

Table 8.12 Argentine Export Offer

(Unit: US\$ million, %)

SITC	Commodity	Total imports	Import from Argentina (%)	Import from major competitors (%)		
011	Meat of bovine	6	-	Australia (50)	New Zealand (33)	
022	Milk, cream, and milk products	98	-	Australia (23)	New Zealand (19)	Germany (13)
023	Cheese and curd	8	-	Australia (63)	New Zealand (13)	
041	Wheat and meslin	442	(15)	Australia (45)	Canada (23)	Saudi Arabia (15)
044	Maize	68	-	China (96)		
061	Sugar, molasses and honey	81	-	Thailand (48)	China (22)	Germany (7)
081	Feed for animals	334	-	U.S.A. (10)	Chile (8)	New Zealand (6)
112	Alcoholic beverages	15	-	France (27)	Australia (20)	Singapore (20)
121	Tobacco, unmd.	77	-	China (32)	Zimbabwe (23)	U.S.A. (17)
211	Hides and skins	16	-	Australia (31)	U.S.A. (25)	New Zealand (6)
222	Soybean	197	(5)	U.S.A. (71)	Brazil (12)	China (9)
251	Pulp	270	(4)	U.S.A. (36)	Brazil (16)	Canada (12)
263	Cotton	557	-	U.S.A. (24)	Australia (23)	China (16)
611	Leather	318	(2)	Korea (77)	Taiwan (7)	U.S.A. (5)
679	Tubes, pipes of iron and steel (OCGD)	386	(0.8)	Japan (57)	U.S.A. (9)	France (7)
		(154)	(2)	Japan (49)	France (16)	U.S.A. (11)
684	Aluminium	198	-	Australia (30)	Singapore (10)	Japan (9)
727	Food-processing machines	95	-	Japan (13)	Italy (12)	U.K. (9)
741	Heating and cooling equipment	656	(0.8)	Japan (28)	Korea (13)	U.S.A. (12)
851	Footwear	109	-	Korea (47)	Taiwan (35)	China (6)

Note: Figures are for 1993.

Source: Central Bureau of Statistics, Indonesian Foreign Trade Statistics.

Argentina's exports to Indonesia were US\$107 million in 1993. Major export items are: wheat and meslin (US\$68 million), pulp (US\$10 million), soybean (US\$9 million), leather (US\$7 million), heating and cooling equipment (US\$5 million), and tubes and pipes of iron and steel (US\$3 million). These six categories accounted for 95% of Argentina's total exports to Indonesia.

## 8.2.2 Analysis on the penetration of some Argentine products in the Indonesian market

### (1) Meat of bovine

#### Market situation of meat of bovine

Meat consumption is expanding gradually owing to population growth, an increase in per capita income, and growing awareness of the importance of sound nutrition for health among the Indonesian people. However, per capita consumption itself is still at a low level of 4.2 kg per year. Among various kinds of meat, the consumption of pedigree chicken is the largest with 0.95kg per year and beef comes next with 0.91kg per year.

Indonesia's beef production is estimated to be around 250,000-280,000 tons per year. This exceeds total demand for beef of 180,000 tons which is calculated by multiplying per capita consumption, 0.91kg, by the total population. However, due to growth in demand for high quality beef from international standard hotels and restaurants as well as supermarkets, Indonesia has to import 2,000-3,000 tons of beef every year.

#### Import of meat of bovine

The tax scheme for the import of bovine meat is as follows.

- Import duty 30%
- Surcharge nil
- VAT nil
- Tax on luxury goods nil

Major importers of meat of bovine are P.T. Indoguna Utama, P.T. Diamond Cold Storage, and P.T. Puri Mega Sakti. However, there is no import of meat of bovine from Argentina because Indonesia prohibits import of fresh meat from countries in the foot and mouth disease (FMD) circuit, adopting the zero risk concept regarding FMD.

Table 8.13 Average Per Capita Monthly Expenditure

	1981	1984	1987	1990
Meat	271(4.0)	431(4.3)	632(4.7)	883(4.8)
Fish	738(10.8)	914(9.0)	1,183(8.7)	1,713(9.4)

Note: Figures in parenthesis are % share in total food expenditure.

Source: Central Bureau of Statistics.

## **(2) Milk, cream, and milk products**

#### Import of milk and milk products

The tax scheme for the import of milk and milk products is as follows.

- Import duty 30% (5% for powder milk)
- Surcharge nil
- VAT 10%
- Tax on luxury goods nil

The Indonesian government regulates the import of milk, cream, and milk products in order to protect domestic producers from imported products by limiting the number of companies who can import these products. Companies allowed to import milk and milk products are follows.

(Milk raw materials for the use of industry/non-milk factories)

- P.T. (Persero) Pantja Niaga

(Milk raw materials for the use of milk processing industries)

- P.T. Food Specialities Indonesia
- P.T. Indomilk
- P.T. Friesche Vlag Indonesia
- P.T. Foremost Indonesia

- P.T. Ultra Jaya
- P.T. Dafa
- P.T. Sari Husada
- P.T. Mirola
- P.T. Nutricia Indonesia
- P.T. Sugizindo
- (Finished milk products)
- P.T. (Persero) Pantja Niaga
- P.T. (Persero) Kerta Niaga

#### Import from Argentina

Indonesia imported US\$98 million of milk and milk products in 1993. Major suppliers are Australia, New Zealand, and Germany. Import from Argentina was nil.

In order to export milk products to Indonesia from Argentina, it is necessary to appoint one of the above mentioned importers as an agent. The current major suppliers own their agents. However, these agents seem to be ready to import from other countries in addition to the countries they are dealing with.

According to P.T. Food Specialities Indonesia, which is an agent for Nestle and imports milk raw materials mainly from New Zealand, a main reason why they do not import from Argentina is that Argentine producers have never approached them and provided quotations in the past ten years. They also say that they are ready to import Argentine products if their price and quality are satisfactory to them even though they are a Nestle agent. In fact, they import milk raw materials from all over the world.

P.T. Food Specialities Indonesia suggests that Argentine producers be aggressive in selling their products like New Zealand sellers who visit them with technical staff at least twice a year. Similar suggestions were presented from other influential importers which were interviewed.

### **(3) Wheat and meslin**

#### Demand and supply situation of wheat and meslin

Wheat is one of basic and staple commodities in Indonesia. Due to its tropical climate, Indonesia can hardly produce wheat and must fully depend on import. The consumption of flour is increasing year by year owing to the increase in per capita income and the expansion of the plywood industry which consumes flour as glue.

Table 8.14 Import of Wheat

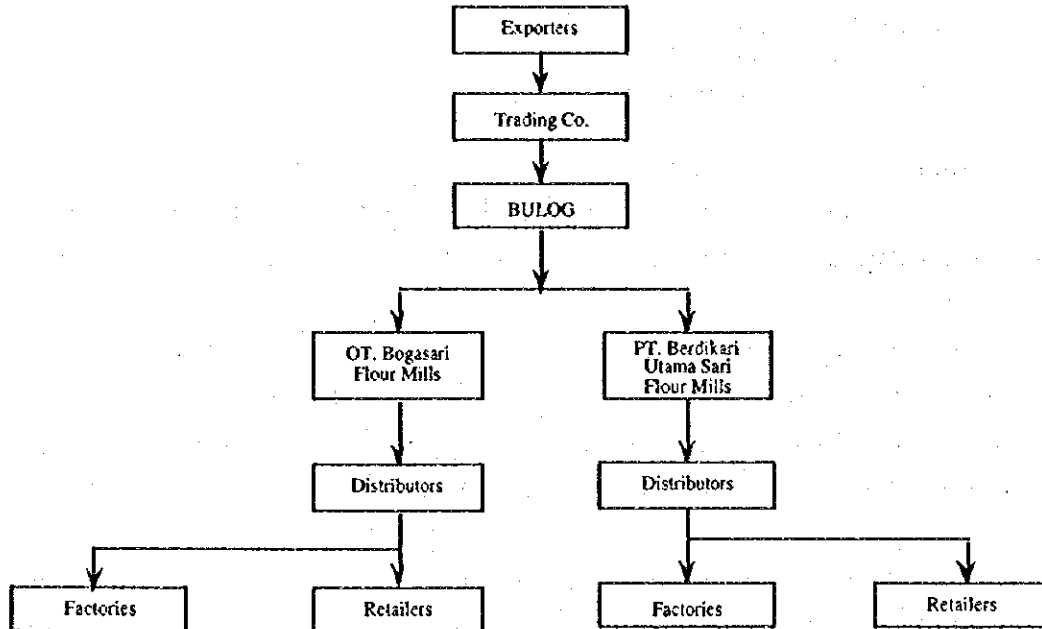
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Import	1,713	1,526	1,218	1,619	1,549	1,716	1,745	1,710	2,107	2,342	2,602

Source: BULOG.

Distribution channels of wheat and meslin

The following chart shows the flow of wheat and flour.

Figure 8.1 Distribution of Wheat and Flour



In Indonesia, there are two flour mills. One is P.T. Bogasari Flour Mills, which has two plants in Jakarta and Surabaya. Their production capacity is totally 10,500 tons per day. The other is P.T. Berdikari Utama Sari Flour Mills, which has only one plant in Ujung Pandang. Their production capacity is 1,000 tons per day. Since P.T. Bogasari is one of shareholders in P.T. Berdikari, it is no exaggeration to say that the flour mill industry is totally controlled by P.T. Bogasari.

They estimate the demand for flour and request BULOG to supply wheat necessary for their mills. BULOG imports wheat directly or through international trading companies. BULOG delivers imported wheat to the two flour mills, which are located near ports, by vessels.

Decision making on sources of supply and import volumes from each source

BULOG controls import, but actual decision on sources of import and import volumes from each source is made by the flour mills, though BULOG's approval is required. BULOG's role is to monitor the trade of wheat and flour in order to stabilize the price of flour.

The process of decision making goes as follows. The two flour mills request BULOG to import a certain volume of wheat and supply BULOG with information on

the varieties of wheat they need, the quantity of each variety, and the prevailing prices. BULOG and the flour mills then discuss these matters and decide sources of import and the import volume from each source. In making decision on the source of import, three factors are seriously taken into consideration, namely, variety, quality, and price. The payment condition is also taken into account, though it is not so important compared to the three factors.

#### Import of wheat

The tax scheme for the import of wheat and meslin is as follows.

- Import duty	nil
- Surcharge	nil
- VAT	10%
- Tax on luxury goods	nil

Indonesia imported 2.6 million tons of wheat in 1993. Its import bill amounted to US\$442 million. Major suppliers are Australia, Canada, Saudi Arabia, and Argentina. The sum of imports from these four countries accounted for 98% in total imports. Argentina's share (15%) was far below Australia's (45%) and Canada's (23%).

#### Competitiveness of Argentine wheat in the Indonesian market

P.T. Bogasari was interviewed to obtain their evaluation of Argentine wheat. According to them, the Argentine product is quite good, though it does not contain high protein and, therefore, it is not fit for making bread. Quality is fair.

The problem is that Argentina can only ship wheat from late December until April. It means that Argentine supply is limited to four months, while its competitors such as Australia and Canada can export throughout the year. This is because other products are also shipped from the same port due to lack of port facilities in Argentina.

There is another reason why Argentina's share in Indonesia is low compared with Australia and Canada. Argentina allocates most of exportable wheat to Brazil, which sets a preferential import tariff on Argentine wheat.

P.T. Bogasari assures that they will be willing to buy one million tons of wheat from Argentina per year if there is no bottleneck in its supply. BULOG wishes to maintain a good relationship with Argentina, one of world-leading suppliers, since Indonesia is fully dependent on imported wheat. BULOG expects Argentine exporters to continue to make offers.

#### (4) Maize

##### Demand and supply situation of maize

Indonesia is almost self-sufficient in maize. Domestic demand does not show a remarkable increase unlike wheat, soybean, and sugar. However, BULOG controls its trade and price since it is one of the staple products for Indonesian people. Total domestic demand is around 7 million tons per annum.

Table 8.15 Demand and Supply of Maize

(Unit: 1,000 tons)

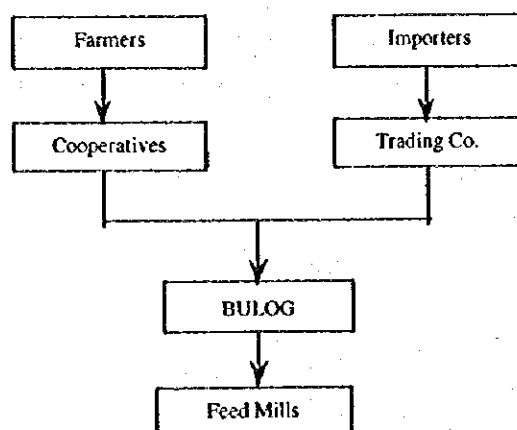
	Production	Import	Export	Domestic consumption	Per capita Consumption (kg)
1983	3,885	28	18	3,867	24.99
1984	5,288	59	160	5,230	33.36
1985	4,330	50	4	4,375	26.79
1986	5,920	85	4	6,011	35.91
1987	5,155	180	5	5,332	30.67
1988	6,652	87	37	6,706	38.81
1989	6,193	38	6	6,225	34.92
1990	6,734	0	0	6,734	37.45
1991	6,256	127	0	6,383	34.20
1992	7,987	0	0	7,987	42.93
1993	6,466	47	0	6,513	34.19

Source: BULOG.

##### Distribution channels of maize

BULOG's control of the trade and price of maize is almost the same as that for other products. BULOG imports a necessary quantity by calculating the gap between local production and total demand by feed mills.

Figure 8.2 Distribution of Maize



##### Import of maize

The tax scheme for the import of maize is as follows.

- Import duty	nil
- Surcharge	nil
- VAT	10%
- Tax on luxury goods	nil

In 1993, Indonesia imported 47,000 tons of maize, only 0.7% of total domestic consumption. The total import value was US\$68 million. A major supplier is China with a share of 96% in total imports. Import from Argentina was nil.

Though Argentina's export of maize is nil, BULOG says that they are always ready to do business with Argentina if the price and quality are satisfactory to them. They also says that because of the small volume of import, there has never been approach from an agent representing Argentina.

### (5) Soybean

#### Demand and supply situation of soybean

Soybean is one of products for which BULOG controls trade. Soybean is consumed for manufacturing animal feed as well as Indonesian traditional foods like *tafu* (bean curd) and *tempe*. In total consumption, around two million tons per year, animal feed accounted for 20% and the traditional foods for the remaining 80%.

Since the local production, around 1.5 million tons per year, cannot meet domestic demand, the country must import approximately 0.5 million tons every year. Almost all the locally grown soybean and about a half of imported soybean are used for producing those traditional foods, while the rest of imported soybean is consumed for animal feed.

Domestic demand shows a trend of increase due to population growth and an expansion in poultry consumption. Since Indonesia can not yet achieve self-sufficiency in soybean, its dependence on imported soybean for 25-30% of total domestic demand will continue.

Table 8.16 Demand and Supply of Soybean

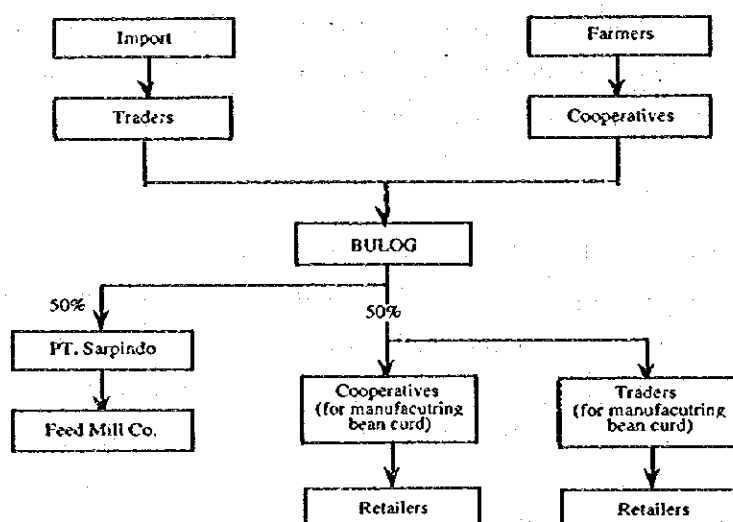
	Domestic production	Import	Domestic consumption	(Unit: 1,000 tons) Per capita consumption (kg)
1983	554	391	946	6.08
1984	769	400	1,150	7.25
1985	870	330	1,162	7.19
1986	1,227	342	1,586	9.62
1987	1,161	349	1,467	8.73
1988	1,270	586	1,743	10.17
1989	1,315	410	1,786	10.07
1990	1,487	457	1,987	11.05
1991	1,555	526	2,049	11.20
1992	1,881	557	2,431	13.07
1993	1,481	649	2,134	11.29

Source: BULOG.

### Distribution channel of soybean

Soybean is procured and distributed to user industries as shown in Figure 4.3.8, where P.T. Sarpindo is a crushing plant for animal feed. BULOG decides suppliers of soybean paying special attention to variety, quality, and price.

Figure 8.3 Distribution of Soybean



### Import of soybean

The tax scheme for the import of soybean is as follows.

- Import duty	nil
- Surcharge	nil
- VAT	nil
- Tax on luxury goods	nil

Soybean is imported from various countries but mainly from the U.S.A. and Brazil. Imports from Argentina was US\$9 million, 5% of Indonesia's total imports, in 1993. According to BULOG, as long as the quality and the price are satisfactory to them, they are ready to increase import from Argentina. BULOG wonders whether Argentina has capacity for export expansion.

### **(6) Alcoholic beverages (wine and spirits)**

#### Demand and supply situation of alcoholic beverages in Indonesia

95% of the Indonesian people are Moslems who do not have a habit of drinking alcoholic beverages. However, the remaining 5% are people with other religions that does not prohibit drinking alcoholic beverages. Moreover, many of tourists from other countries, whose number increases year by year, drink alcoholic beverages.



The consumption of alcoholic beverages is in a trend of increase. According to importers, the import of these beverages is expected to increase to 2-3 times the current level of 40,000 cases per year, though it is much dependent on the number of tourists visiting the country. Among the 40,000 cases imported, wine accounts for 60%, whisky for 16%, and others for 24%. The market of imported alcoholic beverages is divided into the duty-free-shop market and the hotel/restaurant market.

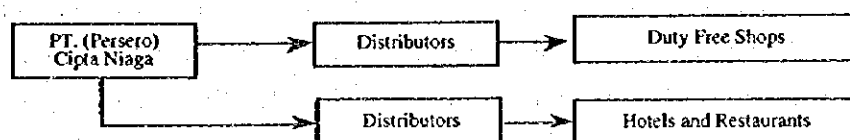
#### Distribution channels of alcoholic beverages

For a religious reason Indonesia government has attitude against an increase in import. To suppress the consumption the government levies a high level of tax and limits the number of importers to two companies.

The government imposes many kinds of taxes on imported wine and spirits. Current import duty is 170%. In addition to the import duty, there are a 10% VAT, a 35% luxury tax, and a 2.5% local tax. As a result, the retail price is 284% higher than the CIF price for wine and spirits.

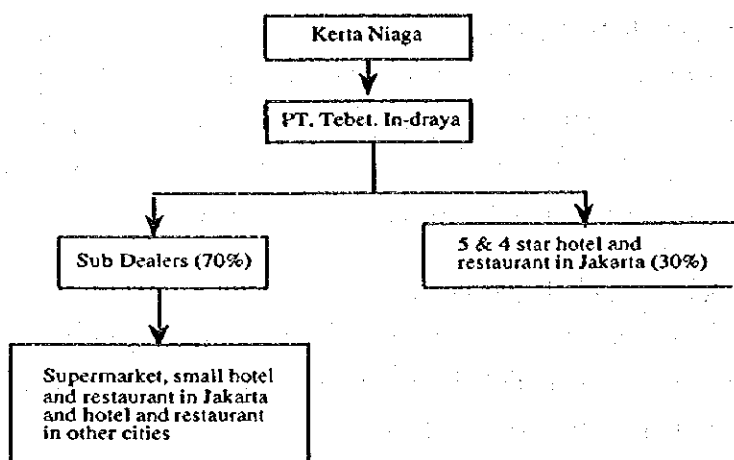
The two importers are P.T. (Persero) Cipta Niaga and P.T. (Persero) Kerta Niaga. In 1995, P.T. (Persero) Rajawale is expected to take over the business of P.T. (Persero) Kerta Niaga. Under these two companies there exist private distributors whose function is to deliver imported beverages to duty free shops, hotels, and restaurants. In the case of P.T. (Persero) Cipta Niaga, the number of distributors is six for duty free shops and two for hotels and restaurants.

Figure 8.4 Distribution of Wine



Distributors are selected based on a consensus among the government agencies concerned, P.T. (Persero), and retailers. The distribution channel of P.T. (Persero) Kerta Niaga is as shown in Figure 8.5.

Figure 8.5 Distribution Channel of P.T. (Persero) Kerta Niaga



Imports of alcoholic beverages in Indonesia are very small, US\$15 million in 1993. Imports from Argentina are nil. A reason for this situation may be that Argentine producers have never approached the importers. The importers determine where they should import from by studying which brand of wine and spirit is well sold in the market. They usually follow previous sales performance in the market.

The importers say that the best way to enter the market is to put a sample in the market and that they are always ready to receive a catalogue of Argentine products and discuss importing from Argentina.

The problem of a small sales volume will be solved by having an agent in Singapore. Generally speaking, Singaporean agents import from all over the world in a relatively large lot and export to Asian countries in a small lot. They have their own warehouses, which enables them to import in a large lot. The Singaporean agent who deals with Chilean wine is Latin Asia, whose manager is a Chilean. The effectiveness of using Singaporean agents is demonstrated by the fact that imports from Singapore accounts for 20% of Indonesia's total imports of wine and spirit.

The biggest problem in selling Argentine products will be that tax on alcoholic beverages is very high in Indonesia. Probably, only high quality wine with a world widely known brand has export potential. This may be a reason why Argentine wine producers have never approached the Indonesian market in the past.

## (7) Sugar

### Demand and supply situation of sugar in Indonesia

The domestic sugar consumption has shown a tendency to increase in the past several years. It is estimated at around 2.6 million tons with per capita consumption of 14 kg. The increase in domestic consumption has been brought about by growth of the population and per capita consumption.

Responding to the increase in domestic consumption, domestic production has increased. However, domestic production capacity is still not enough to meet domestic consumption. As a result, Indonesia has to rely around 10% of total domestic demand on import.

**Table 8.17 Demand and Supply of Sugar**

	1987	1988	1989	1990	1991
Domestic consumption	2,309	2,023	2,374	2,401	2,562
Domestic production	2,176	1,890	2,049	2,120	2,253
Import	133	133	325	281	309
Per capita consumption (kg)	12.2	12.8	12.9	12.3	13.8

Source: P.T. Data Consult.

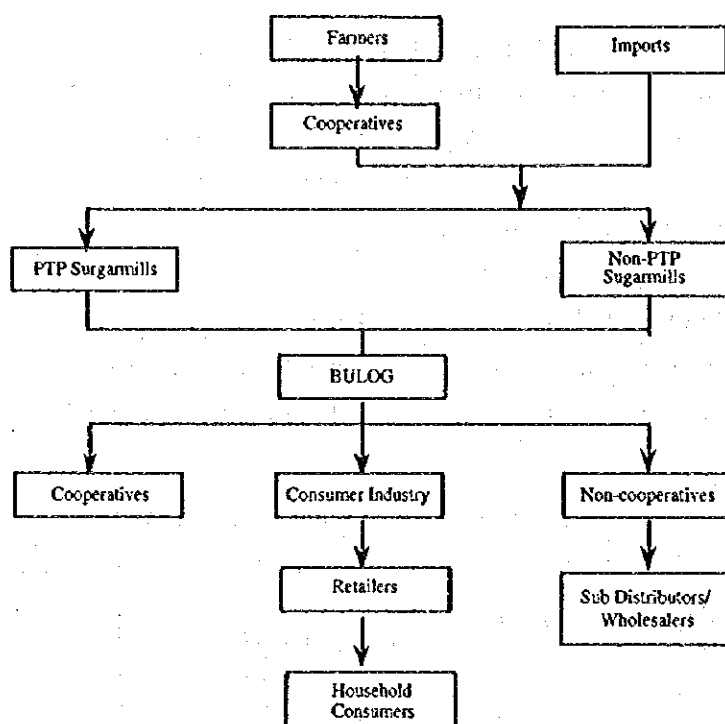
### Future prospects for import

In the light of the current trend, it is expected that Indonesia will continue to import sugar in the future, though the government is eager to attain self-sufficiency in sugar for two reasons. One is that domestic demand for sugar is likely to increase substantially since Indonesia's per capita consumption is 14kg, still low compared with the Philippines' 23kg, Taiwan's 25kg, Thailand's 18kg, Malaysia's 37kg, and Singapore's 47kg. The other is that it is difficult to increase production due to the growing scarcity of suitable lands for planting, low land productivity, and the unattractiveness of the sugar business to investors, which resulted from the strict control by the government.

### Sugar procurement and distribution in Indonesia

The domestic trade and supply of sugar, as a staple commodity, are strictly controlled by BULOG. The trade control is intended to ensure price stability and a decent income for sugar growers. BULOG maintains a national sugar stock to guarantee price stability, as well as to ensure supply. Figure 8.6 shows how sugar is procured from local and foreign manufactures and supplied to end users and consumers (PTP in the figure means a state operation plantation).

Figure 8.6 Distribution of Sugar



### Import of sugar

The tax scheme for the import of sugar is as follows.

- Import duty	nil
- Surcharge	nil
- VAT	10%
- Tax on luxury goods	nil

Indonesia imported US\$81 million of sugar, molasses, and honey in 1993. Major suppliers are Thailand, China, and Germany. In Thailand, sugarcane is an important cash crop as it constitutes a significant source of income for the Thai government and farmers. Import from Germany is mainly for pharmaceutical use. Import from Argentina is nil. According to BULOG, there has never been approach by Argentine exporters or traders dealing with Argentine sugar.

### **(8) Feeding stuff for animals**

#### Animal feed industry in Indonesia

The poultry market is growing year by year in Indonesia due to the grow of the population and per capita income. It is said that the market will keep on growing in future. Owing to the expansion in the poultry market, demand for animal feed is also increasing at a high growth rate. There exist many companies producing animal feed in Indonesia. Major suppliers are P.T. Japfa Comfeed Indonesia, P.T. Charoend Pokphand Indonesia, and P.T. Anwar Sierad. The production capacity of these three companies is

150,000 tons per month, which accounts for more than 50% of total capacity of the plants located in Jakarta. Most of feed produced is directed to chicken breeders.

#### Raw materials of animal feed

Animal feed is produced by combining corn (maize), rice bran, and other materials. The content of each raw materials in standard animal feed is presented with supply source in Table 8.18.

**Table 8.18 Content of Animal Feed**

Raw material	Content	Source of supply
Corn (maize)	55%	Local and Import (China, U.S.A.)
Rice bran	10-15%	Local
Others	30-35%	Import
Soya bean meal		(India, China)
Meat bone meal		(Australia, New Zealand)
Fish meal		(Chile, Peru)
Ground nut cake		(India, China)
Rapeseed meal		(India, China)
Vitamin		(France)

The supply of raw materials with good quality, as well as their balance, is very important in producing good chickens. This is why Indonesia depends on foreign sources for raw materials even though Indonesia is an agricultural country and endowed with raw materials. To get well balanced animal feed, computers are fully utilized in the process of production.

#### Distribution channels of raw materials and products

Imported raw materials are bought directly from exporters or through trading companies in Singapore as shown in Figure 8.7. As for import from India and China, animal feed companies always conclude a purchase contract with a trader, not with a supplier. It is because they do not have confidence in the quality and quantity of raw materials from India and China and, therefore, they need a guarantee from traders.

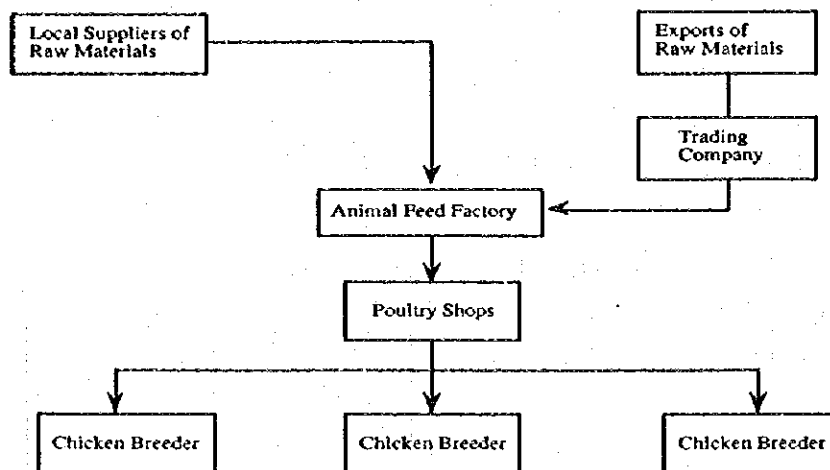
Animal feed companies sell their products to poultry shops, not to each chicken breeder because the collection of money for animal feed is difficult and risky for them. However, they deliver their products directly to chicken breeders. In some cases, chicken breeders pick up products at feed manufacturing plants by their light commercial vehicles.

#### Import of feeding stuff for animals

The tax scheme for the import of feeding stuff for animals is as follows.

- Import duty	15%
- Surcharge	nil
- VAT	10%
- Tax on luxury goods	nil

Figure 8.7 Distribution of Animal Feed



Indonesia imported US\$334 million of feeding stuff for animals in 1993. Major Suppliers are the U.S.A., Chile, and New Zealand, though the sources of import cover many countries, depending on products. Import from Argentina is negligibly small.

According to one of the above three influential animal feed companies, they have never been approached by Argentine exporters and traders representing Argentine exporters. The company says that they do not know what kind of feeding stuff Argentina can offer and that they are always ready to receive samples of export products and to import if quality is satisfactory. Since animal feed companies are not familiar with Argentine exporters, it is suggested that Argentine exporters select carefully its agents and leave negotiations to them.

## (9) Pulp

### Demand and supply situation of pulp in Indonesia

Domestic demand for pulp is increasing by 15% to 18% per annum in recent years owing to an expansion of the production of paper. At present, more than 10 companies are engaged in manufacturing pulp with a capacity of 1,722 thousand tons. Although many new pulp manufacturing projects are planned and implemented, domestic production can not meet the entire demand. The shortage of soft wood pulp is particularly severe. Self-sufficiency rate is still at a 60% level.

### Import of pulp

The tax scheme for the import of pulp is as follows.

- |               |   |
|---------------|---|
| - Import duty | 5% for mechanical and chemical pulp<br>10% for semi-chemical pulp |
| - Surcharge   | nil   |
| - VAT         | 10%   |

- Tax on luxury goods      nil

**Table 8.19 Industrial Structure of Pulp and Paper Industry: Installed Capacity**

(Unit: 1,000 tons/year)

	No. of companies	Pulp	Paper
State enterprise	6	396 (23%)	392 (11%)
Private co. domestic investment	42	301 (18%)	2,354 (66%)
Private co. foreign investment	6	1,025 (60%)	308 (23%)
(Total)	(54)	1,722 (100%)	3,584 (100%)
Integrated	13	1,497 (87%)	1,522 (42%)
Non-integrated	41	225 (13%)	2,062 (58%)
(Total)	(54)	1,722 (100%)	3,584 (100%)

Source: Indonesian Pulp and Paper Association.

**Table 8.20 Demand and Supply of Pulp**

(Unit: 1,000 tons)

	Production	Import	Export	Domestic consumption
1987	360	269	8	621
1988	378	247	8	618
1989	461	288	87	663
1990	701	217	181	737
1991	802	242	107	937
1992	821	448	111	1,157
1993	1,009	705	119	1,595

Source: P.T. Data Consultant.

**Table 8.21 Demand and Supply of Paper**

(Unit: 1,000 tons)

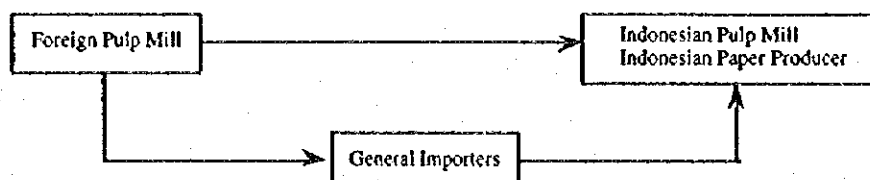
	Production	Import	Export	Domestic consumption
1988	958	86	201	843
1989	1,149	96	191	1,049
1990	1,400	124	175	1,349
1991	1,644	116	377	1,383
1992	2,218	116	460	1,874

Source: P.T. Data Consultant.

The import of pulp was 700,000 tons in 1993, accounting for 44% of total domestic consumption. Pulp is imported from many countries, but major origins are the U.S.A., Brazil, and Canada. Latin American countries are significant suppliers with shares of 16% by Brazil and 4% by Chile and Argentina, respectively. The pulp industries of these Latin American countries, which have dense tropical forests, are rapidly growing. Total import from the three countries was 156,000 tons in 1993.

Pulp is imported not only by paper manufacturers but also by pulp mills themselves. The distribution channel is as is shown in Figure 8.8.

Figure 8.8 Distribution of Pulp



An influential pulp and paper company was interviewed. The company belongs to a successful Chinese business group which owns four pulp and paper companies. They import soft wood pulp of 10,000-11,000 tons per month as a whole. They import mainly from Canada and Chile, as well as from Argentina. They feel great necessity of importing and say that if Argentina can supply more pulp, they are ready to take if the following conditions are met.

- Price of an international level
- Quality of the international standard
- Timely shipment
- Continuous supply
- Minimum lot of 500-1,000 tons for one contract

Among these conditions, they stress the third because they do not have confidence in the timely shipment of Argentine pulp. With respect to sales activity, they stress that Chilean companies are the most aggressive as indicated by their quarterly visit to the company.

Another big company, a state enterprise, which produces cement bags was also interviewed. It will need to import pulp due to growing demand for paper products, though it does not import any pulp at present because it produces pulp by itself as an integrated company. The company says that it is ready to consider import from Argentina if the price and quality are satisfactory to them and supply is continuous with every month supply of 1,000 tons at least.

Two other representative paper companies which import pulp from Spain and New Zealand were interviewed. They do not import pulp from Argentina. The reason is that they have never had an offer from Argentine exporters. They suggest that Argentine pulp producers should provide quotations if they want to sell their pulp. Requirements for import are high quality, a good price, and 1,000 tons per month as a minimum supply. One of the two companies had an experience in importing pulp from Chile about eight years ago. According to the company, disadvantage in importing from Latin American countries is their quality inferior to New Zealand's pulp and the longer time of shipment.



Considering the above, it does not seem to be so difficult to expand the export of Argentine pulp. Especially, there is a big chance for soft wood pulp. The problems are whether Argentina has sufficient capacity for export and how to secure the scheduled shipment.

#### **(10) Oil Country Tubular Goods (OCD) Seamless Pipes**

##### Market situation of OCD seamless pipes

Indonesia is accelerating oil and gas field development . At present, demand for OCD seamless pipes is 60,000-80,000 tons per year. If new gas fields in Natua are developed, the demand is expected to expand to 120,000 tons per year. OCD seamless pipes are manufactured by threading and heat-treating green pipes which are imported. Only two companies are allowed to import green pipe. The two companies are also manufacturers of OCD.

One is P.T. Seamlesspipe Indonesia Jaya, which was established in 1991. The company imports green pipe mainly from Siderca and manufactures OCD for Pertamina and oil companies operating in Indonesia. The other is P.T. Citra Tubindo who was established in 1984 between local companies and Japanese trading companies. The company imports green pipes from Japanese steel mills and manufactures OCD for oil companies including Japanese oil companies.

P.T. Seamlesspipe Indonesia Jaya claims that it has a 65% share in the Indonesian market as far as recent contracts are counted, though import data on green pipes for 1993 show that Argentine export is far behind Japanese export. If this claim is true, Siderca enjoys a good position because its products accounts for 95% of total green pipes P.T. Seamlesspipe Indonesia Jaya buys. Green pipes of special type from Japanese steel mills accounts for 2% and products from U.S. and European companies for 3%.

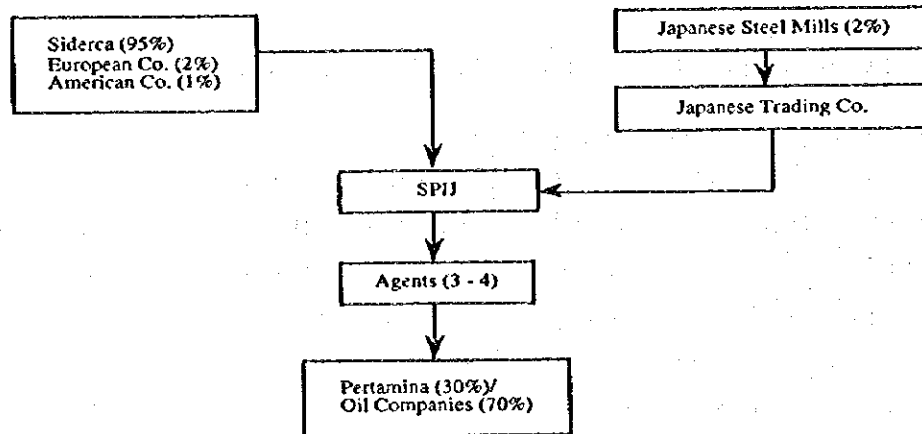
P.T. Seamlesspipe Indonesia Jaya seems to have an advantage in their business because Bakrie Group and Pertamina are the company's major shareholders with 37% and 28% shares, respectively. Bakrie Group is one of influential conglomerates in Indonesia and Pertamina is a state-owned oil company, that is to say, one of major users of OCD seamless pipes.

##### Distribution channel

The flow of products is shown in Figure 8.9. In this chart, SPIJ's functions are marketing, pricing, technical services, and delivery as well as manufacturing OCD

seamless pipes, while agents' functions are lobbying, marketing, tendering, and servicing.

Figure 8.9 Distribution of OCGD



#### Import of OCGD seamless pipes

The tax scheme for the import of green pipe for OCGD is as follows.

- Import duty	5%
- Surcharge	nil
- VAT	10%
- Tax on luxury goods	nil

Indonesia's imports of OCGD seamless pipe were US\$154 million in 1993. Major suppliers are Japan, France, and the U.S.A. Argentina accounted only for 2% of the total import. The import structure seems to be changing in 1994 and 1995.

#### Competitiveness of Siderca

Competitors to Siderca are Japanese steel mills. Competitiveness of Siderca is assessed in Indonesia in the table below. To sum up, Siderca has an advantage in the factors ranging from the first to the forth, while Japanese steel mills are superior in the fifth and sixth factor. In overall, Siderca is never inferior to Japanese steel mills.

Table 8. 22 Competitiveness of Siderca

	Siderca	Japanese steel mills
1.Raw materials cost	Low	High
2.Labor cost	Low	High
3.Operating rate	80-90%	50%
4.Local market	Yes	No
5.Distance to market	Long	Short
6.Technology	Good	Better than Siderca

#### Future prospects

At the moment, Siderca's competitive position is not so bad. However, there is a problem when future prospects are considered. This is because P.T. Seamlesspipe

Indonesia Jaya has a plan of manufacturing green pipes which are now imported from Siderca with an investment of US\$200million for a hot rolling mill and with a supply of billets from P.T. Krakatau Steel, one of shareholders of the company, in 1997-1998. It means that if the plan is implemented, Siderca will lose the market unless it can capture Japanese steel mills' market or cultivate a new market.

### (11) Leather

#### Leather and leather industry as an exporting industry

The industry of leather and leather products is one of major contributors to Indonesia's foreign exchange earnings. Exports of the industry increased by 80% per annum in the past five years. Leather shoes accounted for 80% of the industry's total export value in 1993. The Department of Industry projects that the export value of leather and leather products will expand to US\$2,940 million in 1998 from US\$1,234 million in 1993.

Table 8.23 Export of Indonesia's Leather and Leather Products

(Unit: US\$ million)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Export	132	318	577	984	1,234	1,332	1,585	1,909	2,467	2,940

Source: Department of Industry.

Table 8.24 Value of Indonesian Export of Leather Products in 1993

	Value (US\$ million)	Share in total (%)
Tanned leather	45	3.7
Leather shoes	987	79.9
Leather handicraft products (bags, jackets, etc.)	202	16.4
Total	1,234	100.0

Source: Department of Industry.

#### Import of tanned leather

The tax scheme for the import of tanned leather is as follows.

- Import duty                      nil
- Surcharge                        nil
- VAT                                10%
- Tax on luxury goods            nil

Although Indonesia's leather product industry is a typical exporting industry, the country has to import basic materials, that is to say, tanned leather. Indonesia's tanned leather import have continued to increase both in volume and value. Of different types of tanned leather, cow leather holds around a 94% share in terms of volume and value.

Major suppliers are Korea, Taiwan, and the U.S.A. Imports from Argentina was only 2% of total imports in 1993, but this figure may a little underestimate the penetration of Argentine leather into the Indonesian market. It is because it dose not

include re-export products from Hong Kong and Singapore which are imported from Argentina. Most of leather importers are shoe makers. They import directly from exporters or through brokers. There is no restriction on the import of leather.

Table 8.25 Import of Tanned Leather

(Unit: tons, US\$ million)

	1989	1990	1991	1992
Volume	2,316	9,391	14,883	20,166
Value	21	95	183	258

Source: Central Bureau of Statistics.

Indonesia's dependency on imported tanned leather is attributable to investor's little interest in the domestic tanning industry, which is, in turn, due to difficulties in procuring raw leather and expensive production equipment for tanning. The difficulties in procuring raw leather is brought about by lack of large-scale animal farming businesses in Indonesia. Therefore, the import position of tanned leather in Indonesia will remain unchanged in the future.

#### Competitiveness of Argentine tanned leather

In Indonesia, Korean leather holds the best selling position. Korean leather has advantages over Argentine leather in the following four aspects.

- 1) In Indonesia there exist many Korean shoe makers who are importers of tanned leather, while there are no Argentine shoe makers in the country. In other words, Korean shoe makers have moved their production bases from Korea to Indonesia, where labor costs are far lower than in Korea. It is natural for those Korean shoe makers to import leather from Korea than Argentina.
- 2) The time required from order receipt to delivery is shorter. It is usually three months in the case of Korean supply, while it is seven months in the case of Argentine supply. This is mainly Korea is located nearer Indonesia than Argentina but also Korean responses to orders are more prompt and flexible. Such factors in getting raw materials are very important because most of leather shoe makers, consumers of leather, are small- and medium-sized.
- 3) Korean leather suppliers accept a request of buy-back of leather whose quality is found to be unsatisfactory after delivery, while Argentine suppliers do not accept for the reason that they supply standard quality products.
- 4) Korean suppliers sometimes sell their products with credit of six months, while the Argentine payment condition is always cash payment.

## (12) Footwear

### Production

The footwear industry is one of major exporting industries in Indonesia. According to JETRO, there existed 82 footwear producing companies in Indonesia in 1992. Their production capacity was around 72 million pairs. Among 82 leading companies, companies with foreign capital was 16 and their total capacity was 30 million pairs. Most of foreign capital was Korean and Taiwanese.

Footwear production expanded at a high growth rate ranging from 8% to 48% per annum. A substantial portion of products are exported mainly to the U.S.A., U.K., Germany, and France.

**Table 8.26 Production of Footwear**  
(Unit: 1,000 pairs, %)

	Production	Growth rate
1987	17,891	-
1988	19,350	8.2
1989	28,602	47.8
1990	30,328	27.0
1991	48,077	32.3

Source: JETRO.

One of characteristics in footwear production is that international brand makers such as Nike, Adidas, and Reebok have established large production bases under license agreements with Korean or Taiwan companies. Its implication is that Argentina's big three footwear companies can not export to Indonesia because those companies have concluded license agreements with the international brand companies in Argentina.

### Import of footwear

The tax scheme for the import of footwear is as follows.

- Import duty	40%
- Surcharge	nil
- VAT	10%
- Tax on luxury goods	35%

The footwear industry of Indonesia is regarded as an international exporting industry from the world. Its export amounted to US\$1,355 million in 1992 and US\$1,711 million in 1993. These are much larger than Argentina's US\$26 million in 1992. At the same time, Indonesia imports footwear worth US\$109m mainly from Korea, Taiwan, and China, though the import is mostly parts of footwear.

### Import from Argentina

Import from Argentina is negligibly small. This is because Argentine products can not hold competitiveness vis-a-vis Korean or Chinese products due to a difference in labor costs. Export from Argentina will be only possible for a product with high quality and an internationally famous brand.

### **(13) Food processing machinery**

#### **Main user industry**

There are many types of food processing machinery. In this study, fruit and vegetable processing machinery was investigated, considering the export possibility of Argentine food processing machinery.

The pineapple canning industry is one of user industries in Indonesia. There exists a giant company named P.T. Great Giant Pineapple Co. The company was established in 1979 and has grown to the third largest pineapple canning company in the world with a capacity of 300,000 tons per year in 19 production lines. Their local market share is more than 99% and 99% of their output is exported to the U.S.A., Canada, European countries, Middle East, Australia, Taiwan, Korea, and Japan. Their share in the world market is 12% and is only behind Dole and Delmonte.

#### **Import of pineapple processing machinery**

The tax scheme for the import of food processing machinery is as follows.

- Import duty	5%
- Surcharge	nil
- VAT	10%
- Tax on luxury goods	nil

Indonesia imports food processing machinery from various sources. Major source is the U.S.A., Italy, Germany, U.K., Switzerland, and Thailand. Thailand has a longer history of pineapple canning than Indonesia. For this reason, Thai's pineapple processing machine industry has high competitiveness.

According to the company, they have not imported from Argentina. They have never been approached by Argentine manufacturers. They say that they do not know in what kind of machinery Argentine manufacturers have competitiveness. They recommend Argentine manufacturers to exhibit their products in some conventions which are quite often held in Jakarta every year.

As for the import of food processing machinery as a whole, Indonesia imported US\$95 million and main suppliers were Japan, Italy and U.K.

### **8.2.3 Export promotion measure in Indonesia**

Indonesian export, especially export by small- and medium-sized companies, has increased remarkably since the mid 1980s. The National Agency for Export Development (NAFED) has made a great contribution to the increase. NAFED was established in 1971 as a special service agency of the Indonesian Ministry of Trade. Its primary role is to assist Indonesian businessmen seeking access to new international markets.

NAFED provides market information and technical assistance to exporters. Generally speaking, a lack of information on export markets poses an obstacle to export by small- and medium-sized enterprises. Small enterprises mostly lack contact with potential buyers. They are also less experienced in matching their products with market needs. Even if they can do by themselves, it costs more when they do independently.

NAFED helps the private sector to solve these problems by organizing seminars, exhibitions, and export promotion missions. NAFED holds around 300 staff, of which 50 staff work in Indonesian trade centers located in 13 cities all over the world or as commercial attaches in 24 overseas countries.

A NAFED high ranking officer stresses that government initiatives are very important in promoting export by small- and medium-sized companies because they lack information necessary for export business in general and funds for finding new markets. He also argues that this sort of organization should be established within a cabinet or as a special organization to the President, though NAFED was established under Ministry of Trade. This is because its work must cover not only the trade of goods and services but also the development of infrastructure.

### **8.2.4 Suggestions for measures to be taken for export expansion**

Indonesia is abundant with natural resources like Argentina, therefore self-sufficiency in basic materials is possible. However, it will take some time for Indonesia to achieve self-sufficiency. Indonesia's per capita income is still low and, therefore, it is difficult for a country with higher per capita income to export products Indonesia can locally produce. Considering these, it is suggested that Argentina takes a strategy of concentrating in export to Indonesia in the areas of agricultural products and basic materials in which Indonesia's achievement of self-sufficiency is difficult in the short term.

It is recommended to take some deliberate measures for export expansion, taking account of the low profile of Argentine products, relatively small lots of supply for some products, and the long distance between Argentina and Indonesia. These measures are as follows.

**(1) To have a definite strategy for the Indonesian market**

There exists a high possibility of Argentina's export expansion to this market. However, Argentine exporters can not expect that their efforts for export expansion bear fruits in the short term because it takes some time for Argentine products to penetrate the market under their low profile and the less exposure of Argentine products to the Indonesian people. It means that it will take some time for Argentine exporters to make a profit from exporting to the market.

It is necessary to follow a long-term-profit-oriented philosophy for management, to formulate a definite business strategy for the Indonesian market based on such a philosophy, and to allocate some of their management resources to the market.

**(2) To establish a business base in Asian**

The distance between Argentina and Indonesia is long. It is not sufficient for Argentine exporters to carry out all of operations regarding their export from Argentina. It is recommended for them to have some types of business bases in the Asian region. The best way is to have a business base in each market of the region. However, it is inefficient and very costly. It is recommended to establish a regional headquarters in Singapore or in Hong Kong and its representative office in each country of the region including Indonesia. Some functions of the headquarters will be as follows.

- Information gathering
- Market research
- Marketing
- Market promotion
- Delivery
- After-sale services and treatment of claims from clients

It is worth studying the possibility of institutional support for some of the above functions since it is too expensive for each exporter to do all these functions. Some measures for reducing costs should be examined. AUSTRADE, an Australian governmental organization, is referred to as an organization that provides institutional support for these functions.

**(3) Political support by the Argentine government**

The import of basic and important products is controlled by the Indonesian government. Under such a situation, strong political support by the Argentine



government will be a useful measure for export expansion. Periodical trade talks between the two governments should be requested by the Argentine government for this purpose.

**(4) To establish a special business network with Chinese businessmen**

In Indonesia businessmen of Chinese origin control distribution channels. It is well-known that they do business locally and internationally, using their own information networks. Decision making is also done based on information obtained through these networks. This implies that it is almost impossible to export Argentine products to this market unless they are present in the Chinese information networks. This is likely to occur even when the products themselves hold competitiveness against products of other countries. To have access to those Chinese business networks seems to be very important.

**(5) To keep constant and good contact with influential importers**

In Indonesia, in some areas, only handful registered importers are allowed to import products. It is easy to know who they are. To keep contact with these importers is very important.

**(6) To increase export capacity**

Interviews with importers in Indonesia revealed that the problem in the export expansion of some products is not less competitiveness but lack of export capacity including infrastructure. Argentina can lose easily an opportunity of export expansion. To increase export capacity is inevitable.

**(7) To invite a buyers' mission from Indonesia**

Information on Argentine exportable products is very limited in Indonesia. Even an importer who has been importing feed for animals for many years does not know what kind of products Argentina can produce and export. It is recommended to organize a buyers' mission to Argentina to acquaint them with the country and its products.

## **8.3 Foreign Direct Investment by Indonesia**

### **8.3.1 Indonesia as a net capital importer**

Indonesia is a net capital importer. Data on the amount of direct investment abroad are not available because investors are not required to report to Bank of Indonesia or the Ministry of Finance. According to Bank of Indonesia, direct investment seems to be still in a small quantity, though it is increasing, especially investment by Chinese conglomerates. Major players are Chinese groups and their

direct investment is mainly in real estate and light industries such as textiles and food. However, they extend their investment to infrastructure business such as telecommunications.

### **8.3.2 Geographical distribution of foreign direct investment**

Foreign direct investment by Indonesian investors is directed mainly to the Asian region. China, Vietnam, Hong Kong, Malaysia, Thailand, and Singapore are major destinations. Investment in Latin American countries is almost nil.

### **8.3.3 Factors to be taken into account in decision-making of investment**

It is said that Chinese investors determine their investment areas taking account of the following four factors.

- Labor cost
- Easiness of communication
- Market size
- Similarity in culture

The reason why China or Vietnam is dominantly selected for their investment is that these countries have Chinese or ethnic Chinese, which makes it easy for Chinese investors of other countries to communicate with local people. Generally speaking, many Chinese business groups are still family-run and, therefore, human resources are not sufficient to expand their business. When they invest, they put stress on the similarity of culture. By doing so, they minimize the risk in investment. For the same reason, it is said that direct investment abroad by Chinese business groups will not increase up to 50% of their total investment. To Chinese investors, Latin American countries lack all of the above four factors.

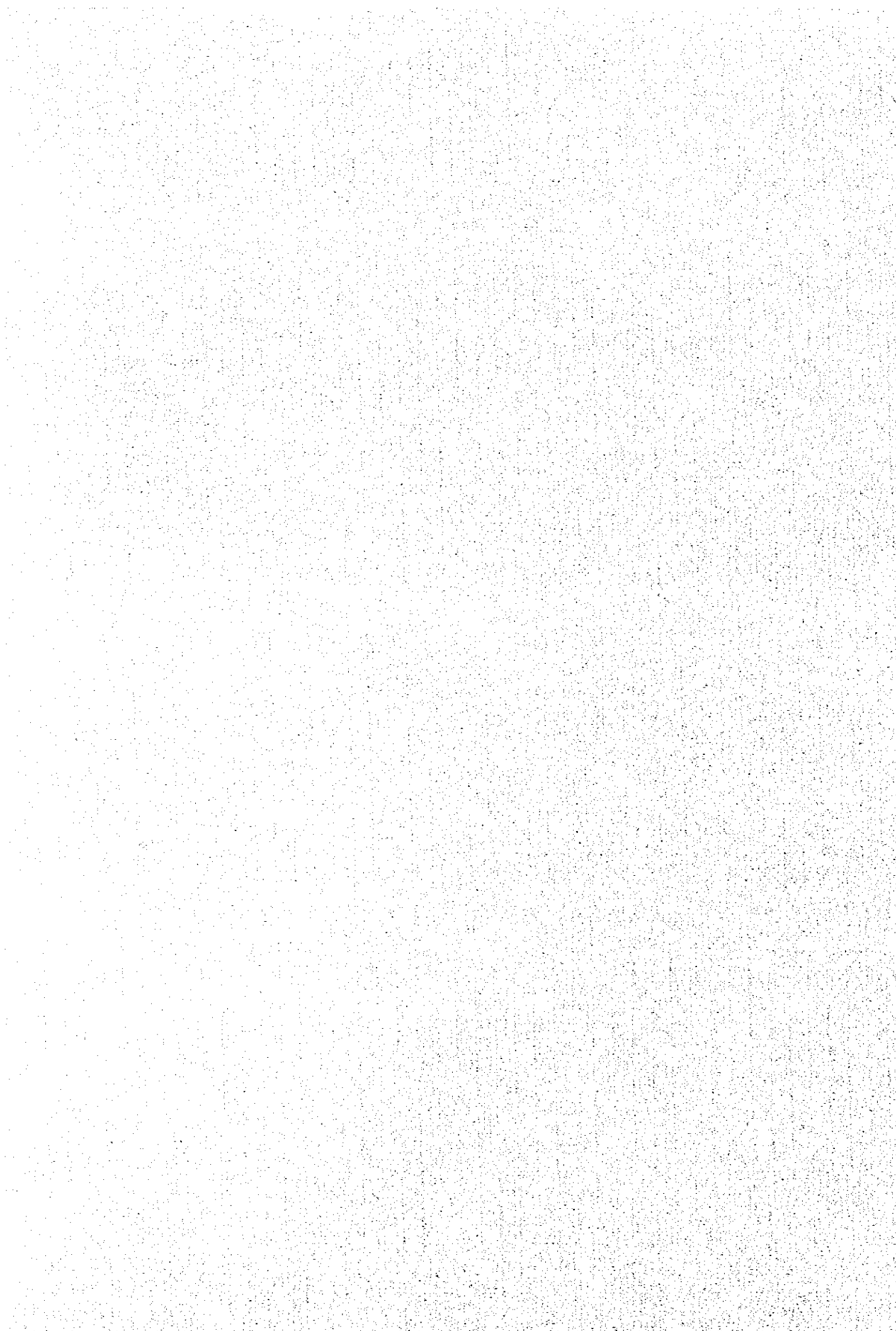
### **8.3.4 Suggestions for attracting FDI based on Indonesian experiences**

Indonesia has taken a policy of attracting foreign direct investment since 1967. It is only five years ago, however, that direct investment began to accelerate. According to BKPM, the Investment Coordination Board of Indonesia, the most effective measures for attracting direct investment are deregulation for investment because it usually makes approval procedures simpler and less bureaucratic. Argentina could learn some measures from their experiences.

## ***Chapter 9***

### ***Thailand***

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## **9. Thailand**

### **9.1 Profile of the Thai Market**

#### **9.1.1 Overview of the Thai economy**

Thailand has a land area of 514,000 km<sup>2</sup> and a population of 58 million. Although the population consists of Thai, Lao, Malay and Chinese ethnic groups, 95% of its population are Thai-speaking Buddhists. The urban population is highly concentrated in Bangkok (8.5 million), compared with other major cities, e.g., Nakhon Ratchasima (205,000), Chiang Mai (164,000), Haad Yai (138,000), Khon Kaen (131,000), and Ubol Ratchathani (130,000).

Thailand's economy recorded a double-digit increase in real GDP growth in 1989 (12%) and 1990 (10%) (Table 9.1). This growth, however, brought about inflation, infrastructure bottlenecks, skilled labor shortages, and rapidly rising wages. The manufacturing and service sectors, particularly tourism, were buoyant of growth in recent years. The growth of agriculture, forestry and fisheries shows -4% in 1990, compared with manufacture's 14.3%. The economic growth, still higher than most of Asian countries, slowed down after 1991, easing inflation and reducing the current account deficits as a proportion of GDP.

Thailand's economic growth has been based on the agricultural sector with traditional exported goods of rice, rubber, tin and teak. Industrialization and the diversification of products have taken place since the 1960s and the dominance of agriculture has been reduced. The economic growth of the 1970s was attributed to exports of agricultural products, such as cassava, sugar, and pineapple, and new manufactured goods, mainly textiles and garments.

However, there was a big change in the economic structure in the 1980s (Table 9.2). The share of agriculture in total GDP dropped from 20% in 1980 to 13% in 1991 while the share of manufacture increased from 23% to 29% as industrialization rapidly progressed. The share of trade also has exceeded agriculture since 1988. Despite the declining importance of agriculture in total GDP, a large part of the population still relies on the sector. Agroindustry contributes around 30% in total exports and is regarded as one of the most important industries by the Thai government.

Table 9.1 Major Economic Indicators of Thailand

	1989	1990	1991	1992	1993
Population (Million)	55.21	56.08	56.92	57.76	na
GDP per capita (US\$)	1230	1432	1620	1796	na
Real GDP growth	12	10	8.2	7.4	7.5
Growth of GDP by origin					
Agriculture, forestry and fisheries	6.6	-4	4.5	3.7	1.7
Non-agriculture, forestry and fisheries	13.1	12.7	8.8	8	8.4
Manufacturing	na	14.3	9.4	10	10
Construction	na	23	17.5	4.4	11.1
Unemployment rate (%)	3.6	3.9	3.1	3	3.2
Inflation rate (%)	5.4	6	5.7	4.1	3.2
Government surplus/deficit (% of GDP)	3.3	5	5.2	3.2	2.3
Exchange rates (Baht / US \$)	25.702	25.585	25.517	25.4	25.32
Trade balance (US\$ Million)	-5455	-9971	-9692	-8079	-9558
Exports	19839	22795	28236	32102	35902
Imports	-25294	32765	37928	40181	45460
Current account balance	-2529	-7278	-7575	-6602	-7583
Capital account balance	5922	8083	11549	7972	12323
Overall balance	4338	2228	4405	1169	5213

Source: Bank of Thailand, *Economic Performance in 1993 and Outlook for 1994*.

Bank of Thailand, *Annual Economic Report 1991, 1992*.

Bank of Thailand, *Key Economic Indicators*, Dec. 1992, Dec. 1993.

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

Table 9.2 Share of GDP by Industrial Origin

	1980	1986	1988	1989	1990	1991
Agriculture	20	18	16	16	14	13
Mining	0	2	2	2	2	2
Manufacturing	23	23	26	27	28	29
Electricity, gas and water	2	2	2	2	2	2
Construction	5	5	5	5	6	6
Trade	18	16	17	17	17	17
Transport and communications	7	7	7	7	8	7
Finance	3	3	4	5	6	5
Public administration	4	4	4	3	3	3
Others	17	18	17	16	15	15
GDP	100	100	100	100	100	100

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

### 9.1.2 Trends of imports

Until recently, Thailand has a typical LDC trading pattern, exporting primary products and importing capital and consumer goods and raw materials for industrial use. As a result of industrialization in the import-substitution sector, imports of consumer goods have decreased, and imports of capital and intermediate goods have increased. In 1987, capital intensive intermediate goods accounted for 25.7% of total imports and capital goods accounted for 25.9%, both increasing by almost 5% from 1980. Non durable consumer goods and durable consumer goods accounted for around 1% and less than 10%, respectively, throughout the 1980s.

A change in the trends of imported goods can be seen more clearly in terms of commodity. Machines and equipment accounted for 42.7% of total imports in 1992, which increased by around 15% since 1985 (Table 9.3). Basic manufactured goods are other major imports, accounting for 22.2%. Mineral fuels and chemicals show decreasing trends; the former decreased from 22.6% in 1985 to 8.1% in 1992 and the latter from 14.0% to 10.1%.

Japan has steadily maintained the largest share in Thailand's imports, around 30%, from 1988 to 1992, followed by the U.S.A. (11%), Singapore (8%) and Germany (5%) (Table 9.4). Australia's share is around 2% as compared with Argentina's share of less than 1%.

### 9.1.3 The consumer market

Bangkok is a center of commercial activities and distribution channels. Exports of primary products come from local areas to Bangkok while some of imported goods are carried from Bangkok to local areas. Distribution channels are traditionally dominated by merchants of Chinese-ethnic origin. In general, Chinese-owned large-scale trading companies control export-import activities, while Japanese and Western trading companies deal with machinery and chemical products. Domestic distribution is dominated by Chinese-owned small-scale companies, and Indian-owned companies sell a small portion of trading textile and miscellaneous goods.

There are three types of the consumer markets: *tarat* (markets), specialized shops, and department stores. In recent years, the number of the traditional *tarat* and specialized shops has decreased, while the number of modern department stores has increased. Japanese department and super stores began opening stores in Bangkok in the 1970s and continued to expand throughout the 1980s. Central Group, one of local conglomerates, has also developed a chain of department stores around the center of Bangkok. These new stores contribute to the modernization of distribution.

The average household income has doubled in the past five years along the economic development. In particular, the income of the middle class has significantly increased and their life styles have dramatically changed. The Thai consumer market has been widened and diversified. As younger people tend to adopt new products more quickly, the larger percentage of younger people in the total population has amplified these changes. Urbanization has also had impacts on the consumer behavior.

Table 9.3 Thailand's Imports

Composition of Imports by SITC Section								(%)
	1985	1986	1987	1988	1989	1990	1991	1992
Food and live animal	3.8	5.4	4.2	4.7	4.5	3.1	4.4	4.3
Beverage and tobacco	0.9	0.8	0.5	0.5	0.5	0.5	0.6	0.5
Crude materials excl. fuels	6.6	6.7	7.4	6.8	6.8	5.1	6.2	6.4
Mineral fuels, etc.	22.6	13.4	13.2	7.6	9.0	7.3	9.1	8.1
Animal, vegetable oil and fats	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chemicals	14.0	16.1	15.2	12.6	11.2	8.0	9.2	10.1
Basic manufactures	16.8	18.1	19.6	21.4	23.0	18.0	24.6	22.2
Machines, transport equipment	28.1	30.7	32.5	39.6	37.9	32.6	40.5	42.7
Misc. manufactured goods	5.6	6.4	5.0	4.7	4.4	23.2	3.0	3.0
Unclassified goods	1.5	2.2	2.4	2.2	2.6	2.0	2.2	na
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	97.5
Total (US\$ Million)	251169	241358	334209	513114	662679	1067448	958832	1028925
Growth rate								
	1985	1986	1987	1988	1989	1990	1991	
Food and live animal	38.6	6.6	73.8	23.8	11.9	24.9	6.6	
Beverage and tobacco	-11.5	-24.1	73.3	34.3	55.3	2.6	-4.4	
Crude materials excl. fuels	-1.9	52.4	40.7	30.1	19.7	9.8	10.5	
Mineral fuels, etc.	-43.0	36.5	-12.1	54.1	31.0	11.9	-4.5	
Animal, vegetable oil and fats	-69.0	14.4	176.0	37.1	-4.1	7.7	43.4	
Chemicals	10.3	31.1	26.6	15.2	15.3	3.2	18.0	
Basic manufactures	3.6	49.8	67.8	38.6	26.7	22.6	-3.1	
Machines, transport equipment	5.2	46.4	86.8	23.6	38.7	11.6	12.9	
Misc. manufactured goods	10.7	8.4	42.3	21.2	752.9	-88.4	6.7	
Unclassified goods	38.6	48.1	39.3	55.0	23.0	2.1	na	

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

The tendencies observed among Thai consumers include: 1) preference for new products; 2) greater emphasis on efficiency and functions; 3) picky attitude; 4) a quick conversion of money to goods; 5) the purchase and/or use of a good as a status symbol, 6) reciprocal relationships in obtaining money necessary for consumption.

The best selling goods/businesses in recent years in Thailand are: 1) portable telephone sets and office-automation machines (e.g., computers) in 1988; 2) chain stores of ethnic foods and economic magazines in 1989; 3) Scotch whisky and restaurants in outskirts in 1990; 4) Unled gasoline and video camera recorders in 1991; 5) tours to neighboring countries and satellite antennas in 1992.

Deregulation has been affecting the Thai market since the early 1980s. Many new businesses such as bakeries, coffee shops, leasing, job training, credit-cards, and man-power services have come into Thailand along the opening of the Thai economy and the globalization of businesses. These developments in the Thai consumer market imply that Argentina should seriously examine the possibility of expanding exports of goods (e.g., wine and beef) and services targeting the middle-class.



Table 9.4 Share of Major Suppliers to Thailand

	1988	1989	1990	1991	1992
Japan	29.1	30.4	30.6	29.5	29.4
The United States	13.6	11.3	10.9	10.7	11.8
Singapore	7.4	7.7	7.5	7.9	7.3
Germany	5.4	5.1	4.9	5.6	5.3
Korea	2.8	2.9	3.2	4.3	4.4
Malaysia	2.1	2.6	3.4	3.2	3.9
China	3.4	2.9	3.3	3.1	3.0
United Kingdom	2.9	2.5	2.7	2.2	2.3
France	2.4	1.6	2.4	1.4	2.3
Australia	1.7	1.9	1.7	1.7	1.9
Argentina	0.3	0.3	0.4	0.3	0.1

Source: United Nations, *International Trade Statistics*, 1993.

## 9.2 Structure of Imports and Argentine Export Offer

### 9.2.1 Imports of Argentine exportable products

Table 9.5 shows Thailand's imports of products which Argentina can export in competition with the world major exporting countries.

Table 9.5 Argentine Export Offer in 1993

HS Code	Commodity	Total imports (US\$ Million)	Imports from Argentina (%)	Imports from major competitors (%)		
0401, 0402 0403, 0405 0406	Milk, cream, butter and cheese	199	-	Australia (28)	New Zealand (21)	Czech (10)
1001	Wheat	114	-	U.S.A. (57)	Saudi Arabia (28)	Australia (2)
2204	Wine	6	-	France (51)	Australia (7)	U.S.A. (7)
2402	Tobacco, unmanufactured	52	-	U.S.A. (100)		
4101	Hide & skin Tanned leather	186 246	- (7)	China (31) Korea (23)	Australia (21) U.S.A. (9)	U.S.A. (14) Taiwan (7)
4202	Articles of leather	18	-	Taiwan (26)	Italy (12)	France (8)
47	Pulp	229	-	U.S.A. (21)	Swaziland (11)	Canada (9)
52	Cotton	447	-	India (14)	U.S.A. (14)	Sudan (9)
7304	Seamless pipes	54	-	Japan (80)	U.S.A. (3)	Germany (3)
7601	Aluminum ingot	130	-	Australia (75)	Brazil (13)	India (3)
7601	Alum. alloy	181	-	Australia (18)	Japan (17)	UAE (15)
8437	Food processing machinery	10	-	Japan (30)	Germany (20)	Sweden (17)
64	Footwear	44	-	Korea (34)	Taiwan (21)	U.S.A. (9)
1005	Maize	2	-	China (49)	U.S.A. (27)	
7209	Flat-rolled products of iron	731	(2)	Japan (70)	Korea (11)	Taiwan (5)

Source: Department of Business Economics, Thailand.

## **9.2.2 Analysis of the penetration of some Argentine products in the Thai market**

### **(1) Milk and milk products**

#### **a. Market situation of milk and milk products**

The market for milk and milk products is segmented into two sectors. One is industrial use or the ingredient sector and the other is the consumer sector. Main products for industrial use are milk powder which is consumed for making ice cream, bakery and confectionery and milk fats consumed for making various food products. Milk powder has a share of 70% in total consumption in the industrial sector, while milk fats has a share of 20%. Main products for the consumer sector are canned milk powder, cheese and butter. These products are sold in supermarkets and department stores or consumed in hotels and restaurants.

Experts of the industry report that demand for milk and milk products has grown by 20% annually in the past five years. The industry expects that such a high growth rate will continue in the coming five years. The high growth in demand in the past and in the future is attributed to three factors: 1) The Thai government has been trying to promote more consumption of milk and milk products for maintaining good health of Thai people; 2) Thai people's life style has changed and still is changing toward more westernized one; 3) The industry has been trying to enlarging market for these products by opening new franchising chain stores like McDonald's and Svenson.

#### **b. Domestic production**

There is only one milk powder producer in Thailand. However, the quality of their products is said to be low because locally produced raw milk is with low protein and high bacteria. There are several local producers of butter and cheese. However, due to the underdevelopment of the dairy products industry in Thailand, the country depends sources of dairy products on imports, especially for products with high quality.

#### **c. Imports of milk and milk products**

The tax scheme for the import of milk and milk products is: Import duty of 40% for milk and cream, not concentrated, 25% for milk and cream, concentrated, and 60% or Baht 20 per kg for cheese and curd and butter; and VAT of 7%.

Thailand imported US\$199 million of milk and milk products in 1993, of which milk and cream counted US\$172 million and cheese and butter US\$27 million. Major suppliers were Australia, New Zealand, and Czechoslovakia. Imports from Argentina were nil. The experts interviewed by the Study Team have never heard about Argentine

products. It means that there has never been sales activity by Argentine exporters for the Thai market.

With respect to export promotion activity in the future by Argentine exporters, the activity of New Zealand Milk Products (Thailand) Co. Ltd. should be referred to. The company was established six years ago with Thai capital but with an initiative of New Zealand Dairy Board. The function of the company is to import milk and milk products from New Zealand and to sell them in the local market with around 100 staff locating all over the country. The company sells their products for industrial use directly to factories concerned and those for consumer use directly to supermarkets and department stores in Bangkok. In up-country areas, their sale is through wholesalers.

Before the establishment of its Thai subsidiary, New Zealand Dairy Board exported and sold their products through local distributors. However, local distributors tended to sell only products which moved fast, and, therefore, the total amount of exports stayed at a level of 700 tons per year. Growth in exports was only marginal. Several years ago, the Board decided to sell their products by themselves and established New Zealand Milk Products (Thailand) Co. Ltd. Due to a local regulation, the Board is not allowed to become a shareholder of the company, but the management of the company is exclusively in the hand of the Board.

Since the company was established, their exports increased to 5,600 tons from 700 tons in a few years, though the increase was also attributable to a favorable market situation. In 1993 its exports recorded 11,000 tons. The Board has 60 similar companies all over the world. In the Asian region, besides in Thailand, it owns companies in Japan, Korea, Hong Kong, Taiwan, China, Indonesia, Malaysia, the Philippines, and Singapore. The Singapore company is a development center for South East Asia. The function of the company is to develop new products directed to the South East Asian market and to help other companies in the region solve their various problems.

## **(2) Wheat**

### **a. Demand for wheat**

Thailand's demand for wheat is around 530,000 tons per year. Wheat is milled for flour, which is mainly consumed for making bakery products and noodles, especially instant noodles as well as shrimp feed.

There are eight flour mills in Thailand. Total production capacity of these flour mills is 4,000 tons per day. The biggest mill is United Flour Mill with a production

capacity of 1,000 tons per day, followed by Laemthong Corp. with a production capacity of 700 tons per day. As wheat can not be cropped in Thailand, these flour mills depend wheat entirely on imports.

#### **b. Imports of wheat**

The tax scheme for the import of wheat is import duty of Baht 1 per kg and VAT of 7%. Thailand imported wheat of US\$114 million in 1993. Major suppliers were the U.S.A., Saudi Arabia, and Australia. Imports from Argentina were nil.

One of influential flour mill companies interviewed by the Study Team imports wheat consumed in their mills from the U.S.A. with 40-50% of total imports, from Australia with 40%, and from Canada and Saudi Arabia with 10%. Sometime ago the company was approached by an agent representing an Argentine wheat exporter and tested the sample sent by the agent. However, the sample test showed that the quality did less fit their needs than American or Australian wheat. The quality of Argentine wheat was not bad itself but, considering the price, inferior to wheat of other sources. This is the reason why the company does not import wheat from Argentina.

Another company interviewed also notes that the price of Argentine wheat was too high when they checked Argentine wheat in the past. This is the reason why they do not import Argentine wheat. The company says that as long as price and quality are competitive, there is no reason why they do not import from Argentina. They suggest that Argentina send another sample. The company imports wheat through Japanese trading firms.

According to the companies interviewed, American and Australian exporters have both strong export promotion bodies of wheat and these bodies pressure Thai companies to buy their wheat. The bodies are US Wheat Association in Singapore and Australian Wheat Board in Australia. The staff of these bodies visit importers once or twice a year to sell their wheat. The Thai companies admit that it is difficult to reduce imports of American or Australian wheat drastically since they have held a good relation with these suppliers for more than 25 years, but it is not difficult to give some shares of import to Argentine wheat as long as the above-mentioned conditions are met.

### **(3) Wine**

#### **a. Demand for wine**

Wine consumption has increased by almost 30% per year in the last few years in Thailand. The major factor lying behind the tendency is an increase in expertise of Western companies. In a couple of years, the number of companies of Western origin

increased, which has resulted in an increase in expertise. They have a habit of drinking wine and such a habit has begun to penetrate into Thai people, especially into the people of a high income class. An increase in the number of tourists is another factor for the increase in wine consumption. Almost 80% of wine is consumed at hotels and restaurants and the remaining 20% is sold at supermarkets and department stores for home consumption.

**Table 9.6 Wine Consumption or Imports of Wine**

Year	1989	1990	1991	1992	1993
1,000 liter	1,488	1,454	1,248	1,627	2,043

Source: Department of Business Economics

#### **b. Imports of wine**

There are local wineries, but due to their low quality and too sweet taste, the market share of local products is very small. Imported wine is a main stream. In Thailand, only the import of finished wine is allowed, i.e., the import of bulk wine or malt is not allowed. Anyone can import wine with the government's approval. Market leaders in Thailand are Ital Thai, Sagram, and Pernod-Ricardo, which are all influential distributors. These distributors import wine directly from suppliers and sell to the market without involving wholesalers or agents. Only exception is the sale to up-country areas where they sell through wholesalers or agents.

The tax scheme for the import of wine is import duty of 60% or Baht 20 per liter and VAT of 7%. Thailand imported wine of US\$6 million in 1993. Major suppliers were France, the U.S.A., and Australia. Imports from Argentina were nil. One of the interviewed distributors reports that many years ago one Argentine exporter approached the company for selling their wine. However, due to the strong presence of French wine and the relatively limited wine market, the company declined to deal the Argentine wine. Since then there is no approach from Argentine exporters.

Recently, knowing a remarkable and favorable change in the Thai wine market, South African and Chilean wineries have begun to sell their wines aggressively. The above distributor evaluates the competitiveness of major suppliers as follows:

- 1) French wine: Cheap and not so good quality but well sold only with image
  - 2) Italian wine: Quality is very good, price is also reasonable, but does not have good image for Thai people
  - 3) U.S. or Australian wine: Quality and price are good, the market potential is large
- French exporters' strength lies in its sales power. Sopexa, an organization for wine export promotion which is supported by the French government and has offices all over the world, holds a French food and wine fair every year in Thailand and promotes their wine.

#### (4) Tobacco, unmanufactured

##### a. Demand for tobacco leaf

In Thailand, cigarettes are manufactured only by Thailand Tobacco Monopoly, a state owned company, due to the government policy of preventing people from excessive smoking for health concern. The government raises almost every year the price of cigarette to reduce cigarette consumption.

The current production of cigarettes by the company is 45 billion pieces or 2.25 billion packs, while the total consumption of cigarettes is around 46 billion pieces. The balance, 1 billion pieces, is imported. The import of cigarettes is free, but importers have to pay a very heavy tax, that is to say, 60% import duty plus a 30% excise tax.

For producing 45 billion pieces of cigarettes, Thailand Tobacco Monopoly consumes around 40,000 tons of tobacco leaf. Thailand grows tobacco leaf locally and exports part of the production. However, the company imports 8,000 tons of tobacco leaf and blends them with locally grown leaf because cigarettes made of 100% local leaf can not meet Thai consumers' special taste for aroma. With the restrictive policy, the consumption of cigarettes is expected to grow only at a marginal rate. Therefore, the demand for imported tobacco leaf cannot be expected to expand substantially.

##### b. Imports of tobacco leaf

Tobacco leaf with special tastes and aromas is currently supplied by the U.S.A. Thailand imported US\$52 million of tobacco leaf from the U.S.A. in 1993. However, the company has recently decided to diversify sources of supply and to import similar kinds of tobacco leaf from Brazil up to 180 tons because of an increase in the price of American products.

The company explains that it selected Brazil as a new source because the country is one of world largest exporters of tobacco leaf only after China and the U.S.A. and 11 international dealers in New York recommended the company to import from Brazil. Argentina was not mentioned by these dealers. The company considers that the name of Argentina as a tobacco leave exporter is not yet well established.

Table 9.7 Imports of Tobacco Leaf

(tons)				
1989	1990	1991	1992	1993
7,514	9,179	7,773	7,796	7,533

Source: Department of Business Economics

## (5) Leather

### a. Leather industry as one of exporting industries

The "leather" industry here includes not only tannery but also the manufacturing of leather products. Thailand's leather industry is one of exporting industries. The development of the industry goes back to the 1970s. In the beginning, through the 1970s, the industry developed by catering to domestic demand for leather products. At the same time, the industry promoted the export of raw hide and skin with good quality. It resulted in shortage of leather materials consumed locally. The government took a policy of restricting the export of raw materials while promoting the export of leather products. Since the end of the 1970s, the leather industry began to develop as an export industry.

Reflecting the above situation and shortage of raw materials, the leather industry in Thailand is in a position of importing raw materials and exporting leather products as shown in the table below. Exports by the leather industry had a share of 3% in the country's total exports in 1993.

**Table 9.8 Imports and Exports of Leather in 1993**

	Imports (US\$ Million)	Exports (US\$ Million)
Raw hide and skin	186	3
Tanned leather	246	169
Leather goods	18	534
Shoes (Parts)	45 (34)	1,117 (69)
Total	495	1,823

Source: Department of Business Economics

### b. Demand and supply situation of raw hide and skin and tanned leather

Recent data for demand and supply of raw hide and skin and tanned leather are only available for 1990. Thailand is one of countries that produce raw hide and skin, but the production is far less than domestic consumption. Dependency on imports is around 60-70%. Most of raw hide and skin produced is tanned locally. However, 30% of these tanned leather is exported instead of being consumed locally. Domestically available tanned leather is 13,000 tons, not enough to meet domestic demand for tanned leather. Around 60% of total domestic demand has to be imported. The future prospect for demand of raw hide and skin and tanned leather depends on external and domestic demands for leather products and imports of these products.

**Table 9.9 Demand and Supply Situation of Raw Hide and Skin**

	Production	Import	Export	Domestic consumption (tons)
1988	39,030	69,288	1,872	106,447
1989	40,033	66,886	810	106,110
1990	41,062	84,053	489	124,626

Source: Japan External Trade Organization

**Table 9.10 Demand and Supply Situation of Tanned Leather**

	Production	Import	Export	Domestic consumption (tons)
1988	17,172	10,037	5,458	21,746
1989	17,963	12,061	3,778	26,247
1990	18,791	19,876	5,722	32,945

Source: Japan External Trade Organization

Thailand's export demand for leather products has expanded with its cheap labor and the availability of good raw materials, but its advantage has been fading. The future prospect for export is not so bright as before. On the other hand, imports of leather products have shown an large increase. China and Indonesia, where labor costs are less expensive, have begun to penetrate the Thai market. This will pose a deterrent factor for the Thai domestic production of leather products.

With respect to domestic demand, the major demand sector is: 1) Sports shoes with a share of 40% of the market; 2) Casual shoes with 30%; and 3) Leather goods (e.g., bags and belts) with 30%. The demand for sports shoes has expanded in the past due to changes in lifestyle and increases in household income in Thailand. The industry expects the growth to last in the future for the reason that the government encourages people to do various sports for maintaining good health conditions. The demand for casual shoes is also expected to grow due to increases in household income. On the other hand, the demand for leather goods is expected to increase only at a modest growth rate. All in all, domestic production of leather products, or domestic consumption of tanned leather, will grow with only a moderate rate in the future.

#### c. Imports of raw hide and skin and tanned leather

The tax scheme for the import of leather is as follows.

	Import duty	VAT
Raw hide and skin	30%	7%
Tanned leather	10% or Baht 1.3 per kg	7%

Thailand imported US\$186 million of raw hide and skin and US\$246 million of tanned leather in 1993. Major suppliers by item are shown in the table below. Argentina is one of major suppliers of tanned leather, though its supply of raw hide and skin is negligibly small.



Table 9.11 Major Suppliers

Raw hide and skin		Tanned leather	
Country	(%)	Country	(%)
China	31	Korea	23
Australia	21	U.S.A.	9
U.S.A.	14	Taiwan	7
Netherlands	11	Argentina	7
Germany	5	China	6
(Argentina)	(-)		

Source: Department of Business Economics

**d. Imports from Argentina**

Argentina's export performance of tanned leather is very well in the Thai market. The good performance is attributed partly to exporters' close and direct contact with users. One of exporters has a sales office in Bangkok and a regional headquarters in Hong Kong, which supports the Bangkok office as well as sales offices in other countries. The Bangkok office has aggressive sales activity for the Thai market. The office keeps a close contact with their clients everyday. Their activity covers not only the collection of orders from their clients and the delivery of products to them but also the development of new leather products that use their tanned leather in collaboration with their clients. A quick response to requests of their clients is also their very important function. The head of the company is an Argentine. Staff of its head office in Argentina visit Bangkok for support several times a year.

The possibility of expansion in the market share of tanned leather by Argentina solely depends on the availability of high quality leather. At present, Argentine tanned leather is mainly consumed for making sports shoes. However, it is rejected for making casual shoes and leather goods due to insufficient quality. Requirements for quality for making casual shoes and leather goods are quite high in Thailand. The Argentine exporter asserts that they can sell more leather to the market if higher quality leather is supplied by Argentina.

Other problems in the Argentine leather export are that some of their products have scratches and marks and that delivery is not always done on time, though these problems are not so serious.

Argentina's major competitor is Korea. One of very influential footwear manufacturers, who imports tanned leather both from Argentina and Korea, was interviewed for evaluation of the competitiveness of each supplier. The company has around 3,000 employees and produces 300,000 pairs per month for Reebok and Adidas. These shoes are 100% shipped all over the world. In their consumption of tanned leather, 60% is from Korea, 15% from local suppliers, and the remaining 25% from

Argentina, Brazil, and the U.S.A. Their evaluation on the competitiveness of two suppliers is as follows.

Table 9.12 Comparison of Competitiveness

	Quality	Production term	Delivery term	Treatment of leather with defect
Korea	Even	Less than one month	15 days	Very quick and smooth
Argentina	Even	More than one month	one month	Slow and unsatisfactory

The company orders a required amount of tanned leather one month and a half before a start of production. Korea always delivers their leather within 45 days (30 days for production plus 10 days for shipment plus 5 days for customs clearance) after the receipt of order. Argentina often delivers late since it takes more days for leather production and shipment. Negotiation for defect leather is also slow and unsatisfactory partly because Argentina is located far from countries of consumption such as Thailand. The Argentine exporter is making great efforts to lessen these disadvantages by setting up a warehouse in Hong Kong but still behind Korean competitors as far as delivery is concerned.

Argentina's advantage lies in its abundant reserves of raw hide and skin. Korea has to import raw materials, though at this moment it has reserves enough to supply. If labor costs for tanning leather become more expensive in Korea in the future, it may lose its competitiveness in such a business of importing raw hide and skin and exporting tanned leather.

## (6) Pulp

### a. Demand and supply of pulp

In 1993, there were 43 paper mills with a combined annual capacity of 1,842,000 tons in Thailand. Thailand's paper industry, a major user industry of pulp, has developed with a strong demand for paper and paperboard products. Demand for paper and paperboard is rapidly growing at a double-digit rate in all kinds of areas from kraft paper, paperboard, newsprint, printing and writing paper, and household and sanitary paper due to expansion in per capita income and general economic activities.

The increase in demand has been met by an increase in domestic production, though in some areas such as newsprint and writing and printing paper, domestic production has not caught up with demand and imports have increased.

**Table 9.13 Demand and Supply Situation of Paper and Paperboard**

Year	Capacity (1,000 ton)	Production (1,000 ton)	Import (1,000 ton)	Export (1,000 ton)	Consumption (1,000 ton)	Capacity utilization (%)
1987	723	610	271	55	795	84
1988	774	656	271	50	906	85
1989	870	767	252	64	957	88
1990	965	889	368	53	1,163	92
1991	1,239	1,016	410	48	1,307	82
1992	1,579	1,151	466	72	1,486	73
1993	1,842	n.a	n.a	n.a	1,669	110

Source: Pulp and Paper Industry Club of Thailand

Uniqueness of the Thai paper industry is that it has developed with Taiwanese capital and technology. The paper industry started with Taiwanese capital investment, engineering technology and staff. Taiwanese influence is still strong in the industry even now when many Thai origin capital investment has been made in the industry as well as investment of other countries like Japan.

**Table 9.14 Market Leaders in Major Paper Sectors**

Product	Company	Annual production capacity (tons)
Kraft paper	Hiang Seng Fibre Container	270
	Siam Kraft	260
	Panjabol Paper	277
	Thai Kraft Paper	260
	Thai Cané Paper	100
Printing and writing paper	Thai Paper (172)	172
	Thai Union Paper (70)	70
	Siam Paper (110),	110
	Central Paper (65)	65
Household and sanitary paper	Cellox Paper (14)	14
	Kimberly-Clark (19)	19
	Thai Scott (21)	21
Board and card	The Eastern (47)	47
	Tenma (36)	36
	Banglane (30)	30
	Supattanakorn (36)	36
	Thai Union (76)	76

Source: Pulp and Paper Industry Club of Thailand

With the increase in domestic paper production, demand for pulp also increased. In Thailand, there exist four pulp mills. Their current total capacity is 360,000 tons per year. Among the four pulp mills, only one company (Phoenix Pulp and Paper) produces "market pulp," pulp sold to paper mills. The company's production capacity is 200,000 tons per year. Other three companies (The Siam Pulp and Paper, Bang Pa-in Paper Mill, and Siam Cellulose), whose production capacity is 160,000 tons altogether, manufacture pulp only for self-consumption. In other words, paper mills which do not have pulp mills rest their raw materials on the single local source or imports. In addition, it is said that the market pulp supplier can not expand its production capacity

so easily because of a water pollution problem. All of these mean that dependence on imports as a source of pulp will continue in Thailand.

**Table 9.15 Demand and Supply Situation of Pulp**

Year	Capacity (1,000 ton)	Production (1,000 ton)	Import (1,000 ton)	Export (1,000 ton)	Consumption (1,000 ton)	Capacity utilization (%)
1987	132,000	134,780	113,935	14,040	234,675	102
1988	142,000	151,031	107,736	16,269	242,498	106
1989	152,000	163,620	138,453	27,183	274,890	108
1990	154,000	159,148	119,212	3,143	275,217	103
1991	154,000	162,250	187,050	26,552	322,748	105
1992	191,000	180,140	210,270	24,700	365,710	94

Source: Pulp and Paper Industry Club of Thailand

Thailand needs to import 100 % of soft wood pulp, because pine wood, raw materials for soft wood pulp, is not available in Thailand. At the moment, even demand for hard wood pulp made of eucalyptus and bamboo is of short.

#### **b. Imports of pulp**

The tax scheme for the import of pulp is 10% import duty and 7% VAT.

Thailand imported US\$229 million of pulp in 1993. Origins of imports cover various regions of the world. Major suppliers are, however, the U.S.A., Swaziland, and Canada. The country imports from Brazil and Chile, though their shares in total imports in 1993 were 7% and 6%, respectively. Imports from Argentina were nil.

Paper mills import pulp through agents locating in Bangkok. Agents who sell a large amount visit paper mills quite often and exporters themselves visit paper mills twice or three times a year with their agents.

Two very influential paper mills interviewed by the Study Team report that they have never been approached by an Argentine pulp exporter or an agent representing Argentine exporters. These paper mills have no information about the pulp industry in Argentina. However, they say that they are always ready to begin a business with Argentine pulp exporters if the quality and price of Argentine pulp meet their requirements. They have already diversified sources of supply, but they need to diversify more because they have to mix pulps with different qualities, depending on the market situation. There will be a possibility for Argentina to export its pulp of standard quality if it can supply continuously at a reasonable price. A CIF price must be lower than the sales price of a local supplier by 15% (10% import duty plus a 5% fee for customs clearance and so on).

**(7) Seamless pipes****a. Demand for seamless pipes**

The demand sector for seamless pipes in Thailand is mainly water well drilling and oil and gas well drilling. In Thailand, the former sector seems to be far bigger than the latter. Water well drilling activity has expanded due to the increase of new factories accelerated by direct foreign investment and housing construction and the relatively poor performance of water resources development. The largest drilling contractor in Thailand notes that the total extension of water well drilling is one million meters per year. It consumes seamless pipes of around 66 million. The current boom for water well drilling is said to continue at least for five more years.

**b. Supply of seamless pipes**

Seamless pipes for oil and gas well drilling need to be higher quality than those for water well drilling. Seamless pipes for oil and gas well drilling can not be supplied locally and, therefore, have to be imported. They are imported mainly from Japan through Singapore, free of import duty.

Seamless pipes for water well drilling can be supplied locally and, therefore, are subject to import duty of a very high rate or Baht 1.25 per kg. However, the quality of locally supplied seamless pipes is said to be low. Particularly, the technology of threading pipes is insufficient. In Thailand, water well drilling goes under even 2,000 meters, while Thai seamless pipes can work only for 60-100 meters. However, the high import duty and the inefficient and less transparent customs clearance procedure compel Thai contractors to use these pipes.

**c. Imports of seamless pipes**

The tax scheme for the import of seamless pipes is import duty of 35% or Baht 1.25 per kg (nil for oil and gas well drilling) and VAT of 7%.

Thailand imported US\$54 million of seamless pipes in 1993. Most of them were for oil and gas well drilling. The largest supplier was Japan with a share of 80% in total supply. the U.S.A. and Germany came next but with only 2-3% shares. Imports from Argentina were nil. The above-mentioned large contractor attributed the large share of Japanese manufacturers to: 1) higher quality; 2) quicker responses to inquiry or quotation through their agents in Singapore (their agents hold stocks); and 3) a shorter period for shipment. The contractor also comments that they have never been approached by an Argentine exporter or its agent.

## **(8) Aluminum ingot and alloy**

### **a. Market situation of aluminum ingot and alloy**

Reflecting an increase in automobile production and motorcycle production and an expansion in construction activity, demand for aluminum ingot and alloy has expanded at a fast pace. The annual demand of aluminum ingot and alloy is: 1) 55,000 tons for casting and dycast; 2) 50,000 tons for extrusion; and 3) 50,000 tons for aluminium wire. Demand for casting and dycast has increased by 30% per annum in the last few years. The industry expects that the trend will continue in the coming ten years. Demand for extrusion has also expanded by 7-8% per year.

### **b. Imports of aluminum ingot and alloy**

The tax scheme for the import of aluminum products is import duty of 6% for unwrought aluminum and of 30% or Baht 5 per kg for aluminum alloy bar and VAT of 7%.

The country has to depend ingot entirely on imports as there is no company producing aluminum ingot in Thailand. A substantial amount of alloy also needs to be imported as there are only a few companies producing aluminum alloy. Thailand imported US\$130 million of aluminum ingot and US\$181 million of alloy in 1993. Major suppliers are Australia and Brazil for ingot and Australia, Japan and UAE for alloy. Imports from Argentina were nil for both products.

A company that imports ingot from Australia and produces alloy in Thailand reports that there has never been approach from Argentine suppliers, though the company knows that Argentina is a supplier of aluminum ingot and alloy. The company says that unlike in Japan, where trading companies hold a stock of aluminum ingot and thus ingot is available at any time, trading companies in Thailand do not hold a stock and in the tight market situation consumers of ingot fall in panic. If Argentina can assure continuous supply of ingot, therefore, Thai ingot consumers will be always ready to import from Argentine suppliers.

## **(9) Food processing machinery**

### **a. Pineapple canning industry as a major user industry**

Thailand's pineapple canning industry has a history of almost 30 years. It has developed since Thailand, as well as the Philippines, took over the market shares held by Hawaii and Taiwan in the world market of canned pineapples because of the higher labor costs of pineapple farming in the former two countries. A similar situation is occurring in Thailand. Due to its high labor costs, the Thai pineapple industry has been giving its way to Indonesia, China, Vietnam, and Kenya.

There are 24 pineapple canning factories in the country. The total production capacity is around two million tons per year. The biggest one is Dole, whose share in total production is 13%, followed by Siam Agro Industry Pineapple with 12% and Siam Food Product with 11%. One of the characteristics of the industry is that almost 100% of their production is exported. Major destinations of exports are Japan, Korea, the U.S.A., Canada, Egypt, Saudi Arabia, and Germany. Local consumption of canned pineapples is very small because cheap and fresh pineapples are available to Thai people throughout the year. Another characteristic of the industry is that its development was based on the Taiwanese technology and management style. In the initial stage the industry imported technology from Taiwan as well as machinery.

The industry is shifting the plantation areas of pineapples from the south of Bangkok, e.g., Pechaburi and Chumphor, to the east of Bangkok because of a rise in land prices and labor costs in the traditional areas. Also facing with competition from Indonesia, China, Vietnam and Kenya, the industry has begun to diversify their business by introducing vegetables and dairy products, though the sales of these items are still very small.

#### **b. Imports of food processing machinery**

The tax scheme for the import of food processing machinery is import duty of 30% and VAT of 7%.

Imports of food processing machinery counted US\$10 million in 1993. They included all kinds of processing machinery but excluded can-making machinery directly used for food processing. Major suppliers are Japan, Germany, and Sweden. Imports from Argentina are nil. Machinery necessary for processing pineapples is locally available, but first-class machinery is imported. Major suppliers are the U.S.A., Germany, France, UK, and Sweden.

The names of these exporters have penetrated well into the people of the industry. They report that they remember these names when they plan to import processing machinery. The name of Argentina never comes out because they do not know that Argentina can supply a kind of machinery they import. They also say that there has never been approach from Argentine producers.

They import machinery directly from machine manufacturers not through an agent or a dealer. The most important factors which they take into account in selecting

a supplier are whether the product is free from repair and whether its spare parts are available when necessary.

### (10) Footwear

#### a. Thailand's footwear industry as an exporting industry

Thailand's footwear exports have rapidly increased since 1988. They increased to over US\$1,023 million in 1992 from US\$386 million in 1988. Destinations of exports cover almost all over the world, but the major destinations are developed countries such as the U.S.A., UK, Germany, and Italy. This implies that Thailand's footwear industry has established a reputation for quality in the world market.

By type of products, exports of sports shoes have remarkably increased. This indicates that several worldwide brand makers such as Nike, Adidas, and Reebok consider Thailand one of supply bases of footwear from where their branded sports shoes are delivered all over the world.

**Table 9.16 Footwear Exports by Product**

(US\$ Million)

	1988	1989	1990	1991	1992
Rubber/plastic shoes	73	83	91	106	108
Sports shoes	174	271	426	517	595
Leather shoes	33	43	90	117	135
Textile upper shoes	17	31	57	63	-
Sandals	66	79	95	96	85
Others	5	1	1	2	46
Parts	19	32	48	52	55
Total	386	543	808	952	1,023

Source: The Footwear Industry Club of Thailand

**Table 9.17 Destinations of Footwear Exports in 1992**

Country	Value (US\$ Million)	Share (%)
U.S.A.	148	14.4
UK	104	10.2
Germany	102	10.0
Italy	75	7.3
France	63	6.2
Netherlands	33	3.2
UAE	25	2.4
Canada	24	2.3
Japan	23	2.3

Source: The Footwear Industry Club of Thailand

The development of Thailand's footwear industry as an export industry is based on its competitiveness of production costs supported by cheap labor and long work hours as shown below.



Table 9.18 Labor Figures of Thailand's Footwear Industry

	No. of factories	No. of employees	Average age	Average monthly wages (US\$)	Annual bonus (US\$)	Annual wages (US\$)	Annual working hours
Male	-	30,048	22	124	124	1,612	2,400
Female	-	90,144	20	130	124	1,684	2,400
Total	245	120,192	21	127	124	1,648	2,400

Source: The Footwear Industry Club of Thailand

#### b. Imports of footwear

The tax scheme for the import of footwear is import duty of 100% and VAT of 7%.

Thailand imported US\$44 million of footwear in 1993. However, most of them were special parts unavailable in Thailand. Major suppliers were Korea and Taiwan. Imports from Argentina were nil. Thailand does not have a complementary trade with exports of relatively cheap and low quality footwear and imports of more expensive and high quality footwear. There seem to be few possibilities that Argentina can export its footwear to Thailand.

### (11) Maize

#### a. Demand and supply situation of maize

Thailand is not only self-sufficient in maize but also an exporter of maize. Thailand's import of maize is, therefore, only marginal. In the 1994 crop year (July 1993-June 1994), production was 4.6 million tons, while domestic consumption was 3.2 million tons. It means that the export capacity amounts 1.4 million tons. However, export is not so easy for Thailand, because Thailand is not competitive against China, Thailand's major competitor, in price. For example, China can export their maize to Indonesia or Malaysia at a CIF price of US\$1.30 per ton, while Thai export price is US\$1.30-1.35 per ton in FOB.

#### b. Future prospect for import

Thailand's production capacity is said to be 4.2-4.5 million tons in the long run. It is estimated that their production capacity will not increase so much for the following reasons: 1) The planted area decreases year by year because farmers sell their lands and it is difficult to find new land for planting maize; and 2) Labor power for planting maize reduces with young people leaving rural areas for big cities.

On the other hand, it is also expected that domestic consumption will not increase because the poultry industry, a major user industry, will not grow so fast. In fact, the domestic consumption of chicken will increase but at a modest rate as the

growth rate of population becomes small. Exports of chicken are expected to decrease because Thailand's chicken has become too expensive and the Thai poultry industry is losing its price competitiveness against China and Indonesia.

Considering these demand and supply factors, the Thai Maize Producers and Traders Association predicts that the current demand and supply situation of maize will be maintained in the future. However, the Association does not preclude a possibility that the country faces a shortage of maize due to drought as Thailand experienced two years ago. Facing the short production of only 2.5 million tons, the country imported 445,000 tons of maize from China (94%) and Argentina (6%) in 1992. The Association says that Argentine maize is similar to Thai maize in its quality more than Chinese one. There will be a possibility for Argentina to export its maize to Thailand, though it may be temporary. Thailand imported only US\$2 million of maize in 1993. Major suppliers were China and the U.S.A.

The tax scheme for the import of maize is import duty of Baht 2.75 per kg and VAT of 7%.

## **(12) Flat-rolled products of iron**

### **a. Imports of flat-rolled products of iron**

Flat-rolled products of iron are one of products Argentina has exported to the Thai market in a substantial quantity. Thailand imported around US\$731 million of flat-rolled products of iron in 1993. Due to the underdevelopment of the iron and steel industry, the country depends the basic materials on imports. The country imports around 5-6 million tons of iron and steel products, and the imports are expected to increase by 8% per year in the future along with economic development.

Major suppliers were Japan with a share of 70% in total imports of flat-rolled products of iron, Korea with 11%, and Taiwan with 5%. Imports from Argentina were US\$14 million and its share in total was 2%.

The tax scheme for the import of flat-rolled products of iron is import duty of Baht 0.4 per kg and VAT of 7%.

### **b. Issues for export expansion from Argentina**

One of leading importers was interviewed to assess the competitiveness of Argentine products in the Thai market. The company, which has been involved in importing iron and steel products from Argentina for many years, listed the following

problems in dealing Argentine products, though the company admitted that the quality of Argentine products was not bad.

First, Argentine exporters do not want to deal directly with the importer. As a result, the profit margin for the importer is smaller compared to direct business. Second, transaction quantity in one deal is small due to lack of export capacity. Third, Argentine supply is not constant. Only when the Argentine domestic market becomes loosened, they export, but once the market becomes tight, they stop exporting.

The company note that the latter two factors are particularly serious for expanding imports from Argentina. They are ready to increase imports of Argentine products as long as these problems are solved because the Thai market of iron and steel products is expected to be tight in the next few years.

**Table 9.19 Argentine Exports of Flat-Rolled Products of Iron to Thailand**

	1989	1990	1991	1992	1993
Total imports (US\$ Million)	485	551	606	625	731
Imports from Argentina (US\$ Million)	0	11	16	1	14
Argentina's share (%)	0.0	2.0	2.6	0.2	2.0

Source: Department of Business Economics

### **9.2.3 Measures for export expansion of Argentine products in the Thai market**

#### **a. Have a definite strategy on how to do with the Thai market**

The less penetration of Argentine products in the Thai market is not caused by less competitiveness of the products but caused by lack of will to sell in the market. When there is a limitation in its supply capacity, an Argentine company will not direct their product to the Thai market. They will direct first to the Argentine domestic market and next think about MERCOSUR. The Thai market will be the last for their products. To increase exports, a definite strategy on how to do with the Thai market is indispensable.

#### **b. Establish an export vehicle in the Thai market**

It is almost impossible for a small- or medium-sized company to promote the export of their products by themselves. The approach by New Zealand Milk Products (Thailand) Co. Ltd. gives a useful hint for export promotion to Argentine companies.

#### **c. Sell the product directly**

It is very important for an exporter not to leave sales in the Thai market to local distributors. The importance of selling their products by themselves is shown in the

export of leather and milk and milk products. To have direct and close contact with users is a key to success in export promotion.

**d. Provide institutional support**

Under a situation in which the presence of Argentine products is low, it is difficult for each exporter to increase exports only with its own effort. The kind of institutional support demonstrated by U.S. Wheat Association, Australian Wheat Board, Sopexa, and New Zealand Milk Products is necessary. It should be noted that the activity of these organizations is not limited for a specific country but extended all over the world.

**e. Establish an efficient warehousing function in Hong Kong or Singapore**

Flexibility and quick responses are very important in doing business in Thailand. Considering a long distance between Argentina and the Asian market, an exporter needs to establish a warehousing function in the region to secure flexibility of delivery and quick responses to clients. Hong Kong or Singapore can be selected as a base for warehousing because infrastructure in these two cities is excellent. Since it is expensive for each industry to establish such a function independently, it is recommended for a number of industries to share a facility wherever and whenever possible.

### **9.3 Thailand's Foreign Direct Investment to Latin America**

There have been very few investments from Thailand to Latin America. The Thai Ministry of Foreign Relations has recently sponsored a seminar on investment to seven Latin American countries, namely, Argentina, Mexico, Brazil, Chile, Peru, Colombia, and Panama, which are trying to attract investment from Thailand. This is a new development since the government has long been focusing on foreign direct investment to Thailand. The seminar was held to support the initiatives taken by embassies and consulates of these countries in Thailand.

Thai businessmen who attended the seminar reportedly showed interests mainly in investment to Mexico because of its membership in NAFTA. For example, CP Group, one of the largest conglomerates in Thailand, is said to have a plan for setting up a consulting business in shrimp production in Mexico. SIAM Motors, an automotive assembler, is reported to have a plan to invest in manufacturing parts in Mexico.

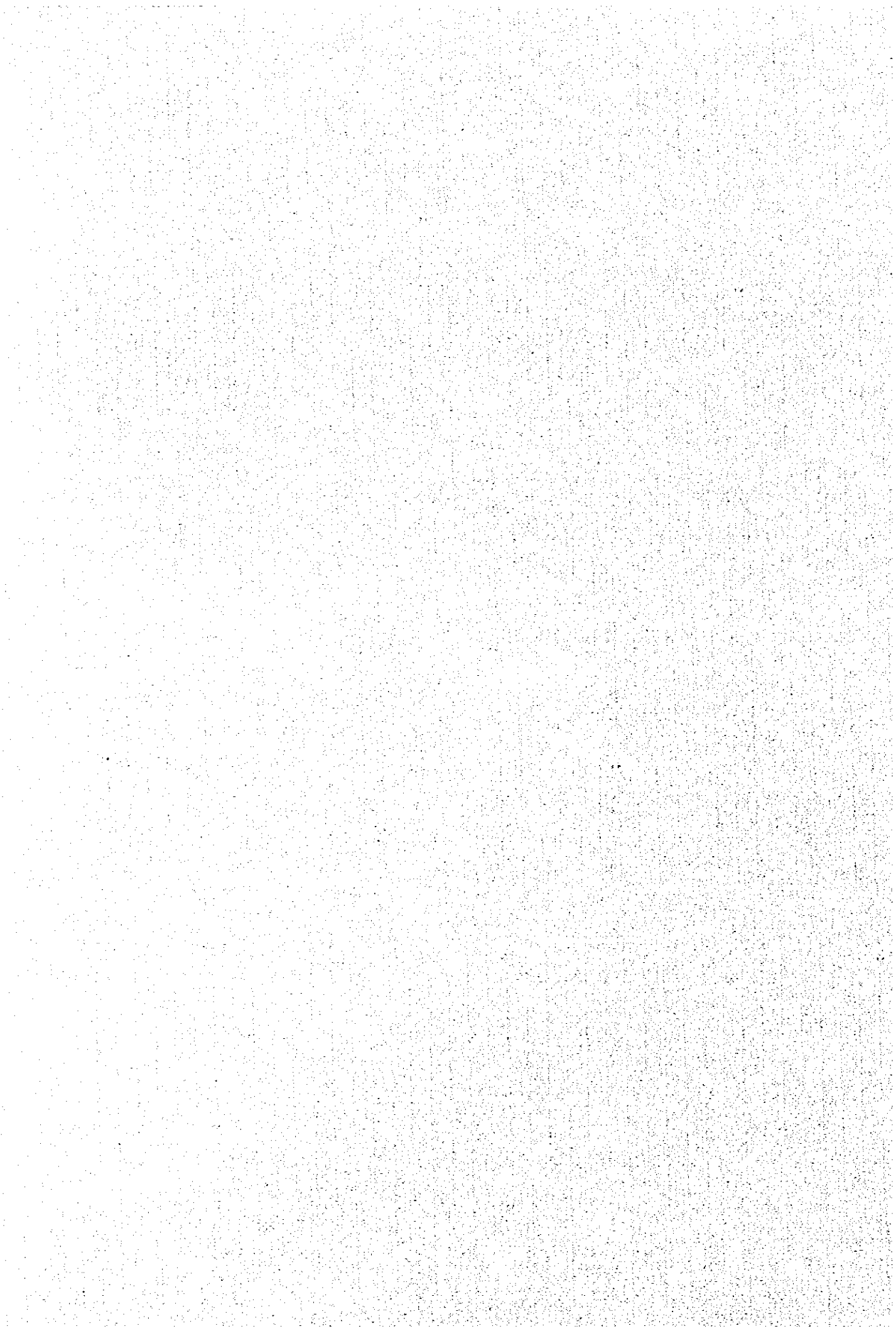
CP Group also visited Brazil, Chile, and Argentina in January 1994, accompanying the Thai Minister of Foreign Relations. The group is planning to visit these countries again to investigate the feasibility of investment in the near future.

During the visit to Thailand, the Study Team found little official information concerning direct investment to Argentina. Most of the Thai people interviewed did not know many possibilities which are open to foreign investors in Argentina. Far more efforts would be necessary to attract investment from Thailand because Thai businessmen, who have often international business connections all over the world through their Chinese-ethnic background, have many other choices for foreign direct investment. It is essential for the Argentine government to prepare and distribute information for potential investors in Thailand, as well as to support Argentine businessmen who wish to have Thai investment in their projects.



***Chapter 10***  
***Australia***

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## **10. Australia**

### **10.1 An Advanced Marketer in the Southern Hemisphere**

This section sets out to review recent economic performance in Australia brought about by expansion of the external trade. This focus can be expressed in the form of three issues:

- (1) How has Australia used its geopolitical benefit to expand the economic performance and external trade?
- (2) What have been the main trends of external trade in Australia with its change of industrial structure?
- (3) What Has been the effective measure to assist the expansion of external trade?

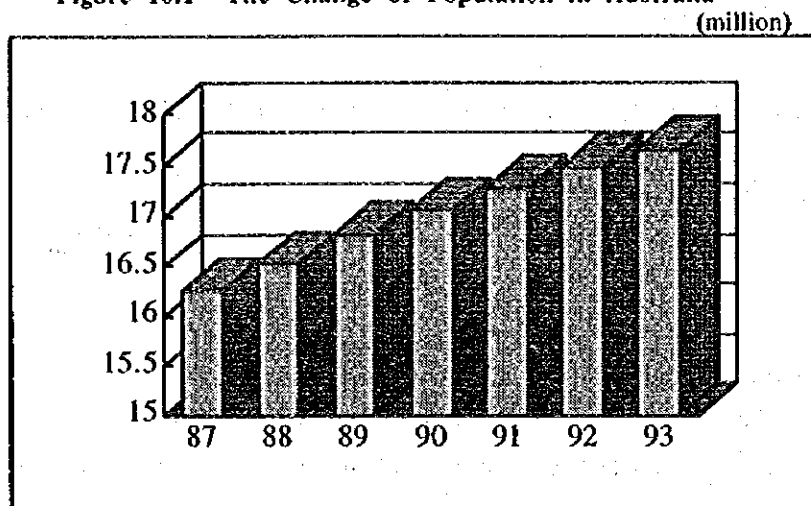
About the geopolitical conditions of Australia, recent research shows that there are indeed some similarities to Argentina with its land area, population structure, main products exported, and so on. For those similarities to Argentina, there is an effective institutional support system for economic development and the expansion of external trade with its geopolitical benefit in Australia. Mainly, this institutional assistance is discussed in this section.

#### **10.1.1 Profile of the state of the nation**

With about 7,713,364 km<sup>2</sup> of land area, Australia is 2.8 times larger than Argentina, yet its population is approximately 17.66 million (Figure 10.1), 53% of that of Argentina. The population in Australia constantly increases because of immigrant from the world over, especially, from East Asia nowadays, yet the change of annual population growth rate shows a gentle slope since 1988-89. In talking about the population growth in Australia, migration policy is required to assist the economic development because there are amount of natural underground resources waiting for exploration and vast of frontier waiting for cultivation in Australia. That is why the Australian government promotes to receive immigrants from all over the world.

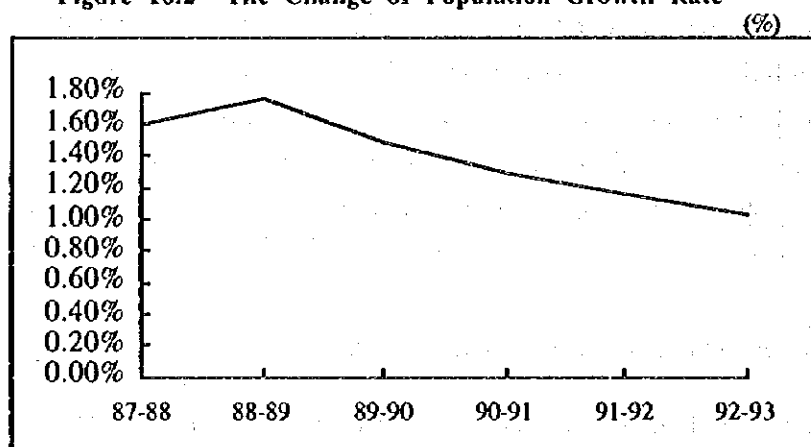
There are a lot of similar features of the nation between Argentina and Australia. It has low population densities, abundant natural resources, and large land area for agriculture, for instance. In addition to these geographical conditions, Australia is a multi-ethnic country like Argentina. With its large land area, a small population and abundant natural resources, the Australian government takes the migration policy like as Latin American countries.

**Figure 10.1 The Change of Population in Australia**



Source: International Financial Statistics December 1994, IMF.

**Figure 10.2 The Change of Population Growth Rate**



Source: The same as Figure 10.1.

**Table 10.1 National accounts in Australia**

(Unit: billions of Australian dollars)

	1987	1988	1989	1990	1991	1992	1993
Exports of Goods & Service (a)	46.99	52.79	57.49	53.89	67.34	72.03	78.04
Imports of Goods & Service (b)	-49.72	-55.95	-66.62	-66.67	-65.78	-73.08	-80.09
(a)+(b)	-2.73	-3.16	-9.13	-12.78	1.56	-1.05	-2.05
Government Consumption	50.38	54.76	59.2	65.08	69.49	72.46	74.96
Private Consumption	166.15	184.89	207.92	226.26	236.33	248.8	259.55
GDP (real terms, in 1990)	343.06	358.07	373.86	378.51	374.43	384.18	399.85

Source: same as Figure 10.1.

Above this, although the location of Australian Continent is far from Europe, with abundant natural resources and its vast land area, it has exported agricultural products and mineral resources to U.K. and other European countries. This country has been took an important role as a primary products supplier for them.

#### **10.1.2 Expansion of external trade market**

Considering the most of exporting goods as international commodities, they are frequently influenced by the international market price movements because of the change of climate conditions and political situation in the world. The fluctuations of export incomes also has influence on domestic economy. To avoid the fluctuation of export income prompted to the modernization of the manufacturing industry. However, Comparing to other industrialized countries, the level of the development of the Australian manufacturing industry is still considered very low, which affects negatively their international competitiveness. By the recent increase of its trade imbalance, Australia had been obliged to change its trade structure which aims to establish the stable condition to produce and supply high-value-added products.

The recent dynamic development of Asian market attracts the development of Australian manufacturing industries, considering the geographical aspects and the complementary character of industries and market of both side. Australia has been a stable supplier of raw material for the Asian countries. Otherwise, now, the Asian countries are also providing an attractive markets for the Australian manufactured goods. Therefore, Australia is enforcing the policy of strengthening the manufacturing industries, especially discussed Asian Market.

### **10.2 Change of Industrial Structure in Australia**

#### **10.2.1 The actual situation**

The Australian Manufacturing Council prepared an interesting report on the international competitiveness of Australian manufacturing industries at the end of 1989.

This report pointed out that the Australian manufacturing industries have such defects compared with those in the industrialized countries as follows:

- (1) The lowest added value per employee;
- (2) The lowest rate of export/import ratio which represents the international competitiveness;
- (3) The lowest share in GDP; and

- (4) The largest rate of deterioration in international competitiveness next to the U.S.A. in the 1980s.

In the above report, the 12 industries (aeronautic, metal processing, textile/clothing/footwear, machinery, automotive, electronics/telecommunication, wood-processing, scientific medical instruments, chemical/plastics/rubber, steel, non-metal, and foods) were analyzed. With regard to the export/import ratio, only foods and non-metal industries were exceeding the export rate against import. Among the total export in 1987, the rate of Elaborately Transformed Manufacture was only 11%. Of these, almost a half of the exports were made by multinational companies in steel, automotive, computer and aeronautic industries.

The same report pointed out as structural problems on unstable basis for manufacturing industries, such as follows:

- 1) The limited scale of markets. This factor hampered the establishments of competitive enterprises in telecommunications, computers and automotive industries which should be the leading industries in modern economies;
- 2) The big distance from the big markets. As expressed in "the tyranny of distance," the remoteness from leading markets hampered the international business relationships;
- 3) The non-trading sectors such as construction industries are relatively important in domestic economic activities. In these industries, especially on trading sectors, the salaries and labor conditions are ruled out without considering the conditions of international competition;
- 4) As the manufacturing industries are rather recently exposed to international competition, it is still in the process of restructuring; and
- 5) The Australian Dollars are inclined to be overvalued as commonly happened in such countries as endowed with natural resources.

#### **10.2.2 Suggestion for the structural problems**

The following measures were proposed in the above report to solve such structural problems as follows:

- 1) To foster the resource processing industries which might have relative competitiveness;
- 2) To establish a new "Manufacturing Culture";
- 3) To promote internationalization of the industries which need the economy of scale;
- 4) To foster Australian enterprises which have export mind; and
- 5) To penetrate into Asian markets.

The following industrial policy prepared by the Australian government was also established taking into full consideration of the above discussions and studies.

### **10.2.3 New industrial policy**

In March 1991, then Prime Minister Hawke launched a new industrial policy named "Building Competitive Australia." This policy was to enhance domestic business competitiveness through cutting tariff protection and tax burdens and for further strengthening Australian industries, especially the manufacturing industries to promote international competitiveness.

This new policy symbolized the "historic farewell to protectionism" and introduced comprehensive free market mechanism. This policy was also backed by the advice made by the Professor of National University of Australia, Ross Garnaut in his book titled "Australia and the Northeast Asian Ascendancy" which was published in Oct., 1989. In this book, he made a series of advice in response to the inquiry of the Hawke Administration including the achievements of complete liberalization, the impacts of Northeast Asian ascendancy to the Australian economies, what kind of economic relationships should be formed and the necessary policies toward this region.

This new policy also included the reform of "AUSTRADE", which has been functioned as a trade and investment promotion organization of Australia covering around the world. The activities of AUSTRADE are very suggestive for considering future Argentine's trade promotion strategy. It will be discussed later (in Section 10.5).

## **10.3 External Trade**

### **10.3.1 Australian external trade composition**

The structural pattern of Australian trade is that it exports primary products to developed countries and imports manufactured products and intermediary goods from them. In 1993, the total amount of export reached to almost US\$42.8 billion. Among

them, the exports to Japan shared 25%, followed by the U.S.A. at 8.1%, the Republic of Korea at 6.5%, Singapore at 6.2% and New Zealand at 5.5%.

The total imports in 1993 reached to US\$40.9 billion. The U.S.A. ranked the 1st at 21.8% of all imports, followed by Japan at 18.7%, U.K. at 5.7%, Germany at 5.7%. The imports from East Asian countries expanded to as much as 38.9% in total imports, especially those from China reached to 4.3%.

Australia has promoted to enhance the export rate of highly elaborated products, especially high-value-added products, departing from the export of primary goods. In 92/93, the export rate of manufactured products (SITC 5 - 9) reached to 38.2% in total exports (about US\$16.3 billion). Although office machines, computer related equipment, automobiles are still low rate at about 1.6% each among the total exports, the yearly rate of increase of these exports at about 20%. The ASEAN countries absorb almost 26% of all Australian manufactured products. The exporting items to these countries are: petroleum products, steel products, dairy products, transport equipment, dying and tanning ingredients, coloring agents, pharmaceuticals, etc.

The 24% of exports to Japan, the 64% to USA, the 47% to EU are composed of manufactured goods.

## **10.4 Foreign Direct Investment (FDI)**

### **10.4.1 Recent trends of foreign direct investment abroad**

The Australian foreign direct investments in recent 4 years (88/89- 92/93) have enlarged to the outstanding amount of US\$30.6 billion. More than 70% of these investments reached to U.K. (about 29% of all investments), to the U.S.A. (25%) and New Zealand (16%). In recent years, the investments to Asian countries have increased, especially to ASEAN 5 countries, Japan, and Hong Kong. The investments to Japan reached to US\$320 million in 92/93, almost tripled in 4 years, but the share among the total investments is still only a little over 1%, lower than the 3.34% for Hong Kong and the 2.80% for Singapore.

### **10.4.2 Some features of Australian direct investments in Asian countries**

The Department of Foreign Affairs and Trade of Australia made an inquiry research on the direct investments by Australian companies in South East Asian countries in 1992 and 1993. In 1992 study, 127 companies, and in 1993 study, 54 companies

responded respectively. The following are some interesting points found in the same study.

1) There exist some gaps between negative images and actual results with respect to direct investments. Concerns over investment returns are perceived more strongly by companies which have not yet directly invested in the region than those actually invested. In reality, those companies actually doing business in the region have constantly gained returns in the past 4 years. Although not-yet-yet investing companies pointed out that the financial difficulties should exist in the region, it became clear that there are no such situation in reality. This may reflect that many Australian executives still prefer English speaking regions and European countries to Asian ones. In reality, the study in 1992 shows that only 14% of companies actually operate in South East Asian countries responded that their management are more difficult in Asian countries than in the other countries.

2) The funds raising; More than a half of the companies which are investing in South East Asian countries are depending on their own funds not on the borrowings or securities issuing.

#### **10.4.3 Some examples of Australian companies operating in Asian countries**

In Singapore; At present, more than 100 Australian companies from banking business (e.g., ANZ, WESTPAC, etc.) to manufacturing companies are operating in Singapore.

In China; In June of 1994, the "Australian-China Trade and Investment Forum" was held in Sydney and Melbourne. More than 100 Chinese companies and 400 Australian companies from manufacturing, infrastructure, construction, telecommunication, foods industries participated in the Forum to exchange opinions among themselves. Through this Forum, there appeared more active movements in trade and investments between both countries. One of the examples is the case of Pacific BBA company (plastic molding), targeting to penetrate into still undeveloped market instead of those matured markets as Japan, Taiwan and Korea. Investing some US\$1.0 million to set up joint venture company with a Chinese partner to produce paints and buckets for construction usage.

In the case of Pacific-Dunlop Co. (food industry) is going to establish ice cream factories in China and Thailand and also to operate frozen foods factories.

In Taiwan; Australian companies are doing business in consulting business and service industries. The more attractive businesses in future are tourism, foods and food processing industries, infrastructure, environment preservations and so on. Agro-food Council is now in Taiwan promoting sales of clean image of Australian ice-cream not contaminated by chemical fertilizers.

In Japan, around 80 Australian companies are now operating in Japan, many of them are in security investments and not so many in manufacturing. The "Celebrate Australia" held in November in 1993 in Japan has been evaluated as successful from the commercial point of view in producing advertising effects with more than US\$14.3 million. In the same event, Australian technologies, education, arts, sports and so on were exhibited for strengthening the better relationship between the two countries. The Tasmanian company, TASSAL, is now setting up TASSAL-Japan in Hamamatu to supplying Japan Tasmanian salmon, lobster and abalone.

## **10.5 Institutional Support for External Trade and FDI**

### **10.5.1 The reform of AUSTRADE**

In 1990, McKinsey & Company executed a reevaluation of the organization and its activities of AUSTRADE, and the company reported to Government in February of the next year and the recommendations were immediately put into operation.

McKinsey asserted that almost all Australian companies in doing business in overseas markets are in need of governmental basic assistance. Based on this assumption, they have advised the following suggestions.

- Now that the North East and South East Asian markets are very important for Australia, it is necessary to redirecting AUSTRADE's all resources for that direction.
- The overseas activities should be strengthened by adding more staffs and more autonomy and responsibility should be given to the new operating system.
- The headquarters of AUSTRADE should be in Sydney, and by giving more responsibilities to provincial offices. By doing so, it will be more easy to get direct contact with private companies taking into appropriate consideration of the requirements of exporting companies in provinces. Their activities will have more influence on to expanding exports.
- Reorganizing domestic activities and give more weight to the companies which have more capacity of exporting.



- More cooperation are necessary between AUSTRADE and several institutions which are also giving export relating services. In this occasion, AUSTRADE will play a central role in establishing and executing National Trade Promotion Strategy.
- AUSTRADE should establish better relationship with provincial governments and private associations of the companies and banks.

In the following AUSTRADE's 92-93 annual report which reflects most of these evolutionary advice, we can observe some interesting aspects of its actual activities.

### **10.5.2 Achieving new exports sales**

By the direction of New Industrial Policy, AUSTRADE's activities were thoroughly reviewed by McKinsey & Company in 1990-91, and 1992-93 was the first full year for which the efficacy of the New post-Review AUSTRADE can be seen. In the annual report, AUSTRADE asserted that it assisted Australian exporters in 1992-93 to achieve new export sales of US\$2.9 billion, 29 times of AUSTRADE's running cost. Included in the above figures are the results of 58 trade displays mounted by AUSTRADE overseas during the year. A total of 857 companies exhibited in these, reporting sales over the 12 months to follow of US\$5.3 million.

Overlapping, but not included, were exports worth US\$2.7 billion by 2, 473 claimants under AUSTRADE's Export Market Development Grant (EMDG) Scheme and US\$70.6 million of exports by 38 companies in the International Trade Enhancement Scheme (ITES).

In addition, AUSTRADE manages the national Investment Promotion Program (IPP) on behalf of the Treasury (transferred from the DITARD in June 1993). The program helped secure new foreign direct investment into Australia worth US\$670 million during the year in 37 projects announced or begun, 179 times of AUSTRADE's Investment Promotion Program budget. It is noteworthy that AUSTRADE is making a campaign to promote foreign companies establishing an Asia-Pacific Regional Headquarters in Australia. In 1992-93, AUSTRADE assisted in the establishment of several Regional Headquarters.

### **10.5.3 New networks and services for exporters**

AUSTRADE's Australian offices were restructured during 1992-93 to provide better service to exporters. Among them were three specialized central services designed

to be accessed by established exporters through the AUSTRADE networks. The first is the Market Analysis Unit, which organizes markets on behalf of exporters. The second is the Market Opportunities Unit, which distributed opportunities spotted overseas among Australian exporters via the Export Intelligence Network. This new service is under development and will incorporate the existing International Projects Information Network (IPIN) and the Trade Opportunities Package (TOP) service. This unit also maintains the Australian Exporters Database, which contains details on 7,000 active Australian exporters.

The third is the Network Support Unit, which arranges visits to Australia by foreign business people and mounts seminars on export markets with the State offices using visiting Trade Commissioners.

A major new service was established in 1992-93 for small and medium exporters and people new to exporting: AUSTRADE's National Export Hot-line. Anywhere in Australia can be connected to the Hot-line center in Melbourne. And highly trained staff handle 30-40 calls a day each, providing information and referrals on overseas markets. For example, Japan is Australia's No.1 export market, through its 6 offices in Japan, AUSTRADE help exporters make their initial entry into Japan at relatively low cost and risk, putting them in direct touch with customers and avoiding the notoriously complex Japanese distribution system.

The McKinsey Review of 1990-91 recommended the setting up of a series of specialist Business Development Units, or BDUs, focused on some 20 specific business areas of high export potential. Their job is to work with leading participants in each field, either individually or in groups, and with AUSTRADE's overseas Post network, to identify and capture significant opportunities for new exports. For example: The Automotive BDU has a close association with the Federation of Auto Parts Manufacturers (FAPM). The BDU works with FAPM members and AUSTRADE Posts in European and other car-producing countries to present the case for sourcing components from Australia to major vehicle assemblers. So far, it has brought well over US\$272 million worth of Requests for Quotation to Australian suppliers.

The Mining Systems BDU works closely with member companies of AUSTMINE, a network organization of more than 100 suppliers of technology, equipment and consumables to the mining industry. The BDU links up with AUSTRADE's Post network, particularly Posts such as Santiago that have designated mining systems as priority, to identify opportunities. The BDU organized missions to Poland and Chile.

The Agricultural Systems BDU has pioneered the use of the Joint Action Group, or JAG. This is a temporary grouping of parties who share the effort and cost of pursuit of a significant export opportunity. The China Grain Handling JAG links the BDU, AUSTRADE's Posts in Beijing, Shanghai and Washington (the last, a specialist contact point with the World Bank and United Nations agencies) and over 40 firms with various specialties related to the bulk handling and storage of grain. Another JAG links the BDU and AUSTRADE's Osaka Post with 12 farmers in South Australia and Victoria, who have contributed significant co-funding, with the goal of capturing a worthwhile share of Japan's imports of hay, which exceed US\$679 million per annum.

#### **10.5.4 Collaborating with domestic and international organizations**

AUSTRADE works in close alliance with many government bodies. The most important of these is DFAT, the Department of Foreign Affairs and Trade. Overseas, AUSTRADE collaborates with the Export Finance and Insurance Corporation (EFIC) in many markets.

At the beginning of 1993-94, AUSTRADE had initiated a consortium to carry out a major companion study of services exporters. Consortium members are: AUSTRADE, DFAT, DITARD, the Department of Employment, Education and Training, the NSW and Victoria Governments, CSIRO, and so on.

Internationally, AUSTRADE contributed to the Asian Pacific Economic Co-operation (APEC) forum secretariat activities and maintained active alliances with its overseas counterparts, e.g. JETRO in Japan and KOTRA in Korea.

#### **10.5.5 Regional offices' focuses**

AUSTRADE is at the leading edge of Australia's thrust into Asia. AUSTRADE spent over half its overseas budget for 1992-93 in Asia, where it has 27 permanent offices, plus part-time representatives in five cities. Major target markets for the Japan/Korea Posts in 1992-93 have been: a) foods and beverages, particularly processed foods and seafood, b) rural products -- in particular, a Joint Action Group involving South Australian and Victorian farmers targeting Japan's large hay imports, c) fast ferries, d) services, including health services, e) information technology in both Japan and Korea, etc.

AUSTRADE's East Asia Region encompasses China, Hong Kong and Taiwan. The major target markets for Region's Posts in 1992-93 have been: a) telecommunications, b) rural technology, c) wool, d) leather, etc.

AUSTRADE's South East Asia Region covers ASEAN, Indochina, Myanmar and Micronesia. AUSTRADE South East Asia has the highest number of commercial contacts of any Region -- 42, 000 in 1992-93, including visits, calls, faxes and letters from Australian exporters or investors in the countries of the Region. AUSTRADE's Jakarta office alone assisted 1, 800 business visitors from Australia in 1992-'93.

AUSTRADE's Investment Promotion Program is particularly active in Europe. In 1992-'93 it played an important role in identifying and securing foreign participation in 29 projects with the total value amounted to US\$516 million.

AUSTRADE's existing North American offices are all focused on specific targets: New York on consumer products, particularly seafood; Los Angeles on technical products and entertainment; Toronto on heavy engineering products, including railway equipment and mining technology; Washington on the World Bank and UN Agency programs. Los Angeles is also a center for research on behalf of a wide range of Australian firms interested in the North American market.

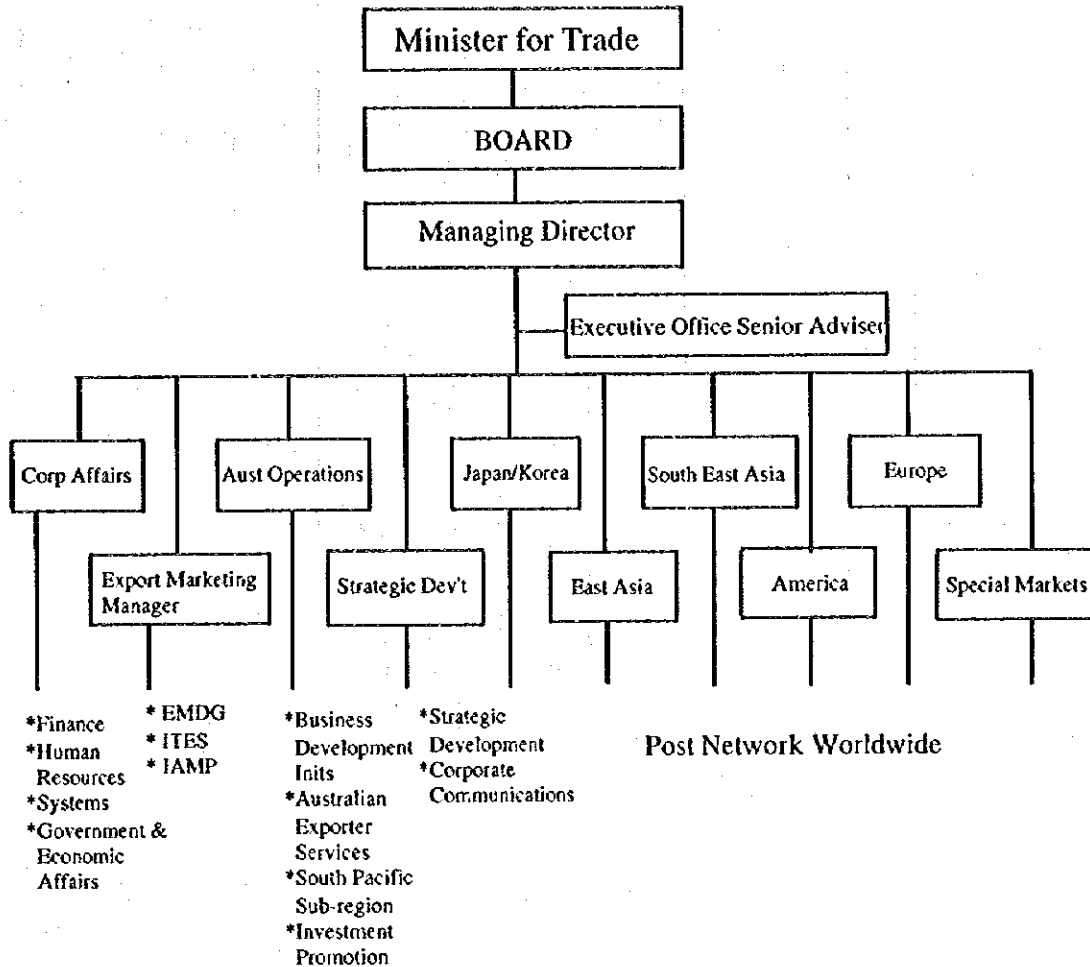
In 1992-'93 AUSTRADE's Latin American offices were refused on selected market sectors. The Santiago Post focuses on support to the growing group of Australian mining and mining technology firms setting up in Chile, Mexico City and Buenos Aires focus on rural development, particularly sugar technology, and transport equipment. San Paulo will assume the telecommunication equipment program.

#### **10.5.6 AUSTRADE's posts and state offices**

AUSTRADE's office networks are consisted with Head Office, Australian Network and overseas posts. Its Head Office is located in Sydney. The Australian Networks are located in each Provinces and Capital city. The number of these offices are 16 including Regional Office in several Provinces. These Australian based offices are employing 644 staff. Among these staff, there are 93 staff specialized in specific regions. We can find that among these staff, 20 staff are allocated for South-East Asia, 19 for Japan/Korea, 11 for East Asia reflecting the importance of the Asian markets. In the case of Europe, 13 are allocated and 9 are for Americas at the end of June 1993. The number of overseas posts are 81 at the end of June 1993, and the numbers of staff are 458. Among the 81 overseas posts, they put 7 posts in USA, 6 in Japan.

The general view of AUSTRADE's organization can be seen in the following diagram.

**Figure 10.3 AUSTRADE Management Structure**

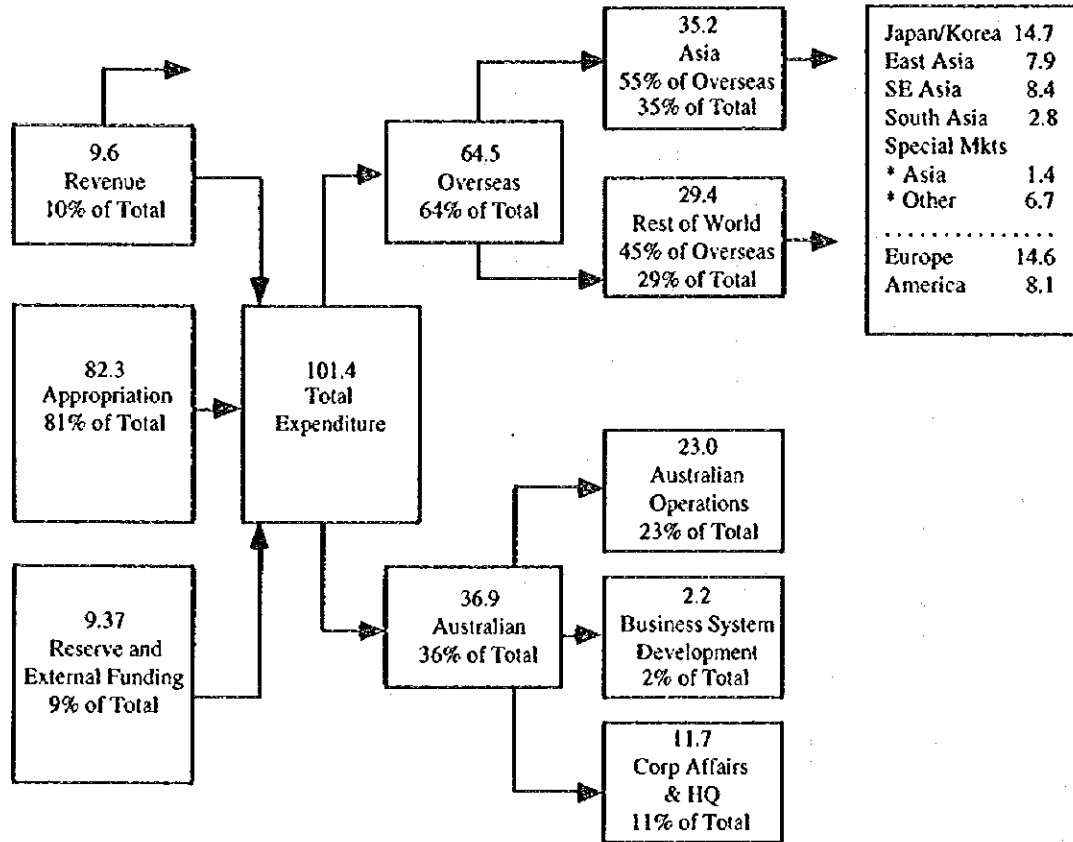


### 10.5.7 Operating expenditure

AUSTRADE's 1992-'93 operating expenditure are illustrated by the following chart. The total expenditure was around US\$101.4 million. Almost 80% of the expenditure were appropriated by the Government and the 10% came from revenue principally selling its publications and co-funding it attracts. Among the expenditure, 62% of its operational expenditure was offshore compared with 53% the previous year. Of the overseas cost, Asia occupies 55%.

Figure 10.4 AUSTRADE 1992-93 Operating Expenditure

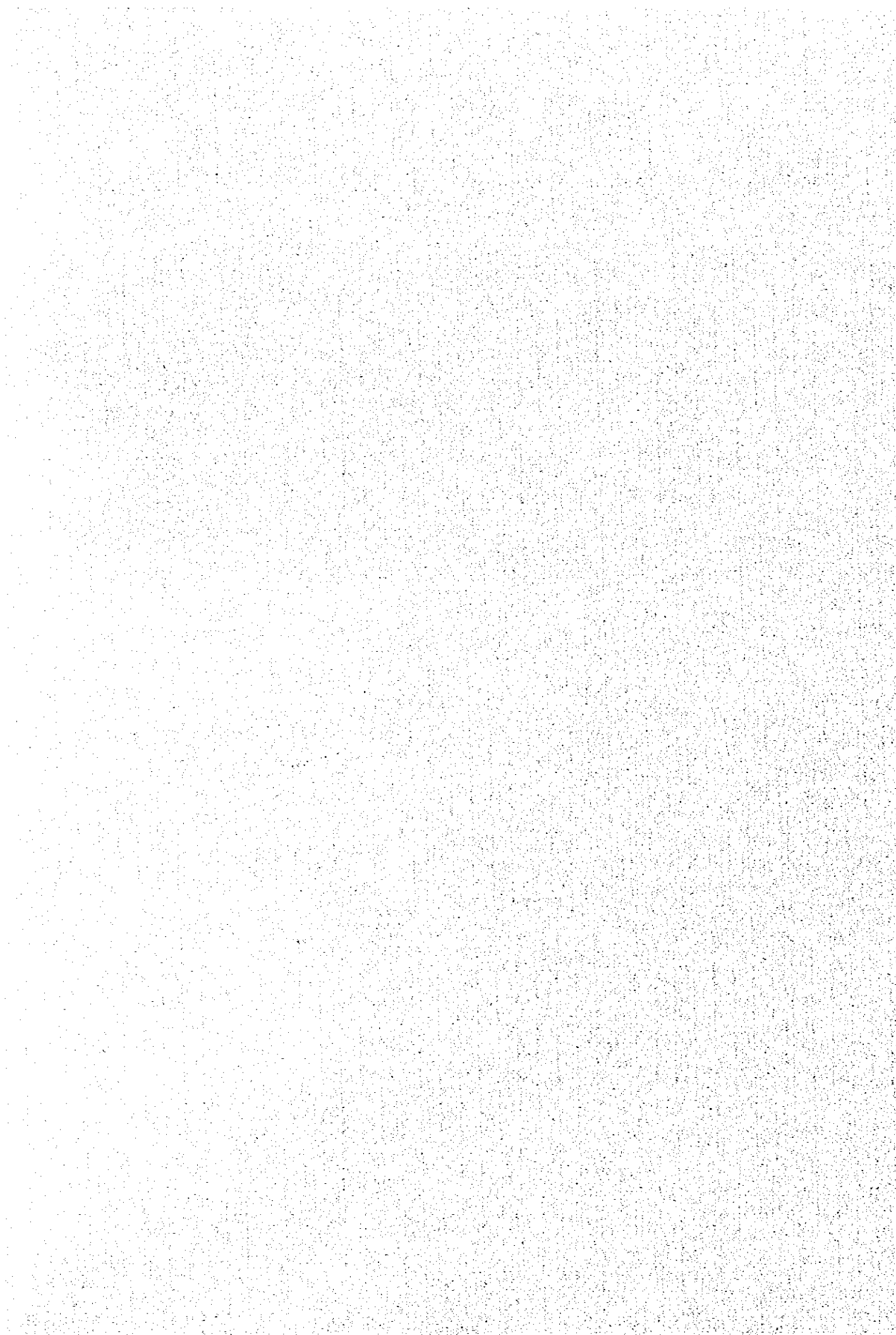
(unit: US\$ million)



Source: AUSTRADE, *Annual Report 1992-93*.

## ***Chapter 11*** ***Canada***

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## **11. Canada**

### **11.1 Present Situation of External Trade**

#### **11.1.1 Economic conditions of Canada**

Canada has the second largest national territory in the world with only 27 million inhabitants, and three fourths of them are living along the southern national border. There exists a wide economic gap among the areas, and both Ontario and Quebec Provinces occupy the 65% of the total population and the 65% of GDP. With rich natural resources, for example, nickel, zinc and asbestos, boosted the top level production of the world, and many other mineral resources are exported. In addition, agricultural and fishery products are also abundant.

The bilateral free trade agreement between the U.S.A. and Canada, the "FTA," has enacted on January 1, 1989, by which the two parties agreed to abolish within 10 years all tariffs and non-tariff barriers and to give the same treatments to each citizen. On December 17, 1992, the three countries including Mexico signed the "North American Free Trade Agreement (NAFTA)," and it has been enacted on the January 1, 1994. Afterwards, on the occasion of the American States Summit held in December 1994, Chile was announced to be negotiated for participation to NAFTA by the strong support of Canada.

#### **11.1.2 Recent trade relationships**

As mentioned above, Canada's external trade is strongly tied to the U.S.A. in 1993, the total exports amounted to about US\$146 billion, 80.4% of the total was exported to the United States, Japan was the 2nd place at 4.5% and the third place was occupied by UK at 1.6%. In 1993, the exports to Mexico was only 0.4%. Through the recent export market diversification strategy, exports to Asian markets such as Korea (0.9% in 1993), China (0.9%), Taiwan (0.5%) and Hong Kong (0.4%) have also increased their shares steadily.

The total imports in 1993 reached to US\$133 billion, 67% of the total was imported from the U.S.A., and Japan was the second place at 6.3%, the UK was the third place at 2.6%, followed by Mexico (2.2%), Germany (2.15%), China (1.85%) and Taiwan was at 1.5%.

As the recent exports to the U.S.A. are 30% bigger than imports, with the other countries almost being imbalance, the total trade balance has been positive.

In exports, automotive products occupied almost 27% and machinery 19% of all, and these industrial processed goods almost occupied a half of all. In imports, machinery occupied 32% and automotive products 25%, industrial raw materials at 19%. These trading items reflect some aspects of Canadian external trade features. In this country, the inter-enterprise trading among the multinational companies located in Canada and the U.S.A. is regarded as a very important role.

Unexpectedly, the small shares were taken by agricultural, fishery and forest products with only around each 8 to 15% in total export in 1993. This fact reflects that the trading items treated within multinational companies are similar between the U.S.A. and Canada. Exporting to Japan, in contrast, these products represent almost 25% to 42% respectively in all exports.

### **11.1.3 Canada's trade with Japan**

As mentioned above, for Canada, Japan is ranked the second largest trade partner next to the U.S.A. For Japan, the import from Canada is ranked the 9th place (3.4% in total Japanese imports), and the export is ranked the 13th place (1.7% in total exports).

Main exporting items to Japan are; "Lumber, softwood" (US\$1,600 million, which occupies 24% of all exports to Japan, "Coal & other crude bitumen, substances" (940 mill, 14%), "Wood pulp" (452 mill, 10%), "Rapeseed" (467 mill, 8.6%), "Other fishery foods and feed" (312 mill, 4.4%), "Meat, fresh, chilled or frozen" (161 mill, 2.5%), and "wheat" (218 mill, 2.3%).

As noted, Canada is maintaining the position of principal supplier of several agricultural and fishery products to Japan. For example, "wheat" reached to 1,430 thousand of tons in 1993, the second largest supplier of almost 25% of all Japanese wheat imports. "Barley" was at 922 thousand of tons, the first largest supplier. "Rapeseed," with 1,375 thousand of tons, the first supplier, "Soybeans," with 58 thousand tons, the forth supplier.

Other examples are; "Nishin roes" (74% of all Japan's imports, the following percentages imply the same). "Frozen-shishamo" (67%), "Lobster" (61%), "Softwood lumber" (61%), "Wheat & rice bran" (53%), "Beef tallow" (54%), and "Methyl-alcohol" (28%).

It should be noted that the Province of British Columbia (BC), located at the coast area of Pacific Ocean, plays an important role of Canadian external trade, especially with Japan. This Province has long been active in promoting business ties with Japan and recently with the other Asian countries through such institution as British Columbia Trade Development Corporation.

BC's exports to Japan are almost 60% of all Canadian exports to Japan, and the imports are almost a half of all Canadian imports from Japan. Almost one third of the Japanese investments to Canada centered in this BC. At present, more than 200 Japanese companies consisted of pulp industries and automotive accessories' manufactures are operating in this province. Although, there are some investments in sight-seeing business in recent years, the recession of Japan in the past several years reduced the investments also to Canada notwithstanding the start of NAFTA.

## **11.2 Canada's Trade Promotion Strategies**

### **11.2.1 International trade business plan for 1994-95**

The Canadian trade promotion strategy is periodically announced by the federal government, principally in the "Canadian International Trade Business Plan."

In March 18, 1994, Minister for International Trade Roy MacLaren and Minister of Industry John Manley launched simultaneously in Toronto and Montreal "Canada's International Trade Business Plan (ITBP) for 1994-95." According to the news release of the Government of Canada, the "ITBP" is the federal government's consolidated strategy and action plan designed to assist Canadian firms in their pursuit of international business. It was developed in consultation with the private sector across Canada. Provincial governments were also invited to provide input. The Government's approach to international business development will build on three broad objectives: greater partnership between public and private sectors; expanded trade participation of export-ready firms, especially small and medium-sized; and increased diversification of Canada's trade relations. The launch in both cities took place in close cooperation with leaders of the Canadian Exporters' Association, the Canadian and Quebec Chamber of Commerce, and the Canadian and Quebec Manufacturers' Association as well as private sector executives and ministers and senior officials.

### **11.2.2 Exportable sectors**

This "Plan" also picked up 21 sectors as described underneath as hopeful Canadian exportable groups, and having defined the relative sectors, analyzing

international environment and Canadian position, giving strategic direction and what the government can serve for, listing relevant trade fairs soon and the contacts' points to obtaining the necessary information. This information will provide basic hints for many interesting parties to find a right way to promote their businesses in abroad.

The 21 sectors are: 1) advanced manufacturing Technologies, 2) Aeronautics, 3) Agro-Food Products, 4) Arts and Cultural Industries, 5) Automotive, 6) Biotechnology, 7) Business and Professional Services, 8) Chemical and Petrochemicals, 9) Apparel, Footwear, Furniture, Sporting Goods, 10) Aviation, Marine and Defense Electronics, 11) Electrical equipment, Oil and Gas Field equipment, 12) Environment Industries, 13) Fish and Seafood Products, 14) Forest Industries, 15) Agricultural Technology, Marine Shipboard Technology, 16) Information Technologies, 17) Medical and Health-care Products, 18) Minerals and Metals, 19) Space, 20) Tourism, and 21) Urban Transit and Rail.

We find that the above mentioned sectors are covering almost every industry of Canada. This implies that as long as we focus in proper way, it is not impossible to find exportable items in abroad.

### **11.2.3 A new approach to international business development**

In the "ITBP for 1994-95," the following points are stressed. Sound domestic economic policies are essential. However, it is increasingly clear that Canada's future economic well-being lies in the global marketplace. Canadian exports already account for about 40% of total private sector output and more than 2 million jobs are directly or indirectly dependent on exports of goods and services. Each US\$0.78 billion in new exports translates into approximately 9,000 jobs. Canada, after Germany, is the most trade-dependent G-7 country.

Internationalization and technological change mean that companies face growing uncertainty in foreign markets, intensified competition, higher market and product development costs, and shorter product life cycles. The high costs of business in today's global economy call for clear priorities, sound and well-executed business development strategies, flexibility to meet changing circumstances and better management of financial, and personnel by both the private and public sectors.

#### **11.2.4 Building partnerships**

As mentioned above, the government's approach to international business development was to build greater partnership between the public and private sectors. For this end, the following three aspects were identified.

##### **(1) Strengthening consultations with industry**

Canada's ITBP consultations will therefore be intensified to ensure that ITBP sector strategies reflect the private sector's interests as effectively as possible. The International Trade Advisory Committee (ITC) and the Sectoral Advisory Groups on International Trade (SAGITs) also provide an ongoing two-way flow of information and advice between the government, business and labor on international business matters.

The government is committed to strengthening this consultative mechanism by structuring the committees to focus on a broader range of trade policy and trade development programs and issues.

##### **(2) Improving federal-provincial cooperation**

In view of the closure or restructuring of provincial foreign office operations, and the growing fiscal pressures all governments face, the federal government will work closely with provinces individually, or on a regional basis, to promote better coordination of international business planning and activities, and reduce areas of potential overlap or duplication. Likely issues to be addressed in the coming year include database sharing, electronic communication linkages, integral and streamlining the delivery of funded assistance programs and services, exporter education and preparation, and investment promotion and leveraging.

##### **(3) Greater government cohesion and service**

The government is committed to establishing clear government-wide objectives to guide resource allocation decisions for international business development. This means eliminating overlap and duplication between departments and setting clear priorities.

The government will also improve business community access to government information services, such as those provided by the Canada business Service Centers, which serve as one-stop information "windows."

### **11.2.5 Increasing trade and small- and medium-sized enterprises**

The "ITBP for 1994-95" recognizes that Canadian companies are not taking full advantage of global market opportunities. Less than 8 percent of Canadian businesses are directly involved in exporting, while more than 60% of all exports are made by just 100 companies. Many Canadian companies not currently exporting have the potential to increase sales and production by pursuing opportunities in external markets. Recognizing these opportunities and acting to take advantage of them are the first steps toward developing a successful international orientation.

A recent example of success is the Forum for International Trade Trading (FITT), which combines the resources and leadership of the federal government, the Canadian Chamber of Commerce, the Canadian Federation of Labor, the Canadian Manufacturers' Association and other private sector organizations, to provide much needed formal international business training.

Such support and assistance are most critical for Canada's thriving small- and medium-sized enterprises (SMEs). In the near future, the government will conduct a comprehensive review of programs aimed at small businesses to encouraging many more SMEs to export. Services firms, which comprise many of dynamic SMEs, will also be encouraged to take advantages of new market opportunities.

### **11.2.6 The GATT and the multilateral trading system**

The "ITBP for 1994-95" makes it clear that the conclusion of the Uruguay Round of GATT negotiations in late 1993 was a crucial step in securing and diversifying Canadian access to global markets. Considering the market access, liberalized sectors include pulp and paper, chemical and petrochemical, non-ferrous metals and minerals, computer equipment, office furniture, pharmaceutical, farm equipment, financial services and telecommunications are important to Canada. On trade rules, it says that fundamental reform of GATT rules will help ensure that the new multilateral trading system has the effectiveness and credibility to remain the cornerstone of Canada's trade policy. Most noteworthy is the achievement of a strong subsidy/countervail agreement with a much clearer definition of subsidies and criteria exempting major regional programs and many R&D incentives from countervailing duties.

On agriculture, it reads that negotiations resulted for Canada in a substantial, fair and equitable outcome, with the rules of international agricultural trade applicable to all

countries. Agriculture around the world will gradually move towards more market-based price disciplines, and will eventually be brought fully into the GATT. The level of tariff protection applicable to Canada will allow effective maintenance of marketing boards. Nevertheless, new Canadian export opportunities have been created in several agricultural sectors.

#### **11.2.7      NAFTA: the unfinished agenda**

Considering the NAFTA issues, the "ITBP for 1994-95" makes it clear that even though the governments of Canada, the U.S.A. and Mexico have approved NAFTA, the NAFTA agenda is still incomplete. In particular, Canada is going to press its NAFTA partners to address outstanding concerns about antidumping and subsidy/countervail matters through the two working groups established as a prerequisite for Canadian proclamation of the agreement.

It says that Canadian companies can, moreover, deploy their experience and success in the U.S.A. and Mexican markets to prepare themselves to diversify business linkages beyond North America. The improved economies of scale, product specialization and marketing experience they gain through increased exports to neighboring markets can further their global competitiveness.

The interesting points about NAFTA's expansion to other medium-sized regional trading partners, the "ITBP" confirms that Canada would have the advantage of further balancing a trading arrangement where the U.S.A. remains the largest producer, trader and investor.

#### **11.2.8      Tools for success**

The "ITBP" is finally reviewing the federal government's principal international business development programs and related sectoral competitiveness policies to establish a blueprint for action. Among them, several priorities are outlined as follows.

##### **(1) The trade commissioner service**

The network of Trade Commissioners in Canada and some 100 offices around the world is the most effective tool available for helping Canadian firms penetrate foreign markets. Trade Commissioners provide export counseling to prepare companies for their first forays internationally or to expand their international business horizons. They identify specific trade opportunities, provide advice to exploit them and open doors to make Canadian international business success a reality. Their daily networking

enables Canada to reach influential decision makers around the world and identify valuable local partners for Canadian firms. Trade Commissioners play a vital monitoring and advocacy role abroad, regularly intervening with foreign governments to maintain and improve market access. A more strategic placement of Trade Commissioner Service resources will be a related objective.

## **(2) Access to financing**

Ready access to adequate financing is essential to foster business growth and to export successfully. Therefore, issues addressed will include better coordination of existing services, simplifying application procedures, improving access to information on financing possibilities, and the possible creation of new mechanisms to fill gaps in existing services.

## **(3) Business networks**

Becoming active participants in emerging business networks enables SMEs to be more competitive, they gain the resource advantages of larger firms, without the burden of excessive overhead. The federal government is committed to providing matching grants to encourage greater business network development.

## **(4) Technology development and acquisition**

A Canadian Technology Network will be established to build upon NRC's Industrial Research Assistance Program (IRAP). The network will ensure that SMEs have access to the latest information on new technology and an expanded range of advice and services so they can fully exploit new market opportunities.

An Engineers and Scientists Program will provide funds for SMEs to hire engineers, technologists, scientists and industrial designers. It will help SMEs fully benefit from technology transfer opportunities and be partners in commercializing new products.

A Canada Investment Fund will be created to help ensure an adequate supply of capital for the financing of innovation by leading-edge technology firms. The government is also committed to greater strategic management of its approximately US\$4.6 billion invested in support of domestic science and technology.

The government will also give renewed emphasis to the Technology Inflow Program (TIP), technology export opportunities and the associated activities of Canadian Science Counselors and Technology Development Officers in the overseas



posts to encourage the active adoption of internationally available best practice or leading-edge technologies.

To ensure Canadian access to international R&D, world-class science and research institutions, in collaboration with knowledge-intensive SMEs, will be encouraged to develop alliances with global research and technology centers abroad, particularly in Europe and Japan.

#### **(5) Market intelligence**

Access to timely, accurate foreign market information and, more importantly, "market intelligence," is a prerequisite to Canadian companies' sustained international commercial success. Market intelligence is that hard-to-come-by knowledge or insight, often resulting from personal contacts. It includes critical information relating to sales opportunities or marketing conditions that can provide that extra edge over Canada's competition. New guidelines will be implemented to provide more and better information and intelligence to Canadian companies as rapidly as possible. Government-wide sector expert groups are being created to guide this process.

#### **(6) Agro-food trade specialists**

To confront increasingly aggressive international competition and to take full advantage of emerging trade opportunities in the agro-food sectors, the Canadian government is placing additional agro-food trade and marketing specialists in priority markets abroad. These specialists will be dedicated to improving market access and expanding exports of Canadian agriculture and agro-food products and services. Specialists have already been placed in Japan, the Republic of Korea, Singapore, Taiwan and Mexico, and others will be appointed as a priority.

### **11.3 Canada's Trade Promotion Strategies for Asian Countries**

It may be picked up some other examples of efforts made by the Canadian Government to promote trade with Japan and Asian countries in recent years.

In October 1989, the Government of Canada issued "The Strategy for Pacific Ocean in 2000," in which the Government clearly indicated for strengthening economic ties with Japan and Asian countries in Pacific Rim.

In May 1993, at the same time of the announcement of the above mentioned "Plan," the Government issued a "Canada's Action Plan for Japan," in which the

following 7 sectors were recommended as items to be promoted specifically in Japan; building products, fish products, processed food products, auto parts, aerospace industries, and information technologies. This "Action Plan" contains the market opportunities, the action plan, trade promotion opportunities in 1994 and 1995 and the government contacts. It is useless to say that this type of basic information is useful and essential for firms which are actually trying to further business or penetrate into foreign markets.

In December 1993, the "Canada-Japan Forum, 2000" were composed by intellectual and experienced persons from both countries, submitted 19 points to both Prime Ministers.







