Opportunities and challenges for Argentina in the East Asia market

Executive Summary

A region which harbors 30% of the world population –1,700 million inhabitants– and produces 14% of the global economy, and that, in addition, shows the biggest commercial growth rates of the last two decades appears to be the inexorable fate for a country which needs to increase substantially its placement in the exporting world.

In that case, East Asia offers a promising market for the Argentine products, both due to the size and dynamism of its economy and the match between its demand for imports and our potential for exports.

Although this region is fully integrated to the international trade (it generates 24% of the world exports and 21% of the world imports), Argentina's commercial exchange with East Asia is clearly underexploited since it is hardly represented in 10.2% of our foreign sales and in 10.4% of our purchases.

However, there are numerous commercial opportunities for our products in the region. Argentine products that have greater opportunity of increasing its sales in these countries have been identified, which can be divided into those products which are already sold there and those which have not yet entered, i.e. the unexploited opportunities.

Among the first group, the Asian countries have made imports in the amount of 107 thousand million dollars, and Argentina has sold only 1,992 million out of these. The greatest opportunities occur in those items where there is a match between the Argentine export structure and the Asian countries' import structure: the food sector (oleaginous foodstuff, such as seeds, oil or flour, cereals, fish, and fruit), fuels, chemicals, metal manufactures (steel and aluminum), and leather. Out of these, those having the greater insertion are the oleaginous sector products, while a medium and low insertion can be found among leather and steel manufactures.

Among the second group –that encompassing the yet unexploited opportunities–, the import market of the East Asian countries amounts to 145 thousand million dollars, which are concentrated in fuels, chemicals, mechanic and electric machines, steel products, and cereals.

Additionally, and under a longer-term prism, opportunities and threats are posed which may arise from a commercial agreement between Argentina and East Asia, based on tariff reduction. Although this is not an ongoing negotiation, it is relevant to think of the future potential for an agreement of this kind taking as a basis a change in the commercial policy of these countries in the last years, which gave greater emphasis on the integration agreements as an alternative to multilateral negotiations, in an attempt not to lose markets in the face of the proliferation of ongoing or under-negotiation free-trade agreements in the Atlantic basin. New agreements are being signed among the East Asian countries themselves or with countries in other regions: after the forerunning agreement among the ASEAN[1] countries in 1992, other more recent ones followed, such as the one signed between Japan and Singapore, (2002), China and ASEAN (2002), and Korea and Chile (2003).

A reduction in commercial barriers between Argentina and East Asia –resulting from bilateral, biregional or multilateral negotiations– can have a substantial impact on our foreign accounts: presumably, an amount in the exchange –both as to sales and purchases– with that region, and a decrease of exports to Brazil –due to the loss of tariff preference offered by Mercosur –. In this paper, a methodology has been developed in order to identify the Argentine products that have greater chances of increasing its sales to these countries, following a criterion based on trade barriers and on indicators linked to a match in the commercial structures and the current trade.

At this point, it is important to mention that the East Asian countries do not make up a homogeneous

1 Association of Southeast Asian Nations: Brunei, Indonesia, Philippines, Malaysia, Singapore, Thailand, Vietnam, Lao, Myanmar, Cambodia.

group upon analyzing the access requirements to their markets. For example, some countries favor free trade, such as Hong Kong and Singapore; others give priority to protectionism, especially as regards its aid to the agricultural sector, such as Korea, Japan and China. Still others, such as Indonesia, Malaysia and Thailand, members of the Cairns Group, seek to reduce protection and aid to the agricultural sector; while China and Taiwan have only recently joined the multilateral trade system (December 2001 and January 2002, respectively).

The above mentioned differences can be seen upon analyzing tariffs, which present complex and not quite crystal-clear structures, with higher average tariffs for the agricultural sector, which is also protected by tariff peaks and tariff escalation which hamper the entry of products with a greater degree of manufacture. Also, the more "sensitive" products receive the supplementary protection of non-tariff barriers, notably tariff quotas, non-automatic import licenses, safeguards, anti-dumping rights, sanitary and phytosanitary measures, and the presence of state-owned companies having a monopoly over foreign purchases.

As their policies give especial protection to foodstuff items, where Argentina shows clear comparative advantages, the agricultural and fishing sectors have a great potential for increasing their sales upon an improvement on the access conditions. The fact that opportunities focus on primary and processed agricultural goods shows that Argentina is in a favorable position to take an outstanding part in the increasing demand for food which the Asian countries undergo. However, there are also opportunities in the field of industrial manufactures.

Strong opportunities –those sectors where significant trade barriers exist, and where there is coincidence between Argentina's export specialization and East Asia's import specialization– occur in products where imports of the East Asian countries amount to 98 thousand million dollars (of which Argentina participates with 1%). The main products fall into the group of fuels, cereals, plastics, machines, cotton and oleaginous items.

Products with weak opportunities –where there are significant commercial barriers but there is no commercial complementarity between Argentina and its partner– comprise an importing market of 60 thousand million dollars, whereas the Argentine sales of these products to these countries amount to only 7.5 million dollars. The main products are industrial manufactures, such as textiles, machinery, plastics and leather manufactures. Among agricultural foodstuff are meat, beverages and preparations including fruits and vegetables.

Among the products having strong and weak opportunities, Argentine trade is hardly significant, both in an analysis made from the viewpoint of the importance of our country as supplier of these countries (low participation of the Argentine products in imports) and in an assessment of the importance of that region as a "client" (reduced participation of East Asia in our exports).

In relation to the threats to the Argentine exports, a tariff reduction or removal for the entry of Asian products in Brazil could affect around 60% of the Argentine exports to the Brazilian market. A measurement of the presence of these countries in Brazil indicates that the bigger threats come from Japan, Korea, and China.

The strong threats –sub items with high commercial complementarity between the Asian exports and the Brazilian imports– occur in products where Argentina exports to Brazil 3,270 millions of dollars, based on an annual average for 1998-2001. The greater part of this is made up of industrial manufactures, such as products of the car industry, mechanical and electrical machinery, and plastics.

The weak threats –sub items with low commercial complementarity between the Asian exports and the Brazilian imports– occur in products with sales to Brazil an amount of 860 million dollars, where also the main items are industrial manufactures such as pharmaceutical products and steel manufactures.

As regards an increase in imports from these East Asian countries arising from a decrease in the Argentine tariffs, the potential can be seen in products related to more than a half of the total Argentine imports. Since the presence of Asian products in these items is low –15% of the imports of these products–, the margin is wide for the increase in the participation of these countries.

The industrial products are those which show a greater potential for increasing imports due to the level of tariffs applied in the country and also due to its participation in the current imports. Among these are car industry products, machinery, plastics, and optical instruments.

In short, there is an underdeveloped commercial activity between Argentina and the East Asian region. However, adequate and consistent commercial promotion actions can open the door to numerous Argentine products in already existing but unexploited opportunities, as is the case of the food, fuel, chemical, steel, aluminum, leather, and machinery sectors.

Furthermore, the commercial negotiation, through an improvement in the access conditions to markets may open new doors to our products, particularly in activities which today take a lean part as suppliers to the Asian market: fuels, cereals, plastics, machinery, cotton, leather manufactures, which can be mentioned among the potential beneficiaries of a free-trade agreement.

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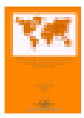

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