

Table 4.1 Evaluation of Chinese External Trade
(Total and Shares of Agricultural Products)
 (Unit: US\$ billion)

	1990	1991	1992	1993
Export				
Total	62.1	71.9	85.0	91.8
Agricultural Products	9.8	10.6	15.3	15.5
Share of Agricultural Products (%)	15.7	14.7	17.9	16.9
Import				
Total	53.4	63.8	80.6	104.0
Agricultural Products	5.5	6.1	8.7	7.5
Share of Agricultural Products (%)	10.3	9.5	10.7	7.2
Balance				
Total	8.7	8.1	4.4	-12.2
Agricultural Products	4.3	4.5	6.6	7.9

Source: USDA, *International Agriculture and Trade Reports China* (except 1993).
 Trade Customs' Statistics, China, 1993.

4.1.2 Characteristics of the Chinese market

(1) Import

China's degree of dependence upon foreign trade increased from 9.9% in 1978 to 30.4% in 1990. By a group-wise comparison of imported products, the share of primary products decreased from 29.7% in 1978 to 13.7% in 1993 while manufactured products increased from 70.3% in 1978 to 86.3% in 1993. Recently, the import of steel products and machinery increased greatly due to the intensified domestic investment demand and increased foreign investment in China. Major import policies and institution are as follows:

a. External trade rights

In China, external trade transaction is subject to the authorization of external trade rights to be sanctioned by the government (the Ministry of Foreign Affairs and Economic Cooperation). Those enterprises which have authorized external trade rights are mainly state owned enterprises (corporations) and 3 categories of enterprises such as joint manufacturer, joint venture and foreign capital enterprise. Recently, government are expanding the sanction of such rights to private enterprises including manufacturers.

b. Import control

In January, 1994, a new import system was implemented. There are two large categories. Machinery and electrical products will be imported in accordance with "a tentative rule of import control for machinery and electrical products," while merchandise other than machinery and electrical products that are subject to an import quota will be imported in accordance with "a tentative rule of import quotas and control for general merchandise."

As to the general merchandise subject to an import quota, an import license should be obtained at corresponding issuing offices designated by the State Planning Commission. Those are 26 items such as crude oil, wool, foodstuffs, vegetable oil, sugar, and pulp. As to the specified merchandise subject to automated registration (without a quota), the import registration procedure should be taken at registration offices designated by the State Planning Commission. Those are nine items such as steel products, non-ferrous metals (copper, aluminum, etc.), raw materials for plastics, and fruits.

c. Import tariff

Minimum tariff rates are applied to items imported from those countries with which China has reciprocal trade agreements, including Argentina. Common tariff rates, which are higher than the minimum tariff rates by 5-30% for the same item, are applied to items imported from other countries. In 1994, the import tariff for 234 items such as cuttlefish, soybean oil, leather, petroleum was unified to a single tariff rate. Value added tax is applied to imported goods as well as local manufactured goods. Tariff rates are 13% for foodstuffs, water, energy, fertilizers, etc. and 17% for other items.

(2) Distribution

a. General

Under the centrally planned economy, merchandise (consumer goods and agricultural products by the Chinese definition) and products (industrial products by the Chinese definition) are controlled by the central government. However, reform is also under way towards a market economy in these sectors.

At present, China has a distribution system under the common market economy such as wholesalers and retail stores. However, most of them are state-owned wholesalers or retail stores controlled by the Ministry of Internal Trade. The distribution industry is a giant industry with two million of those wholesalers and retail stores, employing 18 million in total. Recently, department stores, supermarkets, and shopping centers in the form of joint ventures with foreign capital have begun operation.

A reduction of the distribution channel is advancing. To purchase higher quality goods at lower prices, major retail stores are increasingly procuring merchandise and products directly from manufacturers without total dependency on wholesalers. On the part of manufacturers, many are increasingly making sales efforts

and are increasing the number of direct managed sales outlets in order to establish an aggressive sales system.

Although payment terms of business transactions are "cash on delivery" in principle, such terms differ depending on the relationship between the seller and the buyer in practice. The distribution sector has the following problems:

- 1) Space booking on freight cars or the allocation of trucks is often unstable and, therefore, delivery is not made on designated dates. Damage, robbery, and missing freight often occur.
- 2) Capital and know-how needed for modernization in the distribution structure are deficient.
- 3) There are cases that negative effects stemming from the rigid vertical administration and/or local protectionism will hinder the smooth distribution of products and merchandise.
- 4) The collection of accounts receivable is difficult, especially during financial contraction. Therefore, in many cases, foreign affiliated companies are taking countermeasures by selling products or merchandise to only foreign affiliated firms from which an accounts receivable will be collected without difficulty.

b. Food distribution

In February 1993, as its policy for the reform of the food control system, the State Council stated: "Separation between the Bureau (Agency) of Food Procurement and state food procurement enterprises should be intensified. State food procurement enterprises should participate in market competition as independent companies and exert efforts to maintain the position as one of many major routes for food distribution. Furthermore, the diversified operation of state food procurement enterprises should be encouraged and, for this purpose, financial and taxation favors should be given to them."

In the meantime, food prices rose sharply by nearly 30% since October 1993 in spite of the fact that in 1993 Chinese food production reached a record of 450 million tons. One of the causes for this situation lies in the food distribution system.

First, there was a speculative movement among private distributors who have recently participated in the food distribution process. Secondly, the state food procurement sector includes the government and enterprises that are difficult in working together. There are more than a few cases where as "government" organizations, State Food Procurement Enterprises were responsible for indirectly controlling sharp rises in

food prices, while on other occasions, they tend to profit by making speculations, similarly to private distributors, at the time of sharp rise in food prices. There is concern that the contradiction of these two roles will be further intensified.

Since July 1994, prices of rice and wheat increased by 60% and prices of meat and vegetables rose by 50% over the previous year. Therefore, in December 1994, the State Grain Storing Bureau decided to expand import (1.45 million tons of maize will be urgently imported) to restrain the rises in prices of grains and vegetable oils as a means of an indirect control of the food distribution based on the food storing system that was notified by the State Council. While having supplied the above foodstuffs to deficient regions, the State Grain Storing Bureau intensified export control, prohibiting the export of rice and maize. At the same time, the State Grain Storing Bureau purchased 80-90% of grains and vegetable oils and sold them off at prices in accordance with the guidelines, strongly emphasizing that speculation on grains was strictly prohibited.

As food production in 1994 is estimated to be lower than that of the previous year due to floods and drought in the summer, the State Grain Storing Bureau has made policies for 1995 to assist the agricultural sector as well as to intensify measures to counter inflation that will be caused mainly by the rise in food prices. Taking account of the new situation of the food distribution system as described above, Argentine suppliers should make multiple approaches to state food procurement enterprises and various private distributors.

(3) Consumption

In China, the income level and life style between cities and rural areas greatly differ. In 1992, farmers accounted for 72% (848.0 million) and city dwellers accounted for 28% (323.7 million) of the total population.

The level of food consumption in China has rapidly improved. Chinese food consumption is basically "grain-oriented" and, in general, the Chinese nutritive conditions are still at low levels. With economic development in the future, demand for food will constantly increase. Under these conditions, the following conflicting phenomena are found in the scene of today's food consumption:

- 1) The consumption level of animal products or beans containing high quality protein is low and its rate of increase is slow.

- 2) Pork (the protein content of which is comparatively low and requires the consumption of a large quantity of feed grains for its production) accounts for as much as 80% of the consumption of animal products.
- 3) As for liquor consumption, the rate of increase for strong *baijiu* (kaoliang spirit) made from large quantities of grains is extremely high.
- 4) There exist overnutrition and malnutrition, which shows an imbalance in the food consumption pattern.

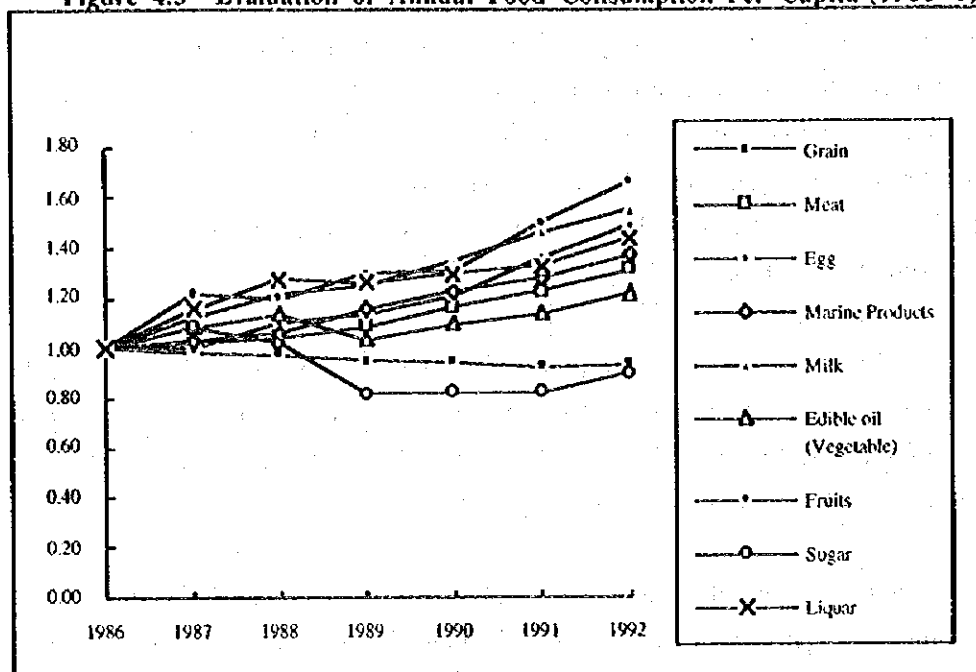
Figure 4.3 shows the evolution of the annual consumption of food per capita from 1986 to 1992. Daily supply targets of essential nutritive elements per capita in the year 2000 are 2,600 Kcal for the calorific volume, 72g for protein (high quality protein accounts for 1/3 of total protein), and 72g for fat.

Table 4.2 shows the annual actual and estimated consumption of side dishes (per capita, kg). At present, there exists a distinguished disparity regarding annual per capita consumption of side dish foods between city dwellers and farmers. In 1992 city dwellers' purchased quantities exceeded farmers' consumption quantities as follows: 1.99 times for meat, 3.32 times for eggs, and 3.64 times for fish. In general, farmers' consumption level of side dishes is extremely low. If economic development brings favorable effects to rural areas in the future, demand for side dishes in rural areas, with a huge number of residents, would explosively increase.

This would cause strong pressure in the production of grain feed. Therefore, in China, where pork has traditionally occupied the dominant place in meat consumption, it is emphasized that production will be shifted from livestock (pork) that heavily depends on feed grains to livestock (poultry, grass-fed beef or mutton) that depends less on grain feed. In particular, the share of pork in the total meat production will be 70% or less, that of poultry will be 18% or more, and that of beef/mutton will be 12% or more (in 1990, the shares of pork, beef and mutton were 82.8%, 8.6%, and 8.6%, respectively).

Taking account of the forecast and the policy of the Chinese government for the production and consumption of foodstuffs as described above, there will be a possibility of expanding the Argentine export of agricultural products, in particular, feed grains and meat.

Figure 4.3 Evaluation of Annual Food Consumption Per Capita (1986=1)

Table 4.2 Actual and Estimated Consumption of Side Dishes
(Annual, per capita, kg)

	1990	1992	2000	
	Actual	Actual	Target	Estimate
Meat	20.1	22.6	25.0	38.5
Egg	6.3	7.8	10.0	15.4
Marine Products	6.5	7.3	9.0	11.1
Milk	4.2	4.8	6.0	11.7
Vegetable oil	5.7	6.3	8.0	9.6
Sugar	5.0	5.4	8.0	7.0
Fruits	16.4	20.8	23.0	39.4

Source: *Chinese Statistics Almanach*, 1993.

4.2 Structure of Import and Argentine Export Offer

4.2.1 Chinese import of Argentine exportable products

Table 4.3 shows the Chinese import of products for which Argentina has export potential in competition with major exporting countries.

Table 4.3 Argentine Export Offer in 1993

Country	Volume (ton)	Value (US\$ 1,000)	Import duty (%)		
(HS Code) Commodity	Share (%)	Share (%)	Minimum Common Unified		
(7304) Seamless Pipe			12%	17%	
Japan	375,480	61.2%	307,705	63.0%	
Germany	93,755	15.3%	76,138	15.6%	
Argentina	82,379	13.4%	60,962	12.5%	
Spain	2,723	0.4%	2,688	0.6%	
Russia	8,585	1.4%	2,411	0.5%	
Total	613,246	100.0%	488,569	100.0%	
(1507) Soybean Oil					13%
Brazil	46,164	66.8%	20,862	66.0%	
Argentina	22,250	32.2%	10,519	33.3%	
Total	69,064	100.0%	31,592	100.0%	
(4104) Hide and Skin Tanned Leather					22%
Taiwan	27,513	34.2%	270,841	45.6%	
South Korea	13,150	16.3%	128,389	21.6%	
U.S.A.	9,267	11.5%	20,916	3.5%	
Hong Kong	1,163	1.4%	10,316	1.7%	
Argentina	774	1.0%	5,363	0.9%	
Australia	356	0.4%	188	0.0%	
Total	80,484	100.0%	593,569	100.0%	
(7207) Semi-finished iron or Non-alloyed Steel			5%	11%	
Russia	498,629	45.7%	116,476	46.2%	
Brazil	77,112	7.1%	16,703	6.6%	
Argentina	2,952	0.3%	509	0.2%	
Total	1,089,948	100.0%	252,011	100.0%	
(7208) Hot Rolled Coil			9-12%	14-17%	
Japan	1,541,463	29.1%	496,696	31.1%	
Brazil	372,841	7.0%	107,958	6.8%	
North Korea	251,573	4.7%	62,288	3.9%	
Russia	136,287	2.6%	40,195	2.5%	
Argentina	67,708	1.3%	18,733	1.2%	
Total	5,302,703	100.0%	1,597,402	100.0%	
(7209) Cold Rolled Coil			12%	17%	
Japan	150,066	52.4%	60,494	53.1%	
South Korea	105,062	36.7%	41,634	36.6%	
Brazil	6,604	2.3%	6,604	5.8%	
Argentina	1,934	0.7%	859	0.8%	
Total	286,147	100.0%	113,862	100.0%	
(2709) Petroleum					1.5%
Indonesia	4,017,944	25.6%	594,918	25.6%	
Oman	4,088,791	26.1%	557,235	24.0%	
Yemen	1,655,428	10.6%	254,129	10.9%	
Gabon	1,224,482	7.8%	179,857	7.7%	
Argentina	201,035	1.3%	29,649	1.3%	
Total	15,671,205	100.0%	2,323,412	100.0%	
(0303) Fish, Frozen			30%	40%	Cuttlefish (35%)
Argentina	49,634	22.4%	33,010	26.8%	
Thailand	38,090	17.2%	22,563	18.3%	
India	27,067	12.2%	12,658	10.3%	
Russia	27,499	12.4%	9,173	7.5%	
Japan	4,953	2.2%	3,720	3.0%	
U.K.	5,499	2.5%	1,653	1.3%	
Spain	2,010	0.9%	589	0.5%	
Total	221,884	100.0%	123,053	100.0%	

Table 4.3 Argentine Export Offer in 1993 (Continued)

Country (HS Code)	Volume (ton)		Value (US\$ 1,000)		Import duty (%)		
	Commodity	Share (%)		Share (%)	Minimum	Common	Unified
(1001) Wheat							
Canada	3,058,574	47.6%	411,956	49.4%			
U.S.A.	2,588,981	40.3%	304,457	36.5%			
Australia	618,712	9.6%	90,288	10.8%			
Argentina	74,589	1.2%	11,799	1.4%			
Total	6,423,919	100.0%	834,076	100.0%			
(1201) Soybean					3%	8%	
Australia	90,773	92.1%	23,708	90.5%			
U.S.A.	6,575	6.7%	2,178	8.3%			
Total	98,586	100.0%	26,190	100.0%			
(2304) Soybean Cake					20%	30%	
India	43,210	78.8%	9,244	77.0%			
Australia	10,290	18.8%	2,099	17.5%			
Total	54,818	100.0%	12,001	100.0%			
(2309) Composed Feed							
Taiwan	13,878	44.1%	13,889	43.3%			
Hong Kong	5,902	18.7%	7,624	23.8%			
U.S.A.	4,376	13.9%	3,049	9.5%			
Total	31,478	100.0%	32,084	100.0%			
(0201) Chilled Beef					50%	70%	
Australia	275	57.5%	330	29.3%			
U.S.A.	69	14.4%	158	14.0%			
New Zealand	35	7.3%	149	13.2%			
Hong Kong	43	9.0%	146	13.0%			
Total	478	100.0%	1,127	100.0%			
(0202) Frozen Beef					50%	70%	
Australia	960	62.2%	1,861	44.8%			
U.S.A.	349	22.6%	941	22.7%			
New Zealand	131	8.5%	538	13.0%			
Total	1,543	100.0%	4,152	100.0%			
(0401, 0402, 0404) Milk, Cream, and Milk Products					30%	40%	
Netherlands	4,560	13.6%	6,085	15.1%	(0404)		
Hong Kong	4,364	13.0%	3,631	9.0%	70%	90%	
New Zealand	1,278	3.8%	2,529	6.3%			
U.K.	1,416	4.2%	2,299	5.7%			
U.S.A.	3,395	10.1%	2,208	5.5%			
Germany	1,989	5.9%	1,446	3.6%			
Australia	686	2.0%	559	1.4%			
Macaw	584	1.7%	535	1.3%			
Total	33,534	100.0%	40,223	100.0%			
(7019) Sugar					30%	40%	
Korea (Asia?)	11,458	65.6%	3,988	70.0%			
Vietnam	2,890	16.6%	691	12.1%			
Hong Kong	1,118	6.4%	336	5.9%			
Total	17,460	100.0%	5,698	100.0%			
(7402) Copper					6%	11%	
Chile	49,102	47.8%	92,132	50.3%			
Japan	9,205	9.0%	18,454	10.1%			
U.S.A.	8,655	8.4%	17,028	9.3%			
Total	102,635	100.0%	183,326	100.0%			

Source: *The Customs Statistics of China*, 1994.

4.2.2 Penetration of Argentine products in the Chinese market

(1) Beef

a. Demand and supply

Total production of meat in 1992 was 29.4 million tons, which consisted of 26.35 million tons of pork, 1.8 million tons of beef, and 1.25 million tons of mutton. The numbers of cattle, pigs, and poultry (fowls) were 102 million, 362 million and 2,430 million, respectively. Total production of meat in 1993 was 36.2 million tons, 23% larger than that of 1992. Beef is mainly produced in northern districts (Shangdon, Henan, etc.). The majority of beef production is carried out by small-scale farmers and there are a few large-scale stated-owned farms. The northern part of China is also a major consumer of beef and mutton, while the southern part of China produces and consumes a considerable amount of pork. Meat consumption increased by 31% during 1986-92 and per capita consumption in 1992 was 7.8 kg. An overwhelmingly large part of the Chinese meat consumption is pork, and then chicken, beef, and mutton.

b. Import situation

The demand for meat in international standard hotels and restaurants is limited to high quality beef, which is not produced in China, and there exists little possibility for a rapid increase in import. The major suppliers are Australia, New Zealand, and the U.S.A. Many Hong Kong firms import chilled and frozen beef from these countries and distribute the products in China, hiring refrigerated warehouses in the mainland.

The import of meat is free and can be imported through trading companies which have authorized import rights without restriction. Import duty for chilled and frozen beef is 50% for minimum and 70% for common. The import duty is expected to decrease to around 10% when China becomes a member of GATT/WTO. At present, China does not import beef from Argentina due to the foot and mouth disease (FMD). However, there is a possibility of importing a large quantity of Argentine meat when FMD is eradicated.

The Chinese government is planning to convert meat consumption from pork, whose production is highly dependent on grain feed, to chicken and beef. An increase in per capita income and the consequent diversification of life-style in the future will expand demand for beef as a source of animal protein. It is thus highly possible for China to import beef from Argentina provided the sanitary conditions of Argentine products meet the Chinese requirements.

(2) Milk, cream, and milk products

a. Demand supply situation

The consumption of milk, cream, and milk products increased by 55% during 1986-92 and per capita consumption was 4.8 kg in 1992. The total production of milk, cream, and milk products was 6.6 million tons in 1993, in which milk occupied 76%. The majority of breeding farms of milk cow, as well as mixed feed factories, are located in southeastern China (around Shanghai City). The Chinese government has been promoting the consumption of milk, cream and milk products and is planning to increase their production.

b. Import situation

Major imported products are concentrated milk, powdered milk, cream, etc. and major suppliers are Hong Kong, Netherlands, New Zealand, and the U.S.A. Imports of butter and cheese are small since Chinese people do not have the habit of eating these products. The demand for ice cream is rather big all the year round and is locally produced mainly from imported raw-materials. Import of fresh milk from Argentina is rather difficult due to the long distance. However, there will be a possibility for Argentina's export of milk products, such as butter and raw-materials for ice cream, through joint ventures with Chinese or Hong Kong enterprises. Pacific Dunlop, an Australian firm, has established a joint venture and produces ice cream in China.

(3) Fish products

a. Demand and supply situation

The total domestic sales for consumers were 4.8 million tons in 1992, equivalent to about 31.1 billion yuans (approximately US\$3.7 billion). The total consumption of fish products increased by 36.7% during 1986-92 and per capita consumption was 13.3 kg in 1992. The total production was 17 million tons in 1993, of which 52% was produced in a fish farm. The main products are squid, scabbard fish, and prawn. China is a net exporter of fish products and exports fresh/frozen fish and prawns mainly to Japan, Hong Kong, and the U.S.A. However, China is rapidly depleting the valuable natural resources because of recent reckless fishing and the sea and rivers polluted by industrial and living wastes.

b. Import situation

Import was about 221,000 tons in 1993 and the main products were codfish and cuttlefish. The main suppliers are Thailand, India, and Russia. As to the import cuttlefish and dried cuttlefish, Argentina ranked as the top supplier.

(4) Wheat

a. Demand and supply situation

The consumption of rice and wheat for food increased until 1986 and thereafter it tended to decrease due to an increase in consumption of animal-based foods and fruits and vegetables. The consumption of wheat was approximately 1.1 billion tons in 1993. The total production of cereals, edible oil and foodstuffs was 4.56 billion tons in 1993, of which the production of wheat was around 1.0 billion tons.

b. Distribution channel

During 1992-93, the direct government control over the distribution of cereals, oil and foodstuffs in domestic markets was gradually abolished, and the shares of state corporations in distribution remarkably declined, while the share of transactions through private and free markets increased.

c. Import situation

The central government controls import operation. That is to say, the State Planning Commission decides the total quantity of import, the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) provides the foreign currency, China National Cereals, Oils and Foodstuffs Import and Export Corporation (CNCOF) makes an import contract and receives delivered goods, and the Ministry of Internal Trade (MIT) is entitled to distribute them to the local market. The annual average import of wheat had been around 8 million tons until 1992 and was 6.42 million tons in 1993, of which 90% was imported from the U.S.A., Canada, and Australia under contracts between the governments concerned.

In October 1992, under an agreement with the U.S. government, the Chinese government agreed to relax the control over the import of major agricultural products from the U.S.A. and to take measures for abolishing import restrictions, various standards, and necessary conditions of inspection. China then imported a large quantity of wheat with U.S. export subsidies and, in consequence, the import from Argentina drastically decreased.

In 1993, import from Argentina was about 75,000 tons (US\$12 million). According to CNCOF, Argentine suppliers can never compete in the Chinese market unless the Argentine government provide them with the same level of export subsidies as its U.S. counterpart does. Since the specification of wheat required by China is not so severe as by Japan, there is a possibility of increasing their import in the future. It is necessary for Argentina to follow strictly the agreement of GATT Uruguay Round and

keep negotiating with the U.S. and Canadian governments through its activities in the new WTO to attain the elimination of export subsidies.

(5) Maize

a. Demand and supply situation

The total production was 84 million tons in 1991/92, of which 40% was produced in the Northeast of China (Jilin, Heilongjiang, and Liaoning). China was the second largest producer/exporter of maize following the U.S.A. and exported 9.3 million tons in 1991/92.

The total production in 1992/93 was almost the same as the previous year, but in 1993/94 the production decreased by 4.6 million tons from the previous year due to the natural calamity that hit the country in the summer of 1994. Furthermore, an increase in domestic demand for grain feed and a consequent rise in the price forced the Chinese government to prohibit the export of maize and to import maize from the U.S.A. in December 1994 as an emergency measure.

The Chinese government intends to strengthen the agricultural sector, starting in 1995. However, a tendency for crop land to decrease due to industrialization and low productivity with deficiency in high-bred seeds may change China from a net exporting country to a net importing country. Therefore, there is a possibility that China's demand for Argentine maize will increase in the future.

b. Distribution channel

By the abolition of direct government control, domestic and export trade has been liberalized in principle. However, China may turn to tighten the price control over the domestic market by CNCOFIEC and MIT in order to restrain an increase in demand and a consequent price hike.

(6) Oilseeds and vegetable oil

a. Demand and supply situation

The total production of oilseeds (mainly rapeseed, soybean, peanuts, and oil palm) was 16.4 million tons in 1992, of which rapeseed was 7.7 million tons, and 17.5 million tons in 1993. The annual average consumption of oilseeds is about 7 million tons and, according to CNCOP, it will increase yearly by 9-10% with improvement in the intake of nutrition by people.

b. Import situation

According to CNCOP, the annual import of oilseeds is about 0.6 to 1.0 million tons, though it varies by year. Soybean oil is imported mainly from Brazil, Argentina, and the U.S.A. and rapeseed oil from Canada. According to statistical data, the import of soybean crude oil is 70,000 tons, of which 46,000 tons from Brazil and 22,000 tons from Argentina. Also, soybean is imported from Brazil. In every May-July the price offer of soybean oil becomes lower in international markets due to the sell-off of Argentine and Brazilian soybean and soybean oil caused by a lack of storing capacity in these countries.

c. Distribution channel

The abolition of direct government control of foods is also applied to vegetable oil. CNCOP imports vegetable oil and MIT is entitled to distribute it to state-owned enterprises, such as composed feed makers, oil extractors, etc. Recently, joint business groups (joint ventures of state/private companies and central/regional companies) and joint ventures with foreign companies (specially with Hong Kong companies) have entered into various kinds of business from the import of raw materials to the production of soils. After the autumn of 1994, import rights were authorized to joint venture oil makers. However, China may turn to tighten the price control of the domestic market as in the maize sector.

(7) Feeding stuff for animals

a. Animal feed industry in China

According to the Annual Feed Statistics, the total production of animal feed was about 40 million tons in 1993, of which 50% is for pig, 40% for poultry (fowls), and the rest for other animals. The production of composed feed is managed by the Ministry of Agriculture. The total number of factories is about 14,000 but factories with a production capacity of over 2,000 tons/month are only 4-5%. Recently, large-scaled factories with a capacity of 10,000-20,000/month have been constructed in coastal regions. The majority of such factories are joint ventures between Chinese and foreign enterprises and independent foreign companies. For example, a joint venture company with CP Group of Thailand participated in the operation of over 30 factories in China. Composing techniques are being improved quickly but feed additives are still less developed and totally imported. Foreign technologies of producing feed additives have been gradually introduced.

b. Distribution and import situation

In line with the market-oriented economic policy, the control of feed stuff was abolished and is in the process of liberalization. Principally, the government is taking

self-sufficiency policy for feed stuff and permits import only 1-2% of total consumption. The actual annual production of sorghum is about 5 million tons but, as the same as in the case of maize, there is a possibility of becoming a net import country in the future due to the expansion of domestic demand. 55,000 tons of soybean cake were imported from India and Australia in 1993, though it was rather small in quantity. The situation of maize is as discussed in (5).

(8) OCGD seamless pipe

a. Market and import situation

The domestic production of seamless pipes was 280,000 tons in 1993, while 720,000 tons were imported. China Petro-Merchandise Equipment Corporation (CPMEC), an affiliate corporation of China National Petroleum Corporation (CNPC), used to be a sole import agency of seamless pipes. In 1994, Metals and Minerals Import and Export Corporation (MINENCO), a joint venture of CPMEC and China National Metals and Minerals Import and Export Corporation, was established and has been acting as an importer of seamless pipes for CNPC.

The total consumption of iron and steel products of CNPC was about 2 million tons in 1993, in which 0.7 million tons was OCGD. In 1993, 0.6 million tons were imported and 0.1 million tons were supplied domestically. 0.3 million tons were imported from Japan at 10,000 yuans (about US\$120) per ton.

The price of domestically supplied pipes is 6,000 yuans (about US\$72), but the quality is inferior to imported ones. Local pipes are produced by three to four makers located in Shanghai, Tianjing, and Chengdu Cities. The share of local supply pipes in CNPC's consumption is gradually increasing. The import of OCGD pipes from Argentina is about 70,000 tons and the price is lower but the quality is inferior in comparison with a Japanese pipe.

c. Distribution channel

As to the distribution channel of iron and steel products, state control over purchase and distribution was almost eliminated. The participation of trading corporations enjoying import rights, supervised by Chinese National Metals and Minerals I/E Corporation, decreased and import by joint business groups and barter deals on the frontier have expanded. As to OCGD pipes, the import deal will be split from SPMEC/MINENCO to various joint business groups. Therefore, Argentine suppliers should make multiple approaches to SPMEC, MINENCO, and various joint business groups.

4.2.3 China's views on Argentine products and export activity

The following are some views on Argentine products and export activity presented by government agencies during the interviews in China.

(1) China National Metals and Minerals I/E Corporation (CNMMI)

- As to iron and steel products, Argentina's share was 0.5% of China's total imports in the past. In 1994 import from Argentina was 0.1 million tons in the total import of 20 million tons, but the volume of import from Argentina has decreased in recent years. The reasons for this decrease were a higher price and a lack of Argentina's export capacity.
- CNMMI has a representative office in Buenos Aires, where five representatives are engaged in the export business of light industrial goods. They consider that Argentine agroindustrial products and transport machinery like cranes are competitive enough, though their evaluation is not based on a detailed survey of the competitiveness of Argentine industrial products.
- The principle of their import policy is to purchase good quality products at a reasonable price.

(2) Ministry of Foreign Trade and Economic Cooperation (MOFTEC)

- For China, Argentina was once the biggest trading partner among Latin American countries. In the 1980s, however, Brazil ranked first in value terms and in 1993 the order was Brazil, Chile, and Argentina. The main reason for the decline in trade with Argentina is a remarkable decrease in the import of foodstuffs, specially wheat, due to the change of international market since 1992.
- MOFTEC's trade policy for Argentina is the "all directions policy." MOFTEC plans to keep the spirit of "reciprocal and quality" and to continue the "expansion and balance."
- The following was discussed in a recent meeting for bilateral trade:
Argentina's concern was to increase the export of wheat, wool, and leather to the past highest level and to promote the export of fruits.
China was concerned about Argentina's recent study on possible measures against China's dumping export of such goods as pencils, gas-lighters, bicycles, motorcycles, and textile goods. MOFTEC denied the act of

dumping since Chinese suppliers are exporting by their own risk and account and the government no longer controls those activities.

- The biggest demerit for Argentina's competitiveness is the long distance.
- Argentine Embassy in China is active and keeps frequent contact with the Chinese authorities concerned.
- Two private companies, IMPSA and SIDERCA, have representative offices in China and are doing business quite actively.

(3) China National Cereals, Oils and Foodstuffs Import and Export Corporation (CNCOF)

- A few years ago, they planned to make visits to the U.S.A., Brazil, and Argentina to survey the possibility of purchasing soybean oil, but they had difficulties in obtaining visas from Argentina for some reason that was never made clear. Such an event affects negatively the export promotion of Argentina.
- Argentina and Brazil used to sell off their soybean in May-July every year due to an insufficient storage capacity for soybean and soybean oil.
- Argentina's wheat cannot compete with other major producing/exporting countries in the Chinese market unless the Argentine government provides subsidies to producers and exporters as the U.S. government does.

4.2.4 Measures for export promotion

(1) Strategy for the Chinese market

According to Lester R. Brown in his *The State of the World of 1994*, China's present population of 1.2 billion is estimated to reach 1.6 billion in the year 2030. There will be a remarkable expansion in the consumption of animal proteins like meat and eggs and demand for feed grains, if China maintains the current level of high economic growth, the increase in per capita income, and the consequent improvement in the living standard.

According to the China Scientific Academy, the import of grain is estimated to be 50 to 100 million tons in the year 2000 and 400 million tons in the year 2030. On the other hand, the annual growth rate of production is estimated to be only around 1% until the year 2030 due to the limited application and efficacy of chemical fertilizers and

a decrease in agricultural land and the production of beef, mutton, and fish will remain at the level of 1990. Argentina, one of leading food producing countries in the world, could concentrate its export to China on agricultural products such as wheat, grain feed, meat, and fish and agro-based products through establishing institutional support for the improvement of quality and productivity and for the development of infrastructure such as storage, loading, and transportation facilities.

(2) Institutional support and information services

As pointed out by MOFTEC, Argentine Embassy staff members and the representatives of IMPSA/SIDERCA are very active but the total number of representatives stationed in China is too small (probably less than 10) as compared to the number of representatives of competitors like the U.S.A., Canada, and Australia.

In the case of Australia, for example, the Australian Trade Commission (AUSTRADE), a governmental trade promotion organization, stations senior trade commissioners in Beijing and Shanghai and a trade commissioner in Hong Kong who also covers South China. They are equipped with information on market prospects, the strength of market competition, import barriers, commercial laws, etc. to help Australian exporters to explore the Chinese market.

Aside from such governmental activities, there are many Australian business representatives and joint venture companies located in China. The registration record of 1989 indicates that there were 19 Australian representative offices in Beijing, 4 in Shanghai, and 11 in South China (Zhangzhou, Xiamen, Shenzhen, Guangdong, and Guangzhou) and that there were 8 joint venture companies in Beijing and 4 in Shanghai. The number of such representatives has been increasing considerably in recent years.

For Argentina, it would be necessary to establish a governmental export promotion organization and an information service center, like AUSTRADE, since the cost of export promotion activities such as marketing and negotiating with Chinese importers is too high for the majority of Argentine private companies to be burdened with individually.

(3) Business networks with Chinese businessmen

China is the hottest spot in the world market as a net capital importer, as well as a potential giant importer of goods and services. Currently, Hong Kong occupies almost 80% of total foreign investment in China. East Asian countries are establishing

business bases in Hong Kong and Singapore and investing actively in opening markets and the construction of infrastructure in the regions behind the two global cities. The impacts of rapid economic integration between Hong Kong and China, even before the reunion in 1997, are particularly noticeable in the southern part of China represented by Guangdong. Trade statistics show that in 1993, 31.7% of Argentine exports to China and 64.5% of Argentine imports from China were made through Hong Kong. Hong Kong enterprises have a lot of business know-how and information on how to deal with Chinese businessmen and utilize special networks among them.

In order to be successful in the Chinese market, Argentina needs to establish information services for potential exporters, have more representatives of export promotion organizations, as well as of private companies, and seek the possibility of making business tie-ups and/or joint ventures with Hong Kong enterprises.

(4) Participation in Japanese ODA

The Japanese government is granting China a huge amount of ODA-based yen credit to be allocated to national projects for industrialization, infrastructure development, environment conservation, etc. The Fourth Yen Credit to be allocated in 1995 is ¥580 billion (about US\$5.8 billion), which is 48% up from the previous year. A large part of yen credit is untied. Since Argentina's export credit is not enough to cover long-term finance for the export of competitive machinery and equipment like cranes, construction equipment, and electrical equipment, the international tender of untied yen credit under equal conditions (practically "cash-based") with competitors will provide a good opportunity to Argentine suppliers.

4.3 Chinese Foreign Direct Investment

4.3.1 China as a net capital importer

Foreign direct investment (FDI) to China increased drastically. In 1993, total FDI inflows reached over US\$100 billion on a contract basis and US\$27.5 billion on an executed basis, twice the amount in the previous year. Until recently, China had abundant labor but lacked capital necessary for economic growth. However, it does not seem that the country any longer suffer from a shortage of capital, at least in coastal zones, as indicated by investment concentrated on real estate. Since such investment tends to overheat the economy, the Chinese government intends to start strengthening its control over investment in 1995.

4.3.2 Geographical distribution of Chinese investment

According to China International Trust and Investment Corporation (CITIC), their foreign investment was made for the purpose of securing natural resources short in China, such as wood and pulp projects in Canada, Chile, and Russia and aluminum projects in Australia. In Peru, China Metropolitan Steel Mills, supervised by the Ministry of Metallurgical Industry, purchased an iron ore mine and steel mills in the past. Negotiations were also made with Brazil for an iron ore mine and with Chile for a copper mining project, but none of them have been materialized. CITIC has established an affiliated company, CITIC Pacific, and purchased enterprises concerning satellite communications, public utilities, etc.

CITIC Pacific is planning to continue to purchase enterprises in the high-tech and metal manufacturing sectors. In Australia, CITIC has made reinvestment in meat processing factories, utilizing returns from the aluminum project. In Singapore, CITIC has made a joint venture with Yaohan, a Japanese company, and is operating a department store. MOFTEC has made about 200 joint ventures in neighboring Asian countries, including China itself, in the fields of food, alcoholic beverages, farming, transport, ports, highways, hotels, etc.

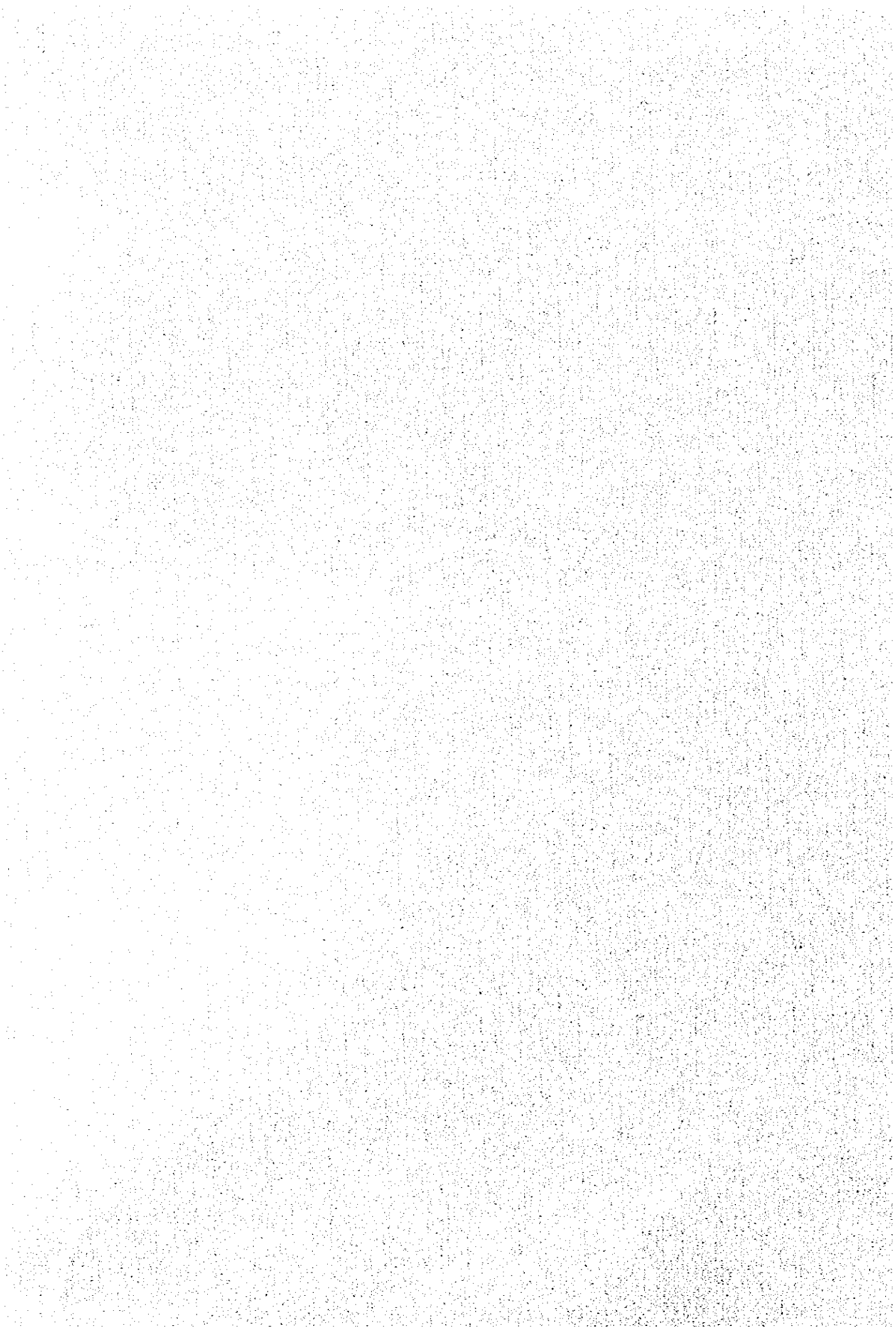
4.3.3 Major factors for investment decision-making

According to CITIC, the main issues which are common to Latin American countries in the promotion of FDI are language barriers and the long distance from China, though they need more study on the Argentine market. Their strategy for South American markets is to establish a trade corporation and a business base in Brazil and then expand their trade with Brazil, Argentina and Uruguay. As for investment, they will focus on a reliable project to meet the purpose of securing natural resources such as iron ore, copper, aluminum, wood pulp, etc. in a cautious manner.

4.3.4 Suggestions for attracting FDI from China

Since China is a net capital importer, it is not likely that China will take an action of FDI in the immediate future. From a long-term perspective, however, there will be a possibility of Chinese participation in some reliable projects, such as mentioned in 4.3.3, through joint ventures with Japanese, U.S., and/or European companies which have enough capital. In that case China could supply labor in compensation for funds required.

Chapter 5
Hong Kong



5. Hong Kong

5.1 Attractiveness to Argentina

5.1.1 Introduction

Hong Kong has been administered for a long period as a British colony. Though the Territory's administration will be transferred to China in July 1997, the same practice of the administration as today will be guaranteed for 50 years thereafter by the Chinese government. The area of the Territory is only 1,072 square kilometers and its population was 5.9 million in 1992. The Territory is advanced in economic and industrial activities as being known as one of the four dragons of Asia's new industrialized economies. The Hong Kong government has estimated that per capita GDP was US\$ 20,600 in 1994.

Primary factors of the economic development are said to be as follows.

- 1) Thorough free trade; no imports tariffs, no import control in principle
- 2) Low tax; corporate tax 15%, personal business tax 16.5%, income tax 20%
- 3) Clean government al administration, exhaustive Territory under the rule of law
- 4) Diligent and qualified labor force
- 5) Highly advanced infrastructure (deep sea port, air port, communication system etc.)
- 6) Advanced and financial system

Major players in economic activities are, British "zaibatu," Hong Kong local "zaibatu," many active local importers, and distributors, branches and subsidiaries of global business firms and international banks, financial institutions of North America, Europe, Japan, East Asia and China.

Outstanding economic performances of various fields were:

- 1) US\$ 270 billion of the foreign trade (tenth largest in the world)
- 2) Handling volumes of sea containers and the air cargoes were the largest and the third largest in the world, respectively. The number of airplane passengers' arrivals was the third largest in the world. The number of telex machines equipped was the world top.
- 3) US\$ 43 billion of foreign reserves (the sixth largest in the world)
- 4) US\$ 69 billion of foreign exchange transaction (the sixth largest in the world)
- 5) US\$ 313 billion of total stock in current prices (the second largest in Asia)

Recently, the progress of the economic interaction with China is a new engine of the economic development. The degree of interrelations is as follows:

- 1) 40-50% of the China foreign trade was performed through Hong Kong re-export.

- 2) 70% of the foreign direct investment in China was carried out by Hong Kong enterprises and/or by foreign companies in Hong Kong.
- 3) The Chinese direct investment into Hong Kong already amounted to more than US\$ 20 billion, and more than 4,000 Chinese enterprises (subsidiaries) established in the Territory.
- 4) 30% of Hong Kong dollar was circulated in the southern part of China
- 5) More than 25,000 Hong Kong enterprises were established in the Guangdong province of China and 3 million job opportunities were created by them.

Hong Kong is seen as the best location for an Argentine overseas business base with good accessibility to China and East and Southeast Asia countries.

5.1.2 Economic situation

Since 1983, the HK dollar has been tied to the US dollar. The depreciation of HK\$ in proportion to the US\$ had been realized brought rapid growth of exports and GDP during the period from 1986 to 1988. In 1989, the GDP recorded only 2.8% growth due to a slow increase of exports and Hong Kong suffered lower competitiveness brought about by an increase in wages and the difficult economy of China. From 1990, Hong Kong's economy has been recovered gradually due to the following factors: 1) the progress in the horizontal division of labor with the Guangdong province since 1990; 2) an increase of the local demand and growth of re-exports to China since 1991. The real GDP grew by 4.1% in 1991, 5.3% in 1992, and 5.5% in 1993.

The Argentine export to Hong Kong has increased in proportion to the increase of merchandise import indicated in table 1.1 since 1990. Stable growth of the Hong Kong economy would provide bigger pie for Argentine export in the near future.

Table 5.1 Evolution of Major Economic Indices

		1989	1990	1991	1992	1993 (f)
Private Expenditure	(60.9)	4.0	6.3	9.2	8.5	7.5
Government Expenditure	(8.8)	6.1	6.0	7.1	7.5	3.0
Fixed Capital Formation	(27.8)	2.9	8.0	9.0	9.9	6.6
Merchandise Export	(124.6)	10.2	9.2	16.6	19.2	13.2
Domestic Export	(31.5)	0.1	-0.5	0.4	0.3	-5.0
Re-export	(93.0)	18.6	16.0	26.3	28.2	20.0
Merchandise Import	(129.1)	8.9	11.4	19.0	22.3	13.6
Service Export	(19.2)	4.3	5.9	3.6	10.3	10.0
Service Import	(13.0)	5.9	10.7	8.0	6.4	8.5
GDP	(100.0)	2.8	3.2	4.1	5.3	5.5
CPI		10.1	8.9	12.0	9.4	8.5
Unemployment Rates		1.1	1.3	1.8	2.0	n.a.

Note: (f) Estimation by the Hong Kong Government.

Figures in parentheses show the percentage to the GDP total.

Source: Estimate of Gross Domestic Product 1996 to 1992. Third Quarter Economic Report 1993.

5.1.3 Industrial structure

As Hong Kong was advanced in production, international trade, financial, tourism centers of Asia region, 1) the manufacturing industry, 2) trade, distribution, restaurants and hotels, and 3) banking, insurance and real estate had played important roles in the economic development, producing about one fourth of total GDP, respectively. The progress of service-oriented economy in the Territory has gradually reduced the weight of the manufacturing sector, while banking, insurance and real estate business have increased their contribution to the economy.

One of the characteristics of Hong Kong's industry was the remarkable presence of "zaibatu." While the British "zaibatu" has reduced its importance recently, overseas Chinese capitals have grown through M&A, won in the stock boom competition in 1973 and real estate boom competition in 1980, and finally have become Chinese "zaibatu" that show their distinguished economic power in the Territory and China. The Chinese "zaibatu" plays dynamic roles in the fields of trade, finance, hotels and real estate and invests aggressively into infrastructure projects in the Chinese continent today.

To accelerate Argentine exports to China and Asia economies including Hong Kong, Argentine entity concerns should have business ties with major Chinese "zaibatu."

Table 5.2 Composition of Current GDP

	1985	1987	1988	1989	1990	1991
Agriculture, Fishery, Mining	0.7	0.5	0.4	0.3	0.3	0.2
Electricity, Gas, Water supply	2.7	2.8	2.5	2.3	2.3	2.2
Construction	5.0	4.7	4.8	5.3	5.6	5.3
Manufacturing	21.9	21.7	20.1	18.9	17.2	15.5
Transport, Communication	8.1	8.7	9.2	8.9	9.4	9.7
Trade, Distribution	21.8	23.2	23.8	24.0	24.3	25.4
Restaurant, Hotels	16.3	18.2	19.2	19.8	20.8	23.0
Finance, Insurance, Real estate	17.3	15.0	14.6	14.6	15.0	15.4
Social, Personal services	6.2	5.2	5.4	6.0	5.7	7.4
Others						

Source: Estimate of Gross Domestic Product 1966 to 1992.

5.1.4 Foreign trade

(1) Structure of the foreign trade

Hong Kong had already flourished as a port of entrepot trade before the second world war. Backed by the development of light industries such as textiles, toys and daily necessities, processing trade had been developed and hadostwar period. In 1993, the foreign trade in GDP accounted for 123.4% in exports and 126.9% in imports.

While Hong Kong exports are classified into domestic exports and re-exports, namely, processing trade and transit trade, respectively. The recent rapid growth of foreign trade was brought about by a remarkable increase of re-exports as well as imports. This trend was advantageous to Argentine exports, which are competitive in raw materials for light industries.

Though the domestic export, which recorded low growth in recent years and negative growth in 1993, appears to have lost competitiveness, it still holds a competitive edge when Hong Kong's processing on commission in China is considered complementary measures with the processing trade.

In fact, 78% of the re-export came from the processing on commission in China in 1992. Based on its own analysis, a JETRO report concluded that if the re-export of merchandises of Chinese origin under the management of Hong Kong enterprises was considered a processing trade, Hong Kong's processing trade had kept 70% of total exports constantly.

(2) Economic and commercial policies

The Hong Kong government describes its economic and industrial policies as:

1) Hong Kong is completely faithful to liberal economic policies of free enterprise and free trade. There are no import tariffs, and revenue duties are levied only on tobacco, alcoholic liquors, methyl alcohol and some hydrocarbon oils. There is a tax imposed on the first registration of motor vehicles.

2) Although the government provides infrastructure both through direct services and by cooperation with public utilities enterprises, the government's major role is to provide a suitable and stable framework for commerce and industry to function efficiently and effectively with minimum interference. There remains no protection or subsidization of manufactures in the Territory.

3) Hong Kong has been an active participant in the Uruguay Round of multilateral trade negotiations. Hong Kong also takes part in the Multi-Fibre Arrangement, which aims at the orderly development and expansion of international trade in textiles. As these policies are friendly to Argentine businesses, it is suggested that front-line bases of Argentine exporters be built in Hong Kong.

(3) Evolution of foreign trade

a. Outlook

The value of whole trade was US\$ 271.7 billion in 1993, increasing by 12.7% compared with the previous year. The growth rate was the lowest since 1989. Domestic exports decreased, and re-exports and imports recorded the lowest growth rates in the past five years. Consequently, trade deficit reduced to US\$ 3.3 billion. While Argentine total exports were US\$ 13 billion in 1993, even the annual increment of Hong Kong exports and re-exports was US\$ 15 billion and US\$ 17 billion, respectively in that year. By entering the entrepot trade business by itself or by cooperation with local traders, Argentine could expand export significantly.

Table 5.3 Evolution of Foreign Trade

	(unit: billion US\$, %)				
	1989	1990	1991	1992	1993
Total	145.3 (14.3)	164.4 (13.2)	198.1 (20.5)	241.0 (21.7)	271.7 (12.7)
Import	72.2 (12.8)	82.4 (14.2)	99.9 (21.2)	122.6 (22.6)	137.5 (12.3)
Domestic	28.7 (3.0)	29.0 (0.8)	29.6 (2.3)	30.0 (1.3)	28.6 (-4.7)
Re-export	44.4 (25.8)	53.1 (19.5)	68.6 (29.2)	88.6 (29.2)	105.5 (19.2)
Trade Balance	2.3	-0.4	-1.7	-3.8	-3.3

Note: Figures in parentheses show the growth rate with respect to previous year.

Source: Hong Kong trade statistics.

Major export items were machinery and transport equipment (35.2%), manufactured goods classified by metal (20.5%), textile yarns, fabrics and made-up articles (9.2%), clothing (8.5%), chemicals (6.2%), food stuffs (4.0%) and footwear (3.9%). The principal suppliers were China (37.5%), Japan (16.6%), Taiwan (8.8%), the U.S.A. (7.4%), Republic of Korea (4.5%) and Singapore (4.5%).

b. Domestic exports in 1993

Major items were clothing (32.2%), electronic products (23.9%), textile yarns, fabric and made-up articles (7.4%), watches and clocks (5.9%). The major markets were China (28.4%), the U.S.A. (27.0%), Germany (6.3%), Singapore (5.1%), U.K. (4.8%), Japan (4.3%), and Taiwan (2.8%).

c. Re-exports in 1993

Principal items were toys and plastic products (13.1%), clothing (11.0%), telecommunications and sound recording and reproducing apparatus (9.0%), textile yarns, fabrics and made-up articles (8.6%), electric machinery, apparatus and parts (8.4%) and footwear (5.7%). The major markets were China (33.4%), the U.S.A. (21.9%), Japan (5.4%), Germany (5.0%), the United Kingdom (3.0%), Taiwan (2.7%), and Singapore (2.1%).

Products of Chinese origin accounted for 57.5% of Hong Kong's total imports, which were carried out mainly for a re-export purpose. Those products occupied more than 90% of re-exports to the U.S.A. (e.g., clothing, plastic products and toys, footwear) and 80% of re-exports to Japan.

Table 5.4 Re-export of China Origin Products in 1993

	(unit: million US\$)					
	USA	Germany	Japan	U.K.	China	Total
Plastics, Toys	2,165	1,281	680	2,936	110	12,658
Clothing	3,590	1,268	1,615	823	227	11,402
Telecommunications and Audio apparatus	2,043	712	364	366	92	6,345
Footwear	3,590	345	419			5,874
Textile					1,606	4,452
Electrical machines	1,454	410		251	116	4,045
Travel goods, Bags			262	226		3,164
Total	21,581	4,953	4,573	4,601	2,804	60,770

Source: Japanese consulate of Hong Kong.

Table 5.5 shows that Hong Kong's re-exports to China. 58% of re-exports to China were from Japan, Taiwan, and the U.S.A. While the main items of Japanese-origin goods were automobiles, telecommunications and audio apparatus and parts, machine tools, those of Taiwanese-origin goods were textile fiber and cloths, and U.S.-origin goods were office equipment and electric machines and parts.

Table 5.5 Re-exports to China by Origin Countries in 1993

(unit: million US\$)

	Japan	Taiwan	USA	Korea	Germany	Total
Textiles/Yarn		2,287		853		5,785
Automobiles	2,298				410	3,424
Electric machines	933	583	273	211		2,519
Telecommunications and Audio apparatus	1,160		176			2,346
Special machine		586			221	2,073
Machine tools, parts	743					1,639
Watches and Clocks/Optical machines	700					1,155
Office machines			452			1,207
Total	10,014	7,585	3,154	2,152	1,396	35,200

Source: Japanese consulate of Hong Kong.

(4) Distribution Industry

One of the characteristics of Hong Kong's distribution industries was the dominant presence of traders in comparison to wholesalers and retailers in the local consumer market. As Chinese habitants are dominant clients, traditional terms of transaction were still alive; for example, the payment and collection day for the deal of marine products and Chinese food materials in Shan Kan District is set at the end of the Chinese calendar year. There are many cases that trade companies combine three business functions of import, wholesale and retail. The distribution channels is short and simple in the Territory.

When local manufacturers shift their production sites to China, they work as traders in Hong Kong, importing their own products from China for re-export to third countries. Recently, taking advantage of the good international business environments of the Territory, many Japanese and European big enterprises have established their plants in the Guangdong province of China and settled their regional headquarters in Hong Kong as their global distribution strategy.

Along with a rise in the income level, the nuclear family and a new life style appeared and came into fashion. Then, supermarkets and convenience stores are more popular than traditional retail stores. Two largest supermarkets have established 345 stores and hold a total share of about 50% in the market of food stuffs and daily necessities in the Territory. In office towns and shopping towns, about 300 convenience stores with American-style marketing strategies have been introduced successfully in the past several years.

In the department store business, Japanese, local and Chinese department stores compete fiercely. Eleven Japanese department stores have established 24 stores in the Territory. As personal expenditures are diversified, sales of department stores have been stagnant, while specialty stores and boutiques have increased significantly.

Table 5.6 Establishments and Employees in 1st Quarter 1993

	Number of Establishment	Number of Employees
Wholesaler	17,065	78,720
Retailer	53,551	204,126
Trade	78,356	399,907
Total	148,942	682,303

Source: Hong Kong Monthly Digest of Statistics, Sept. 1993.

(5) Foreign Direct Investment

Official data on foreign direct investment are not available in Hong Kong. One of the characteristics of Hong Kong's direct investment is short-term investment in which investors require full returns from the investment within three years in general. Hong Kong investors' behavior in China is said to have been changing towards longer-term investment such as investment in infrastructure development projects.

Hong Kong's foreign direct investment was concentrated in China, where they take a dominant share in the whole foreign direct investment. Main fields of investment in terms of value are real estate, hotels and service industries. In the manufacturing sector, Hong Kong businessmen manage many plants, but the major part of their activities are not in the form of direct investment but processing on commission.

It is said that large enterprises have a clear investment policy to limit the foreign direct investment amount within one forth of their assets. And host countries of investment are restricted to those in which they have Chinese networks with business advantages warranted by the human connections. In recent years they have been increasing direct investment in Vietnam in order to avert their investment risks by regional diversification.

Table 5.7 Hong Kong's Direct Investment in Selective Area of China

Area	Number of Project (Million US\$)	Investment Commitment (Million US\$)	Share to Total Investment (%)
Beijing	3,467	10,162	54.9
Tenjine	2,992	3,233	48.6
Dalung	1,289	4,055	46.6
Shanghai	3,372	6,967	50.8
Amoi	791	3,077	56.9
Shinsen	9,126	7,333	77.0

Source: Foreign Trade and Investment Commission of China.

5.2 Trade Between Hong Kong and Argentina

5.2.1 Evolution of trade between Hong Kong and Argentina

Trade between Hong Kong and Argentina has been developed very rapidly since their bilateral relations were normalized again in 1989. Table 5.8 presents the evolution of Hong Kong's trade with Argentina during the period from 1989 to August 1994. Hong Kong exported only US\$ 5.6 million and imported US\$ 105.2 million in 1989, making deficit of US\$ 99.5 million. While Hong Kong's exports had increased remarkably, its imports had been stagnant, and the trade balance turned to surplus of US\$ 44.6 million in 1991. The growth rate of exports had exceeded that of the imports constantly, trade surplus had significantly increased every year thereafter.

Table 5.8 Evolution of Hong Kong Foreign Trade with Argentina

	1989	1990	1991	1992	1993	1994 Jan.-Aug.
Total Export	5.6	28.5	135.7	310.5	417.1	322.9
Domestic Export	4.0	13.6	27.3	30.5	25.9	21.4
Re-export	1.7	14.9	108.4	280.0	391.2	301.5
Import	105.2	88.6	91.1	98.2	138.1	117.5
(of which Re-export)	32.8	24.7	39.5	53.1	75.6	52.3
Total trade	110.8	117.2	226.8	408.5	555.1	440.5
Trade balance	-99.5	-60.0	44.6	212.3	278.9	205.5

Source: Hong Kong trade statistics.

5.2.2 Main causes of export growth

A primary factor of the rapid export growth was the competitiveness of Hong Kong products as well as re-exports of Chinese-origin products. Their competitiveness was demonstrated with Argentina's import liberalization, which was put into effect in 1990. The Hong Kong Trade Development Council, a representative trade promotion organization of the Territory, carried out a market survey on the Argentine consumer market and compiled "Market Report on Argentina" for Hong Kong businessmen in September 1992. Trade missions had been sent five times in 1992 and a Hong Kong trade seminar was held in Buenos Aires in March 1993. The Trade Development Council also established an office in Buenos Aires in April 1994, which was the third overseas office located in Latin America, following the Panama office and the Mexico City office.

Main export items are light industries' products such as toys, watches and clocks, consumer electronics, clothing etc. As for the competitiveness of Hong Kong export merchandises, "Market Report on Argentina" concluded as follows:

[I]mport liberalization has resulted in easy market access. With the elimination of import and foreign exchange controls, the Argentine markets is now wide open to foreign goods. Reduction in customs tariffs to 22% for nearly all finished goods. In the light

consumer goods sectors, Hong Kong exporters are likely to find that competition from local producers is on the whole limited, though garment is one of Argentina's stronger industries.

5.2.3 Imports of Argentine products

Argentina ranked 33rd in Hong Kong's total imports in 1993. US\$ 138.1 million was only 0.1% of total imports. Among Latin American countries, however, Argentina was the second largest exporter to Hong Kong, following Brazil. Imports were US\$ 395.6 million from Brazil, US\$ 98.5 million from Chile, and US\$ 89.4 million from Mexico in 1993.

Major import items from Argentina were raw materials for light industries such as leather, wool, cotton and so forth, mainly imported for re-export to China, and food stuffs such as meat, fish and so forth, mainly imported for local consumption. Those raw materials are re-exported to China for processing on commission and processed goods are imported again from China in order to sell in local market as well as to re-export to third countries.

Table 5.9 shows the evolution of imports from Argentina by item from 1991 to August 1994. Petroleum oil imports, which started in 1994, contributed to the increase of total imports. While the imports of leather have kept growing, those of beef and cotton decreased significantly. Total imports grew by 3% in 1991, 8% in 1992, 41% in 1993, and 38% in first 8 months of 1994 over the same period of the previous year.

Table 5.9 Evolution Hong Kong's Imports from Argentina

	1991	1992	1993	1994 Jan.-Aug.
611 Leather	29.2	49.1	90.5	69.9
012 Other meat	12.7	14.4	18.1	12.2
334 Petroleum oil	-	-	-	11.8
57 Plastics	0.1	2.4	1.2	5.4
034 Fish	4.7	8.3	3.8	3.3
011 Meat of bovine animal	10.8	1.8	2.2	2.2
263 Cotton	15.0	2.6	0.1	2.2
268 Wool	4.0	5.4	9.4	1.8
Others	14.5	14.2	12.7	8.7
Total	91.2	98.2	138.1	117.4
(of which re-export)	39.5	53.1	75.6	52.3

Source: Hong Kong trade statistics.

5.2.4 Major import items

(1) Leather (SITC 611)

From 1991 to August 1994, Argentine leather kept the fifth largest position in Hong Kong's total imports and increased its share gradually; by 3.3% in 1991, 4.3% in 1992, 6.2% in 1993, and 6.4% in January - August 1994.

Table 5.10 Imports of Leather by Country

		(unit: million US\$)			
		1991	1992	1993	1994 Jan.-Aug.
Ranking	World	892.4	1,153.7	1,470.9	1,086.0
	1 Italy	125.3	161.8	244.1	194.9
	2 Korea Republic	118.3	200.9	251.7	190.9
	3 Taiwan	158.2	161.0	180.6	136.2
	4 USA	60.1	94.4	125.1	88.7
	5 Argentina	29.2	49.1	90.6	69.9

Source: Hong Kong trade statistics.

(2) Beef, chilled or frozen (SITC 011)

In 1991 Argentina was the sixth largest beef supplier in the world and hold 9.9% of Hong Kong's beef imports. Imports from Argentina reduced by 87% and supplied only 1.6% of the total beef imports in 1992, which slightly recovered since 1993. Brazil and U.S.A. had competed for the top rank in the past four years.

Table 5.11 Import of Bovine Animal by Country

		(unit: million US\$)			
		1991	1992	1993	1994 Jan.-Aug.
Ranking	World	109.4	110.8	110.5	79.6
	1 Brazil	17.3	25.9	23.5	18.8
	2 USA	23.1	28.1	30.2	18.1
	3 New Zealand	16.2	18.8	17.4	14.1
	4 China	17.2	9.5	11.4	10.5
	5 Australia	11.8	15.8	15.8	7.4
	6 United Kingdom	1.5	1.3	1.2	2.6
	7 Netherlands	3.2	4.1	4.2	2.3
	8 Argentina	10.8	1.8	2.2	2.2

Source: Hong Kong trade statistics.

(3) Other meat, edible meat (SITC 012)

The U.S.A., the most competitive in this item, increased its share in Hong Kong's total meat imports from 30.0% in 1991 to 47.6% in the first eight months of 1994. Argentina kept a share of more than 3% but reduced it slightly to 2.9% in the first eight months of 1994. Brazil exported four to five times more than Argentina in terms of value.

Table 5.12 Imports of Other Meat, Edible Meat by Country

		(unit: million US\$)			
		1991	1992	1993	1994 Jan.-Aug.
Ranking	World	420.8	447.3	486.2	416.3
	1 USA	128.1	173.6	216.8	197.9
	2 China	107.6	76.7	57.6	61.4
	3 Brazil	59.0	69.6	75.1	55.4
	4 Netherlands	19.5	24.1	24.4	23.5
	5 Argentina	12.7	14.4	18.1	12.2

Source: Hong Kong trade statistics.

5.3 Opportunities for Argentine Exports and Hong Kong Direct Investment in Argentina

5.3.1 Export opportunities

1) As there exists a correlation between economic growth and imports, abundant market opportunities are provided by Hong Kong for a wide range of Argentine products, theoretically and in principle. Though imports of the raw materials for light industries and foodstuffs will both increase in proportion to the economic growth, the market share of Argentine products will be based on the benefits which local importers will enjoy through handling those products.

2) In any case, competitiveness is required in price, quality, the delivery of goods in general, and the continuance of business based on mutual reliance is most desirable. Sufficient business contacts with well provision and efficient business dialogue are essential business manners to open the door for transactions with Hong Kong businessmen. This point should be emphasized again when many Argentine businessmen consider that they are not familiar with the competitiveness of Asian markets, especially in Hong Kong.

3) The Study Team has preliminarily identified, through contact with local and foreign businessmen in the Territory, the following fields and items as high potential areas for export expansion to Hong Kong. While opportunities would be found in a wide range of agro-based manufactures, few chances would be offered for Argentine industrial manufacturers due to their poor presence and competitiveness in the Territory.

	Actual	Possible
Foodstuffs	Beef (US\$ 10.8 million in 1991) Other meat (US\$ 18.1 million in 1993) Fish (US\$ 8.3 million in 1992)	Vegetables fresh, processed and canned Fruits fresh, processed and canned Mineral water Dairy products Confectionery Pasta Pharmaceutical products
Raw materials for light industries	Leather (US\$ 90.5 million in 1993) Cotton (US\$ 15.0 million in 1991) Wool (US\$ 9.4 million in 1991) Plastics (US\$ 5.4 million in Jan.-Aug. 1994)	
Others	Petroleum oil (US\$ 11.8 million in Jan.-Aug. 1994)	Construction materials

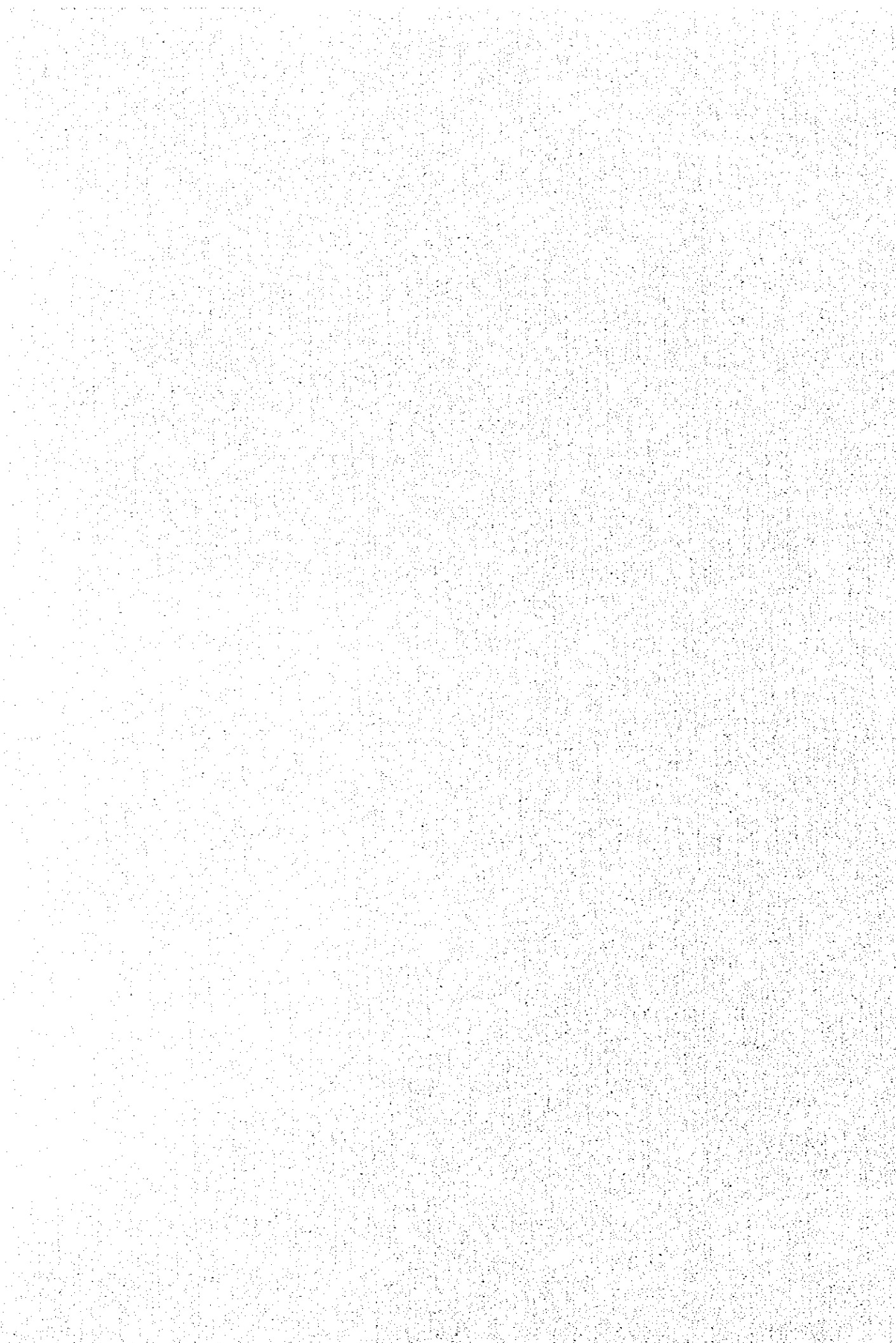
4) The establishment of regional headquarters which promote, support and assist Argentine exports as well as Asian foreign direct investment to Argentina is highly recommended. As for the location, Hong Kong is quite an attractive place to establish such regional headquarters which work as information centers as well as distributing centers to support and promote Argentine overseas business with China, East and Southeast Asian economies.

Beside business infrastructure such as ports, airports, international communication, legal and accounting facilities, etc., there are many front-line bases of governmental and private organizations from abroad and a large number of officials and businessmen live or stay in the Territory. The headquarters are therefore able to communicate conveniently with each others. By employing skilled local workers, business opportunities would be multiplied. Competitiveness would be improved apposite logistics of cargoes.

5.3.2 Direct investment from Hong Kong

Under existing conditions, it is hard for Argentina to increase direct investment from Hong Kong because Hong Kong capitals have a firm policy to invest into regions with Chinese networks and profitable fields. If there were a situation in which a real estate boom provided enough room to attract foreign direct investment, then Hong Kong capitals would come to Argentina.

Chapter 6
Singapore



6. Singapore

6.1 Profile of the Market

Singapore is a small island with a territory of 639 km², and 49.2% of its land are used for housing, commercial and industrial purposes, and only 1.7% for agriculture. It is a multi-national country with population of 2.82 million in 1992, consisting of Malays (14.1%), Chinese (77.7%) and Indians (7.1%). The political situation is stable and the country has been developed as a regional trade center. GDP per capita is US\$17,133 in 1993, one of the highest in Asia: Singapore GDP per capita exceeded that of Hong Kong since 1992. Singapore is vulnerable to economic conditions of industrialized countries because of its heavy dependence on foreign markets. Singapore has very poor natural resources, and the share of agriculture and mining in GDP is almost none (Table 6.1.2). The manufacturing sector accounts for 30% of GDP, followed by the financial sector for 26% and transport & communications for 15%. Electronics is the largest export industry and accounts for about one third of all manufacturing output.

As the result of rapid growth, labor shortages emerged accompanied by rise in real wage. On the other hand, inflation rate was well under control, recording not more than 3.5% in past five years (Table 6.1). Real GDP growth slowed down after its peak in 1988. Moreover, being affected by recessions of the industrialized countries, the growth rate dropped to 6% in 1992 in spite of the construction sector growing at the high rate of 20%. However, Singapore's economy picked up in 1993 showing a remarkable growth of 9.9%. The source of recovery emanated from double-digit increase in financial and services sectors. The growth of manufacturing depends on the advancement of technology intensive industries.

In order to overcome constraints such as limited land and labor supply in the country, Singapore is promoting a plan of "Growth Triangle Zone" comprising Singapore, State of Riau in Indonesia and State of Johor in Malaysia. In addition, Singapore aims at being a major regional service center with indigenous research and development capabilities. It will be possible for Singapore to develop further if it can provide the most up-to-date communications, transportation and other physical infrastructure, as well as upgrade industrial structure and improve human capital.¹

Even though the population of Singapore is small, the standard of living is very high as evidenced by GDP per capita. With the increase of income, Singaporeans have been changing their living style and their demand for consumption goods or durable goods are changing. They tend to look for new or higher quality goods. Westernization

is going especially among young people and they now eat steak, hamburger, milk products, pasta, mineral water, etc. This trend could be considered as a favorable factor for the export of Argentine products.

On the other hand, as a result of the advancement of telecommunication network, infrastructure, financial system and so on, Singapore has a function as an Asian center for trading, manufacturing and various services. This function will be maintained in the future, and Argentina will be able to make use of this function for the expansion of their business in Asia.

Table 6.1 Major Economic Indicators

	(%)			
	1989	1990	1991	1992
Population	2.65	2.71	2.76	2.82
Nominal GDP per capita (US\$)	9954	12200	13852	15541
Real GDP growth	9.2	8.8	6.7	6.0
Growth of GDP by origin				
Manufacturing	9.8	9.5	5.4	2.5
Construction	1.5	7.2	20.8	20.0
Trade	8.3	8.3	9.3	4.5
Transport & Communications	9.4	9.1	7.9	8.7
Finance & Service	15.1	11.8	7.5	5.3
Unemployment rate	2.2	2.0	1.9	2.7
Inflation rate	2.4	3.4	3.5	2.3
Budget surplus/deficit	4.4	2.8	4.8	5.0
Exchange rate (Singapore \$ /US\$)	2.0	1.8	1.7	1.6
Trade balance	-21158	-4718	-3791	-5781
Exports	43571	51096	57154	62067
Imports	64729	55814	60945	67848
Current account balance	2785	2094	3992	3748
Capital account balance	456	4658	934	5559
Overall balance	2735	5458	4202	6114

p: Preliminary.

Source: Ministry of Trade and Industry, Economic Survey of Singapore.

ADB, *Key Indicators of Developing Asian Pacific Countries*, 1993.

Table 6.2 Share of GDP by Industrial Origin

	(%)					
	1980	1986	1989	1990	1991	1992
Agriculture	1	1	0	0	0	0
Mining	0	0	0	0	0	0
Manufacturing	29	25	29	29	29	28
Electricity, gas and water	2	2	2	2	2	2
Construction	7	8	5	5	6	7
Trade	19	17	18	18	18	17
Transport & communications	12	14	14	14	14	15
Finance	21	26	25	26	26	26
Public administration & Others	9	6	6	5	5	5
GDP	100	100	100	100	100	100

Source: ADB, *Key Indicators of Developing Asian Pacific Countries*, 1993.

6.2 The Structure and General Trend of External Trade

Singapore has been implementing liberal trade policies that are very close to free trade.

More than 95% of merchandise are free from import duty. Only some commodities like cars, tobaccos, liquors are subject to import duty tariffs. Therefore, import tariffs are not obstacle for foreign exporters to penetrate into Singapore market.

In 1993, the volume of total trade increased significantly by 18% compared with a 6.8% growth in 1992. Both imports and exports grew at double-digit rates. The volume of imports rose by 19% compared with a growth of 6.5% in 1992. Export volume expanded by 18% compared with an increase of 7.2% in 1992, boosted by strong growth in both domestic exports and re-exports. In value terms, total trade grew by 16% to US\$176 billion (\$ 257 billion), compared with 2.2% increase amounted to US\$151 billion (S\$221 billion) in 1992 (Table 6.3).

Re-exports grew strongly by 19% to S\$44.1 billion (US\$30.1 billion) in 1993 compared with 3.3% rise in 1992. There were significant increases in re-exports of electronics, computer parts, electric appliances, cigarettes, etc. The Singapore's main re-export markets are Malaysia, the U.S.A., Hong Kong, Japan and other Asian countries. There is a high possibility for Argentina to export to other Asian countries through Singapore's re-export channel.

External trade both exports and imports is expanded to increase again in 1994. Major forces behind the renewed growth will be electronics exports to the U.S.A. and petrochemical exports which will have benefit from recent technical improvements and higher global economic growth. The expansion of manufacturing sector and private consumption increases will prompt the increase of imports.

Although the current account in the balance of payments normally results in surplus, the trade balance always shows deficit that is offset by revenues from international finance and transportation services. The trade deficit is projected to increase in 1994. despite improved tourism earning and increased exports of other services arising from Singapore's role as a regional center for financial, transport and petrochemical services, the current account surplus will be narrowed in 1994.

The U.S.A., Malaysia, Hong Kong, and Japan were Singapore's top four export markets in 1993. In imports, Japan was the largest supplier accounting for 22% of

Singapore's global imports in 1993. The other major suppliers were Malaysia, the U.S.A. and Thailand.

As for the kind of merchandise, the share of machines, transport equipment in total imports increased drastically from 1985 to 1992, indicating about 16% increase in its share (Table 6.5). In 1992, machines, transport equipment accounts for 47.9% of the total, and mineral fuels, basic manufactures and miscellaneous manufactured goods account for 12.8%, 12.* and 10% respectively.

Among imports, capital goods and capital intensive intermediate goods are the major import components, the trend of import of capital goods is upward since 1980. Imports of durable consumer goods have been increasing since 1985.

Table 6.3 External Trade
(US\$ million converted at 0.683 per dollar)

Period	Total Trade	Exports (Re-exports)	Imports	Trade Balance
1989	125,658	59,500 (26,544)	66,226	Δ6,726
1990	140,023	65,026 (22,165)	74,977	Δ9,971
1991	147,579	69,583 (24,484)	77,995	Δ8,412
1992	150,862	70,588 (25,280)	80,273	Δ9,685
1993	175,583	81,784 (30,106)	93,982	Δ12,198

Source: Ministry of Trade & Industry, Republic of Singapore.

Table 6.4 Top Five Export and Import Market (1993)

	Export		Import	
1	U.S.A.	20.3%	Japan	21.9%
2	Malaysia	14.2%	Malaysia	16.5%
3	Hong Kong	8.7%	U.S.A.	16.2%
4	Japan	7.5%	Thailand	4.1%
5	Thailand	5.7%	Taiwan	4.0%

Source: Same as Table 6.6.3

Table 6.5 Imports, by SITC Section

(million US dollars)

	1985	1986	1987	1988	1989	1990	1991	1992
Food & live animal	3535	3866	3952	4667	4463	4314	4645	4837
Beverage & Tobacco	501	542	595	730	1013	1426	1557	1652
crude materials excl. fuels	1988	1905	2267	2999	2663	2371	2092	1857
Mineral fuels, etc.	17031	10994	12526	12422	13408	17399	16050	14987
Animal, vegetable oil & fats	1380	720	792	941	924	753	849	877
Chemicals	2890	3246	4082	5809	7412	8440	8307	8855
Basic manufactures	7082	7614	9537	12994	13785	14167	14998	15046
Machines, transport equipment	18317	20781	27534	38299	42837	49065	53433	56330
Misc. manufactured goods	4149	4887	6053	7999	8814	10450	10792	11718
Unclassified goods	898	991	1077	1367	1545	1420	1473	1359
Total	57771	55546	68415	88227	96864	109805	114196	117518

Source: ADB, "Key Indicators of Developing Asian and Pacific Countries, 1993.

6.3 Singapore's Import from Argentina

In the past, the trade between Singapore and Argentina were very fluctuating, the trade balance was sometimes surplus and sometimes deficit (Table 6.6). This instability mainly came from the discontinuity of trade of some merchandise that was caused by price and supply problem.

Figure 6.1 Trade with Argentina

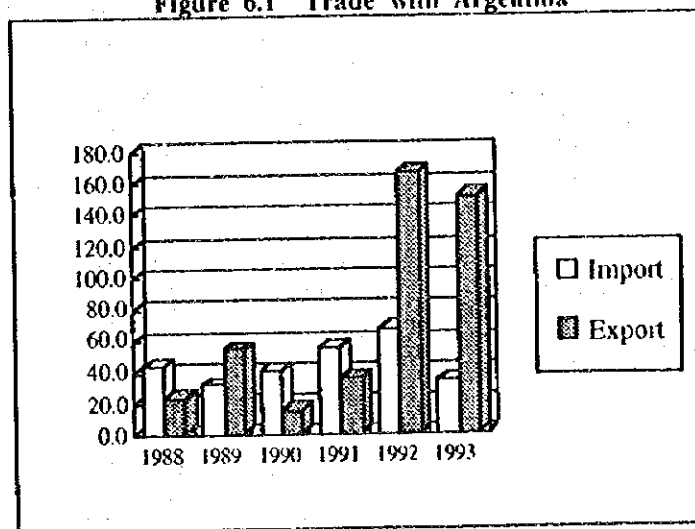


Table 6.6 Trade with Argentina

(million US dollars)

	1988	1989	1990	1991	1992	1993
Import	43.1	31.0	40.4	54.7	66.8	33.5
Export	23.3	53.7	14.8	35.3	167.4	152.0
Trade Balance	-19.8	22.7	-25.6	-19.4	100.6	118.5

Source: Same as Table 6.1.

In 1993, Singapore's import from Argentina decreased to US\$33.5 million from US\$66.8 million of 1992, and it remained at about one fifth of Singapore's export to Argentina, namely, US\$167.4 million.

This import value of US\$33.5 million was only 0.4% of total imports. The main import items from Argentina were vegetable oil, iron & steel and leather goods. High ranking Argentine goods in the import of the same commodity were vegetable oil (4.7% second place) and leather (2.9% 8th place).

As for other Latin American countries, Brazil was the largest exporter to Singapore followed by Panama and Chile.

The amount of import

	S\$ thousand	(in US\$ thousand)	The share of total import
Brazil	486.717	(332.428)	3.5%
Panama	224.294	(153.193)	1.6%
Chile	142.656	(97.432)	1.0%
Mexico	63.732	(43.529)	0.5%
Argentina	54.787	(37.420)	0.4%

The main commodities imported during 1993 from Argentina, Brazil Chile and Mexico.

<u>Argentina</u>	S\$ thousand	(in US\$ thousand)	Market Share
VEG. OIL UNPROCESSED	15,585	(106,445)	(4.7%)
IRON & STEEL	4,518	(3,086)	(0.1%)
LEATHER PRODUCTS NES	4,164	(2,844)	(2.9%)
GOLD NON-MONETARY	2,356	(1,609)	(0.7%)
OFFICE DATA MACHINES	2,206	(1,507)	(0.02%)
VEGETABLE & FRUIT	2,180	(1,489)	(0.2%)
<u>BRAZIL</u>			
IRON & STEEL	136,885	(93,492)	(4.2%)
PHOTOGRAPHIC APPARATUS	83,060	(56,730)	(2.9%)
ORGANIC CHEMICALS	38,380	(26,214)	(2.4%)
MEAT & MEAT PREPS	26,644	(18,198)	(7.3%)
GENERAL INDUSTRIAL MACHINERY	21,195	(14,476)	(0.4%)
<u>CHILE</u>			
NON-FERROUS METALS	93,554	(63,897)	(3.8%)
FISH & FISH PREPS	18,617	(12,715)	(2.1%)
VEGETABLES & FRUIT	11,075	(7,564)	(0.9%)
PAPER MAKING MATERIAL	8,599	(5,873)	(32.3%)
CRUDE MATERIALS NES	3,389	(2,315)	(1.4%)
<u>MEXICO</u>			
ELECTRICAL MACHINERY NES	12,484	(8,527)	(0.1%)
PHOTOGRAPHIC APPARATUS	9,493	(6,484)	(0.3%)
IRON & STEEL	9,458	(6,460)	(0.3%)
OFFICE & DATA MACHINES	6,973	(4,763)	(0.1%)
FISH & FISH PREPS	6,082	(4,154)	(0.7%)

Source: Singapore Trade Statistic.

Table 6.7 Details of Commodities Imported from Argentina
During January - December, 1993

DESCRIPTION OF PRODUCTS	UNIT	QUANTITY	US\$ (CIF)
HIGH SPEED DIESEL FUEL	TNE	29,681	5,821,884
SUNFLOWER SEED OIL	TNE	9,340	4,861,369
SOYA BEAN OIL	TNE	6,364	2,945,290
BOVINE & EQUINE ANIMAL LEATHER	KGM	148,979	2,576,433
TUBES PIPES & HOLLOW PROFILES SEAMLESS OF IRON OR STEEL	TNE	3,722	2,563,436
LINSEED OIL	TNE	3,450	1,515,658
GOLD UN WROUGHT/IN SEMI-MANUFACTURED FORMS/IN POWDER FORM	KGM	127	1,458,101
GARLIC FRESH	TNE	1,292	1,103,478
OTHER A CYCLIC Alcohol's & THEIR DERIVATIVES	LTR	876,180	1,041,589
PLYWOOD PLAIN	MTQ	2,666	1,003,837
BEEF BONELESS FROZEN	TNE	409	860,874
SOYA BEAN CAKE	TNE	3,000	748,855
ELECTRICAL SWITCHING BOARD CONTROL PANELS & SIMILAR EQUIP.			748,236
PRINTERS	NMB	117	657,260
OTHER VALVES COCKS TAPS ETC.	NMB	7,551	615,175
TANNING EXTRACTS OF VEGETABLES ORIGIN TANNINS, DERIVATIVES	KGM	604,000	565,664
TOBACCO UN MANUFACTURES STRIPPED FLUE-CURED VIRGINIA	KGM	117,700	531,625
OTHER COMPRESSORS	NMB	4,670	440,649
ALUMINUM UN WROUGHT	TNE	301	341,626
GROUNDNUT OIL	TNE	500	323,679
CATTLE FISH & SQUID DRIED SALTED OR IN BRINE	TNE	49	305,731
PARTS OF DATA PROCESSING MACHINE & PERIPHERALS			256,220
OTHER TUBES PIPE FITTING OF IRON OR STEEL	TNE	350	232,083
TAPE DRIVES	NMB	4	213,517
OTHER VEGETABLE DRIED	TNE	233	207,328
PISTONS, RINGS, PINS FOR ENGINES EXCL. DIESEL/AIRCRAFT ENGINE			200,520
HORSES ASSES MULES & HINGES	NMB	24	180,097
INTERCHANGEABLE TOOLS FOR ROCK DRILLING & EARTH BORING	NMB	65	141,725
MINICOMPUTERS	NMB	4	127,491
FOOTWEAR UPPERS OF LEATHER	TPR	616	110,162
DIGITAL CENTRAL STORAGE UNITS SEPARATELY CONSIGNED	NMB	7	108,305
CORNEED BEEF	KGM	28,396	89,120
IRON OXIDES & HYDROXIDES INCL EARTH COLORS	KGM	88,810	73,648
PARTS FOR TAPS COCKS VALVES ETC.			67,459
PREPARED EXPLOSIVES EXCL. PROPELLANT POWDERS	KGM	229	51,987
AC GENERATORS OVER 12.5KVA	NMB	13	51,368
PRESSURE REDUCING VALVES SAFETY VALVES ETC.	NMB	200	50,749
OTHER PARTS FOR ENGINES EXCL. AIRCRAFT ENGINES			46,417
BLACKBOARD ETC. PLAIN OR FACED WITH ANY OTHER MATERIAL	MTQ	101	43,322
JUICE OF OTHER CITRUS FRUITS	LTR	15,035	37,752
SAFETY RAZOR BLADES INCL RAZOR BLADE BLANKS IN STRIPS	MIL	756	36,514
OTHER ARTICLES OF UNHARDENED VULCANIZED RUBBER			28,469
RAZORS & PARTS THEREOF			28,469
SYNTHETIC ORGANIC COLORING MATTER	KGM	2,500	28,469
CATTLE FISH & SQUID FRESH CHILLED OR FROZEN	TNE	4	24,137
QUATERNARY AMMONIUM SALTS HYDROXIDES LECITHIN	KGM	25,000	19,186
MECHANICAL APPLICANTS FOR TESTING PHYSICAL PROPERTIES			16,091
OTHER WINE	LTR	16,478	16,091
OTHER PRINTED MATTER INCL PICTURES & PHOTOGRAPHS			15,472
TOTAL EXPORTS			33,532,617

Source: Embassy of Argentina in Singapore.

	S\$ thousand	(in US\$ thousand)	Share
(1) Meat & meat preps			
TOTAL	364,649	(249,055)	100.00%
ARGENTINA	1,536	(1,049)	0.40%
U.S.A.	85,266	(58,237)	23.40%
CHINA	54,181	(37,006)	14.90%
DENMARK	36,792	(25,129)	10.10%
AUSTRALIA	36,435	(24,885)	10.00%
NEW ZEALAND	33,005	(22,542)	9.10%
THAILAND	30,315	(20,705)	8.30%
BRAZIL	26,644	(18,198)	7.30%
(2) Vegetables & fruits			
TOTAL	1,278,716	(873,363)	100.00%
ARGENTINA	2,180	(1,489)	0.20%
MALAYSIA	284,884	(194,576)	22.30%
CHINA	252,920	(172,744)	19.80%
U.S.A.	200,671	(137,058)	15.70%
AUSTRALIA	159,167	(108,711)	12.40%
THAILAND	60,285	(41,175)	4.70%
NEW ZEALAND	39,008	(26,642)	3.10%
INDIA	37,355	(25,513)	2.90%
(3) Vegetable oil unprocessed			
TOTAL	330,244	(225,557)	100.00%
ARGENTINA	15,585	(10,645)	4.70%
MALAYSIA	271,016	(185,104)	82.10%
U.S.A.	15,591	(10,649)	4.70%
BRAZIL	10,214	(6,976)	3.10%
CHINA	3,702	(2,528)	1.10%
(4) Leather products nes.			
TOTAL	142,103	(97,056)	100.00%
ARGENTINA	4,164	(2,844)	2.90%
ITALY	25,056	(17,113)	17.60%
INDIA	20,185	(13,786)	14.20%
GERMANY	18,477	(12,620)	13.00%
THAILAND	17,706	(12,093)	12.50%
PAKISTAN	15,440	(10,546)	10.90%
KOREA	8,936	(6,103)	6.30%

Note: Most of the Argentine leather products are used for re-export from Singapore.

(5) Wood & cork mfs.			
TOTAL	142,103	(97,056)	100.00%
ARGENTINA	1,692	(1,156)	1.20%
MALDIVES	395,776	(270,315)	278.50%
NEW ZEALAND	14,217	(9,710)	10.00%
TAIWAN	12,659	(8,646)	8.90%
U.S.A.	10,933	(7,467)	7.70%
(6) Iron & steel			
TOTAL	3,288,791	(2,246,244)	100.00%
ARGENTINA	4,518	(3,086)	0.10%
JAPAN	1,273,050	(869,493)	38.70%
MALAYSIA	222,194	(151,759)	6.80%
KOREA	213,244	(145,646)	6.50%
TURKEY	193,666	(132,274)	5.90%
UK.	170,601	(116,520)	5.20%
U.S.A.	137,738	(94,075)	4.20%
BRAZIL	136,885	(93,492)	4.20%
(7) Power generating machinery			
TOTAL	4,488,355	(3,065,546)	100.00%
ARGENTINA	513	(350)	0.00%
U.S.A.	1,760,581	(1,202,477)	39.20%
JAPAN	983,570	(671,778)	21.90%
MALAYSIA	376,112	(256,884)	8.40%
FINLAND	248,889	(169,991)	5.50%
GERMANY	235,780	(161,038)	5.30%
UK.	222,462	(151,942)	5.00%
TAIWAN	111,415	(76,096)	2.50%
(8) General industrial machinery			
TOTAL	5,946,753	(4,061,632)	100.00%
ARGENTINA	1,942	(1,326)	0.00%
JAPAN	1,822,259	(1,244,603)	30.60%
U.S.A.	1,110,761	(758,650)	18.70%
GERMANY	553,736	(378,202)	9.30%
MALAYSIA	546,879	(373,518)	9.20%
UK.	267,607	(182,776)	4.50%
THAILAND	216,808	(148,080)	3.60%
ITALY	212,217	(144,944)	3.60%
(9) Gold non-monetary			
TOTAL	353,808	(241,651)	100.00%
ARGENTINA	2,356	(1,609)	0.70%
JAPAN	167,040	(114,088)	47.20%
KOREA	120,419	(82,246)	34.00%
OC AFRICA	25,360	(17,321)	7.20%
PHILIPPINES	17,707	(12,094)	5.00%
GERMANY	8,388	(5,729)	2.40%

Source: Singapore Trade Statistics.

As seen in the above figures, the participation of Argentine goods in the Singapore market is very small and almost negligible for the market. Roughly speaking, in the agriculture sector, the strong competitors are those neighborhood countries, the U.S.A. and Australia. In the manufacturing sector, the strong competitors are the U.S.A., Japan, and EU countries.

Table 6.8 The List of the Competitive Commodities to Argentine Exports in Singapore
(Those commodities are exportable from Argentina but not yet penetrated into the market)

Commodities	Total amount of imports S\$ million (US\$ million)	Main exporting countries
Live Animal	413 (282)	Malaysia, Australia, New Zealand
Dairy Produce & Eggs	441 (301)	Malaysia, Australia, New Zealand, Netherlands
Fish & Fish preps.	902 (616)	Malaysia, Thailand, Taiwan, Vietnam, Japan
Beverages	646 (441)	France, UK, Malaysia, Hong Kong
Tobacco & Manufactures	1,428 (975)	U.S.A., UK, China, Hong Kong
Cork & Wood	317 (217)	Malaysia, Myanmar, U.S.A., Thailand
Crude fertilizers & Minerals	397 (271)	U.S.A., Malaysia, Thailand, Israel
Petroleum & Products	14,903 (10,179)	Seychelles, UAE, Malaysia, Kuwait, Iran
Medical Products	701 (479)	Switzerland, Japan, China, Malaysia
Plastics in primary forms	1,557 (1,063)	Japan, Germany, Netherlands, Saudi Arabia
Chemical Products	3,140 (2,145)	U.S.A., Japan, Italy, Taiwan
Iron & Steel	3,289 (2,246)	Japan, Malaysia, Korea, Turkey
Metal manufactures	2,602 (1,777)	Japan, Malaysia, U.S.A., China
Industrial machinery	4,239 (2,895)	Japan, U.S.A., Germany, Malaysia
Office & Data machines	12,160 (8,305)	U.S.A., Japan, Thailand, Malaysia
Telecommunications apparatus	12,301 (8,402)	Malaysia, Japan, U.S.A., Thailand
Electrical machinery	23,616 (16,130)	Japan, U.S.A., Germany, Malaysia
Road vehicles	3,407 (2,237)	Japan, Germany, Malaysia, U.S.A.
Transport equipment	4,951 (3,382)	U.S.A., Japan, France, Panama
Clothing	2,173 (1,484)	Malaysia, Hong Kong, China, Thailand
Footwear	380 (260)	Malaysia, Italy, China, Hong Kong

6.4 The Importer's Opinion

As a matter of fact, the penetration of Argentine commodities in Singapore's market is still at a primitive stage. The followings are opinions of some of those importers which we visited during our stay in Singapore.

(1) "A" trading company of general commodities (they are presently buying corned beef, garlic, and cattle fish from Argentina)

Corned beef: Argentine brand "Libby" is well known in Singapore. Both quality and price are good and competitive. However the exporter is not so eager to make sales promotion while other countries like Australia, China are quite active in doing promotion.

Garlic: Argentine garlic is better than that of Asian countries in the sense that they have good quality and longer life. However, the transportation cost is high because they use refrigerator container to carry a long distance. The company buys garlic either from China or from Argentina depending upon the sales price of each country.

Other Argentine Goods: They never heard of Argentine wine, and never been approached by Argentine exporters. (As for Tobacco leaf, they buy from Indonesia, India and China and they re-export the blended tobacco to various countries).

(2) "B" state owned trading company (one of the leading trading companies in Singapore)

As far as the persons we met to know, the company has never been approached by Argentine exporters or manufacturers. They are mainly dedicated to import various commodities and re-export them to the neighborhood countries.

From south American countries, they import shellfish including abalone and sardines from Chile.

They are interested to buy crops, seafood, meat and fruits especially apples from Argentina.

(3) "C" Trading company

They are specialized in buying meat from various countries and sell in the domestic market directly or re-export to other neighborhood countries.

They started to import meat from Argentina 10 years ago and they are of opinion that the quality of Argentine beef is very good and the price is about 20% lower than the Australian beef. However, they are selling it as a lower class beef because the brand name of Argentine beef has not been established in Singapore (not known to the public). Since the market is growing, they would like to buy more from Argentina, but, there is a problem of shortage of supply and they are unable to buy sufficient meat from Argentina. They suppose that Argentina is exporting to the neighborhood countries like Brazil instead of increasing their sales in Asian countries. Argentine exporters pay a visit to Singapore once a year while the Australian exporters very frequently visit for sales promotion purpose.

(4) "D" Importer of steel, cement and building materials

The company has never been contacted by Argentine companies. They are buying steel from Japan, Korea and Brazil and cement from Japan.

Quality, price and delivery are the most important elements for them to make decision of buying. If those conditions are fulfilled, they are in a position to buy those goods from Argentina. They are especially interested in building materials.

(5) "E" Singapore shipping company

They used to transport wool and resin from Argentina to China but later on they were substituted by Australian goods due to the reason of transport cost. The cost of freight between Singapore and Australia is about half of the freight between Singapore and Argentina. In recent years, Australia, New Zealand and South Africa are actively contacting Singapore to promote their sales of goods like crops, vegetables, fruits, meat and even steel. They consider that the Argentine approach to this market is not enough.

(6) "F" Importer of leather materials

They are buying semi-finished leather from an Argentine company with rather big amount.

They re-export those materials mainly to China, Korea, Indonesia, Taiwan and Hong Kong.

According to them, Argentine leather is medium grade in its quality but better than the products of other South American countries like Brazil. The price is reasonable and competitive. The problem they have in this trade is that the Argentine seller does not follow or comply with the request of the order strictly. Very often, the size, color and thickness differ from their order.

Since the demand for semi-finished leather has been increasing, they would like to buy more from Argentina but the supply of the company, with which they are dealing, is not enough.

They would like to find out other leather suppliers, but they are very much worrying about their quality of goods and trustworthiness. If someone could introduce good and trustful suppliers, they certainly would buy more leather from Argentina.

6.5 Our Suggestion to Promote Export from Argentina

In spite of the higher cost of freight due to the distance, some Argentine commodities like beef, leather, vegetable oils, garlic and gold have been sold well and therefore they are competitive in Singapore.

Also those products like, seamless tubes, steel, construction materials, fruit, fresh vegetables, equipment for cargo movement have great possibilities for the export to Singapore as long as price, quality and delivery are satisfactory to them. Import duty is not an obstacle for export, because 95% of all commodities are free from a custom duty in Singapore as mentioned before.

Apart from the kind of promising commodities, we would like to make the following suggestion in order to increase Argentine export.

(1) According to our survey not many people know about Argentina nor about its products. It is absolutely necessary to make more advertisement of Argentine products effecting strong sales promotion which should be initiated by Argentine exporters or manufacturers. At an early stage, however, the governmental initiative will be very important.

With an effort of the embassy of Argentina, three trade missions visited Singapore in 1993. In 1994, total number of missions reached seven which is the highest record in the past. During our stay in Singapore, Cordoba mission came and it was fruitful in the sense that they concluded special agreement with Singapore Manufacturers Association for future trade and investment promotion in addition to the concentrate negotiation of investment and promotion of banking business. Trade missions or trade fairs are certainly one of the effective measures for such purpose.

Not only promoting such missions from Argentina, it is also necessary to make an effort to invite them from Singapore more frequently, since Singapore trade development board send their mission to South America only every two years.

On the other hand, in order to overthrow the general ignorance of Singaporeans about Argentina, it will be useful to introduce Argentine culture like "Tango", "Folklore" to the public, since they are now thirsty for culture once they reached a satisfactory level of the standard of living.

(2) In Singapore there is a trade development board (STDB) which is a national trade promotion Agency set up to develop the country's international trade. It provides assistance to both local and foreign companies which Singapore as a trading base for all types of trading activities, including third-country trade, entrepot trade, counter trade as well as regional warehousing and distribution.

STDB promotes Singapore's export of both products and services through it's network of overseas offices (total 27 office) and by organizing the participation of Singapore companies at international exhibitions and trade missions. For overseas companies interested in sourcing products and services from Singapore or setting up international trading operations in Singapore, the STDB world wide network of office provide immediate and efficient information and assistance.

Many other Asian countries also have such world wide trade promotion organization, take Hong Kong for instance, their Trade Development Council has a network of 36 offices in 25 countries throughout the world. In Argentina Fundación Exportar was established a few years ago for the same purpose. But the enhancement and amplification of their activity through the establishment of world wide network, will be necessary, since there is a limitation in the trade promotion activity by Argentine embassies in abroad.

(3) The Argentine exporters' or manufacturers' constant and continuous effort of sales is also essential.

Their visits to or business contacts with Singapore importers have not been enough so far in comparison with those businessmen of other competing countries like Australia, New Zealand and the U.S.A.. Through the frequent contacts together with the deep market research, Argentine business-men will have better understanding about Asian market and Asian business practice. And as a result of the formation and expansion of adequate sales channels, they certainly can increase their sales in Singapore.

(4) There is a good sign of the increase of sales of Argentine meat, because just recently European Union approved to import fresh (chilled) meat from Argentina. This led to the same approval of Singapore and fresh beef will go into the Singapore market in the near future. Argentine beef producers should take advantage of this policy change, and they should make every effort to implant the image of the world best quality meat to those consumers in Singapore. In this connection, however, from the supplier's side Argentina must take necessary steps to cope with the increasing demand for export to the orient.

(5) Singapore's trading companies engage not only in domestic sales but also in re-export of foreign commodities. In 1993 the Singapore re-exports amounted to 44 billion Singapore dollars, about 37% of total exports. Asian countries occupy main share for such re-export.

Even though the Singapore's domestic market is small with the population of less than 3 millions, Argentina is able to expand their sales to other Asian countries through the hands of Singapore's traders. Therefore, it would be advisable for Argentine exporters to have a business relationship with Chinese group companies or merchants in Singapore, because most of them are eagerly expanding their business to other Asian countries through their brother companies or family residents in abroad.

(6) As mentioned in the section of "Profile of the Market", Singapore has a function as an Asian center for trading manufacturing, various services and information. Argentina will be able to utilize this function in order to expand their business in Asia. Singapore could be considered as a gateway to other Asian countries including Indochina.

6.6 Analysis of Investment

(1) Singapore's total direct investment

In recent years the direct investment by Singaporean companies to overseas countries has been increasing tremendously as seen in the following table.

Table 6.9 Singapore's Total Direct Investment Abroad

Year	Amount S\$ million	Annual Growth (%)	GNP S\$ million	As Percentage of GNP
1989	8,659.3		57,906.5	15.0
1990	16,877.9	94.9	66,698.0	25.3
1991	18,607.5	10.2	73,943.4	25.2
1992	22,442.5	20.6	80,455.5	27.9
1993	28,159.6	25.5	(p)90,232.4	31.2

Source: The Survey of Singapore's Investment Abroad & WEIS.

By the end of 1993, the total direct investment assets of the private non- financial sector reached S\$28.2 billion increasing by 25.5% in comparison with previous year. Actually the amount of total investment has tripled during the past five years. The number of companies established abroad also increased from 2,391 in 1990 to 3,174 in 1993. Such new venture in abroad was motivated by lower cost of production and abundance of laborers in the host countries. The main sectors of their investment are, financial, manufacturing, service and commerce sectors.

(2) Singapore's direct investment abroad by regions and countries

The investment by Singapore companies is concentrated on Asian countries. As of end of 1993, more than half of their direct equity investment abroad was effected in Asia as seen in the following table.

Table 6.10 Singapore's Direct Investment by Major Regions

	1990	1991	1992	1993	Share in 1993 (S\$ million)
ASIA	7,013	7,401	9,210	11,480	54.0
(ASEAN)	(3,567)	(3,996)	(4,897)	(5,934)	(27.9)
EUROPE	1,096	1,398	1,480	1,550	7.3
NORTH AMERICA	716	1,323	1,621	1,867	8.8
OCEANIA	1,994	2,068	2,102	2,036	9.6
OTHERS	2,802	2,994	3,328	4,308	20.3
TOTAL	13,621	15,184	17,741	21,241	100

Source: Same as Table 6.10.

In Asian countries their investment was mainly directed to Malaysia, Hong Kong, Indonesia, China and Thailand. Today, also India, Vietnam attract the interest of Singapore investors.

As for Argentina, there is no record of investment from Singapore in the past except the case of very small amount of investment in the financial sector. Also there is no record of investment in other South American countries like Brazil, Chile and Mexico in recent years.

(3) The main reason why Singapore investors have preference in Asian countries rather than Argentina

According to the opinions of various sources, the following points are main reason of their preference.

1) Those neighborhood countries especially ASEAN countries and China are growing very fast together with the political and economical stability.

Under such rapid economic growth and expansion of market, their investment opportunity has been growing year by year.

2) Asian market is easy to approach geographically, sufficient information is available, common languages, common culture and common commercial practices exist, and in many Asian countries there is a big community of Chinese residents which strengthen the economical tie between countries.

3) In other Asian countries, labor cost is lower and there are abundant man power and various incentives for foreign investors.

4) Singapore is a small country with a small population.

Since the supply of labor force is limited and the market is small, the government has been promoting the construction of new industrial parks in other countries like Indonesia, Malaysia, China and India in cooperation with other governments. This provides new investment opportunity.

As a good example of this Idea, Singapore is promoting a plan of "Growth Triangle Zone" involving Indonesia and Malaysia. In the case of Batam, Industrial park in Indonesia whose construction started five years ago, more than 50 companies have already extended to operate there (15 Singapore companies, 21 Japanese companies and 4 U.S. companies as of April 1994). Their total investment accounts for more

than US\$200 million and the export of their products reached US\$600 million per year. Under the government support including the preparation of necessary infrastructure for such industrial zone, Singapore investors consider that those regions are less risky in comparison with other distant countries.

In the case of South American countries including Argentina, the above mentioned situation is different or sometimes on the contrary. In addition, investors in Singapore are not familiar with those countries at all, therefore those countries remain far from Singaporeans both geographically and mentally.

(4) Suggestion to promote investment in Argentina

As a matter of fact, for Argentina, to promote investment is more difficult than to promote trade with Singapore for the mentioned reason. For the time being, Argentina should concentrate on the promotion of trade, mainly export of Argentine commodities to Singapore. By doing this, through the enlargement of trade, Argentina will become more familiar to Singaporeans and it will bring them increasing interest in the country as an next investment target. Meantime, it will be necessary for Argentina to create better environment to attract foreign investment including incentives which most of the Asian countries are actually providing.

6.7 Suggestive Cases to Promote Investment and Productivity

(a) The ceaseless Japanese investment in Singapore

Singapore is now very important manufacturer and exporter of electronics equipment. The labor intensive industry is no more welcome in Singapore. The government is inviting those companies of advanced high technology, like information system, software, micro electronics, precision, biotechnology, R&D and so on.

In spite of the increase of labor cost in Singapore in recent years, new investment of non-labor intensive and high value adding industry is flowing into Singapore from Japan. According to Japanese Chamber of Commerce and Industry in Singapore, the number of Japanese companies as of October 1993 was 2,357, thirty or forty new companies come to Singapore every year. The Japanese investment during 1993 amounted to S\$779.4 million which represent 20% of all the FDI in Singapore during the year. The main sectors of Japanese investment are, electronics, chemicals, transport equipment, and machinery. There are a lot of companies which have a function as a regional headquarters and a control center of logistics and human resources.

Just recently Sony display devices (Singapore) announced to invest \$123 million in a new plant to make cathode ray tubes (CRT) which will meet 40% of Sony's global demand for CRTs. The Sony's decision in making such plan in Singapore is based on the following advantage of the country from their point of view.

- (1) Singapore's excellent physical infrastructure, excellent transport and telecommunication system.
- (2) Free trade and almost negligible import tariffs.
- (3) English spoken country.
- (4) High educated laborers especially abundant engineers graduated from university.
- (5) Allowance for the accelerated depreciation system of machinery.
- (6) Low cost of electricity.
- (7) Various incentives for foreign investors such as tax incentives for the company designated as regional operation headquarters and pioneer status company, and even for expansion of factory and R&D expenses.

The main reason of the continuous investment of Japanese companies can be found in the Sony's comments mentioned above. Their comments, therefore, give us good suggestion how to promote foreign investment in Argentina.

(b) The activity of the National Productivity Board of Singapore (NPB)

In 1972, Singapore government established NPB, a statutory board by registration in order to develop a world-class quality work force. NPB is governed by Board of Directors, with representatives from employer groups, trade unions and the government. The main activities of NPB are productivity promotion, training and skills development, management guidance and assistance to companies, and productivity research or measurement.

The Singapore economy expanded fairly rapidly at 6.7% per year over the last decade leading to a 60% rise in the average income of each person. Two-thirds of this strong economic performance came from the average annual 4.4% growth in labor productivity. In the last decade, higher capital intensity contributed 86% to Singapore's labor productivity growth, with the remaining 14% coming from Total Factor Productivity (TFP) growth. Their goal is to double the contribution of TFP by the year 2000. They have also the target of doubling the productivity of selected domestic industries, QCC (Quality Control Circles) participation rate in the private sector and training investment by the year 1995.

On the base of the idea that TFP can be achieved through the restructuring of business taking advantage of modern management system and technological developments, they have led small business to form franchises.

Through this franchising or grouping of small business, many of them attained 80 - 100 percent increases in sales implementing better computerized cashiering system. This is one of the successful examples of the activity of NPB.

They are especially focusing on the targets --- good management, skills upgrading of work force, worker participation at the workplace (QCCs), and as a final end, world-class quality products and services. Their activities or organization, even partially, could be introduced to Argentina to attain a long term productivity growth of industry which will lead to the strong competitiveness of Argentine goods in the world market.

Figure 6.2 The Growth of the Productivity of the Selected Countries

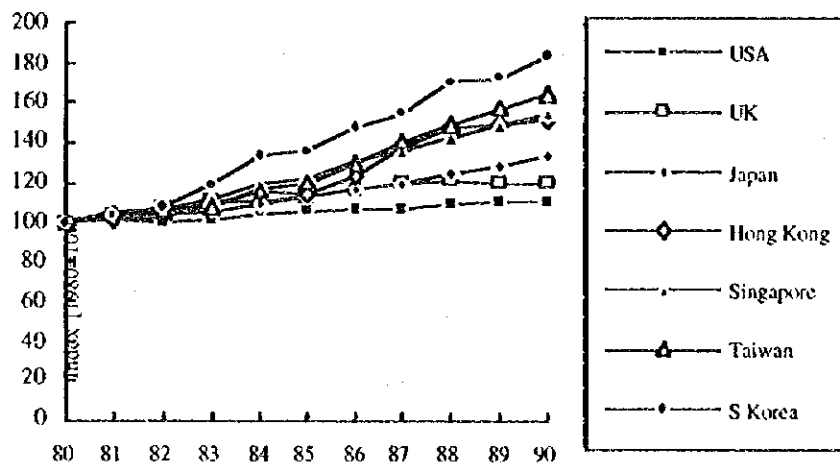
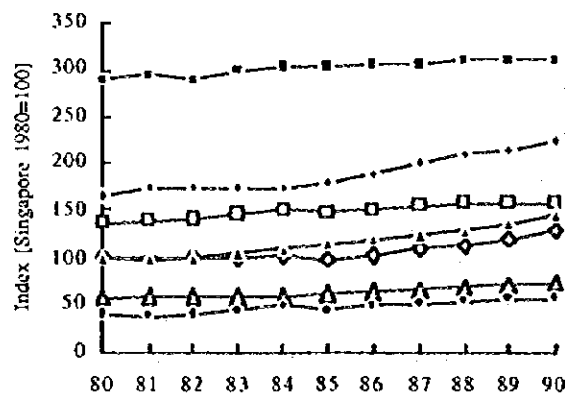


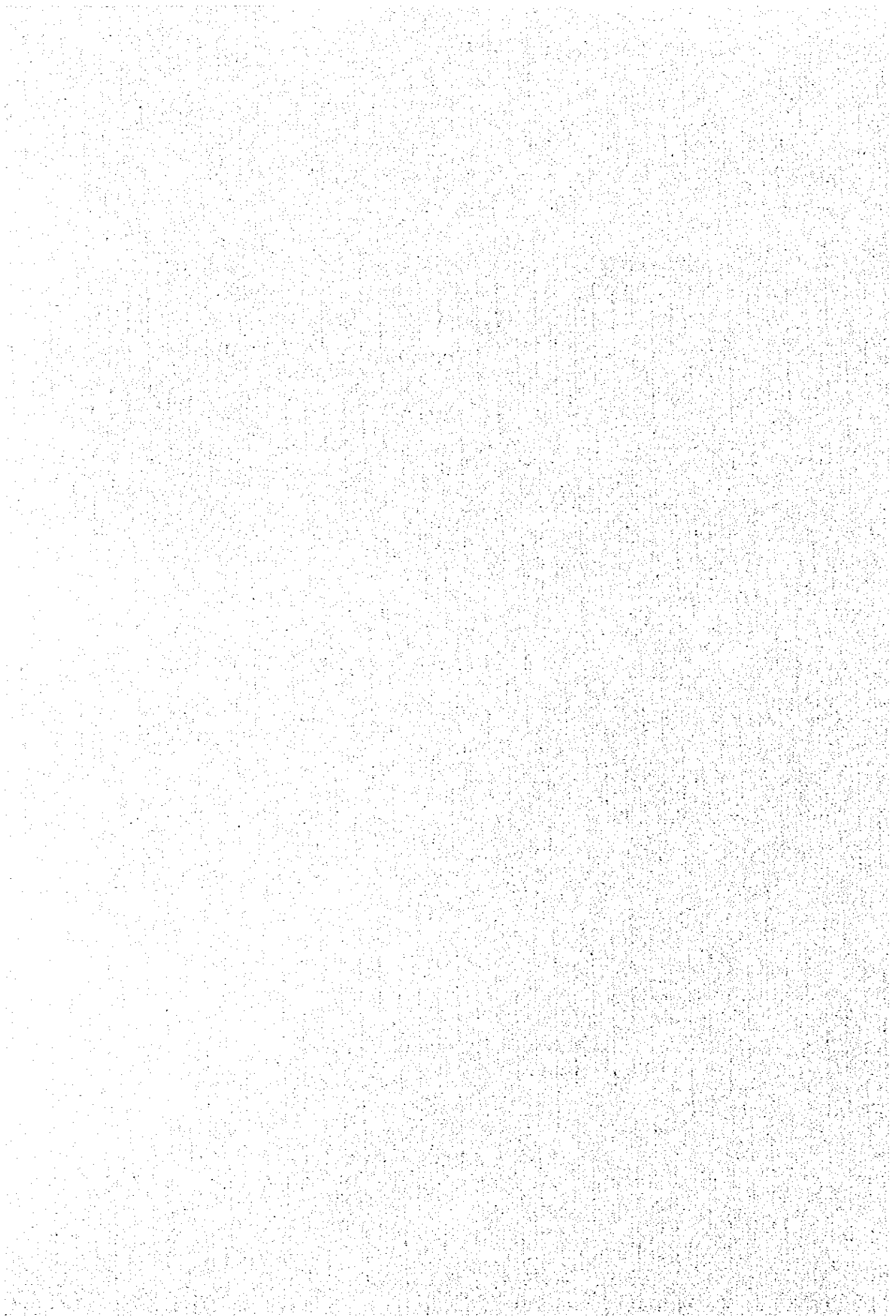
Figure 6.3 The Level of the Productivity of Selected Countries



Source: The National Productivity Board of Singapore.

Chapter 7

Malaysia



7. Malaysia

7.1 Profile of the Market

Malaysia has a land area of 329,758 km² and population of 19 million in 1993 with about 37% of its population in 0-14 age group. The population consists of Malay (58%), Chinese (31%), Indian and others (11%). Chinese, although they are a minor race in population, control the economy and the distribution channels, and native Malays have relatively low economic status. Moreover, difference in income per person is very wide depending on race, occupation and region. The government has been undertaking various measures to support and strengthen Malays.

Malaysia is categorized by the World Bank as the upper middle income country with US\$3,392 of GDP per capita in 1993. Its economy has enjoyed the world's highest average annual growth rates in GDP over past two decades, indicating 6.8% increase per year between 1971 and 1990. The high growth continued in the early 1990s, indicating 7.8%-9.7% until 1993, and inflation remained less than 5% (Table 7.1). Strong growth of manufacturing and construction are the main factors of economic growth, although agriculture, forestry and fishing, and mining have been remained low. The share of the manufacturing sector in GDP increased by almost 10% in the 1990s while the share of agriculture fell by 6% (Table 7.2). The expansion of the manufacturing sector is accounted for by growth of the domestic market-oriented industries (11.1%) and export-oriented industries (14.2%).

Table 7.1 Major Economic Indicators

	1989	1990	1991	1992	1993 (%)
Population	17.4	17.8	18.2	18.6	(Million) 19
GDP per capita (US\$)	2,153	2,391	2,589	3,119	3,392
Real GDP growth	9.2	9.7	8.7	7.8	8.5
Growth of GDP by origin					
Agriculture, forestry and fishing	6.0	0.3	0	4.3	3.9
Mining	8.6	4.9	2.5	1.7	-1.5
Manufacturing	14.2	15.7	13.9	10.5	13
Construction	11.6	19.1	14.6	11.2	11.5
Service	8.6	11.5	10.4	9	9.2
Unemployment rate	7.1	5.6	4.3	3.9	3.0
Inflation rate	2.8	3.1	4.4	4.7	3.6
Government surplus/deficit	na	-2.9	-0.5	0.4	(% of GDP) -0.5
Exchange rates (RM/US\$)	2.7088	2.7049	2.7501	2.5474	2.5741
Trade balance	3,913	1,910	527	3,376	(Mil. dollars) 3,409
Exports	24,667	28,877	33,533	39,613	45,912
Imports	-20,754	-26,967	-33,006	-36,237	-42,503
Current account balance	-212	-1,638	-4,184	-1,650	-2,103
Capital account balance	1,574	2,522	6,220	8,067	9,414
Overall balance	1,230	1,983	1,246	6,573	11,359

Source: Bank Negara Malaysia, *Annual Report 1993*; and ADB, *Key Indicators of Developing Asian and Pacific Countries, 1993*.

Table 7.2 Share of GDP by Industrial Origin

	1980	1986	1991	1992	1993p	1994f
Agriculture, forestry and fishery	23	21	17	17	16	15
Mining quarrying	10	11	9	9	8	7
Manufacturing	20	21	28	29	30	31
Construction	5	4	4	4	4	4
Electricity, gas and water	1	2	2	2	2	2
Transport, storage and communications	6	7	7	7	7	7
Wholesale and retail trade, hotels	12	11	12	12	12	12
Finance, insurance and real estate	8	9	10	10	11	11
Government services	10	12	10	10	10	10
Other services (less imputed bank charges plus import duty)	5	2	1	2	2	2
GDP	100	100	100	100	100	100

p: Preliminary; f: Forecast.

Source: Computed from Bank Negara Malaysia, *Annual Report 1993*; and EIU, *Country Profile-Malaysia and Brunei 1993/94*.

The strong domestic demand and continuing expansion of export has been contributing to the economic growth. The high rate of growth, though lower than in the recent past, is expected to be continued in the longer term, while the short term growth will depend on the performance of industrialized countries such as Japan and the United States, which are the major trading partners as well as investors.

In the 1960s, Malaysia's economy depended largely on the production of primary commodities like agricultural products, rubber, tin, etc. In the 1970s, there was a growth of oil industry, and in the 1980s, industrialization took place. Contrary to the primary industry, manufacturing sector has been becoming more and more important since then. Especially electric appliances and electronics industry have been growing rapidly. Take VTR for instance, Malaysia now produces 20% of all the world VTR products.

Construction sector has been becoming boom in recent years especially in big cities like Kuala Lumpur, Ipoh, and Johor due to the array of government and private sector infrastructure projects, as well as a rapid expansion in office, housing and industrial facilities.

The Malaysia's population has been increasing at about 2.3% per year. Total population is supposed to reach 20 millions in 1995. As stated, the young generation up to 14 years old occupies 37% of the total population. Although Malay's tend to respect tradition, the westernization has been going on. Now their consumption demands extend to large variety of commodities including foodstuff, some of which Argentina is in a position to export.

The biggest issue which Malaysia is now facing is labor and wage problem. Unemployment rate fell to an all-time low of 3% in 1993, and the plantation, construction, manufacturing and services sectors suffer from labor shortages. From the medium and long term point of view, there is possibility that this labor shortage will become bottleneck for economic growth, and there is a risk of general hike of wage at the pace more than the increase of productivity.

7.2 International Relations

Malaysia has been promoting ties with its Far Eastern neighbors. It stressed the importance of establishing an East Asia Economic Caucus (EAEC) to counteract to the emerging trade blocs in Europe and North America. It was proposed in 1993 that membership would comprise the six ASEAN countries and China, Japan, South Korea, Taiwan and Hong Kong excluding the U.S.A., Canada, Australia and New Zealand. The U.S.A., which was the largest importer of Malaysian goods, shows negative attitude against the EAEC's objectives.

It is unknown at present what kind of impact will generate this caucus on regional economy in the future. However, this new movement of regional integration should be carefully watched, since it may affect the export of Argentine goods directly or indirectly.

7.3 Trend of Malaysia's Imports and Those with Argentina

7.3.1 Trend of imports

The trade balance showed a surplus throughout most of the 1970s, the 1980s, and the early 1990s. As stated, Malaysia succeeded in reducing dependence of exports of agricultural and mining goods in the 1980s and has strengthened the export of manufactured goods such as electrical appliances and other electrical machinery. At the same time, imports of capital and intermediate goods such as machines and transport equipment and basic manufactures have been increasing; such imported goods were registered a double-digit increase between 1986 and 1990.

Table 7.3 Imports, by SITC Section

US\$ Million

	1985	1986	1987	1988	1989	1990	1991	1992
Food and live animal	3,064	2,914	2,965	3,826	4,609	4,551	5,139	5,468
Beverage and tobacco	229	210	192	208	237	293	424	399
Crude materials exc., fuels	1,036	1,017	1,286	1,815	2,495	2,548	2,810	2,633
Mineral fuels, etc.	3,722	2,388	2,381	2,318	2,908	4,021	4,253	4,243
Animal, vegetable oil and fats	81	68	205	267	270	218	395	331
Chemicals	2,640	2,687	3,281	4,782	5,419	6,691	7,663	8,235
Basic manufactures	4,419	4,038	4,952	7,167	9,990	12,421	15,924	16,275
Machines, transport equipment	13,262	12,579	14,400	19,522	29,180	39,585	54,165	55,886
Misc. manufactured goods	1,674	1,701	1,954	2,467	3,271	4,434	5,650	5,884
Unclassified goods	312	321	317	921	2,480	4,357	4,409	2,350
Total	30,439	27,923	31,933	43,293	60,859	79,119	100,832	99,354

Composition

(%)

	1985	1986	1987	1988	1989	1990	1991	1992
Food and live animal	10.1	10.4	9.3	8.8	7.6	5.8	5.1	5.5
Beverage and tobacco	0.8	0.8	0.6	0.5	0.4	0.4	0.4	0.4
Crude materials exc., fuels	3.4	3.6	4.0	4.2	4.1	3.2	2.8	2.7
Mineral fuels, etc.	12.2	8.6	7.5	5.4	4.8	5.1	4.2	4.3
Animal, vegetable oil and fats	0.3	0.2	0.6	0.6	0.4	0.3	0.4	0.3
Chemicals	8.7	9.6	10.3	11.0	8.9	8.5	7.6	8.3
Basic manufactures	14.5	14.5	15.5	16.6	16.4	15.7	15.8	16.4
Machines, transport equipment	43.6	45.0	45.1	45.1	47.9	50.0	53.7	56.2
Misc. manufactured goods	5.5	6.1	6.1	5.7	5.4	5.6	5.6	5.9
Unclassified goods	1.0	1.1	1.0	2.1	4.1	5.5	4.4	na
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Growth Rate

	1985	1986	1987	1988	1989	1990	1991
Food and live animal	-4.9	1.8	29.0	20.5	-1.3	12.9	6.4
Beverage and tobacco	-8.3	-8.6	8.3	13.9	23.6	44.7	-5.9
Crude materials exc., fuels	-1.8	26.5	41.1	37.5	2.1	10.3	-6.3
Mineral fuels, etc.	-35.8	-0.3	-2.6	25.5	38.3	5.8	-0.2
Animal, vegetable oil and fats	-16.0	201.5	30.2	1.1	-19.3	81.2	-16.2
Chemicals	1.8	22.1	45.7	13.3	23.5	14.5	7.5
Basic manufactures	-8.6	22.6	44.7	39.4	24.3	28.2	2.2
Machines, transport equipment	-5.2	14.5	35.6	49.5	35.7	36.8	3.2
Misc. manufactured goods	1.6	14.9	26.3	32.6	35.6	27.4	4.1
Unclassified goods	2.9	-1.2	190.5	169.3	75.7	1.2	na

Source: ADB, *Key Indicators of Developing Asian and Pacific Countries*, 1993.

The characteristics of the imported goods are as follows (Table 7.3).

- 1) The share of food and live animal halved from 1985 to 1992, and mineral fuels fell by 3 times.
- 2) The share of beverage and tobacco shows a declining trend.
- 3) The share of machines and transport equipment, the major component of imports, rose moderately, accounting for 56.2% in 1992.
- 4) Basic manufactures remained between 14%-16%.

Three major suppliers of imports to Malaysia are Japan, the United States, and Singapore, contributing more than a half of Malaysia's total imports. Among major partners, Japan in particular steadily increased its share from 1987 to 1993, and

remained a top supplier (27.4% in total imports in 1993 followed by the United States and Singapore with 16.9% and 15.7%. Overall, ASEAN countries are the important trading partners to Malaysia. Australia, competitor to Argentina, ranked among the top ten suppliers to Malaysia. The Argentine share of total imports has been remaining less than 1% except 1988 and 1990 with 2.1% and 1.9%, respectively. The share of Canada, another competitor to Argentina, has been more than Argentina (Table 7.4).

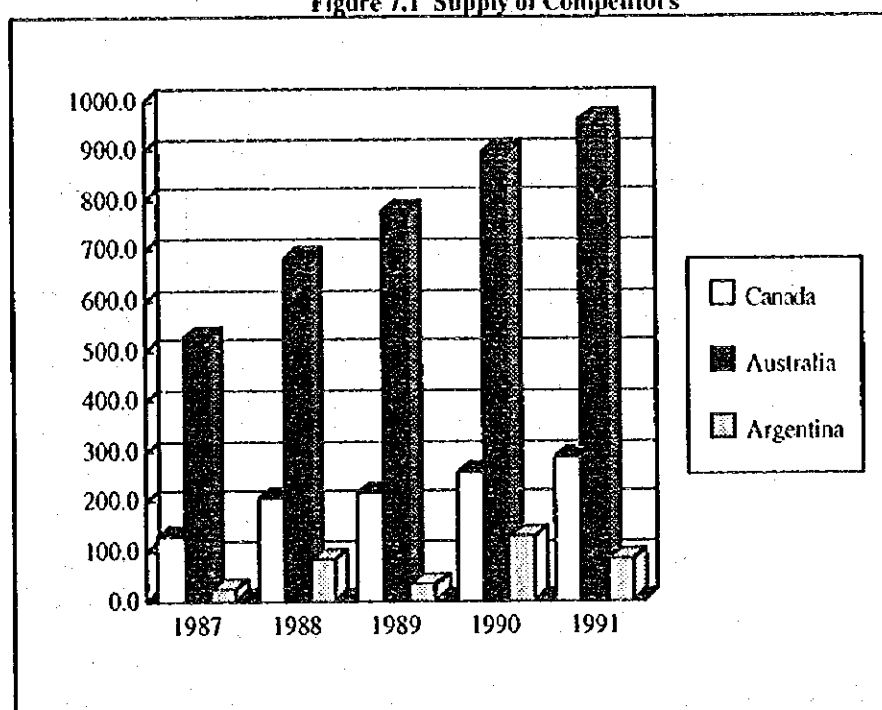
Although the share of Argentine is very small at present, Argentina has possibility to increase its export of some commodities such as construction machinery, transport equipment as well as various kind of foodstuffs.

Table 7.4 Supply of Competitors

	(US\$ million)				
	1987	1988	1989	1990	1991
Canada	129.2	205.4	216	258.3	288.3
Australia	526.4	683.1	777.9	895.6	960.6
Argentina	23.5	83.1	33.1	131.2	84.5

Source: UN, *International Trade Statistics*, 1993.

Figure 7.1 Supply of Competitors



7.3.2 Malaysia's bilateral trade with Argentina

Malaysia's bilateral trade balance with Argentina has continuously been import surplus as is shown in Table 7.5. Malaysia's import items from Argentina are mainly agriculture-based commodities such as oil seeds, feeding stuff for animals, maize, vegetable oils and fats, etc.. Other industrial products such as tubes and pipes of iron

and steel, mechanical handling equipment are also exported, but their amounts are not yet so big.

Malaysia's main export items to Argentina are resource-based commodities and manufacturing products of electric and electronic equipment, which are Malaysia's major export items including natural rubber and latex, radio-broadcast receivers, sound recorders and reproducers, television receivers, and telecommunication equipment.

Table 7.5 Malaysia's Bilateral Trade with Argentina

(US\$ million)			
Year	Exports	Imports	Balance of Trade
1991	16.4	84.7	-68.3
1992	24.7	84.3	-59.6
1993	30.7	99.0	-68.3

Source: Department of Statistics, Malaysia.

7.3.3 Trends of imports from Argentina by commodity

Table 7.6 (1)-(8) indicates trends of imports for selected commodities from Argentina and its major competitors for the period 1990-1992.

Table 7.6 Malaysia's Imports (1990-1992)

(US\$, %)						
Country	1990		1991		1992	
	value	share	value	share	value	share
Argentina	2,467,413	1.71%	5,053,966	2.77%	1,661	0.00%
Australia	99,617,041	69.00%	78,945,794	43.33%	78,122,736	48.19%
Canada	21,090,495	14.61%	31,260,142	17.16%	36,851,125	22.73%
Saudi Arabia	4,455,191	3.09%	42,613,261	23.39%	27,504,829	16.97%
U.S.A.	13,877,169	9.61%	13,326,791	7.31%	12,664,160	7.81%
India	4,824,973	3.34%	7,188,803	3.95%	6,860,877	4.23%
Total	144,366,638	100.00%	182,191,681	100.00%	162,098,854	100.00%

(2) Frozen Beef (Boneless)

(US\$, %)						
Country	1990		1991		1992	
	value	share	value	share	value	share
Argentina	1,693,627	3.47%	1,115,313	1.77%	724,439	1.19%
India	34,035,275	69.72%	46,428,512	73.64%	42,622,183	70.14%
Australia	8,159,294	16.71%	8,324,903	13.20%	8,820,493	14.52%
New Zealand	2,911,897	5.96%	4,634,283	7.35%	4,813,011	7.92%
U.S.A.	1,422,615	2.91%	1,996,465	3.17%	1,783,862	2.94%
China	24,229	0.05%	0	0.00%	891,878	1.47%
Total	48,818,865	100.00%	63,044,843	100.00%	60,767,742	100.00%

(3) Soy bean

(US\$, %)

Country	1990		1991		1992	
	value	share	value	share	value	share
Argentina	37,165,351	30.45%	28,677,414	20.30%	23,858,642	18.20%
China	15,104,600	12.37%	60,001,521	42.47%	46,959,432	35.81%
U.S.A.	42,268,212	34.63%	31,401,534	22.22%	30,879,141	23.55%
Brazil	10,385,102	8.51%	2,637,274	1.87%	19,372,367	14.77%
Canada	6,354,328	5.21%	6,110,910	4.32%	6,067,176	4.63%
Vietnam	5,421,793	4.44%	4,654,317	3.29%	2,290,638	1.75%
Total	122,065,807	100.00%	141,296,086	100.00%	131,127,020	100.00%

(4) Soy bean Oil Cake

(US\$, %)

Country	1990		1991		1992	
	value	share	value	share	value	share
Argentina	0	0.00%	5,921	0.02%	23,816,114	33.28%
India	1,984,415	6.79%	5,691,215	15.69%	26,892,813	37.58%
China	25,988,087	88.96%	29,992,314	82.68%	13,402,666	18.73%
Brazil	114,590	0.39%	9,241	0.03%	6,881,715	9.62%
Taiwan	916,980	3.14%	446,320	1.23%	0	0.00%
	0	0.00%	0	0.00%	0	0.00%
Total	29,214,447	100.00%	36,276,884	100.00%	71,569,825	100.00%

(5) Maize for Animal Feeding

(US\$, %)

Country	1990		1991		1992	
	value	share	value	share	value	share
Argentina	2,385,369	14.74%	74,078	0.59%	9,971	0.05%
China	3,451,887	21.34%	7,573,768	60.53%	12,475,518	60.93%
Thailand	7,727,338	47.77%	4,859,108	38.84%	3,878,390	18.94%
Indonesia	101,565	0.63%	0	0.00%	2,267,919	11.08%
U.S.A.	483,486	2.99%	0	0.00%	892,857	4.36%
Kenya	1,869,466	11.56%	0	0.00%	0	0.00%
Total	16,177,586	100.00%	12,511,969	100.00%	20,476,588	100.00%

(6) Vegetable Oils

(US\$, %)

Country	1990		1991		1992	
	value	share	value	share	value	share
Argentina	28,135,308	62.93%	13,244,770	45.31%	15,633,412	54.75%
Brazil	2,728,876	6.10%	4,991,250	17.07%	5,890,526	20.63%
U.S.A.	5,020,486	11.23%	4,027,962	13.78%	3,907,525	13.68%
Singapore	2,577,028	5.76%	3,010,177	10.30%	2,111,418	7.39%
Total	44,711,313	100.00%	29,234,667	100.00%	28,556,408	100.00%

(7) Leather

(US\$, %)

Country	1990		1991		1992	
	value	share	value	share	value	share
Argentina	66,204	0.45%	289,424	1.19%	73,360	0.22%
Germany	2,652,984	17.88%	5,964,419	24.58%	8,208,204	24.13%
Thailand	1,145,908	7.72%	2,357,473	9.72%	5,924,538	17.41%
Italy	1,690,194	11.39%	3,453,162	14.23%	5,416,957	15.92%
India	3,868,454	26.07%	4,511,836	18.59%	3,890,736	11.44%
Brazil	223,962	1.51%	1,542,016	6.35%	2,026,422	5.96%
Total	14,838,367	100.00%	24,265,798	100.00%	34,020,285	100.00%

(8) Seamless Pipe (US\$, %)

Country	1990		1991		1992	
	value	share	value	share	value	share
Argentina	9,599,291	4.61%	4,847,843	2.37%	3,491,847	3.08%
Japan	90,806,190	43.60%	107,556,821	52.55%	74,191,587	65.53%
Belgium	7,678,758	3.69%	7,889,272	3.85%	9,454,402	8.35%
U.S.A.	7,110,912	3.41%	21,425,612	10.47%	5,727,715	5.06%
Germany	27,530,883	13.22%	23,382,556	11.42%	5,067,490	4.48%
Singapore	4,463,579	2.14%	7,398,152	3.61%	4,523,778	4.00%
Total	208,253,530	100.00%	204,667,200	100.00%	113,222,747	100.00%

Source: Department of Statistics, Malaysia.

(1) Wheat

The basic staple food for Malaysian people is rice. Until the early 1980s, the production of rice is maintained the level of 2million tons per year and self-sufficiency level of about 90 %. Since then, gradual outflow of farmers from rural areas to urban areas caused decline of rice production volumes up to less than 70 % of the self-sufficiency level, which forced to import rice from Thailand, Pakistan, and Myanmar.

The consumption of wheat in Malaysia is recently increasing. The total volume of wheat import is 840,000-1,310,000 tons in the period 1990-1992. Malaysia imports wheat mainly from Australia (48 % of Malaysia's total wheat import in 1992), followed by Canada (23%). The import of wheat from Argentina is almost negligible particularly in 1992.

(2) Frozen beef (boneless)

In the 1960s, almost all supply of animal protein had relied upon imports from foreign countries. Since the 1970s, however, domestic production of chicken, chicken eggs and pork has increased substantially and is now exported to neighboring countries, particularly to Singapore. Present livestock productions in Malaysia are approximately 560,000 tons of chicken, 290,000 tons of pork, 20,000 tons of beef, 1,000 tons of mutton, 6 billion of eggs, and 70 million liters of cow milk.

Malaysia's animal protein has traditionally been obtained from chicken and pork. Recently, consumption of beef is increasing and imported from various countries, mostly by frozen and boneless shape. Among imported beef, high quality beef is mainly supplied from Australia (3,700 tons in 1992), New Zealand (1,000 tons) and the U.S.A. (200 tons), and is sold at department stores or high standard restaurants indicating in the showcases or menus that they are imported from those countries of origin. Low quality and cheaply priced beef is supplied mostly from India (39,000 tons) and they are sold at small shopping centers, markets, small restaurants and food shops on the street. Imports from Argentina accounts for 300 tons in 1992 and less than 1 % of Malaysia's total frozen beef imports in volume. Imported beef is distributed by importers directly to department stores, shopping centers and restaurants.

According to Malaysian importers' comments on frozen beef from Argentina, they consider that the quality of Argentine beef is good but its presence in the market is still very weak and, therefore, sold in the lower priced side. They consider much more publicity of Argentine beef and of Argentina by the country is required, for which beef importers cannot do anything and requested to be done by Argentine government or Argentine exporters.

(3) Soy bean

For the period 1990-1991, Malaysia imports soy bean for the volume of 470,000-550,000 tons from mainly China, the U.S.A., and Argentina. These four countries supply about 80 % of Malaysia's total import of soy beans. The average unit price of import was 650 RM\$/ton in 1992 and prices of each suppliers were not so much different.

(4) Soy bean oil cake

In 1990-1991 period, Malaysia imported soy bean oil cake mainly from China, more than 80 % of its volume and value of imports. In 1992, Argentina's share of imports jumped to 33 % from previous years' 0 %. This is due to the shortage of supply from China, which is made up by imports from India and Argentina.

(5) Maize for animal feeding

Imports of maize for animal feeding from Argentina has been decreasing year by year for the period 1990-1992. In 1990, Argentina's share for the value of import of maize for animal feeding was 15 %, which became almost negligible in 1992. This is due to the competitiveness of offered price of Chinese maize.

(6) Vegetable oils

Malaysia is the world leading producer and exporter of palm oil. Production of crude palm oil is 6.38 million tons in 1992 and 7.40 million tons in 1993, and 5.56 million tons were exported in 1992 and 5.98 million tons in 1993. Its share in the world market is 59 % of production and 60 % of trade. Pakistan and China are major importers of palm oils and Japan, Korea and Taiwan are also stable markets of Malaysian palm oils. Malaysian palm oil subsector is faced with the problem of excess refining capacity. Due to this excess capacity problem, the government has imposed an administrative freeze on the issuance of new licenses for refining activities since 1989 for Peninsular Malaysia and refiners are encouraged to import crude palm oils for processing. For the long-term basis, however, demand for palm oils are expanding and used not only for edible oils but for raw materials of chemical products.

Palm oils are consumed as basic edible oils in the country. But the future production of crude palm oil is not expected to increase substantially in Peninsular Malaysia due to limited land availability for new oil palm cultivation. Also, palm oil faces competition from other oils and fats. The rapid increase in the international production of edible oils and fats, and the increasing dominance of palm oil in the export market have made other oils and fats producers adopt an aggressive attitude. The consumption of other vegetable oils in Malaysia is also gradually expanding and diversifying. Malaysia imports vegetable oils in 1992 as follows:

Soy bean oil	25,000 tons
Ground nut oil	4,600 tons
Sunflower oil	10,500 tons
Maize oil	8,900 tons
Total	49,000 tons

Argentina is the major supplier of all of those vegetable oils. Particularly, almost all volume of sunflower oils were imported from Argentina.

(7) Leather

Leather is another promising export goods from Argentina. But the present share of Argentina's leather in Malaysia's market is less than 1 % for the period 1990-1992. Major suppliers are Germany, Thailand, Italy and India. Although the size of Malaysian market is not big, it is expanding year by year.

(8) Seamless pipe

Iron and Steel industry in Malaysia was developed in the 1960s in order to minimize the import of products necessary for the infrastructure development of the country. It has started from the production of galvanized iron sheets for roofs. Particularly in 1967, Malayawata Steel of Japan-Malaysia joint venture started its operation, which is a first and real steel mill in Malaysia. Since then, various steel and iron related industries including secondary products of iron and steel have mushroomed in Malaysia. Malaysia now produces and exports wire and wire products, steel pipes, tubes and fittings, secondary sheet products, iron and steel castings, and engineering and fabricated products. However, seamless pipes are mostly imported. The volume of seamless pipe imports are fluctuating year by year and its total volume of imports are 240,000 tons in 1990, 200,000 tons in 1991 and 120,000 tons in 1992.

Major supplier of seamless pipes to Malaysia is Japan and its share is gradually increasing. Japan's share now accounts for 66 % as is shown in Table 7.6.(8). Other suppliers are Germany, the U.S.A., and Belgium but their shares are not stable year by year. The shares of Argentina in recent 3 years are 2-5 % and Argentina have not yet established its market in Malaysia.

7.3.4 Suggestions for promoting export to Malaysia

Malaysia's population is 18.6 million and, although they are consisted of three different peoples of Malays, Chinese and Indians, all of their culture and preference for consumption are predominantly based on Asiatic tradition. As far as the basic food is concerned, their staple food is rice and their major source of protein is chicken. Therefore, not favorable perspectives can be made for importing large amount of Argentine major export products such as grains and beef.

However, the recent change of life-styles, which can be called "westernization", is approaching even to this country and multi-racial society. You can see that many Malaysian shoppers are purchasing such non-traditional foods like breads, meats and meat products at newly-built department stores and shopping centers in Kuala Lumpur and other major cities. Particularly, young generations of people are leading the new market and consumption practices. It may be possible to foresee that Argentina can supply their major export products to emerging and expanding but not so big market like Malaysia.

The political and diplomatic climate is also favorable since the recent exchange of both countries' head of states. Malaysian Airlines started to operate regular (two flights a week) and direct flight between Buenos Aires and Kuala Lumpur by way of Johannesburg and Cape Town, which is the first direct regular flight connecting East Asia and Argentina.

In order to proceed this direction successfully, following suggestions are made by Malaysian importers and business people during the Study Team's visit to Malaysia :

- 1) Many Malaysians are pointing out that the Argentina's presence in Malaysia is very weak. Some Argentine products' quality e.g. frozen beef are, from importers' points of view, very good. Nevertheless, the fame of Argentine products has not yet penetrated into the market, and the prices of Argentine products are valued and tagged in the cheaper side or not specifically named as an Argentine product. In order to change this situation, the Argentine government and private sector should put more emphasis on the publicity of Argentine products and even Argentina itself to East Asian consumers through TV or any other channels of publicity, because East Asian viewers listen to the same programs of TV throughout the region.
- 2) Some traders who are handling Argentine products expressed to the Study Team that Argentine exporters seem to be considering the Malaysian market as a marginal one and not much emphasis is put to do business with it. Sometimes, orders made by the Malaysian importers were neglected or canceled or goods of different specification were sent when, they claim, bigger orders were made from their traditional customers. If it is the case, and such conducts are continued it may lose a relatively small but good-wishing market in East Asia. East Asian traders and businessmen are particularly conscious to the timely and orderly delivery of products.
- 3) Malaysia has successfully transformed its industrial structure from primary products-based economy to secondary one and promoted export of non-traditional and manufacturing products through strengthening collaboration between public and private sectors. Although the situations of Argentina and Malaysia are completely different, there may be some experiences which Argentina may extract alternative policy measures for reference of encouraging industrial reorganization and promoting trade and investment,
The public sector of Malaysia promotes trade and foreign direct investments applying various measures. It aims to expand the market share of Malaysia's

exports, attract foreign direct investments and promote Malaysian investment abroad. Ministry of International Trade and Industry (MITI) organized 9 trade and investment missions to various countries and continents, in 1993.

These trade missions include not only leading manufacturers and exporters but also those from small and medium industries and companies from the services sector. MITI's support arrangements for those delegations include making appointments with their counterparts, arrangement for businessmen forum and factory visits.

In 1993, former trade promotion institution, Malaysian Export Trade Center (MEXPO), was reorganized and new institution called MATRADE was established. The planning and organization of all trade fairs and exhibitions were taken over by MATRADE while the International Trade Division of MITI only handle trade policy, trade negotiation, bilateral and multilateral trade matters. Such experience of organizational restructuring for promotion of trade will be useful for Argentina.

7.4 FDI from Malaysia

7.4.1 Current situation of FDI from Malaysia

Malaysia has continued to encourage a policy of attracting the foreign direct investment (FDI) from industrialized countries to Malaysia in order to promote its industrialization and diversification of export since the early 1980s. The policy was successfully implemented and Malaysia is now one of the most successful industrializing countries in East Asia. Therefore, it has so far not promoted its FDI to other countries. Recently, as the economy expands, economic growth through industrial development in the country is constrained by the shortage of labor force, because the population of Malaysia is not so big. It is now nearly reaching to the point that its attraction of FDI in industry from other industrialized countries is gradually becoming difficult because of its high wage rate for workers compared with other less industrialized countries such as Indonesia, Vietnam, etc.

Faced with this labor situation, the Malaysian government has slightly changed its stance on FDI from Malaysia to other countries that it will encourage Malaysian private sector's FDI to other countries. The government is now expecting that Malaysian private sector will look outside and gradually start to invest in other countries. Their investment will be based on their own experience of business operations and their knowledge on the country to be invested. This means that they will primarily invest in neighboring countries including Singapore, Thailand, Indonesia and Indochina countries, where the Malaysian investors and entrepreneurs know the region, culture

and people's ways of thinking well and Malaysian industries are closely linked each other. The target sectors of their investment will include palm oil and rubber-related industries and tourism.

Since the Malaysian FDI to other countries are not yet generalized, the Study Team could not obtain any statistical or analytical data and information related on this issue. But it is already reported that a huge tourism investment project to Vietnam is now under discussion with Vietnamese authorities concerned. Such movement of FDI related with Malaysia and surrounding countries in East Asia will gradually increase from now on. Although some amount of FDI from Malaysia to Argentina including tourism investment in Iguazu have already been made, it may not become massive at least in short period since both countries' industries are not yet closely linked each other.

7.4.2 FDI promotion policies of Malaysian government as an example of East Asian experience

(1) Relevance of Malaysia's experience in promoting FDI

Although possibilities of FDI from Malaysia to Argentina in short term perspectives are yet to be seen, there seem to be many relevant Malaysian experience to promote FDI from other industrialized countries, from which Argentina might be able to draw out some useful examples. In the remaining part of this Section, Malaysia's FDI promotion systems and policies are summarized.

The Malaysian government has launched both the Second Outline Perspective Plan (1991-2000) and the Sixth Malaysia Five Year Plan (1991-1995). Those plans are aiming to make Malaysia a fully industrialized nation. Toward this national goal, the manufacturing sector is expected to lead the nation's economic growth and, therefore, private sector investment in manufacturing sector is strategically important and strongly encouraged. A package of fiscal and non-fiscal incentives has been drawn up to encourage investment, particularly FDI, into the targeted sectors and activities, given priority to the human resources and infrastructure development in order to ensure that they will support the needs of existing entrepreneurs and potential investors.

As supporting for these purposes, Malaysia has prepared the Industrial Coordination Act (ICA), 1975, which objective is basically to issue licenses to persons who are going to engage in manufacturing activities in Malaysia with shareholders' funds of RM 2.5 million and above or engaging 75 or more full-time employees in order to ensure orderly development and growth in the manufacturing sector. Under

this Act, any licensed company can undertake following expansion of production capacity for its approved products:

- 1) Expansion of production capacity for export
- 2) Undertaking diversification for export
- 3) Expansion of production capacity for domestic market
- 4) Undertaking diversification for domestic market

(2) Guidelines on foreign investment

In keeping with the objectives of ensuring to increase Malaysian participation in manufacturing activities, it is the policy of the Malaysian government to encourage projects to be undertaken on a joint-venture basis. Foreign equity participation in manufacturing sector is implemented by the following guidelines:

- 1) No equity condition is imposed on projects that export 80% or more of their production
- 2) The level of equity participation for other export-oriented projects are as follows:
 - For projects exporting 51-79 % of their production, foreign equity ownership of up to 79 % may be allowed, depending on level of technology, spin-off effects, size of investment, location, value-added and the utilization of raw materials and components.
 - For projects exporting 20-50 % of their production, foreign equity ownership of 30-51 % will be allowed, depending upon above-mentioned factors.
 - For projects exporting less than 20 % of their production, foreign equity ownership is allowed up to 30 %.

Concerning high technology-related or priority products for the domestic market-related projects, foreign equity ownership of up to 100 % may be allowed.

Malaysia had concluded Investment Guarantee Agreements with various countries. It provides the foreign investor with the following:

- 1) Protection against nationalization
- 2) Prompt and adequate compensation in the event of nationalization or exportation
- 3) Free transfer of profits, capital and other fees
- 4) Settlement of investment disputes under the Convention on the Settlement of Investment Disputes

(3) Incentives measures for the manufacturing sector development through FDI

The major incentives for the manufacturing sector are contained in the Promotion of Investment Act, 1986 and the Income Tax Act, 1967. Those incentives

include relief from income tax. The general incentives are consisted of following three allowances:

1) Pioneer Status

A Pioneer Status company will be granted partial exemption from the payment of income tax. It will have to pay tax on 30 % of its statutory income and tax exemption period for 5 years, commencing from the production date. Companies located in certain priority areas in the country will have to pay tax on 15 % of their statutory income for 5 years. The government may grant a 100 % exemption to strategic projects of national importance.

2) Investment Tax Allowance (ITA)

A company given ITA will be granted 60 % allowance on capital expenditure incurred within 5 years from the date of approval of the project. Companies located in certain priority areas will be granted 80 % allowance on the capital expenditure incurred.

3) Reinvestment Allowance (RA)

The RA, which is 50 % allowance of capital expenditure incurred, is granted to manufacturing companies which incur capital expenditure for exemption of production capacity, modernization and upgrading of production capacities, and diversification into related products.

Other incentive measures of various conditions are also available for manufacturers and exporters for the promotion of FDI to Malaysia. They include the following:

- 1) Incentives for manufacturers producing for export market in line with the government's objective to promote the growth of exports of manufactured goods
- 2) Incentives for encouraging research and development in industry
- 3) Incentives for upgrading skills and improving productivity and quality
- 4) Incentives for industrial adjustment of particular sectors with a view to strengthening the basis for self-sufficiency, improving industrial technology, increasing productivity, enhancing the efficient use of natural resources, etc.
- 5) Incentives for small-scale companies
- 6) Incentives for the storage, treatment and disposal of toxic and hazardous wastes to encourage the setting up of proper facilities
- 7) Incentives for the setting up of operational headquarters in Malaysia
- 8) Infrastructure allowance for projects located in certain less developed areas and required capital expenditure on infrastructure facilities

- 9) Exemption for export goods from import duty on raw materials which are not manufactured locally
- 10) Exemption from import duty and sales tax on machinery and equipment which are not produced locally
- 11) Drawbacks of excise duty, sales tax, and import duty in various cases

(4) Organizational aspects

Malaysian Industrial Development Authority (MIDA) is operating for the promotion of FDI to Malaysia, headquarters of which is consisted of 9 Divisions and a Center for Advisory Service under the leadership of Chairman, Director-General and two Deputy Director-Generals in charge of operation and development respectively. Divisions are divided into: three divisions of operation including (1) planning, research and international cooperation, (2) tariff, and (3) industrial promotion; five divisions of industrial sectors including (4) resource-based industries, (5) engineering industries, (6) electrical and electronics industries, (7) building materials, textiles and miscellaneous industries, and (8) food, beverages and chemicals industries; and one administrative division of (9) administration, finance and central services; and Advisory Service Center.

There are also 13 state offices in each State of Malaysia and 15 overseas offices in Europe (5 offices), North America (3), East Asia (6) and Australia (1). Other than state offices and overseas offices, Malaysia Trade Missions are stationed in many cities in Europe (8), North America (4), Asia (12), Africa (1), South America (Sao Paulo and Caracas) and Australia (1).

7.4.3 Suggestions for attracting FDI from Malaysia

As stated in Section 7.3.1 above, the Malaysian government has recently changed its stance on FDI from Malaysia to other countries that it is now encouraging Malaysian private sector to invest in other countries. Although FDI from Malaysia to other countries is not yet made in many cases, the Malaysian private sector is certainly starting to look outside of the country as possible target area for its direct investment. When they decide to invest, their criteria for FDI may include the following:

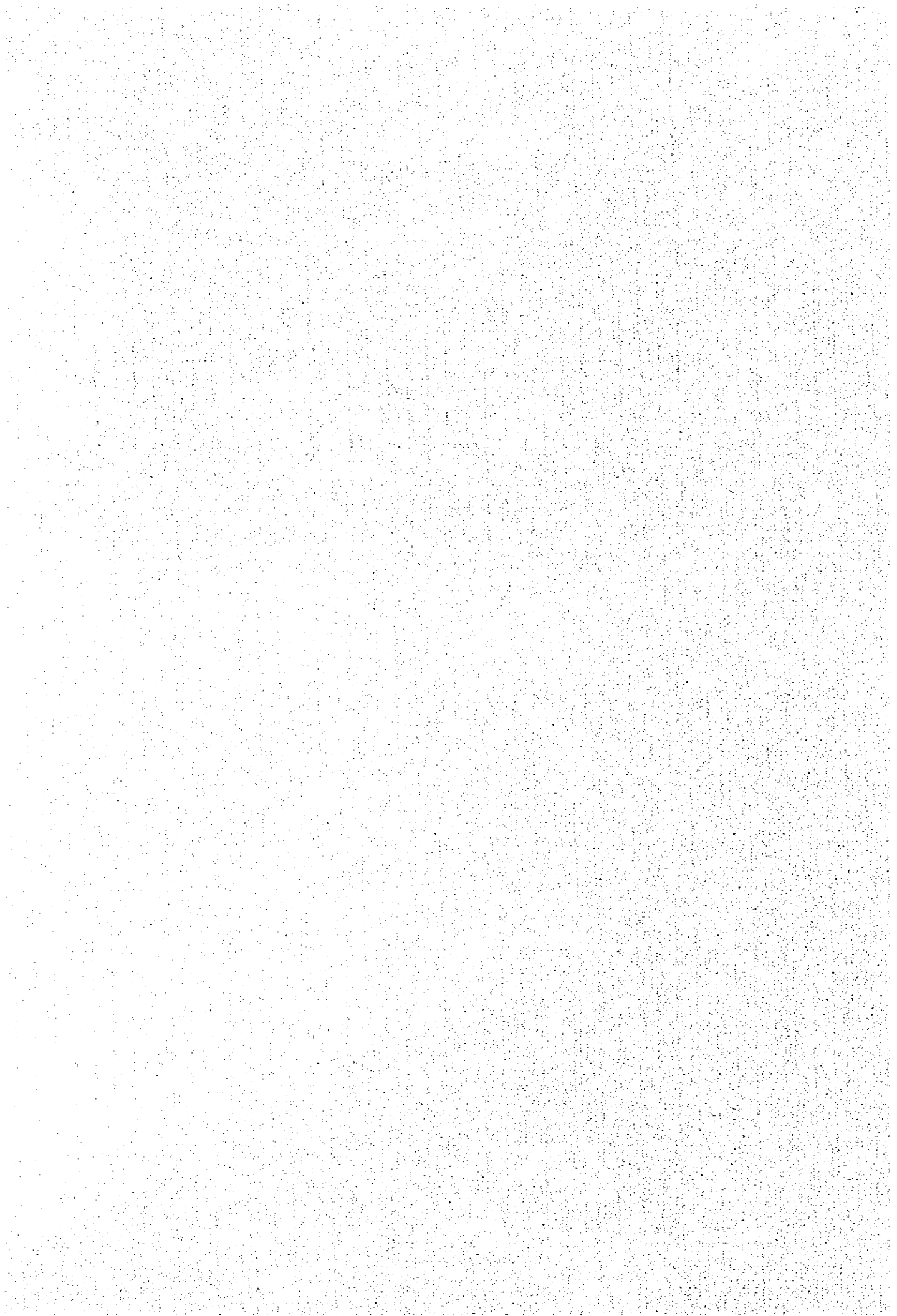
- 1) The country or region where they know well through their current business links;
- 2) The sector, the business or the technology that they have their own experience of operations;
- 3) The labor-intensive sectors which are now becoming non-competitive in Malaysia;

From the viewpoints of above criteria, oil palm-related or rubber-related industries and tourism-related businesses in East Asian countries may be most promising, at least for the near future.

In order to attract FDI in Argentina, it is advisable for Argentine government to look medium-term future and formulate well-prepared strategies to penetrate into Malaysia. In any case, the present business links between Argentina and Malaysia is too weak. Therefore, the first priority action for Argentine private sector to establish business links with Malaysian counterpart may start from strengthening them in trade relations, and gradually extend to investments for both directions.

Another suggestion for Argentina, which is not a measure to attract FDI directly from Malaysia, is to study Malaysia's institutional framework for attracting FDI.

Chapter 8
Indonesia



8. Indonesia

8.1 Outline of the Indonesian Market

8.1.1 Attractiveness of the Indonesian market

Argentine exports to Indonesia amounted to US\$107 million (f.o.b.) in 1993, while its imports from Indonesia were US\$28 million (c.i.f.). Net exports were around US\$80 million. Indonesia is a good trading partner for Argentina, though the importance of the Indonesian market to Argentina is only 0.8% in its total exports and the size of trade is still small. Indonesia is an attractive market for Argentine exporters for the following three reasons.

(1) Growth potential of the market

Indonesia, with an estimated population of 189 million in 1993, is the fourth most populous country in the world. The monetary-based size of the Indonesian market is not so large because of its still low per capita income.

Its market size is Rp298,104 billion or US\$141 billion in 1993 in terms of GDP. This figure is around 51% of the Argentine market size, US\$279 billion. Indonesia's per capita income is around US\$770, while Argentina's is US\$8,600. However, its potential for growth is, needless to say, very large due to its abundant natural resources, low per capita income, and good economic management.

The Indonesian market expanded with a steady and high growth rate of 9% to 14% per annum in the period of 1988-1993 in terms of GDP at current price. The real growth rate of the economy posted 6% to 7% per annum.

Table 8.1 Size of the Market and Its Growth

	1988	1989	1990	1991	1992	1993
GDP(current price)	82.1	92.9	102.9	114.2	126.5	141.3
Nominal growth rate	8.9	13.4	10.8	11.0	10.7	14.3
Real growth rate	5.8	7.5	7.2	6.9	6.4	6.7

Source: Central Bureau of Statistics.

(2) Stability of the market

The stability of the Indonesian economy is an important positive factor in the assessment of its attractiveness. The Indonesian economy used to be vulnerable to international prices of such natural resources as crude oil and natural gas because the economy was heavily dependent on the export performance of these natural resources.

When prices of these natural resources went down, Indonesia's export bills declined drastically and it was forced to reschedule national development projects which were necessary to sustain its economic growth because most of the projects were financed by exports bills of crude oil and natural gas. Such rescheduling of projects yielded a setback in the growth of the economy.

However, as a result of great efforts to increase the export of non-oil and gas products, the country's export structure became more diversified. Actually, the export of non-oil and gas products accounted for 73% in 1993, while it was only 27% in 1984 and 60% in 1988. Diversification in export structure made it possible for Indonesia to pursue stable economic growth.

Table 8.2 Ratio of Non-oil and Gas Export

(Unit: US\$ million, %)

	1984	1986	1988	1990	1993
Non-oil and gas export(a)	5,870	6,528	11,537	14,604	27,077
Export total(b)	21,888	14,805	19,219	25,675	36,823
(a)/(b)	26.8	44.1	60.0	56.9	73.5

Source: Central Bureau of Statistics.

The increase in the stability of the Indonesian economy is clear from some of its main economic indicators. First, the real economic growth rate is stable with a range from 6% to 7%, while inflation is 5% to 10% in terms of consumer price index.

Looking at its international economic indicators, current account deficit is in a manageable range of US\$1 billion to US\$4 billion and the rupiah exchange rate is going down against US\$ with a moderate of 4% to 5 % per annum. Indonesia's external debt stood at US\$52,462 million at the end of 1993, though it is still expanding at a pace which needs to be carefully watched.

Table 8.3 Main Economic Indicators

	1988	1989	1990	1991	1992	1993
Real growth rate(%)	5.8	7.5	7.2	6.9	6.4	6.7
Consumer price index (%)	5.6	6.1	9.9	9.9	5.0	9.8
Current account (US\$ mill.)	-1,707	-1,859	-1,599	-3,741	-4,352	-2,561
Exchange rate(Rp/US\$)	1,729	1,800	1,901	1,992	2,062	2,110
External debt (US\$ million)	38,386	40,520	40,354	44,876	44,484	52,462

Source: Bank of Indonesia, Central Bureau of Statistics.

The economic stability has been achieved by cautious economic management by excellent technocrats in the government and Bank of Indonesia. As shown in the above table, current deficit is in a trend of increase and external debt is at a high level, but the country's stance for economic management is deliberate and cautious. Therefore, there

will be no concern about the future direction of the economy as long as current political stability is maintained.

(3) Market-opening trade policy

The Indonesian market used to be considered closed and non transparent. Since 1985, however, the Indonesian government has made great efforts to open the market and increase transparency in trade by reducing import protection and simplifying import operation procedures. The government still maintains some trade restrictions in strategically important areas, such as foodstuffs, explaining that it is necessary to secure basic and important commodities for the big population. Major important policies taken since 1985 are summarized as follow.

- Reduction in import duty
- Abolition of import surcharge
- Simplification of customs operation procedures
- Reduction in non-tariff barriers such as import licenses
- Replacement of quantitative import restrictions with import duty

In the latest reduction in import duty, 18 items whose import is controlled by the national logistics board, Badan Urusan Logistic (BULOG), have become exempted from import duty. The duty on other agricultural products was also reduced by a 5% point.

8.1.2 Characteristics of the Indonesian market

Characteristics of the Indonesian market can be summarized as follows.

(1) Trade-oriented market

The Indonesian economy has expanded up to now with a gear to export. Especially, the export of oil and natural gas played a crucial role in its growth in the initial stage of economic development.

The importance of export in the economic growth will not change, but the increase of export is only feasible with an increase of import in Indonesia, where industrial development is still in a pre-matured stage. In other words, the expansion of export is supported by the expansion of import. This is clear from Table 8.4. As well as export, import is increasing its share in domestic demand, though it declined by a 3% point in 1993 reflecting the decrease in domestic demand and export.

Table 8.4 Percentage Contribution to GDP

(Unit: %)

	1988	1989	1990	1991	1992	1993
GDP	100.0	100.0	100.0	100.0	100.0	100.0
Additional Import	21.9	23.1	26.0	27.0	26.9	23.8
Total Supply	121.9	123.1	126.0	127.0	126.9	123.8
Less Export	24.4	25.4	26.6	27.4	29.1	27.2
Total Domestic Expenditure	97.5	97.7	99.4	99.6	97.8	96.6
(Private consumption)	(57.0)	(53.1)	(54.3)	(55.1)	(52.7)	(53.7)
(Public consumption)	(9.0)	(9.4)	(9.0)	(9.1)	(9.5)	(9.5)
(Fixed investment)	(31.5)	(35.2)	(36.1)	(35.4)	(35.6)	(33.4)

Source: Central Bureau of Statistics.

Table 8.5 Shares of Import in Domestic Demand and of Export in Production

(Unit: %)

	1988	1989	1990	1991	1992	1993
Import in Domestic Demand	22.5	23.6	26.2	27.1	27.5	24.6
Export in Production	24.4	25.4	26.6	27.4	29.1	27.2

(2) Market still highly dependent on import

Due to its big population, demand for products is growing at a high pace. In order to achieve self-sufficiency in basic materials, the government promotes investment in the production of those basic materials. However, there is always a time lag in matching domestic production with the fast growing demand because it takes some time for investment plans to be materialized, especially in a developing country like Indonesia. Therefore, import is indispensable as a measure for bridging the gap. This tendency will probably remain unchanged, at least in the foreseeable future.

(3) Pre-matured but developing market with low per capita income

The size of the Indonesian market is big, but the market itself is still pre-matured. This is because per capita income is still very low and the big market size is attributable mainly to the large population. This characteristic is not favorable to Argentine exporters when they are seeking to expand the export of high value-added manufacturing products.

Argentine products are not fit for the market because they are produced at a relatively high labor cost and tend to be quite expensive for the Indonesian people. Only high quality products which have demand but can not be supplied locally have a market potential in Indonesia. In the markets of those products, however, Argentina has to compete with highly industrialized countries such as Japan and the U.S.A.

The characteristics of the market with low per capita income are reflected in the household expenditure pattern as shown in Table 8.6. The Engel coefficient was still high at 60 in 1990.

Table 8.6 Household Expenditure in Urban and Rural Areas

	1981	1984	1987	1991
Food	61.5	63.2	61.2	60.4
Housing, fuel, light and water	14.4	17.4	17.1	16.2
Miscellaneous goods and services	8.5	8.3	10.0	10.8
Clothing, foot-wear and head-wear	6.5	4.6	5.1	5.6
Durable goods	4.6	3.1	3.0	3.2
Consumption taxes and insurance premiums	1.1	0.9	1.1	1.2
Parties and ceremonies	3.4	2.5	2.5	2.6
Total	100	100	100	100

Source: Central Bureau of Statistics, Statistical Yearbook of Indonesia.

Inequality in income distribution is another characteristic which commonly exists in developing countries. The latest data on income distribution in Indonesia are available only for 1990. According to the data, in spite of the economic development in the last few decades, there was no remarkable improvement in the pattern of income distribution.

Though per capita income of the country as a whole is still low, it is said that per capita income in the Jakarta metropolitan area is already near US\$1,500-2,000. The total population of Jakarta and the country's other five major cities, i.e., Surabaya, Bandung, Medan, Semarang, and Palembang, where per capita income is far higher than the national average, amounts to 17 million. This is comparable with Malaysia's whole population. The Indonesian market is not so small in terms of purchasing power.

(4) Market blessed with abundant natural resources

Like Argentina, Indonesia is endowed with abundant natural resources, which range from oil and gas to agricultural and forest resources. In this sense, Indonesia has industrial structure similar to Argentina's. The two countries are rather competitive than complementary as far as trade is concerned. However, in the production of agricultural products that require advanced technology and/or vast land, the Indonesian competitiveness is not always strong due to low productivity resulting from labor-intensive farming practices and insufficient advanced technology. There will be a possibility for Argentina to expand the export of those agricultural products.

(5) Market growing by the implementation of project

The market has expanded with the implementation of national projects. This characteristic yielded heavy demand for capital goods and construction activity. Since most of capital goods are not produced locally, the import of capital goods increased. This situation is similar to Argentina.

A substantial part of national projects were financed by official development aid and foreign investment in private sector. Foreign investment was especially active in the manufacturing sector and it made a great contribution to achieving self-sufficiency in basic materials such as aluminum, petrochemicals, cement, and pulp and paper. It also contributed to the development of export-oriented industries such as the textile and footwear industries.

Table 8.7 Foreign Investment Projects

(Unit: US\$ million, %)

	1988	1989	1990	1991	1992	1993	% of total cumulative investment
Agriculture, forestry, and fishery	688	753	789	833	843	873	3.6
Mining and quarrying	2,086	2,908	3,142	3,276	3,072	4,365	17.8
Manufacturing	8,072	8,994	10,445	12,947	13,943	14,974	61.1
Trade and hotels	595	686	901	1,215	1,452	1,835	7.5
Real estate and services	302	331	394	445	470	480	1.9
Others	159	484	542	636	820	1,982	8.1
Total	11,903	14,129	16,213	19,353	20,599	24,508	100.0

Source: Bank of Indonesia.

(6) Growth led by Japanese investment

The Indonesian market has expanded with an influx of foreign capital as stated above. *Inter alia*, the role of Japanese capital, both as official development aid and private investment, has been very big. With respect to official development aid, yearly total commitments amount to around US\$5 billion. Among them, Japan's commitment is about 28% as shown in Table 8.8. This is the biggest except IBRD's commitment.

In foreign investment by the private sector, Japanese enterprises play a key role. Japanese investment has been concentrating in the areas of textiles, petrochemicals, and motor vehicles. It is no exaggeration to say that the development of export-oriented industries in Indonesia would not be possible without Japanese investment. The high presence of Japan both in official development aid and private investment implies that Indonesia's trade relationship with Japan tends to be stronger than that with any other country, though untied official aid shows a remarkable increase.

Table 8.8 Commitment by Donor on an IGGI Basis

(Unit: US\$ million)

	1989	1990	1991	1992	1993
Multilateral	2,156	2,545	2,848	3,034	2,978
IBRD	1,350	1,550	1,630	1,600	1,600
ADB	700	900	1,100	1,219	1,200
IDB	-	-	-	30	40
Bilateral	2,132	1,971	1,891	1,903	2,133
Japan	1,460	1,310	1,320	1,320	1,440
U.S.A.	90	145	133	94	90
Netherlands	80	96	91	-	-
France	139	167	112	177	123
Australia	36	38	40	73	40
Germany	72	89	76	136	139
Total	4,298	4,546	4,755	4,937	5,111
Japan's share	34.0%	29.0%	28.8%	26.7%	28.2%

Source: OECF, Japan.

Table 8.9 Foreign Direct Investment

(Unit: US\$ million)

	No. of projects	Value		No. of projects	Value
1967-1985	689	12,689	1990	432	8,751
1986	93	848	1991	376	8,778
1987	130	1,520	1992	305	10,323
1988	145	4,411	1993	329	8,144
1989	294	4,714			

Source: BKPM.

Table 8.10 Cumulative of Foreign Direct Investment Approvals

Country	Number of Projects	Value (US\$ mill.)	%	Country	Number of Projects	Value (US\$ mill.)	%
Japan	575	13,937	20.6	United Kingdom	132	2,759	4.1
Hong Kong	261	5,683	8.4	Netherlands	111	2,571	3.8
Taiwan	266	4,035	6.0	Germany	61	1,957	2.9
Singapore	250	3,895	5.8	Australia	140	1,501	2.2
U.S.A.	161	3,701	5.5	Luxembourg	2	818	1.2
South Korea	296	3,622	5.4				

Source: BKPM.

Table 8.11 Share of Major Suppliers

(Unit: %)

Country	1988	1989	1990	1991	1992
Japan	25.6	23.0	24.3	24.4	22.0
U.S.A.	13.1	13.6	11.5	13.1	14.0
Germany	6.7	5.6	6.9	8.0	7.8
Singapore	6.8	6.9	5.8	6.6	6.1
Australia	4.4	5.7	5.4	5.3	5.2
Korea	2.8	3.4	4.5	5.6	6.9
China	3.3	3.2	3.0	3.2	2.8
France	3.5	2.5	2.9	2.1	3.0
Saudi Arabia	4.3	1.4	1.7	3.2	3.1
U.K.	2.6	2.2	2.0	2.3	2.6
Argentina	0.4	0.1	0.5	0.4	0.5

Source: UN International Trade Statistics 1993.

(7) Restrictions on wholesale and retail business

In Indonesia, there still exist restrictions on wholesale and retail business. A foreign company is not allowed to do retail business even by using a joint venture. It is allowed to do wholesale business by forming a joint venture with local partners whose share should be raised to more than 51% in five years.

This regulation implies that foreign exporters can not sell their products through their own sales networks in Indonesia. In order to sell their products in the domestic market, they have to sell directly to users or to depend on local distributors. A good local partner is indispensable for the expansion of export, especially of consumer products, to the Indonesian market.

8.1.3 Future prospects of the market

As indicated by its low per capita income, the Indonesian market is not yet fully developed. The growth of the market still depends on its export performance. However, the market has begun to show an expansion led by domestic demand. Though it is still partial, the increase in the sales of automobiles and other durable goods is one of clear signs of such growth.

The year 1994 was when Indonesia started the Sixth Five-Year Economic Development Plan and the Twenty Five-Year Development Plan. In the Five-Year Plan, the targeted real economic growth rate is 6.2% per annum for 1994/95-1998/99 and per capita income in the final year of the plan is expected to increase to US\$1,000. Whether these targets can be achieved depends upon the continuity of political stability and improvement in infrastructure such as electricity and telecommunications. When per capita income reaches US\$1,000, the Indonesian economy will grow by its own domestic demand. In the Twenty Five-Year Plan, per capita income in the final year of the plan is expected to reach US\$2,600.

8.2 Structure of Import and Argentine Export Offer

8.2.1 Indonesia's import of Argentine exportable products

Table 8.12 shows Indonesia's import of products which Argentina has an export potential in competition with major competitors all over the world.