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Argentina and China: the Soybean Trade and its Consequences

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Introduction

Trade and investment between Argentina and China have grown dramatically in the last two decades, from less than $160 million in 1980 to $17 billion in 2012. The dramatic expansion of economic relations between China and Argentina, which includes bilateral trade and investment, provide short term prospects such as increased trade opportunities, revenue, and improved trade terms. However, it also brings long term challenges such as “premature deindustrialization”, the primarization of Argentina’s exports and economic structure, dismantling of productive chains, and decreased regional commerce. Left unaddressed, these challenges may divert and hinder Argentina’s long term economic growth.

Diplomatic relations between the two countries started in 1972, just after President Nixon’s historic visit to Beijing in 1971. Over the past half century, Argentina and China have been mutually supportive of each other’s governments despite some controversial decisions. Argentina and China’s current “strategic relationship” was established when President Néstor Kirchner’s visited Beijing in July 2004 and President Hu Jintao’s reciprocated later that year. At

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1 Ganzalo S. Paz, Argentina and Asia: China’s Reemergence, Argentina’s Recovery, Reaching Across the Pacific: Latin America and Asia in the New Century, Uncorrected Proof, 3.
2 For example, China supported Argentina in international forums over disputes over the Falkland Islands and during the Falklands war in 1982. Argentina refused to impose sanctions against China after the Tianmen Square massacres in 1989. In fact, President Menem was the first president in the world to visit China after Tiananmen, in November 1990. Id at 6, 7.
3 Id. at 2.
the time, Argentina’s economy still suffered from the effects of the 2001 economic crisis.\textsuperscript{4} Argentina sought relief in its financial sector and hoped for an aid package, and China sought to increase its influence in Latin America. \textsuperscript{5} Thus, Kirchner signed an agreement that laid out cooperation in trade and investment between Argentina and China during his visit.\textsuperscript{6} Unfortunately for Argentina, though an aid package was agreed to, little has been executed since. An attempt at diversifying Argentina’s external financial resources with Chinese help also failed.\textsuperscript{7} However, the interest that both countries showed in working with each other demonstrated China’s growing influence in Argentina\textsuperscript{8}, and Argentina’s willingness to pivot away from traditional Western powers like the International Monetary Fund and the United States\textsuperscript{9}.

Along with increased diplomatic relations, economic relations between Argentina and China grew steadily over the past two decades. China became an important trade and investment partner to Argentina. Argentina opened a Consulate and Trade Promotion Center in Shanghai in 2000.\textsuperscript{10} Thereafter, in 2001, Argentina’s exports to China surpassed the $1 billion milestone. In 2012, Argentina was China’s fourth largest trading partner in Latin America, with

\textsuperscript{4} In the 1990s, Argentina was “Latin America’s star” because of its growth. However, in the last weeks of 2001, Argentina defaulted on $155 billion in public debt, the largest default by any country in history. \textit{A decline without parallel}, The Economist, Feb. 28, 2002, available at http://www.economist.com/node/1010911.
\textsuperscript{5} President Kirchner apparently said that if the Chinese signed a $20 billion financing agreement then being negotiated, his portrait must be hung over that of General José de San Martin. \textit{Paz} at 7.
\textsuperscript{7} \textit{Paz} at 8.
\textsuperscript{8} China declared Argentina to be a tourism destination, though this has not had a real impact on the number of tourists from China. More importantly, in 2008, China became a member of the Inter-American Development Bank.
\textsuperscript{9} The IMF was considered by the government and “important sectors of society” to be the main culprit in the 2001 crisis and an instrument to pressure Argentina to implement the ideas of the “Washington Consensus” (essentially a set of economic policy prescriptions developed to assist developed countries in crisis). \textit{Paz} at 9.
\textsuperscript{10} \textit{Paz} at 9.
bilateral trade of approximately $17 billion\textsuperscript{11}. At the same time, China became Argentina’s second largest trading partner after Brazil.\textsuperscript{12}

In terms of foreign direct investment, the China and Chinese companies have invested in Argentina, though little investment from Argentina has entered China. From 1998 to 2007, Chinese investment projects amounted to $764 million, though most of them have not materialized.\textsuperscript{13} Moreover, of the FDI that has arrived in Latin America, the general consensus is that the main objective is to ensure basic supplies such as natural resources.\textsuperscript{14} Thus the case of “market-seeking” investments in Argentina seems to be much more limited and is not a major driver of Chinese investment.

Increasing trade and investment between the two countries had profound effects on Argentina’s exports. Agricultural exports became more focused on one product: the soybean. The production of soybeans was almost nonexistent fifteen to twenty years ago in Argentina.\textsuperscript{15} Today, it is about half of the total production of grains, or 50 million tons of the 100 million tons produced\textsuperscript{16}. Most of the production is exported as soybeans or one of its derivatives. The exponential increase in production can be attributed to China’s growing domestic demand and its need to look beyond its own borders to fulfill its food requirements.

The reorientation of Argentina’s exports to one agricultural export may negatively impact Argentina’s economic growth in the long run, and exacerbates the concentration in

\textsuperscript{11} Paz at 7.
\textsuperscript{12} Laufer at 126.
\textsuperscript{14} Id. at 137; Laufer at 127.
\textsuperscript{15} Paz at 10.
\textsuperscript{16} Id.
natural-resource-based commodities. Manufacturing is traditionally considered the means by which developing countries of industrialization. However, manufacturing’s share of GDP has been declining rapidly in Argentina and there was a 31 percent decline in industrial employment between 1991 and 2003. Argentina’s continued reliance on commodities indicates a failure to insert itself into higher value-added goods in the global supply chain.

This paper explores the long term challenges Argentina may face to its economic growth because of its growing trade and investment with China. Part II explores the nature and extent of trade and investment between Argentina and China, focusing on the influence China has on Argentina. Part III examines the changes to Argentina’s economy as a result of increased trade. Part IV explores potential long term consequences of their relationship. Part V concludes.

II. Trade and Investment between Argentina and China

Argentina is the second largest Latin American country with a GDP of $540 billion and a population of 43 million in 2014. The country has experienced significant growth over the past decade, up from a GDP of $100 billion in 2002. In particular, exports have enjoyed incredible growth and 90 percent higher in 2008 than in 2000. Rising export prices for commodities contributed greatly to increasing exports. However, more than 60 percent of Argentina’s exports were concentrated in natural resource based products and a few industrial

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18 Id.
20 Id. The author here estimated an increase in export prices of 68 percent between 2003 and 2008.
commodities such as soybeans, meat, leather, petroleum, and copper.\textsuperscript{21} Argentina’s economy benefits from an abundance of natural resources.

China’s emergence as a manufacturing and economic powerhouse has generated a great impact on the economic performance on countries around the world, including Argentina. In the span of a few years, China has become the main global importer of many primary products.\textsuperscript{22} Those with strong commercial relationships with the country or who compete with China in third export markets or in foreign direct investment have been impacted the most, experiencing increased and decreased trade with China and third countries. Moreover, China has become an important destination for FDI, receiving almost $70 billion between 2003 and 2007\textsuperscript{23}. Because South America offers vast natural resources, which are critical to China’s growth and its manufacturing industry, China forged deep economic and political ties in South America.

\textbf{a. Trade}

China’s entrance into the global marketplace has created a new market for Argentina’s exports. The demand for agricultural and mineral products in China contributed to rising prices for commodities, or a “commodity boom”\textsuperscript{24} that created opportunities for many Latin American countries.

\textsuperscript{21} \textit{Id.} Automobiles are one of the only exceptions to the commodity-focused exports.  
\textsuperscript{22} \textit{López and Ramos} at 72.  
\textsuperscript{23} \textit{Id.}  
\textsuperscript{24} \textit{Jenkins} at 236.
As a result, Argentina’s exports to China have grown exponentially, from less than $160 million in 1980 to more than $5 billion in 2007. China’s share of Argentina’s exports peaked in 2007 at 9.2 percent of total exports, but consumed only 1.4 percent of total exports in 1995. Soybeans were responsible for more than 80 percent of the increase in exports and represented more than 56 percent of the exports to China in 2012. In fact, soybean has become the most important agricultural product in Argentina in the past two decades, occupying more than 64 percent of the planted area in the country.

It comes at no surprise that Argentina’s exports to China are extremely biased towards soy products, consisting mainly of soybeans and its derivatives. In fact, soybeans and its derivatives together account for 80 percent of the value exported to China between 2008 and 2010. The growth in Argentine soy exports was a result of China’s own growing domestic demand. China’s continued growth and positive economic outlook will continue to increase domestic demand, likely ensuring at least a steady if not growing demand for soybean.

Further, over the past decade, China has become the destination market for soybeans, going from 30 percent to 79 percent of the world market. Other than soybeans, Argentina exports crude petroleum oil, copper ores, leather products, iron and steel tubing and drill pipes, and

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26 López and Ramos at 87.
27 Donaubauer, López and Ramos at 6.
28 Laufer at 126.
29 Id.
30 Id.
31 López and Ramos at 79.
wood pulp. Only five percent of Argentina’s exports to China are manufactured goods not based on agriculture.

Similar to the growth in exports, imports from China have risen from $30 million in 1980 to $5 billion in 2007, making China the third largest import supplier in 2007 at 11.4 percent of total imports. In 1995, it was the ranked eighth and commanded only three percent of imports. Chinese imports consist mainly of manufactured industrial inputs, capital goods, and consumer goods. Thus the goods that Argentina imports from China are more likely to be manufactured goods, or value added goods, when compared with Argentina’s exports to China.

Argentina has enjoyed a trade surplus with China over the past decade because of its specialization in natural resource-intensive products. However, the trade surplus vanished in 2008, when Argentina began to run a trade deficit with China. Unsurprisingly, the trade deficits are most apparent in medium and high technology intensive products.

It is important to note that while China plays an important role in Argentina’s world trade and is Argentina’s second largest trading partner, bilateral trade with Brazil totaled more than $35 billion in 2014. This is more than twice the value of trade with China. Thus, Brazil remains Argentina’s largest and most important export and import market, and will continue to

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33 López and Ramos at 91.
34 Paz at 3.
35 López and Ramos at 73.
36 Donaubauer, López and Ramos at 5.
37 Id.
38 López and Ramos at 96.
39 Bekerman, supra note 16.
40 Id.
41 Buenos Aires Herald, Trade deficit with Brazil soars 102.8%, available online at: http://www.buenosairesherald.com/article/148757/trade-deficit-with-brazil-soars-1028
be for the foreseeable future. Nonetheless, while Brazil is Argentina’s most important trading partner, China still plays a large and important role in Argentina’s economic development.

b. **Chinese Foreign Direct Investment in Argentina**

Chinese foreign direct investment in Argentina has been limited in amount and in application. China promised investment in Argentina amounting to $764 million between 1998 and 2007. However, to put China’s investment in context, total foreign direct investment in Argentina fell after the economic crisis in 2001. Annual average inflows between 2002 and 2006 were about $3.5 billion, compared to $7.5 billion between 1992 and 2001. Between 2006 and 2008, the country’s share of world FDI inflows was at its lowest since the 1970s, a period of political turmoil, though in terms of absolute levels it matches the 1990s. The same negative trends in the past decade are observable at the Latin American level.

Argentina is an attractive investment location in mining, oil and fishing, and basic infrastructure; however, despite the interest, Chinese FDI in Argentina continues to be limited. There are several potential explanations. First, there is a shortage of information on Argentina in China regarding business practices, legal rules, and banking. Second, Argentina is seen as a risky country, which is evident from the extreme volatility in its economy and other macroeconomic variables in recent years. There are questions of institutional stability,

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44 Lopez, book, at 437
45 López and Ramos at 137.
46 Id.
economic performance and legal certainty.\textsuperscript{47} Third, it is not clear what Argentina’s strategy towards China is in investment. There appears to be an interest in attracting investment into the country, and large deals have been publicly announced by the government\textsuperscript{48}, but there is no deliberate policy for doing so.\textsuperscript{49}

For the investment that has arrived in Argentina, Chinese interests tend to be “resource seeking” rather than “market seeing” investments.\textsuperscript{50} The central purpose is to serve the needs of industrial development in China by facilitating the accumulation of profits and the production, transport, and export of raw materials and food to China.\textsuperscript{51} In particular, China has been investing heavily in China’s infrastructure, providing over $19 billion dollars in loans for Argentina’s train system.\textsuperscript{52} In this respect, Chinese investments in the region and in Argentina do not differ substantially from those of previous dominant powers. Thus, some scholars worry that Argentina’s economic relationship with China will not lead to a greater autonomy for the economy, but a reorientation of economic and political dependencies with a “new global hegemon.”\textsuperscript{53}

III. Effects on the Economy

\textsuperscript{47} López and Ramos at 137.
\textsuperscript{48} For example, late in 2015, China and Argentina signed a public agreement for Chinese financing of two nuclear power plants in Argentina. China sought to export China’s own atomic technology. See China to build two nuclear plants in Argentina in $15bn deal, available online at: https://next.ft.com/content/2d264e78-8cf9-11e5-a549-b89a1dfe6e9b.
\textsuperscript{49} Unlike other countries such as Chile, Brazil and Venezuela, where the governments are explicitly encouraging Chinese investment in certain sectors. López and Ramos at 137.
\textsuperscript{50} López and Ramos at 137.
\textsuperscript{51} Laufer at 139. Some investments have included manufacturing ventures, fishing companies, and iron ore mining. López and Ramos at 139.
\textsuperscript{52} Gallagher, Kevin P. and Margaret Myers, China-Latin America Finance Database, Washington: Inter-American Dialogue, 2014.
\textsuperscript{53} Laufer at 139.
Trade with China had and will have many positive effects on Argentina’s economy, despite the bleak picture painted by the reorientation of exports towards a commodity and resource-driven model. One of the main benefits from China’s demand for soybean is the creation of an entirely new export trade. The production of soybeans was almost nonexistent fifteen to twenty years ago in Argentina.\textsuperscript{54} Today, it is about half of the total production of grains, or 50 million tons of the 100 million tons produced.\textsuperscript{55} The soybean trade has generated billions of dollars worth of value for Argentina.

Argentina also experienced improved terms of trade, increased export earnings and higher government revenues.\textsuperscript{56} China’s demand for primary products and natural resources dramatically increased the prices of these commodities, favoring countries which are major exporters of these products.\textsuperscript{57} As a result, the sustained increases in Argentina’s exported goods increased the purchasing power of the exports by three-fold between 1995 and 2008.\textsuperscript{58} The revenues of soy exports represents more than half of the revenue generated from export duties, and almost 5 percent of the national government’s total revenue.\textsuperscript{59} Argentina has been able to increase public spending because of the new tax revenue exports generate. In fact, the former government under President Cristina Fernández de Kirchner attempted to raise taxes on

\begin{flushright}
\textsuperscript{54} Paz at 10. \\
\textsuperscript{55} Id. \\
\textsuperscript{57} López and Ramos at 114. \\
\textsuperscript{58} Id. \\
\textsuperscript{59} Id.
\end{flushright}
soy exports in 2008 to 45 percent from 35 percent.\textsuperscript{60} This led to an uprising of soy producers and the retention of soy within the country.

While trade with China has had positive benefits for the economy, there are negative consequences as well. Though the soybean industry is new, its dramatic growth created a strong reliance on the crop. The agricultural industry relies heavily on soybean demand, and a negative price shock would severely impact Argentina’s agricultural sector. Not only does the agricultural market depend on soybean demand, but Argentina’s national government does too, as demonstrated by the significant of soy to the national revenue. Another consequence of the emphasis on soy is that Argentina’s export basket to China has a very low degree of diversification. The top five products account for 90 percent of total exports, and it may get worse over time.\textsuperscript{61}

However, it is important to note that Argentina chose to specialize in soy. Thus, there is a major difference between Argentina and other Latin American countries exporting raw materials: soy is not an endowed or inherited source, nor is it nonrenewable. Argentina did not win the “commodity lottery.” Instead, Argentina cultivated soy, a highly developed and advanced substitutable bio-commodity; it was able to transform itself to take advantage of China’s growth.\textsuperscript{62} Thus, diversification of exports becomes a choice. While farmers cannot individually choose to switch to other crops, the government has the ability to enact national policies that would encourage diversification of exports.

\textsuperscript{60} The Argentine government attempted to take advantage of the increase in prices and exports of soy by raising the export tax. In the past decade, soy export taxes grew from from 23.5 percent in 2002 to 35 percent in 2008. López and Ramos at 111.
\textsuperscript{61} López and Ramos at 91. Ninety percent is based on the total exports in 2005.
\textsuperscript{62} Paz at 2.
Argentina has been unable to cope with China’s growth and been negatively impacted by direct and indirect commercial effects on Argentina’s exports. One consequence is increasing competition in third markets for Argentina’s exports. For example, Argentina has faced stiffer competition with its regional trading partners such as Brazil in industries that it has traditionally exercised a competitive advantage in, such as automobiles. Because China has become the principal manufacturing and export country in the world, Argentina has lost market share in the Brazilian import market, while China has increased its share dramatically.\textsuperscript{63} Other studies have found that Latin America is less threatened by Chinese exports to third markets than other Asian or Eastern European economies.\textsuperscript{64} Thus, the optimistic view is that there is evidence of some substitutability between Latin American exports and Chinese exports within industries – but the worst effects are limited to a few countries such as Mexico, and a few manufacturing sectors.\textsuperscript{65} However, some studies have found a significant threat from Chinese competition on Argentina.\textsuperscript{66} Consequently, in a scenario in which Chinese competition pushes Argentina out of third exports markets, Argentina’s reliance on China as a trading partner is exacerbated.

Moreover, increased trade with China raises the specter of unemployment as certain industries become less competitive. One study has found that the net effect of trade with China on employment is negative.\textsuperscript{67}

\textsuperscript{63} In the iron and textile industries, Argentina has lost a significant share of exports to Brazil. Only in the automobile industry has Argentina managed to maintain a significant market share.
\textsuperscript{65} \textit{Id.}
\textsuperscript{66} \textit{Id.} at 242.
\textsuperscript{67} López and Ramos at 118.
China has argued that its economy is complementary to Argentina’s: while it is a significant competitor and rival, it is also an investor, customer, economic partner and counterweight to US power. There is evidence that Latin American specialization patterns are becoming complementary to that of China. Market opportunities in agriculture are a clear example. Further, if it is the case that a significant share of Chinese exports to Argentina is of intermediate goods, cheap Chinese inputs may lead to greater competitiveness on the part of local producers. Still, the weight of the evidence is more concerning than it is hopeful.

There is also the issue of whether investment has been diverted from Argentina to China. China became one of the most attractive destinations for FDI among developing world. Argentina’s prospects at competition for FDI with China seem bleak. However, in Latin America, natural resource and market seeking FDI have traditionally dominated. Argentina does not specialize in the industries in which China has a very strong competitive advantage, such as manufacturing or in other labor-intensive products. However, divergence of FDI may be more likely in the service industry or other sectors where labor costs or scales of production are not central sources of competitiveness. Scholars who have studied the issue have determined that even if diversion has occurred, it is not likely to be significant.

IV. Consequences of Trade

69 Jenkins at 241.
70 Id. at 237.
71 Id. at 240. So far, though, there is only limited evidence that it is occurring on a significant scale.
72 López and Ramos at 73.
73 Jenkins at 244.
74 López and Ramos at 73.
75 Jenkins at 244.
a. “Premature De-industrialization”

Argentina’s increased reliance on soybeans and its derivatives has several potentially long-term negative implications. First, it raises the possibility of deindustrialization or an increased difficulty to move into dynamic industrial sectors.\textsuperscript{76} This phenomenon is termed “premature deindustrialization.”\textsuperscript{77} Manufacturing typically follows an inverted U-shaped path over the course of development. The pattern still prevails in developing countries. However, the inflection, or turning point, of the curve arrives sooner and at much lower levels of income today compared to the experience of developed countries in the past, such as the United States and Great Britain.\textsuperscript{78}

There are two sense in which the deindustrialization is premature. First, as stated earlier, deindustrialization of affected economies occurs much earlier than historical norms. Second, this deindustrialization may have detrimental effects on economic growth. Premature industrialization blocks off the main avenue of rapid economic growth in low-income settings.\textsuperscript{79} Consequently, it may lead to long term levels of GDP that are lower than would be expected after a period of industrialization. This is a problem because a country’s development is normally equated with industrialization, which is considered to be the “normal” pattern of development.\textsuperscript{80}

\textsuperscript{76} Jenkins and Peters at 10.
\textsuperscript{77} Dani Rodrik, “Premature deindustrialization,” Journal of Economic Growth, vol 21(1), 1-33, 2016. The Economic Commission for Latin America (ECLAC) has called the Latin American return to agro-mining specialization for export, a feature of colonial and post colonial period, “selective deindustrialization” and reprimarization of the economy; see also Laufer at 127.
\textsuperscript{78} Rodrik at 2.
\textsuperscript{79} Rodrik at 28.
Premature de-industrialization may be occurring in Argentina. Manufacturing’s share of GDP has been declining rapidly in Argentina.\textsuperscript{81} Argentina has experienced a 31 percent decline in industrial employment between 1991 and 2003.\textsuperscript{82} To be sure, there are other macroeconomic conditions that have contributed to the falling share of manufacturing. Argentina has experienced long periods of poor and volatile macroeconomic conditions as a result of executive policy. Extended periods of overvalued exchange rates hurt tradables and manufacturing. Further, manufacturing firms in Argentina suffer from several disadvantages: they do not have access to sufficient financing and lack the incentives to invest in human capital and technology.\textsuperscript{83} Further, the declining percentage can be seen, at least in part, as an adjustment to overinvestment in uncompetitive manufacturing sectors produced by import substitution policies.\textsuperscript{84} Nonetheless, increased competition with China combined with a focus on primary goods may also be contributing to the decline in manufacturing.

A second consequence related to the first is the “primarization” of Argentina’s exports. Argentina’s focus on exporting soybeans may be limiting its ability to move into higher value added sectors. While commodities have proven to be a source of growth, the long term effects on Argentina’s ability to integrate into the global value chain at a higher rung may be impaired.

Despite the readiness of Chinese enterprises to invest in Latin American infrastructure, the prevailing exchange of the region’s natural resources for Chinese consumer products—the

\textsuperscript{81} Mesquita Moreira at 9.
\textsuperscript{83} Mesquita Moreira at 12.
\textsuperscript{84} Mesquita Moreira at 10. In other words, these policies promoted industrialization at a level that was not globally competitive. This may be problematic not only because of the consequences of opening up to freer trade, but also because it encourages underinvestment in human capital. Mesquita Moreira at 37.
very exchange that Chinese investment seeks to deepen—is unlikely to provide a sustainable path of development.\(^8^5\) Even though Argentina’s economy is growing, there is evidence to show that a high concentration of export revenues in one product reduces growth.\(^8^6\) Further, other studies have shown that export concentration on “point source”\(^8^7\) natural resources are strongly associated with weak institutions and weak growth.\(^8^8\) The causes are unclear, but it seems only marginally caused by import competition from China.\(^8^9\) In fact, the marginal impact of imports from Brazil on manufacturing employment is twice as large as imports from China.

b. Other Impacts

Closer economic ties to China have implications beyond the economy. In the past, Argentina focused on the United States and Great Britain as global powers, which continue to have a large amount of influence in Latin America. In fact, President Obama recently visited Argentina in March, 2016 to visit the newly elected President Macri.\(^9^0\) Argentina attempted to implement the Washington Accords in order to encourage development, which for the most part ended unsuccessfully. With China as a new power, Argentina can pivot away from its traditional trading partners and enter into a new global production chain.

\(^8^5\) León-Manríquez, J. L., & Hearn, A. H., China, Latin America, and the trajectory of change, i J. L. León-Manríquez & A. H. Hearn (Eds.), China engages Latin America. Tracing the trajectory, London: Lynne Rienner Publisher, 286.
\(^8^7\) Defined as resources extracted from a narrow geographic or economic base, such as oil, mineral and plantation crops.
\(^8^8\) Mesquita Moreira at 9.
\(^8^9\) Castro at 15.
Further, the stronger trade links between China and Argentina mean that impacts on the Chinese economy will be felt by Argentina. For example, a shock to China’s economy will negatively impact Argentina. The long run impact of such a shock on Latin America has increased by three times since the mid-1990s. This may present concerns in the long run because China is a relatively less stable and more volatile economy than the United States. Still, Latin America’s relatively quick recovery from the most recent global economic crisis in 2008 may be in part explained by its stronger ties to China.

There are indications that the growth in exports has been concentrated to a few large companies, or firms who export a value more than $3 million per year. In 2006, the top three exporting companies accounted for 40 percent of total exports to China, while 95 percent of exports were concentrated in the largest 10 percent of firms. This doesn’t seem to be too surprising based on the characteristics of trade. Soybean and oil are the main exported products, and are either capital-intensive or a concentrated activity. However, this may have larger implications for Argentina because the wealth generated by trade with China appears to be concentrated to a few firms.

V. The Path Forward

Can Argentina diversify its exports to China beyond the soy complex? Can it move beyond the primary sector and shift to manufactured and tertiary sectors? It seems clear that

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92 Cesa-Bianchi et al. at 2.
93 Cesa-Bianchi et al. at 4.
94 López and Ramos at 82.
Argentina is far from having taken advantage of the opportunities that have opened up in the Chinese domestic market to export industrial products, and instead shows an export pattern reliant on primary and natural resource-based products. One study showed that Argentina’s current export structure is highly concentrated in “low-income” goods, or goods that low-income countries tend to export.\(^9^5\) Of course, Argentina is not the only country in Latin America subject to this trend – the same is observed in other Latin American countries.

One of the main challenges for Argentina is how to respond to the increased competitive strength of China. It seems unlikely that Argentina will be able to close the competitiveness gap with Chinese production. While there is pressure to respond with protectionist measures against imports, as Argentina continues to open itself to trade, such industries will suffer in the future. There is a need to respond to competition in export markets. Argentina will need to find ways to differentiate and diversify their exports away from standardized labor-intensive products. Further, perhaps Argentina needs to exploit its geographical advantages further. It is much closer to other countries in South America.

Does manufacturing still matter for Argentina’s development? Some authors suggest that Latin America cannot afford to completely turn its back on the well-proven road to development.\(^9^6\) There are several policies that would that would help the manufacturing problem. Argentina should pursue macroeconomic stability anchored on fiscally responsible policies and institutions. Credit constraints should be relaxed. Moreover, investment in human capital should be a priority.

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\(^9^6\) Mesquita Moreira at 13.
Argentina may be forced to discover a new growth model. There are other possibilities: the services industry, such as IT and finance, may lead growth. There has been a strong increase in services exports, growing from $5 billion in 2000 to $12 billion in 2008. The export of computer and information services grew from 3 percent in 2000 to more than 9 percent in 2008. Argentina will benefit from improved fundamental as well, such as better institutions and growing stocks of human capital, skills and knowledge.97

Argentina is entering a new phase of its history. The business-friendly President Macri loosened fiscal controls and has implemented policies that recognize the importance of freer trade and economic ties to the global economies. It remains to be seen whether Argentina will attempt to confront the issue of commodification. However, it may be that its long term economic growth depends upon it.

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97 Rodrik at 29.