WTO General Council: Brazil and Argentina

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1 Introduction and Executive Summary

The economies of Argentina an Brazil are the two largest in South America. While Brazil is considered a newly-industrialized country Argentina is still classified as a developing country. Both countries already have a large service sector however Their exports are mainly made up of natural resources and agricultural produce. This is hampered by the prohibitive import taxes many governments place on food as well as the many subsidies many countries use to support domestic agriculture. They both are members in MERCOSUR an association that is currently trying to increase its international impact.

2 Economic Structure

As is common the GDP of both Nations is largely generated by the service industry. However they also heavily rely on their agricultural and agriculturally linked industry. This includes not only farming and herding but also industrial processes directly relying on agriculture such as the processing of plants into oil, feed, ethanol, biodiesel or similar products. The difference between the two countries becomes apparent when looking at their respective industrial manufacturing sector. While Brazil's sector is responsible for almost 30% of their GDP and considered to be both one of the largest and most advanced in all of South and North America Argentina's is significantly smaller and only responsible for about 15% of the countries GDP. The produced goods also greatly vary. Overall the Manufacturing sector in Argentina still has stronger links to agricultural produce and natural resources producing food, beverages aluminium and steel. However both countries also produce machinery electronics and cars, as well as chemicals and in Brazil's case even aircraft. Brazil also produces aluminium and steel.

3 Trade Balance

While the service sector may constitute a major part of the respective economies it is currently estimated that they have a trade deficit in this regard. It is in foreign trade that Brazil and Argentina show their greatest differences. Brazil's trade volume is almost triple that of Argentina. They have a trade surplus of $ 50 bln. They mainly export to Asia, especially China, and the United States. They only conduct about 15% of their trade with other South American nations less than they trade solely with China. Their exports are still dependent on agricultural products which make up almost 30% of the exports while another 23% are made up of minerals and metals. However almost 20% of their exports are now made up of parts of and finished cars air planes and machinery. The markets for these exports are highly regional. While almost all cars are exported to South America most ships produced in Brazil are sold to Asia and Europe. The goods Brazil imports are in large part machinery and chemicals as well as some fossil fuels even though the country is largely energy self sufficient. Argentina is far less internationally aligned. South America and Asia are both almost equally important markets for Argentina with Brazil being their most important trading partner. Additionally they export far less industrial goods with more than three quarters of their exports made up of agricultural or mineral products or metals. They import similar goods but have a lesser demand for chemical products while being more reliant on foreign (especially Brazilian) vehicles. Their trade surplus is also insignificant measuring only around $ 3 bln in goods.

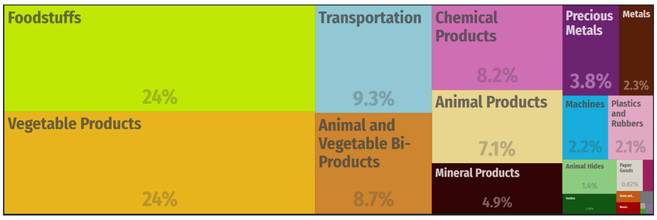
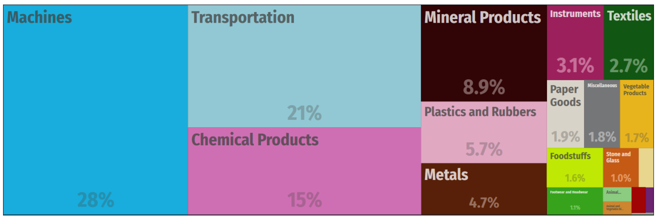


Fig. 1: Argentinian Exports in 2016 according to the Observatory of Economic Complexity



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4 Trade Interests

Both Argentina and Brazil are Members in MERCOSUR a free trade agreement which aims to reduce tariffs within the region by establishing special zones in which production is exempt some if not all of them as well as aligning the taxation and tariffs placed on external goods to protect local production. MERCOSUR as a group is currently in talks several countries about a closer association. Some of these are Mexico, EFTA and even the EU. These international trade agreements could benefit the countries in two ways. Firstly the reduction in barriers to trade and investment could strengthen the industrial and agricultural sector by boosting exports and bringing more money into the country. Secondly both countries rely heavily on foreign machinery, fertilizers, chemicals and other goods as resources for their economy. Making these cheaper could increase the profitability of the local industry and make the countries more competitive on the global market. These factors are likely to especially affect Brazil. Both Brazil and Argentina still export a lot of Agricultural goods. This is an area in which they would particularly like new trade agreements to allow easy export of these goods while optimally not permitting heavy subsidies of said industries.

5 References

1 Observatory of Economic Complexity: Argentina, *https://atlas.media.mit.edu/en/profile/country/arg/*

2 Observatory of Economic Complexity: Brazil, *https://atlas.media.mit.edu/en/profile/country/bra/*

3 Word Economic Forum: How two new free trade agreements could transform Brazil *https://www.weforum.org/agenda/2017/03/how-two-new-free-trade-agreements-could-transform-brazil/*

4 Current Argentinian Trade Agreements *https://www.export.gov/article?id=Argentina-trade-agreements*

5 Current Brazilian Trade Agreements, *http://www.sice.oas.org/ctyindex/BRZ/BRZagreements_e.asp*