

# ARGENTINE JOURNAL OF INTERNATIONAL ECONOMICS (RAEI)

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## **EDITORIAL**

First of all, we must advise the reader that in this issue of the journal we will not be addressing strictly international matters. The main reason is that it is Argentina itself which is standing in the centre of the scene. This central role poses questions which lead us to research and discover local potentialities.

In the current state of affairs, and facing a need of foreign currency to finance development and enhance production, many economists consider it a priority to increase exports. While there is a sense of harmony in this expression, the rest of the world does not usually play for our team. This fact is made clear at a time when many of our partners are seeking to increase competitiveness by implementing low salaries or with dumping practices that allow entering goods in third markets at a price below their cost.

Understanding the recent global evolution is key for a simple reason. Today, the world is virtually stagnant. According to the IMF, global growth in 2016 will be 3.12%. The United States is the developed economy with the highest projected rate of growth (2.54%), even above the average rate in the most advanced countries (1.98%). Today's rate, though not inconsiderable, is far from the figures we saw in the previous decade. It is perhaps this evolution which internally triggers the discussion of when a further increase in the interest rate will occur. It should be added that the mere announcement of the debate on the first hike led to falls in the price of major commodities (soy-bean, corn, wheat and oil recorded falls of 21%, 13%, 28% and 48%, respectively, in the accumulated January-October 2015 period in relation to the previous year). At the same time, some changes are observed with respect to the North American foreign trade strategy. The promotion of mega-trade agreements (such as the TPP and the TTIP) and the relevant US complaint to China within the framework of the World Trade Organization (WTO) for the massive application of export subsidies to industrial products account for these changes.

The odd thing about this geopolitical arena is that China is not part of these mega-trade agreements, while Japan is. The United States and Japan would willingly dispute China's presence in the Asia-Pacific region as well as its position in America from the Pacific.

China, on the other hand, does not only have a solid presence in the Latin American region –since it is the main trading partner of Brazil, Chile and Peru and the second of Argentina, Mexico, Colombia and Ecuador–, but it also seems to hold a dual strategy of domestic consumption and exports, due to the end of its one-child policy, applied for decades, which would enable faster growth of its population. Given that the levels of growth at 10% of the last decade have come to an end, and until this social policy is consolidated, China will, without a doubt, dispute access to any market that may demand its production.

Meanwhile, the European bloc fails to solve its economic weakness despite efforts by the President of the European Central Bank to expand the lax monetary policy through the injection of liquidity into the market. At the same time, it continues its defensive trade policy with the use of instruments and regulatory projects aimed at protecting its interests –already analysed in previous issues of the RAEI, as the case of biodiesel or

negotiations of the International Civil Aviation Organization (ICAO), among others– and it intends to implement the environmental footprint, a matter discussed in this issue, and which can have consequences for the export of Argentine products.

Within this context of falling prices and a stagnant world economy, some other matters should be added: a) devaluations/currency wars (for example, the Brazilian real devaluation was 58%, when comparing October 2015 with October 2014), b) a higher number of non-tariff measures (the WTO has recorded more than 2,416 restrictive measures since October 2008), and (c) the global trade/product elasticity which has been reduced in recent years. This means that the global increase in GDP entails an increasingly lower trade growth. In this respect, we have deepened the analysis of foreign trade elasticities in Argentina, published in the RAEI No. 3 and we have broken down the calculation of elasticities by trading partner to verify the possibility of establishing a pattern of behaviour.

This is where the famous saying that primary goods are to be shipped and industrial goods have to be sold becomes relevant. In a deeply anti-Keynesian international context, winning markets and increasing exports proves to be an almost Pyrrhic task. This is the reason why, in this opportunity, we analyse the potentiality and structural weaknesses of provincial exports.

In this context, Argentina's incomplete industrialisation poses a major challenge since it requires dollars to finance, on the one hand, those finished goods which are not produced in the country, and on the other, that input needed to maintain the productive matrix (including fuels) and machinery to accelerate capital accumulation. The need for dollars or the lack of them, "external constraint", compels to the daily practice of managing the use of these reserves, and therefore, of trade. In order to delve deeper into the implications of this phenomenon, this issue presents a study that examines, from a historical perspective, the main factors determining the problems of external constraint between 1960 and 2013, while putting special emphasis on the evolution of the current account. In addition, it is suggested that the economic development is a process that is broader than and different from that of economic growth, but it cannot do without it to take place.

In an increasingly complex world, the strategic definition of economic development, which leads to the redefinition of tactics related to foreign trade in Argentina, becomes an almost inevitable process. These tactics are undoubtedly part of a much broader and equally relevant set of matters regarding industrial, macro and exchange rate policies.

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