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Abstract

This paper examines the implications of a UK-Mercosur trade deal as regards the alcohol beverage industry, and in the context of the post-Brexit UK. Brexit refers to the planned withdrawal of the UK from the EU (European Union). Brexit, thus, suggests a different future for the UK, especially as regards its economic outlook. The paper, therefore, examines the implications of Brexit on the UK's beverage industry in a trade deal that will involve the Mercosur and the UK. It is notable that the UK has a well-developed and growing alcohol beverage sector that needs additional markets. On the other hand, Brazil has a well-developed agricultural sector with a weak a beverage sector. This suggests that in case of a trade deal between the UK and the Mercosur, the UK may easily export items such as wine and whisky to Brazil while Brazil may export agricultural products to the country. Still, there are constraints such as the ability for the other Mercosur countries to set their terms on such a trade deal.

Key Words

Mercosur

Brexit

Analysis UK –Mercosur Trade Agreement Opportunities Post Brexit in the Alcoholic Beverage Industry of United Kingdom and Brazil

INTRODUCTION

Brexit refers to the planned withdrawal of the UK from the EU (European Union). A referendum on June 2016 had 51.9 percent of the UK electorate voting to leave the EU with a turnout of almost three-quarter of the voting age population. Thereafter, on March 2017, the UK legally commenced its withdrawal from the UK by invoking the Article 50 of the Treaty on the EU. This began the process from which Britain will officially leave the EU on March 29, 2019 at 11 p.m. UK time. By the time of the voting, the UK had been in the EU for 43 years and had been a principal member given its historical economic and more essentially, political power. Ever since the voting happened, both Britain and the world was stunned since it was largely an unforeseen though not impossible move. Therefore, there is a great need to contemplate about how the Brexit will not only affect Britain's relationship with neighboring countries, but also how it will affect the economic situation of Britain and its commercial relationships with other countries. Although Brexit seems to fundamentally focus on the relationship between the UK and the EU, it has broader and intricate implications on the economic situation of Britain, and even the world.

On the other hand, Mercosur is a trade bloc in Latin America that has four prominent members of Argentina, Uruguay, Paraguay, and Brazil given the fact that its executive suspended Venezuela in 2016, and it also has associate members such as Chile. The EU has been a principal trading partner of Mercusor, but after the Brexit, Mercosur has been contemplating independent trading deals with the UK now that it will be out of the EU.

It is notable that the alcoholic beverage industry is a big entity. The industry stands out not necessarily because of its consumption, but because of the high rate of production and exportation into other countries. The UK stands out because of its high volume of production in wine, beers, whisky, and gin. On the other hand, although the Brazilian population consumes above average amounts of alcohol, Brazil does not produce significant amounts of alcohol. Instead, the industry is merely made up of retail shops that sell alcohol.

2. SUMMARY OF BREXIT

Timeline of Brexit

In essence, Brexit is a move in which the UK will officially leave the EU in March 2019. The UK has been a principal party in the EU, and has major voting powers that trigger serious contemplation about how Brexit will affect its economic relationships with other entities.

In terms of the timeline of the time of Brexit, it is essential to note that at the current standpoint, the UK has already voted to leave the EU. The official exit time and date will be on Friday 29th March, 2019 at 11 p.m. UK time (McClean 1). The EU and the UK have agreed on three principal issues tied to the exit, which entails how much the two partners owe each other, the Northern Ireland border, and what will happen to the EU citizens living in the UK and vice versa (Hunt and Wheeler 1). Besides, the talks have progressed into the idea of a transition period after March 2019, in which the UK will gradually exit the EU without upsetting certain balances. This transition period is set to smoothen the exit. The transition period will also allow for new rules to be set between the EU and the UK while allowing businesses to operate with the current rules until a proper agreement is reached on how the two parties will function. The EU has expressed that the transition period ought to last until December 31, 2020. On the other hand, the UK wants a longer period than 2020, and has requested flexibility from the EU to allow it to establish itself within the new system (Hunt and Wheeler 1). In this sense, free movement of goods is highly likely to continue within the transition period, but the UK will have to abide by new rules set on the terms of the EU after the transition period.

Still, the timeline on Brexit is already in process, and has progressed through significant stages. To begin with, on June 22-23, 2017, a full EU summit was to occur in which Theresa May was to elaborate on the idea and terms of Brexit (McClean 1). However, the EU was not supposed to offer its response. Thereafter, the EU Executive was to give a debrief on the then nature of the negotiations. On June 26, 2017, the EU was set to report back to the members on the state of the negotiations after a week of talks with the UK. A formal reporting pattern was set through which the EU executive was to report about the content and the resolutions of the talks.

On July 17, 2017, the EU and the UK was set to have another round of negotiations. The new set of negotiations was to include contentious items such as the Brexit bill and citizens' rights. September 24 was set for German parliamentary elections, and this would follow a cast of leaders who would decide on a deal with the UK. October 1st to 4th would be set for a Conservative party conference (McClean 1). From the conference, the UK parliament and government, and the Conservative party was to agree on what they would need from its future relationship with the EU. Between October and December 2017, the EU was set to have the first step of Brexit negotiations, under which both sides were to properly agree on the state of citizens' rights before any further negotiations are allowed. On October 2018, Michel Barnier, the chief negotiator for the Brexit arrangement, would summarize all the talks to allow for ratification of the agreements. On March 2019, the European Council, the European Parliament, and the EU member was to ratify the talks (McClean 1). Besides, the UK parliament was set to vote on the deal before the eventual exit. By April 2019, the UK departure from the EU is set to be complete.

Current State and Future of Brexit

In spite of the supposed eventuality, certain events offer dim hopes about Brexit finally happening. One of these events is the campaigning by certain groups to halt Brexit while believing it is a disastrous decision, and indeed many people, especially the elites thought that Brexit was an unwise move. In addition, the election of Theresa May denied her a Conservative majority, which is essential for her decisions. However, as things stand, Brexit is still going to happen and it will be difficult to reverse the legislative direction the country has started following. Still, the talks about transition have received a renewed interest as stakeholders become wary of possible punishment from Brussels after Brexit.

When David Cameron resigned, Theresa May automatically became the prime minister after who was supposed to be her rivals pulled out (Hunt and Wheeler 1). Although Theresa May was against Brexit initially, she says she in support of the move citing it is what the British citizenry wants. Theresa has been active on the matter of Brexit and influenced a two-year process that will end on March 29, 2017. She has also not only led transition talks, she also expressed her thinking about what the UK will want with the EU after Brexit, especially in terms of trade relationships (Hunt and Wheeler 1).

UK Economic outlook post Brexit

The EU has promised that it will retain an almost full business relationship with the UK after the Brexit. This suggests that the free movement of goods will continue as long as the UK abides by the EU's rules on open borders. However, the UK will lose its voting rights, and this suggests that it will be subject to decisions that the EU will make, as it loses its power in making decisions. The EU heads of government have stated that even the soft Brexit is only a means of ensuring fair competition and a level playing field. In turn, it is arguable that the UK's access to the single market will be dictated by how much it will be willing to comply with the EU's rules. However, the EU has warned that the UK will lose the power to choose its preferred regulations for key business sectors. This is reiterated by Angela Merkel, the German Chancellor, who has asserted that the UK's relationship with the EU will be worse after the UK exits the union.

Overall, there is a cloud of uncertainty about the impact on of Brexit on the UK's economy after it shall have happened. However, one can predict a few things. To begin with, the pound is highly likely to become weaker thereby helping exports. This will also critically help the manufacturing sector, which is a big entity in the UK. However, from the consumer's end, their welfare seems to face a gloomy future as witnessed in 2017. In 2017, consumers confronted rising prices from shops as the pound became weaker and the costs of imports became higher. In this sense, consumers are contending with both higher inflation and slow wage increases, that could also stall GDP growth. Still, a slower but promising wage growth is set to start after investors shall have eased their fear both before Brexit and during the transition period. Currently, the UK is having one of the lowest unemployment rates, which is caused by falling net immigration rates. In a huge way, this will help towards improving the bargaining power of workers. Overall, in terms of imports and exports, entities such as the fiscal watchdog projects that the UK will tighten immigration controls and slow exports and imports until a mutual agreement is reached between the EU and the UK.

Productivity has been shown to stall after the 2008 recession. As compared to the previous average rate of 2.0 percent, the current rate of productivity since 2008 is 0.2 percent (Financial Times 1). In spite of the slow growth, economic growth may only arise from the existing people working more or more people working. The assumption that more people will be working ignores the fact that Britain has been squeezing its borders, and that its population is ageing. Such low productivity also suggests that companies are highly likely to lack the money to raise the wages. The recent move for the government to offer investment funds and productivity funds seems to manifest an economy that will require constant intervention to stay in balance. Still, it is plausible that once out of the EU, Britain will be able to forge self-favoring bilateral connections with other trade blocs and countries. The case of Finland offers such hope since it is not in the EU yet its economy is successful.

2. STRATEGIC ANALYSIS UK- MERCOSUR TRADE AGREEMENT OPPORTUNITY

Description of Mercosur

This trade was drawn by common interests in creating economic trade blocks to enhance free trade and channel movement of goods, people, and currency. In 1991, countries such as Brazil, Argentina, Paraguay, and Uruguay came together to sign the treaty of. Other countries were later admitted to this treaty as associate members, and they include Mexico, Chile, Bolivia, Ecuador, Peru, and Colombia. The block worked towards harmonizing economic policies of members and to further economic development. These efforts were aimed at reducing tariffs, providing for free trade zones and having customs union (Duina 21).

The treaty provided the organization with various decision making organs. Common Market Council was tasked with outlining its political wheel and other decision makings. The common market council was to undertake implementation of its core functions and objectives. Mercosur Trade commission was tasked to strictly deal with issues arising as a result of trade among the member states. This was witnessed on the suspension of Paraguay in response to its president impeachment, which was later lifted after the election of new president. The path towards a free market was guided by different approaches that encompassed a transitional phase towards free trade in the area.

Mercusor, also referred to as the Southern Common Market, is ranked fifth big economic block across the world with a Gross Domestic Product (GDP) of US $ 3.2 trillion with a population of about 295 million people across the economic block (Keller 1). This trade bloc is favored by strong political stability of member states, which has enabled fair regional integration where leaders and citizens coexist to promote growth, social justice and promote individual dignity. Venezuela also joined to become an official member of the trading bloc in 2012, but was suspended on December 2016.

Current Mercosur's trade agreements

EU-Mercosur Association Agreement

The European Union is on trade deal negotiations with the Mercosur states. This agreement is aimed at enhancing open trade between member states and the EU for sustainable developments in the regions. Firms and companies from EU are already exporting numerous products to Mercosur and vice versa. This agreement signed, therefore, would benefit both trading blocks. The existence of export and trade between the two economic blocks has facilitated the initiation of talks to benefit the trade, create more job opportunities and growth. Their main goals towards this agreement are to remove trade barriers and support smaller EU firms to enable them to export more to Mercusor, enhance improvement of employee working rights, protection of the environment, encouraging companies to adhere to food safety standards and work towards protection of the quality product (Lang 58).

Tariff elimination as a result of this agreement benefits companies by lowering the burden accrued as a result of high customs duties imposed on export and imports. It will also facilitate an increase in volumes of export resulting from high production levels. Since the burden of paying duties is removed, companies will reinvest such expenses on production levels hence realization in improvement in products and services. Having commitments to the implementation of Paris Agreement towards climate change, both trading block will contribute towards a sustainable production with the respect of environmental policies in place (Lang 65).

Mercosur also has trade agreements with other countries and entities. For instance, Mercosur has a framework agreement with Morocco (SICE/OAS 1). It also has a framework agreement with Mexico. A framework agreement means that the whole bloc trades with the given country. Besides, Mercosur has a trade agreement with Southern African Customs Union that came into force on April 1, 2016 (SICE/OAS 1).

Current United Kingdom's Investment and Relationship with Latin America

The unanimous decision by the UK through a referendum to leave European Union adversely affected trade. The resulting implications of accessing market as they had exited European Union prompted them to seek and build up more trade with Latin America. This has created a need to forge a relationship and maintain international market dominance. In this sense, they can not only politically strengthen their relationship with these countries, but also sell them their export.

UK relationship amidst global political influence can be contrasted on its diplomacy and democratic advocacy among the developing countries in Latin America. The awakening call to advocate for universal treatment with respect to human rights has facilitated the UK with a platform to establish diplomatic relations based on democratic values and strict observance of the human right entitlements. These assistances and further advocacy will demonstrate to Latin

American governments that unlike other trading partners, the UK also regard them as democratic partners operating on global platforms (GOV.UK 1).

A favorable enabling environment for trade can only be created through security. The UK and Latin America have established this realization and hence have partnered to address global security challenges. Cases of drug trafficking are constantly on the rise, multilateral cooperation may prove an effective effort to counter trafficking drugs.

UK based companies have already opened up its branches in Latin America. Companies such as Rolls Royce and HSBC are currently doing well in the region. Many companies ranging from different sectors in the UK have already expressed their interests to further their production in Latin Americas territories. For instance, in 2007, Rolls Royce made a contract with Colombia's Avianca that amounted to $ 1.1 billion (Rolls Royce 1). In 2011, HSBC was managing assets worth $ 55 billion in the Latin American Region (HSBC 1). The UK government has also financed various projects cutting across various fields. Due to expertise prowess it holds, they have partnered with various countries such as Brazil and Peru. The contract involved supplying engines for planes. This has led to advancement and revolution of renewable energy which has exploited wind matrix to provide alternative energy from carbon energy. This is in line with environmental legislations prevalent in today's world.

The European Union and Mercosur

Although the EU has been a long-time trading partner with Mercosur, it has still sought to further the relations through a trade deal. On February 2017, the EU reignited a trade deal that had started in 2010 but was halted midway. It is notable that current trade relations are based on the legislation of Interregional Framework Cooperation Agreement between the European Community and Mercosur that took force in 1999.

In terms of trade picture, the EU is currently the biggest trading partner of Mercusor. For instance, in 2016, it accounted for 21.8 percent of Mercosur's trade, which was the largest (European Commission, 2018). In 2016, the Mercosur exported 40.6 billion euros' worth of goods to the EU while the EU exported 41.5 billion euros' worth of goods to the four Mercosur countries. In 2016, the EU mainly exported pharmaceutical and chemical products, transport equipment, and machinery. On the other hand, Mercosur mainly exported agricultural products such as animal products and vegetable products. The EU also exported a great deal of services that amounted to 20 billion euros (European Commission, 2018). Both the EU and the Mercosur are big investors in either region. For instance, the EU's amount of investment in the Mercosur countries had totaled to 387 billion euros in 2014 (European Commission, 2018).

UK Trade Opportunities Post Brexit

The exit of UK from EU trading block has prompted to various questions on its self-reliance to conduct trade independently. Through its withdrawal from membership from former agreements, there is a worrying concern about the availability of the market for its export of goods and services. The UK critically needs to prioritize her business relations and trading with other countries after the decision for Brexit. However, the process of engagements in dialogue has proven not to be an easy task. Many of the countries are still in ties with the EU trading block. There is a prompting urgency to consider the developing countries to forge a relationship. The developing countries have a high demand for exports in their markets. There is increasingly attractive avenue and venture on which the UK could exploit in order to continue trading on the global market arena. With the high population growth rate inhabited in the developing countries like Malaysia, the population base could translate to the availability of a ready market for its export (Financial Times 1). The consistency of growth in volumes of the population in these developing countries may over a certain time and period rise up. The trend if exploited at the very beginning may prove to provide market dominance and export destination for UK goods. The formal separation deal with the EU will lead to retract of companies of UK currently doing business and exploiting market on EU countries. With these prospects, the country should formulate work plan on deals with other countries that demand goods and services that it exports. The disadvantaging of these firms however, will result in loss and therefore early plans to ensure and foster continuity needs to be addressed.

The notion that the UK has a strong market command suggests that its Euro currency is valued outside the EU trading blocks. When the Brexit shall have occurred, the UK will not benefit from the attractiveness of the euro currency unless the value of the British pound will be enhanced. Brexit would also translate to the weakening in policies in the matters of environmental legislation, labor, and social welfare, as it will not be restricted by the EU's policies regarding such issues.

Brexit Impact on Mercosur

The exit of UK from EU trading bloc is highly likely to create an impact on Mercosur, mainly from the economic front. Since the UK will be free from the obligations of the EU, it is highly likely to initiate the process of trading with another trading bloc mainly as a means of finding an outlet for its exports. In turn, Mercosur is highly likely to benefit from FDI flows especially if exporting will be more expensive as compared to producing within the countries. Such FDI flows also contribute towards availing new employment opportunities in the Mercosur regions.

Employment opportunities have over time proven as an empowering tool for developing countries. Through employment base in a country, the government is able to achieve and acquire revenue streams that will facilitate the development of the country. By engaging a mass of people in the employment opportunities, vices such the manifestation and emergence of drug trafficking may be curbed.

More specifically, Brexit has been shown to impact considerably the EU' beef sector. Brazil, a key member of the Mercosur, has implored or placed a mandate that the EU opens up its markets for beef exports from Mercosur countries. However, countries, such as Ireland, which possesses a prominent beef sector, are requesting that the EU should not accept such a mandate, as they will be grossly affected. Mercosur countries benefit from lower production costs, and are the top exporters of beef to the EU.

Pros and Cons of Possible Trade Agreement

In this sense, on a good note, the Brexit will create the platform for bilateral trade agreements with the UK. Countries such as Argentina and Brazil have shown enthusiasm for such a bilateral trade agreement since the UK will free itself from the demands of the EU. In addition, the agreement will allow the UK to concentrate on specific industries that it seeks to advance such as the beverage industry, as these industries have manifested a high potential for growth. In addition, it will enable Brazil advance its core and growing industries, such as the agricultural one, which compliments the beverage industry of the UK. On the other hand, the Mercosur countries may agree on a policy that will not benefit the UK. For instance, the Mercosur is the majority exporters into Brazil, and they may move to control the size of imports from the UK.

4. IMPLICATIONS IN THE ALCOHOLIC BEVERAGE INDUSTRY UK-BRAZIL

Current exports/imports

First, it is essential to note that the negotiations between the EU and the Mercosur countries are still open though not moving forward. The negotiations have been dormant since 2004, but they can be reignited anytime. Still, the idea of Brexit has complicated the negotiations, as it makes it difficult to make binding decisions that will involve it. The UK has also been preparing independent negotiations with the Mercosur trade bloc. Given the general framework of trade blocs, the UK can only make deals with the individual countries through Mercosur. Mercosur, therefore, becomes a necessary bureaucratic path towards negotiating with Brazil as regards its beverage industry.

A general outlook of the UK's economy shows that it registered a GDP of $ 2648 billion by the end of 2016 (Trading Economics 1). In addition, the GDP from agriculture was 2619 GBP billion. On the other hand, the unemployment rate stood at 4.4 percent while inflation rate stood at 3 percent (Trading Economics 1). Brazil, by the end of 2016, registered a GDP of $ 1796 billion. Brazil's unemployment rate stood at 12.2 percent while its inflation rate stood at 2.86 percent by the end of 2016 (Trading Economics 1).

To begin with, it is essential to note that beverages are normally grouped with food mainly as a way of understanding them in terms of categories. The UK's food and beverage industry is the biggest in the manufacturing sector, as it had a 16 percent share of the sector in 2015 (Statista 1). However, Brexit has placed the industry in a state of uncertainty. The future of the sector, thus, will depend on the individual moves that the UK will make after the Brexit, and this suggests that deals with Mercosur present significant hope or doom for the food and beverage sector. For instance, the FDF grouped the exports of food and drink, which totaled to £

10.2 billion in 2017. This was an 8.5 percent increase from 2016. In addition, it was surprising that in spite of the impending Brexit, the UK exports grew at a higher rate as regards EU countries than it grew to countries outside the EU. This suggests that exports growth as regards EU countries was 9 percent while UK's exports to non-EU countries only grew at 7.6 percent. Besides, UK's exports to China grew at the greatest rate, for the countries outside the EU. In terms of general exports, the UK exported most to Ireland, France, the US, Netherlands, Germany, Spain, Belgium, China, Italy, and Hong Kong respectively (FDF 1). This suggests that that the UK not only mainly exports to the EU countries, its largest importer from the non-EU countries is the US Followed by China.

The top 10 exported products, in 2017, interestingly includes whisky, which had a value of £ 1819.5 million while Salmon had a value of £ 407.9 million (Arthur 1). Salmon was followed by beer, which had a value of £ 313. 3 million. Beer was followed by chocolate that had a value of £ 298.0 million (Arthur 1). While Cheese manifested an export value of £ 291.8 million, wine manifested an export value of £ 273.8 million. On the other hand, the amount of gin exported totaled to £ 235.1 million while the amount of beef was at £ 233.0 million. Still, pork was at the ninth position with a value of £ 224. 8 million while soft drinks wad at the 10th position with an export value of £ 206.4 million (Arthur 1). On a positive note, the volume of wine exported had grown by 21 percent from 2016 while the amount of beer exported had grown by 18.4 percent. This manifests a positive growth scale that is highly likely to continue into the next few years. Besides, the amount of alcohol exported stood at a greater amount than amount of food exported as whisky had surpassed the amount of salmon exported by over £ 1401.4 million. It is also notable that wine is to going to be an essential part of the beverage industry as well as the UK economy in the next years.

Top 10 products

TOP 10 PRODUCTS				
		Change		
	H1 2017	Value	% Value	% Volume
Whisky	£1819.5m	£64.1m	3.7%	-1.0%
Salmon	£407.9m	£142.6m	53.7%	24.0%
Beer	£313.3m	£48.6m	18.4%	-2.2%
Chocolate	£298.7m	£8.5m	2.9%	-5.6%
Cheese	£291.8m	£59.7m	25.7%	1.0%
Wine	£273.8m	£47.6m	21.0%	15.4%
Gin	£235.1m	£9.1m	4.0%	1.9%
Beef	£233.0m	£26.8m	13.0%	-5.0%
Pork	£224.8m	£42.1m	23.0%	-1.9%
Soft drinks	£206.4m	£5.1m	2.5%	-8.9%

Sourced from https://www.beveragedaily.com/Article/2017/08/21/Whisky-beer-lead-UK-exports-august-2017.

While examining the exports of beverages as regards Brazil, it is also notable that it groups its foods and beverages under a single entity. Just as the UK, the food and beverage industry is seen as an extension of the agricultural industry. The food and beverage industry of Brazil is central to its economy, and is one of the most significant contributors to the economy. Brazil is a leading producer of a variety of agricultural products, and exports sugar, coffee, alcohol, and juices. Other major exports include cereals, cocoa, tea, meat, fats and oils, and tea. Brazil is also a key exporter of orange juice. Apart from the juices, the country also exports indigenous fruits such as Capua.

It is also notable that Brazil has been adopting machines and technical development meant for the food and beverage industry. Investors have been implored to invest in the energy drinks sector, as it is growing fast and has ready access to raw materials for processing the end products. The inflow of foreign direct investment has accelerated the development of the food and beverage industry. Besides, Brazil also hosts major food and beverage multinational companies. Given the easy access to raw materials, tax incentives, and availability of low-cost labor, the food and beverage industry remains open for further investment and growth.

The food and beverage industry occupies a key part of the Brazilian economy. In 2014, it was responsible for 10 percent of the GDP (Piacente 1). The beverages, in profit, amounted to $ 40 billion while the food amounted to $ 155.5 billion (Piacente 1). The sector was also responsible for 16.9 percent of total exports (Olmo 1). Brazil occupies the leading position in the food and beverage industry of the whole world by being not only the largest producer of juice, but also its leading exporter in terms of volume and revenues.

Assessing the essence of Brazil’s food and beverage industry requires an examination of its 10 exports in order to understand the opportunities the market presents. To begin with, oil seeds' exports amounted to $ 26 billion. Ores, slag, and ash were exported at a value of $ 22.4 billion (Workman 1). On the other hand, mineral fuels were exported at a value of $ 18.7 billion. In addition, vehicles accounted for $ 14.7 billion worth of exports while meat accounted for $ 14 billion worth of exports. On the other hand, machinery accounted for $ 13.8 billion worth of exports. Still, sugar accounted for $ 11.6 billion worth of exports while wood pulp accounted for $ 6.4 billion worth of exports. Besides, food industry waste accounted for $ 5.4 billion worth of exports. Besides, it is notable that the agricultural industry accounted for 6.2 % of the GDP while industry accounted for 21 % of the GDP in 2017 (CIA 1). On the other hand, services accounted for 72.8 % of the industry.

Brazil

Agriculture: 6.2%

Industry: 21%

Services: 72.8%

(2017 est.)Sourced from https://www.cia.gov/library/publications/the-world-factbook/fields/2012.html#br.

1. Oil seeds: US$26 billion (11.9% of total exports)
2. Ores, slag, ash: $22.4 billion (10.3%)
3. Mineral fuels including oil: $18.7 billion (8.6%)
4. Vehicles: $14.7 billion (6.8%)
5. Meat: $14 billion (6.4%)
6. Machinery including computers: $13.8 billion (6.4%)
7. Sugar, sugar confectionery: $11.6 billion (5.3%)
8. Iron, steel: $10.8 billion (4.9%)

9. Woodpulp: $6.4 billion (2.9%)
10. Food industry waste, animal fodder: $5.4 billion (2.5%)

Sourced from http://www.worldstopexports.com/brazils-top-10-exports/.

SWOT Analysis from UK and Brazil perspective

In terms of Brazil, there are certain strengths, weaknesses, opportunities, and strengths it faces. To begin with, the country has a highly developed agricultural sector that produces raw materials for plants of many kinds. This is notable in the case of beverage industry that can rely on the supply of fruits, sugarcane, corn, and other possible raw materials that are ready in the Brazilian market. This has been witnessed in the case of coffee that the country substantially produces thereby making it easy to establish plants for processing such crops. In addition, Brazil has low cost of labor, which makes it easy to establish a company in the country.

As regards its weaknesses, trade negotiations with Brazil compel one to negotiate through Mercosur thereby making it difficult to have bilateral trade negotiations. Bilateral trade negotiations usually allow for flexibility in negotiations and arrival at deals that favor the dispositions of the countries involved. However, the idea of Mercosur suggests that negotiations have to be made through the body. In the end, even the terms of the trade deal have to be accepted by the other members of the bloc. However much a trade deal would be a good for a country, other countries possess the power to dispute either a trade deal or the terms of the trade deal. Besides, the GDP of Brazil has not been growing at a rate that is expected of the BRIC countries.

This suggests that while the countries have high expectations, and seems to command a place in economic conversations, its GDP growth has not been impressive. For instance, while the 2013 economy grew by 3.01 percent, the 2014 economy only grew by 0.5 percent. On the other hand, the 2015 economy grew by 0.5 percent (Statista 1). In 2015, the GDP reduced by 3.77 percent, and in 2016, it further reduced by 3.7 percent. In 2017, it only grew by 0.75 percent, and in 2018, it has been projected to grow by 1.49 percent. The GDP growth projections for 2019, 2020, and 2021 are 1.99%, 2.03%, and 2.04% respectively. In addition, a big problem of the Brazilian market lies in the fact that imported goods, such as beverages, do not face the same competitive pricing as local goods. This suggests that a product imported from Europe or the U.S' has a high likelihood of being priced at over double the same price in the country of origin. Besides, not matter how cheap an imported product is, it is highly likely to be treated as a luxury product by the Brazilian locals since it will be branded as a premium product. However, for a premium product to be perceived as an exotic brand, it has to be priced higher, and this is a common feature of the luxury market.

Besides, European products directly compete with U.S products. This suggests that products from countries, such as the U.K. will not enjoy a lone status, but will have to compete for market space with the US products. The idea that the Brazilians have the same perception of the U.S and European products, they are least likely to discriminate between countries when making purchases. Furthermore, products from Uruguay, Argentina, and Paraguay are imported at duty-free status. In turn, although Brazilians cherish products from Europe, competing with cheap goods from the Mercosur countries is difficult.

In terms of opportunities, the U.K. may target processed products. Although the food and agricultural industry is highly developed, Brazil still mostly exports raw agricultural products. The idea of raw products suggests that there are two kinds of opportunities in the Brazilian market. For instance, one can export processed beverages to the market, and this includes items such as wine, beer, and whisky, which are three products that the comparative advantage of

Brazil does not allow it to produce competitively. On the other hand, a foreign country such as the UK may set up a beverage processing plant in Brazil. This may allow for price competitiveness.

One of the most visible threats that a country seeking to invest with or in Brazil faces is the growing industrialized sector. While the Brazilian agricultural sector is highly rated, Brazil seems to be moving in the same direction that other developed countries have moved. It is notable that countries, such as Brazil, quickly notice the pitfalls of the agricultural sector, and seek to industrialize themselves, not as a means of enjoying stability, but also as a means of expanding their economic size. The current industrial growth is spurred by Foreign Direct Investment that has sought to establish plants that align with the agricultural sector. Besides, some entities have opted to set up plants in Brazil instead of exporting mainly as a means of saving on costs, and finding a better disposition to export to the nearby countries too.

On the other hand, the UK's strength lies in its highly developed industrial sector. The UK has a long industrial history that manifests in industries such as the automotive industry and the beverage industry. The beverage industry is highly developed with whisky, wine, and beer assuming the position of the country's strong exports. The UK also currently has a weak pound that makes its exports cheap. However, the weak pound also becomes a weakness in terms of exports, but this now becomes a problem of the UK rather than that of the country exporting into the UK. Another weakness is the idea that the Brexit poses uncertainty on the future of Britain's economy.

In terms of opportunities, the Brexit creates certain openings in the economy. In the case of Brazil, it could export raw agricultural products such as fruits into the UK while the UK exports mainly industrial products such as beverages Brazil. The UK has a comparative advantage when it comes to industries, which does not arise necessarily out of its long history of industrialization but from economies of scale enjoyed from elements such as a highly literate population and a more productive education sector that surpasses those of countries such as Brazil. The industries are also clustered around each other thereby deriving knowledge benefits.

The UK possesses certain threats. After the Brexit, for instance, the rest of the EU countries may pose certain restrictions that may hurt the UK's main industries such as the beverage industries. In addition, there might be limited likelihood to help in case the UK's economy faces certain problems, a scenario that may make the UK a less attractive market. For instance, due to its belonging to the EU, a company such as Nissan could easily set up its plant in the country and sell to the rest of the EU countries.

Current and Future Cost to Operate

There are certain physical, social, economic, and political conditions that constrain investment in Brazil. For instance, the country has low education levels, which constrain the supply of skilled labor. In addition, the cartels assume a big control of the Brazilian market thereby making it difficult to conduct businesses at a competitive level. The situation is coupled with high levels of corruption in the public sector. Besides, a huge level of bureaucracy is involved in the exportation and importation of goods thereby creating time and cost constraints. The country also possesses an underdeveloped infrastructure, especially in other areas apart from Sau Paulo (The Economist 1). The acclaimed transport sector seems to be working mostly in the major cities, with most part of Brazil having inefficient and infective transport system manifested in the rail and road systems. Furthermore, Brazil has a high crime rate that creates uncertainty. The situation of insecurity is further worsened by an unreliable legal and criminal justice system.

Brazil, however, in seeking to attract foreign investment, has initiated changes in some of its systems. In the recent times, it has struggled to free its bureaucratic hold on investments, and has also striven to better its criminal justice and legal systems thereby boosting confidence in the country. The country seeks to address its high cases of inequality, which seems to be responsible for high cases of crime.

On the other hand, the UK has a highly developed financial sector and a clear legal environment that makes it easy to follow through on deals. However, most of its decisions are still constrained by the EU.

Current and Future Time to Operate

Brazil offers significant hopes for trade at the current time. To begin with, it is an ambitious country that is opening up its space for foreign investment. As such, there are efforts to lower taxes and decrease the cost of operating in the environment through improving elements such as insecurity. Still, the country creates a challenge in terms of Mercosur. Mercosur countries export into Brazil at extremely low tariffs, and this suggests that the goods from the trade bloc fair better in Brazil than goods from the European countries and the US.

On the other hand, the UK offers uncertainty over what Brexit may entail. In essence, it is difficult for the UK to make any major deal without considering Brexit. Despite its ambition at forging a trade deal with Mercosur, it may not easily make such decision until mid-2019. Besides, there is an impending trade deal that Mercosur has with the EU that has reached a deadlock, and Mercosur is least likely to forge a trade deal that will conflict with that one of the UK. Although the mostly developed EU countries ought to be mostly trading industrial goods with countries such as Brazil, they also seek a market for their agricultural goods, and this mostly creates deadlocks in negotiations. Fortunately, in the future, the UK will be free from such a trap, and will be able to make self-benefitting trade deals. This is best witnessed in the case of the beverage industry that the UK seeks to advance since it has shown a promise. By forging a trade deal that favors items such as beers, wine, and whisky, the UK may thus accept agricultural goods such as juices and coffee from Brazil.

5. CONCLUSIONS AND RECOMMENDATIONS

In essence, there are certain implications in the UK –Mercosur Trade Agreement. It is notable that the UK's beverage sector is growing at a critical rate. Items, such as wine and whisky, have manifested high volumes of exports, but mostly to EU countries. The only other countries that the UK heavily exports include the US and China. However, in case of Brexit, the UK is least likely to benefit from such markets. There are high likelihoods of the EU posing restrictions that may negatively affect the UK's main industries such as the beverage one. For instance, it is quite predictable that the UK's beers and whisky will be subject to increased tariffs from other EU countries, which may make such goods less competitive. In case of such a scenario, ideas such as a possible UK-Mercosur trade deal becomes not only viable, but also necessary otherwise the UK's exports will face a major hindrance in markets. The deal promises significant benefits since Brazil's industrial sector is not as highly developed as compared to its agricultural one. Brazil mainly exports raw products such as unprocessed coffee and juices. In addition, the alcohol industry is not as highly developed as that of the UK thereby making it easy for the UK to export into the country.

The only implication lies in the fact that Brazil makes its trade deals through the Mercosur. This suggests that its terms of negotiations are verified by other member states, which also consider the implications of every deal on their economy. In addition, Mercosur countries exporting into Brazil enjoy extremely low tariffs, which makes their goods fair better than goods exporter from non-Mercosur countries. Such low tariffs compel other exporters into lowering their prices in order to compete fairly. On a positive note, the rest of the Mercosur countries do not possess a highly developed alcohol beverage sector such as that one of the UK. The UK enjoys greater economies of scale from their industries. This is manifested in possession of skilled workers and the concentration of industries that grant knowledge advantage, and the easy mobility of workers. Although Brazil is developing its industries, it has a long path to becoming a formidable industrial player given elements such as the low supply of skilled workers and a relatively less developed education system. At the current state, therefore, the UK is well positioned to make a trade deal benefitting its beverage sector, but it will have to make a compromise regarding its agricultural sector because Brazil is most likely to target exporting agricultural goods into the country.

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