

1999 Country Reports on Economic Policy and Trade Practices

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ARGENTINA

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999
<i>Income, Production, and Employment:</i>			
GDP (At Current Prices) 2/	293	298	285
Real GDP Growth (pct)	8.1	3.9	-3.5
GDP by Sector (pct):			
Agriculture	7.3	7.2	7.2
Manufacturing	24.7	24.8	24.8
Mining	3.0	2.9	2.9
Services	38	38.1	38.1
Government	10.3	10.8	10.8
Per Capita GDP (US\$)	8,250	8,300	8,000
Labor Force (Millions)	13.8	14.0	14.2
Unemployment Rate (pct)	14.9	12.9	14.5
<i>Money and Prices (annual percentage growth):</i>			
Money Supply (M2) 3/	26.5	4.0	-3.0
Consumer Price Inflation 3/	0.3	0.7	-2.0
Exchange Rate (Peso/US\$)	1.0	1.0	1.0
<i>Balance of Payments and Trade:</i>			
Total Exports FOB	26.2	26.2	22.8
Exports to U.S. 4/	2.2	2.3	2.5
Total Imports CIF	30.4	31.4	24.1
Imports from U.S. 4/	5.8	5.9	4.7
Trade Balance	-4.0	-5.0	-1.3
Balance with U.S. 4/	-3.6	-3.6	-2.2
External Public Debt	101	112	118
Fiscal Deficit/GDP (pct)	-1.4	-1.2	-2.0
Current Account Deficit/GDP (pct)	4.1	4.9	4.4
Debt Service Payments/GDP (pct)	5.7	6.6	6.9
Gold and Foreign Exchange Reserves	20.0	25.0	24.0

1/ Figures for 1999 are embassy estimates.

2/ The Argentine peso was tied to the U.S. Dollar at the rate of one to one in 1991. In 1999, the Argentine government changed its method of calculating GDP and revised its figures for 1997 and 1998 downward.

3/ End of period.

4/ Source: U.S. Department of Commerce and U.S. Census bureau; exports FAS, imports customs basis; 1999 figures are estimates based on data available through October.

1. General Policy Framework

President Carlos Menem's far-reaching reform program, which began in earnest in 1991, has revitalized Argentina's economy. Despite a sharp recession in 1995 due primarily to the Mexican peso crisis, real GDP growth averaged over 6 percent a year from 1991-1997. Inflation has remained very low for the last several years, and consumer prices in 1999 are actually expected to decrease by two percent. A stable exchange rate and reductions in trade barriers resulted in a boom in imports from the United States, particularly during 1991-94. The global financial crisis in 1998 and Brazil's currency devaluation in early 1999 dealt serious blows to the Argentine economy, however. The economy contracted from the second half of 1998 through late 1999. Some signs of recovery began to appear in the final quarter of 1999, and most experts expect a return to solid economic growth by the second half of 2000. Argentina's trade deficit with the United States this year is projected to be about \$3.5 billion. Argentina is expected to incur an overall trade deficit of \$1 billion in 1999, reflecting the economic downturn.

Argentina's banking sector has consolidated during the last several years. The number of financial institutions in Argentina dropped from over 200 in December 1994 to about 120 by October 1999. The country's financial sector is considered generally sound. Argentina's consolidated public sector budget is expected to run a deficit in 1999 of about \$5.8 billion -- equal to approximately 2 percent of GDP. Tax evasion remains a major problem for the government. Economic growth and decreases in consumption reduced tax receipts in 1999.

Buenos Aires Mayor Fernando de la Rúa, running as the presidential candidate for an alliance of opposition parties, defeated the ruling Justicialist party candidate in national elections in October 1999. He has promised to maintain the main elements of the country's economic model, including the convertibility of the peso and the U.S. dollar, as well as relatively open markets for trade. Argentina remains one of the hemisphere's most promising emerging markets for U.S. trade and investment.

2. Exchange Rate Policy

The Central Bank of Argentina controls the money supply through the buying and selling of dollars. Under the Convertibility Law of 1991, the exchange rate of the Argentine Peso is fixed to the dollar at the rate of one to one, controlled by a currency board. This rate is expected to remain unchanged in the medium term. Argentina has no exchange controls. Customers may freely buy and sell currency from banks and brokers at market prices.

3. Structural Policies

The Menem administration's reform program has made significant progress in transforming Argentina from a closed, highly regulated economy to one based on market forces and international trade. The government's role in the economy has diminished markedly with

the privatization of most state firms. Argentine authorities also eliminated price controls on almost all goods and services. The government abolished the import licensing system in 1989 and in 1990 cut the average tariff from nearly 29 percent to less than 10 percent. However, MERCOSUR common external tariff rates are slightly higher, so that Argentina's average tariff is now closer to 14 percent. In August 1996, Argentina raised the tariff on capital goods -- which account for over 40 percent of U.S. exports to Argentina -- from 10 to 14 percent to boost revenues.

Argentina, Brazil, Paraguay, and Uruguay established the Southern Cone Common Market (MERCOSUR) in 1991, and on January 1, 1995, formed a partial customs union with a Common External Tariff (CET) covering approximately 85 percent of trade. The CET ranges from zero to 20 percent. In 1998, MERCOSUR members hiked the CET by three points for most products. The increase is scheduled to expire in on December 31, 1999. Initially, the government exempted some products from the CET, such as capital goods, information technology and telecommunications, to help support the modernization of the industrial infrastructure. However, in August 1996 tariffs on these items were increased to the MERCOSUR level. As a result, many non-MERCOSUR products entering Argentina now face higher tariffs. Chile signed a free trade agreement with MERCOSUR, effective October 1, 1996, but will not participate in the CET. Bolivia also entered into a similar pact on April 30, 1997. MERCOSUR is also discussing the prospect of a free trade agreement with the Andean community.

Argentina signed the Uruguay Round agreements in April 1994, congress ratified the agreements at the end of 1994, and Argentina became a founding member of the WTO on January 1, 1995.

4. Debt Management Policies

Argentina's public debt maturities are mostly concentrated in the longer term. External debt increased in 1998, rising to almost \$110 billion. Argentina is expected to make total debt service (principal and interest) payments of about \$15 billion per year through 1999. Interest payments on public debt in 1999 will represent about three percent of GDP. The turmoil in international financial markets triggered by Russia's devaluation in August 1998 complicated Argentine access to foreign capital. In spite of difficult market conditions, however, the government was able to meet its term financing needs. Argentina remains vulnerable to external shocks, but agreements with the IMF and other international financial institutions have provided an added degree of confidence to financial markets.

5. Significant Barriers to U.S. Exports

One of the key reforms of the Menem Administration has been to open the Argentine economy to international trade. Nevertheless, domestic political pressure, fears the impact of Brazil's currency devaluation and continued high unemployment in Argentina have led the government to take some ad hoc protectionist measures

Barriers to U.S. Exports: On October 4, 1996, USTR self-initiated an investigation under section 301 of the Trade Act of 1974 into Argentina's application of specific duties on textiles, apparel, and footwear; three percent statistical tax on almost all imports; and burdensome labeling requirements. In February 1997, Argentina repealed the existing "specific" duties on footwear -- only to immediately replace them with virtually identical safeguard duties. In September 1997, Argentina extended the application of the safeguard duties on footwear until February, 2000. The United States requested formation of a WTO panel to review Argentina's footwear and textile regimes, as well as the three-percent statistical tax in early 1997. After a WTO panel found that the textile regime and statistical tax violate Argentina's WTO commitments, Argentina cut the statistical rate tax to 0.5 percent with appropriate caps, and set a 35 percent ad valorem cap on the textile duties. The panel had not decided on footwear, stating that it was unable to afford relief on measures no longer in effect. Believing that Argentina's application of the footwear safeguard raised serious questions regarding the WTO obligations of Argentina, the United States has raised the safeguard bilaterally at high levels on many occasions and has asserted third party rights in the EU panel on this matter. The appellate body decision in this case is due in December 1999. In November 1998, the Argentine government modified the safeguard through Resolution 1506. The resolution establishes a quantitative restriction in addition to the already-high safeguard duty, while imposing a TRQ of 3.9 million pairs on imports of footwear falling under the original safeguard measure (all imports not originating in Mercosur.) This quota amount represents less than 50 percent of annual footwear imports from non-Mercosur countries over the last 3 years. Non-Mercosur footwear imports below the quota limit are subject to the original safeguard duty according to their HTS classification. Once the quota limit is filled for each HTS number, imports above the limit are assessed a duty rate that is double the current safeguard duty. In addition, the Resolution postpones any liberalization of the original safeguard duty until November 30, 1999, delaying two tariff reductions that were scheduled for December 1998 and August 1999. A scheduled May 1998 liberalization had already been delayed in April 1998. On December 1, 1999, the quota was marginally liberalized by a 10 percent increase.

In the December 1998 Third Party Submission of the United States in the EC's WTO panel on the original footwear safeguard, USTR expressed the view that the modification of the safeguard appears to be in violation of article 7.4 of the WTO Agreement on Safeguards. USTR has requested a panel on this issue.

Argentina protects its automobile assembly industry through a combination of quotas and heavy tariffs negotiated among MERCOSUR members. The government is currently negotiating with Brazil rules to govern trade in autos beginning in January 2000, when a new common MERCOSUR auto policy is scheduled to take effect.

Standards: Argentina has traditionally recognized both U.S. and European standards. However, as the government and its MERCOSUR partners gradually establish a more structured and defined standards system, the standards requirements are becoming progressively more complex, particularly for medical products and electronics. In 1999, Argentina instituted new rules under which imported electronics would have to carry a local safety certification. Under the WTO agreement on technical barriers to trade, Argentina established an "inquiry point" to

address standards-related inquiries. While this inquiry point exists formally at the Direccion General de Industria, it is not fully functional at present.

Services Barriers: In January 1994, the authorities abolished the distinction between foreign and domestic banks. U.S. banks are well represented in Argentina and are some of the more dynamic players in the financial market. U.S. insurance companies are active in providing life, property and casualty, and workers compensation insurance. The privatization of pension funds has also attracted U.S. firms.

Investment Barriers: There are very few barriers to foreign investment. Firms need not obtain permission to invest in Argentina. Foreign investors may wholly own a local company, and investment in shares on the local stock exchange requires no government approval. There are no restrictions on repatriation of funds.

An U.S.-Argentina Bilateral Investment Treaty came into force on October 20, 1994. Under the treaty, U.S. investors enjoy national treatment in all sectors except shipbuilding, fishing and nuclear power generation. An amendment to the treaty removed mining, except uranium production, from the list of exceptions. The treaty allows arbitration of disputes by the International Center for the Settlement of Investment Disputes (ICSID) or any other arbitration institution mutually agreed by the parties. Several U.S. firms have invoked the treaty's provisions in several on-going disputes with Argentine national or provincial authorities.

Government Procurement Practices: Argentina is not a signatory to the WTO Government Procurement Agreement, although "Buy Argentine" practices have been virtually abolished. Argentine sources will normally be chosen only when all other factors (price, quality, etc.) are equal.

Customs Procedures: Customs procedures are cumbersome and time-consuming, thus raising the cost for importers. Installation of an automated system in 1994 has eased the burden somewhat. The government is resorting more frequently to certificate-of-origin requirements and reference prices to counter under-invoicing and dumping, primarily from East Asia. In 1997, the government merged the customs and tax authorities to boost revenue collection and improve efficiency. It instituted a pre-shipment inspection system in November 1997 to verify the price, quality and quantity of imports. Six private firms are implementing the system.

6. Exports Subsidies Policies

As a WTO member, Argentina adheres to WTO subsidies obligations. It also has a bilateral agreement with the United States to eliminate remaining subsidies provided to industrial exports and ports located in the Patagonia region. Nevertheless, the government retains minimal supports, such as reimbursement of indirect tax payments to exporters. The government also maintains an industrial specialization program that allows certain industries that boost their exports to report a comparable amount of imports at a reduced tariff. The program will end in the year 2000.

7. Protection of U.S. Intellectual Property

Argentina belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). Argentina is a signatory to the Paris Convention, Berne Convention, Rome Convention, Phonograms Convention, Nairobi Treaty, Film Register Treaty, and the Universal Copyright Convention. The U.S. Trade Representative has placed Argentina on the "Special 301" Priority Watch List. Argentina's lack of patent protection for pharmaceutical products has consistently been a contentious bilateral issue and in 1997 cost Argentina 50 percent of its benefits under the U.S. Generalized System of Preferences (GSP).

Patents: After a three-year conflict between the Argentine Executive and Congress over the issue of patent protection for pharmaceutical products, the Executive issued a March 1996 decree that improves earlier Argentine patent legislation, but provides less protection than that originally proposed. This decree authorizes the National Institute for Intellectual Property (INPI) to provide pharmaceutical patent protection starting in November 2000. Legislation pending in the Argentine Congress, however, would delay implementation until 2005. (The TRIPS Agreement allows developing country members that did not offer patent protection before WTO accession for pharmaceutical and agrochemical products until January 1, 2005 to provide patent protection). The 1996 decree does not provide patent protection for products under development, and contains ambiguous language on parallel imports and compulsory licenses. For example, the decree bans parallel imports but allows the import of products that have been legally placed in commerce in a third country. Compulsory licenses can be awarded in cases of anti-competitive practices or for failure to work a patent. INPI has also failed in most cases to provide prompt and fair treatment to applications for exclusive marketing rights (EMRs) for pharmaceutical rights during Argentina's patent transition period. The U.S. government is currently engaged in WTO consultations over the failure to provide EMR to qualifying products and backsliding in the protection of agro-chemical data.

The 1996 decree also fails to provide adequate protection for confidential data. While the government has yet to issue the 1996 law's implementing regulations, it is unlikely that they will address U.S. concerns about the law, which permits Argentine competitors to rely on data submitted for product registration in Argentina, the United States, and other countries.

Copyrights: Argentina's Copyright Law, enacted in 1933, appears to be adequate by international standards. An executive decree extended the term of protection for motion pictures from 30 to 50 years after the death of the copyright holder. As in many countries, video and CD piracy is a serious problem. Efforts are underway to combat this, including arrests, seizure of pirated material, and introduction of security stickers for cassettes. In October 1998, the Argentine Congress enacted legislation make software piracy a criminal offense. The law closes an important gap in Argentina's protection of intellectual property rights. Enforcement efforts are improving.

Trademarks: Trademark laws and regulations in Argentina are generally good. The key problem is a slow registration process, which the government has worked to improve.

Trade Secrets: Although Argentina has no trade secret law as such, laws on contract, labor, and property have recognized and encompassed the concept. Penalties exist under these statutes for unauthorized revelation of trade secrets.

Semiconductor Chip Layout Design: Argentina has no law dealing specifically with the protection of layout designs and semiconductors. Although existing legislation on patents or copyrights could cover this technology conceivably, this has not been verified in practice. Argentina has signed the WIPO treaty on integrated circuits.

8. *Worker Rights*

a. *The Right of Association:* All Argentine workers except military personnel are free to form unions. Union membership is estimated at 30-40 percent of the workforce. Unions are independent of the government and political parties, although most union leaders have ties with the Justicialist (Peronist) Party. Unions have the right to strike, and strikers are protected by law. Argentine unions are members of international labor associations and secretariats and participate actively in their programs.

b. *The Right to Organize and Bargain Collectively:* Argentine law prohibits anti-union practices. There is a trend toward bargaining on a company level, rather than negotiating at the national level on a sectoral basis, but the adjustment has not been easy for either management or labor. Both the federal government and a few highly industrialized provinces are working to create mediation services to promote more effective collective bargaining and dispute resolution.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced labor, and there were no reports of such incidents during 1999.

d. *Minimum Age for Employment of Children:* The law prohibits employment of children under 14, except in rare cases where the Ministry of Education may authorize a child to work as part of a family unit. Minors aged 14 to 18 may work in a limited number of job categories, but not more than six hours a day or 35 hours a week. The law is generally enforced, but there were credible reports in 1999 that child labor in the informal economy is increasing.

e. *Acceptable Conditions of Work:* The national monthly minimum wage is \$200, though prevailing wages for most unskilled and entry-level positions are somewhat higher. Federal labor law mandates acceptable working conditions in the areas of health, safety and hours. The maximum workday is eight hours, and the workweek is limited to 48 hours. The government is also striving to modernize the system of workers compensation. Argentina has well-developed health and safety standards, but the government often lacks sufficient resources to enforce them.

f. *Rights in Sectors with U.S. Investment:* Argentine law does not distinguish between worker rights in nationally owned enterprises and those in sectors with U.S. investment. The rights enjoyed by Argentine employees of U.S. owned firms in Argentina equal or surpass Argentine legal requirements.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1998

(Millions of U.S. Dollars)

Category	Amount
Petroleum	1,565
Total Manufacturing	3,654
Food & Kindred Products	974
Chemicals & Allied Products	1,130
Primary & Fabricated Metals	349
Industrial Machinery and Equipment	50
Electric & Electronic Equipment	(1)
Transportation Equipment	448
Other Manufacturing	702
Wholesale Trade	340
Banking	1,801
Finance/Insurance/Real Estate	1,945
Services	876
Other Industries	1,308
TOTAL ALL INDUSTRIES	11,489

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.