

## THE RECONFIGURATION OF GLOBAL VALUE CHAINS: AN OPPORTUNITY FOR LATIN AMERICA AND THE CARIBBEAN

### Global and Regional Context

Today, more than 50% of global trade happens within global value chains (GVC). Participating in GVCs brings both economic and social benefits. *Productivity is enhanced*: a 10% increase in a country's level of involvement in a GVC can lead to a 1.6% increase in average labor productivity and an 11% to 14% increase in per capita GDP. *More and better jobs are created*: companies that are part of GVCs demand more skilled personnel, hire more women, and pay higher salaries than firms that only export or are not involved in trade. However, LAC is lagging behind other regions in its participation in GVCs. The number of firms in the region that are part of GVCs is low compared to other regions, and they mainly tend to be involved in the early stages of GVCs.

The current context represents an opportunity for LAC to improve its participation in GVCs. The reconfiguration of GVCs is accelerating in response to various factors, including the trade conflict between the USA and China, the COVID-19 pandemic, and the recent war in Ukraine. All of this has brought to the forefront the discussion of diversifying supply chains, since if strategic input providers in key industries are concentrated, the risk of chain disruption is high and could lead to serious economic damage. To ensure greater resilience to future disruptions, as well as reduce their environmental impact and cut costs by shortening transit distances, global companies are taking steps to align closer supply options, which has been called nearshoring. IDB estimates show that the potential gain for LAC from nearshoring opportunities in the short and medium term could represent an increase of up to US\$78 billion in exports. There are significant opportunities for the region in the automotive, textile, pharmaceutical, and other industrial value chains that could lead to an upgrading of skills and technologies.

### What the IDB is Doing

The IDB is supporting the implementation of what we call the 3i strategy: (i) Investment: implementing structural reforms and financing demand-driven training programs to attract FDI and open up new markets for the region; (ii) Infrastructure: improving LAC's trade, connectivity, transportation, and logistics infrastructure is key to ensuring that companies investing in the region can be more competitive; and (iii) Integration: improving integration within the region and modernizing its approach, so as to build a broader, more competitive, frictionless market.

In 2021, the IDB approved US\$2.3 billion in public sector loans to strengthen regional supply chains, almost double the average amount of the years before the pandemic. In the same year, its private sector arm, IDB Invest, approved US\$1.2 billion to companies in the region to help them capitalize on this opportunity.

### Our Tools

The IDB Group offers its 26 borrowing member countries a toolkit that articulates financial and non-financial instruments such as private and public sector loans, guarantees, reimbursable and non-reimbursable technical assistance for national promotion strategies and vertical sector studies that identify nearshoring potential by country and provide policy recommendations; trade and supply chain financing; blended financing; partial credit enhancements or risk-sharing guarantees; CapEx financing; capital investments and investment grants; and dedicated national nearshoring promotion events, among others.

### Some Examples of our Work

The IDB is supporting the diversification and internationalization of the Colombian economy through a US\$24 million loan program that aims to boost exports of knowledge-based services (KBS), and to increase Foreign Direct Investment (FDI) flows through the implementation and use of new tools to streamline procedures (such as a Single Window for FDI) and consolidate Colombia as a nearshoring investment destination.

In terms of technical assistance, the IDB is developing country strategies for all 26 borrowing member countries that identify sector and product-level opportunities, bottlenecks, as well as specific policy recommendations and actions to address them, and connecting international companies and investors with businesses across the Americas.