reaching 50.5% of the total demand decrease. On the other hand, exports rose, supporting the sluggishness of the total demand.

The above-mentioned characteristics of Argentina's supply and demand structure show that economic stagnation since 1970, especially since the mid-1970s, resulted from the fact that the domestic market did not expand smoothly: consumption was sluggish, especially in the private sector, and so was investment. Stagnation of private consumption and investment largely stemmed from the unstability of the economic environments mainly caused by wide swings in the policy orientation of governments. The liberalization attempt in the latter half of the 1970s was one such swing. The stagnation of investment is a great impediment to the expansion of production capacity. Thus, if left as is, the limited production capacity will restrain future supply capabilities and suppress future economic development even though the demand expands. There is real concern about the recent investment trend as long as the present situation remains unchanged, Argentina's international competitiveness of manufactured goods will be deteriorating since the country has difficulty in catching up the world technological development.

Table I-1-5 shows a breakdown of GDI. The ratio of GDI to GDP was slightly over 20% during the 1970s, with a peak of 24% in 1977. However, it promptly began to fall in the beginning of the 1980s, reaching 15% in 1983 and 11% in 1985. These investment ratios are considerably low compared with other countries that are in a similar income level as Argentina.[1] The private sector's share in the Gross Domestic Fixed Investment (GDFI) varied within the range of around 50% - 60%. Investments in construction and machinery and equipment were around 60% and 40% respectively. In 1985, the GDFI sunk to a low of 48.6% of the 1977 peak, with relatively noticeable drops in machinery and equipment.

Especially, investment in transport equipment showed the most serious decrease. Its level in 1985 was only 44.3% of the 1979 and 1980 peak.

1-4 Industrial Structure

Another important characteristic of the Argentine economy can be seen when its economic and industrial structure is analyzed from the development phase approach. The industrialization ratio (defined here as the ratio of manufacturing product (value added) to the gross domestic product) is one of the most important indicators for this approach. In Argentina, the ratio was already higher than 20% in the 1950s and peaked at 28% in the mid-1970s. This level is comparable to the present level of the Asian newly industrializing countries (NICs). The structure of the manufacturing sector is another indicator of industrialization and economic development. In particular, the relative share of "modern" industries such as metal and machinery is relevant.

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1) Investment ratio as of 1983 were: 21% in Brazil, 27% in the Republic of Korea, 17% in Mexico, and 21% for the average of middle-income countries (World Bank, World Development Report 1985).

Table I-1-5 Gross Domestic Investment, 1970-1985 (at 1970 prices)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
< Index 1970 = 100 >																
GDP	100	104	106	109	116	115	115	122	118	126	127	119	113	116	119	114
GDI	100	110	111	108	108	110	117	139	118	128	137	105	88	82	73	61
GDFI	100	108	108	101	105	105	116	138	122	127	132	109	82	82	74	67
< Share % >																
GDP	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
GDI	21	23	22	21	20	20	22	24	21	22	23	19	17	15	13	11
GDFI	21	22	22	20	19	19	21	24	22	21	22	19	15	15	13	13
Changes in Inventory	0	1	1	1	0	1	0	0	-1	0	1	-1	1	0	0	-1
GDFI	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Public	38	39	39	35	35	40	46	46	46	41	39	42	44	44	37	37
Private	62	61	61	65	65	60	54	54	54	59	61	58	56	56	63	63
GDFI	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Construction	62	62	61	58	60	62	65	59	64	61	59	62	67	63	58	61
Public	40	41	43	40	40	34	43	52	49	43	41	39	41	45	35	37
Private	60	59	57	60	60	66	57	48	51	57	59	61	59	55	65	63
Machi.,Equ.& Trans.	38	38	39	42	40	38	35	41	36	39	41	38	33	37	42	39
Public	35	35	32	27	27	50	52	38	41	38	35	47	48	42	40	38
Private	65	65	68	73	73	50	48	62	59	62	65	53	52	58	60	62
Machi.,Equ.& Trans.	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Domestic	70	70	73	80	80	77	80	72	70	63	57	48	62	72	76	73
Imported	30	30	27	20	20	23	20	28	30	32	43	52	38	28	24	27
Machinery & Equipment	69	68	66	65	69	70	73	72	71	67	70	74	75	72	71	73
Domestic	57	59	62	71	73	70	75	68	63	60	46	38	52	65	70	64
Imported	43	41	38	29	27	31	25	32	37	40	54	62	48	35	30	36
Transport Equipment	31	32	34	35	31	30	27	28	29	33	30	26	25	28	29	27
Domestic	98	96	95	97	97	95	95	84	88	83	84	75	91	90	90	94
Imported	2	4	5	3	3	5	5	16	12	17	16	25	9	10	10	6

Source : Central Bank of the Argentine Republic
Notes : GDP = Gross Domestic Product. GDI = Gross Domestic Investment. GDFI = Gross Domestic Fixed Investment.

The share of these "modern" industries, especially machinery industry, generally increases as the industrialization is progressed. In Argentina, the share of the "modern" sector increased to approximately 30% in 1980, the level more or less similar to those in industrialized countries (the structure of the manufacturing sector is discussed in Chapter III).

Table I-1-6 shows the ratios of the agricultural and manufacturing products to GDP in major Latin American countries and the average of 19 Latin American countries. As described above, Argentina is one of the Latin American countries that experienced early industrialization, and its industrial structure is fairly modernized. As of 1950, the industrialization ratio already reached 20%. In the economic stagnation since the second half of the 1970s, manufacturing share has continued to decline in Argentina, in contrast to Brazil which began industrializing later.

Table I-1-7 shows the changes in Argentina's industrial structure in more detail for the period of 1970-1985. Figures based on three-year moving averages are also shown in the table for reference. The shares of the productive sectors (agriculture, mining, manufacturing and construction) and the rest of the economy on the whole remained stable during the period.

The biggest industrial sector is the manufacturing, and its share of GDP hit a peak of 28.4% in 1974 but then dropped continuously except in 1983 and 1984, reaching 23.0% in 1985.

The agricultural sector, which accounts for nearly 80% of the total exports including processed products, stayed at a fairly constant level of 13 - 14% of GDP in the 1970s. In the 1980s, when other sectors such as manufacturing, construction and commerce were sluggish, the agricultural sector enjoyed positive growth, increasing its share to 15.8% in 1985.

The service sector's share of GDP rose slightly from 50% in the 1970s to 53 - 54% in the 1980s. The details, however, reveal that the commerce sector, which accounted for the greatest share in the 1970s, fell in the 1980s, while the government and other sectors' share increased.

Contributions of various sectors to the increase of GDP during three 5-year periods from 1970 to 1985 were as follows:

	1970-1975	1975-1980	1980-1985
GDP	100.0%	100.0%	-100.0%
Agriculture	12.6	9.1	14.7
Manufacturing	32.8	-2.3	-42.5
Construction	2.1	13.6	-31.6
Commerce	13.7	14.1	-34.3
Banking	3.6	28.4	-20.7
Government services & other services	20.4	9.3	11.7
Others	14.8	27.8	2.7

Table I-1-6   Industrial Structure for Selected Latin American Countries
(percentages of the total gross domestic product at constant 1970 prices)

	1950	1955	1960	1965	1970	1975	1980	1981	1982	1983
Agriculture,Forestry and Fishing										
Argentina	16.5	17.9	15.6	15.3	13.2	13.1	12.7	13.8	15.6	15.3
Brazil	19.1	15.4	15.2	16.6	11.7	9.8	8.8	9.4	9.1	9.6
Colombia	35.9	31.5	30.9	27.9	26.5	24.6	23.8	23.7	23.1	23.2
Chile	10.6	10.1	9.3	7.8	7.5	8.6	7.1	7.1	7.8	7.8
Mexico	19.0	18.7	16.8	15.2	12.6	10.6	9.3	9.1	9.1	9.9
Peru	23.7	20.0	18.5	16.7	17.5	13.2	11.9	12.7	12.9	12.9
Total*	19.9	18.5	17.1	16.5	14.1	12.5	11.2	11.5	11.9	12.4
Manufacturing										
Argentina	20.5	21.7	23.3	25.8	27.0	27.8	25.0	22.4	22.8	24.2
Brazil	19.7	21.6	24.4	24.1	27.0	28.1	28.6	27.1	26.8	25.9
Colombia	13.3	14.3	15.8	16.4	16.8	18.3	17.1	16.3	15.7	15.6
Chile	21.7	21.7	23.2	25.8	26.0	21.5	22.2	21.8	19.2	20.4
Mexico	17.8	18.0	18.4	20.7	22.9	23.5	24.1	23.8	23.3	22.7
Peru	14.6	17.5	18.7	19.8	20.7	21.6	20.5	19.7	19.1	18.1
Total*	17.5	18.6	20.0	21.3	23.0	23.6	23.8	22.8	23.1	22.9

Source : ECLAC , Statistical Yearbook for Latin America 1984.

Note : * Average of 19 Latin American Countries.

Table I-1-7 Gross Domestic Product by Industrial Origin (at 1970 prices)

(percentage of the total GDP at factor cost)

Industry	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Agriculture	13.2	12.9	12.9	13.8	13.4	13.1	13.8	13.3	14.1	13.6	12.7	13.9	15.6	15.4	15.6	15.8
Mining	2.3	2.4	2.4	2.3	2.2	2.2	2.2	2.3	2.4	2.4	2.5	2.7	2.8	2.8	2.7	2.8
Manufacuring	27.0	27.6	28.2	28.3	28.4	27.8	27.0	27.4	25.4	26.2	25.0	22.4	22.5	24.2	24.5	23.0
Construction	6.5	6.6	6.4	5.5	5.6	5.9	6.8	7.2	7.1	6.6	6.6	6.1	5.1	4.6	3.6	3.8
Electricity. Gas and Water	2.3	2.5	2.6	2.7	2.8	2.9	3.1	3.0	3.2	3.3	3.6	3.8	4.1	4.3	4.4	4.7
Commerce.Restaurants & Hotels	15.2	15.1	15.0	14.5	14.8	15.0	14.2	14.4	13.7	14.9	14.9	14.9	12.9	12.9	13.2	12.7
Transport and Communication	11.3	11.1	11.0	10.9	10.8	10.7	10.7	10.6	10.8	10.7	10.9	11.0	11.3	11.4	11.6	11.7
Banking	7.6	7.4	7.1	7.2	7.7	7.1	6.8	7.3	8.1	8.2	9.1	9.2	8.6	7.7	7.6	7.7
Goverment and Other Services	14.6	14.4	14.5	14.6	14.4	15.4	15.5	14.7	15.3	14.7	14.8	16.1	17.0	16.8	16.7	17.8
GDP (at factor cost)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	13.2	12.9	12.9	13.8	13.4	13.1	13.8	13.3	14.1	13.6	12.7	13.9	15.6	15.4	15.6	15.8
Industry	35.7	36.6	37.0	36.1	36.2	35.8	36.0	36.8	34.8	35.2	34.1	31.2	30.5	31.6	30.9	29.5
Services	51.1	50.5	50.1	50.1	50.4	51.1	50.2	49.9	51.1	51.2	53.2	55.0	53.8	53.0	53.5	54.7
Government Services	14.6	14.4	14.5	14.6	14.4	15.4	15.5	14.7	15.3	14.7	14.8	16.1	17.0	16.8	16.7	17.8
Other Services	36.5	36.1	35.5	35.5	36.0	35.7	34.7	35.2	35.8	36.5	38.4	38.8	36.8	36.2	36.8	36.9

(3 year moving average)

Industry	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Agriculture		13.0	13.2	13.4	13.4	13.4	13.4	13.7	13.7	13.5	13.4	14.0	15.0	15.6	15.6	
Mining		2.4	2.3	2.3	2.2	2.2	2.2	2.3	2.3	2.4	2.5	2.7	2.8	2.8	2.8	
Manufacuring		27.6	28.1	28.3	28.2	27.7	27.4	26.6	26.3	25.5	24.6	23.4	23.0	23.8	23.9	
Construction		6.5	6.2	5.8	5.7	6.1	6.6	7.0	6.9	6.7	6.4	6.0	5.3	4.5	4.0	
Electricity. Gas and Water		2.5	2.6	2.7	2.8	2.9	3.0	3.1	3.2	3.4	3.5	3.8	4.0	4.3	4.5	
Commerce.Restaurants & Hotels		15.1	14.9	14.8	14.8	14.7	14.5	14.1	14.1	14.3	14.7	14.3	13.6	13.0	12.9	
Transport and Communication		11.1	11.0	10.9	10.8	10.7	10.7	10.7	10.7	10.8	10.9	11.0	11.2	11.4	11.5	
Banking		7.4	7.2	7.3	7.3	7.2	7.1	7.4	7.8	8.4	8.8	8.9	8.5	7.9	7.7	
Government and Other Services		14.5	14.5	14.5	14.8	15.1	15.2	15.1	14.9	14.9	15.2	15.9	16.6	16.8	17.1	
GDP (at factor cost)		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Agriculture		13.0	13.2	13.4	13.4	13.4	13.4	13.7	13.7	13.5	13.4	14.0	15.0	15.6	15.6	
Industry		36.5	36.6	36.4	36.0	36.0	36.2	35.9	35.6	34.7	33.5	32.0	31.1	31.0	30.7	
Services		50.5	50.2	50.2	50.6	50.6	50.4	50.4	50.7	51.8	53.1	54.0	53.9	53.4	53.7	
Government Services		14.5	14.5	14.5	14.8	15.1	15.2	15.1	14.9	14.9	15.2	15.9	16.6	16.8	17.1	
Other Services		36.0	35.7	35.7	35.8	35.5	35.2	35.3	35.9	36.9	37.9	38.1	37.3	36.6	36.6	

Source : Central Bank of the Argentine Republic

The contribution ratio of the manufacturing sector to the increase of GDP was 32.8% in the first half of the 1970s, but dropped to a negative value in the second half, and the sector accounted for 42.5% of the decrease in GDP in the first half of the 1980s. The construction sector contributed 13.6% to the increase of GDP in the latter half of the 1970s, which was greater than its share of the GDP in the same period (a little less than 7%). Its value added decrease, however, accounted for 31.6% of the decrease of GDP in the 1980s. The share of the increase of the commerce sector to the total increase of GDP was around 14.1% in the 1970s, which balanced roughly with its share of GDP in the same period, but the decline of this sector accounted for 34.3% of the decrease of GDP in the 1980s. The banking sector caused a 28.4% increase in GDP, the biggest contribution in the latter half of the 1970s, but accounted for 20.7% of the decrease in the 1980s.

The decline in value added of these four sectors in the 1980s was propped up by the agriculture and the government services and other services sectors.

From the viewpoint of production trends, it can be seen that economic stagnation since the latter half of the 1970s, particularly from the beginning of the 1980s, was caused mainly by the sluggishness of manufacturing and construction sectors as well as service sectors such as commerce and banking that are closely related to the above two productive sectors. In particular, the production trends in the manufacturing and construction sectors ran parallel with the trend of their markets, namely domestic consumption and investment as seen in the previous section. On the other hand, agricultural sector in Argentina has traditionally depended heavily on exports. The export market was solid while the domestic market was stagnant, thus its production trend was in a positive direction in the 1980s when other sectors showed negative growth rates. The average annual growth rates of the GDP, agriculture and manufacturing sectors during the three 5-year periods, from 1970 to 1985, are shown below:

	1970-1975	1975-1980	1980-1985
GDP	2.86%	1.97%	-2.12%
Agriculture	2.75	1.39	2.25
Manufacturing	3.44	-0.17	-3.73

Tables I-1-8 and I-1-9 show the employment and labor productivity by industry. The manufacturing sector accounted for around a quarter of the economically active population. It is understandable that reactivation of the manufacturing sector, which accounts for a quarter of both production and employment in the economy, is essential to activate Argentina's economy.

Agricultural sector accounted for 20% of the economically active population in 1960 but fell to 14% in 1980, indicating a downward trend. Agricultural sector in Argentina, which has been supported by the export market as described already, is completely incorporated in the market economy, completely different from non-traditional sectors generally

Table I-1-8 Economically Active Population by Economic Activity

Industry	1000 persons			Structure (%)			Growth Rate (%)	
	1960	1970	1980	1960	1970	1980	1960-70	1970-80
Agriculture,Forestry & Fishing	1,591.5	1,485.9	1,393.5	20.2	16.4	13.7	-0.7	-0.6
Mining & Quarrying	46.5	49.8	50.9	0.6	0.5	0.5	0.7	-0.2
Manufacturing	2,185.4	2,169.5	2,386.9	27.7	24.0	23.5	-0.1	1.0
Construction	493.7	783.3	1,085.0	6.3	8.7	10.7	4.7	3.3
Electricity,Gas & Water	95.4	107.7	112.0	1.2	1.2	1.1	1.2	0.4
Commerce	1,071.0	1,335.5	497.7	13.6	14.7	4.9	2.2	-9.4
Transport and Communication	599.4	656.4	1,920.7	7.6	7.2	18.9	0.9	11.3
Services	1,803.6	2,466.5	2,731.9	22.9	27.2	26.8	3.2	1.0
Total	7,886.5	9,054.6	10,178.6	100.0	100.0	100.0	1.4	1.2

Source: INDEC

Table I-1-9 Labor Productivity by Industry

Sector	at constant 1960 prices					at constant 1970 prices				
	pesos/person		index		Growth Rate	pesos/person		index		Growth Rate
	1960	1970	1960	1970	1960-70	1970	1980	1970	1980	1970-80
Agriculture	966	1,260	82	82	2.7	6,886	8,940	80	92	2.6
Mining	2,215	4,900	189	319	8.3	35,683	48,369	416	498	3.1
Manufacturing	1,317	2,282	112	149	5.7	9,673	10,325	113	106	0.7
Construction	749	786	64	51	0.5	6,415	6,007	75	62	-0.7
Electricity, Gas and Water	1,205	2,925	103	190	9.3	16,806	31,375	196	323	6.4
Commerce.Restaurants & Hotels	1,633	1,855	139	121	1.3	8,860	29,610	103	305	12.8
Transport and Communication	1,218	1,583	104	103	2.7	13,423	5,658	156	58	-8.3
Services	980	971	84	63	-0.1	7,001	8,628	82	89	2.1
GDP	1,173	1,536	100	100	2.7	8,586	9,704	100	100	1.2
Agriculture	966	1,260	82	82	2.7	6,886	8,940	80	92	2.6
Industry	1,229	1,935	105	126	4.6	9,255	9,545	108	98	0.3
Manufacturing	1,317	2,282	112	149	5.7	9,673	10,325	113	106	0.7
Services	1,222	1,364	104	89	1.1	8,699	10,013	101	103	1.4

Source: INDEC and Central Bank of the Argentine Republic

found in developing countries. It is observed that the productivity of the sector was as high as 87% of that of the manufacturing sector as of 1980.

1-5 Social Aspects of the Economy

The social aspects such as population size and education level are important for the economic development. Table I-1-10 shows the comparison of demographic factors among five Latin American countries, three Asian countries at a similar income level to Argentina, and four advanced nations.

Argentina's population as of 1983 was 30 million, less than that of middle-income countries in Latin America such as Brazil and Mexico, bringing about demographic limits on the domestic market. However, population size of a country does not necessarily constrain its economic development. There are fewer differences in population size between Argentina and Asian countries like South Korea which has a good performance of economic growth.

The rate of population growth in Argentina was 1.4% through the 1960s, less than that of other middle-income countries in the table, closer to that of advanced countries. The urbanization rate of the country as of 1960 was already 74%, the highest of the semi-advanced countries other than Singapore, which is the exceptional case. This rate is also similar to that of advanced countries. According to the 1980 population census, 83% of total population lived in urban area. About 50% of people live in the Capital and cities in Buenos Aires Province. These people make a big matured market.

Life expectancy at birth, an index for modernization, in 1970 did not reach the level of advanced countries but was high, together with that of Singapore, among semi-advanced nations.

As far as the demographic factors are concerned, Argentina is grouped with advanced countries, rather than with middle-income nations. That being the case, the country features a relatively mature domestic market centered in cities, though the market viewed demographically has some limits compared to major middle-income countries in Latin America like Brazil and Mexico. This is one of the important points for considering development strategy.

In Argentina, like other Latin American countries, there is relatively inequality in income distribution. 10% of the population, consisting of the most well-to-do like the big land owners, earns 35.2% of the national income in 1970. As shown in Figure I-1-2, however, the middle class accounts for a large proportion in comparison with other semi-advanced nations in Latin America. One reason for the relatively matured domestic market formation may be that the middle class keeps a large share of the market centered in the cities.
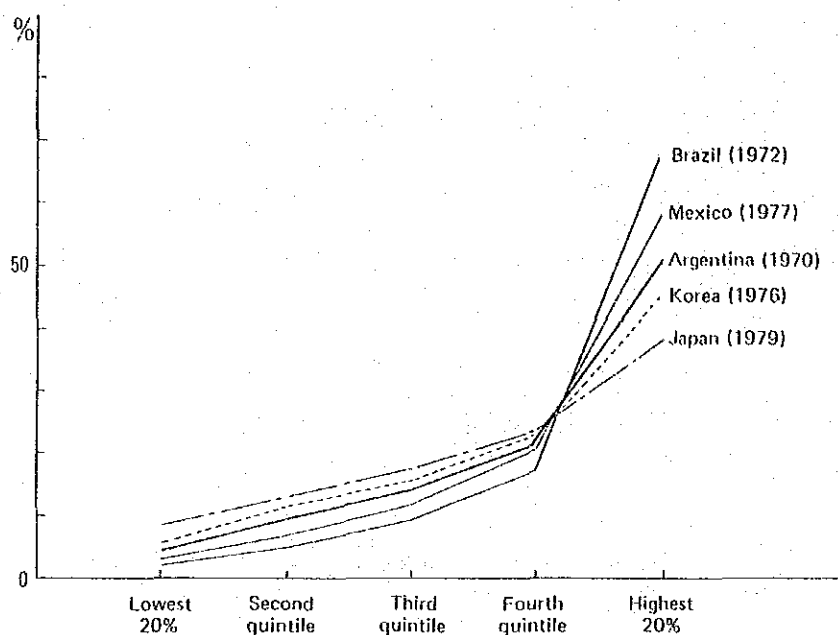
Argentina resembles advanced countries not only in demographic factors but also in education level, particularly in higher education (see Table I-1-11). The proportion of the enrolled out of all

Table I-1-10 Demographic Factors for Selected Countries

	Population (millions)		Growth Rate (%)			Urbanization (% of total)		Life Expectancy at birth (years)		
	1983	2000	1960-1970	1970-1980	1980-2000	1950	1983	1960	1983 Male	1983 Female
Argentina	30	37	1.4	1.6	1.3	74	84	65	66	73
Brazil	130	179	2.9	2.2	1.9	46	71	55	61	66
Colombia	28	37	3.0	2.3	1.8	48	66	53	62	66
Chile	12	15	2.1	1.7	1.5	68	82	57	68	72
Mexico	75	109	3.3	3.1	2.3	51	69	58	64	68
Korea	40	50	2.5	1.7	1.4	28	62	54	64	71
Malaysia	15	21	2.8	2.4	2.0	25	31	53	65	69
Singapore	3	3	2.4	1.5	1.0	100	100	64	70	75
Japan	119	128	1.0	1.1	0.5	62	76	68	74	79
F.R.Germany	61	61	0.9	0.0	-0.1	77	86	70	72	78
UK	56	57	0.5	0.1	0.0	86	91	71	71	77
USA	234	261	1.3	1.0	0.7	70	74	70	72	79

Source : World Bank , World Development Report , 1982 and 1985.

Figure I-1-2 Income Distribution
              (percentage of household income, by
              percentile groups of households)

%

50

0

Brazil (1972)
Mexico (1977)
Argentina (1970)
Korea (1976)
Japan (1979)

Lowest   Second   Third   Fourth   Highest
20%   quintile   quintile   quintile   20%

Source: World Bank, World Development Report, 1985.

Table I-1-11 Education Level of Selected Countries

(%)

	Primary School		Secondary School		Higher Education	
	1960	1982	1960	1982	1960	1982
Argentina	98	119	23	59	11	25
Brazil	95	96	11	32	2	12
Colombia	77	125	12	46	2	12
Chile	109	112	24	59	4	10
Mexico	80	121	11	54	3	15
Korea	94	100	27	89	5	24
Malaysia	96	92	19	49	1	5
Singapore	111	108	32	66	6	11
Japan	103	100	74	92	10	30
F.R. Germany	133	100	53	50	6	30
UK	92	102	66	83	9	19
USA	118	100	86	97	32	58

Source: World Bank, World Development Report, 1982 and 1985.
Note : Share of number enrolled in each educational level to total age
         grop population. As to higher education, share of enrolled to
         population aged 20-24.

youngsters of eligible age was 59% for secondary school and 25% for higher education in 1982. This level of higher education is similar to that of South Korea, significantly higher than most semi-advanced nations, closer to that of advanced countries, and even higher than that of the UK. Such high educational levels represent the high quality of the labor force, which can be regarded as a promising factor for future economic growth.

When one considers the constraints of limited resources availability on economic development and the importance of human resource, the scarcity of which is just as serious as, or even more serious than, that of capital as bottlenecks of growth commonly found in many developing countries, Argentina is definitely better placed in harnessing its large potentials of economic development. However, it should be noted that it is important for economic development to organize and utilize these potentials.

2. MAJOR ECONOMIC ISSUES AND DEVELOPMENT STRATEGY

2-1 Major Economic Issues

Liberalization policies adopted in the late 1970s[1] were designed to transform the traditional pattern of economic development of Argentina. However, these policies did not succeed in achieving the intended transformation. On the contrary, they served to bring about the serious difficulties which the Argentine economy now faces, by depressing domestic manufacturing activities and leading to the huge accumulation of external debt.

In addition to the structural problems which emerged during the process of economic development, the Argentine economy is now encumbered by the new constraint of accumulated debt. The country's development strategy for the future must aim to overcome the long-standing structural constraints and the problem of external debt simultaneously.

It is necessary to discuss firstly the reason why Argentina did not succeed in achieving the intended transformation through liberalization measures, and secondly why the nation has accumulated its external debt (see Figure I-2-1). There have been many studies of these points. However, we would like to refer only to the most important aspects for our study.

With regard to the first point, the liberalization policy was implemented in the two aspects of foreign trade and capital market. However, for the purpose of inflation control, the devaluation of the exchange rate was implemented gradually and delayed compared with inflation. It resulted in overvalued exchange rate of Argentina. This overvaluation of the exchange rate brought a rapid loss of international competitiveness of domestic industries together with the policy of trade liberalization. Theoretically, desirable changes in the industrial structure would be screening out inefficient sectors and expanding the sectors having comparative advantages through the exposure of industry to the international competition. To have such measures work as intended, the following points will be important.

1) A basic target must be set with respect to an industrial policy in order to transform the industrial structure.

2) It will be necessary to effect the liberalization step by step so that as many enterprises as possible can adjust to the changes in environments, in other words, strengthen their own competitiveness

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1) The objectives of the liberalization policy were a) reducing inflation at least to international levels; and b) creating a basis for long-run income growth by forcing the economy (principally the industrial sector) to become more efficient. Major liberalization policies were a) the introduction of a crawling-peg exchange rate, b) the freeing of domestic interest rates, c) cuts in import duties and a relaxation of import licensing requirements, and others.

Figure I-2-1 Effects of Liberalization Policy
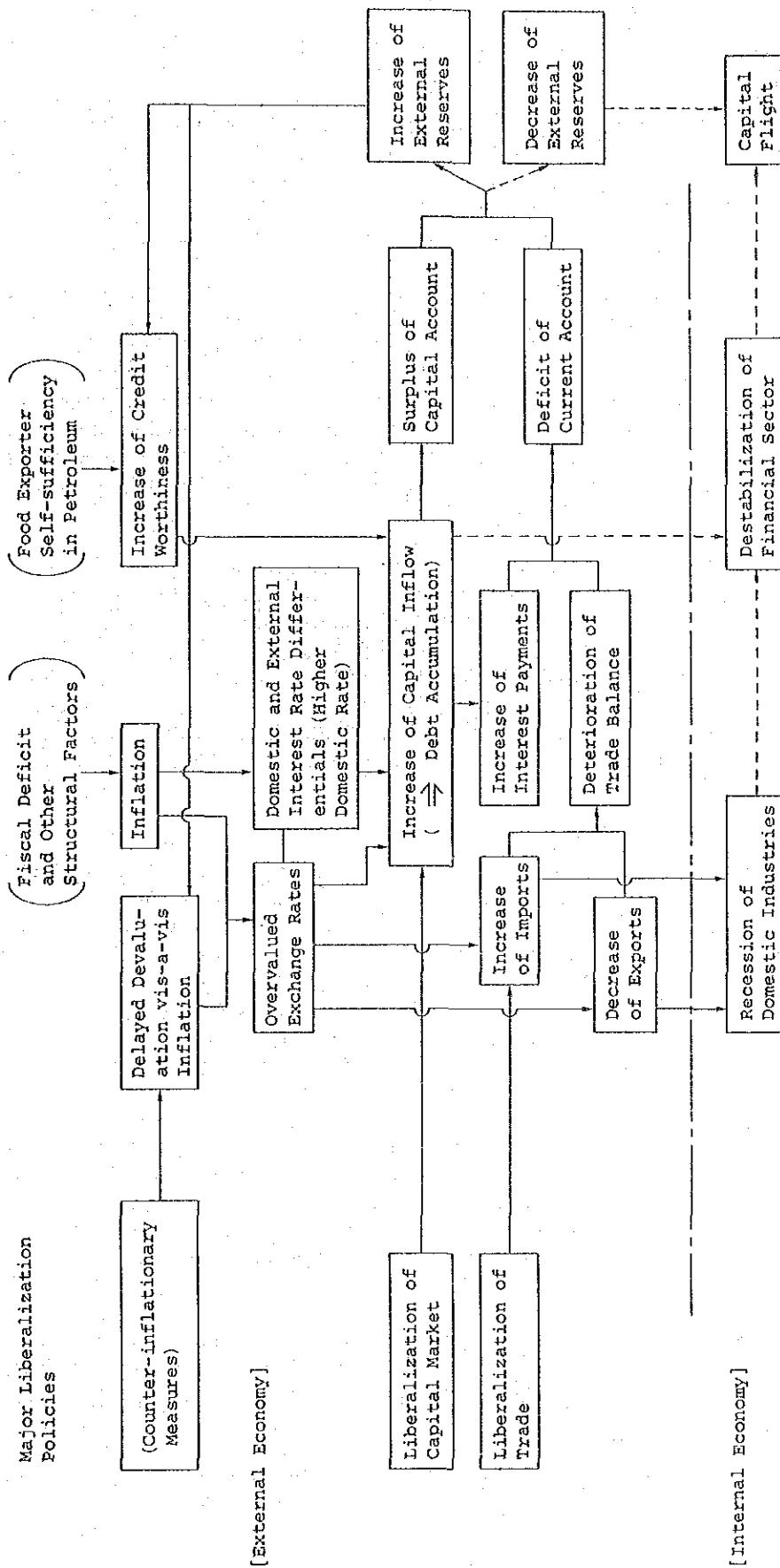
Note : Dotted lines indicate the processes once the vicious cycle sets in.
Source: A. Hosono and K. Tsunekawa, Raten-amerika Kiki no Kouzu (Structure of Crisis in Latin America), 1986.

through continuing efforts for productivity and quality improvement.
This course will be also necessary for revaluation of the exchange
rates.

3) Having fullfilled all the above, adequate support will be necessary
for industries and enterprises of sufficient capacity to raise
their efficiency through certain technical and financial support.
This should be a policy not of protection but of development,
upgrading inefficient sectors into the efficient ones.

In the liberalization policy in the late 1970s, adequate measures
had not been implemented to change the basic industrial structure, and
it was only to be expected that the inefficient industries would be
screened out by the market mechanism. During this period, pace of
liberalization and the exchange revaluation has been exceedingly rapid,
even faster than that of liberalization in Japan and the appreciation of
the yen. Furthermore, it can be said that almost no effort has been
made to formulate measures to improve the efficiency of inefficient
sectors.

With regard to the problem of accumulated external debt, it is
necessary to discuss the public sector and the private sector debts
separately. If we divide the debt increase period (1976-1982) into
three phases (see Table I-2-1) —— the early phase (1976-1978), middle
phase (1979-1980) and late phase (1981-1982), the debt increases of the
public sector were most excessive in the early and late phases, mainly
due to insufficient efforts to obtain funding to cover fiscal deficits,
and owing to the coverage of the deficits by the foreign borrowing. Of
course, the problem is rooted in the cause of the fiscal deficits
themselves.

Regarding the private sector debt, in the middle phase, the diffe-
rentials between domestic and foreign interest rates were so large and
the exchange rates were maintained at such high levels that there was a
massive inflow of private foreign capital. In partricular, this situa-
tion made it possible for people to gain large profits by borrowing
money from foreign countries at lower interest rates, lending at higher
interest rates in the country, and then returning to the lender over-
seas. Furthermore, in the early phase of the debt increase, a large
accumulation of external reserves took place through the debt expansion,
raising the creditworthiness of Argentina (see Table I-2-2). This is
also an important factor. However, in connection with the inflow of the
private capital, once the creditworthiness of Argentina decreased and
the possibility of the exchange rate devaluation was enhanced due to the
Malvinas Conflict and other factors, a massive capital outflow instantly
took place. It led Argentina to further expansion of the accumulated
debt to cope with this adverse situation.

As of the end of 1983 when the present government was established,
the outstanding external debt totaled US$45 billion and was composed of
70% public sector debt and 30% private sector debt. This shows that,
when the government of President Alfonsin took power, the accumulated
debt per capita in Argentina accounted approximately to US$1,530, reach-
ing roughly 60% of the per capita GDP. Furthermore, short-term debt

Table I-2-1 External Debt

	External Debt									GDP	Exports (goods)	External Reserves	Reference Ratios (%)		
	(US$ millions)			(share %)			(Annual Change %)			(US$ millions)	(US$ millions)				
	Public	Private	Total (1)	Public	Private	Total	Public	Private	Total	(2)	(3)	(4)	(1)/(2)	(1)/(3)	(4)/(1)
1970	2,143	1,732	3,876	55	45	100				23,150	1,773	759	17	219	20
1971	2,527	1,998	4,525	56	44	100	18	15	17	23,688	1,740	374	19	260	8
1972	3,046	2,046	5,092	60	40	100	21	2	13	21,628	1,941	541	24	262	11
1973	3,316	1,670	4,986	67	33	100	9	-18	-2	35,657	3,266	1,462	14	153	29
1974	3,879	1,636	5,514	70	30	100	17	-2	11	48,934	3,931	1,411	11	140	26
1975	4,941	3,144	8,085	61	39	100	27	92	47	45,381	2,961	620	18	273	8
1976	6,648	3,091	9,738	68	32	100	35	-2	20	46,288	3,916	1,812	21	249	19
1977	8,127	3,635	11,761	69	31	100	22	18	21	49,251	5,666	4,039	24	208	34
1978	9,453	4,210	13,663	69	31	100	16	16	16	64,083	6,400	6,037	21	213	44
1979	9,960	9,074	19,035	52	48	100	5	116	39	104,284	7,810	10,480	18	244	55
1980	14,459	12,703	27,162	53	47	100	45	40	43	153,348	8,021	7,684	18	339	28
1981	20,024	15,647	35,671	56	44	100	38	23	31	95,794	9,143	3,877	37	390	11
1982	28,616	15,018	43,634	66	34	100	43	-4	22	66,469	7,624	3,206	66	572	7
1983	31,706	13,381	45,087	70	30	100	11	-11	3	74,000	7,836	3,470	61	575	8
1984	36,139	10,764	46,903	77	23	100	14	-20	4	80,000	8,107	3,734	59	579	8
1985	39,868	8,444	48,312	83	17	100	10	-22	3	69,370	8,396	5,471	70	575	11

Source : Central Bank of the Argentine Republic

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Table I-2-2 Balance of Payments

(US$ million)

	1975	1977	1978	1979	1980	1981	1982	1983
1.Trade Balance (goods)	-549	1851	2913	1783	-1373	710	2762	3718
Exports of Goods (FOB)	2961	5650	6401	7810	8022	9142	7622	7838
Imports of Goods (FOB)	3510	3799	3488	6027	9395	8432	4859	4121
2.Trade Balance(goods&services)	-826	1877	2520	403	-3191	-757	2667	3469
3.Facter Services	-466	-782	-734	-973	-1607	-3932	-5054	-5922
Interest Received	55	128	315	681	1229	887	526	440
Interest Paid	-467	-499	-720	-1175	-2175	-3851	-4926	-5426
Others	-53	-410	-329	-479	-661	-968	-655	-937
4.Private Unrequited Trasfers	6	33	48	35	23	-22	34	16
5.Balance on Current Account (2 + 3 + 4)	-1286	1127	1836	-535	-4774	-4712	-2354	-2436
6.Official Unrequested Transfers	-1	-1	21	22	0	0	0	0
7.Long-term Capital	-170	476	1520	3156	4492	9965	3844	1715
Direct Investment	0	144	273	265	788	943	257	183
Others	-170	332	1246	2891	3704	9022	3586	1532
8.Basic Balance (5 + 6 + 7)	-1457	1601	3376	2643	-283	5253	1490	-721
9.Short-term Capital	373	109	-1246	1341	-2011	-8244	-1758	-1289
10.Errors and Omissions(net)	4	135	9	243	-307	-205	-402	-440
11.Capital Account Balance (7 + 9 + 10)	205	719	302	4760	2176	1520	1686	-13
12.Global Balance* (5 + 11)	-1081	1846	2138	4225	-2598	-3193	-668	-2450

Source : ECLAC, Statistical Yearbook for Latin America 1984.
Note : * Equals to total variation in reserves plus Counterpart items.

occupied a comparatively large portion. This indicates that the country will continue to be burdened by heavy debt service payments for some time to come. At the end of 1985, the external debt outstanding reached US$48.3 billion, for which the annual interest payment was as much as US$5.5 billion (estimated for 1985), representing approximately 60% of the amount of 1985 exports.

This problem of the accumulated external debt is one of the most serious problems for the Argentine economy. Expansion of imports is anticipated for future industrial activation. Nevertheless, it will be substantially constrained due to the anticipated interest payments in excess of the trade surplus amount. This is really a problem to be solved by the acquisition of foreign currency through long-term economic development and export expansion, in addition to timely short-term debt management. The ralative volume of debt in Argentina is very large. For example, Argentine exports are approximately one third the size of the Brazilian exports, while the Argentine accumulated debt is as much as one half the Brazilian debt. This indicates that further efforts for export expansion and/or import restrictions will be required for Argentina.

The inflation is another serious issue which is common to Latin American countries. Argentina is no exception. Inflation control is a prerequisite for new loans from the IMF and foreign private banking syndicates, and also is an essential factor for investment promotion and economic activation.

At the time of establishment of the present government in 1983, the inflation rate reached as high as 434% (CPI compared to December 1982), and inflation control became the government's most urgent short-term goal. However, despite the implementation of price control measures for economic stabilization, there was no effect as inflation increased to 688% in 1984. At the beginning of 1985, the monthly inflation rate was more than 20%, eventually reaching as annual rate of 1000% during the one-year period up until May of 1985.

In order to cope with this situation, the government announced the Austral Plan as an economic stabilization policy on June 14, 1985, which has produced important beneficial results (the details of the Plan will be reviewed in 3. of this chapter).

2-2 Economic Development Strategy

As already mentioned, the Argentine economy faces the necessity of finding a way to overcome the long-standing structural constraints and the problems of accumulated external debt and inflation simultaneously. The basic strategy against the problems of accumulated external debt and inflation are discussed here.

The most serious problem for Latin American countries related to accumulated external debt and economic development is that they are in the dilemma that they must achieve the debt repayment and employment expansion simultaneously. This dilemma can be summarized: in order to

carry out debt repayment, import restrictions and thus low growth are required and it will result in increase of unemployment, while in order to improve the employment situation, import expansions is necessary and it will lead to more serious debt problem.

However, Argentina is in an advantageous position in respect of this dilemma, compared with other Latin American countries. Firstly, Argentina has traditionally enjoyed lower unemployment rates than other countries. Even with the recent low economic growth, the unemployment rate has remained at around 6%. Furthermore, Argentina has less under-employed people, whereas Brazil and Mexico have huge numbers of people excluded from unemployment registration, who belongs to so-called "informal sector".

Secondly, in Argentina import restrictions do not always bring about a significant decline in the economic growth. This should be noted for comparison with other countries which are smaller than Argentina. In the case of these smaller countries, the development of the capital goods and intermediate goods industries is not satisfactory so that a certain increases in imports are required to maintain the economic growth. On the contrary, in Argentina the industrial sector is diversified and these subsectors are sufficiently developed, furthermore the country has abundant food and energy resources. Therefore the economic growth can be attained even with the import restrictions by substantially reducing the income elasticity of import compared to previous levels.

In this connection, we should take note of the example of Brazil, which successfully maintained high growth rates through enforcing import restrictions, particularly between 1985 and 1986. There are some differences in domestic markets between Argentina and Brazil. However, it is still an important precedent that Brazil was successful in raising the growth against a low level of imports, despite continuous imports of oil in large quantities. According to the analysis of the manufacturing industry in Argentina on a subsector basis (see 1. of Chapter III), Argentina has a higher ratio of metal products and machinery industries than Brazil, and the level of development in the intermediate goods and capital goods industries in Argentina is relatively high as compared to that of Brazil. Furthermore, Argentina is capable of self-sufficiency in energy. In view of these factors, it is considered that Argentina may be able to attain a economic growth with a certain restrictions on imports by substantially reducing the import elasticity.

It is undeniable that Argentina has disadvantages as compared with Brazil in the following points; 1) Argentina has smaller domestic market, 2) Argentina has not invested sufficiently in industry during the debt expansion period while Brazil did so, and therefore 3) Argentina has lagged behind Brazil in the development of technology. Argentina may be able to overcome some part of these disadvantages through the agreement recently concluded with Brazil regarding the two countries' cooperation mainly for trade in capital goods. Meanwhile, it will be necessary for Argentina to draw up industrial policies, a mechanism for industrial financing and a technology policy, to improve the economic conditions in Argentina, as will be explained in detail later

in this report.

To expand exports is the second most important matter in dealing with the accumulated debt and in activating the economy. Although there are disadvantages of foreign protectionism and the recent decline in the prices of the primary products, Argentina has a substantial potential for export expansion. The export of manufactured products is as important as the export of the primary products for achieving economic growth and earning of the foreign currency for debt repayments. Therefore, it is considered necessary to implement the export promotion strongly through the various measures, as mentioned in this report (V Export).

As to inflation problem, there are three major types of factors : the structural factors related to supply and demand of goods and services, the monetary factors related to the volume of money issued and the psychological factors. In the case of Argentina, it is thought that the implementation of the Austral Plan has overcome the psychological factors as well as part of the monetary factors.

In connection with the structural factors, Latin American countries generally have the bottleneck in supplies of foods and other necessities and the wage indexation system which is one of the main factors of cost-push inflation. In Argentina, however, there is no basic supply bottleneck, generally speaking, for the most fundamental goods like food and energy, and therefore, it can be said that this particular situation is very favorable for the country. Meanwhile, since the implementation of the Austral Plan, labor unions have shown a better understanding of inflation control. It is suggested that it will be possible to avoid cost-push inflation by limiting wage increase to increase of productivity.

Along with the oligopolistic market structure of Argentine industry, the fiscal deficit is one of the important factors of the inflation problem. The present government has been making serious efforts to control expenditures to reduce the fiscal deficit. In the future, tax reform will be necessary to expand the revenue base. However, any tax reform plan should avoid measures to restrain expansion of production and export. Revenue should be increased by improving tax administration and broadening the bases of taxes such as incresing tax coverage and raising tax rates for luxury items, overseas trips, luxury real estate and acquisition of them. In addition, it will be necessary to raise the efficiency of the public sector centering on public enterprises.

3. ECONOMIC PERSPECTIVE AND DEVELOPMENT PLAN

3-1 Stabilization Policies and Present Economic Situation

The new democratically elected Argentine government that took office in December 1983 confronted a number of difficult economic problems such as the worsening of fiscal deficit, the expectations of social groups to improve their living-standards after a long period of economic stagnation, and the constraints imposed by the external debt of the country. In September 1984 the government adopted a gradualist economic program to control the deep inflationary process. However it was unsuccessful (Figure I-3-1).

At the beginning of 1985, the economic indicators showed bad performance of the economy, especially the inflation rate experienced on upward trend. It then became clear that the gradualist strategy was not effective. Consequently, on June 14, 1985 the authorities announced the implementation of a new stabilization plan, so-called the Austral Plan, supported by a new fiscal program, an effective monetary control, a freeze on wages and prices and, as a noteworthy instrument, a monetary reform including a debt conversion system.

From early 1986, the economic program of the present government showed some changes that tended to generate greater flexibility in the adjustment of the economic system. In the price and wage policy area, this change means from "freezing of wages and prices" to "controlling of wages and prices".

After one year of implementation of the Austral Plan the hyperinflation has been successfully brought under control (Table I-3-1). The monthly inflation rate as measured by the consumer price index (CPI) fell from about 30% during June 1985 to about 6% in July, 3% in August and 2% in September 1985, which was the lowest increase since January 1975. On the other hand, the wholesale prices (WPI) experienced a reduction of 0.9% in July 1985 for the first time since November 1973. One year inflation was reduced to double digits for the first time in seven years (CPI and WPI have risen 50.1% and 17.2% respectively since June 1985).

The official exchange rate was fixed[1] and the parallel rate has remained more or less stable. The gap between these two exchange rates has recently been reduced. The fiscal deficit, which is one of the most serious problems to the government, showed a fair improvement. The deficit of the non-financial public sector was 11.1% of GDP in 1983 and 8.3% in 1984, and improved to 4.4% in 1985. The increase of money supply has been kept at a limited level, and what is more, the interest rate has returned to an acceptable level (from July 1985 5.0% per month for lending and 3.5% for 30-day deposit, and from October 4.5% and 3.1%, respectively). Due to the decline in the inflation rate, the real interest rate became high. However even in cases where the real interest rates were modest or negative, the very high levels of nominal

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1) From April 1986 the official exchange rate moved to crawling peg system.

Figure I-3-1 Monthly Changes in Price Indexes

—— Wholesale Price Index (1960=100 for 1980.1~1984.1, 1981=100 for 1984.1~)
----- Consumer Price Index (1974=100)
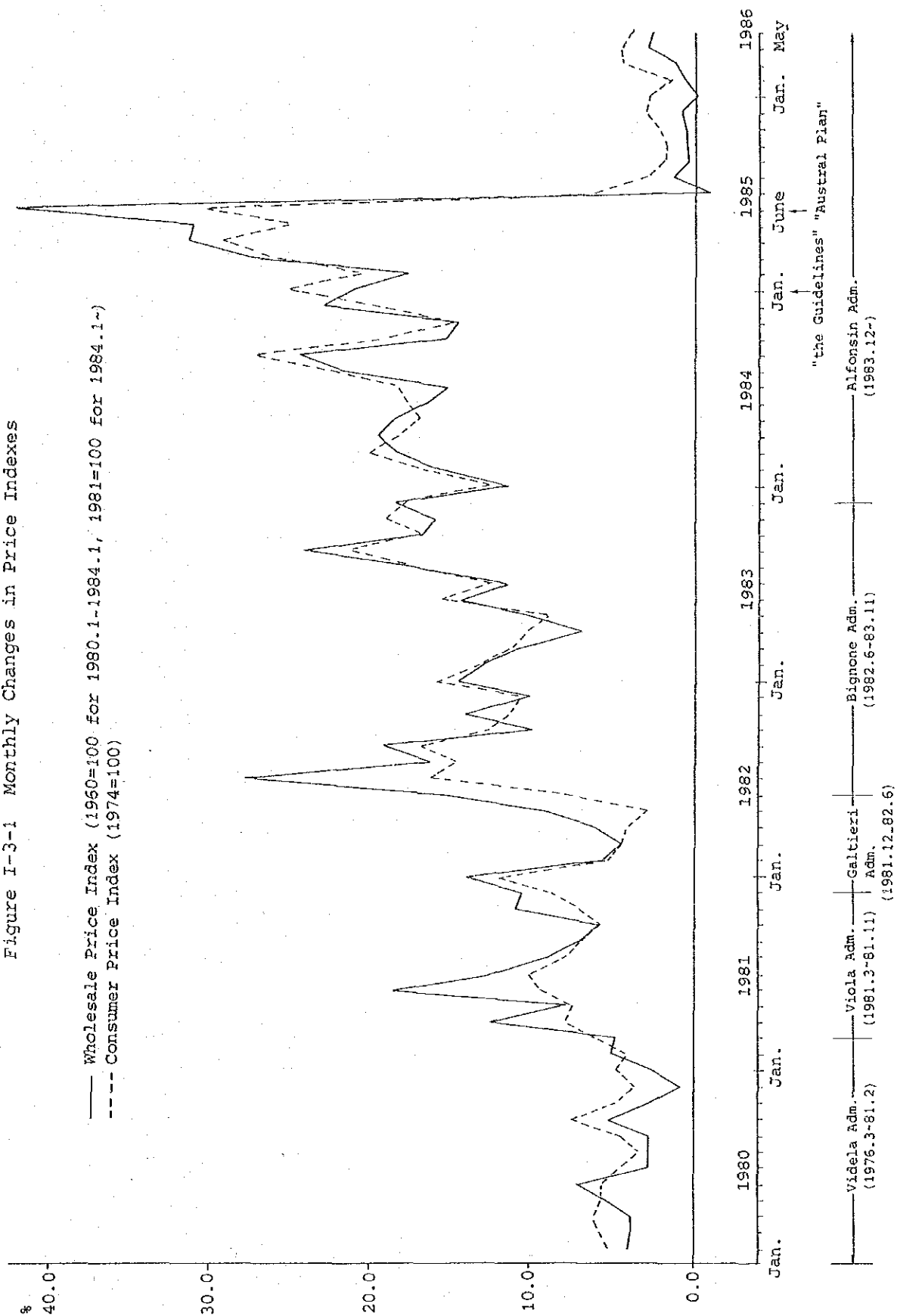
Source: INDEC and others

Table I-3-1 Recent Trends of Key Economic Indicators

	Inflation Rates 1)		Fiscal Sector Revenure Expend. (%)			Money Supply1.3)		Interest Rates (%) 4)				Industry Production (1970=100)	Wages and Salaries (1983 Dec.=100)		
	CPI	WPI				M 1	M 4	Lending Rate		Deposit Rate			Indust.	Const.	Public S
			(1)	(2)	(1)/(2)			nominal	real5)	nominal	real6)				
1985															
January	25.1	21.1	45.7	86.3	58.1	18.9	20.3	19.5	-1.4	17.5	-6.1	104.8	105.7	75.0	80.4
February	20.7	17.8	43.1	98.5	48.0	13.4	19.7	20.0	2.0	18.0	-2.2	97.3	98.7	71.4	76.3
March	26.5	27.7	27.7	89.9	33.8	15.9	19.0	22.0	-4.4	20.0	-5.1	103.2	97.7	70.9	73.2
April	29.5	31.5	40.1	139.2	31.6	19.9	19.2	26.0	-4.3	24.0	-4.3	105.0	97.6	68.1	70.1
May	25.1	31.2	51.0	113.5	49.3	17.2	21.4	32.0	0.4	30.0	3.9	103.8	102.1	69.0	70.8
June	30.5	42.3	43.4	173.4	27.4	54.8	36.3	30.0	-	28.0	-	91.4	90.1	64.8	66.5
July	6.2	-0.9	84.6	109.1	85.0	47.1	28.2	5.0	5.9	3.5	-2.5	91.8	84.9	61.2	62.7
August	3.1	1.5	96.1	104.2	101.1	5.1	9.2	5.0	3.5	3.5	0.4	99.2	82.3	59.4	60.8
September	2.0	0.6	90.0	96.3	103.2	6.0	8.5	5.0	4.4	3.5	1.5	101.1	80.7	58.2	59.6
October	1.9	0.7	100.0	100.0	109.6	10.1	8.5	4.5	3.7	3.1	1.1	107.5	82.9	57.1	58.5
November	2.4	0.7	131.0	107.8	133.2	10.4	7.7	4.5	3.7	3.1	0.7	107.5	81.8	55.8	57.1
December	3.2	1.0	96.8	114.9	92.3	18.0	8.2	4.5	3.5	3.1	-0.1	110.2	83.0	57.3	59.6
1986															
January	3.0	0.0	81.3	106.4	83.8	7.4	6.7	4.5	4.5	3.1	0.1	109.7	81.6	56.3	58.6
February	1.7	0.8	65.5	98.5	72.8	-2.6	5.1	4.5	3.7	3.1	-1.4	111.4	81.6	56.3	58.6
March	4.6	1.4	60.9	110.0	55.4	-0.7	5.7	4.5	3.0	3.1	-1.4	112.5	79.4	53.6	56.0
April	4.7	3.0	85.9	111.2	77.2	-	-	4.5	1.5	3.1	-1.5	117.0	82.3	55.8	56.5
May	4.0	2.7	73.8	74.0	99.7	-	-	4.5	1.8	3.1	-1.5	-	80.5	53.9	54.5

Source : INDEC. Central bank of the Argentine Republic and Ministry of Economy.

Notes : 1) Monthly changes in percentages.
2) Index. 1985 Oct.=100.
3) M1 = currency+demand deposits. M4 = M1+regulated rate deposits+acceptance+free deposits+index-linked deposits.
4) Regulated market rates. For the period of 15-30 June 1985.lending rate was 6.0% and deposit rate was 4.0%.
5) Deflated by WPI of the same period.
6) Deflated by CPI of the same period.

rates implied severe cash flow burdens on the enterprises. The stability and lowering the nominal interest rates, brought by the Austral Plan, have had positive effects for economic activities.

The Plan is considered successful from another point of view. Even though these developments have occurred within the context of a freeze policy, they did not require strong administrative surveillance. In fact, the freeze has worked due to its consistency with the market forces which, after a short period of uncertainty, have operated to help with the price policy. No generalized shortage in the market, nor a drastic contraction of economic activities have occured.

Compared with the economic situation of the country before mid-June of 1985, the Argentine economy has regained its stability and the confidence of the people in the economy has been repaired to a considerable extent.

However, the real wage has indeed come down (see Table I-3-1), and unemployment rate has become higher level. The real lending interest rate remains high for investors. The domestic market situations are not bright. In 1985 gross domestic product declined by 4.4%. Especially the manufacturing sector has been suffering from the drop of the demand and its growth rate was -10.4% in the same year.

In the first quarter of 1986, a slight recovery was observed in industrial production, a sign of economic reactivation as consequence of better conditions relative to price stability and expectations than those prevailing in the previous year. Nevertheless, it is necessary for the Argentine government to implement new economic measures in order to reduce the fiscal deficit further, to stimulate investment in the productive sectors, etc.

In this context, the most important policy issue for short term economic management is how to make adjustment on the price and wage control policy. The overall success of the Austral Plan ultimately depends on this way, namely, when and how to shift to more flexible system (to market mechanism) from overall controlled one. As long as the cooperative attitudes of the labor sector, producers of goods and services, and other sectors of the economy are maintained, a transition from the present phase to a new and more normalized phase would be accomplished relatively smoothly in the near future.

3-2 Economic Perspective and Development Plan

Among others, the following aspects of the current economic trends seem to be highly relevant to be taken into account to understand the present phase of Argentine economy and its perspective.

1) First of all, it should be emphasized that, as mentioned already, after one year of implementation of the Austral Plan, the hyperinflation has been successfully controlled. Compared with the economic situation of this country before mid-June 1985, no one can deny that the Argentine economy has regained its relative

stableness and the people's confidence in the economy has been renewed to a considerable extent.

2) At the same time, mainly due to the favorable climate conditions, the agricultural production of 1984/85 agricultural year was considerably higher than the expected and therefore the export of grains increased substancially resulting unprecedented positive trade balance of US$4.5 billion dollars, which permitted the payment of interest of accumulated external debts without depending too much on new external financing. It was also important that the import level has been maintained low.

3) Due to the successful implementation of the Austral Plan, various indicators of people's confidence and of slow reactivation of the economy is observed: the gap between the official exchange rate and parallel rate has been very narrow; official interest rate and that of "entreempresario" financing is not much different; saving has been increasing, etc. As symptoms of reactivation we observe recovering of industrial production in the first quarter of the year 1986.

4) Nevertheless, it seems that certain new economic measures are necessary in order to cut further the fiscal deficit, to stimulate investment in productive sectors, etc.

5) On the other hand, international economic conditions have changed considerably, which obviously altered the perspective of external balance of Argentine economy. More specifically, the price of grains has dropped drastically, which, jointly with the unfavorable climate conditions and consequent low level of agricultural production of 1985/86, would decrease substancially the export of the country and reduce the trade surplus for 1986. This means the necessity of larger amount of new external financing at least in 1986 and 1987 in order to pay the interest of accumulated external debts.

Accordingly, the country is about to face the crucial time of decision making not only over short-term economic management such as price control but also over defining its medium- and long-term economic strategy. It should be emphasized that the country is now in better conditions to elaborate on its longer term growth strategy, and that strategy would play a crucial role in facilitating a smooth transition from defreezing to a new phase of economic reactivation. The reactivation of investments by the private sector and the continued cooperation from the labor sector would depend heavily on their confidence in the perspective forged in the medium-term development strategy.

In this sense, the development strategy, basic economic policies and major lines of action to be included in the forthcoming National Development Plan are of great interest for all economic sectors of the country.

The overall framework and certain lines of action to be included in the forthcoming Plan have been presumably indicates in Los Lineamientos

de una Estrategia de Crecimiento Economico 1985-1989 (The Guidelines for an Economic Growth Strategy 1985-1989, hereafter referred to as the Guidelines) which was announced in the beginning of 1985, and also in various public statements subsequently made by leading policy-makers of the present government.

For example, the Guidelines addresses itself to overcoming the deepening economic crisis and regaining the momentum of growth, and proposes to rebuild an effective mechanism of capital accumulation in order to improve the efficiency of the economy and generate growth. As its central strategy, the Guidelines proposes what it defines as "positive adjustment", namely, the policy stance of increasing trade surplus by means of an export-oriented expansion of the economy. The Guidelines estimates that a sustained growth of export would generate a higher rate of economic growth than those during the last decades, and projects the GDP growth rate of 20% over the period of 1985-1989. The increase of investment is considered central to the program proposed by the Guidelines, because increased investment is indispensable not only for the generation of higher near-term growth but also for the consolidation of the economic phase for sustained growth in the longer run. The Guidelines goes on to stress the crucial importance of developing a consistent policy mix for industrial and trade promotion as well as formulating an effective macroeconomic policy framework.

Our review of the Guidelines concerning the issues of industrial reactivation and export promotion can be summarized in the following five points.

1) Basic constraints

The sectorial guidelines of the Guidelines point out that the basic constraints to balanced economic growth in the medium and the long term are low levels of investment, productivity, efficiency and technological development. It is also recognized that the lack of consensus among the population hampers timely efforts to revamp the situation, worsening the economic recession further. The combination of these constraints suggests the difficulty of formulating and implementing effective measures to restore the dynamism and stability to the economy.

In fact, the investment ratio in Argentina varied only slightly during the two decades since 1960, staying around 20 - 22%. Compared with a group of the NICs which rapidly raised investment ratios during the same period, the trend is distinctly stagnant, and furthermore the ratio dropped to 12.6% in 1985. The incremental capital output ratio, which is one of the indicators of investment efficiency, shows a rising tendency, in other words, a worsening trend. In the early 1980s, the ratio turned negative, which indicates drops in output despite additional investment.

2) Reactivation of industry and export promotion

The Guidelines considers that increased exports and domestic productive investment are two requisites to stimulate the dynamism of the economy, and presumes that the on-going restructuring of world

trade promises an increased participation of Argentina's manufactured exports. There is certainly enough room in the international markets for semi-industrialized countries to compete for a gain in manufactured exports, but the fact remains, for example, that Argentina's manufactures have been steadily losing their share in the regional market to other Latin American countries. As long as the present economic structure remains unchanged, it appears extremely difficult for Argentina's manufactured exports to reverse the trend immediately and pick up rapidly as envisioned in the Guidelines.

According to the Guidelines, an expansion of manufactured exports would serve to eliminate the current idle capacity, and thereby generate domestic capital for additional investment. To be sure, Argentina did experience an appreciable growth of manufactured exports in the early 1970s. During the subsequent decade since the mid-1970s, however, international competitiveness of Argentine manufactures deteriorated due to the combined effects of political instability, drastic economic policy reorientation, accelerating inflation, real appreciation of peso, and other domestic and external factors that exacerbated imbalances of the economy. New investment continued to dwindle and stagnate in the manufacturing sector in these years. As long as technology embodied in industrial equipment and facilities is concerned, therefore, competitiveness of the country's manufactures is far more likely to decline than pick up in the immediate future. To put it differently, the sequence of export expansion leading to utilization of the existing idle capacity and generation of capital for new investment is rather an unrealistic presumption.

Generally speaking, efficiency of today's industrial production is dependent on the technology embodied in plant equipment. The age of equipment largely determines the level of production efficiency, and henceforth international competitiveness of end products, and this is true not only in high-tech industries like electronics but in technologically standardized industries like steel.

The Guidelines stresses the importance of technological development in reactivating manufacturing. Its understanding is that Argentina will depend to a greater extent on imported new technology in the beginning, but that the country will eventually acquire a capability to adapt and develop its own technology. In this respect, one should be aware that the time it takes to absorb new technology and the extent of internalization would vary with the overall level of a given country's capability, which derives from a combination of such factors as quality of manpower, and effectiveness and consistency of policies and institutional supports.

3) Industrialization for import substitution

In contrast to the nearly across-the-board liberalization policy of the preceding military regimes, the Guidelines subscribes to selective import substitution, chiefly of capital goods and inputs. As a general principle of industrial promotion, this policy stance is valid. For the purpose of selective import substitution, the Guidelines considers it necessary to provide reasonable protection, but finds it untenable to maintain such protection indefinitely. This

is also sound reasoning. But the basic question is in how and what to select as appropriate industries, and how and what to define as "reasonable" protection in practicable terms, and how to decide the appropriate timing for terminating protection. Actual policy tools and institutional supports must be designed on the basis of the detailed understanding of individual industries, especially with regard to their varying needs, constraints, and potential viability.

4) Promotion of small and medium industries

As one of the important measures to expand manufactured exports and to promote selective import substitution in manufacturing, the Guidelines proposes to institute a selective and integrated system of supports and incentives to strengthen small and medium industries. Behind this proposal is the view that these industries are capable not only of improving their international competitiveness but also of greater employment creation and higher investment efficiency than largescale industries. There are indeed supportive empirical evidences in Japan and elsewhere, and the Guidelines' stance is commendable in essence. But one should realize that the larger employment absorptive capacity and higher productivity of small and medium industries in Japan, for instance, are combined effects from various factors and conditions (e.g., fierce competition in domestic market in terms of price, quality, product differentiation, etc.), of which policy tools and institutional supports constitute only a part. Simple introduction of new promotional policies and institutional supports would not guarantee success, or might even introduce unwelcome distortions and inefficiencies. Precise understanding of what is going on in small and medium industries is essential in translating a general policy commitment to concrete measures and actions.

5) Export promotion and the role of the private sector

Reflecting the present government's strong commitment to export promotion, the Guidelines proposes to enact a law to that effect. Its basic stance seems to be that such provisions will duly inspire the will and efforts on the part of the private sector to take necessary steps for export expansion. However, economic development in general and the strategy of positive adjustment in particular necessarily call for concerted efforts between the public and the private sector. Frequent reorientation of the basic economic policy framework in the past decade appears to have eroded the basis of such concerted actions, and the current economic recession poses as a serious obstacle to restoring mutual trust. At this stage, it is important that the public sector defines its position over economic prospects in more concrete terms and presents its specific policy commitments in more active terms, so that the private sector feels more confident to respond to such policy signals.

Implications of the development strategy have been indicated by the statements of the important government spokesmen: namely, emphasis on the private sector initiatives and the drive for so-called 'privatization' (transfer of public enterprises to the private sector), favorable treatments to direct foreign investments, promotion of non-traditional exports, and so forth.

Nevertheless, development goals and policy intentions so far announced on various occasions are not necessarily defined precisely and integrated into a consistent framework. As is pointed out by the Guidelines, a consistent policy mix and an effective macroeconomic policy framework are of crucial importance for establishing a practicable positive adjustment regime.

In this sense, the forthcoming National Development Plan is expected to clarify its basic guidelines concerning the following aspects of the development strategy:

1) Relationships between the government's economic planning and orientation and the working of free market mechanism, particularly in such areas as resource allocation, price and wage levels, etc.

2) Roles of the government and statutory bodies and private-sector initiatives, and the mechanism for coordinating the public and the private sector activities.

3) Roles of foreign direct investments, including transfer of technology as well as capital and their relations to national counterparts.

4) Long-term strategy for industrial development and trade promotion based on the "dynamic" comparative advantage, especially in relation to the degree and the manner of "selectiveness" in import substitution and export promotions of manufactured products.

5) Approaches to control inflation and economic destabilization.

4. SUGGESTIONS

The present government of President Alfonsin considers that the activation of the national economy is the foremost objective for its macroeconomic management. As mentioned earlier, the government announced the Guidelines (Los Lineamientos de una Estrategia de Crecimiento Economico 1985-1989) in January 1985, aiming to overcome the prevailing economic difficulties and recover the self-sustained growth capability to the economy. The Guidelines focuses on the crisis of economic stagnation as the most fundamental policy issue, and proposes to restructure the mechanism of capital accumulation for the purpose of generating growth and raising the efficiency of the economy.

Based on the foregoing discussion on the evolution of Argentina's macroeconomic management, this section examines major issues therein from the viewpoint of Japanese experiences.

4-1 Future Directions for the Argentine Economy

The Argentine economy will have to depend heavily in the short run on the surplus generated by agriculture in its export sector. Argentine agriculture, especially its crop sector, has always had sufficient international competitiveness. However, given the current soft international market conditions of agricultural primary commodities, the increased production will not necessarily guarantee proportionally increased export receipts, because it will take some efforts to diversify export markets. If the present declining tendency in international prices continues, the marginal returns from increased exports will drop.

The traditional pattern of heavy dependence on agriculture for foreign exchange earnings will not suffice to activate the entire economy. The most important issue is how to restructure and reactivate the industrial sector. The activation of industries in the medium and long terms will not be achieved by the country's traditional policy stance of heavily protective import substitution, which maintained the costs of industrial production inordinately higher than the international standards.

From the viewpoint of economic efficiency, the restructuring of the industrial sector must be through increased competition in the domestic and external markets. This will require a clear scenario for controlled liberalization in the medium and long terms.

Argentina is endowed with the fertile Pampas and vital natural resources like petroleum and natural gas, and have educated human resources. The key is then how to utilize the endowments of such productive factors effectively under fiscal and other constraints. The country's industrial policies need to promote selectively such strategic industries as agroindustry, petrocemical industry, computer industry, machine tool industry and bioindustry.

4-2　Role of the Government: Transparency in Economic Perspective

The key to the activation of the Argentine economy is in how to reactivate the industrial sector. The reactivation of the industrial sector requires the stimulation of investments and the promotion of technological development. Compared with financial investments, industrial investments have much longer gestation periods. In other words, investors in industry must have a more or less clear idea of what to expect in the future before making their investment decisions. The transparency in economic perspective therefore greatly influences the level of industrial investments. The problem is naturally less, if economic prospects look bright to anyone's eye. But even if the prevailing circumstances do not allow such optimism, prospective investors will be able to make investment decisions accordingly, as long as they have a grasp of how dismal the current economic situation is, how long it is likely to last, and how it will recover in the foreseeable future.

The government policies and measures for economic management are an important determinant of the transparency, as long as they inspire the confidence among the public. In order to enhance the transparency in economic perspective, it is of primary importance that the government ensures the continuity and consistency of basic economic policies it pursues. As mentioned earlier, the present Argentine government announced the Guidelines in January 1985. The basic policy framework indicated in this document is considered economically rational, and therefore, the government needs to keep the framework consistently for the formulation and implementation of concrete economic policies and measures.

In the case of Japan, given the basic difference of the longetivity of the government by the Liberal Democratic Party, the preparation and formulation of policies are made through both top-down and bottom-up processes of coordination and control within the administrative structure, in addition to inter-departmental and inter-ministerial adjustments. And thus the frequent change of the upper-level officials, which is the institutionalized rule in Japanese bureaucracy, does not usually disrupt the implementation of a given policy, once it is decided.

The basic conditions and the history of public administration are naturally different in Argentina so that the Japanese example might not be entirely relevant. However, the Argentine government must ensure that once an important policy decision is made, the decision is upheld by the administration collectively, regardless of the changes in the personnel. It is also necessary to improve the efficiency of administration so that policy decisions are speedily and consistently put into effect to get the intended results.

One of the effective ways to ensure the overall continuity and consistency of economic policies is to formulate a medium- and long-term plan. The plan must present clear economic goals which appeal to the national consensus. The emphases of such goals would naturally vary according to the different stages of economic development, because they

have to address to different needs and muster different aspirations among the public.

Particular emphases of macroeconomic goals in the economic plans seem to have changed their nature in contemporary Japan. But they did have an important impact on the psyche of the public during the 1950s and the 1960s when Japan was striving to develop the economy: namely, "Economic Reconstruction Plan 1948-1952" announced in 1948, "Five-Year Plan for Economic Self-Support 1956-1960" announced in 1955, and "Doubling National Income Plan 1961-1970" made public in 1960.

A medium- and long-term plan is a concentrated expression of what sort of future the government envisions for the public. The plan should offer the framework and the standard with which the private sector can picture its future business prospects and makes investment decisions accordingly.

Medium- and long-term economic plans can be indicative as in the case of Japan. Considering the lack of continuity in economic policies observed in the past and the resultant low confidence of the private sector in government policies, Argentina at this stage will need an economic plan which contains specific policy statements and concrete commitments. The plan will have to present not only the target growth rates for the economy and its various sectors but also a public development expenditure plan, investments expected of the private sector, financing sources of the total investments and so on.

It goes without saying that the plan implementation requires the stable fiscal revenues. An increase of public spending is unavoidable in the medium term to stimulate private investments which play the central role in the activation of the Argentine economy. Considering the current fiscal deficits, it will be necessary to broaden the tax base. However, because taxation is one of the important policy instruments, the increased tax efforts must be rational in relation to the plan's basic goals, such as the expansion of manufactured exports and the improvement of investment efficiency.

The formulation of the medium- and long-term plans must take note of the following points.

1) Realistic targets

The ability of the government to achieve the results as initially targetted is basic to the credibility of an economic plan it formulates, and it improves the confidence of the public in the plan and the government. Therefore, unrealistically high targets must be avoided in the formulation of the plan.

2) Consistency among sectoral plans

In order to realize efficient economic management, it is important for a medium- and long-term plan to maintain consistency among plans for important sectors, such as agriculture, industry, energy and others. For this purpose, it may be useful to develop a macroeconomic

model to check inter-sectoral consistency in planning.

3) Compilation and speedy publication of sufficient statistics

Accurate understanding and analysis of the economic situations are basic to the economic planning and inter-sectoral coordination. It is necessary to strengthen the administration's functions of collecting, compiling and analyzing relevant statistics. It would be necessary to adopt new methods for processing economic data and monitoring the progress of policy implementation, for example, through electronic communications technology.

4) Exchange of information and opinions with the private sector

For the formulation of an economic plan, it is necessary to confer closely with the private sector not only on the nature of basic economic goals but also on specific policy instruments to be employed to realize the goals. For instance, it is useful to set up advisory councils where various business and other private interests are properly represented in order to discuss important issues and concrete policy instruments related to market liberalization and expansion of manufactured exports.

5) Streamlining of administrative procedures

It is important to simplify the administrative procedures, especially concerning important policy instruments which contribute to the realization of basic economic goals, such as programs of fiscal and financial incentives to increase private investments in strategic industries and expand manufactured exports.

4-3 Need of activating the Dynamism of the Private Sector

1) Importance of the market mechanism

It is important to the Argentine economy to create an environment where the market mechanism functions properly. For this purpose, it will be necessary to establish competitive conditions in the domestic market, by withdrawing the excessive protection given to the domestic industries and minimizing the intra-industry oligopolistic tendency. The introduction of competitive conditions in the domestic market requires careful timing and planning. In order not to repeat the experiences in the late 1970s, the government needs to provide clear guidelines for liberalization in close consultation with the private sector and give appropriate incentives during the period of transition.

The primary purpose of having the market mechanism function properly is to raise the efficiency of resource allocation and utilization. It is thus necessary for the Argentine government to maintain the perspective of efficiency in the economy as a whole, when it formulates and implements the guidelines for market liberalization.

From the viewpoint of the private sector, market competition means the reduction of production costs and the improvement of product quality. Such competitive efforts in the domestic market ultimately enhance the international competitiveness of Argentine industries and expand manufactured exports. In this regard, it will be useful to promote quality control campaigns similar to those in Japan and elsewhere, by encouraging the management and employees to work together toward productivity and quality improvements.

2) Privatization of public enterprises

The present government plans to pursue the privatization of the public enterprises in productive and service sectors. Privatization is not merely a means to reduce government deficits but one of the ways to improve the efficiency of the economy. In order to carry out the privatization, it is necessary to examine carefully the needs of the respective sector in which a particular public enterprise operates and to assess the economic effects of its privatization. Such procedures will help identify appropriate methods and steps of privatization, such as whether to privatize the management and/or capital, or to carry out the privatization in one stage or through scheduled stages.

3) Strengthening of support systems for research and development

Promotion of active research and development efforts will have a great impact on technological innovations in production processes and support industrial investments for economic activation. It will be necessary not only to expand or create public research orgnizations but also to establish systems which coordinate and enhance joint research and development efforts between the government sector, universities and private industries.

The systems to encourage the cooperative efforts of the government sector, universities and private industries will enable the government to understand the needs of the private sector and mobilize the vitality and dynamism of the private sector for what it plans to achieve. It is also important for the systems to facilitate the introduction of advanced technologies which are likely to change the foundations of manufac ring industries and other sectoral activities in the economy.

4) Development of efficient infrastructure

The efficient operation of basic infrastructure such as transportation, communications and power is essential to the activation of economic activities. The development and management of basic infrastructure largely belong to the public sector in Argentina, as usually found in other countries. The role of the public sector is important in systematic infrastructural development which requires the medium- and long-term perspective in planning and implementation. In addition, it will also be important to consider the possibility of increasing the participation of the private sector in specific areas of infrastructural services, in order to facilitate the efficient

development and operation in accordance with the changing economic and industrial needs.

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