



# Implications of Paraguay's Participation in the Latin American Customs Union

Edgar Gomez Leiva

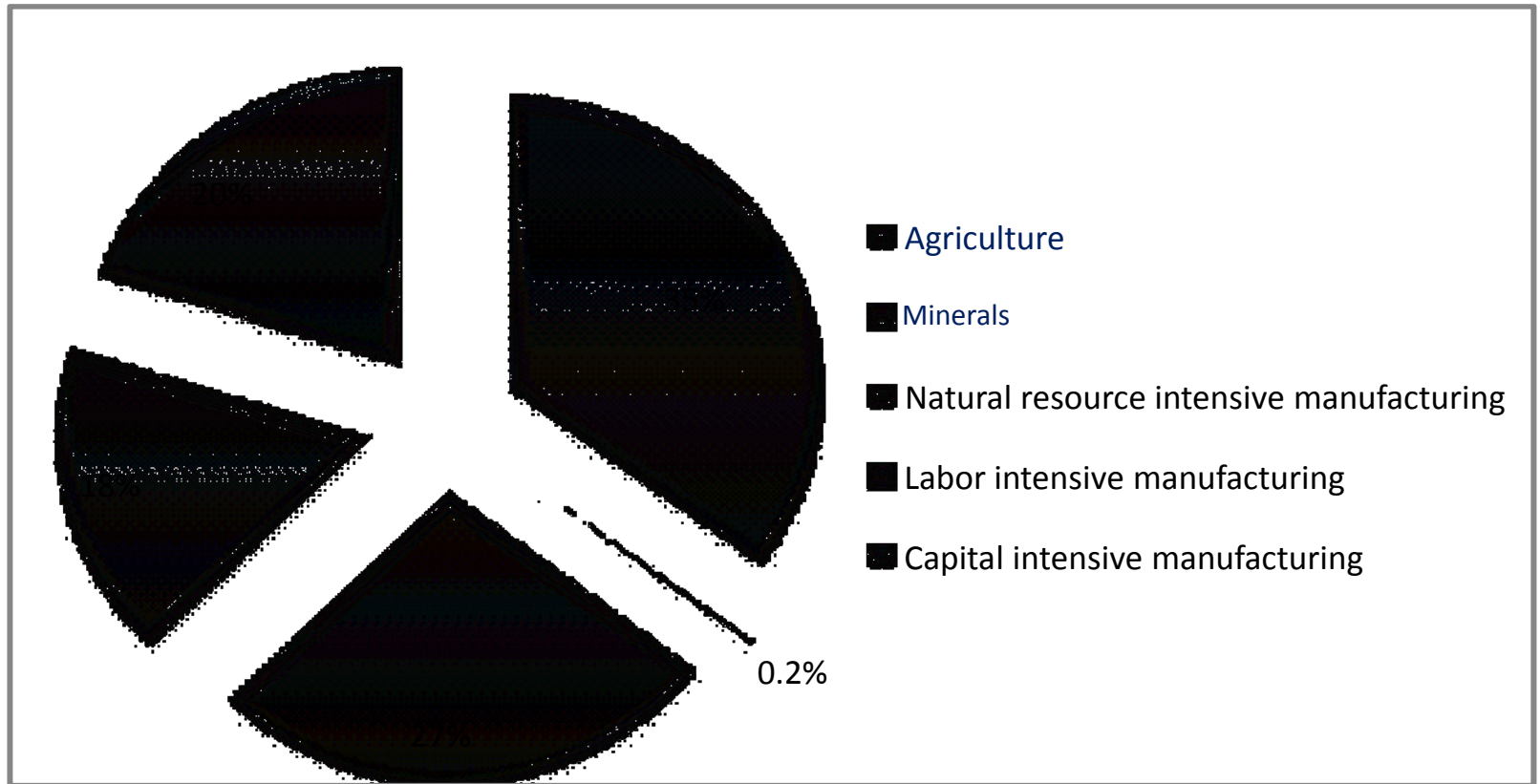
Nathalia Arevalo

# PARAGUAYAN ECONOMY

- ▶ Is a land-locked country
  - ▶ GDP 2007 (growth): 6.8 %
  - ▶ GDP Per Cápita: US\$ 1,928
  - ▶ Exports (2007): US\$ 3.2 billion
  - ▶ Imports (2007): US\$ 5.6 billion
  - ▶ Average tariff: 10.8%
- 
- ⇒ Approximately 27% of national production comes from agriculture and livestock. Both absorb about one third of the labor force and contribute to 65% of the exports
  - ⇒ Primary sector is directly responsible for 60% of foreign exchange from exports.
  - ⇒ Goods produced and exported are characterized for being intensive on natural resources.

# PARAGUAYAN ECONOMY

Share in the production of Paraguay



# MERCOSUR

- ▶ *Members*

Paraguay, Argentina, Brazil, Uruguay

- ▶ *Common External Tariff*

Average level: 12.6 %

Maximum level of tariff: 35%

Minimum level of tariff: 0%

- ▶ *Tariff between the members: 0%*

⇒ Paraguay is MERCOSUR smaller economy. Trade with MERCOSUR represents almost half of total exports.

⇒ More than 60% of non-traditional exports go to other MERCOSUR countries.

# STUDY APPROACH

- ▶ Aggregation

  - 12 regions \* 5 sectors

- ▶ 2001–2025 in 5 periods

  - 2001–2005, 2005–2010, 2010–2015,  
2015–2020, 2020–2025.

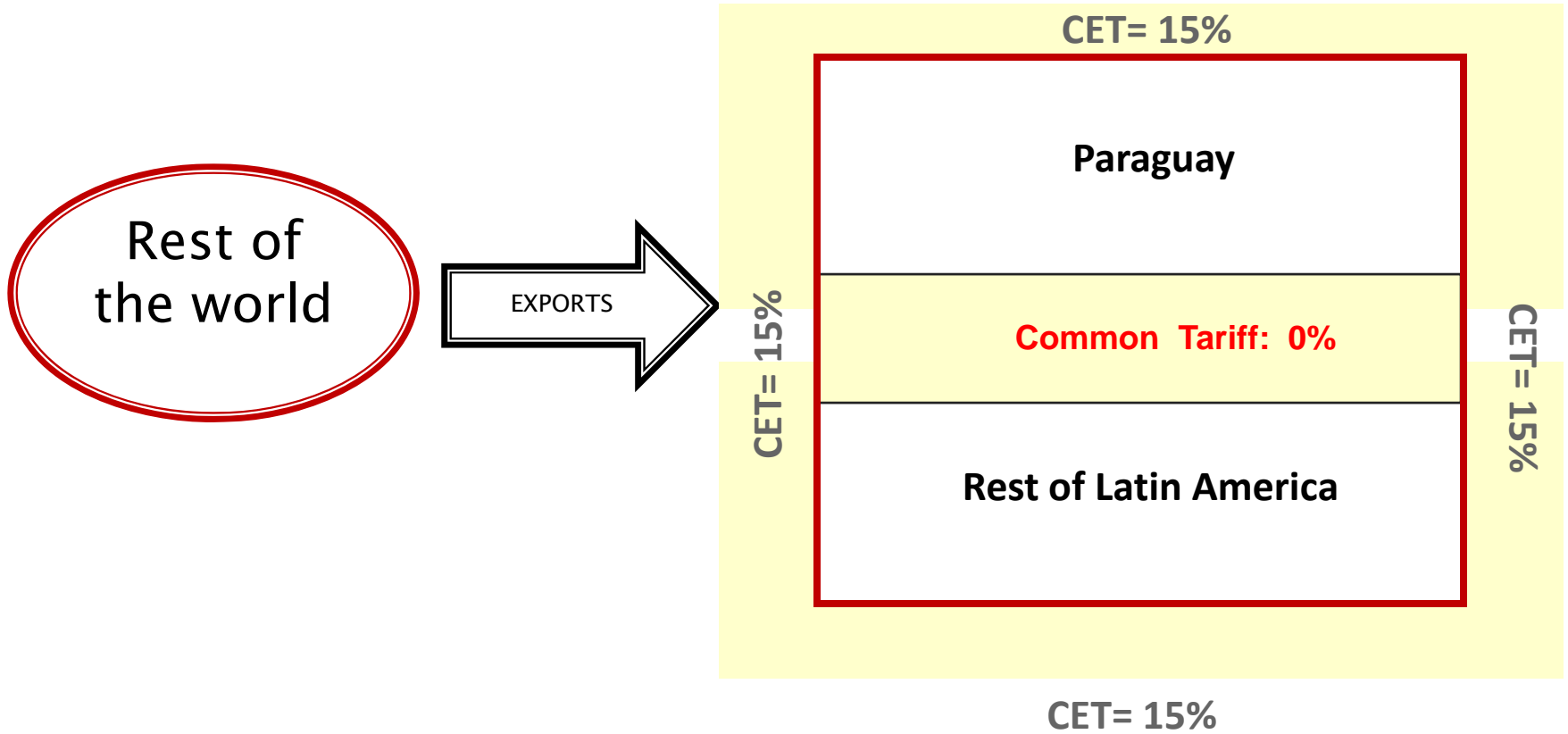
- ▶ Baseline

  - Shock GDP, Population, labor

- ▶ Policy

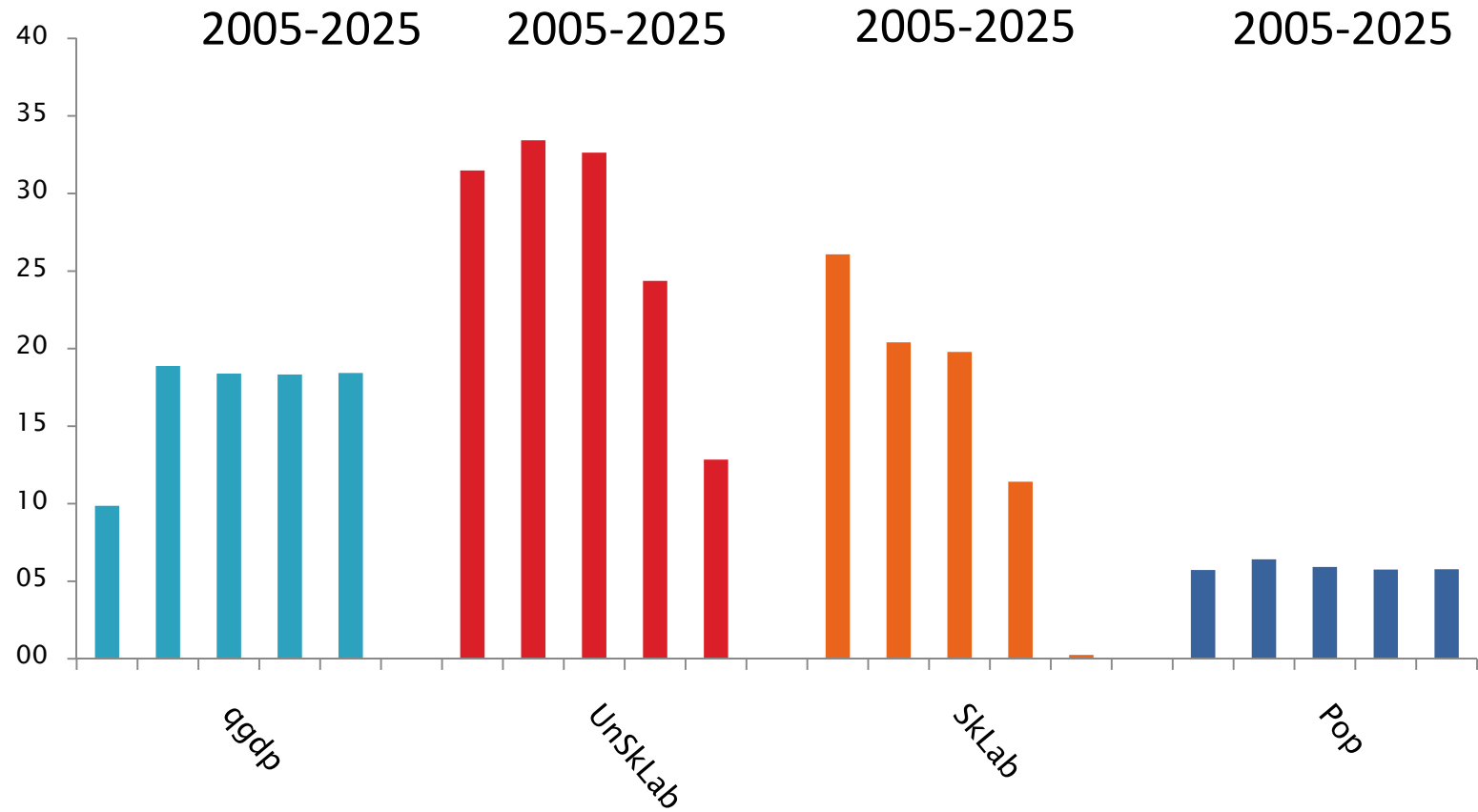
1. FTA between Latin America and Paraguay in 2005
2. Customs Union: Adoption of common external tariff = 15% by 2015.

# Ideal Scenario



# RESULTS

# Baseline Total % change per period





**Policy:  
FTA between Paraguay and Latin  
America**



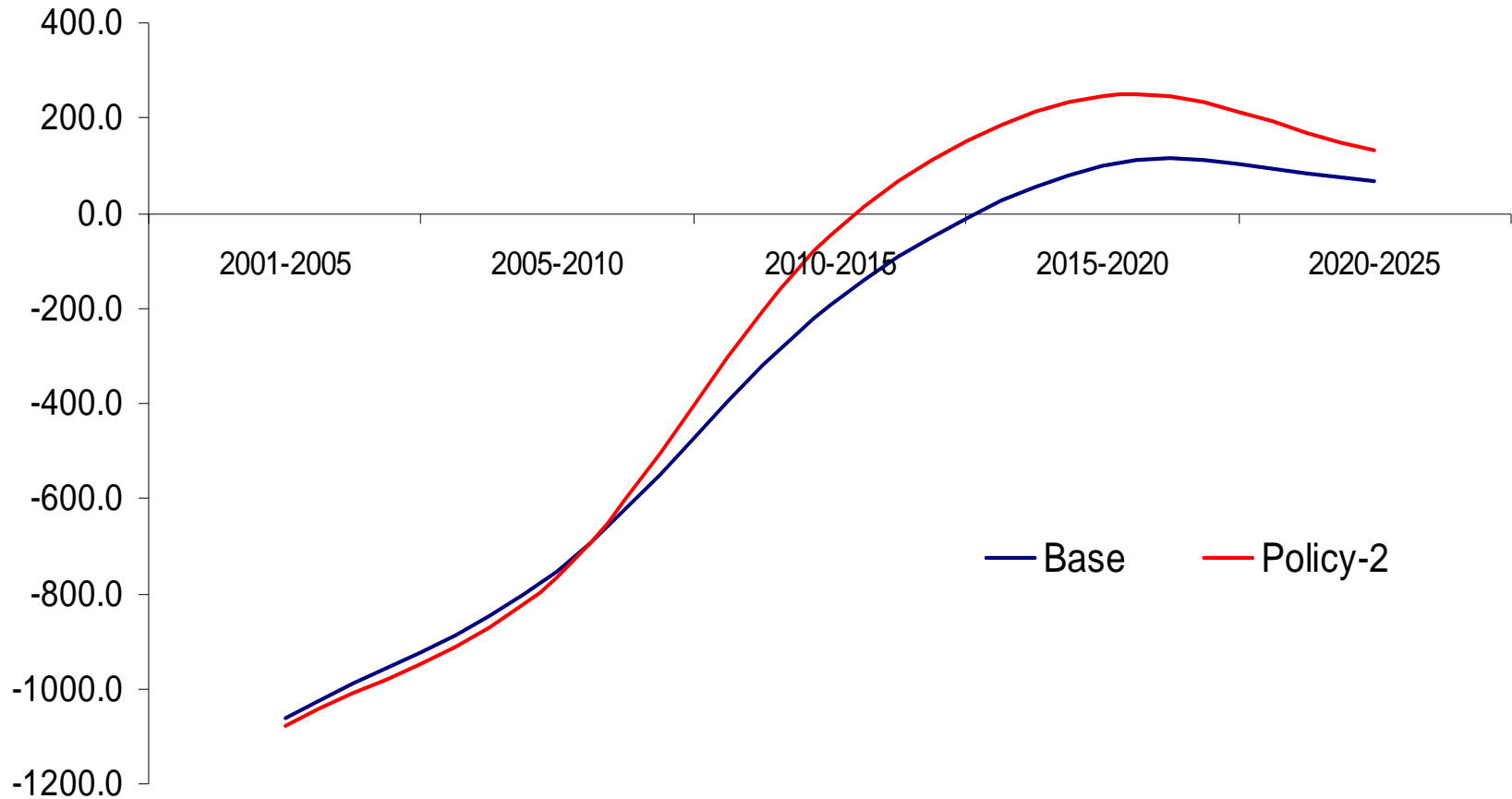
# Welfare (\$ million)

	Paraguay	LatinAmer
1 alloc_A1	-0.9	1932.1
2 endwNA_B1	0	0
3 tech_C1	0	0
4 pop_D1	0	0
5 tot_E1	-3.7	940.1
6 IS_F1	0.1	-256.1
7 pref_G1	0	0
8 nf_equit_H1	-2.1	1269.8
<b>Total</b>	<b>-6.5</b>	<b>3885.9</b>

**Policy:  
Adoption of Common External Tariff  
(15% on all sectors) in 2015**

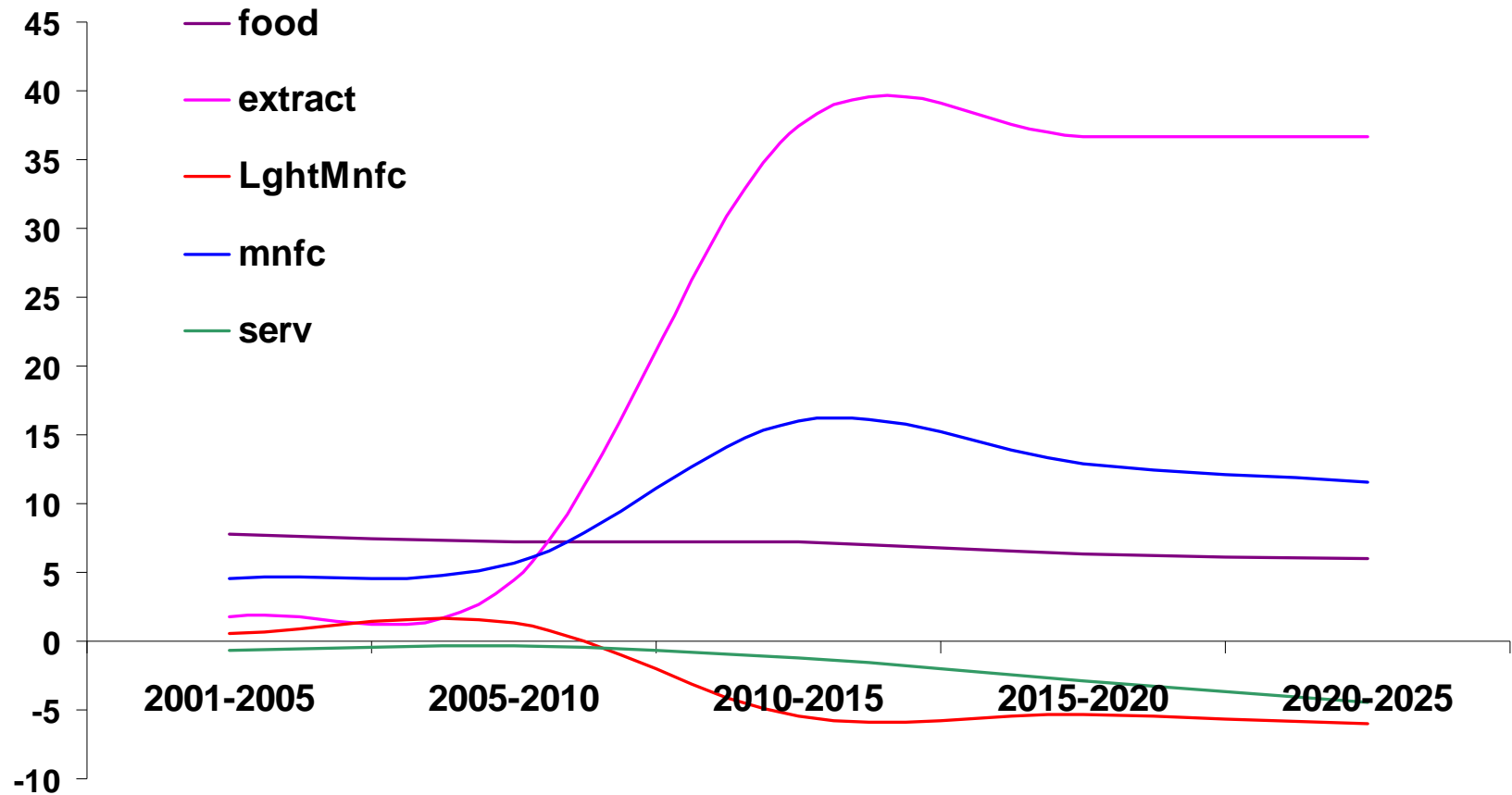


# Change in Trade Balance\* (\$ million)



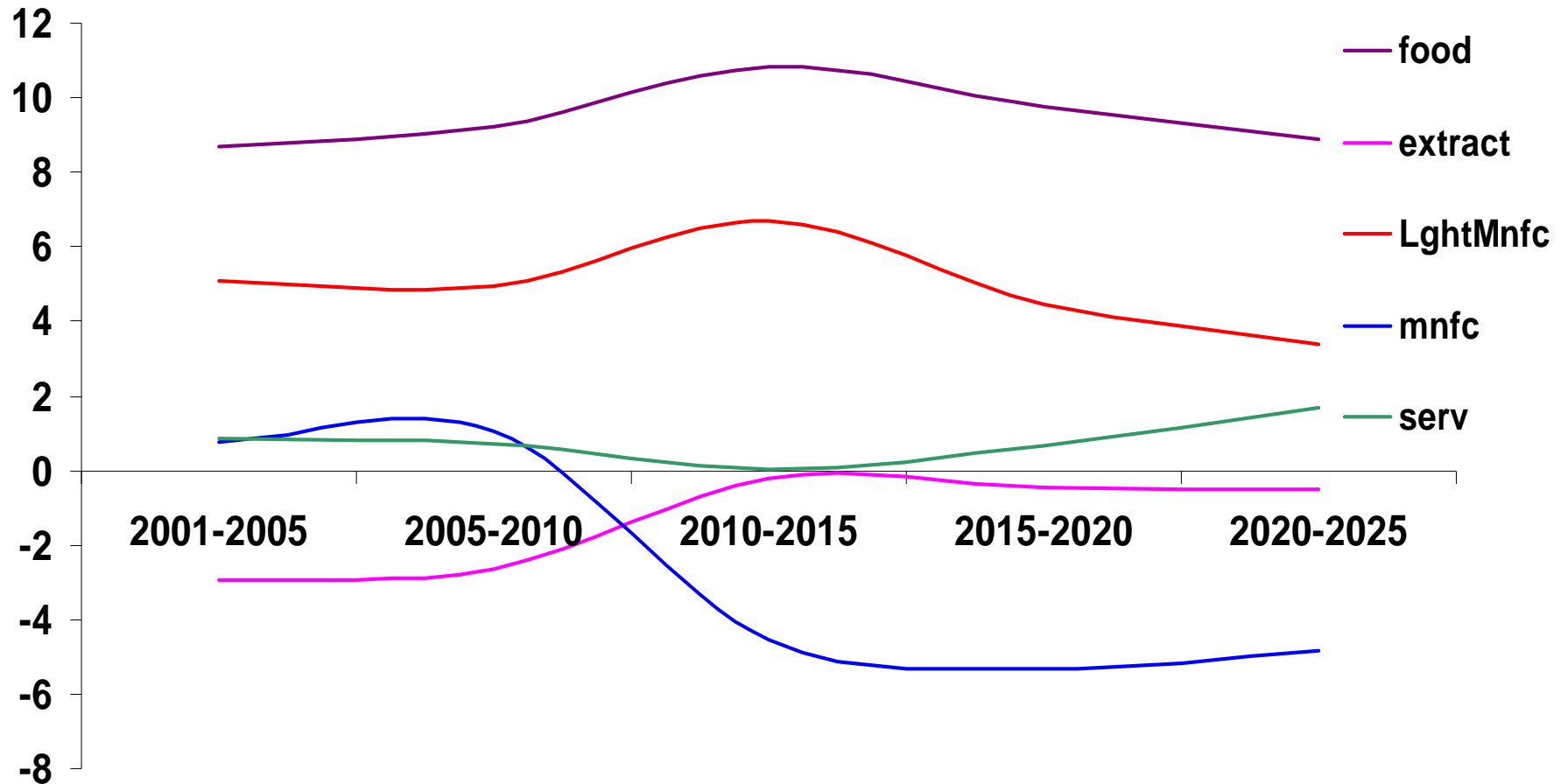
\* Cumulative Change

# Change in Paraguayan Exports (%): Base ~Policy



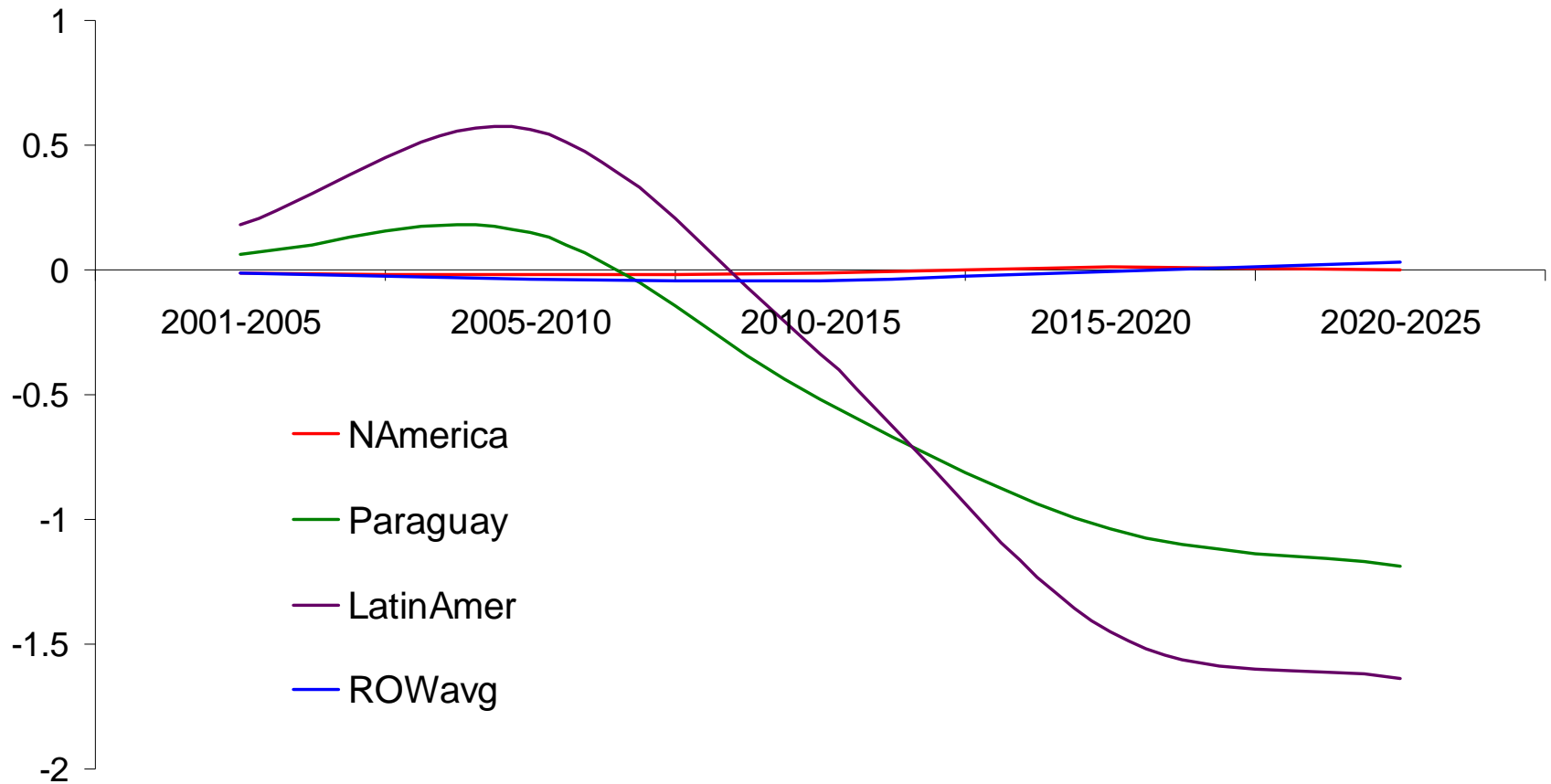
\* Cumulative Change

# Change in Paraguayan Imports (%): Base ~Policy



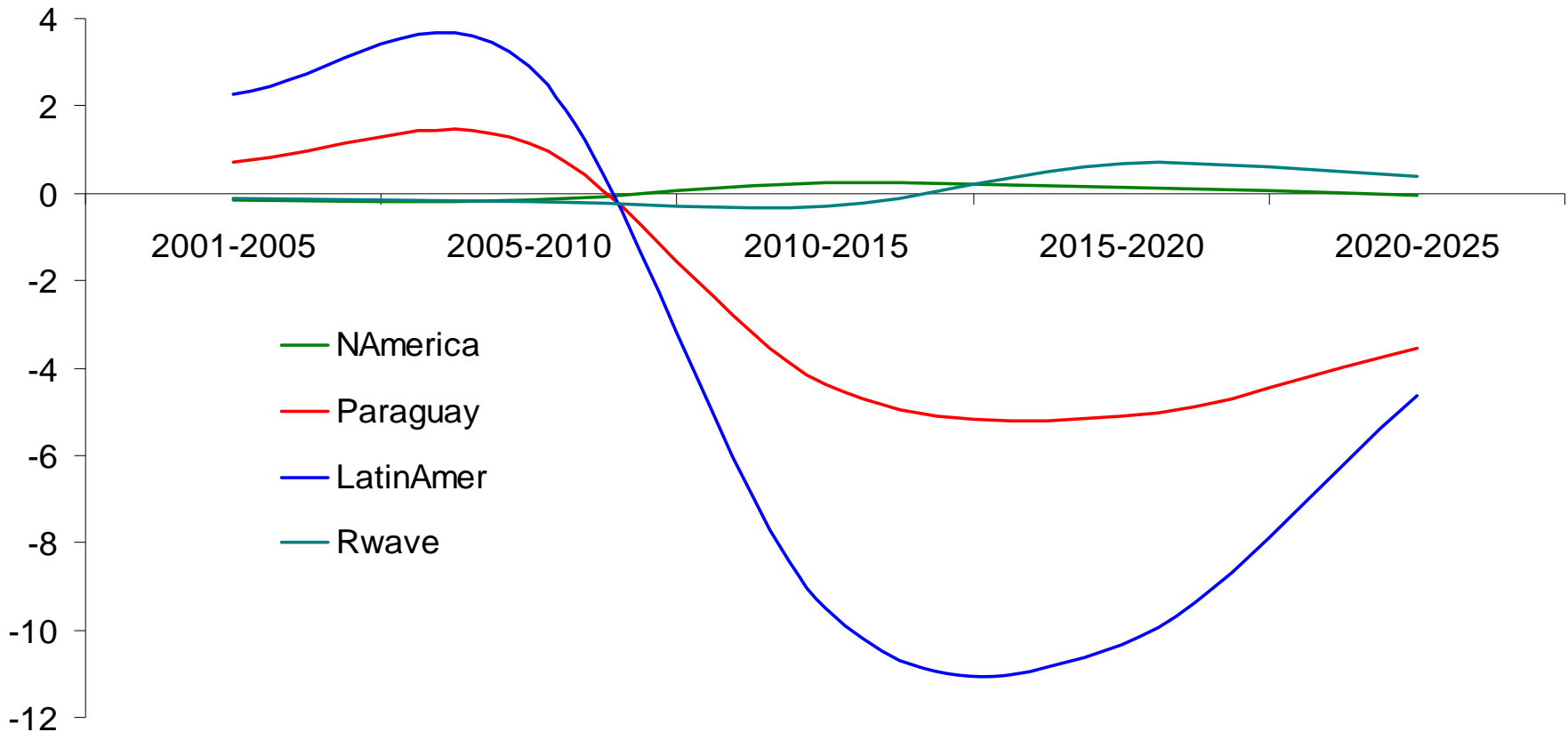
\* Cumulative Change

# Change in real GDP (%): Base ~Policy



\* Cumulative Change (qgdp)

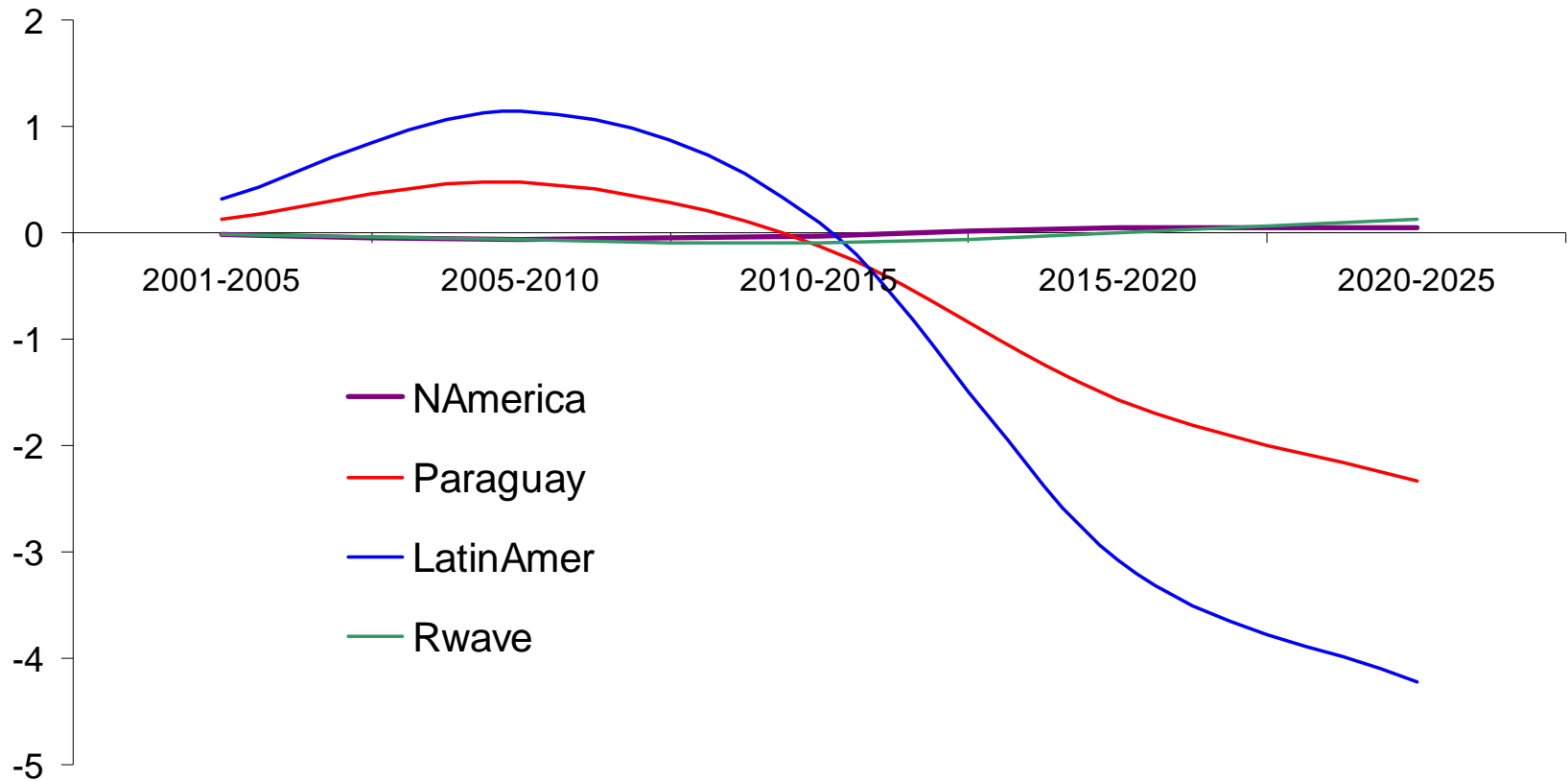
# Change in Investment (%): Base ~Policy



\* Cumulative Change (qcgds)

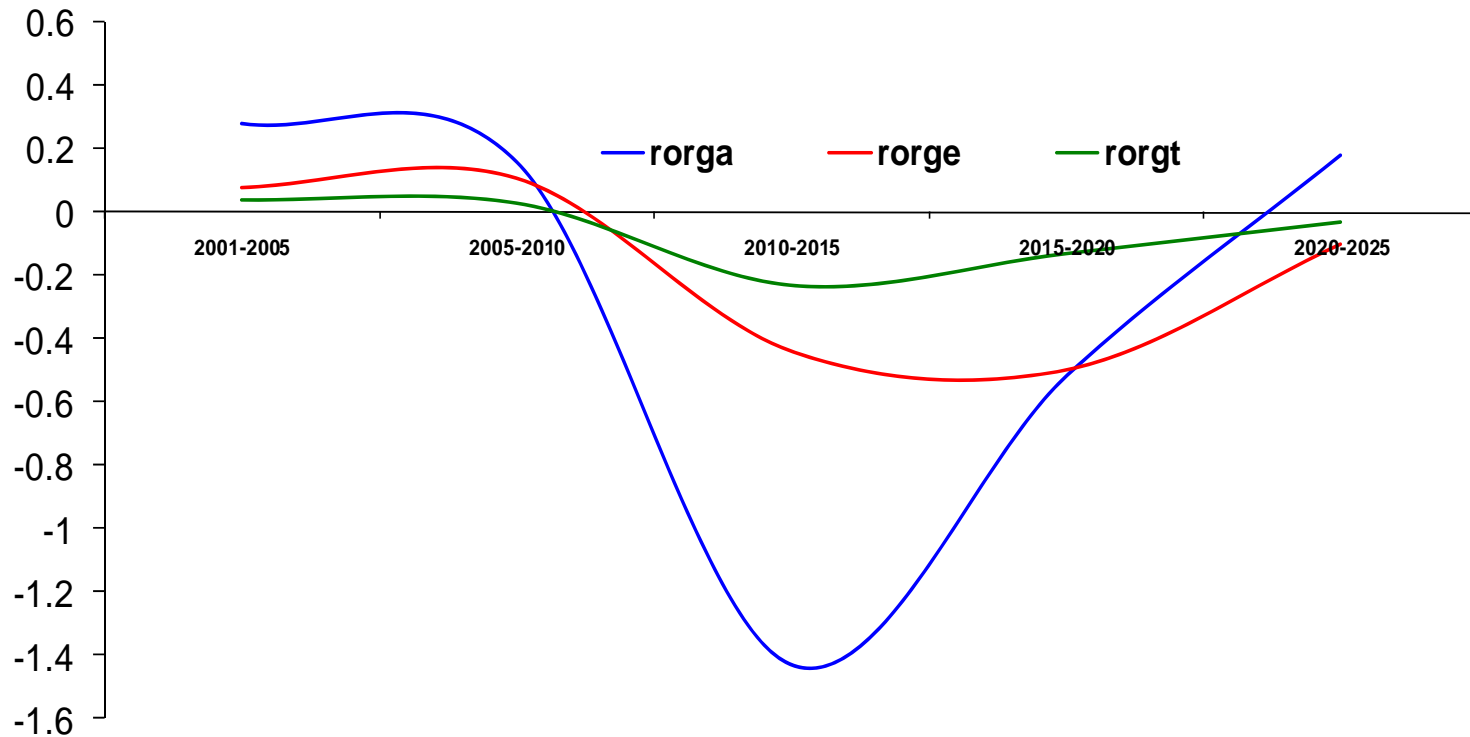


# Change in Capital Stock (%): Base ~Policy



\* Cumulative Change (qk)

# Change in Rates of Return (%): Base ~Policy



\* Cumulative Change (RoR)

## Change in Welfare (\$ million): Base ~Policy

Welfare Decomposition	Paraguay	Latin America	RWtotal
Allocative Effy	-31.3	-13926.3	2149.0
Non-Accu Endow eff	0.0	0.0	0.0
Technological ch	0.0	0.0	0.0
Population eff	0.0	0.0	0.0
Terms of Trade effect	8.9	14287.1	-14453.6
Inv-Sav effect	-2.3	3861.7	-3361.4
Preferre ch eff	0.0	0.0	0.0
Net Foreign equity	-13.8	-6036.5	2896.3
<b>EV-Welfare:</b>	<b>-38.4</b>	<b>-1814.0</b>	<b>-12769.7</b>

## Change in NFE (\$ million): Base ~Policy

NFE	1 K_location	2 HHLD_TRUST	3 TRUST_FIRM	Total
Paraguay	-51.5	28.4	9.3	-13.8
Latin America	-14809.2	0	8772.7	-6036.5
RW total	11802.5	-8221.3	-684.8	2896.4

# CONCLUSIONS

The model requires many technical adjustments to draw final conclusions, but assuming it is right, we can see the following interpretation:

- ▶ The results show that for Paraguay an FTA is better than a custom union with Latin American countries.
- ▶ The integration process would be difficult when the members are competitive between themselves.

# CONCLUSIONS

- ▶ To reach a successful custom union, may be will require some solidarity policies to compensate the losers sectors, because not necessarily is good take part in a integration proccess when the countries are not complementary.