

TC DOCUMENT

I. Basic Information for TC

▪ Country/Region:	Regional
▪ TC Name:	Joint Research for a Renewed Economic Cooperation Agenda for China and Latin America and the Caribbean
▪ TC Number:	RG-T3086
▪ Team Leader/Members:	Matthew Shearer (Team Leader, INT/INT), Rodrigo Salas (Alternative Team Leader, INT/INT), Jianjun Xu (ORP/ORP); Joaquim Tres, Luciana Garcia, Mariela Munguia, Yannick Detchou, Claudia Valderrama-Celaya (INT/INT); Margie-Lys Jaime Ramirez, Liza Lutz (LEG/SGO)
▪ Taxonomy	Research and Dissemination (RD)
▪ Date of TC Abstract authorization:	July 24, 2017
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	Public sector institutions from all IDB borrowing member countries. Private sector not-for-profit entities may be invited to participate if they add value to strengthening public sector capacity.
▪ Executing Agency and contact name (Organization or entity responsible for executing the TC Program)	The Inter-American Development Bank (IDB), through the Integration and Trade Sector (INT/INT). Contact: Matthew Shearer, Integration and Trade Senior Specialist (x1850).
▪ Donors providing funding:	Institutional Capacity Strengthening Thematic Fund (ICS)
▪ IDB Funding Requested:	US\$230,000
▪ Local counterpart funding, if any:	n.a.
▪ Disbursement period (which includes Execution period):	30 months (execution period 24 months)
▪ Required start date:	September 15, 2017
▪ Types of consultants (firm or individual consultants):	Individual consultants and possibly firms or think-tanks and foundations depending on the type of activity.
▪ Prepared by Unit:	INT/INT
▪ Unit of Disbursement Responsibility:	INT/INT
▪ 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:	<i>Limited Economic Integration</i>

II. Objectives and Justification of the TC

- 2.1 The overall objective of this project is to analyze opportunities to strengthen and expand the economic and cooperation agenda between China and LAC countries.
- 2.2 The specific objectives are to:
 - i) Establish a joint study group on China-LAC engagement on integration
 - ii) Conduct and disseminate applied research and proposals for enhanced cooperation between the two sides

- 2.3 During his trip to Latin America in late 2016, President Xi Jinping laid out a vision for deeper Chinese engagement in Latin America and the Caribbean (LAC) based on existing and emerging Asia-Pacific integration projects and financial institutions. This agenda is now enhanced with the Belt and Road Initiative (BRI), which represents an important opportunity for LAC to deepen its strong economic and cooperation ties with China and to expand the relationship into new areas and sectors. Certain Heads of State and high-level officials from LAC have voiced their desire to deepen LAC's involvement with the BRI. For example, at the Belt and Road Forum in May 2017, President Bachelet of Chile spoke about the possibility of installing a fiber optic cable to "transform the Pacific Ocean into a bridge between [both] regions", while [President Macri of Argentina highlighted](#) the need for coordination with the BRI to address regional integration challenges. Benefits to the region could include, on the one hand, greater access to Asian markets and quicker transit times for goods, thanks to expansion and upgrading of Asia's connectivity infrastructure, and on the other hand, potential investment in LAC's own infrastructure, both physical and digital. Strengthening the relationship with China will be central to LAC's development and integration strategies moving forward, and for the IDB's engagement in the region.
- 2.4 The timing for these initiatives is fortuitous. The China-LAC relationship entered a new phase after a decade of extraordinary growth beginning in 2003. Trade increased by an annual average of 31% per year between 2003 and 2011, China invested billions of dollars in energy, mining, infrastructure, and manufacturing throughout the region, and governments forged closer ties through a host of free trade agreements (FTAs), cooperation initiatives, and multilateral engagement on various issues. This initial "boom" period brought considerable gains for both sides. LAC saw a surge in exports that drove record levels of growth, while China gained access to key industrial inputs and new markets across the region.
- 2.5 Trade will continue to be a key driver of the relationship between China and LAC, as a result of the strong complementarity of their economies. China's importance as a market for the region's goods will continue to grow, as the economy is expected to import USD 8 trillion over the next five years. The region clearly has a solid interest in building on its strong existing comparative advantage in natural resources and in diversifying its export offering to China.
- 2.6 After a decade of lagging behind bilateral trade, Chinese foreign direct investment (FDI) in LAC has been increasing. Between 2008 and 2014 FDI flows to the region tripled, from USD 2.4 billion to USD 7 billion. As China becomes an increasingly important source of outward FDI, Chinese investment in natural resources in LAC will be complemented by a growing range of FDI into innovative infrastructure vehicles such as PPPs, manufacturing, services, and technology; helping to develop the region's productive assets while allowing China to better reach LAC's growing middle-class. Chinese investment in LAC thus represents a critical opportunity to deepen and diversify ties while advancing key strategic objectives on both sides.
- 2.7 China stands poised to play a larger role in inter-regional integration projects moving forward, a key theme in President Xi's message to the 2016 APEC Forum. The Free Trade Area of the Asia-Pacific, an initiative first proposed by China in 2014, has renewed momentum after the APEC Summit, and greater relevance following the withdrawal of the United States from the Trans-Pacific Partnership. Bilateral agreements also represent an important mechanism and stepping stones to deepen trade relations. China currently has FTAs with Chile, Costa Rica, and Peru, and President Xi discussed plans to upgrade these agreements with the leaders of Chile

and Peru during his recent visit. Joint research will highlight standards and regulations in order to facilitate their compliance on the part of traders, identify remaining tariffs on products that are currently traded or where there is high potential, analyze preferential rules of origin in existing FTAs between China and LAC, and identify investment opportunities and complementarities.

- 2.8 **Promoting inter-regional connectivity through transport, logistics, and trade facilitation.** Enhancing connectivity in the region will facilitate trade linkages between China and LAC and is thus complementary to enhancing trade and investment. Logistics and transport costs presently represent the main trade barrier in LAC. As Justin Lin and Yan Wang state in *Going Beyond Aid: Development Cooperation for Structural Transformation* (2016): “The NSE [New Structural Economics] postulates economic development as a dynamic process that entails structural changes, involving industrial upgrading, which increases labor productivity, and corresponding improvements in ‘hard’ (tangible) and ‘soft’ (intangible) infrastructure, which reduce transaction costs, at each level of development.”
- 2.9 The IDB’s own experience shows increasing economic and development gains from a comprehensive and coordinated approach on policy and regulations (software) and actual physical investments (hardware) to increase LAC countries’ participation in international value chains across Asia. As such, the IDB has done a great deal of work acting as an honest broker in fostering integration initiatives and projects that address both the software and hardware dimensions of integration.
- i) On the software side, the joint research will focus on enhancing connectivity between China and LAC in alignment with the implementation of the WTO Trade Facilitation Agreement, such as through single window programs that allow parties involved in trade and transport to electronically submit standardized information through a single point or “window.” This eliminates the need to physically deliver documents to multiple government offices, and effectively expedites customs procedures and transit times. Research will analyze the establishment of foreign trade single windows with an emphasis on their interoperability, mutual recognition of Authorized Economic Operators, online checking of inspection and quarantine certificates, and institutional customs cooperation in areas like information exchange, mutual recognition of regulations, and mutual assistance in law enforcement, among others.
 - ii) In terms of the integration hardware, the joint research will review the role of cross-border infrastructure connectivity in China’s structural transformation and analyze its applicability to LAC, considering China’s extensive experiences in designing, evaluating, and executing infrastructure investment projects including financing models. Bottlenecks to trade between China and LAC will be identified in a manner consistent with the Belt and Road Initiative. This will address not only issues that directly contribute to high international transport costs such as freight costs, at ports or airports, or with respect to customs clearance capability, but also examine domestic transport costs and how they affect trade between China and LAC, including through access roads to ports, airports, and borders, and with respect to storage, cold chain management, and multimodal transport facilities. It will then identify targeted infrastructure interventions with a view to connecting LAC trade hubs with the BRI, and provide recommendations designed to advance discussions on vehicles for infrastructure financing.

- 2.10 **Toward a new LAC-China inter-regional cooperation mechanism.** This pillar would strengthen relations through cooperation and dialogue including: (i) government-government; (ii) government-business; (iii) business-business; and iv) researchers-policy makers. China also has a comparative advantage in South-South cooperation (Lin and Wang, 2016). Opportunities for fruitful cooperation exist in several areas beyond trade, investment, and connectivity. For example, China recently announced it would convene a global dialogue on climate change, while LAC countries, too, have been among global leaders in addressing climate change, with the support of the IDB. China's success with technological upgrading in its industrial sectors undoubtedly holds development lessons for the region, while LAC countries have been pioneers in social policy areas such as conditional cash transfers and urban development where China could learn from the region's experiences. Finally, important opportunities exist to identify inter-regional public goods that can underpin a more fruitful relationship with both sides and to deepen cultural, educational, and people-to-people ties.
- 2.11 **Alignment.** The proposed project is consistent with the Institutional Capacity Strengthening Thematic Fund (ICSF) objective of improving countries' ability to design institutional reform and directly addresses the objective of bringing actors to the table, promoting strategic alliances, involving think-tanks and universities, increasing inter-institutional communication, and disseminating best practices through South-South dialogue in order to facilitate institutional reform. The project is also aligned with the Bank's Update to the Institutional Strategy 2010-2020 (AB-3008) challenge of *Limited Economic Integration*, as well as the Corporate Results Framework (CRF) Country Development Results Indicator 23: *Regional, sub-regional and extra-regional integration agreements and cooperation initiatives supported*, as well as Auxiliary Indicator 10: *Projects that support South-South and Triangular cooperation*.

III. Description of activities/components and budget

- 3.1 The proposed project will establish a joint Study Group composed of the Integration and Trade Sector (INT) of the IDB, and the Institute of World Economics and Politics (IWEP) of the Chinese Academy of Social Sciences (CASS). The Study Group's activities in key strategic areas, as described below, will inform the ongoing policy dialogue among interested constituencies in the two regions and disseminate findings and recommendations. This will involve the following areas of work:
- i) **Component 1: Joint research.** The China-LAC relationship has evolved into a mature partnership based on trade, investment, and cooperation. Still, there are new opportunities to deepen the gains of the last decade and establish new modes of engagement, taking advantage of areas of overlap among the development priorities of the region, the strategic mandate of the Bank, and the vision of the Chinese government. Seizing these opportunities is critical amid global economic uncertainty and the prospect of increased protectionism. As China assumes a leading role in global issues including trade, investment, and economic integration, among others, the moment is right for China and LAC to take concrete steps to advance an agenda for mutually-beneficial engagement. Joint research will be carried out through the IDB/INT-IWEP/CASS Study Group¹, including addressing the following questions:

¹ The Study Group will identify new areas of cooperation between China and LAC, and to this end, will conduct its research activities in coordination with the relevant Bank Sectors and Country Departments, as applicable. Ultimately, the group will aim to provide recommendations to improve the integration agenda and enhance the LAC-China interregional cooperation mechanisms, including strategic guidance to facilitate

- How can trade and investment ties between China and LAC, including FTAs, be deepened and broadened?
- What enhancements in the areas of transport, logistics, and trade facilitation and security are necessary to enhance inter-regional connectivity? What is the best way to link LAC to the BRI?
- How can China-LAC inter-regional cooperation be further strengthened?
- What kind of inter-regional public goods need to be generated to increase the gains from trade and investment for both sides?
- How can a renewed and more enriched institutional dialogue be facilitated among key stakeholders from private, public and academic sectors of both regions?

This component will finance consultancies as well as a technical workshop to discuss findings and guide the direction of the research. In order to facilitate the joint research and dissemination and outreach, personnel exchange will be arranged between IWEF and INT, subject to the policies of each institution. Relevant researchers or personnel will be identified through previously established channels). A revised MoU prepared by CASS and IDB covering personnel exchange, among other matters, was signed during IDB President Moreno's May 2017 visit to Beijing.

- ii) **Component 2: Policy dialogue.** The findings and recommendations of the joint research would be presented at one-day policy dialogue events to be held in China featuring panels with high-level academics, practitioners and policymakers, followed by a second day of discussions among technical specialists. A first event would be held in the first quarter of 2018, and a second to take place alongside the Bank's 2019 Annual Meeting, timed to coincide with the tenth anniversary of China joining the IDB.
- iii) **Component 3: Dissemination and outreach.** The results and recommendations of the research and policy dialogue activities will be disseminated through innovative communication and outreach products, which would include: (a) well-produced digital content (video, graphs, infographics) directed at policy-makers and the general public; (b) design, layout, and printing of research reports for distribution at the 2019 IDB Annual Meeting; and (c) an outreach event² to be held in 2019, where researchers can present study results, engage in constructive debate and gain feedback from interested professionals at the IDB and other multilateral institutions, as well as from relevant think tanks, and Chinese institutions with a stake in this project.³ Sharing results via easily accessible online content and via in-person interaction will help ensure the sustainability of results after project completion. In the same vein, efforts will be made to invite thought leaders, operations specialists, and others working closely on China-LAC cooperation to policy

and renew the dialogue between private, public and academic stakeholders, and proposals to strengthen connectivity between both parties in the infrastructure and financing sectors.

² Events held in the region will obtain a non-objection letter from the respective liaison office of the Bank prior the execution of the activity.

³ Products and results from this project will be shared with the Institutional Capacity Strengthening Thematic Fund (ICSF), and will acknowledge the role of the ICSF in making the project possible.

dialogues and to the outreach event, with the aim to have the project's results inform their current and future work.

Indicative Results Matrix

	Outcome	Unit	Target by month		Data Source
			12	24	
Intermediate	Policy recommendations to increase China-LAC cooperation disseminated to policy-makers and the general public. Indicator: Number of (i) digital content downloads; (ii) report downloads; (iii) attendees at outreach event	#	200	350	1. Website statistics (detailed by product) 2. Event attendance records
Intermediate	Cooperation opportunities identified Indicator: Number of (i) research papers presented at technical workshops; (ii) policy dialogues held with recommendations summarized	#	5	10	1. Records, summary reports, and/or minutes from technical workshops and policy dialogues.
Intermediate	Recommendations made to strengthen and expand the economic and cooperation agenda. Indicator: Recommendations provided at workshops or policy dialogues	#	4	8	1. Records, summary reports, and/or minutes from technical workshops and policy dialogues.
	Outputs	Unit	Target by month		Data Source
			12	24	
	Discussion papers developed Indicators: Number of papers published	#	1	3	Bank records
	Technical workshops organized Indicators: Number of workshops held	#	1	1	Workshop records (final agenda and list of participants)
	Policy dialogue events organized Indicators: Number of events held	#	1	2	1. Event records (final agenda and list of participants)
	Conferences organized Indicator: Number of events	#	0	1	1. Event records (final agenda and list of participants)
	Number of pieces of content published online or in print Indicators: Number of pieces of content published	#	3	7	1. Website records (detailed by product)

- 3.2 A total budget of US\$230,000 is requested for this project from the Institutional Capacity Strengthening Thematic Fund (ICSF).

Indicative Budget

Activity/Component	Unit cost	Quantity	IDB Funding
Component 1: Research			
Commissioning of studies	30,000	3	90,000
Technical workshop	20,000	1	20,000
Research subtotal			110,000
Component 2: Policy dialogue			
Policy dialogue events	40,000	2	80,000
Policy dialogue subtotal			80,000
Component 3: Dissemination and outreach			
Digital content	3,000	4	12,000
Layout and printing of reports	2,000	3	6,000
Outreach Event	22,000	1	22,000
Dissemination and outreach subtotal			40,000
TOTAL			230,000

- 3.3 INT/INT will execute this TC project. Matthew Shearer, Integration and Trade Senior Specialist, will be responsible for its execution and supervision. The supervision costs

are included within the budget of INT/INT. Specialists from other sectors of the Bank will be added to the project team depending on specific areas of research.

- 3.4 Program monitoring will take place through brief reports at the time of the interventions, and in some cases, presentations to policy dialogues. The activities of the 'Research' and 'Policy dialogue' components and the Outreach event will also be monitored by surveys of participants before and after meetings to measure their satisfaction and, to the extent possible, the impact of the activities. Dissemination and outreach will be measured by the number of users accessing digital content. A final report will be prepared measuring and evaluating the results achieved.

IV. Executing agency and execution structure

- 4.1 The Bank, through the Integration and Trade Sector (INT/INT), is the executing agency for this project. Two main reasons justify the execution of this project by the Bank. First, this is a regional project that involves the coordination with the IWEPCASS, and the Bank already has already established the relevant contacts and is in the best position to do so. Second, the project seeks consistency with the Bank's GCI-9 and the Bank Institutional Update priorities and operational program, and Bank specialists are in the best position to ensure this.
- 4.2 **Procurement.** The operation will contract: (a) individual consultants in accordance with the guidelines set out in the AM-650 and; (b) consulting firm services of an intellectual nature only, in accordance with GN-2765-1 and related Operational Guidelines (OP-1155-4) and (c) logistics and other services in accordance with GN-2303-20.

V. Major issues

- 5.1 The main risk foreseen for this project is that given the relatively short timeframe of the project, it is important that activities are completed in a timely manner. One of the lessons learned by the Bank in its previous joint research and other cooperation activities, including those with China, is that research activities tended to take longer. Therefore, the project is emphasizing events and visits that are close-ended in addition to short-term applied research activities, although they will present opportunities for continued cooperation by the countries beyond the project if they so choose.
- 5.2 Another lesson learned is the importance of strategic and operational relevance to maximize strategic impact. Thus, the areas addressed by the TC will seek consistency with the strategic policy objectives to increase integration laid out in the Update to the Institutional Strategy 2010-2020 (social exclusion and inequality; low productivity and innovation; and limited economic integration). In particular, it has been observed that trade and connectivity is a key area of mutual interest, thus the general emphasis of this technical cooperation.

VI. Exceptions to Bank policy

- 6.1 This TC does not involve any exceptions to the Bank's policies.

VII. Environmental and Social Strategy

- 7.1 According to the ESG classification, this operation entails no environmental and social risks whatsoever, as it is only dealing with the organization of dissemination and capacity - building activities. Based on the [Safeguard Policy Filter Report](#) and [Safeguard Screening Form](#) the TC was classified as category "C".

Required Annexes:

- Annex I: [Terms of Reference](#)
- Annex II: [Results Matrix](#)
- Annex III: [Procurement Plan](#)