



Global Trade Analysis Project

Baseline Projections of Global Trade

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Motivation

- Baseline projections are a key component of dynamic modelling
 - Foundation of any successful evidence-based policy analysis (several variables and mechanisms that need to be accounted for)
- This paper adds to these efforts by analyzing demand-side drivers of international trade
 - The insights of this numerical analysis will determine the importance (or not) of accounting for this mechanism
- It improves the ability to run trade-based policy simulations that are a better reflection of reality.
 - Interest in historical validation of models and the implications of such exercises for policy analysis.



The issue

- **Baseline scenario should reflect all past and future expected changes in economies**
 - Crafting a baseline can be a demanding exercise
- **In spite of many inputs and careful implementation**
 - can still fail to account for observed global trade changes



Methodology

- **GTAP Recursive Dynamic (GTAP-RD) model (Aguiar et al., 2018)**
 - Twist mechanism (Dixon and Rimmer, 2002), which allows for exogenous preference changes in commodity demands domestic versus imported goods, and imported goods across trading partners) in a cost-neutral way
- **Replicate actual changes in global trade from 2014 to 2018 using the GTAP time-series data on top of a typical baseline scenario**
 - Calibrated twist parameters are used for out-of-sample period