

**Project: Enhancing the Contribution of Preferential Trade Agreements to Inclusive and Equitable Trade (Development Account)**

**ECLAC advance Report (as of 1-08-2017)**

In the first year of the project, three national seminars were held in the participating countries (Ecuador, Colombia, and Jamaica) between December 2015 and June 2016 (See table 1). All the seminars started off with a presentation summarizing the available empirical evidence on the social and distributional effects of trade policy. In the presentation, we reviewed the empirical literature that tries to estimate the impact that episodes of trade liberalization, in different countries, had on a number of social outcomes, such as poverty, inequality and the employment of different sectors of the population. It was explained that while trade liberalization increases welfare for a country as a whole, it does not happen in a vacuum, and workers in certain sectors of the economy or regions of the country may suffer as a consequence of the change in the economic structure that may result from the adjustment process to increased trade. Clearly understanding these effects is therefore essential for governments to be able to design trade policies that can truly benefit the most disadvantaged segments of the population.

The first presentation set the stage for the second presentation, which was specifically tailored to each particular country, and reviewed the evolution of trade policy in that country. In the presentation, the evolution of the trade structure in terms of products and destinations was examined, putting particular emphasis on the trade liberalization episodes that were undertaken in the specific countries. It must be noted that in one of the countries, specifically Ecuador, trade policy actually went in the opposite direction with the imposition of safeguards on a number of products in recent years, and these were extensively covered in our analysis.

Finally, in each seminar a professor of the local university presented an academic study related to the effects of trade liberalization in that specific country. The last item on the agenda was a

round table discussion where, based on the methodologies discussed in the first presentation, and the specific trade policy implemented in the country, the public in attendance brainstormed ideas on a possible study to be undertaken in that particular country.

**Table 1: Prospective National Seminars**

Date	Taller	Venue	webpage
5-12-2015	Política Comercial y Evaluación de Efectos Sociales: Metodología y Estudios de Caso	Escuela Politécnica del Litoral (ESPOL), Guayaquil - Ecuador	<a href="http://www.cepal.org/es/eventos/politica-comercial-evaluacion-efectos-sociales-metodologia-estudios-caso">http://www.cepal.org/es/eventos/politica-comercial-evaluacion-efectos-sociales-metodologia-estudios-caso</a>
11-02-2016	Política comercial y evaluación de efectos sociales. Metodología y estudios de casos.	Universidad EAFIT, Medellín, Colombia	<a href="http://www.eafit.edu.co/escuelas/economiafinanzas/noticias-eventos/Paginas/seminario-taller-cepal-eafit.aspx">http://www.eafit.edu.co/escuelas/economiafinanzas/noticias-eventos/Paginas/seminario-taller-cepal-eafit.aspx</a>
8-06-2016	Enhancing the Contribution of Preferential Trade Agreements to Inclusive and Equitable Trade in the Caribbean	The University of West Indies, Mona, Jamaica.	<a href="https://www.mona.uwi.edu/economics/sites/default/files/economics/uploads/Newsletter%20V3-final.pdf">https://www.mona.uwi.edu/economics/sites/default/files/economics/uploads/Newsletter%20V3-final.pdf</a> (See page 12) <a href="http://www.cepal.org/en/courses/enhancing-contribution-preferential-trade-agreements-inclusive-and-equitable-trade-caribbean">http://www.cepal.org/en/courses/enhancing-contribution-preferential-trade-agreements-inclusive-and-equitable-trade-caribbean</a>

In general, the participants in these workshops agreed that the main issues with trade policy were inter alia: (i) to reduce the transaction costs associated with multiple trade agreements; ii) identify winning and / or losing sectors with the aim of maximizing the benefits that could be derived, for example, from the implementation of a free trade agreement; (iii) make ex post estimates of the effects of a trade policy applied in the past to see if there were winners or losers; (iv) introducing the socio-economic dimension in trade policy assessments, mainly effects on employment, poverty and income distribution; and (v) to increasingly consider value chain analysis, productive integration, and possible effects on economic agents, especially the effects on small and medium-sized enterprises. Finally, a non-minor dimension that was strongly demanded was to promote training for officials and policymakers, mainly middle managers of trade ministries, foreign relations, customs administration, statistical institutes, and export promotion agencies.

We found the format very useful and efficient as it made it possible to additionally come up with one proposed desk study in each country to evaluate the impacts of past or planned trade related shocks on social outcomes. Quite interestingly, each of the proposed studies used a different empirical methodology to estimate the effects on a number of outcomes. Table 2 shows all the studies and documents produced under the DA funding. Three of the

studies were particular technical assistance projects developed in 4 countries (Ecuador, Guatemala, Honduras and Jamaica). There were also desk studies in the cases of Colombia, Ecuador, Jamaica, Honduras and Guatemala. The “Manual on foreign trade and trade policy: Basic classifications and indicators of trade patterns and trade dynamics” that was originally prepared in Spanish was translated into English. This material is useful for training workshops. Table 2 presents all of the studies developed as part of the project.

**Table 2: Desk studies and technical assistant documents.**

Study / Publication	Webpage link / status
Manual on foreign trade and trade policy: Basics, classifications and indicators of trade patterns and trade dynamics	<a href="http://www.cepal.org/en/publications/40864-manual-foreign-trade-and-trade-policy-basics-classifications-and-indicators-trade">http://www.cepal.org/en/publications/40864-manual-foreign-trade-and-trade-policy-basics-classifications-and-indicators-trade</a>
Evaluación de los posibles impactos de un acuerdo comercial entre el Ecuador y la Unión Europea	<a href="http://www.cepal.org/es/publicaciones/40924-evaluacion-posibles-impactos-un-acuerdo-comercial-ecuador-la-union-europea">http://www.cepal.org/es/publicaciones/40924-evaluacion-posibles-impactos-un-acuerdo-comercial-ecuador-la-union-europea</a>
Posibles efectos económicos y sociales de la profundización de la Unión Aduanera entre Guatemala y Honduras	<a href="http://www.cepal.org/es/publicaciones/41849-posibles-efectos-economicos-sociales-la-profundizacion-la-union-aduanera">http://www.cepal.org/es/publicaciones/41849-posibles-efectos-economicos-sociales-la-profundizacion-la-union-aduanera</a>
Evaluation of the economic and social impact of possible trade negotiation between Jamaica and Central America, México and the countries of the Northern Caribbean	With a First draft to discussion (with different Jamaica government institutions)
Políticas Públicas Comerciales adoptadas para el rubro cacao y su influencia en los indicadores socioeconómicos de 600 familias en cuatro cantones de Manabí, caso Corporación Fortalezas del Valle	In Review. Its publication is considered as part of research and sectoral case studies
Ajustes en producción y empleo ante choques de magnitud al comercio: evidencia al nivel de firmas en Colombia	In editorial. It is expected to be published in the next few days.

Henceforth, some of the studies carried out under the project are explained in greater detail:

In the case of **Ecuador**, a study was carried out to evaluate the possible effects of the signing of a free trade agreement with the member countries of the European Union. Ecuador, a member of the Andean Community of Nations (CAN), had lagged behind its neighbors (Colombia and Peru), who had signed a trade agreement with the European Union. At the end of 2015, Ecuador was going to suffer the loss of the Generalized System of Preferences from the EU, and tariffs on average would increase from an average of 5% to 16%. The authorities' question was: What are the costs associated with opening up trade with the European Union, considering the opening of the public procurement market, that is, Ecuador delivering national treatment to European companies? In the end, the study concluded that Ecuador had the risk of losing

competitiveness in a set of products in which the country had comparative advantage (bananas, shrimp, tuna, flowers, among others), and in other products.

For the case of **Colombia**, the study utilized a firm level dataset especially created by the Colombian Statistical Agency (DANE) for the project, which combines the Colombian Annual Manufacturing Survey with administrative trade data which include details at the product and destination level. The analysis focused on the impact on employment and wages at the firm level of the negative shock in the exports of Colombian manufacturing firms to Venezuela after the end of diplomatic relations with that country at the end of 2008. Using a difference-in-differences event model, the study finds heterogeneous effects, with strong negative impacts of the trade shock for firms with a strong presence in the Venezuelan market, and null for firms with a diversified product structure and a wide range of export destinations. In addition, there is a moderate but temporary negative effect on wages and a strong negative and persistent effect on labor productivity. Finally, there is also a temporary increase in the probability of death of the affected firms two years after the shock, and a skill upgrading effect in those companies that responded to the closing of the Venezuelan market with an increase of their sales in the United States. Taken as a whole, these results seem to validate theoretical international trade models that predict heterogeneity among firms, not only between exporters and non-exporters, but also between exporters to different destinations. While this study does not focus on a trade policy shock *per se*, it shows how firms with different characteristics can be affected in different ways by an exogenous trade shock to a relevant export destination, which can clearly have relevant policy implications as it underscores the importance of a diversified product and destination export structure to avoid negative social effects.

For the case of **Jamaica**, the study evaluated the economic and social impact of the signing of possible trade agreements between Jamaica and Mexico, the Central American countries and those of the North of the Caribbean. Results show that the greatest effects occur when Jamaica signs trade agreements with Mexico and Central America, in which case GDP increases by 0.01% and 0.02% respectively, with slight increases in private investment and consumption.

The FTA with the countries of Central America, a region with which Jamaica would have a greater density of bilateral trade, would lead to comparatively greater increases in trade flows, mainly exports. Additionally, the proposed opening of Jamaica to Central America, Mexico, and the countries of the North Caribbean produces small but negative changes in the level of household expenditure due to the increase in the prices of some products, in particular food, that are not compensated for by the decrease in the prices of other products (in particular textiles). The prevalence of this increase may translate into a loss of well-being by households in particular in the first quintiles if they are not accompanied by similar increases in income as a result of the agreement itself, an aspect that is not analyzed in this study because of the limitations of the existing information. At the margin, the only agreement that is beneficial in terms of an increase in the level of spending is the treaty with Mexico.

With respect to employment, openness is generally beneficial since it increases the level of employment at the aggregate level, particularly in the case of the treaty with Central America. However, care must be taken in identifying sectors that are particularly disadvantaged such as the construction, textiles and beverages sectors. Accompanying complementary policies that help in these sectors would be important in order to maximize the potential benefits of signing these agreements.

In the three participating countries, national trainings for public servants on the evaluation and negotiation of inclusive FTAs were organized in 2017. In Ecuador, 2 day trainings were held in both Quito and Guayaquil in April 2017, while in Colombia a 4 days training was held in Bogota in May 2017. The training in Jamaica is expected to be held in Kingston in September or October 2017. The national trainings started off with an introduction to the classical and “new” international trade theories, underscoring the mechanisms through which economic and social effects of liberalized trade come about, and continued with evidence-based policymaking, to strengthen participants’ abilities to use quantitative methods to evaluate the effects of Preferential Trade Agreements (PTAs). These included basic indicators of trade policy, gravity

models, Computable General Equilibrium models (CGEs) combined with micro simulations, and time series. All the theoretical presentations were complemented by practical sessions that allowed participants to apply the methods to the solution of practical case studies. Finally, a module was also included to explain the practical steps of a negotiation of a PTA. In the case of Colombia, an additional session was also devoted to the use of micro data and special software for the identification and analysis of international value chains. Each of the trainings also included the presentation of the desk study especially prepared for the specific country at hand.

In addition to the three countries participating in the Project, two Central American countries (**Honduras** and **Guatemala**) and the Central American Integration Secretariat (SIECA) requested assistance in evaluating the possible impact of the deepening of their Customs Union. In short, both countries decided to promote a trade facilitation program with special frontiers in which to promote less customs controls, and paperless trade. For some time, the countries have been working to harmonize their customs information systems, preparing infrastructure to establish minimum controls in their customs, facilitating trade. The question of the policymakers was: What is the effect of deepening the Customs Union and implementing a Trade Facilitation Program? The question focused on economic effects (production, trade and welfare), and on socio-economic effects (on employment, poverty and income distribution). To meet this requirement, ECLAC first estimated the costs associated with trade facilitation barriers, and then estimated through simulation a Computable General Equilibrium model, the effect of removing such barriers at the level of eight sectors of the economy. The results were discussed with both countries and officials of the Secretariat of Central American Integration. Finally, the study carried out served as a resource to assist public policymakers in both countries to make the final decision to push the process forward and bring it to fruition. On June 26, 2017, the presidents of both countries started the process with the launch of three integrated border crossings, and in the next 90 days they will open the way for fully integrated border crossings. In this way, the customs territories of Guatemala and Honduras will be consolidated, creating a common territory of more than 221 thousand square kilometers, which is equivalent to 52 percent of the Central American territory. Among the main advantages that this initiative will

promote are a boost to production and trade, increase in tax collection, job creation, reduced poverty and indigence; and a generally improved business climate for economic agents.

As a consequence of this action, in the next few years Guatemala will register an increase of up to 1% in the Gross Domestic Product (GDP), an increase of up to 1.6%, while logistics costs would be reduced by up to 25%, benefiting mainly Micro-SMEs and SMEs. In the area of taxes, while Guatemala could see an increase in tax revenues of between US \$ 23.1 million and US \$ 40.2 million, Honduras would increase its collection rise between US \$ 20.8 million and US \$ 36.7 million. In terms of employment, the Customs Union would bring a reduction of unemployment of 1.5% for Guatemala and 1.3% for Honduras.

The countries' desk studies will also be presented – together with other studies that will be the result of a call for papers on the social consequences of FTAs that was recently put forward – in a regional event that will be held in November 2017 in a Lima, Peru. This event will also represent the official closing of the project in Latin America, and is intended to provide a space for dialogue amongst modelers and public servants working in the region and to strengthen their analytical capabilities to evaluate public policies. The 2017 event will be a forum for methodological and economic policy discussions for researchers and policymakers that work in the Latin American and Caribbean region. On the one hand, it will seek to increase the knowledge of modelers with regard to new areas of analysis using CGEs while on the other hand its goal is to provide feedback from economic policymakers on the modeler's research.

Table 3 shows the specific activities undertaken in each country. In general, the Project facilitated the training of just over one hundred government officials from various countries in the region. Seventy five percent of the total was concentrated in the countries directly benefitting from the project. Another set of beneficiaries was located in other countries (Honduras, Guatemala, Peru, Chile, among others). By the end of the project it is anticipated to reach more than 450 people involved in various countries of the region.

**Table 3: Summary of all Project Activities (2016-2017)**

Countries/Organizations	Prospective Workshop Side Events Diffusion	Technical Assistant to governments	Studies	Social Effects	SMEs	Capacity building
Andean Community						
Ecuador, Guayaquil	X (27)	X	X	X	X	
Medellín, Colombia	X (125)	X	X	X	X	
Ecuador, Quito		X	X	X	X	X (27)
Ecuador, Guayaquil		X	X	X	X	X (17)
Colombia, Bogotá		X	X	X	X	X (27)
Colombia, Medellín (UNCTAD)		X	X	X	X	X (25)
Uruguay/Argentina/Guatemala	X (15)**					
Guatemala/Honduras	X (15)**					
Caribbean Community						
Kingston, Jamaica	X (20)	X	X	X	...	
Kingston, Jamaica		X	X	X		X(25)*
Central American Common Market						
Guatemala	X (15)	X	X	X	X	
Honduras	X (20)	X	X	X	X	
Other activities (diffusion)						
Switzerland (WTO)	X (53)					
Switzerland (UNCTAD)	X (18)					
Lima	X (80)*		X	X	X	X (35)*

\* Estimates for pending activities

\*\* Teleconference meetings

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