

## Trade And Competitiveness In Argentina, Brazil And Chile

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**Abstract:** In Latin America, it can be said that Chile is the most advanced country followed by Argentina then Brazil according to the latest Human Development Index (HDI). In this paper, I would like to address Celso Furtado, who is a Brazilian theorist in ECLAC and his dependency theory. According to Furtado, development is not only depending on historical factors but also it depends on sociological factors. This means that social dimensions are playing a major role together with Gross Domestic Product (GDP) and Purchasing Power Parity (PPP). In this case; HDI, which covers life expectancy at birth, expected years of schooling, mean of schooling and the Gross National Income (GNI), is giving more qualitative and quantitative data for these three countries when we are comparing their development in order to define their economies' strength, trade relations, competitiveness and cooperation.

This paper examines above mentioned countries' current regional cooperation with the latest data provided. My aim is to show the current status and what would be better for these countries in the upcoming years in globally.

**Keywords:** ABC Countries, Dependency, Mercosur, Pacific Alliance, Trans-Pacific Partnership

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### I. INTRODUCTION

There is no doubt that Latin American economy, except Venezuela, shows a recovery after three years time regionally. The mean of the annual growth rate of the region is around 1.1% (IMF, 2017). Although there are political crises and corruption claims in Latin America's largest economy, Brazil, according to latest statistics Brazilian economy could manage to recover itself and showed a positive growth rate. Same things can be said also for Argentina. The two main actor of MERCOSUR shows the positive correlation between political and economic reforms. In Argentina, the current president *Mauricio Macri* led open market economic reforms and also won the primary election in August 2017, whereas in Brazil government announced new tax system which is not very welcomed by the private sector. That could be a win for Brazil economy in long-term. However, one can claim that current political status cannot be maintained with President *Michel Temer*. The upcoming elections will be held in Brazil on October 2018. Meanwhile, Chile's economy was slowing down in the first quarter of 2017. However, Chile's economy is structurally stronger than Argentina and Brazil and Chile's economy recovered itself in Q2. Historically, Chile made open market reforms and led liberal economies ten years earlier than the two other economies in its region. Nevertheless, there is also an upcoming parliament election on November 19, 2017. The current president *Michelle Bachelet* may shift with a centre-right Presidential candidate *Sebastian Pinera*. According to IMF, the regional growth is going to be 2% in 2018. (IMF's Regional Growth Outlook for the Western Hemisphere, 2017).

Despite all, these countries have not enjoyed a positive reputation for stable political status and sustainable development. The latest IMF report highlighted that In order to protect sustainable development in Latin America, the countries have to address infrastructural inability, invest in higher education system, support the business market, and struggle corruption. It can be added that advancing regional economic cooperation and Import Substitution Industrialisation (ISI) to increase their self-sufficiency and make their local economies stronger enough to compete with imported goods. As Furtado pointed out Foreign Capital's role in economies, these countries should be aware of the reality of these loans/borrowings or direct investments may be harmful to the economy in long term.

## I. NEW DIMENSIONS OF DEVELOPMENT

Table 1:

Country	GDP (Million \$)	Per Capita GDP (\$)	Growth Rate (%)	Population	(Area km <sup>2</sup> )
<b>Brazil</b>	<b>1.798.622</b>	<b>15.241</b>	<b>-3,6</b>	<b>206.101.000</b>	<b>8.547.000</b>
<b>Argentina</b>	<b>545.124</b>	<b>20.047</b>	<b>-2,2</b>	<b>43.600.000</b>	<b>2.737.000</b>
<b>Chile</b>	<b>247.028</b>	<b>13.530</b>	<b>1.6</b>	<b>17.909.754</b>	<b>756.946</b>

IMF 2017 for Brazil and Argentina WB 2017 for Chile

A comparison of three countries' current economic status can be seen in Table 1 given above data provided by International Monetary Fund (IMF) and World Bank (WB). I would like to stress that HDI figures are more qualitative as it gives sociologic parameters like education, welfare and life expectancy. If we compare the first and the second tables, we can see the difference more clearly. Argentina looks the strongest about Per Capita GDP although its economy is weaker than Chile. This comparison shows us the weakness of GDP figures while we are conceptualising countries level of development without taken into consideration of their HDI figures.

Table 2:

HDI Rank	Country	HDI	Life expectancy at birth	Expected years of schooling	Mean years of schooling	Gross national income per Capita	GNI per capita rank minus HDI	HDI Rank
		(2015)	(2015)	(2015)	(2015)	(2015)	(2015)	(2014)
38	<b>Chile</b>	<b>0.847</b>	<b>82.0</b>	<b>16.3</b>	<b>9.9</b>	<b>21.665</b>	<b>16</b>	<b>38</b>
45	<b>Argentina</b>	<b>0.827</b>	<b>76.5</b>	<b>17.3</b>	<b>9.9</b>	<b>20.945</b>	<b>12</b>	<b>45</b>
79	<b>Brazil</b>	<b>0.754</b>	<b>74.7</b>	<b>15.2</b>	<b>7.8</b>	<b>14.145</b>	<b>-1</b>	<b>79</b>

UNDP HDR 2016 Report

In this latest report of UNDP, countries rank between 1 to 51 are considered very highly developed, whereas countries rank between 52 to 106 are considered highly developed. According to the latest report, Chile (ranked 38) and Argentina (ranked 45) are very highly developed countries, whereas Brazil (ranked 79) considered high developed. The challenge for these countries is increasing Mean years of schooling. It can be seen that advanced countries' mean is at least 12 years. For Brazil and Argentina, Life expectancy has to increase, too. These means that countries need to invest in education and their health services in order to sustain their economic growth.

The higher education systems in these three countries are developing rapidly, and share a common interest in internationalisation and expanding their global reach... In Argentina, increases in government spending on higher education combined with high levels of overall economic growth have given rise to larger budgets and greater financial freedom for many institutions. However, persistent low graduation rates, the need for further development of graduate education, and an economic slowdown are significant challenges. Though Chile currently boasts a gross enrolment rate of 55 percent—one of the highest in Latin America—the accreditation system established in 1998 has been called into question following alleged corruption, raising new concerns about quality. The Brazil Scientific Mobility Program has jump-started internationalisation activities in that country, but other opportunities for cross-border cooperation are less clear. Access and affordability are still important challenges on the home front (Argentina, Brazil, Chile: "Engaging with Southern Cone", p. 2. 2014).

Historically Brazil and Argentina are considered agricultural economies as they have a clear agricultural land advantage regarding their geography and territory. Brazil is the largest economy in Latin America and seventh in the world. There is diversity in Brazil's economy and it makes Brazil a trade centre. Brazil is largely producing agricultural goods like coffee, soya, sugarcane, cocoa, rice, corn, orange, cotton, wheat, tobacco. Apart from that, live animal products are exported such as meat and poultry. Lastly, Brazil has

mineral and metal resources like iron, steel and aluminium. In these areas, Brazil has a comparative advantage globally.

In the 1990s, Brazil has made considerable improvements by liberalising its economy. Automotive sector and infrastructure were modernised by privatisation and foreign direct investment (FDI). As a result, Brazil has achieved a rapid economic growth during the 2000s and even paid its debt to IMF. Nevertheless, it is known that for Latin American economy the demand-supply balance and the dependence on agricultural goods were critically important. This is also valid for Brazil. While the commodity prices were falling during global economy crises (2008, 2011, 2015) Latin American economy affected negatively.

Argentina has shown similar advantages and disadvantages as Brazil as. Historically Argentina's economy is considered as an agricultural economy. The agricultural lands are around 9.2% of the total area of the country. This led Argentina to improve its economic growth in 2017 when the agriculture products' prices rapidly increased. However, the challenge is again about the supply-demand chain. If the total demand went down what could have said for Argentina's economy?

Chile's economy is shining while we are comparing it with Brazil and Argentina. It can be said that Chile's economy is the strongest and the securest economy in Latin America. Chile accepted liberal economy and its economic strategy, so-called open regionalism, helped Chile to make various trade agreements as a result of that in 2017, Chile has reached 21 different free trade agreements (FTA) with several countries and economic blocks. There is no doubt that Chile has a comparative advantage when the subject is Copper in the world. In addition to that, open regionalism is playing an important role to improve diverse economic sectors within the country. The agricultural sector is also covering 6% of its GDP. However, it cannot be claimed that Chile is a self-sufficient country. Chile's economy highly depends on minerals and semi-processed goods like leather, textiles, iron and steel. Like Brazil and Argentina's main role in MERCOSUR, Chile is a key player in Pacific Alliance, which was found in 2012, in order to strengthen regional cooperation among Mexico, Peru, Colombia and Chile. Apart from that Chile is one of the twelve signatories of Trans-Pacific Partnership (TPP). Lastly, Chile became the second Latin American country which participated OECD after Mexico in 2010. The level of intraregional and interregional cooperation of Chile can be taken as proof of Chile's success.

## II. INTRAREGIONAL & INTERREGIONAL COOPERATION

**Table 3:** Real GDP growth, percent change

Country	2015	2016 Estimated	2017 Projections	2018 Projections
Argentina	<b>2.6</b>	<b>-2.3</b>	<b>2.2</b>	<b>2.3</b>
Brazil	<b>-3.8</b>	<b>-3.6</b>	<b>0.2</b>	<b>1.7</b>
Chile	<b>2.3</b>	<b>1.6</b>	<b>1.7</b>	<b>2.3</b>

**IMF, World Outlook Database; and IMF staff calculations and projections**

After the three years of recession, ABC countries showed a positive economic growth in 2017 altogether. According to IMF calculations, this trend will continue through 2018. However, there are some political and economic problems which could affect these scenarios. Firstly, the prices of agricultural products rose in 2016 regarding increasing demand. The growth numbers may be a temporarily positive or weak to sustain especially for these agrarian economies, Argentina and Brazil. Secondly, the upcoming elections in Chile and Brazil may change the governments and their ambitions to open market economies. Thirdly, there is an increasing protectionism in the United States with Trump administration one can be said that it may create both advantages and disadvantages. On the one hand, the US decisions on trade deficits with Mexico and some other Latin American countries create negative figures. On the other hand, these countries understand the importance of strong intraregional cooperation and finding new interregional partners with Asia, mainly China, and EU.

## III. CONCLUSION

Projections of these countries are depended on their cooperation levels. It might be claimed that they will create deeper relations between themselves and their regional cooperation such as Pacific Alliance and Mercosur. The triangulation of Pacific Alliance, Mercosur, and Mexico with other Latin American countries will shape the future of the region. Apart from that Trans-Pacific Partnership without the US is not a dream for these countries. There is no doubt that Latin American countries will play a key role on the possible agreement, especially Chile. In additionally, Mercosur-EU free trade agreement would be beneficial for Brazil and Argentina to find new markets for their agrarian productions. Nevertheless, there is a concern from some EU countries like Poland, Ireland and France due to the fact that their farmers could face challenges to compete with export goods after the deal. Moreover, there are also elections in EU countries and it is better to remind that a deal has to be accepted all 28 countries. There is still a political risk over the agreement as two sides of the deal

are going to face elections. In Germany, the results of the latest election show us that it will take time for Merkel to create a coalition. It can be said that these agreements might not come up with a solution by the time 2018.

China is a game changer in the Latin American case as it recently has been playing this role globally. Today, China is the biggest trading partner for Chile and Brazil and second biggest partner for Argentina. However, there are some challenges and opportunities when we think about this relation. First of all, these countries should increase their bargaining power with China by dealing regionally with China instead of individual bilateral relations. Secondly, these countries should invest in innovation; try to close the gap in infrastructure – transportation, energy and logistics – and skills in order to develop. Lastly, Latin America should integrate itself into global value chains and China could be the best investor to accomplish this goal. The level of integration of science and technology with Brazil, Argentina, and Chile shows us this relationship is mutually beneficial and can create sustainable growth.

The regional trend shows us countries are no longer sceptical to globalisation by making free-trade agreements and playing key roles in regional cooperation. In this point, Latin American countries' major concern should be the socio-economic development of society. Social indicators have to take into consideration. The merging of the middle class should support the state in order to create skilled and independent citizens. In additionally, gender and ethnic factors have to be accounted for while distributing the benefits of the economy. Social equity should be the prime consideration for these countries development. Apart from these, there are structural challenges in terms of corruption, misleading of aids, the negative effect of elites and the weakness of macroeconomic policies. In this point, countries should take advice from International Organisations or from

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