

## 2010 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 2009, IDB-INT worked with several CGE-related activities in different fronts, as reported in the previous activity report. One of the major efforts is the completion of constructing a new dynamic CGE model. Following our tradition in a static modeling, the new model is built on a trade-focused, multi-region, recursive dynamic framework with a regional focus on Latin America. With the completion of new modeling, INT now has three lines of distinct models: (i) static, (ii) scale economies and imperfect competition; and (iii) recursive dynamic. With the update of new database, based on the GMig2 database provided by the GTAP Center, the model is being applied to the evaluation of international migration and remittances.

The second is the development of new database available in the information and data hub. Reliable and accurate data is the key for policy-oriented studies. Since trade liberalization and regional integration are the key areas to support the regional integration strategy at the Bank, data on trade and protection is critical. Following official sources whenever possible, IDB-INT continues to update, process and construct better databases after constructing new database in 2008. Tariff database was updated for 2005/06, and trade is recently updated for 2008. This database incorporates a wide range of trade agreements and preferential treatments in place in the Americas and with major partners. The major tasks were completed and some additional elaborations continue to be done. These databases, once completed, will be 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 third area is concerned with the provision 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. These inputs are designed to be used to prepare the future trade negotiations and/or to develop comprehensive trade and domestic policy packages. In 2009, IDB-INT worked for Mexico, Colombia and Peru. Second is to provide capacity building in CGE activities, particularly training programs for government officials to develop their own in-house technical expertise or to get accustomed to the use of CGE models. In this area, the IDB-INT is closely and actively working with government authorities. CGE training courses were provided in Paraguay (Ministry of Finance), Costa Rica (Ministry of Trade) and Venezuela (Central Bank of Venezuela).

The fourth was to co-organize the 12<sup>th</sup> GTAP Annual Conference in Latin America in joint with ECLAC, IDB and the GTAP Center of Purdue University. The 12<sup>th</sup> Annual Conference was held at the United Nations' Economic Commission of Latin America (ECLAC), Santiago, Chile, in June 2009. Since 2007,

ECLAC and IDB launched the regional CGE workshops with a geographic focus on Latin America, with the purpose of (i) bringing together researchers and policymakers, (ii) stimulating the exchange of ideas and disseminating CGE-related outputs and materials, and (iii) reinforcing CGE-related research network in the region. Co-organizing the GTAP Annual Conference with ECLAC aims to achieve these founding goals.

The fifth was the dissemination of in-house technical analysis. The major task in this area in 2009 was the evaluation of trade agreements on labor market, at the request of the Ministry of Labor of (Peru) in close cooperation with the client. Based on detailed labor market data—a 96-disaggregated by region, gender, skill and age—provided by the Ministry, IDB-INT model evaluated the on labor of the impact of three sets of trade agreements with the United States, European Union and China. The final report was formally provided to the Peruvian Government in December 2009, with a policy presentation in Lima, Peru, in February 2010. Other tasks include trade policy evaluations for Mexico in January and Colombia in September. In the meantime, the model was also used to evaluate the impact of the Association Agreement Central America and European Union to prepare for the Bank’s sectoral strategies in trade and integration for Costa Rica and Honduras.

In 2010, the IDB-INT expands the scope of CGE modeling services and is working on the following activities:

**(1) Update and Upgrade of CGE Model and its Database**

This line of work is the continued activities since last year, and has three components: (i) upgrading the recursive dynamic model; (ii) updating trade and tariff data; and (iii) CGE web center. The first task of upgrading the dynamic model is already completed. The model is applied for the evaluation of the impact of international migration and remittances, whose results will be presented at the 13<sup>th</sup> GTAP Annual Conference in Bangkok. Regarding the second component, trade flows are updated for 2008, and they are incorporated into the new SAMs. In the meantime, applied tariffs for some countries in Latin America are also updated, based on the submissions of official tariff data provided by the respective countries.

**(2) CGE web center**

An internet-based CGE interactive web center is under construction, and the first phase of the project will be ready by the end of this year. The CGE Web Center will include information about the in-house INT-IDB CGE Model, a series of databases nurturing the model, as well as useful information to policymakers and modelers across the region on the tool. Information about publications, conferences, and training workshops offered by INT-IDB will also be included.

**(3) Publications of CGE-related Activities**

The work largely consists of (i) policy brief; (ii) policy technical paper; (iii) power point presentations and (iv) book and publications. This year trade-related policy brief is already done for Peru and Central America, and migration-related policy brief will be planned for Colombia. Additionally, for each policy brief, a power point presentation will be prepared in order to deepen and support the dissemination of the main results.

Regarding the second component, policy paper is planned for three areas: migration; transport costs; and climate changes. On the third, IDB-INT plans to publish two books: trade adjustment program; and assessment of public policy.

**(4) CGE-related Capacity Building**

This year, IDB-INT comes up with four capacity building activities: two training workshops and two migration-related seminars. Training workshops are planned for the Ministry of Labor in Peru and Central

America. On the other hand, the migration seminars will be carried out in the Caribbean and the Southern Cone (Mercosur). All of these activities will be carried out in the second half of this year.

#### **(5) ECLAC/IDB Joint Initiative of Regional CGE Workshop**

This year Latin America regional CGE workshop will be held at the IDB's INTAL office in Buenos Aires. This workshop will be the third ECLAC/IDB joint initiative launched in 2007. Date will be decided and announced shortly. In the meantime, the activities of the first two workshops will be published, with the tentative title "An Assessment of Public Policy in Latin America", by the middle of this year.

In the meantime, CGE-related activities are also being carried out at the Infrastructure and Environment Sector in several areas. They include:

1. Analysis of total factor productivity growth in Latin American countries.
2. Analysis of estimated change in worldwide agricultural productivity due to climate change and impacts on food industry, which will be presented at GTAP conference.
3. Analysis of estimated change in crop yields in Latin American countries due to climate change and impacts on food industry.
4. Analysis of poverty impacts of EU-Andean countries on Bolivia (with Roberto Telleria).
5. Currently working on analysis of carbon content of agricultural trade in Latin America.

#### **Publications, Reports and Presentations**

Paolo Giordano and Masakazu Watanuki, (2009) *Is the Threat of Food Crisis Over?: Implications of Rising Food Prices on Central America*, GTAP Twelfth Annual Conference at the Economic Commission for Latin America and the Caribbean (ECLAC) in Santiago, Chile, June 10-12, 2009.

Julio Guzman and Masakazu Watanuki, (2009) *Measuring the impact of international migration and remittances for Latin America*, GTAP Twelfth Annual Conference at the Economic Commission for Latin America and the Caribbean (ECLAC) in Santiago, Chile, June 10-12, 2009.

Paolo Giordano, Ernesto López Córdoba, Masakazu Watanuki, (2009) *INT Computable General Equilibrium Model Impact Evaluation Briefing: An Assessment of Mexico's FTAs with Brazil and Peru*, Vice presidency of Sectors and Knowledge (VPS), Trade and Integration Sector (INT), January.

Paolo Giordano, Julio A. Guzman Cecere, Masakazu Watanuki, (2009) *INT Computable General Equilibrium Model Impact Evaluation Briefing: A Preliminary Assessment of Venezuela's Quantitative Restrictions on Colombian Exports*, Vice Presidency of Sectors and Knowledge (VPS), Trade and Integration Sector (INT), September.

*Honduras: Sectoral Note on Trade and Integration*, Vice Presidency of Sectors and Knowledge (VPS), Trade and Integration Sector (INT), recently revised in February 2010.

*Costa Rica: Sectoral Note on Trade and Integration*, Vice Presidency of Sectors and Knowledge (VPS), Trade and Integration Sector (INT), draft in April 2010.

*Impacto de los TLCs con Estados Unidos, La Unión Europea, y China en la Economía Peruana*, (2010) Vice-Presidencia de Sectores y Conocimiento (VPS), Sector de Integración y Comercio (INT), Enero.

*Impacto en el Mercado Laboral Peruano en la Implementación de los Tratados de Libre Comercio con los Estados Unidos, la Unión Europea y China: Estimaciones utilizando un Modelo de Equilibrio General Computable*, Vice-Presidencia de Sectores y Conocimiento (VPS), Sector de Integración y Comercio (INT), Diciembre 2009.

Miguel J. Baanante, (2010) *Políticas para el Mercado Laboral de Cara a los Tratados de Libre Comercio: Informe Preliminar para Comentarios*, simulation results are provided as inputs with the application of the IDB-INT CGE model, Diciembre 2009.

Carlos E. Ludena, (2009) *Spatial Impacts of Trade Liberalization on the Agricultural Sector of Ecuador*, presented at the International Association of Agricultural Economists (IAAE) Conference in Beijing, China, August 16-22, 2009.