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THE AGENDA ON EMPLOYMENT AND PRODUCTION IN THE MERCOSUR-EUROPEAN UNION AGREEMENT

Rethinking the agreement from a sustainable development perspective

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More than a year after the closing of the Mercosur – European Union Agreement’s formal negotiations, once it becomes fully integrated, the signing of said agreement is expected to commence soon so as to proceed with its ratification on both sides of the ocean.

However, new voices are being heard ever more loudly which disapprove of the negotiations and cast doubts about its closing. Particularly, the focus in Europe has been on the lack of environmental commitment of the South American countries, with greater emphasis on the Brazilian Government’s attitude towards this topic.

This environmental commitment addressed, among others, by the French Government and even some sectors of the European Parliament, has unfortunately superseded other concerns such as the construction of a fairer commercial system for all signatory states, narrowing down the problem. It is worth mentioning that the very notion of Sustainable Development encompasses the economic balance and social equality, along with the environmental pillar, as indivisible dimensions in order to perceive the world as a more balanced place for both current and future generations. This global vision of the problem shall be placed on the agenda.

This is the reason why this text places all these concerns, from a South American point of view, focusing on the question of to what extent this could cause problems for our economies. As a result, this will mainly have a negative impact on employment and on all possibilities of creating a model of sustainable development, not only environmental but also economic and social.

Taking into consideration the foregoing concerns, the goal is, in any event, to think of all possible ways to reinvigorate the agreement, which will strengthen a true partnership between the European Union and Mercosur. In view of the complex multilateral scenario, the idea is to find common grounds based on justice and equality shared values.

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A brief context on the history and present of Mercosur

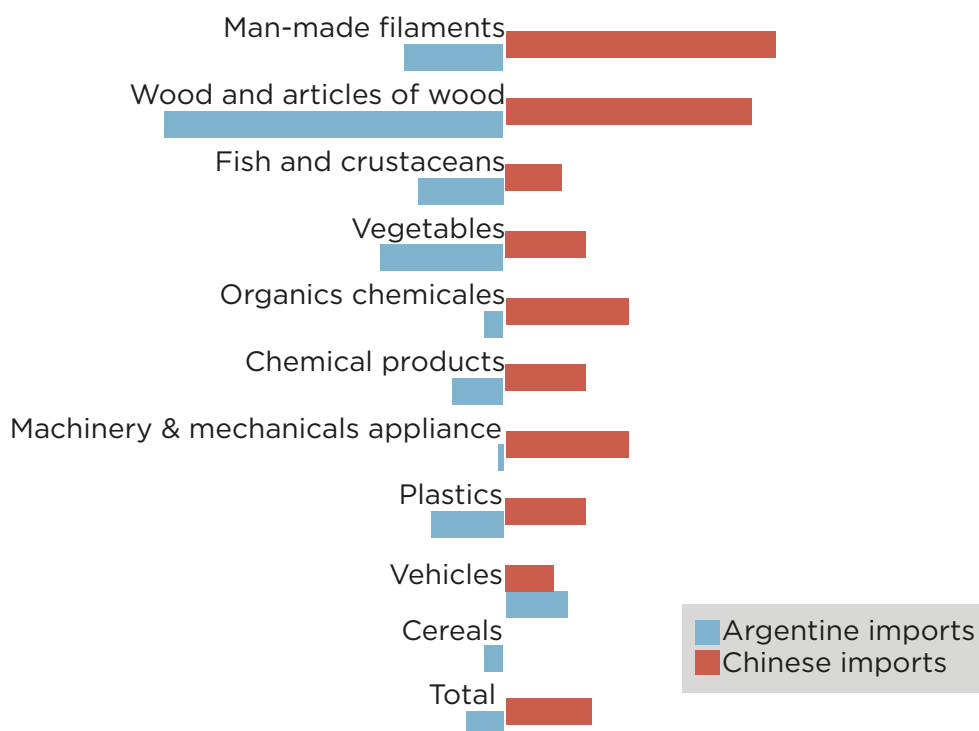
Mercosur is an integration process characterized by the important existing asymmetries between their Member States, which go beyond those visible and evident ones, and are related to the size of their territories or populations. The most important asymmetries are linked with the productive structure of the Member States and with the so-called “asymmetries of policies”, such as different types of incentives, either general or segment.

In a few words, within Mercosur there are two countries (Uruguay and Paraguay) whose productive structure is almost entirely directed towards the exploitation of their natural resources (agricultural, livestock, and water resources), and two others which have a dual structure (Argentina and Brazil). These last two countries add a strong productive diversification in the industrial field to the development in the primary sector, with greater or lesser degrees of sectoral competitiveness.

Within this context, Mercosur is currently crossed by tensions regarding the way in which these countries must interact with international trade. Two main reasons explain such tensions.

The first one is the impact that the presence of China has in the region. For all Mercosur member states, with the exception of Brazil, the main destination of their exports is the own bloc. In the case of Brazil, however, this place is occupied by China, although Mercosur is the first destination of their manufacturing exports. Particularly, the trade relation between Argentina and Brazil is an industrial relationship showing a strong element connected with the automotive industry. However, the privileged status enjoyed by the regional trade has been challenged by the presence of Chinese imports in the region, hence creating tensions in the relation between the partners.

GRAPHIC 1 | VARIATION IN THE SHARE OF ARGENTINE AND CHINESE IMPORTS IN BRAZIL (2002-2019) %



UN Contrade

By way of illustration, graphic 1 shows to what extent China's imports to Brazil have increased between 2002 and 2019 when compared to the top ten products exported by Argentina to Brazil in the same time period. The graphic also shows to what extent the opposite phenomenon has occurred regarding Argentina's exports to Brazil.

The second reason explaining such tensions is the negotiations of new agreements with third markets. By order of the bloc, such negotiation must be made jointly, and following the Decision of the Council of the Common Market (CMC) No. 32/00¹. Particularly regarding this last point, and as a consequence of the aforementioned productive structures of each country, Uruguay and Paraguay have historically been prone to the making of agreements with other countries or blocs in that they see themselves as reaching out to the world by being suppliers of agricultural and livestock products.

As a result of their dual economy, Brazil and Argentina have been more cautious since the costs of the negotiation could have a negative impact on a large portion of their industrial production's structure.

The heritage of the commitments undertaken by the governments of Mauricio Macri and Jair Bolsonaro

This scenario changed since Mauricio Macri's administration came to power in Argentina in 2015 and after Dilma Rousseff's impeachment in Brazil in 2016 and the subsequent election of Jair Bolsonaro in 2018.

From then on, due to the liberal policies of both governments, the opening-up of the bloc and the negotiation of trade agreements accelerated. In the case of Argentina and Brazil, this new willingness to negotiate involved setting aside all forecasts in respect of the search for sustaining the existing industrial structure in their countries, prioritizing the agro-business and mining sectors, and deforestation.

Within this framework, as the impact report of the *London School of Economics*² drawn upon request of the European Commission affirms, the agricultural sectors will be the "winning" sectors of Mercosur in the agreement, whereas manufacturing sectors will see a decrease in its participation in the economy.

The foregoing point, which has received the criticism of European agricultural industries due to the competition posed by Mercosur's products, is also partly a problem for South American economies.

This is the case given that a greater relative incidence of the agribusiness sector in South American economies involves, besides the environmental issues surrounding their exploitation, a greater weight of the agribusiness sector's decisions in the economy and politics of the countries. This situation, at least in Argentina, tends to devalue the currency, due to the agribusiness sector's search for an increase of their rents from their intervention in the exchange market, leading to processes of devaluation and an increase in poverty.

¹ Decision of the Council of the Common Market (CMC) No. 32/00.

Art. 1 - Reaffirm the commitment of Mercosur Member States to jointly negotiate trade agreements with third countries or groups of extra-zone countries in which tariff preferences are granted.

Art. 2 - As of June 30, 2001, the Member States may not sign new preferential agreements or agree to new trade preferences in agreements in full force and effect within the framework of the Latin American Integration Association (ALADI), which have not been negotiated by Mercosur.

² The link to access the website is: <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2164>

Anyway, these tensions do not deny the fact that agricultural exports' growth is at least partially beneficial for countries in the region. What is evidently negative is the possible disarticulation of manufacturing sectors. The major impact of such phenomenon can be seen if the data collected and the analysis conducted by the *London School of Economics* is once again considered.

Towards an unbalanced bi-regional agreement?

According to this impact report, the first thing worth mentioning is that the agreement will be beneficial for all signatory countries. In fact, it is argued that Argentina will achieve an additional growth of 0.5% of its GDP estimated for 2032 directly tied to new trade opportunities, therefore being the most benefited country. This will place Argentina's growth above Brazil's 0.2%, or the European Union's 0.1%. This growth in GDP may seem weak, but this increase entails expanding the GDP in Argentina by 3300 million Euros, whereas the European Union's 0.1% adds almost 11000 million Euros to their coffers.






TABLE 1 | EXPECTED RESULTS BY 2032

REGION	GDP (%)	GDP (million euros)	Investment	Imports	Exports
EU28	0.1	10.9	0.4	0.9	0.4
BRAZIL	0.2	4.0	0.7	1.3	4.5
ARGENTINA	0.5	3.3	1.4	1.2	1.9
URUGUAY	0.2	0.1	0.8	0.4	0.8
PARAGUAY	0.1	0.0	0.3	0.1	0.5

"Sustainability Impact Assessment in Support of the Association Agreement Negotiations between the European Union and Mercosur", London School of Economics, July 2020. Pax. 31.

Occasionally, however, this global number may conceal big internal differences among sectors. In fact, the report points out that the benefits to be gained are not even. As has been previously said, Mercosur concentrates all of its benefits on the increase of exports of agri-business products, whereas the European Union concentrates all of its benefits on manufacturing products and dairy products, sector that we will mention in particular.

TABLE 2 | BILATERAL TRADE. EXCHANGE MERCOSUR-EU BY SECTOR (%)

SECTOR	Imports EU-MERCOSUR	Exports EU-MERCOSUR
 Meat	30.0	11.3
 Dairy products	18.0	90.9
 Machinery	17.3	78.4
 Vehicles and vehicle parts	40.6	95.0
 Textile	32.4	310.8

“Sustainability Impact Assessment in Support of the Association Agreement Negotiations between the European Union and Mercosur”, London School of Economics, July 2020. Pax. 34.

The following advances will be analyzed at the sectoral level in depth.

Meat: Perhaps, it is Mercosur’s main sector with offensive interests. At this point, we have to mention that currently Mercosur is the principal non-European exporter of meat to that region. Therefore, the 30% increase estimated represents important growth, even when a 0% tariff quota for 99 thousand tons and, additionally, a reduction from 20% to 0% under the preexisting Hilton Quota were proposed. On the other hand, even though an increase in the European exports of some meat products is expected, such increase is marginal given its current low level in absolute terms.

According to the information provided by the Argentine Chancellery, quotas also apply at different levels to pig and poultry meat, and also to corn, rice, sugar, ethanol and eggs. This information is also available at: <https://www.cancilleria.gob.ar/acuerdo-mercosur-ue/resumen-de-contenidos-del-pilar-comercial>

This point attracts attention since the quota criteria is not applied the other way around. In fact, even though the European Union fully opens up its agricultural market in 84% of its tariff lines, it does not open its market in those sectors where Mercosur’s advantages are greater. In contrast, it is true that in those sectors where the European Union fully opens up its agricultural market, the period of tax exemption is lower than the one which was agreed for the opening up of South American markets, which is generally around 10 years.

Dairy products: An increase of 91% of European exports to Mercosur is expected, whereas the increase for South American countries will be of 18%. Two issues are important here. On the one hand, origin denominations. Particularly among cheese, the exclusivity granted to generic products that refer to European regions (Roquefort cheese, Parmesan cheese, Reggiano cheese, etc.) is expected to provide a great trade advantage to European products. Likewise, strict sanitary measures related to these products in Europe will act as a tariff measure for the arrival of Mercosur’s

exports. Undoubtedly, the dairy chain will be a largely affected sector in Mercosur.

Machinery: In this sector, an increase of 78% is expected in the EU's exports to Mercosur, reaching 109% in electronic machines, and triggering the decline in the industry of goods production from South American capital. In contrast, the arrival of European products is supposed to bring advantages for demanders of those products, such as the agro-industrial chain, allowing for the modernization of their work tools.

In development model terms, however, it is a major setback for one of the sectors with the biggest technological incorporation of the bloc.

Vehicles and Vehicle Parts: Substantial increases are expected in the bilateral trade of vehicles and vehicle parts, especially when considering the current rigidity of the sector in Mercosur, with an import tariff of 35%. However, the expected benefits are not balanced: European exports will increase by 95% whereas South American exports will increase by 41%.

In any case, especially in the vehicle sector, variables other than bi-regional trade play a role; for instance, currently or at least in the pre-pandemic period, the bilateral vehicle trade represented, at the very least, 40% of the bilateral trade relation between Argentina and Brazil. For Argentina, unlike what happens with other countries of destination, the trade relationship with Brazil meant that such manufacturing trade had a high added value. In this regard, the agreement may bring these regional trade relations to an end, which will benefit the "reaccommodation" of the trade flow under the classic North-South logic.

Textile: Textile is another sector that will be highly affected in Mercosur. A growth of 310% is expected in European exports of clothing designed and produced in the Old Continent, as well as exports of clothing produced in Asia that, as a result of the different types of "cumulation of origin", are processed as having European origin. The LSE's report forecasts that the costs in terms of employment in the sector will be very high for Mercosur, having a highly alarming impact thereon due to the amount of women in the workforce and the high degree of informality that it has.

In conclusion, as can be seen from a sectoral perspective, the losses in manufacture may be significant, which may lead to a greater re-primarization of the economy and may also pose a significant problem of employment not only for the high-skilled sectors related to the machinery and automotive industries, but also for the low-skilled sectors related to the textile industry.

In the policy recommendations section for Mercosur countries, the report made observations with respect to employment, suggesting that Mercosur members should create re-training schemes to facilitate the transition of workers between different sectors of the economy, from the industrial sector into the services or food sectors.

Beyond the hardships associated to this, what is at stake is the model of economic development of South American countries, and the possibility of promoting, through the agreement, a process of economic and social convergence on both sides of the Atlantic Ocean. Even if we accept the numbers estimated in the report, policy options must be certainly regarded as creating a new reality rather than being mere passive responses to the phenomenon.

Policy options: Towards an inclusive integration in a changing world

The post-pandemic world appears to be full of uncertainties in which the rules of multilateralism, built with so many efforts, may be about to disappear. In fact, the pandemic has exacerbated a phenomenon that in recent years had spread aggressively across the world's most powerful countries.

This is due to the US-China conflict, which created for the rest of the states more uncertainties rather than certainties, regardless of the power such states may have. A world with no rules is bad news for developing countries, but also for those developed countries that attempt to build a fairer world. Within this context, the Mercosur - European Union agreement may be seen as a great opportunity to strengthen their mutual positions, and to fight for a fairer world.

Nonetheless, in order to accomplish this goal, the agreement must provide for principles of balanced and sustainable development for both parties in a way that it bolsters models of social inclusion, particularly for developing countries. As usual, the search for equality means that in any agreement the most powerful countries must give in more than the less powerful countries.

In this regard, the aforementioned report warns us about the sectoral weaknesses and the potential harm for South American economies, at least for those of Brazil and Argentina. Harming industrial sectors means harming employment. For instance, in Argentina 23% of private sector employment is direct industrial employment, while only 7% is related to agricultural activities³.

Therefore, in a post-pandemic world, where the priority will be the protection of employment, the analysis of this point is essential. Given that nowadays political alliances in the region may seem highly difficult, it becomes a priority to search for actors on the other side of the ocean who are capable of understanding the world in a similar way, yet from different points of view.

In this sense, it is important to mention that the agreement will not be rejected in the region. Brazil, Uruguay and Paraguay strongly support the ratification proceeding of the agreement to take place soon, whereas Argentina seems to have no option but to accept such agreement. If Argentina rejects the agreement, not only would it mean "breaking its word", but it could lead the country to be in a lonely scenario in the region, with trade consequences that may be even worse than those of such ratification.

Within this context, it is important to develop a joint work scheme involving some priority issues, such as the possibility of relying on sectoral safeguard mechanisms, and strengthening cooperation in Science and Technology in order to make our industry more competitive.

A perfect complement for this matter may be exerting higher pressure over the commitments of the "environmental agenda" and of the transition to cleaner productive ways which respect the environment. However, it should always be considered that the environmental issue cannot be laid out without understanding its economic and social dimension, as set out in the United Nations Conference on Environment and Development Rio de Janeiro, Brazil, 1992. From a progressive viewpoint, the starting point of the discussion must always be the defense of employment.

³ Data available in "Situación y Evolución del trabajo registrado", Ministry of Labor, Employment and Social Security, Argentina:
http://www.trabajo.gob.ar/downloads/estadisticas/trabajoregistrado/trabajoregistrado_2006_informe.pdf

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