

Poverty Impacts of Trade Integration with the EU: lessons for Ecuador

Sara Wong

This research proposes to quantify the effects of a free trade agreement with the European Union on poverty in Ecuador. Both poverty and the signing of a trade agreement with the EU are issues under discussion in Ecuador. Ecuador continues its policy of seeking trade agreements with main trade partners as a way to foster growth and reduce poverty. Until 2006, Ecuador sought a free trade agreement with the US, but stopped negotiating on the grounds that it could have devastating consequences on agriculture and poverty in Ecuador. Ecuador seeks to sign a trade agreement with the EU given their complementarities in trade: the EU is a major market for Ecuadorian agricultural and fish products, and Ecuador imports mainly manufacturing goods from the EU. In particular, the EU is the main market for the main agricultural export product of Ecuador: bananas.

The transmission mechanisms to study these issues include changes in commodity prices, wages and earnings, and labor market demands. This research combines a reduced-form micro household income and occupational choice model with a standard single-country computable general equilibrium model (CGE) for Ecuador. The study follows a sequential approach that tries to ensure consistency between the micro model data and the CGE model data, and that tries to capture heterogeneity and simulate the full distributional impact of the trade policies. The CGE model is based on agricultural census, input-output, and Social Accounting Matrix data. The CGE model features segments of labor market and simulates trade policies in Ecuador. The micro-simulation model uses data from a household income and expenditure survey that distinguishes rural (given that high poverty rates characterize rural sectors in this country) and urban household data to capture key characteristics of the Ecuadorian economy.