

ARGENTINA – REQUEST FOR AN EXTENSION OF THE TRANSITION PERIOD FOR ELIMINATING TRADE-RELATED INVESTMENT MEASURES

The following communication, dated 31 August 2001, has been received from the Permanent Mission of Argentina.

I. OBJECTIVE

1. Pursuant to Article 5.3 of the Agreement on Trade-Related Investments and the Decision of the Council for Trade in Goods of 31 July 2001 (Document G/L/460), the Government of the Argentine Republic hereby requests an extension of the period for eliminating the TRIMs that were duly notified to the Committee on Trade-Related Investment Measures.

II. SCOPE

2. This request covers the measures related to the automotive sector notified by the Argentine Republic to the Committee on Trade-Related Investment Measures in the following official communications:

- Communication of 30 March 1995: Document G/TRIMS/N/1/ARG/1, issued on 10 April 1995.
- Communication of 21 March 1997: Document G/TRIMS/N/1/ARG/1/Add.1, issued on 26 May 1997.
- Communication of 28 December 1999: Document G/C/W/176, issued published on 18 January 2000.

III. DURATION

3. For the reasons given below and in accordance with the Decision of the Council for Trade in Goods known as the “formula 2 + 2” of 31 July 2001 (Document G/L/460), the Argentine Republic requests an extension of the transition period for a total of two years counted from 1 January 2002 to 31 December 2003.

4. Notwithstanding the request made in the preceding paragraph, the Argentine Republic underlines that pursuant to Article 5.3 of the Agreement on Trade-Related Investments, on 28 December 1999 it requested a seven-year extension of the transition period for dismantling its TRIMs, running from 1 January 2000 to 31 December 2006.

IV. GROUNDS

5. This section explains the grounds for the request to extend the transition period for eliminating the TRIMs in the automotive regime.

6. The first part (A) describes the grounds for the request, which is followed in part B by an analysis of recent developments in the assembly and autoparts industries and their main variables, with reference to the macroeconomic context and the metalworking industry in general. Part C describes the Argentine automotive regime and the changes that took place during 2000 and 2001. Section V summarizes the main arguments presented which, taken together, justify the request. Section VI describes the new procedure to be implemented.

7. Part A of the Annex (Section VII) describes certain indicators that point to the relevance of the automotive complex in the country's industrial structure and the macroeconomic context. Last, part B of the Annex examines the performance of the automotive complex (production, exports, productivity and investments).

A. GROUNDS FOR THE REQUEST

8. One of the reasons for the initial request to extend the TRIMs was the need to consolidate the development of an internationally-competitive automotive industry and to conclude negotiation of the MERCOSUR Common Automotive Policy. Argentina is now consolidating both aspects, since the process suffered from two significant delays.

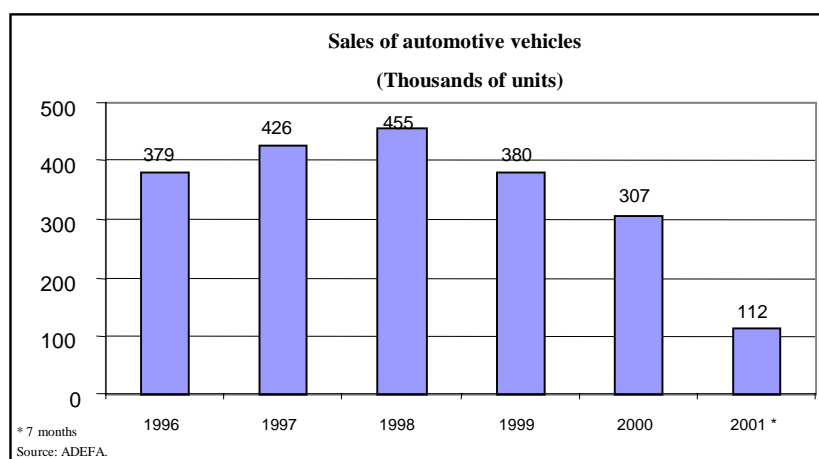
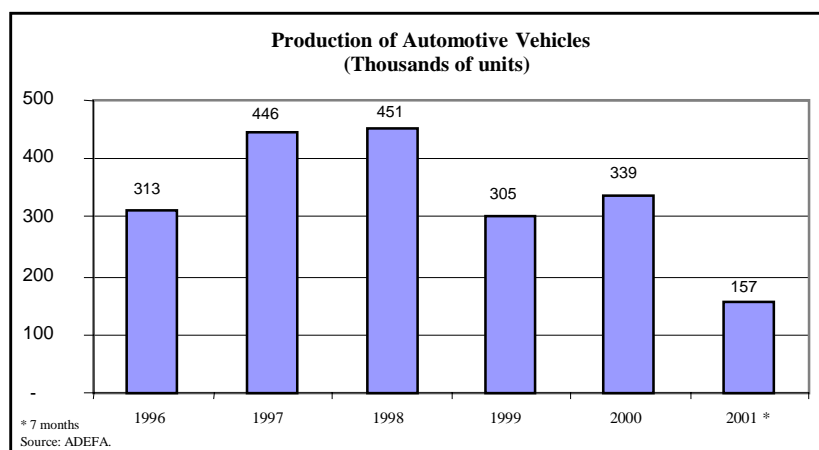
9. The first was caused by the Mexican crisis and "post-tequila effect" (Annex presented in Section VII) and the second by the Brazilian crisis, which led to devaluation of the *real* and is reflected in widening imbalances and a drop in demand on the Brazilian market, which is the main destination of Argentine exports.

10. The international situation was compounded by almost three years of recession in the Argentine economy. Although the set of elements described by Argentina in its request for an extension notified on 28 December 1999 under Article 5.3 of the TRIMs Agreement formed a complex picture, the current scenario is considerably more critical (see the Annex for an account of the impact of the international crises on the automotive industry).

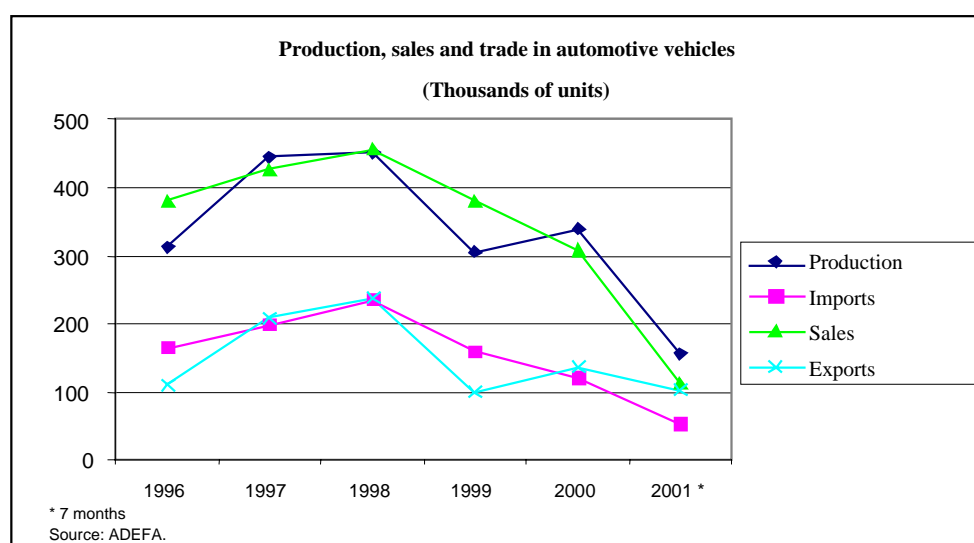
B. CURRENT SITUATION

(i) *Automotive assemblers*

11. As mentioned in the section on the macroeconomic context, in 2001 economic activity again. The sector produced 157,000 units in a seven-month period of that year, for a drop of 46 per cent over the preceding year (which also represented a drop of the same size compared to the average for 1996-2000). The upswing in 1999-2000 was influenced by the introduction of incentives for owners of older vehicles to trade them in, known as the "Plan Canje" (see the Annex presented in Section VII).



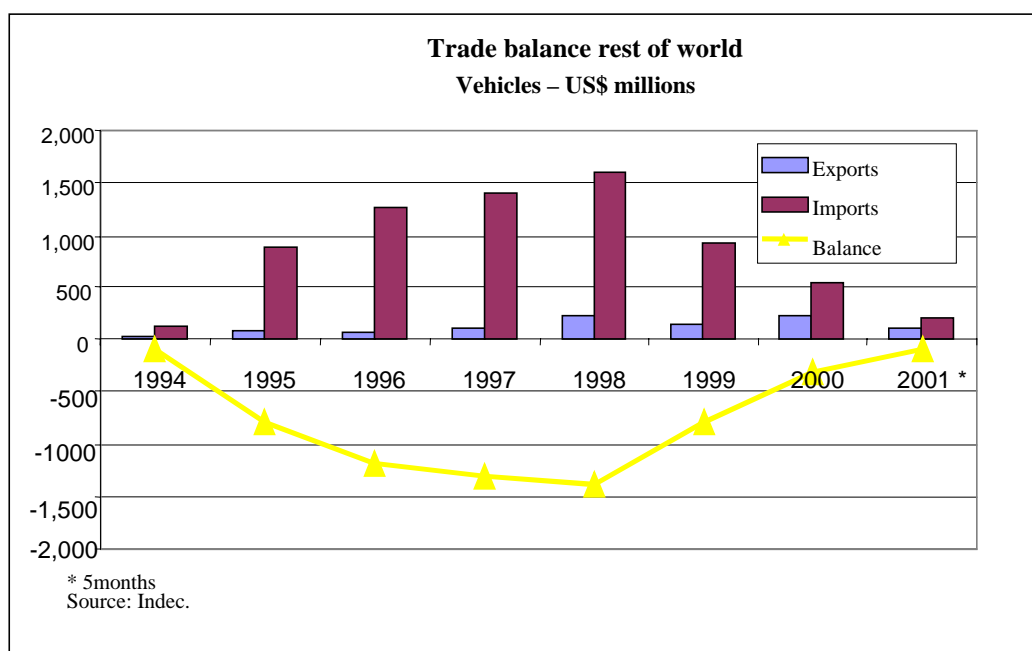
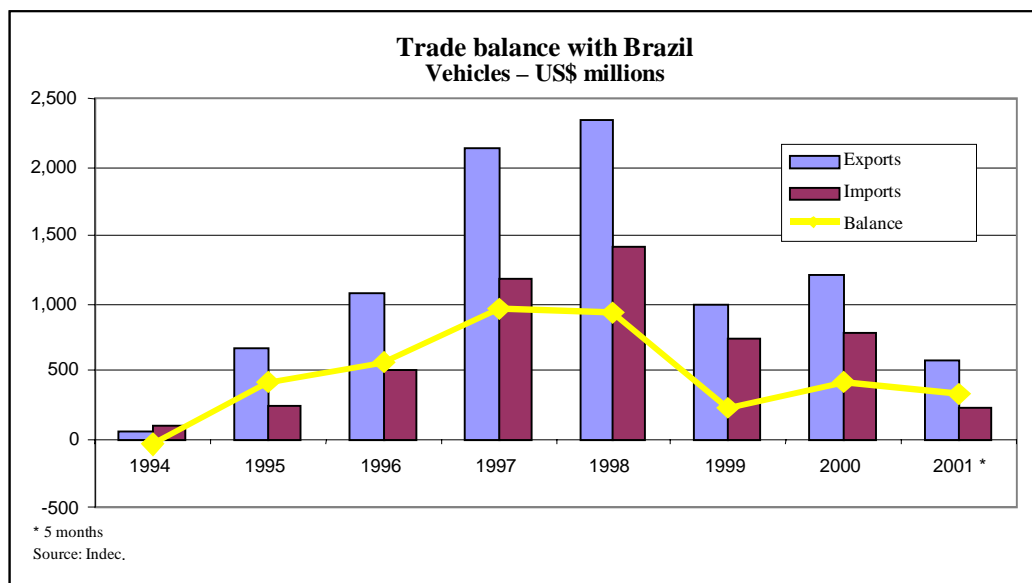
12. Like production, sales have also fallen by 112,000 vehicles, for a drop of 36 per cent compared to the same period in 2000. Considering the average of 343,200 units sold in the period 1996-2001, the decline has exceeded 25 per cent in that six-year period.

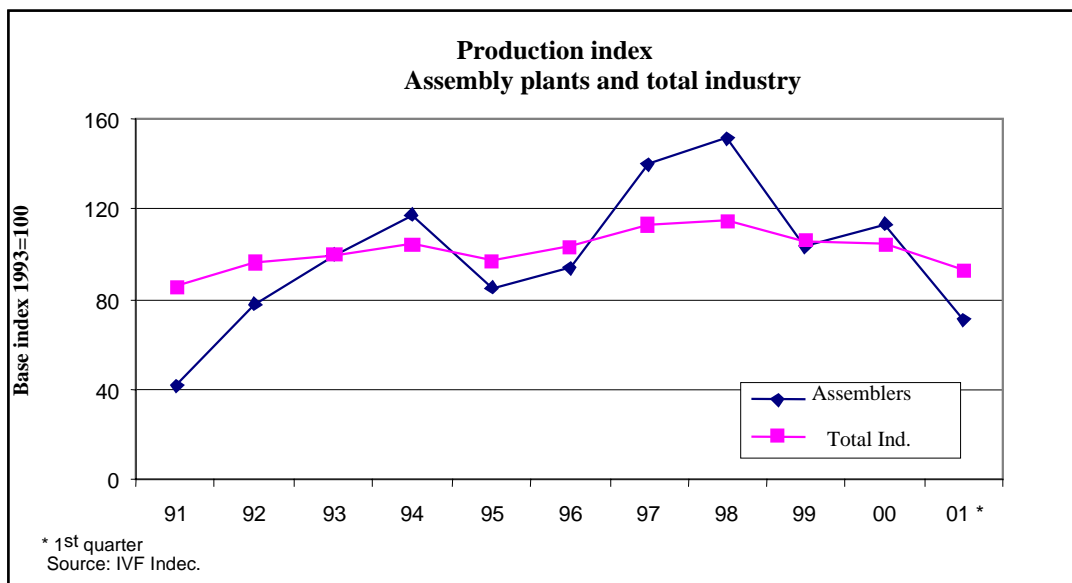
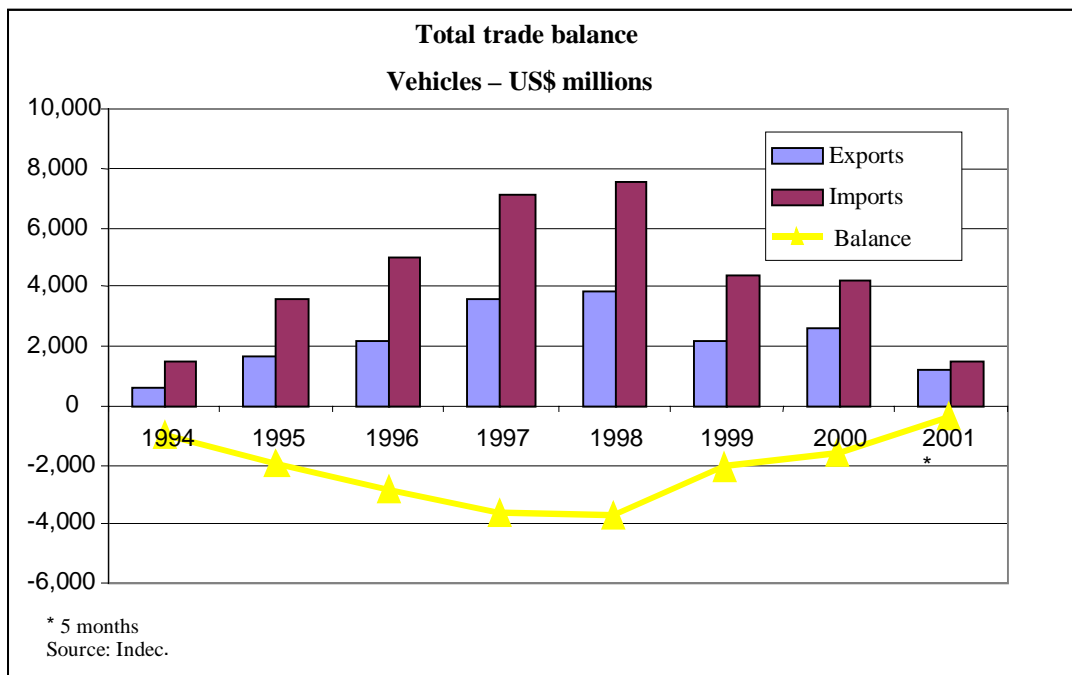


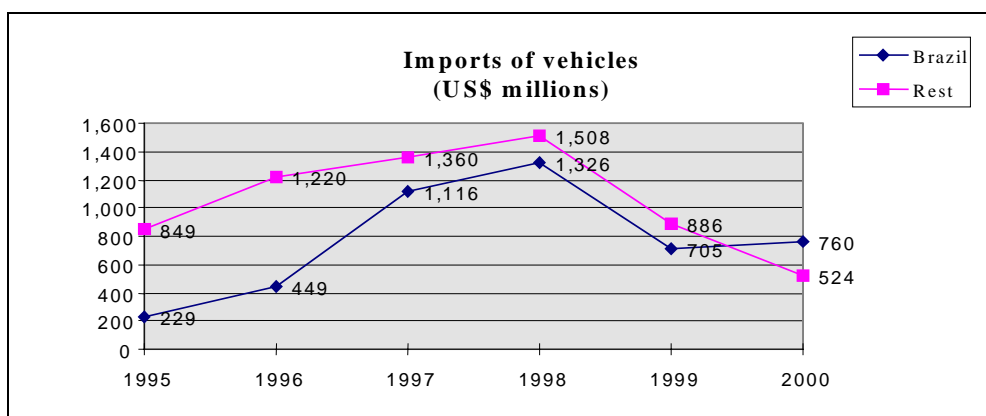
13. Despite the slight increase in exports in 1999-2000, there was a decline in 2000-2001, for an average of 100,000 units exported.

14. Brazil was the largest export market during the entire period. The balance of bilateral trade with that country was always positive, with the largest surpluses in 1997 and 1998 (about US\$1,000 million year).

15. The tables show that there was a surplus with Brazil in 2000, but Argentina's average total trade balance in vehicles over 1996-2000 posted a deficit. This is because imports from outside the area account for the largest share of total imports. It should be clarified that in the last two years there was growing substitution by Brazilian vehicles, to the point where imports of those vehicles were 45 per cent higher in 2000 than imports from outside the area.





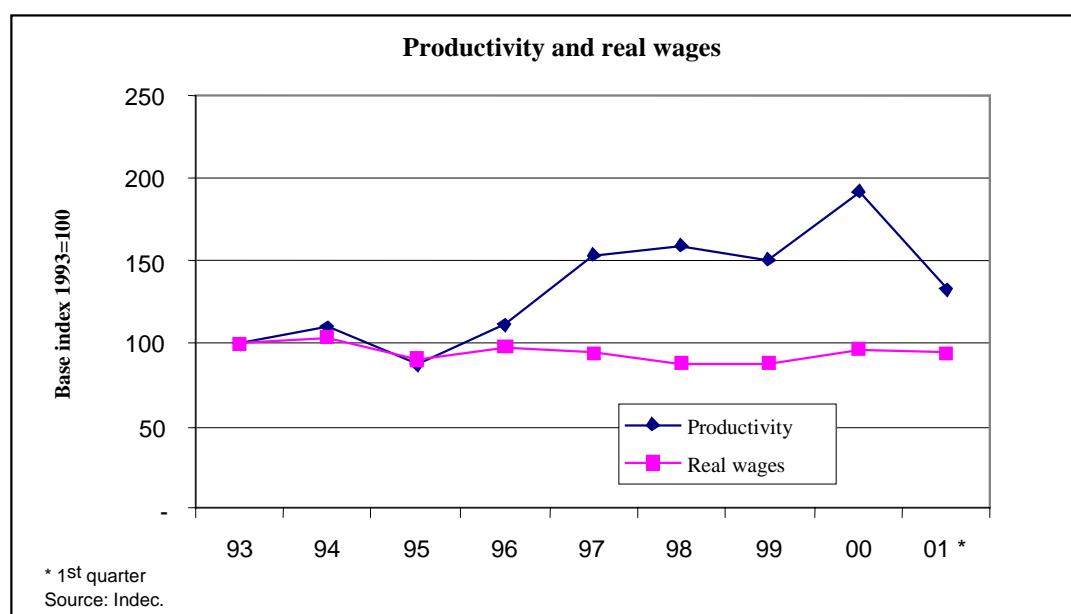


16. Today, there are ten companies in the vehicle-manufacturing sector, which have a total of 11 plants and produce 38 models (17 automobiles, 9 utility vehicles, 11 trucks and 1 bus).

17. Argentina had an average index of one vehicle for every 5.7 people over the period 1994-2000. In 1994, the average was one vehicle for every 6 people and today the figure is about 5.5.

18. The automotive regime introduced in 1991 brought significant results in sales, increased exports and modernization of the products manufactured. However, the sector (vehicles and parts) posted a cumulative deficit of US\$20,500 million, chiefly due to the autoparts trade. This occurred during the period when the automotive regime granted high effective protection for the assembly sector, contrasting with the relatively low protection granted to autoparts manufactures. The automotive regime sought to favour the sector to promote its international positioning, through a scheme of import quotas on all elements not produced by the country's industries. The public paid a tariff of 33 per cent to import vehicles, while the assemblers had preferential tariffs of 2 per cent on imported parts, in addition to tariff exemptions on imports of finished vehicles.

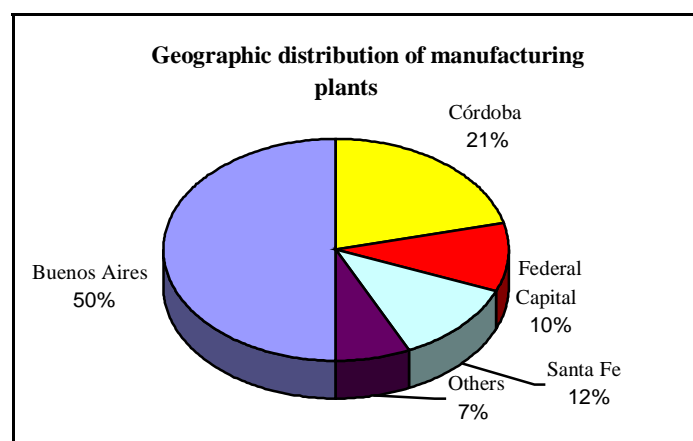
19. Worker productivity grew by 91 per cent between 1993 and 2000 and real wages remained nearly constant over the same period (with a cumulative change of just 0.4 per cent).



Source: Centro de Estudios para la Producción - SICyM- based on INDEC data.

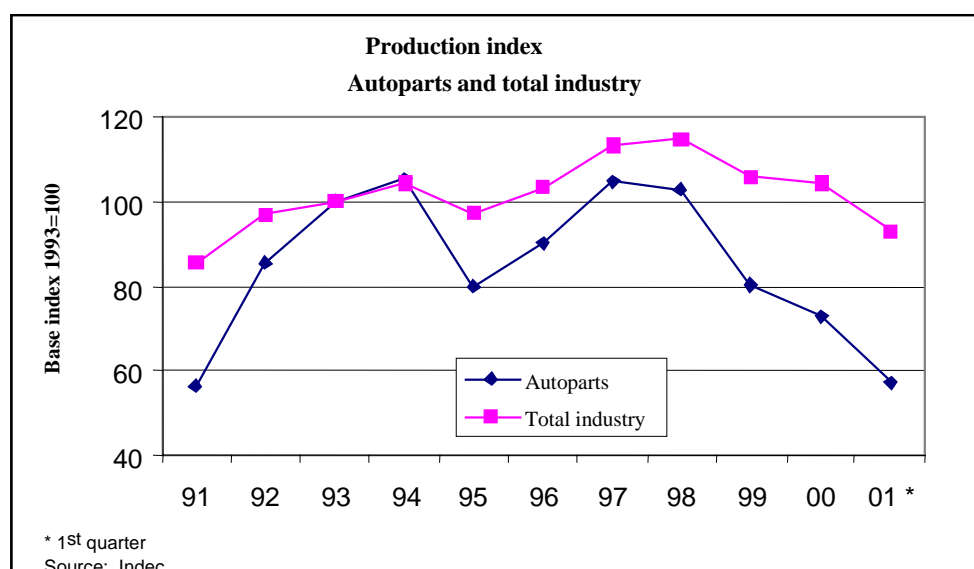
(ii) *Autoparts sector*

- The autoparts sector's sales in 2000 were US\$3,365 million or 4.5 per cent higher than in 1999, but 10 per cent lower than the average for 1992-1999.
- There are currently about 400 companies in the sector, 60 fewer than in 1994. Over the period, the sector underwent major reconversion and transnationalization as a result of the regulatory framework and international trends in linkage in the automotive industry.
- The main trends include global supply agreements between vehicle manufacturers and large autoparts companies that replicate trade relations on the different world markets. The 'concentric circles' approach was applied to the supply of parts, where the vehicle manufacturers are only linked to a few suppliers of assemblies who, in turn, purchase parts and sub-assemblies further down the production chain.

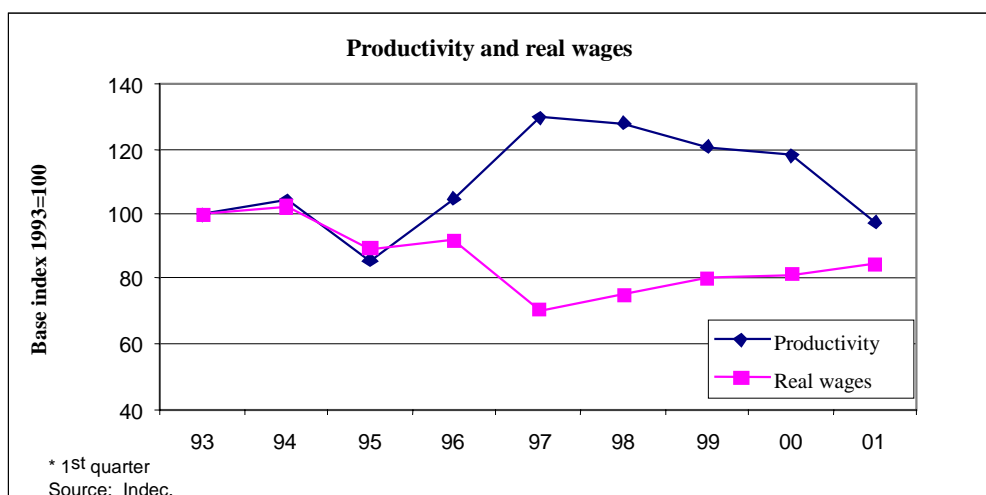


Source: Federal Department of Industry.

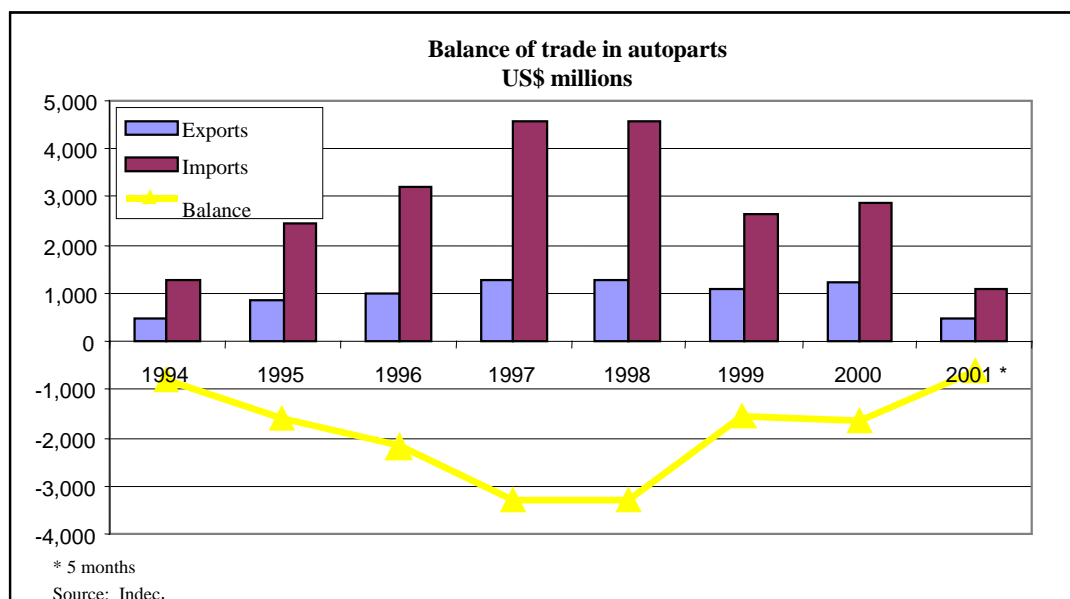
- Approximately 56 per cent of billing in the sector is for original equipment used by the automakers to manufacture new units. Spare parts are the second-largest production item, accounting for 23 per cent of sales, while direct exports (not including exported components in vehicles) account for 16 per cent. The rest (approximately 5 per cent) chiefly goes to other autoparts manufacturers.
- In December 1999, the sector employed 33,956 people, or three quarters of the number it employed in the same month in 1992. Although employment declined over the period, pro-cyclic behaviour has also been observed, with slight rises in years when production grew and sharp drops when it fell.



- Between 1998 and 2001, production by autoparts makers and by the industry as a whole continued this downward trend, while total sales (local plus imports) grew by 9.1 per cent, posting annual cumulative changes of -0.9 per cent and 1.2 per cent, respectively.
- The sector has broken up somewhat with the incorporation of imported components; the production-to-sales ratio dropped by about 13 per cent between 1992 and 2001.
- This behaviour is consistent with the ratio between imports and apparent consumption, which shot up from 31.5 per cent in 1995 to 44.4 per cent in 1999 and topped 46 per cent in 1998.
- Imports have grown by a cumulative average of 6 per cent a year between 1993 and 1998. However, in 1999 apparent consumption shrank by 32 per cent, to below its level at the beginning of the period under consideration.
- The contrast between stagnation in sector production and growth in industry as a whole meant that the autoparts industry lost weight in total value of manufacturing production. From 2.8 per cent in 1994, it fell to about 2 per cent between 1999 and 2000.
- The autoparts industry has a labour intensity of 16.5 workers for each million dollars of gross production value, which is above the average of 13.4 for the manufacturing industry. The ratio places the autoparts sector just below traditionally labour-intensive industries such as clothing, leather goods and footwear.
- Productivity in the sector grew by more than 40 per cent between 1992 and 2000.



- Reconversion in the sector, following gradual liberalization under the automotive regime introduced in 1992, led to sizeable investments, totalling almost US\$1,500 million between 1995 and 2000.
- As a result of that reconversion and regional integration in the sector, sector exports grew from US\$754 million in 1994 to US\$1,095 million in 1999. In 2000, the figure was US\$1,215 million, almost 11 per cent higher than in the same period in the previous year.
- The main export market is Brazil, which accounted for approximately 45 per cent in the last full year (2000), although the percentage has been dropping since 1998, when it peaked at 61 per cent.
- Imports greatly outstrip foreign sales, meaning that the Argentine autoparts industry has run a deficit throughout the entire decade, averaging US\$1,870 million. The deficit peaked at US\$3,000 million in 1997 and 1998. In 2000, it was US\$1,596 million, as a result of shrinking production over the period.
- Import dynamics have been closely tied to trends in domestic demand, which has been highly volatile, meaning that demand for imports grows when the economy expands and shrinks when it is in recession.



- Imports peaked in 1997 at US\$4,168 million, 60 per cent higher than in 1994. They fell in the two following years – by 45 per cent between 1998 and 1999 – and were flat in 2000.

(iii) *Rest of the metalworking industry*

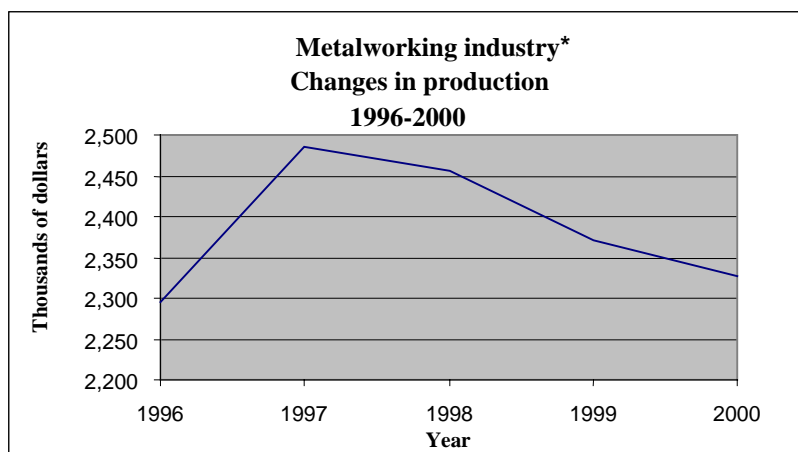
20. This sector is closely linked to the automotive industry and therefore their dynamics are also linked. On that account, this section summarizes recent developments in the metalworking industry and the current situation.

21. In 2000, apparent consumption of the industry's products was about US\$5,968,000, broken down into local sales by domestic producers and imports of US\$1,776,000 and US\$4,192,000 respectively (30 per cent and 70 per cent).

22. The different segments in this activity differ in the number of companies, concentration and other parameters, which are largely linked to the technological complexity of the products they manufacture. In aggregate terms, there are between 800 and 1,000 firms, mainly SMEs with local capital, which employ about 22,000 people (5 per cent of total industrial jobs) and together produce US\$2,330,000 a year (3.11 per cent of gross industrial production value).

23. Three periods can be distinguished in the general evolution of the sector. The first, in 1990-1991, was the period when the structural reforms promoted by the Convertibility Plan were undertaken. In the second, between 1992 and 1997, the structural reforms were consolidated, the economy grew steadily (except in 1995) and instruments were organized to promote investment. In 1998, growth slowed and the economy entered a recession.

24. The following graph shows the dynamics in the most recent period, with production, after growing steadily until 1997, showing a marked decline between 1998 and 2000.



Source: Own, based on data from the Ministry of Economic Affairs.

C. THE ARGENTINE AUTOMOTIVE REGIME

25. Notifications G/TRIMS/N/1/ARG/1 of 10 April 1995 and G/TRIMS/N/1/ARG/1/Add.1 of 26 May 1997 and Document G/C/W/176 of 28 December 1999 presented by the Argentine Republic to the WTO, provide a detailed description of the measures and rules of the Argentine automotive regime over the period 1991-1999. The regime was extended to 31 July 2000.

26. The Agreement on a Common Automotive Policy between the Argentine Republic and the Federative Republic of Brazil was signed on 30 June 2000 and formalized in Economic Complementation Agreement 14 of the Latin American Integration Association (LAIA).

27. The objective of the bilateral agreement was to define a standard that could form the basis for a MERCOSUR automotive policy, pursuant to Decision 29/1994 of MERCOSUR's Common Market Council.

The objectives of the bilateral agreement can be summarized as follows:

- To build a regional structure based on the principles of solidarity, specialization and complementarity enshrined in the Ministers' Declaration of December 1998;
- to specialize production at the assembly plants, assigning exclusive models to each country for economies of scale and competitiveness;
- to promote the creation of a chain of principal suppliers to obtain specialization in the regional assignment of assemblies and parts;
- to create a joint platform for exporting to third markets based on the gains in economies of scale and competitiveness brought about by integration;
- to boost the efficiency of the chain by reducing the costs of access to technology and the prices of inputs;
- to reduce the costs of marketing and buyer financing;
- to establish a long-term tariff policy for this sector in MERCOSUR.

To achieve these objectives, the agreement established the following guidelines:

- Intra-area trade administered across-the-board (covers the universe of the Agreement), tariff free (0 per cent), provided the tolerance margins are complied with, and a 35 per cent tariff on vehicles from third countries;
- minimum local content of 30 per cent measured in parts (with the equivalent measured in assemblies of 44 per cent) in order to halt the growing breakdown of the Argentine autoparts industry verified in recent years.

28. Under the bilateral agreement, Argentina maintained the automotive regime until 31 December 1999, introducing some modifications in certain aspects, such as binding trade levels, quotas on vehicle imports, the minimum local content requisite, the common external tariff and differential tariffs for parts from outside the zone, among others.

29. The situation in the Argentine automotive sector required an agreement to establish the rules of the game with Brazil. The relaxation of various aspects of the Argentine regime was intended to improve the competitiveness of the sector as a whole.

30. As for the autoparts manufacturers, an attempt was made to counteract the growing deficit in trade with third countries and the sharp drop in activity, by modifying the local content requirements.

(ii) *Comparison between the current automotive regime and the Argentine automotive regime*

31. The situation in the autoparts industry required an instrument to permit realistic restructuring over a reasonable time frame. The local content requirement is intended to be that instrument.

32. Article 26 of the bilateral agreement defines a minimum local content requirement and establishes that companies can choose between two mechanisms to comply with it:

- Measurement by process: To achieve a minimum of 44 per cent for automobiles and 37 per cent for other vehicles. In both cases, assemblies and sub-assemblies will be considered local when the maximum local content is not more than 32.5 per cent.
- Measurement by net content: To achieve a minimum of 30 per cent for automobiles and 25 per cent for other vehicles. In both cases, assemblies and sub-assemblies will be calculated net of imported parts and pieces.

33. Companies opting for the second mechanism can compute the local content of exports outside the zone by autoparts manufacturers in the numerator and can discount from the denominator all the parts and pieces incorporated into a final product (automobiles, assemblies and sub-assemblies) exported outside the zone. The measurement is made by company and year.

(iii) *Steps taken during 2000-2001*

34. Since the last notification presented to the WTO Council for Trade in Goods in December 1999, Argentina has taken a series of steps to surmount the constraints of the sector regime and the difficulties caused by the different international crises.

35. It has made progress in negotiations with its main trading partner, Brazil, clearing some of the earlier hurdles, and making substantial headway toward the implementation of a future MERCOSUR automotive policy.

36. Argentina has also begun talks with other countries to expand its markets by obtaining new outlets for its automotive products and make the industry more competitive internationally.

37. One of the steps worth mentioning is the signature in January 2001 of an Automotive Policy Agreement between the Argentine Republic and the United Mexican States in the framework of LAIA Complementarity Agreement 6. The agreement establishes an 8 per cent tariff on automobiles imported from plants in the other country and a quota of 18,000 units. Negotiations are also under way between Argentina and Chile and between MERCOSUR and Mexico.

38. Lastly, the government is firmly convinced that in the short term, this key sector in domestic production, in job creation and in the balance of trade must achieve minimum standards of international competitiveness and has undertaken internal and external negotiations for that purpose.

(iv) *MERCOSUR Agreement on Automotive Policy*

39. Pursuant to Common Market Council Decision 29/1994 and with the objective of reaffirming suitable conditions for closer integration of the region's automotive industry and promoting the substitution of imports of parts from outside the zone with parts produced within it, the MERCOSUR Agreement on Automotive Policy was concluded, which was approved by Common Market Council Decision 70/2000 of 14 December 2000 and amends the bilateral agreement signed on 30 June 2000.

40. The outstanding features of the agreement are that it was entered into in the framework of LAIA Complementarity Agreement 18 and that the changes introduced permit greater flexibility in achieving the minimum local content requirement established in the Bilateral Agreement between Argentina and Brazil.

41. On 22 June 2001, under MERCOSUR Common Market Council Decision 4/2001, Paraguay became a full member of the MERCOSUR automotive policy agreement. The agreement must still be formalized under LAIA and ratified domestically by the States Parties in order to come into effect.

V. CONCLUSIONS

42. This section summarizes the main arguments presented in this communication which, taken together, are the basis for the request:

- (a) Both the automotive and autoparts industries in Argentina are economically strategic sectors, on account of the contribution made by their export earnings to the balance of payments, production volumes, employment and the technological advances they have incorporated. They are also industries that act as the engine for other parts of the production chain. As mentioned above, in 2000, assembly and autoparts plants accounted for 8.33 per cent of gross industrial production value and 10.9 per cent of industrial exports.
- (b) Prior to the introduction of the regime, the Argentine automotive industry had gone through a very lengthy decline, with production volumes shrinking to levels that existed two decades earlier, outdated technology, very old models and little specialization. During the period when the Argentine automotive regime 1991-2000 was in effect, significant improvements were made in the sector, allowing for its recovery and modernization, as reflected in the following indicators:
 - **Production specialization.** In 1990, six manufacturers produced 46 models; in 2001 eleven companies produce 32 models.

- **Models produced.** In 1990, the models produced had been designed 15 years earlier; in 2001 the designs were an average of three years old.
 - **Vehicle prices.** In 1991, 27 months of average wages were needed to buy a vehicle; by 1998, the figure had dropped to 13 months.
 - **Labour productivity.** In 1990, each employee produced 5.7 units a year; in 2001, employee production was 18.5 units a year.
 - **Production.** In 1990, 99,639 units were produced; in 1998 production was 457,957 units, for growth of 4.57 times.
- (c) However, the industry has not yet been consolidated and from 1998-2001, in particular, it was affected by international crises, imbalances in MERCOSUR and the sharp recession in Argentina since 1998.
- (d) In this situation, a hypothetical dismantling of the TRIMs would cause a large drop in domestic production, future migration by companies to other countries and a sharp increase in imports which, in combination, would undoubtedly lead to job losses. A collapse in the automotive and autoparts industry would not only affect direct employment in the sector, it would also affect indirect employment (for example suppliers of inputs and raw materials, worsening the performance of the metalworking industry).
- (e) In the short term, given the current fiscal problems, Argentina would face serious difficulties if an increase in automotive imports were to occur, as would be expected. In the medium term, maintenance of this industry is viewed as part of an overall process of consolidating all industrial sectors.
- (f) It should be noted that the Argentine economy has been in recession for three years, leading to sweeping reorganization of some companies in the sector, while many are planning to leave the country. Given the fact that the pattern of regional specialization has still not been fully developed, compounded by the impact of the internal and external factors mentioned above, it can be concluded that today the aspects that justify the request for an extension of the TRIMs to achieve better evolution and development of the industry are even more critical.

43. For the above reasons, the Argentine automotive industry requires more time to complete the gradual adjustment and restructuring processes begun in 1991-1995. Argentina has justified this request for an extension on the basis of the international context and the situation of the domestic economy, aggravated by three years of recession, so that a case-by-case analysis will not widen the imbalances among the countries.

VI. OBJECTIVES OF THE NEW ARRANGEMENTS TO BE IMPLEMENTED

A. OBJECTIVES OF THE NEW ARRANGEMENTS

44. The general objective of the Argentine automotive policy is to obtain a competitive industry, which can act within a regulatory framework that is compatible with the provisions of multilateral agreements.

45. To reach a stage of sector development that will make it possible to avoid the use of measures that are incompatible with the rules of the TRIMs Agreement, Argentina proposes to comply with the commitments made under the MERCOSUR automotive policy.

46. This requires complying with three points:
- (i) The elimination of differential tariffs.
 - (ii) The liberalization of trade within the area.
 - (iii) Opening up to third countries through bilateral negotiations, such as those with Mexico to liberalize trade in 2004-2006 and with Chile for trade liberalization within five years.
47. Compliance with these provisions of the MERCOSUR automotive policy will allow for progress to be made in bringing the measures currently in effect into line with the rules of the TRIMs Agreement.
48. The following table shows the timetable for eliminating the differential tariffs that were established to grant preference to local producers, with respect to the rates of the common external tariff (CET).

Tariff reduction schedule

	2000	2001	2002	2003	2004	2005	2006
CET 14%	7	8.2	9.3	10.5	11.7	12.8	14
CET 16%	8	9.3	10.7	12.0	13.3	14.7	16
CET 18%	9	10.5	12.0	13.5	15.0	16.5	18
Preference	50%	41.9%	33.6%	25%	16.9%	8.6%	0%

49. This schedule moves gradually toward the disappearance of an instrument not provided for in the TRIMs Agreement (paragraph 2 of Decision G/C/W/275/Rev.1 of the Council for Trade in Goods).
50. The local content instrument will be maintained until 31 December 2003. In compliance with Decision G/C/W/275/Rev.1, Argentina undertakes to present a report on progress at 31 December 2002 and, if requested, a final report at 31 December 2003.
51. It should be underlined that our country requested a transition period of seven years in its notification of 28 December 1999, which would end on 31 December 2006. In view of the Decision by the Council for Trade in Goods, the Argentine Republic requests a period of two years, which will end on 31 December 2003. Argentina's original request was based on the need to extend the conditions in effect at that time (end of 1999) to allow the automotive sector to complete the process of restructuring its production, which is an indispensable basis for building up renewed capacity to compete.
52. As explained in this communication, events in 2000-2001 did not favour the adjustment process. On the contrary, the macroeconomic context and the domestic and regional markets presented greater difficulties for development of the Argentine automotive sector. Those difficulties continue to exist in Argentina and were recognized by the MERCOSUR partners when negotiating the common regime. Recognition of these problems took the form of a transition period until 2006. This situation therefore has to be borne in mind.

VII. ANNEX

A. ECONOMIC IMPORTANCE OF THE AUTOMOTIVE COMPLEX

53. The automotive and autoparts industry is a strategic sector in Argentina, owing to the contribution made by its export earnings to the balance of trade, domestic production, employment and technological progress, and to its significant secondary production effects.

AUTOMOTIVE COMPLEX

Structural Indicators

	1993	1998	1999	2000
Assembly plants (1)				
GPV*				
Millions of pesos	6,554.7	9,096.5	6,046.5	6,681.4
Industry share	5.89%	6.61%	4.89%	5.54%
Jobs	23,027	22,963	18,522	17,574
Industry share	2.04%	2.29%	1.99%	2.04%
Exports				
Millions of pesos	754.28	2,254.9	1,090.12	1,395.33
Share of industrial exports	4.13%	14.45%	7.41%	7.43%
Autoparts (2)				
GPV				
Millions of pesos	3,359.0	4,043.0	3,236.0	3,365.0
Industry share	3.02%	2.94%	2.62%	2.79%
Jobs	44,926	39,421	34,414	33,956
Industry share	0.04	0.04	0.04	0.04
Exports				
Millions of pesos	688.38	1,149.32	1,037.85	1,215.19
Share of industrial exports	4.3%	2.9%	3.4%	3.5%
Automotive complex (1+2)				
GPV				
Millions of pesos	9,913.7	13,139.5	9,282.5	10,046.4
Industry share	8.90%	9.54%	7.51%	8.33%
Jobs	67,953	62,384	52,936	51,530
Industry share	6.03	6.22	5.69	5.97
Exports				
Millions of pesos	1,442.66	3,404.22	2,127.97	2,610.52
Industry share	8.47%	17.35%	10.76%	10.90%

*Gross production value.

Source: AFAC, ADEFA, National Accounts and Indec.

54. A key indicator is employment in the sector. In 1998, automotive assembly plants provided work for 22,963 people, autoparts companies for 35,000 and car dealers for 30,000, for a total of 87,963 people directly employed. If weighting for the suppliers of raw materials and inputs is included, the figure would be over 200,000 jobs. As a result of the adverse economic climate in the sector and the Argentine economy in general, in 2000, the number of jobs in assembly plants fell to 17,574 and to 33,956 in autoparts plants.

55. As can be seen from the data given in this communication, the automotive industry is key for stabilizing the external sector and is a main engine of the economy. However, although the industry generates foreign exchange, it is still vulnerable to external and internal crises. As a result, its pattern of regional specialization has still not been consolidated, which makes the industry highly sensitive.

B. SECTOR TRENDS AND CURRENT SITUATION

(i) *The macroeconomic context*

56. The entry into force of the Argentine automotive regime took place simultaneously with implementation of a macroeconomic stabilization plan and a sweeping programme of structural reform. Coupled with the inflow of capital, these changes had the following results:

- GDP grew by over 8 per cent on average between 1991-1994.
- After hyperinflationary peaks in 1989 and 1990, the inflation rate fell dramatically to close to international levels in 1994.
- Capital inflows and price stabilization led to remonetization of the economy, growth in consumer credit and a gradual reduction in interest rates.
- The combined effects of flat inflation and capital inflows led to a revaluation of domestic currency.

57. In 1995, as a result of the crisis triggered by the "tequila effect", there was an abrupt turn-around in the macroeconomic picture. The productive sectors were affected by a fall in domestic demand and tight credit. GDP dropped by over four points, while the unemployment rate shot up to over 18 per cent. Simultaneously, there was a temporary reduction in the current account deficit and relative prices improved owing to the appreciation of the Brazilian currency and the rise in international prices for Argentine exports.

Table 1. Basic macroeconomic indicators

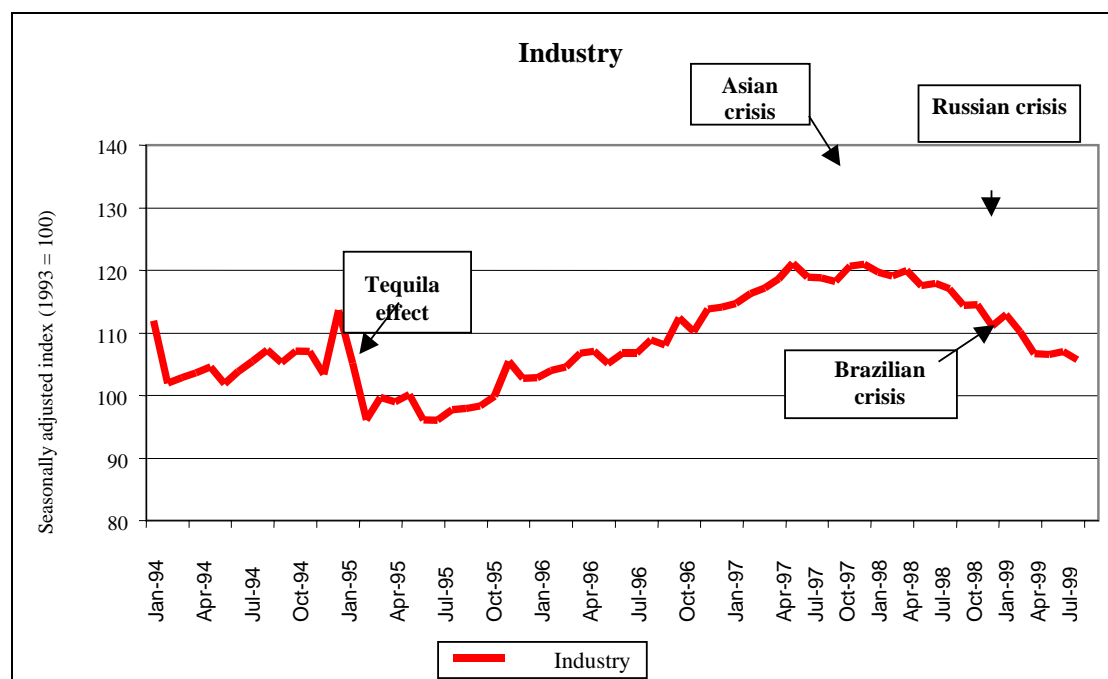
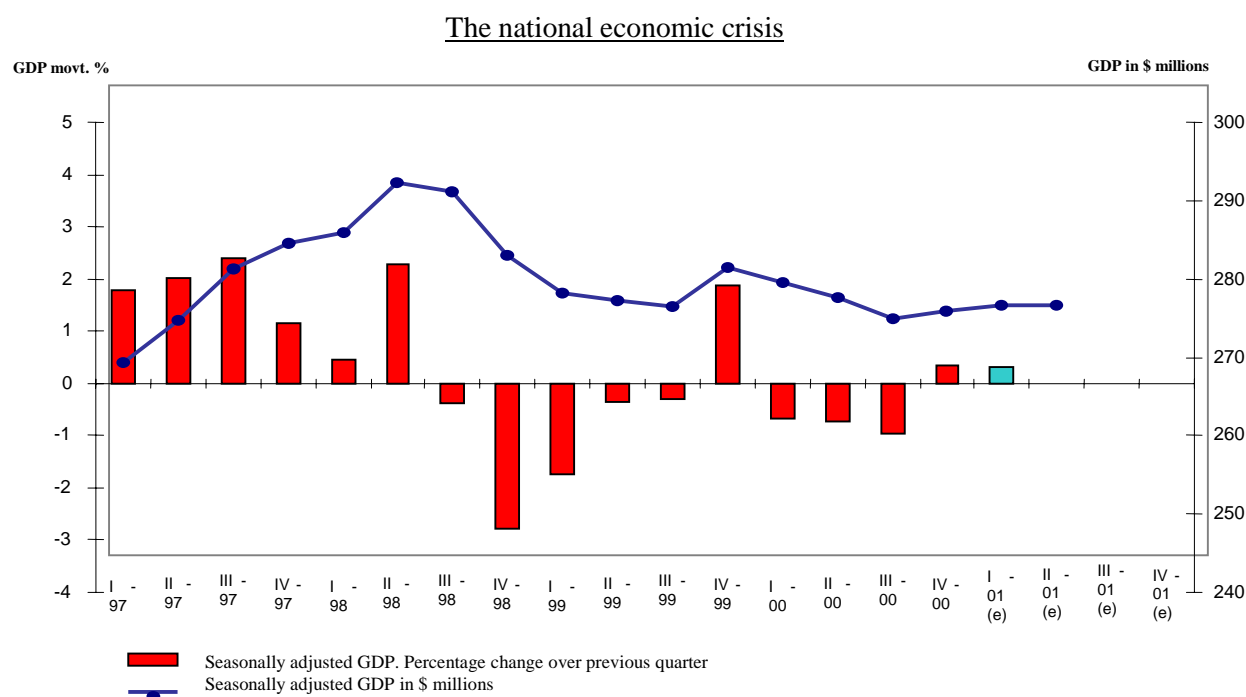
Year	GDP (1986 prices) Percentage change	Unemployment rate May	CPI Percentage change	WPI Percentage change
1988	-1.9	6.5	344.9	400.0
1989	-6.9	8.1	3,079.5	3,434.3
1990	-1.8	8.6	2,314.0	1,606.9
1991	10.6	6.9	171.7	110.5
1992	9.6	6.9	24.9	6.0
1993	5.7	9.9	10.6	1.6
1994	8.0	10.7	4.2	0.7
1995	-4.4	18.4	3.4	8.8
1996	4.8	17.1	0.2	2.2
1997	8.6	16.1	0.5	-1.2
1998	3.9	12.4	0.9	-3.2
1999	-3.4	14.5	-1.2	-3.8
2000	-0.9	15.4	-0.9	4.0
2001 - 7m.	-2.1 *	16.4	-0.7	-0.5

Source: Ministry of Economic Affairs and INDEC.

58. An economic recovery began in the first half of 1996, which would continue until the first half of 1998. The pattern of growth shows differences with respect to the period 1991-94, with exports and gross domestic investment becoming more dynamic.

59. The macroeconomic picture changed again in the final months of 1998, this time triggered by the Asian crisis and, subsequently, by the devaluation of the *real*.

60. The following graph tracks the recession in Argentina in recent years.



Source: Own, based on data from the Ministry of Economic Affairs.

61. The above table shows the linkage between the different international crises and industrial performance in Argentina, which translated into shrinking domestic production.

62. Since then, the policy options for the sector have had to take account of the widespread impact of the international crises and the domestic recession, while reworking a specific medium- and long-term strategy, taking account of the target date for integration with MERCOSUR.

63. Accordingly, Argentina is engaged in a complex process, since the crises and current cyclical downturn of the economy are weighty factors in the design of a policy for integration into the world market. During the 1990s, the sector encountered successive difficulties, aggravated by the external crises. Unless these obstacles are addressed, market shrinkage could affect employment levels in the sector and in peripheral industries.

C. PERFORMANCE OF THE AUTOMOTIVE COMPLEX

(i) *Production and exports*

64. Since 1991, thanks to macroeconomic stabilization, specific sector regulations and trade integration with Brazil, the industry achieved the highest production and sales levels in its history. In 1991, automotive production fell to its lowest level since 1961, to begin a gradual recovery until 1994, when it built 408,777 vehicles, for a record in sector performance.

Automotive production index Base 1990=100			
	Automobiles	Commercial Vehicles	Total
	1	2	3=1+2
1990	100.0	100.0	100.0
1991	119.5	124.4	120.9
1992	243.9	222.9	237.8
1993	300.4	273.8	292.7
1994	333.7	364.2	342.5
1995	224.0	287.5	242.4
1996	261.8	242.4	256.2
1997	364.4	377.5	368.2
1998	361.9	515.4	406.2
1999	233.2	360.6	270.0
2000	257.7	398.4	298.4
2001	119.2	184.3	138.0

* Provisional

** Provisional, seven months

Source: Own, based on data from ADEFA.

65. In 1995, as a consequence of the local and regional impact of the Mexican crisis, production fell by 30.2 per cent compared to the previous year but recovered, posting record growth in 1997 and 1998, despite the fact that the sector was not immune from regional fall-out from the Asian, Russian and, more recently, Brazilian crises (the sharp devaluation of the *real* and lower demand on that market).

Growth in vehicle production (units)							
	Automobiles	Utility Veh.	Category A	Freight	Passenger	Category B	Total
	1	2	3	4	5	6	7
90-91	40.7%	36.2%	40.0%	16.5%	47.7%	27.6%	39.5%
91-92	93.2%	66.3%	89.4%	59.6%	84.0%	69.7%	88.6%
92-93	30.1%	40.4%	31.4%	20.1%	1.2%	11.6%	30.7%
93-94	17.9%	24.3%	18.8%	37.4%	39.9%	38.4%	19.4%
94-95	-33.0%	-12.8%	-30.2%	-27.2%	-33.4%	-29.8%	-30.2%
95-96	18.9%	-30.4%	10.3%	4.7%	-19.8%	-4.8%	9.7%
96-97	36.0%	75.7%	40.4%	166.8%	-28.9%	102.5%	42.4%
97-98	-3.7%	40.0%	2.4%	8.6%	9.5%	8.7%	2.7%
98-99	-43.3%	-27.3%	-40.3%	-44.7%	-57.4%	-46.2%	-40.6%
Annual average: 90-99	9.4%	26.9%	11.9%	27.7%	-6.7%	13.5%	12.0%
Cum. growth: 90-99	156.9%	212.4%	162.2%	241.8%	42.9%	177.8%	162.1%

Source: Own based on data from the previous table, ADEFA.

66. Over the decade, total production of vehicles in the country grew at an annual rate of 44.9 per cent (1990-1998). However, for the above reasons, it experienced a drop of 38.6 per cent in the first 11 months of 1999 over the same period in the previous year, which pushed growth over the period 1990-1999 down to 12 per cent.

67. The main engine of growth in production until 1994 was the domestic market, where sales rose from 96,000 units in 1990 to a record of 508,000 in 1994 (close to 430 per cent cumulative growth, equivalent to an annual cumulative rate of 51.7 per cent).

68. The Mexican crisis occurred in December 1994 and had a heavy impact on the region, the country and the automotive and autoparts industries. In 1995, GDP dropped by 4.6 per cent and industrial production shrank by 7 per cent in comparison with 1994, while automotive production fell by 30.2 per cent. The difference in the slowdown in the sector, compared to the economy as a whole and to the industrial average, is explained by the sharp drop in domestic demand for durable consumer goods in the "post-tequila" recession.

69. Although exports grew in 1995 by 36.4 per cent over the previous year, this adjustment was not large enough to compensate for the drop in domestic sales. Companies had to cut back their production, given the new internal and external conditions.

70. It was not until 1997 that local automotive production was able to surpass 1994 levels, manufacturing 446,045 units for a new record. This demonstrates that the slow recovery from the crisis and the growth opportunities that can be expected from the sector market in relatively normal periods are key factors in projecting, within a reasonable period, the day when the industry will no longer require specific trade assistance measures.

71. In 1998, production held steady despite the onset of the crisis, which began to be felt in September-October of that year. The crisis intensified in 1999, when production dropped to 270,000 units. Domestic demand, measured by apparent consumption, shows two well-defined periods, with the glimmer of a third taking shape. Unlike the post-tequila crisis, during the Brazilian crisis both the domestic market and exports to Brazil shrank by about 60 per cent (237,000 units in 1998 and 100,000 in 1999).

Year	Apparent consumption in US\$ millions				
	Sales			Apparent consumption	M/AC
	Dom. & ext. markets	Exports	Imports		
	1	2	3	4=1-2+3	4=2/3
1992	5,622	356	2,018	7,284	27.71%
1993	6,340	664	2,369	8,045	29.45%
1994	7,681	867	3,389	10,203	33.21%
1995	5,806	743	1,078	6,141	17.56%
1996	7,139	1,144	1,719	7,714	22.28%
1997	8,360	2,220	2,476	8,615	28.73%
1998	8,830	2,486	2,812	9,156	30.71%
1999	7,770	904	696	7,562	9.20%

Source: Own, based on data from ADEFA.

(ii) *Productivity and investments*

72. The considerable increase in sector production since the start of the decade was accompanied by an improvement in labour productivity and in the productivity of the resources used in manufacturing vehicles in general.

73. Production per employee was lowest in 1990 at 5.72 units, rising to a maximum in the last value of the series of 16.97 units in 1997, for a difference of 196.84 per cent between the two extremes. Production per hour worked was 83 vehicles/hour in the base year 1990, and grew by an average of 36.9 per cent a year.

74. Growth in the automotive sector was based on strong investment and the incorporation of technology. Total investment in 1992-1997 was US\$3,982 million, including the network of dealers, installation of foreign car makers, capital contributions upstream (dealers) and downstream (autoparts manufacturers), for makes of vehicles already being produced in the country and newly introduced makes. Investments of US\$3,500 million were made in processes to boost production capacity.

75. Since 1992, and as a consequence of application of the regime and greater economic liberalization, local exports grew steadily until 1998. Starting in 1992 with an export/gross production value ratio of 6.4 per cent, by 1998 the figure had risen to 28.2 per cent. The extreme importance of automotive exports for the balance of payments should be noted, since they accounted for about 10 per cent of total exports (in 1997 and 1998).

ASSEMBLY PLANTS								
	1993	1994	1995	1996	1997	1998	1999	2000
Production								
Millions of pesos	4,686	5,484	3,881	4,600	6,162	6,293	4,089	4,486
Thousands of pesos	342.3	408.7	285.4	313.2	446.3	458	309.6	339.5
Industry share	5.94%	6.62%	4.87%	4.88%	6.73%	7.33%	5.48%	5.98%
Jobs								
	23,027	25,734	21,362	22,728	26,286	22,936	18,522	18,300
Industry share	2.17%	2.50%	2.20%	2.66%	3.44%	3.44%	4.12%	4.26%
Productivity per worker								
	14.87	15.88	13.36	13.78	16.98	19.97	16.72	18.55
Productivity in pesos								
	203,500	213,103	181,678	202,394	234,421	274,372	220,764	245,137
Exports								
Millions of pesos	663.7	866.9	743	1082	2133	2331	964	1183
Thousands of units	29.9	38.7	52.8	109.3	211.4	233.1	105	136
Average export prices	22197.3	22400.5	14072.0	9899.4	10089.9	10000.0	9181.0	8698.5
Imports								
Millions of pesos	2369	3388.6	1078.1	1718.9	2475.6	2833.3	1591.2	1284
Thousands of units	109.6	174.9	100.9	166.5	227	247	147	118
Average import prices	21615.0	19374.5	10684.8	10323.7	10905.7	11470.9	10824.5	10881.4
Apparent consumption								
Value	6391.3	8005.7	4216.1	5236.9	6504.6	6795.3	4716.2	4587
Units	422	544.9	333.5	370.4	461.9	471.9	351.6	321.5
Exports/production								
Value	14.2%	15.8%	19.1%	23.5%	34.6%	37.0%	23.6%	26.4%
Units	8.7%	9.5%	18.5%	34.9%	47.4%	50.9%	33.9%	40.1%
Imports/apparent consump.								
Value	37.1%	42.3%	25.6%	32.8%	38.1%	41.7%	33.7%	28.0%
Units	26.0%	32.1%	30.3%	45.0%	49.1%	52.3%	41.8%	36.7%

Source: Own, based on data from the Ministry of Economic Affairs.