

OPPORTUNITIES AND THREATS FOR ARGENTINA IN THE SOUTH-SOUTH TRADE

EXECUTIVE SUMMARY

The South-South trade offers a wide spectrum of opportunities for developing countries, given the complementary feature existing and the under-exploitation of trade among the economies in the hemisphere.

For the purpose of taking advantage of those opportunities, in June 2004, the third round of negotiations of the Global System of Trade Preferences (*Sistema Global de Preferencias Comerciales - GSTP*) among Developing Countries, a mechanism created by the G-77 in 1982 to promote the South-South trade, was launched in Sao Paulo (UNCTAD XI – United Nations Conference on Trade and Development).

In this paper, the impact that a broadening of the *GSTP* agreement may have on the Argentine trade is estimated by using different approaches: i) quantification of the trade that is currently performed under the generalized system of trade preferences (*GSTP*) among developing countries (*PEDs*); ii) general equilibrium estimation of the impact of a liberalization of trade among developing countries; iii) analysis of the trade complementarity among the *GSTP* countries; and iv) partial equilibrium estimation of the impact of a liberalization of trade among developing countries in such key sectors as agriculture, textile, among others.

TRADE

The *GSTP* countries generate 12% of world production and 17% of its exports, thus showing a higher trade movement than the rest of the world in the last ten years.

However, this expansion of trade was not even among developing countries: on one side, with a relatively high growth, is Southeast Asia; on the other side are

Latin America, the Middle East, the North of Africa and Sub-Saharan Africa.

For the Argentine products, the region has become a particularly dynamic market, since Argentine exports towards the *GSTP* (Mercosur excluded) multiplied by 3.4 in only ten years, from 2,600 million dollars in 1993 to 8,900 million dollars in 2003. In the meantime, changes are considerably less important for the import side (1,340 million dollars), thus yielding a positive trade balance for our country in the period under consideration.

Among the *GSTP* countries, the most important trade partners of Argentina are the Latin American countries, East Asia coming next. The main products currently exported by Argentina to the *GSTP* are: mineral fuel, fats and oils, cereals, waste from food industries, and vehicles and spare parts.

AGGREGATE IMPACT

The computable general equilibrium model developed at CEI was used to estimate the aggregate impact that the deepening of the *GSTP* may have on Argentina. The results obtained show, at an aggregate level, a growth of the Argentine exports ranging from 1.5% when an across-the-board 30% decrease in tariffs among the *GSTP* members is simulated to 9.8% when the complete elimination of tariffs is simulated. At a sector level, the sectors that show the greater increases in production volumes are metals, vegetable oils and fats, cereals and chemical products.

OPPORTUNITIES

For the purpose of analyzing the trade opportunities offered by *GSTP* for our country, we combine information on trade complementarity with information of trade flows.

1 A sector with "strong" opportunities is the one showing complementarity between our exportable offer and the demand of imports in the market under analysis, where there is also a relevant tariff in the country of destination, and which shows revealed comparative advantages even without taking into account the exports made to the Brazilian market.

The market of “strong” opportunities for our exports¹ is 41,043 million dollars, out of which 51% correspond to the Latin American countries (Mercosur excluded), 13% to South Asia, 29% to East Asia, 3% to North Africa and 4% to South Africa. Mexico, India, the Republic of Korea, Thailand, Venezuela and Colombia are the countries offering the more important trade opportunities as a destination market.

At a sector level, the following stand out: precious metals, oils, and electrical machines and devices in South Asia; wheat, meat, iron and steel; and iron or steel cast manufactures in the East Asia; cereals, iron and steel, and vehicles and its parts in North Africa; wheat, iron and steel, iron and steel cast manufactures, and vehicles and parts in Sub-Saharan Africa; and iron and steel, vehicles and parts, and mechanic machines and devices in Latin America.

In short, there is not a single sector-region pattern in connection with opportunities but a multiple product profile in different markets.

For the products identified as the most important trade opportunities, a partial equilibrium analysis was performed with the purpose of estimating, at a detailed sectoral level, changes in trade patterns that may take place as a consequence of the trade liberalization in the framework of the *GSTP*.

The results show, for example, that Argentine exports of non-refined sunflower oil increase by 12.2% (from 1,142 to 1,289 million dollars) when tariffs are eliminated among the *GSTP* members. The other products analyzed, which belong to the manufacturing industry, show the importance that Latin America and the Caribbean have as a potential destination for the Argentine exports. As to the remaining regions, less important export increases were obtained due to the low presence that Argentina currently has as the origin of its imports.

THREATS

The broadening of the *GSTP* generates threats for Argentina, both in the domestic market, due to the displacement of local production that the increase in imports could generate, and in the Brazilian market, due

to the loss of intra-Mercosur preferences that today enjoy the Argentine sectors which supply the Brazilian market.

By using a methodology combining trade flows with trade complementarity, Argentine sales to Brazil amounting to almost 2,000 million dollars were identified as the most threatened (17% of which are agri-food products, while the remaining portion corresponds to manufactures and mining products). The Latin American countries are the main source of these threats –the East and South Asian regions coming next–, although it is worth mentioning that these are of relative weight when the trade preferences already negotiated in the framework of ALADI are taken into account.

In order to quantify the threats in the domestic market, information on trade flows of the *GSTP* members was combined with information on production levels in Argentina. The results show that the main threats relate to the machine and equipment, and the vehicle and part sectors among the capital-intensive manufactures, and textile products among the labor-intensive manufactures.

CONCLUSIONS

The results obtained show that the liberalization of trade among developing countries as part of the *GSTP* may have important positive effects on Argentina. In previous papers done at CEI, similar methodologies were used to identify trade opportunities for Argentina in the North-South trade agreements that our country is currently negotiating which, on some cases, are higher due to the greater trade volume and the size of the economies involved. However, a comparison of the results shows that the broadening of *GSTP* would offer not only great trade opportunities in new markets but also a more important relative participation of the industrial sectors.

Argentina's exports to *GSTP* countries, Mercosur excluded, show a high growth during the last years. Argentina has achieved competitiveness in several sectors; therefore, it can be inferred that increasing preferences in the Third Round of negotiations in the framework of *GSTP* may give rise to very important growth margins for Argentine exports.