

**High logistics costs and poor infrastructure for merchandise transport: an alternative view; Ronald Fischer; Universidad de Chile**

**General assessment:** The authors do a very good job of describing the challenge and suggesting solutions, but I would like to add some points of emphasis. No overall benefits are estimated, but this is perfectly reasonable given the nature of the policies.

High logistic costs reduce both competitiveness and growth, although I think the growth effect is overstated. For example, a sparsely populated country such as Argentina does not need –and it would be inefficient to have-- the road density of densely populated Korea .

**Additional aspects:**

*Infrastructure recommendations* – The only thing missing from the recommendations is mention of the role of local and regional interests. However, their involvement might be achieved via the proposal for users to pay a higher fraction of infrastructure costs via tolls etc.

It is also clear that the allocation of money to public infrastructure in the region is inefficient and that private provision can have advantages. In this context, it is surprising that the authors do not mention the role of PPPs. Private management of roads can make an important contribution to efficiency. Similarly, the burdens imposed by port inefficiencies can be reduced by privatization of their management, as has been demonstrated in Chile in recent years.

The authors fail to mention some hidden costs associated with their recommendations. In particular, a large increase in spending may overwhelm public service bureaucracies, increasing inefficiencies and giving greater scope for corruption, and franchising to the private sector may give governments an excuse to bypass normal budgetary constraints for electoral advantage. Such issues highlight the need –mentioned by the authors-- for sound institutions for project selection.

*Logistic cost recommendations* – I am not convinced about the existence of inefficient logistics at the level of the firm, which should be corrected by competition. This issue is perhaps a response to regulatory failure or to the monopolization of service provision. Although the proposal for regulatory reform is sound, such proposals have been made for at least the last 20 years to little effect. The paper, unfortunately, does not come up with more specific recommendations about how the reform could be achieved.

*Trade facilitation recommendations* – This section makes seven separate relatively small proposals, and I agree wholeheartedly with all of them. It is interesting to see how Chile has become an extremely open economy by making good progress on several of these. Despite disadvantages of geography, it actually has the lowest logistic costs of any Latin American considered by the authors.

**Conclusions:** The authors have assembled a large amount of data and used it to good effect. They make recommendations which are reasonable, but are not easy to achieve because of vested interests which oppose them. Nevertheless, the case of Chile shows that such reforms can boost growth while protecting the poorest sections of society.