

## 2008 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 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.

Currently, the IDB-INT is working on the following activities:

#### **An Evaluation of Trade Policy Options on Poverty for Central America**

This is the new project initiated last year to support the analytical capacity of Central American countries in preparation of 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 CGE-model on poverty and distribution 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 specifics unique to subregion and/or respective Central American countries. One key area underway is the elaboration of the model structure for the maquila. (off-shore operation for re-export for textiles and apparel) (iii) evaluation of poverty and inequality impacts. The impact of the CACM-EU biregional 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 as an outreach program, and to provide on-site training to professionals in government offices and researchers. The project is in final stage. Based on simulation exercise by CGE model, the microsimulation was carried out for all five Central American countries to evaluate the impact on poverty and inequality.

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

The project is to contribute to support the evaluation of trade and integration policies on poverty reduction for the Andean countries. The specific objectives are: (i) to strengthen the capacity to assess the impact of trade and integration on poverty; and (ii) to support the adoption of pro-poor trade related strategies. The project is two-fold. The first stage is designed to evaluate the impact of various possible trade and integration options, using the newly developed INT CGE model. The second stage is to assess the impact of the bilateral trade agreements of the Andean countries with the United States on poverty. Specifically the microsimulation analysis was undertaken for 3 countries (Bolivia, Colombia and Peru). The project was completed, and output is being processed.

## **An Evaluation of Global Agriculture Liberalization**

The objective is to analyze the impact of global agricultural liberalization for Latin America negotiated under the auspices of WTO Doha Round. The study was carried out by using the newly developed global CGE model, which incorporates key agricultural sectors including processed foods, identifying key countries and subregions in Latin America. Based on the official proposals made by major players in the Doha Round (EU, US, and G20), the impact of global agricultural linearization was evaluated on three pillars of the WTO's Agreement on Agriculture: market access, domestic support and export competition. The study was completed in 2007, and study outputs are in the process of publication as an integral part of wider analysis of agricultural protection and poverty.

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

Reliable data with due accuracy is the key to carry out policy-oriented studies. In particular, trade and protection data are the key for trade-focused policy evaluations. To this end, IDB-INT continues to work to update and construct new database in these areas. Tariffs for Latin America are updated for 2005/06, based on the new DYNAMO software developed at INT, which incorporates wide range of trade agreements and preferential treatment in place in the Americas and with major partners as well as phase out compiled at HTS 8-digit levels. The major tasks were completed, with some update.

## **Regional Workshop on CGE Modeling in Latin America and the Caribbean (2008)**

This is a unique initiative launched in 2007 that brings together researchers and policy makers with a regional focus on Latin America and the Caribbean. It provides a regional platform to discuss and stimulate the exchange of research findings, data and CGE methodologies. The objectives of the workshop are to promote a better understanding of policy issues, opportunities and challenges analyzed by the use of CGE models and to strengthen analytical capacities to support regional governments in the process of policy formulation and implementation. The workshop will be held in late fall (under preparation) with a joint effort among IDB, ECLAC, and INCAE. Details will be announced shortly.

## **An Evaluation of Rising Agricultural Commodity Prices**

This is also a new study to be launched this year to examine the impact of rising agricultural commodity prices on social well-being, particularly for the vast majority of the poor. The prices of basic food commodities have increased rapidly in the past, and the speed is accelerating over the last couple of years. The study aims to assess what rising food prices at the global level mean for the poor in Latin America. Based on most recent projections made by specialized agencies, the study will evaluate: (i) the impact of an increase in global agricultural commodity prices; and (ii) the impact of possible policy responses.

## **Publications and Reports**

Paolo Giordano, Maximiliano Méndez Parra, and Masakazu Watanuki, "La Agricultura en El Programa de Doha para El Desarrollo", J.J. Nogues (ed.) *Proteccionismo Agricola y Pobreza en America Latina*, (under process).

Stabilito Augusto and Masakazu Watanuki, Technical Manual of IDB-INT Tariff Database for CGE Modeling, (under process).

Flôres, Renato G. Jr., and Masakazu Watanuki, (2008) "Integration Options for MERCOSUR: A Quantitative Analysis by the AMIDA Model", INTAL-INT Working Paper 36, January.

Flôres, Renato G. Jr., and M. Watanuki, (2008) "Technical Manual of the IDB-INT AMIDA CGE Model: Overview, Description, Calibration, SAMs and Operation", INT Policy Research Papers No.1. March.

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