

A YEAR IN REVIEW 2010

A YEAR
IN REVIEW

2010



Integration and Trade Sector
Vice Presidency for Sectors and Knowledge

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PREFACE

For almost a decade, the region's GDP (Gross Domestic Product) has been growing at an annual average rate of 5 percent, driven by a 17 percent annual growth in exports and a record influx of foreign investment, which topped US\$134 billion in 2008. Even though the 2008–09 global financial crisis was a difficult time for the region, with sharp drops in exports (down 22%) and GDP (down 1.7%), recovery has been swift, which wasn't the experience with past economic downturns. Most countries in the region resumed growth in 2010. Latin America and the Caribbean (LAC) exports grew by 9 percent in 2010 and foreign direct investment reached US\$113 billion, not far from the record figures posted in 2008.

A combination of strong policy frameworks—after decades of macroeconomic and institutional reforms—and the deepening of trade and integration efforts explain the region's resilience to the recent economic turbulence and the relatively good performance observed in 2010. Trade and integration have indeed been fundamental countercyclical engines of growth and economic stability during this time. For example, the deeper integration that the region has forged with Asia during the last decade provided a much welcomed counterbalance in 2010 to the slump in the US and the European markets.

But despite the unmistakable progress, it would be unwarranted to conclude LAC is in a comfortable position in the world economy or that the region's trade-led growth has reached a sustainable path. It is true that the region has dealt successfully with the complexity of free trade agreements, fostered deeper regional economic integration, and strengthened trade and investment relationships with other regions. Yet it can be argued that LAC has yet to reap the full benefits of trade and integration as it is continuing to tackle many of the across-the-border and behind-the-border impediments to trade and investment that still remain in most countries in the region.

Moving ahead requires expertise, resources, and political will. The Inter-American Development Bank (IDB) is in a privileged position to continue providing the policy advice, as well as the technical and financial assistance, that is needed for the region to improve its competitiveness in international markets and to successfully face the ever-changing challenges of globalization.



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LATIN AMERICAN
EXPORTS IN 2010:
RECOVERY FROM
CRISIS

LATIN AMERICAN EXPORTS IN 2010: RECOVERY FROM CRISIS

Latin American exports to the world grew by a projected 29 percent in 2010, to approximately \$853 billion, reversing a 23 percent fall in 2009, according to preliminary estimates by the IDB's Integration and Trade (INT) Sector. Intra-regional exports grew 27 percent, while extra-regional flows expanded by nearly 30 percent. Intra-regional trade, as a share of Latin America's total trade with the world, stands at an estimated 17.5 percent, slightly lower than last year's 17.8 percent.

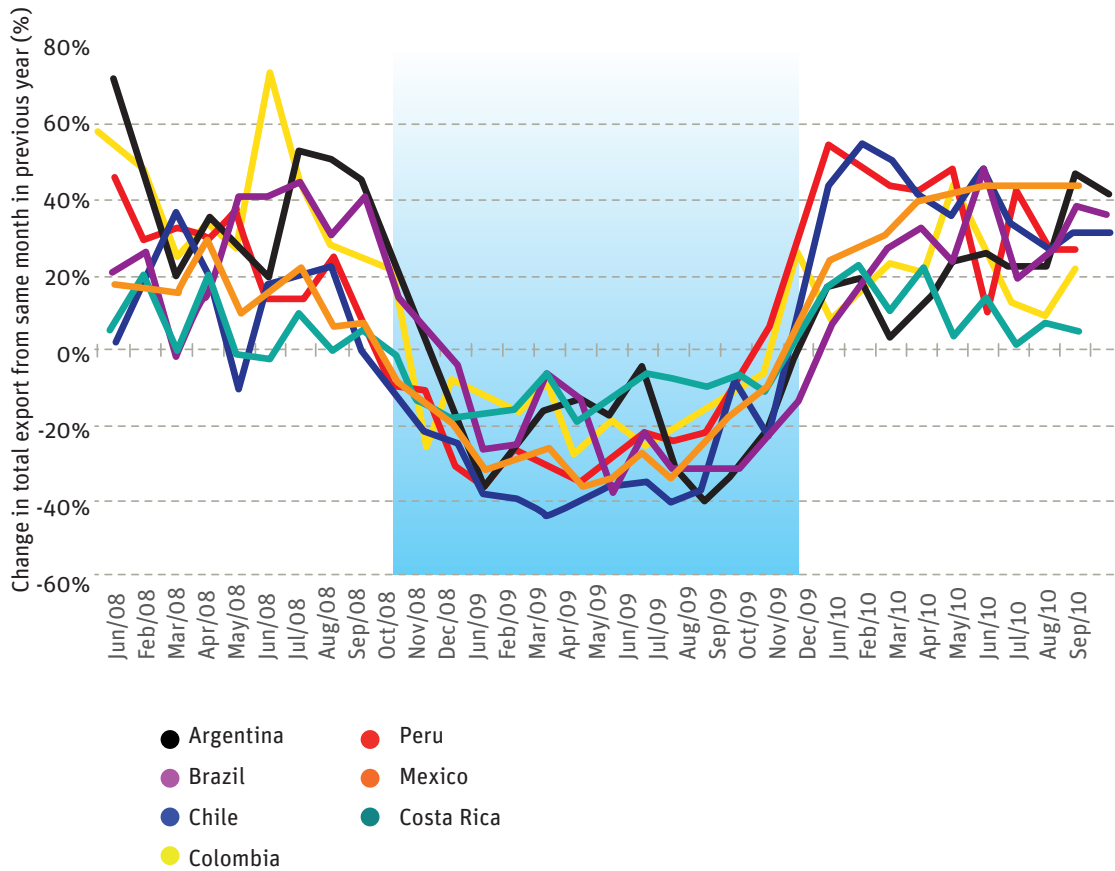
Figure 1 shows the total exports of seven major Latin American countries compared with the same month the previous year. The steep fall in exports, which began with the global financial crisis in October 2008, was largely reversed by late 2009, and export performance has been strong for these countries in general ever since.¹

South-South integration and trade with China in particular has provided a counterbalance to weak demand in the developed countries. In the case of Brazil and Chile, exports to China did not suffer to the same extent as they did to the rest of the world during the financial crisis, and in fact exhibited positive growth for some months. Furthermore, the region's overall exports to China grew nearly 50 percent this year over 2009 levels.

On a subregional level, exports by the Southern Common Market (Mercosur) and the Andean Community each grew by 28 percent. Paraguay led the Mercosur regional grouping with 39.7 percent growth in total exports, while Brazil, Uruguay, and Argentina saw their exports grow by 29.7, 24.6, and 24.0 percent, respectively. Regional deepening in Mercosur continued, with intra-bloc trade rising 41 percent year-over-year, and all members increasing their intra-regional exports by at least 30 percent, with Brazil's exports to the rest of the group growing by 50 percent over the first 10 months of the year.

¹Methodological note: it is evident from the chart that exports began to recover in October and November of 2009. Thus, there is likely a small upward bias in this year's estimates, since the data for the months available would show stronger growth from a lower 2009 level than would hold for the months that are not yet available.

Figure 1: Export performance began recovering starting in 4th quarter 2009 and continues to improve



Source: IDB Integration and Trade Sector calculations based on data from national websites.

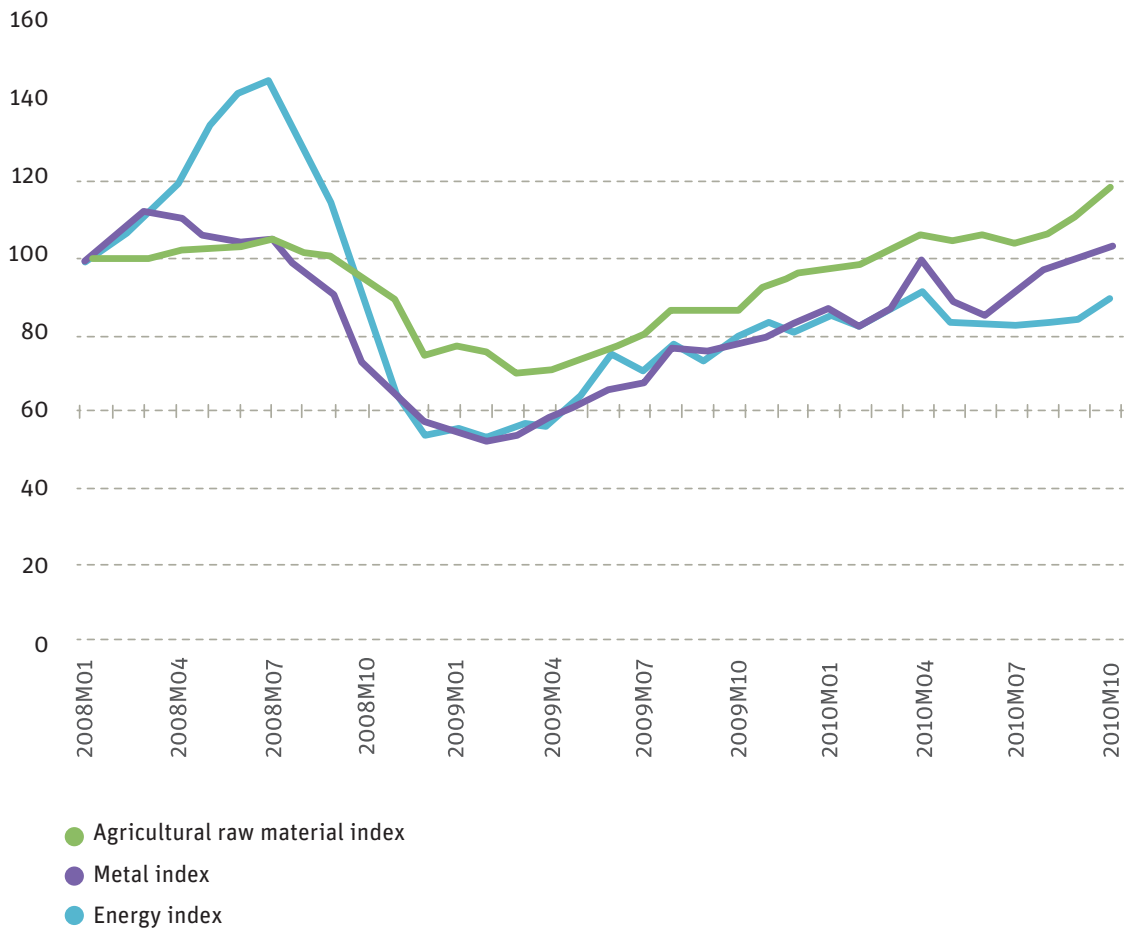
In the Andean Community,² exports by Peru grew 35.2 percent, Ecuador 28.8 percent, Bolivia 27.5 percent, and Colombia 21.2 percent. Intra-Andean trade is expected to rise 36 percent. However, Venezuela's exports to its former fellow Andean Community members are expected to fall by 34%, driven primarily by Colombian imports from Venezuela. Nevertheless, total exports to the world have grown 17.6 percent, and those to the United States (US) have grown by 22.6 percent, in the first three quarters of the year. Once again, Chile experienced substantial export growth, driven, among other things, by more favorable copper prices and dividends from the government's growing number of trade agreements. Chile's exports to the world are anticipated to rise 38.5 percent. Chilean exports to China, its top destination for exports, grew by nearly one-half. In this hemisphere, sales to Mercosur rose 54.7 percent and those to the United States 15.5 percent.

Mexico's exports are projected to grow by one-third this year, more than offsetting last year's 21-percent decline. Overall results for both 2009 and 2010 recorded trade patterns with the United States, Mexico's largest trading partner. Sales to the country's southern Central American Common Market neighbors are expected to grow by 29.2 percent. Central American exports, which fell by less than the other Latin American subregions last year, rose similarly by a more muted 14.1 percent in 2010. Nicaragua (30.0 percent) posted the strongest results, while Guatemala, El Salvador, Honduras, and Costa Rica grew at respective rates of 16.0, 15.9, 13.8, and 9.1 percent. However, these estimates may not capture all of the effects of the recent CAFTA-DR (Dominican Republic–Central America–United States Free Trade Agreement), since data for maquila exports is not yet available for all countries.

Despite this impressive performance, the recovery in exports is fragile and depends on a number of external factors. Slower-than-expected US growth or a deepening in the Euro-zone debt crisis could cause regional exports to fall once more. Also, some of the growth is due to the strengthening of commodity prices in 2010 (Figure 2). Diversification towards the Chinese market helped mitigate the damage from the recent crisis, but a double-dip global recession or prolonged slowdown would likely reduce China's demand for the region's primary products.

² The Andean Community includes Bolivia, Colombia, Ecuador, and Peru for purposes of this report. Although Venezuela left the Community to join Mercosur in 2006, the report does not include Venezuela as a part of either group, pending the completion of its process of accession to Mercosur.

Figure 2: Indices of primary commodity prices (january 2008 = 100)



Source: IMF Primary Commodity Prices, Commodities Team of the Research Department, International Monetary Fund.

IDB'S NEW INTEGRATION STRATEGY

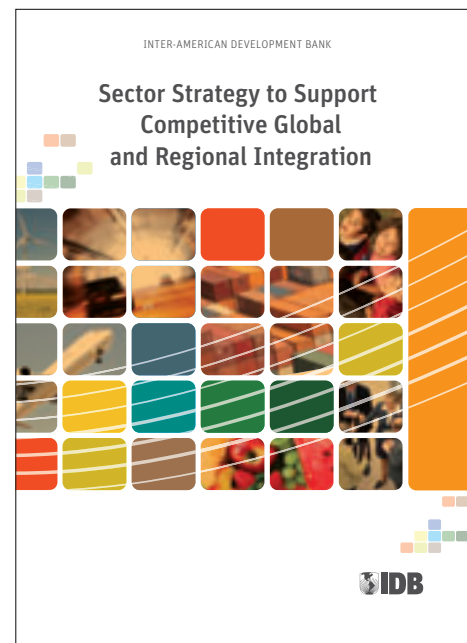
Within the Ninth General Capital Increase (GCI-9), IDB governors identified support for global and regional integration as one of the five priority action areas for IDB. Furthermore, it was determined that 15 percent of the IDB's total portfolio would be assigned to integration projects. As a result, INT was determined to prepare the corresponding new sectorial strategy.

The new strategy recognizes structural changes adopted in the region in the last decade, mainly associated with world economy structural mutations in which new competitors arise, such as China or India. It also recognizes institutional architecture changes that support integration, the need for taking part in factors that influence the private sector to use international markets, and the need for promoting socially and environmentally sustainable integration.

The strategy suggests interventions coordinated in three pillars:

- > **Software or regulatory** and policy integration frameworks;
- > **Hardware or the necessary** infrastructure to promote connectivity of markets and territories; and
- > **Regional Public Goods** or functional cooperation between public and private stakeholders, which is necessary for maintaining collective action.

In addition, the strategy has been generated within an engagement process framework; validated through presentational public consultation, which included 17 countries in the LAC region, and other countries from Europe and Asia; and validated through meetings with multilateral development institution representatives, experts, academicians, and private-sector and civil-society organizations.







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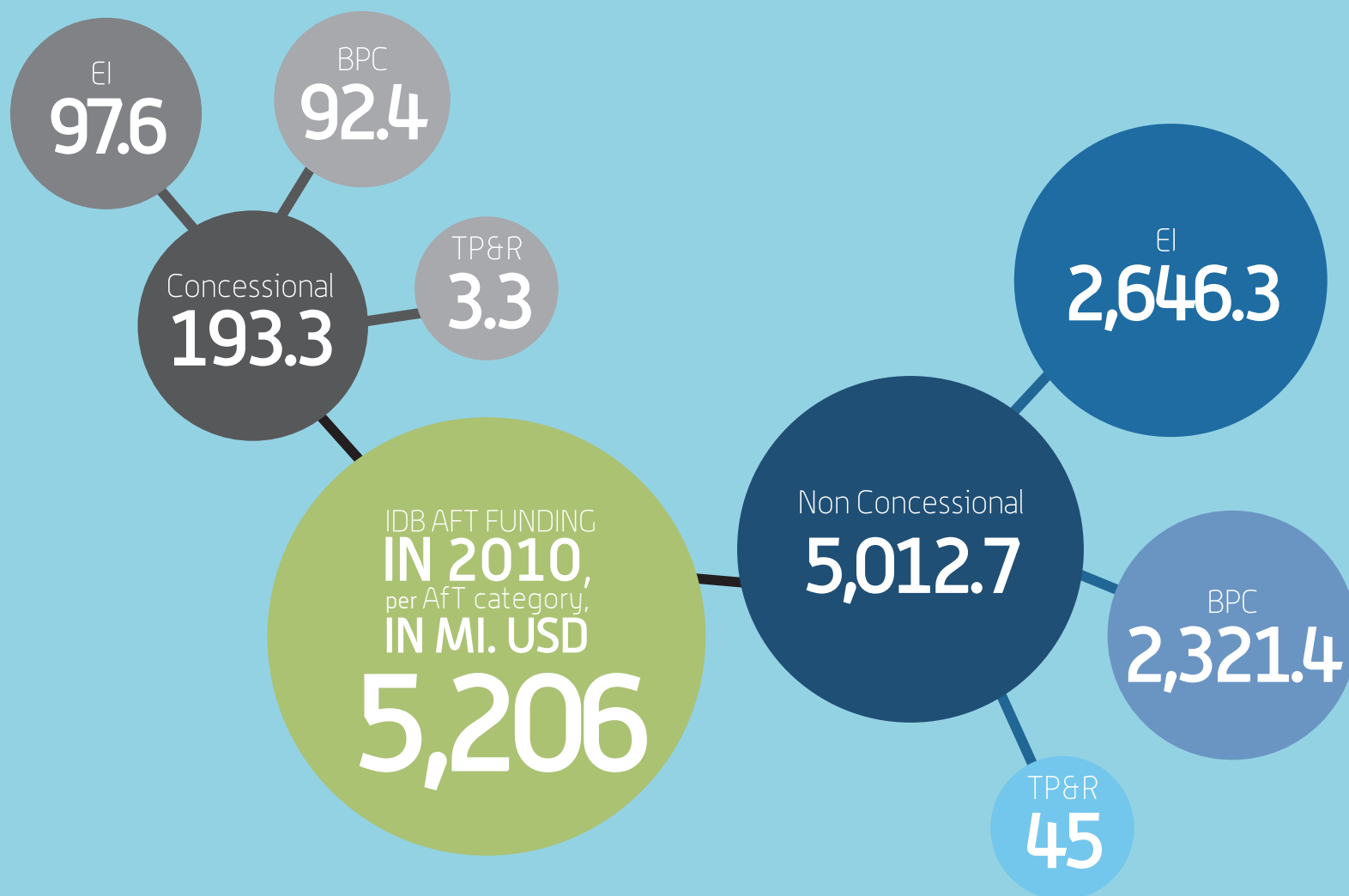
WHAT
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SUPPORTED

AID-FOR-TRADE INITIATIVE

The Aid-for-Trade (Aft) Initiative aims to help countries integrate into the global economy and benefit from liberalized trade and increased market access by channeling resources to enhance trade-related capacities and overcome supply-side constraints. In 2010, the IDB continued its active support for the implementation of the Aft Initiative. As the main institutional counterpart for the World Trade Organization (WTO) in LAC, the IDB also coordinates monitoring and evaluation of Aft activities with the Organisation for Economic Co-operation and Development (OECD).

The IDB has extensive experience in helping countries overcome supply-side constraints that inhibit adequate participation in the global economy and weaken capacity to take advantage of market-access opportunities. Now, under the Aft Initiative, there is added impetus to link this assistance more effectively with the countries' trade and development agendas, as well as to address assistance through a coordinated approach with public, private, and international stakeholders.

AFT FUNDING BY TYPE AND CATEGORY



ACRONYMS

EI : ECONOMIC INFRASTRUCTURE

BPC: BUILDING PRODUCTIVE CAPACITY

TP&R: TRADE POLICY AND REGULATIONS

THE AFT FUND AND STRATEGY

Despite successful trade reforms, performance of LAC countries according to different global indicators remains poor. LAC countries' progress remains unsatisfactory because, among other factors, they lack the institutional capacity to implement and take advantage of trade agreements and policy reforms. Furthermore, they face significant challenges in the form of international sanitary and quality standards; have high transportation costs; lack adequate trade-related infrastructure; and lag behind other regions of the world in information technology, customs efficiency, transparency and logistics.

For LAC countries, it is imperative to address these constraints to get full benefit from trade liberalization, promote economic growth, and contribute to poverty alleviation. For example, LAC countries have negotiated complex trade agreements, yet they struggle with implementing their obligations and often do not fully take advantage of market-access opportunities of agreements. As another example, research shows that a reduction in transport costs, better port efficiency, and streamlined trade procedures may have a greater positive impact on exports and imports than trade liberalization.

Likewise, addressing issues such as sanitary standards, product traceability, and logistics management is pivotal for improving export performance in LAC. Tackling challenges in these areas would not only ensure the region's ability to access foreign markets, but also to gain competitiveness and enhance the value of agricultural exports. Based on agriculture's economic relevance for the region, particularly as a significant source of income in rural areas, addressing these issues would also improve socioeconomic indicators.

In light of the above, there has been increasing demand from LAC countries for non-reimbursable resources and technical assistance in areas such as implementing free trade agreements, trade facilitation, and standards. In this context, the IDB's Aid-for-Trade Strategic Thematic Fund was created in 2009 as a multi-donor instrument, further anchoring the Bank as the main partner in LAC to promote implementation of the Aft initiative. The Fund became operational in 2010 and is financed by contributions from Canada, Switzerland, and the United Kingdom.

As agreed with current donors, the Fund will support activities falling within three thematic priority areas and two cross cutting issues:

- Trade policy, including negotiation, and implementation of trade agreements.
- Customs modernization and trade facilitation.
- Technical standards including sanitary and phytosanitary measures.

CROSS-CUTTING ISSUES
GENDER & ENVIRONMENT.

Moreover, within the framework of the IDB's GCI-9, the Fund is well-aligned to promote the Bank's Competitive Global and Regional Integration Strategy and will contribute to its implementation. The Fund's operational mandate also gains similar momentum from the IDB's new Strategy and Operational Policy on Gender Equality in Development, and the Integrated Strategy for Climate Change Adaptation and Mitigation, and Sustainable and Renewable Energy.

Aimed at targeting existing demand and having a measurable impact on trade, Fund resources will be targeted towards improving performance and increasing efficiency in matters related to trade policy facilitation and agriculture standards as a way to increase market access, advance economic growth, and contribute to poverty alleviation.

The Fund will focus on achieving these results in an inclusive and sustainable way. Therefore, specific resources of the Fund will be allocated to promoting gender and environment mainstreaming within all activities of the Fund. The IDB will ensure that Fund resources target demand and have a measurable impact on trade flows. To this end, the Bank will:

- > Promote and enhance internal coordination to mobilize multi-sectorial expertise across different stakeholders (government, non-governmental, and private sector);
 - > Strengthen coordination and partnerships with multilateral and regional organizations and donor agencies;
 - > Promote flexibility to work with beneficiaries in both the public and private sectors;
- and
- > Work at the national and regional levels, including assistance through regional economic organizations when appropriate.



CROSS-CUTTING ISSUES IN AFT

THE TRADE AND GENDER INITIATIVE

The Trade and Gender Initiative's main goal is to contribute to mainstreaming gender in the IDB's trade-related operations. Its efforts follow the path set by the IDB's gender institutional policy, and are enhanced by the Bank's commitment to promote gender issues with donors and in the Aft Fund. For this purpose, a workshop was held in July to obtain a set of guidelines that would ensure: a) a significant number of initiatives financed by the Fund include a gender-sensitive approach; and b) the Bank is able to analyze and evaluate the quality of the proposals, promote their implementation, and measure results in the trade and gender area.

In addition, the IDB created a Community of Practice as one of the tools for pursuing objectives and to: (1) promote the inclusion of a gender focus among relevant stakeholders in the region; (2) disseminate guidelines and tools to designers/implementers of Aft activities; and (3) offer incentives to actors to facilitate the inclusion and follow-up of gender results in trade-related activities. Aiming to increase the impact of its trade and gender initiatives, the IDB is also pursuing partnerships with public- and private-sectors organizations, as well as with civil society. The goal is to create strategic alliances that will further gender equality by integrating gender awareness in national, regional, and global value chains and by promoting women entrepreneurship and empowerment.

TRADE AND CLIMATE CHANGE

The IDB has been working on the link between international trade and climate change, seeking to bring momentum to this agenda and to create synergies with the Bank's Regional Integration and Climate Change Strategies. In 2010, INT jumpstarted the discussion on the issue through a study and a workshop in November, in collaboration with the Energy and Climate Change Unit of the Infrastructure and Environment Sector. The goal was to contribute to the debate on key issues when analyzing measures related to climate change and their effects and links to international trade.

Going forward, the IDB will continue contributing to and facilitating this dialogue, and will aim to integrate these issues into a regional policy coordination agenda. To this end, the Bank will organize a conference in the fall of 2011 as a way to bring LAC countries closer to this discussion. The event will feature renowned specialists in the field, ministers and vice-ministers of trade from across the LAC region, and senior representatives from key exporting industries.



AFT STRATEGIES IN THE CARIBBEAN

In 2010, with financial contribution from the Department for International Development, INT supported the drafting of the following AFT strategies in the Caribbean:

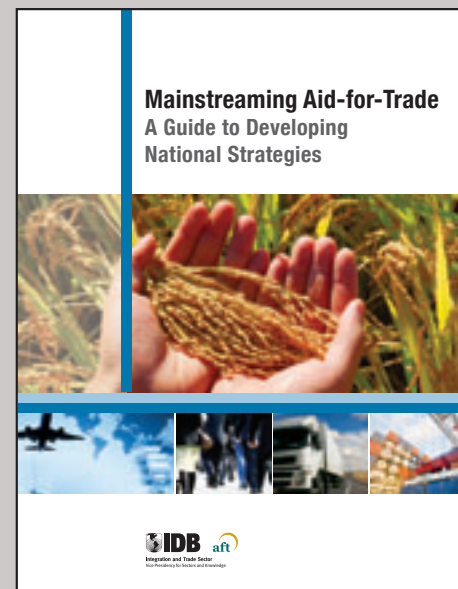
> **BELIZE:** Strategic priority areas include trade facilitation, logistics, and transport; sanitary and phytosanitary standards (SPS) and technical standards; implementation of trade agreements; and private-sector competitiveness. The country held a validation dialogue for its strategy in January 2011, attracting more than 100 attendees.

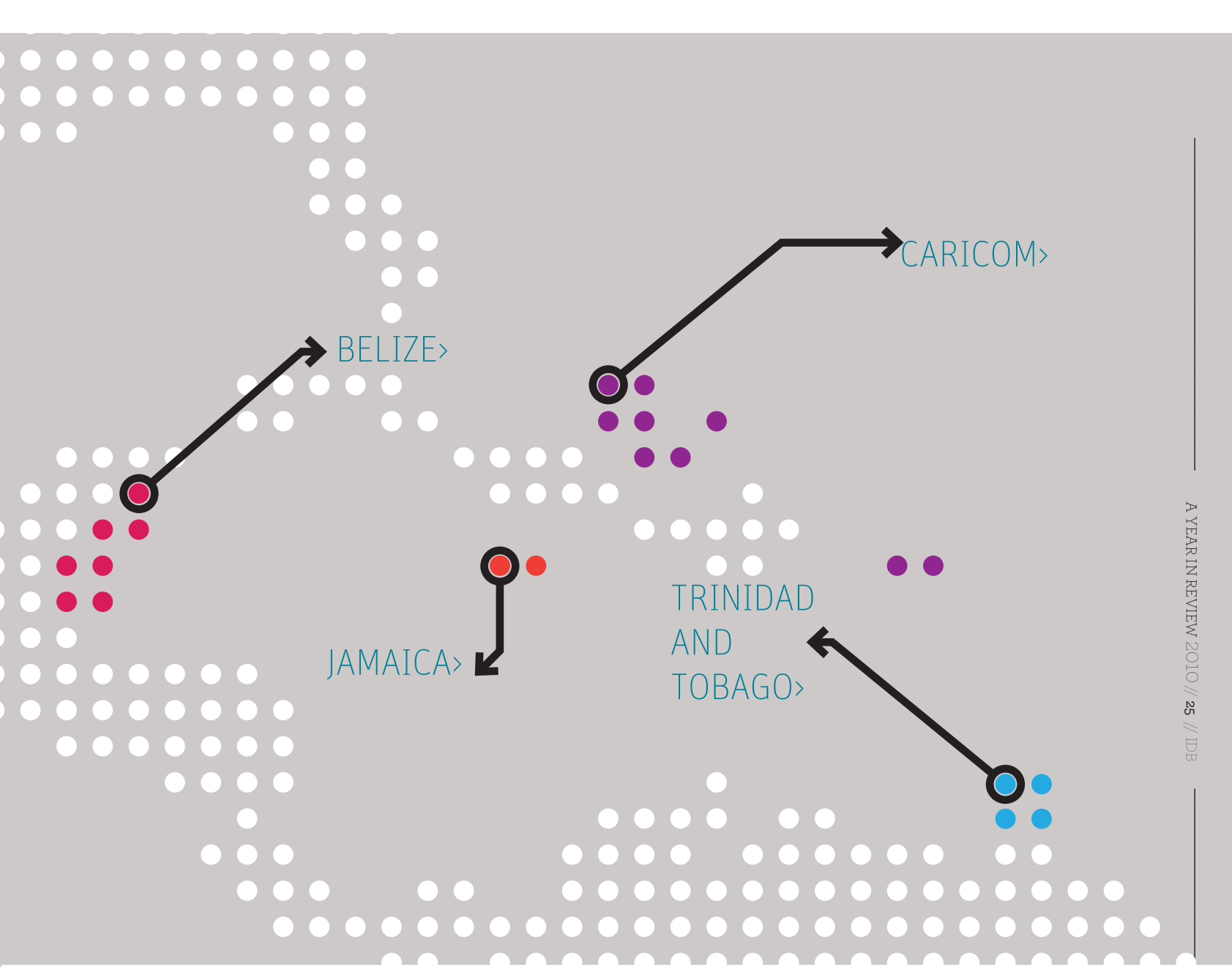
> **JAMAICA:** The country is currently working on the first draft of its strategy, and consultations have been held with approximately 90 individuals from 42 ministries, agencies, departments, and organizations.

> **TRINIDAD AND TOBAGO:** The country is in the early stages of its strategy and will work closely with the IDB in the following months to commence the strategy.

> **CARICOM:** The Bank is currently supporting Caribbean Community (CARICOM) member countries in the development of a regional strategy. The following priorities have been identified: Maritime transport; information and communication technologies (ICT); freight logistics and trade facilitation; SPS and technical standards; trade in services; implementation of trade agreements; and an infrastructure fund. Intensive intersectorial coordination within the IDB is under way to support CARICOM members in their efforts to have a regional strategy.

Maximizing results from donor resources in the Caribbean requires effective coordination between the AFT operations and the Compete Caribbean program, a US\$32.5 million regional program seeking to improve competitiveness and boost private-sector development. Collaboration and coordination is occurring on several fronts—participation on respective project teams, sharing information on activities and programming, and peer reviewing for strategies. Leveraging the resources destined for both private-sector development and public-policy strengthening will ensure a comprehensive approach to reform and economic growth in the Caribbean.





MAINSTREAMING TRADE

At the WTO level, there is a commitment to incorporate Aft within the trade policy review process to enhance efforts on mainstreaming trade. As such, and as part of the IDB's efforts to support mainstreaming trade within national and regional development agendas, INT developed the *Guide to Developing National Aid-for-*

Trade Strategies. The guide is designed to support countries with mainstreaming efforts by facilitating, improving, and promoting coordination among public entities, whether between the trade and finance ministries or between the government and the private sector. The guide also supports countries by identifying priorities, designing a monitoring and evaluation mechanism, and initiating a

dialogue with donors and investors to propose ways in which government or donor support can match these priorities. The strategies are designed to serve as an input to the country's WTO trade policy review, which provides a consistent and comparable monitoring mechanism for trade-related assistance.

REGIONAL PUBLIC GOODS

DISSEMINATION OF THE INITIATIVE AND GOOD PRACTICES

The Regional Public Goods Program (RPG Program) was created in 2004 to assist LAC countries in dealing more effectively with the neighborhood effects of transnational issues (financial crises, infectious diseases, migration of people, etc.), or in dealing with situations where regional collective action adds value to national interventions. The underlying hypothesis of the RPG Program is that, through cooperation, LAC countries can make greater development gains than they would on their own, and do so at a lower cost.

However, cooperation and integration do not happen on their own. Countries need incentives to overcome coordination failures and cooperate. Incentives are especially important at the initial stages of cooperation, when the benefits of joining together are often not clear and the perception of disincentives (including costs) can outweigh potential gains. Since 2004, the RPG Program has provided incentives for regional cooperation, facilitating consensus-building and supplying technical input for intergovernmental coordination and decision-making.

The IDB, through the RPG Program, supports LAC countries at the outset of their cooperation efforts to produce regional public goods. It also accompanies LAC countries until the process managed by INT gains traction and there is a reasonable expectation that the public goods become sustainable beyond the program's support.

Demand for the program has been high. As the result of seven calls for proposals (between 2004 and 2010), the IDB has received a total of 323 proposals for approximately US\$393 million in requested financing. As the Bank reaches the implementation stage of its integration strategy, the RPG Program will play a crucial role in the new instrument agreement, which will allow the Bank to finance interventions along the software-hardware continuum of regional cooperation and integration.

Currently, the RPG Program is under evaluation by the independent Office of Evaluation and Oversight, and INT is incorporating the IDB's board recommendations in parallel to enhance the program. As a result of these processes, the program is expected to focus on supporting cooperation initiatives that are aligned with the GCI-9 mandate and the integration strategy's priority areas. In addition, the program is expected to have a clear potential to generate national and/or regional policy reforms and investment plans, which can be subsequently scaled up with the IDB's lending operations. As well, the program is expected to have a larger scale to allow concentration of scarce resources in a reduced number of projects with high development impact.

Since its inception, the RPG Program has financed 73 projects, investing a total of US\$56.7 million in generating regional public goods, often in new, untested areas of intergovernmental cooperation.

The program has resulted in supporting the production of highly regional public goods. In this year's annual review, the IDB highlights two public goods that have already produced significant positive changes in people's lives in the region: the Single-Based Social Security System and the Central American Protocol for Drug Procurement and Quality Control.

SINGLE BASED SOCIAL SECURITY SYSTEM

In 1997, the member countries Mercosur signed the Multilateral Agreement on Social Security, which aims to promote the coordination of their respective social security policies. In 2005, the approval and execution of the Single-Based Social Security System (BUSS) paved the way for the creation of a mechanism to share and jointly manage information on migrant workers' social security contributions within Mercosur. The BUSS is based on a common normative framework and common technical standards that allow nationals from the four Mercosur countries to accumulate social security benefits independently of where they work in the subregion.

CENTRAL AMERICAN PROTOCOL FOR DRUG PROCUREMENT AND QUALITY CONTROL

One of the current challenges in Central American countries is finding ways to improve access to essential public health supplies, specifically access to quality drugs. In this context, the IDB approved in 2007 the Central American Protocol for Drug Procurement and Quality Control. The objective of this project is to provide the Central American region with rules, procedures, and standards for drug-quality control that allow for the joint procurement of drugs at a lower cost. According to the Executive Secretariat of the Central American Council of Health Ministers, in August 2010, the countries of Central America and the Dominican Republic had negotiated jointly the procurement of 17 drugs, representing savings of more than US\$23 million.

In 2010, the RPG Program entered a new phase under the GCI-9. During the year, the program reviewed its six years of operations and focused on three key activities³: 1) appraising its early stage to identify lessons learned and systematize its value added to integration and development; 2) gaining exposure for some of its advantages and benefits before a broader audience; and 3) advancing "software integration" throughout the region in more than 10 functional areas, to reach a portfolio of more than 70 operations.

³ According to OECD/DAC recommendations for Global and Regional Programs and Projects, the nature of the challenges and therefore the priorities and plans of action change for the second phase of evolution, the maturity phase. GRPP are expected to enter this phase after their fifth year, which for the RPG Program was 2010-2011.

CONSOLIDATING LESSONS LEARNED TO CONTINUE GROWING

The RPG Program started its most ambitious effort to identify its lessons learned and to systematize its model for value added. As a first step, the program underwent an external evaluation, and it developed internal capacities to monitor and evaluate regional public goods. The external evaluation's findings concluded that the program had followed the OECD's Development Assistance Committee recommendations and had achieved high scores, in particular on the relevance and governance of its projects. The external evaluation also found that the key elements of the RPG Program's technology—demand driven, ownership, and collective action—made the technology an adequate instrument to achieve OECD key components of success.

Looking forward, the program has embarked on a systematic approach to monitoring and evaluation. This approach will take advantage of the end of the proof-of-concept lessons and will focus on the findings of operational performance, the impact of regional public goods projects, and the program overall. The RPG Program is preserving its fundamentals while adapting to the new GCI-9 mandates.

EXPOSURE OF THE RPG PROGRAM AT INTERNATIONAL FORA

A stream of preliminary gains in regional public goods projects propelled the RPG Program and its technology to the international fora. The program was identified as a solid example of South-South Cooperation (SSC) in action throughout Latin America and the Caribbean. At the High Level Event on South-South Cooperation held within the OCDE/DAC framework and hosted by the Government of Colombia, the RPG Program acted as co-chair of the roundtable Sub-regional, Regional and Inter-regional Perspectives on SSC and CD, and participated in the Promotion of Water Management as a Regional Public Good in the Upper Lempa River Basin in the Trifinio Region project.

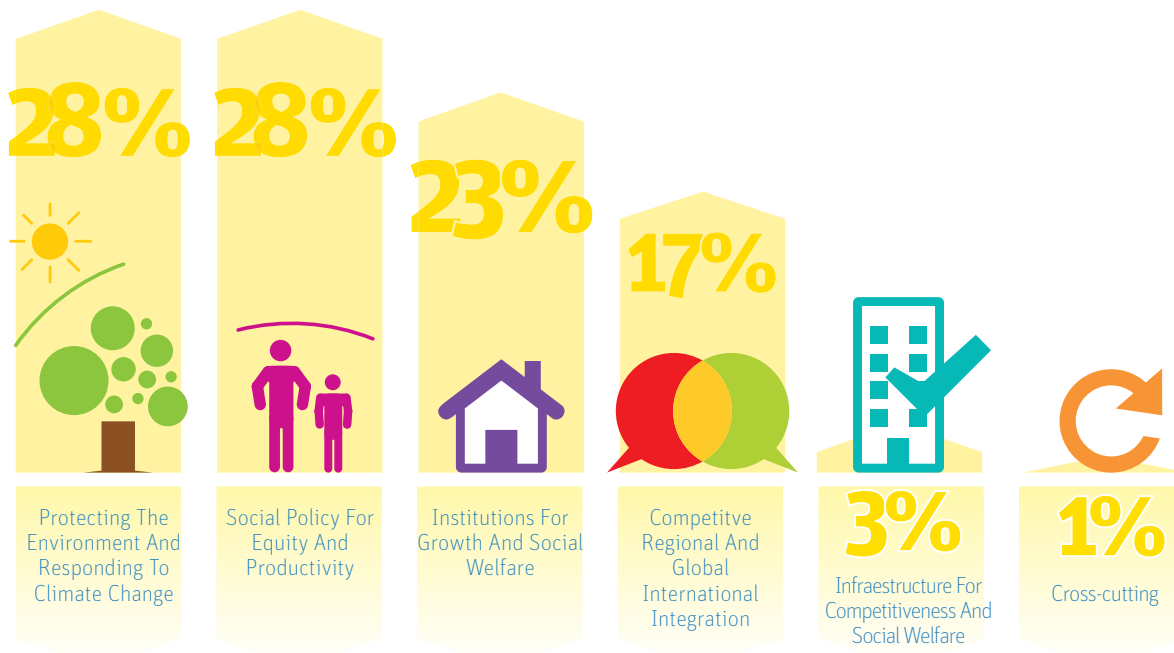
The RPG Program was also identified as a capacity-building model at the "Capacity is Development" global event organized by the United Nations Development Programme, and hosted by the Government of Morocco. Two projects were presented at this event as examples of transnational capacity development: Standardized Regional System of Indicators for Citizen Security and Violence Prevention, and Regional Cooperation System on Industrial Property.

The publication *South-South Cooperation and Capacity Development in Action: Regional Public Entrepreneurship in Latin America and the Caribbean*, which showcased case studies of five regional public good projects as South-South interventions, was presented at both events.

ADVANCING THE INTEGRATION SOFTWARE

During 2010, the RPG Program consolidated a portfolio of more than 70 operations that advance the integration software. There were 13 new operations approved, which addressed biodiversity, forestry, carbon emissions, and climate change on the one hand, and integration of banking regulations and stock exchange regulations on the other. They also covered key areas such as epidemiology and health, social security, trade of services, and investor-state conflict resolution.

RPG PORTFOLIO BY GCI-9 PRIORITY



INTEGRATION INITIATIVES

CAFTA - DOMINICAN REPUBLIC

The IDB continued its support of CAFTA-DR countries and hosted the CAFTA-DR Trade Capacity-Building Committee meeting in October 2010. Participants examined trade flows and preference usage trends in the region, as well as ways to maximize CAFTA-DR countries' expanded trade opportunities. On November 18, 2010, the Bank also facilitated and hosted a preparatory meeting of the first CAFTA-DR Free Trade Commission, which was held in Washington, D.C. This meeting also witnessed the launch of the CAFTA-DR Trade Facilitation Initiative, which set out an ambitious agenda for 2011.

PATHWAYS TO PROSPERITY IN THE AMERICAS

Launched in 2008, this initiative links Western Hemisphere countries committed to democracy and open markets, and promotes the exchange of best practices for spreading the benefits of economic growth broadly to all citizens. The IDB was a key partner for the government of Costa Rica in conducting the third Pathways to Prosperity Ministerial meeting in San Jose. With the Bank's sponsorship, stakeholder meetings were held, where international experts offered their perspectives on the challenges and opportunities facing small and medium-sized enterprises (SMEs) as they strive to link to global value chains.

In collaboration with the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) and the Organization of American States (OAS), the IDB has made in-kind contributions in the form of expert advice to the chairmanships and the preparation of analytical documents. Likewise, the Bank has financed the development of the Pathways to Prosperity website, which has been an essential tool for reaching out to stakeholders and communicating the initiative's objectives and achievements.

The IDB has also sponsored individual country efforts under the initiative, such as September's regional workshop on environmental cooperation in Peru, where countries developed a regional agenda for cooperation on biodiversity conservation. In addition, in November the Bank supported the organization of an international workshop for women entrepreneurs in the Americas, also in Peru, which sought to endow women entrepreneurs with knowledge and tools to strengthen their commitment to change in their communities.



THE PACIFIC ARCH FORUM

The Pacific Arch Forum (Arco del Pacífico) is a high-level coordination forum for the identification and implementation of joint ventures aimed at the generation of synergies among member countries in trade and economic matters. Bearing in mind the group's interest in strengthening its relations with Asia Pacific economies, the IDB, through INT, continued providing technical assistance to the forum's members. Per member states' requests, INT prepared different reports on double-taxation accords, convergence of tariffs and rules of origin, promotion and reciprocal assistance on investment protection agreements, and trade in services. Support was ongoing for the implementation of electronic digital certification and one-stop shops in member states. In addition, the new website for the initiative was unveiled at the October 15th Ministerial meeting in Urubamba, Peru. Furthermore, INT and ECLAC prepared an analysis of the group's possible trade integration avenues with the Asia Pacific region.

THE PACIFIC ALLIANCE

This emerging integration initiative began to take shape in late 2010. Created by Chile, Colombia, Mexico, and Peru, the Pacific Alliance seeks to launch an area of deep integration in the context of the Pacific Arch Forum (Arco del Pacífico) to encourage regional integration and greater growth; to support development and competitiveness of the participant countries' economies; and to progressively move towards the goal of achieving free movement of goods, services, capital, and people.

The Pacific Alliance's priorities are in the following areas: 1) movement of businessmen and facilitation of migratory flow, including police cooperation; 2) trade and integration, including trade facilitation and customs cooperation; 3) services and capital, including the possibility to incorporate stock exchanges; and 4) cooperation and dispute-settlement mechanisms.

The IDB provides support in the form of consultation services on trade and integration, including trade facilitation, and customs and stock exchange integration. The Bank, through the INT and the Capital Markets and Financial Institutions Division, expects to continue supporting this initiative in both areas.



ASIA & LAC

In the last decade, there has been a major shift in LAC trade to Asia, whose share of total flows doubled to 20 percent. This increasing integration with Asia has made an important contribution to the region's robust growth over the last five years and, given the strong complementarities between the two economies and their strong growth fundamentals, there is certainly more benefit to come from this relationship in upcoming years. Since an important part of the region's strategic interests is moving east and following IDB President Luis Alberto Moreno's leadership in this regard, INT has put together a number of research operational, and cooperation initiatives to better understand, consolidate, and expand LAC's relationship with Asia.

CHINA

The IDB and the People's Bank of China have a long-lasting cooperation that resulted in China's membership to the IDB, which has generated numerous cooperation initiatives that have benefited both China and LAC countries. This cooperation is currently serving as a platform to increase bilateral understanding, as well as to strengthen China-LAC cooperation in finance, trade, investment, and development policies in general. China joined the IDB as the 48th member country in January 2009, holding 0.004 percent of its capital. In addition, China's overall special contribution to the IDB of US\$350 million and the country's membership are of strategic importance for the IDB.

This project will contribute to closing the existing knowledge and dissemination gaps, which exist due to geographical distance, language barriers, and scant historical context, among public and some private institutions in China and LAC. The global integration process under way requires a deeper and broader knowledge of China by LAC countries to fully benefit from the project. LAC country organizations need a deeper understanding of transpacific integration. The exchanges, scholarships, and technical cooperation funded by this will select joint projects that generate measurable results, such as joint cooperation initiatives by public- and private-sector organizations, directly related to trade; investment and integration in general; joint working papers and enhanced knowledge of sharing capabilities of public- and private-sector organizations, through training programs on specialized development topics; joint academic research and teaching; and professional seminars and conferences on topics of broader interests for LAC countries.

The goal of this project is to build the capacity of public and private institutions in the region to promote and deepen economic relations between LAC countries and China. Specifically, it aims to increase knowledge of China by LAC public -and private- sector organizations through exchanges, scholarships, and technical cooperation on issues such as trade, investment, and economic integration and economic development in general.

KOREA

The proposed project aims to close existing knowledge and dissemination gaps caused by geographical distance, language and business culture barriers, and scant historical contact between LAC and Korean institutions. It will serve as the first phase of a potentially continuous capacity-building programs. In addition, the proposed technical cooperation will focus on basic procedures involved in international trade, identifying alternative approaches between Asia Pacific and LAC, as well as information technology developments, according to identified needs. Therefore, the project aims to facilitate operational activities pertaining to import and export of goods, including policies and support systems, and draw lessons from Korea's Uni-Pass system, as appropriate.

The main goal of this project is to bring together government and public sector, private sector, and academia. Second, it will identify and address opportunities to facilitate basic international trade operations in LAC countries, drawing on the Korean experience and focusing on preferential and non-preferential transpacific trade.

In 2010, the government of Korea contributed to INT work, through the approval of technical cooperation focused on trade facilitation and with an emphasis on rules of origin. This cooperation included Korean good practice studies, as well as the development of computing tools for electronic certification of origin and tools for convergence scheme analysis in rules of origin matters. These tools are being applied in bilateral trade in several of the region's countries, and they are supporting convergence negotiations that are in process.

JAPAN

Since 1991, the Japan-IDB Scholarship Program (JSP) has helped human capital development needs in the LAC region by sponsoring more than 669 participants from IDB member countries. These participants studied post-graduate programs at top-ranked academic institutions, with majors such as economics, business administration, public administration and policy planning, education, and health administration, among others. Scholarships were awarded every year through a highly competitive selection process on the basis of merit, and recipients agreed to return to their home countries after graduation to promote economic and social development.

By participating in the JSP, participants became better acquainted with Japanese development experiences, institutions, and organizations, and they transferred their knowledge to their home countries in key strategic areas, which resulted in strengthened institutional cooperation between LAC and Japan.



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ATTRACTING INVESTMENT IN HAITI

In October 2009, the Bank, through INT, organized the largest investment forum in Haiti's history, jointly with the United Nations Special Envoy for Haiti, former US President Bill Clinton. Nearly 700 people from 450 companies and Haiti's top government officials engaged in a rich debate on investment opportunities in the country. Although the devastating earthquake of January 2010 came less than two months after the forum, the seed had already been planted. Many of the companies currently operating were introduced to doing business at the forum. After the earthquake, the IDB immediately started supporting the construction of a transformational industrial park in the country's northern region, whose anchor tenants were among the forum participants.

The Northern Industrial Park is one of the most promising projects under development in Haiti. It is expected to create up to 40,000 jobs and have a positive economic impact on about a quarter of a million people. It is being developed in partnership with the US Department of State and the European Union.

The work carried out by INT, in collaboration with the IDB's Haiti Department, has been critical to this effort. The Bank is financing viability, location, and environmental impact studies. It is also collaborating on the design of the Northern Industrial Park's legal and managerial structure, and together with the Trade, Aid and Security Coalition, a forum was conducted with first-class companies from the garment industry to promote the park. In addition, in May 2010, a private-sector consultation meeting was organized in Port-au-Prince, from which first-hand knowledge was gained of Haiti's dire need to improve its business climate.

In response, last September a program was launched to streamline two processes that were identified as vital to this end: registration of business entities and application for construction permits. The reform of the business registration process seeks to make it easier, faster, and cheaper to start a company in Haiti, by eliminating unnecessary or duplicate steps, incorporating modern network technologies, and standardizing processes and documents. This reform is being carried out with Haiti's Investment Facilitation Commission, and is expected to shorten the existing process from approximately 180 days to 10.

The second reform seeks to streamline the process required to obtain construction permits by delegating a part of its administration to private entities. It also seeks to promote safer housing techniques and increase the country's tax basis. This reform is being performed with Haiti's Presidential Commission on Competitiveness, and is expected to shorten the existing process from 1,100 days to approximately 60.

Finally, exports are being promoted in one of Haiti's most valuable treasures: its art. Using cloud-computing technology and open-source software, an electronic commerce platform is being set up to allow Haitian artisans to create online catalogs and commercialize them on a global scale. An escrow organization is also being established, which will be in charge of handling payments and shipments. Furthermore, international experts were hired to design the marketing campaign.

There are good reasons to be optimistic about the future of Haiti, and the IDB is proud to support Haitians in leading these vital projects for their country's sustainable recovery.

On January 11, 2011, Haitian government authorities, the US State Department, the IDB, and the Korean textile manufacturer Sae-A Trading Co. Ltd. will sign a framework agreement to support the construction of the Northern Industrial Park, by virtue of which Sae-A plans to make an investment of US\$78 million in equipment, and train and employ as many as 20,000 workers over time, thus becoming the largest private-sector employer in Haiti.

FOSTERING OFFSHORING AND SERVICES GLOBALIZATION

INT has been working with the consulting firm Tholons for the last two years in designing national strategies for promoting service exports in Argentina, Colombia, Chile, Brazil, Paraguay, Uruguay, and soon in Ecuador and Peru. These national strategies are part of a program that INT is developing to support the Latin American region in becoming a destination of choice in the global offshoring industry. The strategies focus on business climate, human capital development, and the promotion of targeted investment, aimed at creating investment opportunities and high-value-added jobs in the services sector for LAC countries.

Through the Strategic Study on Service Export Opportunities for LAC, a joint action with the Center on Globalization, Governance & Competitiveness at Duke University, the IDB seeks to identify the main trends in trade services that can be used to enhance LAC's role as a services hub for developed countries, as the sector continues to evolve.

In April 2011, the Bank and Tholons will organize the first LAC Outsourcing Summit in Montevideo, Uruguay, to promote the LAC region as a destination of choice for outsourcing services.



SUPPORT PROGRAM FOR FOREIGN TRADE

Guatemala has acquired a central leading role in the Central American integration process and in the region's insertion into international markets. Trade openings bring important development and economic growth opportunities to Guatemala, for which the government may have a key role as a business facilitator and promoter. It is considered necessary for Guatemala to complement new markets' opening efforts with specific actions, which allow the private sector, and SMEs (Small and Medium Enterprises) in particular, to use new trade opportunities effectively.

The Trade and Integration Support Program in Guatemala, funded by the IDB, is aimed at contributing to the use of trade opportunities for Guatemalans, through strengthening management capacity for foreign trade and through promoting exports, investment attraction, and business encouragement.

The continuity of actions related to trade promotion is key to facilitating the opportunities created by agreements signed by the country. Although positive impacts have already been confirmed, interventions are still isolated, which reduces the potential impact.

TEM LAB: GUATEMALA – IDB – MINECO

Within Component 4 of the IDB loan approved for Guatemala, INT entered into a strategic alliance with Thunderbird International Business School, from the United States.

The team—called TEM Lab: Guatemala - IDB - MINECO (Guatemalan Ministry of Economy), and supported by five students from Thunderbird International Business School—worked for several weeks on developing a general training program for SMEs and other business entities, in matters related to export strategies, market intelligence, e-marketing, leadership, and financial management.

Furthermore, the Thunderbird team supported the MINECO in strengthening the export-management of micro, small, and medium-sized enterprises, and in structuring training workshops to be reproduced in the future.

The four components of the program:

> **Component 1:** Strengthening of management capacity in trade agreements and negotiations (US\$3.5 million).

> **Component 2:** Strengthening of technical capacity for promoting exports (US\$5 million).

> **Component 3:** Strengthening of technical capacity for attracting investments (US\$2.4 million).

> **Component 4:** Starting a SME internationalization plan (US\$6.3 million from IDB; US\$4.5 million from private contribution).



MINECO BELIEVES

“Thunderbird students’ engagement has been truly valuable for business institutions of Guatemala. Different sectorial chambers and associations that train micro, small and medium-sized enterprises have benefited from the transfer of knowledge and learning methodologies.

This exercise with academicians has resulted in concrete products which may be further reproduced with the remaining enterprises.”

Gloria Zarazúa
Executive Director of MINECO
MSMEs National Program.



AUTHORIZED ECONOMIC OPERATOR

THE AUTHORIZED ECONOMIC OPERATOR STANDPOINT

- > Contributing to the increasing competitiveness of the region's private sector;
- > Favoring relations between public and private sectors, by improving safety and promoting trade facilitation;
- > Promoting modernization of customs institutions by introducing better practices and international standards, through the creation of innovative management capacity programs; and
- > Encouraging regional and global integration of the region's economies.

Authorized economic operator (AEO) programs are mechanisms for implementing collaboration between customs and the private sector. These programs aim to facilitate trade for economic operators that offer safety and customs compliance guarantees, and to increase the logistics chain safety level. Currently, these two aspects are fundamental for the competitiveness of a business, a country, and a region.

During 2010, and with funding from the General Cooperation Fund of Spain (RG-T1325), the IDB supported efforts by Colombia, Costa Rica, Panama, Peru, Dominican Republic, and Uruguay customs institutions on designing and strengthening their AEO programs. In addition, the Bank has catalyzed synergies from other international organizations, such as the World Customs Organization (WCO) and other organizations in the United States and Spain, to coordinate technical assistance in the region.

AEO programs are aimed at the private sector, and its participation in the design stage is essential. Therefore, in each country, a group of businesses that belong to different links of the logistics chain are participating jointly with customs authorities in pilot projects to design AEO programs. The IDB has engaged in disseminating the AEO program in diverse events and forums organized by public and private entities from the region, as well as from Europe and the United States.

AEO programs are also a regional integration platform. The methodology used by the IDB promotes a constant exchange of good practices among the countries, and reconciliation of their programs.

In 2011, the Bank will continue accompanying and providing technical assistance to customs institutions in developing AEO programs. It will also continue to catalyze synergies from other governments, such as Spain and the United States, and international entities, such as the WCO and other collaborating customs institutions, to go forward with strengthening and conciliating AEO programs, aimed at mutual recognition agreements.

TIM: PROGRESS AND NEXT STEPS

THE INTERNATIONAL TRANSIT OF GOODS (TIM) STAND POINT

- > Promoting trade exchange and competitiveness, by reducing time and operative transport costs spent in border operations;
- > Reinforcing fiscal, parafiscal, and safety control tools based on preliminary and precise information provided by the system; and
- > Supporting integration, cooperation, and free movement of goods, based on a harmonized standardization process in the region.

TIM is an automated procedure for controlling international customs transit of goods, in which all institutions with border-control responsibilities (customs, quarantine, migrations, police, etc.) participate under unique standards that were agreed upon by all participants, as well as joint and standardized actions.

TIM is framed within projects to improve competitiveness and integration of the Mesoamerica Project. Until 2009, jointly with SIECA as an executor, a pilot program was developed between Honduras and El Salvador customs, in the common border of El Amatillo. Given the excellent results in terms of facilitating and reducing transit time by 85% and in terms of operational traceability, the IDB received the President's mandate to extend the procedure to all Mesoamerican countries.

In 2010, through INT, the Bank supported the implementation of the second phase (RG-T1645) with funds from the General Cooperation Fund of Spain. By December, the TIM procedure had been already implemented from Mexico to the Nicaragua-Costa Rica border; it is estimated that the Pacific Corridor implementation to the Colon port in Panama will conclude in the second quarter of 2011.

At the same time, studies have been progressing for TIM implementation in the transoceanic corridors, at the borders surrounding such corridors and in internal borders (free trade zones, terminals, warehouses, etc.).

Finally, preparation for new technical and financial assistance is foreseen for 2011, aimed at expanding the TIM transit system to maritime and air customs transit within the Mesoamerican region.

PERFORMANCE INDICATORS FOR CUSTOMS ADMINISTRATION

In an era marked by globalization, the effectiveness and efficiency of customs operations are relevant and lead to improvement in the levels of commercial exchange and the capacity to attract investors. Today, obtaining and aggregating relevant data in a timely and structured way is critical to establishing successful public policies and creating strategic plans that appropriately balance the interest of the private and public sectors. Thus, the IDB, with financial help from the IDB-CCT Canada Trade Fund, has supported a regional initiative to identify a harmonized collection of management indicators to help evaluate customs performance.

A SYSTEM OF MANAGEMENT INDICATORS FOR CUSTOMS

The system is based on the identification of 48 management indicators for customs institutions, following the best practices and guidelines of the WCO. The characteristics and content of each indicator should be designed in a way that guarantees that all customs operations that use the system are able to measure the indicators using consistent criteria.

The strategic and operational indicators are structured around the five primary functions of customs. The information is maintained in a software application that allows for precise queries (for example by history, area, customs, etc.), providing a graphic representation of the summary of the performance of customs institutions that consolidates and aggregates the observations of all the indicators around the following functions of customs:

- > Has operational control and security;
- > Facilitates commerce and simplifies procedures;
- > Collects customs duties effectively;
- > Uses resources efficiently; and
- > Operates in a transparent and predictable way.

CONSOLIDATED OBSERVATIONS BY STRATEGIC OBJECTIVE



7,33

Strategic Objective 1: To improve the control of inflow and outflow of goods in/from the country in terms of security, and in compliance with regulations currently in force.



7,83

Strategic Objective 2: To facilitate trade by adopting measures to simplify procedures for foreign trade operations, as well as to improve the country's competitiveness.



6,58

Strategic Objective 3: To improve efficiency of customs management to provide resources required by the national budget.



7,44

Strategic Objective 4: To improve efficiency in the use of customs resources.



7,14

Strategic Objective 5: To encourage institutional openness and customs actions predictability.

PORT MODERNIZATION AND TRADE FACILITATION

One of the most remarkable projects of 2010 was the approval of a loan for the modernization of customs at Puerto Cortés (HO-L1055), for a total amount of \$10 million. This project, the first of its kind in the region, will help Honduras improve control and security, while improving and facilitating the inflow and outflow of legitimate goods through Puerto Cortés, the main sea port not only of the country but of all Central America.

The project will reduce the average time of customs clearance from 19 to six hours, due to, among other things, the ability to process anticipated information and the use of latest-generation risk analysis systems, which will limit physical inspections only for those operations that represent some type of risk to the country.

On the other hand, the loan also includes funding for remodeling the customs building at Puerto Cortés; purchasing sophisticated surveillance and security equipment; and training customs officials on risk control, assessment, and analysis, in conformance with WCO recommendations.

With the potential of being reproduced in other ports in the region, the project will help consolidate Puerto Cortés as a competitive, adaptable, and safe logistics center, as well as a reference for the region.

Finally, it is important to note that this project is complemented by two other projects in Honduras which are funded by the IDB: a loan for \$28.6 million (HO-L1015) to improve the country's fiscal system, and a loan for \$225.4 million (HO-L1037) to modernize the port's physical infrastructure.

SECURITY AND CONTROL AT THE BORDER LINE

The Border Security Standpoint

> Establishing measures to fight smuggling and illegal transit of goods, to guarantee security and accelerate legal trade within a sustainable economic development framework, and in close coordination and collaboration with governmental institutions in the region's countries.

The increase in international trade in the last few decades, the reduction of trade barriers, and the promotion of trade have generated a higher risk for tax evasion, fiscal fraud, and unlawful perpetration. In this context, the traditional form of smuggling still represents a constant threat, either associated with tax evasion; illegal transit of goods and banned items; or new areas such as sanitary and phytosanitary measures, endangered species, environment, and copyright, among others. Furthermore, in some countries in the region, national security is specially threatened by drug, illegal arms, and people trafficking.

The fight against arms trafficking, people trafficking, undocumented citizens, and goods smuggling through formal border posts or plain blind spots are a fundamental element in customs responsibility. Recent technical cooperation at the Bank in Mexico's southern border (ME-T1132) and Guatemala's northern border (GU-T1149) during 2010, as well as a previous diagnosis of infrastructure and security needs at border crossings in Guatemala (GU-T1105), have generated specialization and provided INT with work methodologies in this area.

In this complex and unforeseeable framework, it is necessary to take innovative measures that are ahead of, or at least equal to, the techniques used by those who break the law, who are always at the forefront. It is also necessary to take advantage of three key factors: 1) the use of new massive technologies; 2) internal coordination at a national level; and 3) international coordination with institutions from neighboring countries through mutual support (the border is a line that does not divide the problem).

Problems associated with a lack of security are recurrent in the whole region, and their mitigation passes through the regional coordinated strategy and actions to fight the transnational networks of illegal trafficking. Therefore, the IDB has implemented for 2011 the provision of technical assistance and resources to perform diagnostics at border lines and coasts, and to establish recommendations at a national and regional level, which mitigate problems associated with the lack of security that negatively affects the region's economic and social development, and disproportionately affects the region's most vulnerable.

ONGOING PROJECTS FOR DESIGNING AND IMPLEMENTING THE ONE-STOP SHOP

> One-stop shop design in Barbados through the Competitiveness Improvement Program, which includes strengthening the Customs Institutional Capacity (BA-L007 – Competitiveness Program). Barbados’ one-stop shop consists of two components: transactions software and hardware, along with the design of a combined inspection center of all organizations.

> One-stop shop design and pilot project in Peru through the Trade Agreement Implementation and Management support operation (PE-T1220). Peru’s one-stop shop extends the concept beyond capacity to include integrated risk management among all participating agencies.

> Support for implementing a one-stop shop in Uruguay through the Uruguay Customs Modernization Program, to improve efficiency of trade transactions (UR-L1037 – Support Program for the National Customs Head Office). Uruguay’s customs complies with the integrated tariff principle, as well as with the implementation of international standards. The next phase is the validity of the electronic signature to complete the one-stop shop concept.

> Pilot experience developed among Honduras, El Salvador, and Guatemala through TIM in the Mesoamerica Customs and Border Crossing Facilitation Support project (RG-T1645).

NEW PROJECTS APPROVED IN 2010

> Support for designing a one-stop shop in Chile and Colombia’s one-stop shop interoperability (RG-T1982 – Support to the region’s countries for the establishment and interoperability of integrated systems of foreign trade).

> Central America and Dominican Republic: Support for trade facilitation and white paper initiatives in Latin America, which includes the one-stop shop (RG-T1878 – Support to Trade Facilitation Initiatives in Latin America).

> Customs modernization at Puerto Cortés in Honduras, which includes the one-stop shop component (HO-L1055 – Customs Modernization at Puerto Cortés).

> Support to the General Tax Office and the National Customs Office of Nicaragua, which includes the one-stop shop component (NI-T1109 – DGI-DGA Strengthening).

FREE TRADE AGREEMENT IMPLEMENTATION

Through INT, the IDB also launched a considerable analytical effort (final report upcoming) on the experience of various Latin American countries when implementing their free trade agreements (FTAs). Achieving full implementation is fundamental, as the opportunities trade agreements offer will only be palpable if the agreements are fully implemented and administered in an effective and timely way. Effective implementation remains a challenge, however, as many countries lack the institutional capacity to do so, or need to put in place innovative and adequate institutional processes and infrastructure involving several public and private agencies.

The objective of this study is twofold: first, to identify and examine key challenges and problems Latin American countries face in implementing and administering FTAs; and, second, to develop a set of policy recommendations that will better position these countries to take advantage of new trade opportunities resulting from trade liberalization. For this purpose, the study examines the implementation experience in five different countries (Chile, Costa Rica, El Salvador, Mexico, and Peru) in the following issue areas:

- > Customs and trade facilitation;
- > Services and investment;
- > Labor;
- > Environment;
- > Dispute settlement;
- > Intellectual property rights; and
- > US and EU promotion and oversight of Latin American implementation.

INT organized a workshop on April 7 and 8 to unveil the preliminary results of these studies, and to allow regional and topical experts to exchange their views and insights on these findings.

FREE TRADE AGREEMENT IMPLEMENTATION WORKSHOPS

Complementing the development of the aforementioned study and the April workshop, the IDB brought together top trade officials and academics for additional workshops:

- > San José, Costa Rica (July 14): Participants discussed the experiences of Canada, Chile, and Mexico in implementing their trade agreements.
- > Lima, Peru (September 6): Participants analyzed and exchanged views on the implementation experiences of Chile and Costa Rica, aimed at shedding light on possible implementation challenges for Peru.

The workshops also highlighted ways in which the IDB could offer its technical expertise to enhance these countries' abilities to overcome implementation hurdles.



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2010 was a very productive year for the INT research group. Apart from the day-to-day activities of providing support and advice to other areas of the IDB and meeting requests from client countries, INT research published four important contributions to policy debate in the region.

In the flagship report *Odyssey in International Markets*, the impact of export-promotion agencies on the countries' export performance was assessed, an issue that is at the top policy-makers' agendas in the region. In the special report on integration and trade, *India: Latin America's Next Big Thing?*, commissioned IDB President Luis Alberto Moreno, the challenges and opportunities arising from the emergence of another one-billion-plus-person-economy, India, were addressed.

In a chapter contributed to the Bank's flagship report, *The Age of Productivity, entitled "Trade and Productivity: A Route to Reallocation with High Transport Toll,"* INT drew attention to the importance of transport costs as a major obstacle to trade, particularly to trade-related productivity gains.

Finally, to promote the policy debate in the China-LAC Business Summit, held in Chengdu, China, in October 2010, the monograph *Ten Years after the Take-off. Taking Stock of China-Latin America and the Caribbean Economic Relations* was prepared, which reviews the current challenges the region faces in its relationship with China. More details of other publications is given in the following pages.



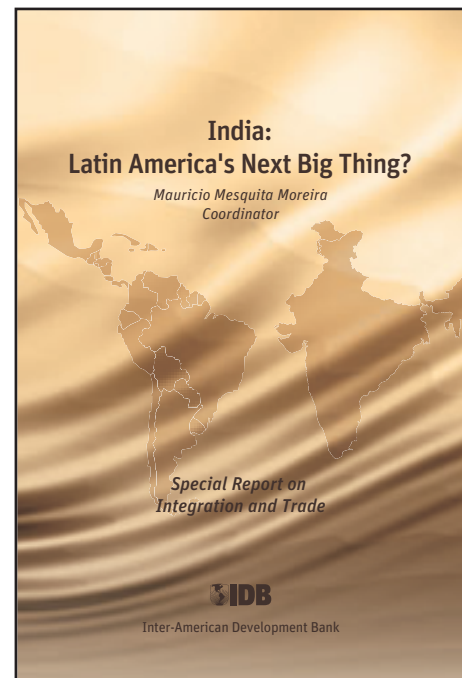
INDIA: LATIN AMERICA'S NEXT BIG THING?

In less than 20 years since the adoption of market-oriented reforms, India has exploded into a regional, and even global, economic powerhouse, growing at between 6.5 percent and 8 percent over the last decade. This surge in growth put India among the ranks of the world's fastest growing economies. What do these changes mean for LAC? What challenges and opportunities do they bring? Can LAC repeat with India the explosive trade it had with China in the last decade?

INT's special report on integration and trade, *India: Latin America's Next Big Thing?*, addresses these questions by focusing on the main channel through which India's emergence is likely to be felt: trade and investment in goods and services. The analysis and findings clearly indicate that the fundamentals exist for a strong trade relationship between the two regions. LAC has the natural resources that India needs to grow and thrive. In addition, it produces and exports food products that could help India offset supply constraints as income per capita increases. As a result, food consumption patterns in India will change.

As was the case with China, this "natural resource pull" should be strong enough to send bilateral trade soaring. Aside from this factor, similarity in demand patterns provides another good reason to trade. The puzzle is then, why has it not yet happened?

The report argues that a simple examination of the trade costs between the two economies offers a quick solution to this puzzle. Tariffs imposed on LAC's exports to India are close to prohibitive, particularly on agricultural products. Tariffs imposed on India's exports to LAC are not as high, but cannot be deemed harmless either. If the hard-to-quantify, but no-less-damaging, non-tariff barriers and transport costs are added to these already formidable obstacles, the answer to why it has not happened yet appears obvious. Despite frequent declarations of commitment to trade and integration, governments on both sides of the relationship have yet to effectively address the most obvious and serious obstacles to bilateral trade.



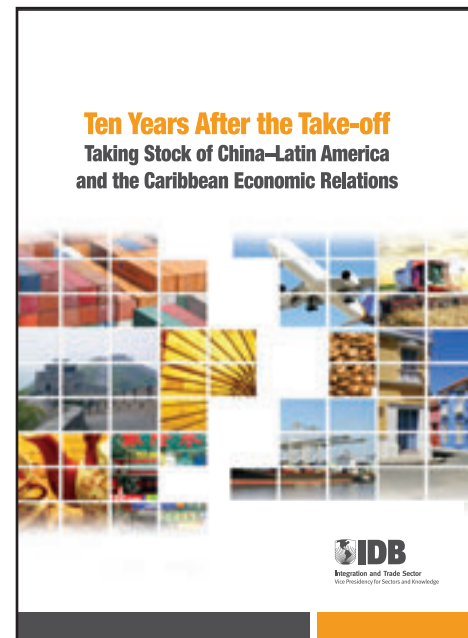
TEN YEARS AFTER THE TAKE-OFF

In the space of 10 years, two economies that barely traded, let alone exchanged investments, have become major trade partners. Between 2000 and 2008, trade between China and LAC grew at a breakneck annual rate of 31 percent, and even during the financial crisis in 2009 the dynamism remained unabated. Even though this performance should be hailed as nothing short of a major achievement, it is by no means a reason for complacency.

If this relationship is to be sustainable and its full potential realized, policy-makers should join forces to address “teething” issues that have developed over the last decade, issues that can potentially derail what has been so far an extremely successful relationship.

The INT monograph *Ten Years after the Take-off. Taking Stock of China-Latin America and the Caribbean Economic Relations* is about the “growing pains” that have been marking China-LAC economic relations in this last decade—the decade in which this relationship virtually came to life—and the need for an agenda to address the causes of these pains so as to expand and consolidate the gains of this remarkable relationship.

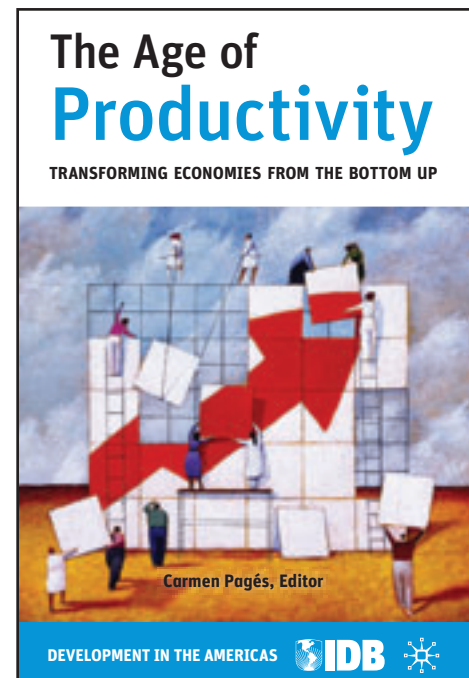
The monograph is divided into four parts, with the first offering a brief overview of China-LAC trade patterns in the previous take-off decade, and the concerns that have emerged about the composition and internal geography of the bilateral trade. The second and third parts address two key components of a policy agenda where the governments’ actions can be effective in ameliorating these concerns: part two takes on trade costs and part three covers investment and cooperation. The last part sums up the main findings and policy recommendations to promote a more sustainable, diversified, and less geographically concentrated economic relationship, which could stand on three strong pillars: trade, investment, and cooperation.



DEVELOPMENT IN THE AMERICAS (DIA)

In 2010, INT contributed one chapter to *Development in the Americas (DIA)*, the IDB's flagship report, which is coordinated annually by the Bank's Research Department. For 2010, the report was devoted to uncovering the causes of LAC's low productivity.

INT prepared the chapter "Trade and Productivity: A Route to Reallocation with a High Transport Toll," which analyzes the complex relationship between trade costs and productivity. The report shows that a reduction in trade costs, including both tariffs and freight rates, increases aggregate productivity not only by raising plant productivity but also by reallocating domestic market share from low- to high-productivity plants. The report calls for a more balanced trade agenda in the region that tackles not only traditional trade barriers but also transport-related obstacles to maximize the region's productivity gains from trade.



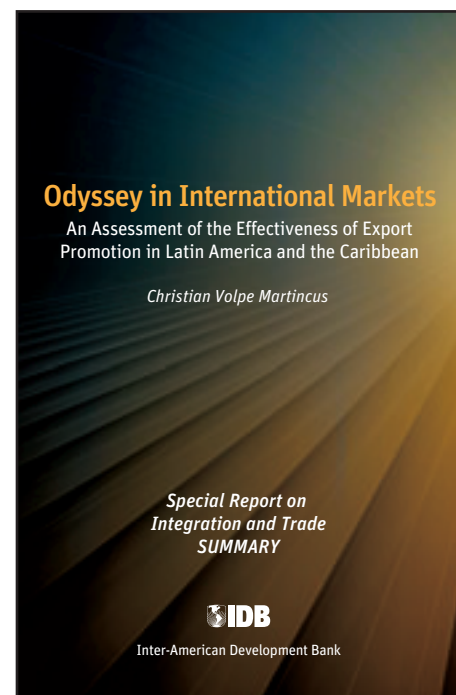
ODYSSEY IN INTERNATIONAL MARKETS

This year's INT flagship report *Odyssey in International Markets* assesses the effectiveness of export-promotion agencies in LAC. It finds that despite progress in communication technologies, lack of information still severely handicaps companies seeking to operate in international markets. Furthermore, the investments that these companies must make to gather the information required to trade with foreign markets may yield reduced returns and may consequently be low from a social point of view, as third parties may derive benefits from this same information. Thus, lack of information may negatively affect trade, and thereby productivity and economic growth.

For these reasons, firms carrying out export projects may require support to overcome information barriers. This is precisely the service that export-promotion organizations provide, but there is little evidence on how well these organizations perform this task.

Export promotion is costly, and the resources used might be better employed elsewhere. To ascertain that these resources are, in fact, being well invested, it must be first determined whether the policy initiatives they finance have an impact on those variables that are supposed to affect, in this case, exports.

Making this determination is the aim of this report. First, this study makes a comprehensive analysis of export-promotion organizations in some three dozen countries and regions. Second, it provides robust evaluations, using state-of-the-art econometrics and purposely compiled original datasets, of the impact that policies have had on the export outcomes of countries and firms. The findings reported in this study suggest that trade promotion has been effective in facilitating export expansion, especially along the extensive margin. At the same time, the report points to the need for further research to gain deeper insights into its relative merits.



AGRICULTURAL PROTECTIONISM AND POVERTY IN LATIN AMERICA

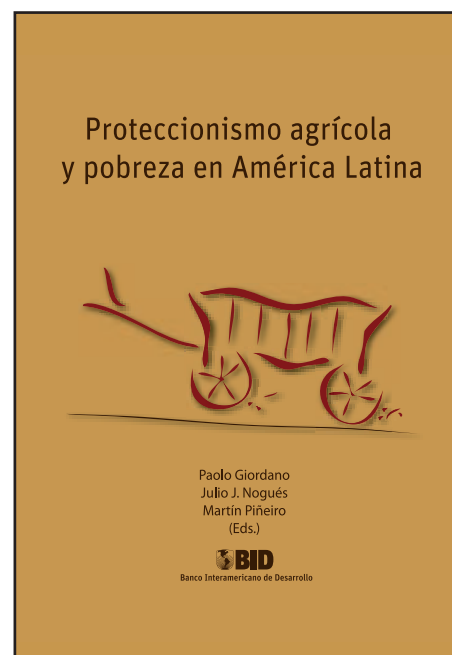
The book *Agricultural Protectionism and Poverty in Latin America* is designed to contribute to global debate on the benefits of agricultural markets opening for the most vulnerable sectors.

Latin American countries are typically identified as potential beneficiaries of multilateral or regional trade liberalization initiatives. However, analysis of specific farmer groups, which is the focus adopted in this collection of essays, shows that the Latin American agro-industry is characterized by a great range of heterogeneous realities, which implies the need for analyzing in detail the distributive impact of market openings.

By adopting a varied set of methodological approaches, this book aims to determine the terms under which the reduction of agricultural protectionism would result in the reduction of poverty.

By emphasizing the study of the connection between the different stakeholders of the agro-industrial production and distribution chains, the book concludes that international market liberalization is an imperative, but not necessarily sufficient, condition to generate, equity, and reduction of poverty.

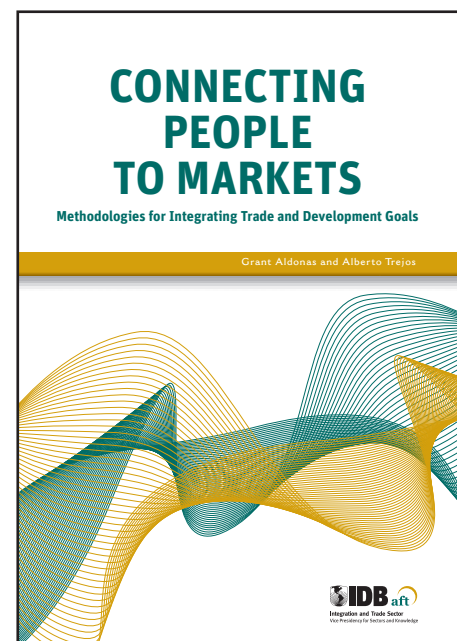
Hinged on an export or import trade orientation, as well as on other specific factors of the productive reality of farmers, market openings shall be accompanied in many cases by complementary policies that help maximize opportunities for the most vulnerable segments of society.



CONNECTING PEOPLE TO MARKETS

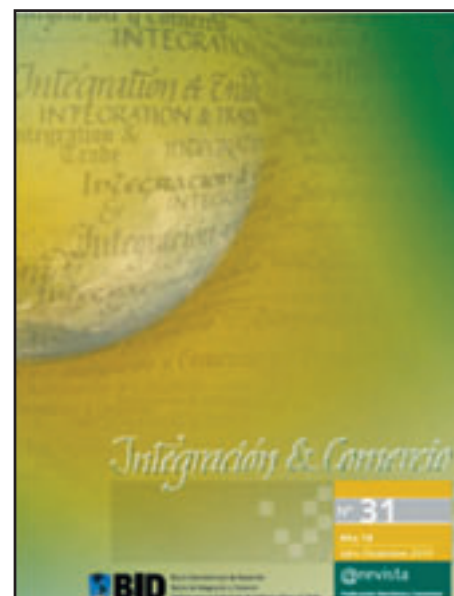
In 2010, INT released *Connecting People to Markets: Methodologies for Integrating Trade and Development Goals*, an analytical effort in the form of pilot case studies on supply chain issues that identifies bottlenecks in different countries in the LAC region. With this analysis, INT sought to pinpoint specific solutions that would facilitate these countries' insertion into the global economy by joining global value chains that would allow them to benefit from open markets and existing trade agreements.

Connecting People to Markets highlights the dynamics unfolding in the global economy and their deep implications for efforts to integrate trade and development goals. Globalization has fundamentally altered the conduct of international trade, the organization of production, and the basis of international trade competition. While trade was once carried out through arm's-length transactions between independent buyers and sellers in different countries, today, most cross-border flows of goods and services take place between corporate affiliates, between companies that act as partners in long-lasting relationships, or within the broader context of a firm's global supply chain. Any viable trade and development strategy will thus have to adapt accordingly.



INTEGRATION AND TRADE MAGAZINE

Integration and Trade magazine, released by INT and INTAL (the Institute for the Integration of Latin America and the Caribbean), has initiated a new stage, which was completely developed in 2010, aimed at resuming the governing principles that guided its development throughout the last 33 years. The magazine continues to favor integration and trade economic matters, although it also provides the opportunity to develop other adjacent matters in depth. One of the new magazine's trends is favoring the essay genre over traditional article writing, with contributions that allow debate on the most controversial aspects of each matter. It is an Internet-based magazine that has its own website, where the user will find the change concepts in detail, and can explore the new proposal for future exchanges. Further information on INTAL and its publications is available at <http://www.iadb.org/INTAL>.





CHINA-LAC BUSINESS SUMMIT

LAC countries have become the top three exporters to China. At the same time, Chinese companies have focused on the LAC region for new investments and joint ventures with local entrepreneurs.

To further opportunities in China-LAC trade and investment, the IDB, the China Council for the Promotion of International Trade (CCPIT), the People's Bank of China, and the Government of Sichuan Province jointly organized the China-LAC Business Summit, which took place on October 21 to 22 in the City of Chengdu, in the western province of Sichuan.

The purpose of the event was to expand and strengthen the commercial ties between LAC and Asia, in particular China, through the exchange of ideas and experiences on trade promotion, the identification of business opportunities, and the attraction of foreign investment to the LAC region.

The event in Chengdu surpassed expectations. The summit brought more than 1,200 participants, including top executives, trade promotion agencies, and high public officials from Asia and the LAC region, including 400 participants from both government and private sector from all 26 IDB borrowing member countries in LAC.

One of the event's remarkable activities was the one-on-one matchmaking sessions facilitated by the IDB, which equalled more than 700 business meetings in a single day, including some spontaneous contacts from agri-business, clean energy, investment and trade consulting, and transportation.

This summit is one of the first steps in furthering opportunities in China-LAC trade and investment, and the IDB is looking forward to an exponential growth in this relationship. Among other activities, the IDB expects to launch in 2011 an ambitious program financed by China that will consist of exchanges among high-level economic department officials from the public and private sectors and academia to share business models, economic development, and integration.



第四届中国—拉美企业家高峰会
China-LAC Business Summit

LAC FLAVORS 2010

LAC Flavors is an initiative of INT and the IDB Country Department Central America, Mexico, Panama, and Dominican Republic (CID) within the Mesoamerica Project. It aims to contribute to the generation of new business opportunities for SMEs in the region's food sector and potential international buyers. LAC Flavors works by organizing business rounds between SMEs and buyers from the United States, Asia, and Europe, to strengthen trade exchange in America.

On June 15 to 16, 2010, the second edition of LAC Flavors was held in Cartagena, Colombia. In two years, INT has allowed Mesoamerican SMEs to export nearly US\$9 million to new international markets every year.

Approximately 100 SMEs from Mesoamerica offered natural, organic, and fair-trade products to 29 buyers from the United States, Canada, and Italy, as well as to 11 export-promoting agencies in the region. Haiti participated as a guest country.

LAC Flavors 2010 facilitated 1,031 meetings between sellers and buyers, which generated business of US\$8.3 million. This amount may reach \$US17 million when other pending businesses come into force.

In October 2010, the XII Tuxtla Summit for the Dialogue and Agreement Mechanism of the Mesoamerica Project decided to adopt LAC Flavors as a permanent program.

For each dollar invested in the event, US\$47.32 has been generated in exports and US\$107.20 in future exports.

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Coordinating policy dialogue processes and supporting institutional, academic, and private-sector stakeholder networks is an essential contribution to the implementation and sustainability of integration policies. It's also one of the IDB's core functions, in which the Bank acts as an impartial intermediary.

INT focuses its activities on two complementary dimensions:

- > Closed-door dialogues with institutional actors in the region, oriented towards discussing policies and defining priority sectorial action areas for the region; and
- > Networks of academic and non-governmental actors aimed at identifying interventions aligned with the knowledge barrier, and at promoting contact between the region's stakeholders their counterparts in Europe and Asia.

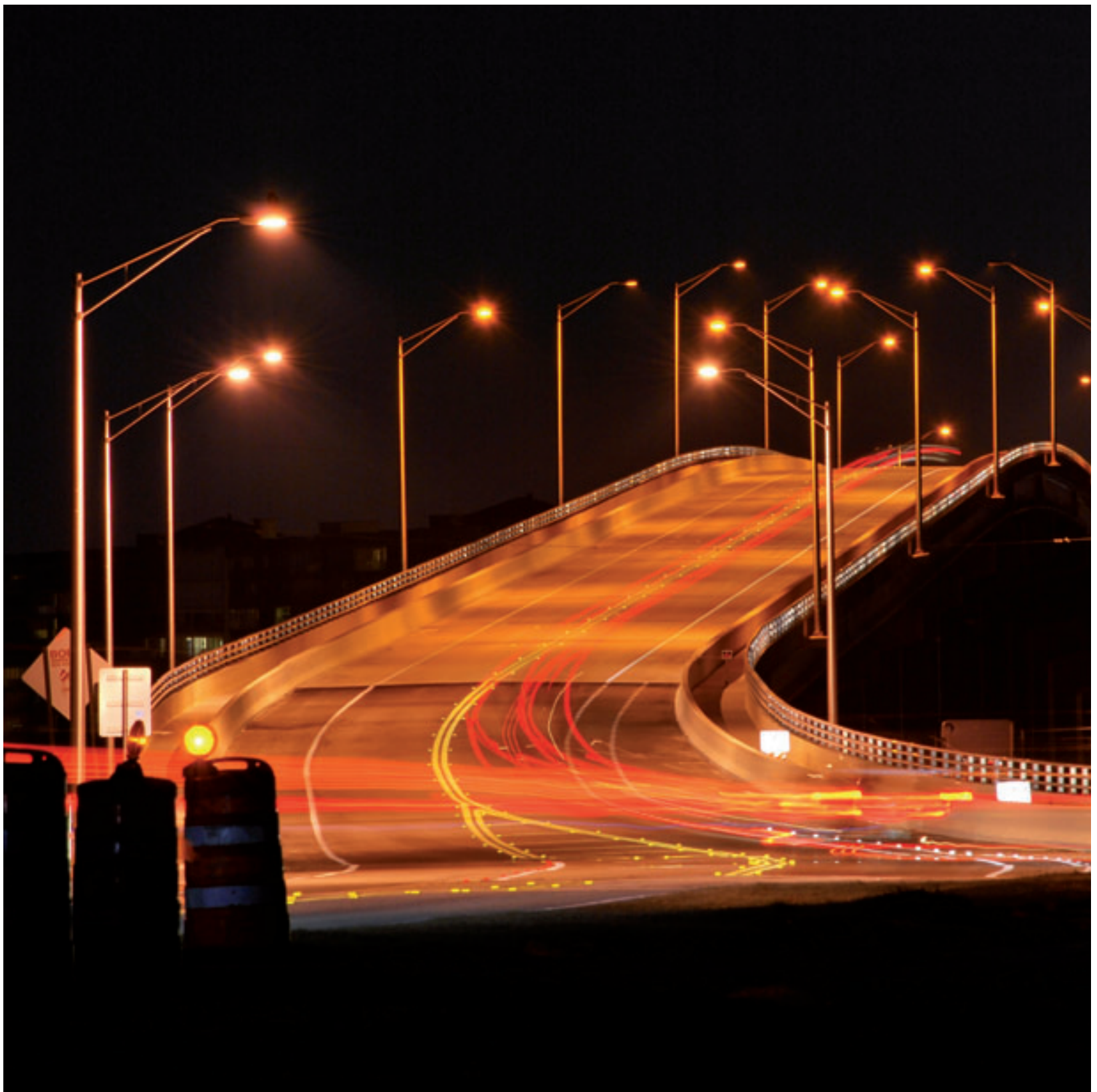
REGIONAL POLICY DIALOGUE

FOCUS ON CENTRAL AMERICA

In 2010, the drive towards greater regional integration was particularly prominent in Central America, where the presidents of the region launched a multi-thematic strategic initiative to build new momentum into the integration process. INT supported this process by concentrating the activities of the Trade and Integration Network of the IDB Regional Policy Dialogue in Central America. The meeting held in Costa Rica on February focused on the capacity of governments to promote technological innovation to take advantage of trade agreements.

The region's vice-ministers of trade and high-level officials discussed best practices and considered an action plan proposal facilitated by the IDB. The meeting held on November 19 at IDB Headquarters in Washington, D.C., focused on setting in motion a new trade facilitation agenda.

Ministers of economy, vice-ministers of trade, and customs directors brainstormed on new trends in international trade and logistics. They requested the IDB's assistance in preparing an action plan on trade facilitation aimed at reducing cross-border transaction costs and accelerating economic integration in the subregion.



THIRD MEETING OF MINISTERS OF FINANCE

The ministers of finance of the Americas and the Caribbean have agreed to hold an annual policy dialogue—known as the RFM annual meeting—to discuss selected long-term development issues that are common to the entire region and hold the potential to promote economic integration and cooperation.

Multilateral development institutions have traditionally supported the process with analytical and technical background documents, while INT provided additional logistical and technical support in its capacity as the Technical Secretariat of the RFM meetings.

During the third RFM meeting, held in Lima, Peru, on May 28, 2010, authorities discussed the conclusions of the policy brief titled *Bridging Integration Gaps: Scenarios and Policy Recommendations to Promote Physical Infrastructure and Reduce Intra-regional Trade Costs*, prepared by IDB and World Bank staff in collaboration with ECLAC.

The main message of the policy brief is that the LAC region must bridge three interrelated policy gaps to advance its integration agenda. First, despite advances in trade liberalization, significant progress must still be made to perfect, harmonize, and bridge existing trade agreements. Second, the logistical costs related to the coverage and quality of physical infrastructure and lack of regulatory harmonization pose a serious constraint to regional integration and global competitiveness. Third, although cross-border strategic investments hold the potential to further advance the region's integration, their execution would be catalyzed by overcoming certain institutional and operational obstacles.

Bridging these gaps in trade and physical integration, and achieving significant operational progress in regional cooperation, are crucial steps to building the region's competitiveness in the aftermath of the financial crisis. With the objective of informing policy decision-making, the policy brief provided an overview of the following:

> The main missing trade policy links in areas in which trade liberalization can remove welfare-reducing trade protection and where regulatory harmonization can promote further integration of productive value chains. Although 89 percent of current total intra-regional commerce is traded preferentially, rules of origin restrict preferential trading and free trade agreements cover only half of the potential bilateral trade relationships.

> The main factors that explain high logistics costs, such as an inefficient multimodal transport mode mix; bottlenecks at border crossings and customs-related inefficiencies; insufficient capacity and quality of land transportation networks; congestion, underinvestment, and inadequate regulation of ports and maritime services; and



uncompetitive market structures in air cargo services. Estimates of these costs range from 18 to 40 percent of the GDP and can constitute up to more than half of the price of the delivered goods.

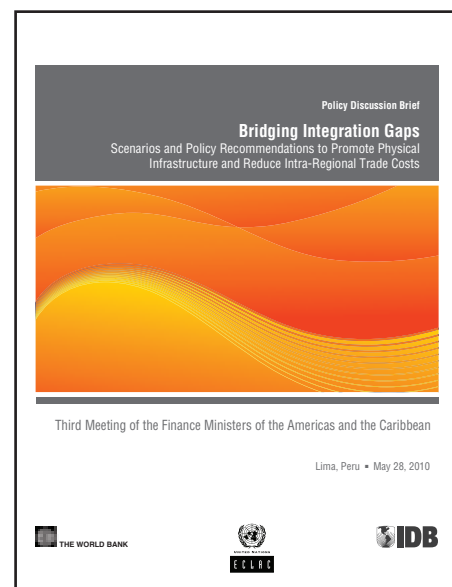
> New counterfactual simulation scenarios that provide a sense of the potential trade and welfare gains that could result from policy action aimed at reducing trade protection and logistics costs. In South America, a reduction of only 4.3 percent of current transport costs would match the benefits of the complete liberalization of intra-regional trade; in Central America, intra-regional exports would double if the region achieved a full level of integration.

> An assessment of the institutional and operational factors that hamper the design and implementation of regional cooperation projects, and policy recommendations to overcome these obstacles.

Ministers endorsed the assessment and the recommendations put forward in the policy brief, and agreed that: 1) despite notable progress, the integration agenda is still unfinished business; 2) a modern integration agenda needs to blend investment in the integration hardware (infrastructure) and software (policy coordination); and 3) in terms of the supply of development financing, a new operational compact is needed to channel additional resources to sustain the integration process.

Going forward, the ministers expressed genuine enthusiasm and appreciation of the high strategic value of the annual RFM meeting, and showed interest in pursuing an in-depth, outcome-oriented discussion of issues related to the integration and cooperation agenda of the Americas.

As a follow-up, and with a view to preparing the fourth RFM meeting to be held in Canada (Calgary) on March 26, 2011, the IDB, in its capacity as the Technical Secretariat, held initial consultations with the offices of the Canadian and other finance ministers, with the objective to develop the agenda and the logistical organization of the meeting.





EURO-LATIN STUDY NETWORK ON INTEGRATION AND TRADE

The IDB, through INT and INTAL, and in collaboration with the Europe office, launched the Euro-Latin Study Network on Integration and Trade (ELSNIT) in October 2002. The network's main objectives are to generate research, studies, and debate on integration and trade issues relevant to LAC; draw on the rich European experience; and increase interaction between European and Latin American researchers. European centers and institutes with a high degree of expertise in integration and trade areas, at both the international and European levels, formed the ELSNIT Steering Committee.

Eight annual conferences have taken place since ELSNIT's launch (Barcelona, Spain, 2003; Florence, Italy, 2004; Kiel, Germany, 2005; Paris, France, 2006; Barcelona, Spain, 2007; Florence, Italy, 2008; Kiel, Germany, 2009).

The eighth annual conference took place in Paris, France, on October 15 to 16, 2010. The conference was hosted by CEPII with the sponsorship of, and jointly organized by, the IDB. The conference discussed the papers selected by the Steering Committee following a call for papers launched in March 2010 in Europe and Latin America.

LAC AND ASIA ECONOMICS AND BUSINESS ASSOCIATION

The increasing economic links between LAC and Asia are a key area of analysis and activities for INT. In partnership with the Asian Development Bank Institute, INT organizes an annual high-level workshop with LAC and Asian experts, policy-makers, and private-sector representatives through the Latin America/Caribbean and Asia Economics and Business Association (LAEBA).

In 2010, a workshop titled A Post 2010 Trade Agenda for the Asia-Pacific was jointly organized in Tokyo by LAEBA and the APEC Pacific Economic Cooperation Council (PECC). The event was organized in the context of the APEC-Japan Chair 2010, to which the IDB contributed several technical studies and participated in high-level forums. A major study on India and Asia was released in 2010 (for more information, see the section on *India: Latin America's Next Big Thing?*) and launched in Washington, D.C., on July 27, 2010. During the event, which was jointly organized by the IDB, Asia Society, and Woodrow Wilson Center, the Bank launched the book, which looks into whether India holds the potential to mirror the same type of economic development experienced by China in recent years, and its potential impact on LAC.

In addition, two high-level events were organized in Delhi and Mumbai, led by IDB President Luis Alberto Moreno. The strengthening of economic relations with China was also featured during the annual LAC-Asia Trade and Investment Forum (for more information, see the section on the China-LAC Business Summit) that took place in Chengdu, China.

THE TRADE, INTEGRATION AND GROWTH NETWORK

The Trade, Integration, and Growth Network (TIGN) is an initiative of the Latin America and Caribbean Economy Association, which has the support of the Andean Promotion Corporation (CAF) and the IDB through INT. TIGN is aimed at creating a network of high-level economics officials who work on essential matters for the relationship among trade, integration, and growth, placing special emphasis on LAC countries. This network organizes an annual meeting, where eight innovative and relevant studies from a political and economic standpoint are submitted; the studies are selected through a competitive process.

In 2010, the annual meeting was held on September 16 to 17 in San José, Costa Rica. Researchers and officials met to exchange ideas and discuss economic policies of general interest for LAC countries. INT Manager, Antoni Estevadeordal, and CAF's Pablo Sanguinetti are leading TIGN, which replaces the former Regional Integration Network (RIN).



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For the IDB, capacity-building is crucial to create and sustain a long-term and multi-sector critical mass of national expertise on regional and global integration. Capacity-building should include high-level executive training; short-term policy advisory services; and support for project identification, design, monitoring, and evaluation.

Through its extensive capacity-building programs throughout the years, the Bank has had a crucial impact on developing the current trade architecture. The challenges the IDB now faces are building on this credibility, expanding its reach to new issues of the integration agenda, and being more proactive in including subnational stakeholders by creating high-profile institutional strategic alliances that will facilitate the development of integration capacity-building initiatives.

EXECUTIVE COURSE IN PROMOTION AGENCIES

In this year's Development Effectiveness Overview (DEO), INT formally released the institutional report *Odyssey in International Markets: An Assessment of the Effectiveness of Export Promotion in Latin America and the Caribbean*. This study presents for the first time a consistent organizational characterization of the entities tasked with trade promotion in over 35 countries and regions, as well as a rigorous evaluation of the effects of their activities on the primary variable of interest, exports.

As a follow-up, this year INT, together with INTAL and in collaboration with the IDB's Knowledge and Learning Sector, organized an executive course. The purpose of this course was to brainstorm with representatives from Latin American trade promotion organizations and chambers of commerce, as well as with institutions that work on related issues on strategies. The first two modules were aimed at providing officials and private-sector delegates with tools to rethink organizational designs, personnel policies, and related incentive structures to improve organizational effectiveness.



Each of these sessions was led by academic coordinators—Jacint Jordana from IBEI and Universitat Pompeu Fabra (Spain) and Federico Weinschelbaum from Universidad San Andrés (Argentina)—who briefly outlined the conceptual framework of the issues being dealt with, and counted on contributions by representatives from relevant organizations from developed countries: Pekka Tolonen from FINPRO (Finland), Isidre Sala from ACC10 (Spain), Sunghee Ahn from KOTRA (South Korea), and Santiago Rubio from AUSTRADE (Australia). These representatives carefully explained how these organizations are structured and how they operate along these dimensions.

The core part of the course was primarily devoted to discussing impact-assessment approaches. Officials from export-promotion organizations in the region—Lorena Sepúlveda from PROCHILE (Chile), Francisco Gamboa and Álvaro Piedra from PROCOMER (Costa Rica), and Manuela Lima from APEX (Brazil)—and from developed countries with long and well-known traditions in evaluation—Heather Booth di Giovanni from UKTI (United Kingdom) and Shenjie Chen from DFAIT (Canada)—made detailed presentations on the assessment procedures used by these entities to determine the effectiveness of their programs. The view of the private sector was also presented by Nicolás Jovanovic from Establecimiento Las Marías (Argentina) and Sara Saldanha from CNI-National Confederation of Industries (Brazil).

The remaining sessions featured presentations on the theory of the evaluation methods applied in the report and how to implement them with standard statistical software—presented by Christian Volpe Martincus from INT and Jerónimo Carballo from the University of Maryland (USA). The sessions included hands-on exercises solved on computers installed in the room. The knowledge accumulated by the IDB in this specific area and transferred to LAC countries did not end with this event, as INT will continue to consult with all organizations interested in improving their evaluation practices.

INTRADEBID: NEW PORTAL WITH USER-FRIENDLY INTERFACE

In 2009, INT launched INTradeBID, the most comprehensive portal of and updated information on trade and integration in LAC, particularly in regard to access regimes and trade regulation governed by regional trade agreements. The interface has been redesigned to facilitate access for a broad spectrum of users. The system includes a suite of applications designed to facilitate understanding, analysis, and practical use of trade agreements. The database is organized into four main modules: market-access regime, judicial and legal databases, user tools, and statistics and indicators. Among other variables, the system provides detailed and updated information on preferential tariffs and most-favored-nation tariff schedules and rules of origin at the product, sanitary and phytosanitary public and private standards level, legal provisions contained in bilateral and regional agreements, boxes of tools for policy analysis and design optimized for public and private users, and a set of statistics and other quantitative and qualitative indicators used to evaluate the global competitiveness of LAC member countries.

DATAINTAL, which complements INTradeBID, is a free-access database that provides statistics on the imports and exports of 34 Western Hemisphere countries classified by trading partner, volume, and value. The system provides data on national classifications based on the Harmonized System. Users can get information on countries and create rankings by country, product, integration schedule, and trade agreement based on statistical series covering more than 15 years, which constitutes the most detailed free-access system available in the region.

INT/INTAL JOINT CAPACITY-BUILDING PROGRAM 2010

Enhancing the capacity of countries to participate in global trade is becoming increasingly critical for their future economic growth. Awareness of the importance of this issue has raised the concern of the public and private sectors regarding the need to be updated on the latest trade policies, instruments available, and market trends. However, there is a lack of information regarding the specific needs of the LAC region in some areas.

INT and INTAL have accumulated several years of experience building knowledge in the areas of trade and regional integration. This work has raised the awareness of the need to adopt a common methodology in all trade capacity-building (TCB) activities and follow a coherent training cycle to improve the effectiveness of such activities. Producing such “non-lending products” has been largely ad hoc and has not followed a proper classification and repository of the activities that have been developed. IDB periodically prepares new strategies to support regional and global integration, and trade-related assistance figures prominently in these strategies. TCB activities are mainly financed through grants from technical cooperation. They have targeted both the public and private sectors. INT and INTAL, which are responsible for trade and integration issues within the IDB, have implemented independent, as well as joint, TCB activities. They also have supported the implementation of TCB activities developed by other institutions such as ALADI (the Latin American Integration Association), WTO, OAS, and ECLAC.

Accordingly, these activities can be divided into three groups:

- > INTAL/INT joint capacity-building;
- > INT capacity-building; and
- > INTAL capacity-building.

The INT/INTAL joint capacity-building program for 2010 aims to establish a common framework for all TCB activities developed to enhance their effectiveness and allow systematic monitoring and control of the outcomes reached. To achieve these goals, the program proposes a more systematic methodology and training cycle. This involves a strategy to emphasize training programs of medium duration to allow in-depth treatment of the subjects, with a focus on three pillars: 1) standardized approach; 2) better interaction with stakeholders during the entire process; and 3) work towards follow-up activities.

WORKING WITH WCO

In 2010, IDB and the WCO continued strengthening the bonds of cooperation and conducted several joint initiatives and projects. They jointly organized the AEO program in Guatemala City in April, in which 500 representatives from LAC customs institutions and the private sector participated.

Another milestone was the joint organization of the first regional entities planning session and first customs and trade facilitation customs donors meeting, which took place on May 3 to 4 at IDB Headquarters in Washington, D.C. Among the participants of this meeting were the World Bank, IMF, US Custom and Border Protection, Canada Border Services Agency, US Agency for International Development, and US Department of Trade.

As a follow up of this event, during the second semester the IDB and WCO conducted a planning activity which came up with a working plan for 2011 with more than 10 joint activities that support the capacity-building program in the region.

Technical workshops stand out, such as those on a Nomenclature and Harmonized System, Revised Kyoto Convention, Single Window, Strategic Planning for Customs Administrations and Economic Authorized Operator.

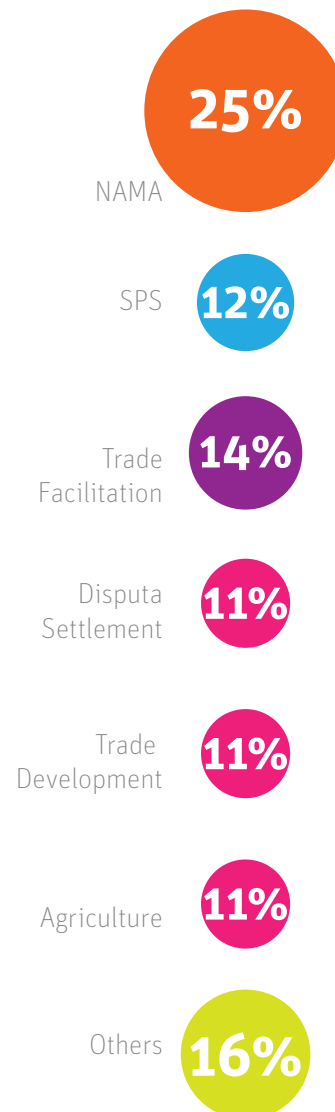
In addition, the IDB and WCO worked on designing a Donor Map Project in the last quarter of 2010, which is expected to be finished by 2011. This database will effectively coordinate donors in this area, and it has been made available for the G20's trade facilitation initiative.

COMMERCIAL MODELING SERVICES

INT's economic modeling consultancy services have been broadened with the development of a computable general equilibrium (CGE) model that allows a completely new assessment of the benefits of international migration for Latin America to be conducted. With this tool, INT has rendered consultancy services to the governments of Peru and Colombia, to evaluate the economic effects of trade, labor, and migration policies.

Moreover, technician-creation workshops have been conducted in Andean and Central American countries. In addition, a Web page was launched; a regional CGE modelers meeting was conducted; and a report called *Modeling Public Policies in Latin America* was released, with outstanding contributions from Latin American technicians to promote an exchange of modeling techniques among the region's experts and the public.

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