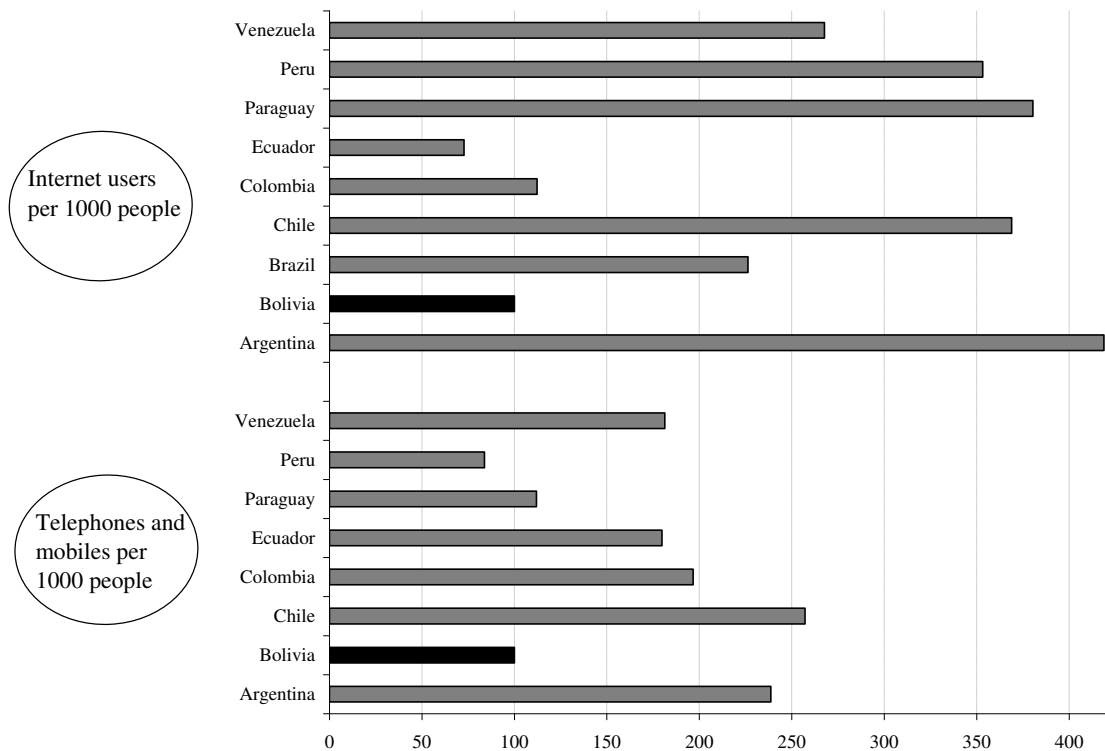
### **3. BACKBONE AND EXPORT SERVICES**

**Of great importance in today's globalized economy is that domestic firms have access to efficiently produced critical backbone services inputs.** Firms that have to pay more than their competitors for energy, telecommunications, transport and logistics, finance and security will find it hard to compete in both the domestic and overseas markets. Export diversification into

products of higher quality will tend to increase the importance of activities that require the more intensive use of these backbone services than traditional activities. Moreover, the globally rapidly expanding exports of services rely heavily on the use of other services as inputs. For example, telecommunications are a critical input into call centres and other business processing activities, and transport is vital to tourism.

**The telecom infrastructure in Bolivia is not very well developed, possibly adversely affecting the country’s connectivity to international markets and its prospects of taking advantage of opportunities in dynamic services export sectors, such as call centers and outsourcing (Figure 8).** The penetration of fixed and mobile telephones is below the level in all neighboring countries and Andean Community partners (except Peru). A similar situation emerges with respect to the availability of internet services, with only Ecuador having fewer internet users per 1000 people.

**Figure 8: Telecommunications connections**  
(Ratio for Bolivia = 100)

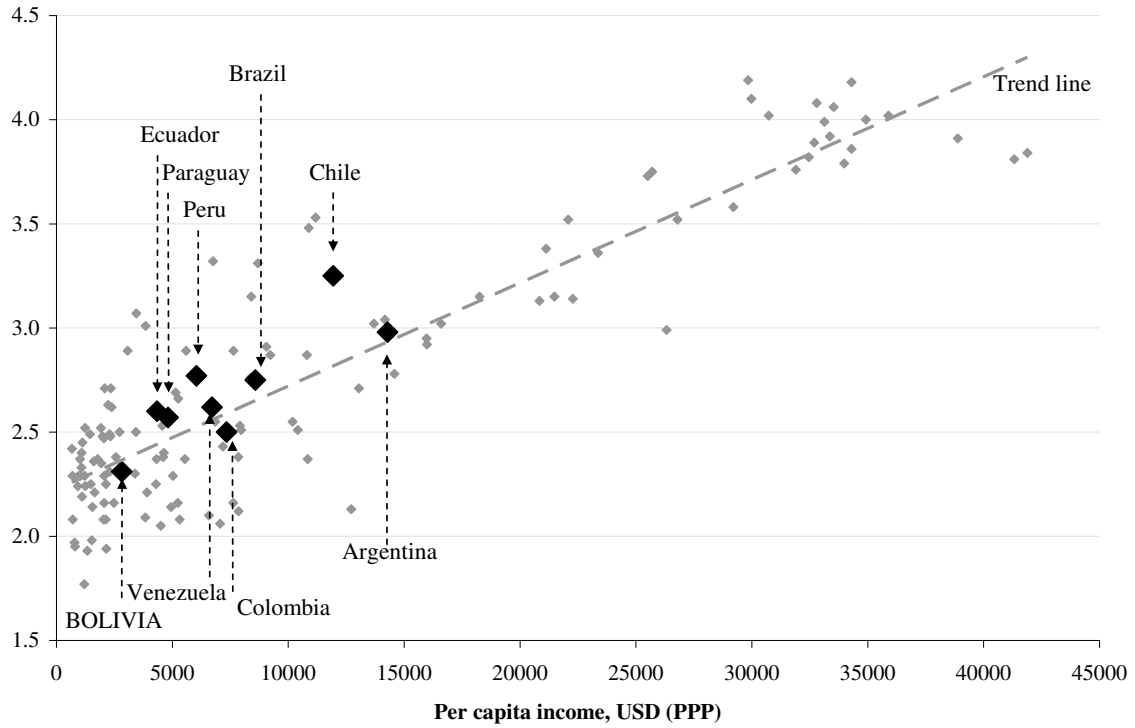


Source: World Bank staff based on World Trade Indicators database.

**An effective system of trade and transport logistics is naturally of paramount importance for the export performance of a landlocked country like Bolivia.** A newly developed Logistics Performance Index (World Bank, 2007), which is based on a world-wide survey of global freight forwarders and express carriers, makes it possible to compare the situation of countries across a broad set of transport and trade facilitation dimensions. Richer countries are in a position to devote more resources to investments in transport infrastructure, inter-agency coordination, and staff training and, hence, in general show lower trade transactions costs than poorer economies. While most Latin American countries show results above the trend, Bolivia scores below the level of logistics performance that would be expected from its level of income

(Figure 9). Areas of particular concern, according to the survey of logistics professionals, are Customs and coordination among border agencies, as well as facilitation infrastructure.

**Figure 9: Logistics performance**  
(Overall Logistics Performance Index, higher is better)



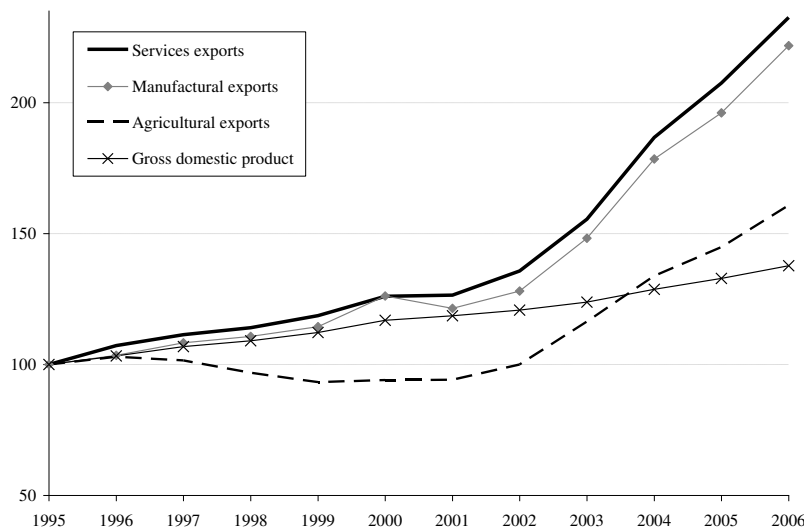
Source: World Bank staff based on World Bank (2007).

### Box 1: The international market for ICT and other service exports

Trade in commercial services has grown considerably in recent years, such that services accounted for 19 per cent of global exports in 2005. Services exports more than doubled during the decade from 1995 to 2006, outpacing GDP as well as exports of agricultural products and manufactures (Figure 10). About 7 per cent of all services trade is related to communication, computer and information services (WTO, 2007).

**Figure 10: World services exports have expanded rapidly**

(1995 = 100)



Source: WTO, 2007.

The expansion of services trade has been driven by considerable reductions in communications, transport and transactions costs. Rapid advances in information and communication technologies and the ongoing global liberalization of trade and investment in services have increased the tradability of many service activities and created new kinds of tradable services. Many service sector activities are thus becoming increasingly internationalized, especially since ICT enable the production of services to be increasingly location-independent. This development has led to the globalization of services activities, with associated changes in trade, cross-border investment, and employment patterns (OECD, 2006).

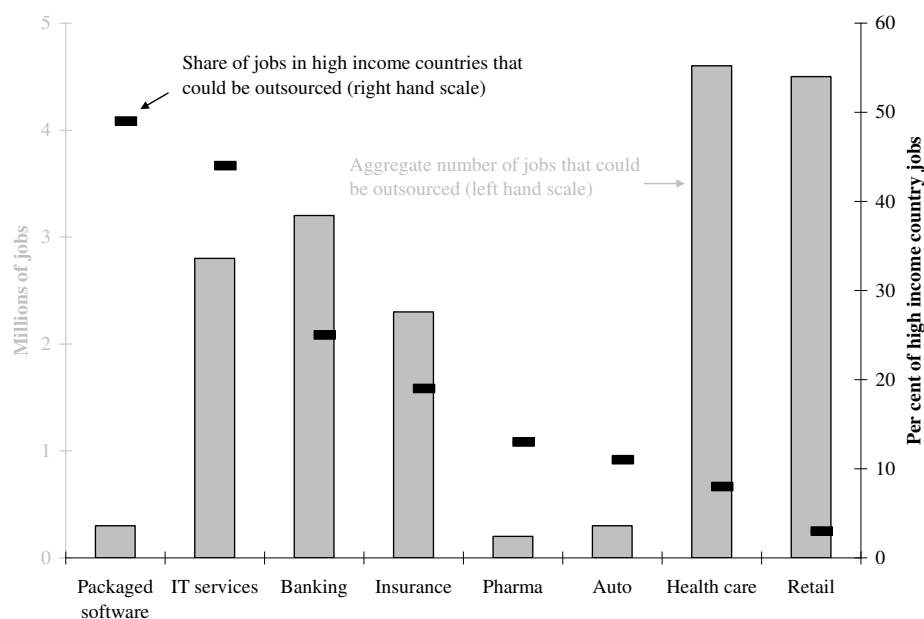
Moreover, demand for services has a high income elasticity, so that services activities tend to expand more than proportionally as countries grow richer. As a result, the services sectors in high income countries are relatively bigger than those in middle income economies, which in turn are more sizable than those in low income countries. With the world economy projected to continue to grow at a strong pace, the prospects for service providers and services trade look bright.

More than 80 per cent of global exports of ICT-enabled services continue to originate in OECD countries. Yet, a number of developing countries have experienced very dynamic trade patterns in recent years. Unfortunately, compiling consistent and comparable statistics on services trade remains a major challenge. Balance of payment data on telecommunication, and computer and information services are not readily available for all countries. One development that has fuelled the growth of ICT-enabled services is the growing trend in high income countries for firms to outsource back office and information technology functions to take advantage of advanced skills and lower labor costs of specialized service providers. Most of the contracting-

out is still undertaken with companies in the country of origin (“onshoring”), but cross-border arrangements (“offshoring”) have been becoming increasingly common.

The aggregate potential for outsourcing to low wage locations has been estimated to reach more than 18 million jobs in 2008. Due to the limited need for direct client contact, regional knowledge, and complex interactions, IT services and packaged software are activities that are particularly amenable to being moved abroad (Figure 11). About 3 million jobs, i.e. 44 per cent of all ICT employment, could potentially be outsourced (McKinsey Global Institute, 2005). For some location-insensitive ICT-activities, such as call centers, the outsourcing rate could be even higher and reach more than 90 per cent.

**Figure 11: ICT-services are highly amenable to outsourcing**



Source: McKinsey Global Institute, 2005.

### Box 2: Obstacles limiting exports of services – new survey evidence

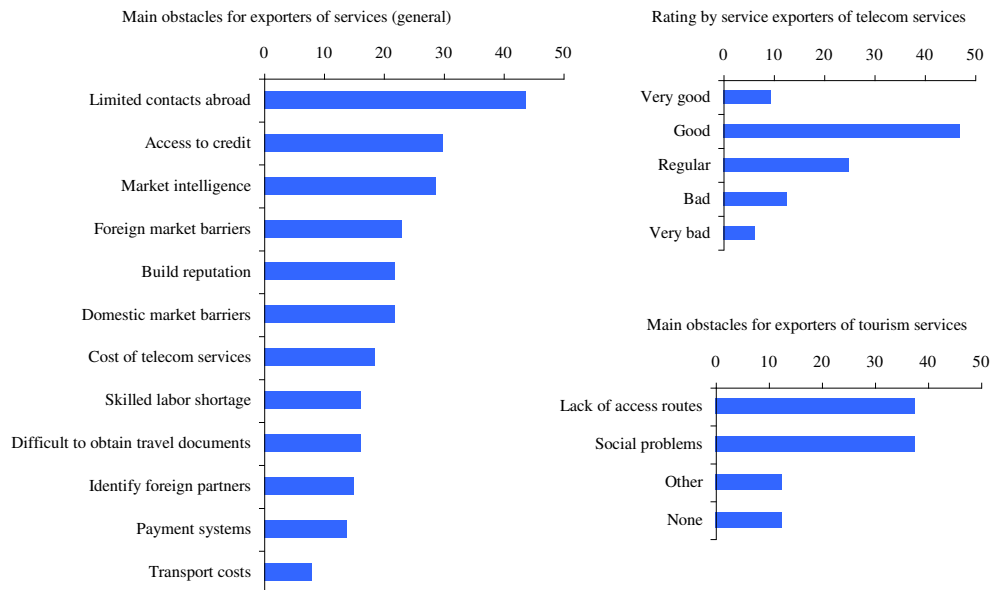
In order to build up on the existing information about services exports, CEPROBOL in cooperation with the International Trade Center (ITC) undertook a survey in 2007 to directly seek the views of Bolivian services exporters as well as associations such as chambers of commerce (M. Michel, “Estudio sobre el comercio de servicios en Bolivia,” CEPROBOL-ITC, December 2007).

The survey identified four key categories of services already being exported, which in order of importance are: (i) tourism; (ii) IT software; (iii) professional services such as consultancy, engineering; and (iv) call centers. With regard to the main destination markets, the survey uncovered some slight differences across types of services but overall demonstrated the importance of the US (especially for IT), the EU, and neighboring countries like Peru and Brazil.

In addition to this mapping of existing services exporters, the survey also explored the perception of services exporters of what are the main obstacles they face. The results, shown on the left panel of the Chart, indicate a limited knowledge of market opportunities as a critical factor that constraints their expansion (limited contacts abroad and lack of market intelligence were ranked among the top three reasons). Similarly, access to credit is also perceived to be as a major

obstacle faced by services exporters. It is also worth noting that the provision of telecom services, crucial for the activities of many services exporters is not perceived to be among the most frequently mentioned obstacles. In fact, as shown in the right panel of the Chart, the rating given by survey respondents to telecom services is generally good.

**Figure 12: Main obstacles to the exporting of services as perceived by Bolivian service exporters**



Source: CEPROBOL-ITC survey of 101 services exporters and 43 associations in La Paz, Cochabamba, and Santa Cruz.

There were, however, differences regarding perceptions about the main obstacles for services exporters across different sectors of activity. In particular, access to credit was widely perceived to be a major obstacle among IT firms but not among those operating in the tourism sector. In the case of tourism, respondents consider that poor transport infrastructure (lack of access routes) is a key obstacle but, significantly, no more than the detrimental effect caused by social instability. Visa requirements to foreign visitors (in particular to US citizens) were also noted as a limiting factor among respondents in the tourism sector. In the case of call centers, the lack of a specific regulatory framework specific that would allow for shift work was identified by the CEPROBOL-ITC as a constraint for that type of activity.

With regard to cross-cutting issues, the tax treatment of services exports is in practice different to the tax treatment given to exports of goods (neutrality principle) due to the fact that currently many exports of services simply go unreported, as around half is actually delivered electronically. More broadly, the evidence uncovered by the CEPROBOL-ITC survey points to an already relatively diversified and dynamic base of services exports. Besides particular sector-specific issues that may need to be addressed (such as the development of a regulatory framework suitable for call centers), the key policy implications that can be drawn from the study is the need to further support Bolivian services firms to build up their capacity to identify market opportunities, and to achieve the standards of quality and reliability that will allow them to take advantage of those opportunities.

#### 4. PAST AND CURRENT EXPORT PROMOTION INSTITUTIONS AND INSTRUMENTS

**Both market and government failures tend to afflict developing countries as they seek to expand exports and growth.** Laissez faire policies cum low-tariffs are rarely sufficient to prompt dynamic export drives or overcome obstacles in other areas. In many cases these constraints to competitiveness impinge more on higher quality and differentiated products and require specific interventions and institutions.

**The trade regime framework is very liberal and with little government intervention, while export promotion policies can be grouped in 4 pillars.** In the mid 1980s, as part of the stabilization program, multiple exchange rates were unified, tariffs were greatly simplified and reduced – capital goods pay a 0 or 5 percent tariff while consumption goods pay 10 percent – and non tariff barriers and discretionary licensing were eliminated, except a few that were related with health or sanitary reasons. In the export side, there are no voluntary export restraints, export charges or minimum export prices. Moreover, there are no export cartels or export quotas, aside from those negotiated within bilateral trade agreements. Since then, only marginal changes were applied to this liberal framework. The focus concerning policies to actively promote and boost exports, were on: (i) tax neutrality, through tax and tariffs reimbursement or suspension; (ii) promotion and deepening of trade agreements and trade preferences; (iii) implementation of export promotion instruments and institutions; and (iv) customs reform.

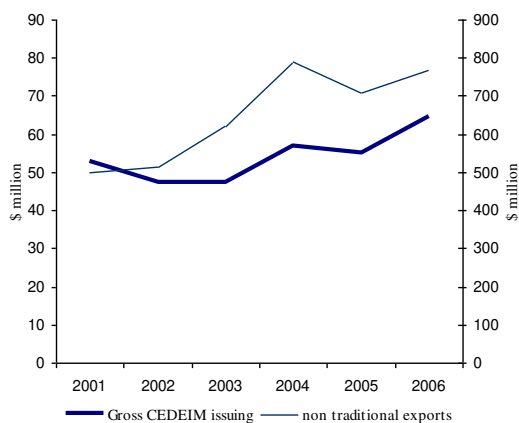
##### **Tax neutrality**

**Tax neutrality was the main pillar of export policies since the mid 1980s.** Bolivia applies a tax refund system and a temporary import regime with tax suspension, both resulting from policies applied to ensure tax neutrality after the mid 1980s trade liberalization. Several instruments were successively applied to fulfill these objectives since the mid 1980s (Candia and Antelo, 2005): *Certificado de Reintegro Arancelario – CRA*, *Certificado de Notas de Credito Negociables – CENOCREN*, *Bonos de Tesorería Redimibles – BTR*, Drawbacks and *Certificados de Devolución Impositiva* (CEDEIM). Currently, tax refund requirements are processed through CEDEIM while RITEX mechanism assures temporary import tariff suspension. CEDEIM are transferable security negotiable on the Bolivian stock exchange that can be used to pay any other tax to the customs or internal tax authorities. CEDEIM reimburses the value of tariffs, VAT and ICE paid by traditional and non-traditional exports but refunds requires tax payments records of up to 13 percent of the value of exports. Tariff refunds can be automatic – for exports below \$3 million the previous year with reimbursement amounting to 2 to 4 percent of the export value – or discretionary – for exports above \$3 million, based on the government calculation of the industry's costs, although exporters can request a firm-specific calculation. On the other hand, RITEX temporarily suspends tariffs, VAT and ICE, to imported inputs used in the production process of export goods. The tax suspension applies only for 180 days and can not be requested for capital goods, fuel, hydrocarbons or electric energy.

**Nevertheless, CEDEIM issuing has long delays and the RITEX use is limited.** CEDEIM should be issued within no more than 35 days but, in the practice, delays last to more than eight months, affecting the exporter's competitiveness – particularly to small and medium enterprises with low access to credit. These delays are caused by the high costs implied by customs exports verification since most exports are very small – more than 90 percent of exports are below \$1 million; chronic treasury deficits were also a significant restriction until recently; In addition, there is a perception that the government considers CEDEIM as a subsidy to exporters instead of

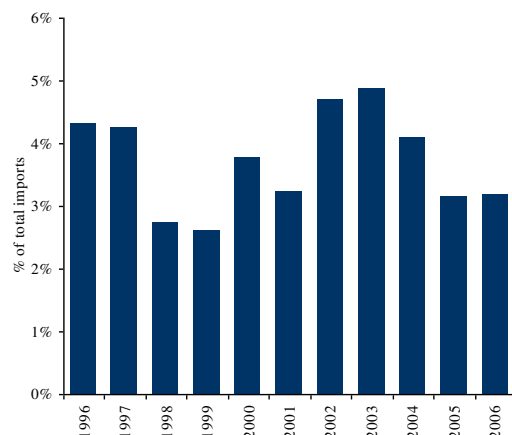
a reimbursement of taxes and tariffs that have already been paid – the government proposed to eliminate CEDEIM for extractive and forestry exports, although this proposal was not applied. In this context, the government has been accumulating reimbursement requests; additionally, budgeted reimbursement through CEDEIMs are linked to past budgets instead to exports performance (Figure 13). On the other hand, RITEX is only used by a handful of exporters – only a hundred are registered as RITEX users and less than 5 percent of total imports ask for tax suspension – in despite of all this RITEX offers advantages over the tax refund system: it has an *ex-ante* design instead of the *ex post* reimbursement of CEDEIM.

**Figure 13: Gross CEDEIM Issuing and Non-traditional Exports**



Source: UDAPE and BCB

**Figure 14: Imports under RITEX**



Source: INE

## Trade agreements and preferences

**Non traditional exporters have benefited from several schemas of trade preferences.** All exports to the Andean Community and most exports to Mercosur and Mexico benefit from tariff preferences. Moreover, the Generalized System of Preferences (GSP) favors export to most developed economies: since 1990, the Andean General System of Preferences (Andean GSP) grants a preferential treatment to access to European countries, for all industrial products and numerous agricultural products – most non-traditional exports entered the European Union duty free – and the Andean Trade Pact and Drug Eradication Act (ATPDEA) – that in the year 2002 replaced the 1991 Andean Trade Preference Act (ATPA) – provide substantial preferences to non-traditional exports to United States. In this context, soy exports has been benefiting from Andean Community preferences, and about half non-traditional exports – textiles, leather, wood products and jewelry – to the United States have preference to enter either under the ATPDEA or the GSP.

**However, exporters do not fully take advantage of the preferences they enjoy, partially due to non-tariff barriers.** The existence of non-tariff barriers – that are generally out of trade agreements – restrained exports to take full advantage of trade agreements. These barriers include reference prices for apparel in Argentina; discretionary licensing and sanitary inspections for coffee, dairy products and wood chairs in Brazil; quotas for sugar and food preparations in Colombia; and reference prices on t-shirts, cotton sweaters, beer and cotton, and discretionary licensing for crude petroleum in Mexico. These restrictions may explain why the United States is the most important market for non-traditional exports instead of any of the Bolivia's closer neighbors.



**Additionally, as some preferences are unilateral decisions, they have not assured terms of duration, while the government is insuring long term agreements with much less important markets.** As temporary unilateral instruments, and despite several extensions granted, they are generating uncertainty concerning their continuous application. Since the original ATPDEA ending – December 2006 – it has been extended 4 times until the end of 2008, for progressively shorter terms (UDAPE, 2006). On the other side, the Bolivian government has sent strong signals of its reduced interest, mostly based on ideological grounds, to sign long term Free Trade Agreements both with the United States and, through its participation in the CAN debates, with the European Union, two of the most important markets in the world for Bolivian exports, in particular for non traditional products. Instead, some other long term agreements – like the ALBA initiative or with the Republic of Iran – were signed with little or none effect on trade.

### **Export promotion instruments and institutions**

**The institutional framework supporting exports development began its implementation in the late 1980s, but it was unable to consolidate itself.** The Ministry of Exports and Economic Competitiveness (MECE), the export promotion agency (INPEX) and the one-stop shop for export procedures (SIVEX) were created in the second half of the 1980s. Those institutions aimed to generate policies, provide technical assistance and information, and reduce red-tape respectively. However, their dependency and competencies changed several times due to the modest outcomes attained. For instance, in late 1990, MECE was renamed Ministry of Exports receiving more responsibilities including RITEX, SIVEX and free trade zones management. In a similar way, INPEX was renamed CEPROBOL, receiving the new responsibilities of promoting investment and tourism. Tax refund system management was transfer from the Ministry of Exports to the Finance Ministry. In this decade, the Ministry of Exports was eliminated and its competencies were transferred to the Ministry of Development and to the Ministry of Production and Micro-enterprises.

**Some mechanisms to coordinate policy design and export promoting services have been launched but they have been extremely weak.** Despite the line Ministries formulate and execute trade policies, the National Export Council (CONEX) may suggest export promoting policies to the executive branch. This council is composed by ministries with competences in trade and with private sectors representatives. However, CONEX did not have a significant role due to irregular meetings. In a similar way, despite non tariff barriers are binding for most non-traditional exports, including those protected by trade agreements, the National Council for Quality Control (CONACAL), that may provide information and coordination to tackle those issues, has not been reactivated and was unable to have meetings. The Productive Development and Export Promotion Network (REFO) was created in 2003 to support the development of production and competition by offering information and coordinating several related services: CEPROBOL, SIVEX, the Bolivian Institute of Metrology (IBMETRO), the Bolivian Accreditation Body (OBA), the Bolivian Institute for Small Industries (INBOPIA), the Productivity and Competitiveness Unit (UPC), the National Intellectual Property Service (SENAPI), and the Technical Assistance Service (SAT). As REFO had only consultative attributions, proposals generated by their members were rarely implemented.

**Due to CEPROBOL institutional weakness and lack of resources, private sectors institutions are providing export promotion services.** CEPROBOL aims to provide technical assistance, information, and finance capacity building in the export sector. However, it has had very limited success due mainly to its very small budget, most of them allocated to salaries, and also to continuous institutional rearrangements. In this context, part of its role has been filled by private institutions, such as IBCE (*Instituto Boliviano de Comercio Exterior*). Moreover, National

Chamber of Commerce (CNC), National Chamber of Industry (CNI) and the Chamber of Exporters (CANEB) also provides technical assistance, information and export promotion services to exporters at a regional level.

**Additionally, there is a network of institutions aiming to support quality and standards, but they are constrained by the legal framework and budget allocation.** SENASAG controls quality and safety of imports, domestic production and exports while SNMAC has the objective to technically enhance the reliability of quality planning and control in production for internal and external markets and is composed by IBNORCA, OBA, and IBMETRO. In both cases, there has been progress in developing norms for quality control and calibration services, and private firms and public institutions require accreditation to pre-established quality standards. However, the current Supreme Decree ruling the issue is insufficient to adequately define the relationship, roles and responsibilities between SNMAC and other private quality-control institutions. Moreover, resources allocated to both SENASAG and SNMAC are insufficient to fulfill their obligations and growing demands.

**The current administration is trying to re-launch the export promotion framework with emphasis on small producers' strengthening.** The Government's main goal is to promote new markets, while strengthening existing ones, diversifying the Bolivian exports and increasing their added value, through fiscal incentives, financial instruments and revamped trade promotion institutions and instruments (Production and Micro-enterprises Ministry, 2007). In this context, the government is trying to re-launch *REFO* by including additional actors – as small producers – and increasing its decision capacity. Moreover, the government is replacing SIVEX by PAEX (*Plataforma de Atención al Exportador*), which is a comprehensive one-stop-shop for exported opened in La Paz, following the steps initiated in Cochabamba and Santa Cruz by the private sector. Complementing the PAEX initiative, the Government is also designing the *SIEX (Sistema Integral de Inteligencia de Mercados para Exportadores Bolivianos)* oriented to provide information and tendencies of export markets, including prices, procedures and external requirements. Finally, through the diplomatic network the implementation of the *Red Externa Boliviana - REB* is planned in order to attract foreign investments to export sectors and gather market information. As an overarching activity, a new Exports Strategy document is in its final preparation phase.

**Moreover, other initiatives related with competitiveness and productivity are also being designed and implemented by the Government, complementing the export promotion activities.** In an effort to build up productivity strengths among small producers and generate economies of scale, the I Buy Bolivian (*Compro Boliviano*) schema, that offers advantages to small producers in public procurement, has been extended and revamped. With similar objectives, an Information System for the National Market - SIM, parallel to the SIEX, is being designed. Both tools are intended to fortify the production capacity of small producers before they try to reach the external markets. Similarly, the Productive Development Bank is providing loans with lower interests and longer maturities than commercial banks to selected productive sectors which have export potential – textiles, manufacturing, leather, wood, food and tourism. Complementing this financial instrument, the Government is also designing a comprehensive set of instruments to enhance small producers' productivity in the above mentioned sectors, including the *Servicio Nacional de Desarrollo Productivo - SENADEPRO* that will provide managerial skills and technical assistance, and the Productive Clusters (*Complejos Productivos*) that intends to establish strong links among firms, both vertically and horizontally, in each prioritized sector. *Complejos Productivos* extend and continue the proposals generated in the *SBPC (Sistema Boliviano de Productividad y Competitividad)* which aimed to propose a long term strategy for productivity and competitiveness in early 2000.

## **Customs reform**

**Institutional reforms were implemented in the Customs Agency, improving trade control and trade facilitation, but smuggling is still a problem.** Import and export controls have been improved and trade facilitation enhanced through institutional reforms in the Customs Administration. ANB institutional reforms included simplified regulations and procedures; up-to-date information systems (including SIDUNEA); merit-based hiring; training; and improved facilities and equipment. Despite the comprehensive reforms and the creation of the COA – *Control Operativo Aduanero* –, smuggling, which may approach a third of total imports, is still a significant problem affecting mainly to formal importers and producers. The current administration is building up this reform and is trying to upgrade their Information Systems, while adapting the procedures and regulations based on the accumulated experience.

## 5. REFERENCES

- Aguilar, M. Estimación del Tipo de Cambio Real de Equilibrio para Bolivia. Central Bank of Bolivia. Revista de Analisis, Vol. 6, No 1. Junio 2003.
- Brenton, P. and R. Newfarmer (2007), "Watching More Than the Discovery Channel: Export Cycles and Diversification in Development," Policy Research Working Paper 4302, World Bank.
- Candia F. and Antelo E. 2005. *Políticas Sectoriales para Promover la Competitividad en Bolivia*. In: *Políticas Sectoriales en la Región Andina*. Corporación Andina de Fomento.
- Central Bank of Bolivia. 2008. *Informe de Política Monetaria*. January 2008.
- Development Planning Ministry. 2006. *Plan Nacional de Desarrollo: Bolivia Digna, Soberana, Productiva y Democrática para Vivir Bien*.
- Escobar, F. and P. Mendieta. 2004. *Inflación y Depreciación en una Economía Dolarizada: el Caso de Bolivia*. Central Bank of Bolivia. Revista de Análisis Vol. 7 No.1 . June 2004.
- Goorman, A., 2003. "Duty Relief and Exemption Control," in De Wulf, L., and J. Sokol (eds.) *Customs Modernization Handbook*, The World Bank, Washington DC.
- Humerez, J. Reexaminando el desalineamiento del tipo de cambio real. UDAPE. Analisis Economico. Junio 2005.
- International Monetary Fund. 2007. *Bolivia: 2007 Article IV Consultation*. July 2007.
- International Monetary Fund. 2007. *World Economic Outlook*. October 2007.
- Jones, B.F., and B.A. Olken (2007), "The Anatomy of Start-Stop-Growth," *Review of Economics and Statistics*.
- Kee, H.L., A. Nicita, and M. Olarreaga (2005), "Estimating Trade Restrictiveness Indices," Working Paper, World Bank, Washington DC.
- Loza, G. 2000. *Tipo de Cambio, Exportaciones e Importaciones: El Caso de la Economía Boliviana*. Central Bank of Bolivia. Revista de Análisis Vol. 3 No.1 . June 2000.
- McKinsey Global Institute, 2005. *The Emerging Global Labor Market: How Supply and Demand for Offshore Talent Meet*. San Francisco.
- Orellana, W. and J. Requena. 1999. *Determinantes de la Inflación en Bolivia*. Central Bank of Bolivia. Revista de Análisis Vol. 3 No.1 . June 2000.
- Organisation for Economic Co-operation and Development (OECD), 2006. *Potential Impact of International Sourcing on Different Occupations*. Unclassified document DSTI/ICCP/IE(2006)1/FINAL. Paris.

- Piermartini, R., 2004. *The Role of Export Taxes in the Field of Primary Commodities*. WTO Discussion Papers No. 4. World Trade Organization, Geneva.
- Production and Micro-enterprise Ministry. 2007. *Plan de Desarrollo Productivo con Soberanía para Vivir Bien*.
- Quintana H. 2002. *Promoción de Exportaciones*. In: *Estado de la Situación de la Competitividad en Bolivia*. Unidad de Productividad y Competitividad. Sistema Boliviano de Productividad y Competitividad.
- Unidad de Políticas Sociales y Económicas. 2006. *El ATPDEA. Un análisis de situación y perspectivas*. Notas de Coyuntura No 3. November 2006.
- World Bank. 2005. *Bolivia Country Economic Memorandum – Policies to Improve Growth and Employment*. October 2005.
- World Bank (2007), *Connecting to Compete: Trade Logistics in the Global Economy*, Washington DC: The World Bank.
- World Bank and International Financial Corporation. *Doing Business 2007*
- World Economic Forum. 2007. World Economic Forum 2007-2008.
- World Trade Organization (WTO), 2007. *International Trade Statistics 2006*. Geneva.