



Buenos Aires, September 4, 2006

To the
GSP Subcommittee
Office of the United States Trade Representative
USTR Annex, Room F-220
1724 F Street, NW
Washington, DC 20508

Dear Sirs,

CERA—Cámara de Exportadores de la República Argentina (Argentine Chamber of Exporters)—is a private non-profit organization that represents the interests of Argentine exporters. It is herein represented by myself, Enrique Santiago Mantilla, Argentine passport No. 4.542.891, in my capacity as President of this institution. I herewith put forth, for your consideration, some key arguments to support Argentina's continuation in the GSP program without modifications.

Argentina is one of the 13 countries benefited by the Generalized System of Preferences (GSP), which may see its benefits limited, suspended or withdrawn at the end of the current year, as a result of the overall program revision (Federal Register, 08-08-06).

This presentation argues that a thorough analysis of the Argentine case, leads to the conclusion that, keeping the country within the GSP program, constitutes a 'win-win' situation for the United States.

1. WHY INTERNATIONAL TRADE, WHY PREFERENCES?

Adam Smith, at the beginning of chapter II of *The Wealth of Nations*, wrote about "the propensity in human nature to truck, barter, and exchange one thing for another".

Four decades later, David Ricardo extended this concept to the international arena, with his Theory of Comparative Advantage. This theory still holds as true today as it did at the beginning of the XIXth century.

According to the theory, for each country, international trade is better than autarchy and, in general terms, more trade is preferable than less trade. This is true from the point of view of a country's GDP level as well as from the perspective of its rate of growth.

When Ricardo's theory was formulated, other arguments soon appeared. Voices rose in favour of tariff and non-tariff protection based on different reasons: fiscal considerations (Alexander Hamilton in the United States), infant industry (Friedrich List in Germany, John Stuart Mill in England), income distribution (Wolfgang Friedrich Stolper and Paul Anthony Samuelson, in the United States), internal distortions (Mihail Manoilescu, in Romania), domestic security (food production in Europe, since the First World War) and others. And in each and every case, economic analysis shows that protection is only a second best tool.

If free trade is the ideal commercial system, why are there schemes such as the GSP? Because, unfortunately, this ideal cannot be reached immediately. There are reasons for the developed countries to accelerate the elimination of trade barriers—for certain countries and for certain products—before the ideal can come into being.

Argentina, as a developing country, has structural disadvantages in its competitiveness (weak financial system, lack of technology, insufficient infrastructure, etc.). Moreover, it is discriminated against by the agricultural subsidies of developed countries, and these affect its comparative advantages. The GSP program, therefore, helps reduce asymmetries.

For these reasons, the GSP system should be expanded, not limited. In this sense, Ms. Susan Schwab, the United States Trade Representative, is correct when she says that more countries need to benefit from the program to advance their economic development.

In Argentina's case, the GSP program should be maintained and expanded. This will be beneficial not only for Argentina as a developing country, but interestingly, for the U.S. as well.

2. ARGENTINE INTERNATIONAL TRADE, TRADE WITH THE U.S. AND GSP

Table 1 shows Argentina's exports and imports of goods and services, and the trade balance vis-à-vis the rest of the world and the United States, from 1985 to 2005.

TABLE 1

ARGENTINA: TRADE BALANCE, OVERALL AND WITH THE UNITED STATES (millions of U.S. dollars)							
Year	Total exports	Total imports	Balance	Exports to U.S.	Imports from U.S.	Balance with the U.S.	Surplus U.S./ total surplus, in %
1985	8,396.1	3,844.2	4,551.9	1,069.3	721.3	348.0	
1986	6,851.7	4,723.8	2,127.9	855.4	943.3	-87.9	
1987	6,275.0	5,785.0	490.0	1,079.7	1,090.4	-10.7	
1988	9,135.0	5,324.0	3,811.0	1,435.7	1,053.7	382.0	
1989	9,577.0	4,203.0	5,374.0	1,390.7	1,038.9	351.8	
1990	12,352.7	4,076.7	8,276.0	1,511.4	1,178.5	332.9	
1991	11,977.7	8,275.5	3,702.2	1,286.9	2,045.1	-758.2	
1992	12,235.0	14,871.7	-2,636.7	1,256.4	3,223.1	-1,966.7	
1993	13,117.5	16,783.9	-3,666.4	1,205.7	3,775.8	-2,570.1	
1994	15,839.3	21,590.2	-5,750.9	1,725.4	4,461.4	-2,736.0	
1995	20,919.0	19,995.0	924.0	1,760.8	4,189.2	-2,428.4	
1996	23,809.0	23,742.0	67.0	2,279.2	4,516.9	-2,237.7	
1997	26,378.0	30,450.0	-4,072.0	2,228.1	5,810.1	-3,582.0	
1998	26,443.0	31,405.0	-4,962.0	2,230.9	5,885.8	-3,654.9	
1999	23,333.0	25,507.0	-2,174.0	2,598.4	4,949.8	-2,351.4	
2000	26,409.0	25,244.0	1,165.0	3,099.5	4,695.5	-1,596.0	
2001	26,634.8	20,320.2	6,314.6	3,013.4	3,920.0	-906.6	
2002	25,709.0	8,991.0	16,718.0	3,187.3	1,585.5	1,601.8	9.6
2003	29,565.0	13,834.0	15,731.0	3,169.8	2,437.3	732.5	4.7
2004	34,550.0	22,447.0	12,103.0	3,745.5	3,388.1	357.4	3.0
2005	40,014.0	28,693.0	11,321.0	4,583.6	4,121.9	461.7	4.1

Source: CERA based on U.S. International Trade Commission data.

Table 1 shows how Argentina's total exports increased in jumps: in the 1990s, when export taxes on primary products were eliminated; in 1995, as a consequence of the recession caused by the Mexican crisis (the "Tequila effect") and, from 2003 on, after Argentina's deep economic crisis (2001-2002) that coincided with the increase in the international price of commodities— soybeans and petroleum in particular.

Argentine imports are very sensitive to GDP growth because the bulk of imports are capital goods, intermediate goods and parts and pieces for capital goods. At the beginning of the 60's, C. F. Díaz Alejandro estimated the marginal propensity to import in Argentina was 3, very similar to the current level.

As a result, the Argentine trade balance improved significantly during recessions, but was in the red during recoveries. This is visible in the 1992-99 deficit, with the exception of 1995-96, when the "Tequila effect" made its mark.

After the 2001-2002 economic crisis, the current surplus resulted from the exogenous increase of export prices that neutralized the significant increase in imports (in 2005 the value of total imports more than tripled the 2002 value, and was just 9% below the all time maximum of 1998). This shows Argentina is recovering its import capability.

Table 1 also shows Argentina's trade relations with the United States.

The simple visual comparison of the columns in Table 1 shows, on one hand, the trade balance between Argentina and the U.S., and on the other, the total trade balance of Argentina in general. It is clear that when the total balance is negative, it is more negative with the U.S. and when it is positive, it is less positive with the U.S.

For example, in 2005 Argentina's trade balance with the U.S. was positive by 4.1% of the total, while 14.4% of Argentine imports originated in the U.S. and 11.5% of Argentine exports were destined to the U.S.

Therefore, between 1985 and 2005 Argentina imported goods worth US\$65 billion from the U.S., and exported goods worth US\$45 billion. During the last 20 years, the average of imports from the U.S. exceeded exports to the U.S. by 44%.

The U.S. economy has a huge trade deficit. However, Argentina today is probably one of the few countries that has a trade deficit with the U.S.!

If we look at the trend of Argentina's trade with the U.S. in the first half of 2006 —Table 2—we clearly see the U.S. heading for a surplus:

TABLE 2

ARGENTINA'S TRADE WITH THE U.S. IN 2006
(in millions of U.S. dollars)

Month	Exports	Imports	Balance
January	368.9	342.6	26.3
February	321.2	295.5	25.7
March	380.2	411.2	-31.0
April	289.6	360.1	-70.5
May	331.7	412.4	-80.7
June	302.7	396.7	-93.9
Total	1,994.4	2,218.5	-224.1

Source: CERA based U.S. Census Bureau data.

Shouldn't this fact be an additional criterion with which to evaluate countries when analyzing their respective situation vis-à-vis the GSP program? Shouldn't this be considered when making the decision?

As with the other participating countries, most of Argentina's exports to the U.S are not channeled through the GSP. But the GSP has been heavily used in trading the products listed in the program. Trade under the GSP has been important for the local producer, for the geographical hinterland where the plant or firm is located, and—certainly—for the U.S. importer.

Table 3 shows the main products exported in 2005 from Argentina to the U.S. under the GSP.

Four products (leather (2), methanol and beef) account for 29% of total exports under the GSP, while 15 products account for 60% of total exports under the program.

In reference to 2005, Table 4 shows the importance of Argentine exports to the U.S. under the GSP as a proportion of the corresponding U.S. imports of the 15 products included in Table 3.

TABLE 3

ARGENTINA'S MAIN EXPORTS TO THE U.S. UNDER THE GSP, 2005				
HTS number	Product	US\$ millions	% of total	% acumulated
41071150	Full grain unsplit upholstery leather of bovines (not buffalo) nesoi and equines, w/o hair on, prepared after tanning or crusting, not 4114	49.8	8.1	8.1
29051120	Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNC) or for direct use as fuel	48.2	7.8	15.9
16025020	Prepared or preserved beef in airtight containers, other than corned beef, not containing cereals or vegetables	43.2	7.0	22.9
41071950	Whole upholstery leather of bovines (not buffalo) nesoi and equines nesoi, without hair on, prepared after tanning or crusting, not 4114	38.2	6.2	29.1
17049035	Sugar confections or sweetmeats ready for consumption, not containing cocoa, other than candied nuts or cough drops	26.8	4.3	33.5
04069041	Romano, reggiano, parmeson, provolone, and provoletti cheese, nesoi, from cow's milk, subject to add. U.S. note 21 to Ch. 4	23.5	3.8	37.3
76051100	Aluminium (o/than alloy), wire, with a maximum cross-sectional dimension over 7 mm	22.4	3.6	40.9
15091040	Virgin olive oil and its fractions, whether or not refined, not chemically modified, weighing with the immediate container 18 kg or over	20.3	3.3	44.2
29310090	Other non aromatic organo-inorganic compounds	17.8	2.9	47.1
41079180	Full grain unsplit bovine (not buffalo) & equine leather; not whole, w/o hair on, nesoi, fancy, prepared after tanning or crusting, not 4114	16.1	2.6	49.7
35030055	Gelatin sheets and derivatives, nesoi; isinglass; other glues of animal origin, nesoi	15.3	2.5	52.2
42033000	Belts and bandoliers with or without buckles, of leather or of composition leather	12.9	2.1	54.3
28273950	Chlorides, nesoi	11.9	1.9	56.2
16025009	Prepared or preserved meat of bovine animals, cured or pickled, not containing cereals or veget.	11.8	1.9	58.1
28369100	Lithium carbonates	9.6	1.6	59.6
Sub total		367.8	59.6	
Other products		248.8	40.4	
Total		616.6	100.0	

Source: CERA based on U.S. International Trade Commission data.

TABLE 4

ARGENTINA'S MAIN EXPORTS TO THE U.S. UNDER THE GSP, 2005 (US\$ millions) ARGENTINA'S RANKING AMONG U.S. IMPORTS					
HTS number	Product	Total U.S. imports	Imports from Argentina	Argentina as % of total	Ranking
41071150	Full grain unsplit upholstery leather of bovines (not buffalo) nesoi and equines, w/o hair on, prepared after tanning or crusting, not 4114	103.1	49.8	48.3	2
29051120	Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNC) or for direct use as fuel	442.9	48.2	10.9	3
16025020	Prepared or preserved beef in airtight containers, other than corned beef, not containing cereals or vegetables	48.2	43.2	89.6	1
41071950	Whole upholstery leather of bovines (not buffalo) nesoi and equines nesoi, without hair on, prepared after tanning or crusting, not 4114	39.7	38.2	96.2	1
17049035	Sugar confections or sweetmeats ready for consumption, not containing cocoa, other than candied nuts or cough drops	103.9	26.8	25.8	2
04069041	Romano, reggiano, parmeson, provolone, and provoletti cheese, nesoi, from cow's milk, subject to add. U.S. note 21 to Ch. 4	28.3	23.5	83.0	1
76051100	Aluminium (o/than alloy), wire, with a maximum cross-sectional dimension over 7 mm	28.5	22.4	78.6	1
15091040	Virgin olive oil and its fractions, whether or not refined, not chemically modified, weighing with the immediate container 18 kg or over	78.9	20.3	25.7	2
29310090	Other non aromatic organo-inorganic compounds	21.4	17.8	83.2	1
41079180	Full grain unsplit bovine (not buffalo) & equine leather; not whole, w/o hair on, nesoi, fancy, prepared after tanning or crusting, not 4114	24.9	16.1	64.7	1
35030055	Gelatin sheets and derivatives, nesoi; isinglass; other glues of animal origin, nesoi	41.6	15.3	36.8	2
42033000	Belts and bandoliers with or without buckles, of leather or of composition leather	30.8	12.9	41.9	1
28273950	Chlorides, nesoi	12	11.9	99.2	1
16025009	Prepared or preserved meat of bovine animals, cured or pickled, not containing cereals or vegetables	11.9	11.8	99.2	1
28369100	Lithium carbonates	9.6	9.6	100.0	1
Sub total		1025.7	367.8	35.9	
Other products			248.8		
Total			616.6		

Source. CERA based on U.S. International Trade Commission data.

In the ranking by country of U.S. imports of the products under analysis, Argentina is normally country number 1 and never less than number 3 in its proportion of what the U.S. imports. Chlorides and Prepared or preserved meat of bovine animals imported by the U.S. are from Argentina and constitute 100% of its imports. In the case of Whole upholstery leather of bovines, it constitutes 96% and in the case of Prepared or preserved beef in airtight containers, it is 89%.

This fact is particularly important because an interruption of the GSP program for Argentina may have significant consequences for U.S. companies that use Argentine products—either as final products or raw materials.

I would like to underline three situations relevant to the Argentine-U.S. trade relationship:

- Offshoring is a growing concern in the U.S. Therefore, it is important to emphasize that Argentine exports to the U.S. are not a consequence of inadequate offshoring operations. Exports of leather, cheese, methanol, etc., are not by-products of the dismantling of plants originally located in the U.S. and relocated in Argentina for GSP reasons.
- In September 2005, Argentina became the first Latin American country to participate in the Container Security Initiative—an effective tool in combating terrorism—and works closely with the U.S. Customs and Border Protection through its Federal Revenue Administration agency (AFIP).
- In July 2006, Argentina and the U.S. launched the Trade Transparency Unit Program (TTU) which will provide Argentina with software designed to exchange information between the U.S. Customs Service and the Argentine Customs Office to combat money laundering. The program, which includes training and equipment, complements the Container Security Initiative.

3. CONCLUSIONS

1) In line with the overall U.S. trade policy, the GSP should be expanded, not limited or reduced. It is an effective way to accelerate the process of trade liberalization.

2) The GSP should continue to include Argentina because it is one of the few countries that does not contribute to the U.S. trade deficit. Argentina exports goods and services basically to import goods and services, especially from the U.S.

This fact must be very seriously considered, because the revision of the GSP program should focus, not only on the beneficiary countries, but also on the trade relationship of each country with the United States. In Argentina's case, the better Argentina performs, the better it will be for U.S. exports. As expressed earlier, it is a win-win situation.

3) Lastly, the main Argentine products included in the program (leather, beef, cheese, etc.) are primary products, produced in the backward regions of the country.

Consequently, curtailing the benefits of the GSP program will delay economic recovery and aggravate social exclusion. Although the worst of the 2001-2002 crisis is over now, in the second half of 2005, 33.8% of Argentina's population was below the poverty line (according to INDEC, Argentina's National Institute of Statistics and Census).

For all of the above reasons, we believe that Argentina should remain in the GSP program without modifications.

Yours truly,

Enrique S. Mantilla
President