

Round table: Public Policy based on Input-Output approach

José Elías Durán Lima
Chief, Regional Integration Unit
International Trade and Integration Division
ECLAC, United Nations



Santiago, Chile. July 3, 2024

Summary

1. Motivation
2. ECLAC intervention: Capacity building and support in negotiations
3. Some results of selected studies
4. Lessons learned
5. Conclusions

Motivation

- **Wassily Leontief** advocated for a pragmatic analysis using IOT approach
 - ✓ *Without a systematic theoretical framework for the organization of economic data, economic statistics cannot become a true science.*
- For **Raul Prebisch**, sustainable development requires more than just increasing productivity; it necessitates addressing and reshaping the fundamental economic structures that underpin societies.
 - ✓ *Development depends on the economic structure, not just on increased productivity.*
- The work of ECLAC is an example of the importance of relying on input-output analysis to evaluate public policies.

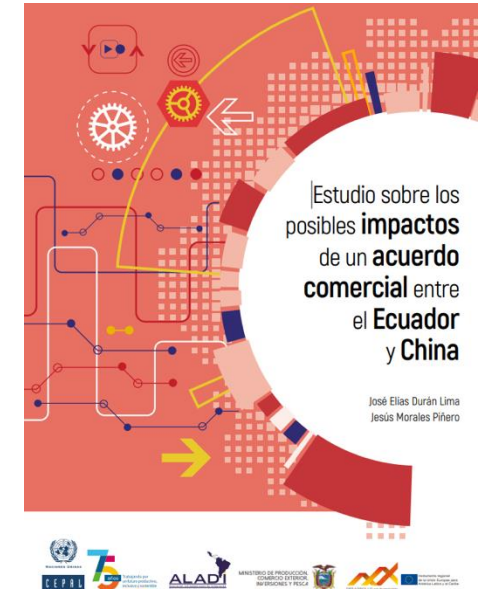
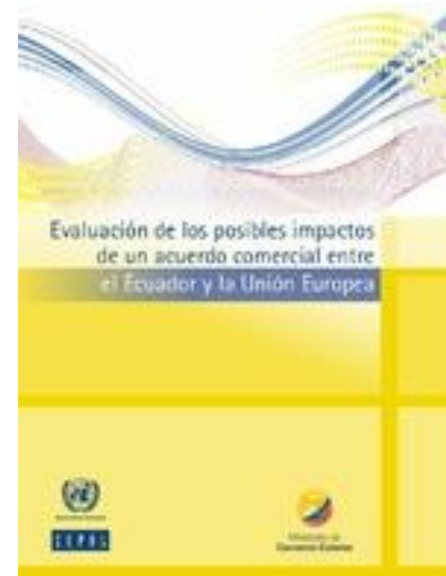
ECLAC intervention in LAC Region

- The last 15 years, ECLAC has worked to support some FTA negotiations and assessment of policies in Latin America.
- A list of interventions
 - **Ecuador** access as a full member of MERCOSUR (2012-2013)
 - **Ecuador**: FTA with European Union (2014) ; China (2023)
 - **Bolivia**: Evaluation of the Implementation of an Import Substitution Program
 - **Central American Custom Union** (North Triangle: **Guatemala, Honduras and El Salvador**)
 - **Expansion of Pacific Alliance** to **Costa Rica** and **Ecuador** (with the support of Korean cooperation)
 - **Implementing electromobility in Bogota, Colombia** (with the support of GIZ)
- **Concerns of governments:**
 - Macroeconomic and socioeconomic assessment of possible FTAs
 - Which sectors stand to gain from the negotiation of a trade agreement?
 - Which sectors will be losers?
 - If the domestic economy opens up to public procurement from third-country firms, how will national companies be affected?
 - Covid-19 effects; Ukrania-Rusia war effects; USA – China trade tensions.

Some studies are public, others are confidential

CEPAL REVIEW 91 • APRIL 2007

Trade agreements by Colombia, Ecuador and Peru with the United States: effects on trade, production and welfare



The studies are used for:

- ✓ Negotiating better and establishing red lines during negotiations,
- ✓ Informing the public opinion
- ✓ Advising authorities in the approval process in Congress
- ✓ For case studies and academic purposes

How do we proceed to address government requests?

1) An inquiry for basic information

- **Data bases:** IOT, surveys, macro and micro data, list of tariffs
- **Focal points:** negotiators and technicians: Central Bank, Statistical Officers, Trade Minister

2) Define the methodology to follow the technical Assistance

- Input-Output Table Analysis
- Partial and General Equilibrium model

3) Define Policy scenarios according to the negotiation

- Select list of sensitive sectors: dairy, sugar, car industry, textile,...
- Identify the schedule of tariff reduction

Results as presented to the Ecuador government cabinet in a closed meeting (A)

Effects on the main macroeconomic variables, 2015-2020

(Annual percentage variation compared to the reference scenario)

Scenario		C	I	X	M	PIB
SC-1	Loss of GSP+	-0.29	-0.43	-0.17	-0.45	-0.20
SC-2	Loss of GSP+ and accession to Mercosur	-0.56	-0.87	-0.96	-0.89	-0.55
SC-3	Agreement European Union – Ecuador	0.15	0.13	0.11	0.20	0.10
C-4	Agreement with EU and accesión to MERCOSUR	-0.06	-0.22	-0.51	-0.13	-0.17

- ✓ The loss of GSP+ results in declines across all major macroeconomic variables
- ✓ Signing an agreement with MERCOSUR resulted in declines in all macroeconomic variables

Results as presented to the Ecuador government cabinet in a closed meeting (B)

- **For Ecuador – EU FTA negotiations**, the loss of the GSP Plus would affect the growth expectations of some prioritized sectors in the country (such as cocoa, coffee, for example).
- In aggregate terms, the signing of the Trade Agreement with the EU would imply:
 - Better expectations for economic growth, Recovery of lost ground compared to competitors with better access conditions in the EU (Colombia, Peru, Central America, etc.), Certainty and stability in access conditions.
 - The main sectors benefiting from the agreement would be bananas, fishing, flowers, and other food products, enhancing the possibility of creating value chains in these sectors.
- **For the Ecuador Adherence to MERCOSUR**, adopting the Common External Tariff, resulting in increased costs for capital goods and intermediate goods imports.

Lessons Learned (A)

- A trade agreement is not the panacea or solution to all the structural problems facing an economy
- Trade benefits from open trade are not evenly distributed
- Not everybody wins within a country
- There are winning sectors and losing sectors
- The great challenge of public policy is to balance the imbalances
- **Inclusiveness is critical**
 - ✓ **One method for inclusion is adopting complementary policies**

Lessons Learned (B)

- Trade openness depends on several factors beyond free trade
- Complementary policies (CP) matter and are crucial for vulnerable sectors
- CP that allow low-income persons to benefit from trade are key:
 - ✓ Investment in human capital
 - ✓ Investment in infrastructure
 - ✓ Policies to support macroeconomic stability
 - ✓ Access to credit and technical assistance for producers, especially agricultural producers
 - ✓ Labor market reforms: create institutions that promote labor mobility
 - ✓ Mitigation policies to help low-income persons that are negatively affected by trade: transfers, subsidies, etc.

Conclusions

- **Policymakers and politicians need the input-output approach**
- IOTs allow for a more informed analysis of the state of Regional Integration (productive structure and complementarities).
- Enables making informed decisions in challenging times.
- Permits avoiding conflicts of ideology and allows pragmatic decisions in favor of sectors and individuals.
- Provides policymakers with freedom to implement complementary policies in a targeted and coherent manner.
- And to conclude, decisions are not made in a vacuum, but in an informed and appropriate manner.

Síguenos en:



<https://www.cepal.org/es>



https://twitter.com/cepal_onu



<https://www.facebook.com/cepal.onu>



<https://www.youtube.com/user/CEPALONU>



<https://www.flickr.com/photos/cepal>

José Elías Durán Lima

Chief of the Regional Integration Unit
International Trade and Integration
Division

ECLAC, United Nations

Thank you!

jose.duran@cepal.org



NACIONES UNIDAS

CEPAL

