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INTEGRATION AND TRADE SECTOR FRAMEWORK DOCUMENT

TRADE AND INVESTMENT DIVISION

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ABBREVIATIONS

ABD	Americas Business Dialogue
ALADI	Asociación Latinoamericana de Integración [Latin America Integration Association]
BIT	Bilateral investment treaty
CBM	Coordinated Border Management
CPE	Country Program Evaluation
EPA	Export promotion agency
FDI	Foreign direct investment
GDP	Gross domestic product
IMF	International Monetary Fund
IMO	International Maritime Organization
INT	Integration and Trade Sector
INTAL	Institute for the Integration of Latin America and the Caribbean
IPA	Investment promotion agency
LAC	Latin America and the Caribbean
MOOC	Massive open online course
MSMEs	Micro, small, and medium-sized enterprises
OECD	Organisation for Economic Co-operation and Development
OVE	Office of Evaluation and Oversight
PTA	Preferential trade agreement
RedIBERO	Red Iberoamericana de Organizaciones de Comercio Exterior [Ibero-American Network of Trade Promotion Organizations]
SDGs	Sustainable Development Goals
SFD	Sector Framework Document
SMEs	Small and medium-sized enterprises
SPS	Sanitary and phytosanitary
TBT	Technical barriers to trade
TFFP	Trade Finance Facilitation Program
TIN	Trade and Investment Division
TPO	Trade promotion organization
UNCTAD	United Nations Conference on Trade and Development
UN-OHRLLS	United Nations Office of the High Representative for the Least Development Countries, Landlocked Developing Countries, and Small Island Developing States
VUCE	Single window for foreign trade
WCO	World Customs Organization
WEF	World Economic Forum
WTO	World Trade Organization

EXECUTIVE SUMMARY

The challenges faced by countries in Latin America and the Caribbean (LAC) in the integration and trade sector primarily include: (i) reducing transportation and logistics costs by improving infrastructure and trade facilitation; (ii) reducing information costs by improving the institutional framework and trade and investment promotion programs; (iii) reducing the traditional costs of trade and associated regulatory costs by negotiating, managing, harmonizing, and converging economic integration agreements; and (iv) reducing finance costs through policies aimed at facilitating access to export and investment credit.

The available international evidence clearly shows that trade promotion, facilitation, and finance policies can substantially reduce the logistics, information, regulatory, and financing costs so as to help expand trade and investment and concomitantly boost productivity, income and welfare, ultimately leading to the economic development of the countries in the region. Specifically, this evidence indicates that physical infrastructure improvement (and the attendant reduction in transportation costs), trade facilitation initiatives (and the attendant simplification of administrative processes), trade promotion programs, investment promotion programs, deeper integration agreements, reduced regulatory costs, and access to finance generally have significant positive effects on trade and investment in both extensive terms (new businesses, new sectors/products, new destinations/origins) and intensive terms (existing relationships).

However, trade and investment are but two of the factors capable of driving the countries' development. Accordingly, maximizing the impact of the relevant policies requires policy interventions in other relevant areas with a view to creating propitious conditions and removing the existing market failures. In addition, even though internationalization on average produces gains, these gains are not symmetrically distributed among countries and among economic agents within countries; as a result, certain sectors may be harmed in the short or medium term.[1] Thus, effective and sustainable internationalization requires defining and implementing a trade and investment policy agenda, focused on reducing trade costs, that is part of a coordinated effort in several areas and envisages mitigating any potential adverse consequences for those who do not benefit from the process of integration into the global economy. In this connection, it is also essential to take the gender and climate-change dimensions properly into account, and the ways in which they relate to trade and investment are still poorly understood.

In its work, the IDB Group has drawn important lessons learned regarding the region's above-listed challenges, as well as other operational lessons based on its lending, technical cooperation, and dialogue activities in the region with multiple stakeholders, and other corporate activities. These lessons learned include, among others, the importance of continuing to implement coordinated border management (CBM) to reduce logistics costs at border crossings; the need to make better use of the existing supply of digital technologies; the need to continue to design flexible and adaptable instruments driven by the needs of enterprises and public-private cofinancing; the need to ensure robust interagency coordination and strategic targeting of priority sectors during the Bank's trade and investment promotion interventions; and the significance of promoting regulatory cooperation through a regional approach. Along the same lines, worth noting is the need

[1] Internationalization refers to a rise in the international activities of businesses and thus a greater interaction between their countries and their peers in terms of exports, imports, and foreign direct investment and participation in regional and global value chains.

for the IDB Group to continue to perform its important role as a business catalyst for SME internationalization by organizing innovative events on trade issues with the participation of industry leaders, and to continue to perform its successful work in promoting dialogue between governments in the region and promoting private sector participation so that the private sector is also included in the design, execution, and evaluation stages of foreign trade, investment attraction, and integration projects.

The IDB Group's work on integration and trade issues in LAC is particularly urgent at this time, with the political economy of trade integration becoming more complex throughout the world as international policy and security factors, after having receded into the background in the last three decades, appear to regain prominence and determine the imposition of discriminatory trade policies. In this context, the LAC countries must be prepared to anticipate complexities and take advantage of opportunities.

In view of this, this Sector Framework Document (SFD) proposes that the IDB Group's activities in the integration and trade sector focus on promoting a greater and more equitable share of global trade and investment for LAC as well as a deepening of the regional markets. It recommends aiming to reduce market, coordination, and collective action failures in the region through IDB Group support for cooperation and regional public goods projects that promote regional coordination and provide or help create value added to national interventions, with particular emphasis on support for digital transformation in the integration, trade, and investment areas in the region.[2] Accordingly, this SFD proposes four lines of action aimed at addressing the challenges faced by the region in this sector with a view to reducing the trade costs identified in the preceding sections: (i) promote efficient and secure customs-logistics and transportation interconnectivity conditions; (ii) foster high-quality trade and investment promotion services that reflect the region's needs; (iii) promote access to reliable, up-to-date, and transparent information and encourage the negotiation of regional initiatives for reducing trade and investment restrictions; and (iv) improve access to finance for exporting enterprises in the region. Likewise, as will be discussed in Sections IV and V, studies will be conducted to bridge knowledge gaps in the gender and climate change dimensions, so as to make the Bank's initiatives in the sector more inclusive, sustainable, and effective.

[2] It is precisely the introduction of the digital transformation angle and greater emphasis on investment and services trade that constitute the key differences in approach from the previous Integration and Trade SFD. Additionally, as we will see in Section V "Lines of Action," this SFD identifies the issues of gender and climate change as relevant dimensions to be considered in each of them.

I. THE INTEGRATION AND TRADE SECTOR FRAMEWORK DOCUMENT IN THE CONTEXT OF CURRENT REGULATIONS, THE INSTITUTIONAL STRATEGY, AND INTERNATIONAL AGREEMENTS

1.1 The objective of the Integration and Trade Sector Framework Document is to guide, in specific but flexible fashion, the work carried out by the IDB Group with the Bank's 26 borrowing member countries on operational, dialogue, and knowledge generation issues regarding the sector.

1.2 This Sector Framework Document (SFD) focuses on issues related to export promotion, investment attraction, support for the negotiation and implementation of agreements, trade facilitation, and access to finance for exporting enterprises in the region.

1.3 This SFD has been prepared in accordance with the "Strategies, Policies, Sector Frameworks and Guidelines at the IDB" (document GN-2670-5), which provides for creating the SFDs. It replaces the Integration and Trade SFD approved by the Operations Policy Committee on 13 June 2016 (document GN-2715-6).

1.4 This SFD is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008), which recognizes integration as one of the region's major challenges, and with the Sector Strategy to Support Competitive Global and Regional Integration (document GN-2565-4).

1.5 This SFD is also related to the Sustainable Development Goals (SDGs), specifically SDG 8: decent work and economic growth (through actions that promote a rise in productivity levels and improved access to technology) and SDG 17: partnerships for the goals (seeking to promote international trade and help developing countries to boost their exports as part of the challenge of achieving a universal, rules-based, and equitable trading system that is fair and open and benefits all).

1.6 This SFD aims to address regional integration challenges from the standpoint of trade and investment. It is important to note that the IDB Group, through its different sectors, also has a variety of interventions that promote regional integration from multiple specific approaches that are addressed in other SFDs. For example, energy market integration issues, together with support for transportation services and infrastructure for regional integration (including air transport integration), are handled by the Energy Division (INE/ENE) and the Transport Division (INE/TSP) and those dimensions are addressed in the Energy and Transportation SFDs, respectively. Issues related to large and sudden intraregional migration inflows are addressed by the Migration Initiative. The following table shows how this SFD is complemented by other relevant IDB Group SFDs.

Relationship between the Integration and Trade SFD and other IDB Group SFDs

IDB Group SFDs	Relationship with the Integration and Trade SFD
Transportation SFD (document GN-2740-7)	Supporting infrastructure and transportation services for regional integration; fostering and leveraging private-sector participation in infrastructure and service delivery; development of multisector agendas; construction and maintenance of socially and environmentally sustainable infrastructure; promoting continuous improvements in regional infrastructure governance and in the regulation and provision of transportation services.
Innovation, Science, and Technology SFD (document GN-2791-8)	Coordinating technological innovation and productive development efforts with business internationalization processes.
Labor SFD (document GN-2741-7)	Leveraging synergies between exports, foreign investment, job creation, labor-market regulation, and strengthening the technical skills of the workforce in export industries.
Fiscal Policy and Management SFD (document GN-2831-8)	Promoting coordinated management of tax and customs administrations in the region.
Support to SMEs and Financial Access/Supervision SFD (document GN-2768-7)	Promoting SME financing to support their internationalization.
Agriculture and Natural Resources Management SFD (document GN-2709-5)	Coordinating agricultural production for sustainable exports, with appropriate conditions for access to foreign markets, and attracting investments into the agriculture sector.
Climate Change SFD (document GN-2835-8)	Developing trade and investment instruments that contribute to countries' resilience and decarbonization.
Environment and Biodiversity SFD (document GN-2827-8)	Promoting environmental standards to avoid inappropriate regional competition.
Social Protection and Poverty SFD (document GN-2784-7)	Design of trade policy tools and trade promotion and investment attraction activities sensitive to the needs of the lower socioeconomic strata.
Health and Nutrition SFD (document GN-2735-7)	Collective regional action on issues of health and nutrition.
Water and Sanitation SFD (document GN-2781-8)	Promotion of multisector actions and attracting private investment in the sector, particularly in regional projects.
Tourism SFD (document GN-2779-7)	Fostering the development of regional tourist attractions.
Energy SFD (document GN-2830-8)	Handling energy-market integration issues.
Gender and Diversity SFD (document GN-2800-8)	Promoting greater inclusion in the opportunities created by trade and investment.

1.7 The rest of the document, following this introductory Section I, is structured as follows: Section II briefly describes the integration and trade sector and lays out the main development challenges it faces. Section III presents evidence on the effectiveness of policies and programs to address the sector's development challenges identified in Section II. Section IV summarizes the lessons learned from the IDB Group's recent operational and knowledge experience which are to be considered when addressing the challenges identified in Section II. Lastly, Section V includes the general lines of action that will serve the IDB Group as a reference in its support to the region with a view to facing the challenges identified in Section II.

In addition, Annex I contains figures, while Annex II provides summaries of a selection of knowledge products developed by the Integration and Trade Sector.

II. Main Challenges in the Region for the Trade and Integration Sector

2.1 **Despite clear differences across countries, LAC has in recent decades deepened its integration into the global economy.**[3] The average percentage share of exports in the gross domestic product (GDP) of the countries in the region grew from less than 15% in the mid-1990s to close to 20% in 2017. This rise in the relative importance of foreign trade in the economies is the result of both an expansion of volume traded in existing products and markets and a diversification of the latter.[4] Thus, the average number of exported products and destination countries increased significantly. Specifically, these numbers respectively rose by 25% (from 400 to 500 products) and by more than 30% (from 60 to 80 countries) since 2000. Similarly, the average percentage share of incoming foreign direct investment (FDI) stock in the GDP rose from 10% in 1995 to approximately 50% in 2017 (see Figure 1).[5]

2.2 **Despite this progress, the region continues to face multiple, substantial, and even growing trade and investment challenges due to the changes in international conditions and developments associated with emerging technologies.** In relative terms, it is evident that: (i) LAC's share in the global trade of goods continues to be very low and is now even lower than in the 1950s and 1960s; (ii) with a handful of exceptions, exports in most of the region's countries are concentrated in a small number of goods (the median for LAC is 500, while the median for Asia, Europe, and North America exceeds 3,000), specifically commodities with volatile prices and technologically unsophisticated manufactures, and a small number of destination markets (the median for LAC is 80, while the median for Asia, Europe, and North America comfortably exceeds 100);[6] (iii) LAC's share in the global trade of services has consistently declined since the mid-1990s; (iv) despite the absence of comprehensive and accurate data, the available information suggests that the region's share in the dynamic digital trade segment (linked to emerging technologies) is even lower than its share in traditional trade (Giordano et al., 2017; and Estevadeordal et al., 2019); and (v) while LAC's

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3 The document focuses on the region's integration into the global economy in general; in other words, it includes intraregional integration in LAC and integration into the rest of the world. These forms of integration can have complementarities (IDB, 2017).

4 In this regard, "diversification" refers to an increase in the number of traded products and destination countries or countries of origin with which there are trade links, and thus to a more uniform distribution of trade in the corresponding dimensions.

5 The reported values arise from the authors' own calculations based on World Bank World Integration Trade Solution (WITS) and World Development Indicator (WDI) data and include intraregional trade or investment, as applicable. The number of exported goods is computed as the number of tariff lines at the Harmonized System six-digit level for which positive exports are observed.

6 The situation is identical when considering how the value of exports is distributed among the various products. One measurement of the degree of inequality in that distribution is the Hirshman-Herfindahl Index, which in this case is calculated as the sum of the squares of the share of each product in the total exports of the country in question. The index's median, for the region's countries, is more than double the median for North America and Europe and 75% higher than the median for Asia.

percentage share in the global stock of incoming FDI has risen slightly since 1995 (from 5% to 7%), the region's relative weight in the extensive FDI margin—measured as the number of subsidiaries of multinational companies established in the country—has declined markedly since that time (from 14% to less than 9%); (vi) in general, the benefits of integration are still concentrated in a few regions and countries that have natural resources or national location advantages with respect to the North American market (see Figure 2 and Figure 3).[7]

2.3 **This situation reflects a global context characterized by a reshuffling of international economic relationships as a result of the growing importance of Asia and the rising number of discriminatory policy interventions, which have a high and rising impact on trade and investment.** Thus, since late 2008 almost 10,000 new trade-restriction measures have been implemented, which still remain in effect and affect approximately 70% of global exports. Around a third of these restrictions are increased tariffs and contingent trade protective measures, and a quarter are subsidies.[8] Similarly, over the course of the last 10 years, more than 700 new provisions restricting FDI have been put in place, particularly relating to location (Evenett, 2019).

2.4 **The aforementioned challenges are to a significant extent derived from the persistence of relatively high trade costs, which are in turn due to the limited progress in effective trade and investment policies. Specifically, the variation in bilateral trade costs attributable to these policies is at least twice as high in LAC as in developed countries.[9]** Trade costs include, among others, those associated with domestic and international transport of goods, administrative processing of shipping and the processing time, information barriers, tariff and nontariff measures, associated regulations, and financing (see, for example, Anderson and van Wincoop, 2004). In aggregate terms, these costs have fallen in the region since the early 2000s, but this drop has been significantly less pronounced than in more developed countries. As a result, the LAC countries continue to face considerably higher costs than their counterparts in Asia, Europe, and North America and are therefore subject to a large and still expanding competitiveness gap with respect to these counterparts. This is particularly the case for economies that are small, have no direct access to the sea, or are islands (see Figure 4). As will be seen below, this is at least partly due to the fact that, although the LAC countries implemented trade and investment policies that have succeeded in reducing trade costs, these policies have clearly been insufficient, lacking either the necessary scope and depth or the proper coordination among their specific

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7 The reported values arise from the authors' own calculations based on World Bank World Integration Trade Solution and World Development Indicator data, International Monetary Fund, UNCTAD, and Dun and Bradstreet WorldBase data.

8 G20 member countries have been responsible for over 80% of new contingent trade protective measures and subsidies and just over 50% of tariff increases (Evenett, 2019).

9 This value is the result of the authors' own estimates based on Volpe Martincus (2019), which take into account the role of geographic factors.

components, between one such policy and another, and with other relevant policies (Mesquita Moreira and Stein, 2019).[10]

2.5 **Trade costs can be significantly further reduced through trade and investment policies that are duly designed and implemented in terms of scope, internal and external consistency, and sets of specific tools, included those associated with new technologies.** Such policies include: (i) improvement of infrastructure and associated services and trade facilitation as policy tools to reduce transport costs and administrative processing costs of shipments; (ii) trade and investment promotion as a policy tool to reduce information costs; (iii) negotiation, management, harmonization, and convergence of economic integration agreements as policy tools to lower the costs related to tariff and nontariff measures and associated regulations;[11] and (iv) facilitation of access to export and investment credit as a policy tool to reduce financing costs. In order to maximize the impacts of the aforementioned policies, it is essential to: (a) ensure the consistency of the instruments and specific measures for implementing them; (b) take into consideration and exploit synergies among the policies; (c) link them together across countries; and (d) take advantage of the opportunities provided by the new technologies in those dimensions (IDB, 2013, 2019).[12]

2.6 **While trade and investment policies can make a substantial contribution to the economic development of the region, they are far from the only significant factor and their effects can be bolstered if they are coordinated with policy interventions in other areas**, including innovation, education in general, and human capital formation for job placement in particular, among others.[13] In addition, it is vitally important to properly include private sector inputs in the design of these policies.

A. Reduce transport, logistics, and administrative processing costs by improving the transportation infrastructure and associated services and providing more extensive and in-depth trade facilitation

2.7 **Domestic and international transport costs continue to be high and generally exceed the costs in other regions despite some advances in physical infrastructure in recent decades**. Domestic costs of transport—from agricultural

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[10] This coordination refers both to specific policies and to their timing (see Section III). While interagency coordination and coordination with the private sector have improved in certain countries, they continue to pose a major challenge for making progress on comprehensive actions aimed at reducing these costs. In this regard, it is worth noting that an effective design and implementation of these policies is subject to the influence of political economy factors. The IDB's Integration and Trade Sector and Department of Research are working together to carry out joint studies in this area.

[11] Recent Bank reports discuss harmonizing trade agreements and propose a bottom-up approach that includes the cumulation of rules of origin (IDB, 2017; Mesquita Moreira, 2018).

[12] By way of example, the time savings and the reduction in administrative processing costs of shipments are greater when the relevant formalities can be completed electronically through a single foreign-trade window that encompasses all border agencies and is capable of interoperating with its trade partners' counterparts. However, these time reductions will not bring about the expected positive effects on trade if the countries have roads in poor condition that slow down transportation and offset any time gains at the border.

[13] In this regard, it is worth consulting the relevant sector framework documents and the institution's Development in the Americas (DIA) flagship reports, which have covered these issues in recent years (see, for example, Crespi et al., 2014; Busso et al., 2017; Mesquita Moreira and Stein, 2019).

production, mining, and manufacturing areas to ports, airports, or land border crossings—are relatively high and highly asymmetrical between regions in LAC countries. This is largely due to the scarcity and poor quality of the physical transportation infrastructure and its limited degree of intermodality (Mesquita Moreira et al., 2013) (see Figure 5 and Figure 6).[14] International transport costs from the national borders to the relevant destination are similarly high, also largely due to infrastructure shortcomings.[15] Specifically, once the impact of the composition of the LAC countries' export basket is discounted, about 40% of the difference in international freight between these countries and their developed peers is attributable to differences in the quality of infrastructure and the management of ports and airports (see Figure 5 and Figure 6).[16] Institutional weaknesses and the consequent lack of proper regulation of transport services also appears to contribute to creating the gap in domestic and international transport costs seen in the region (Mesquita Moreira et al., 2008).

2.8 **Even though the countries in the region have implemented various trade facilitation initiatives that have significantly streamlined administrative formalities and reduced shipment processing times, they are still far from the optimal level determined by international best practices in terms of both the design of processes and technological solutions.**[17] Putting methodology considerations aside, the existing measures suggest that the region's median export and import times are significantly longer than in Asia, Europe, and North America (Volpe Martincus, 2016). This reflects not only a high frequency of physical inspection of shipments but more generally a relatively low degree of progress in the implementation of various initiatives that are explicit commitments under the 2013 World Trade Organization (WTO) Trade Facilitation Agreement.[18] In particular, despite the advances made, the region clearly lags in terms of compliance with disciplines in key areas such as risk management, single windows for foreign trade, authorized economic operators, and cooperation between customs and between other relevant agencies (Volpe Martincus, 2019) (see Figure 7, Figure 8, and

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14 If one takes as a given the agglomeration of economic activity in locations with good access to external markets and considers only those strictly related to the operation of the service (i.e. if one sets aside the profit margin of the service providers), the transportation costs exporters incur can come to 6% to 12% in *ad valorem* terms (Mesquita Moreira et al., 2013).

15 The simple (weighted) average of international transport costs Latin American countries face when exporting to the United States come to approximately 12% (8%) (Mesquita Moreira et al., 2008). Transport costs are significantly higher for small and vulnerable economies (Winters and Martin, 2004). In particular, in the Caribbean, these costs are twice as high as the world average (Mesquita Moreira et al., 2008). Transport costs are similarly high in countries that have no access to the sea, as recognized in the Vienna Program (2014-2024) (UN-OHRLLS, 2017).

16 Several countries in the region tend to specialize in "heavy" products that face higher transport costs.

17 This is due, at least in part, to the fact that these reforms require a high degree of interagency coordination between entities reporting to different ministries (e.g. customs reports to the ministry of the treasury or finance, while other border agencies report to the ministries of trade and agriculture) that typically have different procedures, both in terms of design and completion modalities (e.g. the possibility of doing them digitally and the type of software used).

18 It is worth noting that there are significant disparities across the region's countries in this regard. Thus, while Chile and Mexico have implemented virtually all commitments under the agreement and Argentina, Costa Rica, and Uruguay have implemented most of the commitments, some Central American countries and several Caribbean countries have a low implementation rate (Volpe Martincus, 2019).

Figure 9). More specifically, the existing single foreign-trade windows in the region typically do not cover all border agencies and merely process public administrative formalities; in other words, they do not include logistics operators as is the case in the so-called port or airport community systems.[19]

B. Reduce information costs by improving the institutional framework and the trade and investment promotion programs

2.9 **Despite advances in information and communication technologies, information costs continue to be a formidable barrier for businesses interested in operating abroad through either sales or investments.** Surveys of businesses in various regions show that lack of information continues to be one of the most significant barriers to exports in terms of both frequency of occurrence and severity (Volpe Martincus, 2010). Furthermore, econometric studies show that, on average, information costs between countries range from 6% to 13% in *ad valorem* terms (Rauch and Trindade, 2002; Feenstra and Hanson, 2004; Anderson and van Wincoop, 2004).

2.10 **Most countries in the region have established export promotion agencies (EPAs) and investment promotion agencies (IPAs) that design and implement programs aimed at reducing these information barriers and correcting the associated market failures, but such programs are not necessarily consistent with international best practices in developed countries and, despite their achievements, have ample room for improvement.** Recent decades have witnessed a resurgence of a new generation of EPAs and IPAs in the region that support enterprises essentially through information services, thereby offsetting the existing disincentives in the search for business opportunities arising from information spillovers (Blyde et al., 2014). Thus, all of the region's IPAs were created over the past 30 years (Volpe Martincus and Sztajerowska, 2019). However, these agencies differ from their counterparts in developed countries in their organizational structure and practices as well as in two dimensions that appear to point to a difference in terms of exports and associated incoming FDI: budget and foreign presence (Lederman et al., 2010; Gil-Pareja et al., 2008, 2011; Hayakawa et al., 2014; Volpe Martincus et al., 2010, 2011; Volpe Martincus and Sztajerowska, 2019).[20] EPAs and IPAs in the region generally have relatively lower budget resources and more limited foreign office networks than their counterparts in developed countries (see Figure 10.c). Similarly, their practices deviate from those of several of their peers in developed countries in ways that appear to matter in terms of outcomes: coordination among programs and targeting strategies (priorities and exclusions) (for example, Volpe Martincus and Carballo, 2010). Thus, the EPA programs typically lack sufficient coordination to enable comprehensive systematic assistance to businesses throughout the internationalization process, while the promotional efforts of the IPAs are less targeted than those of their peers in developed countries (Volpe Martincus and Sztajerowska, 2019). Lastly, not all agencies have units specializing in post-investment care and services and, when

[19] For a detailed description of the region's challenges in terms of trade facilitation, see Volpe Martincus (2016).

[20] See Rose (2007) and Moons (2017) for an analysis of the effects of diplomatic offices on exports and investments.

they do, they lack the proper level of development and sophistication.[21, 22] The same considerations apply to the impact evaluation of their activities (Jordana et al., 2010).

2.11 **In particular, the consideration of emerging technologies as an object of programs aimed at fostering internationalization, and their use as a tool to implement these programs, are still at a very early stage.** Programs designed to train enterprises to operate in the dynamic digital trade sector have only recently been added to the set of services provided by some EPAs in the region, and their content is relatively basic.[23] By contrast, several EPAs of developed countries, such as Finland, have mature initiatives in this regard that have been designed on the basis of technically solid surveys and studies (Estevadeordal et al., 2019).[24] In addition, the use of traditional technological tools and new technologies (for example, artificial intelligence and other Industrial Revolution 4.0 technologies) to identify potential buyers or investors is still an exception in the region.

C. Reduce the traditional trade costs and associated regulatory costs by negotiating, managing, harmonizing, and converging the economic integration agreements and developing a modern competition policy

2.12 **Despite disparities between countries, the trade agreements signed over the past 30 years have enabled a substantial reduction in tariff and nontariff barriers[25] between the countries.** At present, there are 33 comprehensive preferential trade agreements (PTAs)[26] in effect between countries in the region. In all cases, the tariff reductions envisaged under the agreements have already been, or will soon be, fully implemented both in terms of quantity and of tariff lines affected. As a result, 80% of the regional trade corresponds to pairs of countries that are signatories of these agreements and is generally not subject to tariffs (see Figure 11) (Mesquita Moreira, 2018).

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21 In this regard, it is worth noting that, in several countries in the region, a large percentage of FDI comes from multinationals already established in the country in the form of retained earnings (Hansen and Wagner, 2018).

22 In terms of both post-investment services and impact evaluation, the region's IPAs generally use only a very limited number of the available tools and lack a proper comprehensive vision. For example, only a few IPAs use econometric methods in their evaluations, and on the rare occasions in which they do employ these methods, they seldom coordinate them systematically with properly designed, representative surveys of businesses.

23 While there are no official statistics on digital trade at a global level, existing estimates suggest that it totaled US$27.7 trillion in 2016 and grew by more than 40% since 2012 (Estevadeordal et al., 2019).

24 For example, Business Finland's eCom Growth program is an initiative consisting of a set of multidimensional and multiyear support measures sequenced to assist in the development of participating enterprises, addressing all relevant aspects of digital trade, such as defining digital marketing strategies (including formulating the enterprise's value proposition), identifying specific market opportunities and providing training to take advantage of them, and organizing meetings with potential buyers, among others.

25 For the majority of the countries in the region, nontariff barriers account for close to 15% of the value of the imported good, while tariffs are at most 4% (IDB et al., 2011). For example, sanitary and phytosanitary (SPS) measures legitimately seek to protect human, animal, and plant health. However, disparities in determining and managing these measures create a situation that adds costs and uncertainty, and even covert protectionism, to agrifood trade (according to INTradeBID, more than 2,000 exports are rejected each year in the North American market due to noncompliance with SPS measures). This is especially important for LAC, since it has great natural wealth and is the world's largest agricultural exporting region.

26 This figure does not include multiple partial agreements negotiated by the countries in the context of the Latin American Integration Association (ALADI).

2.13 **Nevertheless, coverage is far from perfect; consequently, there is still significant room to expand these reductions in the extensive margin of products and pairs of countries.** Several agreements in the region contain product exclusions, i.e., they list products for which tariffs will not be eliminated even after the liberalization process has been completed. These products account for a small portion of total trade but represent significant exports for some of the countries in question.[27] In addition, particularly in the case of the Mercosur countries, several agreements do not include specific disciplines on trade in services. Lastly, there is still a large number of country pairs whose trade is not subject to an agreement and thus to preferential treatment. In terms of value, the most important missing links are those between Mercosur countries and Mexico and between the Caribbean and the rest of the region (see Figure 11) (Mesquita Moreira, 2018).

2.14 **The potential for reducing trade costs in the intensive margin by harmonizing the regulations in the agreements and through their convergence is also significant.** The 33 PTAs correspond to 47 rules of origin arrangements with various degrees of restrictions (see Figure 11). In general, compliance with different rules without the possibility of cumulation of origin erodes economies of scale and artificially fragments participation in global value chains. Specifically, it limits the choice of input providers and imposes costs that can lead to under-utilization of the preferences granted under the agreements, particularly on the part of smaller enterprises (Ulloa and Wagner, 2014). Avoiding these multiple costs requires a convergence of PTAs that consolidates rules (Granados and Cornejo, 2004; IDB, 2017; Mesquita Moreira, 2018).

2.15 **This is compounded by the fact that the region's markets do not always operate properly, due to factors including low levels of business rivalry, which in turn is at least partially the result of relatively weak competition policies.** Many of the productive sectors are highly concentrated[28] and lend themselves to cartelization or abuse of power, affecting the entry and exit of economic agents and innovation, and consequently the productivity of the economy as a whole (OECD, 2005).

2.16 **Advancing in this direction is not a trivial task, since several countries in the region do not have sufficient institutional capacity to effectively negotiate, implement, manage, monitor, and analyze the impact of the trade and investment agreements.** The associated processes are complex and pose very significant political and institutional risks, involving, among other things, a reform and adaptation of regulatory frameworks and requiring effective coordination with a large array of actors, including the various levels of government, the productive sectors, consumers, civil society, and academia.

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[27] In the Andean region and in Central America, exclusions are concentrated in agricultural and labor-intensive goods, while in Mercosur they are essentially applicable to machinery and motor vehicles. These exclusions are basically introduced for reasons of political economy.

[28] The region has higher levels of market concentration and less rivalry, as measured by the Herfindahl-Hirschman Index in various markets as well as by the increase in mergers and acquisitions. See Núñez Reyes and De Furquim (2018) for a recent analysis with data from six countries in the region (Argentina, Brazil, Chile, Colombia, Mexico, and Peru) on the concentration of markets in the digital economy.

D. Reduce financing costs through policies to facilitate access to credit for exports and investments

2.17 **Access to finance varies among countries[29] in the region and by type of company, restricting businesses' trade and investment potential.[30]** Approximately 80% of global trade is financed through some type of credit, guarantee, or insurance. For many years, this financing was taken for granted, but the situation changed dramatically following the international financial crisis in 2008-2009. Since then, global banks have substantially cut back on cross border loans to emerging economies and developing countries (Beck and Rojas Suárez, 2019).[31] As a result, access to trade finance was significantly restricted.[32] This particularly affects smaller enterprises. While 84% of the banks in the region report that they consider SMEs a strategic component of their business, only 25% indicate that they have foreign trade or SME internationalization products (IDB/MIF-FELABAN, 2014).[33] This shortcoming in trade finance access prevents these enterprises from taking effective advantage of the opportunities provided by the international markets. Access to finance is also important for enterprises seeking to invest in other countries by establishing a presence and developing business activities there (Buch et al., 2009). Multinational companies, including multilatinas, are usually able to leverage financing with international banks. However, LAC companies that are unknown outside of their domestic environment have limited possibilities for expansion abroad (ECLAC, 2011).

2.18 **Addressing this situation requires developing the market for trade and investment finance.[34]** Analyses performed by the IDB Group and FELABAN show the need to foster the development of sources of financing for exporters in LAC. Only 25% of the surveyed businesses report having had access to some source of financing for their exports. The development potential of this market is extremely high if one considers that 6 of every 10 SMEs report an interest in exporting (IDB, 2014).

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29 For example, in the case of Chile, total private sector debt (of nearly 190% of GDP in 2017) exceeds that of its regional peers and of many other emerging markets and is approaching the level in advanced economies (International Monetary Fund, 2018 "Chile: Selected Issues Paper").

30 Worldwide, 80% of banks report that digitalization will reduce costs, but there is no evidence that the savings will translate into additional trade finance capacity.

31 Global banks initially withdrew due to economic reasons—essentially, survival—and subsequently at least in part to the adoption of new, stricter regulations in developed countries—crossborder regulatory spillover effect. This contraction was partially offset by an increase in bond issues in emerging economies and developing countries and an expansion in financing between these nations (i.e., loans by large banks in such countries to similar countries) (Beck and Rojas Suárez, 2019).

32 Unfortunately, there is no internationally comprehensive and consistent database on trade and investment loans.

33 Seventy-four percent of the trade finance transactions rejected by banks originate with SMEs and mid-cap businesses, while women-owned businesses report higher rejection rates and are less likely to find alternatives in the formal financial sector (Americas Business Dialogue, 2017).

34 The development of the capital market is also particularly relevant. However, bank and capital markets tend to develop in tandem and complement one another (Cavallo and Serebrisky, 2016). In addition, while innovations in financial instruments in this market can enable banks to make more efficient use of their capital, they can also enable them to arbitrage between regulations.

III. International Evidence on the Effectiveness of Integration and Trade Policies and Programs

A. The arguments for and against integration and trade and the new policy agenda

3.1 **Trade and FDI can boost productivity and economic growth and consequently foster rising income and welfare in countries through various channels.**[35] At the aggregate level, trade can generate static productivity gains as a result of the exit of less productive businesses due to increased competition fueled by trade and the expansion of more productive businesses (Melitz, 2003); greater capital accumulation due to higher profitability in competitive sectors (Anderson et al., 2015); and dynamic productivity gains due to the reallocation of resources toward sectors with greater learning potential and the resulting expanded access to the global capital stock (Young, 1991; Grossman and Helpman, 1991). At the enterprise level, trade can enable an increase in productivity and innovation by allowing access to: a wider range of inputs (Either, 1982); new knowledge incorporated into imported inputs derived from the export activity by reason of the contact with sophisticated foreign clients (Westphal, 1991); and an expanded market that increases the return on the investment in innovation (Lileeva and Trefler, 2010; Bustos, 2011).[36] In addition, the productivity of businesses can rise due to the increased competition associated with trade, which encourages businesses to stop producing low-performing goods (Eckel and Neary, 2010; Bernard et al., 2012) and concentrate their production in goods that perform better (Mayer et al., 2014).[37] Furthermore, this increased competition can lead to greater welfare by making it possible to improve the linkage between the varieties of goods preferred by consumers and the main varieties of goods produced by businesses (Carballo et al., 2018). In turn, FDI can foster an increase in productivity through three primary channels: reallocation, technological externalities, and productive linkages (Blomstrom and Kokko, 1998; and Markursen and Maskus, 2001). In particular, the available empirical evidence indicates that FDI creates spillover effects through staff turnover, especially the turnover of highly skilled workers (Balsvik, 2011; Poole, 2013) and of former employees of multinational firms who start their own companies in their countries of origin (Muendler et al., 2012); and through vertical productive linkages with local businesses in input supplying sectors (Aitken, Hanson, and Harrison, 1997;

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35 For a critical review of the literature on the links between liberalization and economic growth, see Harrison and Rodríguez-Clare (2010). Trade in general, and trade diversification in particular, can be beneficial for economic growth by making it possible to expand the alternative sources of supply and demand, reduce the sensitivity to specific sector shocks, and thereby reduce the volatility of the product (Brainard and Cooper, 1968; Caselli et al., 2015).

36 A large number of studies examine the relationship between trade and productivity at the enterprise level; see, for example, Fernandes (2007) on Colombia; López-Córdova and Mesquita Moreira (2004) on Mexico and Brazil, respectively; Muendler (2002) on Brazil; Pavcnik (2002) on Chile; Schor (2014) on Brazil; Bernard et al. (2006) on the United States; Amiti and Konings (2007) on Indonesia; Blyde et al. (2010) on Chile and Brazil; Eslava et al. (2009) on Colombia; Lileeva and Trefler (2010) on Canada; Bas and Ledezma (2010) on Chile; Khandelwal and Topalova (2011) on India; De Locker (2011) on Belgium; and Lacovone (2012) on Mexico. Mesquita Moreira et al. (2019) present a review of this literature.

37 The available empirical evidence indicates that trade liberalization in the 1990s was associated with a significant increase in the productivity of the region's companies (Mesquita Moreira et al., 2019).

Javorcik, 2004; Alfaro and Rodríguez-Clare, 2004; Alfaro-Ureña et al., 2019; Carballo et al., 2019). FDI also improves the export activities in the host countries in terms of making national companies more export-oriented (Aitken et al., 1997; Greenaway et al., 2004; Carballo et al., 2019) and increasing the quality of their export baskets (Harding and Javorcik, 2012).[38]

3.2 **However, given the existence of market frictions and failures, these gains are not automatic and having them materialize generally requires the presence of conditions precedent and appropriate policies.** Thus, for example, the benefits of FDI may depend on the extent of financial development, intensity of competition and degree of liberalization, infrastructure, availability of human capital, and local learning and research and development efforts (Alfaro et al., 2004; Wang and Blömstrom, 1992; Borensztein et al., 1998; Blalock and Gertler, 2002). Specifically, the external effects of FDI depend on the technology used by multinational companies in the host country, the technology gap in relation to domestic companies, the absorption capacities of the latter, and the existence of policy efforts to eliminate the information barriers preventing the emergence of productive linkages between both types of enterprises, among other factors (Findlay, 1978; Blalock and Gertler, 2002; Lipsey and Sjöholm, 2005; Blyde et al., 2014). The experience of the Costa Rican program Encadenamientos para la Exportación [Linkages for Exports], carried out by the national EPA PROCOMER, is illustrative in this regard.[39] An evaluation of this program shows that it has had a positive impact on real wages, employment, and exports (the exporter status) of the participating companies (Monge-González and Rodríguez-Álvarez 2013).

3.3 **In addition, while internationalization on average gives rise to gains, these are typically not distributed symmetrically among countries or among economic agents within countries; thus, certain sectors are adversely affected, at least in the short or medium term, and there may be significant environmental implications, with intergenerational distributive consequences.** On one hand, smaller and less developed economies, especially Caribbean and some Central American countries, share characteristics that render them particularly vulnerable; specifically, they tend to face high cost differentials with respect to their peers of greater relative size (WTO, 2002 Bernal, 2001, 2011; Winters and Martins, 2005; CARICOM, 2013; Soobramanien and Gosset, 2015; and Soobramanien and Worral, 2017).[40] On the other hand, trade liberalization can give rise to adjustments in the

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[38] However, the spillover effects of FDI on local enterprises within the same industry seem to be more rare (López-Córdova, 2002; Damijan et al., 2003).

[39] The program Encadenamientos para la Exportación is a public initiative that fosters the establishment of productive and trade links between multinational companies in Costa Rica and domestic companies. In particular, this program has primarily operated as a business pairing service based on demand for inputs and commodities on the part of multinational companies. These needs are identified and linkages are then made with local providers that fulfill the required production, technical, and quality specifications and characteristics. Accordingly, the program has essentially addressed market failures related to information problems (Monge-González et al., 2010). The ultimate objective is to enable greater direct participation by domestic companies in foreign markets.

[40] The cost disadvantages are particularly pronounced in the case of maritime transport (Winters and Martins, 2005). Additionally, in general, these countries lack the analytic capacity to evaluate the economic impacts of potential changes in the rules governing international trade or the possible implications of different economic policy alternatives (Soobramanien and Gosset, 2015).

job market in general and may adversely affect individual jobs and wages in certain sectors and regions in particular (Autor et al., 2013; Blyde et al., 2019). For the disadvantaged sectors, these effects and costs can persist over time (OECD, 2005; Dix-Carneiro and Kovak, 2014). In this regard, the sector specificity of the skills involved, the degree of job mobility, and the institutions that regulate the functioning of the job market play an important role (Ulyssea and Ponczek, 2018).[41] In addition, greater integration into the global economy can have gender-differentiated impacts (Fontana et al., 1998, Fontana 2009).[42] Specifically, it can affect the wage gap between men and women with comparable productivity levels (age, job experience, education). The channels, which are many and which mutually interact in complex ways, include competition, sector reallocations associated with comparative advantages, and technological change, among others (Pieters, 2018). Thus, an increase in foreign competition resulting from greater penetration of imports can narrow the wage gap if the affected sectors are male labor-intensive and this labor faces higher intersectoral mobility costs (Brussevich, 2018). However, the entry of companies into foreign markets can widen the wage gap if it leads to demands for longer work hours and women have (or are perceived as having) less flexibility in this regard (Bøler et al., 2018). Similarly, trade and investment can have varying environmental consequences, both positive and negative. For example, trade can generate greater pollution levels due to the associated increase in transport (Cristea et al., 2013),[43] but it can also help businesses gain access to and adopt more efficient technologies that are less intensive in the use of harmful substances or induce them to adopt stricter environmental standards if required in important destination markets.[44]

3.4 **An effective, inclusive, and sustainable internationalization requires defining and implementing a trade and investment policy agenda focused on reducing trade costs. This policy agenda requires a coordinated effort in various areas, and it should consider the aforementioned interdependence and mitigate the potential adverse consequences for those who do not benefit from integration**

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41 The effects of trade can vary widely depending on whether the countries and sectors generally compete with imports (Atkin, 2016; Majlesi et al., 2018) or generally benefit from external demand (Alvarez et al., 2018).

42 In many countries, women continue to be the poorest and most marginalized population group. This creates a significant barrier preventing them from gaining access to the benefits involved in economic liberalization (Gibb, 2012).

43 International maritime transport was responsible for 2.2% of global greenhouse gas emissions in 2012 and it is estimated that these emissions may grow between 50% and 250% by 2050 (IMO, 2015). In this regard, it is worth noting that as part of the global efforts to address this situation and in the context of the Paris Accord and the 2030 Sustainable Development Agenda (Goal 13), the International Maritime Organization (IMO) established a strategy to reduce total greenhouse gas emissions by at least 50% by 2050 with respect to the 2008 levels (IMO, 2018).

44 On the other hand, the consequences of climate change can adversely impact trade. For example, maritime transport, which accounts for close to 80% of global trade, can be seriously affected as a result of more frequent port closures due to extreme climate events. Similarly, droughts, floods, and soil salinization have negative repercussions on agricultural productivity. According to FAO estimates, this productivity could decline by 30% over the coming 20-30 years. These issues will be treated in depth in the Agriculture, Environment and Natural Resources Management, and Climate Change SFDs.

into the global economy.[45] Specifically, the relevant interventions should be coordinated to avoid suboptimal results that could arise when market frictions and failures in various areas are not fully addressed and to take advantage of their potential complementarities and synergies. Thus, for example, trade promotion may be incapable of generating more exports by domestic businesses if their product shipments have to wait for days while the administrative border procedures or port operations are being completed (Volpe Martincus, 2016). Similarly, the available empirical evidence points to the existence of complementarities between the innovation promotion and export promotion programs. In particular, businesses that have participated in the former and probably innovated either in terms of processes (thereby becoming more productive) or products (thereby improving the existing products or introducing new ones), and have subsequently participated in the latter, have shown better export results than their counterparts that have only used trade promotion services (Álvarez et al., 2014). Implementing an inclusive and sustainable strategy of integration into the global economy also requires addressing the sectors that will be adversely affected. In this regard, there is no single solution. The governments of various countries have used various approaches. Thus, in contrast to the countries in the LAC region, the United States, the European Union, and Korea have launched targeted programs aimed at workers displaced by international trade (US-TAA Program, European Globalisation Adjustment Fund (EGF), and Trade Adjustment Assistance, respectively).[46] While some studies report positive effects on individual employability (Hyman, 2018), the available empirical evidence on the effectiveness of these programs is not conclusive. In fact, strategies that are designed to improve the functioning of the job market as a whole and provide training to workers affected by shocks of all types (whether macroeconomic, technological, or migratory) rather than only trade shocks may be associated with better job market outcomes (Jansen et al., 2011; Blyde et al., 2019). In this regard, studies will be needed in order to significantly improve the still limited knowledge available on the interrelationships between trade and gender and environment.[47]

3.5 **As indicated in Section II, the trade and investment policy agenda in LAC faces four challenges**: (i) reducing transport, logistics, and administrative processing costs by improving the transport infrastructure and associated services and improving trade facilitation; (ii) reducing information costs by improving the institutional framework and the trade and investment promotion programs; (iii) reducing the regulatory trade costs by negotiating, managing, harmonizing, and converging the economic integration agreements and developing a modern competition policy; and (iv) reducing financing costs through policies aimed at

[45] In order for the implementation of this agenda to lead to increased international competitiveness and linkages within the countries and thereby generate the expected benefits, it is essential that the fiscal, monetary, and foreign exchange policies be consistent and sustainable so as to ensure an orderly and stable macroeconomic environment characterized by low inflation rates and a real exchange rate that does not systematically fall below the equilibrium level.

[46] Argentina has implemented a National Productive Transformation Program that assists workers adversely affected by trade liberalization in finding job opportunities in expanding sectors (Mesquita Moreira and Stein, 2019).

[47] In 2017, the WTO member countries signed a Joint Declaration on Trade and Women's Economic Empowerment aimed at boosting women's participation in trade.

facilitating access to export and investment credit.[48] Below is a description of the existing international evidence on the effectiveness of the policies and programs forming part of the integration and trade agenda.[49] The proposed agenda includes a renewed general emphasis, as well as specific new components, on trade in services, foreign direct investment, and emerging technologies. Thus, it may be considered an adjusted version of the previous agenda.

B. Evidence on the effectiveness of programs implemented to address challenges to the integration and trade agenda

1. *Impact of the physical infrastructure improvements and facilitation initiatives on foreign trade and FDI for businesses and their countries*

3.6 **The improvement of the physical infrastructure and the resulting reduction in transport costs foster an expansion and diversification of trade for businesses, regions, and countries and help to attract FDI associated with global value chains.** The empirical evidence available shows that improvements in the extensive and intensive margins (respectively, the extent and quality) of the domestic infrastructure help to reduce the physical distance (itinerary) and effective distance (travel time), and therefore the costs incurred, when transporting goods generally as well as specifically from production sites to customs facilities (ports, airports, and land crossings) (Mesquita Moreira et al., 2013; Cosar and Demir, 2016; Donaldson, 2018). In turn, these reductions in domestic transport costs have a significant positive impact on export results at various levels. The current estimates for the region indicate that a drop in these costs would result in an increase in a region's likelihood of exporting, the total value of its exports, and the diversification of its exports in terms of products. Moreover, depending on the spatial distribution, transport costs could give rise to a more balanced exporting pattern from a spatial standpoint (Mesquita Moreira et al., 2013; Molina et al., 2016). For example, in the case of Peru, a 1% reduction in domestic transport costs would result, on average, in an 8% increase in the beneficiary region's likelihood to sell abroad, a 4% rise in the value of its total exports, and a 3% rise in the number of products it exports (see Figure 12). These positive results also take place at the enterprise level. Thus, Peruvian enterprises that experienced a reduction in the distance between their factories and the exit ports due to the new roads built in the 2010s reported higher growth in exports and consequently in number of employees (Volpe Martincus et al., 2016).[50] Similarly, existing studies show that an improvement of the infrastructure would enable a significant reduction in international transport costs (for example, Feyrer, 2009; Hugot and Umaña, 2015; De Soyres et al., 2018). For example, freight costs would on average decline by 20% if the efficiency of the region's ports were to be raised to that of their peers in the United States. This reduction in freight costs would result in a substantial increase in the value of exports and in the number of exported products, much greater than would be the case in the event of a

[48] The policies in question are generally wide-ranging and, as such, are not concentrated in specific sectors (horizontal policies). In addition, countries frequently implement policies focused on specific sectors (vertical policies) (Crespi et al., 2014).

[49] To view the specific lines of action, see Section V of this document.

[50] Symmetrically, the "disappearance" of infrastructure results in lower exports by the companies (Volpe Martincus and Blyde, 2013; Volpe Martincus et al., 2014).

comparable reduction in tariffs (Mesquita Moreira et al., 2008) (see Figure 12).[51] Lastly, the quality of the logistics infrastructure in the region's countries also has a positive effect on the incoming vertical FDI, especially in sectors that depend more heavily on logistics services (Blyde and Molina, 2015).

3.7 **Trade facilitation initiatives in general, and simplification of the administrative processing of trade flows with the attendant reduction of the time required to complete it, also help to boost and diversify trade.**[52] The literature on the effects of trade facilitation measures is at an incipient stage. Even so, recent impact evaluations—many of them for countries in the region—provide microeconometric evidence on some of their dimensions. In particular, the results of these evaluations suggest that: (i) a reduction in physical inspections and thus in customs processing time is associated with an increase in exports and imports by enterprises (Volpe Martincus et al., 2015–Uruguay; Carballo et al., 2019a–Peru; Fernandes et al., 2019–Albania);[53] (ii) computerizing the processing of import declarations has a significant positive effect on the value added, employment, and productivity of businesses (Laajaj et al., 2019–Colombia); (iii) businesses certified as authorized economic operators and therefore subject to a lower inspection frequency and shorter shipment processing times experience higher growth in exports and imports, particularly if the enterprise in question receives a similar treatment from its trade partner (Carballo et al., 2016–Mexico; Volpe Martincus, 2016–Colombia);[54] (iv) implementing a single electronic-trade window and therefore digitalizing the relevant administrative procedures has a significant impact on exports and imports by enterprises (Carballo et al., 2016b–Costa Rica; Volpe Martincus, 2016–Colombia);[55] and (v) an international transit system that combines process reengineering aimed at process simplification, digitalization of the associated procedures, and standardization of border controls enables a reduction in trade costs on both sides of the border (unlike prior initiatives) and thus significantly contributes to both an expansion of exports by enterprises that were already exporting and an increase in the number of enterprises that sell abroad (Carballo et al., 2019b–El Salvador and Guatemala)[56] (see Figure 13); trade facilitation is positively related to incoming FDI in general and in the

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51 See also Hummels (2001), Limao and Venables (2001), Clark et al. (2004), Micco and Serebrisky (2006), Blonigen and Wilson (2008), Cosar and Demir (2018), Almonte et al. (2019), and Baniya et al. (2019).

52 The positive impact of facilitation is greater on the trade of time-sensitive goods such as agricultural products and goods subject to fashion cycles and quick technological obsolescence (Hummels, 2007).

53 A recent study shows that border processing times for imports adversely affect exports (Hayakawa et al., 2019–Thailand).

54 In contrast, an evaluation of a program for merchandise clearance in the company's own facilities rather than in the customs offices indicates that companies experienced an increase in the predictability of their shipment processing times but did not report changes in their average processing times, inspection rates, or import values (Fernandes et al., 2016–Serbia).

55 See Fernandes et al., 2018 (Macedonia) on the effects of the reform of a border technical agency.

56 The positive effects of trade facilitation initiatives have primarily materialized in the form of an increase in the frequency of shipments. The reason is that, as these initiatives simplify and expedite border crossings, companies have greater flexibility to respond in more timely fashion to demand from their peers and consumers and to similarly obtain inputs for production or goods they sell in the local market (Volpe Martincus, 2016).

manufacturing sector in particular (Olofsdotter and Persson, 2013; Global Alliance for Trade Facilitation, 2017).[57]

2. *Impact of trade promotion and investment promotion programs on foreign trade and FDI by enterprises and their countries*

3.8 **Trade promotion programs have significant positive effects on export activities, type of exports, and exporting enterprises that face greater information barriers.** Unlike its counterpart on trade facilitation, the microeconometric literature on the impacts of trade promotion programs is extensive and covers a large number of countries, including several in the region. This literature makes it possible to establish a series of stylized facts regarding these impacts: (i) virtually all studies report a significant positive effect on companies' exports as a result of assistance from EPAs, including, among others, six studies on countries in the region[58] (see Figure 14);[59] (ii) the impacts are greater on companies' extensive margin, whether when attempting to enter the international market for the first time[60] or when seeking to penetrate a new destination or a new product market;[61] (iii) the impacts are greater on foreign sales of differentiated goods[62] and on companies that have less international experience and are of smaller size;[63] (iv) during the international financial crisis, the support provided by the EPAs allowed companies to export more than their unassisted peers;[64] (v) trade promotion assistance also has a positive effect on other company performance dimensions, such as employment, sales, and productivity;[65] and (vi) a combination of programs that provide assistance throughout the process of developing, establishing, and consolidating trade relationships is more effective than isolated support (for example, for participation in an international fair).[66, 67] It is important to recognize that

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57 It is worth noting that the trade facilitation initiatives implemented in the region have been cost-effective (Volpe Martincus, 2016).

58 Álvarez and Crespi, 2000; Álvarez, 2004–Chile; Volpe Martincus, 2010–Argentina, Chile, Colombia, Costa Rica, Peru, and Uruguay), van Biesebroek et al., 2015–Canada, Cansino et al., 2013–Spain, Crozet et al., 2013–France.

59 The results of the evaluations suggest that the programs are cost-effective (Volpe Martincus, 2016).

60 Cruz, 2014–Brazil; Lederman et al., 2015–several Latin American countries; Mion and Muuls, 2015–United Kingdom; Broocks and van Biesebroeck, 2017–Belgium.

61 Volpe Martincus and Carballo, 2008, 2010a–Peru; Volpe Martincus and Carballo 2010a–Uruguay; Broocks and van Biesebroeck, 2017–Belgium).

62 Volpe Martincus and Carballo, 2012a–Costa Rica.

63 Volpe Martincus and Carballo, 2010b–Chile; Volpe Martincus and Carballo, 2012b–Argentina; Munch and Schaur, 2018–Denmark.

64 Van Biesebroeck et al., 2016–Belgium and Peru.

65 Rincon Aznar et al., 2015–United Kingdom; Munch and Schaur, 2018–Denmark.

66 Volpe Martincus and Carballo, 2010c–Colombia.

67 A study based on Tunisia's FAMEX program suggests that the effects of trade promotion may not be long-lasting (Cadot et al., 2015). However, that initiative is markedly different from the standard export promotion programs evaluated in the literature, calling into question the external validity of the study's findings. In fact, preliminary evidence on Peru indicates that those effects are in fact long-lasting (Carballo, 2012).

the aforementioned literature focuses solely on exports of goods; consequently, an in-depth analysis of trade in services is essential.[68]

3.9 **The new technologies can bolster these programs and their effects.** The services provided by EPAs help to reduce the costs of searching for potential clients. Online platforms such as eBay and Mercado Libre, which connect consumers and businesses with consumers, perform precisely that task and thus make it possible to reduce the effect of distance as an obstacle to trade (Hortaçsu et al., 2009; Lendle et al., 2016; Lendle and Vézina, 2015). Platforms such as ConnectAmericas[69] do the same between businesses. A recent evaluation shows that the use of ConnectAmericas has fostered a rise in exports by Peruvian businesses, especially by expanding the buyer base and diversifying the products sold, as well as an increase in the number of employees (Carballo et al., 2019b; Volpe Martincus and Salas Santa, 2019) (see Figure 15). The region's EPAs are consistently beginning to offer training programs to enable businesses to operate on these platforms and are even establishing their own platforms to connect local seller businesses and foreign buyer businesses (Estevadeordal et al., 2019).[70]

3.10 **Investment promotion programs have a positive effect on incoming FDI flows in general as well as on the establishment and rise in the number of multinational subsidiaries in the region's countries.** The evidence on the effectiveness of investment promotion programs is much more limited than for export promotion programs. At the sector level, this evidence indicates that prioritization has been positively associated with greater FDI flows from the United States to developing countries. Specifically, the priority sectors received 155% more FDI after having been prioritized, resulting in an additional annual flow of US$17 million for the median country-sector combination (Harding and Javorcik, 2011). In addition, IPAs that address investors' requests in a more professional manner and have higher-quality websites attract higher FDI volumes (Harding and Javorcik, 2013). At the enterprise level, the evidence is virtually nonexistent and is solely limited to the region, making it essential to further analyze this issue. A recent study that for the first time uses microdata on investment promotion and investment decisions by companies regarding Costa Rica and Uruguay shows that companies assisted by national IPAs—CINDE and URUGUAY XXI, respectively—are more likely to

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68 The evaluations of the trade promotion programs' impact on service exports are incipient. The Integration and Trade Sector (INT) is currently working with the Government of Chile to carry out an evaluation of this type.

69 Since its inception, the ConnectAmericas platform has had more than 270,000 registered entrepreneurs and more than 4.2 million unique users from 209 countries and territories, positioning itself as the first business social network in the region devoted to promoting foreign trade and international investment, helping SMEs to reduce their information costs and strengthen their businesses, offering access to customer, provider, and investor communities in the region and the world segmented by industry and providing useful and simple information on international trade procedures and regulations and on the financing opportunities available in IDB Group member countries.

70 Online platforms such as Alibaba.com allow buyers to share information on the quality of exporters and thus shed light on their reputation, which is significantly more difficult in conventional trade. An analysis of this platform shows that a better reputation, measured in terms of the ratings received and the substance of comments, translates into more sales and a larger number of destinations and buyers (Chen and Wu, 2016). New technologies, such as artificial intelligence, are reinforcing these pro-trade effects of platforms. Thus, a recent study shows that the introduction of an automatic translation system into eBay has led to a significant increase in the international trade carried out on this platform (Brynjolfsson et al., 2018)

establish themselves, develop a presence in these countries, and further expand their activities—i.e., increase the number of affiliate companies—in these countries. These positive effects are more pronounced on investments originating in developed countries, which are precisely those likely to face higher information barriers when investing in the region (Volpe Martincus et al., 2019b) (see Figure 16).

3. *Impact of integration agreements and of regulatory cost reduction policies*

3.11 **Integration agreements—especially those that are most in-depth[71]—tend to be favorable to trade and investment.** There is a vast literature showing that PTAs have a positive effect on foreign trade and that this positive effect is more pronounced when the agreements are more in-depth (see, for example, Frankel et al., 1995; Soloaga and Winters, 1999; Baier and Bergstrand, 2007, 2009, 2014; Egger and Larch, 2011; Egger et al., 2011; Kohl et al., 2016; Mesquita Moreira, 2018).[72] Moreover, these agreements are associated with higher FDI levels, both in the extensive margin (number of subsidiaries of multinational companies established in the country) and in the intensive margin (FDI figures), in general and with vertical FDI levels in particular (for example, Levy Yeyati et al., 2003; Baltagi et al., 2008; Blyde et al., 2014; Marra de Artiñano et al., 2019; and Osnago et al., 2019) (see Figure 17). Bilateral investment treaties (BITs) and double taxation treaties also have positive effects on FDI (for example, Egger and Merlo, 2012; Marra de Artiñano et al., 2019). Competition policy can perform an important supplementary role in these cases (Drexl et al., 2012).

3.12 **A reduction in regulatory costs enables an increase in the effective use of preferential agreements and a concomitant increase in trade and investment.** Regulations associated with the institutional architecture of the international system of trade, particularly in the presence of PTAs and BITs, include requirements that absorb a great deal of time and resources for exporters and investors, thus limiting the use of these agreements. This is especially true in the case of rules of origin (Granados and Cornejo, 2006; Estevadeordal et al., 2009; Crawford, 2012). The existing evidence indicates that the greater the number or restrictiveness of the rules of origin, the higher the costs of using the preferences and the lower the enterprises' exports (Ulloa and Wagner, 2016; Cadot et al., 2014). The regulatory convergence of PTAs in general, and the cumulation of origin in particular, would reduce distortions, boost the effective use of the agreements, and expand trade and global value chains (Granados and Cornejo, 2004; Blyde et al., 2018).

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[71] Integration agreements have different levels of depth, depending on the scope of the joint commitments being undertaken. Thus, at one extreme are the free trade areas, in which case tariffs are eliminated for trade between member countries but each member country retains its ability unilaterally to determine its tariffs with respect to nonmember countries as well as all other relevant policies. On the other extreme are the economic unions, which additionally involve the implementation of a common external tariff with respect to nonmember countries (customs union), the free circulation of factors of production (common market), and provisions for harmonizing certain policies, particularly macroeconomic and regulatory policies (for example, the European Union). In addition, the new integration agreements include other disciplines, such as investment, services, digital trade, and anticorruption.

[72] Some recent studies show that agreements have disparate effects (Baier et al., 2018, 2019). Their effects depend on the geographic, cultural, and institutional characteristics and development level of the pair of countries in question, among other factors (Baier et al., 2018).

3.13 **Reducing nontariff barriers can also increase trade and investment.** Nontariff barriers such as sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT) impose conformity and quality requirements on the trade of specific products and services that are costly to comply with (Cadot et al., 2012). While the aforementioned measures are in principle intended to ensure safety and quality, they can become covertly protectionist, depending on how they are designed and implemented.[73] The effects of these measures have been the subject of studies in the literature. The existing evidence indicates that: (i) SPS measures and TBT negatively affect the agricultural exports of developing countries to OECD countries (Disdier et al., 2008);[74] (ii) the SPS measures that have raised concerns in the relevant WTO committees and are therefore perceived as barriers to trade have a negative impact on the extensive margin of enterprises and on the intensive margin of trade, especially for small enterprises (Fontagné et al., 2015); and (iii) restrictive TBT have a negative effect on the exporting share of enterprises that is more pronounced in the case of enterprises that serve multiple markets (and can therefore redirect their sales toward destinations without TBT) and on trade flows, particularly in the case of the more homogenous sectors (Fontagné et al., 2018). With regard to the service sector, liberalizing the sector and opening it up to FDI can improve the competitiveness of manufacturing exporters that use such services (Arnold et al., 2011–Czech Republic; Fernandes and Paunov, 2012–Chile). Similarly, heightened business rivalry can enhance the general competitiveness of each sector (Porter, 1998) and bring about an increase in the sector's internationalization level.

4. *Impact of policies that facilitate access to credit for exports and investments*

3.14 **Access to finance is associated with better exporting and investment performance by businesses.** Financing restrictions have an adverse effect on aggregate exports (Niepmann and Schmidt-Einselohr, 2017–United States) and on the exports of enterprises, in the latter case both in the general (exporting status), product, and destination extensive margin and in the intensive margin (level of foreign sales) (Greenaway et al., 2007–United Kingdom; Muuls, 2009–Belgium; Amiti and Weinstein, 2012–Japan; Manova, 2013; Chaney, 2013; Molina and Roa, 2014–Colombia; del Petre and Federico, 2014–Italy; Paravisini et al., 2015–Peru; Buono and Formai, 2018–Italy (see Figure 18). Thus, for example, in the case of Peru, estimates indicate that a 10% drop in the supply of credit produces on average a 2.3% reduction in exports and that this reduction is more pronounced for smaller enterprises.

3.15 **The extent of a market's financial development is a key variable.** The availability and effective use of the various sources of financing partly depend on the extent of financial development of the market in which an enterprise operates. Enterprises in developed financial markets generally have several options, while their counterparts in less developed markets are forced to deal with unsophisticated financial instruments and an overall limited availability of correspondent bank lines of credit. As a result, the exports of enterprises operating in the latter markets are on average

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[73] The fact that countries tend to be more rigorous in enforcing compliance with existing regulations during a crisis may be considered countercyclical covert protectionism (Grundke and Moser, 2019).

[74] In this regard, SPS measures have a disproportionately greater effect on the region's vulnerable economies and on smaller enterprises whose exports are concentrated in agricultural products.

10% lower than those of comparable enterprises in countries with more developed financial markets. The negative impact of the financial restrictions arising from the crisis was consistently more severe for the former set of enterprises (Manova, 2013). This is essentially due to the fact that, during the crisis, the increase in bank capital requirements and the rise in the risk premium for financially less developed markets caused financing to become less available and significantly more expensive for enterprises in such markets (Dorsey, 2013).

IV. Lessons Learned from the IDB Group's Experience in the Integration and Trade Sector

A. Technical lessons learned on reducing logistics, information, regulatory, and financing costs

4.1 After the last Integration and Trade SFD (document GN-2715-6) was prepared, various financial and nonfinancial operations in the sector were completed and yielded important lessons that have served as a reference for preparing and implementing operations in similar contexts. In general terms, this set of operations produced positive outcomes. The financed products were relevant and, in most cases, created major benefits and had sustainability mechanisms.

4.2 Below is a description of the main lessons learned from the loan and technical cooperation operations and dialogue promoted by the IDB Group in the region. Many of the lessons set out in the previous SFD remain valid and have been updated in light of the IDB Group's recent interventions in the sector.

1. *On reducing logistics costs*

4.3 **A specific technology does not necessarily guarantee a project's success, but rather is just another factor. Coordination, governance, and change management are the determinants of success.** This is seen in the design and execution of single windows for foreign trade[75] (VUCE), which require substantial investments in technology, but mainly revolve around change management, i.e., the ability to coordinate complex processes in order to reduce the costs of commercial transactions. In addition, the following lessons have been learned from this experience with VUCEs:

a. Despite the common characteristics of VUCEs in various countries and regions, each project should adapt itself to the specific objectives and priorities of the country in question. Thus, a VUCE could address trade processes only or expand into other e-government objectives, and it could be financed by the government or through a public-private partnership.

[75] Many countries have implemented single windows with Bank support to streamline their commercial transactions, simplify and reduce the number of commercial processes and procedures, and foster competitiveness. The Trade and Investment Division (INT/TIN) has gained extensive experience in the design and execution of operations with VUCE components: Honduras (HO-L1055); Chile (CH-L1061); Bahamas (BH-L1016); Colombia (CO-L1138); Uruguay (UR-L1060); Ecuador (EC-L1116); Costa Rica (CR-L1066); Nicaragua (NI-L1083); Peru (PE-L1159), Trinidad and Tobago (TT-L1044); and Argentina (AR-L1251). In recent years, the Bank began supporting the subregional interoperability of VUCEs in Meso America and the Pacific Alliance (for example, through operations such as RG-T2073 and RG-T3007).

b. VUCEs require a gradual, multiphase, and continuous approach. Given their unique evolutionary nature, most of the countries currently implementing them are already planning for subsequent phases. In order to remain up-to-date on all innovations available in the market in terms of both processes and technology, these processes should be transformed into ongoing investments by the country.

c. The VUCEs should be ready to be interoperable from the outset. As trade integration develops, the VUCE platforms should interoperate easily and without any problems with other country and/or regional platforms such as Port Community Systems (PCS), risk management systems, fiscal control systems, or other single windows in other countries. The Bank should explore the ability to use blockchain for transaction traceability or visibility or to incorporate new technologies, such as artificial intelligence, to process and analyze data.

d. It is important to differentiate the coordination and facilitation functions of some of the agencies from the operational functions of other agencies that are related to lawfully mandated technical processes and requirements at border and customs control facilities.

e. It is advisable to leverage institutional capacity-strengthening efforts relating to multisector coordination and improvement of strategic planning on freight logistics and trade facilitation issues, in which the Bank has operated on a multisector basis.[76]

f. There should be extensive simulations of pilots, multiple scenarios, and test cases of computer platforms and applications to ensure proper functioning and mitigate potential adverse impacts on the VUCEs' business user community.

g. The extensive use of technology in projects of this type requires neutral cutting-edge advice from the outset. In addition, the new systems should be open-code, flexible, and easily adaptable to changes.

h. Active participation by the private sector as the end user of this service is essential for the success of the VUCEs, since together with the government agencies, the private sector can help to fine-tune the approach of trade processes.

i. The creation or strengthening of single windows should take into account the international guidelines issued by the World Customs Organization (WCO), WTO, and the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) and the WCO data model for harmonizing data

[76] Specifically, through the Transport Division (INE/TSP), the Bank has supported the countries in preparing National Freight Logistics Plans and immediate action plans, which when implemented can result in significant economic effects related to the countries' competitiveness and regional integration. These are both long-term planning instruments that integrate and organize the plans and initiatives of the sectors involved in freight transport and logistics and in which the sector's public and private actors participate. The National Freight Logistics Plans identify a series of needs consisting in establishing a mechanism for efficient and continuous linkage and coordination among the various public and private institutions associated with freight logistics. The mechanism's sustainability and proper implementation of actions and projects depend on the existence of a legal and regulatory framework that addresses the sector's needs and of modern and internationally recognized planning and trade facilitation instruments.

sharing. International rules are needed to ensure the use of best practices and, in addition, they increase the possibilities of interoperability.

4.4 **The implementation of coordinated border management (CBM)[77] under the border coordination programs supported by the IDB Group continues to be the best alternative for reducing bottlenecks at land border crossings on the transport of goods and passengers in the region.** This is because CBM is much more comprehensive and is simultaneously designed to simplify control processes and procedures, modernize the infrastructure, and improve the quality of the services provided at the border crossing and the necessary support equipment. In addition:

a. It is essential to provide for early involvement by the local authorities, private sector, and community both in the design (assisting in the processes of negotiation and preparation of agreements) and at the start of the works; this should be done in tandem with continued dialogue and dissemination of the border management models, sharing their basis as well as their (economic and social) implications. Along these lines, the operations should include a component providing sufficient resources to manage economic development actions for the border communities to the extent possible (e.g., land-use planning actions, training for SMEs, creation of business opportunities around the new border crossing, binational linkages, etc.).

b. It is advisable to promote change management among participating stakeholders (with an emphasis on middle management) from an early stage and even following the implementation of the border coordination projects, with a view to mitigating potential resistance and helping to propose consensus solutions.

c. It is essential to acquire land with the suitable characteristics for setting up border crossings, taking into account the potential and constraints of the geography for devising easily implementable solutions. It is similarly essential at an early stage to identify the land to be used with a view to moving forward on the designs and terms of reference for the bidding processes, while also providing for counterpart resources in advance of these processes (and ensuring their subsequent recognition as such) in countries in which the legislation allows it.

d. CBM, coupled with development of the transportation and roads sector to and from the border crossings, as well as adequate freight logistics focused on service improvement, are steps that complement one another with a view to obtaining substantive outcomes in freight transportation between countries.

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[77] The CBM approach helps to reduce formal border crossing times for cargo and passengers through a combination of adequate infrastructure, computer systems interconnected between countries, intrusive and non-intrusive inspection technologies, and the use of risk management techniques. This makes it possible to record and streamline the crossing of passengers. The designs of the interventions can also include infrastructure solutions for the temporary stay of illegal migrants as well as processes to register migrants and make them available to the relevant authorities and assistance agencies. The success obtained in effectively attaining a hard-soft continuum is particularly evident in the Bank's implementation of CBM-financing operations, primarily in Central America (NI-L1083, NI-G1020, CR-L1066, and PN-L1107) and South America (RG-L1116, AR-L1279, AR-L1295, RG-L1126).

e. Regarding infrastructure modernization as set out in the CBM strategy, it is important to develop physical infrastructure not only at the country level but also at the regional level to enable connectivity with positive effects on the regional productive chains.

f. From a legal standpoint, it is essential for the implementation of CBM to have simplified, standardized international agreements providing for mutual recognition and clearly outlining the scope of intervention and commitments of the parties,[78] subject to regulatory frameworks that are sufficiently flexible to allow operational adjustments when needed.

g. From a technological standpoint, it is essential to make an effort to: maximize process simplification, harmonization, and automation so as to make it easy for all actors in the information chain (agencies, users, auditors, etc.) to operate; promote interoperability, security, and the updating of information; implement non-intrusive inspection technologies based on a consistent and comprehensive national plan that facilitates diagnostic assessment, acquisition, training, and maximization of the use of information; and design computerized solutions by dividing tasks into short phases and providing for frequent evaluations.

h. Regarding coordination with other donors, it is important to identify current donors and/or those interested in supporting border integration programs and initiate early coordination of actions in order to avoid a duplication of efforts and maximize available resources.

2. *On reducing information costs*

4.5 **The IDB Group is a catalyst for business activities aimed at the internationalization of SMEs, organizing mass events on innovative trade issues that draw industry leaders.** The IDB Group continues to venture into new markets for trade by organizing trade fairs and business forums designed to promote knowledge and business opportunities in value-added sectors, knowledge-based services, agroindustry, and infrastructure services, among others. Since the information gaps also affect government and private institutions in the region that support SME internationalization, the IDB Group keeps in close contact with all trade promotion organizations and IPAs in the region, providing support through financial operations aimed at introducing international best practices in the trade and investment promotion and attraction area as well as through technical assistance on specific issues (design of instruments, impact evaluations, business forums, etc.).

4.6 **The use of innovative digital solutions that provide SMEs with processed and easily accessible information on market, training, and financing opportunities through a single tool continues to elicit high demand at the enterprise level.** The experience with ConnectAmericas yields the following lessons:

a. Recent studies[79] conducted within the IDB Group analyzed information gathered from companies in Colombia, Ecuador, Peru, and Uruguay and

[78] This is key for the operation of integrated control centers, but also for agreeing on system interoperability protocols, common hours of operation, contingency resolution at border crossings, etc.

[79] Anatomía de las empresas en la plataforma en línea ConnectAmericas (Rodriguez and Volpe Martincus, 2018).

showed that there is a positive association between gaining access to ConnectAmericas and performing better in terms of higher value of exports, greater number of destinations and products, higher number of employees, and greater staying power in the market.

b. The Bank has confirmed that ConnectAmericas has a major role[80] to play in supporting the design, monitoring, and evaluation processes of IDB Group-financed operations through the design of surveys, data mining, and management and dissemination of the operations' actions.

c. We have learned that these technological solutions are better developed when they are based on a streamlined approach that facilitates prioritizing requirements and makes it possible to obtain feedback in the early stages of the software development cycle, improving product quality and delivery times.

d. The best technological innovations are those developed as a function of user needs. The Bank has learned that innovation goes hand in hand with the design of user-centered solutions, tools, content, and services. In other words, businesses in LAC are at the center of the strategic decisions, the creation of the operational and technological roadmap, and the design and testing of our solutions.

e. To generate international business opportunities for SMEs, it is essential to blend the virtual and face-to-face dimensions, since the two are mutually complementary and are both crucial for building trust between the parties wishing to do business. In this regard, business networking events sponsored by organizations such as Outsource2LAC, LAC Flavors, and American Business Forum, as well as by China LAC and equivalent organizations for other Asian countries, demonstrate the importance of this virtual/face-to-face relationship.

f. ConnectAmericas has supported various IDB Group loan operations both in the design and preparation stage (through the design of surveys and data mining) and in the management and dissemination of activities provided by executing agencies.

4.7 **The effectiveness of the public, private, and public-private dialogues promoted by the Integration and Trade Sector is largely due to the strategic selection of participants and specific topics as well as the IDB Group's sustained technical and logistical support**. The Integration and Trade Sector (INT) has stood out for integrating private-sector vision and support into the operational work of the IDB Group. In fact, INT systematically and successfully promotes a series of high-level networks and events, such as the Americas Business

[80] Furthermore, the innovative nature of ConnectAmericas has led the European Commission through RedAlinvest.com, the African Development Bank through the AIFPlatform, and the Government of Colombia through compralonuestro.co, to launch platforms that are interconnected with ConnectAmericas and offer similar functionalities (known as white-label platforms).

Dialogue,[81] RedVUCE,[82] LAC Flavors,[83] Outsource2LAC,[84] RedIbero,[85] the Regional Policy Dialogue,[86] China-LAC,[87] Korea-LAC,[88] and Japan-LAC,[89] among others.[90] These exchanges create significant networking effects and help INT identify policy and investment priorities, support the design, monitoring, and evaluation of operations, and fine-tune the knowledge agenda while simultaneously taking into account public- and private-sector needs and sensitivities. But this can only be achieved through a major effort of selecting current and relevant topics for the dialogues; the technical, logistical, and financial support that the IDB Group provides in sustained fashion; and the public-private interaction facilitated through these events. Even the Regional Policy Dialogue, which is a public-sector forum, has substantially benefited by including a session in which the private sector participates. Lastly in terms of lessons learned, the Bank has confirmed that the effectiveness of all these avenues for dialogue also largely depends on the possibility of narrowing the heterogeneity of the relevant actors; i.e. clearly identifying participants and their

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81 In 2018, the Americas Business Dialogue (ABD), together with the Bank and the Government of Peru, coordinated the Third Business Summit of the Americas with more than 1,000 entrepreneurs and 12 heads of state in attendance. Through this summit, the IDB Group promotes the joint participation of executives of the region's largest companies, heads of state, and official delegations from almost all countries in the region, as well as representatives of international organizations, with a view to promoting a high-level public-private policy dialogue and analyzing opportunities to encourage economic growth and investment together with the private-sector priorities for boosting development. In 2018, a report titled Action for Growth was presented at the summit, including 42 recommendations and a 2018-2021 action plan. Since that time, the ABD has focused on implementing these recommendations through specific initiatives, notably including the Regional Business Integrity Dialogue (Lima, 2018). In 2019, the ABD is continuing to work on creating spaces for dialogue and collaboration between the public and private sectors in LAC to implement the public policy recommendations. The activities in which the ABD will take part primarily include the Americas Competitiveness Forum, the ABD plenary meeting, and regional policy dialogues. In addition, the ABD will continue to move forward on specific public-private partnership initiatives such as studies, training activities for public officials, dissemination of activities with the private sector, technical roundtables, and a consultation mechanism.

82 RedVUCE is comprised of governmental, public, and/or private agencies responsible for the design, development, and/or administration of the electronic trade windows of LAC countries.

83 In the recent edition of LAC Flavors, held in Santiago, Chile, B2B matchmaking technology was used to arrange 2,500 bilateral meetings between LAC food product exporters and 120 international buyers from five continents for an estimated total of US$228 million.

84 Outsource2LAC is a venue for discussion of the latest trends in the global services sector and for identification of business and investment opportunities for SMEs in LAC. Participants include thousands of service sector enterprises in LAC, Asia, Europe, and North America.

85 Red Iberoamericana de Organizaciones de Promoción del Comercio Exterior [Ibero-American Network of Trade Promotion Organizations].

86 This network, which includes trade and/or economy ministers and deputy ministers, among other authorities, provides a forum for discussion between the main actors in the region and Bank specialists on key issues related to regional trade and integration. The 12th meeting was held in 2018.

87 Its most recent installment, held in Zhuhai, China in 2018, was attended by more than 2,000 participants, including Chinese and LAC entrepreneurs.

88 Its most recent edition, held in Seoul, Korea in 2017, was attended by more than 700 participants, including Korean and LAC entrepreneurs.

89 Its most recent installment, held in Tokyo, Japan in 2016, was attended by more than 500 participants, including Japanese and LAC entrepreneurs.

90 For example, together with the Dubai Chamber of Commerce and Industry, the Bank for the first time organized the Global Business Forum Latin America 2019, which was held in Panama City, Panama and was aimed at promoting new business opportunities between the Middle East and LAC.

respective counterparts (whether public or private) according to their functions and experience. This makes for an effective, i.e. more fluid and productive, dialogue, which in turn leads to more beneficial conclusions for all those involved.

4.8 **The IDB Group has made significant efforts in terms of training in the sector, so taking action is crucial to be able to capitalize on these investments**. In an extensive effort to disseminate technical knowledge, the IDB Group has offered virtual courses with key content related to: (i) customs facilitation and security; (ii) implementation of trade and competition policy agreements; (iii) trade promotion and investment attraction; (iv) physical integration; and (v) cooperation for development, among other topics. Between 2016 and 2019, more than 100 online tutorials have been held under this modality, providing training for more than 4,500 people.[91] The IDB Group should learn to target the training so that it gives rise to clearer operational opportunities.

4.9 **It is essential to maintain close cooperation ties with subregional agencies[92] as well as with other multilateral organizations[93]** to better supplement and leverage Bank efforts toward addressing the integration and trade challenges in the region.

3. *On reducing regulatory costs*

4.10 **Regulatory cooperation through a regional approach is essential for facing the challenges of international trade**

a. In some cases, this regional approach may mean regulatory harmonization (through the establishment of commitments and standards in a binding international instrument such as a trade agreement); in other cases, it may be enough to secure regulatory cooperation with a view to ensuring interoperability or mutual recognition between countries.

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91 The program also includes an ecosystem of communities of practice and virtual environments in which graduates of the courses and other relevant stakeholders share experiences and good practices aided by an expert facilitator, as well as MOOC-type courses offered free of charge and aimed at a broader public, including the private sector and academia. For example, in 2018 the MOOC "Foreign investment as an engine for development in LAC" had more than 5,000 active participants, while the MOOC "New trends in trade treaties in LAC" attracted 3,800 participants.

92 The Bank has a longstanding tradition of providing support and technical assistance to subregional integration mechanisms. Thus, since the inception of the Pacific Alliance in 2012, the Bank has been committed to providing financial support and technical advice to the governmental technical groups responsible for trade negotiations, the High-Level Group (deputy trade and foreign affairs ministers), Pacific Alliance Business Council, trade promotion agencies, and Council of Finance Ministers on all areas defined as strategic or priority, thereby positioning itself as the main multilateral partner of this major regional integration initiative. Other examples along these lines include the Bank's close cooperation with and support to IIRSA-UNASUR, ALADI, Andean Community, Central American Common Market, CARICOM, and Mercosur, among others, as well as inter-subregional initiatives such as Pacific Alliance-Mercosur and Pacific Alliance–Central America, consolidating the Bank's agenda in the sector.

93 At the same time, the Bank continues to strengthen its strategic cooperation on integration issues with various multilateral institutions and organizations, such as: the Asian Development Bank (south-south cooperation); the World Customs Organization (customs modernization program); the WTO (Aid for Trade program); the World Economic Forum, the OECD, the IMF, the World Bank, and other, bilateral donors, by supporting investment and trade projects. In addition, the Bank's cooperation efforts with strategic partners in Asia were successful; as a result, both Bank borrowing and nonborrowing member countries have agreed to provide not only knowledge transfer but also nonreimbursable resources to funds such as the Multidonor Regional Integration Fund to continue promoting connectivity in the region.

b. Regional integration arrangements such as the Pacific Alliance and Mercosur offer a propitious venue for these discussions. For example, in the Pacific Alliance, the IDB Group has actively supported initiatives such as VUCE interoperability, mutual recognition of authorized economic operators, and reduction of nontariff barriers through the negotiation of sector annexes, as well as a digital agenda that includes significant regulatory cooperation components.

c. With regard to the Pacific Alliance-Mercosur process, the IDB Group is currently supporting the Presidential Declaration of Puerto Vallarta (July 2018), which includes clear mandates for regulatory cooperation.

d. Through the Americas Business Dialogue, the private sector has clearly expressed the need to move forward on regulatory cooperation in the region. Thus, the public policy recommendations set out in the Action for Growth report include developing regulatory cooperation mechanisms. Moreover, a regional competition policy effort has been made jointly with the OECD through annual forums, national peer reviews, and a regional center as a public good.

4. *On reducing financing costs*

4.11 IDB Invest helps to increase the volume of foreign trade and the complexity of the external sales of companies in the region through a set of financial and nonfinancial instruments. One of these is the Trade Finance Facilitation Program (TFFP).[94] The TFFP seeks to expand sources of foreign trade financing, based on evidence of the relationship between foreign trade financing and attainment of the Sustainable Development Goals (Global Network of Export-Import Banks and Development Finance Institutions, 2018) and ensure liquidity in periods of volatility in the IDB Group's borrowing member countries. The main lessons learned from the TFFP over the last three years are as follows:

a. Demand for financial resources to support foreign trade is higher than IDB Invest initially projected and necessitates efficient operating processes. Looking to the future, it will be necessary to continue making processes within the IDB Group more efficient to enable it to support companies in boosting the number of markets for their foreign trade transactions and sources of financing. Some such improvements relate to program accounting on the IDB Group's balance sheets, maturity dates, disbursement times, and programming potential extensions of the TFFP.

b. Despite the TFFP's efforts, there is still a gap in access to finance for foreign trade in the region, on a par with the deficits observed in other developing economies (Global Network of Export-Import Banks and Development Finance Institutions, 2018 and United Nations, 2015). These gaps are particularly acute for smaller enterprises, as it is estimated that half of MSMEs applying for foreign trade finance are rejected by banks and in over 70% of cases they lack

[94] The TFFP's objective is to support access by banks in LAC to international financial markets for foreign trade. The program includes two financial products: guarantees and loans. Guarantees cover the political and commercial risk correspondent banks assume when they accept eligible foreign trade instruments from issuing banks in LAC. Loans are direct financing from IDB Invest to eligible banks in LAC, to finance their foreign trade portfolios; these loans can be bilateral (A loans) or syndicated (A/B loans).

alternative financing, impacting their integration in global value chains (Auboin and DiCaprio, 2016 and International Chamber of Commerce, 2018). Gaps in access to foreign trade financing are due to multiple factors, including the worldwide reduction in correspondent banking relations, partly as a result of the higher cost of complying with the requirements of Basel III[95] and the drop in international banking transactions in the wake of the global financial crisis (World Bank, 2018).[96] Since an IDB Invest guarantee does not fully cover the risks assumed by banks (e.g. reputational risk), the financial institutions taking part in the program have sought to improve their compliance capacity through participation in international trade financing networks. In this way, the TFFP has been an effective instrument, not only in easing the liquidity constraints of the financial system to enable real sector companies in IDB member countries to integrate with international markets better, but to build banks' capacity to comply with the existing requirements of the current international financial architecture.

5. *On other crosscutting issues*

4.12 **Knowledge generation and dissemination regarding the sector should be aligned with the operational portfolio in order to improve the design, monitoring, and evaluation of operations.** Specialized and innovative studies conducted over the past three years have helped to narrow knowledge gaps in the region as well as give rise to loan and technical cooperation operations in the region. These studies notably include: How to Resolve the Investment Promotion Puzzle (2019), Connecting the Dots: A Road Map for Better Integration in Latin America and the Caribbean (2018), and Out of the Border Labyrinth: An Assessment of Trade Facilitation Initiatives in Latin America and the Caribbean (2016), as well as the Trade and Integration Monitor, thus completing a series of publications on the above-identified trade costs, which notably includes: Fábricas sincronizadas: ALC en la Era de las Cadenas Globales de Valor [Synchronized factories: Latin America and the Caribbean in the era of the global value chains] (2014), Too Far to Export: Domestic Transport Costs and Regional Export Disparities in Latin America and the Caribbean (2013), Odyssey in International Markets: An Assessment of the Effectiveness of Export Promotion in Latin America and the Caribbean (2010), and Unclogging the Arteries: The Impact of Transport Costs on Latin America and Caribbean Trade (2008). More recently, INT has been asked to prepare the 2019 edition of the Bank's flagship publication Development in the Americas (DIA): What Global Integration Can Do for Latin America and the Caribbean. Annex II provides a brief description of these studies.

4.13 **Trade and investment should take advantage of the wealth of new technologies that characterizes the Industrial Revolution 4.0**. The emergence of new digital technologies, which are based on the availability of data, opens up

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[95] The requirements that raise the cost of compliance and disproportionately impact foreign trade financing are AML (anti-money laundering), CFT (combating the financing of terrorism), and KYC (know your client, G-NEXID, 2018). For example, it is estimated that KYC procedures increased the time needed to acquire a new customer by more than 20%, and 87% of banks believe regulatory change to be a decisive factor in the KYC requirement (Reuters, 2016).

[96] Note that this is confirmed in a context in which there are market failures associated with information asymmetries and incomplete markets that affect the intermediation of financial resources.

valuable opportunities to enhance the efficiency and effectiveness of the governmental processes of trade and investment management. The use of new commercially available technologies should be intensified to solve problems in the trade and investment area, enable official investment attraction agencies to efficiently identify investment leads, and allow export promotion agencies to more readily find potential international buyers, among other things. In addition, since technology continuously changes, the Bank should continue to promote innovative pilot projects to deepen the understanding of new technologies (such as blockchain) that are just now beginning to mature but can later be scaled to more ambitious applications in IDB Group-financed operations.

4.14 **It is essential to have clear indicators that promote and facilitate the inclusion of a gender perspective in trade and integration operations.**[97] The greatest challenge in devising these indicators is the availability of data on women-led or women-owned SMEs in the region. To overcome this information gap, the IDB Group, acting through ConnectAmericas for Women, is capturing and analyzing gender-disaggregated data in the region's business community and data on the business profile of women-led enterprises.[98] This information should be systematized and periodically published to continue with the important effort of ensuring that trade operations achieve an impact on gender equity, with predefined quantitative and qualitative activities and indicators reflecting what is being sought in terms of trade and gender.

4.15 **The climate change and trade and investment promotion agendas in LAC have areas of significant potential synergy**, largely due to consumers' growing interest in buying goods and services that have a lower carbon footprint. If this incipient market develops, trade-related regulations should evolve in tandem with it to foster this objective. On the other hand, the adoption of carbon emission measures and regulations either by export destination countries or by the International Maritime Organization could affect costs or market access for the region's exports. Given the weight and role of global trade in the economic policies of most countries in the region, the IDB Group should be prepared to introduce climate change issues into trade and investment policies and programs, which could produce substantial progress toward achieving the goals of the Paris Agreement.

4.16 **The Institute for the Integration of Latin America and the Caribbean (INTAL) is unique among multilateral organizations due to its role in generating and disseminating knowledge on the integration processes, the region's trade dynamics, and the impact of new technologies on trade strategies**. Anticipating the need to comprehensively contribute to overcoming the above-described challenges, plans call for renewing and strengthening INTAL so that it carries out the following priority activities: (i) generate and disseminate applied knowledge in the areas of integration and trade; (ii) provide technical and operational support for the various regional integration initiatives; (iii) design and execute regional integration projects; (iv) provide integration-related services to other IDB Group partners; (v) coordinate integration efforts with other development institutions; and (vi) develop digital platforms in support of the various integration initiatives and

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97 As a reference, see paragraphs 3.3 and 3.4 of this document.

98 Examples include: sectors in which they operate, countries they export to, online course and seminars they take, networking events they participate in, and estimated completed business transaction amounts.

strategic forums (such as ConnectAmericas, INTrade, InfraConnect, and the Regional Infrastructure Platform); thereby further bolstering the capacity of the IDB Group to respond to the needs of its clients.

B. Reports by the Office of Evaluation and Oversight (OVE)

4.17 The Bank continued to implement various recommendations made by OVE in its most recent evaluation of regional and transnational programs at the IDB (document RE-415), which included: (i) identifying ways to enhance the availability of project funding to offset borrower disincentives and reduce the effective cost of transnational operations, as well as adapting Bank processes, structures, incentives, and budgets to facilitate the implementation of transnational projects; and (ii) enhancing the effectiveness of the Bank's transnational technical cooperation program, which should continue at some level of financing in any case. In its evaluation "IDB's Ninth General Capital Increase: Implementation and Results" (document RE-515-6), published in 2018, OVE reports that "[a]ccording to the sector categorization used by the Bank, lending for … integration and trade increased substantially during 2012-2015." Furthermore, the evaluation indicates that based on a survey of operational staff conducted by OVE in 2017, the Integration and Trade SFD in effect at the time was one of the most influential strategic guidance tools used by sector specialists for the design of loan and technical cooperation projects, content of the country dialogue, and other analytic work. In addition, OVE has on occasion evaluated some projects in the context of its country program evaluations (CPEs). For example, in the Guatemala CPE, OVE highlights the ambitiousness of the Trade and Integration Support Program (GU-L1037), the main outcomes of which have to do with MSME internationalization, even though the program's execution was not without its difficulties.

4.18 In 2016, OVE evaluated the work performed by the IDB Group through financial intermediaries (document RE-486-2). The TFFP provides loans, guarantees, advisory services, and knowledge to clients. OVE indicates that the failure to include the TFFP in the development effectiveness matrix from the start made it hard to evaluate the program. For loan operations, attribution of the impact of individual IDB financing transactions has been weak. Throughout 2018, IDB Invest made efforts to evaluate the TFFP and the initial results are expected to be available in late 2019. IDB Invest has also made efforts to expand its trade finance toolkit in terms of traditional trade (payables finance and forfaiting), pre-export finance, and development of supply chain finance.

V. Lines of Action for the Work of the IDB Group in the Integration and Trade Sector

5.1 This SFD proposes that IDB Group activities in the integration and trade sector be aimed at promoting greater LAC participation in global trade and investment, developing specific lines of action that can help to achieve greater business internationalization through an exportable offering that is sustainable and provides greater value added, attracting quality investment and supporting governments in addressing the challenges and capitalizing on the opportunities of economic internationalization. Accordingly, based on the findings set out in the preceding

sections, the IDB Group's operational, knowledge generation and dissemination, and policy dialogue work will be guided by the following principles:

a. Creation of incentives that offset market failures (cross border externalities), coordination failures (collective action costs), and other costs related to the complex implementation of regional initiatives.

b. Creation of regional additionality by introducing internationalization or regional cooperation objectives.

c. Greater integration of LAC countries into regional and global markets by promoting collective action and cooperation.

d. Support for digital transformation in terms of integration, trade, and investment in our region.

e. Support for small and medium-sized companies in their internationalization processes.

f. Support for the special needs of the region's smaller economies in overcoming trade costs.

g. Specific consideration of gender and climate change with a view to promoting the sustainability of the interventions.

5.2 This SFD recommends seeking to reduce market, coordination, and collective action failures in the region by supporting the IDB Group in regional cooperation and public goods projects that promote regional coordination, add value to national interventions, or contribute to the generation thereof. These regional and multinational interventions are often crosscutting and thus involve several IDB Group operating sectors based on the specific needs of countries or groups of countries.

5.3 Following the successful experience of the Integration and Trade Sector, which in recent years has been characterized by the quality of the analyses it has produced in coordination with the Department of Research and Chief Economist (see Annex II), this SFD proposes continuing the important work of producing specific technical studies that provide an analytical basis for the interventions in question, inform the design of the relevant policies, outline an appropriate framework for an evaluation of their individual and combined impacts, and make a significant contribution to the content of the respective policy dialogues. In addition, this SFD generally proposes that the activities included in the below-described lines of action be aimed as much as possible at promoting the generation and capture, and subsequent systematization and dissemination, of knowledge and experiences. In particular, insofar as is possible, the gender and climate change dimensions will be considered with a view to bridging the respective knowledge gaps. For example, on the subject of trade and climate change, reliable data could be gathered to measure greenhouse gas (GHG) emissions directly released into the atmosphere as a result of the region's trade, identifying general trends associated with trade partners and products traded in recent decades; projections of possible changes in these direct environmental costs of trade could be made, in line with the expected or likely changes in the region's trading patterns; and the trade and welfare impacts of the environmental measures currently being adopted through ACP, and those that are being considered for possible adoption by the region's main trade partners, as well

as carbon tariffs, could be estimated.[99] Likewise, as regards the relationship between trade and gender, the possible existence of biases in the tariffs applied by countries to goods depending on consumer gender could be explored, along with the response of trade in these goods to the tariff barriers concerned; and the extent to which digital platforms enable the participation of women in international trade could be studied.

5.4 **Line of action 1: Promote efficient and secure customs-logistics and transportation interconnectivity.** Primarily in order to address the regional challenge of reducing transport, logistics, and administrative processing costs, and bearing in mind the advantages and challenges of the digital transformation, both from the perspective of government institutions associated with trade and new business models based on digital technology used by economic agents, support is proposed for:

a. **Modernization of the customs administrations and other border control agencies under the coordinated border management (CBM) concept** by means of actions that include, *inter alia*: institutional development of customs facilities and border crossings (land, sea, and air); re-engineering of local and national operating processes; interinstitutional coordination at the national and binational or regional level; support for digital transformation of operators; and strengthening of legal and governance frameworks and SME logistic support centers in the vicinity of border crossings; consideration of security issues inherent to the processes mentioned above; and other components in the development of institutional and enterprise capacities, particularly in the smaller economies.

b. **Strengthening of the transportation network's connectivity[100] and improvement of logistics services,** taking into account the multimodal approach[101] to infrastructure development. This work will be carried out in collaboration with other IDB Group sectors with experience in infrastructure management, expansion of physical infrastructure coverage and quality, and security and regulatory harmonization. In particular, the Bank will support reinforcement of the national and international merchandise transit systems in line with the CBM concept.

c. **Knowledge generation for the design, monitoring, and evaluation of interventions that help to enhance trade facilitation**. This SFD proposes generating evidence on, among other things, the impact of the use of new technologies on the implementation and execution of trade facilitation policies (such as the use of artificial intelligence for risk management); the international interoperability of single windows for foreign trade; the agreements for mutual recognition of authorized economic operator programs; the port community systems; and the interaction of these initiatives with one another and with

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99 Import tariffs based on the carbon emissions incorporated in the product.

100 The infrastructure and transport services actions included in line of action 1 will be carried out in accordance with the guidelines set out in the Transportation SFD (document GN-2740-7).

101 The logistics networks for multimodal transport are focused on value chains, which in turn promote business productivity and competitiveness. The IDB Group fosters practices, programs, and technologies designed to reduce the logistics costs of enterprises.

improvement plans for physical infrastructure, transportation, and associated services.

5.5 **Line of action 2: Promote high-quality trade promotion and investment services customized to meet the needs of the region's enterprises.** Primarily in order to address the regional challenge of reducing information costs, this SFD proposes supporting institutional, technical, and technological reform and modernization processes so that exporting companies as well as domestic and foreign investors can have access to high-quality support services.

a. **Trade promotion,** by means of actions that support, among other things: transformation and capacity-building of the institutions responsible for the promotion of goods and services exports; intersectoral coordination; improvement of regulatory and governance frameworks; support for the productive development, diversification, sustainability, and innovation of exporting sectors (including agro-exports), especially sectors in smaller economies with a large presence of SMEs; institutional and business digital transformation; and the knowledge gains that human capital requires for the global digital economy.

b. **Investment attraction and facilitation,** by means of actions that support, among other things: transformation and capacity-building of the institutions responsible for FDI promotion and attraction that operate within or outside the country in question and of the instruments they use (for example, through single windows for investment); digital transformation of these institutions; intersectoral coordination; and improvement of regulatory, sustainability, and governance frameworks. In addition, the Bank will continue to work on promoting avenues for public-private dialogue (for example, through the Americas Business Dialogue) that make it possible to disseminate and discuss public policies promoting FDI attraction and retention.

c. **Production of new knowledge for the design, monitoring, and evaluation of interventions in trade and investment promotion.** This SFD proposes generating evidence on, among other things, the impact of the use of new technologies on the implementation and execution of promotion policies (for example, the use of artificial intelligence to identify potential buyers and investors);[102] the relative effectiveness of the various promotion programs, their alternative combinations, and the potential conditioning role of the organizational structures and practices of the entities responsible for these programs; service exports at the enterprise level and the impact of trade promotion programs on these exports; the specific channels through which the spillover effects of linkages with exporting firms and multinationals materialize and how these are affected by public policies; the opportunities and risks of policies and measures on climate change and gender (to the extent that the availability of data allows it) for the export of goods and services and for attracting investment; the set of general and sector-specific administrative procedures that foreign investors are required to complete; and the available incentives and their effects in the various countries.

[102] In fact, the Bank has already begun to consider including impact evaluations of single windows for investment, as is being proposed for loan operation EC-L1243.

5.6 **Line of action 3. Promote access to reliable, up-to-date, and transparent regulatory information on international trade.** In order to address the regional challenge of reducing regulatory costs, this SFD recommends:

a. **Promoting the development of the necessary mechanisms to strengthen the technical capacity of governments to negotiate and implement international trade and investment agreements,** ensuring that businesses are properly consulted on and informed of them and at the same time have access to adequate, timely, and accurate regulatory information as an enormously valuable asset for gaining access to international markets. In addition, this SFD recommends continuing to develop competition policy. Thus, it proposes supporting: (i) strengthening the negotiation, implementation, and sustainable use of trade and investment agreements (with an emphasis on business information and support services and coordination with the private sector, especially in smaller economies with limited institutional capacity and/or a large presence of SMEs); (ii) search and consolidation of information and coordination with agencies and entities supporting enterprise internationalization; and (iii) strengthening of competition authorities in the region.

b. **Preparing technical analyses on the interactions between trade and investment agreements and on the effective use of these agreements.** This SFD proposes generating new evidence on, among other things, the interactions among the various types of economic integration agreements (the way they are designed and their alternative combinations) and how they affect trade and investment; the degree of effective use of preferential trade agreements; the determining factors and impact of the use of preferences on exports, imports, and investments by businesses; the structure and operation of the regional digital markets; and the impact of nontariff measures (SPS measures and TBT), their heterogeneity, and their harmonization on the trade results of businesses.

5.7 **Line of action 4: Improve access to finance for the exporting enterprises in the region.** The lines of action on the financial costs of trade through sovereign-guaranteed financing programs for SME internationalization are addressed in the Support to SMEs and Financial Access/Supervision SFD (document GN-2768-7). From the standpoint of non-sovereign guaranteed programs, this SFD proposes providing integrated solutions that strengthen the capacity of enterprises in the region to be part of global value chains by emphasizing financial inclusion, trade support, sustainability, and innovation themes. Thus, through IDB Invest, this SFD proposes:

a. Increasing the availability of short- and medium-term financing for purposes related to trade (in a broad sense);

b. Boosting financial inclusion for neglected market segments;

c. Increasing financial and market innovation through solutions that are increasingly dependent on technology, particularly financial technology; and

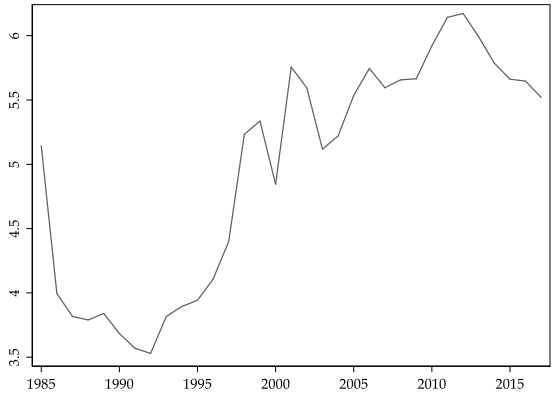
d. Strengthening the sustainability of the supply chains in LAC by improving relationships between buyers and sellers.

e. With regard to knowledge, this SFD proposes creating a comprehensive and consistent database on trade and investment credit through interdepartmental collaboration, and generating new evidence on the impact of this financing on the financial results of the enterprises.

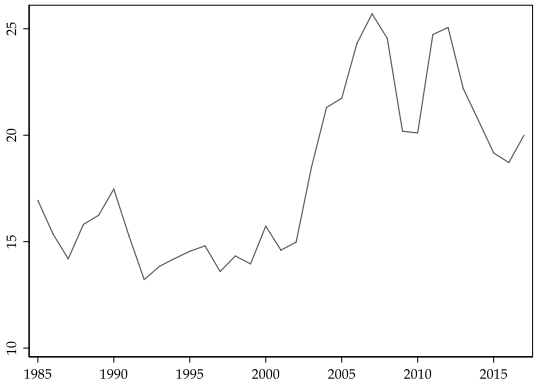
Figures

Figure 1. Evolution of exports and FDI in Latin America

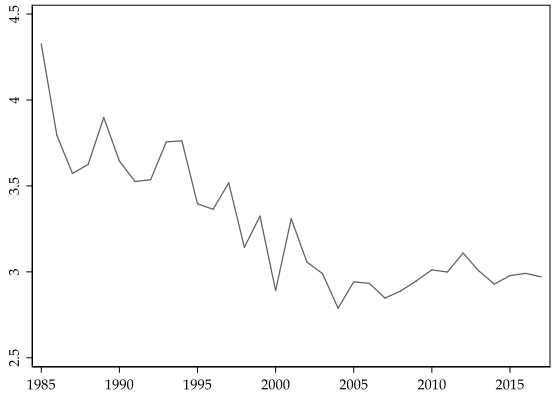
A. Exports of goods (% world total)



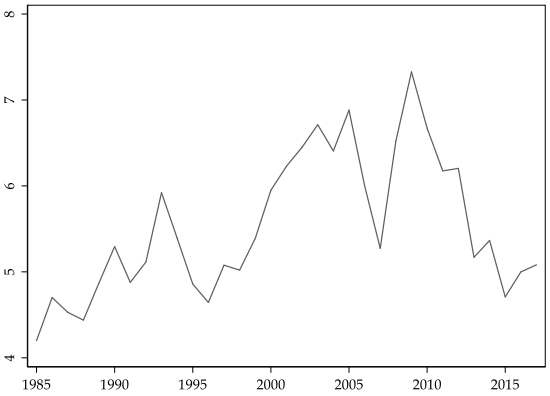
D. Exports of goods (% GDP, median)



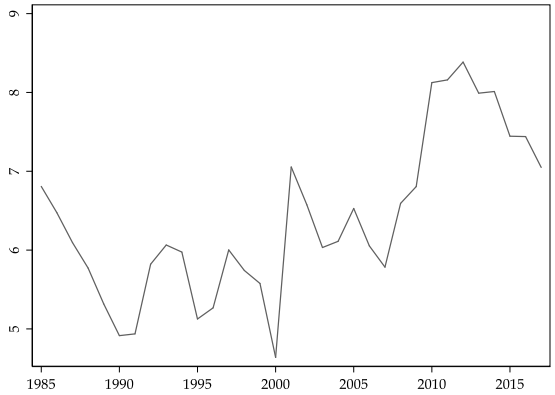
B. Exports of services (% world total)



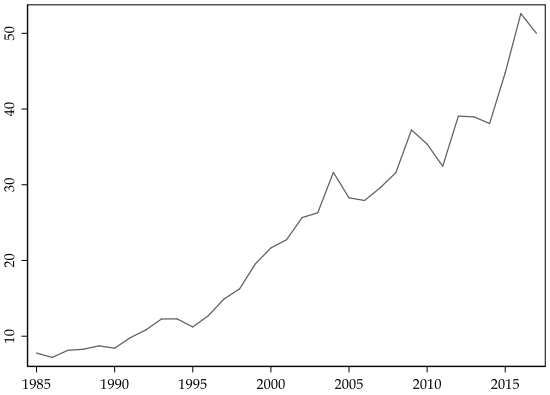
E. Exports of services (% GDP, median)



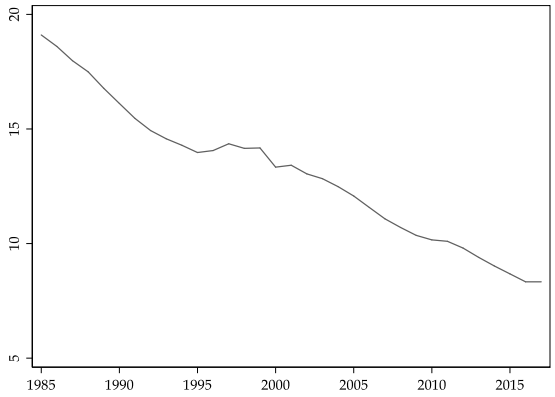
C. Stock of FDI (% world total)



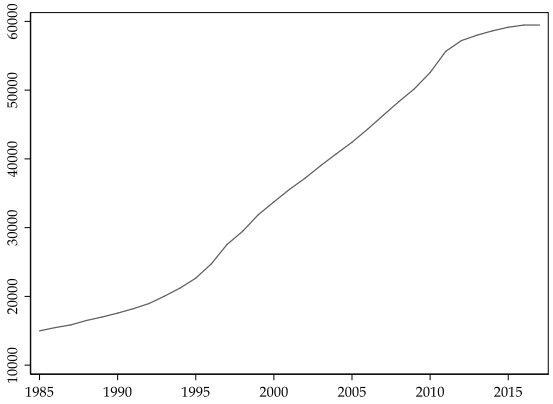
F. Stock of FDI (% GDP, median)



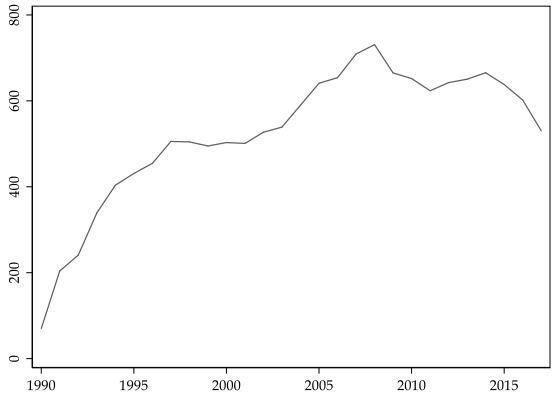
G. Subsidiaries of multinationals (% world total)



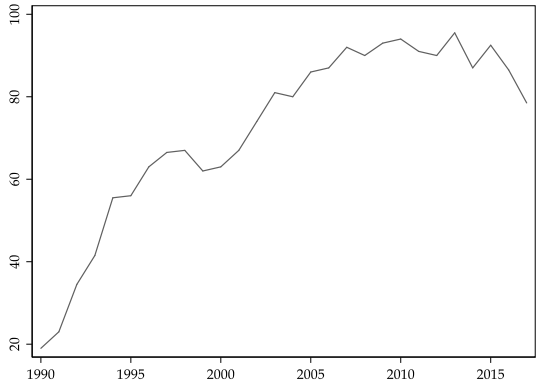
I. Subsidiaries of multinationals (number)



H. Number of products exported (median)



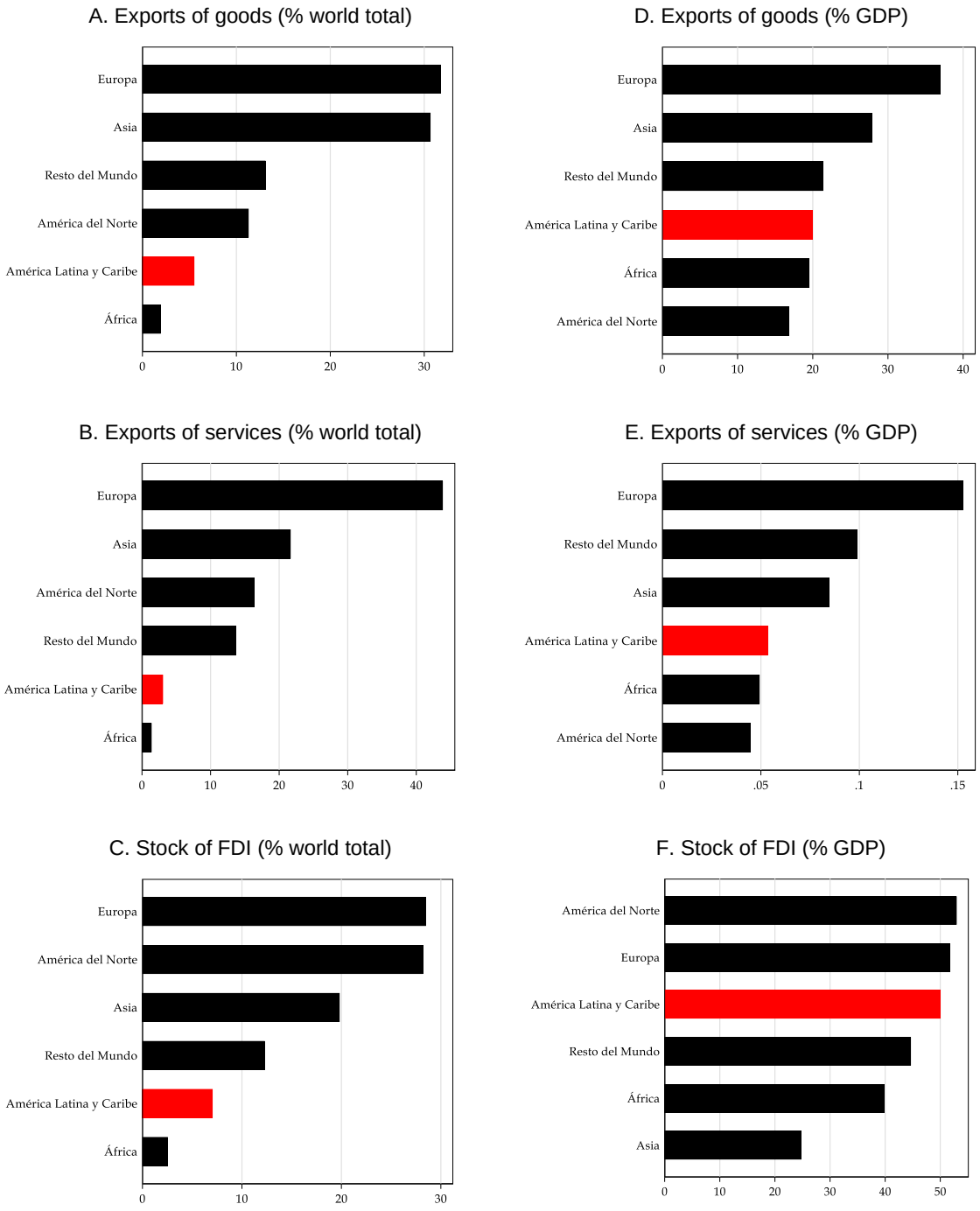
J. Number of export destination countries (median)



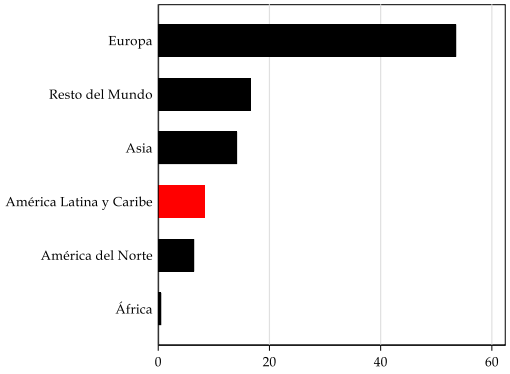
Notes: Figures A, B, and C refer to LAC's percentage of the world's total exports of goods, services, and foreign direct investment. Figures D, E, and F refer to the percentage of GDP accounted for by the exports of goods, services, and foreign direct investment for the median LAC country. Figure G refers to LAC's percentage of the world's total multinational subsidiaries, while Figure F refers to the absolute number of multinational subsidiaries in LAC. Figures H and J respectively show the number of products exported and the number of countries to which the median LAC country exports. These figures show the evolution from 1985 (or the most recent available data) to 2017.

Sources: Prepared by the authors with data from UN-COMTRADE, Dun and Bradstreet WorldBase, UNCTAD, and World Development Indicators (World Bank).

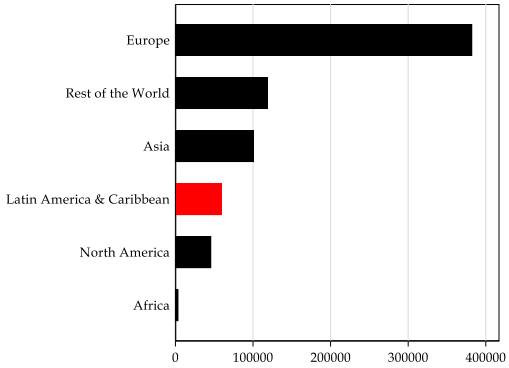
Figure 2. Exports and FDI by region (2017)



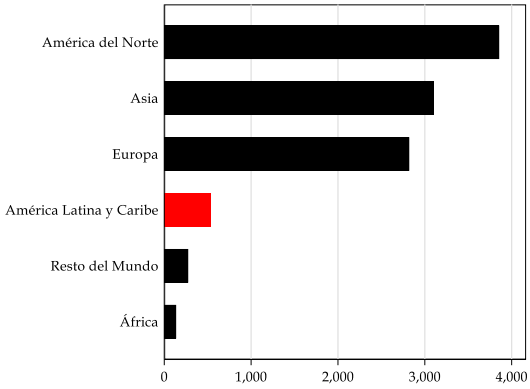
G. Subsidiaries of multinationals (% world total)



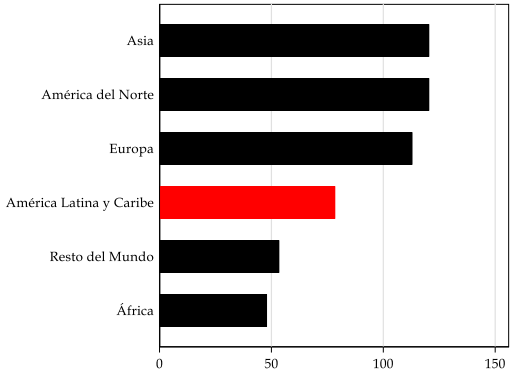
I. Subsidiaries of multinationals (number)



H. Number of products exported



J. Number of export destination countries

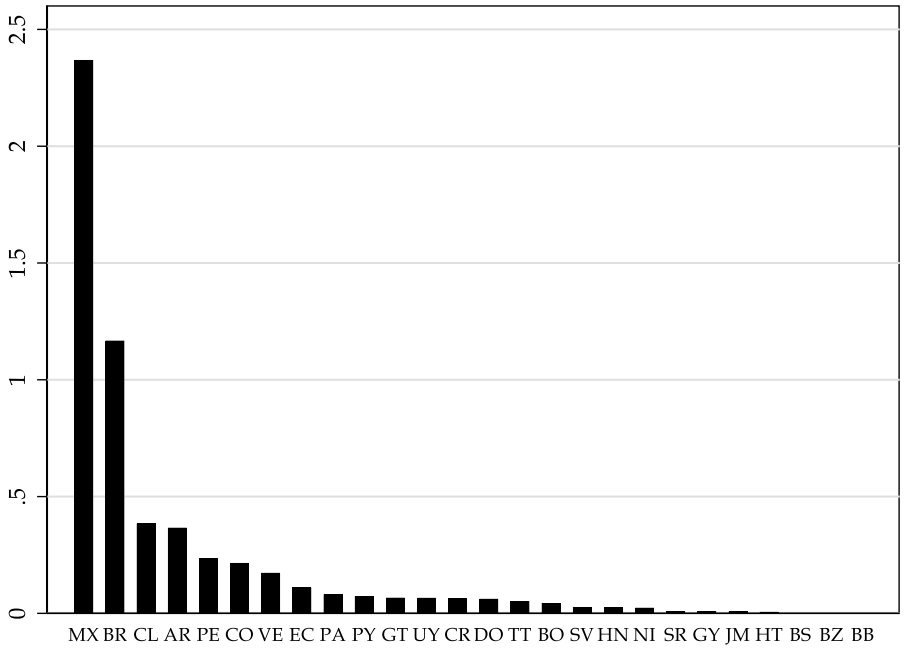


Notes: Figures A, B, and C refer to LAC's percentage of the world's total exports of goods, services, and foreign direct investment. Figures D, E, and F refer to the percentage of GDP accounted for by the exports of goods, services, and foreign direct investment for the median LAC country. Figure G refers to LAC's percentage of the world's total multinational subsidiaries, while Figure F refers to the absolute number of multinational subsidiaries in LAC. Figures H and J respectively show the number of products and the number of countries to which the median LAC country exports. All figures use 2017 data.

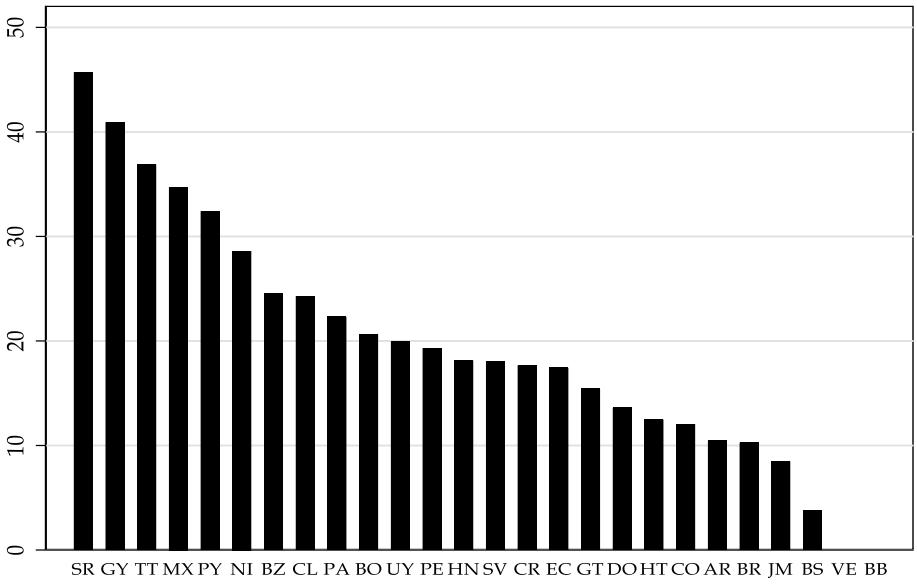
Sources: Prepared by the authors with data from UN-COMTRADE, Dun and Bradstreet WorldBase, UNCTAD, and World Development Indicators (World Bank).

Figure 3. Exports and FDI by country in LAC (median, 2017)

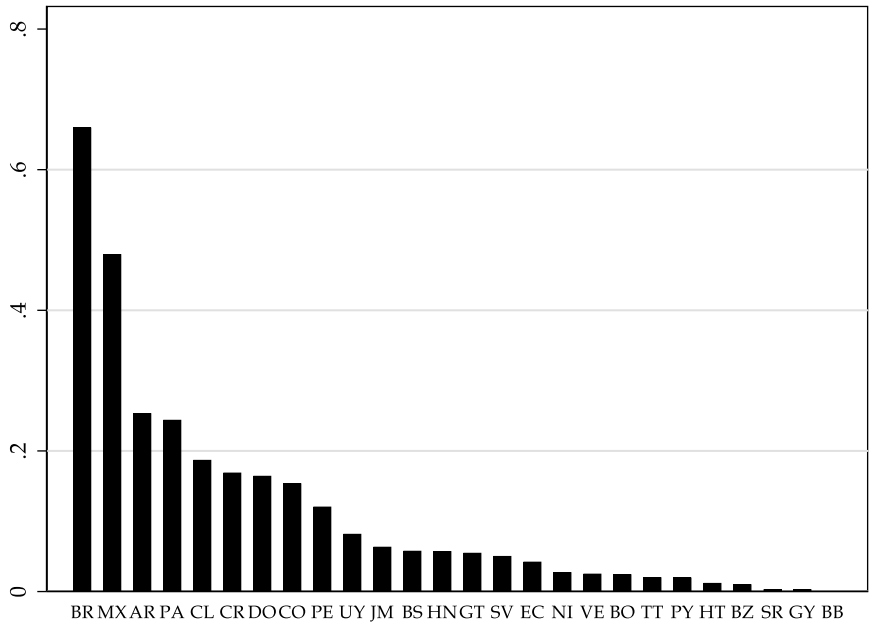
A. Exports of goods (% world total)



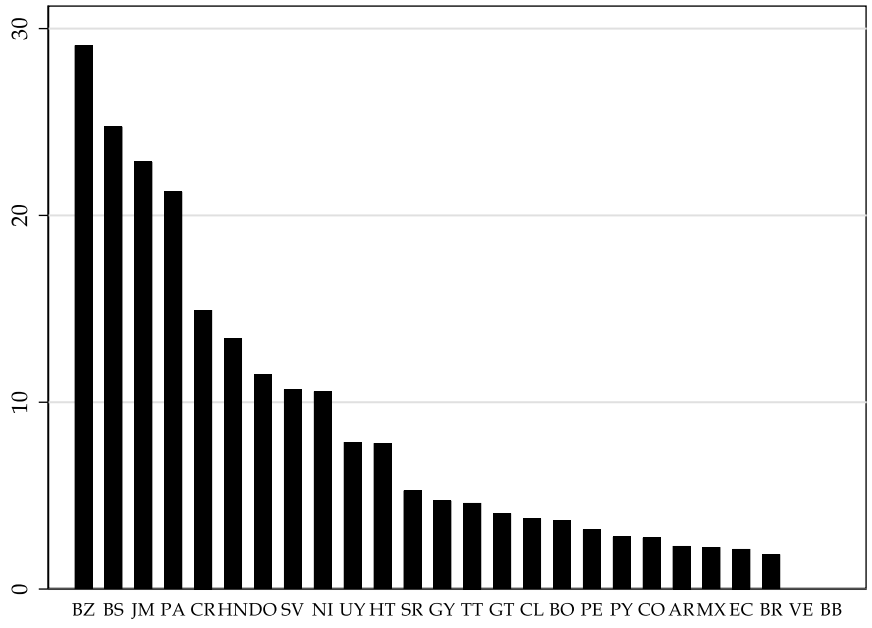
B. Exports of goods (% GDP)



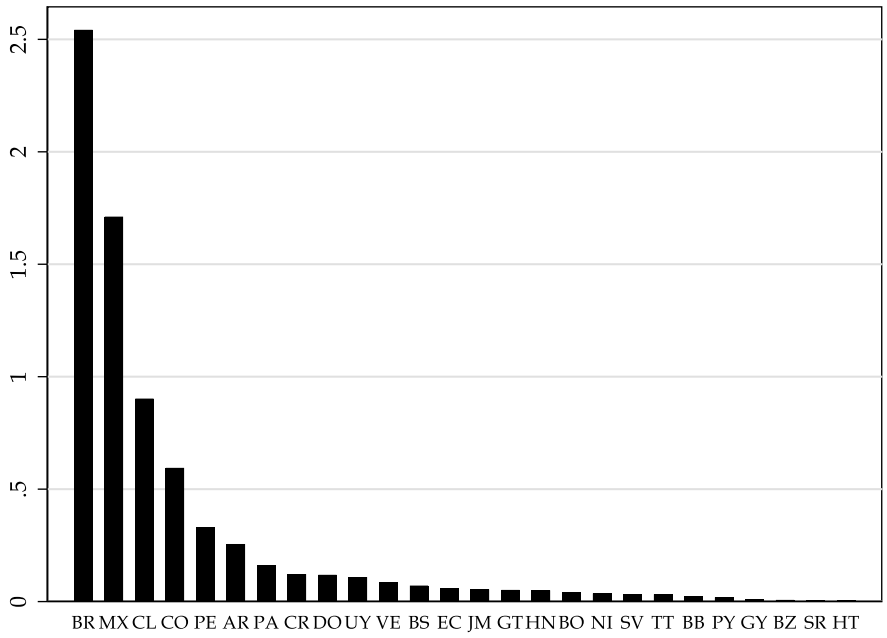
C. Exports of services (% world total)



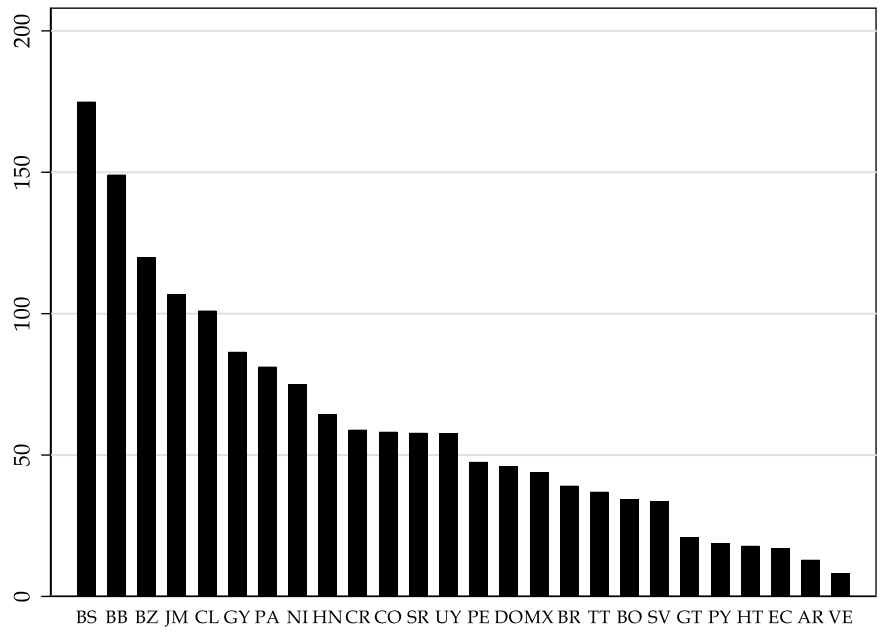
D. Exports of services (% GDP)



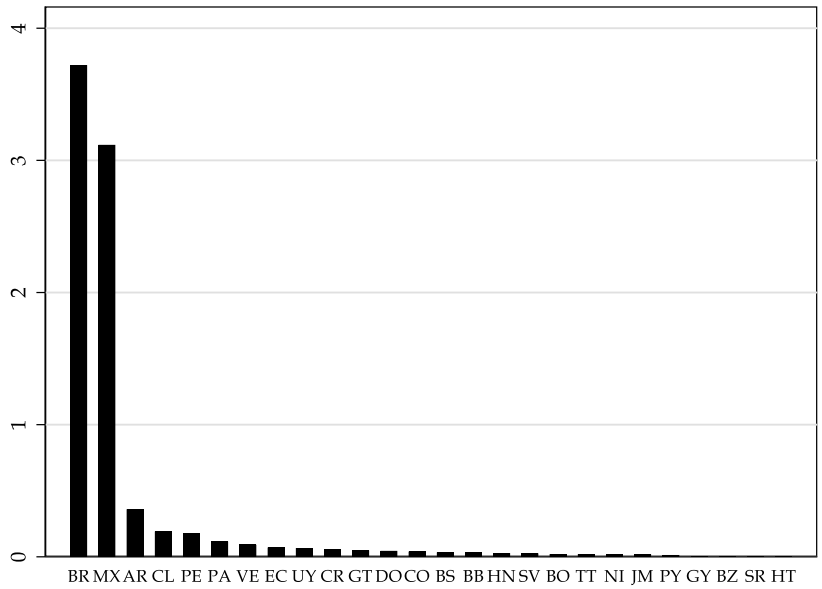
E. Stock of FDI (% world total)



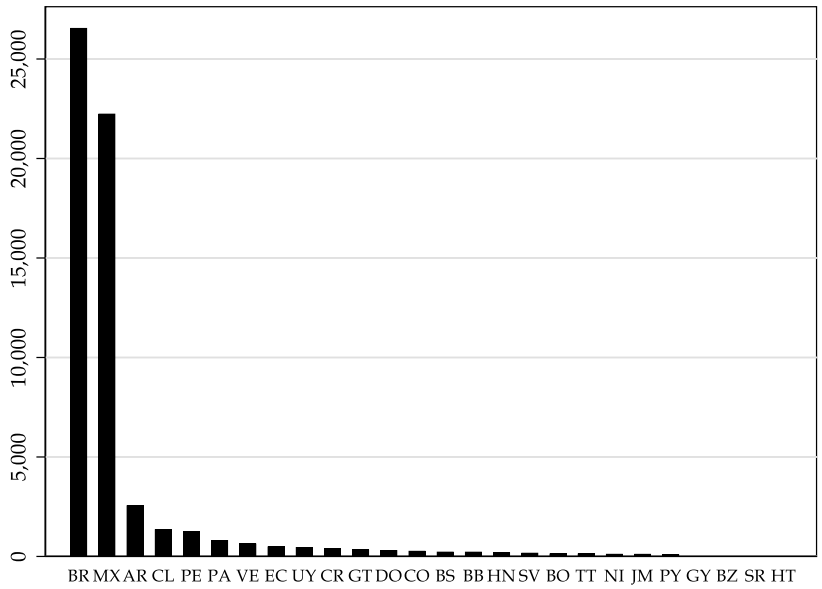
F. Stock of FDI (% GDP)



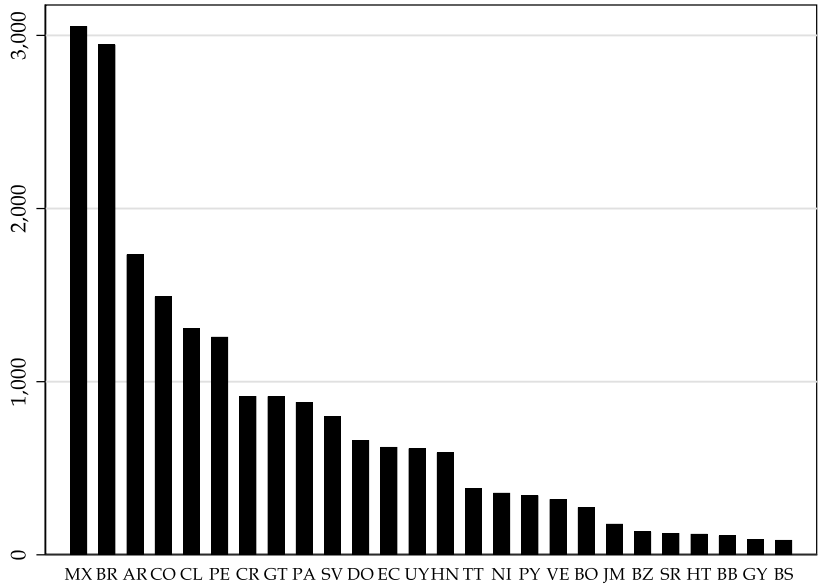
G. Subsidiaries of multinationals (% world total)



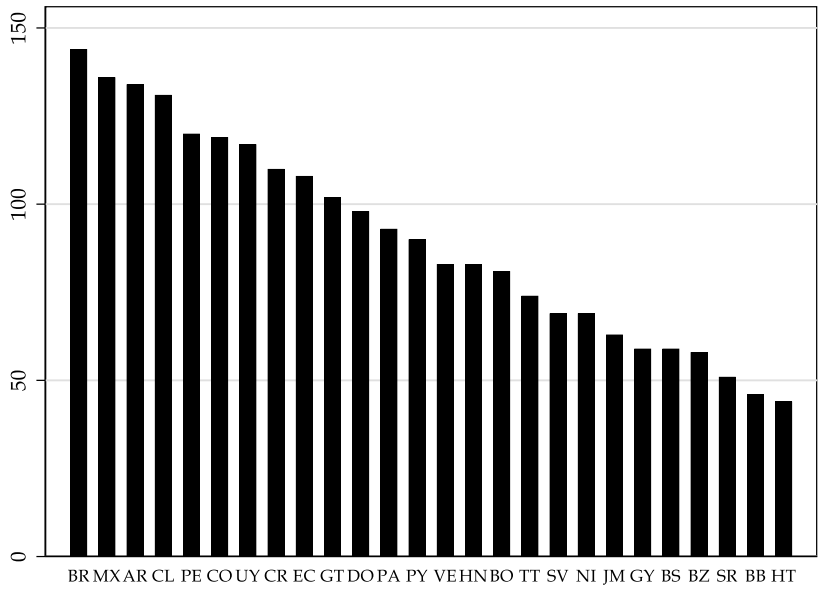
H. Subsidiaries of multinationals (number)



I. Number of products exported



J. Number of export destination countries

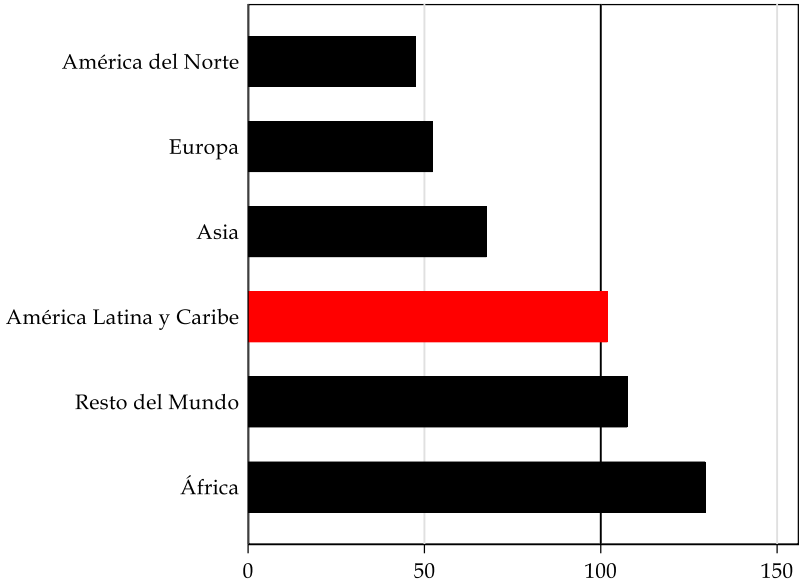


Notes: Figures A, C, and E refer to LAC's percentage of the world's total exports of goods, services, and foreign direct investment. Figures B, D, and F refer to the percentage of GDP accounted for by the exports of goods, services, and foreign direct investment for each LAC country. Figure G refers to the percentage of the multinational subsidiaries in each LAC country, while Figure H refers to the absolute number of multinational subsidiaries in each region. Figures J and I respectively show the number of exported products and the number of countries to which each LAC country exports. All figures use 2017 data.

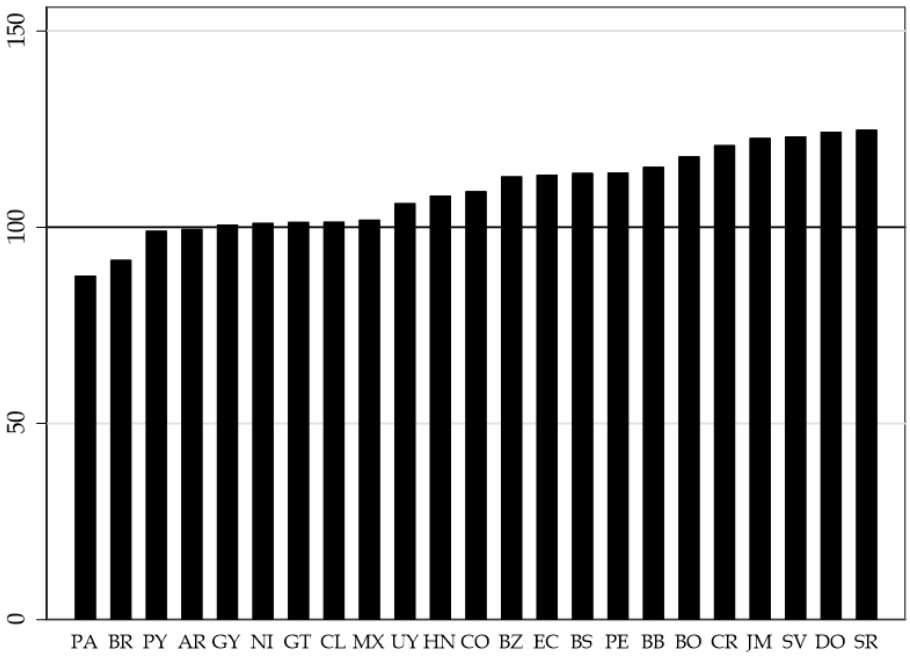
Sources: Prepared by the authors with data from UN-COMTRADE, Dun and Bradstreet WorldBase, UNCTAD, and World Development Indicators (World Bank).

Figure 4. Trade costs

A. Trade costs by region (2015, world average=100)



B. Trade costs by country in LAC (2015, world average=100)

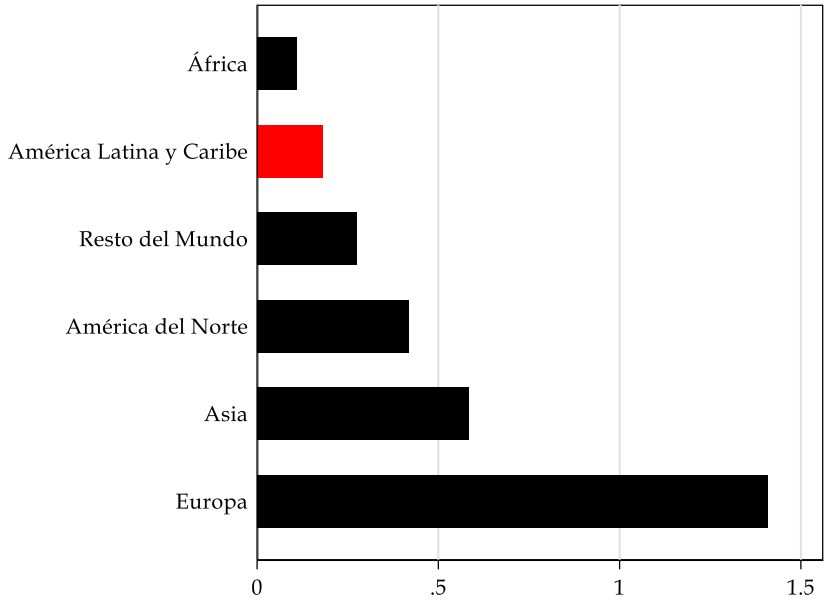


Notes: Figures A and B show the standardized trade costs (where 100 shows the world average trade costs) for each region (A) and each LAC country (B).

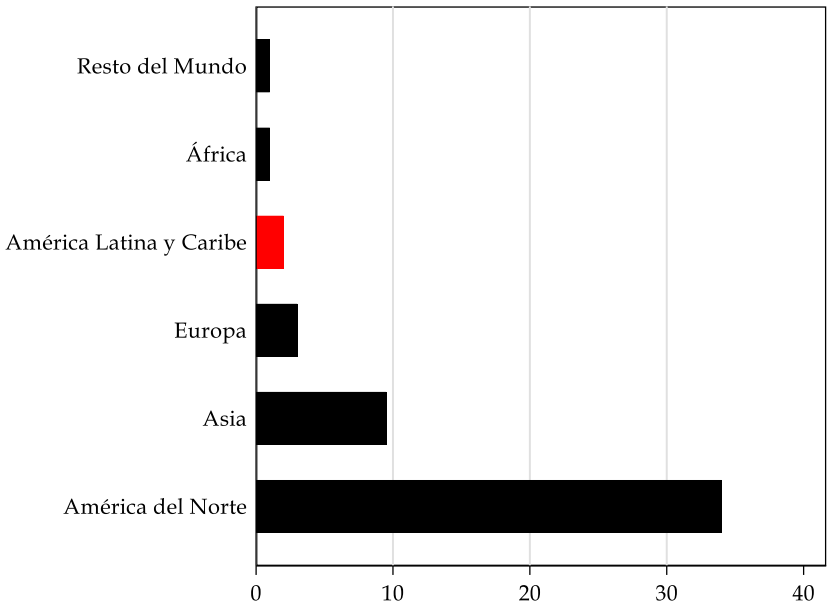
Sources: Prepared by the authors with data from the World Bank-ESCAP database of trade costs.

Figure 5. Transportation infrastructure by region

A. Road density (km of road per square km of land)



B. Number of containerized ports by country – median by region

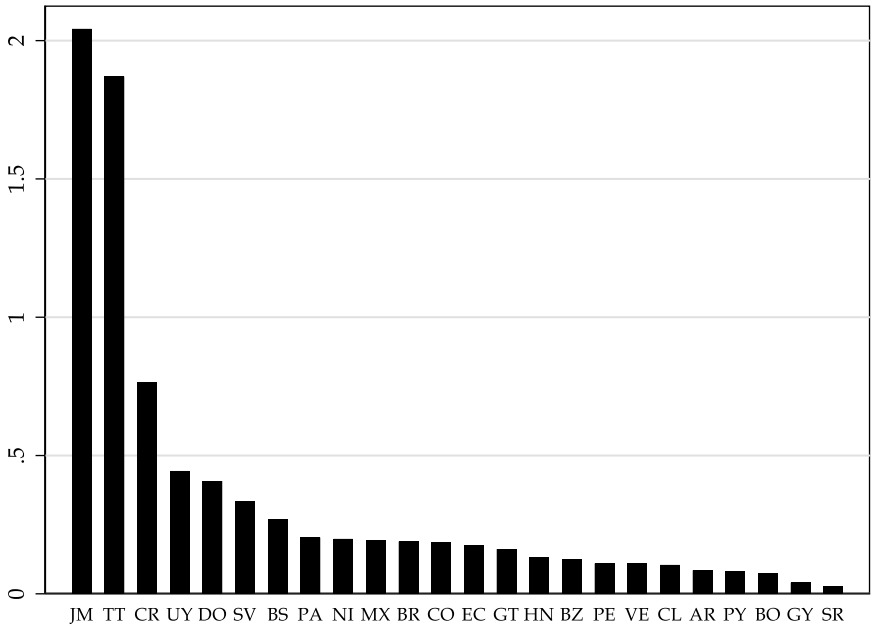


Notes: Figures A and B respectively show road density measured as kilometers of road divided by the surface area of the country in square kilometers and the number of containerized ports for the median country in each region.

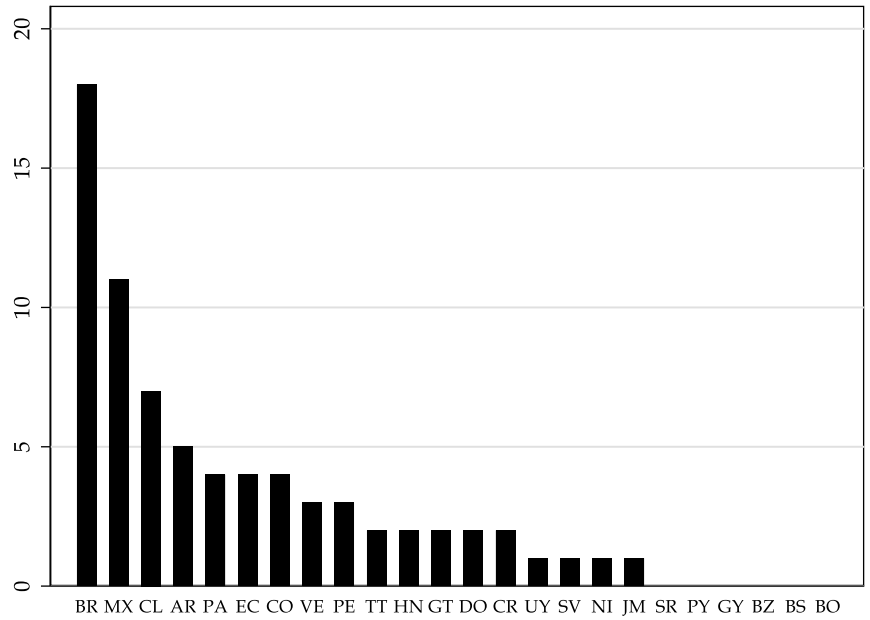
Sources: Prepared by the authors with data from the World Bank, CIA World Factbook, and Brooks et al. (2018).

Figure 6. Transportation infrastructure by country in LAC

A. Road density (km of road per square km of land)



B. Number of containerized ports by country – median by region

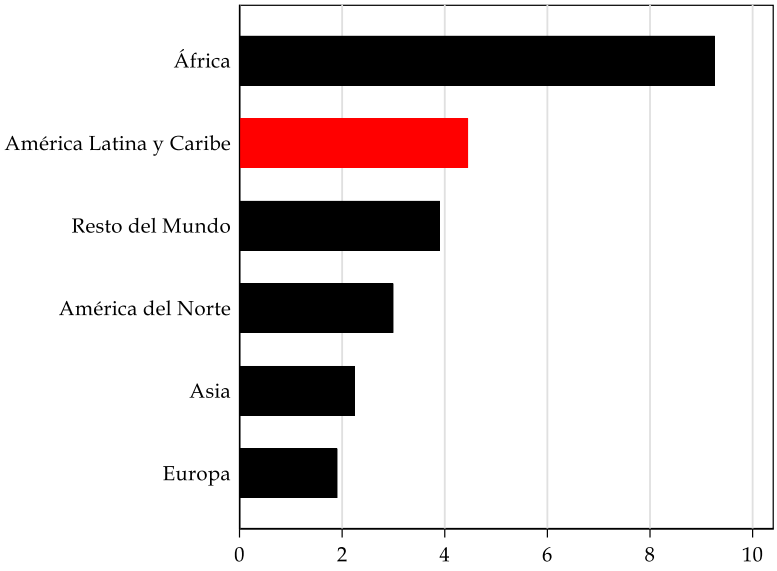


Notes: Figures A and B respectively show road density measured as kilometers of road divided by the surface area of the country in square kilometers and the number of containerized ports for each country in LAC.

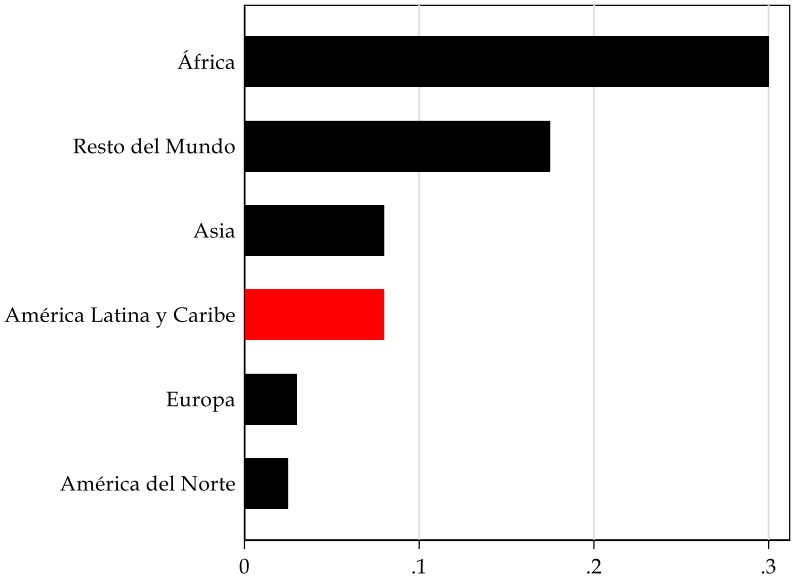
Sources: Prepared by the authors with data from the World Bank, CIA World Factbook, and Brooks et al. (2018).

Figure 7. Trade facilitation: time to export and inspection percentage, by region

A. Average time to export by sea or by air – median by region (2018)



B. Percentage of goods inspected – median by region (2018)

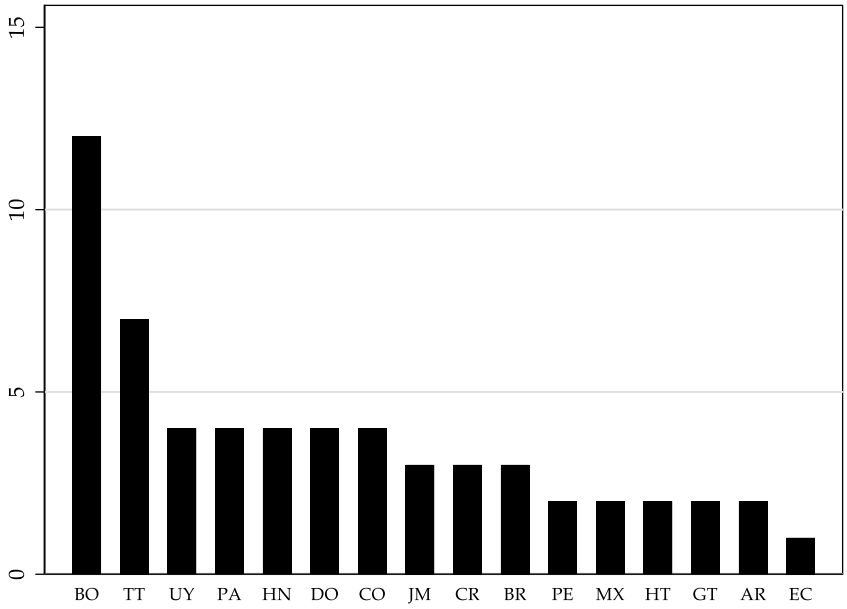


Notes: Figures A and B respectively show the average time needed to export by sea or by air and the percentage of imported goods that are inspected at customs for the median country in each region.

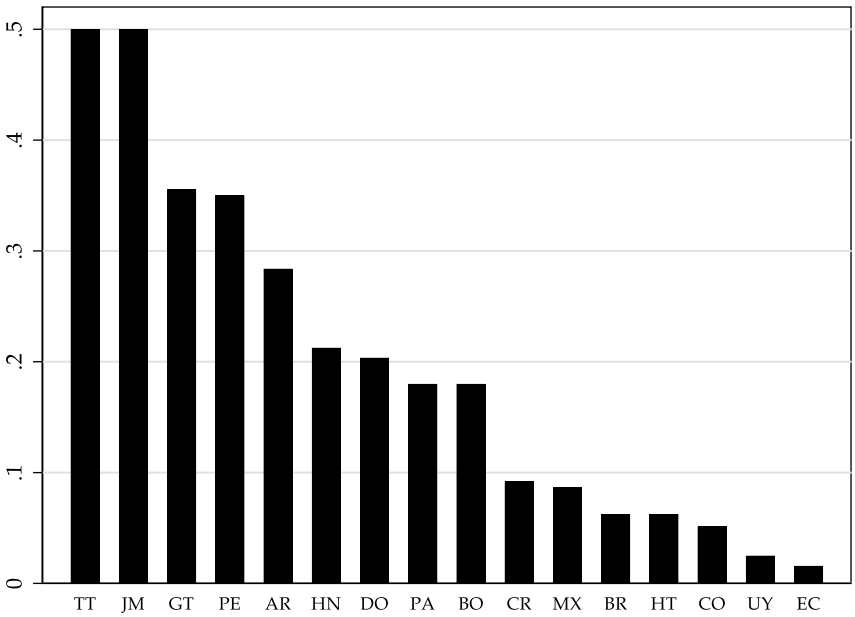
Sources: Prepared by the authors with data from the World Bank.

Figure 8. Trade facilitation: time to export and inspection percentage, by LAC country

A. Average time to export by sea or by air



B. Percentage of goods inspected – median by region (2018)

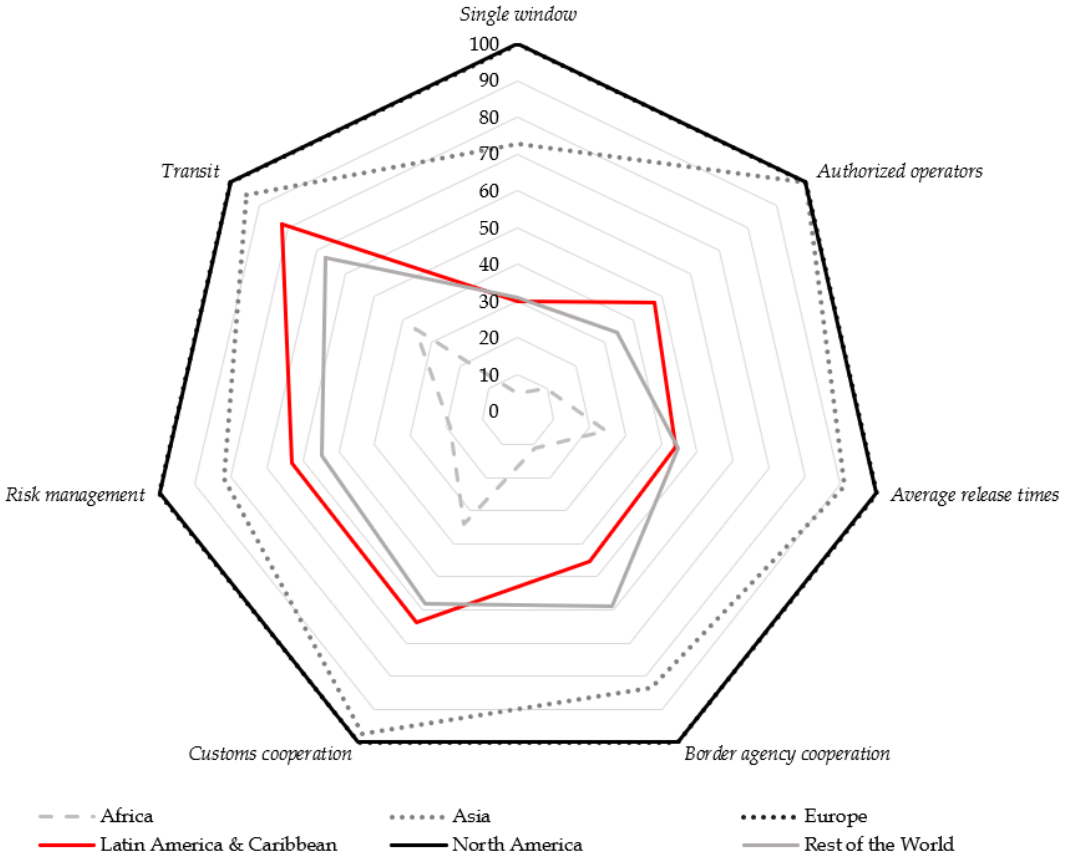


Notes: Figures A and B respectively show the average time needed to export by sea or by air and the percentage of imported goods that are inspected at customs for each country in LAC.

Sources: Prepared by the authors with data from the World Bank.

Figure 9. Implementation of trade facilitation policies

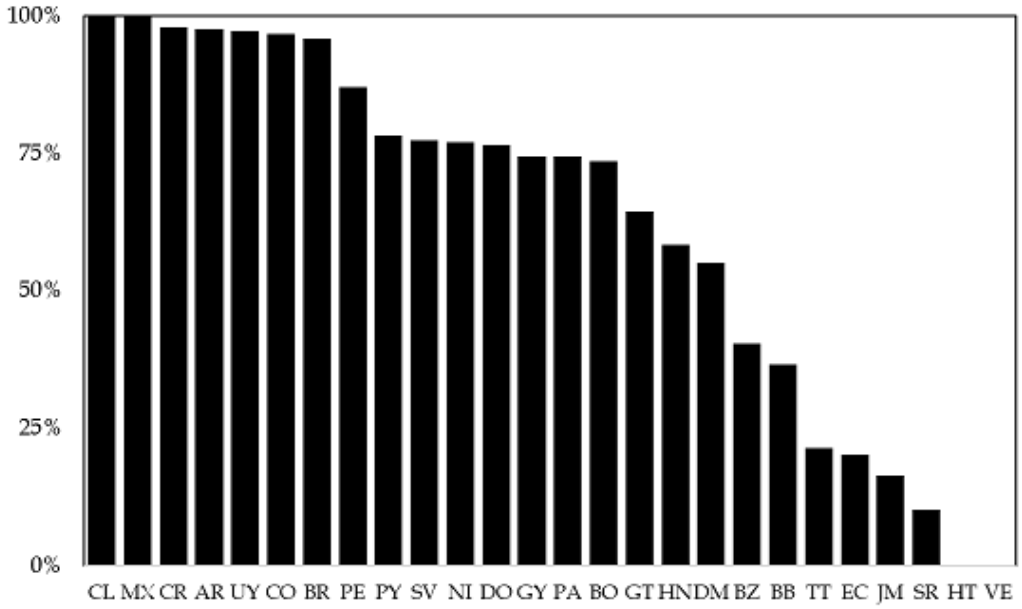
A. Implementation of various measures under the WTO Trade Facilitation Agreement (2019)



Notes: Figure A shows the average level of implementation of various measures under the WTO Trade Facilitation Agreement by region in 2019. When a country complies with a measure, the measure is considered 100% implemented. The figure shows the regional average for each measure. The measures shown are the existence of a single window for electronic trade or of an authorized economic operator program, the level of cooperation between border agencies and customs agencies, the average release times, appropriate risk management in accordance with the requirements of the WTO Trade Facilitation Agreement, and compliance with the transport measures provided in the agreement. The figure shows only some of the measures set out in the agreement, specifically those considered to be particularly significant.

Sources: Prepared by the authors with data from the WTO.

B. Average implementation of the WTO Trade Facilitation Agreement by country (2019)

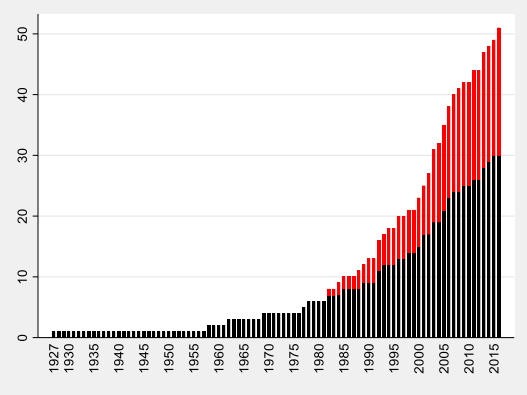


Notes: Figure B shows the average level of implementation of all measures provided in the WTA Trade Facilitation Agreement for each LAC country in 2019. When a country complies with a measure, that measure is considered 100% implemented. The figure shows the average by country for all measures.

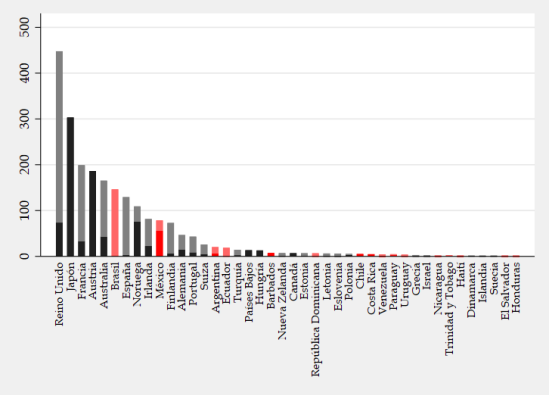
Sources: Prepared by the authors with data from the WTO.

Figure 10. Investment promotion agencies

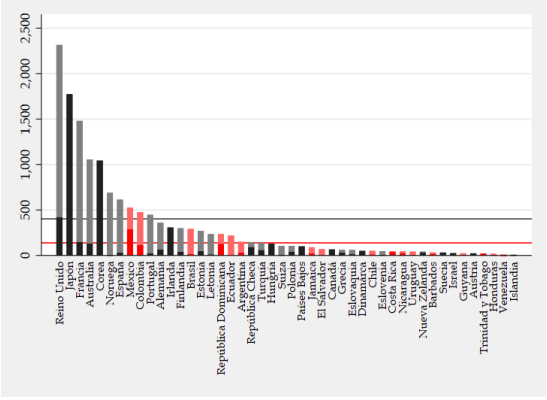
A. Number of agencies (1925-2017)



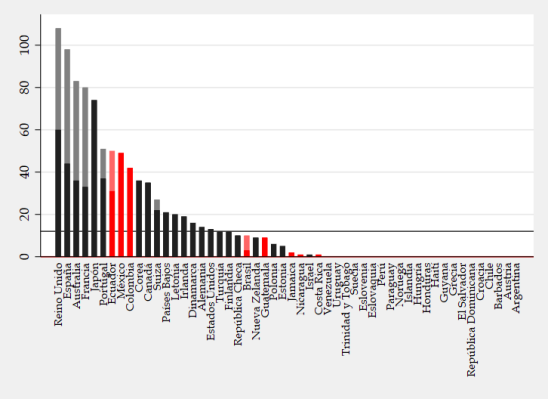
C. Budget by agency (2016)



B. Employees by agency (2016)



D. Number of foreign offices

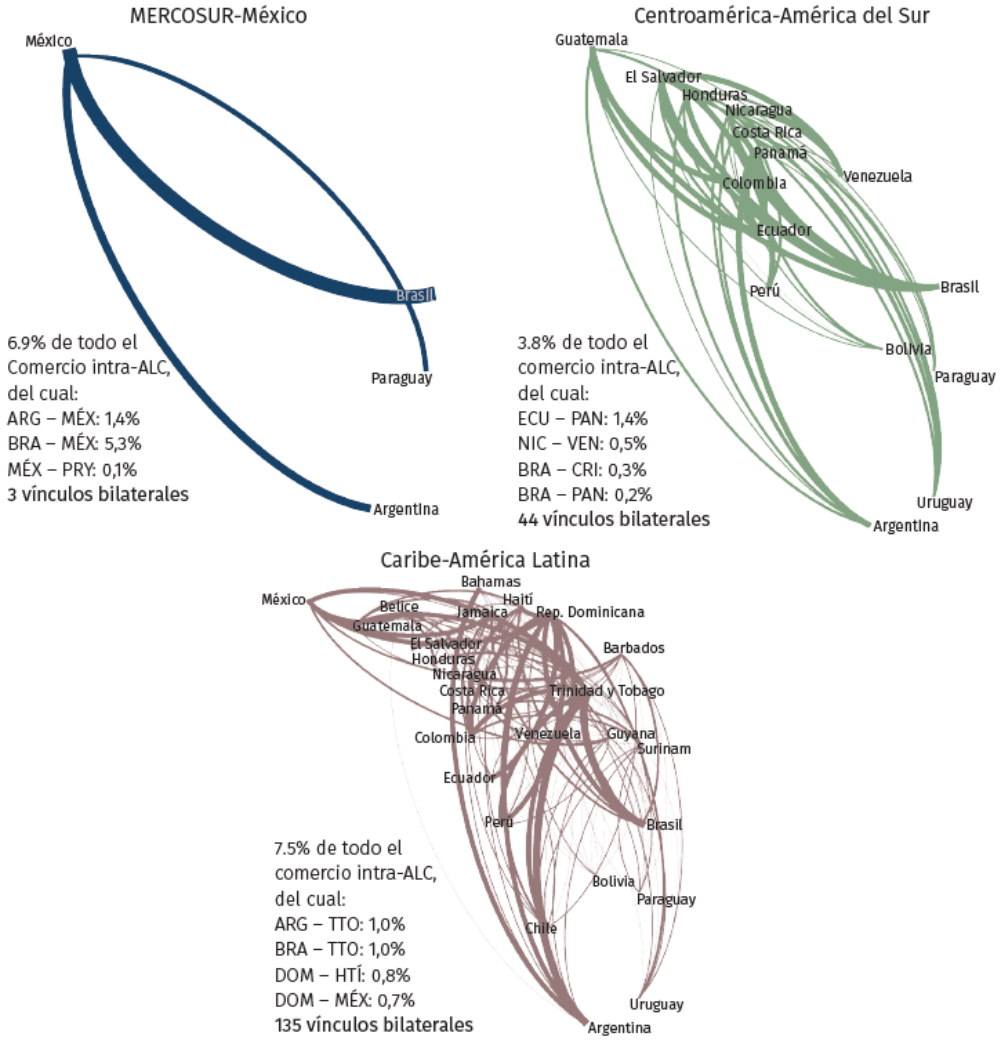


Notes: Figure A shows the number of investment promotion agencies in LAC (in red) and in the OECD (in black). Figures B and C respectively show the number of employees and the total budget of investment promotion agencies in LAC (in red) and in the OECD (in black). Lastly, Figure D shows the number of foreign offices of investment promotion agencies in LAC (in red) and in the OECD (in black).

Source: Volpe Martincus and Sztajerowska (2019).

Figure 11. Missing links in the region's trade architecture

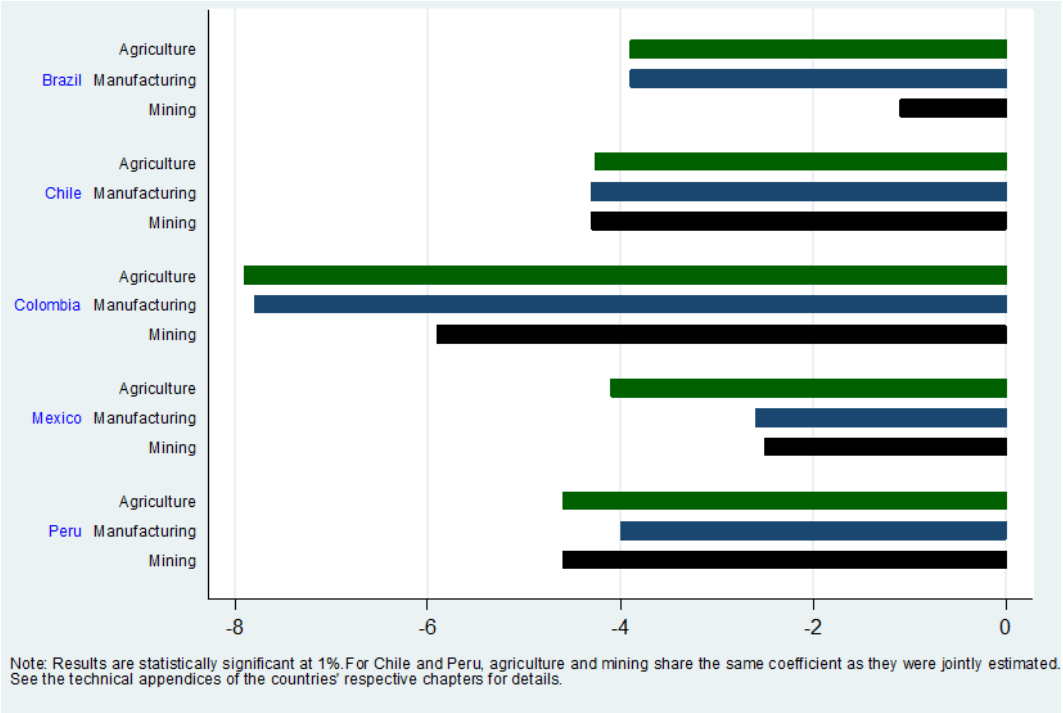
(Percentage of intraregional trade in Latin America and the Caribbean, amounts, and number of bilateral relationships)



Notes: The figure shows the bilateral trade relationships (links) in LAC that are not covered by preferential trade agreements. They are shown from the standpoint of Mexico (blue lines), Central America (green lines), and the Caribbean (brown lines). The thickness of the lines is proportional to the value of trade.

Source: Mesquita Moreira (2018).

Figure 12. Impact of transport costs on exports



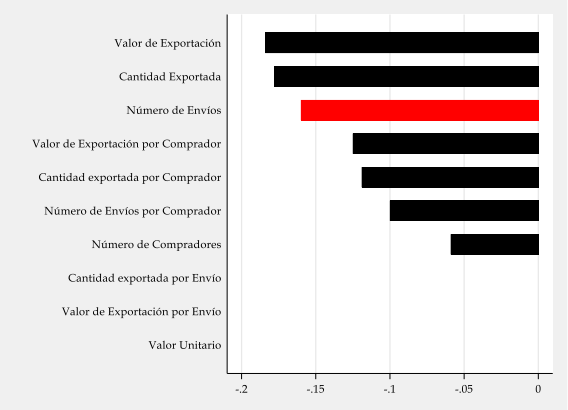
Notes: The figure shows the impact of transport costs on exports by sector and by country based on the estimates in Mesquita Moreira et al. (2013). The results show a negative and statistically significant correlation between transport costs and exports of goods in the five countries examined (Brazil, Chile, Colombia, Mexico, and Peru) for all sectors analyzed (agriculture, manufacturing, and mining). The coefficients represent the percentage change in exports in line with a 1% increase in transport costs.

Source: Mesquita Moreira et al. (2013).

Figure 13. Impact of trade facilitation measures on exports

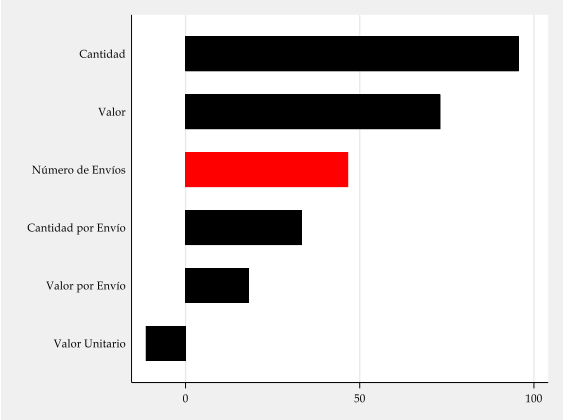
A. Processing time and risk management

Uruguay



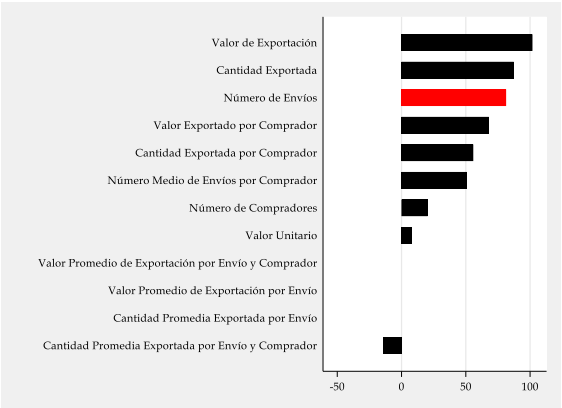
B. Authorized economic operators

Mexico



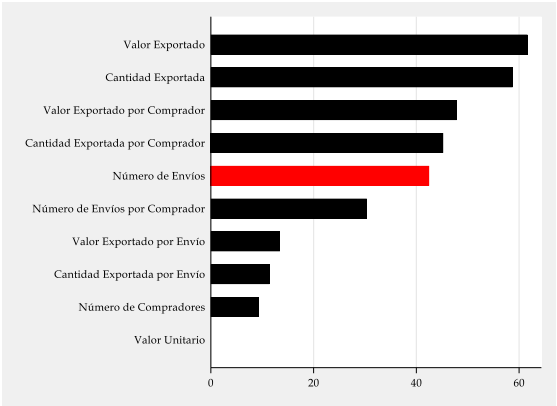
C. Single window for electronic trade

Costa Rica



D. Transit systems

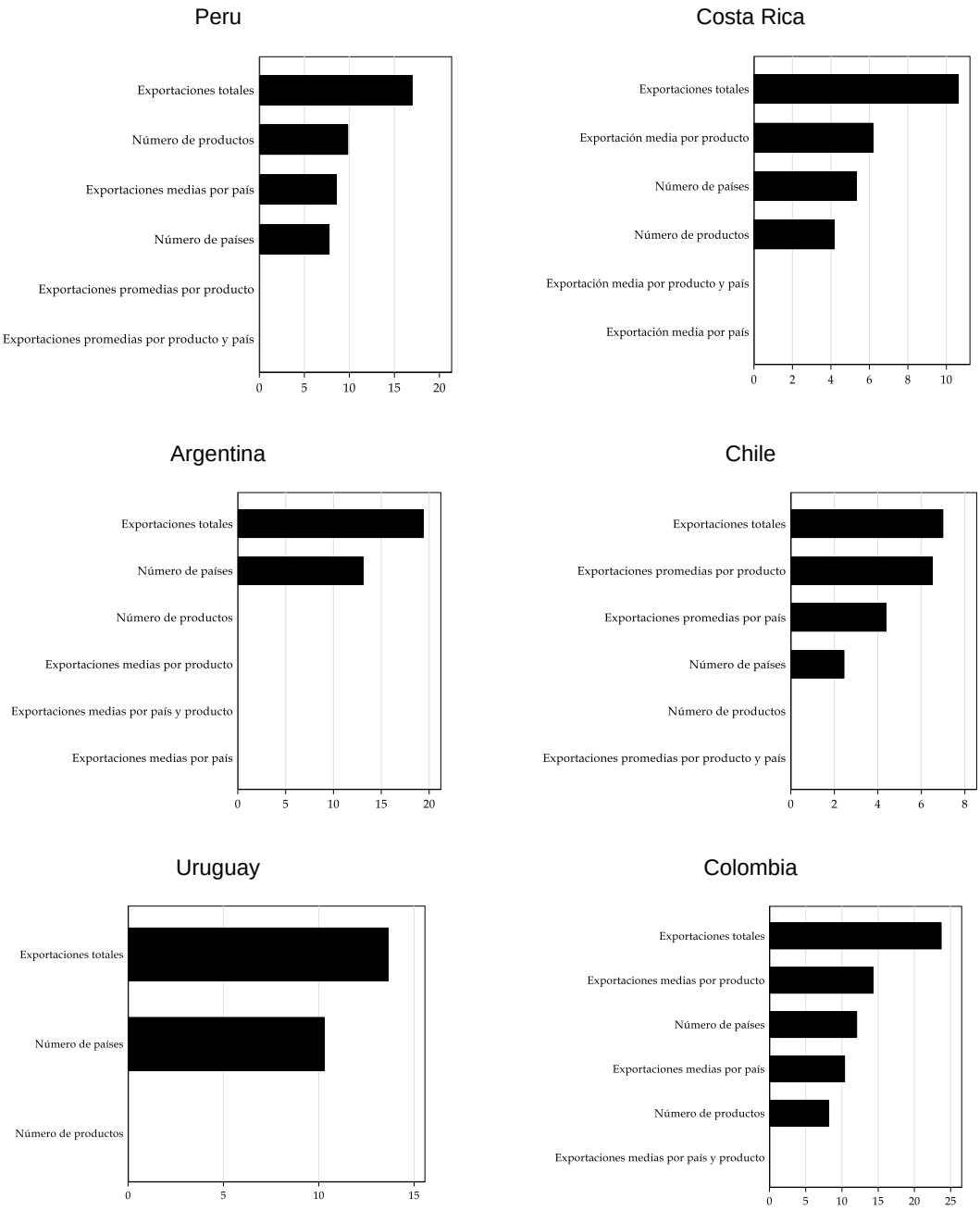
El Salvador



Notes: Figure A shows the estimated proportional change in export values, exported quantity, number of shipments, exported quantity or value by buyer and unit price, among others, in response to a 1% increase in the export processing time (using the case of Uruguay). Figure B shows the impact of the existence of an authorized economic operator program on the quantity, value, number of shipments, quantity shipped, shipment value, and unit value of exports (using the case of Mexico). Figure C shows the impact of a single window for electronic trade program in Costa Rica on various export margins (including export value, exported quantity, number of shipments, and exported value and quantity per buyer). Figure D shows the impact on these export margins of a transit systems program in El Salvador. The impact of each of them on the number of shipments (showing the positive effect of the authorized economic operator programs, single window, and transit systems and the negative effect of an increase in processing time) is highlighted in red.

Source: Volpe Martincus (2016) with data from DNA-Uruguay, SAT-Mexico, DGA-Costa Rica, and DGA-El Salvador.

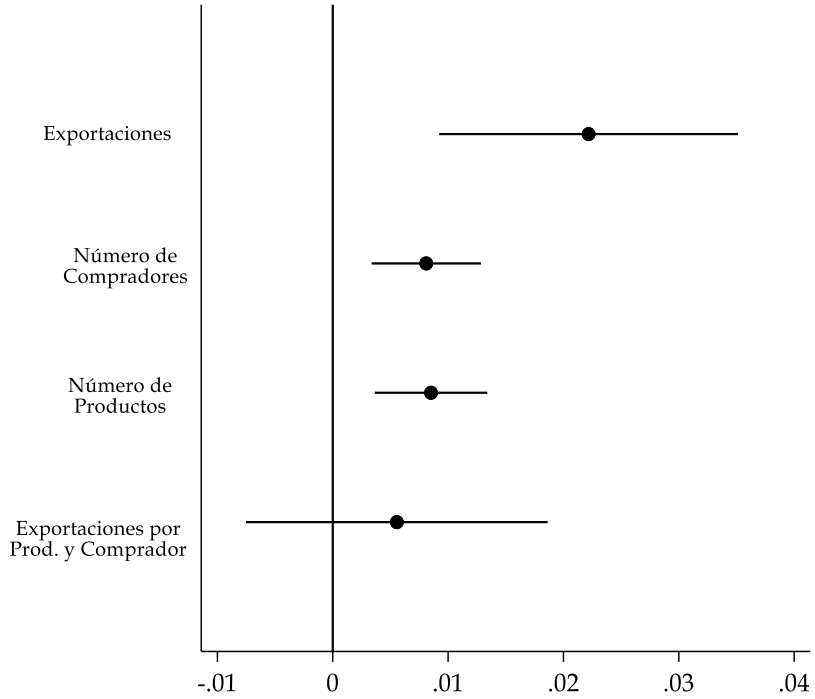
Figure 14. Impact of export promotion agencies



Notes: The figures show the positive impact of assistance by various export promotion agencies in Peru, Costa Rica, Argentina, Chile, Uruguay, and Colombia on various export margins, including total exports, number of products, average exports by country, number of countries, number of products, and average exports by product, country, or product-country. The coefficients show the impact in percentage terms (for example, an intervention by PROMPERU raises total exports by approximately 16%).

Sources: Volpe Martincus (2010), based on data from PROMPEX/PROMPERU, PROCOMER, URUGUAY XXI, PROCHILE, EXPORTAR, and PROEXPORT/PROCOLOMBIA.

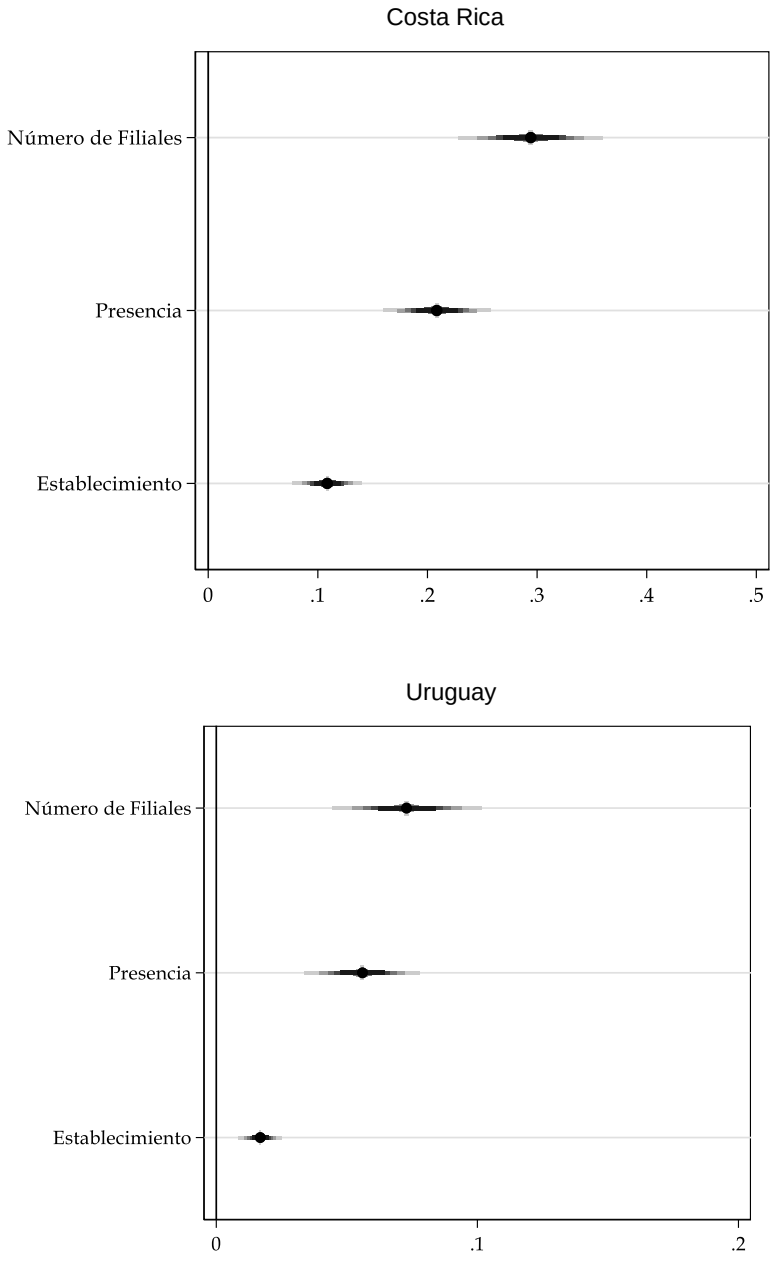
Figure 15. Impact of ConnectAmericas



Notes: The figure shows the impact of the use of ConnectAmericas on total exports, number of buyers, number of products, and exports by product and buyer. It represents the average impact as well as the estimated confidence interval (at a confidence level of 95%). The average impact is measured in percentage terms (for example, using the ConnectAmericas platform results in an estimated 2% increase in exports).

Sources: Prepared by the authors on the basis of Carballo et al. (2019).

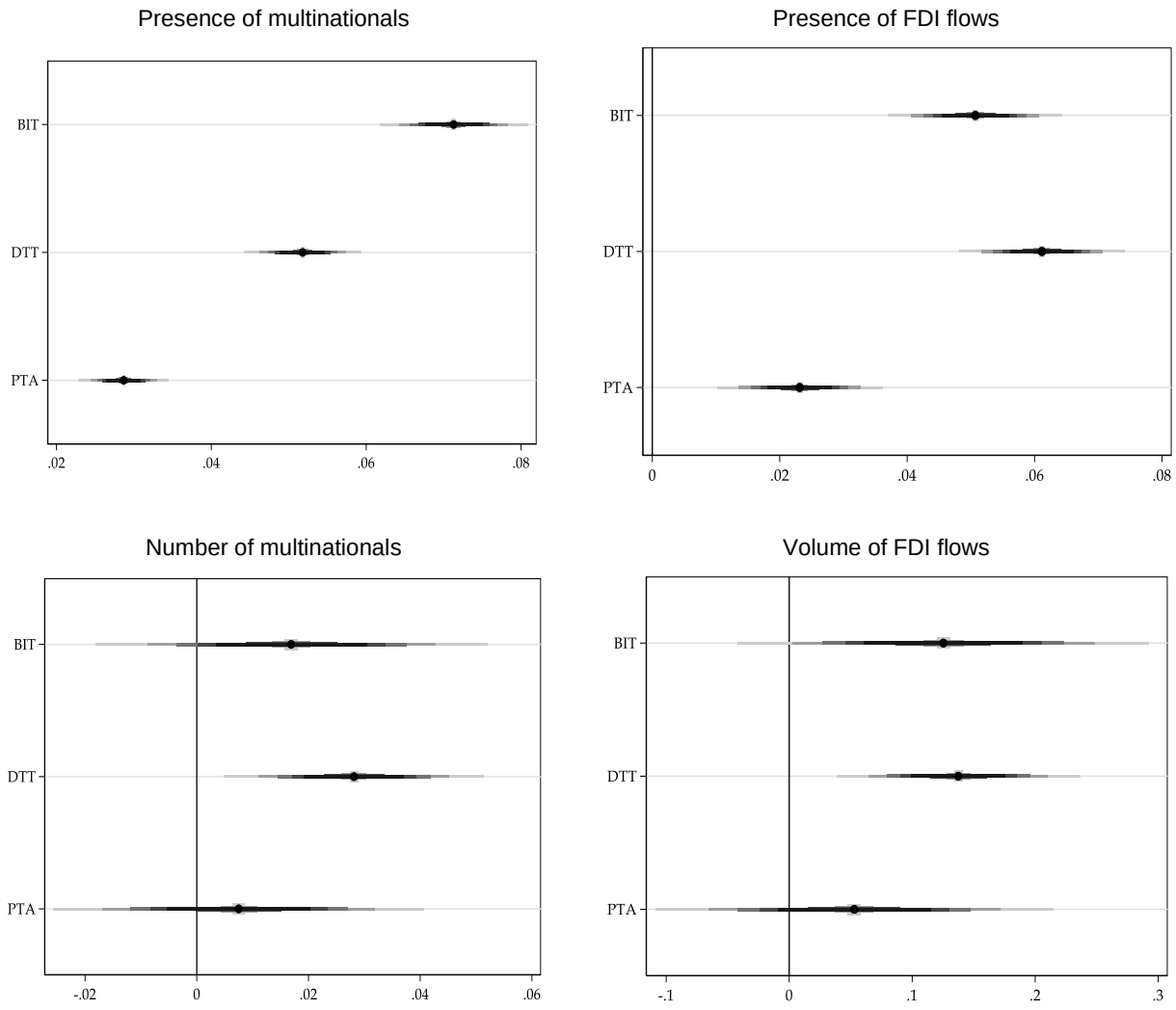
Figure 16. Impact of investment promotion agencies



Notes: The figure shows the positive impact of assistance by the investment promotion agencies in Costa Rica (CINDE) and Uruguay (Uruguay XXI) on the number of subsidiaries, the presence of foreign subsidiaries, and the establishment of a foreign multinational. It represents the average impact as well as the estimated confidence interval (at a confidence level of 95%). The coefficient shows the increase in the probability of having a presence in or expanding the number of foreign subsidiaries in the country (for example, CINDE assistance raises the probability of having a presence in Costa Rica by 20%).

Source: Prepared by the authors on the basis of Volpe Martincus et al. (2019).

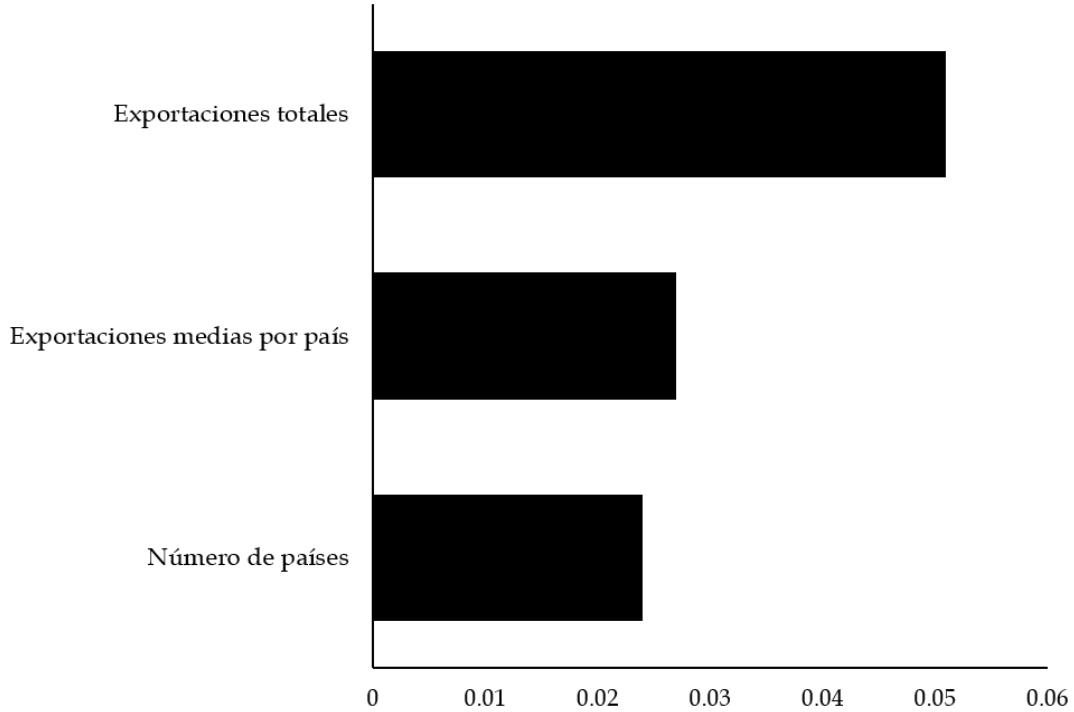
Figure 17. Impact of integration agreements



Notes: The figure shows the positive impact of assistance from bilateral investment treaties (BIT), double taxation treaties (DTT), and preferential trade agreements (PTA) on the presence of multinationals, the presence of positive foreign direct investment flows, the number of multinationals, and the volume of foreign direct investment flows. It represents the average impact as well as the estimated confidence interval (at a confidence level of 95%).

Source: Prepared by the authors with data from Dun and Bradstreet WorldBase, OECD, UNCTAD, Baier and Bergstrand (2018), and the WTO.

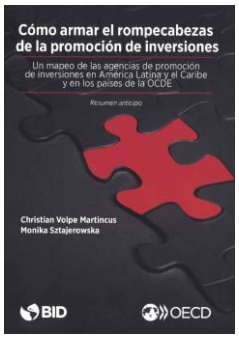
Figure 18. Impact of credit access (total bank-financed debt) on total exports



Notes: The figure shows the positive impact of credit access (measured as total bank-financed debt) on total exports, average exports by country, and number of destination countries. It represents the average impact as well as the estimated confidence interval (at a confidence level of 95%). The coefficient shows the impact of a 1% increase in credit access on these variables.

Source: Molina and Roa (2014), based on Tables 5-7.

SELECTION OF KNOWLEDGE PRODUCTS DEVELOPED BY THE IDB GROUP IN THE INTEGRATION AND TRADE SECTOR



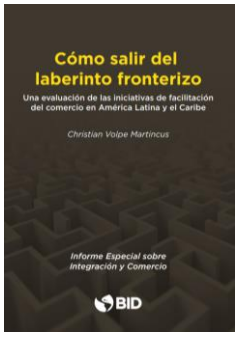
How to Solve the Investment Promotion Puzzle

The knowledge available to date on global investment promotion policies is limited. Unlike the case with other governmental support to businesses, including export promotion policies, there have been very few comparative studies on investment promotion policies in general and on the activities of investment promotion agencies (IPAs) in recent years in particular. Consequently, there is a lack of sufficient systematic information on what the IPAs are (for example, how they are structured, whom they report to, what resources they have); what activities they carry out (i.e., their tasks and activities); and how they do it (whether they set investment goals and how, whether they cooperate with other entities, whether they supervise and evaluate their own activities, etc.). This publication summarizes these three dimensions, highlighting the similarities and differences among IPAs in Latin America and the Caribbean and IPAs in the OECD countries.

Connecting the Dots: A Road Map for Better Integration in Latin America and the Caribbean

What can be said of Latin America and the Caribbean's experiment with regional integration? Did it live up to the expectations? What does this experience say about the regional integration agenda moving forward? Do the tectonic changes undergone by the world economy in the last quarter of a century matter for policy design? This report offers answers to these pressing questions. It argues that while the "new regionalism" was in general effective to promote intra-regional trade, it failed to boost the region's competitiveness abroad. Fragmentation is seen as the original sin, and convergence the path to redemption. The policy recommendations offer different routes to convergence, from a cautious, cumulation of rules of origin approach to a nonstop sprint to a LAC-FTA. But they all come with a warning: in the current challenging trade environment, the benefits of caution might be too little, too late.

Available at: https://publications.iadb.org/en/connecting-dots-road-map-better-integration-latin-america-and-caribbean



Out of the Border Labyrinth:[103] An Assessment of Trade Facilitation Initiatives in Latin America and the Caribbean

Real borders can be thick. They are not dimensionless lines as typically assumed in theoretical models and empirical analyses, but a zone populated by agencies that develop and administer regulations businesses have to comply with when engaging in international trade, many of which have their own specific procedures to ensure compliance. Depending on how these procedures are designed, borders can easily become a labyrinth hard to get through. This is crucial because border agencies' procedures influence the time needed to ship goods from their origins to their destinations and can thereby affect trade, particularly in a context characterized by

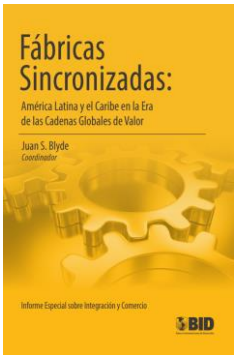
[103] Each of the first six chapters of this report is based on a specialized technical work document available on the IDB website https://www.iadb.org/en/topics/trade/out-of-the-border-labyrinth%2C20206.html. In particular, chapters 1 through 6 are respectively based on Carballo, Graziano, Schaur, and Volpe Martincus (2016); Volpe Martincus, Carballo, and Graziano (2015, 2016); Carballo, Schaur, and Volpe Martincus (2016); Carballo, Schaur, and Volpe Martincus (2016); Carballo, Graziano, Schaur, and Volpe Martincus (2016); and Carballo, Graziano, Schaur, and Volpe Martincus (2016).

increasingly segmented production chains and rising lean retailing. Latin American and Caribbean countries have recently implemented various trade facilitation initiatives that aim to streamline the administrative processes of trade flows and accordingly reduce trading times. Out of the Border Labyrinth systematizes a new line of trade policy research and provides valuable tools that will help officials in the countries and international organizations to design and assess policies in an area that promises to be very active in upcoming years as countries work towards implementing the multilateral agreement reached in Bali.

Trade and Integration Monitor 2018. Flying to Quality: Export Sophistication as an Engine of Growth

The Trade and Integration Monitor 2018 analyzes the ongoing trade recovery in the region and tracks its competitiveness in global markets, with a particular focus on the capacity for positioning itself in higher-quality, sophisticated, and technology-dense sectors. This edition is the latest in a series of reports of the Integration and Trade Sector of the Inter-American Development Bank (IDB) that study the evolution of the position of Latin America and the Caribbean in the global trading system, drawing on available data from INTrade, the IDB trade and integration information system.

Available at: https://publications.iadb.org/en/trade-and-integration-monitor-2018-flying-quality-export-sophistication-engine-growth



Fábricas sincronizadas: ALC en la Era de las Cadenas Globales de Valor [Synchronized Factories: Latin America and the Caribbean in the Era of the Global Value Chains]

The rise of global value chains is allowing participating nations to industrialize at a much faster pace than they would by developing complete domestic chains. In addition to creating opportunities to diversify production and trade, taking part in these global chains enables countries to capture some of the gains associated with the goods manufactured in the chain without needing to possess skills at each of its production stages. Despite these potential benefits, very few Latin American and Caribbean countries are taking advantage of these new trends in the global production structure. This report initially presents a comprehensive overview of the level of participation of the region's countries in the global value chains vis-à-vis other regions of the world. Next, the report examines the main factors underlying the observed participation rates and concludes by offering a series of policy proposals.

Available at: https://publications.iadb.org/es/publicacion/17526/fabricas-sincronizadas-america-latina-y-el-caribe-en-la-era-de-las-cadenas

Too Far to Export: Domestic Transport Costs and Regional Export Disparities in Latin America and the Caribbean

Driven by declining import tariffs, poor infrastructure, and increasing specialization in logistics-intensive goods, transport costs are arguably today's most formidable obstacle to trade in LAC. However, little knowledge is available on their trade impacts in the region, both behind and beyond the border. This study, which is part of a broader IDB research effort to fill this gap, assesses the role of domestic transport costs ("factory-to-port") in shaping the level and diversification of countries' overall and subnational exports. The subnational dimension is particularly important given that LAC's exports are heavily concentrated in a few municipios. Resorting to a number of empirical strategies and using a novel database—which covers origin-destination and domestic transport costs of municipal exports in five of the

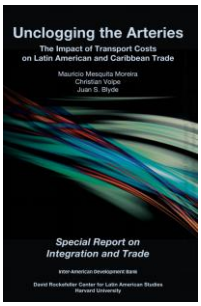
largest countries in the region (Brazil, Chile, Colombia, Mexico, and Peru)—the study shows that lower transport costs can have a significant impact on exports, particularly in those municipios that export the least.

Available at: https://publications.iadb.org/en/publication/17434/too-far-export-domestic-transport-costs-and-regional-export-disparities-latin

Odyssey in International Markets: An Assessment of the Effectiveness of Export Promotion in Latin America and the Caribbean: Special Report on Integration and Trade

Export promotion is costly. In order to ascertain that the resources it requires are, in fact, being well invested, it must first be determined whether the policy initiatives they finance have an impact on those variables that they are supposed to affect—exports. Making this determination is the aim of this report. Odyssey in International Markets begins by making a comprehensive analysis of export promotion organizations in over 30 countries and regions. Second, it provides robust evaluations, using state-of-the-art econometrics and original datasets, of the impacts that policies have had on export outcomes of countries and firms. At the same time, the report points to areas where further research would produce deeper insights into the relative merits of this type of intervention.

Available at: https://publications.iadb.org/en/publication/16392/odyssey-international-markets-assessment-effectiveness-export-promotion-latin



Unclogging the Arteries: The Impact of Transport Costs on Latin America and Caribbean Trade

This book explores the impact of trade in Latin America and the Caribbean and argues that the region can no longer rely solely on trade agreements, proximity, labor costs, and an abundant supply of natural resources to give it a competitive advantage in international trade. The book finds that countries in Latin America and the Caribbean have increased their transport costs, largely because of deficiencies in infrastructure and weak competition in shipping services. It concludes that a broader and more balanced trade agenda would bring the long-neglected issue of transport costs to the center of the policy debate.

Available at: https://publications.iadb.org/en/unclogging-arteries-impact-transport-costs-latin-american-and-caribbean-trade

Development in the Americas (DIA) 2019:[104]

From Promises to Results: What Global Integration Can Do for Latin America and the Caribbean

More than a quarter century ago, the Latin American and Caribbean countries launched a resolute effort to foster their own regional and global integration. While there were significant disparities among the various countries in terms of timing and scope, the general direction decidedly pointed toward more liberal trade and investment policies.

[104] This report will be officially published in November 2019.

Despite this long “experiment,” which took place in a context of major changes in the global economy—from the emergence of mega economies to disruptive technological developments and radical changes in the political economy of globalization—, the region has not yet fully succeeded in extracting relevant lessons to inform its current and future policy agenda. There are questions that require an answer: Have the expected gains in productivity, employment, welfare, and growth been achieved? Why? What should the policy agenda be going forward? The Development in the Americas (DIA) 2019 report will focus on answering these questions.

To lay the groundwork for this analysis, the report will begin with a discussion of the theoretical and political expectations behind the liberalization of the region’s economies in the early nineties and how these expectations have evolved. The second part of the report will discuss key results, such as growth, productivity, employment, and inequity, as well as trade and investment outcomes. The third part will lay the groundwork for a policy discussion through an in-depth analysis of the political economy of LAC trade policies. The fourth part will discuss recommendations for trade policies as well as labor adjustment and productive development policies. The report will conclude with a discussion of the challenges brought on by new technologies.

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