

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	Regional/CSC - Southern Cone
▪ TC Name:	Strengthening the Southern Common Market (MERCOSUR) and deepening regional integration
▪ TC Number:	RG-T3461
▪ Team Leader/Members:	Mejia Rivas, Isabel (INT/INT) Team Leader; Piereck, Guilherme C. (INT/TIN) Alternate Team Leader; Larsson, Mikael (INT/TIN); Contreras Huerta, Rodrigo Andres (INT/TIN); Rospide, Maria De La Paz (INT/TIN); Esteves, Yasmin (INT/INT); Verissimo Da Silva, Carolina (LEG/SGO); Estevez, Ignacio Manuel (INT/INL)
▪ Taxonomy:	Client Support
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	19 Mar 2019
▪ Beneficiary:	Ministerios de Comercio, Produccion y Relaciones Exteriores del MERCOSUR
▪ Executing Agency:	Inter-American Development Bank
▪ IDB funding requested:	US\$750,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	36 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	Integration & Trade Sector (INT/INT)
▪ Unit of Disbursement Responsibility:	Trade and Investment Division (INT/TIN)
▪ 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 Support the country members of the Southern Common Market (MERCOSUR) to complete and modernize the process of regional economic integration that they have undertaken since 1991. The activities of this TC include the support to the intra-MERCOSUR agenda in areas such as the common external tariff, trade facilitation, regulatory cooperation, capacity building and participation of the private sector, among others; and to the MERCOSUR's international agenda and internationalization of its private sector.
- 2.2 While the creation of MERCOSUR have promoted intra-regional trade growth during its first few years of existence – with exports from members to other members as a percentage of total exports growing from 9% to 25% between 1990 and 1998 – progress has been slower during the past two decades. MERCOSUR has not been able to consolidate as a Customs Union, including its common external tariff – which is not applicable to all economic sectors and includes various regimes allowing for exceptions –, and other relevant components of a common trade policy, such as the entry into force of a Customs Code or the implementation of measures in the areas of trade facilitation, regulatory cooperation and reduction of non-tariff trade barriers. Simultaneously, progress in concluding ambitious free trade agreements with the world's largest economies has been slow. To date, MERCOSUR has agreements in place with some member countries of the Latin American Integration Association, Israel and Egypt. This has happened in disconnect with global trade trends and has negatively affected the

competitiveness of MERCOSUR and its participation in global value chains. Over the past few years, however, MERCOSUR members have made some progress. MERCOSUR members have concluded intra-bloc agreements on public procurement and investment facilitation, are currently undertaking a process of evaluation and redesign of their common external tariff and have engaged in an action plan for the removal of non-tariff trade restrictive measures. Likewise, MERCOSUR members have relaunched negotiations with the European Union – which are still ongoing –, and have started new negotiations with EFTA, Canada and the Republic of Korea. MERCOSUR has agreed upon with the Pacific Alliance on an ambitious agenda to deepen integration between both blocs and is engaged in conversations with India about the status of their Preferential Trade Agreement.

- 2.3 The process of deepening and modernizing economic and trade integration between MERCOSUR member countries, as well as the strengthening of trade relationships with other countries or economic blocs, has significant economic implications. MERCOSUR members concentrate over 40% of the population in Latin America and include two of the region's three largest economies, representing – as a bloc – the world's fifth largest economy. Achieving deeper and more stable regional integration in MERCOSUR would be a key step in the direction of a stronger regional integration in Latin America and the Caribbean, while entailing significant growth potential for member countries as a result of preferential access to new large markets. This TC is aligned with IDB's Ninth General Capital Increase, with the general objective to achieve sustainable growth and the sectoral priority of regional and global competitive integration. The TC will contribute to overcoming some of the challenges to development in LAC identified in IDB's Update to the Institutional Strategy 2010-2020, in particular with regards to low productivity and innovation (2B.ii) and limited economic integration (2B.iii). Furthermore, the TC will make contributions to achieving progress with regards to several of IDB's strategic policy objectives: establish smart institutional frameworks (3.6.b), provide adequate knowledge and innovation systems (3.6.c), insert firms into value chains (3.7.b), converge integration policies and instruments (3.7.c) and leverage south-south and triangular cooperation (3.7.d).

III. Description of Activities and Outputs

- 3.1 The TC is comprised of 3 components
- 3.2 **Component I: Support to the agenda of modernization and deepening of economic and trade integration between MERCOSUR member countries.** The objective of this component is to provide support and facilitate the agenda of modernization and deepening of economic and trade integration of MERCOSUR, including the following issues: revision of the common external tariff and the operation of the customs union; regulatory cooperation; non-tariff trade barriers; trade facilitation; digital agenda, services and inclusive trade, and; creation of a private sector engagement mechanism, among others.
- 3.3 **Component II: Support to MERCOSUR's international insertion strategy.** The objective of this component is to provide support to MERCOSUR in trade negotiations with other countries or regional blocs, with a view to strengthening MERCOSUR's institutional capacity to carry them out and, in that way, expand export markets and promote the full utilization of their benefits by companies in member countries.
- 3.4 **Component III: Support to the internationalization of MERCOSUR's private sector.** The objectives of this component are: a) to support the governments of MERCOSUR in the design and implementation of policies to ensure that companies from MERCOSUR take full advantage of the opportunities and are prepared to face the challenges brought about by deeper economic and trade integration within MERCOSUR and with other partners; b) to promote the internationalization of MERCOSUR companies and, in particular, the full utilization of free trade agreements.

- 3.5 **Component IV: Execution and missions.** Since the Bank has the experience and technical capacity required to ensure the high quality of the technical products, the travel of personnel from the Integration and Trade Sector (INT) will be financed, as per the Bank's Technical Cooperation Policy (GN-2470-2), without exceeding US\$50,000.00

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Support to the agenda of modernization and deepening of economic and trade integration between MERCOSUR member countries	\$ 300,000.00	\$ 0.00	\$ 300,000.00
Support to MERCOSUR's international insertion strategy	\$ 200,000.00	\$ 0.00	\$ 200,000.00
Support to the internationalization of MERCOSUR's private sector	\$ 200,000.00	\$ 0.00	\$ 200,000.00
Execution and missions	\$ 50,000.00	\$ 0.00	\$ 50,000.00

V. Executing Agency and Execution Structure

- 5.1 The Bank, through the Integration and Trade Sector (INT/INT) shall be the project's Executing Agency. The Bank acting as Executing Agency is justified, in accordance with Appendix 10 of the Operational Guidelines for Technical Cooperation Products, as the taxonomy of this TC is client services, it has a regional character and it has not been possible to find a regional body capable of executing the project. Furthermore, IDB has developed significant experience in the areas of negotiation, implementation and utilization of trade agreements, which has allowed it to exercise leadership and provide technical support and training in these areas. The Bank will execute the project in close coordination with representatives from MERCOSUR member countries that have competence over the issues covered by this TC. The Bank will be responsible for the execution of the TC and for contracting firms, individual consultants and other consulting services to carry out the activities foreseen in this project. The procurement of these services will be undertaken in compliance with applicable Bank's procurement policies and procedures.
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VI. Project Risks and Issues

- 6.1 As the Project involves multiple beneficiaries and seeks to strengthen relationships and coordination among them, there are intrinsic risks that the degree of coordination necessary to ensure the success of the project may not be achieved. However, these risks are mitigated because this TC will be undertaken at the request of the countries involved, in follow-up and support of initiatives that are driven by the countries and that

have the highest level of presidential and ministerial commitment. It is suggested that, to further mitigate these risks, participating countries establish responsible contact persons and agree to work plans to be monitored by INT/INT.

VII. Environmental and Social Classification

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