



INTEGRATION OF THE AMERICAS: Welfare effects and options for the Mercosur

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PURPOSE OF THE CHAPTER

- To assess welfare effects on the Mercosur countries of the elimination of tariff barriers within the FTAA
- Key features:
 - Takes into account previously existing preferences (LAIA and GSP in USA and Canada)
 - Decomposes effects of market opening (trade creation and trade diversion) and of improved market access
 - Decomposes effects of different agreements within FTAA, excluding those fully negotiated but not yet completed
 - Evaluates the option of excluding the agricultural sector

MODEL AND DATABASE

- To carry out simulations: CGE Model (the standard version of GTAP)
- Database: version 5 of GTAP (year 1997)
- Regions : Arg, Bra, Uru, Chi, CAN, US, rest of NAFTA, rest of America, EU, rest of the world
- 10 Sectors

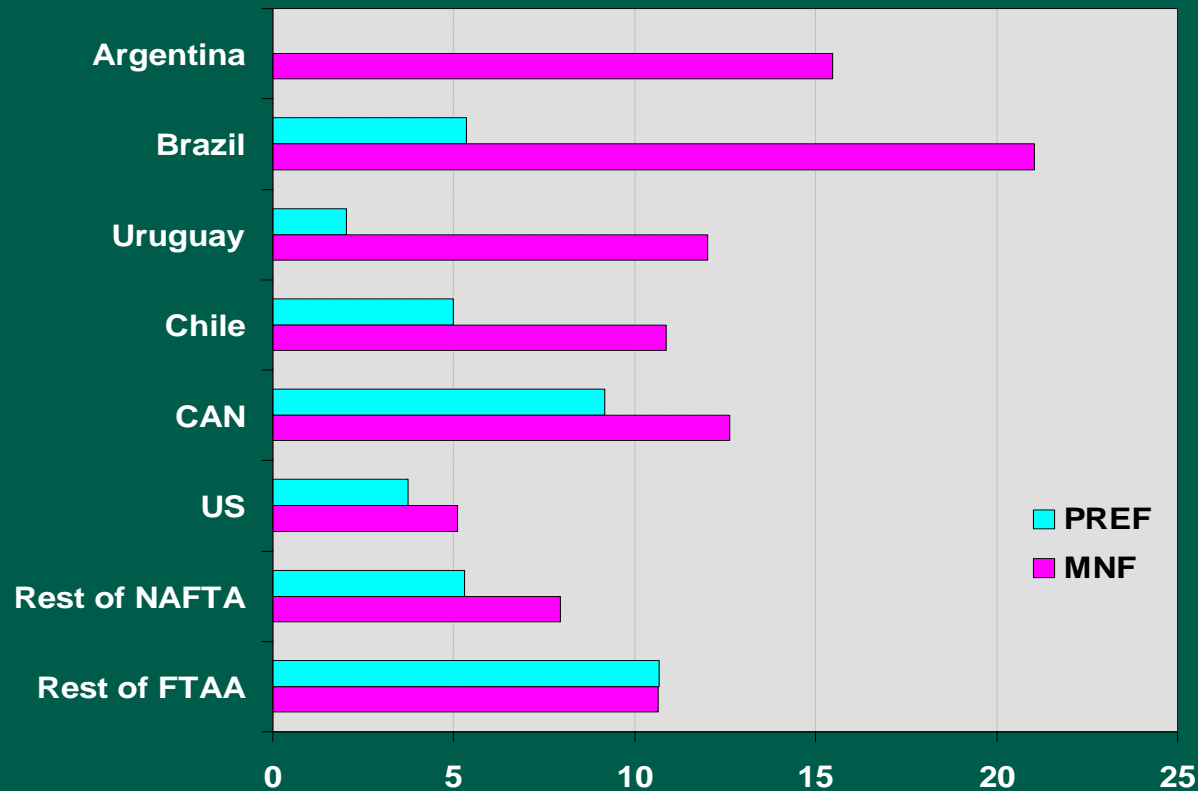
SECTORS

Based on CEPAL (2001), but adjusted to considering the main interests for market access of Mercosur countries

- Agriculture
- Mining
- Beef and dairy products
- Milling
- Sugar
- Other food, beverages and tobacco
- Other traditional manufacturing industries
- Manufacturing based on natural resources with scale economies
- Durable goods and manufactures that facilitate technical progress spill-overs
- Services

MFN AND PREFERENTIAL TARIFFS

Applicable to Mercosur exports to:

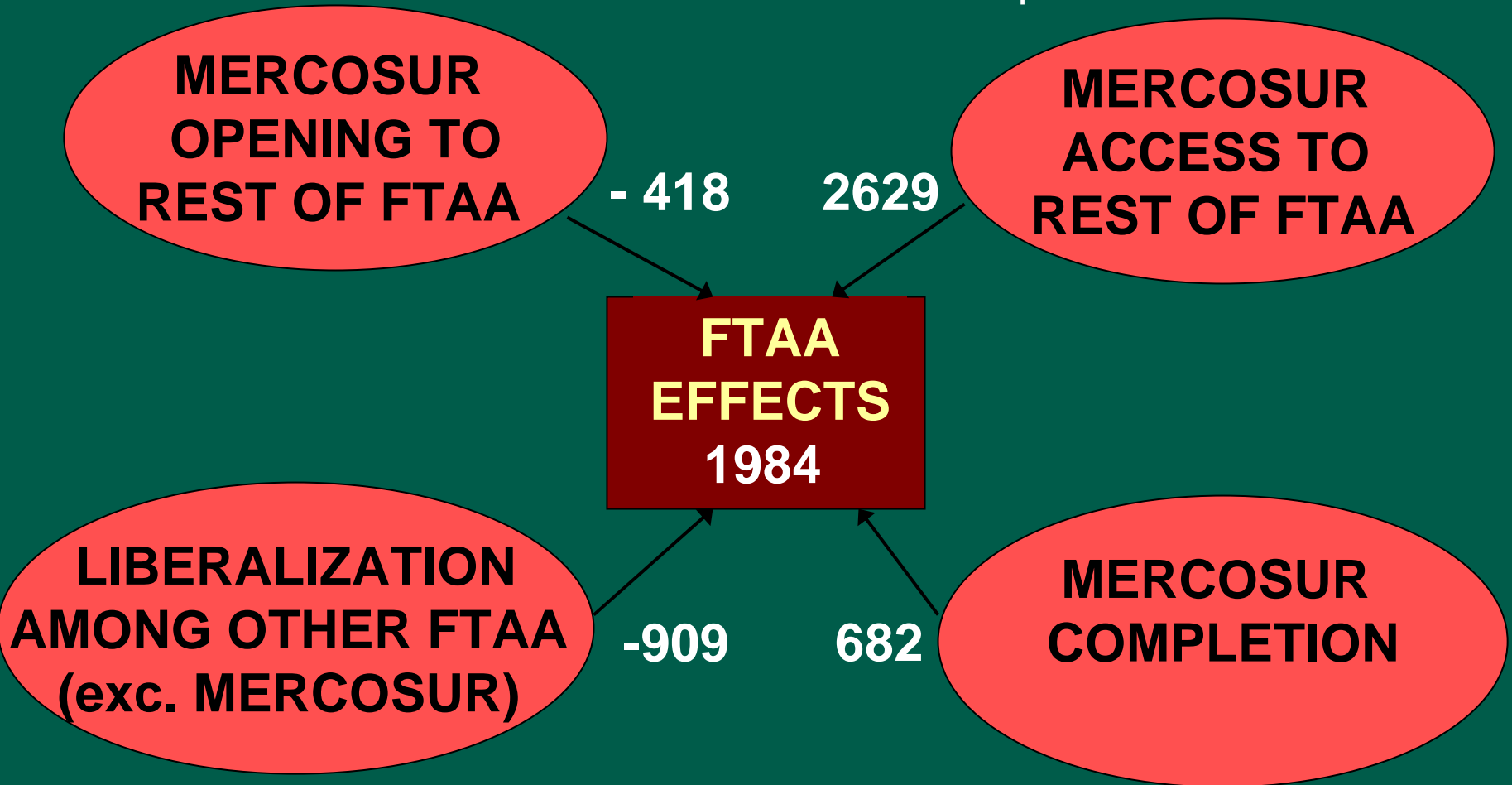


FTAA WITH AND WITHOUT PREFERENCES

Countries / regions	FTAA with MFN tariffs	FTAA with preferential tariffs
Argentina	0.89	0.28
Brazil	1.00	0.25
Uruguay	1.38	-0.04
Chile	0.40	-0.12
Andean Community	0.89	0.23
US	0.08	0.10
Rest of Nafta	0.19	0.20
Rest of FTAA	3.92	1.10
European Union	-0.09	-0.05
Rest of the world	-0.08	0.04
<i>MERCOSUR</i>	0.97	0.26
<i>TOTAL</i>	0.05	0.03

DECOMPOSITION OF FTAA EFFECTS

EV in millions of US\$



ARGENTINA: welfare effects (EV mill. US\$)

- MARKET OPENING:
direct effect 4
- MARKET ACCESS:
direct effect 479
indirect effect 30
- Mercosur completion

743

- MARKET OPENING:
indirect effect -296
- FTAA without
Mercosur -240

TOTAL: 720



BRAZIL: welfare effects (mill. US\$)

- MARKET OPENING:
direct effect 191
- MARKET ACCESS:
direct effect 2135

TOTAL: 1269

- MARKET OPENING:
indirect effect -295
- MARKET ACCESS:
indirect effect -57
- FTAA without
Mercosur -647
- Mercosur completion
-57

URUGUAY: welfare effects (mill. US\$)

- MARKET OPENING:
direct effect 2
- MARKET ACCESS:
direct effect 49

TOTAL: -6

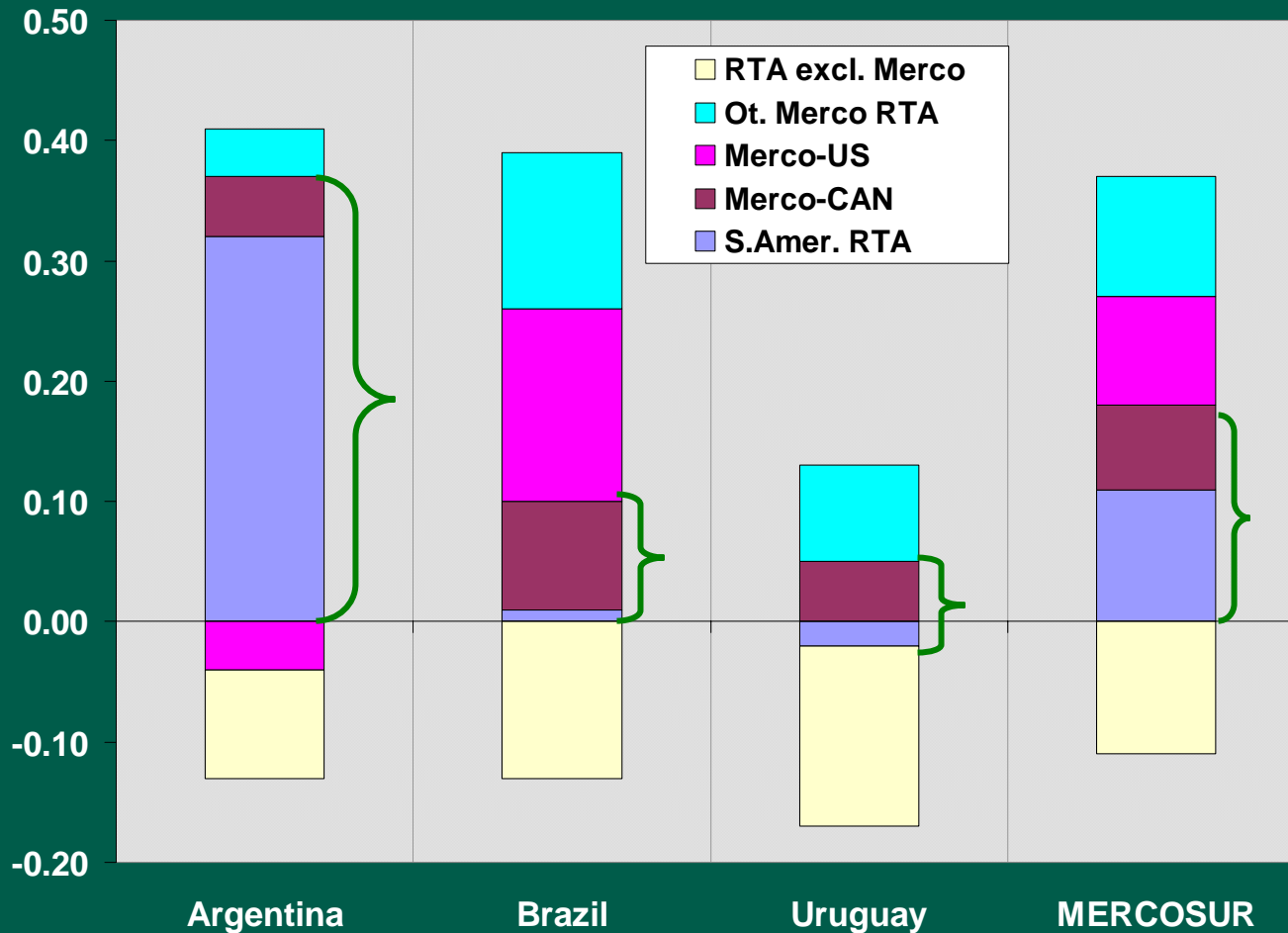
- MARKET OPENING:
indirect effect -24
- MARKET ACCESS:
indirect effect -8
- FTAA without
Mercosur -22
- Mercosur completion
-4

ANALYSIS OF DIFFERENT OPTIONS

- Welfare effects of the FTAA are decomposed by regional trade agreements within the hemisphere:
 - Previously existing agreements
 - Mercosur-CAN agreement
 - ⇒ SAFTA
 - Mercosur - US agreement
 - Others
- Welfare effects of an FTAA that excludes the agricultural sector are also analyzed

OPTIONS FOR THE MERCOSUR

Welfare effects (% of total consumption)



AGRICULTURAL SECTOR EXCLUSION

(WELFARE EFFECTS (% of consumption))

	FTAA		MERCOSUR – CAN		MERCOSUR - USA	
	All goods	Manuf. goods	All goods	Manuf. goods	All goods	Manuf. goods
ARG	0.28	0.25	0.05	0.02	-0.04	-0.06
BRA	0.25	0.18	0.09	0.09	0.16	0.09
URY	-0.04	-0.02	0.05	0.02	0.00	0.00
<i>MERCOSUR</i>	0.26	0.20	0.07	0.06	0.09	0.04

FINAL REMARKS (1)

- Welfare effects of the FTAA are rather small
- Results are significantly different if the previous preferential agreements are taken into account
- Effects of liberalization schedules of previous agreements, still under way, should be excluded
- Most important negotiations for the MERCOSUR within the FTAA are those with the US and with the CAN
- “Market access effect” is positive and much larger than the net effect of trade creation and trade diversion

FINAL REMARKS (2)

- For Argentina and Uruguay the erosion of their preferences in the Brazilian market has a clearly negative effect
- If the FTAA is created without Mercosur, the welfare effect of the bloc is clearly negative but rather small
- Results are quite inconsistent with the stance taken up by each Mercosur country in FTAA negotiations: Argentina and Uruguay get larger welfare gains through an agreement with the CAN than with the US. The opposite is true for Brazil.
- Exclusion of the agricultural sector lowers the gains for Argentina and Brazil but not for Uruguay