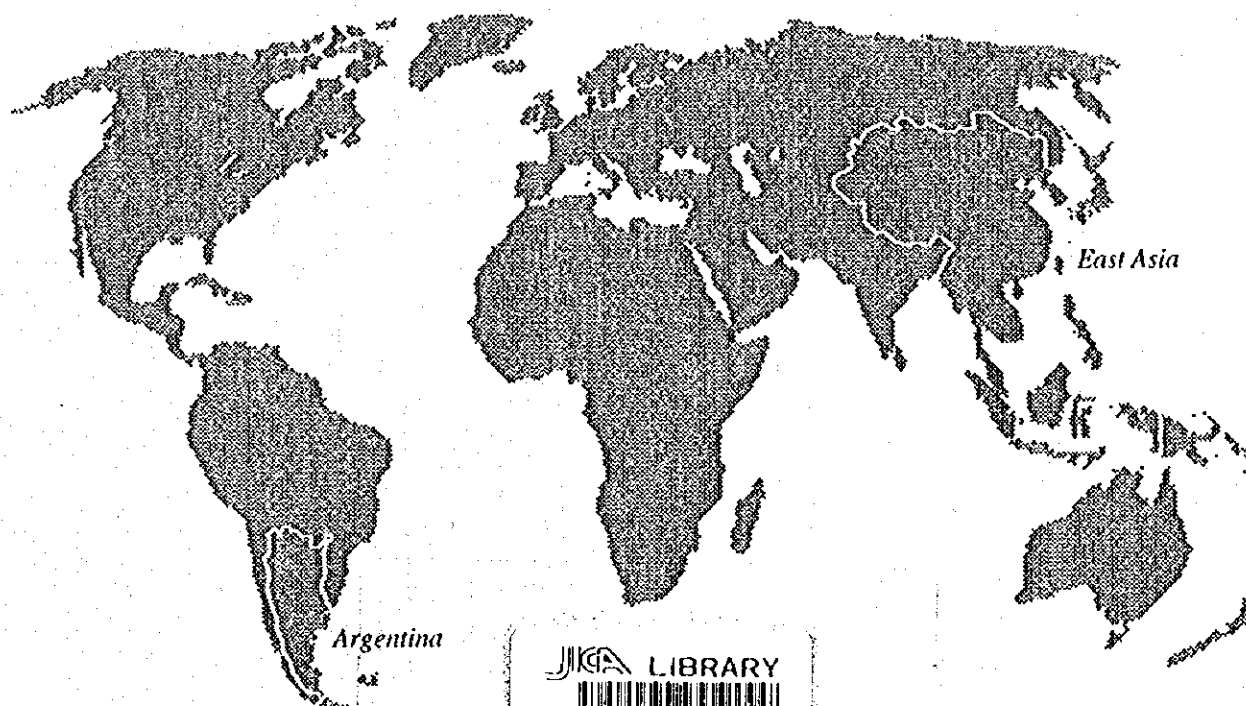


Secretariat of Trade and Investment
Ministry of Economy and Public Works and Services
The Argentine Republic

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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Vol. 1 Main Report

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

June 1996

International Development Center of Japan

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Secretariat of Trade and Investment
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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



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

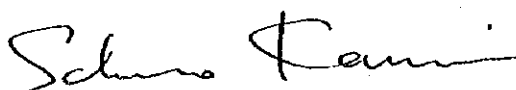
We are pleased to submit the final report of the Study on Economic Development of the Argentine Republic (The Second Study). This report contains practical and business-oriented recommendations for Argentina to strengthen its economy and thus expand export to and promote direct investment from East Asia.

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 Asseff	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, Ministry of Foreign Relations, International Trade and Worship
Mr. Guillermo Toranzos Torino	Advisor, Coordinator Issue 1, 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 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.

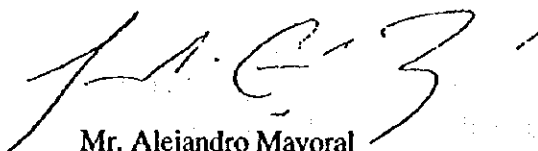
It is in this context that in 1992 the Argentine Government asked the Japanese Government to produce the report entitled *the Study on Economic Development of the Argentine Republic (The Second Study)*, arranged by JICA and our National Undersecretary of External Trade of the Ministry of Economy.

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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Main Report

Introduction

The Argentine Republic (hereafter referred to as Argentina) has re-emerged 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. The recovery was made possible not only by the efforts of the government but also by the support of the entire society.

The Study on Economic Development of the Argentine Republic, known as the "OKITA Report," (hereafter referred to as the First Study) was undertaken by the Japan International Cooperation Agency (JICA) in 1985-87. It stressed the importance of introducing market mechanisms and privatization, and thus made an important contribution to the economic policy-making process in Argentina.

Having succeeded in the reform, Argentina now enters a new era of economic expansion leading to sustained economic growth. One of the main vehicles for this economic expansion is a greater economic interdependence with East Asia. Although East Asia is and will continue to be the growth center of the world, economic relations between Argentina and East Asia have been limited.

The Argentine government requested that the Japanese government study the Argentine economy, with special focus on the expansion of export to and the promotion of direct investment from East Asia.¹ Expansion of export and promotion of foreign direct investment (FDI) are indispensable to sustaining long-term economic growth, and also will increase employment opportunities. Strengthening the competitiveness of the Argentine industry in the global market and improving the physical and institutional infrastructure are Argentina's major challenges to obtain these goals.

The Study on Economic Development of the Argentine Republic (the Second Study) (hereafter referred to as the Second Study) has been in effect since 1994 with the goal of providing overall perspective and issue-specific directives for Argentina to expand export to and promote direct investment from East Asia. This is the report of the Second Study.

¹ In this report, East Asia refers to China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Singapore, and Thailand unless otherwise noted.

Between the First Study and the Second Study, there were remarkable changes in the Argentine economic structure and its domestic and external environments. The most notable among them are:

- 1) Economic instability and hyper-inflation in the late 1980s;
- 2) Recovery in the 1990s from the instability and hyper-inflation through a series of decisive economic reforms based on free market principles (including privatization, fiscal reform, deregulation, and trade liberalization) so that the private sector's initiatives function positively and effectively;
- 3) The startup of regional integration schemes such as NAFTA and MERCOSUR, along with Argentina's strengthened economic ties with other Latin American countries;
- 4) The successful completion of the Uruguay Round and the establishment of the World Trade Organization (WTO); and
- 5) The end of the Cold War between market-oriented and centrally planned economies, which had been a political and economic precondition following World War II.

Although both the First Study and the Second Study offer similar guidelines to assist the Argentine economy achieve sustained economic growth, salient features of the two studies are different. The First Study indicated a path which the Argentine economy should follow because Argentina was not certain of the directions in which the national economy would proceed. In contrast, the Second Study has been undertaken during a time when Argentina has a very clear view of the future directions. Argentina's present challenges are practical and operational, such as working out export strategies to facilitate export expansion to East Asia and upgrading the existing infrastructure under a tight fiscal budget. What Argentina needs is a set of practical and business-oriented recommendations on how to expand export to and promote direct investment from East Asia--not a discussion on the path-finding of the whole economy.

The results of the Second Study are expressed as analytical means; methods to improve productivity and measures to increase the production capacity of the Argentine industries have been analyzed. Many examples in East Asia have been studied to help learn from the experiences of other countries. To facilitate implementation of these examples, we discuss their adaptability to the Argentine economy.

The entire study period of the Second Study was two years, and is divided into two phases.

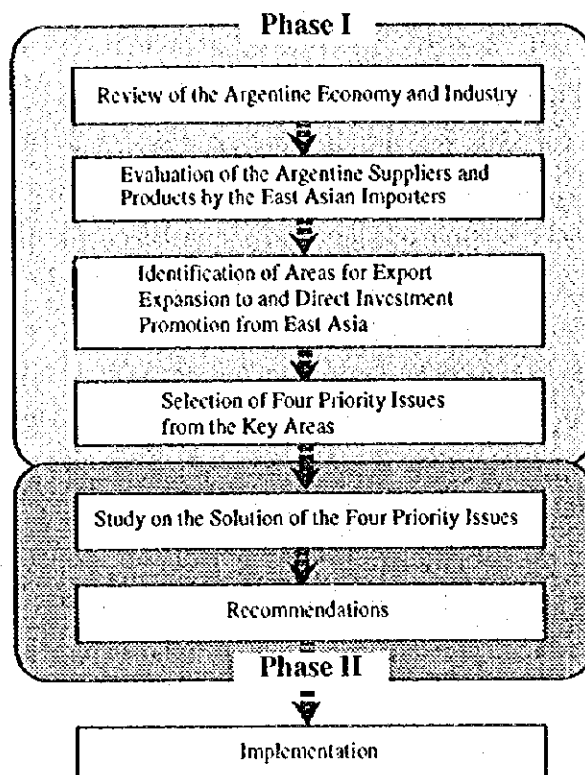
The Phase I study was undertaken from July 1994 - May 1995, and covered the following items:

- 1) Review of the First Study
- 2) Analysis of macroeconomic conditions and related policies
- 3) Present sectoral conditions and policy issues for further development
- 4) International economic relations and regional economic integration initiatives
- 5) Present economic relations between Argentina and East Asia, and between Argentina and its major export competitors
- 6) Recommendations for sustained economic growth
- 7) Selection of subject matters and policy issues for the Phase II Study

The Phase I study recommended establishing a clear medium- and long-term plan for economic development, fostering a clear division of effort between the government and the private sector, and creating conditions that would encourage innovative and competitive activities from the private sector to bring out the greatest potential of the country.

Taking these recommendations into consideration, the Phase I study specified dozens of areas that Argentina should address concerning expanding export to and promoting direct investment from East Asia. At the end of the Phase I study, the Study Team integrated some of the key areas, in consultation with the Argentine government, into four priority issues.

Figure 1: Flow of the Second Study



The Phase II study was conducted from May 1995 - June 1996, concentrating on the four priority issues. They are:

- Issue 1: Strengthening Institutional Support for the Expansion of Export to and the Promotion of Direct Investment from East Asia;
- Issue 2: Expansion of Export Capacity through Improvement in Productivity and Quality;
- Issue 3: Development of Argentine Small- and Medium-sized Manufacturing Enterprises; and
- Issue 4: Transport Infrastructure Improvement for Industrial Development and Trade Promotion.

The Second Study revealed that East Asia is a competitive but an attractive market for Argentina and that Argentina's resource-based products have the potential to penetrate into the market. What Argentina needs, depending on the products to be exported, includes an export strategy for both public and the private sectors, improvement in quality and supply capacity, an adequate infrastructure, and sales promotion.

Thus, national efforts toward export to the highly competitive market of East Asia would need to be strategic not only for Argentine export expansion, but also for greater

efficiency and competitiveness of the entire Argentine economy. Export to East Asia is, in fact, a test of the economic viability of Argentina. For this reason, the "Second Study," as an economic development study, focuses primarily on export to and investment from East Asia.

The outcome of the Second Study consists of seven volumes. The first is this main report, and the entire study is summarized from the viewpoint of export expansion to and direct investment promotion from East Asia. The second is the present situation of the Argentine economy, by sector, based on the Phase I study. The third volume presents East Asia's view of Argentine suppliers and products, also based on the Phase I study. Volumes 4-7 report on each issue of the Phase II study.

This main report consists of six chapters. Chapter 1 primarily discusses two issues: why export expansion and FDI promotion are necessary for Argentina and why East Asia is the target market. Chapter 2 analyzes the current economic relationship between Argentina and East Asia, and summarizes the East Asian importers' view of the Argentine suppliers and products. Chapter 3 identifies the areas that Argentina should address in expanding export to East Asia. Chapter 4 establishes common objectives for Argentina to follow in its export and promoting FDI efforts. Chapter 5 presents measures to facilitate Argentina's export to and inviting direct investment from East Asia. Chapter 6 concludes this main report by suggesting a plan of action to facilitate implementation of our recommendations.

1. Why East Asia for Argentina ?

1.1 Need to Expand Export and Promote Foreign Direct Investment

The Menem administration, which took office in 1989, initiated a series of structural reforms and stabilization programs. The structural reforms conceptually consisted of three policy groups: government restructuring; the revitalization of the private sector and market mechanism; and opening the door of the economy. The administration is determined to carry out government restructuring by means of a balanced fiscal policy, privatization, and rationalization of the public sector. A comprehensive deregulation and withdrawal of government intervention in the market has been implemented to revitalize the private sector and enable the market mechanism to function. Trade has been liberalized and foreign investors have been treated equally to ensure the transition to an open economy.

The Convertibility Plan, a comprehensive stabilization policy package, was adopted in 1991 to attain stabilization of the Argentine economy. The Plan has two fundamental principles. First, local currency must be fully backed by foreign reserves and gold at a fixed exchange rate of one peso per US. dollar. Indexation was generally prohibited and allowed only if pertaining to productivity improvement. Second, a balanced budget became the goal, and central government was prohibited from directly financing the government's fiscal deficit.

These structural reforms and stabilization programs brought about the recovery of the Argentine economy from an extremely unstable economic situation during the late 1980's. Inflation has ceased, fiscal deficit has decreased, trade volume has increased, and the public's confidence in the economy and the government, a prerequisite for sustainable growth, has been regained. Argentina appears to have achieved economic stabilization. Structural adjustment of the economy is also taking place.

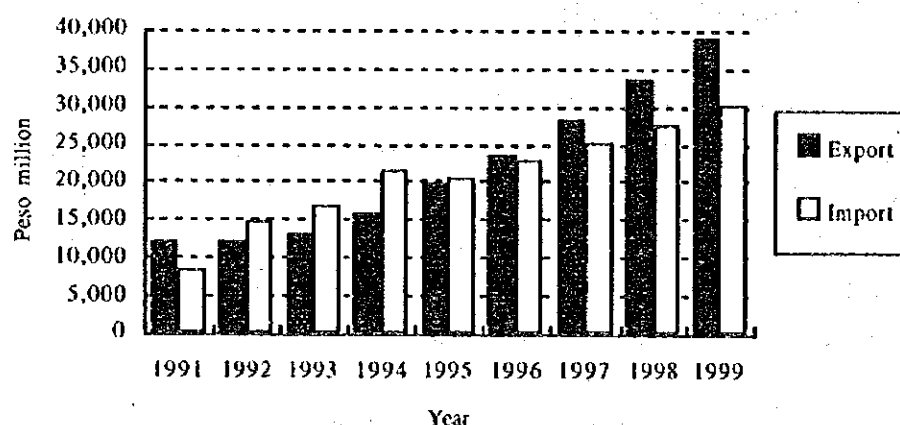
While this recovery came primarily from reform and stabilization programs, it has also been due partly to the changing global and regional economic situations. The emergence of global financial systems accelerated the expansion and diversification of the flows of investments, trade, and information--regardless of national borders. The end of the Cold War further encouraged this trend. An increasing number of countries began to adopt open and free economic systems in order to adjust to this global trend. Latin America was no exception. MERCOSUR emerged to offer a large and easily accessible market to Argentina. It is under these circumstances that outward- and forward-looking economic policies have become a reality.

The next step is to achieve sustained economic growth through the expansion of export and the promotion of direct investment. Expansion strategies will extend the horizons of both enterprises' activities and national development. Under the Convertibility Plan, broad perspectives, both in the government and in the private sector, are imperative for sustained economic growth. More exposure to and competition with the rest of the world will further enhance the competitiveness of the Argentine economy.

While outwardly expanded development will provide the country with abundant opportunities and unlimited possibilities, it will also force the country to rigorously respond to the needs of its clients. A client-oriented perspective is necessary for not only export expansion but also FDI promotion. In terms of a microeconomy, export and FDI would generate developmental dynamism in response to increased external demands, technological advancements, and changes in the world economy.

The Argentine government predicts the future of export and import as shown in the following figure. It anticipates that the export of goods will nearly double from 1995 to 1999, and will greatly surpass import. While the destination forecast is not available, a part of this increase is expected to be absorbed by East Asia.

Figure 2: Forecast of Argentina's Export and Import of goods

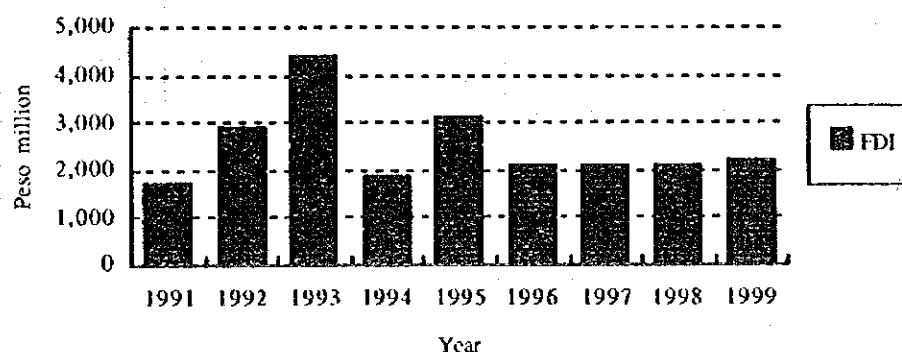


Source: Argentina en Crecimiento 1995-1999

In terms of FDI, the amount of annual investment is expected to hold at the 1994 level until 1999. While 80% to 90% of the FDI during 1991 and 1993 was associated with privatization programs, not many large state-owned enterprises remain with the government. Thus, in order to maintain the level of FDI at near 2,000 million pesos per year, the government will no longer be able to rely on privatization alone. New direct

investment must come from abroad. Since East Asia has been a minor influence in Argentina, the region is expected to play a greater role in FDI.

Figure 3: Forecast of FDI to Argentina



Source: Argentina en Crecimiento 1995-1999

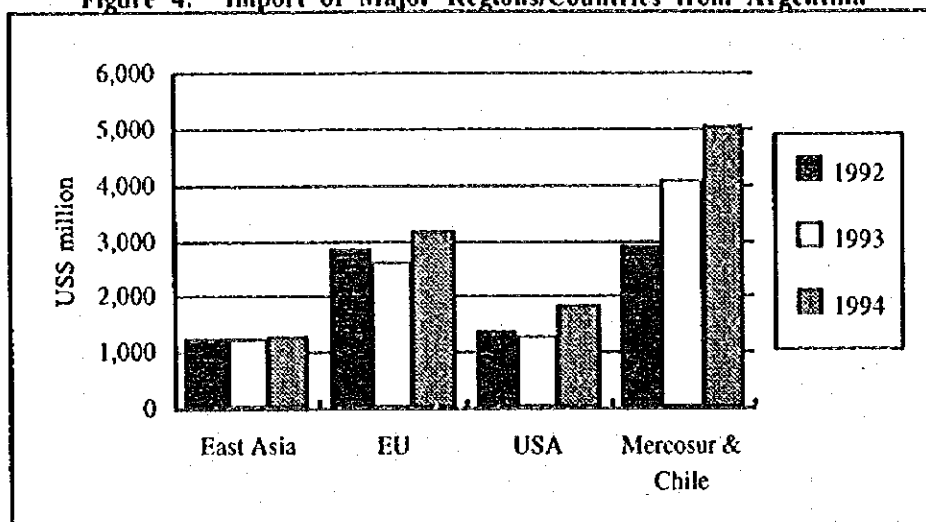
1.2 Argentina's Current Status in East Asia

The Study Team reviewed the current economic relationship between Argentina and East Asia, and found that Argentina's presence in East Asia is very weak, in both the areas of export and FDI.

1.2.1 Characteristics of Export: A Marginal Supplier

The following figure shows the import of major regions/countries from Argentina. During 1992 and 1994, imports of EU, USA, MERCOSUR and Chile from Argentina increased by 10.5%, 33.9%, and 74.1%. However, East Asia's import from Argentina maintained the same level-- around US\$ 1,250 million. It increased by a mere 0.5%.

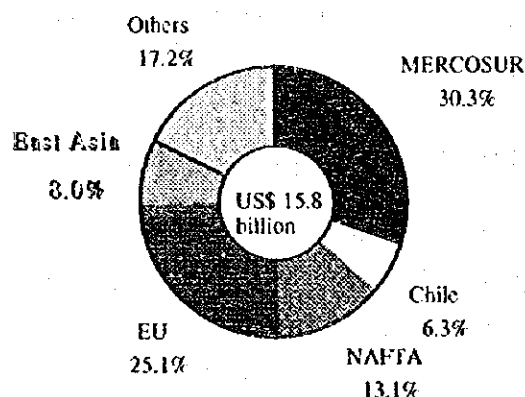
Figure 4: Import of Major Regions/Countries from Argentina



Source: IMF, 1995, Direction of Trade Statistics Yearbook

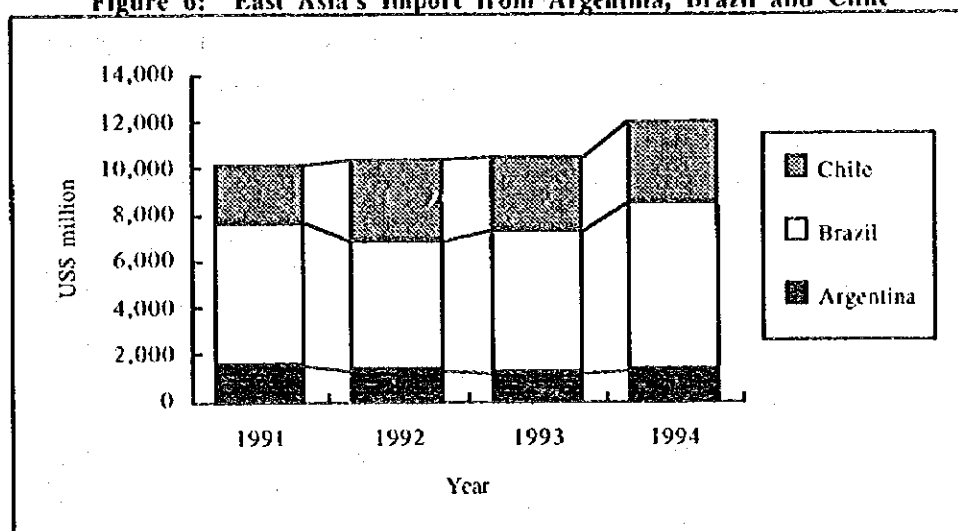
The following figure shows the destinations of Argentina's export in 1994 by region. Argentina's export to East Asia accounted for only 8% of the total export while East Asia absorbed 20% of world's export.

Figure 5: Argentina's Export by Destination in 1994



Source: INDEC, 1994, Comercio Exterior Argentino

Argentina's presence in East Asia is even less than that of Brazil and Chile. The following figure presents the volume of East Asia's import from Argentina, Brazil, and Chile. The distance from these three countries to East Asia is almost the same, although Chile faces the Pacific. The volume of import from Argentina is the lowest at one fifth and one third of those of Brazil and Chile.

Figure 6: East Asia's Import from Argentina, Brazil and Chile

Source: IMF, 1995, Direction of Trade Statistics Yearbook

This fact indicates that the low levels of Argentina's penetration into the East Asian market cannot be solely attributed to the distance between Argentina and East Asia. The share and volume of import from Argentina is much lower than that of Brazil, which also faces the Atlantic. Even when the difference in GDP between the two countries is taken into consideration, Argentina's export to East Asia is weak.²

Institutional support for export is also weak in Argentina, compared to competitors like Canada, Australia, and Chile. For example, Australia and Chile have their own trade promotion organizations (TPO) in Japan. Austrade, the TPO of Australia, has 55 staff members in Japan, including 21 Australians. Pro-Chile, the TPO of Chile, has 6 staff members in Japan, including 2 Chileans, one of whom specializes in agricultural products. Although Canada does not have a TPO, there are 35 commercial attaches not only in the Embassy in Tokyo but also in Consulates in other major cities such as Osaka, Nagoya, and Fukuoka. In contrast, Argentina has only 3 or 4 commercial attaches in the Embassy in Tokyo.

Trade fairs to promote Argentina's export are rarely held in Japan. Australia, Canada, and Chile have been very active in promoting their own products, holding trade fairs and seminars (occasionally at their own expense) to improve their image and increase the Japanese people's recognition of their products. In contrast, FOODEX, held in March by the Japan External Trade Organization (JETRO), seems to be the only occasion in which Argentina's public and private sectors participate. As a consequence, the Japanese people's recognition of Argentine products is still very low.

² The GDP of Brazil is about twice as big as that of Argentina.

Another characteristic of Argentina's export to East Asia is that the export items are confined to a few primary products, as is shown in the following table.

Table 1: Major Export Products of Argentina to East Asia

Country	Products	Share to the total export %
China	Soybean oil	29.8
	Seamless pipe	23.6
Hong Kong	Leather	49.5
Indonesia	Wheat	51.5
Japan	Squid	15.0
	UN wrought aluminum, not alloyed	14.7
Korea	Squid	66.8
Malaysia	Soybean oil	54.9
Singapore	Soybean oil	64.8
Thailand	Leather	34.8
Taiwan	Soybean	48.7

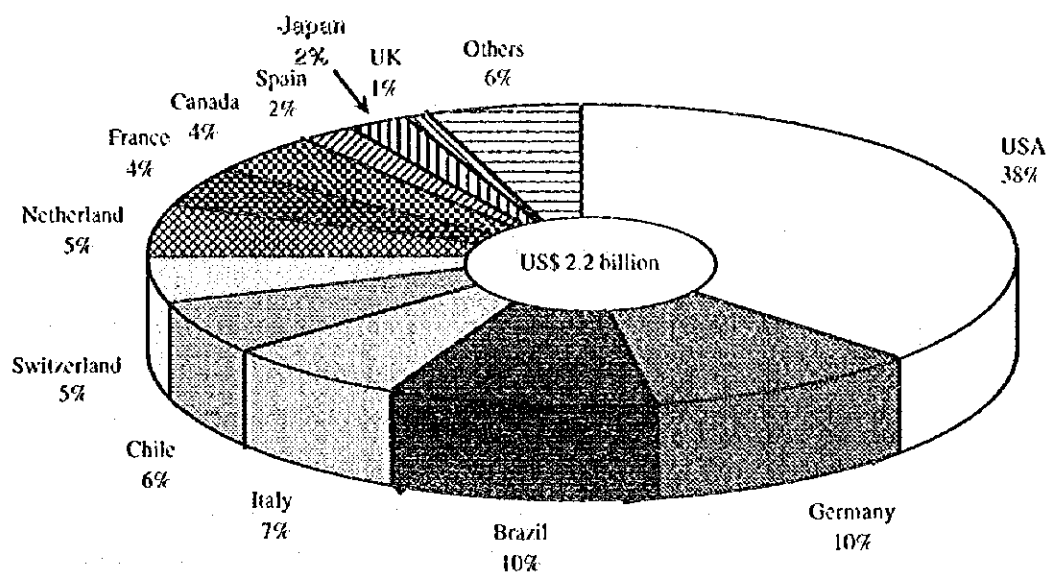
Source: INDEC, 1994, Comercio Exterior Argentino.

As a consequence, the export ratios of the top three products to the total export are 63.2% in China, 64.5% in Hong Kong, 74.2% in Indonesia, 85.8% in Malaysia, and 83.8% in Taiwan. These ratios are considerably higher than those to Brazil (33.0%), the USA (23.0%), Netherlands (41.7%), and Italy (46.9%). Even though the East Asian region is diverse--from Japan, which has virtually no natural resources and whose per capita GNP is one of the highest in the world, to Indonesia, which is rich in natural resources and whose per capita GNP is low--the structure of export from Argentina does not vary significantly from country to country. As far as export to East Asia is concerned, Argentina depends on very few primary products.

1.2.2 Characteristics of FDI: An Emerging Market

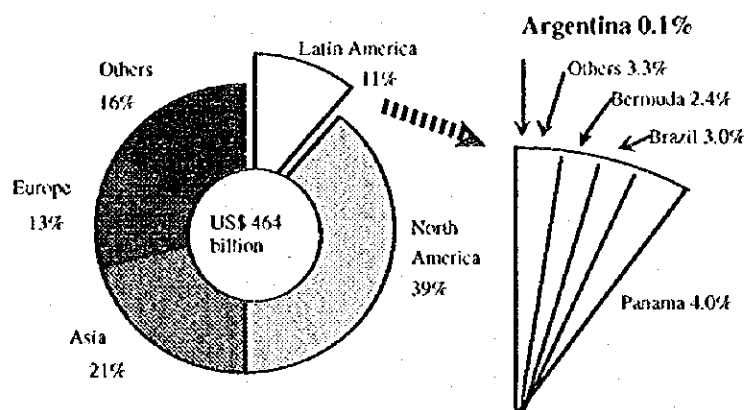
The following figure shows the origins of FDI to Argentina during the period from 1990 to 1992. Although recent detailed data is not available, the table shows that investment from East Asia is minimal. Among the East Asian economies,³ Japan is the only country that is listed.

³ Since Hong Kong is included, they will be referred to as the East Asian "economies" instead of the East Asian "countries."

Figure 7: Origins of FDI to Argentina during 1990 and 1992

Source: Private Research Institute

Japan's investment to Argentina is considerably small, as shown in the following figure. Japan's investment to Argentina was 0.1% of Japan's total FDI in 1994. On average, Argentina accounted for only 1% of Japan's FDI to Latin American countries. The main reason for the large volume of investment to Panama is its tax-haven policies.

Figure 8: Destinations of Japan's FDI in 1994

Source: Japan External Trade Organization, 1996, Foreign Direct Investment

These tables and figures suggest that while Argentina has engaged in a fairly large amount of trade and investment with the EU, USA, and neighboring countries, economic interaction with East Asia has been very weak. Argentina's presence in East Asia is even less than that of Brazil and Chile. In addition, Argentina's export is confined to its primary products. Recognizing the current rapid economic growth in East Asia, many countries in the world are attempting to earn a bigger market share in the region.

Argentina should take immediate action to obtain a larger share in the region, before it is too late.

The following section analyzes the size and characteristics of the East Asian market in more detail, in order to fully assess the attractiveness of the market.

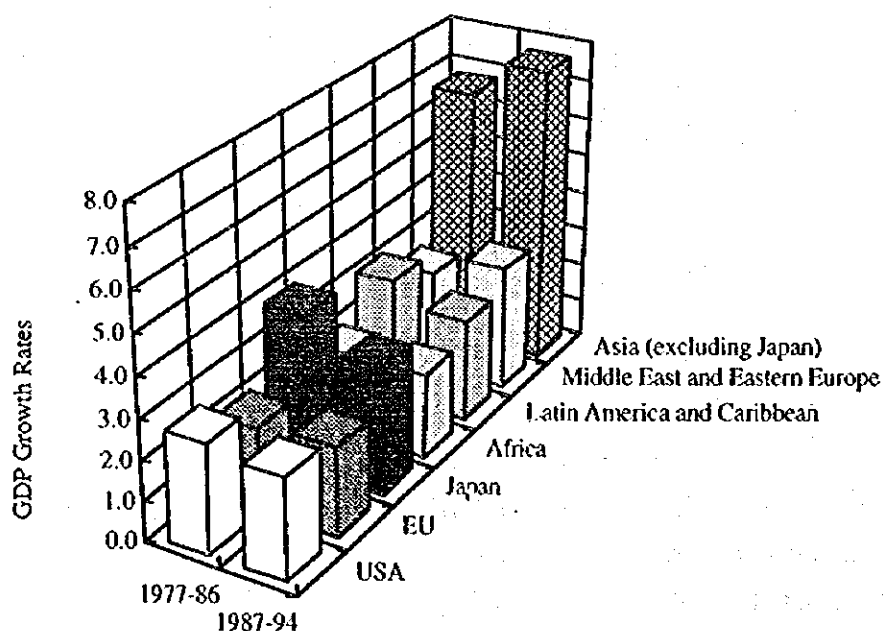
1.3 Why East Asia as a Main Target?

Regarding the East Asian market--to which Argentina will have to diversify trade and FDI from traditional markets such as the USA, EU and MERCOSUR--how is the potential of this market evaluated? There are three business conditions which justify such a diversification. First, East Asia is the growth center of the world; there is no other region experiencing a higher economic growth. Second, because of this rapid economic growth, Argentina has an opportunity to enter the market and expand business without taking substantial business risks. Third, the relationship between Argentina and East Asia is favorably complementary, not competitive.

1.3.1 Growth Center of the World

Recently Asia has enjoyed the highest economic growth rate in the world. The following figure shows that the GDP growth rate in Asia was the highest in the world during 1977-86 and 1987-94.

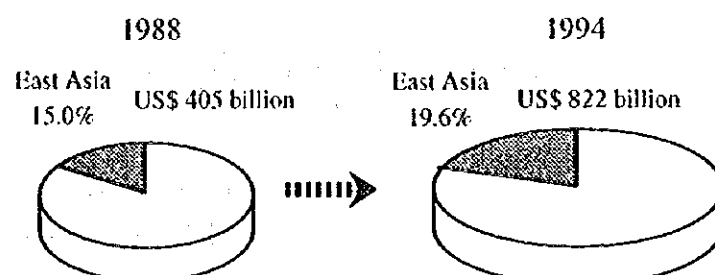
Figure 9: GDP Growth Rate by Region



Source: IMF, May 1995, World Economic Outlook

Due to the rapid economic growth, the volume of East Asia's import almost doubled from 1988 to 1994, as shown in the following figure. In 1994, East Asia accounted for about 20% of the world's import.

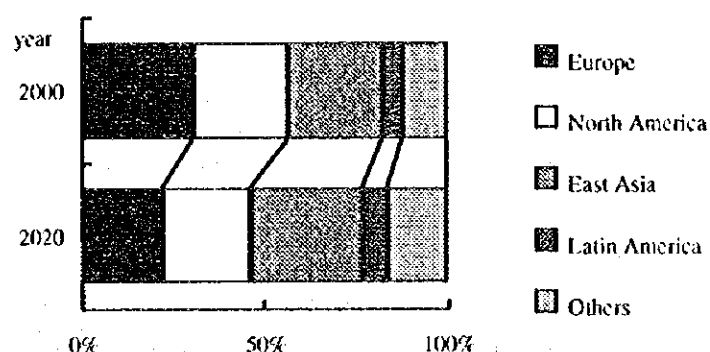
Figure 10: East Asia's Import in 1988 and 1994



Source: IMF, 1995, Direction of Trade Statistics Yearbook

East Asia is expected to continue growing. The following figure gives the forecast by Japan's private research institute of the share of nominal GDP from selected regions to the world's in 2000 and 2020. East Asia's share of the world's GDP is expected to increase rapidly, and will exceed that of Europe and North America (USA and Canada) in 2020 if the economy continues to grow at 7%—slightly lower than the average in 1995. East Asia is predicted to account for 30.7 % of the world's GDP in 2020.

Figure 11: The Share of GDP of Each Region to the World GDP (Forecast)



Note: Mexico is included in Latin America.

East Asia is China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Singapore, Thailand, and Taiwan.

Source: Japan Center for Economic Research, 1996

1.3.2 Abundant Business Opportunities

Since the East Asian market is expanding at such a high growth rate and changing dynamically, many opportunities remain, even for newcomers or latecomers, to enter the market or expand their business. A saturated market, with a small growth rate and no dynamic changes, is very difficult for newcomers to penetrate; the market is generally

occupied by traditional participants, and the risk of starting a new business tends to be higher. In a growing market, however, the business risk is relatively small and easily absorbed. If Argentina fails to take this opportunity to enter the market and/or expand business, it will become much more difficult to strengthen business ties with East Asia. The Argentine industry should enter the market before it has matured and the market share is fixed.

1.3.3 Complementary Trade Structure Between Argentina and East Asia

This section analyzes the complementary trade structure between Argentina and East Asia. To facilitate the discussion, products are consolidated and termed as follows:

- Resource-based Products:

SITC 0 (Food and live animals);

SITC 2 (Crude materials, inedible, except fuels);

SITC 3 (Mineral fuels, lubricants, and related materials);

SITC 4 (Animal and vegetable oils and fats).

- Material Industry:

SITC 5 (Chemicals);

SITC 6 (Manufactured goods classified chiefly by material).

- Assembly Industry:

SITC 7 (Machinery and transport equipment).

- Others:

SITC 1 (Beverages and tobacco);

SITC 8 (Miscellaneous manufactured articles);

SITC 9 (Commodities and transactions not classified according to kind).

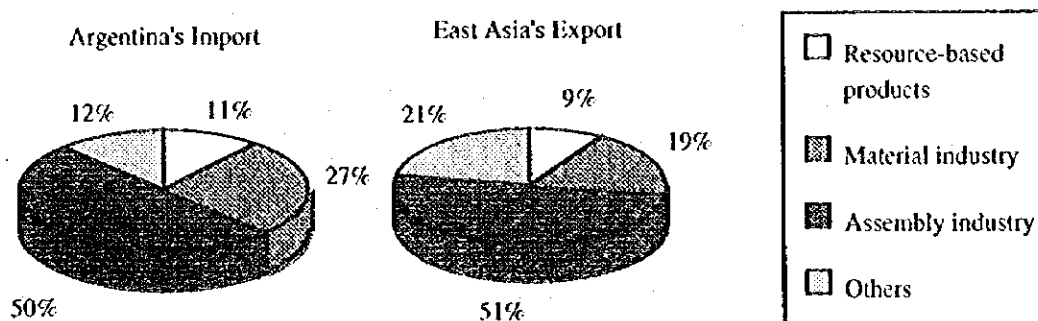
Note that although only SITC 0, 2, 3, 4 are referred to as Resource-based Products, the products are also included in Material Industry and Others. For example, although a seamless pipe is classified in Material Industry, it is one of the resource-based products. Similarly, leather goods such as leather shoes are resource-based products, but they are classified as Others.

(1) East Asia overall

Figures 12 and 13 show the export and import structures of Argentina and East Asia. Figure 12 clearly shows that Argentina's import and East Asia's export are

complementary. The shares of resource-based products, material industry, and assembly industry in Argentina's import and East Asia's export are very similar.

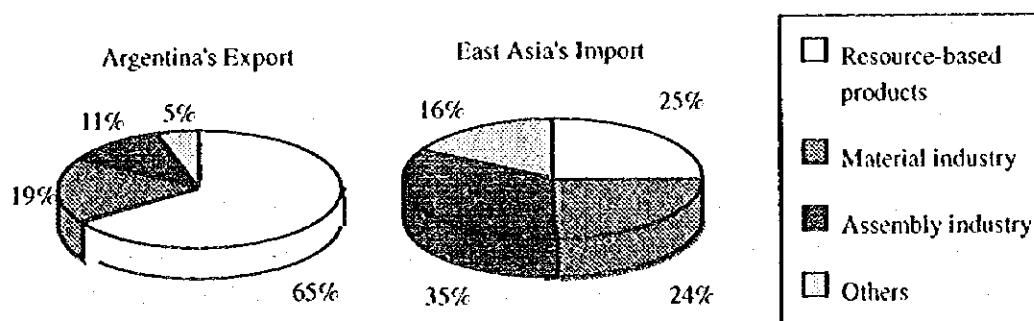
Figure 12: Structure of Argentina's Import and East Asia's Export in 1993



Source: UN, 1993, International Trade Statistics Yearbook

Although Argentina's export and East Asia's import do not seem complementary in Figure 13, Argentina still has a great potential to export the resource-based products with which it has, in general, international competitiveness. This can be clarified by looking at the region in more detail and by country.

Figure 13: Structure of Argentina's Export and East Asia's Import in 1993



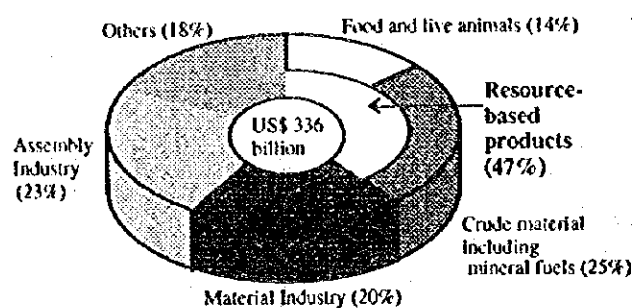
Source: UN, 1993, International Trade Statistics Yearbook

(2) Japan

The following figure shows Japan's import structure in 1995. Japan is the largest importer in East Asia, and the share of resource-based products to the total import is the highest, at 47%, among the East Asian economies. Particularly, the share of food and live animals to the total import increased from 12% in 1990 to 14% in 1995, reflecting the trade liberalization of some agricultural products and the diversification of the demand for food. Japan's demand for resource-based products will continue to be substantial because Japan is not endowed with good natural resources and geographical conditions suitable

for agricultural production. Japan's import structure will continue to be complementary to Argentina's export structure.

Figure 14: Japan's Import Structure



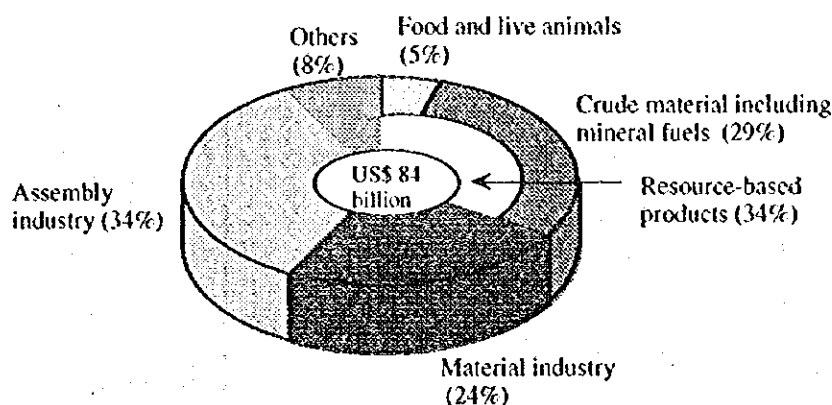
Source: Japan Tariff Association, 1996, The Summary Report on Trade of Japan

With regard to FDI, the main targets for Japan's direct investment have been the US, EU, and Asia. The main reasons for the massive investments to the US and EU were to avoid trade friction and to produce near the markets. The appreciation of the Japanese yen forced firms to reduce production costs, and this was the main reason for investing in Asian countries. But the recognition has gradually been changing; Japanese firms have increasingly recognized the Asian region as a market. Investment in Asia, to produce near the market, has been increasing.

(3) Korea

Korea is in a process of economic development similar to Japan's. The share of resource-based products in the total import was very high in 1993 at 34%. Like Japan, Korea is also unable to supply sufficient natural resources (agricultural and mineral products) domestically and must rely on import. Trade liberalization on agricultural products and deterioration in the profitability of agriculture, relative to manufacturing, will accelerate its dependence on import to procure resource-based products. Korea's potential demand for Argentina's competitive resource-based products is strong.

Figure 15: Korea's Import Structure in 1993



Source: UN, 1993, International Trade Statistics Yearbook

Korea's FDI has been increasing, although the volume is still small at US\$ 1.3 billion in 1993, compared to Japan's US\$ 36 billion in the same year. By region, the US and Europe accounted for 43.2 % of the total FDI. Direct investment to Asia also accounted for 41.5%, of which about 50% was directed to China. The primary type of investment to Asia was the transfer of production in labor-intensive industries, taking advantage of the low wages in the region.

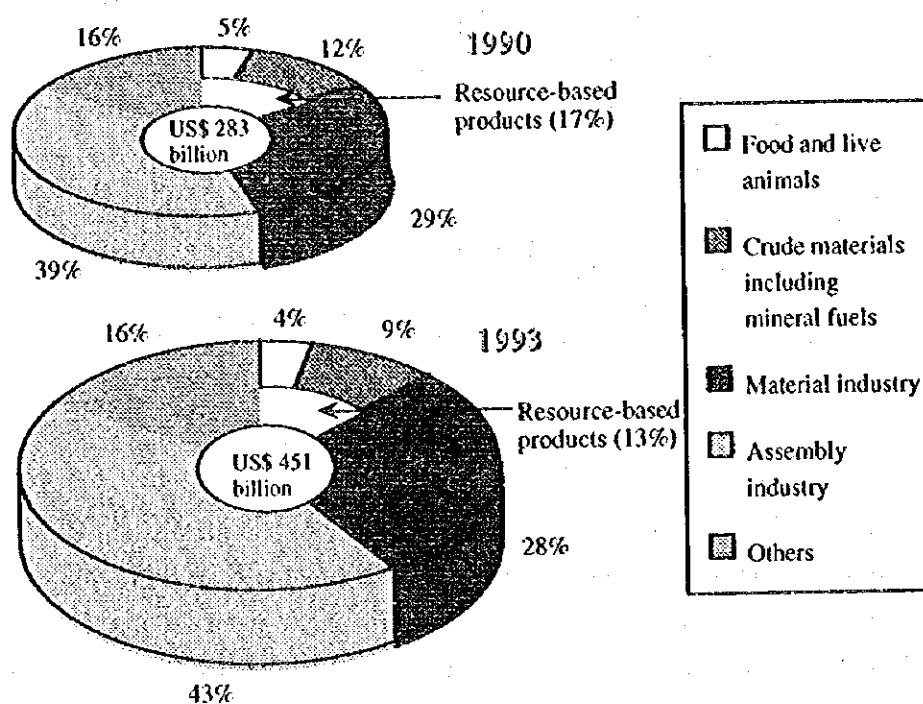
In the future, Korea's direct investment in Argentina will be increasingly feasible for several reasons observed in Japan. To ensure a stable supply of food and natural resources, Korea's conglomerates may invest in Argentina. Korea's automobile industry has been active in direct investment; recently its strategy has become world-wide, and it has been observing the development of the MERCOSUR market. Thus, Korea's manufacturing industries are also potential investors in Argentina, in order to secure a foothold in the MERCOSUR market.

Taiwan is in a position similar to Korea's. One major difference between Taiwan and Korea is that Taiwan's strengths lie in consumer goods industries rather than large-scale assembly industries. Therefore, Taiwan's direct investment in the production of non-durable consumer goods in Argentina for the MERCOSUR market seems likely.

(4) ASEAN and China

The following figure presents the import structure of ASEAN and China combined. Figures of Hong Kong are also included.

Figure 16: Import Structure of ASEAN and China in 1990 and 1993



The import structure of ASEAN countries and China share the same characteristics; while the share of import of resource-based products is lower than that of Japan and Korea and is even declining, the absolute amount of the import of resource-based products is increasing. For example, while the share of food and live animals decreased from 5% to 4% during 1990 and 1993, the absolute amount increased from US\$ 14.36 to US\$ 16.33 billion.

Demand for consumer goods has been increasing in ASEAN and China. Recent economic growth has created many middle-income people, and has contributed to market expansion. Rapid urbanization and westernization have increased and diversified the demand for consumer goods. Import of these products has been increasing--domestic production cannot catch up with the increase in demand. Although the share of resource-based products may continue to decline due to growing demand for capital and intermediate goods, the demand for resource-based products is expected to expand, and offers an area Argentina can penetrate.

Demand for agricultural products is expected to increase, particularly in China. With the rapid economic growth, demand for food and grain feed will continue to increase. However, the diversion of farms to industrial land, and the movement of people from rural to urban areas will decrease the area of effective agricultural land, and thus the

demand for domestic food production may stagnate. China was one of the major exporters of maize, but became an importer in 1995. The amount of China's import of maize, feed for animals, and wheat is expected to increase by five times in the next 30 years. A Japanese research institute predicts that China will import 136 million tons of grains in the year of 2010. This volume is substantial because the current global trade of grains is 220 million tons per annum. Indonesia may also suffer from a similar situation because it is a populous country with limited land suitable for agriculture.

Although surplus capital is fairly limited in the region, the direct investment from ASEAN, China, and Hong Kong has been increasing, mainly within East Asia. Malaysia has increased the FDI on labor-intensive industries in its neighboring countries. Most of China's investments have been directed to Hong Kong and Macao. The government of Singapore wants not only to attract investments but also to encourage the private sector to invest in the Asian region, to strengthen its regional economic linkages. Nearly 60% of Thailand's FDI in 1993 was directed to other Asian countries. The government encourages labor-intensive industries to invest in the neighboring countries in order to foster higher-value added industries within the country. FDI from these countries to Argentina is not very likely in the near future.

This analysis by country suggests that Argentina has the potential to export resource-based products to East Asia. Although the share of the import of resource-based products to the total import may decrease in some East Asian economies, the absolute amount of the import is likely to grow. However, the potential for FDI from the region to Argentina seems to be limited to Japan and, to some extent, Korea. For investors in these countries, the establishment of the MERCOSUR market has been a large incentive for their FDI to Argentina. The possibility of FDI for resource development must be acknowledged as well. Not only Japan and Korea but also China (Hong Kong) may potentially offer this kind of investment.

Although the East Asian market is growing and complementary to Argentine export, this does not mean that Argentina should concentrate all its efforts on East Asia, ignoring other major markets such as the EU, USA, and MERCOSUR. Argentina should continue to maintain the current trade and business connections with these regions. The purpose of this report is to stress that since East Asia has been somewhat neglected, it would be worthwhile for Argentina to focus attention on it.

2. Argentine Suppliers and Products: Challenges and Prospects

Thus far, the Study Team has referred to selected statistics in reviewing economic relations between Argentina and East Asia. We found that the relationship is very weak even when compared to Argentina's neighboring countries, Brazil and Chile. However, statistics are the consequences of business activities. A detailed analysis at the firm level is necessary in order to explain the low levels of economic relations. The Study Team visited East Asia in November 1994 and conducted extensive interviews with importers and manufactures to obtain their opinion of Argentine suppliers and products. While there might be some exaggeration and business tactics, the interview survey revealed that the East Asian importers share the view that Argentina is no more than a marginal supplier. They are generally indifferent to the Argentine industry, as the Argentine industry has been to the East Asian market. This section summarizes East Asia's view on Argentine suppliers and products.

2.1 East Asia's View on Argentine Suppliers and Products

2.1.1 Suppliers' Behavior

(1) Lack of strong willingness to export to East Asia

Many importers in East Asia mentioned that they have never been approached by Argentine exporters. The Argentine exporters have not visited the importers, nor have they ever sent a sample of their products. Without a sales approach, there is no possibility for export. The importers who were interviewed and who remarked that they have never been approached, or that they consider the sales promotion to be insufficient, include the milk, beverage, and food processing industries in Indonesia, the milk, wine, tobacco, pulp, seamless pipe, aluminum, and food processing industries in Thailand, and the corned beef, trading houses, and steel and cement industries in Singapore.

(2) Unestablished brand image

The absence of a brand image for Argentine products has resulted in low price levels. In Singapore, although an importer considered the quality of Argentine beef to be very good, it was sold as lower class beef because its brand image was not yet established. In Thailand, French wine is the most popular, even though importers understand that the French wine is of poor quality and that it is only selling well due to its

favorable image. In contrast, Italian wine is very good quality and the price is reasonable, but it does not sell well because it has a poor image among Thai people. Argentine wine has no brand image and is, therefore, not sold at all in Thailand. Recently a Thai tobacco importer decided to import from Brazil because he knew that Brazil is one of the world's largest exporters of unmanufactured tobacco leaf. He did not consider importing from Argentina because he did not think that Argentina was an established exporter of tobacco leaves in the global market.

(3) Lack of confidence in stable supply

While importers in East Asia, especially in Japan, consider a stable supply very important, Argentine exporters have been unable to establish a reputation for being stable suppliers. One of the Malaysian industrialists said that sometimes orders placed by the Malaysian importers were neglected or canceled. An importer of flat-rolled products of iron in Indonesia also remarked that the Argentine supply was erratic, with Argentine manufacturers suspending export when the domestic market was tight. This kind of phenomena is a particularly serious obstacle to export expansion of Argentine products.

2.1.2 Products

(1) Low quality product

While in general the price and quality of Argentine products are satisfactory to the East Asian importers, this is not always true. Squid caught by 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 the squid on the Argentine vessels. As a consequence, the former are sold as lower quality products than the latter, although both were caught in the same waters. In the case of seamless pipe, while China imported about 80,000 tons of seamless pipe from Argentina in 1993, that share was much lower than that of Japan. This is mainly because although the price of the Argentine seamless pipe is low, its quality is lower than that of the Japanese seamless pipes.

(2) Insufficient efforts to adjust products to local needs

Inflexible adjustment of quality to local needs has been an impediment to some products. Though the price of Argentine soybeans is lower than that of competitors, little soybean is exported to Japan because of the low protein content. The Japanese users prefer the higher quality soybeans available in the US and Brazil. An importer of wheat in

Thailand explained that the reason they did not import wheat from Argentina was that the quality did not suit Thailand's needs.

2.1.3 Production and Delivery

(1) Insufficient export capacity

The lack of sufficient export capacity was pointed out by some importers in East Asia. An importer of pulp in Indonesia expressed concern regarding his reliance on the Argentine source, since there is only one pulp market exporter in Argentina. One of the reasons that the export of iron and steel to China has decreased over the last few years is Argentina's insufficient export capacity. One Indonesian wheat importer said that Argentina gave a priority to Brazil as an export market, where a preferential tariff was imposed on the Argentine wheat. Thus, Argentina exports wheat to Indonesia only when there is an amount left over. The importer said that he was willing to purchase one million tons of wheat from Argentina every year if Argentina guaranteed a stable supply. An importer of semi-finished leather wanted to increase his purchases from Argentina, but the supply from the exporting company was not sufficient. A meat importer in Singapore also stated that he wanted to purchase more meat since the market was growing, but there was a problem with supply capacity and he was unable to buy a sufficient amount of meat from Argentina. An importer of flat-rolled products of iron in Thailand also pointed out insufficient export capacity as a constraint for export expansion. The transaction volume which the Argentine manufacturer could ensure in one exchange was too small for this importer.

(2) Inadequate infrastructure

Some Chinese importers of grains mentioned that the lack of sufficient storage capacity for soybean and soybean oil in Argentina and Brazil reduced their world prices during May and July, as the two countries sell out in international markets during this period. Expansion of the storage capacity would allow them to sell the products during different seasons when the prices are higher. A grain importer in Indonesia also pointed out that the inadequate infrastructure in Argentina is a constraint for the export expansion of wheat. 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. This is because the ports of export in Argentina are used for different products from May to November. Different kinds of grains are brought to the same port, due to the insufficient port facilities in Argentina.

(3) Insufficient delivery service due to long distance

The long distance between Argentina and East Asia has been cited as a constraint for export expansion by pulp and leather industrialists in Indonesia, the leather industry in Thailand, and some importers in Malaysia. Although long distance itself is a disadvantage for Argentina when compared to East Asian economies such as Korea, timely delivery and quick response to orders are also critical issues importers use to determine their sources of import. Since shipping services between Argentina and East Asia are not very reliable, timely delivery is difficult when products are sent all the way from Argentina.

Fast response to orders and rapid production are important to minimize the time between the order and delivery. A leather industry in Thailand mentioned that the Argentine manufacturers were slow to respond to an order; they did not immediately begin to produce the products that were ordered.

(4) Less competitive terms and conditions

Argentine terms and conditions need improvement. For example, tanned leather in Indonesia--while the quality is satisfactory, their evaluation of the Argentine products is lower than that of Korean products. This is because Korean exporters accept the return of a product when its quality is unsatisfactory, but the Argentine exporter does not. In addition, Korean exporters sometime sell their products on credit for six months, but payment for Argentine products must always be made in cash.

(5) Weak sales network

Establishing a close sales network with the ethnic Chinese businessmen is important in East Asia, especially in China, Hong Kong, Singapore, Thailand, Malaysia, and Indonesia, but Argentine exporters have not been successful at this. In many East Asian economies, ethnic Chinese businessmen often control the distribution channels. They develop their businesses locally and internationally, using their own information networks. Their decisions are often based on information obtained through the networks. So it is very difficult to expand export to these markets unless ethnic Chinese businessmen are involved.

2.2 Hopeful Signs

While Argentine products have many problems with export to East Asia, as was explained in 2.1, this does not necessarily mean that export expansion of Argentine products is impossible. On the contrary, there is a good possibility of export expansion. Some Argentine products have already secured a significant market share in East Asia. The following table presents the products for which East Asia is one of the major markets. The Argentine exporters can learn some important lessons from the experiences of these successful cases.

Table 2: Destination of Argentina's Major Export Products

									(US\$ 1,000)		
Soybean oil			Hide and skin			Seamless pipe					
		%			%			%			%
Iran	115,349	13.7	USA	107,406	19.7	China	53,087	29.2			
Brazil	108,259	12.8	Hong Kong	101,354	18.6	Venezuela	23,184	12.7			
Venezuela	86,478	10.2	Italy	100,941	18.5	USA	20,661	11.3			
Malaysia	72,728	8.6	Brazil	72,739	13.3	India	14,050	7.7			
China	66,896	7.9	Uruguay	31,780	5.8	Bolivia	8,851	4.9			
Peru	52,604	6.2	Canada	18,534	3.4	Russia	7,473	4.1			
Chile	49,054	5.8	Germany	14,456	2.7	Ecuador	6,450	3.5			
Pakistan	32,339	3.8	Netherlands	14,262	2.6	Indonesia	6,030	3.3			
Dominica	27,534	3.3	China	12,385	2.3	Nigeria	5,593	3.1			
Mexico	25,663	3.0	Russia	11,057	2.0	Syria	4,836	2.7			
Total	844,149	100.0	Total	544,920	100.0	Total	182,087	100.0			

Source: INDEC, 1994, Comercio Exterior Argentino

The following section presents some hopeful signs indicating that Argentine products can initiate or expand export to the East Asian market if appropriate measures are taken. It also shows that constraints are challenging but possible to overcome if exporters are willing to do so and, in some cases, if appropriate governmental supports are provided.

(1) Tanned leather

Argentina is one of the major suppliers of tanned leather to Thailand. Argentina has a 7% share of Thailand's total import of tanned leather, after South Korea (23%), the USA (9%), and Taiwan (7%, the same as Argentina).

This good performance is attributed partially to the exporters' close contact with Thai users. One of the Argentine exporters has a sales office in Bangkok, with the regional headquarters, in Hong Kong, supporting the Bangkok office and other sales offices in the region. The Bangkok office has been actively promoting sales in the Thai market. The office keeps in close contact with its clients every day. Its activities consist of

not only collecting orders from clients and delivering products but also developing new leather products which use its tanned leather together with the clients'. People from the head office in Buenos Aires visit the Bangkok office several times a year to support the office activities and meet with the clients.

Other sources of competitiveness for Argentine products include the existence of abundant and high-quality raw hides and skins in Argentina and a stockyard in Hong Kong to ensure quick and timely delivery. Although there is room for improvement, these factors contribute to the sizable export of tanned leather from Argentina to Thailand.

(2) Seamless pipe

Argentina accounted for 2% of Indonesia's seamless pipe import in 1993. While Argentina was far behind Japan (49%), France (16%), and the USA (11%), Siderca, a manufacturer of seamless pipe in Argentina, is competitive, compared to Japanese steel mills, in the following fields: raw material cost, labor cost, capacity utilization, and availability of local market.

Table 3: Comparison Between Siderca and Japanese Steel Mills

	Siderca	Japanese steel mills
Raw material cost	Low	High
Labor Cost	Low	High
Rate of capacity utilization	80-90%	50%
Availability of local market	Yes	No
Distance to the market	Long	Short
Technology	Good	Very good

With seamless pipe, the key is the availability of low cost natural gas. Abundant and inexpensive natural gas resources in Argentina must be exploited to become competitive in the international market.

(3) Beef

Export of beef to Malaysia from Argentina is increasing. The key for this expansion is an active, well-coordinated promotion conducted by the public and private sectors. Argentine beef itself has been competitive in international markets both in terms of prices and quality principally due to good and abundant raw materials (cattle). Taking advantage of the PROCAR program, an Argentine beef fair was held twice in Malaysia in 1994 with participation from the private sector. This fair led the Malaysian beef dealers to

import chilled beef via air to one of the most prestigious hotels in Malaysia. The volume is not very large, but it will have a symbolic impact on the future trade of beef.

3. Areas to Improve for Expanding Export to East Asia

The East Asian importers who were interviewed have a rather narrow view of Argentine supplies and products, as presented in 2.1. In addition, the study on major Argentine industries by the Study Team revealed that Argentine industries have some limitations in expanding export to East Asia, such as the lack of long-term strategies, inadequate production capacity, limited access to financial sources, and higher priority on the MERCOSUR market. To solve these problems, the Study Team has specified dozens of areas that Argentina must address. In summary, Argentina should:

- strengthen sales promotion activities;
- develop export strategies;
- improve price and quality competitiveness;
- strengthen supply capacity;
- improve financial support; and
- develop an infrastructure.

This section explains each area in more detail.

3.1 Strengthening Sales Promotion Activities

(1) Strengthening trade promotion

Canada and Australia have been successful in expanding export to East Asia. One of the factors that contributed to their success is the aggressive action of trade promotion organizations (TPOs) under government initiatives. They played an important role, especially in the gathering of information on the East Asian market (to disseminate in their own countries), the production of information on their own industries (to disseminate in East Asia), assisting the participation of exporters in exhibitions in East Asia, and the development of export-oriented human resources.

Similar entities may need to be established in Argentina. Argentine products that have export potential and market promise in East Asia must be analyzed. Based on the analysis, the necessity of establishing or strengthening TPOs in Argentina can be determined. In this process, the experiences of AUSTRADE (Australia), DFAIT (Canada) and PROCHILE (Chile) and their applicability to Argentina should be examined. The key would be strengthening the function and activities of Fundacion Exportar and Fundacion Invertir.

3.2 Development of Export Strategies

(1) Formulation of a strategy on "How to Do Business with the East Asian Market"

Export of Argentine products to East Asia has substantially fluctuated mainly because the Argentine exporters do not have a definite strategy on how to do business with the East Asian market. When supply and demand situations in the domestic market become tight, they sell most of their products in the domestic market. Without having a definite strategy for the East Asian market, a large amount of export will never be achieved, though it may increase temporarily depending on the supply and demand situations in Argentina.

To formulate a definite strategy for the East Asian market, exporters must be aware of the trend of the East Asian economy. Thus, it is necessary to study East Asia, especially regarding the following issues:

- How East Asia will grow and change;
- How the supply and demand balance for Argentine exportable products will change;
- How products are delivered and sold in the market; and
- How to determine logistics for the most efficient way to export.

Following the study, the Argentine industry will be able to formulate a strategy and identify products which should be given a priority for export promotion. The study may also provide some insight into export logistics and institutional support.

(2) Redefinition of "Differentiation," "Specialization," "Niche," and the "Small Batch" concepts

The Argentine economy and industry are characterized by a relatively small market and high wages with abundant qualified labor forces. High levels of technology and flexible production and delivery systems may be added to these characteristics. The industries that particularly possess these characteristics include the iron and steel industry with direct reduction process, aluminum re-melting industry, food processing machinery industry, metal-working industry, special machine parts industry, textile industry, and auto parts industry.

These industries should formulate an effective marketing strategy when they expand export. To take advantage of their characteristics, "differentiation," "specialization," "niche" and "small batch" are important concepts for them. These strategies may allow the industries to avoid any competition based solely on prices.

However, some institutional supports are needed to formulate a marketing strategy and expand export, because most enterprises are small- and medium-sized. They sometimes lack export experience and necessary information. Financial, managerial, and human resources that are necessary to extend business activities overseas are inadequate. The institutional supports would cover the areas of human resource development, special financial schemes including export finance, information sharing, and joint R&D efforts among businesses, academia, and the government.

Thus, with good collaboration between the private and the public sectors, a marketing strategy should be formulated by referring to the following process:

- compile a large number of successful business practices;
- analyze the common characteristics of the successful cases;
- define the concepts of "differentiation," "specialization," etc.;
- list the basic requirements for the development of the industries;
- discuss the role of private and public sectors; and
- specify measures for institutional support.

(3) Export diversion from low-value to high-value added products

Tannery is one of Argentina's export industries, and its export accounts for 80% of its production. However, it is difficult for the industry to expand export because of insufficient availability of cattle. To increase export, they must ultimately divert the export of raw materials such as hide and skin and tanned leather to higher-value added products such as footwear, shoes, and leather goods. This is particularly expedient because at present Argentina exports raw materials and imports processed products.

However, the export of high-value added products is very difficult, because, first, in a market where the prices are relatively low, Argentina cannot compete with Korea, Taiwan, Thailand and Indonesia due to the big difference in labor costs. Second, in the market for fashionable, high quality products, Argentina can not compete against Italy and France because of the absence of brand image.

To overcome these constraints, two issues must be addressed. The first is to establish a brand image, the second is to segment the market. The biggest concern is whether there is a niche market for Argentina. It will be necessary to segment the market and concentrate production and sales efforts on the specified market.

In formulating and implementing deliberate strategies on market segmentation, effective institutional supports are necessary because most companies in the footwear, shoes, and leather goods industries are small- and medium-sized. They are either not capable of finding clients abroad by themselves or cannot afford to do so. The cost-sharing and risk minimization associated with export should also be taken into consideration; formulating an export consortium may be an alternative. It is also important to explore other measures for enhancing price competitiveness and improving quality control in order to expand export and protect the domestic market from imports.

The experiences of the tannery industry will have implications to other industries in which major enterprises are small and medium-sized.

(4) Policy measures for expansion of beef exports

Although Argentine beef has international competitiveness, its export to the East Asian market is minimal. The main constraint is the limited market access that resulted from the existence of Foot and Mouth Diseases (FMD) in Argentina; Argentina's fresh beef export has been confined to countries in the FMD circuit. The USA and Japan, the world largest and second largest beef importers, are in the FMD-free circuit, and therefore Argentina is unable to export fresh beef to those countries. However, a recent change in the US policy for importing fresh deboned beef from Argentina may lead the way for Argentine beef exports to other FMD-free countries.

In addition to the eradication of FMD constraints, the government has implemented various programs to open new markets, including export promotion missions to Chile and East Asia, including Malaysia, Singapore, and Hong Kong. These export promotion efforts have had positive effects on beef exports. Considering the income growth and changing consumer preferences in East Asia, and Argentina's beef production capability, Argentine beef has high export potential for the East Asian markets.

It is important for Argentina to give a priority to the export of deboned beef to East Asia. Removing the FMD-related market access problems is essential.

(5) Export diversification of the fishery sector

From its beginning in the 1960's, the Argentine fishery industry has grown with export, with domestic consumption accounting for only a small proportion of the total catch. The export-led production of marine fisheries has shown a dramatic surge since the beginning of the 1990's. Especially notable is the sizable growth in export to East Asia. The emerging trade ties with East Asia need to be strengthened and promoted further.

(6) Development of the utilization of natural gas

Argentina is abundant with natural gas resources. Development of these resources in the 1980's had a major impact on the Argentine economy. Natural gas has a wide variety of uses from feed stocks for petrochemicals, fertilizer, and iron and steel to energy sources in the industrial, commercial and household sectors. It will continue to be important to the development of the Argentine industry.

Natural gas can be exported directly or indirectly. There is a market for LPG and LNG as a direct export of natural gas. The market for LNG is especially big in East Asia. There is also a market for petrochemical, fertilizer and iron and steel products as an indirect export of natural gas. Thus, there is a conflict of interest among the various uses of natural gas, and an efficient allocation of those uses should be determined to make the most of the resource.

Natural gas resources should be developed in the most efficient way, and an accurate assessment of natural gas reservoirs is a prerequisite. A development plan should then be formulated, taking into account the best balance between present and future as well as among various sectors.

(7) Copper-gold mines development

Argentina has a great potential to become one of the major copper producers/exporters in the world. Japan is one of the major importers of copper and has been participating in copper-resource development in Chile. There is a possibility that Japan will be interested in exploring the copper resources in Argentina.

Copper mine use should be developed. It will contribute to the development of the Northwestern Provinces, which are rich in copper reserves. The economy in the region is lagging behind the central provinces because of its remoteness and harsh natural agricultural conditions. However, the large gold-bearing copper mines in this region may

have a significant impact on the regional economy. To this end, continued efforts to attract FDI are necessary. These efforts would include a study on the prospects of the East Asian market and the demand-supply situations of copper, gold, and other mineral resources in East Asia. Based on the study, measures to upgrade the physical infrastructure and to create institutional and financial schemes for exploration and regional development should be examined.

(8) Improvement of quarantine and sanitary controls for plant products

Under the new economic policies, SAGyP created IASCAV in 1991 for plant protection and quality controls of agricultural products. However, the country's weak quarantine and quality control system is still one of the technical constraints for exporting various agricultural products. Many Argentine experts stress the importance of strengthening IASCAV's activities in export expansion of agricultural products, including non-traditional ones such as fruits and vegetables. Thus, it is necessary to improve the quarantine and sanitary controls of IASCAV.

3.3 Improvement in Price and Quality Competitiveness

(1) Expansion of grain export to East Asia through the reduction of commercialization costs

While Argentina, in general, has a strong international competitiveness in grains, their export to East Asia has not been substantial. One of the major reasons is high domestic commercialization costs such as transportation, storage, taxes, and inspection charges. The commercialization costs have significantly decreased due to the elimination or reduction of taxes and duties. It is also reported that the efficiency of grain elevator operations has increased due to privatization. Nevertheless, the commercialization costs still are high in comparison to other countries and thus adversely affect the international competitiveness of Argentine grains.

The Study Team believes that it is necessary for Argentina to continue to address this problem so that Argentina can expand its grain export to East Asia in the near future. Using soybeans and maize as examples and studying the whole process from production to shipping may facilitate identifying the areas for improvement. Soybeans and maize, in particular, have export potential. This is because (1) the continuing income growth in East Asia will greatly increase their demand for livestock products and consequently the demand for feed stuff (coarse grains and soybean meals), (2) the consumption of soybeans in many East Asian economies is traditionally large and diverse, and (3) East Asian economies generally lack comparative advantages in land-intensive types of

agricultural production. A part of the outcome of the study on soybeans and maize may be applicable to other grains, and therefore contribute to the export expansion of grains to East Asia.

(2) Strengthening the forestry-based industry for export expansion

Although the forestry-based industry in Argentina has international competitiveness, export to East Asia has been insignificant. The pulp and paper industry has been developed as an export-oriented industry taking advantage of abundant forest resources. However, as far as export performance is concerned, in spite of strong competitiveness in the production cost of woods for pulp, Argentina is behind its competitors, especially Brazil and Chile.

The forestry-based industries should be strengthened, and export to East Asia should be expanded. To attain this goal, the current situation and competitiveness of the Argentine pulp and paper industry should be analyzed. Based on the analysis, new measures for export expansion can be proposed. Since export of pulp and paper is affected by forestry operations, forest development policies should also be taken into consideration.

(3) Strengthening the foundation of the autoparts industry by means of advanced foreign capital and technology

Since the new policy on the automobile industry was set in 1991, car assemblers have attempted to be competitive in international markets. With favorable market conditions, the industry is presently in good shape. It has achieved its initial goal of reducing production costs and prices by decreasing the number of models.

However, whether the industry can actually achieve the target goal set forth in the policy--that the industry become internationally competitive by 2000--is not yet known because it is largely dependent on the development of the auto parts industry. Although the auto parts industry is expected to supply high-quality products at the lowest prices to car assemblers, its technology and management skills are, in general, far behind international standards. In this regard, strengthening the auto parts industry is absolutely essential for the development of the automobile industry as a whole in Argentina. Innovations in management and production systems along with technology development are the keys to the development of the auto parts industry.

Support from multi-national companies and car assemblers is very important for the development of the auto parts industry. Most auto parts companies are small- and medium-sized and family operated, and they are unable to develop innovative management or technology. Only technology transfer from advanced foreign companies may allow them to develop such skills. Thus, foreign investment must be attracted to the industry. Some multi-national companies support subcontractors and make great contributions to foster small-sized auto parts companies. Referring to such success stories, an effective support system for the auto parts industry should be secured.

3.4 Strengthening Supply Capacity

(1) Policy measures toward promoting innovative enterprises

For dynamic economic development, it is essential to facilitate participation by newcomers and their innovative activities. Newcomers may be foreign enterprises, SMEs, or new entrepreneurs. Foreign enterprises bring new capital and technology as well as employment. New entrepreneurs can develop new areas of economic activities. They are innovative enterprises even though they are often small- or medium-sized.

An economic environment that is conducive (or at least not harmful) to newcomers should be created since they are a driving force of the economy. Creating an economic environment that facilitates innovative activities is crucial. From this viewpoint, regulations, operation costs, infrastructure, and other factors need to be re-examined.

3.5 Improving Financial Support

(1) Diversification of financial vehicles

In Argentina, financial vehicles presently available are limited to the following processes:

- Borrowing from banks;
- Issues of bonds or commercial paper in international or domestic capital markets;
- Increase of capital; and
- Borrowing from the parent company or from shareholders of the company.

In both developed and developing countries, other financial vehicles including leasing, factoring, swap operations, and derivatives have been used as supplemental financial means. New vehicles must be developed in Argentina in order to comply with

the diversified financial needs of corporations. To attain this goal, the problems and obstacles hindering the development of new financial vehicles must be clarified.

(2) Financial systems for the development of small- and medium-size industries

Under the current economic reform, Argentina's industrial sector has shown a remarkable recovery in overall production and profitability. Nevertheless, the following problems still exist:

- The restructuring of the sector intended to improve international competitiveness has employment problems;
- The export performance of the sector, except for the food and machinery industry, has not been satisfactory; and
- The positive industrial investment for expanding production capacity has not materialized as expected.

One cause of these problems is weak and underdeveloped small- and medium-size enterprises (SMEs). Although SMEs are relatively developed in Argentina compared to other Latin American countries, there still is room for improvement when compared with those in developed countries.

Financial support to SMEs must be strengthened because insufficient access to credit is one of the major causes of weak and underdeveloped SMEs. Commercial banks are not always willing to grant credit to SMEs because of inadequate mortgage and guarantee or flimsy financial standing. Even if SMEs succeed in obtaining credit, interests rates are higher than those for big enterprises. Thus, financial issues such as financial institutions and private financial systems must be addressed.

3.6 Infrastructure Development

(1) Public investment program centered on nationwide infrastructure development

Since medium- and long-term public investment programs function in the private sector as guidelines and signals of where the nation is headed, they contribute to efficient resource allocation. Under the recent open economy policy, public investment programs should have a broad outlook and should explore the economic potentials of rural areas, and be established through collaboration between central and provincial governments.

The role of the central government must be redefined, since extensive deregulation and privatization have already taken place. In particular, the roles of the central government, provincial governments, and the private sector in infrastructure development should be re-examined. At the same time, a method for reconciling the massive infrastructure development needs with the fiscal balance must be devised. This would require mobilizing domestic and international financial resources and diversifying financing devices.

(2) Improvement in infrastructure for export expansion by the private sector

Insufficient export capacity, partially resulting from inadequate infrastructure, is one of the constraints for export expansion. As the Argentine industry, in general, has been inward-looking, the export infrastructure has not been fully developed. The export infrastructure must be improved.

The loading facilities for crude oil should be expanded. One of the reasons for the insufficient loading facilities is inadequate financing. Thus, an effective financial plan must be formulated. Upgrading the oil terminal in Chile is particularly important to Argentina's export of crude oil to East Asia, because it is connected by an oil pipeline from Argentina. To facilitate upgrading the terminal, formulating not only operational and financial plans but also infrastructure planning should be undertaken. The experiences of other countries, such as Australia and USA, may prove helpful.

(3) Trans-Andes routes development

While a number of roads that cross the Andes have been used for trade between Argentina and Chile, heavy trucks have not been utilized because of the high altitude of the roads and bad road conditions. Many routes are not passable during the winter due to snow.

Argentina must develop some of the roads to facilitate access to the Pacific region. The Chilean ports can be used as a gateway to East Asia for some Argentine products. When determining the priority of the routes to be developed, the potential cargoes to be transported, predictions regarding long-term agricultural and mining developments, and long-term regional economic development should be taken into consideration. In addition, comparisons of the transportation costs for major potential cargoes from origin to destination through various ports should be made to evaluate the feasibility of export to East Asia through Chile.

(4) Coordination of transportation systems among the MERCOSUR countries

There is a strong demand from MERCOSUR member countries to improve and develop railways, roads, and inland waterway transportation systems by facilitating the crossing of the Parana - Paraguay rivers. This will reduce transportation costs for grains and industrial materials among the MERCOSUR countries.

The specifications of infrastructure and border crossing regulations among the MERCOSUR countries should be coordinated prior to developing a transport network. For this purpose, the present system for each mode of transportation among the MERCOSUR countries should be reviewed, and a system to coordinate the transportation networks in the MERCOSUR be proposed. The experiences of the European Union are valuable because they offer abundant examples of coordination between the transportation networks of railways, roads, and inland waterways.

(5) Development of containerization in Argentina

Container ports and related facilities are inadequate in Argentina. Although the government has begun to improve the container transportation infrastructure, with an emphasis on the container terminal facilities at major ports, it still has a lot to do before Argentine ports reach international standards. Developing container ports is very important for Argentina's export expansion to East Asia.

Argentina must develop container ports and related facilities from an international perspective. Many ports in the world now accommodate second (about 1,500 TEUs) and third (2,500-3,000 TEUs, Panamax-class) generation container vessels. Although these vessels are not currently used in the shipping lines that call Argentina, they may be introduced in the near future. Argentina must prepare to accommodate the calls of these vessels. Container handling and intermodal transportation systems (railway and road connections between the ports and remote areas of Argentina) should also be taken into account. At the same time, development of not only the terminal facilities but also the related infrastructure, such as the information exchange network systems, should be undertaken.

4. Common Objectives for the Expansion of Export to and the Promotion of Direct Investment from East Asia

While the Study Team believes that all the areas summarized in 3. must be dealt with, there are many areas and there should be a sequence in the implementation. Thus, priorities must be established. In this section, the Study Team identifies common objectives for export expansion and the promotion of direct investment from East Asia. These objectives will facilitate the confirmation of priorities and accommodate the interests of the various parties involved.

4.1 Evaluation of the Sector-wise Potential of the Argentine Industry for Export and FDI

The following table summarizes the analysis of Argentina's major industries. The analysis was conducted to identify each industry's potential for exporting to and attracting direct investment from East Asia. It should be noted that the study was undertaken in 1994 and the data in the table is from 1992. Due to the recent rapid changes in the economic environment, the descriptions of industrial structures may require updating.

The primary industry, such as grains and fishery, is excluded from the analysis because the Study Team believes the primary industry already has strong international competitiveness. Thus, the potential of the industry to export to and attract direct investment from East Asia is great, even in the short-term.

Table 4: Potential of the Argentine Industry for Export and Investment

Iron and Steel						
	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
	Short	Short	100/3	0	28.8%	32.1%
Export				Investment		
-Established export network				-Access to the US market		
-Export industry				-Access to the MERCOSUR market		
-Direct reduction process based on natural gas				-Easy to expand production capacity		
-Flexibility and less capital intensity						
-Experiences in specialized products						
-Limited number of potential exporter						
-Excess capacity in East Asia						
Aluminum						
	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
Total					24.4	59.7
Smelter	Mid	Short	100/1	0		
Remelter	Short	Nil	65/1,100/6	0		
Export				Investment		
-Established export network				Heavy investment cost (smelter)		
-Export industry				Easy to expand production capacity (semi-finished)		
-Reliance on cheap natural gas						
-Excess demand in East Asia						
-Experiences in niche market						
-Limited number of potential exporter						
-Limited export capacity						
-Heavy cost for expansion (smelter)						
Pulp and Paper						
	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
Newsprint	Mid	Mid	100/1	0	54.5	0
Paper	Nil	Short	50/7	0	36.8	1.2
Pulp			100/7	0	5.6	21.3
Export pulp			100/1	0		
Export (Pulp)				Investment		
-Excess demand in East Asia				-(Pulp) Availability of low cost wood for pulp		
-Availability of low cost wood for pulp				-(Special paper) MERCOSUR market		
-Established export network						
-Export oriented industry						
-Limited number of potential exporter						
-Limited export capacity						
-Integrated mill						
Cement						
	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
	Nil	Nil	88/3,100/5	0	1.2	2.5
Export				Investment		
-Excess demand in East Asia				-Excess capacity		
-High freight cost						
Refinery						
	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
	Mid	Nil	53/1, 90/3		2	
Export (Crude oil)				Investment		
-Availability of oil				-(Refinery) Current industrial structure		
-Pipeline to China				-(Three influential companies)		
-Lack of export terminal						
Petrochemical						
	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
	Nil	Nil	79/1,100/4	0	27.9	10
Export				Investment		
-Abundant natural gas				-Relatively small size of demand		
-Excess capacity in East Asia				-A plan of expansion of existing plant		
-Limited number of exporter						
-Limited export capacity						
-Less competitive vis-a-vis Saudi Arabia						

Pharmaceuticals

	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
	Nil	Nil	25/3, 54/20	41.3	n.a.	n.a.
Export				Investment		
-Production under license agreement with MNC				-Less competitive than the Asian competitors		
-Presence of MNC				-Presence of MNC		

Personal care products

	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
	Nil	Nil	65-70/3	3	n.a.	n.a.
Export				Investment		
-Cheap price except for perfume				-Few Asian products in the market		
-Presence of MNC				-Low profile of the Asian brand		

Metal and Wood working machinery

	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
	Short	Short	none	0	80.3	36.2
Export				Investment		
-Past export performance				-Emergence of the MERCOSUR market		
-Export industry				-Development of the Automobile industry		
-Export to the USA						
-Specialty						
-Weakening industry						

Food processing equipment

	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
	Short	Short	100/6	0	n.a.	45-60
Export				Investment		
-Past export performance, especially to the USA				-Technical cooperation (TQC)		
-Export industry				-Less technological advantages		
-Good technology						
-Near to customers (Agro-business)						
-Limited number of potential exporters						
-Less advanced technology than Italy						
-Small-sized companies						

Household appliances

	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
Gas	nil	nil	60-100/4	0	n.a.	n.a.
Electrical	nil	nil	n.a.	n.a.	n.a.	n.a.
Export				Investment		
-Less competitive due to small scale				-Small-scale market		
-Manufacturing near consumers						
-Absence of electronics component supplier						

Automotive Industry

	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
Assembly	Nil	Short				
Autoparts	Short	Short				
Total					26	8.8
Passenger			100/3	3		
Commercial			100/3	3		
Heavy			99/4	4		
Export				Investment		
(Car building)				-(Car building) MERCOSUR market		
-Depend on strategy of MNC				-(Car building) MERCOSUR product		
-Excess capacity				-(Car building) Small market share		
(Autoparts)				-(Autoparts) MERCOSUR market		
-Special products (non-OEM)				-(Autoparts) Absence of excellent supplier		
-Incapable of supplying to Japanese OEM				-(Autoparts) Technology transfer in TQC		
				-(Autoparts) Non-existence of car assembler		

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Tire

	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
	Short	Nil	100/4	75/3	23.8	12.1
Export				Investment		
-Established export network				-Presence of MNC (Incl. Japan)		
-Special product						
-Active complementation						
-Presence of MNC						
-Only one non-MNC						

Tractors

	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
	Nil	Nil	100/3	100/3	32.9	1.4
Export				Investment		
-Different product concept				-Excess capacity		
-Presence of MNC				-Less advantages in technology		

Meat processing

	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
Total	Short	Medium			0	20
Chilled cut			60/5	1		
Frozen cut			25/3	0		
Canned			3	1		
Cooked			60-70/5	1		
Export				Investment		
-Market access				-Shelf life		
-Development of international standards				-Domestic market of grain-fed		
-Competitive in cost and quality						
-Difference in taste (grass-fed vs. grain-fed)						

Dairy products

	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
	Short	Nil	50/5	5/1	13	0.9
Export				Investment		
-Availability of low cost milk				-Less technology		
-Past export performance				-Less experiences		
-Subsidies by competitors						
-Import quota						
-Commodity type of product						
-Low profile in the world market						

Wine

	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
	Short	Nil	90/4	0	n.a.	n.a.
Export				Investment		
-Established export network				-Weak Argentine brand		
-Past export performance (malt)						
-Possibility of developing new market						
-Country with less wine consumption						
-Weak Argentine brand						

Beer

	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
Total			80/1 group	0	3.3	0
Beer	Nil	Nil				
Malt	Short	Medium				
Export				Investment		
-(Beer)Availability of malt with good quality				-(Beer)Less penetration of brand		
-(Beer)Non-international brand				-(Malt)Availability of malt with good quality		
-(Beer)High freight cost						
-(Malt)Availability of malt with good quality						
-(Malt)Diversification strategy of sources						
-(Malt)Strong demand						

Non-alcohol beverages

	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
	Nil	Nil	96/2 groups	96/2 groups	n.a.	n.a.
Export				Investment		
-Presence of MNC				-Strong existing brand		

Food

Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
Medium	Long	40-60/2	n.a.	n.a.	n.a.
Export -Availability of good raw materials -Busy with MERCOSUR -Limited number of potential exporters -Lack of international brand			Investment -Availability of good raw materials -Less competitive in technology		

Confectionery

Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
Medium	Medium	80/6, 62/2	25/1	n.a.	n.a.
Export -Busy with MERCOSUR -Limited number of potential exporters -Lack of international brand			Investment -MERCOSUR market -MERCOSUR product -Availability of raw materials		

Textile

Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
Short	Nil	n.a.	n.a.	42.3 (Synthetic)	30.6 (Synthetic)
Export -Export industry -Specialty -Less advantage in labor cost			Investment -Less advantages in labor cost		

Cigarettes

Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
Short	Nil	100/2	100/2	n.a.	n.a.
Export -Presence of MNC -Lack of international brand (Pre-industrial tobacco) -Availability of raw materials -Good quality -Export network -Relatively high production cost -Low profile as exporter in the world -Vulnerability to international market			Investment -Market position of big two		

Tanneries

Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
Short	Nil	60/6 (Export)	0	n.a.	80
Export -Export oriented industry -Export network -Limited production capacity			Investment -Less competitive -Technology and capital within Argentina		

Footwear

Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
Medium	Medium	86/3	86/3 (brand)	n.a.	n.a.
Export -Availability of qualified labor -Leather with good quality -Limited number of potential exporter -Dependence on MNC brand -Lack of own international brand -Busy with MERCOSUR			Investment -MERCOSUR market -Leather with good quality -Availability of qualified labor		

Shoes

Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
Short	Nil	n.a.	n.a.	26	3.8
Export -Availability of qualified labor -Availability of leather with good quality -Busy with MERCOSUR -Limited number of potential exporters -Many too small companies					

Leather goods

	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
	Short	Nil	n.a.	n.a.	23.5	n.a.
Export				Investment		
- Past export performance				- Less advantages in technology		
- Export to the US and Germany						
- Buyer's brand						
- Availability of qualified labor						
- Many too small companies						
- Limited number of potential exporters						

Flexible packaging

	Export	Invest	Concentration	MNC (%)	Ratio of Import	Ratio of Export
	Nil	Nil	n.a.	n.a.	n.a.	n.a.
Export				Investment		
- Product with few trade				- Easy to expand capacity		

Note: Short, medium, and long in the shaded area stand for there is an export (investment) potential to (from) East Asia in the short, medium, and long-term. Nil stands for there does not seem to be a potential for export (investment).
 Concentration (%): 100/3 stands for 100% share by 3 companies
 MNC (%): 65-70/3 stands for 65-70% share by 3 multinational corporations
 Ratio of import (%): ratio of import to domestic demand
 Ratio of export (%): ratio of export to domestic production
 n.a.: not available

The analysis of Argentine industries, from the standpoint of export to the East Asian market, may be summarized as follows:

(I) Advantages**I. Improved competitiveness**

The competitiveness of the Argentine industry has improved significantly in the last several years. The introduction of foreign capital, restructuring, deregulation, and free competition contributed to this progress. Although there is still room for increase in productivity, if the current stable economic situation continues, the Argentine industry may be able to regain international competitiveness.

II. Rich export experiences in a number of export-oriented industries

Some industries are highly export-oriented, with export experience. For example, aluminum (59.7%), metal and wood working machinery (36.2%), food processing equipment (45-60%), meat processing (20%), textile (30.6%, synthetic), and tanneries (80%) maintain high dependence on the export market. The experiences of these industries are valuable and should be shared with other industries.

III. Increase in multinational corporations

Many multinational corporations have invested in Argentina through privatization programs and mergers and acquisitions. This significantly contributes to enhancing the productivity and competitiveness of the Argentine industries. It may increase the volume of Argentina's trade, since trade among the plants/branches within a multinational company now accounts for one third of the global trade. Many multinational corporations are involved in the personal care products, tire, and non-alcoholic beverages industries in Argentina.

(2) Disadvantages

I. Concentration of production in a few companies

A small number of companies hold a large market share in many sectors. These companies are well organized and equipped with advanced technologies, but the number of companies is limited. The export potential of the industry rests solely on the companies' business strategies and capabilities. These industries include iron and steel, aluminum (especially smelter), pulp and paper (especially newsprint and export pulp), automotive, tractors, beer, non-alcohol beverages, cigarettes, and footwear.

II. A large gap between large-size enterprises and medium- and small-size enterprises

The difference between large-size enterprises and medium- and small-size enterprises is increasing, partly as a result of free competition and the development of concentration. Many large-size enterprises have pursued restructuring by means of downsizing, reducing the number of employees, and rationalization investment in machinery and equipment. Meanwhile, many medium- and small-size enterprises have been unable to renovate their equipment due to the lack of management skills and finances. As a consequence, large-size enterprises can become internationally competitive while medium- and small-size enterprises cannot.

III. Limited number of exporting firms

The number of exporting firms is very limited in some industries. For example, there is only one exporter of market pulp; the same applies to seamless pipe. The limited number of exporters may restrict an increase in export capacity. Having only a few exporting companies increases reliance on them, and the industry's export may be largely influenced by the business strategies of the few companies. In the recent global trade,

since importers have increasingly become conscious not only of the price and quality of products but also on the reliability of suppliers, having a limited number of exporting companies may adversely affect export expansion.

IV. Lack of investment with long-term perspectives and the lack of sufficient production capacity

Since the manufacturing sector did not invest in machinery and equipment for many years under an unstable economy and hyper-inflation, there is concern regarding the production capacity of the industry. When domestic demand expanded during 1991-1994, products were principally directed to the domestic market, and export declined. Export has been a marginal market for Argentine industries.

As the economy stabilized and inflation reduced to one of the lowest levels in the world, some firms have begun to formulate long-term strategies. In addition, the importance of export markets has gained increasing recognition. These factors may contribute to an increase in investment in production capacity.

4.2 Key Sectors

The key sectors of export can be identified in two stages. Those in the first stage are the export of resource-based products such as grains and meat to East Asia because they, in general, have not only regional but also international competitiveness. As mentioned earlier, the export of resource-based products is complementary to East Asia's trade structure. The sectors in the second stage include the export of assembly products such as food processing machinery and automotive parts to the MERCOSUR market. Although many local assembly industries do not presently have strong international competitiveness, they will be forced to enhance productivity under the increased level of competition created by the formation of the MERCOSUR market. The ratio of the import of assembly goods to the total import in the East Asian market is increasing every year. This section discusses the key industries involved in Argentina's potential export expansion to the East Asian market.

(1) Resource-based industries

The export of resource-based products can be divided into two phases. The first phase is to increase the number of products to be exported, thereby expanding the export-base. As discussed earlier, the number of Argentine products exported to East Asia is confined to a few primary products. As Argentina has the potential to export a greater number of products, this phase is vital.

As shown in Table 4, the following resource-based industries have export potential for East Asia: iron and steel, aluminum, meat processing, dairy products, wine, malt, textile, cigarettes, tanneries, and shoes. Among these products only iron and steel, aluminum, and tanneries are presently being sold to East Asia in a substantial amount. Argentina should attempt to export the other products mentioned in the list that are not presently being exported.

Expanding the export of grains is also crucial. Argentina has the potential to become a major grain supplier to the East Asian market. The prices of primary products, such as grains, compared to manufactured products, have declined for the last several decades in international markets. However, this trend may reverse in the foreseeable future due to the following reasons: First, the rapid economic growth in Asia is likely to increase the demand for grains, but the production in Asia will not be able to meet the demand. Second, the supply of manufacturing products is likely to increase due to the entries of many Asian countries, and this may decrease the price of manufacturing products. Third, the global environment and growing population and economy may create chronic shortages of food and other agricultural products in the world. These factors may contribute to an improvement in the price of grains, relative to that of manufactured goods. The change may be especially significant in the prices of staple foods such as wheat and maize, for which Argentina has a large supply capacity. A reduction in subsidies in developed countries may also enhance the competitiveness of grains in Argentina. Argentina should, therefore, utilize the export potentials of grains.

Some Japanese trading firms are considering an integrated export system between Argentina, East Asia, and Japan, to take advantage of the different characteristics of the three countries/regions. Argentina is rich in natural resources but labor forces are relatively expensive; East Asia still has abundant low-wage labor forces. On the other hand, Japan does not have ample natural resources or low-wage labor forces, but the size of the resource-based products market is huge. Thus, there is the potential to export resource-based products from Argentina to East Asia as a first step, to be processed in East Asia utilizing the low wage labor force, and then, as a second step, re-export the processed products to Japan. The feasibility of this export system must be evaluated carefully.

The second phase in the export of resource-based products is to add higher value to the products being exported. Currently most primary products are exported as a raw material with little value added. Many primary products are, therefore, processed in the importing countries. For example, squid is exported to Japan without any processing in

Argentina. Processing in Argentina would not only add value to the product, but also increase employment opportunities. It may also contribute to rural development where the products are harvested.

The most important factor in export in a value-added form is procuring good quality raw materials. If the quality of raw materials is inadequate, the quality of the processed products will not be satisfactory, and as a consequence, the value added to the product is reduced. Therefore, producers of raw materials should make the extra effort to produce the best quality products.

(2) Assembly products

In the second stage, Argentina should plan to export assembly products. As shown in Table 4, Argentina has the potential to export metal and wood working machinery, food processing equipment, and auto parts. While Argentina's main export industry will continue to be the resource-based industry, Argentina should prepare for the export of assembly products primarily for the following four reasons:

1) The recent development of globalization. Globalization is an increased interdependence among countries in the world. It was generated mainly by the development of telecommunications and economic and trade liberalization. For example, multinational corporations have increased their presence in the world economy and develop their business strategies from global perspectives. East Asia is a region that has achieved a rapid economic growth by means of involvement in this process of globalization. Globalization is most prominent in the automotive and auto parts industries. Automotive assemblers are competing fiercely with each other in the global market. They procure auto parts and assemble them any place in the world. Brazil exports auto parts for repairs in East Asia. Argentina should aggressively pursue involvement in this trend or be left behind in the process of global economic integration.

2) The second reason is the import structure of East Asia. The ratio of the import of assembly products to the total import of the ASEAN and China increased from 39% in 1990 to 43% in 1993. The value almost doubled from US\$ 109 billion to US\$ 196 billion. In Korea the import of assembly products is significant, accounting for 34% of the total import. The import of assembly products is expected to increase further in East Asia. Argentina should take advantage of this trend.

3) Exporting assembly products would contribute to the diversification of Argentina's export structure. The production of primary products is susceptible to natural

conditions such as climate and precipitation. This is especially true for grains and other foodstuffs because the agricultural infrastructure, such as irrigation systems, is not very developed in Argentina.

Insufficient precipitation could have a serious impact not only on export but also on the Argentine economy as a whole, because the economy is deeply linked to the export performance. To avoid this, Argentina should minimize export fluctuation from year to year by initiating the export of assembly products.

4) The fourth reason relates to the characteristics of resource-based industries. The experiences of Thailand suggest that agriculture-based industries require fewer supporting industries than the assembly industry. Thus, developing the assembly industry creates greater potential for encouraging supporting industries and helping to strengthen Argentine industries--as well as contributing to an increase in employment--compared to agriculture-based industries.

Measures to expand the export of assembly products to East Asia are divided into two areas. The first is the effective use of the MERCOSUR market. With the establishment of the MERCOSUR market, demand for products increased and the levels of quality required were raised, due to increased competition among the MERCOSUR suppliers. These factors contribute to improving the economies of the Argentine suppliers and quality improvement of Argentine products. When these are accomplished, Argentine products may be exported to the East Asian market. However, competition in the East Asian market is so fierce that it will be difficult to penetrate unless very deliberate and effective measures are taken by both the public and private sectors.

The second measure is to exploit Argentina's comparative advantages. Since East Asia is abundant with relatively low wage labor forces, Argentina can not compete with mass-produced products. Argentina should concentrate its efforts on the production of a large variety but small-batch products to take advantage of its relatively qualified labor forces. Argentina must differentiate its products from the others and seek a niche market. A valve manufacturer in Cordoba has been providing the service of producing any kind of valve in a very short time. He has been receiving orders from all over the world.

Human resources are a key to the development of the assembly industry. While Argentina has many relatively qualified labor forces, including engineers, there are shortcomings. For example, quality control engineers are scarce. Argentina should prepare to further improve its labor forces.

4.3 Target Markets

The following table shows the sector-wise competitiveness of Argentine industries. It should be noted that the evaluation of the local/international competitiveness was made in 1994, and that the data on trade (export, import, and trade balance) is from 1992.

Table 5: Sector-Wise Competitiveness of the Argentine Industry

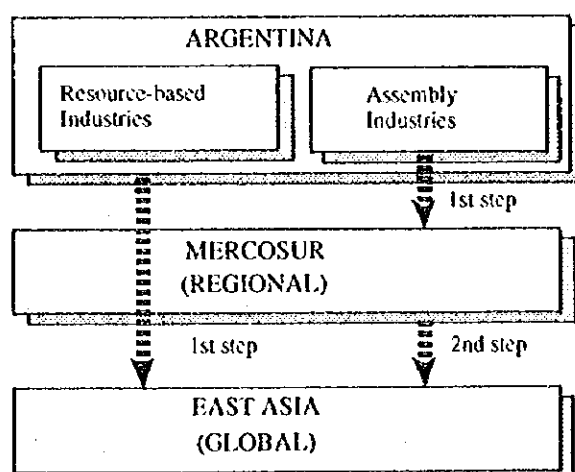
Industry	Domestic demand	Production	Trade		Trade balance	Competitiveness	
			Export	Import		Local	International
Iron and steel	xxx	x	0.92 (mt)	0.79 (mt)	0.13(mt)	xx (xxx)	xx (xxx)
Aluminum	xxx	x	110 (tt)	24 (tt)	86(tt)	(x) (xxx)	xx
Pulp (and paper)	xx	xx	160 (tt)	35 (tt)	125 (tt)	xxx	xxx
Cement	xxx	xxx	143 (tt)	69 (tt)	74 (tt)	xxx	x
Refinery	xx	xx				xxx	x
Petrochemical	xxx	x	262 (tt)	901 (tt)	(-)639 (tt)	(x) (xxx)	x
Pharmaceutical	xx	xx	61 (US\$m)	275(US\$m)	(-)214 (US\$m)	xxx	x
	(volume)	(volume)				(license)	
Personal Care Products	xxx	xxx	37 (US\$m)	41 (US\$m)	(-)4 (US\$m)	xxx	x
Metal and wood working machinery	xxx	xx	23 (US\$m)	167 (US\$m)	(-)144 (US\$m)	(x)	(x)
Food processing equipment	x	x			(-)	(x) (xxx)	(x) (xxx)
Household appliances (gas)	xxx	xxx				xx	x
(electrical)	xxx	xxx				xx	x
Automotive	xxx	xxx	30 (tu)	109 (tu)	(-)79 (tu)	xxx	x
						(protection)	
Tire	xxx	xxx	17 (US\$m)	118 (US\$m)	(-)101 (US\$m)	xx	x
Tractors	xx	x	42 (u)	1,453(u)	(-)1411(u)	(x)	x
						(xxx for co.)	
Meat Processing	xx	xx	600 (US\$m)	-	(+)	xxx	xxx
Dairy Products	xxx	xxx	34 (US\$m)	37 (US\$m)	(-)3 (US\$m)	xxx	xx(xxx)
Wine	x	x	40 (US\$m)		(+)	xxx	xx(xxx)
Beer	xxx	xxx		342 (thl)	(-)	xxx	x
Non alcoholic beverage	xxx	xxx	-	-	-	xxx	x
Food	xx	xx				xxx	x (xxx for leading co.)
							(xxx)
Confectionery	xxx	xxx				xxx	xx
Cigarettes	xxx	xxx	-	-	-	xxx	x
Textile (Synthetic)	x	x	16 (tt)	27 (tt)	(-) 11 (tt)	(x)(xxx for MNC)	(x)(xxx for MNC)
Tanneries	xx	xx	520(US\$m)		(+)	xxx	xxx
Footwear	xxx	xxx	26 (US\$m)			xxx	x(xxx for leading co.)
Shoes	xxx	xx	3.5 (mp)	24.3(mp)	(-)20.8 (mp)	(x)	x
Leather goods	x	x	89 (US\$m)	30 (US\$m)	59 (US\$m)	(x)	xxx
Flexible Packaging	xxx	xxx	-	-	-	xxx	x

- Note:
1. Domestic demand, production
 - xxx: annual growth rate in the past three years is greater than that of GDP
 - xx: annual growth rate in the past three years is less than that of GDP, but positive
 - x: negative growth rate in the past three years
 2. Export, import, trade balance
 - mt: million ton, tt: thousand ton, u: unit, tbt: thousand hecto litter, mp: million pair (figure for 1992)
 3. Competitiveness:
 - xxx: strong or potentially strong (xxx)
 - xx: even
 - x: weak or not competitive or losing (x)

The table shows that mainly resource-based industries including agriculture, livestock, forestry, fishery, and mineral resources and their processed products have not only domestic but also (potentially) international competitiveness. The products include iron and steel, pulp and paper, meat processed products, dairy products, wine, and leather goods. Since these products already have (potentially) international competitiveness, they are likely to penetrate into the East Asian market immediately if adequate measures are taken.

However, many assembly industries do not have international competitiveness yet. Metal and wood working 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 improving their quality through competition in the MERCOSUR market. When the industries become internationally competitive, they may attempt to export to the East Asian market as a second step. The figure below summarizes the target markets for the Argentine industries.

Figure 17: Export Market of the Argentine Industries



4.4 FDI and Target Markets

Taking into account capital availability and the world coverage of business activities, primary investors to Argentina will be the Japanese firms in East Asia, although that does not necessarily eliminate firms in other East Asian economies.

Japan's investment to Argentina has not been significant. Reasons for the somewhat deliberate stance of the Japanese firms toward FDI to Argentina include:

- Skepticism regarding the economic and political stability and consistency of economic policies in Argentina.
- Since a major reason for Japan's FDI is to transfer production facilities, labor cost and distance from Japan are important determinants in the Japanese firms' decision regarding the location of FDI.
- Due to past experiences in writing off accumulated debt, banks are reluctant to lend credit to manufacturing firms for investment in Latin America. Many Japanese banks have closed their branches in the region, and have not re-opened. In addition, while many Japanese firms transfer the profit of FDI to Japan, they are concerned with possible money transfer prohibitions.

In spite of these constraints, Japanese firms are well aware of the establishment of the MERCOSUR market and the abundant natural resources available in Argentina. Following Toyota's decision to invest in Argentina, many Japanese firms have been changing their view of Argentina to a more favorable one. Argentina is potentially an attractive host country for Japan's FDI. Investment from East Asia, mainly from Japan, can be classified into three categories, as discussed below.

(1) Investment of the assembly industry targeting the MERCOSUR market

The automotive industry is the most feasible-as with Toyota's investment in Argentina. The investment of an assembler is often followed by the investment of the supporting industries. Some Japanese supporting industries are likely to invest in Argentina to supply auto parts to Toyota.

Toyota's investment is targeting the MERCOSUR market. Therefore, as the market expands, there is the possibility of other Japanese assemblers investing in Argentina. The same applies to automotive assemblers in Korea.

One possible concern regarding the investment of the automotive industry is the effect of the trade policies of the MERCOSUR, especially between Argentina and Brazil. Since Brazil has a bigger market, some assemblers have preferred to establish plants in Brazil. Although the current trade agreement between the two countries encourages assemblers to construct plants in both countries to produce different types of vehicles, a change in the trade policy would completely alter the assemblers' investment plans. This issue is discussed in detail in Volume 6.

(2) Investment for the import of foodstuffs targeting the East Asian market

Investment for the import of foodstuffs by the Japanese firms is in a surge. With beef, for example, many Japanese firms invested in farms and meat processing plants in the USA and Australia, triggered by beef trade liberalization in 1991. Most of the beef produced is exported to Japan. The import of foodstuffs through Japan's investment in Asian countries is also expanding. Diversification in the demand for beef and the recent price reduction in foodstuffs in Japan promoted the investment in order to inexpensively procure high-quality and diverse foodstuffs. As Japanese agricultural production is hardly competitive in international standards, this kind of investment is expected to further increase.

Argentina has a good potential for FDI on development and import arrangements. Argentina not only possesses favorable climate and geographical conditions, it is also located in the Southern Hemisphere. Taking advantage of different seasons, development and import arrangements in Australia and New Zealand are increasing. Transportation technology to transport the foodstuffs while still as fresh as possible (such as the cool-tech system) is also being developed. Argentina is certainly a candidate for this arrangement by Japanese importers.

(3) Investment in natural resources development targeting the East Asian market

Japan does not have the benefit of many natural resources, relying nearly 100% on import. However, none of the Japanese firms or East Asian companies have invested in the natural resources in Argentina. East Asia and other regions have historically been hesitant to invest in Argentina's natural resources because of unstable economic policies, numerous regulations, and the lack of geological data. However, since the reform process took place, some foreign companies have begun to invest in Argentina, and the FDI has been growing annually.

There is good potential for Japan's direct investment in natural resources. A natural gas pipeline project has been implemented targeting both the East Asian and Chilean market. The Okita Foundation, a joint organization between Argentina and Japan, also plans to conduct a feasibility study on natural resources in Argentina.

Mining (such as copper), energy (such as natural gas), and forestry all have good potential for investment. Argentina is rich in forestry, accounting for 1% of the world's forestry area. According to information prepared by the Okita Foundation, Argentina's competitiveness lies in the low cost of reforestation and accelerated growth of some species over competitors such as the US and Canada. While foreign investments to Argentina from Chile, New Zealand, and Canada are expanding, the resources have not been fully utilized yet. Since Japan is the world's largest importer of wood and is eager to diversify its import sources, there is the potential for Japanese companies to invest in Argentina.

Japanese firms have pointed out the following factors that may be useful for Argentina in attracting investment from Japan:

- Maintaining a consistent economic policy, leaving the present effective economic fundamentals unchanged;
- Maintaining political and social stability;
- Improving the infrastructure including ports, highways, railways, airports, warehouses, and telecommunications;
- Encouraging reform of the labor law;
- Strengthening the supporting industries and improving the quality of their products;
- Reducing financial costs through the reduction of interest rates;
- Maintaining close contact with Japanese business circles and holding dialogues to create effective investment promotion strategies; and
- Holding investment seminars frequently.

4.5 Role of the Government

The Argentine government is small and is withholding active intervention in the market. The Study Team is very clear on the point that this government policy should be maintained in the future. However, this does not necessarily mean that the government should do nothing towards expanding export to and promoting direct investment from East Asia. On the contrary, it has an important role to play. The following summarizes some insight into the role of the government concerning export expansion to East Asia.

First, the government should create a national consensus among the parties involved by disseminating information and setting common objectives. It is important that the government clarify the country's export market targets; a clear signal from the government facilitates decision-making by the private sector. This is one of the key concepts of the Targeted Marketing Intelligence Strategy (TAMIS), which will be explained in 5.2.

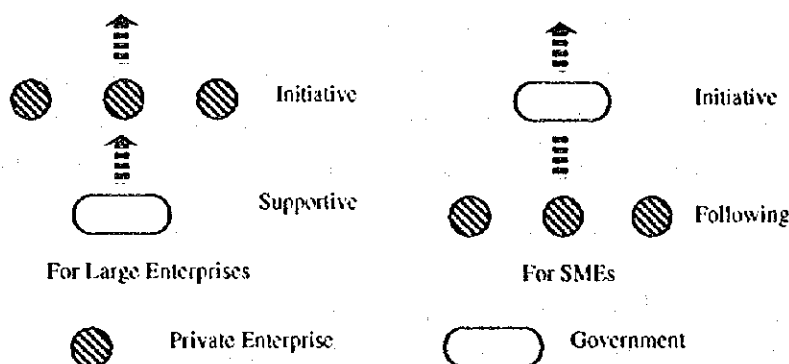
The government should support the private sector in preparing information about Argentine industry necessary for the expansion of export and the promotion of direct investment. This information is primarily produced by the private sector (mainly by associations), but the involvement of the government is necessary because the information includes regulations and statistics that the government directly oversees.

Second, the role of government in economic development varies depending on the types of private enterprises which are interacting, ranging from small- and medium-size enterprises to large enterprises. This is particularly relevant in trade promotion. The size of the enterprise is determined by the size of the company (sales, employees, etc.), its international competitiveness, export performance, and brand image.

In terms of large enterprises, the role of government should be low-profile. Export promotion activities such as market information gathering should be initiated by the private sector. Expenditures associated with such activities should also be covered by private enterprises. One of the reasons for the low profile of the government is that enterprises can collect information more efficiently than the government. Another reason is that the information required is somewhat technical, which the government is unable to collect. The required information would include state-of-the-art production technology and data on specific markets.

Contrary to this, the government should take the initiative if the exporters are small- and medium-size. These enterprises can't engage in trade promotion activities and develop close business contacts due to insufficient financial and human resources. A part of the risks should be carried by the government; such costs may be recouped when export is actually materialized and expanded. Another reason is that the required information is usually general, which the government is able to collect. In Argentina, many exporters in the processed food industry, leather goods industry, food processing equipment industry, and shoes industry are small- and medium-sized. The relationship between the public and private sectors is illustrated by the following figure:

Figure 18: Variations in the Role of Government



Third, the role of the government varies according to changes in the socio-economic environment, both internal and external. For example, in Korea, the government undertook industrialization initiatives in the 1970's; the government was the main driving force. In the 1980's, the primary impetus came from the private sector, with the government selectively intervening in the market and the activities of the private sector, and the government's initiative role was weakened. In the 1990's, the government has taken a neutral position, letting the market determine the activities of the private sector, and has withheld intervention in the activities of the private sector. Although the Korean situation does not necessarily apply to Argentina, the role of government must change as the national and international economies change. The role of the government, within this context, should be periodically reviewed in Argentina.

Fourth, those involved should not be limited to central government and private enterprises. Other institutions, including local (provincial and municipal) governments, associations of private enterprises, and consultants also play an important role. For example, local governments are very important to the promotion of area-specific products. In Japan, for example, beef is sold under the name of the area where the cattle was raised. Promotion activities are undertaken by both the private sector and the local government. This kind of cooperation is indispensable in regional development. Associations are also important to consolidating the views of each enterprise and linking them with the government. When gathering market information, if an enterprise is unable to cover the expense, an association can assume the activity, with the costs shared by the member enterprises. Each enterprise can obtain necessary information at a lower cost than if it conducted the activity itself. As these examples show, everyone, including local governments and associations, has an individual and important role to play, and the government should prepare to take advantage of them.

This are not all that the government should assume. In addition to these activities, the Argentine government should, with others, maintain a stable macro economy, improve education and training systems, and strengthen the tax system. These are the important areas the government should devote itself to; we will make no further statement regarding this as sufficient material has already been published on the subject and should be reviewed.

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 key areas have been integrated, in consultation with the Argentine government, into four priority issues that have been studied in detail in Phase II. The four Issues are:

- Issue 1: Strengthening Institutional Support for the Expansion of Export to and the Promotion of Direct Investment from East Asia
- Issue 2: Expansion of Export Capacity through Improvement in Productivity and Quality
- Issue 3: Development of Argentine Small- and Medium-Size Manufacturing Enterprises
- Issue 4: Transport Infrastructure Improvement for Industrial Development and Trade Promotion

This section focuses on each issue in detail to provide recommendations that will contribute to export expansion to East Asia and promote direct investment from the region.

5.1 Significance of and Relationship Between the Four Issues

Within the context of export to and direct investment from East Asia, the significance and relationship of the four issues are summarized as follows:

Issue 1 concerns governmental support, which is helpful in expanding the export of competitive resource-based products, including the four case products studied in Issue 2. Since the economic reform was launched, a smaller government has been sought and many governmental functions have been eliminated. These measures have been necessary for efficient market functioning in the Argentine economy. However, the government has an important role to play in export expansion and direct investment promotion. The private sector is not very aware of what is going on in East Asia, the most rapidly growing market in the world. Government initiatives are necessary to encourage the private sector to learn about East Asia. For Issue 1, the Study Team examined the present situation of governmental support in Argentina. Experiences of trade promotion organizations in other countries, including Australia and Canada, were reviewed, and their applicability to Argentina was discussed.

Issue 2 corresponds directly to the overriding topic of this study--export to East Asia. It has been addressed through the case studies of four agro- and fishery-based products. Although the four products should have international competitiveness, massive export to the East Asian market has not been realized. This may be attributed to market access problems, inadequate marketing strategies, or inadequate productivity and quality. The market access problem is within the government's jurisdiction. This study suggests solutions to the market access problems some Argentine products face. The problems with marketing strategies and productivity and quality must be solved primarily by the private sector. Our study describes the characteristics of the East Asian market, and the changes required of Argentine firms prior to export to East Asia. These recommendations include adopting more client-oriented management and introducing long-term perspectives. We also recommend the diversion of export products from low to high value added.

Institutional support, as relevant to export in the context of Issue 1, is also necessary for the development of small- and medium-size manufacturing enterprises (SMEs)--that is Issue 3. SMEs are the foundation of the industry in any country, and also play an important role in export. Development of SMEs affect the export both directly because the SMEs themselves may begin export, and indirectly by improving the productivity of exporting companies. The existence of competitive SMEs also attracts foreign direct investment because investing firms have a better chance of procuring high-quality capital and intermediate goods in the local market. This study suggests ways that the government can support the development of SMEs, especially in the financial, technological, and quality management areas. As the case study, the development of SMEs in the auto parts industry has been examined. Unlike Issues 1 and 2, which are somewhat short-term, Issue 3 has a long-term perspective.

Issue 4 also has a long-term implication. The development of SMEs and export expansion can not be materialized unless appropriate infrastructures are developed. Without good infrastructure, institutional support is not effective. A solid infrastructure is also a precondition for attracting FDI. Transportation is particularly important in improving the overall productivity of economic activities. Efficient access to ports from production areas and appropriate facilities and management of the ports are important, particularly for export. In this context, containerization is the main objective of Issue 4. Developing trunk routes within the MERCOSUR countries is also important. Clear access to Chile will facilitate Argentina's access to the Pacific. Issue 4 is also concerned with the cross-national transport network development (to include Chile) in MERCOSUR.

The relevance of these four issues to export expansion is summarized in the following table. The areas of improvement for export expansion are divided into four stages: access to market, marketing strategy, productivity and quality, and infrastructure.

Table 6: Relevance of Each Issue to the Expansion of Export

	1	2	3	4
Issue	Institutional support for export and FDI	Expanding export through productivity and quality improvement	Development of the manufacturing SMEs	Improvement in transport infrastructure
Access to market	Trade promotion organizations	Market access regulations		
Marketing strategy		Marketing strategy		
Productivity and quality		Resource-based industries	Automotive and autoparts industries	
Infrastructure			Finance, technology and quality for SMEs	Containerization, Trunk routes between Argentina and Brazil/Chile

Access to market has been studied in Issue 1 and Issue 2. In Issue 2, the Study Team dealt with regulations associated with market access, such as sanitary and phytosanitary measures. Legal market access is a precondition of export. Issue 1 centered on trade promotion organizations (TPOs). Even if market access problems are solved, export will not necessarily be automatically guaranteed. Market access is still difficult, especially for small- and medium-size enterprises, because important elements (such as market information) are not easily obtained. TPOs play a very important role in facilitating the export process.

An appropriate marketing strategy is another prerequisite for export. Even if market access regulations are not a problem and support from TPOs is provided, private enterprises should develop adequate marketing strategies to penetrate into a new market. This point has been examined in Issue 2, using four resource-based products as examples.

Factors relating to production, such as productivity, quality, and trade policies, have been examined in Issues 2 and 3. In Issue 2, the study focused on agriculture and fishery products while a portion of Issue 3 dealt with the automotive and auto parts industries.

The infrastructure is the common base of the Argentine industries. The infrastructure is not only physical, such as port facilities, but also institutional, such as financial schemes and an information network. The Study Team has highlighted the

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financial and technical infrastructures which correspond with Issue 3 and SMEs, and the physical infrastructure, regarding transport, addressed in Issue 4.

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

5.2.1 Existing Institutional Support for Export in Argentina and the Need for Promotion Toward East Asia

Export to East Asia calls for explicit support from the government. Argentina has already gained access to European markets through its historical, cultural, and geographical proximity to Europe. In addition, Argentina has been successful in penetrating the North American and MERCOSUR markets. However, it has delayed penetrating into the East Asian market partly due to its remoteness and partly due to the lack of explicit government support for export to a distant location such as East Asia.

The present regime, however, clearly intends to provide institutional support to the private effort toward export expansion. This institutional support will amplify the impact of other major export efforts of the government, such as market access diversification, trade liberalization, and encouragement to improve productivity. With special reference to expanding export to East Asia, the institutional support will have two major aspects: The East-Asia-focused integration of activities for expanding export of certain product groups, and the strengthening of trade promotion organizations (TPOs).

In the Argentine Government, The Undersecretariat of International Trade Relations, The Secretariat of International Economic Relations (SREI), Ministry of Foreign Affairs, International Trade and Worship (MRECIyC) and The Undersecretariat of Foreign Trade, Secretariat of Trade and Investment (SCI), Ministry of Economy and Public Works and Services (MEOySP) are the institutions responsible for export promotion. The Undersecretariat of Investment, SCI, MEOySP is the institution responsible for investment promotion. These institutions are intended to be complementary.

The Argentine government has recently developed and managed a variety of export promotion programs and services, such as PROCAR, PROMEX and PROMSA. In addition to these institutions and programs and services, the Argentine government created, in 1993, Fundacion Exportar (FE) as a trade promotion organization with support from 13 private organizations (SMEs), and Fundacion Invertir (FI) with support from large-scale private enterprises. These two organizations are intended to be complementary. In 1994, a Coordination Unit (UCPFE) was created between MRECIyC

and MEOySP. This unit coordinates various export promotion programs, such as those mentioned above. Recent actions important to the activation of this coordinating function are the launching of a cost-sharing grant scheme for SMEs (Enterprises Assistance Program) and institutional strengthening of UCPFE, FE and other export-related public agencies. These actions are being supervised by the Program Administrative Unit (UAP) of MEOySP, with assistance from the World Bank.

In 1992, The National Committee for Asia and the Pacific (CONAPAC) was created as a joint organization of public and private sectors under the initiative of MRECIyC to promote the Argentina's participation in multilateral cooperation forums dealing with the Asia-Pacific region. CONAPAC is presided by Minister of Foreign Affairs, International Trade and Worship and members include representatives of government, business and academia. In particular, the intention of having business representatives is to allow the consideration of business initiatives that promote bilateral commercial relations. Although CONAPAC has no specific programs nor services dedicated exclusively to promote exports at present, it could be an instrument of support for activities of FE in future.

The Study Team believes that these existing export programs and services represent a good base to initiate an export drive focused on East Asia. What is needed now is full utilization and reinforcement of these programs and services. The Study Team has reviewed the selected experiences of trade promotion organizations (TPOs) in East Asia and the Pacific as a reference for Argentina. In this context, this study on Issue I reviews the present roles and activities of the TPOs of East Asian and Pacific economies.

5.2.2 Major Functions of TPOs in East Asian and Pacific Economies

Targeted Marketing Intelligence Strategy - TAMIS

TAMIS has been adopted by a number of East Asia and Pacific economies as a useful method of opening up new markets and consolidating various export promotion programs toward target markets. Conceptually, it can be divided into (1) country and regional TAMIS and (2) sector TAMIS.

(1) Country and regional TAMIS -- Canada has had a TAMIS for seven sectors targeted at the Japanese market for several years. The strategy has been published in the form of a small booklet which contains essential information such as access plans, main business contact points, and information sources, all of which assist in teaching the preliminary procedures of export to Japan and calculating the necessary costs to be

incurred by this export. Creating the booklet required an intensive exchange of information between governments, provinces, and industries and the resident offices of their TPOs in Japan.

In Australia (AUSTRADE), they divide the world markets into seven blocks representing America, Europe, East Asia, Japan/Korea, South East Asia, South Pacific, and specified markets, and they prepare Country and Regional TAMIS and Sector TAMIS for each block. Each of the 27 domestic AUSTRADE offices has an organization called the "Business Unit." This unit supports AUSTRADE's export promotional activities under close cooperation with the overseas offices of AUSTRADE. Personnel and financial resources are distributed according to the TAMIS, with a large share allotted to East Asia, Japan/Korea and Southeast Asia.

(2) Sector TAMIS -- A marketing intelligence strategy is sometimes planned and implemented for a target group of products. An example of this strategy is the Marketing Intelligence Division of Chile. It operates based on the intensive exchange of information and views with industries, and financial plans supported by both public and private sources. Another example is the Australian Meat and Livestock Corporation, which, in cooperation with AUSTRADE, is helping private initiatives for beef export and business promotion in Japan.

Impression of the country

We cannot neglect the importance of the general impression of the supplying country when formulating export strategies, as it exerts a strong influence on the decisions made by consumers. Regarding fresh and processed foods, the impression of the country itself as being reliable and clean is as important as the impression of the supplier from the country. PROCHILE recently created an International Marketing Department in order to conduct a "Good Image of Chile" campaign.

Exposure of inquiries

There are two varying methods of inquiry exposure. One is to maximize exposure of inquiries from overseas; the other is for TPO, after examining the content of the inquiries, to introduce the potential suppliers chosen out of a suppliers list prepared by TPO itself. This variation provides information on the capability of domestic suppliers, as well as additional information such as export finance schemes and foreign market information, obtained through contacts with domestic suppliers. The first variation is employed in Japan, Singapore and Hong Kong, where there are abundant suppliers, while the second variation is employed in Australia and adopted by AUSTRADE.

Development of an information network

Today almost all TPOs have information networks utilizing computers, and frequently exchange information with their domestic and overseas offices via E-mail. The major networks are "Australian Export Database-AED" of Australia, "Trade-Links" of Hong Kong and "Global-Links" of Singapore. These networks offer effective quick access to and inquiries on market information about East Asian economies.

One Stop Unit

This is a special window of TPOs to meet inquiries on investments, and is presently available in Hong Kong, Korea, Singapore, and Australia. All manner of necessary information on investments to and from overseas can be accessed through this window, making it an important initial contact point for foreign investors. In AUSTRADE, the window is open at the Australian Embassy in Tokyo. Japanese investors can obtain free information on the procurement of materials, and the labor and real estate market regarding the industries given priority for investment by the Australian government.

5.2.3 Institutional Aspects of TPOs in East Asian and Pacific Economies

TPOs' export and investment promotion functions

Many TPOs promote both export and investment. This is because market information and investment information are made available, in many cases, through the same channel, and because FDI is often indispensable to export; in particular, SMEs export and export through direct investment by importers. In Korea, the SME Development Corporation is in charge of promoting foreign investments as it contributes to strengthening SME's technology and capital. This function was recently integrated into KOTRA. In Australia, AUSTRADE, a TPO, is also responsible for administering Investment Australia, an official program to promote FDI.

TPOs and diplomatic channels

In the cases of Canada, Singapore (TDB), and Chile (PROCHILE), TPOs promote export and investment as a part of the regular functions of the embassy. In Australia (AUSTRADE) and Hong Kong (HKTDC), TPOs carry out their activities apart from the regular functions of the embassy. In Japan (JETRO) and Korea (KOTRA), TPOs are semi-governmental organizations independent of diplomatic channels. All of these TPOs, except Canada's, have or will have abbreviated names (acronyms) by which they are known.

TPOs' field offices, Japan

AUSTRADE has offices in six cities; Tokyo, Osaka, Nagoya, Fukuoka, Sendai, and Sapporo. The number of staff members totals 55, and among them local Japanese members account for 34. Offices outside of Tokyo are located in the consulates, and the General Consul or Consuls are engaged with the Trade Commissioners of AUSTRADE. The offices in Tokyo and Osaka are specifically called "Business Centers" as they execute overall managing functions, and are close to the representatives of state governments, chambers of commerce, and tourism promotion organizations. The number of staff members in the Canadian Embassy and Consulate in Japan, with consulates in Osaka, Nagoya, and Fukuoka included, totals 160, and those in charge of trade number 30. In regard to Chile, the staff of PROCHILE in Japan numbers 6, comprised of 2 Chileans and 4 Japanese.

Budget and fund issues

TPOs' budget and funds are based primarily upon appropriations from governments. However, some TPOs are endeavoring to create profits themselves by offering valuable information for sale in compliance with the burden-sharing principle of beneficiaries. These TPOs are found in Hong Kong, Singapore and Chile, which utilize the profits for their activities. The efficiency-cost ratio is an important means of communicating to people the appropriateness of the spending. For this purpose, AUSTRADE also announces the ratio of the cost of the TPO's activities to the money earned by exports for each of the export promotion schemes. The ratio was 1:31 in 1993/94.

Export promotion by State Government

Canada's British Columbia, on the Pacific Coast, promotes exports through B.C. Trade, which is independent from the Canadian Federal Government. B.C. Trade was established in 1989 to promote British Columbia's trade and investment. It has a staff of 150, and all of its budget is provided by the provincial government. B.C. Trade cooperated with the Canadian Federal Government in drawing up Canada's "Action Plan for Japan." As part of this, B.C. Trade's Canada Comfort Direct (CCD) campaign is targeted at Japanese consumers who would purchase products directly from Canadian manufacturers. A similar TPO can be found in Canada's Province of Ontario. This would seem to imply that local level TPOs often confront strong technical and financial constraints. For this reason, numerous countries take a top-down approach to export promotion at the local level. In Australia, for example, AUSTRADE has offices in each state through which it maintains close contact with local enterprises. Similarly, Korea's KOTRA has offices in each province, and in Japan, JETRO has offices in 36 of Japan's 48 prefectures.

5.2.4 The Export Finance, Insurance and Guarantee System of East Asian and Pacific Economies

Export Finance System

Two types of export financing systems have been noted. The first type is a short- and medium-term finance scheme by TPOs and SME-supporting agencies targeted at SME exporters. This system provides subsidized loans at low interest rates.

The second type is "Direct Credit Facilities," which includes loans generally of medium and long term, credit lines, and note purchases from governmental financial institutions such as export-import banks, industrial development banks, and financial corporations like EDC of Canada and EFIC of Australia. This second type of system is applied to exporters, importers and banking institutions.

In Japan and other East Asian countries, governmental financial institutions facilitate finance for trade and investment independent of export insurance. EDC of Canada and EFIC of Australia, however, provide export finance, insurance and guarantee services under a single entity.

Export Insurance System

This system is operated by state enterprises or private institutions, supervised by the government, with the supervisors varying from one country to another. In East Asian countries and Chile, this task belongs to the Ministry of Finance or the Ministry of Economy. In Australia, AUSTRADE-EFIC manages export and investment promotion, export finance, insurance, and guarantee systems under the supervision of the Ministry of Industry Science and Technology. In Canada, the Ministry of Foreign Affairs and International Trade (DFAIT) manages export and investment promotion, while EDC manages export finance, insurance, and guarantee as a package under the supervision of DFAIT.

As for political risk insurance, government supervision and approval are indispensable, due to the magnitude of risks to the country and the need to evaluate such risks. However, its administration tends to be privatized throughout the world.

Commercial risk insurance is supervised by state enterprises or private institutions. Government agencies, state enterprises, and private institutions often gather at Berne Union and exchange information on country risks. Eight countries in this study, excepting Chile and Brazil, are all registered members. From Latin America, only the two countries of Argentina and Mexico are members.

Export Guarantee System

East Asian government institutions, including SME-supporting promotion, facilitate the guarantee in consideration of the importance of the export promotion of SMEs. Canada, Australia, and Chile have developed guarantee systems for priority sectors such as non-traditional goods, new technologies, utilization of natural resources, and regional development. In these countries the government institutions and enterprises guarantee against private banks for financing the working capital and project funds required by SME exporters.

5.2.5 Basic Strategy and Final Target

Keeping in mind our review of ongoing trade promotion activities in Argentina and the reference economies in East Asia and the Pacific, we recommend the TAMIS for East Asian markets to the Argentine government as a basic strategy for expanding export to East Asian countries. This would also assist in strengthening the existing institutions' abilities to coordinate and fully utilize various programs promoting export and investment. The primary beneficiary of the strategy would be the SMEs exporters. A step-by-step approach should be taken to strengthen the institutions concerned.

5.2.5.1 TAMIS for East Asian market as basic strategy

A. The reason and grounds for recommendation

The East Asian market is located far from Argentina. This is a substantial handicap, which is compounded by past historical and cultural remoteness. Therefore, Argentina should establish a new TAMIS targeting the East Asian market. A target approach to the export market will eventually improve the competitiveness and productivity of corresponding industries.

B. Recommendations

For the country and regional TAMIS, the basic premise is to declare that the penetration into East Asian markets is a national policy, which contributes to the formation of a national consensus, as done in Australia, Canada, Chile, and Brazil. For the sector TAMIS, the target sector of the Asian market will be agricultural, fishery, and other resource-processing products. We have prepared a table entitled "A Basis for Argentina's TAMIS (Country and Products)" at the end of this section. Close cooperation between the central government, local governments, and private sectors is a crucial factor in the successful implementation of the TAMIS.

5.2.5.2 Integrated development of export and investment function as final target

A. The reasons and grounds for recommendation

At present, Argentina's TPO comprises two Secretariats as governmental institutions and two separate organizations. As for the Secretariats, one is The Secretariat of International Economic Relations, MRECIyC which has Undersecretariat of International Trade Relations, and the other is The Secretariat of Trade and Investment (SCI), MEOySP which is composed of The Undersecretariat of Foreign Trade and The Undersecretariat of Investment. As for separate organizations, one is Fundacion Exportar (FE) with support from 13 private organizations (SMEs), and the other is Fundacion Invertir (FI) with support from large-scale private enterprises. These institutions and organizations are intended to complement each other, because export promotion and investment promotion often share common sources of information, and because FDI is often effective means of expanding export, particularly for SMEs.

B. Recommendations

At present, UCPFE is working towards coordinating government offices concerning export and investment promotion. UCPFE should also work in close cooperation with FE and FI to strengthen their organization and functions. In particular, cooperation between FE and private associations, such as Camara de Exportadores and Camara de Comercio is necessary to strengthen SMEs' export and investment promotion. Given the free and open economic policy to be maintained, the government is required to provide institutional support, especially for SMEs, of their export targeted at East Asian markets. Large enterprises should also extend their cooperation, through paying the charges for the TPO's information and consultation service fees, to strengthen the SMEs' functions of export and investment promotion.

5.2.6 Measures to be Taken and Institutional Systems to be Established

We prepared a chart showing "Argentina's TAMIS: Measures and Institutional Systems to be Incorporated." The chart is shown on the last page of this section. This strategy is composed of ten main policy items. The numbers on items 1 through 10 on the chart do not necessarily indicate the recommendation priority. This chart basically shows a policy sequence and their elements' mutual relationship in view of the goal of the strategy. Items 1 through 5 in the upper part of the chart are a set of measures to be taken, and items 6 through 10 in the lower part are a set of institutional systems to be established. The items are briefly explained below.

5.2.6.1 Measures to be taken

(1) Building up an integrated information system

A. The reason and grounds for recommendation

Currently, government offices, departments, and organizations have their own information systems concerning export and investment promotion. UCPFE recently began coordinating and integrating these information systems with financial support from the World Bank.

B. Recommendations

When building up an integrated information system, with special reference to the East Asian market, the following information systems of the East Asian and Pacific TPOs are a good reference.

AED (Australian Export Data Base); AUSTRADE (Australia)

TDC-LINK: TDC (Hong Kong)

GLOBAL LINK. STDB (Singapore)

In particular, AUSTRADE's AED could be very useful for Argentina. This system was built for quick access to information, especially regarding the market, in close connection and cooperation with sector-wise private enterprises ("Business Units"). Also, the experience of TDC and STDB with selling information services could be useful in learning methods of securing funds.

(2) Strengthening representation abroad

(2-1) Utilization of embassies and consulates

A. The reason and grounds for recommendation

There is a shortage of Argentine commercial attachés in the East Asian market in terms of both number and experience. While many TPOs of other countries maintain offices with a considerable number of staff members (including Japanese), the Argentine Embassy has no more than three commercial attachés.

B. Recommendation

It is recommended that the number of commercial attachés be increased, and that some of the commercial attachés be experienced in the export business. Backup services

offered by headquarters are also essential to ensure good results; for instance, dispatching experts who are knowledgeable in specific goods or industries, such as fresh meat.

(2-2) Setting TPO's regional offices

A. The reason and grounds for recommendation

At present, FE has regional offices (so -called "Promotion Center") in European, North American and MERCOSUR markets. Although all Argentine Embassies and Consulates in the East Asian Market are active in export and investment promotion, there is no FE's regional office at all in such markets. It is encouraging to know that Argentine Government decided to establish first regional office (FE's Promotion Center) in the East Asian market within the consulate in Hong Kong and also there is a project to open a consulate in Osaka, Japan and Shanghai, China.

B. Recommendations

The following are recommended locations for regional offices in East Asia, in the order of preference:

- | | |
|------------------------|--|
| 1. Hong Kong: | Gateway to China, Taiwan and Korea
Information, logistics and financial center |
| 2. Singapore: | Gateway to Southeast Asian countries
Information, logistics and financial center |
| 3. Tokyo and/or Osaka: | Promotion center for Japanese market
Information, logistics and financial center |
| 4. Shanghai: | Promotion center for Chinese market
Information, logistic and financial Center in near future |

Argentina should establish 3 to 4 regional offices within a short period, in view of the return of Hong Kong to China in 1997.

(2-3) Overcoming local language barriers

A. The reason and grounds for recommendation

Since the Japanese, Chinese, Korean, and Taiwanese markets in East Asia are not English-speaking markets, the need to overcome local language barriers is unavoidable. However, it is difficult for people to master a local foreign language in a short time.

B. Recommendations

As a model case, the following measures are recommended for the Japanese market:

- (a) Enter into a contract with a Japanese expert (a person and/or consultant company) who is highly knowledgeable about the Argentine business situation and the Japanese/East Asian market;
- (b) Employ Japanese people with trade experience in the Argentine Embassy in Tokyo and/or TPO's regional offices to be established in Japan.

(3) Awards for valuable export contributions

A. The reason and grounds for recommendation

In the era of strong export promotion, some East Asian TPOs, such as JETRO and KOTRA, participated in award ceremonies during which companies were given awards in public for their successes in the exporting business. Today, AUSTRADE is following suit and getting good results. These award ceremonies also awaken public attention.

B. Recommendations

As one of the functions of FE, Argentina should adopt a similar measure at the initial stage of promoting export to the East Asian market. AUSTRADE's example is a good reference.

(4) Strategy of an impressive Argentina

A. The reason and grounds for recommendation

The total image of the supplier country exerts strong influence on the consumers' decision making. Maintaining the image of being reliable and clean is a key to exporting fresh and processed foods. For example, the Australian Meat and Live-Stock Corporation, in cooperation with AUSTRADE, succeeded in penetrating the Japanese fresh meat market with the brand name "AUSSIE MEAT." PROCHILE's new International Marketing Department was created to generate a campaign to sell the "Good Image of Chile." The Chilean Fruit and Vegetable Exporters Trade Association is promoting the export of kiwi fruits with a character mascot of a penguin (an image of the South Pole). Canada has also launched a campaign for the country's clean image to promote the export of mineral water and other processed food products.

B. Recommendations

Argentina should also create a campaign to promote the "Good and Unique Impression of Argentina," developing appropriate brand names and/or characters representing Argentina, especially for private suppliers and exporters of fresh and processed foods. For example, Japanese consumers tend to prefer "natural and healthy

foods" without contamination by agricultural additives, chemical fertilizers, etc. Since Argentina is in a position to produce such agricultural products, possessing vast fertile land, a campaign promoting this natural and healthy impression is recommended.

(5) Public education and publications for export promotion

A. The reason and grounds for recommendation

It is widely recognized that exports are the basis for enhancing national welfare and living standards. This information should be included in the curricula of primary and secondary level education. East Asian economies in particular, except China, do not benefit from natural resources and therefore promote the export of industrial goods and services under a national slogan of "Export or Die by Starvation." Even Australia and Canada, with rich natural resources, created a national consensus of "Strengthening Exports for the Asian Market After the European and North American market" more than 10 years ago. They predicted the rapid economic growth and expansion in this region and now show good results.

B. Recommendation

The Argentine government should adopt a similar policy to that of Australia and Canada, although it will take a longer time.

5.2.6.2 Institutional system to be established

(6) Creating a promotion scheme

A. The reason and grounds for recommendation

UCPFE is presently working towards coordinating export promotion schemes under different governmental offices, departments, and organizations. So far no specific scheme exists to promote export.

B. Recommendations

In accordance with the TAMIS for East Asia, Argentina should establish export promotion schemes in terms of specific goods and industries, such as agricultural and fishery goods, agro-industries, and other resource-processing products for the East Asian market. However, in creating these schemes, it is necessary to avoid any conflict with WTO regulations. For this reason, the examples of Australia, Canada and Chile are useful.

AUSTRADE (Australia)	Export Market Development Grants (EMDG). International Trade Enhancement Scheme (ITES) International Agricultural Marketing Program (IAMP) Asia Business Links (ABL) Asia Pacific Fellowship Program (APF) Asian Infrastructure Consortia Program (AICP)
DFAIT (Canada)	Canada's Action Plan for Japan Canada Comfort Direct (CCD)
PROCHILE (Chile)	Export of fresh grapes and kiwi
FUNDACION CHILE (Chile)	Export of salmon

These schemes are also relevant to strengthening export by SMEs in Argentina.

They are mainly composed of export financing and grants for specific products. We believe that these schemes, if introduced, would be within the scope of the "Non-sectoral Approach" policy of Argentine government, because these schemes set their targets in terms of market and product.

(7) Upgrading TPO's function

(7-1) Upgrading TPO's function by sector and by country/region

A. The reason and grounds for recommendation

We observed a tendency towards integrating and upgrading TPOs' functions in East Asian and Pacific economies. The functions include foreign inquiries, business consulting, information on foreign markets, and trade fairs. These functions have increasingly been integrated and targeted according to countries/regions and sectors.

As Argentina's TPO "Fundacion Exportar (FE)" was established only 2 years ago, further integration and upgrading of FE's functions are necessary.

B. Recommendations

Argentina should create a TAMIS for the East Asian market in order to expand to East Asian countries, and use the TAMIS to strengthen and upgrade FE's functions.

(7-2) Establishment of budget and evaluation systems for TPO

A. The reason and grounds for recommendation

Although it is premature to apply an evaluation system to the existing FE and FI, it is essential for strengthening the organization and functions of both FE and FI.

B. Recommendations

A TPO's budget is primarily based upon appropriations from the government. However, in order to increase its efficiency, the TPO should have a "cost and benefit" viewpoint and adopt the following measures: Perform a self-evaluation as private enterprises do, such as AUSTRADE and PROCHILE; Entrust the evaluation to an independent consulting firm, as AUSTRADE does.

The TPO should endeavor to make a profit by offering export promotion schemes and information services for sale, based upon the principle of beneficiary burden-sharing. For that purpose, AUSTRADE's example is useful.

(7-3) Securing funds

A. The reason and grounds for recommendation

All of the measures specified above require funds. However, since Argentina is now under a tight fiscal policy, it is difficult to secure sufficient funds. Large enterprises are cooperating with FI, but their contributions are mainly in the form of personnel and in-kind offerings. The government is relying on financial support from international financial organizations; however, such support is not enough to cover the required funds. UCPFE is endeavoring to acquire further financial support for its work from the World Bank and IDB.

B. Recommendations

The fund resources should be diversified as follows: Continue and expand securing structural adjustment loans and direct loans from international financial organizations such as the World Bank and IDB, as UCPFE is doing.

Secure untied official or semi-official loans for a specific project such as modernization and/or new plant or facilities installation which will expand the scope of exportable goods. Also, study the possibility of securing co-financing with the World Bank /IDB and bilateral lending institutions.

A foreign official guarantee facility to private financial institutions for their untied loans is another effective measure.

Make a profit by offering export promotion schemes and information services for sale through the principle of beneficiary burden-sharing. In particular, pursue contributions from large enterprises.

(8) Establishing a supporting system

A. The reason and grounds for recommendation

Argentine SME exporters lack sufficient human and financial resources and face difficulties in obtaining the necessary export information. The export competitiveness of Argentine SMEs is generally behind that of Brazil. UCPFE is planning a program to strengthen the export capabilities of SMEs.

B. Recommendations

Nearly 80% of the users and beneficiaries of East Asian and Pacific TPOs are SME exporters. Giving initial funds to SME exporters to develop market researches, advertise in the East Asian market, and prepare new investments in production lines are effective incentives for expanding export.

(9) Promotion of investment, especially from Japan

A. The reason and grounds for recommendation

At present, FI's main function is "top sales promotion," dependent upon the cooperation of large enterprises. Strengthening its own function is necessary.

B. Recommendations

Strengthening cooperation with FE and overseas commercial attaches and integrating information systems is recommended. Preparing investment information in detail, at least to the level of Asian economies, is also recommended. In order to attract Japanese investments, preparing an information kit in Japanese, containing investment environment information, loans, and procedures, is necessary.

It is also advisable to employ or make contact with Japanese investment experts. If they are fully aware of and well-informed about Argentine business circumstances, their advice will be valuable. The investment information prepared by PROCHILE is also instructive. The projects created by Fundacion Chile for developing new products in a

company after conducting overseas market research (just prior to commercialization) are attractive incentives for foreign investors.

Recently, FI and the Okita Foundation signed an agreement with the Japan International Development Organization (JAIDO) to promote joint projects to increase Japanese direct investments and the transfer of technology to Argentina, and a common fund was established to be used for a feasibility study. This movement should be regarded as a model for the joint efforts of public and private sectors of both countries.

(10) Strengthening export finance, insurance and guarantee systems

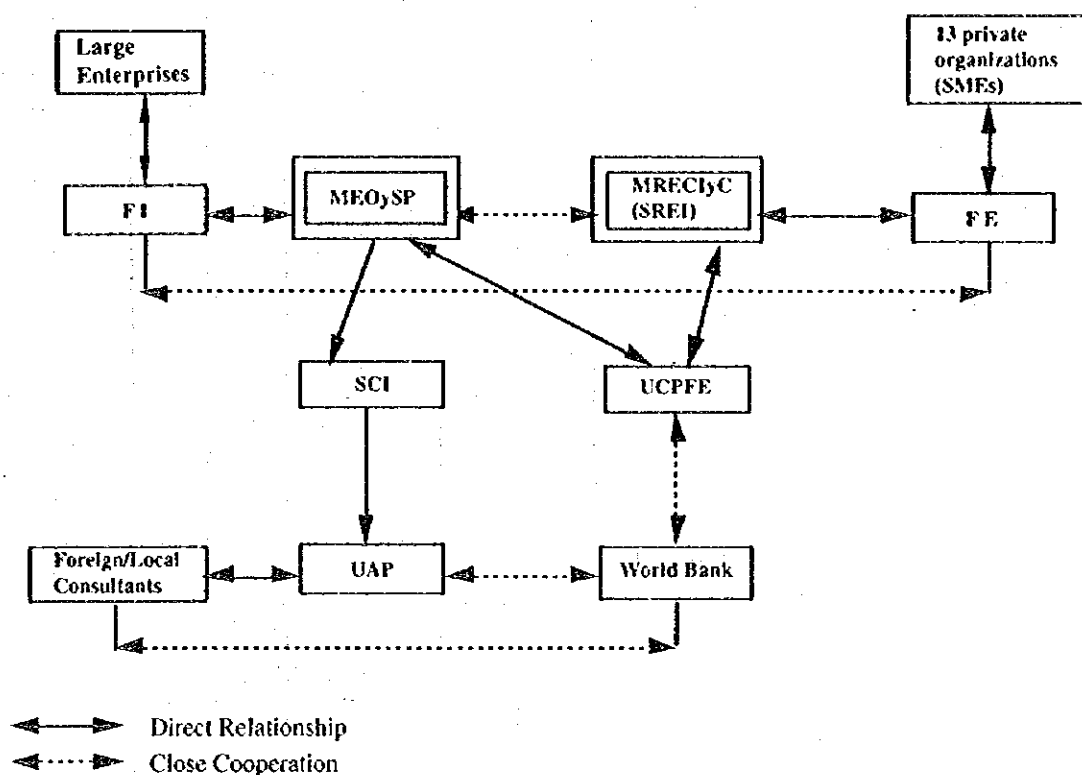
A. The reason and grounds for recommendation

Argentina, Brazil, and Chile do not have sufficient export finance, insurance and guarantee systems. In Argentina, the insurance system is far advanced compared to Brazil and Chile. However, Brazil and Chile are currently endeavoring to strengthen their insurance and guarantee system in consideration of the export promotion of SMEs. In these countries, the importance of strengthening the system is a common consensus for promoting export. However, since this requires a huge amount of funds, strengthening the system is difficult. Concerning the export finance system in Argentina, the functions of Bank of Investment and Foreign Trade (Banco de Inversión y Comercio Exterior: BICE) are limited to the administration of multi-sector loans obtained from international financing organizations. BICE is thus not in a position to manage and operate direct loans to end-users.

B. Recommendations

Since securing necessary funds is a crucial element, measures must be taken, in line with the availability of funds, to strengthening the system. Strengthening and enlarging the function of BICE's export finances, in accordance with the availability of funds, is recommended. As a final target, though it may take more time, Argentina should establish an organization like EDC (Canada) and EFIC (Australia), which administrate and operate export finance, insurance, and guarantee systems in a package under the singular supervision and responsibility of the ministry concerned. EDC and EFIC are basically self-reliant administrations, financed mainly by loan interest, fees earned, and insurance premium fees.

Argentina's TPOs



Note: Institutions concerned in MEOySP and MRECIyC

MEOySP
 Secretariat of Trade and Investment (SCI)
 - Undersecretariat of Foreign Trade
 - Undersecretariat of Investment

MRECIyC
 Secretariat of International Economic Relations (SREI)
 - Undersecretariat of International Trade Relations

A Basis for Argentina's TAMIS (Country and Products)

Argentine Export Goods and Products	JPN	KOR	CHN	IDN	THA	HKG	SPO	MAL
1. Resource-based products								
(1) Foodstuffs								
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				
(2) Raw materials								
Leather (tanned leather, hide & skin, shoes and other leather products)	○	○	○	○	○	○	○	
Wool	○		○			○		
Cotton			○			○		
Pulp and wood chips or particles	○			○	Δ		○	
(3) Mineral fuels								
Petroleum and diesel fuel			○			○	○	○
Copper	Δ		Δ					
Others (gold etc)							○	
(4) Manufactured goods								
Seamless pipe			○	○			○	○
Flat-rolled iron and steel products			○	Δ	○			○
Aluminum ingot and alloy	○			Δ				
Chemical and plastics		○				○		○
Textile fibers		○						
2. Assembly products								
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, IDN: 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 due to the reasons 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.

Argentina's Targeted Market Intelligence Strategy: Measures and Institutional Systems to be Incorporated

