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ECONOMIC IMPACTS OF BRAZILIAN INDIRECT TAX REDUCTION: AN ANALYSIS OF THE COMPETITIVENESS WITHIN MERCOSUR

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Abstract. The objective of this paper is to determine the effects of the creation of MERCOSUR stemming from an indirect tax reduction in the Brazilian economy. Four different scenarios were analyzed taking into account the elimination of tariffs on imports among the member countries in the MERCOSUR agreement and a 10% reduction in the indirect taxes on the final consumption, on intermediary inputs, and on sectors production. Simulations are run using *GTAPinGAMS* with the GTAP database version 6.0. The creation of the MERCOSUR generated significant results mainly in the agribusiness sector. Reductions in the indirect taxes on final consumption and over the intermediate inputs improve the competition and generate gains in growth, welfare, and government revenue. However, the scenario that reduces the indirect taxes on the Brazilian sectors production cannot increase competition, even though there are positive changes in indicators of growth and welfare. The scenarios generate increased competitiveness, growth variations between 0.05% and 0.19%, with gains in welfare ranging from US\$ 2.26 billion and US\$ 3.20 billion.

JEL Classification: F13, F15, C68, H20

Keywords: regional integration, indirect taxes, general equilibrium, *GTAPinGAMS*, sectorial competition.

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