

Bachelet and Macri make Mercosur and Pacific Alliance closer

Last December the president of Chile, Michelle Bachelet, reached in Buenos Aires his Argentinian homologous, Mauricio Macri. The principal purpose of the meeting was to strengthen the economic relationship between the two Countries. A relationship that is founded not on idyllic bases, made of love and hatred, demonstrations of fraternity and a less friendly approach that, along a border of just over 5300 km, crossing the two Countries. Bachelet and Macri drive two States that are facing similar problems characterizing the whole Latin-American area: social inequality, lowering of the international prices of the primary goods and political corruption are the principal criticisms that both presidencies must face from a different stance: the Argentinian economy, in fact, seems in more difficulty in comparison the Chilean economy that in recent years seems to regain its fortitude.

A history of controversies

In the last thirty years the relationship among the two Countries, Chile and Argentina, has not been always idyllic. One can think appropriately, for instance, of the renewed of the frictions for sovereignty over the channel of the Beagle that arose at the end of the Seventies. It concerned a conflict that involved a portion of sea and some islands on the Straits of Magellan over whose sovereignty was decided at an arbitration court with an arbitration order (required in 1971 from Chile and Argentina) in December of the 1977. At the beginning of 1978, the then Argentinian president, gen. Jorge Rafael Videla, had refused the decision of the arbitration and, a few months later, took the form of "operation Sovereignty" that the Fourth Battalion of the Infantry of Navy was brought to the point of landing on the islands of the Beagle. An action which was stopped by the same Argentinian military junta that had decided to accept the mediation of Pope John Paul II.

This was a long mediation that lasted more than five years, but that in the end brought the definitive resolution to one of the longest running territorial conflicts in Latin America.

In the same period, there was the support that the Chilean military bases gave to the British army during the War of the Falklands/Malvinas in 1982. In response to the attack by the Argentinian soldiers, the British found solid support in Chile who was able to facilitate the restocking of supply and the military operations that led, only in two months, to the recapture of the Islands Falkland, after the Argentinian invasion.

However, the border skirmishes were continuing at this time (one can see, for instance, the polemic emerged around the decision of the United Nations to grant greater sea border for Argentina and, in so doing, to extend the Argentinian continental base to the South Pole¹). Faced with this political situation, the political class in some aspects reminded neutral and, in other aspects, took to championing nationalistic positions. As with, some years ago, in 2012, the case of the mine of Los Pelambres (Chile) of ownership of the Antofagasta Minerals exploded.

As the Argentinian daily paper "La Nación" brought in 2016, they returned to highlight the claims against the mine that, "have set aside around 55 million tons of tires, toxic material and other mineral residues in a land on the Argentinian side"².

1 «La polémica entre Chile y Argentina por decisión de la ONU que extiende el territorio transandino», in *La Tercera*, 20/04/2016 [available on line at <http://www.latercera.com/noticia/la-polemica-entre-chile-y-argentina-por-decision-de-la-onu-que-extiende-territorio-transandino/>, last access 4/01/2017].

2 M. Dinatale, «La Argentina y Chile buscan poner fin a una pelea ambiental», in *La Nación*, 26/09/2016 [available on line at <http://www.lanacion.com.ar/1941302-la-argentina-y-chile-buscan-poner-fin-a-una-pelea-ambiental>, last access 6/01/2017].

A matter that, in the words of Carlos Foradori, Vice minister for Foreign Policy, didn't concern "private enterprise, but territories of two republics, Chile and Argentina"; in such a sense he maintained that "the call is toward the State, to the State of Chile, and not to enterprise"³.

A photo of the Argentinian and Chilean economy

If the tied up matters to the frontier were and they continue to be the principal reasons for frictions among the two Countries, there is no doubt that the two Presidencies (Macri and Bachelet) for different reasons they need to consolidate the connection between Buenos Aires and Santiago especially in economic terms. Macri, from his side, must face an economic situation extremely problem list: the two swords of Damocles that hang on his Country and, therefore, on his government are the increase of the debt with the foreign countries and the growth of the inflation. In the first year in the *Casa Rosada*, the government, the provinces and the Argentinian banks have received about international loans equal to the to 40.000 million dollars, that is almost 30% of the Argentinean GDP. A financing of this entity shows as the President and its team of government has been able to attract financings from the foreign countries. The counterpart, however, could be risky. The Argentinian history gives us the teaching according to which the fiscal deficit - financed by the debt without reforms type structural able to program the re-entry - has brought to economic crashes: 1979, 1989 and 2001 are, partly, the most painful consequences of similar operations. Although it goes remembered however that today's Argentina is one of the less indebted Latin American Countries with the foreign countries, the so-called one "rain of dollars" that in these months they have returned in Argentina could contribute to increase the inflation⁴.

And we are to the second chronic problem that the government of Macri faces in these last months: the inflation. The data produced recently from the *Congreso de la Nación* talk of an increase of few above to 40% annual, while those produced by the government of the City of Buenos Aires slightly have higher performance. Beyond the war of the numbers, it is clear that such the rates percentages don't help the economic development of the Country. It had been since 2002, when the Argentinian *Peso* had suffered a 300% devaluation, that the official data were not attested on such levels. One can think, in short, that this is the worst performance of the last 14 years but the data would be been able to be worse if a deceleration of the increase of the inflation had not been in the month of December. At the same time, the inflation is increased in way not homogeneous. The most important increases concern water's, electricity, other fuels and tied up various residences expenses where the percentages have reached in average 71%: the highest peak is represented by the 400% of increase of the gas to housing use, while, the prices of the alimentary goods are for instance, increased some solo 33% (such variation can be justified from the diminution of the consumptions of such goods)⁵.

Chilean reality, is very different instead, there is no doubt, in fact, that its economy both one of the more dynamics than the Latin American region. Nevertheless, in the last years a light bending is recorded that, accompanied by to rise up of quite a lot cases of corruption of the managing class, has put in state of accusation the management of the macroeconomic policy of the Country.

The last data made public offer of a light fall of the Pil for the month of October in comparison to October of the 2015. The inter-annual restriction (before from the 2009) has immediately been recovered in the month of November even if not in the hoped dimension.

3 *Ibidem*.

4 D. Pardo, «Cuánto aumentó la deuda de Argentina desde que Mauricio Macri asumió la presidencia y por qué puede convertirse en su talón de Aquiles», in *BBC Mundo*, 1/11/2016 [available on line at <http://www.bbc.com/mundo/noticias-america-latina-37792062>, last access 7/01/2016].

5 C.E. Cué, «Argentina confirma la peor inflación en 25 años en el primer año de Macri», in *El País*, 11/01/2017 [available on line at http://economia.elpais.com/economia/2017/01/11/actualidad/1484152989_264764.html, last access 12/01/2017].

As Rodrigo Valdés has confirmed, titular of the office of the Department of Internal Revenue, "although a recovery has been month after month, the truth it is that the fourth quarter [of the year] is very more weak than we waited for few months ago"⁶. The responsibilities of this decrease, however, are due to the performances of the manufacturing industry, only partly compensate by the increase of the commercial sector and of the mining extraction. Benjamín Sierra, economist of the Scotiabank Chile, however, opens to alarming sceneries: "What more worries me is the sectorial combination of the result and the trend evolution", in fact, "it seems clear that there is a deeper deceleration in other sectors, while the commerce continues to be an important support, without covering however a very remarkable role"⁷. The contraction of the manufacturing production, in fact, is accompanied by a collapse of the inflation. The index of the prices is of negative sign for the month of December, reaching -0,2% to cause, above all, of the fall of the prices of the foods and the drinks as of those of recreational and cultural activity. All of this, according to what made public by the international agency Reuters, "should open the doors to a cut of the rate of interest of reference from the Central Bank [of Chile], for the first time in more than two years"⁸.

The meeting of last December

Regarding both national economic situations, the Presidents Macri and Bachelet met in Buenos Aires to make more fluid and harmonic the relationship between the two Countries (one does not forget that Argentina is the fifth exporting Country toward Chile)⁹. The political issues in discussion have substantially been three: to harmonize the political economy, to promote infrastructures that connect Argentina and Chile, to encourage exchange of expertise in field of economic and social politics. As for the first aspect, the Argentinian President Macri focused on the phenomenon that brings many Argentinians that live in the Andean regions to stir toward Chile to the search of products with competitive prices: this show the existence of "transitory macroeconomic asymmetries" that, however, don't owe weaken the wish of "definitive integration" manifested by the two Countries, Macri has sustained during the meeting near the presidential residence of Olivos. The same nature has the wish manifested toward the promotion of infrastructures able to multiply the connections among the two Countries: the reference is to the International Tunnel of the Paso de Agua Negra (to put in contact the IV region of Chile, the so-called region of Coquimbo, with the Argentinian province of St. Juan) and to the International Tunnel of the Paso de Las Leñas (to connect the Chilean region of O'Higgins with the south of the province of Mendoza, in Argentina).

As for the last aspect, that of exchange of expertise, both the Argentinian President and her homologous Chilean manifested the full wish to promote the development of the small ones and averages it undertook as they fly for increasing the presence of both the Countries on the world market¹⁰.

6 «Economía Chile crece bajo lo esperado y se afianza recorte de tasa», in *Infolatam*, 5/01/2017 [available on line at <http://www.infolatam.com/2017/01/05/economia-chile-crece-lo-esperado-se-afianza-recorte-tasa/>, last access 12/01/2017].

7 D. Vásquez – S. Valdenegro, «Economía chilena decepciona en novimebre y mercado teme un inicio de 2017 aún más débil», in *Diario Financiero*, 6/01/2017 [available on line at <https://www.df.cl/noticias/economia-y-politica/macro/economia-chilena-decepciona-en-noviembre-y-mercado-teme-un-inicio-de-2017-01-05/201653.html>, last access 12/01/2017].

8 «UPDATE 1- Inflation drop, weak growth pave way for Chile rate cut», in *Reuters*, 6/01/2017 [available on line at <http://www.reuters.com/article/chile-inflation-idUSL1N1EW0CK>, last access 12/01/2017].

9 For this, see the great description of chilean economy elaborated by the *Observatory of Economic Complexity* [available on line at <http://atlas.media.mit.edu/en/profile/country/chl/>, last access 12/01/2017].

10 «Macri y Bachelet ratificaron la decisión de avanzar en el proceso de integración entre la Argentina y Chile», [available on line at <http://www.casarosada.gob.ar/slider-principal/38143-mauricio-macri-recibio-a-la-presidente-de-chile>, last access 13/01/2017].

A last matter has been central in this bilateral reunion: the relationship between Mercosur-Alliance of the Pacific. The Chilean Bachelet, during the final press conference, affirmed with extreme clarity: "we are very interested to see Mercosur and Argentina as parts of the alliance of the Pacific."

An important declaration, considering that the annual period of Chilean Presidency *pro tempore* of the Alliance begun in June and, at the same time, from last December Argentina has assumed the Presidency *pro tempore* of the Mercosur¹¹.

The fact that both the Countries occupy the Presidencies *pro tempore* of the two sub-continental blocks it is not the only reason that deposes for the good result of the operation. Moreover, there is also a more specific political aspect. From one side, the Macri's Argentina is crossing a very complicated economic conjuncture in the attempt to make more permeable to the world economic dynamics the productive and financial situation of the Country, losing the protectionist constraints. Considering some commercial sectors in which the Countries of the alliance of the Pacific have practically annulled the custom barriers, the adhesion of Argentina could favour the entry without obstacles of the Argentinian goods in this market in ascent. From the other side, the entry of the Mercosur and Argentina in the alliance for the Pacific would mean, for Chile, the complete opening toward the Argentinian market with the possibility to increase the exports. At the same time, this process of unification would bring to an affirmation of the Chilean leadership in the same Alliance of the Pacific. This would happen in a moment in which in Latin America the propulsive engine (in economic and political matters) of the Brazilian regional leadership is progressively exhausted. This could create the conditions for Chile to become not only the political point of reference of the alliance of the Pacific but also of the Latin American area. The summit in Buenos Aires, between Argentina and Chile, in other words could be the starting point to change Latin American relationship. That -for a year, such as the 2017, with a lot electoral consultations Chile (where there will be presidential elections) and Argentina (where the elections of mid-term there will be and for the renovation of half the Parliament) - could represent a capital to exploit in terms of construction and consolidation of the political consent.

11 «Macri and Bachelet agree on Mercosur-Pacific Alliance meeting in first half of 2017», in *Mercopress*, 20/12/2016 [available on line at <http://en.mercopress.com/2016/12/20/macri-and-bachelet-agree-on-a-mercocur-pacific-alliance-meeting-in-first-half-of-2017>, last access 13/01/2017].