



Bureaucracy and Trade in Latin America: Where Are We Today?

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Mention economic relations among nations in the Americas, or economic development in Latin America in general, and the focus of the conversation invariably turns to *trade*.

While trade—both within and outside the Western Hemisphere—has received inordinate attention from the media, politicians and interest groups, precious little attention has focused on the greatest impediment to trade today—but, more importantly, commerce in general—*bureaucracy*.

While a mere 13% of Latin American companies are engaged in trade, all firms, whether domestic or foreign, whether large or small, and whether they import, export, finance or license, are subjected to bureaucratic procedures.

The term “bureaucracy” itself is regarded as pejorative across the ideological spectrum. Noted conservative economist Thomas Sowell has quipped: “You will never understand bureaucracies until you understand that for bureaucrats procedure is everything and outcomes are nothing.” On the opposite end of the ideological spectrum, Karl Marx has asserted: “Bureaucracy is a circle from which one cannot escape.”

Irrespective of how one regards bureaucracy, it is imperative that both government and the private sector fully comprehend how bureaucracy impacts trade in the Americas. It is fortuitous, therefore, that the Adam Smith Center for Economic Freedom at Florida International University, has just published its latest *Index of Bureaucracy*. The index is a metric that shows the time (measured in hours) that bureaucratic procedures require of companies both to open and to remain formally and legally in operation. The main focus of the study is businesses’ burdens when opening and running a business and the quantification of both economic costs and the impact on national productivity.

What Center economist Dr. Sary Levy-Carciente and her research team have produced is a roadmap for redesigning policies to achieve a dynamic and productive economy. This is vitally

important as state efficiency and regulatory quality have become crucial pillars for the competitiveness of nations.

In designing their study, the researchers draw on a sample that includes 18 Latin American and Caribbean countries. The main focus is *medium-size businesses*—firms that are underestimated and often overlooked, in economic research. Yet, this category of firms, with annual revenue of \$100,000 to \$3 million and employing 50-250 workers, possesses higher levels of capitalization than small enterprises, enabling them to invest in technology and improve productivity. Medium-size firms have the virtues of greater investment capacity, access to financing, and scalability in the market.

The results of the *Index on Bureaucracy 2025* reveal clear opportunities to make government bureaucracies more efficient and transparent. When it comes to governmental efficiency, the study assesses the time it takes to open a business (documented to be 1850 hours or 8 working months) and operate an enterprise (1577 hours per year). For both opening and running a business the best positioned Latin American countries are Brazil, Costa Rica, Ecuador, El Salvador, Mexico, Paraguay, and the Dominican Republic.

The opportunity cost of bureaucratic excesses is also a key finding of the study. The direct financial cost is \$5800 for running a business for each company, and in terms of labor productivity the potential opportunity cost would be over \$110 billion, equivalent to 13% of GDP.

Bureaucratic impediments are especially widespread within the domain of international trade and investment. To illustrate, foreign companies operating in Mexico spend on average 498 hours per year on tax procedures and health and safety compliance. Just recently Mexico's government submitted a budget proposal that would impose new import taxes on more than 1,400 items to strengthen national production. Another bureaucratic barrier, one imposed by Argentina, Brazil, Mexico and Paraguay, pertains to telecommunications and electronic equipment. These countries require extensive in-country testing and certification, often necessitating local legal representation to hold certificates.

Despite the many barriers such as those cited above, the regulatory environment in the region is experiencing incremental improvement. For example, Argentina has implemented sweeping economic reforms through the Bases Law passed in June 2024, representing the most significant regulatory streaming in decades. In another instance, last year The Mercosur Digital Citizen initiative was launched by the Inter-American Development Bank (IDB) and OAS to enable citizens from Mercosur member countries (Argentina, Brazil, Paraguay, Uruguay) to use their national digital IDs for government procedures in other participating countries, starting with Brazil and Uruguay.

Overall, we can conclude from both empirical research and public policy practice that infrastructure investment, subsidies, and industrial policies by themselves cannot create a competitive economic environment. Governments must improve the capacity of the state by removing the barriers and redundancies the stifle transparency and efficiency in the public sector and, as a result, will recover citizen trust in institutions.

Simply stated, improving efficiency and transparency. It pays off. For example, an OECD study shows that a reduction in bureaucracy in countries such as Chile and Peru led to an increase in GDP per capita of 2% in the first five years after implementation of bureaucratic reforms. According to Carlos Diaz-Rosillo, director of the Adam Smith Center, additional survey-based empirical research will be undertaken to amplify and extend the findings of the *Index of Bureaucracy 2025*. Among the research projects planned are ones to increase the number of countries in the survey, a study on the bureaucratic procedures for closing a business, and creation of a website where people can access data pertaining to the study.

Trade agreements by themselves cannot bring about prosperity. However, if Latin American governments can make greater progress in removing the bureaucratic shackles that presently plague the region, the benefits of free market economic policies will accrue to a far greater number of citizens.

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