

Socioeconomic impacts of the EU-Mercosur agreement's export effects: evidence from gravity estimates and a socially extended Miyazawa input-output analysis for Portugal

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The EU-Mercosur agreement, signed in January 2026, creates the world's largest free trade area, allowing the two blocs, comprising 31 countries and representing approximately 20% of global GDP, to reduce or gradually eliminate tariffs for approximately 90% of their imports and exports.

Alongside the agricultural sector in Mercosur countries, the European industry is expected to be one of the main beneficiaries of this agreement. For Portugal, its geographical, cultural, and linguistic proximity to Mercosur countries presents a clear advantage. Mercosur countries represent a significant market with considerable growth potential, but these markets have until now been highly protected, limiting trade opportunities. Industries such as wine and olive oil production, as well as metalworking and metallurgy, are examples of Portuguese industries expected to see substantial export gains. Despite its significant export potential and expected economic and social contributions, there is a clear gap in the literature on the agreement's impact in Portugal.

The main objective of this paper is to quantify the economic and social impacts of the expected increase in exports of goods associated with the agreement. As a modern trade agreement, the EU-Mercosur agreement not only implies the elimination of tariffs on a large share of trade in goods, but also includes significant provisions covering a broad range of trade and non-trade aspects. The sectoral export effects analysed in this paper are estimated using a gravity econometric model, one of the most widely used methods to measure the effects of trade agreements. The effect of the EU-Mercosur agreement on Portuguese exports to Mercosur countries is estimated by considering the historical effects of trade agreements already in force that contain provisions similar to those of the EU-Mercosur agreement. These provisions cover areas such as trade in goods and services, technical barriers to trade, investment, public procurement, labour, and environmental protection. The identification of agreements that include such provisions relies on data from the World Bank's Deep Trade Agreements database. Additionally, the econometric model also controls for other trade agreements and includes standard gravity variables such as distance, economic size, and common language. The estimations rely primarily on data from COMEXT (Eurostat) and the CEPII Gravity database.

The increase in Portuguese exports, beyond its direct sectoral effects, has multiplier effects throughout the Portuguese economy. These multiplier effects, reflected in indirect impacts (upstream effects along the supply chain) and induced impacts (driven by wage-induced consumption), are captured through a Miyazawa Input-Output model calibrated for the Portuguese economy. The model enables the calculation of more realistic induced effects by disaggregating households into income groups and allows for income distribution analysis. It is calibrated using the FIGARO 2023 input-output tables (Eurostat) and National Accounts data from Statistics Portugal, while household disaggregation relies on microdata from the Household Budget Survey.

Beyond the economic impacts captured by the standard Miyazawa model, this paper proposes a social extension enabling the quantification of social indicators associated with economic activity. The proposed framework combines the robustness of household disaggregation, the income distribution component of the Miyazawa model, and a comprehensive set of social indicators,

providing the basis for an integrated economic and social assessment of demand-side shocks. The selected indicators reflect Portugal's level of development and policy objectives and are aligned with the United Nations Sustainable Development Goals. In its preliminary version, the model includes social indicators grouped into four categories: income inequality, gender equality, labour skills, and occupational safety. The social extension is constructed using national labour market databases. Additionally, the economic indicators considered include output, gross value added, and total and average wages.

The economic and social impact of the export increase is analysed in both absolute and relative terms by comparing the effects of each €1 million in additional exports to Mercosur countries with the average export profile, in aggregate and for EU exports.

Overall, this paper estimates the sectoral impact of the EU–Mercosur agreement on Portuguese exports of goods and assesses the associated economic and social effects at the national level. Despite the relevance of the agreement, the estimation and analysis of its expected effects remain a gap in the literature. Furthermore, the paper proposes a socially extended Miyazawa Input–Output model, complementing the standard model's income distribution capabilities with a broader set of social indicators for the assessment of demand-side shocks.