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TRADE POLICY REVIEW

ARGENTINA

The general effect of Argentina's economic reform programme has been to transform the country from one of the most closed economies in the world to one of the more open among developed or developing countries, says the GATT Secretariat's report on the trade policies and practices of Argentina.

In trade policy, for example, quantitative restrictions which had covered much of Argentine industry have been eliminated, except for the automobile sector; tariffs have dropped from 40 per cent to 12 per cent in the last five years, reducing tariff escalation and effective protection; and there has been a substantial reduction of implicit and explicit export taxes which had fettered the country's efficient agricultural and agro-industrial sector. At the same time, the government's privatization programme, which is one of the most extensive in Latin America, is opening up major opportunities for foreign direct investment. Argentina is an active participant in the Uruguay Round and sees the multilateral negotiations as providing the opportunity to consolidate its own liberalization programme in return for greater access to overseas markets and certainty of trading conditions.

There remain some concerns about high protection in areas such as the automotive and electronics sectors. However, automotive protection is being re-examined, and will need to be modified under the recently-ratified Southern Common Market (MERCOSUR) formed by Argentina, Brazil, Paraguay and

Uruguay which is expected to reduce tariffs on trade within this group to zero and to eliminate quotas and exceptions by the end of 1994. Full benefits will only be realized domestically if MERCOSUR itself becomes an open trading area without extensive tariff escalation and other distortions arising from non-tariff barriers such as industrial plans and production/market sharing arrangements.

The GATT Secretariat's report, together with a report prepared by the Argentine Government, will be discussed by the GATT Council on 4-5 March 1992 under the trade policy review mechanism which was launched in December 1989 to enable a regular collective evaluation by the Council of the full range of trade policies of individual GATT members.

The reports cover all aspects of Argentina's trade policies, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; and the wider economic and development needs.

Attached are summary extracts from the reports. Full reports are available for journalists from the GATT Secretariat on request.

The complete trade policy review of Argentina, including these two reports together with a record of the Council's discussions and of the Chairman's summing-up, will be published in June 1992 by the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Since December 1989, reviews of the following countries have been completed: Australia (1989), Canada (1990), Chile (1991), Colombia (1990), the European Communities (1991), Hong Kong (1990), Hungary (1991), Indonesia (1991), Japan (1990), Morocco 1989, New Zealand (1990), Nigeria (1991), Norway (1991), Sweden (1990), Switzerland (1991), Thailand (1991), and the United States (1989).

TRADE POLICY REVIEW

ARGENTINA

Report by the GATT Secretariat - Summary Extract

[This is based on the Summary Observations in the Secretariat Report, C/RM/S/18A of 8 November 1991, as well as Addendum 1 of 24 February 1992].

Recent reforms in Argentina hold out hopes of its return to sustained economic growth based on an outward-oriented economy. In the first 100 years after its independence in 1816, Argentina's economy grew rapidly, dominated by agricultural production for export. However, following the Great Depression and again after the Second World War, when it was confronted with falling international prices for its commodity exports, Argentina turned to import substitution, progressively withdrew from world trade and discouraged foreign direct investment. Argentina's macro-economic policies, compounded by the structural rigidities associated with its trade, industrial and labour policies, led to severe fiscal imbalances, macro-economic instability, hyper-inflation and increased indebtedness. In the early 1980s a decline in net investment and negative productivity growth reflected falling economic activity and a lack of confidence in the economy. Previous attempts to rectify the situation and to re-open the economy have not met with lasting success.

Recent years have seen a series of important fiscal, monetary and trade and industrial policy changes intended to reverse the country's economic fortunes. In September 1989 the new Government of President Menem introduced the Law for the Reform of the State which initiated the privatization of many public sector enterprises. The privatization programme is intended to cut Government expenditure, increase economic efficiency and help to reduce foreign debt. One month later, the Government introduced the Law on Economic Emergency which, *inter alia*, suspended export rebates and tax exemptions under various industrial and regional promotion schemes and the "Buy National" law, liberalized the foreign investment law, and increased gasoline prices and public service tariffs. Major changes have also been made in 1991, including the pegging of the currency to the US dollar, the introduction of legal restraint on currency emission, the abandonment of the majority of industrial tax concessions, and increased efficiency in tax collection. Balance-of-payments support is being provided through an IMF stand-by loan, and specific reforms are being supported with loans from the World Bank and the Inter-American Development Bank.

On the side of trade policy, quantitative restrictions - which had covered much of Argentine industry - have been eliminated, except for the automobile sector; a complex licensing system has been eliminated; tariffs have been reduced to an average of 12.2 per cent; and there has been a substantial reduction of the export taxes which had hitherto fettered the country's efficient agricultural and agro-industrial sector. On 30 October 1991 a major, new Presidential Decree provided for the extensive

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deregulation of the domestic economy and external trade, removing many relics of statist intervention in the Argentine economy.

The consequences are starting to be seen. Inflation has been reduced to the lowest level in 20 years; the secondary market in Argentine debt has started to rise; capital has started to return; exports have continued to grow and the growth of imports in the second half of 1991, in response to the recovery, has reduced but not eliminated the substantial trade surplus. While there has been some adverse impact on real incomes, the people of Argentina seem to have accepted the need for stability and gave the Government a firm vote of confidence in the September 1991 elections. With the macroeconomic programme showing signs of success, the Government has begun talks for an IMF extension facility of some US\$3 billion over three years; a necessary step for restructuring of foreign debt with the private banks.

Argentina in World Trade

Argentina currently ranks 46th and 61st among world exporters and importers, respectively, compared with 48th and 44th, respectively, in 1970. Its share in world merchandise exports was 0.35 per cent in 1990.

During the 1980s, Argentina maintained a generally positive, though highly variable, trade balance. However, this principally reflected the effects of the economic contraction and import restrictions - typical of many countries at the time - introduced following the debt crisis of the early 1980s. Imports, which had soared from US\$4 billion to US\$10½ billion between 1978 and 1980, fell to US\$5 billion in 1982 and US\$4.2 billion in 1985.

Argentina's export pattern in the 1980s represented a significant shift towards manufactures in the face of falling commodity prices. The share of agriculture in merchandise exports declined from 94 per cent of merchandise exports in 1965, and fell particularly sharply from 82 to 65 per cent between 1983 and 1989, mainly because of falling world commodity prices. While this price decline was in part a reflection of increased farm productivity, it was also associated with the increase in farm support policies and export subsidies by the major traders.

The growth in manufactures exports, however, resulted less from fundamental restructuring than from diversion of under-utilized production capacity to export. Falling real effective exchange rates in the early and late 1980s also helped to boost manufactured exports. The export performance of manufactures in the 1980s indicates that there are extensive manufacturing activities in Argentina with export potential, although much of industry is characterized by structural rigidities and inefficiencies, having been sheltered from import competition for decades.

Argentina's leading trading partners are the European Communities, the United States and Brazil. Between 1970 and 1990, the European Communities' share of Argentina's exports dropped from 53.3 to 30.3 per cent, while those of Brazil and the US rose from 8.9 and 7.8 per cent respectively to

13.8 and 11.5 per cent. In the last 20 years there has been something of a re-orientation of Argentina's trade towards the Latin American region, although 50 per cent of exports and 57 per cent of imports are still with developed countries. In 1990, 28 per cent of exports were directed to and 35 per cent of imports were from other Latin American countries, as against 21 and 23 per cent respectively in 1970. During the 1980s, Brazil has also grown markedly as a source of Argentine imports, providing 17.6 per cent in 1990, compared with 11.0 per cent in 1970 and 10.2 per cent in 1980.

Institutional Framework

Argentina's legal and regulatory structure relating to trade matters has traditionally been complex, with a large number of laws, decrees and resolutions. The present Government has, under the Economic Emergency Law of 1989, suspended or eliminated many regulations dealing with various trade and tax concessions or exemptions. The Presidential Decree on Deregulation (October 1991) also eliminates many special régimes in the domestic market as well as further deregulating foreign trade. A new trade law is being drafted which will, *inter alia*, embody changes in anti-dumping procedures consequent on Argentina's adhesion to the GATT Anti-dumping Agreement.

The main economic agency in Argentina is the Ministry of Economy and Public Works. With its various Secretariats and agencies it covers almost all aspects of economic policy in Argentina. The Foreign Affairs Ministry also has a number of responsibilities in connection with international trade and economic relations and negotiations with other countries.

Close links are maintained between Government and industry in Argentina. Even today, the Government appears to set great store by pacts with industry to improve economic performance. This seems somewhat at odds with the market-oriented policy approach which is the hallmark of the Government, despite its Peronist legacy.

The officially-constituted Foreign Trade Council provides a forum through which the private sector counsels the Government on trade policy. A number of active economic research institutes and a lively economic press closely monitor Government activities, as does the Congress. However, there is no independent, statutory body which reports to or advises the Government on trade and industrial policy.

Argentina acceded to the GATT in 1968. Ratification by the Congress approved Argentina's accession to the General Agreement, although the GATT is not directly incorporated into Argentine law. It has adhered to the MTN Agreements on Anti-Dumping, Customs Valuation, Import Licensing, Technical Barriers to Trade (subject to ratification), the International Dairy Arrangement and the Arrangement Regarding Bovine Meat. It is a signatory to the Multi-Fibre Arrangement, and maintains export restraint agreements on textiles and clothing with the European Communities and the United States. Argentina has been an active participant in the Uruguay Round, individually and as a member of the Cairns Group.

Trade Policy Features and Trends

Argentina's main formal trade relations with other countries are conducted through the GATT and within the Latin American Integration Association (LAIA).

Tariffs are applied on an m.f.n. basis to 65 per cent of imports. Of the remaining 35 per cent, originating from LAIA countries, eligible imports benefit from preferential reductions of up to 50 per cent. Only 407 out of some 11,500 tariff lines are currently bound in GATT. However, in the Uruguay Round, Argentina has offered to bind its entire tariff at 35 per cent.

Under the LAIA, which replaced the Latin American Free Trade Association (LAFTA), Argentina has "partial scope" agreements (economic complementarity, trade or sectoral agreements, etc.) with most other members. The agreement with Brazil is a comprehensive economic and commercial agreement.

Within the framework of the LAIA, Argentina has recently joined with Brazil, Paraguay and Uruguay to form MERCOSUR - the Southern Common Market - which entered into effect on 29 November 1991. Its objective is "progressive, linear and automatic tariff reductions accompanied by across-the-board elimination of non-tariff restrictions or equivalent measures... with a view to arriving at a zero tariff and no non-tariff restrictions for the entire area by 31 December 1994". Each country has exemptions, but these are also to be phased out. The success of MERCOSUR in increasing welfare will depend very much on its willingness to pursue outward-looking, market-oriented policies and to allow member States to take advantage of economies of scale and specialization wherever the opportunities lie.

Argentina is a GSP beneficiary, but estimates are that its direct trade gains from GSP are minor largely because its predominantly agricultural exports are excluded from most of the schemes. To some extent the benefits from GSP are also limited because, in some tariff schedules, GSP treatment is less comprehensive than other preferences which are not available to Argentina, such as European Community tariff treatment for manufactures from EFTA countries, or preferences for certain Mediterranean countries.

Recent evolution of trade policies and instruments

Extreme macro-economic instability, hyperinflation, falling commodity prices, and soaring debt rendered major economic reform a necessity for Argentina in the 1980s. However, Argentina has had more than one unsuccessful attempt at reform over time. In 1967, in the first major revision since 1945, tariffs were slashed from an average 119 per cent to 61 per cent. Most import prohibitions were eliminated. On the export side, subsidies were also eliminated and a number of export taxes were introduced. However, under deteriorating economic conditions, quantitative restrictions were used extensively in the following years, prohibitions

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were re-introduced on over 700 items, import deposits were required, and multiple exchange rates were restored.

The second and more significant liberalization occurred in 1976, with an initial focus on export liberalization. Export taxes were eliminated and exchange rates unified. Quantitative import restrictions were substantially reduced. Industrial tariffs, which had been raised after the previous liberalization, were cut from 98 per cent to 49 per cent in 1976 and 1977. However, this episode terminated with the onset of the debt crisis in the early 1980s, when import quotas, new licensing requirements and multiple exchange rates were re-introduced.

In the mid-1980s, there was a growing perception in Argentina that the import-substitution strategy was itself a factor contributing to inflation and unstable exchange rates. This led to a major policy shift and almost continuous liberalization of the trade régime in recent years. In 1986, approximately half of domestic production was protected by quantitative import restrictions. More than 7,000 tariff items were subject to import licensing. Imports of many consumer and industrial goods were prohibited. Average tariff rates were 43 per cent, there was an import surcharge, and there were a number of additional import taxes. However, many of these taxes were never collected because of exemptions or rebates under special régimes: tax revenues were less than 5 per cent of the value of imports. Reference prices were widely used, especially in the electronics sector, largely based in Tierra del Fuego. Exemptions from payment of domestic tax and tax rebates were allowed on industrial exports, while agricultural and agro-industrial exports were taxed and, in a few cases, prohibited. Much of the manufacturing sector and some non-traditional agricultural sectors enjoyed special tax breaks, as did various provinces. There were multiple exchange rates.

In the last five years tariffs have been reduced from an average of over 40 per cent to 12.2 per cent through modifications made mainly in October 1988, October 1989 and April and November 1991. The production coverage of quantitative import restrictions has been reduced to less than 2 per cent of manufacturing value added. Import licensing has been abolished.

Currently there is an essentially three-tier tariff with rates of 5 per cent, 13 per cent and 22 per cent, established in November 1991. In July 1991, a 35 per cent duty was introduced for some 27 tariff lines in the automotive and electronics sector; the rate for automobiles and parts was reduced again to 22 per cent on 1 January 1992. This increase from the prior maximum was associated with the lifting of quotas on all but 9 automotive products and the elimination of reference pricing in the electronics sector. (Further reform of protection in the automotive sector - which also has local content and export performance requirements - is under consideration for mid-1992). The statistical tax of 3 per cent affecting exports was removed under the Presidential Decree on Deregulation, but a similar tax on imports is presently untouched.

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The frequency of the tariff reforms - 14 times since 1987 - gives some cause for concern because they have not been undertaken in accordance with a pre-planned programme and they have not uniformly been in one direction. For example, the general minimum rate of zero was increased to 5 per cent in May 1990. This increased the average rate from 16.2 per cent to 18.3 per cent and reduced tariff escalation, while providing the Government with a valuable source of revenue. However, the minimum was again reduced to zero in January 1991, but, because of other changes, the average rate only changed to 18.2 per cent. The fact that the recent increase in rates for automobiles and electronics products took place with the removal of non-tariff measures must be regarded positively as liberalizing moves. The increase in the minimum rate from zero to 5 per cent will tend to reduce effective protection in some sectors, but this beneficial effect could be offset by any exemptions or concessions for materials and parts, such as that available to local auto assemblers for imported parts. Greater stability in the investment climate would result from a clear, pre-planned programme, and it is understood that greater stability and less dispersion in protection is a Government objective in the trade law reform.

The export régime has also been reformed, to help reduce the anti-export bias facing agriculture in particular. Almost all export taxes have been eliminated, except for certain oilseeds which are now subject to a 6 per cent export tax. There is a 1.5 per cent charge on agricultural exports to support the National Institute for Agricultural Technology (INTA). Voluntary export restraints are applied on the export of sheep meat to the European Communities, while restraints are applied under the MFA on certain textile and clothing products exported to the European Communities and the United States.

Many industrial and regional policy measures have been suspended by the Economic Emergency Law of September 1989, pending review. The main sectors to benefit from such incentives in the past were chemicals and petrochemicals, food products, metal products, machines and equipment.

In December 1989 the Government unified exchange rates, allowed unrestricted access to the foreign exchange market - permitting the holding of U.S. dollar accounts by Argentine nationals - and floated the austral. Following a renewed crisis of confidence in the currency, the Government in April 1991 introduced the Law of Convertibility which, inter alia, effectively pegged the currency at 10,000 australs to the US dollar. The currency was renamed as the peso on 1 January 1992 and the rate set at one peso to the US dollar. The Law of Convertibility also prohibits the emission of money to finance fiscal deficits and requires the monetary base to be fully backed by gold and foreign currency reserves. There have been concerns raised by export groups that the currency is overvalued. While inflation has fallen to very low levels for Argentina, it still exceeds that of the United States, its major trading partner (but not of Brazil, its second most important individual trading partner). However, the trade account is still in surplus despite a surge in imports in the middle of 1991, while both imports and exports appeared to fall towards the end of the year. Also, Argentina has access to an IMF stand-by loan for balance-of-payments support, should this be needed while adjustment is

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taking place. However, it is understood that capital inflows have been substantial and there have been reports of higher than expected increase in the money supply at the beginning of 1992 with possible adverse effects on inflation. The virtual fixing of the currency is considered to be an important element in the Government's fight against inflation, and the Government is looking to productivity gains and real wage cuts - as well as the restructuring of the economy - to restore Argentina's international competitiveness.

Foreign investment was also completely liberalized in September 1989 under the Economic Emergency Law. Performance requirements were eliminated in virtually all sectors, prior approval requirements were abolished, and registration (which is not compulsory) has been simplified. Registered foreign investments may be repatriated after three years. Argentina has signed a number of investment protection agreements and has become a member of MIGA. The main sources of foreign direct investment are the United States, Italy, Germany, France and Switzerland. The main sectors are petroleum, banking, automobiles, food and beverages and machinery and equipment. More recently, growing investments have been reported from Brazil in expectation of market-opening under MERCOSUR.

The Government's privatization programme - one of the most extensive and fastest in Latin America - is also opening up major opportunities for foreign direct investment. The sale of the national airline Aerolineas Argentinas to Iberia and the sale of the telephone company to two consortia of foreign investors are only the most publicized of a range of ongoing sales. The privatization programme is linked to the raising of funds to reduce foreign debt, to reducing fiscal deficits by hiving off uneconomic, loss-making public enterprises, and to increasing efficiency throughout the economy by the improved operation of service industries. Thus, ports, railways, highways, water and large parts of the energy sector are included in the privatization programme.

Until it was suspended by the Economic Emergency Law, the Buy National (Compre Argentino) Law of 1963 (predating Argentina's accession to GATT) covered all public procurement. This highly restrictive régime applied to the federal and provincial Government and public enterprises, allowed local industry a voice in whether a comparable product was available locally, and set a preferential margin for local production. It was, therefore, an effective way of isolating a significant share of local production from import competition.

While many of the special tax régimes in support of specific industries and regions are currently under suspension, greater transparency and the assurance of more efficient resource allocation would be facilitated by their rationalization or elimination. This is just as important for the Government's objective of reducing inter-sectoral dispersions as reform of the trade régime.

The general effect of these reforms has been to transform Argentina from one of the most cosseted economies in the world to one of the more open. The emphasis on tariff protection has the benefit of greater

transparency in the costs of protection to consumers and user industries, as well as increasing government revenues and reducing the scope for corruption which is associated with quotas and licensing in many countries. There is some escalation of tariffs and the remaining quantitative import restrictions, especially on automotive products, will still attract rent-seeking, unproductive activity in the sector with cost feedthroughs to other sectors of the economy. These concerns are somewhat mitigated by the expectation that tariffs on trade within MERCOSUR will be reduced to zero and quotas within the regional group will be eliminated by the end of 1994. To the extent that MERCOSUR itself becomes an open trading area, worries of welfare-reducing trade diversion will be lessened.

A clear commitment to neutrality in policy-induced incentives between industries and between sectors is likely to foster increased economic efficiency. This is particularly the case in respect of traditional agriculture vis-à-vis other sectors of the economy. In the past falling international commodity prices and considerations of urban employment creation led to the festering of import-substituting manufacturing and the implicit and explicit taxing of agriculture. There was also a widely held view that economic development was associated with increased industrial activity which should, therefore, be promoted. However, while this policy had some initial success, it soon reached its limits and started to exacerbate the economic problems. The squeeze on agriculture led to overall economic stagnation, not merely in the agricultural sector, with adverse effects on the industrialization which it was intended to promote.

Temporary measures

Argentina has never taken emergency protective measures under the provisions of Article XIX of the GATT.

Argentina has made limited use of anti-dumping or countervailing procedures, reflecting the high overall level of protection afforded until recently by other non-tariff measures. The peak of anti-dumping activity was in 1981, just before the re-introduction of quantitative import measures. Brazil was the main target of such measures. There are currently two anti-dumping duties in force, together with seven active anti-dumping investigations and two countervailing measures investigations.

Argentinian anti-dumping law has the positive feature that it provides for a limit of 2 years for the duration of definitive anti-dumping duties and six months for countervailing measures. To some extent, this must inhibit the use of anti-dumping for harassment of imports.

New initiatives

The basic foreign trade law is currently being reviewed. This is likely to lead to a consolidation of existing laws in a framework which is internally more coherent as well as being consistent with the thrust of current reforms. Part of the revision of the trade law is intended to bring Argentina's anti-dumping procedures into line with the GATT Anti-dumping Agreement, following Argentina's adherence. The changes are

intended to allow fast action against "unfair competition" to prevent "serious" injury. Congress is also considering a law which would pave the way for Argentina to adhere to the Subsidies Agreement.

Within the proposed new trade law, the key elements in support of the export sector would appear to be the opening of the economy; macroeconomic stability; the refund of taxes paid in the production process or on imported inputs; simplification of export procedures; support for small- and medium-size enterprises, the provinces and private sector; the creation of a trade facilitation committee; and active defence of fair competition and trade promotion.

The definitive elimination of the various laws creating special sectoral régimes, currently under suspension, and establishment of a sector-neutral trade and industrial policy régime would confirm the shift to the pursuit of more efficient allocation of resources, put the budget on a sound footing for the future and send the right signals to investors at home and abroad. Controlling provincial government expenditures and the continued emphasis on a more efficient VAT scheme will also support the Government's drive.

Priority is also being given to the targets within MERCOSUR for further trade liberalization. Even before ratification, finance and agriculture ministers and central bank governors met to co-ordinate economic policy. However, in an early sign that MERCOSUR may be outward-looking, the four members, Argentina, Brazil, Paraguay and Uruguay, also signed a Trade and Investment Treaty with the United States on 19 June 1991, as part of President Bush's Enterprise for the Americas initiative.

The Presidential Decree (No. 2284) issued on 30 October 1991, contains 122 Articles covering the deregulation of the internal market for goods and services; further liberalization of foreign trade, including the elimination of remaining import and export controls except those for health and the protection of the environment; the elimination of a number of State bodies, including the National Grains and Meat Boards; and the suppression of a number of taxes, including the statistical tax on exports. The Decree also entails the reduction of charges and increased transparency in the capital market; amendments to labour legislation and hence to the collective bargaining process, allowing enterprises to negotiate wages and hours directly with their own employees instead of national unions; and the creation of a unified system of social security. Labour market reforms were also strengthened by a law on the reform of labour laws which passed the Congress in 13 November 1991.

This decree appears to strengthen substantially the market-oriented reforms by sweeping away state intervention in many areas. State Boards have been scrapped; centralized monopolies for the sale of fruit, vegetables and fish have ended; guaranteed prices for wholesalers of meat, grain, wine, sugar and tobacco are abolished; retailers can buy from the cheapest supplier, domestic or foreign; zoning restrictions have been abolished. The sectors affected include industry, insurance,

transportation, ports, banking, capital markets, the professions, as well as the wholesale and retail trades. Thus, the provisions of the decree are expected to increase internal competition and further reduce the rate of inflation.

Trade Policy and Foreign Trading Partners

Argentina has much at stake in the Uruguay Round. Many of its problems in overseas markets are related to the use of agricultural support programmes and export subsidies by the European Communities and the United States. Estimates place the welfare gains to Argentina from global trade liberalization, including reduction or elimination of trade and production interventions in the industrial countries, between US\$3.2 billion and US\$11.9 billion annually, depending on the assumptions.

However Argentina has also placed considerable emphasis in improving its ties with its immediate neighbours and the signing of MERCOSUR is the most far-reaching development in this regard. While there is some complementarity between the different members of MERCOSUR in agriculture (Brazil is a major market for Argentinian wheat - hence Argentinian concern about US subsidized wheat exports to that country), it seems likely that MERCOSUR will have its main impact in the area of manufactures, with a more than proportional increase in intra-industry trade.

The elimination of the anti-agriculture, anti-export bias of Argentina's past import-substituting policies might be expected to lead to a relative increase in the size of Argentina's agricultural sector, which also has plenty of scope for increased productivity. This would be supported by international liberalization in the sector. However, international commodity prices are largely expected to pursue their long-term decline (with periodic fluctuations). This suggests that, despite a possible short- to medium-term swing in favour of agriculture, there will be greater long-term growth in manufacturing - a tendency which will be reinforced by MERCOSUR. This implies a need for policies which permit ongoing structural change in line with Argentina's dynamic comparative advantage. Further reforms along the lines of the Government's present programme would therefore be expected to lead to further reductions of tariff disparities and the elimination of residual quantitative restrictions. Confirmation of the changed incentive structure would further increase investor confidence in the direction of change and facilitate the resolution of outstanding economic problems.

The importance attached by Argentina to the removal of foreign countries' trade barriers is not seen as being in conflict with the unilateral liberalization which Argentina has undertaken. Rather, Argentina sees the multilateral negotiations taking place in the Uruguay Round as providing the opportunity to consolidate its own liberalization programme in return for greater access to overseas markets and certainty of trading conditions.

TRADE POLICY REVIEWARGENTINA

Report by the Government of Argentina - Summary Observations

[This is based on the Summary Observations in the Government Report, C/RM/G/18 of 8 November 1991, as well as Addendum 2 of February 1992].

The central feature of the Argentine economy in recent decades has been severe stagnation, in the context of a highly regulated economy in which the public sector has had a considerable share in the production of goods and services. As these tendencies strengthened they aggravated the overall instability reflected in a succession of inflationary crises, rising external debt and recurrent pressure on the exchange rate, as a result of the inability to control high public deficits and the rigidity of the production infrastructure.

At the same time, the scarcity of investment attributable to the above circumstances led to a low overall level of productivity of the economy. This in turn had the effect of perpetuating an economy that was relatively closed to outside competition and organized around the persistence of an import substitution model which shielded domestic industry from enhancing its domestic or international competitiveness.

In order to remedy this situation, the present Government decided in 1989 to carry out a drastic structural adjustment aimed at restoring the foundations for healthy and sustained economic growth in a context of extensive liberalization of the economy, in which prices, interest rates and the exchange rate are determined by the free play of market forces.

To that end, the Government's action centred on two economic policy objectives:

- firstly, to bring under control the upsurges of hyperinflation that racked Argentina in the second half of the 1980s, bringing inflation down to a reasonable level by international standards;
- and secondly, to undertake a far-reaching reform and reduction of the State apparatus, including large-scale privatization of public enterprises.

The attack on inflation is spearheaded by the improvement of the fiscal situation, so as to obtain operating surpluses both for the central administration and for State enterprises; as a result, the potential of the public sector to act as an engine of economic activity has been relegated for the first time in many years.

The proposed engine of economic development is on the contrary to be driven by private investment, which should be encouraged by the advances

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made in deregulation and privatization that open up new perspectives at the domestic and international levels.

The deregulation of sectors such as energy exploitation and generation may be expected to lead to large-scale investment, as should the process of modernization of the privatized service enterprises.

At the same time, this privatization process should have a substantial impact upon the reduction of the external debt through the use of debt swap and capitalization instruments, while simultaneously tending to reduce the public sector's current deficit by shifting a large payroll to the private sector.

Broadly speaking, the present Government may be said to have inherited a regulatory framework that conspires against the establishment of a suitable system of incentives and penalties in the economy, and therefore its first objective was to restore a pattern of relative prices through the liberalization of all markets, as well as of the prices of the different economic variables.

This determination has meant that Argentina can now display a much lower rate of inflation within a framework of exchange-rate stability and sustained growth of external reserves.

To summarize, unlike previous experiments in adjustment and stabilization, the current strategy aims to increase the overall efficiency of the economy through the liberalization of all the available variables, so that the reduction in costs as a result of the ongoing structural transformations will eliminate the recurrent fiscal deficits as well as the handicaps borne by the production sector in terms of international competition.

The main external corollary of this policy lies in the liberalization of the import régime, both through the elimination of all non-tariff barriers and by a radical cut-back in the applicable tariff rates: and this opening up of the economy is to be accompanied by significant progress in regional integration.

The improvement of the fiscal situation, by both raising revenue and cutting costs, is the cornerstone of the battle to bring down inflation and hence stabilize the economy.

In this framework, the maintenance of a fiscal operating surplus has played a leading part in reducing inflation to single figures, according to current projections.

To that end, priority was given to reforming the tax system, with the generalization of value added tax and a reduction in marginal rates of income tax.

The purpose of these reforms, together with effective control aimed at ensuring efficient tax collection, has been to put an end to Central Bank financing of public deficits.

Two particularly important laws provided the legal underpinning for the radical restructuring of public sector activities:

- the Economic Emergency Law; and
- the Law on the Reform of the State.

The former abolished the entire system of public subsidies, thus eliminating their impact on the budget, while the second authorized the Executive to undertake the broadest privatization programme carried out to date in Argentina.

On the basis of this legislation, the Government is seeking to reduce State intervention and improve the operation and transparency of the various markets, while confining itself to the functions which it cannot delegate.

To that end it is continuing to reduce the number of State entities and employees with a view to rationalizing the public sector and enhancing its efficiency.

In this framework, monetary and exchange-rate policies have been aimed exclusively at eliminating the inflationary risks which have traditionally destabilized adjustment processes in Argentina.

Thus, under the Convertibility Law the State has committed itself to maintaining currency stability, by guaranteeing backing for the currency with a given level of reserves for a given money supply, while at the same time it has denied itself access to the financing of public deficits by means of currency issue.

In this context, the traditional obligation for exporters to sell their foreign exchange to the Central Bank at a fixed exchange rate was abolished. The Treasury has thus become just another purchaser of foreign exchange on the market, exclusively through the use of its budget surplus.

Likewise, the régime for the payment of imports, including those of capital goods, has been entirely liberalized, and left to agreement between the parties concerned. The obligation to sell foreign exchange earned from exports on the local market has also been eliminated.

The conclusion may therefore be drawn that exchange rate stability will act as a factor of equilibrium for interest rate movements, so as to provide a firm foundation for the remonetization of the economy, price stabilization and the restoration of credit conditions that can secure economic growth.

The Government's purpose in opening up the economy is to generate a sustained growth of exports as well as imports, particularly those intended for fixed capital replacement. At the same time, greater exposure of domestic industry to competition should help to increase its competitiveness by means of cost adjustment; the current economic policy will contribute to this process with the benefits stemming from the structural changes in the supply of services.

With this objective, the opening up of the economy is based on the elimination of virtually all non-tariff barriers, as well as specific import duties and other taxes. With very few exceptions, there is now for all products a situation of free importation, subject solely to statistical registration, and only ad valorem tariffs are applied.

The Customs Tariff has therefore been thoroughly revised with the establishment of three levels of import duties - classified according to the value added of the product concerned and the existence of competing domestic industries - of which the maximum is 22 per cent, while the weighted simple average is 9.7 per cent, or less than half the rate applying in 1969.

The discrimination against agricultural exports has likewise been eliminated with the abolition of the export duties applied to such products.

To complement this process of opening up the economy, significant progress has been made in regional integration through the negotiations conducted with Brazil since 1987. This has encouraged bilateral trade, with the result that our major neighbour has become Argentina's second market and also second supplier.

This progress in bilateral trade has been achieved on the basis of the granting of a reciprocal margin of preferences on lists of products included in various agreements, with the result that the bulk of the Customs Tariff (excluding a little over 300 tariff headings) is now covered by the negotiated agreements.

Nevertheless, since 1990 a much more advanced stage in the integration process has begun with the formation of the Southern Common Market (Mercado Comun del Sur) together with Brazil, Uruguay and Paraguay. In this framework, global, linear and progressive tariff cuts are being made in the entire Tariff so as to result in the free movement of goods throughout the region on 1 January 1995.

With a view to the realization of this Common Market, the member countries will establish a common external tariff and co-ordinate their

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economic policies, while at the same time harmonizing their legislation to ensure the free movement of goods, services and other factors of production.

Finally, at the financial level Argentina has made progress on agreements with the multilateral credit institutions aimed not only at resolving its short-term balance-of-payments problems but also at ensuring the necessary resources to tackle the structural reforms described above with a view to deregulation of the economy and privatization of State assets.

Thus, in 1989 it concluded a standby agreement with the IMF, which it hopes to convert shortly into an extended facility agreement.

Likewise, negotiations are underway to regularize debt-service falling due with the Paris Club until 1992, so as to be able subsequently to undertake a full rescheduling of private commercial bank debt. In this connection the privatization process is expected to bring a substantial reduction in the debt, in addition to the 7,000 million dollars already achieved by this means.

In the structural transformations undertaken in Argentina since 1989, the external sector is viewed as an essential ingredient in the proposed growth model based on the firm encouragement of private enterprise. In this context, the opening up of the economy and regional integration should map new paths for the future growth of the economy, on the basis of healthy competition in the framework of the principles of the General Agreement on Tariffs and Trade.

The GATT Uruguay Round and its implications for Argentina

From the outset, the Argentine authorities have supported the efforts to foster international trade liberalization through the Uruguay Round, and have been participating actively in all the stages of the exercise.

At the meeting of the Trade Negotiations Committee on 13 January 1992, Argentina clearly expressed its support for the Draft Final Act in document MTN.TNC/W/FA tabled by the Chairman of that Committee.

It underlined once more that while that proposal does not fully satisfy Argentina's aspirations in various areas of particular interest for our international trade, it can be accepted as reflecting the delicate balance reached in the negotiations, which should bring a strengthening of the multilateral trading system in which the necessary adjustment is undertaken equitably by the principal contracting parties.

In this sense we consider it appropriate to point out - going beyond some dissatisfaction in regard to certain aspects of the document - that the proposed text presents a reasonable balance between the interests of the various contracting parties, and should therefore be seen as a

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significant contribution to continuity of the liberalization process in the multilateral trading system.

In this respect, it should be recalled that in terms of the objectives declared at the Punta del Este meeting, and likewise the principles agreed on at the Mid-Term Review in Montreal, the conclusions of the Uruguay Round set forth in the Draft Final Act fall short of Argentina's aspirations, particularly in regard to agricultural trade.

Nevertheless, the Argentine authorities consider that the introduction of clear definitions and transparent rules for implementing the principles set forth in the General Agreement, together with the adoption of flexible dispute settlement mechanisms that are binding for the parties, constitute definite progress by the Round, as does the incorporation into the GATT rules of sectors such as textiles and agriculture.

In this context, Argentina considers that it has contributed to the liberalization process, in particular as regards market access, through a comprehensive offer of tariff binding which numerous contracting parties have commended for its size and coverage.

In addition to Argentina's offer to bind its tariff at the level of 35 per cent ad valorem with no exclusions, significant progress has been made in autonomous liberalization of access to the Argentine market since the beginning of the Uruguay Round, more particularly in the period 1990/1992 with the elimination of all non-tariff restrictions, and in this context contracting parties have recognized the contribution made by developing countries to attaining the objectives of the Uruguay Round.

Argentina considers that it has given advance implementation to the major part of the commitments set forth in the Final Act of the Uruguay Round, and its trade policy has been moving autonomously in that direction in the conviction that strengthening of the multilateral trading system will be particularly beneficial for our country's integration in the international economy. To that end, the Argentine authorities are fully disposed to examine the adoption of each and every one of the rules and codes that result from the Final Act, for these will ensure adequate regard for the interests of all contracting parties in the future.