

IMPACTS OF ARGENTINE ECONOMIC DEVELOPMENT MODEL YEAR 1990 IN COMMERCIAL RELATIONSHIP WITH BRAZIL

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ABSTRACT

The two countries with the largest representation in the Mercosur trade are arguably Argentina and Brazil, but the business relationship between them has always been linked to different political and economic times, so, this article researched how the model of Argentine economic development impact on trade balance both countries, specifically between the years 1999 and 2001, the height of the crisis in Argentina. This is an applied quantitative and exploratory research, which was used as a technical procedure literature and documentary extracting data from the Ministry of Development, Industry and Foreign Trade, Ministry of Foreign Affairs and Culture of Argentina and Centre for International Economics - CIS. As main results we concluded that since 1997, Brazil is on the list of major trading partners of Argentina this relationship intensified after 2001; before the crisis showed the trade balance is favorable to Argentina way, but this scenario changed after the crisis, and it was also found that as of 2001, Brazil became the main supplier of high aggregate factor to Argentina.

Keywords: Argentine, Balance of Trade, Brazil, Import and Export

1. INTRODUCTION

This article is important in that it refers to the clear understanding of the current situation of the business relationship between Brazil and Argentina, and also so that can delimit due importance, as well as adequately measure this relationship in the Latin American context.

Notwithstanding, there were determination to establish an commercial partnership since 1950 between the two countries and has since recognized the importance of this relationship for both, was from 1985 through the signing of the "Declaration of Iguacu," by Presidents José Sarney and Raul Alfonsin which have established up the first clear rules for purposes of accelerating the bilateral integration process.

Starting with this action, was followed by other important moments in this context, where rules were defined, standards and guidelines on when it comes to the business relationship between two of the most important countries of the South American continent through drafting and signing agreements and terms of partnership. As an example one can also mention the creation in 1986 of the Program Integration and Economic Cooperation - PICE, between Brazil and Argentina, the contents of which talk about the Treaty of Asuncion, also contributed greatly to the creation and definition of some important rules of Mercosur process.

Keep the certain proportions of business relationship between Brazil and the other countries of South America, is to be considered as of relevant importance to commercial partnership between Brazil and Argentina, who are exponents of the South American economy even recognized by the European Community as such.

Therefore, established the due importance of trade relations between the two countries, this article deigns to delimit and explain the relevance of this partnership in a well-founded way, considering factors such as strategic alliance, reciprocity of commercial interests, political competitiveness for organizations incentive to import and export relations and consolidating partnership arising from the detailed demonstration of important variables in the context of the strategic objectives of the partners in terms of foreign trade.

And in fact is deemed as of vital importance to understanding this relationship business, the incentive to research, publications and detailing of critical analyzes of this partnership between Brazil and Argentina, with the aim of increasing and increasingly consolidate trade between two countries.

The result of these comparative studies that uncover and analyze the details of the trade relationship between Brazil and Argentina, establishing and identifying potential business opportunities, contributing to the scientific aspect to increase the theoretical reference as well as indicate actions in the strategic, tactical and operational framework of organizations within the context of imports and exports, considering the aspect of making decision and also informational to the community that receives the impact of the economic reflexes of the internationalization process of companies.

2. THEORETICAL FRAMEWORK

2.1 Evolution Model of Economic Development Argentine

Between 1930 and 1976 the model of Argentine industrialization was characterized by import substitution, but in the late 1970s, during the last military dictatorship this model was replaced by the neoliberal development, characterized by economic volatility and recurrent crises. The structure of this model occurred in Argentina in the 1980s by the government of Carlos Menem who applied a imposing way the three principles described in the Washington Consensus: deregulation, liberalization and privatization. Consolidation came in 1990, where even resisting social appeals, neoliberalism brought the country to a situation of deregulation policy which culminated in a multidimensional crisis in 2001. (ANGELIS, CALVENTO e ROARK, 2013).

This economic model is characterized by decentralization and deregulation of economic relations and imposes limits on the characteristic functions of states as producer, service provider and manager of activities to citizens. In this context, the income becomes to be the motivating factor for the development, no more the industries, and the speculative market is fed exaggeratedly.

The consequences of this model for foreign trade are apparently beneficial because it encourages trade openness to international production structures and foreign investment in the country motivated by the growing alliances between nations. But this apparent development is masked by vulnerable and dependent exchange parity.

However the privatization process brought with irregularities and arbitrary political decisions by the state that motivated installation of monopolies and oligopolies. (THWAITES REY and LÓPEZ, 2004). Large local economic groups, which since 1976 were bussiness partners of the State, joined the foreign companies and thereby influenced the political and economic decisions. (COLOMBO, 2004).

For Angelis, Calvento e Roark (2013) as a result of financial accumulation, casualization, labor flexibility and inefficiency of social policies as pushed up unemployment, poverty, indigence and inequality.

According to the Centro de Estudios para el Desarrollo Argentino - CENDA (2007), unemployment in the 1990s was approximately 7%, reaching its maximum in the year 2002 with 20%. This level of unemployment was also reflected in poverty in 2002 over 50% of the population was in poverty of which approximately 25% in indigence situation. The gap between the richest 10% of the population and the poorest 10% dilated from 15 to 24 times in 1997.

Qualitative and quantitative information mentioned above resulted in the implosion of a major crisis between the years 2001 and 2002. This crisis opened a precedent for a new institutional regulation model composed of five forms.

The first to be mentioned is called the Monetary Regime, where those responsible convert and establishes a real interest and competitive exchange rate, where the end of parity is the central feature of the new mode. Corroborate withthis Azpiazu and Schorr (2010) when they claim that Argentina was produced a change process that began with a process of devaluation and challenge the regime of accumulation based on the financial valuing that persisted during the last decades of the twentieth century.

The reflexes of these changes were: first the establishment of a new real exchange rate and competitive, per second, the process of re-industrialization and reactivation of productive capacity, and ultimately consequently the strengthening of the internal market.

The institutional form to be quoted at this point is termed as Market, whose main characteristic is in its regulation by the state, meaning that it interferences correcting any imbalances and inversions that have occurred in various sectors.(ANGELIS, CALVENTO and ROARK, 2013). The result of this intervention can be perceived by the average growth rate between the years 2002 and 2010 of approximately 8% according Basualdo (2011).

According to data from CENDA (2010), the Argentine economic growth during the exchange rate parity was 29%, while from 2003 to 2010 this percentage was 79.5%. In this period the productive sector with the most significant mounts was the natural resource intensive followed by mining and quarrying exploration. Can also be assert that there was a significant growth of medium and small sized firm generating of jobs and geared to the domestic market.

This growth did not modify the process of internationalization of the productive structure, as presented Kasacoff (2011) and Azpiazu y Schorr (2010), in 2008 from a universe of approximately 400 000 companies located in Argentina, 80% of the 500 largest contained foreign capital and 72% of the 100 companies with the highest turnover are totally of foreign capital and only 25% had only genuinely Argentine capital.

The third institutional form to be described from now is called: State, where it is omnipresent and conceptualized by Seillard and Boyer (2008) as a set of institutional responsibilities with rules and regulations regarding expenditures and public revenues, with social relations and the behavior of other entities.

In this way, for the theory of regulation the state does not control all the economic variables and also does not lend itself to the role as an instrument of the ruling classes, it is a clash between economics and politics. That is, from 2003 the State assumes its role of manager of national strategies, renegotiating and regulating contracts with companies that provide public services, as well as renationalize some privatized companies but strategic within this new development model. (ANGELIS, CALVENTO and ROARK, 2013).

After a long process of negotiation and restructuring of foreign debt, in 2005 Argentina can pay down its debt to the International Monetary Fund - IMF putting an end to a long period of submission of national development strategies, which enabled investments primarily in the areas of education, health and well-being social unprecedented.

Will be mentioned from now the fourth institutional form of regulation called Wage Relation which analyzes the impact of economic development on social welfare especially the relationship between salary and its direct and indirect determinants.

Araya e Colombo (2009) argue that from 2009 Argentina imposes a new system of labor-capital, derived from a transformation in two configurations: Cumulative and productive, resulting in social development and improvement in quality of life of the population.

According to data from the Center for Research and Training in Argentina - CIPHER (2011) between the years 2002 and 2010, has been generated 4.3 million jobs impacting in a reduction of approximately 8% in performance fees derived from the neoliberal period.

Arceo e González (2011) demonstrate the reflex of these actions directly in industrial productivity, from 2002 productivity per worker amounted by approximately 25%, considering that the salary represents a fixed cost diluted in total productivity, it is concluded that the general cost of products reduced -If and consequently increased the purchasing power of workers, beyond levels of corporate profitability.

Finally, the last institutional form to be cited it is the International Insertion, which includes a series of rules which dictate the relationship between the state and the rest of the world. This way for regulating directs foreign direct investments, international trade flows and international exchange of goods. (Neffa, 2006). This model enables the sustained increase in international reserves and obtaining positive balances in fiscal accounts.

The result of these measures can be seen in the data presented by the Center for International Studies - CIS (2008) and the National Institute of Statistics and Census - INDEC (2011), where between the years 2002 and 2010 exports of products from the manufacturing of agricultural goods origin and products originating from industrial manufactures have increased annually 15% and 14% respectively.

However Neffa (2010) argues that the increase in the demand for capital and consumer goods did not change the structure of the Argentine imports still quite dependent of intermediate goods for the maintenance of the national productive process. Imports of capital goods is the main component of the Argentinean trade balance deficit.

Structures established previously for imports and exports have not changed significantly, the changes occurred mainly in international trade integration through the search for new partners and strengthening of pre relationships with other countries. From the year 2003 it he joined into markets like China, Korea, India, South Africa and

Mexico, for example, and this strengthens alliances with Latin American countries, especially Venezuela. (CALVENTO and ROARK, 2011)

2.2 Macroeconomic Regimes in Brazil and Argentina after the crisis of 1998-99

The currency crisis that started in 1998 has affected most countries, also not despite Brazil and Argentina. In turn, Brazil was successful in emerging from the crisis in a few months in mid-1999 the new floating exchange rate regime was already operating normally. In Argentina, the crisis led to the demise of the currency board model, a process that proved traumatic, accompanied by drastic government actions, such as freezing of deposits, debt default, devaluation of the peso and “pesification”. The abandonment of the parity with the dollar proved a traumatic process and triggered a crisis that has dropped 21% of Argentine GDP in just over three years and helped to raise the unemployment rate at 21.5%. (FRENKEL and RAPETTI, 2008).

In Brazil the regime that emerged after 1999 was restricted to three actions: inflation control through targets, floating exchange and primary surplus in the public accounts. (BASTIAN and SOIHET, 2012). In Argentina, the end of parity and the weakening of the defenders of the neoliberal model has opened the possibility of inserting a new model of economic development. During the crisis, the Argentine government has not accepted the recommendation of the IMF for dollarization, although also do not opted for the inflation control as targets by Brazil. (BRESSER , 2007).

Frenkel and Rapetti (2008) commented that as the Argentine crisis was deeper and more lasting, the options for adaptable economic models were smaller and restricted. "On the other hand, the choice of a type of undervalued exchange was almost inevitable after the moratorium, the external financing options were very limited, which in turn prevented the possibility of supporting current account deficits." (MECON, 2005).

So the only way to obtain foreign exchange was the surplus in current accounts, other words, identified the export as the most obvious way and being fostered by the government, which from 2002 started to accumulate international reserves and implement measures to stabilize the Peso at 3.5 per dollar parity. (STURZENEGGER e ZETTELMEYER, 2006). Thus, the economic decisions taken in 2002, proved sensible when it comes to currency devaluation and search for fiscal surplus, because it was more practical than strategic response to the crisis that plagued the country.

To Frenkel and Rapetti (2008) the year 2004 was marked by the return of International capitals to the country motivated by exports that sparked the surplus in the capital account and the the currency depreciation that previously was presented as a measure taken in an emergency moment now becomes part of the official economic strategy.

3. CLASSIFICATION OF RESEARCH

From the point of view of nature, this research is classified as applied, because according to Silva and Menezes (2001) aims to generate knowledge for practical application aimed at the solving specific problems.

As for to the approach to the problem, it is classified as quantitative, because it considers everything can be quantifiable to analyze the data and reach conclusions.

This research is classified as exploratory, as to their goals, according to Gil (1991) aims to provide greater familiarity with the problem in order and make it explicit. In this sense, we analyzed the trade relationship between Brazil and Argentina through a historical series provided by government agencies of relevance in both countries analyzed.

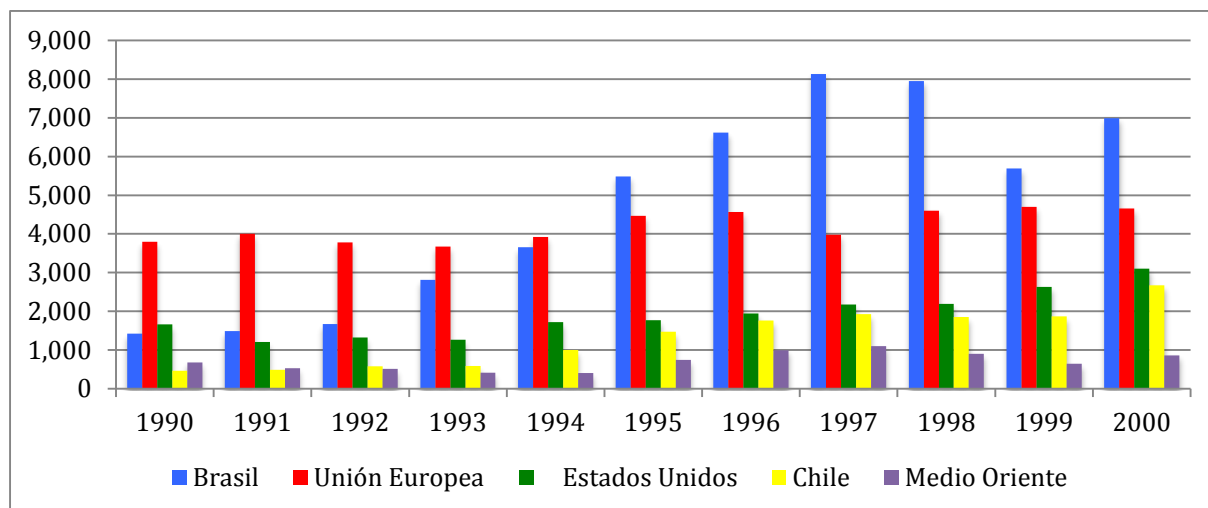
The technical procedures used consisted of bibliographic research and document research. Were analyzed statistical documents of the Ministry of Development, Industry and Foreign Trade, Ministry of Foreign Affairs and Culture of Argentina and Centre for International Economics-CEI. The data collected relate to: the volumes imported and exported by Argentina to Brazil between the years 1990 to 2012 and the main products traded between the years 1997 to 2012.

4. DESCRIPTION AND ANALYSIS OF DATA

4.1 Evolution Model of Economic Development Argentine

This research is justified because of the significance of trade between Brazil and Argentina. Even after two decades of political disturbs, economic and social, the business relationship always been close and profitable for both countries, as seen in Graph 1:

Graph 1: Main destinations of Argentine products between 1990 and 2000 - Figures in US\$ billion

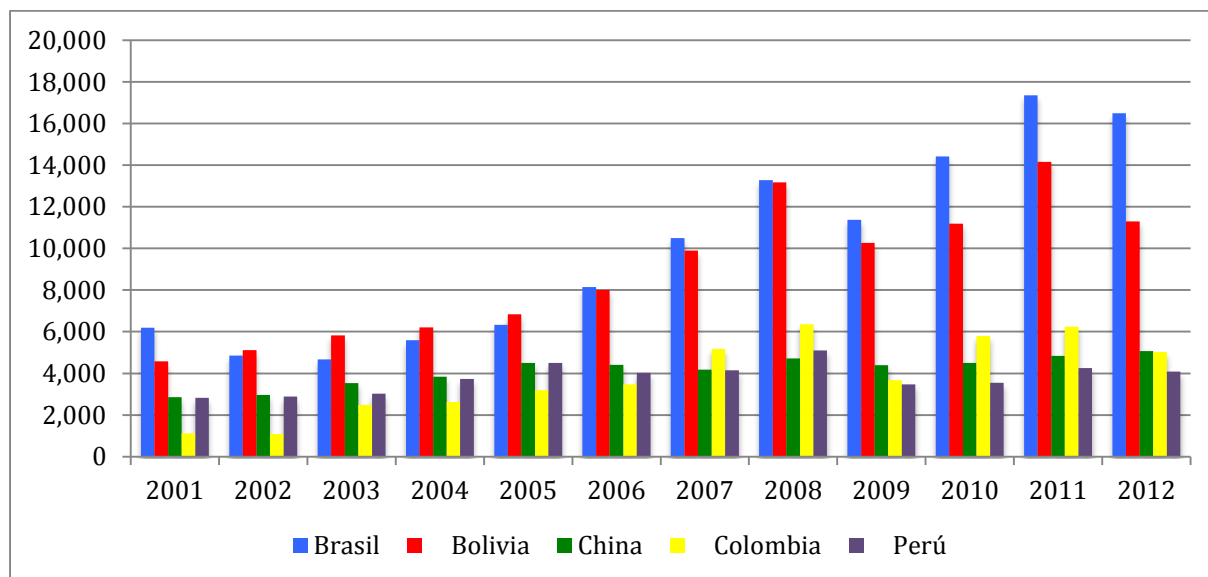


Source: Ministerio de Relaciones Exteriores y Culto de la República Argentina – Centro de Economía Internacional – CEI

Between the years 1990 and 2000 on average were exported to Brazil US\$ 2.3 billion in products, this medium very similar to the US\$ 2 billion to the European Union, but much higher than the US\$ 957 million to the United States, US\$ 675 million for Chile and US\$ 353 million for the Middle East. The average volume exported by Argentina this period was US\$ 9.6 billion ie these countries represent respectively 24.4%, 21.7%, 9.9%, 6.9% and 3.7%.

However, between the years 2001 to 2012 this frame has changed significantly as can be seen from Chart 2:

Graphic 2: Main destinations of Argentine products between 2001 and 2012 - Figures in US\$ billion

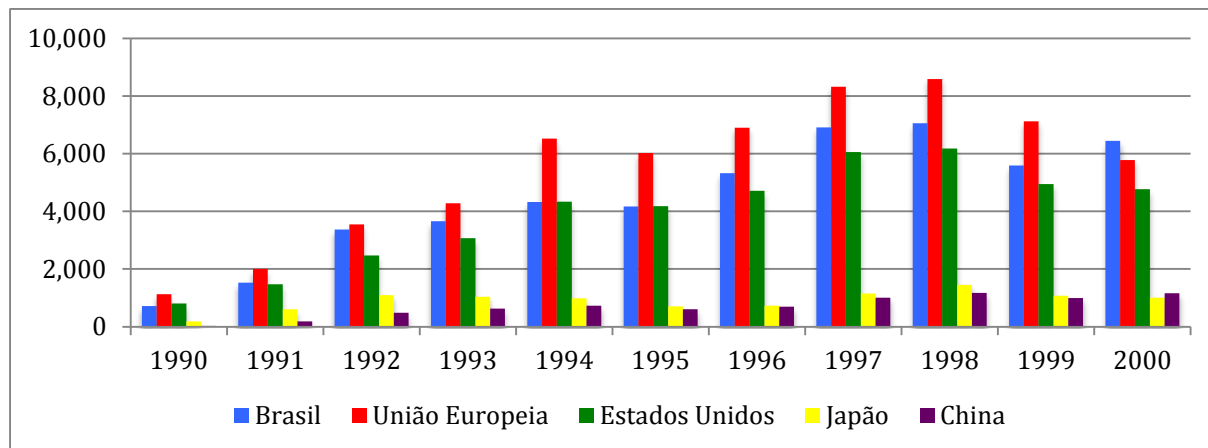


Source: Ministerio de Relaciones Exteriores y Culto de la República Argentina – Centro de Economía Internacional – CEI

Between the years 2001 and 2012 on average were exported to Brazil US\$ 5.1 billion, this medium very similar to the US\$ 4.6 billion to Bolivia, but much higher than the US\$ 2.1 billion to China, US\$ 2 billion to Colombia and US\$ 1.9 billion to Peru the average volume exported by Argentina this period was US\$ 26.8 billion ie these countries represent respectively 19.3%, 17.2 %, 8.1%, 7.5% and 7.4%.

With respect to imports, frame 3 shows that Brazil is also a of major trading partners of Argentina.

Graphic 3: Main sources of Argentine products between 1990 and 2000 - amounts in US\$ billion

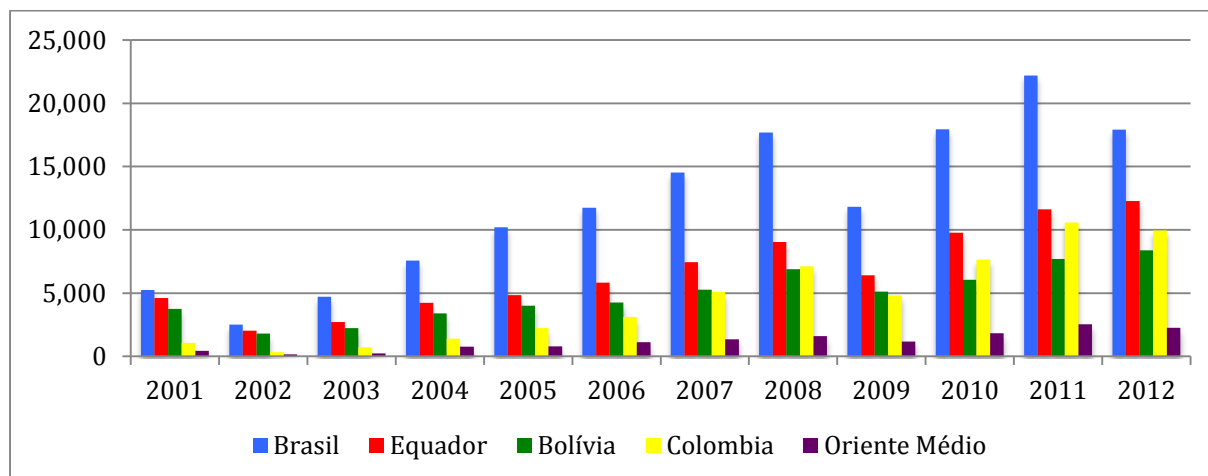


Source: Ministerio de Relaciones Exteriores y Culto de la República Argentina – Centro de Economía Internacional – CEI

Between the years 1990 and 2000 on average were imported from Brazil US\$ 4.5 billion in products, this average below the US\$ 5.5 billion the European Union, but higher than the US\$ 4 billion the United States, US\$ 911 million from Japan and US\$ 699 million in China. The average volume imported by Argentina this period was US\$ 19.3 billion ie, these countries represent respectively 23.1%, 28.3%, 20.2%, 4.7% and 3.6%.

However, between the years 2001 to 2012 this frame has changed significantly as can be seen from Chart 4:

Graphic 4: Main sources of Argentine products between 2001 and 2012 - amounts in US\$ billion



Source: Ministerio de Relaciones Exteriores y Culto de la República Argentina – Centro de Economía Internacional – CEI

Between the years 2001 and 2012 on average were imported from Brazil US\$ 12 billion in products, this average much higher than the US\$ 6.7 billion of Ecuador, the US\$ 5 billion of Bolivia, the US\$ 4.5 billion of Colombian and United States US\$ 1.2 billion in the Middle East. The average volume imported by Argentina this period was US\$ 51.5 billion ie, these countries represent respectively 23.3%, 13.1%, 9.5%, 8.8% and 2.3%.

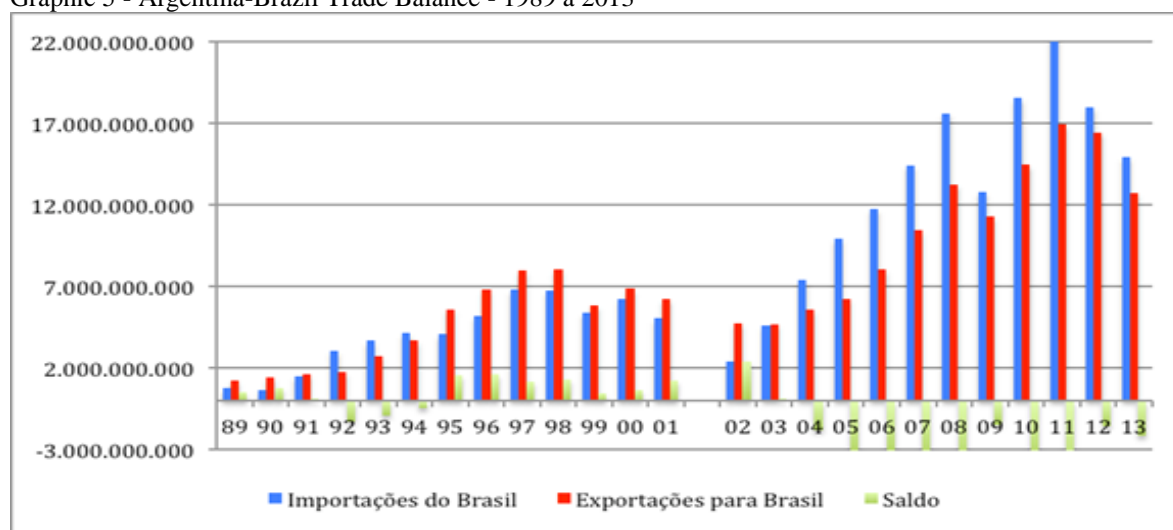
For this reason, research and publications that analyze and unveil the intricacies of the business relationship between these countries contribute in the scientific sense of increment existing framework, managerially it serves as a reference in making operational decisions, tactics and strategies of organizations; besides being a source of information for the general community that feels the economic consequences arising from the internationalization processes of firms, without specifically understand how government decisions on foreign trade interfere with their daily lives.

4.2 Commercial Relations between Brazil and Argentina - consolidated data

Aiming at presenting and analyzing the business relationship between Argentina and Brazil over almost two decades of economic, social and structural changes will be presented from now a graphic study of the volume of

exports and imports between the two countries, the volumes marketed over the years by level of added value and a comparison between the main products traded before and after the restructuring that both countries forced up to pass the beginning of the 2000s.

Graphic 5 - Argentina-Brazil Trade Balance - 1989 a 2013



Source: Ministry of Development, Industry and Foreign Trade

Through the chart 5 From Chart 5 is possible to check that between the years 1989 and 2001 the trade flow occurred between Brazil and Argentina occurred mainly of this country for that, ie Brazil was a natural importer of Argentine products. The average balance was positive at approximately US\$ 504 million per year for Argentina. However, after the currency crisis of 1999 and the political, economic and social reform implemented in both countries in different ways also showed different effects, because from 2004 until 2013 the surplus was reversed and Brazil became more exporter of products to Argentina, where the average balance in this period was positive at approximately US\$ 3 billion per year to Brazil.

The agenda of trade between the two countries is extremely diverse, through products with low, medium and high added value. Data from the Ministry of Development, Industry and Foreign Trade – MDIC from Brazil are available from the year 1997 to 2012, ie sixteen years. For this analysis, this period was divided into two groups of eight years each, whose intersection occurs in 2001, the height of government interventions in both countries in an attempt to reverse the effects of the 1999 crisis.

Chart 1 - Exports to Brazil from 1997 to 2012 - for chapter of the NCM

CHAPTER	1997 to 2004 Total in US\$ (A)	2005 to 2012 Total in US\$ (B)	Var. % average between A and B
Gemstones	15.583.612	2.529.390	-516,1
Weapons and ammunition	6.473.714	1.718.874	-276,6
Transport equipment	34.264.758.279	11.368.536.615	-201,4
Metal	2.979.389.599	1.178.260.386	-152,9
Plastics and rubbers	7.049.145.898	2.854.999.630	-146,9
Chemicals products	8.000.010.049	3.770.951.066	-112,1
Food products	2.852.828.248	1.426.308.315	-100,0
Continuation			
Optical instruments	461.715.705	242.589.364	-90,3
Wood and charcoal	470.107.460	248.358.623	-89,3
Ceramic products	192.936.018	111.444.715	-73,1
Vegetable products	16.301.476.360	10.329.929.324	-57,8

Paper	1.370.335.092	893.826.965	-53,3
Mineral products	12.223.343.090	8.292.104.300	-47,4
Electrical machines	4.936.019.666	3.614.686.955	-36,6
Live animals	2.776.055.925	2.221.226.165	-25,0
Objects of art and antiquity	446.052	360.791	-23,6
Various goods	124.622.172	115.970.568	-7,5
Textiles products	1.387.580.952	1.811.391.708	23,4
Vegetable and animal fats	481.885.430	676.060.963	28,7
Fur and Leather	230.081.445	639.279.942	64,0
Footwear	21.080.607	110.982.310	81,0

Source: Ministry of Development, Industry and Foreign Trade

The items above refer to chapters of products classified according to Common Goods Nomenclature - NCM, created in Brazil from the Harmonized System of Commodity Description and Coding - SH, which contains 21 sections and 96 chapters ordained in a progressively way depending the degree of elaboration and participation of man.

Table 1 was organized in ascending order in function of significant negative percentage changes for the less significant, even encompassing the positive variations, relative of Argentine exports products to Brazil.

Between 1997 and 2012 Argentina stopped exporting to Brazil 516% in pearls and precious stones, 276% on weapons and ammunition, 201% in transport equipment, 152% in metals and their works and 146% in plastics, rubbers and their works. These are the products that showed more significant reductions, with the average - 258.8%.

Regarding the marketed volume it turns out that in the analyzed period, before and after the 2001 rupture the five main products exported to Brazil were: transport materials, vegetable products, mineral products, chemical products and plastic and rubber.

In the first period the summation of those products (US\$ 78 million) represented approximately 81% overall in the second period, after breaking the same all of these five products (US\$ 37 million) accounted for approximately 73% of the total, ie a reduction of approximately 113%.

Table 2 below demonstrates quantitatively the volumes imported by Argentina to Brazil between the years 1997 to 2012 products.

Chart 2 - Imports of Brazil from 1997 to 2012 - for chapter of the NCM

CHAPTER	1997 to 2004 Total in US\$ (A)	2005 to 1012 Total in US\$ (B)	Var. % Average between A and B
Objects of art and antiquity	234.284	1.134.979	79,4
Mineral products	2.291.999.944	11.049.310.777	79,3
Transport Equipment	10.546.602.158	41.881.923.136	74,8
Plastics and rubbers	3.280.734.290	9.250.198.702	64,5
Continuation			
Metal	3.914.707.976	10.964.711.470	64,3
Electrical machines	9.199.267.550	24.969.922.291	63,2
Weapons and ammunition	19.656.465	46.683.642	57,9
Optical instruments	430.649.237	995.426.145	56,7
Chemicals products	5.696.500.162	11.692.776.764	51,3

Gemstones	25.942.477	52.815.366	50,9
Various products	587.240.327	1.184.425.485	50,4
Paper	1.673.673.985	3.051.394.012	45,2
Ceramic products	682.105.370	1.206.766.033	43,5
Footwear	848.586.330	1.453.750.609	41,6
Food products	1.386.254.340	2.281.982.549	39,3
Vegetables products	566.584.095	871.127.884	35,0
Textiles products	2.319.692.474	3.548.234.332	34,6
Live animals	502.991.827	752.084.647	33,1
Vegetable and animals fats	37.169.355	47.060.770	21,0
Wood and charcoal	278.492.834	303.938.146	8,4
Fur and leather	63.294.873	43.149.477	-46,7

Source: Ministry of Development, Industry and Foreign Trade

Table 2 was organized in decreasing order in terms of most significant percentage changes for the less significant, encompassing even a negative variation relative on imports of Brazilian goods by Argentina.

Between the years 1997 and 2012 Argentina began to consume more significantly the following Brazilian products, art objects and antiques (79.4%), mineral products (79.3%), transportation equipment (74.8%), plastic and rubber (64.5%) and base metals (64.3%). These are the products that showed more significant increase, with the average 63.6%.

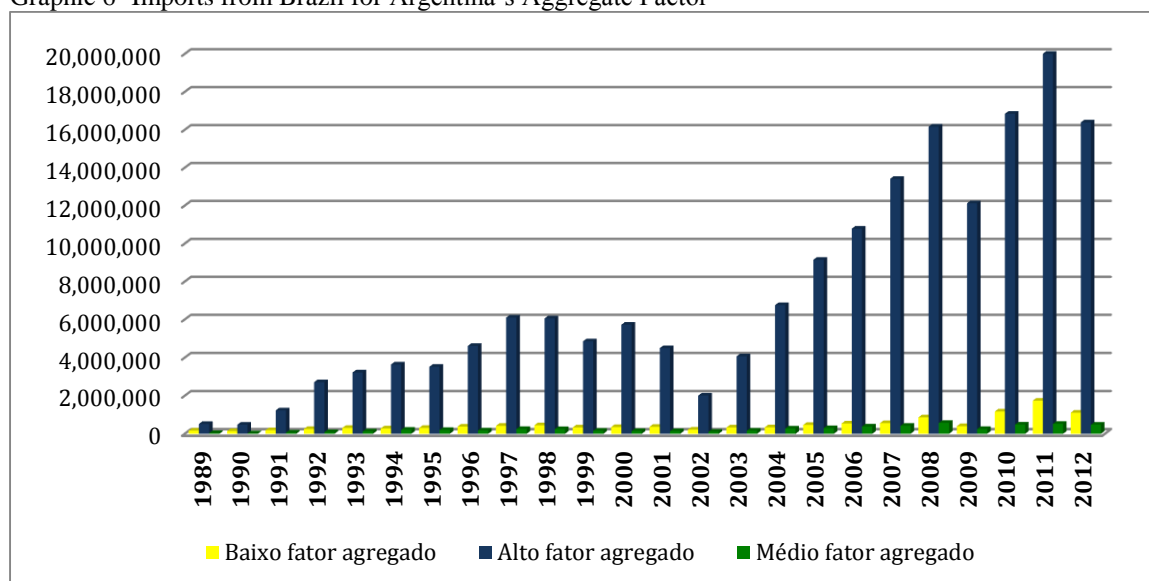
With respect to volume marketed it turns out that in the analyzed period, the five key imports from Brazil were: materials of transport, machinery and electrical equipment, chemical products, metal, plastic and rubber materials. The average volume of these products traded was US\$ 32 million per year, or 74% of the total.

But after the break in 2001, mineral products gave way to plastic and glassware in the list of the five most products imported from Brazil. In this period the average volume of five products more imported by Argentina from Brazil happened to be US\$ 100 million, or 80% of the total.

When these products are classified by aggregate factor is sensitive dependence on Argentina for Brazilian products with high added value.

Chart 6 demonstrate the data about the Argentine imports from Brazil segmented by aggregate factor

Graphic 6- Imports from Brazil for Argentina's Aggregate Factor



Source: Ministry of Development, Industry and Foreign Trade

Since 1989 when the Ministry of Development, Industry and Foreign Trade Brazilian started collecting data about Argentine imports from Brazil by aggregate factor it turns out that the largest volume of products always been high-added factor.

According to the Department of Planning and Development of Foreign Trade - DEPLA, the concept of aggregate factor involves the grouping of products taking into account the greater or lesser amount of transformation having undergone during its production process to final sale.

5. CONCLUDING REMARKS

Given the above interpretation in terms of data and due to the critical analysis taken to term in this article that illustrates, interprets and defines in a clear form, simple and direct commercial relations between Brazil and Argentina based on official information from both participants, we conclude that the thematic treated across the text, was explored with academic rigor and practical, adequately reflecting the current moment in policies international business between them.

The content of this article on the relevance of the thematic treated, means contribution to grounding of the decision process of potential trade talks between officials of both countries, and is indicated as a factor consultation and research to deepen the theme.

The information and analysis exposed in this text contribute to ratify the relevance and importance of the trade relationship between Brazil and Argentina, and also indicate the position of the South American exponents of both, in terms of foreign trade.

Overall, the article delimits the business relationship between Brazil and Argentina, considering the importance of both in the Mercosul and also on the world stage, identifying potential demands between the two, which mean business opportunities, treating with practical and didactic way the analyzes, data and information concerning the theme, in order to contribute to be exposed the actual panorama of this relationship, thus showing the reality in terms of best practices, process failures, need for improvement, aiming also contribute to the improvement in the understanding of political negotiation in foreign trade between the two countries.

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