Implications of Paraguay’s Participation in the Latin American Customs Union

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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

- Agriculture
- Minerals
- Natural resource intensive manufacturing
- Labor intensive manufacturing
- Capital intensive manufacturing
**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
- 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

Rest of the world

Paraguay
Common Tariff: 0%

Rest of Latin America

CET = 15%
RESULTS
Baseline
Total % change per period

2005-2025

2005-2025

2005-2025

2005-2025
Policy:
FTA between Paraguay and Latin America
<table>
<thead>
<tr>
<th></th>
<th>Paraguay</th>
<th>LatinAmer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 alloc_A1</td>
<td>-0.9</td>
<td>1932.1</td>
</tr>
<tr>
<td>2 endwNA_B1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3 tech_C1</td>
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<tr>
<td>4 pop_D1</td>
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<tr>
<td>5 tot_E1</td>
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<td>6 IS_F1</td>
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<td>7 pref_G1</td>
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<tr>
<td>8 nf_equit_H1</td>
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<td>1269.8</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>-6.5</strong></td>
<td><strong>3885.9</strong></td>
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</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Welfare Decomposition</th>
<th>Paraguay</th>
<th>Latin America</th>
<th>RWtotal</th>
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<tbody>
<tr>
<td>Allocative Effy</td>
<td>-31.3</td>
<td>-13926.3</td>
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<tr>
<td>Non-Accu Endow eff</td>
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<td>Technological ch</td>
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<td>Population eff</td>
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<td>Terms of Trade effect</td>
<td>8.9</td>
<td>14287.1</td>
<td>-14453.6</td>
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<tr>
<td>Inv-Sav effect</td>
<td>-2.3</td>
<td>3861.7</td>
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<tr>
<td>Prefere ch eff</td>
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<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Net Foreign equity</td>
<td>-13.8</td>
<td>-6036.5</td>
<td>2896.3</td>
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<tr>
<td><strong>EV-Welfare:</strong></td>
<td><strong>-38.4</strong></td>
<td><strong>-1814.0</strong></td>
<td><strong>-12769.7</strong></td>
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### Change in NFE ($ million): Base ~Policy

<table>
<thead>
<tr>
<th>NFE</th>
<th>1 K_location</th>
<th>2 HHLD_TRUST</th>
<th>3 TRUST_FIRM</th>
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<tbody>
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<td>-51.5</td>
<td>28.4</td>
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<td>Latin America</td>
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<td>RW total</td>
<td>11802.5</td>
<td>-8221.3</td>
<td>-684.8</td>
<td>2896.4</td>
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</table>
CONCLUSIONS

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

- The results show that for Paraguay es better an FTA than a custom union with Latin American countries.
- The integration process it 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 process when the countries are not complementary.