

## **Free trade agreement European Union-MERCOSUR: Assessing potential impacts of exports changes on employment and income distribution in Argentina**

Topic: Income Distribution

Author: Marianela SARABIA

Debates on growth models have been wide over time in order to make economic policies. However, how this economic growth would be distributed seems not to be discussed in many of them. Therefore, policies which were born in this kind of framework have undermined distributional aspects and their consequent welfare. Under this framework, during the last two decades, export-led growth strategies and many preferential trade agreements have been considered as a proper tool to trigger GDP growth for a single country as well as regional block. Although that, trade liberalization between the European Union and the MERCOSUR [1] has been under negotiation without significant progress since 1999.

At the beginning of 2010, bilateral negotiations were resumed when the global crisis discredited the Euro zone stability and MERCOSUR economies were able to overcome its main consequences. Facing lack of prior assessments to allow both blocks to support decisions basing on comprehensive analyses, many questions to its sustainability and necessary policies arose. Due to the significant impact of potential changes in exports on employment and income distribution, this research tries to investigate how a potential trade agreement between them may affect employment and income distribution in Argentina as a MERCOSUR member. A social accounting matrix multiplier analysis complemented with an employment satellite in 2003 [2] was implemented simulating two scenarios, in order to examine these potential impacts. First, a uniform export shock allows identifying strategic sectors in terms of job-rich growth strategies and distributional effects. Second, Argentinean potential changes of exports were simulated using the World Integrated Trade Solution under the assumption of full liberalization in the European Union.

The outcomes show that, although a trade agreement might lead to job creation, *ceteris paribus*, it would worsen the employment quality leading to income polarization and lower economic diversification, which seems to be related to lower average productivity. Enlightening labor and distributional issues, this research concludes that potential trade agreement effects must be put on the table to reach a deeper and sustainable integration. In addition, as International Trade theory and empirical studies are used to analysing interactions and consequences from mainstreamâ€™s point of views trade specialization seems to be a single consequence of country endowments, never a policy consequence. At the same time, these approaches involve individual decisions in terms of labor force participation without going through structural and social constraints. However, it requires not only addressing the centrality of the macroeconomic pattern in the aggregate and sector configuration but also defining a strategy of comprehensive economic development, accelerating the creation and development of different activities, in order not to undermining economic growth due to balance of payments constraints or unbalanced trade flows. Therefore, efforts in building a wider theoretical framework become a central need.

This paper is organized as follows: the introduction goes before the literature review in order to explore the core implications coming from trade and growth theory on employment and distributional issues. Later on, findings of specific studies are summarized before starting with data and methodology. The remainder of this paper is structured in an Argentinean overview; simulations and analyses of results. After that, final remarks are presented. The appendix focuses on the Argentine profile in terms of employment, income distribution and trade.

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[1] The MERCOSUR is an economic and political regional agreement founded by Argentina, Brazil, Paraguay and Uruguay. Since its integration (1991), their members have coordinated jointly points of view related to regional and international issues as the FTAA and policy responses to the great recession in the G-20 frame, respectively. Facts occurred during 2012 and after were omitted for this study.

[2] Facing challenges to have an updated SAM for Argentina, the first step was to re-build it for 2003 according to available information in order to do it. It portrays a comprehensive view on the circular income flow in 2003. Its disaggregation in 82 accounts depends on the data provided.