MERCOSUR’s External Agenda:
It is adjusted to the needs of Paraguay?
A general equilibrium approach

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CONTENT

ABSTRACT

Recent years have been characterized by low accomplishments in the external agenda of MERCOSUR. It has reflected more the interests of the foreign policy of Brazil, before the needs and characteristics of the other members of the block. Today it is clear that the block's foreign agenda is confused, because while priority is given to relationships south-south, the trade with developed countries is still growing in importance in the structure of the foreign trade block. Paraguay, with a strong predominance of the primary sector in their economic structure and highly dependent on foreign trade to continue growing faces the challenge of a foreign agenda imposed by MERCOSUR that does not adjust its needs. The simulation results, using the standard GTAP model, show that, with the exception of the negotiations with the EU, the benefits that derive from Paraguay relations with countries or regions included in the current foreign agenda of MERCOSUR are fewer than those which would be obtained if the block negotiates agreements with those countries that are an important part of its foreign trade and are outside the agenda of the block's foreign relationships.

Keywords: External Agenda, Foreign Agenda, MERCOSUR, Paraguay, Free Trade Agreements

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INTRODUCTION

In 2005, within the MERCOSUR was discussed the need to establish the main guidelines for the management of the foreign agenda of MERCOSUR. These guidelines sought to systematize in one hand the negotiating agenda by establishing criteria that allows the rational management of the Agenda of the External Relations of the block and on the other hand, to adjust the scope of the negotiating agenda for the resources available to the members of MERCOSUR. However in 2007 noted the closure of three years with little or no results in MERCOSUR´s foreign agenda.

At a regional level, it was important the signing of Economic Complementation Agreement with Peru (ACE 58) in November 2005 and with Cuba (62 ACE) in July 2006. It also continued to deepen integration with countries like Chile, Bolivia, Ecuador, Mexico and Colombia. However, these results pale before the negotiations and the benefits granted by Peru and Colombia in their negotiations of FTAs with the United States.

A significant event was the incorporation of Venezuela as a full member of the bloc in July 2006, however, that achievement does not yield results until today, in more than half year and the signing of the agreement, because both Brazil and Paraguay's Parliament did not approved the agreement of accession yet.

Outside the region, the most notable successes were the signing of the Free Trade Agreement with Israel (December 2007), the Fixed Preferences Agreement with India (March 2005) and the significant progress made in the agreement on fixed preferences the Southern African Customs Union which is expected to end in 2008. Other fronts were opened for trade between countries and regional blocks, but no progress was deep. Among these highlights Russia, for its growing commercial importance for the block.

With the FTAA negotiations virtually abandoned and the negotiations with the EU in stalemate, the MERCOSUR´s foreign agenda, clearly led by the interests of Brazil, was turning towards finding a better relationship with emerging South-South, but no concrete results despite the opening of various negotiating fronts. Paradoxically, despite this guidance, the region's trade has continued to grow with the U.S., Mexico and China, and is stable at a high level with the EU, this fact indicates that the foreign trade policy of MERCOSUR is out of focus and requires an urgent review.

This study explores whether the MERCOSUR´s foreign agenda responds to the needs and economic characteristics of Paraguay as a block partner. For this, it is quantify the benefits that would obtained Paraguay in the open negotiations and covered by the block's foreign agenda and those that would be opened if there were concreted agreements with those countries outside the MERCOSUR´s foreign agenda and that by the volume of trade are the main destinations or origins of the trade block. This will make use of general equilibrium model GTAP (Global Trade Analysis Project), which allows evaluating the convenience of pursuing negotiations of FTAs with countries or blocks of countries.

The paper is structured as follows: the first section is the present introduction, in the second there is mentioned the background of the MERCOSUR to understand the context in which it develops the block's foreign agenda, the third section briefly discusses the current status of MERCOSUR´s foreign agenda. The fourth part describes the reality of the economy compared to other countries in the block within the framework of international negotiations of the block. In the fifth and sixth part describes the methodology and the characteristics and structure of the GTAP model and database. The results obtained in the simulations are presented and analyzed in the seventh part of the document later to finish with the conclusions of the research.

BACKGROUND

In March 1991 the Treaty of Asunción was signed establishing the Southern Common Market (MERCOSUR), with the aim of facilitating the integration of its member countries (Argentina, Brazil, Paraguay and Uruguay) in the global economy, with the goal of setting a Southern Common Market.

During the period 1991-94, also known as "transition period", the partners undertook a successful process of liberalization of intra-block trade through an accelerated program of tariff reduction. In early 1995, MERCOSUR was a free trade area covering 95% of intra-regional trade and a customs union with a Common External Tariff (CET) covering 85% of goods traded by the block and third countries. The success of the integration process of MERCOSUR in the early years of the nineties helped considered a successful experience of integration. Intra-MERCOSUR trade increased from U.S. $ 5.2 thousand million in 1991 to U.S. $ 20.3 billion in 1997, despite the differences in exchange rate policies of its members. However, in early 1999 the devaluation of the Brazilian currency unilaterally led MERCOSUR to a prolonged impasse. The intra-block trade flows were reduced due to the practice of unilateral measures among its members.

While in the nineties the progress prevailed in MERCOSUR's internal agenda, the foreign agenda was irrelevant to be considered crucial for the success of the regional block. Only a successful foreign agenda would allow the partners to project in worldwide markets, facilitating the adaptation to a globalized world. However, the pace of the MERCOSUR´s foreign agenda was marked from the beginning, in a significant degree, by the foreign policy of Brazil (which behaves as a *global trader*), and structural asymmetries between these country and the other members of the block, which were exacerbated in the nineties by different exchange rate policies in Argentina and Brazil.

The strategy of external relations of MERCOSUR, upon recognition of its international legal status by signing the Protocol of Ouro Preto, has been to separate negotiations outside the internal agenda. This was expected "to maximize the external opportunities and to project MERCOSUR internationally, while there was preserved high levels of discretion to manage its internal affairs" (Costa Vaz, 2004). The external negotiations were focused on three major areas: a-) the deepening of the agreements signed within the framework of the Latin American Integration Association (LAIA), renegotiating bilateral trade preferences granted to other countries in the region, b-) the negotiations of the Free Trade Area of the Americas (FTAA), and c-) the negotiations with the European Union in the framework of the Interregional Cooperation Agreement of 1995.

This strategy considered both agendas were taken separately where progress could be made independently of one another. However, the emphasis on the advancement of the foreign agenda without considering the internal problems of MERCOSUR and the close connection between the two agendas, rather than the element of consolidation of the MERCOSUR as an autonomous negotiating block, served to its members not to address the internal problems of the block in a deep and joint way, while it subtracted strength from MERCOSUR's negotiations with the United States and the European Union.

With the "*relaunch*" of MERCOSUR, in June 2000 as a political and strategic unit, it was tried to link domestic and foreign agendas of MERCOSUR, trying to overcome internal divisions and to establish a common ground for external negotiations. This resulted attractive to the rest of the world and made possible rounds of negotiations with the United States, within the FTAA and with the European Union. However, the MERCOSUR's internal collapsed agenda again became an obstacle that prevented progress on the external front. The lack of commitment on the common external tariff and the differences on issues like government procurement and trade in services makes more difficult to MERCOSUR to adopt a common position in its external negotiations, and weakens its power capacity of negotiation with other regional blocks. In the absence of real progress in the consolidation of MERCOSUR, its commitments are less credible in the external front.

In the negotiations with the European Union (EU) and the United States, Brazil as the MERCOSUR leader, opted to reach an agreement with the EU over the possibility of creating the FTAA with the United States. It aim at to reduce dependence on any one of them, using the threat of a MERCOSUR-EU agreement as a tool for bargaining in the

FTAA negotiations. However, MERCOSUR could not play that game and two points indefinitely because of lack of progress on the internal agenda of negotiations with the EU stalled and those with the FTAA were virtually abandoned by the change in negotiating strategy of the USA.

With the EU, MERCOSUR discussions stalled not only due to the extreme reserve of the EU to make concessions on the issue of agricultural subsidies, but also because of the inability of MERCOSUR partners to agree on a common list of goods which provide access to the EU. Furthermore, the EU has been emphatic in saying that it will only negotiate with MERCOSUR as a block.

Table 1 allows measuring the relative importance of the EU in the negotiations carried out by the MERCOSUR in relation to the other negotiating fronts. The EU represents only 53.5% of exports from the MERCOSUR countries/regions within the agenda and 65% of imports by the South American block of countries/regions considered in the foreign agenda.

[Insert here Table 1]

Even with the failures on the fronts of negotiation with the United States and the European Union, the attractiveness of the MERCOSUR as an economic block allowed to further agreements on a regional level and opened other fronts of negotiation, especially the South-South type. Within the framework of LAIA were signed Economic Complementation Agreements with Colombia, Ecuador, Venezuela (ACE 59/04), Peru (ACE 58/05), Mexico (ACE 54 and 55/02), Bolivia (ACE 36/96), Chile (ACE 35/96) and Cuba (ACE 62/06). Until December 2005, MERCOSUR ran a busy agenda that included 37 foreign countries or blocks of countries. The negotiations opened by the MERCOSUR in a foreign level to that date are detailed in Table 2.

[Insert here Table 2]

In such a situation voices arose inside the block suggested that the agenda should be reoriented considering the economic importance of a certain negotiation for the MERCOSUR, in order to establish priorities and control the time of these negotiations in order them before others things.

CURRENT SITUATION OF THE FOREIGN AGENDA OF MERCOSUR

In the last three years (2005-2007) there were a few or no results in MERCOSUR's foreign agenda. At the ALADI level, it was important the signing of Economic Complementation Agreement with Peru (ACE 58) in November 2005 and with Cuba (62 ACE) in July 2006. It also continued to deepen integration with countries such as Chile, Bolivia, Ecuador, Mexico and Colombia. However, the results of these pale in front of the benefits granted by Peru and Colombia to the United States in their negotiations of free trade agreements. However, a significant event was the incorporation of Venezuela as a full member of the block (July 2006).

Outside the region, the most notable successes were the signing of the Free Trade Agreement with Israel (December 2007), the Fixed Preferences Agreement with India (March 2005) and the significant progress made in the agreement on fixed preferences the Southern African Customs Union which is expected to end in 2008. Other fronts were opened for trade between countries and regional blocks, but no progress was deep. Among these highlights Russia, for its growing commercial importance for the block.

With the FTAA negotiations virtually abandoned and the ones carried on with the EU stalled, now the priorities in the foreign agenda of MERCOSUR to December 2007 are shown in Table 3:

[Insert here Table 3]

In this context and in light of the results obtained, it is not difficult to explain the search for the smallest members of MERCOSUR, particularly Uruguay, of possible bilateral trade agreements outside the block (even more so when considering that their exports to Argentina and Brazil increased from 55% in 1998 to only 23% in 2005) and dissatisfaction of Argentina in the manner of carrying out the foreign agenda. It is increasingly clear that Brazil, as leader of MERCOSUR, obtains higher yields and economic policy at the international level as other members of the block.

This situation suggest that foreign policy of MERCOSUR is out of focus and that requires an urgent review. Actually it is guided to the search a better relationship with emerging South-South countries, while the trade with the States U.S., Mexico and China continues to grow and with the European Union maintains a constant level. In Figures No. 1 and No. 2 it can be noted the importance of EU in the extra regional trade of MERCOSUR and hence its importance in the external agenda of the block, but it is clear the need to redirect the agenda of the block's external relations since the 51.6% of export trade is destined for countries outside the foreign agenda (37.2% of exports are majorly destined countries like USA, China, Japan, Russia, Canada, Egypt, Thailand, Nigeria, Iran and Taiwan). Similarly, 57.8% of imports come from outside the

MERCOSUR countries outside the foreign agenda, almost all came from countries like USA, China, Japan, Nigeria, Algeria, Taiwan, Switzerland, Canada, Russia, Singapore, Thailand, Australia, Malaysia and Indonesia.

[Insert here here Figure Nº 1 and Figure Nº 2]

According to Vaccarezza (2007), "in South America there is an increasing fragmentation in the objectives of its foreign agenda, explicitly, in the cases of Peru and Colombia, and implicitly with the Chilean request to enter the CAN, which also has a free trade agreement with the United States. This leads to suppose that for the biggest MERCOSUR members there are approaching times of decision can not be avoided as they were in the past."

PARAGUAY AND THE MERCOSUR's FOREIGN AGENDA

The Paraguayan foreign trade policy of the nineties was characterized by four facts: i) adherence to the Treaty of Asunción (1991) that led to the Southern Common Market (MERCOSUR), ii) the unilateral tariff reform of 1992, iii) the adoption of the Common External Tariff (AEC) of the MERCOSUR (1995), and iv) the entry into the multilateral system of trade preferences through the accession to the GATT (1994). These events, due to political and economic openness of the country after the coup d'etat of 1989 helped to create positive expectations about the possibilities of greater economic dynamism.

In the year 1995 with the launch of the Customs Union in MERCOSUR, the CET had become the most important instrument in the block. However, from the very beginning of the design of the CET, it faced some complications related to the asymmetries in terms of policy preferences among the members of the block. As a temporary solution in 1995, the MERCOSUR countries have adopted the CET including certain flexibility mechanisms[1].

One of the salient features of the Paraguayan economy is its external opening. Proof of this, the coefficient of openness in 2007 was 78.8%, which represents three times the average of MERCOSUR[2]. In the area of trade policy tariff, the levels applied to the importation of goods originating from countries outside represent, on average, only 5%.

The Paraguayan economy primarily agricultural unlike other MERCOSUR states, whose economic structures are more developed, concentrating its exports in agricultural and livestock products in natural products and natural-resource intensive. Nearly 85% of its exports come from these sectors, whereas in the other MERCOSUR countries dominate the exports of products labor-intensive or capital - intensive.

The figure No. 3 allows to see the factorial classification of exports from the MERCOSUR countries and also the concentration of Paraguayan exports to the rest of the world in agriculture and natural resource intensive. In Figure No. 4 can be seen however that the factorial structure of imports by the States Parties is very similar, concentrating purchases from the rest of the world in capital-intensive manufactures, however, in this sense should be mentioned that in the case of Paraguay The greater

[1] These mechanisms are still valid and in some cases expanded. In Paraguay, currently 25% of the universe contained in the Common Nomenclature of MERCOSUR is included in a mechanism that exempts the payment of the AEC, however, a recent study found that imports of the country, entered through the lists of emergency authorized under the special schemes and negotiated trade unharmonised, totaling 80% of the value of imports from countries not members of MERCOSUR. Download: "No special arrangements for the import harmonized MERCOSUR" (2006). Romero, C. A., Piani, G. and Miranda, P., Ruiz Diaz, F., and Estrada, C. and Terra, M., ccordinadores: Berlinski, J. and Kume, H.

[2] The openness of an economy can be approximated by the aggregate of exports and imports as a proportion of GDP.

physical integration with Brazil, experienced for more than three decades, has been responsible for the development of an influential sector in the economy associated with re-export trade.

[Insert here Figure Nº 3 and Figure Nº 4]

This activity develops an incentive structure that allows certain benefits associated with importing goods from extra zone but which are then resold, without any processing, to the "tourists" who buy the eastern border of Ciudad del Este city. To get an idea about the importance of this scheme in the period 2003-2006 exports accounted on average 21% of GDP and equivalent to 93% of merchandise exports from the country. Goods exported mostly come from Asian countries (mainly China) and the United States of America[3].

Regarding the dynamics of trade of member countries of the MERCOSUR countries/regions included in the Foreign Agenda, the Figures No. 5 and No. 6 show that conduct business over the past 7 years. It can be seen that although Argentina, Brazil and Uruguay trade both export and import to and from countries/regions included in the agenda of the MERCOSUR external relations has remained at stable levels, not in the case of Paraguay. The export trade of Paraguay to countries included in the external agenda of MERCOSUR in 2000 represented approximately 78% of sales outside the country. Such participation had been reduced to little more than 53% in 2006. Also, the import trade of Paraguay with the countries joined to the foreign agenda was reduced from 35.4% to 23% between 2000 and 2007.

[Insert here Figure Nº 5 and Figure Nº 6]

[3] Usually re-exported products include electronics, computer and telecommunication tools, tobacco and drinks, cosmetics and perfumes, among others.

These data reveal that at least for Paraguay, the MERCOSUR's foreign agenda is not consistent with its external trade reality. The structural asymmetries between the countries of the block, the different levels of development and economic growth as well explain the different economic structures that at the moment of forming the External Agenda, the priorities of other members of the block are not the same. In the foreign trade block in 2006, which it is seen in Table 3 that the Paraguayan exports to countries outside the MERCOSUR's foreign agenda represented 47% of its total foreign sales, while 77% of its imports came from countries/regions not included in the agenda of the block's external relations. Likewise, Table 3 can measure the importance of EU in the agenda of negotiations of the MERCOSUR. Almost one quarter of imports and exports of Argentina, Brazil and Uruguay produced with the European block. For Paraguay, the trade with EU does not have the relative importance that has for other countries of the block. The stalemate in the negotiations of the MERCOSUR with the European block prevented from achieving the obvious economic benefits of integration in addition to improving the status of the block and its negotiating position due to a marked improvement in the MERCOSUR.

[Insert here Table 4]

The idea that MERCOSUR's foreign agenda not responding to the realities and needs of MERCOSUR and even more those of Paraguay has been evidenced in the data in Tables 4 and 5. In all countries of the regional block more than 50% of extrazone export and import is made with countries outside of the agenda and were simply not listed as priorities for the external relations of MERCOSUR. Among the countries outside the external agenda, the most important are the United States and China. These two countries accounted for 50.5% of Argentines exports outside the agenda, 55.7% of Brazilians foreign sales, 50.9% for the Uruguayans and 28.2% of Paraguayans. In this regard, Paraguay's exports to countries outside the agenda less concentrated, with the five most important destinations in Switzerland (29.8%), USA (17.9%), Russia (16.1%), Japan (10.7%) and China (10.3%).

[Insert here Table 5]

In the case of imports, external purchases to countries outside the foreign agenda maked by Argentina, Brazil and Uruguay are concentrated in the United States and China in this orden. In the case of Paraguay, China (45.4%), Japan (19.3%) and USA (13.4%) were the main countries of origin of goods imported from extrazone and are not on the foreign agenda.

[Insert here Table 6]

METHODOLOGY OF THE CGE MODEL

The analytical tool chosen for this work is the CGE model that is used to analyze *ex-ante* quantitative effects of policy changes towards the optimal allocation of resources, efficiency and welfare. These models are used extensively by public research institutions and private institutions worldwide to evaluate the various arrangements on trade integration.

CGE models are based on the optimizer behavior of economic agents in general walrasian equilibrium models as Arrow-Debreu (1954) and are the numerical counterparts of the same. The pioneers in the application of CGE models were the work of Harberger (1962) on tax incidence with a numerical model of two sectors and as the one from Scarf (1969), which enabled the determination of the equilibrium of a walrasian system. Subsequently Shove and Whalley (1972, 1984, 1992) stimulated works with CGE models and more recent contributions such as the GTAP [Hertel, (1997)] and Rutherford (1999) have contributed to the development and use of this methodology.

A CGE model is basically a representation of an economy consisted by economic agents that behave according to the principles of microeconomic optimization. By modeling the interrelationships between different sectors of an economy allows to analyze the direct and indirect effects of a policy change and to evaluate the positive or negative impacts on different sectors. This makes the CGE models an ideal tool to identify winners and losers after a policy change.

To analyze the economic effects of trade policy alternative, the methodology that is used with the CGE model is the realization of counterfactual experiments. These seek to know what would have happened in the base year if it had been implemented a particular trade policy and the rest of the domestic policies and external conditions have remained unchanged, for example, in isolation from other factors. Basically they are "controlled experiment" in which only some exogenous variables are changed keeping everything else constant.

THE GTAP MODEL AND THE DATABASE`S STRUCTURE

The framework analysis of the MERCOSUR's foreign agenda is the GTAP CGE model. The model and database are from GTAP [Hertel, (1997)] version 6.2, it contains a set of information on trade and tariffs for 96 countries or regions and technological relations for 57 productive sectors. The Version 6.2 uses as the base year 2001 and the main novelty is the inclusion of data from the Paraguayan economy. The aggregation we use in the GTAP model has 22 production sectors and 22 countries/regions, which we describe below.

The GTAP is a neoclassical general equilibrium model, multi-regional and multi-sectoral that includes an explicit treatment of key variables in international trade and transport margins, including a global bank savings and investments, and respond to changes in prices and income in all countries of the database. It assumes perfectly competitive markets, production functions with constant returns to scale, full employment of primary factors of production, fixed factor endowment, and specification of Armington bilateral trade gap that differences imports by country of origin.

Because the base model only captures the gains from trade arising from an efficient allocation of resources and increased the possibilities of consumption, it was thought appropriate to extend the model to consider the accumulation of capital in order to capture some of the dynamic effects of trade liberalization. In this regard, as stated Hinojosa (2000), the term "dynamic" is not used to describe the optimal trajectory of the main variables to the steady state, but used to capture the cumulative effects over time on productivity factors and the stock of capital that emerge as a result of trade-induced by the regional integration modeled.

Given the weakness revealed by the model, related to the ability to capture the dynamics of the cumulative capital, Baldwin (1992) established the positive relation that exists between the theoretical and empirical through investment. In the static model the representative agent in each country/region designates its income to savings that is equal to investment. This investment does not increase the stock of capital and therefore only affects the composition of final demand. How to introduce capital accumulation in the variant of the model is making the investment to be transformed into an increase of capital stock. After trade liberalization increases the income, and hence the savings in each country/region. These savings are then transformed, through investment, an increase in capital stock. The increase in capital stock generates in the medium term, an additional increase in national income [Francois et al. (1996)].

Structure of the database and details of the incorporated changes

With regard to tariffs, the version 6.2 of the GTAP database reports the type of Most Favored Nation (MFN) in force in 2001 and, in some cases, incorporating information on preferential agreements[4]. Aiming to represent the free movement of goods within the MERCOSUR, and to capture the net effect of the agreements signed by MERCOSUR with other countries or regional blocks, it proceeded to dismantle the protection levels in intrazone of all sectors. Likewise, using the National Tariff Effective (NTE) 2001 in the case of Paraguay and the National Applied Tariff (NAT) 2001[5] tariffs imposed were corrected by the MERCOSUR countries to products from different countries/regions considered in the analysis and which the origin of its imports.

Later, in an attempt to reflect more realistic levels of protection with respect to imports from extrazone, the tariffs were changed for the MERCOSUR countries, using the National Tariff Effective (NTE) 2006 for Paraguay and National Applied Tariff (NAT) 2006 for Argentina, Brazil and Uruguay.

The information contained in the GTAP database was added in 22 sectors and 22 countries or regions which are presented in Table 1. The sectors were selected on the relative importance of each product in the production structure and export-oriented

[4] NAFTA, UE-EFTA, UE, ANZCERTA y SACU. Además incorpora acuerdos preferenciales de algunos países latinoamericanos: Colombia, Argentina y México.

[5] Information provided by the database LAIA-MERCOSUR (BADAM).

countries of MERCOSUR. The compositions of these sectors are detailed in the Appendix to the document. In terms of countries or regions, these have been selected according to the foreign agenda of MERCOSUR in 2007, and those countries or regions with strong trade in MERCOSUR, but are not considered in its foreign relations agenda.

[Insert here Table 7]

Trade liberalization scenarios considered

Inside the Agenda: It is considered that MERCOSUR is negotiating a separate FTA with countries or blocks of countries that are considered in its foreign agenda. The simulations assume that takes zero bilateral tariff rates between MERCOSUR and the country/region concerned. In all simulations it is considered that the tariff levels between MERCOSUR countries are zero and maintain the existing preferential tariffs vis-à-vis with the non-member countries of the TLC.

Outside the Agenda: It considered that MERCOSUR as the regional block concrete, under the 4 +1 format, Free Trade Agreements with countries or regions with which it maintains an important trade and are outside the negotiating agenda of the block. As before, all models eliminates intra-MERCOSUR tariffs and tariff levels are maintained with non-member countries of the TLC.

SIMULATIONS RESULTS

The following sections discuss the simulations conducted in this paper. They were grouped in order to compare those negotiations currently considered on MERCOSUR's foreign agenda and other negotiating fronts that could be included in the agenda of external relations, to evaluate and to dimension the opportunity cost of the current agenda. In this sense the changes are evaluated in levels of welfare of the Paraguayan economy, real growth of output and value of imports and exports. At the sectoral level in order to know where those areas affected negatively or positively as a result of the agreements, it is analyze the percentage changes in the value of exports and imports for the sector as the GDP sectoral.

a. Inside the agenda

The countries/regions included in the MERCOSUR's foreign agenda and which data are available on the GTAP 6.2 database to evaluate the results of integration processes between them and MERCOSUR in the form of a Free Trade Agreement (FTA) are as follows: European Union (25 countries), India, Pakistan, SACU, Korea, CPLC, Mexico, Bolivia, Peru, Ecuador, Chile, Colombia and Venezuela.

Next will be analyzed the effects of Paraguay for a Free Trade Agreement (FTA) between these countries/regions and MERCOSUR, analyzing the changes in macroeconomic aggregates and the effects on real output and foreign trade sectors.

i. Macroeconomic Aggregates

The various simulations conducted of an FTA with MERCOSUR countries or economic blocks incorporated to its foreign agenda indicate that these agreements will result in the case of Paraguay in increases in levels of welfare in some significant cases and in others marginal.

[Insert here Table 8]

In Table 6, it can be observe the changes in the levels of welfare expressed in millions of dollars. In the case of Paraguay, in order of importance, the agreements that provide greater benefits are: outside the continent, agreements with the European Union, India and Korea, while in the South American continent the agreements would deepen trade relations with Peru, Venezuela, Chile and Colombia. The elimination of tariffs with the European Union, a block characterized by high tariff levels, would generate greater welfare gains to Paraguay than the rest of the other agreements. An MERCOSUR-EU agreement would generate welfare gains of 30 or more times higher than those obtained in the country any other agreement referred to in the current agenda of the block.

[Insert here Table 9]

Table 7 allows analyzing the reasons for the increase of welfare in the case of Paraguay. In all cases would be improvements in economic efficiency as well as in terms of trade which would explain the higher levels of welfare. However, none of the possible agreements to be signed under the current agenda of the MERCOSUR would attract foreign investment to Paraguay. Instead, the country is not attractive for investment, such as the agreements with Pakistan and the CPLC, or it produces a process of disinvestment in the long term that could affect the country's economic development. This is explained by the fact that the rest of MERCOSUR, and especially Brazil, absorb investment flows that were originally intended to Paraguay.

Any TLC between MERCOSUR and the countries that constitute its foreign agenda produce positive changes in real levels of gross domestic product of the members of the regional block. In the case of Paraguay, a free trade agreement MERCOSUR-EU is the largest increase in real GDP would increase by around 1% as the effect of trade liberalization. Next in importance because of its impact on real production are the agreements with India, Korea, Mexico, Chile and Venezuela with approximate increases to 0.04% compared to the previous initial situation to the agreement.

Likewise, the effects on the Balance of Trade of Paraguay can be analyzed in Table 6. In all simulated FTAs, except for a MERCOSUR-Mexico agreement, the deficit of the Balance of Trade of Paraguay would decrease caused by larger exports to imports. Again a possible agreement with the European Union would have the greatest impact because the deficit would decrease in about 22%. In the case of other agreements, the deficit would be reduced from 2 to 11 million dollars.

ii. Sectoral changes

The sectoral analysis of the results of the agreements in the MERCOSUR's foreign agenda allows evaluating the impact that would have the same structure on the domestic economy of Paraguay. This shows which sectors would win or lose with the implementation of an FTA. The present section analyses the impact on exports and imports for the sector as well as the change in the sectoral GDP of Paraguay. The agreements are also analyzed according to the number of sectors which win or loss in case of an economic opening caused by an FTA. From the comparison of the number of sectors winners and losers could anticipate the cost of the agreement for the country at the sectoral level. It also warns that the results presented relate to the overall effects of the agreement and not the bilateral effects.

1. Exports

It can be said generally that the value of exports would increase in the manufacturing sectors intensive in natural resources as a result of any agreements signed inside the MERCOSUR's agenda, but in different ways. Table 10 shows that while an agreement with MERCOSUR-EU exports grow exponentially, driven mainly by sugar industry and meat, increased in 307% (equivalent to more than $ 900 million) with the respect the initial balance, in the other agreements the sector's growth would be less than 5%. At the regional level, are attractive for the products of this sector of the agreements with Chile and Venezuela, with increases of 7.43% and 4.83% in export values equivalent to about 22 million and $ 15 million in additional export respectively. Outside the region include agreements with India and Korea, which increased 3.24% and 1.38% respectively in the export sector intensive in natural resources.

[Insert here Table 10]

The simulation results show that for the agricultural sector the agreements with countries outside the region would increase exports slightly (the best results for this sector would be in the context of a MERCOSUR-Korea exports rise in 2.96%, equivalent approximately $ 20.4 million), except those to the EU, which would decrease about 13%. This is explained by the increase in exports of manufactures intensive in Natural Resources, which require larger volumes of raw materials reducing the sales of raw materials abroad. Inside the continent, agreements with Mexico, Bolivia, Peru and Colombia encourage the sale of Paraguayan raw materials abroad although the effects on the sector would not be significant. The deepening of the agreements with other countries in the region covered by the foreign agenda would tend to decrease the values exported.

In the case of manufactured exports intensive in labor to countries outside the region, in all cases the values exported would reduced. The most important shock in foreign sales of the sector would be given in the framework of an agreement with the EU. In this sense, the sales would fall 42%, equivalent to about $ 73 million. In the case of agreements with other countries inside the region, except Chile and Ecuador, the sectoral impact would be negative but less than 1%.

For the sector of products intensive in capital the impact on exports would be different. The agreements outside the region such as the negotiated with Pakistan and India would increased national exports between 1.50% and 2% (approximately 1.1 to 1.4 million dollars) mainly explained by increases in the values of exported chemicals, metal and auto parts products, while an agreement with the European Union would decreased them by 34% (equivalent to 25 million dollars). Inside the region, all agreements, except those that would be signed with Colombia and Venezuela, marginally would increase sales of the sector to outside primarily driven by sales of chemicals and other metal products.

According to Table 10, all agreements would negatively affect more than positively to a greater number of sectors in their export values. Likewise, the identification of winners and losers sectors is a good indicator of the specialization that will develop the economy in the production and export of a product to maximize the results of the agreement. For example, a potential MERCOSUR-EU agreement would make Paraguay to use the most of its comparative advantages by concentrating on the export capacity of three stars products, reducing the values exported in all the rest.

2. Imports

The simulation results of Table 11 show that the agreements would increase imports in general in all sectors of the economy. The major changes would occur in the context of a MERCOSUR-EU agreement by increasing the total imports in about 417 million dollars. The greatest impact would be in the manufacture sector intensive in capital which would increase its imports in a few more that $ 190 million (10.8%) over the initial balance of equilibrium.

[Insert here Table 11]

In the case of manufactured goods intensive in natural resources, the results show that, except in the case of an agreement with the European Union, the imports would tend to increase at a rate less than 1%. In addition, open markets also encourage the import of agricultural products, especially seeds from the MERCOSUR, which would be used to increase production and export levels. In this regard, under an agreement with the European Union imported values would grow by about 35% as a result of the largest purchases made to the members of the block. In return, the only free trade agreement outside the region that would result in a decrease in agricultural imports would be with Korea.

In all the agreements, the number of sectors in which the values are increased imports is greater than those in which these values are reduced. It is worth noting that in the agreements to intensify inside the region would increase imports in a larger number of sectors than in the agreements outside the region.

3. Production

The impact of the agreements on the sectoral real production of the economy can be evaluated with the simulations performed. In general it can be say that any agreements on the agenda of the MERCOSUR would increase real output in sectors related to agriculture and manufactures intensive in natural resource, where the country has comparative advantages. In contrast the effect on producing sectors with manufactures intensive in labor and capital would be negative, in most of the all agreements, due to a decrease in the corresponding sectoral GDP (see Table 12).

[Insert here Table 12]

Again, an MERCOSUR-EU agreement has the major significance for the economy of Paraguay. In the manufacturing sector intensive in natural resources the production would rise 41% allowing the gains seen in the export sector. Likewise, the dynamism of the export sector would impulse the agricultural production increasing it in around 10%. There will also be negative effects on manufacturing intensive in labor and capital. The first would decrease more than 15% and the second in nearly 12%.

b. Outside the Agenda

Those countries/regions that for the importance of the volume of trade with the MERCOSUR should be included in the South American block's foreign agenda and which have been simulated a Free Trade Agreement (FTA) are: NAFTA, Japan, China, Taiwan, ASEAN, Switzerland, Russia, Australia, Turkey and Iran.

The present section will examine the effects on the Paraguayan economy of Free Trade Agreements (FTA) between MERCOSUR and the countries/regions mentioned. This would in some way to evaluate the cost of opportunity for Paraguay that is left out of the priorities of the block's foreign agenda to those countries or blocks of countries. Similar to the previous section it will examine the effects on macroeconomic aggregates and the changes on production and foreign trade at the sectoral level.

i. Macroeconomic Aggregates

The various simulations of an FTA of MERCOSUR with countries or economic blocks which, by their relative importance in foreign trade should be considered in its external agenda indicate that such agreements would increase the vast majority of welfare standards Paraguay. The exceptions would be the agreements with Taiwan and the ASEAN block.

[Insert here Table 13]

In Table 13, it can be seen the changes in the levels of welfare of Paraguay expressed in millions of dollars. The agreements that provide greater benefits are, in order of importance, with Japan, Switzerland and NAFTA (U.S., Canada and Mexico). These three agreements would involve welfare gains equivalent to a few more $ 50 million.

[Insert here Table 14]

In Table 14 are analyzed the reasons for the increase or decrease of welfare in the case of Paraguay. In the case of the three agreements with larger impact on the welfare of the country such increase would be the result of greater economic efficiency, improved in terms of trade as well as higher levels of saving and investment.

Unlike any possible agreement signed under the current MERCOSUR's foreign agenda where in none of them Paraguay results attractive for investment, the scenarios simulated with countries excluded from the agenda, not only improve the efficiency and the terms exchange but allowed in most cases positive flows of savings-investment in the long run enable greater economic growth and development.

Most of the potential free trade agreements between MERCOSUR and the countries proposed that are outside of its current foreign agenda would lead to positive changes in actual levels of gross domestic product of Paraguay (see Table 13). In this sense the greatest effect would be the agreements with NAFTA (0.15%), China (0.09%) and Japan (0.05%). Furthermore, alternative arrangements would have zero or even negative impact on the country's production. The first case would correspond to possible links with Australia and Iran, while the latter would be in any economic openings between MERCOSUR and Taiwan or the ASEAN block.

Likewise, in Table 13 is showing the effects on the Balance of Trade of Paraguay. In all simulated FTAs, except for any agreement of MERCOSUR with Australia and the block of ASEAN, the deficit in the Balance of Trade would decrease due to the larger exports than imports. Among the agreements with major impact on the country's Balance of Trade (agreements with NAFTA, Japan and Switzerland) the deficit was reduced from 16 to 25 million dollars.

ii. Changes at the sectoral level

The present section examines the sectoral impact on exports and imports as well as the change in the sectoral GDP of Paraguay of the possible agreements with any countries that are currently not listed as priorities of the external agenda of MERCOSUR. As in the previous simulation scenario, there are agreements also analyzed according to the number of sectors that would win or lose in the event of an economic opening created by an FTA, by anticipating with this analysis, the changes in sectoral indicators and allowing the number of sectors to identify winners and losers of a particular agreement would have on the country's economic structure.

1. Exports

It can say in general, based on Table 15, that agreements which could be established, are those who benefice 10 or more sectors with rising exportable values would be the agreements involving Taiwan, China and ASEAN in that order. In general, it can be say for the results obtained that the value of exports would increase especially in the agricultural sectors and those sectors intensive in natural resources and would decrease in those sectors intensive in labor and capital. Considering the number of sectors positively affected the value of exports, the most advantageous agreement for Paraguay, although the increases would be marginal, would be a MERCOSUR-Taiwan FTA. At the other extreme would be a liberal trade agreement MERCOSUR-Japan. In this case a single sector (sugar) would increase its export values declining in all other sectors.

A MERCOSUR-Switzerland agreement would promote agricultural exports, especially cereals and oilseeds, increasing 5% (around 33 million dollars). Furthermore, the agreements with NAFTA and Japan are those that would stronger impulse sales of

[Insert here Table 15]

manufactures intensive in natural resources, increasing 10% and 36% respectively. Unlike the analyzed results of the agreements on the agenda, in all agreements with countries outside the agenda the values of exports of manufactures intensive in labor and capital decreases, happening the larger impact when the greater is the difference in the relative level of development.

2. Imports

The simulation results presented in Table 16 show that the agreements would increase in general imports of manufactures intensive in labor and in a less increase intensive in capital (in some agreements even decrease them). In the case of manufactured goods intensive in natural resources, the results show that these would tend to increase, excepting the agreements with China, Taiwan and ASEAN.

[Insert here Table 16]

The opening of some markets would also stimulate imports of agricultural products, especially seeds, which would increase levels of production and export. In this regard, under the agreements to be signed with Switzerland, Japan and NAFTA where the values imported would mostly grow. In contrast, free trade agreements that would lead to decreased agricultural imports would be the ones with China, Taiwan and ASEAN.

In most agreements, the numbers of sectors in which the values of imports are increased are greater than those in which these values are reduced, with the exception of agreements with Taiwan, China and Australia in that order. The agreements that would affect 15 or more imported by increasing the import values would be, increased in order of importance, of the MERCOSUR agreement with Switzerland, Japan, NAFTA, Russia and Turkey.

3. Production

Table 17 shows the impact of agreements on the real production of the economy at the sectoral level. These are the sectors related to agriculture and manufactures intensive in natural resources where possible MERCOSUR agreements would increase the real production. In contrast the effect on manufacturing industries producing manufactures intensive in labor and capital are negative in all cases, due to a decline in the sectoral GDP.

[Insert here Table 17]

CONCLUSION

The structural asymmetries, an unfinished internal agenda, the national interests and visions opposed to the block as a unit and finally the leadership of Brazil characterized by prioritizing the search for political and economic returns at the international level over the rest of the members of the block has the consequence a foreign policy out of focus which requires the review and redirect of the MERCOSUR’s foreign agenda.

Simultaneously, the absence of coordination of an economic external policy with the industry and the agriculture has serious consequences for the country to prevent an efficient use of existing resources, loss of business and investment opportunities and the stigma of an unserious country.

The simulation results allow concluding that the benefits that would be obtained by Paraguay from the current MERCOSUR’s Foreign Agenda are not optimal for the country. The gains of welfare, increases in production, exports and imports are lower than would be obtained if the agenda would incorporate those countries or blocks of real economic importance to the MERCOSUR and Paraguay.

This shows that a South-South orientation considering the MERCOSUR’s Foreign Agenda is not what it should be to Paraguay, so it should be emphasized on reorienting this agenda to the main trading partners of MERCOSUR.

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Table 1

MERCOSUR: STRUCTURE OF FOREIGN TRADE WITH COUNTRIES OUTSIDE THE AGENDA. PERIOD 2000-2006

	EXPORT	**IMPORT**
EU	53.5	65.0
Israel	0.7	1.6
India	2.4	3.0
Pakistan	0.3	0.1
SACU	2.5	1.2
Korea (South), Rep. Of	3.1	6.9
CCG	4.2	3.8
CPLC	0.9	0.4
Panama	0.5	0.1
Dominican Republic	0.7	0.0
Mexico	7.8	4.5
Cuba	0.4	0.1
Bolivia	1.6	2.7
Colombia	2.5	0.8
Chile	11.6	5.9
Peru	2.4	1.2
Ecuador	1.2	0.4
Venezuela	3.7	2.5
Total	**100**	**100**

Source: Own making

Table 2

MERCOSUR's FOREIGN AGENDA -DECEMBER 2005

UNDER THE LAIA* FRAMEWORK		
COLOMBIA-ECUADOR-VENEZUELA (ACE 59)		
PERU (ACE 58)		
BOLIVIA (ACE 36)		
CHILE (ACE 35)		
MEXICO (ACE 54 Y 55)		
CUBA (ACE 62)		
OUTSIDE THE REGION		
INDIA	EGYPT	JAPAN
UNITED STATES	SOUTH AFRICA	CANADA
SOUTH KOREA	CHINA	INDONESIA
ISRAEL	MOROCCO	RUSSIA
SINGAPORE	PAKISTAN	SRILANKA
TURKEY	ARGELIA	PANAMA
DOMINICAN REPUBLIC-SAO TOME AND PRINCIPE		
GUINEA AND BISSAU		
ECONOMIC BLOCKS		
EUROPEAN UNION (EU)		
CENTRAL AMERICA COMMON MARKET (CACM)		
GULF COOPERATION COUNCIL (GCC)		
FREE TRADE AREA OF THE AMERICAS (FTAA)		
ASIA-PACIFIC ECONOMIC COOPERATION (APEC)		
CARIBBEAN COMMUNITY (CARICOM)		
COMMUNITY OF PORTUGUESE LANGUAGE COUNTRIES (CPLC)		
CLOSER ECONOMIC RELATIONS (CER)		
EUROPEAN FREE TRADE ASSOCIATION (EFTA)		
SOUTHERN AFRICAN CUSTOMS UNION (SACU)		
CENTRAL AMERICAN INTEGRATION SYSTEM (CAIS)		

Source: Own making
*** Latin-American Integration Association**

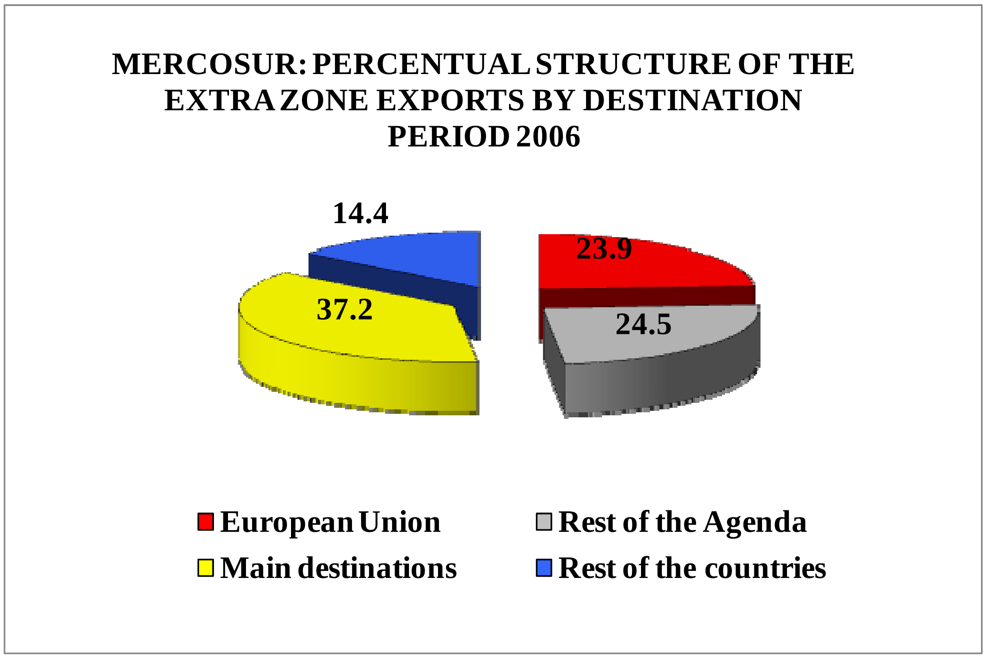
Table 3

MERCOSUR's FOREIGN AGENDA - DECEMBER 2007

UNDER THE LAIA FRAMEWORK
MEXICO – BOLIVIA – PERU – ECUADOR – CHILE – COLOMBIA –VENEZUELA - CUBA
OUTSIDE THE REGION
MERCOSUR-EUROPEAN UNION
MERCOSUR – COMMUNITY OF PORTUGUESE LANGUAGE COUNTRIES (CPLC)
MERCOSUR-ISRAEL
MERCOSUR-PAKISTAN
MERCOSUR- SOUTHERN AFRICAN CUSTOMS UNION (SACU)
MERCOSUR- GULF COOPERATION COUNCIL (GCC)
MERCOSUR-INDIA
MERCOSUR-KOREA
MERCOSUR-SACU-INDIA

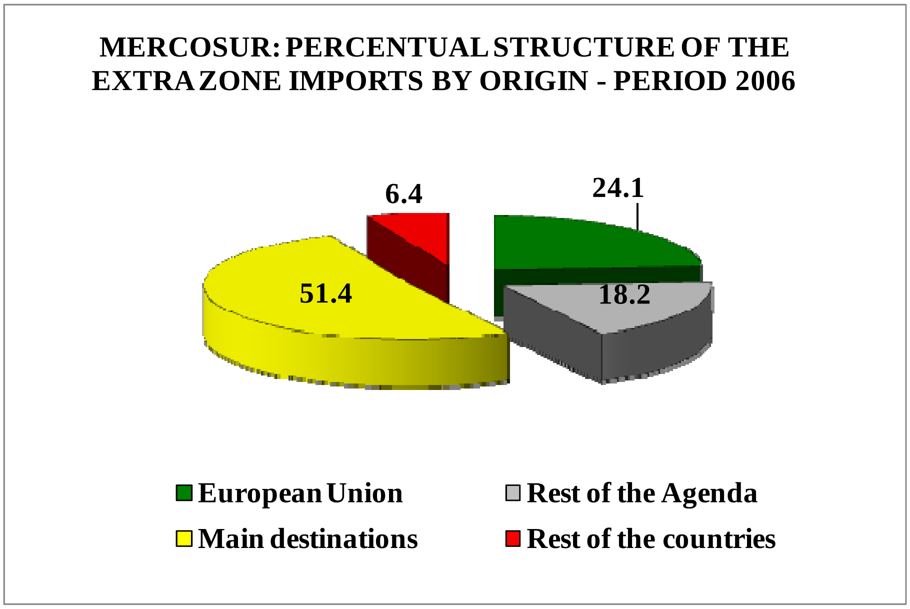
Source: Own making

Figure Nº 1



Source: Own making

Figure Nº 2



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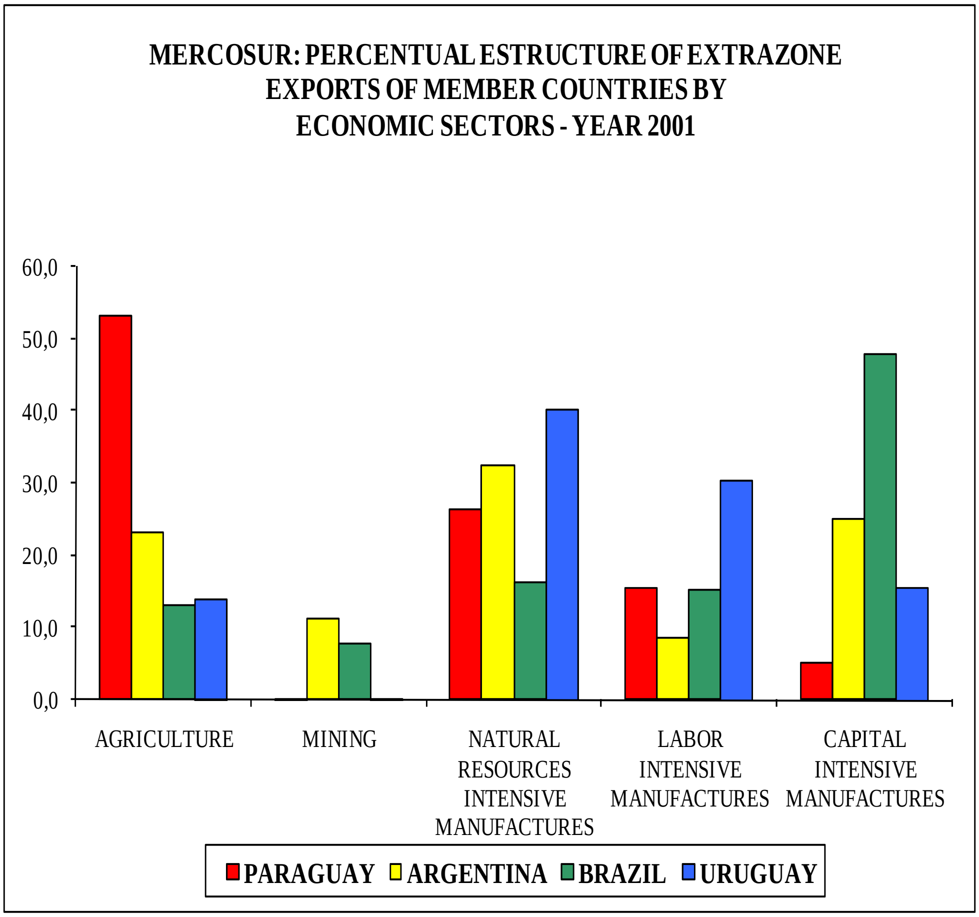

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Figure Nº 4

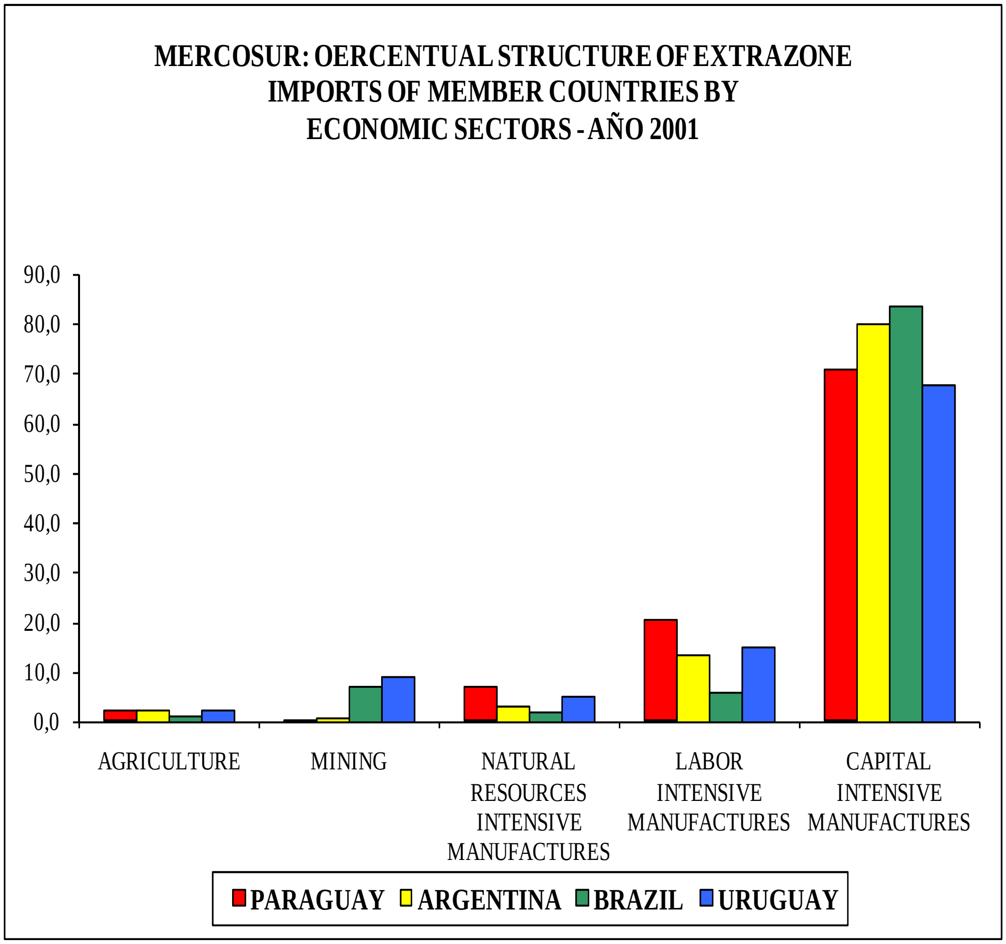

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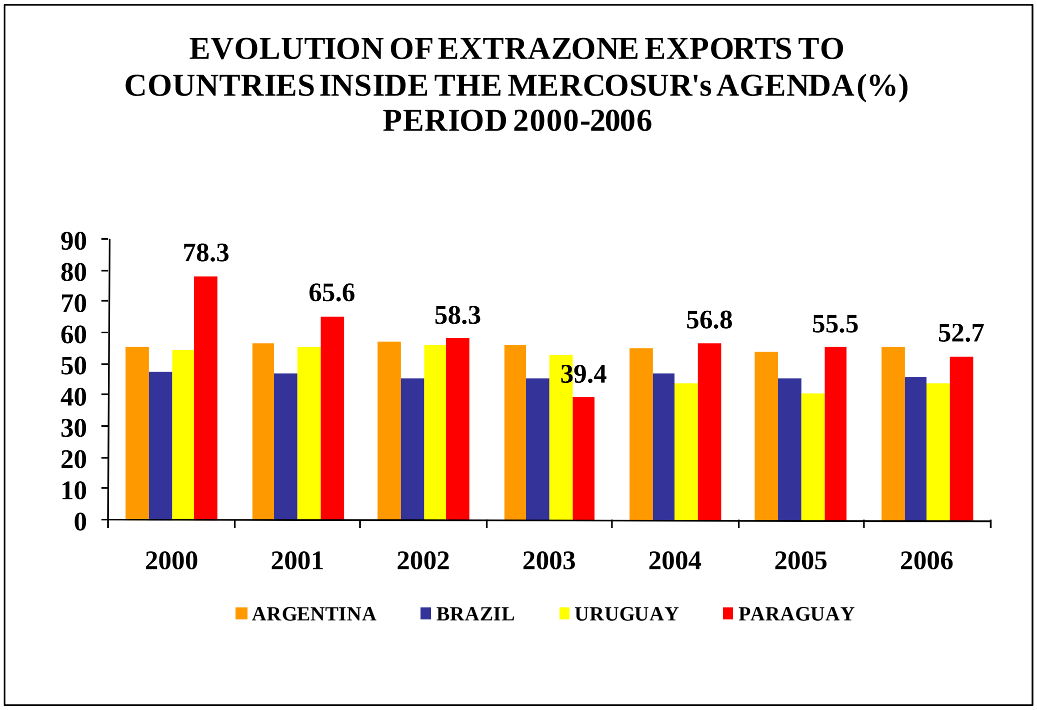
Figure Nº 5



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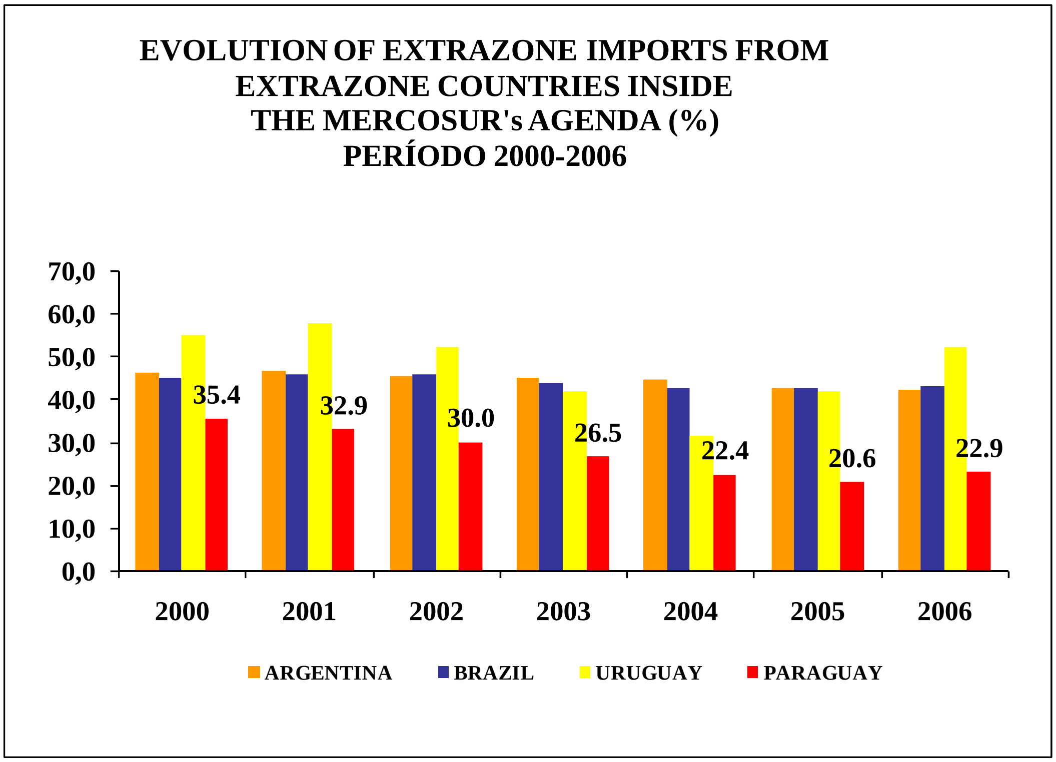

Source: Own making

Table 4
MERCOSUR's extrazone exports and imports

Percentual Distribution of Extra Regional Exports of MERCOSUR by Destination - Year 2006

	Argentina	Brazil	Uruguay	Paraguay
INSIDE THE AGENDA				
European Union	21.9	24.6	22.3	20.2
Rest of the countries	33.7	21.7	21.5	32.5
OUTSIDE THE AGENDA				
Main destinations*	32.0	40.7	42.4	45.4
Rest of the countries	12.4	13.0	13.9	1.9
TOTAL (Thousands of US Dollars)	**36,530,981**	**123,519,275**	**3,010,165**	**1,287,789**

*** Over the 30 main destinations**

Source: Own making

Percentual Distribution of Extra Regional Imports of MERCOSUR by Destination - Year 2006

	Argentina	Brazil	Uruguay	Paraguay
INSIDE THE AGENDA				
European Union	26.9	24.3	18.7	8.2
Rest of the countries	15.1	18.7	33.2	14.7
OUTSIDE THE AGENDA				
Main destinations*	48.1	55.4	44.8	76.1
Rest of the countries	9.9	1.6	3.3	1.0
TOTAL (Thousands of US Dollars)	**21,603,887**	**86,475,787**	**2,592,602**	**3,959,036**

*** Over the 30 main origins**

Source: Own making

Table 5

% DISTRIBUTION OF EXPORTS BY MAIN EXTRAZONE DESTINATION OUTSIDE THE AGENDA. PERIOD 2000-2006*

ARGENTINA	%	BRAZIL	%	URUGUAY	%	PARAGUAY	%
United States	30.7	United States	43.5	United States	37.6	Switzerland	29.8
China	19.8	China	12.2	China	13.3	United States	17.9
Egypt	3.8	Japan	6.5	Canada	6.9	Russia	16.1
Russia	3.2	Russia	4.2	Russia	4.8	Japan	10.7
Japan	3.2	Canada	2.9	Iran	4.3	China	10.3
Malaysia	2.8	Iran	2.0	Thailand	3.4	Taiwan	2.9
Thailand	2.7	Egypt	1.5	Japan	2.4	Thailand	2.1
Algelia	2.5	Taiwan	1.4	Algelia	2.0	Lebanon	1.3
Canada	2.3	Bahamas	1.4	Norway	1.9	Canada	1.1
Philippines	1.7	Singapore	1.2	Puerto Rico	1.5	Malaysia	1.0
Indonesia	1.5	Thailand	1.2	Malaysia	1.4	Indonesia	0.7
Iran	1.5	Switzerland	1.2	Switzerland	1.4	Albania	0.4
Rest	24.3	Rest	20.8	Rest	19.1	Rest	5.6
Total**	**11,260,145**	**Total****	**41,519,923**	**Total****	**979,936**	**Total****	**338,705**

*Contructed raking considering the average of exports from the period 2000-2006

** Thousands of US Dollar

Source: Own making

Table 6

% DISTRIBUTION OF IMPORTS BY MAIN EXTRAZONE ORIGIN OUTSIDE THE AGENDA. PERIOD 2000-2006*

ARGENTINA	%	BRAZIL	%	URUGUAY	%	PARAGUAY	%
United States	43.0	United States	38.5	United States	26.8	China	45.4
China	18.3	China	12.3	China	19.5	Japan	19.3
Japan	8.6	Japan	9.6	Russia	18.5	United States	13.4
Switzerland	2.6	Nigeria	6.6	Nigeria	7.9	Switzerland	7.4
Taiwan	2.5	Argelia	5.2	Japan	4.6	Taiwan	3.2
Thailand	2.1	Switzerland	3.3	Iran	3.9	Bahamas	2.3
Canada	2.0	Taiwan	3.2	Taiwan	3.3	Cayman Islands	1.9
Russia	1.8	Canada	3.2	Ecuat. Guinea	2.7	Malaysia	1.8
Malaysia	1.8	Russia	2.1	Switzerland	2.4	Thailand	1.2
Indonesia	1.3	Singapore	1.7	Canada	1.8	North Korea	1.0
Australia	1.0	Malaysia	1.7	Australia	0.9	Singapore	0.8
Singapore	1.0	Australia	1.4	Malaysia	0.6	Indonesia	0.3
Rest	14.0	Rest	11.1	Rest	7.2	Rest	2.0
Total**	**8,028,498**	**Total****	**32,679,958**	**Total****	**928,298**	**Total****	**1,169,006**

*Contructed raking considering the average of imports from the period 2000-2006

** Thousands of US Dollar

Source: Own making

Table 7

Countries/regions considered in the models

REGIONS			
MERCOSUR's AGENDA		**OUTSIDE AGENDA**	
EU	EUROPEAN UNION (25)	USA	UNITED STATES
IND	INDIA	CAN	CANADA
PAK	PAKISTAN	JPN	JAPAN
SACU	SACU (BWA - ZAF - XSC)	CHN	CHINA
KOR	KOREA	TWN	TAIWAN
CPLP	CPLC (MOZ)	IDN	INDONESIA
MEX	MEXICO	MYS	MALAYSIA
BOL	BOLIVIA	PHL	PHILIPPINES
COL	COLOMBIA	SGP	SINGAPORE
ECU	ECUADOR	THA	THAILAND
PER	PERU	VNM	VIETNAM
VEN	VENEZUELA	CHE	SWITZERLAND
CHL	CHILE	RUS	RUSSIA
		AUS	AUSTRALIA
MERCOSUR		TUR	TURKEY
ARG	ARGENTINA	IRN	IRAN
BRA	BRAZIL	EGY	EGYPT
PRY	PARAGUAY	NGA	NIGERIA
URY	URUGUAY		
		REST OF THE WORLD	
		ROW	REST OF THE WORLD

Source: Own making

Table 8

PARAGUAY: CHANGES IN THE MACROECONOMIC AGGREGATES BY MERCOSUR's FOREING AGENDA

AGENDA	WELFARE CHANGE (MILL. US DOLLARS)	CHANGE IN REAL GDP (%)	CHANGE IN TOTAL EXPORTS VOLUME (%)*	CHANGE IN TOTAL IMPORTS VOLUME (%)*	CHANGE IN BALANCE OF TRADE (MILL. US DOLLARS)
			INSIDE THE REGION		
MCS-EU	339.1	0.745	735.6	417.8	317.8
MCS-INDIA	11.3	0.038	21.4	13.0	8.4
MCS-PAKISTAN	0.6	0.004	1.6	1.3	0.4
MCS-SACU	0.9	0.005	2.0	1.3	0.7
MCS-KOREA	8.8	0.027	18.7	8.2	10.5
MCS-CPLC	0.0	0.000	0.0	0.0	0.0
			OUTSIDE THE REGION		
MCS-MEXICO	1.2	0.035	2.9	4.8	-1.8
MCS-BOLIVIA	1.5	0.006	4.1	2.2	1.9
MCS-PERU	5.2	0.014	14.0	7.8	6.2
MCS-ECUADOR	0.6	0.003	1.6	1.0	0.7
MCS-CHILE	3.3	0.035	21.3	12.7	8.6
MCS-COLOMBIA	3.2	0.014	7.0	4.3	2.6
MCS-VENEZUELA	5.3	0.027	12.5	8.3	4.2
TOTAL	**380.7**	**0.073**	**842.8**	**482.6**	**360.2**

Source: Own making

Table 9

PARAGUAY: DESCOMPOSITION OF THE EQUIVALENT VARIATION BY MERCOSUR's FOREIGN AGENDA (IN MILLIONS OF US DOLLARS)

AGENDA	EFICIENCIE	TERMS OF TRADE	SAVE - INVESTMENT	WELFWARE
		INSIDE THE AGENDA		
MCS-EU	54.4	297.2	-12.5	339.1
MCS-INDIA	2.7	9.3	-0.7	11.3
MCS-PAKISTAN	0.3	0.3	0	0.5
MCS-SACU	0.4	0.6	-0.1	0.9
MCS-KOREA	1.9	7	-0.2	8.8
MCS-CPLC	0	0	0	0
		OUTSIDE THE AGENDA		
MCS-MEXICO	2.5	-0.8	-0.5	1.2
MCS-BOLIVIA	0.4	1.2	-0.1	1.5
MCS-PERU	1	4.5	-0.3	5.2
MCS-ECUADOR	0.2	0.4	-0.1	0.6
MCS-CHILE	2.5	0.9	-0.1	3.3
MCS-COLOMBIA	1	2.5	-0.3	3.2
MCS-VENEZUELA	2	3.8	-0.6	5.2
TOTAL	**69.3**	**326.9**	**-15.5**	**380.8**

Source: Own making

Table 10

PARAGUAY: % CHANGE IN THE VALUE OF EXPORTS AT THE SECTORIAL LEVEL BY COUNTRIES IN NEGOCIATION INSIDE MERCOSUR's FOREIGN AGENDA

AGREETMENT	SECTORIAL AGGREGATION					NUM. OF SECTORS WITH IMPACT	
	PRIMARY		MANUFACTURE INTENSIVE IN				
	AGRICUL TURE	MINING	NATURALES RESOURCES	LABOR	CAPITAL	POSITIVE	NEGATIVE
INITIAL EQUILIBRIUM (MILLIONS OF US DOLLARS)							
	690.4	0.9	300.3	176.4	72.0		
	OUTSIDE THE REGION						
MCS-EU	-12.94	-0.29	307.39	-41.52	-34.41	3	18
MCS-INDIA	1.94	-0.49	3.24	-1.76	1.93	8	13
MCS-PAKISTAN	0.23	0.06	0.05	-0.68	1.50	11	10
MCS-SACU	0.21	-0.15	0.39	-0.23	-0.29	8	13
MCS-KOREA	2.96	-1.13	1.38	-2.45	-2.23	5	16
MCS-CPLC	0.00	0.00	0.00	0.00	0.00	8	13
	INSIDE THE REGION						
MCS-MEXICO	0.12	-0.06	0.97	-0.58	0.27	10	11
MCS-BOLIVIA	0.29	0.07	-0.10	-0.10	3.64	10	11
MCS-PERU	0.63	-0.03	3.16	-0.04	0.32	7	14
MCS-ECUADOR	-0.02	0.20	-0.13	0.48	1.85	6	15
MCS-CHILE	-0.16	0.15	7.43	0.03	0.03	10	11
MCS-COLOMBIA	0.19	0.23	2.10	-0.23	-0.35	5	16
MCS-VENEZUELA	-0.25	1.30	4.83	0.00	-0.41	6	15

Source: Own making

Table 11

PARAGUAY: % CHANGE IN THE VALUE OF IMPORTS AT THE SECTORIAL LEVEL BY COUNTRIES IN NEGOCIATION INSIDE MERCOSUR's FOREIGN AGENDA

AGREETMENT	SECTORIAL AGGREGATION					NUM. OF SECTORS WITH IMPACT	
	PRIMARY		MANUFACTURE INTENSIVE IN				
	AGRICUL TURE	MINING	NATURAL RESOURCES	LABOR	CAPITAL	POSITIVE	NEGATIVE
INITIAL EQUILIBRIUM (MILLIONS OF US DOLLARS)							
	82.0	19.1	305.4	486.1	1791.1		
			OUTSIDE THE REGION				
MCS-EU	34.43	-5.75	19.08	28.52	10.82	18	3
MCS-INDIA	1.44	0.18	0.46	0.86	0.35	17	4
MCS-PAKISTAN	0.01	0.02	0.02	0.20	0.02	15	6
MCS-SACU	0.12	0.01	0.07	0.80	0.03	17	4
MCS-KOREA	-1.06	0.16	0.39	0.78	0.22	13	8
MCS-CPLC	0.00	0.00	0.00	0.00	0.00	13	8
			INSIDE THE REGION				
MCS-MEXICO	0.16	0.32	0.10	0.20	0.19	14	7
MCS-BOLIVIA	0.37	0.05	0.03	0.13	0.06	21	0
MCS-PERU	1.44	0.09	0.35	0.46	0.18	21	0
MCS-ECUADOR	-0.01	0.02	0.03	0.05	0.03	17	4
MCS-CHILE	0.93	0.27	0.50	1.34	0.21	20	1
MCS-COLOMBIA	0.41	0.01	0.19	0.26	0.12	20	1
MCS-VENEZUELA	1.58	0.05	0.33	0.39	0.23	19	2

Source: Own making

Table 12

PARAGUAY: % CHANGE IN THE SECTORIAL REAL PRODUCT LEVEL BY COUNTRIES IN NEGOCIATION INSIDE MERCOSUR's FOREIGN AGENDA

AGREETMENT	SECTORIAL AGGREGATION					NUM. OF SECTORS WITH IMPACT	
	PRIMARY		MANUFACTURE INTENSIVE IN				
	AGRICUL TURE	MINING	NATURAL RESOURCES	LABOR	CAPITAL	POSITIVE	NEGATIVE
INITIAL EQUILIBRIUM (MILLIONS OF US DOLLARS)							
	2452.7	16.1	1884.0	1204.7	1403.2		
	OUTSIDE THE REGION						
MCS-EU	8.48	-8.13	40.80	-15.39	-11.46	5	16
MCS-INDIA	0.42	-0.11	0.52	-0.57	-0.06	9	12
MCS-PAKISTAN	0.03	0.01	0.01	-0.25	0.09	15	6
MCS-SACU	0.04	-0.03	0.05	-0.06	-0.03	10	11
MCS-KOREA	0.59	-0.21	0.19	-0.74	-0.39	10	11
MCS-CPLC	0.00	0.00	0.00	0.00	0.00	10	11
	INSIDE THE REGION						
MCS-MEXICO	0.03	0.07	0.18	-0.08	0.10	13	8
MCS-BOLIVIA	0.02	0.05	-0.01	-0.07	0.18	10	11
MCS-PERU	0.14	-0.08	0.55	-0.18	-0.11	7	14
MCS-ECUADOR	-0.01	0.02	-0.03	0.07	0.09	10	11
MCS-CHILE	0.18	-0.17	0.99	-1.01	-0.23	9	12
MCS-COLOMBIA	0.11	-0.05	0.33	-0.11	-0.07	8	13
MCS-VENEZUELA	0.07	0.00	0.82	-0.07	-0.07	11	10

Source: Own making

Table 13

PARAGUAY: % CHANGES IN THE MACROECONOMIC AGGREGATES
COUNTRIES OUTSIDE MERCOSUR's FOREIGN AGENDA

AGENDA	WELFARE CHANGE (MILL. US	CHANGE IN REAL GDP (%)	CHANGE IN TOTAL EXPORTS	CHANGE IN TOTAL IMPORTS	CHANGE IN BALANCE OF TRADE (MILL.
MCS-NAFTA	15.6	0.146	22.2	7.1	15.1
MCS-JAPAN	24.7	0.046	68.0	33.7	34.3
MCS-CHINA	1.5	0.089	18.2	15.5	2.8
MCS-TAIWAN	-0.9	-0.007	0.4	0.4	0.0
MCS-ASEAN	-1.2	-0.004	-0.1	0.2	-0.3
MCS-SWITZERLAND	16.6	0.017	28.1	12.4	15.7
MCS-RUSSIA	2.9	0.015	6.2	3.8	2.3
MCS-AUSTRALIA	0.0	0.000	-0.1	0.0	-0.1
MCS-TURKEY	1.4	0.004	2.1	1.2	0.9
MCS-IRAN	0.0	0.000	0.00	0.04	0.0
TOTAL	**60.6**	**0.031**	**145.1**	**74.4**	**70.6**

Source: Own making

Table 14

PARAGUAY: DESCOMPOSITION OF THE EQUIVALENT VARIATION BY MERCOSUR's FOREIGN AGENDA (IN MILLIONS OF US DOLLARS)

AGENDA	EFICIENCIE	TERMS OF TRADE	SAVE - INVESTMENT	WELFWARE
MCS-NAFTA	10.5	0.7	4.4	15.6
MCS-JAPAN	3.3	21.2	0.2	24.7
MCS-CHINA	6.4	-7	2.1	1.5
MCS-TAIWAN	-0.5	-0.8	0.4	-0.9
MCS-ASEAN	-0.3	-1.4	0.5	-1.2
MCS-SWITZERLAND	1.2	15.9	-0.5	16.6
MCS-RUSSIA	1.1	2.1	-0.3	2.9
MCS-AUSTRALIA	0	-0.1	0	-0.1
MCS-TURKEY	0.3	1.2	0	1.5
MCS-IRAN	0.0	0.0	0.0	0
TOTAL	**22,0**	**31,8**	**6,8**	**60,6**

Source: Own making

Table 15

PARAGUAY: % CHANGES IN THE MACROECONOMIC AGGREGATES
COUNTRIES OUTSIDE THE MERCOSUR's AGENDA

AGREEMENT	SECTORIAL AGGREGATION					NUM. OF SECTORS WITH IMPACT	
	PRIMARY		MANUFACTURE INTENSIVE IN				
	AGRICUL TURE	MINING	NATURAL RESOURCES	LABOR	CAPITAL	POSITIVE	NEGATIVE
INITIAL EQUILIBRIUM (MILLIONS OF US DOLLARS)							
	690.4	0.9	300.3	176.4	72.0		
MCS-NAFTA	-0.35	-0.16	10.24	-3.12	-0.95	8	13
MCS-JAPAN	-2.98	-0.15	32.58	-3.67	-3.82	1	20
MCS-CHINA	1.77	-0.09	3.10	-2.25	0.91	13	8
MCS-TAIWAN	0.09	-0.02	0.11	-0.27	-0.02	15	6
MCS-ASEAN	0.07	-0.32	0.47	-1.07	-0.17	11	10
MCS-SWITZERLAND	4.84	-0.01	-0.45	-1.74	-1.19	6	15
MCS-RUSSIA	0.12	0.02	2.11	-0.37	-0.47	7	14
MCS-AUSTRALIA	0.01	0.00	-0.01	-0.08	-0.06	7	14
MCS-TURKEY	0.42	0.00	-0.09	-0.24	-0.10	3	18
MCS-IRAN	0.00	-0.02	0.01	-0.01	0.00	8	13

Source: Own making

Table 16

PARAGUAY: % CHANGE IN THE VALUE OF IMPORTS AT THE SECTORIAL LEVEL BY COUNTRIES OUTSIDE MERCOSUR's AGENDA

AGREETMENT	SECTORIAL AGGREGATION					NUM. OF SECTORS WITH IMPACT	
	PRIMARY		MANUFACTURE INTENSIVE IN				
	AGRICUL TURE	MINING	NATURAL RESOURCES	LABOR	CAPITAL	POSITIVE	NEGATIVE
INITIAL EQUILIBRIUM (MILLIONS OF US DOLLARS)							
	82.0	19.1	305.4	486.1	1791.1		
MCS-NAFTA	0.91	0.04	0.10	2.09	-0.23	16	5
MCS-JAPAN	2.42	-0.26	1.08	2.09	1.03	18	3
MCS-CHINA	-0.35	0.11	-0.44	4.39	-0.24	10	11
MCS-TAIWAN	-0.04	-0.02	-0.07	0.28	-0.04	6	15
MCS-ASEAN	-0.24	0.13	-0.10	0.26	-0.03	10	11
MCS-SWITZERLAND	2.47	-0.20	0.91	0.81	0.21	17	4
MCS-RUSSIA	0.21	-0.03	0.17	0.21	0.12	16	5
MCS-AUSTRALIA	0.00	0.02	0.00	0.00	0.00	8	13
MCS-TURKEY	0.05	0.00	0.05	0.09	0.03	16	5
MCS-IRAN	0.00	0.00	0.00	0.01	0.00	11	10

Source: Own making

Table 17

PARAGUAY: % CHANGE IN THE SECTORIAL REAL PRODUCT LEVEL BY COUNTRIES IN NEGOCIATION INSIDE MERCOSUR's FOREIGN AGENDA

AGREETMENT	SECTORIAL AGGREGATION					NUM. OF SECTORS WITH IMPACT	
	PRIMARY		MANUFACTURE INTENSIVE IN				
	AGRICUL TURE	MINING	NATURAL RESOURCES	LABOR	CAPITAL	POSITIVE	NEGATIVE
INITIAL EQUILIBRIUM (MILLIONS OF US DOLLARS)							
	2452.7	16.1	1884.0	1204.7	1403.2		
MCS-NAFTA	0.17	-0.10	1.60	-1.56	-1.86	9	12
MCS-JAPAN	0.42	-0.54	5.01	-0.97	-1.32	4	17
MCS-CHINA	0.30	-0.03	0.62	-4.34	-0.31	11	10
MCS-TAIWAN	0.01	0.02	0.01	-0.31	-0.12	9	12
MCS-ASEAN	0.01	0.03	0.09	-0.38	-0.09	15	6
MCS-SWITZERLAND	0.72	-0.27	-0.23	-0.52	-0.39	3	18
MCS-RUSSIA	0.12	-0.06	0.33	-0.10	-0.06	7	14
MCS-AUSTRALIA	0.00	0.00	0.00	-0.01	0.00	8	13
MCS-TURKEY	0.07	-0.01	-0.02	-0.07	-0.04	3	18
MCS-IRAN	0.00	0.00	0.00	0.00	0.00	16	5

Source: Own making

APPENDIX

Code	Sectors Name	Description
AGRICULTURE		
1 CEREA	Cereals	Paddy rice, wheat and other cereals
2 FRUTA	Vegetables and fruit	Fruits, vegetables and nuts
3 OLEAG	Oils Seeds	Soybeans, sunflower
4 OTRAG	Other agricultural products	Sugar cane, plant-based fibers, other crops, and forestry
5 ANIMA	Animal Products	Bovine cattle, sheep and goats, horses, other animal products, raw milk, wool, silk-worm cocoons, and fishing.
MINING		
6 ENERG	Energy	Coal, Oil and Gas
7 MINER	Mining	Other minerals
NATURAL RESOURCES INTENSIVE MANUFACTURES		
8 CARNE	Meta Products	Bovine meat products, and other meat products
9 ACEIT	Vegetable Oils	Vegetables oils and fats
10 LACTE	Dairy Products	Dairy products
11 ALIME	Other Food Products	Processed rice, other food products, and beverages and tobacco
12 AZUCA	Sugar	Sugar
LABOR INTENSIVE MANUFACTURES		
13 TEXTI	Textiles and wearing apparel	Textiles and wearing apparel
14 CUERO	Leather Products	Leather products
15 OTLIV	Other Manufactures	Wood products, paper products and publishing, and other manufactures
CAPITAL INTENSIVE MANUFACTURES		
16 PETRO	Petroleum Products	Petroleum and coal products
17 QUIMI	Chemical Products	Chemical, rubber, plastic products, and other mineral products
18 METAL	Metals	Ferrous metals, and other metals
19 PRMET	Metal Products	Metal products
20 VEHIC	Vehicles and parts	Motor vehicles and parts, and transport equipment
21 MAQUI	Machinery and Equipment	Electronic equipment, and other machinery and equipment
SERVICES		
22 SERVI	Services	Electricity, Gas manufacture and distribution, water, construction, trade, other transport, water transport, air transport, communication, financial services, insurance, business services, recreational and other services, public Administration, defense, education, health, and dwellings

Source: Own making