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Why the Argentine Market Possesses Favorable Attributes for American Business Penetration

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**WHY THE ARGENTINE MARKET POSSESSES FAVORABLE ATTRIBUTES FOR
AMERICAN BUSINESS PENETRATION**

A College Scholars Senior Project

**In partial fulfillment
of the requirements for
the College Scholars program**

by

Terry Finnegan

April 1997

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SCHEDULE OF INTERVIEWS

I. INTRODUCTION

American companies have long sought ways to expand into foreign markets. This is an attempt to take advantage of the natural resources, untapped market potential, or cheaper labor in foreign lands. Latin America has, in recent years, become a leading region for such projects. In particular, Argentina was placed on the short list of emerging markets for potential investment in the late 1980's and has since become a key player in the economic development of South America. My purpose in writing this paper is to first, discuss the economic fundamentals of what the current administration has done to bring the Argentine economy to the point of stability and secondly, to discuss ways in which American companies, from various sectors, have evaluated, penetrated and currently operate in this market. The primary mode of research was interviews conducted on site in the city of Buenos Aires, Argentina with corporate executives from American companies. A great deal of time was also spent gathering and studying current periodicals (newsprint, magazines, etc.). Research indicates that the Menem administration has affected significant change by their aggressive policies. These changes, while serving to stem hyperinflation and boost confidence, have resulted in a marked stabilization and a period of consistent growth. Also indicated is that American businesses have found success in this region by being very methodical in their penetration methods and taking a long term view of the Argentine economy, its resources, and the future prospects for success in this region.

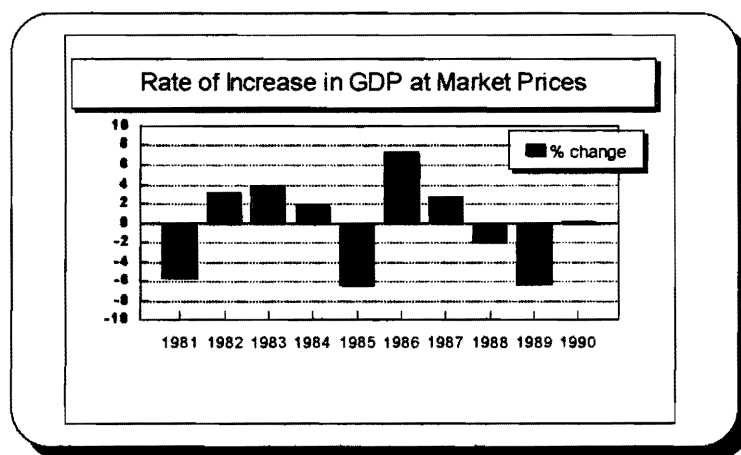
ECONOMIC HISTORICAL CONTEXT

Argentina has long since been known for its considerable economic potential. Throughout this century, Argentina has shown glimpses of this potential. In the periods following the great depression and World War II the Argentine economy was ranked in the top ten in terms of size.

Despite this promise, from the 1940's until the late 1980's, Argentina failed to capitalize, primarily due to poor political and economic leadership. Endowed with abundant human and natural resources, Argentina had tremendous potential for economic development in the mid-1980's. Despite these impressive resources, the country was buffeted by vicious cycles of political instability and erratic government policies which gave rise to economic and social disruptions. Though one of Latin America's wealthiest nations, this atmosphere of uncertainty made it difficult for Argentina to capitalize on its considerable potential.

Mid 70's to Mid 80's

The nine year period from 1976 to 1985 was one particularly marred by political instability and enervated growth. During this period, stable growth and development was directly affected by the number of policy changes implemented. Though intended to improve overall economic stability, the inconsistency of policy manifested itself in poor economic performance. In this period alone, Argentina was lead by four different military regimes, one civilian administration and seven different economic ministers with seven differing economic philosophies (5). The economy was one obvious victim of these marked vacillations. Inflation, as measured by the consumer



price index, rose to a hyperinflationary state in 1989 to 4,923 percent (4). Similarly, the Gross Domestic Product (GDP) rose and fell each year from 1977 to 1984, as shown in the figure (5). Despite efforts on the part of the military

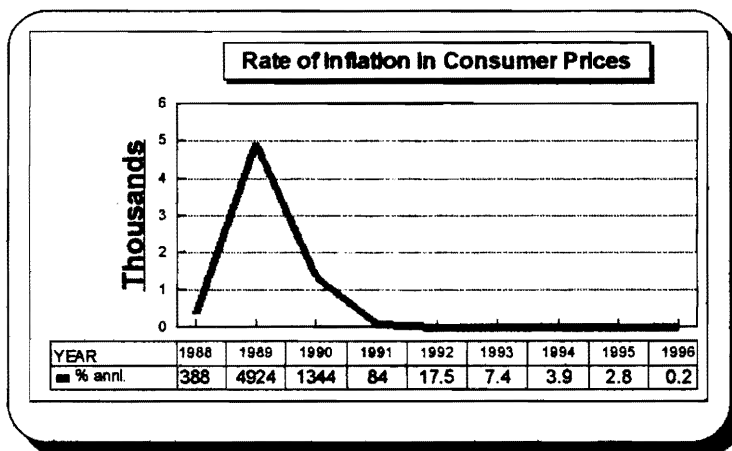
dictators holding power in the 1980's, public support grew weary as evidenced by anti-government protests and rampant looting. The economy continued on its downward spiral; for example, in 1982 alone inflation rose to 200 percent and the country went into default on its private foreign debt of approximately \$50 billion (6). In the same year while the military government was attempting to make a smooth transition to a civilian government, they agreed to an economic austerity plan in cooperation with the IMF. This was an attempt to manage the huge \$50 billion external debt by way of refinancing old debt with new debt (6). Though this was achieved, it failed in its attempt to establish any confidence in the Argentine market. Of course it was the general public who bore the brunt of the sour economy. In 1983 workers real income fell to nearly a quarter of what it had been in years past (8). Take home pay of the average worker was nearly one million pesos a week....roughly \$19(6). In an attempt to bridle this facet of the economy a wage-price freeze known as the "Austral Plan" was put in place in 1985. Despite the collective efforts on the part of the administration, the economy failed to show consistent improvement.

Late 1980's - Early 1990's

In the 1985 election President Alfonsín was elected by a very thin margin; yet, despite the speed at which he began addressing economic issues, the economy seemed content to continue spinning out of control. Prices were rising at more than 30 percent a month and industrial output plummeted, as a result, income naturally continued to decline (6). In 1989 and 1990 the GDP, adjusted for inflation, dropped a total of 6 percent (6). Despite President Alfonsín's initiatives his popularity plummeted which eventually led to an early relinquishment of his presidency and "The

Red House." The period leading up to 1990 proved to be one of the most tumultuous eras for the Argentine economy and the country as a whole.

The 1990's began as somewhat of a continuation of the previous decade. A new administration under Carlos Saul Menem, former governor of the interior province La Rioja, took office in May of 1989 with 47 percent of the popular vote. This marked the first time in over seventy years that an opposition party had successfully taken office and the first time that the "Peronista" party would rule without Juan Peron himself. Analysts reasoned that if this administration could succeed, Argentina might have a chance of achieving genuine democracy (6). This would not prove to be an easy undertaking. Inflation in July of 1989 rose to 200 percent and the purchasing power of real wages had dropped nearly 25 percent to the lowest in the country's history (7). The soaring interest rates, a nonrenewal policy on deposits, and the refusal of the Central Bank to release inaccessible deposits in adequate quantities created a severe financial crisis in regards to capital reserves (8). Essentially, the rate of new deposits was insufficient to cover the interest on maturing deposits, resulting in soaring interest rates--shooting over a 100 percent per month mark (8). The natural result was an increase in domestic debt. This was in addition to the external debt to which no interest had been paid since 1988(8). The fiscal deficit



was also at an 8 year high of \$55 billion (8). As if this were not enough, the drop in industrial production reached 5 percent between April and May of 1989, owing itself to the three distinct recessionary waves of this

period: first from October 1984 to August 1989, second from November 1986 to the end of 1987, and finally at the beginning of Menem's first term in office(8).

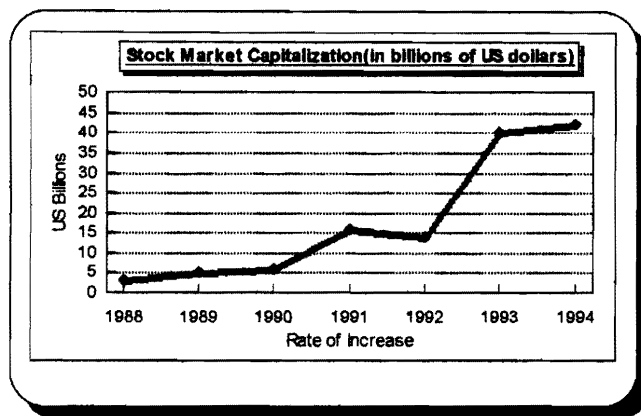
MENEM'S RECOVERY PLAN

In an attempt to take decisive action, the Menem administration undertook two separate stabilization plans in 1989 and 1990, neither of which succeeded due to the inability to address the fiscal deficit. The chief results of these first two moves were two periods marked by hyperinflationary outbursts reaching 4924 percent in 1989 and 1344 percent in 1990 as shown in figure 2(9). In 1991 the Menem economic team, headed by Dr. Domingo Cavallo, the Harvard educated economist, implemented several aggressive economic plans with aspirations of opening the economy and exercising strict fiscal and monetary discipline. It was determined that the main engines of growth would be state reform, open markets, foreign direct investment, trade liberalization and currency convertibility. Thus began an intensive reform program designed to defeat hyperinflation, rebuild the state, institute a popular market economy, and integrate Argentina into the global economy(10).

TURNING THE CORNER

Through these comprehensive economic reforms, Argentina has vastly improved economic performance and permitted the economy to break out of the stop and start cycles of the past. Though the reform effort continues, the results are already highly encouraging: Between 1991 and 1994 there was a cumulative increase of 34 percent in the gross domestic product (fig. 1); consumer prices increased 3.9%; gross domestic fixed investment increased 25 percent in 1991, 31 percent in 1992, 14 percent in 1993, and 18.2 percent in 1994(9). Foreign direct

investment went from one billion dollars in 1989 to 6.2 billion in 1993 as shown in the figure



below(6). Capital goods imports, another major indicator of confidence and investment in the economy doubled in 1992, increased by another 33 percent in 1993, and went up yet another 47 percent in 1994. Exports of manufactured goods have surged as these

investments have come on line, rising 26 percent in 1994 alone(8).

THE 1995-1999 FIVE YEAR PLAN

The first pillar of the administration's restructuring plan was a wide scale state reformation which was carried out through an all-inclusive privatization program. What ensued was a sharp cutback in public employment and expenditure, elimination of public enterprise subsidies, improved tax collection coupled with the elimination of distortionary taxes.

The next step of this program was the recreation of a market economy. This was primarily carried out by way of an elimination of controls on prices, wages, interest rates, foreign exchange rates, and capital flows. As well, a broad deregulation that impeded free market operations has been swept away in hopes of lowering costs of doing business in Argentina.

The third move in this process was an investment and trade liberalization. In hopes of allowing foreign investors the same treatment as local investors, registration requirements were eliminated, full access to local markets was allowed and unrestricted repatriation of profits was granted. As for foreign trade, nearly all non-tariff barriers and export taxes were dropped. With

the creation of the Mercosur trade pact between Argentina, Brazil, Uruguay, and Paraguay, trade liberalization has been extended even further.

The final and most aggressive step in this recovery plan was the Convertibility Plan. Implemented in April of 1991, the Convertibility Act states that the local currency must be fully backed by foreign reserves and gold at a fixed exchange rate of one peso per US dollar. In this law, indexation was prohibited, money creation to finance debt by way of inflation was proscribed and subsequent legislation established the independence of the Central Bank and prioritized its role to the defense of the national currency.

The Convertibility Act was put to the test as a result of the liquidity crisis stemming from the 1994 devaluation of the Mexican Peso. However, instead of retreating from this policy, the system was reinforced. Immediate steps were taken to privatize the financial system and move budget into a surplus, eventually reaching \$4.4 billion in 1995(10). Although Argentina suffered from the exodus of capital resulting from the Mexican meltdown, by the beginning of the second quarter of 1995 there had already been a positive shift in the behavior of the financial and capital markets. With these policies in place, the administration had laid the ground work for future stability and growth. Public confidence in this program and the current administration was shown in the reelection victory of President Carlos Menem in May of 1995 with 50% of the total vote.

II. SECTOR ANALYSES

It is within the economic framework discussed in the previous section that American companies must compete and operate. These companies must take into consideration many factors when evaluating potential and current operations including tax issues, labor relations, patent laws, etc. The following analyses are profiles of American companies that have been operating in Argentina for various amounts of time and in differing markets. Based on personal interviews with corporate executives, these analyses present a unique view on the Argentine market, company operations, competition, success and prospects for the future.

FINANCIAL INSTITUTIONS (CITIBANK, N.A.)

Perhaps it is the banking industry that varies most directly and is most involved in the radical economic changes taking place in Latin America and specifically in Argentina. Generally speaking, the banking industry serves as the primary financial intermediary between the population and the economy. As the world market fluctuates, and as the current Argentinean administration implements more policy changes, the reaction of the banking industry must be immediate in order to maintain the already timid confidence in the Argentine economy. This is typically carried out by the manipulation of consumer and corporate lending terms, interest rate changes, new product developments, and availability of foreign trade lines.

HISTORICAL AND CURRENT OPERATIONS

Citibank of North America began its operations in Argentina in 1914 as a direct result of the demand created by American companies seeking financing and lines of credit in order to

establish themselves in Argentina. Since this time Citibank has persevered through economic catastrophes, military dictatorships, and revolutions only to emerge as a leader in the banking industry in Argentina.

Currently Citibank's market share is based on an approximate 50/50 split between the consumer market and corporate finance market. In the consumer market, Citibank offers credit cards, current accounts, personal loans, mortgages, and money market accounts. Despite recently lifting taxes imposed on current accounts, the mentality of the average Argentine remains one of reluctance. This would account for the fact that the number of current accounts held by Argentines remains markedly low, almost a third of their counterparts in Brazil and a tenth of that in the United States. However, the banking industry sees these policy changes as indicative of changes to come and thus, the consumer banking sector as an area of sizable market potential.

Originally, Citibank began operations in Argentina for the same reasons many other foreign banks did, to serve as financiers for international market establishments and to meet the needs of foreign investors. Primarily, these banks specialize in direct lending, capital market issues, initial public offerings, capital management, foreign trade, and derivatives when available. Due to the inherent risks associated with dealing with middle or small size corporations, many of these banks limit themselves to well established international corporations.

COMPETITION

In terms of numbers, Citibank is but one of many players in the financial markets in Argentina. Nearly 50% of the financial market share remains in the hands of the State owned banks, including Banco Nacion y Banco Provincial. The remaining market is divided among the 30 established foreign banks, 20 local public banks, and 70 local privately held banks.

Ignacio Morello, a manager with Citibank in Argentina, says that the economic environment in Argentina has been revolutionary in its developments and within the past 5 years has completely changed the face of competition. For example, five years ago simply being a foreign bank was a guarantee for business. With the inherent instability projected on Latin economies, the slightest hint of a shudder in the markets created an exodus of capital into foreign banks due to their ties with the stable American or European economies. During times of relative stability and confidence, foreign banks' access to foreign markets, coupled with their ability to provide financing at lower rates, has made them far more attractive than their domestic counterparts.

With the current administration's movement toward an open economy, many of the larger domestic banks have made great strides in terms of access to the very same foreign markets. For example, Banco Galicia and Banco Rio, two of the larger domestic banks, have made substantial progress in the last five years to take advantage of the free market by establishing partnerships with foreign banks. The result of this has been easier access to foreign trade lines, greater confidence from consumers, and the inherent advantages that come with being attached to a strong parent company. In fact, competition in the area of foreign trade has become so strong that Citibank has begun to decrease its marketing efforts in this area because the larger domestic banks can offer the same products and there is therefore very little if any profit. Despite these marked improvements on the part of domestic banks, a dark cloud of skepticism continues to loom over head.

IMPACT OF THE FINANCIAL CRISIS OF 1994

Naturally, the financial markets were the hardest hit by the economic crisis of 1994. Though the principle of convertibility contributes to confidence, it also, by law, prevents the central bank from intervening on behalf of the peso. As well, at the time there was a shortage of business in real terms of investments and as a result many of the larger brokerage houses and banks invested heavily in the bond market. As the Mexican economy began its own melt down, loans from abroad became harder and harder to come by thus creating liquidity crises. This, in conjunction with rising bond rates in the US in February 1994, the inability of the central bank to intervene, and the lack of foreign loans from abroad and confident investors, caused a capital flight of massive proportion throughout all Latin America. In an attempt to reassure the Argentine market, the central bank, more accurately the Harvard educated economic minister Domingo Cavallo, employed several strategies: First, they began to make loans on the remnants of their reserves to the now desperate domestic banks in an attempt to aid them in remaining liquid. Secondly, they reinstituted deposit guarantees much the same as the FDIC in the US. Although this aided in allowing the suffering banks to endure the crisis in the short run, it seems now only to have delayed the inevitable. Mr. Morello feels that these banks will go under due to their indebtedness to the central bank, thus leaving only the banks that were able early on to establish ties with foreign banks or remain independently solvent.

As a result of the latest crisis, the surviving banks can be broken down into three categories. First the 15 well established and backed banks that remained relatively strong despite economic constraints. These will undoubtedly pursue new market potential and continue to grow. Second, the struggling banks that are now heavily indebted to the central bank, consisting mainly

of private banks and several of the public banks. Mr. Morello feels that by the year 2000, the 70 private banks will merge or dissolve into approximately 40. The final division is made up of the smaller public and private banks that exist now tenuously close to the precipice of extinction.

COMPETITIVE FUTURE

Despite the seemingly difficult current conditions, the fundamental importance of the success within the financial markets in Argentina guarantees a large market in which to operate and a great deal of competition therein. As the market in Argentina and Latin America improves as a whole, there will be great opportunities for growth and success. With many of the more radical economic policy changes in place and some of the largest hurdles behind it, the Argentine market eagerly awaits a period of sustained growth in order to create an environment befitting its potential.

As the financial markets continue to adjust to the growing pains associated with economic change, the banking industry is setting its views on the prospects of success on the long run. The larger local banks are continuing to establish partnerships with foreign banks in hopes of gaining a competitive edge in the markets of foreign investments, lines of trade and asset management. By doing so they also hope to regain the consumer confidence lost in past economic crises. This will no doubt enable banks such as Banco Rio and Banco Galicia to compete on the same level with institutions such as Citibank. As for the potential for success for other American banks seeking to penetrate this region, Mr. Morello speculates that this is an excellent time to do so. As more foreign operations establish themselves here it fosters growth on several accounts. First, it will aid in reestablishing confidence in the Argentine market. Secondly, it will aid domestic banks to form partnerships with these banks to strengthen their own positions in the markets. Finally, it

will introduce more competition into the bureaucratic system and help drive costs down and drive out the inefficiencies of the poorly operated smaller banks and state banks. Though, as stated previously, this may cause financial disruptions in the short run, these changes are essential if Argentina hopes to fulfill its' aspirations of achieving full integration into the world economy.

III. ENGINEERING CONSTRUCTION (BECTHEL)

Each market in Latin America has been affected differently by the economic stabilization plan being implemented in Argentina . The primary driver of change and development in the financial sector has been fiscal reform, deregulation, economic growth and stabilization. However, in the engineering construction market, the primary influence is that of the trend of privatization.

THE AFFECTS OF PRIVATIZATION

Beginning in the late 80's, with the election of current President Carlos Menem, Argentina began an aggressive privatization program. The motivation behind such a progressive move is simple. The primary drivers influencing change in Argentina will be exports and investment. With the reluctance of Argentines to invest in enterprises and development the key lies with international capital. One hundred and eighty privatizations of state owned enterprises from 1990-1992 generated cash receipts for the treasury of US\$5,437.7 million, a transfer of liabilities of US\$1,570.7 million, and a public debt reduction through redemption of debt papers for a market value of US\$4,419.8 million(US\$11,334.9 million in par value). All this adds to an economic result of US\$18,343.4 million(4). Over 320 companies or business groups took over the privatized enterprises, either individually or in consortia. Argentine concerns contributed 27.9 percent of the equity and the foreign concerns another 41.2 percent. Of the balance 30.9 percent, held by the state, one portion will be borrowed from the public on the Stock Exchanges and the other distributed among the staff through employee stock ownership plans. The foreign owners of privatized companies, in decreasing order, are the following countries: Spain, United States, Italy, France, Chile, Canada, and the UK(4).

HISTORICAL OPERATIONS

Bechtel, one of the five largest engineering firms in the US, has had operations in South America since the 1970's. They began mining operations in Chile in the 80's. In Argentina they opened an office in 1975 only to close it in 1990. Their current Argentine operations have been in existence since early 1995. Bechtel bids focus in the markets of power generation projects, civil infrastructure including all forms of transportation, airport projects, water/waste water, hydroelectricity, mining/metal, advanced technologies, and petro/pipeline projects.

MARKET OPPORTUNITIES

In terms of market opportunities, they vary in size, scope and region. In Argentina many of the engineering construction projects are in simple high-rise building projects. However, great potential lies within the airport development sector. After years of very little investment in this subsector due to budgetary cutbacks, interest and investment is expected to grow in response to a plan for the privatization of the two major airports in Buenos Aires. There are another 37 smaller international airports and 200 domestic airports throughout the country are expected to be offered for concession to private firms. Plans call for increasing capacity by 300% over the next 10 years. This, no doubt, has created a demand for knowledgeable firms to facilitate this growth. In this subsector, American suppliers enjoy an excellent reputation for quality, reliability, and price competitiveness. Other prospects for future bids will be a massive bridge spanning from Buenos Aires to Colonia, Uruguay, much the same as the highway leading to the Florida Keys.

The mining sector of this market is found predominately in Chile. In this market, as in most other markets, American firms will enter into a successfully acquired bid project by way of a joint venture where the American firm will focus its strength on technical expertise, efficiency, and

thoroughness while utilizing local know how in terms of labor acquisition and the actual physical construction of the project.

Brazil, despite having the largest economy in South America, has been slower in its privatization process. Therefore, there lies tremendous opportunities for market penetration in this country. Many international firms have begun to focus or refocus their efforts into Brazil. Areas of particular interest are in the infrastructure sector as well as the petro/pipeline sector. As the impact of the Real plan introduced by President Fernando Henrique Cardoso takes effect by way of market reform, privatization, and trade liberalization, the affects of this open economy will bring much the same result as it has in Chile and Argentina.

COMPETITION

Though American firms have the reputation of high quality standards, efficiency, and effectiveness, they have met an increasing amount of competition as of late, not only from their American counterparts, but also European and domestic corporations as well. Generally speaking, many American firms thrive in markets such as energy development, with corporations such as Tenneco and Houston Lighting and Gas dominating the bidding process in these areas. The French have made great strides in ascertaining the majority role of the water\waste water management subsector in Argentina. Many of the infrastructure projects awarded are done so based on political ties. Typically, domestic companies backed by wealthy families have tended to win man of these bids, to the dismay of the better equipped and more knowledgeable American firms.

Mr. Albert Nelson, Director of Bidding Operations for Bechtel, says that the key to penetrating this market is much the same as that of markets in the United States--to be very specialized in one or two areas and to seek only projects within that specific realm. Though Bechtel bids on various projects, they have found particular success focusing on Chile's mining projects and Brazil's aggressive infrastructure renovation plans. Though many of Argentina's largest privatization projects have been awarded, Bechtel is actively pursuing the competitive market of airport privatization. By specializing on these markets in the respective countries, Bechtel and other international firms have found greater success.

There are other outside forces that dictate the success of American firms attempting to penetrate the engineering construction market. Because American firms are held by US law to uphold the US standard of business even while operating in foreign countries they often find themselves at a disadvantage. For example, when dealing with a privatization of a public service, one of the things that a company depends on is the ability to raise rates when justifiable costs that make up your rate base are increased. In Latin America these regulations either do not exist or when they do exist are not sophisticated, objective or strictly enforced. As a result, American corporations find themselves outbid by foreign companies that have no intention of following standards. As the regulatory environment becomes more streamlined and American firms more acclimated to the business practices in Latin America opportunities will present themselves on a more even playing field upon which American firms can compete.

WHAT THE FUTURE HOLDS

As most American corporations have chosen to do, Bechtel has taken the long term view of operations in Latin America. For example, as opposed to designating Latin American

operations as an entity of an existing business unit, Bechtel has chosen to spin off Latin American operations as an autonomous business unit. They generate their own budget and operate for all practical purposes as an independent corporation. This trend will allow corporations greater flexibility and control in the decision making process.

SPECIFIC MARKETS

For the time being it seems apparent that Brazil is the market focus due to its extensive, aggressive privatization programs left to be completed. Also, Chile will continue to have excellent prospects for projects in specific markets as spoken of earlier in this section. Argentina, though retaining the title as one of the major emerging markets in the world for foreign investment, will prove to be a very competitive market in the area of engineering construction.

IV. AIR FREIGHT/EXPRESS MAIL (FEDERAL EXPRESS)

HISTORY OF OPERATIONS AND CURRENT ACTIVITIES

As the Argentine economy recovers, stabilizes, and grows and the Mercosur trade pact creates further regional trade opportunities, there will be a natural increase in domestic and international shipments. This is a necessity in order to meet deadlines, improve services, and maintain consistent flow of finished goods inventories. With the current postal service unable to fulfill these time sensitive demands, the market for express air freight and mail service has created a sizable market for American owned freight giants such as Federal Express, DHL, and United Parcel Service.

Federal Express has been active in this market for the past six years operating predominately in the greater Buenos Aires area. The first two years FedEx, operated under the name of Flying Tigers air freight, an established company acquired by FedEx in the late 80's. With this acquisition FedEx assumed Flying Tigers' global operations in totality and thus began an aggressive international market penetration like few others.

Unlike in the US where FedEx's market consists of 90 percent domestic mail service and only 10 percent international, in Argentina, FedEx does not provide domestic mail service. 100 percent of FedEx's business is derived from the international air freight and express mail service.

MARKET PENETRATION AND GROWTH PHILOSOPHY

Unlike in the United States where Federal Express spends millions of dollars per annum on numerous advertising campaigns, in Argentina this Malcolm Baldrige winning corporation has relied solely on mouth to mouth and direct sales visits for its growth. Though this may seem archaic it simply came down to the fact that they did not have the man power to support a

substantial boom in business. Despite this, since beginning operations FedEx S.A. has experienced 100 percent growth from month to month for extended periods during a several year period. Because of this, the number of employees has grown rapidly from 30 employees three years ago to over 100 and is still growing rapidly. The apparent reason for such growth is the direct result of the fact that DHL was at one point the only alternative to the poor services provided by the post office. Because of this, DHL was allowed to charge over \$100 dollars for a shipment that in the US would normally cost \$20 dollars, a 500 percent markup. FedEx entered the market charging merely \$30 dollars for the same service. Needless to say, as a result of this, acquiring business was merely a matter of time.

FedEx's philosophies in terms of employee and service focus is consistent around the world. For example, Federal Express pays its' employees twice that of DHL and 33 percent more than their counterparts in the United States. Because of this, they have no shortage of applicants and the luxury of employing only candidates who can speak English, have university caliber educations and are willing to work over time. By doing so they have achieved a 100 percent employee retention rate thus saving the high costs of constantly training new employees. They can therefore pass the savings on to the customer by way of lower rates and consistently high service.

Because DHL, at one point, was the exclusive provider of these specialty services, they were not only allowed to determine their own rates but were allowed to provide whatever service they wished. Federal Express has taken a far different approach to this market. Instead of focusing on rapidly attaining greater market share they, have focused on steady growth while

providing far better service at lower costs. As their clientele grows, so does their employee base while their service and prices remain constant.

OUTSIDE INFLUENCES

Although the express freight and courier market is in its infancy in terms of market exploitation, there remain numerous hurdles to overcome. The main hindrance to sustained, consistent growth in this market is not necessarily the competition therein, but the regulatory environment. La Comision Nacional de Correos y Telegrafos is the governing body over this division of commerce and through no fault of their own, have in place an archaic, stringent regulatory structure. These regulations when introduced were meant explicitly for the postal service and have yet to be adapted for the time sensitive services provided by couriers such as FedEx and DHL. For example, Argentina, for domestic postal division purposes, has been divided into 7 different regions and if Federal Express needs to ship from area 1 to 3 they are forced to adhere to the same regulations as the national post office. The main hindrance to this is that the postal service is moving thousands of domestic parcels a month where as DHL and FedEx may only ship 6 or 7 packages inbound from Belgium. These regulations, though slowly changing, are obstructive in terms of time and efficiency.

Under the relatively new Mercosur (Mercado do Sur) trade pact, air freight/courier services anticipated and experienced a large growth in business due to the increased export and import market in and out of South America. However, the courier side of Federal Express's services was not included under the auspices of Mercosur. In essence, if goods are shipped classified as courier, though on the same plane as air freight classified goods, it is not under Mercosur regulations and therefore cannot be priced as such.

Another very tangible obstacle to efficient operations for these corporations is the inadequate transportation/telecommunications infrastructure. Although many civil projects have been bidden out to private corporations, these projects have yet to be completed and make in an impact on the capacity to transport goods in a timely fashion. As well, the telecommunications services are in dire need of renovation. It can take as long as 18 months to install a telephone line. Not only is this an obstacle to maintaining sufficient communications throughout the growing FedEx system, but it keeps the general public from accessing Federal Express's services without having to go to a customer service center.

One factor that invariably must be considered by any American firm operating on foreign soil is the economic and political stability. In Argentina, Federal Express has taken the necessary precautions to brace for a an economic depression or a radical political shift. One such precaution is that they have rented nearly ever building that they occupy. By doing so, if it is necessary, Federal Express can end operations in this country and withdraw to a safer region within one to two months.

FUTURE PLANS FOR GROWTH AND DEVELOPMENT

As previously stated, this market has yet to be fully exploited. Federal Express is planning to expand and diversify their services based on the success already achieved. Though, slowly, the penetration plan is to improve their established services and introduce new product packages aimed at specialty markets such as, the chemical and automobile parts industry. By doing so, they will only grow when established services in a specific market are operating to the high standards set by Federal Express, thus ensuring the consistency of high service and customer satisfaction for which the FedEx name is known.

Mr. Zapiola, director of FedEx's operations in the Southern Cone, feels that there are numerous opportunities for more competition to enter this market. An example of this are the nearly 300 new private postal services that have sprung up in the last 16 months. Though Mr. Zapiola expects only 30 to 40 to survive, he feels that the ability to provide a specialized, unique service to the customers will be the key to success for any new express service. For example, FedEx, UPS, and DHL cannot provide radical services such as delivering packages to the middle east with next day service, however, there are 2 or 3 companies who are willing to charge the expense to do so. This extreme example, is the type of extremely specialized service, though exorbitantly expensive, that will be the key to establishing a successful air freight/courier service in this region.

V. TELECOMMUNICATIONS SECTOR (MOVICOM S.A.)

Currently in Argentina there exist two major telecommunication companies, Telefonica Argentina and Telecom, both recently privatized. While the population in Argentina is 34.2 million the market penetration of these two companies is merely 78 telephones per 1000 people, or 7.7 percent. Obviously, there exists a large market to be filled. With over half of Argentina's population (16 million) residing in 1 of 4 cities (Buenos Aires 13 million, Cordoba 1 million, Rosario 1 million, Mendoza 1 million,) the potential market for a telecommunications corporation is obvious. This is the essential reason for the existence for CRM, trade name Movicom. CRM, Compania de Radiocomunicaciones Moviles, is a 6 year old portable telecommunications company now operating in Argentina. CRM is a shell corporation made up of a joint venture consisting of BellSouth, Motorola, International BellSouth Enterprises, BGH, and SACMA. Due to tender restrictions in place in this particular sector CRM was required to utilize a local operator and manufacturer, BGM and SACMA fulfilled this requirement, respectively. In speaking with Steven Droll, Director of Administration and Finance, this requirement, though initially cumbersome, allowed Movicom to exploit the local expertise of these two operations.

MARKET SELECTION/CHARACTERISTICS

The portable communications market in Buenos Aires is radically different than its counterpart in the United States. In the United States the radio communications market is 60-70 percent mobile (car phones) and 30-40 percent portable (hand held). Where as in the greater Buenos Aires area the market is nearly 95% portable. In light of the fact that there is often a 12 month waiting list to obtain the most basic of phone service and the poor level of reliability of the

existing system one can gather why there is such a demand for reliable mobile communications. According to Mr. Droll, 5 years ago, if one could acquire a phone at all they were fortunate, now that one can easily obtain a mobile phone they want to take it everywhere. As well, it is far more convenient for a corporation, businessperson, or family to purchase a more reliable cellular phone and gain instant access to local and long distance calling. In addition to the dire need for consistent telephone service, the fact that 38% of the population of Argentina, or 13 million people, are densely populated into the capital city of Buenos Aires presents a rich market to exploit. These two factors stand alone as the main justification for the establishment of Movicom in Buenos Aires.

MARKET/COMPETITION

Due to the \$2500 initial cost of acquiring a phone and service Movicom is currently focused on the high end market, predominately the upper class business executive. However, as financing becomes more realistic and the economy of Argentina continues to show consistent stability and improvement, Movicom plans on cutting deeper into the lower levels of the Argentine socioeconomic strata. Competition, however, does exist in this market, in the way of Miniphone. A small but well established mobile telecommunications retailer focusing on pagers as well as cellular phones. Despite this competition, the fact that this market is in its infancy provides ample market share for both corporations.

PROSPECTS ON THE FUTURE

One would assume that as the local telephone service improves this will cut into the mobile communications market. However, Movicom sees this as a double edged sword. As local

services improve so to will the call completion rate of Movicom's mobile phones, currently at 50%., thus making it more attractive to utilize the convenience of mobile communications.

Secondly, as more of the public obtain basic telephone services, the minutes of usage on the mobile network will vary directly, only enhancing the attraction to mobile communications.

Finally, I speculate based on the sophisticated image associated with sauntering down the street with a mobile phone to one's ear that this market will continue to move in a positive direction.

VI.CONCLUSIONS

The preceding discussion was meant to illustrate *why Argentina possesses favorable attributes for further American business expansion*. My research indicates that the five year plan employed by the Menem administration has not only stabilized the economy but also laid the groundwork for future growth. Several other key policies employed by the Menem administration that have contributed to this have been the convertibility act, a comprehensive deregulation of economic activities, privatization of state-owned companies, the consolidation of public debt, the balancing of public accounts, and regional economic integration by way of the Mercosur pact. Research indicates that after six years of consistent efforts, the achieved results are clear. Tangible results include price stability, plummeting inflation, recovery of creditworthiness, expansion of exports, significant growth in the gross domestic product and balanced public accounts. This has created a favorable environment for American businesses. In talking with representatives from various business sectors, I conclude that American business success is due in large part to the improved economic atmosphere in Argentina. Specifically, privatizations have allowed for many industries to penetrate their respective markets by bidding on formerly state owned enterprises. Secondly, the economic stability derived from the convertibility act, decreased inflation, increased public confidence, and a marked turnaround regarding economic growth have created an environment in which corporations such as Bechtel, Federal Express, and Movicom can operate relatively free of economic distraction and thus achieve full market integration and success.

What will the future hold? So much of the future rests solely on the decisions made in the near future, specifically, the next presidential election. In a country prone to radical changes, only

a continuation of the positive steps already taken will ensure that Argentina, as a country, will expand to fulfill its aspirations as a country fully integrated into the world economy.

VII. BIBLIOGRAPHY

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APPENDIX

Interview Schedule

Oct.31.95:	American Chamber of Commerce	Martin Porcell; Trade Specialist
Oct.13.95:	Bristol Myers-Squibb	Alejandro Bildasoso; Director of Operations
Oct.19.95:	Citibank	Ignacio Morello; Manager
Oct.20.95:	Federal Express	Horacio Gandini; Manager of Operations
Oct.13.95:	Clorox	Karin Hartman; Director of Marketing
Oct.18.95:	Dow Chemical	Jorge Zavaleta; Director of Operations
Aug.31.95:	Universidad Del Salvador	Dr. Pertitt Mustonen; Professor of Economics
Sep.26.95:	Circle Freight	Michael Robinson; Director of Operations
Oct.12.95:	Proctor & Gamble	Luis Alcazar; Director of Operations
Oct.9. 95:	Bs.As Herald	Scott Johnson; Financial Reporter
Sep.12.95:	3M	Philipe Sanchez; Director of South AM. Operations
Oct.9.95:	Bechtel	Albert Nelson; General Manager Operations
Oct.10.95:	Movicom	Steven Droll; Financial Director