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EU-MERCOSUR AGREEMENT: DEVELOPMENTS AND PROSPECTS FOR BULGARIAN – BRAZILIAN ECONOMIC AND TRADE RELATIONS

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Abstract

As the signing of the Free Trade Agreement between the European Union and the Southern Common Market is a fact, the paper aims at revealing the impacts and the prospects of it on the Bulgarian-Brazilian economic and trade relations. After presenting the EU-Mercosur trade context briefly, it discusses the dynamics of the bilateral trade flows both between the European Union and Mercosur and, Bulgaria and Brazil and, emphasises on the novelty of the features and opportunities. The prospects for future economic developments are stated.

Key words: economic relations, trade, Mercosur, European Union

JEL: F10, F14, F50

Introduction

The European Union (EU) and Southern Common Market Free Trade Agreement (EU-Mercosur FTA) is a deal announced on June 28th of 2019, during the 2019 G20 Osaka summit (European Commission, 2019a; 2019b). After twenty years of negotiations, it will represent the largest trade deal ever signed by both EU and Mercosur; it will constitute one of the largest free trade areas in the world, aggregating a GDP of about 25% of the world economy (USD 20 trillion) and a market composed of 780 million of people (Brazilian Ministry of Foreign Affairs, 2019).

Bulgaria, as a member of the EU, is a party to all trade and economic agreements and negotiations. Brazil is one of the main trade partners of Bulgaria; traditionally, it is the biggest from Latin America; Peru is the other since 2010 (NSI, 2019). The trade between Bulgaria and Brazil amounts to EUR 77,4 million in 2018, which represents 61% of change compared to 2017. Bulgaria and Brazil have intensified the political dialogue since 2011 to boost economic and trade relations.

In this sense, the paper aims at revealing the impacts and prospects on the Bulgarian-Brazilian economic and trade relations that will open after the EU-

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Mercosur FTA enters into force. The structure of the paper is organised in three main directions: (i) making a brief overview of the EU-Mercosur trade context and agreement, (ii) discussing the dynamics of the bilateral trade flows both between the European Union and Mercosur and, Bulgaria and Brazil and, (iii) emphasising on the novelty of the features and opportunities for Bulgarian and Brazilian economies. The prospects for future economic developments are stated. The methodology of the research combines statistical and official data and information from European Statistical Office (Eurostat), National Statistical Institutes (NSI), UN Comtrade, OEC, European Commission documents, Ministries of Economy and Ministries of Foreign Affairs of Bulgaria and Brazil, and other sources.

The EU-Mercosur Free Trade Context and Agreement

Over the years, the EU has established several initiatives in Latin America in order to ensure a better approach with the countries of this region, such as bilateral cooperation agreements with Brazil and other Mercosur members (e.g. Argentina, Paraguay, Uruguay, others); Interregional Framework Cooperation Agreement, signed with Mercosur in 1995; Strategic Partnership with Latin America and the Caribbean; and Strategic Partnership with Brazil, sealed in 2007 (Tomazini, 2013). However, it is worth pointing out that the current EU-Mercosur FTA corresponds to the trade pillar of a wider bi-regional Association Agreement (AA), which encompasses two more pillars, still under negotiations: political and other forms of cooperation, respectively. Thereby, the European bloc aims to consolidate a strategic political and economic partnership with the Mercosur countries (Brazilian Ministry of Foreign Affairs, 2019; European Commission, 2019a).

According to Tomazini (2013), an AA establishes a closer and more institutionalized relation between the parties. Hence, beyond trade measures, it must provide cooperation in other sectors, as well as it usually contains protocols that specify an aid package to be received from the EU. In the EU-Mercosur agreement case, it is expected to enhance the political dialogue and to increase the cooperation in the fields of migration, digital economy, research and education, human rights, including the rights of indigenous people, corporate and social responsibility, environmental protection, ocean governance, fight against terrorism, money laundering and cybercrime, among other areas (European Commission, 2019c).

Today, trade relations between the EU and Mercosur are already relevant to the economy of their members. In 2018, the EU goods trade with Mercosur reached EUR 87,607 million. The import from Mercosur to all EU partners is about 2,2% (EUR 42,580 million) and the export to Mercosur from the EU is about 2,3%

(EUR 45,027 million). It resulted in a positive balance of EUR 2,446 million for the EU (European Commission, 2019e), according to Table 1.

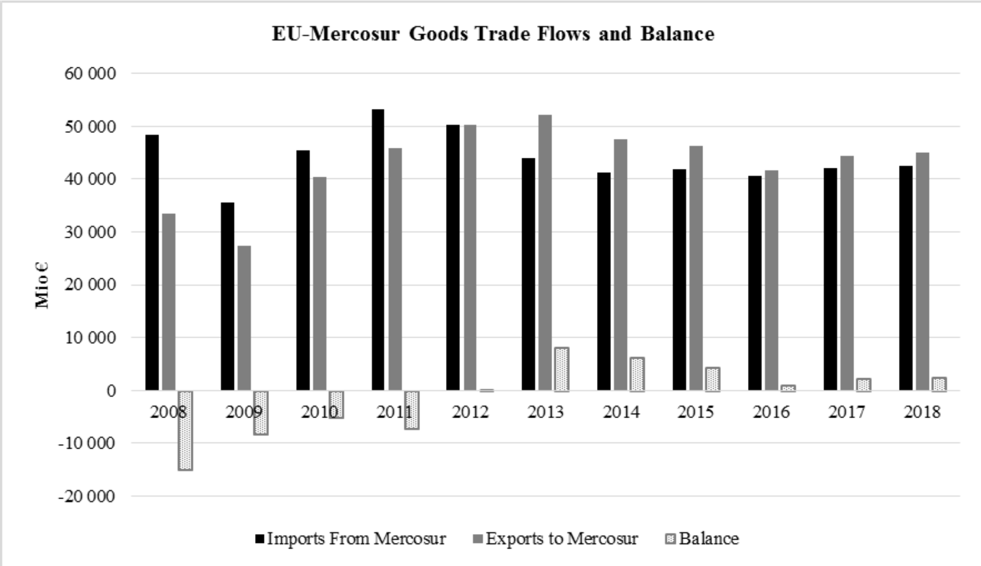
Table 1: EU goods trade flows and balances with Mercosur, in EUR million

Period	Imports from Mercosur	Exports to Mercosur	Balance
2008	48,329	33,444	-14,886.00
2009	35,562	27,277	-8,285.00
2010	45,434	40,327	-5,107.00
2011	53,171	45,873	-7,297.00
2012	50,166	50,365	200.00
2013	43,944	52,144	8,200.00
2014	41,237	47,453	6,215.00
2015	41,889	46,243	4,354.00
2016	40,643	41,653	1,010.00
2017	42,021	44,337	2,315.00
2018	42,580	45,027	2,446.00

Source: European Commission (2019e).

While the trade balance was negative until 2011, the trend changed, and the European bloc has maintained a positive trade balance in its relationship with Mercosur since 2012 (Figure 1).

When it comes to services, the trade between the blocs totals EUR 35,722 million in 2017, but in this case, the EU exports more than twice as much as it imports. The value of the services supplied by EU companies to clients in Mercosur amounts to EUR 23,865 million. At the same time, EUR 11,867 million of services are delivered to EU clients by companies from Mercosur countries (European Commission, 2019d). However, there is a very slight tendency that the imports from Mercosur grow (Table 2).



Source: Based on European Commission (2019e).

Figure 1: Evolution of EU bilateral commodity trade flows and balance with Mercosur, in EUR million

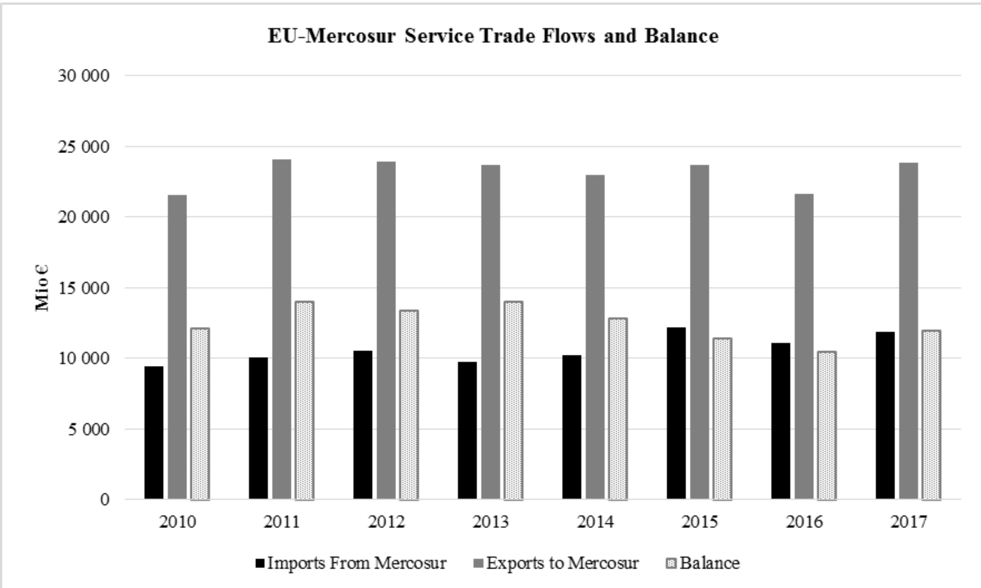
Table 2: EU bilateral services trade flows and balance with Mercosur, in EUR million

Period	Imports From Mercosur	Exports to Mercosur	Balance	Total Trade
2010	9,409	21,568	12,159	30,977
2011	10,084	24,069	13,985	34,153
2012	10,564	23,934	13,370	34,498
2013	9,713	23,704	13,991	33,417
2014	10,205	23,006	12,801	33,210
2015	12,209	23,649	11,441	35,858
2016	11,111	21,609	10,499	32,720
2017	11,857	23,865	12,008	35,722

Source: Eurostat (2019a).

The European bloc has maintained a positive trade balance in its relationship with Mercosur during the period 2010 – 2017 (Figure 2).

Nowadays, trade with Mercosur also collaborates significantly with economic dynamism and job creation in the EU. In this sense, over 60,000 EU companies are exporting now to Mercosur and, only considering the exports to Brazil alone, they employ more than 855,000 people. Thus, the EU became the biggest foreign investor in Mercosur, with an accumulated stock of investment that has gone up from EUR 130 billion in 2000 to EUR 381 billion in 2017. In parallel, Mercosur companies are increasingly investing in the EU, employing more than 30,000 people in the European State Members and accumulating a stock of EUR 52 billion in 2017; the Latin American bloc became the major investor in the EU (European Commission, 2019a, 2019f).



Source: Eurostat (2019a).

Figure 2: Evolution of EU services trade flows and balances with Mercosur, in EUR million

Although this partnership is quite relevant for both blocs, Mercosur is still considered a closed market with high tariff on most products (Table 3) and non-tariff barriers to trading, like: (i) technical regulations and standards, which differ from international standards; (ii) unnecessarily complicated procedures to prove that EU products meet Mercosur's technical requirements or standards for food safety or animal and plant health; (iii) limited access for EU business and an unequal playing field in key service industries, such as financial services, postal and courier services, telecommunications and transport; (iv) preference given to domestic firms and goods over foreign firms and goods in government contracts; (v) lack of easy access (European Commission, 2019a; 2019d).

Table 3: Duties applied to the main EU products exported to Mercosur

Product	Duty
Biscuits	Taxed at 16% to 18%
Canned Peaches	Taxed at 55%
Car Parts	Taxed at 14% to 18%
Cars	Taxed at 35%
Chemicals	Taxed at up to 18%
Chocolate	Taxed at 20%
Clothing	Taxed at up to 35%
Leather Shoes	Taxed at up to 35%
Machinery	Taxed at 14% to 20%
Pharmaceuticals	Taxed at up to 14%
Soft Drinks	Taxed at 20% to 35%
Textiles	Taxed at up to 35%
Whiskey and Other Spirits	Taxed at 20% to 35%
Wine	Taxed at 27%

Source: European Commission (2019d)

With the EU-Mercosur FTA application, the customs duties will be removed progressively on 91% of goods that EU firms export to Mercosur, including food and drink. Likewise, the import duties will also be eliminated on 92% of Mercosur goods imported by the EU (European Commission, 2019d). These and other measures provided in the trade agreement are summarized in Table 4.

Table 4: Main measures that will be applied through the EU-Mercosur FTA

Measure	Description
Cutting tariffs	The agreement will eliminate high customs duties in key EU and Mercosur export sectors, like the industrial. For some of these tariffs, the phasing out will take place over several years, allowing Mercosur companies to adapt.
Easier customs and compliance procedures	The two sides will simplify their customs procedures and work together more closely on technical regulations and standards so that any differences that may exist do not stop the export activities from the EU and Mercosur.
Selling services and setting up a business presence	The agreement will address many significant barriers that companies involved in trading between blocs could face. It will also help other companies seeking to provide services or set up a service or manufacturing business in a country of Mercosur.

Measure	Description
Getting access to public contracts	The agreement will allow firms from the EU and Mercosur to bid for public contracts on equal terms.
Supporting small and medium-sized companies	Small and medium-sized companies often cannot afford to enter new export markets due to red tape at customs, costly testing and certification requirements. With the agreement, they will now benefit from a new online platform providing easy access to information on market requirements and customs rebates. Specific benefits will be included in order to foster their integration in the global value chain, participation in government procurement, training programs, among others.
Supporting and respecting interests of farmers	The agreement will make it easier for farmers and food producers to make the most of new opportunities in the countries of each bloc, by: Removing high tariffs for main export products for each bloc; • Sensitive agricultural products such as honey, sugar, poultry, beef, pork, and ethanol will have limits for imports from Mercosur. Therefore, they will have access through quote application; • Preventing imitation of EU traditional foodstuffs (recognized as Geographical Indications); • Making food safety procedures clearer, more predictable and less cumbersome for EU exporters.
Upholding the EU's food safety standards	Any product arriving in Europe must comply with the EU's food safety standards. The agreement also reaffirms the ‚precautionary principle', the right of both sides to adopt measures to protect human, animal and plant health, including in situations where scientific information is not conclusive. At the same time, the provisions of the agreement will help to tackle common challenges such as antimicrobial resistance, promote animal welfare standards and reinforce the flow of information to help to keep unsafe products out of the market.
Contributing to sustainable production	The agreement must promote sustainable development through: • The EU and Mercosur commit to effectively implement the Paris Climate Agreement and agree to cooperate on the climate aspects of trade between the parties. It includes tackling deforestation; • The EU and Mercosur agree that they will not lower the labour of environmental standards in order to promote trade and attract investment. To the contrary, the dedicated chapter includes specific commitments related to environment protection, workers' rights and promotion of responsible business conduct. • The 'precautionary principle' is upheld in the agreement and ensures that the EU and the Mercosur countries can continue to regulate, including environment or labour matters, even if this affects trade, also where scientific information is not conclusive.
Intellectual property rights	The agreement consolidates the international standards of property right protection, which will guide the modernization of domestic law in countries of both blocs.

Measure	Description
Involving civil society	The agreement gives civil society an important role in its implementation, including on the provisions on trade and sustainable development. The EU and Mercosur will keep environmental interest groups, business organizations, employers‘ and workers‘ organizations, and others informed of how the agreement is implemented. These civil society groups will be able to communicate their views and provide input to discussions on how the trade pillar of the agreement is being implemented in a forum set up for the purpose and at national level.
Enforcing the agreement and solving disputes	The agreement puts in place a mechanism that is fair, efficient and effective to solve disputes that may arise regarding the application of its provisions and the interpretation. Among other things, it relies on transparency, includes independent panelists and due process, and involves open hearings, the publication of decisions, and the opportunity for interested parties to submit views in writing. The mechanism will ensure that the EU and Mercosur fully implement their obligations under the agreement so that businesses, workers and consumers can enjoy its benefits.

Source: Brazilian Ministry of Foreign Affairs (2019); European Commission (2019d; 2019g).

However, the EU-Mercosur FTA has no immediate effect and must be ratified by the parties so that it can take effect. After the political announcement, a technical and legal review of the text was made. Then, it will proceed to translation in all EU and Mercosur official languages (in the EU's case, the text must be available in 23 languages while in the Mercosur case in 4 languages). After finalization, it must be signed and ratified by the European Council, the European Parliament, Mercosur and national parliaments, a process that may take many years (Brazilian Ministry of Foreign Affairs, 2019).

An agreement, like the EU-Mercosur FTA, is viewed as something uniquely novel, due to the scale of the expansion of their regulatory scope, as well as a reaction of the multilateral track against the protectionist pressure caused by several factors, such as the inconclusiveness of Doha negotiations, increased complexity of post-2008 trade negotiations, changes in the United States trade policy after President Trump's election and deepening divisions between developed and developing countries. Besides that, this kind of deal could be a step toward broader and more uniform commercial institutions (Hadjinikolov & Zhelev, 2018; Sondergaard, 2019).

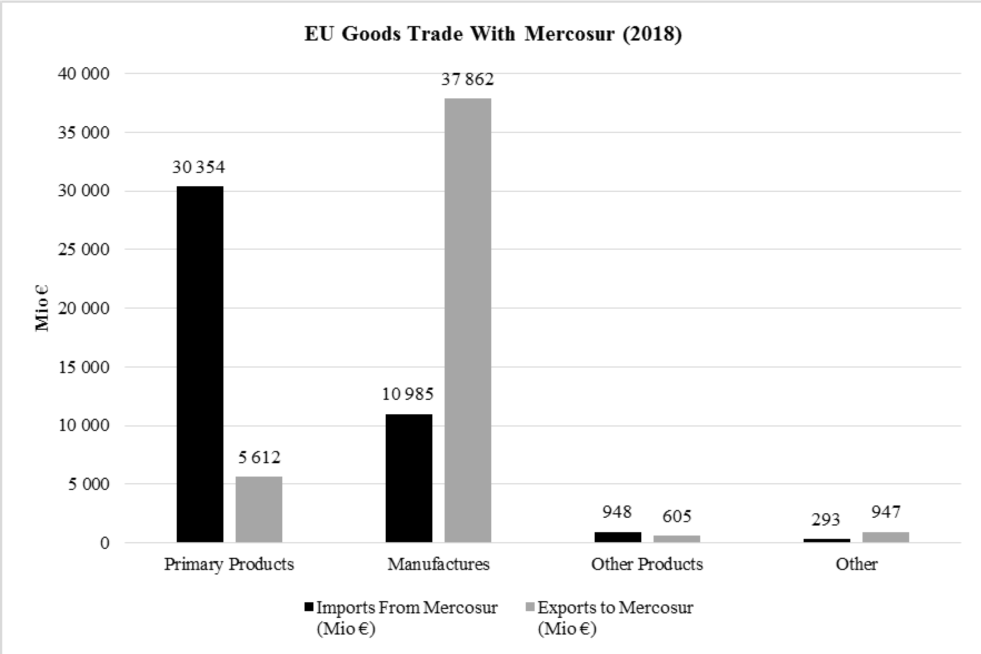
The expected intensification in the trade between the EU and Mercosur may play an important role in the economies involved due to its capacity to boost the economic growth, lower transaction costs, transfer technology and knowledge, and press competitiveness, force business to lower their mark-ups and to better exploit returns on scale (Stanojević & Veličković, 2019). Further, trade may have a positive effect on the environment, too, in consequence of higher environmental standards that can be spread through lobbying and public opinion. Some environmental gains tend to occur with rising incomes; others are likely to be associated with international trade and investment in consequence of a more efficient regulation (Sterner & Coria, 2012).

However, some studies point out that the potential of using all benefits from trade liberalization is conditioned by the initial level of per capita income, foreign direct investments rate, gross fixed capital formation and level of complexity of the productive structure (Gala, 2017; Stanojević & Veličković, 2019). Also, the enhancement of economic performance rests on the improvement of productive domestic institutions, rather than only on increasing openness to international trade *per-se*, which in the absence of the first condition even might lead to a negative effect on welfare (Rodrik et al., 2004; Sondergaard, 2019).

Effects on Brazilian and Bulgarian Economies

The Growth Lab of the Harvard University's Center of International Development states that countries whose exports are more complex than expected for their income level, grow faster. Therefore, growth can be driven by the process of diversifying know-how to produce a broader and increasingly more complex set of goods and services (Harvard, 2019a). In this sense, the effects caused by the EU-Mercosur FTA on EU and Mercosur economies could be analyzed from the economic complexity of exportation perspective, which in turn will influence its growth path.

In the goods trade with the EU, Mercosur has its advantages concentrated on primary products rather than manufactures (Cano et al., 2017). The soy complex, corn, and oil, in addition to livestock and oils/waxes of animal origin, form the basis of these countries' trade with the EU. In terms of manufactured goods, only Argentina has some prominence in chemicals and transportation equipment (Albuquerque & Lohbauer, 2013). It is verified through the statistics of the EU-Mercosur trade in 2018 (Figure 3), when EUR 30,354 million of products were exported from Mercosur to the EU, slightly more than 71% of all exports, while manufactures were EUR 10,985 million or about 26% of the total exports (European Commission, 2019e).



Source: Based on the European Commission (2019e)

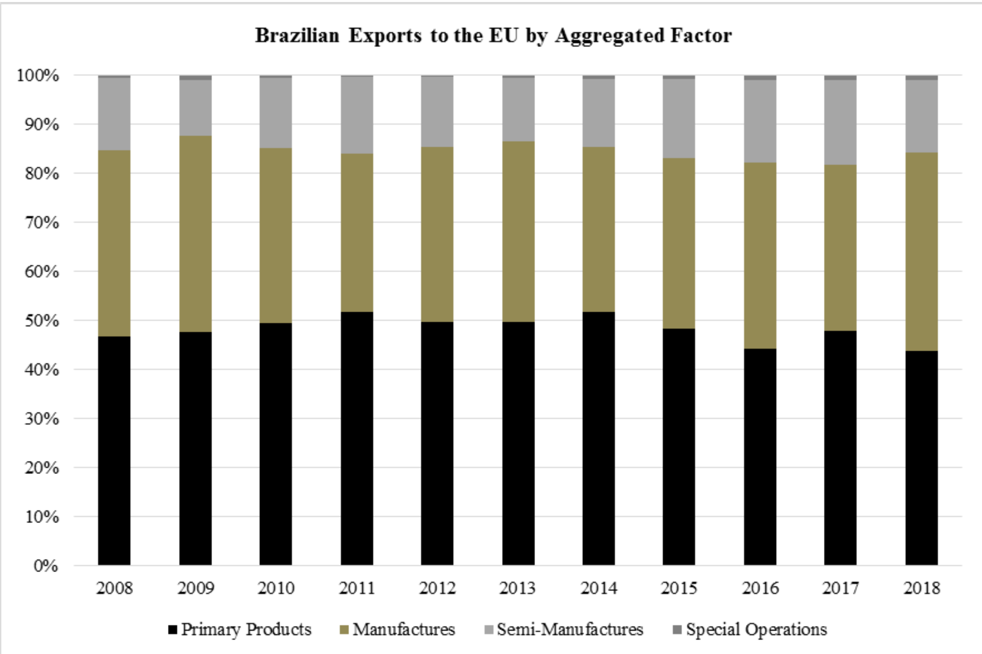
Figure 3: EU trade with Mercosur relative to goods (Standard International Trade Classification), 2018, in EUR million

Brazil follows the same trend. It is in the top ten trading partners of the EU. However, its exportations in the last decade still focused only on roughly a dozen products, mostly primary and semi-manufactured products (Table 5 and Figure 4), such as that range from the soy complex, iron and copper ore, petroleum, coffee, corn, tobacco, wood pulp and cellulose, among others (Albuquerque & Lohbauer, 2013; Brazilian Ministry of Economy, 2019). Among the 27 EU Member States, just a few countries concentrate all the Brazilian exports: Germany, France, the United Kingdom, Italy and Spain appear as the major economic partners, whereas the Netherlands is the biggest recipient of Brazilian exports that use Rotterdam as a port of importing (Albuquerque & Lohbauer, 2013).

Table 5: Brazilian exports to the EU by aggregated factor, 2008 – 2018 (USD FOB billion)

Product	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Primary Products	21.81	16.28	21.45	27.50	24.43	23.74	21.79	16.39	14.80	16.71	18.42
Manufactures	17.69	13.72	15.42	17.18	17.51	17.58	14.11	11.81	12.62	11.82	17.02
Semi-Manufactures	6.86	3.86	6.17	8.37	7.01	6.16	5.85	5.47	5.63	6.03	6.27
Special Operations	0.22	0.32	0.27	0.11	0.13	0.29	0.28	0.28	0.31	0.34	0.40
Total	**46.58**	**34.18**	**43.31**	**53.16**	**49.08**	**47.77**	**42.03**	**33.95**	**33.36**	**34.90**	**42.11**

Source: Based on the Brazilian Ministry of Economy (2019).



Source: Based on the Ministry of Economy (2019)

Figure 4: Share of Brazilian exports to the EU by aggregated factor, 2008 – 2018

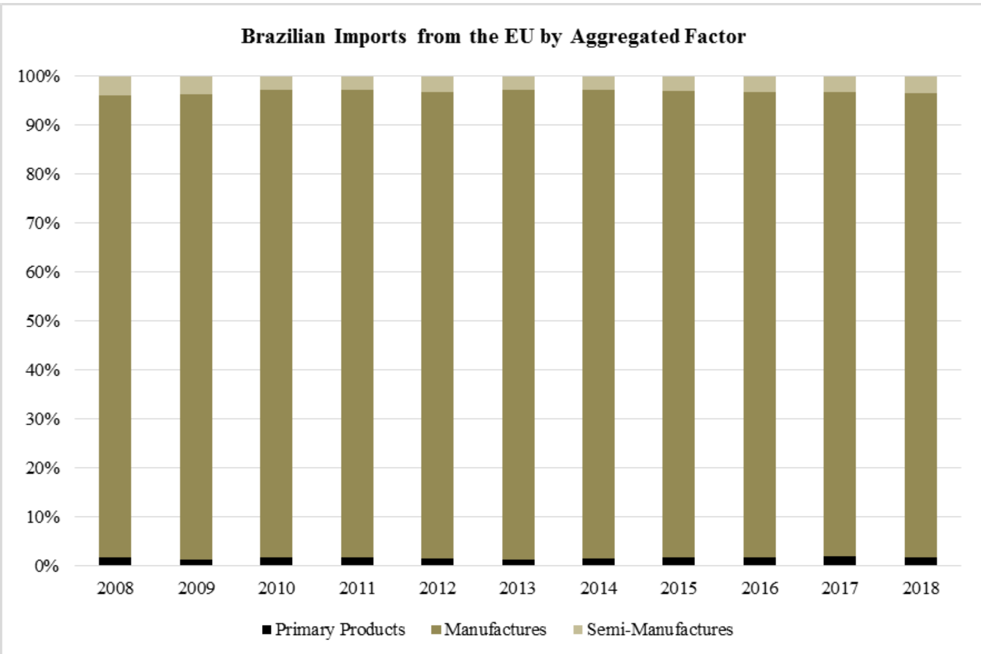
The opposite occurs with Brazilian imports from the EU. The trade with this bloc over the recent years is significantly concentrated on manufactures products, such as human and animal medicine, heterocyclic compounds, their salts and sulfonamides, parts and pieces for cars and tractors, naphtha, pesticides, measuring equipment, gasoline, bearing and gears, among others (Table 6 and

Figure 5). The main exporters to Brazil from the EU are Germany, Italy, France, Spain and the United Kingdom (Brazilian Ministry of Economy, 2019).

Table 6. Brazilian imports from the EU by aggregated factor, 2008 – 2018 (USD FOB billion)

Product	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Primary Products	0.64	0.40	0.73	0.77	0.74	0.72	0.75	0.62	0.59	0.62	0.59
Manufactures	34.14	27.76	37.28	44.42	45.37	48.55	44.67	34.90	29.47	30.41	32.94
Semi-Manufactures	1.41	1.07	1.13	1.26	1.60	1.46	1.29	1.13	1.02	1.04	1.22
Total	**36.19**	**29.23**	**39.14**	**46.45**	**47.71**	**50.73**	**46.71**	**36.65**	**31.08**	**32.07**	**34.75**

Source: Based on the Brazilian Ministry of Economy (2019)



Source: Based on the Brazilian Ministry of Economy (2019)

Figure 5: Share of Brazilian imports from the EU by aggregated factor, 2008 – 2018

Thus, due to the fact that its exports are concentrated on low complexity products, such as agriculture and minerals, along with its imports profile concentrated on manufactures, it becomes evident that Brazil (as well as other Mercosur countries) has a less complex economy than its partners from the

EU. It happens because its economy has not yet started the traditional process of structural transformation when the economic activity is broadly reallocated from low to high productivity sectors, based on manufactures and sophisticated services (Gala, 2017; Harvard, 2019a).

In theory, the EU-Mercosur FTA could help Brazil to rely less on exports of commodities (raw materials or primary agricultural products) and to diversify its economy by producing higher-value goods and services because Mercosur citizens would be able to provide their services in the EU (European Commission, 2019a). However, even the EU-Mercosur FTA not being into force, around 70% of agriculture already enters the EU without tariffs barriers and the remaining 30%, considered sensitive and protected by the EU, corresponds to all of the products for which Brazil has comparative advantages (Albuquerque & Lohbauer, 2013).

So, when this agreement comes into force, the tendency is that it will, even more, stimulate the production of commodities in Brazil and the rest of Mercosur, as well as of manufactures in the EU, since Europeans already have more complex productive networks, with a high content of productive knowledge (Gala, 2017). In this scenario, the Brazilian manufacture production would reduce even more their share in the national economy, triggering a Dutch disease process.

As far as Bulgaria is concerned, which is an upper-middle-income country as Brazil is, its economy has become more complex, diversifying its exports gradually. In 2017, it exported EUR 27.9 billion in high and moderate complexity products (Figure 6), such as refined petroleum, refined copper, raw copper, wheat, packaged medicaments, machinery and, electrical machinery and equipment. In 2018, the total export value raised slightly to EUR 28.2 billion. Besides that, the global market share in machinery manufacturing in Bulgaria has risen over the previous decade (Harvard, 2019b; OEC, 2019). The share of electrical machinery and equipment and parts thereof is the biggest, 10.8% of all exports in 2018. The main destinations of the Bulgarian exports are the European countries: Germany, Turkey, Italy, Romania, among others, which represents 68.63% of all exports (Harvard, 2019b).

It is worth mentionioning that, today, the Mercosur's share in Bulgarian exports is quite tiny, about 0.26%, and the main destination is Brazil, with USD FOB 45.9 million (Harvard, 2019b). The main products exported were fertilizers, animal food, machinery and, electrical machinery and equipment (Figure 7). The machinery has a share of 10.5% and the electrical machinery and equipment – 4.9%, of the Bulgarian exports to Brazil in 2018. The latter represents only 7.8% of all the Brazilian imports of electrical machinery and equipment.

Source: OEC (2019).

Figure 6: Main products exported by Bulgaria, 2017

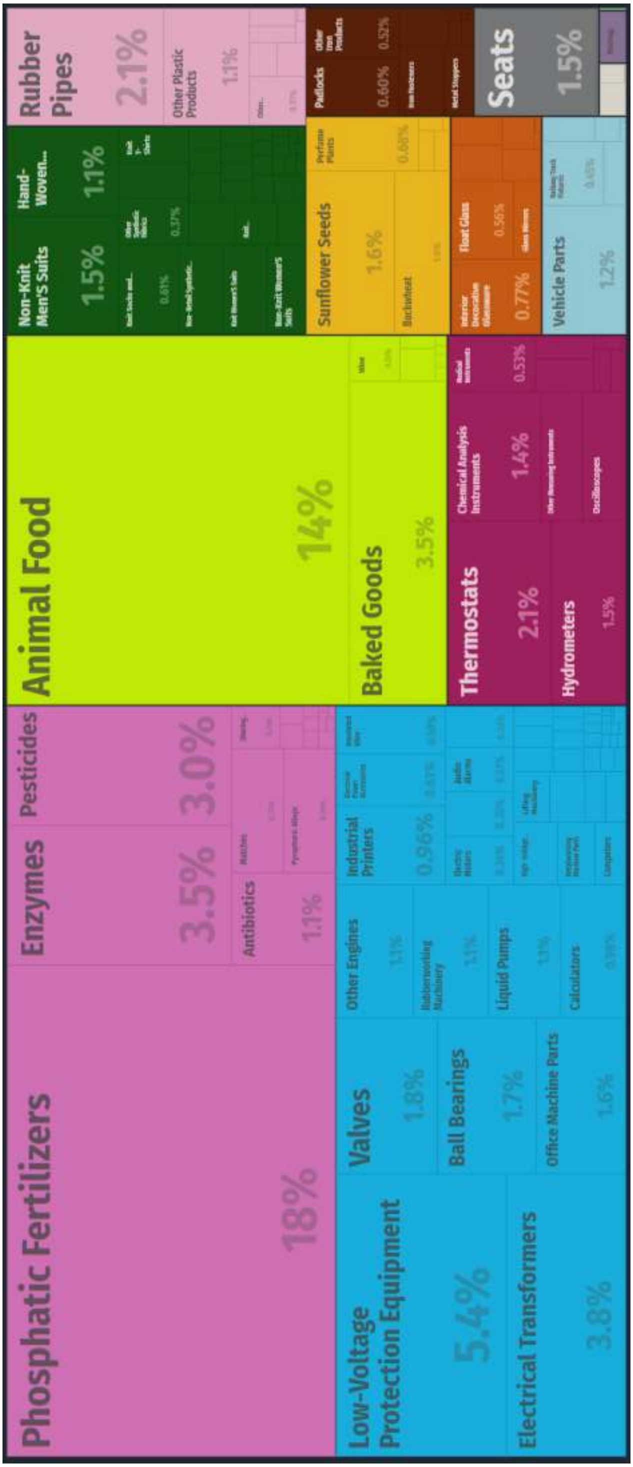
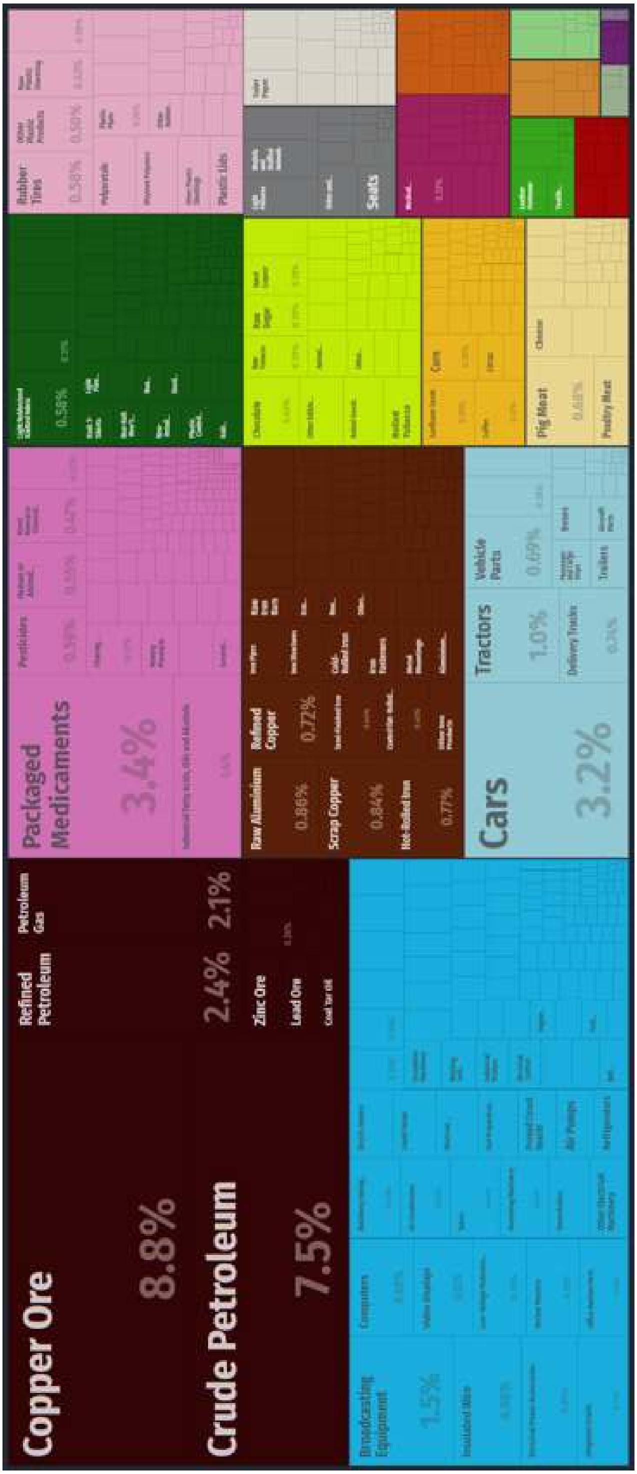


Figure 7: Main products exported from Bulgaria to Brazil, 2017

Source: OEC (2019)

As for the Bulgarian imports, they amounted to EUR 30.3 billion in 2017 and raised to EUR 32.1 billion in 2018. The main products imported are mineral products (13.7%), represented by copper ore and petroleum, but almost as much also are machinery (10.2%) and, electrical machinery and equipment (9.7%) (Figure 8). The top import origins are Germany, Russia, Romania, Turkey and Italy, which represents 75.52% of all imports, while Mercosur countries collaborate with 0.68% (Harvard, 2019b; OEC, 2019). Bulgaria's import from Brazil figured out EUR 44.3 billion in 2018, mainly in ores, slag and ash (33.6%), coffee, tea, mate and spices (18.2%) and, machinery (17.4%). The machinery import is 2.46 bigger in value compared to the Bulgarian export to the Brazilian market last year. The Bulgarian machinery export represents 7.8% of the total Brazilian machinery import in 2018 (in value).



Source: OEC (2019)

Figure 8: Main products imported by Bulgaria, 2017

In comparison to Brazil, Bulgaria's economic complexity is lagging with nine positions (ranked the 46th most complex country in the world), not showing substantial advances in the process of structural transformation to entering major and more productive sectors. However, the country exports almost twice more products with revealed comparative advantage (348 Bulgarian products compared to 209 Brazilian products exported). Besides that, its economic growth is driven by diversification into new products that are incrementally more complex (Harvard, 2019b). In this sense, Bulgaria has added 46 new products since 2002, and these products contributed with USD 244 in income per capita in 2017, against Brazil's 13 new products, which contributed with US$ 22 in income per capita (Table 7).

Table 7: New export products, 2002 – 2017

Country	New Products	USD per capita
Bulgaria	46	USD 244
Brazil	13	USD 22

Source: Harvard (2019a; 2019b).

Nevertheless, the Bulgarian profile about exportations and importations shows that its current trade is significantly focused on Europe, mainly the EU countries. In this sense, the EU-Mercosur FTA could help Bulgaria expand its trade network towards a region with the potential to become its importer of machinery and electric machinery and equipment, and exporter of ores and petroleum, coffee and other commodities following the path of complexity improvement. To succeed in trade liberalization, Bulgaria should make investments in order to improve the quality of its institutions (Stanojević & Veličković, 2019). In this sense, Hadjitchoneva & Georgiev (2017) point out that corruption and the judiciary are the most problematic factors of the Bulgarian business environment, despite the fact that Bulgaria has reached the lowest corporate tax in the EU, with low operation costs for doing business in the region, and showing one of the highest business investment rate (28.8%) among the European countries, which would be an advantage for Mercosur countries.

Conclusion

The Association Agreement between European Union and Mercosur, the Free Trade Agreement being one of its pillars, can be understood as a new chapter in the history of both regions and with potential to reach an unprecedented scale in terms of people and markets when it becomes effective (Brazilian Ministry of

Foreign Affairs, 2019). This deal is also considered even more relevant due to the current context, with higher protectionist pressure and preference for bilateral agreements instead of multilateral agreements (Hadjinikolov & Zhelev, 2018; Sondergaard, 2019).

Although the EU-Mercosur FTA aims to establish a closer and more institutionalized relation between Europeans and South Americans, providing different types of cooperation and opportunities (Tomazini, 2013), it is not wise to generalize that all countries will benefit from the trade liberalization in the same way. In this sense, it is necessary to analyze some competitiveness and economic issues of each country, like the initial level of per capita income, foreign direct investments rate, gross fixed capital formation and level of complexity of the productive structure (Gala, 2017; Stanojević & Veličković, 2019). However, the EU-Mercosur FTA represents a favorable factor in expanding the bilateral trade and economic relations between Bulgaria and Brazil, as it liberalizes the trade and eliminates multiple tariffs and non-tariffs barriers.

As far as Brazil is concerned, as well as other Mercosur countries, primary and semi-manufactured products mainly compose the exportations to the EU. At the same time, the importations from the EU are fundamentally focused on manufactured products and sophisticated services. It means that the Brazilian economy is less complex due to having not yet started its process of structural transformation so that its comparative advantages are concentrated in sectors with lower productivity (Harvard, 2019a). Further, Brazil does not still present strong institutions and other elements, which constitute sources of competitiveness, like efficient tax legislation and infrastructure. Thus, a concern arises about Brazil getting a Dutch disease process, and its manufacture production share reduces even more after the EU-Mercosur FTA comes into force. Still, many opportunities for the Brazilian producers and services suppliers arise to internationalize and diversify markets and partners.

As to Bulgaria, the country faces similar structural economic problems; its process of structural transformation needs to be intensified so as to integrate high productive sectors, mainly those related to machinery and electronic machinery manufacturing, and services providing. As Bulgaria trades primarily with its European partners, this situation could be changed with the agreement enhancing the trade structure and partners diversification. Hence, Bulgaria could expand its trade network towards a region with the potential of becoming its importer of machinery and other added-value goods and services, and exporter of ores and petroleum products, and other raw materials, following the path of complexity improvement. Besides the risks that the geographical distance brings, the Bulgarian businesses could benefit largely from the opportunities to make economies of scale once opened to huge new markets.

Both studied countries have to improve the quality of their institutions for getting more advantages from trade liberalization and new economic cooperation opportunities and to realize the potential that represents the Association Agreement between European Union and Mercosur, and especially its Free Trade Agreement.

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