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A COMPREHENSIVE SHORT AND LONG-RUN ASSESSMENT ON THE IMPACT OF THE EU-MERCOSUR AGREEMENT ON BRAZIL

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1. INTRODUCTION

- On June 2019, the European Union (EU-27) and Mercosur (Argentina, Brazil, Paraguay and Uruguay) signed a strategic partnership agreement after 20 years of negotiations.
- The EU undertakes to liberalize 92% of imports from Mercosur over a period of up to 10 years.
- Mercosur undertakes to liberalize 91% of imports from the EU over a period of up to 15 years.
- This analysis will focus exclusively on the impact of the agreement on Brazil.
- The effects of the conflict between the Russian Federation and Ukraine are not considered.

2. LITERATURE REVIEW

- **LSE (2020).** Sustainability Impact Assessment in Support of the Association Agreement Negotiations between the European Union and Mercosur.
  - **CGE model** - two scenarios (conservative and ambitious)
- **Carrico et al. (2020).** Impacts of the EU-Mercosur trade agreement on the Dutch economy. Wageningen Economic Research.
  - **CGE model** – single scenario
- **Timini, J., & Viani, F. (2020).** A highway across the Atlantic? Trade and welfare effects of the EU-Mercosur Agreement.
  - **Gravity equation** – single scenario
- **Sinabell, F., Grübler J. & Reiter, O. (2020).** Implication of the EU-Mercosur Association Agreement for Austria, FIW research report.
  - **Gravity equation** – single scenario

3. MODEL AND DATA

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- We use a Computable General Equilibrium (CGE) static and dynamic setting of the Global Trade Analysis Project (GTAP). This allows to estimate the effect of the agreement in the short and long run.
- Our model has 36 sectors, 9 regions (EU, Brazil, Argentina, Uruguay, Paraguay, US, Canada, China, Row) and 4 factors of production (land, labor, capital, natural resources).
- The 36 sectors are composed of 26 goods sectors and 10 services sectors, and are based on the 65 sectors of GTAP 10, which have been grouped and renamed in order to simplify the results.
- The tariff reduction was estimated in accordance with the supply of goods (Annex I of the FTA).
- Updated trade data from ITC-Trademap and Most Favored Nation (MFN) tariffs from ITC-Macmap were used to estimate the tariff reduction.
- The information on the supply of goods was negotiated in the Harmonized System nomenclature and were converted to the sectors in the GTAP database, using the correspondence files provided by the GTAP website (2020).
- Regarding "non-tariff measures".
    - For the "goods sectors", we have used the information estimated by the World Bank (2019).
    - For the "services measures", estimates by OECD researchers (Benz and Jaax, 2020) and (Fontagné et al., 2016) were used.
- Regarding public procurement, a drop in the non-tariff measure of 2% was estimated as negotiated in the agreement.

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4. DATA PRESENTATION

4.1. RESULTS: SHORT-TERM (STATIC MODEL)

Total

Regions	GDP	Private Expenditure	Agregated Exports	Agregated Imports	Real exchange rate	Wages	Capital remuneration	CPI
EU-27	0,02	0,07	0,11	0,18	0,14	0,16	0,16	0,05
Brazil	0,11	0,13	2,28	4,15	0,55	2,05	2,08	0,19
Argentina	0,21	0,24	1,00	2,58	0,47			0,09
Uruguay	0,43	0,91	-1,63	2,60	2,30			1,09
Paraguay	0,03	0,09	-0,09	0,30	0,19			-0,16
Canada	0,00	0,00	0,01	-0,03	-0,05			-0,04
USA	0,00	-0,01	0,01	-0,10	-0,06			-0,05
China	-0,01	-0,01	0,01	-0,12	-0,08			-0,06
Row	0,00	-0,01	0,00	-0,07	-0,05			-0,04

- We place this impact in the year 16.
- The impact takes into account the tariff reduction of goods, reduction of non-tariff measures and public procurement.

- Mercosur countries show better benefits than the EU-27.
- Variables such as GDP, aggregate exports and imports, wages and capital remuneration show a greater impact on Brazil.
- The real exchange rate increases in Brazil, leading to an increase in imports and a fall in the terms of trade.

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4. Data presentation

4.1. Results: Short-Term

- The trade agreement will boost the production in Brazil of goods mainly primary products, processed food, textiles, clothing, leather products.
- Brazil's terms of trade will deteriorate due to the increase in imports in sectors such as meat, animal products, vegetable oils, dairy products, beverages, wood products, electronic products, machinery, vehicles and their parts, among others.
- Brazil will experience an increase in imports mainly of value-added manufactures.

		Production		Exports		Imports	
Sector Code	Sector Description	Brazil	EU-27	Brazil	EU-27	Brazil	EU-27
CER	Cereals	-0,07	-0,11	-1,24	-0,02	2,95	-0,16
V_F	Vegetables, fruits, nuts	1,60	-0,16	3,25	-0,11	3,98	-0,01
SGR	Sugar	-0,20	-0,14	-0,66	-0,13	9,00	-0,06
OCR	Plant & animal fiber, others	-0,09	-0,12	-1,27	-0,02	1,50	-0,11
CMT	Bovine and other rumiant meats	0,64	-1,06	4,24	-2,99	1,53	0,76
OAP	Other animal products	0,91	-0,29	-2,46	-0,12	2,05	-0,32
MIL	Dairy products	-0,20	-0,01	0,00	0,06	12,48	0,04
FRS	Forestry	-0,03	-0,02	-1,43	-0,16	3,12	0,10
GAS	Gas, coal, oil extraction or distribution	-0,09	-0,09	0,26	-0,21	-0,34	0,13
OMT	Live animals, meat and animal products	0,75	-0,43	2,47	-0,66	32,35	0,69
VOL	Vegetable oils and fats	0,72	-0,08	0,60	0,26	14,14	-0,11
OFD	Food products nec	3,23	-0,43	51,19	-0,68	7,49	0,71
B_T	Beverages and tobacco products	0,15	0,00	5,27	0,04	11,71	0,19
TEX	Textiles	-0,98	0,17	2,10	0,54	5,51	0,22
WAP	Wearing apparel	-0,52	0,02	16,13	0,11	9,77	0,12
LEA	Leather products	0,96	-0,23	6,30	-0,21	4,61	0,15
L_P	Wood products	-0,37	-0,01	0,40	0,06	11,73	0,09
PCH	Petroleum, coal and other chemical products	-0,31	0,15	1,84	0,33	1,58	0,15
BPH	Pharmaceutical products	-1,17	0,06	0,80	0,09	5,31	0,05
RPP	Rubber and plastic products	-0,47	0,03	-0,56	0,09	3,63	0,12
OMF	Other manufactures	-0,12	0,00	-1,05	0,08	10,16	0,17
MMP	Metals and metal products	-1,09	0,10	2,20	0,24	9,09	0,23
ELQ	Electronic products	-0,35	0,07	0,94	0,22	3,49	0,18
OMA	Other machinery	-2,10	0,19	6,15	0,43	9,04	0,25
MVH	Motor vehicles and parts	-1,76	0,32	0,29	0,46	9,58	0,18
OTN	Transport equipment	0,17	-0,10	4,40	-0,08	4,73	0,07
OSE	Other services	0,01	0,00	-1,46	-0,34	0,69	0,18
CNS	Construction	1,36	0,01	-0,02	-0,32	11,25	0,22
AFS	Hotels and restaurants	-0,03	0,04	-1,78	-0,13	0,84	0,11
WTP	Maritime transport	-0,07	0,06	-0,14	0,07	0,25	0,07
ATP	Air transport	0,05	-0,08	1,31	-0,14	0,34	0,13
CMN	Communication	-0,20	0,00	5,42	0,19	3,78	0,23
OFI	Banking	-0,05	-0,05	4,22	-0,30	0,57	0,13
INS	Insurance	-0,23	-0,01	-0,86	-0,09	1,13	0,12
OBR	Business services	-0,21	-0,03	3,34	0,01	1,34	0,20
ROS	Personal services	0,00	-0,01	-1,40	-0,32	0,69	0,13

4. Data presentation

4.2. Results: Long-Term

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4. Data presentation

4.2. Results: Long-Term

- Outcomes by sectors
- [….]

5. CONCLUSIONS

- The trade agreement undoubtedly represents a unique opportunity for both parties and an achievement after 20 years of negotiations.
- Its gradual implementation will allow the less developed states to prepare themselves in the long term to be so.
- Due to the scope it represents in economic, commercial, territorial and population terms, makes it to date the largest agreement reached by both parties.
- For the EU 27, this agreement consolidates it as the largest promoter of free trade in the world.
- For Mercosur, the agreement represents an opportunity, in addition to trade, to achieve international and European standards in the trade of goods and services in the long term.
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Thank you