Evolution of Argentine foreign trade over the last decade: origin, destination and composition

Daniel Berrettoni
dbt@mrecic.gob.ar
Mariángeles Polonsky[1]

Abstract

During the first decade of the century, Argentine foreign trade was very dynamic, in tandem with the evolution of world trade and the economic expansion of Argentina's main trade partners. As the share of trade in economic output grew significantly, the most pronounced change—from a macroeconomic perspective—was the contribution of the balance on goods and services to achieve a surplus in the current account of the balance of payments, which enabled the Argentine economy to grow without generating external imbalances—contrary to what had happened in the previous decades.

Although the prices of Argentina's export commodities—considerably higher than in previous decades—played a key role to sustain external surplus, the prices of Argentine exports grew below world and Latin American averages. In contrast, the growth of export volumes almost doubled that of the region and also exceeded that of the world economy.

The breakdown of foreign trade reveals that growth has been driven by both agricultural and industrial manufactures, whose share in total exports has increased. However, while prices played a key role in the first case, export volumes accounted for most of the increase in industrial manufactures, whose growth pace more than doubled the average growth of overall exports.

In turn, over the decade, the profile of Argentine foreign trade became more pronounced, both with respect to the rest of the world and to each of Argentina's main trade partners, showing a higher surplus in Primary products and agricultural manufactures and a higher deficit in industrial manufactures. In this last case, the increase in surplus with the Latin American region (excluding Brazil) was not enough to compensate for the increase in the deficits with Brazil and Asia. Brazil and Asia displaced other trade partners that have been more traditional Argentine import origins, mainly the United States and the European Union.

Finally, it is worth pointing out that trade with Asia differs substantially from trade with Brazil: in the first case, industrial manufactures have a small share in Argentine exports to that market, whereas in the case of the Brazilian market, which absorbs more than one half of Argentine exports of industrial manufactures, intra-industrial trade has a very significant share. If we also take into account the share of the rest of Latin America in these products, we can see that the region plays a crucial role for the Argentine economy to diversify its trade pattern.

1. Introduction

The greater integration of an economy into the world entails a closer relationship between the productive and social structure of the country and the evolution of the global economy. This greater dependence entails opportunities as well as risks and challenges. The former include the possibility of expanding output offered by access to an enlarged market, which also favours enhanced productivity and higher employment levels. Furthermore, in an economy that is better integrated into the world, a drop in domestic demand can be compensated for by foreign market demand.

[1] The authors would like to thank Jorge Lucángeli and Carlos Galperín for their comments.

In turn, challenges arise from the fact that foreign competition—both in the local market and in third markets—affects local forms and levels of production, bringing about economic and social effects that might not be very significant for the economy as a whole, but might really affect certain sectors and/or regions of the country.

In order to better understand opportunities and to be able to face potential risks, it is essential to closely follow up the changes that take place in world trade, and also to thoroughly know the country's trade and production structure.

The main goal of this paper is to describe the major changes occurred in Argentine foreign trade over the first decade of this century. In particular, we will try to understand the evolution of Argentina's trade flows in context—both historically and in relation to other countries—and to pinpoint the main changes occurred at the level of product and trade partners over the last few years.

The first section describes world trade and the main changes observed in the last ten years so as to identify the main factors that boosted and affected global trade in said period. The second section presents an aggregate analysis of the evolution of Argentine foreign trade, emphasising the most important differences which—from the macroeconomic perspective—established a marked distinction between the past few years and previous decades. At the sectoral level, the main changes in relation to Argentina's trade partners as well as in relation to the composition of foreign trade in terms of products are analysed in the third section with the aim of determining whether the profile of the Argentine economy's integration into the world has changed. Finally, section four presents some final remarks and an outlook of Argentine foreign trade for the coming years.

2. Evolution of world trade

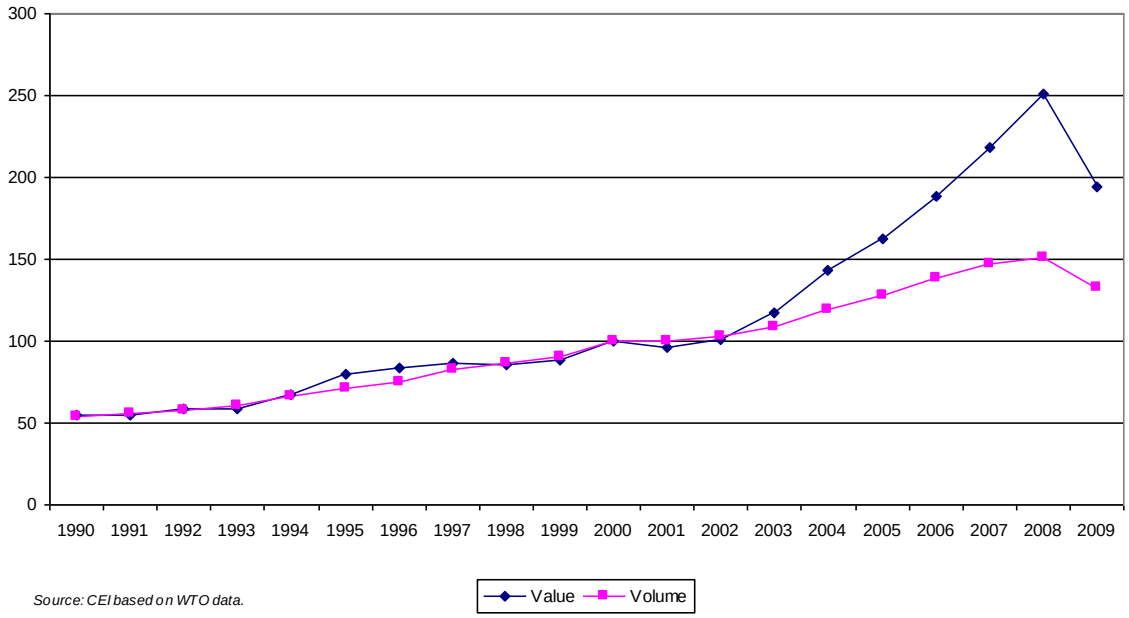
In 2010, traded values at world level partially recovered after the sharpest fall ever, taking into account that this great trade collapse was not as large as that of the Great Depression, but it was much steeper[2]. In 2009, values plunged by 21.7%, while volumes shrank by 14.5% (see Graph 1). This contraction was more pronounced than those recorded in the previous world crises, since traded volumes fell by 7% in 1975 and by 2% in 1982.

Several sources attribute the magnitude of this world trade collapse to various factors, but they all seem to agree that the main cause was the contraction of aggregate demand in developed countries (OMC, 2010 and Baldwin, 2009). However, what has really come as a surprise to many analysts was the magnitude of this fall, which was far greater than expected.

On this occasion, the response of trade to the world recession greatly exceeded those of previous recessions; therefore, it is necessary to delve into the possible reasons for this high degree of sensitivity of trade flows to a contraction in world output.

[2] It took 24 months in the Great Depression for world trade to fall as far as it fell in the nine months from November 2008 (Baldwin, 2009).

Graph 1
World exports
Index 2000=100



Source: CEI based on WTO data.

The explanation for this should be sought in the nature of the factors affecting demand, particularly in the sudden drops in purchases of durable goods—whose consumption can be postponed—induced by the crisis, which interacted with effects of two different types: one related to the composition of trade and the other, with the synchronicity of movements, which amplified trade response to GDP contraction.

In order to understand the first of these effects, we should thoroughly examine a tendency observed towards the global division of production processes. Over the last decades, trade in manufactures gained a larger share in global trade, following a process of fragmentation of world production which enhanced intra-industrial trade, first between developed countries, later on between developed and some developing countries, and more recently, between the latter. This tendency, which became more pronounced in the nineties, actually meant that the same product could cross several borders, since certain imported parts can be transformed into exported components that, in turn, are transformed into intermediate goods in another country where more value will be added for them to be eventually re-exported. Consequently, trade figures count the final value added more than once.

Consumer durables and capital goods have a relatively high share in world trade, although they account for a much smaller share in world GDP—where the share of services is very significant. Since the plunge of global demand has been particularly caused by the contraction of expenditure in durable and capital goods, the explanation for the greater impact of this on world trade than on GDP can be found in differences in composition.

In turn, the second effect reveals that the timing of trade flow falls coincided in almost all countries in the world, showing remarkable synchronicity. This can be explained on the basis of global production chains as well as of information technology, which leads producers from all latitudes to immediately respond to market conditions in another region of the world.

In spite of the magnitude of the fall occurred during the world crisis, the balance in the first decade of this century was positive: the average annual growth of trade flows was at 7.6% in value and 3.2% in volume.

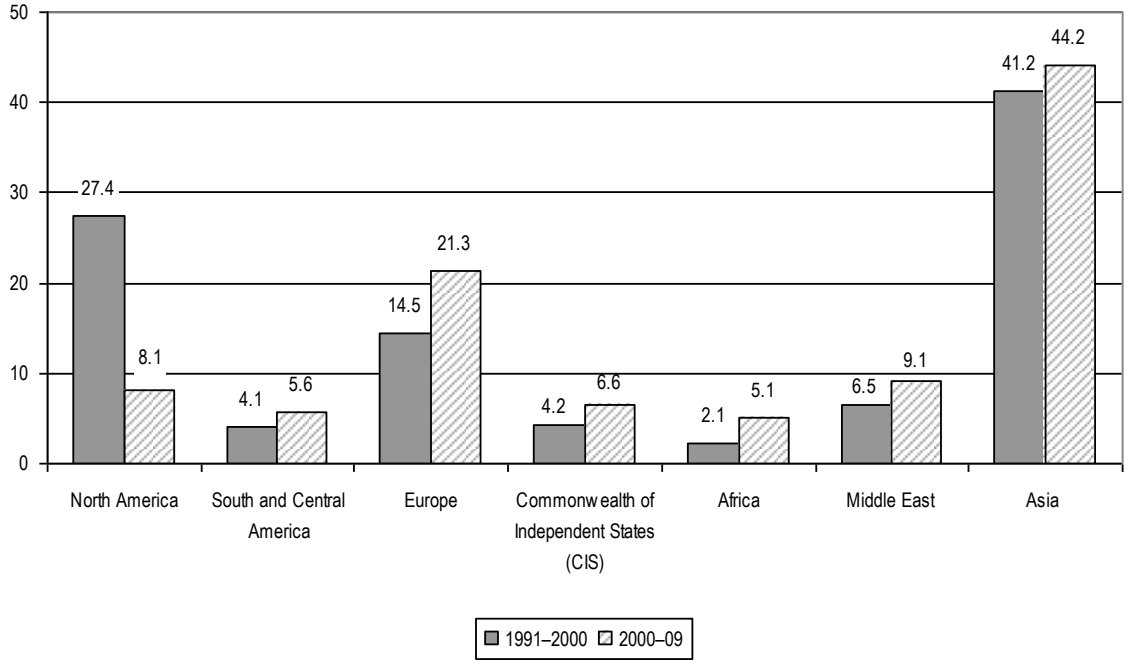
2.1. Contribution by region

Graph 2 shows the contribution of each region to world export growth over the last two decades, only considering extra-European Union trade. As happened in the nineties, Asia was the region that contributed

the most to the expansion of world trade in 2000–2009, since it accounted for 44% of export growth. Europe accounted for one-fifth of the expansion, while the share of South and Central America—which exceeded the values recorded in the previous decade—was at 5.6%, almost equal to that of Africa.

In turn, the region that showed the sharpest change was North America, whose share plummeted between both periods because its trade was scarcely dynamic in the last decade, which meant that its contribution was only marginal after having been one of the drivers of international trade. What this region lost was partly gained by Europe, but mostly by developing regions, which are playing an increasingly leading role in the current dynamics of world trade.

Graph 2
Share of each region in world export growth (in %)
Excluding intra-EU trade



Source: CEI based on WTO data.

Taking into account the dynamics of prices, it is important to distinguish between the evolution of world exports in value and in volume in order to assess the path followed by world trade. Therefore, Table 1 shows annual growth rates of total exports in the last two decades and their breakdown in three broad categories.

Table 1
World exports
Average annual growth rate (in %)

	Agricultural products	Fuels and products of extractive industries	Manufactures	Total
Value				
1991–2000	3.1	6.9	7.3	6.8
2000–2009	8.7	11.4	6.6	7.6
Volume				
1991–2000	4.0	3.8	7.6	6.8
2000–2009	3.2	2.2	3.4	3.2

Source: CEI based on WTO data.

Overall world exports, measured in US dollars, grew at a faster pace in the last decade compared to the nineties. However, if volumes are analysed, the growth rate halves (see the last column of the table). Prices were thus important to explain the growth of world trade over the last decade, in contrast to what happened in 1991–2000. As shown in Table 1, the strong dynamism of trade in agricultural goods and fuel is mainly explained by price increases.

When exports are measured in volume, they show a steep plunge between both decades, especially in the case of trade in manufactures. It is thus worth considering the impact of the last world crisis, since, in 2009, export volumes of Manufactures shrank by 15.5%, far more than Agricultural goods (-2.8%) and Fuels (-44%). The reason for this lies in the sensitivity of the demand for manufactured goods to changes in purchasing power—which is technically known as income elasticity—and also in the segmentation of world output, as was explained above.

3. Aggregate changes in Argentine trade and the international context

Table 2 shows trade indicators at the aggregate level for Argentina in the last 20 years. The data reveal that Argentine foreign trade was very dynamic during the first decade of this century, although it grew less than in the nineties.

If we consider all trade in goods (exports + imports) between 1998/00 and 2008/10, it expanded by 8.3% each year, four percentage points below the growth recorded between 1988/90 and 1998/00. This loss of dynamism over the last decade was exclusively attributable to imports, whose average annual growth rate between the three-year periods 1998–2000 and 2008–2010 was at 6.5%, one-third of that recorded in the previous decade. In contrast, during the same period, export growth pace was sustained and even increased slightly from 9.4% in the nineties to 9.8% in the first decade of this century.

As for tradable services, between 1998–2000 and 2008–2010 exports grew by 9.6% (annual average) within a very dynamic context of overall trade. The growth pace of exports surpassed that of imports (3.7%), contrary to what had happened in the nineties, when exports grew by 8.1% annually and imports did so by 12.2%.

Table 2
Evolution of Argentine foreign trade
Annual average in each three-year period

	1988–1990	1998–2000	2008–2010
Traded values (millions of USD)			
Exports of goods	10,354	25,361	64,729
Imports of goods	4,161	25,841	48,516
Exports of services	2,218	4,836	12,087
Imports of services	2,872	9,116	13,116
Terms of trade (2000=100)			
Prices of traded goods, f.o.b.	80.0	89.7	120.6
Prices of traded services	125.7	168.2	97.7
Share in Argentine GDP (%)			
Exports of goods	8.86	8.78	19.76
Imports of goods	3.56	8.94	14.81
Exports of services	1.90	1.67	3.69
Imports of services	2.46	3.16	4.00
Share in world trade (%)			
Exports of goods	0.33	0.43	0.44
Imports of goods	0.13	0.42	0.33
Exports of services	0.33	0.34	0.33
Imports of services	0.40	0.66	0.38

Source: CEI based on INDEC and ECLAC.

The evolution of Argentine foreign trade in goods as well as in services very closely resembled that of world trade. In the last decade, Argentina accounted for 0.4% of world exports of goods and for 0.3% of those of services.

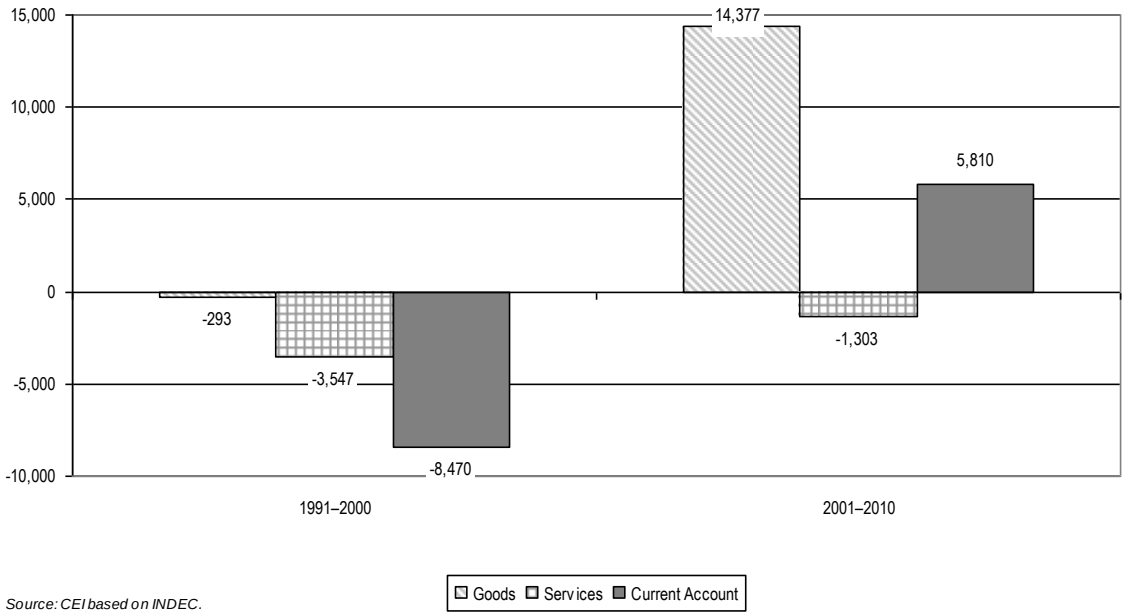
3.1. Trade in the macroeconomic context

From the macroeconomic perspective, there are at least three aspects of the evolution of Argentine foreign trade in 2001–2010 that are worth noting:

- The first has to do with the role of the balance of trade in goods and services in the current account of the balance of payments.
- The second refers to the changes occurred regarding the share of trade flows in Argentina's output level.
- Finally, it is important to consider the evolution of relative prices between tradable and non-tradable goods in order to ponder the incentives given to firms to take part in the international market, and also the competitive pressure that the rest of the world might exert on local production.

Firstly, Graph 3 shows the average annual balance of the current account of the balance of payments over the last two decades as well as the result of its two trade transaction accounts: the balance of trade in goods and the balance of trade in services.

Graph 3
Current account of the balance of payments
Annual averages (in millions of USD)



Source: CEI based on INDEC.

From the macroeconomic point of view, the balance of the current account reflects the difference between an economy's aggregate income and expenditure. Consequently, a deficit balance means that what the economy spends exceeds its income and that this gap is thus financed by foreign debt. This situation prevailed in the nineties and resulted in an average annual deficit of USD 8.47 billion during that period.

Given its position as net debtor and net receiver of foreign direct investment, Argentina pays more than it receives in terms of debt services, while there is also a net outflow of profits and dividends from foreign firms that take part in domestic production activities. Thus, in order to compensate for these payments, the Argentine economy needs—and it will continue to need over the next few years—surplus balances in global trade in goods and services so as to maintain a current account surplus.

The evolution of the trade balance—in goods as well as in services—over the last decade is the key to understand the improvement observed in the current account of the balance of payments between the nineties and the first decade of this century, which was reflected in an average annual change exceeding USD 14 billion, which in terms of the size of the Argentine economy implied that an average annual deficit of 1.6% of GDP in the three-year period 1998–2000 was turned into a surplus of 4.6% of GDP in 2008–2010.

The deficit reduction in trade in services took place within a context of growth not only of exports but also of imports. If we compare the growth rates recorded in both decades, we can see that between 1998–2000 and 2008–2010 exports of services rocketed by 150%, while imports increased by 44%, thus reverting the behaviour they showed in the nineties, when the former grew by 118% and the latter by 217%.

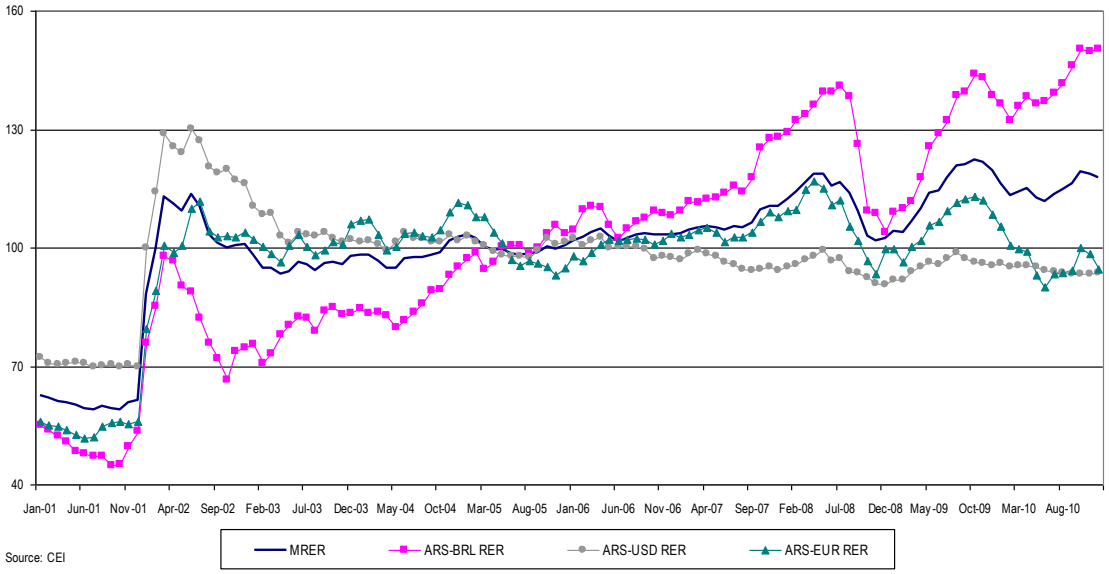
Another significant macroeconomic change seen over the last few years is that the share of foreign trade in output has increased, following the world trend. As can be seen in Table 2, while in the late nineties the openness ratio ((exports + imports of goods and services)/GDP) reached 22.6%, it was at 42.2% in the three-year period 2008–2010. Due to this higher degree of openness, changes in trade flows with the rest of the world have a greater impact on domestic output, affecting it either positively—because an increase

in exports might boost production and employment—or negatively—because an increasing number and variety of domestic firms are faced with tougher competition from imported goods.

Finally, this analysis cannot neglect the multilateral real exchange rate. In the last ten years, the average multilateral real exchange rate surpassed that recorded in the nineties, though its volatility level was higher than then.

Graph 4 shows the evolution of the multilateral real exchange rate (MRER) and of the bilateral real exchange rates (BRER) against the US dollar, the euro and the Brazilian real. Undoubtedly, the world crisis brought about considerable changes in real exchange rates, and the paths they followed in the last two years were markedly different. Thus, in relation to the rates recoded in early 2008, the Argentine peso appreciated against the US dollar and the euro, but it depreciated against the Brazilian real, which resulted in a higher bilateral RER against Brazil at the end of 2010 than that before the crisis.

Graph 4
Argentine real exchange rate based on Wholesale Price Index
Index 2005=100



Source: CEI

3.2. Evolution of Argentine exports in the world and in the Latin American region

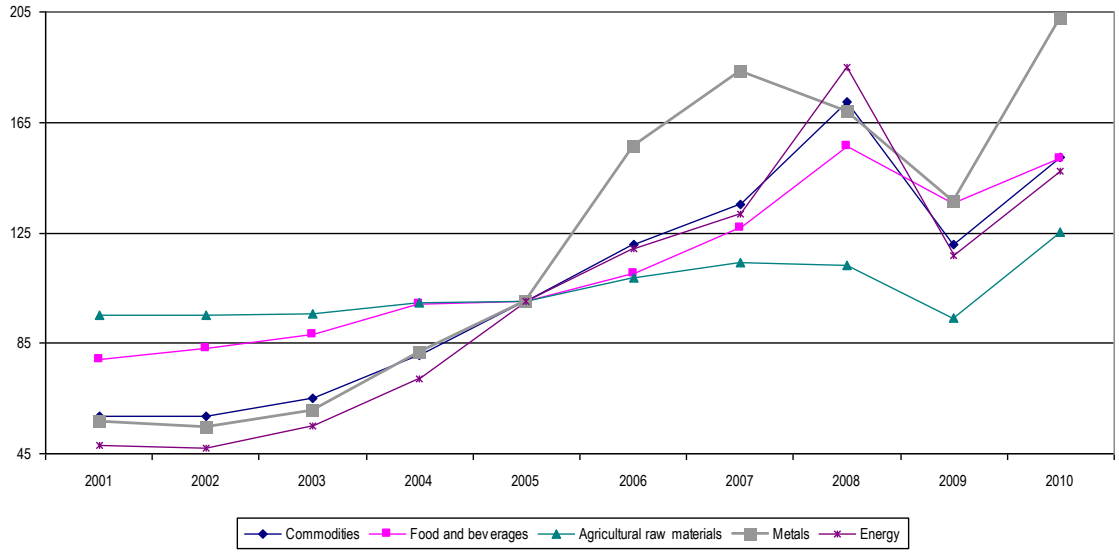
Without doubt, prices of Argentina's major export commodities have risen significantly, as shown by the evolution of the commodity price index estimated by the Central Bank of the Argentine Republic (2011), which soared by 131.6% between the three-year periods 1998–2000 and 2008–2010.

In spite of this, it is necessary to contextualize the rise in prices of Argentina's export products. In order to do this, it might be useful to compare this situation with that observed in the Latin American region and with the world average.

Within a context of generalised price rises, the evolution of commodity prices has not been homogeneous throughout the decade. Rather, it shows significant dispersion, with oil and metal prices shooting up above the average for the whole group of commodities, and agricultural products showing a much more modest growth.

According to IMF's index, commodity prices soared by 161% on average during the period 1990–2010 (Graph 5). On the one hand, the growth of agricultural products was below the average: food prices increased by 92% and prices of agricultural raw materials, by 32%. In contrast, energy and metal prices rocketed by 206% and 239% respectively.

Graph 5
Global commodity prices
Index base 2005=100, in current USD

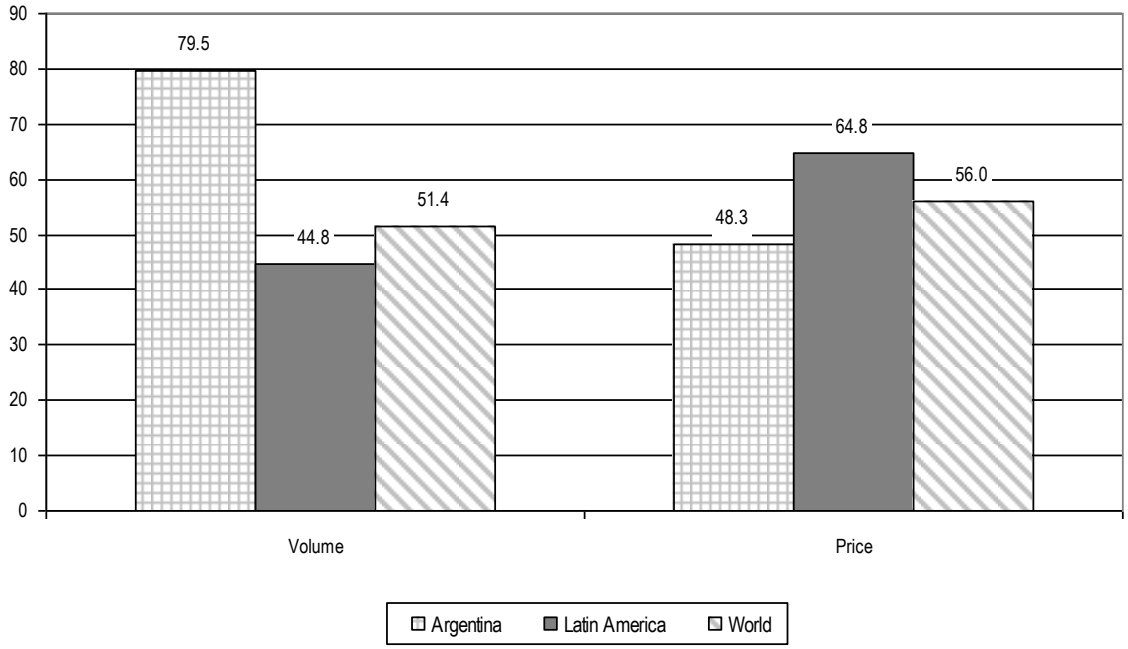


Source: CEI based on IMF data.

In Latin America, these prices determined a significant change in export values, according to the share of each commodity in total exports. Undoubtedly, the impact of prices was stronger in some countries than in others, and it is thus worth wondering about the Argentine situation within the context of the changes occurred at the regional and world levels.

Graph 6 shows how important prices and volumes were to explain the 2000–2010 export growth driven by the overall increase in both variables in Argentina, Latin America and the World. The figures show that, on average, the accumulated increase in prices in the Latin American region was 20 percentage points higher than the increase in quantities. As for world exports, the impact of both variables throughout the decade was more homogeneous, although the price effect also prevailed.

Graph 6
Accumulated growth rate of exports (in %)
2000–2010



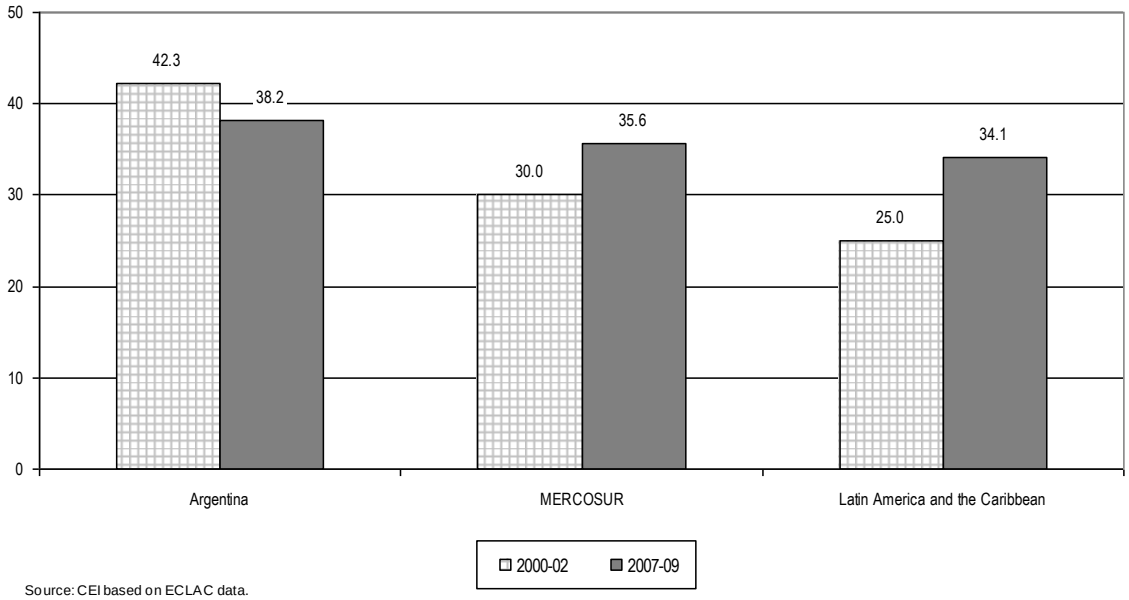
Source: CEI based on ECLAC and WTO data.

Argentina showed a different evolution, since export volumes grew by almost 80% during that decade, while prices did so by less than 50%. On the other hand, the percentage increase in volumes exported by Argentina almost doubled the average for the region, and substantially exceeded the world average, as can be seen in Graph 6.

According to the previous data, the evolution of international prices has contributed less than quantities to the growth of Argentine exports to Latin America and to the world. In relative terms, the dynamism of Argentine exports over the last decade can be better explained by export volumes.

Another effect of the evolution of prices was that, for the average of Latin American countries, commodity export growth exceeded the aggregate level, thus boosting the share of raw materials in total exports of goods and services from 25% to 34% over the decade, according to data estimated by ECLAC (Graph 7). This process was known as 'reprimarization' of exports, since it reverts the decreasing trend observed in Latin America over the last two decades of the 20th century, taking into account that at the beginning of the eighties the share of these products was around 52%. This was not the case in Argentina. Rather, the share of raw materials in total exports of goods and services shrank from 42% to 38% in the last decade. In contrast, as can be observed in Graph 7, MERCOSUR countries showed, on average, an increasing tendency, though not as pronounced as that seen in the whole region.

Graph 7
Share of raw materials in total exports of goods and services (in %)



Source: CEI based on ECLAC data.

It is not possible to have a complete overview of the trade impact of the evolution of international prices without also analysing their impact on imports. The impact of the new commodity price floor has been markedly different among countries, depending on their respective position in international trade. Obviously, the countries that export these products have benefited the most from these conditions; however, regardless of the composition of the export basket, many developing countries have also suffered the negative impact on imports, especially, those countries that are most dependent on oil.

Throughout the decade, Latin America shows different results. On the one hand, the most favoured regions were the Andean Community and Chile, whose terms of exchange shot up by 61% and 92% respectively between 2000 and 2010, according to ECLAC (CEPAL, 2010). During that period, MERCOSUR countries were in an intermediate situation, showing a 15% increase, while, at the opposite end, Central American countries gathered in the Central American Common Market (CACM) suffered a 16% fall, mainly due to their external dependence on oil.

In the case of Argentina, in 2000–2010 the terms of exchange grew by 26%, that is, an annual average growth of 2.4%, which exceeds the average for Latin America (2%).

4. Breakdown of Argentine trade

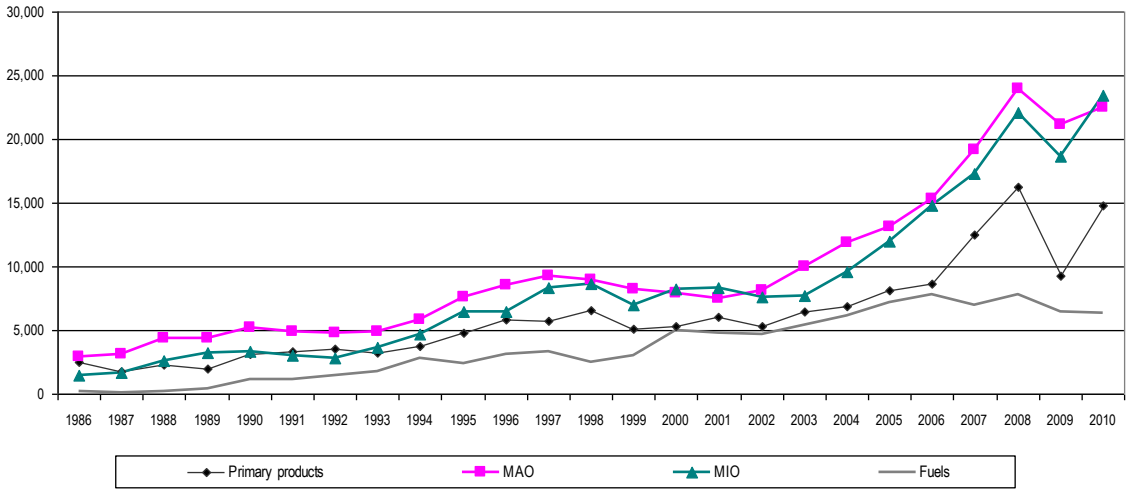
In order to highlight the changes occurred in Argentine foreign trade over the first decade of this century, this section analyses its evolution from the point of view of trade partners and traded products.

As for products, the first feature observable in the evolution of foreign trade over the last decade is the growing share of manufactures in both Argentine imports and exports.

Graph 8 shows the breakdown of exports by major item according to the classification made by INDEC. The evolution illustrated by the lines clearly shows greater dispersion between the four groups of products towards the end of the series in relation to the values recorded in the late nineties. In the three-year period 1998–2000 exports of these four items ranged between USD 3.4 billion (fuels) and USD 8.3 billion in the case of Manufactures of Agricultural Origin (MAO), whereas in the three-year period 2008–2010, exports were at USD 6.8 billion (fuels) and USD 22.5 billion (MAO), with Manufactures of Industrial Origin (MIO) recording similar values to those of MAO.

Thus, between the above-mentioned periods the share of manufactures in total exports increased: that of MAO went up from 33% to 35%, and that of MIO, from 31% to 33%.

Graph 8
Argentine exports by major item
in millions of USD

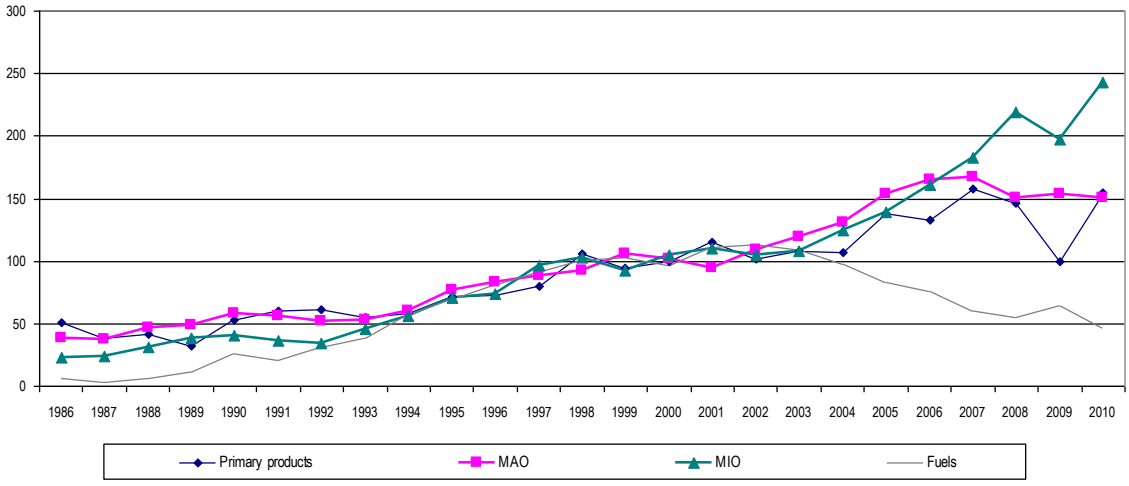


Source: CEI based on INDEC.

As was mentioned above, prices played a significant role in the evolution of export values; however, their impact on each major item was different. In order to distinguish the "price effect", Graph 9 shows the same classification of exports measured in volumes instead of values. In this case, the behaviour throughout the decade shows an even more pronounced difference. In the first place, the evolution of MAO and MIO until 2006 was similar. However, as from 2007, MAO volumes "plateaud", while MIO volumes continued to show a growing tendency, only interrupted by the international crisis of 2009, which the main destination markets for this group of products—i.e., Latin American countries, which accounted for 68% of Argentine MIO exports—could not escape.

MIO is the only major item whose export volumes grew more than the average for Argentina: if we compare the three-year period 1998–2000 with 2008–2010, the expansion of MIO export quantities reached 120%, while total exports did so by 57%. In turn, MAO increased by 52% and Primary products, by 33% between both periods. In contrast, Fuels and minerals was the only major item whose behaviour was negative, with export volumes recording a 45% contraction between both three-year periods.

Graph 9
Argentine exports by major item
Index in volume - Base: 1998–2000=100



Source: CEI based on INDEC.

In order to show the evolution of exports at a more disaggregate level, major Items are broken down as follows. Table 3 shows those sectors that accounted for 79% of total export growth over the last decade, comparing the average in the three-year period 2008–2010 with 1998–2000. Both agricultural and industrial manufactures contributed 62 percentage points to said growth and accounted for 70% of total export growth.

The last column of table 3 shows that within MAO and MIO volumes expanded in all items but Metals and articles thereof. Moreover, in most sectors volumes increased by over 50%, even exceeding 150% in some cases—Road transport material, Chemicals, Plastics and Preparations of legumes, vegetables and fruits.

Although price rises have not favoured overall Argentine exports as much as those of the rest of Latin America, some sectors have benefited from the evolution of international prices, especially those related to commodities and commodity by-products, which are part of Primary products and, in some cases, also products with low degree of processing.

In some items—such as Oil seeds and oleaginous fruits, Vegetable fats and oils, and Residues and waste from the food industries (mainly pellets for animal feed)—prices and volumes presented a similar evolution, whereas in other items—such as Cereals and Metals—growth was boosted solely by higher international prices. This evolution clearly contrasts with that of the remaining manufactures, in which the increase in export values was driven by export quantities, since price rises were relatively lower.

Table 3
Main Argentine export sectors
contribution to growth and evolution of export volumes

	Exports in millions of USD				Volume index (1993=100)		
	Average 98-00	Average 08-10	% Change	Contribution to growth	Average 98-00	Average 08-10	% Change
Residues and waste from the food industries	2,162	8,400	288	16.0	185	327	77
Road transport material	2,207	6,626	200	11.3	288	819	184
Fats and oils	2,320	5,576	140	8.4	206	262	27
Oil seeds and oleaginous fruits	980	4,068	315	7.9	159	341	114
Chemicals and by-products	1,377	4,125	200	7.1	316	794	152
Cereals	2,508	4,870	94	6.1	185	182	-2
Base metals and articles thereof	1,242	2,882	132	4.2	167	164	-2
Meat	817	2,128	160	3.4	138	217	58
Machinery and apparatus, electrical material	1,089	2,216	103	2.9	138	267	93
Plastic and artificial materials	423	1,340	217	2.4	342	864	153
Preparations of legumes, vegetables and fruits	323	973	201	1.7	177	461	161
Fresh fruits	456	1,099	141	1.7	188	327	74
Beverages, spirits and vinegar	217	783	260	1.5	241	417	73
Milling products	152	607	300	1.2	293	668	128
Dairy products	337	775	130	1.1	831	1,118	35
Paper, cardboard, printing and publishing	393	653	66	0.7	274	421	54
Unprocessed fish and shellfish	541	790	46	0.6	98	121	23
Unprocessed vegetables and legumes	314	520	66	0.5	188	188	0
Rubber and articles thereof	159	364	128	0.5	313	432	38
Sub-total	18,015	48,792	171	79.0			
Rest	7,471	15,672		21.0			
Total	25,486	64,464					

Source: CEI based on INDEC.

As for imports, these appear highly concentrated in industrial manufactures, which accounted for 86% of total imports. Between the two periods under analysis, the breakdown of imports did not show any significant change, although MIO and MAO lost part of their share in favour of Primary products and Fuels. Import growth in the three-year period 2008–2010 with respect to 1998–2000 was mainly driven by larger import quantities (+58%), which were boosted by Argentine economic growth and, to a lesser extent, by higher prices (+17.5%).

In turn, the sectors that accounted for most of this import growth were processed industrial supplies (especially Organic chemicals, Plastics, Iron and steel, and Fertilizers), and Capital goods and parts thereof, and Motor vehicles. It is worth noting the significant increase in imports of fuels, which in the three-year period 2008–2010 exceeded the 1998–2000 average by USD 1.97 billion, mainly due to the impact of prices.

4.1. Geographical and sectoral breakdown of trade

Table 4 shows the contribution of Argentina's main trade partners to Argentine exports of each major item and to Argentina's total exports between 2008 and 2010.

Table 4
Contribution of Argentina's main trade partners to Argentine export growth by major item

	Primary products	MAO	MIO	Fuels	Total
Brazil	1.8	2.7	37.4	13.9	15.5
China	37.1	8.0	0.7	15.0	11.9
Rest of ALADI	13.1	14.8	29.4	18.6	19.8
EU	14.2	30.6	9.3	0.6	17.3
United States	0.5	1.3	4.9	14.7	3.6
Rest of Asia	9.1	13.3	1.3	0.3	7.2
Rest of the World	24.3	29.2	17.0	37.0	24.7

Source: CEI based on INDEC.

China and the Rest of the world were the trade partners that accounted for most of the increase in exports of Primary products. Furthermore, while the increase in industrial manufactures was mainly boosted by Latin American markets—Brazil and Rest of ALADI—the growth recorded in MAO was mainly driven by exports to the European market and to the Rest of the world. Finally, although Rest of the world accounted for most of the increase in Fuels, the share of the different trade partners in this item was more homogeneous.

The graphs included under Graph 10 illustrate the overview by partner, since they show Argentina's trade balance by major item with each of its main trade partners in the three-year periods 1998–2000 and 2008-2010.

Firstly, these graphs show that the improvement in Argentina's trade balance occurred between the late nineties and the end of the last decade—and which was discussed in the previous section—was driven by trade surpluses in Primary products and MAO[3], which was partially offset by an increase in the negative balance in MIO.

It can thus be observed that there was an increase in the trade surpluses in Primary products and MAO with most trade partners, except for the fall in surplus in Primary products with Brazil. In contrast, the overview of the trade balance in MIO is markedly different from partner to partner. In this case, both China and Brazil explain almost all of the widening of Argentina's trade deficit in MIO between 1998–2000 and

[3] This broader surplus in Primary products and MAO was explained by the export dynamism of cereals, and soybeans and soybean by-products and, although the breakdown by product did not change much, it does show some increase in the share of Residues and waste from the food industries (+4.5 percentage points) and of Soya (+2.5 percentage points) in relation to Cereals and Oils.

2008–2010, which soared from USD 16.5 billion to USD 22.4 billion between both three-year periods. In contrast, the situation with Rest of ALADI was just the opposite, since Argentina's surplus with said region rocketed from USD 580 million to USD 3.2 billion between both periods.

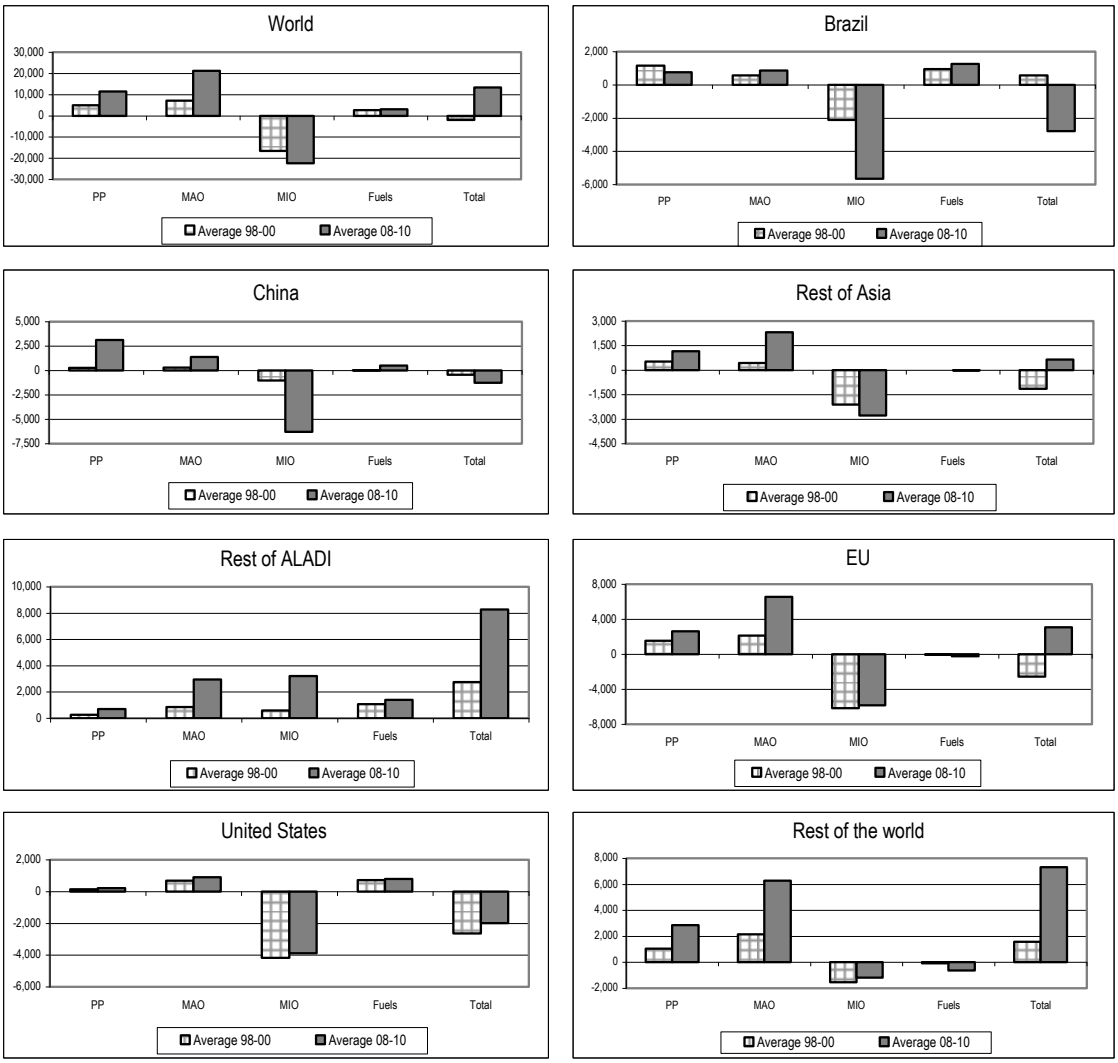
The trade profile with developed countries is more moderate, mainly due to a reduction in the deficit in MIO triggered by the substitution of some import origins: while in the last decade Brazil's share in total Argentine imports increased from 23% to 31%, and that of China did so from 4% to 13%, the shares of the European Union and the United States shrank from 27% to 16%, and from 19% to 12% respectively in the reference period.

On the other hand, the rest of the world plays a particularly relevant role in this trade balance increase, mainly by contributing to the growth of exports of Primary products and Agricultural manufactures.

Graph 10

Trade balance by major item and by partner

in millions of USD



Source: CEI based on INDEC.

This leads us to reflect upon Argentina's trade profile with each of its partners, bearing in mind that the set of partners selected for this analysis account for slightly more than 80% of global trade. The first graph shows that, over the last decade, Argentina's trade profile with the world became more pronounced, with

both the balance in Primary products and MAO and the deficit in Industrial manufactures growing. The trade partners who helped to reinforce this profile were Brazil and Asia—particularly China—while the Rest of ALADI contributed towards a more balanced trade in industrial manufactures.

An important difference between Argentina's trade profile in industrial manufactures with Brazil and Asia is that, in the first case, intra-industrial trade plays an outstanding role, whereas in the case of Asia, there is a strong import bias, reflected in the reduced share of exports of each MIO sector in total exports (see Table in the Annexe). Most of the deficit in MIO was explained by the increased negative balance in Machinery, apparatus and electrical material, and Chemicals. Brazil and Asia have a preponderant share in these items but, as was previously stated, the importance of Asia as a destination market for Argentine exports is very low.

The table in the Annexe also shows that the trade balance with the Rest of ALADI improves in all industrial manufactures, either by means of an increase in surplus or by a reversion of the trade balance sign in favour of Argentina. The share of Rest of ALADI in total exports surpasses that of Brazil in several items, such as Machinery and apparatus, Base metals and articles thereof, and Chemicals and by-products.

5. Final comments

In a dynamic world context, throughout the last decade the Argentine economy has enhanced its international integration on the basis of high growth rates of its foreign trade in goods and services. Thus, the increasing importance of trade flows relative to economic output presents new scenarios of opportunities and challenges to those firms that are either directly or indirectly linked to the world economy.

Taking the international and regional contexts into account, in the case of Argentina, it is worth noting that the increase in export volumes largely surpassed the average for the Latin American region and its export expansion rate also exceeded that recorded at world level. Even though the improvement in prices of export goods played a key role to sustain high trade surpluses, the average impact of the improvement in commodity prices was not as important for Argentina as it was for the rest of the region, and this holds true even when compared with the world average.

From the macroeconomic point of view, if we compare the figures recorded over the last decade with those of the nineties, it is worth noting that there has been a shift from a trade deficit to a trade surplus in goods and services, exceeding six percentage points of GDP. This shift has made it possible to maintain current account surpluses and, therefore, to finance aggregate investment growth without resorting to net external financing, as had happened in the late 20th century.

The breakdown of Argentine trade by partner and by product shows, on the one hand, a greater share of both agricultural and industrial manufactures in total exports, with a remarkable growth of the latter in spite of a moderate rise in prices.

On the other hand, Argentina's trade profile with the rest of the world as well as with its main trade partners has become more accentuated: Argentina's trade surplus in primary and manufactured agricultural products has expanded as the deficit in industrial manufactures—mainly explained by trade with Brazil and China—has also widened. There is, however, a significant difference between these two partners, because while the Brazilian market is extremely important and dynamic as a destination of industrial manufactures, the share of China as a destination of this type of products is very low.

The rest of the Latin American region partly offsets the deficit in industrial manufactures thanks to the increasing surplus in favour of Argentina recorded over the last ten years. Thus, beyond MERCOSUR, the Latin American market constitutes a significant source of diversification for Argentine exports. Consequently, the consolidation of the regional growth observed over the last few years, as well as policies to enhance added value and the differentiation of export goods and services, constitute a key factor to continue improving the share of non-traditional goods in Argentine exports.

Annexe
Exports of industrial manufactures

	World		Brazil					Asia					Rest of ALADI				
	Balance (millions of USD)		Balance (millions of USD)		Exports			Balance (millions of USD)		Exports			Balance (millions of USD)		Exports		
	Average 98–00	Average 08–10	Average 98–00	Average 08–10	Absolute change Millions of USD	Change %	Share in %	Average 98–00	Average 08–10	Absolute change Millions of USD	Change %	Share in %	Average 98–00	Average 08–10	Absolute change Millions of USD	Change %	Share in %
Chemicals and by-products	-2540	-3625	-281	-517	535	126	23	-214	-1162	78	312	2	344	905	736	130	32
Plastic and artificial materials	-812	-795	-118	-102	474	225	51	-92	-268	41	1016	3	41	307	326	198	37
Rubber and articles thereof	-286	-531	-79	-135	175	284	65	-89	-173	2	2329	1	14	23	28	82	17
Articles of leather, travel goods, etc.	7	-55	1	0	-2	-73	2	-41	-91	2	631	4	1	5	3	68	13
Paper, cardboard, printing and publishing	-766	-498	-180	-253	46	34	28	-23	-34	29	1871	5	-3	161	196	106	58
Textiles and apparel	-698	-1035	-150	-230	-12	-6	51	-213	-532	2	140	1	-37	0	49	58	39
Footwear and parts thereof	-151	-326	-89	-194	-13	-85	7	-74	-152	0	62	2	3	20	12	109	78
Articles of stone, plaster, etc., ceramic products, glass and glassware	-209	-320	-82	-153	13	83	16	-35	-98	0	132	0	26	45	49	98	57
Precious stones, precious metals and their products, coins	56	-1332	-3	-3	1	265	0	-3	-16	0	1451	0	-8	-8	1	171	0
Base metals and articles thereof	-451	-565	-459	-1133	272	194	14	17	-242	43	27	7	153	574	583	178	32
Machinery and apparatus, electrical material	-7757	-11833	-808	-2443	192	38	32	-1563	-4674	29	129	2	-2	346	643	223	42
Road transport material	-1389	-1835	254	-233	3241	184	75	-444	-896	37	6186	1	32	332	786	337	15
Maritime, river and air transport vehicles	-399	-599	4	-37	77	1705	11	-21	-20	1	5986	0	7	413	409	5475	59
Other MIO	-1151	-1686	-115	-208	36	78	17	-348	-707	7	414	2	13	125	154	214	46
Total MIO	-16545	-22373	-2106	-5641	5035	143	40	-3142	-9065	273	124	2	584	3250	3975	196	28
Rest	14642	35929	2664	2893	1014	30	10	1553	8464	7109	429	20	2172	5095	3774	124	16
Overall Total	-1903	13556	558	-2748	6049	87	20	-1589	-601	7382	394	14	2756	8345	7749	153	20

Source: CEI based on INDEC.

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