

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Consolidation of the strategy to strengthen regional value chains in Latin America and the Caribbean
▪ TC Number:	RG-T4106
▪ Team Leader/Members:	Garcia Nores, Luciana Victoria (INT/RIU) Team Leader; Blyde, Juan S. (INT/RIU); Dorantes Gomez, Angela Carmelia (INT/INT); Esteves, Yasmin (INT/INT); Miguel Braun (INT/RIU); Oscar Dario Vasco Henao (INT/TIN); Recio, Margarita M. (INT/RIU); Vila Saint-Etienne, Sara (LEG/SGO)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	.N/A
▪ Date of TC Abstract authorization:	23 Jun 2022.
▪ Beneficiary:	Trade Ministries and Promotion Agencies from all 26 borrowing member countries of the IDB
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC SDP Window 2 - Integration(W2D)
▪ IDB Funding Requested:	US\$600,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months
▪ Required start date:	August 15, 2022
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	INT/RIU-Regional Integration Unit
▪ Unit of Disbursement Responsibility:	INT/INT-Integration and Trade Sector
▪ 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. Objectives and Justification of the TC

- 2.1 In the three decades leading up to the 2008 financial crisis, global trade underwent a profound transformation. Its focus shifted from the exchange of final goods to a much more complex network of global value chains (GVCs), through which inputs are transformed as they cross one or more borders. By the time the global financial crisis hit, trade within GVCs accounted for more than half of global trade. Although this share has stopped growing over the last decade, it remains close to these levels.
- 2.2 Participation in GVCs brings both economic and social benefits. In addition to the traditional development benefits brought by trade and investment, being part of a GVC contributes to greater productivity through increased knowledge and technology

transfers and the creation of more and better jobs, including more opportunities for women.¹

- 2.3 **Increased productivity.** By increasing their involvement in GVCs, countries have the potential to increase their productivity, not only because it allows them to focus on sectors in which they have comparative advantages, but also because it gives them the chance to specialize in one or several stages of production without having to master each and every one. The transfer of technology and spread of knowledge from leading global enterprises along these chains is another way of increasing productivity, as firms in emerging countries can benefit from easy access to product, process, and organizational innovations.² Together, these channels can make a substantial contribution to economic growth: recent studies show that a 10% increase in a country's level of involvement in a GVC can lead to a 1.6% increase in average labor productivity and an 11% to 14% increase in per capita GDP.³
- 2.4 **More and better jobs.** Although production tends to be more capital-intensive in firms that form part of GVCs, the increase in exports and production associated with participation in GVCs leads to net job creation. Furthermore, such participation tends to increase the demand for skilled employment and may therefore eventually lead to a more skilled labor force. For example, companies that are part of GVCs demand more skilled personnel and pay higher salaries than firms that only export or are not involved in trade.⁴ There is evidence that the higher wages paid by GVC firms are associated with higher productivity levels.⁵ Likewise, GVC firms tend to employ more women and improve social outcomes.⁶
- 2.5 Trade liberalization has been good for growth in Latin America and the Caribbean (LAC), although its impact on social indicators is less clear. In the 1990s, the region embarked on a profound (albeit heterogeneous) program of economic modernization, which included trade liberalization as a core area. Trade liberalization increased the region's annual growth by 0.6 and 0.7 percentage points—in other words, over the last two decades, LAC became 16% richer in per capita terms in part as a result of trade liberalization. Few other economic policies have been so successful.⁷
- 2.6 However, LAC is lagging behind other regions in its level of openness and, in particular, the extent of its participation in GVCs. Intraregional trade in LAC has not increased—indeed, in recent years it has declined and remains below 15%, while these levels stand at 58.8% in Europe and 41% in Asia. The number of firms in the region that are part of GVCs is low compared to other regions, and they mainly tend to be involved in the early

¹ World Bank. 2020. *World Development Report 2020: Trading for Development in the Age of Global Value Chains*. Washington, DC: World Bank Publications <https://doi.org/10.1596/978-1-4648-1457-0>.

² Schmitz, H., and Humphrey, J. 2000. *Governance and Upgrading: Linking Industrial Cluster and Global Value Chain Research* (Vol. 120). Brighton: Institute of Development Studies.

³ Constantinescu, C., Mattoo, A., This and Ruta, M. 2020. *Policy Uncertainty, Trade and Global Value Chains: Some Facts, Many Questions*, *Review of Industrial Organization* 57(2): 285–308, <https://doi.org/10.1007/s11151-020-09772-0>.

⁴ Shepherd, B., and Stone, S. 2012. *Imported Intermediates, Innovation, and Product Scope: Firm-Level Evidence from Developing Countries* (No. 41704). Munich: University Library of Munich.

⁵ Lu, Y., Lu, Y., Xie, R., and Yu, X. 2019. *Does Global Value Chain Engagement Improve Firms' Wages: Evidence from China*. *The World Economy*, 42(10), 3065–3085.

⁶ World Bank. 2020. *World Development Report 2020: Trading for Development in the Age of Global Value Chains*. Washington, DC: World Bank Publications <https://doi.org/10.1596/978-1-4648-1457-0>.

⁷ Moreira, M.M., Stein, E.H., Li, K., Merchán, F., Martincus, C.V., Blyde, J.S., and Reardon, T. 2019. *Trading Promises for Results: What Global Integration Can Do for Latin America and the Caribbean*. Washington, DC: Inter-American Development Bank.

stages of GVCs. This is especially true in South America, where the role of commodities is significant. The foreign value-added of LAC exports (a measure of participation in GVCs) stands at 18.1%, while in Europe and Asia this share was 33.1% and 43.3%, respectively, for 2017–2019.⁸

- 2.7 The current context represents an opportunity for LAC to improve its participation in GVCs. These are in the midst of a process of reconfiguration that began after the global monetary crisis of 2008-2009 and is beginning to accelerate in response to various factors, including the trade conflict between the USA and China, the COVID-19 pandemic, and the recent war in Ukraine. These events have highlighted the risks to the current structure of GVCs, which may experience disruptions to supply and unexpected cost increases because they rely on single suppliers for some products. These disruptions have resulted in shortages of certain critical products and contributed to global inflation. These geopolitical risks are compounded by growing concern over the carbon footprint of products. Consumers are increasingly demanding more environmentally friendly products, and investors and other business stakeholders are seeking greater corporate responsibility toward the environment in investment and trade. As a result, companies are looking to reduce the environmental impact of their products, sometimes by sourcing closer to destination markets to reduce transportation distances within their supply chains.
- 2.8 These issues have brought the discussion around the diversification of supply chains to the forefront: the concentration of strategic input suppliers in key industries implies a higher risk of interruptions to the supply chain, which could lead to serious economic consequences. To ensure greater resilience to future disruptions, reduce the environmental impact of these, and cut costs by shortening transportation distances, global firms are working to line up supply options that are closer to home, a strategy that has been called “nearshoring.”
- 2.9 LAC could benefit from this reconfiguration should more multinational companies choose to source the inputs they currently import from other sources from the region, or if they decide to diversify their current pool of suppliers by adding more LAC-based companies. Investment, employment, productivity, and exports would grow, not only by tier 1 companies increasing their participation in GVCs and thus growing but also because the tier 2 and 3 suppliers of these companies would benefit from greater trade opportunities. A forthcoming report from the IDB’s Trade and Integration Sector found that the potential gain for LAC from nearshoring opportunities in the short and medium term could represent an increase of up to US\$78 billion in exports (US\$64 billion in goods and US\$14 billion in services). There are significant opportunities for the region in the automotive, textile, pharmaceutical, and other industrial value chains that could lead to an upgrading of skills and technologies. The knowledge-based services sector also signifies opportunities for LAC: trade in this sector grew by 145% globally between 2005 and 2018, compared to 90% for other goods and services.
- 2.10 Furthermore, on February 24, 2021; the US, LAC’s most important trade partner, signed Executive Order 14017, mandating a 100-Day Supply Chain Review for: (i) semiconductor manufacturing and advanced packaging supply chains; (ii) high-capacity batteries, including electric-vehicle batteries; (iii) critical minerals and other identified strategic materials, including rare earth elements; and (iv) pharmaceuticals and active pharmaceutical ingredients. Even when the review on these four supply

⁸ IDB calculations with data from UNCTAD/EORA.

chains was published in June 2021,⁹ US Executive Order 14017 also requested sectoral supply chain assessments on the following supply chains to be conducted within 1 year of the date of the order: (i) defense industrial base; (ii) public health and biological preparedness industrial base; (iii) critical sectors and subsectors of the information and communications technology (ICT) industrial base; (iv) energy sector industrial base; (v) transportation industrial base; and (vi) agricultural commodities and food products.

- 2.11 Since 2020, the IDB has been at the forefront of the support to take advantage of this opportunity for its borrowing member countries, by offering financial and non-financial products to implement its proprietary 3i strategy with structural reforms and investments in: (i) Investment: countries need to step up their efforts to attract investment and open up new markets for the region. This implies improving the business environment and the region's investment attraction and export promotion capabilities, along with the institutions that support these. IDB estimates indicate that each US\$1 invested in investment promotion generates up to US\$41.7 in additional Foreign Direct Investment (FDI); (ii) Infrastructure: improving LAC's trade, connectivity, transportation, and logistics infrastructure is key to ensuring that companies investing in the region can access more competitive transportation and energy costs. IDB studies suggest that a 10% reduction in international freight costs from LAC would boost export values by at least 30%; and (iii) Integration: LAC needs to improve integration within the region and modernize its approach, so as to build a broader, more competitive, frictionless market. This includes stepping up efforts to support countries with the long-overdue process of converging the region's more than 33 preferential trade agreements. Converging and harmonizing these would lead to an annual increase in intraregional trade of close to 12%.
- 2.12 In terms of technical assistance,¹⁰ the IDB is in the process of completing national promotion strategies for 20 borrowing member countries that identify sector and product-level opportunities, bottlenecks, as well as specific policy recommendations and actions to address them, and connecting international companies and investors with businesses across the Americas. In addition, IDB has completed nine vertical sector studies in value chains of strategic importance to LAC (aerospace, audiovisual, automotive, fiber optic cables, pharmaceuticals, renewable energy, semiconductors and microprocessors, textiles and clothing, and videogames).
- 2.13 This abundance of information from national promotion strategies and vertical sector studies has started to inform programmatic dialogue with borrowing member countries and shared through national promotional events in which senior representatives of the government and the private sector address national and multinational companies regarding their experience investing or reinvesting in the host country as a result of the reconfiguration of global supply chains.¹¹ However, there is an urgent need to further disseminate these findings in an articulated manner with internal and external audiences to tailor IDB programs and better capitalize on the opportunities for the region.
- 2.14 **Objective:** The main objective of this TC is to continue supporting the coordinated effort being carried out by the IDB Group to strengthen regional value chains in LAC, through the implementation and dissemination of national and sector diagnostics (at LAC level,

⁹ Available at: <https://www.whitehouse.gov/wp-content/uploads/2021/06/100-day-supply-chain-review-report.pdf>

¹⁰ Financed by projects RG-T3699 and RG-T3971.

¹¹ Events have been carried out in Colombia (2021), Costa Rica (2021), Guatemala (2021) and Panamá (2022).

and deep dives in specific countries where applicable) of opportunities to attract investment, promote exports and improve the insertion of LAC countries in the region in value chains with a specific focus on the sectors identified in US Executive Order 14017.

- 2.15 **Strategic Alignment.** This TC is aligned with the development challenges indicated in the Update of the Institutional Strategy of the IDB Group (AB-3190-2), particularly in relation to the low levels of productivity and innovation (2B.ii) and integration lagging economy (2B.iii), both challenges are linked to the lagging participation of beneficiary countries in global value chains. Likewise, it is aligned with the Corporate Results Framework 2020-2023 (GN-2727-12), with the Economic Integration Indicators Level 1 #1.8 (intra-regional trade of goods); #1.9 (growth rate of the value of total exports of goods and services) and #1.10 (net foreign direct investment inflows as a percentage of GDP); the IDB Group's Vision 2025 (AB-3266) by promoting the insertion of beneficiary countries in global value chains; the Concept Note for Strengthening Regional Value Chains in LAC (GN-3038); and the Integration and Trade Sector Framework Document (GN-2715-11) in terms of promoting high-quality trade promotion and investment services tailored to the needs of companies in the region, as well as promoting access to regulatory information of reliable, up-to-date and transparent international trade and reduce logistics, information, traditional and financing costs to boost exports and investment in the region. Finally, the TC is also aligned with the objectives, priorities, and activities of the integration window (W2D) of The Ordinary Capital Strategic Development Program (OC SDP) (GN-2819-14). In particular, the TC will help generate knowledge that supports the harmonization of policies and procedures to achieve greater productive integration in the countries of the region.

III. Description of activities/components and budget

- 3.1 **Component I: National Nearshoring Strategies and Vertical Studies. (US\$375,000).** The objective of this component is to finish the mapping of nearshoring opportunities for the LAC region with national nearshoring strategies for remaining countries and sector studies in sectors of increasing interest. Specifically, it will generate technical inputs for policy recommendations at the regional and national levels, considering the opportunities arising from the reconfiguration of GVCs, including but not limited to those mentioned in section 2.13 of this document. This component will finance: (i) at least three national nearshoring strategies¹² through consultancies that will: (a) identify products and companies to improve the country's insertion in global value chains, (b) survey specific needs to be addressed and existing government tools to serve them, and (c) propose policies to accelerate the relocation of stages in the value chains of prioritized sectors; and (ii) at least three consultancies analyzing three global value chains in prioritized sectors under US Executive Order 14017 and other relevant high potential sectors that may emerge from the findings of ongoing or future national nearshoring strategies, that will include: (a) situation and trends of the global value chain in the sector, (b) analysis of the competitive position and identification of the main opportunities and threats in terms of attracting investment and promoting exports, and (c) specific policy recommendations.

¹² To date, national nearshoring strategies have been advances in a total of 20 countries of the region. The analysis for the following 9 strategies has concluded: CO, CR, DR, EC, ES, GU, PE, PN, and UR. The ongoing strategies include 7 countries in which the work is being expanded/updated (BR, HA, HO, JA, MX, PR, and TT) and 4 new countries included in the subregional Caribbean nearshoring strategy (BA, BH, GY, SU). The 3 additional national nearshoring strategies to be financed will be selected through a combination of availability of data and interest from client countries informed via dialogue with country Representatives and Departments.

- 3.2 Following lessons learned from the implementation of the methodology in several countries during 2021 and 2022, a competitiveness analysis and interviews with business organizations, multinational firms and governmental institutions such as promotion agencies and Trade and Production Ministries will inform the findings of the strategies, to be validated in coordination with local IDB Group Staff in Country Offices and in Country Departments, and all relevant Sectors and Divisions from the Vice Presidency for Sectors and Knowledge. The national promotion strategies and vertical sector studies and their respective policy recommendations are expected to inform programmatic dialogue between IDB and its borrowing member countries on topics such as the improvement of regulatory frameworks for exports and institutional frameworks for the promotion of trade and investment; reduction of logistics costs; increase in access to export financing and greater investment in roads, ports, airports, and customs infrastructure.
- 3.3 **Component II: Dissemination of Knowledge. (US\$125,000).** The objective of this component is to contribute to greater dissemination to internal and external audiences of the findings of the studies mentioned in Component I. Specifically, this Component will finance the costs associated with: (i) at least three hybrid format events to present the opportunities and competitive advantages offered by host countries to companies from pre-identified strategic sectors, to locate their operations in their country and the target audience will be both multinational companies established in the host countries that have already made investments and are considering expanding them, and multinational companies that do not have a presence in the host countries and are interested in them¹³; and (ii) the design and development of a dedicated and integrated platform (the “strengthening LAC value chains hub”) and the production of user-friendly contents and their communication (videos, factsheets, graphics, etc.) to disseminate the findings of national promotion strategies and sector vertical studies among internal and external audiences (governments, think tanks, companies).
- 3.4 **Project Coordination (US\$100,000).** In order to ensure a smooth execution of the project, the hiring of an individual consultant is proposed to act as coordinator of the project and liaise with the focal points of the relevant entities in beneficiary countries.
- 3.5 **Budget.** The total budget for the TC is US\$600,000.00, which will come from The Ordinary Capital Strategic Development Program (OC-W2D). Local counterpart resources are not contemplated for this operation.

Indicative Budget (US\$)

Activity/Component	IDB/OC-W2D	Total Funding
Component I	375,000	375,000
National Promotion Strategies	200,000	200,000
Vertical Sector Studies	175,000	175,000
Component II	125,000	125,000
Nearshoring events (hybrid)	15,000	15,000
Value Chains Hub design and inputs	40,000	40,000

¹³ The countries where these hybrid events will take place will depend on national nearshoring strategy maturity, findings, and country demand as communicated via the country representative.

Value Chains Hub communication	70,000	70,000
Project Coordination	100,000	100,000
Total	600,000	600,000

IV. Executing agency and execution structure

- 4.1 **Executing Agency.** The IDB will execute the TC through the Integration and Trade Sector's Regional Integration Unit (INT/RIU). Execution by the IDB is justified for the following reasons: (i) given the need for close coordination with various public and private sector actors at the regional level and the IDB's role as the main multilateral financial partner in LAC; and (ii) the significant wealth of knowledge and operational experience that INT has acquired in terms of participation in global value chains, investment attraction and regional integration; as well as its role in the IDB in terms of leadership and coordination of the comprehensive support of the IDB Group to strengthen regional value chains as part of its priorities under Vision 2025.
- 4.2 **Monitoring and Supervision.** The TC will be executed and monitored by Luciana García, INT Lead Specialist, in close coordination with the Chief of the Regional Integration Unit and INT Manager.
- 4.3 **Coordination.** Due to the country and/or sector-specific nature of the studies, as part of the execution mechanism INT/RIU will coordinate with Country Representatives and local IDB Group teams, as well as with other Sectors/Divisions in the case of sector studies, where applicable. Although the project does not contemplate execution of activities in the territory of any specific country, in the event that an activity is carried out exceptionally in any country, the project team will coordinate with the Country Representative to obtain the official country liaison's endorsement of said activity.
- 4.4 **Procurement.** All activities to be executed under this TC have been included in the Procurement Plan (see Annex) and will be carried out in accordance with Bank established procurement methods: (a) Hiring of individual consultants, as established in the AM-650 standards; (b) Hiring of consulting firms for services of an intellectual nature according to GN-2765-4 and its associated operational guides (OP-1155-4); and (c) Hiring of logistics services and other related services other than consulting, according to policy GN-2303-28.
- 4.5 **Intellectual Property.** All knowledge products derived from this TC will be the IDB's intellectual property.

V. Major issues

- 5.1 The main risk is lack of availability of data to conduct the studies contemplated in Component I, however, this risk will be mitigated by the methodology set in place by INT/RIU to conduct such studies in already 20 countries and 9 sectors at the regional level, closely following hired consultants and working in coordination with Country Offices to ensure consulting firms and individuals hired are granted access to information by relevant stakeholders.
- 5.2 An additional risk is the delay in the implementation of activities involving local authorities. The COVID-19 pandemic has impacted the speed of response from authorities and public companies to different projects due to the teleworking conditions

which could impact local data gathering for international consulting studies. To mitigate this, the project team will implement all activities in close coordination with IDB Country Offices and key country stakeholders, including representatives from government, industry, and civil society. In addition, consulting services will foresee the use of remote communication tools to ensure the scope of work completion.

VI. Exceptions to Bank policy

- 6.1 The project does not contemplate any exceptions to Bank policy.

VII. Environmental and Social Strategy

- 7.1 This Technical Cooperation is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with them; therefore, this TC does not have applicable requirements of the Banks Environmental and Social Policy Framework (ESPF).

Required Annexes:

[Results Matrix - RG-T4106](#)

[Terms of Reference - RG-T4106](#)

[Procurement Plan - RG-T4106](#)