

2009 Agency Reports

Inter-American Development Bank (IDB) Integration and Trade Sector (INT)

The Inter-American Development Bank (IDB) is committed to support regional integration in Latin America and the Caribbean as one of the four pillars of its institutional strategy.

To assist member countries in this task, the Integration and Trade Sector (IDB-INT) is developing analytical instruments, preparing studies on the economic and social impact on trade liberalization and regional integration, promoting policy dialogue and civil outreach initiatives and providing regional technical assistance and lending programs.

IDB-INT is strengthening the analytical capacity of member countries to evaluate the potential impact of trade liberalization and regional integration, including through the support and dissemination of CGE model applications and the improvement of the underlying databases. This is a centerpiece of the Bank's regional integration strategy.

In 2008, IDB-INT worked with several CGE-related activities in different fronts, as reported in the activity report 2008. Central America's trade policy options with the European Union on poverty were examined, applying a multi-country framework and two-stage top-down CGE-microsimulation approach for each of the five countries. The impact of the global agricultural liberalization under the Doha Round was evaluated, based on the three pillars of the WTO Agreement on agriculture: market access, domestic support and export subsidies. In view of rising world food prices until the first half of 2008 (albeit followed by a sharp decline, but still remaining at levels in early 2007), their impact on poverty in Central America was assessed, which is characterized by high and chronic poverty.

Major efforts were made to improve and update hemispheric tariff database, incorporating a large number of trade agreements (regional and bilateral), preferential treatments and complementary agreements in place in the hemisphere and European Union.

IDB jointly with ECLAC and INCAE held the second CGE modeling workshop at INCAE in San Jose, Costa Rica, in late November 2008, with the objectives of bringing together researchers and policymakers to stimulate ideas from CGE-related research findings, and to strengthen the analytical capacities to support regional governments,

Related to the GTAP activities in 2008, a new CGE expert (Carlos E. Ludena) joined IDB in late 2008. He has worked extensively to include new countries in the GTAP database in collaboration with UN DESA, ECLAC, and ADB, and will probably continue this work at IDB. Countries contributed include: Costa Rica, Guatemala, Nicaragua, Panama, Ecuador and Lao PDR. Tentative countries from Latin America for inclusion or update in 2009 include: Dominican Republic, El Salvador, Honduras, Jamaica, Mexico, Paraguay and Puerto Rico. Outside the region, countries to include or update in GTAP include: Israel, Kuwait, Thailand, Singapore, Taiwan and Maldives.

In 2009, the IDB-INT is working on the following CGE-related activities:

(1) Development of New CGE Model

This is the initiative launched in 2009 with the objective to build a brand new dynamic CGE model to address and evaluate the accumulated policy impact over time. Following our tradition of trade-focused, multi-region framework, the new model is built on a recursive dynamic framework with a regional focus on

Latin America. The model incorporates several innovations in its modeling structure. Production is constructed on a two-stage nested structure. Private consumption demand is modeled in the Stone-Geary linear expenditure system (LES). The model also incorporates investment demand function, which specifies how new investment is distributed over different sectors. With this new development, IDB-INT now has three lines of distinct models: (i) standard static, scale economies and imperfect competition; and (iii) recursive dynamic models.

The model is being applied to measure the effects of international migration and remittances from Latin America's viewpoint. It uses the recent study on bilateral South-North migration flows disaggregated by three labor categories. This labor disaggregation will allow to capture the effects of skill heterogeneities in emigrant workers and those of labor force in home countries in more details. The model comprises 21 countries and regions-16 countries in Latin America, 3 main destination countries plus 2 additional countries. The preliminary results will be presented at the GTAP annual conference in Santiago, Chile.

(2) Development of New Databases (available in the information and data hub)

Reliable and accurate data is the key for any policy-oriented studies. Since trade liberalization and regional integration are the key areas to support the regional integration strategy at the Bank, trade and protection data are essential. To this end, IDB-INT continues to work to update, clean and construct better databases in these areas, following official sources provided by the respective authorities whenever possible. Based on the new DYNAMO software developed at INT to serve for market access negotiations for Latin America, the applied tariff database (compiled at HTS 8-digit levels) was updated for 2005/06. This database incorporates a wide range of trade agreements and preferential treatments in place in the Americas and with major partners. In addition, DYNAMO has tariff phase-out coverage over the extended period. The major tasks to update database were completed and some additional elaborations will be done. These databases will be, once completed, available in the information and data hub platform at the Bank.

All the resources related to CGE activities will be posted and displayed at the IDB web center. The web center will be an internet-based platform providing information on three main areas of the CGE programs: research, programming, and capacity building initiatives. It will display the model structures, databases, recent methodological developments, technical papers, as well as an interactive technical forum. It also will be a monitoring tool in the organization of policy and technical seminars and conferences, and dissemination activities which are at the core of the programming agendas. In the capacity building front, it will also serve as a training center by displaying materials, databases and further information needed for both trainers and trainees.

(3) Provisions of Technical Assistance to Governments

The line of work in this area has two fronts. First is to provide on demand technical assistance to assist government entities in Latin America to evaluate the potential impact of trade-related policy options. This would be used to prepare the future negotiations and/or to develop comprehensive policy packages. Second to provide capacity building in CGE activities, particularly training programs for government entities to develop their own in-house technical expertise. In these areas, the IDB-INT is closely and actively working with government authorities.

In early 2009, based on the request from the Ministry of Economy of Mexico, the IDB-INT provided brief technical assessment on evaluating the impact of a free trade agreement with two countries, separately. Also, in 2009, at the request of the Ministry of Labor of Peru, IDB-INT will provide technical assistance consisting of three components: (i) an updated CGE model to evaluate the impact of the FTAs with the United States, European Union and China on Peruvian labor markets; (ii) a policy-focused study on trade and labor markets; and (iii) a training program to government officials to build institutional capacity in the use of the CGE models.

(4) Co-organization of the Global Trade Analysis Project (GTAP) Annual Conference 2009

The 12th GTAP Annual Conference will be held in at the premises of the United Nations' Economic Commission of Latin America (ECLAC) in Santiago, Chile, between June 10 and 12, 2009, event which will be co-organized by ECLAC, IDB and the GTAP Center of Purdue University. Since the Annual Conference in Helsinki, Finland, last year, IDB has been working closely with ECLAC and the GTAP Center in every phase in the preparation of the forthcoming Conference. IDB also has provided financial support to this event. Since 2007, ECLAC and IDB launched the regional CGE workshops with a focus on Latin America, for the purpose of bringing together researchers and policymakers, stimulate the exchange of ideas and disseminate CGE-related outputs and materials, and reinforce CGE-related research network in the region. Co-organizing the GTAP Annual Conference will help achieve these founding goals.

(5) Dissemination of in-house Technical Analysis

By the end of this year, INT is programming the publication of a book that explores the welfare, poverty, and distributive effects of international migration in Latin America. The book will include chapters on the analysis of general and partial equilibrium effects, as well as case studies of successfully implemented temporal migration programs. The first chapter of the book will show the results of the CGE model developed by IDB-INT addressing the impacts of international migration, through labor movements and remittance transfers.

In the meantime, related to the provisions of technical assistance to the governments mentioned in the previous section, IDB-INT and the Ministry of Labor of Peru will coordinate dissemination activities. They would probably include a formal presentation of the results among policymakers and stakeholders, and the publication of a policy paper at the end of the program.

Publications, Reports and Presentations

Giordano, P., M. Méndez Parra and M. Watanuki, (2008) "La Agricultura en El Programa de Doha para El Desarrollo", J.J. Nogues (ed.) *Proteccionismo Agrícola y Pobreza en America Latina*.

Giordano, P., M. Méndez Parra and M. Watanuki, (2008) *Agriculture in the Doha Development Agenda: An Opportunity for Latin America?* IDB-INT Policy Note 03, IDB.

Giordano, P. and M. Watanuki, (2008) *Evaluating the impact of trade agreement for Central America: Does trade integration improve poverty and inequality?* Paper presented at the GTAP Eleventh Annual Conference, in Helsinki, Finland, June 12-14, 2008.

Giordano, P. and M. Watanuki, (2008) *Trade, Poverty and Distribution in Central America: Does regional integration improve poverty and inequality?* Paper presented at the second Latin American CGE Modeling Workshop in San Jose, Costa Rica, November 24-25, 2008.

Giordano, P, and M. Watanuki, (2008) *Rising Food Prices for Central America: Are they a boon or calamity for the poor?* (draft).