

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 Regional Programs Department (IDB-INT) is developing analytical instruments, preparing studies on the economic and social impact of trade liberalization and integration, promoting policy dialogue and civil society outreach initiatives and providing regional technical assistance programs. As member of the Tripartite Committee (together with the Organization of the American States and the United Nations' Economic Commission for Latin America and the Caribbean) it has been providing technical support to the Free Trade Area of the Americas (FTAA) negotiation process, in particular - though not exclusively - in the areas of market access, agriculture, rules of origin, customs and government procurement and by maintaining the Hemispheric Database of applied trade tariffs.

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, is a centerpiece of the regional integration strategy.

Policy Research in 2003-2004

IDB-INT has developed and keeps updated an original CGE model based on an enriched version of the GTAP database. It has carried out several studies on the sub-regional integration processes of the Common Market of the South (MERCOSUR), the Central American Common Market (CACM), the Andean Community (AC) and on North-South integration initiatives such as the FTAA and the EU-MERCOSUR Association Agreement negotiations.

During 2003 and 2004, IDB-INT has focused its CGE model related activities on the inclusion of smaller Latin American economies in the GTAP compatible database by constructing Social Accounting Matrixes (SAM) and Input-Output (I-O) tables and by gathering and processing quantitative information on trade flows and trade protection instruments.

In particular, IDB-INT conducted new simulations to measure the economic and social impact of trade liberalization in the smaller economies of MERCOSUR (Paraguay and Uruguay), which nurtured national and regional policy dialogues on trade and integration with member countries and were or are in the process of being incorporated in the relevant IDB's country and regional programming strategies. Likewise, a policy-oriented study evaluating the economic impact of hemispheric and U.S. bilateral agreements for the Andean Community (including Bolivia and Ecuador) is under way.

IDB-INT continued to provide support to the Working Group on EU-MERCOSUR Negotiations organized by the Mercosur Chair of Sciences Po, jointly with the DG Trade of the European Commission, the French Ministry of Foreign Affairs and the Brazilian Ministry of External Relations. In 2003, the Working Group published three formal studies based on CGE models simulations, which apply the GTAP database and/or the GTAP modeling framework. These

studies were discussed in high level policy workshops that gathered CGE modelers, trade negotiators and policymakers from both regions.

IDB-INT has also completed two studies on agricultural policy reforms in the Americas. These studies include several CGE simulations based on an enriched version of the GTAP database that includes a number of agriculture trade impediments such as ad valorem equivalents of specific, mixed and compounds tariffs, tariff-rate-quotas (TRQ) and domestic support measures. One study has been published in a book titled “Integrating the Americas: FTAA and Beyond”, edited by A. Estevadeordal, D. Rodrik, A. Taylor and A. Velasco (Harvard University Press), while others are forthcoming in a book edited by Marcos Jank and published by the IDB.

In an attempt to promote the participation of Latin American specialists in a worldwide dialogue among CGE modelers, IDB-INT has published 14 CGE based studies in *Integration and Trade* (Nos. 17-18), a refereed journal on trade and integration policy issues published by the Institute for the Integration of Latin America and the Caribbean (INTAL) of the IDB. These studies will bring to the attention of a wider public the proceedings of a high level policy conference jointly organized with the Centre d’Etudes Prospectives et d’Informations Internationales (CEPII) and held in 2001 at the IDB Headquarters. The papers have also been published in France in *Economie Internationale*.

Cooperation Activities in Latin America and the Caribbean

In 2003 IDB-INT launched several initiatives aiming at furthering technical cooperation with IDB member countries with the objective of building and diffusing CGE modeling capacities in Latin America and the Caribbean. Through these initiatives IDB-INT is providing the region with a specific regional public good constituted by the mix of state-of-the-art technical expertise and publicly available accurate and updated GTAP compatible databases.

Capacity building activities initially focused on the countries of the Andean sub-region with whom IDB-INT established formal CGE model related Cooperation Agreements. Under these Cooperation Agreements IDB-INT provided technical training in CGE modeling applications, exchanged and tested GTAP compatible databases on trade and tariffs, organized technical workshops and policy-oriented conferences and directly provided customized technical support for the Andean area both at IDB’s Headquarters and in the countries themselves.

Cooperation Agreements were activated with Colombia and Peru, while exploratory talks are well advanced with Ecuador and Bolivia. In addition, in 2004 IDB-INT also started the execution of a Regional Technical Cooperation program which aims - among other objectives to support the acquisition of a CGE model in the Andean Community’s Technical Secretariat and at strengthening its capacity to carry out independent simulations.

In MERCOSUR, IDB-INT is executing a Regional Technical Cooperation program with the objective of elaborating a new CGE model featuring scale economies and imperfect competition, a better representation of services industries, an accurate quantification of agriculture trade distorting policies in the US and the EU, an adequate modeling of short term adjustment costs in labor markets and, possibly, including rules of origin. The model is developed in collaboration

with academic experts and public institutions originating in Brazil and Argentina and will be released to MERCOSUR countries when ready. This experience is meant to be a pilot project that may be replicated in other sub-regions.

For South American countries, in 2004, IDB-INT also supported through the Institute for the Integration of Latin America and the Caribbean (INTAL) the first regional course on CGE modeling, in order to meet a growing demand for CGE models related capacity building activities. The course, delivered by the GTAP team of Purdue University, was organized in two stages: a web-based course aiming at preparation and selecting the best candidates and intensive on-site computer-based technical training. The latter was held in the INTAL headquarters in Buenos Aires and was attended by 22 public officials originating in almost all countries of South America.

At the scale of the whole region, taking advantage of its comparative advantage in the collection of quantitative information on trade flows and on applied MFN and preferential tariffs rates, IDB-INT has invested heavily in the improvement and update of GTAP compatible databases. IDB-INT collected several new I-O tables from some major Latin American countries and developed new ones for a number of smaller economies of the region. Meanwhile continuous efforts are made to update hemisphere-wide protection data, incorporating ad valorem equivalent of agriculture protection instruments and incorporating key regional agreements emerging in the Western Hemisphere.

Finally, IDB-INT is a co-organizer of the Seventh Annual Conference on Global Economic Analysis to be held in Washington, D.C. in June 2004. In the Annual Conference IDB-INT organized a special session on “Trade Protection in Agriculture” and organized and hosted a Plenary Session on “Regional Integration in the Americas”, featuring the participation of senior Latin American trade officials as well as expert CGE modelers from the Western Hemisphere.

Areas of Future Activity

Ongoing efforts continue to focus on sub-regional integration, the hemispheric process and bilateral and/or bi-regional trade negotiations between Latin America and other countries or regions, particularly the United States, the European Union and Asian emerging economies.

Particular attention will be dedicated to improving the modeling of Latin American countries, through the refinement of analytical models, the acquisition and development of updated input-output matrixes and the improvement of the GTAP databases, particularly as it concerns the accurate measurement of trade flows and preferential trade tariffs.

Future developments of the IDB-INT CGE model will focus on: i) the inclusion of Central American countries in the current multi-region model; ii) a refinement of the model in order to allow the analysis of the distributive impact of trade liberalization; iii) the explicit modeling of trade related policy instruments of particular interest for Latin American countries, such as domestic support subsidies, tariff-rate-quotas, rules of origin, etc.; iv) and the development of new specifications of the model suited to address the specific needs of selected Latin American sub-regions.

CGE model related activities of IDB-INT will be carried out in close coordination with member countries under the terms of the Cooperation Agreements already active and/or under negotiation and in the framework of Regional Technical Cooperation programs in execution and/or in the identification phase.

IDB-INT would also welcome the cooperation with other international organizations, which aim to strengthen regional integration and to build trade-related capacities in Latin America and the Caribbean.

Research Papers and Publications

Publications

Monteagudo, J and M. Watanuki (2003) “Regional Trade Agreements for MERCOSUR: A Comparison between the FTAA and the FTA with the European Union”, *Economie Internationale*, v. 94-95, 53-76.

Berrios M., J. Granados, M. Jank, J. Monteagudo, and M. Watanuki, (2004) “Prospects and Challenges for the Liberalization of Agricultural Trade in the Western Hemisphere”, Chapter 8 of the *Integration in the Americas: FTAA and Beyond*, edited by A. Estevadeordal, D. Rodick, A.M. Taylor, and A. Velasco, the David Rock Center for Latin American Studies of Harvard University.

Monteagudo, J and M. Watanuki, “Agricultural Reform in the Western Hemisphere and the European Union: Effects on Latin America”, Chapter 2 of the *Agricultural Liberalization in the FTAA and the WTO*, coordinated by Marcos S. Jank, Inter-American Development Bank, Washington DC, (forthcoming).

Monteagudo, J and M. Watanuki, “An Empirical Assessment of North-South and South-South Agreements for Latin America”, *South-South Cooperation*, United Nations Development Program, New York, (forthcoming).

Policy Reports

Giordano, P.(2003) “Paraguay: Nota Técnica sobre Comercio e Integración”, mimeo IDB-INT, November, (with contributions of D. Capriolo and M. Watanuki).

Monteagudo, J and M. Watanuki, (2003) “Impact of Regional Trade Agreements on Uruguay’s Exports”, mimeo IDB-INT, December.

Conference Presentations

Monteagudo, J and M. Watanuki, “Impact of Agricultural Reform in the Western Hemisphere and the European Union on Latin America: Bright Prospects or Distant Illusions?,” presented at the Sixth Annual Conference of the Global Economic Analysis, held in the Hague, Netherlands on June 12-14, 2003.

Monteagudo, J and M. Watanuki, “Use of CGE Models: Impact on Trade Agreements,” discussed at the Latin American Trade Network, held in Mexico DF, Mexico, on November 13-14, 2003.

Monteagudo, J and M. Watanuki, “Agricultural Reform in the Western Hemisphere and the European Union on Latin America,” organized by the Food Agricultural Organization, held in Brasilia, Brazil on November 25-26, 2003.

Supported Studies

The 3 study volume “The Costs of Opting Out: the EU-Mercosur Agreement and the Free Trade Area of the Americas”, prepared by the Working Group on EU-MERCOSUR Negotiations and published by the Chaire Mercosur Sciences Po.