BRINGING DOWN THE BARRIERS – CHARTING A DYNAMIC EXPORT DEVELOPMENT AGENDA

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WINNING NATIONAL STRATEGIES FOR EXPORT DEVELOPMENT
Foundations of Trade Management for International Insertion

The competitive challenges created by globalization include an international trade structure that increases the supply of goods and services that involve technology-intensive resources and, therefore, higher levels of research and development. This makes it necessary to enter—and compete—in foreign markets by implementing a strategic foreign trade approach that draws on commercial intelligence defines and implements specific actions to promote sectors in specific markets.

This requires a global and comprehensive strategic vision with national reach as regards exports promotion that guarantees new and broader scenarios for Argentine production, thus making the traditional governmental approach to international business more efficient, active and proactive.

For this purpose, since 2003, Argentina has set itself, and attained, the goal of systematically improving the efficiency of its strategic promotion of exports, by gradually directing its productive sectors especially the ones closely related to SMEs towards international markets, and through giving priority to regional economies. With this more federal focus, the Provinces and Municipalities can gradually become regional economic spaces working in cooperation for the promotion of export-oriented production, and be incorporated into the export process. The overall principal adopted is that “exporting means intelligently placing ourselves within the value chains of the countries that import our products, on the basis of converging interests”.

The new foreign trade approach positions Argentina as a country with multiple facets as regards international business, with a broad and diversified supply that reflects its potential as a supplier of world-class commodities and also skills-based manufactured goods and services with significant technological content. This is why the country’s trade policy priority to the integration of the productive sectors with their counterparts in countries that decide to accept Argentina’s exportable offer, with the objective of strengthening the process of integration into the world through an innovative (public-private) approach to achieve international insertion of trade and production.

This new export paradigm seeks to gradually position Argentina in world trade without excluding any productive sector and/or market and/or partner, on the basis of economic and, especially, commercial complementarities, with a pragmatic and interactive approach based on varied trade relations.

The underlying vision is one of Argentina as a reliable and consistent decisionmaker that is commercially incorporated into the world using production as its platform and that is commercially interested in all markets, strictly on the basis of reciprocal, equitable and converging interests.

Also part of this vision is an understanding of Argentina as an active social state that takes strategic steps for international insertion in interaction with the business community, trade and services. The productive model is to embrace all business activities, in order to expand and strengthen the national production network through increasing more exports in combination with a gradually-expanding domestic market.

This is an inclusive nationwide exports strategy grounded on the principle of trade complementarities. The strategy has the purpose of generating new and better scenarios for Argentine production in general and, consequently, gaining new ground in international market—through efficiency, competitiveness and an aggressive commercial approach—in particular for the production of SMEs in regional economies.

Therefore, the Ministry of Foreign Affairs, International Trade and Worship (hereafter: Ministry of Foreign Affairs) is implementing a foreign trade relations approach aimed at advancing in international markets, but giving priority to a harmonization of all productive sectors in the country through:

- A strategic technical assessment of possible scenarios in the context of international trade and
• Operational consistency of the decisions and actions taken by the government sector aimed at exports development.

• An important innovative element in this exports development strategy is the synergy between the public and private sectors, academia and civil society, with an export-proactive and production-inclusive intervention by the State, as facilitator/guide for the export strategy, addressing market access problems, by reducing and eliminating barriers, and, at the same time, seeking to:

• Decentralize the composition of shipments and thus double exports throughout the current Administration, which will be more than achieved by the end of this year, since there will be exports in excess of USD 50 billion and an expansion of the export base,

• Diversify the exportable offer by qualitatively enriching it with greater added value, and increase the exportable offer that is more technology-intensive and has an SME component;

• Diversify destinations by opening new markets.

All of these measures serve the purpose of spreading the export effect across the whole spectrum of national production and, especially, of achieving greater geographical diversification of production and regional, provincial and municipal development.

In view of the challenge of facing the global market, Argentina has decided to achieve productive insertion into markets:

• In an organized manner from the point of view of production, through a greater differentiation of the exportable offer, as part of a skills-based productive incursion with integration;

• In an orderly manner from the point of view of strategy and promotion, so as to ensure, on a sustainable basis, the internationalization of the production of regional economies and their SMEs, which involves harmonized trade promotion and commercialization strategies that give feedback to each other.

This global exports strategy implemented since mid-2003 involves the participation of Provinces and Municipalities, and their production and trade communities, in a federal inclusive production approach, which integrates all productive forces in the search for new trade opportunities, including investment opportunities and business partnerships with foreign partners, which are derived from the international trade relation.

This is aimed at strengthening the value chains of the whole SME production range in the country, with the incorporation of technological innovation to ensure the constant qualitative differentiation of Argentina’s exportable offer with an SME bias.

Yet another novel aspect of this approach is the dynamic involvement and coordination effort of the Ministry of Foreign Affairs, which has primary responsibility for outward trade promotion, with the different government agencies dealing with foreign trade and also with those which address homeward production. Going further, the coordination also extends to Provincial and Municipal Administrations, umbrella and sectoral business chambers, in order to define and implement on an annual basis the federal comprehensive Integrated Program for Trade Promotion and Development of Foreign Markets, coordinated by the Undersecretariat of International Trade and executed through diplomatic and consular missions abroad.

This gives rise to a commercial approach to achieve international insertion with all sectors of production, trade, academia, the political forces and civil society as a whole.
This new management model shows that the export peak experienced since 2003 is more than just an encouraging figure, as it reflects the substantial achievements of an effective strategic management of the development of exports, which involves three key elements:

- Macroeconomic solvency pursued by the Government,
- A dynamic and incisive negotiation capacity, and
- An effective insertion into foreign markets.

At the same time the new foreign trade relation accommodates and complements the bilateral and multilateral levels, on the one hand, and the regional and global levels, on the other, as complementary aspects, as part of a policy that favours competitiveness, production and exports.

In this new strategy for the development of exports, the Ministry of Foreign Affairs manages the organization of the required systematic concurrence between the negotiation capacity to gain access to new markets and the occupation of such markets through trade promotion.

As part of this foreign strategy, Argentina acts on two action fronts:

- The search for and opening of new destinations by means of trade negotiation and
- The occupation of markets by means of commercial evaluative intelligence and promotion in itself.

That is, the approach is aimed at opening and occupying markets.

In the search for new destinations for our exports, the aim is to gain access to markets for our products through multiple and simultaneous negotiations by country and by product. This is why Argentina’s position in multilateral, regional and hemispheric negotiations was and is clear in promoting—and steadily striving for—a more balanced system of trade disciplines and for fair trade.

In the occupation of markets, Argentina also implements an insertion approach based on:

- Commercial intelligence to coordinate specific strategies by product and by market and to identify partners and complementarities for the development of export-oriented commercial and industrial projects, and
- Foreign promotion activities that incorporate the Integrated Program for Promotion and Development of Foreign Markets.

**Operation and Features of the Foreign Promotion Strategy**

The operation of the strategic approach has simple but essential mainstays, namely:

- Constant inventory and control of the Argentine exportable offer
- Intensive survey of the world’s demand by market for that offer and, consequently, detailed knowledge of the situation of international markets for the exporting productive sectors.
- Establishment of productive links and foreign partners.

The systemic and orderly interaction of these mainstays it is possible to:

- Determine the existence of demands not satisfied by Argentina and the existence of untapped market niches, as well as the performance of the country's exports, by monitoring their evolution, even by sectors.
- Draw up proposals and recommendations as regards foreign commercialization and trade promotion strategies both by sectors/areas and markets, and
- Create and implement new internationalization initiatives to decentralize shipments, diversify destinations and thus gradually expand the exports-oriented productive spectrum of the country.
Within this vision, and as a distinctive characteristic, the federal agenda for strategic exports promotion has been strengthened. This promotion is carried out by the Ministry of Foreign Affairs, together with other governmental agencies, by identifying and addressing not only the foreign business opportunities, but also the technical productive aspects for exports.

Furthermore, the current federalization of the exporting effort is making it easier for Provinces, with the technical-logistic support of the Foreign Ministry, to play a leading role in the development of new trade niches for their productive sectors in international markets. All in all, this requires broadening the involvement of domestic productive forces from the provinces in Argentina's successful exports process.

This strategy is allowing Argentina to expand its interests to foreign countries and to facilitate the coordination of integrated production chains towards foreign markets. Through this strategy, Argentina intends to create new opportunities in order to strengthen productive diversification and development in its different regions.

In this nationwide trade management strategy, the key to promotion common thread running through all promotion actions lies in the linear interaction between:

- Intelligence and assessment work with regard to international markets, focusing on the identified exportable offer that has a SME bias,
- Trade promotion proper, and
- Direct assistance to exporters

These are key elements for the success of any exports development approach.

For such purpose, the Ministry of Foreign Affairs manages and coordinates, together with Fundación Export-AR and the different governmental agencies related to foreign trade, support for the exporting sector, as well as for the provincial and municipal governmental areas that deal with production and trade. The Ministry also contributes to the provision of commercial evaluative training and technical advice that ranges from promotion and adaptation of SME production profiles for foreign trade inclusion, to commercial intelligence for the selection of markets, including identification of trade complementarities with foreign partners, and even economic complementarities that may give rise to production investment flows.

This makes it possible to define and implement sectoral strategies—and even company strategies—for insertion and, as a result, to implement export promotion measures that range from trade missions to reverse agendas, seminars on business opportunities, international business rounds and meetings, participation in fairs, strategic training for SME exports, etc., that are part of the Program, in addition to the continuous provision of online information on the programs in force regarding the promotion of exports, through the Argentina TradeNet official portal.

In order to address the challenges of this new integrating approach for international insertion, which gives priority to the active participation of the productive sectors of all regions of the country, it was necessary to enrich the quality of actions and decisions.

- Both as regards improving the conditions to obtain access to markets
- And as regards the efficiency of the instruments to support the exporting sector and the effectiveness of the market diversification and development programs.

For such purpose, the Ministry of Foreign Affairs acts with intelligent organization criteria so as to facilitate and coordinate the implementation of a truly federal export strategy that includes all economic activities related to internationally tradable goods and services.

This entails a proactive participation by the Ministry which strengthens its coordinative role:
• Through an integrating governmental management with a decentralized sectoral and federalized national pragmatic plan for the promotion and strategic development of regional, provincial and/or municipal exports, and
• By acting as a natural hinge between the foreign business opportunities and an exportable offer that is structured appropriately from the point of view of production.

In this way, the exporting sector is provided with assistance regarding both the productive sectoral organization for export activities and the provision of relevant strategic international market intelligence information, in order to ensure an offer structured from the point of view of production, to meet the demands of foreign markets.

Furthermore, this strategic approach brings foreign business opportunities closer to the exporting sector, thus facilitating the creation of accurate insertion strategies both by product and by market and, consequently, the coordination of foreign promotion actions with differentiation in order to especially take into account the production of the provinces.

In order to understand not only the origin but also the success of this new approach, we must highlight that, in mid-2003, upon deciding its implementation, priority was given to SME sectors where such approach could be developed. This was not a random selection but a selection made—in full synergy with the private sector—through the identification of the production activities that had relative commercial dynamism, showed comparative sectoral advantages, were characterized by their strong SME bias, offered relative resistance to the crisis, and, at the same time, had an important impact on the generation of direct employment and on Argentina’s regional, provincial and even municipal development.

In this way, a universe of SME-oriented productive sectors was strategically created to adapt and implement an innovative approach as regards foreign promotion that would address issues ranging from their productive adaptation for exportation to the coordination of international insertion strategies.

This exportable offer universe has been gradually modified over the last four years, not only because Argentina’s internal conditions have changed for the better, but also because the international markets—which change constantly as well—require an equally dynamic organizational updating of export oriented production at micro level that reflects the commercial potential of Argentina’s offer.

As a consequence, Argentina currently defines different promotional strategies for different markets and for a wide variety of SME sectors that—excluding farm and industrial commodities—account for approximately USD 15 billion in exports, as opposed to only under USD 7 billion at the beginning of the current Administration.

Results of the Approach

These actions made it possible for Argentina to generate an important exports movement. Argentina has experienced an unprecedented development since early 2003, as the adverse structural relation between growth and trade balance has been reversed. The trade balance—internal recession equation was left aside.

The dynamism of exports occurred both at the global and sector levels in the context of a framework that also made it possible to regain the domestic market, through a virtuous circle that combines and supplements the reinforcement of domestic consumption with greater and more dynamic exports.

Today, “many (country by country, product by product and concurrent) negotiation tables and the non-exclusion a priori of any market”. Also, exports are not, as they used to be, closely related to the fluctuations of the business of a few excluding partners or to permanent price variations of also a few tradable goods, as a result of the decentralization of destinations and the diversification of shipments with an increasing share of industrial origin manufactures. This means that the developmental risk of our foreign sales is now limited to the continuity of this fruitful trade policy which is framed in and sustained by—among other things—the macroeconomic framework of financial strength, with
sustained growth and twin surpluses (fiscal and trade), coupled with a prudent monetary policy of consistent financial autonomy.

As is well known, the rearrangement of the macro context and the subsequent economic recovery that has taken place since 2003, together with this new foreign trade approach, made it possible – following six years of exports anchored at USD 26 billion (1997/2002) levels – for total exports to grow consistently since the 2002 crisis from USD 25.7 billion that year to a record level of USD 46.6 billion in 2006, which meant an increase by almost 82% from the level of exports during the crisis, reflecting “15% inter-annual growth in the past four years”, i.e., 6 points above the GDP growth rate.

What is important is that in the first six months of 2007, exports amounted to USD 24.546 billion, a 12.3% increase from the same prior year period. Exports of industrial manufactures rose by 16%, which is explained not so much by a price increase (4%) as by an increase in exported quantity/volume (12%). These manufactures have already reached export levels on the order of USD 7.635 billion.

The country’s global trade balance in the first six months of 2007 was USD 5.126 billion and two-way trade has already reached USD 43.996 billion, surpassing by 17.4% the level of the same prior year period.

It should be noted that, in general, the diversification of industrial exports was enhanced in the first semester of 2007, a highly positive sign, with placements in almost all destinations growing. The main markets were Brazil, Chile, the US and Mexico, which account for more than 55% of such exports. Also, the increasing integration facilitated a greater number of sales to Venezuela, Peru, as well as Brazil and Mexico in Latin America. The number of shipments to African countries like Algeria and Gabon, and to European countries like Spain, Germany and Switzerland also rose.

With this trend in place, the objective of doubling exports by the end of 2007 throughout the current Administration will be more than achieved, since there will be exports in excess of USD 50 billion.

This export boom takes place in tandem with a qualitative enhancement of our imports, which grow at a 20% average rate (10 percentage points above GDP growth) as a result of an economy that grows and demands capital goods, its parts and accessories, and intermediate goods.

The fact that exports and imports grow more than GDP means that Argentina has an expansive economy that is opening up to the world. The exports/GDP ratio is 23%, and the exports-imports/GDP ratio is now above 40%.

Evidence of the success of this approach is the remarkable 95% increase in exports of industrial origin manufactures since the beginning of the present Administration, with such exports having grown from USD 7.6 billion in 2002 to USD 14.8 billion in 2006.

Also, those manufactures account for 45% of the increase in total exports in 2006 that hit the 46.6 billion record, with such industrial manufactures having gained nothing less than 36 additional markets in 2006 – now totalling 194 destinations – which are satisfied by that Argentine sector.

No less important is the 87% increase in exports of agro-industrial manufactures in the past 4 years, which went from USD 8.14 billion in 2002 to 15.25 billion in 2006. In turn, they account for 34% of the increase in total exports in 2006, with such agricultural manufactures having gained nothing less than 33 additional markets in 2006 – now totalling 134 destinations – which are satisfied by that Argentine sector.

Manufactures as a whole (industrial and agricultural) account for 80% of the increase in total exports in 2006, and the new destinations gained denote the diversification of markets.
Certainly, a USD 12.4 billion trade balance in 2006, which will remain at approximately the same number, together with a two-way trade that, in terms of goods alone, will amount for the first time to around USD 90 billion in late 2007, is a positive sign.

In addition, industrial manufactures account for 33% of total exports, and agricultural manufactures, for 32%. That is, two-thirds of foreign sales are manufactures, whereas primary products amount to only 20%.

This was accompanied by a fiscal surplus of 3.5-3.3% of the GDP and a change in the reality of the productive sector, with the industrial sector having grown by 9.4% in 2006, and in the past four years, i.e., since the beginning of this Administration, accumulating a 40% increase, thus reflecting a consecutive, average inter-annual expansion of 8.3%.

The current foreign trade approach and the performance of exports are conceived, and takes place successfully, based on the following key elements of the economic policy, namely:

- Fiscal discipline and monetary prudence / countercyclical monetary and fiscal policies;
- autonomy of the financial system;
- managed exchange rate flexibility with a high exchange rate;
- diversified and expansive foreign trade in a highly dynamic world market together with a growing domestic market;
- considerable lightening of the debt burden (the public and private foreign debt fell by 35% in 2006 and accounts for 52% of GDP);
- a record level of reserves (above USD 44 billion);
- Highest investment level in 26 years, which amounted to 25% of the GDP in 2006 at current prices and to 21.7% at constant prices. This means that it was above the 21.1% figure of the year 1998 (the record for the 90’s) and even below the 24% figure of the 80’s;
- GDP was – ever since the end of the crisis – around 17% of the peak in the mid-90’s and GDP per capita was 8% above such mean. This means that the change in relative prices favoured production, employment and tradable goods.

Furthermore, over the past 4 years, the ESMEs (exporting SMEs) increased very significantly by 25%, from 8,895 enterprises in 2002 to 11,046 in 2006.

Also, the exported value of the ESMEs since the beginning of this administration grew by 64% from USD 2.206 billion in 2002 to USD 3.620 billion in 2006.

ESMEs now represent 73% of exporting companies, although they only account for 8% of Argentina’s total exports.

This general export boom is occurring in an expansive context of the economy and along with a qualitative improvement of exports. The aim – which is being achieved – is to have the productive sectors enter the international markets diversifying both the range of our exports and the decentralization of destinations.

In terms of diversification of exports, although the main items that displayed more dynamism in 2006 were transportation vehicles (Brazil, Mexico), parts and accessories (Venezuela), copper ore and its concentrates (Spain, Germany and India), soybean derivatives (EU, Algeria, India, South Africa), exports from the fishing sector -(EU, Japan and the US), chemical/pharmaceutical sector (Canada, Brazil and Venezuela), cosmetics and perfumery (Colombia, Mexico, Brazil) and essential oils (the US) sectors are also worthy of note. Also, exports of the plastic, leather and wood transformation industries, textiles, apparel and design, printed material and publications, materials for the construction industry, etc. – all of which are closely related to the SME industrial sector – go to several destinations.

With respect to the decentralization of destinations, the following should be noted:
Our main trading partner is MERCOSUR, which, although absorbing 22% of the total of our exports that rose by 30% in 2006, still yields a deficit for Argentina. This market is especially important for exports of industrial manufactures (cars, chemicals, published material, etc.)

The European Union comes second, as the destination of 18% of our exports. Such exports grew by 19% as against last year, which meant a favourable balance of USD 2.358 billion for Argentina. Export placements in this market range from copper ore and soybean derivatives to products from the fishing sector and several agricultural and industrial manufactures.

ASEAN received 16% of Argentine exports, which meant a favourable trade balance for our country of almost USD 1.3 billion. Such exports consisted of soybean (Korea, India), leather and furs (China and Korea) and crude oil (China).

NAFTA (Canada, the US, Mexico) was the recipient of 13% of our foreign sales, which meant a USD 430 million positive balance for Argentina, with exports remaining unchanged for the most part. Chemicals (the US), pharmaceuticals (Canada), cars and food preparations and dairy (Mexico), wine (the US) are worthy of mention.

Conclusion

Exports grow and so does the domestic market. More and better exports are being made. There is an increasing share of both goods with higher added value and intangible goods and skills-based services. The gradual incorporation of the latter into our export current with a high added value is worthy of note. Tourist, transportation, business, professional and technical services account for more than three-fourths of service exports.

A qualitatively salient trait of this successful export approach is the fact that it is oriented to the promotion of products and services with a higher technological content. For such purpose, the Argentine Technological Network (RTA) was created, which gathers the most prestigious public and private institutions of science promotion and execution and becomes involved with companies in order to encourage and promote the generation of technological innovations and developments for the competitive improvement of the exportable offer of goods and services.

The creation within the Ministry of Foreign Affairs of the Special Group for Technological Affairs (GETEC) seeks precisely to coordinate management in this sector among the different strata of the State, the private sector, academia and civil society.

The recent, though increasing, incorporation of new technologies into our export profile, such as information and development of software/computer services; biotechnology; alternative energies; nanotechnology; in addition to design in their different industrial applications, cultural industries, etc., is yet another sign of the qualitative change of the State’s export approach.

The existence of an actual, substantially qualitative improvement of Argentine exports is indeed unquestionable and is enriched by a wide and gradually increasing deconcentration of destinations, together with a growing prominence of regional economies. Furthermore, as the traditional trade surplus/recession ratio is no longer applicable, today Argentina grows by exporting and exports its growth.

Lastly, this proactive policy for international trade insertion strengthens and, fundamentally, streamlines the development and integration of manufacturing activities carried out by SMEs that impact on regional / provincial and municipal economies, putting them in a better position for making exports, by reinforcing the existing productive chains and stimulating the development of new value chains that involve technological innovation to ensure a permanent qualitative differentiation of the country’s exportable supply. With this, the following is to be expected:

- The creation of export SMEs production clusters;
• the reinforcement of the regional, provincial and municipal or communal productive fabric, enhancing the innovation capacity, and the absorption and promotion of new technologies, thus making the operational export arrangement of SMEs more efficient;
• the facilitation of generally inter-company productive complementation and, in particular, that of export-oriented regional economies;
• the improvement of the productive position of SMEs across the country for them to make exports and thus impact on Argentina’s productive diversification and generation of local employment;
• The establishment of the foundations for a sustainable and increasing export behaviour with the productive integration of all of the country’s regions.