

## SUMMARY OF TECHNICAL COOPERATION

### I. BASIC INFORMATION

▪ Country/Region:	Regional - Primarily Costa Rica, Colombia, Chile, Mexico, Peru
▪ TC Name:	China-LAC for Greater Development
▪ TC Number:	RG-T2355
▪ Team Leader/Members:	Fabrizio Opertti (Team Leader, INT/TIU); Laura Escobar (Alternate Team Leader, INT/TIU); Guillermo Eschoyez (LEG/SGO), Luis Manuel Espinoza, (INE/INE); and Oscar Vasco (INT/TIU).
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination.	Research and Dissemination
▪ If Operational Support TC, give number and name of Operation Supported by the TC:	N/A
▪ Reference to Request: (IDB docs #)	N/A
▪ Date of TC Abstract:	May 13, 2013
▪ Beneficiary:	Trade Promotion Organizations, Entrepreneurs and government officials, as well as Mayors from LAC, – Primarily Costa Rica, Colombia, Chile, Mexico, Peru
▪ Executing Agency and contact name:	Trade and Investment Unit (INT/TIU)
▪ IDB Funding Requested:	US\$250,000 from the resources of the ICSF
▪ Local counterpart funding, if any:	N/A
▪ Disbursement period:	24 months
▪ Required start date:	September 23, 2013
▪ Types of consultants (firm or individual consultants):	Firms and individuals
▪ Prepared by Unit:	Trade and Investment Unit (INT/TIU)
▪ Unit of Disbursement Responsibility:	Integration and Trade Sector (INT/INT)
▪ Included in Country Strategy (y/n); ▪ TC included in CPD (y/n):	No
▪ GCI-9 Sector Priority:	Competitive Regional and Global Integration and Institutions for Growth and Social Welfare

## II. OBJECTIVES AND JUSTIFICATION

Trade, investment and financial relationships between LAC and China have significantly increased during the last decade. Trade between the two regions has increased at an annual average rate of 25% since 2000, reaching an estimated US\$236 billion in 2011. As a result, China has become LAC's second largest trading partner, second to the US and well ahead of the European Union which historically had been the region's main trading partner.

Although interregional trade has clearly brought substantial benefits for all the parties involved and has enabled China to overcome its natural resource constraints, this relationship has also created some challenges for the region as LAC's exports remain largely concentrated in a few countries and sectors. In order to respond to this challenge, there are two areas where an exchange of best practices and dialogue is clearly needed: (i) the impact of the rapid growth of cities and; (ii) the Pacific Alliance<sup>1</sup> as a platform to further engage with the Asia Pacific region.

### The impact of urbanization

Studies have shown that the growth of urban population has a significant impact on the transformation of productive sectors. A constant flow of labor has been shifted from agricultural to producing manufactured goods and services. Furthermore, urbanization has also clustered the most skilled workers in urban centers that have then become engines of economic growth. China for example, has taken advantage of the rapid growth of its cities by promoting the manufacture sector, becoming one of the most important and profitable players in the market.

However, dramatic economic growth intensifies the challenges of urban policies. For instance, mass migration to the cities has led to urban sprawl and spiraling demand for energy and natural resources. Urbanization has had a strong impact in the cities in terms of managing an expanding population, securing sufficient public funding for the provision of social services, and dealing with demand and supply pressures on land, energy, water, and the environment. Of the 350 million people that China will add to its urban population by 2025, more than 240 million will be migrants.

China has had to overcome different challenges to take advantage of the benefits that urbanization brings to their economy. In these terms, LAC countries can learn a lot from the process Chinese cities and institutions have undertaken to be on this growth path. At the same time, the purchasing power of the new Chinese middle class opens new opportunities for LAC countries to increase their exports and at the same time receive investment.

The key to tapping urban wealth in Asia will be to look beyond first-tier megacities to the second tier of "middleweights" with populations of less than 10 million. Development in that second tier is astounding. By 2025, developing-region cities will be home to an estimated 235 million middle-class households earning more than US\$20,000 a year at purchasing power parity. In 2025, it is estimated that 600 cities, with a fifth of the world's population, will account for about 60% of global GDP, but the cities will not be the same as today. Of these 600 cities, 577 will be middleweights—cities with populations of between 150,000 and 10 million, contributing more

---

<sup>1</sup> The Pacific Alliance is an economic bloc comprised of Chile, Colombia, Mexico and Peru. On May 23, 2013 the four countries signed an agreement removing tariffs on 90% of their merchandise trade.

than half of global growth to 2025. By that year, it is expected that 136 new cities enter the top 600, all from developing countries and overwhelmingly 100 new cities from China and 8 from LAC countries with potential to add more.

LAC's 198 large cities—defined as having populations of 200,000 or more—are expected to generate 65% of the region's growth over the next 12 years. These cities are in the same scale of those middleweight cities in China. Within LAC's largest cities, a broad base of high-growth midsize cities has emerged. Today, 188 middleweight cities account for almost one-third of the region's GDP and are likely to generate almost 40 percent of the region's GDP growth to 2025. These cities currently lag behind Latin America's largest urban centers in per capita GDP, but the region's faster-growing midsize cities are likely to narrow part of that gap by 2025. Building a bridge between LAC and China to effectively transfer best practices could bolster the region's growth and development.

This project will bring mayors, policy makers, and business leaders across LAC to join forces and take action to make their cities powerful engines for growth. Through the exchange of experiences, best practices and lessons learned from cities in China (i.e. Hangzhou, Shiyao) and LAC (i.e. Manizales, Colombia; Mar del Plata, Argentina; San Jose, Costa Rica), the project will help mayors and policy makers to share lessons learned and diagnose any shortcomings in urban performance, provide actionable examples of how they might overcome current underperformance and challenges, and suggest appropriate goals that would allow city leaders to track progress toward superior performance. It is also the project's aspiration that this work can help enable companies better position themselves for the evolving economic opportunities in urban consumer and business segments.

It is important that Governments and business leaders act decisively to improve the performance of the region's cities and turn their demographic profile to an advantage and stimulate growth. In order to do so, the Bank's Emerging and Sustainable Cities Initiative (ESCI) employs a multidisciplinary approach to help LAC cities achieve environmental, urban and fiscal sustainability in the medium to long term focusing on medium size cities, where the impact of the actions has the potential to be greater and more immediate.

The ESCI is aimed at mobilizing and coordinating the technical capacity of all the areas of the Bank in supporting the cities in closing the gaps identified and prioritized in the process. At the same time, the Bank's Trade and Investment Unit is the IDB's arm responsible for international trade and investment for financial operations, helping bring strategic dialogue into specific trade and investment opportunities. Thus, creating partnerships between Chinese and LAC cities will bolster the economic development in the region.

### Pacific Alliance (AP)

The Pacific Alliance (AP) is one of the most innovative strategies of integration of the Latin America and Caribbean (LAC) region. The bloc, which groups Mexico, Colombia, Chile, and Peru, currently represents LAC's most solid economic and trade bloc, with 50% and over 35% of the region's trade and GDP, respectively. One of the main goals of AP countries is to serve as a platform for trade and investment with the Asia-Pacific region and, in turn, fully take advantage of both regions' economic development potential.

The AP bloc's importance at the global level is highlighted by its impressive integration results over its 2 years of existence, as well as by the fact that more than 20 countries all over the world – including China – have applied to join the bloc as observer countries. Recently, Costa Rica has formally begun the process to become part of this Alliance, which is why one of the objectives of this technical cooperation is to facilitate Costa Rica's integration process to this bloc.

AP countries have been at the forefront of LAC's trade relations with China, and they recognize that they can expand upon this relationship by linking their economies more closely. Bilateral trade and investment relations between AP countries and China are strong – e.g. China is Chile's main trading partner; Colombian-Chinese trade grew 147% between 2007 and 2011, while Chinese investment in Peru recently surpassed USD 4 billion. In addition, several AP countries – Chile, Costa Rica, and Peru – already have trade agreements with China. By building more economies of scale, creating more efficient supply chains, and boosting competitiveness, the Alliance's framework is well-positioned to further existing trade and investment levels with China.

**Objective.** The main objective of this TC is to strengthen the trade and investment relationship between China and LAC, to promote and deepen economic development and integration.

**Beneficiary countries.** Beneficiaries of the activities under this TC will be Costa Rica, specifically COMEX, as well as countries from the Pacific Alliance (Colombia, Chile, México and Peru) and Central America.

**Strategic alignment.** The objectives and activities of the project correspond to the Bank's Strategy for Regional Integration (GN-2469-2, GN-2470-2), as it will promote trade, investment and regional integration through the exchange of experiences and best practices in trade promotion and business-matchmaking opportunities between LAC and Chinese entrepreneurs and government officials, as well as Mayors from LAC countries with counterparts in China. In addition, the project's objectives are aligned with the sector priorities identified in the GCI-9, in particular numeral (d) *Competitive regional and global international integration*, as many of the activities will focus on upgrading trade-related institutions and expanding the trade agenda by including topics associated, for example, with trade in services. In addition, with the (c) *Institutions for Growth and Social Welfare* pillar, since the exchange of best practices between city officials of China and LAC aims at creating stronger and more effective institutions. Specifically it is aligned with Dimension I - Political and Strategic Context (GN-2524), as it will increase strategic alliance between government representatives from Costa Rica and the countries of the Pacific Alliance (Colombia, Chile, México and Peru). Furthermore, the project supports institutional capacity strengthening in the areas of trade and investment and will facilitate knowledge sharing in key topics to strengthen the China-LAC economic relation and the creation of public-private partnerships across the region and promoting growth and social welfare.

### **III. Description of activities and outputs.**

The **specific objectives** of the TC are: (i) to foster joint cooperation initiatives between private and public sectors directly of China and LAC related to trade and investment; and (ii) facilitate new channels of communications for sharing knowledge and lessons learned between China and

LAC regarding new and higher value added opportunities in international investment and trade development.

**Component 1: Support and promote the development and strengthening of trade and investment flows between China and LAC.**<sup>2</sup> This component seeks to promote and facilitate new channels of interaction and cooperation between LAC's and China's entrepreneurs and representatives of Government in order to strengthen public-private partnerships. This component includes preparation, design and implementation of a two day high level private-public forum (Business Summit), to be held in Costa Rica in November 2013, which seeks to promote: (i) an exchange of best practices specifically in the impact of the rapid growth of cities and the Pacific Alliance as a platform toward Asia Pacific; (ii) Identification of commercial opportunities in new strategic industries; (iii) a substantive dialogue between Trade Promotion Organizations (TPOs), which will aim at expanding knowledge on the role of TPOs in forging connections between small and medium enterprises from both regions; and (iv) trade between SME's from both regions through a business matchmaking activity.

**Component 2: Joint cooperation strategy for promoting exports and attracting investment.** In addition, under this component, the project will promote a roundtable between TPO representatives from LAC countries and China to discuss innovative cases of trade and investment promotion between these regions, in order to design and implement a joint cooperation strategy for trade and investment development in high valued added sector. This will include seeking and establishing new communication channels with Chinese public and private representatives and institutions, results in strong public-private partnerships.

#### Indicative Results Matrix

Deliverables	Baseline 2012	Intermediate Targets	Final Target	Expected Completion
<b>Component I: Support and promote the development and strengthening of trade and investment flows between China and LAC</b>				
<b>Result:</b>				
<ul style="list-style-type: none"> <li>- Better knowledge among entrepreneurs and government official on the current business opportunities with China</li> <li>- Better knowledge on current opportunities that the Pacific Alliance may bring</li> <li>- LAC entrepreneurs gained a valuable Chinese business network</li> </ul>				
<b>Deliverables</b>				
# of Government officials from LAC who participated in the discussion sessions of the two-day business forum	0		26	November 2013
% of participants from LAC in the Trade and Investment Exhibition who gained a better understanding of the market condition in china to sell their products and services	0		40%	November 2013
# of government officials from investment promotion agencies who participated in the Trade and Investment Exhibition	0		20	November 2013

<sup>2</sup> Resources in the project will only be used to pay expenses related to the participation in the Business Summit of institutions and beneficiaries of the Bank's borrowing countries.

% of Government officials from LAC who improved their skills to provide services to exporter companies that want to enter the Chinese market	0	40%	November 2013
% of participants from China in the Trade and Investment Exhibition who gained a better understanding on the benefits of the Pacific Alliance	0	50%	November 2013
<b>Component II: Joint cooperation strategy for promoting exports and attracting investment</b>			
<b>Result:</b> Stronger institutional capacity among LAC trade related government institutions to face the challenges and to take advantage of the opportunities that the China-LAC economic relationship has to offer.			
<b>Deliverables</b>			
# of Government officials from LAC participated in the workshop and exchange event	0	20	November 2013
% of Government officials from LAC who gained knowledge about China's regulation and procedures in areas of trade and investment	0	50%	November 2013
% of Government officials from LAC who improved their skills to provide services to exporter companies that want to enter the Chinese market	0	50%	February 2014

#### IV. BUDGET

The total amount of this TC is US\$250,000. See following activities:

Detailed Budget				
IDB				
	Unit	Price per unit	Quantity	Total
<b>Component I</b>				<b>\$150,000</b>
<b>Travel Assistance</b>				<b>\$21,800</b>
<i>Experts' participation regarding new and higher value added opportunities</i>				
Air Travel	plane tickets**	\$2,300	4	\$9,200
<i>Majors participation</i>				
Air Travel	plane tickets	\$1500	6	\$9,000
Accommodation	days	\$200	3	\$3,600
<b>General Logistic Support and Services</b>				<b>\$128,200</b>
Conference Organization	global	\$50,000	1	\$50,000
Media Coverage (projector, engineers, sound)	global	\$10,000	1	\$10,000
Interpretation (interpreters & interpretation receivers for one day)	global	\$15,000	1	\$15,000

Conference rooms (rent of venue - 1 day)	global	\$40,000	1	\$40,000
Local Transportation	global	\$6,700	1	\$6,700
TPO Display Materials	global	\$250	26	\$6,500
<b>Component II</b>				<b>\$100,000</b>
Roundtable workshop organization	global	\$25,000	1	\$25,000
Consultancies	global	\$65,000	1	\$65,000
Dissemination	global	\$10,000	1	\$10,000
<b>Total</b>				<b>\$250,000</b>

## V. EXECUTING AGENCY AND EXECUTING STRUCTURE

The TC will be executed by the IDB through INT/TIU. INT/TIU will be responsible for the identification, preparation, evaluation, execution, and supervision of all activities foreseen in the program.

Since 2009, the Bank through INT/TIU has been organizing on a yearly basis, the ASIA-LAC Trade and Investment Fora, including the China-LAC Business Summits. During these years the IDB has accumulated important experience, which has allowed the Bank to exercise leadership and achieve effective results in the execution of this kind of projects. The Bank has key comparative advantages and the necessary tools for ensuring the timely execution of this TC.

In 2007, INT/TIU organized the Korea-LAC Trade and Investment Forum, the first major trade and investment forum held by the Bank in Asia. On the following years, it organized the following events: the Asia-LAC Trade and Investment Forum, Tokyo, Japan (2008), the China-LAC Business Summit in Chengdu, China (2010), among other events organized in LAC countries. All these events were focused on promoting bilateral trade and investment between Asia and LAC regions. The fact of having 26 representatives from the Trade Promotion Agencies of LAC countries promotes a dialogue with the Bank.

## VI. PROJECT RISKS AND ISSUES

The main risk associated with this project is the lack of participation of officials and private sector representatives. In order to mitigate this risk, the Bank will cooperate with technical coordination and support to disseminate and promote the forum and to increase participation of Chinese and LAC officials and private sector representatives.

On the other hand, in order to measure the impact and ensure the continuity of the exchanges between LAC and China, there will be given three surveys (the day of the event, after 6 months, after 1 year).

## VII. ENVIRONMENTAL AND SOCIAL CLASSIFICATION

This operation has been pre-classified under category C by the Environmental and Social Safeguards of the Bank. [Safeguard Screening Form](#)

## **VIII. ANNEXES**

### **Annex I: Letters**

[Government of Costa Rica](#)

[Government of China](#)

### **Annex II: [Procurement Plan](#)**

### **Annex III: Pacific Alliance Presidential Declarations**

[Declaración Jefes de Estado de Chile, Colombia, Perú y México. Cali, Colombia, mayo 23, 2013](#)

[Declaración Jefes de Estado de Chile, Colombia, Perú y México. Antofagasta, Chile, junio 6 de 2012](#)

### **Annex IV: Studies**

[McKinsey Global Institute, Building globally competitive cities: The key to Latin American Growth, August, 2011](#)

[McKinsey Global Institute, Urban world: Mapping the economic power of cities, March, 2011](#)

[China-LAC Trade Information 2009](#)

### **Annex V: Agenda.**

[Agenda I](#)

[Agenda II](#)