GLOBAL VALUE CHAINS, TRADE AND EMPLOYMENT IN MERCOSUR: A STRUCTURAL DECOMPOSITION ANALYSIS

Topic: YSI and Development Programme III (Discussant: G. Hewings and D. Meade)
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(1) Research question: It is widely cataloged in the international trade literature that the globalization movement has imprinted - mainly from the 1980s onwards - an expansion of trade flows as rarely seen in the history of recent capitalism. However, since the 2008 crisis, there has been a slowdown in several indicators related to international trade. The 'era of hyperglobalization' (as it is commonly referred to by international bodies) has faced an uncertain context, marked by the rise of trade protectionism, the emergence of the discussion about reshoring strategies, political discussions about the social and environmental effects of offshoring and the stagnation of the share of international trade in global production. Many factors are behind the dynamics of international trade in the last forty years. For our purpose in this work, we want to highlight the process of trade liberalization that operated through the strengthening of regional integration agreements. In particular, we aim to evaluate the developments in domestic employment generated from Mercosur trade in final and intermediate goods and services, considering the effects of the global scenario after the 2008 crisis (the 'slowbalization' period).

(2) The method: The empirical strategy adopted in our work dialogues with the literature that measures international trade in value-added and estimates trade flows based on multi-regional input-output matrices (MRIO). We performed two exercises. Firstly, we break down Mercosur employment based on the type of production, (i.e. according to their destination). In doing so, we will be discriminating Mercosur production aimed at domestic consumption and international trade, the latter separated into traditional trade (of final goods and services) and GVCs (intermediate goods and services). For our purposes, we further qualified the participation in international trade according to the bilateral flows carried out with five trading partners (in addition to the rest of the world). Then, using the structural decomposition method, we verified to what extent the evolution of employment in Mercosur is related to four factors: the effects of changes in labor productivity, participation in production chains (or economic upgrading), the inter-industry structure of the trade bloc, and with the changes in the final demand (domestic and foreign, considering the different commercial partners).

(3) The data: Our sample is composed of a group of 189 countries and 26 sectors. EORA26 MRIO provides information for different countries and their sectors regarding the flow of intermediate goods and services, and final demand (domestic and foreign) for different components, value-added, and products. In addition, we gathered employment data by country from the International Labor Organization (ILO).

(4) Novelty of research: We believe our efforts contribute to the literature in some ways. First, our study estimates the jobs created in Mercosur according to the production component, discriminating international trade in final and intermediate goods and services. Secondly (and a direct consequence of the first), our study goes deeper by considering the different trading partners in the many spheres of international trade. Thirdly, the structural decomposition sheds light on the role of a set of intra-bloc structural factors and final demand on the creation of jobs in Mercosur in a way that has not yet been estimated. Finally, we studied how the changes in the global context after 2008 influenced the results previously obtained.
Regarding the results obtained, we found that Mercosur employment related to international trade grew at a higher rate than those for domestic consumption in the pre-crisis period, driven mainly by

foreign demand and a marginal effect of the inter-industry structure. After the 2008 crisis, the jobs created were those related to activities for domestic consumption, with a drastic reduction in the role of foreign demand and the adverse effects of the inter-industry structure on employment growth.