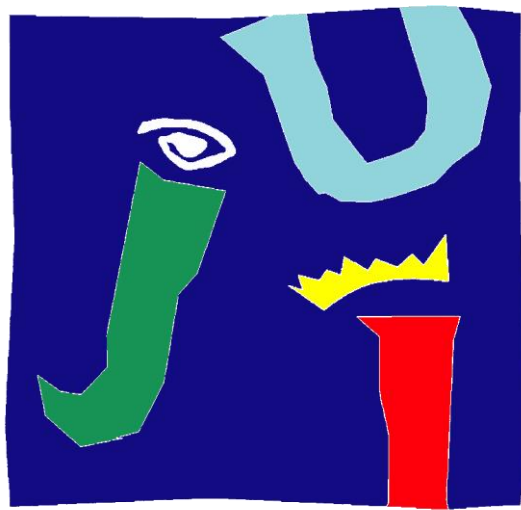


**CORRUPT PRACTICES IN LATIN AMERICA
AND THE FINANCIAL EFFECTS FOR ITS
CITIZENS**



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1. INTRODUCTION

Corruption has been present in human beings' life since time immemorial. As a matter of fact, it could be said without fear of being mistaken that corruption was already surrounding us since the very moment that human beings appeared on earth. What's more, even the ancient cultures could experience the events of corruption.

It is common to hear people talking about corruption, and the majority of them think that it is something that solely occurs in politics due to the habit of listening to this kind of events in the news. However, if we analyzed the concept of corruption in depth, we would realize that this concept is present on a daily basis in a wide variety of contexts, and that we are all corrupt to a certain extent without even knowing. Corruption damages the dignity of a person, group or nation; what can be observed in the constant lies, cheats, and briberies among others. As we can see, corruption is not a weird experience in our lives: it is something that we use in order to reach our goals and aims even though it implies damaging another person. This is something that is increasing in our society, and it is being accepted as something usual and normal. And that is the reason why detecting a corruption event and condemn it is so hard.

As it is a hot button in our society, the aim of this project is to compare four different countries (Chile, Uruguay, Argentina and Brazil) that present different levels of corruption as regards as IPC measures (Indexes of Corruption Perception) as well as the effects of this corruption for their correspondent inhabitants. The index mentioned is performed yearly by Transparency International, a so relevant non-governmental organization that determines the perception of corruption from the point of view of businessmen and analysts of the countries.

The selection of these countries has been made taking into account the level of development they present since it is important to have the same levels in order to have an accurate comparison. Thus, these four countries find themselves in a transitional phase into the technological innovation bearing in mind that these countries present a more socio-economic development, in some cases, of developed nations.

Another aspect taken into account will be the period in which they are analyzed. The reason for this is that Chile, for instance, was the first country out of the four chosen which entered the transitional movement. On the contrary, Argentina, Uruguay and

Brazil have recently entered. Consequently, the period under analysis will comprise the period from 2011 until the last data available from 2014.

Regarding the project structure, it will consist of two parts clearly differentiated. In the former one, the explanation of how each one of these countries presents the level of corruption established by the IPC will be analyzed from three different perspectives:

- The functionality of the institutions of each country.
- The level of globalization of the country.
- The education that the country declares.

In the second part, the existing correlation between the corruption previously explained and the freedom of its citizens in order to pursue their economic interests in every single system of the corresponding countries.

Finally, the most significant conclusions analyzed throughout the projects will be also described. This will be done by trying to increase population's awareness on a topic that is gaining more and more importance around the globe.

2. THE FUNCTIONALITY OF INSTITUTIONS IN TERMS OF THE ECONOMIC LEVEL OF EACH COUNTRY.

Living in a society implies to take profit of work division within the frame of some imposed rules that allow us to coordinate our activities and provide ourselves with goods and common services. These rules will be the rules under which society will be developed, and they will be implemented through institutions.

Thus, the term “institutions” is used to refer to the rules that allow us to coordinate the actions carried out by individuals in the society, which do not give us predictability regarding others’ actions. Their main goal is ultimately to save on information in relation with attitudes third parties. In order to have ordered social relations, actors may be able to build up expectations based on a certain probability of being correct in relation with the actions of others. In other words, actions can be performed as long as third parties do not get harmed.

On the other hand, the importance of the quality of institutions has to be highlighted since it will directly affect the engine of growth in the country: the inventions and innovations; what inevitably affects the inhabitants’ quality of life. Countries with high levels of quality in their institutions will easily catch investors’ attention that will see new opportunities to transact business; which will turn into an increase in the economic level of the country.

The government’s role in the implementation of institutions will be fundamental. Thus, those imposed rules will not warrantee particular results to every single individual; rather, they will generate general conditions for individuals to have more opportunities to pursue, and eventually reach their particular goals.

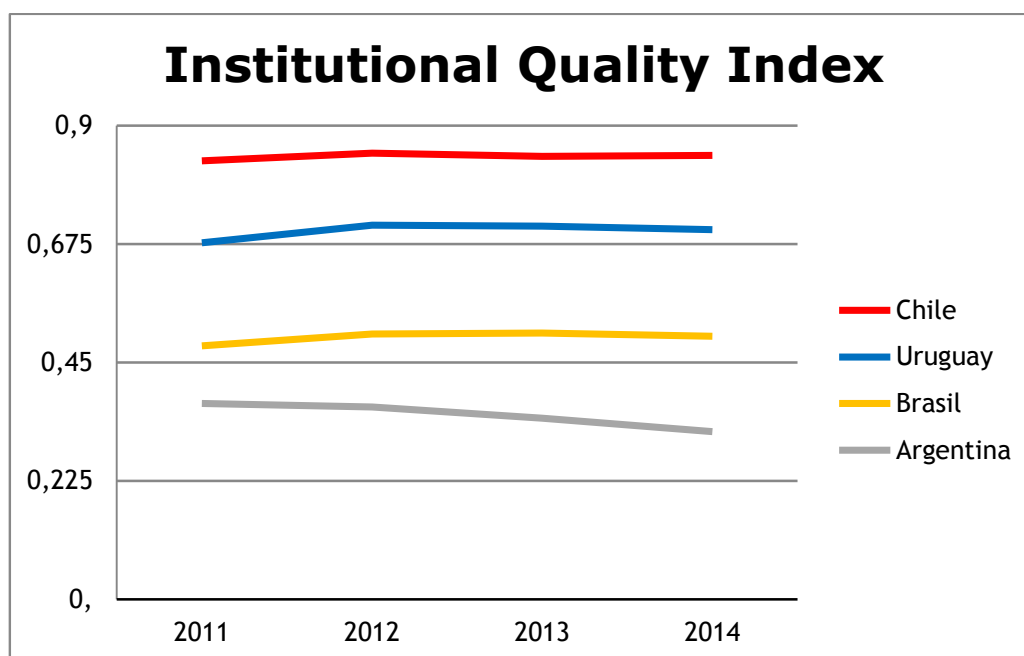
Considering that institutional quality analysis will be crucial when analyzing the level of corruption, it is understandable that the countries with potent institutions will not only present a better economic level but will also have more control over corruption events; which allow them to minimize it.

In order to make the comparison, the ICI (Institutional Quality Index) is taken as a reference. This index seeks to evaluate the quality of political institutions in relative terms among countries. In so doing, data are measured through the individual rights of people, the proper functioning of justice (Respect for the rights), the proper functioning

of democracy, and accountability from leaders to citizens (Voice and Accountability), freedom of speech (Free press) and the existence of corruption in the order of most present to least present as an indicator of the institutional quality (Corruption Perception).

Moreover, the economic institutions are evaluated through the analysis of existing limitations for the functioning of labor markets and the successful development and dynamism of innovative entrepreneurial activities (Transacting business), the competitive marker conditions that are offered by countries (Global Competition) and the economic freedom that includes contractual freedom, freedom of prices, salaries, currency's stability, trade openness, level of government expenditure as well as taxes and regulations.

Graphic: 1



Source: Progress and Freedom Research Center.

It should be emphasized that the institutions and their quality do not drastically change year by year. With very few negative exceptions, changes are gradual. However, if changes are constant, time can greatly modify the institutional quality.

Thus, Figure 1 shows how Chile stands out significantly from the other countries, being the Latin-American country that leads the way of this index. For this reason, it keeps an economic stability that means higher living standards for its inhabitants.

On the other hand, this institutional level will present a certain correlation with the economic growth measured through the volume of investments carried out in the nation. Actually, Chile is a country that receives a great deal of proposals from foreign investors, which are mainly from Spain. This wave of proposals is mainly performed by small and medium size business (SMEs) devoted to renewable energies, water desalination and treatment to establish service for mining properties which are located in the Atacama's dessert and which have turned to be crucial companies for the Chilean economy.

Undoubtedly, the Chilean stability and institutional rigidity provides much more security and less uncertainty about investment returns and resilience to foreigners investors. In this way, the total productivity of production factors, economic competitiveness and a sustained economic growth are promoted.

In second place, Uruguay is found, which also stands out for Brazil and Argentina with an institutional quality closer to the Chilean one. As a matter of fact, both countries have blunted in Latino America.

Uruguay is clearly emphasized in Latino America for being an egalitarian society, having a high per-capita income, lowers levels of inequality and poverty and presenting one of the most populated regions belonging to the Latino American middle class.

The stability of the Uruguayan institutions is reflected on the high confidence level of its citizens in the government, which allows better operations in society. According to the Humans' Development and World Bank Index, Uruguay has achieved higher levels of equality of opportunities as regards as affordable basic services as education, electricity, sanitation, and safe water.

This stability has been interpreted as an economic growth in the country as well which has allowed for a greater resistance of economy to external shocks. According to the World Bank (2013), Uruguay is a country that presents high incomes and a national income per capita of 13. 580\$, having experienced a 5.2% annual average growth between 2006 and 2016.

On the other hand, the reduction of population's inequalities, measured through the reduction of the standard of people involved in moderate levels of poverty (from 32.5% in 2006 to 9.7% in 2014) has diminished corruption.

According to studies conducted by the economist and doctor Bernardo Kliskberg, there exists a relationship between the levels of inequality of a given country with its level of corruption. He also points out that the countries with high inequalities among their populations present more signs of spoilage, which leads to high levels of corruption.

The truth is that both Chile and Uruguay belong to the first tier of countries around the globe that have been analyzed within this ICI index (Institutional Quality Index). Though not problem-free, they keep showing the blessings of respect and equality under the law, the proper functioning of democracy, freedom of press, the intellectual property trademarks, a stable currency, contractual and prices freedom, and in general, the benefits of political and economic freedom that is measured by this index.

As regards as Brazil, the biggest country and the main emergent economy in the past years in Latino America, it displays a privilege position in the quality of its institutions. However, this position is far from Chile and Uruguay to a lesser extent. Despite of this fact, it has generated great expectations in the last years due to its right-wing government and the promotion of new companies together with the development of natural resources.

Its recent dynamism in the rankings shows noticeable developments in the past 20 years aiming at the macro-economic stability, liberalization and globalization of its economy, and the reduction of income inequalities among others. These efforts have been fundamental to place the economy on a sounder footing and provide a more favorable environment for trades in order to enhance the growth of the private sector.

However, it also exhibits severe weaknesses and challenges that will have to be outperformed for Brazil to take advantage of its competitive potential.

The components of this indicator also show poor results as regards as “Taxation Payments”, “Closing of a company”, “Opening of a business “and” Completion of land registration”. To sum up, Brazil is characterized by being a country with an important trade market that generates opportunities for future business, encouraging mainly the big companies. However, it has very regulated markets with red tapes that harm small and medium size companies. In other words, SMEs set in unknown regions of the country do not get the same results than those found in the main cities.

As can be observed in the figure, Argentina is in the last position. Argentina is a country that follows a decreasing tendency and it is well away from the other countries having the worst qualifications on the economic indicators, particularly in those of freedom and accountability.

According to Martín Krause, Liberty and Progress advisor and the author of ICI (Institutional Quality Index), Argentina has offered ample proofs of lack of interest on behalf of its governors for the basic protection of rights such as property, the rule of law, and the independence of justice among other relevant aspects. Moreover, the country does not either effectively measures the confidence in justice and police force, the speed of decisions made by judges and public officials' honesty.

The issue is that Argentina presents two serious problems: firstly, the failure of autonomy regarding the three branches of government, making it virtually impossible for any of them to be subordinated to the others. This aspect is still tenuous in the democratic process of the country. More apparent than real is the fact that the three branches of government are situated in the political context of the country in such a way that the executive power ends up being subordinated to the other two rather than its own autonomous necessities. The second problem is the actual deficit due to the fact of not having developed a powerful system of independence among the three powers. These aspects affect inhabitants because of their distrust on the institutional system of the country.

All in all, the quality of democracy is utterly weak; the institutionalism is shameful and spooky; the legality is apparent, and as a whole, the project of creating a strong nation that learns to reside with others is still a statement rather than a fact.

3. THE GLOBALIZATION OF EACH COUNTRY.

Before going into this particular issues, it is necessary to define and contextualize the term “globalization” from a general perspective.

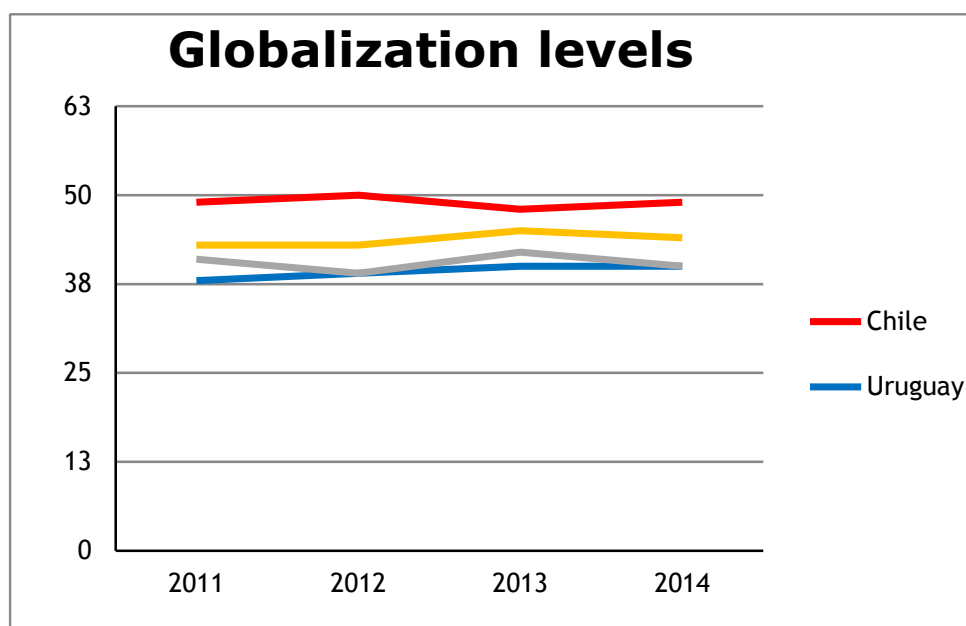
Firstly, it has to be stated that it is an international bonding process, of recent and new data that emerges at the end of the 20th century and the beginning of the 21st. In this process, economy, information and culture among others are mainly internationalized by generating interdependence. In other words, a loss of autonomy of the nation states is generated.

As such, globalization was the result of the consolidation of capitalism; the technological developments and the necessity to expand the global trade flow. In this regard, the innovations in the areas of telecommunications and computing together with the raise of Internet played a crucial and fundamental role in the structure of a globalized world.

The breakdown of frontiers generated a capitalist expansion in which it was possible to carry out financial transactions and the spread of companies to more distant and emergent markets, which was limited for the domestic market up to that moment. In this sense, it can be observed how the process of globalization has modified the way in which markets from different countries interact.

Focusing on the four countries under analysis, it can be seen that there exist differences regarding their level of measured globalization by the IGC (Global Connectivity Index). This index analyses the situation of globalization around the world year by year.

Graphic: 2



Source: Data provided by Global Connectivity Index.

As can be observed in this figure, Chile stands for positioning itself in the number 41 out of 140 countries under analysis in the year 2014. It also underscores the fact of being the most globalized country in South America.

In order to understand this figure, it has to be said that Chile was the first country out of the four under analysis, which initiated this globalization process in the middle of the 70s. This process emerged after a dictatorship process when the country was ruled by the guidelines of neoliberalism; an economic and political mainstream that supports a wide liberalization of the economy, free marketing in general and a drastic reduction of the public expenditure and the intervention of the State into the economy in favor of the private sector, which would perform the competences traditionally conducted by the own state.

This early initiation in the globalization process has allowed Chile to be a globalized country and which has established trade relations with many countries through free trade agreements:

- Free trade agreements with Canada (1996)
- MERCOSUR (Argentina, Brazil, Uruguay, Paraguay, Venezuela) (1996)
- Mexico (1998),

- Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua) (1999)
- European Community (2002), South Korea (2002), United States (2003)
- European Free Trade Association (EFTA) (2003)
- China (2005)
- New Zealand-Singapore-Brunei (2005)
- Colombia (2006), Panamá (2006), Peru (2006), and Japan (2007)

These free trade agreements have allowed Chile to improve its economy and reduce, and in the majority of the situation even abolish, tariff barriers and non-tariff barriers to trade contributing to improve the competitiveness among companies (due to the fact that it is possible to have raw material and machinery with lower costs.

Besides, they have facilitated the increase in the flow of foreign investment (by giving stability to investors in the country) provoking the Chilean companies to compete on equal terms with other countries that have taken advantage through similar trade agreements. Among these, making gains over countries that do not have preferential trade, which have fomented employment creation derived from export business are easily found.

On the other hand, Uruguay, Brazil and Argentina have seen their liberalization as a stagnant process, more than the Chilean, from the very beginning through agreements that have improved their economy. One of the most important agreements has always been the Constitution of the Common Market of the South Treaty, MERCOSUR. In this agreement, the four states that shape the MERCOSUR (Argentina, Brazil, Uruguay, Venezuela) share a bulk of values that are expressed in their democratic societies, pluralistic, defending the basic freedoms, civil rights, environmental protection and sustainable development as well as their commitment with the consolidation of democracy, justice security, fight against poverty and an equal economic and social development.

Apart from this outstanding treaty, these countries have established free trade agreements with Chile (1996), Andean Community (Bolivia, Colombia, Equator, Peru) (2004), India (2004) and Israel (2007) allowing the expansion of their corresponding markets.

Were Brazil analyzed more precisely, it is the second most globalized country observed in the figure, and it occupies the 74th position in the IGC (2014). In this analysis it can be observed how globalization has exerted a great impact on the organization and proper functioning of the geographical space in this country, especially in the urban areas, with implications that lead to comprise social, cultural, economic and politic relationships.

The new productive structure that is taking place in Brazil based on the technological paradigm during these last years has important social, economic and spatial repercussions. One of the most resulting consequences is the serious growing concern about unskilled labor and natural resources by capital, which has significantly affected the national economy that has historically been based on the development of the economic development thanks to its comparative advantages derived from the availability of natural resources and cheap labor.

Certainly, the globalization in Brazil has shown many anomalies and symptoms of crisis over the years. As it is true that it has become the largest emerging power of Latino America, it also declares severe inner structural problems: on the one hand, it originates a major growth of the gross national product while the structural unemployment, public debt and internal differences are incremented. These problems are expressed in the differential growth of cities depending on their role or insertion in the overall network, creating luminous and bright rooms those who become part of the globalizing process with cities such as Sao Paula and Rio de Janeiro; and opaque spaces those who are excluded from the process. To sum up, there are significant differences within Brazil depending on the places where the main companies are located, being these ones the ones that take great profit obtained by commerce.

Regarding a very important aspect that favors Uruguayan market is the possession of a first level port infrastructure (Montevideo), which is a reference port for the south with 65% carriage of goofs passing over this point. Besides, it owns a solid infrastructure to the service of information technology and telecommunications, being one of the best of Latino America despite not being reflected in the industry. For this reason, things should be done in order to achieve a greater use of the existing facilities.

The management of commercial, economic and financial policy that has conducted Uruguay in the last years has permitted to make use of the opportunities offered by the favorable international context, obtaining thus better results than the expected.

Moreover, in raw materials, the growth systematically overcame the official and private expectations and it was even above the Latino American average, being the average rate of 5.8% from 2006 to 2013 according to data from The World Bank.

Finally, it has to be highlighted the example of Argentina. The issue is that due to an ideological turn and the consequent economic transformation that took place at the beginning of the 1990-decade, the country performed a global opening, which implied the incorporation of external investments, new technologies, new efficiency and productivity parameters. With these parameters, the aim was to promote the competence, increase the production as well as employment. Their purpose was to respond correctly to the challenges and opportunities derived from globalization.

As we have seen, the results were not the expected ones. Actually, the new strategy contracted three major problems to the country: an excessive debt, an exaggerated incorporation of private and direct investments and the negative fallout of controlling the economic policies.

The cause of Argentina's debt provides chilling data due to the fact that it has continually grown since 2003, reaching a debt of 188.362 millions, 40,22% of its gross domestic product (GDP) in 2013. In this way, it became one of the most indebted countries in Latino America.

On the other hand, the exaggerated incorporation of direct private investments in Argentina through the decade of 1990, where 50 millions of dollars were paid is also reported. Around 80% of these investments were intended to the purchase of assets corresponding to public enterprises privatized, industrial firms, and business networks from local capital. Nowadays, the Argentinean economy has one of the major indexes of foreignization around the world due to the possession of infrastructures, big trading companies, the banking system, business networks and information and telecommunication services owned by non-residents.

Last but not least, the continuance of the parity regime that is inevitably based on a fixed exchange imposed by Argentina in 1991 has lead to a chronic overvaluation and the dollarization of the Argentinean economy. The North American currency in parity with weight circulates as means of payment within the country. Around 2/3 of financial assets are denominated in dollars. In such conditions, the money supply is determined

by the reserves in the Central Bank; the rate of interest shows the risk of the country and fiscal deficits are limited by the access to the international credit.

Certainly, Argentina is not a nation prepared to face the onslaughts of this global era. In other words, the country does not have a clear and precise strategy to face the globalizing process of a develop world. Moreover, it presents institutional failures that impede an effective integration both at a regional and global level; slowing down its own economic development.

The Argentinean unresolved and urgent task is the creation of a proper project and a development strategy that allows the country to grow and face the international trades on equal terms. Besides, it will be necessary to confront an educational debate aiming at the potential achievement of a society that fights for intelligence and credits. It will also have to promote the training of people who understand the challenges of the world and take advantage of them in order to benefit the nation.

4. THE EDUCATIONAL LEVELS OF EACH COUNTRY

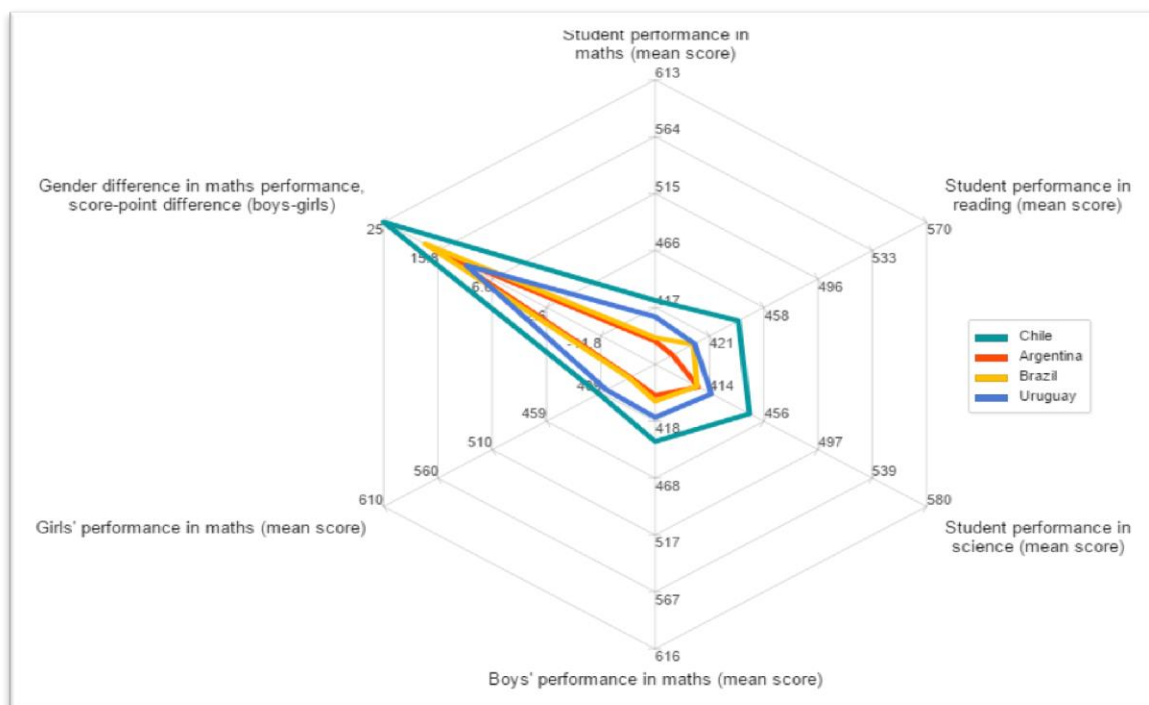
In order to prevent corruption, some strategies address and consider crucial issues such as the strengthening of education regarding citizen values and respect for justice laws and democratic institutions. In doing so, teenagers will be aware of individual and collective consequences from acting corruptly and disobedience of the established rules.

The importance of providing future citizens with values of integrity, citizenship, transparency and prevention of corruption has been shown by the fact that the more civic education, the less permissiveness of corrupting practices and less tendency to violate and breach the law so shamefully. This education is thus a key element when analyzing the level of corruption from each country.

In this way, it can be observed that Latino America has improved the access to education in all levels, especially for poor students, during the past three decades. However, the surveys on student assessments show that the learning process are still low in comparison with successful education countries that have similar per-capita incomes; that is to say, developed countries.

The rest of countries under analysis, Chile, Brazil and Argentina, show given differences among their education levels which will be useful to understand the level of corruption.

Graphic: 3



Source: Data from OCDE, Pisa reports (2012).

As can be observed in the figure, Chile was the most successful country regarding performance, overcoming the other countries, with a score of 423 in mathematics, 441 in reading and 445 in science (data taken from PISA, 2012).

This fact does not mean that the global performance of the region is still poor in relation to the rest of the world. The sociologist Magdalena Claro, master's degree in Social Sciences in the University of Stanford, claims that "Los países de América Latina están en el tercio más bajo de desempeño en lectura, matemáticas y ciencias entre los 65 países medidos. Esto es negativo, sobre todo si se considera que la prueba mide en qué grado los estudiantes hacia el final de su educación secundaria son capaces de aplicar su conocimiento a situaciones de la vida real y por lo tanto están equipados para participar plenamente en la sociedad moderna".

Besides, Chile, which has been considered as the head of education progress, is nowadays immersed in a far-reaching discussion on the future of its educational system. The Chilean educational system has reached important achievements such as the fact that the majority of children can rely on having 12 years of education, far higher than the average in the region.

However, the country wants to become a developed country and does not seem to be content with comparing itself with the neighbor countries. Its referents are countries that belong to the OCDE group in which Chile is a member. And within this group, the Chilean educational system leaves a great deal to be desired. In fact, Chile occupied the position number 51 out of the 65 participating countries. This inconsistency of results, which are superior to the ones from its neighbors but inferior to the countries regarding future achievement, is evidenced in the high demands of improving the quality and equality of education from every single social perspective. Chileans are concerned about education as an important tool for individual and collective progress. For this reason, when high levels of educational systems are developed, the more unsatisfied they are with discrepancies between rich and poor as well as between Chileans and citizen who have already acquired developing levels that prove all the inhabitants with decent and productive standards of living.

On the other hand, Uruguay displays a similitude with Chile: it has experienced a significant improvement in education over the years. However, this growth is still lower than peer countries. According to Gustavo de Armas, sociologist and specialist in UNICEF social politics, Uruguay has increased the education in 30% in the last years while other countries as Chile have significantly implemented the system approaching 60 basis point steps. These relevant differences among countries belonging to the same region is also experienced in other areas such as the economic and politic developmental level as well as population inequalities that make a country to be better than the other.

What's more, Uruguay manifests another risky problem: the labor market to which these teenagers have to become part after studying is completely rigid and has obstacles. In other words, these limitations produce negative effects on society impeding the progress and development of the country.

Regarding Brazil, it has also experienced an improvement in education but it is still far from those of countries that are already developed. However, these implementations shown in the report from OCDE highlight achievements regarding primary and secondary educational systems with a turning score from 65% in 2003 to 78% in 2012 regarding 15-year-old students' enrollment.

Nevertheless, among these worrying aspects, Brazil keeps investing one third of the average of OCDE countries per student. And the investment is weak among teachers.

According to Schleicher, one of the main legal representatives of the Students' International Assessment (PISA), "es inevitable relacionar la valoración de los profesionales de la enseñanza con los resultados de los alumnos. Como ejemplo, cita Corea del Sur uno de los países más avanzados del mundo en la actualidad, donde los profesores tienen la mejor relación del mundo entre salarios y Producto Interior Bruto (PIB)".

Furthermore, acknowledging the fact of achievements regarding education, higher education has not experienced this improvement. This fact can be observed in the low number of graduate students in relation to the necessities of the country, which can be explained by the problems of the nation to finance education, or because the low-skilled labor is increasing and educated people opt for earning money at early ages to help their respective families. Because of this, the need of having alumni to assure and maintain the development of infrastructures in Brazil has followed a growing pattern over the years, being Spain one of the countries that have incorporated more graduate students to the Brazilian market.

Lastly, Argentina's case is curious due to the fact that its agenda has turned around three main axes during the last 30 years: inflation, unemployment, and insecurity. As it can be seen, education is not considered as a main concern in the problems to be addressed. It is non-sense due to the fact that it is a fundamental aspect to be approached since it is not a strong point of this nation, and reality shows that it is a must to reposition and renew the demand of a qualified educational system.

It seems that the Argentinian society is not even concerned about this educational issue. However, data are conclusive. According to the data taken by PISA (2012) which assesses students' performance from 15-year-old students, Argentina occupies the 59th position out of the 65 participating countries, and the 6th out of the 8 Latino American. Besides, this level of education has not allowed them to reach the 2nd level of reading, what implies that about half of all students do not understand what they are reading.

Together with this, the carelessness of population in front of these issues is added. According to the last survey conducted by global WVS (2012), which researched the level of concern of population for not being able to provide a good educational system, Argentina occupied the 40th position out of 48 nations, with only 22% claiming that they were really worried. These scores definitely lead to a reflection of the whole country.

5. LATINO AMERICAN CORRUPTION MEASURED BY CPI

It was Ana María Rodríguez, the director of the Development of Institutions Department of BID, who claimed that “la corrupción es una lacra para el desarrollo, en términos de crecimiento económico y de consolación democrática”.

If corruption is associated with the political environment, it has also be taken into account that it exists in other contexts such as trading and even in the religious side. It is a fact that has always existed to a certain extent. The most affected area is that of social and personal relationships by creating social misery and injustices and generating incredible inequalities.

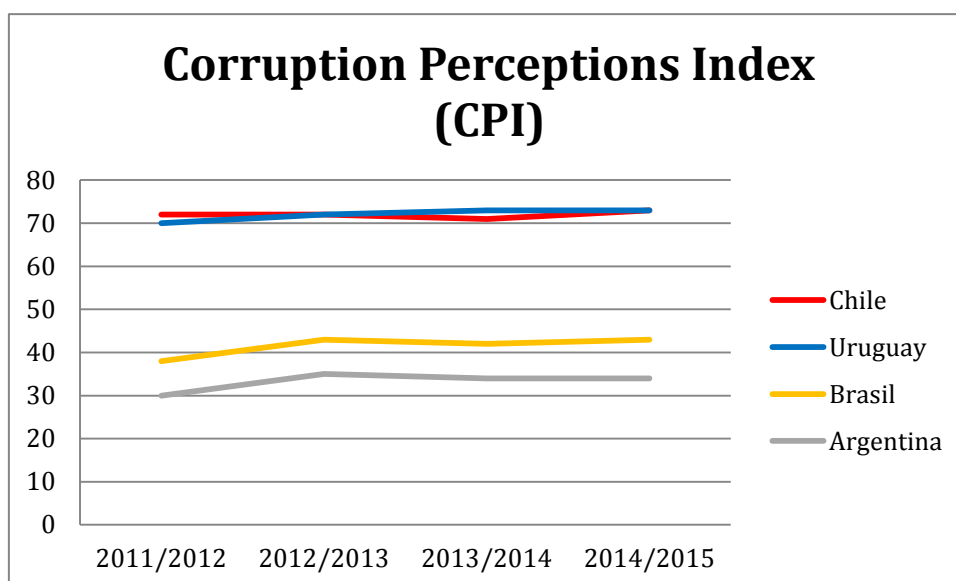
These inequalities and social injustices will appear more frequently in those countries with high levels of corruption. For this reason, different levels of corruption will be analyzed, which will help to better understand the situation they present regarding economic, politic and social concerns in countries such as the ones under analysis in this project.

The Corruption Perceptions Index (CPI) will be the index employed to compare the level of corruption among Chile, Uruguay, Argentina and Brazil. This index measures the degree to which corruption is perceived to population.

Besides, in order to better explain the different levels of corruption that the countries appearing on the figure present, the previous three sections are going to be deeply dealt with since they are fundamental to interpret the findings.

An important point is that even though some gains are experienced, the economic growth in countries from Latino America has not been accompanied by an improvement of the institutional qualities according to International Transparency Reports. Most of the Latino American countries are still in the lowest areas of the Corruption Perceptions Index (CPI) while the whole region keeps a worse score than the global average. International Transparency suggests that "La corrupción afecta el buen funcionamiento de los programas sociales, influye en las elecciones, debilita la democracia, fomenta la violencia y permite operar al crimen organizado, manteniendo a la región como una de las más desiguales y violentas del mundo". On the other hand, it has to be highlighted that there are some exceptions such as Chile and Uruguay, which are analyzed as follows:

Graphic: 4



Source: Data provided by International Transparency Organization.

Out of an average of 176 countries in this index during the last four years (2011-2014) with scaling from 0 (very corrupted) to 100 (very transparent), Chile and Uruguay are highlighted occupying similar positions within the 20-25 first, with scores between 70 and 73 points. Undoubtedly, both countries share similar characteristics regarding corruption perceived to citizens.

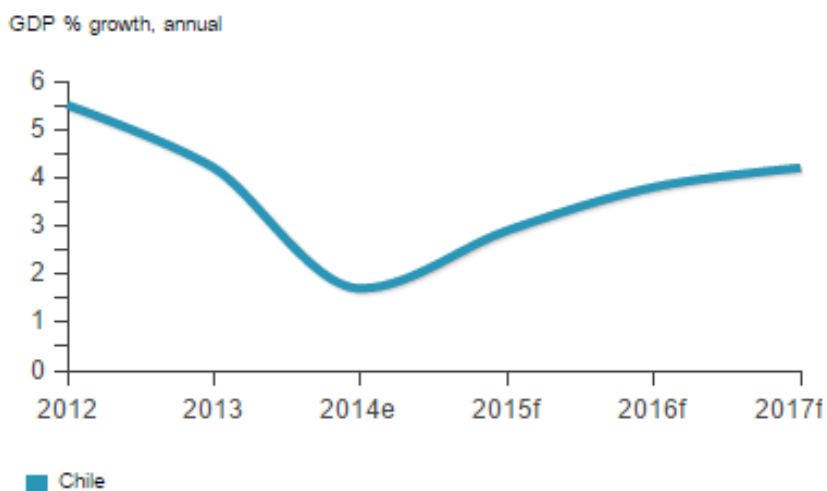
Were these countries analyzed separately and starting with Chile, it can be observed how it is one of the most competent countries, not only from Latino America but also above developed countries such as France and Spain. This institutional level has allowed the country improving a lot regarding the economic environment (attracting major foreigner investors to the country) as well as regulating more efficiently the external trade (creating a more complex and own financial system of a developed country).

It is true that Chile has experienced a steady decline during the second third of 2013 according to data taken by the World Bank due to a deterioration of prices regarding cobber for the Chinese off-peak.

According to the recent financial perspectives published by OCDE, Chile will grow 4,2% during 2015. Thus, Chile is still the second country out of the 34 members of the organization with greater progression of its gross domestic product (GDP) only

followed by South Korea (4% and 4,2% respectively) after having been the leader during 2012 and 2013.

Graphic: 5



Source: Data taken from the World Bank.

It also has to be pointed out that the existing globalization has been an important and decisive factor to place Chile, before 2013, as the country with greater GDP (gross domestic product) progress. All this within the OCDE, an organization that reunites the most powerful and important countries around the world.

Certainly, it has been claimed that Chile functions properly regarding economic issues. However, it exhibits a weak point that may explain its level of corruption, which is relatively low in comparison with the rest of countries under analysis and Latino America in general: education.

Regarding this decisive factor. Chile presents the superior level of education within the whole region. Nevertheless, this level leaves a great deal to be desired in comparison with the countries forming the OCDE from which Chile is a member.

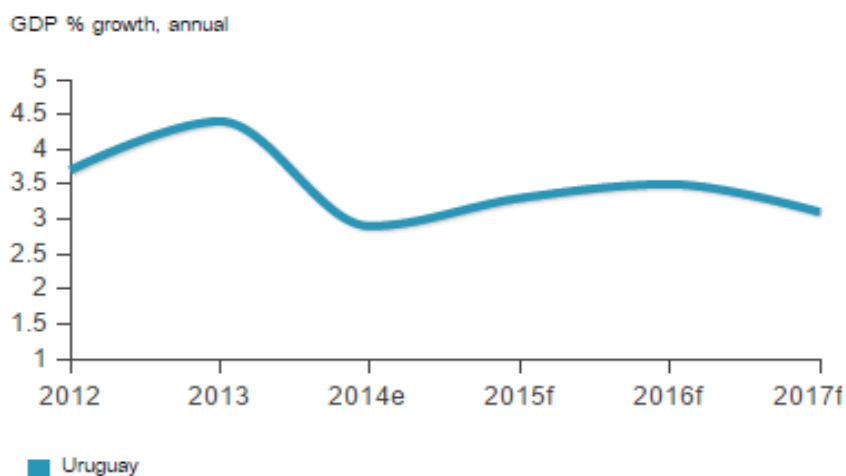
Education is thus a key element to explain the existing corruption since a low level of education or a weak public system provokes social inequalities among individuals. While few persons can access a better and private education, the others, who do not have the necessary means to access, have to content themselves with the education provided by the country. Definitely, people who are educated will be able to have access to the working world with proper jobs, while the rest of population will have less education and the job opportunities will be worst.

On the other hand, it is also remarkable the fundamental aspect that explains the level of CPI obtained from Chile and that has to be taken into account throughout this project: according to the last Latino American Public opinion report (2012) from the University of Vanderbilt, Latino American citizens are more concerned about economy and employment than the government malpractices. Besides, they assure that the best the economic situation, the more tolerance in front of leaders' corruption practices. The fact is that when dealing with countries such as Chile, Uruguay and even Brazil, it has to be taken into account that due to their high development during the last years, this factor should be considered when analyzing the different levels of corruption that they present.

Regarding Uruguay, it has been reported that its institutional quality is above the Latino American average. This is extrapolated to the fact of achievements in living standards for population and greater investments within the country; which will favor the economic growth.

Acknowledging that Uruguay is not an open nation as Chile, it can be observed that the country owns trading with a wide range of countries, being the port of Montevideo a reference point in the south of the continent and the core area where the Uruguayan trade is performed. This would explain the level of GDP that Uruguay has reported during the past years and the expectations that are held by the World Bank for the future.

Graphic: 6



Source: Data taken from the World Bank.

Figure shows how the increase in GDP is progressive until 2013; a growth that surprised analysts: they expected an increase between 3,2% and 3,9%. Surprisingly, it was of 4,4%.

On the other hand and similar to Chile, education is still below developed countries despite having experienced improvements in the last years. If, in addition, carefree of citizens about corruption practices or even the permission of these practices in periods of growth are added, the level of corruption placed in Uruguay can be easily explained.

Furthermore, Brazil is among position 69 and 73 with qualifications that are below the average, hovering 43 points. This country, despite the economic growth experienced over the past years, presents an important inequality among population; which is interpreted by a high corruption level by a few, who are the ones that take the vast majority of benefits generated in the country.

The economic and trade potential acquired these years in Brazil have permitted improvements in certain competences. This, as can be observed in the institutional analysis previously mentioned, has at the same time allowed the country to lay the foundations to stabilize the Brazilian macro-economy.

Nevertheless, despite having acquired the role of an emerging power, Brazil has shown diverse crisis symptoms, which have carried out demonstrations due to the increase of social inequalities.

While low-skilled labor has significantly raised, the living standards have not experienced any improvement since the vast majority of these benefits have aimed at a very reduced group of senior management positions.

Foreign multinationals, among which Spain is remarked due to companies such as Iberdrola, Telefónica and Santander, have seen in Brazil a new opportunity for trading and have decided to settle down in the country to take advantage of low-skilled labor and an emerging market that is exceedingly proactive and receptive.

Besides, the difficulty encountered by small national entrepreneurs to access trading and obtain benefits has been hindered by numerous strict bureaucratic obstacles that have damaged this type of companies. These inequalities are not equal to the ones of big companies but proportional.

Doing Business is an index that manifests quantitative indicators on financial regulations and intellectual property rights for small and medium sized companies in 189 world economies through ten different areas: the opening of a business, management of building permits, electricity procurement, property registration, credit procurement, investors' protection, taxes, border trade, contract-honoring and insolvency resolution. Thus, according to Doing Business (2012), Brazil was the 166th country, the best position of the last 4 years, with a critical situation below countries such as Chile and Uruguay. This index manifests the situation previously mentioned in which SMEs have great difficulties to access the market. What is true is that the only aspects in which Brazil is functioning properly are in facilitating the electricity procurement, the ease to provide creditworthiness data, and investors protection allowing thus the cancellation of damaging transactions among related parties.

Lastly, it has to be highlighted that these social inequalities have also been reflected on education since the majority of the Brazilian population cannot face the cost of superior educational levels and thus; the country has to look for foreign alumni to assure its development planning in the medium term.

On balance, these aspects explain the CPI level perceived to population, which shows how the country enjoys a high economic development, which is not in line with its living standards.

Ultimately, and with a similar level of perceived corruption, Argentina is found as a country that has always occupied the last positions regarding all the aspects under analysis. These scores show how it is the most corrupted country out of the four analyzed in this project.

To explain the corruption practices conducted in Argentina, it is enough to recap the data previously examined. The data reported that Argentina has the most worrying problems regarding institutional, economic and social structures that provoke a chaotic situation in the country; which at the same time results in a deplorable institutional quality that follows a decreasing tendency. This institutional quality is affected by an incorrect functioning of the three branches of power, subordinating the executive power to the other two and maintaining the justice in worrying conditions.

On the other hand, the wrong selection of the strategy to open the nation to international trade rather than bringing benefits supposed severe trouble that the country is still paying. Among these difficulties, the excessive doubt that the country presents (being 40% of its GDP), the privatization of entrepreneurships (most of them from foreign owners) and the currency devaluation that has lead to the incorporation of the North American dollar to the market are found, which have turned the Argentinian globalization into a complete failure.

In addition, the low level of education is added (it occupies the lowest levels of the Latin American countries according to the PISA (2012) report). The findings show clear levels of inequality among inhabitants: the rich are the ones with more relevant and important positions who conduct the activities of financial speculation, the ownership of overvalued public assets and corruption practices regarding vital decisions for the country.

To conclude, after observing the indexes of corruption in four different Latin American countries, a deep reflection has to be made: Latin America needs to become a more transparent region regarding its institutions, governors and politic systems. This bet is the key element in order to consolidate the economic growth and the democratic and regional development. Politic and practices have to be transparent to provide citizens with access to information, a favorable turn to participation regarding governors' decisions as well as promoting a good control of the three powers by inhabitants and a better commitment to authorities' duties. This strategy must include the fight for judicial impunity and persecuting money laundering to reverse a culture and political system with indefinite examples of corruption.

6. CORRELATION BETWEEN THE LEVELS OF CORRUPTION OF EACH COUNTRY AND CITIZENS' FREEDOM TO PURSUE THEIR ECONOMIC INTERESTS IN EACH OF THEIR COUNTRY'S SYSTEMS.

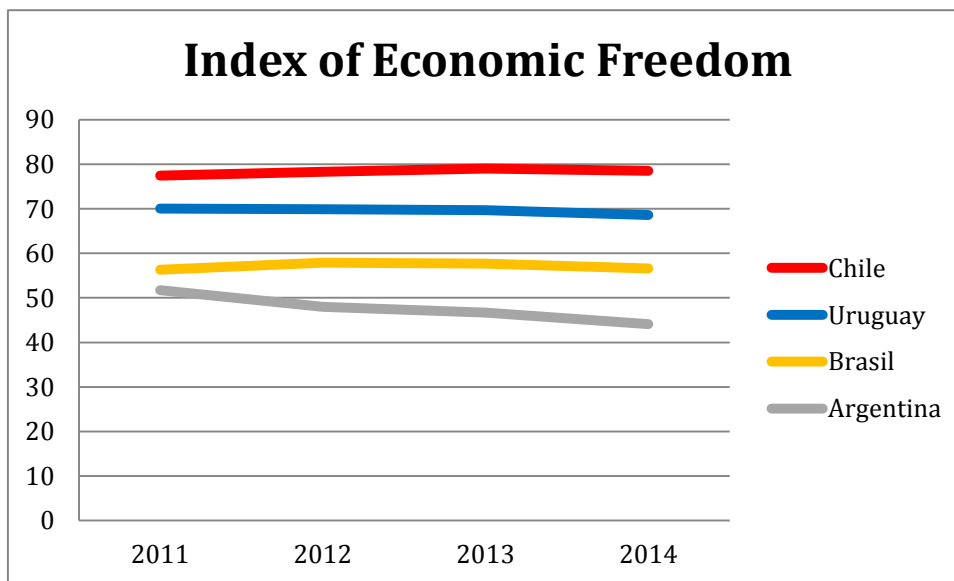
It has been possible to observe corruption as a vital issue and how it negatively affects the economic, political and social development of the countries under analysis. As a matter of fact, the most affected ones are part of the population with scarce resources and uneducated who have a relatively low power for negotiation in the society and who cannot tap into this power to change it or use it to their advantage.

This population is much more representative in countries with high levels of corruption, what causes more inequalities that imply a more emphasized decline of citizens' welfare and the economic freedom to progress.

On the contrary, it can be observed how individuals in countries with lower levels of corruption present more liberal premises for economic freedom, which allow a volunteer exchange and open trades. With this, it is possible to achieve the theory claimed by Adam Smith, Milton Friedman and Friedrich Hayek: freedom for trading and the coordination of markets are the key elements for economic progress. Without these exchanges and a stable coordinated business activity, the standards of modern life would be completely unachievable.

The circumstances abovementioned where each country under analysis was further explored (Chile, Uruguay, Brazil, and Argentina) will allow the establishment of a correlation between the level of corruption and freedom pursued by each single citizen regarding economic interests. To do this, one of the most important and relevant indexes designed by Heritage Foundation and The Wall Street Journal will be employed. This index estimates the level of economic freedom that each country exhibits year by year through the analysis of main core areas: the size of the Member State, the legal structure and rights of property warranty, access to a stable currency, international trading freedom, and credit, business and occupational rating.

Graphic: 7



Source: Index created by The Heritage Foundation and The Wall Street Journal

This index shows relevant information about the issue under analysis. Firstly, it can be observed the tendency pointed out throughout this dissertation where Chile stands out above the rest, followed by Uruguay, Brazil and Argentina. This is all promoted by different political assumptions and ideas imposed in the country that makes the nation take different routes even though they belong to the same level of development.

With respect to Chile, it shows a rule of law in the last year which does not vary regarding property rights and which keeps the third position with a score of 90. The report highlights that Chile is the least corrupted country from Sudamerica along with Uruguay and that the courts in the country are generally independent from political interferences. Moreover, it emphasizes that property rights and contracts are strongly valued and considered while expropriations are rare events. The Heritage report claims that in the last five years, Chile's economic freedom has advanced 1,1 points, which has let the country assure the nations' leadership.

On the other hand, it is true that the tangible benefits obtained for living in more independent societies are related to the highest per capita incomes and the more elevated developmental GDP rates. At the same time, the highest growth rates seem to create and build a virtuous circle that triggers a reduction of the lowest poverty and improvement in economic freedom. During this decade, the countries with improvements in their economic freedom made possible the reduction of poverty levels

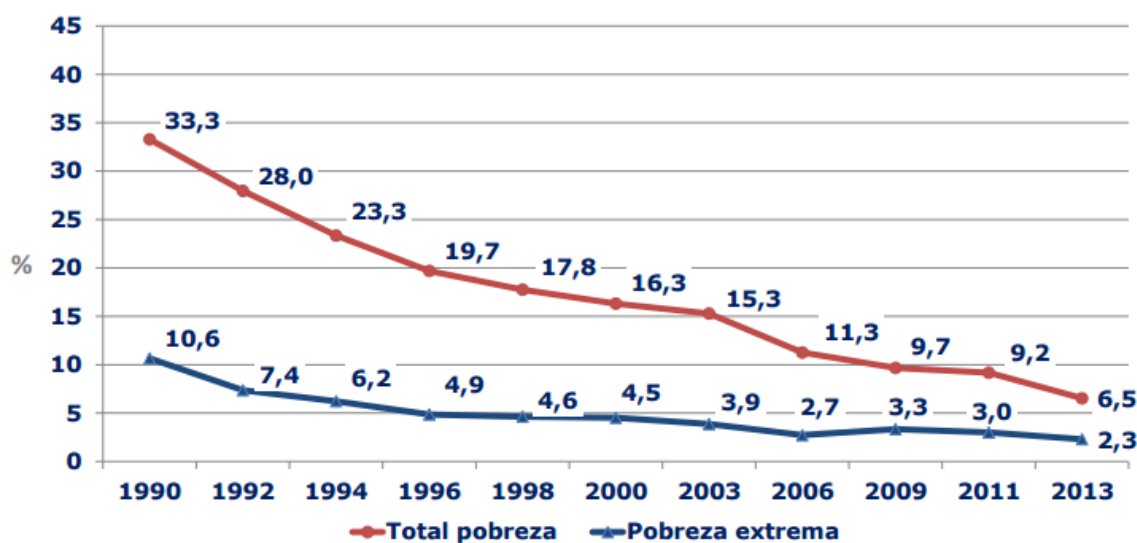
to half of the corresponding levels according to the Human Poverty Index by the United Nations.

Thus, Maxim Pinkovskiy from the Technological Institute of Massachusetts and Xavier Sala-i-Martin from the University of Columbia also tested that global poverty has indeed disappeared faster than ever before in a recent study that stimulated the global distribution of incomes. Due to the constant growth of economic freedom over the last decades, the global poverty rate has considerably diminished. A good example of this would be the case of Chile, which shows this decreasing tendency of total and extreme poverty over the years in the following figure.

Graphic: 8

Porcentaje de hogares en situación de pobreza y pobreza extrema por ingresos: metodología tradicional (1990-2013)

(Población, porcentaje)



Source: Social Development Ministry, Casen Survey 2006-2013.

Definitely, the inequality levels among population, which are understood as a factor causing corruption, has decreased in Chile. Along with this, the improvement and increase of economic freedom achieved in the country over the last years allows population to have a better quality life close to that of a more developed country,

Regarding Uruguay, it is evident that there has been a decline of 1,4 points over the last five years, presenting thus a score of 68,6 that places the country in the 43rd global

position. When analyzing the movements of global indexes of each aspect on the indicators, however, ups and downs are found. In particular, the market freedom indexes, currency liberty and absence of corruption keep improving while those of business, property rights and the increase of public spending become more negative.

In the ups, it is highlighted the great advantage that Uruguay has: the Montevideo port which provides the country with an important spot for good exchanges with the external trade and an internal growth for its own markets.

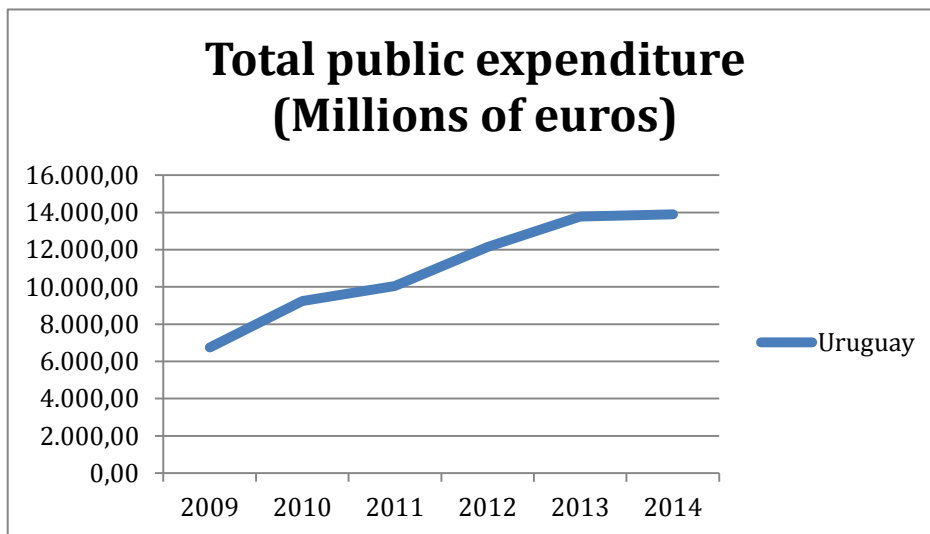
To this fact, it is also added a relatively low corruption that has allowed the country to perform efficient restrictive regulations to the market through protectionist policies in Uruguay. These policies fight against the delays of the administration inefficiency caused by the intervention of corrupted staff members who try to obtain bribes through these delays reducing thus the economic freedom.

Another relevant aspect to take into account when dealing with improvements for economic freedom was the one fomented by the World Bank, which approved a loan of more than 1000\$ million in order to finance investments in infrastructures, agriculture, environment and institutional strength since 2010. Thus, it implied the government's capacity and the protection of the most vulnerable sectors of the population from external economic impacts through contingent financing.

What is more, the World Bank has offered analytical and technical support to consolidate reforms aimed at increasing the efficiency of public funding, expanding insurance and perfecting the selectivity of social programs as well as increasing the financial inclusion in the country.

Nonetheless, the analytical and technical support that has been provided presents certain misgivings among population, which have observed an important increase of these expenses over the past years.

Graphic: 9



Source: Data taken from newspaper Expansión.

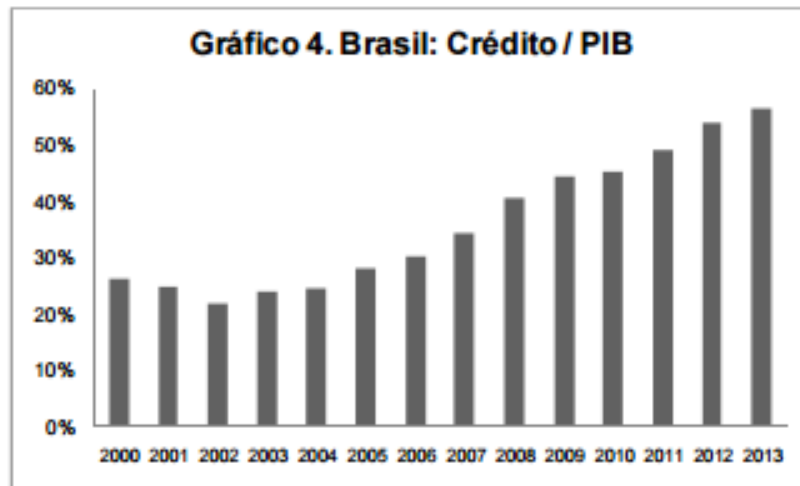
The figure shows this increasing tendency which reached 13, 908.2 millions of euros of expenses that represent more than 33, 52% of GDP.

Being true that a great part of the expenses has been destined to education (13,69%), healthcare (18,97%) and defense (5,69%), these are excessive costs that citizens will have to face.

The case of Brazil declares given anomalies that will need further exploration. Brazil, despite becoming the Latino American world power, has experienced a regression regarding its development over the last four years. In 2013, economy had its third year of consecutive moderate growth after experiencing a vigorous growth in 2010. The trimestral growth average was scarcely 1,8% between 2011 and 2013. The growth projections for 2014 made by the analysts consulted by the Brazilian Central Bank (BCB) have systematically decreased since early 2012, when they were 4,5%.

One of the aspects that has lead to the improvement of the country in the last years has been the credit freedom from the banks to the public systems, which grew 26% between December 2012 and 2013 as well as the private sector which increased 14% in 2013, generalizing a total growth of 15% for the total amount of credits. This increase, compared with the slight increase of 2,3% of GDP, made the level of credit ascend to 49% in 2013. This growth was mainly promoted by the real estate sector (32%), rural (30%) and the corresponding 26% to the public sector.

Graphic: 10



Source: Data taken from Central Bank of Uruguay.

Lastly, it has to be highlighted the dynamism of credit to the public sector over the last years, which has turned to represent a small quote of the market into 5,5% of the total of credits, when it was only 2% back in 2007.

On the contrary, addressing the stagnation of Brazil growth and also the situation of economic freedom found in the figure, there exist the problems of bureaucracy and lack of efficiency when performing regulations from the government.

Clear examples are cited by the president of the Brazilian Transportation National Confederation (CNT, patronal), Clésio Andrade when claiming that according to data taken from the CNT, only 202,000 kilometers out of the 1,691,000 kilometers of roads that the country possesses are paved and scarce 5,000 kilometers has two double return tracks. However, investments for its improvement have already been assigned, which are left aside due to the bureaucratic processes.

According to Andrade, these deficiencies have an impact of 25% regarding the logistic costs of the products and affect the competitive of the country in the international trades, which drive up the life of Brazilians and discourage the investors. In the same vein, problems in the airports, ports and even in the urban movements are found. For these troubles, the government has taken into consideration millionaire investments that have to struggle against bureaucratic processes in order to be conducted.

A similar situation to the examples abovementioned is the one presented by current citizens with effortless and costless business proposals. However, these little entrepreneurs have to face the same bureaucratic processes to open their business, what implies a reduction on the achievement of better credits.

In the last place Argentina is found, a country which places position number 27 out of 29 nations evaluated in the Central and South America region in this index of economic freedom, whose position is still lower than the regional and global averages.

Graphic: 11



Source: Data taken from Central Bank of Uruguay.

As it has been observed, the level of corruption presented in the country is the highest of its region and of the world. This circumstance has helped to establish in the country a repressed economy and close to the global market, which has implied a seal for the region development.

On the one hand, the Argentinian financial system has slightly promoted the loans to the productive sector and homes as well as registered an increase regarding deposits of 27% since 2013.

As a consequence of it, the index of credits reached 19%, composed by 18% by the private sector and only 1% by the government. As the credit destined to companies as the financing for families increased 31% in the last year. The majority of these credits were aimed at industry and consumerism, that is to say, personal credits and credits cards.

On the other hand, all these factors have been increased by the severe problem of inflation presented by Argentina, and which according to the International Finances Institute, is the causing factor of the reduced development rate that the country presents. The country, through the use of populist and anti-market policies increases its vulnerability to fluctuations regarding commodities' prices.

Graphic: 12



The International Finances Institute estimated that the inflation for 2013 was of 27,7% after experiencing 25% the previous year, against the 11% that was recognized by official statistics. Far from decreasing, the gap that separates Argentina from the rest of the region as regards as inflation issues was made more evident during 2014, establishing a maximum of 37% of inflation in the country.

In addition, the limitations of the government are also present, which envisages a tax rate for business and individuals of 35% in the country regarding loyalty freedom and governmental expenses. Other taxes include a value-added tax, tax on wealth, and a tax on financial transactions. The pressure reaches 29% of GDP. The governmental expenses have increased up to 40 points of its GDP, and the public debt reaches half of the domestic economy size.

Lastly, the emphasized connection throughout this dissertation clearly shows that corruption in Argentina has become a plague in society and that scandals are daily food. Clear instances of this are the vice-president Amado Boudou (2014) who was accused of bribing and performing incompatible behaviors and attitudes with his public responsibilities. The justice system shows an afflicted behavior due to the practices of corrupted and incompetent magistrates. Primary instance courts are exhibited clearly and highly connected to political parties, and the dependent Supreme Court has registered an increase of pressures on behalf of the government.

7. CONCLUSION

Without any doubt, corruption is a practice that affects different economic aspects, as in the global level as in the individual. Along this undergraduate dissertation project, it has been made evident that even though the countries under analysis belong to the same region and present a similar development levels, they have different characteristics regarding various contexts; not only economic but also institutional, political and social.

Firstly, the analysis conducted in the first third sections showed that the institutional level revealed how these countries set the rules (understood as norms and regulations) when performing any process on behalf of the population. After this, the level of globalization, which established how open to the markets the countries were in order to understand the mentality and practices that each of them hold as regards as the policies that are carried out in their corresponding financial systems. Thirdly, the education that each of them presents has also been approached, being the aspect that has more weaknesses in the four countries. In other words, even though there were notable and significant differences among them, the Latino American education has to evolve and develop a better system if the rest of countries want to develop more efficiently.

All in all, these three sections have explained and described how corruption is significantly emphasized in countries whose regulations and norms are in line with an exterior isolation and low education rates.

Chile, highlighted throughout the project as the country with better positions, has presented a string internal structure along with regulations and norms that have been established in a proper institutional frame, accompanied also by a great opening to the market where it has been possible to observe and imitate the more developed countries with better economic systems. It also has to be claimed that there are some aspects that have to be implemented as the case of education and technological innovations. However, it is along the right lines in order to achieve a proper future and become a well-developed country as the members of the OCED, to which it belongs.

On its behalf, Uruguay, despite its reduced size, is without any doubts a relevant country, which has positive aspects regarding economy, politics and society. The reduced level of corruption along with good levels of economic freedom have made of

Uruguay a country that can equal Chile and be relevant for low levels of inequalities among population or its highest institutional levels. If this country fights against the elevated public funding and the difficult market regulations, it will reach a better evolution process in the long run.

Regarding Brazil, its inevitably economic growth has brought a great variety of benefits, in their majority economic, but which they have also permitted to see the black and dark side of the country. This negative side has been reflected on the inequalities that exist among population, provoked by poverty and corruption practices. It is true that job opportunities have increased, however, it was low unskilled job with miserable salaries. Besides, the bureaucratic processes have restrained the economic freedom in the country, being a crucial factor for the slower evolution of the country.

The case of Argentina is the most worrying since it has turned to be a nation involved in negative and inaccurate political practices, limited economic freedom among population, appalling educational system and an inexistent openness to the market. Other aspects such as inflation, public funding and corruption practices devastate the country and are factors which cause the economic stagnation of the country implying that the costs of living for the citizens keeps becoming severe.

In conclusion, it could be said that there is a great variety of factors required for a country to work properly. However, there would have to be considered the limits that cannot be overcome when making decisions, that is to say, understanding that corruption is a scourge for the progression that affects the whole nation and individuals negatively, who are the ones who promote the development of a country.

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