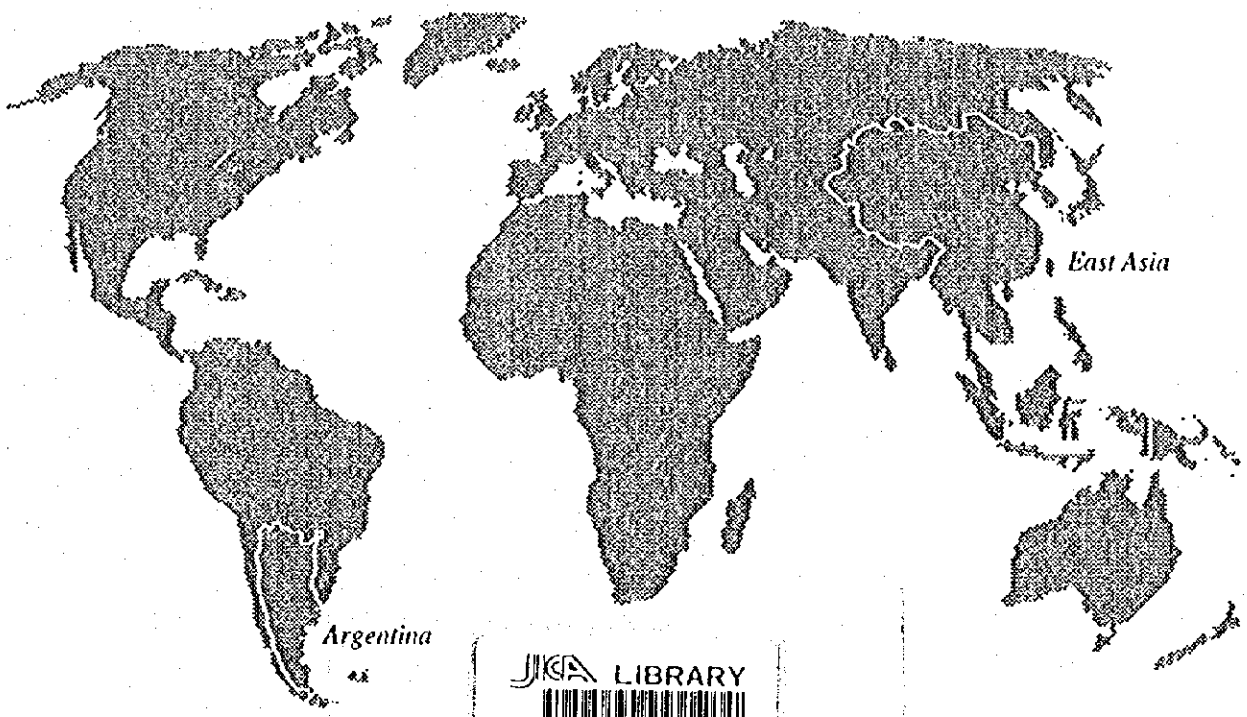
Secretariat of Trade and Investment
Ministry of Economy and Public Works and Services
The Argentine Republic

Japan International
Cooperation Agency

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

Final Report



Vol. 2 The Argentine Economy

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

June 1996

International Development Center of Japan

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

Vol. 2 The Argentine Economy

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

June 1996

International Development Center of Japan

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

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.

PREFACE

This volume presents the analysis of the Study Team on the Argentine economy. A special attention has been paid to the changes on the Argentine economy since the Study on Economic Development of the Argentine Republic (hereafter referred to as the First Study) that was undertaken in 1985-87, the interactions between Argentina and the world on export and foreign direct investment, and the sectoral issues such as agriculture and manufacturing. Brief outline of each chapter is described below:

Chapter 1 reviews the Argentine economy focusing on the improvement of macroeconomic conditions that has resulted from the economic reform undertaken by the present administration. The structural reforms and stabilization programs brought about remarkable economic recovery and re-directed the Argentine economy towards free competition and higher efficiency. This chapter also presents perspectives for long-term economic development.

Chapter 2 attempts to examine relative position of Argentina in the trends of world trade and direct investment in order to identify positive changes in the external conditions of the country. This chapter also presents an overview of recent development in Argentina's trade and foreign direct investment (inflows) and discusses the significance of expanding trade with and investment from East Asia, whose trade, as well as economy, has been growing fast in recent years. The successful completion of the Uruguay Round and the establishment of World Trade Organization (WTO) should work favorably for Argentina's export expansion. MERCOSUR also provides the country with many new opportunities in trade and investment. This chapter concludes that Argentina could, and should, strengthen its economic relations with East Asia, taking these advantages.

Chapter 3 examines the present situation of major sectors of the Argentine economy. Each section attempts to illustrate changes since the First Study, particularly the efficiency improvement brought about by the economic reforms undertaken since 1989, and to identify important issues for further development and possible measures for expanding export and promoting direct investment.

Finally, it should be noted that this volume is a part of the Interim Report, June 1995, which is the compilation of results from the study undertaken during the period of July - September 1994. The descriptions in this volume including tables and figures do not thus reflect changes on the Argentine economy since the Interim Report was submitted.

TABLE OF CONTENTS

Chapter 1
The Argentine Economy Since 1986 and Challenges for Long-Term Development

1.1 The Argentine Economy Since 1986 -- Regained Confidence in Stability and Growth --

Since the Okita I Study, Argentina and its democratic process have undergone tremendous changes in international and domestic situations. The Cold War came to an end at the turn of the decade. Argentina's relations with neighboring countries have dramatically improved. Protectionism and state intervention in the economy, once prevalent in Latin America, have lost momentum. Instead, open trade and free market principles have been adopted by Argentina and the rest of the nations in the region. At the same time various regional efforts for trade liberalization are being undertaken.

For a few years after 1986, the economy was in an extremely unstable situation in which the country's sustainable development was deemed to be impossible. The government tried to implement various stabilization plan but failed to sustain their effects. In the end of the 1980s, Argentina's young democracy was endangered by a deep economic crisis. This caused an unscheduled alternation of the administration.

Since the year 1990, however, the courageous and sensible implementation of economic reform policies has stabilized the economic situation. New rules for economic activities have been established, where self-reliant efforts of people and private enterprises are the driving force of national economic growth. Now the Argentine economy is entering a new stage of development, totally different from the situation just after the Okita I Study. This section briefly reviews the economic situation after the Okita I Study, focusing on the reforms accomplished since the end of the 1980s.

1.1.1 Instability in 1986-1989

Looking back at the economic development in Argentina, a line can be drawn between the late 1980s and the 1990s (Table 1.1.1). The former period resulted in a great deterioration of the economy and a self-enforced stagnation circle. During this period the government was pressed by the need to tackle economic instability.

Table 1.1.1 Principal Economic Indicators

	1986	1987	1988	1989	1990	1991	1992	1993
(1) GDP Growth Rate (%)	7.3	2.6	-1.9	-6.2	0.0	8.9	8.7	6.0
(2) Gross Domestic Investment Ratio (%)	17.5	19.5	19.5	15.7	14.2	16.3	19.6	21.0
(3) Gross Domestic Savings Ratio (%)	14.7	15.8	18.5	15.9	17.3	14.9	13.4	14.8
(4) Change in Price Indices								
Consumer Price Index	81.9	174.8	387.5	4,923.6	1,343.9	84.0	17.5	7.4
Wholesale Price Index	57.9	181.8	431.4	5,386.7	797.5	57.0	3.1	0.1
(5) Fiscal Surplus (% of GDP)	1.19	-0.67	-0.85	0.79	1.42	1.72	2.17	2.99
Fiscal Surplus* (% of GDP)	-2.01	-4.15	-4.66	-11.51	-1.95	-0.93	0.68	1.78
(6) Interest Rate (Monthly, %)								
Deposit (nominal)	4.0	7.5	14.1	33.0	17.0	4.4	1.0	0.9
Deposit (real)	-1.4	-1.3	0.0	-7.9	-2.3	-0.4	-0.2	0.3
Lending (nominal)	6.2	10.3	14.0	36.4	33.0	4.3	1.4	0.6
Lending (real)	1.8	0.7	-0.3	-5.5	14.4	1.2	1.1	0.7
(7) Labor Market %)								
Work Force (% of population)	38.7	38.9	39.4	39.3	39.0	39.5	40.2	41.0
Unemployment	5.2	5.7	6.1	7.1	6.3	6.0	7.0	9.3
Underemployment	7.4	8.5	8.0	8.6	8.9	7.9	8.1	9.3
(8) Trade (US$ Million)								
Trade Balance	2,128	542	3,813	5,376	8,276	3,703	-2,637	-3,696
Export	6,852	6,360	9,135	9,579	12,353	11,978	12,235	13,090
Import	4,724	5,818	5,322	4,203	4,077	8,275	14,872	16,786
(9) Exchange Rate	0.944	2.150	8.760	384.500	4,881.900	9,549.100	0.991	0.999
Real Exchange Rate	1.219	1.273	1.119	1.347	1.137	0.988	0.975	0.982

Notes:

(1) At 1986 constant price. Source: INDEC, Statistical Yearbook, Republic of Argentina, 1993.

(2) Ratio to GDP. Source: same as above.

(3) Ratio to GDP. Source: CEPAL.

(4) Source: INDEC, Estadistica Mensual, and Ministry of Economy.

(5) Of non-financial public sector. Fiscal Surplus* includes interest. Source: Argentina: A Country for Investment and Growth".

(6) Deposit Interest Rate is that of 30 days time deposit before and in October, 1987. After then, it is average of time deposit and saving deposit. Deflated by CPI. Lending rate is that of BONEX (7 days). Deflated by WPI. Source: CEPAL, Indicadores Macroeconomicos de la Argentina, Julio de 1994.

(7) Ratio of Work Force is the percentage of work force in total population. Underemployed means the person who is willing to work but actually works for less than 35 hours per week. Source: INDEC, Encuesta Permanente de Hogares.

(8) Source: INDEC, Statistical Yearbook, Republic of Argentina, 1993.

(9) From 1986 to 91 the currency unit is the Austral. 1992 and after it is the current peso. In January 1992, the currency was denominated at the ratio of 10,000 A = 1 peso.

To this end, the government launched a series of policy measures and programs to fight inflation, like Plan and the Primavera Plan. The main instruments employed were wage-price freeze and fixed exchange rates after sharp currency devaluations. These plans proved initially successful in bringing down inflation rates but failed to achieve stability. This failure, along with the excessive burden of external debt and the massive fiscal deficit, triggered a great monetary disruption and hyperinflation in Argentina.

In this period, the accumulated external debt was the foremost burden on the Argentine economy, especially on public sector finances. Argentina in 1988 practically suspended debt service payment to commercial banks and Paris Club creditors to prevent its economy from totally melting down. This, however, led to severe isolation in the international financial market and resulted in the halt of private capital inflows at the end of the decade. From 1985 to 1989, Argentina's external debt stock grew by almost US$14 billion to reach the high of US$63.3 billion in 1989. The external debt counted as much as 661.2% of Argentina's export in 1989.

Huge fiscal deficits and a finance-through-printing-money approach had been at the heart of Argentina's economic crisis. The government had been trying to resolve the problem by tight budget. However, contracting fiscal policy alone was not the way to solve the structural problems that caused the deficit. The fiscal deficit at national level revived in 1987 as a result of mounting budget deficits at the provincial government level, continuous heavy losses in the public sector, and an increase in quasi-fiscal expenditure. The ratio of the non-financial public sector deficit to GDP reached as high as 11.5% in 1989. In addition, hyperinflation made budget management extremely difficult during the years 1989 and 1990.

The CPI increase was 81.9% in 1986, which was relatively low in the historical context of Argentina. Along with the deterioration of public confidence in the national currency, CPI resurged to 174.8% in 1987 and then to 387.5% in 1988. This at last rose to as high as 4,923.6% in 1989. This hyperinflation drove the economy into a deep crisis, which forced the former administration to resign earlier than scheduled.

Price instability, especially hyperinflation, was detrimental to the economy. It prohibited longer-term contracts from being concluded and thereby hampered long-sighted and innovative economic activities. Investment projects which needed long maturity and thus were essential for economic development could not be implemented. Lack of credibility in the local currency hindered domestic savings and entailed in massive capital flight. Prices and other economic indicators were totally unreliable and thus could not function as signals for efficient resource allocation. High inflation also aggravated economic disparity in the society. It hurt the lower income classes disproportionately as they had fewer risk-hedging measures.

Because of the chaotic economic situation, the ratio of gross domestic investment (GDI) to GDP was stagnant in the latter half of the 1980s. After a short and small recovery owing to the initial success of the Austral Plan, the ratio dropped in the end of the 1980s. In 1989 and 1990, the ratio was as low as 15.7% and 14.2%,

respectively. They were even lower than gross domestic savings ratios which were also as low as 15.9% in 1989. This showed how depressed investors' intent were during the period. This drastic decline of investment was a main cause of the deceleration of economic growth.

The economy recorded GDP growth averaging 4.9% in 1986 and 1987, which was impressive compared to the negative rate of -6.6 % in 1985. The growth rate, however, again dropped to a negative performance reaching 1.9% and 6.2% in 1988 and 1989.

1.1.2 Sweeping Reforms Since 1989

In the midst of this chaotic, recessionary period the new government courageously launched sweeping reforms. This section reviews those reforms, classifying them into two categories, structural reforms and economic stabilization.

(1) Structural reforms

Recent economic reforms conceptually consist of three groups of policies; the government restructuring; the revitalization of the private sector and market mechanism; and opening the door of the economy. These three groups of policies are closely interconnected and each of them is tightly related to the stabilization policies.

a. Government restructuring

The Menem administration, at the outset, announced its strong will to tackle the problem of the swollen government sector. Comprehensive privatization programs and rationalization plans of the government, including a large curtailment of the personnel and a reduction in public expenditure, were placed at the top of the agenda. This was a clear departure from the "big government" conception, a way of thinking deep-seated in the country.

High priority was given to the balanced fiscal policy. The fiscal deficit was a major, fundamental cause for high inflation. Therefore, the policy would help to stabilize price movements and to recover confidence in the government. With a fiscal balance and a low inflation rate, public budget management was rationalized to become reliable again and enhance the credibility of the government.

The fundamental structural problems responsible for the prolonged fiscal imbalance were finally brought to agenda by the new government. Tremendous efforts were made to increase tax revenue. The tax base was broadened. Tax structure was

simplified with value-added tax at its center and the tax collection system was improved. In accordance with the restoration of confidence in the government and the country's future, most Argentine people have become faithful taxpayers again.

Dispensable expenditures were cut. Subsidies and exemptions for public enterprises were suspended or reduced in March 1990. A series of reforms aiming at clarifying and redefining financial responsibilities between the central and local authorities hace been introduced. The burden of accumulated external debt was relieved by the adoption of a debt-to-equity swap scheme, the country's entry into the Brady Plan, and rescheduling agreements with the Paris Club. From 1989 to 1993, the debt/export ratio dropped by 141.7% to 519.5%. The government made every effort to consolidate its debts to local creditors. The internal debt obligation was reshaped by the BONEX conversion plan in 1989, and the consolidation of pension arrears (BOCON) in 1991. The quasi-fiscal deficit of the Central Bank (BCRA) was reduced and finally eliminated in 1993.

By these efforts, the fiscal balance started to improve in 1989 and finally recorded a surplus in terms of non-financial public sector balance in 1992 for the first time after a number of years. The government had registered a primary budget surplus (without interest) of 1.4% of GDP in 1990. The surplus ratio extended to 1.7% in 1991, 2.2% in 1991, and 3.0% in 1993. This awarded to the government capability to service its accumulated debt and thereby to regain credibility inside and outside the country.

The privatization program was set to start in October 1989. Privatization covered a wide range of sectors from public services and infrastructure to production of goods. The privatization process was successful and contributed to attract capital and to reduce the public debt and to eliminate deficit-financing subsidies. More importantly, it showed the government's determination to transfer major economic activities to the private sector. Privatized enterprises function more efficiently under competition and self-reliant disciplines.

b. Revitalization of the private sector and the market mechanism

A number of restrictions on economic indicators such as prices, wages, foreign exchange rates, and interest rates have been abolished. Without inflation, these indicators have come to reflect the real market situation. They can now function as signals for the efficient allocation of resources. Distortionary tax burdens on specific sectors of economic activities have also been removed so that incentives for each sector could be neutral. Other types of state intervention have been abolished. Once highly

intervened or regulated sectors such as heavy industries, ports, maritime and river transportation, mining, pharmaceutical production, and some consumer goods and services were deregulated.

The government restructuring, especially privatization, distinctly showed the government's intention of never crowding out the private sector as it did in the past. Administrative procedures related to economic activities were simplified through various policy actions. Burdensome obligations for employers for the purpose of overprotection of workers were removed to improve their cost-performance.

This series of actions have revitalized private sector activities, restored the market mechanism, and reduce the so-called *Costo Argentino*, a higher price level affecting all economic oerations.

c. Opening the door of the economy

An open economy based on free trade and equal treatment to foreign investors is the condition for realizing external competition, inflows of capital, and the transfer of advanced technology. The government changed the gear toward open-door-policy to gain fruits from interaction with the outside world.

As part of this policy, the restructuring of foreign trade was undertaken to reduce price distortions (and thus *Costo Argentino*) and to increase Argentina's competitiveness in world markets. At first, distortionary tax burdens on trade were mostly abolished in 1989-90. After 1991, statistical duty on exports and production taxes on agricultural products were eliminated. All non-tariff rbarriers on imports (with exception of auto products) were eliminated, and import duties were reduced or eliminated, thereby decreasing the average tariff rate down to approximately 10%. Cumbersome administrative procedures for export were removed. Various marketing boards, regulatory bodies, and price subsidies were abolished.

The foreign trade reforms had visible impacts towards integrating Argentina into the world. Trade volumes (exports plus imports) increased by 34.5% between 1987 and 1990 and another 82.8% between 1990 and 1993. Both exports and imports have expanded. Lowering import tariffs helped to hold domestic prices low and created a competitive environment from which the economy as a whole is expected to benefit in terms of efficiency-improvement in the long run. On the other hand, it unleashed a boom for import goods that partly tilted the trade balance. Nevertheless, the increase in capital good imports due to the removal of duties will contribute to improve

productivity and thus the competitiveness of Argentine products. Furthermore, free trade will render the economy more efficient in view of comparative advantages.

The government adopted a nondiscriminatory policy toward foreign direct investment (FDI). Administrative procedures for FDI were simplified: 1) foreign investors have no obligation to register their projects with the government; 2) the government approval is necessary only for special cases; and 3) there is no waiting period for the repatriation of profits and capital. Furthermore, foreign investors have now the same access to domestic financial markets as local counterparts.

FDI flooded into Argentina owing to this equal treatment, expanded investment opportunities, and better economic environment. This was a major factor of the increase in capital inflows. In 1993 the total inflow amounted to US$6.2 billion, over six times bigger than that in 1989.

(2) Stabilization

In 1991, the Argentine government announced a comprehensive stabilization policy package, the Convertibility Law, enacted by Congress on March 27 of the same year. The Convertibility Plan has not only subsided the price movement but also recovered confidence in the economy, which are remarkable benefits for the country's long-term development. The Convertibility Plan has two fundamental principles; on the monetary side and on the fiscal side.

The first principle is that local currency must be fully backed by foreign reserves and gold at a fixed exchange rate of one peso per US. dollar. The monetary base can neither surpass the Central Bank's foreign reserves nor increase without an equivalent increase in foreign reserves. The Law provided the convertibility of the austral (later the peso) to foreign currencies. The currency convertibility and full foreign reserve backing rendered the local currency ensured credibility and thus stopped capital flight. The fixed exchange rate is the visible indication of the convertibility. The full convertibility is associated with a dual currency system where contracts or bank accounts can be denominated, and legally enforced, in foreign currencies.

Indexation was prohibited and wage increases are allowed only within the extent of productivity improvement. This prevents people's expectation from inviting another inflation. The law also effectively suspended the Central Bank (BCRA)'s most rediscounts and open market operations. BCRA is no longer a servant to the

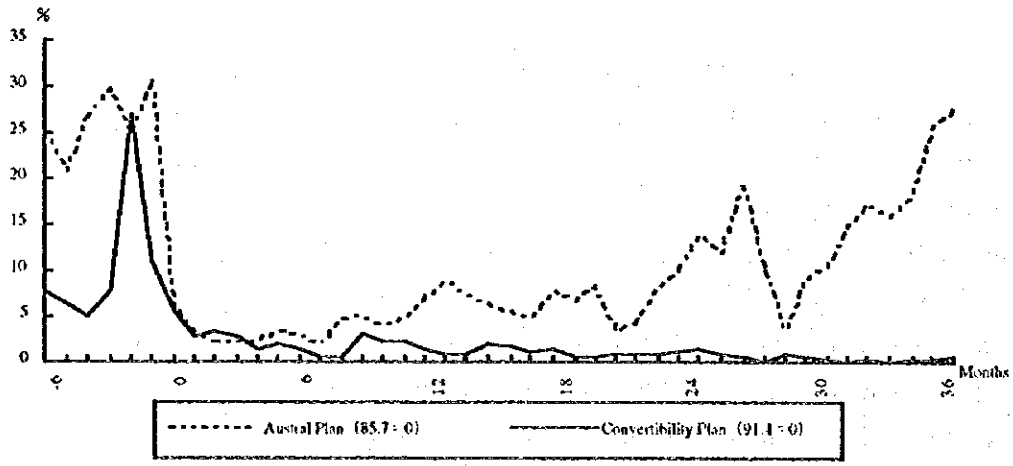
government but an independent authority responsible for the country's monetary stability. Only through the foreign exchange market can BCRA issue the currency.

The second principle is a balanced budget. The fiscal budget is to be balanced and possibly to generate a surplus in terms of the primary balance (current budget balance plus capital budget balance without interest payment). BCRA was prohibited to finance the government's fiscal deficit directly. This has prevented the government from accumulating debt or financing through printing money. It enabled the government to service its debt obligations without sacrificing fiscal stability.

In fact, the most critical move that made this plan different from others was the government's determination to eliminate fiscal deficits left untouched in the past. Without the government's efforts to balance public finance since the end of 1980s, the Convertibility Plan could not have received such success as discussed below.

The Convertibility Plan and related measures succeeded in generating the credibility of the government economic policies and the domestic currency. It promptly entailed expected favorable results, subsiding hyperinflation and sustaining economic stability. The annual CPI increase at the end of 1991 and 1992 was 84.0% and 17.5%, respectively. It declined to 7.4% in 1993 and to 3.9% in 1994 (Figure 1.1.1). Such price stability could not be obtained through other stabilization packages in the past.

Figure 1.1.1 Monthly Rate of Change in CPI After Two Plans



The deceleration of Wholesale Price Index (WPI) was more dramatic than that of CPI and recently plummeted into the negative area, though temporarily. In 1993, the rate of increase was only 0.1%, as compared to over 5,000% in 1989. This might indicate a large impact of trade liberalization since WPI more directly reflects the movement of the prices of tradable goods. Therefore, attention should be directed to

the fact that higher inflation has occurred in the non-tradable sector than in the tradable sector. This has an important implication for cost-reduction.

As stated in the Okita I Study (page I-27), there are three major causes for inflation: 1) a structural shortfall of supply compared with demand; 2) excessive money supply expansion which undermines the value of currency unit; and 3) the public's expectation. They are usually interconnected and aggravated each other. These causes have been successfully eliminated by the government policies of balanced public finance, restricted public expenditure, indexation prohibition, the visible guarantee of the value of the peso, trade liberalization, and so forth. Soon the economy responded to the improved economic environment by increasing domestic production in some sectors, which again contributed to minimize the supply shortfall.

The exchange rate has been maintained at one peso per dollar since 1991. The deposit interest rate came back to the positive territory in real terms.

Price stability is an important basis for the normal and smooth function of a competitive market in which the price is the key signal for the decision-making of consumers and producers and thereby efficient resource allocation is facilitated. Price stability could also enable economic actors, e.g., the government, consumers, firms, and foreign investors, to have longer-term prospects and projects.

(3) Recovery

The country is now open to any economic activity, with a functioning market mechanism, foreign trade liberalization, economic stability, and, above all, the public's confidence in the economy and the government which is a prerequisite for sustainable growth. The momentum of the economy revived soon after the implementation of the Convertibility Plan. The economic growth since 1991 has been remarkable as illustrated below.

The Argentine economy turned out to be so credible and attractive for foreign investors that, starting from 1991, FDI took the driving seat. There are three facts that led the country into a boom of indirect investment. The privatization plan, kicked off in late 1989, attracted a massive amount of capital. Trade finance more than doubled in 1990-1992, helped by the improved credit record and abundant money at international finance markets. In addition, lured by bright economic prospects and potentially high returns, much "hot money" landed at the Argentine security markets. This was several

hundred times higher than that in 1990. Behind them, there was a massive return of capital that fled the country in the 1980s.

The aggregate demand growth took off at 11.8% in 1991, followed by 12.9% in 1992. It was fueled by robust demand in consumption and investment. The consumption expansion, which recorded 12.6% in 1991 and 10.8% in 1992, was fuelled by virtually every sector, but the substantial pent-up demand for durable goods and houses was the single most significant factor. Economic stability stimulated people's consumption demand which had been repressed for a long time under abnormally high inflation in the 1980s. The private investment, benefiting from favorable international flows and low interest rates and induced by privatization, posted high increases of 25.1% in 1991, 30.9% in 1992, and 13.7% in 1993. The surge of domestic investment reflected thegrowing peeling of the private sector but nonetheless it is still low in absolute terms after consecutive declines in the preceding years.

As a result of re-energized economic activities, Argentina had impressive real GDP growth of 8.9% in 1991, 8.7% in 1992, and 6.0% in 1993. At the sector level, the expansion of economic activities varied widely during the recovery in the early 1990s. The consumer durable goods sector was a leading force in the recovery, spurred by strong demand for automobiles and electronic appliance. In contrast, the textile industry and the steel industry experienced a decline because of increased international competition and relatively high production costs. The capital goods and construction sectors were active, following the rebound in private investment. The agricultural sector slowed down. The service sector, led by finance and banking industries, showed moderate growth.

1.1.3 Challenges for Sustained Growth

The structural reforms and stabilization programs saved the economy from the edge of bankruptcy. Then it contributed to the remarkable recovery and growth of the economy. In addition, the government policies succeeded in establishing totally new rules of the game, under which self-reliant efforts of people and private enterprises are, above all, the driving force of economic growth.

Based upon these achievements, Argentina is challenging the following issues for longer-term economic development: 1) to preserve external and internal economic stability and credibility on the one hand; 2) to continue to grow dynamically and thereby to provide new employment on the other; and 3) to enhance the competitiveness of the economy as a whole in order to achieve 1) and 2) simultaneously.

The country should keep macroeconomic objectives like fiscal balance, current account, and investment-saving balance, manageable. The authorities are primarily responsible for this task, have been maintaining a strict stance about fiscal balance. The low domestic saving rate, which is a negative legacy of the days of extreme economic instability, seems to have stopped falling thanks to the government's stabilization policies and promotion measures.

Regarding the balance of payments, the trade deficit has begun to decrease in 1994 due to the deceleration of aggregate demand growth and the increase in exports to Brazil. On the other hand, there is a concern about the international capital market situation, which may not always be so favorable for Argentina as the early 1990s. This factor is exogenous to the economy but the availability of foreign capital in the country is very much related to the manageability of macroeconomic gaps.

The government's sensible macroeconomic management and the policy framework are very important. But under the new rules of the game, economic stability and growth will both eventually hinge on the private sector's self-reliant efforts. For example, the international competitiveness of industries, which is the key for the long-term macroeconomic viability of a country, cannot be gained solely by the government's efforts. The private sector's endeavors to improve efficiency and thus competitiveness are indispensable.

Employment generation is another matter of importance. The latest unemployment and underemployment rates are as high as 10.8% and 10.2%, respectively. The private sector's efforts to expand business activities are most desired to crate new jobs along with government policies to create a flexible labor market and to mobilize increased savings for productive investment.

1.2 Perspectives for Long-Term Development -- Towards Stable but Dynamic Development --

The Okita I Study presented the following suggestions for long-term development in the context of macroeconomy (See pages I-37 to I-42).

1) The restructuring and reactivation of the industrial sector to reduce dependence on agriculture and to vitalize the entire economy.

2) The formulation of a medium- and long-term economic plan to ensure the continuity and consistency of economic policies and thereby to present future perspectives to the people. The medium- and long-term plan should be based upon realistic targets, consistency among sectoral plans, and dialogues with the private sector.

3) The redefinition of the government's roles in the economy through the creation of a competitive environment for the market mechanism, the privatization of public enterprises, the improvement of institutional support for research and development, and the development of efficient infrastructure.

These suggestions, however, were not fully adopted in practice because of a high degree of instability of the economy, especially hyperinflation in the late 1980s. To establish a medium- and long-term vision, economic stability was a prerequisite.

In view of the successful economic reform and stabilization discussed in 1.1, the following recommendations are not fundamentally different from the previous suggestions but, for some part, more progressive. These are put forward to bring out the best of the potential of the country:

1) A medium- and long-term vision for economic development is favorable for long-sighted productive activities.

2) Cooperation between the government and the private sector should be extended further, even if it has significantly improved through the recent economic reform.

3) Conditions for encouraging innovative and competitive activities of the private sector should be created.

1.2.1 Long-Term Visions for Economic Development

Due to the successful stabilization and economic reform, the ways of thinking of people, enterprises, and the government in Argentina have begun to change. They are no longer chased by day-to-day problems caused by high inflation and can now make longer-term programs.

It is desirable to establish a medium- and long-term vision for the purpose of effectively mobilizing the country's resources for future development.

It is essential for enterprises to have clear economic signals for the medium- and long-term in order to draw investment plans and develop human resources. Investment projects for expanding production capacity and improving productivity will not be aggressively implemented without long- and medium-term perspectives on national economic development. The following four points are important in this connection.

1) How to achieve long-term growth should be the top of the agenda. At the microeconomic level, a new business conduct should be created instead of the "stop-and-go" behavior in the past while business environments should be competitive. At the macroeconomic level, the issues of domestic savings, the growth of total factor productivity (TFP), and human resource development should be addressed since these three factors are essential bases for the external viability of a national economy in the competitive world and thus for its long-sustained development. The institutional framework is basic to improve those micro- and macro-conditions.

2) The medium- and long-term vision should be comprehensively incorporated into the perspectives for the whole economic system including investment, production, trade, distribution, natural resource development, and environmental management. The present situation as well as the potential of each sector should be taken into account because infrastructure and distribution systems may be inadequate for a future expansion of economic activities and play against further development.

3) An outward-oriented perspective should underlie the medium- and long-term vision, that should not limit its horizon within the country. Taking account of both external and domestic situations, the vision should be far-reaching and more conducive to people and enterprises' activities.

4) The medium- and long-term vision should be based on objective information. Information such as statistical data should be promptly provided to the public so that people can have clear ideas on the economy's current and future situations. This was impossible when the country was undergoing economic instability. Economic stability has enabled the government to compile accurate information and people and enterprises to utilize it for their decision-making. Information services should be strengthened so that the country can generate a more open and democratic environment, which is essential for long-term development.

1.2.2 Cooperation Between the Government and the Private Sector

Due to the sweeping economic reforms since the late 1980s, the rules of the game have been changed so that the private sector can play a leading role in economic development. Under these circumstances, the redefinition of the government's role and the formulation of an institutional framework for "good governance," and cooperation between the government and the private sector have become important. For promoting the public-private cooperation, the following four points should be taken into consideration.

1) The roles of the government and the public-private relationship should be defined for any type of private enterprises' activities and competitive development. The entry of foreign enterprises will help outward-oriented development.

2) Government action is still essential in the areas of macroeconomic operation, regulations for environmental protection and public safety, the mobilization of savings and financial resources, human resource development such as education and training, R&D, regulatory supervision for ensuring a competitive market, and the provision of guidelines for future economic development. The relationship of public and private sector should be defined in this context.

3) Public-private cooperation is also indispensable in the area of infrastructure and regional development. Big infrastructure projects cannot be implemented solely by private initiatives, as they often require massive capital investment and consistency with a more comprehensive national development plan.

4) The division of labor and cooperation between the public and the private should be reshaped for the areas of the central government but also of local governments. Optimal relationships between the central government and provincial governments should be sought. The extra-pampean regions of the country have large development potential. To realize their potential and connect it with national development, there needs to be good cooperation between the central government and provincial governments in addition to self-reliant initiatives of the latter.

1.2.3 Promotion of Innovative Enterprises

This suggestion is related to the first and the second points mentioned in the previous sections. To develop dynamically business opportunities have to be equally

open both to established large domestic industries and to new comers such as entrepreneurial individuals, small- and medium-sized enterprises (PYMEs), and foreign companies. Innovations are often carried out by those new comers. In Japan, for example, many leading frontier industries have been new comers. Most of them were once PYMEs. Their innovative and competitive activities have contributed to the creation of developmental dynamism in Japan.

For every industry to be competitive and for resources to be distributed efficiently, factors of production need to be mobilized at low costs and quickly. Factor markets need to be rational and flexible. To construct such a business environment, a multi-faceted approach should be taken, incorporating the following points:

(1) The mobilization of financial resources for efficient investment

To encourage investment in innovative activities, the availability of sufficient capital at low cost is indispensable. First of all, domestic savings should be increased to expand internal capital and financial markets. The efficiency of the financial sector should be improved.

(2) The improvement of human resources and the labor market

Argentina is rich in medium-level human capital. The country should cultivate and utilize this advantage for future economic development. Managerial and technological skills should be upgraded. Improvement in labor mobility is also an essential factor.

Welfare and rights not only of employed workers but also of workers in general should be respected and promoted. The expansion of employment is an essential part of workers' welfare. While the economy as a whole is recovering, unemployment and underemployment are increasing partly because restructuring is taking place, especially in large firms. Therefore, labor-intensive PYMEs could play an important role to absorb labor force. The rectification of labor market rigidity is the way both to improve the competitiveness of the economy as a whole and to reduce unemployment (and thus to promote workers' welfare).

(3) Efficiency-improvement at the macroeconomic level

High cost economy does not necessarily occur in a country with strong primary exports. The situation could be rectified through the elimination of distortionary regulations. This has been proved by the recent deregulation policies by the Argentine

government. Efforts to reduce costs and to maintain the competitiveness of the country should be made continuously.

Policy measures to foster innovative and competitive enterprises should be undertaken. In particular, up-stream industries, such as supporting industries, intermediate goods industries, and capital goods industries, should be developed in this policy orientation so that external economy for enterprises in these sectors could be secured. A substantial part of them are PYMEs. This, in turn, would lead to strengthening of domestic industrial linkages and to cost-reduction for the manufacturing of finished goods. The current government is moving to promote such linkages. This does not imply these industries and enterprises can be "indulged." Efforts to improve their efficiency should be made on the other hand.

The disadvantageous factor market situation for PYMEs, such as a larger interest rate spread, should be eliminated. The government has already taken a policy action to reduce the spread disparity. In addition, policy measures to encourage innovative investment by PYMEs, such as loan guarantee and bankruptcy insurance schemes, could be considered. Furthermore, enterprises' equal access to information and technology should be facilitated. These measures should reduce entry barriers for new comers.

(4) Enhancing competitiveness at the microeconomic level

Technology improvement, quality control, and the efficiency-improvement of management through the Total Quality Management (TQM) method as well as the development of entrepreneurship are important. Workers' skills should be improved through intra-firm training. Efforts for improving competitiveness at the firm level have been rigorously made in the tradable sector under more open economic policies. However, it is necessary to extend them to the non-tradable sector so that the economy as a whole can be competitive.

(5) Constructing environments conducive to enterprises

If a country seeks outward-oriented development, it should efficiently utilize foreign enterprises' resources. For instance, multi-national corporations could help the country to increase exports through their established sales networks all over the world. Foreign corporations often bring in various resources necessary for development through direct investment.

1.3 Towards Outward-Oriented Development -- Export Expansion and FDI Promotion --

Argentina has substantially succeeded in opening the economy, and improving the efficiency of various sectors of the economy. Yet, one more step is necessary for Argentina to develop dynamically for a long time. Outward-oriented strategies will extend the horizon of enterprises' activities and of national development. Under the Convertibility Plan, outward perspectives, both in the government and in the private sector, are imperative for long-sustained growth. More exposure to and more competition with the outside world should further enhance the competitiveness of the Argentine economy.

While the outward-oriented development conception would provide the country with abundant opportunities and unlimited possibilities, it would force the country to respond to needs of clients very rigorously. This client-oriented perspective is indispensable not only for export expansion but also for FDI promotion. In terms of microeconomy, export and FDI would stimulate the economy to achieve developmental dynamism in response to increased external demand, technological advancement, and changes in the world economy.

To expand exports in a competitive world, exporters should be always responsive to needs of foreign buyers both in quality and quantity. Price competitiveness is essential. Therefore, cost-reduction efforts are necessary not only in the tradable sector but also in the non-tradable sector. To make products attractive to buyers, exporters should not only improve the quality of commodities but also adapt to buyers' changing needs and tastes promptly. For this purpose, they should strengthen marketing ability and establish information networks all over the world. To make their commodities constantly and timely available to foreign buyers, not only production capacity but also transportation, distribution, and storage capacity should be increased. This is particularly the case in expanding exports under contract with new customers.

The client-oriented perspective is also necessary for promoting FDI. Society as a whole should be responsive to investors' needs. A foreigner that has to make an investment decision considers a number of factors including business opportunities, laws and regulations on FDI, infrastructure, the availability of credit lines, and domestic supporting industries. Needless to say, the cost of business activities in the country is the top priority for potential investors.

New developments around Argentina, e.g., the successful completion of the Uruguay Round and the formation of MERCOSUR, have made external conditions favorable for the country's outward-oriented strategy, as discussed in Chapter 2. The economies in the Southern Cone are now more closely interlinked than ever before. The world is moving toward free trade and gaining a new momentum for growth as East Asia is quickly becoming one of the largest markets and a major supplier of goods and services. Argentina should take advantage of these changes. It is very important that the government and the private sector share perspectives for the country's future and work together for this purpose.

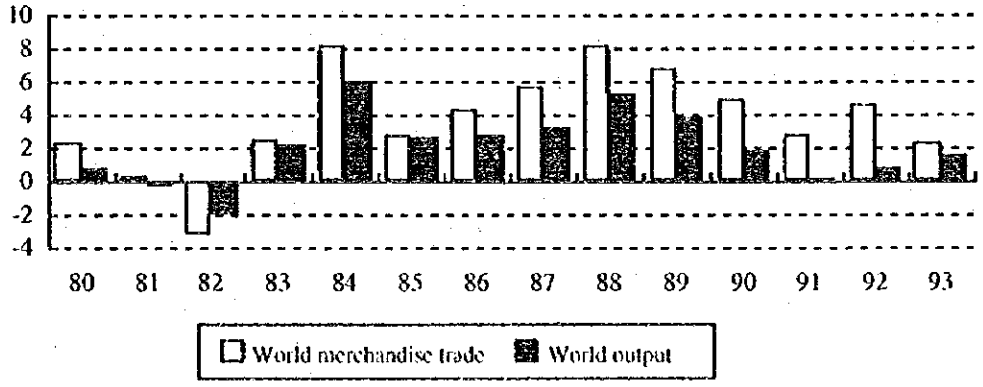
Chapter 2
World Trade and Investment: Challenges and New Opportunities for Argentina

2.1 Argentina in World Trade and Investment

2.1.1 Trends of World Trade

The volume of world merchandise exports grew at 5% annually over the last decade, exceeding world output growth every year (Figure 2.1.1). The value of world merchandise exports also expanded over the same period, reaching US$3.6 trillion in 1993, but with some volatility due to fluctuations in exchange rates and commodity prices. In 1993, for example, the total value of world merchandise trade decreased by 2% from 1992, while its volume maintained a growth rate of 2.5%. The decline in dollar terms was explained by the appreciation of the U.S. dollar with respect to the major European currencies and reductions in international prices of fuels and other minerals.

Figure 2.1.1 Growth, by Volume, of World Merchandise Trade and Output, 1980-1993



Source GATT, *Activities 1993*.

An important tendency in world trade is the faster growth of trade in commercial services, e.g. transportation, tourism, telecommunications, insurance, banking, and other professional services, than in merchandise trade. The share of commercial services in world trade on a value basis increased from 17% in 1980 to 22% in 1993 (Table 2.1.1). In 1992 trade in services reached US$1 trillion, increasing by 12% from the previous year. The dollar value of world trade in services for 1993 is estimated to have increased by around 3%, showing a better performance than merchandise trade.

Table 2.1.1 World exports of merchandise and commercial services, 1970-1993

	Value (US$ billion)		Share in total world exports (%)				Annual change (%)	
	1992	1993	1970	1980	1992	1993	1992	1993
Merchandise	3,650	3,580	81	83	79	78	6.5	-2.0
Commercial service	1,000	1,030P	19	17	21	22	12.0	3.0P

P: Preliminary estimates.
Source: GATT, *International Trade 1993-Statistics*; GATT, *Activities 1993*.

The following tendencies can be found in recent world merchandise trade.

(1) Leading traders in the 1990s: North America, Asia, and Latin America

Regions that recorded rates of trade expansion above the world average in 1992 and 1993 were North America, Asia, and Latin America, which were also fastest growing regions in terms of output (Table 2.1.2). Asia was an outstanding trader already in the latter half of the 1980s, with high growth both in exports and imports. Latin America started to expand imports more rapidly than exports in the late 1980s. In 1993, however, Latin America recorded the highest rate of expansion in the volume of merchandise exports among the seven regions, helped by increased demand in North America. But North America's export growth was less strong than in the previous year due to the slowing demand for imports in Latin America and a decline in Western Europe.

Table 2.1.2 Volume Growth of Merchandise Trade for Selected Regions, 1991-1993

Exports				Imports		
1991	1992	1993		1991	1992	1993
3.0	4.5	2.5	World[a]	3.5	5.0	2.5
6.0	8.0	5.5	North America	0.5	8.0	11.0
2.0	7.0	9.5	Latin America	12.5	18.0	8.0
2.5	3.0	-0.5	Western Europe	3.5	2.5	-3.5
2.5	3.0	-1.0	EU	5.5	3.5	-4.0
0.0	4.5	2.0	EFTA	-2.5	-1.5	-1.5
-19.0	-3.5	2.5	C. and E. Europe and the former USSR	-22.0	-7.5	10.5
8	5.5	6.0	Asia[a]	10.0	7.5	10.5
2.5	1.5	-1.5	Japan	4.0	-0.5	3.0
10.5	7.5	9.5	Six other Asian exporters of manufactures[a,b]	14.0	8.0	11.5

a: Excluding Hong Kong's re-exports and imports for re-export. Including Hong Kong's re-exports (and imports for re-export), the increase in world exports (and imports) would be 3% in 1993.
b: Taiwan, Hong Kong, Republic of Korea, Malaysia, Singapore, and Thailand.
Source: GATT, *Activities 1993*.

In value terms, Asia demonstrated average annual growth rates of 9% in exports and 7% in imports in 1980-92 (Table 2.1.3). In 1992 Asia's shares in world trade accounted for 24% in exports and 21% in imports, compared to 16% in both in 1980 (Table 2.1.4). After the sharp decline in the early 1980s, Latin America's trade largely recovered in the latter half of the 1980s with average annual growth rates of 6% in exports and 9% in imports. Fast import growth coupled with modest export growth was observed in most countries in the region in the early 1990s but Argentina's import growth of over 100% in 1991 was outstanding among those countries. Latin America recorded the second highest growth rate of exports in dollar terms in 1993, despite the declines in the prices for fuels and other minerals. North America maintained steady growth in trade over the last decade, though imports always exceeded exports because of the U.S.A's large imports from Asia, most notably from Japan.

Table 2.1.3 Value of World Merchandise Trade by Region, 1992-1993

(% and US$ billion)

Exports (f.o.b.)							Imports (c.i.f.)					
Average annual change					Value		Average annual change					Value
80-85	85-90	1991	1992	1993	1993		80-85	85-90	1991	1992	1993	1993
-0.9	12.3	1.5	6.5	-2.0	3580	World[a]	-0.7	12.5	2.0	6.0	-2.0	3690
1.1	11.0	5.5	6.0	4.5	610	North America	6.3	8.1	-1.0	8.0	8.5	743
-0.2	5.9	-2.5	4.0	5.0	157	Latin America	-7.3	8.9	15.0	19.5	5.5	181
0.9	8.0	-3.0	2.0	7.0	13	Argentina	-18.4	1.3	103.0	80.0	13.0	17
-1.0	15.7	-1.0	6.0	-9.0	1561	Western Europe	-3.0	16.2	0.5	4.0	-10.5	1595
-1.3	16.0	-1.0	6.5	-9.0	1326	EU	-3.1	16.4	2.0	5.0	-11.0	1360
-0.4	15.5	-3.5	6.0	-9.0	210	EFTA	-3.0	15.8	-5.5	1.0	-11.0	195
-0.2	3.1	-17.5	-3.0	-4.5	88	C./E. Europe[b] & the former USSR	-0.8	5.1	-23.0	-7.0	-8.5	83
-7.9	4.2	-1.5	-2.5	-8.5	88	Africa	-5.9	6.2	0.0	2.5	-5.5	93
-14.4	5.8	-11.5	7.5	-4.0	121	Middle East	-2.8	2.1	12.5	13.5	-8.5	116
4.9	12.9	10.5	9.0	7.5	955	Asia[a]	1.6	13.6	7.5	6.5	8.0	877
6.3	10.2	9.5	8.0	6.0	361	Japan	-1.6	12.5	0.5	-1.5	3.0	241
8.6	17.8	16.0	18.0	8.0	92	China	16.3	4.7	19.5	26.5	29.0	104
6.5	16.7	12.5	8.5	9.0	354	Six other Asian exporters of manufactures[a,c]	2.4	19.2	14.5	7.5	8.0	373

a: Excluding Hong Kong's re-exports and imports for re-export. Including Hong Kong's re-exports (and imports for re-export), the decline in world exports (and imports) would be 1.5% in 1993.
b: Excluding trade between the Czech Republic and Slovak Republic.
c: Taiwan, Hong Kong, Republic of Korea, Malaysia, Singapore, and Thailand.
Source: GATT, *International Trade 1990-91* and *1993*; GATT, *Activities 1993*; Trade data obtained from the Secretariat of Trade and Industry, the Government of the Republic of Argentina.

While Western Europe and North America together still occupy two-thirds of world merchandise trade in value terms, Asia has been rapidly increasing its importance in world trade. Western Europe was a leading trader until the early 1990s but in 1993 there was a sizable decline in the dollar value of its merchandise imports and exports, a virtually unprecedented event in the postwar period. Uncertainty over the trade recovery of Western Europe continued in 1994. Since the early 1990s, Latin America's shares in world trade, imports in particular, started to reverse the declining trend observed in the 1980s. Although their full impacts are yet to be seen, more open trade policies widely implemented in Latin America in general seem to generate favorable factors for expanding its trade.

(2) Increased intra-regional trade

Intra-regional trade has increased over the last decade in major trading regions, i.e., Asia, Western Europe and North America (Table 2.1.4). Between 1980 and 1992, the shares of intra-regional trade in world exports increased from 7% to 11% for Asia, from 27% to 34% for Western Europe, and from 4% to 5% for North America (Tables 2.1.4-(1) and 2.1.4-(2)), while the shares of intra-regional trade in each region's total

Table 2.1.4-(1) Shares of Intra- and Inter-regional Trade Flows in World Exports, 1980

(% based on value)

Destination / Origin	North America	Latin America	Western Europe	C./E. Europe and f. USSR	Africa	Middle East	Asia	World[a]
North America	**4.0**	2.1	3.8	0.3	0.5	0.6	3.0	14.4
Latin America	2.1	**1.1**	1.3	0.4	0.1	0.1	0.3	5.5
Western Europe	2.5	1.2	**27.1**	1.8	2.9	2.1	2.0	40.1
C./E. Europe and the former USSR	0.1	0.3	2.2	**3.9**	0.2	0.3	0.4	7.7
Africa	1.6	0.3	2.6	0.1	**0.2**	0.1	0.3	5.9
Middle East	1.1	0.6	4.2	0.2	0.2	**0.6**	3.5	10.5
Asia	3.5	0.6	2.7	0.5	0.6	1.1	**6.5**	15.8
World	14.8	6.2	44.0	7.2	4.8	4.9	16.0	100.0
(US$ billion)								(2,031)

a: Includes unspecified destinations.
Source: GATT, *International Trade 1989-90.*

Table 2.1.4-(2) Shares of Intra- and Inter-regional Trade Flows in World Exports, 1992

(% based on value)

Destination / Origin	North America	Latin America	Western Europe	C./E. Europe and f. USSR	Africa	Middle East	Asia	World[a]
North America	**5.3**	2.1	3.5	0.2	0.3	0.5	4.0	16.0
Latin America	1.9	**0.7**	0.8	0.1	0.1	0.1	0.4	4.1
Western Europe	3.4	1.0	**33.8**	1.6	1.5	1.6	3.5	47.0
C./E. Europe and the former USSR	0.1	0.0	1.6	**0.5**	0.0	0.0	0.3	2.5
Africa	0.4	0.0	1.5	0.1	**0.2**	0.0	0.3	2.6
Middle East	0.4	0.1	0.9	0.1	0.2	**0.3**	1.4	3.4
Asia	6.4	0.6	4.7	0.3	0.4	0.9	**10.8**	24.3
World	18.0	4.6	46.7	2.7	2.6	3.3	20.7	100.0
(US$ billion)								(3,642)

a: Includes unspecified destinations.
Source: GATT, *International Trade 1993-Statistics.*

Table 2.1.4-(3) Shares of Intra- and Inter-regional Trade in Each Region's Total Exports, 1980

(% based on value)

Destination / Origin	North America	Latin America	Western Europe	C./E. Europe and f. USSR	Africa	Middle East	Asia	World[a]
North America	**27.9**	14.3	26.6	2.0	3.4	4.4	20.7	100.0
Latin America	37.8	**20.7**	23.6	6.4	2.6	2.1	6.0	100.0
Western Europe	6.1	3.1	**67.6**	4.4	7.1	5.2	5.0	100.0
C./E. Europe and the former USSR	1.1	3.3	28.9	**50.9**	2.8	3.4	5.7	100.0
Africa	26.7	5.2	44.4	2.5	**3.9**	1.1	4.8	100.0
Middle East	10.7	5.5	39.8	1.8	1.7	**5.3**	33.2	100.0
Asia	22.0	3.7	17.0	3.2	4.1	7.2	**41.1**	100.0
World	14.8	6.2	44.0	7.2	4.8	4.9	16.0	100.0
(US$ billion)								(2,031)

a: Includes unspecified destinations.
Source: GATT, *International Trade 1989-90.*

Table 2.1.4-(4) Shares of Intra- and Inter-regional Trade in Each Region's Total Exports, 1992

(% based on value)

Destination / Origin	North America	Latin America	Western Europe	C./E. Europe and f. USSR	Africa	Middle East	Asia	World[a]
North America	**33.4**	13.4	22.1	1.2	1.8	3.1	25.0	100.0
Latin America	46.8	**17.2**	20.3	1.5	1.4	1.6	9.1	100.0
Western Europe	7.3	2.1	**71.9**	3.3	3.1	3.3	7.5	100.0
C./E. Europe and the former USSR	2.3	1.9	61.9	**18.5**	1.8	1.9	11.1	100.0
Africa	14.4	1.9	56.3	2.0	**6.7**	1.7	10.1	100.0
Middle East	12.9	2.9	26.5	2.1	4.8	**7.7**	41.6	100.0
Asia	26.2	2.4	19.2	1.1	1.5	3.6	**44.5**	100.0
World	18.0	4.6	46.7	2.7	2.6	3.3	20.7	100.0
(US$ billion)								(3,642)

a: Includes unspecified destinations.
Source: GATT, *International Trade 1993-Statistics.*

exports also increased from 28% to 33% for North America, from 41% to 45% for Asia, and from 68% to 72% for Western Europe (Tables 2.1.4-(3) and 2.1.4-(4)). Latin America's shares of intra-regional trade decreased both in world exports and in the region's total exports during the same period. But this is rather due to the region's relatively slow growth of trade and thus its reduced share in world trade in the 1980s and, in dollar terms, its intra-regional trade increased from US$23 billion in 1980 to US$26 billion in 1992.

Western Europe's intra-regional trade was presumably led by economic integration towards the formation of a single common market. Latin America's intra-regional trade also seems to have been increasing in more recent years due to the reinvigorated economic integration, as indicated by the increased trade in MERCOSUR (See 2.2 Argentina in MERCOSUR and 3.4 External Trade). The expansion of Asia's trade within the region was, however, accelerated through the division of labor and complementary industrial production rather than by formal regional integration. This development implies that regional economic integration may be a useful means but is not necessarily a prerequisite for expanding intra-regional trade.

(3) World trade led by manufactures

Between 1990 and 1992, while the performance of world trade was generally modest, manufactured goods led world trade with their exports growing at 8% per annum (Table 2.1.5). As a result, the share of manufactured products in the value of world merchandise exports increased from 54% in 1980 to 73% in 1992. The expansion of manufacture trade was in contrast with the decreased shares of agricultural products from 15% to 12% and mining products from 28% to 12% for the same period.

Table 2.1.5 World Merchandise Exports by Product, 1980-1992

	Value (US$ bil.)	Shares (%)			Annual average change (%)		
	1992	1980	1985	1992	1980-92	1991	1992
All Products	3,642	100.0	100.0	100.0	5.0	1.6	5.9
Agricultural Products	444	14.7	13.7	12.2	3.3	0.8	6.1
Mining Products	446	27.6	21.9	12.2	-1.9	-5.1	-2.0
Manufactures	2,653	54.0	61.2	72.8	7.6	3.3	7.6

Source: GATT, *International Trade 1993-Statistics.*

While manufactured products were traded principally among developed countries for a long time, newly industrializing countries in Asia, and Latin America to a lesser extent, have also become important exporters of manufactured products in recent world trade. Along with industrialization, the share of manufactures in developing countries' total exports increased from 22% in 1980 to 62% in 1992 (UN, *International Trade Statistics Yearbook 1993*). In 1992 the "industrialization rate of

exports" was highest in Asia (82%), followed by Western Europe (79%), North America (72%), Central and Eastern Europe and the former USSR (49%), and Latin America (45%) (Table 2.1.6) The present situation suggests that a region or a country needs to increase the share of manufactures in its total exports in order to be a leading exporter in the world.

Table 2.1.6 Regional Merchandise Exports by Product (Shares), 1992

(%)

	North America	Latin America	Western Europe	C./E. Europe and f. USSR	Africa	Middle East	Asia	World
All Products	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agricultural Products	14.9	25.0	12.1	12.4	16.1	3.3	9.1	12.2
Mining Products	7.7	28.5	6.6	34.4	53.2	78.2	7.4	12.2
Manufactures	72.1	45.2	79.3	48.6	19.6	17.5	81.7	72.8

Source: GATT, *International Trade 1993-Statistics.*

(4) Increased intra-industrial and intra-firm trade

Trade occurs not only between different industries and companies but is now increasingly seen within an industry and/or within a company that has production sites located across national borders. Since the mid-1980s, for example, many Japanese manufacturing companies have shifted their production lines to other Asian countries due to an increase in production costs following the appreciation of yen. U.S. companies that produce electronic parts and final products in Asia conduct trade between the U.S.A. and Asian countries. These companies manufacture products with various levels of value added, taking advantage of the differences in technology and production costs between two, or more, countries but within an industry and/or a company. The increase in complementary production using intra-industrial and intra-firm trade has helped to expand East Asia's manufacture trade.

(5) Argentina in world trade

In 1992 Argentina ranked 40th among world merchandise traders both in exports and in imports, accounting for 0.3% and 0.4% of the world total, respectively (Table 2.1.7). While its share in world trade appears to be still small compared to its market size and output, Argentina can no longer be isolated from developments in world trade under the more outward-oriented economic policies since the late 1980s. The country has in fact been experiencing a large part of the new trends in global and regional trade, e.g., intra-industrial and intra-firm trade within MERCOSUR and the growing importance of manufacture trade. It is thus important for the country to expand its production and marketing capacity, not merely quantitatively but rather qualitatively, to maintain a competitive position in world markets.

Table 2.1.7 Leading Exporters and Importers in World Merchandise Trade, 1992

Rank	Exporters	Value (US$ bil.)	Share (%)	Change (%)	Rank	Importers	Value (US$ bil.)	Share (%)	Change (%)
1	U.S.A.	448.2	12.0	6.3	1	U.S.A.	553.9	14.4	9.0
2	Germany	430.0	11.5	6.8	2	Germany	408.6	10.6	4.8
3	Japan	339.9	9.1	8.0	3	France	239.6	6.2	3.4
4	France	235.8	6.3	8.6	4	Japan	233.2	6.1	-1.6
5	U.K.	190.0	5.1	2.7	5	U.K.	221.5	5.7	5.5
6	Italy	178.2	4.8	5.1	6	Italy	188.5	4.9	3.2
7	Netherlands	139.9	3.8	4.8	7	Netherlands	133.8	3.5	6.3
8	Canada	134.1	3.6	5.4	8	Canada	129.2	3.4	3.5
9	Bel-Lux.	123.0	3.3	4.0	9	Bel-Lux.	125.0	3.2	4.0
10	Hong Kong	119.5	3.2	24.7	10	Hong Kong	123.4	3.2	23.1
11	China	85.0	2.3	18.2	:				
12	Taiwan	81.5	2.2	7.0	12	Korea	81.8	2.1	0.3
13	Korea	76.6	2.1	6.6	13	China	80.6	2.1	26.4
:					14	Singapore	72.2	1.9	8.9
:					15	Taiwan	72.0	1.9	14.1
16	Singapore	63.5	1.7	8.3	:				
:					21	Thailand	40.7	1.1	8.2
22	Malaysia	40.6	1.1	18.3	22	Malaysia	39.9	1.0	8.9
:					:				
25	Brazil	36.1	1.0	14.2	:				
:					:				
27	Thailand	32.5	0.9	14.2	27	Indonesia	27.3	0.7	5.6
28	Indonesia	29.3	0.8	-0.7	:				
:					32	Brazil	23.1	0.6	0.5
:					:				
40	Argentina	12.2	0.3	2.2	40	Argentina	14.9	0.4	79.7
:					:				
	World total	3,731.0	100.0	6.3		World total	3,855.0	100.0	6.4

Source: GATT, *International Trade 1993-Statistics.*

2.1.2 Trends of Foreign Direct Investment in the World

Whereas FDI flows in the 1980s mostly took place in industrial countries, the characteristic of recent FDI flows was their sustained increase into developing countries. The increased significance of developing countries occurred while investment flows into developed countries declined since 1990 (Table 2.1.8). Although Asia has been the leading recipient region in the developing world, Latin America has re-emerged as a key host region since the late 1980s.

In 1992 the flow of FDI into developing countries increased by 32% to a record of US$51 billion. Asia continued to be the largest recipient of FDI among developing regions, with an increase of 45% from 1991. Inflows into Latin America and the Caribbean also continued to grow. FDI in developing countries is concentrated in five countries, China, Mexico, Argentina, Malaysia and Singapore, which together accounted for 60% of total flows into developing countries in 1992. In Latin America the concentration of FDI in Argentina and Mexico was high, accounting for 54% of all flows into the region in 1992.

The rapid increase of FDI flows into Latin America and the Caribbean in the 1990s was attributable to the improvement of macroeconomic environments, better growth prospects, and privatization and deregulation for FDI. Between 1985 and 1989, FDI through debt-to-equity conversions in Argentina, Brazil, Chile, and Mexico was about US$11.5 billion. For these countries, the value of FDI through privatization (including privatization entailing debt-to-equity swaps) was about US$5.1 billion in 1990-92.

Table 2.1.8 Foreign Direct Investment Inflows, by Host Region and Economy, 1982-1992

(US$ million)

Host region/economy	1982-1987 (Annual average)	1988	1989	1990	1991	1992
All countries	67,526	159,101	196,132	207,912	162,124	158,413
Developed regions/economies	52,757	131,313	168,488	176,346	120,616	102,401
Developing regions/economies	14,752	27,772	27,376	31,266	39,060	51,485
Latin America and the Caribbean	6,042	9,040	6,248	8,647	15,032	17,711
of which Argentina	359	1,147	1,028	1,836	2,439	4,179
Brazil	1,494	2,969	1,267	901	972	1,454
Chile	373	937	1,291	603	523	705
Colombia	597	203	576	500	457	790
Mexico	1,294	2,594	3,037	2,632	4,762	5,366
Peru	9	26	59	41	-7	127
Venezuela	78	89	213	451	1,916	629
East, South and South-East Asia	6,273	14,980	15,416	19,426	20,245	29,402
of which China	1,362	3,194	3,393	3,487	4,366	11,156
Hong Kong	1,014	2,627	1,077	1,728	538	1,918
Indonesia	282	576	682	1,093	1,482	1,774
Korea	253	871	758	715	1,116	550
Malaysia	844	719	1,668	2,332	3,998	4,469
Singapore	1,605	3,655	2,773	5,263	4,395	5,635
Taiwan	306	959	1,604	1,330	1,271	879
Thailand	287	1,105	1,775	2,444	2,014	2,116

Source: UNCTAD, *World Investment Report*, 1994.

2.1.3 Globalization and Regional Economic Integration

2.1.3.1 Movements towards free trade

The successful completion of the Uruguay Round in 1994 has brought about a bright outlook for the future of the multilateral trading system and suggests the possibility of further globalization of economic activities in the world as characterized by growing trade of goods and services. Countries like Argentina should benefit from such movements towards freer trade through increased efficiency in the use of domestic resources without tariffs and nontariff barriers, economies of scale in production, technology transfers, and trade and investment expansion resulting from these improvements.

(1) Implications of the Uruguay Round

The Final Act of the Uruguay Round agreement was signed in April 1994 and will become effective in 1995 after ratification by national legislatures. The Uruguay Round will substantially reduce tariff and nontariff trade barriers in many sectors, strengthen multilateral disciplines, and extend them to new areas. It has also created the World Trade Organization (WTO) in January 1995. The WTO provides an institutional framework to implement the results of the Uruguay Round concerning trade of goods and services, intellectual property rights, and trade rules and disciplines. The main achievements of the Uruguay Round are as follows.

1) Industrial countries will cut tariffs on manufactures on average by some 40 percent in five years and eliminate tariffs in ten major sectors. 2) Industrial countries will reduce tariffs on agricultural products over six years by an average of 36% from the 1986-88 levels. The volume of subsidized exports will have to decline by 21% and domestic support (e.g., production subsidies) by 20%. 3) The bulk of textile products (49% in terms of 1990 values) will be liberalized in a ten-year period. 4) The General Agreement on Trade in Services institutes a multilateral framework, including most-favored-nation (MFN) treatment and transparency. 5) The agreement establishes standards of the protection of intellectual property rights and provisions for their reinforcement under national law and for multilateral dispute settlement. 6) Trade-related investment measures that violate the GATT principles are to be eliminated within two to seven years (a longer grace period for less developed countries).

Areas subject to the tighter rules and disciplines established by the Uruguay Round include: 1) safeguards restricting imports to protect domestic industries; 2) dumping; 3) subsidies for production and export; and 4) dispute-settlement procedures.

According to IMF's *World Economic Outlook 1994*, the increase in global real income from the full implementation of the Uruguay Round is estimated to range from US$212 billion to US$274 billion (in 1992 dollars) in 2005, which is equivalent to about 1% of world GDP in 1992. For the effects of the Uruguay Round on trade, the GATT Secretariat has indicated that merchandise trade would increase by 12% over what current growth rates should have yielded, or US$745 billion (in 1992 dollars), as a result of the full implementation of the Round. It is also expected that the trade of textile products, agricultural and fishery products, and processed food will be increased substantially. Argentina, a traditional exporter of agricultural and food products, has undoubtedly large potential to expand exports under these new environments.

(2) Persistent protectionism

In spite of the successful completion of the Uruguay Round, many countries continue to impose high levels of tariffs on a number of products for economic and political reasons. For instance, the U.S.A. reduced tariffs by an average 33% , the lowest reduction rate among industrial countries, but still keeps the tariff level for woolen goods, glass goods, and ceramic ware around 25%. Australia maintains 55% for specific garments, 76% for automobiles, 23% for electrical machinery, 23% for glass, and 10% for films. Japan protects several agriculture-related items (e.g., beef, dairy products, and leather goods) by high tariffs and nontariff trade barriers, though the average tariff reduction level was 61% for industrial and mineral goods, the highest among industrial countries.

Whether these tariffs and nontariff barriers will be actually reduced or removed is critical for Argentina, which has long been adversely affected by different forms of trade barriers in industrial countries, particularly by export and production subsidies for agricultural products. Not only in the trade of goods but also in the trade of commercial services, Argentina is faced by the problem of limited access to the markets of industrial countries. The Argentine government has been making efforts towards realizing free trade but industrial countries should also cooperate in this field.

2.1.3.2 Regional economic integration

While trade and other economic activities have become increasingly globalized, the adoption of more open trade policies has resulted in many bilateral and regional trade agreements that facilitate economic integration through the creation of a free trade area or similar environments within the region. In January 1994, one year after EC was integrated into a single common market as EU, the U.S. A., Canada, and Mexico brought NAFTA into effect. In Asia and the Pacific, summit talks were held on APEC and ASEAN restarted AFTA. In Latin America, while many of existing schemes, such as the Andean Group, CARICOM, and CACM, have been strengthened, new initiatives like MERCOSUR and the Group of Three have emerged. In late 1994, 34 American countries have agreed on the formation of the Free Trade Area of the Americas (FTAA), integrating NAFTA, MERCOSUR, and other regional schemes by 2005.

The formation of NAFTA is particularly significant for Latin America not only because of its sheer size, a market with 370 million people with a combined GDP of over US$7 trillion (Table 2.1.9), but also its positive impact on trade in the Western hemisphere. It is expected that the participation of the U.S.A. in regional integration

schemes will help to improve efficiency and productivity by incorporating modern production technologies and attracting foreign capital. NAFTA includes the possibility of extending its membership to other Latin American countries and the negotiations for this purpose would be concluded by 2005. The U.S.A. has signed agreements on trade and investment with some countries in the region and has proposed that Chile be a fourth member country of NAFTA.

Table 2.1.9 Market Sizes of Major Economic Integration Schemes, 1992

	Population (Million)	Nominal GDP (US$ billion)	GDP per capita (US$)	Share in World Exports (%)
EU	346	6,853	19,783	39.1
NAFTA	372	6,942	18,661	16.2
APEC	2,114	12,712	6,012	41.1
AFTA	335	388	1,159	4.8
MERCOSUR	195	607	3,121	1.4

Source: JETRO, White *Paper 1994*; World Bank, *World Development Report 1994*; GATT, *International Trade 1993-Statistics*.

Movements toward regional economic integration are taking a deeper and wider perspective. Since these efforts are in nature to make discrimination between member countries and non-members, they are in essence contradictory to the principle of the most favored treatments underlined in the GATT agreements. Therefore, there appear to be conflicts in world trade between "globalism" indicated by the Uruguay Round and "regionalism" in economic integration schemes. But it should be more realistic, and constructive, to consider these two movements not mutually exclusive but complementary in realizing free trade in the long-run. Particularly in Argentina, it is widely believed that the country can benefit both from the accomplishments of the Uruguay Round and economic integration such as NAFTA and MERCOSUR.

2.2 Argentina in MERCOSUR: A Step for Enhancing International Competitiveness

This section presents an overview of trends in Argentina's trade and foreign capital inflows under the outward-oriented economic policies with a view to examining necessary conditions for the expansion of trade and investment with East Asia in later chapters. Further discussions of the situations of and policy issues for trade and investment activities can be found in the sections for external trade (3.4), FDI (3.5), and other relevant sectors (e.g., 3.1, 3.2, and 3.3). Numbers mentioned in this section are presented, together with their sources, in tables of 3.4 and 3.5.

2.2.1 Overview of Argentine Trade

During the 1980s and in the early 1990s Argentina maintained trade surpluses that ranged from US$0.5 billion to US$8 billion. In 1992, however, the tendency was reversed with a sharp increase in imports of capital goods as well as consumer goods and a moderate increase in exports. The country recorded a trade deficit of US$2.7 billion (US$12.2 billion for exports versus US$14.9 billion for imports) for the first time in a decade. This situation is expected to continue, at least for a few years, due to the expansion of investment and other economic activities under the comprehensive economic reform and outward-oriented trade policies. In the first ten months of 1994, imports reached US$17.8 billion while exports remained around US$13 billion.

Over the last decade Argentina gradually shifted its emphasis for exports towards manufactures of industrial origin (MOI). The share of MOI in total exports increased from 18% in 1985 to 28% in 1993 while the share of primary products decreased from 44% to 25% for the same period. Manufactures of agricultural origin (MOA) continued to be important foreign exchange earners, though with some fluctuations in the share in total exports. Fuels and energy increased the importance in total exports in the early 1990s. While cereals, fats and oils, and by-products of food industries are still the top three items in Argentina's exports, there was noticeable growth in exports of some MOIs such as transport equipment and electrical machinery and devices in recent years. This development is explained by new investments made under the economic reform.

Argentina's trading partners substantially changed in the early 1990s. In the 1980s the two main destinations for Argentine exports were EC and the U.S.A. In 1993, while EU as a group still accounted for 28% (US$3,650 million) in total exports, MERCOSUR became the most important destination, with a share of 28% (US$3,661 million). Brazil was a single largest buyer of Argentine products (21%), followed by the U.S.A (10%). In exports to MERCOSUR, MOIs occupied 43%, primary products 25%, and fuels 18%, whereas MOAs had the largest share (53%) in exports to EU. The distinctive composition of exports to MERCOSUR is explained by the increased complementary production at intra-industrial and intra-firm levels among the member countries, especially between Argentina and Brazil.

MERCOSUR also became the most important supplier of goods to Argentina in 1992. In total imports, 25% (US$4,214 million) came from MERCOSUR, another 25% (US$4,184 million) from NAFTA, and 20% from EU in 1993, as compared to their shares of 12%, 24%, and 30% in 1980, respectively. Major import items from

MERCOSUR are intermediate goods (36% in total imports), parts and accessories for capital goods (22%), consumer goods (17%), and capital goods (13%). Imports from NAFTA and EU consisted mainly of intermediate goods, capital goods, and parts and accessories for capital goods, which altogether accounted for 80% in imports from the respective regions.

Exports to Asian countries are still small while imports from those countries are rapidly growing in recent years. Argentina's imports from nine East Asian countries (Japan, Korea, China, Hong Kong, Taiwan, Singapore, Malaysia, Indonesia, and Thailand) increased from US$325 million in 1990 to US$2,348 million in 1993 but exports to these countries remained virtually unchanged around US$1,400 million for the same period. The trade deficit with these countries increased remarkably, representing more than one-fourth of total deficits in 1992 and 1993. Japan accounted for around 4% both in total exports and in total imports and Korea 3% in imports but less than 1% in exports.

2.2.2 Overview of Foreign Direct Investment in Argentina

FDI flows increased from the US$1 billion level in the late 1980s to US$6.3 billion in 1993. A large part of such flows went into privatized enterprises while productive sectors such as the automotive industry and the food processing industry also received significant amounts. The reinvestment of profits which foreign investors made from the acquisition of privatized firms, particularly in telecommunications, has become notable inflows since 1991.

Trade and foreign investment liberalization and the privatization of state enterprises, together with the Brady Plan agreement on the external debt, are regarded as the major forces behind the FDI boom. While the privatization of public enterprises has attracted most FDI flows, trade liberalization has facilitated the use of imported goods at lower costs and thus provided an incentive for intra-firm trade and the specialization of affiliates within multi-national companies. The larger market created by MERCOSUR has also become a good reason for investment in Argentina.

A new feature of FDI in Argentina in the 1990s is the increased presence of investors from non-traditional countries. The U.S.A. ranked first, followed by some European countries like Italy and France, during the 1970s and the 1980s. In the early 1990s, while the U.S.A. still occupied a leading position, FDI from Germany, Brazil and Chile significantly increased. Some countries that were negligible in FDI in Argentina in the past have become important investors in recent years. Such non-

traditional countries include Canada, Australia, Mexico, and Japan. Brazilian investors increasingly form joint ventures and/or technical tie-ups with Argentine companies. Chilean investments are seen in such areas as wood, confectionery, and supermarkets.

Besides FDI into privatized firms, FDI flows in the 1990s have mainly been channeled into automobiles, autoparts, food, and beverages within the manufacturing sector. Among services, distribution chains and hotels have been the main destinations of FDI. Oil and mining have attracted FDI into extractive industries, while agriculture has also received some FDI.

Many of those investments have been export-oriented, reinforcing the structural change already seen in the mid-1980s in the Argentine economy. With the stagnation of the domestic market and the favorable real exchange rate, many firms, including affiliates of multi-national companies in the Argentine manufacturing sector, increased their exports. This tendency can be most clearly observed in intermediate goods (e.g., steel, aluminum, pulp, and petrochemicals), where a number of plants have achieved economies of scale, and in the processing industry of agricultural products (e.g., vegetable oils).

Investment from East Asia, even including projects at a planning stage, is small at present. Among East Asian countries, Japan is a single largest country making FDI in the country. As indicated by Toyota's investment plan for the production of commercial vehicles that targets the MERCOSUR market, Argentina is gradually seen as a potential host of FDI among Japanese manufacturers that envisage production and marketing possibilities of the enlarged market.

2.2.3 MERCOSUR: New Opportunities for Argentina

Discussions in the previous sections suggest that MERCOSUR, which started a customs union among Argentina, Brazil, Paraguay, and Uruguay in January 1995, has brought about many new opportunities in trade and investment for Argentina. Though the country had a trade deficit of US$550 million with MERCOSUR as a whole (US$780 million with Brazil) in 1993, the large increase in exports to MERCOSUR from US$1.8 billion to US$3.6 billion between 1990 and 1993 is significant in terms of impacts on the Argentine economy. There have been more than 200 new investment projects, including joint ventures, M&A's, technical tie-ups, and marketing agreements, between Argentina and Brazil since 1985. A substantial part of these investments have entered into the manufacturing sector in contrast with investments from other regions.

MERCOSUR has created a bigger "domestic" market for Argentina, which will help to realize economies of scale. The limited size of the domestic market has been considered one of the constraints in the development of manufacturing industries in Argentina. But expanding production scale is not enough for competing on world markets. It is also necessary to raise productivity through enhancing the level of technology and the efficiency of production and to improve the quality of products from a client-oriented perspective. Joint-ventures and technical tie-ups with companies in MERCOSUR are an important step for Argentina to broaden the horizons of exportable products. Investors from other regions attracted by the possibilities of MERCOSUR can also be a source of new technologies and business strategies.

MERCOSUR can also provide Argentine industries an opportunity to develop international business strategies to achieve a competitive position in world markets, especially in Asian markets, where international competition is generally fiercer than in MERCOSUR. Higher product quality and better services for customers are important factors for a company to be competitive in more open markets. Participation in MERCOSUR is expected to spread such a perspective among Argentine industries and thus to improve their international competitiveness.

MERCOSUR has been generating closer industrial linkages and complementary relationships among member countries. Argentina's changing structure of trade clearly indicates such a situation. MERCOSUR has increased investment opportunities in Argentina for foreign investors. General views of Asian companies' on Argentina as a potential host of investment seem to be still conservative, partly not being aware of the development and growing possibilities of new types of business in and around the country associated with the formation of MERCOSUR, and of FTAA in the not so distant future. It is important for the Argentine government to establish an institutional framework to encourage FDI from Asia, including measures to enhance awareness about Argentina's potential.

2.3 Significance of Strengthening Economic Relations with East Asia

(1) East Asia as an attractive market

East Asian countries are very attractive markets to Argentina. Sources of the attractiveness exist not only in each country's economic and industrial conditions but also in the interdependence of countries in the region. Each country's attractiveness lies in the drastic and dynamic changes in its economic and industrial structure which would work favorably for Argentina as well as in its fast economic growth. Industrialization,

improvement in the income level, changes in life styles towards more western ones, and the progress of offshore production by private companies are bringing about changes in trade policy and trading patterns and thus providing Argentina with opportunities for export expansion. The East Asian economy is expected to grow continuously in the future, even though with some recessions.

The market size of East Asia, including Japan, in terms of PPC-based GDP was US$6,551 billion, bigger than the U.S. market size of US$5,896 million in 1992 (Table 2.3.1). While the market sizes of Hong Kong and Singapore are rather small, their per capita GDP in 1992 exceeded US$16,000, almost reaching to the level of the industrial countries. Korea stood at US$8,950, followed by Malaysia's US$8,050 and Thailand's US$5,890. Asian NIEs have become as matured markets as Japan. In Malaysia and Thailand, as income increases, their middle classes have emerged as affluent consumers, generating a consumption boom in each market. Although GDP per capita of Indonesia, the Philippines, and China appears to be still small, the actual consumption level in urban areas of these countries is reported to have reached a much higher level than indicated in the statistics.

Table 2.3.1 The Size of East Asian Markets, 1985-1992

	Population (million)	GDP (US$ billion)		GDP per capita (US$)		PPC estimates of GDP per capita (U.S.A. = 100)			
	1992	1991	1992	1991	1992	1985	1990	1991	1992
Korea	43.7	360.0	390.8	8,320	8,950	24.1	33.7	37.6	38.7
China	1,162.2	1,966.8	2,269.1	1,680	1,910	7.6	9.1	7.6	9.1
Hong Kong	5.8	106.6	118.3	18,520	20,050	61.8	76.0	83.7	86.7
Singapore	2.8	43.5	47.2	15,760	16,720	56.2	69.8	71.2	72.3
Malaysia	18.6	134.5	151.3	7,400	8,050	25.0	27.6	33.4	34.8
Indonesia	184.3	512.5	567.8	2,730	2,970	9.9	11.0	12.3	12.8
Thailand	58.0	300.0	340.2	5,270	5,890	15.9	21.6	23.8	25.5
Philippines	64.3	153.4	159.4	2,440	2,480	10.9	10.9	11.0	10.7
East Asia total	1,539.7	3,577.2	4,043.9	2,311	2,572	9.3	11.2	10.4	11.1
Japan	124.5	2,402.8	2,506.7	19,390	20,160	71.6	79.4	87.6	87.2
U.S.A.	255.4	5,580.7	5,896.1	22,130	23,120	100.0	100.0	100.0	100.0
Argentina	33.1	167.5	201.2	5,120	6,080	24.8	21.9	23.1	26.3

Note: World Bank estimated per capita GDP based on purchasing power of currencies . This was replaced by GNP based on purchasing power parities (PPPs) for the data of 1992.
Source: JETRO, *White Paper 1994*; World Bank, *World Development Report* , various issues.

The rise in income has expanded demand for consumer goods and induced new investment for establishing production facilities and sales networks and developing new products. East Asian countries have therefore expanded imports from capital goods to consumer goods. Imports by Asian countries have been rapidly increasing in recent years (Table 2.1.3). The total share of the eight East Asian countries as shown in Table 2.3.1 (15.6%) in world total imports has surpassed the share of the U.S.A. (15.3%) in 1993. The increase in imports, as well as the expansion of domestic production, has

brought about further competition in almost every field such as food and beverages, goods for daily use, clothing, home electrical goods, and automobiles.

What is the most attractive to Argentina is the dynamism of the economic development of East Asia as a whole. The dynamism is produced by the interdependent and integral development of each market. Economic growth in one country results in an increase in its imports and such an increase in imports leads to an increase in exports from other countries in the region and economic growth in those countries. It is a spiral process of development, even though such a dynamism bears a risk of a synchronized downturn of the regional economy.

In spite of such attractiveness of East Asian markets, Argentina's presence in the region has been relatively low. It should be seriously taken that in most countries Argentina's shares in their total imports are less than 0.1% in many product categories in which Argentina has a capacity to supply. The reasons for this situation (e.g., the long distance, lack of marketing logistics, and inward-looking corporate behavior) are examined in Chapter 4 but it is clear that the Argentine government must formulate a institutional framework and provide support for export expansion if it seeks to exploit the growing markets of East Asia.

(2) East Asia as a potential investor

Active investment in the East Asian region has promoted inter- and intra-industrial trade and intra-firm trade within the region and brought about a higher degree of economic interdependence among countries. The more export expands, the more direct investment comes , which further expands export. The dynamism of economic development through trade and investment is present in the region as a whole. Such a favorable situation within East Asia is partly attributable to the appreciation of Japanese yen after 1985 but has been generated by productive activities promoted under the outward-oriented economic policies of each country in the region.

Apart from Japan, most countries in the region appear to be still hungry for capital for their own economic development but are quickly becoming nontrivial investors in the world. A few economists even predict that Asian countries will soon turn to be capital-abundant. In fact, some companies, e.g., a state enterprise of China and a large conglomerate of Thailand, are already moving to invest in Latin American countries such as Mexico and Chile. East Asia seems to have many potential investors for Argentina. The question is how Argentina can attract those investors and encourage

them to invest in its diverse productive sectors, including whether the government can provide effective and efficient institutional support for that purpose.

Chapter 3
Sectoral Issues for Strengthening Linkages with East Asia

3.1 Agriculture, Livestock and Fisheries -- Start from the Basics for Competitiveness --

3.1.1 The Present Situation

3.1.1.1 Sector profile

(1) General

Since the beginning of the 1990s, wide-ranging policy measures have been put to effect toward the opening and transformation of the Argentine economy. Although it is too early to expect the full impacts of still on-going reform measures, it is useful to summarize the general changes of the agricultural sector in the early 1990s relative to the 1980s.

The share of the agricultural sector in GDP did not change greatly over the last decade, increasing from 17% during 1980-1983 to 18% of GDP during 1990-1993. When aggregated with the share of the agro-based processing industries, the combined contribution to GDP increased significantly from 41% to 45% over the same period. Within the agricultural GDP, the relative importance of the subsectors changed: reduced share of the livestock sector from 45% to 38%, and increased shares of agriculture from 45% to 53% and of fisheries from 1% to 2%.

The contribution of the agricultural sector to Argentina's exports has been traditionally substantial. Over the last decade, the share of primary commodities in the total exports decreased sizably from 43% in the early 1980s to 27% in the early 1990s, but the decrease was nearly offset by the increased exports of agro-based processed products. The contribution of agricultural commodities and their processed products stood at 67% of the total exports in the early 1990s compared with 70% a decade ago.

The composition of the agricultural exports (including processed products) underwent significant changes relative to the situation in the early 1980s. Among the traditional major export commodities and products, the contribution of beef products and cereals (wheat, maize and sorghum) declined substantially, while oilseeds and their processed products increased. The exports of fishery products increased sharply, and their value during 1991-1993 was comparable to beef exports. The export positions of other products are yet too early to evaluate, but dairy products, vegetables and beans, and tea and mate showed sharp increases of more than US$10 million in 1993.

Agricultural imports traditionally had been of minor importance, consisting mainly of those products which are not produced in Argentina or used as raw materials

by domestic industries. The liberalization of external trade since 1991 stimulated the imports of agricultural and agro-based products, which rapidly increased from US$0.3 billion in 1990 to US$1.8 billion in 1993. 34% of the increase between 1990 and 1993 was for paper products, followed by 27% for processed foods, 16% for livestock products (mainly fresh and prepared meat of chicken and pork) and 11% for agricultural products (mainly fresh fruits and beverages like coffee, tea and cocoa).

(2) Impacts of reforms

Many of the reform measures, notably the tax reform and deregulation, have been influencing the relationships of important factors of production and external trade in the sector of agriculture, livestock and fisheries. According to the recent studies on the impacts of deregulation in the agricultural sector[1], changes of tax policy have had immediate favorable impacts on the selected aspects of production and commercialization, while the impacts of deregulation and privatization have been mixed, basically because their intended objectives, such as improved efficiency and lower production costs, will require medium- to long-term time frames to manifest themselves. In addition, the studies point out the special difficulties of adjustment in so-called regional agriculture, where various industrial crops, fruits and vegetables are grown mainly by small-scale farmers.

Several major findings of the studies are summarized below to indicate their implications for the future perspective of growth.

- A series of reductions and/or elimination of taxes, rates and contributions imposed on exports substantially reduced the costs of secondary commercialization for major export products, and increased the share of domestic prices relative to the FOB prices.

- Reduction of import taxes on inputs and capital goods, coupled with other reform measures, significantly lowered the prices of agricultural inputs such as machinery and equipment, fuels, fertilizers, agricultural chemicals and veterinary medicines.

- The favorable impacts on input prices have been partially offset by the increased costs of non-tradables. For example, wage rates of labor have risen, while the deregulation and privatization in service sectors, especially in the grain distribution and transportation sector, have so far had mixed results in reducing the costs of these services.

---

[1] Edith S. de Obschatko, Eduardo Sguiglia and Recardo Delegado, *Effectos de la Deregulacion sobre la Competitividad de la Produccion Argentina*, Fundacion ARCOR, 1994, and Edith S. de Obschatko, *Perfil del Complejo Agroindustiral Argentino*, IICA Argentine Office, 1994.

- During the period from early 1991 and early 1994, the profitability (in terms of gross and net profits) of major grains (wheat, maize, sunflower and soybean), cattle breeding and fattening, and dairy farming significantly improved. This improvement has resulted from the increased share of domestic prices relative to FOB prices, while both variable and fixed costs of production generally increased in aggregate terms (increases or decreases varied among individual cost items).

- The improvement of profitability has been small and thus tend to favor medium- to large-scale producers employing improved farming technology. Small and less technified producers and tenants could not realize a sufficient increase of their total agricultural income, which seriously affects the viability of their farms.

- The improved profitability has not been adequate enough to induce investments for modernizing farming practices, partly because the tax burdens of the producers increased as a result of the improved tax efforts by the federal government, and partly because tax reforms on the provincial and municipal levels are not yet completed. The reduced costs of capital in the banking sector improved the accessibility to credit, but the interest rates still remain high compared with the international standards (with no possibility of anticipating negative interests due to inflation).

- The growers of deregulated regional agricultural products (sugar, mate and Tobacco) outside the pampean region are losing what little viability they have had if ever, and are seriously disadvantaged in improving their competitiveness in the international and domestic markets.

- Small-scale growers of fruits and vegetables are similarly disadvantaged in their access to improved farming technologies, appropriate post-harvest facilities (cold storage and transportation), efficient distribution network reaching international markets and so on. The situation if left unattended will further widen the regional and income disparities in the agricultural sector.

(3) New institutions and support programs

The process of deregulation and privatization involved, among others, the dissolution of eleven public entities which used to control some aspects of agricultural production and marketing. At the same time, a number of new or reinstituted organizations have been established to facilitate the adjustment and transformation of the agricultural sector. With external financial assistance, these organizations and the Secretaria de Agricultura, Ganaderia y Pesca (SAGyP) with its research institutions have been implementing a variety of support programs and activities.

IDB-financed PROMSA, which aims to modernize federal-level support services, have been implementing since 1992 animal health and plant protection campaigns respectively by SENASA and IASCAV, seed multiplication and certification by INASE, selected research projects by INTA and INIDEP, new export promotion programs (PROCAR for beef and PROMEX for non-traditional products), and the integrated agricultural information system (SIIAP) managed by SAGyP. Similar modernization programs will be shortly initiated on the provincial level by IDB/World Bank-financed PROSAP. The full realization of the objectives of these support activities and specific programs described above will no doubt take some time to materialize, but the early signs are more than encouraging, as shown in the FMD eradication campaign, export promotion activities by PROCAR and PROMEX, and copious generation of information by SAGyP and other institutions, to name but a few.

A number of technical and financial support programs have been launched with special emphasis on small and medium producers and/or specific regional agricultural producers. For example, the Program of Rural Change under the decentralized INTA management provides farmers groups with technical assistance on advanced production and post-harvest technologies for intensification and diversification, facilitates better access to credit, and also promotes cooperation and interactions between the public- and private-sector organizations. With cooperation of IICA, the Social Agricultural Program (PSA) offers technical assistance and subsidized credit for productive group efforts of small farmers to improve their agricultural productivity and income, on the one hand, and provides aids to small farmers affected by socio-economic and climatic emergencies, on the other. Together with other support and credit programs designed for regional agriculture (e.g., NEA and Patagonia), these programs are receiving overwhelming responses from the producers, indicating the pressing needs of such supports during the period of adjustment.

3.1.1.2 Crop subsector

(1) General

Argentina grows a diversity of crops, reflecting the country's diverse agro-climatic endowments. However, the bulk of export traditionally has been concentrated in five crops of wheat, maize, sorghum, soybean and sunflower, which together command a planted area of some 15 million ha in and around the fertile Pampa region. Other cereals and oilseeds, industrial and horticultural crops have been grown usually in much smaller scale of operation and many of them are chiefly produced for domestic use.

The production of various crops was affected by the economic destabilization toward the end of the 1980s. Immediate impacts of the economic reform measures were seen in the quick recovery of many crops from the dip of production recorded in 1989. However, it is yet too early to evaluate their prospects of recovery and growth in the medium term. Compared with the averages in mid-1980s, the performances of selected cereals, oilseeds and industrial crops during 1990/91 - 1993/94 were mixed (Table 3.1.1). Only soybean and beer barley indicate dynamic growth in their production trend, while others such as sorghum, rye, linseed, mate and sugarcane are in a clear declining trend. The rest of the crops show either in moderate increase or decrease, or leveling off.

Table 3.1.1 Production of Selected Cereals, Oilseeds and Industrial Crops

('000 tons)

	1984-86 Av.	1991/92	1992/93	1993/94
Wheat	11,369.3	10,700.5	10,903.6	10,614.0
Maize	11,166.7	10,700.5	10,903.6	10,614.0
Sorghum	5,700.0	2,767.0	2,859.7	2,261.0
Soybean	6,866.7	11,310.0	11,045.0	11,457.0
Sunflower	3,233.3	2,059.7	2,955.9	3,549.0
Rice	439.7	732.7	592.8	551.0
Oat	570.0	695.0	600.2	551.0
Beer barley	146.7	570.1	580.1	456.0
Rye	126.6	62.5	34.0	57.0
Millet	133.7	65.3	59.3	53.0
Birdseed	42.2	56.9	33.2	23.0
Groundnut	244.7	221.4	233.4	209.0
Linseed	540.0	342.9	176.5	112.0
Safflower	6.9	n.a.	16.0	7.0
Cotton	507.6	652.0	431.1	695.0
Sugarcane	14,670.0	12,834.0	10,310.0	n.a
tabacco total	68.4	n.a.	112.0	n.a
Mate	454.1	172.4	195.4	n.a
Tea	185.5	199.6	235.4	n.a

Source: Figures are based on the printouts provided by the Direccion de Informacion y Sistemas of SAGyP.

Given the available resource limitations, the Study Team selected, in consultation with the Argentine counterparts, only limited aspects of Argentina's crop subsector in this report: namely, five major grains and horticulture. This does not mean that other agricultural products have no export possibilities in East Asia. From the viewpoint of pursuing export expansions vis-a-vis East Asian countries, the Study Team considers that the five major grains will be most important. Given the predominance of small-holder agriculture and strong policy tendencies to protect small farmers in land-scarce East Asian countries, Argentina has more definite comparative advantage in the extensive type of production. The existence of various forms of regional agriculture suggests a diversity of potentials to be activated for export-oriented production, as indeed being vigorously promoted by PROMEX. At the same time, the problems to be coped with are as diverse as the number of regional crops grown. Horticulture is selected to ascertain an emerging approach to export promotion.

(2) Major cereals and oilseeds

a. Production

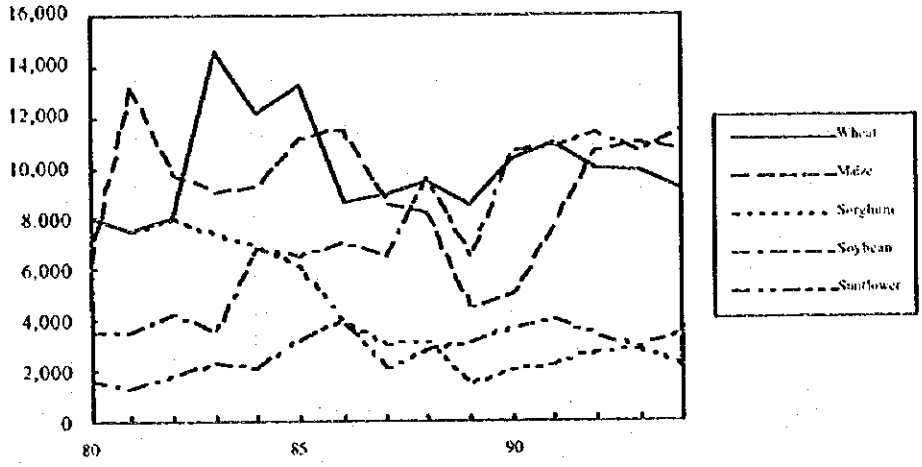
Five major grains together account for nearly 90% of Argentina's gross agricultural product of total cereals and oilseeds. Although with fluctuations caused by the vicissitude of international market conditions and a vagary of periodic economic destabilization, the production of these grains showed a secular trend of growth since the 1950s and expanded tremendously during the 1970s (Table3.1.2). The growth of soybean was especially dramatic, its production which began experimentally in the early 1960s jumped from a mere 0.1 million tons in the early 1970s to nearly 4 million tons in the early 1980s. The remarkable performance in the 1970s was derived from the global technological innovations. The mix of the green revolution adopted in Argentina was the introduction of new genetic materials in the form of hybrids and other high-yielding varieties and the increased use of mechanical power to expand the area under cultivation, without appreciable utilization of chemical fertilizers in the cultivation of the five grains. Especially notable development during the 1970s was the quick diffusion of double cropping of early maturing wheat and soybean, which expanded in the traditional single-cropping area of maize.

Table 3.1.2 Trends of Major Cereals and Oilseeds

	70/71-72/73	80/81-82/83	90/91-92/93
Production (1000 tons)			
Wheat	6,073	10,346	10,249
Maize	8,497	10,500	9,789
Sorghum	3,993	7,883	2,619
Soybean	136	3,973	10,939
Sunflower	846	1,880	3,466
Harvested Area (1000 ha)			
Wheat	4,320	6,096	4,684
Maize	3,593	3,178	2,267
Sorghum	1,928	2,377	717
Soybean	87	2,049	4,947
Sunflower	1,312	1,618	2,321
Yield (1000 kg/ha)			
Wheat	1,406	1,697	2,188
Maize	2,365	3,304	4,319
Sorghum	2,071	3,316	3,655
Soybean	1,563	1,939	2,211
Sunflower	645	1,162	1,493

Sources: For the 1970s and 1980s, Bolsa de Cereales, Numero Estadistico, 1984. For the 1990s, Direc. of Agrarian Economy and International Affairs.

Figure 3.1.1 Production of Major Cereals and Oilseeds (1,000 tons)



The dynamism of the 1970s more or less continued through the early 1980s, but after mid-1980s the decreasing trend of three cereals set in (Figure 3.1.1). After the sharp drops during the hyperinflation of the late 1980s, the five grains showed recovery in the early 1990s, but the behaviors differed significantly among them. Relative to the respective levels of production in the mid-1980s, only soybean recorded a substantially higher level of output in the early 1990s. Wheat, maize and sunflower remained more or less on a par, with sorghum showing a steadily declining trend. Different behaviors are principally related to the external conditions. Wheat and feedgrains (maize and sorghum) have been seriously affected by the loss of major importers like former Soviet Union, the import-restrictive agricultural policy in EC, and subsidized exports by other producing countries. The production of soybean was aided by the growth of oil milling industry as well as by better external market conditions. The growing importance of soybean was shown in the expansion of its double-cropping in the wheat-soybean rotation area.

On-going economic reforms include those measures which influence, directly and indirectly, the structure of costs and margins of various farming operations. The Study Team was able to obtain only limited, and indicative information elaborated in the afore-mentioned study on the impacts of deregulation. The indicative figures in Table 3.1.3 show improved profitability for wheat, maize, soybean and sunflower during the period from 1990/91 to 1993/94. The primary source of this improvement is the increased farm-gate prices derived from the elimination of export taxes and other rates imposed on various stages of secondary commercialization. The aggregate direct costs increased, with the exception of wheat, because of the risen costs of labor and services (e.g.,

transportation) which more than offset the reduced prices of material inputs like agrochemicals and fuels.

Table 3.1.3 Changes in Average Costs and Profit by Farming Activity

(US$/ha)

	Wheat			Maize			Soybean			Sunflower		
	Period 1	Period 2	Period 3	Period 1	Period 2	Period 3	Period 1	Period 2	Period 3	Period 1	Period 2	Period 3
Farm-gate Price (US$/qq)	6.26	11.80	12.00	8.55	8.90	10.30	17.57	19.63	21.75	14.97	21.00	21.70
Direct costs (1)	171.95	184.04	171.27	269.53	265.69	291.56	243.68	254.63	271.92	211.94	231.00	249.00
Gross margins (2)	-34.35	75.56	92.73	115.22	134.81	171.94	142.86	177.30	206.58	57.46	147.00	141.60
Structural costs (3)	53.72	75.89	66.02	65.47	71.39	66.02	65.47	71.39	66.02	65.47	71.39	66.02
Net profit (4)	-88.07	-0.33	26.71	49.75	63.42	105.00	77.39	105.91	140.56	-8.01	75.61	75.58
Average costs (5)	7.82	8.37	7.79	5.99	5.90	6.48	11.08	11.57	12.36	11.77	12.83	13.83

Period 1: Wheat - December 1990 to january 1991; Corn, Soybean, Sunflower - April to June 1991.
Period 2: Wheat - December 1992 to january 1993; Corn, Soybean, Sunflower - April to June 1993.
Period 3: Wheat - December 1993 to january 1994; Corn, Soybean, Sunflower - April to June 1994.
(1) Direct costs for production, harvesting, and commercialization (in sunflower, discounts are excluded).
(2) Gross income minus direct costs. Yields in qq/ha are 22 for wheat, 45 for maize, 22 for soybean, 18 for sunflower; Gains in kg/ha/year are 114 for breeding, 272 for fattening, and 107 for dairy farming.
(3) Taxes for asset and real estates, municipal tax, moblie tax, fees for agents, administrative costs, office expenses, conservation and unforeseen expenses.
(4) Gross margins minus structural costs.
(5) Direct costs per quintal.
Source: Taken from Table 8 in Obschatko, Edith S. de, Sguiglia, Eduardo and Delgado, Ricardo, Effectos de la Deregulacion sobre la Competitividad de la Produccion Argentina, Fundacion ARCOR, Coleccion Estudios Politicos y Sociales, 1994, pp.70-71.

The costs and margins above are estimated on the basis of the typical farming practices with constant yields close to national averages, and notably fertilizers are not included among the direct costs. This implies the possibility of increasing the profitability by improving the productivity of farming operations. According to the SAGyP information, the consumption of chemical fertilizers have picked up in recent years, and the wheat area applied with fertilizers, for instance, increased from 25% of the total area in 1991/92 to 34.5% in 1993/94. The possible improvement in profitability shown in the table appears too small for smaller farmers to generate sufficient income and to invest in the application of more technified, productive farming technology.

b. Marketing

1) Deregulation and privatization

Since the late 1980s, the grain commercialization, as many industries in Argentina, has been compelled to readjust the new economic rules created through deregulation and privatization. In 1989, the National Grain Board (JNG) halted its price support mechanism and purchase programs of wheat aimed at ensuring a steady supply of flour for domestic consumption. The dissolution of the JNG in 1991 put a period to the guarantee to producers for the delivery of their crops to grain merchants and exporters, the instrumentation of input/output exchange schemes, and the operation of silos and country elevators and port elevators. Under the deregulation policy, there has also been a

reduction of the tax burden on exporters of cereals and oilseeds with the purposes of cutting export costs and of enhancing competitiveness for production.

The state has transferred to the private sector, by means of sale or concession, the network of country and port elevators. 40 country elevators out of 64 have been privatized, as well as three port elevators out of 16.[2] As a consequence, there have been a fall in elevating tariffs and a speed-up of loading procedures, which reduce the cost of vessel stays. A number of informants for the present study, particularly those in the private sector, however, have pointed out that poor inland infrastructure (e.g., roads) due to lack of public investment is now a major constraint for a quick delivery of harvests to ports. In addition, there has not been a significant change in domestic collecting networks for grains because they were already handled by grain merchants and exporters before the dissolution of JNG.

2) Impacts of economic reforms

The domestic commercialization costs for grain, which were found to be excessively high in comparison to other major grain producing countries in the previous study have significantly decreased due to the elimination or reduction of taxes and duties affecting grain exports. These include export tax, statistical tax, INTA duty, tax on foreign currency transfers, and the charges for services provided by various official agencies such as the Shipping Inspectorate, JNG, and the Port Authority. It is also reported that the efficiency of grain elevator operations has increased due to privatization and thus helped to reduce commercialization costs. SCI has reported that between 1990 and 1994 the price per ton effectively received by grain exporters increased from $96.60 to $110.29 for wheat, from $80.99 to $102.48 for maize, and $179.73 to $221.95 for soybean.

What the marketing sector is currently undergoing as part of the restructuring process is the concentration of grain merchants (acopiadores). According to Bolsa de Cereales, the number of acopiadores decreased from some 400 to around 150, with 27 country elevator closed down, in the last few years, though this is due partly to a shrink of grain harvests in the late 1980s. Companies that do not have good management together with access to finance are most severely affected by the policy changes. But even most of the large transnational corporations that have long dominated the Argentine grain export have reduced the number of their employers. After a period of speculations that could generate an "artificial" income, the marketing sector, as well as the production sector, now seems to have no choice but to improve the efficiency of their operations.

---

[2] The Ministry of Economy and Public Works, *Argentina: A Growing Nation*, 1993.

Nevertheless, the private sector has been gradually adapting its way of business to the new situation. For example, futures markets and options in dollars, authorized recently, have been increasingly used for risk-hedging, from 1.5 million tons of grains in 1992 to 7 million tons in 1993, after the price support mechanism was abolished.

3) New programs and organizations

To facilitate the private sector's readjustment and to expand market opportunities, SAGyP has been implementing a program called COMERCIAR (the Promotion of Instruments of Marketing and Financing for the Modernization of Agricultural-Livestock Commerce) with the support of the Grain Exchanges (Bolsa de Cereales) and related entities. Its activities include the diffusion and promotion of the utilization of prefinancing for exports, futures markets and options, and warranties. For this purpose, the program staff distribute publications and provide seminars at different locations of the country. The previous study concluded that the underdevelopment of futures markets was one of the institutional constraints for increasing grain purchases, especially by foreign buyers in Argentina. This can be therefore considered an important development for the grain commercialization in the light of enhancing international competitiveness.

After the dissolution of JNG, the function of obligatory plant health and quality controls for grains was transferred to the Argentine Institute of Plant Health and Quality (IASCAV), an organization created under the Secretariat of Agriculture, Livestock and Fisheries (SAGyP) in 1991. In addition to plant quarantine and general inspection, it also controls the rules of market and industrial quality of agricultural products, including agro-based manufactured products. A weak quarantine and quality control system of the country has been one of the technical constraints for exporting various agricultural products. Many Argentine experts stress the importance of strengthening IASCAV's activities for the agricultural export expansion, especially of non-traditionals such as fruits and vegetables.

c. Grain exports

1) Trends

Grain exports generally decreased during the latter half of the 1980s and so did the Argentine share in the world market. Cereal exports as a whole dropped from US$ 2.9 billion in 1983 to US$ 0.7 billion in 1987, while oilseed exports from US$ 1.0 billion in 1984 to US$ 0.2 billion in 1989.[3] There were large falls in the exports of all major grains in the late 1980s (Table 3.1.4).

[3] Bolsa de Cereales de Buenos Aires, Numero de Estadistico 1992/93.

Table 3.1.4 Argentine Exports of Major Grains

(Unit: 1,000 tons)

	Wheat	Maize	Sorghum	Soybean Grains	Sunflower	Soybean Oil	Soybean Pellets	Sunflower Oil	Sunflower By-products
1983	10,174	6,477	5,260	1,419	3	300	1,704	614	943
1984	7,280	5,558	4,236	3,100	146	490	2,460	595	846
1985	9,671	7,040	3,306	2,987	379	525	2,352	840	1,191
1986	4,030	7,374	1,936	2,604	524	669	3,275	954	1,403
1987	4,197	3,963	1,030	1,292	48	724	3,622	662	948
1988	3,672	4,233	1,440	2,096	55	897	4,521	773	1,155
1989	4,952	1,879	391	430	113	760	4,521	834	1,252
1990	5,847	2,922	1,128	3,259	351	1,246	5,157	1,303	1,419
1991	5,544	3,840	1,286	4,406	368	1,008	5,803	751	1,475
1992	6,058	6,055	1,164	3,105	296	946	6,411	655	1,200

Source: Bolsa de Cereales de Buenos Aires, Numero Estadistico 1992/93.

Grain exports have somewhat recovered since 1990, but not to the levels seen in the early 1980s. An exception was soybean and its exports reached US$ 0.9 billion (4.4 million tons) in 1991. As far as grains and oilseeds are concerned, therefore, the export performance has been stagnant even though there appear to be favorable impacts of the economic reforms on the production and commercialization.

This situation is rather a result of the international price crisis for grains brought about by an increase in subsidized exports from industrialized countries since 1985, than a deterioration in Argentina's international competitiveness itself for these commodities. A change in the international political map in the late 1980s has also influenced the international trading pattern for grains, with the ex-U.S.S.R., which used to be one of Argentina's major clients, becoming an importer of subsidized grains. The growing demand in domestic markets owing largely to the expansion of agroindustrial activities is one of the factors for the decreased exports.

2) Destinations

It is one of the characteristics of Argentina's grain exports that destinations fluctuate from year to year, which has not much changed since the mid-1980s (Tables 3.1.5 - 7). However, there are some large, relatively stable, destinations of Argentina's major grains; Brazil for wheat and maize, Japan for maize and sorghum, the Netherlands for soybean and sunflower seeds, and Mexico for sunflower seeds. A recent significant development is the growing importance of neighboring countries, e.g., Brazil and Chile for wheat and maize exports.

Table 3.1.5 Major Export Destinations of Wheat

(Unit: tons)

Country	1986	1987	1988	1989	1990	1991	1992
Benin	8,400	0	0	0	0	0	0
Bolivia	20,470	23,718	23,528	8,722	1,500	148,258	103,064
Brazil	687,053	1,063,912	928,861	1,635,951	1,810,329	2,889,043	3,248,856
Chile	6,050	0	7,700	0	0	33,580	303,605
China	402,505	808,958	304,147	1,131,388	749,764	444,861	42,000
Colombia	75,454	82,600	67,410	99,482	11,424	0	187,490
Cuba	66,000	135,800	90,786	49,810	118,800	168,923	59,850
Indonesia	164,100	240,734	190,156	10,000	308,155	375,550	350,805
Iran	512,730	496,589	772,628	659,612	1,469,707	359,508	431,999
Lebanon	148,891	64,000	0	0	0	50,323	0
Libya	87,340	0	0	0	0	0	0
Malaysia	61,973	0	0	16,720	18,412	35,890	0
Netherlands	10,130	0	0	0	0	1,700	1,500
Nigeria	56,327	0	0	0	0	0	0
Norway	56,326	0	0	55,000	0	25,641	0
Pakistan	131,413	0	0	0	0	0	0
Paraguay	25,000	0	0	0	0	23,460	29,125
Peru	593,680	413,262	440,042	479,285	307,074	567,598	571,400
Poland	223,142	0	0	0	0	0	0
Portugal	29,975	0	0	0	0	0	0
Singapore	0	0	0	0	0	2,200	0
South Africa	28,641	30,000	0	0	0	0	30,172
South Korea	64,332	63,178	21,300	0	0	0	0
Spain	291,484	0	0	0	104,295	193,110	57,750
Turkey	177,887	0	0	69,695	444,605	0	0
Uruguay	58,532	6,536	0	15,404	0	0	216,455
U.S.S.R.	15,288	541,093	633,400	609,112	466,053	31,723	0
Venezuela	0	199,547	151,557	111,435	0	46,300	12,800
Other Countries	26,557	27,500	40,366	0	37,302	146,765	410,652
Total	4,029,680	4,197,427	3,671,881	4,951,616	5,847,420	5,544,433	6,057,523

Source: Bolsa de Cereales de Buenos Aires, Numero Estadistico 1992/93.

Table 3.1.6 Export Destinations of Maize

(Unit: tons)

Country	1986	1987	1988	1989	1990	1991	1992
Angola	8,250	7,551	64,507	68,437	39,880	49,131	12,937
Algeria	404,330	0	0	0	0	47,500	0
Belgium	270,685	264,112	179,116	90,400	42,012	62,973	28,250
Brazil	859,037	118,855	32,086	206,425	449,938	544,287	429,845
Canary Island	25,870	6,004	4,710	3,500	1,000	1,000	4,005
Chile	0	0	0	0	0	43,025	221,996
China	52,585	143,496	0	0	0	0	0
Cuba	303,138	367,559	518,048	548,244	421,797	92,829	17,437
Cyprus	36,580	0	13,315	0	0	0	35,410
Dominican Rep.	32,094	0	0	0	0	9,225	44,930
Egypt	357,846	27,031	255,059	0	30,442	207,260	282,921
France	0	0	0	0	0	0	17,602
East Germany	64,353	0	0	0	0	0	0
West Germany	128,555	80,445	188,692	100,504	116,973	80,599	134,385
Iran	915,262	923,458	443,710	622,946	795,767	516,278	340,567
Italy	269,426	197,396	188,255	65,745	53,751	152,282	65,375
Japan	1,276,189	257,846	143,094	180	60,475	462,950	341,809
Jordan	16,500	0	21,996	0	0	48,000	100,438
Lebanon	48,725	0	10,000	0	7,430	39,139	19,665
Libya	87,618	10,000	0	0	86,268	67,633	67,070
Malaysia	88,711	118,161	308,384	0	94,521	0	30,675
Malta	80,562	0	12,601	0	9,300	34,288	0
Mexico	266,034	0	0	0	0	0	18,075
Morocco	59,249	0	0	0	0	0	76,830
Netherlands	36,611	8,524	26,230	40,852	89,366	87,491	70,987
North Korea	261,495	0	0	0	0	0	0
Norway	0	18	0	0	0	0	0
Peru	101,880	0	256,385	45,188	115,750	444,772	648,285
Poland	19,329	0	0	0	0	0	0
Portugal	180,841	0	31,620	0	57,856	0	0
Puerto Rico	61,564	28,545	32,129	18,400	12,197	14,932	16,780
Rumania	290,801	0	0	0	0	0	0
Saudi Arabia	100,600	32,739	63,633	0	95,434	86,022	295,611
Singapore	16,147	19,075	126,548	0	67,002	0	27,085
South Africa	0	0	0	0	0	131,542	1,192,141
Spain	14,606	22,927	190,821	4,199	70,007	31,539	127,089
Syria	33,786	0	0	0	28,188	57,983	32,844
Tunisia	78,581	0	0	0	52,500	23,043	140,157
Turkey	121,584	0	0	0	0	20,800	13,810
U.S.S.R.	387,743	1,260,923	878,378	0	0	0	0
Uruguay	20	43,793	35,883	59,375	21,159	21,508	29,977
Venezuela	0	0	0	0	0	0	98,230
Other Countries	17,291	24,539	207,367	4,956	102,771	462,345	1,071,756
Total	7,374,478	3,962,997	4,232,567	1,879,351	2,921,784	3,840,376	6,054,974

Source: Bolsa de Cereales de Buenos Aires, Numero Estadistico 1992/93.

Table 3.1.7 Export Destinations of Soybean Grains

(Unit: tons)

Country	1986	1987	1988	1989	1990	1991	1992
Belgium	259,034	25,000	0	27,950	130,299	98,824	30,810
Brazil	0	0	0	0	0	251,279	194,557
China	102,939	0	0	0	0	0	28,513
Cuba	10,020	0	0	0	0	0	4,000
Finland	25,500	0	0	0	0	0	0
France	0	0	0	0	22,478	45,046	60,583
West Germany	360,234	80,150	133,001	55,790	347,699	355,469	200,334
Greece	56,080	13,800	86,616	25,050	66,210	121,967	85,151
Isreal	0	0	0	0	0	757	0
Italy	314,386	77,850	368,364	52,500	341,113	476,981	487,216
Japan	7,381	0	0	30,420	25,253	26,170	23,754
Lebanon	18,000	0	0	0	0	0	
Malaysia	10,550	0	59,654	0	223,378	81,538	119,385
Mexico	46,461	0	0	0	43,395	19,515	23,790
Netherlands	633,737	410,444	1,043,440	233,139	1,270,578	1,721,540	1,055,588
Norway	85,345	24,500	28,000	0	96,699	70,626	46,510
Portugal	244,531	23,750	194,870	0	127,617	298,703	15,117
Rumania	137,209	0	0	0	86,202	122,548	0
Spain	230,070	0	0	0	296,105	496,931	203,688
U.K.	0	0	0	0	0	31,947	51,170
U.S.S.R.	0	636,358	0	5,000	0	0	0
Venezuela	53,551	0	74,316	0	0	88,307	0
Other Countries	9,446	0	108,005	0	181,649	97,488	475,242
Total	2,604,474	1,291,852	2,096,266	429,849	3,258,675	4,405,636	3,105,408

Source: Bolsa de Cereales de Buenos Aires, Numero Estadistico 1992/93.

Asian countries, with their large populations and the declining relative importance of the agricultural sector in those countries in general, are potential destinations of Argentine grains. If the industrialized countries stopped subsidizing grain production and export, certainly, there would be greater possibilities for Argentina to expand the destinations for its products. The Argentine government, as a member of the Cairns Group, has been putting much effort to improve world agricultural trade environments.

d. Domestic demand

There are three categories for Argentina's grains from the viewpoint of export/domestic use: a) Grains mainly exported (maize and sorghum); b) Grains exported but with a higher percentage retained for domestic use (wheat and soybean); and c) Grains mainly retained for domestic use (sunflower seeds). The difference in domestic consumption, i.e., utilization by industries, can be attributed mainly to the external marketability of their processed products. Crude vegetable oils and meals can be processed for external markets, while cereals are favored unprocessed. These characteristics have remained basically unchanged since the previous study (Okita I).

Over the past decade, however, the domestic orientation has tended be intensified as exports have become stagnant and, partly because of it, agro-based manufacturing industries developed. This tendency was already seen for soybean in the 1970s and the early 1980s, when the oil milling industry grew. Between 1980-84 and 1985-92, the percentages used by domestic industries in the total demand increased from 41% to 44% for wheat, 21% to 25 % for maize, from 5% to 12% for sorghum, and from 46% to 66%

for soybean.[4] Only for sunflower seeds, the number decreased from 98% to 92% for the same period due partly to the increased exports to Mexico since the late 1980s.

Table 3.1.8 Commercialization of Major Grains in Argentina

(Unit: 1,000 tons; %)

Crop Year	Wheat Dec.-Nov.		Maize Mar.-Feb.		Sorghum Mar.-Feb.		Soybean Apr.-Mar.			Sunflower Jan.-Dec.		
	Used by Domestic Industry	% of Export in Total Demand	Used by Domestic Industry	% of Export in Total Demand	Used by Domestic Industry	% of Export in Total Demand	Used by Domestic Industry	Of Which Oil Export Grain Equiv.	% of Export in Total Demand	Used by Domestic Industry	Of Which Oil Export Grain Equiv.	% of Export in Total Demand
1985/86	4,030	70.6	1,454	82.9	211	94.0	3,669	3,281	94.2	2,908	2,100	75.4
1986/87	4,065	49.8	1,418	83.9	371	83.9	4,236	4,181	99.2	3,730	2,385	78.8
1987/88	3,957	51.5	1,465	73.0	217	82.6	5,019	4,525	92.2	2,259	1,655	83.0
1988/89	3,900	48.7	1,317	76.3	131	91.7	6,298	5,606	91.8	2,721	1,933	83.6
1989/90	4,136	54.5	1,175	61.5	96	80.3	5,389	4,750	93.4	3,120	2,085	85.9
1990/91	4,131	58.7	1,036	73.8	-	-	6,617	7,788	111.9	3,511	3,258	96.3
1991/92	4,313	56.2	1,297	74.8	-	-	6,620	6,300	97.1	3,753	1,878	77.0
1992/93	3,834	61.2	1,268	82.7	93	92.6	8,145	5,913	80.2	3,550	1,638	71.3

Source: Bolsa de Cereales de Buenos Aires, Numero Estadistico 1992/93.

Since the late 1980s processing industries, such as flower milling and oil extracting, have also been going, or gone in some cases, through the process of restructuring, associated with concentration around relatively large-scale and more efficient plants equipped with new facilities. This process has occurred under the new economic policies but was also be brought about by a fall in profit margins under the price crisis for grains in general. The present situation of these industries is analyzed in more detail in the manufacturing subsector analysis of this report.

(3) Horticulture

a. Production

Horticulture (fruits, flowers and vegetables including beans and pulses) in Argentina is reported to have recorded moderate long-term growth since the beginning of the 1980s, and accounts for roughly 20% of the agricultural sector GDP[5]. Blessed with the diversity of ecological conditions, it is commonly pointed out that the country has year-round possibilities of producing various horticultural crops (fruits, vegetables and flowers) for international trade as well. The fact remains, however, that the apparent potentials have not been fully exploited. Only a limited number of crops, such as apple, pear and a few citrus fruits show some consistent export performance over the last decade or so.

Horticultural production of Argentina is mainly found outside the pampean region, such as in the northern parts of the country (NOA and NEA), the western area (Cuyo) and river valleys of northern Patagonia. In addition, the southeastern part of Buenos Aires Province and the areas along the mid-streams of the Parana and La Plata

---

4 Ibid.

5. JICA Argentine Office, The Present Situation and Issues in Argentina's Agriculture and Horticulture (Flowers, Fruits and Vegetables), March 1992 (in Japanese).

produce a variety of horticultural crops mainly to supply to the metropolitan area of Buenos Aires. The crops grown in these areas are quite diverse, but a rather limited number of crops dominate in quantitative terms of planted area and tonnage. Table 3.1.9 shows the production of major fruits and vegetables in recent years, mainly based on the information obtained from SAGyP[6].

Table 3.1.9 Production of Major Fruits and Vegetables

('000 tons)

	1984-86 Ave.	1989/90	1990/91	1991/92	1992/93
Orange	621.5	648.3	773.9	739.0	708.9
Lemon	436.2	534.1	656.0	660.7	605.0
Mandarin	257.7	280.4	346.3	395.3	321.3
Grapefruit	165.5	166.6	203.9	191.9	196.5
Apple	796.1	1,050.0*	950.0*	1,043#	600.0
Pear	174.8	275.0*	204.4*	290#	263.0
Grape	2,478.7	('89) 2,938.3	n.a.	2,953.0#	1,944.6#
Peach	245.8	('89) 249.5	n.a.	235.0#	250.0
Apricot	22.2	('89) 16.5	n.a.	22.5#	21.8
Plum	51.5	('89) 48.8	n.a.	54.6#	53.0
Potato	2,136.4	2,800**	n.a.	1,961#	2,210.0
Sweet potato	380.7	460**	n.a.	266#	270.5
Tomato	799.3	800**	n.a.	720#	700.0
Bellpepper	76.1	90**	n.a.	91#	90.0
Melon	63.9	85**	n.a.	69#	70.0
Onion	315.7	320**	445.0	500.0	379.0
Garlic	39.6	40.0	72.7	89.8	79.3
Carrot	180.6	160**	n.a.	217#	215.0
Bean (dry)	200.0	207.8	175.0	169.0	146.5
Pea 1)	7.7	('88) 26.1	n.a.	36.0#	38.5#
Lentil	12.2	('88) 25.0	n.a.	24.0#	25.1#

Sources: Figures are mainly taken from the printouts provided by the Direccion de Informacion y Sistemas of SAGyP, except for those indicated below.
* = Taken from Estudio de Competitividad Agropecuaria y Agroindustria: Manzana, Pera y Jugos, prepared by SAGyP/IICA in 1993.
** = Taken from the JICA study on the present situations of Argentina's agriculture and horticulture prepared in 1992.
# = Figures prepared by the Argentine counterparts and presented to the Study Team during the mission in March 1995.

Note: 1) Figures for 1984-86 average and 1988 are dry pea only.

Fruits (excluding grapes) command an estimated total area of about 0.33 million ha, of which nearly 70% are planted to citrus fruits (oranges, lemon, grapefruit, etc.), apple and pear. Grape is mainly grown in the western region (Cuyo) for wine production, with a total planted area of about 0.28 million ha. As shown in Table 3.1.9, four major citrus fruits and pear show increased production levels in the early 1990s compared with the averages of the mid-1980s. Production of apple appears to have also increased over the same period, although it is reported to fluctuate because of its susceptibility to late frost. The data on other fruits in the table show no clear trend.

6. SAGyP has been developing an Integrated System of Agriculture, Animal Husbandry and Fishery Information (SIIAP) as a component of PROMSA. Computer printouts provided by SAGyP during the study in 1994 were not yet complete on some crops, and the table on fruits and vegetables is based on mixed sources as indicated, which may not be mutually consistent.

Vegetables (excluding beans and pulses) are grown in an estimated area of around 0.3 million ha, of which about 50 % is planted to potato and other tubers (sweet potato and cassava). The other major vegetables are heavy fruit vegetables (melons, watermelon and squashes), tomato and bell pepper, and onion and garlic. Compared with the average levels in the mid-1980s, only garlic, and perhaps onion and carrot, show significant increases of production in recent years, partly reflecting their growing exports since the 1980s.

The production of beans and pulses was once substantial, especially in the region of NOA, and the export of dry bean (poroto) once reached about 0.2 million tons. Of the combined area of 0.20 - 0.25 million ha, poroto usually accounts for 80 - 90 %, but its production has been decreasing in the early 1990s due to the decline of its export.

Flowers account for a small fraction of horticulture in Argentina, and besides there is no consistent national production figures. According to the Agricultural Census of 1988, flowers have an estimated area of a little over 3,000 ha, and small centers of production are formed to supply to urban markets like Buenos Aires and other major cities. The afore-mentioned JICA study reports that the average operation is less than one ha, and that green house production is limited to a few hundred ha. According to the information from a cooperative of flower producers in Buenos Aires, the flower production has been adversely affected by the deregulation because of the growing imports from other Latin American countries.

According to the studies consulted[7], horticultural production varies from small-scale low-technology operations found in regional agriculture to small-scale but diversified intensive operations near urban centers and large agribusiness-type operations (usually fruits) which employ irrigation and other advanced technologies and sometimes integrate production, marketing and processing. But the majority of producers are small-scale, with their operations often not exceeding 10 ha. Small-scale horticulture is usually characterized by low yields and quality compared with international standards. Few producers employ high-yielding planting materials, suitable irrigation and soil management technology, effective plant protection, and appropriate harvest and post-harvest technologies.

---

7. JICA Argentine Office, Ibid., and Campbell, Guillermo Jorge, et al, Diagnostico de Competitividad Agropecuaria y Agroindustrial a Nivel de MERCOSUR: Informe Final, (BID ATN/SF-4130-RE), Nov. 1993.

b. Marketing and export

According to the JICA study, producers, independent shippers, integrated producer-shippers and integrated producer-retailers variously participate in the distribution of horticultural products in the country. In addition to consigning their products to the brokers operating at wholesale markets, producers sell them directly to bulking traders, supermarkets, exporters and processors. Wholesale marketing for the metropolitan area of Buenos Aires was centralized in the mid-1980s, but the deregulation of 1991 ended the monopoly of the metropolitan central market. Under the on-going reform, distribution and marketing of horticultural products must have been undergoing significant restructuring, but the Study Team is short of adequate information on the changing situation. At present, the pressing need is said to be the establishment of an effective system of standardization, such as grade classification, sanitary control, preparation, packaging and presentation, which will serve to upgrade the quality of the products relative to the demands of consumers and to increase the competitiveness in international markets. IASCAV for instance has been implementing some important measures toward this end.

In tonnage, apple and pear traditionally led the exports of fresh horticultural products, the former fluctuating between 133,000 and 260,000 tons and the latter increasing from a little more than 50,000 to 160,000 tons during the decade since 1981. During the 1980s, combined exports of citrus fruits (mainly oranges and lemon) increased substantially, tripling from less than 80,000 tons in 1984 to 240,000 tons in 1992. Other than the major fruits mentioned above, grape, plum and peach have some exports in recent years respectively ranging from 10,000 to 20,000 tons. Non-traditional fruits like cherry, apricot, berries and avocado have been exported in small amount, usually not exceeding a few hundred tons. What is notable is the growing exports of fruit juices in recent years. Juices of citrus fruits (mainly lemon and oranges), for example, rose from about 7,500 tons in 1984 to 28,000 tons in 1992.

Exports of vegetables have never been important in Argentina. Only garlic and onion show appreciably increasing exports in recent years, each amounting to about 50,000 tons in 1992/93. In addition, a few hundred tons of tomato, asparagus, bell pepper, potato and olive began to be exported since the late 1980s.

Until recently, the traditional export stance concerning horticultural products, except for a few major fruits mentioned above, might be characterized as indifferent, as in exporting a surplus if any. However, the emphasis has been currently shifting to explicitly export-oriented production. In fact, not only horticultural products but all kinds of non-traditional agricultural and animal husbandry products are considered for their

export possibilities. This is reflected, for example, in the creation of the Directorate of Non-traditional Products in SAGyP which provides an increasing number of useful information on non-traditional products, and in the launching of PROMEX which assists the private sector efforts to promote non-traditional agricultural exports.

c. Future prospects

The IICA/SAGyP Study on competitiveness[8] evaluates a selected number of horticultural products: namely, tomato (processed), citrus fruits and their derivatives, apple, pear and their juices, and non-traditional products (berries, strawberry, cherry, melon, asparagus, kiwi, tropical fruits like avocado, banana and mango, and organic products). Given the diverse ecological conditions in Argentina, technical possibilities would be much larger than the products listed above.

The approach to horticultural development by SAGyP and its related institutions appears to be two-fold. One approach, as exemplified by PROMEX, is to back up private sector initiatives by the provision of information and the financing of certain aspects of their export promotion efforts. The initiatives of agribusiness firms and associations of producers, partly benefiting from such public supports, have already begun to bear results in the growth of non-traditional exports such as asparagus, strawberry, melon, plum amd apricot.

The other approach aims at improving the productivity and income of regional small farmers with no explicit export orientation. For example, the INTA Action Program of Research and Extension for Small Producers[9], which was announced in mid-1994, focuses on regional small farmers distributed in 17 provinces in NEA, NOA, Patagonia, Cuyo and elsewhere. Various technical assistance, training, and organizational supports are being offered to approximately 20,000 small farmers, and about 30% of the beneficiaries are small farmers who produce fruits and vegetables. Horticulture is also one of the important components in the Rural Change and Social Agricultural Programs.

Considering the 'non-traditional' characteristics of horticulture, its dynamic export growth would require wide-ranging improvements in farming technology, associated infrastructure and institution building, research and extension, market development, finance and so forth. Among many requirements, most essential will be the establishment of an effective system of sanitary and quality control which concerns the

---

8. SAGyP/IICA, Estudio de Competitividad Agropecuaria y Agroindustrial, four volumes on processed tomato products, citrus fruits and derivatives, apple, pear and juices, and non-traditional products, Oct. 1993.
9. INTA, Investigacion y Extension para el Productor Minifundista: La Accion del INTA, July 1994.

processes of farming, harvesting, and post-harvest handling, the development of efficient marketing and distribution networks, and strengthening of market information systems.

3.1.1.3 Livestock subsector

(1) General

The livestock sector remains important in the Argentine economy, accounting for 38% of agricultural GDP in 1990-91 and 19% of total agricultural exports in 1991-93, though its importance has noticeably decreased in comparison to 10 years ago.[10] The sector supplies a wide range of products such as beef, mutton, pork, horsemeat, poultry, milk, hen eggs, leather, and wool. Meat is the most important livestock product with the annual production of over 3.3 million tons, of which beef accounts for some 2.5 million (Table 3.1.10).

Table 3.1.10 Argentine Meat Production, Consumption, and Exports

	Average 1980-89	1990	1991	1992	1993(f)
Cattle					
Liniers Market Sales (1,000 heads)	2,637	2,624	2,452	2,358	2,170
Steer Real Price index (Base 1960=100)	93	73	82	100	86
Total Slaughter (f) (Million heads)	13.1	12.5	12.3	11.7	11.9
Total Production (1,000 tons CWE)	2,698	2,686	2,607	2,487	2,508
Total Consumption (1,000 tons CWE)	2,432	2,212	2,196	2,190	2,232
Per Capita Consumption (kg per year)	77.4	71.3	67.9	66.4	66.9
Exports (1,000 tons CWE)	363	474	411	296	278
FOB Price (US$ per ton)	1,388	1,441	1,777	1,938	1,986
Pigs(f)					
Liniers Market Sales (1,000 heads)	710	326	237	226	189
Pig Real Price Index (Base 1960=100)	n.a.	118	144	113	98
Total Production (1,000 tons CWE)	221	146	145	160	185
Total Consumption (1,000 tons CWE)	220	141	152	190	212
Per Capita Consumption (kg per year)	7.6	4.4	4.6	5.8	6.6
Sheep					
Total Production (1,000 tons CWE)	101	95	75	62	59
Total Consumption (1,000 tons CWE)	83	77	68	60	60
Per Capita Consumption (kg per year)	2.9	2.4	2.2	1.8	1.8
Poultry					
Total Production (1,000 tons CWE)	n.a.	338	416	559	616
Total Consumption (1,000 tons CWE)	n.a.	334	420	602	666
Per Capita Consumption (kg per year)	n.a.	10.4	12.8	18.2	19.8
Imports (1,000 tons CWE)	n.a.	0.4	4	44	50

(f): forecast.
Source: Direccion de Mercados Ganaderos based on information collected and processed by SENASA and DGI.

The development of the sector as a whole has been rather stagnant since the mid-1980s, yet some subsectors have grown substantially while others have been going through a restructuring process both in production and in commercialization towards

10 Edith S. de Obschatko, *Perfil del Complejo Agroindustrial Argentino en 1994*, IICA Argentine Office, 1994.

more efficient operations. This report focuses on the cattle/beef sector partly because of its importance as an export product but also because of the limited availability of information on other products.

(2) Livestock production

a. Cattle population and characteristics

In 1993 the total cattle population amounted to approximately 52 million heads, while there were 18.5 million sheep, 3.6 million goats, and 3.4 million pigs.[11] While the population of these livestock followed a long-term trend of decline, the number of poultry, mostly chickens, has steadily increased from 159 million heads in 1986 to 257 million heads in 1993 as indicated by the numbers of slaughtering.

The cattle production in Argentina is characterized by large-scale operations with extensive grazing on natural pastures. Cattle farming is divided into breeding and fattening; the former is mostly carried out extensively in areas less suitable for crop cultivation and the latter is mainly done in the Pampa region in relatively more intensive manners than breeding, often complementarily integrated with crop cultivation. Because of the grazing method, Argentine beef is widely considered "healthier" or more natural than North American and European beef. This has become an advantage in the world agricultural market, which increasingly demands organically grown products.

The number of cattle traditionally follows the "livestock cycle" with a liquidation phase and a retention phase which is mainly caused by changes in the real price. A fall in the real price leads to an increase in the amount of slaughtering and thus to a shrink of the stock. It seems, however, that the Argentine cattle production no longer follows the typical livestock cycle. This tendency was already observed, with a prolonged liquidation phase, in the mid-1980s, when the profitability of beef production declined due to weak demand in external markets. The cattle population decreased during the 1980s and hit the lowest of 47 million in 1988. It bounced back to 53 million in 1992, though still 5% smaller than that in 1980.

The National Agricultural Census 1993 indicates that nearly 80% of the total cattle stock exists in the Pampa region, i.e., the provinces of Buenos Aires, Cordoba, Entre Rios, La Pampa, and Santa Fe. While the cattle population increased in the Pampa region between 1988 and 1993, a number of cattle farms are reported to have been converted to

[11] INDEC, *Encuesta Nacional Agropecuaria 1993: Datos Preliminares*, February, 1994; Information obtained from SAGyP, Direccion de Produccion Ganadera during the work in Argentina.

agricultural land in this region, which is generally suitable for both activities, due to the higher profitability of cereal and oilseed production.[12]

The lower profitability of cattle production makes new investment difficult, resulting in little technological improvement in cattle production. The land productivity measured in terms of live cattle weight per hectare per year has not shown a significant change from the mid-1980s' level of around 90 kg.[13] The adoption of new technology is more noticeable in fattening than in breeding; also in mixed areas and in larger farms. Technical assistance, together with access to credit and better market information, is desirable for improving production technology, particularly in small operations.

b. Impacts of economic reforms

As discussed in the sector profile, the changes in macroeconomic and sectoral policies since 1991 have lead operations in the agricultural and livestock sector towards increasing their profitability. There were some increases in gross and net profit between late 1990 and early 1994 in cattle production (Table 3.1.11). SCI has reported that government deregulation measures increased the revenue for exporting meat-packers by 10%, but their immediate impacts on cattle production need to be further assessed.

Table 3.1.11 Changes in Average Costs and Profit by Farming Activity

(US$/ha)

	Breed-ing			Fatten-ing			Dairy		
	Period 1	Period 2	Period 3	Period 1	Period 2	Period 3	Period 1	Period 2	Period 3
Net revenues (1) (US$/ha)	52.74	74.49	70.57	116.76	157.61	159.68	547.55	522.66	582.72
Production costs	24.29	26.51	25.76	57.15	64.34	72.12	329.36	311.63	317.48
Gross margins	28.45	47.98	44.81	59.61	93.27	87.56	218.19	211.03	265.24
Structural costs	29.20	43.08	39.27	53.72	75.89	66.02	53.72	75.89	66.02
Net profit	-0.75	4.90	5.54	5.89	17.38	21.54	164.47	135.14	199.22
Average costs	0.21	0.23	0.23	0.21	0.24	0.27	3.05	2.89	2.94

Period 1: December 1990 to January 1991.
Period 2: December 1992 to January 1993.
Period 3: December 1993 to January 1994.
(1) Sales minus purchases, commercialization expenses deducted.
Source: Taken from Table 8 in Obschatko, Edith S. de, Sguiglia, Eduardo and Delgado, Ricardo, Effectos de la Deregulacion sobre la Competitividad de la Produccion Argentina, Fundacion ARCOR, Coleccion Estudios Politicos y Sociales, 1994, pp.70-71.

The viability of smaller operations is reported to have declined under current economic conditions, though definite information is not available for this study. Some producers, however, have already moved to adapt to the new situation through association and/or integration in order to enlarge the scale of production and thus to

---

[12] Secretaria de Programacion Economica (SPE) et al., *Estudio de Competitividad Agropecuaria y Agroindustrial: Carne Vacuna y Sus Preparados*, October 1993; Edith S. de Obschatko et al., *Effectos de la Desregulacion sobre la Competitividad de la Produccion Argentina*, Fundacion ARCOR, 1993.

[13] SPE et al., op. cit.

reduce production costs. These efforts are partially supported by new government programs such as *Cambio Rural* and *Programa Social Agropecuario.*

Hoping to reduce costs for intermediaries, cattle producers increasingly sell their products directly to slaughterhouses and meat-packers. Product diversification is another strategy taken by producers who seek to increase the sales, as well as to enhance the efficiency, of their operations. The diversification often seen in cattle production is to introduce new varieties such as Shorthorn or Aberdeen Angus, which may also help to place Argentine beef in a better position in the international market.

c. Animal health control

Since the mid-1980s the Argentine government has made considerable efforts to improve the animal health control, particularly for the eradication of the foot-and-mouth disease (FMD), in every production stage from the animal's birth to the meat processing and marketing. FMD has been a serious obstacle for the development of Argentina's cattle/beef industry not only because of the losses in production and the higher costs for veterinary inputs but also because of the limited access to FMD free markets.

Various campaigns, such as the National Foot and Mouth Control Plan 1990-1992 and the National Foot and Mouth Eradication Plan 1993-1997, have brought about significant decreases in the incidence of FMD as well as other animal diseases and, in some regions, achieved the virtual eradication of FMD (Table 3.1.12). Control measures must be intensified for the nationwide eradication of FMD and other diseases in order to bring Argentine beef into East Asian markets, where many countries maintain import restrictions on meat from the FMD circuit.

Table 3.1.12 Annual Average of Areas Affected by Foot and Mouth Disease

Region	1985-89	1990-92	1993*
Southern Patagonia	0.0	0.0	0
Northern Patagonia	1.2	3.0	1
Pre-Andean	10.8	6.7	3
Mesopotamia	25.4	12.0	0
Central	188.2	126.7	62

* - First semester.
Source: SENASA, *National Foot and Mouth Eradication Plan 1993-1997*, 1994.

(3) Meat production and marketing

a. Trends

The number of cattle slaughtering decreased from 14.8 million heads in 1986 to 12.2 million heads in 1989 and, in recent years, has remained almost unchanged at 12 million heads, with the slaughtering-inventory ratio at 22-25% and the average weight

approximately at 210 kg in whole carcass weight.[14] Beef production also decreased from 3.0 million tons in carcass weight in 1986 to 2.5 million tons in 1993. The declining or stagnant trend of Argentina's beef production started during the 1980s due to weak demand in external markets brought about by import restrictions and subsidized export drives of industrialized countries, as well as by worldwide economic recessions. As a result of the losses in external markets, nearly 90% of the beef and veal production was oriented towards domestic markets in 1993.

Pig slaughtering boosted to 1.3 million heads in 1992 after remaining at 1.2 million heads in the early 1990s.[15] In 1993 the number reached over 1.5 million heads. Sheep and goat slaughtering has been decreasing fast; 1.6 million heads in 1990 to 0.99 million heads in 1993, though these numbers do not include the slaughtering not registered in SENASA, which is often the case for goats.

b. Vertical integration and concentration

Since the 1980s, the meat processing industry has been going through a process of vertical integration of purchase, processing, storing, domestic marketing, and export within a company or a business group in an attempt to reduce intermediary costs. The integration includes special contracts, advanced purchases, and other similar methods.

This process has been associated with the concentration of meat processing around a smaller number of companies/plants. It is reported that many inefficient plants closed down and the number of qualified plants reduced by 25% to 2,469 between 1987 and 1990.[16] A higher degree of concentration may be seen in the export sector; among the 79 exporting companies, the top 10 accounted for more than 80% of the total export value in the first half of 1994.[17] This situation is brought about partly by the decline in total beef production. The total slaughtering capacity of the industry is estimated to be over 20 million heads per annum whereas the number of slaughtering has been stable around 12 million heads in recent years.

Plants had to shut down often because of lack of investment in new technologies and better facilities. It is reported that the Argentine meat processing industry, in general, has been lagging in the adoption of new technology, particularly for producing thermoprocessed meat and specialty products.[18] But there are a small number of plants

---

14 SAGyP, Direccion de Mercados Ganaderos, *Argentine Republic Livestock Market Situation*, 1994.
15 Information obtained from SAGyP, Direccion de Mercados Ganaderos during the work in Argentina.
16 SPE et al., op. cit.
17 Promocion de Exportaciones Carnicas (PROCAR), *Analisis de Mercados Internacionales de la Carne*, August 1994.
18 SPE et al., op. cit.

that have adopted technological innovations for manufacturing and packaging so as to transform a "commodity" into a brand-product with a higher added value. These plants have integrated their production for domestic and external markets, along with product diversification and differentiation. They operate relatively more efficiently and at lower costs with new technologies and, therefore, could maintain the volume of production and their sales even when total beef production decreased.

Related to the vertical integration of the meat processing industry is a shrink in the shares of the central markets in live cattle marketing. The share of the Central Market of Liniers, which is the country's largest central market of live cattle, decreased from approximately 30% of the total registered transactions in cattle in 1983 to 22% in 1991 and to 17% in 1994.[19] This occurred in spite of the improvement in its management following the privatization in 1992. The decreased share is a result of the expansion of meat-packers' direct purchase from cattle producers, by which meat-packers seek not only to reduce costs but also to prevent infectious animal diseases.

Some experts interviewed pointed out that the decrease in the amount sold through the central markets had reduced transparency in cattle transactions, the process of price determination in particular. After the dissolution of the National Meat Board (JNC) in 1991, the market information provided by the Liniers through its newly introduced computer system has become important, particularly to cattle producers. The direct purchase, which is dominant in U.S. and Australian cattle markets, is often more advantageous for buyers like meat-packers and supermarkets, especially when demand is weak as the present. By direct sale, cattle producers may reduce commercialization costs (e.g., for transportation and consignment, and sometimes including tax) but have to collect payments from meat-packers by themselves, without the guarantee provided by a consignee.

c. Fiscal and sanitary controls

As a part of the economic reform, the National Meat Board (JNC) was abolished in 1991. The classification and quality control of meat were transferred to the National Service of Animal Health (SENASA), and the statistical information service, the allocation of Hilton and GATT quotas and export promotion to SAGyP. The elimination of the charges for JNC's services, together with the elimination of other duties and taxes and a reduction in transportation costs, has helped meat-packers to reduce production and commercialization costs. According to SCI, these measures generated a 10% increase in revenue for exporting meat-packers.

---

[19] Information obtained from SAGyP, Direccion de Mercados Ganaderos during the work in Argentina.

On one hand, it is pointed out that the elimination of JNC did not affect the country's meat marketing system as a whole partly because its functions were merely transferred to other agencies and partly because its actual activities had been already confined to some such as classification and the control of meat-packers' operations during its last few years. On the other hand, however, the services of collecting, processing, and distributing information on domestic and international markets have not been completely restored under the new regime. The lack of a good market information system is considered a serious problem of this sector in terms of international competitiveness.

In 1993, with the purpose of reducing the possibility of evasion of tax and social security, as well as of sanitary controls, the government introduced a new scheme of collecting VAT in which slaughterhouses and meat-packers are to act as tax collection agents. The tax, "IVA Ganadero," covers livestock production that was excluded in the previous tax regime. It is reported that the meat processing industry welcomed this scheme, considering that it would contribute to reversing the strong tendency of tax evasion in this sector. Yet, an Argentine marketing expert has estimated that as high as 20% of the total number of cattle slaughtering is still carried out without paying tax, which generates unfair competition among slaughterhouses and meat-packers and reduces the competitiveness of those who follow the rule, i.e., operate at higher costs. The expert emphasized the need for more strict government measures to eliminate tax evasion.

Another problem in conjunction with tax evasion is the less strict sanitary control for products sold to domestic markets. In some cases, particularly at a local level, there is even no sanitary control at all. In the meat processing industry, not only for beef but probably more often for mutton, there traditionally exist slaughterhouses and meat-packers that operate outside the "legal circuit" controlled by the official agencies, i.e., do not comply with tax and sanitary obligations. Slaughtering cattle privately may be an Argentine tradition, and, therefore, "perfect" control everywhere in the country may not be possible. But the presence of the "illegal circuit" reduces the reliability of Argentina's whole sanitary control system and thus seriously damages the prospects for its meat exports. In mid-1992 the government introduced a new program to improve the hygienic conditions of the domestic marketing chain, as well as to increase transparency in the marketing process.

(4) External trade

a. Trends in beef exports

Beef is the most important product in export, as in production, though in a declining trend since the 1980s. Argentine beef exports started to diminish in the early

1980s, hitting an all-time low of 250,000 tons in carcass weight (US$ 302 million) in 1984 due mainly to import restrictions and subsidized export drives by EU as well as by the U.S.A., the two main traditional importers of Argentine beef products. They recovered to 420,000 tons (US$ 595 million) in 1990 but dropped again to 280,000 tons (US$ 555 million) in 1993 (Table 3.1.13).

Table 3.1.13 Argentine Beef and Veal Exports by Product

	1980	1985	1990	1991	1992	1993	1994
Volume (tons)							
Quarters	14,262	3,024	10,741	3,652	548	1,492	2,795
Chilled Cuts	12,726	18,029	39,359	36,396	34,692	36,866	21,429
Frozen Cuts	118,641	44,288	103,008	51,421	22,588	25,617	21,182
Chilled and Frozen Cuts	131,367	62,317	142,367	87,817	57,280	62,483	42,611
Manufacturing Type	58,366	9,125	4,929	547	553	1,107	1,379
Cooked Frozen	23,498	23,870	35,759	43,153	32,004	33,930	15,535
Canned, Corned Beef, Specialities	46,037	39,339	68,071	68,755	54,033	41,782	17,773
Corned beef				55,651	45,011	32,880	14,260
Specialities				13,104	9,022	8,902	3,513
Total Beef and Veal in CWE	469,000	260,000	474,078	411,289	296,407	280,000	149,826
Value (US$ 1,000)							
Chilled and Frozen Quarters	25,320	2,296	n.a.	6,210	915	1,599	2,879
Chilled Cuts	70,698	64,680		250,060	260,675	250,244	136,665
Frozen Cuts	310,564	69,301		135,527	74,650	72,128	52,019
Chilled and Frozen Cuts	381,262	133,981	n.a.	385,587	335,325	322,372	188,684
Manufacturing Type	119,416	6,833	n.a.	762	859	1,437	1,737
Cooked Frozen	100,967	75,623	n.a.	149,969	117,544	129,794	57,475
Canned, Corned Beef, Specialities	146,249	71,305	n.a.	188,152	119,692	99,563	42,845
Corned beef				150,753	94,890	75,268	33,551
Specialities				37,399	24,802	24,295	9,294
Total Beef and Veal in CWE	773,214	290,039	n.a.	730,680	574,335	554,767	293,619

Source: SPE et al., Estudio de competitividad Agropecuario y Agroindustrial, 1993;
Data from SAGyP, Direccion de Mercados Ganaderos.

The import restrictions and subsidized exports by industrialized countries and the weaker world demand deteriorated the international price for Argentine beef in the 1980s. The external market situation led Argentina to focus its beef exports on high quality products. The average export price, therefore, increased in the early 1990s but not largely enough to offset the decrease in overall beef exports. The loss of the European beef market, a traditional buyer of fresh beef, resulted in a change of the ratio in terms of carcass weight between fresh beef (chilled and frozen) and thermoprocessed beef (cooked frozen and canned), from 70-30 in the early 1980s to 30-70 in the early 1990s (Table 3.1.14).

Table 3.1.14 Compsition of Argentine Beef Exports

(% in CWE)

	1980	1985	1990	1991	1992
Chilled and Frozen Quarters	3.1	1.2	2.8	0.9	n.a.
Chilled and Frozen Cuts	42.0	35.8	38.4	32.4	n.a.
Manufacturing Type	18.5	5.1	1.7	0.2	n.a.
Sub-Total	63.6	42.1	42.9	33.5	29.0
Cooked Frozen	12.5	22.8	19.3	26.9	n.a.
Canned, Corned Beef, Specialities	23.8	35.0	37.9	39.2	n.a.
Sub-Total	36.3	57.8	57.2	66.1	71.0

Source: SPE et al., *Estudio de competitividad Agropecuario y Agroindustrial*, 1993;
Alberto de las Carreras, *La Aftosa en la Argentina: Un Desafio Competitivo*, 1993.

b. Destinations

Although Argentina is one of the largest beef exporters in the world, its fresh beef exports have been confined to countries in the FMD circuit. It is distressing to the Argentine beef industry that the country does not have access to the fresh beef markets of the U.S.A. and Japan, the two world largest beef importers, which belong to the FMD free circuit. Argentina's beef export strategies since the mid-1970s, when EU started its export drives, have been to increase the exports of quality cuts to EU (mainly to Germany) and those of thermoprocessed products to the U.S.A. and other FMD free countries. In 1993, in terms of carcass weight, the U.S.A. accounted for 31% of Argentina's total beef exports, followed by Germany's 21% and the U.K.'s 12%, but in terms of value, Germany accounted for 44%, reflecting that it is a single largest importer of Argentine quality cuts (Table 3.1.15). Chile and Brazil are two growing markets for Argentine beef in recent years.

One of the latest important developments for Argentine beef exports is that the U.S.A. has granted Argentina 20,000-ton quotas for chilled and frozen beef under a GATT agreement. The U.S. policy now allows beef imports not only from zero FMD-risk areas but also from minimum FMD-risk areas and from FMD free regions within a FMD country. Although actual export is still subject to Argentina's achievement in FMD control, many Argentine experts expect that the country will start beef export to the U.S.A. within a few years. Opening the U.S. market will enable Argentina to re-negotiate its sanitary status with other FMD free countries. In Argentina, thus, the 20,000-ton quotas are widely seen as a promising sign for its beef to enter new markets.

c. Export promotion

The Argentine government has been vigorously assisting the private sector for expanding meat exports. For example, SAGyP, in collaboration with INTA and SENASA, created a program called PROCAR (the Promotion of Meat Exports) as a part of PROMSA (the Program of Modernization of Agricultural-Livestock Services) in 1991. Its objectives are not only to consolidate traditional markets and to open new markets but also to develop new products for external markets. Its main services are to publish market information, to assist exporters to participate in international fairs and expositions, to organize and send commercial missions to potential importing countries, to finance new export promotion projects of Argentine companies, and to provide technical assistance to livestock producers and processing industries.

PROCAR has sent various missions for beef export promotion to Chile and some Asian countries, including Malaysia, Singapore, and Hong Kong. These missions help the Argentine beef industry to gain better understanding about and access to Asian

Table 3.1.15 Destinations of Beef and Veal Exports in 1993

	Total	FOB	Quarters		Cuts				Manufacturing Type		Cooked Frozen		Corned Beef		Canned and Specialties	
					Chilled		Frozen									
	Volume (1)	Value (2)	Volume (3)	Value (2)	Volume (3)	Value (2)	Volume (3)	Value (2)	Volume (3)	Value (2)	Volume (3)	Value (2)	Volume (3)	Value (2)	Volume (3)	Value (2)
Total	280,001	554,766	1,491	1,599	36,867	250,245	25,620	72,129	1,170	1,437	33,930	129,795	32,880	75,268	8,902	24,294
EU Total	128,302	335,165	0	0	26,795	221,890	8,289	31,511	0	0	14,700	48,679	15,361	52,296	292	760
Germany	59,460	241,751			24,241	203,700	3,357	15,399			6,039	19,975	1,178	2,624	11	54
Belgium	1,124	3,311			315	2,531	75	278			36	122	180	380		
Denmark	39	41											16	41		
Spain	666	1,341			118	902							195	439		
France	8,510	15,911			249	1,733	3,225	10,876			1,191	3,034	129	268		
Greece	834	1,058					72	339					290	719		
Netherlands	8,779	10,394			250	1,684	398	1,360			1,109	3,301	2,014	4,049		
Italy	16,166	23,647			181	1,383	1,087	3,056			5,624	19,018	81	190		
Luxembourg																
Portugal	77	168			15	53	36	115								
U.K.	32,647	37,544			1,427	9,904	38	89			702	3,229	11,276	23,586	280	706
Other Destinations	134,378	197,505	1,492	1,598	8,371	21,562	16,724	38,780	1,107	1,436	19,054	80,287	12,354	30,959	8,326	22,883
Canary Island	1,730	3,573			10	61	597	2,747					328	765		
Switzerland	2,276	4,395			212	1,230	969	2,679	29	47	12	50	172	388		
Japan	616	848									155	574	79	204	16	70
Hong Kong	903	1,366					468	1,177					80	189		
Philippines	184	172					0	0					74	172		
Singapore	714	821	15	22			414	735					28	64		
Israel	454	711					303	711								
Saudi Arabia	38	47					26	47								
U.S.A.	85,942	124,431									17,742	74,706	10,698	27,070	8,245	22,655
Canada	5,179	7,192									1,145	4,957	891	2,093	50	142
Aruba	1,121	2,370			34	97	714	2,274								
Brazil	9,618	16,692	1,132	1,073	527	1,975	4,971	13,466	199	179						
Uruguay	34	49					15	28					1	6	4	15
Paraguay	268	172	16	12	82	97	47	31	40	23			3	8	11	1
Peru	1,166	1,545			72	238	712	1,307								
Chile	24,135	33,121	329	491	7,434	17,864	7,488	13,578	839	1,187						
Others	17,319	22,096	0	0	1,701	6,793	607	1,838	63	0	175	830	5,166	12,013	285	652

(1) - Metric tons in carcass weight

(2) - 1,000 US$

(3) - Metric tons in product weight

Source: SAGyP, Direccion Mercados Ganaderos

markets. This program should be highly appreciated as a new type of government effort made since the early 1990s and must be fortified for the expansion of Argentine meat exports. A more permanent form of institutional support is necessary for establishing international marketing networks, particularly for Asian markets.

(5) Domestic consumption

The total meat consumption increased from 89 kg per capita per annum in 1990 to 95 kg per capita in 1993. An increase in the poultry consumption has contributed most to this change; 10.4 kg per capita in 1990 to 19.8 kg per capita in 1993. SAGyP explains that its better prices against beef, together with consumers' health concerns over high cholesterol foods and preference for fast foods, have boosted poultry consumption. Consumer preference for leaner meat also has lead to an increase in pork consumption recently. The increases in chicken and pork consumption have boosted their imports in the last few years. Pork comes mainly from Brazil and Denmark, and poultry almost exclusively from Brazil.

In contrast, the domestic beef consumption has been in a declining trend since the last decade. It has stagnated around 2.2 million tons in carcass weight and 66-67 kg per capita per annum in recent years. As a result of the sharp decline in beef exports, the share of domestic consumption in total beef production reached an unprecedented level of 90% in 1985, which has been maintained almost until today. While a large part of beef consumed in Argentina is traditionally bought fresh by households, the consumption of processed beef, including hamburger patties and vacuum-packed brand-cuts, seems to be gradually increasing. Nevertheless, Argentina's overall beef consumption is not expected to expand significantly in the near future. This is one of the reasons that the country needs to put greater efforts for beef export expansion.

Mutton consumption has decreased since the last decade but remained stable at 60,000 tons in carcass weight and 1.8 kg per capita per annum in 1992-1993. At the end of 1993, Patagonian producers started a promotion campaign, using the "Carne Ovina Patagonica" logo, in an attempt to increase consumer awareness about the quality and taste of sheep meet. This campaign, which is "to transform a commodity into a specialty," is being implemented as a joint strategy of sheep producers, meat-packers, SAGyP, and INTA. It primarily aims at domestic markets but evidently includes external markets within its focus.