

Trade & Investment Relations between Argentina and Indonesia: Reality, Limitations, and Potentials

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Introduction

In this article, the idea is to bring the current developments of the bilateral trade volume and its structure, then mention the limitations, the potential for new businesses for products and services, as well as for investments. Lastly, there will be a conclusion with recommendations from the author (who is Argentinian) following his experience of working and living in Indonesia for three years with international trade, to see better developments for both countries and their business cooperation.

Trade & Investment relations between Argentina and Indonesia

Reality

Being geographically located very far from each other, Argentina and Indonesia seek to expand trade relations, diversify the products they exchange and even think of investments and technical cooperation as other linking possibilities. Argentina is the second most important trade partner of Indonesia in Latin America, which is replicated with Indonesia being the second most important partner for Argentine trade in Southeast Asia. The total trade between Indonesia and Argentina from year to year continues to increase with an upward trend of more than 7% in the last 5 years and only decreased due to the COVID-19 pandemic. Although until now Indonesia has experienced a trade deficit with Argentina, it is worth it and is necessary for its economic growth (“Indonesia y Argentina celebran...”, 2021).

To improve Indonesia’s export performance, the Indonesian Embassy in Argentina inaugurated an exhibition area called Indonesian Corner in its building. There, is possible to find instant noodles from the Mayora company, herbal drinks from Mustika Ratu, Mandailing coffee from Black Java, medicines from Kimia Farma, and tires from Gajah Tunggal (“Indonesian Corner

presents...”, 2020; “Productos de Indonesia...”, 2020). In addition, the diplomatic representatives recommend the opportunity for entrepreneurs in Argentina to do business with Indonesian entrepreneurs through the Indonesian Trade Expo (TEI) and the Indonesian - Latin America and Caribbean Business Forum (INA-LAC).

When analyzing Argentine exports to Indonesia, which are mentioned in Table N° 1, the first thing to say is that almost 90% of the value exported during the 2019-2021 period corresponds to the soybean complex, mainly to flour and pellets used for animal feed. Here, Argentina is Indonesia’s main supplier, followed by countries like the United States and Brazil. Indonesia is highly dependent on imports of soybeans and derivatives, not only for animal feed but also for human consumption. Although, in the latter case, imports come mainly from the United States. In Argentine exports, shipments of commodities and food products with little added value (like cotton, and fruits) predominate, with some exceptions such as pharmaceutical products and others for industrial use, such as some machinery.

Table N° 1 – Argentina’s exports to Indonesia

HS Code	Product label	Argentina's exports to Indonesia		
		Value in 2019	Value in 2020	Value in 2021
'TOTAL	All products	1579219	1262827	1862980
'23	Residues and waste from the food industries; prepared animal fodder	963454	680367	1380054
'10	Cereals	572228	559031	325673
'99	Commodities not elsewhere specified	11	0	102757
'03	Fish and crustaceans, molluscs, and other aquatic invertebrates	11025	13120	15242
'52	Cotton	17532	7360	11724
'04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	0	0	6751
'29	Organic chemicals	4158	1959	5828
'73	Articles of iron or steel	6	0	5753
'38	Miscellaneous chemical products	0	23	2450
'08	Edible fruit and nuts; peel of citrus fruit or melons	5343	337	2061
'30	Pharmaceutical products	726	0	1658
'84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	205	0	1450
'09	Coffee, tea, maté and spices	373	599	475
'22	Beverages, spirits, and vinegar	1105	0	460
'90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	17	8	439
'25	Salt; sulphur; earth and stone; plastering materials, lime and cement	0	0	155
'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	3	0	39
'82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	0	0	8
'40	Rubber and articles thereof	12	0	2

Unit: US Dollar thousand

Source: ITC based on Instituto Nacional de Estadísticas y Censos

On the other hand, Table N° 2 shows Argentina's imports of Indonesian products. A first analysis is that Indonesian exports have been relatively more diversified than those of Argentina to Indonesia, with more manufactured products, although there is also an important presence of raw materials or agri-food products with little added value (as is the case of rubber, and palm oil). In addition, exports of furniture, home decoration products, ceramics, footwear, and clothing, among other products, that come from Indonesia are well known.

Table N° 2 – Argentina's imports from Indonesia

HS Code	Product label	Argentina's imports from Indonesia		
		Value in 2019	Value in 2020	Value in 2021
'TOTAL	All products	292328	232782	378529
'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	49452	34330	71758
'64	Footwear, gaiters, and the like; parts of such articles	72127	50564	60319
'40	Rubber and articles thereof	42854	29479	52032
'31	Fertilisers	0	0	47506
'84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	33818	21244	31203
'55	Man-made staple fibres	16274	23485	26355
'87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	18019	7284	11642
'38	Miscellaneous chemical products	4078	7523	11040
'54	Man-made filaments; strips and the like of man-made textile materials	5957	5767	6897
'20	Preparations of vegetables, fruit, nuts, or other parts of plants	4872	5854	6690
'90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	5056	5458	5970
'15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	2993	3867	5496
'39	Plastics and articles thereof	3895	4946	5364
'73	Articles of iron or steel	3578	2933	3778

Unit: US Dollar thousand

Source: ITC based on Instituto Nacional de Estadísticas y Censos

For Indonesia, the Argentine market -as well as other Latin American countries- represents a scenario where its products must compete with others also from Southeast Asia, as is the case of Vietnam. When comparing export products from Indonesia and Vietnam to Argentina, Indonesia exports more than Vietnam in rubber, textile fibres, chemical products, filaments and other textile materials, organic chemicals, optical materials and precision, and spices. Argentina, for its part, may have competition with Chile when exporting its products to Indonesia, as may be the case with agro-industrial products. Concerning Indonesia, the trade volume between Argentina and Indonesia is greater than that between Chile and Indonesia. Both South American countries have an export matrix oriented toward natural resources and manufacturers of agricultural origin (especially in Argentina), while in Chile there is a greater presence of mining products. For its part, Indonesia exports the same products to both countries, from footwear, and rubber, through textiles, furniture, machinery, and vehicle parts, to some food products such as canned fruits. However, Chile, unlike Argentina, has a trade agreement with Indonesia (called the Indonesia-Chile Economic Partnership Agreement or simply IC-CEPA). Product of the IC-CEPA signed and that entered into force in 2019, it will be necessary to see what the commercial exchange values will be in the coming years, in addition to the type of product that will be exchanged. Furthermore, it could be interesting to think about the feasibility of creating production chains between Argentina and Chile to jointly address the tariff preferences that the trans-Andean country has. This is because, in general, Argentine products entering Indonesia must pay higher import tariffs, compared to the entry of Chilean products. Therefore, the businessman who is in Argentina can understand Chile as a point of connection with Indonesia, with greater economic results in terms of competitiveness (Sterzer & Pakkanna, 2020).

Limitations

When referring to the limitations on trade, for Argentine exports, one of the issues to point out is the absence of halal products sent from the South American country. This is since the certifying agencies for halal products in Argentina have not yet been approved; thus, Argentine products cannot enter yet the Asian country. In October of last year, both countries have signed a Memorandum of Understanding between the Ministry of Religious Affairs of the Republic of Indonesia and the Ministry of Foreign Affairs, International Trade and Worship of the Argentine Republic on Cooperation in ensuring the quality of Halal products (“Memorando de Entendimiento...”, 2021). The parties will seek to strengthen mutual knowledge on the subject matter through technology, human resources, facilities and infrastructure, and research and development. Halal accreditation information, conformity assessment, business information and other related areas of mutual interest to respective government agencies and public and private business entities will be promoted and disseminated. In this cooperation, the institutions that will implement it will be, on the Indonesian side, the Halal Products Guarantee Agency (BPJPH) and, on the Argentine side, the Secretariat for International Economic Relations (SCREI). Regarding technical implementation procedures, the Parties shall endeavour to carry out the necessary actions so that within one year all products include halal quality assurance in their international trade operations.

Sabaruddin (2021) reveals that the current bilateral trade between Indonesia and Argentina is well below its potential, which can be seen from the relatively low trade volume (compared with other countries like China, India, and Vietnam). According to him, the low commercial intensity between the two countries is due, among other reasons, to the great distance, which generates high transportation costs; the language barrier; lack of information, interest, and interpersonal contacts; and Argentine protective measures in the form of tariff and non-tariff barriers. In addition, to a certain extent, both countries remain focused on their respective traditional trading partners. Also, the Argentine protectionist measures and the increase in the trade balance deficit on the part of Indonesia, are the main current problems within bilateral trade relations. Current bilateral trade relations reveal that as the volume of trade rises, the trade deficits on the Indonesian side are widening. The limitations in trade can also be assimilated into scarce investments. An exception to this is the case of PT Hydril Indonesia (TenarisHydril Batam) steel manufacturing company, which is a subsidiary of the Argentine company Tenaris. To face these challenges, a Joint Declaration on the Establishment of a Working Group on Trade and Investment (WGTI) between Indonesia and Argentina was signed in 2019, so all trade barriers that could have been made will be discussed in more detail to move to a higher stage (“Indonesia-Argentina mulai...”, 2019). This small team will identify the challenges of two-way trade between Indonesia and Argentina.

Potentials

With the commercial exchanges mentioned above, and the limitations also being identified, it is necessary to mention the potential for trade and investment between the two countries. To promote these opportunities, the Argentina-Indonesia Business Council (CEAI) exists in Argentina, promoting and facilitating meetings between businessmen from the two countries, to generate concrete and beneficial trade agreements for both parties. The main activities of the CEAI will be carried out in the Autonomous City of Buenos Aires, as well as in the provinces of Córdoba and Santa Fe since they have a strong food and automotive industries.

The public and private sectors in Argentina can take advantage of the opportunities on the issues that Indonesia -as president of the G-20 in 2022- will give priority for treatment in the meetings that the leaders of this group will have. These topics are global health, energy transition and digital transformation (“Cafiero recibió a la Embajadora de Indonesia...”, 2022; “Dewan Bisnis Argentina-Indonesia...”, 2022). Indonesia proposed to the G-20 members to recognize the increase in digital connectivity and cooperation in the realization of digital people through

connectivity networks (Paat, 2022). This is a field where Argentina and Indonesia can find collaboration opportunities.

Argentina can play an important role in the meat market in Indonesia if it first obtains the approval of the government of this country. In this sense, the recent signing of the Memorandum of Understanding on cooperation in Halal products is considered an important step to facilitate the entry of Argentine meats into the Indonesian market. Argentina is the second country in Latin America to close an agreement of this type with Indonesia (after Chile), which opens up greater opportunities for Argentine exports. Indonesia is a dynamic market with more than 270 million inhabitants and a growing middle class. For Muslim consumers, the Halal seal on products is a requirement from a religious point of view, and a sign of sanitary quality. Likewise, the certification of Halal products covers the most diverse areas, from cosmetics and fashion to auto parts and tourist services (“Argentina e Indonesia firman...”, 2021). Indonesia has great potential to become the world's leading halal producing hub. According to data from the State of the World Islamic Economy Report 2022, Indonesia ranks fourth in the world with the best Islamic economic development, being even the second-best in the halal food sector, and the third in the Muslim fashion sector (Evandio, 2022).

Indonesia has a livestock sector that has been marked by certain limitations in terms of its production, to meet the growing demand from the population of that country. That is why it resorts to meat imports from different countries, as well as live cattle. This situation allows Argentina the opportunity to cooperate with Indonesia so that it can develop its livestock sector; that is, not only from the perspective of being able to export meat or live cattle or investing there but also to be able to share their know-how, best sustainable practices, bovine genetics, development of crops for cattle feed, among others (Sterzer & Azizah, 2021).

Argentina is interested in advancing concrete actions of bilateral technical cooperation, especially in agriculture. As world food producers, Argentina and Indonesia have the potential to jointly develop technical cooperation, agricultural machinery, and biotechnology (Iflah, 2019; “Indonesia-Argentina Hasilkan...”, 2019; “Indonesia y Argentina aumentan...”, 2019; Syafaruddin, 2017). Argentina can offer meat, bovine genetics, and fruits, and increase exports of rice, peas, beans and peanuts -among other products. Meanwhile, Indonesia is interested in cooperative techniques for agricultural machinery, grain handling and post-harvest, and the development of the Angus cattle breed, and seeks to sell tropical fruits such as bananas, pineapples, salacca and mangosteen to Argentina (“Indonesia será ahora ...”, 2019).

The positive for Argentina and Indonesia shortly is that progress has been made in the plan to sign a trade agreement. There is a Joint Ministerial Declaration to Start Negotiations towards a Comprehensive Economic Partnership Agreement between Indonesia and MERCOSUR (in addition to Argentina, it is made up of Brazil, Paraguay, and Uruguay -while Venezuela is suspended as a member for violating the human rights clause-) (“Pernyataan Gabungan...”, 2021).

The role that Embassies can play in bringing business people together can be of great contribution. For example, the Indonesian Embassy continues to encourage and provide information on market opportunities in Argentina, Paraguay, and Uruguay, especially to enhance strategic industrial cooperation. In this way, companies such as PT Dirgantara Indonesia and FadeA were exploring the possibility of cooperation to repair and supply aircraft parts in Latin America. In addition, the Indonesian Embassy has facilitated the expansion of PT Peruri's business in the paper printing sector (“Indonesian Corner presenta...”, 2020; “Productos de Indonesia...”, 2020).

Conclusions

The commercial exchange between Argentina and Indonesia is still far from its potential; Argentina's exports are concentrated in a few products, especially soybeans. The future trade agreement between Indonesia and MERCOSUR will allow the South American country to diversify and deepen its exportable offer. However, there are still limitations (from geographical distance, language, uses and customs, tariff, and non-tariff barriers) that must be analyzed to propose the best strategies, starting with training, and thus be able to advance with the commercial link. In addition, the progress that Argentina can achieve in terms of halal certification of its products will undoubtedly be one of the great reasons that will explain a future increase in exports from that country. However, Argentina will have to improve its price competitiveness; for instance, by correcting structural deficiencies such as inflation, taxes, and logistics costs. Otherwise, it will continue to lose ground in the Indonesian market, to Indonesia's neighbouring countries, as well as to those partners that have trade agreements.

It is detected that there is a great gap in foreign direct investment; It will be necessary to have more information and training to stimulate entrepreneurs to advance in their respective countries. Some sectors are promising: agri-food, pharmaceuticals, digital economy, and renewable energies. To this end, cooperation between the public and private sectors, in addition to the ever-present contribution of the academic world, will consequently allow both countries to see an increase in trade and investment between them.

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