A Competitiveness Analysis of Argentina and Chile Vitivinicultures

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Abstract

The concepts of comparative advantages, which in a more static sense, classical economists associated with a country’s natural resource endowment, and competitive advantages that, after Michael Porter contributions, is associated to a more dynamic expression of the flow of goods and services among countries that trade with each other, are used to evaluate the performance of bottled wine exports from Argentina and Chile under the current context of trade globalization. Specifically a comparative advantage of a country with respect to another is by definition a relative concept and can be calculated as the ratio between the costs of production and export-related services, transportation and insurance costs that a given export sector or industry must take as compared to its competitor, to place a product in CIF condition in the country of destination.

With the increase of globalization of the wine business, it is very frequently to heard about the competitiveness of a given winery or the wine sector in general, as compared to other sectors of the domestic economy or to the wine industry of another country. Thus, for example, in the past two years due to the increasing impact that inflation is having on domestic costs, a permanent discussion has been installed in the Argentine wine sector about the loss of competitiveness of both the firm and the industry as a whole. Given the importance of maintaining the competitiveness of wine exports to be sustainable in the long term, it becomes increasingly essential to analyze with painstaking thoroughness the internal production costs at the firm level, as well as the outside factors affecting its profitability. The latter, usually linked to macroeconomic policy include among others, the fiscal balance of the country, the monetary policy, the exchange rate parity, or the overall business climate that characterizes the socioeconomic environment of the company.

The problem of the lack of competitiveness of Argentina’s wine industry today is extremely complex and therefore its solution requires a set of complementary measures to gradually permit the exporting wineries recover their profitability for the wine sector to resume its sustained export growth in the different modalities it may takes.

This presentation starts with the concept of comparative advantage, as defined above, but splitting costs in two components such as it makes it possible to visualize the impact of inflation on the real exchange rate and the resultant profitability of the exporting company. Later on, it is emphasized the importance R&D+ i in product differentiation and the internationalization of a firm, with the recommendation that investment in R&D+i should be incorporated in the export strategy of a firm as a tool to reinforce competitive advantages based on productivity raise and quality improvement. The consequent reduction in production costs and the continuous increase of product quality will give support to higher profitability of exports. To refer to a specific case of investment in R&D+i we will briefly present the results of a Program dealing with clonal selection of Malbec, run over the last 12 years by Tempus Alba winery.

Finally we present some environmental arguments to justify the application of a common environmental regulations (CER) to competing countries that may have an inefficient use of water (water footprint for example), or to advise against the use of a trade distortion indicator like the carbon footprint, when it is used as a non-tariff barrier to restricts free trade. The direct implications of those two measures will be that in the specific case of bottled wines exports from Chile and Argentina, both countries can benefit in the first case, but could be seriously hurt in the second.
From the numerical results of an econometric study undertaken by the authors, it follows that the profitability loss of the Argentine wine exports for the last two years period, is not a hypothetical but a real situation. In fact the unfavorable conditions identified above has damaged the exports of bottled wines in general but especially those who sale at a FOB price less than uS$ 36 per 9-liter case. According to official export statistics, in that price range, in 2012 Argentina experienced a fall in exports a little bit higher than one million 9-liter cases. These numerical data are consistent with the empirical results of the above mentioned econometric analysis done for 2011, and projected to 2012.

The main results are summarized as follows:

\[ \varepsilon_p = -1.50 \] (direct price elasticity for Argentina).
\[ \varepsilon_I = 0.38 \] (direct income elasticity for Argentina).
\[ \varepsilon_{pch} = 0.55 \] (cross price elasticity of Chile)

There exists a substitution effect between brands from the two origins. If the average export price of Chilean bottled wines increases by 1%, the Argentine bottled wine exports will grow 0.55%.

\[ \text{Chile } \varepsilon_{expo} = 0.32 \] (cross elasticity between exported volumes)

In this case, there exists a complementary effect between origins. If the number of cases of bottled wines exported by Chile, in the average, increases by 1%, the volume of bottled wines sold abroad by Argentina will grow by 0.32%.

These findings are very important at the moment of deciding the policy of export promotion of each country because, if we take into account just the substitution effect, it sounds very reasonable to limit promotion expenditures of each country to its individual interest, based on the coexistence of brands of different origins competing for the same market. But as long as we admit the existence of a complementary effect, those different wines will behave as complementary goods, and this character will call for some joint efforts to promote both origins, for example New World South American wines, against the interest of the Old World producing countries. A situation like this opens a space of cooperation for the realization of joint promotional activities, of which the private sector not always takes advantage. It is more in the field of academic institutions that involve primarily universities, research centers or International Conference like ENOMETRICS.