

An aerial photograph of a massive crowd gathered in a city square, likely Plaza de Mayo in Buenos Aires. The Obelisk of Buenos Aires is visible in the background, standing tall among the city's buildings. The crowd is dense and fills the foreground and middle ground, with many people holding flags. The sky is clear and blue.

Prospect Argentina Branch

MNC Corp.

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Introduction

Starting a business in Argentina in 2024 can be a challenging process, especially after the economy took a hit because of the pandemic. There are many aspects that businesses need to consider before deciding to expand into a country. These include unprecedented bureaucracy rate, barriers to imports, difficulty in accessing foreign currency, high inflation rate, complex tax system, cross-border trade barriers, and sovereign debt crisis (Wright, D., 2024).

However, Argentina still possesses some positive traits, of which most important is the MESCOSUR alliance established in 1991, “which allows it to gain open access to the three countries and associate countries with reduced legal requirements and limited taxes on products” (Reasons to start a company business in Argentina, 2019). Member countries in the MESCOSUR are Argentina, Bolivia, Brazil, Paraguay, and Uruguay, with Chile, Colombia, Ecuador, Guyana, Peru, and Suriname being associate members, where they only receive tariff reductions without having the ability to vote or have free access to members’ markets. This alliance is similar to the European Union where member countries can enjoy free trade with each other as well as make it easier for experts in these countries to relocate and work without restrictions and even invest and move capital (Reasons to start a company business in Argentina, 2019).

Despite all these advantages, the alliance has been shaken up recently due to differences in political views amongst the countries as well as changes in their leadership and regime. In this report, we will highlight the economical challenges of establishing a branch in Argentina and provide insight on its feasibility.

Analysis Breakdown

GDP per Capita & Real GDP Growth:

The most famous metric of economic performance, GDP measures the total value of the final goods and services produced by a country within a specified period and can indicate the size of output.

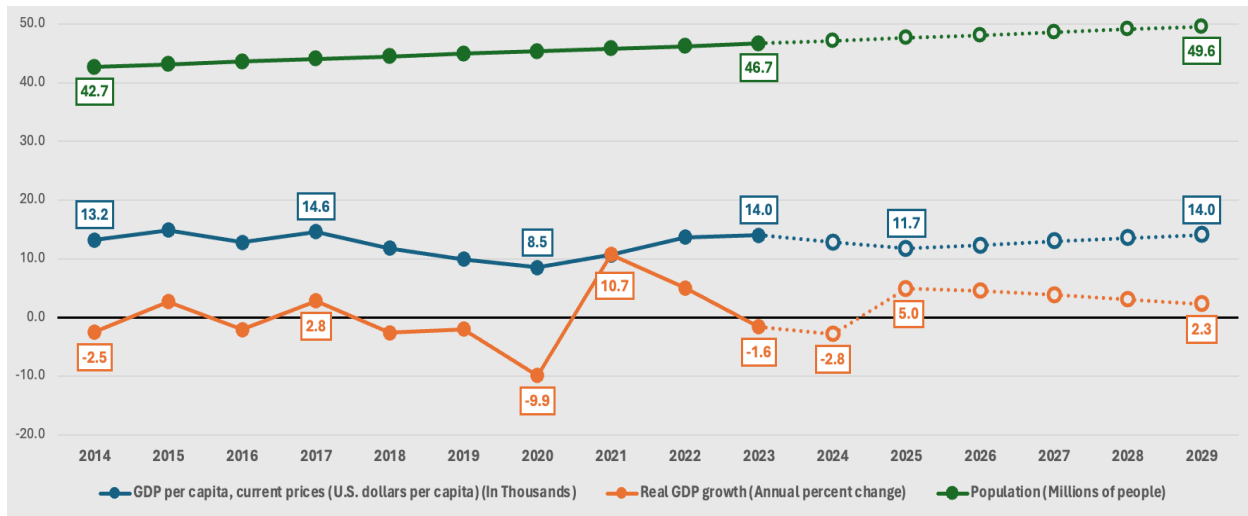


Figure (1): Argentina's Fluctuating GDP Development¹

Based on the data gathered from the IMF, Argentina's real GDP has seen multiple fluctuations in the past ten years. COVID-19 especially affected the growth of the real GDP as businesses shut down and the commercial movement slowed down. Essentially, the pandemic reduced export and import levels. However, despite the instabilities in GDP growth, the GDP per capita measure was relatively stable throughout this period most likely due to the steady increase in the population. This means that although the economic growth of the country is fickle, the population levels are still on the rise and don't show a sign of slowing down as the IMF predicts a constant increase for the next six years. This in turn will keep the GDP per capita at a steady range and therefore offset the fluctuations in GDP growth.

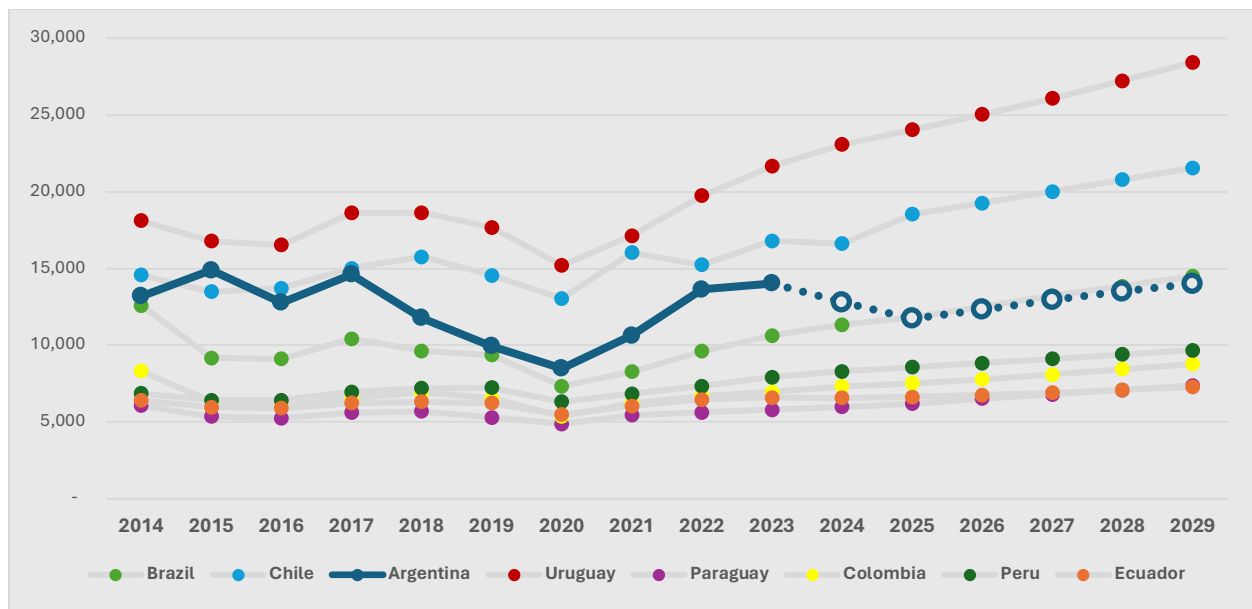


Figure (2): Latin American Countries GDP per Capita – Argentina’s Good Position¹

Argentina has a good positioning among Latin American countries with the most economic impact when it comes to its GDP per capita. The data gathered from the IMF proves this as the graph shows that Argentina has the third-highest GDP per capita after Uruguay and Chile, surpassing even Brazil which has a massive trade industry. This makes Argentina a good destination for setting up shop and starting a business, as this indicates a healthy economy and active market. However, despite the stable trend predicted by the IMF, there are political factors that continue to affect the economic development in the country and this instability is what makes investors think twice about establishing businesses there.

Unemployment Rate:

The unemployment rate is the proportion of unemployed individuals in the labor force. High unemployment rates affect the economy in many ways. Unemployed people tend to spend less, and as their rates increase, payments from the government will increase correspondingly in order for people to be able to spend on necessities such as food stamps. Moreover, unemployment affects the income of families, and purchasing power and reduces the economy’s output.

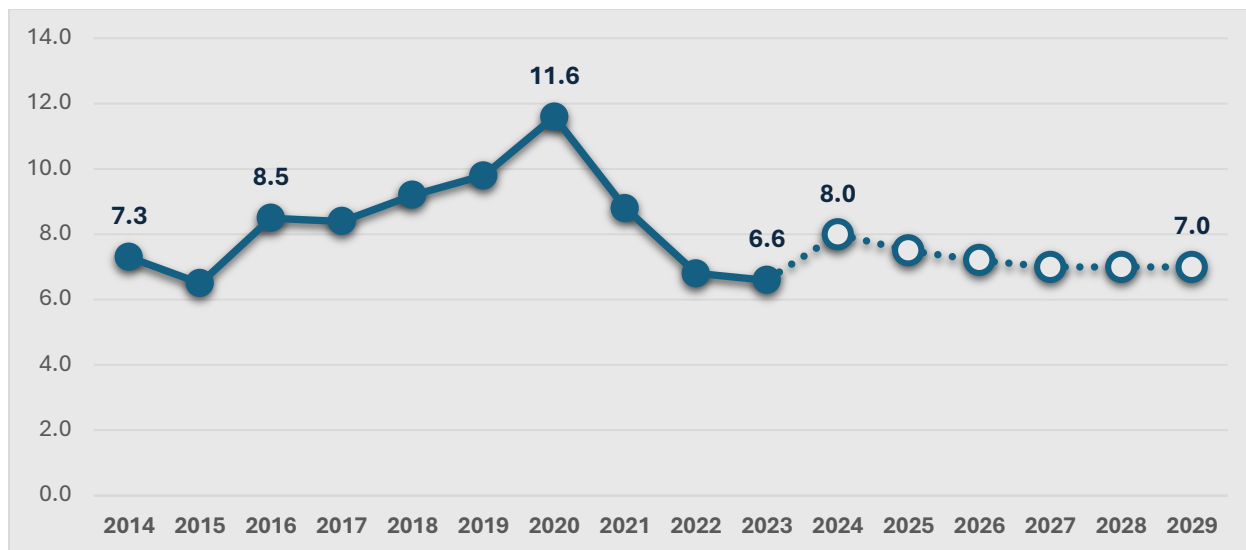


Figure (3): Argentina's Declining Unemployment Rate & its Uncertain Future¹

As demonstrated in the chart above, the unemployment rate reached its peak after the pandemic hit the country. However, the unemployment rate has gradually decreased since 2020 due to successful government intervention including wage subsidies for people whose livelihoods were affected by the pandemic and the strengthening of employment insurance. Consequently, although unemployment is gradually decreasing, the IMF still predicts that unemployment rates will return to the same level as ten years ago due to the instability in the governing body and the complicated economic situation. With that in mind, this will affect people's purchasing habits and they will be less likely to buy our products.

Exchange Rate:

As per the understanding of exchange rates, a depreciating currency makes imports expensive and exports cheaper.

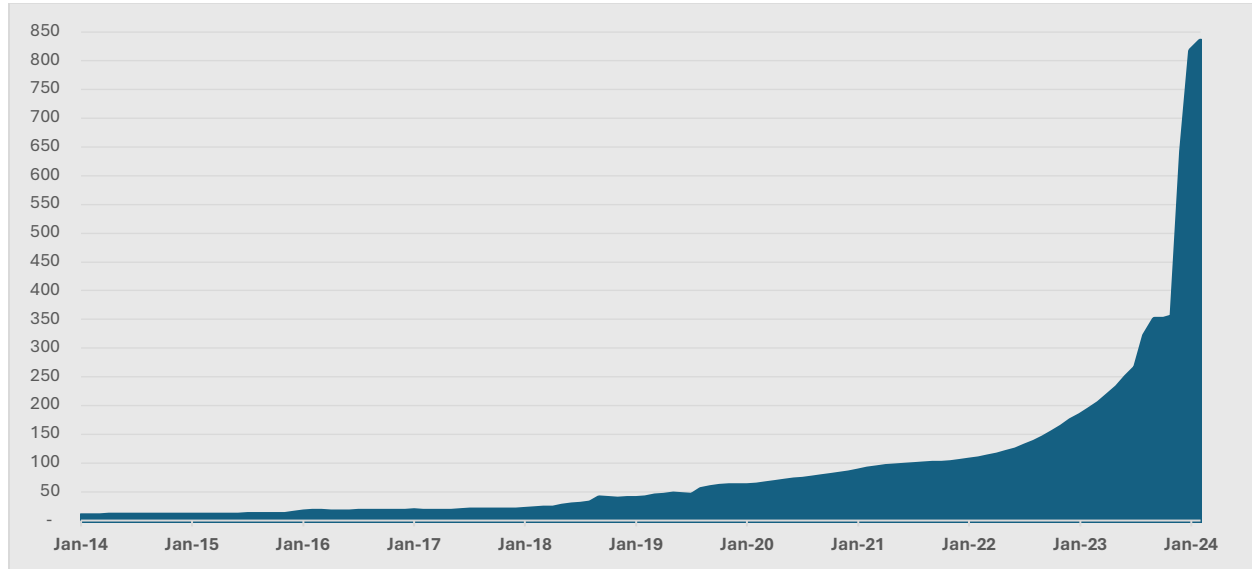


Figure (4): Argentina's Depreciating Exchange Rate Trendline³

Keeping this in mind, given the exchange rates are high making imports more expensive, the exchange rate would raise the selling price of the products in the country, which in turn would negatively impact the sales in the common class that takes up the larger population of the country, and as a result, this will decrease profits. The chart shows that the exchange rate was stable from 2014 till 2017 and started to rise after, depreciating the currency. This trend continues to date. Therefore, the high exchange rate will negatively impact the profits whether it is decided to produce the apparel locally, which still needs raw materials used in the production process to be imported or import the finished products.

Inflation Rate:

When the rate of inflation rises rapidly, it can result in lower purchasing power, higher interest rates, slower economic growth, and other negative effects on the economy.

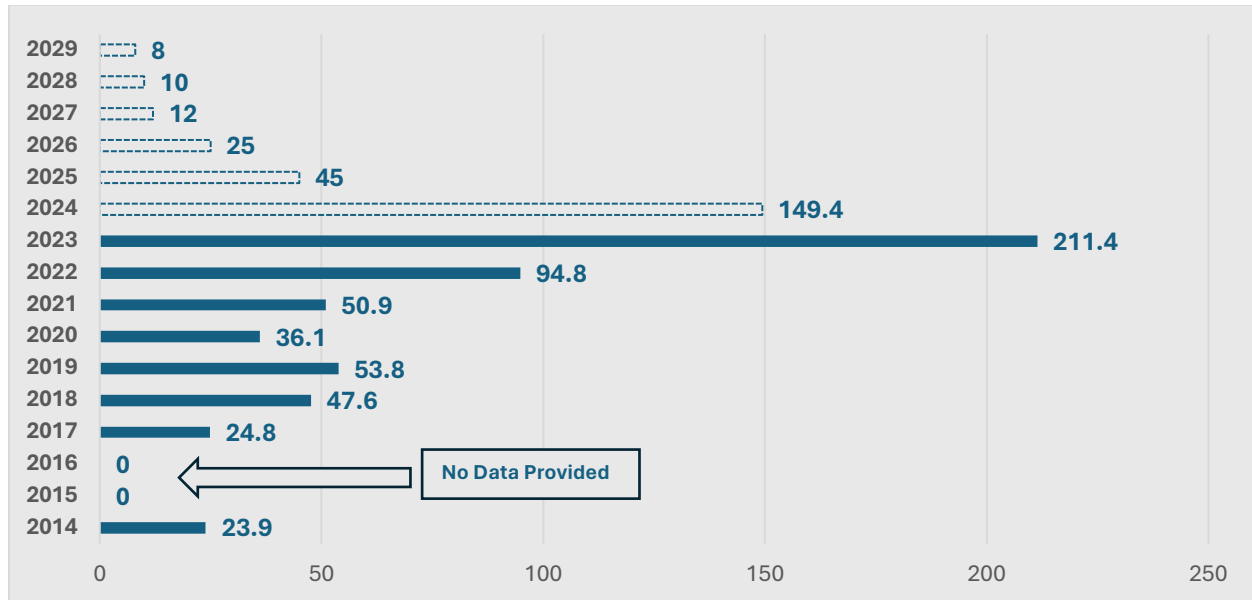


Figure (5): Rapid Increase in Argentina's Inflation Rate¹

Argentina's alarming economic situation is demonstrated in the above graph, as the massive increase in the inflation rate in the last two years indicates that the economic situation in the country is worsening. This uncertainty about the economy's health leads to businesses hesitating to start investing in a country that has a depreciating currency which will inevitably impact the purchasing power of the customer base, in this case, the population. Ambiguity over future costs and prices leads to tensions for businesses and they may consider starting operations in a more stable environment where profits are more likely. What makes the matter even worse is the fact that during 2015 and 2016, the Argentinian government didn't provide any data about the inflation rate, and this suspicious uncooperative behavior leads to investors questioning the integrity of the country's leadership. Despite that, the IMF predicts that the Argentinian government can bounce back from this setback and reduce inflation rates in the near future, but whether this will come to fruition is still uncertain (Sharkey, S., 2024).

Interest Rate:

Real interest rate is the lending interest rate that has been adjusted for inflation using the GDP deflator.

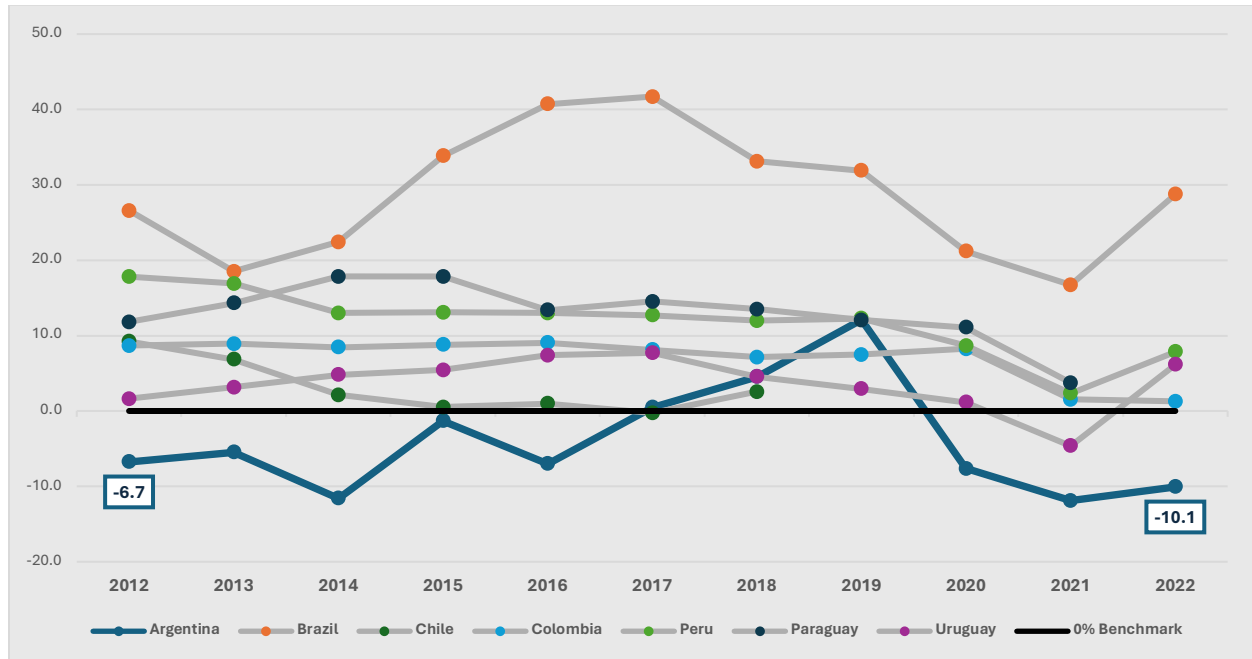


Figure (6): Argentina's Low Interest Rate Compared to Latin American Countries in the Last 10 Years¹

Due to a lack of data, the data shown in the graph are until 2022. When interest rates are high, the cost of borrowing increases, and therefore, inflation decreases. During this time, producers are less likely to borrow capital since the return on investment will be low. In Argentina, this is what happened between 2016 and 2019. However, in the past few years, interest rates have declined and are currently (2022) negative. In this case, producers are encouraged to borrow capital since the return on investment will be high. Compared to Latin American countries that have a significant economic impact, Argentina's interest rate is very competitive and can attract investors because they will profit from borrowing money alone.

Economic Freedom:

This metric concentrates on economic performance and investment attractiveness based on government policies and the effectiveness of its bodies and institutions.

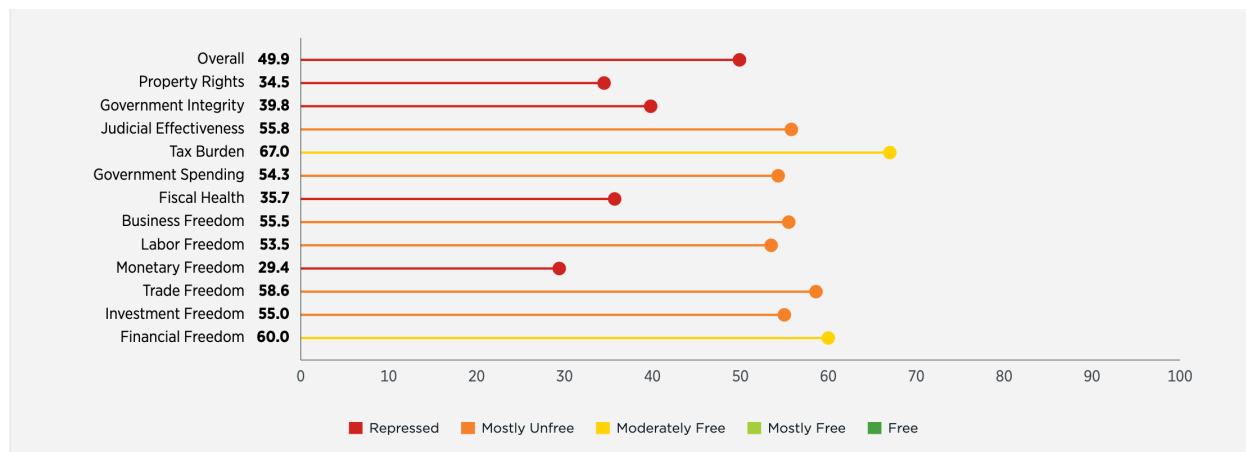


Figure (7): Repressed Economic Situation in Argentina during 2024. Adapted From The Heritage Foundation⁹

According to the charts provided by The Heritage Foundation, Argentina's economic freedom is in a repressed state, as the most lacking metrics affecting its score are monetary freedom, property rights, fiscal health, and government effectiveness. Furthermore, not a single metric was in the mostly free or free category, highlighting the economic struggles the country is facing (The Heritage Foundation, 2023).

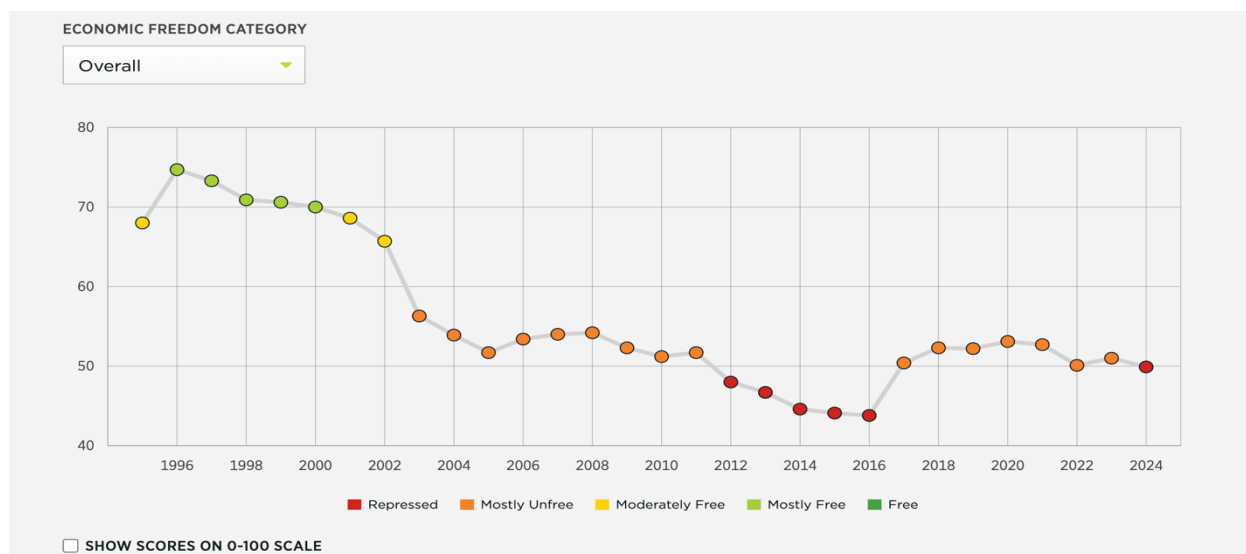


Figure (8): Declining Economic Freedom in Argentina. Adapted From The Heritage Foundation⁹

The other chart provided by The Heritage Foundation shows Argentina's declining economic freedom as shown in Figure (8), reinforcing the finding of Argentina's economic struggles presented in Figure (7). Essentially in the last ten years, the government has failed to create an enticing environment for local and foreign investors, which is emphasized by the constant change of the governing body and leadership regime during this period.

Human Rights Development Index (HDI):

Another indicator we'll look at is the Human Development Index (HDI) which is a "measure of a country's average achievements in three basic aspects of human development: health, knowledge, and standard of living" (World Health Organization, n.d.). This index is important because it measures the social development of a country.

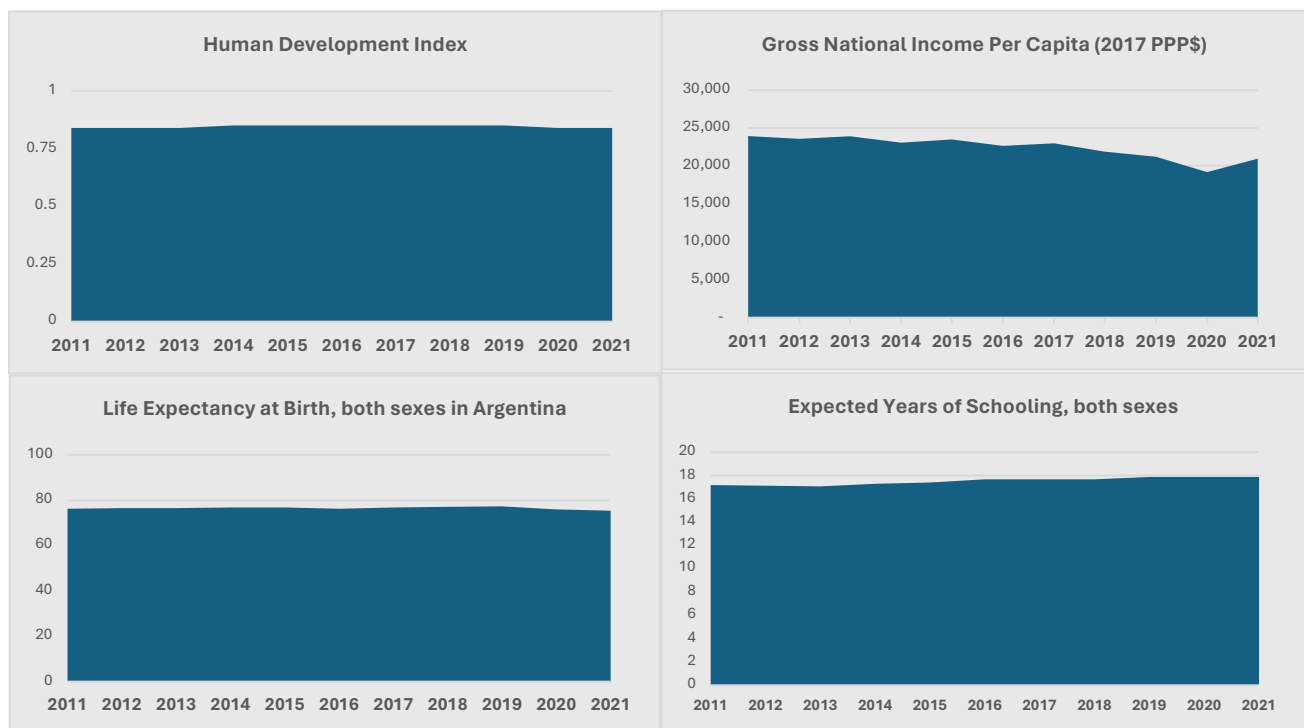


Figure (9): Argentina's Stable HDI Throughout the Years²

Argentina has a stable HDI of 84% (Data Futures Exchange, 2021) which falls under the very high human development tier. Having a high human development index is important because it means that the country has a high standard of living, access to good healthcare and education, and the population has a decent income to support their families. This will

contribute to the economic growth of the country which will also impact business development and be beneficial if it is decided to begin operations in Argentina.

Literacy Rate:

As a country's economy becomes more productive as the proportion of educated workers increases.

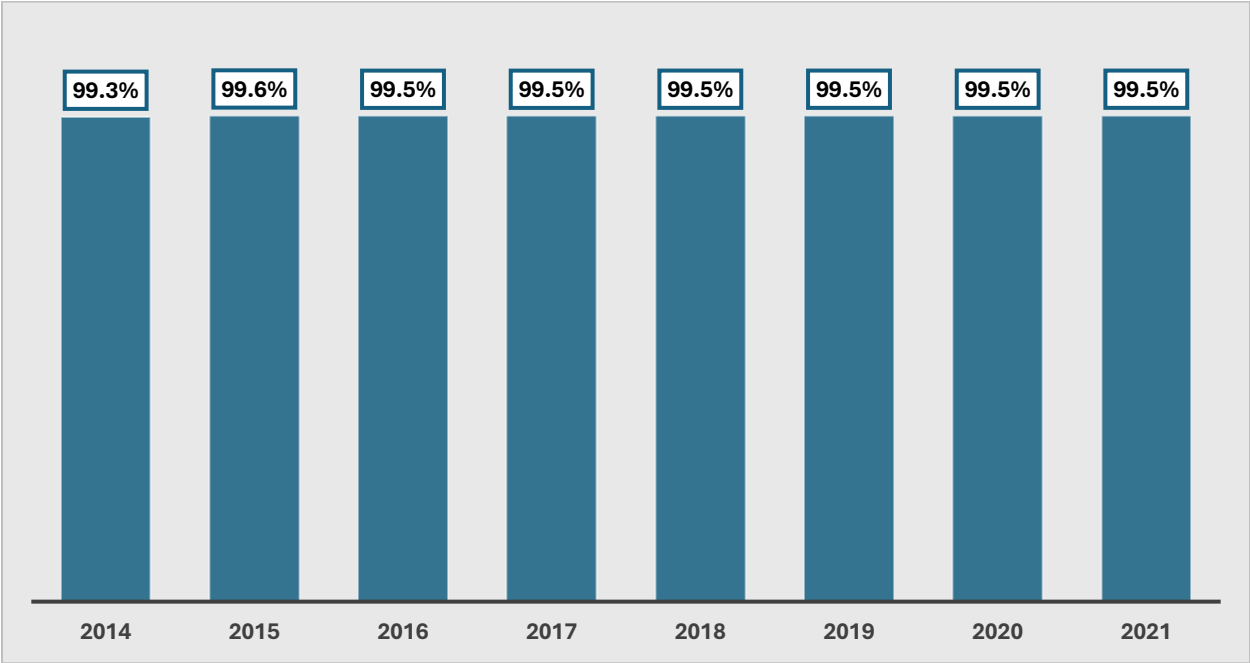


Figure (10): Outstanding Literacy Rate in Argentina⁴

No data was found beyond 2021, which is concerning because Argentina is not sharing this data. As evident from the chart, it is safe to say that the literacy rate in Argentina has always been high given that there are policies requiring education for all the people. Even during the pandemic, the literacy rate was not affected by much. This indicates that there is gender equality in the country and the workforce consists of well-educated individuals with high capabilities and this can be beneficial for hiring experts that can help establish a branch in Argentina. Despite this, there is doubt on whether the literacy rate has remained the same beyond 2021 in Argentina.

Executive Summary

MNC Corp. is an apparel company that currently caters to all individuals in the United States of America. Because we have surpassed our competitors in the USA, we would like to expand into a country that is economically stable in order to create global awareness of our brand and also increase our profits. One of the countries we will look into for expanding our business is Argentina. In order to determine whether expanding into Argentina is feasible and profitable, we have been compiling and analyzing key economic factors to better understand the economy of Argentina. This will allow us to make an informed decision.

To summarize, Argentina has had multiple fluctuations in GDP in the recent years; however, the GDP per capita has been stable the past few years, most likely due to increasing population. There is a gradual decline in unemployment rate which is suitable since the population will be able to and more likely to purchase our products. There is a high Human Development Index, indicating that the country of Argentina is socially developed. However, the increasing exchange rates in the last few years will decrease our profits. There is an increase in inflation rate indicating that Argentina's economic situation is worsening. However, a negative interest rate encourages investors to borrow capital which is beneficial for our company. Still, the economic freedom is repressed indicating that the economy of Argentina is suffering.

Through our research and analysis, we have found that while Argentina is stable in certain aspects of its economy, there is still much uncertainty with the direction of other major factors that could impact our sales and revenue; therefore, we do not recommend that the business be expanded into Argentina at this moment, especially after the economic uncertainty brought upon by COVID-19. Having said that, we plan on continuing to monitor the economy of Argentina and perhaps, barring any outside factors or calamities, we can expand into Argentina in the future.

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