

## TC ABSTRACT

### I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ TC Name:	Fostering Regional Value Chains in Latin America and the Caribbean
▪ TC Number:	RG-T3971
▪ Team Leader/Members:	GARCIA NORES, LUCIANA VICTORIA (INT/RIU) Team Leader; BRAUN, MIGUEL (INT/RIU); VITALI, MARIA VICTORIA (INT/INL); RECIO, MARGARITA M. (INT/RIU); ALMEIDA OLEAS, NATALIA (LEG/SGO); ESTEVES, YASMIN (INT/INT); ROSPIDE, MARIA DE LA PAZ (INT/TIN)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	29 Jul 2021
▪ Beneficiary:	All 26 borrowing member countries of the IDB
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$350,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	24 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	INT/RIU - Regional Integration Unit
▪ Unit of Disbursement Responsibility:	INT/INT - Integration and Trade Sector
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation ; Economic integration

### II. Objective and Justification

- 2.1 The main objective of this Technical Cooperation (TC) is to support the IDB Group's coordinated effort for the strengthening of regional value chains in Latin America and the Caribbean (LAC), in the context of development opportunities identified in the Bank's Vision 2025 and its Concept Note on Strengthening Regional Value Chains in LAC, by advancing the completion of a comprehensive diagnosis to identify opportunities, both at the national level and within specific pre-identified sectors, with high potential for attracting investment, promoting exports and improving the region's insertion in value chains.
- 2.2 Trade integration has been very beneficial for Latin America and the Caribbean (LAC) in the past 30 years. The region embarked on a deep (though heterogeneous) program of economic liberalization in the 1990s, within which trade liberalization was a central chapter. This liberalization, inspired by economic theory and the recent success of the Asian tigers, promised to improve the competitiveness of the region, and contribute to its development. A recent IDB study (Mesquita Moreira, Mauricio and Ernesto Stein (Eds.) (2019), Trading Promises for Results: What Global Integration can do for Latin America and the Caribbean, IDB Flagship Report) estimates that trade openness added between 0.6 and 0.7 percentage points to the region's annual growth. This impact is very significant: it implies that, in the last two decades, the region has been 16% richer in per capita terms thanks to the process of trade liberalization.

- 2.3 After the impact of the 2008 financial crisis, global trade recovered, but with growth rates significantly lower than those shown before the crisis, and in 2020 the coronavirus pandemic led to a sharp drop in trade. Added to this complex context are the growing trade disputes between China and the United States and the deterioration of the World Trade Organization, which has generated much uncertainty regarding the future of the multilateral trading system. However, this new context creates a potential opportunity for LAC countries.
- 2.4 Once the health crisis is over, we will probably face a scenario where countries, especially developed ones, will look more inward, relying on self-sufficiency, possibly with a higher dose of protectionism. Although this entails a loss in terms of efficiency, they will seek to gain in security of supply. Some countries will also seek to diversify the origins of the strategic inputs they import, seeking to reduce the risk of unexpected interruptions.
- 2.5 During this pandemic, the problems that can be generated by production systems that are highly interconnected and highly dependent on suppliers located in remote locations have become clear, especially in central countries. The fragility of certain value chains has been highlighted due to the vulnerability of a system in which factories are located at the opposite end of the place where these goods are consumed, whether intermediate or final. All this could lead to a deepening of the process of reconfiguration of global value chains, which could be shortened, becoming less global and more regional. The goal of reducing the carbon footprint and the consequent introduction of carbon taxes at the border could also accelerate this trend.
- 2.6 This situation may create an opportunity for LAC, since in this process of potential readjustments of global value chains, the region could increase its market shares in stages of the chains that the United States and other central countries seek to diversify and/or relocate. However, efficiently addressing these potential opportunities requires an understanding of global trends and the strategies of leading companies in value chains, in the context of the directions assumed by international trade negotiations. It is from this understanding that the governments of the region could develop suitable strategies to attract new investment and export opportunities, both for goods and services, in various sectors identified as relevant for LAC countries.

### III. Description of Activities and Outputs

- 3.1 **Component I: National Nearshoring Strategies.** At least 4 national nearshoring strategies (currently only 14 countries analyzed due to lack of resources and some still require a deeper analysis and follow up). Each consultancy will: (i) identify products and companies to improve the country's insertion in GVCs, (ii) survey specific needs to be addressed and existing government tools to serve them; and (iii) propose policies to accelerate the relocation of stages in the value chains of prioritized sectors.
- 3.2 **Component II: Vertical Studies.** At least 5 consultancies analyzing GVCs in prioritized sectors such as: automotive; textile & clothing; fiber optic cables; microprocessors & semiconductors; aerospace; renewables; and services. Each consultancy to study a sector will include: (i) situation and trends of the GVC in the sector; (ii) analysis of the competitive position and identification of the main opportunities and threats in terms of attracting investment and promoting exports; and (iii) policy recommendations.

### IV. Budget

#### Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
National Nearshoring Strategies	US\$200,000.00	US\$0.00	US\$200,000.00

Vertical Studies	US\$150,000.00	US\$0.00	US\$150,000.00
<b>Total</b>	<b>US\$350,000.00</b>	<b>US\$0.00</b>	<b>US\$350,000.00</b>

## **V. Executing Agency and Execution Structure**

- 5.1 The Bank will execute the TC through the Integration and Trade Sector's Regional Integration Unit.
- 5.2 This TC will be executed by the Bank for the following reasons: (i) This is a regional R&D project that involves coordination with several regional public and private sector stakeholders, and the Bank is positioned as an ideal actor to execute this project, given its presence in every country; and (ii) INT/RIU has gained invaluable know-how in terms of global value chains, investment attraction and regional integration, and is the Bank Unit leading the comprehensive support to strengthening regional value chains de Bank is deploying as part of its priorities under Vision 2025.

## **VI. Project Risks and Issues**

- 6.1 The main risk is lack of availability of data to conduct the studies contemplated in Components I and II, however, this risk will be mitigated by the methodology set in place by INT/RIU to conduct such studies in already 14 countries, closely following hired consultants and working in coordination with Country Offices to ensure consulting firms and individuals hired are granted access to information by relevant stakeholders.

## **VII. Environmental and Social Classification**

- 7.1 The ESG classification for this operation is "C".