PARAGUAY

IMPLEMENTATION OF THE COMMON EXTERNAL TARIFF AND THE MAQUILA REGIME

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PARAGUAY

MOTIVATION

• 2020 IS EXPECTED FOR THE IMPLEMENTATION OF THE GRADUAL COMMON EXTERNAL TARIFF (CET) IN MERCOSUR AND LATINAMERICA....

.... THIS WAY, PARAGUAY LOSE CONTROL OF YOUR TRADE POLICY, BUT PARAGUAY BE ABLE TO MAINTAIN ITS OWN TRADE POLICY IN CERTAIN AREAS..... THEREFORE

• IN 2010 PARAGUAY WILL BE ADOPTED THE “MAQUILA REGIME”
HYPOTHESIS

THE IMPLEMENTATION OF CET COULD REDUCE THE TOTAL IMPORTS OF PARAGUAY AND MAINLY THE MACHINERY SECTOR CAN BE AFFECTED WITH THAT POLICY MEASURE, BUT.....

THE MAQUILA REGIME MITIGATE THESE EFFECTS
Aggregations and shocks in baseline

- 12 regions
- 6 sectors
- 5 periods, first period: 2001-2010, and four periods of ten years
- Shocks in the baseline: GDP, labor and population.
IMPLEMENTATION OF THE COMMON EXTERNAL TARIFF

THE IMPLEMENTATION OF THE CET WILL BE BILATERAL AND IN TWO PERIODS
SHOCK AT TMS IN THE PERIOD 2001-2010 AND 2010-2020
this means that

TARIFFS REDUCE TO ZERO BETWEEN PARAGUAY AND LATINAMERICA AND VISA VERSA, AND...

PARAGUAY AND LATINAMERICA INCREASE TARIFFS TO CET LEVEL TO 15% FOR REST OF THE WORLD
MAQUILA REGIME

MAQUILA IMPLEMENTATION IN 2001-2010 MEANS PARAGUAY REDUCE TO ZERO ITS IMPORT TARIFFS TO LIGHT MANUFACTURES FROM LATIN AMERICA AND THE REST OF THE WORLD
SHOCK 1: IMPLEMENTATION OF THE CET

SHOCK 2: IMPLEMENTATION OF THE CET + MAQUILA IMPLEMENTATION
OUTPUTS
Cumulative Percentage Differences from Base Case in Paraguay’s Real GDP

-0.2
-0.4
-0.6
-0.8
-1.0
-1.2
-1.4

2001-2010  2010-2020  2020-2030  2030-2040  2040-2050

Paraguay - Shock1
Paraguay - Shock2
Cumulative Percentage Differences from Base Case in Paraguay’s Normal Rate of Growth in the Capital Stock

- Paraguay - Shock1
- Paraguay - Shock2
Cumulative Percentage Differences from Base Case in Paraguay’s Expected Rate of Return (rorge)
Cumulative Percentage Differences from Base Case in Paraguay’s Exports to the World ($q_{xw}$)

- $-1.5$
- $-1$
- $-0.5$
- $0$
- $0.5$
- $1$
- $1.5$

- 2001-2010
- 2010-2020
- 2020-2030
- 2030-2040
- 2040-2050

Paraguay - Shock1
Paraguay - Shock2
Cumulative Percentage Differences from Base Case in the Exports to the World of Paraguay’s Sectors (qxw)
Cumulative Percentage Differences from Base Case in Paraguay’s Imports of the World (qiw)
Cumulative Percentage Differences from Base Case in the Imports from the World of Paraguay’s Sectors ($q_{xw}$)
<table>
<thead>
<tr>
<th>Sector</th>
<th>2001-2010</th>
<th>2010-2020</th>
<th>2020-2030</th>
<th>2030-2040</th>
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CONCLUSIONS

THE ADOPTION OF THE CET WITH A HIGHER LEVEL, LOSING THE OWN TRADE POLICE, HAS A NEGATIVE EFFECT OVER THE WHOLE PARAGUAYAN ECONOMY.
CONCLUSIONS

THE IMPLEMENTATION OF CET REDUCE THE IMPORTS OF PARAGUAY IN ALL SECTORS, AND DRIVE TO GDP GO DOWN, BUT THE REGIME MAQUILA MITIGATE THESE EFFECTS.