

CÁMARA DE IMPORTADORES DE LA REPÚBLICA ARGENTINA



FOREIGN TRADE AND IMPORTS IN 2023:

from the international uncertainty to Argentina's
difficulties to import



The local scenario faces some challenges which still condition the macroeconomic performance in 2023 and which will be part of the scene that will welcome the next local government in December. Companies operate within an economic context with a lesser availability of foreign currencies, restrictions on imports, high inflation, and a lower activity compared to that one in previous years. The international context conditions the national scenario, which poses difficulties to the foreign trade, investment rates, exchange- rate situation, public and private financing, and the economic performance in general.

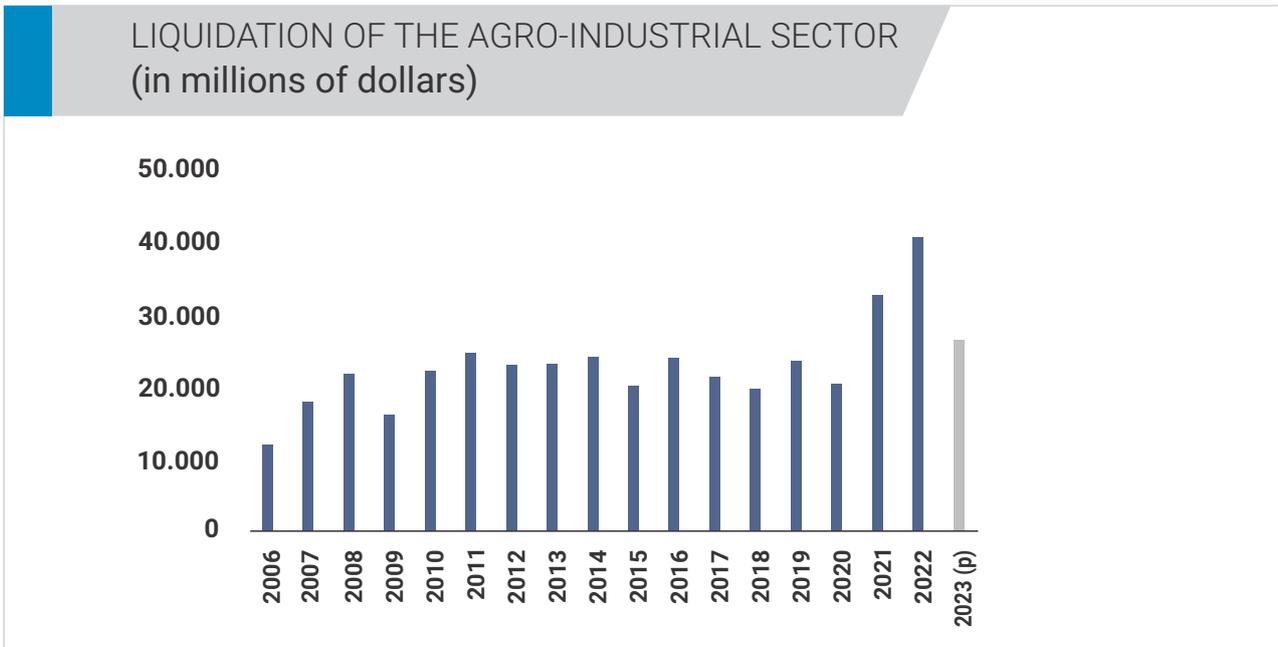
This 2023 is an uncertain year for the local economy; the presidential elections set the pace and the lack of international reserves and restrictions in the foreign- exchange market set boundaries to the country's economic policy. Currently, the inflation is over 100% annually and the amount of the international net reserves is lower than that obtained within a month of imports (around US\$4.5 billion). The macroeconomic inconsistencies can be seen majorly in both inflation and reserves loss.

Inflation causes the expansion of private- consumer expenditure financed by printed money and Argentine Pesos trapped as a result of the exchange control known as “cepo” (clamp). Within that context, price dynamics and other nominal variables accelerated from 50% in 2021 to 90% in 2022, and in 2023 the 100%- border was finally crossed. In 2022, 10% of the GDP was used to print money to finance the Treasury. The purchase of bonds, soy Dollar, and the interest derived from bonds were intended to be means to amend some inconsistencies.

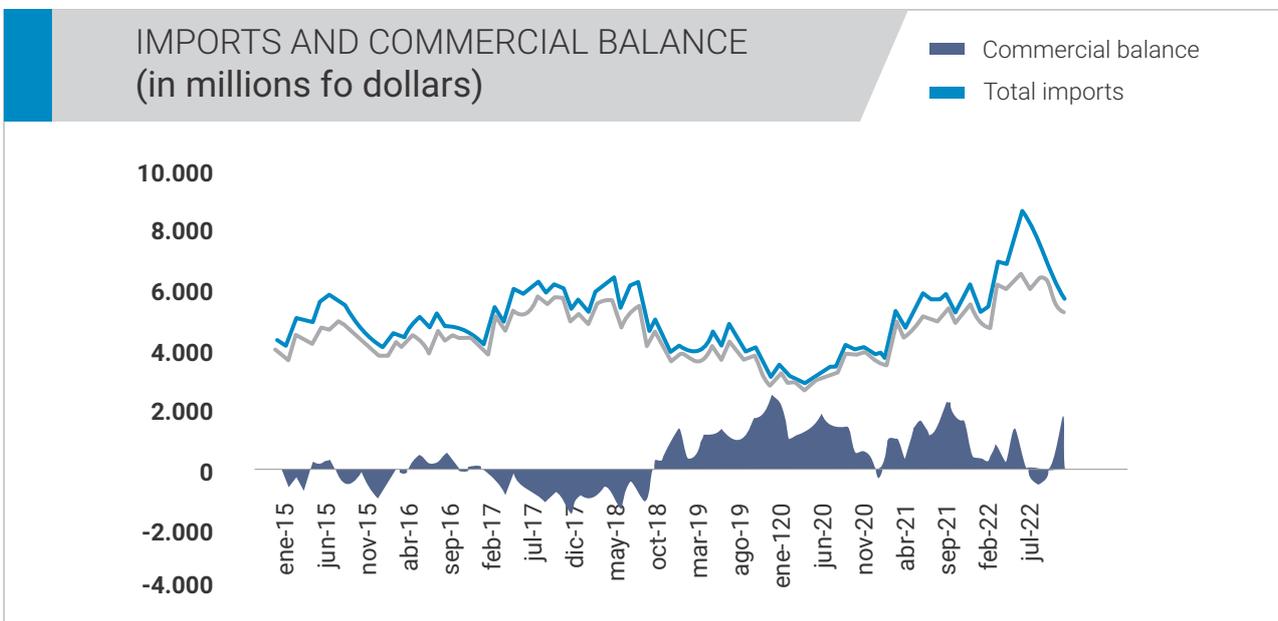
Within this framework, **the inflationary inertia and the excess of Pesos persist**, which leads to a greater demand for goods and services or a search for shelter, which encourages a rise in the non- official exchange rates and keeps the currency exchange gap around 100%, according to the exchange rate considered. A monetary tightening implies higher interest rates which aggravate the BCRA's debt- related problem, Leliqs, which were implemented to sterilize the money printing to finance the Treasury. Anyway, inflationary acceleration erodes real wages.

Restrictions imposed to the access to foreign currencies (importing cepo) are recessive and impact on the supply, considering that the role played by foreign purchases in productive processes is an important one. The foreign sector sends signs which are partially compensated: On the one hand, the low energy prices help to mitigate the energetic shortage. On the other hand, the Dollar's greater strength at a global scale and the positive numbers expected for the Brazilian harvest might push the prices of agricultural- raw materials downwards, considering that said prices are still high as far as historical terms are concerned.

After one year of growth in 2022, even having reached a level 8% higher than that in the pre-pandemic activity, **the activity data began to show signs of exhaustion**. After the maximum level was reached in last August, the level declined in the following quarter causing noticeable reductions in some sectors. For example, last December, the construction activity was reduced by 10% annually and 3.5% in relation to the previous month, and the industrial activity was reduced by 2.7% annually and 1.2% on a monthly basis in that same month.



In addition, this year's economy is conditioned by a drought that would imply a loss of about US\$10 billion to exports, which will complicate the availability of Dollars and, therefore, the importing scenario. In the current scheme, **restrictions imposed to imports resulted in a valve that is opened or closed depending on the available Dollars. Given the current and projected Dollar shortage, it seems impossible to materialize that previous dichotomy purported to boost the activity level at the expense of distorting another variable.**



Drought causes a reduction in the agricultural production of 2022/2023 and, consequently, a drop in exports, mainly because of lower wheat, soy, and corn harvests. The expansion of imports in 2022 was partly financed by the private- foreign- debt rise, which reached a maximum level towards the third quarter of 2022, according to a recent report issued by the BCRA [Central Bank of the Argentine Republic]. The major facts to be followed- up by the foreign trade are the lowest inflow of foreign currencies from exports and the lowest financing of imports. Exports would amount to about US\$80 billion and imports would be near US\$ 75 billion, according to the BCRA's Market Expectations Survey (REM, in Spanish) (see the following chart).

2023 FORECAST Median of on BCRA Market Expectations Survey			
INDICATORS	PERIOD	VALUE	INTERANNUAL % VARIATION
1. Goods exports (US\$ billions)	2022	88,4	
	2023P	80,1	-9,4 %
2. Goods imports (US\$ billions)	2022	81,5	
	2023P	75,0	-7,9 %
3. Trade balance (US\$ billions)	2022	6,9	
	2023P	5,1	
4. GDP variation	2022		5,2 %
	2023P		0,0 %
5. Inflation (IPC general national level INDEC)	2022		94,8 %
	2023P		97,5 %
6. Official nominal exchange rate (Wholesale Com. A 3500)	2022	177,1	
	2023P	330,5	86,6 %

Sources: INDEC and BCRA Market Expectations Survey, february 2023

All in all, 2023 can be envisaged as a year with a lower Dollar supply and restrictions to access to foreign currencies (cepo), a mounting inflation, an exchange- market pressure, and serious financial risks given the accumulated money printing (and the necessary printing for 2023) and strong payment deadlines in Pesos. In relation to the social field, the growing poverty could be about 42% (from 36.5% in the first semester of 2022) and an unemployment rate of about 8.5%.

A drop in the economic activity (about 2.5% and 3%) is expected as a result of the drought and the lesser availability of Dollars, which would also complicate the supply of imported goods. In addition, the local Government would face the dilemma of reaching the IMF's goal in the fiscal field or encouraging demand with a greater public expense. While the first situation would add an additional contraction fact, the second one would distort even more the economic variables with an uncertain ending.

The local government will have to choose between the bad and the worse. From the last quarter of 2022 a slight fiscal adjustment was noticed, in order to meet the goals set by the IMF (2.5% in 2022 and 1.9% in 2023). Anyway, within this election year, the aim of tax laws could be challenged by a government's own faction seeking a new public- expense boost.

GEOPOLITICS IN THE GLOBAL ECONOMY AND ITS IMPACT ON ARGENTINA

The IMF foresees a 2.7% global economy growth (after a 3.2% growth in 2022). The global GDP decelerates its increase, although it will narrowly exceed the 100- billion- Dollar amount for the first time following a very low evolution just as the one forecast in relation to the large countries: The United States (1%), China (4.4%), Japan (1.6%), and the United Kingdom (0.3%), and considering a step backwards taken by the GDP in some important economies just as the German and Italian ones.

Euromonitor foresees that the global inflation rate, which reached 8.9% in 2022, will fall to 6.9% through global monetary efforts. The IMF predicts a global inflation rate of 6.6% (and a global inflation rate of 4.3% in 2024). Likewise, a lesser world growth will cause a deceleration in the international trade, which, in 2022, made a historical record of almost 32 billion Dollars (goods plus services) thanks to a 3.5% merchandise- trade- volume growth. That fact implied a billion- Dollar amount greater than the outcome obtained ten years ago and almost 7 billion greater than the amount made before the pandemic (2019). However, as regards 2023, the WTO forecasts only a 1% increase in relation to merchandise trade.

The preceding is a critical fact for Argentina, because exports are directed to markets with weak purchases. According to the World Trade Organization (WTO), imports from any part of South America (which gets 30% of the foreign sales made by Argentina) will be lower (-1%), just as imports in Europe (-0.7%), considering that Europe receives 15% of the Argentine exports. Meanwhile, the Asian imports (the destination of 33% of the Argentine sales) will grow only 2.2%, and the North American imports (the destination of 9% of our sales) will only increase 0.8%.

For Argentina, the above- described situation is simultaneously connected with the forecast on low prices for commodities (which account for two thirds of our total exports). Fitch Solution assumes that raw material prices will drop 6.1% on an interannual basis in 2023, after a calculated growth of 23.8% in 2022. Furthermore, it is worth considering that several events in the geopolitical field will affect the global economy during this year. The whole world is going through a period of uncertainty, which reduces comfort for emerging countries.

Like that, while the future of the war in Ukraine is not clear and neither are its effects, which effects are more serious than the war itself from the economic viewpoint, just as the economic difficulties in Europe, it is foreseen that the United States Federal Reserve (FED) will maintain its interest rates high (according to the Financial Times) up to 4.9% in the first semester. Among several potential scenarios, Bankrate anticipates a rise in the FED interest rates to 5.5%/ 5.75% during the year. Those facts maintain the American Dollar rather stronger (on February 10, 2023 the Euro- Dollar equivalence was €1/US\$1.07) than other emerging currencies.

Furthermore, the rise of interest rates was the first red flag in the American financial system, following the Silicon Valley Bank collapse which, simultaneously, caused a contagion effect on European giants just as Credit Suisse. The reactions on each side of the Atlantic sea were similar: Providing liquidity to handle the problem and avoid a crisis in the whole system. The reactions from the monetary authorities seem enough, but they must be followed- up closely.

At the same time, in the world it is foreseen that the COVID will keep its impact on China during the first part of the year. The question is whether that will pose consequences outside the Asian giant, while some risks caused by social conflicts, just as the demonstrations in Iran, will become constant. Meanwhile, the Standard & Poor's 500, popularly known as the S&P 500, which is the most important stock-exchange index in the American stock market and the most representative rate in the American economy, will remain weak and the energy prices will remain high.

Geopolitics impacts on global business. Countries are getting adapted to the redefined relations among themselves. And while that takes place, the mega-business- organization agenda shows its own strength by competing against the state tension. Like that, for example, while the United States and China are involved in a harsh geo-strategic dispute, Chinese companies consider the United States as China's greatest client in the world (16% of all its sales), and the American companies consider China as the United States' greatest client outside the former NAFTA (9% of its total sales). While those two governments get tough, no international trade in the world is more important than the one between those two economies.



In addition, arguments within Europe on the energy supply (and Russia's role), the German Chancellor's recent trip to China, and the role played by some "equidistant" countries in the most relevant disputes (India, Turkey, Saudi Arabia) account for this complicated scenario. Like that, politics is not the only reality: The world involves tensions among governments in need for companies in global policy networks.

In all other respects, free-trade agreements are still being made among several markets around the world: There were twenty-five new free-trade agreements between 2021 and 2022 –an average number of one per month in the globe-, and the accumulated figure is over sixty since the COVID emerged in the world (which virus, as far as it seems, has not deprived the integrating disposition). Furthermore, the United Kingdom has been the most intense participant (in these three years) in relation to this subject matter (post-Brexit).

The preceding is not a minor issue for Argentina; 70% of the whole global trade takes place among countries which have reduced their tariffs up to 0% in their borders through international agreements and specific policies, something to which Argentina does not subscribe in general (our access to markets with agreed preferences is lower than 25% of exports), which results in high entry costs (not only tariffs, but also other costs beyond tariffs) in our main markets (Asia, Europe, and the United States, for example).

The previous fact pushes us towards a challenge related to Mercosur and the new Brazilian agenda. Mercosur is the integration agreement with the least international trade in relation to its GDP added to the Top 20 economies in the globe. Will the new Brazilian government encourage a more intense external agenda? If Brazil becomes more active, Argentina may be obliged to boost its foreign policy related to international negotiations.

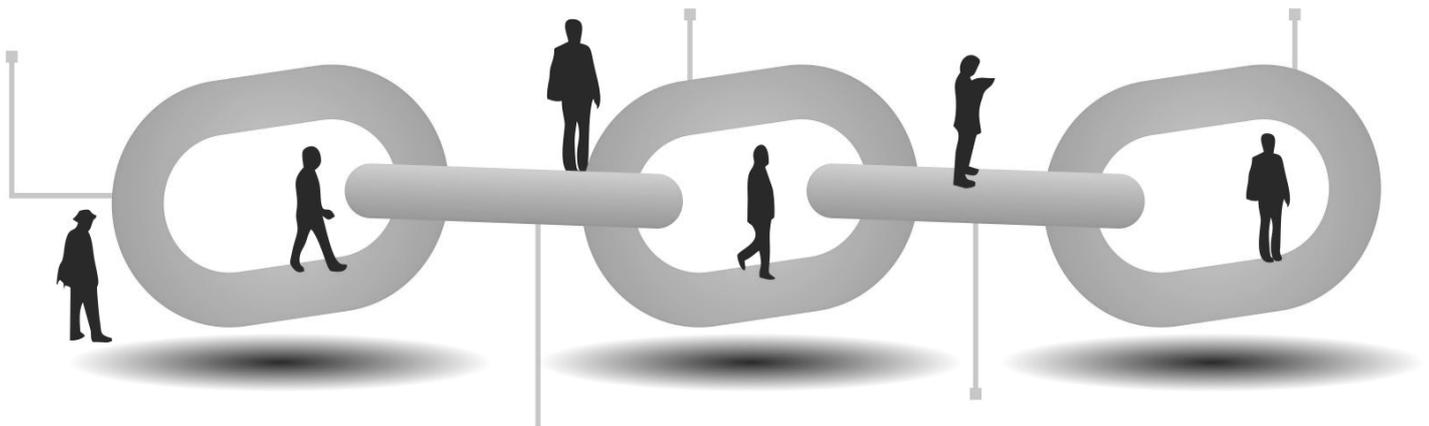
Our country hardly counts on five of the one-hundred greatest Latin American multinational companies (multilatin) and has only made 0.1% of the direct foreign investment stock (issue) which sank in the planet. Seventy companies can hardly export more than one-hundred-billion Dollars on an annual basis. And our weak participation in the international chains creating value persists.

In 2023, a greater complexity in the running of those ecosystems including innovation, investment, production, and trade will be consolidated. Furthermore, an increase in the demands by those networks is forecast: On a publication by Bloomberg (which anticipates that the supply chains will relax after the recent stress suffered), Julie Gerdeman, the CEO of Everstream Analytics, recently said: "we're well along the path of supply-chain transformation" and "the pandemic increased the cadence, variety, and intensity which overwhelmed an already-overloaded system and –now- the quicker the companies get involved and make the most of technologies, the greatest will be the impact and improvement on the value chains".

International value chains (according to the OECD, 70% of the whole world- international trade takes place within said chains) maintain a sophisticated tendency, whose support is vital for success. Demands refer to five critical topics: technological response, human capital, meeting quality standards, opening and integration towards a transversal innovation, and legitimacy and response warranty.

Furthermore, in 2023, upon the planning of strategic bonds, it will be important for Argentina to take into account the reorganization of countries and regions (considering that the future should be discussed with a view to the upcoming presidential elections). And, to that respect, it is convenient to bear in mind that one emerging India (which is already the fifth greatest economy in the world) is among the most dynamic countries in the world, according to a Top-15 list which also includes Indonesia, Brazil, and South Korea.

In the meantime, the potential of trade bonds in particular is under analysis. It is worth noticing that, while Argentina keeps its focus on its region, the truth is that, the market volumes in (each of) Asia and Europe are ten times as much as those in Latin America, which hardly represents 3% of the world trade.





MORE ABOUT THE INTERNATIONAL CONTEXT

The pandemic and the war between Russia and Ukraine caused a big disruption in the global supply chains: A chaos in the international transportation system and even the closing of factories within the major world- manufacturing center into which China became together with the other Asian countries.

As from the changes in the Chinese economic system, globalization resulted in a strong growing process in said country regarding investments and the international trade of manufactures. The starting point was the simple- manufacture goods, intensive labor, until moving forward towards a productive network related to goods involving a greater technological complexity.

The above picture resulted in a change of paradigm, since China's structural transformation caused a reaction from the United States, which occurred within a context known as a "strategic competition in a polarized world". On the other hand, in the geopolitical competition era, countries make efforts to strengthen their regional alliances to preserve and expand their trade and investment flows. When it comes to Argentina, there is not a single doubt that the path to be followed is the strengthening of Mercosur and the integration with the rest of the Latin American countries.

That is why the world holds negotiations to encourage integration agreements, especially the ones named "three generation agreements", within which the commitment of goods and services meet, in addition to the inclusion and strengthening of other areas, such as the intellectual property, investments, and dispute resolution, as well as other subjects which were not dealt with within the multilateral field, just as the digital commerce, competition policies, among other.

As to the above mentioned, the international trade scenario shows a high degree of uncertainty, although some tendencies may be identified:

1/
In relation to the two major powers, the United States has the tendency to disengage the trade of high- technology goods, as a consequence of the strong global competition and climate change, which can be seen in relation to semiconductors, artificial intelligence, biotechnology, quantum computing, among other sectors. China, on its part, has developed different proposals to transform its economy by giving more importance to the internal consumption and as a global leader in the field of sensitive technologies like the already- mentioned ones.

To achieve said goals, traditional tools affecting the trade were implemented, like, for example tariffs increase, export- control policies, non- tariff restrictions, etc., to which China has reacted in such a way that said Asian country has also increased tariffs on American imports. Many of these tariff and non- tariff barriers have also impacted on other countries by altering the normal course of trading.

2/
A new approach can also be noticed in relation to the concept of global value chains. Although the global- quality concept is still maintained, priority is given to closeness of suppliers, which is known as “nearshoring”, or even to the emphasis on the so called “friendshoring”. It is still too soon to notice its impact on the international trade, but investors' interest in emerging countries close to the United States, aside from Mexico and its productive enclave, is higher, which may improve trade and investment in Latin America.

3/
It can be also noticed that the international trade order is in a stage which some analysts define as a “fragmented multilateralism” between the two global powers, the European attempt to obtain what is called “strategic autonomy”, which impacts on the loss of the WTO's influence, and the failure of the Multilateral Rounds.

4/
Following the concern about the global warming, measures tending to attenuate the effects of climate change are being intensified. Some of those measures are focused on using the so called “green subsidies”, which is the case of the United States and the “Inflation Reduction Act”, as well as the “European Green Deal”, among other measures, which have a restrictive ingredient just as the one called “CARBON BORDER ADJUSTMENT MECHANISM” (CBAM), which, in essence, punishes the European imports of goods from high- climate- impact sectors just as the iron and steel, aluminum, petrochemical sectors, etc.

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In addition, negotiations of integration agreements which follow the emerging tendency in the 90s are kept and expanded, but currently the so called “mega integration agreements”, mainly made in the Asian region, are becoming more and more important.

CONCLUSIONS ABOUT ARGENTINA

The current situation in Argentina does not allow the country to envisage its own adaptation to the new international context, because of its own economic failures. Paradoxically, the world demands what is plentiful in Argentina, but the macroeconomic disorders and the political crisis obstruct a change from the urgent to the important matters in the country's agenda. First off, another crisis in the external sector shows that even a trade surplus, as it was achieved in the last years, is not enough to respond to the import needs, payment of services abroad, dividend remittances, as well as other financial activities together with the hoarding demand.

Argentina does not have any problem to make money in Dollars. Instead, both the country's policies and the constant uncertainty expel Dollars in different ways. This year, furthermore, drought joins in, which results in a drop of exports, which will impact on the commercial balance regardless of the reduction of the amount charged to the imports of energy.

As a positive fact, the new Brazilian government lead by Lula makes it possible to think of some measures which might improve the commercial scenario, just as the announcement about the financing of Argentine imports for US\$ 5 billion, and the use of local currencies in the bilateral trade, which will partially relieve the need for foreign currencies. There are also good perspectives in relation to an increase in the cars exports to the regional market. However, the Dollar- demand relief would not suffice.

Lastly, there is the need to implement public policies such as the repayments increase, removal of export duties, commercial promotion, and low- tax policies (repayments increase, cancellation and/or suspension of export duties in relation to incremental exports, commercial promotion, etc.), in order to create incentives so that companies can increase their imports.

In that sense, a short- term goal would be the recovery of the participation of the Argentine exports in the total amount imported by Brazil, which some time ago reached almost 14% of the total amount. A suitable and intelligent international incorporation requires a structural transformation in Mercosur. The world brings discomfort and opportunities at the same time. Results will depend on our ability.

Cámara de Importadores de la República Argentina
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