Working Paper No. 515
Keep in mind

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This paper offers some preliminary steps in the marriage of some of the theoretical foundations of the new economic geography with spatial computable general equilibrium models. Modeling the spatial economy of Colombia using the traditional assumptions of CGE models makes little sense when one territorial unit, Bogotá, accounts for over one fourth of GDP and where transportation costs are high and accessibility low, compared to European or North American standards. Hence, handling market imperfections becomes imperative as does the need to address internal spatial issues from the perspective of Colombia?s increasing involvement with external markets. The paper builds on the CEER Model, a spatial CGE model of the Colombian economy; non-constant returns and non-iceberg transportation costs are introduced and some simulation exercises are carried out. The results confirm the asymmetric impacts that trade liberalization has on a spatial economy in which one region, Bogotá, is able to more fully exploit scale economies vis-à-vis the rest of Colombia. The analysis also reveals the importance of different hypotheses on factor mobility and the role of price effects to better understand the consequences of trade opening in a developing economy.