

2000 Country Reports on Economic Policy and Trade Practices

Released by the Bureau of Economic and Business Affairs

U.S. Department of State, March 2001

ARGENTINA

Key Economic Indicators

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

	1998	1999	2000
<i>Income, Production, and Employment:</i>			
GDP (At Current Prices) 2/	298	283	285
Real GDP Growth (pct)	3.9	-3.0	0.7
GDP by Sector (pct):			
Agriculture	7.3	7.2	7.3
Manufacturing	24.7	24.8	24.8
Mining	3.0	2.9	3.0
Services	38	38.1	38.2
Government	10.3	10.8	10.8
Per Capita GDP (US\$) 3/	8,260	7,700	7,700
Labor Force (Millions)	14.0	14.2	14.4
Unemployment Rate (pct)	12.9	14.3	15.4
<i>Money and Prices (annual percentage growth):</i>			
Money Supply (M2) 4/	3.9	-1.4	0.0
Consumer Price Inflation 4/	0.7	-1.8	-0.5
Exchange Rate (Peso/US\$)	1.0	1.0	1.0
<i>Balance of Payments and Trade:</i>			
Total Exports FOB	26.4	23.3	25.6
Exports to U.S. 5/	2.3	2.6	2.9
Total Imports CIF	31.4	25.5	27.3
Imports from U.S. 5/	5.9	5.0	4.5
Trade Balance 6/	-5.0	-2.2	-1.6
Balance with U.S. 5/	-3.6	-2.4	-2.6
External Public Debt	82.4	84.8	92.8
Fiscal Deficit/GDP (pct)	-1.3	-2.5	-1.9
Current Account Deficit/GDP (pct)	4.9	4.3	3.6
Debt Service Payments/GDP (pct) /7	3.7	4.5	5.0
Gold and Foreign Exchange Reserves	24.9	26.4	26.7

1/ Figures for year 2000 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 1998 downward.

3/ World Bank (GDP at market prices)

4/ End of period.

5/ Source: U.S. Department of Commerce; Calendar Year 2000 figures are estimates based on data available through July.

6/ Trade balance does not add due to rounding.

7/ External public debt service payments.

1. General Policy Framework

Argentina stabilized and revitalized its economy after undertaking extensive reforms in the early 1990s. State-owned entities were privatized, the peso was linked to the dollar under a currency board arrangement, and many barriers to trade and investment were dismantled. Despite a sharp recession in 1995, real GDP growth averaged over 6 percent a year from 1991-1997. Argentina is recovering from the effects of the Mexican peso crisis, the Asian and Russian financial crises and Brazil's devaluation. Growth is estimated at less than one percent for 2000 after a three-percent decline in GDP in 1999.

Argentina's banking sector has consolidated during the last several years. The number of financial institutions in Argentina dropped from over 200 in 1994 to 117 at present. The country's financial sector is considered sound, and foreign capital flows freely. However, Argentina's fiscal situation remains a concern. A fiscal responsibility law, which mandates fiscal equilibrium by 2003, will support government efforts to close the fiscal gap; however, tax evasion remains a major problem. In March 2000, Argentina concluded a three-year \$7.2 billion Stand-by Arrangement with the International Monetary Fund (IMF) that has increased lender and investor confidence.

President Fernando de la Rúa, who took office in December 1999, has maintained the main elements of the country's economic policy, including the convertibility of the peso and the dollar, as well as relatively open markets for trade. Overall, Argentina remains one of the hemisphere's most promising emerging markets for U.S. trade and investment.

2. Exchange Rate Policy

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, under a currency board type of arrangement called "convertibility". 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

Argentina's economic reforms have achieved 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.

Argentina, Brazil, Paraguay, and Uruguay established the Southern Cone Common Market (MERCOSUR) in 1991, and in 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, and has raised Argentina's average tariff to approximately 14 percent. In 1998, MERCOSUR members hiked the CET by three points for most products. The increase is scheduled to expire on December 31, 2000. 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 1996 tariffs on these items were increased to the MERCOSUR level. As a result, many non-MERCOSUR products entering Argentina now face higher tariffs. The tariff on capital goods, which account for over 40 percent of U.S. exports to Argentina, ranges from 10 to 14 percent. Chile signed a free trade agreement with MERCOSUR in 1996, but does not participate in the CET. Bolivia also entered into a similar pact in 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. Its congress ratified the agreements at the end of 1994, and Argentina became a founding member of the World Trade Organization (WTO) on January 1, 1995.

4. Debt Management Policies

Argentina's public debt maturities are mostly concentrated in the medium to long term. Public sector debt increased in 1999, rising to almost \$122 billion. Public sector debt service payments in 2000 will represent about seven percent of GDP. The turmoil in international financial markets in recent years complicated Argentine access to foreign capital; however, in spite of difficult market conditions, the government met its external financing requirements. Argentina remains vulnerable to external shocks, but recent 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

Although Argentina is one of the most open markets in Latin America, domestic political pressure, the impact of Brazil's devaluation and continued high unemployment in Argentina have led the government to take some ad hoc protectionist measures

Argentina protects its automobile assembly industry through a combination of quotas and high tariffs negotiated among MERCOSUR members. The government is currently negotiating a new common MERCOSUR auto policy with Brazil and other MERCOSUR members.

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, it is not fully functional.

Services Barriers: In 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: Foreign investment receives national treatment under Argentine law. Firms need not obtain permission to invest in Argentina. Foreign investors may wholly own a local company, and investment in firms whose shares trade on the local stock exchange requires no government approval. There are no restrictions on repatriation of funds.

The United States-Argentina Bilateral Investment Treaty (BIT) came into force in 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. The de la Rúa administration is re-establishing a “Buy Argentine” preference that will allow Argentine companies to lower their bids as much as five percent to match foreign companies’ bid offers. Argentine sources will theoretically only be chosen when all other factors (price, quality, etc.) are equal.

Customs Procedures: Customs procedures are opaque 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 collection authorities to boost revenues and improve efficiency. It has also instituted a pre-shipment inspection system 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 WTO and the World Intellectual Property Organization (WIPO). Argentina is a signatory to the Paris Convention, Bern 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 the United States withdrew 50 percent of Argentina's 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 decree in 1996 that improves earlier Argentine patent legislation, but provides less protection than that called for in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). This decree authorizes the National Institute for Intellectual Property (INPI) to provide pharmaceutical patent protection starting in November 2000. The 1996 decree does not provide patent protection for products under development, does not protect confidential data, and contains ambiguous language on parallel imports and compulsory licenses. INPI has also failed in most cases to provide prompt and fair treatment to applications for exclusive marketing rights (EMRs) for pharmaceutical products during Argentina's patent transition period. As a result of these shortcomings, the U.S. government has entered into WTO dispute settlement consultations with Argentina.

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. Regardless, video and CD piracy remains a serious problem. Efforts are underway to combat this, including arrests, seizure of pirated material, and introduction of security stickers for cassettes. In 1998, the Argentine Congress enacted legislation making software piracy a criminal offense. However, the Argentine government has yet to comply fully with an agreement to legalize unlicensed software in use in government offices.

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

Trade Secrets: Although Argentina has no trade secrets 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 be interpreted to cover this technology, 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 to 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. The passage of a major labor reform law in May 2000 promotes bargaining on a local, provincial or company level, rather than negotiating at the national level on a sectoral basis. 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 2000.

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 6 hours a day or 35 hours a week. The law is generally enforced, but there are credible reports that child labor in the informal economy is increasing.

e. *Acceptable Conditions of Work:* The national monthly minimum wage is \$200, although 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 generally 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—1999

(Millions of U.S. dollars)

Category	Amount
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Petroleum		601
Total Manufacturing		3,537
Food & Kindred Products	876	
Chemicals & Allied Products	1,299	
Primary & Fabricated Metals	361	
Industrial Machinery and Equipment	62	
Electric & Electronic Equipment	-20	
Transportation Equipment	187	
Other Manufacturing	773	
Wholesale Trade		488
Banking		2,205
Finance/Insurance/Real Estate		4,837
Services		597
Other Industries		1,922
TOTAL ALL INDUSTRIES		14,187

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