

# **DEGREE THESIS**

**TUA VATANEN**

**Keys to doing successful  
business in Argentina for Finnish  
companies**

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<b>DEGREE THESIS</b>	
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<p>Abstract:</p> <p>The objective of this thesis is to highlight the vital points that a Finnish company has to take into account when planning to do business in Argentina. The Argentine market is challenging. Nevertheless, it is full of potential as well as rewarding possibilities for foreign companies if market entrance is done adequately.</p> <p>The theoretical part of the study discusses the topics of the Argentine market and international trade. The end of the chapter concentrates on discussing the importance and challenges of market entrance.</p> <p>The empirical part of the thesis was conducted by using a qualitative research method. The data was gathered by interviewing the representative of Finpro in Argentina as well as three Finnish companies that have experience of commerce with Argentina. The aim of these interviews was to gather as much background information as possible of the Argentine current business environment and international trade situation with Finland.</p> <p>The research results indicate that the implementation of a well-planned market entry strategy is crucial for successful business abroad, especially in countries such as Argentina where the cultural differences are important.</p>	
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# 1 INTRODUCTION

Latin America is a challenging continent in which to do business. Nevertheless, it can offer rich rewards for international companies ready to take the risk. Operating in the emerging markets demands the vigorous, ongoing assessment and management of risk. Risk remains ever-present and consequently, the rewards can also be great. The potential of Latin American economic markets is no longer ignored. North America, Asian and European firms maintain a significant presence in the region despite the volatility that characterises business in the region. This research study highlights the importance of these markets globally with a special focus on Argentina.

The author's interest towards the fascinating continent of South America comes from years studying Spanish and the Latin culture added to travelling in the region. After living and studying business in Buenos Aires, the author acknowledges the underrated potential of the Argentine market by European investors. Indeed, Argentina has for example the highest per-capita income among the main Latin American economies and its socio-economic indicators are among the top forty in the world, out of one hundred and seventy seven countries (UNDP Report of Human Development, 2007).

International trade is the exchange of goods and services across international boundaries. Internationalisation is assumed to play a more important role as a growth alternative in the firms, and it offers prospects, which could not be gained through domestic operations. Since Finland's own markets are relatively small, companies seeking growth are often incited to expand abroad. The internationalisation of a company is challenging and at times can be decisive on the future of the business.

The thesis aims to pinpoint the keys to doing successful business in Argentina for Finnish investors. It is illustrated through the example of Finnish companies present in Argentina. The research problem of this thesis is: What do Finnish investors have to take into account when planning on doing business in Argentina?

This thesis begins with the theoretical part that presents the Argentine business market with an economic outlook, international trade prospects and approaches to market entry. The empirical part of this research follows, it uses the qualitative method to investigate the research problem. The interviews of three Finnish companies present in Argentina and the Finpro representative of the country give a valuable insight to the business relations between Finland and Argentina and gathers current reliable information concerning the current business environment and international trade situation with between the two countries.

The main purpose of this thesis is to highlight the steps to be taken by a Finnish company when starting business in Argentina. This is why the study discusses the challenges that companies face as they enter the Argentine markets. Identifying these challenges can help Finnish companies to plan and implement their market entrance better and therefore have more opportunities of success.

## **2 THE ARGENTINE MARKET**

The Republic of Argentina is one of the most important sources of human and natural resources in Latin America. Indeed, Argentina is the second largest country in South America with a population of over 39 million inhabitants. On top of this, it is an extremely rich country in natural resources such as gold, silver, copper, iron ore, petroleum, natural gas and oil. Argentina is the fourth largest crude petroleum producer in Latin America, and possesses the third largest natural gas reserves. On top of this, Argentina is the fifth largest producer of wine in the world.

Argentina is one of the world's biggest agricultural producers: in 2006, the Argentine agriculture accounted for 11 % of gross domestic product (GDP) and one third of total exports. Gross domestic product is a basic measure of a country's economic performance that gives the total value of all final goods and services produced in a particular economy (United Nations, 2008). The Argentine market, which has become more solid after the major economic crisis that hit the country in 2001, attracts the interest of investors from all around the world. Indeed, it is the third largest market in Latin America with a gross domestic product of 338 billion US dollars, after Brazil and Mexico. The country's geographical position is also centrally located: it is situated in the Southern Cone of South America, bordering Bolivia, Paraguay and Brazil on the north, Brazil, Uruguay and the Atlantic Ocean on the east, Chile and the Atlantic Ocean on the south and Chile on the west. The country covers most of the southern portion of the South American continent and has an approximate triangular shape. Furthermore, Latin America has an incredibly strong commercial and trade advantage as it shares a common official language, Spanish (with exception of Brazil and French Guyana).





Figure 1: Map of South America ( [www.wonderlust.com](http://www.wonderlust.com)).

## 2.1 Country Facts

- **Full name:** Argentine Republic
- **Population:** 39.9 million
- **Capital:** Buenos Aires
- **Area:** 2.8 million square km
- **Form of government:** Democracy
- **Official language:** Spanish
- **Major religion:** Christianity (90 % Roman Catholic)
- **Life expectancy:** 72 years (men), 79 years (women)
- **Monetary unit:** 1 peso = 100 centavos
- **Main exports:** Food and live animals, mineral fuels, cereals, machinery
- **Gross national income per capita:** US \$6,050
- **Gross domestic product annual growth rate:** 8,7 %

Sources: United Nations & The World Bank, 2008

Argentina has the potential to be one of the richest countries in the region as well as in the world as it benefits from rich natural resources, a highly literate population, an export-oriented agricultural sector, and a diversified industrial base. Although Argentina was among one of the world's most developed countries and wealthiest countries in the early twentieth century, it has suffered from repeated political and economic instability, which culminated in 2001 with a nation-wide deep financial, economic and social crisis. Nevertheless, Argentina's economy has been growing at a fast pace since 2003 and has overcome one of the worst recessions in its modern history.

Thanks to very suitable lands for agricultural production, livestock, and mining, Argentina is a true agricultural power. Agribusiness is the basis of the Argentine economy and exports. Argentina is the second largest producer of agricultural commodities and livestock

after the United States of America. Indeed, it is an important exporter of wheat, soya beans and meat with a production of 100 million tons of food products and exports of more than 50 million tons. Although the imposed export taxes are around 30 %, the agribusiness remains modern and competitive worldwide.

### **2.1.1 Historical Background**

Unlike the people in other areas of Hispanic America, Argentines are mostly of European origin. Indeed, Immigrants from throughout Europe, but most particularly Italy and Spain heavily shaped the country's population and culture, which provided the largest percentage of newcomers the declaration of their independence from Spain, in 1816. In fact, up to 97% of the population is directly from European decent.

Up until about the mid twentieth century, much of Argentina's history was dominated by periods of internal political conflict between Federalists and Unitarians and between civilian and military factions. After World War II, an era of Peronist populism and direct and indirect military interference in subsequent governments was followed by a military junta that took power in 1976. Democracy returned in 1983 after a failed attempt to seize the Falkland Islands by force, and has persisted despite numerous challenges, the most noticeable of which was a severe economic crisis in 2001 that led to violent public protests and the resignation of several interim presidents. (World Factbook, 2009)

Argentina celebrated its 25<sup>th</sup> anniversary of the restoration of democracy in 2008. In this period, the democratic institutions and practices have taken strong roots and democracy has been established firmly. (Viswanathan, 2009)

### 2.1.2 The Economic Collapse

Domestic instability and global trends have contributed to Argentina's decline from its noteworthy position as the world's 10th wealthiest nation per capita in 1913 to the world's 36th wealthiest in 1998. In 1991 a fixed exchange rate was established between the peso and US dollar to alleviate hyperinflation. Although prices stabilised in the 1990s, foreign debt increased enormously and, because the market had been opened up to foreign imports, local industry collapsed. A severe depression, growing public and external indebtedness, and a bank run culminated in 2001 in the most serious economic, social, and political crisis in the country's turbulent history. (World Factbook, 2009)

The economic crisis, which evolved mainly over 1999-2002, saw Argentina's Gross Domestic Product fall by some 20 %. The recession was caused by a number of domestic and external factors, including the accumulation of public debt and a loss of external competitiveness. A financial crisis followed, leading to the world's largest debt default of 93 billion US dollars declared in December 2001 by Interim President Adolfo Rodríguez Saá who quickly resigned only a few days after taking office.

The economic situation became only more serious with a dramatic cut in investments, both domestic and foreign. The Argentine began to withdraw large sums of money from their bank accounts, turning pesos into dollars and sending them abroad, causing an increase of money heading away from national borders. In response, the government put in place a set of drastic measures known as the "*corralito*" that froze all bank accounts for twelve months, allowing for only minor sums of cash to be withdrawn. (World Factbook, 2009).

As stated in the World Trade Organisation's Trade Policy Review on Argentina (2007), a decree of 1<sup>st</sup> December 2001 imposed temporary restrictions. These concerned withdrawals of cash, which were limited to 250 US dollars a week, and temporarily prohibited transfers

abroad, except for those corresponding to foreign trade transactions, payments of expenses or withdrawals made abroad using credit or debit cards, or the cancellation of financial transactions.

In the midst of severe economic and political turmoil, in January 2002, President Eduardo Duhalde declared the abandonment of the fixed exchange rate (one-to-one basis of the Argentine peso-US dollar) after over a decade of being in place. This triggered a sharp devaluation of the peso and the exchange rate plunged. In a matter of days, the peso lost a large part of its value (about 70 % of its value in four months) in the unregulated market. Real gross domestic product fell by 10,9 %. (Silvy, 2007)

Consequently, inflation and unemployment rose to a record high. By the time the peso-dollar parity had climbed to nearly 4 pesos per dollar, the quality of life of the average Argentinean had lowered dramatically. Many businesses closed or went bankrupt, many imported products became virtually inaccessible, and salaries were not adjusted to the galloping devaluation. After the freezing of their bank accounts, the Argentines became desperate, with a sense of powerlessness over the decisions taken by politicians. Due to the end of the peso-dollar parity, earned dollars were transformed into pesos overnight, thus losing most of their value. As a result of the economic collapse, unrest was triggered. Demonstrations followed by violent protests and riots burst in Buenos Aires and other main cities of Argentina. Demonstrators often targeted the government, banks and multinational companies. The country was in chaos, consequently a state of emergency was pronounced. The economy reached a record low, with gross domestic product values sharply on decline and according to the World Bank, almost 60 % of Argentines under the poverty line. Within a few weeks, Argentina had five different presidents.

### 2.1.3 Post Crisis

In May 2003, left-wing Nestor Kirchner took office as the 52<sup>nd</sup> President of Argentina. In order to combat the crisis, the government introduced price restraints on businesses and higher export taxes. While inflation continued to rise, inflation data was understated by the Kirchner administration. (World Factbook, 2009) These controlling measures led to a slow revaluation of the peso, exports strengthened and money started to flow back into the country. By 2006, the Government paid off the entire International Monetary Fund external debt of 9,6 billion US dollars. This reduced the debt/gross domestic product ratio to below 65 %. (Silvy, 2007)

After the crisis, Argentina experienced an outstanding economic recovery. The change in relative prices and the consequent expansion of output and exports of goods and services as a result of currency flotation made it possible to reverse the economic cycle. Consequently, a growth process began which lasted since the second half of 2002 until the end of 2008. The expansion of world demand for agricultural and agri-industrial products was a factor that contributed to supplement domestic policies thus favouring a strong increase in exports. The accumulated annual growth rate for the 2003-2007 period was 8,8 %. As a result of this remarkable growth, gross domestic product in the second quarter of 2008 was 49,6 % higher than in 2001 and 31,1 % higher than the historic record of the last decade reached in 1998. (CEI, 2008)

Current President Cristina Fernandez de Kirchner succeeded to her husband and became the country's first elected female president in December 2007. Faries (2009) states that after repeatedly clashing with the country's powerful soya bean farmers, whose crops are the country's biggest source of export revenue, her popularity has been low. On top of this, the Senate rejected her controversial plan to raise tax regime on soya bean exports in July 2008. Mrs Fernández de Kirchner nevertheless repeatedly says that she is determined to open up Argentina to the rest of the world.

## **2.1.4 Trade and Investment Policies**

No major changes to Argentina's basic legal framework have occurred since 1999. However, emergency measures adopted in the context of the economic crisis were introduced to the judiciary branch. These measures allowed the President power to fix prices and intervene in the economy when seen necessary.

Argentina is an original member of the World Trade Organisation (WTO) and an active participant in the multilateral trading system. The main area of interest for Argentina is agriculture, although it also gives high priority to the negotiations on services, market access for non-agricultural products, special and differential treatment for developing countries, and the reduction of barriers to the trade of environmental goods and services (Silvy, 2007). According to the WTO's Trade Policy Review of 2007, Argentina has made several notifications to the WTO. Argentina has been an active user of the WTO's dispute settlement mechanism during the period under review, appearing in nine cases as complainant, in sixteen cases as respondent (nine concerning contingency measures) and in fifteen cases as third party.

Within its obligations as member of the Southern Common Market (Mercosur), Argentina follows an independent foreign trade policy with Brazil, Paraguay, Uruguay and Venezuela. On top of this, Argentina has made several agreements with other Latin American Integration Association members, the most comprehensive of which, as regards product coverage, are those with Mexico and the Andean Community, such as Bolivia and Peru. (Silvy, 2007)

Since the end of its economic crisis, the Argentine government has struggled to maintain an open foreign investment regime. Accordingly, foreign participation is restricted in fishing, domestic transport, the acquisition of real estate in security areas, and weapons and

ammunition. Furthermore, in 2003, legislation was adopted restricting foreign participation in certain media communication activities. Nevertheless, foreign investment is not subject to prior authorisation and receives national treatment. Indeed, Foreign investors have the right to repatriate their investment and profits, and may benefit from a number of incentives granted at both the federal and provincial levels, as domestic investors do. As underlined in the World Trade Organisation's trade policy review, although foreign investment flows into Argentina have recovered since the crisis, enhancing investor confidence will be important to attract the investment necessary to sustain economic growth.

## **2.2 Emerging Latin Markets**

The Latin Markets differ considerably from the typical new emerging markets in the rest of the world. Due to a rich historical past, heterogeneous populations and strong traditional customs and values that are nevertheless evolving towards more global customer behaviour, there are many challenges and barriers for a European company to overcome when considering entering the Latin Market.

During the last decades Latin America, as the rest of the world, has gone through a process of increased commercial openness and due to the commodities price boom of the last years the region has grown significantly. Companies cope with the increase in competition resulting from the greater openness by refining their management practices in the different management areas: marketing, finance, information technology and strategy. (Brenes, Haar & Requena, 2008)

What are the particularities of Latin markets in segmentation, positioning, branding and market aggregation that a European company should consider when entering a Latin market?



### **2.2.1 Segmentation**

Market segmentation can be defined as the process of dividing a total market into several relatively homogeneous groups. Both profit and non-profit seeking organisations use market segmentation in order to help them reach desirable target markets. Robles, Simon & Haar (2003) believe that the basic criteria for market segmentation is that the segment must be a measurable group, it must be accessible for communications and that it must be large enough to offer profit potential. These three points help a company in reaching its' goals. However, marketers segment their target markets in various ways depending on whether their firms offer consumer or business products.

For a European company that wishes to expand its' operations to the Latin markets, it is essential that all different stages and phases of the operation are previously well planned. This may include co operating with a trustful local agent or contact, researching the market carefully through for example the household consumption patterns. The Latin population varies in form from a country to the other with a diverse social structure, considering the purchasing power and age of the population. (Robles et al. 2003)

Due to the wide mosaic of different cultures, people, languages, buying power and patterns within Latin America, it is preferable for companies wishing to do business within that area of the world to focus and enter national markets on one at a time. Nowadays, it is not enough for a foreign company to carry out the market segmentation through the conventional approach, that is the socio-economic division. Due to the complexity and heterogeneity of the Latin American society, different indicators and characteristics of the population should be taken into account for a higher chance of success. The five traditional social categories defined by the Gallup organisation, (upper class, emerging elite, middle

class, working class and extreme poverty) should be combined with the degree of education and profession according to Robles et al. (2003).

Furthermore, the consumer's lifestyle and level of acculturation for the Latino population living in the United States should also be considered when defining a market segment goal. Finding own segments for each Latin American country is also preferable due to the rich socio-economic, income, lifestyle, language and culture differences within the region.

### **2.2.2 Positioning**

Within marketing management, each company must have a clearly defined idea of how its' products will differentiate from the rest available on the market. Marketers often develop promotional strategies to differentiate their firms' goods and services from those of competitors. Through positioning, each company wants to establish their own places in the minds of customers. In other words, a new firm entering the Latin markets should be able to communicate to potential customers meaningful distinctions about the attributes, price, quality or the use of a good or service. The aim of such a strategy is to be able to enter and remain on the market with a strong foothold and increase sales by reaching potential customers.

Reforms carried throughout Latin America, have modernised drastically the Latin economies, allowing the population to increase their buying power and being quite demanding when it comes to the price-quality ratio of their purchases. The key word that applies in these markets is consumer value. Indeed, consumers await a certain level of satisfaction from a given product or service in accordance with its price. It has been clearly noticed that the economic value added with personal and social values have a great impact on the consumer behaviour. (Robles et al. 2003).

Currently, a European company wishing to operate in Latin America should in addition to the traditional positioning approach that focuses on the strongest segment take into consideration all consumer categories. Through aiming at the middle class, different levels of categories can be reached if the consumer value is believed to be the most competitive on the market. Quality is an aspect not to be neglected, as the Latin consumers tend to carry increasingly more importance to this characteristic simultaneously as the purchasing power rises. Another emerging positioning approach is for the company to be able to fulfil the value expectations of its customers by specialising in the opposite segments: the high and low end of the market. These are the main positioning recommendations for any new company entering a Latin market to focus on.

### **2.2.3 Branding and Market Aggregation**

In the economic uncertainty of the Latin countries, a key strategy in order to remain successful despite fluctuations is to create strong branding. Branding is the process of creating an identity in consumers' minds for a good, service, or company, providing one tool for marketing oriented companies. This should guarantee that the customers would recognise and continue to buy certain products under a brand name. Global and local brands complete each other on the market. Therefore, the consumer knows that the purchase made will fulfil his/her placed expectations. Once again, product differentiation plays an essential role, as it will allow the consumer to recognise and remember the brand as well as its role, value and position.

The Latin American consumers have specific objectives in view when spending their buying power. The main preferences searched by the consumers are competitive economic value, transparency and a sense of community. These points show that the Latin American society's traditional values are become more and more western, according to the global

market behaviour. The brands that have the highest rate of success are the ones that are close to the population. Latin consumers appreciate the simplicity and benefits of products and services that they can purchase at an interesting price-quality ratio. Furthermore, global brands have noticed that involvement at a local level is a vital factor for success (by for example establishing a local unit in one of the Latin countries to direct its' operations).

Latin customers are not willing to spend their money on foreign, unknown products in which they do not believe to find any true value, even if the product in question has had huge success in other markets abroad. The brand must have a certain level of credibility in the consumers' eyes in order to pierce through the Latin markets. For a European company entering a new market, it would be wise to start business operations in strong, urban markets in order to make the name known before expanding to the interior, less urban part of the country.

The marketing environment in Argentina is a reflecting example: Even though Argentina is one of the world's biggest agricultural producers, only 10 % of the population is considered rural. Nearly a third of the population lives in the Buenos Aires metropolitan area. Only two other cities have more than 1 million inhabitants: Cordoba and Rosario City. It is recommended to include a selection of inland cities in market research due to some cultural, socioeconomic and consumption differences compared to the larger cities.

The consumer's constant search for the best value keeps the company's prices low as to remain competitive and fight for a stronger share of the market. Long term business to customer relationships should be the goal of any entering company into the Latin American markets. Realistic goals due to the fragile economy of Latin America must however be taken into account while, simultaneously, proving a true commitment to the market.

## **2.3 Economic Outlook**

Since the implementation of the new economic model, based on a competitive and stable exchange rate, surplus public and external accounts and the appropriate management of monetary policy, the economy has experienced great dynamism. For the time being, Argentina has successfully been able to avoid any major negative impacts of the global financial crisis. Despite the crisis and external shocks, the Argentine financial institutions have remained strong and the economy has not gone into recession.

### **2.3.1 Economic Development**

Argentina's economic growth is supported by attractive and competitive resources which combine a pool of talented people, abundant natural resources, a wealth of culture and significant entrepreneurial and business skills. Indeed, after years of fast growth (averaging approximately 9 % during 2003-2005), the GDP has recovered to, and in fact surpassed, the pre-crisis peak of 1998. Economic activity recovery is also reflected in the labour market, where employment indicators continued to improve. As noted in table 1, by late 2008, the unemployment rate had reached 7,3 %. It had not been as low since October 1992, being the lowest rate in the last 16 years. According to the National Institute of Statistics and Censuses, the greater number of people employed together with the recovery of salaries enabled a gradual reduction in poverty levels, from 54 % of the total population in 2003, to 17.8 % in June 2008 (CEI, 2008). The economic growth has been continuous also as a result of the rising international prices, an expanding export capacity and a competitive real exchange rate. These key factors led the export level to reach 70.6 billion US dollars in 2007. (Table 1)

Table 1: Main Macroeconomic Variables in Argentina (Ministry of Economy & CEI – Centre for International Economy).

## Economic Outlook

Variable		Year				
		2005	2006	2007	2008	2009
GDP	real % change	9.2	8.5	8.7	7.0	1.6
Consumption	real % change	8.9	7.8	9.0	7.3	2.0
Gross Domestic Fixed Investment	real % change	22.7	18.2	13.6	11.8	2.0
Exports	billions of USD	40.4	46.5	55.8	70.6	60.7
Imports	billions of USD	28.7	34.2	44.7	57.4	53.6
Trade balance	billions of USD	11.7	12.3	11.1	13.2	7.2
Current Account Balance	GDP %	2.8	3.6	2.8	2.3	0.9
International Reserves <sup>1</sup>	billions of USD	28.1	32.0	46.2	46.4	47.4
Consumer prices	% change (Dec/Dec)	12.3	9.8	8.5	7.2	8.4
Nominal exchange rate <sup>2</sup>	ARS per USD	3.02	3.06	3.15	3.43	3.84
CPS Primary Balance <sup>3</sup>	GDP %	3.7	3.5	3.2	3.4	3.1
Unemployment rate <sup>4</sup>	% EAP <sup>5</sup>	10.1	8.7	7.5	7.3	8.7

<sup>1</sup> Year-end value

<sup>2</sup> Average in December

<sup>3</sup> Consolidated Public Sector (CPS): national, provincial and municipal governments

<sup>4</sup> Values in the 4<sup>th</sup> quarter

<sup>5</sup> EAP: Economically Active Population

Estimated values

Source: CEI based on Ministry of Economy and INDEC. Estimated values correspond to the Argentine Central Bank (BCRA) Market Expectations Survey (REM), updated as of January 2009.

According to Mitchell (2008), as Argentina is a strong agricultural power, it is in the position to be able to benefit from worldwide structural changes. In fact, due to the economic rise of India and China, the top export products of Argentina such as soft commodity (as coffee, cocoa, sugar, corn, wheat, soya bean and fruit) and raw material prices have remained at a record high level. Measured in US dollars, the country's production of soya bean leapt by 72 % a year between 2001 and 2006, while Chinese demand for it rose by 165 % annually over the same period. As one of the countries in the world with the most available agricultural land - combined with a low population density of

14 persons per square kilometre- Argentina faces several opportunities as an agricultural mega-power.

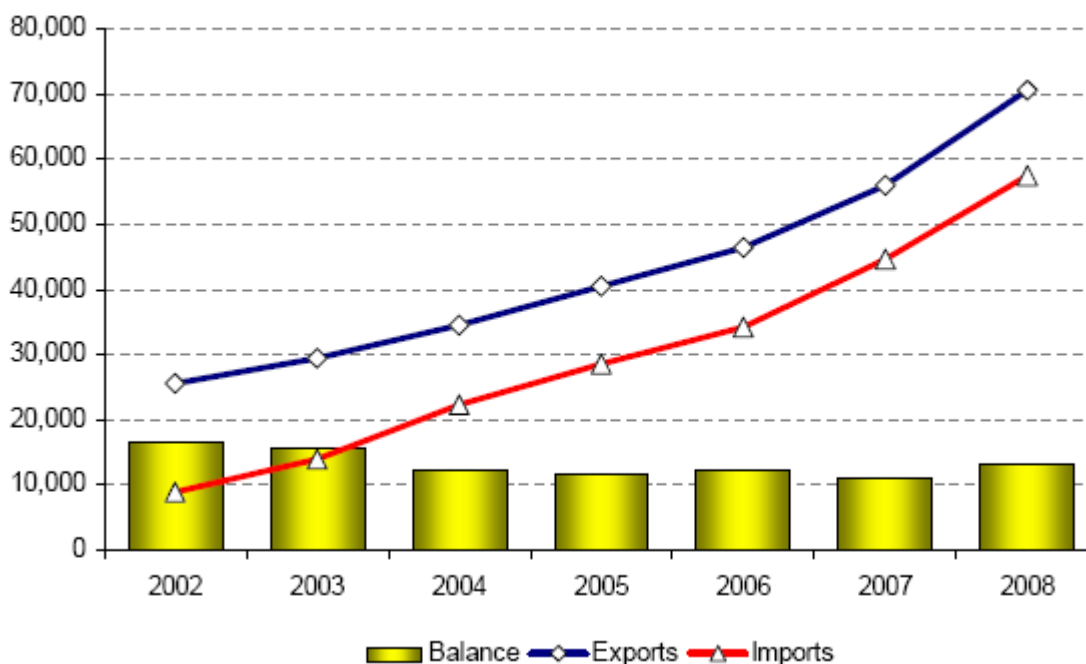
Nevertheless, as stated in the World Bank's analysis, the Argentine government faces important political and social challenges, including restoring citizen trust in governance. There is a notable consensus of findings from public surveys and analytic studies undertaken by domestic and international organisations indicating the degree to which the crisis undermined confidence in public institutions. (Guerson et al. 2007)

### **2.3.2 Export Growth**

During four consecutive years, from 2003 to 2007, Argentina boosted the second fastest-growing economy of Latin America. On top of this, foreign direct investment has shown a significant recovery since 2004. According to the International Monetary Fund, the Argentine economy experienced 21 quarters of positive economy growth, which averaged 8,5 %. This was mainly led by a revival in domestic demand, solid exports, an increase in international tourism and favourable external conditions. During the same time period, only a few emerging economies, including China, India and Qatar, grew more rapidly than Argentina, making it one of the world's fastest growing economies.

Starting in 2003, Argentina enjoyed five years of strong economic growth averaging 8,2 % annually. Many sectors, primarily agriculture but also tourism, services, mining and construction are going strong. In fact, within the past decade, Argentina opened up to the world economy. Indeed, the total imports and exports together amounted to 22 % of gross domestic product in 2006 compared with 11 % in 1998. (Silvy, 2007 )

**Evolution of Argentine Foreign Trade**  
In millions of USD

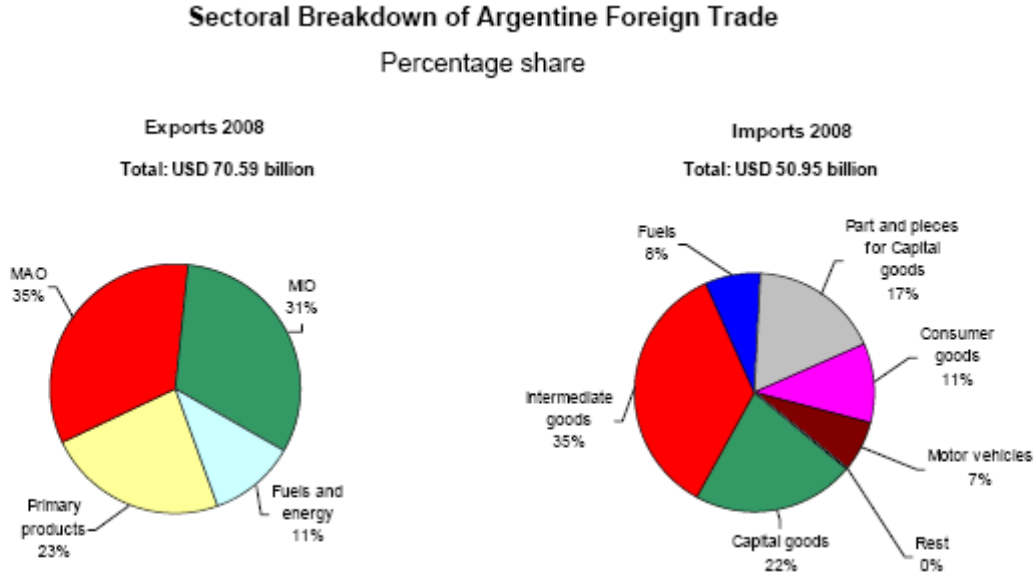


*Figure 2: Evolution of Argentine Foreign Trade 2002-2008 (Centre for International Economy).*

The economic growth has been continuous also as a result of the rising international prices, an expanding export capacity and a competitive real exchange rate. These key factors led the export level to reach 70,6 billion US dollars in 2008, as noted in figure 2. In recent years, the performance of Argentine exports has been particularly strong. This improvement was accompanied by a drastic change in relative prices following upon the currency devaluation in 2002 which has greatly improved the competitiveness of Argentine exports overall. The exports grew not only thanks to traditional primary commodities, but also Argentine exports of manufactures (such as automobiles, food and beverages, and design manufactures) and value added services (such as information technologies, professional consultancy and tourism).



Argentine exports include several high-income industrial products, especially in such product groups as motor vehicles, chemicals, metals and pipes (Figure 3). However, high-income exports are not limited to industrial products. They also include less-processed products and also primary products such as wheat, malt extract, and dairy products among others. Given the current structure of Argentine exports, the products with the best prospects include chemical products as well as primary products with some degree of value added, as partly processed meat, fish and grains. (Guerson, Parks & Torrado, 2007).



*Figure 3: Sectoral Breakdown of Argentine Foreign Trade in 2008 (Centre for International Economy).*

Between 2002 and 2008, exports recorded a 173 % increase, reaching 70.6 billion US. According to the Centre for International Economy’s Argentine Economic Review of 2008, there was a strong increase in industrial manufactures, boosted by motor vehicles and parts and accessories exports mainly sent to Brazil and Mexico. However, agricultural

manufactures were those that grew the most, driven by higher exports of oils, mainly soya bean oil to China and India as well as sunflower oil to the European Union and South Africa.

In 2008, the economy slowed down for the first time to an estimated 7 % growth. Due to the global financial crisis, economic recession in developed markets and the fall in demand and price for the commodities exported by Argentina, the economic growth is estimated to slow down to 3,5 % in 2009. However, according to the latest economic activity monthly estimate released by the National Statistics Institute, the Argentine economy grew by 2,3 % in January 2009 compared with the same month of 2008. In comparison with December 2008, January's economic activity monthly estimate showed a growth of 0,9 %. Furthermore, unemployment has been reduced from over 20 % in 2001 to around 8,7 %.

### **2.3.3 Global Turmoil**

The present global economic crisis, with an epicentre in the United States, Europe and Japan, has a negative impact both on developed countries, many of which have entered recession, and on developing and emerging countries. So far, the impact on Argentina can be seen in the deceleration of the growth rate. Consequently, after a gross domestic product growth of over 8 % on average between 2003 and 2008, estimates for 2009 indicate an increase that would not be higher than the 4 %.

The global financial turmoil that has had serious repercussions on the worldwide economy also faces a challenge to the Argentine government. Although Argentina has managed to avoid any major problems due to the crisis, the extremely favourable international conditions that the country had enjoyed until recently are no longer met. Following the recent trend of international prices of the main export products Argentina, like the rest of its trade partners, could see a fall in its exports during 2009. However, the trade balance

should continue to show a positive result, though lower than that recorded in 2008. (Argentine Economy Review, 2008)

However, unlike during the previous crisis that hit Argentina, this time, the country shows less vulnerability as it has a more solid fiscal and external position, less public debt, a more flexible framework of monetary and exchange policies, a substantial stock of international reserves and a strengthened productive network. These factors do not necessarily imply that Argentina can isolate itself from the global turmoil but it does nevertheless assure that the country is in a firm position to face the external upset. The Argentine Economy Review also highlights that the impact of the world financial and economic crisis on Argentina's and Latin America's main trade partners is a crucial factor determining the future evolution of Argentine exports. Particularly of industrial manufactures, since the markets of the region account for two-thirds of Argentine exports of these products. In addition, the strong reduction in credit worldwide results in scarce and more costly funding for both governments and businesses. Greater difficulties to access voluntary credit markets could deepen the impact of the international crisis on investment performance in Argentina's private sector.

A high priority issue currently being tackled by the Argentine government is the rising inflation. Although the official inflation rate is 9 % there is a widespread consensus that it was over 20 % in 2008. Although the government is publicly committed to bring it down, private analysts have estimated the 2009 inflation rate from 18 to 20 %.

## **3 INTERNATIONAL TRADE**

International trade is the exchange of goods and services across international boundaries. International trade has been a major driver of global growth and prosperity over the last decades. As trade has expanded, global incomes have grown. Open economies have been able to use the power of trade to increase competitiveness and productivity, helping to improve living standards and sustain economic growth.

Internationalisation is a decisive and challenging task for companies. Internationalisation, or in other words expanding abroad, usually is the following step for companies that wish to increase their profit or market share. Other main motivations may be tax benefits or competitive pressure. Internationalisation is assumed to play a more important role as a growth alternative in firms and it offers prospects, which could not be possible through domestic operations alone.

### **3.1 Investing in Argentina**

#### **3.1.1 Dynamic Markets**

Argentina is one of the most important sources of natural and human resources in Latin America. In terms of purchasing power, the Argentine per capita income is among the highest in Latin America, approximately 4,300 US dollars. About 40 % of Argentines at the top of the economic scale have per capita incomes, which, according to the Economic Commission for Latin America and the Caribbean, are comparable to European incomes in terms of purchasing power. (Butler, 2007)

According to the Argentine National Investment Development Agency, with mission to encourage foreign and national investment for Argentina's competitiveness and sustainable development, the ten main reasons why to invest in the country are:

1. Sustained Economic Growth
2. Attractive Business Profitability
3. A globally and regionally integrated economy
4. A Diversified Economy
5. Skilled and Talented Human Resources
6. Abundant and Diverse Natural Resources
7. Remarkable Quality of Life
8. A Vibrant Culture
9. Quality Connectivity and Extensive Infrastructure
10. Public Sector Supportive of Investment

The wave of privatisation and the opening of the economy to foreign investment in the early 1990's have attracted especially European companies to Argentina. Actually, nowadays Spain is the largest foreign investor in Argentina. On top of this, education is highly valued in Argentine society. The Argentine National Council of Education sets a standard curriculum that is followed by schools throughout the country, because it is believed that a national education system promotes unity. Likewise, Argentina has one of the highest rates of university enrolment in the world. Consequently, it is no surprise that labour is comparable in skills and aptitudes with that of most developed countries,

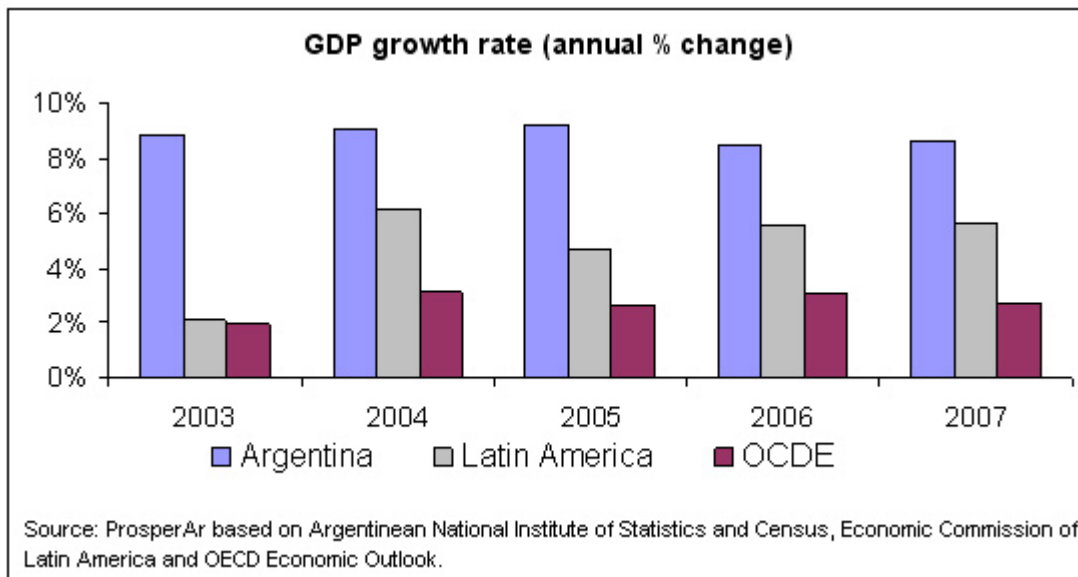
especially at technical and professional levels. With more than two million university graduated professionals, Argentina offers a large, well-educated and skilled labour force.

Argentina has neither terrorist groups, drug trafficking gangs or organised crime activities registered nor differences between religious or ethnic groups that could affect the institutional and economic life or the security of the country. Added to a good quality of life (Argentina ranks among the ten best countries according to the 2007 quality of life index prepared by the specialised publication International Living) and a preferred international tourism destination, it makes Argentina an attractive site for multinational companies.

### **3.1.2 Trade Opportunities**

Argentina's strong economic performance makes it one of the fastest growing economies in the world and well above all other Latin American economies (Figure 4). The highest per-capita income among the main Latin American economies combined together with a diverse economy integrated into the rest of the world makes Argentina a country with socio-economic indicators higher than the regional average. Argentina's standard of living is depicted in the wide array of schools and universities that combine international prestige with affordable fees giving, as a result, a highly qualified workforce.

The unemployment rate of 7,8 % (September 2008, The World Factbook) is currently at the lowest point of the past fifteen years and unlike previous growth cycles, Argentina shows a real fiscal and current account surplus (3.2 % and 2.8 % of GDP, respectively). Furthermore, the Central Bank's foreign exchange reserves remain at an exceptional level (46.2 billion US dollars at the end of 2007).



*Figure 4: Gross Domestic Product Growth Rate 2003-2007 (Argentinean National Institute of Statistics and Census).*

Argentina is a member of the World Trade Organization. Accordingly, it has adopted, among other basic principles, the GATT (General Agreement on Tariffs and Trade) value code, which establishes the valuation guidelines for importing goods. Argentina's wide range of natural resources includes large energy reserves and results in a varied manufacturing development that relies on its long industrial and entrepreneurial tradition. Furthermore, as a member of the common market of the south, Argentina has an easy access to a market of nearly 400 million consumers. Argentina currently possesses a favourable environment in which foreign investors may seek new business opportunities. In comparison to its neighbouring Mercosur countries, Argentina represents a new, reformed and stable economic model. (Prosperar, 2008)

Since January 1995, Mercosur, which originates from the words “Mercado Común del Cono Sur”, that is the Common Market of the South, is South America's leading trading bloc. Argentina, along with Brazil, Paraguay and Uruguay, formed the customs union

improving free-trade zone covering almost 12 million square kilometres, with a population of around 241 million inhabitants and an estimated GDP of 2,040 billion US dollars. It aims to gather the free movement of goods, capital, services and people among its member states. Thus, imported goods originating in any of the member countries are subject to 0 % import duty.

The largest economy of the Mercosur is currently Brazil's, with a current GDP of 1,665 billion US dollars and an estimated population of 192 million inhabitants. Argentina comes in second with a current GDP of 332 billion US dollars. In 2006, Venezuela also joined the Mercosur. Bolivia, Chile, Colombia, Ecuador and Peru are associate members. Accordingly, they can join free-trade agreements but remain outside the bloc's customs union.

*Table 2: Main Trade Partners of Argentina in First Half of 2008 (Study Centre for Production, Argentine Ministry of Economy).*

Main Partners - First Half of 2008

Export Countries	%	Import Origin	%
Mercosur	22	Mercosur	36
Brazil	19	Brazil	32
European Union	20	European Union	16
NAFTA	10	NAFTA	15
China	9	China	12
Chile	7	Japan	2

As seen in table 2, Argentina's main trade partner both in export and import is the Mercosur (with Brazil, by far the main individual country). In second place, comes the European Union thanks to trade agreements and respectively diverse markets. Indeed, trade relations with the European Union are of great importance to Argentina. Historically,



Europe is one of Argentina's main trade partners, both in terms of the origin of imports as well as in terms of the destination of sales, which points to the high degree of complementarity existing between the production structures of both regions. (CEI, 2008)

The North American Free Trade Agreement (NAFTA) countries that include the United States, Canada, and Mexico, also enjoy a stable hold as a trade partner of Argentina. Trade opportunities in Argentina will most likely rise in the coming years, as more negotiations will be carried out, concerning trade both at the regional (Free Trade Area of the Americas and MERCOSUR-EU) and international level (WTO).

### **3.1.3 Foreign Direct Investments**

According to the United Nations Conference on Trade and Development, the flow of Foreign Direct Investment in the world has apparently fallen 10 % in 2008, after the economic imbalances in the United States. Developed countries are apparently the ones to have suffered most in this new scenario, while in developing or emerging economies, investment projects have remained fairly stable. Foreign Direct Investment in Argentina has recovered after the 2001 economic crisis, which forced investors to flee the country, and is currently above the average of the nineties, net of privatisation. In this context, Argentina has transitioned from a foreign-financed, consumption-driven model, to a high-saving, high-investment model.

Argentina offers a favourable political and institutional framework for foreign investment. Indeed, foreign direct investments in Argentina are widely protected by domestic law and by bilateral investment protection treaties. Actually, foreign investors enjoy the same rights and undertake the same duties as domestic investors when investing in financial or productive activities. Generally, Argentine law does not set any restrictions or prohibitions on foreign investments. They are not subject to prior government approval beyond those

applicable to any domestic or foreign investor in each activity. The “Foreign Investment Law” (enacted in 1976) was amended several times for the purpose of liberalising and deregulating investments.

The Foreign Investment Law guarantees that foreign investors shall be treated as local investors, provided they invest in productive activities such as industrial, mining, agricultural, commercial, service or financial activities, or any other activities related to the production or exchange of goods or services. (Maronna, 2007)

Under the Foreign Investment Law, investments may be made in:

- foreign currency
- capital assets
- profits from other investments
- repatriable capital resulting from other investments made in the country
- capitalisation of foreign credits
- certain intangible assets
- other forms acceptable to the foreign investment authorities or contemplated by special legislation

In addition, foreign investors may:

- Transfer liquid and realised gains from their investments abroad, as well as repatriate their investments
- Use any of the legal organisational forms provided by national laws
- Use domestic credit with the same rights and under the same conditions than local companies owned by nationals

In addition, Argentina has eighteen treaties in effect with different countries, including Finland, in order to avoid double taxation internationally and as a result, encourage reciprocal investment and trade. In general, the treaties ratified by Argentina are applied to taxes on income or revenue, shareholders' equity, and potential benefits. In this sense, the double taxation treaty prevails over the income tax law.

The international double taxation treaties are signed in order to avoid superposition of taxes among residents in two or more different partner countries on the same taxable issue. Thus, it is intended to soften the tax burden on the taxable issue in a transaction between two residents in different partner countries. For example, under the double taxation treaty, income tax rates concerning Finland are 10 or 15 % for dividends, 3 to 15 % for royalties and 0 or 15 % for interest. (Maronna, 2007)

In 2006, the investment promotion system was strengthened by the increase in the budget and in the operating structure of the Investment Development Agency. In 2007, Argentina received 5.72 billion US dollars in direct foreign investment. It is worth noting that in the last few years, Argentina has received more and more investments in service centres that form part of the production networks of transnational companies, in segments such as television content, design and research centres, accounting, administration, and IT and software development services. The steel industry was one of the main sectors receiving investments in 2007.

### **3.2 Foreign Market Entry**

Companies that wish to conduct business abroad take up the challenge of entrance to international markets. It is increasingly difficult for companies to follow only one preferred mode of operation in foreign markets through time. Not only are external environmental

factors likely to induce changes, but the internal capacity of a company to perform in different ways, as internationalisation proceeds, is likely to be affected by such aspects as growing international experience and knowledge and staff changes. (Luostarinen & Welch, 1990)

In the case of Argentina, multinational companies weigh whether to invest in the country again or for the first time. It is true that the country must address a number of important issues in order to make the market attractive enough for investors: Argentina suffers from inflation estimated at 20 %, an interfering state, corruption, infrastructure problems, energy shortages, illiquid capital markets, poverty, and weak institutions.

### **3.2.1 Market Entry Methods**

It is a common practice that companies operate in a niche market within a country without ever expanding into new markets. However, in order to achieve increased sales, brand awareness and business stability, companies often decide to enter new markets. Developing a market entry strategy involves a thorough analysis of how foreign markets operate, and of potential competitors as well as possible customers. In order to be successful, companies must be able to adapt to the new environment.

There are several methods of international market entry that can be listed:

- Export operations (directly or indirectly). There are two ways to export. Companies can either selling products or services directly to an international company or customer, or indirectly by using an export intermediary. These include commissioned agents, distributors and export management or trading companies
- Licensing operations

- Franchising operations
- Management contract operations
- Manufacturing abroad
- Joint venture

A joint venture with a readily established business in Argentina may be the most effective way to gain market entry. Indeed, the other company already knows the target market, with a distribution framework in place and less capital required. International joint ventures are often accomplished through licensing or offshore production, which requires either establishing a facility or subcontracting the manufacturing of products.

### **3.2.2 Forms of Businesses**

The seven different types of business associations covered by Argentine Business Associations Law are:

- Stock corporation (sociedad anónima), either publicly or closely-held
- Limited liability company (sociedad de responsabilidad limitada)
- Company in which the Government is the majority shareholder
- Limited partnership (sociedad en comandita), either Stock or Non-stock limited
- General partnership (sociedad colectiva)
- Partnership in which one of the partners provides the capital and the other the services
- Branch office of a foreign corporation

The most common forms of business associations used by foreign investors in Argentina are the stock corporations and, to a lesser extent, local branches of foreign companies. The main characteristics of both are described as follows:

In a stock corporation, shares of stock represent the capital. Shares must be registered and non-endorsable. Moreover, there must be at least two shareholders and their liability is limited to the capital contributed by them. On the other hand, to be able to legally do business, branch offices of foreign corporations must prove the existence of their head offices abroad, register the articles of association or bylaws with the Registry of Public Commerce, and appoint and register representatives. Additionally, branches are subject to constant control by the governmental corporate control agency and are required to fulfill the same requirements, as those required of stock corporations. Branches are also required to keep books separately from those of their head offices and to present financial statements to the corporate oversight agency. (Pistrelli & Martin, 2008)

### **3.2.3 Trade Barriers**

Although internationalisation offers great advantages for companies, it also includes a great amount of risk. Indeed, different trade policies are used in order to hinder international trade and as a result, encourage protectionism through trade barriers. Both tariff and non-tariff barriers are widely used among nations worldwide.

The main trade barriers identified by the Ministry for Foreign Affairs of Finland (Survey of trade barriers, 2008) are:

### 1. Customs tariffs related to export and import

Highly restrictive and discriminatory duty levels, tariff quotas used as a trade barrier, temporary duty increases, export and import levies and other export or import related mandatory levies.

### 2. Anti-dumping duties, countervailing duties and safeguard measures in export and import

Anti-dumping and countervailing duties, safeguard measures, price undertakings and equivalent actions.

### 3. Customs proceedings in export and import

Such as inconsistent or constantly changing customs clearance practices, slow customs handling, unclarity of customs classifications or their inconsistent usage, demand of extra documents or alteration of documents, special measures, such as negative repercussion of anti-terrorism measures in trade procedures.

### 4. Taxation, fiscal legislation and other additional fees

Taxes (such as tax at source, luxury tax, value added tax) or similar fees other than duties and import levies, which discriminate foreign companies or products manufactured by them in favour of national companies.

### 5. Quantitative restrictions and licensing

Such as import or export bans and quotas, licensing requirements and requirements concerning surveillance documents, import or export monopolies, exclusive rights, needs test.

### 6. Technical Barriers to Trade

Technical regulations, standards and conformity assessment procedures which discriminate imports, are exceptionally heavy or differ from internationally accepted requirements or practices.

## 7. Industrial property rights and copyrights

For example problems and shortcomings in the legislation on copyrights, trademarks, patents and industrial design.

## 8. Public Procurement

Discrimination in tendering organised by a public sector or a comparable entity, such as insufficient information provision, favouring domestic companies or other factors that prevent or hinder participation in tendering.

## 9. Competition environment

Such as insufficient or changing competition legislation, monopolies, cartels, discriminatory trade and distribution channel networks, competition-distorting subsidies to domestic companies.

## 10. Questions concerning the company's judicial position

In other words requirements on company form or ownership, restrictions on foreign ownership, demands of joint venture, acquisition of licences.

## 11. Entrepreneurship related problems

Such as availability of credits, insurance, guarantees or services, requirements on accounting and audit; conduct of agents and business associates and functioning of distribution networks, availability of information about markets and trade practices.

## 12. Business environment of the target country

Corruption, uncertainty of economic, political and social stability of the target country, insufficient legislation and infrastructure (for example uncertainty of ownership, underdeveloped transport and communication networks or waste management).



### 13. Movement of persons

For instance obtaining of visas or residence and work permits, requirements concerning degrees and qualifications, domicile or usage of local experts, factors concerning employment conditions and working conditions.

### 4. Capital movements and current transactions

Regulations relating to transfer of funds, such as repatriation of profits, delays in payments caused by authorities.

### 15. Other problems

Essentially obligations to use domestic raw materials and input in production, export obligations in order to gain certain investment or import benefits, availability of credits, insurance, guarantees of services, requirements on accounting and audit, conduct of business associates and functioning of distribution networks, availability of information about markets and trade practices.

To illustrate the several types of trade barriers, Argentina has been using at least quantitative restrictions and licensing (fifth point on the list). Indeed, since January 2009, Argentina imposed restrictions on tyre imports. A specific license is needed to import tyres into the country. The license is the obstacle of free trade as it is difficult to get. This restriction is due to the local manufacturer lobby and the new tendency of the government to protect local industries in times of global crisis. Furthermore, since March 2009, Argentina has imposed other import restrictions on products such as textile items. In some cases, minimum import prices have been fixed or licensing has been made mandatory. Imports are discouraged with deliberate delays in receiving licenses from the government that only a few companies are allowed. (Viswanathan, 2009)

## **4 RESEARCH METHODOLOGY**

### **4.1 Qualitative versus Quantitative Research**

Research methodology can either be qualitative, quantitative or a combination of both (Figure 5). The chosen research method for gathering empirical material in this study was a qualitative method. The main characteristic of a good qualitative purpose statement is that it implies or expresses the assumptions of the qualitative paradigm based on experiences of individuals in a natural setting. Researchers use this approach in order to explore the behaviour, perspectives and experiences of the people studied. The basis of qualitative research lies in the interpretative approach to social reality where data is verbal or visual and it aims to provide insight and understanding of the given phenomena. (Creswell, 1994)

In quantitative research, data is quantified and statistical methods are used in the data analysis. It aims to give results that are representative to the whole population. Quantitative research produces numbers and figures such as numbers and percentages of the proposed variables. The quantitative method makes a clear distinction between the different stages of data collection, preparation and analysis, whereas the qualitative method does not. Nevertheless, qualitative and quantitative data are related to each other. Actually, all quantitative data is based upon qualitative judgements and all qualitative data can be, in return, described and manipulated numerically. (Malhotra, Naresh & Birks, 2000)

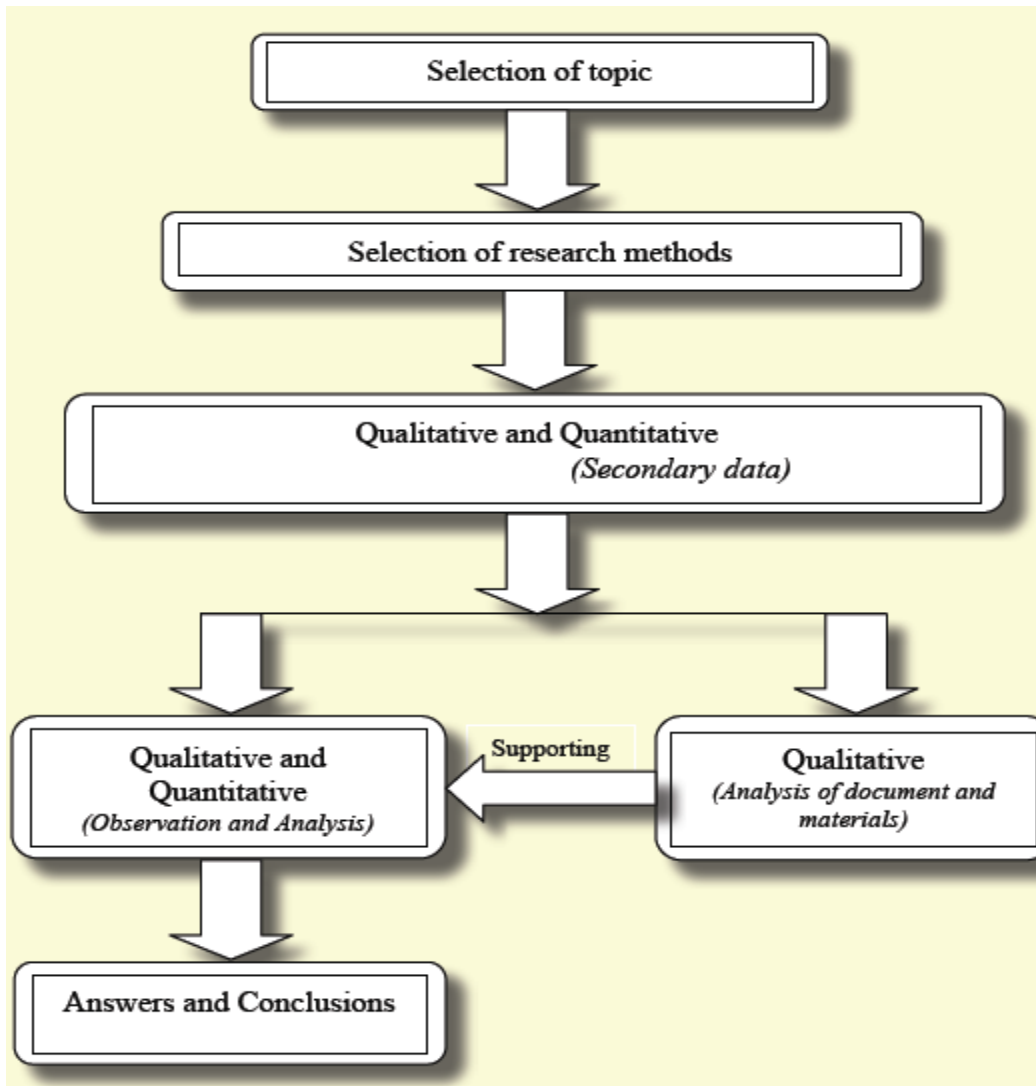


Figure 5: Research methods (Linh & Tung).

## 4.2 Data Gathering

In this study, the data was gathered through both structured and semi-structured interviews. Indeed, the writer chose to use a semi-structured interview for the personal interview and structured interviews for the company interviews conducted by e-mail.

In addition to a personal interview with Mrs Kilian, a business consultant from the Embassy of Finland in Argentina, three representatives of Finnish companies were also interviewed. The companies were chosen for this research because of their experience in doing business in Argentina. The company representatives were able to identify the specific opportunities and threats that they face on the Argentine markets. On top of this, valuable background information was collected through the personal interview.

Various interviewing techniques can be carried out. Indeed, interviews can range from formal, structured interviews to informal discussions with individuals or selected groups of informants. Unstructured interviews have a rough agenda but no pre-defined structure, so that the expert and knowledge engineer are free to explore the domain. This is an inefficient way of gathering detailed knowledge, but can prove useful as an initial interview when little is known of the domain.

A semi-structured interview combines a highly structured agenda with the flexibility to ask subsequent questions. The questions for a semi-structured interview are ideally constructed some time before the interview and are sent to the interviewee. For an interview lasting 1 hour, around 10-15 questions can be asked. This allows time in between the set questions for the interviewer to ask supplementary questions to clarify points and ask for more detail where necessary. This is often the preferred style of interview as it helps to focus the interviewee on the key questions and helps avoid them giving unnecessary information.

Another form of interview is the structured interview. This allows no flexibility on the part of the interviewer whose questions are all pre-established. As such, structured interviews often involve filling-in a matrix or other diagrammatic notation. (Leech, 2002)

### **4.3 Data Analysis**

Data analysis is a crucial stage of the research process as it is a process of gathering and transforming data with the goal of highlighting useful information, suggesting conclusions, and supporting decision making.

Qualitative data is based on meanings expressed through words. They result in the collection of non-standardised data that require classification into categories and are analysed through the use of conceptualisation. The process of qualitative analysis generally involves the development of data categories, allocating units of the original data to appropriate categories, recognising relationships within and between categories of data, and developing and testing hypotheses to produce well-grounded conclusions. (Saunders, Lewis & Thornhill, 2003)

The many different strategies to deal with the data collection are often grouped into four main categories: understanding the characteristics of language, discovering regularities, comprehending the meaning of text or action and reflection. The first two categories are associated with some analytic strategies that commence deductively, where data categories and codes to analyse data are derived from theory and predetermined analytical framework. (Saunders et al. 2003)

## 4.4 Validity and Reliability

Research results have to be valid and reliable. Assessments of reliability and internal and external validity are an important part in the evaluations of research results. The term validity refers to whether the research method used in the research measures what the researcher has intended it to measure. (Ghauri & Grønhaug, 2005)

Internal validity refers to whether the conclusions drawn from the effects between independent and dependent variable are valid. It assesses the capability of the research to measure the phenomena of interest. External validity refers to whether the results of the research can be generalised to a larger population. Reliability refers to the stability of the measure and consistency of results. Research reliability means how similar the results would be if another researcher conducted the same research in another place and time. If the acquired results would be similar, the research can be said to be reliable. (Malhotra et al. 2000)

In this study, the theory framework added to the interviews were the basis of its validity and reliability. The research reliability refers to how similar the results would be if another researcher conducted the same study in another place and time. As the qualitative method was used, the results may vary slightly depending on the interviewee. For example the willingness of giving insight information, the amount of time put into the interview -if it was done under time pressure or not, if the answers given are honest and other characteristics that affect the research reliability. On top of this, as the research is not conducted for a company giving compensation for example, the writer can remain objective as she does not have any interest in giving research results preferable to a certain outcome.

## **5 RESEARCH FINDINGS AND ANALYSIS**

This research studies how a company from Finland can succeed in doing business in Argentina. It aims to reveal the most important steps and matters to take into account when considering in doing so. The main findings of the interviews will be discussed in this chapter. The interviewees highlighted a variety of issues to be tackled by Finnish firms when entering the Argentine market. One of the main points that can be found throughout the research, is the essential difference between Finnish and Argentine business cultures.

### **5.1 Introduction of the Interviewees**

The main interview was done face to face with Mrs Päivi Kilian in Buenos Aires. Mrs Kilian is a Latin American business specialist. She has worked for the Embassy of Finland in Argentina for over 27 years as a commercial attaché, consultant, market analyst and Finpro representative. Mrs Kilian is also a member of the Argentine-Finnish Chamber of Commerce. Therefore, Mrs Kilian was the ideal candidate for the personal interview of this research. While in Buenos Aires, the writer contacted her by telephone and briefly explained about the research and asked if she would be interested in taking part in the study. Mrs Kilian kindly accepted the interview request; the interview date was agreed to be on the 9<sup>th</sup> April 2009 in her office within the Embassy of Finland in Buenos Aires, Argentina. The interview was conducted in Finnish. The aim of this personal interview was to gather current reliable information concerning the Argentine current business environment and international trade situation with Finland.

In addition to the personal interview, the researcher carried out three other interviews with representatives of Finnish companies in Argentina. These interviews gave first hand information concerning the current situation of trade between Finland and Argentina. The interviewees were Mr Diego Becker from Tecnomen, Ms. Ana Martinez from Comptel and

Mr Fernando Villasol from Nokia. These Finnish companies were selected as they have both short and long time experiences in doing business in Argentina. The interviewed persons all have responsible functions within their companies and were able to give a valuable insight to the business relations between Finland and Argentina.

The company interviews were held by e-mail during April 2009 and they were conducted in English or in Spanish, as the interviewees had the choice to answer in either language. The aim of these interviews was to gather data about the specific challenges and opportunities for Finnish companies operating in Argentina. The questions derived mostly from the topics covered in the theory part of this thesis. The interview questions may be found in the appendix. The companies interviewed by the writer are here by shortly introduced:

Comptel is a software vendor for telecommunications operators. It has been present in Argentina since 2007 employing two employees locally. Since Comptel has no local entity in Argentina, both employees work as contractors directly to Comptel Oy in Finland. Concerning the present trade situation within Argentina, Comptel has three customers, Telecom Personal, Claro and Movistar which are the only three mobile operators of the country. In each operator has Comptel installed its' main software solutions.

Tecnomen is one of the leading suppliers of business and operations support systems and value added services for telecom operators worldwide. It has been doing business in Argentina since 2003, currently employing seven employees. The Argentine office reports to the Latin American regional office, which is located in Sao Paulo, Brazil. Tecnomen has one customer, AMX Argentina SA, the owner of the brand Claro, one of the main mobile operators. Argentina represents 15% of the global sales budget for Tecnomen. Furthermore, Tecnomen Argentina also serves Claro Uruguay and Paraguay.



Nokia, the world's leading mobile phone supplier, has been present on the Argentine market since 1996 and currently has sixty-five employees. The company sells its products directly to the three mobile operators and also to independent channels such as retailers. Nokia is the Argentine market leader, enjoying more than 35 % of market share.

As the selection of the case companies shows, Finnish firms hold a strong position in the telecommunications sector in Argentina. Furthermore, Finnish pulp and paper manufacturers are also well represented with companies such as Metso and Stora Enso operating in the country. These Finnish companies bring their technological know-how, vast experience and investments in research and development of the forest industry to a country lacking expertise in the area.

## **5.2 Argentine-Finnish Commercial Relations**

Relations between Finland and Argentina have traditionally been good. For a long time, they were mainly composed of cultural and commercial trade but during the past two decades have political and economical relations grown and consequently commercial transactions have also raised. This was partly due to the stabilisation of democracy in the Argentine society and the recovery of the economy after the major crisis in 2001. After Finland joined the European Union in 1995, relations between the two countries were easier to carry out. During the nineties, various visits were made by Foreign Ministers, Ministers of Trade and Presidents back and forth. Finnish government officials made the last official visit to Argentina in 2001. Since then however, relations between Finland and Argentina have suffered as a result of the political scandal that rose in Argentina due to the construction of a Botnia pulp mill on the shores of the Uruguay River right across the Argentinean city of Gualeguaychú.

This research shows that nowadays there are approximately eighty companies either representing Finnish products in Argentina or directly operating in the country. The main firms, that are widely known as household names in Finland, are Huhtamäki, Jaakko Pöyry Consulting, Kone, Wärtsilä Corporation, Nokia, Partek, Raisio, Metso and Strora Enso. These companies operate in areas such as the telecommunications, paper, packaging, lift and electronics industries. More companies are also present in Argentina, such as Advalex, Allu South America, Camco S.A., Codipa S.A., Larox Corporation, Kemkol S.A and Outokumpu Stainless Ltd to name a few. The named companies are all members of the Argentine-Finnish Chamber of Commerce, with goal to develop and promote commercial relations between the two countries.

During the time of the interview with Mrs Kilian in April 2009, there still was one Finnish company with a manufacturing unit on Argentine territory, the Huhtamäki factory. However, the Finnish disposable packaging manufacturer has since then sold its businesses in Argentina and Brazil. In May 2009, the operations were acquired for a total of 30 million Euro by subsidiaries of Bemis Company. The divested businesses, including three manufacturing units in Brazil and one in Argentina, employ some 640 people and have annual net sales of approximately 60 million Euro.

Therefore, all the Finnish companies operating in Argentina are nowadays representations and subsidiaries with sale and service offices. According to Mrs Kilian, they all operate with Argentine personnel. Often when starting the local office, company representatives from Finland may be present. After a few weeks however, when the local branch has started to run well, the local employees take charge while reporting regularly back to headquarters in Finland.

The main export items from Finland to Argentina are technological and forest industry products. On the other hand, agricultural commodities such as meat, fruit, soya bean oil and

wine are common imports from Argentina onto the Finnish markets. As Mrs Kilian reminds, Argentina has a business culture based on relationships. This is a big difference encountered by Finnish investors when doing business in Argentina. Before any business matter, a personal relationship has to be built. For Argentines, social relations are the basis for any business relationship. This is why even as a foreigner, investors must take time to get to know the people before passing on to business goals. This feature in particular has shown to be challenging for Finns who traditionally go straight to the point in business, not using any time with irrelevant discussions.

As in the rest of the region, business activities require Spanish language skills, as very few Argentines speak English well enough. Sharing a common language will also allow social relations to be built much easier. More concretely, in order to be able to start a business in Argentina, the required starting capital is relatively small. Regarding paperwork, one must visit four different authorities. Once receiving a temporary business account, one may start operating a business venture. The value-added tax is 21% and extra taxes are notable, especially for small companies. In Argentina, the payment transactions and banking system are old and outdated compared to Finland's. Even in order to open a mobile telephone subscription, an Argentine social security number is required tells Mrs Kilian from Finpro.

Both Finpro and the company interviewees agreed with that there is much potential in the Argentine markets that still has not been fully exploited. The purchasing power is rising, and so is the country's economy. Nevertheless, inflation remains a threat that the government must tackle in order to keep foreign investors in the country. Indeed, neighbouring countries such as Brazil and Chile may easily attract the same investors.

## 5.2 Intercultural Communication

Intercultural differences within regions and between countries play a vital role in business relations. Mr Villasol from Nokia estimates that cultural differences are a main trade barrier between Finland and Argentina. Indeed, many executives and employees travel to Argentina without a clear idea of Argentine business culture. Stereotypes and a lack of information about the socio-economic background make it more difficult to integrate into Argentine business culture and can cause stress and low work motivation. The research interviewees agree that it is essential that attention should be paid to the cultural differences of Finland and Argentina. Culture, and its' differences play such a decisive role in doing business in Argentina that it is definitely a key to doing successful business for Finnish companies.

Dutch psychologist Geert Hofstede developed a model that identifies four primary dimensions to differentiate cultures:

- Low versus high power distance
- Individualism versus collectivism
- Masculinity versus femininity
- Low versus high uncertainty avoidance

The Hofstede analysis for Argentina is characterised by the uncertainty avoidance, which ranks highest. This indicates a high concern for rules, regulations, controls and issues with career security – typically, a society that does not readily accept change and is risk adverse. Individualism ranks lowest, which signifies a society of a more collectivist nature and strong relationships where everyone takes responsibility for fellow members of their group. The high uncertainty avoidance index indicates the society's low level of tolerance for

uncertainty. In an effort to minimise or reduce this level of uncertainty, strict rules, laws, policies, and regulations are adopted and implemented. The ultimate goal of this population is to control everything in order to eliminate or avoid the unexpected. As a result of this high Uncertainty Avoidance characteristic, the society does not readily accept change and is very risk adverse (Hofstede, 1994). On the contrary, intercultural studies regarding Finland show that people are individualistic, and therefore direct and straightforward. Finnish people prefer to follow rules and regulations and do not necessarily prioritise relationships. Power distance is low and hierarchy and gender differences are minimised. Femininity is also manifested through modest self-presentations.

As the cultural dimensions vary so much from a Nordic country such as Finland to a Latin country such as Argentina, measures to improve business possibilities should be taken. Therefore, every business person should be well prepared before leaving to Argentina, by being curious and trying to find information on topics such as the local culture, importance of business manners, small talk and showing interest in the visited people. Business travellers should understand the importance of Argentine culture. Indeed, it has influence on motivation, approach and communication in the workplace (when planning schedules, in meetings and work procedures for example). Decision-making in companies, information flow, hierarchies and the concept of responsibility all follow the culture. Doing business in Argentina requires being prepared for short-term planning and knowing how to pick relationships carefully. There are several cultural differences that will most likely affect business relations if not acknowledged. For example, Argentina is an expressively polychronic culture, with a fundamentally different perception of time to Finnish culture. Furthermore, during discussions, an Argentine may include lots of unnecessary information about issues not directly related to the subject at hand.

In Latin America, many codes of conducts and social norms that one is used to in Finland cannot be applied. When it comes to Argentines in particular, they are proud people, of their history, culture and country. Their way of conducting business may seem much less

formal than in Finland. Indeed, Argentines place a lot of importance on getting to know their business partners and do not rush to doing business right away. It is rude if one goes straight onto business forgetting the social aspect. As a Latin country, much more importance is put onto human relations and creating a comfortable atmosphere before doing any business than in Finland. It is not uncommon that negotiations with foreign investors are not started on a first trip to Argentina. Argentines work at their own pace, often considered as slow for foreigners, but they make things happen surely. Argentines are tough negotiators and concessions do not come quickly or easily. Indeed, they often need several meetings and extensive discussion to make deals. Furthermore, they do not like to be pushed by others so one must be sure to adapt to their pace. High pressure sales tactics should thus be avoided. One should approach business meetings and negotiations as both a potential business partner and a friend. If a company changes representative dealing with Argentina, then a new relationship will have to be established from the beginning again. Small talk should be engaged until the topic of conversation changes to business. It is noticeable that good relationships with counterparts shorten negotiations.

In Argentina, the lifestyle is very different to the one in Finland. They spend long nights outside eating in restaurants, enjoying time with friends or family and therefore do not rush in the mornings. They usually start later but work till later in compensation. Interest should be shown towards national sports such as football, a topic that will always turn into a vivid discussion. The majority of Argentines support a certain club as strongly as possible. If one is ever invited to take a sip of Maté, the national drink, one should consider it as a honour and under no circumstance shall refuse as it would be considered as very rude or in some parts even as an offence. On the other hand, sore conversation topics such as the war history in the Falklands should be avoided. Executives and employees from Finland should remember to show their respect to the Argentine culture at all moments and not assume that things are done in the way that they have learnt. One of the most important points highlighted in the interviews is that social relations are the basis for any business relationship. Accordingly, one should pay enough of attention to getting to know the people before passing on to the business goals.

As in the rest of Latin America (except Brazil and French Guyana), Spanish is the official language and it must be spoken as very few locals speak English well enough to do business. It would be recommendable that each business traveller learnt some basic words and expressions in Spanish, even if travelling with a translator or local contact person. Non-verbal language, body language, plays also an important role in communication. Body language conveys a lot in Argentina. For example, eye contact should be maintained and hands should not be placed on hips when speaking as it usually means that one is angry. Misunderstandings are common due to language barriers and misinterpreted body language.

Mrs Kilian of Finpro stresses that before entering the Argentine market, a real market research must be done. Everything that is agreed upon must be written black on white. The contract must include every point that has been talked about. A contract is not final until all of its elements are signed, as any portion can be re-negotiated. In business contracts, the text in small font is often the most important. One has to be aware and require everything to be in writing. Orally agreed subjects can be forgotten, and if the matter moves on to another person, what has been agreed upon must be in written form. On top of this, the eventual commission percentage for a representative agent must be clear and agreed upon in forehand as to avoid any misunderstandings later on.

### **5.3 SWOT Analysis**

Following the information gathered in the four interviews done for this research, a SWOT analysis can be drawn. Such an analysis is a strategic planning method used to evaluate the strengths, weaknesses, opportunities, and threats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to

achieving that objective. In this case, it will help identify what Finnish investors have to take into account when planning on doing business in Argentina.

### **Strengths:**

In Argentina, Finpro is of assistance to Finnish companies. At their demand, they are ready to help companies. The service is liable to charge. From Finland, in certain cases, companies can apply for financial assistance to the Ministry of Employment and the Economy. Indeed, Finnvera, the state-owned specialised financing company improves and diversifies the financing possibilities of companies through loans, guarantees and export financing services. Finnvera complements the financial market and its operations promote the development of business activities, regions and exports. There is also a Finnish business partnership programme called Finnpartnership patronised by the Ministry for Foreign Affairs of Finland. It provides advisory services and financial support for business activities of Finnish companies in developing countries. Finnfund is responsible for the management and implementation of the programme. Another source of aid to companies is the Finnish Export Credit. It is an internationally notified official Export Credit Agency and a wholly owned subsidiary of Finnvera.

Finland has a solid strength with its expertise in certain areas that are in expansion in Argentina, such as industry and technology. Finnish companies that plan on doing business in Argentina should solely focus on their core competencies, as the Argentine market is competitive with the presence of many multinational firms. According to Mrs Kilian, if a company is unsure of whether to invest in the Argentine markets or not, while time goes by, the business opportunity may have passed already. Therefore, it is a good idea, if possible, to have two companies sharing the risk of starting business operations together in Argentina. This way the risks are divided by two and on the down side, the profits also.



The Argentine Constitution gives foreigners an equal treatment and recognises they have the same rights than local people. The Foreign Investments Law defines the legal framework for foreign investments and gives equal treatment than to local investors. Furthermore, Argentina's unique geography places it in between the South Pacific and South Atlantic Oceans, making it very accessible to trade routes and shipping lanes.

**Weaknesses:**

A common problem for all Finnish companies starting to do business in Argentina is the significant difference in culture and customs. Latin and Nordic business cultures are distant from each other. Therefore, etiquette and protocol should be studied closely beforehand. One has to understand how business is done in the target market in order to succeed. All the interviewees mentioned the importance of adapting to the local culture, as otherwise culture clashes create a major weakness and obstacles to business negotiations. Other weaknesses mentioned include the high customs tax for imported goods as well as bureaucracy which complicate and lengthens the process of internationalisation for foreign companies.

Mr Villasol from Nokia pointed out as weaknesses the political and juridical instability that still are feared, remembering the chaos that Argentina entered after the 2001 economic crisis. Mrs Kilian from Finpro and Mr Becker from Tecnomen raised the issue of corruption. It is a national problem and is common practice throughout the country in politics, institutions, administrations and the government, to name a few. Corruption is a growing reality in Argentina that represents an obstacle for companies wishing to enter the Argentine markets. Especially from countries where corruption is virtually non existent such as Finland. Corruption is a problem that both small and large companies face, as public authorities (such as customs and government officials) demand big amounts of dollars in order to enter the country. For large foreign companies that compete with local companies, market entrance can be completely blocked. Bribery is most likely the most common form of corruption. The 2009 Corruption Perceptions Index published by Transparency International, which measures the degree to which corruption is perceived to

exist among public officials and politicians ranks Argentina 106<sup>th</sup> whereas Finland was 6<sup>th</sup> out of 180 countries.

### **Opportunities:**

Finnish investors can find several opportunities in the Argentine markets. If a company wishes to expand by going international through exporting, licensing or subsidiary operations for example, Argentina offers a vast market and gives also access to the rest of the Mercosur countries with more than 200 million consumers reminds Mr Villasol. Furthermore, the cheap but educated workforce is a strong resource that attracts foreign investors to Argentina. He also sees that the big diversity and size of the territory with abundant and economical natural resources act as opportunities for Finnish investors. Mrs Martinez from Comptel points out that Argentina is always in need of new technologies, an area in which Finland can offer a lot through extensive investments in research and development. Mrs Kilian agrees that companies operating within the energy and environment as well as wood-refinement sector would have a good business opportunity and demand in Argentina.

Due to international requirements, by 2010, 5 % of all used fuels in Argentina will have to be biofuels. The EU will have to use at least around 40 %. In Finland, it is a challenge to find biofuels from materials other than viand. As Argentina is one of the world's biggest producers of soybean, which can be used as a biofuel, this would be an opportunity to combine Finnish technical know-how with such a valuable raw material.

### **Threats:**

The threats that a Finnish company faces when entering Argentina were highlighted in the interviews. The company representative interviewees agree that the lack of presence through a local office, dealer or representative agent can be decisive whether business will

succeed. If it is not possible to be represented locally, the chances of success dramatically drop. The geographical distance, cultural differences and eventual political problems between Finland and Argentina are also seen as commercial threats.

Mr Becker from Tecnomen, (the supplier of business and operations support systems for telecom operators) tells that in their particular case, the withholding tax for offshore services (31,5 %) constitutes a major threat to doing business as it is a substantial trade barrier between the two studied countries. Moreover, current risks faced by Finnish companies in Argentina are the clear credit related risks. Since local companies might find it difficult to repay debts in US dollars or Euros, they could either default or ask for a fixed exchange rate, lower than the market exchange rate. Finnish executives also have to consider that the government might restrict the wiring of US dollars or Euros to accounts outside Argentina, in a similar way to what happened during the 2001 crisis. On top of this, due to corporate culture differences, Finnish company employees are more rigid for skipping procedures and rules, unlike the Argentines. By doing so, they are not able to adapt to short term requirements.

Mrs Kilian of Finpro identifies other threats to be met by new investors in Argentina: For small and medium enterprises, a simple aspect such as small expenses that have to be paid can finally result in a big sum. If this aspect has not been taken into account, the market entry to Argentina may fail if the starting capital is not adequate. Finpro has witnessed this more than once with small companies. A further challenge for Finnish companies is to become well known and recognised by the Argentine public. A strong brand name is a wanted bonus. It makes commerce easier as trade is more likely to be more important with a renowned brand name. Indeed, consumers are more sensible to a product or service that they have heard of beforehand. Building a strong brand, whether global or local, is a principle goal of any business strategy for Latin America.

## 6 CONCLUSION AND RECOMMENDATIONS

Success in Argentina, as in all emerging markets, requires genuine commitment from investors. When a foreign company wishes to enter these markets, additional challenges are faced. Without a long-term view, foreign firms are likely to flee at first sight of trouble. This research highlights several points that Finnish investors should consider, plan and implement carefully when doing business in Argentina. However, this information should not be regarded as sufficient for making decisions as investment is an important step that should not be contemplated without appropriate professional advice.

As international business transactions increase, doing business in foreign countries brings cross-cultural challenges. Understanding a country's business culture, protocol and etiquette is important in establishing good business relationships. In today's global and multicultural world, competencies are needed to interact with people from different cultures. In Argentina, personal relationships are important and must be developed before business matters. Therefore, the importance of various cultural components and dimensions must not be underestimated. The awareness and understanding of key cultural characteristics of Argentine business people may be a key to success for Finnish companies.

The research interviews done to business professionals with experience on trade between Argentina and Finland also mention corruption, bureaucracy and juridical instability as trade barriers. Due to these factors, any foreign business about to operate on the Argentine markets should have a local contact. Indeed, an Argentine contact is essential to help Finnish investors with the language and cultural barriers, business networking, and the local approach in negotiating. Therefore, the cooperation with a reliable contact is a decisive approach especially in the early stages of internationalisation. On top of this, the interviewees stressed the importance to communicate in Spanish when doing any business in Argentina.

The research findings indicate that the implementation of a well-planned market entry strategy is crucial for successful business in Argentina. The essence of strategy in the Latin Markets is to identify the windows of opportunity and timing of entry. Furthermore, a joint venture with a readily established business in Argentina may one of the most effective ways to gain market entry. Indeed, less capital is required, a distribution framework is readily in place and information on the target market has been acquired. Otherwise, if a foreign investor chooses to start business from the beginning without any partnership, patience is a key factor to ensuring success as it can often take several trips to the country to finalise any deal.

Further researches could focus on Finnish or foreign companies in general, that have failed in doing business in Argentina. A quantitative method approach to the question could be used in order to identify the most common mistakes made by the foreign investors. This would help current firms interested in doing commerce in Argentina, as they would know what to avoid and how to be prepared to overcome the challenges. Nevertheless, the future of the region may not be decided in the marketplace but in the political arena.

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## APPENDICES

### Appendix 1:

#### INDICATORS OF DEVELOPMENT, ARGENTINA VERSUS FINLAND

	(a) Argentina	(b) Finland
Area square km	2,766,890	338,420
Population [1]	39.9 millions	5.3 millions
Projected population 2050 [1]	51.4 millions	5.4 millions
Average population growth rate 2005-2010 [1]	1.0 %	0.3 %
Languages [2]	Spanish (official), English, Italian, German, French	Finnish 91,5% (official), Swedish 5.5% (official), other 3% (small Sami- and Russian-speaking minorities) (2006)
Religions [2]	Roman Catholic 92% (less than 20% practicing), Protestant 2%, Jewish 2%, other 4%	Lutheran National Church 82.5%, Greek Orthodox in Finland 1.1%, other Christian 1.1%, other 0.1%, none 15,1% (2006)
Economy [3]		
Gross national income (GNI) (USD) (2007)	238.9 billions	234.8 billions
GNI per capita (USD) (2007)	6,050	44,400
Gross domestic product (GDP) per capita growth (% annual) (2006-2007)	7.6	4.0
GNI per capita, PPP (USD) (2007)	12,990	35,270
Net foreign direct investments (% of GDP) (2005) [4]	2.6	2.1

Official development assistance (% of GDP) (2005) [4]	0.1	..
Export of goods and services (% of GDP) [5]	23.3 (2006)	38.7 (2005)
Import of goods and services (% of GDP) [5]	18.8 (2006)	35.2 (2005)
Public expenditure on health (% of GDP) (2004) [4]	4.3	5.7
Public expenditure on education (% of GDP) (2002-2005) [4]	3.8	6.5
Military expenditure (% of GDP) (2005) [4]	1.0	1.4
Total debt service (% of goods, exports and net income from abroad) (2005) [4]	20.7	..

Sources:

[1] The State of World Population 2008, UNFPA

[2] The World Factbook, CIA

[3] World Development Report 2009, World Bank

[4] Human Development Report 2007/2008, UNDP

[5] Statistics Finland

[6] Human Development Indices. A statistical update 2008, UNDP

Appendix 2:

COMPANY INTERVIEW QUESTIONS

*General information*

1. Company information (years of presence in Argentina, number of employees in Argentina etc.)

*The history of trade with Argentina*

2. How did the trade with Argentina begin?
3. Has the company acquired help from any Finnish organisations or institutions? Which?

*The present trade with Argentina*

4. What is the current state of the Argentinean trade within the company? (how many Argentine customers, how big proportion of the products sold to Argentina?)
5. What are the main trade barriers between Finland and Argentina?
6. What are the principal difficulties for a Finnish company in the Argentina?
7. What are the current risks and opportunities for a Finnish company in Argentina?
8. What are the main differences between the Finnish and the Argentine corporate cultures?

Appendix 3:

FINPRO REPRESENTATIVE INTERVIEW QUESTIONS

1. What are the biggest challenges and difficulties that Finnish companies face when entering the Argentine market?
2. What are the main differences between Finnish and Argentine corporate cultures?
3. How many Finnish firms are present in Argentina at this time?
4. What are the future prospects of the Argentine markets?
5. From your point of view, what Finnish business sectors would succeed in Argentina?
6. What kind of help can Finnish companies get concerning how to doing business in Argentina?