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TRADE AND INDUSTRIAL POLICIES IN ARGENTINA SINCE THE 1960s */

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ABSTRACT

The objective of the paper is to examine the impact of trade and industrial policies of Argentina on the country's economic performance over the past three decades, and to look into their future evolution under the new international trading system, such as the World Trade Organization and the regional trade agreements.

The structure of the paper follows chronologically the sequence of the main events in the Argentine recent economic history. Part I analyzes Argentina's economic history before 1990, while part II and III focus on the drastic economic changes of the country along the current decade. Part IV describes the most important regional trade bloc for the country, the Mercosur, and analyzes its impact on the national economy. Part V analyzes the impact on Argentina of the Uruguay Round of multilateral trade negotiations and the launching of the WTO, while part VI focus on the actual trade and industrial policies that are currently in use in the country. To be able to see in more detail how these international trade arrangements and the recent macroeconomic changes are affecting the economy, part VII looks specifically at the dynamics of three paradigmatic sectors in recent years: agriculture, automobiles and textiles. Part VIII is dedicated to an evaluation of the institutional context within which trade and industrial policies are debated and implemented, while part IX provides some ideas of desirable trade and industrial policies for the country that are both compatible with Argentina international commitments and its declared goal in terms of overall policy direction. Finally, a brief concluding section closes the paper with some reflection of the room for selective or horizontal policies in current Argentina.

INTRODUCTION

Argentina has had an agitated economic and political history over the past three decades. Sudden shifts in economic strategies were more the rule than the exception over this period, and the price paid for this instability has been very high. Even after the recent economic upsurge, per capita income is still only slightly above the 1970 level. This paper explores the policies behind this weak economic performance, with the focus centered around the trade and industrial policies of each period. The main focus is to determine the impact of these policies on economic performance, including the incorporation of external variables like the role of the World Trade Organization and the regional trade blocs in which Argentina participates.

The main findings concentrate on the negative impact of certain misguided policies during the Import Substitution Industrialization (ISI) period, the institutional weakness as the reason behind the ineffectiveness of several industrial policies, the dual impact of the Uruguay Round agreements (both opening markets and establishing new constraints on Argentina's trade and industrial policies), and the improved chances of the Argentine economy to enter a long term economic growth process after the structural reforms of the early 1990s. Summarizing these conclusions, it could be said that the country's experience with periods of autarchic, state-guided economic strategy ended in a major crisis that shook the very foundations of the Argentine society during the 1980s. The political and economic transformations of the country since its recovery of democratic institutions in 1983 have established the foundations for a more stable economic development, based on a consolidated democratic political systems and an economy closely integrated to international trade and investment flows, and one in which markets have widened their role in the allocation of resources.

There is still much to be done to complete a transition towards a dynamic economy that provides the basis for sustained growth. The process of state reform has gone very far in withdrawing the government from intervening in harmful ways in many markets, a process that involved significant deregulation of different economic activities and privatization of large state-owned enterprises. However, the process of enhancing the new regulatory capacity of the state to deal with market failures or to guide the structural transformation process to mitigate the heavy toll it imposes on weak sectors has barely started. This failure is best represented by the persistent high unemployment rates, that reflect the drastic sectoral shifts affecting the economy since the early 1990s.

In the new direction Argentine economic development has taken in the current decade, trade and industrial policies are intended to be more neutral and horizontal than in the past. Trade protection has been drastically reduced (through lower tariffs and the scrapping of most non-tariff barriers) and industrial policies reduced in their scope and ambition. As a rule, the direction of the policies has been to increase the overall competitiveness of the economy through the improvement of the general economic environment in which private firms operate. Economic policy went very far in reducing what came to be known as the "Argentine cost", that is the higher costs of producing in Argentina vis-à-vis its main competitors associated with excessive regulations, distorting taxes, and a run-down physical infrastructure.

Some selective policies are still in place, and they fall into two separate categories: defensive and proactive. Within the first group are those special policies applied to import-competing sectors in distress, like textiles and footwear, while the second type has the automobile industry special regime as its only example. Both types of policies have been challenged by the WTO, and the country is at this moment analyzing the different options to make them WTO-compatible.

I. ARGENTINE DEVELOPMENT STRATEGIES BEFORE 1990

The Argentine economy experienced several shifts in economic policy during the post-War period. Between 1945 and 1976 the country's development pattern followed the Import Substitution Industrialization (ISI) model. Argentina continued this policy through the so called "easy stage" of ISI until 1958, and more aggressively during the second stage (heavy industry; machinery) between 1958-1975. Industrial activity became the motor of economic growth, employment creation, and capital accumulation during these phases. By the mid 1970s, however, the shortcomings of this model became apparent due to repeated stop-and-go cycles marked by recurrent balance-of-payment crises. In 1976, a military government began the first generalized attempt to change "development tracks." They attempted to implement an ambitious structural reform plan, but it was carried out only half way. The economy muddled through different reform attempts for the following 15 years until the process was given a final thrust in the 1990s. This paper discusses this process during the past decades, and concentrates specifically on the nature of the drastic changes of the 1990s and their implications for Argentina's future economic development.

1. The beginning of ISI

The government of President Perón implemented in 1945 a series of measures intended to expand the industrial base of the country. The Argentine economy had experienced a period of "forced ISI" provoked by the inability to import industrial supplies from Europe and the US during World War II. Fearing that after the War the nascent industry would be wiped out by imports from the recovered industrial countries, the State took an important role on the economy. The government implemented across-the-board tariff protection and participated in the production of basic industrial goods and in the financing of key industrial sectors. Institutions such as the Industrial Bank (IB) and the Central Bank (CB) became key players in this strategy via their financial ability to provide soft loans to industries. The main industrial policy tools used by the government were comprised of import quotas, foreign exchange rationing, provision of soft financing for local manufacturers, and the promotion of strategic sectors of the economy. The latter included preferential exchange rates, import privileges for machinery, and a higher level in remittance allowance in order to attract foreign capital. The government's goal was the expansion of existing activities through the enlargement of the internal market.

As a result of these industrial incentives, the manufacturing share of GDP grew by 3.6 percentage points from 21.6 % between 1930-1939 to 24.2% between 1940-1949. By contrast, the traditional agricultural sector, which had generated most of the foreign exchange until the 1930s, underwent a serious contraction. Agricultural production in 1950-1952 fell 20% over the period of 1940-1942. This forced the country to import cereals and oil seed products to satisfy local demand. The transfer of resources from the agricultural to the industrial sector by means of taxation and differential exchange rates had also a negative effect on the agricultural exports, thereby contributing to generate balance of payment problems.

Table 1
MANUFACTURING SHARE OF GDP

PERIOD	PARTICIPATION (In Percentage)
1900-1909	15.35
1910-1919	16.54
1920-1929	18.65
1930-1939	21.06
1940-1949	24.22

Source: Kosacoff, 1996, p.129.

2. The second phase of ISI: The sixties and seventies

By the late 1950s, the economy had largely completed the first part of ISI (non-durable consumer goods). The country entered the second phase of ISI with industrial policies geared towards the promotion of key sectors:

1. Capital-intensive intermediate goods: petrochemicals, steel, wood and pulp.
2. Machinery and automobile.

During that period, the government used many different tools in its industrial policy. Although many of these tools remained in use through most of the period, unstable politics and economic policies also produced severe shifts in the usage of them. The tools were:

- high import tariffs,
- import prohibition for certain items,
- differential exchange rates,
- directed credit by publicly-owned banks,
- direct subsidies,
- taxes on traditional agricultural exports,
- mandatory national purchase in government procurement,
- promotion of Foreign Direct Investment (FDI) in the new sectors (i.e. automobile), but prohibition in others considered strategic (e.g. oil during certain periods).
- state-owned firms in the capital intensive sector (petrochemicals and steel).

These policies, however, were implemented in the context of macro-economic instability, marked by high and variable inflation rates, high fiscal deficits, frequent balance-of-payment (BOP) crises and large fluctuations in real exchange rates. Despite these shortcomings, between 1964 and 1974, the industry underwent an impressive period of economic expansion (See Table

2). Industrial production grew by 7% annually, and its value added increased from 24.9% in 1964 to 28.4% in 1974.

Table 2
INDUSTRIAL PRODUCTION INDEX 1960-1969

INDUSTRY	1960	1965	1969
"Traditional industries"			
Food, beverage, tobacco	100	108.9	143.8
Textiles, clothing, leather	100	109.6	115.9
Wood products	100	129.9	144.1
Paper, printing, publishing	100	138.9	160.8
Non-metallic minerals	100	127.3	178.0
"Dynamic industries"			
Chemicals	100	156.7	202.6
Industrial Chemicals	100	258.3	332.4
Synthetics, plastics	100	402.1	452.3
Petroleum derivatives	100	161.0	414.7
Basic metals	100	180.2	230.5
Iron, steel	100	199.9	255.9
Machinery equipment	100	145.2	181.8
Motors	100	469.6	750.7
Automobile vehicles	100	200.8	251.7
Radio, Television	100	113.2	127.7
Electrical household goods	100	109.3	133.3
Motorcycles, bicycles	100	33.9	24.0
Agricultural machinery, equipment	100	88.8	79.8
TOTAL INDEX	**100**	**134.5**	**163.7**

Source: Nofal, 1989, p.20.

The government also adopted the Brussels Tariffs Nomenclature and fixed a tariff structure which resulted in average tariffs of around 119% (Bekinschtein, 1996). At the same time, an export promotion scheme was launched to reverse the negative trade balance. This scheme was introduced in order to generate the necessary foreign exchange, to fuel industrial growth (the internal market had symptoms of saturation), and to improve competitiveness. This scheme proved quite successful in expanding exports, especially of industrial goods (See Table 3). In 1965, non-traditional industrial goods were barely exported, whereas by 1975, they represented 20% of all exports. In these ten years, all exports grew at an average annual rate of 10.8%, while industrial exports grew at 12.6% (Bisang, Burachik, and Katz, 1995). This, however, was more the result of generous government incentives than of a change in the basic characteristics of the industry such as low competitiveness and low levels of technology. For example, it was calculated that it cost the State US$ 0.80 out of every US$ 1.0 of earnings to promote the export of passenger cars during those years (Nofal, 1989).

During this decade, aggregate investment grew at rates similar to GDP growth. Between 1960 and 1970, total investment fluctuated between 20% to 25% of GDP (Bisang, Burachik y Katz, 1995). Public investment represented around 40% of the total investment in this period. A large percentage of this investment was used to finance infrastructure projects in the late 1960s and early 1970s. These projects focused on the energy sector and the highway network of the country. This was financed through the creation of special funds such as Fondo de Grandes Obras Eléctricas, Fondo Nacional de Infrastructura del Transporte, Fondo Nacional de la Energía and Fondo Chocón-Cerros Colorados (CEPAL, 1990). There have been many problems associated with public investment in this period. The most important was that economic instability produced frequent fiscal crises that interrupted the planned financial flow of the public works, so that most big infrastructure works ended up costing two to three times the estimated original amount, and also creating bottlenecks for economic growth as the main projects were not ready on time. Bureaucratic inefficiency and corruption has also taken its share in the low levels of efficiency of public investment during this period.

Table 3
KEY MACROECONOMIC INDICATORS 1965-1975

YEARS	M*/	X*/	PBI growth (%)	Investment/ PBI (%)	Inflation (%)
1965	1199	1494	9.17	14.6	28.6
1966	1124	1593	0.64	15.1	31.9
1967	1096	1465	2.65	15.5	29.2
1968	1169	1368	4.34	16.9	16.2
1969	1576	1612	8.79	18.7	7.6
1970	1694	1765	3.91	21.2	13.6
1971	1868	1731	3.76	22.7	34.7
1972	1905	1923	2.08	22.4	58.5
1973	2230	3194	3.74	20.6	60.3
1974	3635	3888	5.41	19.8	24.2
1975	3946	2942	-0.59	20.2	182.8

Source: INDEC
*/ Current US dollars, in millions.

By the mid-1970s, the structural failures of the ISI model became apparent. In general terms, it could be said that Argentina experienced problems common to those countries following ISI: It over protected its internal market, lacked competitiveness in its manufacturing sector, had distorting tariffs with great dispersion, and high effective rates of protection (ERP). The increasing deterioration of economic conditions had important socio-political consequences. Although establishing a clear causal relationship is almost impossible, the economic instability of this period ran parallel to the socio-political turbulence that characterized it, probably resulting from a crossed-causation process.

Unchecked fiscal deficits were generally monetized creating high and variable inflation rates during these years (See Table 3), with the exception of a few years when the nth stabilization plan produced a non-sustainable first impact on prices. But the most important feature was the stop-and-go cycles generated by the BOP crises resulting from the working of the kind of ISI model implemented. The nascent industrial sectors were subsidized and protected from international competition for far too long, thus eliminating all incentives to make them increase their competitiveness. With a fast growing industrial sector unable to compete in international markets, traditional exports were the sole resource to pay for the increasing import bill. But traditional exports, however, were being penalized both domestically and internationally. Domestically, all through the ISI period there was a shared value among policy-making elites about the undesirability of an export structure that rely heavily on natural resources. Therefore, as explained above, there have been all kinds of trade and industrial policy tools that discriminated against the traditional sectors, under the assumption that their natural advantage created enough rents as to offset this negative policy treatment. However, in the neglected agricultural sector, facing this anti-export bias in policy, productivity growth was very slow, and exports were consequently damaged.

The slow reversal of these policies in order to encourage non-traditional exports was not enough to make up for the structural problems this development model was showing, provoking the frequent BOP crises that ended up in a sharp devaluation that reduced domestic demand, thus increasing the export surplus and also stimulating the export sector through more favorable relative prices. This short-term adjustment measures, however, were never sustainable in the long-term and produced social and political unrest. The implicit reduction in wages and living standards under these plans sparkled political resistance and their repetition facilitated the radicalization of the political left and populism. This radicalization put democratic institutions under strain, and served as an excuse for the frequent assault on power by the military. In 1976 a military coup overthrew a democratic government, and committed itself to a radical reform agenda that was expected to eliminate the structural stop-and-go politico-economic cycles.

3. The launching of the long structural reform period

After the 1976 coup, the economic and business elites of the country seemed to agree on the need of profound changes, not just the typical adjustment plans that marked the end of previous policies. As a kind of *avant-garde* of what the rest of the world would be doing during the following twenty years, Argentina and its Southern Cone neighbors, launched a full-scale, radical structural reform plan. However, lack of consensus among the governing military elite and close association with entrenched vested interests prevented the reforms to go as deep as they did in Chile during the same period. In Argentina, the reforms were left incomplete and led to a process by which the society paid most of the costs associated to structural reforms (social unrest, recession, crises in import-competing sectors), while they were not maintained long enough to receive the rewards that come after a few years, like low inflation and high growth, as in Chile.

With the reform agenda in mind, the new military Junta launched an economic program based on unilateral economic deregulation and liberalization in 1976. In 1977, the government embarked on a program of financial reform which deregulated capital markets, freeing interest rates that had been regulated for decades. At the same time, external tariffs were reduced from 90% to around 50% (Kosacoff, 1996). The government implemented a pre-announced mini-devaluation schedule, in order to equalize internal inflation with external, using the exchange rate as an anti-inflationary anchor. This "convergence", however, never occurred because the adjustment in the tradable goods sector was slow and imperfect, the fiscal deficit was never brought under control, and public sector reform was blocked by nationalistic military factions opposing the privatization of loss-making "strategic" state-owned firms. The lack of convergence between the rhythm of devaluation and the inflation rate led to a rapid appreciation of the Argentine currency. Meanwhile, high domestic interest rates and a semi-fixed exchange rate combined with high liquidity in the international markets to produce a sharp increase in the country's foreign debt. This was the result of both, domestic firms and foreign investors taking advantage of the huge interest rate differential between international and domestic rates, and the growing borrowing requirements demanded by the public sector's deficit.

Table 4
ARGENTINE TRADE BALANCE (1956-1970)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
X*/	8021	9143	7625	7836	8107	8396	6852	6360	9134	9579	12353
M*/	10541	9430	5337	4504	4585	3814	4724	5819	5322	4203	4077

Source: INDEC.
*/ millions of current US$.

The combination of this rapid trade liberalization and the sharp appreciation of the currency had a dramatic effect on the trade balance (See Table 4). The current account deficit was offset by an unrestricted inflow of foreign capital mainly directed to short-term transactions, facilitated by the financial liberalization (Kosacoff, 1995). This attempt at economic liberalization did little to promote manufacturing competitiveness. Paradoxically, industrial exports grew in

1980, but this growth resulted from the maturity of previous private and public investment in the manufacturing sector. This increased output could not be absorbed by the local market. Low local demand thus encouraged the Argentine entrepreneurs to export their surpluses.

The accumulation of all these macroeconomic imbalances ended with a severe crisis in the early 1980s. Manufacturing industries entered into a period of deep crisis, characterized by the contraction of the local market, as a result of the low demand and the launching of a severe adjustment plan under the tutelage of the IMF. Moreover, high interest rates raised the debt levels of many companies well beyond their ability to re-pay loans. In many cases debt came to surpass the company's assets.

4. The "*lost decade*": The external shocks and the adjustment of the 1980s

During the 1970s, most countries in Latin America resorted to heavy external borrowing to sustain their import levels and to adjust to the increased oil prices, benefiting from the low international interest rates prevalent until 1979. With the second wave of the oil crisis, however, the industrialized world decided to adjust to the increased oil prices through the contraction of imports and the use of a strict monetary policy. This had the effect of increasing international interest rates from an average of -3.4% between 1970 and 1980 to 19.9% in 1981, 27.8% in 1982, and 17.4% in 1983 (Edwards, 1995). Before this policy change, capital markets had facilitated deficit financing. From that point on, however, it penalized not only the flow but also the stock of past debt contracted on floating rates. For Latin America, the deterioration of unit prices on non-oil exports and the sharp rise in world interest rates explain almost half of the increase in the regions' current account deficit in 1981 and 1982. Debt service in the region rose from 30% to 40% in 1981 (not including Venezuela and Mexico).

The debt crisis, triggered by the Mexican default on its debt in 1982, signaled the end of the debt-fueled growth in the region, as countries had to adapt to the new economic realities. In general terms, Argentina, as well as other indebted countries, had to cut back on imports to produce a trade surplus. Consequently, the government raised external tariffs to reduce on the levels of imports, setting trade policies back to what they were during the ISI period. The external gap, coupled with the need to generate a positive trade balance by increasing exports became the principal obstacle to growth. These efforts, however, were severely constrained by the low terms of trade that affected most of the country's exports. Argentina, struggling with debt, intensified its adjustment policies through huge real devaluation and increased import controls to be able to honor the debt and maintain a minimum level of imports.

The Argentine response to the debt crisis was no different from that of other countries. Besides bailing-out the private sector from its dollar-denominated debt in mid-1982, the government introduced new measures to slow imports. These measures included the reinstatement of high tariffs and other barriers to imports, accompanied by tax withholdings on traditional exports and fiscal subsidies to manufacturing exporters. A system of import licenses was also introduced on 1982. These measures returned imports coefficient to the same level as those before the opening of the economy in 1978.

The high debt-service was not only a BOP problem, but also a fiscal one. The recessionary adjustment measures and the large devaluations coupled to make debt service take a significant portion of the government's tax revenues. So much so, that it provoked extremely large fiscal deficits throughout this period. The monetization of this deficits fueled inflation and resulted in the hyper-inflationary processes of the late 1980s.

The international financial institutions, such as the IMF and the World Bank, began to pressure Latin American countries to go beyond stabilization plans and embark in structural reforms that were perceived to address the region's macroeconomic problem with a longer-term perspective. In exchange for financial support, lending institutions began in the mid-1980s to promote economic liberalization through their policy-based loans to Latin America. Most of the countries in the region resisted this pressures at first and only paid lip-service to these reforms, and therefore their implementation was quite slow in the late 1980s. Conditionality was also very broad and general, and at the beginning, only aimed to return the nominal level of protection to the pre-debt crisis level.

Table 5
AVERAGE TARIFF RATES (1976-1989)

1976	1980	1987	1989
55.9	27.8	39.4	23.8

Source: Kiguel, 1995 p.231 and Reca, forthcoming.

Thus, as the result of these pressures and changing convictions, by the mid-1980s, Argentina began a program of mild trade liberalization. Average tariffs began a process of gradual decline, lowering to 23.5% in 1989 from 39.4% in 1987 (See Table 5). Maximum tariffs declined from 102.5% in 1987 to 80% in 1989 (Reca, forthcoming).

Table 6 clearly shows that the only positive sign in this period could be found in the growth of the export sector. All other macro-economic indicators present a dismal performance during the period.

It becomes clear after this review of the three decades before 1990, that Argentine economic history has been highly unstable, and characterized by drastic changes in development strategies. Given this instability, it is very difficult to find what has led economic development during these decades. The Argentine experience has definitely not been either export-led nor investment-led. Indeed, not only it is impossible to identify a single or predominant development strategy in any given period of more than 3-4 years, but the main macroeconomic incentives that were in place in the larger portion of these decades had a bias against exports (export taxes and negative relative prices) and against investment (high prices for capital goods, restrictions to foreign investment, and repressed financial markets). If there was one discernible strategy in Argentina behind the kind of ISI implemented, it was to generate rents in the industrial sector through high protective tariffs that would make it particularly profitable. These rents, in turn, were partially captured by the state and re-distributed to increase domestic consumption, fueling demand for the growing industrial sector. Such emphasis on the domestic market, however, still begs the question of how to deal with the external sector constraint. This was thought to be taken care of by the traditional export sector, i.e. agriculture. As was discussed above, this formula did not work very well and periodical external crises forced the economy into a series of stop-and-go cycles.

Table 6
MACRO-ECONOMIC INDICATORS, 1980-1990
(Percentage Variation)

	1980	1990
Exports	100	178.0
Imports	100	41.1
GDP	100	90.6
Industrial GDP	100	76.0
Investment	100	29.9
Consumption	100	84.2
GDP per Capita	100	75.0

Source: Kosacoff, 1996, p.40.

II. TURNAROUND IN THE 1990s

A new phase started in 1989, with the government of President Carlos Menem. The disastrous economic performance of the previous government which ended in a hyper-inflationary outburst helped to ease societal resistance to painful structural reform. The new government implemented wide-ranging free-market reforms based on fiscal adjustment, privatizations, deregulation of internal markets, unilateral trade liberalization and regional integration. Additional reforms included the deregulation of the banking industry, changes in the pension system, fiscal budgetary restraint, and foreign investment liberalization. Some of these changes had begun modestly under the previous government, but took on more impetus with the Menem administration.

After two years of patchy reforms and threatened by yet another outburst of hyperinflation, the new administration changed its economic team in early 1991. This new team introduced a radical anti-inflationary plan based on the Convertibility Act which was sanctioned in March 1991. This law restricts the Central Bank from printing money if it does not have the equivalent in foreign currency, thus becoming a sort of Currency Board. The peso was tied to the US dollar on a one-to-one basis. The rationale was that the use of the exchange rate as an anchor combined with a rigid fiscal policy was indispensable to obtain price stability. This was a central goal after the nation had passed through two periods of hyperinflation in less than two years. At the same time, the government understood that fixing the exchange rate by law was the most effective way to create confidence between economic agents and control inflationary expectations (Porta, 1995). This plan also eliminated inflationary inertia because it prohibited price indexing, including salaries negotiated under labor contracts, thereby permitting salaries to increase only by improvements in productivity. The result of these measures was a drastic reduction in the inflation rate. This price stability, combined with structural reforms, attracted the return of international capital and produced an economic boom between 1991-1994.

During the 1990-1993 period, more than twenty publicly-owned firms, including oil production and major public utilities, were wholly or partially privatized. Moreover, the most heavily trafficked highways were transformed into private concessions roads with the right to charge tolls. In privatization's peak year of 1992, the value of sales was US$ 8.4 billion. This was equivalent to around 4 percent of GDP (Devlin, 1993). By 1994, the cumulative investment through privatization had reached an impressive US$ 15.9 billion (CEP, 1996), a large portion of the total showed in Table 7. FDI played an important role in this process as it provided more than 60% of the capital (Chudnovsky, Lopez, and Porta, 1996). The increase in FDI occurred in three phases: 1) the privatization of State-Owned Enterprises, 2) investment in highly protected and government-promoted industries (i.e. automobile), and 3) investment in more competitive export-oriented sectors and services (including agribusiness, banking, oil and gas, mining, and construction).

Table 7
PRIVATIZATION 1990-1996
(US$ million)

SECTOR	CASH	TITLES	TOTAL
Oil	5 483.2	2 276.8	7 760.0
Communications	2 271.0	5 000.0	7 271.0
Electricity	1 627.4	2 021.9	3 649.3
Gas	1 142.4	1 540.9	2 683.3
Air transportation	260.0	1 610.0	1 870.0
State Assets	202.5	-	202.5
Steel industries	143.3	41.8	185.1
Defense	85.9	4.4	90.3
Financial Sector	86.3	-	86.3
Others	61.5	-	61.5
Tank-Ship	27.0	-	27.0
Agriculture and Cattle	18.1	-	18.1
Hotels	3.7	12.0	15.7
Shipping	14.6	-	14.6
TV & Radio	13.9	-	13.9
Water */	-	-	-
Trains */	-	-	-
Routes */	-	-	-
TOTAL	**11 440.8**	**12 507.8**	**23 948.6**

Source: Boletín Informatico Techint, 1996, p.66.
*/ These public services were given to operators which paid annual fees for the right to operate them.

Trade policies

The government initiated a drastic process of unilateral trade liberalization in 1990. The Menem administration reduced average tariffs from 30% to 18% in 1990, and non-tariff barriers were almost fully eliminated. The rationale behind trade liberalization was that the increased competition would discipline domestic prices and stimulate productivity growth as local firms restructured their businesses to face the new competitive environment. The government established only three tariff levels: 22% for finished goods, 11% for intermediary goods, and 0% for primary and capital goods. By 1991 average tariffs were only 9.7%. The establishment of the definitive new tariff structure has followed a bumpy road because, as the exchange rate could not be used as a tool to deal with the early import boom, tariff and ad-hoc non-tariff barriers had to be used to deal with the trebling of imports in just three years.

However, industries such as automobiles retained special treatment with higher tariffs and import quotas. At the end of 1992, the statistical levy which functioned as an actual tariff surcharge increased from 3% to 10% as a response to a deteriorating trade deficit. By mid-1993, the government introduced measures of selective import protection as a reaction to the sudden impact that trade-liberalization and the exchange rate appreciation had on key import-competing manufacturing sectors. The paper, food, and the textile sectors were recipients of this new government initiative. The figures of Table 8 somehow conceal the magnitude of the changes, because during the 1980s there were a myriad of non-tariff barriers such as import prohibitions and a Buy Argentine Act (Ley de Compre Nacional), which were eliminated after 1990. In January 1995, the new Mercosur's Common External Tariff (CET) was introduced, making some of the existent tariff increase and a few others go down. The following section will discuss the effects of MERCOSUR on Argentina's trade and industrial policies.

Table 8
IMPORT TARIFF EVOLUTION (%) 1987-1995

	1987	1989	1991	1992	1994	1995	CET
Average Tariff	39.4	23.5	14.0	11.0	9.4	11.0	11.0
Standard Deviation	21.6	14.5	6.9	6.0	6.0	6.2	6.0
Maximum Tariff	102.5	80.0	39.5	35.0	20.0	30.5	20.0
Minimum Tariff	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical Levy	3.0	3.0	3.0	4.2	10.0	2.3	0.0

Source: Reca, forthcoming.

III. RECENT MACROECONOMIC PERFORMANCE

The results from the Convertibility Plan can be divided into two phases separated by the Mexican Peso Crisis. In the first period (1991-1994) the economy experienced an important economic expansion. The second period has been marked by the recession triggered by the financial crisis of 1995, and the quick resumption of growth in 1996-1997.

The main success of the Convertibility Plan was the drastic reduction of the consumer price index from 1343,7% in 1990 to 0.1% in 1996 (Table 9). The new found stability and the pro-market structural reforms that accompanied it, resulted in a period of strong economic recovery from the depressed levels of the late 1980s. GDP expanded at an average rate of 6% annually, reaching an aggregate growth of 34.4% between 1990 and 1996 (Table 10).

Table 9
CONSUMER PRICE INDEX 1989-1996

Year	Percentage change (%)
1989	4923.0
1990	1343.0
1991	84.0
1992	17.5
1993	7.4
1994	3.9
1995	1.6
1996	0.1

Source: Reca, forthcoming.

Investment became the most dynamic aspect of the economy during this period. After reaching only 14% of GDP in 1990, it reached 23% of GDP by 1994. Between 1991 and 1994 foreign investment inflows reached more than US$ 30 billion, while the FDI share of it accounted for US$ 15.9 billion in that same period.

- Trade and Industrial Policies under the Convertibility Plan

As the economy entered a period of sustained structural change, different sectors of the economy reacted in diverse ways to the new conditions characterized by trade liberalization, an initial appreciation of the exchange rate and a booming domestic demand. The first impact of the abrupt stabilization plan was an initial period of rapid changes in relative prices, favoring nontradable vis-à-vis tradable goods. At the same time, as the inflation rate decreased at a slower pace than expected and the exchange rate was fixed, the price of domestic goods increased above those of imported goods, mounting pressure on local manufacturers.

Table 10
GDP REAL ANNUAL GROWTH (1990-1997)

Item	1990	1991	1992	1993	1994	1995	1996	1997 (e)
GDP total	-1.3	10.5	10.3	6.3	8.5	-4.6	4.3	7
GDP agriculture	8.4	4.3	4.3	3.1	3.6	2.3	1.6	n/d
GDP industrial	-2.3	9.9	9.9	5.1	6.2	-7.0	5.2	n/d

Source: INDEC.

Only five sectors were responsible for 75% of industrial growth during this period. The automobile industry, which had a special regime, was the leader with an average annual growth of 38.2%, followed by stoves and water heaters with 12.2%, oil with 11.8%, and 6.3% for refrigerators, washing machines and cement. Three of these sectors are related to durable consumer goods (Kosakoff, 1995). In contrast, between 1990 and 1994, capital goods, tractors and intermediate textiles experienced important contractions in their production (See table 11). Capital goods production, for example, represented in 1994 only 64.7% of the 1990 levels and it was 74% lower than in 1984.

The abrupt increase in international interest rates in early 1994 and then, the Mexican Peso crisis of December 1994 stalled the expansion of the economy and, combined with the deterioration of consumer spending, the slump became a painful contraction. The exogenous shock from Mexico and the stress placed on the Argentine financial markets plunged the economy into a recession. GDP fell by 4.6% and there was an almost 7% decline in industrial output in 1995 1/ (Kosacoff, 1996). Unemployment rates increased from 11.2% in 1994 to 18.2% in 1995 and real wages began to fall.

1/ A growth path lasting 19 quarters ended in the first quarter of 1995 during which the industrial output increased more than 30%. In the second quarter of 1995 the activity fell 4.1%, reaching a fall of 7% for the entire year. Most affected were the producers of durable goods, in particular the automobile industry, which had led the industrial growth since the beginning of the Convertibility Plan until 1994.

Table 11
INDUSTRIAL PRODUCTION INDEX. GENERAL AND SECTORAL LEVELS 1991-1994
(base 1990 = 100)

SECTORS	1991	1992	1993	1994	var. % 94/90
Automobiles	138.4	259.6	335.1	405.3	304.3
Fridges, air conditioning, washers	159.0	215.2	222.4	236.4	136.4
Stoves, water heaters	176.2	232.5	259.6	212.1	136.4
Cement	122.3	141.5	157.8	176.8	112.1
Tires	95.3	113.3	125.5	147.4	76.8
Ind. Production index	105.4	113.3	117.4	123.4	47.4
Steel	90.4	85.1	100.4	119.8	23.4
Cigarettes	104.1	111.4	116.5	119.3	19.8
Food and beverage	112.1	113.5	112.3	119.3	19.3
Aluminum	93.3	94.0	104.7	106.1	19.3
Intermediate plastics	96.7	96.2	92.9	105.1	6.1
Paper and cellulose	105.4	106.4	101.5	104.8	5.1
Processed Petrol	99.5	106.7	105.6	97.2	4.8
Agrochemical	102.4	79.2	106.6	89.3	-2.8
Intermediate textiles	106.8	95.2	88.1	87.0	-10.7
Tractors	50.5	58.5	56.9	86.0	-13.0
Petrochemicals	81.4	89.5	89.5	91.1	-13.4
Chemical Minerals	97.0	79.1	75.3	75.2	-14.0
Intermediate Capital goods	92.6	96.7	77.7	64.7	-24.8

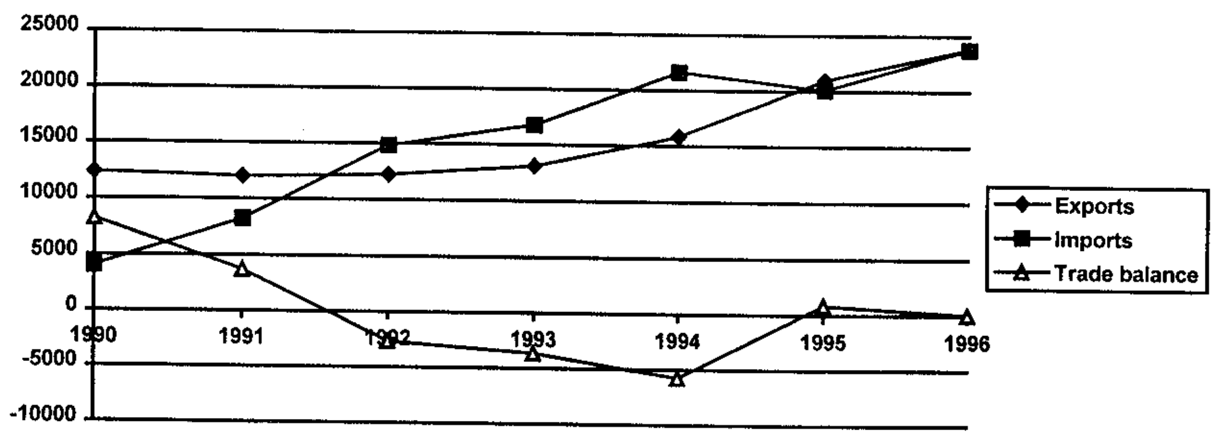
Source: Chudnovsky, et.al., 1996, p.65.

The "Tequila" effect caught Argentina in a particularly fragile stage of its structural reforms process. Using a fixed exchange rate as an anchor in the anti-inflationary drive led to the aforementioned initial appreciation of the domestic currency which was only starting to return to equilibrium levels. Competitive export sectors were just beginning a growth process while imports had increased due to the multiple effect of trade liberalization, the appreciation of the currency, the boom in domestic consumption, and abundant international liquidity. The result was a significant BOP deficit (a little over 3% of GDP, although much lower than Mexico's 8%) that, together with a long history of very high exchange rate instability, led to widespread financial panic amongst domestic and foreign investors. Under the liberalized capital movement rules, a large portion of the footloose financial flows that had entered Argentina in the previous few years was quick to flee the country.

The slump was shorter in time, but deeper than expected because the country stood by its commitments to the exchange rate anchor and did not devalue its currency. In 1996, the economy started to recover from the sharp contraction suffered in 1995 and GDP grew by 4.4% over the previous year. Foreign capital returned to the country, and investment grew by 8.1% (Ministerio de Economía, 1997). During the first semester of 1997, the recovery consolidated and GDP grew more than 8%, with a predicted 7% level for the year as a whole. The growth, this time, differs from the previous expansion because exports and investment are growing at a faster rate than consumption which is only recovering pre-crisis levels.

Regarding trade policies in the '90s, the rapid trade liberalization generated the first trade deficit in thirty years, with the exception of 1975. The trade balance went from a surplus of US$3.6 billion in 1991 to a deficit of US$5.8 billion in 1994, or 2.1% of GDP. Imports grew by more than fivefold in only 4 years, reaching US$21.5 billion in 1994. Exports, by contrast, did not show significant growth until 1994, when they began to grow at a healthy rate. After the domestic economic downturn in 1995, the export sector became very dynamic. Exports grew 32.3% over 1994 and reached a value of US$20.9 billion in 1995, thus producing a positive trade balance. In 1996, despite the recovery of domestic demand, the positive trend continued and total exports reached US$23.8 billion, producing a positive trade balance for the second consecutive year and almost doubling the value of 1992 exports (See Graph 1 and Table 12).

Graphic 1
ARGENTINA TRADE BALANCE
(US$ million)



Source : INDEC

Table 12
ARGENTINE TRADE BALANCE (1990-1996)
(US$ million)

	1990	1991	1992	1993	1994	1995	1996
Exports	12 353	11 978	12 235	13 118	15 839	20 963	23 811
Imports	4 077	8 275	14 872	16 784	21 590	20 122	23 762
Trade balance	8 276	3 703	-2 637	-3 666	-5 751	841	49
Total trade	16 430	20 253	27 107	29 902	37 429	41 085	47 573

Source: INDEC.

Export growth has been evenly distributed among different types of goods, and the composition of Argentina's exports did not change significantly. The main changes have been the emergence of oil exports as a significant item accounting for 13% of all exports in 1996 (from 6.4% in 1990) and the faster growth of manufacturing exports vis-à-vis traditional exports from the agricultural sector (See Table 13). This export growth reflects several changes, some structural but others may be more reversible. The reasons behind this period's export growth are:

- The launching of Mercosur at a time when Brazil was undergoing a real appreciation of its exchange rate and a process of rapid growth of domestic consumption, operated as a magnet for Argentine exports. Between 1992 and 1996, the increase of exports to Brazil accounted for over 40% of the total rise in Argentina's exports.

- Oil and gas exports, which alone explain another 15% of the total increase in exports during 1992-1996, reflect a rather structural change. Deregulation and privatization drastically changed the operation of this sector in the country. An investment boom -led by both foreign and domestic oil companies- produced a surge in the supply of oil and gas which positioned Argentina as a natural supplier of these fuels to energy-importing Brazil and Chile. These two countries are shifting their imports of oil from traditional suppliers to Argentina, who produces at competitive prices. Moreover, Argentina's vast gas reserves will soon be supplying its neighbors' energy needs through a network of gas pipelines that are currently in use, under construction, or at an advanced planning stage.

- The recent rise in the prices of some commodities also played a role in the country's current export expansion. Argentina's terms of trade improved by 12% in the 1992-1996 period, although two thirds of this change is explained by the high prices of oil and grains in 1996 only.

- Last, but not least, increased productivity derived from the structural reforms and the private sector heavy restructuring efforts has also made an important contribution. In many sectors, the last 4-5 years have witnessed the incorporation of modern, world-class production techniques, new machinery, updated quality control systems, and up-to-date managerial practices. These changes became crucial to survive in an increasingly competitive domestic market, and at the same time they opened the opportunity to sell products in export markets.

Table 13
EXPORTS BY BIG SECTORS (1991-1996)

Type of Export	1991	1992	1993	1994	1995	1996*/	% Change 1991-1996
Primary Products	3 301	3 500	3 279	3 735	4 816	5 810	176.0
Processed agric products	4 927	829	4 924	5 806	7 474	8 425	170.9
Manufactures	2 983	2 823	3 679	4 647	6 504	6 456	216.4
Oil & Gas	766	1 082	1 236	1 651	2 169	3 082	402.3
TOTAL	11 978	12 235	13 118	15 839	20 963	23 774	198.4

Source: Own elaboration based on INDEC and Ministerio de Economía (1996).
*/ provisory figures.

Of course, all of these rapid transformations were costly. As many firms succumbed to the new competitive pressures which they had to face with little public support, and the public sector shed hundreds of thousands of jobs, the unemployment rate surged to levels unknown to Argentines. While open unemployment has traditionally been low in the country (even during the crisis years of the 1980s it seldom exceeded the 6% level), in 1995 it reached 18.6% of the economically active population. Despite the recent economic recovery, it is only slowly coming down (16% in May 1997), although the economy has created a record 0.5 million jobs in the 12 months to May 1997. This situation is increasingly stimulating the debate on trade and industrial policies as they are perceived to have a direct effect on employment levels. On the one side, some economists propose to introduce more flexible labor market regulations to allow a smoother transition to labor markets' equilibrium levels. On the other side, many others think that the way forward is for the state to implement active industrial and trade policies aimed at promoting those sectors more capable of generating jobs. Meanwhile, the country's fragile fiscal and external accounts do not leave the central government much room to maneuver.

The Argentine economy, then, has recovered a growth path that had lost long ago. If the estimates for GDP growth in 1997 are correct (6.5-7.5%), by end-1997 the economy would have grown at a healthy rate of 6% per annum since the launching of the convertibility plan in 1991. This accumulated growth in seven years is slightly below the accumulated growth of the 1965-1974 decade, the longest sustained growth period in post-war Argentina. Today, however, the economic fundamentals -strong export and investment growth with very low inflation- indicate that the country may continue to grow for several more years, while in the last part of the 1965-1974 period the economy was clearly in a non-sustainable path, as showed by the macroeconomic chaos that followed in 1975 and 1976.

The recent experience could be characterized as "investment-led", as this has been the most dynamic component of GDP and many of the policies implemented during this period were meant to both increase investment levels and improve the efficiency of investment. Part of the measures were to eliminate all tariffs on imported capital goods (reversed with the adoption of Mercosur's CET), liberalize the foreign investment regime, deregulate the financial sector, and replace public by private investment (through the privatization process). The result of these measures, and the growing confidence of investors in the sustainability of the new economic strategy, helped recover rapidly the investment levels from the ridiculous low levels that it reached in the late 1980s. Investment still is low as percentage of GDP, if compared with some fast-growing Asian countries, and many analysts believe that if a high-growth rate path is to sustained in the long run, much remains to be done to increase investment levels. Export growth has also been impressive in recent years, but exports are still only a minor fraction of Argentine GDP, so the recent growth can hardly be characterized as "export-led". Having said this, however, it should be noted that in the first years of the Convertibility Plan, the sudden reduction of inflation generated a rise in real incomes that, together with the growth of credit, produced an initial consumption boom. Since 1995, however, while export and investment growth has been very dynamic, domestic consumption is only growing moderately.

Table 14
THE EVOLUTION OF THE MANUFACTURING SECTOR, 1980-1995
(As percentage of GDP)

	1980	1985	1990	1995
Manufacturing Industries	**22.6**	**20.1**	**19.5**	**18.3**
Textiles, clothing and Leather Products	3.1	3.3	3.6	2.5
Wood and Wood Products	0.7	0.6	0.6	0.5
Paper and Printed Material	1.2	1.3	1.2	1.5
Chemical Products and Petrochemical	6.8	6.2	6.6	6.1
Processing of Non-Metal Mineral Products	1.6	1.1	1.0	0.9
Basic Metals	1.0	0.8	1.4	1.5
Metalwork, Machinery and Equipment	8.0	6.5	4.9	5.0
Other Manufacturing Industries	0.3	0.2	0.2	0.2

This growth process has been uneven across sectors, as we have discussed above, but the period is still too short to see the structural changes it produced in the economy. In the manufacturing sector, probably the most affected by the long period of economic crises and reform of the past two decades, the changes are not so significant when we look at each sub-sector's participation in GDP. In Table 14, the most striking trend is the constant reduction of the participation of the manufacturing sector in the economy, similar to what happened in other Latin American countries in the period, as well as in most OECD nations. Within the sector, the most notable change in the 1990s has been the sharp contraction of the textiles and clothing sub-sector, and to a lesser extent, that of the chemical and petrochemical products. Within manufactures, the only sub-sectors that have grown faster than total GDP, and therefore increase their participation, are paper and printed material, and to a lesser extent, basic metalworks and machinery and equipment.

IV. MERCOSUR

The origins of Mercosur date back to 1986 when Argentina and Brazil entered into the Argentine-Brazilian Economic Integration Program (ABEIP). This program's dual goals were to strengthen the new democracies in these countries and to expand and diversify bilateral trade. Trade expansion was to be achieved through protocols emphasizing sector by sector agreements. Despite economic instability in both economies, exports to Brazil as a percentage of total Argentine exports rose from 5.8% in 1985 to 11.4% on 1990, that is from US$ 698 million in 1985 to US$ 1.12 billion in 1990. Presidents Alfonsín and José Sarney signed an integration treaty to create a free trade area over a ten-year period. However, the administrations of Menem and Fernando Collor de Mello signed a new agreement in 1990 which was a great plunge towards integration. Instead of proceeding on a gradual basis, the two countries decided to bypass several intermediary steps and directly create a common market by 1995. In March 1991, Uruguay and Paraguay joined the nascent trade bloc after signing the Treaty of Asunción. The treaty envisaged the creation of a common market by 1995 which would encompass all four countries through the scheduled reduction of intra-bloc tariffs until their elimination by 1995. The goal of a full common market was later postponed to the year 2006, with an imperfect customs union to start by January 1, 1995. It is imperfect because only approximately 80% of all products traded began to be exchanged duty-free (Argentina Business, 1996). Exceptions included sensitive sectors for each members, such as textile, steel, automobiles, some agricultural products and petrochemicals.

Mercosur was notified to GATT under Enabling Clause, rather than Article XXIV, which contains the main provisions concerning Territorial Application, Frontier Traffic, Custom Union and Free trade Areas. Enabling Clause is the legal cover for preferential treatment accorded to developing countries during the Tokyo Round, and it also includes preferential trade agreements between developing countries (Laird, 1997).

The Common External Tariff (CET) of Mercosur was finally agreed upon at the Ouro Preto accord in 1994. This agreement harmonized tariffs around 85% of all products, with a tariff range between 0% and 20%, and an overall average of 11%. The remaining non-harmonized 15% will converge within ten years. This list of excepted products includes capital goods, information technology, telecommunications hard-ware, and a list of specific exceptions allowed to each country. On this list, Argentina had 232 products, Brazil 186, Paraguay 253, and Uruguay 212 (CNCE, 1994). Metalworks, chemicals, shoes, toys, and home appliances were included on the Argentine list.

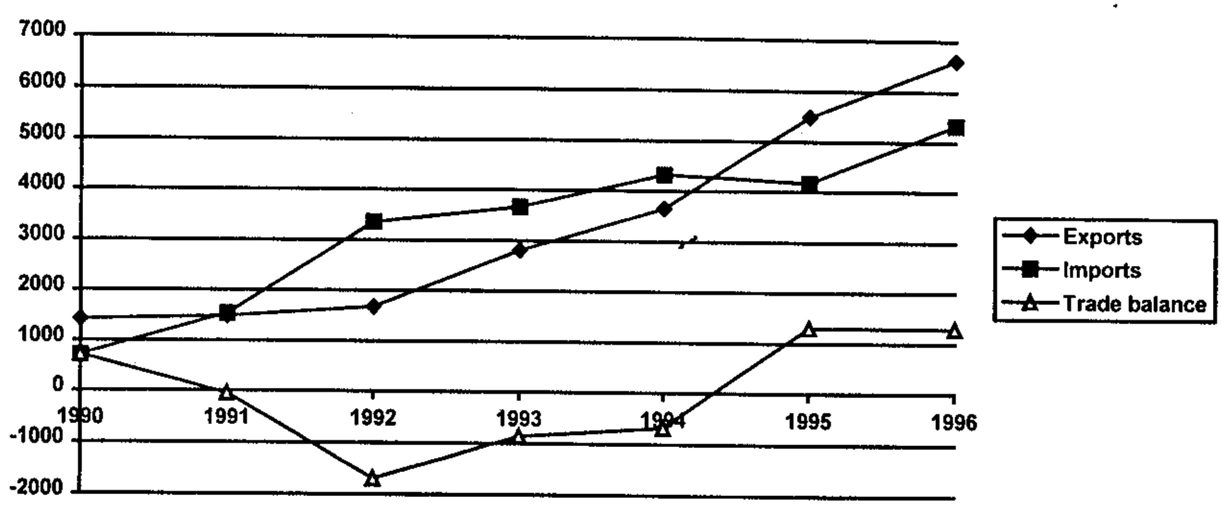
Table 15
MERCOSUR TARIFF STRUCTURE, 1995 AND FINAL CET (2001/2006)
(In percentage)

Sector	Argentina	Brazil	Paraguay	Uruguay	Average	Final
Total	10.5	11.9	9.4	10.8	10.7	11.2
Agric. forestry & fishing	7.0	7.0	6.9	6.9	7.0	7.0
Manufacturing	3.4	3.6	3.4	3.4	3.5	3.4
	10.8	12.3	9.6	11.1	11.0	11.5

Source: Laird, 1997, p.10.

There are two special sectors for which the future regime is still being negotiated, automobiles and sugar. Phase out timetables have been set for each. The sugar sector has until 2001 to adapt its operation to the custom union, the automobile sector will have to eliminate the local content and export-balancing requirements by the year 2000, in order to be compatible with the WTO Agreement on Trade Related Investment Measures (TRIMs)(more in section VII). The TRIMs agreement allows developing countries a longer grace period than developed ones, but they still have to come into line by the year 2000. Both sectors are very sensible in each country and the governments are subject to intense lobbying.

Graphic 2
ARGENTINE ATRADE BALANCE WITH BRASIL
(US$ million)



Source : INDEC

Table 16
ARGENTINE TRADE BALANCE WITH MERCOSUR + CHILE
(US$ million)

BRAZIL	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**
Exports	1423	1489	1671	2814	3655	5484	6615
Imports	715	1532	3367	3664	4325	4175	5326
Trade balance	708	-43	-1696	-850	-670	1309	1289
Total trade	2138	3021	5038	6478	7980	9659	11941
CHILE	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**
Exports	462	488	581	592	999	1475	1766
Imports	95	236	395	473	541	514	559
Trade balance	367	252	186	119	458	961	1207
Total trade	557	724	976	1065	1540	1989	2325
URUGUAY	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**
Exports	263	311	384	512	650	654	719
Imports	79	166	247	297	395	279	293
Trade balance	184	145	137	215	255	375	426
Total trade	342	477	631	809	1045	933	1012
PARAGUAY	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**
Exports	147	178	272	358	498	631	584
Imports	38	40	62	67	63	140	182
Trade balance	109	138	210	291	435	491	402
Total trade	185	218	334	425	561	771	766

Source: INDEC

Mercosur's implementation have produced quite impressive results. Trade has boomed as can be seen in Graph 2 and in Table 16. Exports within Mercosur countries have more than doubled as a share of its members total exports since 1990, while imports from within the group have also expanded sharply as a share of the total. At the same time that this was happening, growth has also been impressive between Mercosur countries and the rest of the world, providing an indication that the integration scheme does not seem to be diverting trade. Argentine exports to the other countries in the bloc increased by more than fourfold, reaching US$ 7.9 billion in 1996, from a level of US$ 1.8 bn in 1990. Brazil thus surpassed the US as Argentina's main trade partner.

In 1996 Chile and Bolivia signed special agreements with Mercosur to create a free trade zone in a few years time. Preferential treatment for most products has already began, while certain sensible items were given several years before they enjoy free-trade status within the new bloc. The agreement supersedes an earlier bilateral one between Argentine and Chile that gave way to a trade boom between the two nations that had done very little trading in the past, despite sharing one of the longest borders in the world. Total trade between the two Transandean neighbors increased fourfold between 1990 and 1996, a figure that is higher than the increase in trade between Argentina and its two smaller Mercosur partners. Argentina is running a large trade surplus with Chile and the rest of Mercosur, mainly because it has become the bloc's natural supplier of food and energy, which add to a more equilibrated intra-industry trade.

V. THE URUGUAY ROUND AGREEMENTS, THE WORLD TRADE ORGANIZATION (WTO) AND ITS IMPLICATIONS 2/

The Uruguay Round of multilateral trade negotiations brought important changes in the area of world trade. This negotiation for the first time incorporated issues related to intellectual property rights, services, agriculture, and investment. This Round, therefore, went beyond questions of protection at the border, such as tariff barriers, to issues affecting domestic policies. The Round also created the WTO, which binds all signatories to fulfill their agreements in the areas of anti-dumping, subsidies and countervailing duties, and custom valuation.

Argentina shares with many other developing countries the conflicts that emerged around key issues during the lengthy negotiation period. As with most nations, the final agreements contain a mix of costs and benefits for the country. There are four issues that are worth considering due to their impact on Argentina's trade and industrial policies: 1) The first involves actually two issues in which the Argentine participation during the Round was very important, both involve whole sectors, and will have long term impact. This group includes the agreement on Trade-Related aspects of Intellectual Property rights (TRIPs), and the agreement on agriculture. 2) The second issue refers to the Argentine trade policies that have been challenged within the WTO as a result of the commitments derived from the Round. This second group refers to the conflict over the impact of the Special Tobacco Fund, and the recent negative panel rulings by which the WTO said that the country's statistical levy and the special protective measures granted to the textile sector have to be phased out or changed to conform to WTO regulations. 3) The automobile regime is the third relevant matter that will be affected by some of the commitments Argentina agreed under the Trade-Related Investment Measures (TRIMs) accord. Finally, the fourth refers to the agreement on services under the GATS, that although very relevant, it is much less than the previous issues because Argentina has in general a more liberal regime than what is demanded for a developing country.

1. Trips and Agriculture

The TRIPs agreement has had wide implications, as many countries will have to change their legal system in order to incorporate the rules of the agreement. Developing countries opposed the enforcement of TRIPs because it would favor technology-generating countries and made technology imports more expensive. Developing countries, however, failed in their opposition to TRIPs and the only compromises that they obtained were some legal loopholes and to gain extra time to fulfill their obligations under the agreement. The cost of implementing this agreement can be quite high for developing countries that import technology because of higher royalties payments and higher product prices (Tussie, 1997).

2/ This section draws extensively from Tussie (1997).

Argentina is not an exception as a developing country and the cost of implementing this agreement is centered specifically around its domestic pharmaceutical industry. Unlike most developing countries, however, this industry represents an important sector in Argentina, with domestic sales reaching around US$ 5.2 billion a year. Argentine firms account for almost 50% of this market and two of the leading laboratories, which export to regional markets, are of local origin. Many indigenous pharmaceutical firms, specially the smaller ones, benefit from a loose enforcement of the old patent law and therefore resisted a more strict version of the intellectual property rights legislation, engaging in a severe conflict with the local representatives of the large multinational pharmaceutical firms as a new patent law was discussed in Congress.

The Argentine Government had to incorporate the TRIPs agreement and therefore change its intellectual property rights legislation in 1994 under Decree 2275. The new legislation established the incorporation of the TRIPs agreement's requirements within a period of ten years, as allowed by the agreement to all developing countries. The US, however, opposed this law and demanded a Gatt-plus kind of legislation with shorter transition time and stricter conditions for Argentine laboratories than those agreed under the WTO regime. As the result of American pressure, Argentina made the TRIPs agreement enforceable within a period of 3 to 5 years instead of ten. The US lobby had an important role in President Menem's veto to an earlier version of this law and the introduction of a new law which incorporated some of the American demands. The final legislation was approved on December 1994, but failed to please the American government, which as retaliation eliminated half of the Argentine exports that were in the list of beneficiaries of the Generalized System of Preferences.

The agreement of the Uruguay Round on agriculture has also brought some important changes, especially because it was the first time that GATT negotiations included agriculture in a meaningful way. The agreement on agriculture covers the areas of export subsidies, internal subsidies, access to markets, and sanitary and phytosanitary issues. This is especially important for Argentina because over two-thirds of its exports are of agricultural origin and has thus suffered specially from the extravagant agricultural subsidies implemented by the EU, the US, Japan and other developed countries. Moreover, the country's agrifood exports are mostly from its temperate zones (beef, grains and oilseeds), therefore competing directly with the rural exports of Western Europe and the U.S. There is probably no other sector in which export subsidies are such flagrant violations of fair trade practices as in agriculture, and several studies have shown that Argentina is the country most affected by agricultural protectionism. Argentina received a further heavy blow from the escalation of the subsidies war between the EU and the US during the 1980s. Even though the results of the Round have been disappointing from the point of view of Argentine expectations, the fact that there is a firm commitment to reduce, however minimally, the levels of distorting subsidies and protection is a big step forward.

The main aspects of the agreement, which have to be implemented within the six years to 2001, are as follows:

* Export subsidies will have to be reduced to at least 36% in value and 24% in volume, taking as a base 1986-1990.

* All variable taxes, quantitative restrictions, import licenses, non-tariff barriers, etc. will have to be replaced by tariffs, and all import taxes will have to be reduced to at least 36% on average, with at least 15% reduction in some sectors.

* Internal subsidies to agricultural production will have to be reduced by 20% using 1986-1990 as a base. This reduction will be calculated using Aggregate Measure of Support (AMS) for all agricultural sectors.

* Sanitary and phytosanitary standards will have to be equal to international standards, or if higher, must have the proper justification.

* All countries guarantee a minimum access by imports to their markets of up to 5% of its domestic consumption.

For Argentina and the other efficient agrifood exporters, represented by the Cairns group of countries, the progress made in this area was limited because it set low reductions and a high base year to apply them. As a response to this group insistence on greater reduction on agriculture, each of these countries received some concessions in order to convince them to support the agreement. Argentina, as part of this group, obtained the following concessions:

From the US
- a global tariff reduction of 34.2% for agriculture products and 37.5% for industrial goods.
- an extension of the present quota (20,000 tons) on Argentine beef.
- an increase of the present quota (1,850 tons) on hard and semi-soft cheeses.
- tariff reduction of around 34.2% for mosto grapes.
- the creation of a quota for peanuts and possibly for butter.

From the EU
- tariff reduction of 35% for agriculture and 42% for industrial goods.
- compensation for internal subsidies to oleaginous products.
- an increase of 11,000 tons on its present quota of Argentine beef.

From Japan
- tariff reduction of 43.5% and 77.5% for agriculture and industrial products respectively.
- it promised to reduce 50% of its tariff on vegetable oil.

Regardless of the extent of the actual tariff reductions on agriculture, the Uruguay Round has set a trend towards the dismantling of protectionism in this sector. This would have not been possible without GATT because small countries like Argentina lack the necessary political clout to pressure the industrialized world to reduce or eliminate its high levels of agricultural protectionism. Furthermore, the agreement will be supervised and enforced by WTO through its legal mechanisms. This provides some reassurance that the commitments will be fulfilled. The dispute settlement mechanisms will also allow small countries to raise concerns about trade violations.

2. Policies challenged by WTO

Argentina currently has several pending issues with the WTO regarding three issues: the statistical levy, the protection of the textile sector and the Special Tobacco Fund. The statistical levy has been in place for several years with varying levels, as it has been used as a kind of non-tariff barrier to increase/decrease the level of protection (See page 13). It is supposed to be a levy to finance the Argentine trade statistics, but this is not a very defensible argument since the US$ 500+ million it collects are many times more the total budget of the national statistics agency. A very recent WTO panel (10/17/97) ruled that the levy is not compatible with WTO and the country has one year to phase it out. As of November '97, the country is still considering different strategies to mitigate the impact of such measure, both in its overall level of protection and in its fiscal revenues (since it accounts for about 1% of total federal revenues). The statistical levy certainly plays an important role in national trade policies because it represents almost 30% of the country's average tariff (11%). Most probably, the country will convert it into regular tariffs, since the tariff levels legally bound under WTO (35%) are far above the current actual tariffs. Argentina has proposed to its Mercosur partners to add the three percentage points to the CET, and Brazil seems to have agreed. The Brazilian acquiescence was easy to get in the context of a deteriorating current account deficit in that country, and the growing concern of Mercosur countries of the future competition of Asian goods, now benefited by devalued currencies and weak domestic markets. If Argentina effectively eliminates its statistical levy, it would mean a substantial reduction in its overall effective protection, but it would at the same time increase the current tariff dispersion, reversing somewhat the direction of the recent trade reforms towards a more homogeneous tariffs system than it was the case in previous decades.

Regarding textiles, the country has been using different import protecting measures as a way to deal with the initial negative effects of trade liberalization (See Section VII.3 below). The government adopted specific duties aimed mainly at slowing low-priced Asian textiles, but failed to notify them to the GATT at the right time. The U.S. asked for a panel against these measures and Argentina lost. Currently the government is planning to appeal the panel's ruling, amid crossed accusations with the private sector over who and why the notifications were not presented on time (La Nación Newspaper, 10/18/97). Since the protective measures were adopted in 1993, the sector's import bill has been reduced, and according to recent declaration of the sector's main business association, Argentine textile firms seem committed to defend their current tariff and duty levels.

The Special Tobacco Fund (STF) has also been objected by WTO and will have to be transformed and diminished. The STF has been established in 1973 to help tobacco growers in the northern impoverished provinces. It is financed by an excise duty on cigarette sales and it amounts to over US$ 180 million per year, a hefty amount considering the scarce funds that the country dedicates to sectoral subsidies, most of which have been scrapped over the past years. The STF works as an important price supplement, and as it stands now, it delivers few incentives to generate structural change of the sector so that its problems may be solved without the subsidy in the medium and longer term. The STF has many opponents within the country, basically from other troubled sectors that facing equal or more important problems do not receive any kind of special treatment by the government. The Fund has shown great survival abilities, supported by a coalition of the sector's firms, cooperatives and labor unions, the provincial governors and the affected provinces' representatives in Congress. Argentina tried to present the case before the WTO to be treated under the *de minimis* clause, calculating the amount of the Fund relative to the value of the **total Argentine agricultural production**. As was predictable, this was rejected by the WTO, and the country has now to reduce the amount of the STF by 13.3% before the year 2004, and to change its nature towards the kind of support known as green box measures. The reduction is actually steeper, since the base-year considered is 1986, when the STF was only US$ 86 million, so now the 13.3% has to be taken from this amount and not from the Fund's current levels. This means that instead of reducing the amount 1.3% the first year, the country has to reduce the amount it uses as price supplement by almost 60%, and the rest apply it to green box measures. These are measures that do not affect prices and relate to R&D, infrastructure, inspecting and grading, public stockholding for food security, environmental programs and direct payments to producers not linked to production. Argentina is currently behind schedule, as it had to present before April 30th, 1997, its plan to deal with the phasing out and restructuring of the STF, which has not been done as of this writing.

3. The automobile regime and the TRIMs agreements

The automobile regime, discussed in section VII.2 in detail, is also challenged by the agreement over TRIMs. Argentina has a phasing out period of five years, and therefore has until 1999 to introduce changes to this regime to make it WTO-compatible. It is surprising that even though the design of the new regime receives much public and media attention, it is always related to the negotiations of the changes with Brazil within the Mercosur, but it is seldom mentioned the need to change the auto regime to adapt it to the country's commitments under WTO. There are two main aspects of the regime that violate WTO rules: its local content requirements and its compensated trade mechanisms. The current regime demands, since 1996, that all vehicles produced in Argentina have at least a 50% of local content, based on the vehicle sales price before taxes. Although this represents a more liberal stance than the historical record of the auto sector, is still incompatible with WTO. Probably the Mercosur countries will get around this through the bloc's rules of origin regime. That is, a foreign firm would be able to produce cars in any country without local content's requirements, but if it wishes to export it duty free to the other members, then the vehicle will have to have a certain local content to be considered a "Mercosur vehicle".

The other problem with the automobile regime is the compensation trading scheme. Today, an automobile firm that has domestic production may import cars paying a minimum tariff (2%), as long as its imports are compensated by exports by the same amount. This is not allowed under the current international trade regulations enforceable by the WTO, therefore the country will have to change this before the year 2000.

4. The Argentine offer on services

As part of the general drive to liberalize and deregulate its economy, in the 1990s Argentina has eliminated most of the restrictions to foreigners that were in place to limit their participation in relevant service sectors. This is the reason why the country presented a significantly liberal commitment to the Gats in 1994 in almost all service sectors.

The offer refers to market access and national treatment, and in each of these it refers to 1) Limitations on cross border supply, 2) Limitations on consumption abroad, 3) Limitations on commercial presence (right of establishment), and 4) Presence of Natural Persons. Except in the sectors mentioned below, in all others Argentina offered to consolidate no limitations in 1), 2) and 3), while in 4) is not willing to consolidate unlimited access because as part of the horizontal commitments it only offered to consolidate the freedom of access to managers, executives and specialists.

Regarding the exceptions, in the case of professional services, on points 1), 3) and 4) Argentina requires that foreign professionals validate their titles in the country and establish a local legal address. The financial sector has the most limited offer. In terms of the right of establishment, i.e. the 3) item, of key value in this sector, the country offers no restrictions in any of the subsectors, but is not offering to consolidate the elimination of restrictions in either 1), 2), or 4) for most subsectors. At present, the country has not made an offer in view of the coming deadline of December 12th, 1997 for the financial sector negotiations, and both the E.U. and the U.S. negotiators have underlined that Argentina falls within the group of countries from which an important offer is expected.

VI. INSTRUMENT OF TRADE AND INDUSTRIAL POLICY CURRENTLY IN USE IN ARGENTINA

The current industrial and trade policies are portrayed by Argentine economic authorities as being neutral, seeking to implement horizontal tools that could improve the competitiveness of the economy as a whole. There is an explicit refusal to go back to sectoral policies of "picking winners." However, due to the fact that some industrial sectors have a large capacity to generate employment, to defuse technology and the potential to heavily impact in the external sector, they have received special treatment (i.e. automobiles). The government has, moreover, faced strong sectoral pressures from lobbies to reverse the negative impact of the initial currency appreciation which affected the trade balance. The authorities' response was more pragmatic than admitted as it implemented a set of industrial and trade policies that were less neutral than its public discourse. This was a response to a difficult moment (1992-1994) in which exports were very slowly taking off, while imports had been doubling their value each year. Since the exchange rate could not be modified under the Convertibility Act, other trade management tools had to be used.

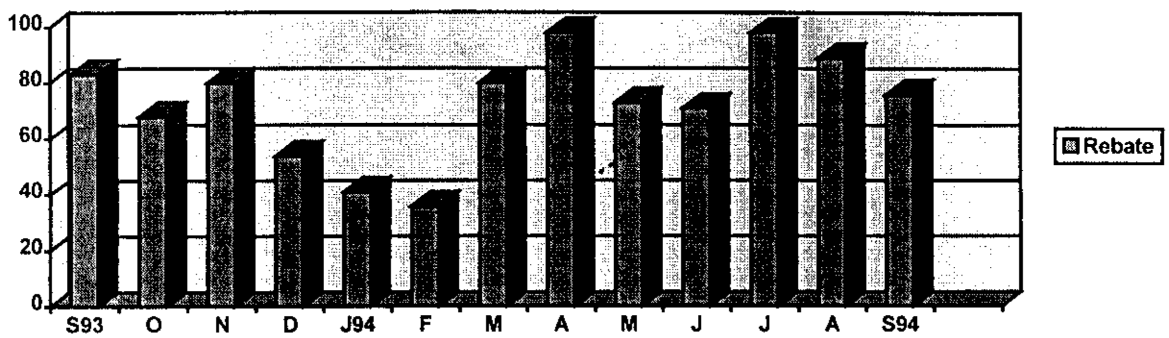
Based on the success of the automobile regime, the government launched the *Régimen de Especialización y Reconversión Industrial* (REI) in 1992. This consisted on granting import tariffs exceptions to those companies which agreed to export the same amount that they imported. The rationale behind this was to help Argentine firms increase their economies of scale through specialization in the production of a few goods, while complementing their sales line with imported items. This regime, however, was scrapped in late 1996 without much explanation.

The government also introduced some mechanisms to reduce the cost of exportable goods such as increasing the tax reimbursement to exporters to a level equal to the tariffs on imports. Thus, average export reimbursements increased from 3.3% to 6.3% of the total value of exports by mid-1992 (Tussie, 1996, p.7). Furthermore, the government introduced a system of indirect tax rebates on exports, which consisted of compensating the exporters for the taxes incurred during the production process. As exports increased, the amount of export rebates increased as well (See Graph 3). At the same time, some pre-financing export credits were introduced for agricultural and industrial exports.

In mid-1993, the government introduced import quotas for the paper and food industry, while specific duties on some textiles raised tariffs up to an average of 36% for textiles. Leather, textile, paper, chemical, iron and steel, and tobacco industries were given "sensitive" status and granted the highest level of effective protection against foreign competition.

The pressure from the surge in imports and the widening of the trade deficit has been strongest from 1992 to 1994. After this period, the government moved from ad-hoc emergency measures to the use of anti-dumping, countervailing measures, and safeguard on imports as their main tool for managing trade. This mechanism was quite new for the Argentine authorities. In fact, until 1992 Argentina had not subscribed to the 1979 Tokyo Round agreements on anti-dumping, subsidies and countervailing duties (Tussie, 1996) because it did not want to commit to phase-out subsidies, as were stipulated in the agreement.

Graphic 3
TAX REBATES ON EXPORTS
(Million of pesos)



Source : CNCE, 1994, p.31

Regarding these measures, the Uruguay Round agreement on the accepted proceedings to apply safeguards, anti-dumping and countervailing duties is important for Argentina as it deals with the kinds of trade problems that open economies are much more likely to suffer than those relatively more closed, as it was the Argentine one up until the late 1980s. The new agreement on subsidies has resulted in a restriction of maneuvering room to apply incentives in exchange for restrictions in applying countermeasures. In the case of Argentina, almost all of its assistance to exporters is below the ceilings agreed under the Round, due to the abandonment in the early '90s of the old export subsidies that would have probably been objected by the WTO. Therefore, the country does not have to make great modifications on its policies beyond those discussed above.

Argentina has introduced the changes in its legislation and created a new trade policy institution in 1994, the Comisión Nacional de Comercio Exterior (National Commission on Foreign Trade). The CNCE was established during a period marked by a large trade deficit when import competition was biting hard. The organizations' main areas of activity are in research of the effects of international trade on local producers, but most importantly, in carrying out the injury test on Argentine production facing foreign competition or possible damage in the future. It may also engage in research and follow up of international trade flows and patterns, as well as the evolution of the country's foreign trade. The CNCE follows the U.S. example in that it is separated the agency that investigates the possible damage from the authority in charge of implementing the resulting measures (anti-dumping and countervailing duties, safeguards). However, in Argentina the principle behind this separation is somewhat lost, because the CNCE is an agency **within** the Undersecretariat for Foreign Trade, which is the one responsible to implement the measures (Bekinschtein, 1996).

The use of this measure as trade policies in Argentina has increased dramatically as of late. In the period from 1986 and 1990 the Argentine government initiated only 9 cases of anti-dumping, but the number of investigations soared to 70 between 1991 and 1995 due to the CNCE's work. This represents an increase of 677% over the period 1986-1990 and in the first half of 1996 Argentina became the country that initiated the largest number of anti-dumping investigations in the world. Similarly, while between 1986-90 there was only one case that was subject to punitive action, in the subsequent five-year period 54 cases resulted in punitive actions (Tussie, 1996). The number of cases investigated have followed the pattern of imports. When imports from Latin America grew, most of the investigations centered on the region, representing 39% of all cases investigated between 1991 and 1995. Brazil was frequently targeted as the trade balance between the two countries resulted in a trade deficit for Argentina of US$ 3.2 billion between 1991-1994.

Argentina's trade policy has followed WTO agreements relating to article VI (anti-dumping, subsidies and countervailing measures) to dictate its commercial policy. The results of the Uruguay Round accord were incorporated into Argentine law on December 1994. In fact, Argentine participation in the Uruguay Round had been particularly active, as the authorities saw the negotiation as an opportunity to obtain new trade benefits. They were encouraged to do so because the exclusion of agricultural products in GATT had severely penalized Argentina in the past. Furthermore, as the country had undertaken unilateral trade liberalization prior to the Round, it felt that it had not only made important goodwill gestures, but also it had the moral authority to press its claims (Tussie, 1996).

Mercosur Common External Tariffs (CET) are considerably lower than the level which is legally bound in the WTO. This level is 35%, while current average tariffs is lower than 11%, and top rates are just over 30%. Thus, the gap between the applied and bound rates still provides a wide margin for tariff increases.

As a unilateral trade liberalizer, Argentina already has low tariffs and it will be to its benefit if the rest of the world lowers their tariffs and liberalizes trade because it will make the country recent trade reform more sustainable. The agreements made at the Round will benefit Argentina because it binds all signing members to lower their tariff barriers, subsidies, non-tariff barriers, etc., enforceable by a multilateral organization. Argentina alone would have not had the means to oblige or persuade most other nations to lower their tariff and non-tariff barriers because of its political weakness and low leverage to influence other countries.

VII. THE DIVERSE IMPACT OF STRUCTURAL CHANGES: THREE PARADIGMATIC SECTORS

Trade liberalization and deregulation have affected every sector of the economy. All players have had to adapt to the new situation in order to survive. However, this adaptation has been quite heterogeneous. This can be explained, in part, because prior to adjustment different sectors faced dissimilar conditions. Furthermore, some sectors have received differential treatment from the government. While some received important concessions in terms of trade protection, others were left to survive on their own. This produced mixed results. The deregulation of agriculture had a positive effect on the sector, mainly because previously the sector was discriminated against and did not allow Argentina to take advantage of its important natural resource endowment in this area. By contrast, trade liberalization had an initial negative effect on the textile sector. The reduction of tariffs coupled with a drastic fall in international freight costs that made imports of off-seasonal and even second-hand clothing profitable. This, plus the entry of China has caused havoc on any definition of comparative advantage in the industry. In certain subsectors within Argentine textiles, those more labor-intensive, the impact was greater since Argentina is a relatively labor-scarce country and wages are higher than in most other textile-exporting countries. Finally, the automobile sector received selective intervention and was protected under a special sectoral framework. This sector was thus able to modernize and it has experienced impressive growth and improvements in its productivity.

The brief analysis of the recent evolution of these three tradable goods sectors allows us to take a closer look at cases that are representative of different categories:

1. agriculture is the outstanding example of a sector that is based in the country natural-resource endowment but that, as in any other case, without proper policies cannot successfully compete in world markets,

2. automobiles enjoy the only remaining sector-specific industrial policy left in Argentina and have had a very interesting evolution under its six-years-old regime, and

3. textiles share their performance with many other manufacturing industries in Argentina that could only compete in the past protected behind high trade barriers and which can survive in the context of an open economy if they manage to find market niches based on anything but costs.

The following section will analyze these three sectors and their performance.

1. Agricultural sector

Since 1990, many factors contributed to the newly-acquired dynamism of the Argentine agricultural sector. Among the internal factors, the policies of deregulation, privatization and, most importantly, the guarantee of economic stability that permitted investments to be carried out and to plan with longer time horizon were the most remarkable. Regarding international factors, the agreements reached within the GATT's Uruguay Round concerning tariff reduction and market access brightened the sector's perspectives, while the consolidation of Mercosur increased the possibilities of selling Argentine agrifood products in the rest of the member countries (Casaburi (a), forthcoming). Finally, the process of globalization determined a profound transformation in the organization of the rural production in Argentina, which made the national producers to become aware of the importance of developing the production with strict management criteria, in order to increase their international competitiveness.

Table 17
PARTICIPATION OF THE AGRICULTURE AND FOOD SECTOR IN THE GDP

	Primary	Industrial	Total
1990	38.1	5.3	43.3
1030	30.5	4.8	30.5
1965	18.4	3.5	18.4
1975	13.1	7.2	20.3
1985	8.4	5.1	13.5
1995	7.9	7.1	15.0

Source: Casaburi (a), forthcoming.

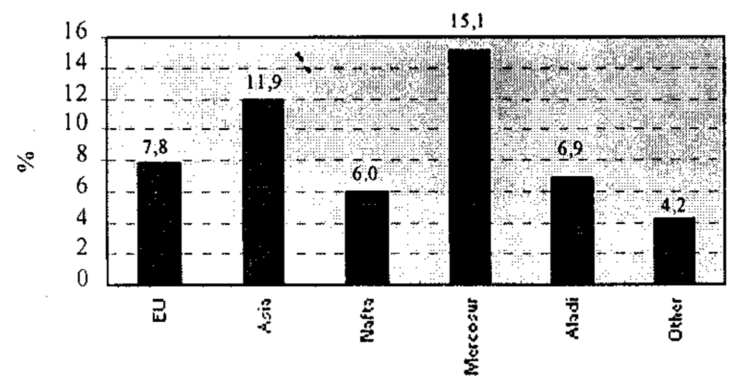
It is only recently that the level of participation of the agroindustrial sector in GDP began to grow again, after decades of decline. This new dynamism is the result of sustained external demand and an elevated volume of investments, transforming the food sector in one of the most dynamic of the Argentine economy. In the past five years the food industry represented 7% of GDP and approximately 25% of gross manufacturing product, with a production value of more than US$ 24 billion. As for its dynamic performance, Obschatko and Machinea claim that "...in the quinquennium 1990-1994, the food and drink industry grew at an annual accumulative rate of 12.1%, superior to the rate of the rest of the industry, that was 8.3%..." and that "...during 1995, the food industry also had a more favorable evolution than the rest of the industry (+3.6%, against a contraction of -5.8%)..." (Obschatko and Machinea, 1996).

Investments in agroindustry represented one third of total investments in the industrial sector during 1990-1995. It is estimated that only in the past three years, that is since 1994, investment in the sector has surpassed US$ 5 billion, of which over two thirds is explained by foreign investment (Casaburi (a), forthcoming). The subsector to which the largest investment amount was destined is beverages, coinciding with the increase in participation of this subsector, in which more than 40% corresponds to the beer industry. In second place is the subsector of "bakery, pasta and sweets/candies" with 20% of the investments in food. Finally, with 16% of the investments, the dairy products subsector appears as one of the most dynamic new exporters. The dairy industry is attracting significant levels of investments tending to increase the processing capacity of the sector (Casaburi (b), forthcoming).

Regarding the effect on capacity, nearly one half of the investments were realized in new plants, meanwhile 30% were destined to the purchase of existing plants; the remaining 20% corresponds to expansions and repairs. Regarding the origin of the investment, the greatest proportion corresponds to the European Union (40%) and to Nafta (33%); Brazil participates with 7% and Chile with 8%, while the rest (12%) comes from other countries (Casaburi (a), forthcoming).

Perhaps the best way to prospectively evaluate the magnitude of the Argentine agriculture and food's sector development is to refer to the sector in the international scene, and to analyze what role Argentina plays in this context. At the world level, the agriculture and food sector participates with 8% of the world commerce, with annual exports of US$ 330 billion, while Argentina only accounts for 2.5% of the latter number. In the last decade, international agrifood commerce grew at an annual rate of 6% in the case of primary products and 8% in that of manufactured products. The rates for Argentina 0.4% and 9.3% respectively. As Graph 4 shows, Mercosur has shown the most dynamic growth in agrifood trade over the past decade.

Graphic 4
RATE OF GROWTH OF WORLD COMMERCE OF AGRICULTURE AND FOOD PRODUCTS, 1985-1995



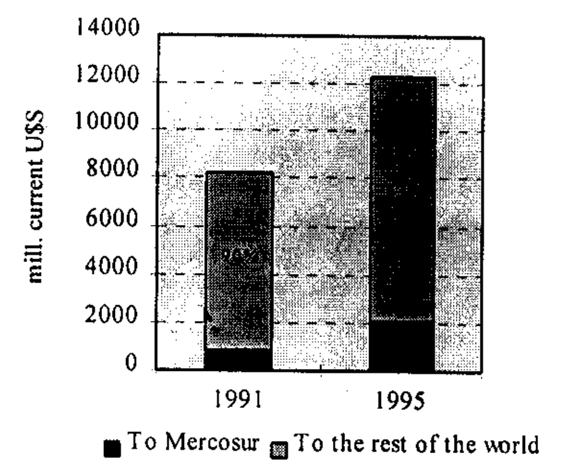
The world agriculture and food commerce doubled its value in the period between 1985 and 1995, rising from US$ 170 billion to US$ 330 billion. On a regional level, more than 150 billion correspond to the European Union; nonetheless, this value also reflects the large intra-EU commerce. In second place, Asia and Nafta appear with approximately 70 billion and 50 billion.

As for the regional dimension, for the ten years considered, commerce grew at an annual rate of 15% in the case of Mercosur, followed by Asia with 11.9% and the European Union with 7.8% (Graph 4). The Argentine penetration in extra-regional markets is scarce: in no case does it surpass 2%, while within Mercosur and Aladi its participation reaches 30% and 20%, respectively.

After having been relegated from discussions of multilateral trade liberalization since the Second World War, finally agriculture trade was debated within the GATT's Uruguay Round and many important measures were adopted, concerning not only tariff and subsidies reductions but also the explicitation of non-tariff barriers and the progressive opening of markets to external products. Other fundamental outcomes from the Uruguay Round were the creation of the WTO and the recognition of the need for a more intense debate on the issues related to food security.

In the period between 1991 and 1995, Argentine exports of agricultural and food products increased by 49%, growing more than proportionally those destined to the countries of Mercosur. In this way, the bloc changed from representing 10% of Argentina's agricultural exports in 1991 to represent 17% in 1995 (Graph 5). In turn, within this total, the greatest participation corresponds to Brazil, as it carries 15.5% of the Argentine exports from the sector. In this sense, the economic integration with Brazil has a great impact on Argentine agriculture, since the said country is traditionally a great importer of temperate-climate agricultural products. The numbers indicate that in 1995 Brazil was the recipient of 48% of dairy exports, of 36% of the fruits and vegetables, and of 59% and 10% of cereal and meat exports, respectively.

Graphic 5
ARGENTINE EXPORTS OF AGRICULTURAL AND FOOD PRODUCTS



In October of 1996, a treaty between Chile and Mercosur was signed, establishing a free-trade area and is already yielding its fruits with the amount of its own expansion. Some agrifood products, though, were given up to 18 years of protection before they receive free-trade status. In fact, agricultural and food products provoked major controversy during the negotiating period, since Chile sees the entrance of Argentine products as a threat to its own production. This is reflected by the fact that almost 30% of the neighbor country's declared exceptions are from the agroindustrial sector, in addition to numerous sanitary regulations.

Nevertheless, the members of the bloc are pleased with the entrance of Chile because it opens an important transportation route with an exit to Pacific ports and, therefore, to prospective Asian markets. For Argentina, it is even more attractive because Chile has been (and continues being) a net importer of temperate-climate agricultural products. The same thing occurs in the case of Bolivia, with whom recently an agreement has been signed and where this country also reclaims exceptions for products from the agricultural and food sectors.

Among the internal reforms that affected the agricultural sector is, in the first place, the ample deregulation that took place in the Argentine economy since 1991. Among other measures, the systems of minimum prices for primary products and maximum prices for food were abolished, and ten agencies that regulated different agricultural commodities markets were dissolved (Casaburi (a), forthcoming).

The second regulatory change that had a significant effect was the policy of transport privatization. The decentralization and privatization of the ports led to an increase in efficiency and a decrease in costs, at the same time that the new legal standard consolidated and stimulated the expansion of the private cereal ports of the Parana River. This increase in efficiency can be observed through some indicators, like the productivity measured in mt/person/year that, in the case of the Buenos Aires ports, raised from 667 in 1991 to 3,000 in 1995; that is to say, it almost quintupled in five years. Another measure of the great improvements in efficiency is the average stay of ships (also measured in the Buenos Aires ports), that diminished from 6.2 days in 1990 to 3 days in 1995. With respect to railroad transportation, private businesses are repositioning it as an efficient low-cost means for transportation of agricultural production. The impact has been notable, since from transporting 102,000 mt/km/agent in 1990, they passed to 1,457,015 in 1995, implying a productivity growth of 1,300%. Most of these advances were passed down to commodities producers in the form of lower costs or improved availability of infrastructure.

A third regulatory factor determinant of the dynamic performance of the sector is the tax reform, that upon eliminating the export taxes, reduced the anti-export bias that characterized the tariff policy up to this moment. This affects, for example, the production of cereals, that from paying an export tax of between 20% and 30% in the 1980s, went on to 10% in 1991 and actually receives reimbursements of 2.5%.

There are only three special schemes left in the agricultural sector affecting trade. The first is an export ban on rawhides that benefits the powerful tanning industry, soybeans continue to pay an export tax of 3.5% to lower the costs of the crushing sector vis-à-vis its international competitors, and tobacco growers still receive subsidies, a practice challenged by the OMC, as described above.

Besides these regulatory changes, trade liberalization per se also lowered costs because of significant tariff reductions on agricultural inputs. The elevated tariffs that affected the agricultural machinery and the agrochemicals artificially raised the prices of these inputs and granted protection to less efficient domestic industries whose quality was many times inferior to the international quality. One of the consequences of the reduction or elimination of those tariffs was the strong increment in fertilizer consumption, that grew at an annual rate of 40% in the period between 1991 and 1996.

2. The automobile sector

In 1990, the automobile industry experienced its 17th year of constant decline in all parameters of the industry. This decline was characterized by a drop in production (1990 production was one third of the production of 1973-74). Exports of vehicles were no more than 1% of total production, productivity levels were poor due to low volumes, prices represented an average of 70% higher than at headquarters, vehicle models were old in technology, and vehicle renovation was very low. At the same time, during the 1980s imports of motor vehicles were prohibited (ADEFA, 1995). As a consequence of this, the number of factories has been reduced from 19 at its peek in the 1960s to 6 in the late 1980s due to mergers or close-downs.

Despite the free-market orientation of the economic policies of the '90s, Argentine authorities considered the automobile industry as a potential leader in the industrial renovation of the country, and were seduced by the possible impact on jobs and investment that a recovery of past sales levels could mean. Needless to say, the lobbying capacity of the large car companies established in the country also had something to do with the exceptional treatment granted to them.

The government tried to foster specialization of the industry in order to restructure and integrate the Argentine automobile industry into the world trading flows. In a sector where economies of scale are paramount, the productive structure of its Argentine operation were characterized by its small scale, marked by too many car plants and too many models produced by each plant, for a market of just 100,000 units per year. The policy was therefore oriented at letting the car producing firms to have a closer integration with their own plants around the world, but more precisely with their operations within Mercosur. Lowering local content requirements and allowing the automobile assembler firms to import their own cars produced elsewhere at a preferential tariff was meant to increase the scale of the whole industry. Each big firm could then specialize producing only one model in Argentina and importing the rest of its models, on the condition that exports must match imports. By promoting intra-industrial trade as a result of complementary specialization, the government hoped to assure success for the sector and to Mercosur, as well as to increase its presence in international trade.

With this in mind, the government implemented three types of measures for the automobile sector. These included regional, sectoral, and external agreements. Protocol 21 was signed on January 1st, 1991 between the government of Argentina and Brazil. This agreement tried to expand and diversify, in an equilibrated way, the exchange of autos between the two countries, to expand the production, to prevent further vertical integration of the factories, to improve the balance of payment vis-à-vis third countries, and to stimulate investment and technological research within the region. Therefore, those products which benefited from the protocol received certain advantages such as, no tariffs on imports between the two countries, and lack of restrictions to imports from third countries, if they were compensated with exports. At the same time, the controlled exchange with Brazil was supposed to reverse the historical trade balance deficit Argentina had with its largest neighbor.

On March 25th, 1991, the first domestic market agreement was signed between car factories, dealers, parts-producers, unions, and the Argentine government (the so called "Acuerdo para la Reactivación y el Crecimiento del Sector Automotriz"). All the parties to this agreement accepted reduction of prices, reduction of taxes of 41% to 50%, and the freezing of salaries until 1999, except in cases of productivity increases. In this way factories were able to reduce labor and fiscal costs and reduce final prices by around 33%. On December 12, 1991 the Automobile regime was established with the following general characteristics:

* Compensation of imports with exports: the idea was the integration of the industry with other countries and to maintain an equilibrium in the balance of payments. By exporting, firms could import the same amount duty free.

* Quota of imports for vehicles not imported by local auto-makers, which cannot exceed 10-15% of total local production. This was intended to benefit those companies already settled in the country and to attract FDI in the sector.

* The national content was brought down to 60% (later to 50%), with the aim of modernizing the automobiles and bring them within international standards.

* Factories were obliged to present plans and targets for production, exports, employment and investment to the government.

Table 18
PRODUCTION AND EXPORTS OF THE AUTOMOBILE INDUSTRY 1991-1996
(In Units)

Year	Production	Domestic Sales	Export
1991	138.858	--	5.205
1992	262.022	349.245	16.353
1993	342.344	420.850	29.976
1994	408.777	508.152	38.657
1995	285.435	327.982	52.746
1996	313.150	376.133	109.040

Source: ADEFA e INDEC.

The impact of these measures drastically affected the sector. The industry experienced an impressive increase in production, sales, exports and productivity. This boost was further stimulated by a lag of demand that had originated in the 1980s. The production went from 99,639 units in 1990 to 408,777 in 1994. Domestic sales increased from 95,913 units in 1990 to 508,152 in 1994, and exports increased from 1,126 units to 109,040 in 1996 (Table 18), while sector analysts estimate that in 1997 more than 50% of national production will go to export markets.3/ With the financial crisis of 1995 and the slump in the economy, production decreased to only 285,272 units and domestic sales have yet to reach 1994 levels. Since the beginning of the automobile regime exchanges with Brazil increased by around 900%, and investment by 200%. More importantly, foreign investors regained their confidence in the local market. General Motors (GM), Fiat, Renault, and Peugeot thus returned to the country after having left in the 1970s and 1980s. Taking into consideration all the investments made in and promised to Argentina, they will total over US$ 4.5 billion before 1999 (See Table 19).

The car industry special regime, created by the several agreements signed at a sectoral level and at Mercosur level, is still in place and will be until 1999. It has achieved many of the expected goals in Argentina: the recovery of production, the modernization of car models produced locally, the increase in productivity and exports, the reduction in prices and the rise in the choices available to Argentine consumers. However, the cost paid by consumers and other sectors of the economy in terms of having to buy cars at above world market prices and below world-class quality standards has been high. The main question now is whether this cost has been paid in order to have a smoother transition from an antiquated lame duck automobile industry to

3/ This spectacular export performance in a sector that has been the quintessential inward-oriented industry from the ISI stage, has to be considered with caution. Over 75% of all exports go to the Brazilian market, and the rest reaches other Latin American markets only. While this is a positive departure from the less competitive past, the industry is still not a world-class competitor since it only sells to the very protected Brazilian market.

a vibrant and internationally competitive one or just a transfer of rents from the rest of the economy to one sector. Based on the investments promised and carried out and the impressive increases in productivity, it is likely that the sector is approaching international price and quality standards. The end of the story will only be told as the programmed end of the regime -in 1999- arrives. Two years ahead of that deadline, the industry is already claiming -at a Mercosur level- for an extension of its special regime beyond the agreed date under the rationale that all major car producers in the world grant some sort of protection to their domestic manufacturers.

Table 19
ANNOUNCED AUTOMOBILE INVESTMENT AS OF SEPTEMBER 1997 WITHIN MERCOSUR
(Million US$)

Company	Amount in Argentina	Amount in Brazil
BMW	--	650
Ciadea-Renault	450	1.100
Chrysler	165	320
Fiat	700	2.500
Ford	1.000	2.500
General Motors	1.000	3.250
Honda	--	300
Iveco	125	125
Kia Motors	-	500
Mercedes Benz	100	80
Mitsubishi	-	150
Scania	60	160
Sevel-Peugeot	500	1.000
Skoda	--	200
Toyota	400	400
Volkswagen	280	2.500
Volvo	-	150
TOTAL	**4.780**	**15.885**

Source: ADEFA & Argentine Newspaper "Clarin".

Domestic debate on the sectoral policies is dominated by the Mercosur negotiations. The regime is now a separate chapter in Mercosur, and both, Brazil and Argentina, have differences in the way they treat the automobile sector. Intra-bloc auto trade must be of a compensated exchange, and the commitment is to develop a common Mercosur automobile regime before the year 2000. The negotiations are already going on, and the authorities of the member countries have declared that the new common regime will be announced in April, 1998, to give time to the sector to adjust to the new rules of the post-1999 auto regime.

Less debated than the role of the auto sector within Mercosur, but arguably at least as important, are the incompatibilities of key aspects of the auto regime with the OMC's TRIMs agreement. Local content rules and the export-import compensation scheme must be phased out before the year 2000, so that the new Mercosur automobile regime will also have to comply with WTO rules, and additional burden to the negotiators that are already dealing with the powerful and complex interests of the whole industry at a Mercosur level.

3. The Textile Sector

The textile sector consists of two sub-sectors: 1) manufacturing of fibers and yarns (wool, cotton, etc.) which accounts for 90.3% of value added of the whole sector and, 2) confection of clothing with around 9.7% of the value added. The first sub-sector can be further divided into the cotton-related production (with 75% of the valued added), wool sector (with 20% of the value added), and synthetic sector (with 5% of the value added).

The textile sector produced around one tenth of the total national manufacturing production in 1985, while it absorbed 11% of the employment and 8% of industrial establishments (CEB, 1995). The recent trade liberalization affected the textile industry severely through increased foreign competition, since most textile firms were not well prepared to compete against the sudden increase of low priced imports. This was in part the result of some intrinsic characteristics of the industry such as concentration of production on commodities, large dispersion of production (with scarce economies of scale), limited resources for research and development, high labor costs, an unstable regulatory system, and lack of a good local reputation. Low priced imported cloth from Europe and clothing from China, South East Asia, and the U.S. were able to capture a large part of the local market. Imported textiles reached 116,138 tones in 1993, representing an increase of 296% over 1990. By contrast exports in 1993 reached only 114,000 tones, which represented a contraction of 56% over 1990. The contraction affected the whole sector but especially the production of cotton and synthetic fibers (See Table 20). This resulted in the closing of numerous factories and had an obvious negative effect on employment. This increased the pressure on the government to take certain measures to protect the sector.

The authorities' response was to resort to ad hoc import-protection measures. On July 1993, the government implemented *Resolución No. 811* that established specific duties on around 200 tariff positions. These imports had reached US$ 342 million in value by 1992. An additional tariff of between 10% to 14% was implemented to block South East Asian imports. Under intense pressure from textile producers, the government eliminated 29 tariff exception positions. These measures did not fully work as imported goods continued to increase in 1993. In 1994, the authorities initiated anti-dumping measures against China, Korea, Brazil, and other South East Asian countries as a way to neutralize low priced imported products.

Table 20
MAIN TEXTILE PRODUCTIONS 1990-1993
(tons)

Year	Cotton ('000 tones)	Cellulose Fibbers	Artificial Fibbers	Synthetic Fibbers
1990	270	2.653	27.687	21.004
1991	230	3.262	33.670	23.131
1992	130	3.202	32.007	19.143
1993	120	3.987	30.059	11.178

Source: CEB, 1995, p.65.

Regarding the industry and the Mercosur markets, there seems to be a process of transformation as the Custom Union became effective in 1995. Argentina began to specialize in basic intermediate textiles to export to Brazil, which is expected to export finished goods, benefiting from its larger pool of unskilled labor to compete in the most labor-intensive phase of the textile manufacturing process.

The process of early liberalization, the subsequent ad hoc protection and its more recent attempt to make the original measures WTO-compatible (unsuccessfully, in textiles) are a sign of certain pragmatism in the administration of the trade policy reform on behalf of the economic authorities. The protection granted, however, seems more a result of industry lobby than an autonomous public policy initiative since the protection was delivered without any commitment to invest and/or restructure on behalf of the textile industry. Consumers interest has not been a relevant issue considering that the measures affect items very important for lower income families (like low-cost East Asian textiles).

VIII. THE INSTITUTIONAL ASPECTS OF ARGENTINE TRADE AND INDUSTRIAL POLICIES

The utilization of trade and industrial policies faces significant institutional weaknesses. The main problem is that the design and implementation of such policies are scattered among dispersed and non-coordinated state agencies. The main thrust of the current industrial and trade policies is their broad commitment to freer trade and the unleashing of market forces.

Beyond this commitment to a mostly horizontal policy, there are a myriad of smaller initiatives that are intended to promote growth and stimulate competitiveness at the enterprise level. Although most of these programs are concentrated in the gigantic Federal Ministry of Economy, and within it, in the Secretariat of Industry, Trade and Mining, a number of different initiatives have been designed and are operated in smaller bureaucratic units within this Ministry that do not usually talk to one another and -more often than not- engage in frequent inter-bureaucratic rivalry. Many of these special programs are supported by international financial institutions -such as the World Bank or the Inter-American Development Bank- which means that they are somehow apart from regular public policy-making, paying higher salaries, affording better equipment and using program designs that derive more from the process of interaction during the long negotiations with the Banks than from a national strategic decision to operate programs in certain ways.

On top of this lack of articulation at the national level, many provinces and important municipal governments have their own enterprise support programs, designed without any attempt to coordinate efforts with other national programs. The end result of this lack of policy coherence is a significant degree of confusion and frustration among Argentine firms that have a generalized perception that there is no public support for their efforts to adjust to the new competitive environment and face the stiff international competitive challenge. The response of the public sector is the enumeration of the existing support programs and the large amount of money that the Argentine public sector as a whole spends in enterprise support programs through subsidized credit, technical assistance or tax breaks for certain regions. But somehow this financial effort, specially the portion aimed at medium-seized enterprises (SMEs), does not have its intended impact on individual firms.4/

Another reason why these funds do not achieve the expected impact on the productive sector is that most programs have a "supply-side" approach. They are not designed to satisfy the most urgent needs of the end beneficiaries, but on the contrary, many technical support programs just offer free assistance to firms, based on the programs' own personnel (more often than not bureaucrats with little business orientation) and publicly-run laboratories. In such cases the most

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4/ A broad survey carried out by the Secretariat of Trade and Investment in 1994 showed that more than 95% of small and medium-seized enterprises (SMEs) could not mention just one of the more than 44 SME support programs.

frequent problem is that the firms do not know what is available to them, and when they do, there is a wide mismatch between the kind and quality of services firms need and what the state offers. In the case of subsidized credits, the mechanisms to access to those credits is plagued of red-tape and hidden costs that make their relevance diminish.

Problems in national and provincial regulations and taxation systems still play against a more aggressive competitive position of Argentine firms to face foreign competitors at home and abroad, despite many years of extensive reforms in the regulatory and the tax systems to create a better "business environment" in the country. Finally, the perceived lack or transparency and weak human resources policies in the public sector in charge of trade and industrial policies also reduce their impact, distort their result and lower the monitoring capacity of the state apparatus which is crucial for the success of any enterprise support policy.

IX. THE WAY FORWARD: THE ROOM FOR INDUSTRIAL AND TRADE POLICIES UNDER THE WTO

The Uruguay Round has produced many changes that affect the evolution of the Argentine economy, even though the impact is much lower than what many analysts seem to think. Broadly speaking, the main thrust of Argentina's liberalization has been first, unilateral, and then the result of the formation of Mercosur. The latter has not only meant liberalizing substantially all trade with member nations, but also some tariff positions of the CET were lower than the applied Argentine rate, although others were higher. It should also be remembered that bound ceiling rates in the WTO are 15 percentage points above the maximum CET level. In sum, the main drive in trade liberalization has been unilateral and regional, the WTO providing the outer limits of the playing fields in which these matches were played out.

On the positive side, the agreements on agriculture have improved the market access condition of key Argentine export commodities in major world markets. On the negative side, the TRIPs agreements is expected to have a larger impact in the pharmaceutical sector in Argentina than in most other countries, while the TRIMs poses a challenge to the post-1999 automobile regime. The most important point, however, is the limitation agreed on the use of subsidies and reduction of trade barriers from a point of view of a small country that has carried out an extensive unilateral liberalization program, like Argentina. These limitations are usually perceived in the developing world as an imposition from the advanced industrial nations to constrain their capacity to implement trade and industrial policies to close the income gap with the rich countries. In the Argentine case, I would argue that generally speaking, the constraints established in these agreements for developing countries are far and above the levels of active industrial and trade policies that are likely to emerge in the current Argentine context. In other words, the present policies are, in general, even more liberal and less interventionist than those that are possible under the WTO. Tariffs are significantly lower than the level bound under the Uruguay Round, and direct export subsidies of the kind prohibited or made actionable under the agreement were abandoned unilaterally together with other reforms in the early 1990s. Those that survived, did so much more due to fierce political lobby than because they are part of broader development policies.

There are many WTO-compatible policies that the country could adopt to increase the overall competitiveness of the economy, to accelerate growth, promote investment and assure a better distribution of the benefits of increased incomes, in terms of regions or firms. The policies can be divided under the following grouping:

1. Broad-based competitiveness

These policies can be of a positive or a negative nature. The latter are all those policies that are geared towards the elimination of public policies, taxes and regulations that diminish the competitive capabilities of a country's private firms. These policies go from the elimination of export taxes to more subtle ones like the modification of old and awkward regulations, red tape-plagued export procedures, and labor market laws. In this regard, the Argentine reform process in the 1990s has gone very far in removing obstacles to private sector development. There are many other impediments left, however. Specially at a provincial level, some taxes and many regulations provide very little public goods, while increasing the costs of doing business. Cumbersome customs procedures and long delays in the devolution of domestic taxes to exporters are particularly harmful to new and small exporting firms.

There are many different positive policies to stimulate broad-based competitiveness. Argentina has only gone half-way in this area. One key point is the development of a world-class physical infrastructure, specially in energy, transport and telecommunications that can reduce the costs of doing business in the country and, most importantly, the costs to interact with world markets. The deregulation and privatization of these areas in Argentina unleashed an investment boom that has done much to bring the country's infrastructure to international standards. Some problems with the regulatory mechanisms in several of these sectors, however, created a price structure of the new privatized services that are clearly above international levels. Although it is true that the most expensive service is the one that is not available, there is still much to do to increase competition in these markets so that the services are not only up-to-date, but also priced at internationally competitive levels. The public sector can also pursue preferential policies for regions through the subsidization of key infrastructure projects in less developed areas that would allow the exploitation of the region's resources or the attraction of new businesses. Unfortunately, the regional development programs in Argentina are not very imaginative and consist mostly of tax breaks for firms, with very little monitoring which therefore result in huge fiscal costs but little job creation in the promoted region.

2. Research and Development Promotion

Productivity growth is the main objective of most development plans, and this growth is fundamentally linked to improvements in technological levels. Developing countries suffered generally from a large technology gap vis-à-vis the developed countries, and Argentina is no exception. As it is widely accepted, the activities of research and development (R&D) by private firms have serious problems of appropriation of its results and have positive externalities. This is the reason why most governments worldwide subsidize R&D in some way or another. In Argentina the public sector spends very little in R&D compared to other countries with similar levels of development, and the private sector even less. The problem is worse because a great part of public spending in R&D is not in close contact with the private sector, neither is it responsive to its needs. The effort should be increased, not so much in more spending, but in a more *demand-driven* approach that could create public-private collaboration to buy, adapt or create technological advances that may accelerate the pace of productivity growth in the Argentine economy.

3. Labor training

A more open economy in the current international context involves large and abrupt sectoral shifts due to changes in the relative competitiveness of whole sectors. These rapid shifts confuse firms in the direction of change and have a profound social impact in terms of displaced workers and the subsequent mismatch between the supply and demand of different labor skills. As in the case of R&D, there exists a general consensus about the positive externalities of having a large pool of highly-trained workers and the problems associated with the appropriation of privately-financed labor training. This is the reason why states all over the world have an important role in education and, in most cases, in labor training. Only a highly educated and appropriately trained labor force can sustain a process of fast economic growth based on rapid productivity increases.

Argentina benefited in the past from an excellent educational system that facilitated the incorporation of technology, its rapid diffusion, and an equitable income distribution derived from the relative easier access of its population to higher education than other developing countries. The East Asian experience is similar in this regard and the importance of their educational and labor training policies in explaining their rapid economic growth with equity is well documented (The World Bank, 1993). There are several problems with the current stock of skills of the Argentine workforce. First, there is a very high level of unemployment (16% as of May '97) which is associated with lower education (Montoya, 1996). Argentina is a relative labor-scarce country and has higher salaries than most developing countries, which makes its labor-intensive sectors internationally uncompetitive. The solution might be a shift to other sectors with higher labor productivity, based on more skilled workers. Although this seems to be happening, there is a problem of labor training for those workers that are being left redundant in the contracting labor-intensive sectors (textiles, plastic, toys, and other kind of light manufacturing, as well as public sector employees). To allow these workers to access the new job opportunities that may emerge now that the worst stage of structural adjustment seems to have been left behind,5/ society must make a big effort to update its stock of skills that do not match the current demand of the labor markets. Certain rigidities also play against a faster adjustment of Argentine labor markets to the new conditions under which its economy is now running. Introducing more flexibility to these markets is currently being discussed in Congress, with active participation in the debates of trade unions and business associations, although a consensus seems hard to reach.

Again here, any public policy has to be *demand-driven* in order to make sure that the new training is truly in line with labor market demands. A model of this kind of policies may be a small program that exists now, *Proyecto Joven*, based on the successful experience of a similar Chilean program, *Chile Joven*, that subsidizes labor training by non-public training institutions that are connected with direct demands from individual firms. An extension in scope and extent of this kind of programs could accelerate the ability of the national workforce to adapt to rapid changes in labor demand and reduce the costs of changing competitiveness patterns.

5/ After a long period of slow job creation or even net job losses, the Argentine economy has shown a healthy rate of job creation in the 12 months to the last unemployment measurement in May '97.

4. Small- and medium-sized enterprises (SMEs)

Even though SMEs do not have all the virtues that some romantic analysts claim, they do provide certain capabilities to an economy that contribute to its growth with equity. SMEs tend to be more flexible than larger production units, and therefore are better suited to face the challenge of volatile markets and rapid technological change. They are also better at penetrating market niches, an important skill in the current phase of increasingly segmented world markets. Either in networks of SMEs, or as subcontractors of larger firms, they often play a crucial role in complex productive chains which enables them to maintain flexibility and entrepreneurial drive as independent economic units, while also allows them to overcome their diseconomies of scale through collaboration and cooperation with other firms in terms of technological diffusion, marketing strategies, strategic information, and so on. Most of the dynamic economies in the world have a dense fabric of SMEs, and they are usually supported by various kinds of promotion mechanisms, either public, private or mixed.

The vast majority of the effective support mechanisms for enterprise promotion do not contradict the WTO rules on subsidies. They are usually of a pre-competitive nature (with no commercial value yet), available to all firms from all sectors, without a direct impact on the final price of the products of that firm. These are support programs that facilitate SMEs access to credit, the provision of non-financial services, facilitate access to market information, promote SMEs cooperation schemes and subcontracting networks, promote new quality standards and lower the barriers of access by small-scale entrepreneurs to sophisticated management techniques. As in the other recommended policies, SME support programs should also be *demand-driven*, making sure that beneficiary firms pay at least part of the services, and that they are provided by private sector firms with high quality standards. The policies should aim at removing certain market failures or lowering certain barriers of entry that generally affect the markets for the provisions of key financial and real services to SMEs.

Argentina has a couple of such programs in operation, but they are very small relative to the size of its SME sector, and are just a small part of its larger enterprise support mechanisms, many of which follow a different logic, are not demand-driven and have little impact in promoting the competitiveness of Argentine firms. The consolidation of a strategy for promoting SMEs on the basis of these more modern and innovative programs, with enlarged resources will be a great step forward in the direction of a modern policy to stimulate growth with equity which is consistent with the new international rules on enterprise support.

X. CONCLUDING REMARKS

The process of industrialization and economic diversification in Argentina has already been in place since very early in this century. Although progress has been slow and marked by stop-and-go cycles, the country has developed a significantly sophisticated economy with one of the highest income levels within the developing world. The couple of decades preceding 1990, however, were very frustrating in terms of the negative impact of high social, political and economic instability on economic growth. Sudden changes in industrial and trade policies affected the capacity of the private sector to keep pace with the changing rules of the game, and drastically diminished savings and investment, which as percentage of GDP hit a record low in 1990.

The massive structural reform process of the 1990s have had a general positive impact in all macroeconomic indicators: economic growth, investment, savings, exports, inflation and fiscal discipline. This bitter medicine, however, delivered its benefits not without negative side-effects: high rates of business failures and, above all, an intractable and unacceptable high level of unemployment. The country now faces the challenge of using its newly-found macroeconomic equilibrium to tackle the social and economic problems created by the rapid change but also by decades of neglect and wrong policies.

The international context, including the new regional trade agreements and the post-Uruguay Round trading system, present more opportunities than threats for a country with the structural characteristics and size of Argentina. The new constraints on trade and industrial policies still leave significant room for creative and effective policies in Argentina that could promote faster and "better" growth, increasing the international competitiveness of Argentine firms. At the same time, the new stricter regulations on distorting trade practices will make the Argentine unilateral trade liberalization more sustainable by establishing a stricter multilateral check on other countries' unfair trade practices that the country is in no condition to counter single-handedly.

As for the kind of public policies that the country may implement, the general consensus among the incumbent and the opposition parties seems to be that selective or sectoral intervention by the state is not the best alternative for the country. This is more so among those currently in charge of economic policy than among the opposition, but the generalized perception that the country paid a high price for past misguided selective industrial policies precludes most economists and policy makers from proposing policies such as choosing strategic sectors, or the kind of "picking winners"- type of policies that are regular part of industrial policies in other parts of the world. In the past, selective policies were synonyms of a preference for manufacturing over agriculture, mining or services, and within manufacturing industries, there was a discrimination against those sectors processing natural resources and in favor of machinery and high-tech sectors, with little consideration of the country's resource endowment. Since Argentina has an endowment of natural resources per capita with few parallels in the world, such policies were damaging and their correction today explains the current investment boom in all the natural resources-based sectors (agriculture, mining, oil & gas, and forestry).

Given the current state of the debate about economic policy in Argentina, if the present policies changed towards more active industrial policies, it would only be to favor the development of the SME sector, the promotion of backward regions and/or to stimulate exporting firms. Within each of these very large categories, however, the policies would be mainly horizontal like, for instance, improving the chances of the firms in each category to access credit at reasonable interest rates. Selective intervention will most probably be limited to reducing or eliminating the barriers for the development of a given sector, like the recently created schemes to provide long-term predictability to the tax and investment regimes for the forestry and the mining sectors.

This present state of affairs in industrial policy-making in Argentina makes the limitation to more active policies by multilateral organization such as the WTO less of a problem than it is the case for other countries with different historical experiences. In addition, the discussed institutional weaknesses of the national agencies in charge of implementing trade and industrial policies make the present consensus about these issues all the more beneficial for the country because they introduce great caution in the debates of ideas and the design of new state intervention on specific economic sectors.

Beyond the set of horizontal policies to promote competitiveness mentioned in Chapter IX, the specific needs of different sectors should be met in the future more and more by the collective action of each sector's business association -sometimes in cooperation with local and regional governments, universities and trade unions- in the same way this operates in dynamic regions of advanced countries such as Northeastern Italy, Southern Germany, or some regions in Japan. These forms of inter-firm cooperation or public-private collaboration schemes are more flexible and permit much more accountability than the traditional industrial and trade policies that Argentina has tried with so little success in the past, and very seldom they are incompatible with international trade regulations.

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