

Round table: Public Policy based on Input-Output approach

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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

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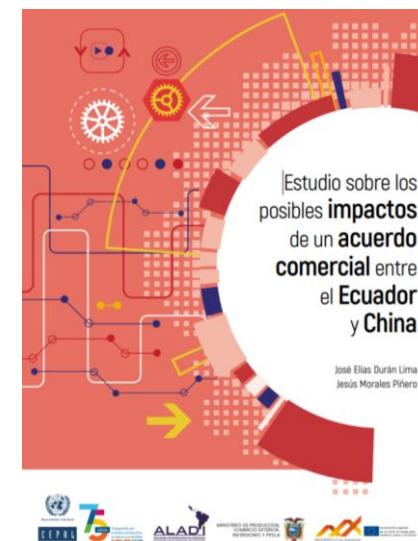
Trade agreements by Colombia, Ecuador and Peru with the United States: effects on trade, production and welfare



Evaluación de la utilización del Protocolo Comercial de la Alianza del Pacífico en el ámbito del intercambio de bienes

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; 2018-2030

(Annual percentage variation compared to the reference scenario)

| Scenario | | C | I | X | M | PIB |
|-----------|--|-------|-------|-------|-------|-------|
| 2015-2020 | 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 |
| 2018-2030 | A1 Agreement with Pacific Alliance (FTA with Mexico) | 0.27 | 0.24 | 0.62 | 1,05 | 0.09 |

- ✓ The loss of GSP+ results in declines across all major macroeconomic variables
- ✓ Signing an agreement with MERCOSUR resulted in declines in all macroeconomic variables
- ✓ An agreement with the Pacific Alliance countries generates positive results. All economic sectors benefit, with the greatest effects on agriculture, agroindustry, and petrochemicals. Imports from the Pacific Alliance would also increase capital and intermediate goods.

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

- **For Ecuador – Pacific Alliance negotiations**, signing an agreement with Mexico would create the conditions for Ecuador to join the Pacific Alliance
- **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.

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Thank you!
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