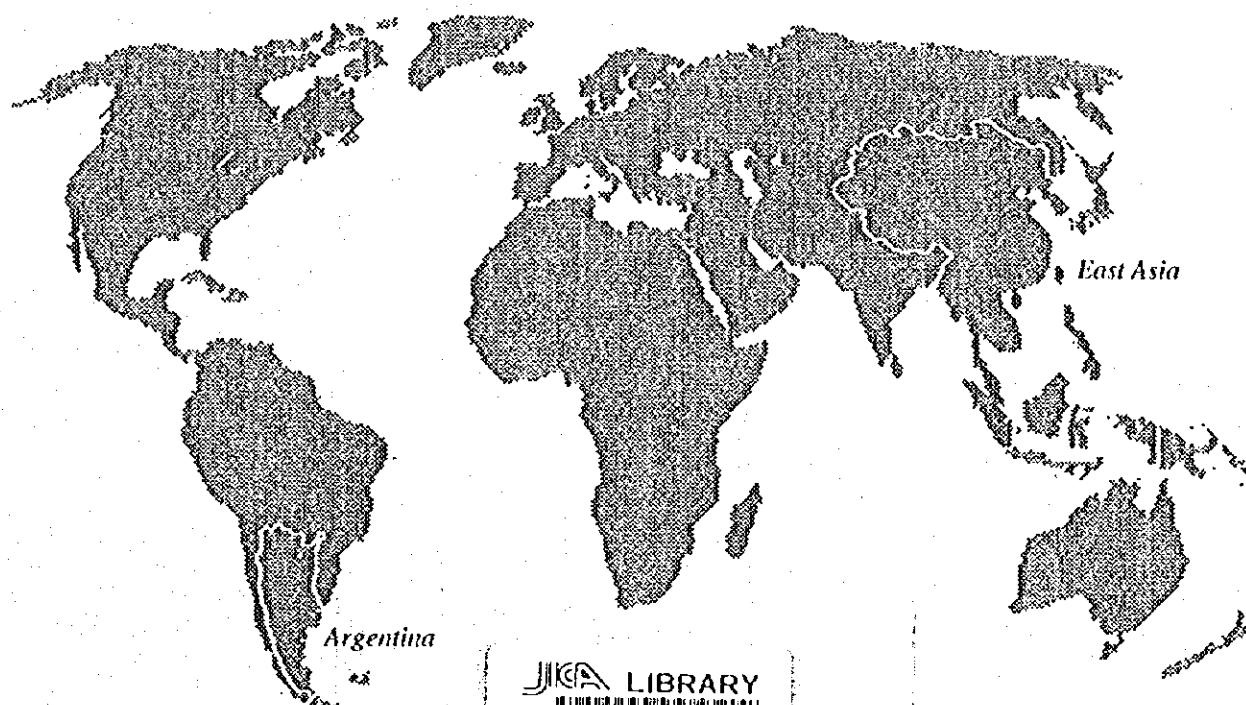


Secretariat of Trade and Investment  
Ministry of Economy and Public Works and Services  
The Argentine Republic

Japan International  
Cooperation Agency

# TOWARD A GREATER INTERDEPENDENCE BETWEEN ARGENTINA AND EAST ASIA: A NEW OPPORTUNITY FOR THE ARGENTINE ECONOMY

## Final Report



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## Executive Summary

Study on Economic Development of  
the Argentine Republic (The Second Study)

June 1996

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**Secretariat of Trade and Investment  
Ministry of Economy and Public Works and Services  
The Argentine Republic**

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ARGENTINA AND EAST ASIA:  
A NEW OPPORTUNITY  
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**Final Report**

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**Study on Economic Development of  
the Argentine Republic (The Second Study)**

**June 1996**

**International Development Center of Japan**

| Country      | Currency          | Average Exchange Rate |   |          |
|--------------|-------------------|-----------------------|---|----------|
| Argentina    | Argentine Peso    | \$1                   | = | US\$1.00 |
| Australia    | Australian Dollar | A\$10                 | = | US\$7.45 |
| Belgium      | Belgium Franc     | BF.100                | = | US\$3.39 |
| Brazil       | Real              | R\$1                  | = | US\$1.03 |
| Canada       | Canadian Dollar   | C\$10                 | = | US\$7.36 |
| Chile        | Chilean Peso      | Ch\$1,000             | = | US\$2.38 |
| Hong Kong    | Hong Kong Dollar  | HK\$10                | = | US\$1.29 |
| Indonesia    | Rupiah            | Rp.10,000             | = | US\$4.31 |
| Italy        | Lira              | Lit.10,000            | = | US\$6.26 |
| Japan        | Yen               | ¥100                  | = | US\$0.97 |
| Korea        | Won               | W.1,000               | = | US\$1.29 |
| Malaysia     | Ringgit           | RM.10                 | = | US\$3.90 |
| Mexico       | Mexican Peso      | N\$10                 | = | US\$1.33 |
| Singapore    | Singapore Dollar  | S\$10                 | = | US\$7.09 |
| South Africa | Rando             | R.10                  | = | US\$2.73 |
| Thailand     | Baht              | B.100                 | = | US\$3.97 |

Above exchange rate figures were calculated from the actual purchases of the currencies made by the Study Team members during the visits to those countries concerned in the period between June 1995 through March 1996.



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## *Preface*

In response to a request from the Government of the Argentine Republic, the Government of Japan decided to conduct The Study on Economic Development of the Argentine Republic (The Second Study) (hereinafter referred to as "the Study") and entrusted the Study to the Japan International Cooperation Agency (JICA).

JICA composed a study team headed by Mr. Saburo KAWAI, Chairperson and President of International Development Center of Japan (IDCJ), and sent the study team several times to Argentine, South-American and East-Asian countries from July, 1994 to March, 1996.

The study team had a series of discussions with the officials concerned of the respective governments and the representatives of private organizations, and conducted necessary surveys in each country. Through further studies in Japan the present report was prepared.

I hope that this report will contribute to the promotion of economic relation between Argentine and East-Asian countries and to the enhancement of friendly relations between Japan and Argentine.

I wish to express my sincere appreciation to all the people concerned with the Study for their close cooperation extended to the study team.

June, 1996

A handwritten signature in black ink, appearing to read 'Kimio Fujita', with a stylized, flowing script.

Kimio Fujita  
President

Japan International Cooperation Agency

June 1996

Mr. Kimio Fujita  
President  
Japan International Cooperation Agency  
Tokyo, Japan

Dear Mr. Fujita,

Letter of Transmittal

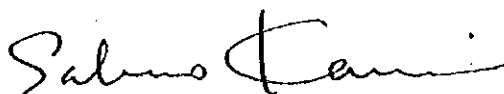
We are pleased to submit the final report of the Study on Economic Development of the Argentine Republic (The Second Study). This report contains practical and business-oriented recommendations for Argentina to strengthen its economy and thus expand export to and promote direct investment from East Asia.

Analysis of the Argentine and the East Asian economies and the views of some East Asian importers on Argentine suppliers and products have enabled us to identify the challenges that Argentina must meet. Some of the challenges were integrated into several issues for further in-depth studies. These studies revealed that East Asia is a competitive but attractive market for Argentina and that Argentina's resource-based products have good potential to penetrate the market. The issues Argentina must address include export strategies for both the public and private sectors, improvement in quality, stable supply capability, adequate infrastructure, and sales promotion activities, depending on the products to be exported. We suggest that an action plan be formulated immediately to facilitate and ensure implementation of the recommendations presented in this report.

We wish to take this opportunity to express our sincere gratitude to your Agency, the Ministry of Foreign Affairs, and other concerned ministries of the Government of Japan. We also wish to express our deep gratitude to the Ministry of Economy and Public Works and Services and other relevant authorities of the Government of Argentina for the close cooperation and assistance extended to us during our study. We especially benefited from the support provided by the Subsecretariat of Foreign Trade, the Secretariat of Trade and Investment.

We sincerely hope this report will provide an important basis for the strengthening of the Argentine economy and a greater economic interdependence between Argentina and East Asia.

Very truly yours,



Saburo Kawai  
Team Leader  
Study on Economic Development of  
the Argentine Republic (The Second Study)

## Acknowledgment

Many people assisted the Study Team in carrying out this study. Counterpart members have provided invaluable support not only for operational aspects such as data collection and arrangements for numerous appointments but also for the contents of the study by offering in-depth analyses and insight. This support also facilitated the cooperation of the Study Team with the counterparts, overcoming differences in economic, social, and cultural experiences. This was particularly important because the Study Team has an East Asian background, which is somewhat different from what the Argentine people are accustomed to. Thus, the Study Team's acknowledgment must go to hundreds of people. Without their assistance this report could never have been completed. The Study Team would like to thank them all with our deepest appreciation. The following are those to whom the Study Team are the most indebted:

|                               |  |
|-------------------------------|--|
| Dr. Domingo Cavallo           | Minister of Economy and Public Works and Services  |
| Dr. Carlos Sanchez            | Former Secretary of Trade and Investment   |
| Mr. Marcelo Regúnaga          | Secretary of Trade and Investment  |
| Mr. Alejandro Mayoral         | Undersecretary of Foreign Trade  |
| Mr. Edmundo del Valle Soria   | Former Secretary of Transport  |
| Dr. Wylliam Otrera            | Secretary of Public Works  |
| Mr. Rafael Conejero           | Undersecretary of Ports and Long Distance Transport  |
| Dr. Alberto Corcuera Ibañez   | Undersecretary of Metropolitan Transport   |
| Mr. Carlos Magariños          | Secretary of Mining and Industry   |
| Mr. Alberto Assefh            | Undersecretary of Industry   |
| Mr. Guillermo Hunt            | Undersecretary of Small- and Medium-sized Enterprises  |
| Mr. Felix Cirio               | Undersecretary of Food   |
| Mr. Bernardo Cane             | President of SENASA  |
| Dr. Eduardo Pucci             | Undersecretary of Fishing  |
| Mr. Marcelo Avogadro          | Undersecretary of International Economic Relations,<br>Ministry of Foreign Relations, International Trade and<br>Worship |
| Mr. Guillermo Toranzos Torino | Advisor, Coordinator Issue 1,<br>Secretariat of Trade and Investment   |
| Mr. Adrian Makuc              | Advisor, Secretariat of Trade and Investment   |
| Ms. Maria Klein               | Advisor, Secretariat of Trade and Investment   |
| Mr. Carlos Estevez            | Advisor, Secretariat of Trade and Investment   |
| Mr. Jaime Goldaracena         | Liaison Officer  |
| Mr. Martin Galindez           | Coordinator Issue 2<br>Secretariat of Agriculture, Fishing and Food  |
| Mr. Jorge Pazos               | Coordinator Issue 3, Secretariat of Mining and Industry  |
| Mr. Gaston O'Donnell          | Coordinator Issue 3, Secretariat of Mining and Industry  |
| Mr. Hugo Schwartzman          | Coordinator Issue 4, Secretariat of Energy and Transport   |
| Mr. Oscar Perez               | Coordinator Issue 4, Secretariat of Energy and Transport   |
| Mr. Renato Facondini          | Coordinator Issue 4, Secretariat of Energy and Transport   |
| Mr. Daniel Roiter             | Advisor, Secretariat of Trade and Investment   |
| Mr. Osvaldo Scasserra         | Advisor, Secretariat of Trade and Investment   |
| Dr. Rolando Lescano           | Advisor, Secretariat of Trade and Investment   |
| Mr. Jose Bechkinstein         | Advisor, Secretariat of Trade and Investment   |
| Mr. Gustavo Girado            | Advisor, Secretariat of Trade and Investment   |
| Mr. Luciano Kasakoff          | Technical Assistant, Secretariat of Trade and Investment   |

In addition to these government officials, the Study Team has received tremendous support from the private sector, particularly the staff members of the Okita Foundation, led by Dr. Guillermo Archouron. The Study Team is also grateful to the many people who kindly participated in our interviews and provided valuable comments which contributed significantly to the successful completion of this report.



## *Preface*

Ten years ago, the Government and business community of Argentina received invaluable support from the Government of Japan through the promotion of research for our country's development. Now, we have been fortunate to collaborate once again.

I would like, on behalf of the Argentine government, to express my appreciation for the support provided by the Japan International Cooperation Agency (JICA) and the International Development Center of Japan (IDCJ), whose professionals and experts have made a very careful analysis of the situation in Argentina, improving the study with all their experience and expertise.

In 1985, as a result of *Okita I: Study on Economic Development of the Argentine Republic*, our country received valuable information and recommendations, most of which have been implemented since 1989 and formed important lines of thinking for the modernization of Argentina.

In 1994, against a backdrop of global transformation far beyond the expectations of economic and social specialists, Japan and Argentina worked to establish new bridges between their countries based on mutual experiences of success and failure and with an awareness that joint efforts could yield optimal results.

In 1989, Argentina initiated deep economic reforms in order to stabilize, deregulate and open its economy. Continuing the task of promoting economic growth and free market policy, the Argentine government has made steady efforts to promote external trade and attract foreign direct investment.

To realize this objective, the government has developed close trade relations with Latin American countries, especially in the MERCOSUR common market, as well as new approach towards Japan and the other East Asian countries. To promote these relations, our President, Dr. Carlos Menem, our Minister of Economy, Dr. Domingo Cavallo, and other officials, as well as business persons have traveled regularly to this area.

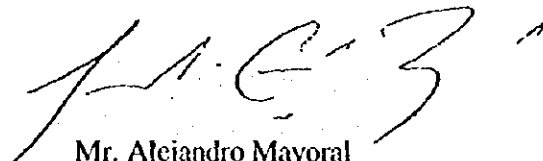
It is in this context that in 1992 the Argentine Government asked the Japanese Government to produce the report entitled *the Study on Economic Development of the Argentine Republic (The Second Study)*, arranged by JICA and our National Undersecretary of External Trade of the Ministry of Economy.

The main goal of the study is to analyze the macroeconomic and sectoral development environment, strengthened by the Convertibility Plan, since 1989 when the deepest economic changes occurred. It also studies the potential for expanding the export capacity of Argentine to Japan and other East Asian markets as well as the possibility of increasing foreign direct investments to Argentina.

The study explores ways to enhance the awareness of Argentine products in Japan and other East Asian countries. Our main goal is to promote a better understanding in the region of the changes in the Argentine economy made by the government as well as to improve links among business persons and Government officials in order to establish trade in a market that is today very far away in terms of results, but that is close in our projects and economic and commercial objectives.

We are aware that this is not easy work with immediate results despite the efforts already made. We have a long road ahead of us. This is our biggest challenge.

We would like once again on behalf of our President and our Ministry of Economy to thank the Japanese Government, especially JICA and IDCJ, for helping us promote our policies toward the realization of our objectives. It has been a great honor for my staff and myself to spend valuable time and efforts with our Japanese partners.

A handwritten signature in black ink, appearing to read 'A. Mayoral', is positioned above the printed name.

Mr. Alejandro Mayoral  
Undersecretary of  
Ministry of Economic and  
Public Works and Services

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## ***Executive Summary***

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## Introduction

The Argentine Republic (hereafter referred to as Argentina) has recovered from the economic turmoil that hit the Argentine economy in the 1980's. The key driving forces for this recovery have been the economic stabilization brought about by the Convertibility Law and a series of structural reforms, including fiscal reform, trade liberalization, privatization, and deregulation.

Having succeeded in the reform, Argentina's new goal is to enter a new era of economic expansion leading to sustained economic growth. To attain this goal, export expansion and the promotion of foreign direct investment (FDI) are vital. One important tool for this economic expansion is a greater interdependence with East Asia. This Study on the Economic Development of the Argentine Republic (the Second Study) (hereafter referred to as the "Second Study") provides an overall perspective and issue-specific directives to assist Argentina in expanding export to and promoting direct investment from East Asia.<sup>1</sup>

Although both the Second Study and the Study on Economic Development of the Argentine Republic (known as the "OKITA Report" and hereafter referred to as the "First Study"), undertaken in 1985-87, similarly help the Argentine economy achieve sustained economic growth, the features of the two studies are different. The First Study suggested a path which the Argentine economy should follow because Argentina was not certain in which direction the national economy would proceed. The Second Study, however, has been undertaken when Argentina has a very clear vision of the future. Argentina needs practical and business-oriented recommendations on how to expand export to and promote direct investment from East Asia, not a discussion on path-finding for the whole economy.

### 1. Why East Asia for Argentina ?

Economic relations between Argentina and East Asia are very weak in the areas of both trade and FDI. Today while East Asia absorbs 20% of the world's export, only 8% of Argentina's export is directed to the region. Argentina's export to East Asia is much less than that of Brazil and Chile. Direct investment in Argentina from East Asia is also minimal. Although Japan is the largest investor to Argentina in East Asia, it is not listed in the top 10 origin countries of FDI in Argentina during 1990-92.

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<sup>1</sup> In this report, East Asia is referred to China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Singapore and Thailand unless otherwise noted.

In spite of the low-level economic relationship, East Asia will be an attractive market for Argentina for three reasons. The first reason is the rapid increase in the market size; the volume of East Asia's imports doubled during 1988 and 1994. East Asia may account for more than 30% of the world's GDP in 2020, exceeding that of EU or North America (the US and Canada), if the economy continues to grow at the rate of 7% (slightly lower than the average in 1995). The second reason is the abundance of business opportunities, even for new or late comers like Argentina, entering the market following the rapid and dynamic economic growth in East Asia. The third reason is the complementary trade structure of Argentina and East Asia. The import volume of resource-based products (an area where Argentine industry has international competitiveness) is particularly large in Japan and Korea and is increasing in other East Asian economies.<sup>2</sup>

## **2. Argentine Suppliers and Products: Challenges and Prospects**

Low-level economic relations between Argentina and East Asia are reflected in the East Asian importers' narrow view of Argentine suppliers and products although there might be some exaggeration and business tactics. The East Asian importers which were interviewed by the Study Team consider Argentina to be no more than a marginal supplier. They evaluate the Argentine suppliers and products as follows:

### **(1) Suppliers' behavior**

Lack of strong willingness to export to East Asia. Many importers in East Asia have never been approached by Argentine exporters. Without a sales approach, there will be no export.

Unestablished brand image. The absence of brand image has forced Argentina to sell its products as low quality. For example, in Singapore, although an importer considers Argentine beef to be very good quality, it sells the beef as a lower-class beef because its brand image has not yet been established.

Lack of confidence in stable supply. While the East Asian importers, especially those in Japan, consider a stable supply very important, the Argentine exporters have been unable to establish a reputation of being a stable supplier. An importer of flat-rolled iron products in Indonesia said that supplies from Argentina are erratic because the Argentine manufacturers suspend export when the Argentine domestic market is tight.

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<sup>2</sup> Since Hong Kong is included, East Asian "economies" are used instead of East Asian "countries".

## (2) Products

Low quality product. Squid caught by the Argentine vessels are not very fresh and the yield ratio of squid tubes is low compared to squid caught by Japanese vessels. This is because of inadequate handling of squid on the Argentine vessels. As a consequence, the former are sold as lower-quality products than the latter although both were originally caught in the same waters.

Insufficient efforts to adjust products to the local needs. Though the prices of Argentine soybean products are lower than those of competitors, little soybean is exported to Japan because of the low protein content. The Japanese users prefer high protein content soybeans that are available in the US and Brazil.

## (3) Production and delivery:

Insufficient export capacity. The lack of sufficient export capacity was often pointed out by importers in East Asia. An Indonesian importer of pulp expressed concern about relying on the Argentine source since there is only one market pulp exporter in Argentina.

Inadequate infrastructure. An importer of grains in Indonesia pointed out that the inadequate infrastructure in Argentina constrains the expansion of wheat export. According to the importer, while Argentina's competitors, such as Australia and Canada, can export wheat throughout the year, Argentina can export only from December to April, because the ports of export in Argentina are used for different products from May to November. Different kinds of grains use the same port due to the lack of sufficient port facilities in Argentina.

Insufficient delivery service due to long distance. The distance between Argentina and East Asia and the difficulty with timely delivery have been cited as limitations for export expansion by, for example, pulp and leather industrialists in Indonesia.

Less competitive terms and conditions. Argentine terms and conditions need improvement. For example, concerning tanned leather in Indonesia, the Korean exporters accept a return of the products when the quality is found unsatisfactory after the receipt, but the Argentine exporter is reluctant to do so. In addition, the Korean exporters sometime sell their products on a six-month credit, but payment for Argentine products must always be made in cash.

## Executive Summary

**Weak sales network.** Establishing a close sales network with ethnic Chinese businessmen is important in East Asia, especially in China, Hong Kong, Singapore, Thailand, Malaysia, and Indonesia, but the Argentine exporters have not yet successfully done so.

In spite of these strict views, some Argentine products have already secured a significant market share in East Asia. Good export performance of some Argentine products demonstrates that when appropriate measures are taken, Argentine products can achieve or expand export to the East Asian market.

Tanned leather is a good example. Argentina has a 7% share of Thailand's total import of tanned leather, after Korea (23%), the USA (9%), and Taiwan 7% (the same as Argentina). This performance is attributable in part to the exporters' close contact with Thai users. Other reasons for the competitiveness of Argentine products include the existence of abundant and high-quality raw hide and skin in Argentina and a stockyard in Hong Kong which ensures quick and timely delivery.

### **3. Areas to Improve for Expanding Export to East Asia**

The East Asian importers who were interviewed take a rather narrow view of Argentine suppliers and products. In addition, a study on major Argentine industries revealed that the Argentine industries have some limitations to overcome before expanding export to East Asia. These include the lack of long-term strategies, inadequate production capacity, limited access to financial sources, and a higher priority on the MERCOSUR market. To expand export to East Asia, Argentina needs to address the following key areas:

- Strengthening sales promotion activities;
- Developing export strategies;
- Improving price and quality competitiveness;
- Strengthening supply capacity;
- Improving financial support to small- and medium-sized enterprises;
- Developing infrastructure, particularly in transportation and information systems.



#### **4. Common Objectives for Expanding Export to and Promoting Direct Investment from East Asia**

##### **Key sectors of export and target markets**

The key sectors of export are identified in two stages. The first stage is the export of resource-based products. Resource-based industries include iron and steel, pulp and paper, processed meat products, dairy products, wine, tanned leather, and leather goods. Since these products already have international competitiveness, they can potentially penetrate into the East Asian market immediately if adequate measures are taken.

The second stage is the export of assembly products. Although many local assembly industries do not presently have strong international competitiveness, they will be forced to enhance their productivity because of the increased competition resulting from the formation of the MERCOSUR market. Metal and woodworking industries, food processing equipment industries, automotive parts, and other manufactured products are included in this category. For those products, the primary target should be the MERCOSUR market. The industries may enhance productivity by taking advantage of the economies of scale and improve quality through competition in the MERCOSUR market. When the industries achieve strong international competitiveness, they may attempt to export to the East Asian market as a second step.

##### **FDI and target markets**

Three kinds of investment from East Asia, mainly from Japan, have potential. The first is investment in the assembly industry targeting the MERCOSUR market. The automotive industry seems to be the most feasible, such as Toyota's investment in Argentina; some Japanese supporting industries are likely to invest in Argentina to supply auto parts to Toyota.

The second investment is in the import of food, targeting the East Asian market. Such investments by Japanese firms are currently surging mostly in Asia. Argentina has good potential because it not only benefits from favorable climate and geographical conditions, but is also located in the Southern Hemisphere. Investments are increasing in Australia and New Zealand, both located in the Southern Hemisphere and offering the advantage of different seasons.

The third investment is in natural resources development, targeting the East Asian market. Japan and Korea, in particular, are not gifted with basic natural resources, and

have been active in developing such resources abroad. Not only mining (copper) and energy (natural gas) resources, but forestry as well has good investment potential.

### **Role of the government**

The government plays an important role in the goal to expand export to and promote direct investment from East Asia. The government should disseminate information and set common objectives in order to create a national consensus among the parties concerned. It is important that the government point the direction in which the country must move as an export market. A clear signal from the government facilitates decision-making by the private sector.

The government must support the private sector in the preparation of information on Argentine industry that is needed for expanding export and promoting direct investment. This information is produced by the private sector (mainly by associations), but the government must be involved because the information will include regulations and statistics that the government directly oversees.

The role of government in economic development varies depending on which private enterprises interact, whether small, medium-sized, or large. This is particularly relevant to trade promotion. With large enterprises, the role of government should be low-profile because those enterprises are capable of promoting export activities with their own financial and human resources. However, the government should take the initiative if exporters are small- or medium-sized. These enterprises are unable to generate trade promotion activities and develop effective business contacts due to insufficient financial and human resources.

## **5. Issues and Recommendations for Expanding Export to and Promoting Direct Investment from East Asia**

From the viewpoint of expanding export to and promoting direct investment from East Asia, some of the key areas have been integrated, through consultation with the Argentine government, into four priority issues that have been studied in detail. The current status and recommendations of each issue are given below.

### **Issue 1: Strengthening Institutional Support for the Expansion of Export to and the Promotion of Direct Investment from East Asia**

In order to expand export to and promote direct investment from East Asia, Argentina's government must formulate a Targeted Marketing Intelligence Strategy (TAMIS). The TAMIS will create a national consensus by consolidating national export

efforts to specified markets or industries. The primary beneficiaries of the strategy would be small- and medium-sized enterprises (SMEs). Argentina should announce that penetration into the East Asian market is a national policy, thereby contributing to the formation of the national consensus. The following table shows the performance and potential of Argentine industries and the economies and industries recommended for TAMIS.

**Table: Performance and Potentials of the Argentine Industries in Export to East Asia**

| Argentine Export Goods and Products   | JPN | KOR | CHN | IND | THA | HKG | SPO | MAL |
|---|-----|-----|-----|-----|-----|-----|-----|-----|
| <b>1. Resource-based products</b>   |     |     |     |     |     |     |     |     |
| <b>(1) Foodstuffs</b>   |     |     |     |     |     |     |     |     |
| Beef including bovine animals   | Δ   | Δ   | Δ   | Δ   | Δ   | ○   | Δ   | ○   |
| Other meat (meat of horse, mutton, chicken etc)   | ○   | Δ   |     |     |     | ○   |     |     |
| Fish and shellfish  | ○   | ○   | ○   |     |     | ○   |     |     |
| Dairy products (milk, butter, cheese, etc)  | Δ   |     | Δ   |     |     | Δ   | Δ   |     |
| Fresh fruits and fruit juice  | ○   | Δ   |     |     |     |     | ○   |     |
| Wine and grape must   |     |     |     |     | Δ   |     |     |     |
| Vegetables, vegetable oil and fats  |     |     |     |     |     | ○   | ○   | ○   |
| Others (sugar, tobacco, alcohol, beer malt, beverage, confectionery, honey, pasta, etc) | ○   |     | Δ   |     | Δ   |     | ○   |     |
| Wheat   | Δ   | Δ   | ○   | ○   | Δ   |     |     | Δ   |
| Maize   | ○   | Δ   |     |     |     |     |     | ○   |
| Sorghum   | ○   |     | Δ   | Δ   |     |     |     |     |
| Soybean, soybean oil and soybean cake   | ○   | ○   | ○   | ○   |     |     |     | ○   |
| Animal (compound) feed  | Δ   |     | Δ   | Δ   |     |     |     |     |
| <b>(2) Raw materials</b>  |     |     |     |     |     |     |     |     |
| Leather (tanned leather, hide & skin, shoes and other leather products)                 | ○   | ○   | ○   | ○   | ○   | ○   | ○   |     |
| Wool  | ○   |     | ○   |     |     | ○   |     |     |
| Cotton  |     |     | ○   |     |     | ○   |     |     |
| Pulp and wood chips or particles  | ○   |     |     | ○   | Δ   |     | ○   |     |
| <b>(3) Mineral fuels</b>  |     |     |     |     |     |     |     |     |
| Petroleum and diesel fuel   |     |     | ○   |     |     | ○   | ○   | ○   |
| Copper  | Δ   |     | Δ   |     |     |     | ○   |     |
| Others (gold etc)   |     |     |     |     |     |     | ○   |     |
| <b>(4) Manufactured goods</b>   |     |     |     |     |     |     |     |     |
| Seamless pipe   |     |     | ○   | ○   |     |     | ○   | ○   |
| Flat-rolled iron and steel products   |     |     | ○   | Δ   | ○   |     |     | ○   |
| Aluminum ingot and alloy  | ○   |     |     | Δ   |     |     |     |     |
| Chemical and plastics   |     | ○   |     |     |     | ○   |     | ○   |
| Textile fibers  |     | ○   |     |     |     |     |     |     |
| <b>2. Assembly products</b>   |     |     |     |     |     |     |     |     |
| Food processing machine   |     |     | Δ   | Δ   | Δ   | Δ   | Δ   | ○   |
| Office machine  | ○   |     | Δ   |     |     | ○   | Δ   | Δ   |
| Vehicles and transport equipment  |     |     | ○   |     |     |     | Δ   | ○   |

Note: JPN: Japan, KOR: Korea, CHN: China, IND: Indonesia, THA: Thailand, HKG: Hong Kong, SPO: Singapore, MAL: Malaysia.

- Argentine export goods and products in 1993 or 1994 (Export amount over US\$10 million per year)
- Argentine export goods and products in 1993 or 1994 (Export amount under US\$10 million per year)
- Δ Argentine exportable goods and products in future. (Not yet penetrated into the market because of sanitary problem, less competitiveness in price, quality, productivity, etc.)

  Economies and industries surrounded by bold lines are recommended with priority for Argentina's TAMIS.

To effectively implement TAMIS, the Study Team recommends that the Coordination Unit (Unidad Coordinadora de Políticas de Fomento a las Exportaciones: UCPFE) works in close cooperation with Export Foundation (Fundación Exportar: FE) and Investment Foundation (Fundación Invertir: FI). Cooperation between FE and private associations is also necessary, particularly for SMEs. The following are the key policy items associated with the TAMIS.

**I. Measures to be taken**

**1. Building up an integrated information system.** Information on export promotion programs in the Argentine government should be shared among the relevant departments and divisions in order to avoid repetition and to enhance efficiency.

As a second step, information on overseas markets, trade inquiries, trade statistics and tariffs, trade fairs, and regulations associated with investment should be easily accessible to Argentine exporters as well as their potential importers and investors because it is basic and important reference information. To promote export, the government should prepare a list of potential Argentine exporters by industry and disseminate it in East Asia via an overseas commercial attachés.

**2. Strengthening representation abroad.** In the initial stage, the function of the commercial attaché should be strengthened to include gathering and disseminating information as well as establishing a close business relationship with potential importers and investors. Learning the local East Asian language would also be helpful. In the second stage, when economic relations between Argentina and East Asia expand, establishing Fundación Exportar offices in Hong Kong, Singapore, Tokyo, and Osaka may be considered.

**3. Awards for good results of export contribution.** Private enterprises which have expanded export should be awarded for contributing to an improvement in the balance of the current account and an increase in the foreign money reserve.

**4. Strategy of an impressive Argentina.**

In addition to the price and quality of products, supplier reliability has become an important factor to potential importers. Upgrading Argentina's image is one way to improve the importers' perception of Argentine products. Other countries actively improve their own image; Argentina should also strive to improve their industry's reputation in East Asia.

5. Public education and publications to promote export. Export expansion contributes to improving national welfare and living standards. The importance of exportation should be fully understood, especially in Argentina, because continuing to expand the export policy requires a broad social awareness of its importance.

## II. Institutional systems to be established

### 1. Creating an export promotion scheme.

Argentina should establish an export promotion scheme for each product and industry which targets the East Asian market, such as agricultural and fishery products, agro-industry, and other resource-processing products. The scheme should be composed mainly of the export finances and grants for specific products. At present, UCPFE is working to coordinate export promotion schemes under different governmental offices, departments, and organizations, but no specific scheme exists to promote export specifically to East Asia.

### 2. Strengthening trade promotion organizations' capabilities through evaluation.

Trade promotion organizations (TPOs) must be carefully evaluated to ensure efficient activity. This evaluation may be done based on simple variables such as the amount of export contracts realized through the TPOs' channels and its reputation as reported by present clients.

3. Establishing a support system for SME exporters. An SME's human and financial resources are often inadequate for expanding export. Therefore some technical and financial support should be provided, at least in the initial stage of export. The support may assist with market research, advertising in overseas markets, or new investments in production lines.

4. Strengthening the investment promotion function. Information on regulations, processes, and the economic environment concerning the investment should always be available in the Argentine embassies in East Asia in order to facilitate information gathering by potential investors. The prepared information should be sufficiently precise for a preinvestment study and would preferably be available in the local language. In addition, a commercial attaché in each Argentine embassy in East Asia should be able to fully explain investment situations in Argentina.

5. Strengthening export finance, insurance and guarantee systems. If successfully operated, the export finance, insurance and guarantee systems will be very effective in

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expanding export. The systems should be incorporated in both export and investment promotion policies. To efficiently operate the systems, private initiatives, under the supervision of the government, as in the case of Argentine Export Credit Insurance Company (Compañía Argentina de Seguros de Credito a la Exportacion S.A.: CASCE), should be considered.

The main restriction in developing these systems is insufficient financial resources. To cope with this problem the following measures are suggested: Secure a direct loan from the World Bank, Inter-American Development Bank, or bilateral official lending institutions; Set priority markets/sectors in providing the finances, insurance and guarantee for export.

### **Issue 2: Expansion of Export Capacity Through Improvement in Productivity and Quality**

Selecting four resource-based products (beef and beef-based products, fresh fruits and fruit juices, tomato-based products, and squid-based products) for case studies, the measures to be applied in expanding export to East Asia were analyzed. Among the East Asian economies, Japan, Korea, Taiwan, and Indonesia have been specifically studied. The study focused on three aspects: market access, marketing strategies, and productivity and quality. Analysis and recommendations common to the four products are presented first. Current situations and recommendations regarding each individual product are then discussed.

#### Market Access Problems

Argentina has market access problems not only with Japan, Korea, Taiwan, and Indonesia but also with other countries in East Asia. To deal with this situation, it is important to first identify what the real problem is. There are two kinds of public market access problems. One is associated with direct import controls by the government, such as prohibitions on import or import quotas. The other is a sanitary or phytosanitary problem, resulting in an indirect restriction of imports. The first problem is difficult to solve because it is sometimes a political matter directly involving national interests. The second problem, however, can be easily dealt with because it is basically technical in nature.

To solve technical market access problems, in general, the Argentine government must first identify the issue by listening carefully to what its trade partner is saying. Since technical professionals are specialized in technical matters, they can easily exchange views

using a common technical language. This kind of problem should therefore be handled by technical professionals.

A special and cross-sectoral task force should be formed to solve sanitary and phytosanitary problems. The role of the task force is very simple: to solve the problem efficiently and promptly. In order to minimize the cost of maintaining the organization and to avoid bureaucratic inefficiency, the task force should be as small as possible.

Various countries should be approached simultaneously as the science and technologies involved share the same characteristics in every country. In fact, each country is observing how other countries study and resolve the problems.

A package deal may be one approach to solving non-technical market access problems. In general, trade issues between two countries are not confined to one sector; the two countries are negotiating on various sectors. Therefore, a package deal offers two advantages. The first is maximizing export potentials. If negotiations between two countries are carried out strictly on a sector-by-sector basis, each country tends to be reluctant to provide special favors or concessions to the other. However, if the negotiation is undertaken in a consolidated manner, a country will be inclined to provide a special favor in one sector on the condition that the country is granted a special favor from its partner in the other sector. The second advantage is that the package deal may expedite negotiations because both countries share a sense of give and take. Negotiations based on a package deal may be preferable to sector-wise negotiations, although this method is not without shortcomings. Argentina may need to restructure its current organization to introduce the concept of a package deal into its trade negotiations.

### Marketing Strategies

While the entire East Asian market is expanding, the Japanese market is particularly important. The import volume is largest in Japan. The Japanese market is highly quality-conscious; meeting the quality requirements of the Japanese market will facilitate easy access for Argentine products to other East Asian markets. Expanding exportation to the Japanese market requires a whole-product concept. This concept incorporates business philosophy, reliability, stable supply capability, and the technological capability of suppliers. While the traditional concept of price and quality affects the static competitiveness of a product, the whole-product concept assesses the competitiveness from a more dynamic point of view. This concept is important because Japanese consumers and importers are pursuing long-term business relations.

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It is important that the Argentine industrial sector make East Asian importers aware of its strong commitment to the market and that it can become a stable and reliable supplier. Unstable supply can critically damage the reputation of a supplier. In order to avoid such risk, the industry has to formulate a long-term export business plan that includes a portfolio of the market and export promotion methods. The industry must maintain favorable financial conditions so that it can produce capital investment when necessary.

Since Argentine industry is a marginal supplier and a newcomer to the East Asian market, it is necessary to differentiate the products. One method of differentiation is to promote the Argentine product as a product of real value. In the exportation of food products, the concept of "healthy, safe and environmentally sound" are useful tools of differentiation. Since Japanese consumers are very sensitive to quality, a quality guarantee by a governmental institution is another example of differentiation. Quick delivery time in response to orders from clients, through the establishment of a stockyard near the clients, is yet another tool for differentiation. In addition to differentiation, active sales promotion is also necessary to gain a greater market share.

Argentina may want to try to sell the Argentine products not just as food but also as Argentine culture. Argentina could sell its beef with other foods such as wine, vegetables, fruits, and pasta. It would then not be the sale of the physical product of beef, but the sale of the Argentine culture associated with the food.

The Argentine industry needs to strengthen its information-gathering function by setting up a liaison office or assigning liaison officers, particularly in Japan. Major functions would include collecting information on the Japanese market, especially regarding technology and new products in Japan, and dissemination of information to Japanese clients regarding the current status of the Argentine industry. Information to be conveyed would include a profile of major suppliers and their business philosophy, the soundness of their financial condition, and the strength of the industry as a whole. While this issue would basically be handled by each exporter, since the expenses are significant and some information is common to other companies in the same industry, exporters may choose to form a consortium to share the cost. To minimize the expense, it would be wise to review the effectiveness and consider the continuance of the office after a certain number of years. Utilizing local consultants as liaison officers would be another method.



### Improvement in Productivity and Quality

In regard to resource-based products, Argentine industries are, in general, internationally competitive in both productivity and quality. To further enhance competitiveness, it is important to procure high-quality raw materials; the quality of the raw materials directly influences the quality of the processed products.

To continually procure high-quality raw materials, the processing industry must build a solid and close business relationship with the raw material suppliers. One multinational cereal company has tried for many years to build an solid relationship by lending seeds, fertilizers and pesticides to their contract farmers and guaranteeing the purchase of their harvest at a fixed price. The company takes both price and production risks, while the price risk is hedged by the futures market and some portion of the production risk is transferred to the company's principal banks. One exporting meat packer recently concluded a contract with a producer's association which has become a shareholder in the meat packer's business. Under the contract, the association supplies cattle to the meat packer, and the meat packer pays for the cattle depending on the quality. The meat packer also pays the association a portion of the profits obtained from sales. Business diversification by a processing industry (downstream) to a primary industry (upstream) or by a primary industry to a processing industry, through the formation of a subsidiary or a joint venture, are other ways of building a lasting and close relationship between the two. Which method is the most practical and effective for Argentina is not yet known. The answer will come through experience.

The productivity of the processing industries that were studied is standard, but there is room for improvement. The packing lines and storage processes of some plants are not presently appropriate. A more strident risk control must be imposed on each process by introducing, for example, the Hazard Analysis - Critical Control Point system. The food processing industry must keep its factories neat and clean at all times, regardless of the areas, whether production, packing, storage lines, or administration offices.

The government needs to develop a way to disseminate information about local technology and management methods. Some local firms have already acquired high-level knowledge of technology and management, and this information should be passed directly on to others before the government seeks foreign assistance.

While the impact of the so-called "Costo Argentino" is not significant for the four products studied, further deregulation is necessary. The distribution of electricity is not yet deregulated; if it is, there may be a decrease in electricity costs. Transportation is

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another example. If the import of trucks is liberalized, transportation costs can be further decreased. The main areas of the decrease would be depreciation and maintenance costs.

### Basic Conditions for Export Expansion

The competition among suppliers of raw materials should be intensified; maintaining or enhancing the competitiveness of the primary sector is vital for Argentina. In this regard, a very significant and remarkable phenomenon has occurred in the production of tomatoes: the emergence of agro-engineers. They are a new type of farmer; agro-engineers produce tomatoes with advanced industrial technology by introducing the concept of management. The government is urged to create an environment that would facilitate the emergence and development of agro-engineers.

In order for Argentine industry to expand exports to a new market, the industry must take risks. Such risks can be minimized by creating a long-term corporate plan and identifying the risks which the industry needs to and can afford to take. A strategic approach is important when Argentine industry targets the East Asian market. The Argentine industry has been weak in long-term strategic thinking not only in terms of exports but also domestic sales.

The importance of production must be emphasized. Under hyper-inflation and a closed economy, financial managers were the most important personnel and sales managers followed. While the importance of these managers can not be denied even under the current stable prices and open economy, production managers are as important as financial and sales managers, particularly in the export of manufactured products. Adherence to the standards of high-quality products and high productivity rates in plant operations are vital for industrialization.

The following are the product-specific summaries of the current situations and recommendations.

### **Beef and beef-related products**

#### **I. Current Situation**

Current situations regarding market access to Japan, the Japanese market, and the competitiveness of the Argentine beef industry are presented below.

(I) Although the Japanese government is committed to following WTO's Agreement on the Application of Sanitary and Phytosanitary measures and has shifted from a zero- to

minimum-risk concept, the fact is that it considers importation a possibility only from FMD-free countries.

(2) The size of the Japanese market for grass-fed and frozen beef was 90,000 tons in 1994. As the market is not very large and the value-added benefit in this market is minimum, an expansion of the market through the development of new ways to serve beef is very important.

(3) While Argentine beef possesses international competitiveness in both price and quality, improvements are needed in productivity and quality control if the Japanese market is to be targeted.

(4) The financial structure of export meat packers, except for some firms, is not strong enough to invest in the machinery and equipment necessary to expand production capacity and improve productivity.

## II. Recommendations

The Argentine government should adopt the following strategies and measures to solve the market access problems:

(1) Since there is no shortcut for Argentina to use to commence export to Japan, to demonstrate the effectiveness of exporting deboned beef, the Argentine government should make a strong effort to realize export to the US as soon as possible.

(2) At the same time, since the Japanese government may be prepared to undertake risk analysis on a bilateral basis when international standards develop, the Argentine government should continue to express interest in a risk analysis of the export of deboned beef.

The industry should adopt the following strategies and measures for marketing and production:

### (1) Marketing strategies:

- 1) Focus the first stage on commercial and processing uses, as they are the primary markets of Argentine grass-fed and frozen beef.
- 2) Select meat packers and trading houses as primary targets, as they are the principal distributors of imported beef. The former has the ability to develop new serving ideas and the latter offers a wide sales network.

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- 3) Market an original concept to sell the unique business philosophy, financial soundness, industry reliability, commitment to the East Asian market, and the long-term perspectives of the Argentine beef industry.
- 4) Accentuate the real value of Argentine beef as "safe, healthy, and environmentally sound."
- 5) Strengthen the function of the existing exporters' association in the areas of information gathering and sales promotion at its own expenses but with some governmental support in the area of preparing information on the Argentine beef industry.

(2) Competitiveness of Argentine beef in the Japanese market should be further enhanced by:

<Possible in the short term>

- 1) Rearranging the cutting and packing lines and utilizing the storage facilities in meat packing plants more efficiently;
- 2) Improving quality control of the packing and the temperature control in meat packing plants through the process of cutting, packing, and storing;
- 3) Establishing a good relationship with producers (breeders and fatteners) to ensure a stable supply of high quality cattle.

<To be realized in the medium or long term>

- 4) Constructing new plants with modern layouts;
- 5) Transferring meat packing plants to cattle fattening areas to minimize transportation and commercialization costs by reducing accidents to cattle. The government may support the transfer by designing a relocation plan.

(3) To be ready for changes in export business that will take place when the US and Japan open their markets, Argentina should prepare for an increase in:

- 1) Orders from Japan of many varieties in small lots. (This preparation could be done by, for example, introducing computerization and training the work forces in order to give accurate and quick responses at production and distribution sectors.)
- 2) Orders of boxed beef (in the form of cuts, not carcasses) at the cutting and packing lines.

## Fresh fruits

### I. Current situation

Current situations regarding market access to Japan and the Japanese market

are as follows:

- (1) The Japanese government is prepared to open its market to Argentina as long as the Argentine government successfully convinces them of the effectiveness of cold treatment in killing Mediterranean flies;
- (2) Communication gaps between the Argentine and Japanese governments and within the relevant Argentine public institutions are apparently the primary causes for this problem being prolonged.

## II. Recommendations

The government should take the following actions to solve the problems:

- (1) Speed up the completion of the cold treatment method;
- (2) When commencing an experiment for cold treatment, send an expert to Japan to finalize the details of the experiment plan and to confirm at each main step that the experiment is being conducted properly;
- (3) Record the process of negotiations and experiments in a manual, which could be referred to when a similar event occurs in the future.

While the market access problem is, without doubt, the most urgent issue to be solved, it is also imperative to conduct a comprehensive study on the Japanese fresh fruits market with the goal of developing a variety with a taste fully acceptable to Japanese consumers. Unless a new variety is successfully developed, Argentina will not be able to expand the export of fresh fruits to Japan, even if the market access problem is solved. Given this situation, the industry should:

- (1) Conduct a detailed study on the characteristics of the Japanese market for fresh fruits, paying special attention to taste.
- (2) Based on the results of this study, adjust the taste of the current varieties or develop a new variety to suit the tastes of the Japanese consumers.

## Fruit juices

### I. Current situation

Current situations regarding market access to Japan, the Japanese market, and the Argentine juice manufacturing industry are as follows:

- (1) The Argentine industry has competitiveness in both productivity and quality in the international market.
- (2) The industry is no more than a marginal supplier to the Japanese market in the sense that Japanese buyers are not relying on Argentina as a major source of juice products; they would not feel at all inconvenienced if the Argentine suppliers disappeared from the market.

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- (3) An active sales promotion is necessary for Argentine suppliers to maintain their position in the market and to expand their market share.
- (4) Argentina is one of only a few countries in the Southern Hemisphere where organic planting is feasible; some Japanese juice-bottling firms are interested in organic juice produced in Argentina.

## II. Recommendations

The Argentine industry should adopt the following strategies and measures for the expansion of exports to Japan:

- (1) Form an export consortium and set up a new information center in Japan at their own expense both to exchange information, especially on corporate profiles, technology, and the development of new products, and to promote a mutual understanding between Argentine suppliers and Japanese buyers.
- (2) Differentiate their products by:
  - 1) Establishing a safety guarantee system through which the government institution issues an official certificate on the safety and high quality of the juices;
  - 2) Developing unique organic juices from apples and grapes;
  - 3) Facilitating a quick order response and timely delivery of fruit juices by setting up a stockyard in Japan.
- (3) Minimize the risk of the "one fruit, one business" limitation by actively developing and dealing with different kinds of fruits and vegetables by:
  - 1) Accelerating the gathering of Japanese market information on agriculture-based juices;
  - 2) Promoting a study of the beneficial contents of Argentine fruits and vegetables in collaboration with governmental institutions;
- (4) Upgrading sanitary and operational controls in the following areas, which are not always satisfactorily implemented from the viewpoint of the Japanese buyers:
  - 1) The environment of the filling process and the introduction of Hazard Analysis-Critical Control Point (HACCP) system;
  - 2) Recording the operations, so that if defects occur the cause can easily be traced.

## Tomato and tomato-based products

### I. Current situation

Current situations regarding market access to Japan, the Japanese market, and the Argentine tomato industry are as follows:

- (1) The competitiveness of tomato paste, a major commodity for trade among tomato-based products and the intermediate material in tomato-based finished products, is weak and its export to Japan is difficult.
- (2) The lack of price competitiveness of Argentine tomato paste results from the high production cost of the raw material, i.e., fresh tomatoes for industrial uses.
- (3) The high production cost is mainly attributable to the low yield per ha in tomato farms, and to small farms which make the mechanization of farming difficult.
- (4) In Argentina the same seed is used to produce tomatoes for both direct consumption and industrial uses. This is convenient but the yield is low. The production of tomatoes suitable for paste is not specialized. Argentina has good ecological potential for producing tomatoes.
- (5) Tomato productivity has risen with the direct involvement of the tomato processing industry. It is necessary to sustain this effort.
- (6) Since small farmers are not likely to specialize in the production of tomatoes for industrial uses, one key to success in restructuring the industry is an increase in the productivity of farms belonging to the processing industry or that have contracts with the industry.

## II. Recommendations

The government, tomato farmers, and the processing industry should:

- (1) Build a consensus on the need to restructure the industry and establish goals, qualitative targets, and a process for realizing those targets;
- (2) Clarify the role of each party in the restructuring.

Also, the processing industry and the government should take the following measures in order to increase the yield of tomato production per ha:

### <The processing industry>

- (1) Strengthen guidance on the production of tomatoes by assigning more professional technical staff members, regardless of the status of the farms (direct or contracted). The role of the technical staff includes selecting and developing appropriate seeds, developing crop technology on experimental farms, and extending the technology.
- (2) Improve the harvest timing by planting special seeds for industrial uses to avoid the risk of being damaged by bad weather and to stabilize the factory operation throughout the year

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### <The government>

- (3) Assist farmers producing tomatoes exclusively for industrial uses in the selection of hybrid seeds so that the seeds are suitable to their land.

To facilitate enlarging the farms of efficient agricultural entities, the processing industry and the government should take the actions below.

### <The processing industry>

- (1) Promote and expand direct farming in the industry: Tomato production can be profitable if it is done efficiently. A success story in this field should be created.
- (2) Support expansion of efficient contract farmers' land by purchasing land that belongs to other farmers or is unused and lease it to the contract farmers.

### <The government>

- (3) Promote the utilization of land which has potential but is abandoned or is not suitable for other crops but suitable for tomatoes by:
  - 1) Providing information on available land through the preparation of a Tomato Crop Map;
  - 2) Designing a tax incentive scheme for accelerating the utilization of unused land;
  - 3) Setting a new tariff scheme that promotes full utilization of irrigated water resources.

Since an assured market is the best incentive to accelerate integration of the industry (from the downstream to the upstream portion), the processing industry should strengthen its sales with the support of the association and the government by:

- (1) Enhancing the ability to gather market information;
- (2) Strengthening the sales power for export.

Finally, though it will take some time before the industry regains its export competitiveness and resumes exportation to Japan, the processing industry should prepare for the future by:

- (1) Declaring to the Japanese Tomato-Based Products Producers Association that the industry has begun to undertake restructuring, and will appear again with a strong competitiveness in the international market in the near future;
- (2) Pursuing business contacts with the Japanese industry that produces tomato-related products such as meat sauce and which has a strong interest in outsourcing the materials.



## Squid-based products

### I. Current situation

Current situations regarding market access to Japan, the Japanese market, and the catching of squid in Argentina are as follows:

- (1) While Japan's out-sourcing of squid in Argentina is estimated to be 17% of the total supply, imports from Argentina under the Import Quota (IQ) is only 5% of the total IQ.
- (2) This small percentage of imports under the IQ is attributed mainly to the difference in the quality of squid caught by Japanese and Argentine vessels.
- (3) The major squid-based product in Japan is "Sakiika" and its market size is US\$ 290 million. The consumption of squid is 106,000 tons per year.
- (4) The Japanese importers of "Daruma," an intermediate material for "Sakiika," are willing to purchase from any country as long as the price and quality are competitive.
- (5) The price of Daruma should be at least 20% lower than that produced in Japan.
- (6) Argentina is expected to export high-value-added products instead of low-value-added fresh squid.
- (7) Some fish processing firms in Argentina are excellent at catching and processing merluza, although the number of such firms is limited.

Results of the study on the feasibility of processing "Daruma" in Argentina and exporting it to Japan are as follows:

- (1) Economic viability is promising because the CIF price of Argentina's Daruma is 20% less than Japan's;
- (2) Sensitivity analysis shows that the price difference decreases if the price on fresh squid increases.

### II. Recommendations

In order to expand exports of fresh squid to Japan under the IQ, the government should:

- (1) Design a two-year program that includes the following activities and implement it under the leadership and guidance of the governmental organization concerned:
  - 1) Record the differences in the quality of squid caught by Argentine and Japanese vessels in the first year;
  - 2) Analyze the factors that cause the differences;
  - 3) Obtain advice on how to bridge the gap that exists between Argentine and Japanese quality;

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- 4) Follow and implement the advice in the second year.
- (2) After confirmation that the differences no longer exist, government and industry must jointly appeal to Japanese importers by clearly demonstrating the results of the above two-year program.

Regarding the "Daruma" project, we recommend that the industry take the following strategies and measures:

- (1) To further enhance the viability of the project and to reduce project risks as much as possible:
  - 1) The equity ratio should be maximized;
  - 2) Facilities such as factories and machines and freezers that are not always operating should be fully utilized;
  - 3) Not only Japan, but also Korea and Taiwan should be targeted as export markets since their domestic demand for the product is substantial;
  - 4) By-products should be fully utilized.
- (2) To secure the levels of productivity and quality required by Japanese importers:
  - 1) Technical guidance by Japanese importers is essential, especially in the following areas:
    - Maintaining the freshness of squid on vessels;
    - Controlling water quality, temperature, and processing time;
    - Recording the results of checks performed to identify any source of problems.
  - 2) A J/V company of the Argentine and Japanese/Korean/Taiwanese firm should be established, and the fishermen trained through on-the-job training.

To facilitate the development of the fish processing industry, government and industry should take the actions below.

### <The government>

- (1) Understand the importance of procuring the best quality raw materials; the curriculum regarding fresh fish quality control should be improved in fishermen's schools;
- (2) Design a scheme or a program to transfer the advanced technology, training, and administrative systems from several excellent firms in collaboration with the industry (domestic resources should be fully utilized before initiating a transfer of foreign knowledge or technology);
- (3) Strengthen the function of the governmental organization in order to develop new and/or high-value-added products and promote the utilization of by-products.

**<Association>**

- (4) Send a staff member of the association to Japan periodically to obtain information on the Japanese market and the latest processing technology and to promote mutual understanding between Japan and Argentina.

**Issue 3: Development of Argentine Small- and Medium-sized Manufacturing Enterprises**

**Financial support to SMEs**

The dramatic macroeconomics reforms implemented by the Menem Administration have brought about the recovery of the financial system and capital market. The efficiency and competitiveness of financial institutions have been improving through re-organization and privatization, despite the sudden economic crisis of Mexico, which had a serious negative impact on Argentina's financial system.

According to our survey, however, it is still difficult for SMEs to access credit, principally for the following reasons:

- High interest rate for borrowing;
- Insufficient resources for loans from financial institutions, especially long term loans;
- Strict requirements for mortgage and guarantees;
- The complexity of the procedures and formalities for granting loan;
- The special financing program for SMEs by Banco de Inversión y Comercio Exterior (BICE) and Banco de la Nación (BNA) is not well-known;
- Difficulty to obtain equity financing.

In view of the problems mentioned above and as a result of our study of support programs of other countries and their applicability to Argentina, the following recommendations/suggestions are made to the Argentine government to facilitate credit access for SMEs:

- (1) Strengthen the function of public financial institutions, especially BICE and BNA, through increasing the endowment fund, diversification of funding sources, and increase of the direct financing by BNA to borrowers (SMEs). The publicity and marketing of the special funding allowances for SMEs is also necessary, indicating clearly the requirements and conditions of those loans.

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- (2) Create an institutional guarantee system for borrowing, initiated by the government but allowing for participation by the private sector. This guarantee can limit the purpose of the loan (for instance the purchase of machinery or equipment).
- (3) Promote lending on a cash flow basis instead of relying totally on personal assets or guarantees; making use of financial consultants both by SMEs and financial institutions.
- (4) Promote equity finance through the creation of a development fund program for investment under a governmental support which includes tax incentives or guarantee for fund raising by investors. Developing the stock market is another key factor in equity finance.
- (5) Create a matching program between investors (individuals or investing companies seeking equity investment) and investees (SMEs) looking for equity finance to increase their productivity and efficiency.
- (6) Promote diversification of financial sources like leasing or factoring reviewing and studying the legal and physical aspects and possible incentives of the operations.
- (7) Conduct a periodic survey of the financial problems and barriers to SMEs in order to reflect them in the government policy in a timely manner.

## **Technical support to SMEs**

The development of technology of the Argentine SMEs has been constrained by insufficient financing, shortage of expert human resources, technological information and know-how, expensive machinery or equipment, and insufficient support for innovating activities. In order to overcome these obstacles, SMEs wish to receive the following external support, i.e., support on financing, process development, new technology information, technological training and new product development.

To cope with this situation, the Argentine government started "Small- and Medium-Size Enterprises Promotion 3-Year Plan" in 1992, which includes a plan for the development and acquisition of new technology. In order to improve access to the existing government support programs and improve the services quality of the entities concerned, the following measures are suggested:

- (1) Provide and disseminate (to SMEs) simple and readily understandable promotion materials and information regarding technological support schemes, including success stories of SMEs that applied the public support scheme.
- (2) Utilize the functions and connections of the local administration, public research laboratories, and industrial associations in the private sector as a communication vehicle to convey properly the intentions and contents of the public technological support programs to each SME across the nation.
- (3) Explore the tax reductions for research and development which would be useful in motivating SMEs to initiate new technology development.
- (4) Organize a specialist training system for the support program to improve the abilities of public advisors. Inviting experienced technology experts from other countries and continuously sending Argentine experts abroad is recommended.
- (5) Create a computer-based information network system for technical support and substantialize network of the technology support system by involving both national and foreign public and private organizations.

### **Quality improvement of SMEs**

The main obstacles to conducting quality development activities are difficulties in changing the enterprises' culture, the insufficient institutional support and the lack of financial resources. Some SMEs have been enthusiastically running quality improvement programs since 1990, introducing 5-S programs, problem analysis tools, the cell's system, quality self-control and fool-proof systems in plants. However, many SMEs still exist which subject their final products to little more than visual checks or inspections that rely only on vernier micrometers and other unsophisticated instrumentation. These companies must work on quality improvement and strive for serious increases in their product quality by seeking assistance from quality-control organizations or consultants. The following items are suggested in view of the present obstacles:

- (1) Develop practical programs in Argentine quality-control research and education organizations  
A sizable share of SMEs want more practical seminars and/or training courses which have an immediate effect. Argentine quality-control organizations are needed to develop such programs. Those programs should include references to

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successful SMEs. If the organizations have difficulties in developing the programs that SMEs need, they should work together with selected foreign organizations.

(2) **Construct a nationwide quality service network**

Since Argentina is a relatively large country with SMEs located nationwide that prefer to access assistance at the local level, the government must support the establishment of provincial organizations and create a nationwide quality improvement service network.

(3) **Subsidies for SMEs quality improvement projects**

Most SMEs lack the financial resources to practice quality improvement programs. The government should explore subsidizing the consulting and training costs, like Chile, Australia, and Malaysia do.

(4) **Increase the supply of long-term low-interest financing for SMEs**

In order to cut the rates of defective products, it is essential to enlarge and reinforce the existing quality control systems and pursue full modernization campaigns aimed at replacing outdated plant facilities.

### **The automobile industry and autoparts SMEs**

The autoparts sector has been analyzed as a case study of Argentine SMEs, in view of its strategic importance in the manufacturing sector. Based on the analysis, the Study Team has identified a classification system according to the performance and capability of the SMEs.

**Rank A:** Those who have demonstrated excellent performance in cost, quality, and delivery management. They are usually joint ventures with overseas OEM suppliers or licensees of their technologies. Many of them have some research and development abilities and an ISO9000 or equivalent certificate. Public support is not required for Rank A firms.

**Rank B:** Those who are reasonably well-managed and quality-conscious but without the resources necessary to introduce new production technology and facilities.

**Rank C:** Mainly family businesses with management closed to drastic changes in the economic situation. They usually depend exclusively on a single assembler.

In order to use the limited resources as effectively as possible, the government policy should be primarily targeted at Rank B firms. Assemblers have already raised their techno-managerial capability but cannot take risks to provide long-term financing for a fixed investment. For Rank B firms, therefore, the role of the National Institute of Industrial Technology (Instituto Nacional de Tecnología Industrial: INTI) is less important than that of financial institutes in the Suppliers Development Program (SDP) framework. Although Rank C firms will probably be cut off from assemblers, they could still grow as second-tier or after-market suppliers. They need to acquire more sophisticated techno-managerial capabilities before spending public financial assistance wisely. As first-tier suppliers are not accustomed to looking after second-tier suppliers, INTI plays much more important role than in the case of Rank B firms. Therefore, the recommended policies are:

- (1) To revise the Automobile Regime jointly with Association of Automobile Manufactures (ADEFA) in accordance with the progress of the MERCOSUR Agreement. Although trade policy is not the primary focus of the current study, this may have a more powerful impact than any other PyME policies. In addition, it is an area where government initiative is uniquely demonstrated.
- (2) To make the current SDP framework more flexible so that public and private participants, and their divisions of labor, can be modified case by case (i.e. whether the supplier is a Rank B or Rank C firm).
- (3) To reinforce BICE, BNA, Argentine Technology Fund (El Fondo Tecnológico Argentino: FONTAR) and Reciprocal Guarantee Societies (Sociedades de Garantía Recíproca: SGR) so that they can provide timely financing for the investment plan of Rank B firms as soon as they are endorsed by assemblers and approved as financially and technologically viable.
- (4) To assist the transition of INTI by offering financial incentives, so that the institute may become more oriented to solving practical problems. More concretely, the subsidy to INTI should be based on the amount/number of contracts for joint R&D (Rank B) and consulting services (Rank C).

#### **Issue 4: Transport Infrastructure Improvement for Industrial Development and Trade Promotion**

##### **Development of container transportation systems**

The port of Buenos Aires handled 540,000 TEUs (twenty-foot container equivalent unit) in 1994. The Study Team forecasts that the container volume handled in Argentina in the year 2000 needs to be 966,000 TEUs, increasing to 1.24 million TEUs in 2005 and 1.6 million TEUs in 2010. In order to meet this demand, the Buenos Aires ports must be capable of accommodating larger container vessels. Improvement of the current container terminals at Buenos Aires port is essential and should be given the highest priority. The following development schemes should be considered for the development of containerization in Argentina:

The first step is optimum utilization of the existing facilities of the Buenos Aires port. The maximum handling capacity of containers under the current terminal facilities will reach 1.2 million TEUs, provided that the following measures are introduced:

- Utilization of railway facilities for inland transportation of containers;
- Modernization of container handling equipment and improvement in handling efficiency;
- Integrated terminal area development via land reclamation; and
- Improvement of information flow system.

Even if the above measures are undertaken, the Buenos Aires port would be saturated by 2005. Thus, as a second step, a "Nationwide Containerization Study" should be conducted to establish a long-term master plan for nationwide container terminal development. Possible policy measures for the nationwide container terminal development would be:

- To develop container terminals at the ports of Bahia Blanca, Quequen and/or Rosario as complementary container port(s) to Buenos Aires;
- To make full use of the deep sea container ports of neighboring countries, such as the ports of Santos, Sepitiba, Rio Grande, or Montevideo;
- To develop a deep draft sea port by constructing an off-shore island port along the Atlantic coast.

In addition to the development of these physical aspects of containerization, more sophisticated aspects should also be considered. Argentine port management should



introduce the concept of port sales, which introduce port-based business opportunities to port users and private investors by providing information and publications on the port. In addition, ports should coexist with the surrounding economic and social climate; ports should be attractive to people in the city and nearby regions. To achieve this, ports should be equipped with convention centers, hotels, business and shopping centers, restaurants, and waterfront recreational centers.

### **Development of trunk routes between Argentina and Brazil/Chile**

At present there are three corridors that connect Argentina with Brazil and Chile. The first is the Northern Corridor, linking Iquique with Sao Paulo via Jujuy. The second is the Central Corridor, which covers Valparaíso to Sao Paulo via Mendoza and Buenos Aires. The third is the Southern Corridor, connecting Concepción with Bahia Blanca via Neuquén.

The three corridors have individual objectives and functions, and each corridor should be considered as an independent route rather than an alternative route to the others. Therefore, all three corridors should be developed, at least in the medium and long-term perspective.

The three corridors are presently considered to be infrastructure development projects. They should instead be considered from a regional development standpoint, under the new economic opportunities resulting from the establishment of MERCOSUR, as a gateway to the Pacific for Argentina and to the Atlantic for Chile. A "Comprehensive Regional Development Study" should be conducted for each region along the three corridors prior to assessing the feasibility of a specific mode of transportation. The study should cover the following items:

- Development potentials of agricultural, industrial, mining, forestry, tourism and other sectors;
- Analysis of the potential domestic and international markets of these sectors.

The following three bridge projects will relieve existing and forthcoming bottlenecks in transportation among the MERCOSUR countries:

- Rosario - Victoria bridge
- Santo Tome - Sao Borja
- Colonia - Buenos Aires

## Executive Summary

Since the lack of consistent and updated information on reliable transport facilities and data on MERCOSUR countries has made the planning of future transport network difficult, a "MERCOSUR Transport Study" should be implemented as soon as possible. The study should cover not only the MERCOSUR countries but also other neighboring countries such as Chile, Bolivia and Peru.

The upgrading of cargo trans-shipment facilities from rail to rail, from rail to road, and at ports is urgently required. Operational procedures should also be integrated within the region. Experiences of EU with a smooth cross-border traffic system and regulatory process would provide some insight. Since an extensive railway network has already been constructed in the MERCOSUR countries, it should be exploited.

### 6. Suggestions for the Implementation of Recommendations

For two reasons, a plan of action should be formulated describing a comprehensive framework to implement the recommendations. The first is a need to set priorities within the recommendations. While the recommendations cover a wide range of areas, there are limitations in human and financial resources. The second reason is the involvement of the private sector. The primary force in expanding export to and promoting direct investment from East Asia will inevitably be the private sector. The Argentine government must establish an understanding of the role of the private sector and the government in facilitating the implementation of the recommendations.

The following processes should be implemented in formulating the action plan:

- Holding a seminar in Argentina to share the analysis, evaluation, and recommendations described in this study among the parties concerned in Argentina;
- Holding seminars in Japan and other target countries in East Asia to present the current status of the Argentine economy and industry and to demonstrate Argentina's strong commitment to the East Asian market;
- Establishing a special team to prepare and monitor the implementation of the action plan.

The action plan should include at least the following points:

- Priorities within the recommendations;
- Time schedule and implementing agencies;
- Allocation of human and financial resources;
- Liaison functions in East Asia as a private-basis linkage.

## **APPENDIX 1: List of Study Reports**

### **1. Reports**

- (1) Inception Report      July, 1994
- (2) Progress Report      October, 1994
- (3) Interim Report      June, 1995
- (4) Final Report      June, 1996

#### **Executive Summary \***

- Vol. 1 Main Report: Toward a Greater Interdependence between Argentina and East Asia  
A New Opportunity for the Argentine Economy \***
- Vol. 2 The Argentine Economy**
- Vol. 3 The East Asian Economies: Attractive Markets**
- Vol. 4 Strengthening Institutional Support for the Expansion of Export to and  
the Promotion of Direct Investment from East Asia**
- Vol. 5 Expanding Export Capacity through Improvement in Productivity and Quality**
- Vol. 6 Development of Argentine Small- and Medium-Sized Manufacturing Enterprises**
- Vol. 7 Transport Infrastructure Improvement for Industrial Development and  
Trade Promotion**

### **2. Seminar Papers (June, 1996)**

- (1) Seminar Brochure \*
- (2) Seminar Papers \*

- No. 1 Economic Development of the Argentine Republic: A New Approach to the  
Asia Pacific Region**
- No. 2 Strengthening Institutional Support for Export and Investment**
- No. 3 Expanding Export Capacity of Resource-Based Products**
- No. 4 Development of Small- and Medium-Sized Manufacturing Enterprises**
- No. 5 Transport Infrastructure Development**

**Note:** All the reports and papers are prepared in English.  
Reports and papers with \* are prepared in Spanish also.



## APPENDIX 2: Study Staff Members

### Phase I (July 1994 ~ March 1995)

#### 1. Japan International Cooperation Agency

|                    |                         |  |
|--------------------|-------------------------|--|
| Norio Matsuda      | Director                | Second Project Formulation Study Division,<br>Project Formulation Study Department |
| Satoshi Iwakiri    | Deputy Director         | Second Project Formulation Study Division,<br>Project Formulation Study Department |
| Atsushi Hanatani   | Officer in Charge       | Second Project Formulation Study Division,<br>Project Formulation Study Department |
| Tomoki Nitta       | Officer in Charge       | Second Project Formulation Study Division,<br>Project Formulation Study Department |
| Masahiro Yamashita | Development Specialist  | Institute for International Cooperation  |
| Norio Ishida       | Development Specialist  | Institute for International Cooperation  |
| Shozo Fukuda       | Resident Representative | Argentina Office   |
| Seiichi Nagano     | Director                | Argentina Office   |
| Juan C. Yamamoto   | Field Officer in Charge | Argentina Office   |

#### 2. Study Team

|                     |   |   |
|---------------------|---|---|
| Saburo Kawai        | Team Leader,<br>Chairperson and President                 | International Development Center of Japan |
| Hirohisa Kohama     | Advisor, Macro Economy                                    | University of Shizuoka                    |
| Akio Hosono         | Advisor, Latin America Economy                            | University of Tsukuba                     |
| Kotaro Horisaka     | Advisor, International Economy                            | Sophia University                         |
| Noriyoshi Nagamatsu | Deputy Team Leader / Transport /<br>Malaysia              | International Development Center of Japan |
| Motoki Takahashi    | Macro Economy   | International Development Center of Japan |
| Shunichi Shikauchi  | Investment / Capital Market /<br>Japan, Singapore         | International Development Center of Japan |
| Shiro Kobayashi     | International Trade /<br>Japan, Thailand, Australia       | Japan External Trade Organization         |
| Shigeji Saiki       | Trade Policy / Japan, China                               | International Development Center of Japan |
| Hiroko Sato         | Agriculture   | International Development Center of Japan |
| Satoko Watanabe     | Coordinator / Agriculture / Australia,<br>Canada          | International Development Center of Japan |
| Naoya Takebe        | Manufacturing Sub-Sectors /<br>Japan, Indonesia, Thailand | International Development Center of Japan |
| Hiroyuki Fujiwara   | Manufacturing Sector / Hong Kong                          | AZ Planning Group Co., Ltd.               |
| Yoshio Arai         | Industrial Technology / Korea                             | Mitsubishi Research Institute             |
| Kenkichi Horio      | Mining, Energy  | Bishimetal Exploration                    |
| Atushi Sato         | Transport   | Pacific Consultants International         |
| Takashi Kanatsu     | Sub-Coordinator   | International Development Center of Japan |

### 3. Advisory Group

|                  |                        |                         |
|------------------|------------------------|-------------------------|
| Hirohisa Kohama  | Macro Economy          | University of Shizuoka  |
| Akio Hosono      | Latin American Economy | University of Tsukuba   |
| Kotaro Horisaka  | International Economy  | Sophia University       |
| Shujiro Urata    | Trade and Investment   | Waseda University       |
| Hidenobu Okuda   | Financial Policy       | Hitotsubashi University |
| Fukunari Kimura  | International Trade    | Keio University         |
| Sadao Nagaoka    | Industrial Development | Seikei University       |
| Tooru Yanagihara | Macro Economy          | Housei University       |
| Machiko Watanabe | Macro Economy          | Kaetsu Women's College  |

### 4. Supporting Staff

|                 |   |   |
|-----------------|---|---|
| Yasunobu Kawato | Administrator for Advisory Group            | International Development Center of Japan |
| Katsumi Chen    | International Trade Analysis                | International Development Center of Japan |
| Dong Tao        | Macro Economy                               | International Development Center of Japan |
| Masato Koga     | Research Assistant                          | International Development Center of Japan |
| Tamiko Abe      | Administrator for Study Team                | International Development Center of Japan |
| Katsue Ueno     | Administrative Assistant for Advisory Group | International Development Center of Japan |
| Reiko Yoshizawa | Administrative Assistant for Advisory Group | International Development Center of Japan |
| Eiji Roppongi   | Interpreter                                 |   |
| Elina Sawada    | Interpreter                                 |   |
| Victor Sawada   | Interpreter                                 |   |
| Jorge Sekiguchi | Interpreter                                 |   |
| Misa Mochinaga  | Typist                                      |   |

## Phase II (June 1995 ~ July 1996)

### 1. Japan International Cooperation Agency

|                    |                         |  |
|--------------------|-------------------------|--|
| Norio Matsuda      | Director                | Second Project Formulation Study Division,<br>Project Formulation Study Department |
| Satoshi Iwakiri    | Deputy Director         | Second Project Formulation Study Division,<br>Project Formulation Study Department |
| Akiko Oda          | Officer in Charge       | Second Project Formulation Study Division,<br>Project Formulation Study Department |
| Masahiro Yamashita | Development Specialist  | Institute for International Cooperation  |
| Norio Ishida       | Development Specialist  | Institute for International Cooperation  |
| Shozo Fukuda       | Resident Representative | Argentina Office   |
| Masahiko Nozue     | Director                | Argentina Office   |
| Juan C. Yamamoto   | Field Officer in Charge | Argentina Office   |

## 2. Study Team

|                     |   |   |
|---------------------|---|---|
| Saburo Kawai        | Team Leader,<br>Chairperson and President                           | International Development Center of Japan |
| Jinichiro Yabuta    | Deputy Team Leader<br>International Economics                       | International Development Center of Japan |
| Shigeji Saiki       | Issue 1 Leader / Institutional<br>Support for Export and Investment | International Development Center of Japan |
| Noboru Takebe       | Trade Promotion Organizations                                       | International Development Center of Japan |
| Shiro Kobayashi     | Information Systems   | Japan External Trade Organization         |
| Naoya Takebe        | Issue 2 Leader / East Asian Markets                                 | International Development Center of Japan |
| Michio Watanabe     | Coordinator /<br>Beef and Beef-based Products                       | International Development Center of Japan |
| Yasuo Hara          | Fresh Fruits and Fruit Juices                                       | Japan Management Systems Inc.             |
| Hisao Shimizu       | Tomato-based Products   | Japan Management Systems Inc.             |
| Junji Horie         | Squid-based Products  | Japan Management Systems Inc.             |
| Shunichi Shikauchi  | Issue 3 Leader /<br>Financial Support for SMEs                      | International Development Center of Japan |
| Hiroyuki Fujiwara   | Technical Support for SMEs  | AZ Planning Group Co., Ltd.               |
| Takeshi Suzuki      | Quality Improvement of SMEs   | International Development Center of Japan |
| Keishi Sugiura      | Sub-Coordinator /<br>Autoparts Industry                             | International Development Center of Japan |
| Noriyoshi Nagamatsu | Issue 4 Leader / Trunk Routes<br>Between Argentina and Brazil/Chile | International Development Center of Japan |
| Atushi Sato         | Containerization Planning   | Pacific Consultants International         |
| Kouhei Hisatsune    | Container Port Operation  | Naviteco, Ltd.                            |

## 3. Supporting Staff

|                  |                                |   |
|------------------|--------------------------------|---|
| Tohru Kurushima  | Advisor, Beef                  | Nippon Meat Packers, Inc.                 |
| Kunihiro Hayashi | Advisor, Fruit Juices          | Gold Pack Corporation                     |
| Norikazu Yamada  | Advisor, Tomato-based Products | Nagano Tomato Co., Ltd.                   |
| Tamiko Abe       | Administrator                  | International Development Center of Japan |
| Reiko Yoshizawa  | Administrative Assistant       | International Development Center of Japan |
| Eiji Roppongi    | Interpreter                    |   |
| Elina Sawada     | Interpreter                    |   |
| Victor Sawada    | Interpreter                    |   |
| Jorge Sekiguchi  | Interpreter                    |   |
| Misa Mochinaga   | Interpreter/Typist             |   |
| Laura Morikone   | Typist                         |   |











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