

IMPACTS OF MERCOSUL, AFTA, AND WTO ROUND AGREEMENTS ON THE ECONOMIES OF ARGENTINA, BRAZIL AND CHILE¹

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ABSTRACT

The full impact of the Uruguay Round (UR) and MERCOSUL trade agreements on the economies of Argentina, Brazil and Chile is not well known. Yet, those economies are negotiating two new trade agreements: the Americas Free Trade Area (AFTA) and the Uruguay Round revision (WTO Round). The object of this research is to determine the impact of these four agreements on the economies of Argentina, Brazil and Chile, with emphasis on the agricultural sector. The applied general equilibrium model from the Global Trade Analysis Project (GTAP) is used to run three simulations. The results suggest that trade liberalization in the frameworks of the Uruguay Round-MERCOSUL, AFTA and the WTO Round has, in that order, an increasing impact on production of the most produced agricultural commodities in each country. Exportation of Argentina's and Brazil's most exported agricultural commodities increases the most in the WTO Round scenario. In Chile, export of other-crops and food increases the most in the AFTA scenario. In every scenario, economic growth is negative in Argentina and positive in Brazil. Chilean economic growth is positive only in the AFTA scenario.

Keywords: Trade liberalization agreements, GTAP, Mercosul

INTRODUCTION

The full impact of the Uruguay Round (UR) and MERCOSUL agreements on the economies of Argentina, Brazil and Chile is not well known, yet those economies are negotiating two new trade agreements: the Americas Free Trade Area (AFTA) and the revision of the Uruguay Round (WTO Round). The objective of this research is to determine the impact of these four agreements on the economies of Argentina, Brazil and Chile, emphasizing the agricultural sector.

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GTAP data on domestic support to agriculture and on agriculture export subsidy are the 1986-1988 base values that were used to negotiate the Uruguay Round Agreement. GTAP tariff data comes from the tariffs offers submitted to the World Trade Organization (WTO) by its member countries in compliance with Uruguay Round requirements. Each country's tariff offer states the tariff that will be in effect in that country six years [ten years] after the implementation of the Uruguay Round Agreement in developed countries [less developed countries]. The distortions still remaining in the MERCOSUL economies, as captured by the GTAP data set, are presented in Tables 1, 2, and 3.

Tariff theory states that for small country economies any tariff level reduces domestic welfare; therefore, free trade should be pursued. On the other hand, large country economies can be better off with smaller tariffs that generate terms of trade effects larger than the deadweight loss caused by a tariff (Helpman & Krugman, 1989; Vousden, 1990). International trade theory also suggests that the formation of a free trade area improves the welfare of area's countries if the total volume of trade increases in those countries; that is, if trade creation among the members exceeds the diversion of trade away from nonmember countries (Helpman & Krugman, 1989; Vousden, 1990; Robinson & De Rosa, 1995). The underlying hypothesis is that tariff and subsidy reduction along the lines of the trade liberalization treaties under scrutiny would increase welfare and trade worldwide.

Teixeira (1998) examined the impact of the Uruguay Round Agreement and MERCOSUL on the Brazilian economy using the Global Trade Analysis Project (GTAP) general equilibrium model. The data used were from GTAP Version 2. These data provide no information on Paraguay, Uruguay, and Chile; and as the data are derived using a 1986-1988 base-period, they do not account for each country's tariff offer to the WTO. Teixeira found that these trade liberalizing agreements had a large impact on Brazilian trade and a very small effect on production, growth, and welfare. Total exports would increase by 22.5 percent under the influence of both the Uruguay Round and MERCOSUL and by only 12.9 percent if MERCOSUL's influence is removed. Imports would increase by 26.0 percent in the presence of the Uruguay Round and MERCOSUL, and by only 15.0 percent if MERCOSUL's influence is removed. MERCOSUL alone almost doubles the trade growth rate; though, this trade liberalization increases economic growth by only 1.24 percent. Half of this GDP increase is due to MERCOSUL's impact. Ferreira Filho (1998) applied the GTAP model and its Version 3 data set to determine the impact of MERCOSUL on the agribusiness sectors of Argentina, Brazil, and Chile. Version 3 of the data set improved on other versions as it accounted for the

member countries tariff offer to the WTO and included information from other regions, including Chile. The article's first scenario examined the impact of MERCOSUL on the economies of Argentina, Brazil and Chile. The results suggest an insignificant impact on production except for Argentine and Brazilian other-grain (+ 10.3 %, - 12.2%) and Chilean manufacture (+8.5 %). A large impact on exportation and importation is observed in all three countries. Economic growth is very small, increasing GDP by 0.3 percent in Argentina, 1.0 percent in Brazil, and 0.1 percent in Chile. The second scenario simulates Brazilian exchange rate devaluation. The devaluation generates a 50.0 percent increase in the Brazilian trade balance, a 13.0 percent increase in Brazilian aggregate savings, and an 8.0 percent increase in the value of Brazilian exports. The last scenario simulates an agriculture factor productivity increase of 5.0 percent in each country. The most significant result of this productivity increase is a regional increase in the production of grains and other-crops.

The research presented in this paper innovates in its discussion of the impact of AFTA and the WTO Round on the economies of Argentina, Brazil, and Chile. The data set used in this research decomposes agricultural products to the limit allowed by the 3rd Version of the GTAP data set. In the next section, the methodology used in this paper is examined, followed by a discussion of the results and conclusions.

DATA, MODEL, AND SIMULATION

This research is conducted under the framework of the Global Trade Analysis Project (GTAP) (Hertel, 1997). Nine aggregated commodities and ten aggregated regions are examined for this paper; however, only the results for Argentina, Brazil, and Chile are reported. There are four crop commodities defined in the database, paddy Rice, Wheat, Other-Grains (corn, sorghum, millet, rye, oats, and barley), and Other-Crops (coffee, cotton, fruit and vegetables, oilseeds, sugar, and tobacco). Wool and other livestock products are aggregated into just one category, Livestock. The manufacturing sector is separated into the categories Forestry, Food, and Manufacture. The Forestry category is made up of lumber, wood pulp, and other forestry products. The Food category is made up of fisheries, processed rice, meat products, milk products, beverages, tobacco, and other food products. All other manufactured products and the extractive industries are aggregated in the category Manufacture. Services constitute one complete aggregated category.

The data set employs three primary factors: farmland, labor, and capital. The regions chosen conform to three economic blocks: the North America Free Trade Agreement

(NAFTA), the European Union (EU), and the Southern Common Market (MERCOSUL). The EU is treated as one single region; however, each NAFTA member country, the United States, Canada and Mexico, can be examined in isolation. Only three MERCOSUL member countries are considered, Argentina, Brazil and Chile. Its other members, Paraguay, Uruguay and Bolivia, do not have input-output tables included in the 3rd Version database and are therefore aggregated with all the other countries in South and Central America in the LAM category. Austria, Finland and Sweden, countries that constitute the Central European Associates and the European Free Trade Area, are aggregated under the title "REU." All other countries are in the Rest of the World (ROW) category.

The Global Trade Analysis Project (GTAP) is an applied general equilibrium (AGE) model (Hertel & Tsigas, 1997). Commodity supplies are based on single-output, constant elasticity of substitution (CES) production functions. It is assumed that firms choose their optimal mix of primary factors independent of the price of intermediate inputs. Sectoral demand for intermediate inputs and primary factor services is based on cost minimizing behavior and derived from a nested CES production function.

Regional income consists of primary factor payments and net tax collection. International trade clears commodity markets with each commodity being differentiated by its origin (the Armington assumption is applied at the country level). Production of new capital goods is financed by domestic savings and net capital inflows from all other regions. The price index for international capital is numeraire.

Three scenarios are simulated in our research. The first scenario, UR-MERCOSUL, examines the impact of the Uruguay Round Agreement and MERCOSUL on the economies of Argentina, Brazil, and Chile (GATT, 1994). The second scenario, AFTA, examines the impact of the Americas Free Trade Area on the economies of Argentina, Brazil and Chile.

The third scenario, the WTO Round, examines the impact of the Uruguay Round Agreement revision on the economies of the three MERCOSUL member countries. In the third scenario, relative to the original Uruguay Round requirements, agricultural production subsidies will be reduced by an additional 20.0 percent in most developed countries, by an additional 13.3 percent in developing countries, and by an additional 16.8 percent in the European Union. Agricultural export subsidies will be reduced by an additional 36.0 percent in developed countries and by an additional 24.0 percent in developing countries. Agricultural commodity import tariffs will be reduced by an additional 36.0 percent in developed countries and an additional 24.0 percent in developing countries. Tariffs on manufactured goods will be

reduced by an additional 38.5 percent in developed countries and by an additional 37.5 percent in developing countries. MERCOSUL's Common Foreign Tariff (TEC) will be reduced by an additional 24.0 percent on agricultural products and by an additional 37.5 percent on manufactured goods.

RESULTS

It is presented first the share of selected commodities in export and import in Argentina, Brazil and Chile. In the sequence, the economic impacts of each scenario on production, trade, and economic growth and welfare are compared to evaluate the countries economic performance.

Agricultural products account for 56.6 percent of the total Argentine export value, 31.5 percent of total Brazilian export value, and 36.8 percent of total Chilean export value. Argentina's main export is processed food, with an export value of US\$4.6 billion or 32.7 percent of Argentina's total export value; wheat, other-grains, and other-crops have export shares from 5.1 percent to 10.4 percent. Brazil's main agricultural exports are processed food, 17.9 percent of the country's total export value, other-crops, 6.9 percent of all exports, and forestry, 6.3 percent of all exports; Brazilian exports of rice, wheat, and other-grains are irrelevant. Chile's main agricultural exports are other-crops, forestry, and processed food.

Agricultural products make up only 9.2 percent of total Argentine import value, 10.3 percent of total Brazilian import value, and 8.5 percent of total Chilean import value. In all three countries, other-crops, forestry, and processed food represent more than 1.0 percent and less than 4.0 percent of total import value. Wheat imports are significant only in Brazil, representing 2.9 percent of all Brazilian import value.

Commodity Production - Wheat, other-crops, forestry, food, and manufacture show the greatest production value changes. For instance, the production value of wheat increases US\$ 245.3 million in Argentina, decreases US\$ 302.5 million in Brazil, and increases US\$ 40.6 million in Chile. Brazilian manufactures suffer the most striking production value change, a decrease by US\$2.0 billion (Table 4).

Trade liberalization has a small impact on all commodities output with the exception of wheat, other-grains, and other-crops (Table 5). In all three trade liberalization scenarios, production of wheat increases by more than 12.0 percent in Argentina, by more than 6.0 percent in Chile and decreases by more than 20.0 percent in Brazil. Production of other-grains, mostly corn, increases in every scenario, with the increase peaking under the WTO Round. In that scenario, other-grain production increases 9.4 percent in Argentina, 3.9 percent in Brazil

and 9.4 percent in Chile. The greatest increases in other-crop production, including soybeans, coffee, sugar, fruits and vegetables, are found in the AFTA and WTO Round scenarios. Thus, for the most produced agricultural commodities in each country, trade liberalization in the framework of the scenarios UR-MERCOSUL, AFTA, and WTO Round has, in that order, an increasing and ascendant impact on production. In all scenarios, the effect of trade liberalization on manufacture production is negative but very small.

Trade - With few exceptions, the exportation of all commodities increases with trade liberalization (Table 6). The greatest increase in the exportation of Argentina's and Brazil's most exported agricultural commodities occurs in the WTO Round scenario. Exports of Argentinean wheat increase by 29.2 percent in the UR-MERCOSUL scenario and by 39.3 percent in the WTO Round scenario. Export of Brazil's other-crops was reduced in the UR-MERCOSUL scenario, increased by 17.1 percent in the AFTA scenario, and increased by 34.6 percent in the WTO Round scenario. Countering this trend, Chilean exports of other-crops and food increase the most in the AFTA scenario. All three countries' manufacture exports increase the most in the AFTA scenario: by 111.9 percent in Argentina, 42.2 percent in Brazil, and 23.2 percent in Chile.

The agricultural products with highest import share in Argentina, Brazil, and Chile are other-crops, forestry, and food; in addition, wheat has a high import share in Brazil. In all three scenarios wheat importation decreases in Argentina and Chile but increases in Brazil (Table 7). Importation of other-grain decreases in all three scenarios in all three countries. On the other hand, the AFTA scenario causes the greatest increase in all three countries forestry and food importation. Argentinean and Chilean imports of other-crops increase in all three scenarios but decrease in Brazil. The percentage change in all three countries importation of other-crops, forestry, food and manufactures is greatest in the AFTA scenario.

Except for the isolated instance of Brazilian manufacture in the UR-MERCOSUL scenario, the largest trade gains come from agricultural products; and the largest trade losses come from manufactures. Even though Argentina presents a strong gain in its balance of trade due to agricultural products, mainly wheat, other-crops, and food, this is not enough to offset its manufacture sector's balance of trade loss. Argentina presents a balance of trade deficit in every scenario, with the smallest loss, US\$56.88 million, occurring in the UR-MERCOSUL scenario. Brazil shows a balance of trade surplus in every scenario though Brazilian manufacture presents a trade surplus in only the UR-MERCOSUL scenario. This is mainly due to the trade contribution of other-crop and food. Brazil's largest trade surplus, US\$1.2 billion,

occurs in the AFTA scenario. The chief Chilean source of trade surplus is other-crops, mainly fruit and vegetables. The highest gain in the Chilean trade balance, US\$ 372.26 million, also occurs in the AFTA scenario.

Argentina and Brazil show a small terms of trade loss in every scenario (Table 8). Chilean only terms of trade gain, 0.18 percent, comes in the AFTA scenario. Argentina's smallest terms of trade loss, -1.32 percent, comes in the UR-MERCOSUL scenario; and Brazil's smallest terms of trade loss, -0.02 percent, comes in the AFTA scenario.

Economic Growth and Welfare. Argentina's economic growth is negative in every scenario (Table 9). However, Argentine per capita utility increases in every simulation, reaching a welfare gain in terms of equivalent variation on the order of US\$531.58 million in the WTO Round scenario. Brazil's economic growth is small but positive in all scenarios. The country's greatest economic growth, 1.93 percent, and per capita utility increase, 1.28 percent, appear in the AFTA scenario. The utility increase translates into a Brazilian welfare gain of US\$4.5 billion. Chile's economy grows (0.69 percent) and its per capita utility increases (0.15 percent) in only the AFTA scenario. This slight utility increase results in a Chilean welfare gain of US\$57.74 million.

CONCLUSIONS

Trade liberalization in the framework of the scenarios UR-MERCOSUL, AFTA, and WTO Round increases production for the most produced agricultural commodities in each country, except for wheat in Brazil whose production decreases by more than 20 percent. The effect of trade liberalization on manufacture production is negative, but very small in all three scenarios. Exports of Argentina's and Brazil's agricultural products increases de most in the scenario WTO Round, while Chile's agricultural exports increases de most in the scenario AFTA. All three countries' manufacture exports increase the most in the AFTA scenario. The percentage change in all three countries importation of other-crops, forestry, food and manufactures, the most relevant imports, is greatest in the AFTA scenario. Economic growth is negative for Argentina and positive for Brazil in every scenario, while Chile presents GDP increase only in the scenario AFTA. Argentina and Brazil present welfare gains in all three scenario. However, the strongest welfare gain for Argentina occur in the scenario WTO Round, and for Brazil in the scenario AFTA. Chile's unique scenario of welfare gain is AFTA.

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TABLES

Table 1. Subsidy (> 1.0) and Taxation (< 1.0) on domestic production

Commodity	ARG	BRA	CHI	USA	E_U
Rice	1.000	1.008	0.967	1.573	1.072
Wheat	1.000	1.008	0.969	1.324	1.063
Other Grains	1.000	1.008	0.971	1.306	1.025
Other Crops	1.000	1.008	0.974	1.052	1.710
Livestock	1.000	1.008	0.994	1.035	1.092
Forestry	1.000	0.999	0.992	1.000	0.985
Food	1.000	0.999	0.998	1.005	0.928
Manufacture	1.000	1.002	0.997	1.000	0.965

Source: GTAP

Table 2. Subsidy (> 0.0) and Taxation (< 0.0) on Exports to Argentina, Brazil and Chile (percentage)

Commodity	Argentina				Brazil				Chile			
	BRA	CHI	USA	E_U	ARG	CHI	USA	E_U	ARG	BRA	USA	E_U
Rice	0.00	0.00	6.19	0.00	0.00	0.00	6.19	320.55	0.00	0.00	0.00	0.00
Wheat	0.00	0.00	20.04	208.05	0.00	0.00	20.04	0.00	0.00	0.00	20.04	0.00
Other Grains	3.98	0.00	1.30	240.35	0.00	0.00	1.30	240.35	0.00	0.00	1.30	240.35
Other Crops	2.55	0.00	0.00	30.40	0.00	0.00	0.00	30.40	0.00	2.55	0.00	30.40
Livestock	-15.72	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-15.72	0.00	0.00
Forestry	-0.59	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.62	0.00	0.00
Food	0.12	0.00	1.05	27.27	0.00	0.00	5.92	23.88	0.00	0.53	5.85	22.31
Manufacture	-3.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-2.58	0.00	0.00

Source: GTAP

Table 3. Subsidy (> 0.0) and Tariff (< 0.0) on Imports by Argentina, Brazil and Chile (percentage)

Commodity	Argentina				Brazil				Chile			
	BRA	CHI	USA	E_U	ARG	CHI	USA	E_U	ARG	BRA	USA	E_U
Rice	0.00	12.40	21.00	0.00	-29.75	0.00	-29.75	-29.75	19.97	19.97	0.00	0.00
Wheat	0.00	-25.00	-25.00	-25.00	56.00	0.00	56.00	0.00	-25.00	0.00	-25.00	0.00
Other Grains	-1.00	-1.00	-1.00	-1.00	-15.00	0.00	-15.00	-15.00	-1.00	0.00	-1.00	-1.00
Other Crops	18.20	19.30	12.20	14.90	-15.70	-15.70	-15.70	-15.70	20.00	20.00	20.00	20.00
Livestock	8.50	20.84	9.70	20.60	17.36	4.50	2.60	3.83	20.00	20.00	20.00	20.00
Forestry	19.80	25.74	20.22	19.20	4.82	1.76	15.94	17.41	20.00	20.00	20.00	20.00
Food	16.56	25.92	21.60	15.82	19.19	31.16	2.82	12.10	19.06	20.15	20.09	20.22
Manufacture	29.98	32.33	27.52	26.76	36.52	5.81	29.70	35.51	19.97	20.00	19.20	19.28

Source: GTAP

Table 4. Change in production value (US\$ million), UR-MERCOSUL scenario, 1992.

Commodity	ARG	BRA	CHILE
Rice	-2.81	25.86	0.23
Wheat	245.28	-302.47	40.57
Other grains	89.80	48.47	14.33
Other crops	161.44	396.36	-56.95
Livestock	86.95	64.17	12.64
Forestry	-280.05	-1.48	-24.26
Food	579.03	254.89	113.57
Manufactures	-858.97	-1,986.87	278.79
Services	-192.80	663.27	-219.65
TOTALS	-172.13	-837.79	159.26

Source: Research Results

Table 5. Percentage change in commodity output (qo), 1992

Scenario	Rice	Wheat	Other Grains	Other Crops	Livestock	Forestry	Food	Manufactures
ARG	-1.359	12.726	4.428	1.186	0.804	-1.939	1.226	-0.534
BRA RU- MERCOSUL	0.993	-22.727	1.944	1.223	0.432	-0.005	0.376	-0.708
CHI	0.835	8.399	6.889	-1.741	0.973	-0.717	1.294	1.458
ARG	-0.251	14.109	5.460	2.458	1.988	-1.860	2.572	-1.161
BRA AFTA	1.846	-22.913	2.854	2.984	1.157	0.251	1.443	-1.541
CHI	-0.194	6.012	1.440	17.662	-0.864	-2.824	0.034	-0.698
ARG	-0.412	17.266	9.377	5.080	1.500	-1.839	1.999	-1.802
BRA WTO Round	2.392	-20.246	3.878	4.759	2.036	0.632	1.965	-2.355
CHI	-0.614	6.794	9.409	9.694	-1.103	0.204	-1.110	-1.781

Source: Research Results

Table 6. Percentage change in export quantities (qxw), 1992

Scenario	Rice	Wheat	Other Grains	Other Crops	Livestock	Forestry	Food	Manufactures
ARG	-39.048	29.218	9.127	10.052	11.802	14.150	14.175	105.084
BRA RU-MERCOSUL	23.836	31.889	4.059	-0.659	10.272	0.442	1.998	25.840
CHI	43.299	22.323	15.550	-1.910	16.846	4.514	10.018	16.124
ARG	-41.064	30.693	9.935	18.172	14.599	24.436	28.854	111.936
BRA AFTA	19.297	56.531	-2.177	17.070	-1.766	3.548	13.014	42.215
CHI	8.238	25.549	8.718	42.001	-2.274	1.634	10.448	23.153
ARG	-35.475	39.274	19.983	43.491	20.673	19.535	23.200	94.344
BRA WTO Round	123.447	105.694	2.850	34.560	35.129	7.149	16.187	27.530
CHI	36.894	74.068	37.642	23.790	14.451	6.964	2.910	14.863

Source: Research Results

Table 7. Percentage change in import quantities (qiw), 1992

Scenario		Rice	Wheat	Other Grains	Other Crops	Livestock	Forestry	Food	Manufactures
ARG		5.949	-65.635	-22.581	15.210	47.432	29.332	16.728	39.247
BRA	RU-MERCOSUL	-58.424	9.098	-30.623	-38.963	7.192	15.449	11.279	28.446
CHI		50.586	-47.332	-8.576	21.024	33.999	26.840	21.034	9.412
ARG		10.539	-64.694	-11.093	20.244	29.896	30.706	25.447	45.137
BRA	AFTA	-53.991	9.789	-28.014	-34.616	15.776	25.541	30.595	51.203
CHI		68.311	-40.840	0.106	45.826	53.434	32.677	39.669	17.586
ARG		5.905	-45.326	-20.482	15.787	47.637	29.327	22.723	44.426
BRA	WTO Round	-57.966	10.336	-30.114	-38.948	7.580	18.833	20.916	40.524
CHI		53.555	-48.798	-10.603	25.056	35.059	27.972	26.019	12.242

Source: Research Results

Table 8. Percentage change in prices received by export (psw) and prices paid by import (pdw) for tradable and in terms of trade (tot = psw - pdw)

	MERCOSUL			AFTA			WTO Round		
	ARG	BRA	CHI	ARG	BRA	CHI	ARG	BRA	CHI
psw	-1.87504	-0.11361	-0.50878	-2.38632	0.14513	0.3423	-2.08493	-0.47573	-1.24843
pdw	-0.56247	0.00514	-0.02721	0.41934	0.16255	0.16291	-0.5515	0.0653	-0.01011
tot	-1.32	-0.11874	-0.48171	-2.79395	-0.01739	0.1791	-1.54194	-0.54067	-1.23845

Source: Research Results

Table 9. Percentage change on GDP, in per capita utility, and in equivalent variation value (US\$ million), 1992

Scenario	GDP (%)			Utility (%)			Equivalent Variation		
	ARG	BRA	CHI	ARG	BRA	CHI	ARG	BRA	CHI
RU-MERCOSUL	-1.860	1.232	-0.418	0.159	0.836	-0.329	307.88	2.964.28	-123.82
AFTA	-2.568	1.930	0.690	0.038	1.282	0.154	73.67	4.543.75	57.74
WTO Round	-2.325	1.196	-1.019	0.275	1.054	-0.357	531.58	3.736.43	-134.17

Source: Research Results