

Policy alternatives and strategies for Bolivia following the end of US trade preferences: An evaluation of a trade agreement with the European Union¹

The main conclusion of this research is that a CAN – EU trade agreement that includes Bolivia is a superior alternative to maintaining the status quo. This conclusion emerges from a combined use of a macro-micro simulation approach, which consists of using a CGE model as ‘price generator’, and a micro-simulation approach, in the form of Laspeyres price indices for income and expenditure, as a bridge to transmit those changes in prices to the household level, so measures economic wellbeing change by computing the difference between changes in income and expenditure.

We found that those scenarios that include Bolivia in a prospective trade agreement CAN-EU are profitable trade settings for the Bolivian economy as a whole. At household level, we also found that such agreement would generate benefits that would be distributed across most household groups of the Bolivian society. The scenarios that exclude Bolivia from the CAN – EU trade agreement were repetitively projected to be the worst trading picture for both the Bolivian macroeconomic performance and the economic wellbeing of its households.

We consider that Bolivia should integrate into the trade liberalization processes that characterise the current globalised economy. Other CAN countries already started negotiations with the EU towards a trade agreement, but Bolivia has not done it yet. Bolivia already left itself out of the agreement with the US (the largest importer in the world), and now has to consider carefully if it is really convenient to be once more out of a trade agreement with an important market like the EU (the second largest importer in the world). Stakes are high if Bolivia losses competitiveness and market niches for domestic commodities into EU markets.

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¹ Research funded by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), November 2009.