TC Document

I. Basic Information for TC

▪ Country/Region:	BRAZIL
▪ TC Name:	Support in the implementation of the New Trade Policies and Agreements of Market Opening in Brazil
▪ TC Number:	BR-T1443
▪ Team Leader/Members:	Piereck, Guilherme C. (INT/TIN) Team Leader; Avila, Krysia A (LEG/SGO); Contreras Huerta, Rodrigo Andres (INT/TIN); Esteves, Yasmin (INT/INT); Garcia, Pablo Marcelo (INT/INL); Gomez Gonzalez, Maria Margarita (INT/TIN); Mejia Rivas, Isabel (INT/INT); Rospide, Maria De La Paz (INT/TIN); Toscani, Veronica Lucia (INT/INL); Vasco Henao, Oscar Dario (INT/TIN)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	N/A
▪ Date of TC Abstract authorization:	26 Feb 2020.
▪ Beneficiary:	Federative Republic of Brazil, through its Ministry of Economy
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Integration(RIN)
▪ IDB Funding Requested:	US$400,000.00
▪ Local counterpart funding, if any:	US$0
▪ Disbursement period (which includes Execution period):	36 months (Disbursement and Execution)
▪ Required start date:	July 20, 2020
▪ Types of consultants:	Individuals and firms
▪ Prepared by Unit:	INT/TIN-Trade & Investment
▪ Unit of Disbursement Responsibility:	INT-Integration and Trade Sector
▪ TC included in Country Strategy (y/n):	Si
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation; Economic integration

II. Objectives and Justification of the TC

2.1 In 2015-2016, Brazil experienced the worst recession in its history with a Gross Domestic Product (GDP) loss of 7.3% in 2 years. Unlike recent crises in other emerging markets, domestic factors were the main reasons for Brazil's economic downfall and the motivations behind a series of macroeconomic reforms aimed at reshaping the economy. Although GDP grew by just over 1% annually between 2017-2019, things were finally looking up for the Brazilian economy and the International Monetary Fund was forecasting a 2.2-2.3% GDP growth for 2020-2021. However, the ongoing COVID-19 pandemic that has hurt the global financial landscape, has hindered the Brazilian recovery and GDP is now expected to fall by 6.5% in 2020 and to grow by 3.5% in 2021.[1]

[1] https://www.infomoney.com.br/economia/mercado-financeiro-ve-contracao-de-648-do-pib-em-2020-segundo-focus/

2.2 According to the Institute for the Integration of Latin America and the Caribbean (INTAL), Latin America's intraregional trade is significantly more affected than its exports to the rest of the world.[2] The oil crisis will have substantial effects on the economies of the region specialized in the oil production and exports. On a recent article, Foreign Affairs argues that trade barriers will probably delay post-pandemic recovery and affect the future development of the multilateral trading system.[3]

2.3 Before the coronavirus pandemic hit the world, the Brazilian Government had approved complex and hard pension reforms, which will generate savings of over 1 trillion *reais* (U$250bi) in 10 years. In parallel, the government was making important changes to unleash the economy and increment the Brazilian business climate, such as the Privatization and Concession Program[4] and the “MP da Liberdade Economica”.[5] The government was able to lower basic interest rates and inflation to historic low levels (3%),[6] the stock exchange reached new records by this past January 2020[7]. It is expected that other reforms (fiscal and administrative) will be approve once the health crisis subsides.

2.4 As Brazil attempts to reverse its trajectory of imposing trade barriers that negatively impact productivity, it is playing a leading role in the negotiation of new trade agreements. Brazil stimulated its MERCOSUR’s partners and concluded trade agreements with both the EU and EFTA (see below). Furthermore, the Brazilian Government and its MERCOSUR partners started new trade negotiations with Canada, UK, India, Korea, Singapore, Lebanon, Vietnam, among others.

2.5 Trade Agreements 1. After 20 years and under the strong leadership of the Brazilian Government, MERCOSUR and the European Union (EU) reached an historical bold, balanced and comprehensive trade agreement in June 2019. The agreement covers approximately 800 million people for the trade of goods and services comprising almost a quarter of the world’s GDP. In terms of tariff reduction, it is the largest deal the EU has struck (duties on EU exports to MERCOSUR are expected to be cut by US$4.1 bn a year). It is also the first sweeping trade agreement signed by MERCOSUR since its launch in 1991.[8]

2.6 Trade Agreements 2. Less than two months after the MERCOSUR-EU trade agreement, MERCOSUR signed a comprehensive and broad-based Free Trade Agreement with European Free Trade Association (EFTA - Switzerland, Norway, Iceland and Liechtenstein). The Brazilian Ministry of Economy estimates that the MERCOSUR-EFTA Agreement will represent an increase in Brazilian GDP of US$5.2 billion over 15 years, an increase of US$5.9 bn in Brazilian exports and US$6.7 bn in imports.

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2 http://conexionintal.iadb.org/descargas/index.php?file=Newsletter%20INTAL.

3 https://www.foreignaffairs.com/articles/united-states/2020-04-28/covid-19-could-bring-down-trading-system.

4 The government has 119 projects and intends to sell as a concession or privatize. It has over 40 sales in 2019.(https://g1.globo.com/economia/noticia/2019/10/08/mapa-das-privatizacoes-governo-tem-119-projetos-anunciados-e-preve-realizar-mais-22-leiloes-ate-fim-do-ano.ghtml).

5 New regulation approved that reduces bureaucracy, simplify labor laws, facilitate the process to open a new business (https://www.congressonacional.leg.br/materias/medidas-provisorias/-/mpv/136531).

6 https://oglobo.globo.com/economia/banco-central-reduz-taxa-basica-de-juros-de-375-para-3-1-24413371.

7 http://bvmf.bmfbovespa.com.br/indices/ResumoRecordesAnuais.aspx?Indice=IBOV&idioma=pt-br.

8 https://trade.ec.europa.eu/doclib/press/index.cfm?id=2039

2.7 However, there is limited public knowledge about the benefits and impact that trade agreements have on the economy. How does the private sector take advantage of these new trade agreements? How can the sub-national entities engage and better understand the impact of those changes on their economies?

2.8 Moreover, the 2019 IDB flagship report "Trading Promises for Results: What Global Integration Can Do for Latin America and the Caribbean"[9], is clear with its conclusions: (i) liberalization brought many benefits, including faster growth (a tariff cut accelerates per capita GDP growth); (ii) some sectors and workers lose business with free trade, however, and have incentives to block trade reform; (iii) implementing good trade policies requires a deep understanding of the political economy of trade policy and an adequate institutional architecture for trade policy management; (iv) successful trade policies also require a complementary agenda to facilitate factor reallocation and protect those who are made worse off, in order to make the most of the opportunities offered by global integration, while mitigating associated risks.

2.9 This project intends to support the Brazilian government in the development of a complementary strategy and agenda to implement and negotiate new trade agreements and policies. Furthermore, the main objective of this project is to support the Brazilian Government in the dissemination and implementation of the new trade policy and agreements related to trade openness, as well as to convert those changes into investment promotion activities at national and sub-national levels. To achieve this goal, this TC will: (i) share information about the benefits and challenges that the new wave of free trade agreements will bring to the Brazilian markets with the covered sectors; (ii) strengthen existing business opportunities and boost emerging opportunities in strategic sectors such as: infrastructure, innovation, agrobusiness, Information and Communication Technologies (ICT), energy, transport and environment (among others); (iii) train public servants to develop and review foreign trade policies and programs, in addition to evaluate their results and impacts; and (iv) organize business fora where high-level Brazilian and international investors, policy makers, government officials and entrepreneurs share their ideas and insights on how to maximize the potential of business relationship in diverse sectors.

2.10 The operation is consistent with the second update to the Institutional Strategy (AB 3190-2), is aligned with the development challenges of economic integration and productivity and innovation. This project will promote economic growth, intraregional and global trade through the strengthening of trade agreements and its implementation at Federal and State levels. Free movement of goods and services under new trade agreement and negotiations will, in turn, directly increment Brazilian productivity levels. Likewise, the TC will contribute offering adequate knowledge and innovation ecosystems, assimilating SMEs into value chains, and promoting the alignment of integration policies and instruments. Also, this project addresses the major development challenges identified in the IDB Group Country Strategy with Brazil 2019-2022 (GN-2973), which are (i) to promote trade liberalization and (ii)integrate the less developed regions. Therefore, the project will promote: (i) the increase of trade flows; (ii) the lowering of tariff barriers, by comparing existing trade agreements and focusing on the convergence of them (see ¶3.4); and (iii) the reduction of red tape in international trade, by developing several capacity building programs to government stakeholders.

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9 https://flagships.iadb.org/en/DIA2019/trading-promises-for-results.

2.11 Likewise, the TC is aligned with the objectives, priorities and activities of the Ordinary Capital Strategic Development Program for Integration (RIN) (GN-2819 1). Accordingly, the TC will contribute to advance RIN's objectives by: (a) supporting the harmonization of policies and procedures for Brazil's greater productive integration (5.1 (i)); and (b) strengthening Brazil's capacities to engage in regional initiatives (5.1 (ii)). To achieve these objectives, this project will support Brazil's efforts to participate in and implement trade agreements, promote trade, investment, and cross-border and regional initiatives (5.2 (ii)). This project is consistent with section 5.23 of GN-2819 1 since it will support a sector-relevant TC with the generation and dissemination of knowledge and capacity building products. This intervention will be consistent with the objectives of the Sector Strategy to Support Competitive Global and Regional Integration (GN-2565-4). This TC is also consistent with section 5.24 of GN-2819-1 since the resources allocated herein will focus on Integration Software by supporting the implementation of regulatory frameworks among other requirements. It is also consistent with section 5.25 regarding eligible activities by developing studies, capacity building programs and training for officials and institutional strengthening in order to facilitate the exchange of best practices. Therefore, the activities to be carried out by this TC are aligned with RIN's goals.

III. Description of activities/components and budget

3.1 **Component 1: Integrate Brazil Internationally (USD$160,000).** The objective of this component is to support the Brazilian government in the development of new trade agreements. For this reason, this component will finance the following activities:

3.2 **Policy Advocacy**. There are misconceptions and misinformation about the benefits and impact that trade agreements will have on the Brazilian economy and companies such as SMEs. It is important to bring up this debate with the IDB's credibility and neutrality. Under this activity, we will develop a series of presentations and seminars to debate the benefits and impacts that an open economy will bring to the country. These activities will be executed with relevant stakeholders such as the media, academia, public and private sectors, and legislative representatives.

3.3 **Capacity Building Programs**. Several government officials are placed on the frontline of trade negotiations, and their necessary skills and expertise need to be enhanced. Under this activity, we will develop programs that will provide the government officials with the necessary tools and skills to apply trade theories in trade policy analysis and trade negotiations (e.g. Government procurement, Global Trade Analysis Project (GTAP) Firm Heterogeneity, electronic commerce, service exports).

3.4 **Bilateral Agreement Comparative Analysis**. Under this activity, we will perform a comparative analysis between the chapters of the MERCOSUR-EU agreement and the chapters of the US-Mexico-Canada (USMCA) Agreement (or other bilateral agreements) to verify convergency and nonconvergence points between such agreements. The result will consist on a negotiating guide to a multi-phase trade treaty between Brazil and the US, Canada, or Mexico. The first phase will explore convergence between what has already been negotiated in the MERCOSUR-EU and the USMCA. The second will discuss the differences between these agreements. And the last phase will describe the negotiation of an FTA between the countries.

3.5 **Component 2: Brazil Looking from inside (USD$210,000)**. We will develop business opportunities initiatives to promote investment attraction and bolsters export. We will also create platforms to support subnational entities by take

advantage of the new trade agreements. This component will finance the following activities:

3.6 **Brazil Investment Forum (BIF)**. BIF is the most important investment attraction annual event of Brazil; it is co-organized by the IDB and the Brazilian Government. During the 3-day forum, main leaders of the Government meet with business leaders, academics, and policymakers to explore and promote new business and investment opportunities in Brazil. The goal of this activity is to promote new trade and investment opportunities by generating business contacts and identifying concrete business opportunities. To achieve this objective, this activity will support the organization of the BIF, business matchmaking meetings, on-site one-on-one business meetings, among others.

3.7 **Capacity Building programs for sub-nationals**. Subnational entities' support is extremely important to the investor. It is highly recommended that subnational representatives are well prepared to sell their states for the international investors using the best practices on investment attraction strategy. It is also important that these government officials, understand the impact that new trade agreements will have on their states. Under this activity, we will organize a series of capacity building and knowledge programs to support state government officials and foster their understanding and knowledge of investment attraction and new trade agreement.

3.8 **Contingency, administration, and monitoring**. This activity will cover: (i) any uncertainties or unexpected elements associated with the normal execution of this operation; (ii) expense incurred in implanting, controlling, and directing this TC; and (iii) operational costs for progress/performance monitoring activities.

3.9 The total budget of the TC is US$400,000.00, which will come from the Ordinary Capital Strategic Development Program for Integration (RIN). For this operation, no local counterpart resources are contemplated.

Indicative Budget (US$):

Component	Activity	IDB/Fund Funding	Total Funding
Component I Integrate Brazil Internationally	Policy Advocacy	20,000	20,000
	Capacity Building Programs	130,000	130,000
	Bilateral Agreement Analysis	10,000	10,000
	Component I total	**160,000**	**160,000**
Component II Brazil Looking from Inside	Brazil Investment Forum	150,000	150,000
	Capacity Building Programs for Sub-nationals	60,000	60,000
	Component II total	**210,000**	**210,000**
Contingencies, administration, and monitoring		**30,000**	**30,000**
Grand Total		**400,000**	**400,000**

IV. Executing agency and execution structure

4.1 Responding to the request from the beneficiary, the Bank will be the project's executing agency, through the Trade and Investment Division (INT/TIN), given the highly technical nature of the activities and the fact that it needs a high level of coordination and interdependence, engaging multiple levels of government (federal and state), several agencies, and entities (APEX, SEBRAE, CNI, etc.). Moreover, INT/TIN has gained invaluable know-how and experience in the execution of international trade and investment promotion activities. The requesting entity does not have the necessary technical, operational, or institutional capacity to duly and timely execute the activities provided in this project.

4.2 The TC is in compliance with the Banks TC Policy (GN-2470-2) which requires, in case of Bank-executed TCs in areas of Banks expertise, that (a) the beneficiary country concurs; and (b) the proposed activities is consistent with the Banks country strategy and program (section 4.5).

4.3 Furthermore, Guilherme C. Piereck, Senior Specialist of the Trade and Investment Division (guilhermep@iadb.org), in close coordination with the Trade and Investment Division Chief, will be in charge of this TC. Likewise, we expect to hire an individual consultant to support its execution and monitoring.

4.4 The activities to be carried out under this operation are included in the Procurement Plan (Annex IV) and will be executed in accordance with the Bank's procurement policies: (i) Complementary Workforce (CW) (AM-650); (ii) Policy for the Selection and Contracting of Consulting Firms for Bank-executed Operational Work (GN-2765-4); Operational Guidelines for the Selection and Contracting of Consulting Firms in Bank Executed Operational Work (OP-1155-4); and IDB Corporate Procurement Policy (GN-2303-28).

V. Major issues

5.1 The success of the project will depend on a significant level of engagement and participation of the relevant stakeholders. The operation will mitigate the risk by engaging government officials and private sector representatives in the activities from the start of the TC and through an intensive promotion strategy. Also, the vast majority of the activities were previously discussed with the beneficiary and not only they agree but they really want them because it will increment their technical capacity.

5.2 We also expect to have new sanitary regulations implemented over the next years as a consequence of the COVID19 pandemic impact. This will likely impose restrictions on in-person events. We will mitigate this risk by having the planned activities performed online through “zoom”, “teams” and other available platforms.

5.3 There is also a risk that the MERCOSUR-EU (and/or MERCOSUR-EFTA) Agreement fails to overcome the domestic approval processes prior to its ratification, which is less likely, or that it will take a much longer period than expected, which is more likely. In any event, although these are existing risks, the mitigation is that the large majority of the activities will, in fact, strengthen the Brazilian technical team to better negotiate and implement other agreements, such as the accession of governmental procurement with the WTO, among others.

VI. Exceptions to Bank policy

6.1 This TC does not involve or require any exception to the Bank’s policies.

VII. Environmental and Social Strategy

7.1 This project has been classified under the category "C" according to the Policy Environment and Safeguards Compliance Policy (OP-703).

Required Annexes:

Request from the Client - BR-T1443

Results Matrix - BR-T1443

Terms of Reference - BR-T1443

Procurement Plan - BR-T1443