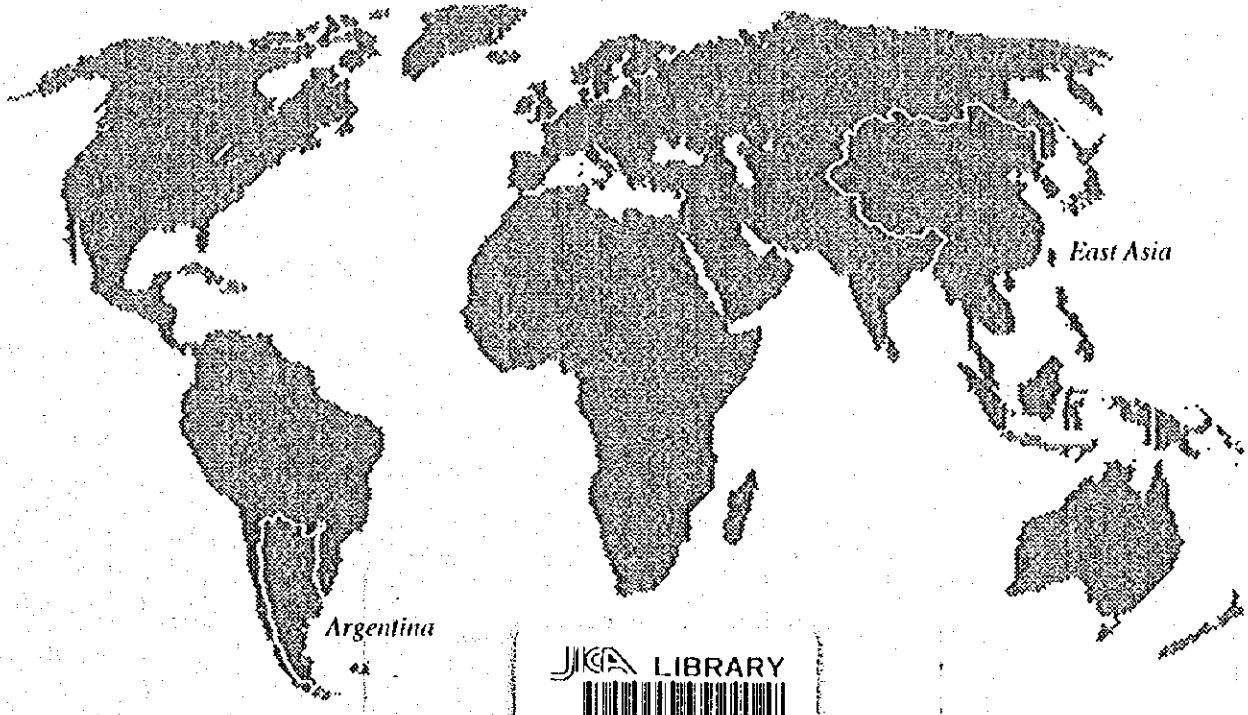
Secretariat of Trade and Investment
Ministry of Economy and Public Works and Services
The Argentine Republic

Japan International
Cooperation Agency

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

Final Report



Vol. 3 The East Asian Economies: Attractive Markets

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

June 1996

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

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

The Study Team visited East Asia in November 1994 and undertook market studies to evaluate its attractiveness to Argentina. The Study Team also conducted an extensive interview with importers and manufactures to analyze their views on the Argentine suppliers and products. This is the outcome of the East Asian study. Those markets studied are Japan, the Republic of Korea, China, Hong Kong, Singapore, Malaysia, Indonesia, and Thailand. Market situation, current economic relation with Argentina, and prospects for export and foreign direct investment are presented by country in subsequent chapters. An analysis on Australia and Canada is also included because one of the purposes of the study is to review the strategies for the East Asian markets taken by these countries with industrial and trade structures similar to those of Argentina.

East Asia is potentially a very attractive market for Argentina. Sources of the attractiveness exist not only within each economy but also in the economic interdependence within the region. Industrialization, improvement in income level, changes in life styles towards more westernized ones, and the increase in foreign direct investment in the region have brought about favorable opportunities for Argentina's export expansion. The dynamism of the economic development of the region as a whole also enhances the attractiveness of the market.

In spite of this attractiveness, the market has not been approached by Argentina with its all strength. The market has been given a low priority by Argentina's exporters for reasons such as the long distance from Argentina, the existence of other profitable markets, inadequate export capacity, short-term-profit-oriented business strategies, and inward-looking corporate behavior.

The Argentine economy has become open, and therefore outward-looking strategies are increasingly important both at the national and coporate levels. Argentina needs to pay close attention to the East Asian market than ever because a relative magnitude of the market is too large to ignore in the world. It is time for Argentina to tackle the East Asian market before the competition for a larger market share in the rapidly growing economy becomes fiercer.

It should be noted that this volume is a part of the Interim Report, June 1995. The descriptions in this volume including tables and figures do not thus reflect changes on the East Asian market since the Interim Report was submitted.

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Chapter 1
Summary and Conclusions

1. Summary and Conclusions

1.1 East Asia: A Very Attractive Market for Argentina

"East Asia" of this study covers Japan, the Republic of Korea, the People's Republic of China, Hong Kong, Singapore, Malaysia, Indonesia, and Thailand. Australia and Canada are included in this chapter for the reason that one of the purposes of this study is to investigate the strategies of countries with industrial and trade structure similar to that of Argentina for Asian markets. 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, though market sizes differ largely by country. Particularly, industrialization, improvement in 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 favorable opportunities for export expansion. Although ups and downs in the economy are unavoidable as a matter of course, the East Asian economy is expected to grow continuously in the future.

However, what is more attractive to Argentina is the dynamism of the economic development of the region 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. On one hand, such a dynamism bears a risk since one country's economic stagnation may bring about a synchronized downturn of the regional economy. On the other hand, however, it has clearly an advantage of accelerating and sustaining economic growth of the region through moving capital across national borders.

In spite of the attractiveness of the East Asian market, it has not been approached by Argentina with its all strength. This is clear from the facts that Argentine businessmen rarely visit the market for business purposes and that there have been few business commitments to the market by Argentine companies for direct investment. The market has not been so important to Argentina compared with other

markets. In other words, Argentina has not given the market high priority for trade. The relatively low priority to the East Asian market can be attributed to the following factors.

1) The long distance between Argentina and the market
2) The existence of other profitable export markets nearer Argentina than the East Asian market
3) Inefficiency and less profitability of export at a small lot
4) Shortage of export capacity
5) Short-term-profit-oriented business strategies
6) Inward-looking corporate behavior

It is natural that low priority tends to be given to a market located far from Argentina, such as the East Asian market, under the prevailing shortage in the capacity of production and distribution and the existence of other strategical areas for export.

The Argentine economy has become more open and, therefore, outward-looking strategies have become more important both in the management of national economy and corporate behavior. Argentina needs to pay more close attention to the East Asian market than before because the relative importance of the market in the world is too big to ignore. It is a time for Argentina to tackle the East Asian market before the competition for shares in the rapidly growing market becomes fiercer.

1.2 Opportunities Open to Argentina

1.2.1 Priority area

Argentina can increase exports if deliberate export promotion strategies are formulated in the production, distribution, and sales of those products. It is important to upgrade the quality of those products for exporting to the market. Although the reason for the selection is different by country, priority should be given to Japan, China and Indonesia.

The main reasons for the high priority to Japan are its market size and the structural changes in its trading pattern. The structural changes have been brought about by the appreciation of yen, the expansion of offshore production, and an increase in imports from those offshore production facilities. More cost conscious behavior like importing cheaper products from all over the world in the business and household sectors has also led to the structural changes. There has been an upsurge in imports and offshore sourcing not only for consumer products but also for materials and parts.

China is given high priority for the reasons of its ultra big market potential and a chronic shortage of basic products which stems from its rapid economic development. Economic development yields an increase in household income, which brings about huge demand for consumer goods including foodstuffs. Further, demand for foodstuffs is sophisticated and more quality-oriented. Although the rapid industrialization is on the way supported by direct investment from both developed and developing countries, local supply can not meet the domestic demand sufficiently due to its large population and too rapid expansion in their demand.

Indonesia is also given priority for the similar reasons as cited for China. Although Indonesia is trying to increase self-sufficiency in staple food and basic industrial materials, there always exists a gap between domestic demand and local supply due to a rapid increase in demand. Such a situation will not disappear in the short term.

Giving priority to these three markets dose not necessarily mean that other markets are insignificant or lack of attractiveness. Korea, Thailand, and Malaysia, for example, appear to have respective attractiveness to Argentina, though the size of each market is relatively small and products to be exported may be limited. These three countries share a characteristic that they need to import some basic industrial materials to manufacture exportable products.

In addition, Singapore and Hong Kong have its own unique functions, respectively. These functions are deemed to be of use for Argentina when it tries to expand exports to the East Asian market, though their attractiveness measured by the market size is not so high. Their unique functions can be summarized as follows.

Singapore: 1) efficient port facilities; 2) a hub for neighboring countries; 3) warehousing; 4) an information center; 5) a financial center; 6) a re-export base, especially to Malaysia; 7) a gateway to Indochina

Hong Kong: 1) warehousing; 2) an information center; 3) a financial center; 4) re-export base, especially to China; and 5) a gateway to China

1.2.2 Priority products

In the short term, product priority should be given to agricultural and fishery products and agricultural based products as well as basic industrial materials. It is not just because Argentina has competitiveness in these products but, more importantly,

because the following changes in the economic and industrial structure of the region will necessitate the import of these products.

1) Large population
2) Improvement in the standard of living
3) Industrialization concentrating on heavy and chemical industries for national economic development
4) Drastic changes in trade structure
5) Difficulty of achieving self-sufficiency in the short term due to high growth of demand

The following are some examples which are deemed to have potential for export expansion.

1) Wheat, maize, soybean, and grain sorghum
2) Fishes and their processed products
3) Fruits and vegetables
4) Beef products
5) Dairy products
6) Wine
7) Pre-industrial tobacco
8) Tanned leather
9) Pulp
10) Aluminum ingot and alloy
11) Steel products

On the other hand, the export expansion of other manufactured products is not so easy. Two reasons can be cited for this. First, in the area of labor-intensive or low-tech manufactured products, Argentina is less competitive vis-a-vis East Asian countries excluding Japan due to the wide difference in labor costs. Second, in the area of skilled-labor-intensive, capital intensive, or high-tech manufactured products, Argentina will face fierce competition with Singapore and Korea, in addition to Japan, the U.S.A. and industrialized European countries. To be competitive vis-a-vis these countries, Argentina will have to concentrate on more specified products with a differentiation and specialization strategy both in the product concept and in the manufacturing concept. There exist some companies who follow this type of strategy and succeed in their export business to Asian markets, but the number of such companies is very limited. The export expansion of these manufactured products is a theme to be tackled in the longer term.

1.3 Suggestions for Export Expansion

Argentina needs to put much effort and take various deliberate measures to realize the big export potential for the East Asian market . Based on the study in East Asian countries, the results of which are presented in the following sections, four measures can be suggested.

1) It is necessary to formulate a definite strategy to tackle the East Asian market. Needless to say, aggressive sales activity is essential for export expansion. It is a common finding of the study that the approach by Argentine exporters is rare and weak compared with Argentina's competitors. It incurs a high cost to strengthen its sales promotion activity. Exporters are able to burden such a cost only when they have a definite strategy for the East Asian market.

2) It is necessary to build efficient logistics in the region as soon as possible. Logistics means networks built specifically for export promotion and equipped with various functions. Considering the long distance between Argentina and the East Asian market, it will be difficult for an Argentine exporter to conduct all of operations necessary for exporting from Argentina. It is not advisable for the exporter to leave every kind of operation to the third party in the market. It is recommended to establish some kind of their own operation facility in the market, but not in each market. It would be more efficient and economical to establish a regional headquarters of operation, besides in Japan, in Hong Kong or Singapore with a representative in each country. The location of the headquarters should be selected based on their strategical advantages in each country.

Considering the basic requirements for export promotion suggested by importers in the market, functions undertaken by the headquarters must include:

1) Marketing
2) R&D for supply of products matched with the need of each market
3) Warehousing and distribution for shortening the delivery period
4) Strengthening after-service functions
5) Quick responses to inquiries and claims from clients in the region
6) Securing stable supply
7) Supply at a required minimum lot

It will not be practical and efficient for each Argentine company to build these logistics individually. This is especially true for small- and medium-sized companies

whose human, financial and management resources are limited. The idea of reducing costs and risk through sharing logistics among companies concerned should be thus seriously examined for prompt implementation. Governmental or institutional support is desirable for establishing logistical networks.

In designing institutional support, it is highly recommended to study carefully logistics the governments of other countries have helped to build in the region. Some useful examples for Argentina should be the organization and functions of the Australian Trade Commission (AUSTRADE) and the Singapore Trade Development Board for their comprehensiveness and effectiveness.

3) It is necessary to secure export capacity including infrastructure in Argentina in order to make export expansion feasible. The East Asian study has found that Argentina has easily lost many chances to expand their exports not for the reason of less competitiveness of their products but for the reason of lack of export capacity including infrastructure, such as loading facilities of exportable products, in Argentina. Stable and constant supply is one of the most important conditions for export expansion to the East Asian market.

4) It is essential to improve and upgrade the quality of Argentina's exportable products. Quality here means not only the quality in a narrow and traditional sense but also a timely delivery to clients and fitness to the needs of the market. If Argentine producers pay more attention to quality, the possibility of export expansion will certainly increase.

1.4 Another Attractiveness of the East Asian Market: Abundant Capital

The East Asian economy has developed owing largely to massive direct investment from abroad. The role of direct investment in the economic development of the region can not be underestimated.

Two roles can be cited for the contribution of direct investment to economic development and export promotion in the region.

1) Direct investment has been accompanied with the transfer of technology and management know how. Such a transfer has contributed to the improvement of the competitiveness of the host countries and thus enabled the country to expand exports.

2) Direct investment was done for a direct purpose of increasing export from the countries concerned. It is very often seen in direct investments by Japanese companies in the region after the appreciation of yen.

East Asian countries have accumulated their capitals through their economic development and have recently begun to invest them in overseas business.

However, as far as direct investment from East Asia to Argentina is concerned and the time span is limited to a short period, capital exporters will be limited to Japan and Korea. Taiwan may be included in the list of potential investors as indicated in its recent agreement with Argentina, though the country is not included in this study. Portfolio investment from other East Asian countries can also be expected. Most of Chinese financial assets have been accumulated through family-run businesses and Chinese businessmen lack human and management resources enough to do business in a country whose culture is very different from their own culture. In that case, business risk tends to become large to them and they will not inclined to invest.

In direct investment from the region to Argentina, the role played by Japan will be continuously important. Three factors are considered for an increase in the future: 1) The transfer of production facilities from Japan to abroad by Japanese companies will be accelerated due to changes in the industrial structure; 2) Development and import arrangements will also be accelerated under the situation of continuous changes in the economic and industrial structure; and 3) To secure natural resources including agricultural and fishery resources will be still an important factor for the stable growth of Japan's economy.

Chapter 2
Japan

2. Japan

2.1 Outline of the Japanese Market

2.1.1 Attractiveness of the Japanese market

Argentina's exports to Japan counted US$493 million (f.o.b.) in 1993, while its import from Japan was US$715 million (c.i.f.). Japan was a net exporter to Argentina The Japanese market is very attractive to Argentina in the following four aspects.

(1) The market size

With a total population of 124 million and their high income level, that is to say, US$34,000 in terms of per capita GDP, the Japanese market is one of the biggest markets in the world. When it is measured in terms of GDP, the market size is US$4,225 billion. This size is around fifteen times Argentina's market size and five times MERCOSUR's market size.

The economy of Japan, one of already developed countries, can not be expected to grow at such a high growth rate as in the past. The potential annual growth rate will be 5% at most and in the range of 2-4% in average. However, the impact of 1% growth of the market on trade is significant because of the market size.

Table 2.1 Outline of the Japanese Market in 1993

	Population (million)	GDP (US$ billion)	Per capita GDP (US$)	Impact of 1% increase in GDP (US$ billion)
Japan	124.8	4,225	33,858	42.2
U.S.A.	258.0	6,343	24,586	63.4
MERCOSUR	190.2	791	4,159	7.9
Argentina	32.5	279	8,585	2.8

Source: Each country's statistics

Equality in income distribution is another important aspect of the market. Compared to developing Asian countries, the income distribution in Japan is relatively equalized, which makes the market size more meaningful. It is because equality in income distribution suggests that each individual of a large part of the population has effectively high purchasing power.

(2) Stability of the market

The Japanese economy has been stable as demonstrated by its growth rates and inflation rates, though the economic performance in the past few years betrayed the world's expectation for stability.

Major sources of the stability are relatively consistent economic policy without drastic changes, the strong competitiveness of Japan's industry in the world market, and the industry's capability of adjusting flexibly to changes in economic environments.

Table 2.2 Economic Growth Rate and Inflation Rate

(Unit: %)

	1988	1989	1990	1991	1992	1993
Economic growth rate	6.0	4.5	5.1	3.6	0.6	-0.4
Wholesale price	-0.5	1.9	1.5	1.0	-0.9	-3.2
Retail price	0.7	2.2	3.1	3.3	1.6	1.2

Source: Bank of Japan and Economic Planning Agency

(3) Market with least business risk

Japan is a market with least business risk among Asian countries. This is attributable to the following reasons. First, due to economic stability, there are relatively few business failures. Second, business practices are well established and transparent. It is sometimes pointed out that Japanese business practices are too unique and not transparent to foreigners. Some of them may be unique and not so easy for foreigners to understand. However, it does not mean that such uniqueness becomes a source of business risk or enhances it. Third, even if a company is involved in business risk, there is established infrastructure for solving or sorting out the risk. The well established financial and court systems are examples of such infrastructure.

(4) Favorable market for import

Japan can not survive without trade. This is because Japan has to depend important natural resources on import. In order to earn foreign exchanges for importing natural resources, Japan has to export a substantial part of its products. Thus, Japan is naturally a trade-oriented country. Such a position will not basically change in the future even if Japan's industrial structure will change. This means that Japan continues to be one of attractive markets for Argentina, which is abundant with various natural resources.

In addition to the basic structure of the Japanese economy, the following factors have recently accelerated Japan's import. These factors explain why Japan has remarkably increased imports in spite of the stagnation of its economy in recent few years.

1) Due to the appreciation of yen, imports of processed or manufactured products have boosted.

2) Reflecting the appreciation of yen and the hike in labor costs, the private sector has begun to expand offshore production, notably in newly industrializing countries in Asia, and increase the import of the output of such production. This is one of the reasons for a remarkable increase in imports from other Asian countries.
3) They have also begun to rest on outsourcing. This explains the recent increase in the import of electrical parts and petrochemical materials.
4) Consumers have begun to show a tendency that they do not care about the origin of a product, irrespective of foreign or domestic, as long as the product is reasonably priced and has good quality.
5) With the development of service industries in Japan, domestic production has been shifting from goods to services, which has accelerated good imports.

Reflecting the above-mentioned changes, export and import structure has changed dramatically toward a direction that the export of capital equipment and the import of finished manufactured products increased their shares, while export and import share of industrial supplies decreased as shown below.

Table 2.3 Changes in Exports Structure

(Unit: %)

	1980	1985	1990	1993
Total	100.0	100.0	100.0	100.0
Food and direct consumes	1.2	0.8	0.6	0.5
Industrial supplies	28.5	20.4	17.6	17.0
Capital equipment	40.1	46.5	54.0	57.6
Consume non-durable goods	1.1	1.1	0.9	0.9
Consume durable goods	29.1	31.2	26.9	24.0

Source: Japan Tariff Association, *The Summary Report of Trade of Japan.*

Table 2.4 Changes in Import Structure

(Unit: %)

	1980	1985	1990	1993
Total	100.0	100.0	100.0	100.0
Food and direct consumes	11.5	13.1	13.7	16.4
Industrial supplies	77.1	69.9	54.5	48.9
Capital equipment	6.5	8.9	14.0	16.1
Consume non-durable goods	1.9	2.6	6.0	8.3
Consume durable goods	3.0	5.5	11.8	10.3

Source: Japan Tariff Association, *The Summary Report of Trade of Japan.*

Among changes in import structure, the increase in food and direct consumes is especially noted because Argentina seems to hold competitiveness in these areas. Meat and fruit and vegetables are the fastest growing import items. The four reasons can be cited for the expansion: 1) the prices lowered due to yen appreciation and consumers' preference for cheaper goods; 2) the diversification of import sources by takeout food industries and super stores with a view to securing the stable supply of raw materials; 3)

an increase in "develop and import" arrangements by supermarkets and department stores; and 4) imported foodstuffs gaining confidence in sanitation and safety standard.

Table 2.5 Trends in Import by Products (1990= 100)

	1991	1992	1993
Total	104.0	103.6	107.9
Foodstuffs	106.7	111.4	117.4
(Meat)	(108.8)	(126.0)	(131.6)
(Fish and Shellfish)	(106.4)	(109.0)	(117.8)
(Cereals)	(103.3)	(104.0)	(106.2)
(Fruit and Vegetables)	(107.5)	(115.2)	(130.9)
Textile Materials	106.0	98.5	87.3
Metallic Materials	102.1	90.8	93.0
Raw Materials	98.2	97.1	94.7
(Oil seeds)	(94.9)	(100.5)	(103.2)
(Wood)	(95.6)	(93.5)	(91.3)
Mineral Fuels	100.4	103.0	102.3
Chemicals	104.8	101.1	102.6
Machinery and Equipment	101.9	98.5	108.9
Miscellaneous Manufactured Article	109.0	107.3	115.4

Source: Japan Tariff Association, *The Summary Report of Trade of Japan*.

The expansion of the import of manufactured products is an irreversible trend. This trend is supported by the Japanese government policy. The Japanese government is very eager to expand the import of manufactured products under pressure from trade partners that Japan should reduce its huge trade surplus. The private sector is also deeply involved in reducing Japan's trade surplus by importing products to be consumed in their companies as much as possible.

Thus, market-opening efforts have been actively promoted both by the government and by the private sector. Various steps have been taken to reduce the external imbalance symbolized by Japan's massive current account surplus. As the current surplus is persisting in spite of all those efforts and the currency appreciation, further liberalization will be inevitable. These situation provides an opportunity for the expansion of export from Argentina.

2.1.2 Characteristics of the Japanese market

(1) Quality oriented market

With the high income level, Japanese users and consumers pay special attention to the quality of products in their purchasing and consumption activity. The concept of "low price but low quality" is not accepted by Japanese users and consumers. Exporters who want to sell their products to the Japanese market should consider this characteristic seriously.

The Japanese are accustomed to the high quality of Japanese products. Therefore, their requirement for high quality is strong. "High quality" contains various aspects. First, as a matter of course, a product is expected to work according to its indicated function. Second, it is expected to have wide and various functions. Third, its appearance should be attractive and fashionable. Often, its packaging is expected to be nice. Further, it is expected to be amicable to environmental problems. Summing up these requirements, "quality" means total quality.

(2) Technology-oriented market

Japan's industry has developed with its excellent production and processing technology and R&D activity. Therefore, Japanese users and consumers know that only a product with advanced and excellent technology is worth to buy. The Japanese are very concerned about technology since they live with high-tech cars, high-tech electrical appliances and high-tech electronics such as TVs and VTRs. Products with technological defects or behind standardized technology will not be accepted in the Japanese market.

Japanese users and consumers have a strong belief that a product "made in Japan" is technologically excellent. This is a reason why they expect "free from repair" or "maintenance free." If repair is needed, they expect that it is to be repaired without any charge. In other words, a good after-sale service facility is very important for selling products in the Japanese market. Products without after-sale service is not accepted in the Japanese market.

(3) Brand conscious market

Japanese consumers care about the brand of a product because they regard it as a guarantee of good quality. Thus, one of the best ways of selling to the Japanese market is to establish a famous and international brand for the product concerned as soon as possible. To utilize other brands which were already established in the Japanese market is one way to penetrate the market in a relatively short term. The utilization of a store brand is recommendable. In the course of economic adjustment after the recent boom of the Japanese economy, there is a sign that Japanese consumers do not care about the brand so much if the price is low and the quality is reasonable. Such attitude in consumption activity appears to be spreading, but it is too early to conclude that it is not temporary but permanent.

(4) Diversified market

Reflecting the remarkable increase in income, Japanese consumers have become more and more diversified and individualistic in their tastes. Moreover, their tastes are changing quickly. To sell a product in the Japanese market, an exporter must have ability in deliberate marketing.

Responding to diversified tastes in the consumer side, the production side has tried to diversify their production by establishing the manufacturing concept of "many kinds of products with a small lot." This is especially true in the automobile and electronics appliances industries.

In the recent adjustment process of the Japanese economy after the boom of 1986-1991, companies have begun to revise such a manufacturing concept. As a result, there is a sign that weighing cost reduction, they have become not so aggressive to follow the concept as before. However, it is an unchanged trend that a corporate follows diversified needs and tastes of consumers as much as possible.

(5) Changes in distribution channel

Traditionally, Japanese consumers tended to buy their daily requirements everyday at retail shops near their homes. This is a reason why there are a large number of small-sized family-run retail shops in Japan. However, consumers have begun to buy their requirements in various types of shops such as super stores, discount stores, and specialty shops, though the importance of family-run shops can not be neglected.

Three factors are cited for the change. First, home electrical appliances such as refrigerators and ovens have penetrated into almost all homes and it has changed the lifestyle. Most people no longer go to grocery stores everyday . They buy their daily requirements once or twice a week at a bigger lot, most often in a supermarket where they can get everything what they need. It is called "one stop shopping."

Second, expansion in women's participation in the labor market is another factor. This factor seems to accelerate the above-mentioned tendency because women do not have much time for shopping during weekdays.

Third, facing a structural change of the Japanese economy from export-oriented to domestic-oriented, especially for private consumption, Japanese distributors have developed various new types of retail shops. According to a periodical survey on large

retail shops in Japan conducted by *The Nikkei Ryutsuu Shimbun* (*Nikkei Marketing News*), specialty shops increase their share in total sales, while the share of department stores decreases year by year and the share of super stores is also stagnant.

Best selling shops are different by product type. It is necessary to select a most suitable distribution channel for the product concerned. How best selling shops differ by product is shown in the following table.

Table 2.6 Percentage Share of Sales by Type of Retail Channel

(Unit: %)

	1977	1979	1982	1985	1988	1990	1991	1992
Department stores	39.7	37.1	33.9	32.1	31.5	29.4	28.7	26.5
Superstores	49.6	52.3	52.8	51.1	49.4	44.9	43.7	45.5
Specialty shop	6.2	6.1	6.9	9.1	12.0	18.6	20.2	20.3
Convenience store	n.a	n.a	n.a	n.a	n.a	1.6	1.6	1.8
Others	4.5	4.5	6.2	7.7	7.1	5.5	5.8	5.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
No. of company surveyed	200	200	200	200	200	500	500	500

Source: Survey on large retail shops by *The Nikkei Ryutsuu Shimbun*

Table 2.7 Best Selling Shops for Some Products

	No. 1	%	No. 2	%	No. 3	%
Suite for men	Specialty shop	35.9	Department store	33.3	Discount store	21.9
Suite for women	Department store	39.0	Specialty shop	30.9	Super store	12.8
Furniture & interiors	Specialty shop	58.2	Department store	15.6	Discount store	12.7
Fresh food	Specialty shop	59.2	Discount store	33.3	Super store	16.7
Home electrical appliances	Department store	29.5	Super store	23.2	Specialty store	11.9
Dishes	Specialty shop	18.1	Department store	16.2	Super store	14.8
Toys	Specialty shop	53.5	Discount store	26.7	Department store	18.8

Source: *The Nikkei Ryutsuu Shimbun*, 1993

(6) Increase in "development and import" arrangements

With respect to the function of department stores and super stores, still most important shops for consumers, an increase in "develop and import" arrangements should be noted. These stores used to sell products manufactured by producers under producers' brands. However, these stores began to function not only as distributors of products manufactured by other producers but also as merchandisers. In other words, they transformed themselves to merchandisers.

Merchandising is to develop their own brand products and manufacture under their control. Department stores or super stores have an advantage that they are the nearest to end users and are able to catch quickly a sign of users' changing needs and tastes. In addition, these stores hold human resources as well as financial resources for such merchandising.

Typical merchandising in Japan is to develop products by themselves, commission factories in Asian countries, for example, to manufacture and then import and sell by their brands at their stores. These products are generally low-priced items but, under their strict quality control, good quality products. These products are widely accepted by Japanese consumers as "inexpensive but good quality." The recent trend of such a "develop and import" arrangement by department stores and other stores is shown in the following table.

Table 2.8 Increase in Develop-and-import-arrangement Products

	FY 1991		FY 1992	
	Yen million	No. of companies	Yen million	No. of companies
Department store	15,580	4	51,345	12
Super store	220	2	260,991	22
Specialty shop	2,405	5	31,346	17
Total (including others)	18,205	11	344,882	53

Source: *The Nikkei Ryutsuu Shimbun*, 1992 and 1993

2.1.3 Future prospect of the Japanese market

As an already developed country, the Japanese market can not be expected to expand at a high pace. However, the market for imported goods will grow continuously. It is because massive trade surplus is persisting and it is posing instability to the Japanese economy. To correct the imbalance, Japan is required to make more effort to increase imports than before under pressure to open the market from abroad.

Table 2.9 Trends in Trade Balance (US$ million)

	Exports	Imports	Trade balance
1960	4,054	4,491	-437
1965	8,452	8,169	283
1970	19,318	18,881	437
1975	55,753	57,863	-2,110
1980	129,807	140,528	-10,721
1985	175,638	129,539	46,099
1990	286,948	234,799	52,149
1993	360,911	240,670	120,241

Source: Japan Tariff Association, *The Summary Report of Trade of Japan.*

However, a real problem with Japan's massive trade imbalance lies in that the size of the imbalance has big distortion by trading partner. Its biggest imbalance is with South East Asia and the U.S.A. This means that Japan tends to feel strongest pressure to reduce the imbalance with these regions by importing more products from them. In other words, Japan tends to give higher priority to bilateral trade negotiation with countries with which Japan has huge trade imbalance than to multilateral negotiation.

Table 2.10 Trade Imbalance by Region

(Unit: US$ million)

	1990	1991	1992	1993
Total	52,149	77,789	106,628	120,241
U.S.A.	37,954	38,220	43,563	50,169
EU	18,490	27,365	31,194	26,263
South East Asia	28,120	37,366	46,857	56,833
Middle East	-21,459	-17,018	-14,040	-13,978
Others	10,956	8,144	946	-994

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

2.2 Demand and Supply of Major Products

The recent upsurge of Japan's imports is due to a structural change in the Japanese economy and industry triggered by the appreciation of yen and its economic development. In order to show how big the import potential of the Japanese market is, the demand and supply of typical industries are investigated.

2.2.1 Agricultural products

(1) Supply and demand

a. Wheat

Japan depends around 90 % of domestic demand for wheat on foreign sources. The demand for wheat as food, which counts around 80% of total demand, is stable, while the demand for wheat as animal feed is in a slightly increasing trend. As a whole, the demand for wheat is moderately increasing. On the other hand, domestic supply shows a tendency of decrease due to decreases both in planted area and yields per hectare. Since the demand and supply balance is not expected to change to a large extent in the future, Japan is still one of the biggest importing countries of wheat.

Table 2.11 Demand and Supply of Wheat

(Unit: 1,000 tons)

	1990	1991	1992	1993
Inventory in the beginning of the year	1,495	1,545	1,380	1,503
Government purchase	7,428	7,373	7,488	7,469
(from domestic sources)	(804)	(601)	(644)	(563)
(from foreign sources)	(5,129)	(5,227)	(5,464)	(5,403)
Domestic demand	5,883	5,993	5,985	6,031
Inventory in the end of the year	1,545	1,380	1,503	1,438

Source: Ministry of Agriculture, Forestry and Fisheries

b. Maize

Maize is consumed mainly in the production of feed. Japan depends more than 95% of the supply of maize on import. Japan imported around 12.3 million tons of maize in 1993. Since the number of animals fed by farmers is expected to remain at the same level as now, demand for maize is also expected to be at the same level as the

current level, if there will be no remarkable change in the relative price between maize and grain sorghum, a substitute for maize.

Table 2.12 Consumption of Maize for Feed

	1989	1990	1991	1992	1993
Consumption (1,000 tons)	12,155	12,046	12,233	12,354	12,466

Source: Ministry of Agriculture, Forestry and Fisheries

c. Soybean

Japan depends almost 100% of dogmatic demand for soybean on import. Soybean is consumed in various sectors, among which the biggest is the vegetable oil sector. Domestic demand has grown at a rate of 3-5% per annum and is expected to keep such a growth rate the in future. The import of soybean will increase at a similar growth rate.

Table 2.13 Demand and Supply of Soybean

(Unit: 1,000 tons)

	1990	1991	1992	1993
Inventory in the beginning of the year	765	845	745	836
Supply	4,725	4,340	4,703	4,965
(from domestic source)	(138)	(96)	(73)	(60)
(from foreign sources)	(4,587)	(4,244)	(4,630)	(4,905)
Domestic demand	4,646	4,440	4,612	4,820
(for vegetable oil)	(3,630)	(3,426)	(3,590)	(3,790)
(for food)	(921)	(919)	(927)	(920)
(for animal feed)	(95)	(95)	(95)	(110)
Inventory in the end of the year	845	745	836	981

Source: Ministry of Agriculture, Forestry and Fisheries

d. Barley for feed

Japan depends around 98% of domestic demand for barley for feed on import. In 1993, Japan imported 1,421 thousand tons of barley for feed, while domestic production was around 34 thousand tons. Although the Japanese government is promoting domestic production to increase self-sufficiency, a high level of import will continue in the future as the demand for barley for feed is expected to increase steadily.

Table 2.14 Demand and Supply of Barley for Feed Handled by the Japanese Government

(Unit: 1,000 tons)

	1989	1990	1991	1992	1993
Inventory in the beginning of the year	635	618	620	641	679
Purchase	1,288	1,329	1,462	1,524	1,421
Demand	1,305	1,327	1,441	1,487	1,514
Inventory in the end of the year	618	620	641	679	536

Source: Ministry of Agriculture, Forestry and Fisheries

e. Oil-cake and meal

Oil-cake and meal from soybean are the most widely consumed vegetable oil-cake and meal in Japan. 90% of soybean-based oil-cake and meal are consumed as raw materials for feed and the remaining 10% are used for foodstuffs and fertilizers.

Dependence on import is not so high, that is to say, around 25% in Japan, but taking into consideration that soybean is almost 100% imported, it can be said that 100 % of oil-cake and meal is of import origin. Since demand for soybean-based oil-cake and meal are in a trend of increase, import is expected to increase accordingly.

Table 2.15 Demand and Supply of Soybean-based Oil-Cake and Meal

(Unit: 1,000 tons)

	1989	1990	1991	1992	1993
Inventory in the beginning of the year	240	168	177	148	187
Supply	3,208	3,479	3,505	3,683	3,854
(from domestic source)	(2,766)	(2,837)	(2,664)	(2,784)	(2,937)
(from foreign source)	(442)	(642)	(841)	(899)	(917)
Demand	3,280	3,470	3,534	3,644	3,768
(for foodstuffs for animals)	(2,921)	(3,124)	(3,183)	(3,286)	(3,411)
(for foodstuffs)	(3570)	(344)	(349)	(357)	(357)
(for export)	(2)	(2)	(2)	(1)	(0)
Inventory in the end of the year	168	177	148	187	243

Source: Ministry of Agriculture, Forestry and Fisheries

f. Grain sorghum

Grain sorghum includes various products from milo, kaoliang and kaffir to durra. In Japan, all of them are consumed for manufacturing combined feed. Grain sorghum is a substitute for maize. Japan imported 2,842 thousand tons of sorghum in 1993. Reflecting the unfavorable relative price of sorghum vis-a-vis maize, import is in a trend of decrease at the moment. The future prospect depends on the relative price between sorghum and maize.

Table 2.16 Imports of Sorghum

	1991	1992	1993
Imports (1,000 tons)	3,363	2,888	2,842

Source: Ministry of Agriculture, Forestry and Fisheries

(2) Future prospect

Demand for the above agricultural products is expected to grow due to population growth and continuous changes in eating habit, though it may not be so fast. Since drastic improvement in self-sufficiency can not be expected, Japan's import of these products will continue to expand responding to the increase in demand.

2.2.2 Iron and steel

Domestic demand for iron and steel has begun to increase in 1994 after three years' decrease owing mainly to a recovery in demand in the automobile, home electrical appliances and industrial machinery sectors. With the recovery in domestic demand, production has also shown an increase. However, since the production capacity far exceeds the current production level, the demand and supply balance will be continuously loose in the years ahead.

Major exporters to Japan have been Korea and Taiwan. Since these exporters do not have large export capacities due to an expansion in domestic demand, import pressure on Japan will mitigate for the time being.

Domestic demand is expected to remain at the current level in a long run. Main reasons are the appreciation of yen, the maturedness of the market, and expansion in offshore production by user industries such as automobiles and electricals. The total of domestic and export demand in the year 2000 will be 90 million tons at most, while it was 104 million tons in 1993. There will be few possibilities that import can capture a substantial share of the market.

Table 2.17 Demand and Supply of Iron and Steel (Crude Steel Base)

(Unit: million tons)

	FY 1989	1990	1991	1992	1993
Apparent consumption	95.2	100.5	94.7	84.5	77.4
Export	21.0	19.2	20.1	21.1	26.1
Total	116.2	119.7	114.8	105.6	103.5
Import	8.0	7.9	8.9	6.7	6.3
Production	108.1	111.7	105.9	98.9	97.2
Production capacity	137	137	137	140	140
Operating ratio (%)	78.9	81.5	77.3	70.6	69.4
Price (cold coil, ¥1,000/t)	88.0	87.0	85.0	82.0	78.0

Source: Ministry of International Trade and Industry

2.2.3 Aluminum

Aluminum product may be classified as one of matured products in terms of product cycle. However, demand for aluminum is in a trend of increase due to the progress of innovation in materials used. A tendency in material consumption is from iron and steel or glass to aluminum. This is typical in the beverage industry. Changes in packaging of beverages have brought about an increase in demand for aluminum. By its nature, most of aluminum products are produced domestically.

Japan imports most of aluminum ingot, materials for aluminium products. An increase in the production of aluminum products means an increase in the import of aluminum ingot.

Table 2.18 Import of Aluminum Ingot

(Unit: 1,000 tons)

	FY 1988	1989	1990	1991	1992	1993
Production	35.4	34.4	34.1	28.6	19.2	18.0
Import	2069.0	2237.1	2426.0	2427.2	2307.8	2,283.0
Consumption	2295.5	2362.3	2317.4	2309.5	2189.7	2087.6
Export	0.7	0.1	0.6	1.4	2.1	1.6

Source: Ministry of International Trade and Industry

2.2.4 Copper

Japan used to be a large producer of non-ferrous metal ore. Japan's non-ferrous metal industry used to be an integrated producer of non-ferrous metals from the development of ore to smelting. However, due to a shortage of domestic ore which was brought about by a rapid increase in domestic demand, the depletion of natural resources, and the appreciation of yen, the industry has been forced to depend ore on import sources. As a result, the industry has been transformed to a custom smelter. Further, due to the continuous appreciation of yen and the loose price situation of copper, the industry faces an increase in import of copper ingot.

Current demand for copper ingot is still sluggish due to the current economic stagnation. Since it will take some years for main user industries such as automobiles, electronics and electricals, and construction to recover from the current weak activity, the recovery of domestic demand will be only modest.

Japan depends around 23% of domestic consumption of copper ingot on import. However, due to the sluggish domestic demand, import decreased drastically in 1991. It will take several years for import to recover the previous levels. Although import is expected to increase again with a recovery in domestic demand, such an increase will be absorbed by import based on existing long-term contracts for the time being.

Table 2.19 Demand and Supply of Copper Ingot

(Unit: 1,000 tons)

	FY 1980	1985	1989	1990	1991	1992	1993
Domestic demand	1,324	1,356	1,590	1,699	1,634	1,509	1,483
Export	137	59	38	54	65	123	157
Total	1,461	1,415	1,628	1,753	1,699	1,633	1,640
Import	221	356	524	657	542	350	368
Production	1,025	935	999	1,022	1,100	1,171	1,190
Production capacity	1,246	1,237	1,124	1,124	1,168	1,199	1,221
Operating rate	82	76	89	91	94	98	98

Source: Ministry of International Trade and Industry

2.2.5 Pulp and paper

Although it decreased in 1992 and 1993 due to the economic stagnation, domestic demand for paper is basically in a trend of increase. Export demand is also strong reflecting strong demand in China and South East Asian countries. On the other hand, import is expected to remain at the current level because of lack of export capacity in the U.S.A. and Europe, where there is strong domestic demand for paper. With strong demand and constant import, the production of paper is expected to increase in 1994 after two years' decline.

The structure of raw materials for paper in Japan is as follows. Pulp and waste paper hold a 50% share respectively. Around 20% of pulp consumed is imported, while 60% of the remaining 80% is domestically manufactured but by consuming imported wood for pulp or chips. Therefore, two-thirds of raw materials for paper excluding waste paper come from foreign sources. The increase in paper production yields an increase in import of raw materials. Major suppliers are the U.S.A., Australia, Chile, and Canada.

Factors affecting future prospects are economic growth rates and the elasticity of demand. First, the Japanese economic growth is predicted to be modest. Second, the elasticity of demand for paper with respect to an increase in GDP is expected to decrease because of the movement of less paper consumption considering environmental problems and cost reduction. The elasticity lowered from around 1 in the 1980s to 0.7 in recent few years. However, demand for paper will steadily grow and reach 31 million tons in the year 2,000 from the level of 28 million tons in 1993. In accordance with the increase in demand for paper, the import of raw materials for paper will increase.

Table 2.20 Demand and Supply of Paper

(Unit: 1,000 tons)

	FY 1980	1985	1989	1990	1991	1992	1993
Domestic demand	16,889	20,485	27,411	28,476	28,857	28,198	28,159
Export	671	865	582	988	1,032	1,025	718
Total	17,560	21,350	27,993	29,464	29,889	29,223	28,878
Import	481	736	1,129	1,016	1,111	1,009	1,092
Production	17,527	20,627	27,118	28,539	28,945	28,104	27,780
Production capacity	22,826	24,296	29,894	31,733	32,924	33,349	33,153
Operating rate	76.8	84.9	90.4	89.9	87.9	84.3	83.8

Source: Ministry of International Trade and Industry

Table 2.21 Sources of Raw Materials n 1993

	Volume(1,000 m3)	Percentage distribution (%)
Domestic sources	14,483	40.8
Foreign sources	21,041	59.2
(U.S.A.)		(22.5)
(Australia)		(15.5)
(Chile)		(8.5)
(Canada)		(3.3)
(Others)		(9.4)
Total	35,525	100.0

Source: Ministry of International Trade and Industry

2.2.6 Petrochemicals

The demand and supply balance is largely influenced by developments in the world economy. After three years' decline, domestic demand for petrochemicals in Japan has begun to pick up due to the recovery of the Japanese economy. Supported by brisk world economic growth, export demand has also begun to increase remarkably. The expansion of both domestic and export demand brought about an increase in production. Since domestic supply still exceeds demand, there is no room for import to expand largely. Under this condition, a remarkable development is the increase of export by Korea. Although their products are graded low, it is penetrating into the Japanese market helped by the appreciation of yen.

Domestic demand is expected to increase at a high rate. But it is more likely that it will not increase in a longer run mainly because of the continuous expansion of offshore production by major user industries such as automobiles and the electrical industry.

Export demand is expected to be strong reflecting the world economic growth and the increase in China's demand. However, due to the development of petrochemical industries in the Asian region and the weakened competitiveness of the Japanese petrochemical industry caused by appreciated yen, an increase in export by the Japanese industry can not be expected so much. On the other hand, import is expected to be stagnant because of the excess capacity in Japan. Japan remains as a net exporter.

Table 2.22 Demand and Supply of Petrochemicals (Ethylene equivalent)

(Unit: 1,000 tons)

	FY 1980	1989	1990	1991	1992	1993
Domestic demand	3,575	5,471	5,826	5,750	5,501	5,334
Export	418	713	727	945	988	880
Total	3,993	6,184	6,553	6,695	6,489	6,214
Import	227	591	649	563	480	478
Production	3,869	5,652	5,965	6,150	6,009	5,688
Production capacity	6,068	5,707	6,100	6,390	6,595	6,695
Operating rate	63.8	99.0	97.8	96.2	91.1	85.0

Source: Ministry of International Trade and Industry

2.2.7 Synthetic fiber

With the well developed petrochemical industry, Japan is a large exporter of synthetic fibers. Although domestic demand is stagnant due to a slowdown in the economic growth, the industry could keep its production level owing mainly to favorable export environment, especially in Asia. Import is marginal because domestic supply has an excess capacity. Such a situation will continue due to sluggish domestic demand.

Table 2.23 Demand and Supply of Synthetic Fibers

(Unit: 1,000 tons)

	FY 1980	1989	1990	1991	1992	1993
Domestic demand	1,083	1,206	1,269	1,261	1,211	1,089
Export	339	299	321	320	364	405
Import	50	73	90	83	76	64
Production	1,378	1,444	1,503	1,499	1,515	1,430

Source: Ministry of International Trade and Industry

2.2.8 General machinery

(1) Demand and supply balance

The general machinery industry is one of Japanese exporting industries. A sign of recovery has begun to appear in domestic demand after three years' stagnation. However, reflecting the weak recovery of investment in machinery and equipment by the private sector, the recovery of the industry is expected to be modest. On the other hand, export is expected to recover remarkably due to active capital investment in Asian countries and the U.S.A. Although offshore production is prospected to increase in this sector, its adverse effect on export will be limited to some specific areas such as office machine and ball bearing.

Import will remain at a lower level because of sluggish domestic demand for the time being. There are two favorable factors which will contribute to an increase in import. One is import promotion efforts seriously taken both by the Japanese government and by the private sector and the other is an increase in import from offshore factories established by the private sector. However, these impacts will not be so large as seen in the sectors of automobiles and electronics and electricals.

Table 2.24 Demand and Supply of General Machinery

(Unit: Yen billion)

	FY 1980	1988	1989	1990	1991	1992	1993
Production	11,505	15,248	16,795	18,128	18,044	16,178	14,599
Domestic demand	8,684	11,501	12,372	13,293	12,791	11,188	9,659
Export	3,339	4,580	5,391	5,722	5,934	5,550	5,299
Import	518	832	968	887	681	560	354

Source: Ministry of International Trade and Industry

2.2.9 Electronics and electricals

Although a sign of recovery exists in domestic demand, production stays in a sluggish situation due to stagnant export activity and a rapid expansion of import. Import is increasing for mainly two reasons. One is an increase in outsourcing by Japanese makers caused by the appreciation of yen. The other is the lower competitiveness of Japanese makers under the appreciation of yen.

Japanese makers will concentrate their production on more high-tech intensive products and leave the production of other products to their overseas affiliates. As a result, import will continue to increase.

Table 2.25 Demand and Supply of Electronics and Electricals

(Unit: Yen billion)

	FY 1980	1985	1990	1991	1992	1993
Domestic demand	9.777	14,160	20,235	20,571	16,967	16,568
Export	5,562	10,796	12,121	12,519	12,571	11,907
Total	15,339	24,946	32,357	33,090	29,538	28,475
Import	812	1,169	2,366	2,493	2,388	2,616
Production	14,527	23,787	29,990	30,598	27,150	25,859

Source: Ministry of International Trade and Industry

Table 2.26 Import Ratio in the First half of the 1994 Fiscal Year

	Domestic demand (Yen billion) (a)	Import (Yen billion) (b)	(b)/(a) (%)
Electronics for consumers	720	105	14.6
VTR	67	14	20.9
Color TV	301	49	16.3
Electricals for consumers	1,261	51	4.1
Electronics for Industry	3,505	420	12.0
Computer	1,840	270	14.7
Telecommunication	1,079	77	7.1
Electricals for industry	1,245	135	10.8
Electronics parts	1,835	765	41.7
IC	1,065	305	28.6
Total	8,566	1,476	17.2

Source: Ministry of International Trade and Industry

2.2.10 Automobiles

Due to a decrease in domestic demand and export which was brought about by an expansion of offshore production, domestic production decreased very much. There is a sign of recovery in domestic demand but some portion of the increase will be absorbed by import which is increasing under the appreciation of yen.

Import has shown growth but its volume is still at a low level, that is to say, only 3% of domestic demand. Further, a substantial portion of the import comes from

subsidiary companies of Japanese car producers in other countries. Import is expected to increase in the future from those companies as well as from foreign manufacturers.

Table 2.27 Demand and Supply of Automobiles

(Unit: 1,000)

	FY 1980	1985	1990	1991	1992	1993
Domestic demand	4,966	5,573	7,803	7,429	6,881	6,389
Export	6,152	6,848	5,821	5,830	5,658	4,622
Total	11,148	12,421	13,624	13,259	12,539	11,011
Import	43	52	216	189	188	207
Production	11,176	12,417	13,592	13,146	12,335	10,850

Source: Japanese Automobile Assembly Federation

2.2.11 Processed food

Demand for processed meat products are growing rapidly even in the downturn of the economy. Demand for frozen food is also showing high growth reflecting changes in the eating habit and life style of the Japanese people. Demand for beer became stagnant after a continuous increase in many years but is basically in a trend of increase. Increase in import is a recent remarkable trend.

Although domestic production will continue to be a main source of processed food, import is also expected to increase. In the case of beer, in addition to the traditional import from foreign breweries, import by "develop and import" by department stores or super stores is likely to become a main thrust of import as well as import from overseas affiliates of Japanese breweries.

Table 2.28 Demand and Supply of Processed Food

	1980	1985	1989	1990	1991	1992	1993
Processed meat products	(1,000 tons)						
Production	403	446	540	525	537	545	545
Meat consumption	370	402	496	480	495	499	493
Frozen Food (1,000 tons)							
Production	562	778	947	1,025	1,106	1,203	1,263
Industrial use	356	568	709	774	845	903	934
Household use	206	210	238	252	261	300	329
Cooked foods	403	541	713	789	863	944	987
Agricultural products, etc.	159	237	234	236	243	259	276
Beer (1,000 kilo liter)							
Shipment	4,540	4,785	6,054	6,551	6,799	6,968	6,857
Import	11	9	62	89	100	115	111
Domestic consumption	4,551	4,794	6,116	6,640	6,899	7,083	6,968
Export	18	19	28	27	28	30	25

Source: Ministry of Agriculture, Forestry and Fisheries; Japan Frozen Food Association; National Tax Agency; and Japan Tariff Association

2.3 Structure of Imports and Argentine Export Offer

2.3.1 Japanese import of Argentine exportable products

Principal import items from Argentina in 1992 and 1993 were foodstuffs with a share of around 70% in all Japanese import items and followed by manufactured goods with a share of around 23%. As for foodstuffs, fish and shellfish (with more than 20%), cereals and foodstuffs (with more than 25%), of which grain sorghum (with more than 17%) is the principal import goods. Principal items in the manufactured are non-metal products (around 17% in 1993) or unwrought aluminum.

Tables 2.29 and 2.30 show the evolution of Japan's imports from Argentina and Japan's principal import items from Argentina in 1993, respectively. Table 2.31 shows products which Japan is currently importing and Argentina has export potential in competition with major exporting countries.

Table 2.29 Evolution of Japanese Imports from Argentina

(Unit: US$ million)

	1986	%	1990	%	1992	%	1993	%
Total	503.3	100.0	539.2	100.0	513.7	100.0	493.2	100.0
<Foodstuffs>	364.4	72.4	228.5	42.4	358.2	69.7	335.4	72.1
Meat	15.8	3.1	19.9	3.7	18.3	3.6	16.5	3.4
Horse meat	14.6	2.9	17.0	3.1	13.2	2.6	13.3	2.7
Fish & shellfish	28.4	5.6	38.4	7.1	105.3	20.5	115.1	23.3
Cereals	294.0	58.4	107.0	19.8	148.2	28.9	124.4	25.2
Maize	132.0	26.2	6.3	1.2	36.0	7.0	31.8	6.4
Kaoliang	142.2	28.2	93.6	17.4	100.3	19.5	83.7	17.0
Natural honey	5.0	1.0	5.9	1.1	1.7	0.3	2.3	0.5
Feed	17.1	3.4	40.0	5.7	65.9	12.8	82.7	16.8
Animal feed	6.7	3.3	30.4	5.6	28.2	5.5	23.8	4.8
<Raw materials>	17.7	3.5	60.7	11.2	32.8	6.4	21.7	4.4
Textile raw materials	9.3	1.3	24.2	4.5	13.3	2.6	6.6	1.3
Wool	8.5	1.7	15.5	2.9	11.7	2.3	6.6	1.3
Cotton	0.0	0.0	5.1	1.5	1.6	0.3	0.0	0.0
Other raw materials	8.4	1.7	34.2	6.3	19.5	3.8	15.0	3.0
Raw hides & skins	3.0	0.6	2.8	0.5	0.0	0.0	0.0	0.0
<Mineral fuels>	0.0	0.0	3.8	0.7	1.6	0.3	0.0	0.0
<Manufactured goods>	120.5	23.9	245.4	45.5	120.3	23.4	115.7	23.5
Chemical goods	6.1	1.2	14.6	2.7	20.8	4.0	7.5	1.5
Machinery	38.9	7.7	53.3	9.9	29.6	5.8	12.4	2.5
Office machine	38.7	7.7	53.0	9.8	29.2	5.7	12.0	2.4
Non-metal products	54.8	10.9	126.2	23.4	59.7	11.6	83.0	16.8
Unwrought aluminum	21.0	4.2	92.5	17.2	44.6	8.7	66.4	13.5
Unwrought alumi. alloy	28.3	5.6	29.9	5.5	13.0	2.5	16.7	3.4

Source: Ministry of International Trade and Industry of Japan

Table 2.30 Japan's Principal Imports from Argentina in 1993

(HS Code) Country	Commodity	Quantity (tons, lit)	Share (%)	Amount (US$ mil.)	Share (%)
(0205.00-000)	Meat of Horses				
Canada		4,179	(15.5)	15.68	(24.0)
Argentina		*7,739*	*(28.6)*	*13.46*	*(20.6)*
China		5,255	(19.4)	10.78	(16.5)
Australia		4,638	(17.2)	8.50	(13.0)
Total		27,040	(100.0)	65.35	(100.0)
(0304.90-099)	Fish meat of other fish				
Thailand		25,553	(33.4)	68.69	(30.5)
Argentina		*28,190*	*(36.8)*	*56.54*	*(25.1)*
R. Korea		9,105	(11.9)	55.33	(24.6)
China		5,628	(7.3)	21.05	(9.3)
Total		76,617	(100.0)	224.99	(100.0)
(0306.13-000)	Shrimps and prawns, frozen				
Indonesia		60,055	(20.0)	656.46	(22.3)
Thailand		51,531	(17.1)	632.66	(21.4)
India		36,810	(12.3)	320.97	(10.9)
China		30,212	(10.1)	242.65	(8.2)
Argentina		*4,272*	*(1.4)*	*32.55*	*(1.1)*
Total		300,489	(100.0)	2,949.55	(100.0)
(0307.99-129)	Cuttlefish and squid, excluding Mongoika				
Argentina		*5,035*	*(23.6)*	*7.95*	*(20.3)*
Taiwan		6,436	(30.2)	7.20	(18.3)
Poland		3,384	(15.9)	5.90	(15.0)
Total		21,299	(100.0)	39.28	(100.0)
(1005.90-010)	Maize for feeding				
USA		9,925,000	(82.8)	1,250.74	(82.8)
China		1,802,000	(15.0)	230.04	(15.2)
Argentina		*260,000*	*(2.2)*	*34.00*	*(2.0)*
Total		11,980,000	(100.0)	1,511.46	(100.0)
(1007.00-091)	Grain sorghum for feeding				
USA		1,725,000	(60.7)	217.68	(63.4)
Argentina		750,000	(26.4)	80.80	(23.5)
China		200,000	(7.0)	24.40	(7.1)
Total		2,842,000	(100.0)	343.19	(100.0)
(1205.00-000)	Rape or colza seeds				
Canada		1,374,803	(75.4)	394.96	(74.6)
France		233,914	(12.8)	70.94	(13.4)
Argentina		*15,863*	*(0.9)*	*5.00*	*(0.9)*
Total		1,823,792	(100.0)	529.15	(100.0)
(2204.29-090)	Other wine of fresh grapes				
Argentina		*3,355,475*	*(23.2)*	*2.76*	*(20.2)*
Bulgaria		3,559,694	(24.6)	2.46	(18.1)
France		1,127,510	(7.8)	1.75	(12.9)
Chile		1,350,250	(9.3)	1.50	(11.0)
Total		14,461,317	(100.0)	13.65	(100.0)
(2204.30-200)	Other grape must				
Argentina		*2,055,138*	*(97.5)*	*4.03*	*(97.4)*
Cyprus		38,954	(1.8)	0.08	(2.0)
Chile		14,226	(0.7)	0.03	(0.6)
Total		2,108,318	(100.0)	4.13	(100.0)
(2207.10-100)	Undenatured ethyl alcohol				
Brazil		105,094	(30.0)	38.47	(28.3)
Thailand		70,453	(20.1)	26.13	(19.2)
China		65,125	(18.6)	23.07	(17.0)
Argentina		*7,043*	*(2.0)*	*3.77*	*(2.8)*
Total		350,653	(100.0)	136.08	(100.0)

Table 2.30 Japan's Principal Imports from Argentina in 1993 (continued)

(HS Code) Country	Commodity	Quantity (tons, lit)	Share (%)	Amount (US$ mil.)	Share (%)
(2301.10-090)	Flours, meals and pellets of meat				
Australia		93,833	(40.9)	31.54	(36.8)
Argentina		*64,946*	*(28.3)*	*22.53*	*(26.3)*
USA		13,754	(6.0)	11.98	(14.0)
Total		229,285	(100.0)	85.80	(100.0)
(2304.00-00)	Oil-cake and other solid residues from the extraction of soybean oil				
USA		248,249	(27.1)	65.90	(28.2)
Argentina		*241,432*	*(26.3)*	*59.03*	*(25.3)*
India		153,382	(16.7)	39.39	(16.9)
Brazil		149,874	(16.3)	37.59	(16.1)
Total		916,733	(100.0)	233.74	(100.0)
(4401.22-000)	Wood in chips or particles				
Australia		2,744,070	(33.4)	361.23	(31.0)
USA		2,093,835	(25.5)	324.47	(27.8)
Chile		1,504,187	(18.3)	222.75	(19.1)
Argentina		*41,464*	*(0.5)*	*6.44*	*(0.6)*
Total		8,216,421	(100.0)	1,165.62	(100.0)
(5105.29-090)	Wool tops				
Australia		6,192	(26.3)	34.05	(26.8)
Taiwan		4,053	(17.2)	23.56	(18.5)
Thailand		3,505	(14.9)	19.84	(15.6)
Argentina		*1,123*	*(4.8)*	*5.11*	*(4.0)*
Total		23,575	(100.0)	127.18	(100.0)
(7601.10-090)	Unwrought aluminum, not alloyed				
Brazil		365,952	(20.3)	478.15	(21.0)
Australia		336,764	(18.7)	419.94	(18.5)
USA		265,219	(14.7)	373.87	(16.4)
Venezuela		165,594	(9.2)	199.82	(8.8)
Argentina		*53,881*	*(3.0)*	*67.25*	*(3.0)*
Total		1,803,097	(100.0)	2,275.67	(100.0)
(7601.20-000)	Unwrought aluminum alloys				
Canada		111,362	(16.4)	148.52	(18.0)
Russia		142,433	(21.0)	141.96	(17.2)
U. Arab		74,155	(10.9)	106.67	(12.6)
Argentina		*12,380*	*(1.8)*	*16.80*	*(2.0)*
Total		677,923	(100.0)	826.40	(100.0)
8471.92-000	Input or output units for computer				
USA		481,450	(21.7)	153.38	(37.7)
Taiwan		559,298	(25.2)	90.23	(22.2)
Singapore		93,221	(4.2)	59.06	(14.5)
Argentina		*216*	*(0.0)*	*1.50*	*(0.4)*
Total		2,223,136	(100.0)	406.65	(100.0)
(8471-93.000)	Storage units for computer				
USA		377,866	(9.4)	464.45	(47.9)
Singapore		1,204,648	(30.0)	296.97	(30.6)
Malaysia		937,759	(23.4)	48.06	(5.0)
Argentina		*212*	*(0.0)*	*8.28*	*(1.0)*
Total		4,011,226	(100.0)	969.94	(100.0)

Source: Japan Tariff Association, *Japan Exports and Imports*, December 1993.

Table 2.31 Japan's Imports of Products with Argentine Export Potential

(HS Code) Country	Commodity	Quantity (tons, lit)	Share (%)	Amount (US$ mil.)	Share (%)
(0201.30-010)	Loin of bovine animals, boneless, fresh or chilled				
U.S.A.		27,355	(41.4)	310.8	(50.7)
Australia		37,906	(57.4)	294.8	(48.1)
New Zealand		699	(1.1)	5.9	(1.0)
Total		66,046	(100.0)	612.6	(100.0)
(0201.30-020)	Chuck, clod and round of bovine animals, boneless, fresh or chilled				
U.S.A.		126,397	(81.1)	444.0	(71.8)
Australia		27,468	(17.6)	166.4	(26.9)
New Zealand		1,867	(1.2)	7.8	(1.3)
Total		155,880	(100.0)	618.8	(100.0)
(0202.30-010)	Loin of bovine animals, boneless, frozen				
U.S.A.		22,689	(75.4)	219.7	(80.6)
Australia		3,859	(12.8)	27.8	(10.2)
New Zealand		3,239	(10.8)	22.9	(8.4)
Total		30,096	(100.0)	272.6	(100.0)
(0202.30-030)	Basket and plate of bovine animals, boneless, frozen				
U.S.A.		88,821	(86.4)	369.2	(92.9)
Australia		12,576	(12.2)	24.1	(6.1)
Canada		929	(0.9)	3.1	(0.8)
Total		102,812	(100.0)	397.6	(100.0)
(1001.10-000)	Durum wheat				
Canada		148,000	(100.0)	27.3	(100.0)
Total		148,000	(100.0)	27.3	(100.0)
(1001.90-091)	Wheat for feeding purposes, excluding durum wheat				
Australia		578,000	(51.1)	113.5	(53.2)
U.S.A.		516,000	(45.6)	93.7	(43.9)
Canada		37,000	(3.2)	6.1	(2.9)
Total		1,131,000	(100.0)	213.3	(100.0)
(1001.90-099)	Wheat, excluding those for feeding purposes and durum wheat				
U.S.A.		2,712,000	(59.8)	519.8	(57.4)
Canada		1,245,000	(27.5)	276.7	(30.6)
Australia		576,000	(12.7)	108.9	(12.0)
Total		4,534,000	(100.0)	905.4	(100.0)
(1003.00-010)	Barley for feeding purposes				
Canada		897,000	(59.8)	120.7	(59.2)
Australia		505,000	(33.7)	70.0	(34.3)
U.S.A.		98,000	(6.5)	13.2	(6.5)
Total		1,500,000	(100.0)	203.9	(100.0)
(1003.00-090)	Barley, excluding those for feeding purposes				
Australia		90,000	(76.3)	15.5	(78.3)
Canada		26,000	(22.0)	3.5	(17.7)
U.S.A.		3,000	(2.5)	0.7	(3.5)
Total		118,000	(100.0)	19.8	(100.0)
(7402.00-010)	Unrefined copper				
Peru		37,000	(93.0)	67.2	(92.6)
Chile		2,000	(5.0)	3.1	(4.3)
Total		40,000	(100.0)	72.6	(100.0)

Source: Japan Tariff Association, *Japan Exports and Imports*, December 1993.

2.3.2 Penetration of Argentine products in the Japanese market

(1) Maize

In 1993, about 260,000 tons (¥3.38 billion) were imported from Argentina, far less than the quantities from the U.S.A. and China. No tariff was levied. There are no non-tariff barriers, preferential tariff or special consideration to Argentine maize. However, Argentina gives priority to Brazil, which is the largest buyer of Argentine maize and is a more profitable market for Argentina, particularly in the case of short supply.

The international price for Argentine maize is around US$120-130/ton, which tends to be higher than that of U.S. or Chinese products. Shipment is generally made by a Panamax size vessel of 50,000 DWT for 10,000 tons of maize mixed with 40,000 tons of grain sorghum. Maize is used as a balance cargo since the vessel must be full in order to realize a competitive price in the Japanese market.

(2) Grain sorghum

In 1993, about 750,000 tons (about US$89.3 million) were imported from Argentina, the second largest after the U.S.A. No tariff was levied. As for maize, the dominant portion of the total quantities imported by Japan will be used as grain feeds. Argentina grain sorghum is not of high quality and is low priced (the price per ton of grain sorghum is lower by US$10 than that of maize and also lower US$4-5 than that of U.S. grain sorghum). Therefore, Argentine grain sorghum is imported by Japan in larger quantities than those of maize.

Argentine products have disadvantages in that the days required for a voyage are 45 days as compared with 2 weeks in the case of U.S. products. Therefore, a recent record increase in the freight rate from US$20/ton in usual cases to US$30/ton severely affected Argentine products and placed them in a disadvantageous position against U.S. products. The U.S.A. had a record crop in 1994, while Australia experienced a severe drought and is expected to import products from the U.S.A. In the meantime, Japan had a good rice harvest in 1994. Furthermore, extra portions of rice including left-over rice that was imported in 1993 will be sold off at lower prices as composite feed to replace grain sorghum. Therefore, grain sorghum import was smaller as compared with the previous year.

Recently, on the other hand, Argentina is shifting emphasis from the production of grain sorghum that is faced with lower prices to the production of soybeans and

maize. As a result of this shift, the export capacity of Argentine grain sorghum may be further reduced. In most cases, trading houses import maize/grain sorghum by 50,000 tonner Panamax-sized vessels and deliver the products on a c.i.f. on board basis to an affiliated feed production complex that has a private berth/silo.

(3) Soybean, soybean oil, and oil cake

In spite of its lower price, Argentine soybean is little imported to Japan because of its low protein content. Japanese users prefer higher quality soybean imported from the U.S.A. and Brazil.

At present the tariff rate of 17.5% is levied on soybean oil (in accordance with the GATT Uruguay Round agreement, the tariff rate will be reduced to about 10% over 5 years from 1995). No import is made form Argentina. In the past, Argentina exported soybean pellets to Japan. Since 1991, however, oil extractors such as NIDLA and INDO established crushers and started the production of value-added oil cake (US$180/ton). The export of oil cake to Japan sharply increased from 160,000 tons (about US$46.1 million) in 1992 to 240,000 tons (about US$65.2 million) in 1993.

However, oil cake should be stored in operation warehouses and fumigation/fine grinding should be done before being delivered to feed makers. Importers have a product risk at this point. As import in the form of products has increased as in the case of broilers recently, it is doubtful that import quantities will further increase (at present, oil cake of 800,000-900,000 tons is imported annually).

Today, the import of Chinese oil cake is the largest in terms of quantity, but it is imported only on a spot basis. Brazilian oil cake (manufactured by SAMBRA) made from high quality soybean, as raw materials, will compete with Argentine oil cake in terms of quality (freight terms are the same). In the case of Argentina, production sites are located inland (e.g., Rosario) where only shallow draft vessels of max. 20,000-30,000 DWT are accommodated and there are a limited number of berths. Therefore, costs will be comparatively higher.

(4) Wheat

Out of the total world production of 550 million tons, wheat of 100 million tons is traded internationally. The U.S.A. is a dominating exporter followed by Canada, Australia, Europe, and Argentina in this order. Europe (EU) is nearly self-sufficient. The U.S. has an abundant surplus of wheat produced at low costs that amounts to a few dozens of million tons. At present, wheat is in a buyers' market. The U.S.A., Europe,

Canada, and Australia are providing government subsidies to farmers in a direct or indirect manner and government-run corporations are involved virtually in all aspects of the export. While export is entrusted to private groups in some countries, it is dealt handled directly by a government-run corporation in Australia.

Japan imports a total of 5-6 million tons a year from the U.S.A., Canada, and Australia with tonnage descending in this order. Imports from Europe are negligible. In 1993 there were import quotas of 5.3 million tons but no tariff was levied as a tentative arrangement. But the wholesale price for domestic flour makers was set at ¥50,000/ton in accordance with a related law. The purchase price on a C&F basis ranged from ¥20,000/ton to ¥30,000/ton. In accordance with the GATT Uruguay Round agreement, a new customs law was put into effect in April 1995 and the import quota mentioned above was abolished and tariff was introduced. A high tariff rate is maintained, though it will be reduced from ¥65/kg to about ¥50/kg over six years.

In order to protect domestic wheat production (500,000 tons a year), no drastic deregulation will be made. Imported wheat is used in bread, wheat noodles, fine noodles, and confectionery. However, Japanese specifications are very strict. For example, it took ten years for the U.S.A. and Canada to improve the quality of their wheat products to adapt to Japanese specifications that are suitable for soft bread, which is popular among Japanese consumers. It took five years for Australia to improve the quality of their products to adapt to Japanese specifications for wheat noodles. Looking to the future three years, Australia is adding improvements to their products. Argentina is officially listed as one of the qualified countries from which Japan can import. In terms of quality, however, it would take many years for Argentina to improve their products to adapt to Japanese specifications.

It can be suggested that Argentina aim at entering the Chinese market, where specifications are not so strict and demand is expected to increase in the future. It is also necessary for Argentina to continue efforts in negotiation within the framework of GATT Uruguay Round/WTO to reduce the subsidies of the U.S.A., Canada, EU, etc.

(5) Barley

Barley is used to produce composite feed, mixed with maize and grain sorghum. Barley is also used in low class distilled spirits (*shochu* in Japanese), dishes (steamed barley), barley water, beer malt, etc. Import prices range from US$120/ton to US$130/ton. Australia exports 100,000 tons of barley to be used for unrefined *shochu*. Argentina has export potential in barley to be used for feed and for beer malt.

(6) Meat bone meal (MBM)

Japan annually imports 220,000-230,000 tons of MBM at the price of US$300/ton as composite feed for poultry and pigs. Out of the total import, 100,000 tons are imported from Argentina. For Argentina, the largest export market is Japan followed by South Africa and Indonesia. MBM exported from Australia is of high quality. Traditionally, a renderer carried out tallow extraction in his meat works. Recently, however, many meat packers began to participate in this business by carrying out streamlined processing down to the rendering process to avoid any quality degradation. MBM will be transported in a 20-ton's container and the minimum unit of transportation is 1,500 tons.

Days required for a voyage from Australia or New Zealand is 10 days by conventional liners. Argentine MBM is transported in a mixed shipment with granite for tombstones, steel pipes, etc. by Russian vessels or conventional liners.

At present, trading houses (four companies) import MBM and supply to feed manufacturing complexes and organic fertilizer makers. However, as transportation charges (on-board quarantine inspection and dismantling), the cost of JAM PACK (bagging), and the cost of FRE CON (fumigation, etc.) are comparatively high, MBM import is not profitable except in the case in which the f.o.b. cost is considerably lower. Therefore, the MBM market is currently shrinking.

Argentine meat-packers tend to sell MBM to the domestic market because of an increased demand by the poultry industry, in which Brazilian direct investment is increasing for lower input costs in Argentina. For MBM, therefore, Argentina's export potential is considered small.

(7) Beef

The total demand in Japan is 1 million tons on a boneless meat basis (meat with bone x 0.7). On the supply side, domestic supply is 400,000 tons and import is 600,000 tons. The import volume in 1993 sharply increased by 34% over the previous year to 567,000 tons. On a boneless meat basis, beef was imported from Australia in 300,000 tons and the U.S.A. in 240,000 tons followed by Mexico, Canada, and New Zealand with quantities descending in this order.

There is still a small incidence of the foot and mouth disease (FMD) in Argentina in spite of its long struggle against this disease. Therefore, chilled and frozen

meat is not imported and only small quantities of boiled meat and canned meat (including corned beef) are imported from the country. Competing countries are Denmark, Sweden, Ireland, and the U.K. France and Germany have recently declared FMD-free. The declaration of FMD-free are negotiated between governments. Argentina has been putting much effort to persuade the U.S.A. and has been given 20,000-ton quotas since 1994, though actual trade is subject to the eradication of FMD.

Tariff rate for chilled and frozen meat will be reduced from the current 50% to 38.5% over six years from 1995 to 2000. Import quantities in the second quarter of each year will be reviewed and if such quantities increased by 17% over the same quarter of the previous year, the tariff rate will be restored to 50%.

Traditionally, trading houses (five major companies and two to three specialized importers) imported meat and wholesaled to meat processing makers (ham/sausage makers). However, with deregulation, trading houses and major supermarkets have begun to participate in "develop and import business," that is to say, to invest in assuming makers' function (ranch operation in Australia, etc.) and retailers' function through their subsidiaries, thus establishing streamlined operation from the up-stream to the down-stream. Further, many discounters (Hanamasa, etc.) began to import meet products directly from meat producers/packers and selt them directly to consumers, without going trough intermediary distribution channels. Furthermore, as a result of deregulation, direct import by users will be possible. In the case of meat processing industries, import through trading companies accounts for 40-50% of the total import and direct import accounts for the remaining percentage.

Many frozen food producers such as Nichirei and Ajinomoto have established importing sections and have begun to import raw materials for processing such as boiled meat without using trading companies.

Argentina has disadvantages in terms of transportation and distribution because of the long distance from Japan. 40-50 days are required for a liner (container shipment) to transport their products to Japan, while it takes only two weeks for the U.S.A. and 10 days for Australia. The quality of meat becomes highest through 10-14 days of chilled ripening. Exchange rate risk and market risk must be taken into account for the longer transportation period.

Australia is expanding its sales channels through breeding particularly for Japan and market research. In 1994, the number of cattle raised in feedlots was 460,000, increasing by 62% from that of 1992. Most of these feedlots are either operating on a

contract basis or controlled by Japanese affiliated companies such as meat processing companies and major supermarkets that established business bases there in order to reduce production and intermediary costs, taking advantage of the strong yen.

(8) Fish

a. Other fish

Import tariff is 6%. The quantity of import increased 2.8 times in the past three years, from 10,000 tons in 1991, 16,000 tons in 1992, to 28,000 tons in 1993. The import volume in this category is the third biggest following grain sorghum and soybean oil cake. Due to the drastic decrease of domestic catch, the import of codfish and other similar fish has increased significantly in the recent years. The main suppliers of codfish are the U.S.A. and Russia. The "fish meat of other fish" is also supplied by Thailand, the Republic of Korea, and China. Import from Argentina is mainly merulusa classified in "fish meat of other fish, excluding fillets, frozen."

The meat of other fish is used mainly for fish paste in daily dishes or dishes served in a pot. Most of them are used for materials for *surimi* or *kamaboko*. Compared with Alaskan (U.S.A.) fishes, the Argentine fish meat is more suitable for paste preparations because it absorbs more water and the meat is harder, which provides a comfortable touch to one's teeth. If the market continues as it is, it is highly possible that Argentina can expand exports to the Japanese market.

b. Shrimps, prawns

Import tariff is 3%. Due a decrease of domestic catch and an increase in eating out, shrimps rank first in terms of value among imported marine products and second in terms of volume, following fish meal. The share of imported shrimps in total domestic supply was 86% in 1992. Imports reached US$2,950 million in 1993. Major exporters are Indonesia, Thailand, India, China, the Philippines, and Vietnam. The share of Argentine imports in 1993 was just around 1% of Japan's total imports.

Shrimps are commonly consumed in Japanese, Western and Chinese cuisine for all generations. The shrimps are distributed in fresh and frozen and often used for canned products. Imported shrimps are mainly in a frozen style. Compared with Asian products, most of Argentine products are consumed in a crude style for their good condition of preservation like North European products. As the fishing volume in Argentina is rather small due to small ships, the import volume will not be increased so much in the future.

c. Cuttlefish, excluding *mongoika*

Import tariff is 5%, subject to import quotas. Cuttlefish is consumed widely from daily house cooking to quality dishes like *sashimi* served in restaurants and is used in dry, smoked, salted-gut, and canned styles. Small-sized cuttlefish is used as fishing baits.

The main suppliers of cuttlefish are Argentina, Taiwan, Poland, Chile, and so on. Argentina became the biggest supplier in 1993. As cuttlefish is traded as a commodity, it is rather difficult to differentiate Argentine products from those imported from other countries. However, it can be said that the Argentine products are of better quality compared with other sources, which implies that Argentina can high export potential in cuttlefish for the Japanese market.

(9) Aluminium ingot

There is demand for aluminium ingot in producing automobile bodies, engines, aluminium wheels, and aluminium cans. In 1993, Japan imported 2.3 million tons of aluminium ingot and the import is in a tend of increase. A tentative tariff rate of 1% is levied. ALUAR produces 180,000 tons a year, out of which 40,000 tons are exported to Japan through four Japanese trading companies.

The strongest competitor is Australia, followed by the U.S.A. and Brazil. The volumes imported from these countries are more or less the same and, therefore, the supply capacity is the main factor determining whether Japan will buy the product. Prices of aluminium ingot are decided at the LME market in London based on the base price of US$2,000/ton (c.i.f. or C&F) plus a premium (around US$100/ton). Argentina is exporting aluminium ingot only to Japan but they have no additional capacity because of their focus on the domestic market. Argentina has a disadvantage in that they import bauxite as raw materials from Australia. Unless the country succeeds in increasing production on a stable basis, for which a prerequisite is the production of electricity at a low cost, aluminium ingot will not become an export product in the future.

(10) Copper ingot

Almost all of copper ingot is imported in the form of copper concentrates. Tariff is not levied. In 1993, major suppliers and their shares were Chile with 25%, Canada with 25%, and Indonesia with 15%.

The world production is about 8 million tons, out of which Chile accounts for more than 20%, producing 1.8 million tons. Chilean copper concentrates are of high quality. For example, the copper content of crude copper produced at the Escondida mine is 3%, while that of copper concentrates is 40%. Argentina is currently developing the Alambrea mine, which will start production at the end of 1996. The copper content of crude copper to be produced at this mine will be 1% or less, while that of copper concentrates will be 25-27%.

In Japan, the demand for copper ingot is not expected to increase sharply, though the diversification of supply sources will be intensified. Japanese users are interested in mining development projects in Argentina, but under existing conditions they are likely to be more concerned about the development of Chilean and Brazilian mines.

2.4 Japanese Foreign Direct Investment in Argentina

In the 1950s and 1970s, there was an investment "boom" of Japanese companies in Latin American countries. In the profound economic crisis of the 1980s, the boom was over and in the early 1990s the Japanese investment continued to stagnate. In more recent years, however, there is a sign of new investment under the changes in the economic environment.

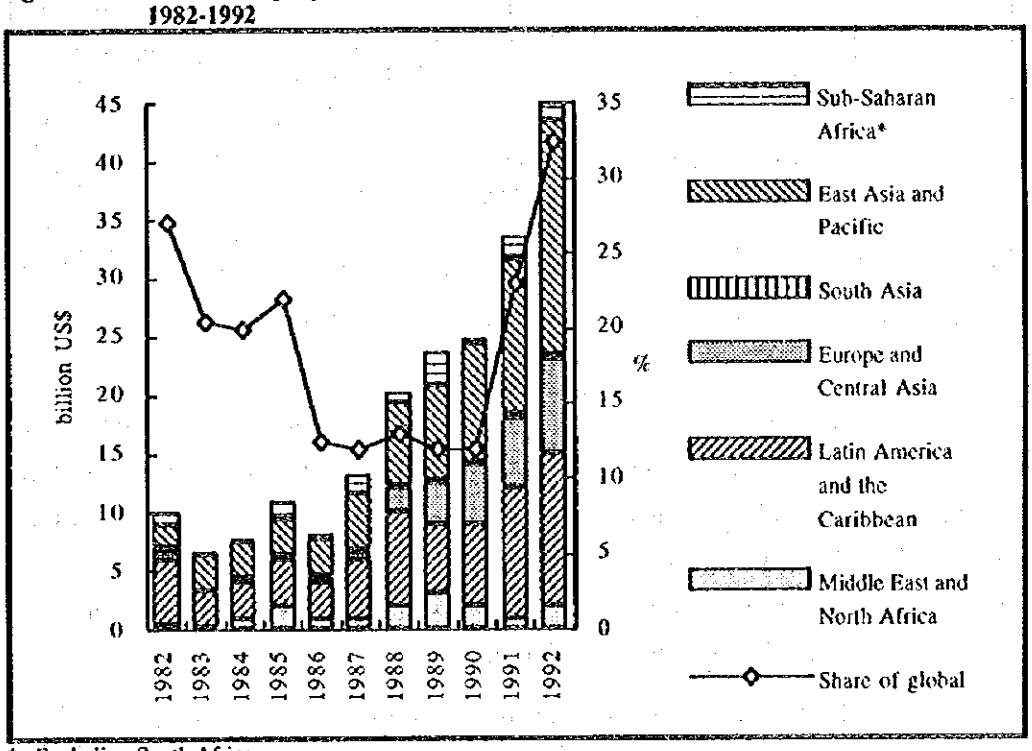
2.4.1 General trend of FDI in Latin America

In the early 1980s, most of Latin American countries faced economic crisis which was stemmed on the closing of the foreign exchange market of Mexico and the default of external debt of the country. During this period, reflecting such a critical situation, FDI inflows to Latin America declined remarkably. In the latter half of the 1980s, however, FDI inflows into Latin America began to grow and increased rapidly in 1991 (Figure 2.1 and 2.2). The main reasons for the new capital inflows can be summarized as follows:

1) General economic recovery as a result of the restructuring of external debt and fiscal financial discipline
2) Economic liberalization and the privatization of state owned companies
3) Deregulation of various restrictions on FDI
4) Liberalization of capital and profit transfer
5) Introduction of debt-to-equity conversion programs
6) The progress of economic integration like NAFTA and MERCOSUR

As a results of the rapid increase of FDI, the share of Latin America in the total world FDI inflows increased from 6% in the period of 1981-1985 to 10 % in 1991 and 13% in 1992. Although FDI tended to increase throughout the region, inflows continued to be concentrated in a limited number of countries; Argentina, Brazil, Chile, Mexico, and Venezuela.

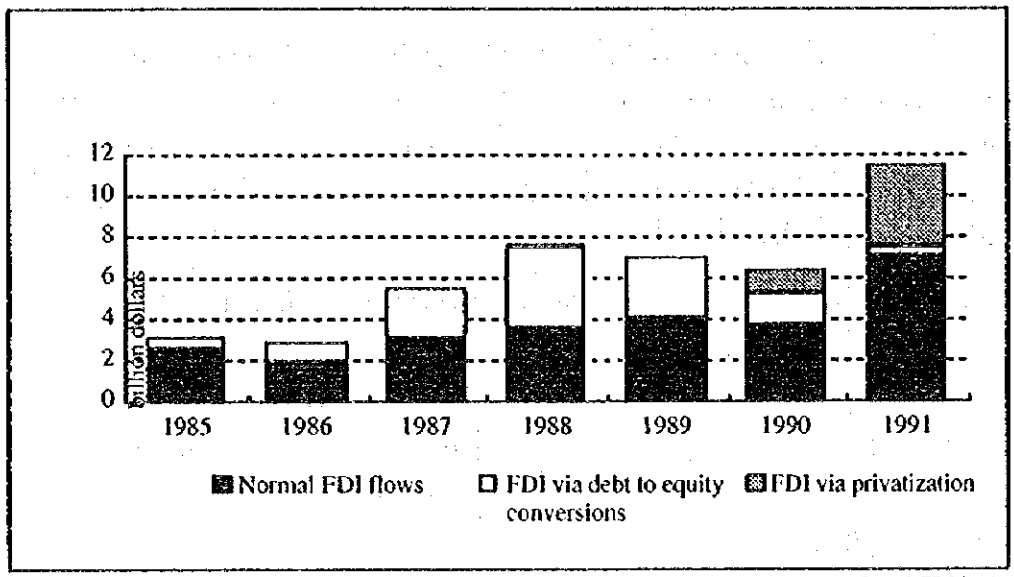
Figure 2.1 FDI in Developing Countries by Region and Share of Inflows to Latin America, 1982-1992



*. Excluding South Africa.

Source: World Bank based on balance of payments data reported by the International Monetary Fund and data on net foreign investment reported by Organization for Economic Co-operation and Development.

Figure 2.2 Foreign Direct Investment Inflows in Latin America, 1985-1991a



a. Includes Argentina, Brazil, Chile, Mexico and Venezuela, which accounted for three quarters of total FDI in the region in 1991.
Source: UNCTAD, Programme on Transnational Corporations, based on UNCTAD, 1993c.

In 1992, Argentina and Mexico accounted for 66% of all flows into the region (Table 2.32). In the case of Argentina, in particular, the drastic privatization prompted FDI and in the case of Mexico the progress of NAFTA negotiation and privatization programs helped to invite investment. The debt-to-equity conversion program contributed to promote FDI inflows. Especially, in Argentina, Chile, Mexico and Brazil the amount of debt converted was large.

Table 2.32 Major Destinations of Foreign Direct Investment, 1989-92

(US$ million)

Country	1989	1990	1991	1992	Total
China	3,393	3,487	4,366	11,156	22,402
Mexico	3,037	2,632	4,762	5,366	15,797
Malaysia	1,668	2,333	4,073	4,118	12,192
Argentina	1,028	1,836	2,439	4,179	9,482
Portugal	1,737	2,611	2,449	1,873	8,669
Thailand	1,776	2,444	2,014	2,116	8,349
Indonesia	682	1,093	1,482	1,774	5,031
Brazil	1,267	901	972	1,454	4,594
Nigeria	1,882	588	712	897	4,080
Venezuela	213	451	1,916	629	3,209
Korea, Rep.	758	715	1,116	550	3,139
Turkey	663	684	810	844	3,001
Hungary	0	0	1,462	1,479	2,941
Egypt, Arab Rep.	1,250	734	253	459	2,696
Colombia	576	500	457	790	2,323
Others	4,780	5,332	7,593	9,584	27,290
Total	24,710	26,340	36,876	47,268	135,194

Note: The total FDI in Latin America and Caribbean countries in 1992 amounted to US$14,507 million.
Source: International Monetary Fund and World Bank estimates

2.4.2 Japan's direct investment in Latin America

The first boom of Japanese investment in Latin America came during the latter half of the 1950s. In this period, the Japanese manufacturers of textiles, steel, shipbuilding, automobiles and so on went to Latin America in line with the host country's import substitution policy. USIMINAS, the biggest shipbuilding company in Latin America, Ishikawajima do Brasil, and Toyota do Brasil are the representatives of such investment. Their main purpose of investment was participation in the Latin American market.

The second investment boom came during the end of the 1960s and the first half of the 1970s. In the first half of the 1970s, among Latin American countries, Brazil was a main target for Japanese investors. During this period, the number of Japanese companies that invested in Brazil reached 251, exceeding the numbers in Panama (58) and Mexico (35). During the second investment boom, Japanese private investment was motivated by the securing of natural resources for Japan as well as penetration into the Latin American market. Some of good examples were investment in the development of resources such as iron ore in Brazil, non-ferrous metals in Peru, and a salt farm in Mexico.

In the early 1980s, stemmed from the external debt crisis, most of Latin American countries plunged into economic crisis--fiscal deficit, hyper-inflation, currency devaluation, and an increase of unemployment. In the latter half of the 1980s, some of the Japanese companies that had invested withdrew from Latin America since they suffered a big loss by the devaluation of currency, the high interest rate, and the re-scheduling of external debt. In this critical period, the Japanese investment boom in Latin America was rapidly cooled down and investors' enthusiasm, especially in the industrial sector, was lost.

In the late 1980s, many Latin American countries took a historical change in their economic policies such as a reduction of fiscal deficit, the privatization of state-owned companies, the stabilization of currency, and the liberalization of trade and foreign investment. As a result, most of the countries succeeded in stabilizing their economy, leading to a slowdown of inflation and steady economic growth.

Taking advantage of such favorable environment for investment, a lot of FDI started to flow into Latin America again, especially from the U.S.A. and EU countries. Japanese companies, however, took very cautious attitude and did not show much

interest in investing in Latin America. This attitude has been continuing even till today. The reasons for such cautious attitude are as follows:

1) In the 1980s, many Japanese companies had unpleasant experience in their operation in Latin America, suffering a loss due to frequent changes in economic policy. For those companies, it is not easy to forget such painful experience immediately and they are still skeptical of the long term economic stability of the region. In the late 1980s, especially after the Japanese economic boom came to an end and profitability fell, they became more cautious about their new investment.

2) In the case of Asian countries, there are many successful cases of Japanese investment even if stories are different from country to country. Based on their experience and abundant information on the region, most of Japanese companies consider that investment risk is limited and controllable in the case of Asian countries. Besides, the amount committed to the region including ODA was so large and the industrial linkage was so strong that Japanese investment flowed into the region continuously.

3) Through the re-scheduling of the external debt of Latin America, Japanese banks were compelled to write off a rather big amount of their credit, especially, through the agreement of Brady Plan. Making such a loss, they also became very cautious about granting new loans to Japanese companies that intended to make investment or to carry out new projects in Latin America. After the settlement of the re-scheduling of their credit, many of them even closed their offices in Latin America. Such cautious and retreating attitude of Japanese banks also negatively affected FDI from Japan.

4) Because of frequent changes in economic policies in Latin America, Japanese companies were forced to reorganize their subsidiaries with a strategic change for profit making. To cope with the liberalization of import, for example, some of them turned into a mere importer of finished goods instead of manufacturing. Those companies could not afford to make new investment prior to their restructuring.

2.4.3 Japanese direct investment in other major Latin American countries

There is a conspicuous difference in investment trends of Japanese companies from country to country.

(1) Mexico

a. Investment trend of Japanese companies

Japanese investment in Mexico has been sluggish since 1989. The share of cumulative Japanese investment in all foreign investment in Mexico dropped from 6.8% in 1983 to 4.8% in 1990 and 4.1% in 1993 (US$16.8 billion). The declining trend of Japanese investors could be explained by their painful experience during the period of debt crisis and also by the prevailing wait-and-see attitude in the process of the negotiation of NAFTA. After the successful effectuation of NAFTA, however, a new trend of active investment by Japanese companies has been observed.

As of the end of 1993, there were 185 companies registered in the Japanese Chamber of Commerce in Mexico. 59% of those companies are manufacturers and almost 50% of them are maquiladora companies. It is noteworthy that the most of the maquiladora companies belong to the electric appliances and electronics industry. All major Japanese companies in the sector like Toshiba, Canon, Hitachi, Matsushita, and so on are operating there. Those companies import raw materials and semi-finished goods from Asia and the U.S.A. and export their finished goods mainly to the U.S.A., making use of the duty drawback system of maquiladora.

Another characteristic of Japanese investment in Mexico is a large share of the automobile industry. Nissan, which is one of the biggest automobile manufacturers in Mexico, is going to produce about 300,000 cars per year with a new investment of about US$1 billion in the past few years. Nissan started to operate in Mexico in 1966. It is one of the oldest Japanese companies operating there. Just like other Japanese companies, Nissan went through very hard and painful experience because of frequent changes in the country's economic policy. Nevertheless, they enlarged their production capacity targeting not only the Mexican market but also the U.S. market. Their new factory, which started to operate in 1992 with the production capacity of 100,000 cars per year, is designed to export all their products to other countries including South American countries. In order to meet the requirement of local contents by the NAFTA agreement, Nissan invited many Japanese group companies to operate in Mexico. Upon Nissan's request or by their own decision, more than seven Japanese auto-parts manufacturers have already started to operate in Mexico and additional five to seven companies are expected to go to Mexico in the near future.

Honda, which has been manufacturing motorcycles in Mexico for a long time, has recently decided to produce automobiles. As a result of the expansion in the

productive capacity of U.S., Japanese and German automobile manufacturers, Mexico is going to be one of the world leading countries of the sector.

b. The Influence of NAFTA on Japanese companies

NAFTA, which was put in force in January 1994, has had various positive and negative influences on Japanese companies. While NAFTA produced new business chances to expand their activities from Mexico to North American countries, it has brought about more severe competition with U.S. and Canadian manufacturers and traders. In addition, in order to enjoy the duty free system of NAFTA they now have to comply with the local contents requirement.

The measures of Japanese companies in Mexico for adjusting to the new environment created by NAFTA can be summarized as follows:

Japanese trading companies are trying to increase their business with the U.S.A., combing U.S. products with Asian products to sell in Mexico in cooperation with their subsidiaries in the U.S.A.. On the other hand, Japanese manufacturers, as seen in the Nissan's case, are going to increase the share of local contents by using domestic and North American products more than before. Maquiladora companies are also in a similar position but the only difference is that they have more time to make such adjustment because the maquiladora system will be abolished seven years latter. Some other Japanese manufacturers which are unable to comply with the local contents requirement will turn into mere importers because the import price from other NAFTA countries will be lower.

(2) Brazil

As of September 1990, there were 608 Japanese companies registered with the Central Bank of Brazil, of which active companies were 461. More than 60% of them came from Japan during the second investment boom in Brazil in the 1960s. In the manufacturing sector, the top five were electronics and electric appliances (55), other manufactures (39), chemicals (36), foodstuffs (34), steel, and non-ferrous metals (28 as a total of the latter two). In the non-manufacturing sector, the top three were traders (68), services (30), and finance, insurance and security (30).

In the 1980s, the number of new Japanese companies established in Brazil sharply diminished and this trend has been continuing even after 1990. In 1990 the total amount of FDI from Japan was US$165 million. In 1991 this amount slightly decreased to US$163 million, while FDI from the U.S.A. increased sharply to occupy the first place. As of the end of 1991, the Japanese share in total accumulative

investment in Brazil was 9.7%, ranking third after the U.S.A. and Germany. The sectoral shares of the Japanese investment in 1991 were 13% by electric and telecommunications, 12% by metal, 10.5% by steel, 5.8% by textile, and 5.7% by automobile.

Even after 1991, there was not a sharp increase in Japanese investment because of their very cautious and wait-and-see attitude about the economic reform by the government. Instead of making new investment, most of the companies dedicated how to decrease costs and how to increase productivity. In spite of such a general trend of Japanese companies, some new projects in the pulp, aluminum, mining, and automobile sectors are now under way. Some companies are planning to make MERCOSUR strategies such as the distribution of production among countries and export expansion to neighboring countries. Stimulated by the active investment trend of U.S. companies, Japanese investment will also turn to be more positive in the near future.

(3) Chile

After Chile's economic liberalization, Japanese manufacturers, auto assemblers in particular, stopped manufacturing and started to import finished goods mainly from Japan. Japanese companies, however, have become highly active in the resource development and processing sectors and increased the export of wood chips, metals, salmon, processed fruits, etc. This can be proved partially by the fact that during the period of 1985-1989 Japanese investment materialized in the mining sector amounted to US$59 million, which represented 60.4% of total direct investment from Japan.

Total FDI in Chile during 1991 on a materialized bases amounted to US$953 million, of which the mining sector had the largest share, i.e., 46% amounting to US$442 million. On an approval basis of foreign investment in the same year, Japan was in the second place with US$424 million after the U.S.A. Most of this new investment was related to resource development such as copper exploitation, reforestation, salmon farming, etc. This trend continued in 1992 and 1993. Especially, the mining sector occupied 68.4% and 73.0% in respective years.

The Chilean market is not big with a relatively small population but the country is rich in natural resources. For this reason, Japanese investment in Chile will be continuously concentrated on the resource development and processing sector. Most of their products will be exported to Japan as before, but influenced by the economic integration of NAFTA and MERCOSUR, Chile's export will be expanded to countries in these integrated regions in the future.

2.4.4 Perspectives of Japanese investment in Latin America

Until 1993, the cumulative Japanese investment in Latin America amounted to US$50 billion, which represented 12% of all Japanese FDI. However, more than 70% of this investment was directed to tax haven countries like Cayman, Panama, Bahamas, Virgin Islands, etc. Therefore, the net actual Japanese investment remained small, especially in comparison with the huge amount of investment in Asian countries.

Since the 1980s, Japanese companies have been maintaining rather cautious attitude toward investment in Latin America despite the improved climate of investment and very keen competition with U.S . and European companies. However, there is a change in their attitude in recent years and a steady increase in the future can be well expected for the following reasons:

1) Because of the appreciation of yen, Japanese manufacturers have been losing competitiveness and many of them are planning to shift their production from Japan to other countries including those in Latin America. Actually, Japanese FDI has been stimulated by the constant appreciation of yen since 1985. Especially, between 1986 and 1988, the value of yen against U.S. dollar doubled. Due to this appreciation of yen and the "bubble economy" in Japan, total Japanese FDI reached its peak of US$67,540 million in 1989. After 1989, Japanese FDI has declined, reflecting the recession. In 1993, however, Japanese yen was again appreciated by about 15% to the level of ¥108 per U.S. dollar from approximately ¥125 of the previous year. During 1994, yen was appreciated again to the level of less than ¥100. Such a sharp increase of yen dealt Japanese manufacturers a fatal blow. They are now forced to shift their production plants to other countries, irrespective of Japan's business cycle. While their first priority for such transfer is other Asian countries, Latin America are regarded either as the second best or as one of promising candidates in the world.

2) The size of the Latin American market is not negligible for Japanese companies and most of the countries are growing fast with growing population. Through regional economic integration, the market is going to expand rapidly. This will bring more business opportunities to Japanese companies.

3) Most of the operations of Japanese companies in Latin America have become successful particularly after the economic crisis was over. According to JETRO's survey, the sales of Japanese companies in the U.S.A. and Europe are very huge, amounting to ¥33.5 trillion and ¥23.3 trillion, respectively in 1992. But they made a loss of ¥83.3 billion and ¥75.2 billion in respective regions in the same year. Although

the sales of Japanese companies in Latin America were only ¥2.4 trillion, they made a profit of ¥14.3 billion in the same year. The successful story in their operations in Latin America in recent years will favorably affect their decision of new investment.

4) The continuous economic stability of Latin America under the consistent economic policy will bring about a better investment climate and it will lead to the restoration of their confidence in those countries.

5) It is important for Japan to secure natural resources and foodstuffs for manufacturing and consumption. For instance, Japan depends on import more than 90% of its iron ore consumption. In the case of oil, Japan imports almost 100% from abroad. Japan also depends a large part of their foodstuffs on import. It is absolutely necessary for Japan to secure the stable supply of natural resources and foodstuffs. From this point of view, Japan has been diversifying supplying countries. Many Latin American countries are rich in natural resources but not yet fully exploited. Japan will keep an interest in Latin America and continue to make investment for such a purpose.

2.4.5 Perspectives of Japanese investment in Argentina and suggestions for investment promotion

a. Trend of Japanese investment

The direct investment from Japan in Argentina during 1951-1993 amount to US$524 million, which represented only 0.1% of total Japanese FDI and 1% of their investment in Latin America.

According to the Japanese Chamber of Commerce, the number of Japanese companies in Argentina has remained almost unchanged since 1989. There were 81 companies in 1989, 82 in 1991, and 79 in 1994 (as of July). During this period, however, the replacement of companies has occurred. After the settlement of the re-scheduling of external debt, three Japanese banks and KDD withdrew, while there were new comers like Caesar Park Hotel, Yamaha, Alpine, and so on. The top four sectors of Japanese companies are trading (12 companies), fishery (6), machinery (4), and transport (3). There are also joint ventures like NEWSAN S.A. (Sanyo) and PECOM-NEC S.A. (NEC).

b. Investment environment of Argentina: Japanese companies 's views

In 1993 Japan Argentine Businessmen's Joint Economic Committee conducted a survey of Japanese companies on the Argentine investment environment. The results of the survey, as well as an independent survey by the Study Team can be summarized as follows:

1) Before 1993, many Japanese companies were concerned about the future exchange rate policy, trade deficit, and the increase of unemployment. Therefore, they did not have enough confidence in the future stability of the economy. Today, however, they appreciate and fully recognize the success of the economic reform implemented by the Argentine government. They have some concerns over high production costs including financial costs, the present labor law, the quality of products by supporting industries, fairness in market competition, and so forth.

2) Most of them consider that Latin America is the third important region for their investment after North America and East Asia. Among Latin American countries, Brazil, Argentina, and Mexico are the top three important countries as an investment targets.

3) They fully understand that the South American market is expanding as a result of the establishment of MERCOSUR. Many of them would like to study their future investment either in Brazil or in Argentina, taking full consideration of the MERCOSUR market and the Chilean market. The economic integration will be a factor very important to Japanese companies in making new investment decisions for Argentina.

4) Some of the companies have an interest in a joint venture, combining Argentine companies' excellent know-how of sales, fund-raising, and accounting and Japanese companies' advanced industrial technology. Toyota has decided to establish a factory with an Argentine company, investing about US$100 million as a new joint venture. They are going to manufacture about 18,000 Hirex Trucks per year and they are planning to export a part of their products to other MERCOSUR countries and Chile. They will have a close linkage with Toyota do Brasil in the sales of cars and the supply of raw materials. Their investment was therefore motivated by the economic integration of the region as well as the utilization of their partner's resources.

5) Concerning Asian investment in Argentina and the sectors to be invested in, they consider that there is high possibility of investment from Japan, Korea and Taiwan in agriculture and fishery, mining, automobiles, and electric appliances. There is also possibility of investment in the privatized fields such as hydroelectric power plants, petrochemicals, highways, subways, ports, natural gas, etc.

c. Suggestions to promote investment

Compared with other Latin American countries, Argentina has an advantage in its location as a center of MERCOSUR. When Japanese companies make a strategic plan for their new establishments in South America, Argentina will be one of the foremost candidates among countries in the region. In November 1994, an investment seminar was hold in Japan by the Argentine government, which turned out to be quite effective in making Japanese businessmen understand correctly the present investment environment of Argentina. Also influenced by Toyota's decision, their views on Argentina have been changing toward more favorable ones. In order to draw more investment from Japan, Japanese companies' opinions are important. Taking them into consideration, the Study Team could make the following suggestions to promote Japanese FDI.

1) Maintain consistent economic policy, keeping the present good economic fundamentals
2) Maintain political and social stability
3) Improve infrastructure such as ports, highways, railways, airports, warehouses, telecommunications, etc.
4) Prompt the reform of the labor law
5) Enhance supporting industries and improve the quality of their products
6) Promote training and education of the English language
7) Decrease financial costs through the reduction of interest rates
8) Keep close contact with Japanese business circles and have dialogues with them in order to make effective investment promotion strategies
9) Hold investment seminars periodically

Chapter 3
The Republic of Korea

3. The Republic of Korea

3.1 Overview of the Korean Market

3.1.1 Major economic indicators

As of 1993, the Republic of Korea had a population of 44 million. Seoul's population stood at 10,672,000, 24.2% of the national total. GNP measured US$328.7 billion, or US$7,466 in per-capita terms, a 3.7-fold increase from US$2,002 in 1983.

In 1992, nominal GNP climbed a relatively subdued 4.7% on its level the year before. In 1993, however, it regained momentum and expanded 7.5%. The first half of 1994, moreover, witnessed a growth pace of 8.5%, leading to forecasts that GNP will widen 8% in 1994 overall. Given expectations of sustained growth, the country is aiming for a 6% pace over the medium and longer term. Though there is some concern about overheating, considering conditions in the global economy, medium- and long-term prospects for the Korean economy currently look bright.

The consumer price index, however, measured 6.0% in August 1994 and 5.3% in October 1994, thus showing signs of moving up year-on-year. Given that price stability is a goal of top priority in the Republic of Korea now, attention is sharply focused on price trends. The goal is to hold the inflation rate under 4%. Although the unemployment rate pursued a gradual uptrend in 1993, by the second half of 1994 it had leveled off somewhat.

Table 3.1 Major Economic Indicators

	1989	1990	1991	1992	1993
Population (million)	42.45	42.87	43.27	43.66	44.056
GNP per capita (US$)	5,210	5,883	6,757	7,007	7,466
Real GDP growth(%)	6.4	9.5	9.1	5.1	5.5
Unemployment rate (%)	2.6	2.4	2.3	2.4	2.8
Inflation rate (%)	5.7	8.6	9.3	6.2	4.8

Source: National Statistical Office, The Republic of Korea.

From 1990 to 1992, the Republic of Korea recorded a deficit in its trade balance, but in 1993 achieved a surplus. Trade with Japan has proved the exception to the general rule, however; in 1993 the Republic Korea had a trade deficit of over US$8.0 billion with Japan, and in 1994 it appears that gap will climb beyond the US$10.0 billion mark. The chief reason is that imports of capital goods from Japan have expanded steeply since 1990.

The shift to a trade surplus in 1993 also enabled the country to post a surplus in its current account, ending a deficit trend that had extended from 1990. In the first nine

months of 1994, though, the Republic Korea was running a cumulative deficit of US$4.4 billion in its current account, and projections are that the deficit will total US$6.0 billion for the year as a whole. Several developments factor behind this reversal. First, echoing the active pace of corporate capital investment, imports of capital goods have jumped sharply. Second, expanded levels of consumer spending are fueling a surge in imports of consumer durables.

Table 3.2 Balance of Payment

(US$ million)

	1989	1990	1991	1992	1993
Trade Balance	4,597.2	-2,003.6	-6,979.8	-2,146.4	1,860.2
Exports	61,408.7	63,123.6	69,581.5	75,169.4	80,949.9
Imports	56,811.5	65,127.2	76,561.3	77,315.8	79,089.7
Current Account Balance	5,654.6	-2,179.4	-8,727.7	-4,528.5	384.6
Capital Account Balance	-3,302.2	3,881.2	4,227.0	8,342.6	6,878.8
Overall Balance	2,453.1	-273.9	-3,740.8	4,898.1	6,542.2

Source: Economic Statistics Yearbook, The Bank of Korea.

3.1.2 Industrial structure

Among the industrial sectors that accounted for an expanding share of GDP in the five-year span to 1993, construction, finance, producers of government services, and other tertiary industries demonstrated the most-pronounced growth. In contrast, agriculture, mining, and other primary industries as well as manufacturing and other secondary industries accounted for a dwindling share. This pattern emerged chiefly because manufacturing-led output contributed to GDP growth, enabling industries in the tertiary sector to reap strong gains as a result.

Table 3.3 GDP by Type of Economic Activity

(%)

	1988	1989	1990	1991	1992	1993
Industries	90.5	90.7	90.1	90.5	90.7	90.4
Agriculture, forestry and fisheries	10.2	9.6	8.7	7.7	7.4	7.1
Mining and quarrying	0.8	0.7	0.6	0.5	0.4	0.3
Manufacturing	32.1	31.0	29.2	28.5	27.8	27.1
Electricity, gas and water	2.7	2.5	2.2	2.1	2.2	2.3
Construction	7.6	9.0	11.5	13.9	13.7	13.6
Wholesale and retail trade, restaurants and hotels	13.8	13.3	12.9	12.2	12.0	11.9
Transport, storage and communication services	6.9	6.9	6.7	6.7	6.8	7.0
Finance, insurance, real estate and business	13.3	14.3	14.9	15.3	16.6	17.1
Community, social and personal services	3.2	3.5	3.5	3.6	3.9	4.0
Producers of government services	6.6	7.2	7.3	7.4	7.8	8.0
Others	9.2	9.6	9.8	9.1	9.7	9.0
GDP	100.0	100.0	100.0	100.0	100.0	100.0

Source: Economic Statistics Yearbook, The Bank of Korea.

3.2 Trading Patterns

3.2.1 An export-driven economy

Aside from farm goods, the Republic Korea is an extremely resource-poor nation. Largely for that reason, it has become heavily reliant on international trade.

The country depends on imports for its supplies of energy and other raw materials; its exports, moreover, consist primarily of processed goods produced with imported raw materials, capital goods, and parts.

Among the categories of imports (excluding cereal grains and crude oil), consumer goods, capital goods, and raw materials accounted for 10.5%, 36.5%, and 53.0% in 1993. Of these categories, 84.4% of the consumer goods, 72.6% of the capital goods, and 59.3% of the raw materials imported in 1993 were destined for domestic use, and the remainder, for re-exportation. The Republic of Korea is essentially a country that exports finished goods produced with imported raw materials. For that reason, as its single largest supplier of raw materials, Argentina could conceivably heighten its export potential provided it devotes some effort to that end.

Table 3.4 Korea's Import Structure

(US$ million)

	1989	1990	1991	1992	1993
Consumer goods	6,125	6,739	8,075	8,575	8,779
(Domestic Use)	(4,860)	(5,568)	(6,799)	(7,276)	(7,410)
Capital goods	22,370	25,451	30,092	30,581	30,604
(Domestic Use)	(15,436)	18,418	(22,203)	(22,228)	(22,210)
Industrial materials and fuels	32,970	37,653	43,357	42,620	44,417
(Domestic Use)	(18,786)	(23,416)	(27,803)	(26,554)	(26,319)

Source: National Statistical Office, The Republic of Korea.

3.2.2 Market-opening efforts

In the early 1980s, the Republic Korea had its hands full trying to accommodate U.S. pressure for new policies on trade and commerce. In the late 1980s, it demonstrated substantial headway in opening its markets under pressure to liberalize its non-trade sectors and after designation by the U.S.A. as a target for Super 301 trade sanctions.

Since the early 1990s, the Republic of Korea has been shifting its trade focus to the markets of the developing world; trade has accordingly increased with countries in Southeast and Southwest Asia and Eastern Europe.

Among the trading blocs emerging under the NAFTA, MERCOSOUR, and APEC banners, it appears that the Republic of Korea intends to strengthen its economic policies under the APEC framework.

After assuming the helm of government in February 1993, the Kim Young-sam administration hammered out a new "100-day economic plan" comprising tangible steps toward six key objectives: 1) interest-rate cuts and relaxed monetary policies aimed at providing fresh economic stimulus; 2) structural reforms in the small-business sector; 3) the promotion of technological research and development; 4) improvements in the capacity of private corporations to operate on their own, and steps in economic deregulation aimed at fostering such improvements; 5) a gradual shift from government-led to private-sector-led management of programs designed to structurally overhaul agricultural and fishing districts; and 6), the stabilization of prices for basic necessities. After its special 100-day program ended in June, the government moved the following month to implement its revised five-year economic plan (1993-1997), the main objectives of which are 1) reforms in the tax code and financial system; 2) administrative deregulation; 3) strengthened industrial competitiveness; and 4) steps to internationalize the economy and widen foreign access to domestic markets.

Furthermore, in August 1994 the government instituted a framework banning the use of aliases in financial transactions.

In its bid to meet terms and conditions for OECD entry by 1996, the Republic of Korea has shown steady progress in pursuing the fourth set of objectives, namely, economic internationalization and market-opening actions. Steps to open the market for farm goods, lower customs duties, and alleviate unfair trading practices amount to the central challenges in that particular undertaking.

3.2.3 Trade by commodity

Among the key items comprising Korean exports in 1993, electric and electronic products accounted for a 29.5% share in value terms; textiles, 19.3%; steel products, 8.0%; and footwear, 2.8%. Among key imports, machinery accounted for a 22.1% share; chemical industry products, 19.1%; electric and electronic products, 17.0%; mineral products, 16.0%; and steel and other metals, 15.0%.

3.2.4 Trade by region

As of 1993, Asia, North America, and Europe counted as the first-, second-, and third-largest regions of trade with the Republic of Korea, in imports and exports alike. Though South America was the fourth-largest regional market for Korean goods, exports to and imports from that region declined in dollar terms from their 1992 levels.

Table 3.5 Exports and Imports by Region

(US$ million)

		1980	1985	1990	1992	1993
Asia	Exports	5,617	8,734	24,639	32,906	38,667
	Imports	7,852	11,898	28,515	33,163	34,415
Middle East	Exports	2,540	2,870	2,619	3,500	3,704
	Imports	5,762	3,947	6,188	8,651	8,787
Europe	Exports	3,131	4,470	12,034	11,817	12,331
	Imports	1,905	4,190	10,512	12,387	13,193
North America	Exports	4,950	11,983	21,091	19,698	19,512
	Imports	6,269	7,129	18,408	19,861	19,623
South America	Exports	492	1,079	2,104	4,962	4,922
	Imports	369	1,859	1,726	2,521	2,384
Oceania	Exports	282	438	1,214	1,347	1,404
	Imports	781	1,310	3,201	3,816	4,360
Africa	Exports	416	634	915	1,786	1,462
	Imports	97	395	363	340	787
Total	Exports	17,505	30,283	65,016	76,632	82,236
	Imports	22,292	31,136	69,844	81,775	83,800

Source: Korea Foreign Trade Association.

3.2.5 Economic relations between Korea and Japan

Though the Republic of Korea and Japan are separated by a sea strait, their history as neighboring countries extends back thousands of years. In cumulative terms on a basis of approvals, Japan is the largest source of direct investment in the Republic of Korea. It is second to the U.S.A., however, in annual terms.

Japan is also second to the U.S.A. in two-way trade. In 1993, its two-way trade with the Republic of Korea was valued at US$31.58 billion, a figure equivalent to 19% of the total in Korean trade that year.

Local frameworks for the supply of raw materials, capital goods, and parts have not kept pace with the surge in Korean exports of finished goods. Accordingly, such export growth has fueled heightened imports from Japan, which, in turn, is one reason the country has run a persistent trade deficit with Japan.

To rectify that situation, the Korean government has been working with Japanese assistance to widen the flow of exports to Japan. In 1993, it designated 37 items it

considered to have potential in the Japanese market, and furnished financial backing for such exports from its overseas marketing fund.

The foregoing should serve to highlight the close ties the Republic of Korea and Japan have nurtured in the field of trade. Should Argentina face difficulty in striving to boost exports to the Republic of Korea on its own, it will probably find it necessary to team up with Japanese companies and work to cultivate Korean markets for its goods.

Table 3.6 Trends in Korean Trade with Japan (Korean Customs-Clearance Basis)

(US$ million)

	1989	1990	1991	1992	1993
Exports to Japan	13,457	12,638	12,356	11,600	11,564
Imports from Japan	17,449	18,574	21,120	19,458	20,016
Trade Deficit	3,992	5,936	8,764	7,858	8,452

Source: The Bank of Korea Monthly Bulletin.

Table 3.7 Japanese Direct Investment in the Republic of Korea (Japanese Data, Reported FY Amounts)

(US$ million)

	1989	1990	1991	1992	1993	1951-1953, Cumulative
Amount	606	284	260	225	245	4,868
Share (%)	0.9	0.5	0.6	0.7	0.7	1.2

Source: International Business Annual Report, Bureau of Finance, Ministry of Finance.

3.3 The Korean Standard of Living

3.3.1 Labor conditions

The Republic of Korea's labor force stood at about 19 million in 1993, or 61% of the population aged 15 and over. Of all men aged 15 and up, 76% were part of the labor force, as were 47% of all women in that age bracket. Further, the percentage of women in the labor force is expanding.

The number of office employees, technicians, public servants, managers, and other white-collar workers totaled 4.9 million nationwide in 1993. Though factory employees, drivers, and other blue-collar workers together totaled a corresponding 6.1 million, the labor force overall is becoming increasingly white-collar in its composition.

Workers became steadily more outspoken in their insistence on improved conditions and benefits after President-elect Roh Tae-woo issued his democratization pledge in 1987. As labor-management disputes proliferated, wage growth outpaced gains in labor productivity.

Table 3.8 National Labor Force

(1,000)

	1989	1990	1991	1992	1993
Population aged 15or over	30,217	30,801	31,367	31,851	32,361
National labor force	17,971	18,487	19,012	19,385	19,754
Men	10,716	11,013	11,355	11,615	11,867
Women	7,255	7,474	7,657	7,770	7,887
Employed labor force	17,511	18,036	18,576	18,921	19,203
Population outside labor force	12,246	12,314	12,355	12,466	12,607
Employment rate (%)	59.5	60.0	60.6	60.9	61.0
Men	73.3	73.9	74.7	75.3	75.8
Women	46.5	47.0	47.3	47.3	47.2
Unemployment rate (%)	2.6	2.4	2.3	2.4	2.8
Men	3.0	2.9	2.5	2.6	3.1
Women	1.9	1.8	2.0	2.1	2.3

Source: National Statistical Office, The Republic of Korea.

Table 3.9 Workers by Occupational Category (Averages)

(1,000)

	1989	1990	1991	1992	1993
Specialists, technicians, administrators, managers	1,452	1,568	1,712	1,898	1,982
Men	953	1,005	1,076	1,168	1,232
Office workers	2,180	2,337	2,467	2,718	2,883
Men	1,331	1,400	1,435	1,619	1,689
Workers in service trades	1,883	2,007	2,125	2,177	2,366
Men	729	784	827	832	917
Farm, forestry, and fishery workers	3,388	3,270	3,018	3,000	2,818
Men	1,852	1,776	1,687	1,620	1,512
Factory workers and transport equipment operators	6,046	6,238	6,474	6,316	6,100
Men	4,170	4,356	4,612	4,592	4,532

Source: National Statistical Office, The Republic of Korea.

3.3.2 Market structure

As mentioned above, the government's democratization pledge of 1987 served as an impetus for wage growth. That in turn motivated the public to consume more, and thus led to a sharp increase in spending on consumer durables and leisure-related products and services.

As one consumer trend, interest in North American and European products has climbed; however, well-known brands and luxury merchandise tend to sell better than do low-priced items.

Rice is the key food staple for over 80% of the population. Nonetheless, an increasing share of young people tend to eat bread with their breakfast. Demand for dairy products, moreover, will likely rise in the years ahead.

As it happens, the ranks of young people who do not eat the traditional Korean dish, *kimchi*, are beginning to swell. Given their choice, many would rather dine on Korean barbecue fare or grilled squid (dried squid in particular).

Recent years have witnessed an increase in the number of Koreans who consume beef. Rising wage levels have spurred a shift in patterns of consumption and in lifestyles. Sales of luxury goods and leisure-related items are up, and consumers are adopting increasingly westernized dietary habits. Demand for butter, cheese, ham, sausage, and other meat products is widening, and with that, the prospect that the Republic of Korea will become an even-bigger customer for Argentine goods.

Table 3.10 Breakdown of Total Household Expenditure by Item

(%)

	1989	1990	1991	1992	1993
Food, beverages, tobacco products	33.3	31.6	30.9	29.9	29.4
Health care, footwear	5.4	5.3	4.9	4.6	4.2
Rent, utility fees	11.0	11.8	11.8	12.2	12.5
Furniture, consumables, fixtures	7.1	7.4	7.3	7.0	6.9
medical treatment, hygiene	6.6	6.6	6.5	6.4	6.5
Transportation, communications	11.8	11.9	12.3	12.8	13.0
Cultural expenses (1)	12.3	12.2	12.0	12.3	12.3
Final consumption (including others) (2)	100.0	100.0	100.0	100.0	100.0
(Billion won in current price)	78,075	94,722	113,162	127,492	141,223

Notes: (1) Cultural expenses including spending on leisure, education, recreation, and cultural activities.
(2) Final consumption includes direct purchases from overseas and direct purchases made by Korean citizens overseas.
Expenditures for services rendered by private nonprofit organizations are not included.

Source: The Bank of Korea Monthly Bulletin.

Table 3.11 Breakdown of Total Household Expenditure by Category

(%)

	1989	1990	1991	1992	1993
Consumer durables	10.2	10.2	9.9	9.4	9.2
Consumer semi-durables	10.6	10.5	10.1	9.7	9.3
Consumer nondurables	41.6	39.8	39.0	38.0	37.5
Services	38.5	39.8	40.8	42.7	43.6
Domestic final consumption	100.0	100.0	100.0	100.0	100.0
(Billion won in current price)	78,719	94,970	112,979	127,288	140,775
Final consumption (Billion won in current price)	78,075	94,772	113,162	127,492	141,223

Note: The same as Table 3.10.
Source: The same as Table 3.10.

Table 3.12 Economic Situation of Typical Urban Wage Earner Household (Monthly averages, per-household basis)

(1,000 Won, Persons)

	1989	1990	1991	1992	1993
Household size	3.98	3.97	3.96	3.90	3.81
No. of wage-earners	1.42	1.43	1.47	1.43	1.45
Average age of head of household	36.86	37.14	37.91	38.31	38.37
Total revenue	1,349	1,608	1,920	2,335	2,556
Income (1)	805	943	1,159	1,356	1,478
Salary income	695	809	986	1,157	1,276
Other revenue (2)	395	483	543	721	811
Carry-over-form previous term	149	182	219	258	267
Total expenditure	1,349	1,609	1,921	2,335	2,552
Household expenditure	631	723	859	1,008	1,106
Consumption expenditure (3)	562	650	780	903	986
Food	182	211	248	274	289
Shelter	24	30	35	38	43
Utilities	26	29	32	37	42
Furniture, fixtures	33	38	46	49	51
Clothing, footwear	48	55	63	72	76
(Outer-garments)	28	32	37	42	44
Health care	31	34	42	49	53
Education, recreation	67	77	96	120	133
Transportation, communications	46	55	69	83	101
Non-consumption expenditure (4)	70	73	79	105	119
Other expenditure (5)	565	696	829	1,057	1,164
Term-end cash balance	153	191	233	271	247

Notes: (1) Includes business and interest income.
(2) Deposit account withdrawals, etc., not included in "income".
(3) Includes "Other expenditures".
(4) Taxes, social insurance, etc.
(5) Deposits, loan payments, etc.
(All amounts have been rounded off to nearest 1,000-Won unit.)

Source: Monthly Statistics of Korea, Economic Planning Board.

3.3.3 Self-sufficiency in selected farm products

Between 1988 and 1993, the share of agriculture, forestry, and fishery in total GDP shrank from 10.2% to 7.1% (Table 3.3). The percentage of the national work force employed in these sectors also fell (Table 3.9). Arable land area is also on the decline (Table 3.13). Imports of cereal grains are twice as many as the domestic output in volume terms, and maize accounts for about a half of those imports. While the number of cattle is on the decline, chicken broiler output is on an expansion track (Table 3.14).

Table 3.15 illustrates the degree of Korean self-sufficiency in selected farm products. Though self-sufficiency rates are above 80% in rice, barley, and potatoes, they are lower for wheat, maize, and soybean. In fact, the level in wheat is only 0.02%, marginal enough to consider the country totally dependent on imports for all intents and purposes. In effect, the figures suggest Argentina has a window of opportunity in the markets for wheat, maize, and soybean. However, it will be necessary to meet Korean terms on shipping dates, quality, and price (with shipping costs factored in). As

demonstrated by grain exports by the U.S.A. and Australia, government-level negotiations are crucial since that these items are subject to government controls in Korea.

Table 3.13 Korea's Agricultural Sector

	1989	1990	1991	1992	1993
No. of farm households (thousands)	1,772	1,767	1,702	1,641	1,592
Farm population (thousands)	6,786	6,661	6,068	5,707	5,407
Percentage in total population	16.0	15.5	14.0	13.1	12.3
Arable land (1,000 ha)	2,127	2,109	2,091	2,070	2,055
Paddy land (1,000 ha)	1,353	1,345	1,335	1,315	1,298
Arable land per farm household (ha)	1.20	1.19	1.23	1.26	1.29
Grain imports (1,000 tons)	9,536	10,070	11,184	12,173	12,274
Maize imports (1,000 tons)	5,528	6,198	5,438	6,386	6,418
Fertilizer consumption (1,000 tons)	954	1,104	813	936	974
Grain output (1,000 tons)	7,160	6,635	6,236	6,206	5,574
Rice	5,898	5,606	5,384	5,331	4,750
Barley	516	416	340	315	319
Soybean	252	233	183	176	170
Chinese cabbage output (1,000 tons)	2,796	3,373	2,731	2,406	3,730
Apple output (1,000 tons)	676	629	542	695	616

Source: National Statistical Office, The Republic of Korea.

Table 3.14 Livestock and Poultry Population

(1,000)

	1989	1990	1991	1992	1993
Farm work cattle and beef cattle	1,536	1,622	1,773	2,019	2,260
Dairy cattle	515	504	496	508	553
Pigs	4,801	4,528	5,046	5,463	5,928
Chicken broilers	61,689	74,463	73,855	73,324	72,945
Sheep	157	211	346	501	558
Rabbits	166	156	158	180	158

Source: National Statistical Office, The Republic of Korea.

Table 3.15 Demand and Supply of Grains (Rice Year 1992)

(1,000 tons)

	Rice	Barley	Wheat	Corn	Soybean	Potatoes	Others	Total
Demand	**5,526**	**378**	**4,056**	**6,209**	**1,503**	**252**	**326**	**18,250**
Food	4,930	66	1,015	0	92	85	42	6,230
Processing	257	277	944	1,642	265	103	85	3,573
Feed	0	-	2,074	4,524	1,115	25	196	7,934
Others	339	35	23	43	31	39	3	513
Supply	**7,525**	**814**	**4,551**	**6,927**	**1,597**	**259**	**451**	**22,124**
Carry-over from last year	2,141	365	694	466	110	5	50	3,831
Production	5,384	315	1	75	183	245	54	6,257
Imports	0	134	3,856	6,386	1,304	9	347	12,036
Carry-over to next year	**1,999**	**436**	**495**	**718**	**94**	**7**	**125**	**3,874**
Consumption per Capita (kg)	**112.9**	**1.5**	**32.6**	**2.9**	**8.2**	**3.0**	**2.7**	**163.8**
Self-Supporting Ratio (%)	**97.5**	**83.3**	**0.02**	**1.2**	**12.2**	**97.2**	**16.6**	**34.3**

Note: "Rice Year" is from November 1 of the preceding year to October 31 of that year.
Source: Ministry of Agriculture, Forestry and Fisheries.

3.4 Trade Structure and Argentine Products

3.4.1 Trade between Korea and Argentina

Electrical goods currently account for the vast bulk of Korean exports to Argentina, followed by textile products. Marine and livestock products are the chief Korean imports from Argentina, followed by leather goods. In 1993, Korean exports to Argentina were worth US$535 million, while imports totaled a relatively diminutive US$65.5 million. Indeed, Korean imports from Argentina seem especially meager.

Table 3.16 illustrates data supplied by the Korean Embassy in Argentina on trade with Argentina.

3.4.2 Argentine products not yet imported by Korea and its imports

Table 3.17 provides data on the sources of imported goods that not yet imported by the Republic of Korea from Argentina.

Maize, wheat, beef, chicken, and mutton are among those Korean imports that are worth more than US$10 million per annum. In volume terms, the Republic of Korea imports 80% of its maize from China, and slightly over 10% from the U.S.A. It obtains close to 40% of its imported wheat from Canada, and almost as much from the U.S.A. The U.S.A. and Australia together supply about 90% of its imported beef. The U.S.A. supplies about 60% of its imported chicken, and New Zealand, 60% of its imported mutton.

If Argentina is to export commodities such as those cited above to the Republic of Korea, it will likely find it essential to either draw on the strengths of Korean importers, or work together with marketers toward developing processed goods that are better suited to the Korean marketplace.

Table 3.16 Trade Between Argentina and the Republic of Korea in 1992 and 1993 (US$ million)

		1992				1993			
		Import		Export		Import		Export	
	Section	Value	%	Value	%	Value	%	Value	%
I	Crude Animal, Materials nes	95.6	0.02	43,660.9	37.73	7.2	0.00	43,130.1	64.79
II	Crude Vegetable, Materials nes	133.9	0.03	934.2	0.81	214.8	0.04	1,003.9	1.51
III	Animals, Oil	-	-	3,542.8	-	-	-	258.9	0.39
IV	Food, Manufactured, etc.	912.9	0.20	33,105.8	28.61	1,237.2	0.23	1,129.0	1.70
V	Minerals, Related Products nes	-	-	-	-	-	-	-	-
VI	Chemicals, Related Products nes	4,269.9	0.92	3,835.9	3.32	3,433.1	0.64	3,752,9	5.64
VII	Rubber, Plastic Products nes	10,837.1	2.34	-	-	9,622.4	1.80	2.6	0.00
VIII	Leather, Related Products nes	993.7	0.21	19,110.0	16.52	513.8	0.10	9,499.0	14.27
IX	Wood, Coal, Related Products nes	46.3	0.01	-	-	6.9	0.00	-	-
X	Paper, Related Products nes	752.9	0.16	789.9	0.68	1,430.4	0.27	2,522.6	3.79
XI	Textile Fibers, Related Products nes	49,137.3	10.61	4,875.0	4.21	55,689.9	10.41	1,812.7	2.72
XII	Footwear	26,619.2	5.75	-	-	18,420.2	3.44	-	-
XIII	Stone, Cement, Related Products nes	231.9	0.05	-	-	60.3	0.01	9.6	0.01
XIV	Pearls, Precious Jewelry	501.3	0.11	-	-	3,772.7	0.71	3.6	0.01
XV	Metal Manufactures nes	2,937.8	0.63	671.1	0.58	4,446.7	0.83	96.1	0.14
XVI	Electric Machinery nes etc.	325,122.5	70.19	5,038.2	4.35	367,472.6	68.69	3,222.6	4.84
XVII	Vehicles	25,426.1	5.49	-	-	52,962.0	9.90	6.6	0.01
XVIII	Precision Instruments nes	5,666.2	1.22	90.6	0.08	6,539.4	1.22	79.6	0.12
XIX	War Firearms, Ammunition	-	-	-	-	480.4	0.09	-	-
XX	Other Manufactured Goods	9,478.8	2.05	31.1	0.03	8,636.7	1.61	21.2	0.03
	Others	24.3	0.01	22.0	0.02	33.4	0.01	17.1	0.03
	TOTAL	463,187.7	100.00	115,707.4	100.00	534,980.3	100.00	66,568.1	100.00

Source: Elaborated by Argentine Embassy in Seoul Korea based on data obtained from Office of Customs Administration Korea).

Table 3.17 Argentine Exports and Korean Imports in 1993

(US$ 1,000)

	Argentine Export	Korea Import						
		Total	1	2	3	4	5	Other
Meat of bovine animals, fresh or chilled, frozen	674,391.0	329,698.3	U.S.A. 179,901.4	Australia 116,749.7	NZ 32,087.5	Canada 912.7	Japan 36.3	10.7
Prepared or preserved meat of bovine animals	257,895.9	238.6	U.S.A. 219.3	Australia 19.3				
Meat of swine, fresh, chilled or frozen	87.8	361.2	Japan 114.9	Denmark 7.9				
Prepared or preserved meat of swine	1,780.4	139.5	France 126.5	Swiss 11.2	Australia 1.8			
Meat of sheep or goats, fresh, chilled or frozen	5,664.0	17,968.6	NZ 11,155.0	Australia 4,546.5	USA 231.8			
Meat of horses, mules or hinnies, fresh, chilled or frozen	67,097.7	19.3	China 19.3					
Meat and edible offal of poultry, fresh, chilled, frozen	595.7	32,934.2	U.S.A. 20,951.5	France 3,884.0	Thailand 3,443.6	China 1,809.4	Vietnam 1,479.9	1,313.7
Cuttlefish	162,004.9	42,441.0	Argentina 38,686.7	NZ 2,080.4	Japan 1,053.7	Taiwan 253.5	Indonesia 161.5	192.7
Extracts and juices of meat, fish or crustaceans, molluscs or other aquatic invertebrates	14,620.9	13.9	Thailand 13.9					
Other prepared or preserved fish	55,543.2	2,699.5	PR China 2,603.6	Hong Kong 51.3	Japan 24.3	Australia 20.3		
Oranges	18,688.6	1,116.1	USA 1,116.1					
Lemon	12,209.6	2,671.0	USA 2,663.6	NZ 7.4				
Grapefruit	9,877.3	4,810.4	USA 4,810.4					
Grape	8,345.7	5,213.5	USA 3,995.5	S. Africa 1,192.5	Australia 17.1	Iran 8.4		
Apple	73,686.4	0						
Pear	78,223.1	0						
Wheat	734,865.4	673,928.6	Canada 254,676.6	USA 248,894.1	Australia 156,516.4	PR China 11,725.9	Austria 2,115.6	
Maize	525,341.1	702,320.0	PR China 570,801.8	USA 91,085.9	Taiwan 299.4	Philippines 78.5	Japan 36.3	18.5
Sorghum	73,805.9	5,064.5	PR China 4,986.7	USA 59.1	Canada 18.7			
Sunflower	43,014.2	1,161.9	USA 944.6	PR China 202.4	Japan 7.8	Australia 7.1		

Source: Argentine Foreign Trade Statistics 1993 (INDEC), Statistical Yearbook of Foreign Trade 1993 (Korea Customs Research Institute).

3.4.3 The potential for Korean imports of Argentine products

(1) The government's position

According to the Korean government, drawing on the expanded level of bilateral trade and commerce with Argentina, the Argentine economic minister visited the Republic of Korea in May 1994 to seal a new bilateral investment accord. The following October occasioned a visit by a special Argentine government mission, which presented a list of Argentine goods it wanted the Republic of Korea to import.

In return, the Korean government instructed its Ministry of Trade and Industry to explore the possibility of importing Argentine industrial goods on a sectoral basis. As of November, though, the response was that nothing of interest had been found. The farm, forestry, and fishery agency, moreover, has been instructed to explore the possibility of importing more Argentine farm, forestry, and fishery products.

In effect, the Korean government position was as follows concerning beef, fruit, leather, and vegetable oil, the export products Argentina has pushed the hardest.

First of all, it declared that imports of beef would be virtually out of the question unless and until Argentina took steps to resolve problems stemming from hoof-and-mouth disease. As to fruit, it stated that it was in the process of investigating pesticide residues.

The Republic of Korea already imports fishery products from Argentina, and chances are that volume will widen in the years ahead. Until recently, it relied chiefly on the U.S.A. for its imports of grain and feed, but is now shifting to China as its chief supplier. Given the comparatively close geographical proximity (which translates into lower shipping costs), Korean imports of other farm products from China are growing as well.

The Republic of Korea has shown considerable headway in work to open up its markets. Hence, there is potential for heightened imports, provided they satisfy Korean expectations toward quality and price. However, in view of the intense level of competition for Korean market share, stepping up imports will demand a considerable amount of marketing clout. The government position is that Argentina could bolster imports of canned beef if it became more aggressive in its marketing efforts.

(2) Business's views

Due to problems cited with the foot and mouth disease, beef imports are currently out of the question. Imports of scrap meat (horsemeat, beef) for use in pet foods or fertilizer are considered feasible. However, on one occasion, Argentine processed meat imported for pet food arrived in a decomposed state. That problem probably would not have emerged had meat processors in Argentina been suitably mechanized. As to beef and mutton, the country could conceivably import supplies of canned beef for use as field rations for 700,000 soldiers, and supplies of mutton for regular meals. The Republic of Korea currently imports 100,000 tons of beef; 50,000 tons of grain-fed beef from the U.S.A. and 50,000 tons of pasture-fed beef from New Zealand and Australia.

The industrial organizations engaged in those imports point out that the government sets quotas on volume, and from time to time stipulates which countries they can import from. Beef imports pass through the following organizations (1994 volume in parentheses):

Livestock Production Market Organization (84,800 tons)
National Livestock Corporation Federation (3,300 tons)
Korea Cold Storage Company (3,300 tons)
Korea Tourist Supply Hotel Center (4,664 tons)
Korea Meat Industry Association (4,676 tons)
Korea Super Chain Association (3,200 tons)
Korea Restaurant Supply Center (2,000 tons)

While the NLCF also handles chicken meat, it should be noted that only the market for the chilled variety has been opened; frozen chicken meat products are still regulated. Three big oil makers import about 1 million tons of soy oil a year, and almost all of that from China. The U.S.A. and Australia account for the bulk of wheat imports, although Canada supplies most of the wheat used in livestock feed.

Most imported maize is from the U.S.A. or China, and is imported through the Korea Feed Association or the NLCF. Since it has been deregulated, maize for human consumption is imported by a number of firms. Broilers and concentrated juice count as additional items with import potential. Also, Argentina could conceivably expand its exports of squid to the Republic of Korea, given the Korean fondness for that particular seafood delicacy.

3.5 Korea's Foreign Direct Investment

Korea's direct investment abroad began increasing around 1987 and then took off sharply in the early 1990s. Southeast Asia has been the biggest recipient of the investments, followed by North America. The levels of investment in Latin America, Africa, and Oceania all remain relatively low.

Korean investments in Argentina totaled US$34.2 million in 1993. According to the Korean Ministry of Trade and Industry, in 1994, 32 investment projects totaling around US$56.00 million had been approved as of October; of which US$36.00 million was focused in the marine fishery sector. That heavy emphasis on the fishery sector stems from the fact that investments to date have been largely aimed at harvesting, freezing, and processing Argentina's wealth of marine resources for importation into the Republic Korea.

Incidentally, Korean investments in South America have been strongly colored by an interest in setting up for business in countries eligible for most-favored-nation trading status with the U.S.A. Nonetheless, it should be noted that three major household appliances manufactures and other company will invest in Argentina and Brazil in the future growth potential of markets comprising the nascent MERCOSUR trading bloc.

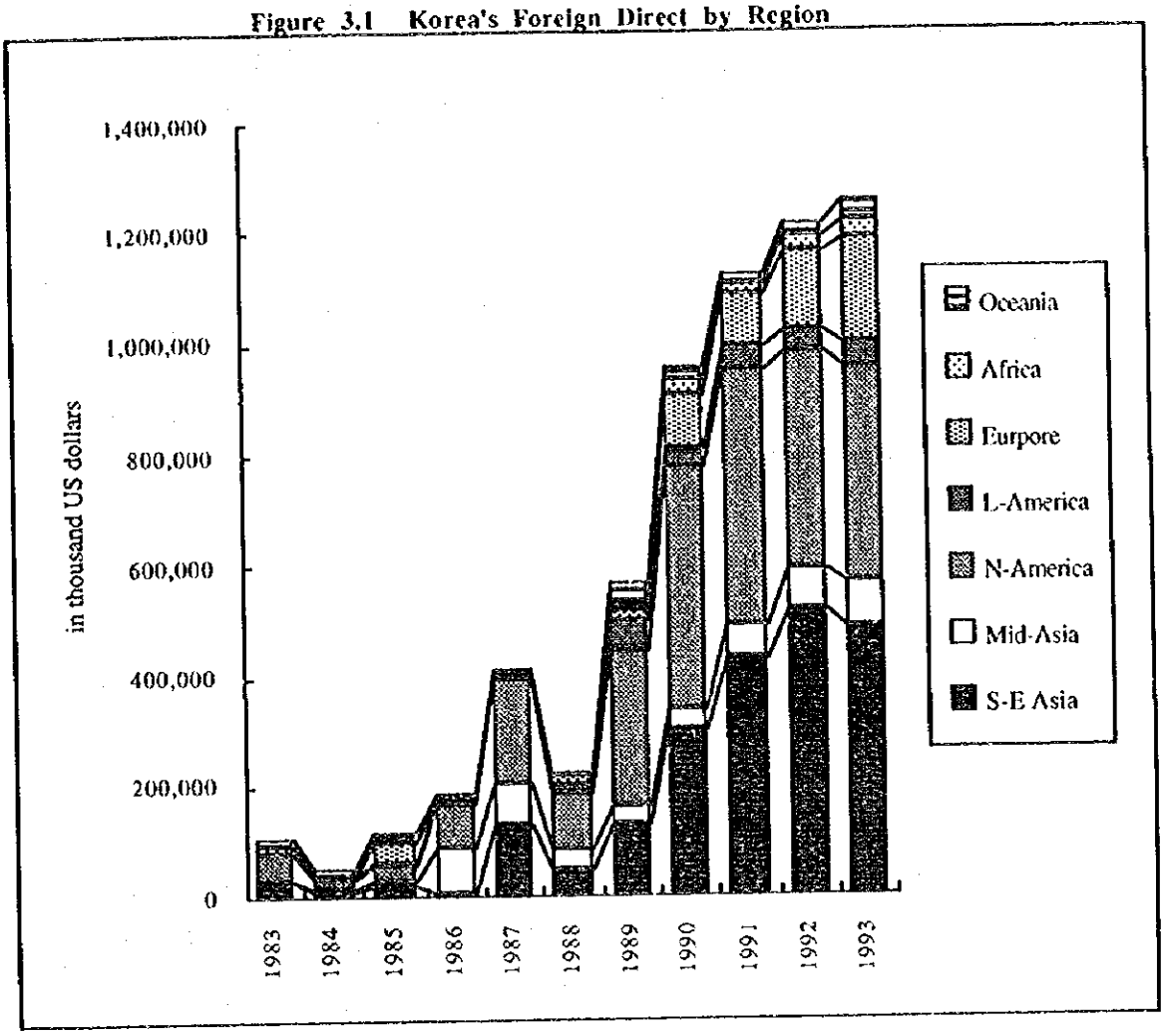
Table 3.18 Korea's Foreign Direct by Region

(US$ million)

	Total	SE Asia	Mid. Asia	N. America	L. America	Europe	Africa	Oceania
1983	108.9	28.5	2.6	48.7	0.3	12.6	0.4	15.8
1984	50.2	10.3	6.7	19.0	0.7	1.0	0.6	11.9
1985	115.6	17.8	10.3	29.6	2.9	38.8	0.2	16.0
1986	183.9	7.0	80.2	80.6	2.7	5.6	0.0	7.7
1987	410.5	132.4	70.9	189.4	4.2	6.8	0.6	6.1
1988	223.8	45.3	41.2	99.2	14.2	19.3	1.5	3.0
1989	569.6	129.6	31.6	282.9	55.4	19.6	8.4	41.9
1990	959.4	300.5	40.3	435.0	35.7	95.2	26.5	26.2
1991	1,125.3	431.3	58.6	463.3	41.5	92.4	18.0	20.2
1992	1,218.4	519.3	75.3	391.6	35.7	144.2	29.0	23.4
1993	1,256.3	484.8	85.7	386.1	44.4	189.6	30.9	34.7

Source: Economic Statistics Yearbook 1994, The Bank of Korea.

Figure 3.1 Korea's Foreign Direct by Region



Chapter 4
China

4. China

4.1 Outline of the Chinese Market

4.1.1 Characteristics of the Chinese economy

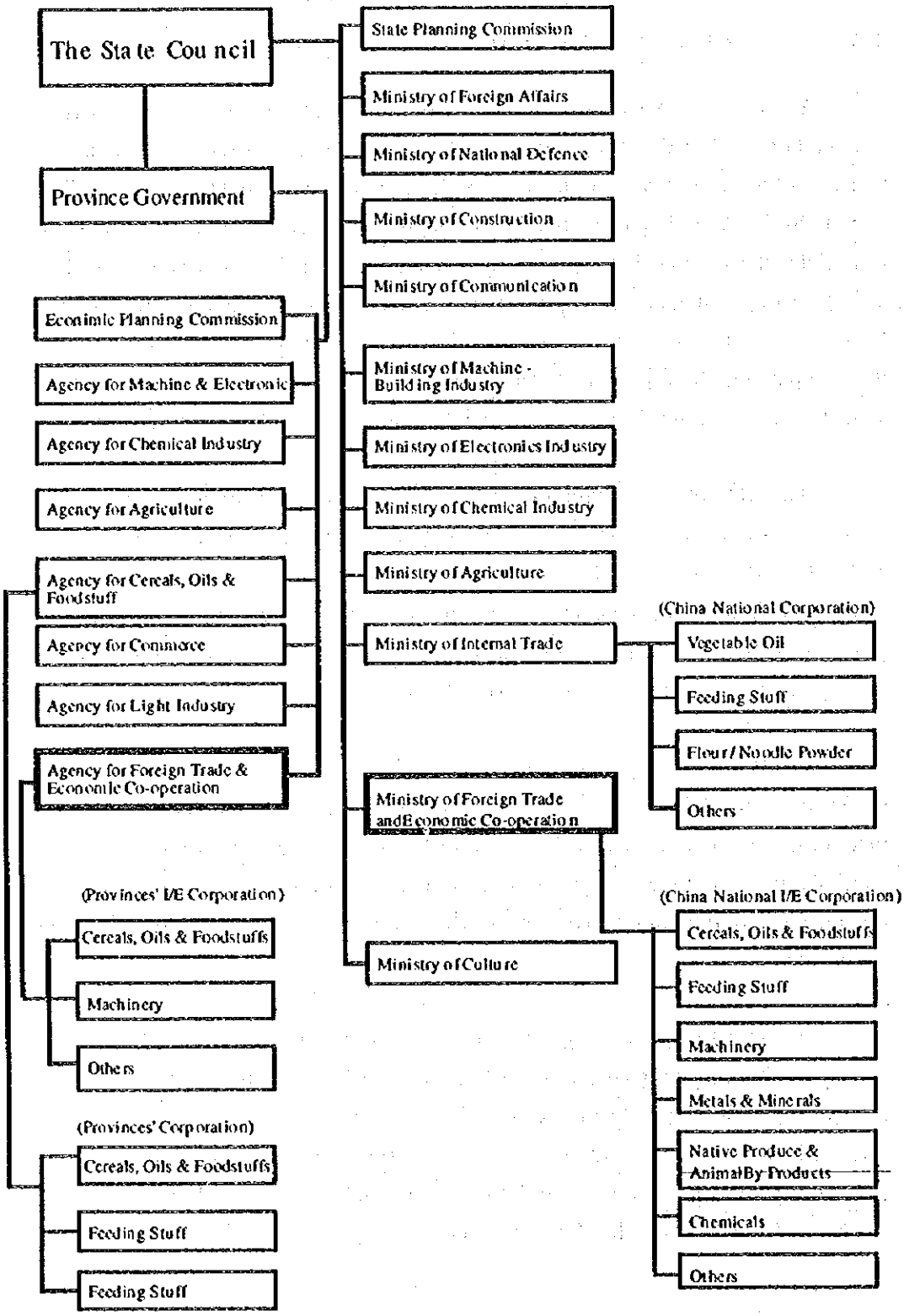
With an enormous population of 1.2 billion, vast land area (9.6 million km^2), rich underground resources of various kinds, and diversified agricultural resources, China has built up the basic foundation for development under the flag of a socialist nation. Since 1978, when reform and open market policies were implemented, China has achieved economic development on an unparalleled scale. As NIEs (South Korea, Taiwan, Hong Kong, and Singapore) in East Asia have been called the "four dragons," China is now called the "giant dragon". The image of China is greatly changing due to its great potential for economic development, the economic growth over the past three years which was faster than expected, and the improvement of its domestic market.

The GDP of China, which went through economic adjustment in 1989 and 1990, has grown by 3.9% in 1990, 8.0% in 1991, 13.2% in 1992, and 13.4% in 1993. The GDP for 1994, when economic adjustment was implemented, is expected to grow at a double digit percentage. The engine of China's economic growth is the high growth of its manufacturing sector. Secondary industry's contribution to the GNP rapidly increased from 43.6% in 1990 to 51.8% in 1993.

In 1992, the Chinese government defined the Chinese economy as a "socialist market economy." Thus, the portion of the centrally planned economy shrank while that of the market economy expanded. At the same time, a downward transfer of authority, on a large scale, has been made to local governments and subordinate organizations of the central government, which resulted in less control from the central government.

Figure 4.1 shows the organization of the central government, local governments and each subordinate organizations. In order to promote exports to China, the Argentine side should contact trade-related organizations such as various Import and Export (I/E) Corporations, which belong to the Ministry of Foreign Trade and Economic Cooperation of the central government, and Agencies for Foreign Trade and Economic Cooperation of local governments.

Figure 4.1 Organization of the Central Government, Local Governments and each Subordinate Organization



During the course of economic development, both strong and weak points surfaced on the Chinese economy. The strong points are: 1) the size of the economy as a whole; 2) a vast number of industrious workers; and 3) the vigorous entrepreneurship of the Chinese people and organizations.

Although China's per capita GDP is as low as US$370 (as of 1992; World Bank), its per capita GDP would be much higher by an evaluation through the purchasing power parity. The World Bank estimated that the reevaluated per capita GDP of China on a purchasing power parity basis would be US$1,910 in 1992. Foreign manufacturers have been strongly impressed by the vast size of the Chinese market and the strong competitiveness of Chinese products based on the lower labor cost. Thus, a great amount of foreign capital has been invested in China. Actually, direct foreign investment in 1993 exceeded US$100 billion on a contract basis while the investment amounted to US$25.8 billion on a disbursement basis that would place China in the second place in the world (the U.S.A. ranks first).

Foreign capital is already playing a part in the economic development of China today. In 1993, value added production in the industrial sector increased by 21.1% over the previous year, while that of foreign capital expanded by 46.2%. Furthermore, foreign affiliated companies accounted for 27.5% of the total export and 40.2% of the total import. The globalization of Chinese firms is greatly advancing. Major government-run companies are now actively doing business in Hong Kong, New York, London, etc. With FDI in China and activities of Chinese international enterprises, the Chinese economy is now closely linked to the world economy. If China could succeed in participating in GATT, which is the supreme task of China, the potential competitiveness of China would be fully exhibited.

The weak points of China are: 1) the emerging inflation that is regarded as a problem for the time being; 2) financial difficulties of state enterprises; 3) unemployment; 4) the expanding disparity among regions or among social classes; and 5) environmental pollution due to the rapid industrialization.

The inflation is caused mainly by the following reasons: 1) budgetary deficits of central and local governments; 2) financial shortfalls of state enterprises that are financed by bank loans; and 3) lack of effective measures to restrain overheated investment.

The number of state-run enterprises in the red is reported to have reached 50% of the total state enterprises. However, in reality from the standpoint of the

maintenance of employment and welfare, the liquidation of state enterprises would not be so easily implemented. In China, state enterprises assume responsibilities for medical care and welfare for their employees which are administered by the government in many countries. Such costs amounts to as much as 40% of the personnel expense as a direct cost of state enterprises.

It will take some time for China to overcome its weak points because deregulation and structural improvements such as distribution, financing, foreign exchange rates, taxation and laws are still in a transitional stage.

It is still unclear whether the deficiency in infrastructure, especially roads, railway and ports, and in energy and food supply will adversely affect China's economic development. However, import in the sectors of energy resources, mineral products, industrial raw materials, and foodstuffs will undoubtedly grow from now on in the medium- and long-term perspective. It is worth noting that the trade balance in 1993 resulted in big deficit and it will be a great question for China how to maintain its trade balance by increasing exports of industrial products to pay for the increased imports. Figure 4.2 shows Chinese external trade by each suppliers in 1993 and Table 4.1 shows the evolution of Chinese external trade from 1990 to 1993.

Figure 4.2 Chinese External Trade 1993 (US$ Billion)