

## 2007 Agency Reports

### Inter-American Development Bank (IDB) Integration and Regional Programs Department (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 Regional Programs Department (IDB-INT) is developing analytical instruments, preparing studies on the economic and social impact on trade liberalisation and regional integration, promoting policy dialogue and civil outreach initiatives and providing regional technical assistance programs.

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

Currently, the IDB-INT is involved in the following activities:

#### **Impact of Trade Policy Options on Poverty in the Andean Region**

The objectives are to: (i) analyze the impact of trade policy options; and (ii) reinforce the existing INT CGE model with a poverty module. The targets are the Andean countries (Bolivia, Colombia, Ecuador, Peru and Venezuela). With an updated database, this study was conducted in a two-step top-down approach. In the first stage, trade policy options were evaluated with the INT CGE model. At the second stage, the impact on distribution and poverty was undertaken with a microsimulation analysis for 3 countries (Bolivia, Colombia and Peru).

#### **Multilateral Agriculture Liberalization**

The objective is to analyze the impact of agricultural liberalization in Latin America. The analysis is carried out for the three pillars of agriculture trade negotiations in the Doha Round: market access, domestic support and export competition. Trade protection includes *ad valorem* equivalents of specific, mixed tariffs and TRQs. Domestic support measures are elaborated using OECD PSE data reconciled with WTO "boxes". Export subsidies are updated using WTO notifications. The model incorporates key agricultural sectors and commodities, particularly in processed foods, in order to consider tariff escalation. The analysis identifies key agricultural countries and incorporate twelve sub-regions in Latin America. The newly developed INT CGE model for agriculture evaluates the impact of scenarios based on actual proposals submitted to the negotiations by major WTO players, particularly the EU, US and G20.

#### **Regional CGE model for Mercosur**

The a new CGE model called the AMIDA (Analyzing Mercosur's Integration Decisions and Agreements) and built on the best available database was developed for Mercosur countries (Argentina, Brazil, Paraguay and Uruguay). One key aspect of the AMIDA model is the non-competitive behaviour modelled in some sectors. This treatment allows, for example, to compute short and long run solutions allowing the number of firms to be endogenous. The project also included: (i) on-site training in CGE modelling (applications and data construction) for country officials; and (ii) regional workshops or seminars to present and disseminate the results of project to government officials, the business community and academic groups.

### **CGE-related capacity-building activities**

IDB-INT's CGE-related capacity-building activities are framed by Cooperation Agreements with LAC Countries and Sub-regions. IDB-INT subscribed Cooperation Agreements with the Andean Secretariat, 3 Andean countries (Colombia, Ecuador and Peru), five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) and one country in the southern Cone (Argentina). The key objectives are: (i) to assist in constructing or improving CGE models for individual countries to carry out in-house trade policy analysis; (ii) to improve databases and share them as public goods; and (iii) to exchange ideas and information to strengthen CGE related activities in Latin America.

### **Impact of Trade Policy Options on Poverty for Central America**

A new ongoing project aims at supporting the analytical capacity of Central American countries to evaluate forthcoming trade and integration negotiations, particularly with the European Union. The specific objectives are: (i) to allow Central American countries to assess the impact of different trade and integration scenarios on poverty, particularly in the context of the CACM-EU bi-regional negotiations and to identify appropriate policy interventions; and (ii) to scale up the methodologies and approaches developed and applied by INT in CGE modeling and distributional analysis.

The project has four main components: (i) construction and/or update of national CGE compatible datasets. SAM supplied from CEPAL and IFPRI will be updated and linked with most recently household survey data. (ii) extension and elaboration of the INT CGE model accommodating Central American specificities. One key area is the elaboration of the model structure to take into due account Maquila trade (off-shore re-export operations, mainly in the textiles and apparel sector) (iii) evaluation of poverty and inequality impacts. The impact of the CACM-EU bi-regional negotiations will be analyzed with the use of microsimulation analysis or FGT (Foster-Greer-Thorbeck) approach for selected countries. (iv) diffusion, dissemination and capacity building, designed to disseminate the results of policy studies among policy makers, private sectors and business community. (v) on-site training to professionals in government offices and researchers.

### **Regional Workshop on CGE Modeling in Latin America and the Caribbean**

The workshop, co-organized jointly with the UN Economic Commission for Latin America and the Caribbean (ECLAC) and CEPPII, was held at the ECLAC facilities in Santiago (Chile) on April 11-12 2007. The goal of the workshop was: (i) to promote dialogue among development agencies, policy makers, researchers in government offices and academics; (ii) to bring together a nucleus of experts to exchange ideas on CGE modeling; (iii) to analyze and share key findings of CGE-related research in Latin America and the Caribbean. As attendance to the workshop was unexpectedly high, the decision was taken to further strengthen and institutionalize the support to the CGE community in LAC.

### **Support to PEP Annual Meeting**

The Poverty and Economic Policy (PEP) Research Network will hold its sixth General Meeting in June 2007 in Lima (Peru). Its goal is to bring together and provide support to researchers in developing countries who work on trade and poverty. Specific objectives are to: (i) better understand the causes and consequences of poverty; (ii) propose alternative strategies, policies and programs to reduce poverty; (iii) improve the monitoring and measurement of poverty; (iv) develop local research and training capacity in these areas; and (v) develop new concepts and methodologies through research. IDB supports the PEP to organize its first General Meeting in Latin America. This meeting will also inaugurate the PEP Policy Forums. The objective of the Trade and Poverty Policy Forum share knowledge and expertise among policy makers and researchers, particularly in the field of trade and poverty.

## **Update and New Database Construction for INT CGE Modeling**

IDB-INT is working to construct a new database as a background for future CGE modelling activities. The dataset includes updated tariff data at HTS 8 digit for Latin American countries and their key trade partners, covering key trade agreements and preferential schemes in place in the Western Hemisphere. Efforts also extend to establish workable household survey data for some selected countries to carry out quantitative analysis on trade and poverty.

## **Presentations/Workshop**

Paolo Giordano and Masakazu Watanuki, December 2006, The Use of CGE Models for Policy Discussions and Evaluation, in cooperation with Center for International Economics, at INTAL-IDB, in Buenos Aires, Argentina.

## **Publications and Reports**

Paolo Giordano, Maximiliano Méndez Parra, and Masakazu Watanuki, “The Andean Countries at a Crossroads: In Search of Trade and Integration Options”, IDB (under process).

Paolo Giordano, Maximiliano Méndez Parra, and Masakazu Watanuki, “Andean Community-US Free Trade Agreement: Impact on Poverty and Inequality in Bolivia, Colombia and Peru”, IDB (under process).

Paolo Giordano, Maximiliano Méndez Parra, and Masakazu Watanuki, “Doha Round in Agriculture: Lost Opportunity for Latin America and the Caribbean”, IDB (under process).

Flôres, Renato G. Jr., and M. Watanuki, (2006) "Technical Manual of the IDB-INT AMIDA CGE Model: Overview, Description, Calibration, SAMs and Operation", IDB, Washington, DC.

Flôres, Renato G. Jr., and M. Watanuki, (2006) "Integration Options for a Southern Bloc: Development and Competitiveness Issues", World Development, (under process).

Giordano, P. and Quevedo, F. (2006) “Apertura e Inserción Internacional en la Estrategia de Desarrollo de Uruguay”, INTAL Discussion Paper, IDB, Washington, DC.