OPPORTUNITY #1:

Enhancing Market Size, Scalability, and Regional Integration

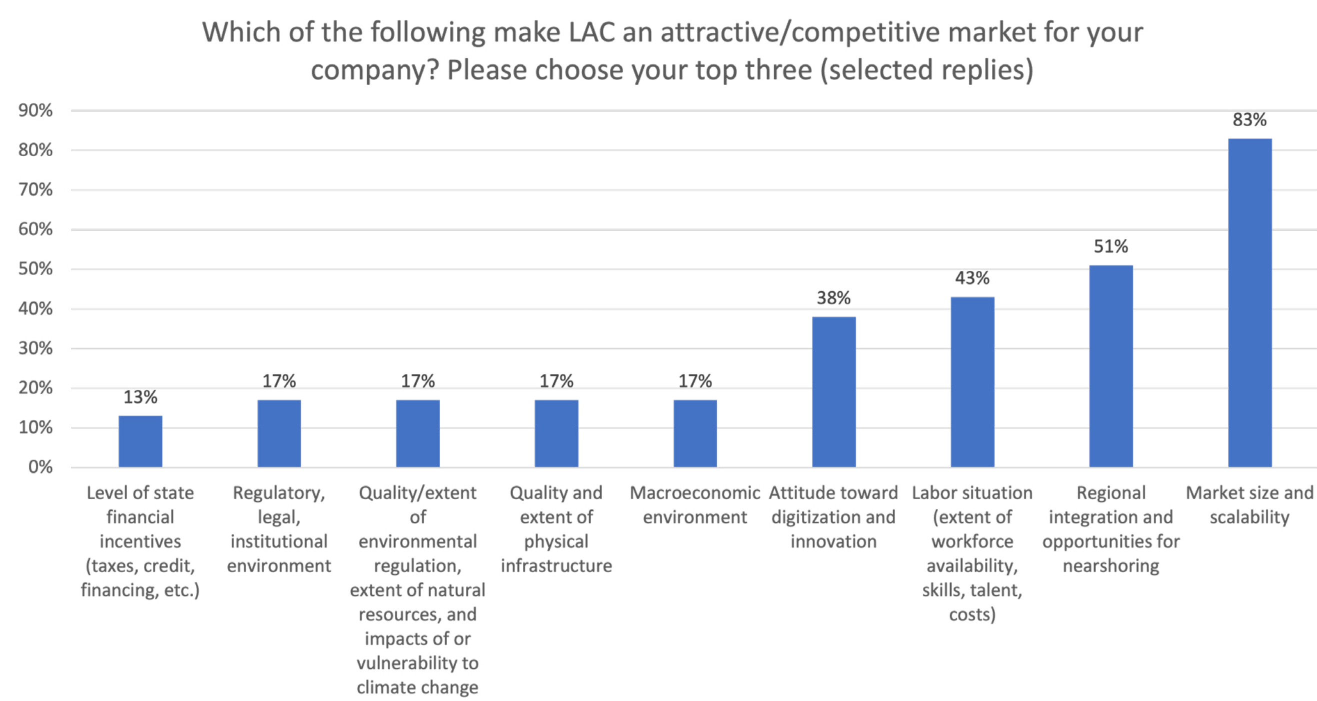
Lowering freight transport costs will be key for expanding intra-regional trade in the region, through ports like Valparaiso.
Image credit: REUTERS/Rodrigo Garrido

Introducing the Opportunity

The first major growth opportunity in LAC identified by survey respondents is the region's potential as a large, scalable, and well-integrated market. Eighty-three percent of respondents ranked "market size and scalability" among the region's top three attractive qualities (see Figure 4 and Box 3 below). Indeed, LAC—with a gross domestic product (GDP) of $4.56 trillion and home to 658 million people and three Group of Twenty (G20) economies (Argentina, Brazil, and Mexico)—boasts a dynamic consumer base and a young workforce that entice globally minded companies.[7]

In addition to the size of its individual markets, LAC offers a number of advantages for cross-border business expansion, aided by factors such as common languages—Spanish in eighteen countries and English in twelve. Such scalability factors are hard to come by in other geographies with larger GDPs or populations, such as South Asia ($4.09 trillion and 1.88 billion people) or Europe ($24.02 trillion and 743 million people).[8] LAC's homegrown digital entrepreneurs have been particularly skillful in seizing the region's scalability edge. Last year, Uala, an Argentine fintech unicorn, entered the Colombian market, its second overseas market in two years, with its eyes set on expansion into Chile, Paraguay, Peru, and beyond.[9] Success stories of cross-border growth like this in LAC illustrate why 51 percent of survey respondents considered "regional integration" central to LAC's competitiveness, second only to "market size and scalability."

Figure 4. Top three factors that make LAC an attractive/competitive market.



SOURCE: Atlantic Council survey 2022

7 "GDP, Current Prices, Billions of USD," International Monetary Fund, last visited January 24, 2023, https://www.imf.org/external/datamapper/NGDPD@WEO/OEMDC/ADVEC/WEOWORLD; "Population, Total—Latin America & Caribbean," World Bank, last visited January 24, 2023, https://data.worldbank.org/indicator/SP.POP.TOTL?locations=ZJ.

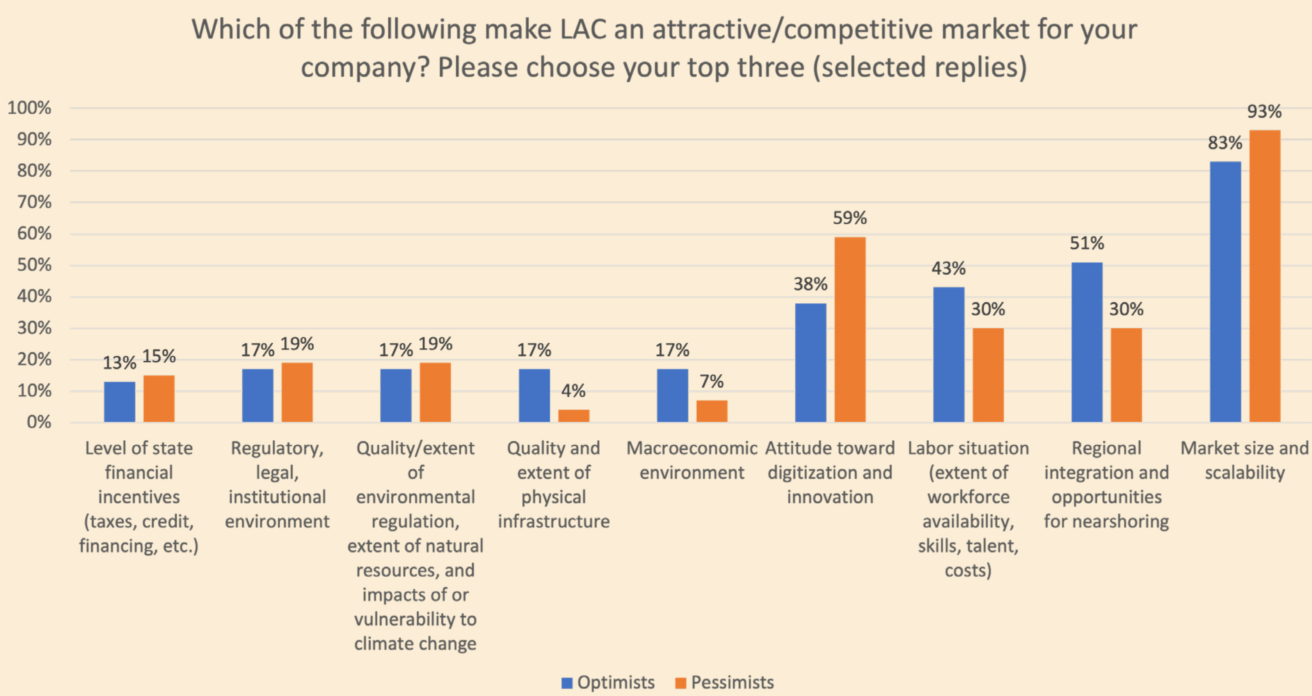
8 "GDP (Current US$)—South Asia," World Bank, last visited January 24, 2023. https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=8S; "Population, Total—South Asia," World Bank, last visited January 24, 2023, https://data.worldbank.org/indicator/SP.POP.TOTL?locations=8S; " GDP, Current Prices, Billions of USD"; "Estimated Population of Europe from 1950 to 2022," Statista, July 2022, https://www.statista.com/statistics/1106711/population-of-europe/.

9 Jorgelina do Rosario and Carolina Millan, "Argentine Fintech Ualá Launches in Colombia amid Latin American Expansion," *Buenos Aires Times*, January 27, 2022, https://www.batimes.com.ar/news/argentine-fintech-uala-launches-in-colombia-amid-latin-american-expansion.phtml; "Tencent, SoftBank-led Funding Pushes Argentina's Uala to $2.45 Bln Valuation," Reuters, August 13, 2021, https://www.reuters.com/technology/tencent-softbank-led-funding-pushes-argentinas-uala-245-bln-valuation-2021-08-13; Augustin Geist, "Argentina's Cashless King Targets Latin America's Unbanked Millions," Reuters, May 7, 2021, https://www.reuters.com/world/americas/argentinas-cashless-king-targets-latin-americas-unbanked-millions-2021-05-07.

BOX 3: Additional Survey Insight: Optimists versus Pessimists

While survey optimists perceive positive change in LAC's business environment over the last decade, pessimists do not. Optimists and pessimists also disagree on a number of LAC's strengths and weaknesses, and attach different relative weights to each of them; these differing priorities are illustrated below in Figure 5. Both groups, however, agree that the region's **market size and scalability** are LAC's most important attractive factor, indicating the need for the private and public sectors to sustain and further this opportunity.

Figure 5. What attracts optimists and pessimists to LAC?



SOURCE: Atlantic Council survey 2022

Despite said natural advantage and recent progress, LAC has yet to unlock the full potential of regional scalability and regional integration. For example, intra-regional trade needs a boost, as its share of LAC´s overall trade has steadily declined by a total of 4.2 percentage points since 2010.[10] In 2020, just over 13 percent of national exports from LAC countries stayed in the wider region, much lower than in Europe (67.7 percent), Asia (58 percent), and Africa (17.8 percent).[11] IDB and ABD studies have consistently demonstrated that deeper integration into global and regional value chains will require lowering export costs and times and **improving physical and regulatory infrastructure (recommendations A and B below).** By one estimate, a 10-percent decrease in freight-transport costs could increase intra-regional exports in South America by 30 to 40 percent, expanding the size of the regional market.[12] Synergizing national-level efforts on trade facilitation will not only help strengthen regional integration, but can enhance LAC's collective export competitiveness by combining country-specific specializations. This, in turn, better positions the region as a **reshoring and nearshoring destination (recommendation C below)** during this time of global supply-chain relocation.

A coordinated regional approach is also necessary for **tackling non-trade challenges** facing LAC countries, such as climate and the environment. The Leticia Pact, an agreement among seven nations to promote sustainable development models in the Amazon—supported by the IDB's Amazon Initiative—is a good example. The creation of the Eastern Tropical Pacific Marine Corridor (CMAR), bringing together Colombia, Costa Rica, Ecuador, and Panama to preserve marine environments against exploitation, further illustrates the region's collaborative spirit.[13] Similarly, regional energy integration through cooperation with the private sector is vital for advancing climate and economic goals: private firms are leaders in renewable energy, and have an important role in managing and improving distribution networks.[14]

Recommendations for the Private Sector

The private sector, in coordination with the public sector, has a key role to play in scaling regional potential and furthering regional integration in trade, climate, digitalization, and other areas. Some IDB's private-sector partners see a lack of **regional integration as the defining challenge** for the region.[15] Three promising opportunities for private sector action in this space include

- **financing and managing hard infrastructure;**
- **improving soft infrastructure; and**
- **prioritizing nearshoring and reshoring efforts**.

OP #1: ENHANCING MARKET SIZE, SCALABILITY, AND REGIONAL INTEGRATION

- **A** Financing and managing hard infrastructure
- **B** Improving soft infrastructure
- **C** Prioritizing nearshoring and reshoring

10 Paolo Giordano, et al., "Rough Patch: Latin America and the Caribbean Amid the Global Trade Slowdown," Inter-American Development Bank, 2019, 34, https://publications.iadb.org/en/trade-and-integration-monitor-2019-rough-patch-latin-america-and-caribbean-amid-global-trade.

11 "Trade Structure by Partner," *Handbook of Statistics 2022,* United Nations Conference on Trade and Development, last visited January 24, 2023, https://hbs.unctad.org/trade-structure-by-partner; *Latin American Economic Outlook 2021: Working Together for a better recovery* (Paris: OECD Publishing, 2021).

12 Theodore Kahn, Antoni Estevadeordal, and Mauricio Mesquita Moreira, "Bringing Down the Barriers: a Review of IDB Research on Trade Costs in Latin America and the Caribbean," Inter-American Development Bank, 2015, 33, https://publications.iadb.org/en/bringing-down-barriers-idb-research-trade-costs-lac.

13 Dan Collyns, "Latin American Countries Join Reserves to Create Vast Marine Protected Area," *Guardian*, November 2, 2021, https://www.theguardian.com/environment/2021/nov/02/four-latin-american-countries-join-protected-marine-reserves-to-create-mega-mpa.

14 Adriana Valencia and Michelle Hallack, "¿Cuál Es la Participación del Sector Privado en el Sector de Energía Eléctrica en América Latina y el Caribe?" *Energía para el futuro* (blog), Inter-American Development Bank, August 17, 2022, https://blogs.iadb.org/energia/es/cual-es-la-participacion-del-sector-privado-en-el-sector-de-energia-electrica-en-america-latina-y-el-caribe/#:~:text=En%20transmisi%C3%B3n%2C%20desde%202002%20el,representan%20el%20100%25%20del%20mercado.

15 Alejandro Morán, interview by Pepe Zhang, *Experts of the Americas,* forthcoming.

A. FINANCING AND MANAGING HARD INFRASTRUCTURE

Expanding LAC's integration and economic potential will require better **physical, or hard, infrastructure.** In the wake of high debt and limited fiscal space from the pandemic, the private sector can help fill the region's infrastructure-financing gap—which amounts to $2.22 trillion over the next decade—by ramping up investment and collaboration with the public sector.[16]

Beyond this budgetary necessity, evidence indicates that private participation can bring greater efficiency and productivity to infrastructure management. Already the main suppliers and builders of infrastructure assets in LAC, private firms are increasingly contributing to the provision and improvement of infrastructure services and delivery.[17] For example, public-private partnerships (PPPs) result in road-maintenance costs that are 25–30 percent lower compared to traditional contracting, while the increase in ports operated under PPPs in the region has coincided with average operational efficiency gains of 20 percent.[18] Enhanced connectivity infrastructure, within and across national borders like ports and roads, reduces transport costs, increases trade, and boosts integration. **This benefits the private sector, too**, as it builds resilience against supply-chain disruptions that have become more frequent and costly due to climate change and other events.[19]

Infrastructure integration should not focus solely on trade opportunities. Energy-integration projects, like the Central American Electrical Interconnection System (SIEPAC), can offer increased market access to and "lower costs for businesses and the region's inhabitants" while "generating higher levels of productivity and economic competitiveness."[20] Integrating energy markets across Latin America while pursuing renewable energy would reduce greenhouse-gas emissions by 14.7 percent, and total system costs (including investment, operation, and maintenance) by $20.3 billion, in a base scenario.[21] Several LAC countries, especially Brazil and its neighbors, have power-sharing agreements; Argentina and Chile concluded one in 2021, leveraging a privately owned transmission line between the two countries.[22] As regional governments combine integration efforts while navigating fiscal and climate sustainability, this is a timely moment to better leverage private-sector financing and management of hard infrastructure.

B. IMPROVING SOFT INFRASTRUCTURE

Consistent with ABD recommendations, companies including Telefónica and Bayer indicated that the improvement of hard infrastructure should be accompanied by the streamlining of complementary, **soft infrastructure**.[23] In the context of regional integration, this may include the rules, regulations, institutions, incentives, processes, and technologies that govern regional integration and scalability. Similarly, BNP Paribas, the Coca-Cola Company, and Visa emphasized the importance of regulatory modernization and harmonization within and across borders. **International regulatory cooperation (IRC)**—from digital, data, and financial to trade, taxation, human capital, and ESG—helps "promote interoperability and wide adoption" and scalability of standards, technologies, and best practices in LAC.[24]

While governments are traditionally responsible for setting up the soft infrastructure for IRC, **private-sector input and actions are vital to ensuring that such infrastructure meets user needs**. For example, IRC around cross-border data flows and digital services, which will shape future regional and global integration agendas, calls for private-sector collaboration to reduce barriers to entry and protect the interests of consumers in digital commerce.

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16 Measurement is in order to achieve SDGs by 2030. "The Infrastructure Gap in Latin America and the Caribbean: Investment Needed Through 2030 to Meet the Sustainable Development Goals," Inter-American Development Bank, December 2021, https://publications.iadb.org/en/infrastructure-gap-latin-america-and-caribbean-investment-needed-through-2030-meet-sustainable#:~:text=According%20to%20the%20calculations%20of,necessary%20to%20meet%20the%20SDGs; Alison Buckholtz, "Why Latin America Needs the Private Sector More Than Ever," *IFC Insights* (blog), International Finance Corporation, April 2020, https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/insights/why-lac-need-ps.

17 "From Structures to Services: The Path to Better Infrastructure in Latin America and the Caribbean," Inter-American Development Bank, last visited January 25, 2023, https://flagships.iadb.org/en/DIA2020/from-structures-to-services. While infrastructure projects are often funded by governments, private firms are usually responsible for the actual construction.

18 Thomás Serebrisky, Juan Pablo Brichetti, Allen Blackman, and Mauricio Mesquita Moreira, *Sustainable and digital infrastructure for the post-COVID-19 economic recovery of Latin America & Caribbean: a roadmap to more jobs, integration and growth*, Inter-American Development Bank, 2020, 80, https://publications.iadb.org/en/sustainable-and-digital-infrastructure-for-the-post-covid-19-economic-recovery-of-latin-america-and-the-caribbean-a-roadmap-to-more-jobs-integration-and-growth; Ancor Suárez-Alemán, Gastón Astesiano, and Oscar Ponce de León, "Public-Private Partnerships in Ports: Main Figures and Trends in in Latin America and the Caribbean," Inter-American Development Bank, 2020, 2, https://publications.iadb.org/publications/english/document/Public-Private-Partnerships-in-Ports-Main-Figures-and-Trends-in-Latin-America-and-the-Caribbean.pdf.

19 Eduardo Cavallo, Andrew Powell, and Tomás Serebrisky, eds., *From Structures to Services: the Path to Better Infrastructure in Latin America and the Caribbean* (Washington, DC: Inter-American Development Bank, 2020), 152–153.

20 "Action for Growth: Policy Recommendations and 2018-2021 Action Plan for Growth in the Americas," Inter-American Development Bank, 2018, 74, recommendation 25, https://publications.iadb.org/en/action-growth-policy-recommendations-and-2018-2021-action-plan-growth-americas.

21 Juan Roberto Paredes, "*Red del Futuro: Desarrollo de Una Red Eléctrica Limpia y Sostenible para América Latina*," Inter-American Development Bank, 2017, 60–65, https://publications.iadb.org/es/la-red-del-futuro-desarrollo-de-una-red-electrica-limpia-y-sostenible-para-america-latina.

22 "*Las Claves para Lograr Una Integración Energética Regional Más Estrecha*," Bnamericas, June 9, 2022, https://www.bnamericas.com/es/noticias/las-claves-para-lograr-una-integracion-energetica-regional-mas-estrecha.

23 Alfonso Gomez, interview by Pepe Zhang, *Experts of the Americas,* forthcoming; Helga Flores Trejo, interview by Pepe Zhang, *Experts of the Americas,* forthcoming.

24 "Policy Recommendations, IX Summit of the Americas: Building a Sustainable, Resilient, and Equitable Future," Americas Business Dialogue, 2022, 37, recommendation 14, https://americasbd.org/ABD%20Policy%20Recommendations%20-%20IX%20Summit%20of%20the%20Americas.pdf.

Finally, **improved regulatory infrastructure** also creates positive externalities to accelerate regional integration by upgrading LAC's **hard infrastructure (recommendation A above)**. For instance, **well-designed PPP frameworks and projects**, coupled with solid financing structures and risk-mitigation tools, can incentivize private-sector and foreign **investment in connectivity and other types of hard infrastructure**. In Nova Lima, Brazil, an IDB-supported infrastructure and public-lighting PPP led a private-sector investor to replace all streetlights with light-emitting diodes (LEDs) and provide maintenance for fifteen years. This project was commercially viable from the investor's perspective, socially responsible as it made the city safer at night, and fiscally prudent as reduced electricity consumption offset project costs.

Taking such successful public-private partnerships and dialogues from national to regional level, fluid "coordination between regulators and…actors in the Americas" can "increase the competitiveness and attractiveness of the region on a global scale."[25] A robust regional soft infrastructure is, therefore, helpful for establishing LAC as a **reshoring destination (recommendation C below)**, among other things.

C. PRIORITIZING NEARSHORING AND RESHORING

As global economic and geopolitical events have triggered a reshuffling of supply chains in recent years, the groundwork is being laid for greater production relocation to the Americas. IDB estimates that potential **nearshoring** investments could translate into $78 billion in export gains for LAC in the medium term.[26] Greater regional integration and coordination, coupled with domestic reforms and efforts to boost competitiveness, are key "**pull factors"** for making reshoring and nearshoring a reality in LAC.[27]

The Alliance for Development in Democracy (ADD), for example, brings together Costa Rica, the Dominican Republic, Panama, and Ecuador to synergize trade and investment-attraction efforts. As ADD and other governments start taking decisive actions to foster reshoring, the international and local private sectors may follow suit. **Multinational companies (MNCs) can contribute to—and benefit from—more efficient and resilient supply chains in LAC,** whether by enhancing LAC's **hard and soft integration infrastructure** or facilitating **technical know-how sharing and workforce development**. Gap Inc. is one of many companies increasing sourcing from Mexico and Central America while providing supplier training in the region.[28]

To help companies operating in the region capitalize on the opportunity nearshoring presents, IDB Invest—the IDB's private-sector arm—approved $1.2 billion in loans in 2021 through trade and supply-chain financing, blended financing, and partial credit enhancements or risk-sharing guarantees.[29] These loans can "help generate additional funding, including financing from other multilateral organizations, and mobilize resources from the public and private sectors," spurring further investment. Companies interested in diversifying supply networks may utilize opportunities like this to shift production toward LAC and away from far-flung supply chains vulnerable to geopolitical instability and concentration risks.

Partnership Examples

A great example of how the private sector is advancing **regional integration**—specifically, through the **improvement of soft infrastructure (recommendation B above)**—is ConnectAmericas, the first social business network in the Americas dedicated to promoting international **trade and investment**. Created by IDB, with support from anchor partners DHL, Google, MasterCard, Meta, and SeaLand, ConnectAmericas helps LAC SMEs to operate across borders, export, grow, and access **regional and international supply chains**. ConnectAmericas works toward these goals by joining forces with diverse partners to produce and deliver cutting-edge knowledge products and training programs tailored to the needs of small businesses. It also maps out financing opportunities and connects users to relevant business networks.

ConnectAmericas also works through flagship initiatives to expand its offerings and impact. One key program is Women Growing Together in the Americas, established in 2021 to support women-led enterprises in three main areas: capacity building and production improvements to facilitate their insertion into foreign trade and value chains; the use and adoption of information and communication technologies to transform and optimize business

25 "Action for Growth," 56, recommendation 13.

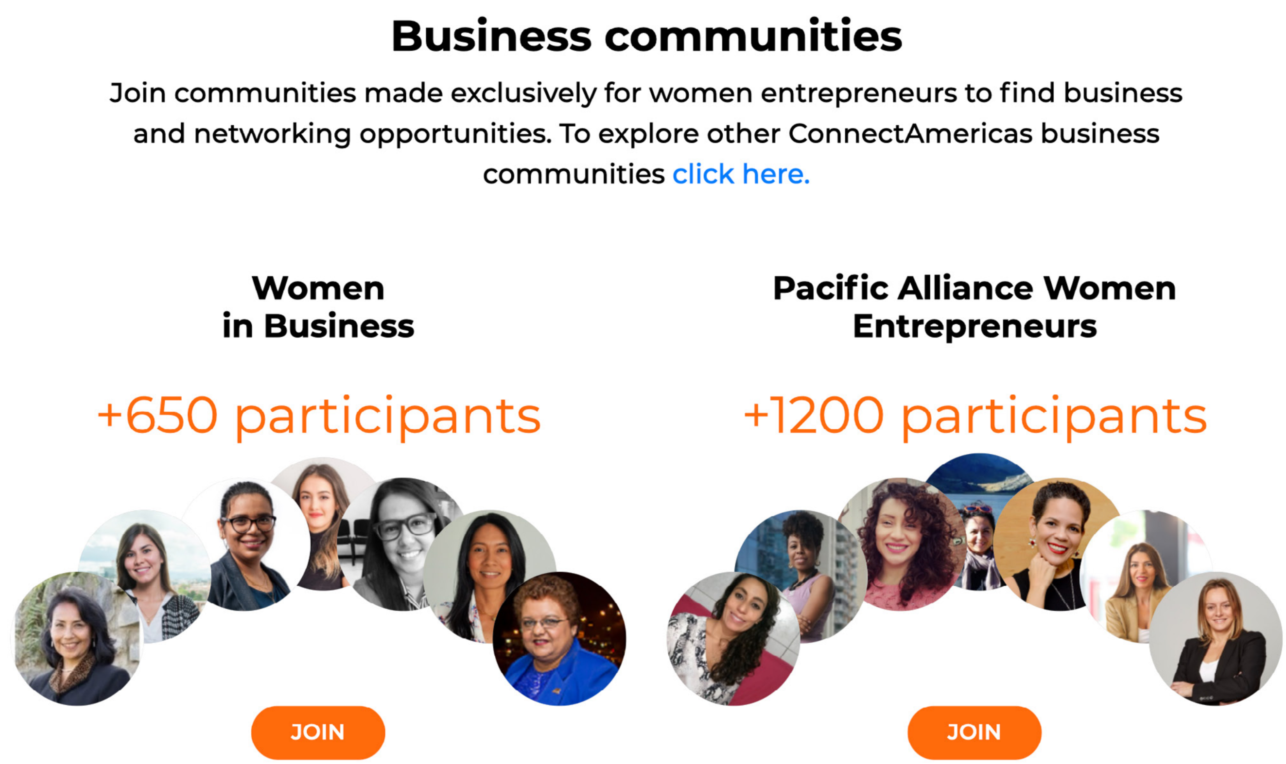
26 "Nearshoring Can Add Annual $78 Bln in Exports from Latin America and Caribbean," Inter-American Development Bank, press release, June 7, 2022, https://www.iadb.org/en/news/nearshoring-can-add-annual-78-bln-exports-latin-america-and-caribbean#:~:text=LOS%20ANGELES%20%E2%80%93%20Nearshoring%20could%20add,to%20estimates%20by%20the%20Inter.

27 Octaviano Canuto, Justin Yifu Lin, and Pepe Zhang, "Geopoliticized Industrial Policy Won't Work," *Project Syndicate*, February 24, 2022, https://www.project-syndicate.org/commentary/geopolitics-no-basis-for-reshoring-production-by-otaviano-canuto-et-al-2022-02.

28 "Capability Building Programs," Gap Inc., last visited January 25, 2022, https://www.gapinc.com/en-us/values/sustainability/esg-resources/human-rights-and-labor-issues/capability-building-programs; Hannah Abdullah, "Gap Inc Expands LatAm Sourcing as Supply Disruption Weighs," *JustStyle*, March 10, 2022, https://www.just-style.com/news/gap-inc-expands-latam-sourcing-as-supply-disruption-weighs.

29 "Nearshoring Can Add Annual $78 Bln in Exports from Latin America and Caribbean"; Factsheet—Ministers and CEO Forum on Trade and Investment," Inter-American Development Bank, June 7, 2022, http://www.iadb.org/document.cfm?id=EZSHARE-1059354427-25.

Figure 6: Screenshot of ConnectAmericas Women initiative



processes; and improvements to financial management to facilitate growth. These training programs reached and integrated a community of more than one hundred and sixty-five thousand female entrepreneurs and women-led SMEs interested in internationalizing their businesses. The program is an essential part of the ConnectAmericas for Women initiative (see Figure 6 above), a special component of ConnectAmericas customized to connect women entrepreneurs with practical business tools and opportunities. Firms including Accenture, Meta, Mastercard, NEC, Visa, and Microsoft are partnering with the new initiative, which builds on the achievements of IDB's #100kChallenge, a campaign that connected, trained, and certified more than one hundred thousand women entrepreneurs in LAC by the end of 2021. The #100kChallenge was a collaboration between the IDB and leading partners including Airbnb, Coca-Cola, Danper, DHL, IBM, Google, Mastercard, Meta, Microsoft, and PepsiCo.

Across all these examples, the participation of private-sector partners was essential. Firms provided critical financial resources to make ConnectAmericas, Women Growing Together in the Americas, and the #100KChallenge possible, channeling resources toward the general design and implementation of these initiatives or to fund specific components of program delivery. In addition, firms often aligned their support with their own core competencies, providing the time and expertise of their staff, technological solutions, knowledge, and connections to enrich these programs for beneficiaries.