

INTER-AMERICAN DEVELOPMENT BANK  
OFFICE OF THE VICE PRESIDENT FOR SECTORS AND KNOWLEDGE  
INTEGRATION AND TRADE SECTOR

IDB SUPPORT TO COMPETITIVE GLOBAL AND REGIONAL  
INTEGRATION

Profile for a Strategy<sup>1</sup>

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<sup>1</sup> This strategy profile is based on the Background Paper “IDB Support to Competitive Global and Regional Integration” (GN-2565).

## TABLE OF CONTENTS

I.	OBJECTIVES .....	1
II.	THE RATIONALE FOR GLOBAL AND REGIONAL INTEGRATION .....	2
III.	DIAGNOSIS: TOWARDS AN EFFECTIVE THIRD GENERATION INTEGRATION IN LAC .....	4
IV.		

## **ANNEXES**

Annex 1      Consultation Plan of the Strategy Profile

## **FIGURES**

Figure 1      IDB Support to Competitive Global and Regional Integration. Towards a New Regional Instruments Compact

Figure 2      LAC and East Asia Share of World Exports (1962-2007)

Figure 3      Share of Intra-Regional Trade over Total Foreign Trade (1980-2007)

## ABBREVIATIONS

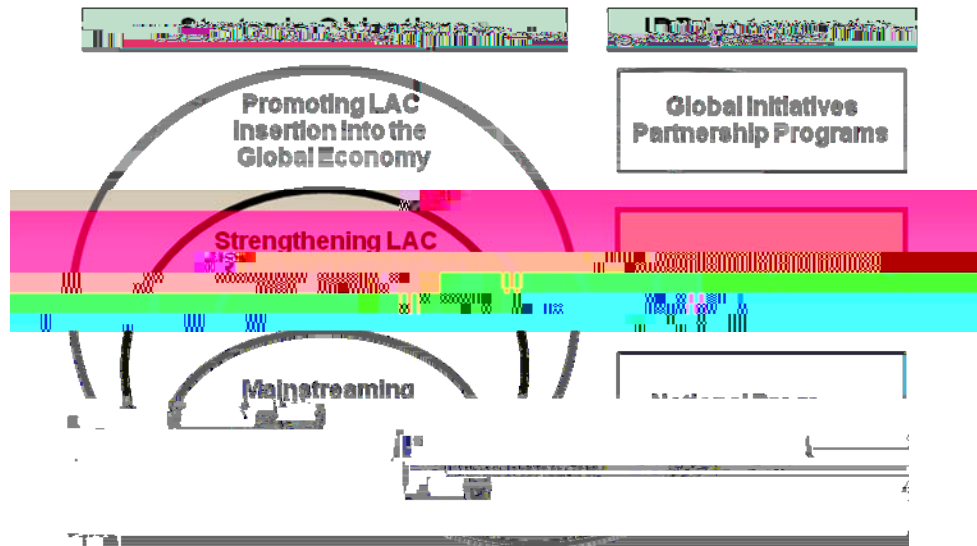
ADB	Asian Development Bank
AMI	Mesoamerican Information Highway
CARICOM	Caribbean Community and Common Market
COSEFIN	Consejo Centroamericano de Ministros de Finanzas
EU	European Union
FDI	Foreign Direct Investment
FIRII	Infrastructure Integration Fund
FSO	Fund for Special Operations-IDB
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
GCI	General Capital Increase
G20	Group of Twenty
IDB	Inter-American Development Bank
IIRSA	Initiative for the Integration of Regional Infrastructure in South America
IOM	International Organization for Migration
LAC	Latin America and the Caribbean
MERCOSUR	Southern Common Market
NAFTA	North American Free Trade Agreement
OC	Ordinary Capital-IDB
OECD	Organization for Economic Co-operation and Development
OVE	Office of Oversight and Evaluation-IDB
PBL	Policy Based Loans-IDB
PM	Mesoamerican Project
RICAM	The Central American Roads Network
RPG	Regional Public Goods
RTA	Regional Trade Agreement
RTC	Regional Technical Cooperation
SIEPAC	System of Electrical Interconnection of Central America
TC	Technical Cooperation
TIM	International Transit of Merchandise
TRTA	Trade-related Technical Assistance
UN	United Nations
UNASUR	Union of South American Nations
WTO	World Trade Organization

## I. OBJECTIVES

- 1.1 The Ninth General Capital Increase (GCI-9) document (AB-2764) establishes competitive global and regional integration as one of the five institutional strategic priorities to achieve the Bank's overarching objectives of reducing poverty and inequality and promoting sustainable growth. The GCI-9 also sets an annual lending target of 15 per cent to support regional cooperation and integration in Latin American and Caribbean (LAC) by the end of 2015.
- 1.2 The purpose of this strategy profile is to offer a preliminary proposal to increase and sharpen the Bank's contribution to LAC global and regional integration. In particular, this profile offers a rationale for integration, a diagnosis, background information, and lessons learned from the Bank support to integration. It also provides a preliminary list of areas and modalities of intervention to support the implementation of the future integration strategy. This profile will be open to public consultation with governments, civil society and experts.
- 1.3 Competing in the global economy requires actions on three complementary levels: (i) mainstreaming global and regional integration objectives into **national** development strategies; (ii) building a competitive **regional** integration platform; and (iii) pursuing an active **global** integration strategy. Figure 1 shows the three complementary strategic objectives for LAC with the corresponding levels of

**Figure 1**

**IDB Support to Competitive global and regional integration  
Towards a new regional instruments compact**



**II. THE RATIONALE FOR**

investment (FDI). The free circulation of goods, services, and factors of production is a key factor in attracting market- and efficiency-seeking FDI promoting forward and backward linkages with domestic firms, in addition to investments into the region's large natural resources endowments; and (iii) access the global marketplace at a faster pace. Regional trade integration permits more rapid advances to freer trade than under complex multilateral negotiations.

- 2.3 **Regional integration as a platform for functional cooperation.** Regional integration allows countries to pursue more effective collective policies beyond trade integration, in particular: (i) a greater voice in global *fora*. Regional integration magnifies countries' bargaining power in *fora* such as the G20 or global negotiations for the provision of global public goods such as a balanced global financial architecture, a rules-based multilateral trading system, or a sustainable framework on climate change; (ii) a platform for the provision of regional public goods. Regional integration provides incentives for cooperation in the provision of regional public goods and regional cooperation, ranging from macroeconomic stabilization to planning and financing of infrastructure initiatives<sup>1</sup>; and (iii) a natural space to address asymmetries and promote cohesion. As global and regional integration may produce soci









common external tariff, costly origin regimes and customs procedures, and other red tape costs.

### C. Closing the regional integration gap: a fully unified market

- 3.8 **Connecting the *software* and *hardware* of integration.** Competing on an equal footing with advanced and emerging economies requires a renewed third generation integration strategy. Its components can be visualized on a *continuum* ranging from *hardware* to *software* development, with the former referring to investments in regional infrastructure and the latter to the implementation of collective policies and regulatory frameworks. There is an urgent need to redouble investments in both the *hardware* and *software* of integration and, perhaps more importantly, to connect them in an all-encompassing policy agenda.

#### *Upgrading the software: free circulation from goods to factors of production*

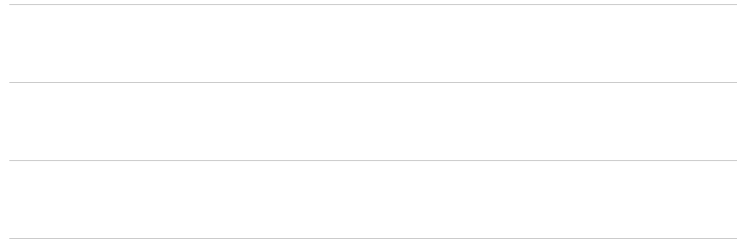
- 3.9 **Facilitating rules convergence and the free circulation of goods.** Policy and regulatory measures - or *software* - reforms aimed at facilitating the free circulation of goods will push the region towards a more unified market. The proliferation of bilateral free trade agreements in the last decade adds to the complexity of harmonizing the integration *software*, as trade rules have been developed into a fragmented institutional setting (Figure 4)<sup>7</sup>. The agenda is not new and involves: (i) removal of residual intra-zone tariffs and non-tariff barriers; (ii) completion of custom unions; (iii) harmonization and simplification of rules of origin regimes; (iv) harmonization and/or mutual recognition of customs procedures, sanitary, and technical standards; (v) development and harmonization of investment regimes and antitrust legislations; (vi) establishment of well-functioning institutionalized dispute settlement mechanisms; (vii) negotiations to achieve trade convergence among existing ; n,03-o511opgT2s92 on opl Tw(harm)8(onizati)-5

**Figure 4**  
**Regional Integration in the Americas, Asia and Asia-Pacific (1990-2010)**

**Before 1994**

indirect taxation and incentives regimes

**Figure 5**  
**Weighted Average *Ad Valorem* Freight Costs and Tariffs on Intra-regional Exports**  
**(2005)**



supporting regional initiatives: a point too often neglected which contributes to turning integration into the scapegoat for national idleness.

#### IV. LESSONS LEARNED FROM THE BANK'S SUPPORT TO INTEGRATION

##### A. Supporting integration: a core Bank development mandate

- 4.1 **Supporting integration is part of the Bank's institutional identity.** Support for global and regional integration lies at the heart of the development mandate of the Bank. This section focuses on the Bank's responses to this mandate, in particular in support to regional integration<sup>13</sup>. Article I of the IDB Charter states that the purpose of the Bank is to “*contribute to the acceleration of the process of economic and social development [...] individually and collectively.*” The GCI-9 has renewed and strengthened the Bank's integration mandate to upscale the Bank's intervention. This offers an opportunity to take stock of previous Bank's actions and lessons learned. A preliminary overview is offered below for the public consultation purpose and will be developed more fully in the future integration strategy.

##### B. The modalities of IDB support to integration

- 4.2 **Advocating new ideas to expand the integration frontier.** The Bank consolidated its intellectual leadership, served as the primary integration brain trust for the region, and helped to raise the profile of LAC integration by promoting innovative research, supporting research networks and developing outreach initiatives with extra-regional partners. Additionally, the Bank maintained cutting-edge information systems and modeling tools on trade and integration<sup>14</sup>, and developed a methodology and training in rapid strategic environmental assessment for national planning agencies.
- 4.3 **Leading in trade-related technical assistance (TRTA).** Technical assistance and advisory services of the Bank prove

catalytic instrument that helps the region to face the financing challenges that come along with further integration. In addition, the Bank has successfully pursued several loans to specialized trade finance funds (several of which have won recognition awards in the international markets), loans to individual banks for trade finance and loans to regional funds specializing in infrastructure investments.

- 4.5 **Innovating to finance regional public goods (RPG).** The Bank also addressed the emerging demand for RPG finance creating in 2005 an innovative instrument to address cross-border externalities and neighborhood issues. With an annual endowment of US\$10 million, the RPG Program allocates regional resources on a competitive basis.
- 4.6 **Serving as an honest broker in integration initiatives.** The Bank served as an honest broker in flagship integration initiatives, particularly at their inception stages. Examples are the technical, logistical, and financial support to the FTAA process, sub-regional integration schemes, and more recently, initiatives such as *Arco del Pacífico Latinoamericano*, *Pathways to Prosperity in the Americas*, and the *Annual Meeting of the Ministers of Finance of the Americas and the Caribbean*.
- 4.7 **Mobilizing the donor community for trade-related support to LAC.** The Bank played a catalytic role in mobilizing and coordinating external donors' support, the most recent and notable effort being perhaps the leadership in the regional implementation of the WTO-led *Aid for Trade* initiative and the creation of the Bank's *Aid for Trade Thematic Fund*.
- 4.8 **Promoting policy dialogue on a long-term regional vision.** The Bank instituted in 2000 a *Regional Policy Dialogue on Trade and Integration* with the objective to create a network of senior officials to share best-practices and explore long term opportunities for regional cooperation.
- 4.9 **Building capacity for a critical mass of integration agents.** The Bank carries out a comprehensive capacity-building program and developed partnerships with international institutions, in particular, a pioneering *IDB-WTO Capacity Building Program*. Its traditional trade-related thematic focus has been recently broadened to include new issues (e.g. migration, physical integration, etc.).
- 4.10 **A progressive regionalization of infrastructure investment.** The regional approach to investment in regional *hardware* emerged later in response to a growing demand in the region. It took the form of technical and logistical support to official initiatives; an increase in regional infrastructure lending; and an incipient support to the development of cross-border regulations.
- 4.11 **The Integration of Regional Infrastructure in South America (IIRSA).** The Bank launched in 2000 an initiative to support IIRSA, which has the goal to develop and integrate regional infrastructure and to facilitate physical integration



and equitable and sustainable territorial development. The Bank contributes to support the Secretariat of the Technical Coordination Committee, and played a critical role in building consensus on a US\$74 billion pipeline (RE-338, RE-338-2). The Bank stepped up its funding to IIRSA in 2005 with the creation of the Regional Fund for Infrastructure Integration (FIRII, in Spanish) that met the demand for a dedicated mechanism. The Bank subsequently provided lending resources for investments in priority projects in IIRSA and elsewhere. As the IIRSA initiative transitions into a new institutional setting under the guidance of UNASUR, the Bank may need to retool its support to promote cross-border investments between countries with asymmetric benefits more effectively and to connect *hardware* and *software* investments, particularly in training, best-practice dissemination, and regional regulatory reforms.

- 4.12 **The Proyecto Mesoamerica (PM).** The Bank launched in 2001 an initiative to support PM (previously known as *Plan Puebla-Panamá*), which has the goal to facilitate funding and implementation of regional integration projects through infrastructure, connectivity, and social development (see Electronic link 7). The Bank was assigned the mandate to: (i) facilitate consensus for the design and implementation of regional projects, (ii) provide technical support; and (iii) channel funding through grants and loans.



unique position as an honest broker to support the institutional architecture needed for deeper integration;

iii) **Build regional additionality into the Bank's operations in key sovereign and non-sovereign sectors.** The strategy will undergird the Bank's efforts to meet the 15% GCI-9 integration lending target, while promoting high-quality projects and balanced interventions along the regional *software-hardware continuum*; and

iv) **Mainstream integration into the Bank's operational program.** The strategy will detail approaches to mainstreaming integration into the Bank's operational program and will define criteria for integration interventions.

## **B. Areas of Bank Intervention**

5.3 Defining the areas of focus of the strategy cannot be done in isolation. In addition to an open consultation process, there will be a focused exchange with a group of regional experts and Bank staff to validate the dimension of priorities for development. The process will be matched with a thorough assessment of comparative advantages based on the Bank's track record, resources, yielding the final set of focus areas of the strategy.

5.4 In the meantime, the Bank offers a preliminary list of topics that are believed to have a strong potential of becoming the backbone of the strategy. These are areas where there has been a long-standing partnership with the region with a potential for further growth, as well as emerging areas whose effect on development is now being better understood or where the Bank is building a more robust response capacity.

5.5 The proposed priority topics are: (i) **software:** trade and investment facilitation, financial integration, productive integration, migrations and labor market integration; (ii) **hardware:** transport infrastructure, energy and telecommunications; and (iii) **functional cooperation:** standards and regulatory harmonization, social protection and health, climate change and natural disasters, science and technology and other areas in which collective action at the regional level may add value to national interventions.

## **C. Modalities of Bank Intervention**

5.6 **Strategic initiatives.** In the absence of centralized supranational bodies that express political will and drive for integration, inter-governmental platforms are the only source of regional integration mandates. The Bank can contribute to the region's long-term integration vision providing analytical contributions, building regional and national capacities and reacting to operational demands. The strategy will ultimately allow the Bank to respond effectively to emerging regional initiatives.

5.7 **Policy research.** Cutting-edge applied research is crucial to retain intellectual leadership, contribute to a long-term vision, enhance the quality of policy dialogue and support an innovative operational program. The Bank has a solid policy research record, maintains unique



consider the need to set up incentives to prioritize regional operations and assess the risk of implementing the strategy in absence of an adequate incentive structure that stimulate both the demand of integration operations of the region and the capacity of the Bank to meet such demand.

- 5.14 **Monitoring and evaluation.** The instruments of the proposed compact need to be effectively monitored and evaluated, and their results effectively communicated to relevant stakeholders, to ensure that their development impact is clearly understood. While this is necessary in general, it is even more relevant in the case of integration programs since they often compete with national investments that may be perceived as



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## **Annex 1**

### **Consultation Plan of the Strategy Profile Competitive Regional and Global Integration Strategy**

#### **I. Background**

1. This strategy profile is based on the Background Paper “IDB Support to Competitive Global and Regional Integration” (GN-2565). It has been edited to increase consistency with other strategy profiles prepared by the Bank as mandated by IDB Governors in the context of the 9th capital increase (GCI) (AB-2764) and facilitate the public consultation process.

#### **II. Objectives**

2. The general objective of the public consultation for the integration strategy is to promote civil and institutional participation to improve the Bank’s vision on integration.
3. The specific objective is to improve the content of the strategy paper by offering the possibility of interaction among key stakeholders of integration processes, gathering contributions from technical and academic specialists, governments, civil society and sub-regional integration institutions and the private sector.

#### **III. Methodology**

4. Management requests opening up a period of formal public consultation that could provide inputs to the Bank’s own contribution and those gathered in eleven meetings and seminars with civil society and with governments, where the contents of the Background Paper “IDB Support to Competitive Global and Regional Integration” were presented and discussed. The formal public consultation process for the integration strategy would involve two phases:
  - 4.1. The first phase is focused on a strategy profile document and would be carried out mainly by digital media during 30 (thirty) days, starting the day following authorization by the Board of Executive Directors. Face to face meetings would be also held during this phase. The profile will be presented at the 10th IDB-Civil Society Annual Meeting.
  - 4.2. The second phase is focused on the development of the strategy document, which needs to be approved by the end of March 2011. The consultation period will be of 30 (thirty) days from the public circulation date of the strategy document.

5. The consultation process (the two phases) will be open to every interested party -even though key players participation will be sought by the Bank, such as academics, specialists, civil society organizations among others- so they can provide their inputs.
6. The Integration and Trade Sector of the Vice-presidency for Sectors and Knowledge (INT/VPS) will lead the consultation process in coordination with the Office of External Relations (EXR) and the Vice-presidency for Countries (VPC).
7. Public electronic pages will be available to the public, so that comments can be made during the two phases of the consultation process.
8. The following table summarizes the objectives, duration, type of participation, activities and indicators for both phases. This document will be updated with additional details about the activities carried out in the second phase.

		<b>Phase I Strategy Profile</b>	<b>Phase II Strategy document</b>
<b>1.</b>	<b>Objective</b>	Gather contributions from the general public by digital media, which could serve as inputs to the development of the strategy document.	Carry out a participatory and inclusive consultation process to improve the strategy document through digital media and face to face meetings.
<b>2.</b>	<b>Duration</b>	30 days from the Board authorization date.	30 days from the public circulation of the draft strategy document.
<b>3.</b>	<b>Type of participation</b>	<b>Virtual</b> Gather online comments. <b>Face to face</b> Meetings will be used in order to	

		<b>Phase I Strategy Profile</b>	<b>Phase II Strategy document</b>
		IDB site.	website about the consultation process.
<b>5.</b>	<b>Indicators</b>	<p><b>Virtual</b></p> <p>1. Number of site visits to the relevant consultation pages.</p> <p>2. Number of comments received on line.</p> <p><b>Face to Face</b></p> <p>1. Number of meetings</p>	

- LAC Integration Institutions

## VIII.

## END NOTES

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<sup>1</sup> See for example Estevadeordal, A., Frank, B., Nguyen, T. (2004).

<sup>2</sup> See Sapir, A. et al. 2004 on the European experience.

<sup>3</sup> Consider that, as of 2008, a region-wide LAC integration scheme would lead to a US\$ 4.2 trillion market, comparable to that of China.

<sup>4</sup> See for example Devlin, R. and Estevadeordal, A. (2004) and Devlin, R. and Giordano, P. (2004).

<sup>5</sup> Under the *New Regionalism* the growth benefits were somehow slow to come, but have become unmistakable in the last decade. Since 2003, the region's GDP has grown at annual average of 5 percent, driven by a 17 percent annual growth of its exports and record influx of foreign investment, which topped 90 billion in 2008. The 2008-2009 crises hit the region hard, causing sharp drops in export (29 percent) and GDP (2.5 percent). But unlike past experiences, recovery has been relatively swift and most countries in the region are expected to resume growth in 2010.

<sup>6</sup> See Estevadeordal, A., Freund, C, Ornelas, E. (2008) regarding the complementarity between multilateral and regional liberalization.

<sup>7</sup> Around 1994, the LAC sub-regional agreements started to evolve into deeper forms of integration, adopting the goal of customs unions. At about the same time, more ambitious initiatives such as NAFTA and the FTAA, with more promising scale and trade gains, began to take shape, the former with greater success than the latter. This was followed in the 2000s by a strong wave of bilateral and inter-bloc agreements that relaxed some of the scale constraints of traditional initiatives, but generated growing costs related to the complexity and fragmentation of trade rules (Estevadeordal, A. et al. 2009).

<sup>8</sup> See for example Moreira M., Volpe, C. and Blyde, J. (2008)

<sup>9</sup> In particular, initiatives such as the *Initiative for the Integration of Regional Infrastructure in South America* (IIRSA) and the *Mesoamerican Integration and Development Project* (*Proyecto Mesoamerica* or former *Plan Puebla-Panamá*) whose foundational objectives were to develop regional energy, communication and transport infrastructure outside the realm of sub-regional and bilateral agreements.

<sup>10</sup> See for example this strategic approach for Europe EC (2006) or for Asia in ADB-ADB (2009).

<sup>11</sup> Support for economic integration has declined steadily in LAC since the mid-nineties (Latinobarometro, 2009). See also Blyde, J., Fernández-Arias, E. and Giordano, P., 2008.

<sup>12</sup> The allocation of resources to cohesion funds may indirectly compensate for disparities provided that there is adequate capitalization and capacity at the national level to complete high-return integration projects. Cohesion or structural convergence funds are an indirect instrument to promote balanced integration and preserve regional political cohesion (Giordano, P., Moreira, M. and Quevedo, F., 2004). In LAC, MERCOSUR and CARICOM have already taken steps in this direction. However, it is imperative to bear in mind that they should not be seen in any circumstance as a substitute for direct action on the root causes of the problem, that the level of income and fiscal constraints of the larger and richer countries of the region does not allow for substantial - European style - transfer of resources, and that their effectiveness

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ultimately depend on the national capacity to steer scarce resources towards high-quality integration-oriented projects.

<sup>13</sup> See IDB 2006 and 2007 for a review of the Bank's action and strategy to support global and regional integration through national interventions.

<sup>14</sup> The Bank developed INTRADE, the most comprehensive resource center on trade agreements available for LAC ([www.iadb.org/int/intradebid](http://www.iadb.org/int/intradebid)).

<sup>15</sup> For LAC, 1994 marked a milestone in the area of trade integration (see Figure 4). As a response, the Bank created and endowed with new resources the Trade, Integration and Hemispheric Issues Division, within the former Integration and Regional Programs Department.

<sup>16</sup> Trade integration projects were developed in the areas of: trade negotiation and implementation; trade facilitation and customs modernization; and trade promotion and investment attraction.

<sup>17</sup> The recent support to the Annual Meeting of the Finance Ministers of the Americas and the Caribbean and COSEFIN in Central America are important steps towards creating new, broader effective platforms.