ALCA Opportunities and Threats for Argentina
An Analysis of its Sectorial Impact

Executive Summary

Such an heterogeneous region as the one to be formed by the 34 countries of the Free Trade Area of the Americas (FTAA), where states with more than 200 millions inhabitants and USD 30,000 per capita annual income will coexist with other states having just two million inhabitants and scarcely USD 1,000 per capita annual income, opens a big question mark on the possible effects of trade liberalization on the economies that will take part in the Agreement. Additionally, the numerous sub-regional blocs (MERCOSUR, NAFTA, CAN, MCCA, among others, which grant tariff preferences involving discrimination against other countries in the region) and the different patterns of export specialization in each country make it difficult to foresee the possible consequences of hemispheric trade liberalization.

The purpose of this document is to analyse the possible sector impact on Argentina of the elimination of tariffs within the FTAA framework. Sectors with possibilities of increasing their exports to the largest countries in the region, and sectors which could face higher competition, in the local market as well as in the main export destinations of Argentina, are chosen using trade specialization indicators and reviewing tariff analysis barriers.

In the 90's, Argentina's global exchanges increased at a much higher rate than in the previous decade. At the same time and as part of this trend, Argentina got in touch with its partners in the American continent, increasing sales to them from 42% of its total exports at the beginning of the decade to 58% in 1999-2001. Nevertheless, if we analyse it from the perspective of the destination market, it can be seen that Argentina is an important supplier only to the extended MERCOSUR markets and Peru, while Argentine products account for no more than 1% of total imports in the rest of the hemisphere. This evidences the trade potential between Argentina and the rest of the continent.

It is possible to have a better idea of the share of the American continent countries in Argentine exports through the Trade Intensity Index (TII), which adjusts the participation of country B in Argentine exports by the participation of partner B in world trade, taking into account the changes in degree of openness of the economy of country B. The results are the ones expected: Argentina's TII is over 1 in respect of most South American countries and under 1 in relation to North American countries.

Throughout the last decade, the US and Mexico have lost relative importance as destinations for Argentine exports. It is remarkable that in the Mexican case this trend continues even after excluding trade with NAFTA members. A recent look, focusing on the second half of the nineties, shows that Argentina has "left aside" opportunities in the bloc. When taking into account the most dynamic imports of NAFTA countries and, within them, those sectors in which Argentina has export specialization and an exportable offer, it can be seen that Argentina participated modestly in USA (2.1%), Mexico (0.3%) and Canada (0.1%) purchases, mainly comparing it to Brazil's participation. When doing the same exercise for our neighbour, whose level of access preference to NAFTA is similar to Argentina's, much higher percentages are found: USA (6.8%), Mexico (1.7%) and Canada (0.5%). If Argentina had maintained its participation as in the first half of the eighties, current Argentine exports to the US market would be 45% higher.

The main barriers affecting trade among FTAA countries are described and assessed. Mexico (17%), the Andean Community (12%) and MERCOSUR (13%) have highest tariff levels in the region (average and according to the most favoured nation rule), Chile is at an intermediate level (7% and diminishing), while Canada and USA have the lowest levels (4% and 5% respectively). Nevertheless, the two latter countries also have the highest level of dispersion in their tariff structure, due to the intensive use of “tariff peaks” in agricultural foodstuffs, fisheries, leather, textiles, and footwear, and the application of “tariff escalation” to protect value added to the industrial process (as in the case of foodstuffs and beverages, textiles and garments).

Additionally, the sub-regional agreements between members of the hemisphere (MERCOSUR, CAN, NAFTA, MCCA) distort the picture of the most favoured nation averages, granting preferences to members and discriminating against non-member countries. The Mexican case is an example which, under multiple bilateral or sub-regional agreements, offers preferential access (3% average tariffs) to the US, Canada, Bolivia, Colombia, Venezuela, Chile and Uruguay. Goods from the Andean Community and Central America have preferential access to the US. Generally, Argentine goods are “discriminated” against in much of the continent under agreements in force (i.e. it nearly always faces the universal “most favoured nation” treatment). On the other hand, Argentina enjoys preferential treatment in MERCOSUR, Chile and Bolivia.

In order to determine FTAA opportunities for Argentina, the potential winners have been identified on the basis of the following criteria:

- Sectors in which Argentina’s export specialization matches the import specialization of the destination market, through the Trade Complementarity Index (TCI)

- Goods currently facing high tariffs or barriers with respect to other potential competitors (i.e. other countries whose TCI is over 1 in respect of country B), and which would disappear if the FTAA materialized.

- Sectors with a minimum market size (partner’s imports over USD 1 million) and an important existing Argentine export offer (Argentine exports over USD 1 million).

- An additional criterion was established to make the analysis of Argentina’s opportunities in the continent more conservative, by dividing them into strong opportunities and weak opportunities. The former would be those in which Argentina’s international competitiveness, measured through the Revealed Comparative Advantages (RCA) indicator is independent of the preferential access it has in Brazil; i.e. in this case, Argentina has export specialization (RCA>1) even without considering sales to our neighbour. In the second case, we refer to “weak” opportunities because, when not taking into account exports to Brazil, RCA in certain products are under 1.

On the basis of these criteria, it was established that the size of the opportunities market for Argentina in the FTAA (i.e., sectors that meet the above requirements) amounts to almost US$78 billion: US$67.7 billion in the NAFTA countries and US$10.1 billion in the Andean Community markets.

At sectoral level, “strong opportunities” were found in NAFTA as regards primary products and manufactures of agricultural origin (Meats, Oil seeds, Cotton, Miscellaneous Food preparations, Beverages and alcoholic drinks, Cereals, Cocoa and its by-products, Fats and oils) and in some industrial manufactures (Organic chemical products, Tools and implements, Articles of iron and steel, Plastic and plastic manufactures). The potential market for these opportunities, measured by the total imported amount of these products, is over US$19 billion.

Additionally, “weak” opportunities for Argentina in the Northern market basically include products relating to industrial manufactures: Vehicles and vehicle parts, Machines and mechanic appliances, Machines and electrical material, Rubber and rubber manufactures. These products accounts for a little more than US$48 billion in imports in NAFTA.

As regards the Andean Community, strong opportunities would amount to slightly over US$4 billion, mainly in products such as Cereals, Cotton, Miscellaneous Food preparations, various Chemicals, Articles of Iron and Steel, Fats and oils. In addition, “weak” opportunities (almost US$6 billion) would include products such as Machines and mechanic appliances, Vehicles and vehicle parts, Pharmaceutical and Plastic products and their manufactures, among the most important ones.

On the other hand, sectors that will face a greater external competition upon losing preferences currently enjoyed in the intra-MERCOSUR market were also identified (basically, Brazil, Chile and the domestic market). The criteria to classify a sector as threatened also include trade specialization indicators and comparative tariffs: the trade complementation degree of NAFTA countries in the analysed market (for example, Brazil), the tariff applied to Argentina as compared to the NAFTA country and a minimum market size. For Brazil, threats were classified as “strong” and “weak”, including within the former ones those sectors in which Argentina has no export specialization when Brazil is excluded (e.g., products in which the RCA without Brazil is lower than 1) and, in addition, Brazil’s Most Favoured Nation tariff is higher than 10% (i.e., Argentina has significant preferential access).

Products exported by Argentina to Brazil classified as “strong” threats account for annual sales of approximately US$2 billion. Such threats are concentrated in sectors such as Vehicles and vehicle parts, Machines and mechanic appliances, Machines and electric material and Plastic and its manufactures. These sectors themselves would also have face a harder competition level in the domestic market as a consequence of preference elimination in the FTAA. To this, a market of more than US$1.6 billion, identified as a weak threat, should be added (i.e., sectors in which, in spite of facing higher competition, Argentine products enjoy good levels of international competitiveness even when excluding the Brazilian market).

On the other hand, the analysis of threats in Chile suggests that the main competitor in that market would be the US, which according to the criteria applied in this review, would be in a position to dispute exports to Chile for an amount of US$340 million.

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