

## TC ABSTRACT

### I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ TC Name:	Boosting LAC growth through Investment in Infrastructure and Deeper Integration with Asia
▪ TC Number:	RG-T3295
▪ Team Leader/Members:	IZQUIERDO, J. ALEJANDRO (RES/RES) Team Leader; GIORDANO, PAOLO (INT/INT) Alternate Team Leader; CAVALLO, EDUARDO (RES/RES) Alternate Team Leader; ESCOBAR GENES, MYRIAM HELVECIA (RES/RES); PARRA, AGLAE ELIZABETH (RES/RES); VERISSIMO DA SILVA, CAROLINA (LEG/SGO)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	25 May 2018
▪ Beneficiary:	All IDB borrowing member countries
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	\$ 945,000.00
▪ Local counterpart funding:	\$ 0.00
▪ Disbursement period:	24 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	Research & Chief Economist
▪ Unit of Disbursement Responsibility:	Research & Chief Economist
▪ 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:	Economic integration

### II. Objective and Justification

- 2.1 This TC will support a series of research activities and the development of operational recommendations that aim to boost growth and leverage the region's relationship with Asia, including through taking advantage of Asian experiences in infrastructure development as well as deepening trade, investment, and cooperation between the two regions. In support of this objective, the project entails policy-oriented research carried out by the IDB in collaboration with counterpart institutions and experts in Asia and Latin America and the Caribbean (LAC); high-level policy dialogue among public officials in Asia and LAC; and a multi-channel dialogue and dissemination strategy. These activities will be organized into two main strands of work with complementary policy objectives: i) the development of an infrastructure for growth methodology with applications to both LAC and Asian country pilots; and ii) a roadmap to expand and diversify the trade and investment relations between Asia and LAC. The policy recommendations based on such technical work will serve to support IDB's country dialogue with its members. The first two technical components reflect both the importance of LAC's relations with a broad set of Asian partners and the complementary role of infrastructure development and global integration as the main drivers of growth in LAC.
- 2.2 Trade with Asia was a key driver of growth for the region during the 2000s. With the commodities boom, trade between LAC and Asia grew at an annual average of about 20% between 2003 and 2013, fueling a period of sustained, fast growth for most

countries in the region. Bi-regional trade contracted in 2014 amid lower commodity prices and slower growth in Asian economies and has shrunk by 16% on aggregate between 2014 and 2016, before an uptick of 9% in 2017.

- 2.3 Growth in LAC slowed as well, and some economies experienced recessions during this period, although 2017 brought about a recovery. LAC now faces the challenge of achieving strong and sustainable growth in a context where trade with Asia is unlikely to return to the pace of last decade. The IDB has identified that for several higher-middle income countries, infrastructure stands as the most significant priority when it comes to increasing the likelihood of reaching income per capita levels of advanced countries. Likewise, as shown by the Asian miracle, a deep and diversified pattern of integration in global markets is necessary for a sustained growth strategy. Indeed, investment in infrastructure and trade facilitation could foster higher growth when channeled to raise the productivity of low-productivity sectors and/or speed up productivity in sectors with high productivity growth potential.
- 2.4 The remarkable development trajectory of Asian economies over the past three decades has generated a wealth of knowledge in policy areas central to LAC's current growth challenges. The current juncture presents an opportunity to deepen LAC's ties to Asia in infrastructure development, as China is heavily investing in the Belt and Road Initiative, a global project to deepen trade, investment, and physical infrastructure linkages with its economic partners throughout the world. The Asian experience can provide valuable lessons and technical knowledge for LAC governments facing similar challenges related to the need to boost productivity and external competitiveness.
- 2.5 LAC can also advance its growth agenda by expanding and diversifying trade and investment relations with Asia. LAC-Asia trade accounted for 26% of LAC's total trade in 2017, and for several countries Asia has become the main trading partner. There are opportunities to build on this foundation by expanding exports to Asia beyond core natural resource products and diversifying economic relations through increased foreign direct investment and financing for energy, transportation, and other infrastructure projects. Also, decreasing transportation costs through infrastructure is critical to reigniting and diversifying trade and investment flows between Asia and LAC.
- 2.6 Although relations between LAC and Asia have been the object of a wealth of academic research, among LAC policymakers and other stakeholders there is still a need to translate such knowledge in concrete policy initiatives aiming at leveraging the Asian experience with home-grown growth strategies. The development of specific insights on infrastructure investment and trade expansion, coupled with a roadmap of actionable policy recommendations and a multi-channel dialogue and a dissemination strategy that considers through case studies the specificities of individual countries would significantly contribute to reigniting growth in LAC. This endeavor is timely at a juncture where the development drivers of the past decade have undergone major structural transformations.

### **III. Description of Activities and Outputs**

- 3.1 Components:
- 3.2 1) A New Methodology of Infrastructure for Growth with applications to LAC and Asian countries. This will consist of technical research to develop a new methodology for identifying how infrastructure can affect growth by raising productivity of low-productivity sectors or enhancing productivity in sectors with high productivity growth potential. This research will look into how shocks to productivity in -or increases in the capital stock of- infrastructure affects productivity in other sectors of the economy. Emphasis will be made in analyzing how each infrastructure sector -energy,

transportation, telecommunications and construction- particularly affect low-productivity sectors, to identify which type of infrastructure intervention raises productivity the most in low-productivity sectors, thus boosting overall growth. The aforementioned methodology will be applied to four LAC countries and one Asian country, identifying low productivity sectors and/or in sectors with high productivity growth potential in their respective economies, and those infrastructure sectors that should boost their productivity the most. The goal is to identify specific infrastructure projects that countries may engage to boost productivity in low performing sectors. Moreover, these pilots will also identify additional constraints that may be at work, which could render infrastructure efforts inconsequential if these additional barriers are not lifted. Subject to data availability, the four LAC pilots will include one per VPC region. This research will be led by RES/RES, with contributions from INT.

- 3.3 2) A roadmap to develop and diversify LAC-Asia trade and investment relations. This will consist of policy-oriented research to identify untapped trade and investment opportunities for LAC countries in Asia. The methodology, based on product-level trade data, will identify priority sectors that may contribute to expand and diversify LAC-Asia trade and investment relations based on: the identification of untapped export opportunities; the consideration of the main policy and structural barriers that are currently holding back the diversification of trade flows; and the lessons learned on the impact of existing Free Trade Agreements among LAC and Asian countries. Emphasis will be made on sectors that hold the potential to contribute to overall growth of LAC economies, and on practical lessons to be learned from export-led strategies implemented in Asia. Based on the insights of the technical research, the project will support the design of a roadmap outlining the policy priorities for the countries of the region. The recommendations will propose specific policy actions to diversify trade and investment relations between LAC and Asia. Emphasis will be placed on lessons learned from the initiatives undertaken in Asia and on the institutional constraints to their implementation in LAC. This component will be led by INT, with contributions from RES, with the objective of providing VPC with strategic and operational recommendations to be discussed in Bank's country-focused policy dialogues.
- 3.4 3) Multi-channel communication and dissemination strategy. This will consist of products and activities aiming at supporting the uptake of the products of this project by LAC public officials and stakeholders. It will be led by RES and INT, with contributions from other Bank's unit as necessary, under the guidance of VPC.
- 3.5 **Component I: Component 1: A New Methodology of Infrastructure for Growth with applications to LAC and Asian countries.** . This component will be organized along the following main work activities: a) technical research on the impact of productivity shocks in infrastructure sectors on other sectors of the economy, based on the international experience, including Asia; b) application of this methodology to four pilot countries in LAC and one Asian economy; c) preparation of a special section on LAC-Asia relations for the annual Macroeconomic Report.
- 3.6 **Component II: Component 2: Roadmap to develop and diversify LAC-Asia trade and investment relations.** . Activities include: a) definition and application of a technical methodology to identify LAC sectors with growth-enhancing export diversification potential in Asia; b) design of a strategy with concrete policy recommendations to support LAC policymakers in actions geared towards diversifying trade and investment relations with Asia; c) preparation of a special section on LAC-Asia relations for the annual Macroeconomic Report.
- 3.7 **Component III: Component 3: Multi-channel communication and dissemination strategy.** . This component will be organized along the following main activities: i) design of a multi-channel communication strategy; ii) production of communication

deliverables based on the technical products financed by the project; iii) support to Bank's country-focused policy dialogues.

#### **IV. Budget**

**Indicative Budget**

<b>Activity/Component</b>	<b>IDB/Fund Funding</b>	<b>Counterpart Funding</b>	<b>Total Funding</b>
Component 1: A New Methodology of Infrastructure for Growth with applications to LAC and Asian countries.	\$ 370,000.00	\$ 0.00	\$ 370,000.00
Component 2: Roadmap to develop and diversify LAC-Asia trade and investment relations.	\$ 525,000.00	\$ 0.00	\$ 525,000.00
Component 3: Multi-channel communication and dissemination strategy.	\$ 50,000.00	\$ 0.00	\$ 50,000.00

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

- 5.1 The Bank, through RES/RES, will be the executing agency for this project. RES/RES will be responsible for the overall execution and supervision of the project in close coordination with INT/INT. RES/RES will take the lead in the execution and technical oversight of Component 1; INT/INT will take the lead in the execution and technical oversight of Component 2; RES/RES and INT/INT, in coordination with other Bank's units as necessary, and under the leadership of VPC, will provide oversight to the execution of Component 3.
- 5.2 Two main reasons justify the execution of this project by the Bank: (i) given the regional scope of the project, which involves the coordination of public sector and relevant private sector participants from countries across the region and in Asia, the Bank is ideally situated to serve as a regional coordinator; and (ii) the project seeks to ensure the consistency of the operational program with the Bank's GCI-9 priorities, the Integration Strategy, the Updated Institutional Strategy and its Corporate Results Framework, and Bank staff is in the best position to ensure this outcome.

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

- 6.1 The success of the project depends on the active participation of LAC and Asian officials and stakeholders. The cost and logistics arrangements involved in traveling to and participating in policy dialogues pose the risk of reduced attendance, particularly of government officials. The operation will mitigate this risk by actively incentivizing collaboration among LAC and Asian stakeholders, and by cooperating closely with Asian non-official counterparts, who in many cases have access to key policymakers.

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

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